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Smart Parking Ltd (ASX: SPZ)

A "fine" business fully funded for growth

12 October 2017

Smart Parking (ASX:SPZ) is a global car parking technology business. The Parking Management Division manages car parks exclusively in the UK, and generates 85% of group revenue from pound sterling-denominated parking fines (parking breach notices). The Technology Division has a global presence and specialises in on-street and off-street bay sensor technology and data communications software (IoT). In the last reported financial year (FY17), revenues at the key Parking Management Division fell 26% on the back of two substantial UK supermarket contracts ending, and an 18% (Brexit-inspired) depreciation in the GBP. **We view a "rebased" FY17 as a platform for strong revenue, and earnings growth, over the next five years.**

- **Revenue growth**: We believe that the pound bottomed in September at A$1.62, and forecast a modest appreciation to a long-term rate of A$1.80. More importantly, management is replacing lost low-margin manned contracts, and targeting to add 120 (net) new higher-margin Automatic Number Plate Recognition (ANPR) contracts every year. Allied with strong prospects for the Technology business, we forecast a 35% 5-year (FY17-FY22E) CAGR in group revenue.
- **Margin expansion:** In FY17E, rental/operating leases and employee costs equated to 55% of group revenue. As revenues grow, operating leverage should see group EBITDA margins expanding from 7% in FY17 to 41% in FY22E, and EBITDA increasing from A$1.6m to A$45m over this period.
- **Fully funded:** We forecast that SPZ will be cash positive (albeit modestly) in FY18E; with a healthy cash balance (A$14.2m) as at the end of June 2017, we do not see SPZ needing external financing from either the debt or equity markets over our forecast period to fund its growth strategy.
- **Dividends:** We forecast that SPZ should be in a position to pay dividends, in FY20E (and potentially as soon as FY19E).

DCF/PER-derived target price: A$0.38

Our 75:25 weighted DCF/PER-derived target price of A$0.38 indicates some 60% upside potential relative to current share price levels. **We initiate coverage with a Speculative Buy (Higher Risk) recommendation**

Key Financials

Year-end June	FY17A	FY18E	FY19E	FY20E	FY21E
Sites under contract (aver)	173	245	365	485	605
YoY increase in sites	-	120	120	120	120
Site income per month (£)	6,000	6,000	6,000	6,000	6,000
Park Mngt revenue (£m)	12.5	17.6	26.3	34.9	43.6
GBP:AUD exchange rate	1.68	1.65	1.70	1.75	1.80
Park Mngt revenue (A$m)	21.0	29.1	44.7	61.1	78.4
Technology revenue (A$m)	3.7	5.7	7.6	9.8	12.2
Group revenue (A$m)	24.7	34.8	52.3	70.9	90.6
Normalised NPAT (A$m)	(1.0)	2.5	9.1	16.2	23.8
EPS Reported (A$c)	(0.4)	0.7	2.5	4.5	6.6
EPS Normalised (A$c)	(0.3)	0.7	2.5	4.5	6.6
DPS (A$c)	-	-	-	1.5	2.2
PER (x)	na	34.8	9.5	5.3	3.6
Net (debt) / cash (A$m)	14.0	16.0	24.3	34.6	50.2
Capex (A$m)	(1.5)	(2.0)	(2.1)	(2.2)	(2.3)

Source: IRESS, Company Data, State One Stockbroking. Share price: $ 0.240 Oct 12, 2017

Share Price: A$0.24

Target Price: A$0.38

Recommendation
Speculative Buy

Risk Assessment
Higher

Information Technology

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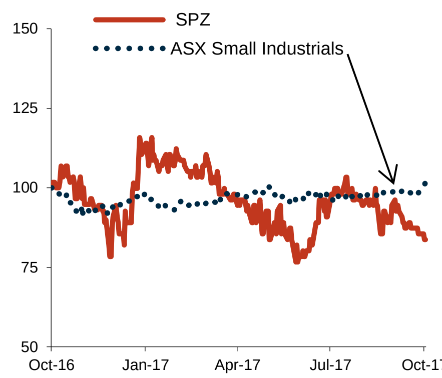
Smart Parking Limited	
ASX Code	SPZ
52 week range (A$cps)	A$0.21-A$0.34
Market Cap (ASm)	84
Shares Outstanding (m)	359
Av Daily Turnover (shares)	212k
ASX All Ordinaries	5,843
FY18E BV per share (A$c)	A$6.9c
FY18E EPS (A$c)	A$0.7c
FY18E Net (Debt)/Cash (A$m)	16

Relative price performance



Source: Iress

Financial Statements

Smart Parking Ltd

Year ending June

Profit & Loss Statement (A$M)	FY17A	FY18E	FY19E	FY20E	FY21E
Revenue	24.7	34.8	52.3	70.9	90.6
Raw materials / rental / lease	(5.1)	(6.7)	(8.1)	(9.6)	(11.3)
Employee	(10.0)	(10.5)	(11.0)	(11.6)	(12.1)
Other	(7.9)	(12.2)	(18.3)	(24.8)	(31.7)
EBITDA	**1.6**	**5.4**	**14.9**	**24.9**	**35.4**
Depreciation & Amortisation	(2.4)	(2.2)	(2.2)	(2.3)	(2.3)
Operating profit	**(0.7)**	**3.2**	**12.6**	**22.6**	**33.1**
NOI (incl. share based payments)	(0.4)	0.0	0.0	0.0	0.0
EBIT	**(1.1)**	**3.2**	**12.6**	**22.6**	**33.1**
Interest income	0.2	0.4	0.4	0.6	0.9
Interest expense	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)
Tax expense	(0.3)	(1.1)	(3.9)	(7.0)	(10.2)
Reported NPAT	(1.4)	2.5	9.1	16.2	23.8
Normalised NPAT	**(1.0)**	**2.5**	**9.1**	**16.2**	**23.8**
EBITDA Margin (%)	7%	16%	28%	35%	39%
Operating profit margin (%)	-3%	9%	24%	32%	37%
EPS Reported (A$c)	(0.4)	0.7	2.5	4.5	6.6
EPS Normalised (A$c)	(0.3)	0.7	2.5	4.5	6.6
EPS growth (%)	nm	nm	269%	78%	46%
DPS - Declared (A$c)	0.0	0.0	0.0	1.5	2.2
Avg. no. of fully-diluted shares (m)	329	359	359	359	359
YE no. of fuly-diluted shares (m)	359	359	359	359	359

Cash Flow Statement (A$M)	FY17A	FY18E	FY19E	FY20E	FY21E
EBITDA	1.6	5.4	14.9	24.9	35.4
Investment in working capital	(1.2)	(0.6)	(1.0)	(0.7)	(0.4)
Tax expense	0.1	(1.1)	(3.9)	(7.0)	(10.2)
Operating Cash Flow	**0.5**	**3.7**	**10.0**	**17.2**	**24.9**
Capex	(1.5)	(2.0)	(2.1)	(2.2)	(2.3)
Other investments	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	**(1.5)**	**(2.0)**	**(2.1)**	**(2.2)**	**(2.3)**
Net interest received / (paid)	0.1	0.3	0.4	0.6	0.9
Debt drawdown / (repayment)	0.2	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	(5.4)	(7.8)
Equity raised / (repaid)	11.5	0.0	0.0	0.0	0.0
Financing Cash Flow	**11.9**	**0.3**	**0.4**	**(4.8)**	**(7.0)**
Non-operating & Other	(0.8)	0.0	0.0	0.0	0.0
Inc/(Dec) in Cash	**10.1**	**2.1**	**8.3**	**10.3**	**15.6**

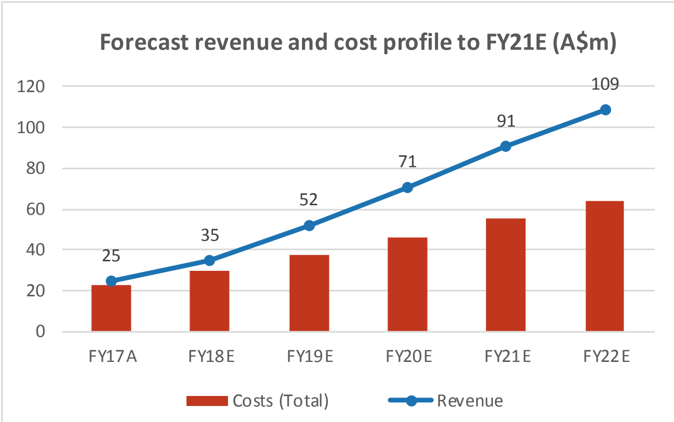
Balance Sheet (A$M)	FY17A	FY18E	FY19E	FY20E	FY21E
Cash & Equivalents	14.2	16.3	24.6	34.9	50.4
Receivables	5.7	7.6	11.0	14.2	17.2
Inventories	1.5	2.1	3.1	4.3	5.4
Other Current Assets	0.0	0.0	0.0	0.0	0.0
PPE	3.5	3.3	3.2	3.1	3.1
Deferred tax asset	1.2	1.2	1.2	1.2	1.2
Other Non Current Assets	2.7	2.7	2.7	2.7	2.7
Total Assets	**28.8**	**33.2**	**45.8**	**60.3**	**80.1**
Payables and other current Liabilities	6.2	8.2	11.6	15.2	19.1
Short Term Debt	0.2	0.2	0.2	0.2	0.2
Long Term Debt	0.1	0.1	0.1	0.1	0.1
Other Non Current Liabilities	0.0	0.0	0.0	0.0	0.0
Total Liabilities	**6.5**	**8.4**	**11.8**	**15.5**	**19.3**
Total Equity	**22.3**	**24.8**	**33.9**	**44.8**	**60.7**
Net Cash/(Debt)	14.0	16.0	24.3	34.6	50.2

Substantial Shareholders	%	Date
Invia Custodian Pty Limited	30.7	
HSBC Custody Nominees	8.7	Sep-17
JP Morgan Nominees	5.4	

Source: Company, IRESS, State One Stockbroking forecasts

Revenue composition (A$m)	FY17A	FY18E	FY19E	FY20E	FY21E
Technology	3.7	5.7	7.6	9.8	12.2
Parking Management	21.0	29.1	44.7	61.1	78.4
Group	24.7	34.8	52.3	70.9	90.6

Parking Management	FY17A	FY18E	FY19E	FY20E	FY21E
Average monthly site revenue (£)	6,000	6,000	6,000	6,000	6,000
Annual % change	*-*	*0%*	*0%*	*0%*	*0%*
No. of managed sites - average	173	245	365	485	605
Annual % change	*-*	*41%*	*49%*	*33%*	*25%*
Revenue (£m)	12.5	17.6	26.3	34.9	43.6
Annual % change	*-*	*41%*	*49%*	*33%*	*25%*
GBP:AUD exchange rate	1.68	1.65	1.70	1.75	1.80
Revenue (A$m)	**21.0**	**29.1**	**44.7**	**61.1**	**78.4**
Annual % change in Prk Mngt. Rev	*-*	*39%*	*53%*	*37%*	*28%*
Sites managed - beginning period	-	185	305	425	545
Sites managed - end period	185	305	425	545	665
Sites managed - annual increase	-	120	120	120	120
Sites managed - monthly increase	-	10	10	10	10



Leverage	FY17A	FY18E	FY19E	FY20E	FY21E
Net Debt/Equity	63%	65%	72%	77%	83%
Gearing (ND/ND+E)	49%	48%	53%	57%	63%
Interest Cover (x)	na	na	na	na	na

Valuation Ratios (x)	FY17A	FY18E	FY19E	FY20E	FY21E
Normalised P/E	na	34.8	9.5	5.3	3.6
Price/OP Cash Flow	180	23	8.6	5.0	3.5
Book value per share (A$c)	6.2	6.9	9.4	12.5	16.9
EV/EBITDA	44	13	4	2.0	1.0
ROE (%)	-4%	10%	27%	36%	39%

Weighted Target Price

Valuation method	Target (A$c)	Weighting (%)	Share price (A$c) Target	Share price (A$c) Current	Capital gain (%)
EPS/PER	31	75%	38	24	60%
DCF	60	25%			

EPS/PER valuation based on 2-year rolling of 3.1cps and PER multiple of 10x

Company Profile: Smart Parking (ASX:SPZ) formerly Car Parking Technologies Limited is involved in the design, development, and management of parking technology. The company has two divisons : 1) Parking Management - headquartered in the UK and specialising in managing car parks on behalf of retail customers, land owners and managing agents and, 2)Technology - designs and specialises in on-street and off-street parking technology and software that enables clients to manage parking efficiently and cost effectively. The Technology Division has acquired a number of contract wins in the UK, Australia, and New Zealand. Growth drivers for the Parking Management operations include increasing the number of sites under management (in the UK) and adding technology to managed sites.

Valuation

DCF valuation

Our estimated DCF-derived equity value of A$216m (A$0.60 per fully diluted share) is predicated on the following assumptions:

- Explicit cash flow forecasts over the five-year forecast period FY18E-FY22E),
- Long-term (ie post FY22E) revenue growth of 2%pa (equivalent to normalised global inflation),
- Long-term EBITDA margin of 20% and,
- A discount rate of 10%

Figure 1: DCF calculation

Value of Operations: DCF approach

Year	Free Cash Flow	Discount Factor	PV of FCF
2018	2	0.909	2
2019	8	0.826	7
2020	15	0.751	11
2021	23	0.683	16
2022	30	0.621	18
2023	21	0.564	12
2024	22	0.513	11
2025	22	0.467	10
2026	23	0.424	10
2027	23	0.386	9
2028	24	0.350	8
2029	24	0.319	8
2030	25	0.290	7
2031	25	0.263	7
2032	26	0.239	6
Cont. Value	264	0.239	63
Operating Value			205
Continuing value % Operating value			30.7%
Mid -Year Adjustment Factor			0.973
Operating Value (Adjusted)			**200**

Value of Equity

Operating Value	200
Excess Mkt Securities	16
Financial Investments	0
Excess Pension Assets	0
Enterprise Value	216
Debt	(0)
Capitalized Operating Leases	0
Retirement Related Liability	0
Preferred Stock	0
Minority Interest	0
Long-Term Operating Provisic	0
Restructuring Provision	0
Future Stock Options	0
Stock options	0
Equity Value	216
No. shares (thousands)	359
Value per Share (A$c)	**60**

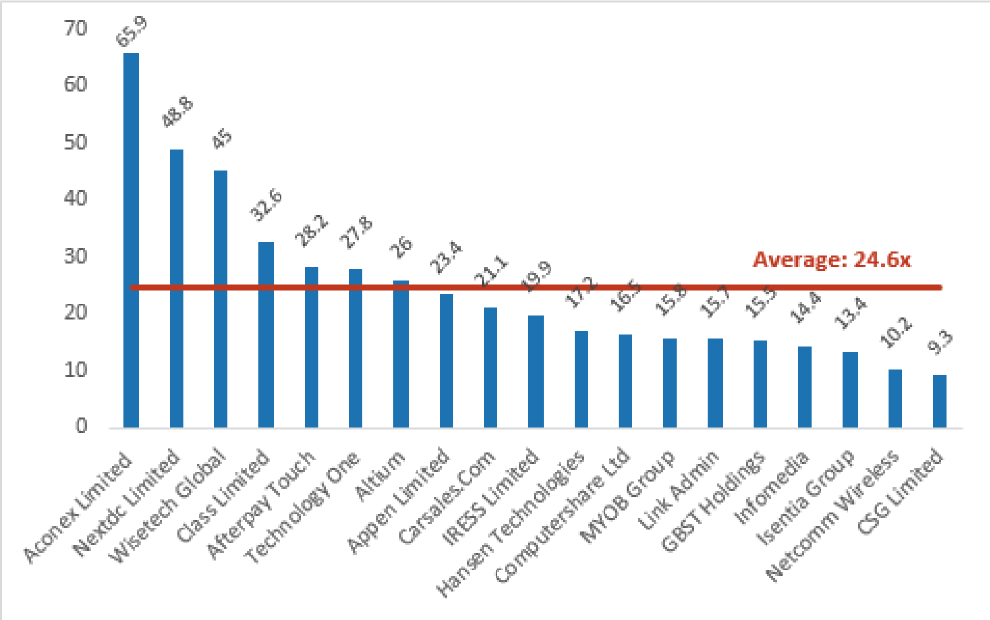
Source: State One Stockbroking Forecasts
Note: Cash and debt as per FY18E forecasts

PE multiple valuation

Predicated on our forecast earnings profile, we calculate SPZ's two-year rolling EPS at A$3.1c. At an assumed 2-year PE multiple of 10x, we calculate an EPS/PER multiple valuation for SPZ of A$0.31ps (rounded). Note: because of forecast EPS in FY18E of only A$0.7c, a one-year earnings multiple valuation is not, we suggest, meaningful.

We believe our PE rating is conservative relative to the ratings attached to ASX-listed IT stocks. Based on IRESS consensus earnings, we calculate that the S&P/ASX 300 Information Technology (IT) Index is trading at an average two-year out (i.e., FY19E) PER multiple of 24.6x. See table overleaf.

Figure 2: S&P/ASX 300 IT stocks - FY19E PER multiples (x)



Source: IRESS, compiled by State One Stockbroking

Target price, recommendation and risks

With SPZ in a forecast ramp-up phase, we suggest that a 100%-weighted PER valuation underestimates the company's intrinsic value; conversely, we suggest that (in the absence of corporate activity) a 100%-weighted DCF valuation is too "long-dated".

Attaching a 75% weighting to our EPS/PER multiple valuation, and a 25% weighting to our DCF-derived valuation, we calculate a target price for SPZ of A$0.38 (rounded).

At current share price levels of A$0.24, we calculate that SPZ offers some 60% upside potential. **We initiate coverage on SPZ with a Speculative Buy (Higher risk) recommendation**.

Recommendation:

Speculative Buy (Higher risk)

Target Price: A$0.38

Figure 3: Target price calculation

Valuation method	Target value (A$c)	Weighting (%)	Target price (A$c)	Current share price (A$c)	Capital gain / (loss)
EPS/PER	31	75%	38	24	60%
DCF	60	25%			

Source: IRESS, State One Stockbroking forecasts

Over the last two years, the share price has traded in a broad band between A$0.24 and A$0.30. We believe that earnings headwinds caused by the marked depreciation in the Great British Pound (GBP) following the shock Brexit result in mid-2016, and the loss of Parking Management contracts at supermarket chains Asda and Matalan in the June 2017 quarter, account for this uninspiring share price pattern.

Looking ahead, we suggest that success in gaining new contracts at the Parking Management division (we forecast an increase of 120 new sites (net) per annum), and a concomitant improvement in group EBITDA and cash flow, should act as key share price catalysts.

Risks to our earnings profile and target price include, but are not limited to:

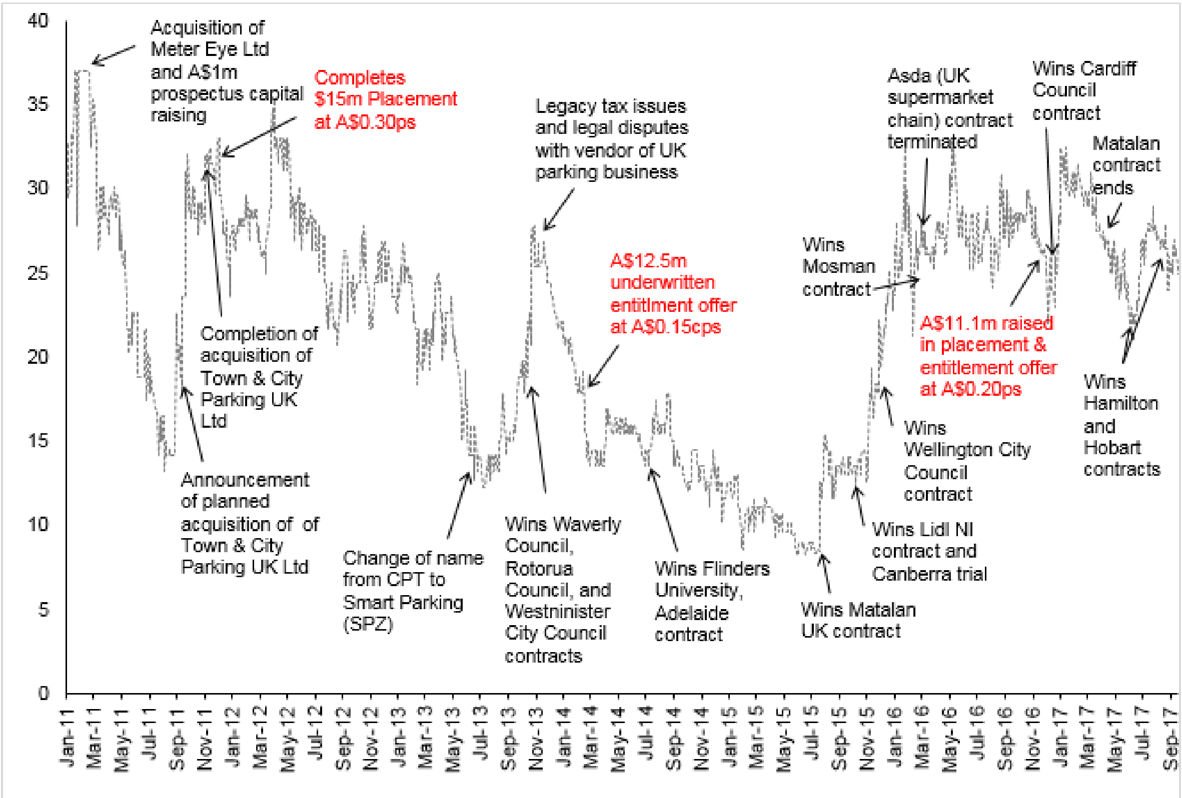
- **Revenue growth at the Parking Management Division.** We forecast that the Parking Management Division will contribute some 86% of group (external) revenue between FY18E and FY22E. Clearly, the near-term fortunes of SPZ are closely aligned to how well operations at this UK-based operation perform. Our forecast five-year revenue growth at this division (33% CAGR in GBP, 35% CAGR in AUD) is largely dependent on our forecast of SPZ securing 120 (net) new contracted sites per annum (10 per month) over the FY18E-FY22E forecast period. If the number of new contracted sites falls to 60pa (5 per month), our PER/NPV-derived target price falls from A$0.38ps to A$0.18ps (25% below current share price levels).
- **Technology Division performance:** We forecast that revenue from SPZ's Technology operations will continue to represent a smaller, though still material, contribution to the overall group. Lower than forecast sensor sales, and slower than expected take-up of its Smart City technology platform, could reduce divisional performance relative to our base-case forecasts.
- **GBP:AUD exchange rate**. 100% of Parking Management's revenue originates in the UK. The 18% depreciation in sterling from A$2.04 in FY16 to A$1.68 in FY17 acted as a significant (and unexpected) headwind to the group's AUD earnings in the last financial year. We forecast an average of A$1.65 for the current financial year (FY18E); thereafter we forecast sterling appreciating to A$1.80 by FY21E resulting in a modest positive impact on A$-translated performance. A weaker-than-forecast sterling will negatively impact our earnings forecast.
- **UK tax**: As at 30 June 2017, SPZ booked a provision of A$1.3m for the treatment of input VAT incurred on expenditure relating to the administration of Parking Breach Notice activities. SPZ is currently seeking to clarify its position with the UK tax authorities (HMRC), and is seeking to work collaboratively with HMRC to resolve the position amicably without litigation. SPZ intends to vigorously defend its position if an agreeable outcome cannot be reached. If SPZ is unsuccessful in defending its position, a further A$4m (net of the provision) will potentially be owed to HMRC. In addition, an unfavourable VAT ruling could reduce margins at the Parking Management Division by five (5) percentage points.
- Increased competition from new and existing parking technology competitors.
- Regulatory risks: The UK vehicle-parking market is subject to extensive regulation. Changes to the regulatory environment could impose additional capital and operational obligations on SPZ.
- Dependence upon key personnel.

Background

Parking technology solutions

In February 2011, New Zealand-based car park technology provider Meter Eye Limited completed a reverse listing on the ASX via Empire Beer Group (ASX: EEE-delisted), and was subsequently renamed Car Parking Technologies (ASX:CPZ). In June 2012 the group made a step-change in operations with the acquisition in January 2012 of UK parking management services business Town and City Parking. In June 2013, the business was rebranded Smart Parking Limited (ASX:SPZ).

Figure 4: Share price history and key company events



Source: IRESS, State One Stockbroking

Business Model

SPZ operates two (2) divisions:

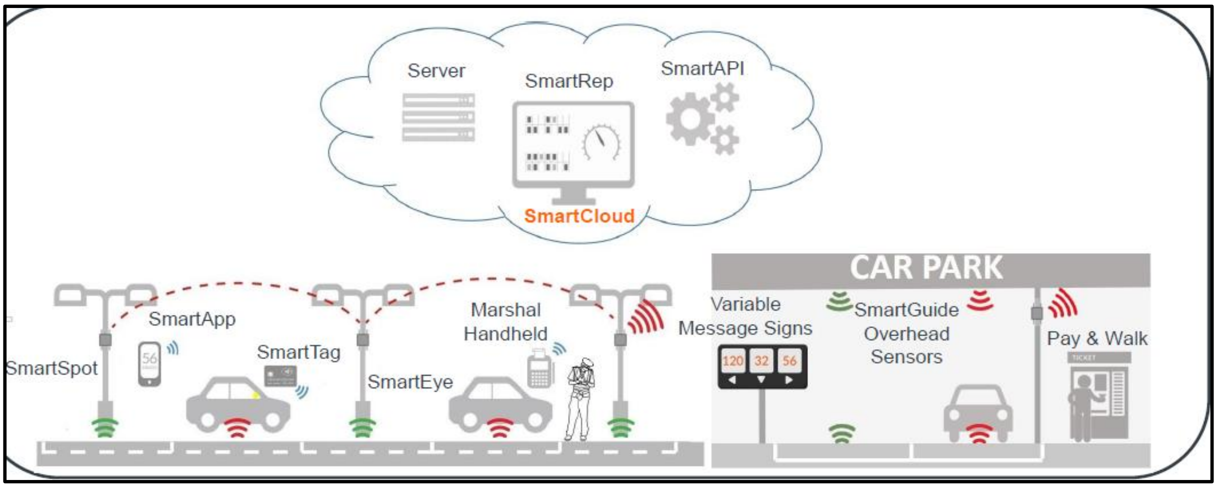
Technology – sale of car parking technology hardware (sensors), software and associated products and services to customers.

Parking Management – provision of parking management solutions to UK clients (retail, land owners, managing agents).

Technology

The Technology Division has established sophisticated parking systems to customers across the globe but is strengthening its sales capacity in particular on the key UK, Australian, and New Zealand markets. Revenue is generated from the sale of parking sensors, with ongoing or recurring revenue generated from the sale and management of data to the customer, and from sensor maintenance.

Figure 5: Schematic of SPZ Technology parking solutions



Source: Company

Key customers secured in **FY16** include Auckland Transport, NZ (672 sensors), Mosman Municipal Council, Australia (1,100 sensors), Stockland Group, Australia (1000 sensors), and Progressive Enterprises, NZ (280 sensors).

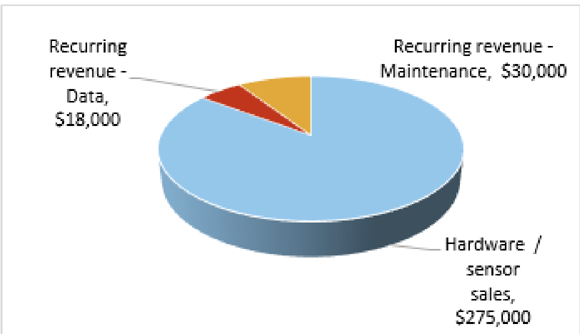
Key customers secured in **FY17** include Cardiff City Council, Wales (3,000 sensors), and Coles Supermarkets, Australia (1,100 sensors).

Key customers secured to date in the current year **(FY18E)** include Hamilton City Council, NZ (1,345 sensors), Wilson Parking, NZ (3,000+ sensors), Coles Supermarkets, Australia (262), Hobart City Council, Australia (2,100 sensors), Telstra, Australia (449 sensors), and City of Gold Coast, Australia (120 sensors).

Figure 6: SPZ Technology customers

Source: Company

Figure 7: Estimated revenue from an order for 1,000 sensors: A$320k



Source: Company, State One Stockbroking forecasts

Predicated on an average sensor selling price of A$275 per unit, we calculate that an order for 1,000 sensors can generate some A$275k in revenue.

Assuming a data charge of A$1.50 per sensor per month, we calculate an order for 1,000 sensors can generate recurring data revenue of A$18,000 per annum.

Assuming a maintenance charge of A$2.50 per sensor per month, we calculate an order for 1,000 sensors can generate recurring maintenance revenue of A$30,000 per annum.

In total, we calculate 1,000 sensor sales can generate revenue of ~A$320,000 (incl. A$48,000 in recurring revenue).

Predicated on new sensor sales of 20,000 units in FY18E growing to 40,000 units in FY22E, we forecast Technology Division revenue increasing from A$5.7m in FY18E to A$14.9m in FY22E; this equates to five-year CAGR of 32% between FY17 and FY22E.

Figure 8: Forecast Technology division revenue to FY22E

Technology Division	**FY17A**	**FY18E**	**FY19E**	**FY20E**	**FY21E**	**FY22E**
New / incremental sensor sales (units)	12,000	20,000	25,000	30,000	35,000	40,000
Sensor sales price (A$/unit)	275	275	281	286	292	298
Sensor revenue (A$m)	3.3	5.5	7.0	8.6	10.2	11.9
Sensor sales cumulative (units)	43,750	63,750	88,750	118,750	153,750	193,750
Recurring revenue per sensor per month (A$)	4.0	4.0	4.1	4.2	4.2	4.3
Recurring revenue (A$m)	2.1	3.1	4.3	5.7	7.4	9.3
.....adjustment for timing of new orders (A$m)	*(0.3)*	*(0.5)*	*(0.6)*	*(0.7)*	*(0.9)*	*(1.0)*
Adjusted recurring revenue (A$m)	1.9	2.6	3.6	5.0	6.5	8.3
Total revenue (A$m)	**5.2**	**8.1**	**10.7**	**13.5**	**16.7**	**20.2**
Inter-segment revenue as % sensor sales	*44%*	*44%*	*44%*	*44%*	*44%*	*44%*
Inter-segment revenue (A$m)	(1.4)	(2.4)	(3.1)	(3.8)	(4.5)	(5.2)
External revenue (A$m)	**3.7**	**5.7**	**7.6**	**9.8**	**12.2**	**14.9**

Source: State One Stockbroking forecasts

Note: Key assumptions include 1) unit sales price and recurring revenue escalation of 2%pa from FY18E, 2) recurring revenue adjustment assumes new sensor sales for any year are effective from mid-year (i.e., for six months only) and 3) intersegment sales estimated at 44% of sensor revenue.

Parking Management

The Parking Management Division (also known as Management Services (UK)) operates exclusively in the UK and manages car parks on behalf of retail customers, land owners and management agents. In the last reported year (FY17E), the Parking Management Division accounted for 85% of group (external) revenue. Over the past few years, the UK Services business has built up a diverse customer base and, as at the end of June 2017, the Division managed some 185 sites. We forecast this number increasing by an average of 10 (net) additional sites per month. Through investment in Automatic Number Plate Recognition (ANPR) and other initiatives, the division is also moving away from manned sites to more profitable unmanned contracts.

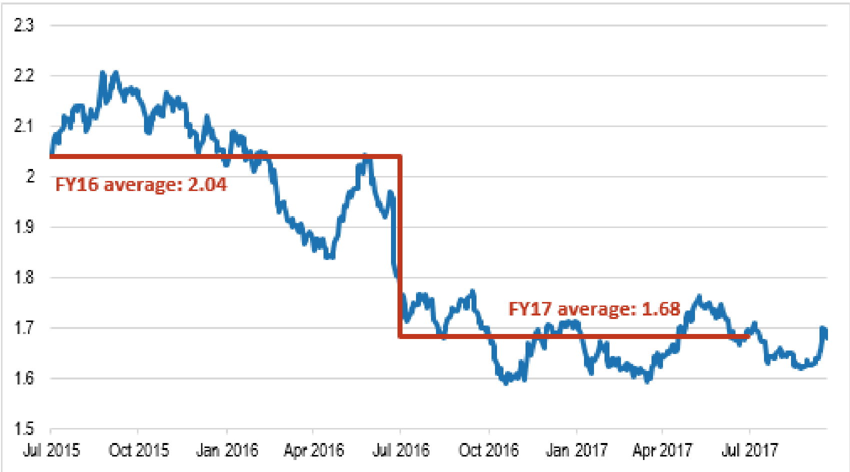
Figure 9: Parking Management UK customers

Source: Company

With 100% of divisional revenue derived from the UK, revenues translated into the Australian dollar (SPZ's reported currency) are significantly impacted by movements in the GBP:AUD exchange rate. The 26% fall in revenue from A$28.4m in FY16 to A$21m in FY17 was largely due to the 18% (Brexit-inspired) depreciation in the pound sterling from AUD2.04 in FY16 to AUD1.68 in FY17; see chart below. The balance of the YoY decline in divisional revenue was attributable to the termination of a contract with UK supermarket retailer Asda).

18% depreciation in the GBP between FY16 and FY17

Figure 10: GBP:AUD exchange rate showing FY16 and FY17 average



Source: IRESS, compiled by State One Stockbroking

Looking ahead, we see scope for sterling to appreciate from a low of AUD1.65 in FY18E, to AUD1.80 in FY21E. This will translate to a modest 10% translation benefit to divisional AUD reported revenues over the next four years. We maintain a constant exchange rate of AUD1.80 from FY21E.

Figure 11: GBP:AUD exchange rate (10-year history)

Source: IRESS

Predicated on an average annual net gain of 120 new sites (10 per month), we calculate Parking Management revenue growing from A$21m in FY17A to A$94m in FY22E; this equates to a five-year CAGR of 35%.

Figure 12: Forecast Parking Management revenue to FY22E

Parking Management Division	FY17A	FY18E	FY19E	FY20E	FY21E	FY22E
No. of sites begining of year	-	185	305	425	545	665
Average monthly new sites added	-	10	10	10	10	10
No. of sites end of year	-	305	425	545	665	785
Average number of sites, (i)	-	245	365	485	605	725
Average no. of breach notices per site, (ii)	-	2,400	2,400	2,400	2,400	2,400
Average infringement fine (£), (iii)	-	60	60	60	60	60
Infringement fines (£m), (i) X (ii) X (iii)	-	35	53	70	87	104
% of fines successfully collected	-	50%	50%	50%	50%	50%
Collected revenue (£m)	12	18	26	35	44	52
GBP:AUD exchange rate	1.68	1.65	1.70	1.75	1.80	1.80
Revenue (A$m)	**21.0**	**29.1**	**44.7**	**61.1**	**78.4**	**94.0**

Source: State One Stockbroking forecasts

Note: Key assumptions include 1) SPZ securing 10 additional sites (net) per month, 2) 200 average breach notices per site per month (around 7 per day), 3) an average constant/unchanged infringement fine of £60 and, 4) an average "successful" collect rate of 50%. The collect rate is determined by the % of fined vehicle owners that actually pay the fines, and the amount of fines that are recalled/cancelled by the parking site owner (typically on request of the vehicle owner).

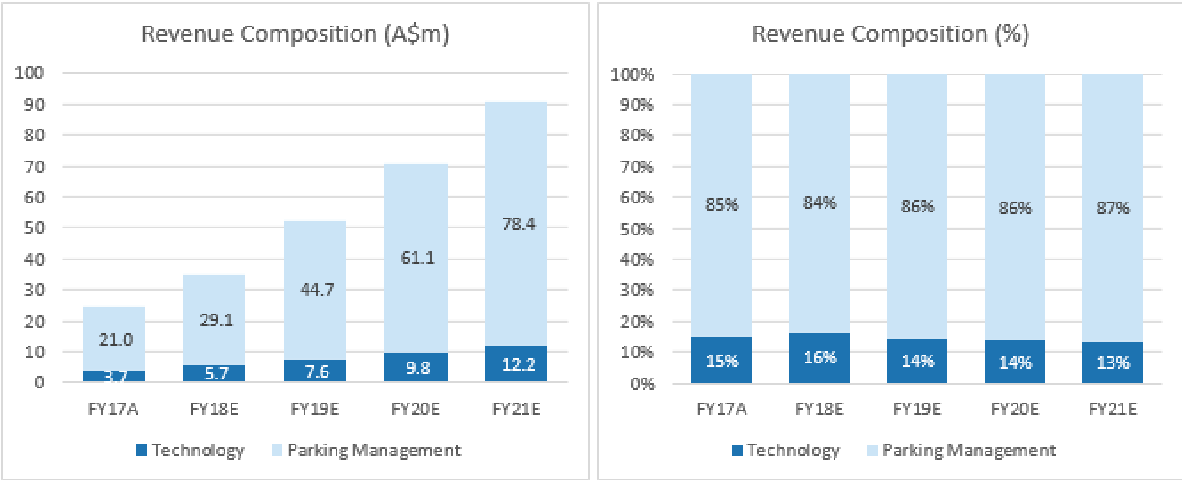
Figure 13: Parking Management - key drivers

Source: Company, State One Stockbroking forecasts

Forecast group revenue

Combining our forecast (external) revenues for the Technology and Parking Management divisions, we forecast SPZ group revenue increasing by 41% from A$24.7m in FY17A to A$34.8m in FY18E. Over the five-year period FY17A to FY22E, we forecast group revenue increasing at a CAGR of 35%.

Figure 14: Forecast SPZ revenue profile to FY21E



Source: Company, State One Stockbroking forecasts

Forecast operating profits

As revenue increases, we forecast group EBITDA margins increasing significantly on the back of operational leverage; we calculate combined rental and operating lease and employee costs – which equated to 52% of group revenue in the last reported financial year (FY17) - falling to 15% of revenue by FY22E.

Figure 15: Forecast costs and operating profit profile to FY22E (A$m)

Group (A$m)	**FY17A**	**FY18E**	**FY19E**	**FY20E**	**FY21E**	**FY22E**
Technology	3.7	5.7	7.6	9.8	12.2	14.9
Parking Management	21.0	29.1	44.7	61.1	78.4	94.0
Revenue	**24.7**	**34.8**	**52.3**	**70.9**	**90.6**	**108.9**
Raw materials and consumables	*(2.3)*	*(3.8)*	*(5.2)*	*(6.6)*	*(8.3)*	*(10.2)*
Rental and operating lease costs	*(2.8)*	*(2.9)*	*(2.9)*	*(3.0)*	*(3.0)*	*(3.1)*
Employee costs	*(10.0)*	*(10.5)*	*(11.0)*	*(11.6)*	*(12.1)*	*(12.8)*
Other expenses	*(7.9)*	*(12.2)*	*(18.3)*	*(24.8)*	*(31.7)*	*(38.1)*
Total Costs	**(23.1)**	**(29.4)**	**(37.4)**	**(46.0)**	**(55.2)**	**(64.1)**
EBITDA	1.6	5.4	14.9	24.9	35.4	44.8
Depreciation	(2.4)	(2.2)	(2.2)	(2.3)	(2.3)	(2.4)
Operating profit / (loss)	**(0.7)**	**3.2**	**12.6**	**22.6**	**33.1**	**42.4**
Raw materials and consumables as % Technology external reven	*63%*	*68%*	*68%*	*68%*	*68%*	*68%*
Rental and operating lease costs as % revenue	*11%*	*8%*	*6%*	*4%*	*3%*	*3%*
Employee costs as % revenue	*41%*	*30%*	*21%*	*16%*	*13%*	*12%*
Other expenses as % revenue	*32%*	*35%*	*35%*	*35%*	*35%*	*35%*
Total costs as % revenue	93%	84%	72%	65%	61%	59%
EBITDA margin	7%	16%	28%	35%	39%	41%
Operating profit margin	-3%	9%	24%	32%	37%	39%

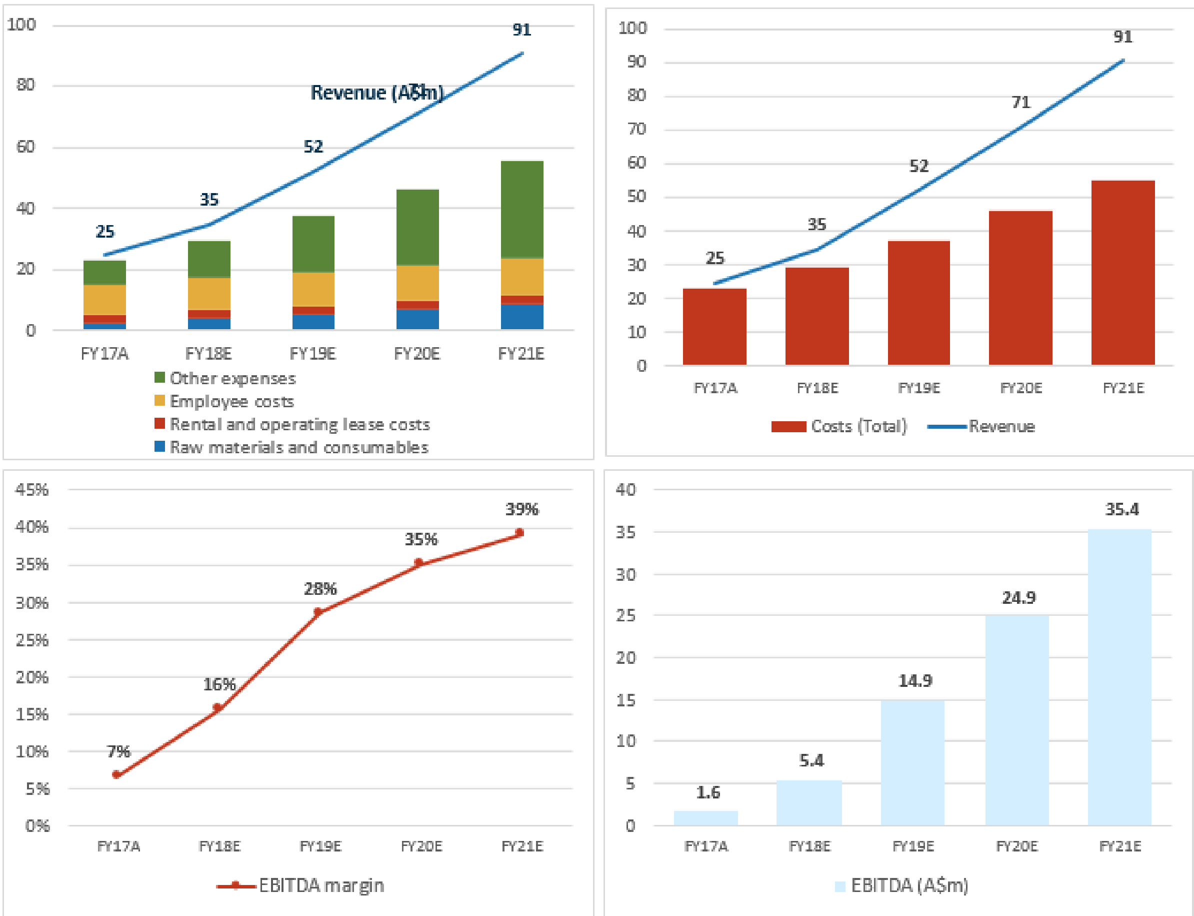
Source: Company, State One Stockbroking forecasts

Key cost assumptions:

- FY17 rental and operating lease costs escalated at 2%pa,
- FY17 employee costs escalated at 5%pa,
- Raw material and consumables at a constant 68% of Technology external revenue (vs 63% in FY17),
- Other expenses as 35% of group revenue (vs 32% in FY17).

We forecast group EBITDA margins increasing to 16% in FY18E from 7% in FY17, leading to EBITDA rising to A$5.4m in FY18E (from A$1.6m in FY17). By FY22E, we see group EBITDA margins widening to 41%, and EBITDA of A$45m.

Figure 16: Forecast Revenue, Costs and EBITDA profile to FY21E



Source: Company, State One Stockbroking forecasts

Capex and Funding

Predicated on ANPR capital costs of £15,000 per new site and 120 (net) new sites added every year, we calculate annual capex at the Parking Management Division comes to some £1.8m (A$3m) per annum. These costs are expensed (under Raw materials and consumables) in the income statement. SPZ capex in FY16 and FY17 was A$2.3m and A$1.5m respectively; this expenditure was largely associated with R&D at the Technology Division; we assume capex at the Technology Division at A$2m per annum (real) over our forecast period.

Capex requirement:

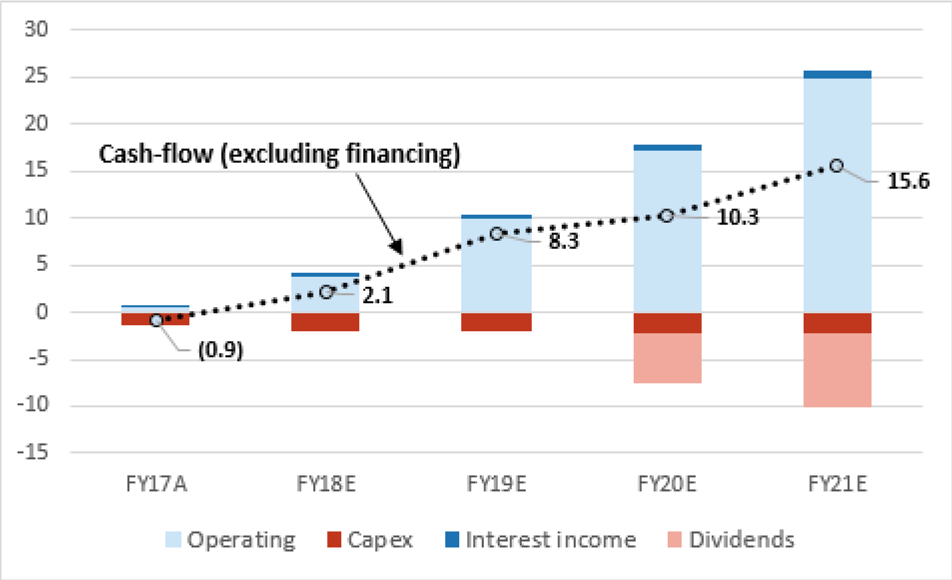
A$2m per annum

Cash flows

With A$14.2m in cash reserves as at end-June 2017, and strong forecast operating cash flows (particularly from FY19E), we believe that SPZ's A$2m per annum capex requirement should be comfortably covered. Excluding potential acquisitions, we believe that SPZ will not require external funding (debt/equity) over our forecast period to fund its growth strategy. Indeed, we forecast that the group should be in a position to return capital (dividends) to shareholders from FY20E, and potentially as early as FY19E.

Strong cash flow profile….potential for dividends from FY19E

Figure 17: Forecast cash flows (FY17E-FY21E) (A$m)



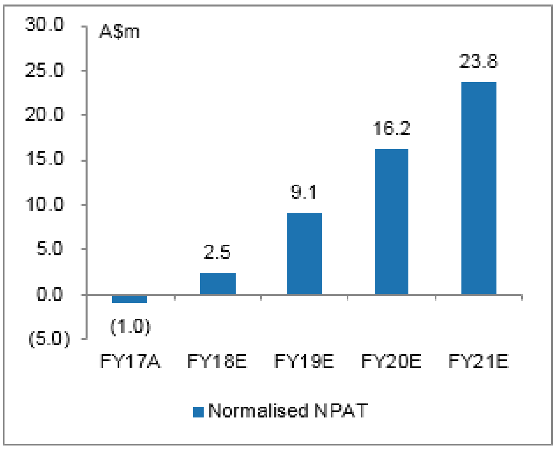
Source: Company, State One Stockbroking forecasts

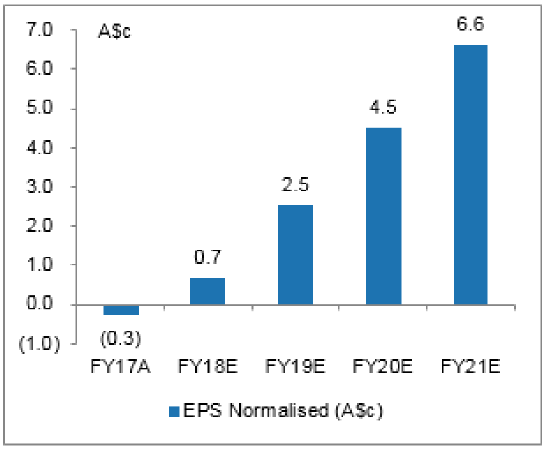
NPAT and EPS profile

We forecast a modest net profit after tax of A$2.5m in the current financial year (FY18E). However, on the back of strong revenue growth (35% CAGR) over our forecast period and a concomitant expansion in margins, we forecast NPAT increasing to A$9.1m in FY19E, rising to A$16.2m in FY20E and A$24m in FY21E. Mirroring this NPAT profile, we forecast EPS growing from –A$0.3c in FY17, to A$0.7c in FY18E, and then growing to A$6.6c in FY21E.

Strong growth in NPAT on the back of increased revenues and margin expansion

Figure 18: Forecast NPAT (A$m) and EPS (A$c)





Source: Company, State One Stockbroking forecasts

Market

The UK has an estimated 45,000 parking sites. By FY21E we forecast that SPZ's Parking Management Division will have increased the number of sites under management from 185 to 665, or 1.5% of the estimated addressable market. Thus, we believe our forecast growth profile is not unrealistic.

Applications for ANPR technology expected to grow significantly over the next 10 years

Population growth, urbanisation, the creation of mega-cities, the increasing number of vehicles on the road and, parking space constraints & traffic congestion, along with and a heightened requirement / demand for public safety, are trends which we believe will underpin industry growth in smart parking technology – not only in the UK, but globally.

Industry analysts Frost & Sullivan predict annual double digit growth rates in ANPR usage/applications over the next ten years, and forecasts the value of global parking operations at more than US$40bn by 2025.

SPZ is pursuing a number of strategic opportunities with technology and communications / IoT partners to position itself for this environment.

Figure 19: SPZ – strategic opportunities

Source: Company

While SPZ's ANPR and Technology systems are currently focused on car park or vehicle parking management, we suggest that there are other markets - both private (commercial) and government - where SPZ may enter. Examples include traffic management and control, security & surveillance, and electronic toll enforcement/collection.

ANPR systems may also be used for/by section control – to measure average vehicle speed over longer distances, automobile repossessions, border crossings, petrol stations – to log when a motorist drives away without paying for fuel, targeted advertising, a-la "Minority Report"- style billboards, analysis of traffic behaviour – for transport planning purposes, and visitor management systems.

Board Directors (Source: Company)

Chris Morris

Non-Executive Chairman

Chris is a founding member of Computershare Limited (established in 1978) and was appointed Chief Executive Officer in 1990. Chris' extensive knowledge of the securities industry and its user requirements from both a national and international perspective, coupled with his passion and long term strategic vision, have been instrumental in developing Computershare into a global company that is unique in its provision of a full range of solutions to meet the needs of listed companies and their stakeholders.

In September 2010 he relinquished his executive responsibilities at Computershare but retains the role of Non-Executive Chairman. Chris now brings his extensive experience guiding Computershare to the board of Smart Parking.

Paul Gillespie

Managing Director & Group CEO

Paul was appointed CEO of Smart Parking in January 2013. Before joining Smart Parking Paul was leading the UK division of Xerox Parking Services where he was successful in running two business units providing hardware and software solutions to a variety of public and private organisations. Whilst at Xerox Paul was responsible for all sales, operations and finance activities along with the development and delivery of new products to the UK parking market.

Prior to Xerox Paul was working for the Stanley organisation in a sales management capacity selling a range of technology products to government and private sectors.

Paul comes to Smart Parking from the UK with 10 years of experience in the parking technology market place and is focused on growing the Smart Parking business globally in the coming months and years.

Penelope Maclagan, Director (Non-Executive)

Ms Maclagan has over 30 years' experience and knowledge in the securities industry having led Computershare's Technology Services business until 2008. Ms Maclagan is a Non-Executive Director of Computershare Limited.

Tiffany Fuller, Director (Non-Executive)

Ms Fuller is a qualified CA, with a 25 years' career across Charted Accounting, Corporate Finance, Investment Banking, and Private Equity. Ms Fuller is a Non-Executive Director of Computershare Limited and Costa Group Holdings Limited.

Jeremy King, Director (Non-Executive)

Mr King is a corporate lawyer with over 15 years' experience in domestic and international legal, financial and corporate matters. Mr King is a Non-Executive Director of DTI Group Limited, Transcendence Technologies Limited, Red Mountain Mining Limited, and HER Resources Limited.

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