

PayGroup Limited

Software and Services

Rating
BUY
unchanged

Price Target
A\$0.85↑
from A\$0.84

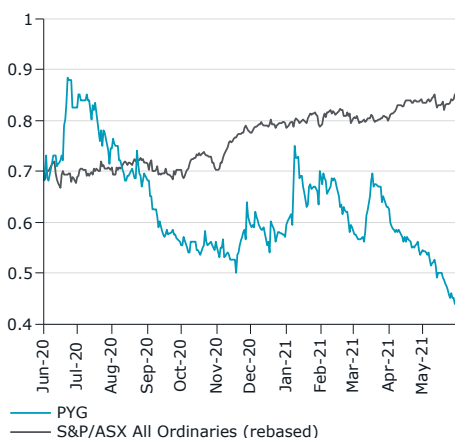
PYG-ASX

Price
A\$0.48

Market Data

52-Week Range (A\$) :	0.44 - 0.91
Avg Daily Vol (M) :	0.1
Market Cap (A\$M) :	55.0
Shares Out. (M) :	114.5
Dividend /Shr (A\$) :	0.00
Dividend Yield (%) :	0.0
Enterprise Value (A\$M) :	42.5

FYE Mar	2020A	2021A	2022E	2023E
Sales (A\$M)	10.5	16.0	26.8↑	31.6↑
Previous	-	-	21.5	26.6
EBITDA (A\$M)	(0.9)	2.8	3.7↑	5.3↑
Previous	-	-	2.3	3.6
EBIT (A\$M)	(2.3)	0.6	1.1↑	2.6↑
Previous	-	-	0.2	1.4
Net Income (A\$M)	(1.9)	(0.5)	1.0↑	2.3↑
Previous	-	-	0.1	1.0
EPS Adj&Dil (A\$)	(0.03)	0.01	0.01↑	0.02↑
Previous	-	-	0.00	0.01
P/E (x)	(18.6)	52.4	53.6	24.3
EV/Sales (x)	5.0	3.2	1.6	1.2



Priced as of close of business 1 June 2021
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.

Canaccord Genuity (Australia) Limited has received a fee as Lead Manager to the Paygroup Limited Capital Raising announced 30 March 2021.

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Building scale

Investment Recommendation

PayGroup's FY21 result demonstrated the resilience of its Asia-based payroll administration business during a COVID-impacted year, and the second half saw a sharp snapback in revenues from domestic workforce management firms as contractor numbers ticked back up to pre-COVID levels. After a solid year for new contract wins, PayGroup exits the year with underlying ARR of \$21.7m relative to FY21 ARR of \$17.8m, with most of this incremental work to be implemented during the year. The balance date acquisition of IWS adds a further \$5.5m in profitable revenue which gives us confidence that PayGroup is building the scale it needs to maintain EBITDA momentum, broaden its investment audience and garner a re-rating.

The shift to digitisation in human capital management (HCM) continues to accelerate, the company is focused on niche, mission-critical service provision that increasingly sees it win referrals from larger players, and it has roughly a quarter of its market cap in cash. At less than 2x FY22e sales it's hard to see downside from here. **BUY retained.**

Investment highlights

- **Decent exit rate after a bumpy start.** PYG started the year with ARR of \$17.8m and ultimately reported \$16m of revenue; with the onset of COVID heavily impacting domestic contractor volumes for the first few months of the year. Reported EBITDA of \$1.6m doesn't account for \$1.2m in acquisition-related costs during the year – underlying EBITDA of \$2.8m was comfortably ahead of our \$2.2m forecast. With contractor levels back to normal the exit rate for revenue is likely to be higher than the reported revenue implies.
- **Recent acquisition adds \$5.5m in revenue.** PYG has acquired Integrated Workforce Solutions (IWS) for \$12.75m in a two-thirds cash/one-third scrip mix with a \$2.5m earnout over the next two years. IWS adds another niche in cloud-based workforce management (this time for the franchise sector) with a decent client list of quick service restaurants and retailers including Laser Clinics Australia, Subway, Crust, Roll'd, Zambbrero, Pizza Hut and others. The founders have put a lot of time into building a reliable, scalable product with value-add business intelligence tools that has seen it partner with private equity firms as well as private operators, and PYG's international reach is already landing IWS some new wins as these businesses roll out overseas.
- **Balance sheet in good shape.** Following a \$15m capital raise and SPP in April PYG should have circa \$12m in pro forma cash after accounting for the initial consideration for IWS.
- **FY22e ARR of \$27m (including IWS).** PYG exits the year with underlying ARR of \$21.7m, with most of the incremental work to be implemented during the year. Adding in a full year contribution from IWS (+\$5.5m) and further contract wins through the year should see FY22e statutory revenue come to the \$27m mark.

EBITDA revisions: We upgrade EBITDA by \$1.4m (+61%) in FY22e and \$1.7m in FY23e (+46%). Refer Figures 2 and 3 for revenue and EBITDA bridges.

Valuation

Following our earnings upgrades and after adjusting for the recent capital raise, our valuation increases to \$0.85/share (prev: \$0.84) 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.

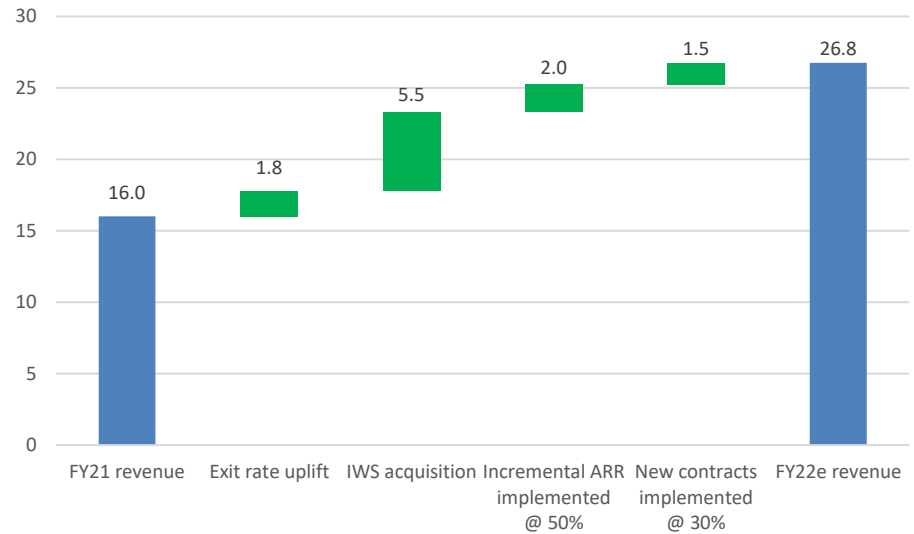
Figure 1: PayGroup Limited (PYG-ASX); Canaccord Genuity forecasts

PayGroup Limited (PYG)					\$0.48					Year end 31 March			
Profit & Loss (\$m)	FY20	FY21	FY22E	FY23E	Ratios	FY20	FY21	FY22E	FY23E				
Sales revenue	10.5	16.0	26.8	31.6	Valuation								
EBITDA	-0.9	2.8	3.7	5.3	EPS (norm.)	-2.6	0.9	0.9	2.0				
Depreciation	-1.1	-2.1	-2.5	-2.5	P/E (x) (norm.)	-18.6	52.4	53.6	24.3				
EBITA	-2.0	0.7	1.2	2.8	EV/EBITDA (x)	-34.6	12.8	11.6	7.5				
Amortisation	-0.3	-0.2	-0.2	-0.2	EV/EBIT (x)	-13.5	63.7	40.5	15.0				
EBIT	-2.3	0.6	1.1	2.6	DPS (cps)	0.0	0.0	0.0	0.0				
Net interest	-0.1	-0.1	0.0	0.1	Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%				
Pre-tax profit	-2.4	0.4	1.1	2.7	Franking (%)	0%	0%	0%	0%				
Tax expense	0.1	0.2	-0.1	-0.4	CFPS (cps)	-0.2	1.6	3.4	4.8				
NPAT (pre-ISIs)	-2.3	0.7	1.0	2.3	P/CFPS (x)	nmf	30.2	14.3	10.0				
Significant items	0.4	-1.2	0.0	0.0	Profitability								
NPAT (reported)	-1.9	-0.5	1.0	2.3	EBITDA margin (%)	nmf	17.7%	13.9%	16.6%				
NPAT (normalised)	-1.5	0.7	1.0	2.3	EBIT margin (%)	nmf	3.6%	4.0%	8.2%				
Cash Flow (\$m)	FY20	FY21	FY22E	FY23E	ROE (%)	nmf	nmf	4.8%	6.1%				
Operating EBITDA	-0.9	2.8	3.7	5.3	ROA (%)	nmf	1.6%	2.2%	4.4%				
Interest and tax	-0.1	-0.1	0.0	-0.2	Capital structure								
Working capital	-8.1	3.5	0.0	0.5	Enterprise Value (\$m)	31	36	43	39				
Other	9.0	-5.0	0.0	0.0	Net Debt (cash)	-2	-3	-12	-16				
Operating Cashflow	-0.1	1.2	3.7	5.5	Gearing (%)	cash	cash	cash	cash				
Capex	-0.1	-0.1	-1.3	-1.6	EFPOWA (m)	57	75	111	115				
Net acquisitions	-1.9	-3.0	-8.9	0.0	Growth								
Free Cashflow	-2.1	-1.9	-6.6	3.9	Sales revenue (%)	111.4%	52.5%	67.5%	18.0%				
Dividends	-0.3	0.0	0.0	0.0	EBITDA (%)	nmf	-416.5%	31.1%	41.4%				
Net equity issued	2.9	3.3	15.2	0.0	EBIT (%)	nmf	-124.8%	86.7%	144.4%				
Net Cashflow	0.4	1.4	8.6	3.9	NPAT (norm.) (%)	-18.2%	-147.3%	43.6%	128.1%				
Opening cash	1.4	2.0	3.2	11.8	EPS (norm.) (%)	-36.8%	-135.6%	-2.2%	120.2%				
Borrowings/other	0.1	-0.1	0.0	0.0	DPS (%)	nmf	nmf	nmf	nmf				
Closing cash	2.0	3.2	11.8	15.8									
Balance Sheet	FY20	FY21	FY22E	FY23E	Valuation								
Cash	2.0	3.2	11.8	15.8	Target sales multiple								
Receivables	4.5	3.4	5.4	6.3	Sales revenue (\$m)				26.8				
PPE	0.2	0.3	0.3	0.3	Multiple (x)				3				
Intangibles	10.3	13.2	20.8	19.8	Enterprise Value (\$m)				81.0				
Other assets	13.0	19.6	19.6	19.6	Less: net debt (\$m)				12.4				
Total Assets	29.9	39.7	57.9	61.7	Equity value per share (\$)				\$ 0.85				
Borrowings	0.0	0.0	0.0	0.0									
Payables	12.6	15.0	16.9	18.4	Discounted Cash Flow								
Other Liabilities	3.4	3.9	3.9	4.1	Cost of equity	10.0%	WACC		10.0%				
Total Liabilities	16.0	18.9	20.9	22.5	Cost of debt	4.2%	TGR		3.0%				
NET ASSETS	13.9	20.8	37.0	39.3	Debt weighting	0.0%	Per Share		\$ 0.72				
Board and shareholders			(m)	%	Substantial Shareholders				(m)			(%)	
Ian Bassar, Non-Executive Chairman			0.6	0.5	Michele Samlal				22.1			19.3	
Mark Samlal, Managing Director			22.1	19.3	Lawrence Pushpam				7.1			6.2	
Franck Neron-Bancel, Executive Director			1.0	0.9									
David Fagan, Non-Executive Director			0.3	0.3									
Shane Gild, Non-Executive Director			0.0	0.0	Top 20 shareholders				62.2			54.3	
					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.

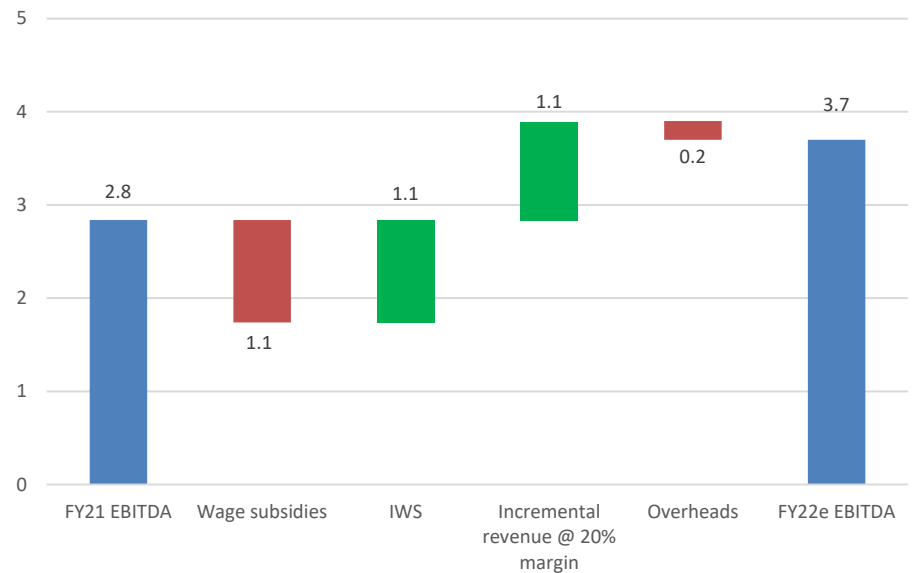
Source: Company Reports, Canaccord Genuity estimates

Figure 2: While PYG's FY21 revenue was \$16m we estimate the exit rate to be around \$18m and note underlying ARR at present of \$21.7m. We assume around half of this incremental ARR gets implemented during the year and forecast \$15m in new three-year contract wins (pcp: \$13.7m) which will start to drop in as well. IWS should add \$5.5m.



Source: Company Reports, Canaccord Genuity estimates

Figure 3: FY22e EBITDA of \$3.7m backs out last year's wage subsidies, adds in IWS and a 20% conversion on incremental revenue.



Source: Company Reports, Canaccord Genuity estimates

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Investment Recommendation

Date and time of first dissemination: June 01, 2021, 16:32 ET

Date and time of production: June 01, 2021, 12:03 ET

Target Price / Valuation Methodology:

PayGroup Limited - PYG

We value PayGroup at \$0.85/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 06/01/21)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	614	64.77%	41.86%
Hold	168	17.72%	25.60%
Sell	10	1.05%	20.00%
Speculative Buy	144	15.19%	65.28%
	948*	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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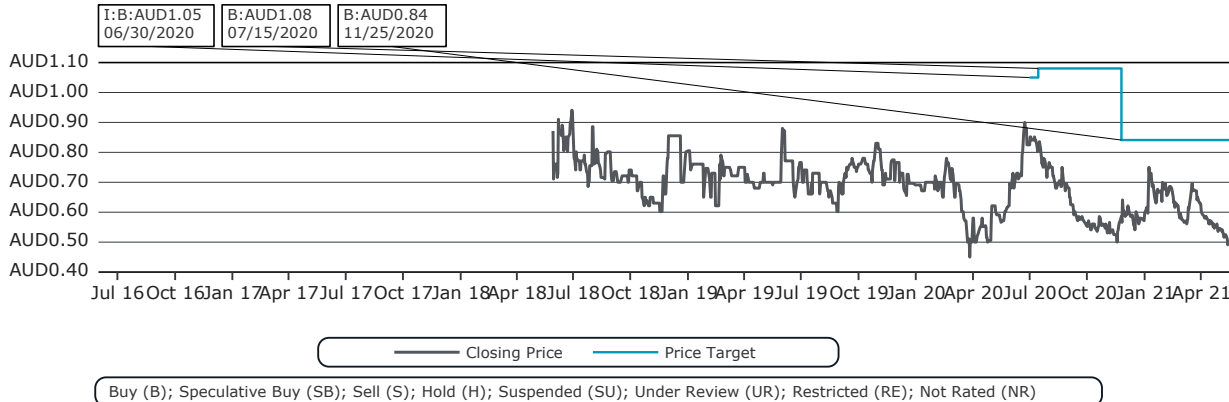
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PayGroup Limited Rating History as of 05/31/2021



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