

Openpay Limited (OPY)

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

4Q22 YTD (April) off to a flying start; Strategically focussed on profitability

Key Information

Current Price (\$ps)	0.31
12m Target Price (\$ps)	1.00
52 Week Range (\$ps)	0.31 - 1.79
Target Price Upside (%)	222.6%
TSR (%)	222.6%
Reporting Currency	AUD
Market Cap (\$m)	40.6
Sector	Information Technology
Avg Daily Volume (m)	0.1
ASX 200 Weight (%)	0%

Fundamentals

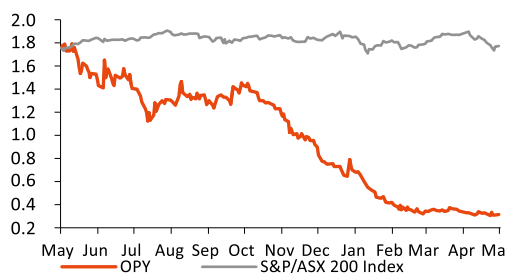
YE 30 Jun (AUD)	FY21A	FY22E	FY23E	FY24E
Sales (\$m)	26.3	31.3	61.1	102.0
NPAT (\$m)	(63.1)	(60.5)	(24.1)	(9.0)
EPS (cps)	(48.2)	(41.8)	(16.7)	(6.2)
EPS Growth (%)	(50.2%)	13.3%	60.1%	62.7%
DPS (cps) (AUD)	0.0	0.0	0.0	0.0
Franking (%)	0%	0%	0%	0%

Ratios

YE 30 Jun	FY21A	FY22E	FY23E	FY24E
P/E (x)	(3.0)	(0.7)	(1.9)	(5.0)
EV/EBITDA (x)	(0.6)	(2.6)	(10.3)	109.9
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 (%)	(3.1%)	(6.6%)	(23.4%)	(83.3%)
Absolute (%)	(8.8%)	(8.8%)	(26.2%)	(82.3%)
Benchmark (%)	(5.7%)	(2.2%)	(2.8%)	1.0%



Price performance indexed to 100

Source: FactSet

Major Shareholders

Meydan Group (Program Force)	18.4%
Chow Tai Fook Enterprises	8.8%

Event

4Q22 YTD trading update (April) highlights strong growth continuing and now expects profitability in ANZ by June 2023, with US expected to deliver material TTV in the 2H of CY22. OPY is still growing in Australia, unlike many of its listed BNPL peers, who have much lower NIMs of 2-3% 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).

Highlights

- **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: NTM (yield) 3-4x higher (8-9%) than its BNPL peers, validating superior unit economics and provides significant headroom should the cost of funding and bad debts increase.
- **All key metrics for ANZ show positive momentum:**
 1. **Active customers +22% on pcp to 314k** – vs. +23% growth in 3Q22.
 2. **Active merchants up again +14% on pcp to ~4,342** – vs. +27% growth in 3Q22.
 3. **Active Plans +52% on pcp to ~1.7m** – vs. +57% growth in 3Q22.
 4. **TTV up a very strong +44% to \$30m, or ~\$1m per day** – vs. +53% growth in 3Q22.
- **Positively, revenue +69% to \$2.5m (+62% growth in 3Q22)** – equating to annualised sales of \$30.0m vs \$26.0m achieved in FY21, and taking the YTD 10 months to \$21.5m. As a result, the resultant revenue/TTV yield improved +120bp from 7.1% in pcp to 8.3% (2Q22: 6.7%; 3Q22: 8.6%) 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 from -1.6% in pcp to -0.9% (vs -0.9% in 3Q22);
 2. **Net Transaction Margin (NTM)** (sales ex-late fees, less NTL and cost of providing services) continues its upward trajectory too from 1.4% to 2.9% (vs. +90bp from 2.4% to 3.3% in 3Q22);
 3. **Net Bad Debts (write-offs)** remained low, and improved from 2.4% in pcp to 2.1% (3Q22: 1.8%) – importantly, bad debts to revenue of ~25% is running at half its peers like ZIP; and
 4. **Arrears (balances outstanding >60 days)** down from 1.9% to 1.7% (3Q22: 1.8%).

Recommendation

Buy. Solid April 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, 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 – 43% discount to BNPL peers on an FY23 EV/Sales multiple of 2.3x vs. combined 4.1x (consensus) for HUM, LBY, SPT, SQ2, SZL, Z1P.

Danny Younis | Senior Analyst

+61 2 9238 1292

dyounis@shawandpartners.com.au

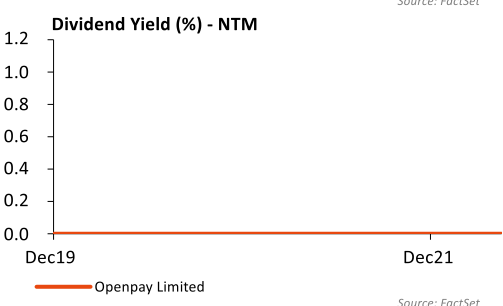
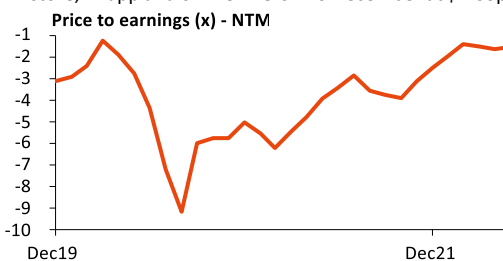
Openpay Limited
Information Technology

FactSet: OPY-AU / Bloomberg: OPY AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	0.31
Target Price (\$ps)	1.00
52 Week Range (\$ps)	0.31 - 1.79
Shares on Issue (m)	130.8
Market Cap (\$m)	40.6
Enterprise Value (\$m)	125.3
TSR (%)	222.6%

Valuation NPV	Data
Beta	1.30
Cost of Equity (%)	6.9%
Cost of Debt (net) (%)	93.1%
Risk Free Rate (%)	3.0%
Terminal Growth (%)	3.0%
WACC (%)	4.7%

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)	(41.8)	(16.7)	(6.2)
EPS (Underlying) (cps)	(32.1)	(48.2)	(41.8)	(16.7)	(6.2)
EPS (Underlying) Growth (%)	nm	(50.2%)	13.3%	60.1%	62.7%
PE (Underlying) (x)	(6.5)	(3.0)	(0.7)	(1.9)	(5.0)
EV / EBIT (x)	(0.2)	(0.6)	(2.4)	(7.8)	(47.0)
EV / EBITDA (x)	(0.3)	(0.6)	(2.6)	(10.3)	109.9
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%)	(315.6%)	0.2%	4.8%
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)	(6.2)
Pretax Profit	(35.4)	(63.1)	(60.5)	(24.1)	(9.0)
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)	(9.0)
Significant Items	0.0	0.0	0.0	0.0	0.0
NPAT Reported	(35.4)	(63.1)	(60.4)	(24.1)	(9.0)
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)	(6.2)
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	3.7
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	1.9
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	58.2	(4.1)	4.0
Other	36.8	(4.1)	40.0	(1.5)	(1.5)
Financing Cashflow	121.8	52.1	98.2	(5.6)	2.6
Exchange Rate Effect	(1.0)	0.3	0.0	0.0	0.0
Net Change in Cash	61.4	(18.0)	(31.6)	(7.3)	2.7
Balance Sheet (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash	70.1	52.1	20.5	13.2	16.0
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	133.6	157.9	163.3
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	52.9
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	129.0
Total Shareholder Equity	75.5	59.3	7.8	34.9	34.3
Ratios	FY20A	FY21A	FY22E	FY23E	FY24E
ROE (%)	(104.4%)	(93.5%)	(179.9%)	(112.8%)	(26.0%)
ROIC (%)	(46.9%)	(106.3%)	(771.6%)	(69.0%)	(26.2%)
Gearing (%)	(77.0%)	(9.3%)	91.5%	71.6%	72.2%
Net Debt / EBITDA (x)	1.1	0.1	(1.8)	(7.0)	75.6
Price to Book (x)	nm	nm	nm	nm	nm

Other Key Points

- **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 April TTV of 4.2m (vs. 3Q22: \$10.4m; March \$4.4m) (predominantly WOW) with >8,800 trade accounts (+131% on pcp).
- **Cost base reset continuing with material reductions expected in 4Q22 (current 3Q22 -\$6.7m in cash outflows)** – with UK operations now significantly reduced, resulting in a release of capital back to Australia.
- **US also now ready to fire and contribute meaningfully after >12 months of embedding the foundations** – partner-required testing across 21 states, three verticals and >100 merchants – with ZERO delinquencies and ZERO charge-offs.
- **Continued relationship with investment bank Keefe, Bruyette & Woods (KBW) on capital strategies to support the US growth** – which may include direct equity or debt investment in Opy USA or its subsidiaries (which could result in one or more external parties acquiring an equity stake in Opy USA). This will enable OPY to proceed to full commercial launch and scale in the US.
- **CFO resigns** – replaced by internal candidate and OPY now has localised CFOs in both Australia and US.
- **Post the recent UK exit which was previously announced and supported by investors, and is an enhanced strategic decision to accelerate the path to profitability with a release of this capital back to Australia, the focus now is on the core ANZ and US markets with higher returns, growth, and key partners in the US (e.g. Amex, Worldpay, GS)** – we have now removed those UK sales from our model leading to a 30% cut to FY22. As such, our PT falls from \$1.25 to \$1.00.

Investment Thesis

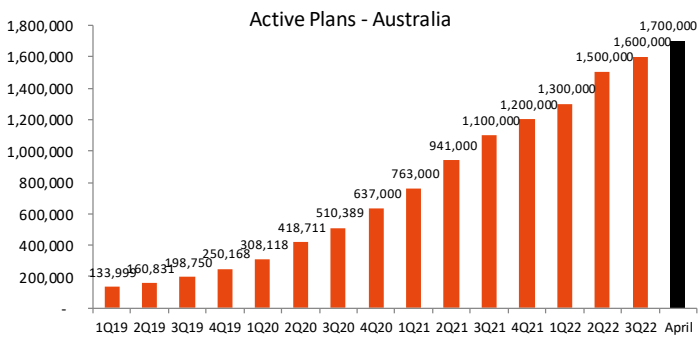
BUY. Solid April on the back of a very strong and seasonally weaker 3Q22 bodes well for the rest of the 4Q22. Key focus going forward will be on funding comfort to get to profitability in ANZ by June 2023, continuing momentum in ANZ, cost base reset, US ramp up, B2B SaaS offering now contributing, and the unit economics improving with industry-leading NTM and revenue yields, which markedly differentiates it from its homogenous 'pay-in-4' peers.

OPY is at the vanguard of leveraging its differentiated offering vs. generic and homogenous BNPL "Pay-in-4" peers. OPY has executed on all the foundations necessary for lift off in the world's largest market (staffing, bespoke tech platform, risk models, partners, aggregators, distributors, credit funding, regulatory permissions, licensing, underwriting, compliance, and marquee funding achieved with global leaders like GS). All that remains is getting US customers onboarded and the TTV / Sales to flow through in 2H CY22.

Furthermore, OPY continues to trade at a significant – and attractive – 43% discount to BNPL peers on an FY23 EV/Sales multiple of 2.3x vs. combined 4.1x (consensus) for HUM, LBY, SPT, SQ2, SZL, Z1P.

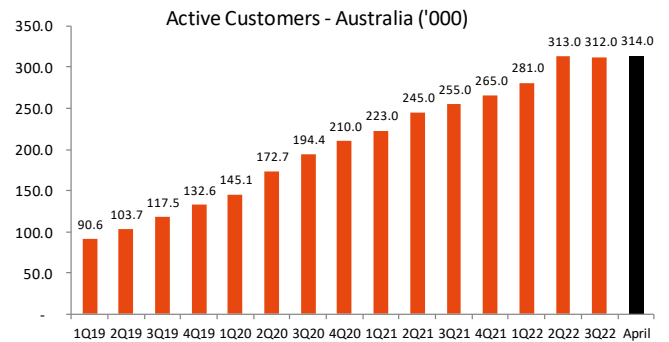
OPY ANZ Only Summary – In Charts

Figure 1: OPY Total Active Plans Summary



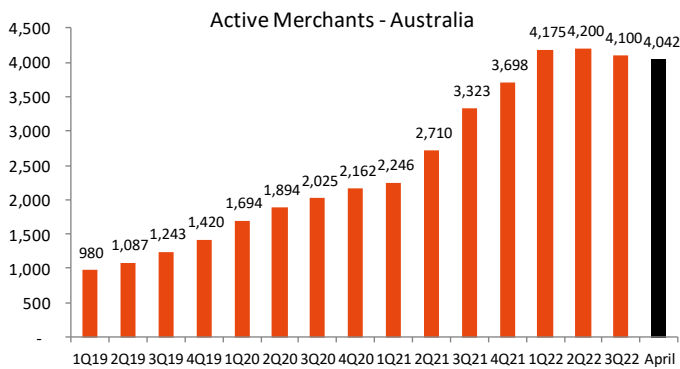
Source: Shaw and Partners, OPY

Figure 2: OPY Active Customers Summary



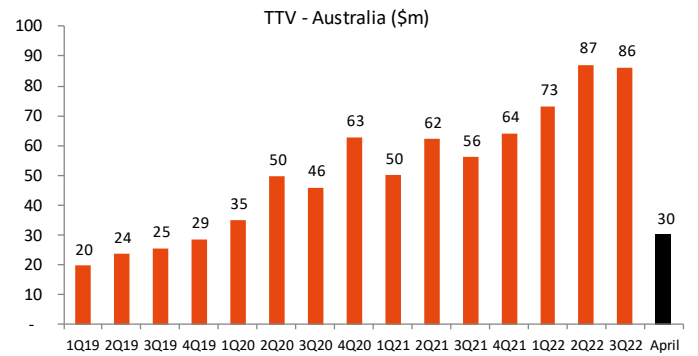
Source: Shaw and Partners, OPY

Figure 3: OPY Merchants Summary



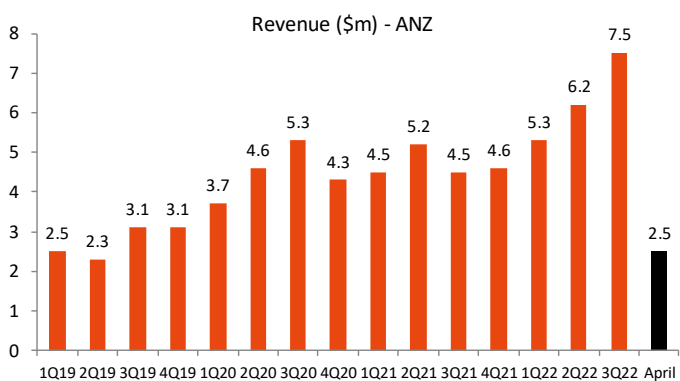
Source: Shaw and Partners, OPY

Figure 4: OPY TTV Summary



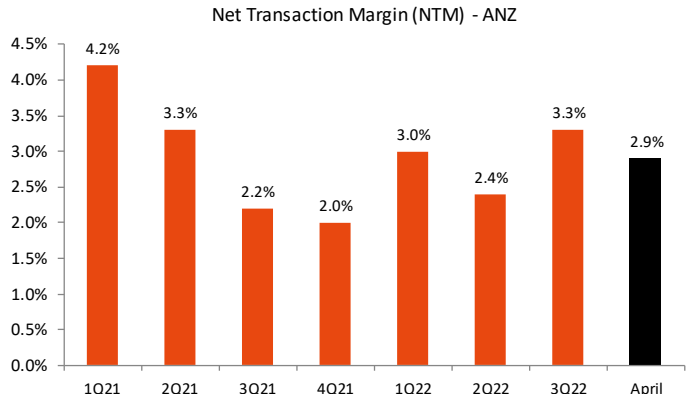
Source: Shaw and Partners, OPY

Figure 5: OPY Revenue Summary



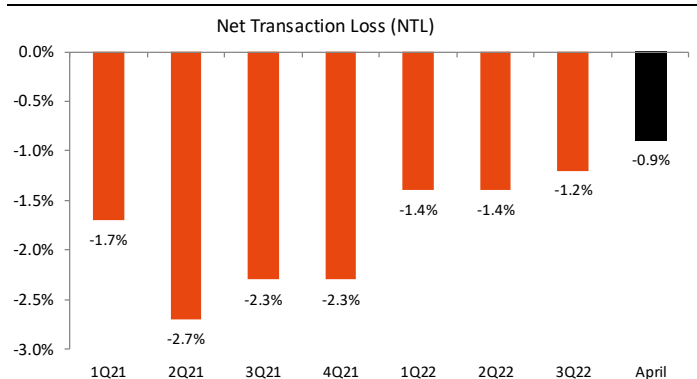
Source: Shaw and Partners, OPY

Figure 6: OPY NTM Summary



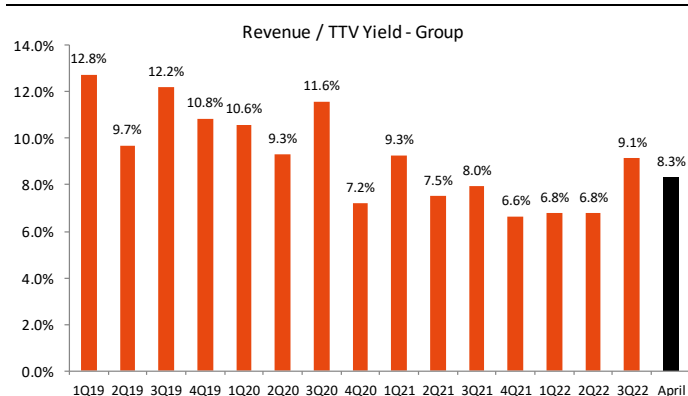
Source: Shaw and Partners, OPY

Figure 7: OPY NTL Summary



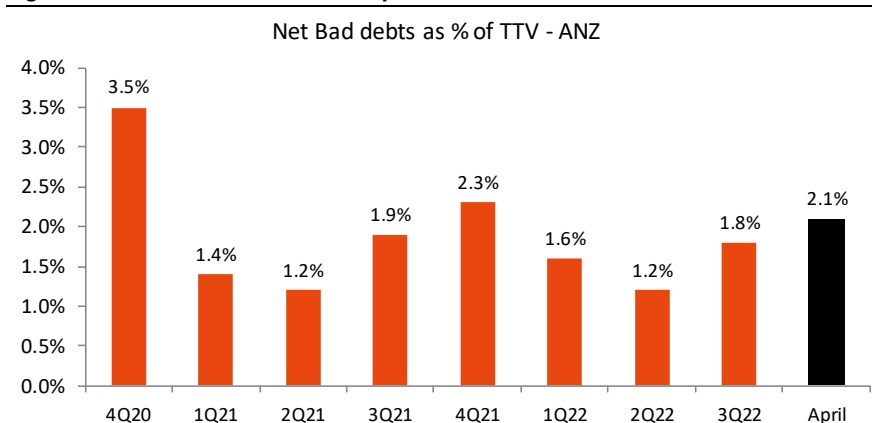
Source: Shaw and Partners, OPY

Figure 8: OPY Revenue Yield Summary



Source: Shaw and Partners, OPY

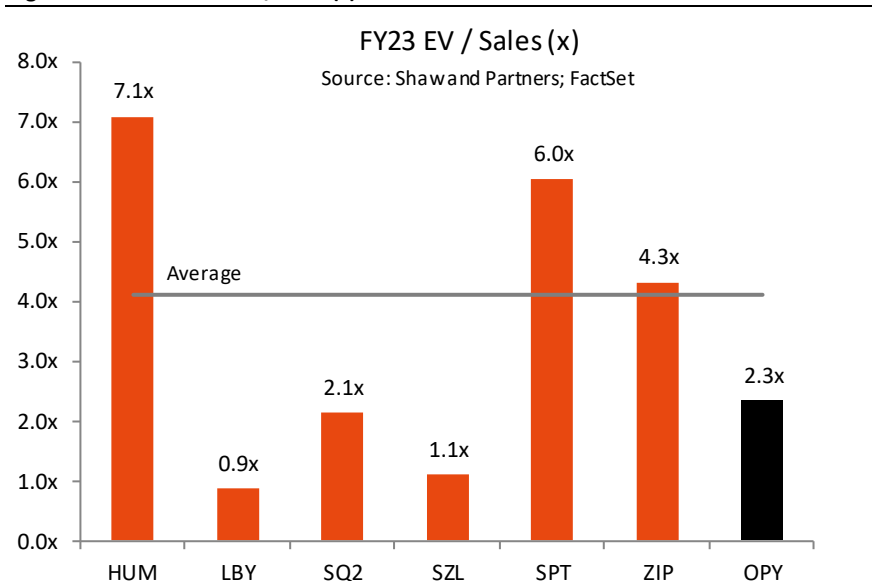
Figure 9: OPY Net Bad Debts Summary



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 (such as 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 quarter on quarter growth rates since inception OPY will progressively, as it becomes bigger with scale, 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

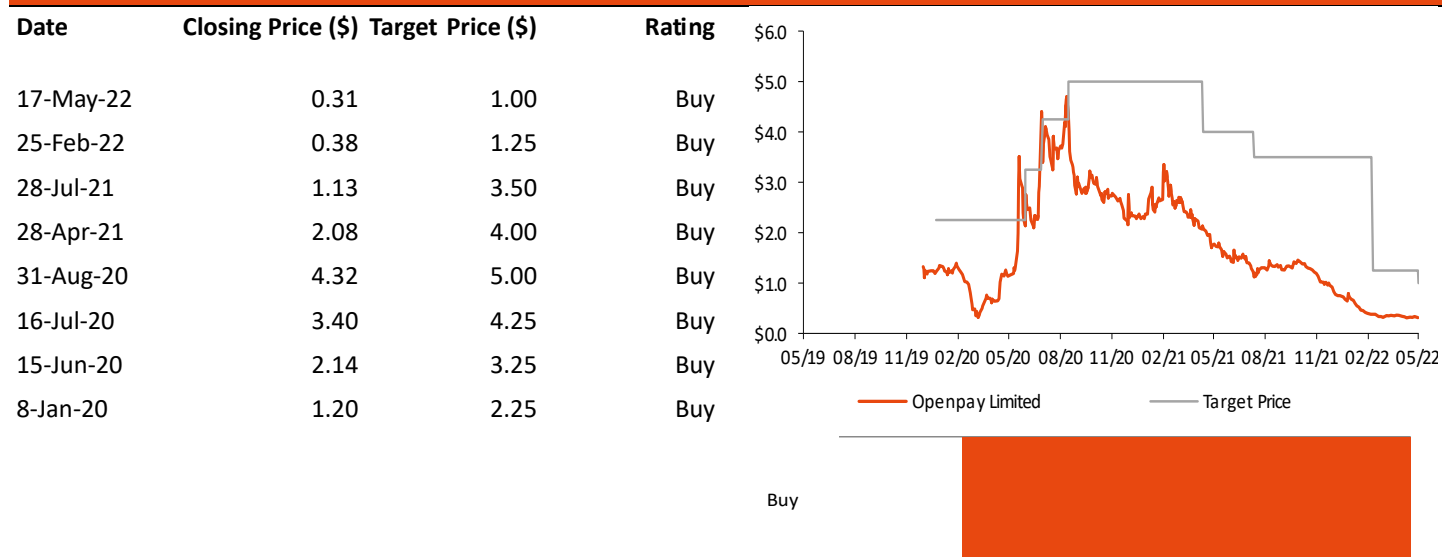
High	Higher risk than the overall market – investors should be aware this stock may be speculative
Medium	Risk broadly in line with the overall market
Low	Lower risk than the overall market

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	102	85%
Hold	16	13%
Sell	2	2%

History of Investment Rating and Target Price - Openpay Limited



Disclaimer

Shaw and Partners Limited ABN 24 003 221 583 (“Shaw”) is a Participant of ASX Limited, Cboe Australia Pty Limited and holder of Australian Financial Services Licence number 236048.

ANALYST CERTIFICATION: The Research Analyst who prepared this report hereby certifies that the views expressed in this document accurately reflect the analyst's personal views about the Company and its financial products. Neither Shaw nor its Research Analysts received any direct financial or non-financial benefits from the company for the production of this document. However, Shaw Research Analysts may receive assistance from the company in preparing their research which can include attending site visits and/or meetings hosted by the company. In some instances the costs of such site visits or meetings may be met in part or in whole by the company if Shaw considers it is reasonable given the specific circumstances relating to the site visit or meeting. As at the date of this report, the Research Analyst does not hold, either directly or through a controlled entity, securities in the Company that is the subject of this report, or where they do hold securities those interests are not material. Shaw restricts Research Analysts from trading in securities outside of the ASX/S&P100 for which they write research. Other Shaw employees may hold interests in the company, but none of those interests are material.

DISCLAIMER: This report is published by Shaw to its clients by way of general, as opposed to personal, advice. This means it has been prepared for multiple distribution without consideration of your investment objectives, financial situation and needs (“Personal Circumstances”). Accordingly, the advice given is not a recommendation that a particular course of action is suitable for you and the advice is therefore not to be acted on as investment advice. You must assess whether or not the advice is appropriate for your Personal Circumstances before making any investment decisions. You can either make this assessment yourself, or if you require a personal recommendation, you can seek the assistance of your Shaw client adviser. This report is provided to you on the condition that it not be copied, either in whole or in part, distributed to or disclosed to any other person. If you are not the intended recipient, you should destroy the report and advise Shaw that you have done so. This report is published by Shaw in good faith based on the facts known to it at the time of its preparation and does not purport to contain all relevant information with respect to the financial products to which it relates. The research report is current as at the date of publication until it is replaced, updated or withdrawn. Although the report is based on information obtained from sources believed to be reliable, Shaw does not make any representation or warranty that it is accurate, complete or up to date and Shaw accepts no obligation to correct or update the information or opinions in it. If you rely on this report, you do so at your own risk. Any projections are indicative estimates only and may not be realised in the future. Such projections are contingent on matters outside the control of Shaw (including but not limited to market volatility, economic conditions and company-specific fundamentals) and therefore may not be realised in the future. Past performance is not a reliable indicator of future performance. Except to the extent that liability under any law cannot be excluded, Shaw disclaims liability for all loss or damage arising as a result of any opinion, advice, recommendation, representation or information expressly or impliedly published in or in relation to this report notwithstanding any error or omission including negligence.

Depending on the timing and size of your investment, your portfolio composition may differ to the model. Performance figures are derived from the inception date of the model and its investment transactions from that date, therefore the performance for your portfolio may be different. If you have any questions in connection with differences between your portfolio and the model, you should speak with your adviser.

IMPORTANT INFORMATION TO CONSIDER: It is important that before making a decision to invest in a Shaw Managed Accounts, a managed fund, an exchange traded fund, an individual hybrid security or listed debt instrument that you read the relevant Product Disclosure Statement (“PDS”). The PDS will contain information relevant to the specific product, including the returns, features, benefits and risks. The PDS can be found at: www.shawandpartners.com.au/media/1348/shawmanagedaccounts_pds.pdf.

RISKS ASSOCIATED WITH HYBRID SECURITIES: Hybrid securities and listed debt instruments differ from investments in equities and cash products in a number of important respects. The liquidity risk associated with an investment in hybrid securities and listed debt instruments will generally be greater than that associated with equities. The credit risk associated with hybrid securities and listed debt instruments is higher than that of a cash product or term deposit. Some hybrid securities may be perpetual in nature, meaning that they can only be redeemed or exchanged for cash or equity at the issuer's option. Hybrids may also contain terms which automatically trigger the deferral of an interest payment or cause the issuer to repay the hybrid earlier or later than anticipated. ASIC has published information to assist consumers in understanding the risks and benefits associated with an investment in hybrid securities or listed debt instruments. This information can be found under the heading ‘Complex Investments’ at www.moneysmart.gov.au/investing.

DISCLOSURE: Shaw will charge commission in relation to client transactions in financial products and Shaw client advisers will receive a share of that commission. Shaw, its authorised representatives, its associates and their respective officers and employees may have earned previously or may in the future earn fees and commission from dealing in the Company's financial products.

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
Sydney NSW 2000	Melbourne VIC 3000	Brisbane QLD 4000	Adelaide SA 5000	Canberra ACT 2600	Perth WA 6000	Noosa Heads QLD 4567
Telephone: +61 2 9238 1238	Telephone: +61 3 9268 1000	Telephone: +61 7 3036 2500	Telephone: +61 8 7109 6000	Telephone: +61 2 6113 5300	Telephone: +61 8 9263 5200	Telephone: +61 7 3036 2570
Toll Free: 1800 636 625	Toll Free: 1800 150 009	Toll Free: 1800 463 972	Toll Free: 1800 636 625	Toll Free: 1800 636 625	Toll Free: 1800 198 003	Toll Free: 1800 271 201