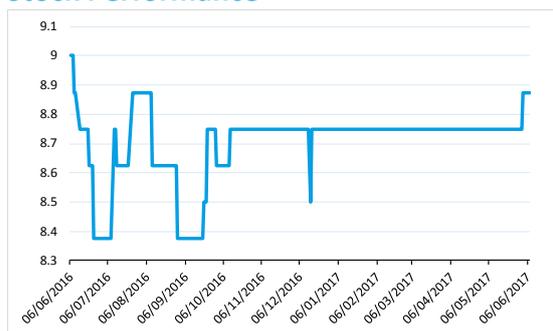


An unassuming star

Key Statistics: Priced at 0900 14 Jun 2017

Code	NASA.L
Listing	AIM
Sector	IT Services
Market Cap	£51.43m
Share in issue	574.26m
Current Price	8.88p
12 mnth High/Low	9.00p/8.25p

Stock Performance



Source: Fidessa

Financials y/e Dec

Y/E Dec	2015A	2016A	2017E	2018E
Revenue	13.8	18.7	25	27
Adjusted PBT	1.6	1.9	3.5	4.3

Source: Company Results AND House Broker forecasts.

Company Description

Nasstar is one of the UK's leading managed IT service providers. It delivers bespoke clouds, professional services, managed IT, and a range of technical products to organisations operating within eight strategic industry sectors (Legal, Recruitment, Finance, Government, Charity, Media, Property, and Independent Software Hosting.) Nasstar can completely replace its customers' IT departments offering services from hosted desktops and applications through to Cyber Security,

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Over the last three years, shares in Nasstar are up just 10%. Over that time revenues have grown 67% via organic growth and acquisitions (FYDec14 through to 16), with a further 33.7% expected this year following the Q4 2016 Modrus acquisition. Nasstar is a managed IT services provider, and as such does not perhaps attract some of the hype that some SaaS application based companies have attracted such as LoopUp which came to market last year and trades at nearly 4x current year forecasted revenues and over 19x EBITDA. However, Nasstar is a leading light in enabling cloud computing. Nasstar's business has many characteristics that SaaS companies wish to achieve, and we believe the cash generative dividend paying business deserves a re-rating should it continue to deliver on its strategy.

What we like about Nasstar:

Quality of revenues: 88% recurring revenues. Gross margin 69%. Mission critical to clients and therefore sticky.

Solid financial performance despite underperformance of VESK assets. FYDec16 revenues up 36% to £18.7m (5% organic). Adjusted EBITDA up 32% to £3.8m, converted to £3.2m operating cashflow. Net debt less than 1x adjusted EBITDA. Nasstar paid a dividend of 0.052p/share for 2016.

Remains Acquisitive. August 2016 acquisition of Modrus for £13m strengthens certain markets, and extends technical capabilities, expected to be moderately earnings enhancing in current financial year.

Current year house broker forecasts of £25m revenue (growth of 33% benefitting from first full year of Modrus trading) supported by opening recurring revenue run rate of £21.6m. Therefore only 13.6% of the target needs to be achieved from new business wins. Sector specialisms include several regulated sectors, where Nasstar believes the burden of regulation and compliance makes them receptive to the high levels of functionality and security provided by an outsourced hosted solution.

The shares are on a FY2018E adjusted PE of 12.4x, a discount of 36% to the sector, and based on prospective EPS growth are on a PEG multiple of 0.46x, suggesting that the valuation for these growth levels is undemanding and that there is scope for the rating gap with the sector to close. Over time Nasstar has stated that it intends to integrate and streamline teams and reporting structures to increase revenue per head by 25% which points to a material uplift in margins and potential further acceleration in EPS Growth. Delivery of the strategy and current forecasts could see the shares more than double from here.

Financial Statements

Profit & Loss y/e Dec

	Year ended 31-Dec 2016 £	Year ended 31-Dec 2015 £
Revenue	18,748	13,759
Cost of sales	-5,805	-4,085
Gross profit	12,943	9,674
Administrative expenses	-14,350	-10,837
Share based payments	-47	-222
Amortisation of customer intangibles	-3,374	-2,424
Other administrative expenses	-10,722	-7,893
Administrative expenses before exceptional items	-14,143	-10,539
Operating loss before exceptional items	-1,200	-865
Exceptional items	-207	-298
Operating loss	-1,407	-1,163
Financial income	1	1
Financial expenses	-365	-134
Loss before tax	-1,771	-1,296
Taxation	644	987
Loss for the period and total comprehensive income for the period, attributable to shareholders	-1,127	-309
Loss per share:		
Basic	(0.3p)	(0.1p)
Diluted	(0.3p)	(0.1p)

Source: Company Accounts

Cash Flow Statement y/e Dec

	Year ended 31-Dec 2016 £	Year ended 31-Dec 2015 £
Cash flows from operating activities		
Loss for the period	-1,127	-309
<i>Adjustments for:</i>		
Net finance charges	364	133
Taxation	-644	-987
Depreciation and amortisation	4,912	3,496
Share based payments	47	222
Corporation tax payments	17	135
Net cash flow from operating activities before changes in working capital	3,569	2,690
(Increase)/decrease in inventories	29	-1
(Increase)/decrease in trade and other receivables	-1,046	-8
(Decrease)/Increase in trade and other payables	669	-564
Net cash from operating activities	3,221	2,117
Cash flows from investing activities		
Acquisition of intangible assets	-137	-141
Acquisition of property, plant and equipment	-1,672	-712
Acquisition of subsidiary undertaking net of cash acquired	-10,921	-5,763
Net cash used in investing activities	-12,730	-6,616
Cash flows used from financing activities		
Issue of ordinary shares	13,300	-
Expenses of issue of ordinary shares	-371	-
Bank finance raised	-	6,375
Cost of raising bank finance	-	-187
Repayment of lease finance arrangements	-526	-486
Repayment of bank loan	-967	-399
Interest paid	-365	-134
Interest received	1	1
Dividend Paid	-173	-
Net cash from financing activities	10,899	5,170
Net increase/(decrease) in cash and cash equivalents	1,390	671
Cash and cash equivalents at start of period	1,579	908
Cash and cash equivalents at 31 December	2,969	1,579

Source: Company Accounts

Balance Sheet y/e Dec

	Dec-16 £	Dec-15 £
Non-current assets		
Goodwill	15,421	8,148
Intangible assets	13,645	10,835
Plant and equipment	5,235	3,296
	34,301	22,279
Current assets		
Inventories	9	10
Other financial assets	7	-
Trade and other receivables	4,715	2,422
Cash and cash equivalents	2,969	1,579
	7,700	4,011
Total assets	42,001	26,290
Non-current liabilities		
Interest-bearing loans and borrowings	4,091	4,943
Deferred tax liability	1,946	1,493
	6,037	6,436
Current liabilities		
Interest-bearing loans and borrowings	1,711	1,766
Trade and other payables	6,014	2,978
	7,725	4,744
Total liabilities	13,762	11,180
Net assets	28,239	15,110
Equity attributable to equity holders of the parent		
Share capital	5,795	3,849
Other Reserves	22,444	11,261
Total equity	28,239	15,110

Source: Company Accounts

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