

30 April 2024

Three Near Term Catalysts

NEED TO KNOW

- **Catalyst 1: Monthly EBITDA positive run-rate exiting FY24 reiterated.**
- **Catalyst 2: 30,000 cards issued on PaaS platform, 19,000 cards activated. 40% of NZ migration remaining and to be issued before FY24.**
- **Catalyst 3: Apple Pay / Google Pay rollout to PaaS clients flagged.**
- **Record quarterly revenue of US\$3.0m, up 25% vs pcp.**
- **Revenue tracking ahead of expectations and resulted in upgrade.**

PaaS platform begins to ramp up: CCA has issued over 30k cards, with over 19k cards activated and generating revenue. The majority of the activations is from the migration of New Zealand clients. CCA expects cards to be activated in Australia in Q4 from some smaller client wins now converting. There is a healthy pipeline of opportunities, which should be buoyed by the launch of Apple Pay and Google Pay on the PaaS platform.

Shifting to profitable growth: Following a period of investment into the Vertexon PaaS platform, the move from investment to growth has begun. CCA will shift its attention on expenses to sales and marketing to drive growth, beginning with the appointment of new Chief Commercial Officer Jennifer Mateer, who has over 15 years of experience in new client acquisitions and client relationships at Global Payments.

Significant product expansion secured with existing SE Asia client: With a major focus on ramping up transactional PaaS revenue, CCA is still finding opportunity within its on-premise business. CCA has secured a major product expansion with an existing SE Asian on-premise client, to broaden its offering to include credit cards. We expect that the incremental benefit will begin to roll through over the next two quarters.

Investment Thesis

Attractive play on evolution of payment systems: Strong execution of the migration of NZ clients, as well as sustained client wins gives us confidence CCA can materially grow its revenue, which over time should become leveraged to growing payments values and transaction volumes.

Operating monthly cashflow breakeven run-rate exiting FY24: Moving to positive/breakeven operating cashflow is a key milestone for a tech stock and should be a strong re-rating catalyst for the company.

Key customer wins validating PaaS value proposition: CCA is gaining early validation via customer wins which is enabling it to demonstrate its value proposition through marquee clients. Converting and displaying scaling of the business should see increased appreciation of the PaaS platform.

Valuation and Risks

We have upgraded our underlying EPS by 16.0%, 43.4%, and 6.3% for FY24, FY25, and FY26 respectively. We note that the changes are driven by a small increase in professional services revenue in FY24, but appear bigger as EPS revisions as we are coming off a low base. **We lift our valuation to 10.6c (previously 10.3c). Please refer to page 8 for full suite of risks.**

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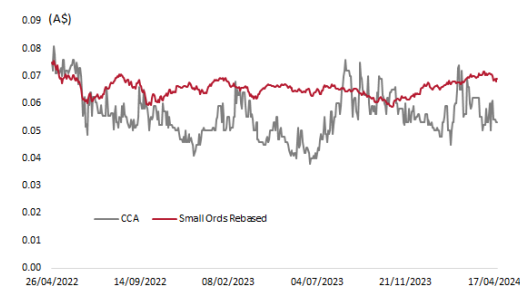
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Valuation	A\$0.106 (from A\$0.103)
Current price	A\$0.064
Market cap	A\$40.2m
Cash on hand	A\$2.8m

Upcoming Catalysts / Next News

Period	
Exiting FY24	Monthly EBITDA run-rate breakeven
June 2024	Completion of NZ card migration
1Q25	Apple/Google Pay roll out

Share Price (A\$)



Source: FactSet, MST Access

Figure 1: Financial Summary

CHANGE FINANCIAL LIMITED						CCA-AX
Year end 30 June, US\$ unless otherwise denoted						
MARKET DATA						
AUD/USD Spot rate	x					0.66
Share Price	A\$					0.064
Market Cap	A\$m					40.2
Valuation per Share	A\$					0.106
Share Price	US\$					0.042
Valuation per Share	US\$					0.070
Market Cap	US\$m					26.5
52 Week Range	A\$					0.038 - 0.082
Shares on issue (basic)	m					627.7
Options / rights	m					4.3
Shares on issue (fully diluted)	m					631.9
12-MONTH SHARE PRICE PERFORMANCE						
INVESTMENT FUNDAMENTALS						
		FY22A	FY23A	FY24E	FY25E	FY26E
Reported Diluted EPS (A\$)	cps	-0.95	-0.46	-0.27	0.00	0.17
Adj. Diluted EPS (A\$)	cps	-0.75	-0.35	-0.19	0.10	0.28
Adj. Diluted EPS growth	%	-29%	54%	46%	154%	179%
PE (adj)	x	n/m	n/m	n/m	59.8	21.4
DPS	cps	0.0	0.0	0.0	0.0	0.0
Franking	%	0%	0%	0%	0%	0%
Dividend yield	%	0%	0%	0%	0%	0%
Payout ratio	%	0%	0%	0%	0%	0%
Operating cash flow per share	cps	-0.46	-0.21	-0.03	0.41	0.47
Free cash flow to equity per share	cps	-0.01	-0.01	0.00	0.0	0.0
FCF yield	%	-14%	-20%	-9%	0.0	0.0
Enterprise value	US\$m	26.1	21.2	23.8	23.0	21.8
EV/Total Revenue	x	3.1	2.4	2.4	2.0	1.5
EV/EBITDA	x	n/m	n/m	n/m	17.8	6.6
EV/EBIT	x	n/m	n/m	n/m	53.9	8.9
NAV per share	US\$	0.008	0.016	0.011	0.011	0.012
Price / NAV	x	5.0	2.6	4.0	4.0	3.4
KEY RATIOS						
		FY22A	FY23A	FY24E	FY25E	FY26E
Revenue growth rate	%	32.0%	4.5%	13.8%	18.3%	22.8%
ROE - adjusted	%	-57%	-37%	-15%	9%	24%
Net debt	US\$m	-0.4	-5.4	-2.7	-3.5	-4.8
Net interest cover	x	-27.1	-27.8	-72.5	-7.4	-31.6
Gearing (net debt / EBITDA)	x	0.2	4.4	11.7	-2.7	-1.4
Leverage (net debt / invested capital)	x	-0.1	-0.8	-0.4	-0.4	-0.5
KEY PERFORMANCE INDICATORS						
		FY22A	FY23A	FY24E	FY25E	FY26E
Gross margin	%	100%	100%	99%	99%	98%
Cost to income ratio	%	128.6%	114.0%	101.6%	87.6%	74.9%
Growth in receivables	%	-24.2%	18.4%	29.3%	1.4%	22.9%
DUPONT ANALYSIS						
		FY22A	FY23A	FY24E	FY25E	FY26E
Net Profit Margin	%	-45%	-34%	-17%	0%	8%
Asset Turnover	x	0.7	0.7	0.7	0.8	0.9
Return on Assets	%	-26%	-17%	-8%	4%	11%
Financial Leverage	x	2.2	2.2	1.9	2.2	2.2
Return on Equity	%	-57%	-37%	-15%	9%	24%
HALF YEARLY DATA						
		1H23a	2H23a	1H24a	2H24f	1H25f
Revenue	US\$m	4.3	4.4	4.4	5.5	5.4
Cost of goods sold	US\$m	0.0	0.0	0.0	0.1	0.1
Gross Profit	US\$m	4.3	4.4	4.4	5.4	5.3
Cash Expenses	US\$m	5.3	4.6	5.1	4.9	5.2
EBITDA	US\$m	-1.0	-0.2	-0.7	0.5	0.1
Underlying D&A	US\$m	0.3	0.3	0.4	0.4	0.4
EBIT	US\$m	-1.3	-0.5	-1.2	0.1	-0.4
Net Interest	US\$m	-0.1	0.0	-0.1	0.0	0.0
Pre tax profit	US\$m	-1.4	-0.5	-1.2	0.1	-0.3
Income tax expense	US\$m	0.2	0.1	0.1	0.0	0.1
Underlying NPAT	US\$m	-1.6	-0.6	-1.3	0.1	-0.4
Reported NPAT	US\$m	-2.0	-1.0	-1.5	-0.2	-0.8
EPS - diluted cash	cps	-0.3	-0.1	-0.2	0.0	-0.1
EPS - diluted reported	cps	-0.38	-0.15	-0.24	-0.03	-0.12
DPS	cps	0.00	0.00	0.00	0.00	0.00
PROFIT AND LOSS						
		FY22A	FY23A	FY24E	FY25E	FY26E
Revenue and other income	US\$m	8.3	8.7	9.9	11.7	14.4
Cost of goods sold	US\$m	0.0	0.0	0.1	0.2	0.3
Gross Profit	US\$m	8.3	8.7	9.8	11.5	14.1
Total U/L Operating Expenses	US\$m	10.7	9.9	10.0	10.2	10.8
Underlying EBITDA	US\$m	-2.4	-1.2	-0.2	1.3	3.3
Underlying D&A	US\$m	0.4	0.6	0.9	0.9	0.9
Underlying EBIT	US\$m	-2.8	-1.8	-1.1	0.4	2.4
Net interest	US\$m	-0.1	-0.1	0.0	0.1	0.1
Profit before income tax	US\$m	-2.9	-1.9	-1.1	0.5	2.5
Income tax expense	US\$m	0.1	0.3	0.1	-0.1	-0.8
Underlying NPAT	US\$m	-3.0	-2.2	-1.2	0.6	1.8
Acquisition related amort. And other one-off	US\$m	-0.8	-0.7	-0.5	-0.7	-0.7
Reported NPAT	US\$m	-3.8	-2.9	-1.7	0.0	1.1
Weighted average diluted shares	m	396.7	515.4	633.0	629.8	627.7
BALANCE SHEET						
		FY22A	FY23A	FY24E	FY25E	FY26E
Cash and cash equivalents	US\$m	1.5	5.4	2.7	3.5	4.8
Other receivables	US\$m	1.8	2.1	2.7	2.8	3.4
Other current assets	US\$m	0.6	0.8	0.8	0.8	0.8
Total current assets	US\$m	3.9	8.3	6.2	7.1	8.9
Property, plant and equipment	US\$m	0.3	0.2	0.3	0.3	0.3
Intangibles	US\$m	6.0	6.3	6.9	7.1	7.3
Total non current assets	US\$m	6.4	7.0	7.8	8.0	8.2
Total assets	US\$m	10.3	15.3	14.0	15.0	17.1
Trade and other payables	US\$m	1.2	1.3	1.6	2.3	2.8
Provisions	US\$m	1.3	1.1	1.4	1.7	2.1
Contract liabilities	US\$m	3.1	3.3	2.9	2.9	2.9
Other current liabilities	US\$m	0.0	0.0	0.0	0.0	0.0
Total current liabilities	US\$m	5.8	5.8	6.1	6.9	7.8
Provisions	US\$m	0.0	0.0	0.0	0.0	0.0
Lease liability	US\$m	0.1	0.1	0.1	0.1	0.1
Borrowings	US\$m	1.1	0.0	0.0	0.0	0.0
Contract liabilities	US\$m	0.0	1.0	1.0	1.0	1.0
Total non current liabilities	US\$m	1.2	1.1	1.2	1.4	1.5
Total liabilities	US\$m	7.0	6.9	7.2	8.3	9.3
Net assets	US\$m	3.3	8.4	6.7	6.7	7.8
Net tangible assets	US\$m	-2.6	2.1	-0.1	-0.4	0.5
Net capital	US\$m	2.9	3.1	4.0	3.2	3.0
Net tangible capital	US\$m	-3.1	-3.3	-2.8	-3.9	-4.2
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	-48.6	-48.6	-47.5
Total equity	US\$m	3.3	8.4	6.7	6.7	7.8
Basic shares on issue	m	396.7	627.7	627.7	627.7	627.7
CASH FLOW						
		FY22A	FY23A	FY24E	FY25E	FY26E
Operating						
Net operating cashflow	US\$m	-1.8	-1.1	-0.2	2.6	3.0
Investment						
Capital expenditure	US\$m	-1.4	-1.5	-2.1	-1.7	-1.7
Acquisitions and other investment cashflow	US\$m	0.2	-0.3	-0.2	0.0	0.0
Net investing cashflow	US\$m	-1.3	-1.8	-2.3	-1.7	-1.7
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	0.0	0.0	0.0
Net financing cashflow	US\$m	0.7	6.9	0.0	0.0	0.0
Net cash flow	US\$m	-2.4	4.0	-2.5	0.8	1.2
Free cash flow to equity	US\$m	-2.4	-4.5	-2.5	0.8	1.2

Source: CCA reports, MST estimates

Figure 2: Interims Summary

CHANGE FINANCIAL LTD																
Year end 30-June																
INVESTMENT FUNDAMENTALS	2022A	1H23A	2H23A	2023A	1H24A	2H24E	2024E	1H25E	2H25E	2025E	1H26E	2H26E	2026E	1H27E	2H27E	2027E
Total Revenue	8.3	4.3	4.4	8.7	4.4	5.5	9.9	5.4	6.3	11.7	6.6	7.8	14.4	7.8	9.1	16.8
COGS	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.2	0.1	0.2	0.3	0.2	0.2	0.4
Gross Profit	8.3	4.3	4.4	8.7	4.4	5.4	9.8	5.3	6.2	11.5	6.5	7.6	14.1	7.6	8.9	16.5
Operating Expenses (underlying)	10.7	5.3	4.6	9.9	5.1	4.9	10.0	5.2	5.0	10.2	5.5	5.3	10.8	5.8	5.5	11.3
Underlying EBITDA	-2.4	-1.0	-0.2	-1.2	-0.7	0.5	-0.2	0.1	1.2	1.3	1.0	2.3	3.3	1.8	3.4	5.2
Depreciation	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Amortisation (underlying)	0.2	0.2	0.3	0.5	0.4	0.4	0.7	0.4	0.4	0.7	0.4	0.4	0.7	0.4	0.4	0.7
Underlying EBIT	-2.8	-1.3	-0.5	-1.8	-1.2	0.1	-1.1	-0.4	0.8	0.4	0.5	1.9	2.4	1.4	2.9	4.3
Net interest	-0.1	-0.1	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.1	0.1	0.1
EBT	-2.9	-1.4	-0.5	-1.9	-1.2	0.1	-1.1	-0.3	0.8	0.5	0.6	1.9	2.5	1.4	3.0	4.4
Operating Income tax expense / (benefit)	0.1	0.2	0.1	0.3	0.1	0.0	0.1	0.1	-0.2	-0.1	-0.2	-0.6	-0.8	-0.4	-0.9	-1.3
Underlying NPAT	-3.0	-1.6	-0.6	-2.2	-1.3	0.1	-1.2	-0.4	1.1	0.6	0.4	1.4	1.8	1.0	2.1	3.1
Significant items	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Acquisition related amortisation	0.7	0.3	0.3	0.7	0.3	0.3	0.7	0.3	0.3	0.7	0.3	0.3	0.7	0.3	0.3	0.7
Significant tax	0.0	0.0	0.0	0.0	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reported profit (A\$m)	-3.8	-2.0	-1.0	-2.9	-1.5	-0.2	-1.7	-0.8	0.7	0.0	0.1	1.0	1.1	0.7	1.8	2.4
DIVISION REVENUE	2022A	1H23A	2H23A	2023A	1H24A	2H24E	2024E	1H25E	2H25E	2025E	1H26E	2H26E	2026E	1H27E	2H27E	2027E
Revenue by Goods & Services																
License Revenue	1.0	0.5	0.9	1.3	0.4	1.1	1.5	0.5	1.3	1.9	0.6	1.5	2.2	0.7	1.7	2.5
Maintenance & Support Services	4.2	2.7	2.1	4.8	2.5	2.7	5.2	2.9	3.1	6.0	3.3	3.6	6.9	3.8	4.1	8.0
Professional Services Revenue	2.6	1.0	0.9	1.9	1.3	1.3	2.6	1.6	1.6	3.2	2.3	2.3	4.6	2.8	2.7	5.5
Other Sales Revenue	0.3	0.0	0.6	0.6	0.2	0.3	0.5	0.3	0.3	0.6	0.3	0.4	0.7	0.4	0.5	0.9
Total Revenue	8.2	4.2	4.4	8.6	4.4	5.5	9.9	5.4	6.3	11.7	6.6	7.8	14.4	7.8	9.1	16.8
Revenue by Geographic Region																
SE Asia	3.8	1.8	1.9	3.7	2.1	2.6	4.7	2.5	2.8	5.3	2.8	3.2	6.0	3.1	3.5	6.6
Oceania	2.5	1.4	1.3	2.7	1.2	1.4	2.6	1.4	1.7	3.2	1.8	2.2	4.0	2.7	3.2	5.9
Latin America	1.0	0.7	0.8	1.5	0.9	1.1	2.1	1.1	1.3	2.4	1.4	1.6	3.0	1.6	1.9	3.5
United States	0.5	0.2	0.3	0.4	0.1	0.2	0.3	0.2	0.3	0.6	0.4	0.6	1.0	0.6	0.8	1.5
Rest of World	0.3	0.2	0.1	0.3	0.1	0.1	0.2	0.1	0.2	0.3	0.2	0.2	0.3	0.2	0.2	0.4
Total Revenue	8.2	4.2	4.4	8.6	4.4	5.5	9.9	5.4	6.3	11.7	6.6	7.8	14.4	8.3	9.6	17.9
Revenue by Product																
Vertexon	4.8	2.7	2.8	5.5	2.9	3.7	6.7	3.7	4.4	8.1	4.7	5.6	10.3	5.7	6.7	12.4
Paysim	3.2	1.5	1.6	3.1	1.5	1.8	3.2	1.7	1.9	3.6	1.9	2.2	4.1	2.1	2.4	4.5
Other	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Revenue	8.2	4.2	4.4	8.6	4.4	5.5	9.9	5.4	6.3	11.7	6.6	7.8	14.4	7.8	9.1	16.8
EXPENSES	2022A	1H23A	2H23A	2023A	1H24A	2H24E	2024E	1H25E	2H25E	2025E	1H26E	2H26E	2026E	1H27E	2H27E	2027E
Operating Expenses																
Employee expenses	7.3	3.1	2.6	5.7	3.2	2.7	5.9	3.2	2.8	6.0	3.4	2.9	6.3	3.6	3.0	6.6
Professional services & insurance	1.0	0.5	0.5	1.0	0.6	0.5	1.0	0.6	0.5	1.1	0.6	0.5	1.1	0.6	0.5	1.2
Technology & hosting	1.1	0.9	0.7	1.6	0.7	0.8	1.5	0.7	0.8	1.6	0.7	0.9	1.6	0.8	0.9	1.7
Other expenses	1.4	0.7	0.8	1.6	0.7	0.9	1.6	0.7	0.9	1.6	0.8	0.9	1.7	0.8	1.0	1.8
Total Operating Expenses	10.7	5.3	4.6	9.9	5.1	4.9	10.0	5.2	5.0	10.2	5.5	5.3	10.8	5.8	5.5	11.3

Source: CCA reports, MST estimates

3Q24 Overview

Key Milestone ~ 2 Months Away

CCA reiterated that it expects to get to monthly EBITDA positive and cashflow breakeven run-rate by June 2024, which is now just over 2 months away. It will be driven by a stable fixed cost base, and PaaS clients migrating and issuing cards from New Zealand, but with 60% of NZ cards now issued, we expect the discussion to start to ramp up over the next few quarters about how other opportunities are tracking.

Product Partnership Expansion with Major Vertexon Client

CCA announced that during the quarter it secured a major product expansion with an existing SE Asian on-premise client to broaden its offering to include credit cards. The expanded agreement will leverage the latest version of Vertexon to process credit cards, where the client will remain the issuer. Work has already begun, and the first invoice was received during the quarter. The agreement contains implementation, license and ongoing support and maintenance fees.

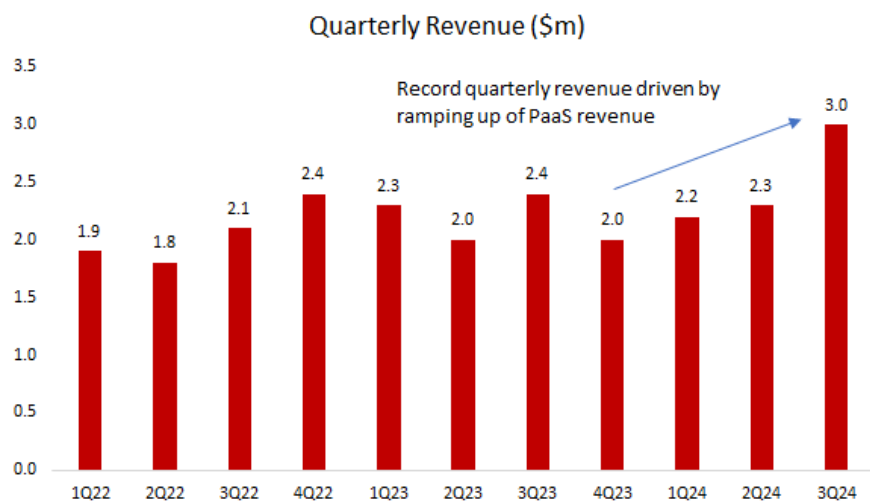
Key Q3 Highlights

Key Q3 Highlights (\$US unless otherwise noted)

- Positive net operating cashflow of \$0.3m.
- 3Q24 revenue of \$3.0m, up 25% on pcp and a record revenue quarter.
- Cash of \$2.8m + \$0.5m of security guarantees (required for PaaS platform in Oceania).
- 30,000 cards issued on PaaS platform. (vs 19,000 issued at end of Feb 2024).
- Apple Pay and Google Pay rollout to PaaS clients in progress.

We expect CCA to provide more disclosure around its PaaS metrics at the FY24 result, however we point to the below quarterly revenue chart, where the current revenue growth is largely being driven by the activation of cards on the PaaS platform. We expect to be able to provide more substantial analysis following the FY24 result.

Figure 3: CCA quarterly revenue (\$m)



Source: MST Access/CCA Presentations

Other Customer Wins

- New license sale to an existing LATAM on-premise client that has increased the number of cards managed through Vertexon.
- CCA is working with existing clients to expand product adoption for digital pays (Apple and Google Pay) which will be the first time digital pays are available to NZ clients and cardholders - we see upside to this as currently NZ cardholders do not have functionality to pay via mobile devices.
- On the PaySim side, there was 14 new licence and additional module sales over the quarter, as well as projects sold to existing clients in Asia.

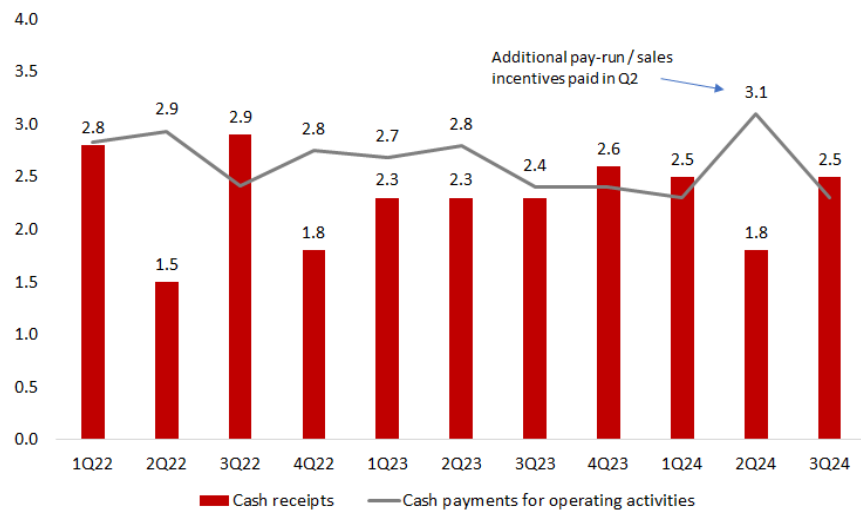
Keeping a Lid on Costs

Cost Base Control

Cash payments for operating activities in 3Q24 was \$2.3m, down 3% vs pcp. 57% of cash payments comprised of staff costs, which increased 18% vs pcp, and largely expected, due to additional costs associated with ensuring operational readiness for card issuing. CCA did incur some scheme costs associated with PaaS platform connectivity in NZ, Australia, and the US, as well as transaction costs for the NZ PaaS clients. Whilst we don't forecast expenses on a quarterly basis, our current 2H24 estimate is \$4.9m. We note that COGS is currently being reported in other expenses and will be stripped out moving forward as it becomes more meaningful.

We expect that CCA will be able to continue its strong cost base control over the medium-long term and we currently forecast that expenses will grow ~1% over FY24 and FY25. We provide a breakdown of quarterly cash receipts vs cash payments for operating activities in the below figure 4.

Figure 4: Quarterly Cash Receipts vs Cash Payments for Operating Activities

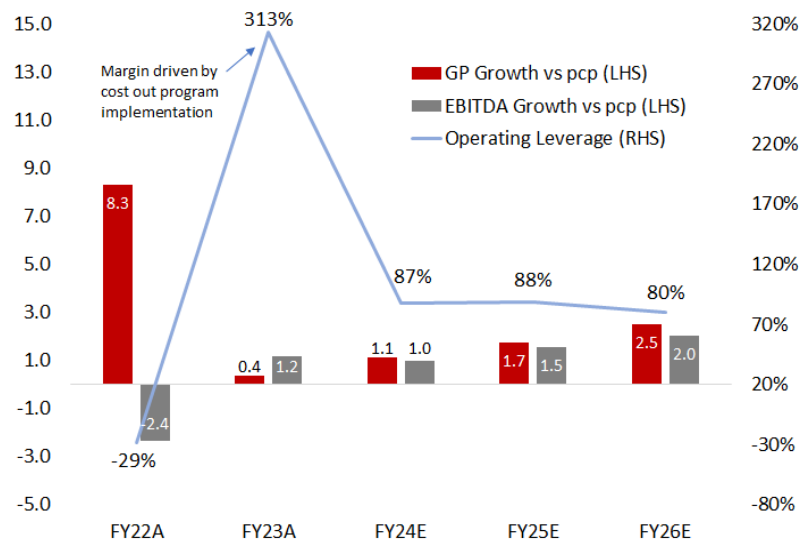


Source: MST Access/Company Presentations

Operating Leverage

CCA realigned its cost base to streamline the business in 2022, and in 3Q24 incremental cash payments were down 4.2%. We anticipate above average margins over the medium term, driven by scaling of the PaaS, before steady to a more sustainable run-rate over the long-term.

Figure 5: 2022a - 2026f Incremental EBITDA



Source: CCA Presentations/MST Access Estimates

Product Overview

Two Core Products

Vertexon & PaySim

Since its launch on the ASX in 2016, CCA has gone through significant change, beginning by providing a retail banking service via a mobile app, and prepaid debit cards to the unbanked and under-banked in the U.S.

It now operates as a B2B fintech, providing solutions for over 156+ banks and fintechs in over 40 countries through two core products, its payments-as-a-service solution, Vertexon, and its payments testing solution, PaySim.

In the below Figure 4 we show the two core product offerings in more detail and compare it to its new models (P&I for Vertexon and SaaS for PaySim). It highlights key target clients, technology capabilities, revenue types, and supported schemes (for Vertexon product offering).

We note that we have utilised the below chart from CCA company presentations.

Vertexon

At its simplest, Vertexon provides physical and virtual card issuing, card management and transaction processing services to its clients. In some cases, Change Financial can act solely as the processor, where the issuer (the client) uses Vertexon technology to manage its cards. The client in this scenario will have issuing relationships with the scheme operator (i.e., Mastercard, Visa) and be in charge of all the regulatory compliance.

In its processing and issuing (P&I) revenue model, a client uses the Vertexon platform to manage its cards with Change Financial as the issuer. This is what CCA has launched in New Zealand, Australia, and the US. The P&I model has allowed Change Financial more touch points on the payments value chain, and with it, the opportunity to generate greater revenues.



PaySim

PaySim is used by banks and fintechs to essentially stress test its platform and make sure that it is compliant. This is an important tool because of the consistent scheme rule changes coming through on a quarterly basis. PaySim technology simulates the full transaction lifecycle, without the need for physical devices such as ATMs & point-of-sale terminals.

PaySim has historically been on a licence and maintenance model, meaning that Change Financial will sell the licence to the client so it can do its testing, and charge an annual maintenance fee to keep up with scheme compliance.

This is shifting to a subscription model, where companies will pay a monthly subscription, as CCA look to cash in on smaller players that don't have the capital to afford the upfront costs.

Figure 6: Change Financial Group Overview

Change Financial Group						
Vertexon Product Offering			PaySim Product Offering			
	Processing	Processing & Issuing (P&I)	Licence Model			
			Licences	Additional Modules	Maintenance	SaaS Model
Technology Capabilities:	- Transaction Processing	- All processing capabilities +	Description:	- New licence sales to new clients	- New licence sales for additional features	- ~20% p.a. of licence & module sales
	- Card Management	- Card Design and Production				
	- Fraud Monitoring	- Card Issuing				
	- Digital and Virtual Cards	- AML / CTF				
Target Clients:	- Large entities with direct issuing capabilities	- Fintechs and Corporates	Revenue Type:	- One-off upfront	- One-off upfront	- Recurring
	- Migration of key Vertexon on-premise clients	- BIN sponsorship (ANZ only)		- Recurring	- Recurring	
Regions:	- Global	- Australia, New Zealand, US	Target Clients:	New Banks, Financial Insto's & Fintechs	Existing Clients	-
Supported Schemes:			Primary Sales Channels:	Partnerships (e.g. EFTPOS mandate), resellers & direct	Direct & retargeted marketing	-
						Partnerships (e.g. EFTPOS mandate), resellers & direct

Source: Company Presentations/MST Access

Valuation

Discounted Cash Flow as at June 2024

We utilise a DCF Valuation methodology as detailed in the below table. CCA reports in USD, and with the majority of its earnings from offshore, its valuation will rise as the AUD weakens.

In our DCF our cost of debt is 6.3%, driven by an assumed 30% tax rate, with our cost of equity at 13.5%. Given CCA is debt-free, our WACC is also 13.5%.

We note that we have a relatively high asset beta 1.75x given the volatility in the share price, lack of profitability, and relative lack of liquidity. We envisage the asset beta falling overtime as we anticipate a relative improvement on all three fronts (liquidity, profitability, and lower volatility).

We value Change Financial at US\$0.070 per share, which converts to A\$0.106 per share at the AUD/USD cross rate of \$0.66c.

Figure 7: Valuation

DCF Valuation as at June 2024	
WACC	13.5%
Ke (cost of equity)	13.5%
Kd (cost of debt)	6.3%
	US\$m
NPV	41
Net-Cash	3
Total Valuation USD	44
AUD / USD	0.66
	A\$m
Total Valuation	67
Share Count (m)	631.9
Valuation per share (\$0.00)	0.106

Source: MST Access Estimates

EPS Changes

We have upgraded our underlying EPS by 16.0%, 43.4%, and 6.3% for FY24, FY25, and FY26 respectively.

We note that the changes are driven by a small increase in professional services revenue in FY24, but appear bigger as EPS revisions as we are coming off a low base.

We lift our valuation to 10.6c (previously 10.3c).

Figure 8: EPS Changes

Earnings Revisions	2024e (Old)	2024e (New)	% Change	2025e (Old)	2025e (New)	% Change	2026e (Old)	2026e (New)	% Change
Revenue	9.71	9.89	1.9%	11.56	11.70	1.2%	14.22	14.37	1.0%
Underlying EBITDA	-0.41	-0.23	43.4%	1.15	1.29	12.2%	3.16	3.30	4.4%
NPAT Reported	-1.94	-1.72	11.5%	-0.22	-0.03	86.0%	0.99	1.10	10.5%
NPAT (Underlying)	-1.40	-1.17	16.0%	0.44	0.63	43.4%	1.65	1.76	6.3%
AUD EPS (Underlying)	-0.34	-0.28	16.0%	0.10	0.15	43.4%	0.38	0.41	6.3%

Source: MST Access Estimates

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

Personal disclosures

Joseph Licciardi and Lafitani Sotiriou received assistance from the subject company or companies in preparing this research report. The company provided them with communication with senior management and information on the company and industry. As part of due diligence, they have independently and critically reviewed the assistance and information provided by the company to form the opinions expressed in this report. They have taken care to maintain honest and fair objectivity in writing this report and making the recommendation. Where MST Financial Services or its affiliates has been commissioned to prepare content and receives fees for its preparation, please note that NO part of the fee, compensation or employee remuneration paid has, or will, directly or indirectly impact the content provided in this report.

Company disclosures

The companies and securities mentioned in this report, include:

Change Financial (CCA.AX) | Price A\$0.064 | Valuation A\$0.106;

Price and valuation as at 30 April 2024 (not covered)*

Additional disclosures

This report has been prepared and issued by the named analyst of MST Access in consideration of a fee payable by: Change Financial (CCA.AX)

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