

# PayGroup Limited

## Software and Services

25 November 2020

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### Rating

**BUY**  
unchanged

### Price Target

**A\$0.84↓**  
from A\$1.08

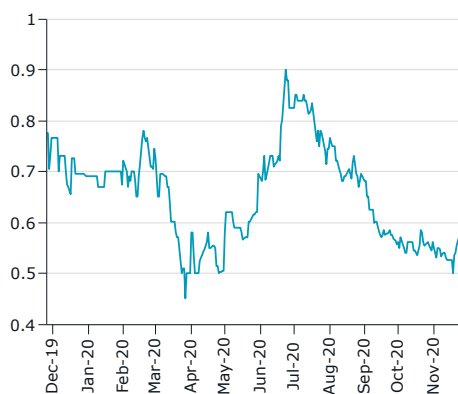
### PYG-ASX

**Price**  
**A\$0.58**

### Market Data

52-Week Range (A\$) :	0.40 - 0.91
Avg Daily Vol (M) :	0.05
Market Cap (A\$M) :	40.2
Shares Out. (M) :	68.7
Dividend /Shr (A\$) :	0.00
Dividend Yield (%) :	0.0
Enterprise Value (A\$M) :	38.2

FYE Mar	2020A	2021E	2022E	2023E
Sales (A\$M)	10.5	16.2↓	21.5↓	26.6↓
Previous	-	19.0	23.3	28.4
EBITDA (A\$M)	(0.9)	2.2↓	2.3↓	3.6↓
Previous	-	4.1	5.9	7.9
EBIT (A\$M)	(2.3)	0.0↓	0.2↓	1.4↓
Previous	-	2.5	4.3	6.3
Net Income (A\$M)	(1.9)	0.0↓	0.1↓	1.0↓
Previous	-	1.9	3.0	4.4
EPS (A\$)	(0.03)	0.00↓	0.00↓	0.01↓
Previous	-	0.03	0.04	0.06
EPS Adj&Dil (A\$)	(0.03)	0.00↓	0.00↓	0.01↓
Previous	-	0.03	0.04	0.06
EV/Sales (x)	3.6	2.3	1.7	1.3



Source: FactSet

Priced as of close of business 24 November 2020

PayGroup engages in the provision of business process outsourcing solutions for payroll-related tasks, cloud based human capital management software, and workforce management services.

Canaccord Genuity (Australia) Limited was engaged as Corporate Advisor to the company in July 2020.

Canaccord Genuity (Australia) Limited has received a fee as Lead Manager to the Paygroup Limited Institutional Placement announced 1 September 2020.

## 1H21 result; building out the revenue base

### Investment Recommendation

PayGroup's 1H21 result saw the business shift into profitability despite the impact of COVID-19 on its Australian operations, which saw reduced demand from the workforce management/contractor firms that use its SaaS payroll billing software, Astute. The PayAsia (payroll administration) operations have held up quite well and the company continues to secure new contracts that are progressively building up the base of annualised revenue. Wage subsidies will roll off in the March half which is likely to reduce half-on-half earnings, and we have revised our estimates as a result. However, the recent acquisitions have nearly doubled the revenue base of the group and should underpin profitable growth from that point, given it looks like the company is managing the cost base well.

The acquisitions PayGroup has made in the last eighteen months (Astute, TalentOz, PayrollHQ) are designed to ensure that the company has a comprehensive suite of solutions across payroll administration and human capital management (HCM) for the niche clients it services in A/NZ and the large multinational corporates that it manages payroll for in Asia. The company's microcap status arguably understates its competitiveness against major global providers in these specific areas, with nearly 10% of its revenue base now derived from partnerships with these operators. Consolidation is a common theme in this industry, and at less than 3x forward sales the stock trades at a discount to recent private company transaction multiples. **BUY retained.**

### 1H21 result highlights

- **Shift into profitability, but lower than expected.** PayGroup's cost base has not moved that much despite revenues doubling on the pcp, driving a \$2.5m increase in EBITDA and shifting the company into profitability. However reported revenue of \$7m (CGe: \$8.6m) was shy of our forecast, and reported EBITDA of \$1.6m was closer to \$0.7m on an underlying basis (CGe: \$1.8m) after adjusting for a \$1.1m wage subsidy benefit and \$0.2m of integration costs relating to acquisitions. Our assumption is that the lower-than-expected SaaS revenues from Astute have cut into the earnings leverage that the business would have otherwise experienced, and we have factored this into a revision to our forecasts. The company has made a number of new acquisitions recently (TalentOz in July, PayrollHQ in November), which add incremental revenues but are unlikely to drive meaningful profits in the near term as the focus is on integrating them and exploring cross-sell opportunities.
- **Asia holding up well.** 70% of contract wins during the half were across Asia, which indicates that business confidence in the region has rebounded quickly. Asia-based SaaS HCM business TalentOz was integrated during the September quarter and effectively means that more than half of the paylips processed for Asia-based clients via PYG's PayAsia arm have a SaaS revenue component to them (for things like leave balance maintenance, expense claims, online timesheeting).

**Earnings revisions:** We have reduced FY21e EBITDA from \$4.1m to \$2.2m and FY22e EBITDA from \$5.9m to \$2.3m. The downgrade to FY21e is a function of the EBITDA leverage from lower-than-expected revenues in Astute, and FY22e captures the absence of one-offs that have boosted FY21e by \$0.9m.

### Valuation

Our valuation falls to \$0.84/share (prev: \$1.08) using a 3x FY22e EV/sales multiple – consistent with industry commentary from global payroll companies regarding acquisition multiples for regional businesses, and a significant discount to larger peers.

Figure 1: PayGroup Limited (PYG-ASX); Canaccord Genuity forecasts

PayGroup Limited (PYG)					\$0.59					Year end 31 March			
Profit & Loss (\$m)	FY20	FY21E	FY22E	FY23E	Ratios	FY20	FY21E	FY22E	FY23E				
<b>Sales revenue</b>	<b>10.5</b>	<b>16.2</b>	<b>21.5</b>	<b>26.6</b>	<b>Valuation</b>								
<b>EBITDA</b>	<b>-0.9</b>	<b>2.2</b>	<b>2.3</b>	<b>3.6</b>	EPS (norm.)	-2.6	0.1	0.2	1.3				
Depreciation	-1.1	-2.0	-2.0	-2.0	P/E (x) (norm.)	-22.7	1133.7	362.5	45.6				
<b>EBITA</b>	<b>-2.0</b>	<b>0.2</b>	<b>0.3</b>	<b>1.6</b>	EV/EBITDA (x)	-42.7	20.5	18.9	11.5				
Amortisation	-0.3	-0.2	-0.2	-0.2	EV/EBIT (x)	-16.6	1164.6	270.1	28.6				
<b>EBIT</b>	<b>-2.3</b>	<b>0.0</b>	<b>0.2</b>	<b>1.4</b>	DPS (cps)	0.0	0.0	0.0	0.0				
Net interest	-0.1	0.0	0.0	0.1	Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%				
<b>Pre-tax profit</b>	<b>-2.4</b>	<b>0.0</b>	<b>0.2</b>	<b>1.5</b>	Franking (%)	0%	0%	0%	0%				
Tax expense	0.1	0.0	-0.1	-0.4	CFPS (cps)	-0.2	2.0	3.2	4.5				
<b>NPAT (pre-ISIs)</b>	<b>-2.3</b>	<b>0.0</b>	<b>0.1</b>	<b>1.0</b>	P/CFPS (x)	nmf	29.8	18.3	13.0				
Significant items	0.4	0.0	0.0	0.0	<b>Profitability</b>								
<b>NPAT (reported)</b>	<b>-1.9</b>	<b>0.0</b>	<b>0.1</b>	<b>1.0</b>	EBITDA margin (%)	nmf	13.5%	10.8%	13.5%				
<b>NPAT (normalised)</b>	<b>-1.5</b>	<b>0.0</b>	<b>0.1</b>	<b>1.0</b>	EBIT margin (%)	nmf	0.2%	0.8%	5.4%				
<b>Cash Flow (\$m)</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>	ROE (%)	nmf	0.3%	0.6%	4.8%				
<b>Operating EBITDA</b>	<b>-0.9</b>	<b>2.2</b>	<b>2.3</b>	<b>3.6</b>	ROA (%)	nmf	0.1%	0.5%	4.2%				
Interest and tax	-0.1	0.9	0.0	-0.2	<b>Capital structure</b>								
Working capital	-8.1	-1.8	0.3	0.3	Enterprise Value (\$m)	38	45	44	41				
Other	9.0	0.2	0.0	0.0	Net Debt (cash)	-2	-2	-4	-6				
<b>Operating Cashflow</b>	<b>-0.1</b>	<b>1.5</b>	<b>2.6</b>	<b>3.7</b>	Gearing (%)	cash	cash	cash	cash				
Capex	-0.1	-2.4	-1.1	-1.3	EFPOWA (m)	57	75	82	82				
Net acquisitions	-1.9	-4.2	-0.5	0.0	<b>Growth</b>								
<b>Free Cashflow</b>	<b>-2.1</b>	<b>-5.2</b>	<b>1.0</b>	<b>2.3</b>	Sales revenue (%)	111.4%	54.4%	32.4%	23.8%				
Dividends	-0.3	0.0	0.0	0.0	EBITDA (%)	nmf	-344.3%	5.6%	55.6%				
Net equity issued	2.9	5.8	0.5	0.0	EBIT (%)	nmf	-101.7%	320.0%	793.4%				
<b>Net Cashflow</b>	<b>0.4</b>	<b>0.6</b>	<b>1.5</b>	<b>2.3</b>	NPAT (norm.) (%)	-18.2%	-102.6%	241.5%	695.4%				
Opening cash	1.4	2.0	2.5	4.0	EPS (norm.) (%)	-36.8%	-102.0%	212.7%	695.4%				
Borrowings/other	0.1	-0.1	0.0	0.0	DPS (%)	nmf	nmf	nmf	nmf				
<b>Closing cash</b>	<b>2.0</b>	<b>2.5</b>	<b>4.0</b>	<b>6.3</b>									
<b>Balance Sheet</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>	<b>Valuation</b>								
Cash	2.0	2.5	4.0	6.3	<b>Target sales multiple</b>								
Receivables	4.5	0.8	1.1	1.3	Sales revenue (\$m)				21.5				
PPE	0.2	0.2	0.2	0.2	Multiple (x)				3				
Intangibles	10.3	15.8	15.2	14.4	Enterprise Value (\$m)				64.8				
Other assets	13.0	13.1	13.1	13.1	Less: net debt (\$m)				3.9				
<b>Total Assets</b>	<b>29.9</b>	<b>32.4</b>	<b>33.6</b>	<b>35.4</b>	<b>Equity value per share (\$)</b>				<b>\$ 0.84</b>				
Borrowings	0.0	0.1	0.1	0.1									
Payables	12.6	7.1	7.7	8.2	<b>Discounted Cash Flow</b>								
Other Liabilities	3.4	4.0	4.0	4.3	Cost of equity	10.0%	WACC		10.0%				
<b>Total Liabilities</b>	<b>16.0</b>	<b>11.2</b>	<b>11.8</b>	<b>12.5</b>	Cost of debt	4.2%	TGR		3.0%				
<b>NET ASSETS</b>	<b>13.9</b>	<b>21.2</b>	<b>21.8</b>	<b>22.9</b>	Debt weighting	0.0%	<b>Per Share</b>		<b>\$ 0.73</b>				
<b>Board and shareholders</b>			<b>(m)</b>	<b>%</b>	<b>Substantial Shareholders</b>			<b>(m)</b>	<b>(%)</b>				
Ian Basser, Non-Executive Chairman			0.6	0.8	Michele Samlal			22.1	32.1				
Mark Samlal, Managing Director			22.1	32.1	Lawrence Pushpam			7.1	10.2				
Franck Neron-Bancel, Executive Director			1.0	1.4	Buttonwood Nominees			6.4	9.4				
David Fagan, Non-Executive Director			0.3	0.4	SG Hiscock & Company			3.5	5.1				
Shane Gild, Non-Executive Director			0.0	0.0	<b>Top 20 shareholders</b>			<b>46.3</b>	<b>67.3</b>				
<b>Description</b>													

PayGroup engages in the provision of business process outsourcing solutions for payroll-related tasks, cloud based human capital management software, and workforce management services.

Source: Company Reports, Canaccord Genuity estimates

## 1H21 result

**Figure 2: PayGroup moved sharply into profitability after operating losses in the pcg, however the trading result was buoyed by wage subsidies which will roll off in the second half.**

	1H20	2H20	FY20	1H21	CG EST.	BEAT/ (MISS)	COMMENT
<b>REVENUE (\$M)</b>	<b>3.6</b>	<b>6.9</b>	<b>10.5</b>	<b>7.0</b>	<b>8.6</b>	<b>-18%</b>	Astute revenues lower than expected
<b>EBITDA (\$M)</b>	<b>-1.0</b>	<b>0.2</b>	<b>-0.9</b>	<b>1.6</b>	<b>1.8</b>	<b>-15%</b>	\$1.1m wage subsidy benefit, \$0.2m acqn costs
EBITDA MARGIN	-28.9%	2.2%	-8.5%	22.3%	21.5%		
D&A (\$M)	-0.3	-1.1	-1.4	-1.1	-0.8		
<b>EBIT (\$M)</b>	<b>-1.4</b>	<b>-0.9</b>	<b>-2.3</b>	<b>0.5</b>	<b>1.1</b>	<b>-56%</b>	
NET INTEREST (\$M)	-0.1	0.0	-0.1	-0.1	0.0		
PBT (\$M)	-1.4	-1.0	-2.4	0.4	1.1		
TAX (\$M)	0.0	0.1	0.1	0.0	-0.2		
NPAT PRE-ISIS (\$M)	-1.4	-0.9	-2.3	0.4	0.9		
ISIS (\$M)	-0.1	0.5	0.4	0.0	0.0		
<b>REP. NPAT (\$M)</b>	<b>-1.6</b>	<b>-0.3</b>	<b>-1.9</b>	<b>0.4</b>	<b>0.9</b>	<b>-51%</b>	
<b>NORM. NPAT (\$M)</b>	<b>-0.9</b>	<b>-0.6</b>	<b>-1.5</b>	<b>0.4</b>	<b>0.9</b>	<b>-53%</b>	
EPS NORM. (CENTS)	-1.7	-0.8	-2.6	0.6	1.3		

Source: Company Reports, Canaccord Genuity estimates

## FY21 expectations

**Figure 3: The downgrade to FY21e is a function of the EBITDA leverage from lower than expected revenues in Astute, noting that our 2H21e EBITDA forecast of \$0.6m is roughly flat on the underlying number in the first half with acquired businesses not expected to immediately contribute to profitability.**

	FY20	1H21	2H21E	FY21E	CHG (%)	PREV.	REVISION
<b>REVENUE (\$M)</b>	<b>10.5</b>	<b>7.0</b>	<b>9.2</b>	<b>16.2</b>	<b>54%</b>	<b>19.0</b>	<b>-15%</b>
<b>EBITDA (\$M)</b>	<b>-0.9</b>	<b>1.6</b>	<b>0.6</b>	<b>2.2</b>		<b>4.1</b>	<b>-47%</b>
EBITDA MARGIN	-8.5%	22.3%	6.8%	13.5%		21.5%	
D&A (\$M)	-1.4	-1.1	-1.1	-2.2		-1.6	
<b>EBIT (\$M)</b>	<b>-2.3</b>	<b>0.5</b>	<b>-0.4</b>	<b>0.0</b>		<b>2.5</b>	
NET INTEREST (\$M)	-0.1	-0.1	0.0	0.0		0.0	
PBT (\$M)	-2.4	0.4	-0.4	0.0		2.6	
TAX (\$M)	0.1	0.0	0.0	0.0		-0.6	
NPAT PRE-ISIS (\$M)	-2.3	0.4	-0.4	0.0		1.9	
ISIS (\$M)	0.4	0.0	0.0	0.0		0.0	
<b>REP. NPAT (\$M)</b>	<b>-1.9</b>	<b>0.4</b>	<b>-0.4</b>	<b>0.0</b>		<b>1.9</b>	
<b>NORM. NPAT (\$M)</b>	<b>-1.5</b>	<b>0.4</b>	<b>-0.4</b>	<b>0.0</b>		<b>2.0</b>	
EPS NORM. (CENTS)	-2.6	0.6	-0.6	0.1		2.9	

Source: Company Reports, Canaccord Genuity estimates

# Appendix: Important Disclosures

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Individuals identified as "Sector Coverage" cover a subject company's industry in the identified jurisdiction, but are not authoring analysts of the report.

## Investment Recommendation

Date and time of first dissemination: November 24, 2020, 14:30 ET

Date and time of production: November 24, 2020, 10:35 ET

## Target Price / Valuation Methodology:

PayGroup Limited - PYG

We value PayGroup at \$0.84/share using a 3x FY22e EV/sales multiple.

## Risks to achieving Target Price / Valuation:

PayGroup Limited - PYG

We see the key risks to our investment thesis as follows:

**Key man risk** – PayGroup is a small organization from an executive headcount standpoint, and we believe it is particularly reliant on founder Mark Samlal (who indirectly owns ~32% of the business) and Executive Director Franck Neron-Bancel (2% shareholder).

**Systems risk** – PayGroup handles confidential information for its clients and performs time-sensitive tasks that require continuity and accuracy in its systems and software. Any interruption to its processes could impact its ability to deliver its services and/or its reputation with clients.

**Competition** – PayGroup faces competition from large global payroll outsourcing companies as well as local providers which could impact its growth, client retention rates or the revenue it generates from clients.

**Covid-19 impacts** - Because PayAsia's client base has moderate concentration in Singapore, Malaysia and Bangalore, it has increased exposure to any prolonged business restrictions relating to Covid-19. These may delay new business wins and implementations or see clients reduce activities in the region.

## Distribution of Ratings:

### Global Stock Ratings (as of 11/24/20)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	557	63.01%	56.01%
Hold	164	18.55%	40.85%
Sell	8	0.90%	37.50%
Speculative Buy	134	15.16%	79.85%
	884*	100.0%	

\*Total includes stocks that are Under Review

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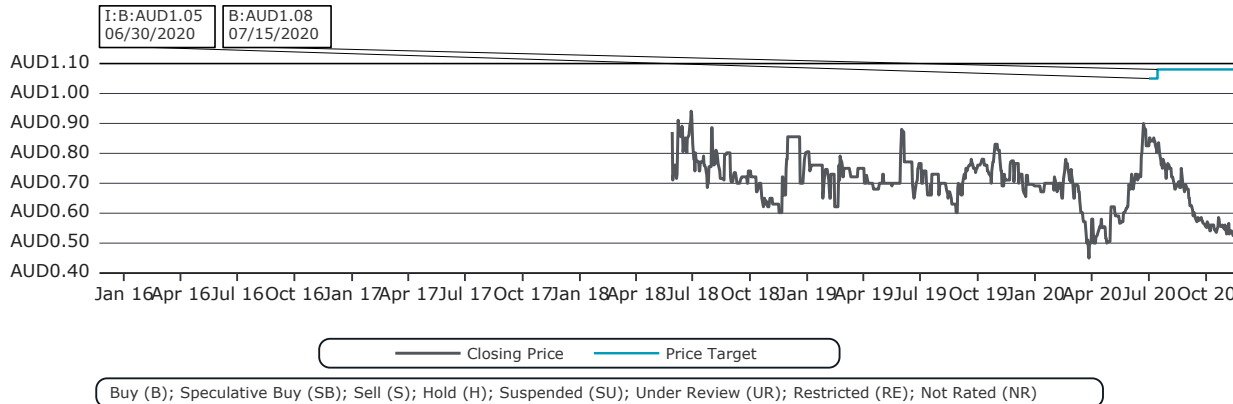
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### PayGroup Limited Rating History as of 11/23/2020



### Past performance

In line with Article 44(4)(b), MiFID II Delegated Regulation, we disclose price performance for the preceding five years or the whole period for which the financial instrument has been offered or investment service provided where less than five years. Please note price history refers to actual past performance, and that past performance is not a reliable indicator of future price and/or performance.

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