

CHINA  
DEVELOPMENT  
FINANCIAL

# OxPay Financial Ltd

(OPFL SP/TVV.SI)

## From losses to profits

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- **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%
<b>Total Revenue</b>	<b>11,107</b>	<b>17,012</b>	<b>53.2%</b>	<b>5,095</b>	<b>11,148</b>	<b>118.8%</b>

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%	-	-	-
<b>Total</b>	<b>7,525</b>	<b>11,001</b>	<b>46.2%</b>	<b>3,582</b>	<b>6,011</b>	<b>67.8%</b>

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
<b>Total Revenue</b>	<b>13,948</b>	<b>17,012</b>	<b>23,712</b>	<b>25,069</b>
Cost of sales	(7,183)	(6,434)	(12,211)	(10,278)
<b>Gross Profit</b>	<b>6,765</b>	<b>10,578</b>	<b>11,500</b>	<b>14,791</b>
<b>Profit after tax</b>	<b>(26,353)</b>	<b>(26,780)</b>	<b>3,985</b>	<b>4,305</b>

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					
<b>INCOME STATEMENT (SGD '000)</b>	<b>2020A</b>	<b>2021A</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>
<b>Revenue</b>	<b>11,107</b>	<b>17,012</b>	<b>25,069</b>	<b>29,205</b>	<b>34,037</b>
Cost of sales	(7,539)	(6,434)	(10,278)	(11,974)	(13,955)
<b>Gross Profit</b>	<b>3,568</b>	<b>10,578</b>	<b>14,791</b>	<b>17,231</b>	<b>20,082</b>
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)	–	–	–
<b>Profit from operation</b>	<b>(1,257)</b>	<b>(26,467)</b>	<b>5,492</b>	<b>6,398</b>	<b>7,456</b>
Finance income	166	61	70	79	90
Finance expenses	(772)	(374)	(374)	(374)	(374)
<b>Profit before tax</b>	<b>(1,863)</b>	<b>(26,780)</b>	<b>5,187</b>	<b>6,103</b>	<b>7,173</b>
Income tax expense	–	–	(882)	(1,038)	(1,219)
<b>Profit after tax</b>	<b>(1,863)</b>	<b>(26,780)</b>	<b>4,305</b>	<b>5,066</b>	<b>5,953</b>
PATMI	(1,753)	(26,637)	4,305	5,066	5,953
<b>Adjusted net profit</b>	<b>(1,863)</b>	<b>3,220</b>	<b>4,305</b>	<b>5,066</b>	<b>5,953</b>
<b>BALANCE SHEET (SGD '000)</b>	<b>2020A</b>	<b>2021A</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>
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
<b>Total current assets</b>	<b>1,043</b>	<b>30,194</b>	<b>29,798</b>	<b>31,076</b>	<b>33,960</b>
Property, plant and equipment	–	192	205	243	307
Intangible assets and goodwill	–	324	224	144	84
Trade and other receivables	–	13	13	13	13
<b>Total non-current assets</b>	<b>–</b>	<b>529</b>	<b>442</b>	<b>400</b>	<b>404</b>
<b>Total assets</b>	<b>1,043</b>	<b>30,723</b>	<b>30,240</b>	<b>31,475</b>	<b>34,364</b>
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	–	–	–	–
<b>Total current liabilities</b>	<b>11,757</b>	<b>24,718</b>	<b>19,930</b>	<b>16,099</b>	<b>13,035</b>
<b>Total liabilities</b>	<b>11,757</b>	<b>24,718</b>	<b>19,930</b>	<b>16,099</b>	<b>13,035</b>
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)
<b>Total liabilities and equity</b>	<b>1,043</b>	<b>30,723</b>	<b>30,240</b>	<b>31,475</b>	<b>34,364</b>
<b>CASH FLOW STATEMENT (SGD '000)</b>	<b>2020A</b>	<b>2021A</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>
<b>Profit before tax</b>	<b>(1,863)</b>	<b>(26,780)</b>	<b>5,187</b>	<b>6,103</b>	<b>7,173</b>
Adjustments	2,105	32,944	504	470	434
<b>Operating cash flow before WC changes</b>	<b>242</b>	<b>6,164</b>	<b>5,692</b>	<b>6,573</b>	<b>7,606</b>
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)
<b>Cash flow from operations</b>	<b>(7,628)</b>	<b>20,179</b>	<b>(283)</b>	<b>1,410</b>	<b>3,039</b>
Purchase of property, plant and equipment	(16)	(77)	(113)	(132)	(154)
Other investing activities	68	1,244	(0)	(0)	(0)
<b>Cash flow from investing activities</b>	<b>52</b>	<b>1,167</b>	<b>(113)</b>	<b>(132)</b>	<b>(154)</b>
Net loans and borrowings	(400)	–	–	–	–
Repayment of convertible bonds	(38)	(77)	–	–	–
Repayment of lease liabilities	–	(1,794)	–	–	–
<b>Cash flow from financing activities</b>	<b>(438)</b>	<b>1,408</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Net increase in cash</b>	<b>(8,014)</b>	<b>22,754</b>	<b>(396)</b>	<b>1,278</b>	<b>2,885</b>
Beginning Cash	11,446	3,479	26,403	26,007	27,285
<b>Ending cash</b>	<b>3,479</b>	<b>26,403</b>	<b>26,007</b>	<b>27,285</b>	<b>30,169</b>
<b>KEY RATIOS</b>	<b>2020A</b>	<b>2021A</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>
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
<b>Profitability</b>					
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
<b>Financial Structure</b>					
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)

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