

21 October 2020

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EML Payments Limited (EML)

Payment Services

BUY

EML A\$3.70**TARGET PRICE A\$5.58**

EML Payments Limited provides payment card technology solutions. The Company offers prepaid disbursements and funding card programs for gaming payouts, government disbursements, healthcare reimbursements, and commission payouts. EML Payments serves customers worldwide.

Company Data

Number of shares (M)	361.6
Market Capitalisation	\$1,337.9M
Free float (%)	82.8
12-month high/low	\$5.66/\$1.33
Average Daily Turnover (\$m)	4.8663
% S&P/ASX200	0.08%
DDM Ranking	246
% All Ordinaries	0.07%

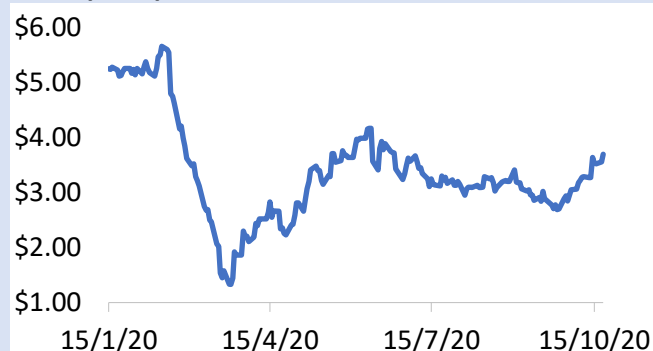
GICS Industry Group Software & Services
Source: FactSet, Barclay Pearce Capital

Earnings Summary (AUD)

Year end June	2020A	2021F	2022F	2023F
Revenue (\$M)	121.0	210.7	253.0	294.1
EBITDA (\$M)	32.5	61.7	84.8	107.3
Reported NPAT (\$M)	-5.9	17.9	44.1	60.9
Adjusted NPAT (\$M)	24.0	42.7	61.2	77.8
Reported EPS (c)	-1.9	4.9	13.0	17.8
Adjusted EPS (c - FD)	7.7	11.9	16.7	21.2
Adjusted EPS growth (%)	144.3	54.6	41.0	26.9
Adjusted P/E (x)	48.2	31.2	22.1	17.4
Dividend (c/sh)	0.0	0.0	0.0	0.9
Gross yield (%)	0.0	0.0	0.0	0.3
Net yield (%)	0.0	0.0	0.0	0.2
ROIC (%)	6.8	9.4	13.3	16.2

Source: Barclay Pearce Capital
Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet and Capital IQ.

Share price performance



Source: FactSet, Barclay Pearce Capital

Q1 FY21 Trading Update

On 21 October 2020 EML Payments (EML) announced a Q1 FY21 quarterly update with the following highlights:

1Q21 Trading Update

- Gross Debit Value is up 51% from \$3.21bn to \$4.85bn, and an increase of 20% from previous quarter Q4FY20;
- Revenue has increased from pcg by 75% to \$40.6m from \$23.2m, and 20% from prior quarter \$33.9m;
- EBITDA announced at \$10m, reflecting a 215% increase from pcg and 69% from prior quarter Q4FY20's \$6m;
 - Looking at divisional achievements
 - Gifts and incentives:** GDV recovered in Q1 (Up 41% on Q4 of FY20) and finished 11% below PCP;
 - Yield ahead of expectations on 598 bps due to improved trading in mall programs;
 - General Purpose Reloadable:** GDV grew strongly in Q1 (Up 16% on Q4 FY20) and finished 234% above pcg;
 - Yield in line with expectations at 110 bps (no change from Q420) with stable program mix;
 - Virtual Account Numbers:** GDV recovered in Q1 (Up 23% on Q4FY20) and finished in line with PCP;
 - Yield in line with expectations at 12.4bps.

FY21 Profit Guidance

- Based off FY20's financial report, guidance has been suspended and expected to resume in Q3FY21 due to the uncertainty of COVID-19, particularly in the lead up towards Christmas.

Earnings changes

EML has reported Q1FY21 EBITDA of \$10m, up 215% on pcg and 69% on prior quarter Q4FY20. Whilst pcg represented 10% of FY20 EBITDA, market FY21 estimates of \$51.5m after announcement appear too low as EML could potentially produce EBITDA of \$100m for FY21. Hence we expect positive earnings revision of the order of 20%.

We are initiating on EML with a 12-month price target of \$5.58 and a BUY recommendation. The price target is underpinned by our DDM Valuation.

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Barclay Pearce Capital provides research services to its client. Mr Wright is General Manager of Research and has over twenty (26) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2017 where he has been involved in the research and publication of reports. Prior to this Mr Wright worked at a number of entities where he held Director/Head of Research and General Manager of Research positions. Mr Wright holds a Bachelor of Mathematics (Honours) from Edinburgh University and has completed the SDIA Accreditation Program (RG146) through DeakinPrime.

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Hold – Describes stocks that are neither a buy nor underperform.

Underperform – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of less than minus 10% within a 12-month period.

NR – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Barclay Pearce Capital policies.

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