



26 February 2016

# Mobile Embrace (MBE)

Outperform

Solid momentum going in to 2H, 12.8x CY16 PE looks attractive

\$0.30

Marcus Hamilton  
mhamilton@taylorcollison.com.au  
+61 2 9210 1319

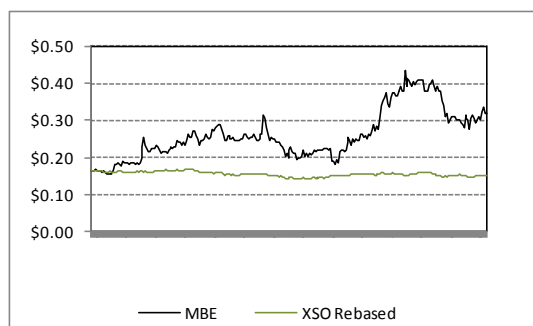
## Summary (AUD)

Market Capitalisation	\$118.8m
Share Price	\$0.30
52 week low	\$0.15
52 week high	\$0.44
Ave Monthly Vol (year rolling)	45.8m

## Key Financials (A\$ million)

Year End	FY15 Act.	FY16 Est.	FY17 Est.
Revenue (\$m)	32.8	59.8	84.0
EBITDA (\$m)	5.1	10.6	16.4
NPAT (\$m)	3.0	7.1	11.6
EPS (c)	0.8	1.8	2.9
EPS Growth (%)	4%	121%	64%
PE (x)	37.2x	16.8x	10.3x
DPS (c)	0	0	0
Div Yield	na	na	na
EV (\$M)	113.8	113.8	113.8
EV/EBITDA (x)	22.3x	10.8x	7.0x
ROE	13.5%	23.9%	28.1%
EBITDA Margin	15.6%	17.6%	19.5%
Payout Ratio	na	na	na

## Share Price Graph (AUD)



## Our View

Mobile Embrace (MBE) delivered a solid interim result, with EBITDA of \$4.1m exceeding the top end of our estimate (\$3.6-\$3.75m) by 9%, and implying 140% growth on the pcp. All in all, a very solid result from MBE that was ahead of our expectations, showing good growth across a number of diversified earnings streams and further validation of both its acquisition and international expansion strategies. Our FY16 EBITDA estimate remains unchanged at \$10.6m, implying yoy growth of 108%, which translates to NPAT of \$7.1m (+132%).

Looking forward 12 months, the stock trades on a CY16 PE of 12.8x offering EPS growth of 82%, which represents a 13% discount to the Small Ords Index on 14.6x (for 9% median EPS growth). We continue to believe MBE looks cheap for a fast-growing, mobile-focused company with a strong track record of delivering organic and acquisitive growth. Accordingly, we reiterate our Outperform recommendation and \$0.45/sh price target.

## Key Points

- **Solid momentum heading in to 2H** – all aspects of the business appear to have solid growth momentum heading in to what we believe will be a notably stronger 2H result. We see this as being underpinned by 3 key factors;
  - 1) The \$4.2m customer acquisition spend in international m-payments in 1H has significantly increased MBE's transactional customer base, which in turn leads to EBITDA growth as these acquired customers become profitable;
  - 2) Customer acquisition spend typically reduces in the latter part of 2H due to seasonality, which drives EBITDA growth; and
  - 3) A full 6 month contribution from the Vizmond and Marketing Punch businesses acquired during 1H will add incremental EBITDA of \$1.6m in the 2H.
- **Acquisitions firing** – all of MBE's recent acquisitions appear to be performing ahead of expectations, with the two FY15 acquisitions delivering combined EBITDA growth of >100% since being acquired. We remain confident that all acquired businesses will meet their respective earn-out targets (~30% EBITDA growth yoy), serving as a key growth driver for MBE in the medium term.
- **International showing positive early signs** – international m-payments continues to exhibit strong growth, with \$520k revenue booked in Jan, representing 247% growth on July 2015. While it remains early days for MBE in these markets, initial signs are positive with an annualised run-rate of ~\$6m being a significant step up from the \$1.2m international revenues posted in FY15.
- **Earnings & valuation** – our EBITDA estimates for FY16 (\$10.6m) and FY17 (\$16.4m) remain largely unchanged, although we lower our NPAT estimates by ~5% both years owing to higher D&A assumptions. We now forecast NPAT of \$7.1m and \$11.6m across FY16/FY17, implying growth of 132% and 64% respectively. Our \$0.45/sh price target is unchanged, and implies 50% upside to current trading levels.

## Mobile Embrace - Summary of Forecasts

MBE

\$0.30

## PROFIT &amp; LOSS SUMMARY (A\$m)

Year end June	FY 14 A	FY 15 A	FY 16 E	FY 17 E
<b>Total Revenue</b>	<b>19.2</b>	<b>32.8</b>	<b>59.8</b>	<b>84.0</b>
<b>EBITDA</b>	<b>3.0</b>	<b>5.1</b>	<b>10.6</b>	<b>16.4</b>
D&A	(0.5)	(1.0)	(1.5)	(1.6)
<b>EBIT</b>	<b>2.5</b>	<b>4.1</b>	<b>9.1</b>	<b>14.8</b>
Net Interest	0.1	0.2	(0.0)	0.0
Pre- Tax Profit	2.6	4.1	9.1	14.8
Tax Expense	(0.1)	(1.0)	(2.0)	(3.3)
<b>NPAT Adj</b>	<b>2.5</b>	<b>3.0</b>	<b>7.1</b>	<b>11.6</b>
Abnormals	0.0	0.0	0.0	0.0
Reported Profit	2.5	3.0	7.1	11.6
Margins on Sales Rev				
EBITDA	15.4%	15.6%	17.6%	19.5%
EBIT	12.9%	12.6%	15.2%	17.6%
NPAT Adj	13.0%	9.3%	11.8%	13.8%
Change on pcp				
Total Revenue	56.9%	70.8%	82.6%	40.5%
EBITDA	268.6%	72.5%	107.0%	55.1%
EBIT	587.6%	66.2%	120.2%	62.9%
NPAT Adj.	494.0%	22.1%	132.2%	63.4%

## BALANCE SHEET SUMMARY

Year end June	FY 14 A	FY 15 A	FY 16 E	FY 17 E
Cash	12.3	9.5	6.1	7.5
Receivables	3.8	9.0	16.4	23.1
Other	0.2	0.4	1.2	1.2
<b>Total Current Assets</b>	<b>16.3</b>	<b>19.0</b>	<b>23.8</b>	<b>31.8</b>
Property Plant & Equip	0.1	0.2	1.5	2.2
Intangibles	2.3	10.2	24.4	24.0
Other	0.5	2.6	4.3	6.6
<b>Total Non- Current Assets</b>	<b>2.9</b>	<b>13.0</b>	<b>30.2</b>	<b>32.8</b>
<b>TOTAL ASSETS</b>	<b>19.1</b>	<b>32.0</b>	<b>54.0</b>	<b>64.6</b>
Accounts Payable	1.8	4.7	8.7	12.2
Tax Liabilities	0.0	1.2	1.2	1.2
Provisions	0.5	0.6	0.8	0.8
Borrowings	0.0	0.0	5.1	5.1
Other	0.0	0.0	0.0	0.0
<b>Total Current Liab</b>	<b>2.3</b>	<b>6.5</b>	<b>15.7</b>	<b>19.2</b>
Deferred Consid.	0.0	1.2	3.4	0.0
Other	0.0	0.1	0.1	0.1
<b>Total Non- Current Liab</b>	<b>0.0</b>	<b>1.2</b>	<b>3.5</b>	<b>0.1</b>
<b>TOTAL LIABILITIES</b>	<b>2.3</b>	<b>7.8</b>	<b>19.2</b>	<b>19.3</b>
<b>TOTAL EQUITY</b>	<b>16.8</b>	<b>24.2</b>	<b>34.8</b>	<b>45.3</b>

## PER SHARE DATA

Year end June	FY 14 A	FY 15 A	FY 16 E	FY 17 E
<b>EPS Adj. (c)</b>	<b>0.78</b>	<b>0.81</b>	<b>1.79</b>	<b>2.92</b>
Growth (pcp)	411%	4%	121%	63%
Dividend (c)	0.0	0.0	0.0	0.0
Franking	100%	100%	100%	100%
Gross CF per share (c)	1.0	1.4	1.3	2.5
NTA per share (c)	5.2	5.8	7.5	10.3

## CASH FLOW SUMMARY

Year end June	FY 14 A	FY 15 A	FY 16 E	FY 17 E
<b>EBITDA</b>	<b>3.0</b>	<b>5.1</b>	<b>10.6</b>	<b>16.4</b>
Tax	0.0	0.0	(2.0)	(3.3)
Interest	0.1	0.2	(0.0)	0.0
Working Capital	0.3	(2.3)	(3.5)	(3.1)
Other	0.2	(0.1)	(1.9)	0.0
<b>Operating Cash Flow</b>	<b>3.2</b>	<b>5.3</b>	<b>5.0</b>	<b>10.0</b>
Capex	(2.5)	(1.5)	(2.9)	(1.8)
<b>Free Cash Flow</b>	<b>0.7</b>	<b>3.8</b>	<b>2.1</b>	<b>8.1</b>
Issues of Shares	11.4	0.1	0.0	0.0
Net Borrowings	(0.0)	0.0	5.1	0.0
Acquisition related	0.0	(6.5)	(10.6)	(6.8)
Dividends	0.0	0.0	0.0	0.0
<b>Net cash Flow</b>	<b>12.1</b>	<b>(2.7)</b>	<b>(3.4)</b>	<b>1.4</b>

## KEY RATIOS

Year end June	FY 14 A	FY 15 A	FY 16 E	FY 17 E
Net Debt / EBITDA (x)	na	na	0.5	0.3
Net Debt : Equity (%)	na	na	na	na
EBIT Interest cover (x)	na	na	na	na
Free CF / NPAT (5 yr avg)	28.0%	123.0%	30.3%	70.4%
Current ratio (x)	7.2	2.3	1.7	2.0
ROE (%)	14.8%	13.5%	23.9%	28.1%
ROIC (%)	54.0%	21.4%	21.1%	27.9%
Dividend Payout Ratio	na	na	na	na

## VALUATION

Year end June	FY 14 A	FY 15 A	FY 16 E	FY 17 E
<b>PE Ratio (x)</b>	<b>38.5</b>	<b>37.2</b>	<b>16.8</b>	<b>10.3</b>
<b>Dividend Yield (%)</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>
FCF Yield (%)	0.7%	3.3%	1.8%	6.8%
<b>EV/EBITDA (x)</b>	<b>38.5</b>	<b>22.3</b>	<b>10.8</b>	<b>7.0</b>
EV/EBIT (x)	45.8	27.6	12.5	7.7

## Disclaimer

The following Warning, Disclaimer and Disclosure relate to all material presented in this document and should be read before making any investment decision.

**Warning (General Advice Only): Past performance is not a reliable indicator of future performance.** This report is a private communication to clients and intending clients and is not intended for public circulation or publication or for the use of any third party, without the approval of Taylor Collison Limited ABN 53 008 172 450 ("Taylor Collison"), an Australian Financial Services Licensee and Participant of the ASX Group. TC Corporate Pty Ltd ABN 31 075 963 352 ("TC Corporate") is a wholly owned subsidiary of Taylor Collison Limited. While the report is based on information from sources that Taylor Collison considers reliable, its accuracy and completeness cannot be guaranteed. This report does not take into account specific investment needs or other considerations, which may be pertinent to individual investors, and for this reason clients should contact Taylor Collison to discuss their individual needs before acting on this report. Those acting upon such information and recommendations without contacting one of our advisors do so entirely at their own risk.

This report may contain "forward-looking statements". The words "expect", "should", "could", "may", "predict", "plan" and other similar expressions are intended to identify forward-looking statements. Indications of and guidance on, future earnings and financial position and performance are also forward looking statements. Forward-looking statements, opinions and estimates provided in this report are based on assumptions and contingencies which are subject to change without notice, as are statements about market and industry trends, which are based on interpretations of current market conditions.

Any opinions, conclusions, forecasts or recommendations are reasonably held at the time of compilation but are subject to change without notice and Taylor Collison assumes no obligation to update this document after it has been issued. Except for any liability which by law cannot be excluded, Taylor Collison, its directors, employees and agents disclaim all liability (whether in negligence or otherwise) for any error, inaccuracy in, or omission from the information contained in this document or any loss or damage suffered by the recipient or any other person directly or indirectly through relying upon the information.

**Disclosure:** The preparation of this report was funded by ASX in accordance with the ASX Equity Research Scheme. This report was prepared by Taylor Collison and not by ASX. ASX does not provide financial product advice. The views expressed in this report do not necessarily reflect the views of ASX. No responsibility or liability is accepted by ASX in relation to this report. Analyst remuneration is not linked to the rating outcome. Taylor Collison may solicit business from any company mentioned in this report. For the securities discussed in this report, Taylor Collison may make a market and may sell or buy on a principal basis. Taylor Collison, or any individuals preparing this report, may at any time have a position in any securities or options of any of the issuers in this report and holdings may change during the life of this document.

**Analyst Interests:** The Analyst(s) may hold the product(s) referred to in this document, but Taylor Collison Limited considers such holdings not to be sufficiently material to compromise the rating or advice. Analyst(s)' holdings may change during the life of this document.

**Analyst Certification:** The Analyst(s) certify that the views expressed in this document accurately reflect their personal, professional opinion about the financial product(s) to which this document refers.

**Date Prepared:** February 2016

**Analyst:** Marcus Hamilton

**Release Authorised by:** Campbell Taylor

Taylor Collison Limited  
Sharebrokers and Investment Advisers  
A.B.N. 53 008 172 450 AFSL No. 247083

Participant of the Australian Stock Exchange Group  
[www.taylorcollison.com.au](http://www.taylorcollison.com.au)

ESTABLISHED 1928

Level 16, 211 Victoria Square  
Adelaide, South Australia, 5000  
G.P.O. Box 2046, Adelaide, South Australia, 5001  
Telephone: 08 8217 3900 Facsimile: 08 8231 3506  
Email: [broker@taylorcollison.com.au](mailto:broker@taylorcollison.com.au)

Level 10, 167 Macquarie Street  
Sydney, New South Wales, 2000  
G.P.O. Box 4261, Sydney, New South Wales, 2001  
Telephone: 02 9232 1688 Facsimile: 02 9232 1677  
Email: [sydney1@taylorcollison.com.au](mailto:sydney1@taylorcollison.com.au)