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The Mission Marketing Group

Media

11 April 2018

Krow: Bar raised

Price	47.5p
Market cap	£40m

The mission has delivered good FY17 results and announced the purchase of Krow Communications, a well-regarded London advertising agency. Initiatives on shared back-office functions and tech-enabled collaboration are starting to lift group operating margins, up 20bp to 11.7%, on the path to the FY20 goal of 14%. Strong cash generation reduced end FY17 net debt by £4.1m to £7.2m (£14.5 including previous acquisition obligations), amply covering the initial cash consideration of £2.75m for Krow. The lengthening record of delivering on expectations and of earnings growth is not consistent with the deeply discounted rating.

Driving operating margins

FY17 results were in line with January's update, with non-UK operating income over 10% for the first time. Advertising & Digital, the largest segment, saw operating income rising 8% y-o-y in FY17; +5.4% like-for-like plus the first benefit from RJW, acquired in April. Central cost growth was limited to 2%, resulting in adjusted operating profit up 9%. A collaboration culture is increasingly evident, helping win new clients (including Ribena, NEFF and TNT). FY17 net new business won was over £5m. Client retention remains impressive, with nearly 20% of business from clients of over 20 years' standing. The Fuse initiative to pool technology and IP, along with moves to share back-office services between group agencies should help boost forecast operating margins towards the FY20 target of 14%.

Strong cash flow funds investment, acquisitions

Net debt of £7.2m was notably better than forecast (£11.3m) after a strong H2 working capital performance, partly timing but partly structural. With previous acquisition obligations, total debt stood at £14.5m; 1.4x FY17 EBITDA and well within the board's stated limit of 2.5x. The company guides Krow is bought on an initial multiple of 3.0x FY18e EBIT, with demanding targets of 25% CAGR in EBIT to FY20 to hit the £14.5m maximum consideration. Krow has a strong reputation for creative work (including the DFS/Aardman campaigns) and the founders are staying with the business.

Valuation: Overstated discount

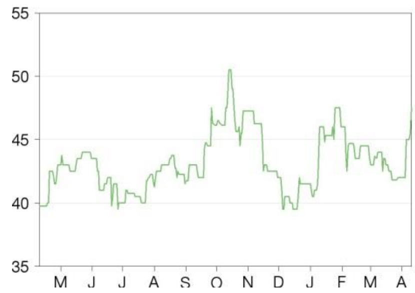
The mission continues to trade in a range of 38–48p, a substantial discount to quoted small- to mid-cap marcomms peers. The current price puts it on an FY18e EV/EBITDA of 4.0x, compared to the sector at 8.6x, a 53% discount; on a P/E basis a multiple of 5.5x compares to peers at 12.0x. The scale of these discounts is difficult to justify given the earnings growth and improved 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	7.4	3.2
12/17	70.0	7.7	7.1	1.7	6.7	3.6
12/18e	78.7	9.4	8.6	1.8	5.5	3.8
12/19e	84.6	10.5	9.5	2.0	5.0	4.2
12/20e	88.8	11.7	10.5	2.2	4.5	4.6

Source: Company accounts, Bloomberg

Share price graph



Share details

Code	TMMG
Listing	AIM
Shares in issue	84.36m

Business description

The mission provides a full range of integrated and specialist marketing communications services to local, national and international clients from a network of offices across the UK, Asia and the US.

Bull

- Improving operating margins.
- Strengthening balance sheet.
- Progressive dividend.

Bear

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

Analysts

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