



Freelancer Ltd (FLN.ASX)

Share price fall overdone as fundamentals unchanged

Event:

- Review of FLN post 3Q release; Share price decline.

Investment Highlights:

- FLN's 3Q report showed receipts up 31% YoY, below our expectations of 54% growth.** While no precise breakdown on divisions were provided, we estimate growth in the core Marketplace was 15% YoY and in Escrow.com -12% YoY (proforma basis), both softer than we had forecast.
- The company cited a China domain bubble impact from earlier as inflating previous comparative sales for Escrow.com.** Also some initiatives that FLN is implementing – such as KYC/AML for accounts– may have introduced some friction to growth in short-term. We still see solid prospects for Escrow.com with annual growth to be ca 20% using 3Q receipts as a normalised base.
- For Marketplace the chief reason was the impact of the higher A\$, which we had underestimated.** The tailwind that FLN enjoyed from the gradual weakening of the A\$ since 2013 has now ceased. We estimate constant currency growth was 19% YoY, in-line with historical marketplace growth and suggesting no change to fundamentals.
- We did not see anything materially of concern in the result.** We expect Escrow.com growth, while cycling inflated YoY comps, should exhibit double-digit annualised growth base on 3Q revenues as a baseline. For Marketplace, we expect it will cycle weaker A\$ comps over next 12 months and then normalise. We forecast Marketplace constant currency sales growth of 20% YoY.

Earnings and valuation:

- We have revised down our earnings forecasts to -\$1.1M and -\$0.7M in FY16e and FY17e (previous \$0.0M and \$0.5M)** based mostly on reducing our sales forecasts, offset slightly by reining in our costs projections.
- Increase in our A\$ forecasts has contributed to sales revision,** while our reduced costs are based on the company providing estimated projections for cash outflows in the current quarter, implying previous rate of costs growth abating.
- Our NPV₁₀ valuation has decreased to \$1.57/share now and \$1.71/share in 12 months (previously \$1.98 and \$2.19),** due to our reduction in earnings.

Recommendation:

- We maintain our Buy recommendation on FLN, reducing our 12-month price target to \$1.71** (previously \$2.19) in-line with our 12-month forward valuation. The dramatic 48% decline in the shareprice makes our valuation look highly attractive.
- We view the share price fall as mostly overdone as fundamentals are unchanged.** Rather than any material concerns, FLN has simply experienced a softer than anticipated quarter in which still high-double digit growth was achieved in the core business.
- Catalysts for the stock include continuing double-digit growth in Marketplace revenues;** improving Escrow.com revenues; reducing rate of costs growth; improving profitability; and weaker A\$.

Recommendation	Buy
Previous	Buy
12 mth Price Target	\$ 1.71
Previous	\$ 2.19
Share Price (A\$)	1.030
ASX Code	FLN
52 week low - high (A\$)	0.995-1.86
Valuation \$/sh	\$1.57 now, \$1.71 in 12mths
Methodology	DCF
Risk	Med
Capital structure	
Shares on Issue (M)	458.7
Market Cap (A\$m)	472.5
Net Debt/(Cash) (A\$m)	-34.3
EV (A\$m)	438.2
12mth Av Daily Volume ('000)	225.0

Y/e Dec Forecasts	2015a	2016e	2017e	2018e
Revenue A\$m	38.2	52.8	64.6	77.6
Revenue growth	48%	38%	22%	20%
NPAT A\$m	-2.8	-1.1	-0.7	-0.4
EPS c	-0.6	-0.2	-0.2	-0.1
PER x	nm	nm	nm	nm
EV/sales	11.3	8.3	6.7	5.5

Board	
Matt Barrie	Executive Chairman
Darren Williams	Non-Executive Director
Simon Clausen	Non-Executive Director

Substantial shareholders	
Matt Barrie	42%
Simon Clausen	34%

Share Price Graph



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