

6 April 2017

Consumer Cyclical | Entertainment

## Spackman Entertainment

**Buy** (Maintained)

Target Price: SGD0.27  
 Price: SGD0.16  
 Market Cap: USD52.6m  
 Bloomberg Ticker: SEG SP

### Positive M&A Cements Outlook For a Superb 1Q17F

Spackman has acquired Frame Pictures – a leading Korean movie equipment business with a FY16 NPAT of USD0.8m – for SGD1.12m and 0.497m shares of SMG. We feel that this is a positive move that also cements the credibility of the value of SMG’s stock, which it intends to list in Hong Kong in 2018. The proceeds from its movie, *MASTER*, would also help to ensure that it books record earnings in 1Q17. As such, we maintain our BUY call. Our TP dips to SGD0.27 (from SGD0.32) due to the dilution stemming from the placement of 64.2m new shares recently.

**Positive acquisition of Frame Pictures.** Spackman Entertainment Group (Spackman) has acquired Frame Pictures – a leading Korean movie equipment business that recorded a FY16 NPAT of USD0.8m – for SGD1.12m and 0.497m shares of Spackman Media Group (SMG). We believe this acquisition is positive and would be earnings-accretive for Spackman. Frame Pictures would also provide it with a more recurring business stream on top of its current movie production business.

**Adding credibility To SMG’s value.** Its associate, SMG, aims to be listed on the Hong Kong Exchange in 2018. SMG is a hidden gem that may be worth around USD45m, or USD7 per share, after comparing it to its peers and against acquisitions completed in the past 2-3 years. The Frame Pictures acquisition would further add more credibility to SMG’s value if we assume the acquisition is priced at 4-6x FY16P/E. If this is so, SMG’s value per share would be between USD4.70 and USD8.00.

**MASTER ensures record 1Q17 profit.** Most of the profits from *MASTER* would actually be booked in 1Q17 and not in 4Q16, due to the timing of the movie hitting the big screens. Also, as Spackman is not the movie’s presenter or distributor, it would only be able to get a share of the movie’s consolidated earnings after the screenings end. This also means that Spackman’s earnings should spike in 1Q17, as most of the profits from *MASTER*, including its ancillary income (worldwide sales), would likely kick in by then. We expect *MASTER* to generate around USD5m of profit for the company.

**BUY, as 2017 is an inflection point.** We expect Spackman to bounce back into strong profitability in FY17. This would be driven by earnings from *MASTER* as well as the release of its next potential hit, *Golden Slumber*, and other movies slated for this year. In addition, it also raised SGD5.95m from issuing 38.1m new shares at SGD0.161 per share. With these proceeds, coupled with the income received from *MASTER*, it would be able to invest and produce more movies, going forward. In addition, Spackman would also continue to aggressively pursue similar strategic acquisitions to develop a more consistent revenue stream. As a result, we maintain BUY. Our TP is now slightly lower, at SGD0.27, mainly due to the dilution stemming from new shares issued. Our TP, premised on 18x FY17F P/E, is corroborated by a DCF valuation.

#### Share Data

Avg Daily Turnover (SGD/USD) 3.97m/2.80m  
 52-wk Price low/high (SGD) 0.08 - 0.20  
 Free Float (%) 27  
 Shares outstanding (m) 463  
 Estimated Return 70%

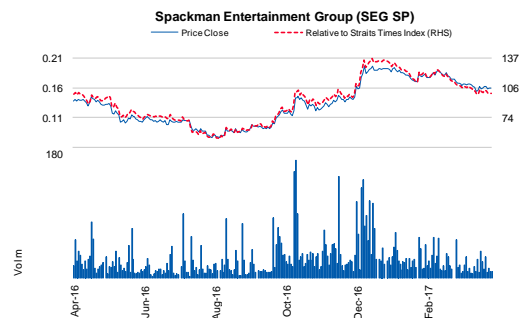
#### Shareholders (%)

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

#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(17.2)	(6.5)	(17.2)	29.3	14.4
Relative	(27.6)	(8.3)	(26.0)	19.1	2.3

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Total turnover (USDm)	17.8	14.5	47.5	37.0	37.7
Reported net profit (USDm)	(1.27)	(3.24)	4.93	5.58	6.33
Recurring net profit (USDm)	(1.62)	(3.24)	4.93	5.58	6.33
Recurring net profit growth (%)	(80.0)	100.2	0.0	13.2	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	10.7	9.4	8.3
P/B (x)	3.01	3.83	3.24	2.47	1.95
P/CF (x)	na	9.61	9.99	8.22	8.01
Dividend Yield (%)	na	na	0.9	1.1	1.2
EV/EBITDA (x)	na	na	5.63	4.23	3.06
Return on average equity (%)	(8.1)	(24.1)	35.1	29.7	26.2
Net debt to equity	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted)					

Source: Company data, RHB

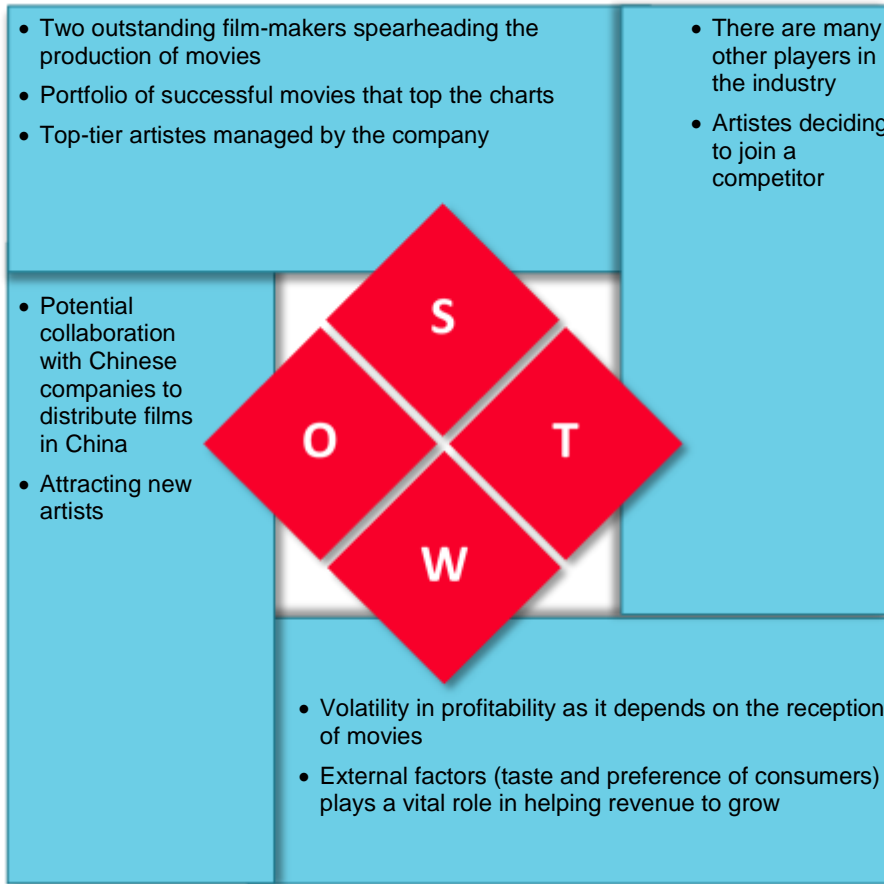
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## SWOT Analysis



## Recommendation Chart



Date	Recommendation	Target Price	Price
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

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

**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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