Here’s why the Emerchants Ltd share price is skyrocketing today

Credit: Mighty Travels

By James Mickleboro - March 30, 2016 | **More on:** EML

Today has been a day of ups and downs for the **S&P/ASX 200** (Index: ^AXJO) (ASX: XJO). But for one share it has been a day of nothing but up.

That share is **Emerchants Ltd** (ASX: EML) which has skyrocketed by over 20% today on the back of news that it has launched its payment card in the United Kingdom with an agreement with British bookmaking giant **bet365**.

Emerchants is a provider of prepaid debit card programs for consumers and businesses in 11 countries around the world. It has working relationships with VISA, Mastercard, BPAY and Eftpos to deliver over 200 programs.

According to the press release, the multi-year agreement with bet365 is to offer the Emerchants payments card to its customers in the United Kingdom. The press release stated:

> “The Emerchants payment card leverages the technology that has been successfully deployed to several Australian gaming operators and will allow bet365 to provide their customers with a fully branded payment card that allows their customers instant, real-time means of accessing winnings and the ability to remit funds back to the gaming account.”

No commercial terms were released to the market at this point, but the market clearly is optimistic that this will prove to be a big boost to the bottom line of this fledgling Australian company.

With 21 million customers worldwide bet365 is one of the world's leading online bookmakers. This agreement further enhances the working relationship between the two companies which can only be seen as good news for shareholders of Emerchants.

Just recently Emerchants produced its first profitable result when it delivered net profit of $0.6 million in its half-year results. This was thanks to an incredible rise in revenue of 108%. I would expect this agreement could help the company maintain this high level of growth for some time which makes the share an interesting investment option.

With a market cap of less than $200 million and priced at 54 times earnings, this would definitely be classed a risky investment. For now I believe it would be well worth adding to your watch list and waiting for the company to announce the commercial terms of the agreement.

Foolish takeaway

Small cap shares can produce incredible returns for investors because they can double or triple in size in a matter of years. A prime example is **REA Group Limited** (ASX: REA) which had a market cap of around $500 million eight years ago, but has grown to $7 billion today.

But small caps can also go the opposite way at a similar rate, so do be warned. Things do look promising for Emerchants at the moment, but I believe investors should still be prudent and approach with caution.

http://www.fool.com.au/2016/03/30/heres-why-the-emerchants-ltd-share-price-is-skyrocketing-today/