

Singapore Company Guide

Cityneon Holdings

Version 9 | Bloomberg: CITN SP | Reuters: CNHL.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

5 Jan 2018

BUY

Last Traded Price (3 Jan 2018): S\$0.99 (STI : 3,464.28)

Price Target 12-mth: S\$1.45 (47% upside)

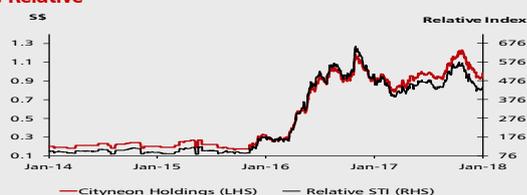
Analyst

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What's New

- On stronger footing for growth with a broader IP platform
- Upside to earnings from signage sponsorship; neutral on property acquisition
- Assume six exhibition sets for FY17F and nine in total for FY18F and FY19F
- Maintain BUY; TP S\$1.45

Price Relative



Forecasts and Valuation

FY Dec (\$ m)	2016A	2017F	2018F	2019F
Revenue	96.8	117	140	154
EBITDA	12.4	29.9	42.5	48.6
Pre-tax Profit	7.33	20.0	31.2	36.8
Net Profit	6.61	16.4	24.7	29.6
Net Pft (Pre Ex.)	6.61	16.4	24.7	29.6
Net Pft Gth (Pre-ex) (%)	658.8	148.6	50.6	19.6
EPS (S cts)	2.70	6.72	10.1	12.1
EPS Pre Ex. (S cts)	2.70	6.72	10.1	12.1
EPS Gth Pre Ex (%)	585	149	51	20
Diluted EPS (S cts)	2.70	6.72	10.1	12.1
Net DPS (S cts)	0.0	0.0	0.0	0.0
BV Per Share (S cts)	28.3	35.0	45.2	57.3
PE (X)	36.5	14.7	9.7	8.1
PE Pre Ex. (X)	36.5	14.7	9.7	8.1
P/Cash Flow (X)	138.5	17.1	7.8	6.5
EV/EBITDA (X)	19.9	8.1	5.4	4.2
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	3.5	2.8	2.2	1.7
Net Debt/Equity (X)	0.1	0.0	CASH	CASH
ROAE (%)	11.1	21.2	25.2	23.6
Earnings Rev (%):			-	-
Consensus EPS (S cts):			9.30	9.20
Other Broker Recs:		B: 4	S: 0	H: 0

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

Attractive immersive growth

On stronger footing with the acquisition of a third IP. With the acquisition of Jurassic World, Cityneon is now on a stronger and firmer growth path. Together with the two existing Intellectual Property rights (IPs) – Avengers and Transformers - Cityneon has added a third growth leg, to help propel the group to even greater heights. We continue to expect Cityneon to deliver explosive FY16-FY19F EPS CAGR growth of 165%. Trading at a low PE-to-growth ratio of 0.2x FY18F earnings, Cityneon is attractive to investors seeking unique ideas in the entertainment industry. The completion of the signage sponsorship would provide upside to earnings.

Where we differ: Assuming more travelling sets. Including the new Jurassic World, we now assume six exhibition sets for FY17F (four for Avengers, one each for Transformers and Jurassic World) and nine sets for FY18F and FY19F (five for Avengers, two each for Transformers and Jurassic World), vs consensus of five sets for FY17F and seven sets for FY18F.

Potential catalyst: An expanding project pipeline, and focus on higher-margin projects for the Traditional business are catalysts.

Valuation:

Maintain BUY; TP S\$1.45. Our earnings forecast is based on six exhibition sets for FY17F and nine in total for FY18F and FY19F. We have assumed the construction of an additional Jurassic World travelling set in FY18F. Our target price of S\$1.45 is based on PE valuation peg of 14.4x, which is at a 20% discount to peers' average PE of 18x on FY18F earnings.

Key Risks to Our View:

VHE's limited track record. Victory Hill Exhibitions (VHE) was formed in 2012 and its first exhibition was held in New York in 2014.

Earnings dependent on number of visitors, especially for the permanent set in Las Vegas.

At A Glance

Issued Capital (m shrs)	245
Mkt. Cap (S\$m/US\$m)	241 / 181
Major Shareholders (%)	
Lucrum1	69.0
Free Float (%)	31.1
3m Avg. Daily Val (US\$m)	0.99

ICB Industry : Consumer Services / Media

WHAT'S NEW

Securing sponsorship for signage board in Las Vegas; acquiring own headquarters

Signed term sheet with Korean company to set up interactive exterior digital media signage board in Las Vegas

Cityneon Holdings recently entered into a term sheet with Fabulous to set up an interactive, exterior digital media signage board at Treasure Island, Las Vegas's Marvel's Avengers S.T.A.T.I.O.N. exhibition. The duration of the project is five years and Fabulous has an option to renew the term for another five years and the total contract value is for a minimum guarantee of US\$15m. A deposit of US\$500,000 has been received by Cityneon.

Fabulous is a company established in Seoul in 2010. Fabulous has been producing a myriad of premium film contents for performing arts such as musicals, concerts, ballets, operas, and contemporary dance from all around the globe including France, the US, Belgium, and Korea. Fabulous is also the Producer and Co-founder of HyperPavilion, a large-scale contemporary art exhibition, at Venice Biennale 2017.

Purchase of property in Singapore for new office headquarters

Cityneon has also signed another term sheet to acquire from Scorpio East Properties (wholly-owned subsidiary of KOP Ltd), a leasehold property in Tai Seng. The property, with an aggregate lot area of approximately 2,571 square metres, has a balance duration of approximately 20 years, to be extended by another 29 years from the lease expiry date, subject to approval by Jurong Town Corporation. Based on an independent valuation in May 2017, the property was valued at S\$29m.

The purchase consideration of S\$27.2m comprises 1) assumed liability for loan of S\$24m, 2) S\$2.879m cash, and 3) Scorpio East's receivables of S\$0.3m.

Cityneon intends to use the bulk of the building as its new headquarters, as well as derive rental revenues from the remaining units, which will be added to the earnings of the group. Given Scorpio East's familiarity with major movie studios and experience in the entertainment industry in Singapore and across Asia, Cityneon may also consider future business collaborations with Scorpio East under the "Scorpio East" brand, to enhance the group's design capabilities and expansion of its portfolio in the entertainment and media industry.

Earnings & Recommendation

Maintain earnings forecast for now. We maintain our earnings forecasts for now, pending the completion of the signage sponsorship and clarity on the recognition of the revenue. The acquisition of the property is neutral, as the cost savings from current rental expenses are roughly offset by the interest costs for the assumed debt and rental income from the remaining units to external parties.

Maintain BUY; TP S\$1.45. Our target price of S\$1.45 is pegged to FY18F earnings, and assigning a discount of 20% to peers' average PE of 18x. We maintain our assumption of six exhibition sets for FY17F (four for Avengers, one each for Transformers and Jurassic World) and nine sets for FY18F and FY19F (five for Avengers, two each for Transformers and Jurassic World).

Potential chain offer could cap near-term share price performance. Near term, share price seems to be capped by the potential chain offer. In November last year, Teamway International Group entered into an MOU between Mutual Power International, an indirect wholly-owned subsidiary of Teamway, to acquire Massive Right's 76% stake in Lucrum 1. If the proposed acquisition materialises, Mutual Power and Teamway will, upon completion of the proposed acquisition, own 84.5% equity interest in Lucrum 1, and Mutual Power will be required to make a mandatory unconditional cash offer for the remaining shares not already owned.

To recap, Lucrum 1 currently owns about 69% stake in Cityneon. There are three key shareholders in Lucrum 1: Massive Right (76% stake), Philadelphia Investments (15.5% stake; owned by Group CEO and Executive Director, Mr Ron Tan) and Mutual Power International (8.5% stake).

Uncertainty on the possible offer price could affect near-term share price performance. In our view, the cash offer, if it materialises, would have to be above S\$1 to capture the full value of the group, as the previous offer price of S\$0.90 in May last year excluded the US\$25m (S\$0.138 per share) acquisition of the third IP, Jurassic World.

CRITICAL DATA POINTS TO WATCH

Critical Factors

IPs secured. To date, Cityneon has secured three IP rights – with Marvel Entertainment to use Avengers S.T.A.T.I.O.N. till 2024, with HASBRO Studios for the Transformers franchise till 2023 and the latest Jurassic World – The Exhibition from Universal Studios till 2027. With more IP rights, Cityneon would be able to build various exhibition sets to cater to different demand.

Scalable business model. The first sets for Avengers and Transformers had each cost around US\$8-9m to build, but subsequent sets had cost only about one-third of the original cost per set. Though the cost for Jurassic World is higher, subsequent sets are also expected to be lower. Thus, Cityneon is able to achieve operational leverage with every subsequent set built. We believe that more sets would be needed to fulfil the overwhelming demand. We assume six sets for FY17F (four for Avengers, one each for Transformers and Jurassic World) and nine sets for FY18F and FY19F (five for Avengers, two each for Transformers and Jurassic World).

The 6-9 exhibition sets would enable Cityneon to hold exhibitions in various parts of the world. Only the Las Vegas set in the US is permanent, while the rest are travelling sets, and will be moved from one location to another after the exhibition ends, which usually lasts for a few months. For every location or project, Cityneon would be able to book revenues that include licensing fees, minimum guarantees from the operator and also merchandise sales. Assuming that an exhibition lasts for about 3-4 months, theoretically, a set can be used 2-3 times per year based on a back-to-back schedule.

Project pipeline

Transformers in China has launched in December 2017. Besides China, VHE also intends to venture into Europe, US and the rest of Asia with both the Avengers and Transformer sets. For the newly acquired Jurassic World set, the schedule is full till 2019. It is slated to tour another two cities in the US after Chicago in 2018, before it moves on to Europe and Asia. Cityneon is planning to build a second travelling set in 2018.

Manageable execution risk with upfront licensing fees.

Execution risk is minimal for the travelling exhibits as the bulk of the risk is borne by the operator. There is operating risk for only the permanent set in Las Vegas.

Avengers S.T.A.T.I.O.N.



Transformers



Jurassic World – The Exhibition



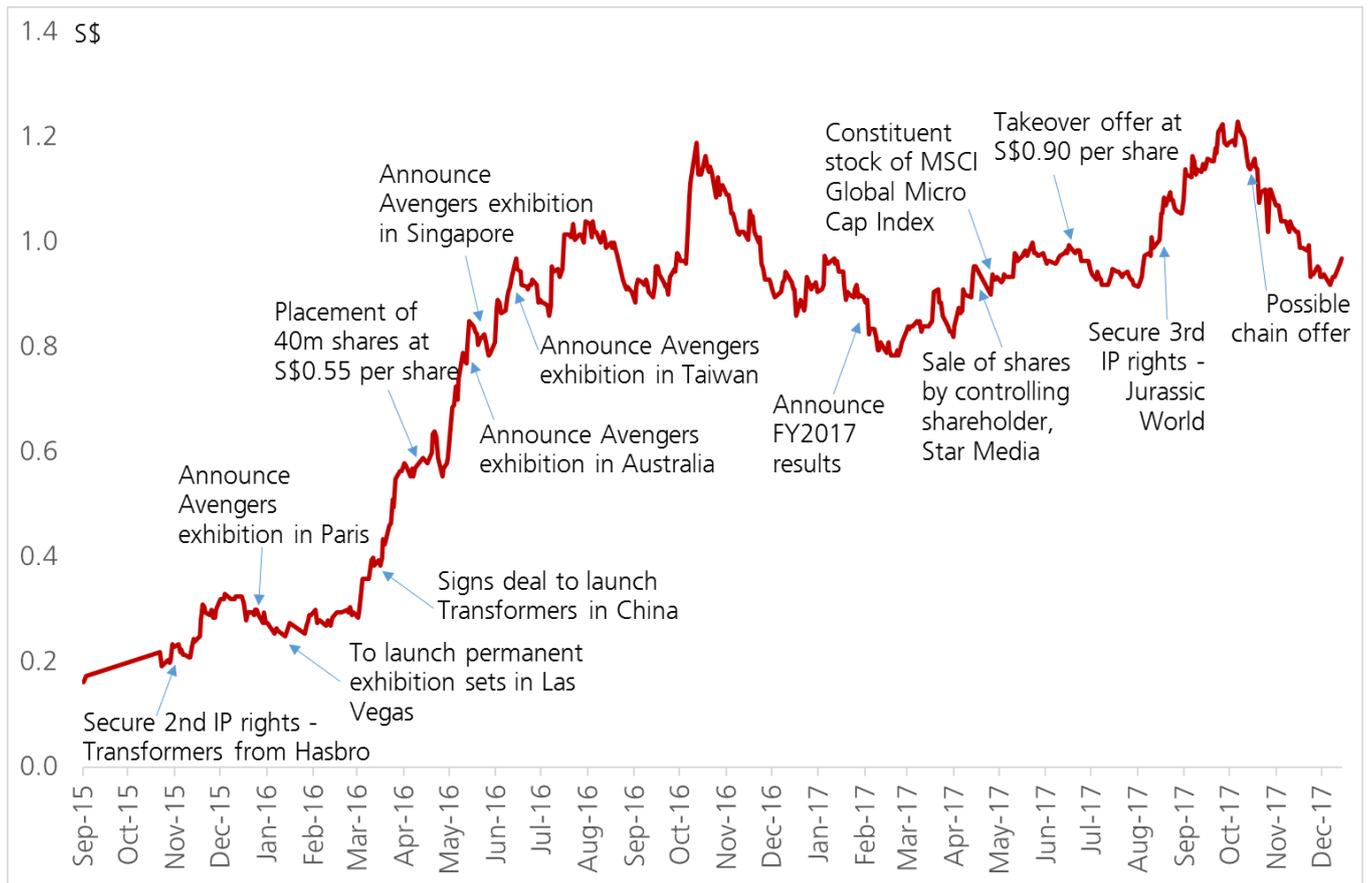
Project pipeline and assumption

Avengers S.T.A.T.I.O.N	Transformers	Jurassic Park
A1* • Las Vegas	TF1 • China: Dec 2017 – Dec 2019	JW1 • Chicago: 26 May 2017 – 7 Jan 2018
A2 • China till end 2019	TF2 • Asia: 3 years	JW1 • 2 cities in USA
A3 • Russia, Moscow: Nov 17 • Asia • Europe		JW1 • Europe / Asia
A4 • Australia, Melbourne: Mar 18		JW2 • Europe
A5 • Asia: 3 years		

**permanent set started in June 2016*

Source: Company, DBS Bank

Appendix 1: A look at Company's listed history – what drives its share price?



Source: DBS Bank; Bloomberg Finance L.P.

Balance Sheet:

Expansion should increase debt levels, but group still in net cash/low debt position. We believe the group will take on incremental debt of ~\$10-20m in the near term to fund the building of new exhibits, but the group is expected to remain in a net cash/low debt position, barring other unexpected capex outlays.

Share Price Drivers:

Securing new exhibition locations. There are no limits on locations for its IP rights. Cityneon can venture into any part of the world with the three existing franchises. Though it makes more business sense to target the larger cities first, VHE has vast opportunities as there are >30 large cities globally, each with a population of >10m.

Moving up the value chain for the traditional business. For the Traditional business, the focus would be on the theme park build projects, which generally command higher margins. Cityneon has already established a successful track record with the completion of the multi-million international theme park project in Shanghai, which gives it a competitive advantage to secure other theme park-related projects. It now aims to move up the value chain, instead of just being a contractor.

Key Risks:

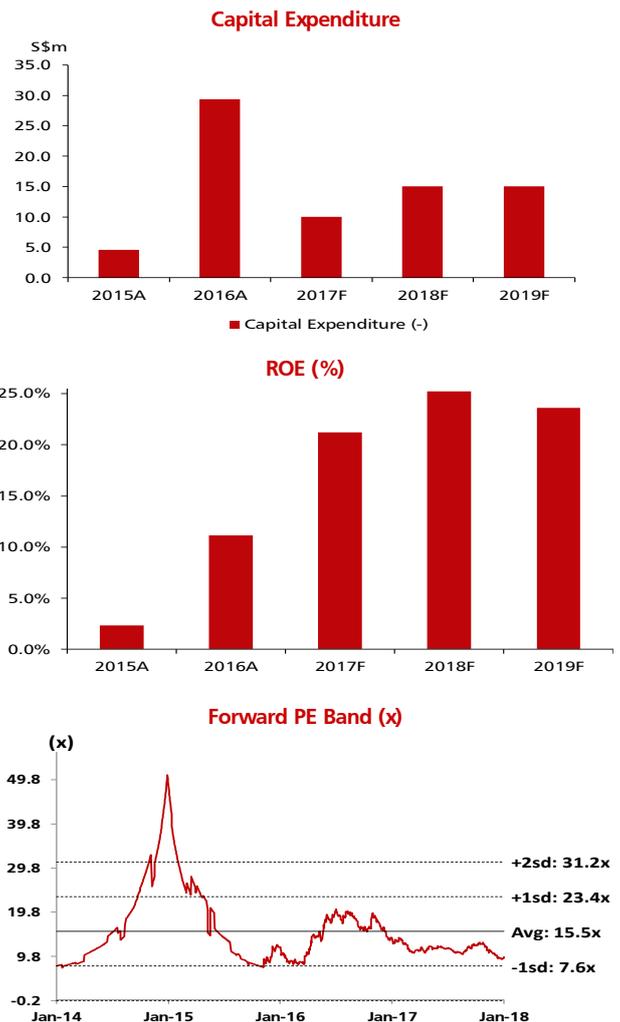
Limited track record for VHE. VHE was formed in 2012 and its first exhibition was held in New York in 2014.

Earnings dependent on number of visitors. The permanent set in Las Vegas is dependent on the number of visitors. For the travelling sets, though Cityneon will usually receive upfront payment fees from operators to use its exhibits, but a higher number of visitors would enable the group to generate higher royalties in excess of the minimum guarantees on royalties. Furthermore, ancillary sales like merchandise, photos, food & beverage are also dependent on the number of visitors.

Low free float of c.30%. Cityneon shares are tightly held, with a free float of about 30%. Post the general offer, Lucrum1, which is majority-owned by Chinese parties and led by Executive Chairman & Group CEO Mr Ron Tan, holds 69%. Ron Tan has a 15.5% stake in Lucrum1.

Company Background

With the acquisition of Victory Hill Exhibitions (VHE) in September 2015, Cityneon has evolved to become a creator of innovative and interactive exhibitions, focusing on creating captivating cutting-edge content, and delivering engaging and interactive exhibitions to audiences. To date, it has secured three IP rights – with Marvel Entertainment to use Avengers S.T.A.T.I.O.N. till 2024, HASBRO Studios for the Transformers franchise till 2023 and Universal Studios for the Jurassic World – The Exhibition, expiry in 2027.



Victory Hill Exhibitions – two distinct models

Las Vegas (permanent sets)

Sources of revenue:

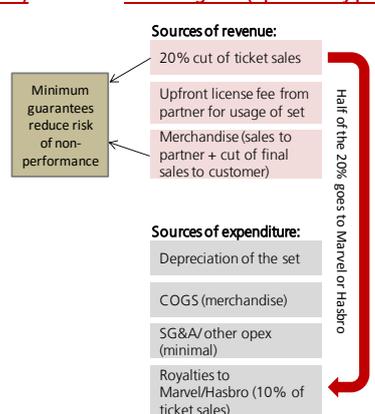
- Ticket sales (incl. processing charges)
- Merchandise sales / Photo ops
- Sponsorship revenue
- Naming rights

Sources of expenditure:

- Depreciation of the set
- COGS (merchandise)
- Rental expense
- SG&A/other opex
- Royalties to Marvel/Hasbro (10% of net ticket sales)

Risk-reward profile
 Cityneon takes on execution risk.
 Lower margin (DBS estimate of mid-teen net margin) but higher nominal take.

Travelling sets (operated by partners)



Risk-reward profile
 No execution risk; partner runs the operations.
 High margins (DBS estimates 30-40% net margin) but lower nominal take.

Source: Company, DBS Bank

Segmental Breakdown

FY Dec	2015A	2016A	2017F	2018F	2019F
Revenues (\$\$m)					
Old Business	96.5	75.0	79.9	80.7	84.5
Victory Hill Exhibitions	0.0	21.7	37.1	59.5	69.6
Total	96.5	96.8	117	140	154
Operating profit (\$\$m)					
Old Business	0.87	(0.5)	6.50	5.78	7.25
Victory Hill Exhibitions	0.0	7.07	9.93	19.0	22.4
Total	0.87	6.61	16.4	24.7	29.6
Operating profit Margins					
Old Business	0.9	(0.6)	8.1	7.2	8.6
Victory Hill Exhibitions	N/A	32.6	26.8	31.9	32.1
Total	0.9	6.8	14.0	17.6	19.2

Full contribution from Jurassic World

Higher contribution from VHE with the acquisition of the third IP

Income Statement (\$\$m)

FY Dec	2015A	2016A	2017F	2018F	2019F
Revenue	96.5	96.8	117	140	154
Cost of Goods Sold	(73.2)	(63.4)	(64.8)	(69.3)	(73.8)
Gross Profit	23.3	33.3	52.1	70.9	80.3
Other Opg (Exp)/Inc	(22.2)	(25.2)	(31.1)	(38.1)	(42.0)
Operating Profit	1.15	8.09	21.0	32.7	38.3
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.02	(0.1)	0.0	0.0	0.0
Net Interest (Exp)/Inc	(0.4)	(0.6)	(1.1)	(1.5)	(1.5)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	0.79	7.33	20.0	31.2	36.8
Tax	0.04	(0.7)	(3.1)	(6.1)	(6.8)
Minority Interest	0.04	0.0	(0.4)	(0.4)	(0.4)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	0.87	6.61	16.4	24.7	29.6
Net Profit before Except.	0.87	6.61	16.4	24.7	29.6
EBITDA	2.63	12.4	29.9	42.5	48.6

Growth

Revenue Gth (%)	23.7	0.3	20.9	19.9	9.9
EBITDA Gth (%)	(34.4)	371.4	140.5	42.2	14.5
Opg Profit Gth (%)	(58.8)	606.2	159.9	55.7	17.0
Net Profit Gth (Pre-ex) (%)	(62.9)	658.8	148.6	50.6	19.6

Margins & Ratio

Gross Margins (%)	24.1	34.4	44.6	50.5	52.1
Opg Profit Margin (%)	1.2	8.4	18.0	23.3	24.8
Net Profit Margin (%)	0.9	6.8	14.0	17.6	19.2
ROAE (%)	2.3	11.1	21.2	25.2	23.6
ROA (%)	1.2	6.4	11.8	14.3	14.6
ROCE (%)	1.0	7.4	13.1	15.7	16.0
Div Payout Ratio (%)	0.0	0.0	0.0	0.0	0.0
Net Interest Cover (x)	3.1	12.6	19.8	22.1	25.9

Source: Company, DBS Bank

Quarterly / Interim Income Statement (\$\$m)

FY Dec	1H15	2H15	1H16	2H16	1H17
Sales	40.7	55.8	46.3	50.4	49.7
Cost of Goods Sold	(31.1)	(42.1)	(28.3)	(35.1)	(26.5)
Gross Profit	9.6	13.7	18.0	15.3	23.3
Other Operating Expenses	(10.3)	(12.5)	(12.2)	(14.9)	(14.5)
Non-Operating Income	0.0	0.0	0.0	0.0	0.0
Interest Income	0.02	0.02	0.00	0.00	0.00
Interest Expense	(0.2)	(0.2)	(0.4)	(0.2)	(0.5)
Share of Associates' or JV	0.0	0.0	(0.1)	(0.0)	(0.1)
Exceptional Gains/(Losses)	0.0	0.0	0.0	0.0	0.0
Pretax Profit	(0.7)	1.5	5.7	1.6	8.6
Tax	0.0	0.0	(1.0)	0.3	(0.8)
Minority Interests	0.0	0.0	0.0	0.0	0.0
Net Profit	(0.7)	1.6	4.7	1.9	7.7

Growth

Revenue Gth (%)	34	17	14	(10)	7
EBIT Gth (%)	n.m.	(32)	n.m.	8	47
Pretax Profit Gth (%)	n.m.	(36)	n.m.	5	49
Net Profit Gth (Pre-ex) (%)	n.m.	(29)	n.m.	21	64

Margins

Gross Margins (%)	23.5	24.6	38.8	30.4	46.8
Pretax Profit Margins (%)	-1.8	2.7	12.4	3.2	17.2
Net Profit Margins (%)	-1.8	1.3	10.1	3.8	15.5

Balance Sheet (\$\$m)

FY Dec	2015A	2016A	2017F	2018F	2019F
Net Fixed Assets	16.0	43.4	46.1	52.8	58.9
Invts in Associates & JVs	0.38	0.26	0.14	0.14	0.14
Other LT Assets	10.7	10.4	9.04	7.58	6.12
Cash & ST Invts	24.3	22.6	46.7	62.5	84.7
Inventory	0.19	0.73	0.37	0.39	0.42
Debtors	26.0	28.7	41.6	49.9	54.9
Other Current Assets	9.95	13.9	13.9	13.9	13.9
Total Assets	87.6	120	158	187	219
ST Debt	11.7	28.2	28.2	28.2	28.2
Creditor	23.8	19.6	17.9	19.1	20.4
Other Current Liab	0.97	1.72	4.41	7.43	8.11
LT Debt	0.0	0.04	20.0	20.0	20.0
Other LT Liabilities	1.10	0.81	0.81	0.81	0.81
Shareholder's Equity	49.6	69.3	85.7	110	140
Minority Interests	0.45	0.31	0.71	1.07	1.44
Total Cap. & Liab.	87.6	120	158	187	219
Non-Cash Wkg. Capital	11.4	22.0	33.6	37.6	40.7
Net Cash/(Debt)	12.6	(5.7)	(1.6)	14.2	36.5
Debtors Turn (avg days)	84.4	103.2	109.8	119.2	124.1
Creditors Turn (avg days)	98.2	134.2	122.3	113.4	113.6
Inventory Turn (avg days)	1.3	2.9	3.6	2.3	2.3
Asset Turnover (x)	1.3	0.9	0.8	0.8	0.8
Current Ratio (x)	1.7	1.3	2.0	2.3	2.7
Quick Ratio (x)	1.4	1.0	1.7	2.1	2.5
Net Debt/Equity (X)	CASH	0.1	0.0	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	0.1	0.0	CASH	CASH
Capex to Debt (%)	38.8	104.0	20.7	31.1	31.1
Z-Score (X)	5.2	4.4	4.0	4.0	4.0

Debt to fund acquisition and/or building of new exhibits

Source: Company, DBS Bank

Cash Flow Statement (S\$m)

FY Dec	2015A	2016A	2017F	2018F	2019F
Pre-Tax Profit	0.79	7.33	20.0	31.2	36.8
Dep. & Amort.	1.47	4.44	8.84	9.73	10.3
Tax Paid	(0.2)	(0.4)	(0.4)	(3.1)	(6.1)
Assoc. & JV Inc/(loss)	0.0	0.12	0.0	0.0	0.0
Chg in Wkg.Cap.	0.80	(9.7)	(14.3)	(7.1)	(3.7)
Other Operating CF	0.07	0.0	0.0	0.0	0.0
Net Operating CF	2.89	1.74	14.1	30.8	37.2
Capital Exp.(net)	(4.5)	(29.4)	(10.0)	(15.0)	(15.0)
Other Invt.(net)	(1.1)	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	(0.4)	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(10.0)	(0.9)	0.0	0.0	0.0
Net Investing CF	(16.0)	(30.3)	(10.0)	(15.0)	(15.0)
Div Paid	(0.9)	0.0	0.0	0.0	0.0
Chg in Gross Debt	(3.1)	15.8	20.0	0.0	0.0
Capital Issues	15.7	12.5	0.0	0.0	0.0
Other Financing CF	0.87	(0.6)	0.0	0.0	0.0
Net Financing CF	12.6	27.7	20.0	0.0	0.0
Currency Adjustments	0.85	0.16	0.0	0.0	0.0
Chg in Cash	0.39	(0.7)	24.1	15.8	22.2
Opg CFPS (S cts)	0.95	4.68	11.6	15.5	16.7
Free CFPS (S cts)	(0.7)	(11.3)	1.67	6.45	9.09

Assume 6 sets by end-2017 and 9 sets in total for 2018 and 2019

Part finance acquisition of Jurassic World and to build new sets

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	06 Jan 17	0.86	1.26	BUY
2:	16 Jan 17	0.91	1.26	BUY
3:	24 Feb 17	0.84	1.26	BUY
4:	14 Mar 17	0.80	1.26	BUY
5:	15 May 17	0.90	1.26	BUY
6:	30 May 17	0.94	1.23	BUY
7:	21 Sep 17	1.14	1.45	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Lee Keng LING

DBS Bank recommendations are based on Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 4 Jan 2018 15:20:16 (SGT)

Dissemination Date: 5 Jan 2018 18:27:06 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

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