

9 January 2017

Consumer Cyclical | Entertainment

## Spackman

**Buy** (Maintained)

### Next Hit - Golden Slumber in 2Q17

With *Master* being a big hit, Zip Cinemas, under SEG, has affirmed its status as a premium Korean movie producer. Earnings from *Master* would be reflected in 1Q17F instead of FY16F due to timing of the screening. Their next production – *Golden Slumber*, a manhunt thriller is slated for 2H17 and top A-listers Kang Dong Won and Han Hyo Joo would star in the movie. With investors looking for continuity in earnings, we believe that this movie, coupled with future productions should drive earnings and drive its turnaround. Maintain BUY with TP of SGD0.32 (71% upside).

A superb 1Q17F with profits from *Master*. FY16F would still be a loss making year for Spackman Entertainment Group (SEG) due to operating costs from OPUS Pictures which was only disposed in Aug 2016 while profits from the blockbuster – *Master*, would only be recorded in 1Q17F. This is mainly because SEG is not the presenter nor distributor of the movie and would only be able to get a share of the consolidated earnings from the movie after screening ends. This also means that SEG's earnings should see a spike in 1Q17F, as most of the profits from *Master*, including its ancillary income (worldwide sales) would likely kick in by then.

*Master* to hit Singapore screens on 13<sup>th</sup> Jan 2017. The worldwide release for *Master* has started. It was released in the US on 6<sup>th</sup> Jan, followed by Hong Kong on 12<sup>th</sup> Jan. It would be distributed by Clover Films in Singapore on 13<sup>th</sup> Jan with subsequent release in a total of 31 countries.

**Next hit – Golden Slumber slated for 2H17.** *Golden Slumber*, is a remake of the 2010 Japanese film of the same name based on the novel by Isaka Kotaro. The film is about a mail courier who is falsely accused of assassinating a presidential candidate. Top Korean A-Listers, Kang Dong Won would play the role of Kim Gun Woo, the mail courier while Han Hyo Joo would play Sun Young, his first love and a traffic news announcer. Filming for this movie is expected to start in 1Q17, and it would likely hit the big screen by June 2017. Similar to *Master*, this film would be produced by ZIP cinemas and distributed by CJ Entertainment. With the proven track record, we expect the movie to be profitable and expect a conservative base case of 4m ticket admissions, which would likely yield profits of USD2.6m for SEG.

**2017 is an inflection point; maintain BUY.** We believe that FY17F would be the inflection point for SEG back into strong profitability, driven by earnings from *Master* which is already yielding operating profits of USD4m based on current admissions. This is coupled with the release of *Golden Slumber* and other movies slated for FY17F as well as the disposal of OPUS Pictures in 2016. The number of movies produced by Zip Cinemas would likely increase going forward on the back of the success of *The Priest* (2015) and *Master* (2016). We maintain our BUY recommendation with an unchanged DCF-based TP of SGD0.32 (WACC: 6.3% and TG: 1%) implying a 18x FY17F P/E. Key risk include weaker-than-expected reception of movies produced directly the company.

Target Price:	SGD0.32
Price:	SGD0.19
Market Cap:	USD52.0m
Bloomberg Ticker:	SEG SP

#### Share Data

Avg Daily Turnover (SGD/USD)	6.78m/4.78m
52-wk Price low/high (SGD)	0.08 - 0.20
Free Float (%)	27
Shares outstanding (m)	399
Estimated Return	71%

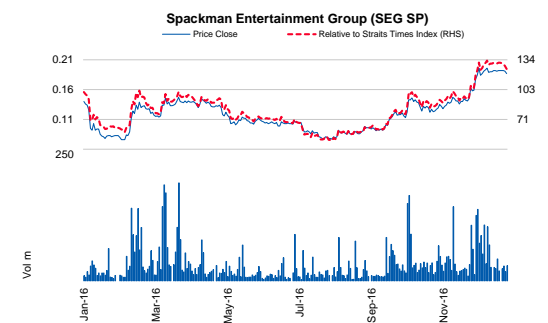
#### Shareholders (%)

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

#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(2.6)	29.0	58.5	81.6	29.0
Relative	(5.4)	28.5	55.8	78.2	23.4

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Total turnover (USDm)	15.6	17.8	14.5	47.5	37.0
Reported net profit (USDm)	(8.08)	(1.27)	(3.24)	4.93	5.58
Recurring net profit (USDm)	(8.08)	(1.62)	(3.24)	4.93	5.58
Recurring net profit growth (%)	(410.0)	(80.0)	100.2	0.0	13.2
Recurring EPS (USD)	(0.02)	(0.00)	(0.01)	0.01	0.01
DPS (USD)	na	na	na	0.001	0.001
Recurring P/E (x)	na	na	na	10.6	9.3
P/B (x)	3.21	3.45	4.40	3.20	2.44
P/CF (x)	na	na	9.49	9.88	8.12
Dividend Yield (%)	na	na	na	0.9	1.1
EV/EBITDA (x)	na	na	na	5.54	4.14
Return on average equity (%)	(64.3)	(8.1)	(24.1)	35.1	29.7
Net debt to equity	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted)					

Source: Company data, RHB

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## Financial Exhibits

Financial model updated on : 2017-01-08.

Asia	<b>Financial summary</b>	<b>Dec-14</b>	<b>Dec-15</b>	<b>Dec-16F</b>	<b>Dec-17F</b>	<b>Dec-18F</b>
Singapore	Recurring EPS (USD)	(0.02)	(0.00)	(0.01)	0.01	0.01
Consumer Cyclical	EPS (USD)	(0.02)	(0.00)	(0.01)	0.01	0.01
<b>Spackman</b>	DPS (USD)	0.000	0.000	0.000	0.001	0.001
Bloomberg	BVPS (USD)	0.04	0.04	0.03	0.04	0.05
SEG SP	Weighted avg adjusted shares (m)	399	399	399	399	399
<b>Buy</b>						
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-14</b>	<b>Dec-15</b>	<b>Dec-16F</b>	<b>Dec-17F</b>	<b>Dec-18F</b>
18x FY17F P/E backed by DCF	Recurring P/E (x)	na	na	na	10.6	9.3
<b>Key drivers</b>	P/E (x)	na	na	na	10.6	9.3
Success on upcoming movies, partnership deals	P/B (x)	3.21	3.45	4.40	3.20	2.44
<b>Key risks</b>	FCF Yield (%)	(23.3)	(37.2)	8.6	9.7	11.9
Weaker than expected reception of movies produced directly by the company	Dividend Yield (%)	0.0	0.0	0.0	0.9	1.1
	EV/EBITDA (x)	na	na	na	5.54	4.14
	EV/EBIT (x)	na	na	na	5.76	4.29
<b>Company Profile</b>	<b>Income statement (USDm)</b>	<b>Dec-14</b>	<b>Dec-15</b>	<b>Dec-16F</b>	<b>Dec-17F</b>	<b>Dec-18F</b>
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 motion films.	Total turnover	15.6	17.8	14.5	47.5	37.0
	Gross profit	0.0	7.8	1.3	8.8	9.4
	EBITDA	(7.3)	(0.9)	(2.5)	6.4	7.2
	Depreciation and amortisation	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)
	Operating profit	(7.4)	(1.0)	(2.7)	6.1	6.9
	Net interest	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
	Exceptional income - net	0.0	0.2	0.0	0.0	0.0
	Pre-tax profit	(7.5)	(0.9)	(2.8)	6.0	6.8
	Taxation	(0.6)	(0.4)	(0.4)	(1.1)	(1.2)
	Recurring net profit	(8.1)	(1.6)	(3.2)	4.9	5.6
<b>Valuation chart</b>	<b>Cash flow (USDm)</b>	<b>Dec-14</b>	<b>Dec-15</b>	<b>Dec-16F</b>	<b>Dec-17F</b>	<b>Dec-18F</b>
	Change in working capital	(4.2)	(19.7)	8.4	(0.0)	0.4
	Cash flow from operations	(11.8)	(16.6)	5.5	5.3	6.4
	Capex	(0.3)	(2.8)	(1.0)	(0.2)	(0.2)
	Cash flow from investing activities	(0.7)	(7.9)	(1.0)	(0.2)	(0.2)
	Proceeds from issue of shares	14.1	0.0	0.0	0.0	0.0
	Dividends paid	0.0	0.0	0.0	(0.5)	(0.6)
	Cash flow from financing activities	15.7	16.7	(0.1)	0.4	0.3
	Cash at beginning of period	9.2	12.2	4.1	8.5	13.9
	Net change in cash	3.2	(7.7)	4.4	5.5	6.5
	Ending balance cash	12.2	4.1	8.5	13.9	20.4
	<b>Balance sheet (USDm)</b>	<b>Dec-14</b>	<b>Dec-15</b>	<b>Dec-16F</b>	<b>Dec-17F</b>	<b>Dec-18F</b>
	Total cash and equivalents	15.7	11.0	15.4	20.8	27.3
	Tangible fixed assets	0.9	3.3	4.1	4.1	4.0
	Intangible assets	3.4	0.8	0.8	0.8	0.8
	Total investments	0.0	3.6	3.6	3.6	3.6
	Total other assets	2.0	1.8	1.8	1.8	1.8
	Total assets	31.9	57.3	51.6	57.3	59.5
	Short-term debt	1.2	3.1	3.1	4.1	5.1
	Total long-term debt	0.0	2.0	2.0	2.0	2.0
	Other liabilities	0.0	0.0	0.0	0.0	0.0
	Total liabilities	14.6	40.6	38.1	39.4	36.5
	Shareholders' equity	16.2	15.1	11.8	16.3	21.3
	Minority interests	1.1	1.6	1.6	1.6	1.6
	Total equity	17.3	16.7	13.5	17.9	22.9
	Net debt	(14.4)	(5.9)	(10.3)	(14.7)	(20.2)
	Total liabilities & equity	31.9	57.3	51.6	57.3	59.5
	<b>Key metrics</b>	<b>Dec-14</b>	<b>Dec-15</b>	<b>Dec-16F</b>	<b>Dec-17F</b>	<b>Dec-18F</b>
	Revenue growth (%)	31.2	13.9	(18.4)	227.5	(22.1)
	Recurrent EPS growth (%)	(407.3)	(80.0)	100.2	0.0	13.2
	Gross margin (%)	0.3	44.1	8.8	18.6	25.6
	Operating EBITDA margin (%)	(46.9)	(5.1)	(17.6)	13.4	19.5
	Net profit margin (%)	(51.8)	(7.2)	(22.3)	10.4	15.1
	Capex/sales (%)	2.0	15.7	6.9	0.4	0.5
	Interest cover (x)	(70.7)	(13.7)	(27.0)	50.4	49.0

Source: Company data, RHB

**Figure 1: Projection of profits from Master**

Ticket Admissions (m)	Profits (USDm)
6.5	4.3
7	4.9
<b>7.5</b>	<b>5.6</b>
8	6.3
8.5	7.0

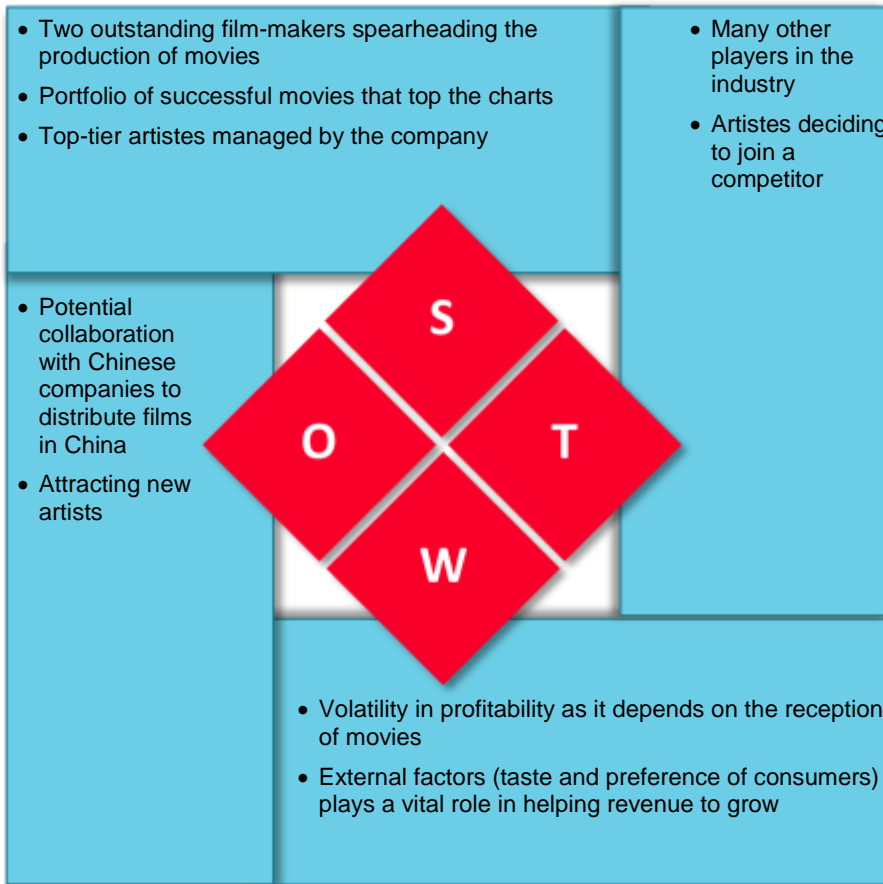
Source: RHB estimates

**Figure 2: Projection of profits from Golden Slumber**

Ticket Admissions (m)	Profits (USDm)
2	0.1
3	1.2
<b>4</b>	<b>2.6</b>
5	4.0
6	5.5

Source: RHB estimates

## SWOT Analysis



## Recommendation Chart



Date	Recommendation	Target Price	Price
2016-12-27	Buy	0.32	0.19
2016-10-12	Buy	0.22	0.11

Source: RHB, Bloomberg

Source: RHB, Bloomberg

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**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

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