

19 May 2021

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Appen Ltd (APX)

Information Technology

HOLD

APX A\$12.46
TARGET PRICE A\$12.86

Provision of quality data solutions and services for machine learning and artificial intelligence applications for global technology companies, auto manufacturers and government agencies.

Company Data

Number of shares	123.1 M
Market Capitalisation	\$ 1,383.3 M
Free float (%)	90.7
12-month high/low	\$43.5/\$4.11
Average Daily Turnover (\$m)	8.7574
% S&P/ASX200	0.07
DDM Ranking	345
% All Ordinaries	0.058
GICS Industry Group	Software & Services

Source: FactSet, Barclay Pearce Capital

Earnings Summary (AUD)

Year end December	2020A	2021F	2022F	2023F
Revenue (\$M)	599.9	632.7	716.2	821.0
EBITDA (\$M)	107.9	112.3	135.1	158.1
Reported NPAT (\$M)	50.5	54.2	70.0	84.4
Adjusted NPAT (\$M)	64.4	61.1	76.4	93.9
Reported EPS (c)	40.9	44.8	58.2	70.3
Adjusted EPS (c - FD)	52.1	52.4	64.5	74.4
Adjusted EPS growth (%)	-3.2	0.6	23.2	15.4
Adjusted P/E (x)	21.6	21.5	17.4	15.1
Dividend (c/sh)	10.0	11.1	14.0	17.1
Gross yield (%)	1.3	1.4	1.8	2.2
Net yield (%)	0.9	1.0	1.2	1.5
ROIC (%)	12.2	13.2	17.1	20.6

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet, Nucleus 195 and Capital IQ.

Share price performance.



Source: FactSet, Barclay Pearce Capital

2H21 Trading Update

On 19 May 2021, Appen (APX) released a Business and Trading Update Presentation with the following highlights:

- Reporting in US dollars will enable easier comparison of financial performance across periods.
- Underlying EBITDA for the year ended 31 December 2021 is expected to be in the range of US\$83-90M, as per the guidance provided to the market at their FY20 Full Year Results in February;
- Heavy underlying EBITDA in 2H21 due to key projects that were delayed in late 2020 are returning with a skew to delivery in 2H21, 1H21 cost base reflects full year cost of 2020 hiring and resource optimisation benefits to flow 2H21; and
- APX restructured to align to their product-led growth strategy and distinct customer propositions.

New Organisational Structure:

- Consists of four customer facing business units – Global, Enterprise, China and Government;
- Global will focus on providing data annotation services and products to our major US technology (Global) customers;
- Enterprise will drive growth outside of Global customers by leveraging our product suite to serve new customers and AI use cases;
- China and Government will continue to focus on capturing share in their high growth markets;
- The new leadership structure, together with P&L responsibility, will increase visibility of, and accountability for, performance;
- Organisation alignment and technology-enabled productivity allow resources to be optimised and right sized for future needs; and
- New segment reporting according to our product and service offerings will provide greater transparency on performance, growth and market dynamics.

Resource Optimisation Outlook

- Restructuring costs in H1 2021, partial benefits to be realised in H2 2021; and
- Full year cost savings (before reinvestment) of US\$15M expected in 2022.

2021 Revenue Growth Outlook

- Global Services skewed to H2; full year mid to high single-digit growth; and
- New markets expected growth circa 25%, in line with broader AI market.

Earnings changes

In 2H21, APX maintains their FY21 underlying EBITDA guidance of US\$83-90m which equates to A\$105.1-113.9m which is in line with market expectations of A\$112.3m. Hence, we don't expect any significant earnings revisions for FY21 and future periods.

Valuation

We are initiating research coverage on APX with a 12-month price target of \$12.86 and with a HOLD recommendation. The price target is underpinned by our valuation.

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Barclay Pearce Capital provides research services to its client. Mr Wright is General Manager of Research and has over thirty (30) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2021 where he has been involved in the research and publication of reports. Prior to this Mr Wright worked at a number of entities where he held Director/Head of Research and General Manager of Research positions. Mr Wright holds a Bachelor of Mathematics (Honours) from Edinburgh University and has completed the SDIA Accreditation Program (RG146) through DeakinPrime.

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Buy – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of 15% or more within a 12-month period.

Hold – Describes stocks that are neither a buy nor underperform.

Underperform – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of less than minus 10% within a 12-month period.

NR – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Barclay Pearce Capital policies.

Speculative Buy – Describes stocks we research with a positive bias, whose company fundamentals and/or financials are being covered, but for which there is insufficient information for Barclay Pearce Capital to assign a Buy or Underperform rating.

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Buy	38.8%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Speculative Buy	0.2%	(100.0% of stocks with recommendations are Barclay Pearce clients)
Hold	21.6%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	39.4%	(0.0% of stocks with recommendations are Barclay Pearce clients)