



Nearmap Ltd (NEA.ASX)

Upsizing the market opportunity

Event:

- Review of FY18 result; Revision to earnings, valuation, and price target.

Investment Highlights:

- NEA reported an FY18a underlying loss of \$8.0M in-line with our forecast loss of \$8.4M. There were no major surprises in the result, understandable given that the company had released preliminary ACV figures and cash back in July.
- The 2nd Half showed significant improvement over the interim period across most Group financial metrics, including ACV up 22% HoH; sales up 19%, and operating expenses up only 10%. This resulted in the underlying EBIT loss shrinking to -\$3.7M in the half vs -\$4.7M in the interim.
- New products contributed to the performance, with the launch of obliques and panorama in November 2017 (USA) and February 2018 (Australia). Churn reduced as the company more actively monitored subscriptions through the cycle. Both upsell and new business increased, as did ARPS and customers.
- USA saw gross margin lift to 41% in the 2H vs 2% in the interim. Only 33% of US ACV are from customers on less than <\$50k subscriptions. We expect this segment will become more of a focus for NEA going forward.
- Net free cash outflow halved. A key highlight was the halving of net free cash out flow from -\$8.0M in the interim to -\$4.2M, as the company began to reap benefits from its earlier investment in marketing and sales, and capture.
- Key commentary highlights were NEA guiding to being cash flow break even in FY19e and examining geographic expansion. Existing multinational customers with operations offshore may facilitate a less costly entry into new markets, without NEA having to replicate the US investment.
- We have revisited the global aerial imagery market and increased our estimate of size to US\$2.7b from \$1.7b, and CAGR to FY22e to 14% from 11%. This market still excludes geospatial information systems which represent a burgeoning opportunity for NEA.

Earnings and Valuation:

- We have reduced our forecast loss in FY19e to -\$0.6M from -\$2.8M previously, while our forecast FY20e increases to \$8.2M from \$5.8M. Our upgrades are due to higher sales growth for both Australia and USA.
- \$2.08/share valuation. Our NPV₁₀ for NEA has increased to \$2.08/share from \$1.79/share as a result of: 1) Our earnings upgrade and 2) Factoring a higher value component for geographic expansion, by reducing the risk factor.
- We compared NEA on FY19e EV/sales with other SaaS companies, showing it is trading at 9x vs 14x for peers, implying its shareprice is undervalued by about 53% despite having comparable sales growth. This suggests significant upside not only to the share price but to our valuation.

Recommendation:

- Buy, price target \$2.08/share. We maintain our Buy recommendation and lift our 12-month price target to \$2.08/share from \$1.79/share, in-line with our revised valuation. Catalysts for the stock include continuing strong sales growth in USA and Australia; new products; geographic expansion.

Recommendation		Buy		
Previous		Buy		
Price Target		\$2.08		
Previous		\$1.79		
Risk		Medium		
Share price		\$1.745		
ASX code		NEA		
52 Week Low-High		\$0.57-1.84		
Capital Structure				
Shares on Issue (M)		396		
Market Cap (A\$M)		691		
Net Cash/(Debt) (A\$M)		18		
EV (A\$M)		674		
Options on issue (M)		21		
Diluted mkt cap (A\$M)		727		
12mth Av Daily Volume ('000)		1,407		
Y/e Jun	FY18a	FY19e	FY20e	FY21e
Sales \$M	53.6	75.5	96.1	117.7
EBITDA \$M	5.2	20.4	35.4	50.0
NPAT Adj. \$M	-8.0	-0.6	8.2	17.0
EPS adj c	-2.8	-0.1	2.0	4.1
PER x	nm	nm	88.8	42.8
EV/EBITDA x	129.1	32.9	19.0	13.5
EV/sales	12.6	8.9	7.0	5.7
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		
Sue Klose		Non-Executive Director		
Substantial Shareholders				
Ross Norgard				14.4%
NAB and associated nominees				5.0%

Share Price Graph



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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 does not own NEA shares.

Refer details at end of report.