

Snakk Media

Media
2 June 2016

Demonstrating strong fiscal management

Snakk Media (SNK) has reported a net loss of NZ\$0.58m for FY16, down from NZ\$4.0m year-on-year. The company delivered a 14.9% increase in revenues y-o-y to NZ\$10.5m. Excluding non-cash expensing of staff options, net cash usage for the year was -NZ\$0.4m, while net assets increased 66% y-o-y to NZ\$4.2m. SNK ended the year with NZ\$2.9m in net cash. It has also announced its FY17 key operating milestones (KOMs) and is targeting a gross margin of 62%, a click-through rate of 1.00%, a staff turnover rate of 24% and compensation ratio of 42%.

FY16 results

SNK reduced its losses by 86% year-on-year to NZ\$0.58m in FY16, demonstrating strong fiscal management, in our view. Revenues rose 14.9% y-o-y to NZ\$10.5m, while direct media costs were significantly reduced to enable SNK to produce a 70.9% y-o-y increase in gross profit to NZ\$6.6m. Employee costs increased just 1.2% to NZ\$4.4m while other operating expenses fell 21.6% to NZ\$2.8m. The company reported its strongest revenue growth from South-East Asia, which increased 165% y-o-y. SNK noted that more than 30% of its revenues are now generated outside Australia, compared with 4% in FY14. The company announced that it expected continued growth from its traditional ANZ and emerging Asian markets. Cash usage was also tight. Net operating cash flow for the year was NZ\$1.7m, down from NZ\$4m in FY15. Net cash at year end was NZ\$2.9m, an increase of NZ\$0.4m. SNK also strengthened its balance sheet, with a 66% increase in net assets to NZ\$4.2m, in part attributable to a reduction in trade payables.

FY17 key operating milestones

SNK has also announced its KOMs for FY17. It continues to target staff turnover of 24% and a compensation ratio (being salaries to revenue) of 42%. The company is now targeting a gross margin of 62% for FY17, having delivered 63% in FY16 against its target of 55%. It is also targeting a click-through rate of 1.00%, up from its FY16 target of 0.95%. SNK will report its Q1 KOMs on 28 July.

Valuation: Trading at a steep discount to peers

Even with its small size and early-stage development, both of which could attract a discount, at 0.6x FY16 EV/sales, SNK is trading at a c 60% discount to a median multiple for the broad global peer group of quoted mobile solutions and digital advertising companies (see Exhibit 5).

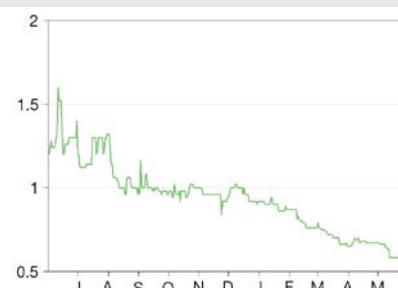
Historical financials						
Year end	Revenue (NZ\$m)	Gross profit (NZ\$m)	PBT (NZ\$m)	EPS* (c)	EV/Gross profit (x)	EV/Sales (x)
03/13	3.7	1.9	(0.9)	(5.7)	3.2	1.6
03/14	7.1	2.9	(1.9)	(12.0)	2.1	0.9
03/15	9.2	3.9	(4.0)	(25.6)	1.6	0.7
03/16	10.5	6.6	(0.6)	(3.7)	0.9	0.6

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

Price NZ\$0.60
Market cap NZ\$9m

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 Asian markets.

Bear

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

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FY16 earnings analysis

Snakk Media delivered an 86% reduction in net losses to NZ\$0.58m in FY16, with the H216 net loss of NZ\$0.34m significantly down on the NZ\$1.8m reported in H215. The company's gross margin for the year was 63% with the second half margin of 59% well up y-o-y, as Exhibit 1 demonstrates.

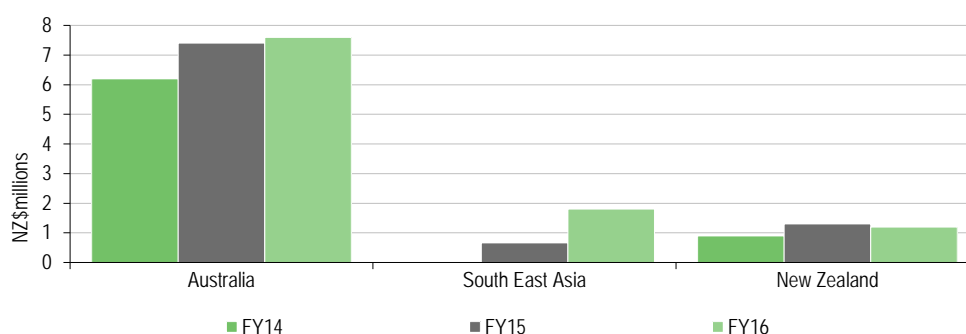
Exhibit 1: Operating performance by half year and full year

NZ\$m	H114	H214	FY14	H115	H215	FY15	H116	H216	FY16
Net revenue	3.020	4.036	7.056	3.962	5.196	9.158	4.580	5.942	10.522
COGS	1.644	2.531	4.176	2.598	2.702	5.300	1.510	2.417	3.927
Gross margin	1.376	1.505	2.880	1.364	2.494	3.858	3.070	3.524	6.594
Gross margin %	46%	37%	41%	34%	48%	42%	67%	59%	63%
Loss after taxation	(0.838)	(1.054)	(1.891)	(2.191)	(1.834)	(4.024)	(0.240)	(0.340)	(0.581)

Source: Snakk Media

The company reported its strongest revenue growth from South-East Asia, which increased 165% y-o-y to NZ\$1.8m, overtaking its New Zealand operations in size. As Exhibit 2 demonstrates, the growth in revenues in South-East Asia underpinned the group's y-o-y revenue growth.

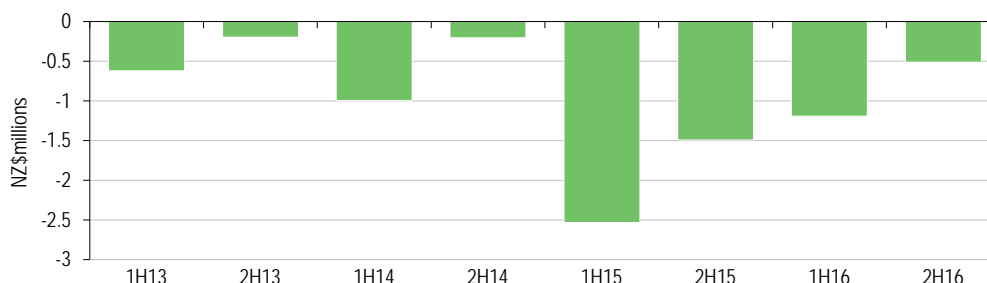
Exhibit 2: Revenues by region by financial year



Source: Snakk Media

Operating cash flow was also tightly managed. The company reported that operating cash flow for the second half declined to NZ\$0.5m, well down on the first half and previous corresponding period, as Exhibit 3 highlights.

Exhibit 3: Operating cash flow by half year



Source: Snakk Media

Key operating milestones

SNK announced its FY17 KOMs, increasing its targets for click-through rate and gross margin. It is now targeting a click-through rate of 1.00%, up from the FY16 target of 0.95%, despite delivering a lower rate of 0.90% for FY16. The lower click-through rate in FY16 was due to the emphasis placed on a significant video campaign in South-East Asia in Q416, in which the key metric was completed video views rather than click-through rates.

SNK has also increased its target gross margin for FY17 to 62%, up from 55% in FY16, after delivering a better than target gross margin of 63%, as Exhibit 4 highlights.

Exhibit 4: Key operating milestones, actual and 2017 target

Year ended March	2014 actual	2015 actual	2016 actual	2017 target
Click-through rate	0.70%	0.90%	0.90%	1.00%
Gross margin	40%	42%	63%	62%
Compensation ratio	39%	43%	47%	42%
Staff turnover	14%	19%	16%	24%

Source: Snakk Media

Peer comparison

Even allowing for its small size and early-stage, SNK is trading at a significant discount to its listed peers. At 0.6x FY16 EV/Sales, SNK is trading at a c 60% discount to the media 1.5x multiple of its peer group, as Exhibit 5 demonstrates.

Exhibit 5: Listed 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	1,570	-128	-0.5	-0.6	77.1	-2.9
Criteo	CRTO:NASDAQ	USD	2,797	2,454	1.9	5.2	35.7	27.4
Mobile Embrace	MBE.AX	AUD	137	127	3.9	4.7	82.4	32.0
MOKO Social Media	MKB.AX/MOKO:NASDAQ	AUD	17	10	1.5	56.3	2.7	-0.5
Opera	OPERA:OSLO	NOK	9,715	9,779	15.9	26.6	59.7	91.7
Sizmek	SZMK:NASDAQ	USD	71	29	0.2	0.3	61.2	2.2
Telenav	TNAV:NASDAQ	USD	202	82	0.5	1.0	50.8	2.6
Median					1.5	4.7	59.7	2.6

Source: Bloomberg, Software Equity Group. Note: Prices as at 27 May 2016.

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