

Analyst

Chris Savage 612 8224 2835

Authorisation

TS Lim 612 8224 2810

Infomedia (IFM)

Upgrade to BUY

Recommendation
Buy (Hold)
Price
\$1.61
Target (12 months)
\$2.00 (previously \$1.70)

GICS Sector
Software and Services

Expected Return

Capital growth	24.2%
Dividend yield	2.4%
Total expected return	26.6%

Company Data & Ratios

Enterprise value	\$577.1m
Market cap	\$587.9m
Issued capital	365.1m
Free float	100%
Avg. daily val. (52wk)	\$1.5m
12 month price range	\$1.20 - \$2.48

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	1.73	2.03	1.84
Absolute (%)	-6.94	-20.69	-12.50
Rel market (%)	-12.53	1.90	2.67

Absolute Price



SOURCE: IRESS

No change in forecasts

There is no change in our forecasts which we updated last month post the capital raising. Our FY20 forecasts are consistent with the guidance of revenue growth b/w 10-12% to \$93-95m and NPAT growth b/w 12-18% to \$18-19m (vs BP \$95.2m and \$18.9m). Our FY21 and FY22 forecasts include a level of acquisitions and specifically we assume acquisitions totalling \$37.5m in each of FY21 and FY22 which generate annualised EBITDA of c.\$5m in each period. At the time of the capital raising the company indicated it did not anticipate making any acquisitions in FY20 but said the first of potentially multiple acquisitions would likely occur in FY21.

18% increase in PT to \$2.00

While there is no change in our forecasts we have updated each valuation we use in the determination of our price target for market movements and time creep. We have also reduced the discount we apply in the relative valuations from 30% to 25% given the reduced timing of the first acquisition which now potentially may only be only be 2-3 months away. There are, however, no changes in the key assumptions we apply in the DCF which are a 10.8% WACC and 4.0% terminal growth rate. The net result is an 18% increase in our PT to \$2.00 which has been mostly driven by material increases in each relative valuation due to the reduction in the discount and also the rally in the share prices of many of the comps.

Investment view: Upgrade to BUY

At our updated PT of \$2.00 the total expected return – which includes the forecast dividend yield – is 27% so we upgrade our recommendation from HOLD to BUY. The key reasons supporting the BUY are: 1. We see limited downside risk to the FY20 guidance (due to the high level of recurring revenue); 2. Lockdown restrictions are easing in most areas globally (so the financial pressure on dealerships is lessening); 3. The timing of the first one or two acquisitions is approaching (which we expect to be catalysts or at least provide better clarity); and 4. The recent underperformance of mid cap tech stocks – such as Infomedia – relative to most large cap tech stocks.

Earnings Forecast

Year end 30 June	2019	2020e	2021e	2022e
Total revenue (A\$m)	84.6	95.2	116.6	140.2
EBITDA (A\$m)	38.0	47.4	58.9	70.9
NPAT (A\$m)	16.1	18.9	24.7	31.1
EPS (diluted) (cps)	5.1	5.8	6.6	8.2
EPS growth (%)	23%	12%	14%	25%
PER (x)	31.5	28.0	24.5	19.5
Price/CF (x)	13.0	13.5	10.7	10.3
EV/EBITDA (x)	15.2	10.4	8.8	7.7
Dividend (€ps)	3.9	3.9	4.3	4.8
Yield (%)	2.4%	2.4%	2.7%	3.0%
ROE (%)	25.2%	12.3%	15.0%	17.4%
Franking (%)	0%	61%	25%	25%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Earnings and Valuation Changes

No Change in Forecasts

There is no change in our forecasts which we updated last month post the capital raising. Our FY20 forecasts are consistent with the guidance of revenue growth b/w 10-12% to \$93-95m and NPAT growth b/w 12-18% to \$18-19m (vs BP \$95.2m and \$18.9m). Our FY21 and FY22 forecasts include a level of acquisitions and specifically we assume acquisitions totalling \$37.5m in each of FY21 and FY22 which generate annualised EBITDA of c.\$5m in each period. At the time of the capital raising the company indicated it did not anticipate making any acquisitions in FY20 but said the first of potentially multiple acquisitions would likely occur in FY21.

A summary of our key forecasts is shown below. There are no changes in our dividend forecasts which equate to a payout ratio of b/w 58-67%. We do assume a decrease in the final dividend in FY20 and lower payout ratios in FY21 and FY22 relative to FY20 given the apparent focus on acquisitions over the next two to three years.

Figure 1 - Key forecasts

Year end 30 June	FY20e	Change	FY21e	Change	FY22e	Change
Sales revenue (A\$m)	95.2	13%	116.6	23%	140.2	20%
EBITDA	47.4	25%	58.9	24%	70.9	21%
NPAT	18.9	17%	24.7	31%	31.1	26%
Diluted EPS	5.8c	12%	6.6c	14%	8.2c	25%
DPS	3.9c	0%	4.3c	10%	4.8c	12%

SOURCE: BELL POTTER SECURITIES ESTIMATES

18% Increase in PT to \$2.00

While there is no change in our forecasts we have updated each valuation we use in the determination of our price target for market movements and time creep. We have also reduced the discount we apply in the relative valuations from 30% to 25% given the reduced timing of the first acquisition which now potentially may only be only be 2-3 months away. There are, however, no changes in the key assumptions we apply in the DCF which are a 10.8% WACC and 4.0% terminal growth rate.

The change in each valuation and the impact on our PT calculation is shown below.

Figure 2 - Change in valuations and impact on PT

Methodology	Old (as at 24-Apr-20)			New (as at 25-May-20)		
	Valuation per share	% weighting	Price target	Valuation per share	% weighting	Price target
PE ratio	\$1.39	40%	\$0.56	\$1.83	40%	\$0.73
EV/EBITDA	\$2.27	20%	\$0.45	\$2.88	20%	\$0.58
DCF	\$1.71	40%	\$0.68	\$1.73	40%	\$0.69
Total			\$1.69			\$2.00

SOURCE: BELL POTTER SECURITIES ESTIMATES

The figure shows a material double digit percentage increase in each relative valuation but little change in the DCF. The net result is a 20% increase in our PT to \$2.00 which is a 24% increase in our PT to \$2.00 so we upgrade our recommendation from HOLD to BUY.

Infomedia

Company Description

Infomedia is a leading provider of software solutions to the parts and service sector of the global automotive industry. The key products of the company are online parts selling systems and sophisticated service selling systems. The company also provides data analysis and information research for the automotive and lubricant industries.

Investment Thesis

We upgrade our recommendation on Infomedia from HOLD to BUY. Our investment thesis is based on:

- **Valuation:** Our 12 month price target on Infomedia is \$2.00. The price target is generated from a blend of three valuation methodologies we apply to the company: PE ratio, EV/EBITDA and DCF. The price target is a 24% premium to the current share price and the total expected return (which includes the forecast dividend yield) is 27%.
- **One mature product, one immature product:** Infomedia has one mature product – Microcat – which is used by a large number of customers and generates approximately 60% of the company's revenue. Infomedia also has one immature product – Superservice – which is gaining traction in a fragmented market and generates approximately 35% of the company's revenue. The outlook is for continued modest growth in the mature product and potentially strong growth in the immature product.
- **High level of recurring revenue:** All of Infomedia's products are sold on a subscription basis so almost all of the revenue is recurring. Infomedia is considering moving towards reporting monthly recurring revenue (MRR) but has yet to disclose what the amount is. We estimate that around 95% of total revenue is recurring and this easily exceeds the cost base of the company.

Key Risks

Key downside risks to our estimates and valuation include (but are not limited to):

- **Loss of key licence agreements:** Continued access to OEM parts information is integral to several of Infomedia's product lines. Loss of this access through the loss of one or more key licence agreements would therefore have an adverse impact on one or more of the company's product lines and negatively impact the financial performance. Infomedia attempts to mitigate this risk by managing key account relationships, continually investing in its products and focusing on customer service.
- **Loss of key customers:** The relatively concentrated motor manufacturing industry means there is a degree of customer and revenue concentration for Infomedia. The loss of a key customer, therefore, would have an adverse impact on the company's revenue and negatively impact the financial performance. Infomedia attempts to mitigate this risk by, again, managing key account relationships.
- **Product obsolescence or substitution:** Infomedia operates in a competitive market and a risk is that its products do not keep up with developments in market needs or competitors (including OEMs) may develop superior products. Either outcome would have an adverse impact on demand for the company's products and negatively impact the financial performance. Infomedia attempts to mitigate this risk by closely monitoring market developments, direction and OEM strategies and continually investing in R&D.

Table 1 - Financial summary

Infomedia (IFM)						Share price:	\$1.61	Target price:	\$2.00		
						No. of issued shares:	365.1m	Market cap:	\$587.9m		
Profit & Loss (A\$m)						Valuation data					
Year end 30 Jun	2018	2019	2020e	2021e	2022e	Year end 30 Jun	2018	2019	2020e	2021e	2022e
Sales revenue	72.9	84.6	95.2	116.6	140.2	NPAT (A\$m)	12.9	16.1	18.9	24.7	31.1
Change	3%	16%	13%	23%	20%	Diluted EPS (cps)	4.1	5.1	5.8	6.6	8.2
Expenses (excl. interest)	-57.5	-66.8	-69.2	-82.8	-98.0	Change	8%	23%	12%	14%	25%
% of revenue	-79%	-79%	-73%	-71%	-70%	P/E ratio (x)	38.8	31.5	28.0	24.5	19.5
Gains/(losses) (e.g. forex)	0.8	4.3	0.0	0.0	0.0	CFPS (cps)	9.0	12.4	11.9	15.0	15.6
EBITDA	29.1	38.0	47.4	58.9	70.9	Price/CF (x)	17.9	13.0	13.5	10.7	10.3
Depreciation	-0.6	-0.5	-1.0	-1.2	-1.3	DPS (cps)	3.1	3.9	3.9	4.3	4.8
Amortisation	-12.3	-15.4	-20.4	-23.9	-27.5	Yield	1.9%	2.4%	2.4%	2.7%	3.0%
EBIT	16.2	22.2	26.0	33.8	42.2	Franking	100%	0%	61%	25%	25%
Net interest (expense)/revenue	-0.6	-1.1	-1.0	-0.9	-0.8	EV/Revenue (x)	7.9	6.8	5.2	4.5	3.9
Pre-tax profit	15.7	21.1	25.0	32.9	41.4	EV/EBITDA (x)	19.9	15.2	10.4	8.8	7.7
Income tax expense	-2.8	-4.9	-6.1	-8.1	-10.4	NTA per share (cps)	0.2	-0.1	28.1	16.1	9.8
NPAT	12.9	16.1	18.9	24.7	31.1	Price/NTA (x)	NM	NM	5.7	10.0	16.5
Change	8%	25%	17%	31%	26%	Performance ratios					
Cash Flow (A\$m)						Year end 30 Jun	2018	2019	2020e	2021e	2022e
Year end 30 Jun	2018	2019	2020e	2021e	2022e	EBITDA margin	39.8%	45.0%	49.8%	50.5%	50.6%
EBITDA	29.1	38.0	47.4	58.9	70.9	EBIT margin	22.2%	26.2%	27.3%	29.0%	30.1%
Change in working capital	-0.9	0.7	-3.4	-1.1	-1.2	Return on assets	16.2%	17.5%	10.2%	12.7%	14.7%
Gross cash flow	28.2	38.7	44.1	57.8	69.8	Return on equity	23.8%	25.2%	12.3%	15.0%	17.4%
Interest received	0.1	0.0	-0.4	-0.3	-0.8	ROIC	39.4%	44.7%	46.9%	43.6%	36.1%
Income tax paid	-0.1	-0.3	-6.1	-8.1	-10.4	Payout ratio	74.5%	75.1%	67.3%	64.9%	57.8%
Operating cash flow	28.1	38.4	37.5	49.3	58.7	Effective tax rate	-17.7%	-23.4%	-24.5%	-24.8%	-25.0%
Payments for PPE	-0.1	-0.3	-0.5	-1.0	-1.5	Leverage ratios					
Payments for capitalised R&D	-18.3	-19.0	-22.0	-25.0	-27.5	Year end 30 Jun	2018	2019	2020e	2021e	2022e
Payment for acquisitions	-1.2	-5.9	-3.1	-39.2	-37.5	Net debt/(cash) (A\$m)	-8.3	-10.8	-96.0	-67.2	-42.4
Investing cash flow	-19.6	-25.3	-25.6	-65.2	-66.5	Net debt/equity	NM	NM	NM	NM	NM
Exercise of options	0.0	0.0	85.0	0.0	0.0	Gearing	NM	NM	NM	NM	NM
Dividends paid	-8.1	-10.7	-14.7	-14.6	-17.0	Net debt/EBITDA (x)	NM	NM	NM	NM	NM
Financing cash flows	-9.0	-11.2	70.3	-14.6	-17.0	Net interest cover (x)	NM	NM	NM	NM	NM
Net change in cash	-0.4	1.9	82.2	-30.4	-24.9	Segmentals (A\$m)					
Cash at start of period	13.3	13.3	15.5	97.7	67.3	Year end 30 Jun	2018	2019	2020e	2021e	2022e
Exchange rate impact	0.4	0.3	0.0	0.0	0.0	Revenue					
Cash at end of period	13.3	15.5	97.7	67.3	42.5	Asia Pacific	18.3	22.8	29.6	36.3	41.7
Balance Sheet (A\$m)						EMEA	28.2	34.3	36.0	44.1	54.0
Year end 30 Jun	2018	2019	2020e	2021e	2022e	Americas	25.2	27.5	29.6	36.3	44.4
Cash	13.3	15.5	97.7	67.3	42.5	Total	72.9	84.6	95.2	116.6	140.2
Current receivables	7.6	9.3	11.9	14.6	17.5	EBIT					
Inventories	0.0	0.0	0.0	0.0	0.0	Asia Pacific	14.9	19.5	24.2	30.0	34.9
Prepayments	1.6	1.5	1.5	1.5	1.5	EMEA	22.1	27.6	29.0	35.7	43.7
Derivatives	1.7	0.0	0.0	0.0	0.0	Americas	9.7	12.9	17.2	21.2	26.0
PPE	1.7	1.5	7.0	6.8	7.1	Corporate	-17.6	-21.9	-22.9	-28.0	-33.6
Intangibles - Capitalised R&D	38.1	46.9	48.5	49.6	49.6	Total	29.1	38.0	47.4	58.9	70.9
Intangibles - Goodwill	15.6	17.5	17.5	55.0	92.5	Margin					
Total assets	79.6	92.2	184.1	194.9	210.7	Asia Pacific	81.7%	85.3%	81.5%	82.5%	83.5%
Payables	7.5	7.9	7.1	8.7	10.5	EMEA	78.2%	80.5%	80.5%	81.0%	81.0%
Derivatives	0.0	0.0	0.0	0.0	0.0	Americas	38.4%	47.0%	58.0%	58.5%	58.5%
Current provisions	3.2	3.7	3.7	3.7	3.7	Corporate (as % of total rev.)	-24.2%	-25.9%	-24.0%	-24.0%	-24.0%
Contingent consideration	0.9	1.7	1.7	0.1	0.1	Total	39.8%	45.0%	49.8%	50.5%	50.6%
Income tax payable	0.0	2.1	2.1	2.1	2.1	Interims (A\$m)					
Deferred revenue	1.1	1.7	1.7	1.7	1.7	Year end 30 Jun		1HFY19	2HFY19	1HFY20	2HFY20e
Non-current provisions	1.5	1.4	1.4	1.4	1.4	Sales revenue		40.4	44.2	47.9	47.3
Deferred tax liabilities	7.1	6.5	6.5	6.5	6.5	EBIT		9.5	12.7	12.6	13.4
Contingent consideration	4.1	3.1	0.0	0.0	0.0	Net interest (expense)/revenue		0.0	-1.1	-0.5	-0.6
Total liabilities	25.4	28.2	30.3	30.3	32.1	Pre-tax profit		9.5	11.6	12.1	12.8
Contributed equity	12.9	14.8	99.8	99.8	99.8	Income tax expense		-2.2	-2.7	-3.1	-3.0
Reserves	4.0	6.7	7.3	7.9	7.9	NPAT		7.3	8.8	9.0	9.8
Retained earnings	37.3	42.6	46.7	56.9	70.9						
Total shareholders' equity	54.2	64.1	153.8	164.6	178.6						

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

Research Team

Staff Member	Title/Sector	Phone	@bellpotter.com.au
TS Lim	Head of Research	612 8224 2810	tslim
Industrials			
Steven Anastasiou	Industrials	613 9235 1952	sanastasiou
James Filius	Industrials	613 9235 1612	jfilius
Sam Haddad	Industrials	612 8224 2819	shaddad
Alex McLean	Industrials	612 8224 2886	amclean
Hamish Murray	Industrials	613 9235 1813	hmurray
Chris Savage	Industrials	612 8224 2835	csavage
Jonathan Snape	Industrials	613 9235 1601	jsnape
Damien Williamson	Industrials	613 9235 1958	dwilliamson
Healthcare/Biotech			
John Hester	Healthcare	612 8224 2871	jhester
Tanushree Jain	Healthcare/Biotech	612 8224 2849	tnjain
Financials			
TS Lim	Banks/Regionals	612 8224 2810	tslim
Lafitani Sotiriou	Diversified Financials/Fintech	613 9235 1668	Isotiriou
Resources			
Peter Arden	Resources	613 9235 1833	parden
David Coates	Resources	612 8224 2887	dcoates
Stuart Howe	Resources	613 9235 1856	showe
Associates			
Joseph House	Associate Analyst	+61 3 9235 1624	jhouse

Bell Potter Securities Limited
 ACN 25 006 390 7721
 Level 29, 101 Collins Street
 Melbourne, Victoria, 3000
 Telephone +61 3 9256 8700
 www.bellpotter.com.au

Bell Potter Securities (HK) Limited
 Room 1701, 17/F
 Prosperity Tower, 39 Queens Road
 Central, Hong Kong, 0000
 Telephone +852 3750 8400

Bell Potter Securities (US) LLC
 Floor 39
 444 Madison Avenue, New York
 NY 10022, U.S.A
 Telephone +1 917 819 1410

Bell Potter Securities (UK) Limited
 16 Berkeley Street
 London, England
 W1J 8DZ, United Kingdom
 Telephone +44 7734 2929

The following may affect your legal rights. Important Disclaimer:

This document is a private communication to clients and is not intended for public circulation or for the use of any third party, without the prior approval of Bell Potter Securities Limited. In the USA and the UK this research is only for institutional investors. It is not for release, publication or distribution in whole or in part to any persons in the two specified countries. **In Hong Kong**, this research is being distributed by Bell Potter Securities (HK) Limited which is licensed and regulated by the Securities and Futures Commission, Hong Kong. **In the United States**, this research is issued and distributed by Bell Potter Securities (US) LLC which is a registered broker-dealer and member of FINRA. Any person receiving this report from Bell Potter Securities (US) LLC and wishing to transact in any security described herein should do so with Bell Potter Securities (US) LLC.

This is general investment advice only and does not constitute personal advice to any person. Because this document has been prepared without consideration of any specific client's financial situation, particular needs and investment objectives ('relevant personal circumstances'), a Bell Potter Securities Limited investment adviser (or the financial services licensee, or the representative of such licensee, who has provided you with this report by arrangement with Bell Potter Securities Limited) should be made aware of your relevant personal circumstances and consulted before any investment decision is made on the basis of this document.

While this document is based on information from sources which are considered reliable, Bell Potter Securities Limited has not verified independently the information contained in the document and Bell Potter Securities Limited and its directors, employees and consultants do not represent, warrant or guarantee, expressly or impliedly, that the information contained in this document is complete or accurate. Nor does Bell Potter Securities Limited accept any responsibility for updating any advice, views opinions, or recommendations contained in this document or for correcting any error or omission which may become apparent after the document has been issued.

Except insofar as liability under any statute cannot be excluded. Bell Potter Securities Limited and its directors, employees and consultants do not accept any liability (whether arising in contract, in tort or negligence or otherwise) for any error or omission in this document or for any resulting loss or damage (whether direct, indirect, consequential or otherwise) suffered by the recipient of this document or any other person.

Research Policies:

For Bell Potter's Research Coverage Decision Making Process and Research Independence Policy, please refer to our company website:

<https://bellpotter.com.au/research-independence-policy/>

Disclosure of interest:

Bell Potter Securities Limited, its employees, consultants and its associates within the meaning of Chapter 7 of the Corporations Law may receive commissions, underwriting and management fees from transactions involving securities referred to in this document (which its representatives may directly share) and may from time to time hold interests in the securities referred to in this document.

ANALYST CERTIFICATION

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.