

MORNING COMMENT

Buy **Crimson Tide**^{*#}

Fired up for growth

Price 3.25p
Target price 5p (3.5p)

Reuters/BBG TIDE.L / TIDE LN
Index FTSE AIM
Sector Software & Computer Services
Market Cap £15m

This morning's results are in line (rev £1.86m, PBT £0.4m) and mark another record year for the business. Of greater significance, TIDE is shifting its expansion efforts up a gear with substantial investment in new global markets: this will see sales channels established in the Netherlands, Australia, the US and Middle East. Whilst investment (primarily in headcount which has nearly doubled y-o-y) in the short term is expected to lead to a broadly flat profitability outcome in FY17, the benefits should be felt from FY18 onwards where we forecast a substantial ramp up in the revenue line. Although this increases the longer term forecast risk (but note the multi-year nature of contracts underpins a large part of the FY17 number), the TIDE model is coming of age and this should be reflected in the business' profitability and, ultimately, valuation. We retain a Buy recommendation and upgrade our T/P to 5p (was: 3.5p).

- Momentum building** Today's results illustrate the substantial momentum that has been building at TIDE over the past year. mpro5 is now employed in over 100,000 individual locations in the UK alone across a plethora of industries – FM, retail, hospitality, logistics and healthcare to name but a few. This has driven revenue to a record £1.86m – just as importantly, TIDE's multi-year contracts mean that visibility is also improving hence the baseline of revenue moving into FY17 is solid. PBT at £0.4m was more than double the £0.2m in FY15 whilst EPS, after allowing for a modest £4k of corporation tax, was 0.08p (0.04p). Net cash at the year end totalled £0.1m comprising gross cash and cash equivalents of £0.9m offset by £0.8m of borrowings secured on the devices deployed under subscription.
- Fired up for growth** TIDE's model is proven at relatively low levels of revenue but the key opportunity is to scale this up to build a much larger business. TIDE is grasping the nettle by making substantial investment ahead of the curve in people and new territories, a move we endorse. Whilst our FY17 revenue forecast is unchanged at £2.5m (we expect momentum to build in H2), the increase in overhead means that we expect a broadly flat outcome at the PBT and EPS levels (£0.4m and 0.08p respectively) before sales really start to motor in FY18. At £4.3m of revenue, and allowing for a full year run rate of increased overhead, we believe TIDE is capable of delivering a PBT of £1.0m (EPS 0.21p) in FY18. It is off this number that we choose to value TIDE vs a peer group of AIM quoted application software companies <£250m.
- New target price of 5p, reiterate Buy** Our new target price of 5p is based on applying an in-line Year-2 EV/EBITDA rating of 11x to TIDE's FY18 EBITDA forecast of £2.1m. Allowing for a small amount of net cash, this suggests fair value of £23m or 5p a share. This gives the shares, which have traded sideways for much of the past 12 months, 54% upside.

* WHIreland act as NOMAD and Broker to this company

Marketing Communication

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Analyst

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Y/E December	FY16A	FY17E	FY18E	FY19E
Revenue	1.9	2.5	4.3	6.8
WHI EBITDA	0.7	1.0	2.1	3.8
WHI PTP	0.4	0.4	1.0	2.3
WHI EPS (p)	0.08	0.08	0.21	0.43
P/E (x)	41.6	43.2	15.8	7.6
EV/EBITDA (x)	21.2	15.4	7.0	3.9

Source: WHIreland estimates

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Disclosures

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Buy

Expected to outperform the FTSE All Share by 15% or more over the next 12 months.

Outperform

Expected to outperform the FTSE All Share by 5/15% over the next 12 months.

Market Perform

Expected to perform in line with the FTSE All Share over the next 12 months.

Underperform

Expected to underperform the FTSE All Share by 5/15% or more over the next 12 months.

Sell

Expected to underperform the FTSE All Share by 15% or more over the next 12 months.

Speculative Buy

The stock has considerable level of upside but there is a higher than average degree of risk.

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The share price target is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon.

Stock Rating Distribution

As at 28 February 2017 the distribution of all our published recommendations is as follows:

Recommendation	Total Stocks	Percentage %	Corporate
Buy	52	81.3	39
Speculative Buy	8	12.5	8
Outperform	3	4.7	1
Market Perform	0	0.0	0
Underperform	1	1.6	0
Sell	0	0.0	0
Total	64	100	48

This table demonstrates the distribution of WH Ireland recommendations. The first column illustrates the distribution in absolute terms with the second showing the percentages.

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