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Small-cap with big growth potential

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Insights from: N/A

Mitula Group (ASX: MUA) is a leader in the global online classifieds industry, operating vertical search and portal sites across cars, jobs, homes and fashion. MUA leverages millions of visits to its sites to generate revenue from the sale of clicks and advertising, as well as participating in transactions.

A technology focused company, MUA currently operates 108 vertical search sites in 51 countries, while also operating 10 direct property portals in 9 countries. MUA's core brands include Mitula, Nestoria, Nuroa, Fashiola and DotProperty.

Figure 1. MUA's Global Footprint

Source. MUA AGM Presentation, 25/05/2017

MUA was founded in Spain by a trio of successful technology entrepreneurs and has been profitable since its 2009 inception. Since that time, former REA Group (ASX: REA) Chief Simon Baker has joined as Chairman and MUA listed on the ASX in 2015.

MUA initially set out to make the process of searching for a new home, car or job easier by aggregating all online listings into one portal. So rather than trawling through five or six direct portals (as is often the case in many offshore markets), users can simply log onto a Mitula site and see all relevant listings in one place. Should the user click on any listings, MUA gets paid for the traffic received by the specific portal operator.

The business also generates revenue whenever a visitor clicks on site advertising. Relevant advertising is generated either automatically through Google AdSense or internally via banner style advertising. The latter has become an increasingly important revenue source for many prominent online classified businesses such as Carsales (ASX: CAR) and appears likely to continue as a material growth avenue for MUA.

Though the initial basis of the MUA business was to exclusively monetise traffic through the sale of clicks and advertising, the business is evolving to capture greater value by 'moving closer to the transaction'. In essence, the business is working to extract a greater yield per visit, which when combined with visitor growth, is driving substantial growth in revenue and earnings.

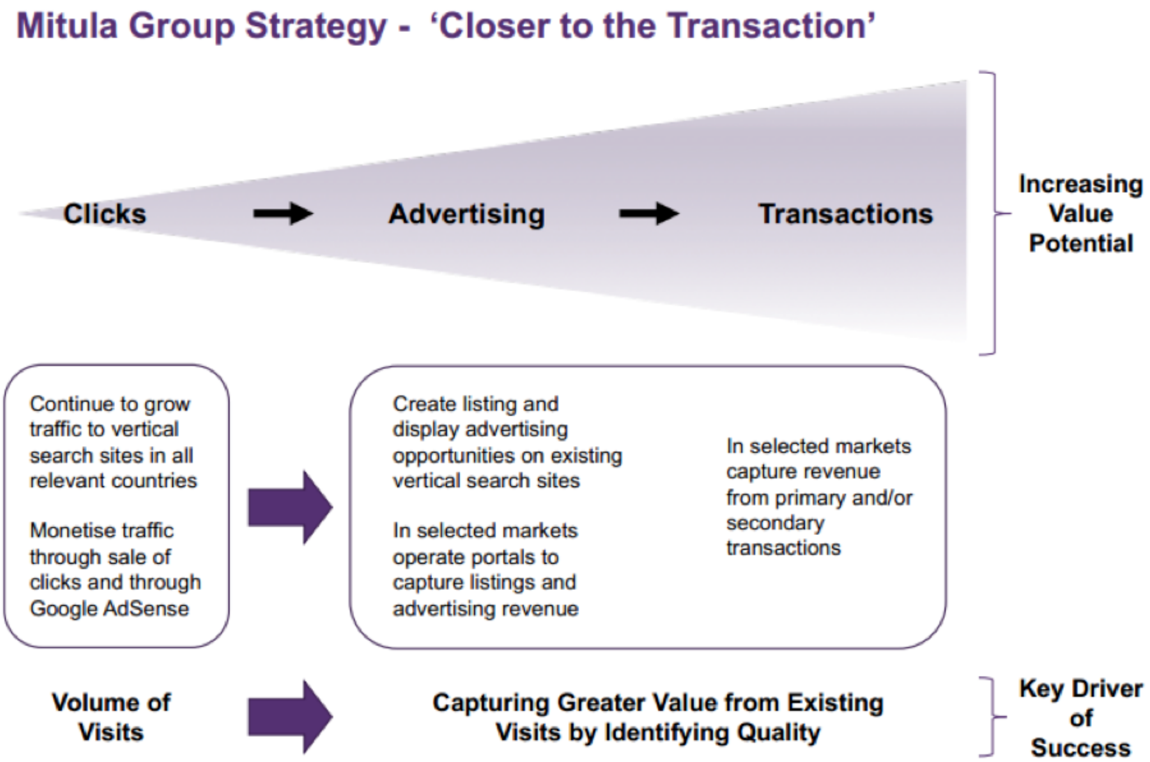

Figure 2. MUA's Evolving Strategy
Source. MUA AGM Presentation, 25/05/2017.

One of the significant attractions of the MUA business is the sheer volume of visits that its sites generate, effectively backed by a growing number of aggregate listings. As visitation continues to increase, so too do 'click outs', which leads to an improving ability for MUA to monetise its online asset base. As highlighted in recent ASX updates, the business had more than 250 million aggregate classified listings and received 205 million unique visits across its sites in the first quarter of CY2017.

MUA operates in a dynamic global environment that will act to continually challenge what is currently a high growth, high margin business. While we believe MUA is backed by a high-quality management team, risks include technological risk, key relationship risk (with portals and with Google), competitive risk (and associated potential margin impact) as well as currency risk.

Despite the risks to the investment thesis, MUA has to date executed well to drive significant growth in revenue, margins and earnings. Although coming off a very small base, over the period of 2012 to 2017F, revenue and profit have grown at a compound annual growth rate (CAGR) of 37% and 83% respectively.

Taking the midpoint of their guidance range, management are guiding to revenue and EBITDA of $39.5m and $18m for CY2017. If achieved, this would represent growth of 41% and 42% on the numbers achieved in CY2016. Concurrently, MUA has not paid out any dividends (and is unlikely to begin paying out dividends in the near term) so in our view the business firmly remains a prospect for growth focused investors with a medium to high risk tolerance.

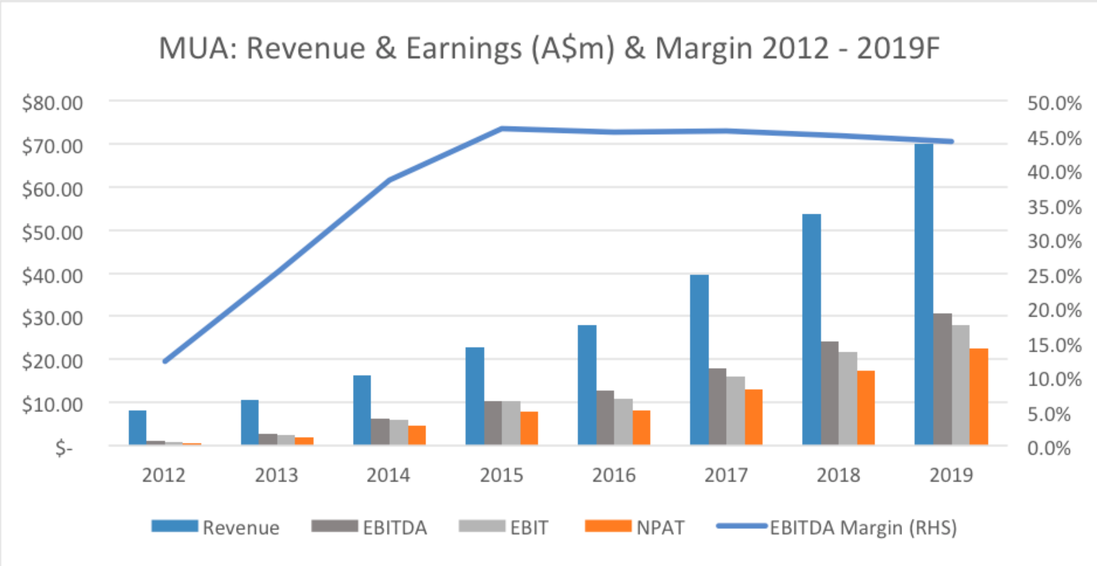

Figure 3: MUA Revenue & Earnings, 2012 – 2019F
Source: Company reports, Clime estimates
** Note: 2012 – 2016 represent actual figures, 2017 represents the midpoint of company guidance, 2018 & 2019 represent Clime estimates.*

With the above noted, from a financial viewpoint, MUA attracts in many respects. MUA is a high ROE business, has no debt and is forecast to close the calendar year with more than $20m in cash on hand. Operating cash flow continues to grow and in aggregate has historically exceeded reported profit. The relatively capital light business model allows MUA to self-fund its growth objectives. Management have decades of relevant aggregate industry experience and based on their collective ownership of just under half of the business, we see them as being highly aligned with minority holders.

While MUA is only in the early stages of its listed life, we believe it is interesting for the growth focused investor. It's market price of $0.92 also compares favourably with our CY2017 valuation of $1.07 and the 12-month forward valuation of about $1.22. As such, MUA is a business that we will continue to closely monitor over the coming months and years.

OWNERSHIP DISCLOSURES:

Across Clime Asset Management strategies, it holds MUA is some portfolios.

INVESTING REMINDER

Members, please note: investing in direct equity exposes you to the risk of capital loss. Before investing in any of these companies, we recommend you convince yourself, through your own research, that you agree with our theses or have an alternative positive thesis. It is also imperative that your portfolio weighting for any stock is consistent with your risk tolerance. Finally, we recommend you take a three to five-year view on all equity investments. These are not empty 'caveats', but the exact principles that our own fund manager partner makes, when investing on behalf of their clients - you should do similarly. Safe investing!

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