

Trading Focus | Monitise plc

Update on NFC, retail money and Board strengthening

Monitise has been busy recently, strengthening its positioning for Near Field Communications (NFC) based mobile money services with US trials and partnerships, progressing its new UK-focussed retail JV with Best Buy, gaining a provisional mobile banking licence in Nigeria and, to help position itself for the next phase of growth, strengthening its Board. These moves all demonstrate the broad scope of Monitise's ambition, and help underpin Monitise's strong strategic position in mobile money, supporting our 23p valuation.

Company basics

RIC	MONI
Share price £	0.19
Market cap £m	132.6
Net cash £m	(44.2)
Enterprise value £m	88.4

Estimates and valuation

Year end June	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	0.00	10.1	52.0	na	na	0.0%
FY-10A	6.0	-14.6	-2.1	0.00	12.9	22.4	na	na	0.0%
FY-11E	13.9	-12.3	-1.2	0.00	29.5	7.4	na	na	0.0%
FY-12E	25.3	-7.6	-0.7	0.00	19.1	4.5	na	na	0.0%
FY-13E	39.6	-0.6	0.0	0.00	15.5	3.0	na	na	0.0%
FY-14E	51.6	4.8	0.5	0.00	17.5	2.2	30.7	34.6	0.0%

Source: ISR, Company, Morningstar

- NFC trials** NFC is emerging as a key element of mobile money services by providing secure short range 2-way connectivity with payment terminals and other devices. Monitise has announced an alliance with ViVOtech, which develops NFC software enabling financial data to be loaded onto a secure chip residing in an NFC-enabled phone, a SIM card, a microSD memory card, and even special iPhone cases, with the latter options overcoming the lack of NFC-enabled handsets, which has slowed NFC's deployment to date. This alliance follows the launch of an internal trial with US Bank (The US's 5th biggest bank), where Monitise is working with DeviceFidelity, which makes microSD memory cards, and with long standing partner Visa to test NFC-based payments, enabling users to pay for products by waving their mobile phone in front of a terminal. The progress of NFC is highlighted by its incorporation in the latest Android-based 'Google phone' and rumours of inclusion in the next iPhone.
- Best Buy JV** With reference to the retail money JV recently announced with Best Buy, the company is now in detailed discussions with interested parties, with the aim of building a critical mass of partners prior to launching services. An example of the type of application being developed by Monitise is the ability to order and pay for physical goods advertised on posters by simply sending a text message, with Monitise acting as the payment intermediary.
- Nigerian mobile banking licence** Monitise has just been awarded a provisional licence to offer mobile wallet services, with local partners, to the unbanked, assisted by \$1.5m development funding from the Africa Enterprise Challenge Fund. The astounding success of Safaricom's M-PESA in Kenya shows the potential of mobile banking services in developing countries, having achieved, at September 2010, penetration of 81% of Safaricom users and 35% of the whole Kenyan population, and contributing 11% of Safaricom revenues.

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Strengthened board

Monitise has been strengthening its Board, by appointing Autonomy CFO Sushovan Hussain as a non-exec in place of Peter Radcliffe, who will assume an executive role as Chairman of Monitise's Emerging Markets activities, which includes Asia Pacific, India and Africa. Under Sushovan's tenure, Autonomy has grown into a £3.2bn market value UK tech success story, and his experience will therefore be of value to Monitise, which also has the potential to become a UK tech success story. Peter Radcliffe's move to an executive role will assist Monitise's push into emerging markets, particularly following the signing earlier this year of the JV with First Eastern.

All of these moves, covering new technologies, new vertical markets and geographic expansion, demonstrate Monitise's broad ambitions, and help underpin our forecasts for strong revenue growth in the next few years. Our 23p valuation provides some upside given the current 19p share price.

Estimates & metrics						
	June-09	June-10	June-11	June-12	June-13	June-14
Financials	Act	Act	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	29.5	19.1	15.5	17.5
Metrics						
Revenue growth	140%	126%	131.7%	81%	57%	30%
Adj EBITDA growth	14%	20%	-13.2%	-41%	-104%	2174%
Adj EBIT growth	14%	22%	-13.9%	-38%	-92%	-855%
Adj PBT growth	20%	26%	-13.7%	-41%	-73%	-202%
Adj EPS growth	-16%	-12%	-43.5%	-41%	-77%	-264%
Dividend growth	na	na	NA	NA	NA	NA
Adj EBIT margins	-208%	-233%	-83.9%	-28%	0%	10%
Operating cash conversion	109%	105%	102.9%	112%	-282%	87%
Capex/Depreciation	576%	576%	1071%	1071%	1071%	1071%
Valuation						
EV/sales	46.1	19.8	7.4	4.5	3.0	2.2
EV/EBITDA	-10.7	-9.1	-9.0	-16.9	472.4	20.4
EV/NOPAT	-15.1	-12.6	-12.6	-23.2	-5200.1	30.7
PER	-8.1	-9.1	-16.2	-27.2	4289.9	34.6
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF yield	-5.5%	-5.8%	-10.5%	-15.9%	-87.7%	31.9%



About I S Research

Megabyte is published by I S Research Ltd, an independent research consultancy focusing on the software & IT services sector in the UK. The company was formed in early 2007 by Ian Spence who has been involved in researching and raising money for companies in the UK technology sector for 15 years. Ian spent most of his career in broking with Robert W Baird where latterly he was Head of Technology Research. Ian was voted TechMARK analyst of the year in 2004 and, in November 2008, Ian received the award for the second time making him the only analyst to win twice and the only independent analyst to be recognised in this way. Ian was joined by Philip Carse in late 2009, who brings 20 years telecoms analytical and consulting experience, including as an equity research analyst in highly-rated teams at Citigroup, UBS and Commerzbank.

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