WA Industrial: Media & Entertainment

SWIFT NETWORKS GROUP LTD (SW1)

The Good Doctor

Swift Networks Group Ltd ('Swift', 'SW1' or the 'Company) has announced the acquisition of Medical Media (a leading Australian digital health media network) for up to $25m in stock. The transaction is expected to close on the 15th February 2019. An initial scrip payment of $4.5m was priced at $0.3010 per share and a further $20.5m in performance shares are payable subject to Medical Media advertising revenue reaching a range of $10-13m. This compares to their advertising revenues of $7.4m in FY18, which was up from $5.2m in FY17.

Medical Media sells advertising in GP medical centres (2,300 digital screens across Australia and over 5 million viewers every month) and has captured 25% of the target market of GP practises with 2GP's or above. Medical Media's business, team and technology fits well with SW1's move into monetising its platform/footprint through advertising. The Company has indicated that the initial payment and issuance of future performance shares imply a multiple not more than 6x earnings (which provides a useful guide for forecasting earnings, see table below).

SW1's share price continues to be weak despite no negative news. As previously written, we recently attended the company's AGM in Bentley, and the Board reiterated that the Company continues to perform as expected and they are not aware of any operational issues that would explain the recent share price weakness. They continue to sign contracts across a number of verticals (Resources, Age care, Hospitality and Defence and Marine), remain happy with the performance of the reseller agreements, are excited about the move into advertising, continue to launch innovative product and service offerings for existing customers and to target new markets.

We view the Medical Media acquisition as a good strategic move given SW1's growing focus on pursuing the monetisation of its media/advertising potential. We also view SW1 as an attractive takeover target for a larger Group focusing on similar sectors and clients. Significant potential also still exists for SW1 to grow itself through further acquisitions, providing additional support for the upside to our target price. Based on our new forecasts including the Medical Media business we continue to view fair value at A$0.52 per share. We retain our Speculative Buy Recommendation with strong reported results in FY19, upside from the Medical Media acquisition, the continued delivery of rooms from the reseller agreements and the launch of advertising the likely key news flow in the coming year.

Key Chart: Earnings Changes

		FY18 Act	FY19 Old	FY19 E	*Change*	FY20 Old	FY20 E	*Change*
Revenue	A$m	22.28	28.64	31.10	*9%*	33.64	43.26	*29%*
COGS	A$m	-13.02	-16.72	-17.73	*6%*	-19.65	-22.06	*12%*
EBITDA	A$m	2.69	4.36	5.23	*20%*	5.50	9.80	*78%*
NPAT	A$m	0.02	1.19	1.47	*24%*	1.93	3.61	*87%*
Capex	A$m	-8.12	-1.20	-3.70	*208%*	-1.20	-2.20	*83%*
Change Cash	A$m	0.96	3.11	1.32	*-58%*	3.91	5.65	*44%*

Source: Hartleys Research

SW1.asx
Speculative Buy

	28 Dec 2018
Share Price:	$0.250
12mth price target:	$0.52

Brief Business Description:
SW1 is a diversified telecommunications, content and advertising solutions provider. Services include FTA and pay TV, telecom, VOD, integrated advertising and analytics.

Hartleys Brief Investment Conclusion
With a proven product the Company is now well positioned to expand beyond the resource sectors and into other industry verticals such as hospitality, aged care and lifestyle.

Chairman & CEO:

Carl Clump	(Non Executive) - Outgoing
Xavier Kris	CEO/Interim Exec. Chair.
George Nicholls	CFO

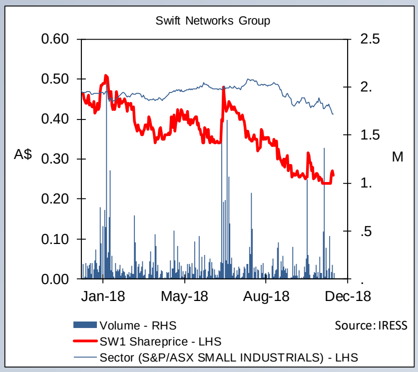
Top Shareholders:	**Shares Held (m)**
Robert Sofoulis	63.5

Company Address:
1 Watts Place
Bentley
W.A., 6102

Issued Capital:	136.3m
- fully diluted	251.7m
Market Cap:	$34.1m
- fully diluted	$62.9m
Net Cash (end FY18a)	$3.2m

	FY17a	FY18a	FY19e
Screens - end FY	39,354	63,104	86,104
Screen adds	9,750	23,750	23,000
Revenue	17.0	22.3	31.1
EBITDA	1.0	2.7	5.2
EBIT	-0.1	0.1	2.0
NPAT	-0.1	0.0	1.5
EPS	0.000	0.000	0.006
EV/EBITDA	59.4x	22.2x	11.4x
EV/EBIT	-514.5x	525.5x	29.3x

Source: Hartleys Research. * normalised



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Hartleys has provided corporate advice within the past 12 months and continues to provide corporate advice to Swift Networks for which it has earned and continues to earn fees. Hartleys has a beneficial interest in unlisted options in Swift Networks Group Limited.

SUMMARY MODEL

Swift Networks Group Ltd (SW1)

Recommendation: Speculative Buy

Company Information		
Date	28 Dec 2018	1 Watts Place
Share Price	$0.250	Bentley
52 Week High-Low	$0.52 - $0.21	W.A, 6102
Market Cap ($m)	$34.1	www.swiftnetworks.com.au
Market Cap - FD ($m)	$62.9	
Enterprise Value ($m)	$30.9	
Enterprise Value - FD ($m)	$59.7	
Ordinary Shares	136.3	
Fully Diluted Shares	251.7	
Net Cash (end FY18a)	3.2	

Valuation

ASX IT Peer Group Multiples	12M forward Target Multiple	Wgt.%	Tgt Price
EV/EBITDA	17x	50%	0.51
DCF		50%	0.52
Valuation			**$0.52**
Upside / downside from current share price			107%
P / E (6/19F) at price target			*88.5x*
P / E (6/20F) at price target			*36.2x*
EV / EBITDA (6/19F) at price target			*24.3x*
EV / EBITDA (6/20F) at price target			*13.0x*

Multiples (S/price at $0.25)	6/16A	6/17A	6/18A	6/19F	6/20F
P / E (reported, basic weighted)	-19.1x	-444.5x	1,508.4x	23.1x	9.4x
P / E (normalised, dil. weighted)	-35.3x	-821.1x	2,786.2x	42.7x	17.4x
EV/EBITDA multiple	-40.3x	59.4x	22.2x	11.4x	6.1x
EV/EBIT multiple	-33.5x	-514.5x	525.5x	29.3x	11.8x

Capital Structure		m	Expiry	Strike
Current shares on issue		136.3		
Restricted Shares		0.0		
Options		6.9	19-May-21	0.15
		1.0	31-May-21	0.35
		1.0	31-May-21	0.42
		0.3	05-Sep-22	0.00
Performance Shares	Class A*	16.7		
	Class B**	16.7		
	Other	73.2		
Full Diluted		251.7		

*Class A- Milestone 44,000 rooms or $24,000,000 Consolidated Revenue (earliest)

**Class B - Milestone 53,000 rooms or $29,000,000 Consolidated Revenue (earliest)

Name	Positon	Shares Held (m)	Fully Diluted
Carl Clump	Chairman (Non Executive) - Outgoing	1,259,879	1%
Xavier Kris	CEO & Interim Executive Chairman	3,580,833	1%
George Nicholls	CFO	0	0%
Ryan Sofoulis	Executive Director	54,000	0%
Robert Sofoulis	NED	63,500,000	26%
Paul Doropoulos	NED	2,456,437	1%
Darren Smorgon	NED (upon deal closure)	TBC	

Major Shareholders		%
Robert Sofoulis	63,500,000	26.2%

Operating Model	6/16A	6/17A	6/18A	6/19F	6/20F
Resources					
Screens - start	21,550	29,604	29,854	31,854	34,854
New rooms	8,054	250	2,000	3,000	3,000
Screens - end	29,604	29,854	31,854	34,854	37,854
Revenue	13.35	13.02	12.96	14.01	15.27
Aged Care / Lifestyle					
Screens - start			8,000	12,000	20,000
New rooms		8,000	4,000	8,000	8,000
Screens - end		8,000	12,000	20,000	28,000
Revenue		0.48	1.32	2.88	4.32
Hospitality & Other					
Screens - start			1,500	19,250	31,250
New rooms		1,500	17,750	12,000	12,000
Screens - end		1,500	19,250	31,250	43,250
Revenue		0.09	1.78	4.85	7.15
Total					
Screens - start	21,550	29,604	39,354	63,104	86,104
New rooms	8,054	9,750	23,750	23,000	23,000
Screens - end	29,604	39,354	63,104	86,104	109,104
Recurring Revenue	13.35	13.59	16.06	21.74	26.74
Media Revenue	0.00	0.00	0.00	2.47	9.62
Other Revenue	1.07	3.41	6.22	6.90	6.90

P&L (A$m)	6/16A	6/17A	6/18A	6/19F	6/20F
Revenue	14.42	17.01	22.28	31.10	43.26
COGS	-12.30	-11.61	-13.02	-17.73	-22.06
Gross Profit	2.12	5.39	9.26	13.37	21.20
Margin	*15%*	*32%*	*42%*	*43%*	*49%*
Corporate Overheads	-3.60	-4.39	-6.57	-8.14	-11.40
Growth	*5.1%*	*21.9%*	*49.6%*	*24.0%*	*40.0%*
EBITDA	-1.48	1.01	2.69	5.23	9.80
Margin	*-10%*	*6%*	*12%*	*17%*	*23%*
Depreciation	-0.30	-1.12	-2.58	-3.19	-4.73
EBIT	-1.78	-0.12	0.11	2.04	5.06
Net Interest	0.00	0.01	-0.08	0.06	0.09
PBT	-1.78	-0.11	0.03	2.11	5.15
Tax	0.00	0.03	-0.01	-0.63	-1.55
Tax Rate	0%	30%	30%	30%	30%
Normalised NPAT	-1.78	-0.08	0.02	1.47	3.61
EPS - basic	-0.013	-0.001	0.000	0.011	0.026
EPS - FD	-0.007	0.000	0.000	0.006	0.014

Cashflow Statement (US$m)	6/16A	6/17A	6/18A	6/19F	6/20F
Net Operating Cash Flow	-0.7	-0.1	2.6	5.0	7.9
Investing Cash Flow	0.3	-1.7	-8.1	-3.7	-2.2
Financing Cash Flow	3.2	0.9	6.4	0.0	0.0
Net Change in Cash	2.7	-1.0	1.0	1.3	5.7

Balance Sheet (A$m)	6/16A	6/17A	6/18A	6/19F	6/20F
Cash	*3.2*	*2.2*	*3.2*	*4.5*	*10.2*
Total Current Assets	5.4	5.3	8.3	11.4	19.5
Non-Current Assets	6.0	9.2	17.0	30.0	27.4
Total Assets	11.4	14.5	25.3	41.4	47.0
Current debt	*0.9*	*0.0*	*0.0*	*0.0*	*0.0*
Total Current Liabilities	4.1	3.7	15.9	16.7	18.7
Non-Current Debt	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Non-Current Liabilities	1.9	4.6	1.5	1.5	1.5
Total Liabilities	6.0	8.3	17.4	18.2	20.2
Net Assets	5.3	6.1	7.9	23.2	26.8
Equity	5.3	6.1	7.9	23.2	26.8

Analyst: Aiden Bradley
Phone: +61 8 9268 2876

28-December-2018

Sources: IRESS, Company Information, Hartleys Research

HIGHLIGHTS

Swift Networks Group Ltd ('Swift', 'SW1' or the 'Company) has announced the acquisition of Medical Media (a leading Australian digital health media network) for up to $25m in stock. The transaction is expected to close on the 15th February 2019.

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Medical Media sell advertising in GP medical centres (2,300 digital screens across Australia and over 5 million viewers every month) and have 25% of the target market of GP practises with 2GP's or above.

Medical Media's business, team and technology fits well with SW1's move into monetising its platform/footprint through advertising.

The Company has indicated that the initial payment and issuance of future performance shares imply a multiple not more than 6x earnings (which provides a useful guide for forecasting earnings).

Acquisition of Medical Channel Pty Ltd.

SW1 will purchase all the outstanding shares in Medical Channel Pty Ltd (trading as Medical Media) via a share purchase agreement (SPA) with the shares on a cash-free, debt-free basis. The payment of $4.5m is payable upfront in SW1 ordinary shares at an issue price of $0.3010 which is a 20% premium to the 30-day VWAP as at 19 December 2018. $20.5m is potentially payable in Performance Shares at the same issue price in six tranches (Class C, D, E, F, G and H).

Fig. 1: Consideration

	PRE-TRANSACTION	MEDICAL MEDIA VENDORS	POST-TRANSACTION
Ordinary shares	121,312,903	14,950,166	136,263,069
Performance shares	38,382,428	68,106,313	106,488,741
Options	8,892,156	-	8,892,156
Total	***168,587,487***	***83,056,479***	***251,643,966***

CLASS	NO. OF SHARES	PERFORMANCE MILESTONE
Upfront	14,950,166	
Class C	18,272,425	$10.0m in advertising revenue generated through Medical Media's screen network in a consecutive 12 month period
Class D	16,611,296	$11.0m in advertising revenue generated through Medical Media's screen network in a consecutive 12 month period
Class E	8,305,648	$11.5m in advertising revenue generated through Medical Media's screen network in a consecutive 12 month period
Class F	8,305,648	$12.0m in advertising revenue generated through Medical Media's screen network in a consecutive 12 month period
Class G	8,305,648	$12.5m in advertising revenue generated through Medical Media's screen network in a consecutive 12 month period
Class H	8,305,648	$13.0m in advertising revenue generated through Medical Media's screen network in a consecutive 12 month period
Total	***83,056,479***	

Source: SW1

In conjunction with the acquisition SW1 will also enter into a new banking facility for $6 million (including $1.5m in contingent instruments) which it will utilise in conjunction with existing cash reserves to fund the future working capital requirements of the combined business.

Fig. 2: Working Capital

SOURCES	AMOUNT
Internal funds	$3.0m
Bank facility	*$4.5m
Total	***$7.5m***

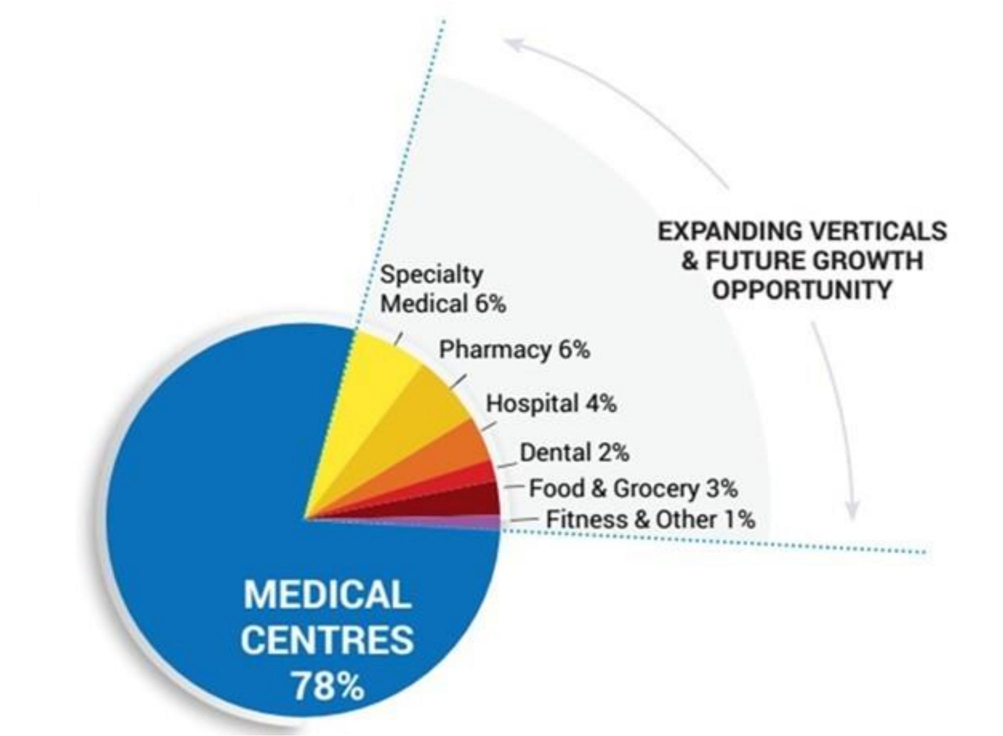
*Plus $1.5m in contingent instruments

USES	AMOUNT
Integration costs	$1.5m
Working capital	$2.0m
Investment capex fund	$4.0m
Total	***$7.5m***

Source: SW1

Medical Media has over 2,300 digital screens across Australia, most of which are in medical practices.

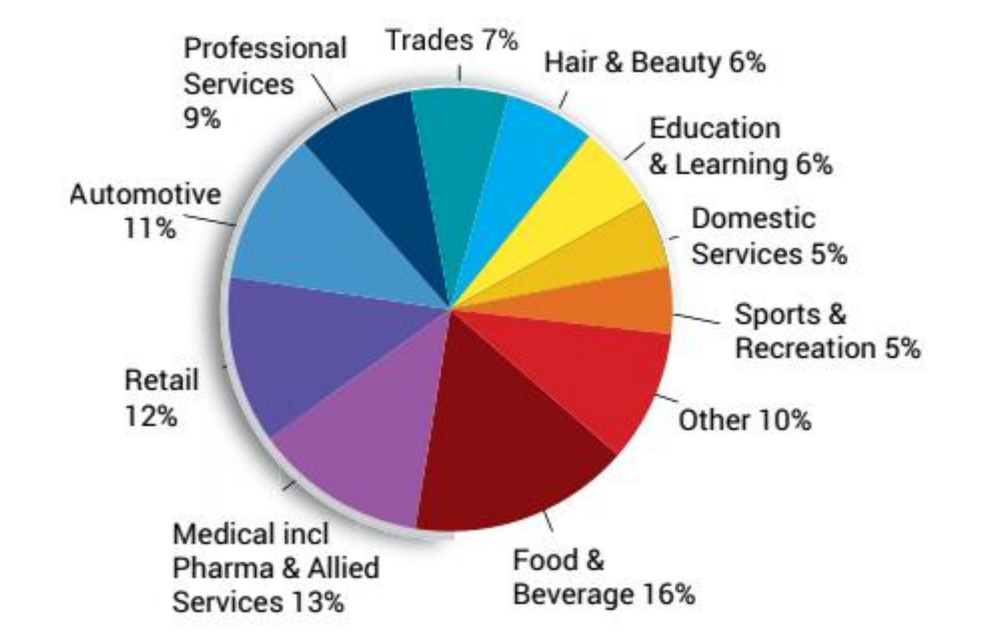
Fig. 3: Medical Media – Screens by Vertical



Source: SW1

Medical Media partners with over 2,800 local and national advertising companies to deliver content to over 5 million viewers every month. The integration of the two companies is projected to unlock cost synergies of circa $3m p.a.. Medical Media's leveraging of Swift's technology is expected to increase customer retention and revenue per screen by circa 25%

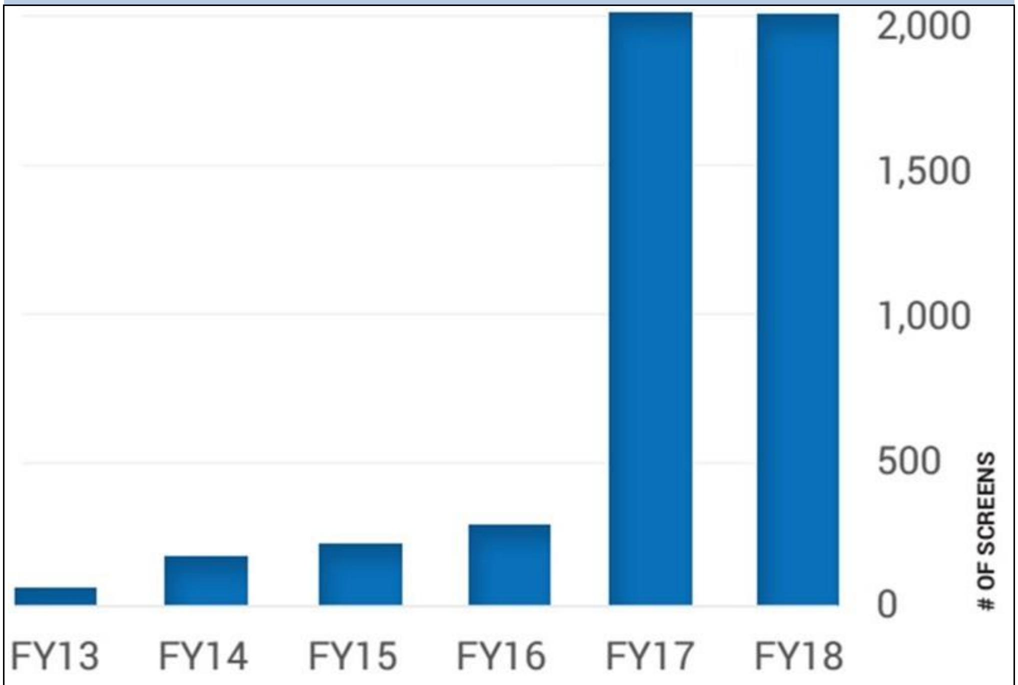
Fig. 4: Medical Media – Revenue Breakdown by Advertiser Type FY18



Source: SW1

Medical Media has 1,900 screens in over 1,400 medical practises nationally (out of 2,300 screens in total). In FY18 Medical Media shifted its focus from growth in screens to advertisers in order to accelerate inventory consumption.

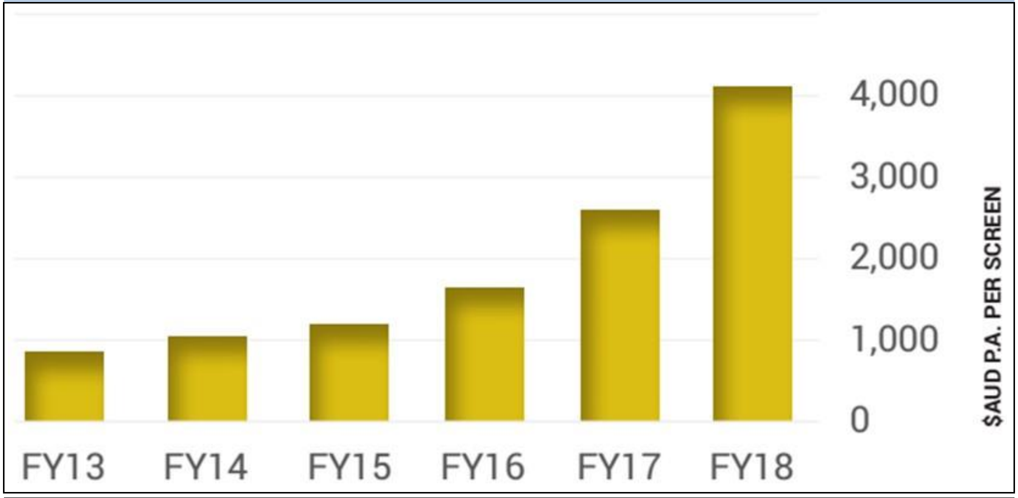
Fig. 5: Medical Media – Number of Screens



Source: SW1

The average medical practice will see 2,850 patients per month with patients averaging 35 minutes in the presence of a screen, representing overall 5 million viewers every month. Larger National Advertisers only represent 9% of total advertisers with 91% local advertisers. This focus and strategy has seen advertising revenue per screen increase substantially over the past 3-4 years.

Fig. 6: Medical Media – A$ per screen

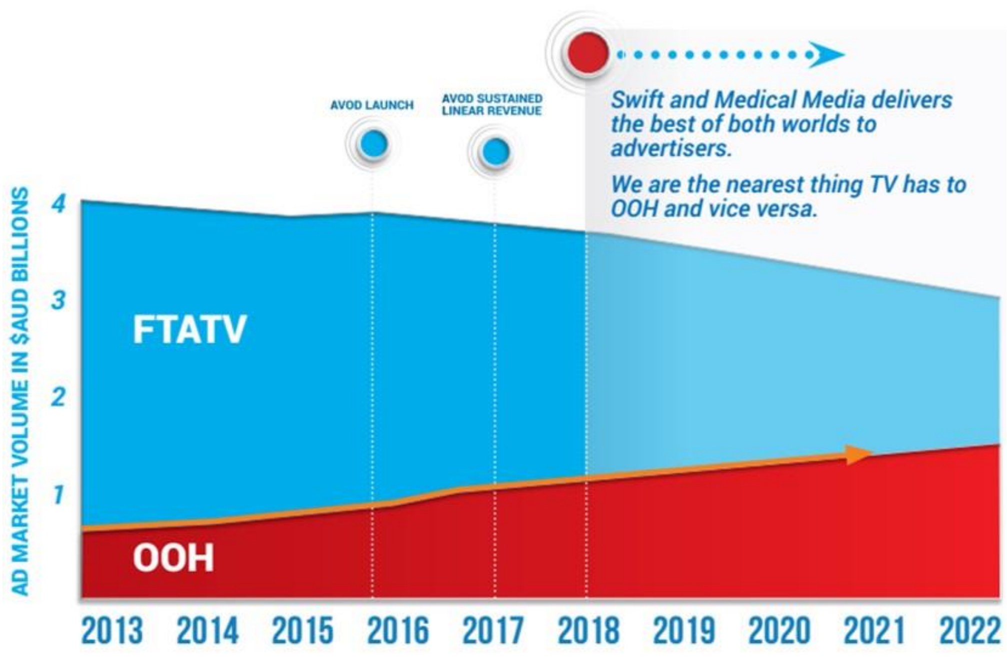


Source: SW1

Overall, advertising revenues in FY18 were $7.4m, up from $5.2m in FY17. The Performance shares vest on the basis on revenue reaching a level between $10-13m. The Company has indicated that the initial payment and issuance of future performance shares imply a multiple not more than 6x earnings (which provides a useful guide for forecasting earnings).

Medical Media's sales infrastructure and capability will also assist in growing Swift's own advertising business.

Fig. 7: The Rise of DOOH and decline of FTA Advertising



Source: SW1

INVESTMENT VIEW & VALUATION

Valuation – New Sector Growth key to Upside

The Medical Media acquisition has not only extended SW1's reach into the Medical vertical but also accelerates their move into advertising. There is scope for Medical Media to leverage of SW1's content and technology and for SW1 to leverage of Medical Media's experience with over 2,800 local and national advertisers.

Overall FY18 turned out to be a very strong year for SW1. With resellers and partners already delivering 43% of all new sales in FY18, the outlook for FY19 was equally as positive. We had expected revenue to grow to over $33m over the next two financial years. The Medical Media acquisition is likely to increase this to closer to $43m in FY20, with EBITDA approaching $10m if the transaction delivers as expected.

Fig. 8: Earnings Changes

		FY18 Act	FY19 Old	FY19 E	*Change*	FY20 Old	FY20 E	*Change*
Revenue	A$m	22.28	28.64	31.10	*9%*	33.64	43.26	*29%*
COGS	A$m	-13.02	-16.72	-17.73	*6%*	-19.65	-22.06	*12%*
EBITDA	A$m	2.69	4.36	5.23	*20%*	5.50	9.80	*78%*
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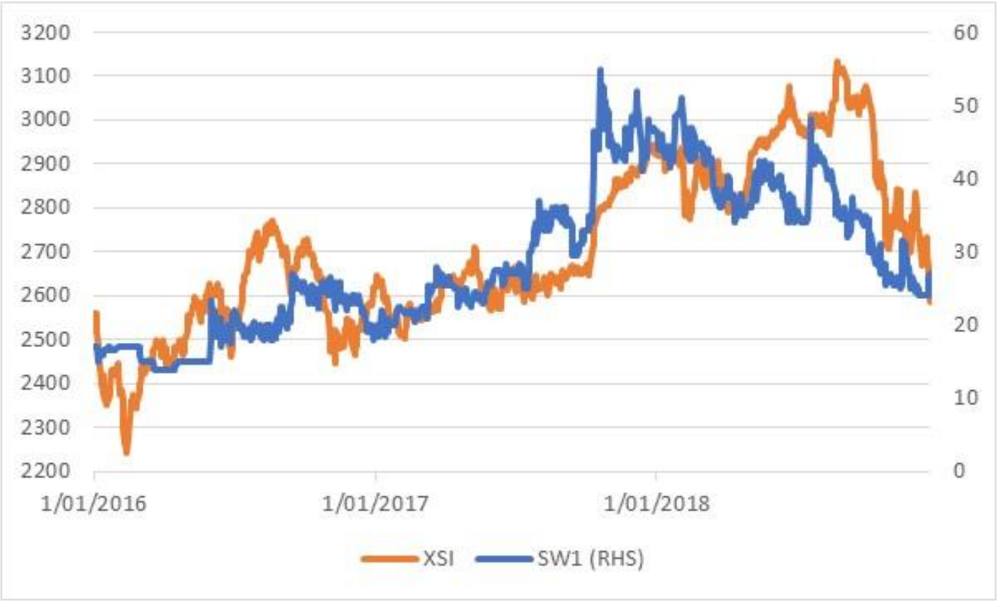
Capex	A$m	-8.12	-1.20	-3.70	*208%*	-1.20	-2.20	*83%*
Change Cash	A$m	0.96	3.11	1.32	*-58%*	3.91	5.65	*44%*

Source: Hartleys Research

As highlighted in our other recent research, SW1's share price has been negatively impacted since mid-year by general weakness in small cap industrial stocks and the release of shares from escrow etc.

Fig. 9: ASX Small Industrials Index (XSI) vs SW1



Source: IRESS

We view the Medical Media acquisition as a good strategic move given SW1's growing focus on pursuing the monetisation of its media/advertising potential.

We continue to expect strong organic growth in the core business, while upside from the reseller agreements remains substantial and the launch in FY19 of their advertising platform is another very exciting development.

We also view SW1 as an attractive takeover target for a larger Group focusing on similar sectors and clients. Significant potential also still exists for SW1 to grow itself through further acquisitions, providing additional support for the upside to our target price.

Based on our new forecasts including the Medical Media business we continue to view fair value at A$0.52 per share.

We retain our Speculative Buy Recommendation with strong reported results in FY19, upside from the Medical Media acquisition, the continued delivery of rooms from the reseller agreements and the launch of advertising the likely key news flow in the coming year.

Fig. 10: Valuation

Valuation			
ASX IT Peer Group Multiples	**12M forward Target Multiple**	**Wgt.%**	**Tgt Price**
EV/EBITDA	17x	50%	0.51
DCF		50%	0.52
Valuation			**$0.52**
Upside / downside from current share price			107%
P / E (6/19F) at price target			*88.5x*
P / E (6/20F) at price target			*36.2x*
EV / EBITDA (6/19F) at price target			*24.3x*
EV / EBITDA (6/20F) at price target			*13.0x*

Source: Hartleys Research

RECOMMENDATION & RISKS

INVESTMENT THESIS & RECOMMENDATION

We retain our Speculative Buy Recommendation. We remain positive on the outlook for both organic (continue to assume that SW1 will continue to win contracts and acquire customers (cheaply) in the Hospitality, Education, Healthcare, Medical and Aged care / Lifestyle Village sectors) and inorganic growth (industry remains relatively fragmented) and the Company could continue to surprise on the upside.

Overseas growth is also a highly likely positive catalyst in the coming years as the product offering is easily transferable to overseas markets that are also experiencing rapid development in these industry segments. We note that the product is mature and therefore capital can be used to win new contracts rather than being spent on product development. The launch of their advertising platform is also a potential material contributor to earnings growth in the coming years. Key risks to our thesis include a slower than expected penetration into new industry verticals and an increase in the cost of content.

RISKS

An inability to continue to penetrate other industry verticals, outside of the resources sector is a risk to our investment thesis. SW1 has a proven track record of gaining significant market share in the resources sectors but is in the relatively early stages of penetrating other target markets.

An increase in the cost of content is a key risk for SW1. The Company should be commended at negotiating content agreements that do not include minimum subscriber hurdles. Should any of the key content providers decide to change their pricing structure then SW1 may suffer margin erosion.

SIMPLE S.W.O.T. TABLE

Strengths	Dominant market share in the Australian resource market for the provision of telecommunication and entertainment systems. Product development complete. The product is fully developed and requires only minimal capital to update systems.
Weaknesses	Majority of revenue is still generated from a single industry vertical (resources), although the Company is diversifying rapidly. The majority of revenue is still generated from W.A., however, acquisitions such as VOD and Medical Media are diversifying this exposure.
Opportunities	Resources: Opportunity to continue to gain market share in the resource sector and be well positioned for an upturn in the capital expenditure cycle. Hospitality: An opportunity exists for SW1 to win additional contracts from hotel chains both in Australia and offshore. Lifestyle Village/Age Care: An aging population is likely to drive increased demand for aged care and lifestyle facilities in Australia. Overseas: There is real scope for SW1 to transfer its success in Australia to much larger overseas markets. Medical: Ability to expand the footprint acquired through the acquisition of Medical Media. The launch of their advertising platform and ability to leverage of the Medical Media acquisition.
Threats	Large media and telco's, will be difficult to replace with major hotel chains. A significant increase in the cost of content and or the pricing structure of content represents a risk for SW1.

Source: Hartleys Research

HARTLEYS CORPORATE DIRECTORY

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Hartleys Recommendation Categories

Buy	Share price appreciation anticipated.
Accumulate	Share price appreciation anticipated but the risk/reward is not as attractive as a "Buy". Alternatively, for the share price to rise it may be contingent on the outcome of an uncertain or distant event. Analyst will often indicate a price level at which it may become a "Buy".
Neutral	Take no action. Upside & downside risk/reward is evenly balanced.
Reduce / Take profits	It is anticipated to be unlikely that there will be gains over the investment time horizon but there is a possibility of some price weakness over that period.
Sell	Significant price depreciation anticipated.
No Rating	No recommendation.
Speculative Buy	Share price could be volatile. While it is anticipated that, on a risk/reward basis, an investment is attractive, there is at least one identifiable risk that has a meaningful possibility of occurring, which, if it did occur, could lead to significant share price reduction. Consequently, the investment is considered high risk.

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