



Nearmap Ltd (NEA.ASX)

Readying for Canada

Event:

- NEA to enter Canada market; AGM update; Valuation and PT changes.

Investment Highlights:

- **NEA announced at its AGM that it would seek first sales in Canada in CY19e, and provided an update on product and camera developments.** We see Canada as both a logical and compelling opportunity given it is adjacent to the US, and possesses significant GDP, population, and geospatial sophistication.
- **We expect NEA will execute a low risk entry into Canada, a key plank of which will be utilising current and potential US customers – such as multinationals - that have subsidiaries or interests in Canada where purchase of imagery is desired.** This would ensure quick initial sales, while NEA markets to Canadian companies and government entities.
- **The company also officially launched 3D as an offline product, and is seeking to eventually integrate it into MapBrowser by 2HFY19e.** We expect the premium priced 3D and more user friendly access will further contribute to sales momentum. Further tools have also been added to MapBrowser such as area and pitch measurement.
- **NEA is developing its next generation HyperCamera – HyperCamera2 – which it is aiming to launch 2HFY19e.** We understand that HyperCamera 2 will allow capturing of images at higher altitudes and covering more area, enhancing efficiency of capture.
- **The company advised that ACV at end 1QFY19 was above \$70M, in-line with our own estimate of \$71.4M.** NEA cited the US continued to do well, with increasing contribution from SMEs, a key segment targeted as part of its recent capital raising. Australia was performing well despite more competition.

Earnings and Valuation:

- **We introduce Canada into our earnings forecasts.** We factor in a slow ramp up, similar to what was achieved in the US, but believe it could be quicker given NEA may “pre-sell” Canadian imagery to existing and potential US clients. We expect similar long-term gross margin to that of Australia and US, and a long-term market share of 7% (compared to 8% for US and 37% for Australia).
- **We downgrade forecast earnings in the short-term due to increased marketing and capture costs,** NPAT reducing to \$0M, \$7.9M, and \$16.0M in FY19e, FY20e FY21e vs \$0.4M, \$9.1M, and \$18.5M previously
- **However in later years our earnings forecasts have been upgraded due to Canada turning profitable as scale in sales is achieved.**
- **Our share valuation of NEA increases to \$2.21 from \$2.08, from introduction of Canada in our valuation.** At this stage we value Canada significantly less than Australia, but on metrics such as GDP and population, believe that ultimately the market could surpass that of Australia for NEA.

Recommendation:

- **We maintain our Buy rating and increase our 12-month share price target \$2.21 from \$2.08,** in-line with our revised valuation. Catalysts for the stock include strong sales growth in USA and Australia; new products; geographic expansion; first Canada sales; HperCamera2 launch; 3D offering in MapBrowser.

Disclosures

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.

Recommendation	Buy
Previous	Buy
Price Target	\$2.21
Previous	\$2.08
Risk	Medium
Share price	\$1.54
ASX code	NEA
52 Week Low-High	\$0.575-1.935
Capital Structure	
Shares on Issue (M)	442.4
Market Cap (A\$M)	681.3
Net Cash/(Debt) (A\$M)	85.5
EV (A\$M)	595.8
Options on issue (M)	18.3
Diluted mkt cap (A\$M)	709.5
12mth Av Daily Volume ('000)	1,811

Y/e Jun	FY18a	FY19e	FY20e	FY21e
Sales \$M	53.6	75.4	96.4	118.7
EBITDA \$M	5.2	20.4	34.4	48.2
NPAT Adj. \$M	-8.0	0.0	7.9	16.0
EPS adj c	-2.8	0.0	1.7	3.5
PER x	nm	nm	89.3	44.1
EV/EBITDA x	11.0	7.8	6.1	5.0
EV/sales	13.2	9.3	7.3	6.0

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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