

RECOMMENDATIONS

Rating	BUY ▲
Risk	Medium
Price Target	\$1.55
Share Price	\$0.79

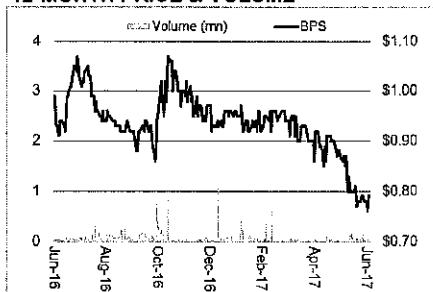
SNAPSHOT

Monthly Turnover	\$1.6mn
Market Cap	\$72mn
Shares Issued	91.3mn
52-Week High	\$1.07
52-Week Low	\$0.76
Sector	Information Technology

BUSINESS DESCRIPTION

BPS Technology Limited (BPS) is involved in driving customers to merchants through its trading and payments platforms. BPS operates Bartercard trade exchange and provides on-demand cloud based software for both the alternative digital and cash economies through the Tess and Bucqi platforms.

12-MONTH PRICE & VOLUME



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Disclosure

The author owns no shares in BPS.

BPS Technology (BPS)

COMPANY REPORT

Carpet ride begins

- **Update:** BPS has provided an FY17 and company update.
- **FY17:** BPS now estimates that FY17 revenue will be around A\$109.5m, which is nominally ahead of guidance of A\$109.1m. FY17 EBITDA is now expected to be in the range of A\$13.2-A\$13.7m compared to previous guidance of A\$14.2m (we were at A\$14.0m). The summary is that Entertainment Publications (EP) is ahead of expectations, offset by only two global Bartercard licences being sold during 2H17 with the deferment of other targeted licence sales not completed by end FY17. BPS is also citing softer Bartercard transaction volumes than expected. Synergies from the EP acquisition are expected to be an FY18 story.
- **Alibaba:** BPS announced it has now signed an agreement with Alibaba for 17k BPS merchants to be registered on the Alibaba platform. This will mean that these merchants will be able to sell goods to Alibaba's client base (160m users) with cash sales in lieu of the existing domestic barter model. BPS will earn fees on all transactions by its merchants on the Alibaba platform.
- **EP:** BPS cited that EP will be 10% ahead of internal budgets in FY17 and that digital application rates have increased from 30% to 40%. BPS also cited that EP has signed a number of new agreements to deliver the product into the corporate sector for use by customers/employees – this is a new revenue stream for EP.
- **Our view:** A nominal miss at the EBITDA line which does not surprise given the overall weakness in the retail environment – we think this has already been more than priced in given recent share price weakness. Encouragingly, EP is already delivering for BPS and the Alibaba relationship is now documented. We have not included any uplift in our forecasts as yet for the Alibaba relationship.
- **Changes to forecasts:** We have lowered FY17 forecasts by 3% with only nominal changes in outer years.
- **Investment view:** BUY call retained with revised DCF valuation of A\$1.55 (prev. A\$1.61) and unchanged price target of A\$1.55. Our BUY is based upon: 1) valuation – stock looks extremely cheap given improved fundamentals post the EP acquisition; 2) stability of the core domestic Bartercard franchise, with further upside from more offshore licence sales (France and Israel recently signed); 3) the EP acquisition has added a material profit stream that diversifies the group's business risks around the core Bartercard business and also has a host of upside leverage points from new products as digitisation increases; 4) reduced reliance upon more greenfield initiatives such as Bucqi and Tess to deliver profit in the short-term; 5) a significant expansion in BPS's addressable SME/NFP client base post the EP acquisition; and 6) the Alibaba relationship.

INVESTMENT SUMMARY

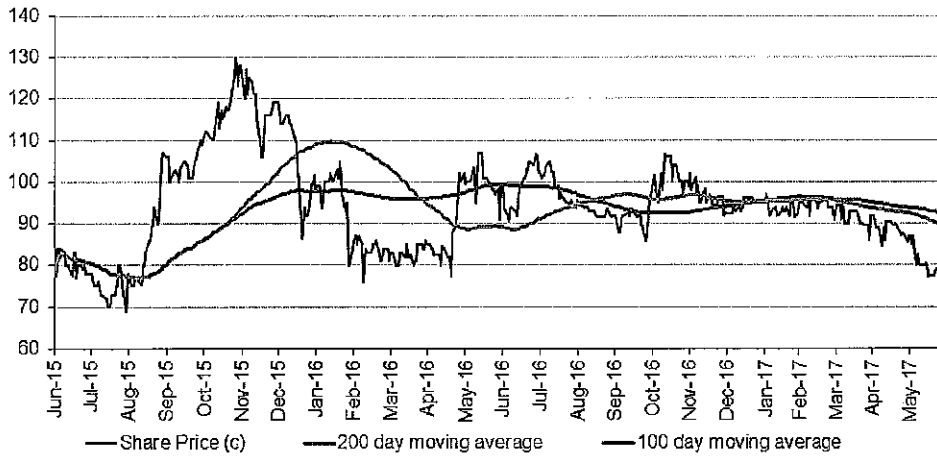
Year End: 30 June		2015 (A)	2016 (A)	2017 (E)	2018 (E)	2019 (E)
Revenue	\$mn	48	50	109	120	132
EBITDA	\$mn	10.0	9.5	13.6	18.6	21.8
EBIT	\$mn	9.4	8.7	12.1	16.8	19.8
Reported Profit	\$mn	7.9	7.3	10.6	13.5	16.0
Adjusted Profit	\$mn	7.9	7.3	10.6	13.5	16.0
EPS (Reported)	¢	13.5	12.6	11.8	14.7	17.5
EPS (Adjusted)	¢	13.5	11.7	11.7	14.6	17.3
EPS Growth	%	N/A	-13.2	-0.3	24.9	18.8
PER (Reported)	x	5.9	6.3	6.7	5.4	4.5
PER (Adjusted)	x	5.9	6.8	6.8	5.4	4.6
Dividend	¢	5.5	4.0	5.3	7.5	9.0
Yield	%	7.0	5.1	6.6	9.5	11.4
Franking	%	0	50	100	100	100

Financial summary

BPS Technology Ltd											
Analyst:	Nick Caley					Rating:	BUY				
Date:	29-June-2017					Price Target:	\$1.55				
Share Price (\$A):	\$0.79					Valuation:	\$1.55				
Year End:	30-Jun					Upside/(Downside):	96%				
Market Cap A\$m	\$72					Risk:	Medium				
PROFIT & LOSS (A\$m)	FY15A	FY16A	FY17E	FY18E	FY19E	EARNINGS	FY15A	FY16A	FY17E	FY18E	FY19E
Total Revenue	48.2	50.2	109.4	120.4	132.2	EPS - Reported	13.5	12.6	11.8	14.7	17.5
Cost of Sales	10.6	11.6	39.0	41.0	45.0	EPS - Normalised	13.5	11.7	11.7	14.6	17.3
Gross Profit	37.6	38.6	70.4	79.4	87.2	EPS Growth (%)	n/a	-13%	0%	25%	19%
Total Cash Operating Expenses	27.6	29.1	56.8	60.8	65.4	DPS	5.5	4.0	5.3	7.5	9.0
EBITDA	10.0	9.5	13.6	18.6	21.8	Franking (%)	0	50	100	100	100
Depreciation & Amortisation	0.6	0.8	1.5	1.8	2.0	Payout Ratio (%)	41%	34%	45%	51%	52%
EBIT	9.4	8.7	12.1	16.8	19.8						
Finance Costs	0.0	0.5	0.8	1.0	1.0	VALUATION	FY15A	FY16A	FY17E	FY18E	FY19E
Net Profit Before Tax	9.4	8.1	11.3	15.8	18.8	P/E (x)	5.9	6.8	6.8	5.4	4.6
Income Tax Expense	1.5	0.8	0.7	2.4	2.8	EV/EBIT (x)	5.0	7.6	6.5	4.2	3.2
Net Profit After Tax	7.9	7.3	10.6	13.5	16.0	EV/EBITDA (x)	4.7	6.9	5.8	3.8	2.9
BALANCE SHEET (A\$m)	FY15A	FY16A	FY17E	FY18E	FY19E	Dividend Yield (%)	7.0%	5.1%	6.6%	9.5%	11.4%
Current Assets						Price/Book (x)	1.4	1.3	1.0	0.9	0.8
Cash	2.7	0.9	13.7	21.4	29.8	Price/NTA (x)	7.3	10.2	-1776.1	7.4	3.6
Receivables	6.3	10.4	16.1	17.6	19.3	Price/Cash/Flow per Share (x)	7.6	10.8	12.4	5.0	4.2
Inventories	5.8	5.8	6.4	6.4	6.4						
Other	0.4	0.7	5.0	5.0	5.0	GROWTH	FY15A	FY16A	FY17E	FY18E	FY19E
Total Current Assets	15.2	17.8	41.1	50.4	60.5	Total Rev. Growth (% pcp)	n/a	4%	118%	10%	10%
Non Current Assets						Cash Op. Exp. Growth (% pcp)	n/a	7%	135%	6%	8%
Receivables	0.5	1.9	1.2	1.2	1.2	EBITDA Growth (% pcp)	n/a	-5%	44%	37%	17%
Property, Plant & Equipment	1.2	1.0	3.5	4.7	6.0	EBIT Growth (% pcp)	n/a	n/a	39%	39%	18%
Intangibles	26.4	32.1	72.1	70.3	68.3	NPBT Growth (% pcp)	n/a	n/a	38%	41%	19%
Other	2.8	4.1	8.5	8.5	8.5	NPAT Growth (% pcp)	n/a	n/a	44%	27%	19%
Total Non Current Assets	30.9	39.1	85.3	84.7	84.1						
Total Assets	46.1	56.9	126.4	135.1	144.6	MARGINS & RETURNS	FY15A	FY16A	FY17E	FY18E	FY19E
Current Liabilities						Gross Profit Margin (%)	78%	77%	64%	66%	66%
Payables	6.7	4.8	14.1	14.8	16.0	EBITDA Margin (%)	21%	19%	12%	15%	16%
Current Tax Liability	1.5	0.8	0.2	0.2	0.2	EBIT Margin (%)	19%	17%	11%	14%	15%
Loans & Borrowings	0.0	3.6	6.2	6.2	6.2	NPBT Margin (%)	19%	16%	10%	13%	14%
Provisions	1.4	1.6	15.6	15.6	15.6	ROE (%)	n/a	21%	17%	18%	19%
Total Current Liabilities	9.6	10.8	36.0	36.7	38.0	ROA (%)	n/a	14%	10%	10%	11%
Non Current Liabilities						Effective Tax Rate (%)	16%	10%	6%	15%	15%
Payables	2.6	1.8	0.0	0.0	0.0						
Deferred Tax Liability	0.9	0.0	3.7	3.7	3.7	GEARING	FY15A	FY16A	FY17E	FY18E	FY19E
Loans & Borrowings	0.0	5.0	14.0	14.0	14.0	Net Debt (A\$m)	-3	8	7	-1	-10
Other	0.3	2.6	0.6	0.6	0.6	Net Debt/Equity (%)	-8%	21%	9%	-2%	-11%
Total Non Current Liabilities	3.8	9.4	18.3	18.3	18.3	Int. Cover (x) - EBITDA/Net Int.	n/a	17.7	16.5	18.5	21.6
Total Liabilities	13.3	20.2	54.3	55.0	56.3						
Contributed Capital	26.2	26.2	54.6	54.6	54.6	SEGMENTAL	FY15A	FY16A	FY17E	FY18E	FY19E
Reserves	0.0	-0.3	0.0	0.0	0.0	Revenue By Geography					
Retained Earnings	6.6	10.8	17.5	25.5	33.7	Australia - Bartercard	43.5	42.8	41.6	42.9	44.1
Minority Interests	0.0	0.0	0.0	0.0	0.0	UK - Bartercard	4.2	6.2	5.6	7.6	9.9
Total Equity	32.7	36.7	72.1	80.1	88.3	USA - Bartercard	0.5	1.3	2.1	3.2	4.3
						The Entertainment Book	0.0	0.0	59.8	65.7	72.3
						Tess	0.0	0.0	0.3	1.0	1.5
						Total	48.2	50.2	109.4	120.4	132.2
CASH FLOW (A\$m)	FY15A	FY16A	FY17E	FY18E	FY19E						
Cash at Start	0.0	2.7	0.9	13.7	21.4						
Cash Flow from Ops	6.1	4.6	5.8	14.5	17.5						
Cash Flow From Investing	-24.6	-9.5	-26.5	-1.2	-1.3						
Cash Flow From Financing	21.2	3.1	33.5	-5.5	-7.8						
Net Cash Flow	2.7	-1.8	12.8	7.8	8.4						
Cash At End	2.7	0.9	13.7	21.4	29.8						

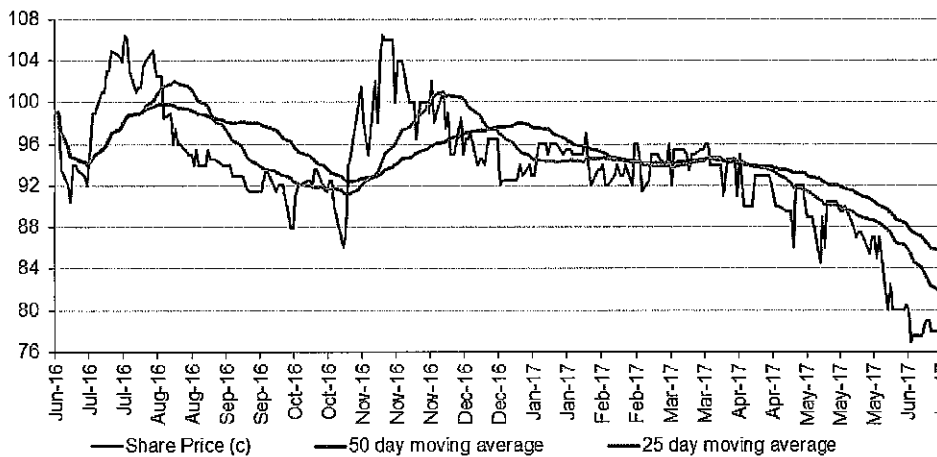
Appendix

FIG.1: LONG TERM MOMENTUM INDICATORS



Source: Iress

FIG.2: SHORT TERM MOMENTUM INDICATORS



Source: Iress

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Hold: The stock's total return is expected to trade within a range of \pm 10-15 percent from the current share price over the next 12 months.

Sell: The stock's total return is expected to decrease by at least 10-15 percent from the current share price over the next 12 months.

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Hold: 33%

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