

Snakk Media

Media
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Investment in expansion

Snakk Media (SNK), which connects brands to mobile audiences, has published its Q217 key operating milestones. These include a premium gross margin of 61% compared to peers at 40%. This is a little below the company's 62% FY17 target, although the ytd figure of 64% still allows some leeway. The click-through rate ticked up from 0.95% in Q1 to 0.98% in Q2, not far adrift of the FY17 target of 1.00% and well in excess of the industry average (0.62%). Lower staff churn post Q1 and Q2 recruitment has led to an increase in headcount, swelling the compensation to revenue ratio. This should correct as the extra staff give the capacity to drive sales.

Q217 key operating milestones (KOMs)

Click-through rates are an industry-standard indicator of the effectiveness of a marketing campaign. Snakk Media continues to demonstrate that it performs well ahead of the market, with a further increase over the quarter that should enhance its own competitive position. The group's focus is on delivering targeted campaigns that are engaging (supported by its in-house creative division, Touch Create) and therefore effective. This should also help support the prices that it can achieve, thereby maintaining its premium gross margin. Gross margin is also supported by its strategy for the constant drive to use sophisticated and efficient technologies to purchase advertising inventory cost effectively.

Mobile fast gaining share

Mobile advertising continues to increase apace, with the latest report from Zenith showing an increase in its outperformance against desktop. By 2018, mobile is expected to account for 60% of all internet advertising (from the earlier forecast of 58%). Snakk is exposed to some of the fastest growing mobile markets. The September 2016 report from eMarketer shows the percentage of media ad spending in Australia targeted to mobile increasing from 16.2% in 2015 to 43.1% by 2020. Mobile spend is expected to outstrip TV ad spend for the first time in 2016.

Valuation: Trading at a steep 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, Snakk is trading at around half of the consensus media peer group multiple of 0.8x. The Manji Family Trust has increased its shareholding over the course of the year to 12.1% 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)	2.2	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)	1.1	0.5
03/16	10.5	6.6	(0.6)	(3.7)	0.6	0.4

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

Price NZ\$0.45
Market cap NZ\$7m

Net cash (NZ\$m) at 31 March 2016 2.9

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 Australasian markets.

Bear

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

Analysts

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Q217 key operating milestones

Snakk is due to issue its half-year preliminary results on 30 November and its Q3 KOMs on 30 January 2017.

Exhibit 1: Key operating milestones, Q117 and Q217 actual and 2017 target

	Q117 actual (%)	Q217 actual (%)	2017 target (%)
Click-through rate	0.95	0.98	1.00
Gross margin	67	61	62
Compensation ratio	46	65	42
Staff turnover	12	9	24

Source: Snakk Media

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 around half the median level of the consensus peer group multiplex, as Exhibit 2 demonstrates.

Working backwards and applying the median EV/sales multiple of 0.8x to Snakk's FY16 sales, we arrive at an enterprise value of NZ\$8.4m, equivalent to a share price of NZ\$0.72, 60% ahead of the company's current share price.

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	92	93	0.8	4.4	27.8	5.0
Criteo	CRTO:NASDAQ	US\$	2,317	1,974	2.8	4.2	35.7	9.8
SITO Mobile	SITO: NASDAQ	US\$	101	109	2.9	11.5	59.5	20.0
RNTS	RNM:FRA	€	264	264	3.3	44.7	39.8	-ve
Matomy	MTMY: LON	GBP	124	115	0.5	2.8	22.9	8.2
RhythmOne	RTHM:LON	GBP	144	79	0.4	0.8	44.0	-
Sizmek	SMZK: NASDAQ	US\$	114	72	0.4	0.7	61.2	-
Median					0.8	4.2	39.8	9.0

Source: Bloomberg. Note: Prices as at 28 October 2016. Sales and net debt are last reported.

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