



SECTOR TECHNOLOGY

# Cash in on ridiculous prices

They may be market darlings but, unfortunately, these tech companies barely make any money

The search for the highest returns in Australian equities has been concentrated in a small group of companies now known as WAAAX stocks - WiseTech, Appen, Afterpay, Altium and Xero. Collectively, these companies are expected to earn just \$162 million in the 2019 financial year from \$1.9 billion in revenue but Afterpay and Xero don't make any money at all.

Their combined market capitalisation, however, is about \$30 billion, which means they're trading on a collective price-earnings ratio of almost 170 times 2019 earnings. Xero is not expected to turn a profit until 2021, when it is currently expected to produce \$23 million. With a market capitalisation of \$8.4 billion, it's trading on 370 times 2021 forecast earnings.

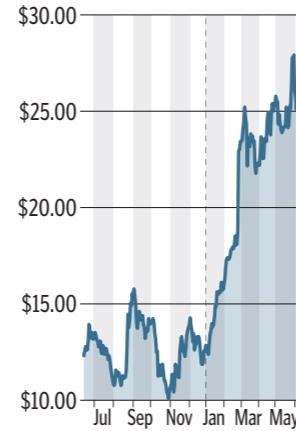
These multiples would tell a humorous story if they weren't real, so I am putting a "sell" on the lot of them. They're now just too expensive.

I recently spoke with a retired investor who is ruing their decision to move to cash earlier in the year. With cash now earning less than 2.5% and the WAAAX stocks rallying significantly since they sold, they are wondering whether they should jump back in.

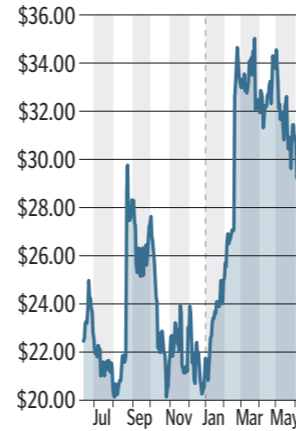
WiseTech share price



Appen share price



Altium share price



Afterpay share price



Xero share price



After reminding them about risk - by noting that while cash earns just 2%, it cannot fall 50% - I proceeded to explain the kinds of growth rates these companies need to achieve over long periods of time to justify their valuations. Few companies

through history have been able to achieve this kind of growth.

Roger Montgomery is the founder and CIO at the Montgomery Fund. For his book, Value.able, see rogermontgomery.com.

WAAAX vital statistics				
	Revenue	FY19 NPAT	Market cap	FY19 PE
WiseTech	\$335m	\$54.2m	\$8.47bn	165
Appen	\$438m	\$55m	\$3.1bn	65
Altium	\$177.6m	\$53.4m	\$4.19bn	64
Afterpay*	\$453m	\$53m	\$5.39bn	74
Xero**	\$553m	\$23m	\$8.39bn	370
FY19 TOTAL	\$1.96bn	\$162.6m	\$30.59bn	170

\*FY20, \*\*FY21. NPAT: Net profit after tax  
SOURCE: Various sell-side estimates, Montgomery Investment Management, ASX

### 1 WISETECH GLOBAL

WiseTech is one of the high-quality members of this group. The company operates in more than 125 countries and is used by three-quarters of the world's top third-party logistics operators and 100% of the world's freight forwarders. But its 30% share price appreciation since last month's entry has seen it fall from a hold to a sell.

#### ASX code WTC

Price \$27.14  
52wk ▲ \$28.29  
52wk ▼ \$14.50  
Mkt cap \$8.47bn  
Dividend 3.15¢  
Dividend yield 0.12%  
PE ratio 165

■ SELL

### 2 APPEN

We think Appen has been incorrectly categorised as a technology company, thanks to its exposure to artificial intelligence. The company, however, is really a crowdsourcing labour-for-hire annotator of data and images, which in time we believe larger and deeper-pocketed companies will displace. We could, of course, be wrong and while growth will probably come for the next few years, the price is almost impossible to justify on any valuation metric.

#### ASX code APX

Price \$25.82  
52wk ▲ \$29.70  
52wk ▼ \$9.60  
Mkt cap \$3.1bn  
Dividend 8¢  
Dividend yield 0.3%  
PE ratio 65

■ SELL

### 3 ALTIUM

Founded in 1985, Altium creates software that helps computer scientists design electronic printed circuit boards. It's a true high-quality company and at Montgomery we have previously owned it. Just about every electronic device you can see contains a PCB. And with an internet-connected version for everything on its way, the outlook is strong.

#### ASX code ALU

Price \$32.67  
52wk ▲ \$35.59  
52wk ▼ \$19.68  
Mkt cap \$4.19bn  
Dividend 30¢  
Dividend yield 0.93%  
PE ratio 64

■ SELL

### 4 AFTERPAY

This point-of-sale consumer alternative to credit cards and layby is no more transformative than a dressed-up factoring business with similarly low margins and risks. Another capital raising recently, in what must inevitably become a conga line of such events, coincided with a \$100 million sell-down by the founders. If US growth was without risk, why sell? The share price plunged on news that it faced a money laundering probe.

#### ASX code APT

Price \$21.61  
52wk ▲ \$29.70  
52wk ▼ \$9.60  
Mkt cap \$5.39bn  
Dividend -  
Dividend yield -  
PE ratio -

■ SELL

### 5 XERO

Xero is a New Zealand-based software company that listed in 2007, and has developed cloud-based accounting software for SMEs and accounting practices in Australia, the UK, the US, South-East Asia and South Africa. In the past six months, the company reported that it finally achieved cashflow break-even and profitability (having taken 12 years to do so).

#### ASX code XRO

Price \$59.26  
52wk ▲ \$62.11  
52wk ▼ \$36.10  
Mkt cap \$8.39bn  
Dividend -  
Dividend yield -  
PE ratio -

■ SELL

