One on One Educational Services Limited

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Executive Summary

One on One Educational Services Limited (ONE) commenced its business operations in 2013 and made its initial appearance on the Junior Market of the Jamaica Stock Exchange, with an opening share price of $1.00 as at the 1st September 2022. The firm is engaged in delivering tailor-made e-learning solutions to government entities, corporate bodies and private individuals, with the purpose of providing education and training via their Learning Management System (LMS). Over its operational years, the One on One team has facilitated digital learning for more than 150,000 learners by means of their platform.

Over the review period of 5 years (FYE August 19 to FYE August 23), there has been a compound annual growth rate (CAGR) of 64.8% in revenue. However, since FYE August 21, revenue growth has experienced a significant slowdown, and in fact, a marginal decline of 0.1% was observed at the end of FYE August 23. On another note, profits have seen substantial fluctuations during this review period. They reached their zenith at $67.5 million in FYE August 21 and dipped to their lowest at $37.8 million in FYE August 23.

ONE is currently trading at an estimated -45.8 times its TTM (Trailing 12-month) EPS, which is considerably below the harmonic mean of 17.3 times seen in the Junior Market. In comparison to other securities within the Junior Market, ONE's shares display a moderate level of liquidity. Over the past financial year, an average daily volume of around 798.2 thousand units were traded, translating to a value nearing $920.5 thousand. In the last month, the average bid-ask spread for ONE has been approximately 3.8%, signifying a moderate implicit expense involved in acquiring shares in this specific stock.

Your Best Interest At Heart. Full Stop.

One on One Educational Services Limited

Key Financial Data

	YE 2019	YE 2020	YE 2021	YE 2022	YE 2023	CAGR
Abridged Income Statement (in JMD Millions)						
Revenue	36.1	140.3	268.8	266.9	266.6	64.80%
Gross Profit	33.8	132.4	194.5	205.3	201.1	56.17%
Operating Profit	(10.1)	64.6	82.3	43.6	(18.3)	15.96%
Interest Expense	6.7	6.9	13.0	15.2	9.7	9.53%
Net Profit	(21.5)	55.4	67.5	12.3	(37.8)	15.18%
Abridged Balance Sheet (in JMD Millions)						
Cash	9.6	24.4	37.7	253.3	57.1	56.33%
Current Assets	17.2	47.7	181.4	372.3	206.9	86.27%
Current Liabilities	37.7	36.4	93.5	88.8	83.1	21.79%
Total Assets	69.6	130.3	326.9	580.7	514.6	64.88%
Total Liabilities	92.1	97.4	226.6	138.9	110.5	4.64%
Debt	49.0	50.2	119.9	71.0	30.3	-11.31%
Equity	(22.5)	32.9	100.3	441.8	404.1	N/A
Abridged Cash Flow Statement (in JMD Millions)						
CFO before WC Changes	(21.5)	67.5	82.0	17.1	(33.3)	11.65%
CFO	(17.2)	53.6	20.0	16.9	(52.1)	32.02%
CFF	37.6	(9.1)	58.3	267.7	(48.9)	N/A
CFI	(11.8)	(29.7)	(65.0)	(68.9)	(91.8)	66.97%
Ratios						**Average**
Current Ratio	0.46	1.31	1.94	4.19	2.49	2.1
Quick Ratio	0.36	0.90	1.63	3.85	1.86	1.7
Debt-to-Equity	(2.18)	1.53	1.19	0.16	0.08	0.2
Financial Leverage	(1.80)	19.27	3.43	1.67	1.29	4.8
Interest Coverage (EBIT)	(1.51)	9.41	6.34	2.87	(1.90)	3.0
Interest Coverage (EBITDA/interest expense & CPLTD)	(0.7)	5.6	4.9	0.9	(0.4)	2.1
Gross Profit Margin	93.5%	94.4%	72.3%	76.9%	75.5%	82.5%
Operating Profit Margin	-28.1%	46.0%	30.6%	16.3%	-6.9%	11.6%
Net Profit Margin	-59.4%	39.5%	25.1%	4.6%	-14.2%	-0.9%
ROE	65.5%	1067.8%	101.3%	4.5%	-8.9%	246.0%
ROA	-36.4%	55.4%	29.5%	2.7%	-6.9%	8.9%

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Financial Statements Review

Income Statement Review

Over the period under review, there has been a CAGR of 64.8% in revenues, culminating in $266.6 million at the end of the FYE August 23. However, revenues reached their zenith in FYE August 2021 at $268.8 million. Moreover, there was a slight decrease in revenue by $326.3 thousand or 0.1% in FYE August 23. This downtrend can be traced back to reductions in revenues during the third and fourth quarters of FYE August 23 by 23.7% and 38.9%, respectively. The significant drop-off in Q4 for FYE August 23 is primarily due to a decrease in non-recurring project revenue as the company is steadily shifting its focus towards recurring revenue.

In FYE August 23, the gross profit saw a reduction of $4.2 million or 2%, settling at $201.1 million from a high of $205.3 million in FYE August 22. This drop in gross profit is attributed to a rise in direct costs by 6.2% or $3.8 million during FYE August 23.

The firm posted an operating deficit of $18.3 million for FYE August 23, a contraction of $61.9 million compared to the same period in the preceding financial year. The decrease can be primarily attributed to a 31.1% spike, or $46.4 million, in administrative expenses which amounted to $195.5 million for FYE August 23. The selling expenses also witnessed a significant increase by 55.6% or $12.5 million, which further dented the operating profit.

The company has successfully reduced its financing costs by 36.3% to $9.7 million in the financial year closing on August 23. Nevertheless, a substantial decrease was noted in net profit, which fell sharply to a low of $37.8 million in FYE August 23, markedly differing from the all-time high of $67.5 million achieved in FYE August 21.

Balance Sheet Review

During the review period, the company's total assets grew at a CAGR of 64.9%. Despite this, there was a decrease in total assets by $66.2 million or 11.4%, bringing it down to $514.6 million. This fall in total assets was attributed to a 44.4% reduction in current assets, which stood at $206.9 million as of FYE August 23. A significant contributor to the decrease in current assets was a drop in cash and cash balances by 77.4% or $196.2 million, leaving it at $57.1 million.

There has been a steady reduction in total liabilities since they hit a peak of $226.6 million at the conclusion of the financial year in August 2021. By FYE August 2023, total liabilities had decreased by 20.5% to $110.5 million. This significant decrease can largely be attributed to the eradication of the long-term loan and convertible promissory notes, worth $37.3 million, in FYE August 2022.

The company's equity reached its pinnacle in the FYE August 22, amounting to $441.8 million. However, there was a subsequent depreciation of $37.8 million or 8.5% by the FYE August 2023, bringing it down to $404.1 million. The decrement in equity directly resulted from the company's loss recorded in the FYE August 2023.

Cash Flow Statement Review

In the financial year ending on August 23, the firm expended $52.1 million in its operational activities, marking a decrease of $69 million from the corresponding period of the previous financial year. This outflow was predominantly attributable to a recorded loss and a surge in inventory levels.

The capital used in investment activities saw a significant rise of 33.3% to a total of $91.8 million for FYE August 23. This surge was largely driven by the procurement of Plant, Property and Equipment (PP&E), with the firm allocating $27.9 million towards this expense in FYE August 23.

During FYE August 23, $48.9 million was utilised in financing activities, compared to a preceding year's inflow of $267.7 million over a comparable period. The financial outflow recorded in FYE August 23 can mainly be attributed to loan repayments, although this was partially balanced by the proceeds generated from convertible notes amounting to $28.5 million.

Ratios Review

The current ratio of ONE has witnessed a decrease, dropping to 2.5x in FYE August 23 from a high of 4.2x in FYE August 2022. This substantial decrease can mainly be attributed to a significant drop in current assets, the reasons for which have been discussed previously. However, the current ratio has consistently remained above 1x since the FYE August 2020, suggesting that short-term liabilities are probably manageable.

The company's debt to equity ratio has shown a consistent improvement since the financial year end in August 20, at which point it was at 1.5x. By the conclusion of the financial year end in August 23, this ratio had decreased to a low for the review period of 0.1x. In addition, ONE's financial leverage was reduced to 1.3x at the conclusion of the financial year end in August 23. These ratios suggest that the company is highly likely to be able to comfortably meet its long-term liabilities.

Regrettably, the company reported an operating deficit for FYE August 23, causing the interest coverage ratio to descend into negative territory. However, it's worth noting that this is not a common occurrence for the firm as it maintained an average interest coverage metric of 2.1x and 3x over the evaluation period. The sudden elevation in costs in FYE August 23 led to a significant deterioration in the company's interest coverage ratios.

Over the review period, the firm's gross profit margin has maintained an average of 82.5%. Nevertheless, a noticeable decrease in the gross profit margin has been observed over the most recent three financial years, with an average of 74.9%. Concurrently, there has been a declining trend in the operating profit margin since reaching its zenith in FYE August 20 at 46%, and it has subsequently fallen to -6.9% by FYE August

23. A similar trend was observed in the company's net profit margin, which also reached its apex in FYE August 20.

ONE's ROE has been continuously dwindling since reaching its zenith at the end of FYE August 20. The decrease in ROE during this period can be attributed to a combination of factors, including a reduction in net profit margin, financial leverage and total asset turnover. Nevertheless, the substantial drop in ROE is primarily due to the decreases in financial leverage and net profit margin.

Forecast & Valuation

We implemented the discounted Free Cash Flow to Equity (FCFE) and the market comparables methodologies for our valuation. For the FCFE evaluation, we projected earnings for the forthcoming five financial years, anticipating the Company to attain a steady pace of FCFE expansion thereafter. Simultaneously, we utilised the mean P/B disparity between ONE and the Junior Market over the preceding year to produce our valuation under a comparables methodology. The mean of these methods yielded our price target of $0.76. Our upper price target was determined by the P/B method and our lower target was ascertained via the discounted cash flow method.

The primary hazard to our price target lies in a possible downturn of the current sentiment towards ONE. As demonstrated in **Chart 1**, over the past year, ONE's shares have predominantly traded at a premium of over 100% compared to the Junior Market, based on a P/B ratio. The company's most recent performance does not warrant this premium. Thus, the current P/B premium could suggest that shareholders are anticipating a substantial enhancement in the company's performance in the near to medium term. If these anticipations are not fulfilled, it is likely that ONE could experience a significant reduction in its price multiple. This would lead to the shares falling towards the lower end of our price target range.

Furthermore, the firm's profitability may not align with our projected income and net profit estimations, owing to the company's offerings failing to appeal to consumers sufficiently enough to generate significant revenue growth. Additionally, if expenses surpass our predictions for the FYE August 24 and beyond due to inadequate expense control by the company, it could lead to profits and consequently free cash flow to equity falling below our projections.

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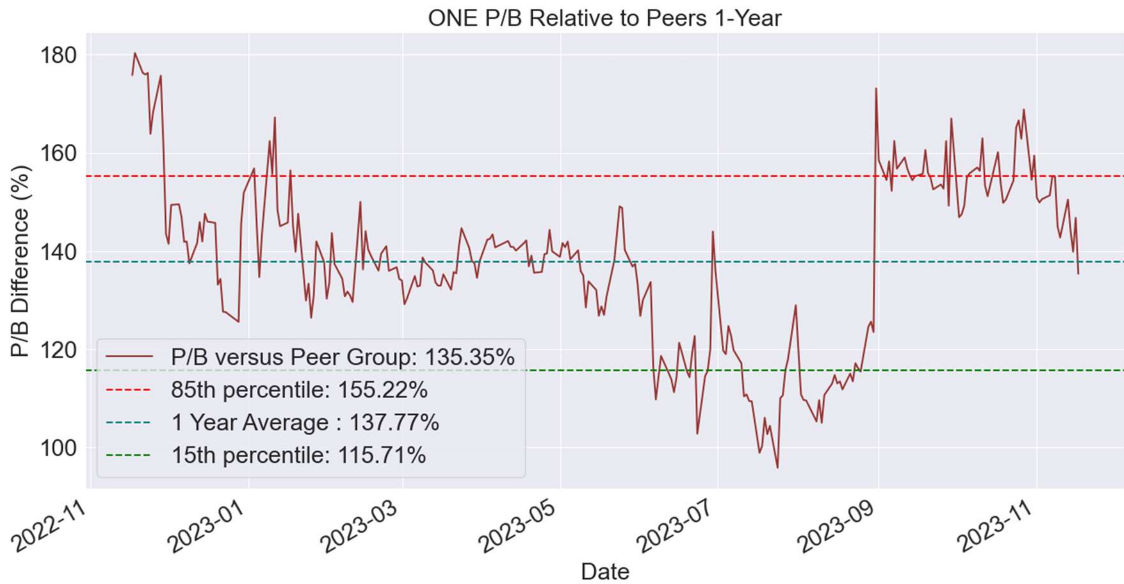
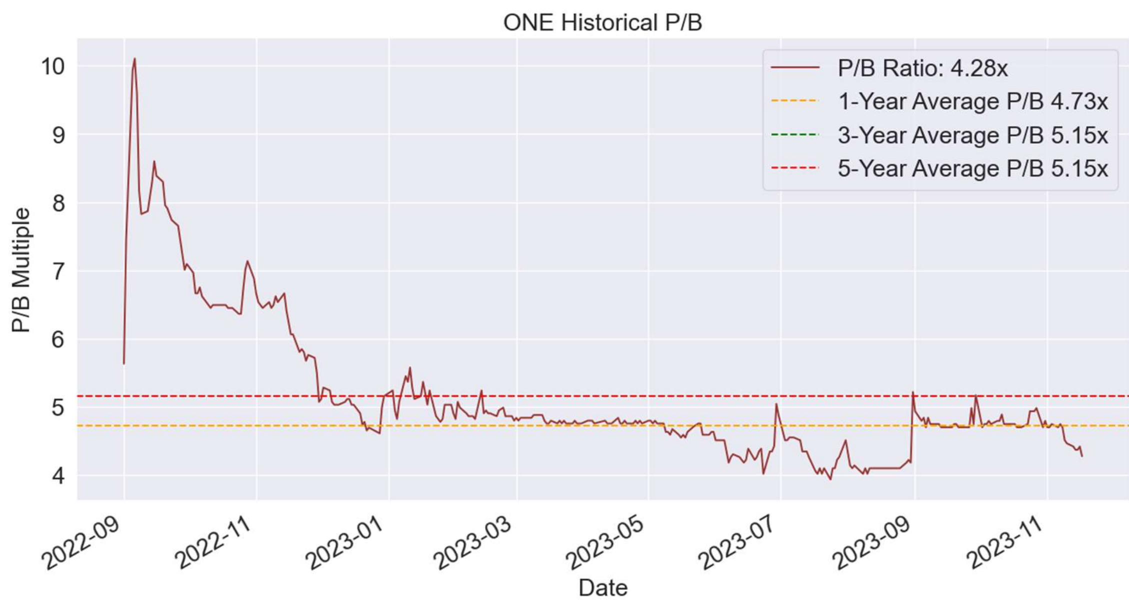
Chart 1.



As illustrated in **Chart 2**, there has been a predominantly downward trajectory of the P/B ratio for ONE's stock since listing. The primary cause of this decrease can be traced back to the fall in the share price since its highest closing figure of $2.35 on 9th September 2023. Presently, the P/B ratio is roughly 4.3x, only slightly under its annual average of 4.7x. Yet, considering the existing market conditions, there could be a further depreciation in the P/B ratio if ONE fails to significantly enhance its profits in the imminent future.

Chart 2.



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As per **Chart 3**, it is observed that the Junior Market P/E reached its apogee at roughly 26.9x in the calendar year of August 2019. It has since been on a downward trend and currently rests at around 17.3x, as demonstrated by the progressions of the 1,3 and 5-year P/E ratios. It is worth noting that the decline in P/E ratios evident in the early months of calendar year 2020 was a direct result of the COVID-19 induced sell off experienced by the Junior Market, causing multiples to plummet to a low of 15x. The present P/E ratio for the Junior market implies an earnings yield of about 5.8%, which is lower than both, the policy rate of 7% and the three-month WATBY at approximately 8%. Hence, there exists a potential downside risk for current P/E levels within the Junior Market due to prevailing interest rate conditions.

Chart 3

As demonstrated in **Chart 4**, the performance of ONE's shares has significantly trailed behind the Junior YTD throughout the majority of 2023. This trend chiefly emerged in the latter half of the same year. The situation was exacerbated following the disclosure of ONE's earnings for FYE August 23, which showed a drastic downturn in profits. Profits plummeted by $50 million, resulting in a loss of $37.8 million, which further contributed to the dwindling performance of ONE's stock price.

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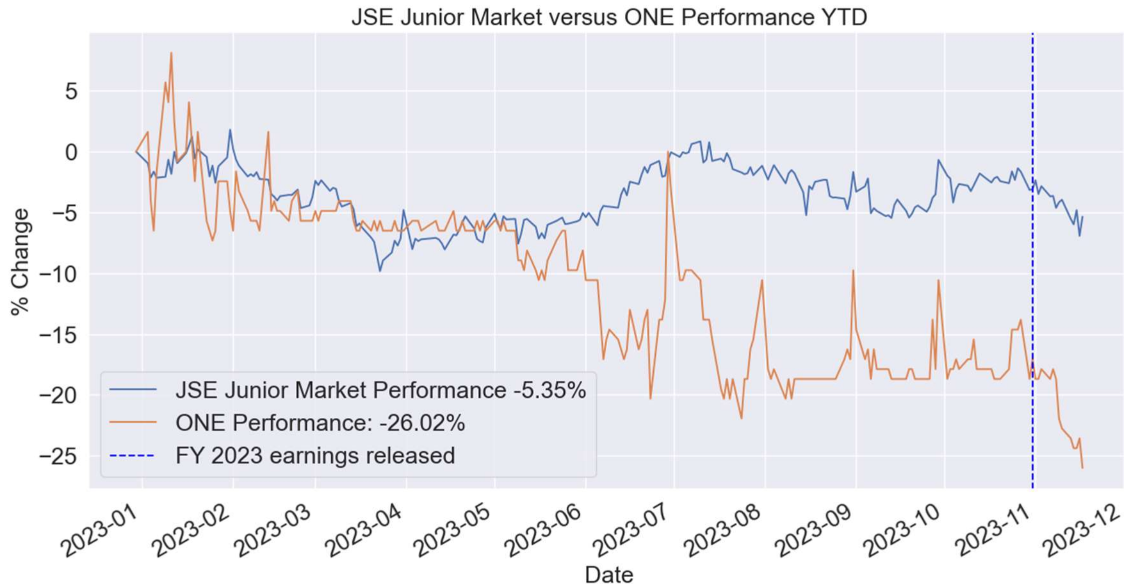
Chart 4.



As indicated by **Chart 5**, a monthly and annual analysis of the return on ONE's stock price is presented. The chart delineates that the best performance of the stock was observed in September 2022, following its listing, wherein it surged by approximately 26%. However, there have been no significant gains for investors since that point. Moreover, the most severe dip in performance was noticed soon after its listing, with the company's stock plummeting by 24.4% in November 2022. This somewhat lacklustre trend in stock price may be rationalised by a general decline in earnings across its short-listed history. It is also noteworthy to mention that the earnings for FYE August 23 have significantly underperformed our original projections.

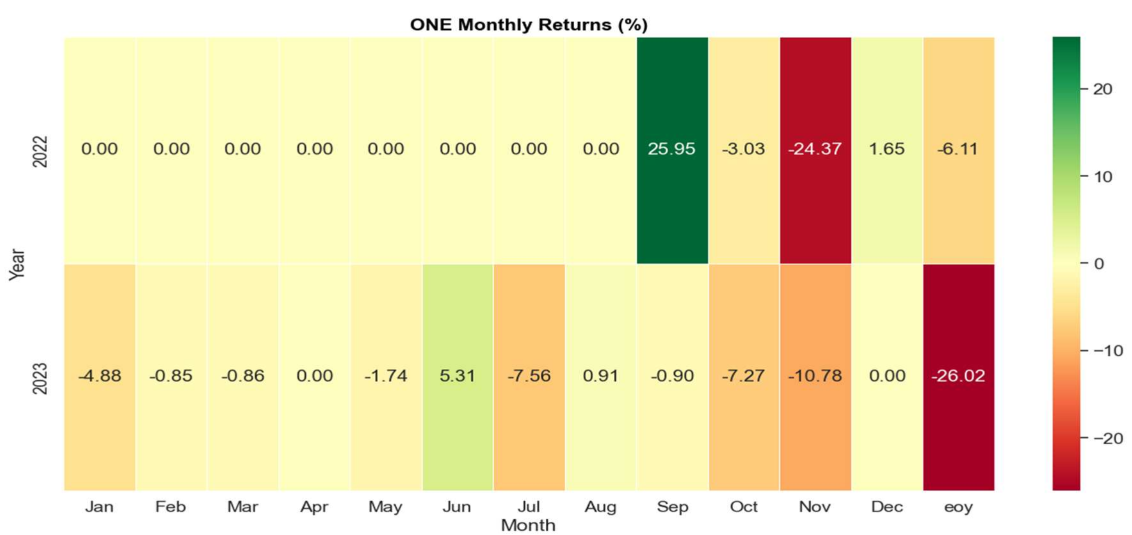
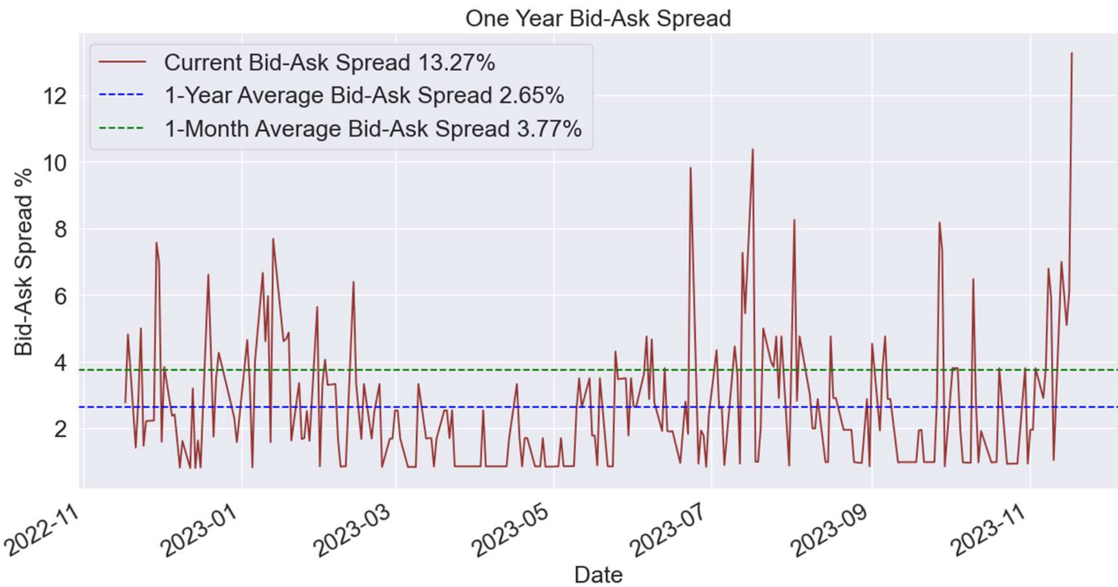


Chart 5

As per the indications from **Chart 6**, ONE is currently undergoing an expansion of its bid-ask spread in comparison to its 1-month average, which is approximately 3.8x. Fluctuations in ONE's bid as spread are not uncommon and occur intermittently. It is worth noting that the present bid as spread stands at a significant 13.3%, marking the highest point reached within the last year. However, these expansions are typically short-lived as demonstrated by the 1-month and 1-year average bid-ask spreads. The usual spread suggests that investors encounter only a moderate implicit expense when executing transactions on ONE's shares.

Chart 6



As depicted in **Chart 7**, during the calendar year 2022, ONE shares exhibited a significant level of trading activity, with an average daily value of approximately $4.1 million. However, in the subsequent calendar year of 2023, the trading activity around this stock has considerably fallen to an average of roughly $853 thousand. This denotes a more than 79.4% decrease in trading activity. It's worth noting that there has been a general downturn in trading activity on the Junior Market from January to October 2023 compared to the same period in the previous calendar year. This could be indicative of some rationale behind the decline in ONE's stock YTD performance.

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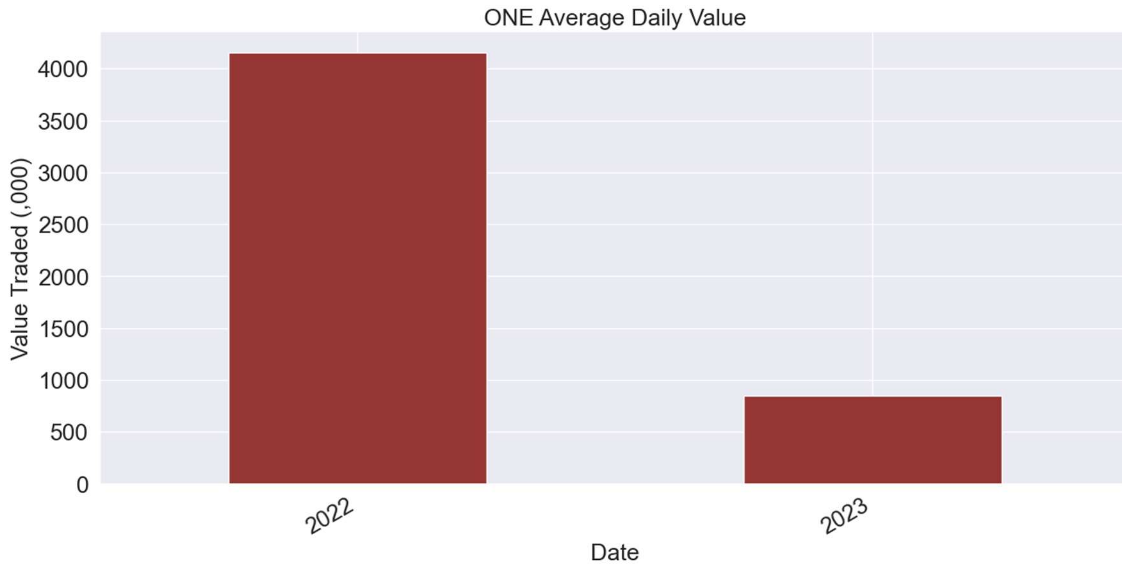
Chart 7



Outlook

The firm has outlined its strategy to concentrate on generating recurring revenue for FYE August 24 and subsequent years. A substantial investment of around $160 million has been allocated towards this objective, specifically into OneAcademy. This strategic move is anticipated to drive higher revenue growth over the medium to long-term horizon as an increasing number of students choose the company's services as a complement to conventional educational paths. Additionally, at the commencement of FYE August 24, the company established connections with 25 educational institutions.

The enterprise has seen a notable decrease in its cash reserves at the close of FYE August 23, which may hamper its capacity to undertake substantial investments in the immediate future. Consequently, significant enhancements in revenue and profitability from recent investments have become imperative for the company to continue its capital investment strategies without necessitating additional external funding. It's worth mentioning that, due to the notable reduction of liabilities in FYE August 23, the company is in a position to accrue debt. However, considering the prevailing rate of interest, this could notably amplify interest expenditure and potentially impede profit expansion.

In the latest financial periods, the company's expansion in revenue has decelerated while there has been a significant rise in costs. The expenses escalated by 34.3% to $230.4 million at FYE August 23 to facilitate product development and advertising costs to promote the company's offerings. The firm could witness a reduction in expense growth following the substantial investments made at FYE August 23. Furthermore, these recent investments may support the growth of continual revenue streams for FYE August 24 and subsequent years. Additionally, earnings at FYE August 23 were substantially adversely affected amounting to roughly $21.9 million due to an amalgamation of factors including inventory devaluation and increased anticipated credit loss provision. In future, these factors' impact on earnings could lessen.

The firm's current ratio and debt-to-equity ratio suggest a favourable position for meeting both short-term and long-term financial obligations. Nevertheless, the negative interest coverage ratio, coupled with the prevailing high-interest rate environment, implies that sourcing additional external debt could be relatively costly. Concurrently, we forecast a degree of expansion in the operating and net profit margins for the financial year concluding August 24 and beyond. However, we deem it improbable to reach margins comparable with those of the financial year ending August 20 in the near future.

Recommendation

We are revising our recommendation for ONE's stock to **UNDERWEIGHT**. The rationale behind this decision is primarily due to the company's trading price, which is currently near our upper price target range and significantly above our base price target. This recommendation takes into account the considerable uncertainty surrounding the company's profit projections and growth in free cash flow to shareholders. Additionally, the current strength and stability of the company's balance sheet also factor into our revised outlook. Given the prevailing circumstances, we would advise investors to adopt a long-term perspective and possess a moderate to high-risk appetite when considering investments in this security.

Our perspective has been adversely affected by the plateau in revenue expansion and substantial deterioration in profitability. Moreover, the trend of escalating operational expenditure has not yet yielded a corresponding upturn in revenue. Nevertheless, ambitions to centre growth on consistent revenue streams do serve to enhance our long-term prognosis on the company's prospects.

The recent IPO has led to a significant rise in equity and a corresponding decrease in debt levels, markedly bolstering the company's balance sheet. Nevertheless, despite the relatively high cash position at the close of FYE August 23, a material year on year decline dampens our optimism about the robustness of ONE's balance sheet.

The firm's operating margin has persistently dwindled since FYE August 20, mostly as a result of the acceleration in operating expenditure. Although the rise in operating expenditure was intended to facilitate revenue expansion, it did not materialize at the necessary levels for the firm to sustain healthy operating margins. In contrast, the firm's current ratios of debt to equity and financial leverage suggest a high level of liquidity and solvency.

Source: http://www.jamstockex.com, JMMB Investment & Research, Bloomberg, Various Company Financial Statements

APPENDIX

IMPORTANT DISCLOSURES

ABSTRACT—As a part of our new Portfolio Strategy we are recommending strict adherence to the following Portfolio Allocation **DEFINITIONS/RECOMMENDATIONS**.

PLEASE NOTE THAT NO INDIVIDUAL ASSET IN YOUR PORTFOLIO SHOULD HAVE A WEIGHTING GREATER THAN 5% UNLESS OTHERWISE RECOMMENDED BY YOUR PORTFOLIO MANAGER OR A SPECIFIC JMMB RESEARCH REPORT. CONSEQUENTLY THE FOLLOWING **DEFINITIONS** ARE PROVIDED FOR CLARITY.

OUTPERFORM/OVERWEIGHT/BUY—EXPOSURE TO THIS ASSET SHOULD BE UP TO 10% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

MARKETPERFORM/HOLD/MARKETWEIGHT—EXPOSURE TO THE ASSET SHOULD BE EQUAL TO 5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB.

UNDERPERFORM/UNDERWEIGHT— ADJUST EXPOSURE IN YOUR PORTFOLIO HELD AT JMMB TO BETWEEN 2.5% AND 4.9% FOR THIS PARTICULAR ASSET

STRONGLY UNDERPERFORM/ STRONGLY UNDERWEIGHT—REDUCE EXPOSURE TO THIS ASSET TO BELOW 2.5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

SELL—REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO (0%).

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