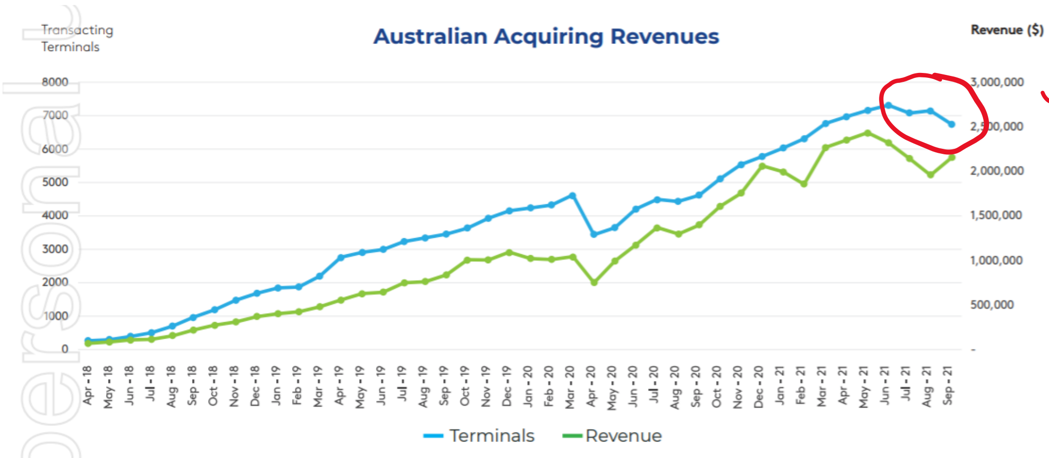
BAGGEDEM CAPITAL

Reece Frith

SmartPay – SMP.

SQ FY22 Trading Update

My Take



lock down

Overall, a **very resilient result** with Australian Acquiring Revenue only down **13%** when compared to SQ last year. (Yes, only a 13% decrease even when we have been in lockdown for the entire quarter).

Further to to this, the Average Revenue Per Unit (ARPU) produced a 1% fall to remain at $895 for the quarter. Annualising this produces a figure circa $3,600.

Keep in mind, the ARPU has never reached past $3,600 when Smartpay has reported its semi-annual results (see graph below).

			SH16	MH17	SH17	MH18	SH18	MH19	SH19	MH20	SH20	MH21
No. terminals (aus)												
Period end					0	500	1500	3000	4000	4500	4611	6754.0
Period average!							1000	2250	3500	4250	4556	5682.5
Revenue p Terminal (aus)							**3556**	**2460**	**3007**	**3094**	**3100**	3500.0
Terminal growth (pcp)								*500%*	*167%*	*50%*	*15%*	0.5
Aus Acquiring revenue							**1.8**	**2.8**	**5.3**	**6.6**	**7.1**	9.9

So to reach $3,600 DESPITE half of the country being in lockdown for the quarter is a phenomenal result.

Consider the concept of '***revenge spending'*** and how people are likely to make up for the lack of spending through lockdown by spending much more on the other side.

I'd imagine that the ARPU grows to >$4,000 and probably closer to $4,500 at a guess.

Then we need to consider the 1,400 terminals that have been unable to transact given business shutdown in lockdowns.

Plus Smart Pay has signed up 1,000 new terminals in the quarter.

We take the current c 6800 terminals + 1,400 coming back online + 1,000 new terminals results in 9,200. Adjust for 200 terminals where businesses may have folded due to lockdown = 9,000 terminals.

At a rate of $4,200 ARPU * 9,000 terminals produces **~$37.8m in Australian Acquiring Revenue.** (**Compared to $18.8m in FY21** which implies >100% growth YoY).

So under normalised conditions, the business has a large capability to deliver growth in all areas.

Outlook

> In the 7 days trading since 'Freedom Day' in NSW (11 October 2021) we have seen approximately 500 idle terminals return to transacting. Those 7 days also delivered a record revenue week for our Australian acquiring business despite the restrictions across VIC and ACT.

Valuation

Intrinsic value, if discounted @ 9%	1.08					
Discount of price to value	27%	FY20	FY21	FY2022 (f)	FY2023 (f)	FY2024 (f)
Price		0.72	0.85	0.85	0.85	1.40
S.O		209.4	240.0	240.0	240.0	240.0
mkt cap (aud)		150.8	204.0	204.0	204.0	336.0
aud/nzd		*1.065*	*1.065*	*1.065*	*1.065*	*1.065*
mkt cap (nzd)		**160.6**	**217.3**	**217.3**	**217.3**	**357.8**
Net Debt		19.0	2.0	-15.5	-28.4	-49.3
EV		179.6	219.3	201.8	188.9	308.5
P/E				45.7	26.2	20.6
EV/EBITDA			28.9	14.0	8.5	8.5
EV/EBIT			-1003.3	31.7	16.0	13.6
FCF Yield			1%	3%	6%	6%
FCF Mutliple			108.6	33.8	16.8	17.0

Above sits my valuation grid matrix that spits out a bunch of valuation measures based on the indicative forecasts I have made.

I still maintain that an exit price of **$1.40 by 2024** is both reasonable & conservative.

Taking the present value of this exit price we have a IV figure of **$1.08** which is a **discount of 27% to current prices.**

(Note, I am keeping the forecasts private for now).

Conclusion

Undervalued, yes.

Big margin of safety and potential to multi-bag, unlikely.

I have mentioned before that SMP is unlikely to get re-rated by the market until the statutory profit is shown on the P&L.

The longer this takes, the bigger risk that SMP's core business product becomes antiquated by new bleeding-edge payments technologies.