

CHINA
DEVELOPMENT
FINANCIAL

OxPay Financial Ltd

(OPFL SP/TVV.SI)

From losses to profits

Megan Choo / 65 6202 1190 / megan.choo@kgi.com

- **The turnaround.** OxPay announced adjusted net profit of S\$3.2mn in FY21 VS FY20's net loss of S\$1.9mn, driven by a surge in revenue of 53.2% YoY in FY21. Gross profit margin jumped to 62% in FY21, from 32% in FY20.
- **Not just a payment service provider.** Besides variable revenue generated from its Merchant Payment Services (MPS) segment, the company also has merchant acquisition revenue and buoyant steady recurring income generated under its DCES segment.
- **Multiple partnerships to drive top-line.** OxPay recently entered into multiple partnerships in the "Buy Now Pay Later" (BNPL) space and expanded service offerings for merchants via neobanking facilities with its partnership with TranSwap. Capitalising on its specialty in the F&B and retail space, OxPay has also acquired up to 20% stake in AppPOS, a network of over 300 F&B and retail merchants.
- We maintain OxPay with an **OUTPERFORM** recommendation but revised our TP down to S\$0.30 due to the overall de-rating of valuation multiples across the sector.

Financials & Key Operating Statistics					
YE Dec (S\$ '000)	2020A	2021A	2022F	2023F	2024F
Revenue	11,107	17,012	25,069	29,205	34,037
PATMI	(1,753)	(26,637)	4,305	5,066	5,953
EPS (cents)	(1.2)	(10.4)	1.7	2.0	2.3
EPS growth (%)	-	-	-	17.7	17.5
P/E (x)	-	-	9.1	7.7	6.6
DPS (Sing cents)	-	-	-	-	-
Div Yield (Y%)	-	-	-	-	-
Net Profit Margin (%)	-	(157.4)	17.2	17.3	17.5
Adjusted Net Profit Ma	-	18.9	17.2	17.3	17.5
Net Gearing (%)	4.5	(426.7)	(244.7)	(172.4)	(137.8)
P/B (x)	-	6.5	3.8	2.5	1.8
ROE (%)	-	-	41.8	32.9	27.9

Source: Company data, KGI Research

FY2021 financials: A turning point. OxPay's revenue jumped 53.2% YoY to S\$17mn in FY21, while gross profit surged nearly 2-fold to S\$10.6mn. Gross profit margin improved significantly from 32% in FY20 to 62% in FY21, mainly due to an increase in remittance activities from its merchants. Even though the company was in a loss-making position of S\$26.8mn in FY21, this was due to one-off RTO listing expenses of S\$26.4mn and non-recurring expenses relating to the RTO transaction of S\$3.6mn. Excluding these, adjusted net profit stood at S\$3.2mn, a turnaround from losses of S\$1.9mn recorded a year ago.

Riding on the BNPL trend. OxPay announced in December 2021 that its wholly-owned subsidiary, MC Payment Malaysia, has entered into a partnership agreement with IOU Pay (Asia). IOU Pay has 20 years of experience in the mobile banking and digital payment space and provides BNPL services for consumers in Malaysia. Pursuant to the partnership, OxPay will be able to add the BNPL option into its online e-invoicing, Quickpay and web payment

Maintain: Outperform		Performance (Absolute)	
Price as of 14 Mar 22 (SGD)	0.15	1 Month (%)	-27.1
12M TP (\$)	0.30	3 Month (%)	-35.9
Previous TP (\$)	0.42	12 Month (%)	-64.4
Upside, incl div (%)	98.1		
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (\$mn)	42		
Issued Shares (mn)	272		
Vol - 3M Daily avg (mn)	0.7		
Val - 3M Daily avg (\$mn)	0.1		
Free Float (%)	61.5%		
Major Shareholders		Previous Recommendations	
Ching Chiat Kwong	27.1%	16-Nov-21	0.42

acceptance platform in Malaysia, thereby catering to the growing consumer demand for deferred payment choices. In addition, OxPay has also collaborated with BNPL brand PaySlowSlow in Singapore and will provide the brand with payment gateway and merchant acquiring services. PaySlowSlow Singapore targets to roll out BNPL services in 1Q22, with 500 merchants and monthly gross transaction value of approximately S\$1.0mn, which is expected to translate into additional processing volume for OxPay.

Reinforcing foothold in the F&B and retail space. OxPay will acquire up to 20% shareholding in AppsPOS, enabling it immediate access to AppsPOS' network of over 300 F&B and retail merchants for both E-commerce and Cloud-Based Point of Sales Solutions. AppsPOS has more than 1mn users on its mobile apps/website in Asia, facilitating over S\$300mn worth of Gross Merchant Value annually.

Neobanking in UK and European markets. OxPay announced earlier this year that it has partnered with TranSwap, a global banking-as-a-service platform with multiple central bank licenses across the UK, Singapore, Hong Kong and Indonesia. TranSwap will integrate its neobank technology stack in OxPay's current platform. With this partnership, OxPay will offer neobanking products such as the issuance of local and global virtual name bank accounts to clients for collection, payment and conversion of currencies, as well as global cross-border payment and issuance of cards.

Valuation & Action: We maintain OxPay with an **OUTPERFORM** recommendation but revised our TP down to S\$0.30 due to the overall de-rating of valuation multiples across the sector. Our TP is based on 18x P/E (Previously 25x) to FY22F EPS of S\$0.017.

Risks: Margin pressure due to competition.

Continuous partnership expansions to drive economies of scale. MPS segment revenue grew 46.2% YoY, mainly due to expansion of merchant partnerships, such as EatBox during the financial year. Moving forward, OxPay's focus on continuous SME merchant acquisitions and further partnerships is expected to further drive the company's top-line, such as with PaySlowSlow and AppsPOS, which is expected to commence in 1Q22 and 2H22 respectively.

AppsPOS has more than 1mn users on its mobile apps/website in Asia, facilitating over S\$300mn worth of Gross Merchant Value annually. Some of its clients include reputable F&B brands such as Itacho Sushi, Old Chang Kee, Han's, Old Street Bak Kut Teh and Dian Xiao Er. Besides contributing to MPS segment revenue, the partnership will also boost the DCES segment, with the implementation of Cloud-Based POS solutions.

OxPay's upcoming collaboration with BNPL companies PaySlowSlow and IOU Pay will enable the company to earn revenue from two streams. Firstly, OxPay is able to earn payment processing income by providing the platform where consumers are able to scan the QR code, and secondly, the backend revenue of being a card acquirer. A card acquirer collects card-based payments accepted from retailers, aggregate and separate those payments and then send them to Card Issuers.

Solid gross profit margins expected to continue. OxPay's gross profit margin surged to 62% in FY21, from 32% in FY20. This was mainly due to lucrative margins earned from cross-border remittance transactions by OxPay's customers, such as supplier payments. Such activity is expected to continue throughout the financial year with the company's rapid merchant acquisition plans.

Summary. Despite being a fintech company, OxPay managed to turnaround its losses from the previous year and generated adjusted net profits in FY21. The company has low levels of debt, a negative net gearing ratio and the business is free from large capex commitments, inventory and operates on a straightforward revenue model.

The continuous expansion in Singapore targeting SME merchants as well as the vast opportunity to be tapped in regional markets are catalysts which will drive top-line growth. Digital payments in ASEAN is expected to triple to US\$1.5tn (S\$2tn) by 2030, and Asia also leads the growth in non-cash transactions globally, registering a five-year CAGR of 24% to US\$244bn in 2019. OxPay is well-positioned to benefit from this opportunity, given that the payment sector is highly regulated, serving as high entry barriers to the digital payment space.

Figure 1: Segmental revenue spread (S\$'000)

S\$'000	FY2020	FY2021	YoY Change (%)	2H2020	2H2021	YoY Change (%)
MPS - Merchant Payment Services	7,525	11,001	46.2%	2,445	7,919	223.9%
DCES - Digital Commerce Enabling Solutions	3,582	6,011	67.8%	2,650	3,229	21.8%
Total Revenue	11,107	17,012	53.2%	5,095	11,148	118.8%

Source: Company data, KGI Research

Figure 2: Geographical revenue spread by segment (S\$'000)

S\$'000	MPS			DCES		
	FY20	FY21	YoY Change (%)	FY20	FY21	YoY Change (%)
Singapore	7,297	10,662	46%	85	577	579%
Malaysia	142	123	-13%	3,497	5,434	55%
Thailand	86	216	151%	-	-	-
Total	7,525	11,001	46.2%	3,582	6,011	67.8%

Source: Company data, KGI Research

Forecasts

Revenue. Actual FY21 revenue generated was S\$17mn, exceeding our expectations of S\$13.9mn, which was mainly due to the significant jump in the MPS segment. For FY22's MPS revenue forecast, we used a take rate of 2.8% multiplied by the total annual forecasted payment processing volume of S\$627mn. Our forecast for the total annual payment processing volume utilises the historical 1H21 average payment processing volume per merchant multiplied by the forecasted number of merchants for FY22F, bringing the total number of merchants as of FY22F to 4832.

FY22-24F gross profit margin was revised up to 59%, from our previously forecasted 48.5%, in line with actual FY21's gross profit margin of 62.2%. Solid margins are poised to stay moving forward given that OxPay's existing customers are expected to continue its remittance activities, the segment which contributes lucrative margins to the company.

Capex and debt. The company has minimal capex outlay given that it is a payment service and software solutions provider. Debt level is also expected to remain relatively steady moving forward.

Figure 3: Forecasted and actual financial figures

S\$'000	Previous FY2021 forecast	Actual FY2021	Previous FY2022 forecast	Adjusted FY2022 forecast
MPS - Merchant Payment Service	7,549	11,001	12,834	17,555
DCES - Digital Commerce Enabling Solutions	6,399	6,011	10,878	7,514
Total Revenue	13,948	17,012	23,712	25,069
Cost of sales	(7,183)	(6,434)	(12,211)	(10,278)
Gross Profit	6,765	10,578	11,500	14,791
Profit after tax	(26,353)	(26,780)	3,985	4,305

Source: Company data KGI Research

Valuations. We revised our TP down to S\$0.30 due to the overall de-rating of valuation multiples across the sector. U.S. peer, PayPal Holdings Inc (PYPL US) is trading at a forward P/E of 21.6x. We therefore used a more conservative 18x P/E pegged to FY22F EPS.

Financials

FYE 31 December					
INCOME STATEMENT (SGD '000)	2020A	2021A	2022F	2023F	2024F
Revenue	11,107	17,012	25,069	29,205	34,037
Cost of sales	(7,539)	(6,434)	(10,278)	(11,974)	(13,955)
Gross Profit	3,568	10,578	14,791	17,231	20,082
Other income	215	408	601	700	816
Administrative expenses	(3,513)	(8,333)	(9,025)	(10,514)	(12,253)
Impairment loss on trade and other receivables	(707)	(1,936)	–	–	–
Other operating expenses	(820)	(594)	(875)	(1,020)	(1,188)
Share of loss of associate	–	(223)	–	–	–
Deemed RTO listing expenses	–	(26,367)	–	–	–
Profit from operation	(1,257)	(26,467)	5,492	6,398	7,456
Finance income	166	61	70	79	90
Finance expenses	(772)	(374)	(374)	(374)	(374)
Profit before tax	(1,863)	(26,780)	5,187	6,103	7,173
Income tax expense	–	–	(882)	(1,038)	(1,219)
Profit after tax	(1,863)	(26,780)	4,305	5,066	5,953
PATMI	(1,753)	(26,637)	4,305	5,066	5,953
Adjusted net profit	(1,863)	3,220	4,305	5,066	5,953
BALANCE SHEET (SGD '000)	2020A	2021A	2022F	2023F	2024F
Other current assets	3	–	–	–	–
Trade and other receivables	–	3,791	3,791	3,791	3,791
Cash and cash equivalents	1,040	26,403	26,007	27,285	30,169
Total current assets	1,043	30,194	29,798	31,076	33,960
Property, plant and equipment	–	192	205	243	307
Intangible assets and goodwill	–	324	224	144	84
Trade and other receivables	–	13	13	13	13
Total non-current assets	–	529	442	400	404
Total assets	1,043	30,723	30,240	31,475	34,364
Trade and other payables	4,323	23,941	19,153	15,322	12,258
Loans and borrowing	559	777	777	777	777
Bonds payable	6,875	–	–	–	–
Total current liabilities	11,757	24,718	19,930	16,099	13,035
Total liabilities	11,757	24,718	19,930	16,099	13,035
Share capital and reserves	74,292	58,253	58,253	58,253	58,253
Accumulated profit/(losses)	–	(51,947)	(47,642)	(42,576)	(36,623)
NCI	(85,006)	(301)	(301)	(301)	(301)
Total liabilities and equity	1,043	30,723	30,240	31,475	34,364
CASH FLOW STATEMENT (SGD '000)	2020A	2021A	2022F	2023F	2024F
Profit before tax	(1,863)	(26,780)	5,187	6,103	7,173
Adjustments	2,105	32,944	504	470	434
Operating cash flow before WC changes	242	6,164	5,692	6,573	7,606
Changes in working capital	(7,863)	13,959	(4,788)	(3,831)	(3,064)
Income tax paid	–	–	(882)	(1,038)	(1,219)
Net interest expenses paid	(7)	56	(304)	(295)	(284)
Cash flow from operations	(7,628)	20,179	(283)	1,410	3,039
Purchase of property, plant and equipment	(16)	(77)	(113)	(132)	(154)
Other investing activities	68	1,244	(0)	(0)	(0)
Cash flow from investing activities	52	1,167	(113)	(132)	(154)
Net loans and borrowings	(400)	–	–	–	–
Repayment of convertible bonds	(38)	(77)	–	–	–
Repayment of lease liabilities	–	(1,794)	–	–	–
Cash flow from financing activities	(438)	1,408	–	–	–
Net increase in cash	(8,014)	22,754	(396)	1,278	2,885
Beginning Cash	11,446	3,479	26,403	26,007	27,285
Ending cash	3,479	26,403	26,007	27,285	30,169
KEY RATIOS	2020A	2021A	2022F	2023F	2024F
DPS (SGD cents)	–	–	–	–	–
Dividend yield (%)	–	–	–	–	–
NAV per share (SGD cents)	(7.4)	2.3	4.0	6.0	8.3
Price/NAV (x)	(2.1)	6.5	3.8	2.5	1.8
Profitability					
Gross Margin (%)	–	48.5	59.0	59.0	59.0
Net Margin (%)	–	(157.4)	17.2	17.3	17.5
Adjusted Net Margin (%)	–	18.9	17.2	17.3	17.5
ROA (%)	–	–	14.2	16.1	17.3
ROE (%)	–	–	41.8	32.9	27.9
Financial Structure					
Interest Coverage Ratio (x)	(1.6)	(70.8)	14.7	17.1	19.9
Gearing Ratio (%)	4.5	(426.7)	(244.7)	(172.4)	(137.8)

KGI's Ratings

Rating	Definition
Outperform (OP)	We take a positive view on the stock. The stock is expected to outperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Neutral (N)	We take a neutral view on the stock. The stock is expected to perform in line with the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Underperform (U)	We take a negative view on the stock. The stock is expected to underperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Not Rated (NR)	The stock is not rated by KGI Securities.
Restricted (R)	KGI policy and/or applicable law regulations preclude certain types of communications, including an investment recommendation, during the course of KGI's engagement in an investment banking transaction and in certain other circumstances.

Disclaimer

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities. This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. You should independently evaluate particular investments and consult an independent financial adviser before dealing in any securities mentioned in this report.

This report is confidential. This report may not be published, circulated, reproduced or distributed and/or redistributed in whole or in part by any recipient of this report to any other person without the prior written consent of KGI Securities. This report is not intended for distribution and/or redistribution, publication to or use by any person in any jurisdiction outside Singapore or any other jurisdiction as KGI Securities may determine in its absolute discretion, where the distribution, publication or use of this report would be contrary to applicable law or would subject KGI Securities and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by KGI Securities to be reliable. However, KGI Securities makes no representation as to the accuracy or completeness of such sources or the Information and KGI Securities accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. KGI Securities and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of KGI Securities and its connected persons are subject to change without notice. KGI Securities reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) KGI Securities, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) KGI Securities, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; and (3) the officers, employees and representatives of KGI Securities may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business".)

However, as of the date of this report, neither KGI Securities nor its representative(s) who produced this report (each a "research analyst"), has any proprietary position or material interest in, and KGI Securities does not make any market in, the securities which are recommended in this report.

Each research analyst of KGI Securities who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of KGI Securities or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including KGI Securities' total revenues, a portion of which are generated from KGI Securities' business of dealing in securities.

Copyright 2022. KGI Securities (Singapore) Pte. Ltd. All rights reserved.