

21 January 2021

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Link Administration Holdings Limited

Data Processing & Outsourced Services

BUY

LNK A\$4.82**TARGET PRICE A\$6.37**

Link Administration Holdings Limited (LNK) is a technology-enabled provider of outsourced administration services for superannuation fund administration, corporate markets and related value-added services including data management analytics, digital communication and stakeholder education and advice.

Company Data

Number of shares	535.0M
Market Capitalisation	\$2535.7M
Free float (%)	83.5
12-month high/low	\$6.81/2.7
Average Daily Turnover (\$m)	6.0
% S&P/ASX200	0.13
DDM Ranking	65
% All Ordinaries	0.11
GICS Industry Group	Data Processing & Outsourced Services

Source: FactSet, Barclay Pearce Capital

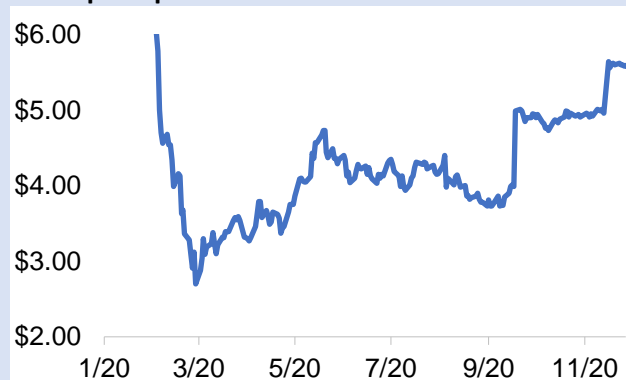
Earnings Summary (AUD)

Year end June	2020A	2021F	2022F	2023F
Revenue (\$M)	1,230.0	1,214.8	1,300.7	1,340.9
EBITDA (\$M)	294.0	293.7	332.8	359.4
Reported NPAT (\$M)	-114.0	11.6	53.4	81.8
Adjusted NPAT (\$M)	144.0	120.9	164.4	192.4
Reported EPS (c)	-21.8	2.0	9.8	15.1
Adjusted EPS (c - FD)	27.1	22.3	29.7	34.1
Adjusted EPS growth (%)	-28.5	-17.8	33.5	14.5
Adjusted P/E (x)	17.5	21.3	15.9	13.9
Dividend (c/sh)	10.0	10.4	14.7	17.2
Gross yield (%)	3.0	2.9	4.2	4.9
Net yield (%)	2.1	2.0	2.9	3.5
ROIC (%)	5.0	3.7	5.3	6.2

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet, Nucleus 195 and Capital IQ.

Share price performance.



Source: FactSet, Barclay Pearce Capital

FY21 H1 Update

On 21st January 2021, Link Administration Holdings Limited (LNK) provided an update on its preliminary results for the half year ended 31 December 2020.

The preliminary 1H FY21 results and the comparison against the guidance provided to investors on 9 December 2020 are highlighted below.

	1H 2021 (preliminary) ² \$ million	1H 2021 (previous guidance) ³ \$ million
Total revenue	\$597	\$594
Operating EBIT	\$79	\$77
Operating NPATA	\$65	\$57
Debt Leverage Ratio ⁴	2.4x	2.8x
Interest Cover Ratio ⁴	11.2x	11.0x

The key reasons for the outperformance against the trading update provided on 9 December 2020 are:

- Positive revenue momentum across the business during December 2020 generating an Operating EBIT of \$2 million above guidance;
- PEXA performance during December 2020, delivering another record month of transaction volumes on the PEXA exchange, and contributing to \$3 million outperformance in Link Group's Operating NPATA guidance, PEXA 1H FY21 revenue and operating EBITDA were \$104 million and \$51 million, respectively; and
- A lower than anticipated effective tax rate, driven by a larger than forecasted use of unrecognised tax losses. In this half year period, the lower effective tax rate had a positive impact on Operating NPATA of \$3 million. Our expectations for the effective tax rate for the year ended 30 June 2021 are revised to 27-28%.

"Pleasingly, the business continued to perform well through December 2020. Revenue was above expectations and, together with continued control of operating expenses, resulted in a higher than forecast Operating EBIT for the first half. PEXA continues to build on its strong business model benefitting from increased transaction volumes on the PEXA Exchange and increased penetration of the national electronic conveyancing market. Importantly, Operating EBITDA for 1H FY21 was \$51 million compared to the FY20 full year Operating EBITDA of \$58 million, further demonstrating the high operating leverage in this business. Link Group achieved strong cash flow conversion in excess of 100% in the first half. This is expected to lower Link Group's leverage to 2.4x net debt to Operating EBITDA, which is within our guidance range of 2-3x net debt to Operating EBITDA. On a pro forma basis, assuming the PES acquisition and PEXA refinancing are completed, Link Group's net debt to Operating EBITDA would be approximately 2.5x and the interest cover ratio would remain above 11x reflecting the strong financial foundations of the business." says Vivek Bhatia, CEO & Managing Director.

Earnings changes

LNK is expecting an increase in Operating NPATA of 14% from their previous guidance of \$57M to \$65M. This is above the market expectations of a 10% increase. Hence, we expect positive earnings revisions of 7.5% for FY21 and 5% for future periods.

Valuation

We are initiating on Link Administration Holdings Limited with a 12-month price target of \$6.37 and a BUY recommendation. The price target is underpinned by our Valuation.

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Barclay Pearce Capital provides research services to its client. Mr Wright is General Manager of Research and has over twenty (26) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2017 where he has been involved in the research and publication of reports. Prior to this Mr Wright worked at a number of entities where he held Director/Head of Research and General Manager of Research positions. Mr Wright holds a Bachelor of Mathematics (Honours) from Edinburgh University and has completed the SDIA Accreditation Program (RG146) through DeakinPrime.

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Hold – Describes stocks that are neither a buy nor underperform.

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NR – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Barclay Pearce Capital policies.

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Buy	40.2%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Speculative Buy	0.4%	(100.0% of stocks with recommendations are Barclay Pearce clients)
Hold	19.5%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	40.0%	(0.0% of stocks with recommendations are Barclay Pearce clients)