

31 July 2018

EML Payments Limited (EML)

BUY

Share Price: A\$1.67

ECE contract underpins FY19F confidence

Target Price:

A\$1.91

EML announced yesterday that it had signed a contract with German mall provider, ECE, which is expected to contribute ~A\$140m GDV. We believe that similar contracts are likely in the medium term as regulatory change in Europe prompts large mall operators to engage operators such as EML. While we have held off changing our near term forecasts ahead of the FY18 results, we see extremely limited downside risk to our FY19F and a number of potential upgrade sources (European malls, GVC, Caesars, Rising FED rates and recent bolt-ons). Trading at ~12.6x EBITDA the stock looks far too cheap compared to peers, especially given the identifiable upside potential. We reiterate our Buy recommendation and target price.

Significant German shopping mall contract

- EML announced yesterday that it had signed a multi-year agreement with ECE to manage a gift card program for its 87 shopping malls in Germany.
- EML estimates that the GDV for the program will be ~A\$140m p.a. with a conversion rate in-line with other non-reloadable programs (~5.0%).
- As the program will be self-issued by EML (following the acquisition of Perfectcard, we expect gross margins may be ~90%, implying EBITDA of ~A\$6m in a full year.

European mall space undergoing structural growth

- The EU is considering requiring mall voucher funds to be held by a 3rd party processor (such as EML).
- While the implementation timeline is uncertain, larger operators (e.g. ECE) are moving ahead of the change.
- The European Commission estimates that this entire market may be ~EUR5.4bn, implying a potential addressable market of ~A\$300m to EML.
- EML have indicated that the impact of early adopters may double its European mall business, implying an additional ~A\$10m in EBITDA (ECE: ~A\$6m).

Forecasts and Valuation

- We have made no change to our forecasts ahead of the FY18 results on August 21.
- With the ECE contract now secured, we see extremely limited downside risk to our FY19F EBITDA.
- We see a range of potential sources of upgrades driven by: its European mall business; the GVC contract; launch of Caesars; a rising FED funds rate; and, the impact of two bolt-on acquisitions in Europe.
- Trading on ~12.6x FY19F EBITDA and ~9.6x FY20F with limited downside risk and a number of significant upgrade options, we reiterate our Buy recommendation.

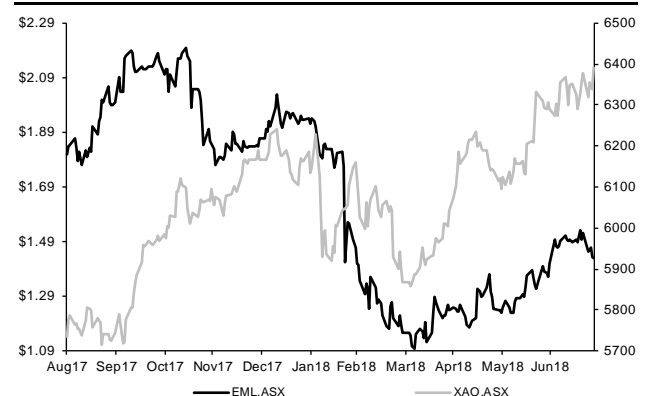
Company Data

| | |
|--------------------------------|------------------|
| Shares – ordinary (M) | 248.4 |
| Dilution (M) | 0.0 |
| Total (fully diluted) (M) | 248.4 |
| Market capitalisation (\$M) | 414.8 |
| 12 month low/high (\$) | 1.05/ 2.26 |
| Average monthly turnover (\$M) | 23.5 |
| 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 | 42.8 | 31.7 | 21.5 | 17.9 |
| Free Cashflow (\$M) | 0.9 | 16.6 | 19.2 | 23.6 | 29.1 |
| FCFPS (¢ps) | 0.4 | 6.6 | 7.7 | 9.5 | 11.9 |
| PFCFPS (x) | 265.6 | 24.8 | 21.4 | 17.4 | 14.1 |
| Enterprise Value (\$M) | 249.2 | 375.0 | 357.4 | 338.6 | 309.4 |
| EV / EBITDA (x) | 49.5 | 25.9 | 17.3 | 12.6 | 9.6 |
| 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

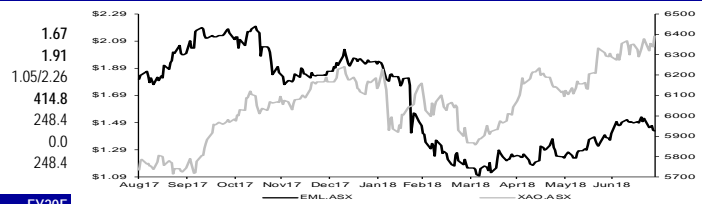
EML Payments Limited

Year end 30 June

MARKET DATA

| | |
|---------------------------|--------------|
| Recommendation | |
| Price | \$ 1.67 |
| Target price (12-month) | \$ 1.91 |
| 52 week low / high | \$ 1.05/2.26 |
| Market capitalisation | \$m 414.8 |
| 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 | 132.0 | 42.8 | 31.7 | 21.5 | 17.9 |
| 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 | 375.9 | 24.8 | 21.4 | 17.4 | 14.1 |
| FCF yield | % | 0.3 | 4.0 | 4.7 | 5.8 | 7.1 |
| 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 | 375.0 | 375.0 | 357.4 | 338.6 | 309.4 |
| EV/EBITDA | x | 74.4 | 25.9 | 17.3 | 12.6 | 9.6 |
| EV/EBIT | x | 285.4 | (419.9) | 44.3 | 20.3 | 14.1 |
| Price to book (NAV) | x | 3.7 | 6.6 | 3.7 | 3.4 | 2.9 |
| Price to NTA | x | 7.2 | 6.3 | 5.5 | 4.3 | 3.2 |

| 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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