

MSM Corporation International Ltd

Nearing 60m audience reach for global talent platform

MSM has developed and operates Megastar, a software platform through which online talent contests will take place. The MSM platform is designed to leverage audience obsession in talent discovery and promotion which has been proven by successful TV talent competition programs (Idol, The Voice, X factor) and to operate a mobile/social talent competitions where the winner will be awarded prizemoney of US\$1m. User experiences will be enhanced through mobile gamification and social media engagement.

Update on progress

RaaS Advisory Pty Ltd published a 27-page positioning paper on MSM on 15 May 2017 in which we noted that our financial model, using the company's prospectus performance hurdles (A\$5m EBITDA or 1m unique users by December 2018 and A\$15m EBITDA or 2m unique users by December 2020) as the basis for our revenue and EBITDA forecasts. The revenue forecasts we struck assumed that the company's total audience reach in FY18f would average 23m, rising to 61m by FY25f. We have assumed that 0.8% of this addressable audience would convert to monetising users. This delivered a DCF valuation of \$0.96/share.

We note that since our report, the company has surpassed the 25m total audience-reach milestone and, with the addition of social influencers, announced on July 31 that it was nearing total audience reach of 60m. This equates to the addressable universe from which the company has the potential to secure monetising users.

Business model

MSM launched its first World Wide Tournament on June 30 in South Africa and the UK and has subsequently launched in NZ and Canada. The Australian and USA launches are scheduled for August and September respectively. The company announced on July 31 that it was close to finalising an award winning global celebrity of music and film to promote the competition. MSM has also engaged a range of social influencers and sponsored performers who will assist in driving user engagement as they are introduced into the global launch. MSM intends to generate revenue from In-App purchases, subscriptions, advertising and eventually merchandising and data analysis. Beta testing by the company has achieved viewer minutes 4.5 times that achieved by the average viewer and time spent a day on its app has been 6x that achieved by the average app.

Indicative valuation and scenario analysis

MSM is an early stage company, pre-revenue and with a business concept yet to be fully tested. At the end of June, the company had \$720,000 cash-in-hand. Its shares have been suspended since July 12 pending an announcement regarding the global celebrity contract and a capital raising. Our current DCF valuation, based on the company's performance hurdles set down in its 2015 prospectus and driving our revenue and EBITDA forecasts, gives us a DCF valuation of \$0.96/share (based on a beta of 1.9, WACC of 15% and terminal growth rate of 2%).

If MSM was to secure a 0.8% conversion to monetising users from a total audience of 60m, the DCF valuation could rise to \$1.85/share. If the company was to secure a 0.8% conversion to monetising users from a total audience of 80m, the DCF valuation could rise to \$2.59/share. If the company was to secure a 0.8% conversion to monetising users from a total audience of 100m, the DCF valuation could rise to \$3.34/share. We caution that the assumptions which drive the revenue forecasts are yet to be tested in the market and the above scenario analysis is hypothetical until the business model is proven.

Share details

ASX Code	MSM
Share price at 7 July 2017 (last traded)	\$0.22
Market Capitalisation	\$68m
Shares on issue	309.2m
Net cash at 30 June 2017	\$0.72m

Share performance (12 months)



Upside Case

- Strong board, advisory board and management with proven online entertainment expertise
- Management has largely met milestones set out in prospectus
- Beta testing has delivered proof of concept and the competition has launched in South Africa, United Kingdom, New Zealand and Canada.

Downside Case

- Pre-revenue
- Moderate barriers to entry
- Success relies heavily on Millennial/Gen X support

Board of Directors

Adam Wellisch	Non-Executive Chairman
Dion Sullivan	CEO/Managing Director
Sophie McGill	Executive Director
Mark Clement	Non-Executive Director


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Exhibit 1: Financial Summary

MSM Corporation International Ltd						Share price (7 July 2017)						A\$ 0.22	
Profit and Loss (A\$m)						Interim (A\$m)							
Y/E 31 Dec	FY15A	FY16A	FY17F	FY18F	FY19F	H116A	H216A	H117F	H217F	H118F	H218F		
Annual Monetising users (m)			-	0.4	0.5	Revenue	-	-	-	-	8.0	10.4	
Ave spend per visitor \$			-	16.6	22.3	EBITDA	- 3.9	- 3.7	- 3.4	- 6.0	1.9	3.5	
Revenue	0.0	0.0	0.0	18.4	26.9	EBIT	- 3.9	- 3.7	- 3.4	- 6.0	1.9	3.5	
EBITDA	(0.3)	(7.5)	(9.4)	5.4	9.8	NPAT (normalised)	- 4.8	- 3.7	- 3.4	- 4.1	1.3	2.4	
Deprn	0.0	0.0	0.0	0.0	0.0	Minorities	-	-	-	-	-	-	
Amort	0.0	0.0	0.0	0.0	0.0	NPAT (reported)	- 4.8	- 3.7	- 3.4	- 4.1	1.3	2.4	
EBIT	(0.3)	(7.5)	(9.4)	5.4	9.8	EPS (normalised)	-	-	-	-	0.86	1.04	0.33
Interest	(0.8)	(1.0)	0.1	0.0	0.1	EPS (reported)	-	-	1.16	- 1.35	0.43	0.79	
Tax	0.0	0.0	1.8	(1.6)	(3.0)	Dividend (cps)	-	-	-	-	-	-	
Minorities	0.0	0.0	0.0	0.0	0.0	Imputation	30.0	30.0	-	-	-	-	
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	Operating cash flow	- 0.3	- 2.7	- 3.9	- 5.5	1.5	2.7	
NPAT pre significant items	(1.1)	(8.5)	(7.6)	3.8	7.0	Free Cash flow	- 0.1	- 2.7	- 3.7	- 5.5	1.5	2.7	
Significant items	0.0	0.0	0.0	0.0	0.0	Share price performance - 12 months							
NPAT (reported)	(1.1)	(8.5)	(7.6)	3.8	7.0								
Cash flow (A\$m)						Margins, Leverage, Returns							
Y/E 31 March	FY15A	FY16A	FY17F	FY18F	FY19F	FY15A	FY16A	FY17F	FY18F	FY19F			
EBITDA	(0.3)	(7.5)	(9.4)	5.4	9.8	EBITDA			n/a	29.2%	36.6%		
Interest	0.0	0.0	0.1	0.0	0.1	EBIT			n/a	29.2%	36.6%		
Tax	0.0	0.0	0.0	(1.6)	(3.0)	NPAT pre significant items			n/a	20.5%	26.0%		
Working capital changes	0.1	4.4	(0.0)	0.4	0.3	Net (Debt)/ Cash	- 0.9	4.1	0.2	4.4	11.6		
Operating cash flow	(0.2)	(3.1)	(9.3)	4.2	7.2	Net debt/EBITDA (x)	(x)	n/a	n/a	0.818	1.182		
Mtce capex	0.0	(0.0)	0.0	0.0	0.0	ND/ND+Equity (%)	(%)	-705.9%	-9264.4%	-10.4%	-290.1%	-930.4%	
Free cash flow	(0.2)	(3.1)	(9.3)	4.2	7.2	EBIT interest cover (x)	(x)	n/a	n/a	- 0.0	- 0.0		
Growth capex	0.0	(0.3)	(0.2)	0.0	0.0	ROA		-49%	-274.4%	-270.1%	126.8%	98.9%	
Acquisitions/Disposals	0.0	0.0	0.0	0.0	0.0	ROE		107%	-553%	-242%	94%	74%	
Other	0.0	0.0	0.0	0.0	0.0	ROIC		248%	-929%	-1468%	-418%	1877%	
Cash flow pre financing	(0.2)	(3.4)	(9.5)	4.2	7.2	NTA (per share)		n/a	0.01	0.01	0.02	0.04	
Equity	0.1	6.8	5.7	0.0	0.0	Working capital		- 0.1	- 0.6	-	0.4	- 0.7	
Debt	0.8	0.0	0.0	0.0	0.0	WC/Sales (%)				n/a	-2%	-3%	
Dividends paid	0.0	0.0	0.0	0.0	0.0	Revenue growth				n/a	n/a	46%	
Net cash flow for year	0.7	3.4	(3.9)	4.2	7.2	EBIT growth pa				n/a	n/a	-157%	83%
Balance sheet (A\$m)						Pricing							
Y/E 31 March	FY15A	FY16A	FY17F	FY18F	FY19F	FY15A	FY16A	FY17F	FY18F	FY19F			
Cash	0.7	4.1	0.2	4.4	11.6	No of shares (y/e)	(m)	23	304	309	309	309	
Accounts receivable	0.0	0.0	0.0	0.0	0.0	Weighted Av Dil Shares	(m)	23	176	308	309	309	
Inventory	0.0	0.0	0.0	0.0	0.0	EPS Reported	cps	-	-	1.90	0.95	1.75	
Other current assets	0.0	0.2	0.3	0.3	0.3	EPS Normalised/Diluted	cps	-	-	2.51	1.22	2.25	
Total current assets	0.7	4.3	0.5	4.7	12.0	EPS growth (norm/dil)			N/A	n/a	-149%	85%	
PPE	0.0	0.0	0.0	0.0	0.0	DPS	cps	-	-	-	-	-	
Goodwill	0.0	0.0	0.0	0.0	0.0	DPS Growth			n/a	n/a	n/a	n/a	
Investments	0.0	0.5	0.7	0.7	0.7	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%	
Deferred tax asset	0.0	0.0	0.9	0.9	0.9	Dividend imputation		30	30	0	0	0	
Other	0.0	0.0	0.0	0.0	0.0	PE (x)				-	23.2	12.5	
Total non current assets	0.0	0.6	1.6	1.6	1.6	PE market				15.8	15.8	15.8	
Total Assets	0.7	4.8	2.1	6.3	13.6	PE Premium/(discount)				47%	-21%		
Accounts payable	0.1	0.6	0.0	0.4	0.7	EV/EBITDA		- 17.3	- 8.3	- 7.3	13.5	8.1	
Short term debt	1.6	0.0	0.0	0.0	0.0	Premium/(discount)							
Tax payable	0.0	0.0	0.0	0.0	0.0	FCF/Share	cps	-1.0	-1.0	-3.0	1.4	2.3	
Other current liabilities	0.0	0.1	0.0	0.0	0.0	Price/FCF share		- 23	- 22	- 7	16	9	
Total current liabilities	1.7	0.7	0.0	0.4	0.7	Free Cash flow Yield		-4.3%	-4.6%	-13.7%	6.2%	10.6%	
Long term debt	0.0	0.0	0.0	0.0	0.0								
Other non current liabs	0.0	0.0	0.0	0.0	0.0								
Total long term liabilities	0.0	0.0	0.0	0.0	0.0								
Total Liabilities	1.7	0.7	0.0	0.4	0.7								
Net Assets	(1.1)	4.1	2.1	5.9	12.9								
Share capital	0.1	11.2	16.9	16.9	16.9								
Accumulated profits/losses	(1.1)	(9.6)	(18.5)	(14.7)	(7.7)								
Reserves	0.0	2.5	3.7	3.7	3.7								
Minorities	0.0	0.0	0.0	0.0	0.0								
Total Shareholder funds	(1.1)	4.1	2.1	5.9	12.9								

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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Corporate Authorised Representative, number 1248415

of

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AFSL 456663

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