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The Mission Marketing Group

Media

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Creativity backed by technology

The mission continues to flesh out its offer, scaling up and adding to its capabilities through small acquisitions and start-ups. H116 figures show double-digit growth in operating income, with adjusted EPS ahead 15% y-o-y, solid cash flow and a good step-up in the dividend. A number of high-quality names are added to the client roster, including O2 and Halfords. Greater emphasis is being placed on collaboration between the networked agencies, which should maintain the new business momentum and enable the group to win a greater share of spend from existing clients. The deep valuation discount to sector looks increasingly incongruous.

Investing to grow

The mission has invested in its in sports marketing, creative and healthcare offers in H116, along with systems and technology to support the growing group. Agency management teams have also been strengthened and resources added to the Asia Pacific and US offices. The network structure makes the group particularly responsive to client needs in determining investment priorities, with support and control from the centre. Recent acquisitions are delivering as expected and future expansion is likely to follow a similar pattern. New initiatives include healthcare agency, Solaris, working with Vivactis and Precision Effect networks on a global basis and sales promotion being added to the mix.

Strengthening balance sheet

Strong operating cash flow has enabled bank debt to reduce by £1.5m in H116, despite the payment of a £2.7m acquisition consideration and £0.5m of capex. Future acquisition obligations are now down to £5.4m, of which £0.6m is due in H216 and £1.9m in H117. Net debt at end June was £9.4m and market expectations are for an only slightly higher year-end figure of £10.1m. There is therefore plenty of firepower for further similar investments, as well as supporting a good step-up in the dividend, which we now assume will be split 33:67 H1:H2.

Valuation: Deep discount persists

The interims are in line with July's update; the only changes to broker forecasts are a higher dividend for FY16e and FY17e. FY16e EPS growth for the quoted agency sector is 11.3%, which still looks optimistic given the GDP and industry backdrop. The mission's forecast EPS growth rate of 13.6% is greater, yet the market values it on an FY16e P/E of 5.5x, well below peers on 13.3x. On FY16e consensus EV/EBITDA, the mission trades at 4.3x vs sector 7.8x, despite earning similar margins.

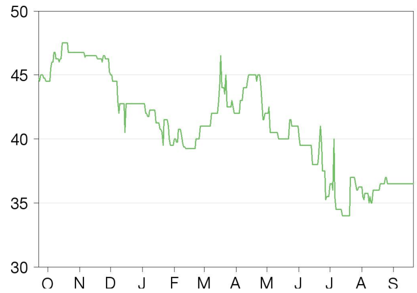
Consensus estimates

Year end	Operating income (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
12/14	55.0	5.5	5.1	1.1	7.2	3.0
12/15	61.0	6.5	5.9	1.2	6.2	3.3
12/16e	66.8	7.2	6.7	1.5	5.5	4.1
12/17e	71.9	7.8	7.3	1.7	5.0	4.7

Source: Company accounts, Bloomberg

Price	**36.5p**
Market cap	**£30m**

Share price graph



Share details

Code	TMMG
Listing	AIM
Shares in issue	84.12m

Business description

The mission is a network of entrepreneurial marketing communications agencies predominantly in the UK, and also Asia and San Francisco. The group provides national and international clients with marketing, advertising and business communications.

Bull

- Organic growth well ahead of market.
- Strengthening balance sheet.
- Progressive dividend.

Bear

- Brexit-inspired uncertainty.
- Client pressure on pricing/procurement.
- Bias to H2 limits visibility.

Analysts

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