

Openpay Limited (OPY)

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

FY23 reset begins

Key Information

Current Price (\$ps)	0.20
12m Target Price (\$ps)	1.00
52 Week Range (\$ps)	0.12 - 1.46
Target Price Upside (%)	400.0%
TSR (%)	400.0%
Reporting Currency	AUD
Market Cap (\$m)	31.7
Sector	Information Technology
Avg Daily Volume (m)	0.8
ASX 200 Weight (%)	0%

Fundamentals

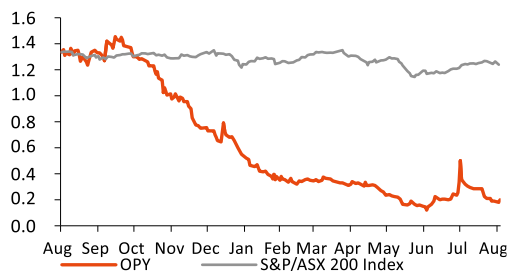
YE 30 Jun (AUD)	FY22A	FY23E	FY24E	FY25E
Sales (\$m)	32.0	38.4	45.3	50.7
NPAT (\$m)	(82.5)	(27.6)	(20.8)	(16.9)
EPS (cps)	(52.1)	(17.4)	(13.1)	(10.7)
EPS Growth (%)	(23.2%)	66.6%	24.5%	19.0%
DPS (cps) (AUD)	0.0	0.0	0.0	0.0
Franking (%)	0%	0%	0%	0%

Ratios

YE 30 Jun	FY22A	FY23E	FY24E	FY25E
P/E (x)	(0.2)	(1.1)	(1.5)	(1.9)
EV/EBITDA (x)	(1.4)	(6.5)	(7.9)	(9.8)
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 (%)	(44.5%)	60.1%	(12.7%)	(78.3%)
Absolute (%)	(43.7%)	66.7%	(16.7%)	(85.0%)
Benchmark (%)	0.8%	6.6%	(4.0%)	(6.7%)



Major Shareholders

Meydan Group (Program Force)	15.3%
Chow Tai Fook Enterprises	7.3%
Credit Suisse AG	5.0%

Event

FY22 result largely pre-announced previously with monthly updates provided to the market for April, May and June (also July provided) so no material surprises evident in this release despite the bumper year for OPY across all metrics. We have removed the \$43m cost base and associated revenues related to maintaining the UK and US exit / pause from FY23 estimates, such that we now model the business on an ANZ-standalone basis.

Highlights

- **Outlines its path to profitability by June 2023** – defined as Cash EBITDA (which excludes non-cash items like movement in provisions for credit losses [but still including write-offs] and deferred revenues) with a target in the medium term of generating TTV of \$1b+ vs. current \$344m. Shaw's FY23 estimates remain conservative relative to this guidance.
- **Cost base now being right-sized post exit from US / UK** – comprising staff +59% from \$27.7m to \$44.1m (ANZ ~\$20m of that vs. rest international investment that won't be repeated in FY23+), Operating flat at \$29.1m and variable expenses flat at \$6.4m. Cost of providing services (effectively OPY's COGS) +14% on pcp's \$26.0m to \$32.0m a function of TTV uplift and revenue generation and still below revenue growth of 23% y-on-y. Shaw estimate the total OpEx incurred to maintain the UK and enter US markets to be ~\$43m, of which ~\$24m is staffing (not be repeated in FY23) of the total \$80m cost base.
- **TTV of \$97.6m (annualised run-rate \$390m) was+ 54% on pcp, equating to FY22 ANZ TTV of \$344m and Group TTV to A\$413m** – translating into ANZ revenue of \$26.3m (in line with Shaw and Partners) +40% on pcp's \$18.8m, equating to FY22 Group revenue of \$34.3m, +7% above our original forecast of \$32.0m.
- **Average FY22 ANZ unit economics remain super strong with:**
 1. **ATVs remain solid and mostly non-discretionary unlike BNPL peers** – with Retail \$193, Auto \$638, Health \$804, Home Improvement \$2,691 and Education \$3,517;
 2. **Average Revenue/TTV yield remained very strong at 7.7% (FY21: 8.2%; 4Q21: 7.3%; 1Q22: 7.2%; 2Q22: 6.7%; 3Q22: 8.6%; 4Q22 8.1%) and should improve given recent shift to capital light OpyPro**– LT target is 9.0%+ as OPY scales up.
 3. **Net Transaction Loss (NTL) (total of receivables impairment and customer charge back expenses net of late fees received) flat at -1.0% (4Q22: -1.1%; FY20: -2.0%);**
 4. **Net Transaction Margin (NTM) (sales ex-late fees, less NTL and cost of providing services) robust with 2.9% (4Q22: 3.4%, 2H21: 2.1% and 1H22 2.7%);**
 5. **Net Bad Debts (write-offs) remained low, and improved -10bp from 1.7% in pcp to 1.6% (4Q22: -60bp from 2.3% to 1.5%)** – importantly, bad debts to revenue of <25% is running at half its peers;
 6. **Arrears (balances outstanding >60 days) down -80bp from 1.9% to 1.1%; and**
 7. **Net receivables +56% growth from \$40.5m in pcp to \$63.3m** – with average receivables turns improving from 6.0x to 6.3x.

Recommendation

OPY, despite its differentiated model (has seven product plans vs. its peers with one less than 2-month plan) and strategy of being one of the first BNPL players to get to cash EBITDA profitability within 12 months, has been caught up in the BNPL sell-down malaise. 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). Key focus now will be on funding comfort, continuing momentum in ANZ and the significant cost base reset. 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 – 60% discount to BNPL peers with an EV/Sales+1 multiple of 1.3x vs. combined 3.2x (consensus) for HUM, SPT, SQ2, SZL, Z1P.

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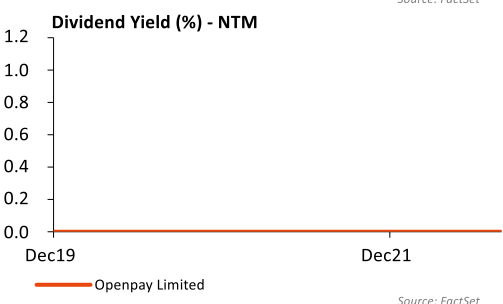
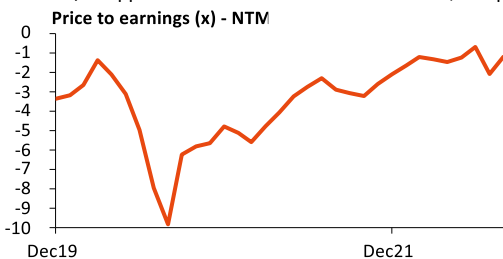
Openpay Limited
Information Technology

FactSet: OPY-AU / Bloomberg: OPY AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	0.20
Target Price (\$ps)	1.00
52 Week Range (\$ps)	0.12 - 1.46
Shares on Issue (m)	158.3
Market Cap (\$m)	31.7
Enterprise Value (\$m)	114.6
TSR (%)	400.0%

Valuation NPV	Data
Beta	1.30
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)	(1.1)	(1.5)	(1.9)
EV / EBIT (x)	(0.4)	(1.3)	(5.5)	(6.3)	(7.3)
EV / EBITDA (x)	(0.4)	(1.4)	(6.5)	(7.9)	(9.8)
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 (%)	(35.7%)	(426.9%)	(9.2%)	42.1%	34.3%
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

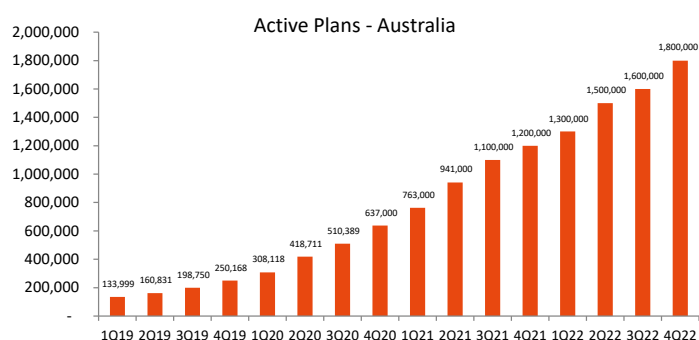
Other Key Points

Increases in TTV and revenue were a function of:

1. **OpyPro (B2B) TTV really accelerating now** – up 683% on pcp to \$40.7m (1H22: 13.5m; 2H22: \$27.2m). This translated into revenues +304% on pcp to \$878k (1H22: \$142k; 2H22: \$736k) on >215k transactions (+750%) and 11.2k active accounts with the main customers are Woolworths, HP and Kogan;
2. **Merchants of 4,100**, +49% on pcp;
3. **Customers of 321k**, +21% on pcp;
4. **Active plans of 1.8m**, +50% on pcp;
5. **Repeat Customers Plans up** from 88% in pcp to 92%; and
6. **Active Customers with Multiple Plans rose** from 57% to 65%.

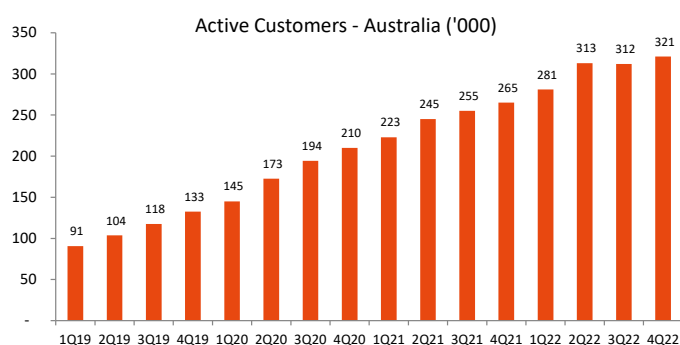
ANZ Summary – In Charts

Figure 2: OPY Active Plans – by Quarter



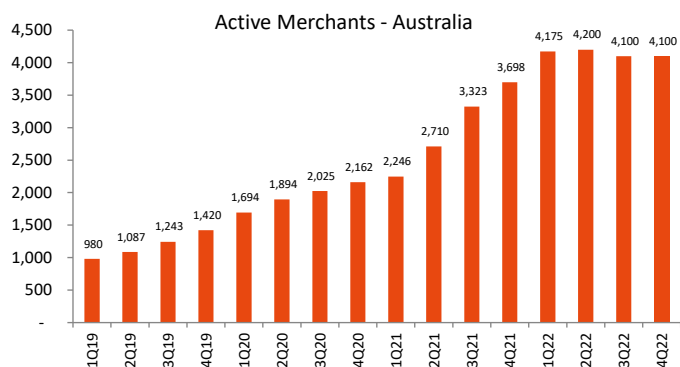
Source: Shaw and Partners

Figure 3: OPY Active Customers – by Quarter



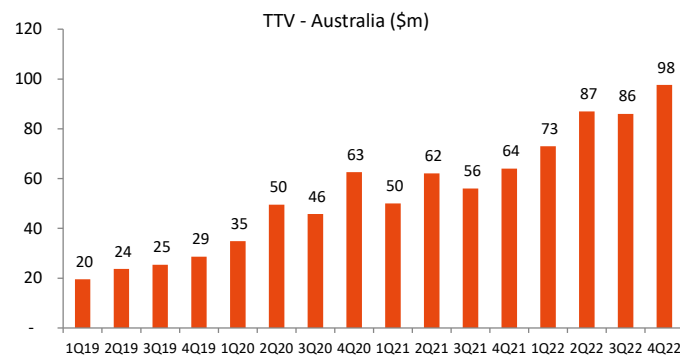
Source: Shaw and Partners

Figure 2: OPY Active Merchants – by Quarter



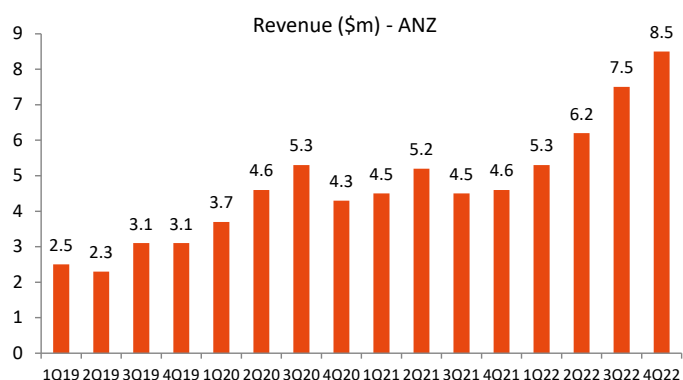
Source: Shaw and Partners

Figure 3: OPY TTV – by Quarter



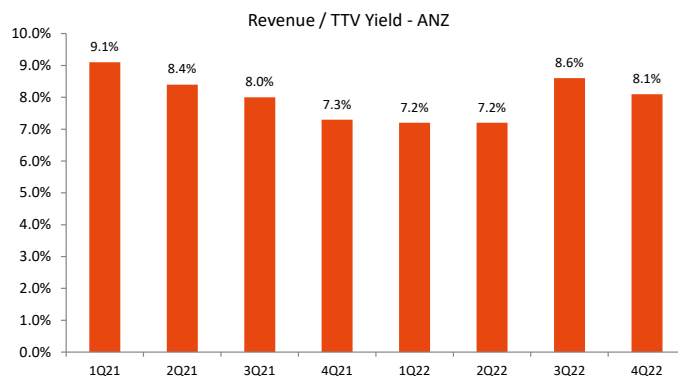
Source: Shaw and Partners

Figure 2: OPY Sales – by Quarter



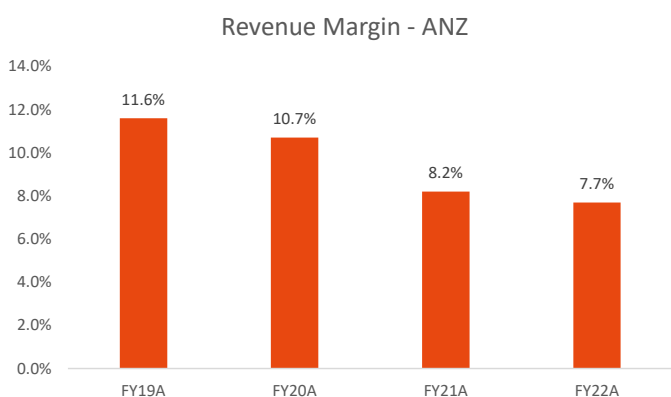
Source: Shaw and Partners

Figure 3: OPY Revenue Margin – by Quarter



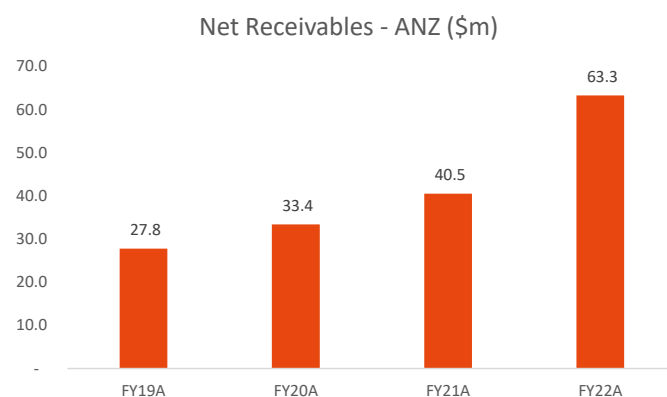
Source: Shaw and Partners

Figure 2: OPY Revenue Margin – by FY



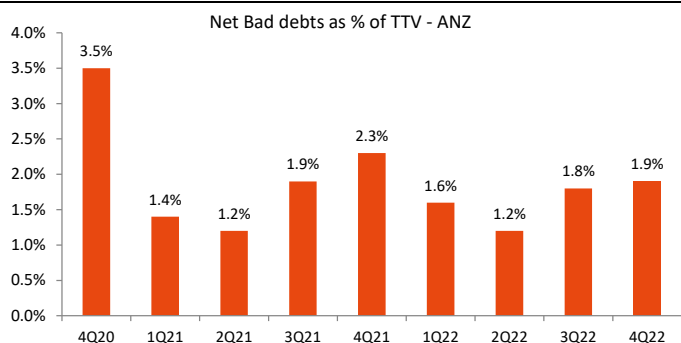
Source: Shaw and Partners

Figure 3: OPY Receivables



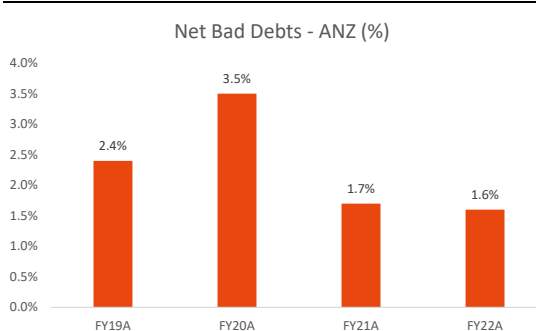
Source: Shaw and Partners

Figure 2: OPY Net Bad Debts – by Quarter



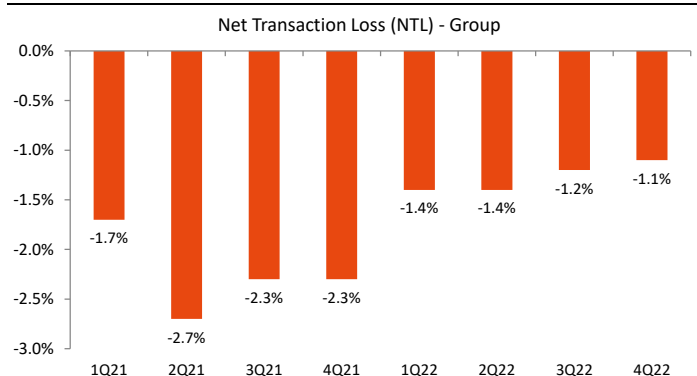
Source: Shaw and Partners

Figure 3: OPY Net Bad Debts – by FY



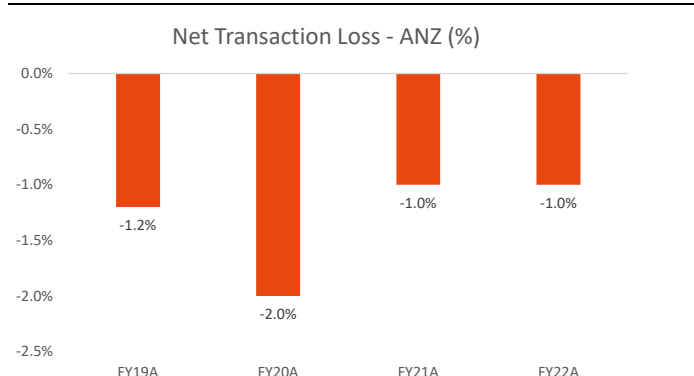
Source: Shaw and Partners

Figure 2: OPY NTL – by Quarter



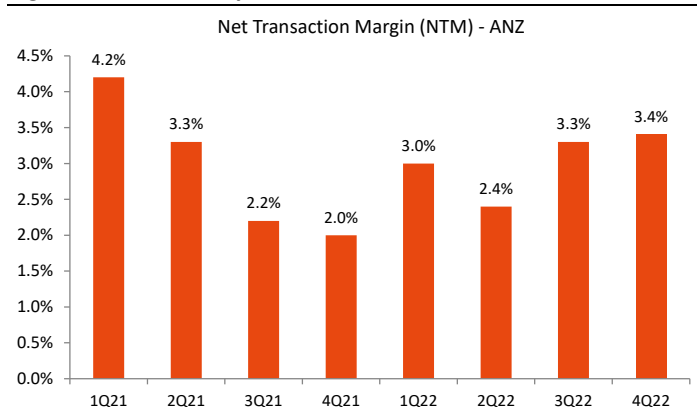
Source: Shaw and Partners

Figure 3: OPY NTL – by FY



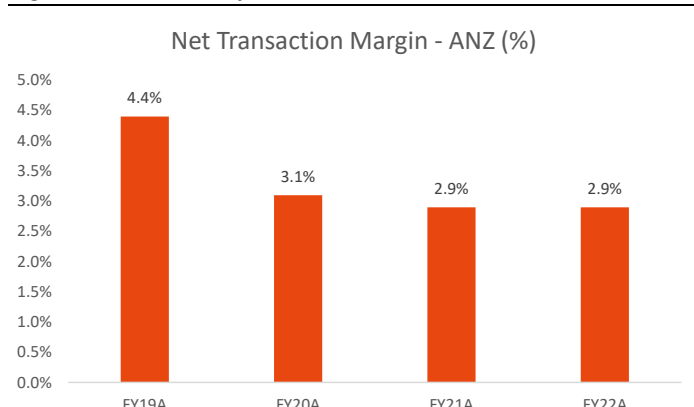
Source: Shaw and Partners

Figure 2: OPY NTM – by Quarter



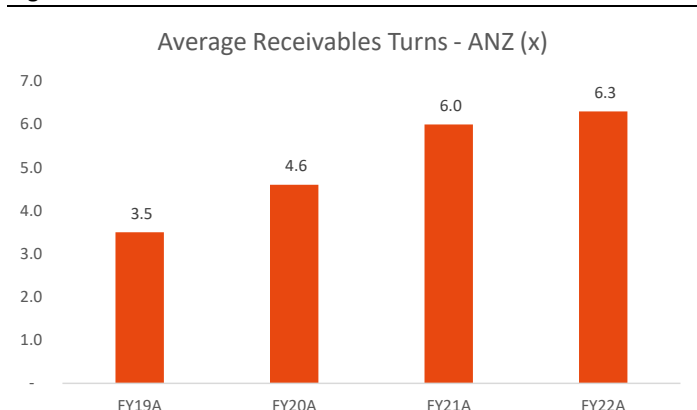
Source: Shaw and Partners

Figure 3: OPY NTM – by FY



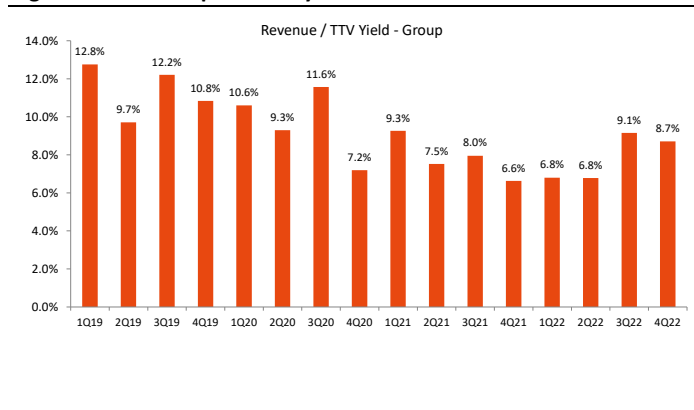
Source: Shaw and Partners

Figure 2: OPY Net Receivables Turns



Source: Shaw and Partners

Figure 3: OPY Group Yield – by Quarter



Source: Shaw and Partners

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

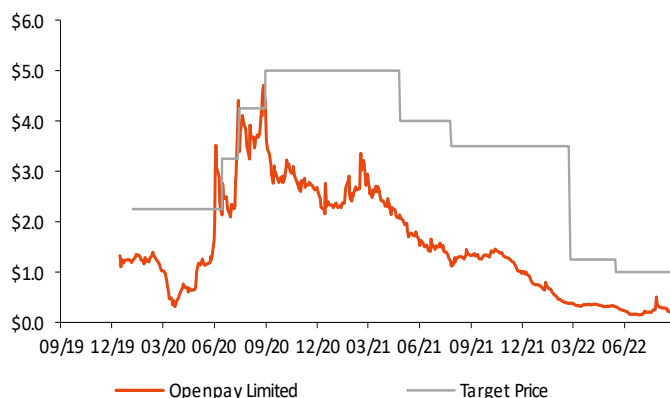
RISK STATEMENT: Where a company is designated as ‘High’ risk, this means that the analyst has determined that the risk profile for this company is significantly higher than for the market as a whole, and so may not suit all investors. Clients should make an assessment as to whether this stock and its 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	111	90%
Hold	12	10%
Sell	1	1%

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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