

CLIQ Digital

Media

23 August 2017

UME adds to strong organic growth

CLIQ Digital's H117 results reflect a continuation of the strong organic growth delivered in Q117 and one month's contribution from the recently acquired Universal Mobile Enterprises (UME), leaving the group comfortably on track to deliver management's full-year guidance for double-digit growth across all key P&L lines, which it has reiterated. The shares trade at a slight discount to the peer group average FY17 P/E; but given the solid H1 results and potential upgrades to consensus following the UME deal, the shares may resume their upwards trajectory.

H117 results – 40% increase in customer base value

Consistent with its Q117 figures, CLIQ reported a strong set of H117 results. Including one month's contribution from the recently acquired UME, revenues increased 12%, EBIT 11% and net income 24% y-o-y. Despite the fall in marketing spend, the all-important 'CLIQ factor' nudged up to 1.48 (from 1.45), indicating continued improvements in the efficiency of marketing spend, and the customer base value increased by 40% (of which 11% was organic). Bank liabilities substantially reduced to €8.4m (FY16: €11.6m).

Guidance maintained – UME yet to be reflected

The solid organic performance in the first half puts the group on track to deliver management's expectation of double-digit growth in revenues, EBIT and consolidated earnings in FY17. In addition, effective 1 June 2017, CLIQ acquired a 51% controlling interest in UME, a rapidly growing, profitable, mobile content marketing and distribution specialist, which reported revenues of €11.5m in the year to April 2017. Terms of the cash deal have not been disclosed; however, it should provide further support to earnings momentum and is yet to be reflected in consensus estimates.

Valuation: Upgrades likely

Despite a strong run over the past twelve months (+100%), the shares have slipped somewhat since May, and now trade at a modest discount to peers on a FY17e P/E of 12.2x versus 13.8x for the peer group average. Furthermore, consensus has yet to account for the UME acquisition, which we expect to be earnings accretive. The successful integration of UME in addition to evidence that the group continues to find profitable marketing opportunities could support upside to the shares value towards a peer group rating.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/15	55.6	1.7	0.21	0.0	33.0	0.0
12/16	65.3	3.6	0.43	0.0	16.1	0.0
12/17e	72.8	4.7	0.57	0.0	12.2	0.0
12/18e	80.1	6.0	0.73	0.0	9.5	0.0

Source: Bloomberg, Edison Investment Research.

Price €6.94
Market cap €43m

Share price graph



Share details

Code	CLIQ
Listing	Deutsche Börse Scale
Shares in issue	6.2m
Bank liabilities as at 30 June 2017	€8.4m

Business description

CLIQ Digital is a sales and marketing group for digital products and services. It also operates a proprietary payments platform. It is headquartered in Düsseldorf and has offices in Amsterdam, London and Paris. Via its network of affiliate partners and its own direct media buying platform it has customers across the globe. In 2016 82% of sales were generated in Europe, 10% in the Asia Pacific region and 8% in the Americas.

Bull

- Exposure to the fast growth mobile marketing sector
- Experienced management
- Strong revenue momentum over the last few years

Bear

- As the group scales it may become harder to maintain the same rate of marketing efficiency
- Dependent on major mobile carriers and gateways for customer access and invoicing
- Limited exposure to the potentially faster growth developing markets

Analysts

Bridie Barrett Schmidt	+44 (0)20 3077 5700
Alasdair Young	+44 (0)20 3077 5700

media@edisongroup.com

Edison Investment Research provides qualitative research coverage on companies in the Deutsche Börse Scale segment in accordance with section 36 subsection 3 of the General Terms and Conditions of Deutsche Börse AG for the Regulated Unofficial Market (Freiverkehr) on Frankfurter Wertpapierbörse (as of 1 March 2017). Two to three research reports will be produced per year. Research reports do not contain Edison analyst financial forecasts.

Review of H117 results

Results highlights

CLIQ Digital delivered a strong set of results for the first half of 2017. The key items are shown in Exhibit 1 below.

Exhibit 1: Financial highlights					
€m	H116	H216	H117	% change y-o-y	% change h-o-h
Revenues	31.2	34.1	34.9	11.9	2.4
Gross profit	17.8	13.0	19.2	7.8	48.0
Total opex	4.99	5.5	6.44	29.0	16.6
EBITDA	12.8	13.3	12.8	0.0	(3.8)
EBIT	2.2	2.3	2.4	10.6	2.1
PBT	1.7	1.9	2.0	20.1	7.1
Net income	1.2	1.6	1.5	23.8	(6.0)
EPS (€)	0.19	0.25	0.24	26.3	(4.0)
Bank borrowings	13.6	10.6	8.4	(38.2)	(20.8)
Cash	0.07	0.05	4.30	6425	8676
Bank liabilities	13.6	10.6	8.4	(38.0)	(20.5)

Source: Company accounts.

While there was a 10.7% y-o-y reduction in ARPU, revenues increased 11.9% y-o-y, a continuation of the strong Q1 performance (11%). We estimate that 3pp of this growth (€0.9m) was a result of the June acquisition of UME (see below); however, the majority of growth was driven by a combination of an underlying 11% increase in the customer base value (a proxy for the total estimated cash flow from the current user base over the coming five years) and an increase to 1.48 (H116: 1.45) in the all-important 'CLIQ factor' (a measure of the efficiency of the company's marketing expenditure – please refer to our [initiation report](#) for more information on the group's business model).

Exhibit 2: Development of key performance indicators			
	H115	H116	H117
Revenues (€m)	29.3	31.2	34.9
Number of sales	1,129,291	1,263,252	1,331,705
ARPU (€)	9.32	12.15	10.85
CPA (€)	6.8	8.38	7.33
ARPU/CPA (CLIQ factor)	1.37	1.45	1.48
Customer base value (€m)	15.5	19.3	27
Marketing spend (€m)	7.68	10.24	9.6

Source: Company accounts.

Typically, an increase in these metrics would convert to an expansion in margins. However, as planned, management has increased investment into its digital payments platform and additional area sales teams. Consequently, EBIT margins remained relatively stable year-on-year at 6.9% and EBIT increased broadly in line with revenues to €2.4m (although it is worth noting that this figure includes transaction costs from the UME acquisition).

Gross debt (which does not reflect the cost of the acquisition of UME) reduced to €8.4m (Dec 2016: €10.6m) and the impact of a falling interest burden, a lower effective tax rate (25% vs 30% in H116) and one month's contribution from the UME acquisition converted this to a 23.8% increase in net profit.

Acquisition of UME – adds 29% to the customer base value

On 25 July, CLIQ Digital announced that it had acquired 51% of the UK's UME, specialists in mobile content marketing and distribution with a focus on the UK, Ireland, Italy and South Africa.

UME has grown rapidly to generate revenues of €11.5m in the 12 months to April 2017 (67% organic growth y-o-y), is profitable and is expected to continue to grow in the current year.

In addition to adding nearly 1m subscribers to CLIQ's products and services and adding c 29% to its customer base value, the acquisition expands CLIQ's presence in a number of markets and management believes there are also opportunities to generate synergies from both an efficiency perspective and from cross promotion. UME was founded in 2009 by Richard Keeley and Alex Rooke, who will continue to manage and operate the newly formed Red27Mobile.

While the deal completed at the end of the July (and hence the cost of acquisition is not reflected in the period-end net debt position), it has been consolidated as of 1 June. The balance sheet therefore reflects cash balances acquired from UME (cash reserves increased from €50k to €4.3m), but does not include the gross costs of the deal, which are included in other liabilities, which increased from €4.2m to €12.9m.

Assuming no growth or seasonality, we estimate that UME contributed c €0.9m revenues and €0.1m of net income to H117 figures (or c 3pp to revenues and 8pp to net income in the period).

Outlook: Guidance reconfirmed

The H1 results appear to leave CLIQ Digital on track to deliver management's expectation of another year of double-digit increases in EBITDA and net profit. It has reiterated this guidance; although with total marketing spend down in the first half of the year, the route to achieving this target may be slightly different than originally planned.

Valuation

The group is making solid progress towards its targets for the year and, while marketing spend was down in the period, we are encouraged to see the increase in the CLIQ factor and customer base value, and management expects to ramp marketing spend back up in H2. The UME deal appears to have a strong strategic fit, adding 29% to customer base value, representing a step increase in scale.

While the cost of the UME acquisition has not been announced, as a profitable growing business financed from existing credit lines, we believe upgrades to consensus forecasts, which do not yet reflect the deal, may follow suit.

The shares have performed strongly over the past 12 months, appreciating 101%, and 35% year to date, despite having retracted from highs above €8/share reached in May this year. At 12.2x 2017e earnings per share, CLIQ now trades at a discount of 11% compared with the peer group average of 13.8x, with this discount widening to 20% in FY18 (9.5x vs 12x).

Given the good first-half momentum and the strategic merits of the UME deal, we believe the shares look fairly attractive at these levels.

We compare CLIQ's valuation with a group of peers in Exhibit 3 below.

Exhibit 3: Peer comparison

Name	Market cap	Sales growth (%)			EBIT margin (%)		EPS growth (%)		EV/sales (x)			EV/EBIT last (x)			P/E (x)			Year end
	Ccy m	FY1	FY2	FY1	FY2	FY1	FY2	last	FY1	FY2	last	FY1	FY2	last	FY1	FY2		
CLIQ Digital	43	11.5	10.0	7.1	8.1	N/A	N/A	0.7	0.7	0.6	10.2	9.1	7.3	11.0	12.2	9.5	12/16	
IMIMobile	117	25.3	7.4	N/A	N/A	(45.6)	81.6	1.3	1.1	1.0	19.3	N/A	N/A	14.8	16.3	14.8	03/17	
Acotel	24	(3.6)	11.2	(30.4)	(18)	(88.0)	318.8	0.7	0.6	0.6	N/A	(2.0)	(3.1)	N/A	(7.8)	(13.4)	12/16	
Onmobile Global	6,074	44.6	6.0	16.6	15.8	N/A	N/A	0.4	0.3	0.3	3.5	1.7	1.7	67.4	5.4	5.3	03/17	
XLMedia	264	31.3	7.0	25.5	24.7	8.3	7.7	3.0	2.2	2.1	10.2	8.8	8.5	9.6	12.3	11.5	12/16	
Taptica	241	71.6	63.2	13.0	10.2	25.4	26.2	2.3	1.3	0.8	14.7	10.3	8.0	8.1	13.9	11.4	12/16	
Matomy Media	103	(2.4)	3.5	7.5	9.9	(26.3)	(111.3)	0.5	0.5	0.5	N/A	6.6	4.8	N/A	10.1	7.2	12/16	
1000mercis	168	10.5	10.7	17.0	17.3	14.4	25.2	2.7	2.5	2.2	16.2	14.5	12.9	22.4	24.6	21.8	12/16	

Source: Bloomberg, Edison Investment Research. Note: FY1 equates to first forecast year, FY2 second forecast year.

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the Financial Conduct Authority. 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

Any Information, data, analysis and opinions contained in this report do not constitute investment advice by Deutsche Börse AG or the Frankfurter Wertpapierbörse. Any investment decision should be solely based on a securities offering document or another document containing all information required to make such an investment decision, including risk factors.

Copyright 2017 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Deutsche Börse AG 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 2017. "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.