

Openpay Group Ltd

Buy Now, Pay Smarter

Openpay was established in 2013 as an instore-digital solution for lay-by. Further development saw a commercial launch in 2016 in ANZ and in 2019 in the UK. OPY was listed in December 2019 and has seen strong growth in active merchants and customers in the target sectors of Automotive, Healthcare, Home Improvement and Retail. The product has been broadened to offer Openpay for Business - allowing businesses to manage B2B transactions more efficiently. Revenue from a partnership with Woolworths is expected in H1 FY21. OPY is starting to see similarly strong growth in the UK from a lower base. The company's user base is skewed to female and older consumers with increasing usage frequency a key foundation of growth. OPY operates a receivables book funded by a range of non-bank lenders. Loan duration, good credit performance (0.9% of receivables and 2.2% of Total Transaction Value - TTV) and high payment frequency allows OPY to recycle capital between 3.4 and 3.8x per year. This efficient use of capital is an advantage as OPY aims at increasing domestic platform utilisation, expands the UK footprint and implements and extends the Openpay for Business platform.

Business model

OPY collects fees from Merchants for transactions executed on the Openpay platform (in 2020 46% of revenue) and from Customers for payment plan establishment and management and late fees (54% of revenue). OPY offers a range of term payment plans of 2-24 months duration for values between \$50 and \$20,000 with smaller amounts attracting shorter terms vs larger loans. OPY differentiates from other similar (Buy Now Pay Later) offers by offering larger amounts, longer terms, and flexible payment terms including zero interest plans. The company has focused on specific sectors such as healthcare and the automotive sector with a customer base relatively older than competitors.

Recent company commentary

Escrowed vendor shares representing 33.1% of outstanding capital may be traded following the FY20 result. In August, the company announced partnerships with MSL Solutions (ASX:MSL) to integrate OPY's products into MSL's golf club membership and management products and, The Hut Group (THG) a global brand leader in direct to consumer brands and sales management systems. OPY also appointed a new CFO and confirmed strong growth in July 2020. OPY's FY20 result confirmed very strong growth in customers (+141%), merchants (+52%), TTV (+98%) and Revenue (+64%). Openpay for Business will launch with Woolworths in H1 FY21.

Strong revenue growth, trading on a lower multiple

OPY is seeing strong revenue growth in-line with other companies in the BNPL sector. This driven by innovation and a trend for younger consumers to eschew credit cards in favour of debit transactions. This is a positive regarding addressable market but a negative for price competition and relative funding costs. On the current share price, OPY is trading on an EV/Sales multiple of 14.70x, which puts it at a 40% discount to the median of its BNPL peers.

Historical earnings and ratios

Year end	Revenue (A\$m)	EBITDA Adj.* (A\$m)	NPAT Adj.* (A\$m)	NPAT Rep. (A\$m)	EPS Rep. (c)	EPS Adj.*(c)	^EV/Sales (x)
06/17a	3.51	(1.50)	(1.70)	(2.31)	(1.6)	(2.0)	n.a.
06/18a	6.84	(2.46)	(3.21)	(4.44)	(3.0)	(5.0)	n.a.
06/19a	10.99	(8.47)	(11.71)	(14.68)	(10.9)	(16.0)	n.a.
06//20a	18.30	(30.10)	(31.40)	(36.60)	(32.8)	(51.0)	8.55

Source: Company data *EBITDA and NPAT adj for one-time, non-cash items ^Year end price used

BNPL / Business Services

4 September 2020

Share details

ASX Code	OPY
Share price (3-Sep)	\$3.60
Market Capitalisation	\$388.4M
Shares on issue	107.9M
Net cash at 30/06/2020	\$70.1M
Free float	38.1%

Share performance (12 months)



Upside Case

- Continued strong take-up by retailers as sales move on-line faster due to COVID
- Increased penetration of UK market
- Rising customer usage

Downside Case

- Increased competition from peers and larger lenders
- Sector focus too narrow leading to slower growth in recession
- Higher borrowing costs

Catalysts/upcoming events

- AGM - November 2020
- Interim results FY21 – February 2021

Comparable companies (Aust/NZ)

Afterpay (ASX:APT), Zip Co (ASX:Z1P), EML Payments (ASX:EML), Sezzle (ASX:SZL)

Top 5 shareholders

Yaniv Meydan	21.12%
Chow Tai Fook Enterprises Ltd	10.23%
Investec Australia	9.13%
ColourDome Pty Ltd	3.54%
MGRS Pty Ltd	3.31%

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FINANCIAL SERVICES GUIDE

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Effective Date: 26th November 2018



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