

Pushpay Holdings Ltd

1H21 Result: Changing Customer Mix

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OUTPERFORM

Pushpay (PPH) reported a solid 1H21 result, but despite the anticipated upgrade in guidance we recognise investor concerns around future front book growth. This was partially alleviated by a +4% growth in new customers using PPH's processing platform in 1H21, although the majority of these new customers were small or medium churches. We also recognise the higher than expected churn in customers using Church Community Builder (CCB), which were predominantly smaller scale churches. During COVID-19 total US giving across churches has remained robust while digital penetration has reached record highs. Going forward, we see a greater focus on inorganic growth with the company reliant on acquisitions to reach its long term revenue targets. We remain positive on the company, given 1) a high quality, superior product offering with extremely positive endorsements from large US megachurches, 2) a large and growing addressable market, 3) a high degree of cash generation within the business model, and 4) management execution to date.

NZX Code	PPH	Financials: Mar/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$8.40	NPAT* (NZ\$m)	26.9	55.8	68.0	78.9	PE	86.1	41.5	34.1	29.4
Target price	NZ\$11.44	EPS* (NZc)	9.8	20.2	24.6	28.5	EV/EBIT	69.7	28.0	24.6	21.6
Risk rating	High	EPS growth* (%)	-3.1	n/a	21.6	16.0	EV/EBITDA	55.6	24.8	22.3	19.9
Issued shares	275.4m	DPS (NZc)	0.0	0.0	0.0	0.0	Price / NTA	n/a	n/a	23.0	12.6
Market cap	NZ\$2,313m	Imputation (%)	0	0	0	0	Cash div yld (%)	0.0	0.0	0.0	0.0
Avg daily turnover	650.8k (NZ\$4,183k)	*Based on normalised profits					Gross div yld (%)	0.0	0.0	0.0	0.0

What's changed?

- **Earnings:** FY21 EBITDA adjusted from US\$60.8m to US\$60.5m
- **Target price:** Decreased from NZ\$13.86 to NZ\$11.44

A refocus on smaller to medium sized churches

We now view the top 1,700 US megachurches as near saturated given PPH's current focus to win churches sized at 700 average weekly members and above. Larger US megachurches are run in a similar fashion to a corporate entity and have a much higher growth rate than medium churches. PPH sees an opportunity within medium sized churches, which are typically less technologically advanced and in PPH's view, more open to an integrated platform. However, medium sized churches are less attractive given the higher competition involved and are less sticky, while exhibiting a lower historic growth rate of attendance and donations.

Acquisitive growth the likely driver behind long term revenue ambitions

PPH has suggested that its long term revenue target of generating US\$1bn is likely to be driven by additional acquisitions over the medium and long term. These are likely to be smaller competitor processing platforms, instead of acquisitions that expand its current product offering. This may lead to additional churn across any acquired customer base (as seen with CCB) but is likely to be value accretive if PPH is able to acquire companies at a discount to its own trading multiples.

Valuation decrease driven by changing customer mix

Given our increased weighting towards smaller churches for PPH's back book (current customers) which grow at a slower rate than larger churches, our forecast sales growth for FY22 decreases to 13% from 15%, reducing our EV/Sales valuation multiple. We also reduce our terminal market share assumption to 15% from 20% given the focus on medium to smaller sized churches.

Pushpay Holdings (PPH)

Priced as at 04 Nov 2020 (NZ\$)

8.40

12-month target price (NZ\$)*

11.44

Expected share price return

36.2%

Net dividend yield

0.0%

Estimated 12-month return

36.2%

Key WACC assumptions

Risk free rate

1.30%

Equity beta

1.08

WACC

8.1%

Terminal growth

2.0%

Spot valuations (NZ\$)

1. DCF

9.65

2. Revenue Multiple US

8.98

2. Revenue Multiple Australasia

14.06

DCF valuation summary (NZ\$m)

Total firm value

1,773

(Net debt)/cash

(50)

Less: Capitalised operating leases

(5)

Value of equity

1,718

Profit and Loss Account (US\$m)	2019A	2020A	2021E	2022E	2023E
Sales revenue	98.2	129.6	198.4	221.2	253.4
Normalised EBITDA	1.6	25.1	60.5	65.9	73.9
Depreciation and amortisation	(3.8)	(5.1)	(6.8)	(6.2)	(5.8)
Normalised EBIT	(2.2)	20.0	53.7	59.8	68.2
Net interest	0.2	(0.8)	(0.6)	0.6	2.0
Associate income	0	0	0	0	0
Tax	20.2	(5.7)	(13.9)	(16.9)	(19.6)
Minority interests	0	0	0	0	0
Normalised NPAT	18.8	16.0	35.7	43.5	50.5
Abnormals/other	0	0	0	0	0
Reported NPAT	18.8	16.0	35.7	43.5	50.5
Normalised EPS (cps)	6.9	5.8	13.0	15.7	18.3
DPS (NZ cps)	0	0	0	0	0

Growth Rates	2019A	2020A	2021E	2022E	2023E
Revenue (%)	40.5	32.0	53.1	11.5	14.6
EBITDA (%)	n/a	>100	>100	9.1	12.1
EBIT (%)	n/a	n/a	>100	11.4	14.1
Normalised NPAT (%)	n/a	-15.0	>100	21.8	16.1
Normalised EPS (%)	n/a	-15.2	>100	21.6	16.0
Ordinary DPS (%)	n/a	n/a	n/a	n/a	n/a

Cash Flow (US\$m)	2019A	2020A	2021E	2022E	2023E
EBITDA	1.6	25.1	60.5	65.9	73.9
Working capital change	(5.7)	(1.1)	2.4	2.2	3.2
Interest & tax paid	0	(1.0)	(1.5)	(17.6)	(20.0)
Other	1.4	0.4	0.2	0.8	0.8
Operating cash flow	(2.8)	23.5	61.6	51.3	58.0
Capital expenditure	(0.3)	(0.4)	(0.5)	(3.0)	(3.0)
(Acquisitions)/divestments	(0.0)	(84.4)	0	0	0
Other	0.1	(2.8)	(1.4)	0	0
Funding available/(required)	(3.1)	(64.1)	59.7	48.3	55.0
Dividends paid	0	0	0	0	0
Equity raised/(returned)	0	0	0	0	0
(Increase)/decrease in net debt	(3.1)	(63.2)	59.7	48.3	55.0

Balance Sheet (US\$m)	2019A	2020A	2021E	2022E	2023E
Working capital	8.1	11.3	16.8	18.8	21.5
Fixed assets	1.2	1.1	3.0	2.4	2.1
Intangibles	1.9	88.9	84.6	81.3	78.1
Right of use asset	0	3.3	3.3	3.3	3.3
Other assets	24.8	18.6	4.5	4.4	4.4
Total funds employed	36.0	123.3	112.2	110.1	109.3
Net debt/(cash)	(13.9)	49.7	(10.0)	(58.3)	(113.3)
Lease liability	0	2.3	2.3	2.3	2.3
Other liabilities	5.7	9.9	17.6	20.4	24.0
Shareholder's funds	44.3	61.3	102.2	145.7	196.3
Minority interests	0	0	0	0	0
Total funding sources	36.0	123.3	112.2	110.1	109.3

* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend

Valuation Ratios	2019A	2020A	2021E	2022E	2023E
EV/EBITDA (x)	>100x	55.6	24.8	22.3	19.9
EV/EBIT (x)	n/a	69.7	28.0	24.6	21.6
PE (x)	83.4	86.1	41.5	34.1	29.4
Price/NTA (x)	37.0	n/a	84.4	23.0	12.6
Free cash flow yield (%)	-0.2	1.7	4.2	3.5	3.9
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Gross dividend yield (%)	0.0	0.0	0.0	0.0	0.0

Capital Structure	2019A	2020A	2021E	2022E	2023E
Interest cover EBIT (x)	n/a	n/a	n/a	96.7	34.6
Interest cover EBITDA (x)	9.9	n/a	n/a	>100x	37.5
Net debt/ND+E (%)	-45.8	44.8	-10.8	-66.7	-136.5
Net debt/EBITDA (x)	n/a	2.0	n/a	n/a	n/a

Key Ratios	2019A	2020A	2021E	2022E	2023E
Return on assets (%)	-4.1	14.8	33.5	32.8	29.5
Return on equity (%)	42.5	26.1	35.0	29.8	25.7
Return on funds employed (%)	67.1	14.0	47.4	54.3	65.1
EBITDA margin (%)	1.6	19.4	30.5	29.8	29.2
EBIT margin (%)	-2.2	15.4	27.0	27.0	26.9
Capex to sales (%)	0.4	0.3	0.3	1.4	1.2
Capex to depreciation (%)	36	20	20	106	119
Imputation (%)	0.0	0.0	0.0	0.0	0.0
Pay-out ratio (%)	0.0	0.0	0.0	0.0	0.0

Revenue	2019A	2020A	2021E	2022E	2023E
Subscription Revenue	26.7	35.3	44.7	44.6	44.6
Processing Revenue	69.3	92.0	151.6	176.4	208.6
Other Revenue	2.3	2.3	2.1	0.3	0.3
Total Revenue	98.2	129.6	198.4	221.2	253.4

Revenue model	2019A	2020A	2021E	2022E	2023E
Total customers ('000)	7.6	10.9	11.1	11.2	11.3
CCB customers		2.7	2.4	2.4	2.5
Giving Customers	7.6	8.2	8.7	8.8	8.8
% S churches	44%	41%	43%	41%	39%
Implied number S churches	3.4	3.4	3.7	3.6	3.4
% M/L churches	56%	59%	57%	59%	61%
Implied number M/L churches	4.3	4.8	4.9	5.2	5.4
Processing volume (US\$bn)	4.2	5.0	7.9	8.8	9.9

1H21 Result driven by elevated digital penetration

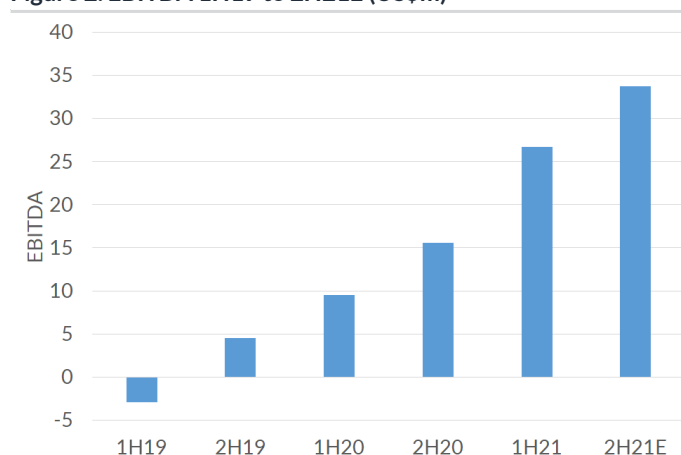
PPH's strong 1H21 result was driven predominantly by elevated levels of digital donations across US churches, illustrated by total operating revenue growth of 53%. Although PPH's 1H21 EBITDA was significantly above the prior year, it missed our expectations given the large margin of error previously highlighted due to 1) lack of visibility around front book growth and churn during the period, 2) a high level of monthly fluctuations in total US giving, and 3) the timing of new customer wins across the year. However there is a relative level of disconnect between the 1H21 result and PPH's raised guidance for FY21 EBITDA.

Figure 1. 1H21 results

(US\$'000)	1H20	1H21A	1H21 Forbarr	% difference
Total Operating Revenue	56,044	85,558	94,518	-9%
EBITDA	9,519	26,707	29,385	-9%
EBITDA margin %	17%	31%	31%	0%
PBT	8,501	18,781	26,502	-29%
NPAT	6,481	13,400	21,017	-36%

Source: Forsyth Barr analysis

Figure 2. EBITDA 1H19 to 2H21E (US\$m)



Source: Forsyth Barr analysis, PPH

Changes to forecasts

We update our earnings forecasts to increase the weighting of medium and smaller churches on PPH's processing platform following the 1H21 result. Additionally, we increase amortisation charges driving a greater decrease in NPAT forecasts for years FY21E to FY23E. Our FY21 EBITDA forecast of US\$60.4m remains above PPH's raised FY21 EBITDA guidance after proprietary church feedback suggests that a high level of donations are expected for the upcoming Christmas period (3Q21 for PPH), and an assumption that elevated levels of digital penetration across US churches is likely to remain for the foreseeable future.

Figure 3. Changes to earnings forecast FY21E-FY23E

(US\$'000)	FY21E			FY22E			FY23E		
	Old	New	% change	Old	New	% change	Old	New	% change
Revenue	196,947	198,410	0.7%	225,182	221,200	-1.8%	263,050	253,393	-3.7%
EBITDA	60,799	60,456	-0.6%	70,474	65,943	-6.4%	82,566	73,943	-10.4%
EBITDA margin %	30.9%	30.5%	-0.4%	31.3%	29.8%	-1.5%	31.4%	29.2%	-2.2%
NPAT	39,598	35,721	-9.8%	47,456	43,494	-8.3%	57,221	50,515	-11.7%
EPS (cent)	14.4	13.0	-9.8%	17.2	15.7	-8.3%	20.7	18.3	-11.7%

Source: Forsyth Barr analysis

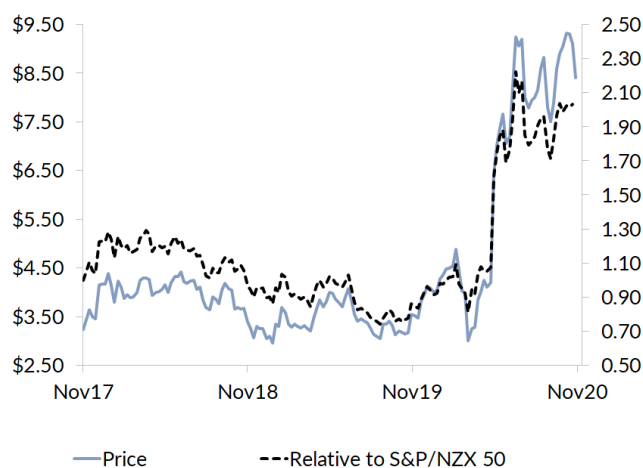
Valuation

We update our blended DCF multiple valuation approach rolled forward at the cost of equity, lowering our target price from NZ\$13.85 to NZ\$11.44. We decrease our terminal market share from 20% to 15% and our sales forecasts for FY22 are decreased from 15% to 13%. While US peers imply a multiple of 8.0x EV/Sales, Australian Technology peers imply an EV/Sales of 12.4x

Figure 4. Blended DCF and multiple valuation approach (NZ\$)

	Valuation	Rolled forward	Dividends	Target price
DCF 50%	9.65			
EV/Sales Emerging Cloud 25%	8.98			
EV/Sales Australasian 25%	14.06			
Blended Average	10.58	11.44	0.00	11.44

Source: Forsyth Barr analysis

Figure 5. Price performance


Source: Forsyth Barr analysis

Figure 6. Substantial shareholders

Shareholder	Latest Holding
Christopher & Banks V Limited	15.7%

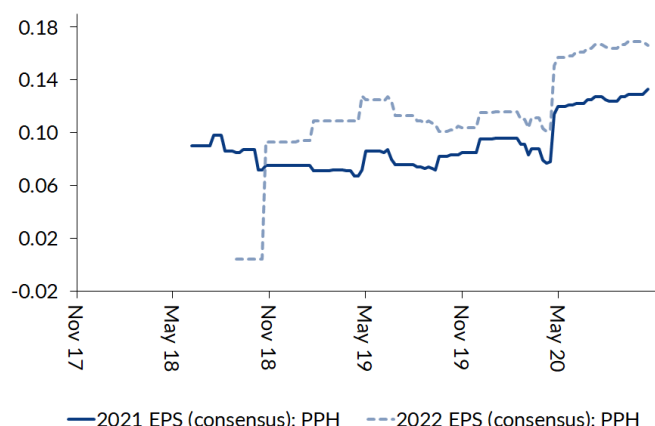
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 7. International valuation comparisons

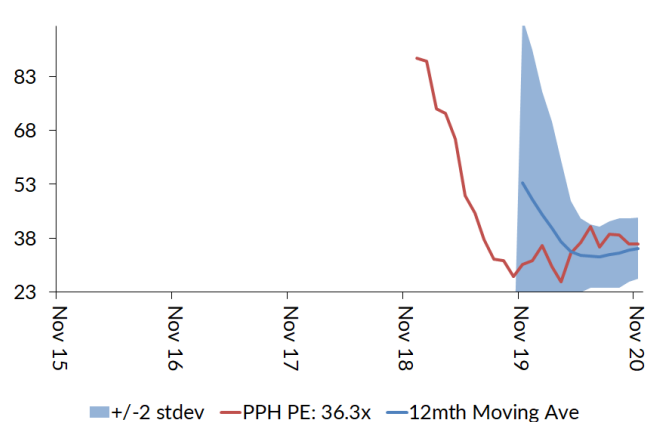
Company	Code	Price	Mkt Cap	PE	EV/EBITDA	EV/EBIT	Cash Yld
(metrics re-weighted to reflect PPH's balance date - March)							
Pushpay Holdings	PPH NZ	NZ\$8.40	NZ\$2,313	41.5x	34.1x	25.4x	0.0%
ADOBE INC	ADBE US	US\$452.73	US\$217,183	43.9x	38.5x	33.3x	0.0%
ATLASSIAN CORP PLC-CLASS A	TEAM US	US\$183.11	US\$45,631	>50x	>50x	>75x	0.0%
J2 GLOBAL INC	JCOM US	US\$73.62	US\$3,505	9.7x	9.0x	7.9x	0.0%
PAYCOM SOFTWARE INC	PAYC US	US\$367.39	US\$21,504	>50x	>50x	65.2x	0.0%
PAYLOCITY HOLDING CORP	PCTY US	US\$185.18	US\$10,045	>50x	>50x	71.2x	0.0%
PAYPAL HOLDINGS INC	PYPL US	US\$179.58	US\$210,407	45.6x	37.8x	33.1x	0.0%
REALPAGE INC	RP US	US\$57.55	US\$5,865	30.7x	26.4x	22.0x	n/a
RINGCENTRAL INC-CLASS A	RNG US	US\$255.45	US\$22,724	>50x	>50x	>75x	n/a
VEEVA SYSTEMS INC-CLASS A	VEEV US	US\$271.75	US\$40,987	>50x	>50x	67.7x	0.0%
WORKDAY INC-CLASS A	WDAY US	US\$207.10	US\$49,082	>50x	>50x	44.9x	0.0%
ZOOM VIDEO COMMUNICATIONS-A	ZM US	US\$449.58	US\$127,869	>50x	>50x	>75x	0.0%
Compco Average:				32.5x	28.0x	43.2x	0.0%
PPH Relative:				28%	22%	-41%	n/a

EV = Current Market Cap + Actual Net Debt

Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (PPH) companies fiscal year end

Figure 8. Consensus EPS momentum (NZ\$)


Source: Forsyth Barr analysis

Figure 9. One year forward PE (x)


Source: Forsyth Barr analysis

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