

The Mission Marketing Group

Media
9 April 2019

Another year of progress

The mission's FY18 results were in line with the trading update, with good top-line growth (buoyed by the Krow acquisition), higher operating margins and a balance sheet strengthened by the £3.0m profit on the sale of BroadCare in November. Cash flow should comfortably cover future earn-out commitments. The appointment of James Clifton (of in-house agency bigdog) as group CEO should help to drive further collaboration across the 28 offices, with more cross- and up-selling to the low-churn, blue-chip client base. The valuation remains at a sizable discount to peers.

Growing operating margin

Headline (pre-profit/loss on investments, exceptionals, acquisition-related items and start-up losses) organic FY18 revenue growth from continuing business of 5% was lifted to 13% with the Krow acquisition in April. This compares with 6% 2018 UK total ad spend growth (source: AAWARC). The disposal of incubator company, [BroadCare](#), was slightly earnings dilutive but would have required more investment. FY18 operating margin from continuing business posted a like-for-like increase from 11.2% in FY17 to 12.2%, as the benefit from the shared services initiative kicked in. As a result of the disposal, the 14% target is pushed back a year to FY21, which nevertheless implies good progress. The higher operating margin lifted headline continuing PBT (+25%) and EPS (+24%). New business wins, including Amazon and HP, should help maintain momentum in FY19e. Pathfindr, the asset management system developed within the group's incubator, is also growing rapidly, with forecast revenues of £2.0m in FY19e, four times its FY18 revenue.

Balance sheet continues to strengthen

The working capital performance unwound in H218 after a strong H1, with net debt at the year end of £4.0m (FY17: £7.2m). Total outstanding acquisition commitments stand at £11.6m and peak in FY21 (£5.6m at current earn-out assumptions), which should be comfortably covered by cash generation. Management has reduced total debt leverage (including earn-out commitments) limits from 2.5x to 2.0x in light of the political and economic uncertainty.

Valuation: Continuing overstated discount

Despite a 40% increase in the share price over the last year, the mission's valuation remains at a substantial discount to quoted small-cap marcomms peers. The current price puts it on an FY19e EV/EBITDA of 4.7x, compared to the sector at 7.7x, a 38% discount; on a P/E basis, a multiple of 7.0x compares to peers at 11.6x. The BroadCare disposal profit highlights value elsewhere in the incubator, Pathfindr in particular. The scale of the valuation 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	9.1	2.6
12/18	78.8	9.5	8.7	2.1	7.4	3.3
12/19e	83.2	10.2	9.2	2.2	7.0	3.4
12/20e	87.4	11.3	10.2	2.4	6.3	3.7

Source: Company accounts, Refinitiv

Price 64.5p
Market cap £54m

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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