

MSM Corporation International Ltd

Successful \$10.5m capital raise and celebrity judge signs

MSM has developed and operates Megastar, a software platform through which online talent contests will take place. The MSM platform is designed to leverage audience obsession in talent discovery and promotion which has been proven by successful TV talent competition programs (Idol, The Voice, X factor) and to operate a mobile/social talent competitions where the winner will be awarded prizemoney of US\$1m. User experiences will be enhanced through mobile gamification and social media engagement.

Update on progress

RaaS Advisory published a 27-page positioning paper on MSM on 15 May 2017 in which we noted that our financial model, using the company's prospectus performance hurdles (A\$5m EBITDA or 1m unique users by December 2018 and A\$15m EBITDA or 2m unique users by December 2020) as the basis for our revenue and EBITDA forecasts.

The company announced on August 14 that it had successfully secured commitment for subscriptions for a \$10.5m capital raise, comprising a \$8.63m placement at \$0.20/share and \$1.87m in convertible loans, converting at \$0.20/share with a 10% coupon with \$1.37m plus interest converting immediately and \$0.5m plus interest to be repaid. MSM plans to use \$1.9m of the proceeds for the marketing and production of the first Megastar tournament underway, \$5.7m towards payments for judges and mentors for the competition. MSM also announced that multiple Grammy-award winning musician Usher had signed as Chief Creative Director, headline celebrity mentor, judge and brand ambassador, a move which expands the tournament's potential addressable audience ~120m. In our view, the signing of Usher is a major milestone for the company and improves the prospect that MSM will meet its prospectus performance hurdles.

Business model

MSM launched its first World Wide Tournament on June 30 in South Africa and the UK and has subsequently launched in NZ and Canada. The Australian and USA launches will now launch simultaneously in September. MSM has also engaged a range of social influencers and sponsored performers who will assist in driving user engagement as they are introduced into the global launch. The signing of Usher takes this global social media audience to ~120m. MSM intends to generate revenue from In-App purchases, subscriptions, advertising and eventually merchandising and data analysis.

Indicative valuation and earnings leverage

MSM is an early stage company, pre-revenue. However, the company has largely met its milestones and has positioned itself to meet its prospectus performance hurdles with the highly influential music celebrity, Usher. Our DCF valuation, based on the company's 2015 prospectus performance hurdles and driving our revenue and EBITDA forecasts, gives us a DCF valuation of \$0.96/share (based on a beta of 1.9, WACC of 14.5% and terminal growth rate of 2%). This is based on the company converting 0.8% of an addressable audience of 22m in FY18 rising to 63m by 2025 which delivers an estimated EBITDA of \$5.4m in FY18 and \$16m in FY20, a little ahead of the company's performance share vesting targets. A larger addressable audience, from which to monetise users, is likely to shore up the near term targets. If we were to apply 0.8% conversion to an audience of 120m, the DCF valuation could rise to \$3.89/share. However we caution that the assumptions driving the revenue forecasts are untested in the market and this scenario analysis is hypothetical until the business model is proven.

Share details

ASX Code	MSM
Share price	\$0.24
Market Capitalisation	\$86.6M
Shares on issue	360.8M
Net cash at 14 August 2017	\$10.5M

Share performance (12 months)



Upside Case

- Strong board, advisory board and management with proven online entertainment expertise
- Management has largely met milestones set out in prospectus
- Beta testing has delivered proof of concept and the competition has launched in South Africa, United Kingdom, New Zealand and Canada.

Downside Case

- Pre-revenue
- Moderate barriers to entry
- Success relies heavily on Millennial/Gen X support

Board of Directors

Adam Wellisch	Non-Executive Chairman
Dion Sullivan	CEO/Managing Director
Sophie McGill	Executive Director
Mark Clement	Non-Executive Director


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Exhibit 1: Financial Summary

MSM Corporation International Ltd						Share price (18 August 2017)						A\$	0.24
Profit and Loss (A\$m)						Interim (A\$m)							
	FY15A	FY16A	FY17F	FY18F	FY19F		H116A	H216A	H117F	H217F	H118F	H218F	
Y/E 31 Dec						Revenue	-	-	-	-	8.0	10.4	
Annual Monetising users (m)			-	0.4	0.5	EBITDA	- 3.9	- 3.7	- 3.4	- 6.0	1.9	3.5	
Ave spend per visitor \$			-	16.6	22.3	EBIT	- 3.9	- 3.7	- 3.4	- 6.0	1.9	3.5	
Revenue	0.0	0.0	0.0	18.4	26.9	NPAT (normalised)	- 4.8	- 3.7	- 3.4	- 4.1	1.3	2.5	
EBITDA	(0.3)	(7.5)	(9.4)	5.4	9.8	Minorities	-	-	-	-	-	-	
Depn	0.0	0.0	0.0	0.0	0.0	NPAT (reported)	- 4.8	- 3.7	- 3.4	- 4.1	1.3	2.5	
Amort	0.0	0.0	0.0	0.0	0.0	EPS (normalised)	-	-	- 0.86	- 1.04	0.29	0.56	
EBIT	(0.3)	(7.5)	(9.4)	5.4	9.8	EPS (reported)	-	-	- 1.16	- 1.35	0.38	0.70	
Interest	(0.8)	(1.0)	0.1	0.1	0.3	Dividend (cps)	-	-	-	-	-	-	
Tax	0.0	0.0	1.8	(1.6)	(3.1)	Imputation	30.0	30.0	-	-	-	-	
Minorities	0.0	0.0	0.0	0.0	0.0	Operating cash flow	- 0.3	- 2.7	- 3.9	- 5.5	1.5	2.8	
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	Free Cash flow	- 0.1	- 2.7	- 3.7	- 5.5	1.5	2.8	
NPAT pre significant items	(1.1)	(8.5)	(7.6)	3.8	7.1	Share price performance - 12 months							
Significant items	0.0	0.0	0.0	0.0	0.0								
NPAT (reported)	(1.1)	(8.5)	(7.6)	3.8	7.1								
Cash flow (A\$m)													
	FY15A	FY16A	FY17F	FY18F	FY19F								
Y/E 31 March													
EBITDA	(0.3)	(7.5)	(9.4)	5.4	9.8								
Interest	0.0	0.0	0.1	0.1	0.3								
Tax	0.0	0.0	0.0	(1.6)	(3.1)								
Working capital changes	0.1	4.4	(0.0)	0.4	0.3								
Operating cash flow	(0.2)	(3.1)	(9.3)	4.3	7.4								
Mtce capex	0.0	(0.0)	0.0	0.0	0.0								
Free cash flow	(0.2)	(3.1)	(9.3)	4.3	7.4								
Growth capex	0.0	(0.3)	(0.2)	0.0	0.0								
Acquisitions/Disposals	0.0	0.0	0.0	0.0	0.0								
Other	0.0	0.0	0.0	0.0	0.0								
Cash flow pre financing	(0.2)	(3.4)	(9.5)	4.3	7.4								
Equity	0.1	6.8	5.7	10.9	0.0								
Debt	0.8	0.0	0.0	0.0	0.0								
Dividends paid	0.0	0.0	0.0	0.0	0.0								
Net cash flow for year	0.7	3.4	(3.9)	15.1	7.4								
Balance sheet (A\$m)													
	FY15A	FY16A	FY17F	FY18F	FY19F								
Y/E 31 March													
Cash	0.7	4.1	0.2	15.3	22.7								
Accounts receivable	0.0	0.0	0.0	0.0	0.0								
Inventory	0.0	0.0	0.0	0.0	0.0								
Other current assets	0.0	0.2	0.3	0.3	0.3								
Total current assets	0.7	4.3	0.5	15.7	23.0								
PPE	0.0	0.0	0.0	0.0	0.0								
Goodwill	0.0	0.0	0.0	0.0	0.0								
Investments	0.0	0.5	0.7	0.7	0.7								
Deferred tax asset	0.0	0.0	0.9	0.9	0.9								
Other	0.0	0.0	0.0	0.0	0.0								
Total non current assets	0.0	0.6	1.6	1.6	1.6								
Total Assets	0.7	4.8	2.1	17.3	24.6								
Accounts payable	0.1	0.6	0.0	0.4	0.7								
Short term debt	1.6	0.0	0.0	0.0	0.0								
Tax payable	0.0	0.0	0.0	0.0	0.0								
Other current liabilities	0.0	0.1	0.0	0.0	0.0								
Total current liabilities	1.7	0.7	0.0	0.4	0.7								
Long term debt	0.0	0.0	0.0	0.0	0.0								
Other non current liab	0.0	0.0	0.0	0.0	0.0								
Total long term liabilities	0.0	0.0	0.0	0.0	0.0								
Total Liabilities	1.7	0.7	0.0	0.4	0.7								
Net Assets	(1.1)	4.1	2.1	16.8	24.0								
Share capital	0.1	11.2	16.9	27.8	27.8								
Accumulated profits/losses	(1.1)	(9.6)	(18.5)	(14.6)	(7.5)								
Reserves	0.0	2.5	3.7	3.7	3.7								
Minorities	0.0	0.0	0.0	0.0	0.0								
Total Shareholder funds	(1.1)	4.1	2.1	16.8	24.0								
						EPS Reported	cps	-	-	1.90	0.86	1.59	
						EPS Normalised/ Diluted	cps	-	-	2.51	1.08	1.97	
						EPS growth (norm/dil)			N/A	n/a	-143%	83%	
						DPS	cps	-	-	-	-	-	
						DPS Growth			n/a	n/a	n/a	n/a	
						Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%	
						Dividend imputation		30	30	0	0	0	
						PE (k)			-	28.0	15.1	15.8	
						PE market				15.8	15.8	15.8	
						Premium/(discount)				77%	-4%	-	
						EV/EBITDA		- 18.7	- 9.1	- 7.9	19.0	11.1	
						Premium/(discount)							
						FCF/Share	cps	-1.0	-1.0	-3.0	1.2	2.0	
						Price/FCF share		- 25	- 24	- 8	20	12	
						Free Cash flow Yield		-4.0%	-4.2%	-12.6%	4.9%	8.5%	

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

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- our services
- how we transact with you
- how we are paid, and
- complaint processes

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 - Securities
- deal on behalf of retail and wholesale clients in relation to
 - Securities

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