

EQUITY RESEARCH

Information Technology

1st September 2017

nearmap Ltd (NEA.ASX)

FY18e a transitional year as obliques and 3D roll out

Event:

FY17 Result; Changes to earnings and price target.

Investment Highlights:

- NEA reported an FY17 loss of -\$5.3M. Underlying NPAT after stripping out noncash tax expense was -\$1.5M in-line with our forecast of -\$2.4M. The result was largely unsurprising given the company had pre-guided EBITDA and annualised contract values (ACVs) last month.
- Key highlights were revenue growth of 32% YoY, driven by Australia and USA, which outpaced operating costs growth of 16%. Increasing average revenue per subscription (ARPS), upselling, and new subscribers were drivers.
- NEA continues to gain traction in US, with ARPS of US\$8.8k (A\$11.4k) up 113% YoY and much higher than Australian ARPS of A\$5.5k. US ACV was up 253% to A\$7M. Based on ACV, the US now represents 15% of NEA revenues. As expected US costs also increased as part of increase in sales and marketing which is reaping rewards.
- As we expected Australian sales growth tapered off in the 2H to 16% YoY, while EBIT margin expanded from scalability effects.
- Cash burn reduces. NEA ended the FY17 with \$28.3M cash, higher than our \$23M forecast due to a payables working capital positive. Stripping this out, net free cash flow - which we measure as subscription receipts less operating, capture, development, and capital costs – was -\$6.4M for FY17, down from -\$9.3M in pcp.
- FY18e is all about new product offering of oblique imagery and 3D. With its
 ten HyperCamera2 units built, NEA will focus on capturing the top 68 cities (50%
 of population) in US and Australian capital cities by end 1HFY18e. This should
 allow for full commercial launch of obliques and 3D in 2HFY18e. We expect the
 products to entail price premium over orthogonals, as well as provide NEA with
 further advantage over competitors.

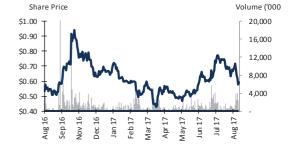
Earnings and Valuation:

- We have downgraded our earnings forecast mostly on higher amortisation expense, as well as higher US sales and marketing costs. These reflect the high capture and development costs and ramp up in US investment.
- To turn net free cash flow positive in FY20e. We have reduced our forecast NPAT to -\$6.6M and -\$5.9M in FY18e and FY19e based on higher D&A and opex.
 We estimate NEA to burn cash in FY18e and FY19e, and generate positive net free cash in FY20e.
- Our valuation of NEA has decreased to \$0.82/share from \$0.88/share, mostly
 on higher revised US sales and marketing costs, partially offset by lower tax
 going forward based on higher D&A.

Recommendation:

 We maintain our Buy recommendation and reduce our 12-month price target to \$0.82 from \$0.88, in-line with our valuation. Catalysts for the stock include continuing strong sales growth in USA and Australia; generation of positive net free operating cashflow; materials sales of oblique imagery and 3D products.

Recommendation				Buy	
Previous		Buy			
Price Target		\$0.82			
Previous		\$0.88			
Risk		Medium			
Share price		\$0.595			
ASX code	NEA				
52 Week Low-High	\$0.43-0.965				
Capital Structure					
Shares on Issue (M)	388				
Market Cap (A\$M)	231				
Net Cash/(Debt) (A\$M			28		
EV (A\$M)			202		
Options on issue (M)			30		
Diluted mkt cap (A\$M			249		
12mth Av Daily Volum			1,333		
Y/e Jun	FY17a	FY18e	FY19e	FY20e	
Sales \$M	40.6	54.0	70.2	89.6	
EBITDA \$M	5.6	5.8	12.9	23.7	
NPAT Adj. \$M	-1.5	-6.6	-5.9	2.1	
EPS adj c	-1.3	-1.6	-1.4	0.5	
PER x	nm	nm	nm	119.2	
EV/EBITDA x	36.7	35.1	15.8	8.6	
Board of Directors					
Peter James	Non-Executive Chairman				
Dr Rob Newman	Managing Director				
Cliff Rosenberg	rg Non-Executive Director				
Ian Morris No			Non-Executive Director		
Ross Norgard Non-Ex			xecutive [Director	
Sue Klose Non-Exec			xecutive [Director	
Substantial Sharehold	lers				
Ross Norgard 14.4					



Share Price Graph

Analyst: Mark Fichera mark.fichera@fostock.com.au

NAB and associated nominees

The analyst owns 45,000 shares in NEA.

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5.0%