

# EML Payments

**Information technology**
**17 June 2019**

## Creating value from stored value

EML Payments' focus on niche areas of the stored value payment card market is paying off, with strong revenue growth and expanding operating margins forecast over the next three years. Recent deals strengthen EML's market-leading positions in the mall gift card and Australian salary packaging markets. Medium-term organic growth is supported by the roll-out of existing customers' programmes, geographic expansion, the trend for customers to shift from unregulated vouchers to regulated e-money products, and the introduction of new digital solutions. Profitability should also be boosted by the shift to self-issuing. We expect organic growth to be boosted by further acquisitions.

### Growing the mall gift card business

International expansion of the mall gift card business has been a key driver of growth in the Gift & Incentives (G&I) division. In May, EML announced that it was acquiring Flex-e-Card, a major provider of gift card programmes to malls in Europe and the UAE. EML is paying A\$40.5m in cash, funded partly by cash reserves and through a new A\$15m debt facility, which should still leave the company in a net cash position by the end of FY19. The deal adds 226 mall programmes, taking EML's total to 826 malls, and adds presence in Poland and the UAE.

### Dominating the salary packaging market

EML's general purpose reloadable (GPR) division is benefiting from growth in the number of gambling prepaid card programmes, as well as market share gains in the Australian salary packaging market. The opening up of the sports betting market in the US represents a medium-term opportunity. As at the end of May, EML managed 166,000 salary packaging cards out of an estimated Australian addressable market of 350,000 cards. In May, the company announced an eight-year extension to its agreement with Smartgroup, which should add a further 100,000 cards by April 2022, taking EML to more than 75% market share.

### Recent deals drive upgrades

Consensus estimates were recently upgraded to reflect the Flex-e-Card acquisition and Smartgroup agreement, both of which would only start to contribute from FY20. Estimates imply revenue growth of 28.8% in FY19, 27.2% in FY20 and 14.7% in FY21, with EBTDA margins expanding from 29.2% in FY18 to 35.1% in FY21e. The stock has reacted positively to recent newsflow (up 114% year to date), and in our view the valuation reflects the company's growth prospects and potential for strong cash generation. We expect to see further M&A.

#### Consensus estimates

Year end	Revenue (A\$m)	EBTDA (A\$m)	Adj. EPS (A\$)	DPS (A\$)	P/E (x)	Yield (%)
06/17	58.0	14.5	0.035	N/A	85.1	N/A
06/18	71.0	20.8	0.040	N/A	74.5	N/A
06/19e	91.4	27.7	0.058	N/A	51.4	N/A
06/20e	116.3	38.2	0.090	N/A	33.1	N/A

Source: EML Payments, Refinitiv (as at 14 June)

**Price** **A\$2.98**  
**Market cap** **A\$748m**

#### Share price graph



#### Share details

Code EML  
 Listing ASX  
 Shares in issue 251.0m

#### Business description

EML Payments is a payment solutions company specialising in the prepaid stored value market, with mobile, physical and virtual card offerings. It provides solutions for payouts, gifts, incentives, rewards and supplier payments, managing 1,200 programmes across 21 countries in Europe, North America and Australia.

#### Bull

- Leading position in European mall gift cards and Australian salary packaging.
- Well-funded and cash generative.
- Signed up major gambling companies.

#### Bear

- Poor retail environment.
- Dependent on pace of customer roll-outs.
- Regulation in both payments and customer markets.

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