

## RECOMMENDATIONS

Rating	<b>BUY ▲</b>
Risk	Medium
Price Target	<b>\$1.55</b>
Share Price	\$0.76

## SNAPSHOT

Monthly Turnover	\$1.1mn
Market Cap	\$65mn
Shares Issued	91.3mn
52-Week High	\$1.07
52-Week Low	\$0.70
Sector	Information Technology

## BUSINESS DESCRIPTION

### 12-MONTH PRICE & VOLUME



## RESEARCH ANALYST

**Nick Caley**

+ 613 9602 9283

[ncaley@baillieuholst.com.au](mailto:ncaley@baillieuholst.com.au)

**Nicolas Burgess, CFA**

+ 613 9602 9379

[nburgess@baillieuholst.com.au](mailto:nburgess@baillieuholst.com.au)

**Josh Kannourakis**

+ 613 9602 9265

[jkannourakis@baillieuholst.com.au](mailto:jkannourakis@baillieuholst.com.au)

## Disclosure

The author owns no shares in BPS.

# BPS Technology (BPS)

## COMPANY REPORT

### The good book now online

- FY17 result:** NPAT of A\$10.3m (+40% pcp). Revenue of A\$110.5m (+120% pcp) versus guidance of A\$109.5m. EBITDA of A\$13.7m (+45% pcp) versus guidance of A\$13.2-\$13.7m. Final dividend of A2.25cps making a total for FY17 of A4.5cps (FY16:A4cps).
- Key takeaways:** 1) result in line with pre-result guidance; 2) subdued trading conditions remained for Bartercard in 2H17 as was the case in 1H17; 3) Entertainment Book's (EB) performance continues to frank the rationale for its purchase; 4) EB attained digital sales of 42% in FY17 (FY16: 30%); 5) net debt/equity remains modest at 7% for FY17 with strong EBITDA cash conversion of 93%; 5) much of the spade work in FY17, such as the relationship with Alibaba and new product iterations for EB, has laid the foundation for growth from FY18; and 6) no numerical guidance has been provided yet for FY18.
- Bartercard (40% of FY17 revenue):** Revenue and EBITDA of A\$44.6m (-11% pcp) and A\$14.2m (-8% pcp) respectively. Revenue decline due to a combination of licence fees for the UK and US being included in FY16 and a 2% pcp decline in the core Bartercard volumes and subscriptions. Segment EBITDA margin largely stable. The outlook: 1) continue to establish more international Bartercard licences with revenue from upfront fees and a share of revenue; 2) new products recently added for travel, export, finance and insurance; and 3) uploading of Bartercard members on Alibaba.com targeting 2,000 Australian exporters into China on which BPS would take revenue share – BPS has targeted 10% of its group revenue via this channel going forward.
- Entertainment Book (60% of FY17 revenue):** Revenue and EBITDA of A\$65.8m and A\$6.0m respectively, with the business making its first year of contribution to the overall result. Somewhat quirky part-capitalisation of employee costs incurred through EB book-build phase in 2H17, will unwind in FY18 to match with revenue. The outlook: 1) target of 50%+ of EB subscribers moving to digital by FY18; 2) continue to target frequent value books which are white labelled for corporates; 3) continue to develop different digital iterations of EB; and 4) target Chinese tourists visiting Australia using the new relationship with Alipay and Alitrip.
- Changes to forecasts:** Reduction in FY18 and FY19 forecasts by 12% and 8% respectively - albeit from a low base. We have taken a more conservative view with revenue in Bartercard and margins overall.
- Investment view:** BUY, unchanged DCF valuation and price target of A\$1.55. BUY is based on: 1) valuation – stock looks very cheap given improved fundamentals post the EB acquisition; 2) stability of the domestic Bartercard franchise; 3) EB acquisition added a material profit stream, diversifying business risks from Bartercard business and has a host of upside leverage as digitisation increases; and 4) a significant expansion in BPS's addressable SME/NFP client base post the EB acquisition; and 5) the Alibaba relationship.

## INVESTMENT SUMMARY

Year End: 30 June		2016 (A)	2017 (A)	2018 (E)	2019 (E)	2020 (E)
Revenue	\$mn	50	110	121	131	142
EBITDA	\$mn	9.5	13.7	16.3	19.7	22.8
EBIT	\$mn	8.7	12.1	14.5	17.7	20.6
Reported Profit	\$mn	7.3	10.3	11.5	14.2	16.7
Adjusted Profit	\$mn	7.3	10.3	11.5	14.2	16.7
EPS (Reported)	¢	12.6	12.1	12.6	15.5	18.3
EPS (Adjusted)	¢	11.7	11.8	12.3	15.2	17.9
EPS Growth	%	-13.2	0.9	4.1	23.6	17.6
PER (Reported)	x	6.0	6.3	6.1	4.9	4.2
PER (Adjusted)	x	6.5	6.4	6.2	5.0	4.3
Dividend	¢	4.0	4.5	7.5	9.0	11.0
Yield	%	5.3	5.9	9.9	11.8	14.5
Franking	%	50	100	100	100	100

## Financial summary

<b>BPS Technology Ltd</b>											
<b>Analyst:</b>	Nick Caley					<b>Rating:</b>	<b>BUY</b>				
<b>Date:</b>	29-August-2017					<b>Price Target:</b>	\$1.55				
<b>Share Price (\$A):</b>	\$0.76					<b>Valuation:</b>	\$1.55				
<b>Year End:</b>	30-Jun					<b>Upside/(Downside):</b>	104%				
<b>Market Cap A\$m</b>	<b>\$65</b>					<b>Risk:</b>	Medium				
<b>PROFIT &amp; LOSS (A\$m)</b>	<b>FY16A</b>	<b>FY17A</b>	<b>FY18E</b>	<b>FY19E</b>	<b>FY20E</b>	<b>EARNINGS</b>	<b>FY16A</b>	<b>FY17A</b>	<b>FY18E</b>	<b>FY19E</b>	<b>FY20E</b>
<b>Total Revenue</b>	<b>50.2</b>	<b>110.5</b>	<b>121.0</b>	<b>131.0</b>	<b>142.3</b>	EPS - Reported	12.6	12.1	12.6	15.5	18.3
Cost of Sales	11.6	41.2	44.7	47.2	49.8	EPS - Normalised	11.7	11.8	12.3	15.2	17.9
<b>Gross Profit</b>	<b>38.6</b>	<b>69.3</b>	<b>76.2</b>	<b>83.9</b>	<b>92.5</b>	EPS Growth (%)	-13%	1%	4%	24%	18%
Total Cash Operating Expenses	29.1	55.6	59.9	64.2	69.8	DPS	4.0	4.5	7.5	9.0	11.0
<b>EBITDA</b>	<b>9.5</b>	<b>13.7</b>	<b>16.3</b>	<b>19.7</b>	<b>22.8</b>	Franking (%)	50	100	100	100	100
Depreciation & Amortisation	0.8	1.6	1.8	2.0	2.1	Payout Ratio (%)	34%	38%	61%	59%	62%
<b>EBIT</b>	<b>8.7</b>	<b>12.1</b>	<b>14.5</b>	<b>17.7</b>	<b>20.6</b>						
Finance Costs	0.5	0.8	1.0	1.0	1.0	<b>VALUATION</b>	<b>FY16A</b>	<b>FY17A</b>	<b>FY18E</b>	<b>FY19E</b>	<b>FY20E</b>
<b>Net Profit Before Tax</b>	<b>8.1</b>	<b>11.3</b>	<b>13.5</b>	<b>16.7</b>	<b>19.6</b>	P/E (x)	6.5	6.4	6.2	5.0	4.3
Income Tax Expense	0.8	1.1	2.0	2.5	2.9	EV/EBIT (x)	7.6	6.2	4.6	3.4	2.5
<b>Net Profit After Tax</b>	<b>7.3</b>	<b>10.3</b>	<b>11.5</b>	<b>14.2</b>	<b>16.7</b>	EV/EBITDA (x)	6.9	5.5	4.1	3.1	2.3
<b>BALANCE SHEET (A\$m)</b>	<b>FY16A</b>	<b>FY17A</b>	<b>FY18E</b>	<b>FY19E</b>	<b>FY20E</b>	Dividend Yield (%)	5.3%	5.9%	9.9%	11.8%	14.5%
<b>Current Assets</b>						Price/Book (x)	1.2	1.0	0.9	0.8	0.8
Cash	0.9	15.3	22.6	29.3	37.1	Price/NTA (x)	9.8	-10.2	41.9	6.9	3.5
Receivables	10.4	12.4	13.1	14.1	15.3	Price/Cash/Flow per Share (x)	10.4	5.5	5.4	4.5	3.9
Inventories	5.8	5.3	5.3	5.3	5.3	<b>GROWTH</b>	<b>FY16A</b>	<b>FY17A</b>	<b>FY18E</b>	<b>FY19E</b>	<b>FY20E</b>
Other	0.7	9.8	9.8	9.8	9.8	Total Rev. Growth (% pcp)	4%	120%	10%	8%	9%
<b>Total Current Assets</b>	<b>17.8</b>	<b>42.8</b>	<b>50.7</b>	<b>58.5</b>	<b>67.5</b>	Cash Op. Exp. Growth (% pcp)	7%	138%	8%	6%	7%
<b>Non Current Assets</b>						EBITDA Growth (% pcp)	-5%	45%	19%	20%	16%
Receivables	1.9	0.0	0.0	0.0	0.0	EBIT Growth (% pcp)	n/a	40%	20%	22%	17%
Property, Plant & Equipment	1.0	3.3	4.5	5.8	7.2	NPBT Growth (% pcp)	n/a	40%	19%	24%	18%
Intangibles	32.1	78.0	76.2	74.2	72.1	NPAT Growth (% pcp)	n/a	40%	11%	24%	18%
Other	4.1	9.5	9.5	9.5	9.5	<b>MARGINS &amp; RETURNS</b>	<b>FY16A</b>	<b>FY17A</b>	<b>FY18E</b>	<b>FY19E</b>	<b>FY20E</b>
<b>Total Non Current Assets</b>	<b>39.1</b>	<b>90.8</b>	<b>90.2</b>	<b>89.5</b>	<b>88.8</b>	Gross Profit Margin (%)	77%	63%	63%	64%	65%
<b>Total Assets</b>	<b>56.9</b>	<b>133.6</b>	<b>140.9</b>	<b>148.0</b>	<b>156.3</b>	EBITDA Margin (%)	19%	12%	13%	15%	16%
<b>Current Liabilities</b>						EBIT Margin (%)	17%	11%	12%	14%	15%
Payables	4.8	9.6	10.2	10.9	11.7	NPBT Margin (%)	16%	10%	11%	13%	14%
Current Tax Liability	0.8	1.0	1.0	1.0	1.0	ROE (%)	21%	17%	15%	18%	19%
Loans & Borrowings	3.6	7.2	7.2	7.2	7.2	ROA (%)	14%	10%	8%	10%	11%
Provisions	1.6	24.8	24.8	24.8	24.8	Effective Tax Rate (%)	10%	9%	15%	15%	15%
<b>Total Current Liabilities</b>	<b>10.8</b>	<b>42.7</b>	<b>43.3</b>	<b>44.0</b>	<b>44.8</b>	<b>GEARING</b>	<b>FY16A</b>	<b>FY17A</b>	<b>FY18E</b>	<b>FY19E</b>	<b>FY20E</b>
<b>Non Current Liabilities</b>						Net Debt (A\$m)	8	5	-2	-9	-17
Payables	1.8	0.8	0.8	0.8	0.8	Net Debt/Equity (%)	21%	7%	-3%	-11%	-18%
Deferred Tax Liability	0.0	5.0	5.0	5.0	5.0	Int. Cover (x) - EBITDA/Net Int.	17.7	17.9	16.1	19.4	22.5
Loans & Borrowings	5.0	13.0	13.0	13.0	13.0	<b>SEGMENTAL</b>	<b>FY16A</b>	<b>FY17A</b>	<b>FY18E</b>	<b>FY19E</b>	<b>FY20E</b>
Other	2.6	1.0	1.0	1.0	1.0	<b>Revenue By Geography</b>					
<b>Total Non Current Liabilities</b>	<b>9.4</b>	<b>19.7</b>	<b>19.7</b>	<b>19.7</b>	<b>19.7</b>	Australia - Bartercard	42.8	39.0	40.2	41.4	42.6
<b>Total Liabilities</b>	<b>20.2</b>	<b>62.4</b>	<b>63.1</b>	<b>63.8</b>	<b>64.5</b>	UK - Bartercard	6.2	4.2	4.8	5.5	6.4
Contributed Capital	26.2	54.6	54.6	54.6	54.6	USA - Bartercard	1.3	1.4	2.2	3.0	4.1
Reserves	-0.3	-0.7	-0.7	-0.7	-0.7	The Entertainment Book	0.0	65.8	73.7	81.1	89.2
Retained Earnings	10.8	17.3	23.9	30.3	37.9	Other	0.0	0.0	0.0	0.0	0.0
Minority Interests	0.0	0.0	0.0	0.0	0.0	<b>Total</b>	<b>50.2</b>	<b>110.5</b>	<b>121.0</b>	<b>131.0</b>	<b>142.3</b>
<b>Total Equity</b>	<b>36.7</b>	<b>71.1</b>	<b>77.8</b>	<b>84.2</b>	<b>91.8</b>	<b>CASH FLOW (A\$m)</b>	<b>FY16A</b>	<b>FY17A</b>	<b>FY18E</b>	<b>FY19E</b>	<b>FY20E</b>
<b>CASH FLOW (A\$m)</b>	<b>FY16A</b>	<b>FY17A</b>	<b>FY18E</b>	<b>FY19E</b>	<b>FY20E</b>	<b>Cash at Start</b>	<b>2.7</b>	<b>0.9</b>	<b>15.3</b>	<b>22.6</b>	<b>29.3</b>
<b>Cash at Start</b>	<b>2.7</b>	<b>0.9</b>	<b>15.3</b>	<b>22.6</b>	<b>29.3</b>	Cash Flow from Ops	4.6	12.0	13.2	15.8	18.4
Cash Flow from Ops	4.6	12.0	13.2	15.8	18.4	Cash Flow From Investing	-9.5	-29.2	-1.2	-1.3	-1.4
Cash Flow From Investing	-9.5	-29.2	-1.2	-1.3	-1.4	Cash Flow From Financing	3.1	31.7	-4.8	-7.8	-9.1
Cash Flow From Financing	3.1	31.7	-4.8	-7.8	-9.1	Net Cash Flow	-1.8	14.4	7.2	6.7	7.8
Net Cash Flow	-1.8	14.4	7.2	6.7	7.8	<b>Cash At End</b>	<b>0.9</b>	<b>15.3</b>	<b>22.6</b>	<b>29.3</b>	<b>37.1</b>
<b>Cash At End</b>	<b>0.9</b>	<b>15.3</b>	<b>22.6</b>	<b>29.3</b>	<b>37.1</b>						

**FIG.1: BPS TECHNOLOGY – FY17 RESULTS SUMMARY**

\$'000	2H17	1H17	% Change	2H16
<b>Revenue</b>				
Fee income <sup>1</sup>	17,464	18,754	-7%	14,008
Franchise and licence sales	276	1,365	-80%	3,974
Membership subscriptions	24,541	24,850	-1%	4,365
Gift Card sales	11,386	10,503	8%	–
Other	887	438	103%	2,777
<b>Total Revenue</b>	<b>54,554</b>	<b>55,910</b>	<b>-2%</b>	<b>25,124</b>
<b>Costs</b>				
Direct expenses	10,321	10,074	2%	8,266
Gift Card costs	10,848	9,948	9%	–
Building occupancy	2,296	2,364	-3%	1,246
Employee benefits	17,330	21,344	-19%	8,376
Other	6,960	5,278	32%	2,415
<b>Total Expenses</b>	<b>47,755</b>	<b>49,008</b>	<b>-3%</b>	<b>20,303</b>
Gross Profit Margin	61%	64%		67%
<b>EBITDA</b>	<b>6,799</b>	<b>6,902</b>	<b>-1%</b>	<b>4,821</b>
EBITDA margin	12.5%	12.3%	1%	19.2%
Depreciation & Amort	871	715	22%	364
Net interest paid	446	320	39%	424
Pre tax Profit	5,482	5,867	-7%	4,033
Tax	753	308	144%	199
<b>Net Profit after Tax</b>	<b>4,729</b>	<b>5,559</b>	<b>-15%</b>	<b>3,834</b>

Source: BPS Technology Investor Presentation

**FIG.2: BPS TECHNOLOGY – BARTERCARD DIVISION**

\$'000	FY17	2H17	1H17	FY16
Revenue	44,613	21,453	23,160	50,172
Expenses <sup>1</sup>	30,441	14,105	16,336	34,702
EBITDA	14,173	7,349	6,824	15,470
Depreciation	933	510	423	802
Segment Profit before Tax	13,240	6,839	6,401	14,668
Operating Margin	30%	32%	28%	29%

<sup>1</sup> FY16 Expenses exclude \$6m in corporate costs  
FY17 Corporate Costs reported as a separate segment

Source: BPS Technology Investor Presentation

**FIG.3: BPS TECHNOLOGY – ENTERTAINMENT BOOK DIVISION**

\$'000	FY17	2H17	1H17
Revenue	65,806	33,056	32,750
Subscriptions	43,917	21,670	22,247
Gift Card	21,889	11,386	10,503
Expenses	59,793	29,996	29,797
EBITDA	6,013	3,060	2,953
Depreciation	416	239	177
Segment Profit before Tax	5,597	2,821	2,776
Operating Margin	8.5%	8.5%	8.5%

Source: BPS Technology Investor Presentation

## Appendix

**FIG.4: LONG TERM MOMENTUM INDICATORS**



Source: Iress

**FIG.5: SHORT TERM MOMENTUM INDICATORS**



Source: Iress

This document has been prepared and issued by:

**Baillieu Holst Ltd**

ABN 74 006 519 393

Australian Financial Service Licence No. 245421

Participant of ASX Group

Participant of NSX Ltd

**Analysts' stock ratings are defined as follows:**

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

**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.

**Baillieu Holst Analysts' stock ratings distribution as of 30 May 2017:**

**Buy:** 64%

**Hold:** 33%

**Sell:** 3%

**Disclosure of potential interest and disclaimer:**

Baillieu Holst Ltd (Baillieu Holst) and/or its associates may receive commissions, calculated at normal client rates, from transactions involving securities of the companies mentioned herein and may hold interests in securities of the companies mentioned herein from time to time. Your adviser will earn a commission of up to 55% of any brokerage resulting from any transactions you may undertake as a result of this advice.

When we provide advice to you, it is based on the information you have provided to us about your personal circumstances, financial objectives and needs. If you wish to rely on our advice, it is important that you inform us of any changes to your personal investment needs, objectives and financial circumstances.

If you do not provide us with the relevant information (including updated information) regarding your investment needs, objectives and financial circumstances, our advice may be based on inaccurate information, and you will need to consider whether the advice is suitable to you given your personal investment needs, objectives and financial circumstances. Please do not hesitate to contact our offices if you need to update your information held with us. Please be assured that we keep your information strictly confidential.

No representation, warranty or undertaking is given or made in relation to the accuracy of information contained in this advice, such advice being based solely on public information which has not been verified by Baillieu Holst Ltd.

Save for any statutory liability that cannot be excluded, Baillieu Holst Ltd and its employees and agents shall not be liable (whether in negligence or otherwise) for any error or inaccuracy in, or omission from, this advice or any resulting loss suffered by the recipient or any other person.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments.

Baillieu Holst Ltd assumes no obligation to update this advice or correct any inaccuracy which may become apparent after it is given.

**Baillieu Holst Ltd**

ABN 74 006 519 393

Australian Financial Service Licence No. 245421

Participant of ASX Group

Participant of NSX Ltd

**www.baillieuholst.com.au**

**Melbourne (Head Office)**

**Address** Level 26, 360 Collins Street

Melbourne, VIC 3000 Australia

**Postal** PO Box 48, Collins Street West

Melbourne, VIC 8007 Australia

**Phone** +61 3 9602 9222

**Facsimile** +61 3 9602 2350

**Email** melbourne@baillieuholst.com.au

**Adelaide Office**

**Address** Ground Floor, 226 Greenhill Road,

Eastwood SA 5063

**Postal** PO Box 171

Fullarton SA 5063

**Phone** +61 8 7074 8400

**Facsimile** +61 8 8362 3942

**Email** adelaide@baillieuholst.com.au

**Bendigo Office**

**Address** Level 1, 10-16 Forest Street

Bendigo, VIC 3550

**Postal** PO Box 84

Bendigo, VIC 3552

**Phone** +61 3 4433 3400

**Facsimile** +61 3 4433 3430

**Email** bendigo@baillieuholst.com.au

**Geelong Office**

**Address** 16 Aberdeen Street

Geelong West Vic 3218

**Postal** PO Box 364

Geelong Vic 3220 Australia

**Phone** +61 3 5229 4637

**Facsimile** +61 3 4229 4142

**Email** geelong@baillieuholst.com.au

**Gold Coast Office**

**Address** Suite 202 Level 2, Eastside Building

6 Waterfront Place, Robina QLD 4226

**Phone** +61 7 5628 2670

**Facsimile** +61 7 5677 0258

**Email** goldcoast@baillieuholst.com.au

**Newcastle Office**

**Address** Level 1, 120 Darby Street

Cooks Hill, NSW 2300 Australia

**Postal** PO Box 111

The Junction, NSW 2291 Australia

**Phone** +61 2 4037 3500

**Facsimile** +61 2 4037 3511

**Email** newcastle@baillieuholst.com.au

**Perth Office**

**Address** Level 10, 191 St Georges Terrace

Perth WA 6000 Australia

**Postal** PO Box 7662, Cloisters Square

Perth, WA 6850 Australia

**Phone** +61 8 6141 9450

**Facsimile** +61 8 6141 9499

**Email** perth@baillieuholst.com.au

**Sydney Office**

**Address** Level 40, 259 George Street

Sydney, NSW 2000 Australia

**Postal** PO Box R1797

Royal Exchange, NSW 1225 Australia

**Phone** +61 2 9250 8900

**Facsimile** +61 2 9247 4092

**Email** sydney@baillieuholst.com.au