

EML Payments

Regulatory update

Irish regulator extends growth cap

The Irish regulator has extended the growth cap on European General Purpose Reloadable (GPR) volumes for an additional 12 months to the end of CY23. This limits growth of volumes in Europe (ex-UK) to 10% over the baseline volume in the first nine months of CY22. This restriction could be lifted early, if third-party assurance of ongoing remediation work is finalised before the end of CY23. We have revised our forecasts to reflect slower volume growth in GPR and higher compliance-related overheads.

Year end	Revenue (A\$m)	PBT* (A\$m)	NPATA** (A\$m)	Diluted EPS* (c)	DPS (c)	P/E (x)	EV/EBITDA (x)
06/21	192.2	30.2	21.0	6.6	0.0	8.0	4.9
06/22	232.4	16.0	19.3	3.4	0.0	15.5	6.0
06/23e	244.1	7.3	1.4	1.5	0.0	34.3	6.8
06/24e	273.9	12.5	12.0	2.6	0.0	19.9	5.2

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

Growth cap extended for European GPR

EML has announced that it has had further clarification from the Central Bank of Ireland (CBI) relating to the growth cap applied to its Irish subsidiary, PFS Card Services (Ireland) Limited (PCSIL). This cap was originally put in place to last until the end of CY22. When EML reported in July that it was required to undertake more comprehensive remediation work to satisfy the regulator, it noted that third-party assessment of this work would shift into CY23 rather than the originally targeted deadline of end June 2022. The CBI has decided that PCSIL will be limited to growth of 10% above the annualised baseline volumes between January and September 2022, with this restriction applying to PCSIL total payment volumes for a further period of 12 months to the end of CY23. The restriction may be lifted sooner if the remediation programme is completed and independently verified before December 2023. This cap only applies to GPR volumes in Europe (ex-UK).

Forecasts revised to reflect growth cap

The extended growth cap in Europe combined with the restriction on new business in the UK (both for GPR only) has prompted us to revise down our revenue forecasts for FY23 and FY24. Combined with higher overheads to deal with compliance issues, this reduces our FY23 EBITDA by 28% and FY24 by 25%. EML is due to present the outcome of its strategic review at its AGM on 25 November at which point it is also likely to provide guidance for FY23.

Valuation: Regulatory resolution key to upside

EML is trading at a material discount to global payment processor peers on all metrics and at a discount to prepaid card peers on an EV/sales and EV/EBITDA basis. Repeated downgrades have reduced confidence in EML's outlook. Factors that could drive a return to an upgrade cycle and a re-rating of the stock include lifting of the growth constraints on the European business, clawback of the costs of the Sentential fraud and the outcome of the strategic review.

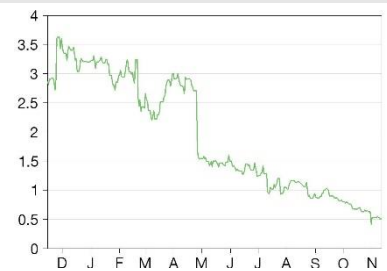
Software and comp services

15 November 2022

Price **A\$0.525**
Market cap **A\$196m**

Net debt (A\$m) at end FY22	10
Shares in issue	374m
Free float	93%
Code	EML
Primary exchange	ASX
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(21.8)	(54.4)	(81.6)
Rel (local)	(26.1)	(54.8)	(80.5)
52-week high/low	A\$3.63	A\$0.41	

Business description

EML Payments is a payment solutions company managing thousands of programmes across 32 countries in Europe, North America and Australia. It provides payment solutions for banking, credit and disbursement services, earned wage access, gifts, incentives and rewards, and open banking and FX.

Next events

AGM 25 November 2022

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Changes to forecasts

Exhibit 1: Changes to forecasts									
		FY23e	FY23e			FY24e	FY24e		
		Old	New	Change	y-o-y	Old	New	Change	y-o-y
Revenues	A\$m	256.7	244.1	-4.9%	5.1%	287.8	273.9	-4.9%	12.2%
Gross profit	A\$m	174.3	166.7	-4.3%	5.6%	196.5	188.1	-4.3%	12.8%
Gross margin		67.9%	68.3%	0.4%	0.4%	68.3%	68.7%	0.4%	0.4%
EBITDA	A\$m	42.1	30.4	-27.7%	-11.3%	52.6	39.3	-25.2%	29.3%
EBITDA margin		16.4%	12.5%	-3.9%	-2.3%	18.3%	14.4%	-3.9%	1.9%
Normalised operating profit	A\$m	22.7	11.0	-51.5%	-40.2%	29.5	16.3	-45.0%	47.9%
Normalised operating margin		8.8%	4.5%	-4.3%	-3.4%	10.3%	5.9%	-4.3%	1.4%
Reported operating profit	A\$m	-7.8	-19.5	148.9%	-N/A	7.0	-6.2	N/A	-68.0%
Reported operating margin		-3.1%	-8.0%	-4.9%	-8.1%	2.4%	-2.3%	-4.7%	5.7%
Normalised PBT	A\$m	18.9	7.3	-61.7%	-54.6%	25.8	12.5	-51.5%	72.6%
Reported PBT	A\$m	(11.6)	(23.2)	100.9%	6736.9%	3.3	(10.0)	N/A	-57.1%
Normalised net income	A\$m	15.1	5.8	-61.7%	-54.6%	20.6	10.0	-51.5%	72.6%
NPATA	A\$m	10.7	1.4	-86.9%	-92.7%	22.6	12.0	-46.9%	755.9%
Reported net income	A\$m	(9.3)	(18.6)	100.9%	287.3%	2.6	(8.0)	N/A	-57.1%
Normalised basic EPS	A\$	0.04	0.02	-61.7%	-55.0%	0.06	0.03	-51.5%	72.6%
Normalised diluted EPS	A\$	0.04	0.02	-61.7%	-55.0%	0.05	0.03	-51.5%	72.6%
Reported basic EPS	A\$	-0.02	-0.05	100.9%	284.5%	0.01	-0.02	N/A	-57.1%
NPATA/share	A\$	0.03	0.00	-86.9%	-92.8%	0.06	0.03	-46.9%	755.9%
Dividend per share	A\$	0.00	0.00	N/A	N/A	0.00	0.00	N/A	N/A
Net debt/(cash)	A\$m	(21.2)	(13.3)	-37.3%	-237.1%	(11.6)	6.7	-157.4%	-150%
GDV	A\$bn	103.4	102.3	-1.1%	27.5%	110.2	108.9	-1.1%	6.5%
Yield	bp	25	24	-1	-5	26	25	-1	1
Divisional data									
GDV									
G&I	A\$bn	1.5	1.5	0%	9%	1.6	1.6	0%	10%
GPR	A\$bn	14.2	13.1	-8%	6%	15.6	14.4	-8%	10%
Digital Payments	A\$bn	87.8	87.8	0%	32%	92.9	92.9	0%	6%
Revenue									
G&I	A\$m	75.7	75.4	0%	10%	84.1	83.7	0%	11%
GPR	A\$m	156.3	144.1	-8%	-3%	173.5	159.9	-8%	11%
Digital Payments	A\$m	24.5	24.5	0%	32%	30.0	30.0	0%	23%
Gross profit									
G&I	A\$m	60.6	60.3	0%		67.3	67.0	0%	
GPR	A\$m	93.0	85.7	-8%		104.1	95.9	-8%	
Digital Payments	A\$m	20.5	20.5	0%		24.9	24.9	0%	
Gross margin									
G&I		80.0%	80.0%			80.0%	80.0%		
GPR		59.5%	59.5%			60.0%	60.0%		
Digital Payments		83.6%	83.6%			83.0%	83.0%		

Source: Edison Investment Research

Exhibit 2: Financial summary

	A\$m	2018	2019	2020	2021	2022	2023e	2024e
30-June		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT								
Revenue		71.0	97.2	121.0	192.2	232.4	244.1	273.9
Cost of Sales		(17.7)	(24.2)	(32.9)	(63.8)	(74.6)	(77.4)	(85.8)
Gross Profit		53.3	73.0	88.1	128.4	157.8	166.7	188.1
EBITDA		21.0	29.7	32.5	42.2	34.3	30.4	39.3
Normalised operating profit		18.1	25.6	22.4	31.6	18.4	11.0	16.3
Amortisation of acquired intangibles		(7.2)	(7.5)	(11.1)	(20.2)	(16.5)	(20.0)	(20.0)
Exceptionals		(0.3)	(3.0)	(13.6)	(11.2)	1.4	(8.0)	0.0
Share-based payments		(5.0)	(4.2)	(6.1)	(5.0)	(3.0)	(2.5)	(2.5)
Reported operating profit		5.6	10.9	(8.5)	(4.8)	0.3	(19.5)	(6.2)
Net Interest		(0.1)	(0.0)	(0.7)	(1.4)	(2.4)	(3.7)	(3.7)
Joint ventures & associates (post tax)		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals		(0.5)	(1.8)	1.3	(17.1)	1.8	0.0	0.0
Profit Before Tax (norm)		17.9	25.6	21.6	30.2	16.0	7.3	12.5
Profit Before Tax (reported)		5.0	9.0	(7.9)	(23.3)	(0.3)	(23.2)	(10.0)
Reported tax		(2.8)	(0.6)	0.7	(5.4)	(4.5)	4.6	2.0
Profit After Tax (norm)		14.4	20.5	17.2	24.1	12.8	5.8	10.0
Profit After Tax (reported)		2.2	8.5	(7.1)	(28.7)	(4.8)	(18.6)	(8.0)
Minority interests		0.0	(0.2)	0.0	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)		14.4	20.3	17.2	24.1	12.8	5.8	10.0
Net income (reported)		2.2	8.3	(7.1)	(28.7)	(4.8)	(18.6)	(8.0)
Basic ave. number of shares outstanding (m)		246	249	304	360	371	373	373
EPS - basic normalised (A\$)		0.058	0.081	0.056	0.067	0.035	0.016	0.027
EPS - diluted normalised (A\$)		0.057	0.078	0.055	0.066	0.034	0.015	0.026
EPS - basic reported (A\$)		0.009	0.033	(0.023)	(0.080)	(0.013)	(0.050)	(0.021)
Dividend (A\$)		0.00	0.00	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)		22.5	36.9	24.4	58.9	20.9	5.1	12.2
Gross Margin (%)		75.1	75.1	72.8	66.8	67.9	68.3	68.7
EBITDA Margin (%)		29.6	30.6	26.9	21.9	14.8	12.5	14.4
Normalised Operating Margin		25.4	26.4	18.5	16.4	7.9	4.5	5.9
BALANCE SHEET								
Fixed Assets		108.0	162.9	872.1	685.3	827.3	943.6	973.7
Intangible Assets		65.8	104.6	371.7	350.1	448.5	430.9	412.1
Tangible Assets		3.5	5.4	14.6	11.2	12.7	9.7	11.5
Investments & other		38.7	53.0	485.8	323.9	366.1	503.1	550.1
Current Assets		131.6	313.8	1,008.6	1,603.5	1,855.1	1,963.7	2,109.5
Stocks		12.6	18.2	22.3	16.4	21.5	15.9	17.4
Debtors		8.9	14.4	21.7	22.0	35.8	33.6	37.6
Cash & cash equivalents		39.0	33.1	118.4	141.2	73.7	96.7	56.8
Other		71.1	248.2	846.2	1,424.0	1,724.1	1,817.4	1,997.7
Current Liabilities		(90.5)	(299.0)	(1,357.8)	(1,792.8)	(2,100.1)	(2,342.9)	(2,570.1)
Creditors		(21.2)	(33.9)	(47.5)	(62.9)	(65.7)	(69.6)	(76.4)
Tax and social security		0.0	(0.8)	(2.6)	(6.0)	(2.8)	(2.8)	(2.8)
Short term borrowings		0.0	(15.0)	0.0	(1.4)	(1.8)	(1.8)	(1.8)
Other		(69.3)	(249.4)	(1,307.7)	(1,722.5)	(2,029.8)	(2,268.7)	(2,489.1)
Long Term Liabilities		(19.3)	(33.5)	(82.6)	(81.1)	(145.2)	(143.3)	(97.6)
Long term borrowings		0.0	0.0	(35.8)	(36.9)	(81.6)	(81.6)	(61.6)
Other long term liabilities		(19.3)	(33.5)	(46.8)	(44.2)	(63.6)	(61.7)	(35.9)
Net Assets		129.8	144.2	440.2	414.9	437.1	421.0	415.5
Minority interests		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders' equity		129.8	144.2	440.2	414.9	437.1	421.0	415.5
CASH FLOW								
Op Cash Flow before WC and tax		19.7	28.4	31.2	41.2	33.3	29.5	38.4
Working capital		(9.2)	2.0	3.6	31.7	(68.4)	10.2	(5.7)
Exceptional & other		(1.2)	(0.7)	(12.7)	(17.3)	0.4	(8.4)	0.0
Tax		(2.8)	(0.6)	0.7	(5.4)	(4.5)	4.6	2.0
Net operating cash flow		6.5	29.2	22.8	50.2	(39.2)	36.0	34.7
Capex		(5.3)	(5.8)	(11.0)	(12.6)	(14.1)	(17.9)	(20.1)
Acquisitions/disposals		(0.7)	(44.0)	(142.5)	(3.5)	(57.1)	10.6	(28.9)
Net interest		(0.1)	(0.0)	(0.7)	(1.4)	(2.4)	(3.7)	(3.7)
Equity financing		0.0	0.4	240.8	0.6	0.0	0.0	0.0
Dividends		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other		(0.6)	(0.4)	(7.0)	(11.0)	(1.9)	(1.9)	(1.9)
Net Cash Flow		(0.2)	(20.6)	102.3	22.2	(114.6)	23.1	(20.0)
Opening net debt/(cash)		(39.9)	(39.0)	(18.1)	(82.5)	(103.0)	9.7	(13.3)
FX		(0.6)	(0.3)	(2.0)	0.6	(1.1)	0.0	0.0
Other non-cash movements		0.0	0.0	(35.8)	(2.4)	3.0	(0.0)	0.0
Closing net debt/(cash)		(39.0)	(18.1)	(82.5)	(103.0)	9.7	(13.3)	6.7

Source: EML Payments, Edison Investment Research

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