

Firms up its global FX services footprint

OFX Group Limited (ASX:OFX) is an Australian-based international money transfer and foreign exchange (FX) services provider servicing consumer and business clients globally via its digital platform. In FY22, OFX facilitated 1.18m transactions across 55 currencies worth A\$33.2b. On 1 May 2022, OFX largely completed the A\$98m debt-funded acquisition of Firma, a Canadian-based global FX business. Notably, Firma represents OFX's first major acquisition, is aligned to its strategic focus on the corporate customer and North American geographic segments, and is expected to be 20% EPS accretive in year one. Following record results in FY22 (\$147m net operating income ('NOI'), \$44.5m underlying EBITDA, 30.3% EBITDA margin, operating cashflows of \$47.6m, free cashflows of \$36.1m and \$24.5m NPAT), OFX recently disclosed Q1 (June qtr) FY23 financial metrics including 45% total NOI growth (including Firma) and 13% organic NOI growth (excluding Firma) on the pcp, and re-affirmed its FY23 guidance for NOI of \$200m-\$212m and underlying EBITDA of \$55m-\$60m. Given the value of the global FX payments services market is ~US\$206b and OFX's market share is <0.05% (with banks/incumbents accounting for ~72%), there is potential for it to capture increased market share.

Business model

OFX provides competitively priced international money transfers in 55 currencies through its digital platform (complemented by localised 24/7 client support) and global banking partner network. It generates revenue from fee and trading income primarily comprising realised FX transaction margins (i.e. the difference between the FX rate it obtains from its wholesale foreign exchange market providers and the FX rate it charges to customers) and fees. OFX is focused on four customer segments: (1) High-value consumers; (2) Corporates (typically monthly trading); (3) Online sellers (e.g. via Amazon); and (4) Enterprises (large companies requiring cross-border payments for their customers: e.g. WiseTech). OFX's FY22 revenue was slightly skewed to B2B/corporate (~52%), predominantly from recurring customers (77% of revenue), and geographically split between APAC (55%), North America (29%) and EMEA (16%). Its key strategic growth priorities currently lie in the corporate, on-line seller and enterprise customer segments and North American geographic segment.

45% NOI growth in June quarter

At its recent 11 August AGM, OFX disclosed the following key Q1 (June qtr) FY23 financial information: (1) NOI of \$47.9m (up 45% on the pcp) with Firma contributing \$10.5m; (2) 13% organic NOI growth on the pcp (i.e. excluding Firma); (3) Corporate segment yoy growth of 83% (including Firma) or 20% (excluding Firma/organic); and (4) \$14m debt repayment facilitated by positive free cashflows. OFX also confirmed its FY23 guidance (originally provided on 17 May) for NOI of \$200m-\$212m and underlying EBITDA of \$55m-\$60m, and reiterated that it intends to repay the A\$100m Firma-acquisition debt in under four years (assuming no further material cash-based investments/acquisitions). In Q1, OFX also completed a new reconciliation engine to enable instant processing of incoming payments.

Trading at a discount to Wise and premiums to MGI and WU

OFX is trading at 11x forward (FY23f) EV/EBITDA and 22x FY23f PER (Source: Refinitiv). Whilst there are no ASX-listed pureplay FX services peers, five of OFX's larger competitors are listed on overseas exchanges, namely Wise plc (formerly 'TransferWise') which listed on LSE in July 2021, NASDAQ-listed MoneyGram (MGI), Flywire (FLYW) and Payoneer (PAYO), and NYSE-listed Western Union (WU). OFX currently trades at a significant discount to Wise's ~29x forward EV/EBITDA and ~54x forward PER, and the forward EV/EBITDA of FLYW and PAYO (~89x and ~36x respectively). Relative to MGI and WU, OFX is trading at a premium on forward EV/EBITDA (vs. ~8x for MGI and ~7x for WU), in-line with MGI on forward PER (~22x), and at a premium to TU's ~8x forward PER (Source: Refinitiv).

Historical earnings and ratios (in A\$m unless otherwise stated)

Year end	Revenue	Net operating income#	EBITDA adj.*	NPAT rep.	EPS adj.* (c)	EV/Revenue (x)	EV/EBITDA adj.* (x)	PER adj.* (x)
03/19a	128.7	118.7	36.0	17.1	8.5	4.7	16.6	32.2
03/20a	137.2	125.2	38.2	20.3	8.8	4.4	15.8	30.9
03/21a	134.2	117.9	29.1	12.1	5.3	4.5	20.7	51.7
03/22a	158.0	147.0	44.5	24.5	10.6	3.6	12.9	25.7

Source: Company data; #Revenue less fee and comm expenses; *EBITDA, EPS adjusted for one-time items

Diversified Financials

9th September 2022

Share Details

ASX code	OFX
Share price (8-Sept)	\$2.72
Market capitalisation	\$662M
Shares on issue	243.3M
Net cash at 31-Mar-2022*	\$84.2M
Free float	~89%

*\$32.6m net available cash (excl collateral/gtees)

Share Performance (12 months)



Upside Case

- Stronger-than-expected corporate customer and North American growth (including from Firma)
- Accelerated debt repayments from cashflows
- Capitalising on significant global growth opportunities (OFX market share = <0.05%)

Downside Case

- Increased competition
- Economic conditions curb some FX volumes
- Growth and synergies from the Firma acquisition are lower than expected

Catalysts

- Exceeds FY23 guidance
- Capital management initiatives

Comparable Companies (Int'l)

Wise (LSE:WISE), MoneyGram NASDAQ:MGI), Flywire (NASDAQ:FLYW), Payoneer (NASDAQ:PAYO), Western Union (NYSE:WU)

Board and Management

Patricia Cross	Non-Exec. Chair
Skander Malcolm	MD & CEO
Grant Murdoch	Non-Exec. Director
Douglas Snedden	Non-Exec. Director
Cathy Kovacs	Non-Exec. Director
Connie Carnabuci	Non-Exec. Director

Company Contact

Matt Gregorowski (IR) +61 422 534 755
investors@ofx.com

RaaS Contact

Clare Porta, CFA +61 413 040 540
clare.porta@raasgroup.com



FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

ABN 99 614 783 363

Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

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- how we transact with you
- how we are paid, and
- complaint processes

Contact Details, BR and RaaS

BR Head Office: Level 14, 344 Queen Street, Brisbane, QLD, 4000

RaaS. 20 Halls Road Arcadia, NSW 2159

P: +61 414 354712

E: finola.burke@raasgroup.com

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