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## EML Payments: Result 2020

The pandemic and a big acquisition made this a messy result, but it's clear this is more than just a gift card business.



By **Mickey Mordech**

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### *Recommendation*

#### **EML Payments Limited - [EML](#)**

**SPEC BUY**

**BUY**

below 3.50



**SPEC BUY** at \$3.08

**HOLD**

up to 7.00

**SELL**

above 7.00

Current price

\$2.86 at 16:40 (11 September 2020)

Price at review

\$3.08 at (24 August 2020)

Max Portfolio Weighting

3%

Business Risk

Medium-High

Share Price Risk

High

Back in March, around half-way through **EML's harrowing** skydive, we observed that 'while it's fair to assume this pandemic will cause major disruption to the global economy - especially in the short term - we're not sure anything has fundamentally changed for EML's longer-term outlook'. We no longer think that's the case.

## Shutting up shop

We'll start with **EML Payment's** shopping centre gift card business, which saw card volumes collapse 90% late in the year. While lockdowns won't last forever, changed shopping habits might. Many shoppers may have been forced online for the first time and, perhaps having enjoyed it, may not return so quickly. Meanwhile, financially distressed retail landlords may be forced to shutter some centres, shrinking EML's target market.

Some of the hit will be less permanent, of course, and we'd expect mall foot traffic to recover when social distancing measures are eased. But the market share gains made by e-commerce will not be easily given up and, all else equal, we think total global bricks-and-mortar sales will recover to a lower base.

## A digital world

But while the pandemic taketh away, it giveth too.

The transformative and fortuitous **acquisition of Prepaid Financial Services (PFS) at a deeply discounted price** saw revenues from EML's gift & incentive division fall to just 32% of combined 2020 revenue (and not all of this is malls). EML Payments is no longer just a gift card business, and its pipeline for other divisions - like consumer credit, digital banking and government disbursements - are busier than ever, as businesses are forced to find ways to make and take payments digitally.

As PayPal chief executive Daniel Schulman put it: 'The world has accelerated

## Key Points

- Short-term outlook uncertain
- But pandemic seeing more enquiries than ever
- Now a diversified payments business

As PayPal chief executive Daniel Schulman put it. "The world has accelerated from physical to digital ... Across every industry, we're seeing this surge towards a digital-first strategy". Pieter van der Does, chief executive of Dutch e-payments company Adyen, is thinking along similar lines: "The blurring of lines between online and in-store sales channels, and the digitalisation of commerce [has] continued".

Indeed, EML chief executive Tom Cregan chimed in with observations of his own, suggesting EML is receiving 'more enquiries than ever'. He expects the crisis will see EML emerge with '**even higher growth rates than in the past**'.

We've **long argued** EML is more than just a gift card business; it's EML's ability to enter different industries at low cost that makes it so attractive.

The stock market gives us a familiar analogy to help flesh out the point: the more diversification in your portfolio, the closer your performance converges to average, which is why low-cost ETFs all but assure average performance.

Similarly, as EML adds new card programs, and finds complementary acquisitions, its reliance on any one niche or customer declines. The more diversified it becomes, the more its growth should converge towards the **rapid growth** of the digital payments industry at large.

## Growth to accelerate

To move this diversification process along, management uncovered 'Finlabs', which will take small stakes in fintechs that have complementary technology to its own. It can plug this technology into its own solutions to cut down on development times, implant its own tech in promising new start-ups and open up cross-selling opportunities. There's also upside if one of these lottery tickets goes on to become a bigger business one day.

Finlabs' first investment was a US\$2m minority stake in US start-up Interchecks, whose technology will help EML provide a more feature-rich and versatile product in its sports betting segment. Another US\$8m acquisition is in the pipeline.

CBA's stake in buy-now-pay-later giant Klarna, Tencent's stake in Afterpay, as well as Stripe and Mastercard's incubation-style funds 'Atlas' and 'Fintech Express' show this is an increasing trend across the payments industry.

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An obvious risk of the strategy is that errant purchases can destroy value, which is why we're glad to have Cregan at the helm. He owns plenty of stock and has proven himself since all the way back when he inherited EML with a share price of 12 cents. With \$120m net cash to deploy, we'd back him to keep adding value over time.

## Multiple to fall

The numbers were affected by a capital raising, a major acquisition, significant one-off expenses and of course the pandemic, so it was an unusually messy result. Management is holding off on guidance until after the crucial Christmas trading period.

All told, underlying net profit, before amortisation and acquisition-related expenses, rose 17% to \$24m in 2020. At current prices, EML trades on 46 times 2020 underlying earnings. That's a sizable multiple, but there should be plenty of revenue growth this year due to the inclusion of PFS for a full year, while an eventual recovery from the 90% fall in foot traffic in malls will serve as a tailwind thereafter. We're upgrading EML Payments once more to **SPECULATIVE BUY**.

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