

CHINA
DEVELOPMENT
FINANCIAL

Cityneon Holdings Limited

(CITN SP/CNHL.SI)

Cityneon continues to deliver yet another stellar quarter

Nicholas Siew / 62 6202 1193 / nicholas.siew@kgi.com

- 2Q18 results in line.** Cityneon reported 2Q18 net profit of S\$9.0mn (+114.0% YoY), in line with our expectations; 1H18 net profit makes up 48.2% of our 2018F estimates of S\$26.9mn. 2Q18 revenues grew 1.5% YoY to S\$31.9mn, from S\$31.5mn.
- IP segment remains the key driver.** 2Q18 results were driven by both the permanent Avengers exhibition set in Las Vegas, as well as travelling sets in various locations which, collectively, contributed higher revenues. 1H18 IP segment revenues grew 91.6% YoY.
- Cityneon continues its aggressive expansion plans.** Key developments to follow: (1) 5th IP (2) Construction of three new Jurassic World – The Exhibition sets.

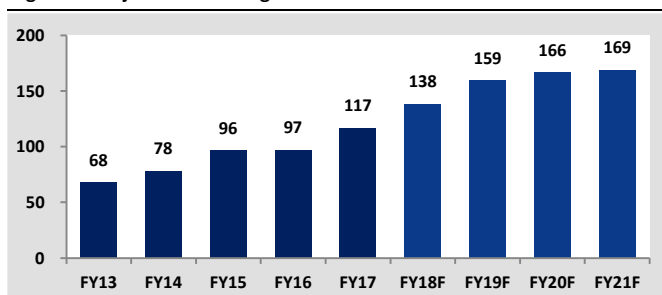
Financials & Key Operating Statistics					
YE Dec SGD mn	2016	2017	2018F	2019F	2020F
Revenue	96.8	116.7	138.0	159.3	166.3
PATMI	6.7	17.4	26.4	30.5	31.6
Core PATMI	6.7	17.4	26.4	30.5	31.6
Core EPS (SGD cents)	2.8	7.1	10.8	12.5	12.9
Core EPS grth (%)	302.6	151.1	51.7	15.7	3.5
Core P/E (x)	33.4	13.2	10.2	8.8	8.5
DPS (SGD cents)	0.0	0.0	0.0	0.0	0.0
Div Yield (%)	0.0	0.0	0.0	0.0	0.0
Net Margin (%)	6.9	14.9	19.1	19.2	19.0
Gearing (%)	26.3	54.7	53.8	47.6	42.5
Price / Book (x)	3.2	2.8	2.5	1.9	1.6
ROE (%)	11.2	22.9	27.4	24.5	20.2

Source: Company Data, KGI Research

2Q18 results continue to impress. Cityneon's stellar quarter was largely due to higher contribution from its IP segment which commands higher margins than its traditional business. As at 1H18, the IP segment accounted for 52.5% of total revenue, compared to 31.0% a year ago. Aggregate gross margins also improved from 45.4% in 1H17 to 61.7% in 1H18, on the back of a shift in the sales mix.

PATMI boosted by tax credit. Apart from a shift in its sales mix, PATMI was also lifted by the recognition of a S\$4.5mn write back of deferred tax liabilities pertaining to its IP licenses categorised as intangible assets on its balance sheet. The one-off write back resulted in a positive S\$3.5mn tax credit. Excluding the impact of the tax credit, 2Q18 PATMI would have grown ~20% YoY, instead of 114.1%.

Figure 1: Projected revenue growth



Source: Company Data, KGI Research

Buy (Maintain)		Performance (Absolute)	
Price as of 16 Aug 18 (SGD)	1.09	1 Month (%)	17.8
12M TP (\$)	1.51	3 Month (%)	5.8
Previous TP (\$)	1.54	12 Month (%)	17.2
Upside (%)	38.3		
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (\$mn)	267		
Issued Shares (mn)	245		
Vol - 3M Daily avg (mn)	0.6		
Val - 3M Daily avg (\$mn)	0.6		
Free Float (%)	31.0%		
Major Shareholders		Previous Recommendations	
Lucram 1 Investment	69.0%	13-Nov-17	BUY \$1.38
		5-Mar-18	BUY \$1.54
		17-May-18	BUY \$1.54

Traditional business situation still lacklustre. While the group's exhibition business's revenues grew 30% YoY, 1H18 revenues from the traditional business, in aggregate, accounted for only ~47% of total revenue, compared to 69% a year ago. We continue to expect this trend to persist, with the IP business being the key growth driver.

Key developments to watch in the near term. For 2H18, the group has 8 additional cities lined up, and should contribute to 2H18 earnings. The group is also expecting to open the Hunger Games exhibition in Las Vegas, making it the second semi-permanent exhibition set. Construction of the second Jurassic World exhibition set has been announced and should be commissioned by 2021, in time for Jurassic World 3 movie. Finally, the group is expected to conclude negotiations for the 5th IP in 2H18.

Valuation & Action: Maintain BUY with adjusted fair value of S\$1.51, based on 14.0x 2018F EPS of 10.8 SG cents. Our investment thesis remains intact, with Cityneon's attractive growth prospects and low risk business model being the basis of our recommendation. While we have not accounted for the additional IP and new Jurassic World exhibition sets into our valuation, these offer further potential upside.

Risks: Renewal of the various IP rights and a decline in the franchise popularity. We also note that the group has increased its borrowings significantly to fund its growth. While this may not be cause for concern at the moment, higher and faster growth, funded by debt, may bring about liquidity concerns. Inability to replicate the same success with current Jurassic exhibition.

Figure 2: Results comparison

FYE Dec (SGD mn)	2Q18	2Q17	yoy % chg	FY19F	Comments
Revenue	31.9	31.5	1.5%	159.3	Driven by IP segment; Some contribution traditional business
Cost of sales	(14.1)	(19.9)	-28.8%	(75.2)	
Gross profit	17.8	11.6	53.4%	84.1	Driven by higher margin business
<i>Gross margin (%)</i>	55.7	36.9		52.8	
Other operating income	0.2	0.2	-4.2%	0.4	
Operating expenses	(11.1)	(6.9)	59.4%	(45.5)	Driven by rebranding exercise, higher administrative costs, higher depreciation and amortisation, increased headcount
Finance costs	(1.8)	(0.3)	605.4%	(5.1)	Loans obtained to acquire JP Exhibitions and build new exhibition sets; also a new property loan for the Cityneon building and project financing for traditional business
Other expenses	(0.0)	(0.0)	-76.5%	0.0	
Net profit/(loss) before tax	5.1	4.6	10.7%	33.9	Driven by higher margin business
Income tax	3.9	(0.4)	nm	(3.4)	Write back of deferred tax liabilities on reduced US corporate tax rate
Total return after tax	9.0	4.2	114.0%	30.5	
Minority interest	0.0	(0.0)	nm	0.0	
PATMI	9.0	4.2	114.1%	30.5	In line with topline
EBITDA, adjusted	9.2	6.5	41.8%	47.1	
EPS (cents)	3.7	1.7	116.5%	12.5	In line with topline

Source: Company Data, KGI Research

Financials

INCOME STATEMENT (SGD mn)	2016	2017	2018F	2019F	2020F
Revenue	96.8	116.7	138.0	159.3	166.3
Cost of Sales	(63.4)	(52.9)	(64.9)	(75.2)	(79.0)
Gross Profit	33.3	63.8	73.1	84.1	87.3
Operating Expense	(25.3)	(41.4)	(39.4)	(45.5)	(47.7)
Interest Expense	(0.6)	(2.1)	(4.5)	(5.1)	(5.1)
Interest Income	0.1	0.0	0.1	0.4	0.5
Other Gains/(Losses)	0.0	0.0	0.0	0.0	0.0
Profit Before Tax	7.4	20.3	29.3	33.9	35.1
Income Tax	(0.7)	(2.8)	(2.9)	(3.4)	(3.5)
Perpetual, Others etc.	(0.1)	(0.2)	0.0	0.0	0.0
PATMI	6.7	17.4	26.4	30.5	31.6
BALANCE SHEET (SGD mn)	2016	2017	2018F	2019F	2020F
Cash and Equivalents	23.8	17.9	60.6	77.8	100.0
Accounts Receivable	24.0	75.9	64.3	74.2	77.5
Other Current Assets	17.4	23.6	23.6	23.6	23.6
Total Current Assets	65.9	118.1	149.3	176.7	202.1
Net Property, Plant, and Equipment	43.4	80.2	91.2	101.2	111.0
Other Assets	10.6	39.4	37.8	36.1	34.5
Total Assets	120.0	237.7	278.2	314.0	347.6
Accounts Payable	19.6	45.0	32.0	37.1	39.0
Borrowings (Current)	24.7	66.5	66.5	66.5	66.5
Other Current Liabilities	5.2	1.1	1.1	1.1	1.1
Total Current Liabilities	49.6	112.6	99.6	104.7	106.6
LT Borrowings	0.0	33.7	60.7	60.7	60.7
Other Non-Current Liabilities	0.8	8.2	8.2	8.2	8.2
Total Liabilities	50.4	154.5	168.5	173.6	175.5
Shareholder's Equity	69.3	82.9	109.4	140.1	171.9
Minority Interest	0.3	0.3	0.3	0.3	0.3
Total Equity	69.6	83.2	109.7	140.4	172.2
Total Liabilities and Equity	120.0	237.7	278.2	314.0	347.6
CASH FLOW STATEMENT (SGD mn)	2016	2017	2018F	2019F	2020F
Net Profit	6.6	17.4	26.4	30.5	31.6
Depreciation	3.6	6.2	6.0	6.9	7.2
Amortisation	0.9	1.6	1.6	1.6	1.6
Other Non-Cash Adjustments	0.3	3.5	0.2	0.2	0.2
Changes in Working Capital	(7.7)	(43.4)	(1.6)	(5.0)	(1.4)
Deferred Taxes	0.3	1.8	0.0	0.0	0.0
Cash from Operations	3.9	(12.9)	32.6	34.3	39.2
Capex	(29.6)	(13.9)	(17.0)	(17.0)	(17.0)
Other Investing	(2.7)	(28.4)	0.0	0.0	0.0
Cash in Investing	(32.3)	(42.3)	(17.0)	(17.0)	(17.0)
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Equity Raised / (Bought Back)	12.1	0.0	0.0	0.0	0.0
Borrowings Raised / (Repaid)	15.8	49.9	27.0	0.0	0.0
Other Financing	(0.2)	1.2	0.0	0.0	0.0
Cash from Financing	27.7	51.0	27.0	0.0	0.0
FX Effects, Others	0.2	(1.0)	0.0	0.0	0.0
Net Increase in Cash	(0.5)	(5.2)	42.6	17.3	22.2
Beginning Cash	23.2	22.6	17.4	60.0	77.3
Ending Cash (Incl. Pledged Cash)	23.8	17.9	60.6	77.8	100.0
KEY RATIOS	2016	2017	2018F	2019F	2020F
Core EPS (SGD cents)	2.8	7.1	10.8	12.5	12.9
Core EPS Growth (%)	302.6	151.1	51.7	15.7	3.5
DPS (SGD cents)	0.0	0.0	0.0	0.0	0.0
Div Yield (%)	0.0	0.0	0.0	0.0	0.0
Price / Book	3.2	2.8	2.5	1.9	1.6
Profitability (%)					
Gross Margin	34.4	54.7	53.0	52.8	52.5
EBITDA Margin	12.9	25.9	30.0	29.6	29.2
Net Margin	6.9	14.9	19.1	19.2	19.0
Return on Equity	11.2	22.9	27.4	24.5	20.2
ROIC	16.6	21.1	19.9	20.9	20.1
Financial Structure (x)					
EBIT / Interest Expense	12.5	10.7	7.4	7.6	7.8
Debt / Capital	0.3	0.5	0.5	0.5	0.4

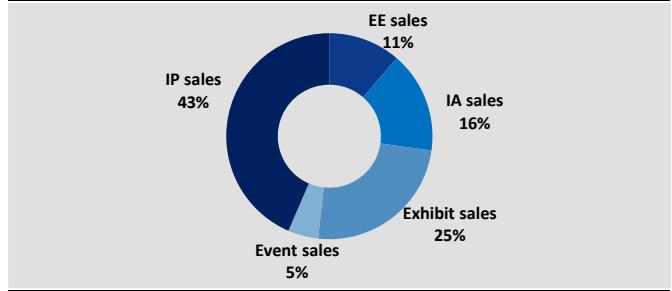
Source: Company Data, KGI Research

Figure 3: Company profile

Cityneon Holdings Ltd, through its subsidiaries is a turnkey service provider of creative solutions in the area of Interior Architecture, Events, Exhibitions and all manner of Experiential Environment through the actualization of creativity, production, execution and delivery. It also has very specialized expertise in the area of conceptualizing, designing and building Museums.

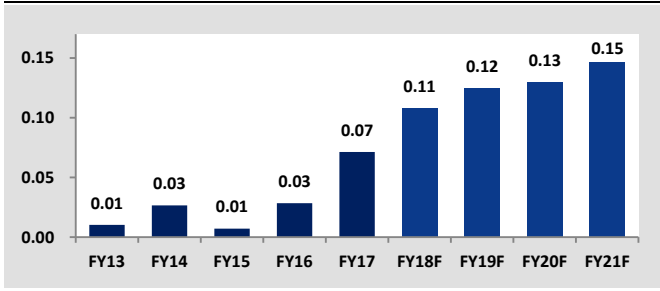
Source: Company

Figure 4: 2017 Revenue contribution by segment



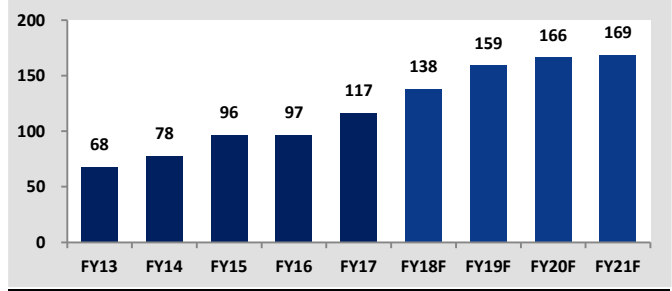
Source: Company Data, KGI Research

Figure 5: EPS projections (SG cents)



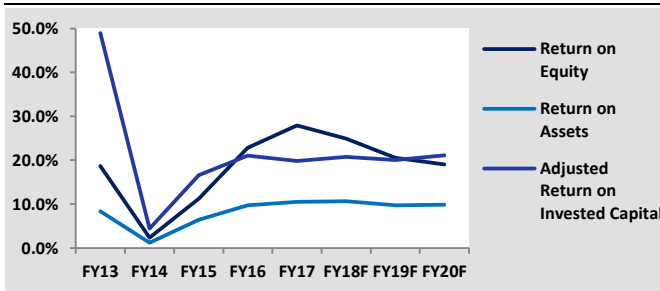
Source: Company Data, KGI Research

Figure 6: Projected revenue (\$\$mn)



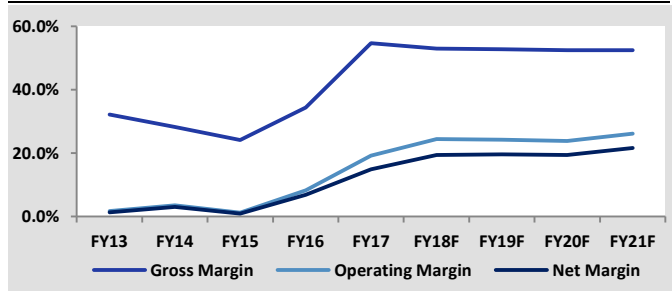
Source: Company Data, KGI Research

Figure 7: ROE, ROA and ROIC



Source: Company Data, KGI Research

Figure 8: Gross margin, Operating margin and Net margin



Source: Company Data, KGI Research

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HOLD	-10% to +10% total return over the next 12 months
SELL	<-10% total return over the next 12 months

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