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The Mission Marketing Group

Media

25 January 2018

Adding value and building margin

The mission's year-end trading update indicates that its FY17 profits were a shade ahead of the market forecast, with the bonus of a strong working capital performance delivering a very good reduction in net debt to below £7.5m. A greater degree of back-office integration in FY18, building on collaboration initiatives already in place, should help margins to progress, further boosted by reduced interest rates triggered by the stronger balance sheet. The lengthening record of delivering on expectations and of growing earnings and dividends is inconsistent with the deeply discounted rating.

Strong cash performance broadens options

The indicated headline FY17 pre-tax profit of £7.7m implies good H2 growth, despite a market backdrop of client vacillation and pricing pressure. The group's end-December net debt figure of below £7.5m compares with £9.4m at the half year and a previous market estimate of £11.5m, so represents a considerable improvement over expectations. This has meant that the ratio of net debt/EBITDA has fallen below 1.0x (vs forecast 1.2x), triggering a 0.5% reduction in the interest rate payable. Earn-out payments (£6.4m at 31 December 2017, of which £1.9m is due in FY18) may be adjusted upwards to reflect strong performance, but there remains plenty of fire power to invest in both organic growth initiatives and in complementary acquisitions, as well as supporting a growing dividend payment.

Working together

While the mission is a network of agencies, it has an increasingly embedded culture of working collaboratively which will be cemented with the centralisation of certain back-office functions as outlined in the statement. This programme will be overseen by a group commercial director, appointed from Bray Leino, a group agency. The Fuse initiative to pool technology and IP, along with its new Ignition innovation programme, should also help contribute towards boosting forecast operating margin growth towards the 14% target by FY20 (FY17e: 11.9%).

Valuation: Persistent overstated discount

The mission continues to trade in a range of 39.5-50.5p, representing a substantial discount to other quoted small- to mid-cap marketing/communications businesses. The current price puts it on an FY18e EV/EBITDA of 4.4x, compared to the small/mid-cap media sector at 8.0x, a 45% discount; on a P/E basis its multiple of 5.8x compares to peers at 11.4x. The sizes of these discounts are difficult to justify given the earnings and dividend growth and the improved state of the balance sheet.

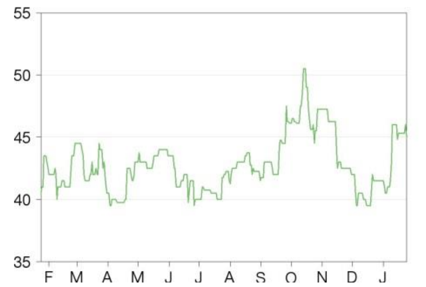
Consensus estimates

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/16	65.9	7.0	6.4	1.5	7.0	3.3
12/17e	68.9	7.6	7.0	1.7	6.4	3.8
12/18e	72.3	8.5	7.8	1.8	5.8	4.0
12/19e	75.9	9.6	8.8	2.0	5.1	4.4

Source: Company accounts, Bloomberg. Note: *PBT and EPS adjusted.

Price	45p
Market cap	£38m

Share price graph



Share details

Code	TMMG
Listing	AIM
Shares in issue	84.36m

Business description

The mission is a network of entrepreneurial marketing communications agencies in the UK, Asia and the US. 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

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

Analysts

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