

# Openpay Limited (OPY)

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

## Strong momentum continues into July

### Key Information

Current Price (\$ps)	0.29
12m Target Price (\$ps)	1.00
52 Week Range (\$ps)	0.12 - 1.47
Target Price Upside (%)	250.9%
TSR (%)	250.9%
Reporting Currency	AUD
Market Cap (\$m)	61.5
Sector	Information Technology
Avg Daily Volume (m)	2.5
ASX 200 Weight (%)	0%

### Fundamentals

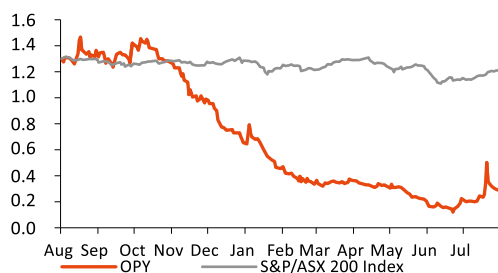
YE 30 Jun (AUD)	FY21A	FY22E	FY23E	FY24E
Sales (\$m)	26.3	32.0	57.5	96.1
NPAT (\$m)	(63.1)	(59.8)	(27.7)	(14.1)
EPS (cps)	(48.2)	(27.7)	(12.8)	(6.6)
EPS Growth (%)	(50.2%)	42.5%	53.7%	48.9%
DPS (cps) (AUD)	0.0	0.0	0.0	0.0
Franking (%)	0%	0%	0%	0%

### Ratios

YE 30 Jun	FY21A	FY22E	FY23E	FY24E
P/E (x)	(3.0)	(1.0)	(2.2)	(4.3)
EV/EBITDA (x)	(1.0)	(2.8)	(8.4)	(28.7)
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 (%)	21.6%	40.4%	(8.3%)	(70.6%)
Absolute (%)	26.7%	39.0%	(10.9%)	(77.5%)
Benchmark (%)	5.1%	(1.4%)	(2.6%)	(6.9%)



Price performance indexed to 100

Source: FactSet

### Major Shareholders

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

### Event

Strong monthly ANZ numbers continue into July.

Next catalyst: FY22 result on 31 August 2022.

### Highlights

- **Sales +73% on pcp to \$2.9m** – with TTV +58% on pcp to \$40m (annualised \$480m). OpyPro SaaS solution now delivering a solid TTV of \$8.4m.
- **By key metrics in July:**
  1. Merchants of 4,100 flat;
  2. Customers of 323k, +20% on pcp; and
  3. Active plans of 1.8m, +49% on pcp.
- **Average July ANZ unit economics remain strong with:**
  1. **Average Revenue/TTV yield remained very strong at 7.3% vs. 6.8% in pcp (1Q22: 7.2%; 2Q22: 6.7%; 3Q22: 8.6%; 4Q22 8.1%) 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 and is a low -0.5% vs. -1.1% in 4Q22 end – vs. CY22 average of -0.9%;**
  3. **Net Transaction Margin (NTM) (sales ex-late fees, less NTL and cost of providing services) continues its upward trajectory too to +30bbp from 3.2% to 3.5% – vs. 4Q21's 2.0%, 2H21 2.1% and 1H22 2.7%;**
  4. **Net Bad Debts (write-offs) remained low, and improved -100bp from 2.1% to a very low 1.1% – importantly, bad debts to revenue of <20% is running at half its peers; and**
  5. **Arrears (balances outstanding >60 days) down -20bp from 1.2% to 1.0%.**

### Recommendation

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 BNPL sell-down 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 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. Furthermore, OPY continues to trade at a significant – and attractive – 50% discount to BNPL peers on an FY23 EV/Sales multiple of 2.1x vs. combined 4.1x (consensus) for HUM, SPT, SQ2, SZL, Z1P.

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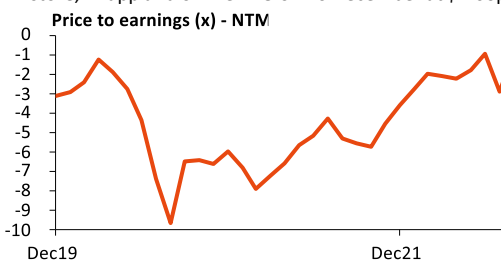
**Openpay Limited**  
Information Technology

FactSet: OPY-AU / Bloomberg: OPY AU

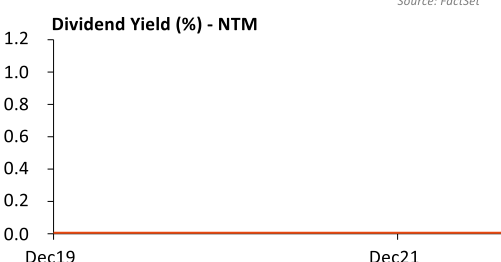
Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	0.29
Target Price (\$ps)	1.00
52 Week Range (\$ps)	0.12 - 1.47
Shares on Issue (m)	215.7
Market Cap (\$m)	61.5
Enterprise Value (\$m)	129.6
TSR (%)	250.9%

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.



Source: FactSet



Source: FactSet

**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)	(1.0)	(2.2)	(4.3)
EV / EBIT (x)	(0.9)	(1.0)	(2.6)	(6.7)	(15.7)
EV / EBITDA (x)	(1.0)	(1.0)	(2.8)	(8.4)	(28.7)
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%)	(212.0%)	(0.6%)	3.6%
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

## Rating Classification

<b>Buy</b>	Expected to outperform the overall market
<b>Hold</b>	Expected to perform in line with the overall market
<b>Sell</b>	Expected to underperform the overall market
<b>Not Rated</b>	Shaw has issued a factual note on the company but does not have a recommendation

## Risk Rating

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