

BPS TECHNOLOGY LTD

Buy

Growth in Entertainment Book underpins result, expect synergies in FY18

Software & Services / Internet Software & Services

22 February 2017

Company Update

Ticker	BPS
Stock Price	\$0.960
Target Price	\$1.350
Forecast Capital Return	40.6%
Forecast Dividend Yield	5.2%
Estimated Total Return - 12 Mth Forward	45.8%

Company market data

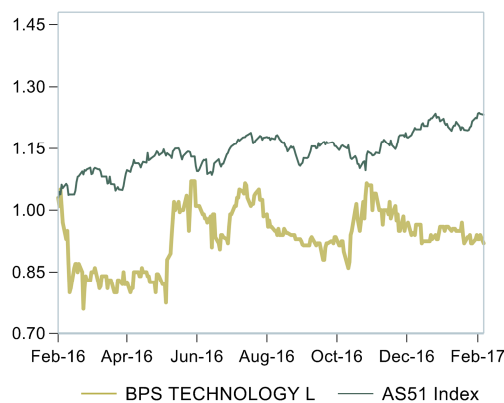
Market Cap.	\$86.9m
Free Float (%)	63.3
Enterprise Value	\$94.6m
52 Week Range	\$0.76 - \$1.07
Shares Out.	90.5m
Avg. Daily Value	\$0.0m

Estimates changes	2016a	2017e	2018e	2019e
Core NPAT - old	7.4	10.8	13.5	14.8
Core NPAT - new	7.4	10.9	14.4	16.1
% Change	0.0	0.8	6.7	8.9
Core EPS dil. (€) - old	11.7	12.8	14.9	16.3
Core EPS dil. (€) - new	11.7	12.7	15.7	17.5
% Change	0.0	(0.7)	4.9	7.5
DPS (€) - old	4.0	5.0	6.5	7.1
DPS (€) - new	4.0	5.0	6.9	7.7
% Change	0.0	0.0	5.5	8.3

All figures are in AUD unless otherwise specified.

Share price performance

BPS TECHNOLOGY LTD vs. AS51 (rebased index)



Analyst

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Event

BPS' 1H17 result was in-line with its updated guidance from October 2016. Key highlights:

- Entertainment Book's 1H17 pro-forma revenue was +28.1% increase on the pcp to \$32.8m driven by a 35.8% increase in membership subscription fees and ~25% increase in gift certificate sales. This increase was partially offset by Bartercard's 1H17 revenue which was down 7.5% on the pcp. This \$1.9m decline was caused by a reduction of licence fees (due to sale of UK master licence in the prior period), the ramp up of the UK master operator, the impact of the Wellington earthquake and a \$375,000 reduction in trading fees in Australia.
- Entertainment Book's digital membership increased from 25% to 30% of total publication sales; this led to savings in printing costs ~\$200,000.
- Entertainment Book generates the bulk of its cash receipts during April to July, the publication's major selling season. Consequently, 2H17 cash generated from operations will be significantly higher than 1H17. We estimate 2H17 cash flow from operations will be \$11.9m vs. 1H17 of \$1m.

While we expect the real cost synergies and integration benefits to come in FY18, BPS commented that it has been able to start offering Entertainment Solutions services to the Bartercard and Bucqi Pay merchants and during CY17 it will improve the functionality of the Entertainment offer for consumers through the addition of transaction tools like an in-app payment capability. BPS has also implemented a 30-point efficiency improvement plan to improve Entertainment Book's revenues and reduce costs with the aim of achieving a ~10% improvement in profitability for FY17.

Impact

We have maintained our FY17 estimates, in-line with BPS's pro-forma guidance given at the time of the Entertainment Book acquisition. We think it is unlikely BPS will materially exceed this guidance.

Investment View

Trading at a FY17 PE of 7.6x with a 5.2% fully franked dividend yield, we view BPS as a value trade. We view the recent Entertainment Book acquisition as transformative for the business and can see a clear pipeline of cost out opportunity and revenue growth. We retain our BUY recommendation with a 12 month target price of \$1.35. Our target price is a roll forward of our DCF based valuation using a WACC of 11.7%.

Y/E Jun 30	2016a	2017e	2018e	2019e
EBITDA	9.5	14.3	18.3	20.2
EV/EBITDA	10.0x	6.6x	5.2x	4.7x
Core NPAT	7.4	10.9	14.4	16.1
Core EPS (Diluted) (€)	11.7	12.7	15.7	17.5
P/E	8.2x	7.6x	6.1x	5.5x
EPS growth	(21.4%)	8.3%	23.6%	11.8%
DPS (€)	4.0	5.0	6.9	7.7
Yield	4.2%	5.2%	7.2%	8.0%
DPS growth	(27.3%)	25.0%	37.5%	12.1%
Dividend Payout Ratio	34.2%	39.5%	43.9%	44.0%

All figures are in AUD.

FY17 guidance maintained

Figure 1: BPS - Income statement

A\$m	1H16A*	2H16A*	FY16A*	1H17A	2H17E	FY17E
BPS revenue	25.0	25.2	50.2	23.2	27.3	50.4
% chg	0.5%	8.4%	4.3%	-7.5%	8.4%	0.5%
EB revenue*	25.6	25.6	51.1	32.8	26.1	58.9
% chg				28.1%	2.1%	15.1%
Total revenue*	50.6	50.7	101.3	55.9	53.4	109.3
% chg				10.5%	5.2%	7.8%
BPS EBITDA	4.7	4.8	9.5	3.9	6.0	9.9
% chg	4.4%	-12.3%	-4.7%	-16.0%	25.2%	4.7%
EB EBITDA*	1.9	1.9	3.9	3.0	1.4	4.3
% chg				52.2%	-28.5%	11.9%
Total EBITDA*	6.6	6.7	13.4	6.9	7.4	14.3
% chg				3.9%	9.7%	6.8%
Margin	13.1%	13.2%	13.2%	12.3%	13.8%	13.0%
D&A	(0.4)	(0.4)	(0.8)	(0.7)	(0.6)	(1.3)
EBIT	4.3	4.4	8.7	6.2	6.8	13.0
% chg				45.2%	54.0%	49.7%
Margin	8.4%	8.7%	8.6%	11.1%	12.7%	11.9%
Net interest expense	(0.2)	(0.4)	(0.5)	(0.3)	(0.2)	(0.6)
Tax expense	(0.6)	(0.2)	(0.8)	(0.3)	(1.2)	(1.6)
Effective tax rate	14%	5%	10%	5%	19%	13%
NPAT	3.5	3.8	7.3	5.6	5.3	10.9
% chg				58.3%	38.3%	47.9%
Underlying EPS (cps)	6.0	6.6	12.6	7.2	5.9	12.9
DPS (cps)	2.0	2.0	4.0	2.5	2.5	5.0
Payout ratio	33.3%	30.5%	31.9%	34.9%	42.7%	38.9%

Source: Company, Moelis Analysis. FY16 revenue and EBITDA numbers includes the Entertainment Book acquisition.

The 10.5% 1H17 revenue growth was driven by the 28% increase in Entertainment Book revenue. The Entertainment Book 1H17 EBITDA margin expanded by 140bps to 9%, the expansion mainly due to stable employee expenses. We would expect lease expenses and printing costs to reduce in FY18.

Figure 2: Entertainment Book division

A\$m	1H16A	2H16A	FY16A	1H17A	2H17E	FY17E
Revenue	25.6	25.6	51.1	32.8	26.1	58.9
Costs of services (production & commission paid)	(10.0)	(10.0)	(20.0)	(15.7)	(11.1)	(26.8)
% of sales	39.2%	39.2%	39.2%	47.9%	42.6%	45.6%
% chg	0.0%	0.0%	0.0%	56.6%	10.9%	33.7%
Employee benefits expense	(10.2)	(10.2)	(20.5)	(10.4)	(10.2)	(20.6)
% of sales	40.0%	40.0%	40.0%	31.8%	39.1%	35.0%
% chg	0.0%	0.0%	0.0%	1.6%	-0.4%	0.6%
Lease rental expense (operating leases)	(0.9)	(0.9)	(1.7)	(1.1)	(0.9)	(2.0)
% of sales	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%
% chg	0.0%	0.0%	0.0%	29.1%	3.3%	16.2%
Other	(2.5)	(2.5)	(5.0)	(2.6)	(2.5)	(5.1)
Total opex	(23.6)	(23.6)	(47.3)	(29.8)	(24.7)	(54.5)
EBITDA	1.9	1.9	3.9	3.0	1.4	4.3
% chg				52.2%	-28.5%	11.9%
Margin	7.6%	7.6%	7.6%	9.0%	5.3%	7.4%

Source: Company, Moelis Analysis

The underlying Bartercard business's 1H17 revenue decreased by 7.5% on the pcp and EBITDA margin contracted 80bps to 20.7%. The \$1.9m revenue decrease was driven by:

- A reduction of licence fees in the UK due to the prior year UK Master licence sale contributed ~\$925,000 to the reduction;
- A \$380,000 reduction in UK fee income due to the new master operator coming up to speed;
- ~\$225,000 impact from the Wellington earthquake;
- ~\$375,000 reduction in Australian trading fees.

The margin contraction was largely due to a 31% increase in cost of services, expanding from 13.2% of sales to 18.7% of 1H17 sales.

Figure 3: Bartercard division

A\$m	1H16A	2H16A	FY16A	1H17A	2H17E	FY17E
Revenue	25.0	25.2	50.2	23.2	27.3	50.4
Costs of services	(3.3)	(8.3)	(11.6)	(4.3)	(5.5)	(9.8)
Employee benefits expense	(12.8)	(8.4)	(21.2)	(10.9)	(11.7)	(22.6)
Lease rental expense (operating leases)	(1.3)	(1.2)	(2.5)	(1.2)	(1.3)	(2.5)
Other	(3.0)	(2.5)	(5.5)	(2.7)	(2.8)	(5.5)
Total opex	(19.7)	(19.7)	(40.0)	(18.4)	(20.5)	(39.9)
EBITDA	5.4	5.5	10.2	4.8	6.8	10.5
% chg				-11.3%	23.2%	3.5%
Margin	21.5%	21.8%	20.3%	20.7%	24.8%	20.9%

Source: Company, Moelis Analysis

Our FY17 estimates are in-line with BPS' pro-forma guidance announced at the time of the Entertainment Book acquisition in August 2016. Given that most of the cost synergies and enhancement to the Entertainment Book offering should come in FY18, we view it is unlikely that the BPS will materially exceed its FY17 guidance.

Cash conversion should be better in 2H17

Entertainment Book generates the bulk of its cash receipts during April to July, the publication's major selling season. Consequently, 2H17 cash generated from operations will be significantly higher than 1H17. We estimate 2H17 cash flow from operations will be \$11.9m vs. 1H17 of \$1m. We expect BPS should be debt free by the end of FY17.

Figure 4: BPS - cash flow from operations

A\$m	1H16A	2H16A	FY16A	1H17A	2H17E	FY17E	FY18E	FY19E
Cash Flow from Operations	0.6	3.9	4.6	1.0	11.9	11.3	13.0	14.4
Capex	(1.8)	(4.8)	(6.7)	(2.4)	(1.1)	(3.5)	(1.9)	(1.9)
Free cash flow	(1.2)	(0.9)	(2.1)	(1.4)	10.8	7.7	11.1	12.4

Source: Company, Moelis Analysis

Profit and Loss (\$m)	2015a	2016a	2017e	2018e	2019e
Revenue	48.1	50.2	109.3	112.2	116.3
<i>Growth</i>	37.5%	4.3%	117.7%	2.6%	3.7%
EBITDA	9.9	9.5	14.3	18.3	20.2
<i>Growth</i>	27.5%	(4.7%)	50.6%	28.2%	10.7%
Dep'n & Amort	(0.6)	(0.8)	(1.3)	(1.1)	(1.1)
EBIT	9.3	8.7	13.0	17.2	19.1
<i>Growth</i>	19.8%	(7.2%)	49.9%	32.2%	11.2%
Net Interest Expense	0.0	(0.5)	(0.6)	(0.6)	(0.6)
Profit Before Tax	9.4	8.1	12.4	16.6	18.6
Tax	(1.5)	(0.8)	(1.6)	(2.2)	(2.4)
<i>Tax Rate (%)</i>	15.6%	9.7%	12.5%	13.3%	13.1%
Minorities	0.0	0.0	0.0	0.0	0.0
NPAT (Underlying)	7.9	7.4	10.9	14.4	16.1
<i>Growth</i>	1.4%	(6.9%)	47.9%	32.4%	11.8%
One-Off Items	0.0	0.0	0.0	0.0	0.0
NPAT (Reported)	7.9	7.4	10.9	14.4	16.1
EPS (Underlying) (€)	14.9	11.7	12.7	15.7	17.5
<i>Growth</i>	-	(21.4%)	8.3%	23.6%	11.8%

Balance Sheet (\$m)	2015a	2016a	2017e	2018e	2019e
Cash	2.7	0.9	11.5	19.3	27.6
Inventory	5.8	5.8	6.4	6.8	7.0
Current Receivables	6.3	10.4	11.7	12.4	12.8
PPE	1.2	1.0	3.1	3.6	4.0
Intangibles	26.4	32.2	66.2	66.6	67.1
Other	3.3	4.1	10.1	10.2	10.3
Total Assets	46.1	54.8	112.0	121.7	131.6
Current Payables	6.7	4.1	10.2	10.8	11.2
ST Debt	0.0	3.6	6.2	6.2	6.2
LT Debt	0.0	5.0	4.9	4.9	4.9
Provisions	1.7	1.9	2.2	2.2	2.2
Other	8.1	5.6	24.2	24.8	25.1
Total Liabilities	13.4	18.4	37.5	38.0	38.4
Net Assets	32.7	36.4	74.5	83.7	93.2
Equity & Reserves	26.2	25.9	56.9	57.0	57.0
Retained Profits	6.6	10.8	17.6	26.7	36.2
Shareholders' Equity	32.7	36.7	74.5	83.7	93.2
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	32.7	36.7	74.5	83.7	93.2

Cashflow (\$m)	2015a	2016a	2017e	2018e	2019e
EBITDA	9.9	9.5	14.3	18.3	20.2
Net Interest	0.0	(0.5)	(0.6)	(0.6)	(0.6)
Tax	0.0	(0.1)	(1.6)	(2.2)	(2.4)
Δ in Working Capital	(5.4)	(6.7)	4.2	(0.5)	(0.3)
Other	2.1	3.2	(3.3)	0.0	0.0
Operating Cash Flow	6.7	5.4	13.0	15.1	17.0
<i>Growth</i>	(14.1%)	(19.5%)	139.9%	16.4%	12.7%
Capex	(8.8)	(6.7)	(3.5)	(2.0)	(2.0)
Acquisitions	(16.1)	(1.5)	(23.5)	0.0	0.0
Divestments	0.3	0.0	0.0	0.0	0.0
Other	0.0	(1.4)	0.0	0.0	0.0
Investing Cash Flow	(24.6)	(9.5)	(27.0)	(2.0)	(2.0)
Equity Raised	22.5	4.6	25.9	0.0	0.0
Dividends Paid	(1.3)	(3.1)	(3.6)	(5.3)	(6.7)
Net Borrowings	0.0	1.6	2.4	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	21.2	3.1	24.7	(5.3)	(6.7)
FX / Non Cash Items	0.0	0.0	0.0	0.0	0.0
Change in Cash	3.4	(1.0)	10.6	7.8	8.3
Free Cash Flow	(2.7)	(2.1)	7.7	13.1	14.9

Valuation Summary	
Current Mkt Capitalisation	86.9
Shares on Issue	90.5
Last Price	0.960
12 Mth Target Price	1.350
Total Estimated 12 Mth Return	45.8%
12 Mth Fwd Capital Return	40.6%
12 Mth Fwd Dividend Yield	5.2%

Valuation Ratios	2015a	2016a	2017e	2018e	2019e
EPS (Underlying) (€)	14.9	11.7	12.7	15.7	17.5
<i>Growth</i>	-	(21.4%)	8.3%	23.6%	11.8%
P/E (x)	6.5x	8.2x	7.6x	6.1x	5.5x
Small Industrials (ex Fin's)	16.9x	17.0x	15.3x	13.9x	13.2x
Premium / (Discount)	nm	nm	nm	nm	nm
EV/EBITDA (x)	9.5x	10.0x	6.6x	5.2x	4.7x
Small Industrials (ex Fin's)	17.1x	18.9x	10.8x	9.8x	9.1x
Premium / (Discount)	nm	nm	nm	nm	nm
DPS (€)	5.5	4.0	5.0	6.9	7.7
<i>Growth</i>	-	(27.3%)	25.0%	37.5%	12.1%
Yield (%)	5.7%	4.2%	5.2%	7.2%	8.0%
Payout Ratio (%)	37.0%	34.2%	39.5%	43.9%	44.0%
Franking (%)	0.0%	50.0%	100.0%	100.0%	100.0%
NTA	6.3	4.5	8.3	17.1	26.1
NTA/Share (\$)	0.12	0.07	0.10	0.19	0.28

Performance Ratios	2015a	2016a	2017e	2018e	2019e
ROA	17.1%	13.3%	9.7%	11.8%	12.2%
ROE	24.1%	20.0%	14.6%	17.2%	17.3%
ROIC	24.1%	18.8%	16.4%	21.1%	23.1%
Net Debt (Cash) (\$m)	(2.7)	7.7	(0.4)	(8.2)	(16.4)
Net Debt/EBITDA (x)	(0.3x)	0.8x	0.0x	(0.4x)	(0.8x)
ND/(ND + Equity) (%)	(9.1%)	17.3%	(0.5%)	(10.8%)	(21.4%)
Interest Cover (x)	(282.5x)	16.2x	23.4x	30.9x	34.4x
Working Capital	2.9	9.7	(5.0)	(4.6)	(4.3)
Working Capital/Sales (%)	5.9%	19.3%	(4.6%)	(4.1%)	(3.7%)

Cash Flow Metrics	2015a	2016a	2017e	2018e	2019e
FCF/Share (\$)	(0.05)	(0.04)	0.09	0.14	0.17
Price/FCPS (x)	nm	nm	10.5x	6.6x	5.8x
Free Cash Flow Yield (%)	(5.3%)	(3.7%)	9.6%	15.1%	17.2%
Gross Cash Conversion	61.2%	54.8%	94.4%	97.6%	98.7%
Capex/Sales (%)	(18.2%)	(13.3%)	(3.2%)	(1.8%)	(1.8%)
Capex/Depreciation (x)	14.6x	8.3x	2.8x	1.8x	1.8x

Margins	2015a	2016a	2017e	2018e	2019e
EBITDA	20.7%	18.9%	13.0%	16.3%	17.4%
EBIT	19.4%	17.3%	11.9%	15.3%	16.4%
NPAT	16.4%	14.7%	10.0%	12.8%	13.9%

Valuation Methodology	
WACC (%)	11.7%
Discounted Cash Flow Valuation	1.250
Sum-of-the-Parts Valuation	n/a
Average Valuation	1.250
12 Mth Target Price	1.350

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Buy: >15% **Hold:** 5% to 15% **Sell:** <5%.

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SELL	HOLD	BUY
0.0%	34.4%	65.6%

Rating and Price Target History: BPS TECHNOLOGY LTD (BPS) as of 21/02/2017**GENERAL TERMS OF USE FOR MOELIS RESEARCH REPORTS**

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