

6 July 2018

EML Payments Limited (EML)

BUY

Share Price: \$1.47

Acquisition brings EU self-issuance ability

Target Price: A\$1.91

EML's acquisition of Perfectcard is the latest in a series of announcements from the company, which highlights the significant value within the business not currently reflected in the share price. In the last few weeks EML has signed deals with some of the largest gaming companies on both sides of the Atlantic. This was followed up yesterday with a bolt on accretive acquisition which should enhance existing product margins in Europe. We reiterate our Buy recommendation and A\$1.91 target price.

Acquisition of Perfectcard

- EML has acquired ~75% of Perfectcard, an Irish based FinTech providing incentive and corporate expense solutions.
- Initial consideration is ~EUR3m, with a maximum earn-out payment in 2021 of a further ~EUR3m.
- Perfectcard is expected to contribute EBITDA of A\$0.4-A\$0.6m in FY19F.
- The deal is subject to Central Bank of Ireland approval, which we expect to be received in the following months.

eMoney licence to improve European margins

- Perfectcard's Irish eMoney license will allow EML to self-issue its payment products across the EU.
- We expect initially only new products will be self-issued.
- However, it is possible that during FY20F all of EML's European product will be self-issued, which will lead to a ~10bps improvement in European gross margins, implying an additional ~A\$2m in EBITDA.

All signs point to strong AGM guidance

- Since its 1H18 result EML has had a number of key announcements, notably:
 - Caesar's product went live in market;
 - European betting giant, GVC, contract, and;
 - European eMoney license.
- In our view, this positive newsflow sets the scene for management to deliver strong guidance at the AGM.

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 the GVC announcement earlier this week and Caesar's last month, along with a rising Fed Funds rate provides increased confidence in our estimates. We reiterate our Buy recommendation.

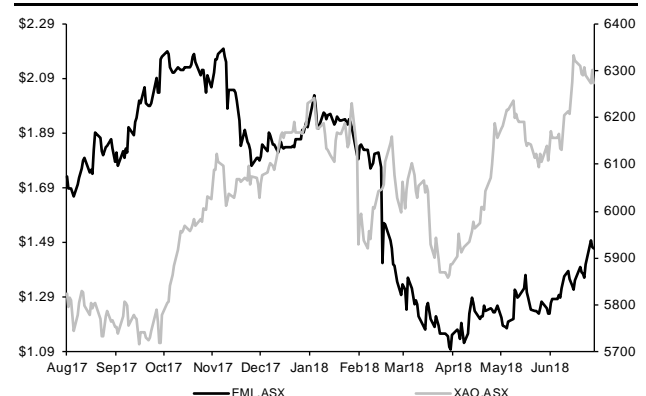
Company Data

| | |
|--------------------------------|------------------|
| Shares – ordinary (M) | 248.4 |
| Dilution (M) | 0.0 |
| Total (fully diluted) (M) | 248.4 |
| Market capitalisation (\$M) | 365.1 |
| 12 month low/high (\$) | 1.05/ 2.26 |
| Average monthly turnover (\$M) | 21.4 |
| 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 | 37.7 | 27.9 | 18.9 | 15.8 |
| Free Cashflow (\$M) | 0.9 | 16.6 | 19.2 | 23.6 | 29.1 |
| FCFPS (¢ps) | 0.4 | 6.6 | 7.7 | 9.5 | 11.7 |
| PFCFPS (x) | 265.6 | 21.8 | 18.9 | 15.3 | 12.4 |
| Enterprise Value (\$M) | 249.2 | 325.3 | 307.7 | 288.9 | 259.7 |
| EV / EBITDA (x) | 49.5 | 22.4 | 14.9 | 10.7 | 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

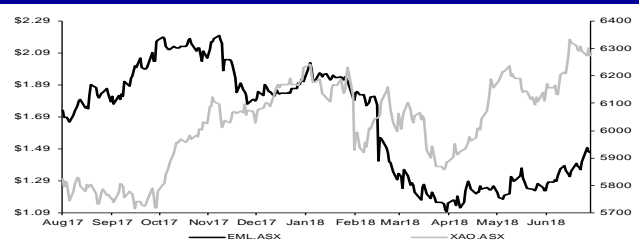
EML Payments Limited

Year end 30 June

MARKET DATA

| | | |
|---------------------------|-----|-----------|
| Recommendation | | |
| Price | \$ | 1.47 |
| Target price (12-month) | \$ | 1.91 |
| 52 week low / high | \$ | 1.05/2.26 |
| Market capitalisation | \$m | 365.1 |
| 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 | 116.2 | 37.7 | 27.9 | 18.9 | 15.8 |
| Operating cash flow per share | ¢ | 0.9 | 7.8 | 9.0 | 10.8 | 13.1 |
| Free cash flow per share | ¢ | 0.4 | 6.7 | 7.8 | 9.6 | 11.9 |
| Price to free cash flow per share | x | 330.9 | 21.8 | 18.9 | 15.3 | 12.4 |
| FCF yield | % | 0.3 | 4.6 | 5.3 | 6.5 | 8.1 |
| 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 | 325.3 | 325.3 | 307.7 | 288.9 | 259.7 |
| EV/EBITDA | x | 64.5 | 22.4 | 14.9 | 10.7 | 8.1 |
| EV/EBIT | x | 247.5 | (364.3) | 38.1 | 17.3 | 11.9 |
| Price to book (NAV) | x | 3.2 | 5.8 | 3.3 | 3.0 | 2.5 |
| Price to NTA | x | 6.4 | 5.5 | 4.9 | 3.8 | 2.8 |

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 | 5.5 | 10.3 | 11.5 |
| ROA | % | 0.1 | 0.0 | 4.4 | 8.2 | 9.2 |
| Net debt/(cash) | \$m | (26.9) | (39.9) | (57.4) | (76.3) | (105.4) |
| 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 | 4.4 | 8.2 | 9.2 |
| Financial Leverage | x | 1.3 | 2.0 | 1.3 | 1.3 | 1.2 |
| Return on Equity | % | 0.1 | 0.0 | 5.5 | 10.3 | 11.5 |

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 | 57.4 | 76.3 | 105.4 |
| 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 | 68.8 | 88.7 | 119.8 |
| 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 | 138.2 | 152.3 | 178.5 |
| 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 | 110.2 | 121.4 | 143.3 |

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 | 0.0 | (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 | 22.2 | 26.6 | 32.1 |
| Capex | \$m | (0.9) | (2.7) | (3.0) | (3.0) | (3.0) |
| Acquisitions | \$m | (33.9) | (3.8) | (1.6) | (4.8) | 0.0 |
| Disposals | \$m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Investing cash flow | \$m | (34.8) | (6.5) | (4.6) | (7.8) | (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 | 19.2 | 23.6 | 29.1 |

Source: Petra Capital

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