

New deal an indication of more to come

Change Financial is now onboarding its first four Oceania clients to its Vertexon direct issuing Payments-as-a-Service (PaaS) offering, following its recent launch. Once the first of these clients is live, this will trigger a US\$1m incentive payment from Mastercard next financial year. Revenues from these clients are expected to be in the vicinity of US\$2.1m a year, for an initial five-year contract. Given we had been only expecting total revenues for Change Financial to increase in FY23 by \$2.1m, we have revised our forecasts.

Integrated into another banking platform

In our initiating coverage report, we identified Mambu as a key core banking platform partner. Today's announcement reveals that Finzsoft is used by all four of the New Zealand institutions adopting Vertexon, so we think that investors can consider Finzsoft as an additional banking platform partner. This has positive implications for further growth enabling Change to work with Finzsoft to target the Australian and New Zealand market, likely to be "tier 3" authorised deposit institutions (smaller than the major and regional banks) once Change receives its AFSL.

The appeal of adopting Change Financial's Vertexon Payments as a Service offering includes instantaneous digital card issuance, Apple Pay, Google Pay, and BNPL capabilities, enabling these small financial institutions to offer products on par, or superior to, their major banking competitors, which should also support continued strong growth for the Vertexon PaaS direct issuance offering.

Further growth may require some additional resources

Change will take around six months to onboard all four institutions, and their ~35,000 customers, with re-carding likely to take around a year, which equates to around 100 customers every day. Clearly some additional card issuance hardware may be required to support further growth, and it should generate attractive marginal returns on investment.

Earnings and valuation changes

Allowing for the strong revenue growth enabled by direct issuance on the Vertexon PaaS, we change our reported EPS estimates: FY22E: -5%, FY23E: 1%, FY24E:1% and our cash EPS estimates: FY22E: -6%, FY23E: 2%, FY24E:29%. Some of these movements are large as the company transitions from loss making to profitability. Our DCF valuation remains unchanged at US\$0.10 and A\$0.14, using a 14% cost of equity. Full details are within.



Change Financial Limited (ASX:CCA) is a global B2B fintech, leveraging innovative and scalable technology to provide tailored payment solutions, card issuing and testing to banks and fintechs. Change's technology is used by over 154 clients across 41 countries to deliver simple, flexible and fast-to-market payments services, including card issuing and testing.

Stock	CCA.AX
Market cap	A\$30.2m
Price	A\$0.075
Valuation	A\$0.14 (unchanged)

Company data

Net cash	US\$1.6m
Shares on issue	396.7m

Next steps

End July 2022	June quarter update and Appendix 4C
August 2022	FY2022 results

CCA Share Price (A\$)



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Financials

CHANGE FINANCIAL LIMITED

CCA-AX

Year end 30 June, US\$ unless otherwise denoted

MARKET DATA						12-MONTH SHARE PRICE PERFORMANCE							
Spot exchange rate	x		AUDUSD	\$0.710									
Price	A\$		0.070	US\$	0.05								
Valuation	A\$		0.14	US\$	0.10								
52 week low - high	A\$		0.07 - 0.13										
Market capitalisation	A\$m		28.2	US\$m	20.0								
Shares on issue (basic)	m				396.7								
Options / rights (currently antitdilutive)	m				1.2								
Other equity (LFSP treasury shares)	m				1.2								
Shares on issue (fully diluted)	m				399.0								
INVESTMENT FUNDAMENTALS						PROFIT AND LOSS							
		FY20A	FY21A	FY22E	FY23E	FY24E			FY20A	FY21A	FY22E	FY23E	FY24E
EPS - diluted reported	cps	-1.9	-0.9	-1.1	-0.9	-0.4	Revenue and other income	US\$m	0.3	6.3	7.9	10.2	15.2
EPS - diluted cash	cps	-1.9	-1.1	-0.8	-0.7	0.0	Total Cash Expenses	US\$m	-3.5	-8.6	-10.9	-12.8	-14.8
EPS growth	%	-0.7	-0.4	-0.2	-0.2	-1.0	EBITDA	US\$m	-3.2	-2.3	-3.0	-2.6	0.4
PE	x	-2.6	-4.6	-6.0	-7.6	337.6	Depreciation, amortisation and impairment	US\$m	0.0	-1.0	-1.1	-1.4	-1.8
							EBIT	US\$m	-3.3	-3.3	-4.1	-4.0	-1.4
DPS	cps	0.0	0.0	0.0	0.0	0.0	Net interest	US\$m	-0.3	0.0	-0.1	-0.1	-0.2
Franking	%	n.a.	n.a.	n.a.	n.a.	n.a.	Profit before income tax	US\$m	-3.5	-3.3	-4.2	-4.1	-1.6
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	0.0%	Income tax expense	US\$m	0.0	-0.2	0.0	0.0	0.0
Payout ratio	%	0%	0%	0%	0%	0%	NPAT	US\$m	-3.5	-3.5	-4.2	-4.1	-1.6
Operating cash flow per share	cps	-0.02	0.00	-0.01	0.00	0.00	add back non-cash items	US\$m	0.0	-0.8	0.9	1.2	1.6
Free cash flow to equity per share	cps	-0.01	-0.02	-0.01	-0.01	0.00	Cash NPAT	US\$m	-3.5	-4.3	-3.3	-2.9	0.1
FCF yield	%	-21%	-39%	-14%	-18%	-3%	Weighted average diluted shares	m	185.7	398.7	399.0	449.0	449.0
Enterprise value	US\$m	17.0	16.0	19.8	19.9	21.3	BALANCE SHEET						
EV/Total Revenue	x	66.0	2.5	2.5	2.0	1.4			FY20A	FY21A	FY22E	FY23E	FY24E
EV/EBITDA	x	-5.3	-6.9	-6.7	-7.6	52.8	Cash and cash equivalents	US\$m	3.0	4.0	1.2	1.2	0.4
EV/EBIT	x	-5.2	-4.9	-4.8	-5.0	-15.3	Other receivables	US\$m	0.2	2.4	2.9	2.8	4.0
							Other current assets	US\$m	0.2	0.4	1.8	1.5	1.9
NAV per share	US\$	0.009	0.018	0.009	0.005	0.002	Total current assets	US\$m	3.4	6.7	5.9	5.5	6.4
Price / NAV	x	5.7	2.8	5.5	9.5	28.8	Property, plant and equipment	US\$m	0.0	0.5	0.3	0.3	0.4
NTA per share	US\$	0.009	0.004	-0.006	-0.010	-0.016	Intangibles	US\$m	0.0	5.5	6.0	7.0	7.8
Price / NTA	x	5.7	13.1	-8.1	-4.7	-3.1	Total non current assets	US\$m	0.2	6.0	6.4	7.3	8.2
KEY RATIOS						Total assets							
		FY20A	FY21A	FY22E	FY23E	FY24E			FY20A	FY21A	FY22E	FY23E	FY24E
NTA/Net Receivables	%	1002.9%	63.8%	-84.6%	-164.8%	-175.1%	Trade and other payables	US\$m	0.6	1.4	1.9	2.4	2.7
Revenue growth rate	%	-85.9%	2344.1%	25.8%	28.1%	49.5%	Provisions	US\$m	0.2	1.0	1.0	1.0	1.0
ROE - reported	%	0%	0%	0%	0%	0%	Contract liabilities	US\$m	0.0	2.7	4.3	5.7	8.1
ROE - cash	%	0%	0%	0%	0%	0%	Borrowings	US\$m	0.0	0.0	1.1	1.1	1.7
Net debt	US\$m	-3.0	-4.0	-0.2	-0.1	1.3	Other current liabilities	US\$m	0.3	0.3	0.2	0.2	0.2
Interest cover	x	0.7	0.7	0.9	0.6	-0.1	Total current liabilities	US\$m	1.1	5.4	8.5	10.3	13.6
Gearing (net debt / EBITDA)	x	-11.5	-0.6	0.0	0.0	0.1	Provisions	US\$m	0.0	0.0	0.0	0.0	0.0
Leverage (net debt / invested capital)	x	-2.4	-0.7	0.0	0.0	0.1	Lease liability	US\$m	0.2	0.3	0.2	0.2	0.1
KEY PERFORMANCE INDICATORS						Total non current liabilities							
		FY20A	FY21A	FY22E	FY23E	FY24E			FY20A	FY21A	FY22E	FY23E	FY24E
Annual recurring revenue	\$m	0.0	4.4	5.2	7.8	7.8	Total liabilities	US\$m	1.2	5.7	8.7	10.5	13.8
Revenue / Annual recurring revenue	%	1033%	143%	154%	131%	196%	Net assets	US\$m	2.3	7.0	3.6	2.3	0.8
Gross margin	%	100%	100%	100%	100%	100%	Net tangible assets	US\$m	2.3	1.5	-2.4	-4.7	-7.1
Cost to income ratio	%	242.9%	377.5%	137.4%	125.7%	97.4%	Net capital	US\$m	-0.6	3.0	3.4	2.2	2.1
Growth in receivables	%	34.4%	918.2%	22.2%	-1.4%	41.7%	Net tangible capital	US\$m	-0.6	-2.5	-2.6	-4.8	-5.8
DUPONT ANALYSIS						Contributed equity							
		FY20A	FY21A	FY22E	FY23E	FY24E			FY20A	FY21A	FY22E	FY23E	FY24E
Net Profit Margin	%	-1360%	-55%	-53%	-41%	-10%	Reserves	US\$m	4.3	4.7	5.9	4.7	4.7
Asset Turnover	x	0.0	0.4	0.3	0.4	0.6	Retained earnings	US\$m	-36.7	-40.2	-44.8	-48.9	-50.5
Return on Assets	%	-66%	-21%	-17%	-16%	-6%	Total equity	US\$m	2.3	7.0	3.6	2.3	0.8
Financial Leverage	x	4.0	3.5	4.7	8.5	17.6	Basic shares on issue	m	274.6	399.0	399.0	449.0	449.0
Return on Equity	%	-267%	-74%	-79%	-140%	-101%	CASH FLOW						
HALF YEARLY DATA													
		2H21A	1H22A	2H22E	1H23E	2H23E			FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	US\$m	2.1	4.2	3.8	4.5	5.7	Operating						
Cost of goods sold	US\$m	0.0	0.0	0.0	0.0	1.0	Net operating cashflow	US\$m	-2.9	-1.7	-2.1	-1.9	0.7
Gross Profit	US\$m	2.1	4.2	3.8	4.5	4.7	Investment						
Cash Expenses	US\$m	-5.3	-5.4	-5.5	-6.0	-6.8	Capital expenditure	US\$m	0.0	-0.7	-1.4	-1.9	-1.8
EBITDA	US\$m	0.9	-1.3	-1.7	-1.5	-1.1	Acquisitions and divestments	US\$m	0.3	-4.5	0.0	0.0	0.0
EBIT	US\$m	0.1	-1.8	-2.3	-2.1	-1.9	Net investment cashflow	US\$m	0.3	-5.2	-1.4	-1.9	-1.8
Pre tax profit	US\$m	0.1	-1.8	-2.4	-2.2	-1.9	Financing						
Income tax expense	US\$m	0.0	0.0	0.0	0.0	0.0	Equity	US\$m	3.4	8.4	0.0	4.0	0.0
Reported NPAT	US\$m	0.1	-1.8	-2.4	-2.2	-1.9	Debt	US\$m	0.7	-0.6	1.1	0.0	0.6
Cash NPAT	US\$m	0.8	-1.4	-1.9	-1.6	-1.3	Leases	US\$m	-0.1	-0.2	-0.3	-0.3	-0.3
EPS - diluted cash	cps	0.0	0.0	0.0	0.0	0.0	Net financing cashflow	US\$m	4.0	7.6	0.8	3.7	0.3
EPS - diluted reported	cps	0.0	0.0	0.0	0.0	0.0	Net cash flow	US\$m	1.4	0.7	-2.8	-0.1	-0.8
DPS	cps	0.0	0.0	0.0	0.0	0.0	Free cash flow to equity	US\$m	-1.9	-7.7	-2.8	-4.1	-0.8

Source: CCA reports, MST estimates

Earnings revisions

Following CCA's announcement, we make the following changes to our earnings estimates:

Figure 1 – Earnings estimates for Change Financial

		FY22E			FY23E			FY24E		
		Old	New	% chg	Old	New	% chg	Old	New	% chg
Revenue	A\$m	7.9	7.9	0%	10.0	10.2	2%	14.3	15.2	6%
EBITDA	A\$m	(2.8)	(3.0)	-7%	(2.7)	(2.6)	2%	0.4	0.4	4%
EBIT	A\$m	(3.9)	(4.1)	-5%	(4.1)	(4.0)	1%	(1.4)	(1.4)	1%
Reported NPAT	A\$m	(4.0)	(4.2)	-5%	(4.2)	(4.1)	1%	(1.6)	(1.6)	1%
Cash NPAT	A\$m	(3.1)	(3.3)	-6%	(3.0)	(2.9)	2%	0.1	0.1	29%
EPS diluted reported	cps	-1.0	-1.1	-5%	-0.9	-0.9	1%	-0.4	-0.4	1%
EPS diluted cash	cps	-0.8	-0.8	-6%	-0.7	-0.7	2%	0.0	0.0	29%
DPS	cps	0.0	0.0	n.a.	0.0	0.0	n.a.	0.0	0.0	n.a.

Source: Company reports, MST Access estimates

Some of these movements appear to be large changes due to small denominators as the company transitions from loss making to profitability. These changes reflect:

- More rapid revenue growth associated with the success of Change Financial's direct issuance product within its Vertexon Payments as a Service, reflective of the US\$2.1m per year revenue associated with its announced customer contracts. We note Change Financial's commentary that they have commenced the onboarding process, and it will take until 2H23 to complete – so likely around a year for all four institutions (with some potentially completed before others).

Full details of our revised earnings appear in the financial summary on page 2.

If more deals such as this are forthcoming, such as once Change Financial receives its Australian Financial Services Licence allowing it to undertake direct issuing in Australia, then there is likely material upside to our numbers.

Valuation

We consider a range of valuation approaches to estimate CCA's valuation, including:

- intrinsic valuation scenarios of its potential future growth profiles.
- peer multiples and growth rates.

Other equity market considerations such as short sales; any likely forthcoming changes in index inclusion; depth of stock research coverage; composition of and change in the mix of investors (such as founders, board and staff, domestic institutions, foreign institutions, and retail investors) are not incorporated in our valuation; however investors should consider such factors if they seek to develop a price target for the company. We have checked the short sales report, identified.

Figure 2 – MST Access discounted free cashflow to equity valuation of Change Financial

Current date		10-Jun-22									
Next balance date		30-Jun-22									
		Jun-22	Dec-22	Jun-23	Dec-23	Jun-24	Dec-24	Jun-25	Dec-25	Jun-26	Dec-26
Free cash flow to equity	US\$m	-0.4	-2.1	-1.9	-0.8	0.0	0.1	1.5	2.8	4.0	0.7
Discounted cash flow	US\$m	-0.4	-2.0	-1.7	-0.6	0.0	0.1	1.0	1.7	2.4	0.4
Sum of discount streams	US\$m	0.5		CAPM							
Future value into perpetuity	US\$m	61.6		Risk free rate			4.00%				
NPV of terminal value	US\$m	36.2		Equity beta			2				
add adjusted net cash and associates	US\$m	1.6		Equity risk premium			5.00%				
Value of total equity	US\$m	38.3		Cost of equity			14.0%				
Diluted shares on issue	#	399.0									
Value per share	US\$	0.10		Terminal growth			3.0%				
Upside/downside	%	93.0%									

Source: Company reports, MST Access estimates

Many financial analysts use some form of residual income or value-added valuation approach, due to the complexities and uncertainties involved in forecasting cashflow, in part due to regulatory capital requirements. Some of the advantages of this approach are that:

- the bulk of the valuation is generally recognized upfront, in the net asset value providing greater certainty around a large component of the valuation.
- uses profit, rather than cashflow, forecasts.

We use a two-stage model, using our explicit forecasts over the next five years, followed by a terminal value, to which we add current net assets per share. We assume a risk-free rate of 4.0% (up from 2.0%) and equity risk premium of 5.0% (down from 6.0%). We continue to estimate CCA's equity beta to be 2. We estimate CCA's cost of equity to be 14.0% (unchanged) and terminal growth of 3.0% (unchanged). This produces a valuation of US\$0.10 per share (unchanged) which converts at spot FX rates to A\$0.14 per share (also unchanged).

Comparative Multiples

Relative valuation techniques such as peer valuation multiples are a popular way to value many companies, including price to book multiples and price to revenue multiples. Our financial summary on page 2 of this report details our derivation of these current implied valuation multiples for CCA. In general CCA trades at a substantial discount to its peer group.

Figure 3 – Change Financial trailing peer comparative valuation multiples

Identifier (RIC)	Company Name	Price / Revenue	Price / Book	Price / NTA
NOV.AX	Novatti Group Ltd	8.9	22.6	1.6
A2B.AX	A2B Australia Ltd	1.3	1.4	2.2
EML.AX	EML Payments Ltd	6.5	3.0	-17.5
SMP.AX	SmartPay Holdings Ltd	3.5	4.7	33.2
TYR.AX	Tyro Payments Ltd	8.0	10.4	13.8
	Australian average	5.6	8.4	6.7
PAY.TO	Payfare Inc	8.3	8.1	5.8
PAYP.L	PayPoint plc	2.8	4.8	-37.8
NETW.L	Network International Holdings PLC	6.2	3.6	-11.6
PSFE.K	Paysafe Ltd	1.9	1.1	-0.7
MQ.O	Marqeta Inc	12.0	5.9	3.5
WU	Western Union Co	1.4	19.8	-3.2
WEX	WEX Inc	3.4	3.4	-3.0
WLN.PA	Worldline SA	4.1	1.5	-4.2
AMA.MC	Amadeus IT Group SA	10.1	7.2	-6.7
SQ	Block Inc	4.6	22.9	16.4
FIS	Fidelity National Information Services Inc	4.9	1.4	-3.0
FISV.O	Fiserv Inc	4.3	2.2	-3.3
PYPL.O	PayPal Holdings Inc	8.8	10.1	12.1
MA	Mastercard Inc	18.9	48.2	-79.8
V	Visa Inc	24.3	13.6	-35.4
	International average	7.7	10.3	-10.1
CCA.AX	Change Financial Ltd	3.2	2.8	13.1

Source: IBES, Refinitiv, MST Access estimates for Change Financial

Updated Investment Thesis

Change Financial is an attractive way to gain exposure to the evolution of payment systems globally. Both of its businesses are ideally positioned to profit from this evolution:

- Vertexon enables banks and fintechs to deliver modern card payment solutions to their customers. As consumer expectations grow, requiring investments beyond what institutions are willing to make, and as it becomes harder to employ staff with the necessary skillset to maintain and develop existing in-house infrastructure, we believe more institutions are likely to outsource larger portions of their payments infrastructure. In Australia, most third-tier institutions already outsource their payments infrastructure, as do most of the second-tier institutions, and even ANZ is now going down this path with its JV with Worldline. However, this is a global trend, and Vertexon has a sizeable (and growing) existing customer base in Oceania, South East Asia and Latin America, as well as a reasonable presence in the US.
- PaySim is an essential utility, to test systems before they go live. Regulators are becoming increasingly aggressive around disruption to payment systems, and PaySim enables its users, such as financial institutions, to test their systems before they go live to ensure that any changes, such as upgrades or new functionality, will work seamlessly, and not cause system problems. It can simulate a wide range of systems, including online transactions, ATMs and payment terminals, and the various payment networks in between a bank's own systems.

The company obtains the majority of its revenues from offshore, reports in USD, and thus is positively leveraged to a falling Australian Dollar, which is supportive of the company's valuation.

Furthermore, we believe that the company is due for a re-rating, with the company's revenue growth accelerating following the launch of Vertexon's direct issuing offering in Oceania. Within the next couple of years the company should consistently generate cash from its operations, before growth capital investments (capex) in technology and operations, which further push out its likely cashflow breakeven point.

Risks and Sensitivities

In summary, Change Financial's risks and sensitivities can be categorised under strategic, financial and operational risks summarised as:

Strategic

Change Financial's Vertexon operates in a competitive, highly innovative industry of payments provision, with direct competitors both in Australia and internationally who are close to perfect substitutes for its payments as a service offerings.

As a payment processor, Change Financial has substantial regulatory compliance requirements, including with AML/CTF regulations, CFR and ASIC requirements. Failure to comply could see the company face civil and criminal prosecution, substantial fines, and potentially the loss of key licenses enabling it to operate various services.

However, it faces less competition for its PaySim service, which accounts for a substantial portion of its revenues, due to what are in effect scheme mandates to use its services by various industry organisations and bodies.

Financial

Being a payments company, Change Financial has a range of risks and sensitivities applicable to most companies in the financial sector. These include:

- Macroeconomic conditions
- Liquidity and funding risks
- Credit risk
- Fraud
- Compliance risks

Operational

Most companies, including Change Financial, have a range of operational risks. These include:

- Governance
- Key personnel
- Information technology
- Cybersecurity and data protection
- Force majeure events
- Litigation, claims and disputes

Company Description

Change Financial Limited (ASX:CCA) is a global fintech, leveraging innovative and scalable technology to provide tailored payment solutions, card issuing and testing to banks and fintechs. Change's technology is used by over 154 clients across 41 countries to deliver simple, flexible and fast-to-market payments services, including card issuing and testing.

Change's payments as a service (PaaS) platform Vertexon, seamlessly integrates with banks and fintechs' core systems enabling delivery of digital and virtual card payment solutions to their customers. It includes integrated features such as Apple Pay, Google Pay, Samsung Pay, and Buy Now Pay Later (BNPL) services. Change currently manages and processes over 16 million credit, debit, and prepaid cards worldwide.

Using PaySim, Change tests payment systems to help clients meet the reliability and performance expectations of end customers. Simulating the full transaction lifecycle across multiple systems, PaySim enables banks and fintechs to complete end-to-end testing of their payment platforms and processes from a desktop. Change also provides the default standard for payments testing for many Australian companies, including Australia's domestic card payment service eftpos.

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