STOCKS DOWN UNDER

22 APRIL 2022

ASX Small Caps Stocks Down Under

"Banking has to work when and where you need it."

- Brett King (b. 1968), American entrepreneur

PUSHPAY

The only ASX company that is digitising collection plates

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Stocks Down Under rating: ★★★★

ASX: PPH
Market cap: A$1.2BN

52-week range: A$0.82 / A$1.92
Share price: A$0.96

In an era where far fewer people carry cash, just how can you easily donate to churches and charities? PushPay (ASX: PPH) is one company that can help. It's been just over five months since we last covered PushPay and we gave it three stars purely on valuation grounds. With the worst of the Omicron outbreak and COVID-19 in general behind us, we think it is more fairly valued now.

Share price chart

Source: Tradingview

Keeping the money coming in for charities

PushPay (ASX: PPH) is a donor platform that allows not-for-profit organisations to accept donations in a seamless and hassle-free manner. It primarily makes money through transaction fees although it generates some revenue from subscription fees as well – the split is approximately 70/30. The company is headquartered in New Zealand, is listed in Australia and focuses on the USA. The US has a larger church-going population than either Australia or New Zealand, but also people willing to spend money to prove it.

The decline in people carrying cash has made pivoting to new methods of payment essential for churches and charities. Consequently, after the Corona Crash, PushPay's shares nearly tripled and it had significant momentum in signing new clients. In FY21, which for PushPay was the 12 months to 31 March 2021, it grew revenues by 40% from US$127.5m to US$179.1m, its gross margin from 65% to 68%, its EBITDAFI (F for foreign exchange losses and I for impairments) by 133% from US$25.2m to US$58.9m and its NPAT by 95% from US$16.0m to US$31.2m. Very impressive.

Yet even by then it had just scratched the surface considering it had just over 11,000 customers, while the US has over 300,000 churches with at least 500 members. In August 2021, it acquired streaming company Resi Media hoping the complementary offerings of both companies would help PushPay reach Resi's client base – which includes more than 70 of the 100 largest churches in the US.

It's been a tough few months

But in the last six months, the company's shares have declined over 40% and they're down 57% from the all-time-high in 2020. Obviously, the market conditions have not been ideal. Still, the company's 1HY22 results did not help with substantially slower growth figures. EBITDAFI only rose 1%, while revenue and total processing volume only rose by 9% - although direct third-party costs were primarily to blame.

The company also appointed a new CEO in Molly Matthews who had been with PushPay for four years and had gradually risen through the ranks. It is common for shareholders to reserve judgement on companies with new CEOs or managing directors particularly if immediate predecessors delivered positive results for the company. And indeed, outgoing CEO Bruce Gordon did so during his two-and-a-half-year tenure even though ironically, he was only interim CEO.

Also, shareholders are yet to see concrete evidence the Resi deal is paying off, although as we'll outline below, they won't have to wait long. Shareholders arguably thought the Resi deal would also help PushPay turn itself into a media provider or social network of sorts for religious communities and there could be further acquisitions. This has not happened just yet. You could also argue that churches and faith groups are in terminal decline and therefore this isn't a market worth investing in. Nevertheless, the company could pivot to other markets where the decline in religion is slower or to secular not-for-profit groups.

Valuation has come down

PushPay is currently trading at 13.4x EV/EBITDA and 19.8x P/E for FY23. Consensus estimates for FY23 call for US$243.8m in revenue and $70.2m in EBITDA, up 15% and 12% respectively from FY22 consensus estimates. It is difficult to compare PushPay to other companies because there are few other comparable firms on the ASX. Arguably the closest comparable company is 8common (ASX: 8CO), which processes financial transactions for government entities and large enterprises as well as to not-for-profits, but it has negative EBITDA and has a dual focus on expense management in addition to fund collection and disbursement.

We note that PushPay was recently removed from All Ords, but was trading at a premium to the index averages – 9.0x EV/EBITDA and 15.4x P/E for FY23. Despite the fact it is still at a premium, it is worth considering PushPay's valuation has come down in the last six months since its 1HY22 results in November. In these results, it depicted slower growth compared to the prior corresponding period thanks to a slow June quarter and although the September quarter was better investors feared the company wouldn't meet its earnings guidance. The decline means PushPay could be an opportunity now compared to when we last covered it. But is it?

Reporting day will be key

As a New Zealand-domiciled company with a financial year ending on 31 March, PushPay will be reporting its results next month – on 13 May. The company has reconfirmed and narrowed its FY22 guidance, expecting US$61.5m to US$63.5m underlying EBITDAFI, which would be up 6-10% compared to 12 months ago. It also revealed it saw total processing volume for the eleven months ended 28 February 2022 up 10% from the same period last year and its net debt balance has been paid down from US$90m to US$54m.

If these results are delivered, we might see an intraday sell off considering the market has punished many other companies in the recent reporting season that had slowing growth figures compared to figures from the year before, which had been inflated by the pandemic. NextDC (ASX: NXT) and Appen (ASX: APX) were two such examples.

However, there might be less attention for PushPay, being a New Zealand company, and one issuing results outside of reporting season. But no matter what happens on 13 May, we think the stock is well placed to grow in the years ahead. For those with a longer-term mindset – and willing to wait until after reporting season to buy in - this one is four stars.

Keep in mind, though, that the stock is technically still in a downtrend and may not yet have found its bottom. Furthermore, from a valuation point of view, the EV/EBITDA multiple of 9x indicates the stock is currently close to fair value given the expected 12% EBITDA growth rate for FY23. So, we'd prefer lower price levels before getting in, e.g. around 85 cents.

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