

Snakk Media

Media
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H117 peak investment

Snakk Media (SNK), which connects brands to mobile audiences, has published its Q317 key operating milestones. These include a premium gross margin of 60%, compared to peers at 40%. This is a little below the company's 62% FY17 target, with the year to date figure also now at 62%. The click-through rate softened slightly to 0.96% from 0.98% in Q217, still well above the mobile industry average (0.62%). Staff turnover at 12% was below the full year guidance of 24%, with the compensation to revenue ratio dropping back under the FY17 target. COO Joel Williams has now taken over the role of CEO, following Mark Ryan's departure in December.

Driving differentiated product

The interim figures to end September 2016 show clearly the impact of the group's heavy investment in product development, people and systems in fast-moving markets. The upside of fast-moving markets is that they throw up opportunities for flexible participants. Snakk's investment has been focused on those areas where the competition is less fierce, with a differentiated offer, and also on building and broadening commercial partnerships that should give greater consistency and visibility of earnings. With a lag in building up the revenue streams in the important SE Asian market, the half year loss widened from NZ\$0.2 to NZ\$1.9m in H117.

Mobile fast gaining share

The latest MAGNA report on the global advertising market identifies Australia as one of the fastest growing markets, with an estimated 7.4% uplift for 2016. Globally, they estimate digital-based ad sales rising to 40% of the total market in 2017, to reach half by 2021. Mobile advertising is appraised at 45% of digital, growing to 52% in 2017. The key drivers are search and social which are thought to be taking a greater share of below-the-line offline marketing budget rather than diverting funds from other advertising media. Between them, these two areas account for 88% of the growth in 2016 forecast digital ad spend, with Google and Facebook respectively dominant. This reinforces the argument that other players need clearly differentiated and value-adding propositions to maintain and grow share of spend.

Valuation: Trading at a substantial discount to peers

Snakk continues to trade at a significant discount to its listed global peer group of quoted mobile solutions and digital advertising companies, even allowing for its small size and early stage. At 0.4x FY16 EV/sales and 0.6x EV/gross profit, Snakk is trading well below the consensus media peer group multiple of 2.1x and 4.9x for those metrics. The Manji Family Trust now holds 13.3% of the issued share capital.

Historical financials

Year end	Revenue (NZ\$m)	Gross profit (NZ\$m)	PBT (NZ\$m)	EPS* (c)	EV/gross profit (x)	EV/sales (x)
03/13	3.7	1.9	(0.9)	(5.7)	2.1	1.1
03/14	7.1	2.9	(1.9)	(12.0)	1.4	0.6
03/15	9.2	3.9	(4.0)	(25.6)	1.0	0.4
03/16	10.5	6.6	(0.6)	(3.7)	0.6	0.4

Source: Snakk Media. Note: *EPS in previous years recalculated for share consolidation.

Price NZ\$0.36
Market cap NZ\$6m

Net cash (NZ\$m) at 30 September 2016 1.6

Share price graph



Share details

Code SNK
 Listing NXT
 Shares in issue 15.7m

Business description

Mobile advertising technology company Snakk Media offers a full suite of mobile creative, content and technology services, empowering the world's leading brands and agencies to accurately reach and engage with consumers on their mobile devices.

Bull

- Targeting high-growth markets.
- No legacy advertising systems.
- Broadening creative and technical offer.

Bear

- High currency exposure to US dollar.
- Low barriers to entry.
- IP risk tied up with talent.

Analysts

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Q317 key operating milestones

Snakk is due to issue its Q4 key operating milestones (KOMs) by 3 May 2017. Key quarterly operating milestones for 9M17 are shown in the table below.

Exhibit 1: Key operating milestones – Q117, Q217 and Q317 actual and 2017 target				
	Q117 actual (%)	Q217 actual (%)	Q317 actual (%)	2017 target (%)
Click-through rate	0.95	0.98	0.96	1.00
Gross margin	67	61	60	62
Compensation ratio	46	65	41	42
Staff turnover	12	9	12	24

Source: Snakk Media

Interim results summary

The interim H117 figures (to September 2016) were released at end November and showed advertising revenues ahead by 2.7%, but with higher direct costs pushing the gross profit down 2.5%. Loss before tax widened to NZ\$1.9m from NZ\$0.2m in H116, with the bulk of the difference being in the increase in employee costs as the group scaled up investment in people on both client-facing and support functions.

The group also continues to develop new products and creative capabilities for mobile. The investment strategy has been built around:

- ongoing development of mobile media products;
- establishing exclusive technology partnerships for agencies and their brands;
- mobile creative for agencies and direct to brands;
- geo-location data insights capability for Tier 1 enterprise brands;
- programmatic/self-service access to proprietary geo-location trading platform; and
- developing the group's presence in South East Asia.

The hiring and development programme was completed in H117 and this is indicated to have been the peak expenditure period. On 30 September 2016, net cash on the balance sheet stood at NZ\$1.58m, from NZ\$3.02m at end March 2016.

On 22 December, the previous CEO, Mark Ryan, left the role and was replaced by Joel Williams, who had joined the group as COO in August 2016. Prior to joining Snakk Media, Joel had held various executive leadership roles including COO, CFO, CIO, and CRO/IA in large listed companies across a range of sectors, including News Corp, Fairfax Media, David Jones, NAB, Australian Pharmaceutical Industries, Pioneer International (building materials) and PwC. He is a qualified accountant.

Peer comparison

Even allowing for its small size and early stage, Snakk is trading at a significant discount to its listed peers. At 0.4x FY16 EV/sales, Snakk is trading at just 18% of the median level of the consensus peer group multiple, as Exhibit 2 demonstrates. On EV/gross profit, which provides a better comparative metric due to differing accounting policies, Snakk trades at 0.6x, compared to the peer median of 4.9x.

Exhibit 2: Listed peer comparison

Company	Code	Currency	Market cap (m)	EV (m)	EV/sales (x)	EV/gross profit (x)	Gross margin (%)	EV/EBITDA (x)
Taptica	TAP: LSE	GBP	147	174	2.3	8.2	27.8	27.2
Criteo	CRTO:NASDAQ	US\$	2,820	2,432	1.8	5.2	35.7	-
SITO Mobile	SITO: NASDAQ	US\$	46	43	2.7	4.6	59.8	(25.4)
RNTS	RNM:FRA	€	254	355	4.4	14.6	30.0	(18.4)
Matomy	MTMY: LON	GBP	106	99	0.6	2.4	22.9	6.1
RhythmOne	RTHM:LON	GBP	185	162	1.0	2.5	39.8	(2.4)
Median					2.1	4.9	32.8	(2.4)

Source: Bloomberg. Note: Prices as at 1 February 2017. Sales, gross profit and net debt are last reported.

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