

# Openpay Limited (OPY)

Rating: Buy | Risk: High | Price Target: \$0.75

## Additional funding capacity to match growth trajectory

### Key Information

|                         |                        |
|-------------------------|------------------------|
| Current Price (\$ps)    | 0.21                   |
| 12m Target Price (\$ps) | 0.75                   |
| 52 Week Range (\$ps)    | 0.12 - 1.26            |
| Target Price Upside (%) | 257.1%                 |
| TSR (%)                 | 257.1%                 |
| Reporting Currency      | AUD                    |
| Market Cap (\$m)        | 33.2                   |
| Sector                  | Information Technology |
| Avg Daily Volume (m)    | 0.2                    |
| ASX 200 Weight (%)      | 0%                     |

### Fundamentals

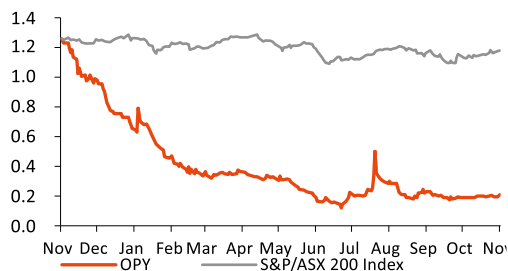
| YE 30 Jun (AUD) | FY22A   | FY23E  | FY24E  | FY25E  |
|-----------------|---------|--------|--------|--------|
| Sales (\$m)     | 32.0    | 38.4   | 45.3   | 50.7   |
| NPAT (\$m)      | (82.5)  | (27.6) | (20.8) | (16.9) |
| EPS (cps)       | (52.1)  | (17.4) | (13.1) | (10.7) |
| EPS Growth (%)  | (23.2%) | 66.6%  | 24.5%  | 19.0%  |
| DPS (cps) (AUD) | 0.0     | 0.0    | 0.0    | 0.0    |
| Franking (%)    | 0%      | 0%     | 0%     | 0%     |

### Ratios

| YE 30 Jun        | FY22A | FY23E | FY24E | FY25E  |
|------------------|-------|-------|-------|--------|
| P/E (x)          | (0.2) | (1.2) | (1.6) | (2.0)  |
| EV/EBITDA (x)    | (1.4) | (6.6) | (8.1) | (10.0) |
| 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 (%)  | 7.6%  | (9.6%) | (29.0%) | (76.9%) |
| Absolute (%)  | 10.5% | (8.7%) | (30.0%) | (83.3%) |
| Benchmark (%) | 2.9%  | 0.9%   | (1.0%)  | (6.4%)  |



### Major Shareholders

|                              |       |
|------------------------------|-------|
| Meydan Group (Program Force) | 28.4% |
| Chow Tai Fook Enterprises    | 5.0%  |

### Event

Secures a doubling of its extant receivables funding facility to match the growth in its book, providing further confidence in the company's outlook as it reiterates that it "remains on plan to deliver cash EBITDA profitability by June 2023 (on a monthly basis), and beyond." No changes to our numbers, PT, risk or recommendation.

### Highlights

- **Material uplift in committed receivables funding from \$55m to \$110m (subject to usual customary conditions precedent)** – provided by incumbent GCI Commercial Finance Fund (GCI), and Fortress Investment Group (Fortress).
- **GCI are leading providers of specialist credit** in areas of asset backed finance, scale up finance, and strategic capital.
- **Fortress is a leading, highly diversified global investment manager** with ~\$44.4b of assets under management as of June 30, 2022. Founded in 1998, Fortress manages assets on behalf of >1,900 institutional clients and private investors worldwide across a range of credit and real estate and PE. Fortress was acquired by Softbank in 2017.
- **Recapping, OPY as per 1Q23 has market-leading margins and unit economics:**
  1. **TTV +56% on pcp's \$73.2m to a record \$114.3m** – with B2B (OpyPro/SaaS) delivering \$31.5m across 14k trade accounts. All verticals showed increased demand.
  2. **Revenue +87% on pcp to \$9.7m** – annualising this generates FY revenue of \$38.8m, in line with our FY23 estimate of \$38.4m.
  3. **Active Plans +46%** on pcp to 1.9m.
  4. **Active Customers +18%** on pcp to 332k.
  5. **Active Merchants slightly up** from 4.1k to 4.2k.
  6. **Revenue Margin of 8.5% above both pcp's 7.2% and pp's 8.1%** – longer term target is 9.0%+ as OPY scales up.
  7. **Net Transaction Margin (NTM) improved** from 3.0% in pcp to 3.4%.
  8. **Net Bad Debts improved from 1.6% in pcp to just 1.4%.**
- **Cash balance of \$9m** – and \$17.5m (\$10m committed) of undrawn working cap facilities.
- **Operating losses are reducing following the exit of UK and US markets in FY22** – and the company remains committed to targeting cash EBITDA profitability in ANZ on a monthly basis by June 2023.

### Recommendation

BUY. OPY, despite its differentiated model (has seven product plans vs. its peers with one less than 2-month plan) has been caught up in the BNPL sell-down malaise. Which is a pity because it is arguably the best performing BNPL operator in Australia. Unlike its comps, OPY has repositioned itself quickly ahead of its peers (exiting UK, pausing the US, cutting costs), in addition to managing its bad debts lower than industry (1.6%), and is now predominantly focusing on ANZ and non-competitive sectors (Retail not a focus vs. Vet, Auto, Home Improvement, Education and Health which comprise the bulk of the book and where there is less pressure on margin and profitability). B2B SaaS now scaling up, and the unit economics improving with industry-leading NTM and revenue yields, which markedly differentiates it from its homogenous 'pay-in-4' peers. OPY trades at a significant – and attractive – 35% discount to BNPL peers with an EV/Sales+1 multiple of 1.6x vs. combined 2.5x (consensus) for EPY, HUM, SPT, SQ2, SZL and ZIP.

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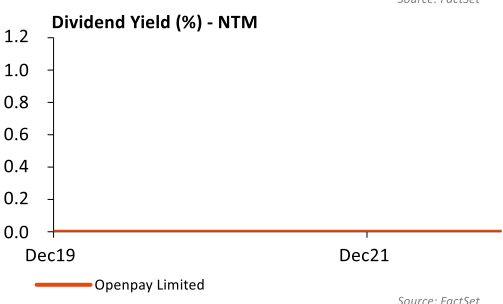
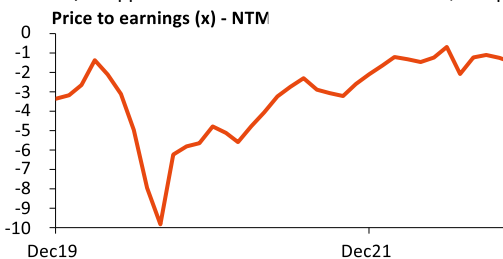
**Openpay Limited**  
Information Technology

FactSet: OPY-AU / Bloomberg: OPY AU

| Key Items              | Data        |
|------------------------|-------------|
| Recommendation         | BUY         |
| Risk                   | HIGH        |
| Price (\$ps)           | 0.21        |
| Target Price (\$ps)    | 0.75        |
| 52 Week Range (\$ps)   | 0.12 - 1.26 |
| Shares on Issue (m)    | 158.3       |
| Market Cap (\$m)       | 33.2        |
| Enterprise Value (\$m) | 116.2       |
| TSR (%)                | 257.1%      |

| Valuation NPV          | Data  |
|------------------------|-------|
| Beta                   | 1.40  |
| Cost of Equity (%)     | 14.6% |
| Cost of Debt (net) (%) | 85.4% |
| 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)             | FY21A    | FY22A    | FY23E       | FY24E   | FY25E   |
|--------------------------------------|----------|----------|-------------|---------|---------|
| EPS (Reported) (cps)                 | (42.3)   | (52.1)   | (17.4)      | (13.1)  | (10.7)  |
| EPS (Underlying) (cps)               | (42.3)   | (52.1)   | (17.4)      | (13.1)  | (10.7)  |
| EPS (Underlying) Growth (%)          | (31.8%)  | (23.2%)  | 66.6%       | 24.5%   | 19.0%   |
| PE (Underlying) (x)                  | (3.4)    | (0.2)    | (1.2)       | (1.6)   | (2.0)   |
| EV / EBIT (x)                        | (0.4)    | (1.4)    | (5.5)       | (6.4)   | (7.4)   |
| EV / EBITDA (x)                      | (0.5)    | (1.4)    | (6.6)       | (8.1)   | (10.0)  |
| 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 (%)             | (35.7%)  | (426.9%) | (8.8%)      | 40.1%   | 32.6%   |
| Profit and Loss (AUD) (m)            | FY21A    | FY22A    | FY23E       | FY24E   | FY25E   |
| Sales                                | 26.3     | 32.0     | 38.4        | 45.3    | 50.7    |
| Sales Growth (%)                     | 44.1%    | 21.7%    | 20.0%       | 18.0%   | 12.0%   |
| EBITDA                               | (60.9)   | (74.6)   | (17.7)      | (12.9)  | (9.5)   |
| EBITDA Margin (%)                    | nm       | nm       | (46.1%)     | (28.5%) | (18.7%) |
| Depreciation & Amortisation          | (2.3)    | (3.3)    | (3.3)       | (3.3)   | (3.2)   |
| EBIT                                 | (63.2)   | (77.9)   | (21.0)      | (16.3)  | (12.7)  |
| EBIT Margin (%)                      | nm       | nm       | (54.7%)     | (35.9%) | (25.1%) |
| Net Interest                         | 0.2      | (4.6)    | (6.6)       | (4.6)   | (4.1)   |
| Pretax Profit                        | (63.1)   | (82.5)   | (27.6)      | (20.8)  | (16.9)  |
| 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                      | (63.1)   | (82.5)   | (27.6)      | (20.8)  | (16.9)  |
| Significant Items                    | 0.0      | 0.0      | 0.0         | 0.0     | 0.0     |
| NPAT Reported                        | (63.1)   | (82.5)   | (27.6)      | (20.8)  | (16.9)  |
| Cashflow (AUD) (m)                   | FY21A    | FY22A    | FY23E       | FY24E   | FY25E   |
| EBIT                                 | (63.2)   | (77.9)   | (21.0)      | (16.3)  | (12.7)  |
| Tax Paid                             | 0.0      | 0.0      | 0.0         | 0.0     | 0.0     |
| Net Interest                         | 0.2      | (4.6)    | (6.6)       | (4.6)   | (4.1)   |
| Change in Working Capital            | 8.0      | 6.6      | 43.5        | 5.9     | 6.3     |
| Depreciation & Amortisation          | 2.3      | 3.3      | 3.3         | 3.3     | 3.2     |
| Other                                | (13.7)   | (8.6)    | (21.9)      | 25.2    | 18.5    |
| Operating Cashflow                   | (66.4)   | (81.2)   | (2.7)       | 13.6    | 11.1    |
| Capex                                | (0.3)    | 0.1      | (0.2)       | (0.2)   | (0.3)   |
| 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                                | (3.7)    | 0.0      | 0.0         | 0.0     | 0.0     |
| Investing Cashflow                   | (4.0)    | 0.1      | (0.2)       | (0.2)   | (0.3)   |
| Free Cashflow                        | (66.7)   | (81.1)   | (2.9)       | 13.3    | 10.9    |
| Equity Raised / Bought Back          | 46.4     | 6.4      | 0.0         | 0.0     | 0.0     |
| Dividends Paid                       | 0.0      | 0.0      | 0.0         | 0.0     | 0.0     |
| Change in Debt                       | 9.8      | 35.9     | 6.0         | (11.8)  | (7.5)   |
| Other                                | (4.1)    | (2.5)    | (7.4)       | (1.4)   | (1.4)   |
| Financing Cashflow                   | 52.1     | 39.9     | (1.5)       | (13.2)  | (8.9)   |
| Exchange Rate Effect                 | 0.3      | (0.5)    | 0.0         | 0.0     | 0.0     |
| Net Change in Cash                   | (18.0)   | (41.7)   | (4.4)       | 0.1     | 2.0     |
| Balance Sheet (AUD) (m)              | FY21A    | FY22A    | FY23E       | FY24E   | FY25E   |
| Cash                                 | 52.1     | 10.3     | 6.0         | 6.1     | 8.1     |
| Accounts Receivable                  | 57.5     | 63.9     | 108.0       | 114.6   | 121.6   |
| Inventory                            | 0.0      | 0.0      | 0.0         | 0.0     | 0.0     |
| Other Current Assets                 | 5.1      | 3.0      | 3.0         | 3.0     | 3.0     |
| PPE                                  | 0.8      | 0.5      | 0.4         | 0.2     | 0.2     |
| Goodwill & Intangibles               | 4.3      | 2.5      | 2.5         | 2.5     | 2.5     |
| Investments                          | 0.0      | 0.0      | 0.0         | 0.0     | 0.0     |
| Other Non Current Assets             | 3.7      | 3.7      | 3.7         | 3.7     | 3.7     |
| Total Assets                         | 123.5    | 84.0     | 123.5       | 130.1   | 139.0   |
| Accounts Payable                     | 10.9     | 10.6     | 11.3        | 11.9    | 12.7    |
| Short Term Debt                      | 18.3     | 32.9     | 34.9        | 37.0    | 39.3    |
| Long Term Debt                       | 28.7     | 50.0     | 54.0        | 40.1    | 30.4    |
| Income Taxes Payable                 | 0.9      | 0.0      | 0.0         | 0.0     | 0.0     |
| Other                                | 5.5      | 5.4      | 8.2         | 9.2     | 10.2    |
| Total Liabilities                    | 64.2     | 98.9     | 108.4       | 98.3    | 92.6    |
| Total Shareholder Equity             | 59.3     | (14.9)   | 15.1        | 31.8    | 46.4    |
| Ratios                               | FY21A    | FY22A    | FY23E       | FY24E   | FY25E   |
| ROE (%)                              | (93.5%)  | (371.5%) | (26,765.0%) | (88.6%) | (43.1%) |
| ROIC (%)                             | (106.3%) | 552.2%   | (182.1%)    | (65.4%) | (36.3%) |
| Gearing (%)                          | (9.3%)   | 125.9%   | 84.6%       | 69.1%   | 57.0%   |
| Net Debt / EBITDA (x)                | 0.1      | (1.0)    | (4.7)       | (5.5)   | (6.5)   |
| 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

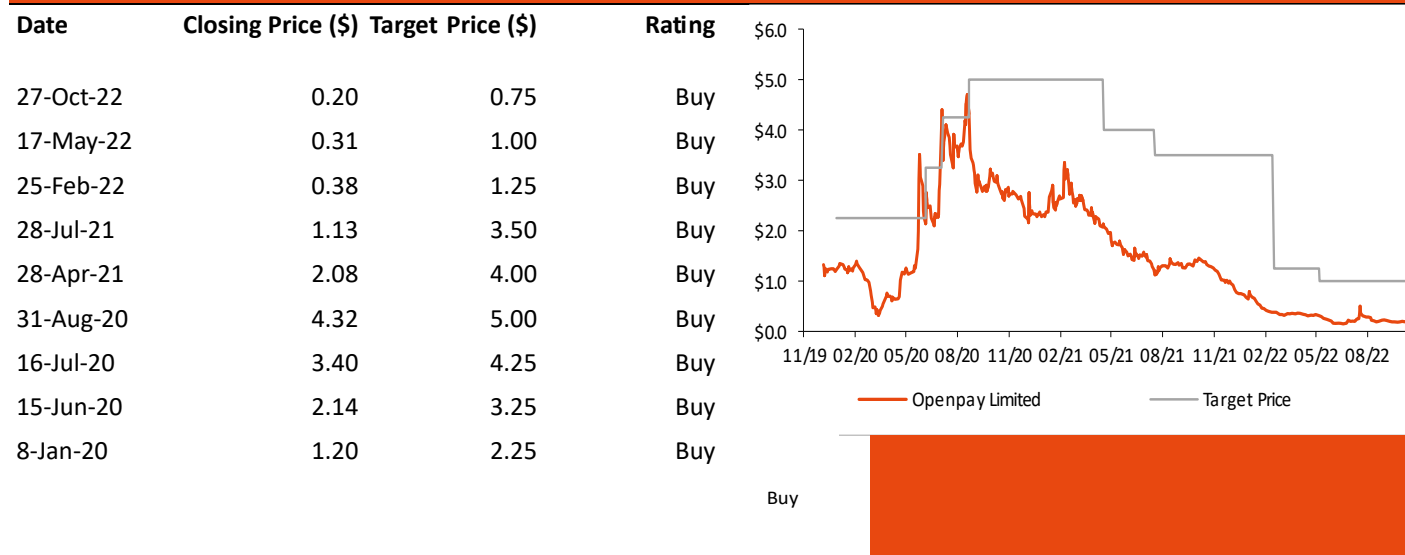
|               |                                                                                               |
|---------------|-----------------------------------------------------------------------------------------------|
| <b>High</b>   | Higher risk than the overall market – investors should 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    | 114   | 88%                     |
| Hold   | 16    | 12%                     |
| Sell   | 0     | 0%                      |

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



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| Sydney   Head Office       | Melbourne                  | Brisbane                   | Adelaide                   | Canberra                   | Perth                      | Noosa                      |
|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| Level 7, Chifley Tower     | Level 36                   | Level 28                   | Level 23                   | Level 7                    | Level 20                   | Suite 11a Q Place          |
| 2 Chifley Square           | 120 Collins Street         | 111 Eagle Street           | 91 King William Street     | 54 Marcus Clarke Street    | 108 St Georges Terrace     | 2 Quamby Place             |
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