

Openpay Limited (OPY)

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

Continuing momentum as profitability beckons by June 2023

Key Information

Current Price (\$ps)	0.23
12m Target Price (\$ps)	1.00
52 Week Range (\$ps)	0.12 - 1.53
Target Price Upside (%)	344.4%
TSR (%)	344.4%
Reporting Currency	AUD
Market Cap (\$m)	48.5
Sector	Information Technology
Avg Daily Volume (m)	0.4
ASX 200 Weight (%)	0%

Fundamentals

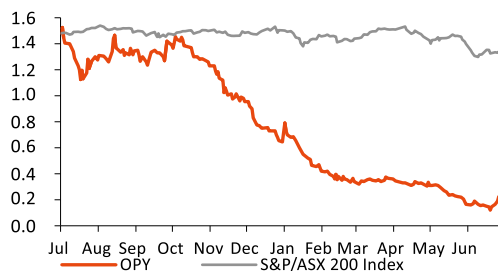
YE 30 Jun (AUD)	FY21A	FY22E	FY23E	FY24E
Sales (\$m)	26.3	31.3	61.1	102.0
NPAT (\$m)	(63.1)	(60.5)	(24.1)	(8.2)
EPS (cps)	(48.2)	(28.0)	(11.2)	(3.8)
EPS Growth (%)	(50.2%)	41.9%	60.1%	66.0%
DPS (cps) (AUD)	0.0	0.0	0.0	0.0
Franking (%)	0%	0%	0%	0%

Ratios

YE 30 Jun	FY21A	FY22E	FY23E	FY24E
P/E (x)	(3.0)	(0.8)	(2.0)	(5.9)
EV/EBITDA (x)	(0.8)	(2.4)	(9.5)	101.9
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 (%)	16.0%	(22.4%)	(27.7%)	(76.7%)
Absolute (%)	9.8%	(29.7%)	(38.4%)	(85.7%)
Benchmark (%)	(6.2%)	(7.3%)	(10.7%)	(9.0%)



Price performance indexed to 100

Source: FactSet

Major Shareholders

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

Event

Strong monthly numbers continue into June.

Highlights

- **Sales +75% on pcp to \$2.9m, equating to FY22 sales to ~\$32m, above Shaw and Partners' \$31.3m estimate** – taking 4Q22 sales to ~\$8.4m.
- **Record TTV +65% on pcp to \$35.4m, equating to FY22 TTV to ~\$413m** – taking 4Q22 TTV to ~\$98m and above seasonally stronger December month previous peak of \$34.6m. OpyPro TTV continued to surge +406% on pcp to \$6.4m across 11.1k active trade accounts, +114% on pcp).
- **Active Plans, merchant and customer numbers all showed increases too albeit unquantified.**
- **Average 2H22 ANZ unit economics remain strong with:**
 1. **Average Revenue/TTV yield remained very strong at 8.4% (2Q22: 6.7%; 3Q22: 8.6%; April 2022: 8.3%; May 2022 8.3%) and should improve given recent shift to capital light OpyPro merchants** – longer term target is 9.0%+ as OPY scales up.
 2. **Net Transaction Loss (NTL) (total of receivables impairment and customer charge back expenses net of late fees received) continues to improve +40bp from -1.4% to -1.0%** – vs. CY22 average of -1.0% with April-May seasonally higher given post-peak period;
 3. **Net Transaction Margin (NTM) (sales ex-late fees, less NTL and cost of providing services) continues its upward trajectory too to 3.2%** – vs. average NTM in CY22 of 3.2%, 2H21 2.1% and 1H22 2.7%;
 4. **Net Bad Debts (write-offs) remained low, and improved -60bp to 1.5% (vs. May 2022 2.3%)** – importantly, bad debts to revenue of ~25% is running at half its peers; and
 5. **Arrears (balances outstanding >60 days) down -80bp to 1.1%** – vs May 2022 1.3%.

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 - June 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 1.6x vs. combined 4.0x (consensus) for HUM, SPT, SQ2, SZL, Z1P.

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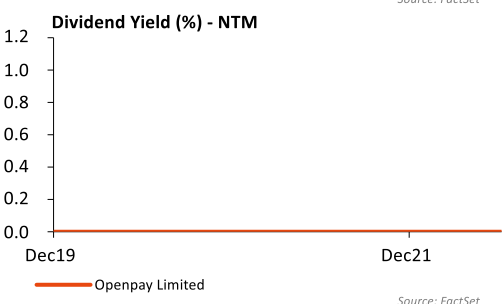
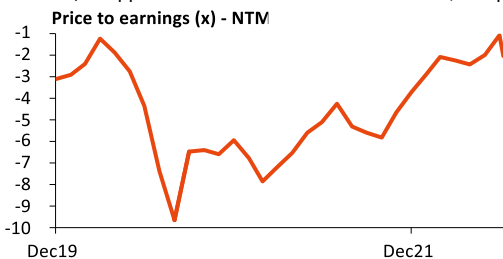
Openpay Limited
Information Technology

FactSet: OPY-AU / Bloomberg: OPY AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	0.23
Target Price (\$ps)	1.00
52 Week Range (\$ps)	0.12 - 1.53
Shares on Issue (m)	215.7
Market Cap (\$m)	48.5
Enterprise Value (\$m)	114.2
TSR (%)	344.4%

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)	(0.8)	(2.0)	(5.9)
EV / EBIT (x)	(0.5)	(0.8)	(2.2)	(7.2)	(43.6)
EV / EBITDA (x)	(0.5)	(0.8)	(2.4)	(9.5)	101.9
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%)	(263.6%)	0.2%	5.6%
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	108	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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