EDISON

Snakk Media

Interim results

Investing under the bonnet

Media

Snakk's interims showed revenue growth of 34% (50% ex-currency), with Q2 growth slower than Q1 (12% vs 67%). With Q3 reportedly very busy, we view Q2 as a temporary blip while effort was being focused on assembling the internal infrastructure needed to address the substantial market opportunity in mobile advertising for both brand owners and publishers in Australasia and Asia Pacific. The share price is being over-shadowed by the prospect of further fund-raising to power the next phase of expansion and the rating stands at a considerable discount to quoted peers.

Year end	Revenue (NZ$m)	PBT* (NZ$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
03/13	3.7	(0.9)	(0.4)	0.0	N/A	N/A
03/14	7.1	(1.4)	(0.6)	0.0	N/A	N/A
03/15e	10.8	(3.2)	(1.2)	0.0	N/A	N/A
03/16e	16.8	(2.4)	(0.9)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding intangible amortisation, exceptional items and share-based payments.

Adding infrastructure and services

Snakk is building a key independent Asia Pacific mobile advertising business, providing an end-to-end service for advertisers and publishers, from budgeting and creative through to delivery and outcome evaluation. By working with mobile solutions providers from around the globe, with regional technology exclusivity, Snakk is able to offer credible and proven services without the development risk. The new publisher-facing division, Represent Media, is driving new opportunities and the recent preferred partnership agreement with US firm Nativo (for Australia and New Zealand) is generating strong interest from publishers looking to use the fast-growing medium of native advertising – particularly well-suited to mobile.

Short-term down, long-term up

Our forecasts have again been revised down, reflecting the softer Q2 growth rate. As described in our September Outlook note, there has been significant investment in senior hires and expansion into Singapore, with not all of the added overhead revenue generating. However, investing now should enable the group to grasp the larger opportunities without compromising on the ability to deliver to (or beyond) existing clients' expectations. Our model shows NZ$3.2m cash at end FY15, NZ$1.3m at end FY16, and it is likely that this will be topped up at some intervening point. While short-term forecasts envisage higher losses and a longer period until break-even, the prize now being targeted is considerably more valuable.

Valuation: Discount overdone

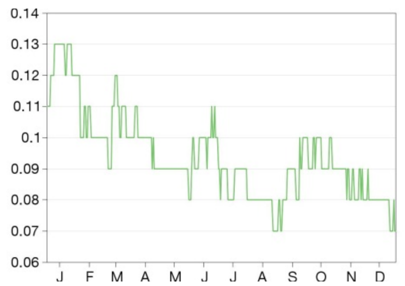
Even given its small size and early stage, on 1.9x EV/TTM sales Snakk sits at an overly large discount to a broad global peer group of quoted mobile solutions and digital advertising companies, which (after a strong recent bounce) trade at 4.1x. A DCF calculated on medium-term growth assumptions of 25-30% suggests that a price of between 11 and 15 NZ cents would be more in line with the market, with the current discount more than compensating for a further fund-raising.

19 December 2014

Price	**NZ$0.07**
Market cap	**NZ$19m**

Net cash (NZ$m) as at end September 2014	3.7
Shares in issue	265.1m
Free float	63.5%
Code	SNK
Primary exchange	NZAX
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(14.5)	(25.3)	(35.5)
Rel (local)	(14.3)	(29.1)	(42.9)
52-week high/low		NZ$0.13	NZ$0.07

Business description

Snakk Media helps brands find and reach consumers using apps, games and social media on their smartphones, tablets and other smart screens, generating revenue every time that it successfully targets and delivers an ad across its networks.

Next events

Q3 revenues	Early March 2015

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Edison profile page

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Lifting the horizon

Snakk has been moving beyond its start-up phase, with initial rapid growth, into a period where it is building the foundations to become a meaningful regional player in the Asia Pacific mobile advertising market. With less ambition, management could have accelerated the break-even point, albeit that that might have compromised the potential. Earlier in the year, it was hoped that the momentum established in the first weeks would carry the group's revenue line onwards and upwards while management's attention was focused on the bigger opportunity. In the event, that optimism was overplayed, with new senior hires being onboarded and with some slowing down in the previously rapid-growing regional mobile advertising market reflecting a quieter period in Australia. With the first staff on the ground in Singapore and a lot of interest shown locally, it had also been assumed that sales would start to flow at an earlier stage, whereas the sales cycle is proving to be longer than that experienced in the group's home markets. With the company reporting a very busy Q3 to date, albeit in what would be the busiest quarter anyway, it appears that some of the ground work carried out in Q2 is now starting to pay off and that there should be good momentum into Q4.

Exhibit 1: Changes to numbers

	EPS			PBT			EBITDA		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2015e	(1.0)	(1.2)	N/A	(2.6)	(3.2)	N/A	(3.0)	(3.3)	N/A
2016e	(0.6)	(0.9)	N/A	(1.5)	(2.4)	N/A	(1.7)	(2.4)	N/A

Source: Company accounts, Edison Investment Research

Still substantial market mismatch

Although mobile advertising is still a very fast-growing area, there is a substantial gap between the amount of time spent on mobile devices and the proportion of marketing budgets directed at the medium. This reflects a number of factors, including an element of inertia, but also a degree of advertisers still feeling their way about optimising their mobile spend. The latest IAB Australia report showed the impact of a wavering domestic economy, with growth in mobile spend slowing to +84.7% in calendar Q3 (from +348.8% in Q2), representing 17.4% of total online advertising expenditure. Mobile display accounted for 25.7% of online display spend (compared to 22.5% in Q2) and mobile search made up 19.4% of total search and directories spend (Q2: 18.2%). In the US, general display is a considerably higher proportion of mobile advertising, at 47%. eMarketer forecasts show Australian mobile internet advertising spend to reach nearly US$1bn in 2014, putting Australia third in the Asia Pacific region for mobile ad spending, after China and Japan, both of which should have over US$2bn of mobile spend this year. By 2017, eMarketer expects the Australian market for mobile display and search advertising to reach US$3.2bn.

While the markets in which Snakk operates are substantial, for the largest global players they remain a lower priority, compared with, say, China or India. Local knowledge, built from the ground up as Snakk is doing in Singapore, should enable the better quality regional players to sit alongside the major operators and provide a more flexible and tailored service.

Exhibit 2: Financial summary

NZ$'000s	2012	2013	2014	2015e	2016e
31-March	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue	1,993	3,654	7,056	10,790	16,773
Cost of Sales	(886)	(1,746)	(4,176)	(6,913)	(8,985)
Gross Profit	1,106	1,909	2,880	3,878	7,788
EBITDA	(624)	(903)	(1,568)	(3,281)	(2,412)
Operating Profit (before amort. and except.)	(632)	(918)	(1,583)	(3,298)	(2,429)
Intangible Amortisation	0	0	0	0	0
Exceptionals	0	0	0	0	0
Share-based payments	0	(292)	(482)	(390)	(390)
Operating Profit	(632)	(1,209)	(2,065)	(3,688)	(2,819)
Net Interest	16	19	173	52	47
Profit Before Tax (norm)	(615)	(898)	(1,410)	(3,245)	(2,382)
Profit Before Tax (FRS 3)	(615)	(1,190)	(1,891)	(3,636)	(2,772)
Tax	(9)	0	0	0	0
Profit After Tax (norm)	(625)	(871)	(1,410)	(3,245)	(2,382)
Profit After Tax (FRS 3)	(625)	(1,190)	(1,891)	(3,636)	(2,772)
Average Number of Shares Outstanding (m)	159.8	197.9	254.3	265.1	265.1
EPS - normalised (c)	(0.4)	(0.4)	(0.6)	(1.2)	(0.9)
EPS - normalised and fully diluted (c)	(0.4)	(0.4)	(0.5)	(1.1)	(0.8)
EPS - (IFRS) (c)	(0.4)	(0.6)	(0.7)	(1.4)	(1.0)
Dividend per share (c)	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)	55.5	52.2	40.8	35.9	46.4
EBITDA Margin (%)	-31.3	-24.7	-22.2	-30.4	-14.4
Operating Margin (before GW and except.) (%)	-31.7	-25.1	-22.4	-30.6	-14.5
BALANCE SHEET					
Fixed Assets	11	13	597	630	688
Intangible Assets	0	0	0	0	0
Tangible Assets	11	13	13	46	104
Investments	0	0	584	584	584
Current Assets	1,803	2,190	8,602	6,591	6,341
Stocks	0	0	0	0	0
Debtors	555	923	2,179	3,299	5,077
Cash	1,243	1,244	6,363	3,225	1,264
Other	5	22	60	67	0
Current Liabilities	(914)	(1,363)	(2,909)	(4,494)	(7,055)
Creditors	(914)	(1,363)	(2,909)	(4,494)	(7,055)
Short term borrowings	0	0	0	0	0
Long Term Liabilities	0	0	0	0	0
Long term borrowings	0	0	0	0	0
Other long term liabilities	0	0	0	0	0
Net Assets	900	840	6,290	2,727	(26)
CASH FLOW					
Operating Cash Flow	(95)	(817)	(1,197)	(3,200)	(2,000)
Net Interest	17	24	184	52	47
Tax	0	0	0	60	67
Capex	(18)	(17)	(14)	(50)	(75)
Acquisitions/disposals	0	0	(307)	0	0
Financing	1,268	812	6,453	0	0
Dividends	0	0	0	0	0
Net Cash Flow	1,172	2	5,119	(3,138)	(1,961)
Opening net debt/(cash)	(70)	(1,243)	(1,244)	(6,363)	(3,225)
HP finance leases initiated	0	0	0	0	0
Other	0	0	0	0	0
Closing net debt/(cash)	(1,243)	(1,244)	(6,363)	(3,225)	(1,264)

Source: Company accounts, Edison Investment Research

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