

Snakk Media

Media
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FY16 gross margin exceeds target

Snakk Media has released its Q416 key operating milestones (KOM), which demonstrated that the company has exceeded its targets for two out of four of its KOMs for FY16. Snakk Media delivered a gross margin of 52% for Q416, bringing the full year gross margin to 63%, well ahead of the company's stated FY16 target of 55%. Staff turnover of 16% for FY16 was better than the company's target of 22%. Snakk said it would now review its targets for FY17.

Q4 performance

Snakk delivered lower than target gross margin, click-through rate and compensation to revenue ratio in Q416, offsetting its better-than-target performance in the first nine months of FY16 and in Q316. The company's click-through rate in Q4 was 0.88%, below the 0.93% achieved in the first nine months and the 1.00% achieved in Q316. The company said the lower click-through rate in Q416 was due to a significant South-East Asian video campaign where the number of completed video views was the key metric rather than click-throughs. FY16 click-throughs were 0.90%, 5% below the 0.95% target. Snakk's gross margin for Q416 was 52%, below the 68% achieved in the first nine months of the year. The company noted that Q4 traditionally was a period of downward pressure on gross margins while opportunities were taken to exceed Q4 revenue targets. More importantly, in our view, the FY16 gross margin was 15% ahead of target at 63%. The compensation to revenue ratio of 50% in Q416 meant that the FY16 compensation to revenue ratio was pushed up to 47%, 4% higher than the FY16 target of 45%. Snakk plans to announce its Q4 revenues and FY16 results by 31 May 2016.

Capital management initiative

Snakk has also recently completed a share sale plan to allow shareholders with fewer than 500 shares to sell their shares in an orderly book build process. Demand from existing shareholders looking to increase their shareholding exceeded those who wanted to sell, resulting in a final price of NZ\$0.84/share and 141,000 shares successfully transferred. As a result, SNK has reduced its shareholder base to 1,600 from 3,400. This should lower its share registry costs.

Valuation: Peer comparison implies a steep discount

Even with its small size and early-stage development, both of which could attract a discount, at 0.7x FY15 EV/sales, SNK is trading at a c 75% discount to a median multiple for the broad global peer group of quoted mobile solutions and digital advertising companies (see Exhibit 2).

Historical earnings

Year end	Revenue (NZ\$m)	EBITDA (NZ\$m)	PBT (NZ\$m)	EPS (c)	EV/gross profit (x)	EV/sales (x)
03/13	3.7	(0.9)	(0.9)	(0.4)	3.5	1.8
03/14	7.1	(1.6)	(1.3)	(0.5)	2.3	1.0
03/15	9.9	(3.7)	(3.7)	(1.3)	1.7	0.7

Source: Snakk Media data

Price NZ\$0.67
Market cap NZ\$11m

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

- Strong management team and board.
- No legacy advertising systems.
- Targeting high-growth Asian markets.

Bear

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

Analysts

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Q4 key operating milestones

Snakk Media's Q416 key operating milestones were slightly off target, with the exception of staff turnover, which at 13% was substantially below the company's target of 22%, as Exhibit 1 demonstrates. Q4 is a traditionally quieter quarter in media, in particular January and February.

The company's gross margin for FY16 was 63%, which was 15% ahead of its target of 55% despite the Q416 result of 52%. More significantly, Snakk Media's gross margin for FY16 is well ahead of the median generated by its peer group, as highlighted in Exhibit 2.

Snakk noted that the increase in compensation to revenue ratio in Q416 to 50% was due to the traditionally quieter sales period of January and February. The company's FY16 performance in compensation to revenue was 47%, just % above its full year target of 45%.

The company noted that its Q416 click-through rate of 0.88% was due to the emphasis placed on a significant video campaign in South East-Asia, in which the key metric was completed video views rather than click-through rates. The Ooyala Global Video Index shows that in Singapore and Australia (key markets for Snakk) 55% and 53%, respectively, of all videos were played on mobiles and that almost 70% of these videos were under 10 minutes. With an increasing number of online and mobile advertising campaigns moving to video, completed video views could potentially become a more important metric than click-through rates.

Exhibit 1: Key operating milestones for Q416 and FY16 versus FY16 target

(%)	Q416	FY16	FY16 target
Click-through rate	0.88	0.90	0.95
Gross margin	52	63	55
Compensation to revenue ratio	50	47	45
Staff turnover	13	16	22

Source: Snakk Media

Valuation: Peer comparison implies a steep discount

Snakk is trading at a c 75% discount to a broad global peer group of quoted mobile solutions and digital advertising companies, based on its FY15 EV/sales multiple of 0.7x. As Exhibit 2 demonstrates, the median EV/sales trailing 12-month (TTM) multiple for SNK's global listed peer group is 3.9x. It should be noted that SNK is much smaller than most of its peers and likely to attract a discount. On a TTM EV/gross profit basis, Snakk is trading at a c 65% discount to the 4.9x median multiple of its peers.

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)
Cheetah Mobile	CMCM.US	US\$	2,268	2,076	4.3	4.9	87.5%	48.4
Criteo	CRTO:NASDAQ	US\$	2,645	2,302	1.7	4.9	35.7%	18.9
Mobile Embrace	MBE.AX	A\$	145	135	4.1	5.0	81.9%	27.9
MOKO Social Media	MKB.AX/MOKO:NASDAQ	A\$	31	24	3.9	142.6	2.7%	-1.2
Opera	OPERA:OSLO	NOK	9,642	9,706	15.8	26.4	59.7%	97.8
Sizmek	SZMK:NASDAQ	US\$	80	38	0.2	0.4	61.2%	-0.3
Telenav	TNAV:NASDAQ	US\$	231	111	0.7	1.4	50.8%	-3.4
Median					3.9	4.9	59.7%	18.9

Source: Bloomberg, company reports. Note: Prices as at 26 April 2016.

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