

Openpay Limited (OPY)

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

Momentum continues with profitability within 12 months

Key Information

Current Price (\$ps)	0.50
12m Target Price (\$ps)	1.00
52 Week Range (\$ps)	0.12 - 1.47
Target Price Upside (%)	100.0%
TSR (%)	100.0%
Reporting Currency	AUD
Market Cap (\$m)	107.9
Sector	Information Technology
Avg Daily Volume (m)	1.3
ASX 200 Weight (%)	0%

Fundamentals

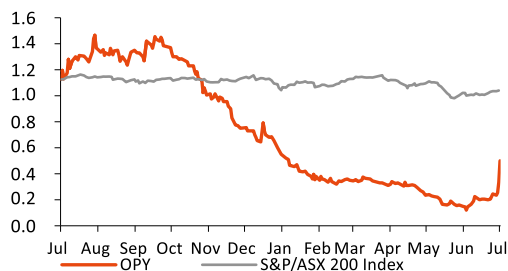
YE 30 Jun (AUD)	FY21A	FY22E	FY23E	FY24E
Sales (\$m)	26.3	32.0	57.5	96.1
NPAT (\$m)	(63.1)	(59.8)	(27.7)	(14.1)
EPS (cps)	(48.2)	(27.7)	(12.8)	(6.6)
EPS Growth (%)	(50.2%)	42.5%	53.7%	48.9%
DPS (cps) (AUD)	0.0	0.0	0.0	0.0
Franking (%)	0%	0%	0%	0%

Ratios

YE 30 Jun	FY21A	FY22E	FY23E	FY24E
P/E (x)	(3.0)	(1.8)	(3.9)	(7.6)
EV/EBITDA (x)	(1.9)	(3.8)	(11.2)	(38.4)
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 (%)	232.4%	117.8%	63.6%	(48.1%)
Absolute (%)	233.3%	112.8%	56.3%	(55.6%)
Benchmark (%)	0.9%	(5.0%)	(7.3%)	(7.5%)



Price performance indexed to 100

Source: FactSet

Major Shareholders

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

Event

4Q22 largely pre-announced previously with monthly updates provided to the market for April, May and June so no material surprises evident in this release. No material changes to pour numbers, PT, risk rating or recommendation.

Next catalyst: FY22 result on 31 August 2022.

Highlights

• **OPY has cash of \$10.4m and unused finance facilities of \$522m so funding firepower is solid currently** – vs. operating cash outgoings in 4Q22 at \$14.0m, and declining, taking FY22 cash burn to \$81m (or \$6.7m/month). Costs will continue to come down in future quarters given some expenses still embedded in the US (mainly staffing).

• OPY provided new numbers for the following:

1. Merchants of 4,100, +50% on pcp;
2. Customers of 321k, +21% on pcp; and
3. Active plans of 1.8m, +50% on pcp.

• **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 revenue of \$8.5m, +80% on pcp, equating to FY22 Group revenue of ~\$32m, in line with our original forecast.

• Average 4Q22 ANZ unit economics remain strong with:

1. **Average Revenue/TTV yield remained very strong at 8.1% (4Q21: 7.3%; 1Q22: 7.2%; 2Q22: 6.7%; 3Q22: 8.6%) 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 -1.5% to -1.1%** – 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 3.4%** – vs. 4Q21's 2.0%, 2H21 2.1% and 1H22 2.7%;
4. **Net Bad Debts (write-offs) remained low, and improved -60bp from 2.3% to 1.5%** – importantly, bad debts to revenue of <20% is running at half its peers; and
5. **Arrears (balances outstanding >60 days) down -80bp from 1.9% to 1.1%.**

Recommendation

The BNPL sector is taking a bath at the moment with frequent negative media coverage, but in the last few days has bounced back strongly (OPY +144% the last 7 days). 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 the malaise. Unlike its peers, OPY has repositioned itself quickly ahead of its peers (exiting UK, pausing the US, cutting costs and earmarking profitability within 12 months), in addition to managing its bad debts lower than its peers (1.5%), and is now predominantly focusing on ANZ and non-competitive sectors (Retail is not a focus but rather Vet, Auto, Home Improvement, Education and Health which comprise ~60% of the book and where there is less pressure on margin and profitability). 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 – 45% discount to BNPL peers on an FY23 EV/Sales multiple of 2.4x vs. combined 4.4x (consensus) for HUM, SPT, SQ2, SZL, Z1P.

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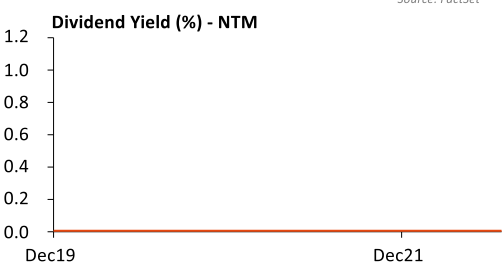
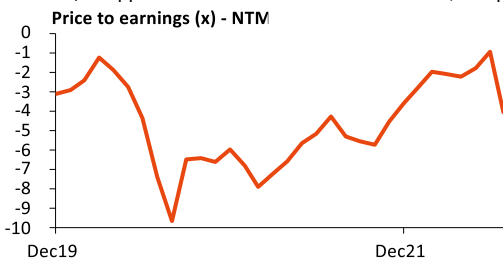
Openpay Limited
Information Technology

FactSet: OPY-AU / Bloomberg: OPY AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	0.50
Target Price (\$ps)	1.00
52 Week Range (\$ps)	0.12 - 1.47
Shares on Issue (m)	215.7
Market Cap (\$m)	107.9
Enterprise Value (\$m)	175.9
TSR (%)	100.0%

Valuation NPV	Data
Beta	1.30
Cost of Equity (%)	18.9%
Cost of Debt (net) (%)	81.1%
Risk Free Rate (%)	3.0%
Terminal Growth (%)	3.0%
WACC (%)	5.4%

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.

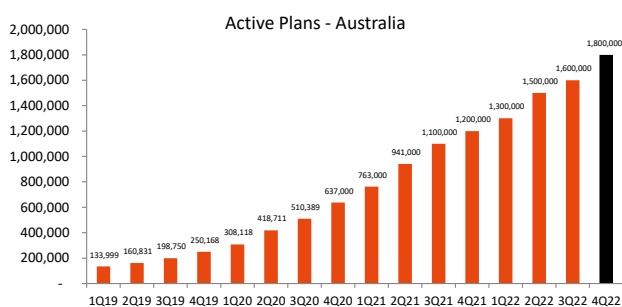


Financial Year End: 30 June

Investment Summary (AUD)	FY20A	FY21A	FY22E	FY23E	FY24E
EPS (Reported) (cps)	(32.1)	(48.2)	(27.7)	(12.8)	(6.6)
EPS (Underlying) (cps)	(32.1)	(48.2)	(27.7)	(12.8)	(6.6)
EPS (Underlying) Growth (%)	nm	(50.2%)	42.5%	53.7%	48.9%
PE (Underlying) (x)	(6.5)	(3.0)	(1.8)	(3.9)	(7.6)
EV / EBIT (x)	(2.4)	(1.8)	(3.5)	(9.1)	(21.0)
EV / EBITDA (x)	(2.5)	(1.9)	(3.8)	(11.2)	(38.4)
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%)	(120.9%)	(0.4%)	2.1%
Profit and Loss (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
Sales	18.3	26.3	32.0	57.5	96.1
Sales Growth (%)	66.0%	44.1%	21.6%	80.0%	67.0%
EBITDA	(30.1)	(55.1)	(46.8)	(16.1)	(4.8)
EBITDA Margin (%)	nm	nm	nm	(27.9%)	(5.0%)
Depreciation & Amortisation	(1.3)	(2.3)	(3.7)	(3.8)	(3.9)
EBIT	(31.4)	(57.4)	(50.5)	(19.9)	(8.7)
EBIT Margin (%)	nm	nm	nm	(34.6%)	(9.1%)
Net Interest	(4.0)	(5.6)	(9.3)	(7.7)	(5.4)
Pretax Profit	(35.4)	(63.1)	(59.8)	(27.7)	(14.1)
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)	(59.8)	(27.7)	(14.1)
Significant Items	0.0	0.0	0.0	0.0	0.0
NPAT Reported	(35.4)	(63.1)	(59.8)	(27.7)	(14.1)
Cashflow (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
EBIT	(31.4)	(57.4)	(50.5)	(19.9)	(8.7)
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)	(110.0)	(6.3)	12.5
Operating Cashflow	(57.6)	(66.4)	(129.8)	0.6	3.9
Capex	(0.8)	(0.3)	(0.6)	(1.0)	(1.7)
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)	(130.4)	(0.4)	2.2
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)	(14.9)	(9.0)	(11.4)
Balance Sheet (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash	70.1	52.1	37.2	28.2	16.8
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	150.2	172.9	164.1
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	24.5	49.9	48.3
Ratios	FY20A	FY21A	FY22E	FY23E	FY24E
ROE (%)	(104.4%)	(93.5%)	(142.7%)	(74.4%)	(28.8%)
ROIC (%)	(46.9%)	(106.3%)	(244.4%)	(55.5%)	(29.3%)
Gearing (%)	(77.0%)	(9.3%)	73.6%	59.4%	60.8%
Net Debt / EBITDA (x)	1.1	0.1	(1.5)	(4.5)	(15.8)
Price to Book (x)	nm	nm	nm	nm	nm

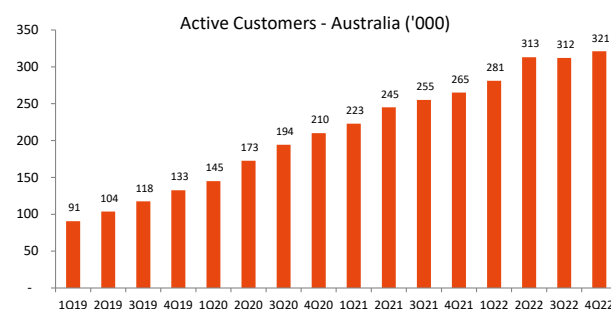
Summary – In Charts

Figure 2: OPY Active Plans – by Quarter



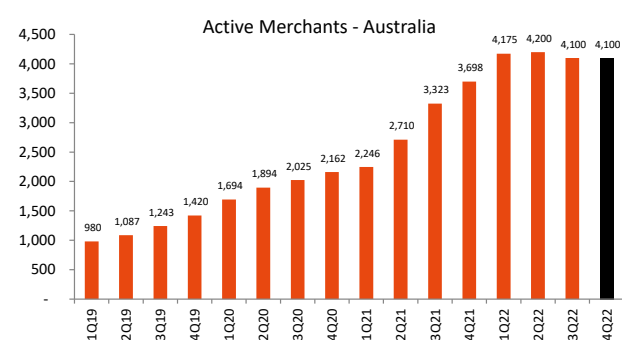
Source: Shaw and Partners

Figure 3: OPY Active Customers – by Quarter



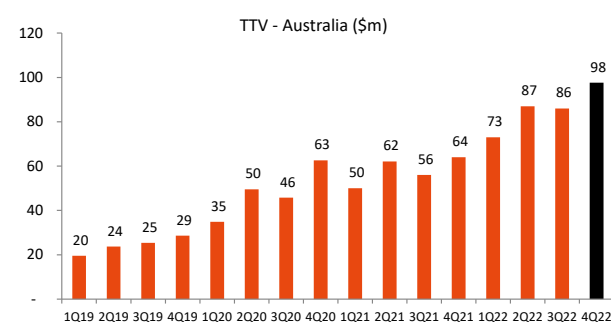
Source: Shaw and Partners

Figure 2: OPY Active Merchants – by Quarter



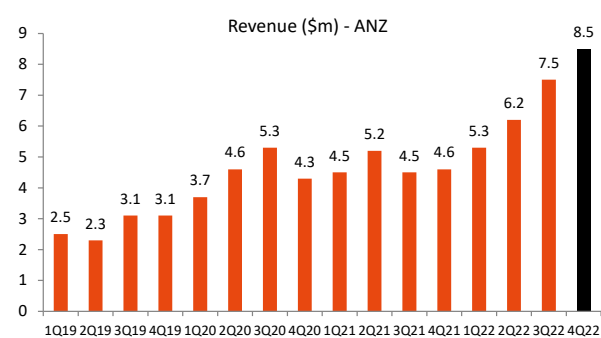
Source: Shaw and Partners

Figure 3: OPY TTV – by Quarter



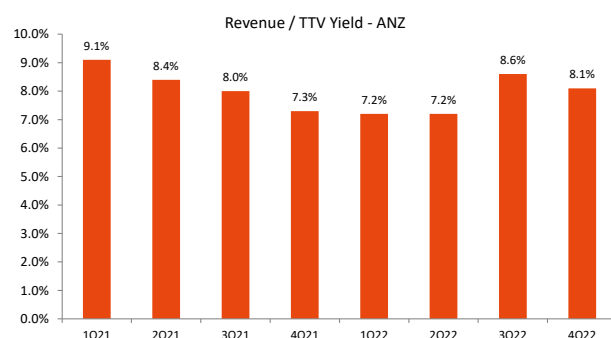
Source: Shaw and Partners

Figure 2: OPY Sales – by Quarter



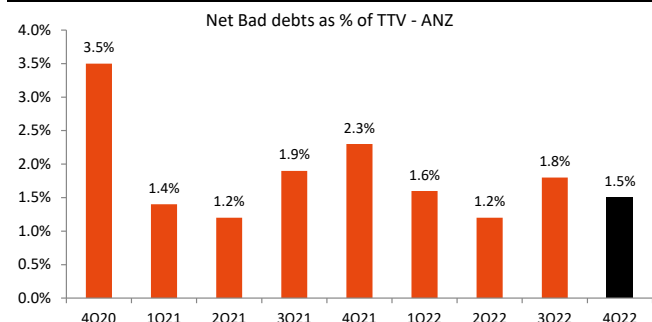
Source: Shaw and Partners

Figure 3: OPY Revenue Margin – by Quarter



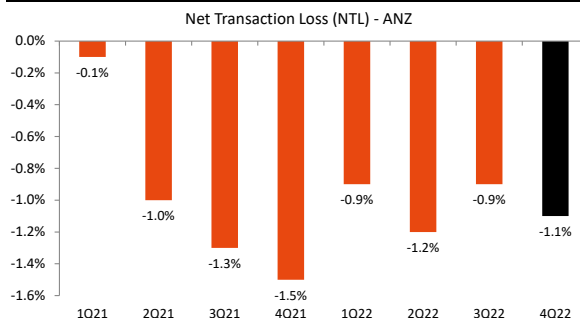
Source: Shaw and Partners

Figure 2: OPY Net Bad Debts – by Quarter



Source: Shaw and Partners

Figure 3: OPY NTL – 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	109	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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