

22 June 2015

**ASX CODE: ICQ**

**Speculative Buy**

**Capital Structure**

Sector	Information Technology
Share Price (A\$)	0.885
Fully Paid Ordinary Shares (m)	218.8
Market Capitalisation (undil) (A\$m)	193.6
Share Price Year H-L (A\$)	1.805 - 0.82
Approx Cash (A\$m)(est.)	10.02

**Directors**

Patrick Grove	Non-executive Chairman
Lucas Robert Elliott	Non-Executive
Shaun Di Gregorio	Non-Executive
Mark Britt	Non-Executive
Cameron McIntyre	Non-Executive
Ajay Bhatia	Non-Executive

**Major Shareholders (as at 31/12/2014)**

Catcha Media Berhad	24.0%
Carsales Com Limited	20.2%
Catcha Group Pte Ltd	8.2%

**Share Price Performance**



# iCar Asia

*A rare find: A high growth tech company with a proven business model*

iCar Asia operates automotive classified websites in Malaysia, Thailand and Indonesia. It is using a similar business model to the Australian success story, Carsales.com.

Brands		
Country	Website	Description
Malaysia	<a href="http://Carlist.my">Carlist.my</a>	Automotive classifieds
	<a href="http://LiveLifeDrive">LiveLifeDrive</a>	Online automotive magazine
Indonesia	<a href="http://Mobil123.com">Mobil123.com</a>	Automotive classifieds
Thailand	<a href="http://ThaiCar.com">ThaiCar.com</a>	Automotive classifieds
	<a href="http://Autospinn">Autospinn</a>	Online automotive magazine
	<a href="http://One2Car">One2Car</a>	Automotive classifieds

**Highlights**

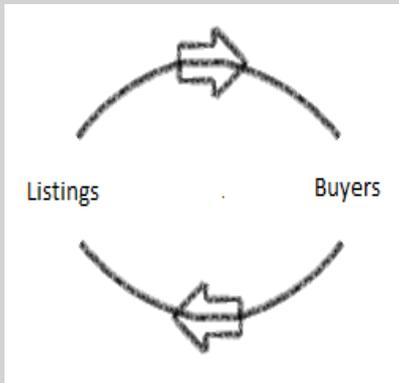
- Opportunistic timing with current share price of 88.5c, which is more than **52% less than it's high** of \$1.88 in July of 2014. This fall follows mediocre half-year trading update but is despite previous significant positive news:
  - Successful monetization in Malaysia with 2015 Q1 results showing significant revenue growth
  - Acquisition of One2Car.com, which places iCar Asia as the clear **market leader** in Thailand.
- Using proven business model of Carsales.com of Australia.
- In FY2014 Carsales made a profit of \$95.2m from revenues of \$235.6m and has a current market capitalisation of \$2.3b.
- Leveraging Carsales.com management team. Carsales.com has 20% shareholding.
- Exposure to growth of developing ASEAN markets: Malaysia, Thailand and Indonesia. Importantly, these countries are also experiencing increasing GDP per capita, which leads to increasing automotive sales.

**Price Catalyst**

- Monetisation of Malaysian and Thailand sites will see significantly increasing revenues continuing to be reported in late 2015.
- Going forward, positive operating cash flow is likely in FY18, but could possibly be as early as FY17. In our view, loss in 2014 is likely to be the greatest loss the Company will experience.

**Action & Recommendation**

- Considering the metrics of target markets we value the company at \$224m, and have a price target of \$1.02 per share, which is **15% above** the current price. Consequently, **RM Research** recommends iCar Asia as a **Speculative Buy**.



**Graph 1: The Potency of Network Effects.**

Source: <http://www.inforules.com/models/m-net.pdf>

**Table 1: General classifieds websites in target markets**

(Source: RM Research)

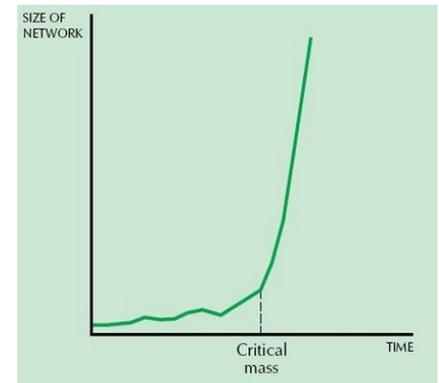


(Source: uluad.com)

## The Power of Network Effects

Due to the network effects of online classifieds businesses, they often prosper once they reach a critical mass of users. For a car sales website, once there are significant car sales advertised then significant buyers will follow, encouraging more sellers to advertise thus further encouraging buyers to the site, and so on.

This leads to a 'winner takes all' model. This can be seen with companies such as Realestate.com.au (ASX.REA) and **Carsales** (ASX.CRZ) that have managed to increase margins and simultaneously grow revenues. REA operating margin grew from 19.1% in FY05 to 51.1% in FY14, whilst revenue went from \$33m to \$438m. CRZ FY10 operating margin grew from 52.4% in FY10 to 60.2% in FY14, whilst revenue went from \$123m to \$236m.



The converse is also often true, where companies that fail to get critical market share, struggle to raise prices and make for poor investments.

## Competition

Most of the competition comes from general classified sites, as listed below:

Malaysia	Thailand	Indonesia
	<a href="http://Olx.co.th">Olx.co.th</a>	<a href="http://Olx.co.id">Olx.co.id</a>
<a href="http://Mudah.my">Mudah.my</a>	<a href="http://Kaidee.com">Kaidee.com</a>	<a href="http://Berniga.com">Berniga.com</a>
	<a href="http://PantipMarket.com">PantipMarket.com</a>	<a href="http://Kaskus.co.id">Kaskus.co.id</a>

These sites are more attractive to sellers and purchasers of cheaper products e.g. scooters and low-end motorbikes as opposed to cars. These dynamics can be seen in Australia with Gumtree competing with Carsales.com. As a further example Realestate.com has high margins due to the high value of the product (real estate) being sold.

## Consolidation of classified competitors

In November OLX and 701Search (the owners of Kaidee.com and Berniga.com) announced a merger of Olx.co.th with Kaidee.com, and Olx.co.id with Berniga.com. In our view **this is positive**, as this is in effect less competition, which should lead to higher operating margins for all the players.

## Direct competitor in Indonesia

A Berlin based e-commerce company, Rocket Internet, has started a direct competitor in Indonesia: carmudi.co.id. It's ranked 822nd most popular site in Indonesia by Alexa ([www.alexa.com](http://www.alexa.com)), well behind iCar Asia's mobil123.com which is ranked 333. Showing that mobil123.com is still the current leader by a significant margin. iCar Asia has rolled out its RMS product to Indonesia which is a free product aimed at car dealers to manage their inventory and self upload and manage advertisements. iCar Asia reports good engagement with car dealers in Jakarta, making it easy for car dealers to advertise on iCar Asia. The likely impact is to delay monetization in Indonesia until mobil123.com gets further traction, but ultimately **we expect the more focused resources of iCar Asia to win** in Indonesia.

## Financials

**Table 2: Forecast Earnings**

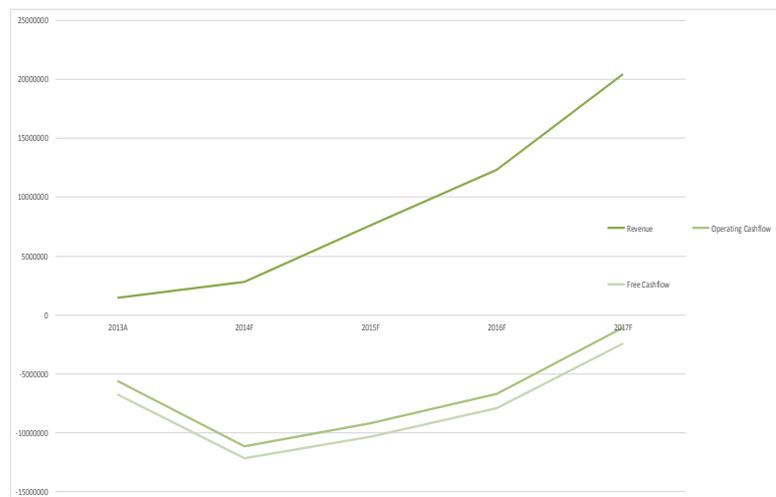
(Source: RM Research)

Earnings Forecast					
	2013A	2014A	2015F	2016F	2017F
<b>Revenue</b>	1,445,551	2,814,246	7,617,192	12,313,641	20,431,258
<b>Op. Cash flow</b>	-5,622,043	-11,153,593	-9,206,645	-6,676,736	-1,083,736
<b>F.C.F *</b>	-6,762,367	-12,201,294	-10,359,116	-7,944,454	-2,478,226

\* Free Cash flow excluding payments for purchases of subsidiaries

**Graph 2: Forecast for Revenue Vs Free Cash Flow**

(Source: RM Research)



**Table 3: Forecast - Revenue Details**

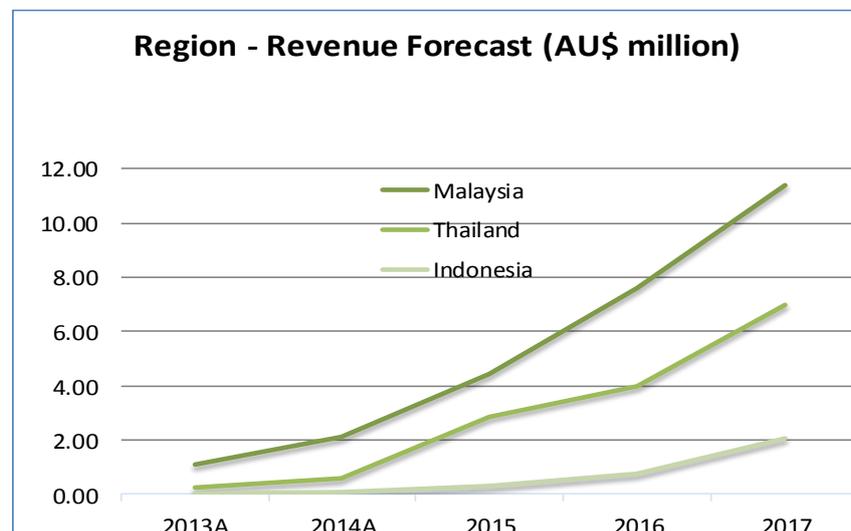
(Source: RM Research)

## Regional Breakdown

(AU\$ million)	2013A	2014F	2015F	2016F	2017F
Malaysia	1.10	2.13	4.46	7.58	11.39
Thailand	0.23	0.58	2.87	3.97	6.97
Indonesia	0.02	0.11	0.28	0.77	2.07
<b>Total</b>	<b>1.35</b>	<b>2.81</b>	<b>7.62</b>	<b>12.31</b>	<b>20.43</b>

**Graph 3: Revenue forecast for each Region**

(Source: RM Research)



## Financials

**Table 4: Summary Financials**  
(Source: RM Research)

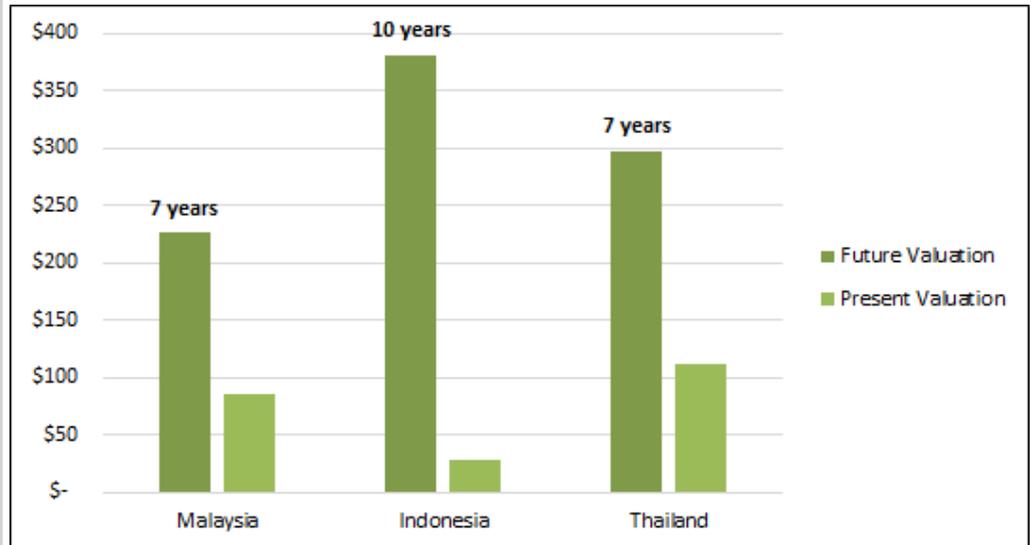
Profit Model (A\$ '000s)	2014A	2015F	2016F	2017F	Segment Revenue (\$A '000s)	2014A	2015F	2016F	2018F
<b>Revenue</b>	<b>2,814.25</b>	<b>7,617.19</b>	<b>12,313.64</b>	<b>20,431.99</b>	Malaysia	2,126	4,459	7,580	11,390
Expenses					Thailand	583	2,874	3,967	6,970
Administration and related expenses	(3,205.47)	(3,526.02)	(3,878.62)	(4,266.48)	Indonesia	105	284	767	2,072
Advertising and marketing expenses	(5,793.36)	(7,372.70)	(8,109.97)	(8,920.96)	<b>Total Revenue</b>	<b>2,814</b>	<b>7,617</b>	<b>12,314</b>	<b>20,432</b>
Employment related expenses	(5,782.77)	(6,361.04)	(6,997.15)	(7,696.86)					
Premises and infrastructure expenses	(900.18)	(990.19)	(1,089.21)	(1,198.13)	<b>Balance Sheet (A\$ '000s)</b>	<b>2014A</b>	<b>2015F</b>	<b>2016F</b>	<b>2017F</b>
Offline production costs	(323.82)	(356.20)	(391.82)	(431.00)	Cash and cash equivalents	15,361.64	3,326.91	(4,617.55)	(7,095.77)
<b>EBITDA</b>	<b>(13,191.34)</b>	<b>(10,988.96)</b>	<b>(8,153.12)</b>	<b>(2,081.45)</b>	Trade and other receivables	1,036.44	1,041.27	2,818.36	4,556.05
Depreciation and of amortisation expense	(762.75)	2,367.51	2,279.07	2,211.34	Other assets	689.89	689.89	689.89	689.89
Impairment of before assets	(3,040.69)	0.00	0.00	0.00	<b>Total current assets</b>	<b>17,087.97</b>	<b>5,058.07</b>	<b>(1,109.29)</b>	<b>(1,849.83)</b>
<b>Loss before interest and tax</b>	<b>(16,994.79)</b>	<b>(8,621.44)</b>	<b>(5,874.06)</b>	<b>129.89</b>	Property, plant and equipment	533.99	587.39	646.13	710.75
Interest income	430.36	460.85	99.81	0.00	Intangibles	6,106.93	6,717.62	7,389.38	8,128.32
Interest expense	(49.85)	#VALUE!	0.00	0.00	Goodwill	17,034.22	15,485.65	14,077.87	12,798.06
Loss before tax	(16,614.28)	(8,160.59)	(5,774.25)	129.89	<b>Total non-current assets</b>	<b>23,675.14</b>	<b>22,790.67</b>	<b>22,113.38</b>	<b>21,637.13</b>
Income tax (expense)/benefit	(85.65)	(94.22)	(103.64)	(114.00)	<b>Total assets</b>	<b>40,763.11</b>	<b>27,848.74</b>	<b>21,004.09</b>	<b>19,787.30</b>
<b>Profit/Loss after income tax</b>	<b>(16,699.93)</b>	<b>(8,254.81)</b>	<b>(5,877.89)</b>	<b>15.88</b>	Current liabilities	0.00	0.00	0.00	0.00
Foreign currency translation	226.93	0.00	0.00	0.00	Trade and other payables	4,482.92	4,931.21	5,424.33	5,966.76
<b>Total comprehensive income</b>	<b>(16,246.07)</b>	<b>(8,254.81)</b>	<b>(5,877.89)</b>	<b>15.88</b>	Provisions	980.04	1,078.04	1,185.85	1,304.43
					<b>Total current liabilities</b>	<b>5,462.96</b>	<b>6,009.25</b>	<b>6,610.18</b>	<b>7,271.19</b>
<b>Cash flow Statement (A\$ '000s)</b>	<b>2014A</b>	<b>2015F</b>	<b>2016F</b>	<b>2017F</b>	Borrowings	537.07	537.07	537.07	537.07
Receipts from customers	2,908.60	7,136.90	11,844.00	19,620.16	Payables	0.00	0.00	0.00	0.00
Payments to suppliers and employees	(14,507.28)	(16,958.01)	(18,653.81)	(20,519.19)	Total non-current liabilities	537.07	537.07	537.07	537.07
Interest received	535.19	614.47	133.08	(184.70)	<b>Total liabilities</b>	<b>6,000.02</b>	<b>6,546.32</b>	<b>7,147.24</b>	<b>7,808.26</b>
Interest paid	(90.10)	0.00	0.00	0.00	<b>Net assets</b>	<b>34,763.09</b>	<b>21,302.42</b>	<b>13,856.85</b>	<b>11,979.04</b>
<b>Cash flow from operations</b>	<b>(11,153.59)</b>	<b>(9,206.65)</b>	<b>(6,676.74)</b>	<b>(1,083.74)</b>	Issued capital	70,188.63	70,188.63	70,188.63	70,188.63
Payments for property, plant and equipment	(288.44)	(317.28)	(349.01)	(383.91)	Reserves	(10,067.21)	(10,067.21)	(10,067.21)	(10,067.21)
Payments for intangibles	(759.26)	(835.19)	(918.71)	(1,010.58)	Accumulated losses	(25,358.33)	(33,613.14)	(39,491.03)	(39,475.14)
Payment for purchase of subsidiary, net of cash acquired	(14,164.80)	(1,675.61)	0.00	0.00	<b>Total equity</b>	<b>34,763.09</b>	<b>34,763.09</b>	<b>34,763.09</b>	<b>34,763.09</b>
<b>Cash flow from Investments</b>	<b>(15,212.50)</b>	<b>(2,828.08)</b>	<b>(1,267.72)</b>	<b>(1,394.49)</b>					
Financing Cashflow	0.00	0.00	0.00	0.00					
Proceeds from issue of shares	30,241.14	0.00	0.00	0.00					
Share issue transaction costs	(995.04)	0.00	0.00	0.00					
Repayment of borrowings	0.00	0.00	0.00	0.00					
<b>Cash flow from financing</b>	<b>29,246.10</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>					
<b>Total Cash flow</b>	<b>2,880.01</b>	<b>(12,034.73)</b>	<b>(7,944.45)</b>	<b>(2,478.23)</b>					
<b>Free Cash flow excluding acquisitions</b>	<b>(12,201.29)</b>	<b>(10,359.12)</b>	<b>(7,944.45)</b>	<b>(2,478.23)</b>					

## Valuation

Using a comparison metrics of target countries to the Australian market, and considering the enterprise value of Carsales.com, we have estimated the future value of iCar Asia businesses per country. The metric we've focussed on is automotive advertising sales. Considering these metrics we value the company at \$224m, and have a price target of \$1.02 per share.

**Graph 4: Segment Valuations**

(Source: RM Research)



**Table 5 : Metrics used to estimate valuation**

	Australia	Malaysia	Indonesia	Thailand
GDP (US\$ m)	1,584,419	313,158	868,346	387,253
GDP growth	2.50%	4.70%	5.30%	2.90%
GDP per Capita	45,138	23,160	9,635	14,136
TOTAL ADVERTISING 2013(A\$B)		4.52	4.1	9.98
<b>Automotive Ad Spend</b>	<b>1000</b>	<b>95</b>	<b>160</b>	<b>125</b>
Automotive Ad Spend/ GDP bps	6.31	3.03	1.84	3.23
Registered Cars	13	9.8	11	5
Years to achieve		7	10	7
Future EV business		\$226	\$4380	\$297
Discount rate		15%	30%	15%
<b>Present Value</b>	<b>\$2,378</b>	<b>\$84.90</b>	<b>\$27.6</b>	<b>\$111.7</b>



*Key risks are typical for online businesses attempting to win a leading market position*

## RISK ANALYSIS

### Execution Risk:

iCar Asia may fail to execute its plan of building substantial market share in target markets. Failing to execute on this strategy will have significant impact on the valuation of the business.

### Currency Risk:

Profits are made in target markets so there is a translational risk of the Australia dollar appreciating or the target currencies declining. Some group costs are in Malaysian currency as group overheads are spent in Malaysia.

### Financial Position:

Cash as at the end of March was circa. \$10m. Our forecasts predict that this should be sufficient to carry the business until mid 2016. There are a variety of scenarios and consequences that may occur and investors should be mindful of the following:

- Management may initiate a capital raising that could significantly dilute existing investors. The impact of a capital raising would be dependent upon share price and market sentiment at the time of the capital raising
- Advertising spend of circa. \$5m in 2014 is expected to continue and increase in future years, however management may decide to reduce advertising spend as it is relatively simple way to cut costs (as opposed to reducing staff costs). This will slow future revenue growth.

### Market Risks:

Further declines in equity markets may continue to put pressure on companies whose value is dependent upon future growth, as investors switch out of risk into safe haven investments.

***A rare opportunity: A high growth technology company with a proven business model***

## CONCLUSION

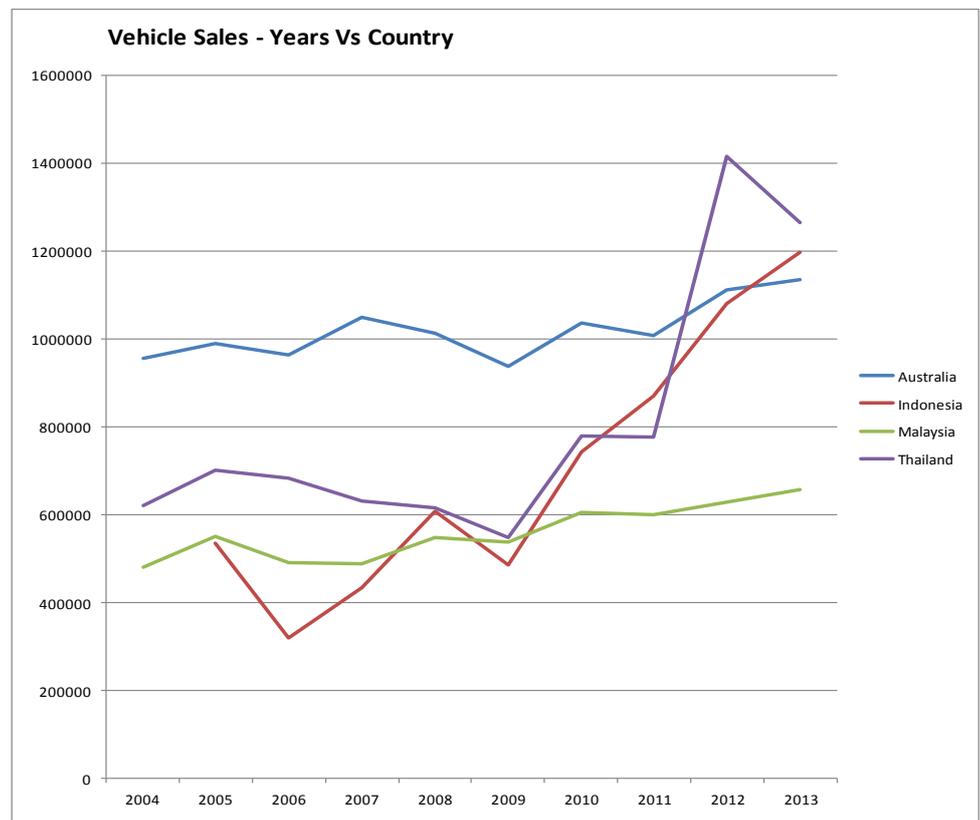
We see iCar Asia as following the path of Carsales in Australia. The progress to date has ticked all the right boxes by investing to obtain critical mass before monetising. iCar Asia has already started monetising in Malaysia. We expect Thailand to follow in the next 12 months, with monetisation of Indonesia in circa 3 years.

We particularly like this company as, unlike many technology companies with promising growth expectations, it is using a business model that has already been proven in the Australian market.

Comparing metrics of target markets to the Australian market we estimate the enterprise value of **\$268.2m**, and given little debt and a capital raising in late 2016 we have a price target of \$1.02 per share, which is **15% above** the current market price. Consequently, **RM Research** recommends iCar Asia as a **Speculative Buy**.

**Graph 5: Final Trend — Vehicle Sales**

(Source: RM Research)



## DIRECTORS & MANAGEMENT



**Patrick Grove**

*Non-executive Director and Chairman*

Board member and Chairman since June 2012. Mr Grove is a co-founder of iCar. Mr Grove's experience and expertise include mergers and acquisitions and extraction of investment value in high growth, media, and technology environments. Mr Grove has built a number of significant media and internet businesses across Asia and has taken four businesses from start up to initial public offer. He has been independently recognised with numerous international awards, including as a Global Leader of Tomorrow by the World Economic Forum (2001), a New Asian Leader by the World Economic Forum (2003), the Australian Chamber of Commerce, Singapore, Young Entrepreneur of the Year 2004), Business Week's Best Young Asian Entrepreneurs (2008) and Top 50 Global Achiever (2013) by Australia Unlimited. Mr Grove has a Bachelor of Commerce degree with a major in Accounting and Finance from the University of Sydney. Mr Grove is the Chief Executive Officer, Chairman and major shareholder of Catcha Group, one of South East Asia's most dynamic investment groups. Mr Grove is also the Chairman of iProperty Group Limited, and iBuy Group Limited, both ASX listed companies, and a director of Catcha Media Berhad, a Malaysia-listed company.



**Lucas Elliott**

*Non-executive Director*

Board member since April 2012. Mr. Elliott is a co-founder of iCar. He has over 15 years of Asian online experience, with a focus on enveloping fast moving online business models and monetising online assets. Mr. Elliott is also a co-founder of Catcha Group, where he is responsible for all aspects of Catcha Group's corporate finance activities, including mergers and acquisitions, capital raisings and public listings. Mr. Elliott has a Bachelor of Commerce degree with a major in Finance from the University of Sydney. Mr. Elliott is a director of iProperty Group Limited and iBuy Group Limited, both ASX listed companies, and Catcha Media Berhad, a Malaysia listed company.



**Shaun Di Gregorio**

*Non-executive Director*

Board member since July 2012. Mr. Di Gregorio has worked in online classifieds for nearly 15 years and is the Chief Executive Officer of iProperty. Prior to joining iProperty, Mr. Di Gregorio spent almost 8 years with the ASX listed REA Group Limited, in which time he was General Manager of Australian operations from 2005 to 2008, and then as General Manager of the REA Group Limited's international businesses Mr. Di Gregorio has also held senior roles at Trader.com and the interactive division of TMP Worldwide.



**Mark Britt**

*Non-executive Director*

Board member since July 2012. Mr. Britt is the Chief Executive Officer of the Mi9 group of companies, which include businesses across Australia and New Zealand such as ninemsn, The Daily Mail Australia, Bing, Outlook.com and MSN NZ. Mr. Britt has significant executive and commercial experience in the online, advertising and consumer technology fields in Australia, Europe and the Asia Pacific. Prior to joining Mi9 as Chief Executive Officer, Mr. Britt spent four years with Microsoft, based in Singapore as General Manager for Consumer and Online. As part of that role, Mr. Britt was also previously the Director of Corporate Strategy and Chief Financial Officer of ninemsn, and has worked at Pricewaterhouse Coopers, NASDAQ-listed ISP, People PC and Vizzavi in the United Kingdom.



**Cameron McIntyre**

*Non-executive Director*

Mr. McIntyre has been the Chief Financial Officer of carsales.com Limited since 2007 and was previously the Finance Director at Sensis. He has over 18 years of finance and administration experience. Cameron brings a wealth of knowledge and insight into operating leading automotive portals as well as assisting iCar Asia in leveraging its strategic partnership with carsales.com and the talent and resources that come with it



**Ajay Bhatia**

*Non-executive Director*

Ajay is currently the Chief Product & Information Officer of Carsales.com LTD, he joined Carsales 6 years ago. Prior to Carsales, he was a former Product & Technology Director at Fairfax Digital. He has over 11 years' experience in senior leadership roles in digital organizations. Ajay holds a Bachelors degree in Engineering from University of Technology, Sydney and a Masters in Management from the same University.

## Registered Offices

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## RM Research Recommendation Categories

Care has been taken to define the level of risk to return associated with a particular company. Our recommendation ranking system is as follows:

<b>Buy</b>	Companies with 'Buy' recommendations have been cash flow positive for some time and have a moderate to low risk profile. We expect these to outperform the broader market.
<b>Speculative Buy</b>	We forecast strong earnings growth or value creation that may achieve a return well above that of the broader market. These companies also carry a higher than normal level of risk.
<b>Hold</b>	A sound well managed company that may achieve market performance or less, perhaps due to an overvalued share price, broader sector issues, or internal challenges.
<b>Sell</b>	Risk is high and upside low or very difficult to determine. We expect a strong underperformance relative to the market and see better opportunities elsewhere.

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