

The Mitula Group Ltd

Meets revenue guidance, share buyback announced

The Mitula Group (MUA.AX) is a leading player in the global online classifieds industry, operating 110 vertical search sites across 52 countries covering property, auto, jobs and fashion. Mitula also operates 10 property portals across nine SE Asian markets. The company attracts more than 70m visits per month to its network and is expanding its operations from the sale of clicks to a share of the advertising and transaction revenue pools in selected markets. The company reported CY17 revenue of \$33.6m., up 19.9% on pcp, EBITDA unadjusted of \$10.54m, was down 13% on the prior year. The company guided for adjusted EBITDA of \$11.5m on 12 February; it reported adjusted EBITDA (pre forex adjustments) of \$11.6m. Including forex adjustments, EBITDA was \$10.5m, down 13.2% on pcp. CY17 NPAT was \$5.3m, below consensus for \$6.5m.

Business model

Traditionally the Mitula Group monetised its ~75m visits per month through the sale of clicks via either Google AdSense or to its advertising partners on a “cost-per-click” (CPC) basis. The company is driving growth by moving closer to the transaction and is starting to monetise its audience by the sale of display and listing advertising and by participating in transactions. The acquisition of DotProperty in October 2016 delivered 10 property portals in South East Asia and grew advertising revenues for the Group. The March 2017 purchase of fashion vertical search specialist Fashiola which operates across 20 countries is helping drive transaction based revenues for the Group.

Full year result, Outlook and Consensus forecasts

MUA reported CY17 revenues of \$33.6m, up 19.9% on pcp and in line with its post balance date guidance on February 12. Pleasingly Fashiola and DotProperty respectively contributed \$3.9m and \$3.7m in revenue. The increase in revenue, however did not flow through to gross profit which increased 5% on pcp to \$25.8m reflecting cost of acquiring traffic to meet contracts. NPAT of \$5.3m, was down 35% on pcp and below consensus for \$6.5m. The bottom line result was impacted by a forex loss (\$1.1m versus a profit of \$0.2m) and higher D&A charges. We note consensus NPAT (derived from 1 broker) subsequently has been reduced by 22% and 41% respectively for CY18 and CY19. MUA has announced a share buyback of up to 10% of its issued capital which will be undertaken by Baillieu Holst over a 12-month period from March 15. The buyback should assist in near term price support.

Earnings history and Consensus forecasts (A\$m)

Y/E	Revenue	EBITDA	EBIT	NPAT*	EPS (c)	PE (x)	P/CF (x)
12/16	28.0	12.1	10.2	8.2	3.8	11.5	8.6
12/17	33.6	10.5	6.9	5.3	2.4	18.0	8.9
12/18e	39.0	12.1	n/a	5.1	2.4	18.6	n/a
12/19e	46.0	12.3	n/a	4.8	2.2	19.7	n/a

Source: Company data; Consensus for FY18 and FY19 derived from Thomson Reuters

Share details

ASX Code	MUA
Share Price	\$0.44
Market Capitalisation	\$95M
Number of shares	215.4m
Enterprise Value	\$82M
Free Float	48%

Share price performance



RaaS RAP 5-point score* = 3/5

Revenue increasing (1) EPS increasing (0), Return on Capital Employed up (0); EBIT interest cover >3x (1) Gross Operating cash flow/EBITDA >90%(1)

Upside Case

- Strong board and management with proven online expertise
- Strong operating cashflow generating \$8.2m in CY17 with \$13m cash on hand for strategic acquisitions and capital management initiatives
- Acquisition of Kleding and Fashiola brands moves Mitula into transaction revenue stream

Downside Case

- Shift into transactions and advertising could create competitive tension with cost per click customers
- Tightly held share register reduces liquidity
- Reliance, although diminishing, on Google's SEO traffic

Catalysts

- Evidence of consensus outperformance
- Earnings enhancing acquisitions

Comparative companies (Australia & NZ)

REA, DHG, TME, CAR, FDV, ICQ

Substantial Shareholders

Gonzalo del Pozo Sanchez (CEO/MD) 12.5%, Gonzalo Ortiz Sanz (NED) 11.4%, Marcelo Badimon Reverter 12.4%

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