

Openpay Limited (OPY)

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

May continues strong results trajectory

Key Information

Current Price (\$ps)	0.19
12m Target Price (\$ps)	1.00
52 Week Range (\$ps)	0.17 - 1.65
Target Price Upside (%)	440.5%
TSR (%)	440.5%
Reporting Currency	AUD
Market Cap (\$m)	39.9
Sector	Information Technology
Avg Daily Volume (m)	0.3
ASX 200 Weight (%)	0%

Fundamentals

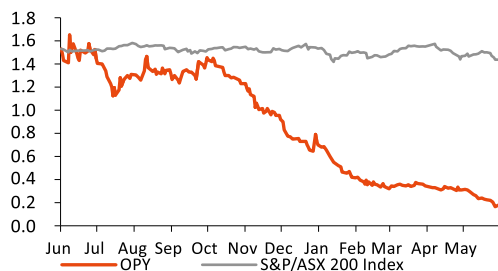
YE 30 Jun (AUD)	FY21A	FY22E	FY23E	FY24E
Sales (\$m)	26.3	31.3	61.1	102.0
NPAT (\$m)	(63.1)	(60.5)	(24.1)	(8.2)
EPS (cps)	(48.2)	(28.0)	(11.2)	(3.8)
EPS Growth (%)	(50.2%)	41.9%	60.1%	66.0%
DPS (cps) (AUD)	0.0	0.0	0.0	0.0
Franking (%)	0%	0%	0%	0%

Ratios

YE 30 Jun	FY21A	FY22E	FY23E	FY24E
P/E (x)	(3.0)	(0.7)	(1.7)	(4.9)
EV/EBITDA (x)	(0.6)	(2.2)	(8.8)	94.6
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 (%)	(38.3%)	(37.7%)	(39.2%)	(82.7%)
Absolute (%)	(40.3%)	(45.6%)	(42.2%)	(87.9%)
Benchmark (%)	(2.0%)	(7.9%)	(3.0%)	(5.2%)



Price performance indexed to 100

Source: FactSet

Major Shareholders

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

Event

4Q22 YTD trading update (May) highlights strong growth continuing. OPY is still growing in Australia, unlike many of its listed BNPL peers, who have much lower revenue margins vs. OPY's 8-9%. OPY is therefore structurally and operationally better positioned to deal with tightening credit conditions (like rising interest rates and higher bad debts vs. its cohorts). No changes to our numbers, PT, risk rating or recommendation.

Highlights

• All key metrics for ANZ show positive momentum:

1. **Active customers +22% on pcp to 317k** – vs. Jan-May 2021 average of 255k.
2. **Active merchants flat on pp to ~4,000** – vs. Jan-May 2021 average of 3,300.
3. **Active Plans +51% on pcp to ~1.7m** – vs. Jan-May 2021 average of 1.1m.
4. **TTV improved on previous April month (+44% on pcp to \$30m), +52% on pcp to \$33m, or >\$1m per day (\$396m annualised)** – a record for a seasonally weaker month excl.-Xmas peak in December 2021 of \$35m.

- **Positively, revenue surged above the previous April 2022 growth rate of +69% on pcp to \$2.5m, generating +84% on pcp to \$3.0m** – equating to annualised sales of \$36.0m vs \$26.0m achieved in FY21, and taking the YTD 10 months to \$24.5m. As a result, the resultant revenue/TTV yield remained very strong at 8.3% (2Q22: 6.7%; 3Q22: 8.6%; April 2022: 8.3%) and should improve given recent shift to capital light OpyPro merchants. The exit of UK retail (lower) margin and early start-up UK penetration (lower returns given no consumer fees charged) were key drivers. Longer term target is 9.0%+ as OPY scales up, in addition to US and B2B portfolio expansion.

• ANZ unit economics remain strong with:

1. **Net Transaction Loss (NTL)** (total of receivables impairment and customer charge back expenses net of late fees received) continues to improve -57bp to -1.3% (vs. CY22 average of -1.0% with April-May seasonally higher given post-peak period);
2. **Net Transaction Margin (NTM)** (sales ex-late fees, less NTL and cost of providing services) continues its upward trajectory too +144bp to 3.2% (vs. average NTM in CY22 of 3.2% and 1H22 2.7%);
3. **Net Bad Debts (write-offs)** remained low, and improved -20bp to 2.3% – importantly, bad debts to revenue of ~25% is running at half its peers like ZIP; and
4. **Arrears (balances outstanding >60 days)** down -60bp to 1.3%.

Recommendation

Buy. The BNPL sector is taking a bath at the moment with frequent negative media coverage. Unfortunately, OPY, despite its differentiated model and strategy of being one of the first BNPL players to get to profitability within 12 months, has been caught up in this malaise. Unlike its peers, OPY IS managing its bad debts and keeping them low, has extricated itself from competitive geographies (now predominantly focusing on ANZ and US) and competitive sectors (Retail is not a focus but rather Vet, Auto, Home Improvement, Education and Health where there is less pressure on margin and profitability). The solid April and May was on the back of a very strong and seasonally weaker 3Q22. Key focus going forward will be on funding comfort to get to profitability in ANZ by June 2023, continuing momentum in ANZ, cost base reset, US ramp up (expecting some announcements soon), B2B SaaS offering now contributing, 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 – 60% discount to BNPL peers on an FY23 EV/Sales multiple of 1.6x vs. combined 4.0x (consensus) for HUM, SPT, SQ2, SZL, Z1P.

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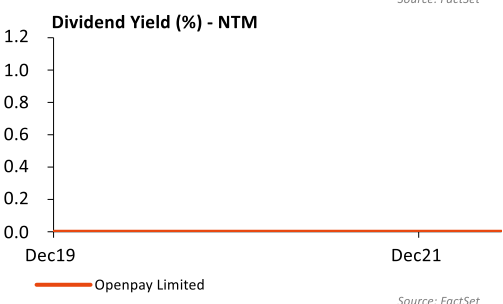
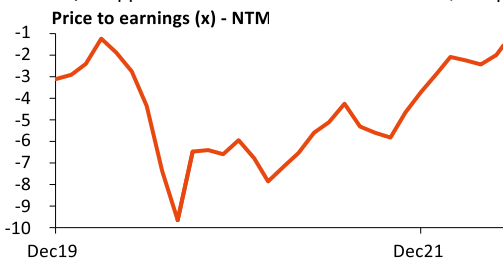
Openpay Limited
Information Technology

FactSet: OPY-AU / Bloomberg: OPY AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	0.19
Target Price (\$ps)	1.00
52 Week Range (\$ps)	0.17 - 1.65
Shares on Issue (m)	215.7
Market Cap (\$m)	39.9
Enterprise Value (\$m)	105.6
TSR (%)	440.5%

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

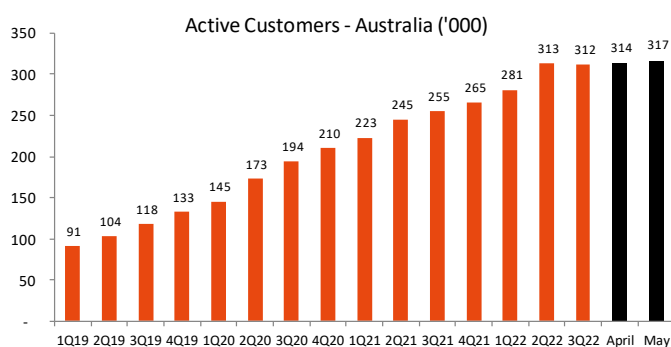
Investment Summary (AUD)	FY20A	FY21A	FY22E	FY23E	FY24E
EPS (Reported) (cps)	(32.1)	(48.2)	(28.0)	(11.2)	(3.8)
EPS (Underlying) (cps)	(32.1)	(48.2)	(28.0)	(11.2)	(3.8)
EPS (Underlying) Growth (%)	nm	(50.2%)	41.9%	60.1%	66.0%
PE (Underlying) (x)	(6.5)	(3.0)	(0.7)	(1.7)	(4.9)
EV / EBIT (x)	(0.2)	(0.6)	(2.1)	(6.7)	(40.4)
EV / EBITDA (x)	(0.2)	(0.6)	(2.2)	(8.8)	94.6
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%)	(320.6%)	0.2%	6.8%
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

Other Key Points

- **Key take-away is that path to profitability is now expected by June 2023 in ANZ and balanced growth is the strategic goal without sacrificing TTV (book) growth for yields (which the company proved in the seasonally weaker 3Q22) – and ability to fund that path and US expansion appears solid given UK exit, cost base materially resizing from 4Q22 (already evidenced in April 2022), US sales contribution in coming quarters ramping up TTV, SaaS / OpyPro now generating meaningful returns and a healthy buffer re: yield multiples higher (8-9%) than its BNPL peers, validating superior unit economics and provides significant headroom should the cost of funding and bad debts increase.**
- **Openpay’s B2B trade finance SaaS platform, OpyPro, another significant differentiator to its ‘pay-in-4’ peers, continues to excel and ramp up – now generating May TTV of \$6.2m (vs. April TTV of \$4.2m; vs. 3Q22: \$10.4m; March \$4.4m) (predominantly WOW) with >34,000 trade accounts.**

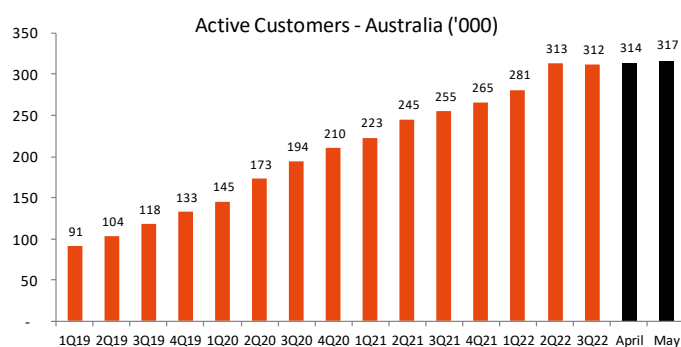
OPY ANZ Only Summary – In Charts

Figure 1: OPY Total Active Plans Summary



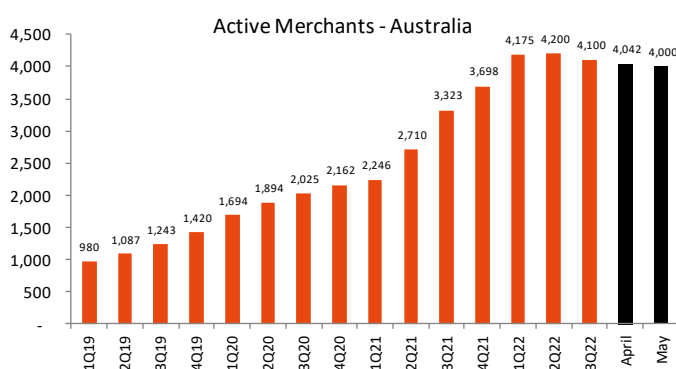
Source: Shaw and Partners, OPY

Figure 2: OPY Active Customers Summary



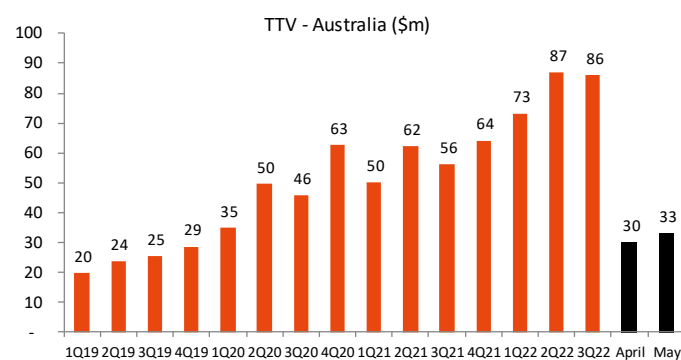
Source: Shaw and Partners, OPY

Figure 3: OPY Merchants Summary



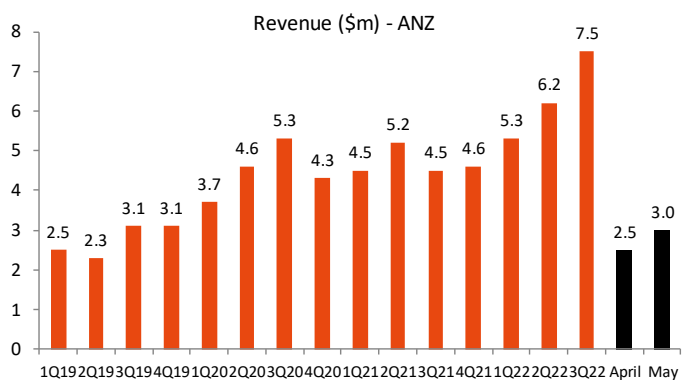
Source: Shaw and Partners, OPY

Figure 4: OPY TTV Summary



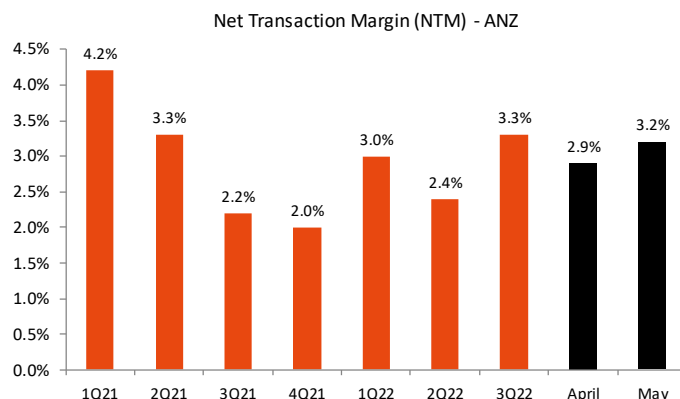
Source: Shaw and Partners, OPY

Figure 5: OPY Revenue Summary



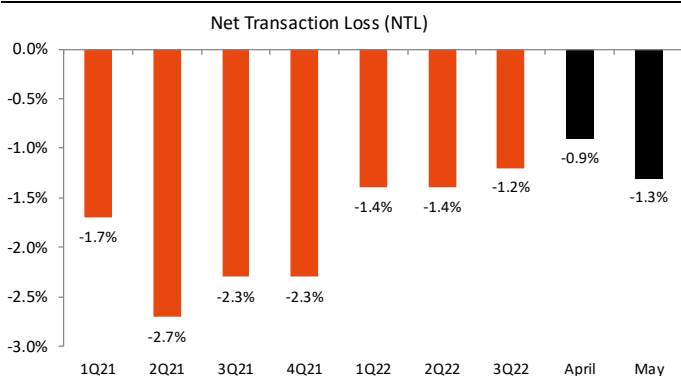
Source: Shaw and Partners, OPY

Figure 6: OPY NTM Summary



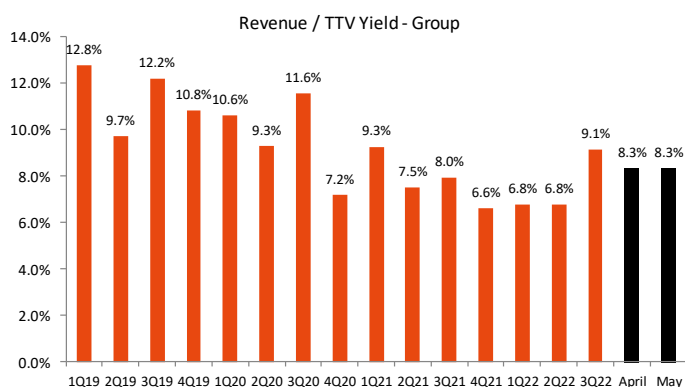
Source: Shaw and Partners, OPY

Figure 7: OPY NTL Summary



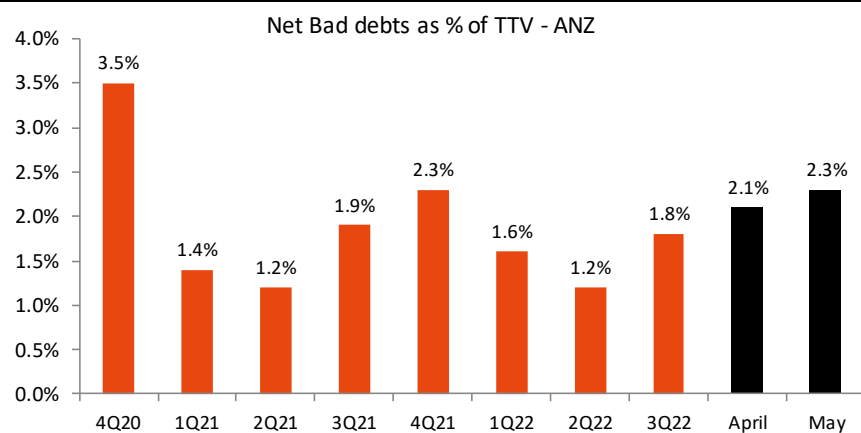
Source: Shaw and Partners, OPY

Figure 8: OPY Revenue Yield Summary



Source: Shaw and Partners, OPY

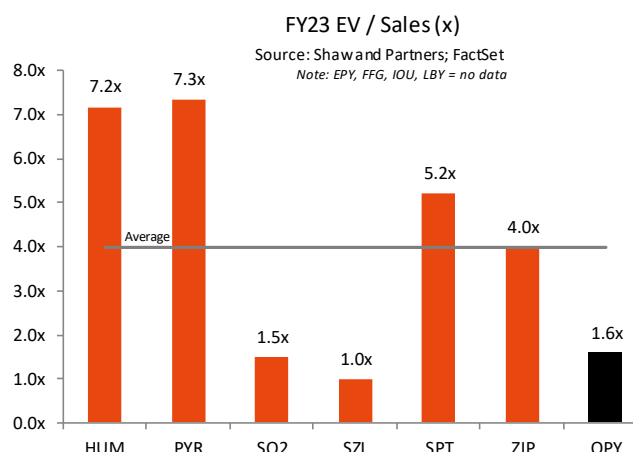
Figure 9: OPY Net Bad Debts Summary



Source: Shaw and Partners, OPY

Valuation

Figure 10: BNPL Sector EV/Sales (x)



Source: Shaw and Partners, FactSet

Key risks

Regulation – The BNPL sector in particular has had a number of recent inquiries including the ASIC, RBA and Senate inquiries. We expect that the regulatory environment and focus will continue to remain dynamic.

Credit and Bad Debts – OPY is exposed to any deterioration in quality of the loan book. Significant deterioration in credit quality across the book that exceeds current retained BDD provision levels may negatively affect earnings, as well as finance costs and availability.

Finance and Funding – One of the largest risks to OPY (and other BNPL players) is availability as well as costs of financing. Finance and funding risk are magnified within the current global volatile environment.

Fraud Risk – Although dealing in small ticket sizes and so unlikely to encounter large scale frauds (e.g. other listed alternative financiers have encountered) OPY may encounter fraud that could cause customer or merchant losses, which in turn may affect or cause an increase in costs for the company. This indeed happened in December 2020 (now remedied).

Economic Environment – May affect the levels of TTV, user adoption, savings rates or seasonality within the business. Having demonstrated strong q-on-q growth rates since inception, OPY may be affected by seasonality.

Competitive Landscape – OPY has a number of both mainstream (such as traditional bank credit, Humm) and alternative (Afterpay, Zip Co., etc.) competitors within various products and sectors the company operates within. Higher competition is likely to manifest itself within compression on merchant fees, tendering processes for larger merchants and overall customer acquisition costs.

Core drivers and catalyst

Our positive recommendation and attraction to OPY is driven by the following:

Structural tailwinds driving mainstream adoption – We expect structural tailwinds to continue to grow adoption from both merchants and customers, driving well above system growth and taking share from major incumbents, whilst growing the size of the overall pie.

Fintech competitive advantages – OPY has a best-in-breed product. OPY has competitive advantages across three key value chains which include: 1) customers; 2) merchants; and 3) funders – a rare position to be in.

Recurring income – Although having relatively short amortisation and book turn metrics compared with a traditional personal finance lender, OPY has a material base of customers, repeat transactions and some duration and repeatability to its book.

Optionality around further geographies and products – We see opportunity for further growth with penetration into the US. The recent deals with Ford, Pentana (cars) and Woolworths (SaaS) are further evidence – and validation – of OPY's broad product offering.

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	100	86%
Hold	14	12%
Sell	2	2%

History of Investment Rating and Target Price - Openpay Limited

Date	Closing Price (\$)	Target Price (\$)	Rating
17-May-22	0.31	1.00	Buy
25-Feb-22	0.38	1.25	Buy
28-Jul-21	1.13	3.50	Buy
28-Apr-21	2.08	4.00	Buy
31-Aug-20	4.32	5.00	Buy
16-Jul-20	3.40	4.25	Buy
15-Jun-20	2.14	3.25	Buy
8-Jan-20	1.20	2.25	Buy



Buy

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