

31 May 2018

Smartpay Holdings Limited (SMP) BUY Share Price: \$0.17

Early acquiring data implies substantial opportunity Target Price: A\$0.41

SMP's FY18 NPAT was at the midpoint of its guidance range and below our estimate, due to a terminal contract slipping and a slower than anticipated roll out of its acquiring product. In our view, the key takeaway from the result was that the average EBITDA contribution from the 276 terminals SMP has converted to acquiring, increased from A\$43/month to A\$187/month. This was well ahead of our expectation for A\$90/month. We have moderated our FY19F assumptions to incorporate the slower than anticipated roll out. However, we have increased our FY20F to reflect the improved unit economics. Rolling our valuation years forward increases our target price to A\$0.41 (A\$0.36 previously). We reiterate our Buy recommendation.

FY18 result highlights

- Revenue of \$20.4m (-3% yoy) slightly below guidance range of \$20.5-22.5m, due to a delay in a terminal sale, the lack of 3rd party software development revenue and a deliberately slower roll out of acquiring
- EBITDA of \$9.6m, within guidance range of \$9.5-10.5m (but below our expectation due to increased software development costs)
- Underlying EBITDA of \$9.4m vs \$8.8m in FY17 (adj. for terminal sales and 3rd party software development)
- NPAT of \$2.5m (guidance: \$2.0m-3.0m)
- Operating Cashflow of \$8.6m leading to adj. Net Debt of \$23m – in-line with expectations.

Acquiring product economics ahead of expectations

- Since launching its acquiring product in November 2017 SMP has converted 276 of its 5,500 Australian terminals.
- While this is lower than we anticipated (due to a cautious approach by SMP to ensure the robustness of the system), the revenue improvement on a per terminal basis is twice what we expected.
- The average EBITDA contribution from the terminals SMP has converted increased from A\$43/month to A\$187/per month (we were expecting A\$90/month).

Forecasts and Valuation

- We have lowered our FY19F assumptions and upgraded our FY20F, to reflect a more conservative roll out of the acquiring product.
- Rolling forward our valuation years increased our target price to A\$0.41 (from A\$0.36 previously).
- SMP is far too cheap at current levels (~4x PE).
- We reiterate our Buy recommendation.

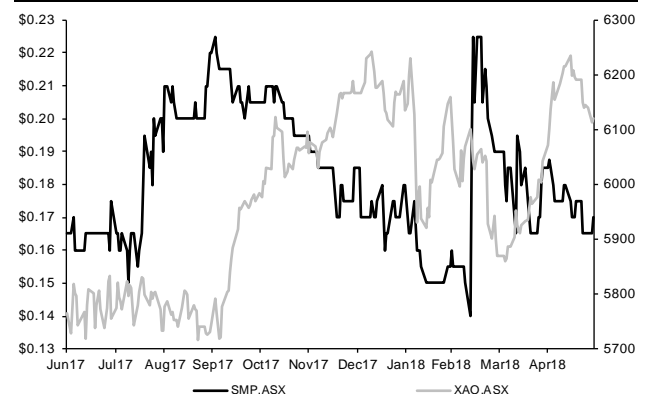
Company Data

Shares – ordinary (M)	171.8
Dilution (M)	0.0
Total (fully diluted) (M)	171.8
Market capitalisation (\$M)	29.2
12 month low/high (\$)	0.14/ 0.24
Average monthly turnover (\$M)	2
Index	All Ords
GICS Industry	IT Services

Financial Summary (fully diluted/normalised)

Year end March	2017A	2018A	2019F	2020F	2021F
Revenue (\$M)	21.8	20.4	29.0	34.9	37.9
Costs (\$M)	-12.2	-10.8	-15.9	-17.1	-18.7
EBITDA (\$M)	9.6	9.6	13.1	17.8	19.2
NPAT (\$M)	2.6	2.5	7.0	11.9	13.4
EPS (¢ps)	1.3	1.5	4.1	6.9	7.8
EPS Growth (%)	931%	14%	177%	70%	13%
PER (x)	12.8	11.2	4.1	2.4	2.1
Free Cashflow (\$M)	-0.5	-0.2	7.1	12.0	14.8
FCFPS (¢ps)	-0.3	-0.1	4.1	7.0	8.6
PFCFPS (x)	-52.8	-132.4	4.0	2.4	1.9
Enterprise Value (\$M)	52.4	50.2	43.1	31.1	16.3
EV / EBITDA (x)	5.5	5.2	3.3	1.7	0.8
Payout ratio (%)	n/m	n/m	n/m	n/m	n/m
Dividends (¢ps)	n/m	n/m	n/m	n/m	n/m
Yield (%)	n/m	n/m	n/m	n/m	n/m
Franking (%)	n/a	n/a	n/a	n/a	n/a

SMP – performance over one year



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Analysis

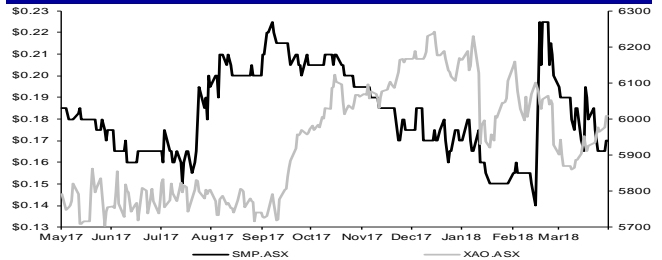
Smartpay Holdings Limited

Year end 31 March

MARKET DATA

Recommendation		Buy
Price	\$	0.17
Target price (12-month)	\$	0.41
52 week low / high	\$	0.14/0.24
Market capitalisation	\$m	28.3
Shares on issue (basic)	no.	171.8
Options / rights	no.	0.0
Other equity	no.	0.0
Shares on issue (diluted)	no.	171.8

12-MONTH SHARE PRICE PERFORMANCE



INVESTMENT FUNDAMENTALS

	FY17A	FY18F	FY19F	FY20F	FY21F	
Reported NPAT	\$m	2.6	2.5	7.0	11.9	13.4
NPAT normalised	\$m	2.6	2.5	7.0	11.9	13.4
Reported EPS (undiluted)	¢	1.3	1.5	4.1	6.9	7.8
EPS normalised (undiluted)	¢	1.3	1.5	4.1	6.9	7.8
...Growth	%	931%	14%	177%	70%	13%
PER normalised	x	12.8	11.2	4.1	2.4	2.1
Operating cash flow per share	¢	3.7	4.4	7.0	9.9	11.5
Free cash flow per share	¢	(0.3)	(0.1)	4.1	7.0	8.6
Price to free cash flow per share	x	(52.8)	(132.4)	4.0	2.4	1.9
FCF yield	%	(1.9)	(0.8)	25.1	42.3	52.2

Dividend	¢	0.0	0.0	0.0	0.0	0.0
Payout	%	0.0	0.0	0.0	0.0	0.0
Yield	%	0.0	0.0	0.0	0.0	0.0
Franking	%	n/a	n/a	n/a	n/a	n/a

Enterprise value	\$m	52.4	50.2	43.1	31.1	16.3
EV/EBITDA	x	5.5	5.2	3.3	1.7	0.8
EV/EBIT	x	14.3	13.7	6.0	2.6	1.2
Price to book (NAV)	x	2.1	1.8	0.8	0.6	0.5
Price to NTA	x	1.3	1.3	0.9	0.8	0.6

KEY RATIOS

	FY17A	FY18F	FY19F	FY20F	FY21F	
EBITDA margin	%	44.1	46.9	45.2	51.1	50.7
EBIT margin	%	16.8	17.9	24.8	34.1	35.1
NPAT margin	%	11.8	12.4	24.1	34.1	35.4
ROE	%	18.8	15.8	20.9	25.6	21.8
ROA	%	5.7	5.3	12.4	20.4	18.6
Net debt/(cash)	\$m	24.0	21.8	14.7	2.7	(12.1)
Interest cover (EBIT / net interest)	x	2.7	2.5	14.4	39.6	66.4
Gearing (net debt / EBITDA)	x	2.5	2.3	1.1	0.2	(0.6)
Leverage (ND / (ND+E))	%	64%	58%	31%	6%	-25%

DUPONT ANALYSIS

	FY17A	FY18F	FY19F	FY20F	FY21F	
Net Profit Margin	%	11.8	12.4	24.1	34.1	35.4
Asset Turnover	x	0.5	0.4	0.5	0.6	0.5
Return on Assets	%	5.7	5.3	12.4	20.4	18.6
Financial Leverage	x	3.3	3.0	1.7	1.3	1.2
Return on Equity	%	18.8	15.8	20.9	25.6	21.8

GROWTH PROFILE

	FY17A	FY18F	FY19F	FY20F	FY21F	
Operating revenue	%	6.9	(6.4)	42.3	20.3	8.6
EBITDA	%	18.2	(0.4)	37.1	35.9	7.9
EBIT	%	52.2	(0.4)	97.1	65.4	11.8
Operating NPAT	%	150.0	(1.6)	177.0	70.1	12.6
Normalised EPS	%	930.5	13.9	177.0	70.1	12.6

PROFIT AND LOSS (PRO FORMA)

	FY17A	FY18F	FY19F	FY20F	FY21F	
Total revenue	\$m	21.8	20.4	29.0	34.9	37.9
EBITDA	\$m	9.6	9.6	13.1	17.8	19.2
Depreciation & amortisation	\$m	5.9	5.9	5.9	5.9	5.9
EBIT	\$m	3.7	3.6	7.2	11.9	13.3
Net interest	\$m	(1.4)	(1.5)	(0.5)	(0.3)	(0.2)
Non-operating income	\$m	0.0	0.0	0.0	1.0	2.0
Pretax Profit	\$m	2.3	2.2	6.7	11.6	13.1
Tax expense	\$m	0.3	0.3	0.3	0.3	0.3
Minorities	\$m	0.0	0.0	0.0	1.0	2.0
Operating NPAT	\$m	2.6	2.5	7.0	11.9	13.4
Significant items	\$m	0.0	0.0	0.0	1.0	2.0
Reported NPAT	\$m	2.6	2.5	7.0	11.9	13.4

BALANCE SHEET

	FY17A	FY18F	FY19F	FY20F	FY21F	
Cash	\$m	3.4	3.4	3.4	3.4	15.5
Receivables	\$m	3.2	5.3	4.3	5.2	5.7
Inventory	\$m	0.0	0.0	0.0	0.0	0.0
Other	\$m	0.2	0.0	0.0	0.0	0.0
Current	\$m	6.8	8.7	7.7	8.6	21.1
Prop, plant & equip	\$m	15.4	13.7	23.7	24.8	25.9
Intangibles	\$m	22.7	25.0	25.0	25.0	25.0
Other	\$m	0.0	0.0	0.0	0.0	0.0
Non current	\$m	38.1	38.7	48.7	49.8	50.9
Total assets	\$m	44.9	47.4	56.4	58.4	72.1
Accounts Payable	\$m	3.5	5.9	4.7	5.6	6.1
Borrowings	\$m	27.4	25.2	18.1	6.1	0.0
Other	\$m	0.3	0.2	0.2	0.2	0.2
Total liabilities	\$m	31.3	31.3	23.0	12.0	6.3
Shareholder's equity	\$m	13.6	16.0	33.4	46.4	61.3

CASH FLOW

	FY17A	FY18F	FY19F	FY20F	FY21F	
EBITDA	\$m	9.6	9.6	13.1	17.8	19.2
Change in provisions	\$m	0.0	0.0	0.0	1.0	2.0
Change in working capital	\$m	(1.6)	(0.5)	(0.5)	(0.5)	0.5
Net interest	\$m	(1.6)	(1.5)	(0.5)	(0.3)	(0.2)
Tax paid	\$m	0.0	0.0	0.0	0.0	0.0
Other	\$m	(1.6)	(0.5)	(0.5)	(0.5)	0.5
Operating cash flow	\$m	6.4	7.6	12.1	17.0	19.8
Capex	\$m	(6.9)	(7.8)	(5.0)	(5.0)	(5.0)
Acquisitions	\$m	0.0	0.0	0.0	0.0	0.0
Disposals	\$m	0.5	0.0	0.0	0.0	0.0
Investing cash flow	\$m	(6.5)	(7.8)	(5.0)	(5.0)	(5.0)
Equity	\$m	0.0	0.0	0.0	0.0	0.0
Increase / (decrease) in borrowings	\$m	0.1	(2.2)	(7.1)	(12.0)	(6.1)
Dividend/other	\$m	0.0	0.0	0.0	0.0	0.0
Financing cash flow	\$m	0.1	(2.2)	(7.1)	(12.0)	(6.1)
Free cash flow	\$m	(0.5)	(0.2)	7.1	12.0	14.8

Source: Petra Capital

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