

## SPEC BUY

Current Price \$0.027  
Valuation \$0.040

Monday, 4 September 2017

## Threat Protect (TPS)

### Picking up the run-rate

Analysts | Ian Christie, CFA | Dan Williamson

### Quick Read

The strong performance in 4Q17 sets TPS up well for FY18. The nature of both Monitoring and Guarding segments provides for a high degree of revenue consistency and we anticipate a baseload of ~\$14m revenue in FY18. We expect further acquisitive growth in the Monitoring business to boost this number and, given the leverage in the underutilised control rooms, have a positive impact on margin. We upgrade to a speculative buy (prior hold) recommendation on a revised blended valuation of \$0.040 (prior \$0.030).

### Event & Impact | Positive

**Strong end to the year:** TPS delivered better than expected full year results, with FY17 operating revenue up 58% to \$11.5m. Importantly the higher margin Monitoring segment saw revenue climb 84% to \$5.2m post the Apollo acquisition. Reported EBITDA for the group turned around strongly from a loss of \$5.1m in FY16 to a positive \$2.7m. Benefits of leveraging the fixed cost infrastructure were evident in the 4Q17 numbers released last month when, for the first time, we saw good operating cash inflows. The Company ended the year with a cash balance of \$1.2m, prior to a \$0.8m R&D claim that has been received since year end. The strengthening cash position is a key positive; together with undrawn facilities of >\$5m it places TPS in a position to maintain its strategy of acquiring further monitored security clients, and may help fund the deferred Apollo consideration of \$3.1m later this financial year (this amount was included in payables as at 30 June).

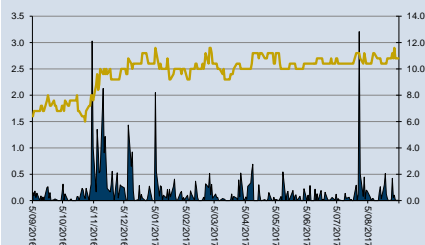
**Good run-rate into FY18:** TPS completed the acquisition of Apollo in March 2017 and its impact saw Monitoring revenue grow from ~\$0.8m in 2Q17 to ~\$1.1m in 3Q17 and ~\$1.8m in 4Q17. Extrapolating this run-rate provides a base for FY18 of ~\$7.2m from this segment, and we assume some organic and acquisitive growth in pencilling in Monitoring revenue of \$8.7m in FY18. Adding contributions from Guarding (~\$6.0m) and Services (~\$0.7m) we assume ~\$15.4m revenue this financial year (a 34% increase on FY17). Further, the benefits of scale should be positive for margins in the Monitoring segment; with only 30% current capacity utilisation across its control rooms, TPS can add monitored lines across Australia at little additional cost.

### Recommendation

The strategy remains focused on increased usage of the largely fixed cost monitoring infrastructure. The \$10.5m funding package negotiated late last year should back-up further acquisition related investing cash outflows and we expect operating leverage benefits to be increasingly reflected in earnings and cash flow over time. Different valuation calculations provide a range of values (see overleaf), however TPS is currently trading at the lower end of this range. We upgrade to a speculative buy recommendation (prior hold), on an upgraded blended valuation of \$0.040 (prior \$0.030).

Ticker:	TPS.ASX			
Sector:	Security			
Ordinary Shares (m):	779.4			
Market Cap (\$m):	21.0			
Net Debt / (Cash) (\$m):	6.2			
Enterprise Value (\$m):	27.3			
52 wk High/Low:	0.029	0.015		
12m Av Daily Vol (m):	0.84			
<b>Key Metrics</b>		18F	19F	
EV/EBITDA (x)		5.7	4.5	
EV/EBIT (x)		8.2	5.8	
P/E (x)		12.3	8.0	
<b>Ratios</b>		17A	18F	19F
ND / Equity	150.3%	147.5%	45.3%	
EBITDA Mgn	19.8%	31.0%	35.4%	
RoA	11.3%	17.8%	23.3%	
RoE	51.9%	37.7%	32.1%	
<b>Financials*:</b>		17A	18F	19F
Revenue (\$m)	11.47	15.40	17.26	
EBITDA (\$m)	2.28	4.78	6.10	
NPAT (\$m)	1.37	1.93	2.80	
Rep. NPAT (\$m)	1.69	1.93	2.80	
<i>* Normalised for one-offs unless otherwise stated</i>				
Net Assets (\$m)	4.2	6.1	11.4	
Op CF (\$m)	1.3	3.0	3.5	
<b>Per Share Data:</b>		17A	18F	19F
Norm. EPS (cps)	0.16	0.22	0.34	
DPS (cps)	0.00	0.00	0.00	
Div Yield	0.0%	0.0%	0.0%	
NTAPS (cps)	-1.28	-1.16	-0.54	
CFPS (cps)	0.15	0.34	0.42	

Share Price Graph



## Threat Protect

## Equity Research

Ian Christie, CFA

Recommendation	SPEC BUY
Current Price (\$)	0.027
Valuation (\$)	0.040

Sector	Security
Market Cap (\$m)	21.0
Date	4 September 2017

Trading Metrics	FY16A	FY17A	FY18F	FY19F
EV / EBITDA (x)		12.0	5.7	4.5
EV / EBIT (x)		19.7	8.2	5.8
P/E (x)		16.8	12.3	8.0
Dividend Yield (%)		0.0%	0.0%	0.0%

Per Share Data	FY16A	FY17A	FY18F	FY19F
Reported EPS (cps)	-0.95	0.20	0.22	0.34
Adjusted EPS (cps)		0.16	0.22	0.34
Div. per share (cps)		0.00	0.00	0.00
NTA per share (cps)		-1.28	-1.16	-0.54
CF per share (cps)		0.15	0.34	0.42

Profit and Loss (\$m)*	FY16A	FY17A	FY18F	FY19F
Revenue	7.24	11.47	15.40	17.26
EBITDA	(0.53)	2.28	4.78	6.10
D&A	(0.29)	(0.90)	(1.43)	(1.42)
EBIT	(0.82)	1.38	3.34	4.68
PBT	(1.22)	1.05	2.76	4.01
NPAT	(0.84)	1.37	1.93	2.80
Reported Revenue	7.40	12.91	15.40	17.26
Reported EBITDA	(5.06)	2.74	4.78	6.10
Reported NPAT	(5.37)	1.69	1.93	2.80

\* Normalised to reflect one-off income and expenses

Cash Flow (\$m)	FY16A	FY17A	FY18F	FY19F
Receipts		11.94	15.28	16.88
Payments		(10.29)	(10.84)	(11.49)
Other		(0.35)	(1.41)	(1.88)
Cash from Operations		1.30	3.03	3.51
Property, Plant & Equip		(0.47)	(0.16)	(0.20)
Payment for Subsidiary		(4.20)	(5.60)	(2.00)
Other		(1.72)	-	-
Cash From Investing		(6.38)	(5.76)	(2.20)
Issue of Shares		1.42	-	2.50
Net Borrowing (Incl. CN's)		4.38	2.50	2.00
Dividends / Other		-	-	-
Cash From Financing		5.80	2.50	4.50
Net Cash Flow		0.71	(0.23)	5.81
Ending Cash		1.16	0.93	6.74

Balance Sheet (\$m)	1H15A	FY17A	FY18F	FY19F
Cash	0.07	1.16	0.93	6.74
Receivables	0.61	3.05	3.16	3.55
Inventory	0.07	0.03	0.06	0.06
Other	0.14	0.48	0.48	0.48
Current Assets	0.89	4.72	4.63	10.83
Property, Plant & Equip	0.28	0.72	0.68	0.68
Intangibles	-	13.83	15.10	15.87
Other NC Assets	-	-	-	-
Non-Current Assets	0.28	14.55	15.78	16.56
Total Assets	1.17	19.27	20.41	27.39
Payables	2.26	5.91	2.62	2.29
Progress Claims / Dep	-	-	-	-
Borrowings	3.27	7.41	9.91	11.91
Provisions	0.40	0.54	0.54	0.54
Other	-	1.25	1.25	1.25
Total Liabilities	5.93	15.11	14.32	16.00
Net Assets	(4.76)	4.15	6.09	11.39
Ordinary Equity	1.35	14.62	14.62	17.12
Reserves	-	0.98	0.98	0.98
Retained Earnings	(6.11)	(11.45)	(9.52)	(6.71)
Total Equity	(4.76)	4.16	6.09	11.39

Valuation (on fully diluted shares)	Calcs.	\$m	\$ps
<b>DCF Valuation:</b>			
PV Free Cash Flow @ WACC of 10.9%	50.4		
Net Debt (excl. CN's), Unpaid Cap (\$m)	0.5		
Equity Value (fully diluted shares) (\$m)		50.9	0.049
<b>Multiple Valuations:</b>			
FY19 Revenue multiple	2.25	21.4	0.027
FY19 EBIT multiple	7.0	35.1	0.045
<b>Monitored Line Valuation:</b>			
Value closing FY19 monitored lines	\$500/line	33.0	
Including value of other segments -debt/+ cash		29.8	0.038
Valuation (\$ per share) - blend			0.040

Profit and Loss (\$m)*	1H16A	2H16A	1H17A	2H17A
Revenue	2.72	4.52	4.59	6.88
EBITDA	(0.21)	(0.32)	0.20	2.08
D&A	(0.08)	(0.21)	(0.22)	(0.68)
EBIT	(0.29)	(0.54)	(0.02)	1.40
PBT	(0.51)	(0.71)	(0.11)	1.17
NPAT	(0.51)	(0.33)	0.11	1.26
Reported Revenue	2.85	4.55	5.49	7.42
Reported EBITDA	(4.37)	(0.69)	0.95	1.79
Reported NPAT	(4.68)	(0.70)	0.64	1.06

\* Normalised to reflect one-off income and expenses

Cash Flow (\$m)	1H16A	2H16A	1H17A	2H17A
Receipts	2.90	4.70	5.06	6.88
Payments	(3.73)	(7.18)	(4.75)	(5.54)
Other	(0.13)	(0.14)	(0.25)	(0.10)
Cash from Operations	(0.97)	(2.62)	0.06	1.24
Property, Plant & Equip	0.01	(0.02)	(0.01)	(0.46)
Payment for Subsidiary	1.80	0.30	(0.81)	(3.39)
Other	-	(0.84)	0.01	(1.72)
Cash From Investing	1.80	(0.56)	(0.82)	(5.57)
Issue of Shares	(0.04)	2.89	1.43	(0.01)
Net Borrowing (Incl. CN's)	(0.66)	0.55	0.03	4.35
Dividends / Other	-	-	-	-
Cash From Financing	(0.70)	3.44	1.46	4.34
Net Cash Flow	0.13	0.26	0.70	0.01
Ending Cash	0.18	0.45	1.15	1.16

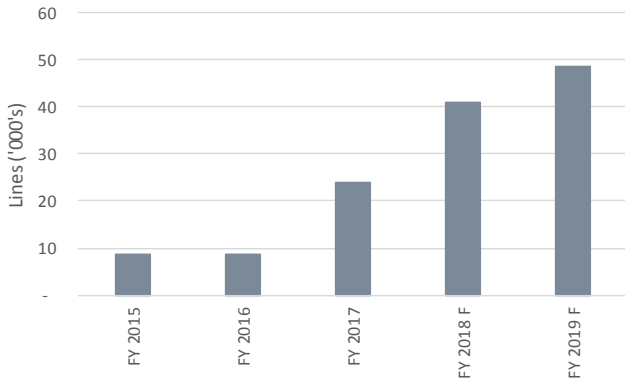
Financial Ratios	FY16A	FY17A	FY18F	FY19F
<b>Growth</b>				
Revenue growth (%)	n/a	58.5%	34.2%	12.1%
NPAT growth (%)	n/a	n/a	n/a	45.2%
Norm. EPS growth (%)	n/a	n/a	n/a	53.9%
<b>Profitability Ratios</b>				
EBITDA Margin (%)	-7.3%	19.8%	31.0%	35.4%
EBIT Margin (%)	-11.4%	12.0%	21.7%	27.1%
PBT Margin (%)	-16.8%	9.2%	17.9%	23.2%
NPAT Margin (%)	-11.6%	11.9%	12.5%	16.2%
Return on Assets (%)	-22.3%	11.3%	17.8%	23.3%
Return on Equity (%)	31.7%	51.9%	37.7%	32.1%
ROIC (%)	-46.2%	25.2%	22.0%	23.5%
<b>Balance Sheet Ratios</b>				
Net Debt (ND)		6.24	8.98	5.16
Net Debt (ND) / Equity (%)	209.4%	150.3%	147.5%	45.3%
ND / ND + Equity (%)		60.0%	59.6%	31.2%
Current Ratio (x)	0.3	0.6	1.1	2.8
Net Interest Cover (x)		5.6	5.7	6.9
<b>Cash Flow Ratios</b>				
Free Cash Flow Yield (%)	-11.4%		-11.5%	5.9%
Cash Conversion (x)			0.6	0.6

Threat Protect

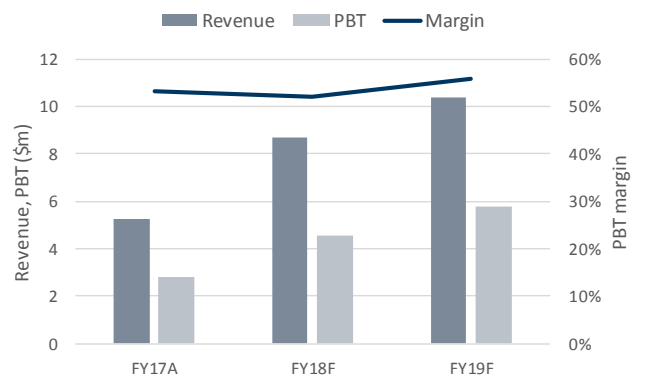
Key Charts

Equities Research

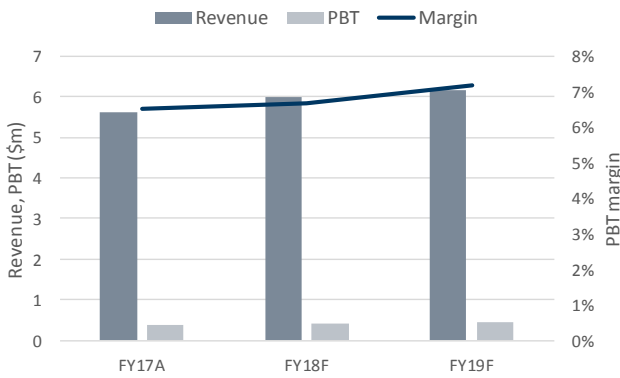
Monitoring Weighted Average Lines



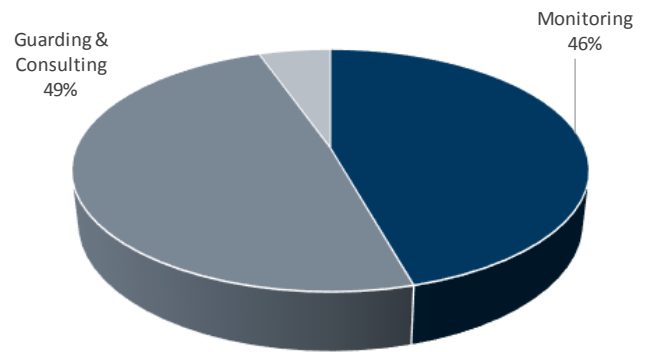
Monitoring Segment Earnings Forecasts



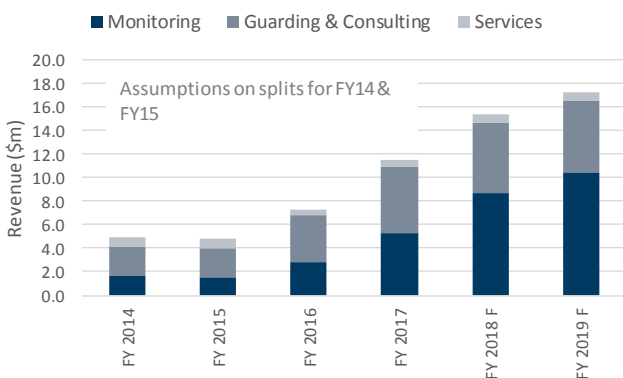
Guarding & Consulting Segment Earnings Forecasts



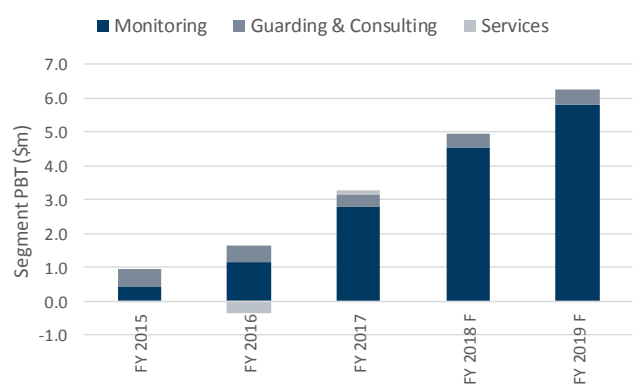
Revenue Split FY17A



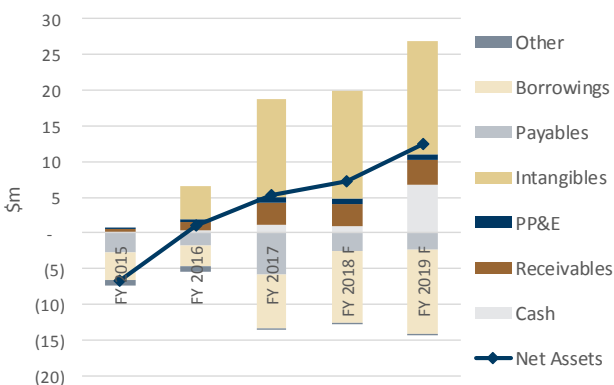
Revenue Forecasts



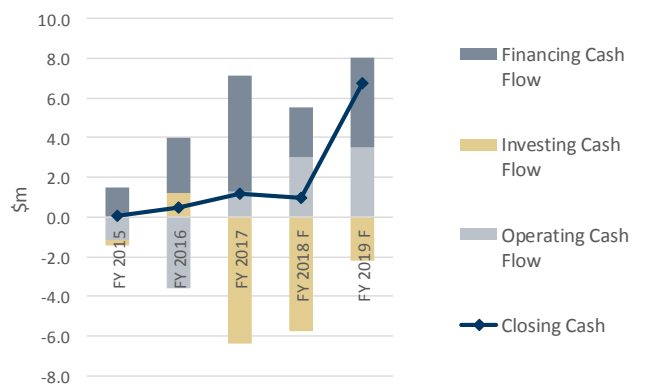
Segment PBT Forecasts



Net Assets



Cash Flow



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