

15 July 2020

PayGroup Limited

Software and Services

Rating
BUY
unchanged

Price Target
A\$1.08↑
from A\$1.05

PYG-ASX

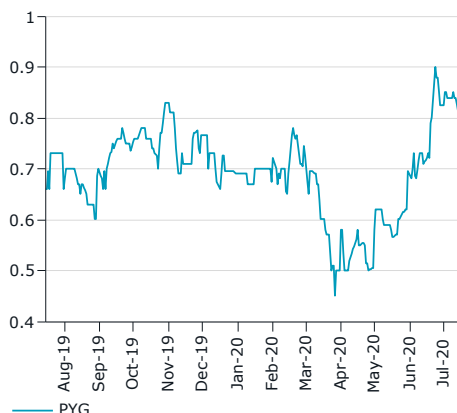
Price
A\$0.82

Market Data

52-Week Range (A\$) :	0.40 - 0.91
Avg Daily Vol (M) :	0.02
Market Cap (A\$M) :	56.7
Shares Out. (M) :	68.7
Dividend /Shr (A\$) :	0.00
Dividend Yield (%) :	0.0
Enterprise Value (A\$M) :	54.7

FYE Mar

	2019A	2020A	2021E	2022E
Sales (A\$M)	5.0	10.5	19.0↑	23.3↑
Previous	-	-	18.5	22.0
EBITDA (A\$M)	(1.4)	(0.9)	4.1↑	5.9↑
Previous	-	-	4.0	5.5
EBIT (A\$M)	(1.7)	(2.3)	2.5	4.3↑
Previous	-	-	-	4.0
Net Income (A\$M)	(2.0)	(1.9)	1.9	3.0↑
Previous	-	-	-	2.8
EPS (A\$)	(0.05)	(0.03)	0.03	0.04
Previous	-	-	0.03	0.04
EPS Adj&Dil (A\$)	(0.04)	(0.03)	0.03	0.04
Previous	-	-	0.03	0.04
EV/Sales (x)	11.1	5.2	2.9	2.2



Priced as of close of business 14 July 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.

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Acquires TalentOz

Investment Recommendation

PayGroup has acquired TalentOz, a small cloud-based HCM (human capital management) and payroll software business servicing clients primarily in Malaysia and India. TalentOz is complementary tech that builds out the HCM side of PayGroup's offering, bringing with it 40 new clients and 20 Asia-based developers (providing some cost-out). Broadening the services that PayGroup can provide across HCM and payroll enhances its ability to provide a viable, cost-effective solution for SMEs and mid-size multinational corporations (MNCs) across Asia, and should drive some upsell. The company already has good traction in this market and consolidation is likely to be a persistent theme. **BUY retained.**

For a deeper run-through of PayGroup's operations, we refer readers to [Solving a pain point for multinational corporations](#), our 30 June initiation of coverage.

Acquisition detail

- **Malaysia-headquartered HCM/payroll provider.** PayGroup has acquired TalentOz from Malaysia-listed SMRT Holdings (SMRT-KLSE, MYR 0.07 | not rated) for SG \$1.15m (A\$1.2m) in a primarily scrip-based deal that values the business at 1.7x revenue. The transaction sees PayGroup assume the assets of the business, which include the TalentOz SaaS platform accessed by over 30,000 active users per month, 40 clients, and 50 staff (including 20 development personnel). The addition of Asia-based tech personnel and a proprietary payroll engine specific to Malaysia and India creates some immediate cost-outs and, longer term, should enable PayGroup to bring more of its Asia payroll services onto the cloud.
- **Complementary HCM modules.** To date PayGroup's Asia-based HCM offering (HROnline) has focused primarily on supporting its payroll services in the region, with modules for annual leave applications, expense claims and accessing pay slips. TalentOz has modules that round out coverage of the broader human resources function, such as recruitment, talent management, learning & development, and performance tracking. The thinking here is that PayGroup's focus on payroll for mid-size MNCs in Asia should also enable it to cross-sell a cost-effective solution for HCM (relative to something like *Workday HCM*, or Ceridian's *Dayforce*) which still satisfies the global compliance requirements of the organisation.

EPS revisions: FY21e +1%, FY22e +5%.

Valuation

We value PayGroup at \$1.08/share (prev: \$1.05) 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. As a cross-check, our DCF valuation is \$1.08/share.

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

PayGroup Limited (PYG)					\$0.83		Year end 31 March		
Profit & Loss (\$m)	FY19	FY20	FY21E	FY22E	Ratios	FY19	FY20	FY21E	FY22E
Sales revenue	5.0	10.5	19.0	23.3	Valuation				
EBITDA	-1.4	-0.9	4.1	5.9	EPS (norm.)	-4.1	-2.6	2.9	4.4
Depreciation	-0.3	-1.1	-1.2	-1.2	P/E (x) (norm.)	-20.2	-32.0	28.5	18.6
EBITA	-1.7	-2.0	2.9	4.6	PE Rel - XAO			1.76	
Amortisation	0.0	-0.3	-0.3	-0.3	PE Rel - XSO			1.84	
EBIT	-1.7	-2.3	2.5	4.3	EV/EBITDA (x)	-28.6	-61.1	13.5	9.0
Net interest	0.0	-0.1	0.0	0.0	EV/EBIT (x)	-23.8	-23.8	21.8	12.2
Pre-tax profit	-1.7	-2.4	2.6	4.3	DPS (cps)	0.0	0.0	0.0	0.0
Tax expense	0.0	0.1	-0.6	-1.3	Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%
NPAT (pre-ISIs)	-1.8	-2.3	1.9	3.0	Franking (%)	0%	0%	0%	0%
Significant items	-0.2	0.4	0.0	0.0	CFPS (cps)	-11.0	-0.2	3.5	6.8
NPAT (reported)	-2.0	-1.9	1.9	3.0	P/CFPS (x)	nmf	nmf	23.4	12.2
NPAT (normalised)	-1.8	-1.5	2.0	3.1	Profitability				
					EBITDA margin (%)	nmf	nmf	21.5%	25.2%
Cash Flow (\$m)	FY19	FY20	FY21E	FY22E	EBIT margin (%)	nmf	nmf	13.3%	18.6%
Operating EBITDA	-1.4	-0.9	4.1	5.9	ROE (%)	nmf	nmf	14.0%	18.0%
Interest and tax	0.0	-0.1	-0.2	-1.0	ROA (%)	nmf	nmf	8.5%	13.6%
Working capital	-4.7	-8.1	-1.4	-0.1	Capital structure				
Other	1.4	9.0	0.0	0.0	Enterprise Value (\$m)	41	55	55	53
Operating Cashflow	-4.8	-0.1	2.5	4.8	Net Debt (cash)	-1	-2	-2	-5
Capex	0.0	-0.1	-1.9	-1.6	Gearing (%)	cash	cash	cash	cash
Net acquisitions	0.5	-1.9	-1.2	-0.5	EFPOWA (m)	44	57	70	71
Free Cashflow	-4.4	-2.1	-0.6	2.6	Growth				
Dividends	-1.0	-0.3	0.0	0.0	Sales revenue (%)	nmf	111.4%	81.3%	22.4%
Net equity issued	7.6	2.9	1.0	0.5	EBITDA (%)	nmf	nmf	-556.8%	43.2%
Net Cashflow	2.2	0.4	0.4	3.2	EBIT (%)	nmf	nmf	-210.5%	70.2%
Opening cash	0.0	1.4	2.0	2.3	NPAT (norm.) (%)	nmf	-18.2%	-238.6%	55.1%
Borrowings/other	-0.7	0.1	0.0	0.0	EPS (norm.) (%)	0.0%	-36.8%	-212.3%	53.7%
Closing cash	1.4	2.0	2.3	5.5	DPS (%)	nmf	nmf	nmf	nmf
Balance Sheet	FY19	FY20	FY21E	FY22E				FY21e	FY22e
Cash	1.4	2.0	2.3	5.5	Target sales multiple				
Receivables	5.3	4.5	2.3	2.8	Sales revenue (\$m)			19.0	23.3
PPE	0.1	0.2	0.8	1.3	Multiple (x)			3	3
Intangibles	1.3	10.3	11.2	11.4	Enterprise Value (\$m)			57.1	70.4
Other assets	6.5	13.0	13.0	13.0	Less: net debt (\$m)			2.3	5.5
Total Assets	14.6	29.9	29.7	33.9	Equity value per share (\$)			\$ 0.85	\$ 1.08
Borrowings	0.0	0.0	0.0	0.0					
Payables	10.0	12.6	9.0	9.4	Discounted Cash Flow				
Other Liabilities	0.7	3.4	3.8	4.1	Cost of equity	10.0%	WACC		10.0%
Total Liabilities	10.8	16.0	12.8	13.5	Cost of debt	4.2%	TGR		3.0%
NET ASSETS	3.9	13.9	16.9	20.4	Debt weighting	0.0%	Per Share		\$ 1.08
Board and shareholders			(m)	%	Substantial Shareholders			(m)	(%)
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
					Top 20 shareholders			46.3	67.3
					Description				

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

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Investment Recommendation

Date and time of first dissemination: July 14, 2020, 16:35 ET

Date and time of production: July 14, 2020, 11:55 ET

Target Price / Valuation Methodology:

PayGroup Limited - PYG

We value PayGroup at \$1.08/share using a 3x FY22e EV/sales multiple. As a cross-check, our DCF valuation is \$1.08/share (WACC: 10%).

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 07/14/20)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	492	60.44%	54.27%
Hold	188	23.10%	40.43%
Sell	17	2.09%	35.29%
Speculative Buy	117	14.37%	70.09%
	814*	100.0%	

*Total includes stocks that are Under Review

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HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

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NOT RATED: Canaccord Genuity does not provide research coverage of the relevant issuer.

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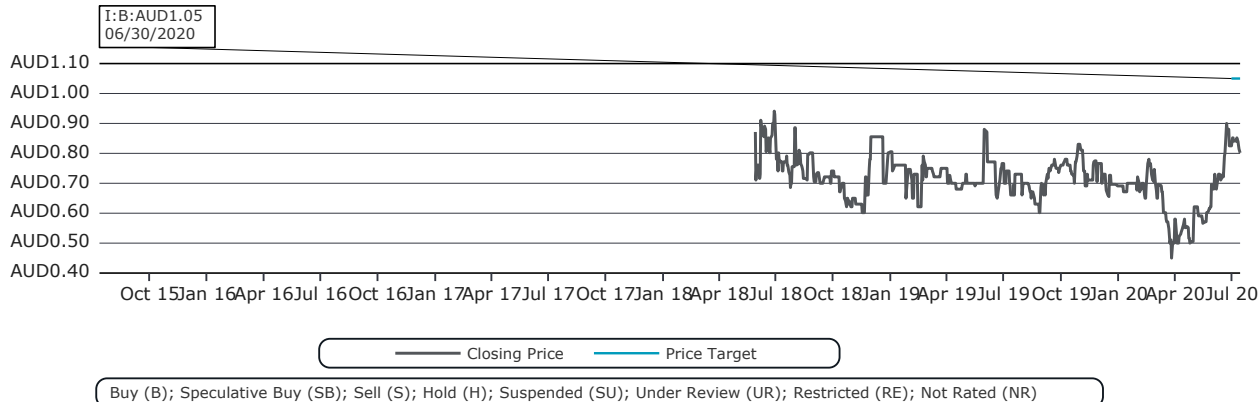
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PayGroup Limited Rating History as of 07/13/2020



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