

# Openpay Limited (OPY)

Rating: Buy | Risk: High | Price Target: \$3.50

## Further Foundation Building in the US

### Key Information

|                         |                        |
|-------------------------|------------------------|
| Current Price (\$ps)    | 1.31                   |
| 12m Target Price (\$ps) | 3.50                   |
| 52 Week Range (\$ps)    | 1.13 - 3.35            |
| Target Price Upside (%) | 168.2%                 |
| TSR (%)                 | 168.2%                 |
| Reporting Currency      | AUD                    |
| Market Cap (\$m)        | 170.7                  |
| Sector                  | Information Technology |
| Avg Daily Volume (m)    | 0.1                    |
| ASX 200 Weight (%)      | 0%                     |

### Fundamentals

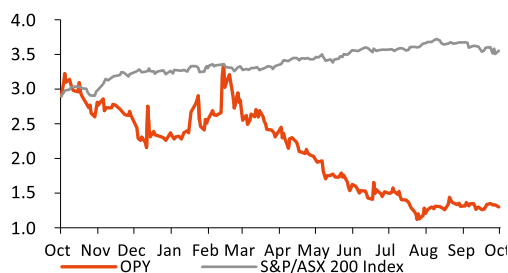
| YE 30 Jun (AUD) | FY21A   | FY22E  | FY23E  | FY24E  |
|-----------------|---------|--------|--------|--------|
| Sales (\$m)     | 26.3    | 52.2   | 75.7   | 109.9  |
| NPAT (\$m)      | (63.1)  | (45.7) | (21.6) | 1.4    |
| EPS (cps)       | (48.2)  | (34.9) | (16.5) | 1.0    |
| EPS Growth (%)  | (50.2%) | 27.6%  | 52.8%  | 106.3% |
| DPS (cps) (AUD) | 0.0     | 0.0    | 0.0    | 0.0    |
| Franking (%)    | 0%      | 0%     | 0%     | 0%     |

### Ratios

| YE 30 Jun        | FY21A | FY22E | FY23E  | FY24E |
|------------------|-------|-------|--------|-------|
| P/E (x)          | (3.0) | (3.7) | (7.9)  | nm    |
| EV/EBITDA (x)    | (3.0) | (5.8) | (18.2) | 26.8  |
| Div Yield (%)    | 0.0%  | 0.0%  | 0.0%   | 0.0%  |
| Payout Ratio (%) | 0.0%  | 0.0%  | 0.0%   | 0.0%  |

### Price Performance

| YE 30 Jun     | 1 Mth  | 2 Mth  | 3 Mth   | 1 Yr    |
|---------------|--------|--------|---------|---------|
| Relative (%)  | 1.3%   | 11.0%  | (12.2%) | (77.5%) |
| Absolute (%)  | (1.9%) | 7.9%   | (12.7%) | (55.0%) |
| Benchmark (%) | (3.2%) | (3.1%) | (0.5%)  | 22.5%   |



Price performance indexed to 100

Source: FactSet

### Major Shareholders

|                              |       |
|------------------------------|-------|
| Meydan Group (Program Force) | 18.5% |
| Chow Tai Fook Enterprises    | 8.8%  |

### Event

Another good win from OPY, this time a partnership with Cross River in the US.

### Highlights

- **Cross River was founded in 2008, has >40 partnerships, 32m customers and has originated US\$55b in loans** – Cross River is a financial services organisation that offers creative solutions and support to third-party partners in all aspects of lending, including credit and underwriting, origination, payments, compliance, balance sheet capacity and capital market capabilities. In turn, its partners facilitate lending across industries, including debt consolidation, point of sale, home improvement, medical and small businesses.
- **The partnership with OPY facilitates Cross River's origination of consumer loans and enter the nationwide US market providing a BNPL solution to US consumers** – in tandem, Cross River provides OPY with a lending platform and a robust compliance framework to expand OPY's reach across the entire US market.
- **The collaboration paves the way for OPY to offer closed-end consumer loans in amounts up to US\$20,000 and with terms up to 24 months originated and funded by Cross River** – under the partnership, when a consumer applies for a loan on the Opy platform, the loan is underwritten by Cross River utilising OPY's approved risk models and Cross River's credit underwriting and strict regulatory framework. Once the consumer selects their plan option (subject to approval) the loan is funded and originated by Cross River and ultimately serviced by OPY, which allows them to administer the consumer experience end-to-end. Cross River serves as the lender for all Opy-branded loans originated in the US under this agreement.
- **The Cross River partnership enables OPY to enter the nationwide US market providing its 'Buy now, Pay smarter' services to US consumers with a balanced, durable and long-term commercial model** – OPY receives revenue from a mix of merchant fees, fees for facilitating the loan origination, and consumer charges on loans that OPY purchases.

### Recommendation

BUY. OPY is building its scale and ecosystem by not only investing for long term growth (hence the increase in costs over the past 12 months), but also partnering with strategic enterprise merchants and aggregators and prudently focussing on its non-Retail core verticals of Auto, Health and Home. The aforementioned wins come on the back of WorldPay (its significance yet to be fully realised by the market) and the acquisition of Payment Assist in the UK. This is all laying the groundwork for a potentially significant FY22, FY22 catalysts include: (1) monetising recent enterprise B2B partnerships/B2C with the likes of Woolworths, Ford, Pentana, Lumi, HP, Goodyear/Dunlop, Nissan, Kogan, etc; (2) US scaling from October 2021 post investment; and (3) UK now ramping up with key partnerships inked with e-Commerce platform providers and transformational acquisition of Payment Assist (effectively triples its UK TTV, increases customer numbers by >64%, accelerates the path to profitability and generates high returns and yields), and indeed secures OPY position as a major BNPL player in the UK, with the leading Auto BNPL provider. The US is now also recording major wins in the form of WorldPay and Kyriba with significantly embedded ecosystems of merchant partners which lowers OPY's customer acquisition cost and expedites the penetration in the US. OPY also trades at a significant – and attractive – 46% discount to BNPL peers on an FY22 EV/Sales multiple of 4.0x vs. combined 7.4x (consensus) for APT, HUM, LBY, SPT, SZL, Z1P.

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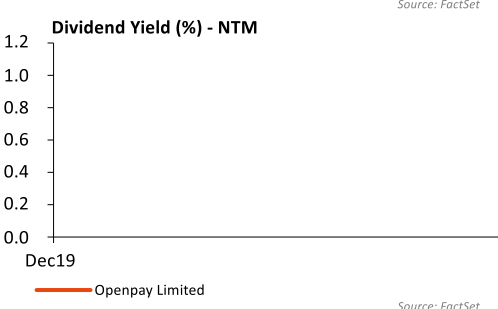
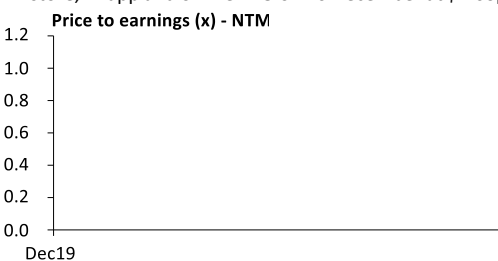
**Openpay Limited**  
Information Technology

FactSet: OPY-AU / Bloomberg: OPY AU

| Key Items              | Data        |
|------------------------|-------------|
| Recommendation         | BUY         |
| Risk                   | HIGH        |
| Price (\$ps)           | 1.31        |
| Target Price (\$ps)    | 3.50        |
| 52 Week Range (\$ps)   | 1.13 - 3.35 |
| Shares on Issue (m)    | 130.8       |
| Market Cap (\$m)       | 170.7       |
| Enterprise Value (\$m) | 215.9       |
| TSR (%)                | 168.2%      |

| Valuation NPV          | Data  |
|------------------------|-------|
| Beta                   | 1.30  |
| Cost of Equity (%)     | 14.7% |
| Cost of Debt (net) (%) | 85.3% |
| Risk Free Rate (%)     | 3.0%  |
| Terminal Growth (%)    | 3.0%  |
| WACC (%)               | 5.2%  |

OPY, which is headquartered in Melbourne, Australia, is a fintech company that partners with merchants to provide Buy Now, Pay Later (BNPL) repayment plans to customers in-store, in-app and online. IPO on 16 December at \$1.60ps.



**Financial Year End: 30 June**

| Investment Summary (AUD)             | FY20A   | FY21A   | FY22E   | FY23E   | FY24E  |
|--------------------------------------|---------|---------|---------|---------|--------|
| EPS (Reported) (cps)                 | (32.1)  | (48.2)  | (34.9)  | (16.5)  | 1.0    |
| EPS (Underlying) (cps)               | (32.1)  | (48.2)  | (34.9)  | (16.5)  | 1.0    |
| EPS (Underlying) Growth (%)          | nm      | (50.2%) | 27.6%   | 52.8%   | 106.3% |
| PE (Underlying) (x)                  | (6.5)   | (3.0)   | (3.7)   | (7.9)   | nm     |
| EV / EBIT (x)                        | (5.8)   | (2.9)   | (5.4)   | (15.1)  | 38.9   |
| EV / EBITDA (x)                      | (6.1)   | (3.0)   | (5.8)   | (18.2)  | 26.8   |
| DPS (cps) (AUD)                      | 0.0     | 0.0     | 0.0     | 0.0     | 0.0    |
| Dividend Yield (%)                   | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%   |
| Franking (%)                         | 0%      | 0%      | 0%      | 0%      | 0%     |
| Payout Ratio (%)                     | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%   |
| Free Cash Flow Yield (%)             | (25.8%) | (41.5%) | (36.9%) | (15.7%) | (5.1%) |
| Profit and Loss (AUD) (m)            | FY20A   | FY21A   | FY22E   | FY23E   | FY24E  |
| Sales                                | 18.3    | 26.3    | 52.2    | 75.7    | 109.9  |
| Sales Growth (%)                     | 66.0%   | 44.1%   | 98.6%   | 45.0%   | 45.2%  |
| EBITDA                               | (30.1)  | (55.1)  | (37.4)  | (12.9)  | 8.9    |
| EBITDA Margin (%)                    | nm      | nm      | (71.7%) | (17.1%) | 8.1%   |
| Depreciation & Amortisation          | (1.3)   | (2.3)   | (2.6)   | (2.6)   | (2.8)  |
| EBIT                                 | (31.4)  | (57.4)  | (40.0)  | (15.6)  | 6.1    |
| EBIT Margin (%)                      | nm      | nm      | (76.6%) | (20.6%) | 5.6%   |
| Net Interest                         | (4.0)   | (5.6)   | (5.7)   | (6.0)   | (4.8)  |
| Pretax Profit                        | (35.4)  | (63.1)  | (45.7)  | (21.6)  | 1.4    |
| Tax                                  | 0.0     | 0.0     | 0.0     | 0.0     | 0.0    |
| Tax Rate (%)                         | 0.0%    | 0.0%    | 0.0%    | 0.0%    | 0.0%   |
| Minorities                           | 0.0     | 0.0     | 0.0     | 0.0     | 0.0    |
| NPAT Underlying                      | (35.4)  | (63.1)  | (45.7)  | (21.6)  | 1.4    |
| Significant Items                    | 0.0     | 0.0     | 0.0     | 0.0     | 0.0    |
| NPAT Reported                        | (35.4)  | (63.1)  | (45.7)  | (21.6)  | 1.4    |
| Cashflow (AUD) (m)                   | FY20A   | FY21A   | FY22E   | FY23E   | FY24E  |
| EBIT                                 | (31.4)  | (57.4)  | (40.0)  | (15.6)  | 6.1    |
| Tax Paid                             | 0.0     | 0.0     | 0.0     | 0.0     | 0.0    |
| Net Interest                         | (4.0)   | (5.6)   | (5.7)   | (6.0)   | (4.8)  |
| Change in Working Capital            | 18.2    | 8.0     | 2.8     | 19.0    | 0.9    |
| Depreciation & Amortisation          | 1.3     | 2.3     | 2.6     | 2.6     | 2.8    |
| Other                                | (41.7)  | (13.7)  | (12.9)  | (21.6)  | (10.2) |
| Operating Cashflow                   | (57.6)  | (66.4)  | (53.1)  | (21.6)  | (5.2)  |
| Capex                                | (0.8)   | (0.3)   | (1.0)   | (1.5)   | (2.2)  |
| Acquisitions and Investments         | 0.0     | 0.0     | 0.0     | 0.0     | 0.0    |
| Disposal of Fixed Assets/Investments | 0.0     | 0.0     | 0.0     | 0.0     | 0.0    |
| Other                                | (1.1)   | (3.7)   | (3.7)   | (3.7)   | (3.7)  |
| Investing Cashflow                   | (1.9)   | (4.0)   | (4.8)   | (5.2)   | (5.9)  |
| Free Cashflow                        | (58.3)  | (66.7)  | (54.2)  | (23.1)  | (7.4)  |
| Equity Raised / Bought Back          | 83.8    | 46.4    | 0.0     | 0.0     | 0.0    |
| Dividends Paid                       | 0.0     | 0.0     | 0.0     | 0.0     | 0.0    |
| Change in Debt                       | 1.2     | 9.8     | 17.1    | 14.8    | 1.2    |
| Other                                | 36.8    | (4.1)   | 7.7     | 7.7     | 7.7    |
| Financing Cashflow                   | 121.8   | 52.1    | 24.8    | 22.5    | 8.9    |
| Exchange Rate Effect                 | (1.0)   | 0.3     | 0.0     | 0.0     | 0.0    |
| Net Change in Cash                   | 61.4    | (18.0)  | (33.1)  | (4.3)   | (2.2)  |
| Balance Sheet (AUD) (m)              | FY20A   | FY21A   | FY22E   | FY23E   | FY24E  |
| Cash                                 | 70.1    | 52.1    | 19.0    | 14.6    | 12.4   |
| Accounts Receivable                  | 45.2    | 57.5    | 61.0    | 80.7    | 82.3   |
| Inventory                            | 0.0     | 0.0     | 0.0     | 0.0     | 0.0    |
| Other Current Assets                 | 2.1     | 5.1     | 5.1     | 5.1     | 5.1    |
| PPE                                  | 0.8     | 0.8     | 0.8     | 0.8     | 0.8    |
| Goodwill & Intangibles               | 1.1     | 4.3     | 4.3     | 4.3     | 4.3    |
| Investments                          | 0.0     | 0.0     | 0.0     | 0.0     | 0.0    |
| Other Non Current Assets             | 5.2     | 3.7     | 3.7     | 3.7     | 3.7    |
| Total Assets                         | 124.5   | 123.5   | 93.9    | 109.3   | 108.7  |
| Accounts Payable                     | 6.6     | 10.9    | 11.5    | 12.2    | 13.0   |
| Short Term Debt                      | 0.0     | 18.3    | 18.3    | 18.3    | 18.3   |
| Long Term Debt                       | 37.2    | 28.7    | 45.8    | 60.5    | 61.8   |
| Income Taxes Payable                 | 0.0     | 0.9     | 0.9     | 0.9     | 0.9    |
| Other                                | 5.2     | 5.5     | 6.4     | 7.1     | 8.1    |
| Total Liabilities                    | 49.0    | 64.2    | 82.9    | 99.0    | 102.0  |
| Ratios                               | FY20A   | FY21A   | FY22E   | FY23E   | FY24E  |
| Net Debt / EBITDA (x)                | 1.1     | 0.1     | (1.2)   | (5.0)   | 7.6    |
| Price to Book (x)                    | nm      | nm      | nm      | nm      | nm     |

## Rating Classification

|                  |  |
|------------------|--|
| <b>Buy</b>       | Expected to outperform the overall market  |
| <b>Hold</b>      | Expected to perform in line with the overall market                              |
| <b>Sell</b>      | Expected to underperform the overall market                                      |
| <b>Not Rated</b> | Shaw has issued a factual note on the company but does not have a recommendation |

## Risk Rating

|               |   |
|---------------|---|
| <b>High</b>   | Higher risk than the overall market – investors should be aware this stock may be speculative |
| <b>Medium</b> | Risk broadly in line with the overall market  |
| <b>Low</b>    | Lower risk than the overall market  |

**RISK STATEMENT:** Where a company is designated as ‘High’ risk, this means that the analyst has determined that the risk profile for this company is significantly higher than for the market as a whole, and so may not suit all investors. Clients should make an assessment as to whether this stock and its potential price volatility is compatible with their financial objectives. Clients should discuss this stock with their Shaw adviser before making any investment decision.

### Distribution of Investment Ratings

| Rating | Count | Recommendation Universe |
|--------|-------|-------------------------|
| Buy    | 76    | 83%                     |
| Hold   | 15    | 16%                     |
| Sell   | 1     | 1%                      |

### History of Investment Rating and Target Price - Openpay Limited



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|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
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