

Mobile Embrace (MBE)

Going global

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Strong result, platform ready for overseas

- MBE delivered a strong result, and are now positioned to take their successful platform to their new overseas markets.
- We continue with our BUY recommendation and our price target increases to 66c, based on rolling forward their FY16A trading multiple to our FY17E EPS forecast of 2.1cps.
- MBE has built a high quality technology platform for mobile phones to help deliver quality marketing and premium subscription content distribution in a very scalable manner. We expect a strong year of organic growth.

Highly scalable technology stack

- MBE spent ~\$14m in FY16 on technology: they now have a top class Direct Carrier Billing (DCB) platform which is highly scalable into the new markets they are opening up with their client Mobile carrier groups. They also have acquired and further strengthened performance marketing businesses which they are also taking to their new markets.
- Conservative estimates of 30% organic growth from their domestic market of Australia will be buoyed by the rollout of their offerings into their new markets.
- They have opened up Malaysia, Pakistan and Norway in FY16. By assessing their Telco relationships with Telenor and SingTel, we expect MBE to open up Sweden, Finland, Philippines, Indonesia, Thailand, Myanmar and Cambodia over the next 12-24 months. This will take their addressable population to over 400m subs.
- On FY16 earnings: their tax rate increased from 24% to 35% owing to a change in accountant and their treatment of tax, we expect almost \$1m to come back in FY17 on that move. We expect the tax rate to go back to 24% in FY17 and going forwards.
- Depreciation increased from \$900k to \$1.9m in FY16 owing to their investment in their new ADOBE system integrating their technology stack and materially reducing their cost of opening up new markets. It was also owing to the increased PPE spend owing to their move to a new office.
- MBE has \$5.6m of earn outs to pay in FY17 that will be funded by cash flow, there remains another \$7m of earn outs to be paid in FY18, but this is due to the superb performance of their acquired businesses.
- M-Marketing continues to deliver strong organic growth in Australia as a best in class offering. Rolling out their operations to new markets should drive growth of over 30% from the marketing side of the business.
- Annualising the Q4 run rate would deliver \$72m revenue, and with 30% growth that would deliver \$93.6m for FY17 revenue. We therefore believe our Revenue forecasts are now conservative. They have come down slightly from our initiation in November 2015, but if they achieve these numbers the stock will be trading near our target price.

Recommendation

Buy

Previous Recommendation	Buy
Risk Rating	Medium
Current Share Price	\$0.35
12 Month Price Target	\$0.66 (from \$0.54)
Price Target Methodology	12-mth fwd PE
Total Return (Capital + Yield)	90.4%
DCF Valuation	
Market capitalisation	\$137m
Liquidity – Daily Value	\$0.3m

Financial Forecasts & Valuation Metrics

Y/e Jun (\$m)	2015A	2016A	2017F	2018F
Revenue	33	61	94	136
NPAT	2.9	4.9	9.0	11.6
EPS (cps)	0.7	1.1	2.0	2.6
EPS Growth	0%	46%	83%	28%
DPS (c)	0.0	0.0	0.0	0.0
EV / EBITDA (x)	25.5	15.3	10.3	7.6
PER (x)	46.2	31.7	17.3	13.5
Dividend Yield	0.0%	0.0%	0.0%	0.0%
Gearing	-42%	-30%	-12%	-21%
Interest Cover (x)	na	na	na	na

Source: PhillipCapital estimates

MBE share price performance



Source: PhillipCapital estimates

COMPANY SUMMARY

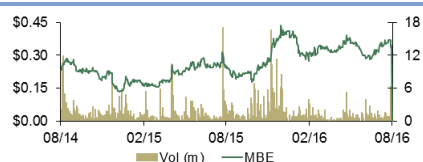
Mobile Embrace Ltd

MBE.AX

Price Information

Price (\$/share)	0.35
Mkt Cap (\$m)	153
Enterprise Value (\$)	144

Share Price & Volume Chart



FINANCIAL SUMMARY

Year End - Jun FY13A FY14A FY15A FY16A FY17F FY18F

KEY METRICS

EPS Growth (%)	149	415	0	46	83	28
PER (x)	236.8	46.0	46.2	31.7	17.3	13.5
PEG (x)	1.6	0.1	-119.1	0.7	0.2	0.5
P/Free CFPS (x)	-54	160	35	33	19	12
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
EV/EBITDA (x)	na	39.0	25.5	15.3	10.3	7.6
EV/EBIT (x)	292.4	46.4	32.0	19.4	11.5	8.6
ROE (%)	14.6	23.8	14.5	15.7	20.2	20.9
ROA (%)	9.8	41.9	20.9	14.6	17.5	19.4
ROIC (%)	12.8	52.2	23.3	15.6	22.6	25.8

PROFIT & LOSS (AUD \$m)

Revenue	12	19	33	61	94	136
EBITDA	1	3	5	9	15	19
Depreciation & Amortisation	0	0	1	2	2	2
EBIT	0	2	4	7	13	17
Net Interest Expense	0	0	0	0	0	0
Income Tax Expense	0	0	-1	-2	-4	-5
NPAT Reported	0	2	3	5	9	12
Sign. Items & Other	0	0	0	0	0	0
NPAT Adjusted	0	2	3	5	9	12

PER SHARE DATA (cps)

Shares on Issue (m)	276	320	383	452	452	452
EPS Reported	0	1	1	1	2	3
EPS Adjusted	0	1	1	1	2	3
DPS	0	0	0	0	0	0
Free CFPS	-1	0	1	1	2	3

BALANCE SHEET (AUD \$m)

Cash	0	12	10	18	6	13
Debtors & Inventory	4	4	9	14	15	19
PP&E	0	0	0	2	0	1
Intangibles	1	3	11	31	40	42
Other Assets	0	0	2	4	4	5
Total Assets	5	19	32	69	65	80
Borrowings	0	0	0	6	0	0
Creditors	1	2	5	6	6	9
Other Liabilities	0	1	5	17	10	10
Total Liabilities	1	2	9	29	16	18
Net Assets	3	17	23	40	49	61

BALANCE SHEETS RATIOS

Gearing - Debt/Equity (%)	-5	-73	-42	-30	-12	-21
Interest Cover (x)	16.7	na	na	na	na	na
Leverage (x)	-0.2	-4.1	-2.0	-1.3	-0.4	-0.7
NTA per Share (cps)	1.0	4.5	3.1	2.1	2.0	4.2

CASH FLOW (AUD \$m)

EBITDA	1	3	5	9	15	19
Interest & Tax	0	0	0	-1	-4	-5
Working Capital Change	3	0	2	3	0	3
Operating Cash Flow	-1	3	5	6	11	17
Maintenance Capex	0	-3	-1	-2	-3	-4
Free Cash Flow	-2	1	4	5	8	13
Expansion Capex						
Dividends	0	0	0	0	0	0
Equity Issues / (Buy Backs)	1	11	0	12	0	0
Proceeds from Borrowings	0	0	0	6	0	0
Other	0	0	-7	-14	-7	0
Net Cash Flow	-1	12	-3	8	1	13

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Recommendation Criteria

Investment View

PhillipCapital Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield.

Buy	Hold	Sell
>20%	20% – 5%	<5%

A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

Risk Rating

PhillipCapital has a four tier Risk Rating System consisting of: Very High, High, Medium and Low. The Risk Rating is a subjective rating based on: Management Track Record, Forecasting Risk, Industry Risk and Financial Risk including cash flow analysis.

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