

13 March 2018

Smartpay Holdings Limited (SMP) BUY Share Price: A\$0.14

Alipay agreement next step in business transformation Target Price: A\$0.36

SMP's agreement with Alipay illustrated the business' continued evolution from a terminal provider to payment processor. The stock is extremely cheap at current levels, we reiterate our Buy recommendation.

Partnership with Alipay

- Smartpay has signed an agreement with Alipay.
- Alipay is China's leading mobile payments provider with 520m+ users and 175m transactions daily.
- Merchants will be able to process Alipay payment through their Smartpay's EFTPOS terminals, allowing them increased access to ~\$11bn p.a. in Chinese tourist spending across Australia and New Zealand.
- Smartpay will be a direct acquirer of Alipay transactions in New Zealand and Australia, through its Smartconnect platform.

Increases acquiring revenue stream

- As an acquirer, Smartpay will earn a percentage of the transaction value. Merchants in NZ typically pay ~1.5% in acquiring fees compared to ~1.0% in Australia.
- This is potentially transformational for the New Zealand division, migrating it from a terminal rental business to a transaction-based business.
- In addition, it enhances the potential for Smartpay's acquiring offering in Australia, which was launched late last year and is a key driver of our FY19 forecast growth.
- The product is expected to go live in NZ in April, with the Australian rollout anticipated within a few months.

Next step in business transformation

- In the last six months, Smartpay has shown that the business can transform from an EFTPOS rental business into an innovative payments provider.
- Late last year the business launched its acquiring product in Australia which led to a ~20% EBITDA upgrade for FY19F and FY20F.
- In addition, SMP licenced its cloud based payment platform, SmartConnect, to a major Australian bank.
- The Alipay agreement is the next step in the business's transformation and allows it for the first time to generate transactional revenue in New Zealand.

SMP is far too cheap - Buy

- SMP is trading at 2.9x FY19F PE (~65% discount to its peers), which is unjustified given the resilience of the core business and significant upside from acquiring.
- We reiterate our Buy recommendation and A\$0.36 target price.

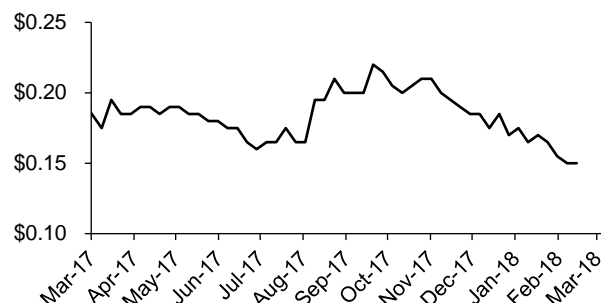
Company Data

Shares – ordinary (M)	171.8
Dilution (M)	0.0
Total (fully diluted) (M)	171.8
Market capitalisation (\$M)	24.9
12 month low/high (\$)	0.14 / 0.23
Average monthly turnover (\$M)	0.6
Index	-
GICS Industry	Telecommunications

Financial Summary (fully diluted/normalised)

Year end March	2016A	2017A	2018F	2019F	2020F
Revenue (\$M)	20.4	21.8	22.7	30.7	33.0
Costs (\$M)	-12.2	-12.2	-12.3	-15.9	-17.0
EBITDA (\$M)	8.1	9.6	10.4	14.8	16.0
NPAT (\$M)	0.2	2.6	3.3	8.8	10.1
EPS (¢ps)	0.1	1.3	1.9	5.1	5.9
EPS Growth (%)	-86%	931%	49%	165%	15%
PER (x)	115.8	11.2	7.5	2.8	2.5
Free Cashflow (\$M)	-2.8	-0.5	0.8	10.1	11.4
FCFPS (¢ps)	-1.6	-0.3	0.5	5.9	6.6
PFCFPS (x)	-9.0	-46.4	29.5	2.5	2.2
Enterprise Value (\$M)	48.8	48.9	48.1	38.0	26.6
EV / EBITDA (x)	n/a	5.1	4.6	2.6	1.7
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

SMP – performance over one year



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Analysis

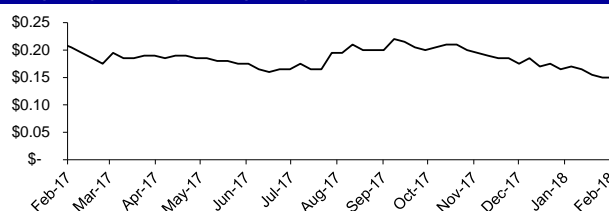
Smartpay Holdings Limited

Year end 31 March

MARKET DATA

Recommendation		Buy
Price	\$	0.15
Target price (12-month)	\$	0.36
52 week low / high	\$	0.14/0.23
Market capitalisation	\$m	24.9
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

	FY16A	FY17A	FY18F	FY19F	FY20F	
Reported NPAT	\$m	0.2	2.6	3.3	8.8	10.1
NPAT normalised	\$m	0.2	2.6	3.3	8.8	10.1
Reported EPS (undiluted)	c	0.1	1.3	1.9	5.1	5.9
EPS normalised (undiluted)	c	0.1	1.3	1.9	5.1	5.9
...Growth	%	(86%)	931%	49%	165%	15%
PER normalised	x	115.8	11.2	7.5	2.8	2.5
Operating cash flow per share	c	3.4	3.7	5.0	8.2	9.0
Free cash flow per share	c	(1.6)	(0.3)	0.5	5.9	6.6
Price to free cash flow per share	x	(9.0)	(46.4)	29.5	2.5	2.2
FCF yield	%	(11.1)	(2.2)	3.4	40.5	45.9
Dividend	c	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	48.8	48.9	48.1	38.0	26.6
EV/EBITDA	x	6.0	5.1	4.6	2.6	1.7
EV/EBIT	x	20.3	13.4	10.7	4.3	2.6
Price to book (NAV)	x	2.2	1.8	1.2	0.8	0.6
Price to NTA	x	1.2	1.1	0.8	0.8	0.8

KEY RATIOS

	FY16A	FY17A	FY18F	FY19F	FY20F	
EBITDA margin	%	39.9	44.1	46.0	48.2	48.5
EBIT margin	%	11.8	16.8	19.8	28.9	30.5
NPAT margin	%	5.0	11.8	14.6	28.6	30.5
ROE	%	8.9	18.8	15.4	27.8	23.5
ROA	%	2.3	5.7	6.4	16.4	18.8
Net debt / (cash)	\$m	23.9	24.0	23.2	13.1	1.7
Interest cover (EBIT / net interest)	x	1.6	2.7	3.5	44.3	100.8
Gearing (net debt / EBITDA)	x	2.9	2.5	2.2	0.9	0.1
Leverage (ND / (ND+E))	%	68%	64%	52%	29%	4%

DUPONT ANALYSIS

	FY16A	FY17A	FY18F	FY19F	FY20F	
Net Profit Margin	%	5.0	11.8	14.6	28.6	30.5
Asset Turnover	x	0.5	0.5	0.4	0.6	0.6
Return on Assets	%	2.3	5.7	6.4	16.4	18.8
Financial Leverage	x	3.8	3.3	2.4	1.7	1.2
Return on Equity	%	8.9	18.8	15.4	27.8	23.5

GROWTH PROFILE

	FY16A	FY17A	FY18F	FY19F	FY20F	
Operating revenue	%	(8.2)	6.9	4.4	35.1	7.7
EBITDA	%	(11.8)	18.2	8.8	41.7	8.3
EBIT	%	(46.5)	52.2	23.1	96.6	13.8
Operating NPAT	%	(51.4)	150.0	28.9	165.0	15.1
Normalised EPS	%	(86.3)	930.5	49.2	165.0	15.1

PROFIT AND LOSS (PRO FORMA)

	FY16A	FY17A	FY18F	FY19F	FY20F	
Total revenue	\$m	20.4	21.8	22.7	30.7	33.0
EBITDA	\$m	8.1	9.6	10.4	14.8	16.0
Depreciation & amortisation	\$m	5.7	5.9	5.9	5.9	5.9
EBIT	\$m	2.4	3.7	4.5	8.9	10.1
Net interest	\$m	(1.5)	(1.4)	(1.3)	(0.2)	(0.1)
Non-operating income	\$m	0.0	0.0	0.0	0.0	1.0
Pretax Profit	\$m	0.1	2.3	3.2	8.7	10.0
Tax expense	\$m	0.1	0.3	0.1	0.1	0.1
Minorities	\$m	0.0	0.0	0.0	0.0	1.0
Operating NPAT	\$m	1.0	2.6	3.3	8.8	10.1
Significant items	\$m	(0.8)	0.0	0.0	0.0	1.0
Reported NPAT	\$m	0.2	2.6	3.3	8.8	10.1

BALANCE SHEET

	FY16A	FY17A	FY18F	FY19F	FY20F	
Cash	\$m	3.4	3.4	3.4	3.4	3.4
Receivables	\$m	3.0	3.2	3.4	4.6	4.9
Inventory	\$m	0.0	0.0	0.0	0.0	0.0
Other	\$m	0.1	0.2	0.0	0.0	0.0
Current	\$m	6.5	6.8	6.8	8.0	8.3
Prop, plant & equip	\$m	14.7	15.4	22.5	22.6	22.7
Intangibles	\$m	22.7	22.7	22.7	22.7	22.7
Other	\$m	0.2	0.0	0.0	0.0	0.0
Non current	\$m	37.5	38.1	45.2	45.3	45.4
Total assets	\$m	44.0	44.9	52.0	53.3	53.7
Accounts Payable	\$m	4.1	3.5	3.7	4.9	5.3
Borrowings	\$m	27.3	27.4	26.6	16.5	5.1
Other	\$m	0.5	0.3	0.3	0.3	0.3
Total liabilities	\$m	31.9	31.3	30.6	21.8	10.7
Shareholder's equity	\$m	11.5	13.6	21.4	31.5	43.0

CASH FLOW

	FY16A	FY17A	FY18F	FY19F	FY20F	
EBITDA	\$m	8.1	9.6	10.4	14.8	16.0
Change in provisions	\$m	0.0	0.0	0.0	0.0	1.0
Change in working capital	\$m	(0.7)	(1.6)	(0.5)	(0.5)	(0.5)
Net interest	\$m	(1.7)	(1.6)	(1.3)	(0.2)	(0.1)
Tax paid	\$m	0.0	0.0	0.0	0.0	0.0
Other	\$m	(0.7)	(1.6)	(0.5)	(0.5)	(0.5)
Operating cash flow	\$m	5.8	6.4	8.6	14.1	15.4
Capex	\$m	(8.5)	(6.9)	(7.8)	(4.0)	(4.0)
Acquisitions	\$m	0.0	0.0	0.0	0.0	0.0
Disposals	\$m	0.0	0.5	0.0	0.0	0.0
Investing cash flow	\$m	(8.5)	(6.5)	(7.8)	(4.0)	(4.0)
Equity	\$m	0.0	0.0	0.0	0.0	0.0
Increase / (decrease) in borrowings	\$m	1.3	0.1	(0.8)	(10.1)	(11.4)
Dividend/other	\$m	0.0	0.0	0.0	0.0	0.0
Financing cash flow	\$m	1.3	0.1	(0.8)	(10.1)	(11.4)
Free cash flow	\$m	(2.8)	(0.5)	0.8	10.1	11.4

Source: Petra Capital

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US Investors

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