



# Research Update

## PayGroup Limited – FY21 contracts showing growth

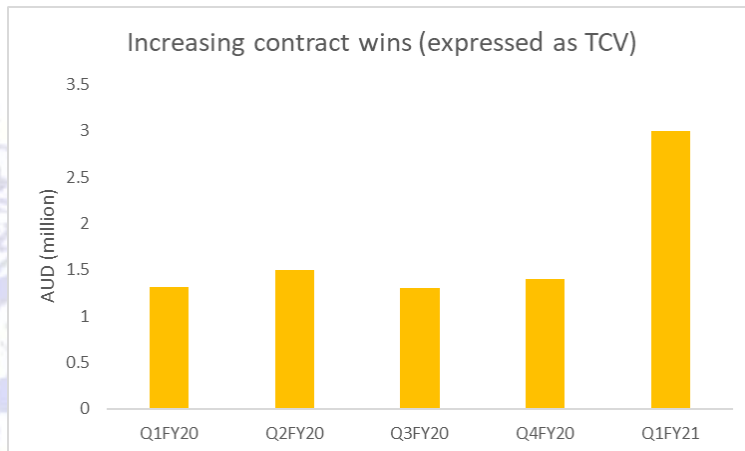
Price: \$0.68 | 12 Month Target: \$1.82 | Implied Return: 167% | 28 August 2020

### Year to date 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 (PYG) yesterday gave an update on current operations at its Annual General Meeting.

### Trading update

PYG is continuing to show a strong ability to win contracts. The company added \$3.0m in new contract wins in Q1FY21, expressed as total contract value (TCV), representing an increase of 114% on Q4FY20. New contracts wins have continued in the current quarter, with the company so far signing a total of \$4.5m of new contracts, representing 82% of the value of all contracts executed in FY20 (\$5.5m).



After acquiring Astute (29<sup>th</sup> August 2019), PYG has acquired another business in TalentOz for \$1.2m. TalentOz is a SaaS HCM, analytics and payroll provider based in Malaysia. TalentOz has added 11 new SaaS HCM modules, increasing PYG's total to 27, and has added 40 new clients for a now total 915 clients. The acquisition of TalentOz adds another \$700,000 to group SaaS revenue.

Q1FY21 showed a marginal increase in cash receipts (\$4.47m vs \$4.42m). A cash surplus of \$1.05m was reported, a decrease of 43% on Q4FY20. PayAsia showed an increase in SaaS and SaaS payslips from 61,054 to 63,796, an increase of 4.5%. However, Astute SaaS timesheets showed a drop due to the coronavirus impact on casual staffing. The pandemic has also caused a decrease in the implementation time of new contracts, from the usual three months to six months. Adverse currency movement (SGP vs AUD) has also affected cash flow. The upcoming quarters should show stronger cash flow as contracts won in Q3FY20 start to flow through.

### Recommendation

PYG continues to show strong contract growth and recent acquisitions will continue to create synergies across the business. Despite the coronavirus and lower free cash flow, the previous quarter was still a positive one. We continue to rate PYG as a buy with a pro-forma valuation of \$1.82.

### Company Data

Recommendation: BUY  
 Price (Date 28 August): \$0.68  
 ASX Code: PYG  
 Shares on Issue: 70.7m  
 Market capitalization: \$48.01m  
 Enterprise Value: \$46m

### 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: 38.47%  
 Lawrence Pushpam: 10.25%  
 Marcus Webb & Associates<sup>^</sup>: 11.75%  
 Market Effect Pty Ltd: 6.19%  
<sup>^</sup>escrowed for 24 months from 14/11/2019

### Financial Highlights (with Astute)

\$m	FY20A*	FY21E*	FY22E*	FY23E*
<b>Total Revenue</b>	17.8	20.8	24.1	28.0
<b>Operating Expenses</b>	(12.5)	(13.6)	(14.8)	(16.2)
<b>EBITDA</b>	5.3	7.2	9.2	11.8
<b>NPAT</b>	3.9	5.44	7.34	9.8
<b>Dividend yield</b>	N/A	N/A	N/A	N/A
<b>PE</b>	12.3	8.6	6.4	4.8

\*Normalised Pro Forma results



Source: Iress



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

Year ending Mar	2020A	2021E	2022E	2023E	2024E
Proforma profit	3,915	5,440	7,347	9,802	11,953
<b>EPS<sub>adj</sub> (¢)</b>	<b>0.055</b>	<b>0.079</b>	<b>0.107</b>	<b>0.142</b>	<b>0.174</b>
<b>EPS growth</b>	<b>25.8%</b>	<b>39.0%</b>	<b>35.0%</b>	<b>33.4%</b>	<b>21.9%</b>
<b>P/E ratio</b>	<b>12.3 x</b>	<b>8.6 x</b>	<b>6.4 x</b>	<b>4.8 x</b>	<b>3.9 x</b>
Enterprise Value (m)	30,229	26,028	22,012	39,270	39,270
EV/Sales (x)	1.69 x	1.25 x	0.92 x	1.40 x	1.23 x
EV / EBIT (x)	7.8 x	4.5 x	2.8 x	3.8 x	3.1 x
EV / EBITDA (x)	5.7 x	3.6 x	2.4 x	3.3 x	2.8 x
DPS (¢)	0.0	0.0	0.0	0.0	0.0
<b>Dividend Yield</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
Payout Ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Franking	0.0%	0.0%	0.0%	0.0%	100.0%
FCFPS	0.07	0.08	0.11	0.14	0.17
P/FCFPS	9.07	8.27	6.24	4.83	3.91

**Cashflow (A\$'000's)**

Year ending Mar	2020A	2021E	2022E	2023E	2024E
Receipts	11,305	20,809	24,056	28,041	31,884
Payments	(11,331)	(14,051)	(17,423)	(21,604)	(26,789)
Interest received	15	(168)	(227)	(303)	(370)
Interest paid	-129	-129	-129	-129	-129
Change in Work cap	8,712	1,446	1,585	1,946	1,876
<b>Operating cashflow</b>	<b>(140)</b>	<b>6,462</b>	<b>6,277</b>	<b>6,005</b>	<b>4,597</b>
<b>Investing cashflows</b>					
Intangibles	(2,261)	(2,261)	(2,261)	(2,261)	(2,261)
Acquisitions/Divestments	(99)	(99)	(99)	(99)	(99)
Net cash inflow	262	0	0	0	0
<b>Financing activities</b>					
Equity	3,000	0	0	0	0
Other	(436)	0	0	0	0
Dividends paid	0	0	0	0	0
<b>Net cashflow</b>	<b>425</b>	<b>4,201</b>	<b>4,016</b>	<b>3,744</b>	<b>2,336</b>
Cash at beginning 01/04	1,429	9,041	13,242	17,258	21,002
<b>Cash at end 31/03*</b>	<b>9,041</b>	<b>13,242</b>	<b>17,258</b>	<b>21,002</b>	<b>23,338</b>

**Revenue Split (A\$'000's)**

Year ending Mar	2020A	2021E	2022E	2023E	2024E
Payroll Services	8,165	10,074	12,265	15,010	17,834
Other	853	853	853	853	853
<b>Group Revenue</b>	<b>17,847</b>	<b>20,809</b>	<b>24,056</b>	<b>28,041</b>	<b>31,884</b>

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

Year ending Mar	2020A	2021E	2022E	2023E	2024E
Operating revenue	17,847	20,809	24,056	28,041	31,884
EBITDA	5,300	7,177	9,202	11,808	14,093
D&A	(1,400)	(1,400)	(1,400)	(1,400)	(1,400)
<b>EBIT</b>	<b>3,900</b>	<b>5,777</b>	<b>7,802</b>	<b>10,408</b>	<b>12,693</b>
Net interest income	15	(168)	(227)	(303)	(370)
NPBT	3,915	5,609	7,574	10,105	12,323
Tax Expense (benefit)	0	(168)	(227)	(303)	(370)
<b>NPAT</b>	<b>3,915</b>	<b>5,440</b>	<b>7,347</b>	<b>9,802</b>	<b>11,953</b>
Significant Items	0	0	0	1	2
<b>NPAT (Proforma)</b>	<b>3,915</b>	<b>5,440</b>	<b>7,347</b>	<b>9,802</b>	<b>11,953</b>
EBITDA Margin	29.7%	34.5%	38.3%	42.1%	44.2%
EBIT Margin	21.9%	27.8%	32.4%	37.1%	39.8%
NPAT Margin	21.9%	26.1%	30.5%	35.0%	37.5%

**Balance sheet (A\$'000's)**

Year ending Mar	2020A	2021E	2022E	2023E	2024E
Bank Balance	9,041	13,242	17,258	21,002	23,338
Receivables	3,850	4,489	5,189	6,049	6,878
Prepayments	165	165	165	165	165
Other	1,315	1,315	1,315	1,315	1,315
<b>Current assets</b>	<b>14,371</b>	<b>19,912</b>	<b>24,738</b>	<b>29,476</b>	<b>32,770</b>
Net PPE	182	83	(16)	(115)	(214)
Intangibles	11,963	11,973	11,973	11,973	11,973
Deferred Tax Assets	0	0	0	0	0
Other	0	0	0	0	0
<b>Non-current assets</b>	<b>12,145</b>	<b>12,056</b>	<b>11,957</b>	<b>11,858</b>	<b>11,758</b>
<b>Total assets</b>	<b>26,516</b>	<b>31,968</b>	<b>36,695</b>	<b>41,334</b>	<b>44,529</b>
Trade payables	14,647	16,932	19,738	22,443	0
Borrowings	0	0	0	0	0
Employee entitlements	0	0	0	0	0
Deferred Revenue	0	0	0	0	0
<b>Total liabilities</b>	<b>15,998</b>	<b>18,076</b>	<b>20,361</b>	<b>23,166</b>	<b>25,872</b>
<b>NET ASSETS</b>	<b>13,284</b>	<b>13,892</b>	<b>16,333</b>	<b>18,167</b>	<b>18,657</b>

**Balance Sheet Ratios**

Year ending Mar	2020A	2021E	2022E	2023E	2024E
Net Debt	(7,945)	(12,146)	(16,162)	(19,906)	(22,242)
NTA	0.02	0.03	0.06	0.09	0.10
Price / NTA (x)	36.4 x	24.4 x	10.7 x	7.6 x	7.0 x
Return on assets	4.5%	12.2%	14.8%	17.8%	22.0%
Return on equity	29.5%	39.2%	45.0%	54.0%	64.1%

**Valuation**

Year ending Mar	2020A	2021E	2022E	2023E	2024E
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

\*Bank Balance includes client moneys

		WACC			
		8%	9.84%	12%	14%
Growth	2%	2.43	1.82	1.39	1.14
	3%	2.74	1.97	1.47	1.18
	4%	3.21	2.17	1.56	1.23
	5%	4.00	2.46	1.68	1.30
	6%	5.57	2.89	1.85	1.38

## 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 81.8% discount relative to other listed international BPO Payroll and HCM Software providers (67.54 times average) and an 76.2% 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\$	60.03B	139.61	24.55	19.92	5.20	BPO Payroll and HCM Software
WDAY	Workday	U.S.	USD\$	50.2B	213.62	97.73	61.55	12.28	HCM Software
PAYX	Paychex	U.S.	USD\$	27.21B	75.84	24.93	16.75	6.92	BPO Payroll and HCM Software
PAYC	Paycom	U.S.	USD\$	17.32B	295.84	98.09	38.64	16.46	BPO Payroll and HCM Software
PCTY	Paylocity	U.S.	USD\$	7.62B	141.59	122.59	39.12	11.12	BPO Payroll and HCM Software
CSOD	Cornerstone OnDemand	U.S.	USD\$	2.24B	34.76	39.92	25.07	5.41	HCM Software
ZAL	Zalaris	OSL (Norway)	NOK	865m	43	16.86	6.98	0.97	HCM Software
ELO	Elmo Software	ASX	AUD\$	493m	5.69	N/A	N/A	7.6	BPO Payroll and Software
PYG	Paygroup*	ASX	AUD\$	48m	0.68	8.60	6.4	2.22	BPO Payroll and Software

Table 2: Market comparables Source: Thomson Reuters Consensus and Lodge Research, 28 August 2020.

\*Forward P/E, EV/EBITDA and EV/Revenue based on FY21 pro-forma forecasts including Astute

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PayGroup Limited (PYG) currently are, or in the past 12 months have been, a client of Lodge Partner's affiliated company and authorised representative Lodge Corporate Pty Ltd. During this period, Lodge Corporate provided investment banking services to the company. In the past 12 months, Lodge Corporate have received compensation for Investment Banking services from the company. Lodge Corporate intends to seek or expect to receive compensation for Investment Banking services from the Company in the next three months.

Lodge directors, consultants and advisers currently hold less than 1% of issued shares in PayGroup Limited (PYG) and may buy or sell the shares from time to time. Lodge has earned and will continue to earn broking commissions by acting for individual clients that are buying or selling their shares in the company.

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I verify that I, Sven Restel, have prepared this research report accurately and that any financial forecasts and recommendations that are expressed are solely my own personal opinions. In addition, I certify that no part of my compensation is or will be directly or indirectly tied to the specific recommendation or financial forecasts expressed in this report. I do not currently own any shares in the Company.

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