

MOBILE EMBRACE LIMITED (MBE)

FY15 Result Review

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We say

Price

Target

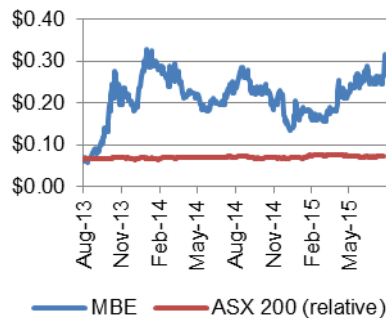
Strategic Target

BUY

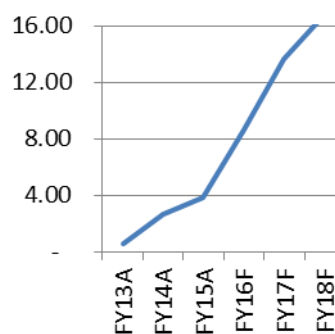
0.30 0.41 0.60

MBE delivered a strong FY15 result along with some encouraging data points resulting in an upgrade to our forecast and valuation. MBE is forecast to grow EBIT by 127% and 57% p.a. in FY16 and FY17 respectively and has a strong and clean balance sheet. Off the back of successful execution, MBE is developing into a genuine global technology growth story linked to the global growth of mobile advertising and payments.

MBE SHARE PRICE



MBE FORECAST EBT GROWTH (\$M)



COMPANY DATA & RATIOS

Enterprise value	\$108,000,000
Market cap	\$117,560,929
Issued capital	391,869,763
Free float	~ 89%
12 month price range	\$0.13 - \$0.32
GLCSector	Application Software

SOLID RESULT

MBE reported FY15 revenue of \$33M (+ 71%), EBITDA of \$5M (+ 62%), and NPAT of \$3M (+ 22% after a higher tax rate). A record Q4FY14 revenue result of \$10.4M, growing momentum in international markets and a strong start to FY16 bodes well for further growth. MBE ended FY15 with \$9.5M of cash and we forecast strong positive cash flow for FY16.

GLOBAL GROWTH

MBE is developing a global business model and technology platform leveraged to the high growth mobile marketing and mobile payments industry. MBE is forecast to turn an initial profit in Singapore and Switzerland in FY16, followed by an initial profit in the large UK market in FY17 with their mobile payments offer.

GROWTH AT A REASONABLE PRICE

Following a strong year of management execution by MBE, a strong industry growth outlook and MBE's global growth opportunity appearing closer and a higher probability scenario, the current FY16 PE of 17 times and FY17 PE of 11 times does not seem excessive and provides an opportunity for investors with a 2 year view. We maintain our BUY.

DEVELOPING FOR GLOBAL GROWTH

MBE's M-Marketing Division – delivered profitable growth in FY15 with significant revenue growth (+ 118%) and the EBITDA margin increasing to ~ 6.2% (up from 1.4% in FY14). We forecast EBITDA margins settling at ~ 15% in the coming years.

There is widespread industry forecasts suggesting growth in the mobile marketing spend in Australia to grow in excess of 50% p.a. for the next 3 years.

MBE has secured a dominant position in the Australian mobile marketing industry with the recent acquisitions of The Performance Factory and Eggmobi, being added to the existing market leading business (4th Screen Advertising).

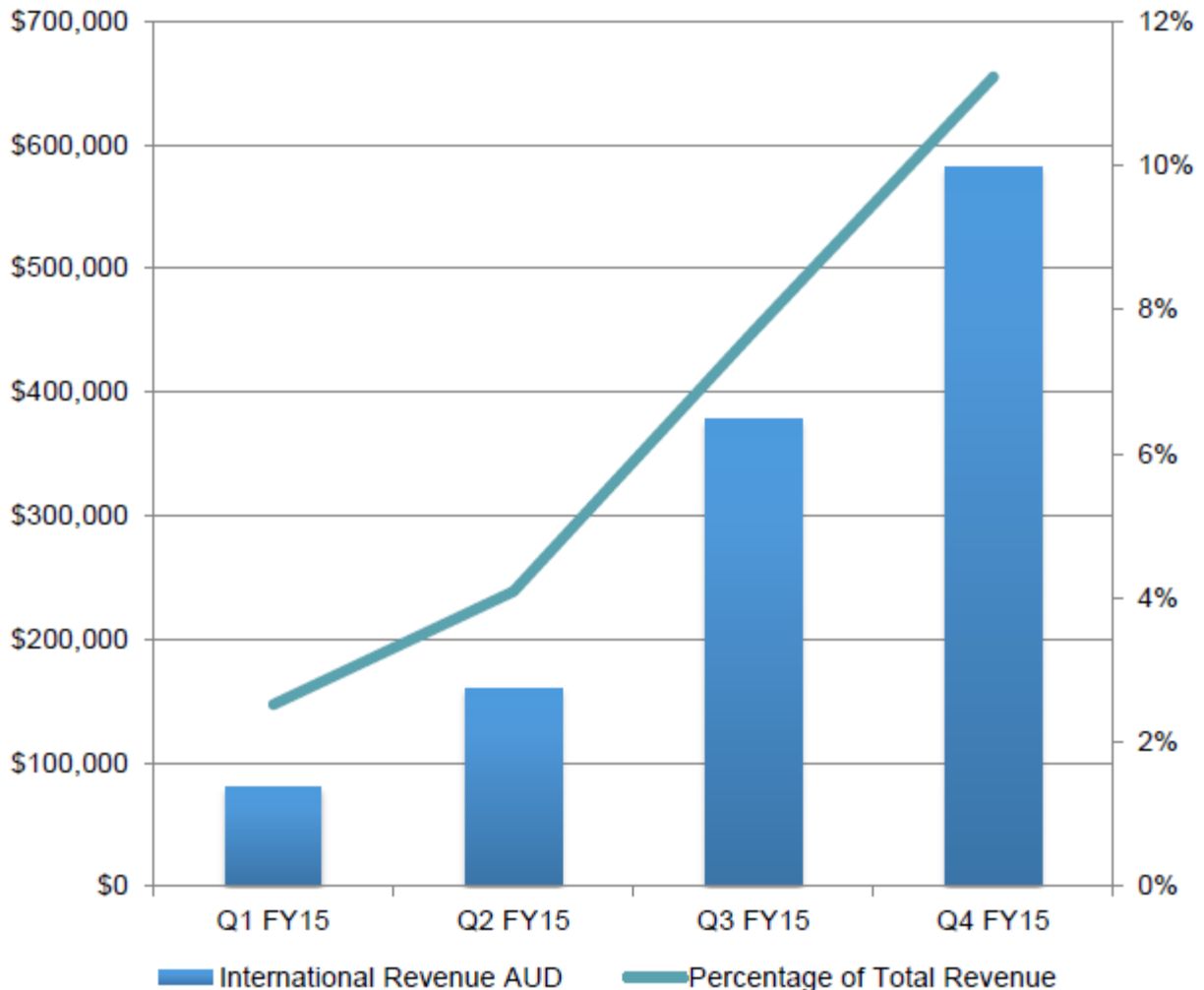
MBE announced the acquisition of Vizmond Media for an upfront consideration of \$2.5M (with earn out provisions). Vizmond is a profitable and technologically advanced online and mobile performance marketing business.

With the early signs of the mobile marketing sector in Australia growing in line with industry forecasts, combined with MBE having consolidated their market leading position, the outlook for continued profitable growth is encouraging.

MBE's M-Payments Division – is the key delta in determining whether MBE can deliver global growth. MBE is not a single payment solution reliant on mass market adoption. There is a significant opportunity in the global mobile payments space for an integrated platform that can transact telco billing, credit cards, PAYPAL and Apple Pay on mobile devices. MBE has proven their ability to deliver with telco billing in the Australian market primarily with the games product and is positioned to deliver across all payment solutions. MBE delivered ~ \$22M of revenue in FY15 (+ 54%). Our investment thesis continues to be that if MBE can replicate this success in Australia with another product outside of games or more importantly in an international market, the upside is significant. Increasingly the focus is on profitable earnings growth in new markets.

An encouraging data point from the FY15 result was that international transactions had grown to 11% of MBE's total mobile payments transactions and the company points to "material growth for FY16". MBE is forecast to turn an initial profit in Singapore and Switzerland in FY16, followed by an initial profit in the large UK market in FY17. The UK market is the key delta for MBE's mobile payments growth and encouragingly MBE is now connected across all major Telcos

in the UK and are close to a full scale market rollout in FY16. The below chart summarises the growth rate of international mobile payments revenue for MBE:



Source: MBE Investor Presentation

FY15 saw the first year of meaningful revenues for the M-Payments business from the international markets. Following over 12 months of investment in the cost base, FY16 will be a key measure of the success of this investment. The Australian market was launched in 2013 and has an addressable market of 22M mobile users. MBE delivered a ~ \$7m EBITDA result from the Australian market in FY15. The details of the 3 key international markets are broken down below:

1. **Singapore** – current serviceable market of 1.5M mobile users from the telco billing relationship with Singtel. The serviceable market has the potential to increase by bringing on rival telco M1. Revenues were first

generated in June 2014, with a breakeven run rate expected in calendar year 2015.

2. **Switzerland** – current serviceable market of 6.4M. Revenues were first generated in October 2014, with a breakeven run rate expected by the first half of calendar year 2016.
3. **United Kingdom** – current serviceable market of 83M. Revenues were first generated in January 2015, with a breakeven run rate expected by the June quarter 2016. All the telco relationships are now bedded down. The UK is the significant international market opportunity for MBE, which remains a major watch point following an encouraging start in calendar year 2015 to date

We once again emphasise the primary watch point is whether MBE can deliver profit growth in conjunction with the anticipated revenue growth in these new markets. If the losses can be stemmed from the new international markets and the \$7M EBITDA result from the Australian market replicated in the UK, the upside is significant.

MBE Management have guided to the fact that the investment in the cost base has now occurred and has put in place the required platform to deliver profitable growth. We will closely monitor this metric in determining the ultimate valuation for the MBE business.

Our divisional forecasts are outlined below:

	FY13A	FY14A	FY15A	FY16F	FY17F	FY18F
Revenue by Division (\$A)						
Mobile Payments (Convey)	9,147,458	14,161,911	21,837,249	30,814,402	40,058,722	46,067,530
Mobile Advertising (4th Screen)	3,080,933	5,018,819	10,927,372	16,391,058	21,308,375	24,504,632
other	-	-	-	-	-	-
Total Revenue	12,228,391	19,180,730	32,764,621	47,205,460	61,367,097	70,572,162
% Revenue Growth		57%	71%	44%	30%	15%
Mobile Payments (Convey)	839,000	4,864,365	6,274,952	9,593,785	14,074,270	18,028,112
Mobile Advertising (4th Screen)	- 384,000	72,750	676,497	2,303,302	3,196,256	3,675,695
corporate costs	-	- 1,797,136	- 1,919,449	- 2,100,000	- 2,310,000	- 2,541,000
EBITDA	1,034,348	3,139,979	4,780,834	9,797,088	14,960,526	19,162,806
EBITDA margin	8.5%	16.4%	14.6%	20.8%	24.4%	27.2%
EBIT	593,586	2,667,275	3,807,883	8,671,043	13,680,331	16,793,640
EBIT Margin	5%	14%	12%	18%	22%	24%

Source: BOEQ

The key points relating to our forecasts are outlined below:

- Our FY16 EBITDA forecast of \$9.8M is ~ 7% higher than our previous forecast. The primary reason for the increase is a more optimistic outlook on the international markets growth in M-Payments. The continued growth in the mobile marketing business and the recent acquisition of Vizmond also contributed to the upgrade.
- Our FY17 EBITDA forecast of \$15M has also been upgraded by ~ 7%. This forecast assumes the losses can be stemmed from the new international markets and the \$7M EBITDA result from the Australian market replicated in the international markets. This scenario would result in earnings per share of ~ 3.0 cps, providing significant upside from the current valuation of \$0.30 per share.

VALUATION AND RECOMMENDATION

In the near term, we value MBE at \$0.41 per share using a blended valuation approach. FY17 earnings are used for the PE based approach applying a 15 times PE multiple. FY17 is used as we believe this is reflective of the earnings potential for MBE with the visible pipeline ahead for the business. We combine this with a DCF based valuation approach using a beta of 1.5 and WACC of 12.5%

The recent upgrade of our price target from \$0.30 per share to \$0.41 per share is driven by an upgrade in our forecast numbers combined with rolling the valuation year to FY17.

Applying a longer term approach and the ability for MBE to secure its position as a global player in the mobile payments industry with multiple products successfully implemented in multiple regions, we apply a strategic value of \$0.60 per share.

We retain our BUY recommendation.

SUMMARY FINANCIALS

Stock Details

Recommendation:	Buy								
Valuation	\$0.41		52 Week High	\$0.32				Market Capitalisation	\$117m
Share price	\$0.30		52 Week Low	\$0.13				Free Float	90%
Upside/downside	34%								

Profit & Loss Analysis

(A\$m)	FY13A	FY14A	1H15A	2H15A	FY15A	FY16F	FY17F
Total Revenue	12.2	19.2	14.1	18.7	32.8	47.2	61.4
Expenses	-11.2	-16.0	-12.3	-15.6	-28.0	-37.4	-46.4
EBITDA	1.0	3.1	1.7	3.0	4.8	9.8	15.0
D&A	-0.4	-0.5	-0.5	-0.5	-1.0	-1.1	-1.3
EBIT	0.6	2.7	1.3	2.5	3.8	8.7	13.7
Tax	0.1	0.0	0.1	-1.1	-1.0	-2.0	-3.1
NPAT (pre abnormal)	0.7	2.7	1.5	1.5	3.0	7.0	11.0
Net profit after tax	0.4	2.6	1.5	1.5	3.0	7.0	11.0
Basic EPS (cents)	0.1	0.8	0.4	0.4	0.8	1.8	2.8
Diluted EPS (cents)	0.1	0.8	0.4	0.4	0.7	1.7	2.6
DPS (cents)	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Ratio Analysis

Revenue growth	7.6%	56.9%			75.3%	44.1%	30.0%
EBITDA margin	8.5%	16.4%			14.6%	20.8%	24.4%
EBIT margin	4.9%	13.9%			11.6%	18.4%	22.3%
EBIT growth	-106.5%	349.3%			42.8%	127.7%	57.8%
NPAT growth	-427.5%	311.7%			13.7%	128.9%	57.2%
EPS growth	-216.7%	497.4%			-7.1%	128.9%	57.2%
DPS growth	-	-			-	-	-
Tax rate	#REF!	0.0%			26.6%	22.5%	22.5%

Cash Flow Analysis

(A\$m)	FY13A	FY14A	1H15A	2H15A	FY15A	FY16F	FY17F
EBITDA	1.0	3.1	1.7	3.0	4.8	9.8	15.0
Increase in working capital	-2.3	0.3	-2.2	0.8	-1.4	-1.5	-1.5
Capital expenditure	0.0	-0.5	-0.2	0.0	-1.5	-1.4	-1.5
Income taxes paid	0.0	0.0	0.0	0.0	0.0	-2.0	-3.1
Proceeds from issue of shares	1.0	11.4	0.1	0.0	0.1	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	-0.6	-2.3	-1.3	-4.7	-4.7	-1.3	-2.0
Net increase in cash	-0.9	12.1	-1.8	-0.9	-2.7	3.7	6.9
Operating Cash Flow (\$M)	-1.5	3.2	1.1	4.2	5.3	7.5	10.8
Cash Flow Per Share (cps)	-0.5	1.0	0.3	1.1	1.3	1.9	2.8
Free Cash Flow (\$M)	-1.5	2.7	0.9	4.2	3.8	6.1	9.3
Free Cash Flow Per Share (cps)	-0.5	0.8	0.2	1.1	1.0	1.6	2.4
Free Cash Flow Yield (%)	-1.8%	2.8%	0.8%	3.5%	3.2%	5.1%	7.8%

Source: BOEQ

Balance Sheet Analysis

(A\$m)	FY13A	FY14A	FY15A	FY16F	FY17F
Trade and other receivables	3.5	3.8	9.0	9.3	12.0
Earned & Unbilled Revenue	0.0	0.0	0.0	0.0	0.0
Trade and other payables	1.2	1.8	4.7	4.4	5.7
Working Capital	2.3	2.0	4.3	4.8	6.3
Property, plant and equipment	0.0	0.1	0.2	0.8	2.1
Intangibles	0.4	2.3	10.2	10.5	10.9
Other assets	0.8	13.0	12.6	16.3	23.0
Total assets	4.7	19.1	32.0	36.8	48.1
Net debt (- net cash)	0.0	-12.3	-9.5	-13.2	-20.1
Total liabilities	1.4	2.3	9.4	7.3	7.6
Contributed equity	19.2	30.6	32.8	32.8	32.8
Reserves	0.6	0.2	0.6	0.6	0.6
Retained profits	-	16.4	-	10.9	-
Other	-	-	-	-	-
Total equity	3.4	16.8	22.5	29.5	40.5

Ratio Analysis

	FY13A	FY14A	FY15A	FY16F	FY17F
P/E ratio	216.1x	36.2x	38.9x	17.0x	10.8x
P/E ratio (valuation)	289.5x	48.5x	52.2x	22.8x	14.5x
Enterprise value	117.0m	104.7m	107.5m	103.8m	96.9m
EV/EBITDA	113.1x	33.4x	22.5x	10.6x	6.5x
EV/EBIT	197.1x	39.3x	28.2x	12.0x	7.1x
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Payout ratio	0%	0%	0%	0%	0%
Franking	0%	0%	0%	0%	0%
Net Debt / Equity	0%	-73%	-42%	-45%	-50%
Net Debt / (Debt + Equity)	0%	-268%	-73%	-81%	-99%
EBIT / Net Interest	-102.1x	-32.1x	-15.2x	-34.5x	-38.2x
R&D / Sales	72%	55%	67%	61%	58%
Return on Assets	13.7%	7.9%	9.5%	18.9%	22.8%
Return on Equity	19.3%	8.9%	13.5%	23.6%	27.1%

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