Emerchants Ltd reports: Is this a must own super-growth-stock?

By Regan Pearson - August 26, 2016

Card payment company **Emerchants Ltd** (ASX: EML) reported rocketing revenue for the full year 2016 on Thursday, while profit fell as the company continued to focus on adding growth. Here are the key numbers you need to know:

Emerchants Ltd	FY15	FY16	% Change
Total dollars loaded	$447m	$768m	72%
Revenue	$14m	$23m	61%
Profit	$2.8m	$87k	-97%
Earnings per share	1.72	0.04	-98%

So what?

Emerchants is a cards payment company, but importantly, it also processes those payments itself and holds onto the cash before the card is used.

The company collects revenue of around 1.2%-1.5% of loaded card value (depending on the type of card), while processing the payments itself avoids costly transaction fees from third party companies. The system is easily scalable, allowing quick, efficient growth.

Painfully expensive?

I really like Emerchants' business model and agree with Chairman Peter Martin when he says "*the future of the company looks very bright.*" The company has no debt and is positioned to be able to take advantage of international growth opportunities.

But value investors should turn away now because with a market capitalisation of $409 million, and revenues of just $23.3, at a static glance the company looks painfully expensive. The resulting Price/Sales ratio of 17x is higher than growth wonder-kid **XERO FPO NZX** (ASX: XRO) on 13x; a company with a similarly high gross margin (Xero 76%, Emerchants 78%).

This is not a problem if Emerchants can grow at a faster rate, or sustain growth for a longer period. For the last 12 months Emerchants grew revenue 61%, just short of Xero's 66% revenue growth.

However, in the coming years it seems entirely feasible to me that Emerchants can continue to grow at high rates given the way the business is structured, the significant market opportunity, and management's successful track record, together with its conservative approach to acquisitions.

Thinking long term

Emerchants is in the early phase of a strong run of growth, so to justify the current share price we need to think longer term. At today's share price we are very much buying rights to the company's future potential earnings, and with that comes higher uncertainty that they may not eventuate for some unknown reason.

This will rule it out as a potential investment for some investors, but growth investors with high risk tolerance may well be enticed.

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