MIGME LIMITED

Research Note

THE EMERGING SOCIAL MEDIA NETWORK

Investment Highlights

- **migme Limited (MIG) is rapidly acquiring users for its digital media and social networking platform in the Asia Pacific region and is on the cusp of monetising its growing user base by enabling engagement with its increasing pool of verified celebrities. MIG is an amalgamation of services offered by other well-known social media networks, but has customised its offering specifically for the Asia Pacific market, with an emphasis on large population regions such as Indonesia and India. We believe MIG is in a promising position to leverage its growing user base and is undervalued in its own right, and in relation to its peers. We initiate with a Speculative Buy.**

- **The emerging market for smartphones and internet penetration is growing rapidly in Asia:** Internet penetration is expected to experience double digit growth rates in India and Indonesia from the current base of 20% and 18% respectively to 35% and 40% by 2020. The development and deployment of low cost smartphones (<$200 per unit) is set to accelerate the level and adoption of smartphones in these markets. India and Indonesia are currently the 3rd and 7th largest users of smartphones globally, but are expected to occupy 2nd and 4th spot respectively by 2018 with c380m combined smartphones.

- **Artists/Celebrity Engagement driving user numbers:** MIG, being a digital media social network, aims to attract local celebrities to its platform who create and share content to attract users. Celebrities then engage with users, encouraging users to spend on premium virtual goods. Revenue is shared from the proceeds of the virtual goods which in turn should appeal to more celebrities and attract them to the platform, restarting and growing the cycle. Celebrities thus have the opportunity to monetise their fan base, in areas where revenue has been eroded by rampant piracy.

- **Users growing but undervalued compared to peers:** MIG has experienced 40% quarter-on-quarter user growth, with current user numbers standing at over 14m as at 31 March 2015. We expect user numbers to continue the healthy growth trend. Global peers are currently valued at US$63.60 per user, while MIG trades at US$11.60 per user. This shows the extent to which MIG is potentially undervalued by the market.

- **Valuation highly sensitive to monetisation rate:** We have modelled potential scenarios and valuations based on user numbers and user monetisation rates. In our base case we value MIG at $490.1m or $1.87/sh. Our bull case uses quicker monetisation rates and derives a value of $1.04bn or $4.14/sh; while on the other hand our bear case assumes very low monetisation for a value of $108.9m or $0.43/sh.

Year End December 31	2013A	2014A	2015F	2016F	2017F
Reported NPAT ($m)	(4.7)	(28.6)	(7.6)	10.8	23.6
Recurrent NPAT ($m)	(4.5)	(9.1)	(7.6)	10.8	23.6
Recurrent EPS (cents)	(2.2)	(3.5)	(2.9)	4.1	9.0
EPS Growth (%)	na	na	na	na	119.1
PER (x)	(37.7)	(23.7)	(28.3)	20.0	9.1
PEG	na	na	na	na	0.1
EBITDA ($m)	(4.1)	(8.8)	(7.2)	15.8	34.0
EV/EBITDA (x)	(41.2)	(23.8)	(29.2)	12.6	5.2
Free Cashflow	(2.7)	(11.7)	(7.7)	10.7	23.6
FCFPS (cents)	(1.3)	(4.5)	(2.9)	4.1	9.0
PFCF (x)	(61.9)	(18.4)	(28.1)	20.1	9.1
DPS (cents)	0.0	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0	0.0

27 May 2015

12mth Rating		SPEC BUY
Price	A$	0.82
PSL Valuation	A$	1.87
Potential 12m Return	%	127.8
RIC: **MIG.AX**		BBG: **MIG AU**
Shares o/s	m	262.4
Free Float	%	79.8
Market Cap.	A$	215.2
Net Debt (Cash)	A$	(7.8)
Net Debt/Equity	%	na
3m Av. D. T'over	A$	0.09
52wk High/Low	A$	1.06/0.30
6mth adj. beta		1.66
Valuation:		
Methodology		DCF
Potential Value per share	A$	1.87

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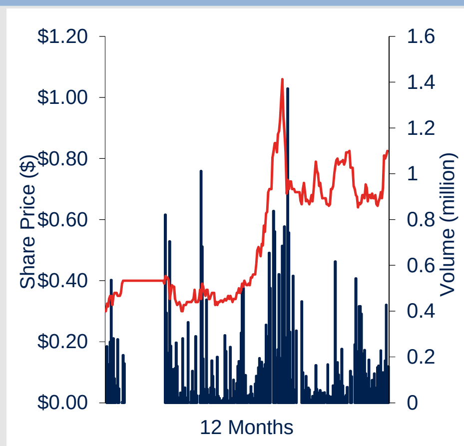
Disclosure: Patersons Securities acted as Joint Lead Manager to the Share Placement that raised $7.0m at $0.67 per share in April 2015. It was paid a fee for this service.

An investment in this company should be considered speculative and note assumptions employed are contingent on broader market conditions remaining buoyant. These can change at short notice. Recommendations are current at the time of publication.

12 Month Share Price Performance



Performance %	1mth	3mth	12mth
Absolute	17.6	6.7	158.1
Rel. S&P/ASX 300	19.1	3.7	143.4

COMPANY OVERVIEW

migme Limited (MIG) is a digital media and social networking platform based in Singapore, with offices in Taiwan, Indonesia, Hong Kong and Malaysia. MIG has an initial emphasis on emerging markets in the Asia Pacific region, and will specifically target Indonesia and India. The migme platform is the Company's flagship asset which provides chat, entertainment, microblogging and gaming on a freemium model that consists of free core components and paid premium value-add extensions.

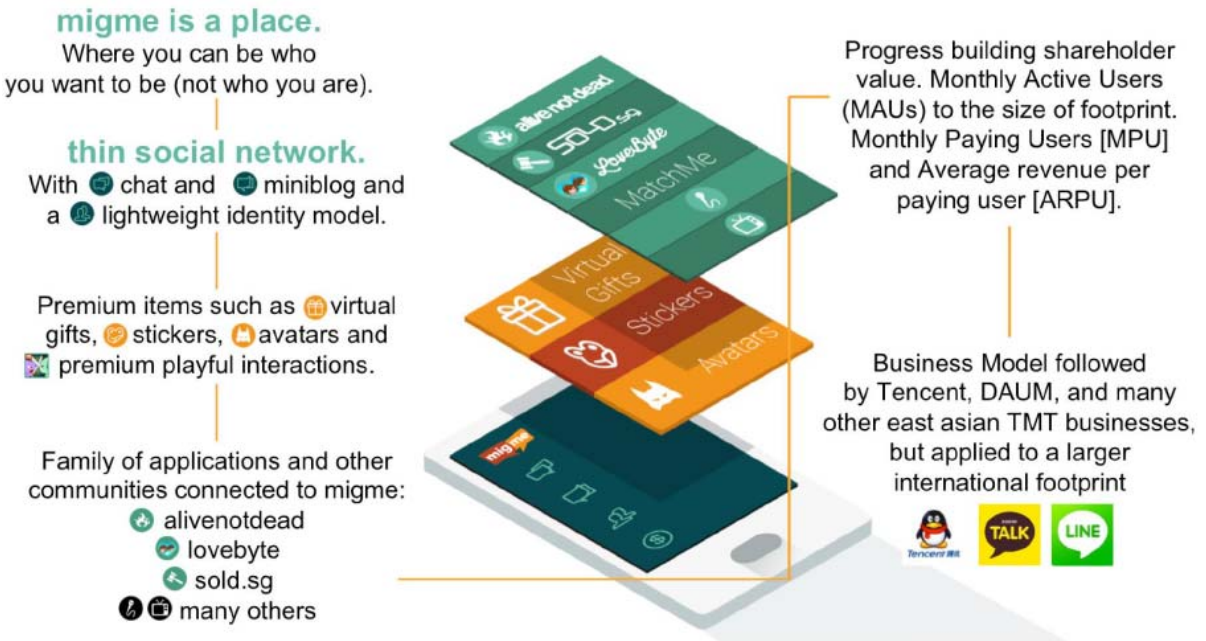
The MIG platform allows users an aspirational online presence that is detached from their real life self, which is in contrast to ones presence on Facebook. The idea is that, in markets such as Indonesia and India with significant structural and social inequalities, users can create their own identity.

MIG has made 3 strategic acquisitions which are bolt-ons to the main MIG platform; 1) *alivenotdead* – a media and artist community that has a large footprint in Asian media 2) *LoveByte* – an App targeted at couples to capture, track and share special moments/occasions. Key synergies are in MIG's ability to integrate the avatar creator and virtual gift creator/provider into its core platform. And 3) *Sold.sg* – an eCommerce pay to bid platform which provides a path for MIG to monetise physical good (and premium virtual goods) via a Business to Consumers basis and potentially Consumer to Consumer (similar to Alibaba's flagship Taoboa platform).

MIG has seen substantial quarterly growth in Monthly Active Users (MAU's) from 5.0m as at June 2014 to 14.0m as at March 2015, or 40% growth each quarter. Conversion of MAU's to monthly active paying users (MAPU's) has been subdued at c0.25% due to lack of payment options, however we believe the roll out of payment options such as DOKU will have a positive impact on paying conversions going forward.

The MIG business model is an amalgamation of services offered currently in China (by Tencent, YY and Weibo etc) and western social networks (Facebook, Twitter etc), but customised and packaged to service the Asia Pacific market. The freemium model is a proven concept with consumers in the region, with MIG's key differentiating factor being local artists and celebrities who create and share content that, in turn, drives users to the platform and increases participation and potential monetisation.

Figure 1: MIG Business Model



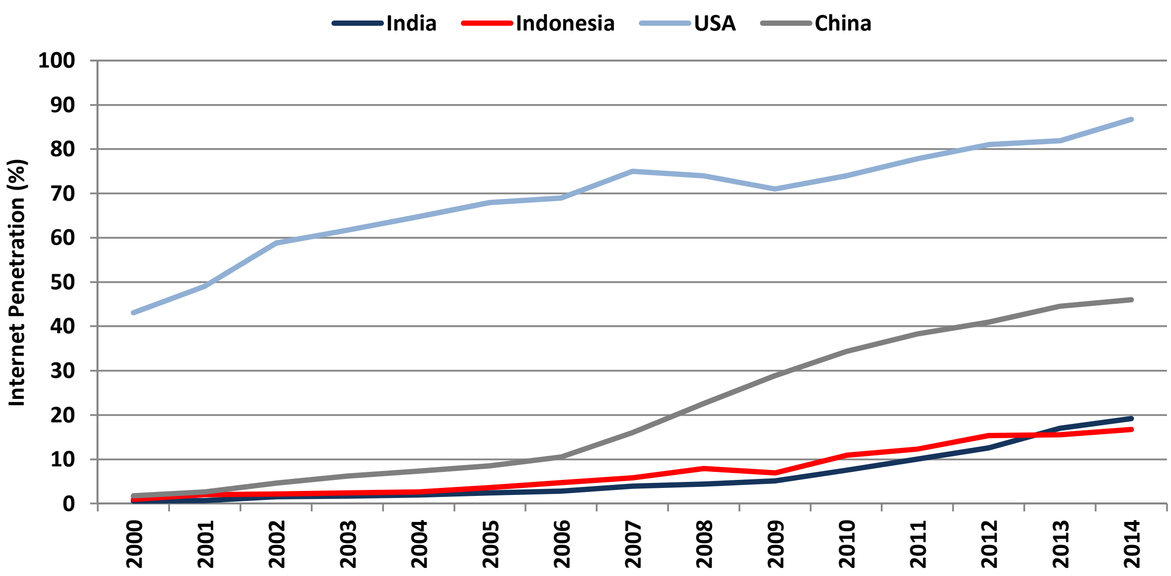
Source: *Migme Limited*

Addressable Market

Internet and smartphone penetration is expected to substantially increase in emerging markets with the development and deployment of low cost (below $200 per unit) smartphones is the Asia Pacific markets. MIG's initial focus is on Indonesia and India where internet penetration is currently 18% and 20% respectively but is expected to experience double-digit growth rates over the next few years. The current addressable market is in excess of 1bn people in emerging markets, whilst the current target market is c300m internet users in India and Indonesia.

Figure 2 below shows the pace at which internet penetration in China has grown. We can draw similarities in current trends in India and Indonesia to internet user growth in China in 2006. We estimate that, at current growth trends, internet users in India should reach 35% of the population by 2020 and 40% in Indonesia, which bodes well for MIG's position in these key markets.

Figure 2: Internet Penetration



Source: Internet Live Stats, Patersons Securities Limited

India currently ranks 3rd in the number of smartphone users and is expected to move ahead of the USA in number by 2018. Indonesia, while currently ranked 7th with 38.3m smartphone users, is expected to see the uptake of smartphones increase rapidly and propel the country to the 4th largest user globally. We note that, due to the adoption of cheaper smartphones, the number of handsets in emerging nations could potentially outstrip the current estimate.

MIG has a powerful relationship with its 19.9% shareholder,, FIH Mobile Limited (Foxconn Technology Group), which contract manufactures c50m handsets per month for brands such as Apple and Xiaomi. The relationship will see the migme App being preinstalled on certain android devices such as the sub $200 devices Foxconn creates for Xiaomi and local carriers. Both Foxconn and Xiaomi were reported to be in talks with the Indian government for a US$3.5bn investment over the next 3 years with Foxconn currently planning production facilities in the country. This is a key driver and catalyst going forward given the outlook for smartphone penetration expected.

Figure 3: Smartphone Users

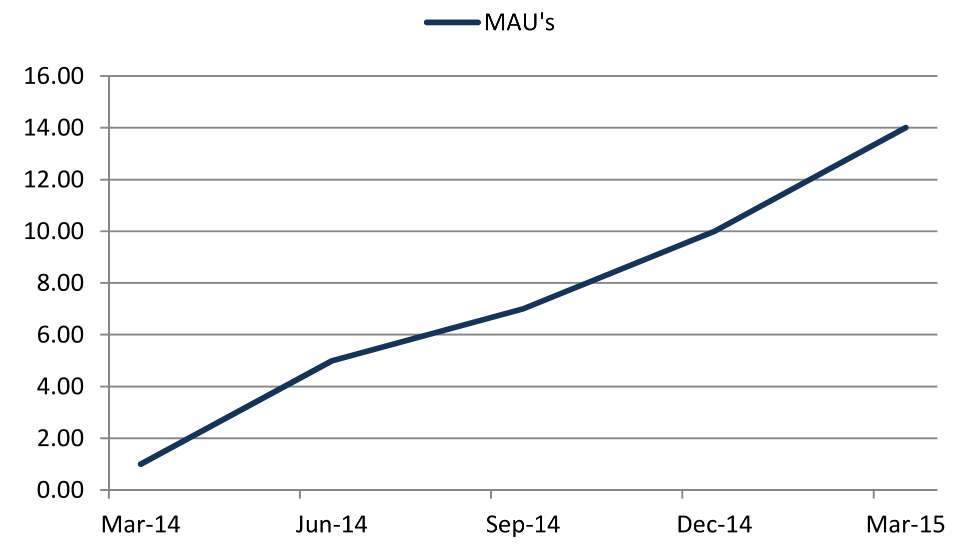
Smartphone Users	2013	2014	2015	2016	2017	2018
China	436.1	519.7	574.2	624.7	672.1	704.1
USA	143.9	165.3	184.2	198.5	211.5	220
India	76	123.3	167.9	204.1	243.8	279.2
Japan	40.5	50.8	57.4	61.2	63.9	65.5
Russia	35.8	49	58.2	65.1	71.9	76.4
Brazil	27.1	38.8	48.6	58.5	66.6	71.9
Indonesia	27.4	38.3	52.2	69.4	86.6	103
Germany	29.6	36.4	44.5	50.8	56.1	59.2
UK	33.2	36.4	39.4	42.4	44.9	46.4
South Korea	29.3	32.8	33.9	34.5	35.1	35.6
Worldwide	1311.2	1639	1914.6	2155	2380	2561.8

Source: eMarketer, Patersons Securities Limited

Artists & User Base

MIG has grown its user base by c40% quarter on quarter from June 2014 to March 2015, where user numbers increased from 5.0m to 14.0m. The increase in MAU's is due to the revamped platform, increased advertising and an increase in the number of artists and celebrities on the App. The latter is a key aspect in acquiring and monetising users, as associated artists use the platform to attract and engage with fans.

Figure 4: MIG Monthly Active Users



Source: Migme Limited, Patersons Securities Limited

MIG, being a media social media network, requires the virtual presence and interactions of various local celebrities/artists to drive consumer engagement. As at 30 September 2014, MIG had just over 30 verified artists and has since grown its talent pool to over 380 verified artists. Artists and celebrities create and share content (in conjunction with a dedicated in house MIG team) on the platform to attract and engage with users. Users, in turn, are encouraged to give artists virtual gifts (hugs, flowers, stickers etc), with most items costing between 1 and 10 US cents. MIG and the artists share in the revenue generated from the purchase of virtual gifts.

The idea of a revenue share is a particularly powerful attraction to artists in South East Asia, as piracy erodes a substantial portion of their potential incomes. This incentivises the artists to be active on the platform which, in turn, leads to increased user interactions and increased monetisation which generates artist's income; and so the cycle continues and grows.

Monetisation and User Value

MIG is based on a freemium business model. Freemium means the core components of the service offering is free, in this case the chat, gaming and microblogging features, but the premium components are charged for. The premium goods and services include virtual goods; premium avatar play and value add options within the platforms and games.

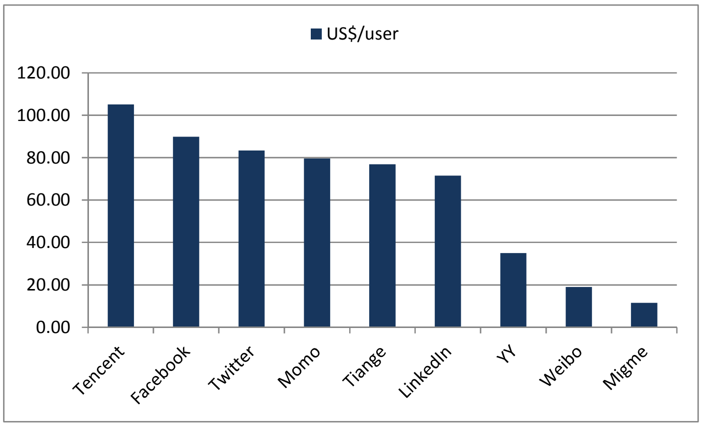
The virtual goods range in price with no cap, although the majority of goods cost between 1 and 10 US cents. Credit on the MIG platform is pre-paid either through traditional channels, such as bank accounts and credit cards, or through services such as DOKU. The DOKU service seems more appropriate for emerging Asian economies and allows users to top up credit via an ATM or via vouchers from local stores.

Monetisation has been subdued in prior quarters as only 0.3% of active users used or purchased premium goods. We expect this number to increase as the DOKU system is rolled out, artist interactions increase and additional premium goods are made available.

Figure 5: Social Network Users and Market Cap

	Users	Market Map ($m)	US$/user
Tencent Group	1,830	192,538.0	105.21
Facebook Group	2,515	226,006.0	89.86
Twitter	288	24,017.0	83.39
Momo	40	3,182.0	79.55
Tiange	14.4	1,107.0	76.88
LinkedIn	347	24,820.0	71.53
YY	105	3,679.0	35.04
Weibo	167	3,165.0	18.95
Migme	14	162.0	11.57
Average			63.55
Implied Valuation	US$		889.75
Implied Valuation	**A$**		**1,112.19**

Figure 6: US$ per user



Source: Bloomberg, Patersons Securities Limited

When comparing the market cap per user ratio of MIG's peer group, we note that Facebook (including Whatsapp and Instagram) and Tencent (Including QQ, Wechat and Qzone) attract the highest dollar amount per user at US$90 and US$105 respectively. MIG is well below its peers at US$11.50 per user. Using the average US$ per user (ex MIG) value of US$63.60, we can derive an implied value for MIG of US$890m or A$1.1bn (A$4.40/sh), which is well above the current market valuation of MIG.

VALUATION

Assumptions

Monthly Active Users: MIG has seen 40% growth in user numbers quarter-on-quarter (QoQ). We assume user numbers will increase by 30% each quarter for the remainder of CY15, 15% QoQ in CY16, 15% for CY17 and 3% from CY18 onward. Thus we expect 30m users by end CY15, 53m users by CY16 and then stabilising at >60m users by CY17. As most of the early adopters of MIG have been in Indonesia and Nepal, our MAU assumptions may prove conservative if it were to see wide adoption in the Indian market.

Monthly Paying Users: MIG's conversion of MAU's to paying users has been subdued, largely due to the lack of payment options given the low level of bank account holders in key markets. MIG has addressed this issue by introducing a range of new payment providers on its platform including DOKU and Dompetku in Indonesia, to significantly broaden the payment system facilities for monetisation. Historically, paying users have been low at c0.3% while peers have reported conversion rates of 2.5% (tian.ge) to as high as 13% (YY). We assume MIG can increase its paying user penetration QoQ by 0.5% (capped at 6%) as it refines its payments systems, increases user/artist interactions and has an increased amount of premium goods and services on offer.

Average Revenue Per User: Average spend per user, including mobile plan, – in the Asia Pacific region is the lowest globally at $71 per user a year vs $500 in USA and $230 in China. This is understandable given the low level of bank accounts and credit cards (payment options) and the subdued level of internet penetration. However ARPU growth ex mobile plan is the fastest in both Africa and Asia Pacific due to consumers finding alternative payment methods and being exposed to an increased number of freemium services. MIG's current ARPU is erratic, as we have back calculated a range of $3 to $14 per month over the last 3 quarters. We have forecast monthly ARPU to start at $3 (Annual ARPU $36) and progressively increase to $6 (annual ARPU $72) as premium services and user interactions increase.

Revenue Share: MIG's main driver of monetisation is leveraging off content created by its enlisted artists and celebrities. These local celebrities create and share content in liaison with a dedicated MIG team, such as images, stories and competitions which drive user interactions. Users are encouraged to send artists virtual goods (as discussed in monetisation) and revenue is split between MIG and the celebrity. MIG intended to establish a leader board with the top % of celebrities receiving 50% revenue share, while less productive artists have a lower revenue share and the lowest % of celebrities receiving no revenue. This staggered payment system is used to motivate celebrities and artists to post and interact with users. We have assumed a group revenue share of 40%.

Costs base: Besides revenue share and marketing, MIG's cost base is mainly fixed. 55% of costs are salaries and benefits to employees which we have inflated at 10% per annum. While this is high, we believe it is prudent given the growing nature of the business and user numbers/artists. We have inflated others costs at 3% per annum. This leads to a negative EBITDA in CY15, before increasing to an EBITDA margin of 21% in CY16, rising to a sustained level of 50% by CY20 in our base case.

Discount Rate: Given the variability of our assumptions and forecasting risk, we have used a Weighted Average Cost of Capital (WACC) of 15.1% by applying a risk free rate of 4%, equity risk premium of 6.5% and beta of 1.7 times, on an all-equity basis.

Sensitivities

We note that our valuation is highly sensitive to the assumptions stated. Below we have shown the sensitivity to each variable, ceteris paribus, and have shown derived valuations in a number of scenarios (base, bull and bear).

MAU: a 1 % increase in our MAU growth translates to a 8.7% change in our valuation

MAPU: a 1% increase in our paying user conversion translates to a 25.0% change in our valuation.

ARPU: a $1 increase in our ARPU translates to a 23.0% change in our valuation.

Revenue share: a 1% change in revenue share translates to a 2.5% change in our valuation.

Discount Rate: a 1% change in our WACC translates to a 8.8% change in our valuation.

Scenarios

Base Case – TP $1.87

Our base case assumes MIG is able to 1) grow its MAU by 30% QoQ for the remainder of CY15, by 15% QoQ for CY16, by 15% for CY17 and then grow at 3% in the long term, 2) increase paying users by 0.5% quarterly to a cap of 6% and 3) achieve a monthly APRU starting at $3 and progressing to $6 by CY20.

Figure 7: MIG MAU's (Base Case)

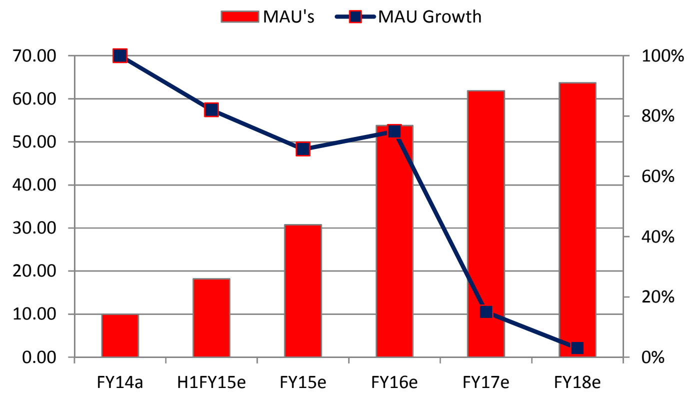
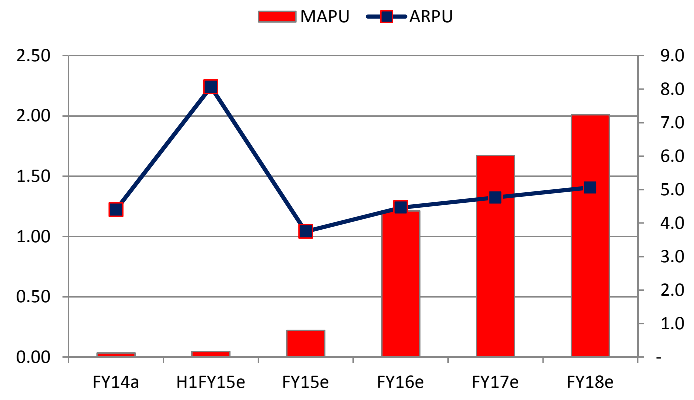


Figure 8: MIG Paying users and ARPU (Base Case)



Source: Patersons Securities Limited

The potential revenue generation and costs for the base case are shown below, which highlights rapid growth and healthy, increasing margins. We note similar high growth tech companies are valued on a sales multiple of 6-12x. Using the lower of these, MIG could have an implied valuation of $413.8m (CY16) or $1.58/sh, which is well above the current valuation and does not account for sales growth beyond CY16.

Discounting cashflows from the MIG base case at a 15% WACC, we value MIG at $490.1m or $1.87/sh, which is a 128% premium to the current share price.

Figure 9: MIG Revenue and Cost (Base Case)

		FY14a	H1FY15e	FY15e	FY16e	FY17e	FY18e
Revenue	**$m**	**1.95**	**2.23**	**10.35**	**68.96**	**101.59**	**129.81**
Cost of sales	$m	1.36	1.14	3.74	15.15	15.63	14.09
Revenue Share	$m	0.00	0.89	4.14	27.58	40.64	51.92
Gross Profit	**$m**	**0.59**	**0.19**	**2.47**	**26.23**	**45.32**	**63.79**
Gross Margin		30.4%	8.6%	23.9%	38.0%	44.6%	49.1%
Employee Expense	$m	6.24	3.43	6.87	7.55	8.31	9.14
Operating Expense	$m	3.16	1.41	2.81	2.89	2.98	3.07
EBITDA	**$m**	**-8.81**	**-4.65**	**-7.21**	**15.78**	**34.03**	**51.58**
EBITDA Margin		-452%	-209%	-70%	23%	33%	40%

Source: Patersons Securities Limited

Bull Case – TP $4.14

Our bull case assumes MIG is able to 1) grow its MAU by 40% QoQ for the remainder of CY15, by 20% QoQ for CY16, by 20% for CY17 and then grow at 3% in the long term, 2) increase paying users by an accelerated 1% per quarter to a cap of 6% and 3) achieve a monthly APRU starting at $3 and progressing quicker to $6 by CY18.

In essence our bull case assumes an uptick in user numbers and a quicker period to full monetization, while keeping the long term assumptions the same. This highlights the solid platform MIG is leveraging off and the current undervaluation of its user base and product.

Figure 10: MIG MAU's (Bull Case)

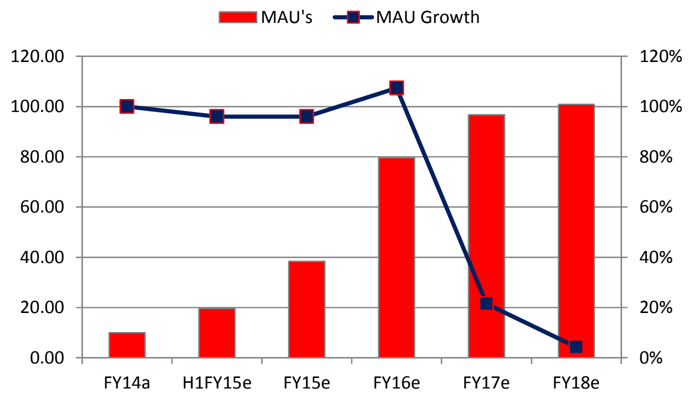
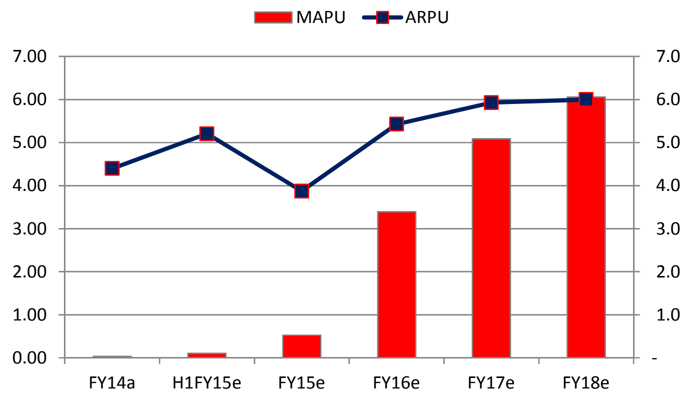


Figure 11: MIG Paying users and ARPU (Bull Case)



Source: Patersons Securities Limited

The potential revenue generation and costs for the bull case are shown below, which highlights a step change in revenue in CY16 due to rapid growth and increasing margins. We note similar high growth tech companies are valued on a sales multiple of 6-12x. Using the lower of these, MIG could have an implied valuation of $1.32bn (CY16) or $5.05/sh, which is a large premium to the current share price and does not account for future sales growth.

Discounting cashflows from the MIG bull case at a 15% WACC, we would value MIG at $1.04bn or $4.14/sh, which is at a 404% premium to the current share price.

Figure 12: MIG Revenue and Cost (Bull Case)

		FY14a	H1FY15e	FY15e	FY16e	FY17e	FY18e
Revenue	**$m**	**1.95**	**3.23**	**24.27**	**220.93**	**361.93**	**435.97**
Cost of sales	$m	1.36	1.53	7.92	47.06	53.90	45.60
Revenue Share	$m	0.00	1.29	9.71	88.37	144.77	174.39
Gross Profit	**$m**	**0.59**	**0.41**	**6.64**	**85.50**	**163.25**	**215.99**
Gross Margin		*30.4%*	*12.6%*	*27.4%*	*38.7%*	*45.1%*	*49.5%*
Employee Expense	$m	6.24	3.43	6.87	7.55	8.31	9.14
Operating Expense	$m	3.16	1.41	2.81	2.89	2.98	3.07
EBITDA	**$m**	**-8.81**	**-4.43**	**-3.03**	**75.05**	**151.96**	**203.78**
EBITDA Margin		*-452%*	*-137%*	*-12%*	*34%*	*42%*	*47%*

Source: Patersons Securities Limited

Bear Case – TP $0.43

Our bear case assumes MIG is able to 1) grow its MAU by 30% QoQ for the remainder of CY15, by 15% QoQ for CY16, by 15% for CY17 and then grow at 3% in the long term, 2) increase paying users slowly by 0.2% a quarter to a cap of 6% and 3) achieve a monthly APRU steady at $3.

Our bear case assumes user growth in-line with our base case but assumes that MIG is unable to monetize its user base in a material manner. This highlights the leverage MIG's valuation has to paying users and ARPU.

Figure 13: MIG MAU's (Bear Case)

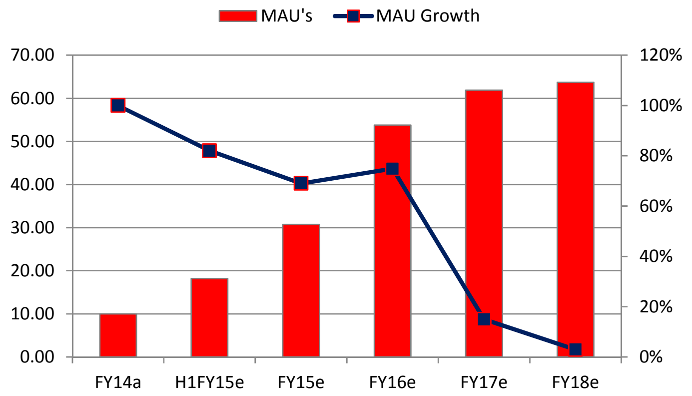
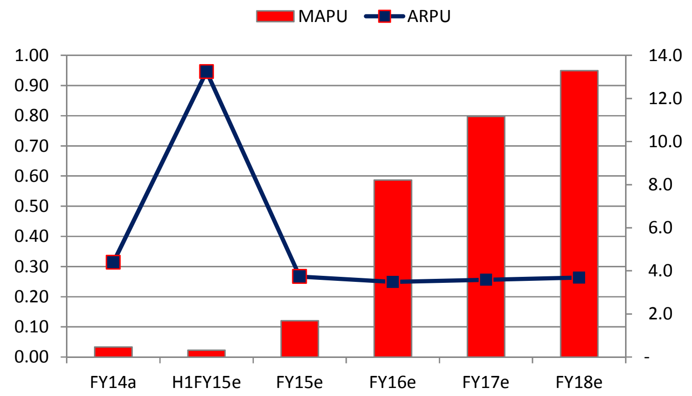


Figure 14: MIG Paying users and ARPU (Bear Case)



Source: Patersons Securities Limited

The potential revenue generation and costs for the bear case are shown below, which highlights slow growth and tight margins. If we incorporate a 6x sales multiple, as we did in the bull case, MIG could have an implied valuation of $147m (CY16) or $0.56/sh which is below the current share price.

Discounting cashflows from the MIG bear case at a 15% WACC, we would value MIG at $108.9m or $0.43/sh, which is at a 48% discount to the current share price.

Figure 15: MIG Revenue and Cost (Bear Case)

		FY14a	H1FY15e	FY15e	FY16e	FY17e	FY18e
Revenue	**$m**	**1.95**	**1.77**	**5.41**	**24.52**	**34.33**	**41.98**
Cost of sales	$m	1.36	0.97	2.26	5.82	5.75	5.06
Revenue Share	$m	0.00	0.71	2.17	9.81	13.73	16.79
Gross Profit	**$m**	**0.59**	**0.09**	**0.99**	**8.90**	**14.85**	**20.13**
Gross Margin		*30.4%*	*5.3%*	*18.3%*	*36.3%*	*43.3%*	*48.0%*
Employee Expense	$m	6.24	3.43	6.87	7.55	8.31	9.14
Operating Expense	$m	3.16	1.41	2.81	2.89	2.98	3.07
EBITDA	**$m**	**-8.81**	**-4.74**	**-8.69**	**-1.55**	**3.56**	**7.92**
EBITDA Margin		*-452%*	*-268%*	*-160%*	*-6%*	*10%*	*19%*

Source: Patersons Securities Limited

Corporate and Capital

As at 31 March 2015, MIG had $3.2m in cash on hand. On 13 April 2015 MIG placed 10,447,761 shares at $0.67 to raise $7.0m. Given a cash burn of c$3.0m per quarter, we expect MIG to have around $7.5m in cash as at 30 June 2015.

We have forecast MIG to be cash flow break even in the first quarter of CY16, unless MIG can monetise content sooner or at a greater rate, and/or control costs. We envisage the need to return to market for further funding in 6 to 9 months.

MIG has 18.0m options outstanding at various exercise prices ($0.20 to $0.70) with the first tranche of these options expiring on 31 July 2017. We note that all the options are currently in-the-money and thus represent unpaid capital of $5.1m.

Risks and Catalysts

Risks

- **Technology:** MIG may be adversely affected by rapid macro changes in technology that renders its platform obsolete. MIG is also exposed to issues specific to its platform, such as security and downtime issues. However we feel the technological risk is rather manageable as MIG seems to have a capable team to support its platform and should be able to adjust to changes.

- **Competition**: Competition from an increased presence by other social networks such as Facebook or Tencent could negatively affect MIG's footprint in emerging Asian markets. However we feel that MIG's first mover advantage and platform specifically customised for the market, has gone some way to address this concern.

- **Monetisation:** MIG may not be able to reach monetisation figures achieved in China, Japan or South Korea due to the low level of bank accounts and credit cards in its targeted emerging markets. MIG has taken steps to address this by partnering with DOKU, a payment service that may be more appropriate for the market and should increase monetisation.

Catalysts

- **User Growth:** Current user quarter on quarter growth is 40%. MIG may be able to increase its user growth through further artist interaction, pre-installs on android devices and an increase in marketing in key markets.

- **Geographic Expansion**: Penetration in India is key to MIG's growth, we understand that MIG already has a presence in the country but quicker adoption may allow MIG to focus expansion on additional markets such as Africa.

- **Artist/Celebrity Adoption:** If the revenue share model proved to be successful for the current verified artists, we believe additional artists will be drawn to the platform in a hope to attract additional users and monetise their social interactions. The adoption of new artists may also increase the number of users and engagement of users on the platform.

- **Acquisitions**: The MIG platform allows the Company to acquire and integrate complimentary businesses. We see additional gaming and ecommerce acquisitions as the logical step in increasing monetisation.

- **Third party developers:** MIG has opened its API to allow third party developers to create Apps and games on the MIG platform, user growth could make this an extremely attractive marketplace for developers in a similar manner Facebook API's allowed Zynga to leverage (Farmville, poker etc).

Board and Key Management

Howard Dawson (Non-Executive Chairman)

Mr Dawson had an 11 year career as a geologist before entering the securities industry as a research analyst in 1987. Over the subsequent 16 years he fulfilled a number of complimentary roles within the Australian securities industry including research, corporate advisory, business development, senior management and board positions for firms including Hartley Poynton, McIntosh Securities, Merrill Lynch and ABN AMRO Morgan's Limited. He has a Bachelor of Science (Geology) and is a Senior Fellow of FINSIA and a member of the AIG. As well as being Chairman of migme he is also Chairman and Managing Director of Discovery Capital Limited, a public unlisted investment company

Steven Goh (Executive Director and Chief Executive Officer)

Mr Goh is the co-founder of the migme business and has a Bachelor of Commerce and MBA from the University of Western Australia. He achieved considerable success in the late 1990's by developing Sanford Securities, Australia's first online stock broking company. This operation grew to 160,000 customers with over $2.4 billion in customer assets, before being taken over in 2003. Mr Goh is recognised as an authority on contemporary information technology issues and serves on a number of advisory panels throughout the Asian region.

Yen-Chang (Charles) Pan (Executive Director)

Mr Yen-Chang has had an 18 year business career and is currently the special assistant to the Chairman and Chief Investment Director of FIH Mobile, part of the Hon Hai Group which is the leading global manufacturing service provider in the 3C (computer, communication and consumer electronics) industries. Prior to joining FIH Mobile, Mr Yen-Chang was General Manager between 2008 and 2012 of Orange Capital, part of France Telecom. Mr Yen-Chang has a Master of Business from the University of California and is currently based in Shenzhen, China.

Andi Zain (Non-Executive Director)

Mr Zain has a Bachelor of Business Administration from GS Fame, Indonesia and a Master of Business Administration and Post Graduate Diploma in International Finance & Law, both from Monash University in New South Wales. He has 15 years' experience in building internet and mobile businesses in South East Asia and launched the first content provider and ringtone service in Indonesia. Mr Zain is a former board member of the publicly listed SkyBee Tbk (IDX: SKYB). Currently, he is a director of several technology based companies and runs ideabox, a tech start up incubator in partnership with Indosat, a mobile carrier in Indonesia. Mr Zain is also a founder of MobileMonday Indonesia, a networking forum of 400 mobile centric companies in Indonesia.

Dmitry Levit (Non-Executive Director)

Mr Levit has a Master in Science in International Management from St Petersburg State University in Russia and a MBA from INSEAD in Singapore. He is a partner of Digital Media Partners which is a venture capital firm within the technology sector. He has extensive experience in the emerging markets internet space and has previously held a variety of business development and investment roles with Yahoo and IDG Ventures in South East Asia.

John Lee (Non-Executive Director)

Mr Lee holds a degree in Finance & Operations Management from the New York University Stern School of Business and a BA in Political Science from the University of Michigan. He is currently CEO of a mobile games platform company based in Singapore. He has previously had multiple executive roles in privately held and publicly listed games companies in both the United States and Asia. He also was a venture capitalist at Softbank Venture Capital and has had consulting roles with McKinsey & Company and Deloitte & Touche in their technology services divisions.

Yichin Lee (Non-Executive Director)

Dr Lee is currently managing partner of FCC Partners Inc. and the Senior Advisor and Taiwan Chief Representative of Booz & Co. He was formerly CEO of GigaMedia Limited; a NASDAQ listed company and remains a Director of several NASDAQ listed companies. Dr Lee has over 20 years of strategy management and corporate experience across China and has a Master of Science and PhD from Stanford University.

Stephen Llanwarne: (Non-Executive Director)

Mr Llanwarne is business technology consultant with a career spanning over 30 years across a diverse range of private and public companies. Mr Llanwarne has a Bachelor of Business Technology and has worked for a number of major banking groups as head of technology including Duetsche Bank, Bankers Trust, Merrill Lynch and Zurich Capital Markets. For the past 10 years he has consulted across business technology and was the Corporate Director for Moboom – a leading web site development company. Mr Llanwarne joined migme in 2005 and during the subsequent period has helped develop its business development through Africa and Indonesia through acquisitions and partnerships.

Patrick Wong (Chief Financial Officer)

Mr Wong is migme's Chief Financial Officer and has over 15 years' experience working with start-up companies. Patrick has also worked at KPMG and IdeaLab in Silicon Valley where he participated in venture financing and public financing. Patrick was most recently CFO at mid-sized multinational training company Landmark Enterprises in the US and Singapore where, during his tenure, he raised over US$20 million to fund the restructuring, recapitalisation and growth of the company. As a result of his involvement, revenues increased at that company by 80% to US$90 million upon his departure in 2012.

Migme Limited		Price	$0.820
Valuation		**$m**	**$/sh**
Present value of free cash flows		477.2	1.82
Unpaid Capital		5.1	0.02
Net cash/(debt)		7.8	0.03
DCF valuation		**490.1**	**1.87**
WACC	15.1%		
Terminal growth	3.0%		
		2016F	**2017F**
Sales ($m)		69.0	101.6
Sales multiple		6.0x	6.0x
Net Debt (Cash) ($m)		(15.7)	(39.3)
Implied Valuation ($m)		429.5	648.8
Capitalised earnings per share		**$1.64**	**$2.47**

Year End Dec 31

Profit & Loss ($m)	2014A	2015F	2016F	2017F
Sales Revenue	1.95	10.35	68.96	101.59
EBITDA	**(8.81)**	**(7.21)**	**15.78**	**34.03**
D&A	(0.12)	(0.46)	(0.46)	(0.51)
EBIT	**(8.93)**	**(7.66)**	**15.33**	**33.53**
Net Interest	(0.12)	0.06	0.05	0.16
Pre-tax Profit	**(9.05)**	**(7.60)**	**15.38**	**33.68**
Tax expense	(0.03)	0.00	(4.61)	(10.10)
Reported NPAT	**(9.08)**	**(7.60)**	**10.76**	**23.58**
Significant items net	(19.55)	0.00	0.00	0.00
Normalised NPAT	**(28.63)**	**(7.60)**	**10.76**	**23.58**
Normalised EPS (cps)	(3.46)	(2.90)	4.10	8.99
DPS (cps)	0.00	0.00	0.00	0.00

Key Assumptions	2014A	2015F	2016F	2017F
Users				
Monthly Active Users (m)	10.00	30.76	53.80	61.85
User Growth (%)	100.0	207.6	74.9	15.0
Monthly Paying Users (m)	0.03	0.23	1.29	1.78
Paying User Conversion (%)	0.33	0.75	2.39	2.87
Revenue per Paying User				
Monthly	4.40	3.73	4.46	4.76
Annual	52.79	44.79	53.55	57.15
Costs				
Revenue Share (%)	0.00	40.00	40.00	40.00
Employee Cost Growth (%)	10.00	10.00	10.00	10.00

Cash Flow ($m)	2014A	2015F	2016F	2017F
EBITDA	(8.81)	(7.21)	15.78	34.03
Net interest	(0.12)	0.06	0.05	0.16
Income tax paid	(0.14)	0.00	(4.61)	(10.10)
Other capital	(2.15)	0.00	0.00	0.00
Operating Cashflow	**(11.22)**	**(7.15)**	**11.22**	**24.08**
Capital expenditure	(0.51)	(0.51)	(0.51)	(0.51)
Free Cashflow	**(11.72)**	**(7.65)**	**10.71**	**23.58**
Acquisitions & Investments	9.75	0.00	0.00	0.00
Disposals	0.00	0.00	0.00	0.00
Increase (Repay) Debt	0.00	0.00	0.00	0.00
Equity Raised	7.08	6.72	0.00	0.00
Other	0.01	0.00	0.00	0.00
Net Change in Cash	**4.71**	**(0.93)**	**10.71**	**23.58**
Closing Cash Balance	**5.93**	**4.99**	**15.71**	**39.28**

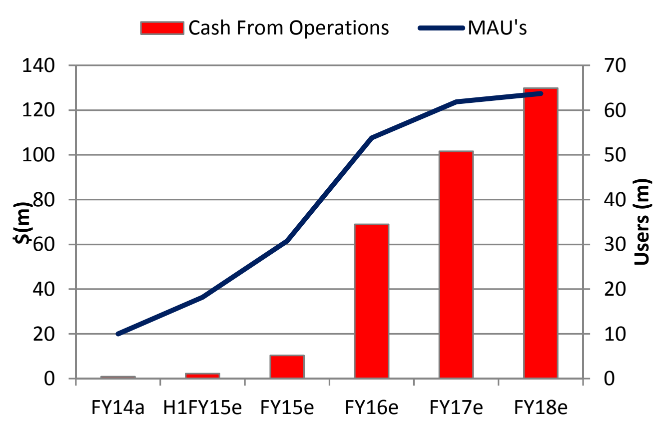
Directors & Substantial Shareholders

Name	Position
Howard Dawson	Non-Executive Chairman
Steven Goh	Chief Executive Officer
Yen-Chang (Charles) Pan	Executive Director
Andi Zain	Non-Executive Director
Dmitry Levit	Non-Executive Director
John Lee	Non-Executive Director
Tichin Lee	Non-Executive Director
Stephen Llanwarne	Non-Executive Director

Substantial Shareholders	No. Shares (m)	%
Big Build Enterprise Ltd	52.2	19.88
Heracles Invesments	20.0	7.62
Top 20 Shareholders	**170.0**	**64.8**

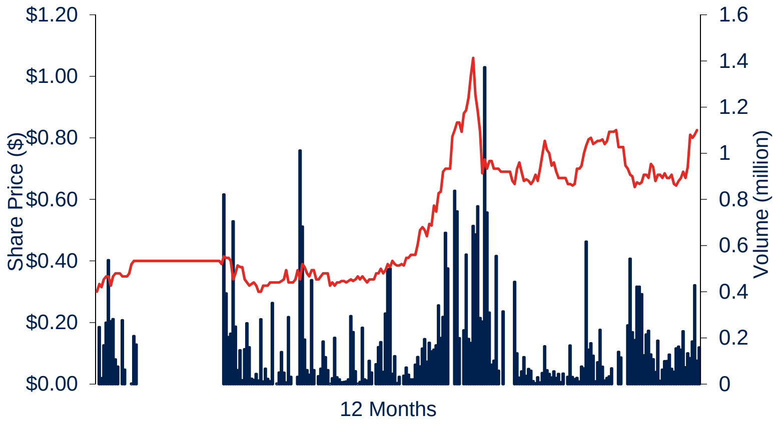
Balance Sheet ($m)	2014A	2015F	2016F	2017F
Cash	5.93	4.99	15.71	39.28
Receivables	0.00	0.00	0.00	0.00
Inventories	0.00	0.00	0.00	0.00
PP&E	0.50	0.55	0.60	0.60
Intangibles	0.00	0.00	0.00	0.00
Other Assets	0.77	0.77	0.77	0.77
Total Assets	**7.20**	**6.32**	**17.08**	**40.66**
Creditors	1.35	1.35	1.35	1.35
Current Borrowings	0.00	0.00	0.00	0.00
Non-current Borrowings	0.00	0.00	0.00	0.00
Other Liabilities	0.25	0.25	0.25	0.25
Total Liabilities	**1.60**	**1.60**	**1.60**	**1.60**
Shareholders Funds	**5.59**	**4.71**	**15.47**	**39.05**

Company Background



Ratios	2014A	2015F	2016F	2017F
Valuation				
EV/EBITDA (x)	(23.8)	(29.2)	12.6	5.2
PE (x)	(23.7)	(28.3)	20.0	9.1
Profitability				
Revenue Growth (%)	(33.7)	431.2	566.2	47.3
EBITDA growth (%)	112.7	(18.2)	(319.0)	115.6
EBITDA margin (%)	(451.9)	(69.6)	22.9	33.5
ROE (%)	(511.9)	(161.4)	69.6	60.4
ROIC (%)	(489.7)	(153.2)	68.4	60.0
Balance Sheet				
Net Debt (Cash) ($m)	(5.9)	(5.0)	(15.7)	(39.3)
Net Debt/Equity (%)	na	na	na	na
Interest Cover (x)	(75.9)	nm	nm	nm
NTA ($/sh)	0.02	0.02	0.06	0.15
Price/NTA (x)	38.5	45.7	13.9	5.5
Shares outstanding (m)	262.4	262.4	262.4	262.4

Recommendation History



Date	Type	Target Price	Share Price	Recommendation	Return

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