

Fundamentals remain intact

- 1H24 HEPS was below our expectations given lower terminal sales and weaker revenue growth from Synthesis. Adj. HEPS (excl the provisions for GovChat) was 7.25c, down 6% on the 7.72c reported in 1H23. The outlook for 2H24E appears better with increased order activity across the divisions already being experienced.
- The terminal estate of 344K (+9% YoY) is currently larger than we anticipated for in FY24E (in our August 2022 initiation report) suggesting that the key fundamentals behind our supportive investment thesis on the digital payments industry are intact. There are, however, three industry trends impacting terminal sales revenue that differ to our expectations, namely 1) the ongoing shift by certain banks to rental POS devices – this could be cyclical given low levels of economic activity; 2) a surprisingly higher uptake of lower priced Android devices (circa 85% of new sales and around 25% of the estate) and 3) the replacement cycle of devices is currently stretched to 6-7 years by certain banks instead of an anticipated 4-5 years. We believe the Android switch is likely to be a more structural and longer term trend with the other two more cyclical. We are not concerned by the switch to rentals (33% of the terminal estate was rental in 1H18) as it generates higher profitability over the lease period than a sale. Devices will inevitably be replaced given outdated functionality and weaker security and therefore we anticipate a sharp rise in terminal sales in FY25E.
- Payments revenue excluding terminal sales revenue was up 24%. The shift from cash to digital is ongoing and value add services are gaining traction as evidenced by a 33% increase in Transaction Related income. Rental income almost doubled to R23m. We expect ongoing momentum in these revenue categories in 2H24E combined with improved terminal sales revenue, equating to 13% Payment revenue growth (2H23 saw a weak performance from Payments) This is down from prior estimates of 23% growth.
- Software delivered a disappointing result given weaker revenue growth from Synthesis (+8%) and lower operating margins. Margins are not under pressure from pricing or competition, but rather upfront resourcing (mainly staff) for projects that have been delayed. New customers are still being added. EBITDA margins declined from 23.6% in FY22 to 13.8% in 1H24. Part of this is also due to the rapid rise in the sale of hardware security modules (5-7 year replacement cycles), which are at considerably lower margins and therefore we don't see a return to >20% margins in the medium term.
- The Dariel acquisition accounted for R49.7m of revenue and R9.7m of EBITDA, suggesting 8% revenue growth for Synthesis and -34% EBITDA growth. Synthesis margins declined to 12.7%. We anticipate a stronger revenue performance in 2H24E with improved margins given a closer alignment of spend to realised projects. We forecast 39% growth in FY24E revenue (circa 7% from Synthesis) and 17% EBITDA growth (-17% from Synthesis) – this is down from 49%. We remain positive on the Cloud and Digital deal flow given their importance to the financial services and telco industries which are key focus sectors for Software.
- We revise our FY24E HEPS down from 18.6c (+41%) to 16.8c (+27%). This implies 2H24E HEPS of 9.50c vs 1H24 of 7.3c, bearing in mind that Dariel only contributed three months in 1H24 equating to a circa 0.5c additional HEPS in 2H24E. Our revised FY25E HEPS of 23.6c is broadly in line with prior estimates of 23.8c. In our DCF we calculate a fair value range of 217c-243c/share. With its strong balance sheet CAPPREC remains in a position to acquire value accretive businesses, invest in its operations, buy back further shares and pay an attractive dividend (fwd. div yield of 8.1%). The stock is trading on a 16m fwd. P/E of 5.2x and EV/EBITDA of 2.7x. Its NAV is currently 120c.

Date: 08 January 2024

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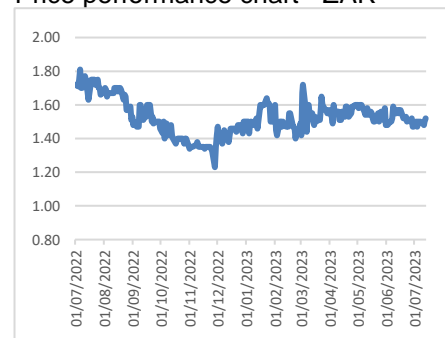
Price (2024/01/08): R1.24

Market cap R1624m

Shares in issue 1310mn

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Price performance chart - ZAR



Source: FactSet

Figure 1 Financial summary

Year Ending	FY2019 A	FY2020 A	FY2021 A	FY2022 A	FY2023 A	FY2024 F	FY2025 F	FY2026 F
Income Statement								
Total Revenue	608	701	620	831	996	1,246	1,607	1,954
<i>Sales growth (%)</i>	19.6%	15.4%	-11.7%	34.2%	19.8%	25.1%	29.0%	21.6%
Payments revenue	470	506	397	534	524	590	843	1,062
<i>Growth (%)</i>		7.7%	-21.5%	34.3%	-1.9%	12.6%	43.0%	26.0%
Software revenue	138	195	223	297	472	656	764	892
<i>Growth (%)</i>		41.6%	14.4%	33.2%	58.6%	39.2%	16.4%	16.8%
EBITDA	161	197	173	252	236	297	431	549
<i>EBITDA Margin (%)</i>	26.5%	28.0%	28.0%	30.3%	23.7%	23.8%	26.9%	28.1%
Payments EBITDA	143	168	147	218	206	248	346	435
<i>Margin (%)</i>	30.5%	33.2%	36.9%	40.9%	39.4%	42.0%	41.0%	41.0%
Software EBITDA	47	57	61	67	83	105	147	180
<i>Margin (%)</i>	34.3%	29.1%	27.4%	22.4%	17.5%	16.0%	19.3%	20.2%
Corporate/head office	-29	-29	-35	-33	-53	-56	-61	-66
<i>% Change</i>		-0.7%	21.3%	-4.9%	60.4%	5.0%	10.0%	8.0%
EBIT	139	162	138	211	193	247	372	478
<i>EBIT Margin (%)</i>	22.8%	23.1%	22.3%	25.3%	19.4%	19.8%	23.2%	24.5%
Profit before tax	174	206	157	232	156	281	409	508
Net profit	125	150	126	162	91	201	298	370
Net profit post minorities	125	150	126	162	91	201	298	370
Headline earnings	125	143	127	163	162	210	298	370
<i>% Change</i>	-13%	14%	-11%	28%	0%	29%	42%	24%
Diluted EPS (ZAc)	8.17	11.0	10.2	12.6	6.9	14.7	21.5	26.6
Headline EPS (ZAc)	8.17	10.7	10.3	13.3	13.2	16.8	23.6	28.9
<i>% Change</i>	-12%	31%	-3%	29%	-1%	27%	41%	22%
DPS (ZAc)	4.3	5.0	5.5	7.5	8.3	10.1	16.5	20.2
<i>Payout ratio (%)</i>	52%	47%	53%	56%	63%	60%	70%	70%
Balance Sheet								
Cash and Cash equivalents	611	505	538	533	495	520	526	575
Current asset (ex – cash)	70	92	67	146	262	295	373	451
Net Fixed assets	22	29	26	24	43	79	135	214
Intangible assets	62	62	61	55	68	63	33	-4
Investments	45	24	42	68	32	38	97	88
Other assets	734	736	747	773	764	877	879	881
Total assets	1,545	1,448	1,481	1,600	1,664	1,871	2,044	2,204
Debt	4	8	9	9	4	4	4	5
Current liabilities	59	90	71	86	136	132	156	186
Other liabilities	35	41	25	22	28	30	35	39
Total liabilities	98	139	105	116	169	166	195	229
Shareholders' equity	1,447	1,309	1,376	1,483	1,495	1,600	1,749	1,881

Minorities								
Total shareholders' equity	1,447	1,309	1,376	1,483	1,495	1,600	1,749	1,881
<i>BVPS (ZAc)</i>	<i>0.9</i>	<i>100</i>	<i>105</i>	<i>113</i>	<i>114</i>	<i>122</i>	<i>133</i>	<i>144</i>
<i>ROE (%)</i>	<i>8.9%</i>	<i>10.9%</i>	<i>9.4%</i>	<i>11.3%</i>	<i>6.1%</i>	<i>13.0%</i>	<i>17.8%</i>	<i>20.4%</i>

Cash Flow

Reported net profit before tax & interest	139	162	138	211	193	247	372	478
Change in net working capital	52	24	19	-60	-66	-37	-50	-44
Interest (paid)/received	-27	-22	-45	-61	-66	-62	-126	-211
Tax paid	-62	-58	-53	-57	-67	-80	-111	-138
Depreciation	23	34	35	41	45	50	59	71
Other adjustments	0	-14	9	13	11	-4	7	3
Cash flow from operations	124	126	102	86	50	113	152	160
Net Capex	-15	-17	-7	-17	-33	-56	-80	-107
<i>Capex/sales (%)</i>	<i>2.5%</i>	<i>2.5%</i>	<i>1.1%</i>	<i>2.0%</i>	<i>3.3%</i>	<i>4.5%</i>	<i>5.0%</i>	<i>5.5%</i>
Other investing cash flows	-5	22	-51	-51	-52	-28	-61	7
Cash flow from investing	-20	5	-58	-68	-86	-84	-142	-100
Equity raised/(bought back)	-7	-227	-1	-14	6	5	6	0
Net inc/(dec) in borrowings	-3	0	0	0	0	1	1	1
Other financing cash flows	0	-9	-8	-9	-10	-10	-11	-11
Cash flow from financing	-10	-236	-9	-23	-4	-4	-4	-10
Net cash flow	94	-105	35	-5	-39	25	6	49
Free cash flow	109	147	154	106	72	124	190	260
Repayment of lease liabilities	0	-6	-8	-9	-10	-10	-11	-11
Net Free cash flow	109	141	147	97	62	113	180	249

Valuation Summary

Valuation Metrics

Share Price (ZAc)	74	57	99	185	124	124	124	124
P/E (Underlying) (x)	0.1	5.3	9.6	13.9	9.4	7.4	5.2	4.3
P/BV (x)	0.8	0.6	0.9	1.6	1.1	1.0	0.9	0.9
EV/Sales (x)	1.9	1.6	1.9	1.4	1.2	0.9	0.7	0.6
EV/EBITDA (x)	7.2	5.9	6.7	4.6	4.9	3.9	2.7	2.1
EV/EBIT (x)	8.3	7.1	8.4	5.5	6.0	4.7	3.1	2.4
FCF Yield (%)	6.7%	8.6%	9.0%	5.9%	3.8%	7.0%	11.1%	15.3%
Dividend Yield (%)	5.7%	8.8%	5.6%	4.1%	6.7%	8.1%	13.3%	16.3%

Net debt	-569	-436	-502	-506	-457	-481	-486	-465
Net debt/Ebitda	-3.5	-2.2	-2.9	-2.0	-1.9	-1.6	-1.1	-0.8

Source: Company data, FactSet, ASB Research

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