



nearmap Ltd (NEA.ASX)

Trading update shows that all is on track

Event:

- 1Q Trading Update; Valuation and Price Target Changes.

Investment Highlights:

- NEA reported its 1QFY17e trading update, with Group revenue for the period of \$9.2M up 39% YoY. There were no surprises and essentially the company's growth remains in-line with our own forecasts.
- Australia revenues continued its impressive high double-digit growth, with revenue of \$8.6M being up 32% YoY for the quarter. This carried on the impressive growth of previous quarters and highlights the successful marketing and sales strategy, which includes targeting new customers as well as upselling (e.g. more consumption) to existing ones.
- US revenue was \$0.6M for the quarter, a significant increase on \$0.1M in the pcp and \$0.4M in the June quarter. The annualised contract value (ACV) at the end of the quarter was US\$2.3M vs US\$1.5M, and the company had increased its number of customers to 400.
- Key customer wins in the US were OmniEarth and TomTom. NEA enjoys a royalty stream as well as subscription revenues from OmniEarth, via the latter on-selling NEA product to its customers.
- TomTom provides leverage to the important location-based navigation sector. This is expected to gain more significance as autonomous vehicles gain traction in the future and is an emerging vertical market for NEA. Major existing verticals are energy (solar); engineering & construction; insurance; and local government.
- Cash at end of September was \$10.9M, implying burn of \$1.3M during the quarter. We expect the burn to diminish over the remaining quarters, and still expect NEA to be in net free cashflow position by end FY17e.
- Recent market reports estimate the aerial imagery market to be US\$2.8-US\$3.3b in 2022-23. Forecast CAGR for 2016-2022 is 12.9%, mostly driven by 3D, solar, and location-based services, all of which NEA is leveraged to.

Earnings and Valuation:

- We make no changes to our short term earnings forecasts (FY17e-FY20e), given that the trading update was in-line with our expectation. We currently forecast NPAT of \$3.9M and \$12.0M in FY17e and FY18e.
- We have however increased our valuation of NEA to \$1.18/share from \$0.91/share, based on 1) Higher long-term market share in the US. We now estimate terminal market share of 10% (previous 6%); and 2) Assign a discounted value for NEA's opportunity in the rest of the world (i.e. ex-Aus and US). We have made the adjustments to reflect our increased confidence of successful execution in the US; the uniqueness of NEA's product; and the attractive size and growth of the global aerial imagery market.

Recommendation:

- We maintain our Buy recommendation on NEA, revising our price target to \$1.18/share (previous \$0.91), in-line with our increased valuation. Catalysts for the shareprice include 1) Continuing high sales growth in Australia; 2) Further ramp up of sales in the USA; and 3) Improving net cashflow.

Recommendation	Buy
Previous	Buy
Price Target	\$1.18
Previous	\$0.91
Risk	Medium

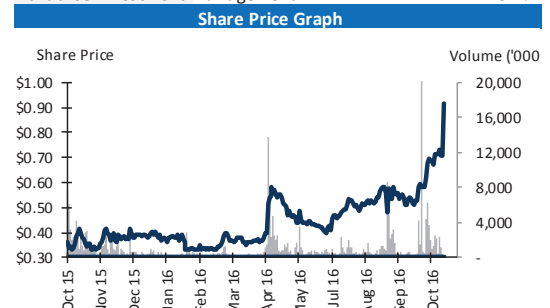
Share price	\$0.865
ASX code	NEA
52 Week Low-High	\$0.325-0.92

Capital Structure	
Shares on Issue (M)	357
Market Cap (A\$M)	308
Net Debt/(Cash) (A\$M)	-11
EV (A\$M)	297
Options on issue (M)	35
Diluted mkt cap (A\$M)	339
12mth Av Daily Volume ('000)	1,179

Y/e Jun	FY16A	FY17e	FY18e	FY19e
Sales \$M	30.7	42.9	57.3	74.6
EBITDA \$M	0.5	10.2	21.3	32.2
NPAT Adj. \$M	-3.2	3.9	12.0	18.6
EPS adj c	-0.9	1.0	3.1	4.7
PER x	nm	nm	28.3	18.4
EV/EBITDA x	nm	27.5	13.1	8.7

Board of Directors	
Peter James	Non-Executive Chairman
Dr Rob Newman	Managing Director
Cliff Rosenberg	Non-Executive Director
Ian Morris	Non-Executive Director
Ross Norgard	Non-Executive Director

Substantial Shareholders	
Ross Norgard	14.4%
NAB and associated nominees	5.4%
Paradise Investment Management	5.1%



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