

EML Payments

Trading update

Irish regulator raises issues

EML Payments has announced that the Irish regulator is investigating certain PFS activities that fall under its remit, as it has concerns relating to anti-money laundering and counter terrorism financing risk management and controls. This relates to business that made up just over a quarter of CY Q121 revenue. EML expects to provide further information to the regulator by 27 May. Aside from that issue for which the outcome is as yet unknown, EML is trading in line with management's guidance for FY21.

Year end	Revenue (A\$m)	PBT* (A\$m)	NPATA** (A\$m)	Dil. EPS* (c)	DPS (c)	P/E (x)	EV/EBITDA (x)
06/19	97.2	25.6	20.6	7.8	0.0	37.2	35.6
06/20	121.0	21.6	24.0	5.5	0.0	52.6	32.5
06/21e	182.2	34.7	30.8	7.5	0.0	38.7	21.1
06/22e	249.4	50.7	42.6	10.7	0.0	27.3	14.9

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. **Net profit after tax, excluding acquisition-related costs.

Irish regulator highlights AML/CTF issues

EML reported that the Central Bank of Ireland (CBI), the Irish regulator, has written to an Irish subsidiary raising significant regulatory concerns relating to anti-money laundering (AML) and counter terrorism financing (CFT) risk and control frameworks and governance. The subsidiary is PFS Card Services (Ireland) Limited (PCSIL), the entity through which PFS's European (ex-UK) business has operated since 19 December 2020. The majority of this business operated through PFS's UK subsidiary prior to Brexit and fell under the jurisdiction of the FCA. EML estimates that from 1 January to 31 March 2021, 27% of group revenue derived from programmes operated through PCSIL. The CBI has asked PCSIL to provide submissions in relation to the concerns, which PCSIL intends to do by 27 May.

Several possible outcomes

CBI has stated that it is minded to issue directions pursuant to section 45 of the Central Bank (Supervision and Enforcement) Act 2013. This could result in a fine being levied on EML. Other possible outcomes for EML could range from being required to remedy any breaches through to losing its licence to operate. As the outcome is as yet unknown, the company reiterated that trading so far this year is on track to meet previous guidance excluding the impact of this issue. We maintain our estimates pending further clarity on the situation.

Valuation: Stock has nearly halved

The stock is down 43% since the news was announced and is now trading at levels (excluding the COVID dip in March 2020) last seen in August 2019, before the PFS deal was announced. Without knowing the outcome of the investigation, it is not possible to estimate the impact on our forecasts, making comparisons with peers less meaningful.

Software & comp services

20 May 2021

Price **A\$2.91**
Market cap **A\$1,053m**

£0.55:US\$0.77:€0.63:A\$

Net cash (A\$m) at end H121 100.3

Shares in issue 361.8m

Free float 93%

Code EML

Primary exchange ASX

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	(48.7)	(44.9)	(14.9)
Rel (local)	(47.6)	(45.7)	(32.8)

52-week high/low A\$5.75 A\$2.69

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 thousands of programmes across 28 countries in Europe, North America and Australia.

Next events

FY21 results August 2021

Analyst

Katherine Thompson +44 (0)20 3077 5730

tech@edisongroup.com
[Edison profile page](#)

EML Payments EML Payments
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Exhibit 1: Financial summary

	A\$m	2017	2018	2019	2020	2021e	2022e	2023e
30-June		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT								
Revenue		58.0	71.0	97.2	121.0	182.2	249.4	298.9
Cost of Sales		(13.7)	(17.7)	(24.2)	(32.9)	(56.8)	(72.5)	(83.5)
Gross Profit		44.2	53.3	73.0	88.1	125.4	176.9	215.4
EBITDA		14.5	21.0	29.7	32.5	50.1	71.2	98.0
Normalised operating profit		11.9	18.1	25.6	22.4	36.1	53.6	75.5
Amortisation of acquired intangibles		(8.9)	(7.2)	(7.5)	(10.6)	(18.5)	(14.0)	(14.0)
Exceptionals		0.2	(0.3)	(3.0)	(11.2)	(8.6)	0.0	0.0
Share-based payments		(5.3)	(5.0)	(4.2)	(6.1)	(6.3)	(2.5)	(2.5)
Reported operating profit		(2.1)	5.6	10.9	(5.6)	2.7	37.1	59.0
Net Interest		0.0	(0.1)	(0.0)	(0.7)	(1.4)	(3.0)	(3.0)
Joint ventures & associates (post tax)		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals		0.0	(0.5)	(1.8)	(0.2)	(32.4)	(1.5)	(1.0)
Profit Before Tax (norm)		11.9	17.9	25.6	21.6	34.7	50.7	72.5
Profit Before Tax (reported)		(2.1)	5.0	9.0	(6.6)	(31.1)	32.7	55.0
Reported tax		2.1	(2.8)	(0.6)	0.7	6.2	(6.5)	(11.0)
Profit After Tax (norm)		8.9	14.4	20.5	17.3	27.8	40.5	58.0
Profit After Tax (reported)		0.0	2.2	8.5	(5.9)	(24.9)	26.1	44.0
Minority interests		0.0	0.0	(0.2)	0.0	0.0	0.0	0.0
Discontinued operations		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income (normalised)		8.9	14.4	20.3	17.3	27.8	40.5	58.0
Net income (reported)		0.0	2.2	8.3	(5.9)	(24.9)	26.1	44.0
Basic ave. number of shares outstanding (m)		245	246	249	304	361	372	372
EPS - basic normalised (A\$)		0.036	0.058	0.081	0.057	0.077	0.109	0.156
EPS - diluted normalised (A\$)		0.036	0.057	0.078	0.055	0.075	0.107	0.153
EPS - basic reported (A\$)		0.000	0.009	0.033	(0.019)	(0.069)	0.070	0.118
Dividend (A\$)		0.00	0.00	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)		148.6	22.5	36.9	24.4	50.6	36.9	19.8
Gross Margin (%)		76.3	75.1	75.1	72.8	68.8	70.9	72.1
EBITDA Margin (%)		25.1	29.6	30.6	26.9	27.5	28.6	32.8
Normalised Operating Margin		20.5	25.4	26.4	18.5	19.8	21.5	25.3
BALANCE SHEET								
Fixed Assets		90.6	108.0	162.9	905.2	1,076.3	1,159.3	1,220.2
Intangible Assets		60.1	65.8	104.6	404.7	554.6	541.8	527.3
Tangible Assets		2.8	3.5	5.4	14.6	12.0	9.6	7.1
Investments & other		27.6	38.7	53.0	485.8	509.6	607.9	685.9
Current Assets		96.9	131.6	313.8	1,001.1	1,240.7	1,489.0	1,700.7
Stocks		10.3	12.6	18.2	22.3	20.9	23.0	25.3
Debtors		6.3	8.9	14.4	21.7	32.3	43.9	52.5
Cash & cash equivalents		39.9	39.0	33.1	118.4	113.9	121.3	142.5
Other		40.4	71.1	248.2	838.7	1,073.6	1,300.8	1,480.5
Current Liabilities		(62.8)	(90.5)	(299.0)	(1,326.3)	(1,630.8)	(1,973.7)	(2,220.5)
Creditors		(23.8)	(21.2)	(33.9)	(47.5)	(62.5)	(80.9)	(91.1)
Tax and social security		(0.0)	0.0	(0.8)	(0.2)	(0.2)	(0.2)	(0.2)
Short term borrowings		0.0	0.0	(15.0)	0.0	0.0	0.0	0.0
Other		(39.0)	(69.3)	(249.4)	(1,278.6)	(1,568.1)	(1,892.6)	(2,129.1)
Long Term Liabilities		(4.2)	(19.3)	(33.5)	(139.0)	(218.4)	(178.1)	(157.4)
Long term borrowings		0.0	0.0	0.0	(35.8)	(66.8)	(66.8)	(66.8)
Other long-term liabilities		(4.2)	(19.3)	(33.5)	(103.2)	(151.5)	(111.2)	(90.6)
Net Assets		120.6	129.8	144.2	441.0	467.8	496.5	543.0
Minority interests		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders' equity		120.6	129.8	144.2	441.0	467.8	496.5	543.0
CASH FLOW								
Op Cash Flow before WC and tax		13.1	19.7	28.4	31.2	48.2	69.4	96.2
Working capital		4.9	(9.2)	2.0	3.6	6.5	3.8	(1.6)
Exceptional & other		(0.8)	(1.2)	(0.7)	(12.7)	(6.5)	0.0	0.0
Tax		2.1	(2.8)	(0.6)	0.7	6.2	(6.5)	(11.0)
Net operating cash flow		19.3	6.5	29.2	22.8	54.4	66.7	83.6
Capex		(2.9)	(5.3)	(5.8)	(11.0)	(13.1)	(14.6)	(17.6)
Acquisitions/disposals		0.0	(0.7)	(44.0)	(142.5)	(73.6)	(40.0)	(40.0)
Net interest		0.0	(0.1)	(0.0)	(0.7)	(1.4)	(3.0)	(3.0)
Equity financing		0.2	0.0	0.4	240.8	0.0	0.0	0.0
Dividends		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other		(3.6)	(0.6)	(0.4)	(7.0)	(1.8)	(1.8)	(1.8)
Net Cash Flow		13.0	(0.2)	(20.6)	102.3	(35.5)	7.4	21.2
Opening net debt/(cash)		(26.9)	(39.9)	(39.0)	(18.1)	(82.5)	(47.0)	(54.4)
FX		(0.0)	(0.6)	(0.3)	(2.0)	0.0	0.0	0.0
Other non-cash movements		0.0	0.0	0.0	(35.8)	0.0	0.0	0.0
Closing net debt/(cash)		(39.9)	(39.0)	(18.1)	(82.5)	(47.0)	(54.4)	(75.6)

Source: EML Payments, Edison Investment Research

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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia