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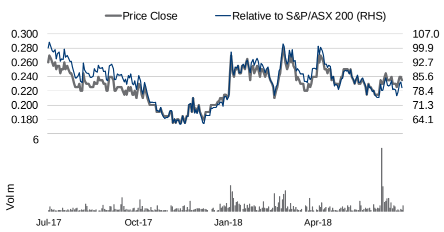
Icar Asia

Strong second quarter

ADD (no change)

Current price:	A$0.24
Target price: ▲	A$0.41
Previous target:	A$0.29
Up/downside:	73.1%
Reuters:	ICQ.AX
Bloomberg:	ICQ AU
Market cap:	US$66.54m
	A$89.91m
Average daily turnover:	US$0.07m
	A$0.09m
Current shares o/s	322.2m
Free float:	47.6%



Source: Bloomberg

Price performance	*1M*	*3M*	*12M*
Absolute (%)	6.8	-2.1	-9.6
Relative (%)	3.3	-9.9	-20.1

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Analyst(s) own shares in the following stock(s) mentioned in this report:
– N/A

- iCar Asia's cash collections in the June quarter were better than expected, driven by strong growth in the underlying classifieds business.
- Strong growth in audience engagement and dealer lead volumes allowed the company to implement a substantial (33%) weighted average price rise.
- The company launched a number of new transaction-based services which have the potential to substantially increase revenue per vehicle listed.
- Our price target, set by the DCF valuation, increased to A$0.41 per share, up from A$0.29 per share.
- We maintain an ADD recommendation (High Risk).

Price rises will drive H2 growth

Rising advertising volumes, an increase in advertising rates in May and early contributions from transaction services drove iCar Asia to report better-than-expected cash collections of $3.2m in the June quarter, 22% up on pcp. The performance was better than expected despite an estimated A$0.5m in revenue lost due to the Malaysian general election and the earlier occurrence of Ramadan, which occurred in June this year (July last year). The company increased prices, with individual product price rises ranging from 10% to 100%, and a weighted average price increase of around 33%. The full impact of the price rise will only be evident in the September quarter.

Changes to forecasts and valuation

We have revised our forecasts to reflect 1) Changes in foreign exchange rates since our last report; 2) The price rises implemented in May; 3) Operating expense trends in the last two quarters; 4) The increase in issued shares and options following the recent capital raising. Our target price is set by our DCF valuation. Due to a number of changes our DCF valuation has increased to A$0.41 per share from A$0.29 per share.

Risks and catalysts

Risks to ICQ include: 1) political or economic disturbances in Malaysia or Thailand that dampen car buyer sentiment; 2) Weakness in growth rates for advertising depth products in all markets; 3) Failure of new business lines – such as new car leads products – to gain popularity with dealers; and 4) irrational competitor behavior. Potential re-rating catalysts include: 1) a faster rebound in new and used car markets than we have assumed; 2) faster take-up of the new dealer products and a step-change in depth ad usage; and 3) Large revenue gains from car marketing events.

Investment view

iCar Asia offers investors exposure to the growth of online automobile advertising in South East Asia, a market that we expect will become substantial over time. We maintain an ADD recommendation. The company has not yet reached cash-flow self-sustainability and therefore iCar Asia shares are high risk and should be avoided by investors with a low risk tolerance.

Financial Summary	**Dec-17A**	**Dec-18F**	**Dec-19F**	**Dec-20F**	**Dec-21F**
Revenue (A$m)	9.20	15.48	22.93	29.83	38.57
Operating EBITDA (A$m)	-13.33	-8.29	-2.07	3.85	11.31
Net Profit (A$m)	-14.73	-10.06	-3.68	2.55	10.39
Normalised EPS (A$)	(0.042)	(0.023)	(0.008)	0.006	0.024
Normalised EPS Growth	(10%)	(45%)	(63%)		307%
FD Normalised P/E (x)	NA	NA	NA	40.34	9.91
DPS (A$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	NA	NA	NA	20.08	5.67
P/FCFE (x)	NA	NA	NA	26.90	9.12
Net Gearing	(46.3%)	(38.2%)	(49.4%)	(52.6%)	(61.7%)
P/BV (x)	1.94	2.84	2.26	2.06	1.61
ROE	(30.6%)	(24.3%)	(9.0%)	5.3%	18.3%
% Change In Normalised EPS Estimates		21%	50%	267%	107%
Normalised EPS/consensus EPS (x)		0.76	0.42	-1.93	2.36

SOURCE: MORGANS, COMPANY REPORTS

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Figure 1: Financial summary

ASX Code	ICQ	Share Price	A$	23.5
Issued shares (m)	440	Recommendation:		ADD
Market Capital (A$m)	103.5	Valuation:		0.41
		Price Target:		0.41
		TSR:		73%

Key Financials	2015	2016	2017	2018F	2019F	2020F
Reported NPAT	-12.5	-15.0	-14.7	-10.1	-3.7	2.6
Normalised NPAT	-12.5	-15.0	-14.7	-10.1	-3.7	2.6
EPS - normalised	-4.4	-4.7	-4.2	-2.5	-0.8	0.6
EPS Growth	-	-6%	10%	41%	66%	169%
EPS - diluted	-4.4	-4.7	-4.2	-2.5	-0.8	0.6
Dividend per share	-	-	-	-	-	-
Payout Ratio	-	-	-	-	-	-
Franking	-	-	-	-	-	-

Pricing Multiples	2015	2016	2017	2018F	2019F	2020F
Normalised PER	-	-	-	-	-28	40
Diluted PER	-	-	-	-	-28	40
Market PER	-	-	16.5	15.3	14.3	13.3
PER Relative						
EV/Ebitda	-4.1	-3.5	-5	-11	-44	21
EV/EBIT	-4.4	-3.2	-5	-9	-26	35
Price/Book	-	-	-	-	-	-
Yield	-	-	-	-	-	-

Key Ratios	2015	2016	2017	2018F	2019F	2020F
Growth						
Revenue Growth	123%	6%	38%	68%	48%	30%
Ebitda Growth	13%	-21%	3%	Lge	75%	286%
EBIT Growth	8%	-18%	2%	34%	64%	166%
Margins						
Ebitda/Sales	-182%	-207%	-145%	-54%	-9%	13%
EBIT/Sales	-205%	-227%	-161%	-63%	-16%	8%
Pre-Tax/Sales	-200%	-222%	-160%	-62%	-14%	10%
Efficiency						
ROE	-30%	-30%	-32%	-30%	-8%	5%
ROA	-28%	-28%	-29%	-25%	-7%	4%
ROIC	-28%	-28%	-29%	-25%	-7%	4%
Leverage						
Net Debt/debt+equity	-	-	-	-	-	-
Ebitda/interest cover	-	-	-	-	-	-
Net Debt/Ebitda	-	-	-	-	-	-
(ICQ has no net debt)						

Valuation		
Risk Free Rate	%	6.0%
Equity Risk Premium	%	6.0%
Beta		1.30
Cost of Equity	%	15.6%
Gearing Ratio	%	0%
Cost of Debt	%	7%
WACC	%	16%
Terminal Growth Rate (Y5)	%	12%
DCF Valuation	$m	179
Value Per Share	$/shr	0.41
Target Price	$/shr	0.41

Normalised P&L	2015	2016	2017	2018F	2019F	2020F
Divisional Revenues (A$m)						
Malaysia	3.6	3.5	4.6	8.0	10.0	12.5
Thailand	2.5	2.7	3.9	5.7	8.0	10.4
Indonesia	0.2	0.4	0.7	1.8	5.0	6.9
Other	0.0	0.0	0.0	0.0	0.0	0.0
Total Revenues	6.3	6.7	9.2	15.5	22.9	29.8
Divisional Ebitda (A$m)						
Malaysia	-1.5	-2.1	-1.3	0.8	2.5	4.8
Thailand	-0.9	-1.7	-1.6	0.2	2.2	4.3
Indonesia	-3.3	-3.8	-4.1	-2.8	-0.2	1.5
Other	-5.7	-6.2	-6.3	-6.5	-6.5	-6.8
Total Ebitda	**-11.5**	**-13.8**	**-13.3**	**-8.3**	**-2.1**	**3.8**
Deprec. & Amort.	-1.4	-1.3	-1.5	-1.5	-1.5	-1.5
Other/impairment						
EBIT	-12.8	-15.1	-14.8	-9.8	-3.6	2.3
Finance Costs - net	0.3	0.4	0.1	0.1	0.3	0.6
PBT - normalised	-12.5	-14.8	-14.7	-9.7	-3.3	3.0
Tax - normalised	0.0	-0.2	0.0	-0.4	-0.4	-0.4
NPAT - normalised	**-12.5**	**-15.0**	**-14.7**	**-10.1**	**-3.7**	**2.6**
Non-recurring items (net)	0.0	0.0	0.0	0.0	0.0	0.0
Reported NPAT	**-12.5**	**-15.0**	**-14.7**	**-10.1**	**-3.7**	**2.6**

Balance Sheet	2015	2016	2017	2018F	2019F	2020F
Cash	18.5	27.1	21.5	11.6	20.3	24.1
Other ST Assets	2.3	2.3	2.5	3.3	4.0	4.8
PPE	0.5	0.6	0.7	0.1	0.2	0.2
Intangibles	23.8	24.6	26.1	24.5	24.5	24.5
Other LT Assets	0.0	0.0	0.0	0.0	0.0	0.0
Total Assets	45.1	54.7	50.8	39.6	49.0	53.6
Borrowings	0.5	0.0	0.0	0.0	0.0	0.0
Other Liabilities	3.3	4.9	4.4	5.5	5.6	5.8
Total Liabilities	3.8	4.9	4.4	5.5	5.6	5.8
Net Assets	41.3	49.8	46.4	34.1	43.4	47.8
Minorities	-	-	-	-	-	-

Cash Flows	2015	2016	2017	2018F	2019F	2020F
EBITDA	-13.9	-13.8	-13.3	-8.3	-2.1	3.8
Interest paid	0.0	0.0	0.0	0.0	0.0	0.0
Interest received	0.3	0.4	0.1	0.2	0.3	0.6
Tax Paid	0.0	-0.2	0.0	-0.4	-0.4	-0.4
Other	0.0	0.2	0.0	1.0	-0.2	-0.2
Net Operating Cash Flow	-12.6	-12.6	-13.4	-9.3	-2.0	4.3
Capex	-2.3	-1.1	-1.2	-0.5	-0.5	-0.5
Other investing cash flow	0.0	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	-2.3	-1.1	-1.2	-0.5	-0.5	-0.5
Financing Cash Flow	18.0	22.2	9.0	0.0	11.1	0.0
Total Cash Flows	3.1	8.6	-5.6	-9.8	8.7	3.8

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SOURCE: MORGANS RESEARCH, COMPANY

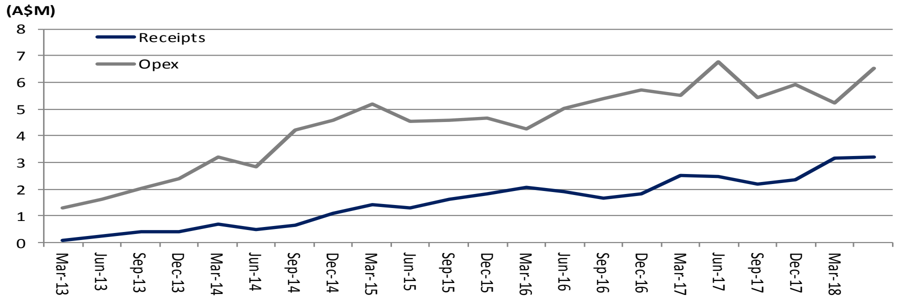
Strong second quarter

Price rises will drive stronger H2 growth

Rising advertising volumes, an increase in advertising rates in May and early contributions from transaction services drove iCar Asia to report better-than-expected cash collections of $3.2m in the June quarter, 22% up on pcp. The performance was better than expected despite an estimated A$0.5m in revenue lost due to the Malaysian general election and the earlier occurrence of Ramadan, which occurred in June this year (July last year). Key observations on the quarterly update:

- iCar Asia grew its consumer audience and levels of dealer engagement during the quarter. Unique visitors to the company's sites were up 45% on pcp and leads generated for dealers increased 27% on pcp. This growth reflected the company's push, which commenced the prior year, to expand inventory and dealer participation.
- The company increased prices across the region in May, with individual product price rises ranging from 10% to 100%, and a weighted average price increase of around 33%. As the price rise covered only two months of the quarter, and dealers were able to use up advertising credits purchased previously at lower rates, the full impact of the price rise will only be evident in the September quarter.
- Revenue loss from the Malaysian election was significant. The company was forced to move a major car expo from May to July, general display advertising was disrupted and the volume of dealer depth revenues was subdued. The company noticed a major uptick in activity after the election.
- The company launched several new products in all countries during the quarter. These included a new car lead generator, a used car auction system to provide inventory for dealers and a transaction services business that offers finance and insurance for new and used car buyers.
- The auction business – where vendors pay a commission of 2% of the value of the car sold – had a positive start in Malaysia with clearance rates ranging from 30% to 50% of vehicles offered. Over time the auction business offers the prospect of significantly increasing the value captured by ICQ for each vehicle advertised.
- ICQ now has banking and insurance partners in all countries in which it operates – Malaysia, Thailand and Indonesia. Loan origination fees are being set at fixed dollar amounts but insurance policies will generate sales commissions set at around 10% of the premium.
- iCar reiterated guidance that it expected positive EBITDA contributions in Malaysia and Thailand by the end of 2018 and for the group as a whole to be EBITDA positive by the end of 2019.
- ICQ ended the quarter with $15.2m in cash. Coupled with approximately $10m due from option exercise in June 2019, the company seems to be adequately funded through to cash flow break even.

Figure 2: Quarterly cash receipts and outlays



SOURCES: MORGANS, COMPANY REPORTS

Changes to forecasts

We have revised our forecasts to reflect 1) Changes in foreign exchange rates since out last report; 2) The price rises implemented in May; 3) Operating expense trends in the last two quarters; 4) The increase in issued shares and options following the recent capital raising. Our forecasts for transaction-based revenues are immaterial at present. Once a trend in transaction-based revenues becomes apparent we may include larger contributions from this source.

Figure 3: Forecast revisions

		FY18	FY19	FY20	FY21	FY22	FY23
Revenues							
Former	$m	14.2	22.4	29.3	38.1	47.8	59.7
Revised	$m	15.5	22.9	29.8	38.6	47.4	58.0
EBITDA							
Former	$m	-8.2	-0.7	5.2	12.7	20.8	30.6
Revised	$m	-8.3	-2.1	3.8	11.3	18.7	27.5
NPAT							
Former	$m	-9.6	-1.9	4.3	12.2	21.6	31.8
Revised	$m	-10.1	-3.7	2.6	10.4	19.1	28.3
EPS							
Former	$m	-3.0	-0.6	1.3	3.8	6.7	9.9
Revised	$m	-2.5	-0.8	0.6	2.4	4.3	6.4

SOURCES: MORGANS ESTIMATES

Changes to valuation and price target

Our target price is set by our discounted cash flow valuation. Our DCF valuation has increased to A$0.41 per share from A$0.29 per share due to 1) Changes to our forecasts mentioned above and 2) The increase in the number of fully diluted shares from 322.2m to 440.5m shares following the recent issue of new shares and options and 3) The increase of our terminal year multiple to 18x (from 16.7x). The assumptions underlying our valuation are shown in the following table. Risks to our valuation and price target are shown in the risks and catalysts section below.

Figure 4: Discounted cash flow

Year ended Dec	2018	2019	2020	2021	2022	Modelling Assumptions	
A$m						Risk Free Rate	6.0%
EBIT	(10)	(4)	2	10	17	Equity Risk Premium	6.0%
D&A	2	2	2	2	2	Company Beta	1.30
Ebitda	(8)	(2)	4	11	19	Cost of Equity	15.6%
Interest Income	0	0	0	1	1	Debt %	0%
Tax	0.0	-0.4	-0.4	-0.4	-0.4	Cost of Debt	7.0%
Change in WC						Tax Rate	20%
Cash From Operations	(8)	(2)	4	12	19	WACC	15.6%
SIB Capex	-1	-1	-1	-1	-1	Long Term growth rate	12.0%
Free Cash Flow	(9)	(3)	3	11	19	Implied TV Multiple	18.0
Other adjustments						Discounted Terminal Value	171
Free Cash Flow - adj	(9)	(3)	3	11	19	NPV $	179
Discount Factor	1.00	0.84	0.71	0.60	0.51		
NPV of Free Cash Flow	-8.7	-2.4	2.3	6.6	9.5		
NPV of Terminal Value					171		
Total Present Value					179		
Shares Out (FD)					440		
NPV/Share					0.41		

SOURCES: MORGANS ESTIMATES

Risks and catalysts

Risks to ICQ include: 1) political or economic disturbances in Malaysia or Thailand that dampen car buyer sentiment; 2) Weakness in growth rates for advertising depth products in all markets; 3) Failure of new business lines – such as new car leads products – to gain popularity with dealers; and 4) irrational competitor behavior. Potential re-rating catalysts include: 1) a faster rebound in new and used car markets than we have assumed; 2) faster take-up of the new dealer products and a step-change in depth ad usage; and 3) Large revenue gains from car marketing events.

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Regulatory disclosures
Analyst owns shares in the following mentioned company(ies): N/A

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For a full explanation of the recommendation structure, refer to our website at http://www.morgans.com.au/research_disclaimer

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13.06.18