

Openpay Limited (OPY)

Rating: Buy | Risk: High | Price Target: \$1.00

Most attractive unit economics and positioning in BNPL space

Key Information

Current Price (\$ps)	0.23
12m Target Price (\$ps)	1.00
52 Week Range (\$ps)	0.23 - 1.65
Target Price Upside (%)	334.8%
TSR (%)	334.8%
Reporting Currency	AUD
Market Cap (\$m)	49.6
Sector	Information Technology
Avg Daily Volume (m)	0.3
ASX 200 Weight (%)	0%

Fundamentals

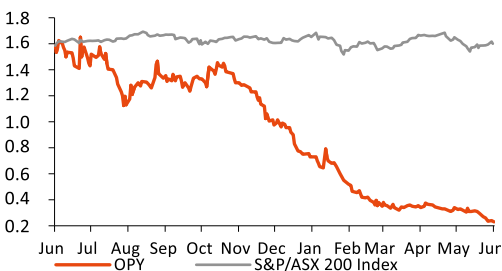
YE 30 Jun (AUD)	FY21A	FY22E	FY23E	FY24E
Sales (\$m)	26.3	31.3	61.1	102.0
NPAT (\$m)	(63.1)	(60.5)	(24.1)	(8.2)
EPS (cps)	(48.2)	(28.0)	(11.2)	(3.8)
EPS Growth (%)	(50.2%)	41.9%	60.1%	66.0%
DPS (cps) (AUD)	0.0	0.0	0.0	0.0
Franking (%)	0%	0%	0%	0%

Ratios

YE 30 Jun	FY21A	FY22E	FY23E	FY24E
P/E (x)	(3.0)	(0.8)	(2.1)	(6.1)
EV/EBITDA (x)	(0.8)	(2.4)	(9.6)	102.8
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 (%)	(29.4%)	(28.6%)	(41.1%)	(86.5%)
Absolute (%)	(32.4%)	(32.4%)	(39.5%)	(85.5%)
Benchmark (%)	(3.0%)	(3.8%)	1.6%	1.0%



Price performance indexed to 100

Source: FactSet

Major Shareholders

Meydan Group (Program Force)	31.7%
Chow Tai Fook Enterprises	14.7%

Event

Path to profitability in ANZ by June 2023 far more assured now post \$18.25m cap raise (plus \$2m SPP) as cost base materially reduces from 4Q22 after US ramp-up, UK exit and Australia now 'right-sized'. No material changes to our numbers, risk rating, recommendation or PT although we have now incorporated the full raise proceeds and share issue in FY22.

Highlights

- **Key take-away is that OPY is structurally and operationally better positioned to deal with tightening credit conditions (like rising interest rates and higher bad debts vs. its cohorts) and its path to profitability within 12 months in ANZ is on track without sacrificing TTV (book) growth for yields** – and ability to fund that path and US expansion appears solid given: (1) UK exit; (2) cost base materially resizing from 4Q22 (already evidenced in April 2022); (3) US sales contribution in coming quarters ramping up TTV growth; (4) SaaS / OpyPro now generating meaningful returns; and (5) a healthy buffer re: NTM (yield) multiples higher (8-9%) vs. BNPL peers, validating superior unit economics and provides significant headroom should the cost of funding and bad debts increase.
- **Use of proceeds to primarily fund working capital of the existing business** – more seamless and frictionless platform (e.g. self-serve or merchant onboarding), NPD, streamlining BAU workflows, lowering CaC with a focus on ROI, etc. to deliver customer and merchant growth which should translate into loan book growth (FY25 target \$1b).
- **Latest 4Q22 (April) ANZ unit economics remains strong and does NOT incorporate likely reduction in funding costs as OPY garners further scale and leverage in TTV growth:**
 1. **Net Transaction Loss (NTL)** (total of receivables impairment and customer charge back expenses net of late fees received) low at -0.9% and below pp's -1.2%;
 2. **Net Transaction Margin (NTM)** (sales ex-late fees, less NTL and cost of providing services)+90bp from 2.4% to 3.3% vs. LBY's recent 0.6%; and
 3. **Net Bad Debts (write-offs)** remained low at 1.8% – vs. 1.9% in pcp. Importantly, bad debts to revenue running at <20% vs. close to 50% for peers like ZIP (!).
- **OPY's entire business model and entry to the US is a stark counterpoint to its homogenous and generic 'pay-in-4' peers (Afterpay, Klarna, Affirm, Zip/Quadpay, Paypal, etc.) and is distinguished by** – (1) customised payment plans focused on specific and under-served verticals e.g. Healthcare (e.g., Dental, Vet), Auto, Home Improvement, Sports, Education instead of commoditised and highly competitive Retail; (2) Larger ATV size from US\$1,000 up to US\$20k vs. traditional BNPL values of <US\$500; (3) Longer tenure with periods of up to 2 years vs. less than 60 days for most BNPL operators; (4) More flexible payment options for customers e.g. Pay by Text (SMS); and (5) Provides B2B/SaaS capability (not just B2C like most vanilla BNPL players).
- **OPY best positioned amongst its BNPL cohort given following catalysts are all currently NOT priced in** – (1) still subscale and yet to negotiate cheaper funding sources; (2) less consumer discretionary than peers given less elasticity of demand in Health and Auto vs. Retail; (3) better positioned in an inflationary environment given higher yields; (4) higher margin B2B speciality; and (5) US platform yet to contribute with massive TAM.

Recommendation

BUY. Key focus going forward will be on executing on path to profitability in ANZ by June 2023, continuing momentum in ANZ metrics, cost base reset, US ramp up, B2B SaaS ramp up, and the unit economics improving with industry-leading NTM and revenue yields, which markedly differentiates it from its homogenous 'pay-in-4' peers. Furthermore, OPY continues to trade at a significant – and attractive – 45% discount to BNPL peers on an FY23 EV/Sales multiple of 2.5x vs. combined 4.5x (consensus) for HUM, LBY, SPT, SQ2, SZL, Z1P.

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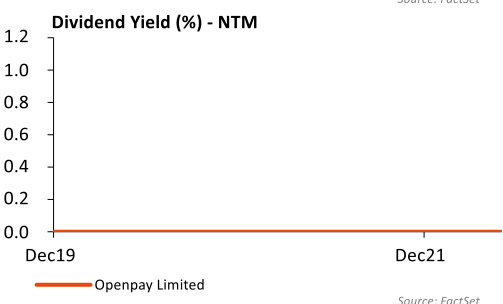
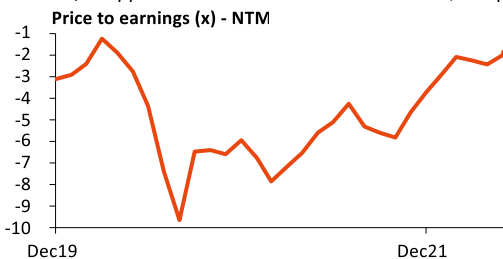
Openpay Limited
Information Technology

FactSet: OPY-AU / Bloomberg: OPY AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	0.23
Target Price (\$ps)	1.00
52 Week Range (\$ps)	0.23 - 1.65
Shares on Issue (m)	215.7
Market Cap (\$m)	49.6
Enterprise Value (\$m)	115.3
TSR (%)	334.8%

Valuation NPV	Data
Beta	1.30
Cost of Equity (%)	20.3%
Cost of Debt (net) (%)	79.7%
Risk Free Rate (%)	3.0%
Terminal Growth (%)	3.0%
WACC (%)	5.5%

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)	(28.0)	(11.2)	(3.8)
EPS (Underlying) (cps)	(32.1)	(48.2)	(28.0)	(11.2)	(3.8)
EPS (Underlying) Growth (%)	nm	(50.2%)	41.9%	60.1%	66.0%
PE (Underlying) (x)	(6.5)	(3.0)	(0.8)	(2.1)	(6.1)
EV / EBIT (x)	(0.5)	(0.8)	(2.3)	(7.3)	(44.0)
EV / EBITDA (x)	(0.6)	(0.8)	(2.4)	(9.6)	102.8
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%)	(257.9%)	0.2%	5.5%
Profit and Loss (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
Sales	18.3	26.3	31.3	61.1	102.0
Sales Growth (%)	66.0%	44.1%	19.1%	95.0%	67.0%
EBITDA	(30.1)	(55.1)	(47.4)	(12.5)	1.2
EBITDA Margin (%)	nm	nm	nm	(20.5%)	1.2%
Depreciation & Amortisation	(1.3)	(2.3)	(3.7)	(3.8)	(3.9)
EBIT	(31.4)	(57.4)	(51.2)	(16.4)	(2.8)
EBIT Margin (%)	nm	nm	nm	(26.8%)	(2.7%)
Net Interest	(4.0)	(5.6)	(9.3)	(7.7)	(5.4)
Pretax Profit	(35.4)	(63.1)	(60.5)	(24.1)	(8.2)
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)	(60.5)	(24.1)	(8.2)
Significant Items	0.0	0.0	0.0	0.0	0.0
NPAT Reported	(35.4)	(63.1)	(60.4)	(24.1)	(8.2)
Cashflow (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
EBIT	(31.4)	(57.4)	(51.2)	(16.4)	(2.8)
Tax Paid	0.0	0.0	0.0	0.0	0.0
Net Interest	(4.0)	(5.6)	(9.3)	(7.7)	(5.4)
Change in Working Capital	18.2	8.0	36.3	30.7	1.6
Depreciation & Amortisation	1.3	2.3	3.7	3.8	3.9
Other	(41.7)	(13.7)	(107.0)	(9.3)	7.1
Operating Cashflow	(57.6)	(66.4)	(127.4)	1.1	4.5
Capex	(0.8)	(0.3)	(0.5)	(1.1)	(1.8)
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)	(1.8)	(1.8)	(1.8)
Investing Cashflow	(1.9)	(4.0)	(2.3)	(2.8)	(3.5)
Free Cashflow	(58.3)	(66.7)	(128.0)	0.1	2.7
Equity Raised / Bought Back	83.8	46.4	20.3	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Change in Debt	1.2	9.8	58.2	(4.1)	(9.2)
Other	36.8	(4.1)	38.8	(2.7)	(2.7)
Financing Cashflow	121.8	52.1	117.3	(6.8)	(11.8)
Exchange Rate Effect	(1.0)	0.3	0.0	0.0	0.0
Net Change in Cash	61.4	(18.0)	(12.5)	(8.5)	(10.9)
Balance Sheet (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash	70.1	52.1	39.6	31.1	20.2
Accounts Receivable	45.2	57.5	98.0	129.7	132.3
Inventory	0.0	0.0	0.0	0.0	0.0
Other Current Assets	2.1	5.1	4.6	4.6	4.6
PPE	0.8	0.8	0.8	0.8	0.8
Goodwill & Intangibles	1.1	4.3	3.4	3.4	3.4
Investments	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	5.2	3.7	6.2	6.2	6.2
Total Assets	124.5	123.5	152.6	175.8	167.5
Accounts Payable	6.6	10.9	15.0	16.0	16.9
Short Term Debt	0.0	18.3	46.4	49.2	52.2
Long Term Debt	37.2	28.7	58.8	51.9	39.7
Income Taxes Payable	0.0	0.9	0.0	0.0	0.0
Other	5.2	5.5	5.5	6.0	6.9
Total Liabilities	49.0	64.2	125.8	123.0	115.8
Total Shareholder Equity	75.5	59.3	26.9	52.8	51.7
Ratios	FY20A	FY21A	FY22E	FY23E	FY24E
ROE (%)	(104.4%)	(93.5%)	(140.2%)	(60.5%)	(15.7%)
ROIC (%)	(46.9%)	(106.3%)	(224.7%)	(45.7%)	(15.8%)
Gearing (%)	(77.0%)	(9.3%)	70.9%	57.0%	58.1%
Net Debt / EBITDA (x)	1.1	0.1	(1.4)	(5.6)	60.8
Price to Book (x)	nm	nm	nm	nm	nm

Rating Classification

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

Risk Rating

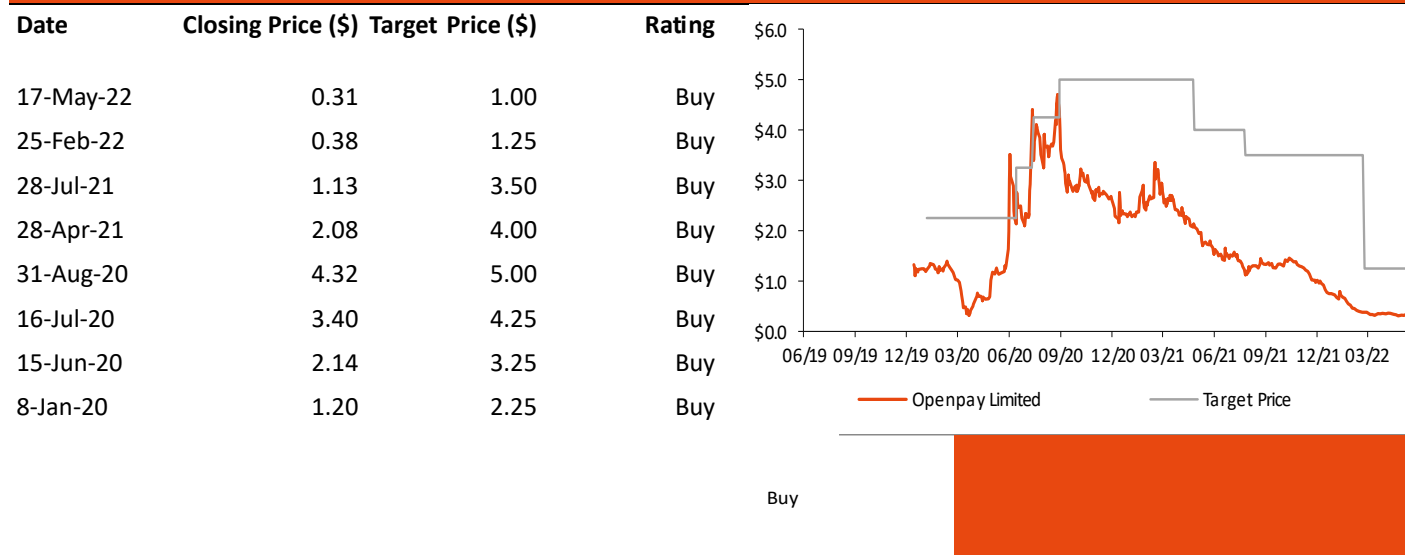
High	Higher risk than the overall market – investors should be aware this stock may be speculative
Medium	Risk broadly in line with the overall market
Low	Lower risk than the overall market

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	102	86%
Hold	14	12%
Sell	2	2%

History of Investment Rating and Target Price - Openpay Limited



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