

16 May 2018

Consumer Cyclical | Entertainment

## Spackman Entertainment

**Buy** (Maintained)

### Still Upbeat On a 2H18F Turnaround

Target Price: SGD0.10  
 Price: SGD0.07  
 Market Cap: USD37.9m  
 Bloomberg Ticker: SEG SP

**Maintain BUY, while we cut our TP to SGD0.10 (from SGD0.20) to imply a FY18F P/E of 14x. Spackman's disappointing 1Q18 was mainly due to the absence of profits recognised from its blockbuster movie, *Master*, and the underperformance of *Golden Slumber* – as a result of the latter, we slash FY18F PATMI by 33%. However, with yield-accretive acquisitions done in 2017 boosting the company's recurring income – while another potential hit, *Sovereign Default* is set to hit the big screen in 2H18 – we keep our positive outlook, premised on a future comeback.**

#### Share Data

Avg Daily Turnover (SGD/USD) 0.91m/0.69m  
 52-wk Price low/high (SGD) 0.07 - 0.15  
 Free Float (%) 58  
 Shares outstanding (m) 517  
 Estimated Return 37%

#### Shareholders (%)

Spackman Equities Group 33.0  
 Lee Yoo Jin 5.0  
 Lee Tae-Hun 3.1

#### Share Performance (%)

|          | YTD    | 1m     | 3m     | 6m     | 12m    |
|----------|--------|--------|--------|--------|--------|
| Absolute | (24.0) | (14.1) | (24.8) | (34.8) | (51.0) |
| Relative | (28.7) | (15.8) | (28.3) | (40.6) | (60.1) |

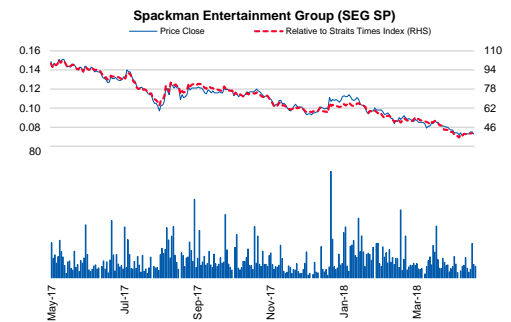
Source: Bloomberg

**Profits tanked due to the absence of blockbusters.** Spackman Entertainment Group (Spackman) reported a disappointing 1Q18, mainly because of the absence of profits recognised from its blockbuster movie, *Master*, and the underperformance of *Golden Slumber*. However, revenue grew 31% YoY to USD10.5m, partially due to the contribution of USD2.5m from the acquisitions that the company has made so far, as well as USD4.5m from the post-theatrical distribution of *The Outlaws*.

**Acquisitions were made to build a base of recurring income.** Previously, close to 100% of Spackman's revenue was from producing films. Revenue from popular movies would lead to a positive swing in its P&L, just like what happened in FY15 and FY16. However, it also made a number of acquisitions in January as well as in 2017, that are yield-accretive and would likely contribute positively to its P&L. This should build its base of recurring PATMI, which we estimate at USD1.5-2m pa. We expect management to continue adding more recurring complementary revenue streams in the future, in order to reduce its reliance on the more unpredictable movie-making business.

***Sovereign Default* to be launched in 2H18.** This Spackman-produced movie on the Korean financial crisis stars top Korean actors Yoo Ah-in, who is managed by Spackman Media Group, and Kim Hye-soo. The film, which will be distributed by CJ Entertainment, is scheduled to begin screening in Korean cinemas in 2H18. The movie's estimated total production budget (including prints and advertising costs) is tentatively set at approximately USD8.6m. It could also boost Spackman's earnings, if ticket sales are healthy. For now, we have a conservative 4.5m ticket sales estimate for the movie, which would yield a net profit of USD2.5m for the company.

**Maintain BUY, with a lower DCF-backed TP of SGD0.10.** We slash its FY18F PATMI by 33% to reflect the underperformance of *Golden Slumber*. However, with the yield-accretive acquisitions done in 2017 boosting its recurring income, while *Sovereign Default* is anticipated to hit the screens in 2H18, we remain positive on Spackman's outlook – based on an anticipated recovery in its financial performance. The key risk to our call is the volatility in profitability, as Spackman's performance depends on the audience's reception to its movies



Source: Bloomberg

| Forecasts and Valuations        | Dec-16   | Dec-17   | Dec-18F  | Dec-19F  | Dec-20F  |
|---------------------------------|----------|----------|----------|----------|----------|
| Total turnover (USDm)           | 15.1     | 20.6     | 36.9     | 41.4     | 41.4     |
| Reported net profit (USDm)      | (2.25)   | 3.02     | 2.75     | 4.03     | 4.03     |
| Recurring net profit (USDm)     | (2.25)   | 3.02     | 2.75     | 4.03     | 4.03     |
| Recurring net profit growth (%) | 37.5     | (8.9)    | 46.4     | 0.1      |          |
| Recurring EPS (USD)             | (0.005)  | 0.006    | 0.005    | 0.008    | 0.008    |
| DPS (USD)                       | na       | na       | 0.001    | 0.001    | 0.001    |
| Recurring P/E (x)               | na       | 9.4      | 10.3     | 7.0      | 7.0      |
| P/B (x)                         | 1.74     | 0.98     | 0.90     | 0.81     | 0.73     |
| P/CF (x)                        | 4.0      | na       | 17.9     | 6.8      | 6.2      |
| Dividend Yield (%)              | na       | na       | 1.0      | 1.4      | 1.4      |
| EV/EBITDA (x)                   | na       | 2.43     | 2.68     | 1.34     | 0.69     |
| Return on average equity (%)    | (16.3)   | 14.6     | 9.1      | 12.1     | 11.0     |
| 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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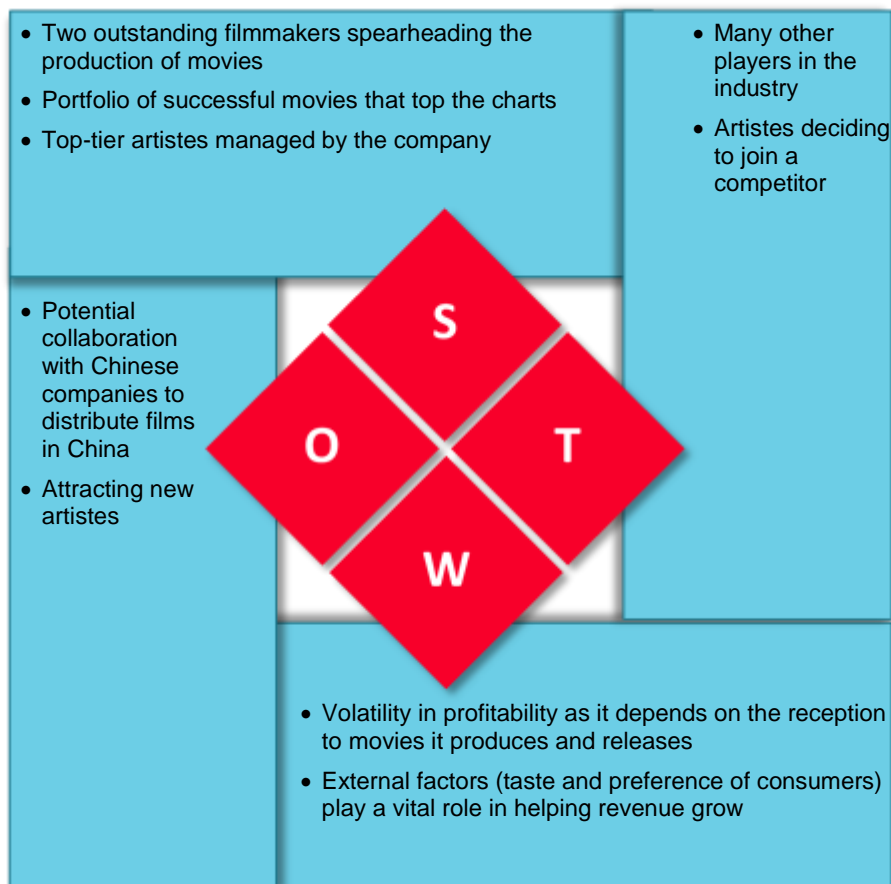
## Financial Exhibits

Financial model updated on : 2018-05-15.

|   |                                     |               |               |                |                |                |
|---|-------------------------------------|---------------|---------------|----------------|----------------|----------------|
| Asia  | <b>Financial summary</b>            | <b>Dec-16</b> | <b>Dec-17</b> | <b>Dec-18F</b> | <b>Dec-19F</b> | <b>Dec-20F</b> |
| Singapore   | Recurring EPS (USD)                 | (0.005)       | 0.006         | 0.005          | 0.008          | 0.008          |
| Consumer Cyclical   | EPS (USD)                           | (0.005)       | 0.006         | 0.005          | 0.008          | 0.008          |
| <b>Spackman Entertainment</b>   | DPS (USD)                           | 0.000         | 0.000         | 0.001          | 0.001          | 0.001          |
| Bloomberg   | BVPS (USD)                          | 0.03          | 0.06          | 0.06           | 0.07           | 0.07           |
| SEG SP  | Weighted avg adjusted shares (m)    | 463           | 517           | 517            | 517            | 517            |
| <b>Buy</b>  |                                     |               |               |                |                |                |
|   | <b>Valuation basis</b>              |               |               |                |                |                |
| 14x FY18F P/E, backed by DCF  | <b>Valuation metrics</b>            | <b>Dec-16</b> | <b>Dec-17</b> | <b>Dec-18F</b> | <b>Dec-19F</b> | <b>Dec-20F</b> |
|   | Recurring P/E (x)                   | na            | 9.4           | 10.3           | 7.0            | 7.0            |
|   | P/E (x)                             | na            | 9.4           | 10.3           | 7.0            | 7.0            |
|   | P/B (x)                             | 1.74          | 0.98          | 0.90           | 0.81           | 0.73           |
|   | FCF Yield (%)                       | 24.4          | (11.5)        | 3.8            | 12.9           | 14.4           |
|   | Dividend Yield (%)                  | 0.0           | 0.0           | 1.0            | 1.4            | 1.4            |
|   | EV/EBITDA (x)                       | na            | 2.43          | 2.68           | 1.34           | 0.69           |
|   | EV/EBIT (x)                         | na            | 2.94          | 3.02           | 1.46           | 0.75           |
|   | <b>Key drivers</b>                  |               |               |                |                |                |
| i. Success in upcoming movies   |                                     |               |               |                |                |                |
| ii. Partnership deals.  |                                     |               |               |                |                |                |
|   | <b>Key risks</b>                    |               |               |                |                |                |
| Reception of movies produced being directly linked to ticket sales  |                                     |               |               |                |                |                |
|   | <b>Company Profile</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 pictures. |                                     |               |               |                |                |                |
|   | <b>Income statement (USDm)</b>      | <b>Dec-16</b> | <b>Dec-17</b> | <b>Dec-18F</b> | <b>Dec-19F</b> | <b>Dec-20F</b> |
|   | Total turnover                      | 15.1          | 20.6          | 36.9           | 41.4           | 41.4           |
|   | Gross profit                        | (4.0)         | 8.3           | 7.2            | 8.6            | 8.6            |
|   | EBITDA                              | (2.0)         | 4.6           | 3.9            | 5.5            | 5.5            |
|   | Depreciation and amortisation       | (0.2)         | (0.8)         | (0.4)          | (0.4)          | (0.4)          |
|   | Operating profit                    | (2.3)         | 3.8           | 3.5            | 5.1            | 5.1            |
|   | Net interest                        | (0.1)         | (0.1)         | (0.1)          | (0.1)          | (0.1)          |
|   | Pre-tax profit                      | (2.4)         | 3.7           | 3.4            | 5.0            | 5.0            |
|   | Taxation                            | 0.1           | (0.7)         | (0.6)          | (0.9)          | (0.9)          |
|   | Recurring net profit                | (2.3)         | 3.0           | 2.8            | 4.0            | 4.0            |
|   | <b>Cash flow (USDm)</b>             | <b>Dec-16</b> | <b>Dec-17</b> | <b>Dec-18F</b> | <b>Dec-19F</b> | <b>Dec-20F</b> |
|   | Change in working capital           | 15.5          | (4.4)         | (1.7)          | (0.4)          | (0.0)          |
|   | Cash flow from operations           | 6.4           | (1.7)         | 1.6            | 4.1            | 4.6            |
|   | Capex                               | (0.2)         | (1.6)         | (0.5)          | (0.5)          | (0.5)          |
|   | Cash flow from investing activities | 1.7           | (6.6)         | (0.5)          | (0.5)          | (0.5)          |
|   | Dividends paid                      | 0.0           | 0.0           | (0.3)          | (0.4)          | (0.4)          |
|   | Cash flow from financing activities | (8.0)         | 6.3           | (0.4)          | (0.5)          | (0.5)          |
|   | Cash at beginning of period         | 4.1           | 5.9           | 6.2            | 6.9            | 10.1           |
|   | Net change in cash                  | 0.1           | (2.0)         | 0.7            | 3.1            | 3.6            |
|   | Ending balance cash                 | 5.9           | 6.2           | 6.9            | 10.1           | 13.7           |
|   | <b>Balance sheet (USDm)</b>         | <b>Dec-16</b> | <b>Dec-17</b> | <b>Dec-18F</b> | <b>Dec-19F</b> | <b>Dec-20F</b> |
|   | Total cash and equivalents          | 10.4          | 12.9          | 13.6           | 16.7           | 20.3           |
|   | Tangible fixed assets               | 3.1           | 7.1           | 7.2            | 7.3            | 7.3            |
|   | Intangible assets                   | 0.9           | 5.8           | 5.8            | 5.7            | 5.7            |
|   | Total investments                   | 3.4           | 9.3           | 9.3            | 9.3            | 9.3            |
|   | Total other assets                  | 0.5           | 1.8           | 1.8            | 1.8            | 1.8            |
|   | Total assets                        | 22.0          | 46.4          | 50.9           | 55.6           | 59.3           |
|   | Short-term debt                     | 0.0           | 1.3           | 1.3            | 1.3            | 1.3            |
|   | Total long-term debt                | 2.0           | 3.0           | 3.0            | 3.0            | 3.0            |
|   | Total liabilities                   | 8.8           | 16.7          | 18.7           | 19.8           | 19.8           |
|   | Shareholders' equity                | 12.6          | 28.9          | 31.4           | 35.0           | 38.7           |
|   | Minority interests                  | 0.6           | 0.8           | 0.8            | 0.8            | 0.8            |
|   | Total equity                        | 13.2          | 29.7          | 32.2           | 35.8           | 39.4           |
|   | Net debt                            | (8.4)         | (8.6)         | (9.3)          | (12.4)         | (16.0)         |
|   | Total liabilities & equity          | 22.0          | 46.4          | 50.9           | 55.6           | 59.3           |
|   | <b>Key metrics</b>                  | <b>Dec-16</b> | <b>Dec-17</b> | <b>Dec-18F</b> | <b>Dec-19F</b> | <b>Dec-20F</b> |
|   | Revenue growth (%)                  | (14.8)        | 35.8          | 79.5           | 12.3           | 0.0            |
|   | Recurrent EPS growth (%)            | 18.4          |               | (8.9)          | 46.4           | 0.1            |
|   | Gross margin (%)                    | (26.4)        | 40.3          | 19.5           | 20.6           | 20.7           |
|   | Operating EBITDA margin (%)         | (13.3)        | 22.5          | 10.7           | 13.3           | 13.3           |
|   | Net profit margin (%)               | (14.9)        | 14.7          | 7.5            | 9.7            | 9.7            |
|   | Capex/sales (%)                     | 1.3           | 7.5           | 1.4            | 1.2            | 1.2            |
|   | Interest cover (x)                  | (18.7)        | 38.2          | 34.9           | 50.6           | 50.7           |

Source: Company data, RHB

## SWOT Analysis



## Recommendation Chart



Source: RHB, Bloomberg

| Date       | Recommendation | Target Price | Price |
|------------|----------------|--------------|-------|
| 2017-11-15 | Buy            | 0.20         | 0.11  |
| 2017-10-11 | Buy            | 0.20         | 0.12  |
| 2017-08-15 | Buy            | 0.23         | 0.10  |
| 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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**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months

**Take Profit:** Target price has been attained. Look to accumulate at lower levels

**Sell:** Share price may fall by more than 10% over the next 12 months

**Not Rated:** Stock is not within regular research coverage

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