STOCKS DOWN UNDER

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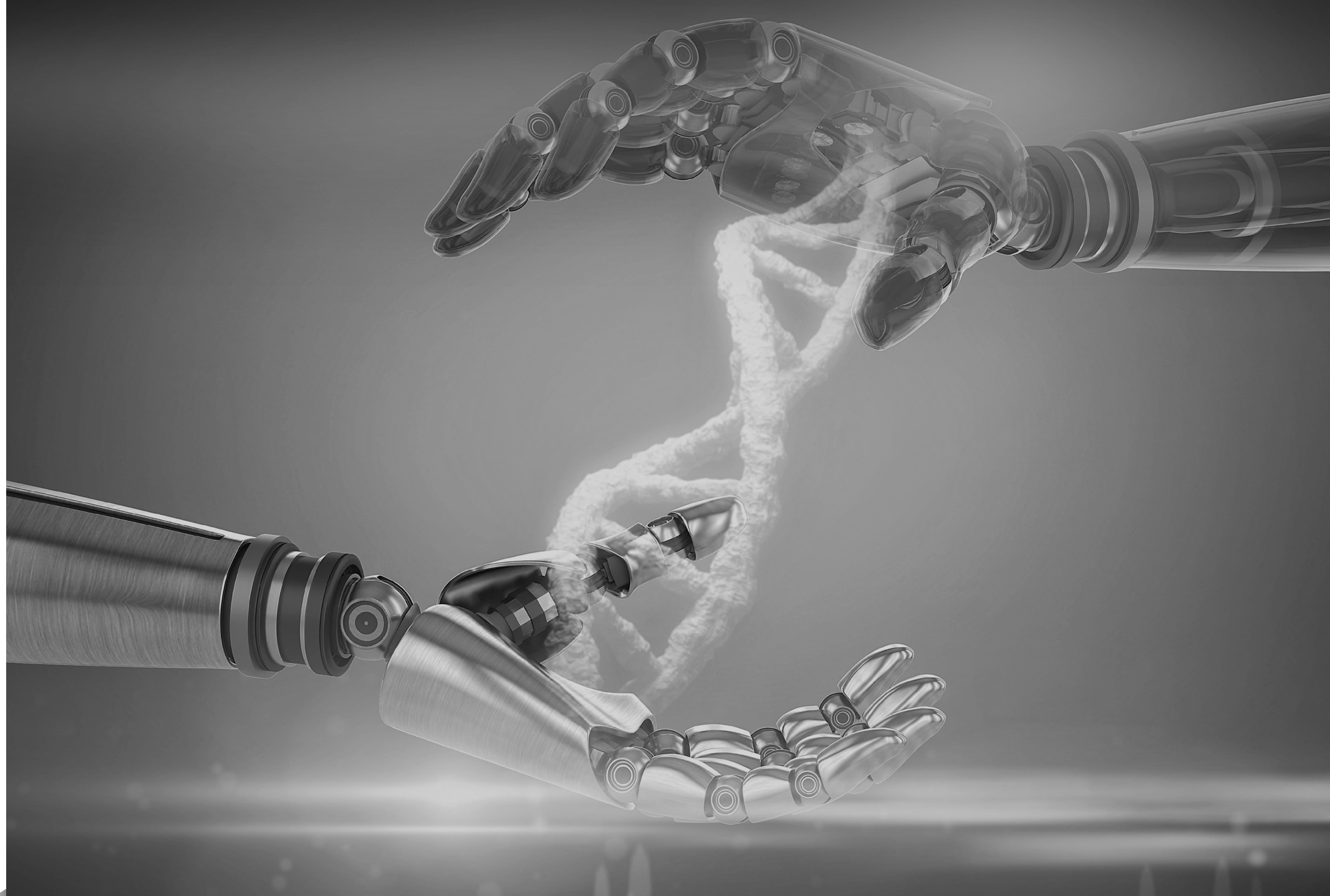
Emerging Stocks Down Under

"The goal is not to have the longest train, but to arrive at the station first using the least fuel."

- Tom Murphy (b.1925), CEO of Capital Cities Broadcasting (1966-1996)



NEARMAP

Renewed investor confidence or a dead cat bounce?

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Stocks Down Under rating: ★★★★

ASX: NEA
Market cap: A$683.7M

52-week range: A$1.06 / A$2.34
Share price: A$1.38

It's a tough time to be a tech stock, especially if you're making losses. And that's true of geospatial analytics company Nearmap (ASX: NEA) as well. But with Nearmap shares down ~40% in the last 12 months, investors have some skepticism towards management promises that it can deliver although it has gone up nearly 20% in the last month. It's been in the North American market since 2014 and while progress has been slower than shareholders would've liked, it might just be turning a corner.

Share price chart

Source: Tradingview

A company at the forefront of the Information Age

Nearmap began in Perth in 2007 and entered the ASX just a year later after being bought by Ipernica. Ipernica was a commercialisation vehicle for early stage companies (as Nearmap was back then), but Nearmap became the primary listed entity in 2012. Nearmap takes aerial images, mostly of urban areas, using planes (not drones), capturing multiple viewpoints to stitch together 3D representations of the areas it has captured. It updates these images multiple times a year. It has a catalogue of data and images which it charges clients a fee to observe and use – and it has generated over 40 petabytes (40,000 tb) of location intelligence content since 2007.

As we articulated the last time we covered Nearmap [in November last year,](#) the company provides its customers with up-to-date information, enabling them to make better informed and faster decisions than their competitors. Nearmap's bigger customers are governments, typically at the local level, and insurance providers. Governments use Nearmap to assess the value of properties for tax purposes, for urban planning or even for disaster management planning. Insurers, meanwhile, use Nearmap for purposes such as assessing damage claims. Other Nearmap customers include utilities, solar companies, architects as well as construction and engineering companies.

It’s taken a while to crack the American market

Nearmap has a presence in four countries: Australia, New Zealand, Canada and the USA, covering no less than 66% of the population in each of them. The United States – which it entered in 2014 - is the most important as well as the most turbulent geography Nearmap is active in. When Nearmap first entered the USA, it was let down by focusing on several market verticals and having a universal pricing strategy. But now, it has narrowed down its verticals and offers fixed price packages for government customers.

However, the company has been in legal lockhorns with rival Eagleview (who acquired ASX-listed Spookfish a few years ago) for some months now, over alleged patent infringement – allegations the company has denied and is defending. On top of this, Nearmap was attacked by short-seller J Capital, which accused it of concealing poor performance in the US market.

But things just might be turning a corner for Nearmap. The company recently surpassed A$150m in Annual Contract Value (ACV) and the US accounts for a large share of it – surpassing US$50m (A$67.2m). Only four years ago, total ACV was A$54.2m and North America only accounted for $10.9m.

The company is soon planning to release its HyperCamera3 (HC3), which will give it a greater edge. The HC3 can operate at higher altitudes and has an enhanced fidelity capture system. And though the share price is down 41% in the past 12 months, it is up over 150% in the last five years and after bottoming out in March 2022 it has gained 20%. Could this be a sign that investors are regaining confidence or is this a dead cat bounce?

Is Nearmap the pick of the geospatial analytics bunch?

FY23 consensus estimates for Nearmap stand at $177.8m in revenue and $37.3m in EBITDA. These are up 23% and 81% from FY22 consensus estimates respectively. This values the company at 15.2x EV/EBITDA for FY23 and therefore at 0.2x EV/EBITDA-to-EBITDA-growth for that year, which is very low. Looking to the EV/EBITDA of its peers - Aerometrex (ASX: AMX) is trading at 5.3x and Pointerra (ASX: 3DP) is trading at 6.4x for FY23.

Aerometrex listed on the ASX in 2019 and had a successful share price run. But it hasn’t been the same since long time boss Mark Deuter retired. Aerometrex has some capabilities Nearmap doesn’t, such as airborne lasers, which help map surfaces for geological purposes, and it services a more diverse range of clients, including infrastructure groups and emergency services. It has a solid presence in Australia, but a smaller one in North America.

As for Pointerra, it doesn’t take images, but has a cloud solution that helps users of geospatial data store, view and manage entire 3D datasets, also known as pointclouds. It had a major share price run off the back of Bevan Slattery buying into the company, but enthusiasm waned in conjunction with the tech sell off. Both companies have lower revenues and EBITDA than Nearmap.

We think that, while Nearmap has had a rocky road, it has made continual investment into its platform and has recorded a 5-year ACV Compound Annual Growth of 28%. It has also built up and retained the bulk of its customer base over time. And it has worked hard to reduce its negative cash flow while improving its gross margin over time, which is now 73% on a group-wide basis.

The company has A$110m in cash and is growing its ACV portfolio by subscription size with portfolios worth over $50k now accounting for US$42.8m of total ACV, up from US$17.4m just a couple of years ago.

For investors willing to bet all these metrics will continue to grow, it is four stars from us. But remember, Nearmap is technically still in a downtrend and investors ideally buy this stock towards the lower end of the current $1.10 to $1.64 trading range. At the current share price, we’re sort of in the middle of that range, so put this one on your watchlist for now.

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Stocks Down Under gives you an information advantage to better invest and trade in ASX-listed stocks!