



CHINA
DEVELOPMENT
FINANCIAL

Cityneon Holdings Limited

(CITN SP/CNHL.SI)

BUY - Maintain

Price as of 2 Mar 2018	1.06
12M target price (S\$)	1.54
Previous target price (S\$)	1.38
Upside, incl. div (%)	44.8

Trading data

Mkt Cap (S\$m) / (US\$m)	259 / 196
Issued Shares (m)	245
Ave Daily Traded (3-Month) Vol / Val	1.1m / \$1.1m
52 week lo / hi	\$0.78 / \$1.26
Free Float	31.0%

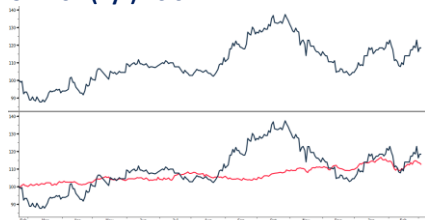
Major Shareholders

Lucrum 1 Investment	69.0%
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Previous Recommendations

Date	Rating	Share Price (S\$)	Target Price (S\$)
10-Nov-17	BUY	1.10	1.38

CITN SP (1yr) VS STI



Source: Bloomberg

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See the last page for important disclosures.

Fantastic set of results; Growth story still intact

Event

Positive FY2017 earnings surprise. Cityneon reported its FY2017 net profit of S\$17.4mn (+163% YoY), exceeding our expectations of S\$16.4mn. The stellar performance was mainly driven by its IP rights segment, which saw revenues grow 187% YoY, but was partially offset by a 32% YoY decline in its core traditional business segments. Collectively, the group's revenues grew 21% YoY.

Impact

Added a US\$60mn (S\$79mn) secured loan to its war chest to scale IP business. Cityneon has obtained a loan which it intends use to finance the acquisition of its 4th IP as well as construction of new travelling exhibition sets. Apart from additional exhibition sets to scale its business, Cityneon intends to add new characters to its Avengers exhibition set this year and has announced that Marvel's Black Panther will be making its debut in Melbourne in March 2018. We would like to think that entering into the stated facility agreement suggests that a potential acquisition could be around the corner and would be a re-rating catalyst for Cityneon.

Positioning itself to assume a design role. Cityneon will continue to expand its traditional core business (Design & Build) and is expecting to do so at the upcoming 2020 World Expo in Dubai. Given its successful run at previous World Expos in Shanghai (2010) and Milan (2015), we expect Cityneon to be awarded contracts to design and build areas of the Expo. Moving forward, the management also intends to move up the value chain of the creative business, by providing more design services (higher margins) and less of building/construction (lower margins).

Valuation & Action

Maintained BUY with upgraded P/E based target price of S\$1.54, implying an upside of 45%. Since our initiation report in Nov-17, our investment thesis for Cityneon has not changed. We still like the company for its growth prospects and like that the management was able to deliver a strong set of results in 2017. We have factored in revenue contributions from the digital signage at Treasure Island, Las Vegas's Avengers exhibition and maintained a total a 8 exhibition sets for FY2018. Our revised target price of S\$1.54 is based on a FY2018F EPS of S\$0.11 and a FY2018F P/E of 14.0x, representing a 20% discount to its peers for its short track record.

Risks

Renewal of IP rights.

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	26.9	31.3	32.4
Core PATMI	6.7	17.4	26.9	31.3	32.4
Core EPS (SGD cents)	2.8	7.1	11.0	12.8	13.2
Core EPS grth (%)	302.6	151.1	54.5	16.5	3.4
Core P/E (x)	33.4	13.2	9.6	8.3	8.0
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	19.5	19.7	19.5
Gearing (%)	26.3	54.7	47.7	41.5	36.6
Price / Book (x)	3.2	2.8	2.4	1.8	1.5
ROE (%)	11.2	22.9	27.9	24.9	20.5

Source: Company Data, KGI Research

A stellar year for Cityneon; but the best is yet to be. Cityneon has big plans to transform and position itself as a leading creative and design brand. It plans to align its business segments synergistically by focusing on the crux of its business, creative conceptualization and experience. In FY2017, the group appointed, Welby Altidor, 16-year creative veteran and former Executive Creative Director of Creations at Cirque du Soleil, as its Group Chief Creative Officer. It also acquired Scorpio East properties which is currently used as their HQ, and with the main goal of enhancing the Group's design capabilities and expansion of its portfolio in the entertainment and media industry. Based on an earlier statement by its CEO, Ron Tan, regarding possible future collaborations with KOP Limited, under the "Scorpio East" brand, we believe that Cityneon could possibly be looking to collaborate with similar companies in the media/creative industry or even seek out acquisition targets in the creative space to align the Group's traditional core business with that of the IP business.

Termination of MOU; business as usual. Now that the MOU between Mutual Power and Massive Right has been terminated, and with the ownership structure of Cityneon remaining as it was prior to the announcement, this should allay fears of a change in management or controlling party.

2H17 results review

Figure 1: Results comparison

FYE Dec (SGD m)			yoy %	hoh %		FY18F	Comments
	2H17	2H16	chg	1H17	chg		
Revenue	67.0	50.4	32.9%	49.7	34.8%	138.0	Above expectations; Driven by IP rights segment
Cost of sales	(26.4)	(35.1)	-24.6%	(26.5)	-0.1%	(64.9)	
Gross profit	40.6	15.3	164.4%	23.3	74.4%	73.1	Driven by higher margin business
<i>Gross margin (%)</i>	<i>60.5</i>	<i>30.4</i>		<i>46.8</i>	<i>29.4%</i>	<i>53.0</i>	
Other operating income	0.3	1.4	-75.5%	0.4	-8.8%	0.0	Lower government grants obtained; absence of foreign exchange gains
Operating expenses	(27.6)	(13.5)	104.5%	(14.5)	90.6%	(39.4)	
Finance costs	(1.6)	(0.2)	600.0%	(0.5)	215.4%	(3.9)	
Other expenses	(0.1)	(1.4)	-93.1%	(0.1)	4.3%	0.0	
Net profit/(loss) before tax	11.6	1.6	622.9%	8.6	35.6%	29.9	Driven by higher margin business
Income tax	(1.9)	0.3	nm	(0.8)	129.3%	(3.0)	
Total return after tax	9.7	1.9	405.8%	7.7	25.3%	26.9	
Minority interest	(0.0)	(0.0)	nm	0.0	nm	0.0	
PATMI	9.6	1.9	411.6%	7.7	24.8%	26.9	In line with topline
EBITDA, adjusted	18.1	6.2	193.5%	12.2	48.3%	41.4	
EPS (cents)	4.0	0.8	400.1%	3.1	25.9%	11.0	In line with topline

Source: Company, KGI Research

Figure 2: Peer comparison

Company	Last Price	Market Cap (\$\$mn)	P / E (x)			P / B (x)			Div Yield (%)		Gearing (%)
			FY17	FY18	FY19	FY17	FY18	FY19	FY17	FY18	Current
Cityneon Holdings Ltd	SGD 1.05	257	17.4	12.1	11.2	3.7	3.0	2.5	0.0	0.0	47.7
Regional MICE companies											
Kingsmen Creatives Ltd	SGD 0.63	125	11.8	-	-	-	-	-	-	-	-
Pico Far East Holdings Ltd	HKD 3.10	645	14.4	11.9	10.7	2.1	1.9	1.8	4.1	6.8	-
Ite Group Plc	GBP 165.00	810	-	20.1	17.9	7.2	-	-	2.5	2.4	-
Tarsus Group Plc	GBP 307.00	632	15.2	17.7	10.6	-	-	-	-	3.3	-
GI Events	EUR 25.20	956	12.1	15.5	13.5	1.0	1.4	1.3	3.8	2.7	-
Interactive Entertainment Ch	HKD 0.04	34	-	-	-	0.6	-	-	0.0	-	-
Viad Corp	USD 51.60	1,393	21.1	18.9	17.4	-	-	-	0.2	-	-
Simple average			14.9	16.8	14.0	2.7	1.6	1.6	2.1	3.8	-
Entertainment attraction operators											
Cedar Fair Ip	USD 66.46	4,950	20	19	17	44	20	10	5	5	95
Six Flags Entertainment Corp	USD 63.25	7,067	25	23	21	-	-	-	4	5	101
Dave & Buster'S Entertainmen	USD 44.81	2,410	26	17	15	5	1	1	0	-	43
Mears Group Plc	GBP 382.00	720	19	13	11	2	-	-	3	3	-
Simple average			22.4	18.1	16.1	17.3	10.4	5.3	3.0	4.5	79.4
Total average			18.7	17.5	15.1	10.0	6.0	3.4	2.5	4.2	79.4

Source: Company, KGI Research

Financials

FYE 31 December

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)	(4.0)	(4.0)	(4.0)
Interest Income	0.1	0.0	0.1	0.2	0.4
Other Gains/(Losses)	0.0	0.0	0.0	0.0	0.0
Profit Before Tax	7.4	20.3	29.9	34.8	36.0
Income Tax	(0.7)	(2.8)	(3.0)	(3.5)	(3.6)
Perpetual, Others etc.	(0.1)	(0.2)	0.0	0.0	0.0
PATMI	6.7	17.4	26.9	31.3	32.4
BALANCE SHEET (SGD mn)	2016	2017	2018F	2019F	2020F
Cash and Equivalents	23.8	17.9	32.2	50.5	73.9
Accounts Receivable	24.0	75.9	89.7	103.6	108.1
Other Current Assets	17.4	23.6	23.6	23.6	23.6
Total Current Assets	65.9	118.1	146.4	178.6	206.7
Net Property, Plant, and Equipment	43.4	80.2	90.8	100.4	109.8
Other Assets	10.6	39.4	37.8	36.1	34.5
Total Assets	120.0	237.7	274.9	315.2	351.0
Accounts Payable	19.6	45.0	55.2	64.0	67.2
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	122.8	131.6	134.9
LT Borrowings	0.0	33.7	33.7	33.7	33.7
Other Non-Current Liabilities	0.8	8.2	8.2	8.2	8.2
Total Liabilities	50.4	154.5	164.7	173.5	176.7
Shareholder's Equity	69.3	82.9	109.9	141.4	174.0
Minority Interest	0.3	0.3	0.3	0.3	0.3
Total Equity	69.6	83.2	110.2	141.7	174.3
Total Liabilities and Equity	120.0	237.7	274.9	315.2	351.0
CASH FLOW STATEMENT (SGD mn)	2016	2017	2018F	2019F	2020F
Net Profit	6.6	17.4	26.9	31.3	32.4
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)	(3.8)	(5.2)	(1.4)
Deferred Taxes	0.3	1.8	0.0	0.0	0.0
Cash from Operations	3.9	(12.9)	30.9	34.8	40.0
Capex	(29.6)	(13.9)	(16.6)	(16.6)	(16.6)
Other Investing	(2.7)	(28.4)	0.0	0.0	0.0
Cash in Investing	(32.3)	(42.3)	(16.6)	(16.6)	(16.6)
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	0.0	0.0	0.0
Other Financing	(0.2)	1.2	0.0	0.0	0.0
Cash from Financing	27.7	51.0	0.0	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)	14.3	18.2	23.4
Beginning Cash	23.2	22.6	17.4	31.7	49.9
Ending Cash (Incl. Pledged Cash)	23.8	17.9	32.2	50.5	73.9
KEY RATIOS	2016	2017	2018F	2019F	2020F
Core EPS (SGD cents)	2.8	7.1	11.0	12.8	13.2
Core EPS Growth (%)	302.6	151.1	54.5	16.5	3.4
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	2.4	1.8	1.5
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	19.5	19.7	19.5
Return on Equity	11.2	22.9	27.9	24.9	20.5
ROIC	16.6	21.1	19.8	20.8	20.0
Financial Structure (x)					
EBIT / Interest Expense	12.5	10.7	8.4	9.6	9.9
Debt / Capital	0.3	0.5	0.5	0.4	0.4

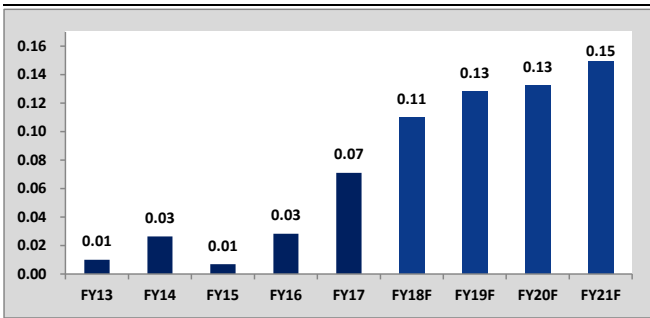
Source: Company Data, KGI Research

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.

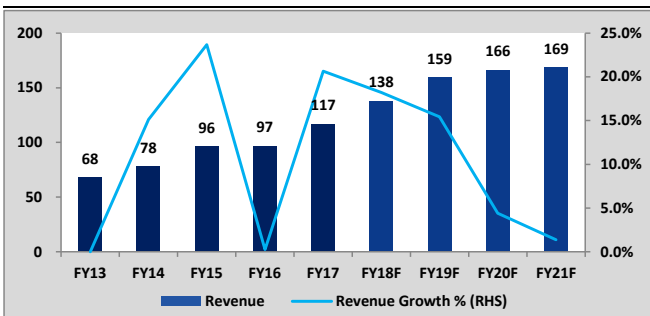
Source: Bloomberg

Figure 5: Diluted EPS projections



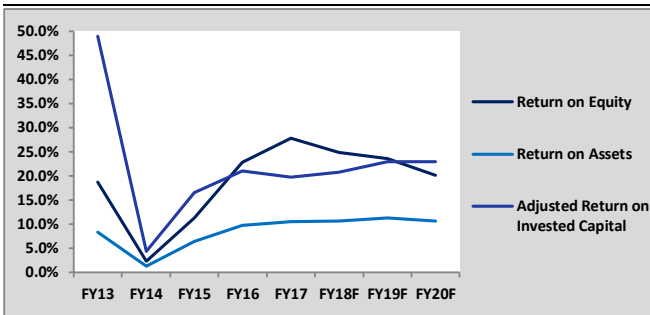
Source: Company Data, KGI Research

Figure 7: Projected revenue and revenue growth



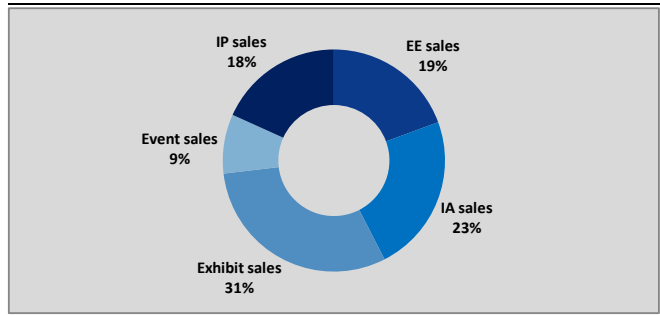
Source: Company Data, KGI Research

Figure 9: ROE, ROA and ROIC



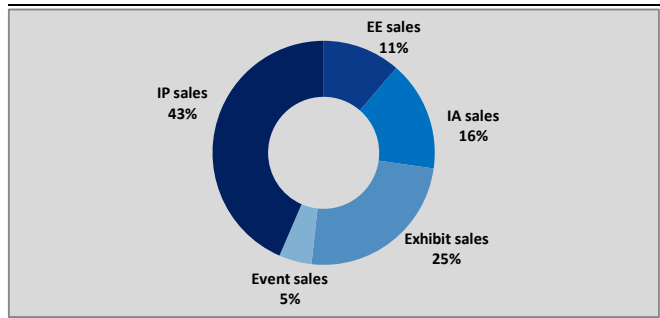
Source: Company Data, KGI Research

Figure 4: FY16 Revenue contribution by segment



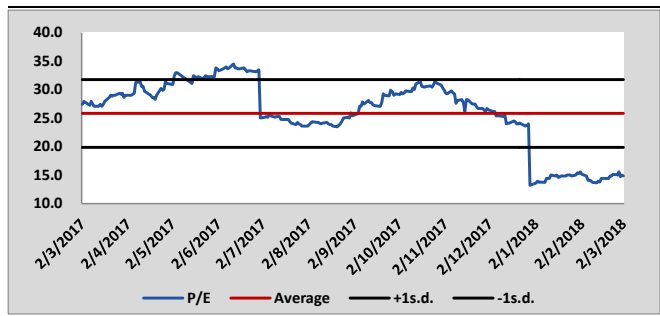
Source: Company Data, KGI Research

Figure 6: FY17 Revenue contribution by segment



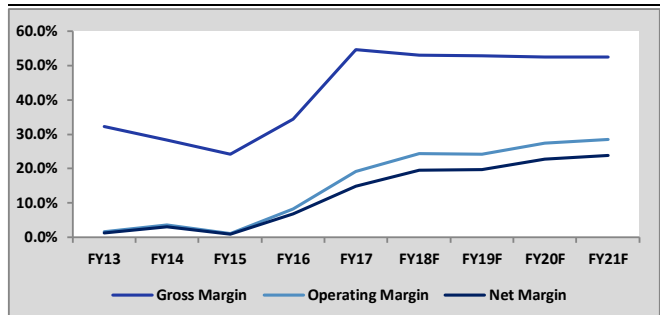
Source: Company Data, KGI Research

Figure 8: 1-year historical P/E



Source: Company Data, KGI Research

Figure 10: Gross margin, Operating margin and Net margin



Source: Company Data, KGI Research

KGI's Ratings

Rating	Definition
	KGI Securities Research's recommendations are based on an Absolute Return rating system.
BUY	>10% total return over the next 12 months
HOLD	-10% to +10% total return over the next 12 months
SELL	<-10% total return over the next 12 months

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