



BAGGEDEM CAPITAL

Equity Research

Smartpay – Q1 Trading Update

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Share price over the last quarter.

Highlights – Australia

Phenomenal growth really, up 158% from Q1 FY21 and 10% QoQ.

Australian terminal numbers have grown from 6,754 at Q4 end to 7,306 by Q1. This represents the addition of 552 terminals in the quarter, equating to growth of 8% and 184 new terminals per month. (*Keep in mind the lockdown for June).

Monthly Acquiring revenues have grown from \$2.2m to \$2.32m, 8% shy of the management expectations. **This implicitly states that without lockdown's, current monthly acquiring rates are probably close to ~\$2.51m.**

We can extrapolate this information into forecasting a future monthly acquiring revenue and consequently an annualised revenue figure, see below.

	***Lockdown	Non lockdown	Forecasts				
Terminal no	6752	7306	7306	9000	12000	15000	20000
Terminal growth from base		8%	-	33%	64%	105%	122%
Monthly ac rate. (millions)	2.2	2.32	2.51	2.8	3.5	4.5	5.8
Ac rate growth		5%	14%	23%	23%	30%	27%
Annualised revenue (m)	26.4	27.84	30.12	34.1	41.8	54.5	69.1

Focusing on Acquiring growth

As we can see above the run rate for terminal growth and subsequently monthly revenue is very attractive.

Another note from the trading update is that ~270 terminals delivered during June are yet to complete a transaction and are not contributing to the monthly acquiring rate.

\$70m in Aq revenues + \$15m odd from the NZ business would result in \$85m for the entity. **At this point in time, I'd be betting that SMP is closer to a \$500m company than the current \$182m.**

Management need to keep grinding away and the SmartCharge economics will do their thing.

NZ & other news

Management continues to echo the focus of capital and investment into the Aq business however the NZ business still contributes up to \$15m in revenue annually.

For me, the investment case never banked on the success of the NZ business. My forecasting and margin of safety allows for the gradual decline of this side of the entity. With less attractive economics and more of a demand for working capital, this is fine by me.

The **sale of the NZ business** is still mentioned by the occasional shareholder. I'd imagine that management would look to close out a deal, if possible, but are not in any rush to do so. The impact of COVID only makes things more complicated also. If they sell for between \$65-\$80m, pay out a dividend and reinvest the remainder in growing the Aq business, shareholders would probably benefit to a substantial degree.

Lockdowns are an issue and will almost certainly distort the Q2 results given that NSW is not close to exiting lockdown, same with Victoria. Given the short-term focus of the market, I'd imagine that the results will be worse than expectations and the share price will weaken. This will present on optimal entry point, and I am keeping an eye on this occurring in the future to further add to my position.

