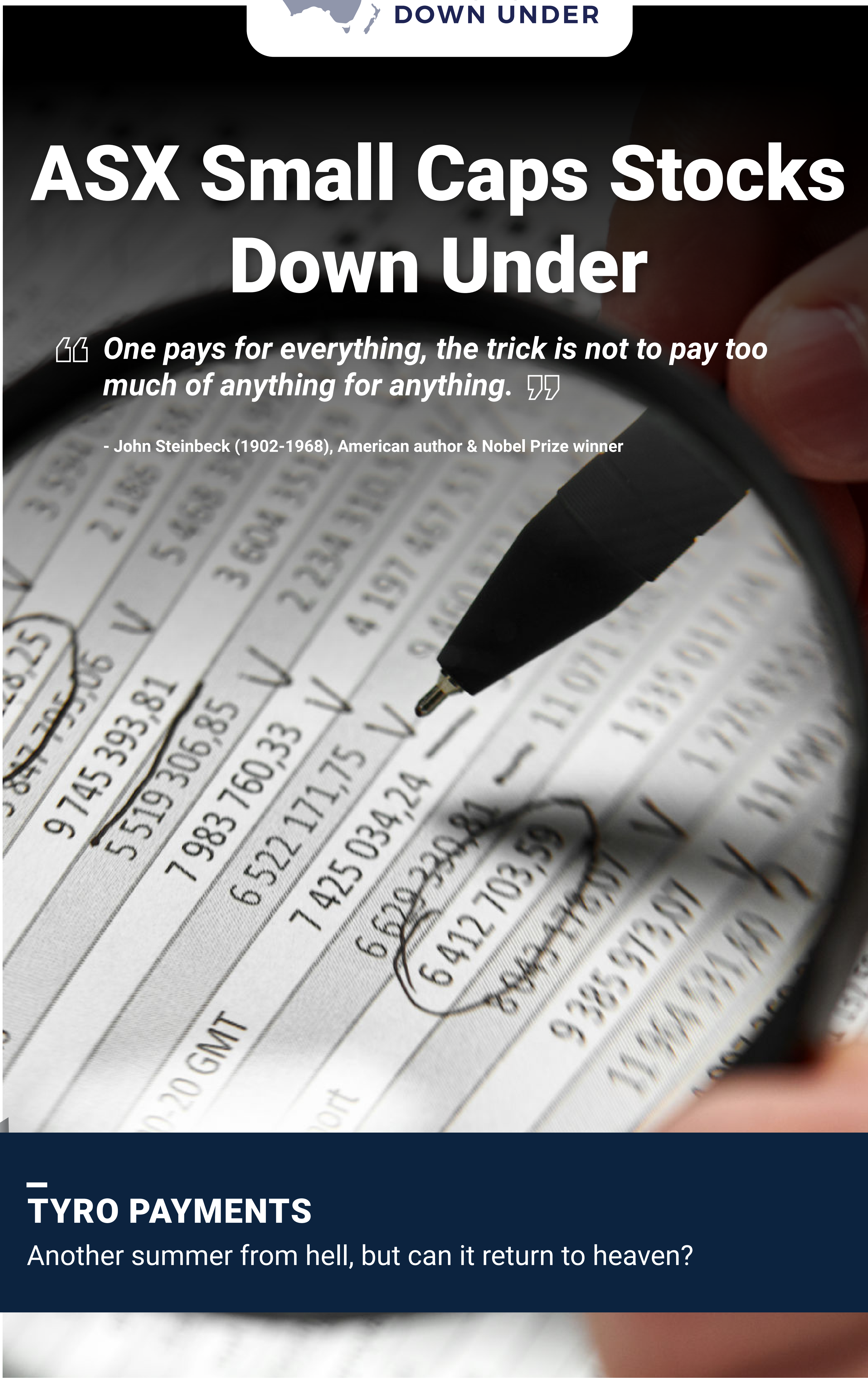
STOCKS DOWN UNDER

11 MARCH 2022



ASX Small Caps Stocks Down Under

> *One pays for everything, the trick is not to pay too much of anything for anything.*
>
> **- John Steinbeck (1902-1968), American author & Nobel Prize winner**

TYRO PAYMENTS

Another summer from hell, but can it return to heaven?

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Stocks Down Under rating: ★ ★ ★ ★

ASX: TYR
Market cap: A$886.3M

52-week range: A$1.42 / A$4.39
Share price: A$1.715

It has been just over three years since Tyro Payments listed on the ASX, and its recent share price crash was the third time. The first was in early 2020 due to the Corona Crash and the second was in early 2021 due to issues with the company's EFTPOS (Electronic Funds Transfer At Point Of Sales) terminals and a subsequent short-seller attack. In 2022, the stock has fallen again after its half yearly results, timed with a selloff in Tech shares over inflation fears as well as Russia's invasion of Ukraine. Tyro has bounced back after the previous two crashes, but will it recover again this time around?

Share price chart

Source: Tradingview

The Big Five?

Founded in 2003, Tyro's bread and butter is EFTPOS terminals and merchant payment services. It is the country's largest provider outside the Big Four Banks, supporting over 58,000 businesses, and focuses on retail, hospitality and healthcare. It also offers Medicare and private health fund claiming and rebating services – having recently acquired health fintech Medipass. Tyro is an Authorised Deposit-taking Institution, which means it has authority to carry on a banking business in Australia and it carries out a merchant cash advance loan product.

Over its journey, the company benefited from the gradual switch to digital payments and alliances it has stitched up. Tyro has an alliance with Bendigo Bank to be its exclusive merchant acquiring partner for its business banking customers. The pair launched a joint payment processing product in August 2021 and has processed ~$2.5bn in transactions to date. The company is also exclusive payment provider to eCommerce merchant me&u and exclusive merchant partner to Telstra's business customers.

Tyro's share price has crashed and recovered twice

Tyro listed at the back end of 2019, a far quieter year than either 2020 or 2021 was by quantity of IPOs, but a better year for quality with a higher average return. After gaining 60% - to $4.38 - in the first two months, the shares lost 70% from their peak, falling to $1.35. The company recovered as the economy emerged from its COVID hibernation.

But in the summer of 2020-21, Tyro experienced a malfunction, which left its clients unable to use its services for several days. While the share price crash wasn't as bad this time, it still lost 40% in a couple of months, while a report by short seller Viceroy compounded the crash. This issue isn't entirely behind Tyro - a class action has been launched and it remains before the courts. Nonetheless, the company's share price quickly recovered as Australia endured a few months without COVID cases leading to increased consumer confidence and spending in Tyro's targeted sectors.

The third crash

Last month, Tyro shares crashed for a third time, from $4.28 to $1.57 in late February. It's easy to blame Australia's shift to living with the virus and the consequential impact on consumer confidence and supply chains, but the company's volumes held up. In fact, payment volumes in the first six weeks of 2022 were 32% higher than in 2021. The company also revealed a partnership with Telstra to offer its services to Telstra's small business customers. But Tyro was caught up in a broader market sell-off as investors feared higher inflation and potentially higher interest rates. The slide particularly hit high-growth companies with negative earnings. And its half-yearly results, released in late February, compounded the decline.

There were some things to like about Tyro's half yearly results. There was a 68% jump in merchants, to 61,544, a 31% jump in transaction value processed to $15.8bn, revenue of $146m and a gross profit of $68.1m - all of which were company records. Unfortunately, Tyro's EBITDA fell from $8.5m to $2.8m, and its net loss blew out from $3.1m to $18.4m, enough to send it plummeting. Consensus estimates had forecast a maiden profit in FY23, but this puts that goal in significant doubt. Nonetheless, it is worth noting that this 6-month period covered the Sydney and Melbourne Delta lockdowns last year. The company blamed continuing investment costs, the lack of JobKeeper and wage inflation.

A few days after Tyro's results, CEO Robbie Cook and director David Thodey bought ~$300,000 in shares between them. Directors buying shares, particularly on market, is typically seen as a sign of confidence in the company by directors and therefore a good sign for shareholders.

Can it rebound again?

In FY23, the company is forecast to achieve $397.9m in revenue and $26.1m in EBITDA, followed by $458.3m in revenue and $39.9m in EBITDA in FY24. This gives the company an FY23 EV/EBITDA ratio of 32.8x , above the ASX average but not excessively so; especially since revenue and EBITDA growth is projected to be 24% and 208% from FY22. Tyro is trading at a premium to its closest competitor on the ASX, Smartpay (ASX: SMP), which is at 10.8x FY23 EV/EBITDA, but this company has lower EBITDA and market penetration. Nevertheless, Tyro is less expensive than payments company Block (ASX:SQ2), trading at 44.5x FY23 EV/EBITDA.

The last time we covered Tyro, in November last year, we gave the company 3 stars on the basis that all its growth was priced in. With the recent share price drop, it appears the market is giving less regard to its growth potential. Tyro only has a 4.4% market share of total card payments in Australia – depicting that a significant share of the market is still there for the taking.

So this time around, it's four stars from us.

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Stocks Down Under gives you an information advantage to better invest and trade in ASX-listed stocks!