

Results Focus | Monitise plc

Fund raising, Visa JV strengthened, trading update

Monitise has strengthened its strategic relationship with Visa, raised £32.4m equity, and announced FY10 revenues of £6m, with strong growth in transactions revenues highlighting the potential of mobile banking. These are all strong endorsements of Monitise's position, whilst the new funding gives Monitise the balance sheet strength to continue to invest in the technology platform, as well as support the JV opportunities available. We have made a few changes to the forecasts, pending full year results in late August, mainly a higher cost level going forward. The shares are close to our 23p valuation, having risen 32% since we initiated coverage in February, and could therefore be argued to be almost up with events. However, Visa's increased involvement highlights Monitise's strong underlying strategic value.

Company basics

RIC	MONI
Share price £	0.2175
Market cap £m	116.7
Net cash £m	(13.0)
Enterprise value £m	103.7

Estimates and valuation

Year end March	Financials					Valuation			
	Rev £m	Adj EBIT £m	Adj EPS p	DPS p	Net cash £m	EV/ sales x	EV/ NOPAT x	PER x	Yield
FY-09A	2.7	-12.0	-2.3	0	10.1	40.1	Na	Na	0%
FY-10E	6.0	-14.6	-2.1	0	12.9	17.3	Na	Na	0%
FY-11E	13.9	-12.3	-1.2	0	29.3	6.3	Na	Na	0%
FY-12E	25.3	-7.6	-0.7	0	18.8	3.9	Na	Na	0%
FY-13E	39.6	-0.6	0.0	0	15.2	2.6	Na	Na	0%
FY-14E	51.6	4.8	0.5	0	17.2	1.9	26.5	39.6	0%

Source: ISR, Company, Morningstar

Visa and Monitise formed a strategic alliance a year ago, since which time they have been developing products and launched an Indian JV. The alliance has now been strengthened from a five year, minimum \$13m deal to a six year, \$16m deal, with part of the increase relating to a licence being granted to Visa to exploit Monitise's technology in Russia and Mexico (Monitise will receive \$1.5m in licence fees plus transaction revenues). A Visa bigwig – Elizabeth Buse – is joining the Monitise board. Visa is also investing £6.6m of the £32.4m, which will take its stake back up to the 14.4% level when it originally invested in Monitise.

Monitise is raising £32.4m at the closing market price of 20.75p, with £6.6m from Visa, £2.1m from First Eastern and the rest from institutions, equal to 22.5% of the enlarged share capital. The £31m net proceeds, when added to the £13m cash at end June 2010, provides a significant war chest, with the expected uses as follows: continued technology R&D, £20m, managing growth (central costs), £11m; funding AsiaPac and Indian JVs, £6m; funding other new investments, £7m.

Revenues for the year to June 2010 are estimated at £6m, with £4.3m in the second half highlighting the rapid rate of growth being enjoyed by Monitise. Importantly, the growth is being driven by transaction revenues, which were £0.5m in FY09, £0.8m in 1H10 and £2.1m in 2H10. The release hints at slightly higher than expected costs in FY10, particularly relating to investment in the AsiaPac JV, suggesting adjusted operating losses around £14m. The pace-setting UK business is running at £5m annualised revenues, and is expected to break even by December 2010. The US venture is close to break even. The AsiaPac JV is targeting its first revenues from Hong Kong in FY11, with entry into China and other markets now given a definite date of FY12. The India JV with Visa will launch in FY11, whilst the company hopes to make further announcements on Africa towards the end of the year. There is no update on the planned JV with Carphone Warehouse, though we understand that discussions are continuing.

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We have adjusted the forecasts to allow for the higher costs in FY10, running into future years, lower cash at end FY10 (no CPW funding, higher capex and working capital), and the current fund raising. We have left our revenue forecasts unchanged, even though the fund raising and strengthened Visa JV points to increased revenue opportunities. The shares have risen 32% since we initiated coverage in February 2010 and at 21.75p are close to our valuation of 23p, suggesting they are almost up with events. However, Visa's increased interest points to Monitise's potentially significant underlying strategic value.

Estimates & metrics						
	June-09	June-10	June-11	June-12	June-13	June-14
Financials	Act	Est	Est	Est	Est	Est
Profit & Loss						
Revenue £m	2.7	6.0	13.9	25.3	39.6	51.6
Adj EBITDA £m	-11.4	-13.7	-11.4	-6.7	0.2	5.6
Adj EBIT (before SBP) £m	-12.0	-14.6	-12.3	-7.6	-0.6	4.8
Reported PBT	-13.1	-15.1	-13.9	-9.3	-2.6	2.6
PBT before excepts and AAG	-12.8	-15.4	-13.3	-8.7	-2.0	3.2
Fully adj PBT	-11.0	-13.9	-11.6	-6.9	0.0	5.4
NOPAT £m	-8.1	-9.8	-8.2	-4.9	0.0	3.7
Reported EPS	-4.0	-3.1	-2.0	-1.3	-0.4	0.4
EPS before excepts and AAG	-2.7	-2.3	-1.3	-0.9	-0.2	0.3
Fully adjusted EPS p	-2.3	-2.1	-1.2	-0.7	0.0	0.5
Dividend per share p	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow & Balance sheet						
Operating cash flow	-11.4	-14.4	-11.8	-7.5	-0.7	4.9
Free Cash Flow	-11.3	-14.9	-12.6	-8.3	-1.5	4.1
FCF per share p	-3.4	-3.2	-1.8	-1.2	-0.2	0.6
Capex	-0.3	-1.6	-3.0	-3.0	-3.0	-3.0
Acquisitions	0.0	0.1	0.0	0.0	0.0	0.0
Net cash flow	-11.1	-15.5	-14.7	-10.4	-3.6	2.0
Shares issued	11.6	18.3	31.0	0.0	0.0	0.0
Net cash	10.1	12.9	29.3	18.8	15.2	17.2
Metrics						
	FY-09	FY-10	FY-11	FY-12	FY-13	FY-14
Revenue growth	140%	126%	132%	81%	57%	30%
Adj EBITDA growth	14%	20%	-17%	-41%	-104%	2174%
Adj EBIT growth	14%	22%	-16%	-38%	-92%	-855%
Adj PBT growth	20%	26%	-16%	-41%	-73%	-202%
Adj EPS growth	-16%	-12%	-43%	-41%	-77%	-264%
Dividend growth	na	NA	NA	NA	NA	NA
Adj EBIT margins	-208%	-233%	-84%	-28%	0%	10%
Operating cash conversion	109%	105%	103%	112%	-282%	87%
Capex/Depreciation	576%	576%	1071%	1071%	1071%	1071%
Valuation						
	FY-09	FY-10	FY-11	FY-12	FY-13	FY-14
EV/sales	40.1	17.3	6.3	3.9	2.6	1.9
EV/EBITDA	-9.3	-7.6	-7.7	-14.6	409.4	17.6
EV/NOPAT	-13.1	-10.6	-10.7	-20.0	-4506.3	26.5
PER	-9.3	-10.5	-18.5	-31.2	4910.8	39.6
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF yield	-6.3%	-6.9%	-12.0%	-18.2%	-100.4%	36.5%



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