

Openpay Limited (OPY)

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

Further streamlining to focus on ANZ's path to profitability

Key Information

Current Price (\$ps)	0.12
12m Target Price (\$ps)	1.00
52 Week Range (\$ps)	0.12 - 1.58
Target Price Upside (%)	733.3%
TSR (%)	733.3%
Reporting Currency	AUD
Market Cap (\$m)	25.9
Sector	Information Technology
Avg Daily Volume (m)	0.3
ASX 200 Weight (%)	0%

Fundamentals

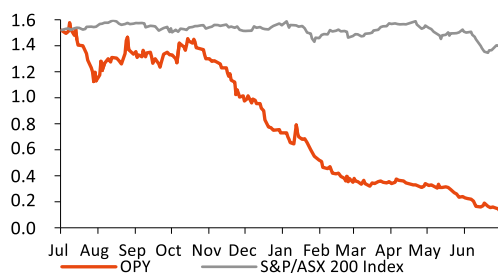
YE 30 Jun (AUD)	FY21A	FY22E	FY23E	FY24E
Sales (\$m)	26.3	31.3	61.1	102.0
NPAT (\$m)	(63.1)	(60.5)	(24.1)	(8.2)
EPS (cps)	(48.2)	(28.0)	(11.2)	(3.8)
EPS Growth (%)	(50.2%)	41.9%	60.1%	66.0%
DPS (cps) (AUD)	0.0	0.0	0.0	0.0
Franking (%)	0%	0%	0%	0%

Ratios

YE 30 Jun	FY21A	FY22E	FY23E	FY24E
P/E (x)	(3.0)	(0.4)	(1.1)	(3.2)
EV/EBITDA (x)	(0.4)	(1.9)	(7.7)	82.7
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 (%)	(43.1%)	(53.0%)	(52.8%)	(81.4%)
Absolute (%)	(52.0%)	(64.7%)	(65.2%)	(91.6%)
Benchmark (%)	(8.9%)	(11.7%)	(12.4%)	(10.2%)



Price performance indexed to 100

Source: FactSet

Major Shareholders

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

Event

OPY is continuing to accelerate its Australian operations and path to profitability and this has been augmented by "pausing" its US business. Market reaction has been positive with the share price up on this news as it validates the focus on where the company's most profitable unit economics is and where to best allocate capital for the best returns – and that is Australia.

Highlights

- **Post the exit from the UK market, OPY is now solely focussing on its high growth Australian B2B / B2C business by pausing its US operations which would require additional investment and funding which the company believes would be better allocated to the Australian business which is approaching profitability by June 2023 – and vs. its peers has continued strong growth, market-leading margins and unique market positioning (not the homogenous "pay-in-4" focus). OPY ANZ has industry leading growth (TTV, revenue, active plans, customers, merchants, etc.) and metrics (gross margin, NTM, loss and arrears rates etc)**
- **US investment bank Keefe, Bruyette & Woods (KBW) acted as corporate advisors to assist with the search for potential investors in the US but the deterioration in market conditions globally over the past few weeks has made this difficult despite being in several (close) negotiations.**
- **To this end, OPY's cost base in the US, which we estimate to be material, will be materially reduced (predominantly headcount) although we understand that Brian Shniderman, Global Chief Strategy Officer & US CEO, is staying on as an employee, which is a positive.**
- **This decision will result in no further investment in its existing US operations in the near term, subject to one-off costs associated with the restructuring – these have not been quantified as yet.**
- **OPY has not ruled out a permanent exit from the US; rather this is a temporary "pause" and will continue to look for commercialisation opportunities for both the Openpay US and UK platforms, but will not at this stage use them for loan origination – positively this potential commercialisation will be undertaken without any material local operation or cost base in either market.**
- **Following on from a record May 2022 trading performance, OPY noted that it has "continued to see very strong and responsible economic performance during June 2022" – the June trading update will be released this month.**

Recommendation

The BNPL sector is taking a bath at the moment with frequent negative media coverage. Unfortunately, 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 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 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 and the cost base reset. 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 1.5x vs. combined 3.8x (consensus) for HUM, SPT, SQ2, SZL, Z1P.

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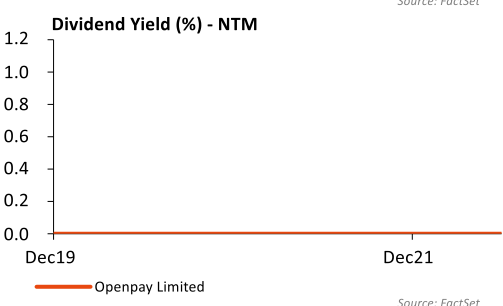
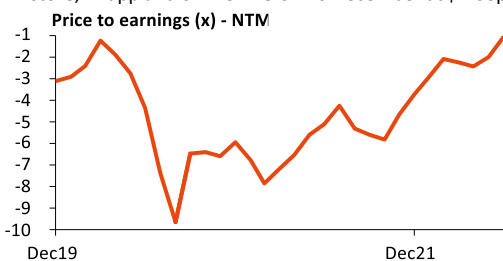
Openpay Limited
Information Technology

FactSet: OPY-AU / Bloomberg: OPY AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	0.12
Target Price (\$ps)	1.00
52 Week Range (\$ps)	0.12 - 1.58
Shares on Issue (m)	215.7
Market Cap (\$m)	25.9
Enterprise Value (\$m)	91.5
TSR (%)	733.3%

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)	(0.4)	(1.1)	(3.2)
EV / EBIT (x)	0.2	(0.4)	(1.8)	(5.9)	(35.4)
EV / EBITDA (x)	0.2	(0.4)	(1.9)	(7.7)	82.7
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%)	(494.3%)	0.3%	10.5%
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	106	89%
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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