

MOBILE EMBRACE LIMITED (MBE)

May 2016 Trading Update

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We say

BUY

Price

0.37

Target

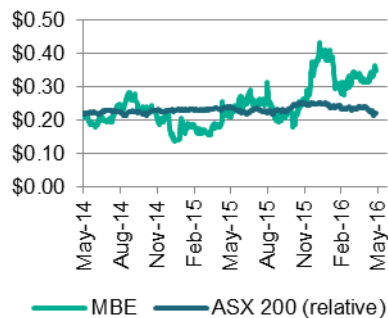
0.48

Strategic Target

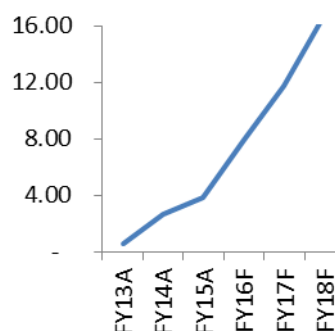
0.60

MBE's recent trading update provides further evidence of the ongoing delivery of the international growth strategy for the Direct Carrier Billing (DCB) business. This growth was coupled with strong growth numbers from the mobile marketing division. MBE is a high growth and profitable global mobile technology business. The well capitalised balance sheet with significant earnings growth potential underpins our BUY recommendation

MBE SHARE PRICE



MBE FORECAST EBT GROWTH (\$M)



COMPANY DATA & RATIOS

Enterprise value	\$148,100,000
Market cap	\$150,000,000
Issued capital	396,169,763
Free float	~90%
12 month price range	\$0.18 - \$0.44
GICS sector	Application Software

TRADING UPDATE

MBE provided a very strong trading update broadly in line with our expectations. Key highlights included year to date revenues of \$44M (+93%) and EBITDA of \$6.7M (+179%). Guidance for the FY16 financial period was also provided with revenue for greater than \$60M (+82%) and EBITDA greater than \$9M (+76%) expected to be delivered.

IMPROVING METRICS

Encouragingly MBE provided greater transparency on the key metrics for the global DCB business. Customer acquisition costs were quoted at \$12.70, which was highlighted as a 23% on pcp reduction. MBE also confirmed an improvement in customer lifetime values. These metrics enable investors to assess the profitability of the growth.

GROWTH AT A REASONABLE PRICE

MBE is a profitable high growth company that is forecast to continue to deliver annual earnings growth of greater than 40% p.a. for the next 2 years following +100% earnings growth in FY16. MBE generates positive cash flow and is well capitalised to fund further growth initiatives. Trading on a FY17 PE of ~16.4x the valuation is compelling.

SUMMARY FINANCIALS

Stock Details

Recommendation:	Buy	52 Week High	\$0.44	Market Capitalisation	\$150m
Valuation	\$0.48	52 Week Low	\$0.18	Free Float	90%
Share price	\$0.375				
Upside/downside	29%				

Profit & Loss Analysis

(A\$m)	FY14A	FY15A	1H16A	2H16F	FY16F	FY17F	FY18F
Total Revenue	19.2	32.8	28.0	32.0	60.0	90.1	112.6
Expenses	-16.0	-28.0	-24.0	-26.8	-50.8	-76.5	-93.6
EBITDA	3.1	4.8	4.0	5.2	9.3	13.6	19.0
D&A	-0.5	-1.0	-0.5	-0.8	-1.4	-1.8	-2.2
EBIT	2.7	3.8	3.5	4.4	7.9	11.8	16.8
Tax	0.0	-1.0	-0.6	-1.0	-1.8	-2.7	-3.8
NPAT (pre abnormal)	2.7	3.0	2.8	3.3	6.1	9.1	13.0
Net profit after tax	2.6	3.0	2.8	3.3	6.1	9.1	13.0

Basic EPS (cents)	0.8	0.8	0.7	0.8	1.5	2.3	3.3
Diluted EPS (cents)	0.8	0.7	0.7	0.8	1.4	2.1	3.1
DPS (cents)	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Ratio Analysis

Revenue growth	7.6%	70.8%			87.4%	50.0%	25.0%
EBITDA margin	16.4%	14.6%			15.4%	15.1%	16.9%
EBIT margin	13.9%	11.6%			13.2%	13.1%	14.9%
EBIT growth	349.3%	42.8%			107.5%	49.1%	42.5%
NPAT growth	311.7%	13.7%			100.4%	48.5%	43.8%
EPS growth	497.4%	-7.1%			98.2%	48.5%	43.8%
DPS growth	-	-			-	-	-
Tax rate	0.0%	26.6%			22.5%	22.5%	22.5%

Cash Flow Analysis

(A\$m)	FY14A	FY15A	1H16A	2H16F	FY16F	FY17F	FY18F
EBITDA	3.1	4.8	4.0	5.2	9.3	13.6	19.0
Increase in working capital	0.3	-1.4	-2.6	-0.2	-2.8	-3.1	-2.3
Capital expenditure	-0.5	-0.2	-0.4	-0.1	-1.7	-2.3	-2.3
Income taxes paid	0.0	0.0	-0.1	-1.1	-1.2	-2.7	-3.8
Proceeds from issue of shares	11.4	0.1	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	-2.3	-6.0	-5.5	0.0	-4.2	-3.7	-4.5
Net increase in cash	12.1	-2.7	-4.5	3.9	-0.6	1.9	6.2

Operating Cash Flow (\$M)	3.2	5.3	2.1	4.0	6.1	7.8	12.9
Cash Flow Per Share (cps)	1.2	1.6	0.5	1.0	1.6	2.0	3.3
Free Cash Flow (\$M)	2.7	5.0	1.7	4.0	4.4	5.5	10.7
Free Cash Flow Per Share (cps)	0.8	1.3	0.4	1.0	1.1	1.4	2.7
Free Cash Flow Yield (%)	2.2%	3.4%	1.1%	2.7%	3.0%	3.7%	7.2%

Source: BOEQ

Balance Sheet Analysis

(A\$m)	FY14A	FY15A	FY16F	FY17F	FY18F
Trade and other receivables	3.8	9.0	11.8	17.7	22.1
Earned & Unbilled Revenue	0.0	0.0	0.0	0.0	0.0
Trade and other payables	1.8	4.7	5.6	8.4	10.5
Working Capital	2.0	4.3	6.2	9.2	11.6
Property, plant and equipment	0.1	0.2	0.8	2.8	4.4
Intangibles	2.3	10.2	25.5	26.0	26.6
Other assets	13.0	12.6	13.9	15.3	19.8
Total assets	19.1	32.0	52.0	61.8	72.9
Net debt (- net cash)	-12.3	-9.5	-1.9	-3.7	-9.9
Total liabilities	2.3	9.4	23.3	24.1	22.2
Contributed equity	30.6	32.8	32.8	32.8	32.8
Reserves	0.2	0.6	0.6	0.6	0.6
Retained profits	-	13.9	10.9	4.8	4.3
Other	-	-	-	-	-
Total equity	16.8	22.5	28.6	37.7	50.7

Ratio Analysis

	FY14A	FY15A	FY16F	FY17F	FY18F
P/E ratio	44.8x	48.3x	24.3x	16.4x	11.4x
P/E ratio (valuation)	57.9x	62.3x	31.5x	21.2x	14.7x
Enterprise value	137.7m	140.5m	148.1m	146.3m	140.1m
EV/EBITDA	43.9x	29.4x	16.0x	10.8x	7.4x
EV/EBIT	51.6x	36.9x	18.7x	12.4x	8.3x
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	-73%	-42%	-7%	-10%	-20%
Net Debt / (Debt + Equity)	-268%	-73%	-7%	-11%	-24%
EBIT/Net Interest	-32.1x	-15.2x	387.0x	161.7x	-3057.6x
R&D / Sales	55%	67%	62%	62%	61%
Return on Assets	14.0%	10.4%	11.7%	14.7%	17.9%
Return on Equity	15.9%	14.8%	21.3%	24.0%	25.7%

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