

# Singapore Company Guide

## Cityneon Holdings

Version 2 | Bloomberg: CITN SP | Reuters: CNHL.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

14 Jun 2016

### BUY

Last Traded Price: S\$0.825 (STI : 2,785.43)  
 Price Target : S\$1.05 (28% upside) (Prev S\$1.03)

Potential Catalyst: Securing of third IP

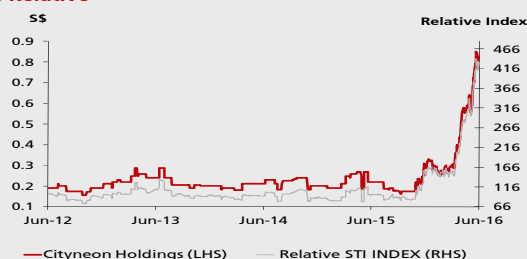
#### Analyst

LING Lee Keng +65 6682 3703 leekeng@dbs.com

#### What's New

- **Exhibition on home ground to create awareness and inspire learning experiences**
- **Project execution on track**
- **Raised earnings by 11% for FY16F and 4% for FY17F to include Singapore set**
- **Maintain BUY with slightly higher TP of S\$1.05**

#### Price Relative



#### Forecasts and Valuation

FY Dec (\$ m)	2015A	2016F	2017F	2018F
Revenue	96.5	100	121	142
EBITDA	2.63	15.7	31.5	39.8
Pre-tax Profit	0.79	9.35	21.7	28.0
Net Profit	0.87	7.39	16.9	21.7
Net Pft (Pre Ex.)	0.87	7.39	16.9	21.7
Net Pft Gth (Pre-ex) (%)	(62.9)	748.1	129.2	28.2
EPS (S cts)	0.39	3.07	7.03	9.01
EPS Pre Ex. (S cts)	0.39	3.07	7.03	9.01
EPS Gth Pre Ex (%)	(85)	678	129	28
Diluted EPS (S cts)	0.39	3.07	7.03	9.01
Net DPS (S cts)	0.40	0.0	0.0	0.0
BV Per Share (S cts)	22.4	22.5	28.8	36.2
PE (X)	209.2	26.9	11.7	9.2
PE Pre Ex. (X)	209.2	26.9	11.7	9.2
P/Cash Flow (X)	63.0	nm	9.1	6.8
EV/EBITDA (X)	64.6	13.5	6.6	4.9
Net Div Yield (%)	0.5	0.0	0.0	0.0
P/Book Value (X)	3.7	3.7	2.9	2.3
Net Debt/Equity (X)	CASH	0.2	0.1	CASH
ROAE (%)	2.3	14.2	27.4	27.8
Earnings Rev (%)		11	4	(4)
Consensus EPS (S cts)		2.30	6.60	8.90
Other Broker Recs:		B: 3	S: 0	H: 0

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

### Avengers descending on Singapore!

**Creator of innovative and interactive exhibitions, with explosive growth ahead.** At a low PE-to-growth of <0.1x with explosive FY15-FY18F EPS CAGR growth of close to 300%, Cityneon is attractive to investors seeking growth and unique ideas in the entertainment industry. An expanding project pipeline, plans to add rights to a third Intellectual property rights (IP), and potential tie-ups with strategic investors like CMC Holdings are catalysts for the stock.

**Scalable business model with low execution risk.** Cityneon's earnings are directly correlated with the number of exhibits it has. So far, it has two permanent sets in Las Vegas and another two travelling sets; we expect a total of six sets by end-2017 and eight sets by 2018. The group operates on a relatively low execution risk model as outside the US, it will find partners in the target region to undertake the operating risks.

#### Potential for third IP, to tap on other Walt Disney franchises.

There is a huge pool of franchises to be tapped under the Disney umbrella, aside from the Marvel franchise. Some attractive options include Star Wars, Jurassic Park, Batman and Spiderman. We expect the Victory Hill Exhibitions (VHE) team to leverage their credentials in developing the Avengers and Transformers exhibits to leapfrog to the next IP.

#### Valuation:

Expect earnings to improve from FY16F. Earnings for FY16 should jump with the incorporation of VHE. Thereafter, a ramp-up in operational sets will drive earnings growth. We have not factored in the potential of a third IP. Our TP of S\$1.05 is based on peer average of 15x FY17F earnings.

#### Key Risks to Our View:

**VHE's limited track record.** VHE was formed in 2012 and the first exhibition was in New York in 2014.

**Earnings dependent on number of visitors.** A higher number of visitors would enable the group to generate higher royalties. Ancillary sales are also dependent on the number of visitors.

#### At A Glance

Issued Capital (m shrs)	244
Mkt. Cap (S\$m/US\$m)	202 / 149
Major Shareholders (%)	
Star Publications	52.6
Tan Aik Ti	16.4
Free Float (%)	31.0
3m Avg. Daily Val (US\$m)	2.3

ICB Industry : Industrials / Support Services

**WHAT'S NEW****Avengers descending on Singapore!**

Cityneon Holdings announced that its wholly-owned subsidiary, Victory Hill Exhibitions (VHE) has entered into Exhibition Agreement with Science Centre to host and operate the Marvel's Avengers S.T.A.T.I.O.N. produced by VHE in Singapore.

The Exhibition is expected to open in October 2016 for a period of approximately four months, covering the end of the year holiday season and the Lunar New Year at the end of January.

**OUR TAKE**

**Create awareness; inspire learning experiences.** This exhibition on home ground can help investors to have a better understanding of the business of Cityneon. It can benefit young people as well, including students. The entertainment and educational exhibition has been curated around S.T.E.M. (Science, Technology, Engineering, and Mathematics), and boasts of the latest technology. The experience can stimulate young people and inspire learning experiences.

**Project execution on track.** The travelling immersive attraction has made its way from New York, Seoul and Paris. So far, project execution has been on track. We are expecting the group to travel to Taiwan, Middle East, Sweden and other parts of Europe in 2017.

**Adjust earnings for FY16F and FY17F to include Singapore set.** Earnings for FY16F and FY17F adjusted higher by 11% and 4% respectively to incorporate contribution from the Singapore set. Contribution from Singapore is lesser than the rest of the region given its smaller population. Earnings for FY18F tweaked lower after adjusting for a shorter depreciation period. Maintain BUY with slightly higher TP of S\$1.05, based on peer average of 15x FY17F earnings.

**Project pipeline assumption for 2016/2017**

Country	Announced / Assumed	Exhibition
Las Vegas *	Announced – exhibition started in May 2016	Avengers
Las Vegas *	Announced – exhibition expected to start in October 2016	Transformers
Paris	Announced – exhibition from April 2016 to September 2016	Avengers
Australia	Announced – exhibition expected to start in December 2017	Avengers
Singapore	Announced – exhibition expected to start in October 2016	Avengers
China	Announced – exhibition expected to start in December 2016	Transformers
China	Assumed	Avengers
Taiwan	Assumed	Avengers
Sweden	Assumed	Avengers
Middle East	Assumed	Transformers
Europe	Assumed	Transformers

*\*permanent set*

*Source: DBS Bank, Company*

**CRITICAL DATA POINTS TO WATCH**

**Earnings Drivers:**

**Scalable business model.** The first set had cost around US\$8-9m to build but subsequent sets cost only about one-third of the original cost per set. Thus, Cityneon is able to achieve operational leverage with every subsequent set built. Based on Cityneon’s current capacity, we expect the group to have a total of six sets by end-2017 and eight sets by 2018.

These six to eight exhibition sets would enable Cityneon to hold exhibitions in various parts of the world. Only the Las Vegas sets in the US are permanent sets; 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 revenue that includes licensing fees, minimum guarantees on royalties (which is an upfront fee paid by its partners to use the exhibition set built by Cityneon), and also from merchandise sales. Assuming that an exhibition lasts for about three to four months, theoretically, a set can be used two to three times per year based on a back-to-back schedule.

**Manageable execution risk.** Furthermore, execution risk is minimal for the travelling exhibits as the bulk of the risk is borne by the operator. For instance, in April 2016, VHE entered into a non-binding term sheet with Beijing Starclouds Entertainment Development to host and operate the Transformers Experience touring exhibitions in China for two years on an exclusive licence. Starclouds will bear the execution risk while Cityneon will mainly build and provide the sets for exhibition.

**Project pipeline till 2017**

VHE targets to launch Transformers in Las Vegas and China by end-2016. For next year, VHE intends to venture into Middle East, rest of Asia and others parts of China.

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

**Strong pipeline of Avengers/Transformers movies should bode well for attracting visitors**

Marvel has a strong movie pipeline stretching to 2020. The pipeline includes Guardians of the Galaxy 2, Thor and Spiderman in 2017; Avengers Infinity War part 1, Black Panther and Ant-man in 2018; Avengers Infinity War part 2, Captain Marvel and Inhumans in 2019, and yet-to-be-named movies in 2019/2020. For Transformers, there are four more films in the next ten years, with Transformers 5 slated to launch in June 2017.

**The Las Vegas permanent attraction**



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



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Europe	Assumed	Transformers

\*permanent set

**Historical box office takings – Avengers and Transformers**

Name of movie	Release Date	#Rank by gross takings for that year	Gross takings (US\$m)	Grossing of the average movie that year
Transformers	Jul-07	3	319	15.4
Iron Man	May-08	2	318	16.0
The Incredible Hulk	Jun-08	17	135	16.0
Transformers: Revenge of the Fallen	Jun-09	2	402	20.8
Iron Man 2	May-10	3	312	19.1
Thor	May-11	10	181	16.8
Captain America: The First Avenger	Jul-11	12	177	16.8
Transformers: Dark of the Moon	Jun-11	2	352	16.8
The Avengers	May-12	1	623	16.4
Iron Man 3	May-13	2	409	15.9
Thor: The Dark World	Nov-13	12	206	15.9
Transformers: Age of Extinction	Jun-14	7	245	14.9
Captain America: The Winter Soldier	Apr-14	4	260	14.9
Avengers: Age of Ultron	May-15	3	459	15.9
Ant-Man	Jul-15	14	180	15.9
<b>Total:</b>			<b>4,580</b>	

Source: Company, DBS Bank

**Cityneon Holdings**

**Balance Sheet:**

Expansion should increase debt levels, but gearing will remain low in FY16. We believe the group will take on incremental debt of ~S\$10m in the near term to fund the building of new exhibits, increasing net gearing to 0.1x in FY16, but positive cash flows should bring the company back into a net cash position in FY17, barring other unexpected capex outlays. Thus, at this point, gearing remains insignificant.

**Share Price Drivers:**

**Potential for third IP**

There is a huge pool of franchises to be tapped under the Disney umbrella, aside from the Marvel franchise. Some attractive options include Star Wars, Jurassic Park, Batman and Spiderman. We expect the VHE team to leverage their credentials in developing the Avengers and Transformers exhibits to leapfrog to the next IP.

Management has two criteria for new IPs: 1) They should have box office takings of over US\$1bn globally; and 2) There must be sequels in the pipeline.

**Entry of strategic investor paves way for growth**

The recent placement to a strategic investor like CMC Holdings, a media and entertainment investment with operating platform in China, enhances collaboration opportunities between the two entities. Besides, this placement also helps to institutionalise Cityneon’s investor base and to increase liquidity.

**Key Risks:**

**Limited track record for VHE**

VHE was formed in 2012 and the first exhibition was in New York in 2014.

**Earnings dependent on number of visitors**

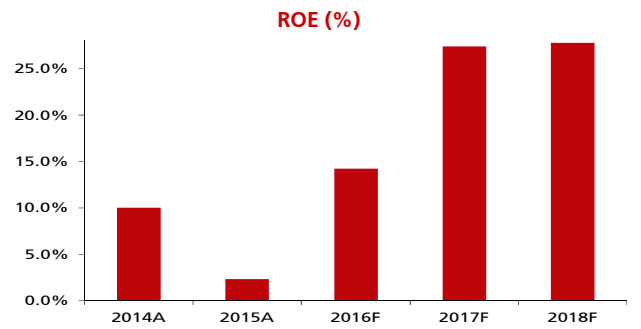
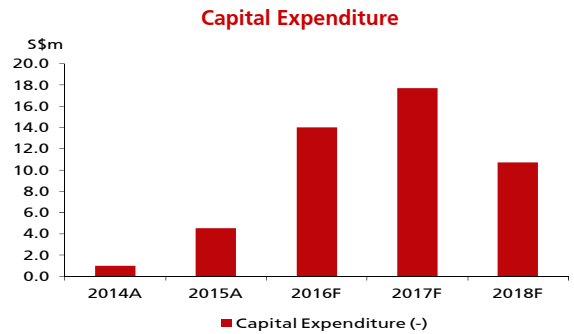
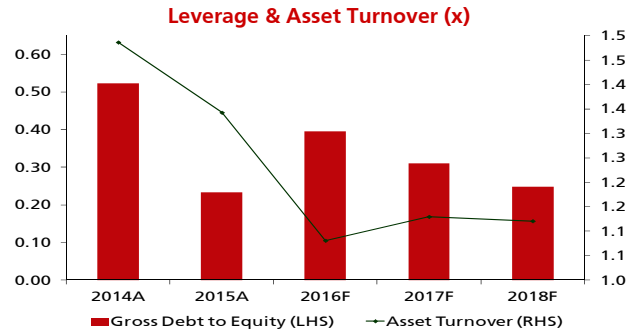
Though Cityneon will usually get upfront payment fees from operators to use its exhibits, a higher number of visitors would enable the group to generate higher royalties in excess of the minimum guarantees on royalties. Furthermore, ancillary sales like merchandise, photos, food & beverage are also dependent on the number of visitors.

**Low free float, key stakeholders control more than half of the group.**

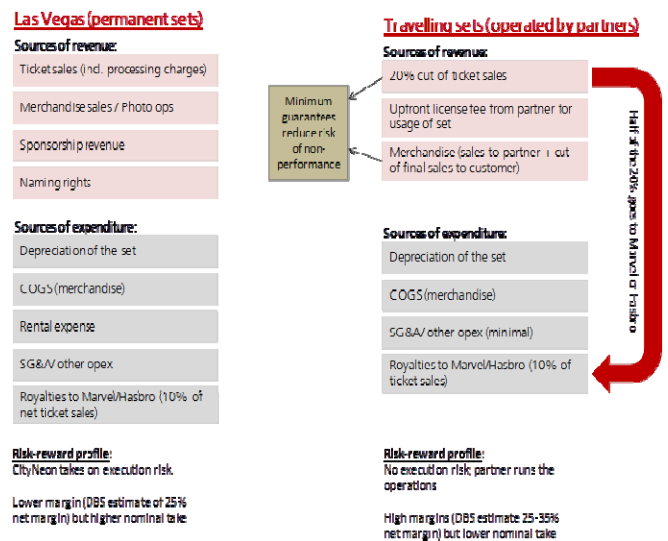
Shares in Cityneon are tightly held, with a free float of about 30%. Star Media still holds about 52.6% after the placement while CEO Ron Tan holds 16.4%.

**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 two IP rights – The Avengers from Marvel in 2013 and Transformers from HASBRO in 2015.



**Victory Hill Exhibitions – two distinct models**



Source: Company, DBS Bank

### Segmental Breakdown

FY Dec	2013A	2014A	2015A	2016F	2017F	2018F
<b>Revenues (\$m)</b>						
Old Business	67.8	78.0	96.5	79.5	70.0	77.0
Victory Hill Exhibitions (VHE)	n.a.	n.a.	n.a.	19.1	50.8	64.7
<b>Total</b>	<b>67.8</b>	<b>78.0</b>	<b>96.5</b>	<b>100</b>	<b>121</b>	<b>142</b>
<b>Net Profit (\$m)</b>						
Old Business	0.89	2.35	0.87	1.10	1.07	0.74
Victory Hill Exhibitions (VHE)	n.a.	n.a.	n.a.	5.6	15.9	21.0
<b>Total</b>	<b>0.89</b>	<b>2.35</b>	<b>0.87</b>	<b>7.39</b>	<b>16.9</b>	<b>21.7</b>
<b>Net Profit Margins (%)</b>						
Old Business	1.3	3.0	0.9	1.4	1.5	1.0
Victory Hill Exhibitions (VHE)	n.a.	n.a.	n.a.	30.1	31.2	32.4
<b>Total</b>	<b>1.3</b>	<b>3.0</b>	<b>0.9</b>	<b>7.4</b>	<b>14.0</b>	<b>15.3</b>

### Income Statement (\$m)

FY Dec	2014A	2015A	2016F	2017F	2018F
Revenue	78.0	96.5	100	121	142
Cost of Goods Sold	(55.9)	(73.2)	(64.2)	(62.9)	(71.0)
<b>Gross Profit</b>	<b>22.1</b>	<b>23.3</b>	<b>36.2</b>	<b>57.9</b>	<b>70.7</b>
Other Opng (Exp)/Inc	(19.3)	(22.2)	(26.8)	(36.1)	(42.3)
<b>Operating Profit</b>	<b>2.78</b>	<b>1.15</b>	<b>9.45</b>	<b>21.8</b>	<b>28.5</b>
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.02	0.02	0.02	0.02
Net Interest (Exp)/Inc	(0.3)	(0.4)	(0.1)	(0.1)	(0.5)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>2.51</b>	<b>0.79</b>	<b>9.35</b>	<b>21.7</b>	<b>28.0</b>
Tax	(0.2)	0.04	(1.9)	(4.8)	(6.3)
Minority Interest	0.03	0.04	(0.1)	(0.1)	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>2.35</b>	<b>0.87</b>	<b>7.39</b>	<b>16.9</b>	<b>21.7</b>
Net Profit before Except.	2.35	0.87	7.39	16.9	21.7
EBITDA	4.02	2.63	15.7	31.5	39.8
<b>Growth</b>					
Revenue Gth (%)	15.1	23.7	4.0	20.3	17.3
EBITDA Gth (%)	65.8	(34.4)	494.9	101.0	26.5
Opg Profit Gth (%)	142.3	(58.8)	725.4	130.7	30.6
Net Profit Gth (Pre-ex) (%)	162.2	(62.9)	748.1	129.2	28.2
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	28.3	24.1	36.1	47.9	49.9
Opg Profit Margin (%)	3.6	1.2	9.4	18.0	20.1
Net Profit Margin (%)	3.0	0.9	7.4	14.0	15.3
ROAE (%)	10.0	2.3	14.2	27.4	27.8
ROA (%)	4.5	1.2	8.0	15.8	17.2
ROCE (%)	5.6	1.0	10.4	19.8	20.9
Div Payout Ratio (%)	0.0	101.6	0.0	0.0	0.0
Net Interest Cover (x)	10.4	3.1	78.9	307.8	59.3

Include contribution from the Avengers set in Paris and Las Vegas, as well as partial upfront licence fee to be recognised in FY16 for the 2-year agreement in China

Source: Company, DBS Bank

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

FY Dec	2H2013	1H2014	2H2014	1H2015	2H2015
Revenue	44	30	48	41	56
Cost of Goods Sold	(30)	(20)	(36)	(31)	(42)
<b>Gross Profit</b>	<b>15</b>	<b>10</b>	<b>12</b>	<b>10</b>	<b>14</b>
Other Oper. (Exp)/Inc	(12)	(10)	(10)	(10)	(12)
<b>Operating Profit</b>	<b>3</b>	<b>0</b>	<b>3</b>	<b>(1)</b>	<b>2</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>3</b>	<b>0</b>	<b>2</b>	<b>(1)</b>	<b>2</b>
Tax	0	0	0	0	0
Minority Interest	0	0	0	0	0
<b>Net Profit</b>	<b>3</b>	<b>0</b>	<b>2</b>	<b>(1)</b>	<b>2</b>
Net profit bef Except.	3	0	2	(1)	2
EBITDA	3	1	3	0	2

## Growth

Revenue Gth (%)	88.3	(31.5)	57.3	(14.7)	37.1
EBITDA Gth (%)	nm	(77.4)	285.3	nm	nm
Opg Profit Gth (%)	nm	(91.7)	949.2	nm	nm
Net Profit Gth (Pre-ex)	nm	(95.6)	1,722.1	nm	nm

## Margins

Gross Margins (%)	32.8	32.7	25.5	23.5	24.6
Opg Profit Margins (%)	6.6	0.8	5.3	(1.4)	3.1
Net Profit Margins (%)	6.2	0.4	4.7	(1.8)	2.8

## Balance Sheet (\$m)

FY Dec	2014A	2015A	2016F	2017F	2018F
Net Fixed Assets	2.26	16.0	25.3	34.8	35.6
Invt in Associates & JVs	0.0	0.38	0.39	0.41	0.42
Other LT Assets	1.21	10.7	16.3	14.8	13.4
Cash & ST Invt	23.9	24.3	10.2	12.4	27.1
Inventory	0.32	0.19	0.36	0.36	0.40
Debtors	18.6	26.0	35.7	43.0	50.5
Other Current Assets	9.88	9.95	9.95	9.95	9.95
<b>Total Assets</b>	<b>56.2</b>	<b>87.6</b>	<b>98.2</b>	<b>116</b>	<b>137</b>
ST Debt	13.4	11.7	11.7	11.7	11.7
Creditor	14.8	23.8	17.7	17.4	19.6
Other Current Liab	2.18	0.97	2.86	5.71	7.23
LT Debt	0.0	0.0	10.0	10.0	10.0
Other LT Liabilities	0.22	1.10	1.10	1.10	1.10
Shareholder's Equity	25.1	49.6	54.3	69.3	87.1
Minority Interests	0.49	0.45	0.51	0.57	0.61
<b>Total Cap. &amp; Liab.</b>	<b>56.2</b>	<b>87.6</b>	<b>98.2</b>	<b>116</b>	<b>137</b>
Non-Cash Wkg. Capital	11.8	11.4	25.5	30.2	34.0
Net Cash/(Debt)	10.5	12.6	(11.5)	(9.3)	5.38
Debtors Turn (avg days)	93.8	84.4	112.3	119.0	120.3
Creditors Turn (avg days)	88.2	98.2	130.6	120.3	113.1
Inventory Turn (avg days)	1.9	1.3	1.7	2.5	2.3
Asset Turnover (x)	1.5	1.3	1.1	1.1	1.1
Current Ratio (x)	1.7	1.7	1.7	1.9	2.3
Quick Ratio (x)	1.4	1.4	1.4	1.6	2.0
Net Debt/Equity (X)	CASH	CASH	0.2	0.1	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	0.2	0.1	CASH
Capex to Debt (%)	7.5	38.8	64.6	81.6	49.4

Assume debt of S\$10m to fund new sets

Source: Company, DBS Bank

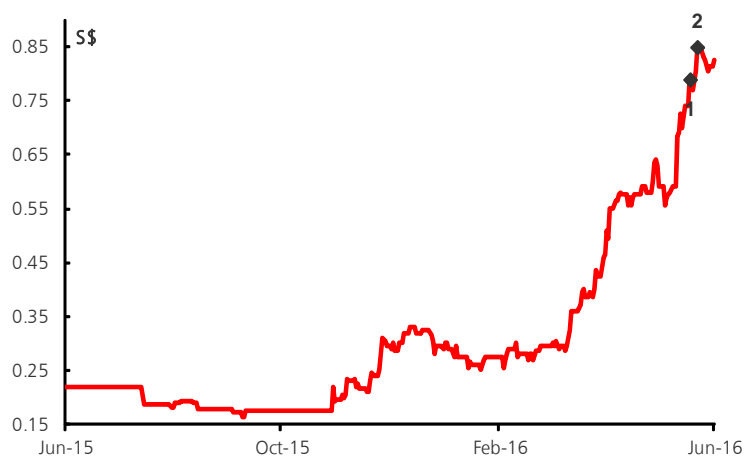
**Cash Flow Statement (\$m)**

FY Dec	2014A	2015A	2016F	2017F	2018F
Pre-Tax Profit	2.51	0.79	9.35	21.7	28.0
Dep. & Amort.	1.24	1.47	6.20	9.66	11.3
Tax Paid	0.03	(0.2)	0.0	(1.9)	(4.8)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	5.85	0.80	(16.0)	(7.6)	(5.3)
Other Operating CF	(0.1)	0.07	0.0	0.0	0.0
<b>Net Operating CF</b>	<b>9.55</b>	<b>2.89</b>	<b>(0.5)</b>	<b>21.9</b>	<b>29.3</b>
Capital Exp.(net)	(1.0)	(4.5)	(14.0)	(17.7)	(10.7)
Other Invt.(net)	0.0	(1.1)	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	(0.4)	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.08	(10.0)	(7.0)	0.0	0.0
<b>Net Investing CF</b>	<b>(0.9)</b>	<b>(16.0)</b>	<b>(21.0)</b>	<b>(17.7)</b>	<b>(10.7)</b>
Div Paid	0.0	(0.9)	0.0	0.0	0.0
Chg in Gross Debt	0.73	(3.1)	10.0	0.0	0.0
Capital Issues	0.0	15.7	0.0	0.0	0.0
Other Financing CF	0.0	0.87	(2.7)	(2.0)	(3.9)
<b>Net Financing CF</b>	<b>0.69</b>	<b>12.6</b>	<b>7.34</b>	<b>(2.0)</b>	<b>(3.9)</b>
Currency Adjustments	0.39	0.85	0.0	0.0	0.0
Chg in Cash	9.71	0.39	(14.1)	2.20	14.7
Opg CFPS (\$ cts)	4.18	0.95	6.44	12.2	14.4
Free CFPS (\$ cts)	9.65	(0.7)	(6.0)	1.73	7.72

Assume up to 6 sets by end-2017 – in line with management's guidance

Source: Company, DBS Bank

**Target Price & Ratings History**



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

S.No.	Date	Closing Price	Target Price	Rating
1:	30 May 16	0.79	1.03	BUY
2:	03 Jun 16	0.85	1.03	BUY

Source: DBS Bank

DBS Bank recommendations are based on an 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*

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**DBS Bank Ltd**

12 Marina Boulevard, Marina Bay Financial Centre Tower 3

Singapore 018982

Tel. 65-6878 8888

Company Regn. No. 196800306E