



Creative Technology

(CREAF SP/CREAF.SI)

Spatial Audio Unleashed

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- Creative Technology began taking orders for its highly anticipated Super X-Fi Technology, with sales of its wireless headphones expected to begin in 4Q18.
- 600 units of its Super X-Fi amp headphone amplifier was sold in the first 20 minutes on Creative's online store.

Initial Sales. Even though initial sales in the first 20 minutes was very impressive, management cautioned against expectations that the sales rate will continue at 30 units per minute. Similarly, we are of the view that 20 minutes is too small a sample size to be used for any meaningful sales forecasts.

Figure 1: Super X-Fi Amplifier

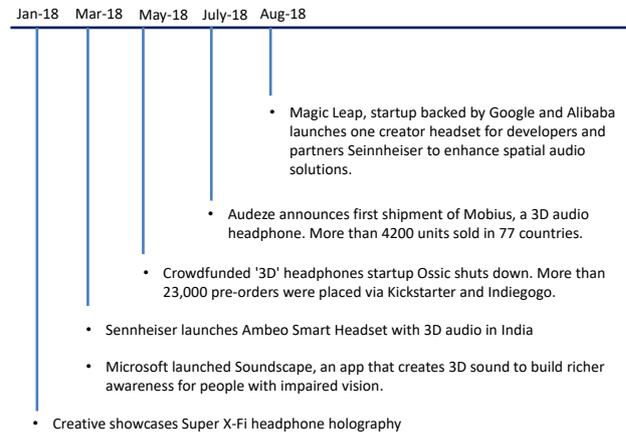


Source: Creative Technology

Worldwide Launch to begin in November. Initial sales of the Super X-Fi amp will be limited to Singapore and worldwide sales will commence in November, with a selling price of S\$219. Currently, the amplifier is only compatible with android users but a bluetooth headphone with built-in Super X-Fi technology will also be launched in the later part of this year for iOS users.

Emergence of Competitors. While we are excited about the prospects of Super X-Fi, competition for the spatial audio market has intensified since the announcement of Super X-Fi in January 2018. Due to the emergence of more players with similar technologies, we believe the chances of any single player gaining a first mover advantage has diminished drastically.

Figure 2: 3D/Spatial Audio Developments in 2018



Source: KGI Research

Judging from recent trends, we expect more companies with hefty budgets to enter the market should demand in 3D audio products pick up in the coming quarters.

Valuation & Action: Based on demand for Ossic and Audeze headphones, we believe Creative might be able to sell ~40,000 headphones or dongles in its first year, which translates to a revenue of US\$6m. Assuming a 20% net margin for the Super X-Fi segment, our estimates indicate that the Super X-Fi segment will contribute an additional US\$1.2m to creative's bottom line, which we believe to be inadequate given that the firm has net losses averaging \$27m in the past 5 years, excluding one-off earnings from lawsuits.

Unless there are changes in Creative's product mix or if Super X-Fi related sales achieves phenomenal growth within the next 2 years, we believe investors should remain cautious.

In our view, Super X-Fi could be a game changer given the potential of the largely untapped global spatial/3D audio market. However, we believe that more clarity about sales and industry trends has to emerge before we can value the company with a target price.

Risks: Slow growth in Super X-Fi's user base, Competition from well-capitalized firms with similar technology.

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