



CHINA
DEVELOPMENT
FINANCIAL

Sim Leisure Group (SLGL SP)

NOT RATED NOTE

Commence trading on SGX 1-Mar

Summary

Issue price (SGD cents)	22
Mkt Cap (\$m)	29.5
Total share offer size (\$m)	5.80
Total issued shares (mn)	26
Placement shares (mn)	134
Sponsor:	
ZICO Capital Pte. Ltd.	
Industry Sector	Entertainment

Company Description

Incorporated in Singapore on 8 March 2018, Sim Leisure Group Ltd is a developer and operator of theme parks based in Penang, Malaysia.

First of its kind – theme park focused entertainment stock listed in SG

Event

Sim Leisure Group (SLG) commenced trading today, raising S\$5.8mn through a private placement. Majority of the funds raised will be used to redeem all outstanding convertible preference shares held by Penang Development Corp maturing in mid-2021.

This will not affect expansion plans to construct a second ESCAPE theme park via a joint venture with a subsidiary of Imperium Crown Limited (a catalyst board listed company on SGX). Under the MOU agreement, SLG will be responsible for the design and build of the theme park in Wonder Stone Park, Linyi (China) and will manage and operate it for 40 years.

Success in Penang, huge growth potential in Linyi. Incorporated in Singapore on 8 Mar 2018, SLG operates a profitable theme park under the ESCAPE brand in Penang, Malaysia. Annual visits to ESCAPE Penang grew from about 112,000 visits in FY2017 to 185,000 visits in FY2018. The launch of a new play area, Gravityplay, enticed renewed interest in the theme park last year. The theme park thrives mainly on domestic business, with 75% of visitors being locals. Penang has a population 1,767,000 (2018), compared to Linyi's population of 11,240,000 (end 2016). A simple extrapolation would bring annual visit count to about a million for a theme park thriving on residents based in Linyi. Aecom also predicted that 75% of all Chinese theme parks can expect at least 500,000 annual visits in 2020.

Chinese Theme Park Sector

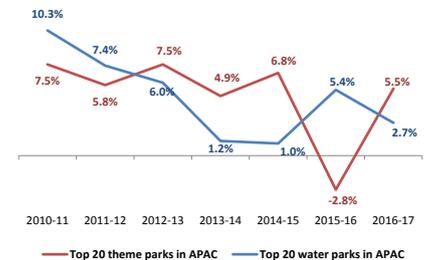
Globally, theme park trends have been favourable, with growth moderating at around 5% for both theme parks and water parks. According to Aecom, growth had been primarily led by China, which saw theme park attendance grow at an average rate of 13% annually since 2008. With a growing middle class population, infrastructure improvements and demand for domestic travel, there seems to be significant opportunity for continued expansion in this sector.

Figure 1: YOY growth in theme parks and water parks globally (%)



Source: Aecom, KGI Research

Figure 2: YOY growth in theme parks and water parks in APAC region (%)



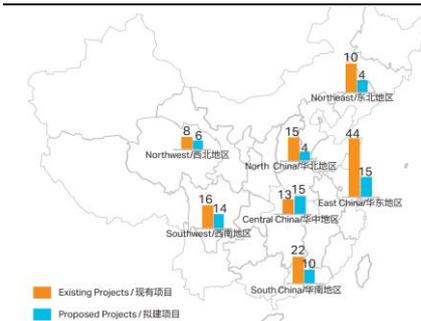
Source: Aecom, KGI Research

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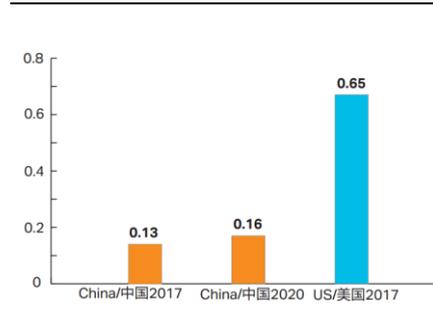
Both supply and demand matrices look to be in favour of Chinese theme park operators. Domestic market saturation seems low, with China's per capita theme park visit count at 0.13 compared to that in the US at 0.65. By 2020, China is expected to surpass the US to become the world's largest themed entertainment market based on attendance, at a CAGR of 7.2% over the next three years.

Figure 3: Pipeline concentration in South and East China



Source: Aecom, KGI Research

Figure 4: low saturation risk –per capita theme park visits comparison, China and US



Source: Aecom, KGI Research

There are an estimated 70 theme parks within the supply pipeline from now until end 2025 to meet the growing demand, with a concentration within the relatively wealthier eastern regions.

Prices for theme parks across China are priced within the range of 150 ¥ to 250 ¥, translating to about S\$30 - S\$50. ESCAPE Penang’s ticket prices that range between 69RM to 138RM (around S\$23 to S\$46), sits on the lower range of that charged by their Chinese counterparts.

Figure 5: Comparison of ESCAPE Penang with major Chinese theme parks and water parks

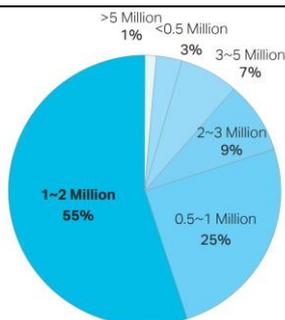
	Adult Ticket Price	Adult Ticket Price (S\$)	2017 Annual Visits (in millions)	No. of Attractions	Attraction review	Land Area (Acres)
Theme Parks						
Chimelong Paradise	220¥	S\$44.00	4.18	60	4.8/5.0*	148
Chimelong Ocean Kingdom	298¥	S\$59.70	9.79	15	4.7/5.0*	125
Shanghai Disneyland	399¥	S\$79.90	11	35	4.6/5.0*	963
Happy Valley Shenzhen	220¥	S\$44.00	3.9	26	4.5/5.0*	86
Happy Valley Beijing	210¥	S\$42.00	3.95	40	4.7/5.0*	75
Water Parks						
Kaifeng Yinji Water Park	-	-	1.3	56	4.5/5.0*	42
Chimelong Water Park	99¥	S\$19.80	2.69	39	4.7/5.0*	450
Mixed Attractions						
Wuhu Fantawild Water Park	220¥	S\$44.00	1.2	300+	4.6/5.0*	309
ESCAPE Penang	96.60RM	S\$31.75	0.185	37	4.5/5.0 ^	22

Attraction review sources: * Ctrip, ^ TripAdvisor

Source: KGI Research

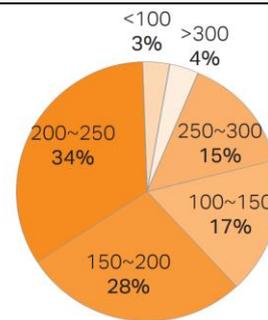
A strategy adopted by ESCAPE Penang is to ‘lock in’ customers by charging significantly lower prices when tickets are booked online in advance. This pricing strategy should see good adoption by Chinese consumers given their relatively higher adoption of online booking. Usual leisure booking sites such as Ctrip is automatically linked to payment apps such as Wechat and Alipay for a seamless transaction.

Figure 6: Percentage breakdown of theme parks by forecasted 2020 attendance (%)



Source: Aecom, KGI Research

Figure 7: Adult Admission Ticket Prices in existing Chinese theme parks (in ¥)



Source: Aecom, KGI Research

Valuation & Action

Valuations based on SLG’s historical data may not paint a true picture of the potential of its business, given that the main catalyst for the stock price would be the earnings contribution from the ESCAPE theme park in Linyi. Nonetheless, we have identified peer companies of SLG for a comparison of what investors could potentially expect in the future.

SLG has also disclosed in the prospectus that they will be issuing annual dividends of a minimum of 30% net profit in FY2019 and FY2020 (no further guidance was given for years after FY2020). This roughly approximates to a FY18 dividend yield of 4.5% based on unaudited 1H18 net profit of RM\$2.048mn, and an exchange rate of 3.0 RM/SGD.

Figure 8: Global peers of SLG

Company	Price (local currency)	Mkt Cap (in USD\$m)	P/E (x)	P/B (x)	2018 Revenue (in USD\$m)	EV/EBITDA (x)	Total Returns YTD	Total 1 YR Returns	5 YR historical P/E (x)	Net Gearing (%)
Sim Leisure Group	SGD0.22	21.8	21.7	2.0	-	-	-	-	-	53.85%*
Theme Park Operators										
E-World	KRW 2240	180	73.2	1.5	31.0	23.6	-10.0%	25.8%	-	48
Oriental Land Co Ltd/Japan	JPY 12215	39,793	46.6	5.1	4,325.9	24.9	10.5%	17.8%	33.3	8
Tokyo Dome Corp	JPY 1046	898	14.6	0.9	748.6	5.5	13.6%	7.4%	16.0	134
EVENT Hospitality and Entertai	AUD 12.81	1,464	18.7	1.8	990.4	9.0	-5.8%	0.6%	18.6	35
Aeon Fantasy Co Ltd	JPY 2781	491	25.6	2.0	647.9	4.3	3.7%	45.5%	27.8	25
Village Roadshow Ltd	AUD 3.18	439	-	1.4	737.6	-	17.3%	4.3%	-	102
China Travel International Inv	HKD 2.35	1,633	11.1	0.8	629.9	7.3	12.4%	18.6%	17.4	1
Average		6,414	31.6	1.9	1,158.8	12.4	6.0%	14.4%	22.6	50
Median		898	22.2	1.5	737.6	8.2	10.5%	0.6%	18.6	34.6

* For the audited year 2017

Source: Bloomberg, KGI Research

Business Overview

Low Tech, High Fun Theme Park. The firm owns ESCAPE Penang, the number one theme park in Malaysia (based on TripAdvisor). Currently, the park consists of three separate theme park districts – Adventure play, Waterplay and Gravityplay. Adventureplay consists of rope obstacle courses propped in mid-air, inspired by traditional ‘kampong’. Waterplay which is the biggest of the three segment parks constitutes water based slides. The last theme park district, Gravityplay, which will launch in 1H19 will feature chairlifts and two downhill karting tracks.

Figure 9: GravityPlay, ESCAPE Penang



Source: Company, KGI Research

Figure 10: WaterPlay, ESCAPE Penang

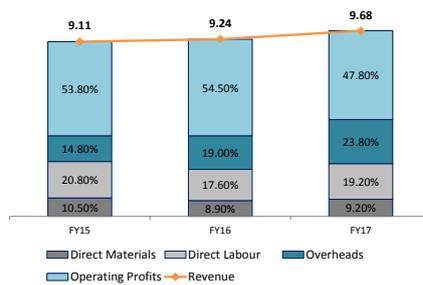


Source: Aecom, KGI Research

Low fixed cost and minimal variable expenses. The theme park is immersed in a natural setting. Attractions such as those in Adventureplay require relatively low maintenance costs. According to SLG, the annual number of visitors required to break even in FY2018 was 114,035. Revenue from additional visits will directly contribute towards the bottom line. As a comparison, ESCAPE Penang attracted a total of 185,475 visits in 2018.

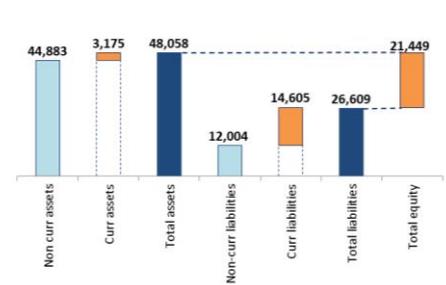
Fixed overhead expenses consist of depreciation, land rental and utilities. Daily operating cost includes fixed overheads, direct materials and direct labour.

Figure 11: Profit margins and break down of operating expenses (% of revenue)



Source: Company, KGI Research

Figure 12: Breakdown of balance sheet as of end FY2017, in RM ‘000s



Source: Aecom, KGI Research

Sim Leisure's Future Strategy

Broaden the playing grounds. SLG intends to expand the ESCAPE theme park model into new geographical locations such as China and South East Asia. The firm entered into a non-binding MOU in 3Q18 to design and operate a theme park in Linyi, Shandong province. The theme park building model would be done similarly in three phases – Adventureplay > Waterplay> Gravityplay. Mr Sim's plan is to have a portfolio of 20 theme parks under SLG within the next 10 years.

Outdoors to indoors. With retail spaces looking to diversify shopper experiences, SLG's model could be replicated to suit the likes of retail malls. Malls with an accompanying indoor theme park, such as SkyTropolis Indoor Theme Park Genting, could bring a more diversified shopper experience. SLG could also replicate the low tech high fun model which is essential in Gravityplay to retail malls as well. Locally, Climb Central, a rock climbing facility, within Kallang Wave Mall showed would be a success example that Sim Leisure could replicate.

Figure 13: SkyTropolis Indoor Theme Park Genting



Source: Aecom, KGI Research

Figure 14: Climb Central in Kallang Wave Mall



Source: Aecom, KGI Research

Business Risks

Higher labour costs. The Minimum Wages Order 2018 will commence on the 1st of January 2019 in Malaysia. Minimum monthly wages and minimum hourly wages will increase from RM 1,000 to RM 1,100 and approximately RM 48 to RM 53 respectively. Given that labour cost is a rather big direct expense, the effect of the new law might hit SLG's 2019 profit and loss statement.

Heightened competition in China. The theme park sector in China is an oligopolistic market, with a few large chain players such as OCT Group, Chime Long Group and Wanda Group. According to Aecom, more than 70 theme parks are forecasted to be completed between now and 2025. An estimated 20 theme parks within this count will be built in North and East China posing as direct competition to SLG's new theme park which is situated in the centre of these two regions.

Periodic discounting. A browse through Ctrip, China's version of TripAdvisor and Klook, would show that theme park ticket prices tend to be cyclical in nature. Ticket prices would be discounted more heavily, in the range of 20-30% off usual prices, during non-peak season. Peak periods in China would occur around Chinese New Year, during public holidays and during school holidays.

Figure 15: Historical statements of comprehensive income

	Audited			Unaudited		Pro forma	
	2015 RM	2016 RM	2017 RM	1HFY2017 RM	1HFY2018 RM	FY2017 RM	1HFY2018 RM
Revenue	9,107,752	9,243,457	9,683,166	3,587,709	8,448,215	9,683,166	8,448,215
Cost of sales	(4,205,808)	(4,204,201)	(5,056,262)	(2,097,105)	(3,816,016)	(5,056,262)	(3,816,016)
Gross profit	4,901,944	5,039,256	4,626,904	1,490,604	4,632,199	4,626,904	4,632,199
Other item of income							
Other income	97,879	54,451	9,565	6,384	379,402	9,565	379,402
Other items of expense							
Administrative expenses	(1,829,071)	(2,207,292)	(2,740,274)	(1,205,283)	(1,510,493)	(2,740,274)	(1,510,493)
Finance costs	-	-	(187,742)	(3,994)	(772,111)	(187,742)	(772,111)
Profit before income tax	3,170,752	2,886,415	1,708,453	287,711	2,728,997	1,708,453	2,728,997
Income tax (expense)/ credit	(491,964)	(312,760)	(420,124)	7,460	(681,452)	(420,124)	(681,452)
Profit for the financial year/period	2,678,788	2,573,655	1,288,329	295,171	2,047,545	1,288,329	2,047,545
Total comprehensive income for the financial year/period, net of tax	2,678,788	2,573,655	1,288,329	295,171	2,047,545	1,288,329	2,047,545

Source: IPO Prospectus, KGI Research

Figure 16: Historical Financial Statement

	Audited			Unaudited	Pro forma	
	As at 31 December 2015 RM	As at 31 December 2016 RM	As at 31 December 2017 RM	As at 30 June 2018 RM	As at 31 December 2017 RM	As at 30 June 2018 RM
ASSETS						
Non-current assets						
Plant and equipment	16,681,403	31,411,539	44,883,391	46,346,004	44,883,391	46,346,004
Current assets						
Inventories	21,464	21,195	140,425	33,675	140,425	33,675
Trade and other receivables	647,143	702,560	1,196,990	1,071,954	1,196,990	1,071,954
Prepayments	21,532	201,899	1,018,544	823,827	1,018,544	823,827
Cash and bank balances	1,846,471	2,844,448	818,738	765,678	818,738	765,678
	2,536,610	3,770,102	3,174,697	2,695,134	3,174,697	2,695,134
Total assets	19,218,013	35,181,641	48,058,088	49,041,138	48,058,088	49,041,138
EQUITY AND LIABILITIES						
Equity						
Share capital	10,800,000	10,800,000	10,800,000	10,803,000	16,766,108	17,415,529
Equity component of redeemable convertible preference shares	-	238,324	275,112	275,112	275,112	275,112
Retained earnings	6,512,399	9,086,054	10,374,383	12,421,928	10,374,383	12,421,928
Total equity	17,312,399	20,124,378	21,449,495	23,500,040	27,415,603	30,112,569
Non-current liabilities						
Finance lease payables	-	-	46,089	23,290	46,089	23,290
Liability component of redeemable convertible preference shares	-	12,065,729	11,301,009	11,125,544	11,301,009	11,125,544
Deferred tax liabilities	470,000	561,000	656,277	691,929	656,277	691,929
	470,000	12,626,729	12,003,375	11,840,763	12,003,375	11,840,763
Current liabilities						
Trade and other payables	1,235,614	2,298,834	9,894,146	8,246,797	3,928,038	1,634,268
Finance lease payables	-	-	44,166	45,117	44,166	45,117
Liability component of redeemable convertible preference shares	-	-	4,552,490	4,771,001	4,552,490	4,771,001
Current income tax payable	200,000	131,700	114,416	637,420	114,416	637,420
	1,435,614	2,430,534	14,605,218	13,700,335	8,639,110	7,087,806
Total liabilities	1,905,614	15,057,263	26,608,593	25,541,098	20,642,485	18,928,569
Total equity and liabilities	19,218,013	35,181,641	48,058,088	49,041,138	48,058,088	49,041,138

Source: IPO Prospectus, KGI Research

Figure 17: Financial statistics pre-placement and post-placement

(RM'000)	Audited			Unaudited		Pro forma	
	FY2015	FY2016	FY2017	1HFY2017	1HFY2018	FY2017	1HFY2018
Revenue	9,108	9,243	9,683	3,588	8,448	9,683	8,448
Profit before income tax	3,171	2,886	1,708	288	2,729	1,708	2,729
Profit attributable to owners of the parent	2,679	2,574	1,288	295	2,048	1,288	2,048
Pre-Placement EPS (sen) ⁽¹⁾	2.50	2.40	1.20	0.28	1.91	1.20	1.91
Pre-Placement EPS (S\$ cents) ⁽¹⁾⁽³⁾	0.88	0.80	0.39	0.09	0.64	0.39	0.64
Post-Placement EPS (sen) ⁽²⁾	2.00	1.92	0.96	0.22	1.53	0.96	1.53
Post-Placement EPS (S\$ cents) ⁽²⁾⁽³⁾	0.70	0.64	0.31	0.07	0.52	0.31	0.52

Notes:

- (1) For comparative purposes, the pre-Placement EPS for the respective financial year/period have been computed based on profit attributable to owners of the parent and the pre-Placement share capital of 107,285,000 Shares.
- (2) For comparative purposes, the post-Placement EPS for the respective financial year/period have been computed based on profit attributable to owners of the parent and the post-Placement share capital of 134,225,000 Shares.
- (3) The exchange rates used to compute the EPS in S\$ cents, were based on the average exchange rates between S\$ and RM for the respective financial years or periods.

Source: IPO Prospectus, KGI Research

Figure 18: ESCAPE theme park segment introduction

ESCAPE Adventureplay	ESCAPE Waterplay	ESCAPE Gravityplay
<ul style="list-style-type: none"> Commenced operations November 2012 Activities include: climbing zones, obstacle courses, zip lines and indoor mazes Campsite with camping facilities Notable awards include TripAdvisor Certificate of Excellence from 2014 to 2018 	<ul style="list-style-type: none"> Commenced operations November 2017 Features more than 10 rides and attractions Attractions include a high diving platform, water slides of various heights and designs, a wave pool and a lazy river Sites for beach volleyball and beach soccer 	<ul style="list-style-type: none"> Expected to commence operations first half of 2019 Featuring two downhill karting tracks Visitors to ESCAPE Gravityplay will be able to travel from the hilltop via a downhill karting track or a dry tube ride Third in the ESCAPE series





Source: IPO Prospectus, KGI Research

Figure 19: Ticket price range charged by ESCAPE Penang

FAMILY & FRIENDS

Individuals of up to 19 persons

Days in Advance	   			
	FUTURE KID (0-3)	JUNIOR KID (4-12)	BIG KID (13-60)	SUPER KID (61-100+)
Walk-in	Free*	92.00	138.00	92.00**
1-7 Days	Free*	82.80	124.20	82.80**
		78.20	117.30	78.20**
8-30 Days	Free*	73.60	110.40	73.60**
		69.00	103.50	69.00**
31-60 Days	Free*	64.40	96.60	64.40**
		59.80	89.70	59.80**
61+ Days	Free*	50.60	75.90	50.60**
		46.00	69.00	46.00**

● Peak Day
○ Non-peak Day

*Free when accompanied by a paying guest
 **Free for Malaysian Super Kids on presentation of their IC at the ticketing counter when accompanied by a paying guest.

Source: Company Website, KGI Research

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