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Task Group Holdings (TSK)

Following the rails

Recommendation
Buy (unchanged)
Price
A\$0.40
Target (12 months)
A\$0.57 (previously A\$0.62)

GICS Sector
Software and Services

Expected Return

Capital growth	42.5%
Dividend yield	0.0%
Total expected return	42.5%

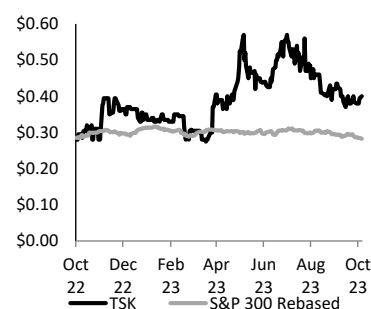
Company Data & Ratios

Enterprise value	A\$129.7m
Market cap	A\$142.5m
Issued capital	356.2m
Free float	51.4%
Avg. daily val. (52wk)	\$23.7k
12 month price range	\$0.275-\$0.57

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.42	0.57	0.29
Absolute (%)	-4.76	-29.82	40.35
Rel market (%)	-0.98	-22.01	41.12

Absolute Price



SOURCE: IRESS

2Q24 at a glance

TSK reported a 2Q24 update outlining continued strong momentum regarding client wins, deployments and cash flows. These included: (1) expansion into the Taiwan market via the Plexure division, a significant market for McDonalds in Asia; (2) implementation of its solution into Retail Food Group's (RFG, Buy rated) Crust business via the TASK division following deployments in Q1; and (3) further contract wins across North America and Australia. TSK generated NZ\$12m in operating cash flows for the quarter (with the benefit of upfront annual payments within Plexure), following a NZ\$5.9m cash outflow in Q1, to end the period with NZ\$31m.

Payments processing progressing

TSK acquired payments software IP in Apr '23 with the aim to develop and integrate the solution within its own suite and extend its end-to-end capabilities further; the rationale being a payments capability would create a key competitive advantage via reduction in suppliers a customer is exposed to and further value-added service delivery. TSK views the opportunity as representing an "attractive revenue stream" and anticipates commercialisation of the platform over the next ~6-12 months.

The payments solution is now certified in NZ and ~70% complete in Australia, with certification having commenced in USA to be followed by Europe and Asia.

Investment view: Buy, Target Price \$0.57/sh (prev. \$0.62/sh)

We maintain our Buy recommendation and make no changes to our estimates, however we reduce our EV/EBITDA multiple in line with its cohort which affects a reduction in our Target Price to \$0.57/sh. While exposed to the consumer, TASK operates on an enterprise licensing model and not on a per-transaction basis. Plexure revenue largely relates to traffic on its GMA-lite platform. Our recommendation is based on its exposure to future-facing industry trends, unique end-to-end solution suite, and free cash flow profile which can fund investment in operations, product development and targeted growth opportunities.

Earnings Forecast

March Year end	2023	2024e	2025e	2026e
Revenue (NZ\$m)	64.9	74.8	86.0	98.9
Underlying EBITDA (NZ\$m)	11.5	14.1	18.0	26.9
NPAT (reported) (NZ\$m)	0.4	2.8	6.3	12.5
NPAT (Adjusted) (NZ\$m)	5.8	2.8	6.3	12.5
EPS (Adjusted) (NZ cps)	1.5	0.8	1.8	3.5
EPS growth (%)	nm	-47.3%	125.6%	97.2%
PER (x)	388.9	50.6	22.4	11.4
FCF Yield (%)	9.6%	5.9%	9.8%	11.7%
EV/EBITDA (x)	11.3	9.2	7.2	4.8
Dividend (NZ cps)	0.0	0.0	0.0	0.0
Franking (%)	0%	0%	0%	0%
Yield (%)	0%	0%	0%	0%
ROE (%)	0.3%	2.0%	4.4%	8.0%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Company Overview

Company Description

TASK is an Enterprise Management System delivering a SaaS solution in the Quick Service Restaurant (QSR), Gaming/Casino, Stadium/Event and Food Service verticals to a high-quality client list. The current iteration of the company the result of the merger between TASK and Plexure in October 2021, with both divisions continuing to trade separately. The Group subsequently changed its name to TASK Group and moved its primary listing to the ASX from the NZX in October 2022. The re-branded entity combines TASK's Point-of-Sale (POS) and Transaction Management technology platform with Plexure's Customer Engagement, Loyalty and Data Insight capabilities. TASK serves its clients through centralised POS terminal management, interactive customer loyalty, web-delivered inventory control, extendable integration capability and enterprise scalability via its cloud platform to give the client complete visibility and end-to-end control of in-store operations by accessing and presenting real time data. TSK has served McDonald's as a client via its Plexure division since 2013.

Investment thesis

We maintain a Buy recommendation and price target of \$0.57/sh using a 50/50 blend of DCF and EV/EBITDA. Our recommendation is based on its exposure to future-facing industry trends, unique end-to-end solution suite, and free cash flow profile which can fund investment in operations, product development and targeted growth opportunities.

Key Risks

Key risks related to TSK include, but are not limited to:

Technology risk: TSK's primary source of revenue is the provision of its platform for license/SaaS fees. If performance of TSK's platform, API's, or services fail or otherwise does not meet customer expectations it may adversely impact TSK's ability to attract or retain customers.

Customer concentration risk: TSK's McDonalds contract within the Plexure division represented ~40%+ of group revenue in FY23. If there is a breakdown in the relationship or loss of contract for any reason, TSK may lose a significant portion of its revenue.

Competition risk: TSK's operates in a highly competitive industry with large and mature global providers. If competitors elect to compete for TSK's clients, it may have an adverse impact on TSK's ability attract and retain customers or price contracts appropriately.

Product/service risk: TSK aims to continue to introduce new products, services and functionalities that are intended to enhance user experience. There is a risk that these initiatives may result in unforeseen costs or risks, may not perform as intended, or may not deliver growth in customers.

Third party data risk: TSK clients collect a wide range of personal data from end-customers. In addition, TSK sometimes manages this data on behalf of clients via third party provider. Any breach or hacking of TSK's databases or third-party providers may undermine the company's relationship or trust with the company's customers/clients.

Decline in exposed industry(ies) risk: Although TSK does not itself operate QSR, Food Service, Gaming/Casino or Stadium/Event operations, TSK is still exposed to consumer behaviour in these industries. Deterioration in economic conditions specific to these industries may have an adverse impact on the Company's performance, relative to each contract and/or service provided.

Key personnel risk: The Company relies heavily on existing key management personnel, including Daniel Houden, who have intimate knowledge of the technology underpinning the platform and relationships with key clients. Any loss of key personnel may adversely affect the company's ability to execute on growth strategies or cause differences over valuation and operations.

Foreign exchange risk: TSK currently reports in NZD, which exposes the Group to the risk of foreign currency exchange rates against the NZD. In FY23 TSK transacted in NZD, AUD, USD, Japanese Yen, Polish Zloty, Euro and the Pound. TSK does not hedge against this risk.

Task Group Holdings

as at 30 October 2023

Recommendation

Buy

Price

A\$0.40

Target (12 months)

A\$0.57

Table 1 - Financial summary

March Year End

Profit & Loss (NZ\$m)	2022	2023	2024e	2025e	2026e
Operating Revenue	32.6	64.9	74.8	86.0	98.9
Licensing	24.0	51.5	63.1	72.6	83.5
Consulting	7.3	8.6	8.6	9.9	11.3
Hardware	1.3	4.8	2.9	3.3	3.8
Other	0.2	0.5	-	-	-
Total Revenue	32.8	65.4	74.8	86.0	98.9
Operating Expenses	45.7	53.4	60.7	67.9	72.0
Staff Costs (inc. share-based)	25.0	26.0	30.6	35.9	37.9
IT Costs	12.0	15.7	18.4	19.4	20.9
EBITDA	(13.2)	11.5	14.1	18.0	26.9
Depreciation	(1.4)	(1.6)	(1.3)	(1.3)	(1.3)
Amortisation	(8.3)	(11.2)	(9.5)	(8.7)	(7.8)
EBIT	(22.7)	(0.9)	3.3	8.0	17.8
Net Interest	(0.3)	(0.5)	(0.4)	(0.4)	(0.4)
Profit Before Tax	(23.2)	0.1	2.8	7.6	17.3
Tax	1.4	5.7	-	(1.2)	(4.9)
Underlying Net Profit	(21.7)	5.8	2.8	6.3	12.5
Abs. & extras	(2.5)	(5.4)	-	-	-
Reported Net Profit	(24.3)	0.4	2.8	6.3	12.5

Cashflow (NZ\$m)	2022	2023	2024e	2025e	2026e
EBITDA	(13.2)	11.5	14.1	18.0	26.9
Add backs	0.2	0.5	-	-	-
Deferred Revenue	1.6	3.1	1.1	0.3	0.3
Working Capital adj.	(1.9)	4.0	0.1	0.3	0.5
Net Interest	(0.3)	(0.1)	(0.4)	(0.4)	(0.4)
Tax Paid	(0.5)	(0.6)	-	(1.2)	(4.9)
Other operating items	(3.8)	(1.2)	0.1	2.7	(0.7)
Operating Cash Flow	(17.9)	17.0	14.9	19.6	21.7
Capex	(32.3)	(3.0)	(5.7)	(4.5)	(3.6)
Acquisitions	(29.5)	-	-	-	-
Other investing items	0.4	0.8	-	-	-
Free Cash Flow	(49.8)	14.9	9.2	15.1	18.1
Share Issues/(Buy Backs)	21.8	0.0	(0.1)	-	-
Change in Cash	(28.0)	14.9	9.1	15.1	18.1

Balance Sheet (NZ\$m)	2022	2023	2024e	2025e	2026e
Cash	12.2	28.3	37.4	52.5	70.6
Receivables	6.8	8.3	8.6	9.3	10.7
Inventory	0.4	0.0	0.0	0.0	0.0
Other Current Assets	3.3	2.7	2.7	2.7	2.7
Total Current Assets	22.7	39.4	48.7	64.6	84.0
Property, Plant & Equipment	0.8	1.0	1.0	1.0	1.0
Right-of-use Assets	8.1	5.5	5.5	5.5	5.5
Intangibles	62.7	53.3	48.9	44.1	39.3
Goodwill	70.9	70.2	70.2	70.2	70.2
Other Non-Current Assets	0.4	0.4	0.4	0.4	0.4
Total Non-Current Assets	142.9	134.5	129.4	121.1	116.3
Total Assets	165.7	173.9	178.1	185.7	200.3
Payables	6.3	11.4	11.8	12.8	14.7
Deferred Revenue	9.3	12.4	13.9	14.2	14.5
Lease Liabilities	1.3	1.5	1.5	1.5	1.5
Borrowings	-	-	-	-	-
Other Current Liabilities	-	0.1	0.1	0.1	0.1
Total Current Liabilities	16.9	25.4	27.4	28.6	30.8
Lease Liabilities	8.1	5.4	5.4	5.4	5.4
Deferred Tax Liability	10.6	8.2	8.2	8.2	8.2
Borrowings	-	-	-	-	-
Other Non-Current Liabilities	0.2	0.1	0.1	0.1	0.1
Total Non-Current Liabilities	19.4	14.2	13.7	13.7	13.7
Total Liabilities	36.4	39.7	41.1	42.4	44.5
Net Assets	129.3	134.2	137.0	143.3	155.8
Contributed Equity	177.8	178.3	178.3	178.3	178.3
Reserves	6.4	10.3	10.3	10.3	10.3
Retained Profits	(54.8)	(54.4)	(51.6)	(45.3)	(32.8)
Total Equity	129.3	134.2	137.0	143.3	155.8

Price (A\$sp)						\$0.400
Recommendation						Buy
Shares on issue (m)						356.2
Market cap (A\$m)						\$142.5
Valuation (NZ\$ps)						\$0.62
Valuation (A\$ps)						\$0.57

Valuation Ratios	2022	2023	2024e	2025e	2026e
Underlying EPS (NZ\$ps)	-8.3	1.5	0.8	1.8	3.5
... % change	n.a	n.a	-47.3%	125.6%	97.2%
Underlying EPS (A\$ps)	-7.6	1.4	0.7	1.6	3.2
... % change	n.a	n.a	-47.3%	125.6%	97.2%
P/E (x)	-5.8	388.9	50.6	22.4	11.4
EV/SALES (x)	4.0	2.0	1.7	1.5	1.3
EV/EBITDA (x)	-9.8	11.3	9.2	7.2	4.8
EV/EBIT (x)	-5.7	-149.0	39.9	16.2	7.3
P/CF (x)	-2.8	9.5	15.5	9.4	7.9
FCF/share	-0.14	0.04	0.03	0.04	0.05
FCF Yield (%)	-32.3%	9.6%	5.9%	9.8%	11.7%

NTA (\$ps)	0.12	0.13	0.16	0.20	0.26
P/NTA (x)	4.42	3.07	2.55	1.99	1.56
Book Value (\$ps)	0.37	0.38	0.39	0.40	0.44
Price/Book (x)	1.09	1.06	1.04	0.99	0.91
DPS (NZ\$ps)	0.00	0.00	0.00	0.00	0.00
... % pay-out	0.00	0.00	0.00	0.00	0.00
DPS (A\$ps)	0.00	0.00	0.00	0.00	0.00
Yield (%)	0.00	0.00	0.00	0.00	0.00
Franking (%)	0.00	0.00	0.00	0.00	0.00
WANOS (basic)	263.51	354.21	354.83	354.83	354.83

Performance ratios	2022	2023	2024e	2025e	2026e
Revenue growth (%)	11.7%	99.4%	15.2%	15.0%	15.0%
EBITDA growth (%)	n.a	n.a	122.4%	128.3%	149.1%
EBITDA margin (%)	n.a	n.a	17.7%	18.8%	21.0%
EBIT growth (%)	n.a	n.a	n.a	146.3%	121.9%
ROE (%)	n.a	0.3%	2.0%	4.4%	8.0%
ROA (%)	n.a	0.2%	1.6%	3.4%	6.2%
ROIC (%)	n.a	0.0%	1.9%	5.7%	15.1%
Interest Cover (x)	n.a	n.a	7.3	17.9	39.7
Current Ratio (x)	1.3	1.5	1.8	2.3	2.7

Divisonal Revenue (NZ\$m)	2022	2023	2024e	2025e	2026e
Plexure (CE)	26.4	47.9	57.5	60.4	65.2

TASK (ETM)	% change	17.1	81.7%	20.1%	5.0%	8.0%
% change			0.6%	48.3%	31.5%	20.8%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

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