**HITTING THE HEADLINES – 16 October 2017**

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# Cartrack in the fast lane

## GROWTH: EARNINGS AND SUBSCRIBERS JUMP

→ **While it's still small, analysts believe this is one to watch.**

**Warren Thompson**

**Moneyweb**

Vehicle recovery and telematics company Cartrack announced interim results for the six months to August on Wednesday that saw earnings growing handsomely on the back of a jump in subscriber numbers.

The company's primary business is the tracking and recovery of vehicles for which it charges subscription fees. The number of subscribers increased by 21% to 666 422 across the 24 countries its services are offered in. Growth was spread geographically, with increases in SA of 19%, in Europe of 24% and Asia Pacific of 122%. The only blot was in the rest of Africa, which saw subscriber numbers stay constant but revenue fall.

This saw subscriber revenue jump by 19% versus the same period in 2016. It contributed to the 14% increase in total revenue of R629 million.

What was particularly impressive was the company's ability to increase margins. Its Ebitda rose faster than revenue, advancing 26% to R297 million, and increased in absolute terms from the same time last year, moving from 43% to an eye-popping 47% during the current period.

This allowed headline earnings per share to increase by 20% to 46 cents. Cartrack delivered an interim dividend of 18 cents per share. The share price quickly bumped its way up to R15/share in response to the results before settling on R14.47, nearly 3% higher than the previous day.

At the current valuation, a doubling of the company's half-year earnings would place it on a price-earnings ratio of a moderate 15.7 times. This hardly looks expensive for a company that has grown subscribers and revenue at a compound rate of 20% over the past five years, and which presents investors with increasing margins.

The other power in Cartrack's investment proposition is the highly cash generative nature of its business. Eighty-eight percent of its total revenue is annuity income as a result of the large subscriber base. And of the revenue generated, 91% results in operating cash flow (and dividends).

Wayne McCurrie, senior portfolio manager at Ashburton Investments, thinks the company has not been fully recognised for its growth. "It has been on a strong trajectory for a long time now. It's still a relatively small company but a lot more people are going to start looking at it post this result. The growth in its subscriber base, which will obviously pay off in the next year, was phenomenal."

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**Wayne McCurrie**
Senior portfolio manager at Ashburton Investments