

17 May 2022

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OFX Group Ltd (OFX)

Financial Services

UNDERPERFORM

OFX A\$2.48 TARGET PRICE A\$2.12

OFX's Principal Activity is the provision of international payments and foreign exchange services, with \$150b AUD in transfers, 1m customers globally, over 50 currencies offered and 8 office locations around the world.

Company Data

Number of shares	242.6M
Market Capitalisation	\$601.7M
Free float (%)	73.7
12-month high/low	\$1.22/\$2.60
Average Daily Turnover (\$m)	0.518
% S&P/ASX200	0.029%
DDM Ranking	364
% All Ordinaries	0.025%

GICS Industry Group Specialised Finance

Source: FactSet, Barclay Pearce Capital

Earnings Summary (AUD)

Year end March	2022F	2023F	2024F
Revenue (\$M)	164.0	227.6	243.3
EBITDA (\$M)	45.0	57.5	63.7
Reported NPAT (\$M)	25.4	25.5	33.5
Adjusted NPAT (\$M)	25.5	30.3	34.1
Adjusted EPS (c - FD)	10.2	12.1	13.7
Adjusted EPS growth (%)	80.1	19.3	13.2
Adjusted P/E (x)	26.3	22.1	19.7
Dividend (c/sh)	1.0	3.6	4.0
Gross yield (%)	0.6	2.1	2.3
Net yield (%)	0.4	1.4	1.6
ROIC (%)	59.4	27.2	28.8

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

FY22 Financial Results

On 17th May 2022, OFX Group Ltd (OFX) announced its FY22 Report with the following highlights:

Financial Highlights:

- Statutory NPAT more than doubled to \$24.5m up from \$12.1m in FY21;
- Underlying EBITDA \$44.5m up 53.1% with EBITDA margin of 30.3%, delivering positive operating leverage;
- Losses down 94.1% to \$0.1m due to investment in fraud technology driving an exceptional outcome;
- Record NOI of \$147.0m driven by revenue momentum and reductions across commissions and bank fees;
- Fee and trading income up 17.7% with strength across all regions and segments;
- NOI growth rate of 24.7% stronger than fee and trading income growth rate due to reduced partner commissions and efficiencies in banking relationships;
- Delivered operating leverage, with NOI growth of 24.7% exceeding expense growth of 15.4%, including an increased investment in technology, people and promotional expense;
- Double-digit revenue growth in all regions and segments and active client growth;
- Acquisition of Firma, aligned to strategy with growth in north America and Corporate;
- Continued risk and compliance performance;
- Effective tax rate of 23.8%, up from previous year tax rate of 22.7%; and
- Net cash held \$84.2m, up from \$23.6.

Outlook:

- Integration leads appointed on both sides and weekly operating mechanisms established;
- Product feature gap analysis underway;
- Synergy execution underway, \$5m+ by FY25;
- Integrate Firma – focus on people, synergies and client growth;
- Continue to grow North America, launch European expansion;
- Drive momentum in Corporate and Online Seller Segments;
- Win and activate Enterprise pipeline;
- Deliver returns from product risk, payments and technology investments;
- NOI (Including Firma) of \$200m - \$212m for FY23;
- Underlying EBITDA of \$55m - \$60m for FY23;
- Firma Underlying EPS accretion of 20%; and
- Intangible investment of \$12m - \$16m for FY23.

Earnings changes

For FY23, OFX expects underlying EBITDA of \$55m-\$60m. This compares to current market expectations of \$55.3m. Hence, we expect positive earnings revisions of 4% for FY23 and future periods.

Valuation

We are initiating research coverage on OFX with a 12-month target price of \$2.18 and UNDERPERFORM recommendation. The price target is underpinned by our valuation.

Disclaimer

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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.

Free Float (float / current shares outstanding) *100 – This float figure is the number of shares that are available to the public and is calculated by subtracting the shares held by insiders and those deemed to be stagnant shareholders. Stagnant holders include ESOP's, ESOT's, QUEST's, employee benefit trusts, founding shareholder equity stake plus senior management equity stake, corporations not actively managing money, venture capital companies and shares held by Governments.

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Valuation Methodology

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Barclay Pearce Capital Recommendation Proportions

Buy	40.7%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Hold	23.4%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	35.9%	(0.0% of stocks with recommendations are Barclay Pearce clients)