

# Pushpay Holdings Ltd

## Are We There Yet?

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### NEUTRAL

In an unscheduled trading announcement, Pushpay (PPH) has 1) announced the appointment of internal candidate Molly Matthews (Chief Customer Officer) as its new CEO, and 2) updated its FY21 guidance in light of stronger than expected processing volumes in December 2020. Speaking to several megachurches in recent months, we are unsurprised by the strong processing volumes as our feedback suggests US church donations have been buoyant during 2020 due to 1) continued support of congregation members in times of hardship, 2) the recent re-opening of churches albeit with strict social distancing, plus high online church participation, and 3) digital penetration remaining at elevated levels post lockdown. Whilst PPH's new customer church growth has disappointed in FY21 to date, total processing volumes and earnings have been driven by the jump in digital penetration, accelerated by COVID-19 related restructuring. With a soft front book expected for FY22 and the threat of further shareholder sell downs weighing heavily on the stock, we retain our NEUTRAL rating.

NZX Code	PPH	Financials: Mar/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$1.70	NPAT* (NZ\$m)	26.9	56.0	67.2	72.3	PE	17.4	33.5	28.0	26.0
Target price	NZ\$2.00	EPS* (NZc)	9.8	5.1	6.1	6.5	EV/EBIT	56.8	22.8	20.2	19.1
Risk rating	High	EPS growth* (%)	-3.1	-48.0	19.9	7.5	EV/EBITDA	45.3	20.2	18.3	17.5
Issued shares	1104.1m	DPS (NZc)	0.0	0.0	0.0	0.0	Price / NTA	n/a	n/a	18.8	10.6
Market cap	NZ\$1,877m	Imputation (%)	0	0	0	0	Cash div yld (%)	0.0	0.0	0.0	0.0
Avg daily turnover	2,886k (NZ\$5,032k)	*Based on normalised profits					Gross div yld (%)	0.0	0.0	0.0	0.0

#### What's changed?

- **Target price:** We decrease our target price from NZ\$2.31 to NZ\$2.00. This is driven by updates to peer multiples, and a decrease to PPH's terminal EBITDA margin assumption from 37.5% to 35% given the recent slowdown in new church customer sales.

#### Update to guidance unsurprising

PPH has updated its FY21 EBITDA guidance from US\$54m–58m to US\$56–60m (+4% at the mid-point) against our current EBITDA forecast of US\$60.6m. We remain comfortable with our above range estimate in light of strong processing volume growth momentum.

#### Molly Matthews — new CEO appointment

In a surprising move, PPH has appointed Chief Customer Officer Molly Matthews as CEO, assuming duties from 1 March 2021. She has been with PPH since January 2017 and is currently based in Seattle, US. Previous experience includes Director of K-12 Education (seven years), Management Consulting (four years) and she has held positions at PPH as: Senior Implementation Manager (eight months), Senior manager of Enterprise & Strategic Accounts (two years), Director of Customer Success (two years) and most recently Chief Customer Officer (ten months).

#### A new focus on the Catholic church?

PPH has reiterated its strategic intent on allocating resource and investment on the Catholic church — in our view a far smaller opportunity than nondenominational and evangelical churches. We expect to hear more details at the full year result on 12 May 2021.

## Pushpay Holdings (PPH)

Priced as at 12 Jan 2021 (NZ\$) **1.70**

<b>12-month target price (NZ\$)*</b>	<b>2.00</b>
Expected share price return	17.6%
Net dividend yield	0.0%
Estimated 12-month return	17.6%

<b>Key WACC assumptions</b>	
Risk free rate	1.30%
Equity beta	1.08
WACC	8.1%
Terminal growth	2.0%

<b>Spot valuations (NZ\$)</b>	
1. DCF	1.74
2. Revenue Multiple	2.00
3. n/a	n/a

<b>DCF valuation summary (NZ\$m)</b>	
Total firm value	1,423
(Net debt)/cash	(49)
Less: Capitalised operating leases	(5)
Value of equity	1,369

<b>Profit and Loss Account (US\$m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Sales revenue	98.2	129.6	198.0	215.8	237.7
<b>Normalised EBITDA</b>	<b>1.6</b>	<b>25.1</b>	<b>60.6</b>	<b>65.3</b>	<b>68.2</b>
Depreciation and amortisation	(3.8)	(5.1)	(6.8)	(6.2)	(5.8)
<b>Normalised EBIT</b>	<b>(2.2)</b>	<b>20.0</b>	<b>53.8</b>	<b>59.1</b>	<b>62.4</b>
Net interest	0.2	(0.8)	(0.6)	0.6	1.9
Associate income	0	0	0	0	0
Tax	20.2	(5.7)	(13.9)	(16.7)	(18.0)
Minority interests	0	0	0	0	0
<b>Normalised NPAT</b>	<b>18.8</b>	<b>16.0</b>	<b>35.8</b>	<b>43.0</b>	<b>46.3</b>
Abnormals/other	0	0	0	0	0
<b>Reported NPAT</b>	<b>18.8</b>	<b>16.0</b>	<b>35.8</b>	<b>43.0</b>	<b>46.3</b>
Normalised EPS (cps)	6.9	5.8	3.2	3.9	4.2
DPS (NZ cps)	0	0	0	0	0

<b>Valuation Ratios</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
EV/EBITDA (x)	>100x	45.3	20.2	18.2	17.5
EV/EBIT (x)	n/a	56.8	22.7	20.1	19.1
PE (x)	16.9	17.4	33.5	28.0	26.0
Price/NTA (x)	7.5	n/a	67.9	18.8	10.6
Free cash flow yield (%)	-0.2	2.1	5.1	4.2	4.5
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

<b>Capital Structure</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Interest cover EBIT (x)	n/a	n/a	n/a	97.3	33.4
Interest cover EBITDA (x)	9.9	n/a	n/a	>100x	36.5
Net debt/ND+E (%)	-45.8	44.8	-10.9	-65.9	-129.6
Net debt/EBITDA (x)	n/a	2.0	n/a	n/a	n/a

<b>Growth Rates</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Revenue (%)	40.5	32.0	52.8	9.0	10.1
EBITDA (%)	n/a	>100	>100	7.7	4.5
EBIT (%)	n/a	n/a	>100	9.9	5.6
Normalised NPAT (%)	n/a	-15.0	>100	20.0	7.7
Normalised EPS (%)	n/a	-15.2	-44.1	19.9	7.5
Ordinary DPS (%)	n/a	n/a	n/a	n/a	n/a

<b>Key Ratios</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Return on assets (%)	-4.1	14.8	33.5	32.6	27.8
Return on equity (%)	42.5	26.1	35.0	29.6	24.2
Return on funds employed (%)	67.1	14.0	47.6	53.5	59.2
EBITDA margin (%)	1.6	19.4	30.6	30.2	28.7
EBIT margin (%)	-2.2	15.4	27.2	27.4	26.3
Capex to sales (%)	0.4	0.3	0.3	1.4	1.3
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

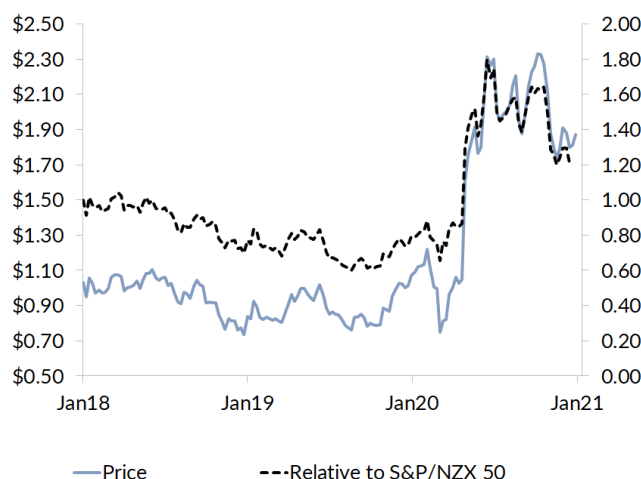
<b>Cash Flow (US\$m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
<b>EBITDA</b>	<b>1.6</b>	<b>25.1</b>	<b>60.6</b>	<b>65.3</b>	<b>68.2</b>
Working capital change	(5.7)	(1.1)	2.4	2.0	2.8
Interest & tax paid	0	(1.0)	(1.5)	(17.4)	(18.3)
Other	1.4	0.4	0.2	0.8	0.8
<b>Operating cash flow</b>	<b>(2.8)</b>	<b>23.5</b>	<b>61.7</b>	<b>50.7</b>	<b>53.5</b>
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
<b>Funding available/(required)</b>	<b>(3.1)</b>	<b>(64.1)</b>	<b>59.8</b>	<b>47.7</b>	<b>50.5</b>
Dividends paid	0	0	0	0	0
Equity raised/(returned)	0	0	0	0	0
<b>(Increase)/decrease in net debt</b>	<b>(3.1)</b>	<b>(63.2)</b>	<b>59.8</b>	<b>47.7</b>	<b>50.5</b>

<b>Revenue</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Subscription Revenue	26.7	35.3	48.4	50.3	51.4
Processing Revenue	69.3	92.0	147.1	164.9	185.7
Other Revenue	2.3	2.3	2.5	0.6	0.6
<b>Total Revenue</b>	<b>98.2</b>	<b>129.6</b>	<b>198.0</b>	<b>215.8</b>	<b>237.7</b>

<b>Revenue model</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Total customers ('000)	7.6	10.9	0.0	0.0	0.0
CCB customers		4.2	4.3	4.4	4.5
Giving Customers	7.6	8.2	8.7	9.1	9.4
% S churches	44%	41%	44%	46%	47%
Implied number S churches	3.4	3.4	3.8	4.1	4.4
% M/L churches	56%	59%	56%	54%	53%
Implied number M/L churches	4.3	4.8	4.9	4.9	5.0
Processing volume (US\$bn)	4.2	5.0	7.7	8.2	9.3

<b>Balance Sheet (US\$m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Working capital	8.1	11.3	16.8	18.3	20.2
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
<b>Total funds employed</b>	<b>36.0</b>	<b>123.3</b>	<b>112.1</b>	<b>109.7</b>	<b>108.1</b>
Net debt/(cash)	(13.9)	49.7	(10.1)	(57.7)	(108.2)
Lease liability	0	2.3	2.3	2.3	2.3
Other liabilities	5.7	9.9	17.6	19.8	22.2
Shareholder's funds	44.3	61.3	102.3	145.3	191.7
Minority interests	0	0	0	0	0
<b>Total funding sources</b>	<b>36.0</b>	<b>123.3</b>	<b>112.1</b>	<b>109.7</b>	<b>108.1</b>

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

**Figure 1. Price performance**


Source: Forsyth Barr analysis

**Figure 2. Substantial shareholders**

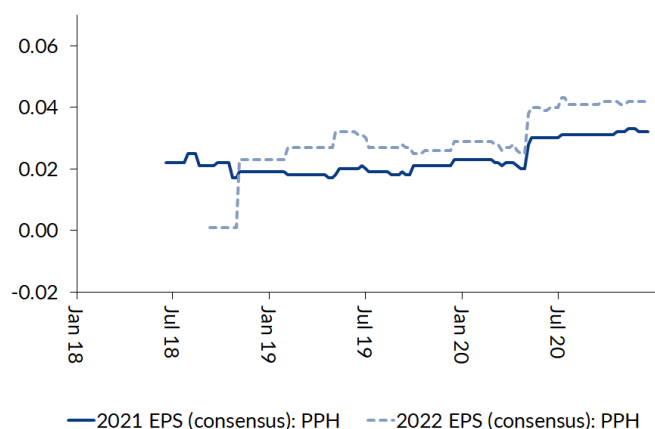
Shareholder	Latest Holding
No current substantial shareholders	

**Figure 3. International valuation comparisons**

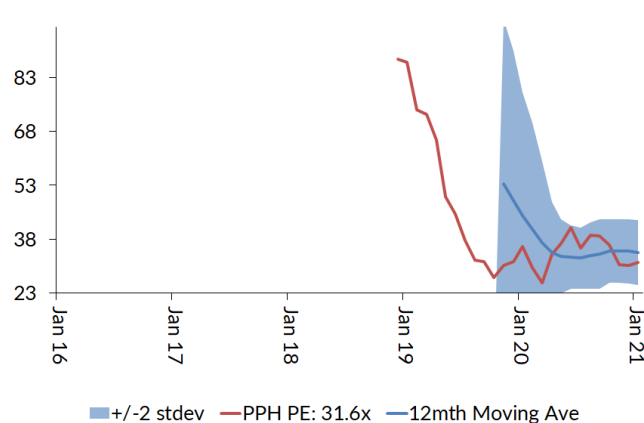
Company	Code	Price	Mkt Cap (m)	PE 2021E	PE 2022E	EV/EBITDA 2021E	EV/EBITDA 2022E	EV/EBIT 2021E	EV/EBIT 2022E	Cash Yld 2022E
(metrics re-weighted to reflect PPH's balance date - March)										
Pushpay Holdings	PPH NZ	NZ\$1.70	NZ\$1,877	33.5x	28.0x	20.7x	19.2x	23.3x	21.2x	0.0%
ADOBE INC	ADBE US	US\$478.45	US\$229,522	43.4x	40.4x	40.6x	29.1x	47.4x	32.9x	0.0%
ATLASSIAN CORP PLC-CLASS A	TEAM US	US\$234.31	US\$58,389	>50x	>50x	>75x	>75x	>75x	>75x	0.0%
J2 GLOBAL INC	JCOM US	US\$96.94	US\$4,419	12.0x	10.9x	8.9x	8.1x	11.0x	10.5x	0.0%
PAYCOM SOFTWARE INC	PAYC US	US\$431.59	US\$25,253	>50x	>50x	74.3x	60.7x	>75x	>75x	0.0%
PAYLOCITY HOLDING CORP	PCTY US	US\$199.26	US\$10,809	>50x	>50x	>75x	56.2x	>75x	n/a	0.0%
PAYPAL HOLDINGS INC	PYPL US	US\$240.31	US\$281,569	>50x	>50x	43.9x	36.9x	49.4x	40.9x	0.0%
REALPAGE INC	RP US	US\$86.48	US\$8,808	43.9x	38.7x	29.0x	25.4x	33.1x	n/a	n/a
RINGCENTRAL INC-CLASS A	RNG US	US\$391.02	US\$35,048	>50x	>50x	>75x	>75x	>75x	n/a	n/a
VEEVA SYSTEMS INC-CLASS A	VEEV US	US\$288.54	US\$43,704	>50x	>50x	69.0x	61.2x	72.7x	64.2x	0.0%
WORKDAY INC-CLASS A	WDAY US	US\$229.79	US\$55,150	>50x	>50x	48.1x	43.8x	65.1x	59.8x	0.0%
ZOOM VIDEO COMMUNICATIONS-A	ZM US	US\$343.22	US\$98,163	>50x	>50x	>75x	>75x	>75x	>75x	0.0%
Compco Average:				33.1x	30.0x	44.8x	40.2x	46.4x	41.7x	0.0%
PPH Relative:				1%	-7%	-54%	-52%	-50%	-49%	-100%

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 4. Consensus EPS momentum (NZ\$)**


Source: Forsyth Barr analysis

**Figure 5. One year forward PE (x)**


Source: Forsyth Barr analysis

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