

3 July 2018

## EML Payments Limited (EML)

**Buy**

**Share Price: \$1.50**

**GVC is a significant contract win**

**Target Price: A\$1.91**

**EML's GVC announcement highlights the group's deep gaming relationships and unique offering. Given the customer service focus of the industry, we expect additional operators to follow suit in the near term. EML continues to trade at a considerable discount to its payments peers, which is unwarranted in our view. This announcement, along with Caesars last month and a rising Fed Funds rate, underpins our confidence in our forecasts. We reiterate our Buy recommendation and A\$1.91 target price.**

### Key Points from Announcement

- EML has signed a multi-year agreement with GVC.
- GVC owns some of the world's leading gaming brands, in particular Ladbrokes, Coral, Gala Sportingbet, bwin, partypoker and partycasino.
- GVC has ~30m customers across 20 regulated markets

### Significant upside potential

- GVC's combined wagers, across all of its brands, in 2017 was ~GBP9bn (A\$16bn).
- Assuming a win rate of ~8% and a recycling ratio of ~50%, we estimate that the potential payouts may be ~GBP18bn (A\$32bn) annually.
- Assuming a 100 bps conversion rate (which EML typically receives for its gaming products) implies substantial upside from this contract.
- EML typically captures 20-30% of total payouts from its gaming customers, within the 2-3 years of a contract (assuming above the line marketing efforts).

### Further clarity at the AGM

- GVC will decide in the coming months its schedule for roll out of the product to its brands and geographies.
- Ladbrokes and bwin are the largest brands within the GVC portfolio and the UK market (63%) is its most significant geography. Should these be launched in the first phase it will accelerate the upside to EML.
- We expect EML will have further clarity regarding GVC's timeline at its AGM, where it will provide guidance.

### High Conviction Buy

- EML is trading at a significant discount to its payment peers, which given its impressive track record, strong organic growth potential and balance sheet strength is completely unwarranted in our view.
- While we have made no changes to our forecasts, this announcement, coupled with Caesars last month and a rising Fed Funds rate provides increased confidence in our estimates. We reiterate our Buy recommendation.

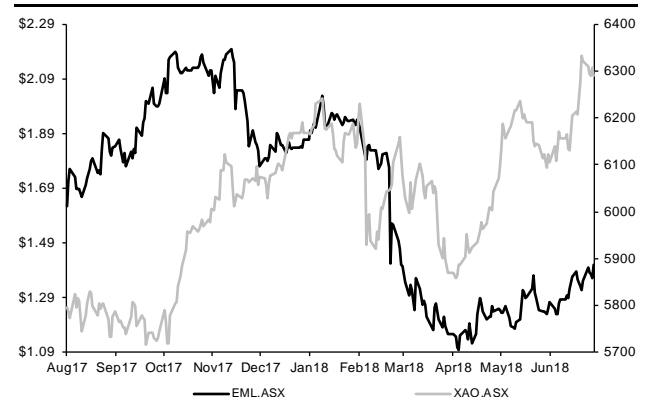
### Company Data

Shares – ordinary (M)	248.4
Dilution (M)	0.0
Total (fully diluted) (M)	248.4
Market capitalisation (\$M)	350.2
12 month low/high (\$)	1.05/ 2.26
Average monthly turnover (\$M)	21.9
GICS Industry	Consumer Finance

### Financial Summary (fully diluted/normalised)

Year end June	2016A	2017A	2018F	2019F	2020F
Revenue (\$M)	23.3	58.0	64.8	71.7	77.3
Costs (\$M)	-18.3	-43.5	-44.1	-44.8	-45.2
EBITDA (\$M)	5.0	14.5	20.7	26.9	32.1
NPAT (\$M)	2.5	9.7	13.2	19.4	23.3
EPS (¢ps)	1.3	3.9	5.3	7.8	9.3
EPS Growth (%)	35	208	35	47	20
PER (x)	93.3	38.4	28.4	19.3	16.1
Free Cashflow (\$M)	0.9	16.6	20.4	23.6	29.1
FCFPS (¢ps)	0.4	6.6	8.2	9.5	11.7
PFCFPS (x)	265.6	22.2	18.1	15.6	12.7
Enterprise Value (\$M)	249.2	332.7	314.0	290.3	261.2
EV / EBITDA (x)	49.5	22.9	15.2	10.8	8.1
Payout ratio (%)	n/m	n/m	n/m	n/m	n/m
Dividends (¢ps)	n/m	n/m	n/m	n/m	n/m
Yield (%)	n/m	n/m	n/m	n/m	n/m
Franking (%)	n/m	n/m	n/m	n/m	n/m

### EML – performance over one year



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## Analysis

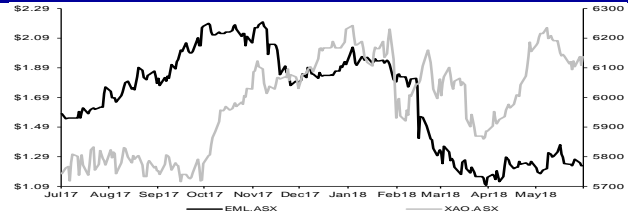
### EML Payments Limited

Year end 30 June

#### MARKET DATA

Recommendation		
Price	\$	1.50
Target price (12-month)	\$	1.91
52 week low / high		1.05/2.26
Market capitalisation	\$m	372.6
Shares on issue (basic)	no.	248.4
Options	no.	0.0
Shares on issue (diluted)	no.	248.4

#### 12-MONTH SHARE PRICE PERFORMANCE



#### INVESTMENT FUNDAMENTALS

	FY16A	FY17A	FY18F	FY19F	FY20F	
Reported NPAT	\$m	0.1	0.0	6.0	12.5	16.4
NPAT normalised	\$m	2.5	9.7	13.2	19.4	23.3
Reported EPS (undiluted)	¢	0.0	0.0	2.4	5.0	6.6
EPS normalised (undiluted)	¢	1.3	3.9	5.3	7.8	9.3
...Growth	%	35%	208%	35%	47%	20%
PER normalised	x	118.6	38.4	28.4	19.3	16.1
Operating cash flow per share	¢	0.9	7.8	9.5	10.8	13.1
Free cash flow per share	¢	0.4	6.7	8.3	9.6	11.9
Price to free cash flow per share	x	337.7	22.2	18.1	15.6	12.7
FCF yield	%	0.3	4.5	5.5	6.4	7.9
Dividend	¢	0.0	0.0	0.0	0.0	0.0
Payout	%	0.0	0.0	0.0	0.0	0.0
Yield	%	0.0	0.0	0.0	0.0	0.0
Franking	%	n/a	n/a	n/a	n/a	n/a
Enterprise value	\$m	332.7	332.7	314.0	290.3	261.2
EV/EBITDA	x	66.0	22.9	15.2	10.8	8.1
EV/EBIT	x	253.2	(372.6)	38.9	17.4	11.9
Price to book (NAV)	x	3.3	6.0	3.3	2.9	2.5
Price to NTA	x	6.5	5.7	4.9	3.6	2.7

#### KEY RATIOS

	FY16A	FY17A	FY18F	FY19F	FY20F	
EBITDA margin	%	21.6	25.0	32.0	37.5	41.5
EBIT margin	%	5.6	(1.5)	12.5	23.3	28.3
NPAT margin	%	0.4	0.0	9.3	17.5	21.3
ROE	%	0.1	0.0	5.4	9.8	11.0
ROA	%	0.1	0.0	4.3	7.9	8.9
Net debt /(cash)	\$m	(26.9)	(39.9)	(58.6)	(82.3)	(111.4)
Interest cover (EBIT / net interest)	x	n/a	n/a	n/a	n/a	n/a
Gearing (net debt / EBITDA)	x	n/a	n/a	n/a	n/a	n/a
Leverage (net debt / (net debt + equity))	x	n/a	n/a	n/a	n/a	n/a

#### DUPONT ANALYSIS

	FY16A	FY17A	FY18F	FY19F	FY20F	
Net Profit Margin	%	0.4	0.0	9.3	17.5	21.3
Asset Turnover	x	0.2	0.5	0.5	0.5	0.4
Return on Assets	%	0.1	0.0	4.3	7.9	8.9
Financial Leverage	x	1.3	2.0	1.3	1.2	1.2
Return on Equity	%	0.1	0.0	5.4	9.8	11.0

#### GROWTH PROFILE

	FY16A	FY17A	FY18F	FY19F	FY20F	
Operating revenue	%	62.8	148.6	11.8	10.7	7.8
EBITDA	%	100.6	187.7	42.8	29.8	19.3
EBIT	%	n/m	(168.0)	(1,003.2)	107.2	31.1
Operating NPAT	%	(98.9)	(89.8)	n/m	107.2	31.1
Normalised EPS	%	35.3	208.5	35.1	47.2	20.1
DPS	%	n/a	n/a	n/a	n/a	n/a

#### PROFIT AND LOSS (PRO FORMA)

	FY16A	FY17A	FY18F	FY19F	FY20F	
Total revenue	\$m	23.3	58.0	64.8	71.7	77.3
EBITDA	\$m	5.0	14.5	20.7	26.9	32.1
Depreciation, Amortisation & SBP	\$m	(3.7)	(15.4)	(12.6)	(10.2)	(10.2)
EBIT	\$m	1.3	(0.9)	8.1	16.7	21.9
Net interest	\$m	0.0	0.0	0.0	0.0	0.0
Non-operating income	\$m	0.0	0.0	0.0	0.0	1.0
Pretax Profit	\$m	(0.8)	(0.9)	8.1	16.7	21.9
Tax expense	\$m	0.8	0.9	(2.0)	(4.2)	(5.5)
Minorities	\$m	0.0	0.0	0.0	0.0	1.0
Operating NPAT	\$m	0.1	0.0	6.0	12.5	16.4
Intangible Add Back	\$m	1.4	9.7	7.1	6.8	6.8
Normalised NPAT	\$m	2.5	9.7	13.2	19.4	23.3
Significant items	\$m	0.0	0.0	0.0	0.0	1.0
Reported NPAT	\$m	0.1	0.0	6.0	12.5	16.4

#### BALANCE SHEET

	FY16A	FY17A	FY18F	FY19F	FY20F	
Cash	\$m	26.9	39.9	58.6	82.3	111.4
Receivables	\$m	5.2	6.4	10.4	11.5	12.4
Inventory	\$m	0.0	0.0	0.0	0.0	0.0
Other	\$m	10.4	16.2	1.0	1.0	2.0
Current	\$m	42.6	62.4	70.0	94.7	125.8
Prop, plant & equip	\$m	2.2	2.8	5.6	6.6	7.6
Intangibles	\$m	71.4	60.1	63.8	56.9	50.1
Other	\$m	0.0	0.0	0.0	0.0	1.0
Non current	\$m	73.6	63.0	69.4	63.5	58.7
Total assets	\$m	116.2	125.4	139.4	158.3	184.5
Accounts Payable	\$m	8.8	23.8	26.6	29.4	31.7
Borrowings	\$m	0.0	0.0	0.0	0.0	1.0
Other	\$m	19.2	39.7	1.5	1.5	2.5
Total liabilities	\$m	28.0	63.4	28.0	30.9	35.2
Shareholder's equity	\$m	88.3	62.0	111.3	127.4	149.3

#### CASH FLOW

	FY16A	FY17A	FY18F	FY19F	FY20F	
EBITDA	\$m	5.0	14.5	20.7	26.9	32.1
Change in provisions	\$m	0.0	0.0	0.0	0.0	1.0
Change in working capital	\$m	(5.2)	3.3	1.2	(1.7)	(1.4)
Net interest	\$m	0.9	0.8	0.8	0.8	0.8
Tax paid	\$m	1.0	0.7	0.7	0.7	0.7
Other	\$m	0.0	0.0	0.0	0.0	0.0
Operating cash flow	\$m	1.7	19.3	23.4	26.6	32.1
Capex	\$m	(0.9)	(2.7)	(3.0)	(3.0)	(3.0)
Acquisitions	\$m	(33.9)	(3.8)	(1.6)	0.0	0.0
Disposals	\$m	0.0	0.0	0.0	0.0	0.0
Investing cash flow	\$m	(34.8)	(6.5)	(4.6)	(3.0)	(3.0)
Equity	\$m	55.4	0.2	0.0	0.0	0.0
Increase / (decrease) in borrowings	\$m	0.0	0.0	0.0	0.0	0.0
Dividend/other	\$m	0.0	0.0	0.0	0.0	0.0
Financing cash flow	\$m	55.4	0.2	0.0	0.0	0.0
Free cash flow	\$m	0.9	16.6	20.4	23.6	29.1

Source: Petra Capital

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