



## nearmap Ltd (NEA.ASX)

*Heavy lifting is over*

### Event:

- IHFY18a Result; Changes to earnings and price target.

### Investment Highlights:

- **NEA reported an interim FY18 loss of -\$6.5M vs our forecast -\$1.8M and consensus of-\$2.7M.** Stripping out forex loss and tax we estimate underlying NPAT was -\$4.5M.
- **While the result suggested disappointment, it was overshadowed by management commentary that expense growth would slow and investment levels are now largely in place.** This was positively received by the market, as while there was little doubt of the strong sales growth and product acceptance the company was experiencing in the US, there was uncertainty at when the ramp up in expenditure would decelerate.
- **Sales in the US grew 32% HoH to US\$3.0M, and implies NEA continues to increase market share.** We estimate share to be only 1% of the traditional aerial imagery market, suggesting huge potential for future inroads to be made. Both customers and average revenue per subscription (ARPS) increased.
- **Australia achieved 11% HoH growth in sales, demonstrating success of refocused marketing and account segmentation.** We believe educating of the market and events such as webinars are contributing to the growth.
- **New products to impact in 2HFY18e.** While obliques and panorama were launched in November 2017 in the US, these did not contribute materially. We expect tailwinds from these premium priced products in the 2HFY18e. Further upside is offered by 3D which the company expects to officially launch by end 2HFY18. NEA upgraded ACV guidance, now expecting ACV contributions in both the US and Australia to be similar to that achieved in the 1H.
- **Costs increased but now expect stabilisation.** Higher operating expenses were the main difference between the result and our forecast. However NEA stated investment in costs such as capture and sales and marketing are now mostly in place to accommodate future growth. We still forecast NEA becoming net free cash flow positive in FY20e.

### Earnings and Valuation:

- **We have downgraded our FY18e earnings to-\$7.7M (prior: -\$6.6M), but upgraded FY19e and FY20e to -\$3.3M and \$5.4M (prior: -\$5.9M and \$2.1M).** Our upgrades are due to moderating cost growth from FY19e and beyond, while our sales forecasts are largely unchanged.
- **\$1.59/share valuation.** Our NPV<sub>10</sub> for NEA markedly increases to \$1.59/share from \$0.82/share because of lower costs and incorporation of the lower US Federal corporate tax rate.

### Recommendation:

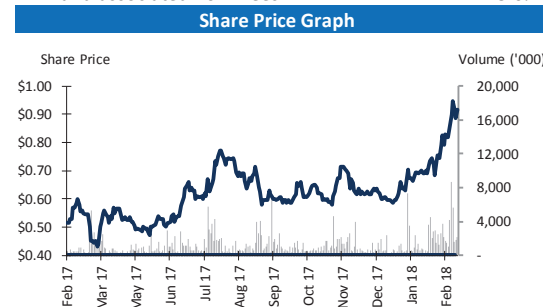
- **Buy, price target \$1.59/share.** We maintain our Buy recommendation and lift our 12-month price target to \$1.59/sh from \$0.82/sh, in-line with our valuation. Catalysts for the stock include continuing strong sales growth in USA and Australia; generation of positive net free operating cashflow; materials sales of oblique imagery and 3D products.

<b>Recommendation</b>	<b>Buy</b>
Previous	Buy
<b>Price Target</b>	<b>\$1.59</b>
Previous	\$0.82
Risk	Medium
<b>Share price</b>	<b>\$0.915</b>
ASX code	NEA
52 Week Low-High	\$0.43-0.9775
<b>Capital Structure</b>	
Shares on Issue (M)	390
<b>Market Cap (A\$M)</b>	<b>357</b>
Net Cash/(Debt) (A\$M)	21
<b>EV (A\$M)</b>	<b>336</b>
Options on issue (M)	27
<b>Diluted mkt cap (A\$M)</b>	<b>381</b>
12mth Av Daily Volume ('000)	1,246

Y/e Jun	FY17a	FY18e	FY19e	FY20e
Sales \$M	40.6	53.1	69.7	89.1
EBITDA \$M	6.0	5.7	11.8	25.7
<b>NPAT Adj. \$M</b>	<b>-2.4</b>	<b>-7.7</b>	<b>-3.3</b>	<b>5.4</b>
<b>EPS adj c</b>	<b>-1.6</b>	<b>-2.3</b>	<b>-0.8</b>	<b>1.3</b>
<b>PER x</b>	<b>nm</b>	<b>nm</b>	<b>nm</b>	<b>71.8</b>
EV/EBITDA x	54.9	57.8	27.9	12.8

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
Sue Klose	Non-Executive Director

Substantial Shareholders	
Ross Norgard	14.4%
NAB and associated nominees	5.0%



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The analyst owns 45,000 shares in NEA.

Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 45,000 NEA shares.

Cranport Pty Ltd owns 500,000 NEA shares.