

The MISSION Group

Media

22 January 2020

Last minute surge

MISSION's full year trading update confirms that the group performed in line with market expectations, with the last weeks of the year particularly busy. Working capital is therefore likely to have increased net debt to more than the £2.1m previously anticipated by the market, but still within the 0.5x net debt/EBITDA target. Management continues to expect the group to be net cash positive by end FY20e, despite higher investment in both technology and geographic expansion. Unchanged market forecasts for FY20 and FY21 show good progress at revenue and margin levels. The valuation remains at a sizable discount to peers.

Rising to the challenge

The marketing communications sector has always had to deal with the heavy seasonal bias in clients' spending to the closing weeks of the year. FY19 was no exception, with political uncertainty around Brexit and the general election exacerbating existing trends. The sponsorship deal brokered by group PR company Mongoose, between lastminute.com and the London Eye, has helped MISSION to meet market expectations for FY19. Under CEO James Clifton, appointed in April 2019, the group's remit has shifted more to a mindset of creative client partnerships, rather than a traditional supplier of marketing communications. With a strong existing record of long client relationships, this should give the group scope to drive revenue per client as group agencies work in closer alignment.

Anticipated growth in scale and margin

Structural changes to MISSION have simplified and strengthened it operationally, laying the groundwork for further margin improvements. Market forecasts for FY20 and FY21 are unchanged, suggesting revenue growth of 5% in both years, with EBIT improving by 10% and 9% respectively. The anticipated increase in the operating margin (FY20e: 13.4%, FY21e: 14.0%) is a function of both the more efficient overhead structure and leverage as the top line builds. Management intends to continue to invest to build out MISSION's technological capabilities and increase its geographic reach, while reaching a debt-free balance sheet position by end FY20.

Valuation: Continuing overstated discount

MISSION's share price has come off the highs reached last summer (96p at the July peak) but has nevertheless increased by 49% over the last year. However, its valuation remains at a clear discount to quoted small-cap marcomms peers. The current price puts it on an FY20e EV/EBITDA multiple of c 5.6x, vs the sector at 7.5x, a 25% discount; on a P/E basis, a multiple of 8.3x compares to peers at 11.3x. The scale of these discounts remains difficult to justify given the earnings growth and strengthening of the balance sheet.

Price 82p
Market cap £70m

Share price graph



Share details

Code TMG
Listing AIM
Shares in issue 85.30m

Business description

MISSION is a marketing communications group employing 1,150 people in the UK, Europe, 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

Fiona Orford-Williams +44 (0)20 3077 5739
Russell Pointon +44 (0)20 3077 5757

media@edisongroup.com

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Consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
12/18	78.8	9.5	8.7	2.1	9.4	2.6
12/19e	83.2	10.2	9.4	2.2	8.7	2.7
12/20e	87.4	11.3	9.9	2.4	8.3	2.9
12/21e	91.7	12.5	10.7	2.7	7.7	3.3

Source: Company accounts, Refinitiv

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