WA Industrial: Media & Entertainment

SWIFT MEDIA LTD (SW1)

SW1.asx
Speculative Buy

	11 Jul 2019
Share Price:	$0.20
12mth price target:	$0.50

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:

Darren Smorgon	Chairman (Non Executive)
Pippa Leary	CEO
George Nicholls	CFO

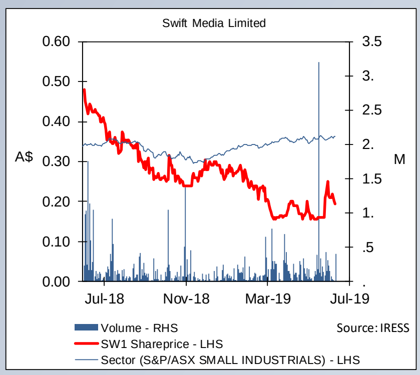
Top Shareholders:	**Shares Held (m)**
Robert Sofoulis	63.5

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

Issued Capital:	155.3m
- fully diluted	264.8m
Market Cap:	$30.3m
- fully diluted	$51.6m
Net Cash (end CY18a)	$2.6m

	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	28.7
EBITDA	1.0	2.7	5.4
EBIT	-0.1	0.1	2.2
NPAT	-0.1	0.0	1.6
EPS	0.000	0.000	0.006
EV/EBITDA	48.8x	18.2x	9.1x
EV/EBIT	-422.5x	431.5x	22.5x

Source: Hartleys Research. * normalised



Authors:
Aiden Bradley
Energy & Industrials Analyst
Ph: +61 8 9268 2876
E: aiden.bradley@hartleys.com.au

Hartleys has a beneficial interest in options in Swift Media Limited.

New Management, New Name, More Media/Ad Focus

Swift Media Limited ('Swift', 'SW1' or the 'Company) recently confirmed that Pippa Leary has been appointed their new CEO (replacing Xavier Kris, who has stepped down now from the SW1 Board). Pippa's background is predominantly in the digital media space and spent over 20 years with Nine Entertainment Company (NEC.asx) and Fairfax Media. Additionally, current Director Darren Smorgon has been appointed Non-Executive Chairman. Darren spent 16 years at CHAMP Private Equity where he led several deals including the privatisation and subsequent relisting of oOh!Media Ltd (OML.asx), where he is still a Non-Executive Director.

New Strategy Developing – Digital Out of Home Media

Once the new CEO and Chairman settle into their roles, we would expect them to update the market on their future vision for the Company and provide an updated strategy. The transition to a greater focus on media/advertising is already clear in how SW1 describes itself. In their latest releases they view themselves as a 'diversified technology, content and advertising solutions provider. Swift provides the technology to deliver premium entertainment content and advertising services on connected screens out of the home'. Pippa herself described it as follows - "I'm excited about the opportunity Swift Media represents. As a digital out-of-home marketing platform". Earlier this year SW1's self-description was as 'a diversified telecommunications, content and advertising solutions provider. Swift empowers guests to watch, play, connect and interact and provides accommodation providers with meaningful insights and opportunities to drive new business. Swift delivers customised content, communications and targeted advertising across secure closed networks.' So, with the acquisition of Medical Media and considering the backgrounds of the new CEO and Chairman, we expect SW1 to position themselves as a broader Digital Out of Home Media Company, building on the strong foundation built when they were Swift Networks and providing content to closed loop audiences. The recently released PwC Entertainment and Media Outlook report highlights why this is an exciting part of the media marketplace to be exposed to.

Near Term Outlook now less certain but maintain our rating

The Company has obviously been going through a transition in the past 6 months - name change, strategy shift, management changes and the acquisition of Medical Media. The integration of Medical Media seems to be proceeding above expectations and is on track to deliver at least $3 million of annual synergies and business improvements, with the benefits phased across FY19 and FY20. The Company did however, indicate that room numbers are currently circa 74,000. This compares to an indication of room numbers of circa 75,000 at the end of January, start of February. This would be below our expectations for the end of FY19. So, the transition (and resulting uncertainty) may have resulted in a slowdown in growth and the impact on near term revenue remains to be seen, it definitely has negatively impacted the share price. However, for now we maintain our estimates as before and retain our Speculative Buy recommendation. Our target price is reduced 2c to 50c per share post the issue of more shares / share rights.

SUMMARY MODEL

Swift Media Ltd (SW1)

Company Information			
Date	11 Jul 2019		1 Watts Place
Share Price	$0.195		Bentley
52 Week High-Low	$0.48 - $0.14		W.A, 6102
Market Cap ($m)	$30.3		www.swiftnetworks.com.au
Market Cap - FD ($m)	$51.6		
Enterprise Value ($m)	$27.7		
Enterprise Value - FD ($m)	$49.0		
Ordinary Shares	155.3		
Fully Diluted Shares	264.8		
Net Cash (end CY18a)	2.6		

Valuation			
ASX IT Peer Group Multiples	**12M forward Target Multiple**	**Wgt.%**	**Tgt Price**
EV/EBITDA	16x	50%	0.48
DCF		50%	0.52
Valuation			**$0.50**
Upside / downside from current share price			154%
P / E (6/19F) at price target			*83.7x*
P / E (6/20F) at price target			*37.9x*
EV / EBITDA (6/19F) at price target			*24.0x*
EV / EBITDA (6/20F) at price target			*13.4x*

Multiples (S/price at $0.20)	6/16A	6/17A	6/18A	6/19F	6/20F
P / E (reported, basic weighted)	-17.0x	-395.1x	1,340.5x	19.3x	8.8x
P / E (normalised, dil. weighted)	-29.0x	-673.8x	2,286.5x	32.9x	14.9x
EV/EBITDA multiple	-33.1x	48.8x	18.2x	9.1x	5.1x
EV/EBIT multiple	-27.5x	-422.5x	431.5x	22.5x	10.1x

Capital Structure		m	Expiry	Strike
Current shares on issue		155.3		
Restricted Shares		0.0		
Options		5.6	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	Medical Media*	68.1		
	Class B**	16.7		
	Other	17.1		
Full Diluted		264.8		

*6 Classes of Performance Shares related to the Medical Media transaction
**Class B - Milestone 53,000 rooms or $29,000,000 Consolidated Revenue (earliest)

Name	Positon	Shares Held (m)	Fully Diluted
Darren Smorgon	Chairman (Non Executive)		0%
Pippa Leary	CEO		0%
George Nicholls	CFO		0%
Ryan Sofoulis	Executive Director	54,000	0%
Robert Sofoulis	NED	63,500,000	25%
Paul Doropoulos	NED	2,456,437	1%

Major Shareholders		%
Robert Sofoulis	63,500,000	24.7%
Schroder Investment Management Australia Limited	8,500,391	3.3%

Recommendation: Speculative Buy

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	2.30	3.74
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	3.64	5.81
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	19.95	24.82
Media Revenue	0.00	0.00	0.00	2.47	9.62
Other Revenue	1.07	3.41	6.22	6.33	6.90

P&L (A$m)	6/16A	6/17A	6/18A	6/19F	6/20F
Revenue	14.42	17.01	22.28	28.74	41.34
COGS	-12.30	-11.61	-13.02	-15.23	-20.67
Gross Profit	2.12	5.39	9.26	13.51	20.67
Margin	*15%*	*32%*	*42%*	*47%*	*50%*
Corporate Overheads	-3.60	-4.39	-6.57	-8.14	-11.07
Growth	*5.1%*	*21.9%*	*49.6%*	*24.0%*	*36.0%*
EBITDA	-1.48	1.01	2.69	5.36	9.60
Margin	*-10%*	*6%*	*12%*	*19%*	*23%*
Depreciation	-0.30	-1.12	-2.58	-3.19	-4.73
EBIT	-1.78	-0.12	0.11	2.18	4.86
Net Interest	0.00	0.01	-0.08	0.06	0.08
PBT	-1.78	-0.11	0.03	2.24	4.94
Tax	0.00	0.03	-0.01	-0.67	-1.48
Tax Rate	0%	30%	30%	30%	30%
Normalised NPAT	-1.78	-0.08	0.02	1.57	3.46
EPS - basic	-0.011	0.000	0.000	0.010	0.022
EPS - FD	-0.007	0.000	0.000	0.006	0.013

Cashflow Statement (US$m)	6/16A	6/17A	6/18A	6/19F	6/20F
Net Operating Cash Flow	-0.7	-0.1	2.6	4.5	8.1
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	0.8	5.9

Balance Sheet (A$m)	6/16A	6/17A	6/18A	6/19F	6/20F
Cash	*3.2*	*2.2*	*3.2*	*4.0*	*9.9*
Total Current Assets	5.4	5.3	8.3	10.4	18.9
Non-Current Assets	6.0	9.2	17.0	30.0	27.4
Total Assets	11.4	14.5	25.3	40.4	46.3
Current debt	*0.9*	*0.0*	*0.0*	*0.0*	*0.0*
Total Current Liabilities	4.1	3.7	15.9	15.6	18.1
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	17.1	19.6
Net Assets	5.3	6.1	7.9	23.3	26.7
Equity	5.3	6.1	7.9	23.3	26.7

Analyst: Aiden Bradley
Phone: +61 8 9268 2876

11-July-2019

Sources: IRESS, Company Information, Hartleys Research

HIGHLIGHTS

Swift Media Limited (‘Swift’, ‘SW1’ or the ‘Company) recently confirmed that Pippa Leary has been appointed their new CEO (replacing Xavier Kris, who has stepped down now from the SW1 Board). Pippa’s background is predominantly in the digital media space and spent over 20 years with Nine Entertainment Company (NEC.asx) and Fairfax Media. Additionally, current Director Darren Smorgon has been appointed Non-Executive Chairman. Darren spent 16 years at CHAMP Private Equity where he led several deals including the privatisation and subsequent relisting of oOh!Media Ltd (OML.asx), where he is still a Non-Executive Director.

New Strategy Developing – Digital Out of Home Media

Once the new CEO and Chairman settle into their roles, we would expect them to update the market on their future vision for the Company and provide an updated strategy. The transition to a greater focus on media/advertising is already clear in how SW1 describes themselves. In their latest releases they view themselves as a ‘diversified technology, content and advertising solutions provider. Swift provides the technology to deliver premium entertainment content and advertising services on connected screens out of the home’. Pippa described it as follows - “I’m excited about the opportunity Swift Media represents. As a digital out-of-home marketing platform”.

Earlier this year SW1’s self-description was as ‘a diversified telecommunications, content and advertising solutions provider. Swift empowers guests to watch, play, connect and interact and provides accommodation providers with meaningful insights and opportunities to drive new business. Swift delivers customised content, communications and targeted advertising across secure closed networks.’ With the acquisition of Medical Media and considering the backgrounds of the new CEO and Chairman, we expect SW1 to position themselves as a broader Digital Out of Home Media Company, building on the strong foundation built when they were Swift Networks and providing content to closed loop audiences at mine sites.

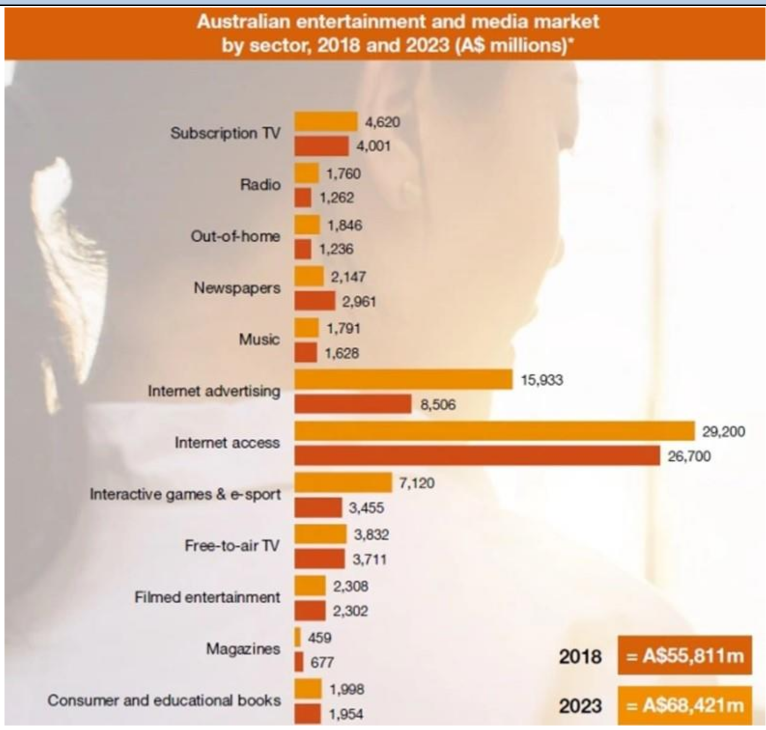
Fig. 1: The Growth of oOh!media

Source: oOh!meida

The recently released PwC Entertainment and Media Outlook report highlights why this is an exciting part of the media marketplace to be exposed to.

PwC's 18th annual Australian Entertainment & Media Outlook was recently released and analyses trends and advertising spend across 12 segments. It found that overall spending is expected to rise at a CAGR of 4.2% over the next five years, up from 3% in 2018.

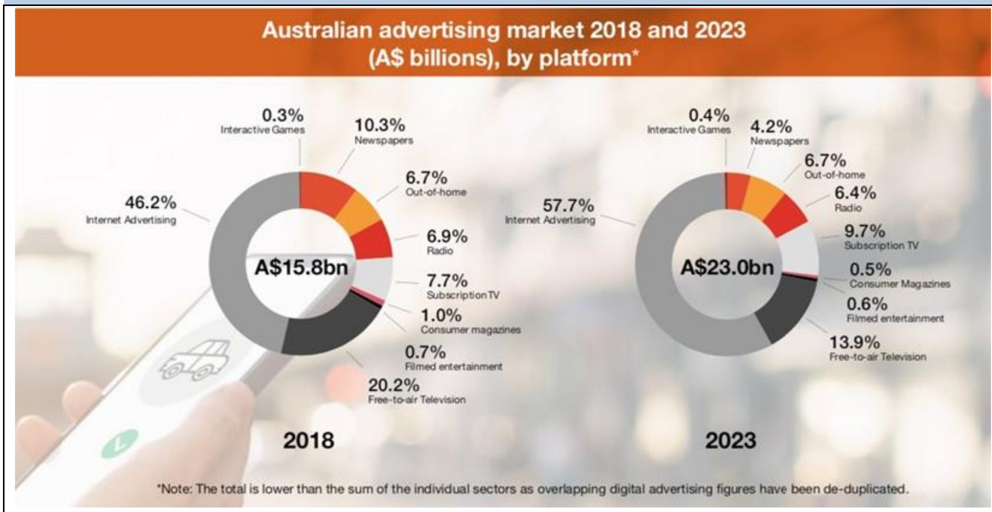
Fig. 2: Entertainment and Media Market by Sector



Source: PwC Entertainment and Media Outlook

Advertising spending is set to reach $23 billion by 2023, at a CAGR of 7.8%. Internet advertising and subscription TV are set to continue to capture an increasing share of advertising spend at the expense of free-to-air television, newspapers and consumer magazines.

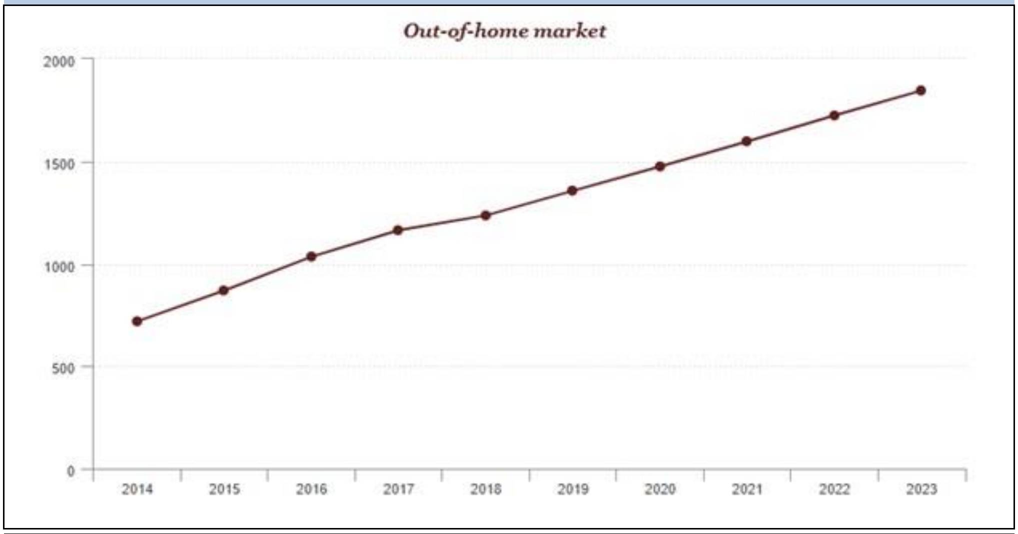
Fig. 3: Australian Advertising Market



Source: PwC Entertainment and Media Outlook

The Out of Home media market continues to grow strongly. CAGR of 8.4% is expected between 2019-2023, with the market increasing in size from $719m in 2014 to $1.85bn by 2023.

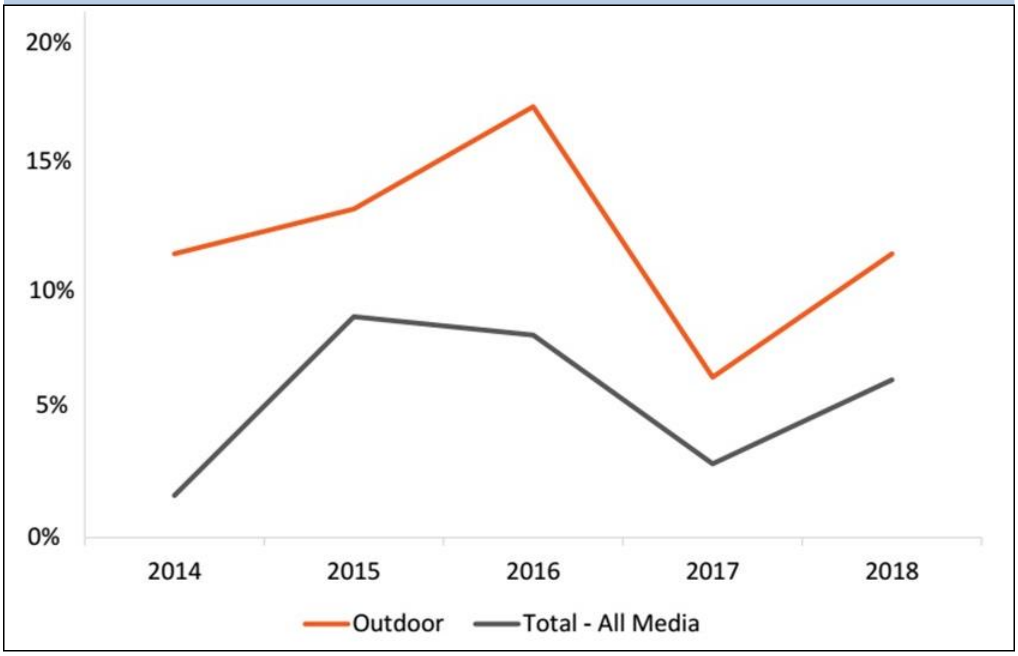
Fig. 4: OOH Advertising Market A$mn



Source: PwC Entertainment and Media Outlook

Outpacing the strong growth in media spend overall.

Fig. 5: Australian Media Revenue Change Year on Year



Source: oOh!media. Excluding Classifieds and Directories.

And only lagging online spend.

Fig. 6: Australian Media Revenue Growth by Category

Category	2018 Total revenue '000s*	% Change (2018 on 2017)	% Share
Online	7,197,700	12.1%	48.1%
OOH	927,176	10.8%	6.2%
Radio	1,191,959	3.6%	7.9%
Print	1,899,460	1.8%	12.6%
Cinema	129,750	0.2%	0.01%
Television	3,627,425	-2.5%	24.2%
Total	14,973,470	6.0%	-

*Source: CEASA 2018 Annual Report released April 2019, based on revenue excluding online classifieds. * Total revenue and Online excludes revenue received for Online Classifieds. Print includes both Print Media and Print Media Digital.*

Near Term Outlook now less certain

The Company has obviously been going through a transition in the past 6 months, name change, strategy shift, management changes and the acquisition of Medical Media. The integration of Medical Media seems to be proceeding above expectations and is on track to deliver at least $3 million of annual synergies and business improvements, with the benefits phased across FY19 and FY20. The Company did however indicate that room numbers are currently circa 74,000. This compares to an indication of room numbers of circa 75,000 at the end of January, start of February. This would be below our expectations for the end of FY19. So, the transition (and resulting uncertainty) may have resulted in a slowdown in growth and the impact on near term revenue remains to be seen, it definitely has negatively impacted the share price. However, for now we maintain our estimates as before and will wait to hear from the new management team before making any adjustments.

INVESTMENT VIEW & VALUATION

Valuation – A digital out-of-home marketing platform

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. Post the announcement of this deal the Company has gone through a period of transition (and uncertainty) which has negatively impacted the share price. New management will take a few months to settle in, post which they will likely outline their future vision and updated strategy for the Company.

Despite some concerns about slowing growth in the near term, we have maintained our estimates as before and retain our Speculative Buy recommendation. Our target price is reduced 2c to 50c per share post the issue of more shares / share rights.

Fig. 7: *Valuation*

Valuation			
ASX IT Peer Group Multiples	**12M forward Target Multiple**	**Wgt.%**	**Tgt Price**
EV/EBITDA	16x	50%	0.48
DCF		50%	0.52
Valuation			**$0.50**
Upside / downside from current share price			154%
P / E (6/19F) at price target			*83.7x*
P / E (6/20F) at price target			*37.9x*
EV / EBITDA (6/19F) at price target			*24.0x*
EV / EBITDA (6/20F) at price target			*13.4x*

Source: Hartleys Research

RECOMMENDATION & RISKS

INVESTMENT THESIS & RECOMMENDATION

We retain our Speculative Buy Recommendation. We remain positive on the outlook for growth in its traditional business both through 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 means (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 technology 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 and the Medical Media acquisition has obviously resulted in a period of transition (and some uncertainty). However, with the new experienced media team in place this move towards the creation of a digital out-of-home marketing platform has the potential to be a 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

HARTLEYS CORPORATE DIRECTORY

Research

Trent Barnett	Head of Research	+61 8 9268 3052
Mike Millikan	Resources Analyst	+61 8 9268 2805
John Macdonald	Resources Analyst	+61 8 9268 3020
Paul Howard	Resources Analyst	+61 8 9268 3045
Aiden Bradley	Research Analyst	+61 8 9268 2876
Oliver Stevens	Research Analyst	+61 8 9268 2879
Michael Scantlebury	Junior Analyst	+61 8 9268 2837
Janine Bell	Research Assistant	+61 8 9268 2831

Corporate Finance

Dale Bryan	Director & Head of Corp Fin.	+61 8 9268 2829
Richard Simpson	Director	+61 8 9268 2824
Ben Crossing	Director	+61 8 9268 3047
Ben Wale	Director	+61 8 9268 3055
Stephen Kite	Director	+61 8 9268 3050
Scott Weir	Director	+61 8 9268 2821
Scott Stephens	Associate Director	+61 8 9268 2819
Rhys Simpson	Associate Director	+61 8 9268 2851
Michael Brown	Executive	+61 8 9268 2822

Registered Office

Level 6, 141 St Georges Tce	**Postal Address:**
Perth WA 6000	GPO Box 2777
Australia	Perth WA 6001
PH:+61 8 9268 2888	FX: +61 8 9268 2800
www.hartleys.com.au	info@hartleys.com.au

Note: personal email addresses of company employees are structured in the following manner: firstname.lastname@hartleys.com.au

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.

Institutional Sales

Carrick Ryan	+61 8 9268 2864
Justin Stewart	+61 8 9268 3062
Simon van den Berg	+61 8 9268 2867
Digby Gilmour	+61 8 9268 2814
Jayme Walsh	+61 8 9268 2828
Veronika Tkacova	+61 8 9268 2836

Wealth Management

Nicola Bond	+61 8 9268 2840
Bradley Booth	+61 8 9268 2873
Adrian Brant	+61 8 9268 3065
Nathan Bray	+61 8 9268 2874
Sven Burrell	+61 8 9268 2847
Simon Casey	+61 8 9268 2875
Tony Chien	+61 8 9268 2850
Tim Cottee	+61 8 9268 3064
David Cross	+61 8 9268 2860
Nicholas Draper	+61 8 9268 2883
John Featherby	+61 8 9268 2811
Ben Fleay	+61 8 9268 2844
James Gatti	+61 8 9268 3025
John Goodlad	+61 8 9268 2890
Andrew Gribble	+61 8 9268 2842
David Hainsworth	+61 8 9268 3040
Murray Jacob	+61 8 9268 2892
Gavin Lehmann	+61 8 9268 2895
Shane Lehmann	+61 8 9268 2897
Steven Loxley	+61 8 9268 2857
Andrew Macnaughtan	+61 8 9268 2898
Scott Metcalf	+61 8 9268 2807
David Michael	+61 8 9268 2835
Jamie Moullin	+61 8 9268 2856
Chris Munro	+61 8 9268 2858
Michael Munro	+61 8 9268 2820
Ian Parker	+61 8 9268 2810
Matthew Parker	+61 8 9268 2826
Charlie Ransom	+61 8 9268 2868
Heath Ryan	+61 8 9268 3053
David Smyth	+61 8 9268 2839
Greg Soudure	+61 8 9268 2834
Sonya Soudure	+61 8 9268 2865
Dirk Vanderstruyf	+61 8 9268 2855
Samuel Williams	+61 8 9268 3041