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Mobile Embrace (MBE)

Embracing the many levers of growth

Outperform
\$0.30

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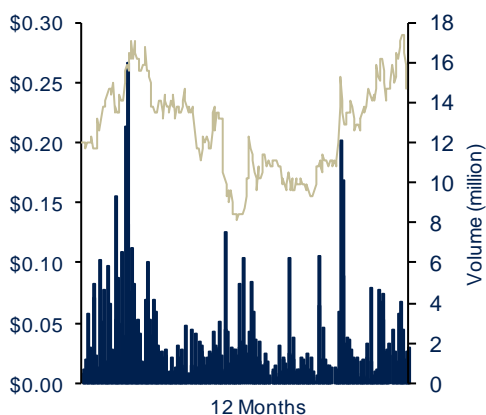
Summary

Market Capitalisation	\$117.6m
Share Price	\$0.30
52 week low	\$0.13
52 week high	\$0.32
Ave Monthly Vol (year rolling)	44.8m

Key Financials (A\$ million)

Year End	FY14 Act.	FY15 Est.	FY16 Est.
Revenue (\$m)	32.8	46.6	59.3
EBITDA (\$m)	5.1	9.5	14.7
NPAT (\$m)	3.0	6.7	10.7
EPS (c)	0.8	1.7	2.7
EPS Growth (%)	4%	113%	59%
PE (x)	37.2x	17.5x	11.0x
DPS (c)	0	0	0
Div Yield	na	na	na
EV (\$M)	103.8	103.8	103.8
EV/EBITDA (x)	20.4x	11.4x	7.1x
ROE	13.5%	23.0%	26.7%
EBITDA Margin	15.6%	20.3%	24.7%
Payout Ratio	na	na	na

Share Price Graph (A\$)



Our View

MBE delivered a strong FY15 result, with EBITDA of \$5.1m exceeding our estimate (\$4.7m) by 9% and implying growth of 62% on FY14. The strong result was driven by robust organic earnings growth across both operating divisions, acquisition contributions and 2H margin expansion (EBITDA 12.3% to 17.7%), highlighting the operating leverage of the business. We increase our FY16 EBITDA (\$9.5m) estimate by 6% as a result of 1) accelerating momentum in the existing business and 2) the Vizmond acquisition. We see substantial further upside to our numbers coming from the UK mobile payments business, Clipp and future acquisitions, supported by a strong balance sheet (\$7m cash, no debt). Trading on 17.5x FY16 PE, with EPS growth of 113% and 60% over the next 2 years, potential upside from a number of identifiable channels, and the tailwinds of a rapidly growing mobile market, the stock remains cheap in our view. We upgrade our price target to \$0.39/sh and reiterate our Outperform recommendation.

Forecast changes – we increase our forecast revenue numbers by 14% and 18% in FY16 (\$46.7m) and FY17 (\$59.3m) respectively to reflect higher m-payments revenues, particularly in international markets (UK), and contributions from the acquired Vizmond business. Given Vizmond’s high margin earnings (~40% EBITDA) and the relatively fixed overhead base of the existing MBE business (ex customer acquisition), we expect overall EBITDA margins to increase to 20.3% in FY16 and 24.7% in FY17. We now forecast NPAT of \$6.7m and \$10.7m over FY16/FY17, implying growth of 120% and 60% respectively.

Vizmond acquisition – MBE announced the acquisition of a profitable digital performance marketing business, Vizmond Media, for \$2.5m to be funded from existing cash reserves. The acquisition is conservatively priced (2.5x EBITDA upfront) and is expected to generate \$2.5m of revenue and \$1.0m EBITDA in FY16. Vizmond’s lead generation platform is highly complementary to MBE’s existing suite of technology and comes with a growing database of over 750k active members. Given MBE’s balance sheet strength, we anticipate further earnings accretive acquisitions will be made in the coming periods.

Valuation. MBE trades on 17.5x our FY16 EPS forecast, falling to 10.9x in FY17, which we view as undemanding given its 1) robust near term EPS growth profile; 2) significant upside potential from international m-payments revenues; 3) potential for near term corporate activity and 4) high leverage to a rapidly growing mobile advertising market (5-year CAGR 39%) Our increased price target of \$0.39/sh implies >20% upside to current trading levels, which underpins our Outperform recommendation.

Mobile Embrace - Summary of Forecasts	\$0.30
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PROFIT & LOSS SUMMARY (A\$m)			
Period	FY15A	FY16E	FY17E
Total Revenue	32.8	46.6	59.3
<i>Growth (pcp)</i>	71%	42%	27%
EBITDA	5.1	9.5	14.7
D&A	(1.0)	(1.1)	(1.2)
EBIT	4.1	8.3	13.4
Net Interest	0.2	0.3	0.3
Pre-Tax Profit	4.1	8.6	13.7
Tax Expense	(1.0)	(1.9)	(3.0)
NPAT	3.0	6.7	10.7
<i>Growth (pcp)</i>	22%	121%	59%
Abnormals	0.0	0.0	0.0
Reported Profit	3.0	6.7	10.7

PER SHARE DATA			
Period	FY15A	FY16E	FY17E
EPS (c)	0.81	1.72	2.73
<i>Growth (pcp)</i>	4%	113%	59%
Dividend (c)	0.0	0.0	0.0
Franking	100%	100%	100%

KEY RATIOS			
Period	FY15A	FY16E	FY17E
EBITDA Margin (%)	15.6%	20.3%	24.7%
EBIT Margin (%)	12.6%	17.9%	22.7%
Debtor Days	100	100	100
EBIT Interest cover (x)	na	na	na
Current ratio (x)	2.3	2.5	2.9
Net Debt : Equity (%)	na	na	na
ROE (%)	14%	23%	27%
Dividend Payout Ratio	na	na	na

Valuation			
Period	FY15A	FY16E	FY17E
PE Ratio (x)	37.2	17.5	11.0
Dividend Yield (%)	na	na	na
FCF Yield (%)	3.3%	4.0%	7.5%
EV/EBITDA (x)	21.2	11.4	7.4
EV/EBIT (x)	26.2	13.0	8.0

BALANCE SHEET SUMMARY			
Period	FY15A	FY16E	FY17E
Cash	9.5	8.4	13.7
Receivables	9.0	12.8	16.3
Other	0.4	0.4	0.4
Total Current Assets	19.0	21.6	30.4
Property Plant & Equip	0.2	0.5	0.9
Intangibles	10.2	12.8	12.9
Other	2.6	4.4	6.7
Total Non-Current Assets	13.0	17.7	20.5
TOTAL ASSETS	32.0	39.3	50.9
Accounts Payable	4.7	6.8	8.6
Tax Liabilities	1.2	1.2	1.2
Provisions	0.6	0.6	0.6
Borrowings	0.0	0.0	0.0
Other	0.0	0.0	0.0
Total Current Liab	6.5	8.6	10.4
Deferred Consid.	1.2	1.2	0.0
Other	0.1	0.1	0.1
Total Non-Current Liab	1.2	1.2	0.1
TOTAL LIABILITIES	7.8	9.8	10.4
TOTAL EQUITY	24.2	29.5	40.5

CASH FLOW SUMMARY			
Period	FY15A	FY16E	FY17E
EBITDA	5.1	9.5	14.7
Tax	0.0	(1.9)	(3.0)
Interest	0.2	0.3	0.3
Working Capital	(2.3)	(1.8)	(1.6)
Other	(0.1)	0.0	0.0
Operating Cash Flow	5.3	6.0	10.3
Capex	(1.5)	(1.3)	(1.4)
Free Cash Flow	3.8	4.7	8.8
Issues of Shares	0.1	0.0	0.0
Net Borrowings	0.0	0.0	0.0
Acquisition related	(6.5)	(5.8)	(3.5)
Dividends	0.0	0.0	0.0
Net cash Flow	(2.7)	(1.2)	5.3

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