



Blue EX

Valuation Matrix

alchemy
Actuaries. Analysts.

November 2021

**What is Blue Ex valuation range?
Using year end 2021-22 multiples.**



Background

- This document is not investment advise, an offer to sell shares to general public, an investment memorandum or prospectus.
- We were engaged by Blue Ex investors to deliver an opinion on valuation range for upcoming offering of Blue Ex shares on PSX GEM Board.
- Alchemy Technologies (Pvt.) Ltd is an actuarial and risk consulting firm that has been issuing fair value opinions on level 2 and level 3 assets under FAS 157 guidelines since 2008 for clients in Pakistan, MENA and North America.
- Our opinion relies on information provided by shareholders and management of the company and no additional diligence has been carried out on provided information.
- As part of our work, we often rely on estimates and proxies derived from public primary and secondary data, opinion polls and anecdotal evidence. Any reliance on our work needs to incorporate the limitations represented by such sources.
- Please consult a qualified investment professional or advisor before making any investment decisions.

Executive Summary

Blue Ex post listing 12-month target price range is likely to be between **PKR 123 to PKR 144.9** per share.

Range is dependent on projected growth rates and resultant financials projections. It relies on correlation between growth of ecommerce market and a key business segment

We used the same valuation model of equally weighting discounted cash flows, price to sales and price to earnings multiples, used by advisors to the issue.

Primary difference in the valuation range is on account of using historical results versus forward looking financial statements.

Our primary adjustments are to projected growth rate and cost base used (scale adjustments) in advisor's financial model.

What is Blue-Ex worth?

Blue Ex's value drives from the following queries:

- **Ecommerce segment.** Where is the logistics correlated segment of E-commerce market in Pakistan heading? North or south?
- **Segment Growth rates.** At what rate is that segment growing? What will drive that growth?
- **Multiples.** Where are multiples for logistics segment heading? Comparatives? India? Indonesia? US?
- **Scale.** What can scale efficiencies and productivity gains do for this business?

Ecommerce

Fashion, Personal care, Food and Consumer electronics are the fastest growing segments within e-commerce in Pakistan.

Not all segments and growth is correlated with 3PL growth rates.

Mobility and digital services are a key segment but are not correlated to 3PL business.

Growth in Daraz, Food Panda, Careem and Bykea topline is not correlated because the big 4 own their delivery network.

If you are a smaller player, competing against the big 4 you need a big gun on your side.

Ecommerce Projections

1 Primary data from SBP Annual Payments systems review report. Oct 2021.

2 Aggregate market size adjusted using estimated share of Cash on Delivery (COD) versus online payments using cards, IBFT, pre and post-paid options.

3 Projected growth rates from historical SBP market metrics for:

- Registered Ecommerce merchant growth. 24 months.
- GMV growth on transactions made using cards or digital payments options. 24 months
- Mobile banking user growth. Mobile banking transaction value growth. 24 months
- Reconciled with regional and cross border market size and growth estimates. 24 months

Projected Ecommerce Market Size

		30-Jun-22								
		Size of Pakistan Ecommerce market USD Billion - Aggregate market size								
		YoY growth in GMV / Ecommerce Merchants								
	7.53	15%	25%	45%	50%	60%	70%	75%	80%	90%
	98.5%	26.55	28.86	33.47	34.63	36.94	39.25	40.40	41.55	43.86
	98.0%	19.91	21.64	25.11	25.97	27.70	29.43	30.30	31.17	32.90
	97.0%	13.27	14.43	16.74	17.31	18.47	19.62	20.20	20.78	21.93
	95.0%	7.96	8.66	10.04	10.39	11.08	11.77	12.12	12.47	13.16
COD %	94.0%	6.64	7.21	8.37	8.66	9.23	9.81	10.10	10.39	10.97
	92.0%	4.98	5.41	6.28	6.49	6.93	7.36	7.58	7.79	8.22
	90.0%	3.98	4.33	5.02	5.19	5.54	5.89	6.06	6.23	6.58
	87.0%	3.06	3.33	3.86	4.00	4.26	4.53	4.66	4.79	5.06
	85.0%	2.65	2.89	3.35	3.46	3.69	3.92	4.04	4.16	4.39
	80.0%	1.99	2.16	2.51	2.60	2.77	2.94	3.03	3.12	3.29

Ecommerce / 3PL Correlation

Correlated with 3PL

- Fashion
- Consumer Goods
- Electronics
- Food (nonperishable)
- Payments

Non- Correlated

- Mobility
 - Groceries
 - Meals
 - Travel
 - Hospitality
 - Digital Services
- Digital Goods

Scale Efficiencies

What do faster networks mean for a 3PL company?

- Faster throughput, faster turnarounds, better service quality and delivery times.
- Track network capacity, utilization and customer centric metrics in real time.
- Using customer centric metrics to offer competitive pricing for better retention rates
- Using customer centric metrics to create innovative financing and payment solutions for bigger and loyal customers.
- What gets measured, improves?

Higher revenues with lower costs. How?

This fits in with Blue Ex's competitive differentiation.

- Value added services, doing more and trying harder.

Modeling Growth + Scale



We combine impact of ecommerce segment growth and scale efficiencies to generate a range of scenarios

We project revenues, cost base, free cash flows and multiples to arrive at a target price.

Target price is expressed as weighted average of Price to Sales, Price to Earnings and discounted free cash flows.

In the table in the next slide, bigger highlighted numbers represent more likely estimates

Growth + Scale Efficiencies Impact

Valuation Target price range.
Improved Scale efficiencies.

		7%	6%	5%
Ecommerce Projected Segment Growth	40%	87.2	86.6	85.9
	50%	103.7	103.1	102.5
	60%	123.2	122.6	121.9
	70%	146.2	145.5	144.9
	80%	173.2	172.6	171.9

Growth Drivers

SBP Payment system review primary data from banking system and payment gateways is the basis for growth projections

Growth drivers

- Digital payments. Increasing consumer comfort
- Last mile plays. More consumer choices.
- Discount driven customer acquisition. Lower prices

Middle class demand push.

- Growing urban middle class
- Upward mobility across classes
- Improving technology infrastructure
- Smartphone penetration
- The rise of small vendors in need of active logistics support

	Income (USD)	Total	Bracket	Cumulative
Education Level	Bracket	Households	Proportion	Distribution
Below Primary	300	723,579	8.46%	8.46%
Primary	850	1,764,914	20.63%	29.09%
Middle	1,750	1,661,354	19.42%	48.50%
Matric	3,500	2,013,292	23.53%	72.03%
Inter	6,100	1,100,061	12.86%	84.89%
Graduate	9,200	828,752	9.69%	94.58%
Masters	34,000	460,110	5.38%	99.96%
94k+ category	94,000	3,829	0.04%	100.00%
FinanceTrainingCourse.com		8,555,892	100.00%	
Source 2018 Census/2018-19 PSLM Dataset				
	Income (USD)	Total	Bracket	Cumulative
Education Level	Bracket	Households	Proportion	Distribution
Below Primary	300	891,636	8.09%	8.09%
Primary	850	2,240,917	20.33%	28.41%
Middle	1,750	2,367,717	21.48%	49.89%
Matric	3,500	2,660,269	24.13%	74.02%
Inter	6,100	1,406,341	12.76%	86.78%
Graduate	9,200	624,695	5.67%	92.44%
Masters	34,000	828,470	7.51%	99.96%
94k+ category	94,000	4,864	0.04%	100.00%
FinanceTrainingCourse.com		11,024,908	100.00%	
Source Projected 2024-25 Pool				

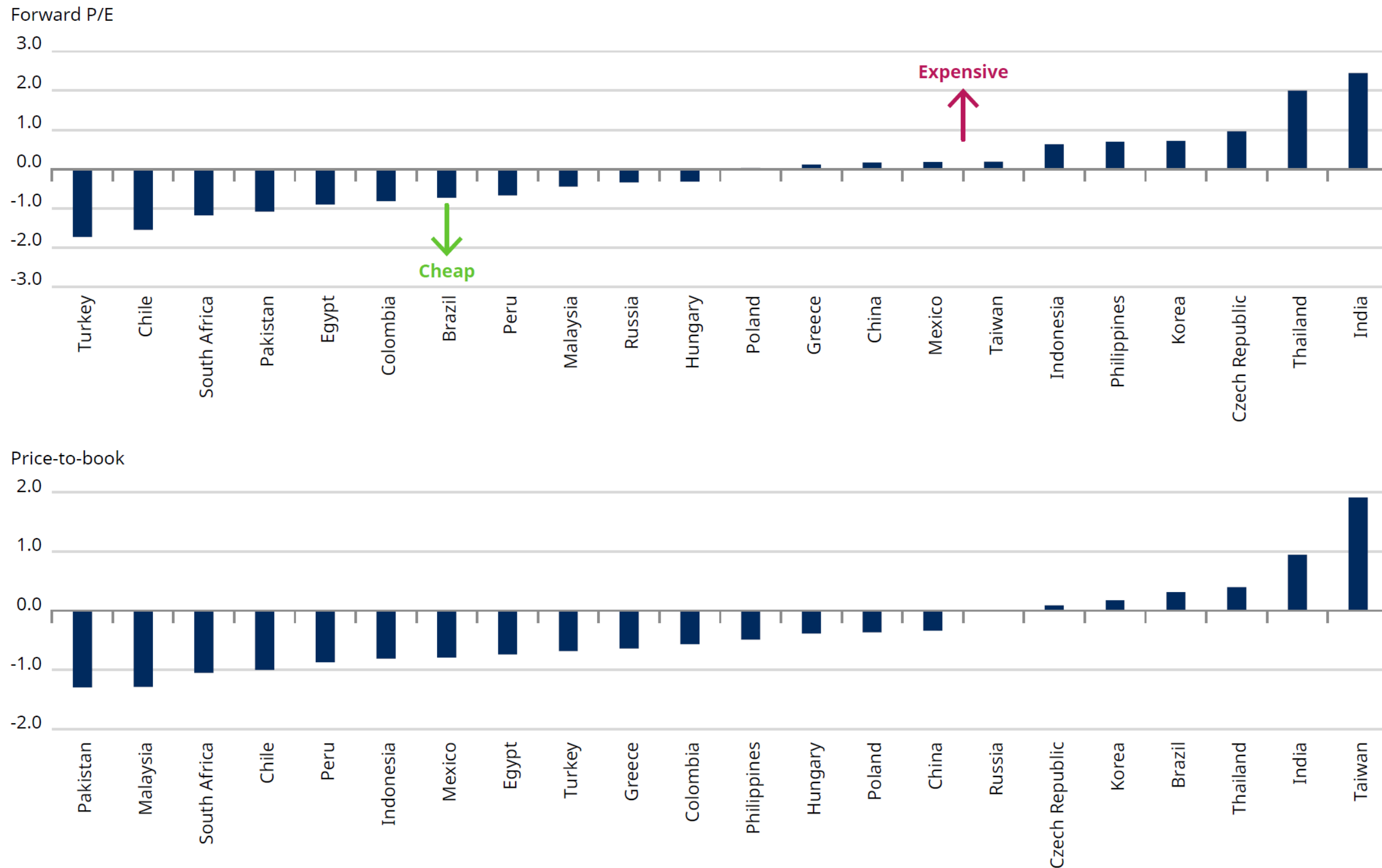
Pakistan Projected Middle Class 2020 vs 2025

Multiples

- The difference between India and Pakistan.
- Market Size. In logistics and ecommerce, we tend to be 10% of comparative Indian metrics. This serves as a reality check on our own internal estimates for both segments.
- We are still larger than multiple European and Far Eastern markets in terms of consumers, transactions, shipping volumes and growth rates.
- Indian Logistics market spend was estimated US\$ 390 billion / 8% of GDP in 2021.
- Indian Ecommerce market was sized at US\$ 84 billion in 2021.
- Pakistan suffers from lower valuation multiples because of liquidity, governance, transparency, policy consistency, taxation friction and country risk.
- Better infrastructure, less fragmentation but lower retail investor participation.
- All the above leads to lower multiples.

Relative Valuations India, Indonesia & Pakistan – Oct 2021

Figure 16: Standardised EM equity valuations (z-scores since January 1999)



Source: Schroders
EM Lens, Oct 2021

Summary

- Positively correlated ecommerce segments growing at fast clip. offer.
- Segment growth unlikely to stall in the next 3 – 5 years.
- Improvement in technology infrastructure, smart phone penetration, rise in mobile payments and middle-class demand push.
- Attractive comparative roadmaps from India and Indonesia.
- Technology boosted productivity gains lead to higher network capacity, utilization, throughput and improved customer retention.
- Significant margin of safety given difference between current suggested pricing and estimated fair value for the offer.

	Actual	Actual	Projected
Key Market Metrics	30-Jun-20	30-Jun-21	30-Jun-22
POS Terminals	49,067	71,907	105,379
Internet Banking Users (Millions)	3,983,235	5,273,000	6,980,389
Mobile Phone Banking Users (Millions)	8,451,997	10,874,000	13,990,052
Ecommerce Merchants	1,707	3,003	5,283
Ecommerce Value paid via cards/IBFT (Billion PKR)	35	61	105
Ecommerce Volume (Txns. Millions)	10	22	47
Internet Banking - Value - (Billion PKR)	2,953	5,661	2,190
Mobile Banking - Value - (Billion PKR)	1,764	4,915	13,699
Ecommerce value / Txn / Pkr - Avg ticket size	3,412	2,767	2,243
Avg GMV per merchant per year	20,386,643	20,179,820	19,959,273
COD Share - Estimate - model parameter	93%	92%	91%
Estimated Ecommerce market size - (Billion PKR)	497	758	1,172
Estimated Ecommerce market size - (Billion USD)	3.11	4.62	6.69
USD:PKR Exchange rate	160	164	175
Source: SBP Payments Systems Review			
As at 30-Jun-2021			

Glossary



3PL
3rd Party Logistics

COD
Cash on Delivery

Multiples
Investment Valuation Multiples

Price to Sales
Price per share expressed as multiple of sales per share

Price to Earning
Price per share expressed as multiple of earning per share

SBP
State Bank of Pakistan

MENA
Middle East North Africa

GEM Board
Growth Enterprise Market Board

FASB
Financial Accounting Standards Board

IBFT
Interbank Funds Transfer

Sources and References

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- [Country overview. Pakistan Digital Future. GSMA, 2021](#)
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About us

- Alchemy Technologies (Pvt.) Ltd is one of the oldest enterprise risk consulting firms in the region. We specialize in contingent liability, fair value opinions, options and derivative contracts, valuations, pitch preparation and due diligence within technology, fin-tech and financial services sectors.
- Established in 2003, Alchemy quickly established a reputation as a non-traditional actuarial practice that brought out the best in conventional ideas, when applied to unconventional markets, products and opportunities.
- With a focus on banking and financial services clients we valued Pakistan's first derivative contracts, rolled out capital adequacy framework across banking customers, created valuation framework for exchange guarantee and settlement funds, advised central bank and securities industry regulator, built products for risk reporting, impairment, credit scoring and enterprise risk.
- Our teams have contributed to formulation of Pakistan's first national ICT policy, the State of The Technology Industry Survey 2018, 2019 and 2020, worked with the largest tech incubators in Lahore and Karachi and helped prepare Pakistan technology industry delegations for competing and pitching at the Asia Pacific ICT Awards from 2008 to 2018.