

1Spatial

Core GIS business robust/disposal of Enables

1Spatial's trading update flags that group performance is expected to be in line with expectations. The core GIS business traded better than expected at both the revenue and EBITDA levels, but a deterioration in prospects for the non-core Enables business has prompted a disposal of 80.1% of this business to management for a £1. While the low consideration is underwhelming, our investment case has always been predicated on the growth and recovery prospects for GIS. It is encouraging that GIS performance is tracking ahead and greater focus on this business should support both prospects and the investment case.

Year end	Revenue (£m)	EBITDA* (£m)	PBT (£m)	EPS* (p)	DPS (x)	EV/Sales (%)
01/16	18.3	2.9	1.1	0.16	0.0	1.4
01/17	22.1	(0.4)	(2.4)	(0.33)	0.0	1.2
01/18e	23.8	0.7	(0.6)	(0.08)	0.0	1.1
01/19e	25.6	1.2	(0.2)	(0.03)	0.0	1.0

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Core GIS business outperforming expectations

The underlying positive news is that the core GIS business traded better than expected at both the revenue (Edison £16.5m +9% y-o-y) and EBITDA level (Edison £1.8m +24% y-o-y, excl central costs). Previous newsflow has indicated the business has been making good progress on a number of fronts, particularly in Europe within the utilities market, and now in the key US market with government agencies, supported by the ESRI partnership.

Deteriorating prospects at Enables prompts disposal

Enables IT also performed reasonably well with EBITDA of £0.5m (Edison £0.4m), but a major customer recently decided to insource these services. Weighing up the increased risk to revenues/cashflows, the decision has been made to dispose of all but a 19.9% stake to management for £1 supplemented with a £150k contribution and £85k interest free loan to support Enables' working capital.

Focused business and investment case

We are not changing our estimates at this stage, pending more information. By a process of elimination, the EBITDA gains in GIS/Enables were offset by higher central operating costs but we do not believe this is recurring. If robust trading in GIS continues, we believe there is a good chance it can significantly offset the £430k FY19 EBITDA contribution we had forecast from Enables.

Valuation: Greater focus enhances upside potential

While the consideration for Enables is underwhelming, we believe that both prospects and the investment case should be enhanced by focusing on GIS. The GIS technology market is large (est \$9bn) and growing at a double-digit rate. In our view, 1Spatial has the customer base, technology and expertise to generate robust sustainable growth and margins. With the recovery tracking ahead, we believe an FY19 2x EV/Sales multiple of 2.0x (vs 1.5x for GIS on current forecasts) is easily justifiable for this business, which would imply a value of at least 4.7p per share.

Trading update/disposal

Software & comp services

15 March 2018

Price 3.55p
Market cap £27m

Net cash (£m) as at end January 2018	0.3 (continued operations)
Shares in issue	760.5m
Free float	83%
Code	SPA
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(2.7)	(13.9)	49.5
Rel (local)	(2.2)	(10.8)	51.7
52-week high/low	4.2p	2.8p	

Business description

1Spatial's core technology validates, rectifies and enhances customers' geospatial data. The combination of its software and advisory services reduces the need for costly manual checking and correcting of data.

Next events

Investor day	18 April 2018
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Exhibit 1: Financial summary

	£'000s	2016	2017	2018e	2019e
31-January		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		18,300	22,065	23,812	25,577
Delivery costs		(7,715)	(12,386)	(13,461)	(14,376)
Gross Profit		10,585	9,679	10,351	11,201
EBITDA		2,902	(407)	720	1,160
Operating Profit (before amort. and except.)		1,584	(2,071)	(542)	(78)
Acquired Intangible Amortisation		(200)	(825)	(400)	(400)
Exceptionals		(1,081)	(11,988)	0	0
Share based payments		(976)	(566)	(750)	(750)
Operating Profit		(673)	(15,450)	(1,692)	(1,228)
Net Interest		(27)	(32)	(42)	(161)
Other		(421)	(266)	0	0
Profit Before Tax (norm)		1,136	(2,369)	(585)	(240)
Profit Before Tax (FRS 3)		(1,121)	(15,748)	(1,735)	(1,390)
Tax		503	988	347	278
Profit After Tax (norm)		1,136	(2,369)	(585)	(240)
Profit After Tax (FRS 3)		(618)	(14,760)	(1,388)	(1,112)
Average Number of Shares Outstanding (m)		691.3	728.9	747.7	760.5
EPS - normalised (p)		0.16	(0.33)	(0.08)	(0.03)
EPS - normalised fully diluted (p)		0.16	(0.33)	(0.08)	(0.03)
EPS - (IFRS) (p)		(0.09)	(2.02)	(0.19)	(0.15)
Dividend per share (p)		0.0	0.0	0.0	0.0
Gross Margin (%)		57.8	43.9	43.5	43.8
EBITDA Margin (%)		15.9	N/A	3.0	4.5
Operating Margin (before GW and except.) (%)		8.7	N/A	N/A	N/A
BALANCE SHEET					
Fixed Assets		22,115	13,025	12,413	11,980
Intangible Assets		18,900	11,968	11,558	11,308
Tangible Assets		1,638	1,057	855	672
Investments		1,577	0	0	0
Current Assets		16,202	10,761	12,254	12,591
Stocks		0	0	0	0
Debtors		10,815	8,929	8,870	9,527
Cash		4,996	1,285	2,837	2,516
Other		391	547	547	547
Current Liabilities		(11,071)	(13,029)	(14,147)	(14,013)
Creditors & other		(11,071)	(12,348)	(11,966)	(12,832)
Short term borrowings		0	(681)	(2,181)	(1,181)
Long Term Liabilities		(1,579)	(1,535)	(1,088)	(1,088)
Long term borrowings		0	0	0	0
Other long term liabilities		(1,579)	(1,535)	(1,088)	(1,088)
Net Assets		25,667	9,222	9,431	9,469
CASH FLOW					
Operating Cash Flow		(722)	(1,061)	397	1,369
Net Interest		(31)	(166)	(42)	(161)
Tax		55	425	347	278
Capex		(3,800)	(4,042)	(750)	(806)
Acquisitions/disposals		(1,033)	(900)	100	0
Financing		1,940	896	0	0
Dividends		0	0	0	0
Net Cash Flow		(3,342)	(4,848)	52	680
Opening net debt/(cash)		(8,250)	(4,996)	(604)	(656)
HP finance leases initiated		0	0	0	0
Other		88	456	0	0
Closing net debt/(cash)		(4,996)	(604)	(656)	(1,335)

Source: 1Spatial reports, Edison Investment Research. Note: Net losses on discontinued businesses in FY17 of £3.5m are not shown in the exhibit above. Forecasts do not take into account the proposed disposal of Enables.

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