

Openpay Limited (OPY)

Rating: Buy | Risk: High | Price Target: \$0.75

Very strong 1Q23

Key Information

Current Price (\$ps)	0.20
12m Target Price (\$ps)	0.75
52 Week Range (\$ps)	0.12 - 1.33
Target Price Upside (%)	284.6%
TSR (%)	284.6%
Reporting Currency	AUD
Market Cap (\$m)	30.9
Sector	Information Technology
Avg Daily Volume (m)	0.1
ASX 200 Weight (%)	0%

Fundamentals

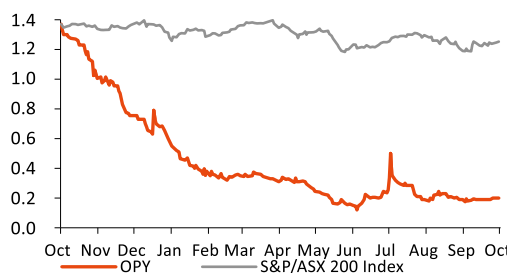
YE 30 Jun (AUD)	FY22A	FY23E	FY24E	FY25E
Sales (\$m)	32.0	38.4	45.3	50.7
NPAT (\$m)	(82.5)	(27.6)	(20.8)	(16.9)
EPS (cps)	(52.1)	(17.4)	(13.1)	(10.7)
EPS Growth (%)	(23.2%)	66.6%	24.5%	19.0%
DPS (cps) (AUD)	0.0	0.0	0.0	0.0
Franking (%)	0%	0%	0%	0%

Ratios

YE 30 Jun	FY22A	FY23E	FY24E	FY25E
P/E (x)	(0.2)	(1.1)	(1.5)	(1.8)
EV/EBITDA (x)	(1.4)	(6.4)	(7.9)	(9.7)
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 (%)	(2.2%)	6.7%	(41.6%)	(77.2%)
Absolute (%)	2.6%	2.6%	(41.8%)	(85.8%)
Benchmark (%)	4.8%	(4.1%)	(0.2%)	(8.6%)



Price performance indexed to 100

Source: FactSet

Major Shareholders

Meydan Group (Program Force)	28.4%
Chow Tai Fook Enterprises	5.0%

Event

1Q23 a strong set of numbers. No changes to our numbers, risk rating or recommendation but have reduced our PT to \$0.75 given heightened macro risks (higher beta).

Next catalyst: AGM on 15 November 2022.

Highlights

- **TTV +56% on pcp's \$73.2m to a record \$114.3m** – with B2B (OpyPro/SaaS) delivering \$31.5m across 14k trade accounts. All verticals showed increased demand. On an annualised basis, this translates to \$457m vs. Shaw and Partners' \$499m forecast.
- **Revenue +87% on pcp to \$9.7m** – annualising this generates FY revenue of \$38.8m, in line with our FY23 estimate of \$38.4m, noting that 1Q is seasonally weak with a much stronger 2Q now in train.
- **Active Plans +46%** on pcp to 1.9m.
- **Active Customers +18%** on pcp to 332k.
- **Active Merchants slightly up** from 4.1k to 4.2k.
- Market-leading margins and unit economics:
 1. **Revenue Margin of 8.5% above both pcp's 7.2% and pp's 8.1%** – longer term target is 9.0%+ as OPY scales up.
 2. **Net Transaction Margin (NTM) improved** from 3.0% in pcp to 3.4%.
 3. **Losses, Arrears and Net Bad Debts all remain seasonally low:**
 - Net Transaction Loss (NTL) deteriorated slightly from -0.9% in pcp to -1.4%.
 - Arrears were increased from 1.2% in pcp to 1.7%.
 - Net Bad Debts improved from 1.6% in pcp to 1.4%.
- **Cash balance was \$9m** – and \$17.5m (\$10m committed) of undrawn working cap facilities. OPY noted in its 4C that it has *“high confidence in amending and increasing the cash available to be drawn under existing debt facilities in the very near term”*.
- **Operating losses are reducing following the exit of UK and US markets in FY22** – and the company remains committed to targeting cash EBITDA profitability in ANZ on a monthly basis by June 2023.

Recommendation

BUY. Solid quarterly result again. Continued and prudent focus on operating costs now that the company has exited the US/UK markets, and has outlined milestones to deliver ANZ cash EBITDA profitability by June 2023, including having extended existing working cap facilities to support the growth. OPY, despite its differentiated model (has seven product plans vs. its peers with one less than 2-month plan) has been caught up in the BNPL sell-down malaise. Which is a pity because it is arguably the best performing BNPL operator in Australia. 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 – 48% discount to BNPL peers with an EV/Sales+1 multiple of 1.6x vs. combined 3.0x (consensus) for EPY, HUM, SPT, SQ2, SZL and ZIP.

Danny Younis | Senior Analyst
+61 2 9238 1292
dyounis@shawandpartners.com.au

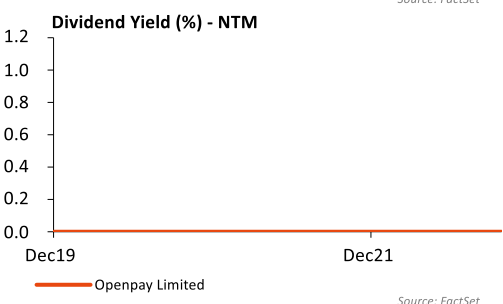
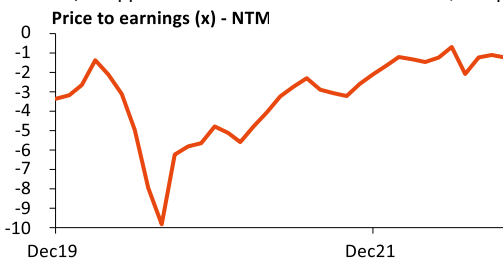
Openpay Limited
Information Technology

FactSet: OPY-AU / Bloomberg: OPY AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	0.20
Target Price (\$ps)	0.75
52 Week Range (\$ps)	0.12 - 1.33
Shares on Issue (m)	158.3
Market Cap (\$m)	30.9
Enterprise Value (\$m)	113.8
TSR (%)	284.6%

Valuation NPV	Data
Beta	1.40
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.

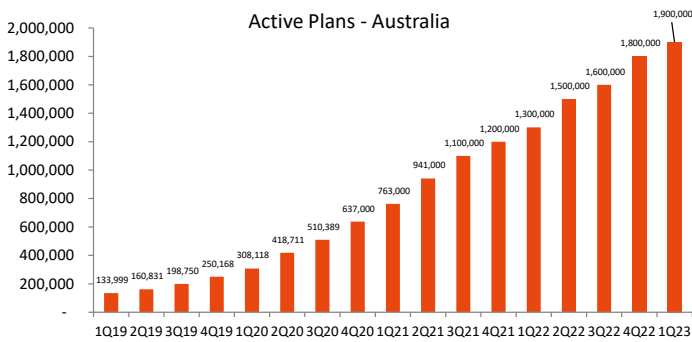


Financial Year End: 30 June

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)	(1.8)
EV / EBIT (x)	(0.4)	(1.3)	(5.4)	(6.3)	(7.3)
EV / EBITDA (x)	(0.4)	(1.4)	(6.4)	(7.9)	(9.7)
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 (%)	(35.7%)	(426.9%)	(9.5%)	43.2%	35.2%
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

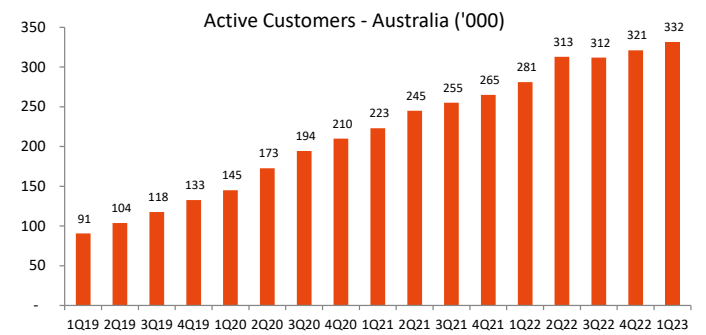
Summary – In Charts

Figure 1: OPY Active Plans – by Quarter



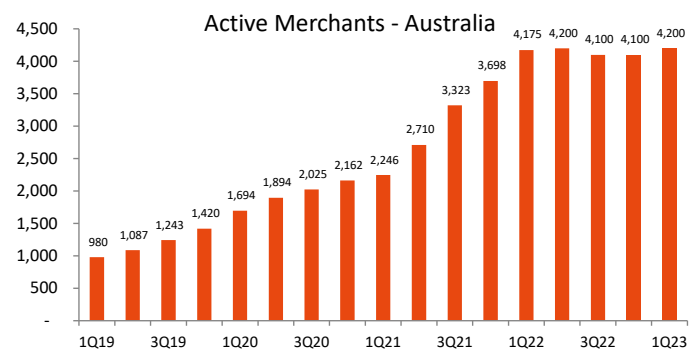
Source: Shaw and Partners

Figure 2: OPY Active Customers – by Quarter



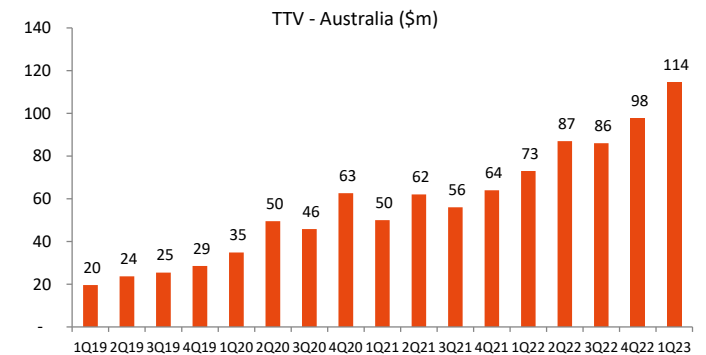
Source: Shaw and Partners

Figure 3: OPY Active Merchants – by Quarter



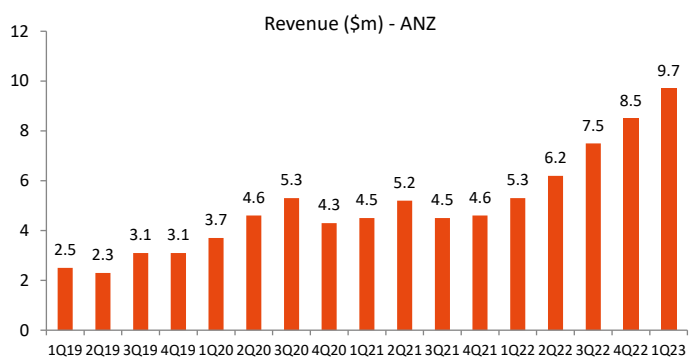
Source: Shaw and Partners

Figure 4: OPY TTV – by Quarter



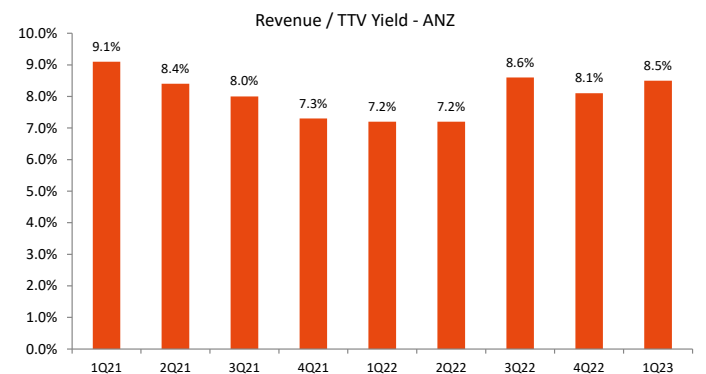
Source: Shaw and Partners

Figure 5: OPY Sales – by Quarter



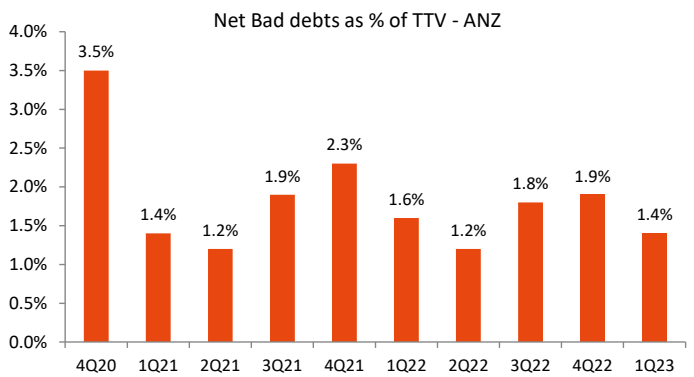
Source: Shaw and Partners

Figure 6: OPY Revenue Margin – by Quarter



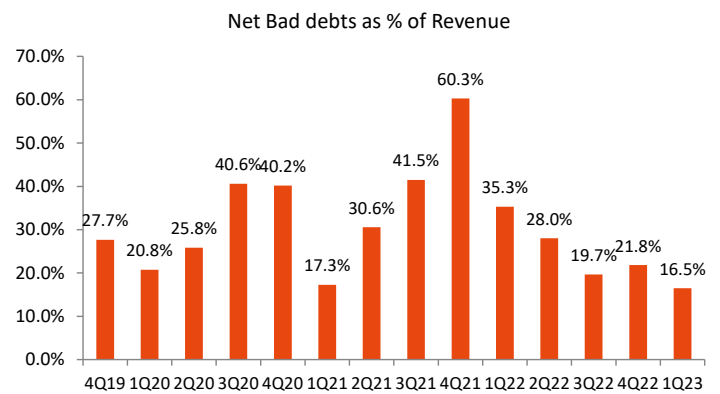
Source: Shaw and Partners

7



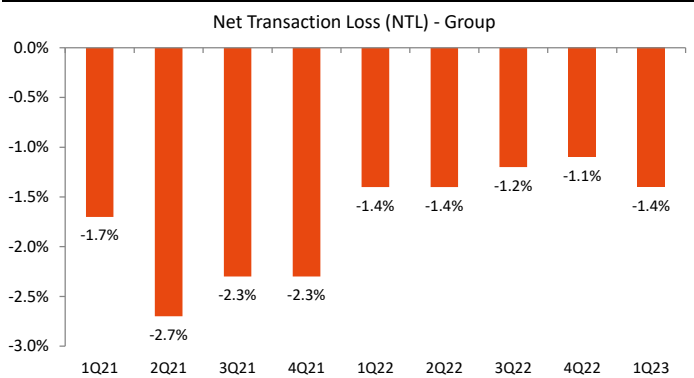
Source: Shaw and Partners

Figure 8: OPY NTL – by Quarter



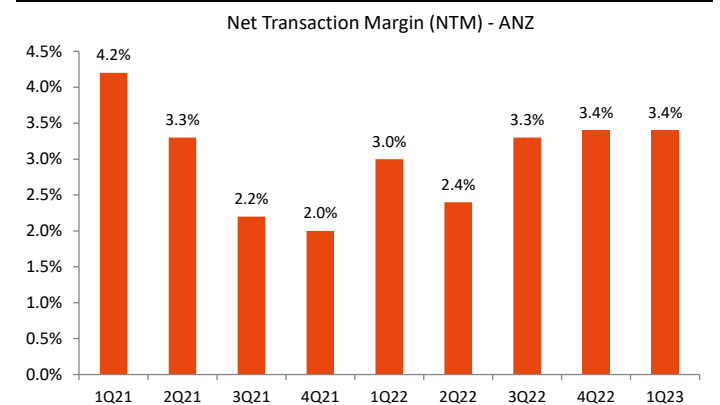
Source: Shaw and Partners

Figure 9: OPY NTL – by Quarter



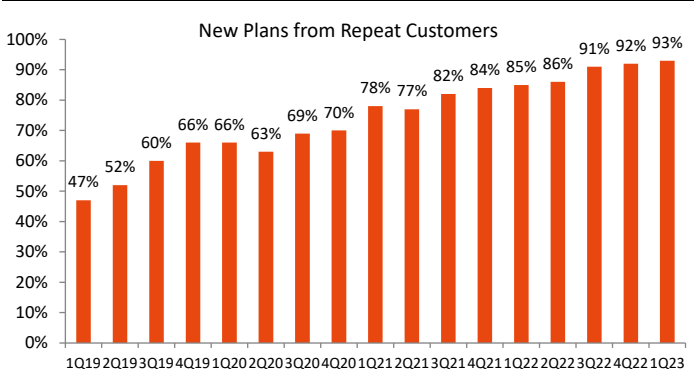
Source: Shaw and Partners

Figure 10: OPY NTM – by Quarter



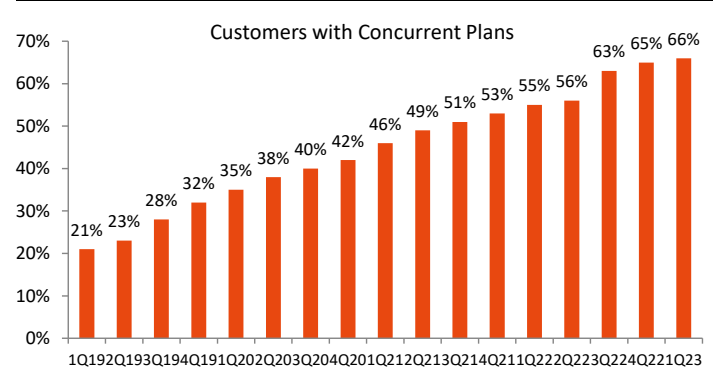
Source: Shaw and Partners

Figure 11: OPY New Plans from Repeat Customers – by Quarter



Source: Shaw and Partners

Figure 12: OPY Customers with Concurrent Plans – 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 HP, Kogan, 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

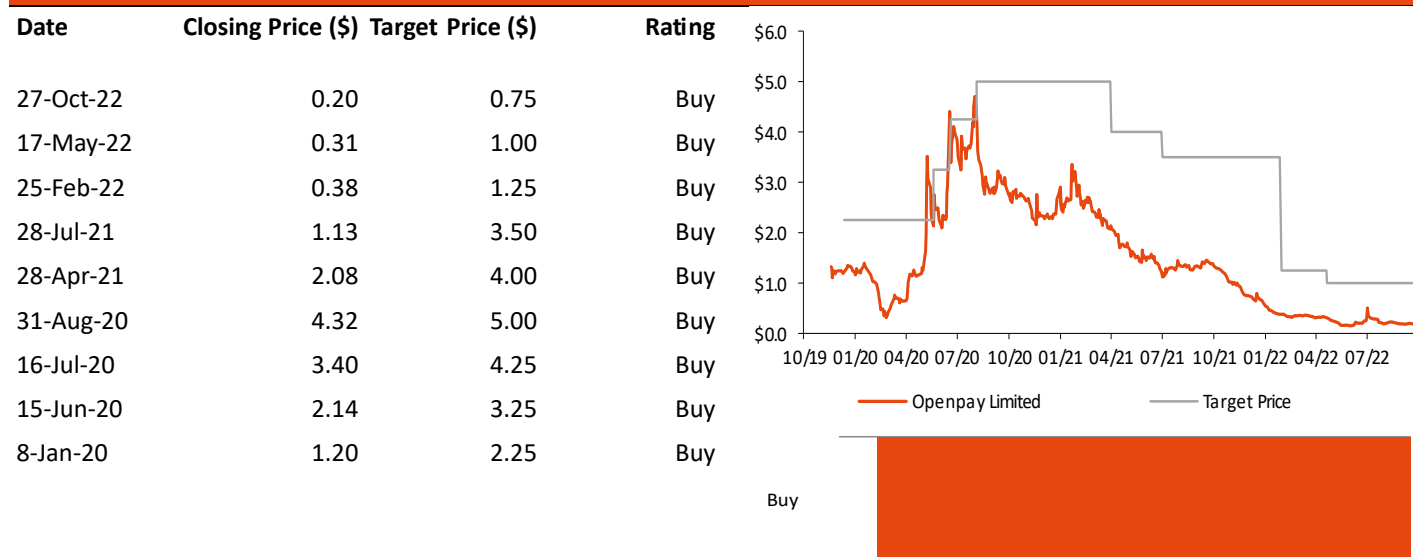
High	Higher risk than the overall market – investors should be aware this stock may be speculative
Medium	Risk broadly in line with the overall market
Low	Lower risk than the overall market

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	114	88%
Hold	16	12%
Sell	0	0%

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. Shaw acted as Sole Lead Manager and Bookrunner in the May 2022 placement of OPY securities for which it received fees or will receive fees for acting in this capacity. Accordingly, Shaw may have a conflict of interest which investors should consider before making an investment decision.

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