

migme

Q315 update

Growth in users and monetisation continues

migme (MIG) is a global digital media company focused on emerging markets. By taking a different approach to the more established Facebook, MIG believes its platform will have little competition for its freemium offering. User numbers and monetisation rates continue to build with quarter-on-quarter cash receipts up 68.9% to A\$3.7m. The successful capital raise of A\$9.7m (A\$1.00 per share) after costs has increased cash to fund market expansion to A\$10.8m.

Year end	Revenue (A\$m)	PBT* (A\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/14	2.0	(0.4)	(1.5)	0.0	N/A	N/A
12/15e	9.0	(12.0)	(3.2)	0.0	N/A	N/A
12/16e	33.2	(1.4)	(0.4)	0.0	N/A	N/A
12/17e	66.0	14.0	3.6	0.0	29.7	N/A

Note: *PBT and EPS are normalised, excluding intangible amortisation, exceptional items and share-based payments.

All metrics pointing in the right direction

Monthly Active Users (MAU) as calculated by Google Analytics were >24m at 30 September 2015 – an increase of ~5m users in the quarter. User numbers and monetisation rates continue to build as the company adds more artists to its platform. At 30 September 2015 there were more than 490 artists and media relationships on the platform, up from 150 at 31 December 2014. From Q414 to Q315 the number of users has increased by 2.4x, while the cash receipts have increased by 6.6x, which demonstrates the acceleration of user monetisation rates. New market development has resulted in quarterly operating costs increasing 2.5x from A\$3.3m to A\$8.1m for Q414 and Q315.

Cash to fund further development

The share placement to raise gross proceeds of A\$10.11m has provided funding to continue market development by improving the customer experience and continuing to build and optimise the platform. The company's strategy has been to continue to build its markets throughout FY15. In FY16 it plans to change the focus to margins and net earnings. This strategy is reflected in our forecasts.

Valuation: Changed to reflect new share issue

In August 2015 we changed our forecasts to reflect the current rate of growth in users and the rate of monetisation. We have now incorporated the September 2015 capital raise and new share issue into our forecasts and incorporated interest income, and maintained our assumption of no dividend payments. This change has decreased forecast EPS in FY15 by 0.9% and by 10.0% in FY16. Using a DCF (WACC of 13.1% and terminal growth rate of 2%), our forecasts result in a valuation of A\$1.72. We have 'reverse-engineered' the valuation to determine the number of users implied in the current share price of A\$1.07 and have prepared a 'bull/blue sky' case, which results in a valuation of A\$2.28.

Software & comp services

23 October 2015

Price **A\$1.07**
Market cap **A\$292m**

Net cash (A\$m) at 30 September 2015	10.8
Shares in issue	273.3m
Free float	72%
Code	MIG/A117AB
Primary exchange	ASX
Secondary exchange	Frankfurt

Share price performance



%	1m	3m	12m
Abs	10.6	11.7	226.9
Rel (local)	7.1	18.1	231.4
52-week high/low	A\$1.30	A\$0.32	

Business description

migme is a social entertainment platform targeting the world's next wave of internet users, the 3.5bn people in emerging markets. The service offers free chat, content and blogging services to acquire new users. These users buy virtual goods including gifts, games, avatar items, emoticons and stickers.

Next event

Q4 results	January 2016
------------	--------------

Analysts

Moira Daw	+61 2 9258 1161
Finola Burke	+61 2 9258 1161

tmt@edisongroup.com

[Edison profile page](#)

Quarterly report – Q315

The key messages from the Q315 cash flow report and operations update are:

- an average of 1.7m users were added each month in Q315, bringing the total MAUs to >24m at 30 September 2015;
- q-o-q growth in MAU of 26.3% (previous q-o-q growth rate was 35.7%);
- q-o-q growth in cash receipts of 68.9%, which demonstrates that monetisation rates are beginning to build and are growing at a faster rate than the growth in MAU;
- q-o-q increase in operating costs of 27% to A\$8.1m;
- Q315 net operating cash flows of A\$4.4m compared with A\$4.2m in Q215;
- the number of artists/verified users increased from 400 in Q215 to 490 in Q315;
- The set-up of an Indian office and the appointment of a country manager;
- expanding into the B2C platform shop sold into Malaysia and plans to expand to other markets, including Indonesia, India and Philippines;
- partnership with Qyuki, a multi-channel network in India, to ensure that 1-2 major local artists are added every quarter to the migme platform;
- partnership with BMBX (founded by a member of *The Black Eyed Peas*) and Terno Recordings, a Philippines-based recording company that will bring 12 additional artists to the migme platform;
- an agreement with Indian technology company MoMagic Technologies to preload the migme application onto Android handsets sold in India for a fee plus a share of revenue; and
- a share placement to raise A\$10.11m (at A\$1.00 per share) to provide funding to continue market development.

Exhibit 1: migme – key metrics

		Listing date	Q314	Q414	Q115	Q215	Q315
Monthly Active Users	m	>5	>7	>10	>14	>19	>24
Average monthly paying users (MPU)	000s		33	33	27	N/P	N/P
Number of artists/verified users	#		>30	>150	>380	>400	>490
Cash receipts from operations	A\$000s		306	565	1,125	2,201	3,743
Net operating cash inflows/(outflows)	A\$000s		(1,613)	(2,723)	(3,240)	(4,208)	(4,400)
Operating costs	A\$000s		(1,919)	(3,288)	(4,365)	(6,409)	(8,143)
Net other cash inflows/(outflows)	A\$000s		008	(003)	339	6,497	9,642
Cash on hand	A\$m	11	9.7	5.9	3.2	5.4	10.8
Monthly increase in MAUs	m			1	1.3	1.7	1.7
Quarterly increase in cash receipts	%			85	99	96	70

Source: Company data

Forecast changes

Our forecasts have been amended to incorporate the 17 September 2015 share placement, which raised A\$10.11m less costs of A\$0.5m and the issue of 10.11 shares. We have also included interest income using a 2% interest rate assumption. Our forecasts assume that no dividends will be paid. Details of the changes to EPS are set out in the table below.

Exhibit 2: migme – change to EPS

	2015e	2016e	2017e	2018e	
Old (A\$ per share)	(3.20)	-	(0.40)	3.52	8.95
New (A\$ per share)	(3.17)	-	(0.36)	3.59	9.11
Variance (%)	(0.9)		(10.0)	2.0	1.8

Source: Edison Investment Research

The company expects revenue will begin to build rapidly, with operations established in Indonesia, the Philippines and India. It expects the operations to reach break even sometime in H216, and that by FY17 there will be evidence of the operating leverage inherent in the business model, which is based on driving more paying users through the same infrastructure.

Our forecasts assume that FY16 will see a small operating loss and significant profits thereafter.

Investment case

MIG's investment case is based on the premise that there is room for more than one social media platform in the emerging markets of Indonesia and India. There is precedent in China, where in large regions two or three exist in parallel.

The large and fast-growing mobile markets in Indonesia and India have a high propensity to use social media, and there may be room for a new entrant. MIG's platform look is distinct from Facebook and its business model, which is geared more towards celebrity, games and blogging, could prove appealing to an Asian audience. With its revenue share business model for artists, it offers a low-risk approach to developing new revenue streams, and initial artist take-up from 30 in September 2014 to >490 at 30 September 2015 is very encouraging. The content deals with music artists and record companies, and the sale of smartphones with pre-loaded free migme apps (covering about 50% of the smartphones shipped in Indonesia and a significant number in India) should underpin near-term user growth. That said, this is a very early-stage business, pitted against a strong and established competitor in a fast-changing market. If it succeeds, the rewards could be significant, but the risks are considerable.

Strengths, weaknesses, opportunities, threats

Exhibit 3: migme SWOT analysis	
Strengths	Opportunities
FIH (Hon Hai) shareholding of 19.9% adds credibility/pre-load possibilities	Continue to add content to platform
50% Indonesian smartphone shipments have migme app pre-loaded	Advertising revenue as MAU grows
Partnership in India to pre-load migme application on Android phones	Expansion into new geographies
Content deals covering 70% Indonesian music	Roll-out of games, applications and e-commerce services
Content deals with leading artists in India	
Rapid growth in MAU's (adding 1.7m/month in Q315)	
First mover advantage in Indonesia	
Funding in place – A\$10.8m cash after 17 September 2015 placement	
Weaknesses	Threats
Small games portfolio	Competition for local player
Key man risk (Steven Goh)	Technology changes
Monetisation unproven with in migme app	Privacy issues
Exposure to 'killer' games	Managing growth
Dependent on third parties for content	System failure
Relatively small number of paying users (27m in Q115)	
Hundreds of millions of paying users on other successful platforms	
Source: Edison Investment Research	

Valuation

Given the network effect nature of this industry, rapid scaling is essential, which means that MAUs will be a key metric to measure early success. At 30 September 2015, users reached >24m from a base of >5m when the company listed in August 2014. We expect user numbers to continue to build as the company enters new markets and signs more audience builders.

Using a DCF (WACC of 13.1% and terminal growth rate of 2%) our forecasts result in a valuation of A\$1.72. We have 'reverse-engineered' the valuation to determine the number of users implied in

the current share price of A\$1.07 and have prepared a 'bull/blue sky' case, which results in a valuation of A\$2.28.

Exhibit 4: migme – valuation cases						
Forecasts – base case		2015	2016	2017	2022	DCF
Number of users at period end	[m]	30	52	82	262	\$1.72
% of users monetising	[%]	1.0%	1.8%	2.0%	2.0%	
Smartphones India, Indonesia	[m]	254.9	276.7	294.8	N/P	
% of smartphone users	[%]	11.8%	18.8%	27.8%	N/P	
\$ spent month/user (A\$)	[A\$]	6.34	7.43	8.19	11.21	
Revenue	[A\$'000]	8,995	33,176	66,022	290,114	
EBITDA	[A\$'000]	(12,108)	(1,540)	13,779	120,694	
Implied in share price		2015	2016	2017	2022	DCF
Number of users at period end	[m]	30	38	54.1	172	\$0.96
% of users monetising	[%]	1.0%	1.8%	2.0%	2.0%	
Smartphones India, Indonesia	[m]	254.9	276.7	294.8	N/P	
% of smartphone users	[%]	11.8%	13.7%	18.4%	N/P	
\$ spent month/user (A\$)	[A\$]	6.34	7.43	8.19	11.21	
Revenue	[A\$000s]	8,995	27,165	45,326	190,534	
EBITDA	[A\$000s]	(12,108)	(4,546)	3,431	70,904	
Bull/blue sky						
Number of users at period end	[m]	30	58	92	281	\$2.28
% of users monetising	[%]	1.0%	1.8%	2.0%	2.0%	
Smartphones India, Indonesia	[m]	254.9	276.7	294.8	N/P	
% of smartphone users	[%]	11.8%	21.0%	31.2%	N/P	
\$ spent month/user (A\$)	[A\$]	6.41	7.78	8.86	13.23	
Revenue	[A\$000s]	9,102	37,532	80,556	365,044	
EBITDA	[A\$000s]	(16,017)	(12,054)	637	116,158	
Source: Edison Investment Research						

Exhibit 5: Financial summary

	A\$000s	2014	2015e	2016e	2017e	2018e	2019e
Year-end 31 Dec		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		1,953	8,995	33,176	66,022	110,776	164,937
Cost of Sales		(1,356)	(4,497)	(16,588)	(33,011)	(55,388)	(82,468)
Gross Profit		596	4,497	16,588	33,011	55,388	82,468
EBITDA		(28,597)	(12,108)	(1,540)	13,779	34,984	60,822
Operating Profit (before amort. and except.)		(434)	(12,145)	(1,575)	13,747	34,955	60,794
Intangible Amortisation		0	0	0	0	0	0
Exceptionals		0	0	0	0	0	0
Other		0	0	0	0	0	0
Operating Profit		(434)	(12,145)	(1,575)	13,747	34,955	60,794
Net Interest		0	115	184	265	598	1,282
Profit Before Tax (norm)		(434)	(12,030)	(1,391)	14,012	35,552	62,077
Profit Before Tax (FRS 3)		(708)	(12,030)	(1,391)	14,012	35,552	62,077
Tax		(32)	3,609	417	(4,204)	(10,666)	(18,623)
Profit After Tax (norm)		(28,629)	(8,421)	(974)	9,808	24,887	43,454
Profit After Tax (FRS 3)		(740)	(8,421)	(974)	9,808	24,887	43,454
Average Number of Shares Outstanding (m)		251.6	270.4	273.3	273.3	273.3	273.3
EPS - normalised (c)		(11.38)	(3.17)	(0.36)	3.59	9.11	15.90
EPS - normalised and fully diluted (c)		(1.47)	(3.22)	(0.36)	3.59	9.11	15.90
EPS - (IFRS) (c)		(0.29)	(3.11)	(0.36)	3.59	9.11	15.90
Dividend per share (c)		0.0	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		30.5	50.0	50.0	50.0	50.0	50.0
EBITDA Margin (%)		-1464.3	-134.6	-4.6	20.9	31.6	36.9
Operating Margin (before GW and except.) (%)		-22.2	-135.0	-4.7	20.8	31.6	36.9
BALANCE SHEET							
Fixed Assets		646	145	3,754	4,582	4,582	4,582
Intangible Assets		0	0	0	0	0	0
Tangible Assets		502	0	0	0	0	0
Investments		145	145	3,754	4,582	4,582	4,582
Current Assets		6,551	11,354	13,594	28,876	61,209	113,666
Stocks		0	0	0	0	0	0
Debtors		0	605	2,230	4,438	7,446	11,087
Cash		5,926	10,125	10,738	23,813	53,137	101,954
Other		625	625	625	625	625	625
Current Liabilities		(1,423)	(1,491)	(5,499)	(10,943)	(18,361)	(27,338)
Creditors		(1,423)	(1,491)	(5,499)	(10,943)	(18,361)	(27,338)
Short term borrowings		0	0	0	0	0	0
Long Term Liabilities		(253)	(253)	(253)	(253)	(253)	(253)
Long term borrowings		0	0	0	0	0	0
Other long term liabilities		(253)	(253)	(253)	(253)	(253)	(253)
Net Assets		5,521	9,755	11,595	22,262	47,177	90,657
CASH FLOW							
Operating Cash Flow		(11,074)	(12,573)	842	17,015	39,394	66,158
Net Interest		0	115	184	265	598	1,282
Tax		(143)	0	(410)	(4,204)	(10,666)	(18,623)
Capex inc R&D		(506)	(3)	(2)	(2)	(1)	(1)
Acquisitions/disposals		9,344	0	0	0	0	0
Financing		11	16,660	0	0	0	0
Dividends		0	0	0	0	0	0
Net Cash Flow		(2,368)	4,199	614	13,075	29,324	48,816
Opening net debt/(cash)		(2,182)	(5,926)	(10,125)	(10,738)	(23,813)	(53,137)
HP finance leases initiated		0	0	0	0	0	0
Other		(1,376)				0	0
Closing net debt/(cash)		(5,926)	(10,125)	(10,738)	(23,813)	(53,137)	(101,954)

Source: Company accounts, Edison Investment Research

Edison, the investment intelligence firm, is the future of investor interaction with corporates. Our team of over 100 analysts and investment professionals work with leading companies, fund managers and investment banks worldwide to support their capital markets activity. We provide services to more than 400 retained corporate and investor clients from our offices in London, New York, Frankfurt, Sydney and Wellington. Edison is authorised and regulated by the Financial Conduct Authority (www.fsa.gov.uk/register/firmBasicDetails.do?sid=181584). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison and is not regulated by the Australian Securities and Investment Commission. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Copyright 2015 Edison Investment Research Limited. All rights reserved. This report has been commissioned by migme and prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Aus and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2015. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.