

Action Summary – 15 September 2023

Analyst Theodore R. O'Neill Solid **quarter F4Q23 – Reiterate buy and \$8 price target**

- **Solid beat to estimates.** The Company reported F4Q23 revenue of \$133.1MM and an adjusted EPS loss of \$0.04, beating consensus estimates of \$129.5MM in revenue and an EPS loss of \$0.07. The \$0.03 favorable variance to EPS was due to higher sales, better margins and lower expenses. On an “as-reported” basis, the company reported an EPS loss of \$0.19. This included \$0.10 of tax adjusted goodwill impairment and without that impairment, the results were still better than our forecast by \$0.04. These results were achieved despite rising interest rates and inflation environment, and greater load shedding.
- **Company issued guidance for F1Q24 and FY24.** The company reports its results in USD but manages its business in local currency. For 1Q24, it is guiding for revenue between ZAR 2.50B to ZAR 2.55B and Group adjusted EBITDA between ZAR 160MM and ZAR 165MM. For FY24, it is guiding to revenue between ZAR 10.7B to ZAR 11.7B and Group adjusted EBITDA between ZAR 680MM and ZAR 740MM.
- **Interest costs expected to fall as net debt to EBITDA declines.**
- **Attractive Valuation.** Based on our discounted future earnings model, the value of all future earnings is \$8/share. The shares are trading at a 24% - 85% discount to peers. LSAK stock not only sells at a discount to peer averages, but it also trades near the bottom of all metrics despite having a 2024E EBITDA growth rate three times its peer’s average. This broadly confirms our view that, along with our discounted earnings model, the shares are undervalued.

9/14 Closing price: \$3.94 USD	Market cap: \$243 million	Multiple of book: 1.4x	EV/2024 Sales: 0.75
Diluted shares outstanding: 64 million	Insider ownership: 33%	3-mo avg. daily trading volume: >65,000	Dividend 2023 /Yield: NA/NA

Adjusted EPS (EPS in USD – Revenue in USD millions)

Period	EPS	Revenue	Net Income Margin
1Q22A	(\$0.22)	\$34.5	
2Q22A	(\$0.13)	\$31.1	
3Q22A	(\$0.05)	\$35.2	
4Q22A	<u>(\$0.09)</u>	<u>\$121.8</u>	
FY22A	<u>(\$0.49)</u>	<u>\$222.6</u>	<u>(19.7%)</u>
1Q23A	(\$0.08)	\$124.8	
2Q23A	(\$0.01)	\$136.1	
3Q23A	(\$0.02)	\$134.0	
4Q23A	<u>(\$0.04)</u>	<u>\$133.1</u>	
FY23A	<u>(\$0.15)</u>	<u>\$528.0</u>	<u>(6.6%)</u>
1Q24E	(\$0.04)	\$142.0	
2Q24E	(\$0.03)	\$144.0	
3Q24E	(\$0.02)	\$146.0	
4Q24E	<u>(\$0.02)</u>	<u>\$147.0</u>	
FY24E	<u>(\$0.11)</u>	<u>\$579.0</u>	<u>(3.3%)</u>

Note: Numbers may not add due to rounding or change in share count. See our full model at the back of this report.

Cash balance (in USD millions)

• 2021A	• \$223.8
• 2022A	• \$104.8
• 2023A	• \$58.6
• 2024E	• \$52.8

LT Borrowings (in USD millions)

• 2021A	• \$0.0
• 2022A	• \$134.8
• 2023A	• \$129.5
• 2024E	• \$125.0

Adjusted EBITDA (in USD millions)

source: FactSet.

• 2021A	• (\$42.9)
• 2022A	• (\$18.6)
• 2023A	• \$27.7
• 2024E	• \$43.5

Risks/Valuation

- Risks: competitive marketplace, highly regulated business, dependence on financial partners and, currency risk
- Our \$8 price target is derived from our discounted future earnings model.

Company description: Lesaka Technologies is a South African fintech company that utilizes its proprietary banking and payment technologies to deliver superior financial services solutions to merchants (B2B) and consumers (B2C) in Southern Africa. The company’s mission is to drive true financial inclusion for both merchant and consumer markets by offering affordable financial services to previously underserved sectors of the economy.

Figure 1 – Lesaka Technologies, Inc. – One-Year Trading snapshot



Source: FactSet

Quarterly Results

As shown in Figure 2 (below), the Company reported F4Q23 revenue of \$133.1MM and an adjusted EPS loss of \$0.04, beating consensus estimates of \$129.5MM in revenue and an EPS loss of \$0.07. The \$0.03 favorable variance to EPS was due to higher sales, better margins and lower expenses. On an “as-reported” basis, the company reported an EPS loss of \$0.19. This included \$0.10 of tax adjusted goodwill impairment and without that impairment, the results were still better than our forecast by \$0.04. The Company recognized an impairment loss of \$7.0 million because of its annual impairment analysis related to goodwill allocated to its hardware/software support business within its Merchant operating segment. The impairment loss resulted from a reassessment of the business’ growth prospects given the change in customer demand as a result of the introduction of cheaper hardware devices that incorporate software widely adopted by its customer’s customer-base, coupled with a challenging economic environment in South Africa

Figure 2 – Lesaka Technologies, Inc. – Quarterly Variance Analysis (\$000)

	FY23 Q4E	FY23 Q4A	Better (Worse) than estimates
Income Statement			
Consumer	15,000	16,487	1,487
Merchant	117,000	115,193	(1,807)
Other	0	1,469	1,469
Corp./eliminations			0
Total Revenue	\$132,000	\$133,149	1,149
Total cost of products sold	104,280	102,893	1,387
Total Gross Profit	27,720	30,256	2,536
GP%	0	0	
Operating expenses:			
SG&A	24,500	24,055	445
Depreciation and amortization	6,000	5,793	207
Transaction costs	0	0	0
Reorganization costs	0	0	0
Total Expenses	30,500	29,848	652
Earnings (loss) from Operations	(2,780)	408	3,188
Total Other income/(expense)	(5,000)	(14,161)	(9,161)
Earnings before taxes	(7,780)	(13,753)	(5,973)
Tax expense/(benefit)	389	(1,844)	2,233
Net income from continuing ops	(\$8,169)	(\$11,909)	(3,740)
Net income from disc. ops.			
Net income	(\$8,169)	(\$11,909)	(\$3,740)
EPS from disc. Ops.			
Total GAAP EPS	(\$0.13)	(\$0.19)	(\$0.06)
Adjusted EPS	(\$0.08)	(\$0.04)	\$0.04
Diluted common shares	64,000	63,805	(195)

Source: Litchfield Hills Research LLC and Company filings

Valuation and Price Target

Valuation Methodology

We believe LSAK is undervalued, and we support that belief with two valuation techniques. For the purpose of determining our price target we use a discounted future earnings model, which we then compare to its valuation relative to peers.

Discounted Future Earnings – Basis for Price Target

Our 12-month price target of \$8 is based on a discounted earnings model. For valuation purposes, we sum up all future earnings on a GAAP basis and discount them at 8%. We assume the company becomes GAAP EPS profitable in 2026 and earnings growth ramps up for another 8 years until growth eventually slows to GDP. Our valuation model is shown in Figure 3 below. Note, this model understates future new services and growth through acquisitions and probably understates the tax benefits, but offsetting that, the earnings never have a down year. The implied share price is \$7.52, which we round to \$8.00.

Figure 3 – Lesaka Technologies, Inc. – Price Target Calculation

Discounted future earnings: \$7.52		
YEAR	EPS	Discounted EPS
2024	(\$0.30)	(\$0.30)
2025	(\$0.10)	(\$0.09)
2026	0.00	\$0.00
2027	0.20	\$0.16
2028	0.30	\$0.22
Terminal Value		\$7.54

Source: Litchfield Hills Research LLC

Valuation Relative to Peers

Figure 4 is a summary of our LSAK peer comparison. The shares are trading at a 24% to 85% discount to peers. LSAK stock not only trades at a discount to peer averages, but it also trades near the bottom of all metrics despite having a 2024E EBITDA growth rate of 3x peer averages. This broadly confirms our view that, along with our discounted earnings model, the shares are undervalued.

Figure 4 – Lesaka Technologies, Inc. – Valuation of Peers

FactSet Ticker	Company Name	Closing Price	Market Cap \$MM	EV \$MM	2024 Consensus Multiples				2024 EBITDA Growth Rate
					LTM Revenue USD	LTM Sales / Market Cap	2024 EV / Sales	2024 EV / EBITDA	
SQ-US	Block, Inc. Class A	\$54.15	29,752	30,958	18,833	1.58	1.25	15.71	27%
KSPI-GB	Kaspi.kz JSC Sponsored GDR RegS	\$97.00	18,674	18,861	3,295	5.67	4.87	7.37	
377300-KR	kakaopay Corp.	\$33.12	4,441	2,881	401	11.08	5.44	89.79	NMF
STNE-US	StoneCo Ltd. Class A	\$11.58	3,256	3,698	895	3.64	1.32	2.54	6%
NETW-GB	Network International Holdings Plc	\$4.88	2,599	2,890			4.90	11.46	20%
EVTC-US	EVERTEC, Inc.	\$38.02	2,457	2,681	607	4.05	3.86	8.90	6%
PAGS-US	PagSeguro Digital Ltd. Class A	\$9.07	1,849	4,523	2,846	0.65	1.26	5.84	15%
MQ-US	Marqeta, Inc. Class A	\$6.62	3,151	2,182	807	3.90	4.18		
PAYO-US	Payoneer Global Inc.	\$6.11	2,195	1,805	709	3.10	1.82	8.91	14%
FWRY-EG	Fawry For Banking Technology And Electronic Pay	\$0.18	603	221	100	6.00	1.62	4.76	38%
IIIV-US	i3 Verticals, Inc. Class A	\$22.00	511	1,001	343	1.49	2.61	9.33	13%
HPS-MA	Hightech Payment Systems SA	\$620.06	459	428	120	3.81	3.60	16.84	12%
PAY-GB	PayPoint plc	\$7.07	514	421			1.80	3.92	11%
PRTH-US	Priority Technology Holdings, Inc.	\$3.56	273	1,087	680	0.40	1.24	5.83	15%
PAY-CA	Payfare, Inc.	\$4.84	231	74	120	1.93	0.37	2.53	
BLU-ZA	Blue Label Telecoms Limited	\$0.15	141	285					
CCRD-US	CoreCard Corporation	\$20.67	176	141	58	3.02	2.04		
0021-MY	GHL Systems Bhd.	\$0.17	195	173	92	2.13	1.57	9.50	13%
PAYS-US	PaySign, Inc. Class B	\$2.01	106	22	41	2.61	0.46	2.78	40%
ML-US	MoneyLion Inc Class A	\$21.03	206	305	367	<u>0.56</u>	<u>0.57</u>	<u>6.68</u>	<u>NMF</u>
	Average					<u>3.27</u>	<u>2.36</u>	<u>12.51</u>	<u>18%</u>
LSAK-US	Lesaka Technologies, Inc.	\$3.68	243	428	505	0.48	0.75	9.48	57%
LSAK shares trading at a (discount)/premium to peers:						-85%	-68%	-24%	-319%

Source: Litchfield Hills Research LLC and FactSet

According to Statista, assets under management (AUM) and average AUM per user in the fintech industry of South Africa are predicted to grow positively in the upcoming years. All the above factors indicate a compelling opportunity for Lesaka to showcase and implement its full-fledged portfolio of fintech services and attract additional consumers and merchants.

Figure 5 – Lesaka Technologies, Inc. – Income Statement (\$000 except per share)

June ending year	2021A	2022A				2022A	2023A				2023A	2024E				2024E
	Year	Q1A	Q2A	Q3A	Q4A	Year	Q1A	Q2A	Q3A	Q4A	Year	Q1E	Q2E	Q3E	Q4E	Year
Total revenue	\$130,786	\$34,504	\$31,114	\$35,202	\$121,789	\$222,609	\$124,786	\$136,068	\$133,968	\$133,149	\$527,971	\$142,000	\$144,000	\$146,000	\$147,000	\$579,000
Growth	162%	-2%	-4%	22%	253%	70%	262%	337%	281%	9%	137%	14%	6%	9%	10%	10%
Cost of Goods	96,248	24,207	20,580	23,008	100,522	168,317	100,528	108,824	105,299	102,893	417,544	112,180	113,760	115,340	116,130	457,410
Gross Profit	34,538	10,297	10,534	12,194	21,267	54,292	24,258	27,244	28,669	30,256	110,427	29,820	30,240	30,660	30,870	121,590
Gross Margin	26.4%	29.8%	33.9%	34.6%	17.5%	24.4%	19.4%	20.0%	21.4%	22.7%	20.9%	21.0%	21.0%	21.0%	21.0%	21.0%
SG&A	\$84,063	\$20,442	\$17,746	\$15,184	\$21,663	\$74,993	\$22,931	\$23,517	\$24,547	\$24,055	\$95,050	\$24,000	\$24,000	\$24,000	\$24,000	\$96,000
% of total revenue	64.3%	59.2%	57.0%	43.1%	17.8%	33.7%	18.4%	17.3%	18.3%	18.1%	18.0%	16.9%	16.7%	16.4%	16.3%	16.6%
Depreciation and amortization	4,347	895	726	463	5,491	7,575	5,998	5,919	5,975	5,793	23,685	6,000	6,000	6,000	6,000	24,000
Transaction costs	-	185	1,489	116	4,235	5,894	-	-	-	-	-	-	-	-	-	-
Reorigination costs	-	-	-	5,852	-	6,025	-	-	-	-	-	-	-	-	-	-
Total Operating Expenses	88,411	21,523	19,962	21,615	31,389	94,487	28,929	29,436	30,522	29,848	118,735	30,000	30,000	30,000	30,000	120,000
Operating Income	(53,873)	(11,226)	(9,428)	(9,421)	(10,122)	(40,195)	(4,671)	(2,192)	(1,853)	408	(8,308)	(180)	240	660	870	1,590
Operating Margin	-41.2%	-32.5%	-30.3%	-26.8%	-8.3%	-18.1%	-3.7%	-1.6%	-1.4%	0.3%	-1.6%	-0.1%	0.2%	0.5%	0.6%	0.3%
Total Other Items	23,375	(1,583)	(2,881)	6,564	(5,454)	(3,354)	(5,994)	(4,093)	(4,827)	(14,161)	(29,075)	(5,000)	(5,000)	(5,000)	(5,000)	(20,000)
Pre-Tax Income	(30,498)	(12,809)	(12,309)	(2,857)	(15,576)	(43,549)	(10,665)	(6,285)	(6,680)	(13,753)	(37,383)	(5,180)	(4,760)	(4,340)	(4,130)	(18,410)
Pre-Tax Margin	-23.3%	-37.1%	-39.6%	-8.1%	-12.8%	-19.6%	-8.5%	-4.6%	-5.0%	-10.3%	-7.1%	-3.6%	-3.3%	-3.0%	-2.8%	-3.2%
Taxes (benefit)	7,560	186	98	470	(427)	327	31	364	(860)	(1,844)	(2,309)	259	238	217	207	921
Tax Rate	-24.8%	-1.5%	-0.8%	-16.4%	2.7%	-0.8%	-0.3%	-5.8%	12.9%	13.4%	6.2%	-5.0%	-5.0%	-5.0%	-5.0%	-5.0%
Net income from continuing ops	(38,057)	(12,994)	(12,406)	(3,327)	(15,149)	(43,876)	(10,696)	(6,649)	(5,820)	(11,909)	(35,074)	(5,439)	(4,998)	(4,557)	(4,337)	(19,331)
Net income from disc. ops.	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net income	(38,057)	(12,994)	(12,406)	(3,327)	(15,149)	(43,876)	(10,696)	(6,649)	(5,820)	(11,909)	(35,074)	(5,439)	(4,998)	(4,557)	(4,337)	(19,331)
Net Margin	-29.1%	-37.7%	-39.9%	-9.5%	-12.4%	-19.7%	-8.6%	-4.9%	-4.3%	-8.9%	-6.6%	-3.8%	-3.5%	-3.1%	-3.0%	-3.3%
Adjusted EPS	(0.87)	(0.22)	(0.13)	(0.05)	(0.09)	(0.49)	(0.08)	(0.01)	(0.02)	(0.04)	(0.15)	(0.04)	(0.03)	(0.02)	(0.02)	(0.11)
Total GAAP EPS	(0.67)	(0.23)	(0.22)	(0.06)	(0.25)	(0.75)	(0.17)	(0.11)	(0.09)	(0.19)	(0.56)	(0.08)	(0.08)	(0.07)	(0.07)	(0.30)
Diluted Shares Outstanding	56,898	56,678	57,204	57,791	61,619	58,364	62,445	62,763	63,854	63,805	63,134	64,000	64,000	64,000	64,000	64,000

Source: Company reports and Litchfield Hills Research LLC

Figure 6 – Lesaka Technologies, Inc. – Balance Sheet (\$000)

June ending year	FY2024E	FY2023A	FY2022A	FY2021A	FY2020A
Balance sheet					
Current Assets					
Cash and S.T.I.	\$52,845	\$58,632	\$104,800	\$223,765	\$118,506
Accounts receivable	28,000	25,665	28,898	26,583	12,975
Inventories	29,000	27,337	34,226	22,361	9,787
Other assets	55,000	52,002	49,808	21,608	22,781
Total Current Assets	164,845	163,636	217,732	294,317	164,049
Net PP&E	28,000	27,447	24,599	7,492	9,762
Other non-current assets	95,000	95,811	94,875	97,011	30,761
Total Assets	\$527,845	\$542,234	\$656,565	\$428,330	\$204,572
Current Liabilities					
Accounts and other payables	\$52,000	\$48,677	\$55,074	\$34,957	\$4,952
Short term borrowings	37,000	35,709	73,022	14,245	5,223
Other current liabilities	15,000	17,526	17,774	3,288	32,818
Total current liabilities	104,000	101,912	145,870	52,490	42,993
Long-term debt net of current	125,000	129,455	134,842	0	3,700
Other non-current	57,000	51,960	61,504	14,881	2,837
Total Liabilities	286,000	283,327	342,216	67,371	49,530
Redeemable common stock	79,429	79,429	79,429	84,979	21,500
Stockholders' Equity					
Preferred stock					
Total stockholders' equity	162,416	179,478	234,920	275,980	133,542
Total Liabilities and equity	\$527,845	\$542,234	\$656,565	\$428,330	\$204,572

Source: Company reports and Litchfield Hills Research LLC

Figure 7 – Lesaka Technologies, Inc. – Cash Flow (\$000)

	2024E	2023A	2022A	2021A
Net Income	(\$19,331)	(\$35,074)	(\$43,876)	(\$38,057)
Accounts receivable	(2,335)	3,233	(2,315)	(13,608)
Inventories	(1,663)	6,889	(11,865)	(12,574)
Other assets	(2,998)	(2,194)	(28,200)	1,173
Net PP&E	(553)	(2,848)	(17,107)	2,270
Goodwill and intangibles	15,340	64,019	(289,849)	(29,510)
Other non-current	811	(936)	2,136	(66,250)
Accounts and other payables	3,323	(6,397)	20,117	30,005
Short term borrowings	(2,046)	(34,172)	51,973	11,206
Current portion LTD	3,337	(3,141)	6,804	(2,184)
Other current liabilities	(2,526)	(248)	14,486	(29,530)
Long-term debt net of current	(4,455)	(5,387)	134,842	(3,700)
Other non-current	5,040	(9,544)	46,623	12,044
Redeemable common stock	0	0	(5,550)	63,479
Common stock	0	0	3	80
Capital in excess of par	304	7,805	25,932	152,816
Accumulated other comp. income	726	(26,886)	(23,119)	(145,721)
Treasury stock and note	1,238	(1,287)	0	(281,223)
Dividend/Financing/Adj. Other	0	0	0	5,948
Total Cash Flow	(\$5,788)	(\$46,168)	(\$118,965)	(\$343,336)

Source: Litchfield Hills Research LLC

Disclosures:

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