

PayGroup (ASX: PYG)

Cyprus Sia | Analyst | Spark Plus Pte Ltd. | cyprus@sparkplus.org

Ticker:	Current Price:
PYG	A\$0.75

Market Data	
52-Week Range (A\$)	0.435 - 0.905
3mth Avg Vol ('000)	201.1
Market Cap (A\$Mil)	61.9
Shares Out. (Mil)	76.76
Cash (A\$Mil)	5.3
Enterprise Value (A\$Mil)	56.7
PS ratio	3.8



Mark Smalal (Mng. Director)	26.80 %
Lawrence Pushpam (Co-founder of PayAsia)	8.55%
HSBC Custody Nominees (Australia) Limited	5.19%
Escrowed Shares Vehicle for Astute acquisition	5.18%
Marcus Webb (Founder of Astute Payroll)	5.17%

Income Statement (AUD '000)	Mar-20 FY 2020A	Mar-21 FY 2021F	Mar-22 FY 2022F	Mar-23 FY 2023F
Total Revenue	10,067.86	15,837.63	19,792.79	23,173.15
Other Income	853.81	1,296.18	0.00	0.00
Employee benefits expense	(5,714.13)	(8,119.22)	(9,298.80)	(10,426.47)
Consulting and professional fees	(2,802.18)	(2,204.04)	(2,479.01)	(2,612.15)
D&A	(1,402.28)	(1,913.63)	(2,300.36)	(2,557.09)
Other expenses	(990.54)	(1,090.75)	(1,199.39)	(1,212.51)
Operating Profit(Loss)	(2,038.77)	834.25	788.59	2,700.62
EBITDA	(636.50)	2,747.87	3,088.95	5,257.72
Int Income	15.71	24.72	30.89	36.17
Finance costs	(116.66)	(82.30)	(50.70)	(18.23)
Profit(Loss) before tax	(2,139.72)	776.67	768.78	2,718.57
Tax	65.71	(18.26)	(18.08)	(679.64)
Net Profit	(2,074.01)	758.40	750.71	2,038.92
Margins (%)	FY 2020	FY 2021F	FY 2022F	FY 2023F
Operating Margin	-20.25%	5.27%	3.98%	11.65%
EBITDA Margin	-6.32%	17.35%	15.61%	22.69%
Net Margin	-20.60%	4.79%	3.79%	8.80%
Growth (%)	FY 2020	FY 2021F	FY 2022F	FY 2023F
Revenue	112.47%	57.31%	24.97%	17.08%
Operating Profit	-32.03%	140.92%	-5.47%	242.46%
EBITDA	49.34%	531.72%	12.41%	70.21%
Net Profit	-29.69%	136.57%	-1.02%	171.60%

A GROWING HCM SAAS & SERVICES BUSINESS OVERLOOKED BY THE MARKET. PayGroup offers cost-effective HCM SaaS & Services solutions to over 41 countries across APAC, Middle East, & Africa. The COVID-19 Pandemic has caused firms to tighten budget, prioritize cost effective strategies, and hasten the adoption of SaaS services which provides a strong tailwind for PayGroup.

Resilient business that sees greater opportunities in a COVID-19 shaken world. SaaS HCM solutions and BPO Payroll are critical business solutions for firms to stay competitive. These cost-effective solutions help firms to manage the entire life cycle of its workforce, remain compliant to the ever-changing workforce regulations, and reduce as much as 50% in costs for HCM. The APAC HCM market is expected to grow 3.1% to US\$ 2.04B in 2021 before growing at a 14.5% CAGR to US\$ 3.06B in 2024.

Double-digit revenue growth potential. PayGroup's series of acquisitions is not fully reflected in its book yet. The Company has acquired 3 companies since 2019, to expand its SaaS HCM solution and strengthen its presence across APAC. With 2 acquisitions made in 1H FY2021, we estimate the current ARR to be at least A\$20M or 2x FY2020's revenue. The Company was able to achieve organic growth of 14.7% in FY2020 and we expect the momentum to continue as more companies tighten their budget and prioritize cost-effective strategies. As such, we forecast the overall revenue to grow by 57.3%/25.0% for FY2021F/FY2022F.

High Unit Economic benefitting from the Global Partnership Program (GPP). PayGroup leverages on its GPP to obtain new leads and customers at negligible additional cost. Partners in the program help to promote PayGroup's solutions in the region they do not have coverage of and vice versa, allowing them to maintain client relationships. As such, PayGroup enjoys a high ROI on their sales and marketing efforts – low customer acquisition cost (CAC).

Undervalued as compared to its peers. PayGroup possesses 2 competitive advantages - a wide APAC, Middle East, & Africa coverage of 41 countries and a unified delivery model (single-view of your workforce) – but trades at a steep discount of -73.5% to its peers. We attribute the discount to the lack of awareness among the ASX investors due to its APAC focus and little to no publicity of itself. We believe a consistent ARR growth and potential maiden EBITDA in FY2021 will stir up investor interests and narrow the discount.

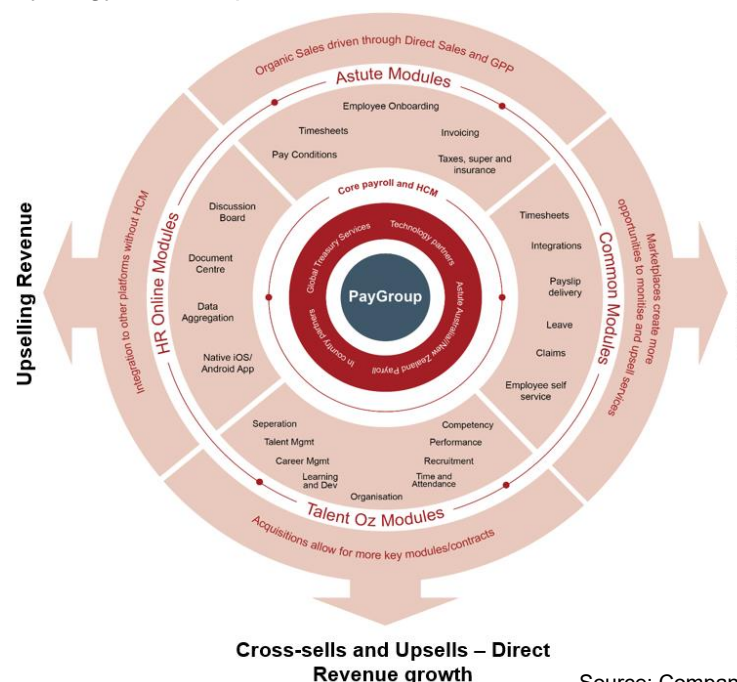


Company Introduction

PayGroup Ltd provides multi-country Business Process Outsourcing (BPO) Payroll and Human Capital Management (HCM) solutions across the APAC, Middle East and Africa. The Company operates through a Software-as-a-Service (SaaS) model serving mostly multinational companies and across 41 countries and a Software-with-a-Service (SwaaS) model which attaches a headcount for clients while leveraging on its SaaS model.

PayGroup started as PayAsia in 2006 offering efficient and cost-effective payroll services to headquarters of Asian & Western Multinational corporations (MNC's) and regional small and medium enterprises (SMEs). The Company now provides comprehensive "hire-to-retain" HCM solutions and started expanding its product suite in 2019, entering a new phase of growth. PayGroup acquired Astute One Limited (Astute) in November 2019, adding workforce management modules into their SaaS HCM solutions offering and over 330 SaaS clients. The Company further acquired TalentOz in July 2020, a Malaysia and India SaaS-based Global HCM solutions provider, adding 11 more modules along with 90 MNC and SME clients. The latest acquisition of Payroll HQ, an Australian based BPO Payroll provider announced on 4 Nov 2020, will add over 100 MNC and SME clients and capitalise on the fast-growing outsourced HCM and payroll markets.

Synergy from acquisitions



Source: Company's presentation, Dec 2020

PayGroup's Structure



PayGroup now serves over 1015 clients with no single client contributing more than 7% of its revenue. The Company has a **95% client retention rate** to date and their repetitive revenue contracts are typically for 3 years with automated renewals.

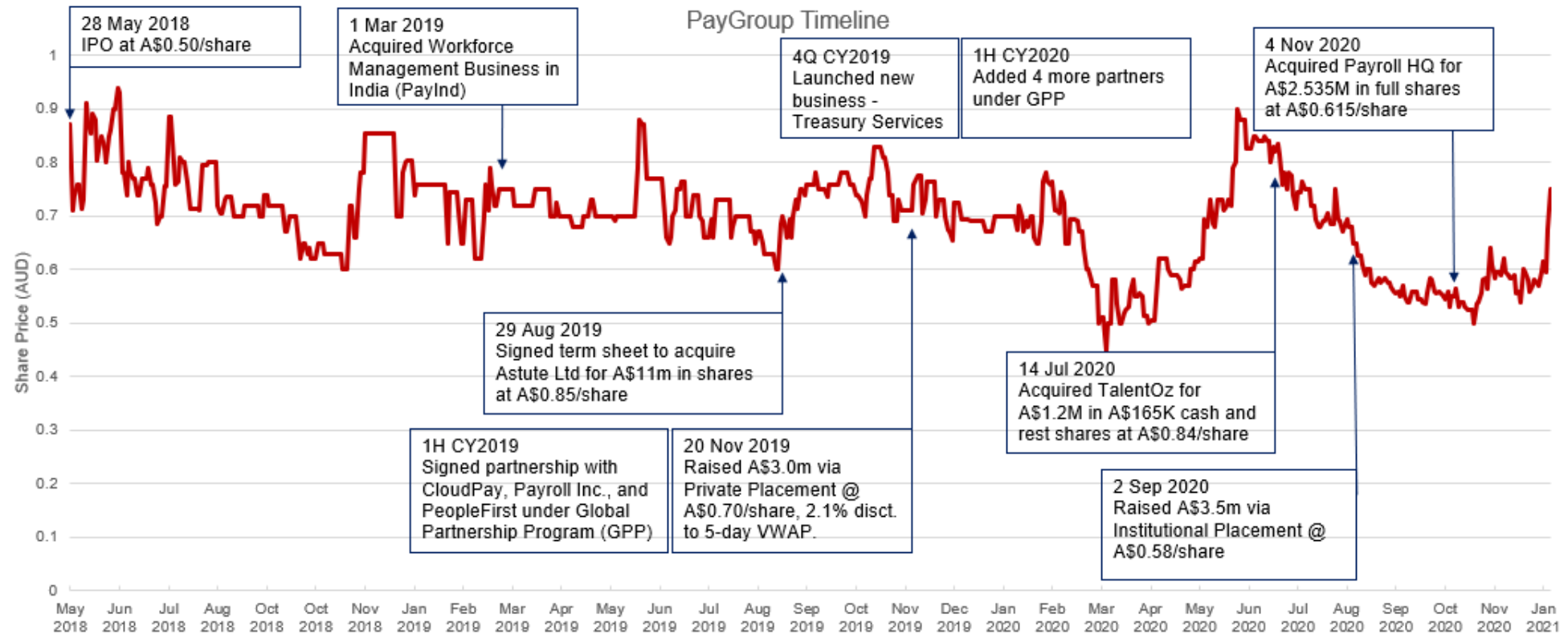
Few existing customers



Source (edited): Company's presentation, Dec 2020



Timeline





Investment Thesis 1

Offers critical B2B products and services to allow firms to stay competitive to a Total Addressable Market (TAM) of US\$26.2B.

What is HCM?

HCM software is a single solution to manage all HR administrative needs and lighten burdens associated with HR management for businesses. It integrates all HR functions from recruitment, payroll, to HR analytics with a certain degree of automation in a single platform. Cloud-based (SaaS) HCM solution stores all the data within the HCM software on the 'cloud' and allow authorized users to access it anytime and anywhere.

Why use SaaS HCM?

The shift towards a SaaS HCM solution for businesses of all sizes is increasingly popular. There are many reasons for the adoption, but the main reasons are:

1) **Efficiency and accuracy.** The vast amount and ever-changing policies and regulations on workforce and personal data increase the challenges faced by employers in staying abreast of them and remain compliant. This is made worse when companies have employees overseas, multiplying the number of rules and regulations they need to keep track of, and the headcount needed to do so. HCM software is designed to help companies solve such challenges and reduce the time needed to do so, potentially saving millions from compliance fines.

2) **Cost-saving.** The lifecycle of having an employee, from the job posting and interviews to development and exit, comprises of numerous functions that are interconnected and are simply not a 1-man job. HCM software helps to streamline these processes by consolidating the information, minimize manual data entry and human errors, and ensuring all information is up to date across all functions with the help of automation. This greatly reduces the headcounts and manhours needed to manage the workforce which translates to a lower operating cost for the firm.

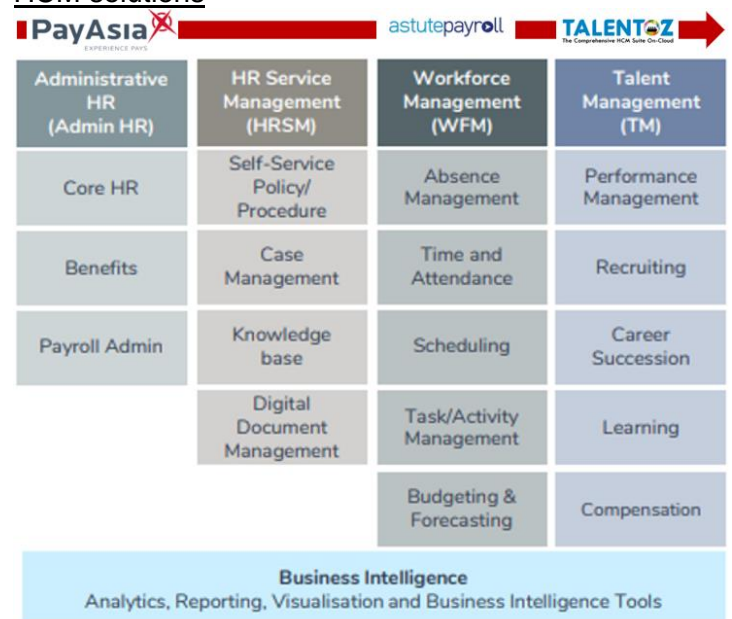
3) **Talent acquisition and retention through Top-tier HR analytics.** HCM software performs data and trend analysis and features them in an intuitive and easy to use layout to support decision making for employers. This often helps to automate and optimize the talent selection process and allows the hiring manager to focus on what matters. The

complexity of the analytics part increases as the company's database grows with its size, and drains additional resources if a company wants to stay competitive in HCM. Having HCM software levels the playing field for firms of all sizes, allowing them to access industry-standard analytics and efficiency, at a relatively lower cost. The company could then redirect its resources to focus on growth.

HCM software can include a Talent Management System (TMS) which covers learning and development, performance, compensation management, and succession planning for the employees. The comprehensive management and planning promote a meritocracy system within the organization, therefore retaining talents needed to bring the company to new heights. It also helps employers to monitor the productivity of their workforce and formulates the best strategy at any given period.

4) **Ease of accessibility.** SaaS solutions give mobility to companies, allowing data to be accessible on the go and work to be done anywhere and anytime. The demand for cloud is more evident during the COVID-19 pandemic as businesses switched to a 'work from home' arrangement, or risk shutting down. SaaS solutions also help companies to save cost on infrastructure spending and mitigate data security risk by transferring it to the vendor.

HCM solutions



Source (Edited) : Goldman Sachs



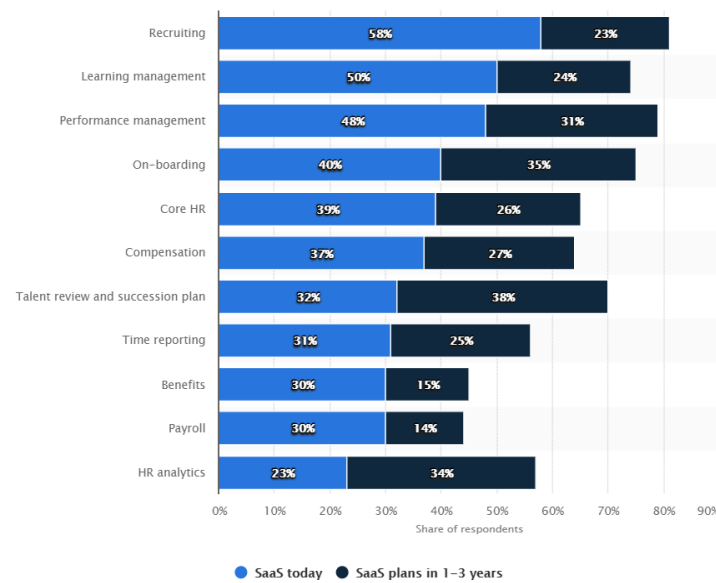
Given all the benefits a SaaS HCM software provides, a company would only stand to lose from not having one. According to Gartner's research in PayGroup's quarterly presentation, the APAC HCM market is expected to grow 3.1% to US\$ 2.04B in 2021 before **growing at a 14.5% CAGR to US\$ 3.06B in 2024**. Despite all the benefits of SaaS HCM, data from Statista shows that the global adoption rate of SaaS in HR averaged at 39% in 2017 with a planned adoption rate of 65% by 2020. While the COVID-19 situation might have pushed the number above 65%, the gap to 100% shows the opportunity of the market today. It is also worth noting that the gap widens in APAC as compared to US and UK, especially within the emerging countries where PayGroup's focus is in.

SaaS (BPO) business segment

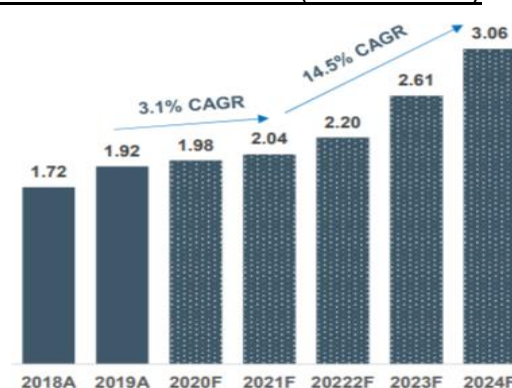
Owning HCM software is proven to save cost and boost efficiency however, outsourcing the entire Payroll and HR function could further drive down cost for certain firms. A few assumptions can illustrate a simple example. The typical cost of the basic outsourcing payroll services averaged at S\$16 per payslip while a contract HR staff may be paid a base salary of S\$2,800 per month excluding any additional benefits. Assuming the HR employee **only** does payroll, a company would need to have more than 175 employees to see cost-saving from not outsourcing it. Besides, internal HR employees require training, managing, employment benefits, and infrastructure which incur additional cost and resources. According to a survey done by PwC in 2017, the average cost of internal payroll is about US\$1,400/employee for large companies, and US\$2,000/employee for medium companies **while outsourcing payroll could save up to 50%**.

Other benefits of outsourcing are the ease of budgeting, forecasting, and better allocation of resources to drive business growth. Firms transfer the responsibilities to BPO providers at a fixed rate in return for a professional team to do the job, minimal compliance issues, and no surprise financial setbacks from small mistakes. The cost structure shares a near-linear relationship to the number of employees within the firm which provides more flexibility and predictability for budgeting. According to the Global Human Resource Outsourcing (HRO) Industry report by Reportlinker, the global HRO market is projected to grow at a CAGR of 4.9% to US\$ 45.8B by 2027 from an estimated US\$ 32.8B in 2020. Payroll Services, one of the segments analyzed in the report, is projected to record a 4.1% CAGR and reach US\$21.3 Billion by the end of 2027.

SaaS HCM penetration rate, current and planned, 2017



APAC HCM Software Market (USD Billions)



Source: PayGroup's FY2020 Presentation slides



Treasury services are viewed as one of the key growth drivers for PayGroup. Started in 2Q FY2020, treasury transactions have grown at an astonishing rate of 4,673% to 7,398 transactions in 2Q FY 2021. Fees from

treasury transactions are derived from executing the transfer of funds to its rightful destinations on behalf of its clients. There is more than 1 entity or transaction involved in every payroll such as payment to employer, superannuation fee, superannuation fund, tax, and finally to the employee. The number of transactions could go higher depending on the wages law of the employer's and employee's respective country and individual's commitment to any companies' program. PayGroup charged a fee on **each transaction** and could see a strong upside on its growing client employee base of over 400K.

Another angle to view the organic growth of PayGroup is to compare its organic growth to its client growth. FY2020 YoY growth shows organic revenue growth of 14.7% compared to client entity growth of 11.1%. Despite a retention rate of 95%, the Company's organic revenue growth outpace the growth of its client base and churn rate. **This suggests that PayGroup can upsell its existing clients and indirectly shows that clients deem its solutions valuable.** As such, I would believe their **net** retention rate to be well above 100% which is seen to have a positive correlation to a company's valuation.

Competitive advantage

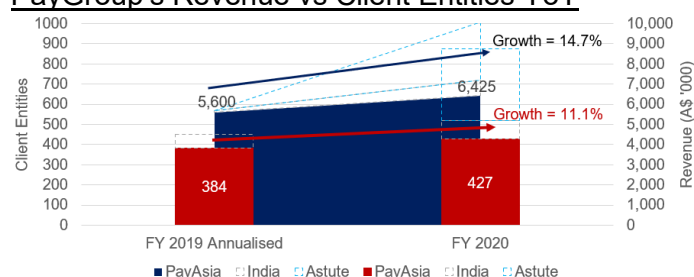
The BPO Payroll and HCM market is highly fragmented with many well-established players. In 2019, the top 10 HCM software vendors accounted for 44.2% of the global HCM applications market resulting in strong price competition and aggressive marketing required to gain market share. We believe this is where PayGroup would stand out among its peers

1) Service coverage across 41 countries. Many of the bigger companies such as ADP (NASDAQ:ADP) or Workday (NASDAQ:WDAY) partners with a smaller or local HCM solution provider to provide HCM services within APAC and the Middle East region. While smaller companies are mostly private with local only or limited multi-countries coverage, far below that of what PayGroup offers. As such, PayGroup benefits from companies that have a global physical presence in APAC and Middle East which prefer to deal with a single vendor for its HCM needs than multiple vendors.

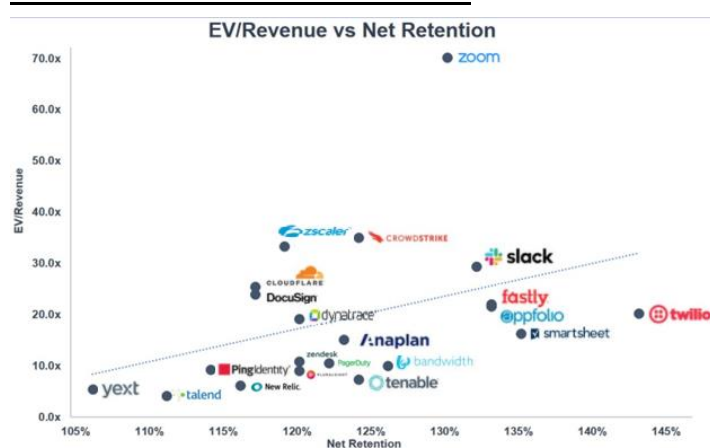
2) Faster implementation and lower cost as compared to larger peers. SaaS HCM solutions are charged based on the number of modules and often follow the economies of scale. PayGroup's SaaS HCM solutions are near the lower end of the spectrum in terms of costs per employee at US\$2/employee, making them a preferred vendor for companies with a smaller number of employees.

We believe that the BPO and HCM markets will continue to consolidate over the years as larger players seek inorganic growth to satisfy their shareholders. We also believe that PayGroup will continue to grow exponentially through strategic acquisitions and may even become an acquisition target with sufficient size.

PayGroup's Revenue vs Client Entities YoY



EV/Revenue vs Net Retention Rate



Source (edited): [Software Equity Group, Jul 2020](#)

Core HR software price comparison 2019

Core HR software Product	Pricing Model	1 - 100	No. of Employees 101 - 250	251+
PayGroup	Subscription/mth	\$2 - \$200	\$202 - \$500	\$502+
WebHR	Subscription/mth	\$3 - \$291	\$294 - \$690	\$693+
Zoho People	Subscription/mth	\$3 - \$300	\$303 - \$750	\$753+
PeopleHR	Subscription/mth	\$4 - \$400	\$404 - \$1000	\$1004+
BambooHR	Subscription/mth	\$5 - \$495	\$500 - \$1238	\$1243+
Kronos Workforce Ready	Subscription/mth	\$6 - \$600	\$606 - \$1500	\$1506+
Sage People	Subscription/mth	\$10 - \$1000	\$1010 - \$2500	\$2510+
People-Trak	Perpetual License Fee	\$10 - \$1000	\$1010 - \$2500	\$2510+
Namely	Subscription/mth	\$12 - \$1200	\$1212 - \$3000	\$3012+
Gusto	Subscription/mth	\$45 - \$639	\$645 - \$1539	\$1545+
Zenefits	Subscription/mth	\$46 - \$640	\$646 - \$1540	\$1540+
Cezanne HR	Subscription/mth	\$270 - \$784	\$791 - \$1784	\$1789+
Oracle Global HR	Subscription/mth	-	\$1313 - \$3250	\$3263+

Source (edited): [Software Advice, Nov 2018](#)



Investment Thesis 3

Highly scalable business model with a low customer acquisition cost. PayGroup leverages on its Global Partnership Program (GPP) to obtain new leads and customers **at negligible additional cost**. There are currently 6 leading American and European companies in the GPP and PayGroup add-values to its partners by providing SaaS HCM solutions across Asia and Middle East where they have no coverage of and vice versa. By doing so, client relationships are maintained and both parties are able to tap into each other's client base. As of 1H FY2021, GPP contributed to 7% of PayGroup's revenue.

The wonder of GPP is the ultra-low customer acquisition cost (CAC) or the outstanding Unit Economics (UE) PayGroup enjoys. CAC is the average cost incurred to acquire a customer while UE shows the total value generated from a customer with respect to the cost to acquire it or simply put, the return on investment (ROI) on its sales and marketing efforts. **A high UE suggests the company's ability to maximize profits** from its clients and the scalability of its business. It may also suggest better demand and reputation for the product or services as minimal sales and marketing efforts are required to get consumers to sign up.

A study from Credit Suisse on the UE of SaaS companies in 2017 shows that the average SaaS UE is 2x while Workday (NASDAQ:WDAY) comes in at roughly 3.1x and Paychex (NASDAQ:PYC) at roughly 2.5x. Although PayGroup does not disclose its UE nor sufficient information to calculate it, we can do a simple estimate. By using its ARR, initial contract term, and assuming a sales agent commission of 27%, we derive to a **UE of 4.0x** which ranks within the Top 3 of Credit Suisse's list of SaaS companies. Do note that a 27% commission rate is considered aggressive as non-management employee benefits as a percentage of revenue is 27.65% for FY2019 and not all employees are sales agents.

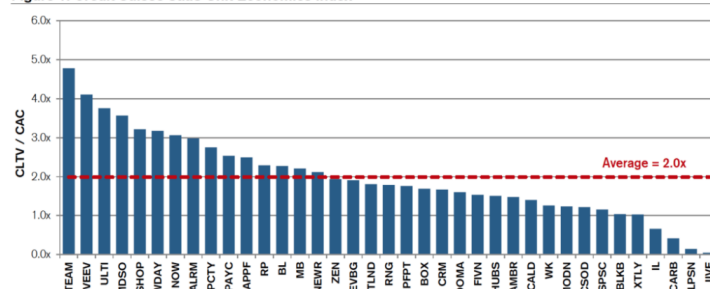
PayGroup's UE will increase exponentially as the revenue contribution percentage from GPP increases. A 2% increase in GPP contribution will raise the company's UE by more than 0.09x. A sensitivity analysis table on the right shows the changes in PayGroup's UE with respect to GPP contribution and commission rate.

GPP partners



SaaS companies Unit Economics

Figure 1: Credit Suisse SaaS Unit Economics Index



Source: Credit Suisse, Jan 2017

PayGroup's UE sensitivity table

Sensitivity Analysis of GPP Contribution and Commission rate to PayGroup's UE						
Commission rate	GPP contribution					
		5%	7%	9%	11%	13%
	15%	7.02	7.17	7.33	7.49	7.66
	20%	5.26	5.38	5.49	5.62	5.75
	25%	4.21	4.30	4.40	4.49	4.60
	27%	3.90	3.98	4.07	4.16	4.26
	30%	3.51	3.58	3.66	3.75	3.83



Key Risk

Competition risk

The SaaS HCM and BPO payroll markets are fragmented with many players, providing similar products and services, at competitive prices. This makes it difficult for companies in the industry to gain market share or command exceptional margins relative to its peers. In PayGroup case, we mentioned 2 competitive advantages it possesses earlier being, wide APAC, Middle East, and Africa coverage of 41 countries and low-cost solutions, making them one of the best choices of SaaS HCM solutions vendor in APAC. In terms of APAC and Middle East coverage, we deem Ramco (NSE:RAMCOSYS) to be a strong competitor covering over 50 countries but implementation cost are much higher compared to PayGroup's and customers often complain about their poor customer support and user interface (UI). Pricing wise, there are some low-cost providers comparable to PayGroup, but are either limited in APAC coverage or leverage on third party software to provide its services.

Heighten renewal rate risk due to COVID-19.

The COVID-19 pandemic has disrupted and hurt many businesses to date. Companies that are labour intensive, or exposed to the tourism sector were hit the worst and many are forced to shut down especially smaller companies. A prolonged COVID-19 will force more businesses to shut down and may reduce PayGroup's renewal rate as some of their clients are smaller companies. The growth of acquiring new businesses may be negatively affected as fewer companies look to expand in the near term. However, we expect that the cost-saving benefits and COVID-19-induced migration to the cloud will more than offset the above-mentioned risk.

Regulatory risk

PayGroup undertakes the regulatory risks involved in compliance and data security when providing its services, making them liable for any mistakes in payroll calculation, cross-border issues, or data breach. The lawsuits and fines associated with such breaches could be in millions and would impact PayGroup's profitability and reputation. In this aspect, PayAsia has more than 14 years of experience while its acquisition targets are carefully selected and have been in business for at least 5 years. All of them have a clean track record and are up-to-date with the regulations in their area of expertise, which allows us to view regulatory risk as low.

Technology risk

As software is the core for PayGroup's solutions, the company needs to consistently improve on its function, UI and UX (user experience) to stay relevant and competitive. Big companies are often ahead of the curve due to its larger resources and talent pool making it hard for smaller companies such as PayGroup to be at the forefront. However, being a smaller firm and having the right management creates the flexibility for innovation and speeds up any product or process upgrades when necessary.

Acquisition risk

We noticed acquisitions play a strong role in PayGroup's growth strategy as seen in the series of acquisitions to date. As such, the Company is exposed to common risks associated with acquisitions such as integration risk and risk of impairment on intangibles.

The integration risk stamps from how well do the acquisitions' services, operations, or technology integrates into PayGroup's model. On the products and services front, we believe the expanded suite of modules complements one another although it might not run on the same core for now. This can be seen from the contract signed with Volvo Singapore on 14 Oct 2020, using modules across PayGroup and TalentOz. On the operations side, we can qualify the risk by comparing its margins post Astute acquisition. Operating/EBITDA margin narrowed from -31.4%/-26.51% in FY2019 to -20.25%/-6.32% in FY2020 while EBITDA narrowed from a loss of A\$1.6M in FY2019 to A\$0.6M in FY2020, suggesting a positive integration between the entities.

Potential impairment of intangible assets and goodwill occurs if the acquired target does not perform as expected. As of FY2020, intangible assets (mostly from Astute's acquisition) made up 40.9% of PayGroup's total assets with A\$1.68M or 5.8% being goodwill which is substantial for a business. We believe Astute long history of 10 years in operation provides a certain degree of reliability in its technology which minimizes impairment risk. However, we would remain cautious and monitor the performance of the acquisitions closely moving forward.



Peer Comparison

Bloomberg Ticker	Listed on Exchange	Company Name	Mcap (A\$M)	Rev Growth YoY (%)	3 Yr Avg Rev Growth (%)	P/S ratio	12 mth forward P/S	12 mth forward Rev Growth YoY (%)	EV/EBITDA Adj.	Gross Margin	Operating Margin	Profit Margin
ORCL US Equity	US	ORACLE CORP	237,167.8	-1.1	1.2	4.9	4.4	10.68	11.1	79.7	36.4	24.0
SAP GR Equity	GR	SAP SE	203,560.7	11.5	7.7	4.5	4.6	-3.24	15.0	71.9	22.6	23.8
ADP US Equity	US	AUTOMATIC DATA PROCESSING	92,697.1	3.4	5.6	5.0	4.8	3.67	18.2	42.1	22.4	17.3
WDAY US Equity	US	WORKDAY INC-CLASS A	67,979.9	28.5	32.1	12.4	10.6	16.87	295.9	70.6	-10.3	-2.6
PAYX US Equity	US	PAYCHEX INC	42,322.0	7.1	8.7	8.2	7.8	5.52	19.5	68.3	36.1	22.7
PAYC US Equity	US	PAYCOM SOFTWARE INC	31,180.3	30.3	30.9	29.3	23.6	24.29	85.7	85.1	30.7	14.0
CDAY US Equity	US	CERIDIAN HCM HOLDING INC	18,905.9	11.3	5.6	17.2	14.8	15.70	117.7	45.0	11.5	-0.4
XRO AU Equity	AU	XERO LTD	20,612.9	29.9	34.5	27.2	22.1	23.16	129.7	85.2	4.7	0.5
PCTY US Equity	US	PAYLOCITY HOLDING CORP	12,862.0	20.0	23.2	17.3	13.9	24.42	89.8	67.6	12.5	9.2
SGE LN Equity	LN	SAGE GROUP PLC/THE	11,128.2	-1.7	3.6	3.3	3.3	-0.21	14.7	93.4	19.9	23.0
CSOD US Equity	US	CORNERSTONE ONDEMAND INC	3,570.8	7.2	10.9	3.9	3.2	22.54	29.1	74.1	2.1	-7.9
TNE AU Equity	AU	TECHNOLOGY ONE LTD	2,505.7	4.5	3.4	8.3	7.7	8.06	29.6		28.0	13.8
SIQ AU Equity	AU	SMARTGROUP CORP LTD	897.9	3.3	20.2	3.7	3.8	-2.15	7.3	96.8	37.3	15.6
ELO AU Equity	AU	ELMO SOFTWARE LTD	598.7	25.0	45.4	9.8	7.9	24.98		84.1	-35.5	-38.3
DTC AU Equity	AU	DAMSTRA HOLDINGS LTD	285.8	28.1		9.7	7.1	36.96			-38.0	-19.3
RDY AU Equity	AU	READYTECH HOLDINGS LTD	191.3	20.0	13.9	4.2	3.5	18.52	11.9		14.2	10.0
LVH AU Equity	AU	LIVEHIRE LTD	80.8	31.8	67.8	23.4	9.4	149.31			-442.1	-304.7
IHR AU Equity	AU	INTELLIHR LTD	143.0	181.3	171.3	66.8					-317.8	-267.7
AVERAGE				24.47	28.59	14.40	8.97	22.30	62.52	74.14	-31.41	-25.94
PYG AU Equity	AU	PAYGROUP LTD	61.9	112.5	34.4	3.8	3.1	22.82			-24.4	-9.8

Source: Bloomberg, 7 Jan 2021

There are many listed companies in the HCM space, while not all of them provide a full suite of HCM or BPO Payroll, some offer more than just HCM solutions such as CRM solutions by SAP or accounting solutions by XERO. The list above covers the major players in the HCM market and ASX-listed comparables of PayGroup. The Company is **trading at a steep discount of -73.5% to its peer average PS ratio of 14.40**. We attribute this to a few reasons being; i) **Lack of market awareness** – Listed on the ASX and having most of its operations focus in APAC before Astute acquisition causes local investors to be unfamiliar with PayGroup's business. Furthermore, the Company adopts a B2B approach with minimal advertising making it difficult for investors to come across the name as compared. ii) **Smaller market capitalisation (MCap) and a tight shareholder registry** – The Top 20 shareholders hold about 79% of the Company with a long-term view, which results in low trading volume. Funds often overlook companies with small MCap and the smaller float deters investors.

However, we believe that with a stronger physical presence in Australia and New Zealand after the acquisition of Payroll HR, and possible maiden EBITDA for FY2021, the market would start to be more aware of PayGroup and pick up interest in them. We have established the 2 competitive advantage - wide coverage of 41 countries across APAC and offering a unified services model (single view of workforce) - PayGroup has among its peers which we deemed as the reason to drive future organic revenue growth. As such, we forecast revenue growth to be 57.3%/25.0% for FY2021F/FY2022F with a profit turnaround of A\$758.4K in

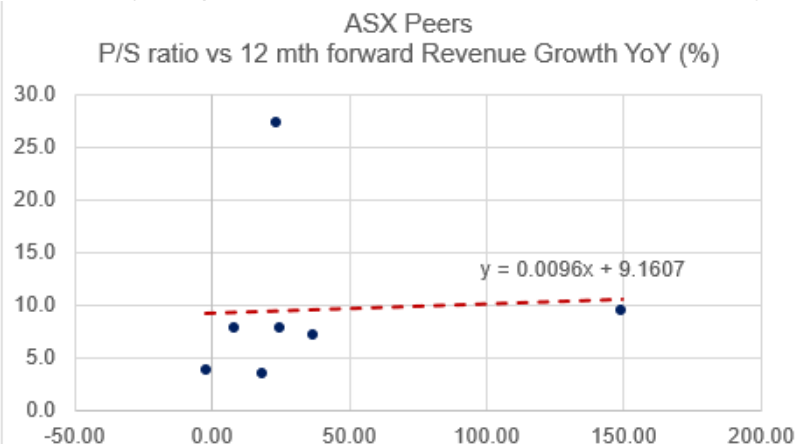
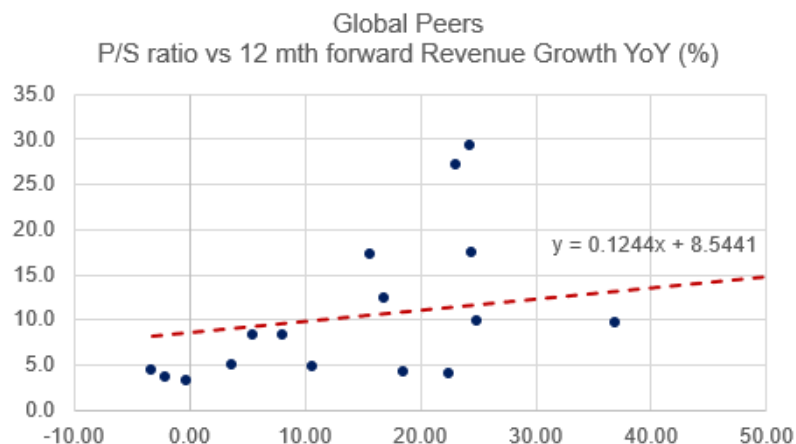


FY2021F, benefitting from the expanding margins of the SaaS business model. The difference between the forecasted revenue and the expected ARR is assumed to come from the timing difference in the implementation of the service (revenue recognition) and signing of the contract as seen in PayAsia's FY2020 revenue of A\$6.4M despite an ARR of A\$8.6M at End of FY2019. This delay is also assumed to be slightly longer due to COVID-19.

In terms of valuation, we like to compare PayGroup and its peers using PS ratio and the street's consensus 12-month forward Revenue Growth YoY approach as a distinct correlation exists. In view of the estimated exceptional growth from acquisitions for FY2021F, we took a 3-year forecasted revenue growth CAGR of 32.0% instead to be conservative. The result suggests that PayGroup could be trading at a PS ratio of 12.53x or a MCap of A\$126.1M, some 2.04x the current MCap of A\$61.87M.

In our forecast, we exclude any possible acquisitions moving forward to be conservative. Therefore, we deem acquisitions that are able to enlarge PayGroup's client base, are cashflow positive, and at acquisition price of 1.7x revenue as reasons for further upwards re-valuation. PayGroup have also turned operating activities cashflow positive of A\$2.1M in 1HFY2021 with a cash position of A\$5.3M. We forecast operating activities cashflow to continue its uptrend and cash position to balloon moving forward and omit capital raise in our forecast.

PS ratio vs street's consensus 12-month forward Revenue Growth YoY (will update when we finalised income statement)



Global Peers	
Current Mcap	61.87
Est. 3 Yr Rev Growth CAGR (%)	32.03
Fair PS ratio	12.53x
Revenue (A\$m)	10.07
Fair MCap (A\$m)	126.13
Fair/Current	2.04x

ASX Peers	
Fair PS ratio	9.47x
Fair MCap (A\$m)	95.32
Fair/Current	1.54x

From left: Global Peers comparison, ASX Peers comparison, valuation table. Data as of: 7 Jan 2021



Assumptions (excludes possible acquisitions)

Assumptions	Mar-19 FY 2019	Mar-20 FY 2020	Mar-21 FY 2021F	Mar-22 FY 2022F	Mar-23 FY 2023F
% of Revenue					
Subcontractors	-9.66%	-7.90%	-7.11%	-6.76%	-6.42%
Hosting services	-4.11%	-2.85%	-2.85%	-2.85%	-2.85%
Employee benefits expense	-48.45%	-56.76%	-51.27%	-46.98%	-44.99%
Rent and occupancy	-5.28%	-2.40%	-4.16%	-3.70%	-1.80%
Initial public offering costs	-2.29%	0.00%	0.00%	0.00%	0.00%
Consulting and professional fees	-36.47%	-27.83%	-13.92%	-12.52%	-11.27%
D&A	-6.07%	-13.93%	-12.08%	-11.62%	-11.03%
Allowance for credit loss	-0.31%	-0.75%	-0.75%	-0.75%	-0.75%
Overseas office expenses	-9.50%	0.00%	0.00%	0.00%	0.00%
Travelling expenses	-3.79%	-2.73%	-0.80%	-2.20%	-1.87%
License fee	-4.51%	-3.73%	-3.09%	-2.56%	-2.12%
Other expenses	-10.77%	-9.84%	-6.89%	-6.06%	-5.23%
Int % Rev	0.23%	0.16%	0.16%	0.16%	0.16%
Int % Cash	0.17%	0.17%	0.17%	0.17%	0.17%
Client Money % Rev	103.80%	70.26%	67.69%	67.69%	67.69%
Tax rate	2.23%	-3.07%	2.35%	2.35%	25.00%
Growth (%)					
Revenue Growth		112.47%	57.31%	24.97%	17.08%
PaySlips			26.23%	31.49%	18.67%
Astute Active Users			168.11%	-4.15%	4.66%
Treasury Services Transactions			810.78%	602.24%	150.60%

Income Statement (excludes possible acquisitions)

Income Statement (AUD '000)	Mar-19 FY 2019A	Mar-20 FY 2020A	Mar-21 FY 2021F	Mar-22 FY 2022F	Mar-23 FY 2023F
Total Revenue	4,917.95	10,067.86	15,837.63	19,792.79	23,173.15
Other Income	228.53	853.81	1,296.18	0.00	0.00
Expenses:					
Subcontractors	(457.51)	(795.55)	(1,126.32)	(1,337.22)	(1,487.32)
Hosting services	(194.74)	(287.10)	(451.64)	(564.43)	(660.82)
Employee benefits expense	(2,295.83)	(5,714.13)	(8,119.22)	(9,298.80)	(10,426.47)
Rent and occupancy	(250.26)	(241.82)	(658.40)	(733.22)	(416.54)
Initial public offering costs	(108.37)	0.00	0.00	0.00	0
Consulting and professional fees	(1,727.93)	(2,802.18)	(2,204.04)	(2,479.01)	(2,612.15)
D&A	(287.78)	(1,402.28)	(1,913.63)	(2,300.36)	(2,557.09)
Allowance for credit loss	(14.46)	(75.98)	(119.53)	(149.38)	(174.89)
Overseas office expenses	(450.15)	0.00	0.00	0.00	0.00
Travelling expenses	(179.81)	(275.20)	(126.70)	(436.00)	(433.78)
License fee	(213.52)	(375.66)	(489.35)	(506.40)	(490.95)
Other expenses	(510.25)	(990.54)	(1,090.75)	(1,199.39)	(1,212.51)
Operating Profit/(Loss)	(1,544.12)	(2,038.77)	834.25	788.59	2,700.62
EBITDA	(1,256.33)	(636.50)	2,747.87	3,088.95	5,257.72
Int Income	10.77	15.71	24.72	30.89	36.17
Finance costs	(31.08)	(116.66)	(82.30)	(50.70)	(18.23)
Profit/(Loss) before tax	(1,564.42)	(2,139.72)	776.67	768.78	2,718.57
Tax	(34.83)	65.71	(18.26)	(18.08)	(679.64)
Net Profit	(1,599.25)	(2,074.01)	758.40	750.71	2,038.92



Balance Sheet (excludes possible acquisitions or fund raising)

Balance Sheet (AUD '000)	Mar-19 FY 2019	Mar-20 FY 2020	Mar-21 FY 2021F	Mar-22 FY 2022F	Mar-23 FY 2023F
Current Assets					
Cash & CE	6,347.36	9,041.45	15,372.68	17,010.88	20,262.54
Trade & other receivables	5,294.14	3,849.86	6,631.49	8,287.59	9,703.00
Income Tax recoverable	409.58	558.80	455.18	455.18	455.18
Prepayments	66.27	164.57	299.28	374.02	437.90
Contract assets	94.21	245.71	858.76	1,073.22	1,256.51
Other assets	391.80	510.87	511.68	511.68	511.68
Total Current Assets	12,603.36	14,371.26	24,129.07	27,712.56	32,626.81
Non-Current Assets					
Trade and other receivables	287.40	322.19	322.19	322.19	322.19
ROU Assets	0.00	1,622.52	1,331.50	598.28	181.74
PPE	136.97	181.93	158.03	180.25	177.47
Intangibles	1,471.88	11,963.05	16,248.72	16,995.06	16,858.06
Deferred tax assets	0.00	80.62	71.99	71.99	71.99
Contract assets	308.06	740.58	2,308.25	2,884.70	3,377.37
Total Non-Current Assets	2,204.31	14,910.89	20,440.68	21,052.46	20,988.82
Total Assets	14,807.68	29,282.15	44,569.75	48,765.02	53,615.62
Current Liabilities					
Trade and other payables	10,038.47	12,562.26	19,314.29	23,230.09	26,150.88
Borrowings	0.00	7.17	97.72	0.00	0.00
Current tax liabilities	27.91	64.58	64.58	64.58	64.58
Lease liability	0.00	624.51	733.22	416.54	96.07
Provision	25.99	569.21	533.76	667.06	780.99
Contract liabilities	36.31	154.91	336.42	420.44	492.25
Total Current Liabilities	10,128.68	13,982.63	21,079.99	24,798.71	27,584.76
Non-Current Liabilities					
Contract liabilities	216.80	446.32	570.16	712.54	834.24
Deferred tax liabilities	82.14	0.00	0.00	0.00	0.00
Lease liability	0.00	1,096.27	598.28	181.74	85.68
Provision	326.05	472.89	705.22	705.22	705.22
Total Non-Current Liabilities	624.98	2,015.48	1,873.66	1,599.50	1,625.13
Total Liabilities	10,753.65	15,998.11	22,953.64	26,398.22	29,209.89
Equity					
Issued Capital	24,076.42	36,213.93	43,267.26	43,267.26	43,267.26
Reserves	(16,675.82)	(17,509.30)	(16,988.97)	(16,988.97)	(16,988.97)
Accumulated losses	(3,346.58)	(5,420.59)	(4,662.18)	(3,911.48)	(1,872.55)
Total Equity	4,054.02	13,284.04	21,616.10	22,366.81	24,405.73

Cash Flow Statement (excludes possible acquisitions or fund raising)

Cash Flow Statement (AUD '000)	Mar-19 FY 2019	Mar-20 FY 2020	Mar-21 FY 2021F	Mar-22 FY 2022F	Mar-23 FY 2023F
Cash flows from Operations					
Net Income	(1,599.25)	(2,074.01)	758.40	750.71	2,038.92
D&A	287.78	1,402.28	1,913.63	2,300.36	2,557.09
Change in NWC	(3,477.74)	250.18	(66.04)	(806.00)	(1,164.62)
Allowance for credit loss	(14.46)	(75.98)	(119.53)	(149.38)	(174.89)
Other operating cashflow	0.68	357.68	551.84	667.49	540.93
Net cash from operating activities	(4,802.98)	(139.86)	3,038.30	2,763.18	3,797.43
Cash flows from investing activities					
Payment for PPE	(37.33)	(99.10)	(100.00)	(100.00)	(100.00)
Payment for Intangibles	(653.71)	(2,161.95)	(2,707.77)	(2,968.92)	(2,317.32)
Net cash flow acquisition, net of cash paid	1,106.06	261.53	(171.00)	0.00	0.00
Others	0.00	0.00	(106.00)	0.00	0.00
Net cash received from investing activities	415.02	(1,999.52)	(2,978.77)	(3,068.92)	(2,417.32)
Cash flows from financing activities					
Proceeds from share issue	8,500.00	3,000.00	3,500.00	0.00	0.00
Payments for IPO and fund raise	(946.56)	(144.60)	(210.00)	0.00	0.00
Dividend paid	(1,003.06)	0.00	0.00	0.00	0.00
Proceeds from borrowings	0.00	570.74	97.72	0.00	0.00
Repayment of borrowings	(740.21)	(563.57)	(104.89)	0.00	0.00
Repayment of principal on lease liability	0.00	(296.61)	(658.40)	(733.22)	(416.54)
Employee loan	(30.60)	(1.86)	0.00	0.00	0.00
Net cash used in financing activities	5,779.57	2,564.11	2,624.42	(733.22)	(416.54)
Net increase in Cash and CE	1,391.60	424.73	2,683.95	(1,038.95)	963.57
Cash & CE at beginning, less Client monies	1.00	1,429.75	1,968.60	4,652.55	3,613.60
FX changes	37.14	114.12	0.00	0.00	0.00
Cash & CE at ending, less Client monies	1,429.75	1,968.60	4,652.55	3,613.60	4,577.17



Conclusion

PayGroup provides cost-effective SaaS HCM and BPO Payroll solutions to the market which sees increased demand due to the work-from-home measures of COVID-19. A SaaS HCM software provides companies with an efficient and accurate way to manage their workforce associated processes on the go without having to worry about the ever-changing regulations around it. With SaaS HCM software and BPO services taking care of the ever-changing regulations and back-end processes, companies are able to save costs and re-direct their resources to focus on growth. As such, APAC HCM market is expected to grow 3.1% to US\$ 2.04B in 2021 before **growing at a 14.5% CAGR to US\$ 3.06B in 2024.**

Leveraging on the growing demand in SaaS HCM and BPO Payroll segment, PayGroup doubles its revenue to A\$10.6M in FY2020 through acquisitions and strengthens its presence across APAC, Middle East, and Africa. The Company acquires targets with high synergy value and ARR accretive, leading to high revenue growth. We expect the Company to continue its revenue growth by 57.3%/25.0% for FY2021F/FY2022F leveraging on the potential to cross-sell and upsell the enlarged client base of 1,015 client entities, up from 875 in FY2020 while acquiring new clients. PayGroup also enjoys **a high UE, estimated to be 4.0x**, due to its GPP which allows them to obtain new leads and clients with no additional costs. Due to the well-established reputation and the wide APAC, Middle East, and Africa coverage of 41 countries PayGroup possesses, partners help to promote the Company's solutions to its client in regions where they do not have coverage of and vice versa. This results in a low average customer acquisition cost and a high return on investment for sales and marketing.

The SaaS HCM and BPO payroll markets are fragmented with many players making difficult it for companies in the industry to gain market share or command exceptional margins relative to its peers. However, PayGroup possesses **2 competitive advantages being wide APAC, Middle East, and Africa coverage of 41 countries and a low-cost solution**, making them one of the best choices of SaaS HCM solutions vendor in APAC. With fierce pricing competition and many small players, we expect the market to consolidate further. As such, PayGroup may continue to acquire companies or many even end up as a favourable acquisition target themselves.

Despite the high revenue growth potential, PayGroup is trading at a steep discount of -73.5% to its peer average PS ratio of 14.40. We believe the discount can be attributed to its smaller MCap, tight shareholder registry, and lack of awareness among the ASX investors. Comparing PayGroup to its peers by using a PS ratio and the street's consensus 12-month forward Revenue Growth YoY approach, it suggests that the Company could be trading at a PS ratio of 12.53x or a MCap of A\$126.1M, some 2.04x the current MCap of A\$61.87M.



Appendix

Management Team and Board of Directors

Ian Basser, Non-Executive Chairman

Ian has over 32 years' experience in starting, running and building service companies around the world including Australia, Hong Kong, China, Singapore, USA, UK and Europe. He was the former CEO and MD of Chandler Macleod Group Limited, a leading human capital agency in Australia, and former main board director and Group Managing Director of Harvey Nash.

David Fagan, Non-Executive Chairman

David has over 38 years' experience in law practice including 30 years with Clayton Utz culminating in the role of Board Member and National Chief Executive Partner (2001-2010). He chairs the Audit and Risk Committee in PayGroup.

Shane Gild, Non-Executive Director

Shane possesses 22 years of equity capital market experiences. During his 8 years with the Corporate Finance team at Canaccord Genuity, Shane has worked with a number of ASX emerging growth companies and institutional investors over his career.

Mark Samlal, Managing Director

Mark co-founded PayAsia in 2006 where he was Non-Executive Chairman until being appointed to the role of Executive Chairman and Managing Director of PayAsia in July 2015. Mark has over 22 years of experience in leadership roles in Asia Pacific including being a Director and General Manager of ADP in Asia Australia (1999-2003). He was also the former CEO of SGX listed VicPlas Ltd and former Executive Director of Omni Industries.

Franck Neron-Bancel, Executive Director and CSO

Franck has over 21 years' industry experience in global HCM and payroll services with global leader ADP (NASDAQ: ADP). Franck's tenure at ADP culminated in the role of Senior Vice President Strategic Account Management (2013-2017), with reporting to the ADP Global Enterprise Solutions President.

Disclosure of Interests:

PayGroup Ltd currently are, or in the past 12 months have been, a client Spark Plus Pte Ltd. During this period, Spark Plus Pte Ltd provided corporate advisory services. In the past 12 months, Spark Plus Pte Ltd have received compensation corporate advisory services from the company. Spark Plus Pte Ltd intends to seek or expect to receive compensation for corporate advisory services from the Company in the next three months.

Spark Plus directors, consultants and advisers currently hold less than 1% of issued shares in PayGroup Ltd and may buy or sell the shares from time to time.

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