MOKO.MOBI LIMITED(MKB) UPDATE

A company transforming acquisition

DIRECTORS
Greg McCann, Chairman
Ian Rodwell, Managing Director
Johannes de Back, Non-Executive Director
Peter Yates, Non-Executive Director

MARKET DATA

ASX Code:	MKB
Current Price:	$0.058
52 week Share Price Range:	$0.042 - $0.12
Market Capitalisation:	$9.6 million
Enterprise Value:	$8.1 million

CAPITAL STRUCTURE

Shares on Issue:	210.0 million*
Listed Options:	30.4 million
Unlisted Options:	35.4 million

FINANCIAL SUMMARY

Y/e 30 June $mill	2011 (A)	2012 (A)*	2013 (F)*
Revenue	1.7	14.0	30.0
EBITDA	-3.8	~0	4.0
Net Profit	-3.3	~0	3.4
EPS (cents)	-2.6	0	1.6
PER (x)	na	na	3.6
EV/EBITDA (x)	na	na	2.0

* Post transaction

MAJOR SHAREHOLDERS

Peter Yates and related parties	15.4%
Emrose BV and related parties	16.0%
Sendme Inc	9.1%

SENIOR ANALYST
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KEY POINTS

UK based mobile entertainment business to be acquired for US$2.4 million.

Generates US$14 million annual revenues with operations in South Africa and Europe.

Significant profit contribution will take MOKO close to breakeven in FY 2012.

Major marketing and distribution channel synergies for MOKO.

INVESTMENT PROPOSITION

MOKO.mobi can be expected to achieve considerable international investor interest as its global subscriber base bulks up and it advances its commercialisation strategies.

After several years of development, MOKO.mobi is now aggressively commercialising its mobile social entertainment platform. The platform has global reach and widespread telco carrier support. The immediate priority is to substantially increase the subscriber base and revenues with a view to achieving a profit breakthrough in FY 2013. Acquisitions are a key feature of the company's growth strategy and are expected to add considerable value as they are absorbed within its platform.

This marks the third acquisition by MOKO.mobi in 2011 and its scale gives investors greater confidence in management's ability to pursue and execute its strategy and commitment to achieving an early breakthrough to profitability. Earnings multiples are very low.

Event

MOKO.mobi is to acquire, subject to certain conditions, a mobile entertainment business owned by UK based Paper Tree Limited. The PTL owned business is a UK based mobile platform provider for mobile content and interaction. The business works with over 70 mobile network operators across 12 countries, with an addressable market of over 1 billion mobile consumers and has annual revenues of approximately US$14 million.

The value of the acquisition is approximately $2.4 million and the consideration comprises the issue by MOKO of 12.9 million ordinary shares (being AUD$900,000 in MKB shares at 7c per share) and payment of USD$1.5 in cash on a deferred payment basis (with payment due 6 months after completion of the acquisition).

Analysis and Comment

This transaction is a company transforming event. In addition to considerable synergies and market development opportunities which will underpin long term growth, the acquisition will immediately contribute significant revenues, cash flow and operating profit. The business is apparently profitable and although the level of profit has not been disclosed, we understand that it will markedly increase MOKO's expected breakthrough profit in FY 2013.

The business that is being acquired is an aggregator of mobile content which is primarily distributed through third parties including carrier telco's. We understand that the content does not include social networking such as the chat, photo and video sharing that is the core of the MOKO and mbuzzy offerings. Revenue is generated from transactions in contrast to MOKO's subscription based revenues

MOKO.mobi has developed its own entertainment applications, which will complement the content of this business. The product mix also complements the social networking platform and progresses MOKO's vision of developing portal gateways for mobile telco's.

We understanding that the keys to the acquisition (apart from the revenue base) are the marketing capabilities and the distribution channels into which MOKO will be seeking to place its social networking platforms. These capabilities will be invaluable in driving the revenue growth of MOKO and mbuzzy as well as facilitating entry into new markets.

This business has a diverse geographic spread with a particular strength in South Africa and continental Europe, markets where MOKO has not been strong. Accordingly, there is considerable business development growth opportunity. The current portfolio of MOKO online communities (MOKO Chat, mbuzzy and mVibe), with about 14 million subscribers, is heavily based in Asia, North America and the UK.

Settlement is expected to occur in mid-December and MOKO management is expected to quickly move to integrate the business and seek early synergies and business development opportunities.

This is MOKO's third acquisition in 2011 and reflects a strong strategic commitment to rapidly commercialise and "bulk-up" the business. The company has developed strong M&A skills and appears to have bought well in an environment where valuations of social media properties have fallen in the wake of the GFC. This level of activity has drawn industry interest, with MOKO now being directly approached with acquisition opportunities in addition to its own targets already in the pipeline. Apart from signalling a potential buyer, this would seem to suggest that the strategy is resonating with industry insiders; a mark of confidence.

Whilst the acquisition terms seem quite favourable with a mix of shares (about 8% of current capital) and deferred settlement of the relatively modest cash component, it is evident that the company will need to boost its cash reserves over the next few months.

We have updated our forecasts to reflect the impact of this transaction. Although the company has not disclosed the profitability of the acquired business, we have assumed that margins are relatively low as it is an aggregator of content, rather than a producer. We now expect MOKO to be close to break-even in FY2012 after due diligence and other acquisition costs. The company is now forecast to achieve a considerably higher profit in FY2013 than previously anticipated with further gains likely as expected synergies emerge.

Background

Moko.mobi is an online social entertainment platform, primarily for mobile devices. The platform comprises an integrated billing system and support infrastructure that embeds with existing telco carrier infrastructure, and several individually branded online communities with about 14 million registered users. The company's vision is to create digital malls with customised community portals for telco carriers.

Moko.mobi's integrated billing system is a key differentiator and competitive advantage as it provides an underlying capability to share revenue with the telco carriers. The system is specifically designed to enable customised portal gateways and support user-pays business models including micro (very small) value transactions. It also supports third party providers who can broaden the overall product offering to consumers.

Following the acquisition of UK based EyeVibe and US based mBuzzy, the company now has operations in 11 countries, has 27 direct telco carrier billing partners, about 14 million subscribers with some 435 million page impressions per month. Over 50% of the subscriber base is in North America and 30% in Asia Pacific. The company's three social entertainment brands (including its own, MOKO Chat) are accessible through a PC, although they are overwhelmingly mobile driven experiences. Although the brands have different structures and content, they generally provide chat, photo and video services.

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