

16 August 2017

Consumer Cyclical | Entertainment

Spackman Entertainment

Buy (Maintained)

Kicks Off First Acquisition Spree

Target Price: SGD0.23
 Price: SGD0.10
 Market Cap: USD34.7m
 Bloomberg Ticker: SEG SP

On 14 Aug, Spackman announced its proposed acquisition of Take Pictures, a start-up film production company founded by a veteran movie producer. Take Pictures currently has a strong line-up of 10 film projects. Acquiring this company would enable Spackman to expand its annual movie production capacity – which is in line with its commitment to continually seek acquisitions that strategically add accretive value to its existing movie production business.

Share Data

Avg Daily Turnover (SGD/USD) 1.37m/1.00m
 52-wk Price low/high (SGD) 0.09 - 0.20
 Free Float (%) 27
 Shares outstanding (m) 463
 Estimated Return 125%

Take Pictures was founded and is owned by veteran producer Mr Song Dae-Chan. Mr Song spent 13 years working alongside Spackman Entertainment Group's (Spackman) chief producer, Ms Eugene Lee who is also the CEO of Zip Cinema. He began his career in 2002, apprenticing under Mr Kang Je-kyu, the director of classic hits like *Shiri* (1999) and *Taegukki* (2004) at the eponymous film company, Kang Je-Gyu Film Company. Mr Song continued his career at BOM Pictures, working with Ms Lee on the feature, *A Bittersweet Life* (2005), before joining her at Zip Cinema – where they collaborated on numerous projects for the next 12 years.

Shareholders (%)

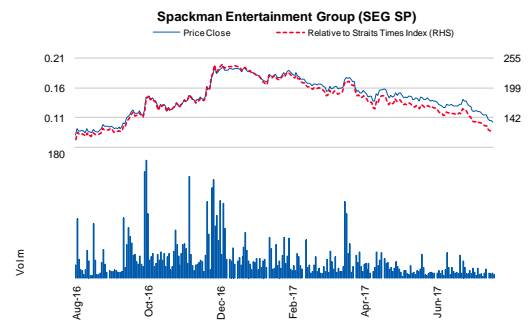
Spackman Equities Group 38.8
 Lee Yoo Jin 5.8
 Havenport Asset Management 3.6

Increasing Spackman's annual movie production capacity. Take Pictures, a start-up motion picture production company founded by Mr Song, has developed and owns a strong line-up of 10 film projects. The projects include those co-produced with Spackman's indirect, wholly-owned subsidiary Zip Cinema, like *The Priests 2*.

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(46.9)	(21.5)	(31.6)	(45.5)	25.9
Relative	(61.8)	(22.1)	(33.0)	(52.6)	10.5

Source: Bloomberg



Source: Bloomberg

Golden Slumber slated for 2H17 release. *Golden Slumber*, a remake of the 2010 Japanese film with the same name, is based on a novel by Isaka Kotaro. The film is about a mail courier who is falsely accused of assassinating a presidential candidate. The movie will star A-list Korean artistes – Mr Kang Dong-Won plays Kim Gun Woo, the mail courier, while Ms Han Hyo-joo plays Sun Young, his first love and a traffic news announcer. Filming is already close to being completed, and the movie may hit the big screen by 2H17. Similar to *Master*, *Golden Slumber* is produced by Zip Cinema and will be distributed by CJ Entertainment. With Spackman's proven track record, we expect this movie to be profitable. We also conservatively estimate (ie base case) 4m ticket admissions for this movie, which would likely yield a profit of USD2.6m for Spackman.

Undertaking a strategic review, embarking on more acquisitions. Management said that it is reviewing future acquisition opportunities, and intends to reshape its business model to diversify its revenue stream. It would also aggressively pursue new acquisitions that enable Spackman to have a more consistent revenue stream and be less reliant on the box office performance of its movies. However, due to higher-than-expected marketing costs for *Master*, we cut our FY17F NPAT by 14.5%. Thus, our DCF-based TP drops to SGD0.23. Maintain BUY. The downside risk to our call is a poorer-than-expected reception to its movies.

Forecasts and Valuations	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Total turnover (USDm)	17.8	14.5	48.4	37.0	37.7
Reported net profit (USDm)	(1.27)	(3.24)	4.01	5.58	6.33
Recurring net profit (USDm)	(1.62)	(3.24)	4.01	5.58	6.33
Recurring net profit growth (%)	(80.0)	100.2	0.0	39.3	13.4
Recurring EPS (USD)	(0.00)	(0.01)	0.01	0.01	0.01
DPS (USD)	na	na	0.001	0.001	0.001
Recurring P/E (x)	na	na	8.66	6.22	5.48
P/B (x)	1.98	2.53	2.25	1.70	1.33
P/CF (x)	na	6.33	7.77	5.52	5.28
Dividend Yield (%)	na	na	1.2	1.6	1.8
EV/EBITDA (x)	na	na	3.56	1.85	0.95
Return on average equity (%)	(8.1)	(24.1)	29.4	31.1	27.2
Net debt to equity	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted)					

Source: Company data, RHB

Analyst

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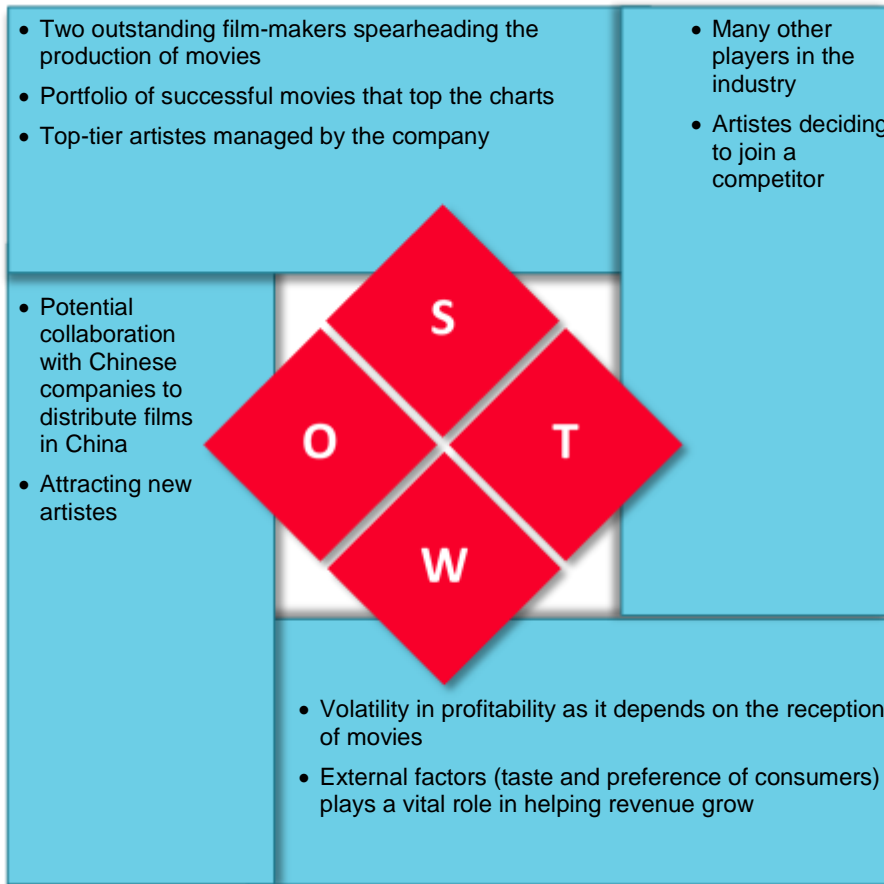
Financial Exhibits

Financial model updated on : 2017-08-15.

Asia	Financial summary	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Singapore	Recurring EPS (USD)	(0.00)	(0.01)	0.01	0.01	0.01
Consumer Cyclical	EPS (USD)	(0.00)	(0.01)	0.01	0.01	0.01
Spackman	DPS (USD)	0.000	0.000	0.001	0.001	0.001
Bloomberg	BVPS (USD)	0.04	0.03	0.03	0.04	0.06
SEG SP	Weighted avg adjusted shares (m)	399	463	463	463	463
Buy						
	Valuation basis					
18x FY17F P/E, backed by DCF.	Valuation metrics	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
	Recurring P/E (x)	na	na	8.66	6.22	5.48
	P/E (x)	na	na	8.66	6.22	5.48
	P/B (x)	1.98	2.53	2.25	1.70	1.33
	FCF Yield (%)	(64.7)	12.9	12.3	17.5	18.4
	Dividend Yield (%)	0.0	0.0	1.2	1.6	1.8
	EV/EBITDA (x)	na	na	3.56	1.85	0.95
	EV/EBIT (x)	na	na	3.74	1.92	0.98
	Key drivers					
i. Upcoming movies becoming a success;						
ii. Inking partnership deals.						
	Key risks					
Reception of movies produced being directly linked to ticket sales.						
	Company Profile					
Spackman Entertainment Group's businesses span theatrical motion pictures, documentaries, talent management as well as studio photography. With three film production labels at the core operations of the business, the company is primarily involved in producing, presenting and distributing films.						
	Income statement (USDm)	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Total turnover	17.8	14.5	48.4	37.0	37.7	
Gross profit	7.8	1.3	7.7	9.4	10.2	
EBITDA	(0.9)	(2.5)	5.3	7.2	8.1	
Depreciation and amortisation	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)	
Operating profit	(1.0)	(2.7)	5.0	6.9	7.9	
Net interest	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	
Exceptional income - net	0.2	0.0	0.0	0.0	0.0	
Pre-tax profit	(0.9)	(2.8)	4.9	6.8	7.7	
Taxation	(0.4)	(0.4)	(0.9)	(1.2)	(1.4)	
Recurring net profit	(1.6)	(3.2)	4.0	5.6	6.3	
	Cash flow (USDm)	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Change in working capital	(19.7)	8.4	0.1	0.3	(0.1)	
Cash flow from operations	(16.6)	5.5	4.5	6.3	6.6	
Capex	(2.8)	(1.0)	(0.2)	(0.2)	(0.2)	
Cash flow from investing activities	(7.9)	(1.0)	(0.2)	(0.2)	(0.2)	
Dividends paid	0.0	0.0	(0.4)	(0.6)	(0.6)	
Cash flow from financing activities	16.7	(0.1)	0.5	0.3	(0.8)	
Cash at beginning of period	12.2	4.1	8.5	13.2	19.6	
Net change in cash	(7.7)	4.4	4.7	6.4	5.6	
Ending balance cash	4.1	8.5	13.2	19.6	25.2	
	Balance sheet (USDm)	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Total cash and equivalents	11.0	15.4	20.1	26.5	32.1	
Tangible fixed assets	3.3	4.1	4.1	4.0	4.0	
Intangible assets	0.8	0.8	0.8	0.8	0.8	
Total investments	3.6	3.6	3.6	3.6	3.6	
Total other assets	1.8	1.8	1.8	1.8	1.8	
Total assets	57.3	51.6	57.2	58.6	64.3	
Short-term debt	3.1	3.1	4.1	5.1	5.1	
Total long-term debt	2.0	2.0	2.0	2.0	2.0	
Other liabilities	0.0	0.0	0.0	0.0	0.0	
Total liabilities	40.6	38.1	40.2	36.5	36.5	
Shareholders' equity	15.1	11.8	15.4	20.5	26.1	
Minority interests	1.6	1.6	1.6	1.6	1.6	
Total equity	16.7	13.5	17.1	22.1	27.8	
Net debt	(5.9)	(10.3)	(14.0)	(19.4)	(25.0)	
Total liabilities & equity	57.3	51.6	57.2	58.6	64.3	
	Key metrics	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Revenue growth (%)	13.9	(18.4)	234.2	(23.7)	1.9	
Recurrent EPS growth (%)	(80.0)	72.4	0.0	39.3	13.4	
Gross margin (%)	44.1	8.8	15.9	25.6	27.0	
Operating EBITDA margin (%)	(5.1)	(17.6)	10.9	19.5	21.5	
Net profit margin (%)	(7.2)	(22.3)	8.3	15.1	16.8	
Capex/sales (%)	15.7	6.9	0.4	0.5	0.5	
Interest cover (x)	(13.7)	(27.0)	41.1	49.0	55.5	

Source: Company data, RHB

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2017-04-05	Buy	0.27	0.16
2017-01-08	Buy	0.32	0.19
2016-12-27	Buy	0.32	0.19
2016-10-12	Buy	0.22	0.11

Source: RHB, Bloomberg

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