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The Mission Marketing Group

Media

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Staying on the front foot

The mission's year-end trading update indicates that the group continued its good performance in its traditionally stronger second half, albeit at a lower premium than first half progress. FY16 revenue and headline profit were up 8.0%, higher than GroupM's estimate of UK ad spend growth at 7.2% and the 6.3% average top-line growth of the quoted smaller agency sector. Collaboration between the mission's networked agencies continues to extend, with the strong (and loyal) client roster giving a deep pool in which to win a greater share of spend. The valuation discount to the sector has reduced, but remains unjustifiably large.

Organic progress set for FY17

The implication from the statement is that FY16 headline profit will come in slightly (£0.2m) shy of the broker forecast for FY16, with FY17 numbers held, implying profit growth in that year of over 10%. With no sizeable acquisitions in FY16, this indicates confidence in the potential for organic progress of the underlying business. Full final results are set to be released on 23 March. The mission's capabilities continue to achieve external recognition both through industry awards and with group agencies having secured three places on the government's newly announced Communications Services roster for tactical campaigns. A new incentive scheme for board and operational management is planned for end Q117.

Continued balance sheet strengthening

The good H2 performance has further strengthened the balance sheet, with year-end gearing below last year's level of 15%. Leverage is also reported to have been improved on FY15 (bank debt leverage of 1.3x, total debt leverage 2.0x vs targets of <2.0x and <2.5x respectively). Acquisition obligations continue to reduce as payments are made, with £1.9m due in H117. There is therefore plenty of firepower for further investments, as well as supporting the step-up in the FY16 dividend.

Valuation: Discount narrowed, but still overstated

With the group continuing to deliver growth ahead of market, the share price has made progress, rising 40% off a low of 33.5p in July 2016. The discount to other smaller quoted marketing service businesses has narrowed, but still stands at 39% on a P/E basis to December 2016, at 33% on EV/EBITDA (5.0x vs. 7.5x). The scale of this discount is difficult to justify given the earnings and dividend growth and the substantial improvement in the state of the balance sheet.

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	9.2	2.3
12/15	61.0	6.5	5.9	1.2	8.0	2.6
12/16e	66.8	7.2	6.7	1.5	7.0	3.2
12/17e	71.9	7.8	7.3	1.7	6.4	3.6

Source: Company accounts, Bloomberg

Price	**47p**
Market cap	**£40m**

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 general, sector vertical, functional and geographic specialisms to national and international clients.

Bull

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

Bear

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

Analysts

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