

BPS TECHNOLOGY LTD

Buy

Progress on cost-out is key for the 1H17 result

Software & Services / Internet Software & Services

8 February 2017

Company Update

Ticker	BPS
Stock Price	\$0.940
Target Price	\$1.350
Forecast Capital Return	44.4%
Forecast Dividend Yield	5.3%
Estimated Total Return - 12 Mth Forward	49.7%

Company market data

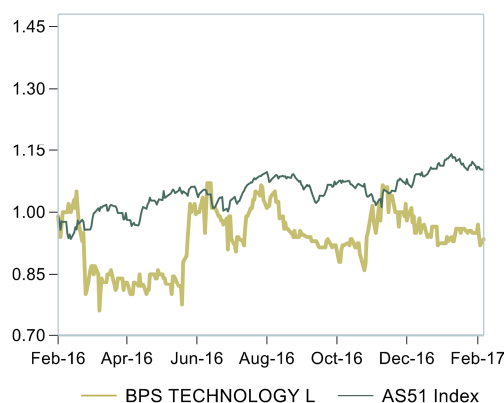
Market Cap.	\$84.6m
Free Float (%)	63.3
Enterprise Value	\$92.3m
52 Week Range	\$0.76 - \$1.07
Shares Out.	90.5m
Avg. Daily Value	\$0.0m

Estimates changes	2016a	2017e	2018e	2019e
Core NPAT - old	7.4	10.8	13.5	14.8
Core NPAT - new	7.4	10.8	13.5	14.8
% Change	0.0	0.0	0.0	0.0
Core EPS dil. (€) - old	11.7	12.8	14.9	16.3
Core EPS dil. (€) - new	11.7	12.8	14.9	16.3
% Change	0.0	0.0	0.0	0.0
DPS (€) - old	4.0	5.0	6.5	7.1
DPS (€) - new	4.0	5.0	6.5	7.1
% Change	0.0	0.0	0.0	0.0

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 reports its 1H17 results on Tuesday 21 February 2017. We expect BPS to report 1H17 pro-forma revenue of \$56.1m (a 10.9% increase on a comparable basis) and 1H17 pro-forma EBITDA of \$7.3m (a 9.8% increase on a comparable basis). Things to look for:

- **Update on the cost-out program:** We expect 2 main sources of cost savings – reduced rental expense and reduced IT and admin costs. While we expect the majority of cost savings to materialise in FY18 and FY19, we would be disappointed if BPS was not able to achieve some cost savings in FY17.
- **Move from physical books to digital memberships:** We estimate that the proportion of customers who subscribe to a print membership will decline from 75% in FY16 to 65% in FY17 and to 50% in FY19. We would expect that this would decrease Entertainment Book's production costs.
- **Update on enhancing the Entertainment Book app:** We understand that BPS may introduce an auto-renew function for digital subscriptions as early as February. Commentary regarding feedback, take up rates and timing on other enhancements e.g. making the app transactional, enabling bookings via the app would be key.
- **Maintaining Bartercard membership:** While our estimates for the Bartercard business assumes 1.5% growth in membership numbers, we notice that over the past few years, member numbers have remained at around ~24,000.
- **Future of Bucqi:** We understand that Bucqi is still in testing mode and has only been rolled out in Queensland. We would be keen to hear management's plans for the Bucqi system in light of the Entertainment Book acquisition.

Investment View

Trading at a FY17 PE of 7.3x with a 5.3% fully franked dividend yield, we view BPS as a value trade. We view the recent Entertainment Book acquisition as transformational for the business and can see a clear pipeline of cost out opportunity and revenue growth.

Y/E Jun 30	2016a	2017e	2018e	2019e
EBITDA	9.5	14.3	17.4	18.8
EV/EBITDA	9.8x	6.5x	5.3x	4.9x
Core NPAT	7.4	10.8	13.5	14.8
Core EPS (Diluted) (€)	11.7	12.8	14.9	16.3
P/E	8.0x	7.3x	6.3x	5.7x
EPS growth	(21.4%)	9.0%	17.0%	9.2%
DPS (€)	4.0	5.0	6.5	7.1
Yield	4.3%	5.3%	7.0%	7.6%
DPS growth	(27.3%)	25.0%	30.3%	9.1%
Dividend Payout Ratio	34.2%	39.2%	43.6%	43.6%

All figures are in AUD.

1H17 Result Expectations

Figure 1: BPS - Income Statement

A\$m	BPS GUIDANCE	MOELIS ESTIMATES			BPS GUIDANCE
	1H17	1H17E	2H17E	FY17E	FY17
Revenue	>55	56.1	53.5	109.6	109.1
Opex		(48.8)	(46.5)	(95.3)	(95.0)
EBITDA	>6.1	7.3	7.0	14.3	14.2
D&A		(0.6)	(0.6)	(1.3)	(1.3)
EBIT		6.7	6.4	13.0	12.8
Net interest expense		(0.3)	(0.3)	(0.7)	(0.6)
PBT		6.4	6.0	12.4	12.2
Effective tax rate		13%	13%	13%	13%
Tax expense		(0.8)	(0.8)	(1.6)	(1.6)
NPAT		5.5	5.2	10.8	10.6
Weighted avg. shares		77.6	90.5	84.4	90.5
EPS (cps)	>7.1	7.1	5.8	12.8	11.8

Source: Company, Moelis Analysis

Figure 2: BPS - Entertainment and Bartercard splits

A\$m	1H16A*	2H16A*	FY16A*	1H17E	2H17E	FY17E	1H18E	2H18E	FY18E	1H19E	2H19E	FY19E
BPS revenue	25.0	25.2	50.2	25.0	26.3	51.3	25.2	26.4	51.6	25.6	26.8	52.4
% chg	0.5%	8.4%	4.3%	-0.1%	4.5%	2.2%	0.7%	0.5%	0.6%	1.4%	1.4%	1.4%
EB revenue*	25.6	25.6	51.1	31.1	27.2	58.3	32.7	28.7	61.3	33.8	29.8	63.6
% chg				21.6%	6.4%	14.0%	5.1%	5.4%	5.2%	3.6%	3.8%	3.7%
Total revenue*	50.6	50.7	101.3	56.1	53.5	109.6	57.9	55.1	112.9	59.4	56.5	115.9
% chg				10.9%	5.5%	8.2%	3.1%	3.0%	3.0%	2.6%	2.7%	2.7%
BPS EBITDA	4.7	4.8	9.5	4.3	5.0	9.3	4.5	4.9	9.4	4.6	5.0	9.6
% chg	4.4%	-12.3%	-4.7%	-7.5%	4.5%	-1.4%	2.5%	-1.1%	0.6%	2.3%	2.2%	2.3%
EB EBITDA*	1.9	1.9	3.9	2.9	2.0	4.9	4.6	3.4	8.0	5.2	4.0	9.2
% chg				51.5%	3.5%	27.5%	56.3%	71.5%	62.5%	12.7%	16.3%	14.3%
Total EBITDA*	6.6	6.7	13.4	7.3	7.0	14.3	9.1	8.4	17.4	9.7	9.0	18.8
% chg				9.8%	4.2%	7.0%	24.2%	19.8%	22.0%	7.6%	8.0%	7.8%
Margin	13.1%	13.2%	13.2%	13.0%	13.1%	13.0%	15.6%	15.2%	15.4%	16.4%	16.0%	16.2%
D&A	(0.4)	(0.4)	(0.8)	(0.6)	(0.6)	(1.3)	(0.6)	(0.7)	(1.3)	(0.7)	(0.7)	(1.3)
EBIT	4.3	4.4	8.7	6.7	6.4	13.0	8.4	7.7	16.1	9.1	8.4	17.4
% chg				56.6%	44.2%	50.3%	26.1%	21.5%	23.8%	7.9%	8.4%	8.2%
Margin	8.4%	8.7%	8.6%	11.9%	11.9%	11.9%	14.5%	14.0%	14.3%	15.3%	14.8%	15.1%
Net interest expense	(0.2)	(0.4)	(0.5)	(0.3)	(0.3)	(0.7)	(0.3)	(0.3)	(0.6)	(0.3)	(0.2)	(0.5)
Tax expense	(0.6)	(0.2)	(0.8)	(0.8)	(0.8)	(1.6)	(1.1)	(1.0)	(2.0)	(1.1)	(1.1)	(2.2)
Effective tax rate	14%	5%	10%	13%	13%	13%	13%	13%	13%	13%	13%	13%
NPAT	3.5	3.8	7.3	5.5	5.2	10.8	7.0	6.5	13.5	7.7	7.1	14.8
% chg				57.6%	36.4%	46.6%	27.3%	23.6%	25.5%	8.9%	9.5%	9.2%

Source: Company, Moelis Analysis

We note that in figure 2 above, we have included Entertainment Book's FY16 revenue and EBITDA for the group so that a consistent comparison to FY17 can be made.

Profit and Loss (\$m)	2015a	2016a	2017e	2018e	2019e
Revenue	48.1	50.2	109.6	112.9	115.9
<i>Growth</i>	37.5%	4.3%	118.3%	3.0%	2.7%
EBITDA	9.9	9.5	14.3	17.4	18.8
<i>Growth</i>	27.5%	(4.7%)	50.8%	22.0%	7.8%
Dep'n & Amort	(0.6)	(0.8)	(1.3)	(1.3)	(1.3)
EBIT	9.3	8.7	13.0	16.1	17.4
<i>Growth</i>	19.8%	(7.2%)	50.3%	23.8%	8.2%
Net Interest Expense	0.0	(0.5)	(0.7)	(0.6)	(0.5)
Profit Before Tax	9.4	8.1	12.4	15.5	17.0
Tax	(1.5)	(0.8)	(1.6)	(2.0)	(2.2)
<i>Tax Rate (%)</i>	15.6%	9.7%	13.0%	13.0%	13.0%
Minorities	0.0	0.0	0.0	0.0	0.0
NPAT (Underlying)	7.9	7.4	10.8	13.5	14.8
<i>Growth</i>	1.4%	(6.9%)	46.3%	25.5%	9.2%
One-Off Items	0.0	0.0	0.0	0.0	0.0
NPAT (Reported)	7.9	7.4	10.8	13.5	14.8
EPS (Underlying) (€)	14.9	11.7	12.8	14.9	16.3
<i>Growth</i>	-	(21.4%)	9.0%	17.0%	9.2%

Balance Sheet (\$m)	2015a	2016a	2017e	2018e	2019e
Cash	2.7	0.9	15.3	22.4	30.0
Inventory	5.8	5.8	6.0	6.2	6.4
Current Receivables	6.3	10.4	11.0	11.3	11.6
PPE	1.2	1.0	2.1	2.1	2.1
Intangibles	26.4	32.1	66.8	67.5	68.1
Other	3.3	6.0	12.7	12.8	12.9
Total Assets	46.1	56.6	116.9	125.1	134.0
Current Payables	6.7	4.8	8.8	9.1	9.3
ST Debt	0.0	3.6	0.0	0.0	0.0
LT Debt	0.0	5.0	10.0	10.0	10.0
Provisions	1.7	1.9	1.9	1.9	1.9
Other	8.1	5.6	36.0	36.2	36.5
Total Liabilities	13.4	20.2	52.0	52.2	52.5
Net Assets	32.7	36.4	64.9	72.9	81.5
Equity & Reserves	26.2	25.8	46.7	46.8	46.8
Retained Profits	6.6	10.8	18.2	26.1	34.7
Shareholders' Equity	32.7	36.7	64.9	72.9	81.5
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	32.7	36.7	64.9	72.9	81.5

Cashflow (\$m)	2015a	2016a	2017e	2018e	2019e
EBITDA	9.9	9.5	14.3	17.4	18.8
Net Interest	0.0	(0.5)	(0.7)	(0.6)	(0.5)
Tax	0.0	(0.1)	(1.4)	(2.0)	(2.2)
Δ in Working Capital	(5.4)	(6.0)	3.2	(0.2)	(0.2)
Other	2.1	2.5	(4.2)	0.0	0.0
Operating Cash Flow	6.7	5.4	11.3	14.6	15.9
<i>Growth</i>	(14.1%)	(19.5%)	108.5%	29.4%	8.9%
Capex	(8.8)	(6.7)	(2.7)	(2.0)	(2.0)
Acquisitions	(16.1)	(1.5)	(22.5)	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)	(25.2)	(2.0)	(2.0)
Equity Raised	22.5	4.6	26.0	0.0	0.0
Dividends Paid	(1.3)	(3.1)	(3.5)	(5.6)	(6.2)
Net Borrowings	0.0	1.6	(1.3)	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	21.2	3.1	21.2	(5.6)	(6.2)
FX / Non Cash Items	0.0	0.0	0.0	0.0	0.0
Change in Cash	3.4	(1.0)	7.2	7.0	7.6
Free Cash Flow	(2.7)	(2.1)	8.6	12.6	13.8

Valuation Summary	
Current Mkt Capitalisation	84.6
Shares on Issue	90.5
Last Price	0.940
12 Mth Target Price	1.350
Total Estimated 12 Mth Return	49.7%
12 Mth Fwd Capital Return	44.4%
12 Mth Fwd Dividend Yield	5.3%

Valuation Ratios	2015a	2016a	2017e	2018e	2019e
EPS (Underlying) (€)	14.9	11.7	12.8	14.9	16.3
<i>Growth</i>	-	(21.4%)	9.0%	17.0%	9.2%
P/E (x)	6.3x	8.0x	7.3x	6.3x	5.7x
Small Industrials (ex Fin's)	16.9x	16.9x	15.0x	13.7x	13.0x
Premium / (Discount)	nm	nm	nm	nm	nm
EV/EBITDA (x)	9.3x	9.8x	6.5x	5.3x	4.9x
Small Industrials (ex Fin's)	16.8x	18.5x	10.7x	9.5x	8.8x
Premium / (Discount)	nm	nm	nm	nm	nm
DPS (€)	5.5	4.0	5.0	6.5	7.1
<i>Growth</i>	-	(27.3%)	25.0%	30.3%	9.1%
Yield (%)	5.9%	4.3%	5.3%	7.0%	7.6%
Payout Ratio (%)	37.0%	34.2%	39.2%	43.6%	43.6%
Franking (%)	0.0%	50.0%	100.0%	100.0%	100.0%
NTA	6.3	4.5	(1.9)	5.4	13.4
NTA/Share (\$)	0.12	0.07	(0.02)	0.06	0.15

Performance Ratios	2015a	2016a	2017e	2018e	2019e
ROA	17.1%	12.9%	9.2%	10.8%	11.0%
ROE	24.1%	20.0%	16.6%	18.5%	18.1%
ROIC	24.1%	18.8%	21.9%	26.6%	28.2%
Net Debt (Cash) (\$m)	(2.7)	7.7	(5.3)	(12.4)	(20.0)
Net Debt/EBITDA (x)	(0.3x)	0.8x	(0.4x)	(0.7x)	(1.1x)
ND/(ND + Equity) (%)	(9.1%)	17.4%	(9.0%)	(20.4%)	(32.5%)
Interest Cover (x)	(282.5x)	16.2x	19.9x	26.8x	35.3x
Working Capital	2.9	9.7	(17.7)	(17.4)	(17.2)
Working Capital/Sales (%)	5.9%	19.3%	(16.1%)	(15.4%)	(14.9%)

Cash Flow Metrics	2015a	2016a	2017e	2018e	2019e
FCF/Share (\$)	(0.05)	(0.04)	0.10	0.14	0.15
Price/FCPS (x)	nm	nm	9.2x	6.7x	6.1x
Free Cash Flow Yield (%)	(5.4%)	(3.8%)	10.8%	14.9%	16.4%
Gross Cash Conversion	61.2%	54.8%	94.0%	100.1%	100.8%
Capex/Sales (%)	(18.2%)	(13.3%)	(2.5%)	(1.8%)	(1.8%)
Capex/Depreciation (x)	14.6x	8.3x	2.2x	1.5x	1.5x

Margins	2015a	2016a	2017e	2018e	2019e
EBITDA	20.7%	18.9%	13.0%	15.4%	16.2%
EBIT	19.4%	17.3%	11.9%	14.3%	15.1%
NPAT	16.4%	14.7%	9.8%	12.0%	12.7%

Valuation Methodology	
WACC (%)	12.8%
Discounted Cash Flow Valuation	1.333
Sum-of-the-Parts Valuation	n/a
Average Valuation	1.333
12 Mth Target Price	1.350

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0.0%	33.9%	66.1%

Rating and Price Target History: BPS TECHNOLOGY LTD (BPS) as of 7/02/2017**GENERAL TERMS OF USE FOR MOELIS RESEARCH REPORTS**

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