



TIM BOREHAM

Growth on the cards for prepaid vendor

Emerchants (EML) 47c

EMERCHANTS chief Tom Cregan admits many investors have a low opinion of related-party transactions, partly because of the sins of the past when disclosure rules were poor.

There's a distinct advantage, of course, in that the purchaser should know exactly what it's getting. "The history of buying businesses suggests it's the stuff you don't know that causes the problems," Cregan says.

"You see the best and the worst in terms of disclosure from vendors."

The context is Emerchants' \$25 million acquisition of a preloaded card peer in Britain, Store Financial Services (Store). Cregan owns 25 per cent of Store and naturally left the room when the deal was mullied by his fellow directors, who initiated the transaction.

Emerchants last year turned over \$5.1m locally, building a presence ignored by the banks, which are interested in higher-margin mortgages and credit cards.

Store adds another dimension, exposing Emerchants to the European market that's 10 times bigger than here and, unlike the US, still immature.

Store has prepaid programs in 10 European countries and is the region's biggest shopping mall gift card provider.

Emerchants' original focus was on prepaid cards to enable organisations to control employee expenses (something that would have come in handy at the Health Services Union).

But Cregan says it was harder than expected to move employers from their traditional control methods, including simply trusting the worker to do the right thing. "There's a high inertia factor because they have to admit there's fraud going on in the first place," he says.

A whole-of-government deal to cover all of Queensland's bureaucrats is on slow burn.

But Emerchants has found a quick winner in a tie-up with online bookies Ladbrokes, Sportsbet and Bet Easy, enabling client winnings to be instantly credited to a white-labelled card.

Emerchants reported a net EBITDA loss of \$5.4m on revenue of \$5.18m in the year to June 30. But with Store expected to contribute EBITDA of \$2.7m this year, Cregan expects Emerchants to be profitable by 2015-16 and "cashflow-positive" by this December. For all the chirpy news flow, Emerchants shares are off the boil, partly because of Apple's planned launch of its own payments service later next year.

Cregan says Apple Pay has been interpreted as a threat, but Apple still needs the payment schemes (such as Visa and Mastercard) and processors (such as Emerchants). "It will be a beautiful thing for us."

Buy.