



Research Update PayGroup Limited Buy

Price: \$0.58 | 12 Month Target: \$1.82 | Implied Return: 214% | 1 May 2020

Quarterly Update

Multi-Country Software with a Service (SaaS) Payroll Solutions and APP enabled Cloud Software as a Service (SaaS) Human Capital Management (HCM) provider PayGroup Limited released its Q4 result yesterday for the period ending 31 March 2020.

Results Summary

PYG reported a cashflow surplus for a second successive quarter. A cashflow surplus of \$1.8m was achieved on the back of receipts for the quarter of \$4.4m. This compares favourably to the previous quarter which shows a cash flow surplus of \$44k before one-off costs. The cash flow does not include a '13th month' of billing which is year-end billing undertaken in Asia. Cash collection for the year-end billing will occur in the following quarter which we expect to be another strong period. This quarterly report is the first with full contribution from Astute One Limited which PayGroup acquired in November 2019. \$1.4m in new contracts signings were added in the period, expressed as total contract value (TCV) which brings the total for FY20 to \$5.5m, an increase of 12% on FY19 TCV of \$4.9m.

Payslips processed during the period continue to grow despite the downturn experienced due to the COVID-19 pandemic. Total combined payslips processed (SaaS and SaaS) increased by 1% to 61,054. We are pleased to report that client employees is currently trending above Lodge's forecast, and we expect this trend to continue for the full year period. We note stimulus packages implemented by the government to counter business downturns have aided labour hire companies, especially in Australia. Changes in payroll and the stimulus packages have in many instances increased the complexity of payroll which has helped keep PYG's HR and payroll services, which fully operates on the cloud, in high demand. With the acquisition of Astute, SaaS contributes nearly 50% to revenue. Astute has added, on average, an additional 327,000 active users per month onto the platform. The growth in payslips has come not only from organic growth but also PYG's channel partners which have contributed higher than expected sales as they rely on PayGroup to handle any Asia business. PYG has reaffirmed their full year guidance for annualized recurring revenue of \$17.5m for FY20.

Recommendation

Despite the coronavirus situation, PYG has seen steady growth and we feel confident the growth pattern will continue beyond the current period. Pleasingly PYG reaffirmed its full year guidance which gives us comfort to maintain our valuation of \$1.82, giving an upside of 214% from current levels. We continue to rate PYG as a **Buy**.

Q4 FY20 Results Commentary

The company reported Q4 cash receipts of \$4.4m, an increase of 42% on the previous quarter, and cash flow of \$1.8m, up from a surplus of \$44k in the previous quarter. PYG's cash balance is currently \$2m.

Operational Highlights:

- Reported cash receipts increase of 42% on Q3 FY20 and 128% on pcp;
- 1% increase in payslips to 61,054, despite the coronavirus pandemic causing widespread business downturns
- Reported cash flow of \$1.8m, the second consecutive quarter of positive cash flows.

Company Data

Recommendation: BUY
Price (Date 1 May): \$0.58
ASX Code: PYG
Shares on Issue: 68.83m
Market capitalization: \$39.9m
Enterprise Value: \$37.9m

Board Structure

Ian Basser: Non-Exec Chairman
Mark Samlal: Managing Director
Franck Neron-Bancel: Exec Director
David Fagan: Non-Exec Director

Major Shareholders

Samantha Samlal*: 32.08%
Lawrence Pushpam*: 10.25%
Marcus Webb & Associates^: 11.75%
JP Morgan Nominees: 5.7%
 *escrowed for 24 months from IPO date
 ^escrowed for 24 months from 14/11/2019

Financial Highlights (with Astute)

\$m	FY19A*	FY20E*	FY21E*	FY22E*
Total Revenue	8.4	17.5	20.7	24.2
Operating Expenses	(5.7)	(12.1)	(13.4)	(15.5)
EBITDA	2.7	5.4	7.3	9.4
NPAT	2.3	4.98	6.76	8.8
Dividend yield	N/A	N/A	4.8%	6.0%
PE	15.4	8.0	5.8	4.5

*Normalised Pro Forma results



Source: Iress



Valuation Ratios (A\$'000's) Proforma

Year ending Mar	2019A	2020E	2021E	2022E	2023E
Proforma profit	2,293	5,025	6,900	8,864	10,962
EPS_{adj} (¢)	0.044	0.073	0.100	0.129	0.159
EPS growth	N/A	64.3%	37.3%	28.5%	23.7%
P/E ratio	13.1 x	8.0 x	5.8 x	4.5 x	3.6 x
Enterprise Value (m)	32,093	29,999	29,810	29,059	39,959
EV/Sales (x)	3.83 x	1.71 x	1.44 x	1.20 x	1.43 x
EV / EBIT (x)	14.0 x	6.1 x	4.4 x	3.3 x	3.6 x
EV / EBITDA (x)	12.0 x	5.6 x	4.1 x	3.1 x	3.5 x
DPS (¢)	0.00	0.0	5.0	6.4	8.0
Dividend Yield	0.0%	0.0%	8.6%	11.1%	13.7%
Payout Ratio	0.0%	0.0%	50.0%	50.0%	50.0%
Franking	0.0%	0.0%	0.0%	0.0%	0.0%
FCFPS	0.06	0.07	0.11	0.13	0.16
P/FCFPS	9.58	7.74	5.40	4.50	3.68

Cashflow (A\$'000's)

Year ending Mar	2019A	2020E	2021E	2022E	2023E
EBIT	2,293	4,944	6,815	8,833	10,974
Dep'n and amort'n	376	441	493	534	467
Deferred tax benefit	(41)	(155)	(213)	(274)	(339)
Share option expenses	0	0	0	0	1
Change in Work cap	568	196	217	233	0
Operating cashflow	2,670	6,034	7,589	9,615	11,662
Investing cashflows					
Capex	(500)	(500)	(500)	0	0
Acquisitions/Divestments	0	0	0	0	0
Other	0	0	0	0	0
Free Cash Flow	2,170	5,534	7,089	9,615	11,662
Equity	7,760	3,000	0	0	0
Other	(2,100)	0	0	0	0
Dividends paid	0	0	(3,450)	(4,432)	(5,481)
Net cashflow	7,830	8,534	3,639	5,183	6,181
Cash at beginning 01/04	5	7,866	9,960	10,148	10,899
Cash at end 31/03	7,866	9,960	10,148	10,899	11,600

Revenue Split (A\$'000's)

Year ending Mar	2019A	2020E	2021E	2022E	2023E
Payroll Services	8,067	9,811	12,105	14,737	18,036
Other	320	320	320	320	320
Group Revenue	8,387	17,547	20,707	24,208	27,965

Profit and loss (A\$'000's) Proforma

Year ending Mar	2019A	2020E	2021E	2022E	2023E
Operating revenue	8,387	17,547	20,707	24,208	27,965
EBITDA	2,669	5,385	7,308	9,367	11,441
D&A	(376)	(441)	(493)	(534)	(467)
EBIT	2,293	4,944	6,815	8,833	10,974
Net interest income	0	236	299	304	327
NPBT	2,293	5,180	7,114	9,138	11,301
Tax Expense (benefit)	0	(155)	(213)	(274)	(339)
NPAT	2,293	5,025	6,900	8,864	10,962
Significant Items	0	0	0	0	1
NPAT (Proforma)	2,293	5,025	6,900	8,864	10,962
EBITDA Margin	31.8%	30.7%	35.3%	38.7%	40.9%
EBIT Margin	27.3%	28.2%	32.9%	36.5%	39.2%
NPAT Margin	27.3%	28.6%	33.3%	36.6%	39.2%

Balance sheet (A\$'000's)

Year ending Mar	2019A	2020E	2021E	2022E	2023E
Bank Balance	7,866	9,960	10,148	10,899	11,600
Receivables	1,700	3,556	4,197	4,907	5,668
Prepayments	0	0	0	0	0
Other	3,150	3,150	3,150	3,150	3,150
Current assets	12,716	16,666	17,495	18,956	20,418
Net PPE	85	85	85	85	85
Intangibles	1,204	1,463	1,671	1,336	1,069
Deferred Tax Assets	0	0	0	0	0
Other	0	0	0	0	0
Non-current assets	1,289	1,548	1,756	1,421	1,154
Total assets	14,005	18,214	19,251	20,378	21,572
Trade payables	4,644	5,481	6,408	7,402	0
Borrowings	0	0	0	0	0
Employee entitlements	0	0	0	0	0
Deferred Revenue	0	0	0	0	0
Total liabilities	5,520	7,944	8,781	9,708	10,702
NET ASSETS	8,485	10,270	10,470	10,670	10,870

Balance Sheet Ratios

Year ending Mar	2019A	2020E	2021E	2022E	2023E
Net Debt	(7,866)	(9,960)	(10,148)	(10,899)	(11,600)
NTA	0.14	0.13	0.13	0.14	0.14
Price / NTA (x)	4.1 x	4.5 x	4.5 x	4.3 x	4.1 x
Return on assets	18.6%	7.2%	26.1%	33.9%	41.1%
Return on equity	13.9%	34.7%	32.3%	29.3%	26.6%

Valuation

Year ending Mar	2019A	2020E	2021E	2022E	2023E
Discounted Cash Flow			WACC		9.84%
Beta	0.9		Discount Period		9 years
Cost of Equity	9.84%		DCF/Price Target		\$1.82

Table 1: Earnings estimates. Source: Lodge

Comparable analysis

PayGroup trades at a deep discount relative to its listed international peers with a comparable analysis detailed in Table 2 below. Comparable valuation analysis does not presently form part of our valuation model for PayGroup, however we believe it is important to note the material discount which the company trades at relative to listed international BPO Payroll and HCM Software providers. On a forecasted PE basis, PayGroup currently trades at an 87% discount relative to other listed international BPO Payroll and HCM Software providers (61.2 times average) and an 84.6% discount to HCM Software providers (51.5 times average).

CODE	COMPANY	STOCK EXCHANGE	PRICING	MARKET CAP	PRICE	P/E	EV/EBITDA	EV/REV	SOLUTION
ADP	Automatic Data Processing	U.S.	USD\$	62.97B	145.84	25.78	19.92	5.20	BPO Payroll and HCM Software
WDAY	Workday	U.S.	USD\$	36.3B	154.77	97.73	61.55	12.28	HCM Software
PAYX	Paychex	U.S.	USD\$	25.06B	69.86	28.94	16.75	6.92	BPO Payroll and HCM Software
PAYC	Paycom	U.S.	USD\$	15.88B	270	87.35	38.64	16.46	BPO Payroll and HCM Software
PCTY	Paylocity	U.S.	USD\$	6.04B	112.75	108.8	39.12	11.12	BPO Payroll and HCM Software
CSOD	Cornerstone OnDemand	U.S.	USD\$	2.13B	34.2	39.92	25.07	5.41	HCM Software
ZAL	Zalaris	OSL (Norway)	NOK	720m	35.00	16.86	6.98	0.97	HCM Software
ELO	Elmo Software	ASX	AUD\$	520m	7.07	N/A	N/A	7.6	BPO Payroll and Software
PYG	Paygroup*	ASX	AUD\$	39.9m	0.58	7.95	7.00	2.16	BPO Payroll and Software

Table 2: Market comparables Source: Thomson Reuters Consensus and Lodge Research, 30 April 2020. *Forward P/E, EV/EBITDA and EV/Revenue based on FY20 pro-forma forecasts including Astute

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