


Buy

from Accumulate

Share price: EUR 2.55

closing price as of 19/07/2016

Target price: EUR 3.00

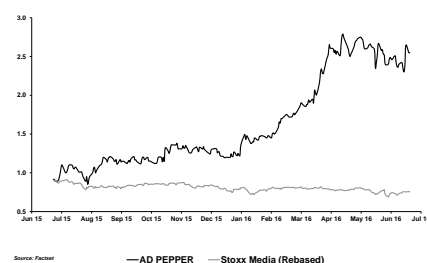
 from Target Price: EUR **2.60**

Reuters/Bloomberg

APME.F/APM.GY

Market capitalisation (EURm) 54
Current N° of shares (m) 21
Free float 49%
Daily avg. no. trad. sh. 12 mth 32,709
Daily avg. trad. vol. 12 mth (m) 83
Price high 12 mth (EUR) 2.79
Price low 12 mth (EUR) 0.85
Abs. perf. 1 mth -4.50%
Abs. perf. 3 mth 11.31%
Abs. perf. 12 mth 172.62%

Key financials (EUR)	12/15	12/16e	12/17e
Sales (m)	56	62	68
EBITDA (m)	1	2	3
EBITDA margin	1.0%	3.8%	4.2%
EBIT (m)	0	2	3
EBIT margin	0.4%	3.3%	3.7%
Net Profit (adj.)(m)	(0)	2	2
ROCE	-2.4%	-41.9%	-43.7%
Net debt/(cash) (m)	(23)	(25)	(29)
Net Debt/Equity	-1.4	-1.4	-1.4
Debt/EBITDA	-42.1	-10.9	-10.1
Int. cover(EBITDA/Fin. int)	(2.8)	(11.1)	(12.1)
EV/Sales	0.1	0.5	0.4
EV/EBITDA	13.3	13.2	10.0
EV/EBITDA (adj.)	13.3	13.2	10.0
EV/EBIT	29.5	15.1	11.1
P/E (adj.)	nm	34.3	27.8
P/BV	1.7	3.1	2.8
OpFCF yield	5.0%	4.9%	5.3%
Dividend yield	0.0%	0.0%	0.0%
EPS (adj.)	(0.00)	0.07	0.09
BVPS	0.75	0.82	0.92
DPS	0.00	0.00	0.00



Shareholders: EMA B.V. (M. Oschmann) 41%;
 Euroserve Media (M. Oschmann) 1.90%;
 Own Shares 8%;

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Convincing performance with strong operating figures

The ad pepper media group (APM) is one of the leading international performance marketing groups with a broad product portfolio. Its particular focus is on their self-developed lead generation technology and significant affiliate marketing business. The company acts as a mediator between publishers on the one side and advertisers on the other side, offering mainly performance-based pricing models.

- ✓ APM has released its Ad hoc publication on last Friday with preliminary figures which were much better than our expectation in terms of profitability and show once again a strong result with regards to the affiliate network webgains. The discontinuations of operations as well as general cost savings seem to have materialized sustainably and got a strong positive impact. We believe that the improved profitability in the core segment as well as margins in the ad agents and webgains division, were enlarged by a higher share of direct bookings.
- ✓ APM's revenue driver has been once again webgains with a share of 71% of total sales, which brought in EUR 9.8m and 6.5% yoy (fx adj, 12%) better than one year before, but much weaker than Q1/16 (EUR 10.7m and 34.2%). We see two major impacts: 1) Foreign exchange (FX) headwinds from the devaluation EUR/GBP after Brexit, round about 7% impact on sales in H1/16 2) as revealed by APM, revenues been missing from a major Asian customer because of internal legal problems. APM mentioned that this problem is likely short of duration.
- ✓ Furthermore other segments were quite successful, ad agents was able to grow by 40% yoy to EUR 2.6m and ad pepper media has also recorded solid growth of 8% and EUR 1.4m on an adjusted basis (sale proceeds from two UK subsidiaries).
- ✓ **Our analysis:** Last Friday APM reported preliminary Q2 figures: Q2 Sales were up by 9% yoy to EUR 13.9m and thereby under our forecast of EUR 14.5m. Gross profit margins have slightly increased to 28.5% vs. our estimate of 27.4%, but lower than the year before with 30.2%. EBIT came in substantially higher of around EUR 0.45m and was much better than every Q2 before and ahead of our estimates with EUR (0.82). The reason for the significant better EBIT has been APM's improved OPEX development with (EUR 3,5m) against our forecast of (EUR 4.8m). We had the assumption that the OPEX should come back to its normalised levels to support expected high revenue growth. We now expect that the company will be able to stay flat or slightly higher with OPEX, because they could be positively supported by GBP weakness, no further planned recruitment of staff and the disposal of the two UK subsidiaries.

Conclusion & Action: APM has shown a strong operative performance with Q2 figures which surprised us with lower OPEX and solid group sales which has been affected by foreign currency in the webgains segment. Nevertheless, the company reiterated its guidance for FY2016 sales with 60m and is thereby still under our assumption of EUR 61.7m. Despite a solid natural hedge position and improving OPEX expectations, we believe APM will be thus burdened by only moderate residual FX exposure which we account into our model. APM is generating majority of its revenues in UK with more than half of its OPEX are currency affected. The company moderately profits from its "natural hedge" position with some minor effect on its overall profitability. For APM it is of vital importance, that especially the consumer confidence remained stable. Therefore we raised our TP to EUR 3.00 and changed our recommendation from Accumulate to buy.