migme

Quarterly report

Growth in users and monetisation

Software & comp services

migme (MIG) is a global digital media company focused on emerging markets. It delivers social entertainment services through mobile apps (migme and LoveByte) and an artist management website, alivenotdead.com. By taking a different approach to the more established Facebook, MIG believes its platform will have little competition for its freemium offering. This approach is validated by the rapid growth in user numbers, which increased by 4m to >14m in Q115.

Year end	Revenue (A$m)	PBT* (A$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/14	2.0	(0.4)	(11.4)	0.0	N/A	N/A
12/15e	11.8	(5.7)	(1.3)	0.0	N/A	N/A
12/16e	35.0	3.8	(1.5)	0.0	N/A	N/A

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

Audience builders drive user growth

The growth rate in user numbers continues to build as MIG adds more artists, bloggers and audience builders to its migme platform. During Q115 MIG increased the number of audience builders from 150 to 380. The unique MIG model of sharing revenue with the artists is expected to drive further growth in the number of audience builders and therefore the number of users.

Cash receipts double

The activation of the DOKU payments platform in Indonesia in March 2015 and the launch of Sold.sg in Malaysia contributed to the increase in cash receipts over Q115. Cash receipts for the March 2015 quarter were A$1.12m compared with A$0.56m in Q414.

Share placement

On 13 April 2015 MIG completed a share placement of A$7m through the issue of 10.4m shares at A$0.67 to sophisticated and professional investors. This provides MIG with ~A$10m to continue to fund the current cash burn of A$1m per month and to maintain opportunistic acquisitions. We expect the cash burn rate to decrease in line with increases in user monetisation.

Valuation: Early stages of commercialisation

MIG is still in the relatively early stages of commercialisation; however, if the concept takes off and the company is able to execute, the opportunity is very significant. Consequently, this is a high-risk, potentially high-reward investment case. The key catalysts for pricing include rapid increase in the number of users, high monetisation rates and increasing spend per user. We have quantified the valuation range in our DCF-based valuation sensitivities as A$0.42 to A$1.03.

1 May 2015

Price	**A$0.65**
Market cap	**A$171m**

Net cash (A$m) pro forma at end December 2014 (post capital raise)	5.9
Shares in issue	262.4m
Free float	72%
Code	MIG/A117AB
Primary exchange	ASX
Secondary exchange	Frankfurt

Share price performance

%	1m	3m	12m
Abs	(9.2)	(0.8)	84.3
Rel (local)	(5.7)	1.4	76.7
52-week high/low		A$1.06	A$0.30

Business description

MIG 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 events

AGM	29 May 2015
Half-year results	August 2015

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migme is a research client of Edison Investment Research Limited

migme: Monitising social media

MIG is in the early stages of building a user base for its open social entertainment platform, initially targeting the rapidly-growing mobile internet markets in Indonesia and India. The platform allows users to interact with like-minded people as well as with artists and celebrities. Basic use of the platform is free; however, some users (estimated 5-10%) spend on premium activities and virtual goods, which is how MIG generates its revenues.

The quantity and quality of celebrities and games are important incentives for signing users, and vice versa. MIG's key challenge will be to convince them of the merits of using its currently smaller platform (14m MAUs) alongside or instead of the market leader Facebook (~110m MAUs). It differentiates itself from Facebook by offering content providers a share of revenues earned over its platform, and through its freemium approach, which it considers more suitable for Asian markets and that has worked well in China. However, it is worth bearing in mind the advantage local companies have given the structural difficulties for non-Chinese media companies trying to enter China (eg Facebook is not permitted to operate in China).

migme business model

The key planks of the MIG strategy are:

- Ensuring wide availability of the migme app including having the app pre-loaded on new Android mobiles. The reduction in the price of smartphones is a key driver for growing its user base.
- The freemium model with a premium upsell and the ability for users to create identities other than their own.
- Attracting artists and content to the platform including a model that sees the artists and content providers sharing revenue with MIG.
- Encouraging active users to spend money because of the popularity of the artists and the games offering.

Exhibit 1: MIG – business model

Source: Edison Investment Research

FIH Mobile is key cornerstone investor

FIH Mobile (a subsidiary of Hon Hai Precision Co, Taiwan and part of the Foxconn Technology Group) reaffirmed its commitment to MIG by participating in the April 2015 share placement and maintaining its 19.9% shareholding. FIH produces 40m to 60m handsets per month and is the world's largest contract manufacturer of mobile phones. FIH manufactures about half the mobile phones sold by China-based Xiaomi, which aims to sell 300m smartphones in FY15 (up from 70m in FY14). The Foxconn Technology Group, which includes FIH Mobile, is also a key Apple supplier. Certain Android phones manufactured by FIH will have the migme app pre-loaded. This should help MIG increase its user base.

Content agreements

MIG has been successful in establishing relationships with the big music studios in Indonesia (Universal Music Group, Warner Music Group and Sony Music Group) and has recently added global music streaming service Deezer to its Indonesian offering. The addition of Deezer provides free access to 35m songs via customised music radio channels and gives MIG the ability to add music from MIG's artist partners to the radio channels. The radio channels provide migme platform users with a persistent music experience that they can enjoy while engaging in other activities on the migme platform including chat, chatrooms and miniblog. MIG plans to add 80 new handpicked songs per month to the Deezer service. The addition of Deezer is also designed to strengthen the migme proposition for artists who will be able to showcase their music via the Deezer radio stations, which will help them to build a larger fan base.

Strengths, weaknesses, opportunities, threats

Exhibit 2: MIG – 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
Content deals covering 70% Indonesian music	Expansion into new geographies
Rapid growth in MAUs (adding 1.3m/month in March 2015	
First mover advantage in Indonesia	
Funding in place – A$10m cash after 13 April 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 users (>14m vs hundreds of millions on other successful platforms)	

Source: Edison Investment Research

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 them a low-risk approach to developing new revenue streams, and initial artist take-up from 30 in September 2014 to >380 in March 2015 is very encouraging. Its addressable market in Indonesia and India is large (294m smartphone users by 2017 as forecast by www.statistia.com) and could increase further should MIG expand into other countries in South Asia, South-East Asia and Africa. The increase in MAUs from over 5m in June 2014 to over 14m million in March 2015, and management's expectation that MAUs will grow by more than one million per month in the short to medium term, provides evidence of the strength of the market and the appeal of the migme product. The content deals with music artists and record companies plus the sale of smartphones with pre-loaded free migme apps (covering about 50% of the smartphones shipped in Indonesia) 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.

Key sensitivities

- Managing rapid growth, which has seen the user base increase from >5m in June 2014 to >14m in March 2015.
- Challenge of monetisation and the time required to establish payment networks.
- Operating gearing effects. The high fixed cost base becomes a negative if monetising users or the amount spent per monetising user falls. On the other hand, the high fixed cost base means substantial operating leverage when the number of paying users increases.
- Importance of successful games: A successful game has the power to attract users in substantial numbers. If a competitor has a successful game this may have a negative impact on MIG's user base.
- Competition: At the moment MIG has a first-mover advantage in taking its freemium model to the emerging markets of Asia and later to Africa. To date, companies such as Tencent (700:HK) have made little attempt to move from their home markets. This may not always be the case.
- Network effect business model: Social media companies are network effect businesses, which can mean that the larger the user base, the more attractive it becomes to artists and other users. This can result in a winner-takes-all situation developing.
- Early-stage business means that execution risk remains high and success is not a given. To date, the build in user base is encouraging.
- Currency translation risks exist because MIG reports in Australian dollars but operates in Singapore dollars, Indonesian rupiah and Indian rupees.

Financials

We have restated the financials to reflect a change in year end from 30 June to 31 December. We have not made any changes to our forecast assumptions or forecasts as a result of this change. Details of the impact of moving six-month operations is set out in the table below:

Exhibit 3: MIG – change in financial year

(NZ$000s)	2015e	2016e	2017e	2018e
Year ended 30 June				
Revenue	6,084	21,855	45,839	64,659
Profit before tax	(7,458)	(1,778)	8,595	16,536
EPS (c)	(2.10)	(0.50)	2.40	4.60
DPS (c)	-	-	-	-
Year ended 31 December				
Revenue	11,837	35,024	56,498	73,490
Profit before tax	(5,669)	3,835	13,176	20,132
EPS (c)	(1.30)	(1.50)	1.00	3.50
DPS (c)	-	-	-	-
Variance				
Revenue	5,753	13,169	10,659	8,831
Profit before tax	1,789	5,613	4,581	3,596
EPS (c)	0.80	(1.50)	1.00	3.50
DPS (c)	-	-	-	-

Source: Edison Investment Research estimates

Valuation: Value created by increasing users and monetisation rates

Smartphone penetration in MIG's target markets has already surpassed that of the US and is forecast to increase by 25% by 2017. With its young demographic and high propensity to use social media, MIG's addressable market is huge. Given the network effect nature of this industry, rapid scaling is essential and consequently MAUs will be the key metric for measuring early success. The current share price implies that MAUs increase from over 14m now to 70m by 31 December 2017, with 7m monetising at A$45pa. We have re-run our valuation cases and dimensioned a valuation range of A$0.42 to A$1.03, using a bear case to a blue-sky scenario assuming monetising users in 2017 ranging from 5.6m to 15.6m and spend per user ranging from A$39 pa to A$45 pa.

Exhibit 4: MIG – DCF valuation scenarios

Implied in share price		2015e	2016e	2017e	2022e	DCF
No of users at period end	[m]	26	49	70	142	$0.68
% of users monetising	[%]	8.7%	9.6%	10.0%	10.0%	
Smartphones India, Indonesia	[m]	254.9	276.7	294.8	N/P	
% of smartphone users	[%]	10.2%	17.7%	23.7%	N/P	
$ spent month/user (A$)	[A$]	2.64	3.39	3.74	5.12	
Revenue	[A$000s]	13,651	47,842	68,712	110,285	
EBITDA	[A$000s]	(16,017)	(4,724)	10,278	29,851	
Net cash/(debt)	[A$000s]	8,192	18,764	34,349	118,115	
Blue Sky case						
No of users at period end	[m]	40	103	156	291	$1.03
% of users monetising	[%]	4.2%	9.6%	10.0%	10.0%	
Smartphones India, Indonesia	[m]	254.9	276.7	294.8	N/P	
% of smartphone users	[%]	15.7%	37.2%	52.9%	N/P	
$ spent month/user (A$)	[A$]	2.64	3.39	3.74	5.12	
Revenue	[A$000s]	20,909	87,337	104,149	131,175	
EBITDA	[A$000s]	(16,017)	(1,096)	30,026	39,697	
Net cash/(debt)	[A$000s]	11,998	39,569	67,157	176,256	
Bear case						
No of users at period end	[m]	26	42	56	110	$0.42
% of users monetising	[%]	3.9%	9.5%	10.0%	10.0%	
Smartphones India, Indonesia	[m]	254.9	276.7	294.8	N/P	
% of smartphone users	[%]	10.2%	15.2%	19.0%	N/P	
$ spent month/user (A$)	[A$]	2.54	3.10	3.25	4.08	
Revenue	[A$000s]	13,104	37,201	52,974	83,924	
EBITDA	[A$000s]	(16,017)	(4,998)	4,958	18,560	
Net cash/(debt)	[A$000s]	7,864	13,717	23,291	76,484	

Source: Edison Investment Research

Exhibit 5: Financial summary

A$000s	2014	2015e	2016e	2017e	2018e
Year-end 31 Dec	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue	1,953	11,837	35,024	56,498	73,490
Cost of Sales	(1,356)	(5,918)	(17,512)	(28,249)	(36,745)
Gross Profit	596	5,918	17,512	28,249	36,745
EBITDA	(28,597)	(16,017)	(5,632)	3,869	13,208
Operating Profit (before amort. and except.)	(434)	(5,669)	3,835	13,176	20,132
Intangible Amortisation	0	0	0	0	0
Exceptionals	0	0	0	0	0
Other	0	0	0	0	0
Operating Profit	(434)	(5,669)	3,835	13,176	20,132
Net Interest	0	0	0	0	0
Profit Before Tax (norm)	(434)	(5,669)	3,835	13,176	20,132
Profit Before Tax (FRS 3)	(708)	(5,669)	3,835	13,176	20,132
Tax	(32)	1,701	(1,151)	(3,953)	(6,040)
Profit After Tax (norm)	(28,629)	(3,968)	2,685	9,223	14,093
Profit After Tax (FRS 3)	(740)	(3,968)	2,685	9,223	14,093
Average Number of Shares Outstanding (m)	251.6	259.9	262.8	262.8	262.8
EPS - normalised (c)	(11.4)	(1.3)	(1.5)	1.0	3.5
EPS - normalised and fully diluted (c)	(1.5)	(1.5)	1.0	3.5	5.4
EPS - (IFRS) (c)	(0.3)	(1.5)	1.0	3.5	5.4
Dividend per share (c)	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)	30.5	50.0	50.0	50.0	50.0
EBITDA Margin (%)	-1464.3	-135.3	-16.1	6.8	18.0
Operating Margin (before GW and except.) (%)	-22.2	-47.9	10.9	23.3	27.4
BALANCE SHEET					
Fixed Assets	646	145	1,845	1,845	1,845
Intangible Assets	0	0	0	0	0
Tangible Assets	502	0	0	0	0
Investments	145	145	1,845	1,845	1,845
Current Assets	6,551	8,527	15,087	27,900	44,837
Stocks	0	0	0	0	0
Debtors	0	796	2,354	3,798	4,940
Cash	5,926	7,106	12,108	23,477	39,272
Other	625	625	625	625	625
Current Liabilities	(1,423)	(1,962)	(5,805)	(9,364)	(12,181)
Creditors	(1,423)	(1,962)	(5,805)	(9,364)	(12,181)
Short term borrowings	0	0	0	0	0
Long Term Liabilities	(253)	(253)	(253)	(253)	(253)
Long term borrowings	0	0	0	0	0
Other long term liabilities	(253)	(253)	(253)	(253)	(253)
Net Assets	5,521	6,457	10,874	20,128	34,249
CASH FLOW					
Operating Cash Flow	(11,074)	(5,817)	6,154	15,323	21,836
Net Interest	0	0	0	0	0
Tax	(143)	0	(1,151)	(3,953)	(6,040)
Capex inc R&D	(506)	(3)	(2)	(2)	(1)
Acquisitions/disposals	9,344	0	0	0	0
Financing	11	7,000	0	0	0
Dividends	0	0	0	0	0
Net Cash Flow	(2,368)	1,180	5,002	11,369	15,795
Opening net debt/(cash)	(2,182)	(5,926)	(7,106)	(12,108)	(23,477)
HP finance leases initiated	0	0	0	0	0
Other	(1376)				0
Closing net debt/(cash)	(5,926)	(7,106)	(12,108)	(23,477)	(39,272)

Source: migme accounts, Edison Investment Research

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