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The Mission Marketing Group

Media

22 January 2019

Price	59.5p
Market cap	£50m

Good reasons to krow

Themission's FY18 trading update indicates that it expects to deliver results in line with market expectations; 10% top line growth and a 20% step-up in headline PBT (adjusted for start-up and acquisition costs). The revenue growth is half organic and half stemming from April's acquisition of krow Communications, best known for its work with Aardman for DFS. This will be the eighth successive year of group revenue and headline PBT progression, with the dividend growing steadily since its reintroduction for FY14. With improving operating margins and a strengthening balance sheet, this record is clearly inconsistent with the deeply discounted rating.

Strong second half

Preliminary results are scheduled for 9 April and will doubtless contain more detail about which areas of the group are performing well. The indicated numbers show the expected second half bias to profits (roughly a one-third: two-thirds split). They also imply continuing progress on operating margin, which we expect to come out at around 12.5%, from 10.9% in FY17, making good progress toward management's target of 14% by FY20. This is being driven, at least in part, by the greater degree of collaboration and simplification of the business structure into two units, announced in July last year. Sharing services were targeted to deliver £0.3m of savings in FY18 and £1.0m in FY19. November's disposal of incubator business, BroadCare, was slightly earnings' dilutive but would have required further investment. This impact is built into market forecasts, unchanged on these results. 5% revenue growth is anticipated by the market in FY19 and FY20, compared to the latest GroupM forecast of 4.8% for UK advertising spend in FY19, but all is subject to the outcome of Brexit.

Balance sheet continues to strengthen

The BroadCare disposal accelerated the deleveraging of the balance sheet, bringing in cash of £4.4m. Working capital performance has also been better than anticipated, after a good year on this front in FY17 and the indicated year end figure of £4.0m is around 10% better than market expectations. The reduced net debt/EBITDA ratio triggers a further reduction in interest rate. Outstanding acquisition commitments should be comfortably covered by cash generation.

Valuation: Continuing overstated discount

The**mission**'s share price remains at a substantial discount to quoted small- to mid-cap marcomms peers. The current price puts it on an FY19e EV/EBITDA of 4.3x, compared to the sector at 7.3x, a 41% discount; on a P/E basis, a multiple of 6.5x compares to peers at 10.1x. The scale of these discounts is difficult to justify, given the earnings growth and further improvements in the balance sheet.

Consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
12/17	70.0	7.7	7.1	1.7	8.4	2.9
12/18	78.7	9.4	8.6	2.0	6.9	3.4
12/19e	83.0	10.2	9.2	2.2	6.5	3.7
12/20e	87.2	11.3	10.2	2.4	5.8	4.0

Source: Company accounts, Refinitv

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 over 1,000 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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