

6 September 2023

Execution in focus

Vertexon PaaS commercialisation nearly underway

- Final milestones required in each of the US, AU, NZ
- Having NZ live assists sales and other approvals
- PaySim enhanced with Fast Payments functionality

No surprises in FY23 result: Benefiting from its quarterly activity updates, there were no surprises of note in Change Financial's FY23 result.

Triple growth tailwinds: Change's PaaS revenues are set to grow from three sources: growth in the value of payments per user, growth in the number of users per institution, and growth in the number of institutions using Vertexon PaaS.

Operational leverage set to lift with profitable revenue growth: Vertexon PaaS revenues, set to commence in 1H24, will accelerate Change's revenue growth, with growth further aided by FY23 being a "soft" comparative given the delays pushing the uptake of Vertexon PaaS into 1H24, with three key milestones set to be completed in the next month.

Investment Thesis

Remains an attractive play on the evolution of payment systems globally: Strong execution should see Change successfully grow its PaaS revenue, first in NZ, then in Australia and the US. This should see its revenues over time become leveraged to growing payments values and transaction volumes.

Due for a re-rating as profitability improves: With profitable revenue growth and CCA targeting monthly operational cashflow generation by year end FY24, every update going forward could be a catalyst for the company to re-rate, given its attractive forward multiples vs. peer comparatives.

Leverage to USD working in the company's favour: CCA obtains the majority of its revenues from offshore in USD, while the majority of its cost base is in AUD and NZD, and thus is positively leveraged to a falling Australian Dollar.

Valuation

AUD fall helps lift valuation. We make negligible changes to our forecast incorporating the FY23 results, but due to small denominators, our reported EPS estimates appear large: FY24E: 13%, FY25E: 8%. The fall in the AUDUSD exchange rate and rolling forward our DCF valuation lifts our valuation to A\$0.13 (up 1c) using a 13% cost of equity. CCA is trading on a PE of 25.5x FY24E, falling to just 9.9x FY25E.

Risks

As a card issuer, Change Financial has substantial regulatory compliance requirements, including with AML/CTF regulations, CFR (Council of Financial Regulators) 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.

Equities Research Australia

Financials

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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 150 clients across 41 countries to deliver simple, flexible and fast-to-market payments services, including card issuing and testing.

Valuation	A\$0.13 (Prev A\$0.12)
Current price	A\$0.062
Market cap	A\$39m
Cash on hand	US\$5.4m

Upcoming Catalysts / Next News

1Q24	EFTPOS connectivity in NZ live
1Q24	Mastercard Aust. technical certification
1Q24	Mastercard debit issuing approval in US
October 2023	1Q24 Appendix 4C and activities update
1H24	Transitioning cardholders in NZ to Vertexon PaaS
End FY24	Positive operating cashflows on a monthly basis

Share Price (\$A)

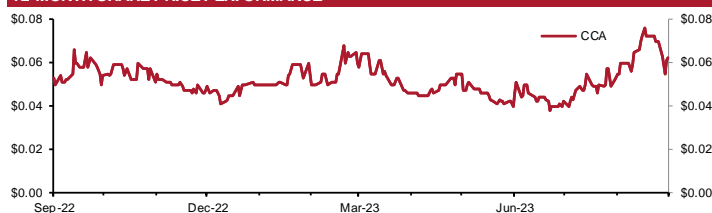


Source: FactSet, MST Access

MARKET DATA

Spot exchange rate	x		AUDUSD	0.6475
Price	A\$		0.062	US\$ 0.040
Valuation	A\$		0.13	US\$ 0.085
52 week low - high	A\$		0.04 - 0.08	
Market capitalisation	A\$m		38.9	US\$m 25.2
Shares on issue (basic)	m			627.7
Options / rights (currently antidilutive)	m			1.2
Other equity (LFSP treasury shares)	m			1.2
Shares on issue (fully diluted)	m			630.0

12-MONTH SHARE PRICE PERFORMANCE



INVESTMENT FUNDAMENTALS

		FY22A	FY23A	FY24E	FY25E	FY26E
EPS - diluted reported	cps	-0.95	-0.53	-0.08	0.09	0.2
EPS - diluted cash	cps	-0.72	-0.33	0.16	0.41	0.7
EPS growth	%	-0.3	-0.5	-1.5	1.6	0.6
PE	x	-5.6	-12.2	25.5	9.9	6.0
DPS	cps	0.0	0.0	0.0	0.0	0.0
Franking	%	n.a.	n.a.	n.a.	n.a.	n.a.
Dividend yield	%	0.0%	0.0%	0.0%	0.0	0.0
Payout ratio	%	0%	0%	0%	0.0	0.0
Operating cash flow per share	cps	0.00	0.00	0.00	0.0	0.0
Free cash flow to equity per share	cps	-0.01	-0.01	0.00	0.0	0.0
FCF yield	%	-15%	-21%	-5%	0.1	0.1
Enterprise value	US\$m	23.7	19.8	21.1	19.5	16.3
EV/Total Revenue	x	2.8	2.3	1.8	1.3	0.8
EV/EBITDA	x	-9.4	-15.8	16.2	6.7	3.2
EV/EBIT	x	-6.6	-8.0	-65.3	25.0	7.4
NAV per share	US\$	0.008	0.013	0.014	0.018	0.023
Price / NAV	x	4.8	3.0	2.8	2.3	1.7
NTA per share	US\$	-0.007	0.003	0.004	0.006	0.011
Price / NTA	x	-6.0	12.0	11.3	6.6	3.7

KEY RATIOS

		FY22A	FY23A	FY24E	FY25E	FY26E
NTA/Net Receivables	%	-148.0%	98.8%	73.2%	97.8%	140.3%
Revenue growth rate	%	31.7%	4.7%	35.6%	30.9%	24.1%
ROE - reported	%	0%	0%	0%	0%	0%
ROE - cash	%	0%	0%	0%	0%	0%
Net debt	US\$m	-1.5	-5.4	-4.1	-5.7	-8.9
Interest cover	x	0.8	0.3	-0.5	-9.1	6.4
Gearing (net debt / EBITDA)	x	-0.2	-0.6	-0.3	-0.4	-0.5
Leverage (net debt / invested capital)	x	-0.2	-0.8	-0.5	-0.6	-0.7

KEY PERFORMANCE INDICATORS

		FY22A	FY23A	FY24E	FY25E	FY26E
Annual recurring revenue	\$m	4.7	7.1	7.1	9.4	11.338
Revenue / Annual recurring revenue	%	176%	123%	167%	1.6	1.7
Gross margin	%	100%	100%	100%	100%	200%
Cost to income ratio	%	130.2%	114.4%	87.4%	77.4%	68.9%
Growth in receivables	%	-24.2%	18.4%	43.5%	28.9%	22.8%

DUPONT ANALYSIS

		FY22A	FY23A	FY24E	FY25E	FY26E
Net Profit Margin	%	-45%	-33%	-4%	0.0	0.1
Asset Turnover	x	0.4	0.3	0.4	0.4	0.4
Return on Assets	%	-16%	-11%	-2%	0.0	0.0
Financial Leverage	x	4.5	4.4	3.7	3.8	3.7
Return on Equity	%	-73%	-49%	-6%	0.1	0.1

HALF YEARLY DATA

		1H23A	2H23A	1H24E	2H24E	1H25E
Revenue	US\$m	4.3	4.4	5.5	6.4	7.3
Cost of goods sold	US\$m	0.0	0.0	-0.5	-1.0	-1.0
Gross Profit	US\$m	4.3	4.4	5.0	5.4	6.3
Cash Expenses	US\$m	-5.3	-4.6	-4.5	-4.6	-5.0
EBITDA	US\$m	-1.1	-0.2	0.5	0.8	1.3
EBIT	US\$m	-1.7	-0.9	-0.3	-0.1	0.3
Pre tax profit	US\$m	-1.7	-0.9	-0.3	-0.1	0.3
Income tax expense	US\$m	-0.2	-0.1	-0.1	-0.1	-0.1
Reported NPAT	US\$m	-2.0	-1.0	-0.4	-0.2	0.2
Cash NPAT	US\$m	-1.4	-0.3	0.3	0.6	1.1
EPS - diluted cash	cps	-0.31	-0.06	0.06	0.10	0.18
EPS - diluted reported	cps	-0.43	-0.17	-0.06	-0.03	0.03
DPS	cps	0.0	0.0	0.0	0.0	0.0

PROFIT AND LOSS

		FY22A	FY23A	FY24E	FY25E	FY26E
Revenue and other income	US\$m	8.3	8.7	11.8	15.5	19.2
Cost of goods sold	US\$m	0.0	0.0	-1.5	-2.5	-3.0
Gross Profit	US\$m	8.3	8.7	10.3	13.0	16.2
Total Cash Expenses	US\$m	-10.8	-10.0	-9.0	-10.0	-11.2
EBITDA	US\$m	-2.5	-1.3	1.3	2.9	5.0
Depreciation, amortisation and impairment	US\$m	-1.1	-1.2	-1.6	-2.1	-2.8
EBIT	US\$m	-3.6	-2.5	-0.3	0.8	2.2
Net interest	US\$m	-0.1	-0.1	0.0	0.0	0.0
Profit before income tax	US\$m	-3.7	-2.6	-0.3	0.8	2.2
Income tax expense	US\$m	-0.1	-0.3	-0.2	-0.2	-0.7
NPAT	US\$m	-3.8	-2.9	-0.5	0.5	1.5
add back non-cash items	US\$m	0.9	1.1	1.5	2.0	2.6
Cash NPAT	US\$m	-2.9	-1.8	1.0	2.5	4.2

BALANCE SHEET

		FY22A	FY23A	FY24E	FY25E	FY26E
Cash and cash equivalents	US\$m	1.5	5.4	4.1	5.7	8.9
Other receivables	US\$m	1.8	2.1	3.0	3.9	4.8
Other current assets	US\$m	0.6	0.8	2.0	2.2	2.1
Total current assets	US\$m	3.9	8.3	9.2	11.8	15.8
Property, plant and equipment	US\$m	0.3	0.2	0.3	0.3	0.6
Security deposits	US\$m	0.0	0.3	1.0	1.6	2.3
Intangibles	US\$m	6.0	6.3	6.8	7.2	7.7
Total non current assets	US\$m	6.4	7.0	8.2	9.3	10.6
Total assets	US\$m	10.3	15.3	17.4	21.1	26.4
Trade and other payables	US\$m	1.2	1.3	1.3	1.4	1.6
Provisions	US\$m	1.3	1.1	1.1	1.1	1.2
Contract liabilities	US\$m	3.1	3.3	4.8	6.3	8.0
Other current liabilities	US\$m	0.2	0.1	0.1	0.1	0.1
Total current liabilities	US\$m	5.8	5.8	7.3	9.0	10.9
Provisions	US\$m	0.0	0.0	0.0	0.0	0.0
Lease liability	US\$m	0.1	0.1	0.0	0.0	0.0
Borrowings	US\$m	1.1	0.0	0.0	0.0	0.0
Total non current liabilities	US\$m	1.2	1.1	1.1	1.1	1.1
Total liabilities	US\$m	7.0	6.9	8.4	10.0	12.0
Net assets	US\$m	3.3	8.4	9.0	11.1	14.4
Net tangible assets	US\$m	-2.6	2.1	2.2	3.8	6.8
Net capital	US\$m	1.8	3.1	4.9	5.4	5.5
Net tangible capital	US\$m	-4.2	-3.3	-1.9	-1.9	-2.2
Contributed equity	US\$m	42.5	50.5	50.5	50.5	50.5
Reserves	US\$m	4.8	4.8	4.8	4.8	4.8
Retained earnings	US\$m	-44.0	-46.9	-46.3	-44.2	-40.8
Total equity	US\$m	3.3	8.4	9.0	11.1	14.4

CASH FLOW

		FY22A	FY23A	FY24E	FY25E	FY26E
Operating						
Net operating cashflow	US\$m	-1.8	-1.1	0.7	3.5	5.3
Investment						
Capital expenditure	US\$m	-1.4	-1.8	-1.9	-1.9	-2.1
Acquisitions and divestments	US\$m	0.2	0.0	0.0	0.0	0.0
Net investment cashflow	US\$m	-1.3	-1.8	-1.9	-1.9	-2.1
Financing						
Equity	US\$m	0.0	8.5	0.0	0.0	0.0
Debt	US\$m	1.0	-1.5	0.0	0.0	0.0
Leases	US\$m	-0.3	-0.1	-0.1	-0.1	-0.1
Net financing cashflow	US\$m	0.7	6.9	-0.1	-0.1	-0.1
Net cash flow	US\$m	-2.4	4.0	-1.3	1.6	3.2
Free cash flow to equity	US\$m	-2.4	-4.5	-1.3	1.6	3.2

Source: CCA reports, MST estimates

Outlook

Figure 1: Change Financial outlook commentary at FY24



Source: Company reports, MST Access estimates

Change Financial's outlook remains focused on profitable revenue growth, accompanied by a focus on moving from its current EBITDA positive operations (on a monthly run-rate basis) to cashflow breakeven by the end of FY24.

Key issues

A busy few weeks of execution should deliver several milestones

The next month is set to see Change Financial achieve three very important milestones, which should enable it to aggressively drive the uptake of its Vertexon PaaS offering to several New Zealand financial institutions, and enable it to begin marketing its Vertexon PaaS offering in Australia and the US. Namely, these milestones are:

- Achieve go-live for NZ EFTPOS acceptance
- Mastercard technical certification in Australia
- Mastercard debit issuing approval in the US

We anticipate that given the delays in achieving these milestones, there is likely to be a positive share price reaction to each milestone as it is achieved.

Vertexon PaaS revenues to start imminently, likely visible in 2Q24

Given these milestones are set to occur in the last few weeks of 1Q24, they will likely not be particularly evident in 1Q24's cashflow release. However, they should become visible in 2Q24 as cards are rolled out. By 3Q24, as the card rollout in New Zealand to the existing customers of several institutions matures, the impact of Vertexon PaaS on Change's financial performance should become more representative of the go-forward situation, which should make 2H24 a more appropriate period for assessing Vertexon PaaS's financial performance.

Triple Growth Tailwinds

Vertexon PaaS transaction volumes are set to increase with:

- An increase in the number of transactions per user
- An increase in the number of users per institution
- An increase in the number of institutions using Change's Vertexon PaaS offering.

Clearly institutions using Change's Vertexon PaaS offering will also benefit from increasing transactions per user and an increasing number of users per institution, which is where Change's comments around shared success and growth come in. By increasing the success of its financial institution customers, through operational excellence and market leading solutions, Change should also receive "halo", which should drive demand for its Vertexon offering from additional financial institutions.

PaySim upgrades for ISO20022 Faster Payments

Change has completed the PaySim certification solution for ISO20022 (Faster Payments) development, focused on scalable multi-region implementation. This upgraded version comes at an opportune time with the recent launch in the US of FedNow, the US Federal Reserve's Faster Payments offering.

Now that over 60 countries have Fast Payment systems, including many in Asia and Europe, Change's multi-region implementation might be leveraged by institutions looking to take advantage of the Bank of International Settlement's Project Nexus enabling instant cross-border payments. We note the work being performed in Singapore to connect the domestic payment systems of Indonesia, Malaysia, Singapore, Thailand and the Philippines where Change has a large banking client.

PaySim shift to cloud and SaaS alongside a UX/UI refresh

Change Financial is not focusing all of its software development investment on Vertexon. It has some exciting plans for PaySim, including enabling users to shift deployment to the cloud, offering it as SaaS to enable smaller institutions to access it for the first time, and refreshing its user experience and user interface to keep it contemporary.

Actual result vs prior estimates

Figure 2: Actual result vs prior estimates

PROFIT AND LOSS		FY22A	FY23E	FY23A	AvE \$	AvE %
Revenue and other income	US\$m	8.3	8.7	8.7	0.0	0%
Cost of goods sold	US\$m	0.0	-0.5	0.0	0.5	100%
Gross Profit	US\$m	8.3	8.2	8.7	0.5	6%
Total Cash Expenses	US\$m	-10.8	-9.4	-10.0	-0.5	-6%
EBITDA	US\$m	-2.5	-1.2	-1.3	-0.1	-6%
Depreciation, amortisation and impairment	US\$m	-1.1	-1.3	-1.3	0.0	2%
EBIT	US\$m	-3.6	-2.5	-2.5	0.0	-2%
Net interest	US\$m	-0.1	0.0	-0.1	-0.1	n.a.
Profit before income tax	US\$m	-3.7	-2.5	-2.6	-0.1	-5%
Income tax expense	US\$m	-0.1	-0.2	-0.3	-0.1	-36%
NPAT	US\$m	-3.8	-2.7	-2.9	-0.2	-8%
add back non-cash items	US\$m	0.9	1.2	1.2	0.0	3%
Cash NPAT	US\$m	-2.9	-1.5	-1.7	-0.2	-12%
Weighted average diluted shares	m	396.7	569.3	535.7	-33.7	-6%
EPS - diluted reported	cps	-0.95	-0.48	-0.54	-0.07	-15%
EPS - diluted cash	cps	-0.72	-0.27	-0.32	-0.05	-19%
DPS	cps	0.0	0.0	0.0	0.0	n.a.

Source: Company reports, MST Access estimates

Change delivered FY23 revenue of US\$8.7m (A\$13.6m), up 4.7% on pcp and in line with our forecasts. The modest growth was driven by new licences (e.g. module upsell & new licence tiers) and continued maintenance & support revenue from existing clients. Change did not recognise any PaaS transactional revenue from the signed NZ clients which is expected to contribute meaningfully in FY24.

Change delivered an EBITDA loss of US\$1.3m (A\$2.0m) for FY23, a 49% improvement on pcp, primarily resulting from the re-aligned cost base that occurred in Q1 FY23 and modest revenue growth. By way of half on half comparison, Change delivered a H2 FY23 EBITDA loss of US\$0.2m (A\$0.3m), compared to a H1 FY23 loss of US\$1.1m (A\$1.7m).

The weighted average share count was slightly lower than we had estimated, which saw its loss per share slightly larger than our forecasts.

Earnings estimate revisions

Figure 3: Changes to MST Access estimates for Change Financial Limited

		FY23E/A			FY24E			FY25E		
		Old	New	% chg	Old	New	% chg	Old	New	% chg
Revenue	A\$m	8.7	8.7	0%	11.8	11.8	0%	15.5	15.5	0%
Gross Profit	A\$m	8.2	8.7	6%	10.3	10.3	0%	13.0	13.0	0%
EBITDA	A\$m	-1.2	-1.3	-6%	1.3	1.3	1%	2.9	2.9	0%
EBIT	A\$m	-2.5	-2.5	0%	-0.4	-0.3	20%	0.7	0.8	8%
Reported NPAT	A\$m	-2.7	-2.9	-6%	-0.6	-0.5	13%	0.5	0.5	8%
Cash NPAT	A\$m	-1.5	-1.8	-15%	0.9	1.0	4%	2.6	2.5	0%
EPS diluted reported	cps	-0.5	-0.5	-12%	-0.1	-0.1	13%	0.1	0.1	8%
EPS diluted cash	cps	-0.3	-0.3	-22%	0.2	0.2	4%	0.4	0.4	0%
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

Incorporating Change Financial's FY23 result, we make only very minor changes to our earnings estimates, attributable to:

- Incorporating the FY23 result.

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

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.

Discounted free cashflow to equity

Figure 4: MST Access discounted free cashflow to equity valuation of Change Financial

Current date		31-Aug-23										
Next balance date		31-Dec-23										
			Dec-23	Jun-24	Dec-24	Jun-25	Dec-25	Jun-26	Dec-26	Jun-27	Dec-27	Jun-28
Free cash flow to equity	US\$m		-0.8	-0.4	0.7	0.9	1.4	1.8	2.3	2.5	3.2	3.8
Discounted cash flow	US\$m		-0.8	-0.4	0.6	0.7	1.0	1.3	1.5	1.6	1.9	2.1
Sum of discount streams	US\$m		9.5									
Future value into perpetuity	US\$m		69.6									
NPV of terminal value	US\$m		38.5									
add adjusted net cash and associates	US\$m		5.4									
Value of total equity	US\$m		53.4									
Diluted shares on issue	#		626.5									
Value per share	US\$		0.085									
Value per share	A\$		0.132									
Upside/downside	%		112.2%									
					CAPM							
					Risk free rate		4.00%					
					Equity beta		1.5					
					Equity risk premium		6.00%					
					Cost of equity		13.0%					
					Terminal growth		3.0%					

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:

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- 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 continue to assume a risk-free rate of 4.0% and an equity risk premium of 6.0% and continue to estimate of CCA's equity beta at 1.5, resulting in a cost of equity of 13%. Our terminal growth assumption remains 3.0%.

The primary driver of the rise in our DCF valuation from US 8.0c to US 8.5c has been the rolled of the model to maintain five years of forecasts, with more minor changes attributable to modest changes in our revised cashflow forecasts. The recent fall in the AUD against the USD has also aided its valuation when converted into Australian dollars, with our valuation converting at spot FX rates to A\$0.132 per share.

Peer comparative valuation multiples

Relative valuation techniques such as peer valuation multiples are a popular way to value many companies, including price earnings multiples and Enterprise to Revenue multiples. Our financial summary on page 2 of this report details our derivation of these current implied valuation multiples for CCA.

Figure 5: Change Financial Peer Comparatives Valuation Multiples

Identifier (RIC)	Company Name	EV / Revenue	EV / EBITDA	P/E	P/CF	P/B	P/NTA	Dividend Yield %
CCA.AX	Change Financial Ltd	1.8	16.2	25.5	n.m.	3.0	12.0	0.0%
NOV.AX	Novatti Group Ltd	0.5	-8.1	n.m.	n.m.	2.5	5.1	0.0%
EML.AX	EML Payments Ltd	n.a.	n.a.	16.9	6.0	n.a.	n.a.	0.1%
SMP.AX	SmartPay Holdings Ltd	3.3	13.0	31.4	11.2	n.a.	20.8	0.0%
TYR.AX	Tyro Payments Ltd	1.5	13.2	56.4	19.5	4.5	11.6	0.0%
MQ.O	Marqeta Inc	3.6	n.a.	n.a.	n.a.	2.3	2.2	0.0%
V	Visa Inc	13.8	19.4	24.7	21.7	12.9	n.a.	0.8%
MA	Mastercard Inc	14.3	23.1	29.5	28.6	62.6	n.a.	0.6%
PYPL.O	PayPal Holdings Inc	2.2	8.5	11.3	8.8	3.7	9.8	0.0%
AMA.MC	Amadeus IT Group SA	5.1	13.0	22.6	14.9	6.7	n.a.	2.1%
NETW.L	Network International Holdings PLC	5.0	11.7	21.6	15.1	4.4	n.a.	0.9%
FIS	Fidelity National Information Services Inc	3.3	7.9	8.7	7.2	0.8	n.a.	3.9%
PAY.TO	Payfare Inc	1.2	8.3	13.5	n.a.	n.a.	4.4	n.a.
FI	Fiserv Inc	5.0	11.1	14.7	12.0	2.5	n.a.	0.0%
WEX	WEX Inc	4.0	9.1	12.4	9.8	5.7	n.a.	0.0%
PSFE.K	Paysafe Ltd	1.0	3.5	15.1	2.9	1.1	n.a.	n.a.
PAYP.L	PayPoint plc	1.9	4.2	8.2	n.a.	n.a.	n.a.	7.5%
WLN.PA	Worldline SA	2.3	8.5	11.3	8.3	1.0	n.a.	0.0%
WU	Western Union Co	1.4	5.6	7.3	5.8	8.6	n.a.	7.4%
SQ	Block Inc	1.4	17.9	24.9	26.2	2.1	11.6	0.0%

Source: IBES, Refinitiv, MST Access for Change Financial and Novatti, where we have used our FY24E estimates for forward multiples, and FY23E for PB and P/NTA.

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. With the recent development of Apple and Android mobile smartphones also now being able to serve as payment terminals, we also see the long-term

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potential for Vertexon to expand into the merchant acquirer space without the need to provide end user (merchant acquirer) hardware.

- 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 now expecting to be generating profitable growth, EBITDA positive on a monthly basis and targeting being cashflow generative on a monthly basis by the end of FY24, before growth capital investments (capex) in technology and operations.

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
- Execution capability and effectiveness

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 150 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.

Methodology & Disclosures

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