Finally, a fintech that gets it right?

written by Dean Bristow | November 30, 2021
Banking fees, everybody hates them, but generally speaking, everybody pays them. How does one combat that? Invest in the companies that charge all those fees because they are probably making a lot of money. In fact, so much money that a lot of them pay decent dividends. In Canada the banks are pretty much the anchor for the Toronto Stock Exchange representing 4 of the 8 largest companies traded on the TSX and all of those with dividend yields over 3%. With the Canadian financial regulator recently lifting certain pandemic restrictions that had been placed on the financial sector, it is anticipated that dividends will be going up for many of these large cap equities. Why? Because these blue chip organizations are making money hand over fist thanks in part to all those fees you and I fork over.

So if you have a population that is resigned to the fact that one way or the other we are going to be paying fees for banking then why not look for an investment that capitalizes on that opportunity. Granted the company we are going to discuss today, Hank Payments Corp. (TSXV: HANK), is not a mega cap bank with a great dividend. However, Hank is a fintech company with a software platform that acts as a consumer's personal, financial concierge using technology to automate the complexities of personal cash flow management. Hank is similar to a robo-advisor for the liability side of a customer's personal balance sheet.

More specifically, the Hank Payments Platform helps consumers find funds in their existing cash flow and automate their monthly payments. It debits consumers when they have cash, stores the cash with partner banks, then automatically instructs partner banks to pay bills and loans as they come due, and often sooner than required. Approximately half of Hank’s customers are financially sound and use the Hank Platform for convenience, while the other half improve their payment performance through use of the Hank Platform.

According to a 2020 Survey by Intuit, 65% of Americans don’t know what they spent last month and roughly 33% wished they spent less. The old adage “there’s an app for that” is very applicable in this case. Hank conditions consumers to pay differently:

1. Build equity and reduce debt faster.
2. Increase eligibility for future borrowings at lower rates.
3. Smart borrowing vs. frivolous spending.
4. Can use saved money to buy the things they can afford.

It all sounds pretty good but how does Hank make money? Fees of course. Hank customers pay an enrollment/ membership fee as well as monthly processing fees. Auto customers average US$5.00 per month in processing compared to mortgage customers at US$7.00 per month (single loan), and fees climb as additional payments are processed. Over 3.0 M transactions have been processed to date, so adding products and customers increases monthly recurring cash flow from consumers. The Company states they earn 80% margins on these fees which are expected to hold through organic growth and new revenue streams.

Significant secondary revenue stream opportunities exist through developing the ability to match lenders with borrowers for re-financing or for new loans where Hank is expected to receive fees from lenders for loans placed. Then there is the data, which we have seen companies like Facebook and Google use to tremendous monetary benefit. Hank houses valuable unique data that lenders and credit bureaus desire, i.e. payment behavior, propensity to pay faster, and willingness to pay faster. Hank can then overlay cash flow with credit data and credit performance data, then further layer on its payment curation data to create unique monetization opportunities for lenders and others.

The Company is already generating revenue from its existing customer base with a potential for significant growth within the $15 Trillion US Household debt market. Hank’s Liabilities Under Management are forecast to grow from the current US$1.2 B to over US$40 B over the next several years, which is still a drop in the bucket of overall household debt.

This all sounds pretty intriguing to me. Helping people deal with debt and collecting fees from that assistance seems like a great match. And right now investors can be early adopters of this technology as Hank only began trading on the TSX Venture exchange on October 20th. As part of the go public transaction the Company raised C$3.1 M at $1.00 per share but closed yesterday at $0.37 making for a market cap of roughly C$26 M. With existing, growing revenue and a cash burn rate of roughly C$1.5 M for the year ended June, 2021 it would appear Hank is well positioned to grow organically without having to tap the capital markets anytime soon unless there is some M&A on the horizon. I’m looking forward to the next quarterly results to see how things are going for the team at Hank Payments Corp.