

Snakk Media

Media
7 December 2015

Upwardly mobile

Snakk Media (SNK) is a New Zealand-listed facilitator for smart screen advertising. The company is very much in the investment phase of scaling up, expanding its team to support its growing customer base and extending its footprint into South-East Asia. It has now successfully transitioned to the NXT board having raised NZ\$2.2m including NZ\$0.7m in oversubscriptions. In late November, it reported a substantially reduced H116 net loss of NZ\$0.25m – a year-on-year turnaround of NZ\$1.94m.

Mobile advertising ascent

Snakk operates in one of the fastest-growing advertising segments, with predictions by eMarketer that mobile internet advertising expenditure in Asia Pacific will surpass expenditure in North America from 2018e. eMarketer announced in September that it now expects mobile internet ad spend in Asia Pacific to reach US\$83bn by 2019e and that worldwide, mobile advertising would account for ~28% of total ad spend, compared with 13% in 2015.

Strong revenue growth

Snakk has reported year-on-year revenue growth of 13% in the first half of FY16, driven by a seven-fold increase in revenues from Southeast Asia. This growth combined with a focus on tight cost containment resulted in an interim loss of NZ\$0.25m compared with NZ\$2.19m y-o-y.

The company also delivered its first positive EBITDA quarter, reporting EBITDA of NZ\$50,451 in Q216. The company's interim results also demonstrated that it is on track to deliver one of its key operating milestones. Snakk delivered a gross margin of 67% in H116, compared with 36% in H115, and is well ahead of its FY16 target for 55%.

Valuation: Peer comparison

Even with its small size and early-stage development, at 1.2x EV/TTM (2015) sales, Snakk is at a ~70% discount to a broad global peer group of quoted mobile solutions and digital advertising companies. If the median peer multiple of 4.0x EV/TTM sales were applied, Snakk's implied enterprise value would be NZ\$39.1m or NZ\$0.137/share.

Price NZ\$0.05
Market cap NZ\$15.7m

Share price graph



Share details

Code SNK
 Listing NXT
 Shares in issue 314.2m

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\$.
- Low barriers to entry.
- IP risk tied up with talent.

Analysts

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Historical financials

Year end	Revenue (NZ\$m)	EBITDA (NZ\$m)	PBT (NZ\$m)	EPS (c)	P/E (x)	EV/Sales (x)
03/12	2.0	(0.4)	(0.4)	(0.2)	N/A	6.0
03/13	3.7	(0.9)	(0.9)	(0.4)	N/A	3.3
03/14	7.1	(1.6)	(1.3)	(0.5)	N/A	1.7
03/15	9.9	(3.7)	(3.7)	(1.3)	N/A	1.2

Source: Snakk Media

Snakk Media coverage is provided through the NZX Research Scheme

Interim results – behind the numbers

Snakk Media reported a much reduced interim net loss of NZ\$0.25m for H116, compared with the previous year's net loss of NZ\$2.19m. Strong revenue growth in the company's fledgling South-East Asia operation together with a focus on costs containment underpinned the result.

Revenues grew by 13% driven by the South-East Asian operation, which reported a seven-fold increase to NZ\$0.68m. Selling costs declined NZ\$1.09m from the previous corresponding period, resulting in gross margin jumping to 67%, as Exhibit 1 demonstrates.

Exhibit 1: Interim results summary			
		H115 (NZ\$m)	H116 (NZ\$m)
Gross revenue		4.05	4.58
COGS		2.60	1.51
Gross margin		1.45	3.07
Gross margin %		36	67
EBITDA		-2.21	-0.26
Net finance costs		0.03	0.02
Taxation		-	-
Net loss after tax		-2.19	-0.25

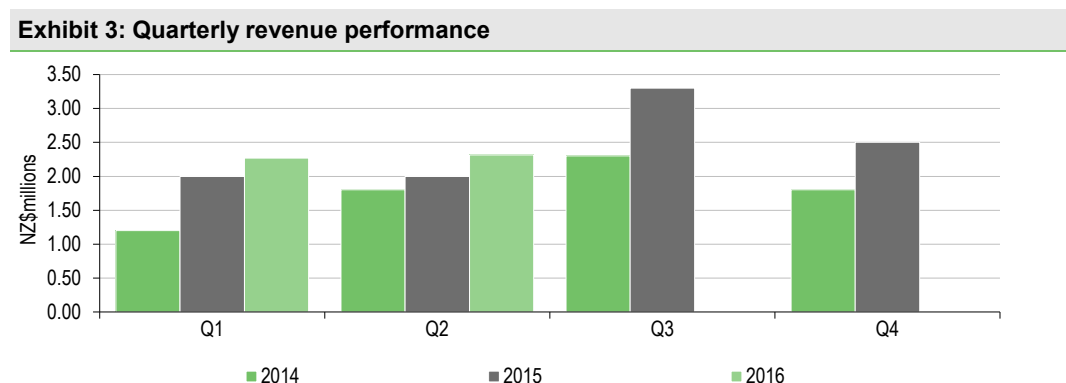
Source: Snakk Media

Breaking down the results further, Snakk delivered a stellar result in Q2, when gross margin jumped to 76% from 58% in Q1 and the company posted its first positive EBITDA of NZ\$0.05m, as Exhibit 2 shows. We focus on gross margin as it is a measure of operational efficiency for advertising companies.

Exhibit 2: Interim performance by quarter			
		Q116 (NZ\$m)	Q216 (NZ\$m)
Gross revenue		2.27	2.31
COGS		0.95	0.56
Gross margin		1.32	1.75
Gross margin %		58	76
EBITDA		-0.31	0.05

Source: Snakk Media

The company has now produced six successive quarters of revenue growth, as Exhibit 3 shows.



The only concerning factor in the result was that the Australian operations experienced an 11% decline in revenues, due to a slight weakening in the NZ exchange rate and to international competition entering this more mature market. More pleasingly, the company's New Zealand operations experienced a 42% jump in revenues y-o-y (see Exhibit 4). Snakk's focus on building its

presence in South-East Asia, which will be funded by the recent capital raise, should see a revenue shift in group revenues over time.

Exhibit 4: Interim revenues by geography

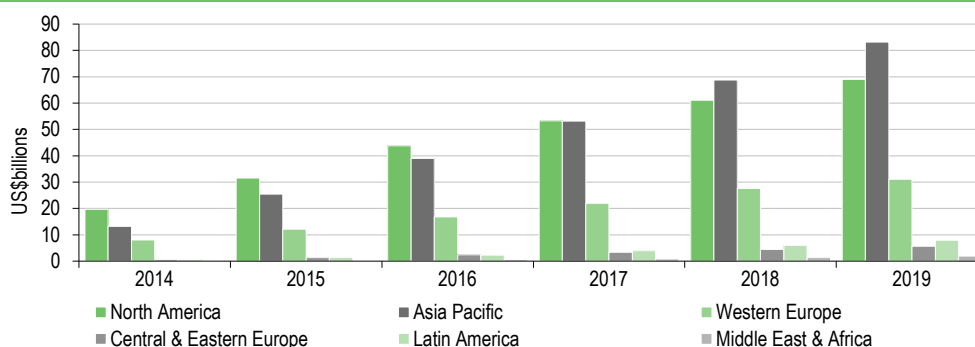
	H115 (NZ\$m)	H116 (NZ\$m)	% chg
Australia	3.491	3.106	(11)
New Zealand	0.557	0.791	42
Singapore	0	0.682	N/A

Source: Snakk Media

Mobile advertising outlook

The mobile advertising market continues to demonstrate that it is on a trajectory. eMarketer noted in its September 2015 report *Total Media Ad Spending Growth Slows Worldwide*, that while it expected global ad spend to slow over the next five years, it was forecasting continued strong growth in the mobile internet advertising segment. eMarketer, in fact, is forecasting Asia Pacific to outpace North America by 2018, as Exhibit 5 demonstrates.

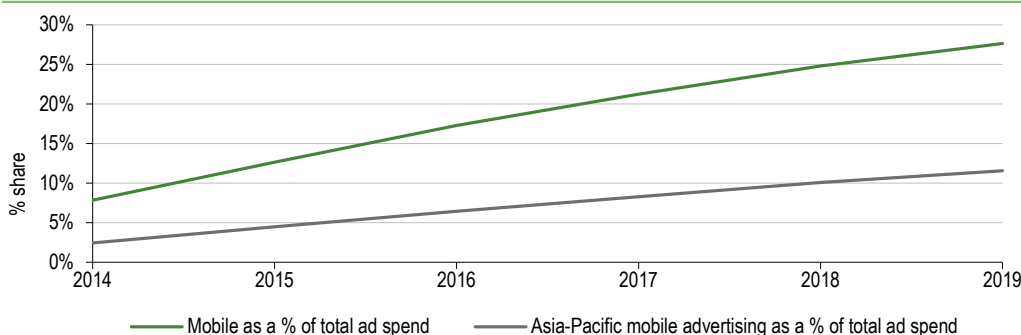
Exhibit 5: Mobile internet advertising by geographic region (2014-19e)



Source: eMarketer

The forecasting group anticipates that worldwide mobile ad spend will command 28% of total ad spend by 2019e, up from 13% in 2015, and it expects the Asia-Pacific region will secure 12% of total ad spend by 2019e.

Exhibit 6: Worldwide and Asia-Pacific mobile ad spend as a percentage of total ad spend



Source: eMarketer

Key operating milestones

The company has announced that it will report its key operating milestones in January when it releases its Q3 revenues. The key milestones are defined as follows:

- The click-through rate is a measure used by the mobile advertising industry to assess the effectiveness of online advertising campaigns. If Snakk can maintain this at higher than

industry benchmarks, it should win new business and generate additional revenue for Snakk from existing campaigns. On average the CTR per advertising campaign is 0.62% according to the 2014 Medialets Mobile & Tablet Advertising Benchmarks. As Exhibit 7 below shows, Snakk's average CTR was 0.7% in FY14 and 0.9% in FY15, well ahead of the industry benchmark.

- Gross margin is the profit margin after netting costs of goods sold from revenues. It is a measure of Snakk's operational efficiency. The company is targeting a gross margin of 55% in FY16 and FY17, up from 42% in FY15. H116 saw gross margin at 67%, well ahead of the company's target.
- Revenue to compensation ratio is the percentage of permanent full-time employee salaries to gross sales revenues. It demonstrates the efficiency of its labour force. A decreasing labour to revenue ratio signals that the company is becoming more efficient.
- Staff turnover is the percentage of permanent full time employees who voluntarily leave the company. This is the measure of team stability. Media agencies on average lose 33% of staff per year voluntarily, according to a 2015 report published by the Media Federation of Australia. Group CEO Mark Ryan is focused on a much lower rate.

Exhibit 7: Key operating milestones/target				
Year end March (%)	FY14 actual	FY15 actual	FY16 target	FY17 target
Click-through rate (CTR)	0.70	0.90	0.95	1.00
Gross margin	40	42	55	55
Compensation ratio	39	43	45	42
Staff turnover	14	19	22	24

Source: Snakk Media

Peer comparison

We have looked at Snakk's peer group to provide a guide as to what the market will pay for companies in this sector. However, in doing so, it is worth noting that directly comparable listed peers are scarce. Most operators in the mobile marketing sector are venture-capital backed, private companies. In Australia, two of Snakk's three peers, Big Mobile and InMobi, are privately owned. The only listed Australian peer, Mobile Embrace (MBE.AX), is currently trading on an EV/sales multiple of 4.5x.

Exhibit 8: 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	USD	2734	1127	4.0	5.1	77.1	25.9
Criteo	CRTO:NASDAQ	USD	2537	2260	3.0	8.4	35.9	25.3
Mobile Embrace	MBE.AX	AUD	149	149	4.5	5.5	82.4	37.3
MOKO Social Media	MKB.AX/MOKO:NASDAQ	AUD	33	25	4.0	149.8	2.7	-1.5
Opera	OPERA.OSLO	NOK	8156	8080	16.8	23.6	71.3	75.8
Sizmek	SZMK:NASDAQ	USD	137	46	0.3	0.4	64.8	3.5
Telenav	TNAV:NASDAQ	USD	290	171	1.1	2.1	50.8	5.3
Median					4.0	5.5	64.8	25.3

Source: Bloomberg. Note: Prices at 2 December 2015.

Taking the median EV/sales multiple of this peer group, we have applied the median EV/TTM (twelve-month trailing revenue) sales multiple of the peer group to Snakk's 2015 sales revenue of NZ\$9.9m (plus rebates). We have assumed the NZ\$1.6m in cash as per the reported September 2015 figure and the subsequent NZ\$2.2m raised in October.

The implied value using the median peer multiple is NZ\$0.137/share as the following table illustrates; however, we would expect the market to potentially apply discounts for Snakk's size and early life position.

Exhibit 9: Implied value using peer group multiples

	Enterprise value (NZ\$m)	Market cap (NZ\$m)	Share price
Implied using peer group	39.1	42.9	\$0.137
Current	11.9	15.7	\$0.05
% potential upside	229	173	173

Source: Edison Investment Research

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