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The Mission Marketing Group

Media

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Simpler and stronger

The mission has delivered another set of good trading results, with H118 organic revenue growth of 5% (10% including acquisitions). Krow, bought in April 2018, is performing well, while internal initiatives on shared back-office functions and tech-enabled collaboration are helping to boost operating margins, up 100bp to 10.1% in H118, towards the FY20 goal of 14%. Banking arrangements have been extended through to FY21, on lower rates, amply covering existing commitments and allowing scope for further deals. The lengthening record of delivering on expectations and of earnings growth is not consistent with the deeply discounted rating.

Increasing coherence

The burgeoning collaborative culture should be helped by the organisation of the group's 16 agencies into two business units, sector specialist agencies and integrated agencies, overseen by existing group agency leaders, as announced in July. This breakdown of actual and perceived silos is already resulting in cross-referrals and combined pitches, and should also help improve external perceptions of the group. Revenue (net of put-through costs) is forecast by consensus to rise 12.4% in FY18e, 7.5% in FY19 and 5.0% in FY20, with the operating margin also benefiting from previous start-ups moving into profit. FY18 numbers are unchanged on these results, with management reiterating the inherent second-half weighting.

Strengthening balance sheet

H118 net debt of £7.8m was £0.5m more than the year-end figure after a partial reversal of working capital swings and acquisition payments of £4.5m. Since the period end, the group has signed new banking facilities, namely a £15m three-year revolving credit facility (with a £5m accordion and option to extend by a further year), on interest rate margins of 1.25% to 2.25%. Outstanding acquisition commitments of £11.0m at 30 June include cash obligations of £2.5m by June 2019 and £2.2m the following year, which should comfortably be covered by cash generation. Total debt leverage of 1.4x is well within the internally defined limit of 2.5x.

Valuation: Overstated discount

The mission's share price, although performing more strongly (up over 20% since the start of the year), remains at a substantial discount to quoted small- to mid-cap marcomms peers. The current price puts it on an FY18e EV/EBITDA of 4.7x, compared to the sector at 7.8x, a 40% discount; on a P/E basis, a multiple of 5.8x compares to peers at 11.7x. 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	7.8	3.0
12/17	70.0	7.7	7.1	1.7	7.0	3.4
12/18e	78.7	9.4	8.6	1.8	5.8	3.6
12/19e	84.6	10.5	9.5	2.0	5.3	4.0
12/20e	88.8	11.7	10.5	2.2	4.8	4.4

Source: Company accounts, Bloomberg

Price	50p
Market cap	£42m

Share price graph

Share details

Code	TMMG
Listing	AIM
Shares in issue	84.36m

Business description

The mission is a tech-enabled marketing comms and advertising group employing 1,100 people in the UK, Asia and the US. It comprises two business units, integrated agencies and sector specialist agencies, which work together to provide clients with the expertise and resources to make them more successful in today's challenging environment.

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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