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Mobile Embrace (MBE)

Outperform

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

\$0.30

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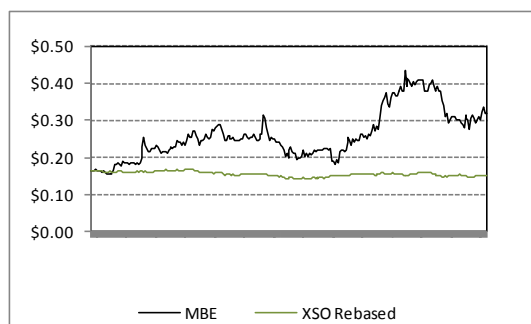
Summary (AUD)

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 & LOSS SUMMARY (A\$m)

Year end June	FY 14 A	FY 15 A	FY 16 E	FY 17 E
Total Revenue	19.2	32.8	59.8	84.0
EBITDA	3.0	5.1	10.6	16.4
D&A	(0.5)	(1.0)	(1.5)	(1.6)
EBIT	2.5	4.1	9.1	14.8
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)
NPAT Adj	2.5	3.0	7.1	11.6
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
Total Current Assets	16.3	19.0	23.8	31.8
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
Total Non- Current Assets	2.9	13.0	30.2	32.8
TOTAL ASSETS	19.1	32.0	54.0	64.6
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
Total Current Liab	2.3	6.5	15.7	19.2
Deferred Consid.	0.0	1.2	3.4	0.0
Other	0.0	0.1	0.1	0.1
Total Non- Current Liab	0.0	1.2	3.5	0.1
TOTAL LIABILITIES	2.3	7.8	19.2	19.3
TOTAL EQUITY	16.8	24.2	34.8	45.3

PER SHARE DATA

Year end June	FY 14 A	FY 15 A	FY 16 E	FY 17 E
EPS Adj. (c)	0.78	0.81	1.79	2.92
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
EBITDA	3.0	5.1	10.6	16.4
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
Operating Cash Flow	3.2	5.3	5.0	10.0
Capex	(2.5)	(1.5)	(2.9)	(1.8)
Free Cash Flow	0.7	3.8	2.1	8.1
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
Net cash Flow	12.1	(2.7)	(3.4)	1.4

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
PE Ratio (x)	38.5	37.2	16.8	10.3
Dividend Yield (%)	na	na	na	na
FCF Yield (%)	0.7%	3.3%	1.8%	6.8%
EV/EBITDA (x)	38.5	22.3	10.8	7.0
EV/EBIT (x)	45.8	27.6	12.5	7.7

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