

27 December 2016

Consumer Cyclical | Entertainment

Spackman

Buy (Maintained)

Turnaround Validated – Master a Blockbuster

Target Price: SGD0.32
 Price: SGD0.19
 Market Cap: USD52.4m
 Bloomberg Ticker: SEG SP

Over the Christmas holidays, *Master* has been a big hit, accumulating over 3m ticket sales and capturing over 55% of Korea's ticket revenue share just over four days of its release, affirming its status as a blockbuster. Its popularity exceeded our expectations. As such, we raise our ticket sales estimates to 8.5m (from 7.5m), and raise FY16F NPAT by 300%. With the success of the movie validating Spackman's credentials as a movie producer – and its turnaround – we maintain BUY, lifting our TP to SGD0.32 (from SGD0.22, 68% upside), implying 18x FY17F P/E.

Share Data

Avg Daily Turnover (SGD/USD) 6.95m/4.93m
 52-wk Price low/high (SGD) 0.08 - 0.20
 Free Float (%) 27
 Shares outstanding (m) 399
 Estimated Return 68%

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	31.0	31.0	102.1	81.0	25.0
Relative	31.4	29.9	101.6	78.2	24.7

Source: Bloomberg

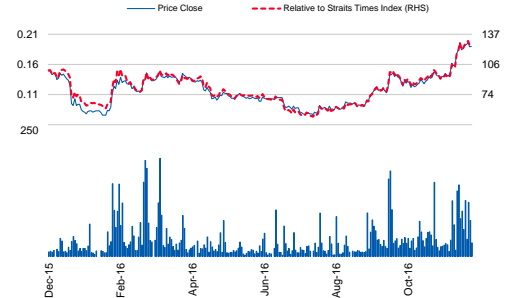
Master – a blockbuster indeed. *Master*, a Korean crime-action film, opened at the top of the Korean box office on the first day of its release (21 Dec) and maintained its position throughout the Christmas holidays, capturing over 55% of Korea's total box office revenue over the period. As of 25 Dec, they have accumulated over 3m ticket sales grossing over USD20m, just over four days of release, which is a very remarkable feat. To put things into context, movies like the animation *Sing*, released on the same date, accumulated only 0.57m ticket admissions over the same period. *Pandora*, another Korean movie released on 7 Dec, has accumulated 3.9m ticket sales till 25 Dec. Our channel checks locally have also shown that *Master* is a bit hit among the locals, having also generated positive media coverage. With the new year holidays next week, we expect such strong ticket admissions to likely continue.

The distribution rights have been presold to 31 countries, with the foreign release of *Master* to be launched in the US, followed by Hong Kong, Taiwan and Singapore. This is a positive sign for Spackman, and provides ancillary revenue in addition to its box office sales in Korea.

Laying the foundations. With the divestment of loss-making Opus Pictures reducing SG&A costs by a significant 70%, *Master's* performance would likely be an additional impetus to bounce it back into profitability, laying the foundation for returning to the black in FY17. Its other production house, Zip Cinema Co Ltd, has a good track record and aims to film one to two movies pa. Coupled with Spackman's joint ventures (JVs) to film other movies, these factors are likely to spur growth, going forward.

Master to solidify turnaround – maintain BUY with TP raised to SGD0.32. With the strong performance of *Master*, we raise our expectation of total ticket admissions by an additional 1m to 8.5m, which would yield profit of USD7m and easily bring Spackman back into the black. As a result, our FY16F NPAT is raised by 300% to USD1.76m. With lower operating expenses with the disposal of Opus pictures, the success of the movie validating Spackman's credentials as a movie producer and its turnaround, we maintain BUY and raise our TP to SGD0.32, which implies 18x FY17F P/E. We also expect Spackman to continue to produce at least two to three movies for FY17F. The key risk to our forecasts would be the uncertainty as to movie ticket sales.

Spackman Entertainment Group (SEG SP)



Source: Bloomberg

Forecasts and Valuations	Dec-13	Dec-14	Dec-15	Dec-16F	Dec-17F
Total turnover (USDm)	11.9	15.6	17.8	22.4	35.8
Reported net profit (USDm)	2.61	(8.08)	(1.27)	1.76	4.92
Recurring net profit (USDm)	2.61	(8.08)	(1.62)	1.76	4.92
Recurring net profit growth (%)	0.0	(410.0)	(80.0)	0.0	180.0
Recurring EPS (USD)	0.01	(0.02)	(0.00)	0.00	0.01
DPS (USD)	na	na	na	0.001	0.004
Recurring P/E (x)	19.9	na	na	29.8	10.6
P/B (x)	5.80	3.24	3.48	3.21	2.65
P/CF (x)	12.9	na	na	6.0	13.7
Dividend Yield (%)	na	na	na	1.0	2.8
EV/EBITDA (x)	12.5	na	na	15.3	5.7
Return on average equity (%)	40.8	(64.3)	(8.1)	11.2	27.3
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 : 2016-12-26.

Asia	Financial summary	Dec-13	Dec-14	Dec-15	Dec-16F	Dec-17F
Singapore	Recurring EPS (USD)	0.01	(0.02)	(0.00)	0.00	0.01
Consumer Cyclical	EPS (USD)	0.01	(0.02)	(0.00)	0.00	0.01
Spackman	DPS (USD)	0.000	0.000	0.000	0.001	0.004
Bloomberg	BVPS (USD)	0.02	0.04	0.04	0.04	0.05
SEG SP	Weighted avg adjusted shares (m)	395	399	399	399	399
Buy						
	Valuation basis	Dec-13	Dec-14	Dec-15	Dec-16F	Dec-17F
18x FY17F P/E	Recurring P/E (x)	19.9	na	na	29.8	10.6
	P/E (x)	19.9	na	na	29.8	10.6
	P/B (x)	5.80	3.24	3.48	3.21	2.65
Key drivers	FCF Yield (%)	7.7	(23.1)	(36.9)	14.7	5.4
i. Success on upcoming movies;	Dividend Yield (%)	0.0	0.0	0.0	1.0	2.8
ii. Partnership deals	EV/EBITDA (x)	12.5	na	na	15.3	5.7
	EV/EBIT (x)	12.7	na	na	16.7	5.9
Key risks						
Uncertainty as to movie ticket sales.						
	Income statement (USDm)	Dec-13	Dec-14	Dec-15	Dec-16F	Dec-17F
Company Profile	Total turnover	11.9	15.6	17.8	22.4	35.8
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.	Gross profit	5.5	0.0	7.8	8.0	8.3
	EBITDA	3.5	(7.3)	(0.9)	2.4	6.4
	Depreciation and amortisation	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)
	Operating profit	3.4	(7.4)	(1.0)	2.2	6.1
	Net interest	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
	Exceptional income - net	0.0	0.0	0.2	0.0	0.0
	Pre-tax profit	3.2	(7.5)	(0.9)	2.1	6.0
	Taxation	(0.6)	(0.6)	(0.4)	(0.4)	(1.1)
	Recurring net profit	2.6	(8.1)	(1.6)	1.8	4.9
	Cash flow (USDm)	Dec-13	Dec-14	Dec-15	Dec-16F	Dec-17F
	Change in working capital	1.25	(4.16)	(19.66)	6.63	(1.46)
	Cash flow from operations	4.04	(11.80)	(16.56)	8.69	3.81
	Capex	(0.04)	(0.31)	(2.78)	(1.00)	(1.00)
	Cash flow from investing activities	(3.44)	(0.67)	(7.90)	(1.00)	(1.00)
	Proceeds from issue of shares	3.74	14.14	0.00	0.00	0.00
	Dividends paid	0.00	0.00	0.00	(0.53)	(1.48)
	Cash flow from financing activities	5.26	15.72	16.73	(0.63)	(1.58)
	Cash at beginning of period	3.32	9.21	12.18	4.11	11.18
	Net change in cash	5.85	3.25	(7.73)	7.06	1.23
	Ending balance cash	9.21	12.18	4.11	11.18	12.41
	Balance sheet (USDm)	Dec-13	Dec-14	Dec-15	Dec-16F	Dec-17F
	Total cash and equivalents	11.5	15.7	11.0	18.1	19.3
	Tangible fixed assets	0.7	0.9	3.3	4.1	4.9
	Intangible assets	0.1	3.4	0.8	0.8	0.8
	Total investments	0.0	0.0	3.6	3.6	3.6
	Total other assets	5.5	2.0	1.8	1.8	1.8
	Total assets	25.8	31.9	57.3	57.2	73.8
	Short-term debt	1.3	1.2	3.1	3.1	3.1
	Total long-term debt	1.3	0.0	2.0	2.0	2.0
	Other liabilities	0.0	0.0	0.0	0.0	0.0
	Total liabilities	16.8	14.6	40.6	39.3	52.4
	Shareholders' equity	8.9	16.2	15.1	16.3	19.7
	Minority interests	0.0	1.1	1.6	1.6	1.6
	Total equity	9.0	17.3	16.7	17.9	21.4
	Net debt	(9.0)	(14.4)	(5.9)	(13.0)	(14.2)
	Total liabilities & equity	25.8	31.9	57.3	57.2	73.8
	Key metrics	Dec-13	Dec-14	Dec-15	Dec-16F	Dec-17F
	Revenue growth (%)	170.1	31.2	13.9	26.0	60.1
	Recurrent EPS growth (%)	0.0	(407.3)	(80.0)	0.0	180.0
	Gross margin (%)	46.6	0.3	44.1	35.9	23.2
	Operating EBITDA margin (%)	29.0	(46.9)	(5.1)	10.9	17.7
	Net profit margin (%)	21.9	(51.8)	(7.2)	7.9	13.7
	Capex/sales (%)	0.4	2.0	15.7	4.5	2.8
	Interest cover (x)	24.7	(70.7)	(13.7)	22.1	60.0


Source: Company data, RHB






Figure 1: Sensitivity table

P/E (x)	TP (SGD cents)
16	28
17	30
18	32
19	34
20	36

Source: RHB

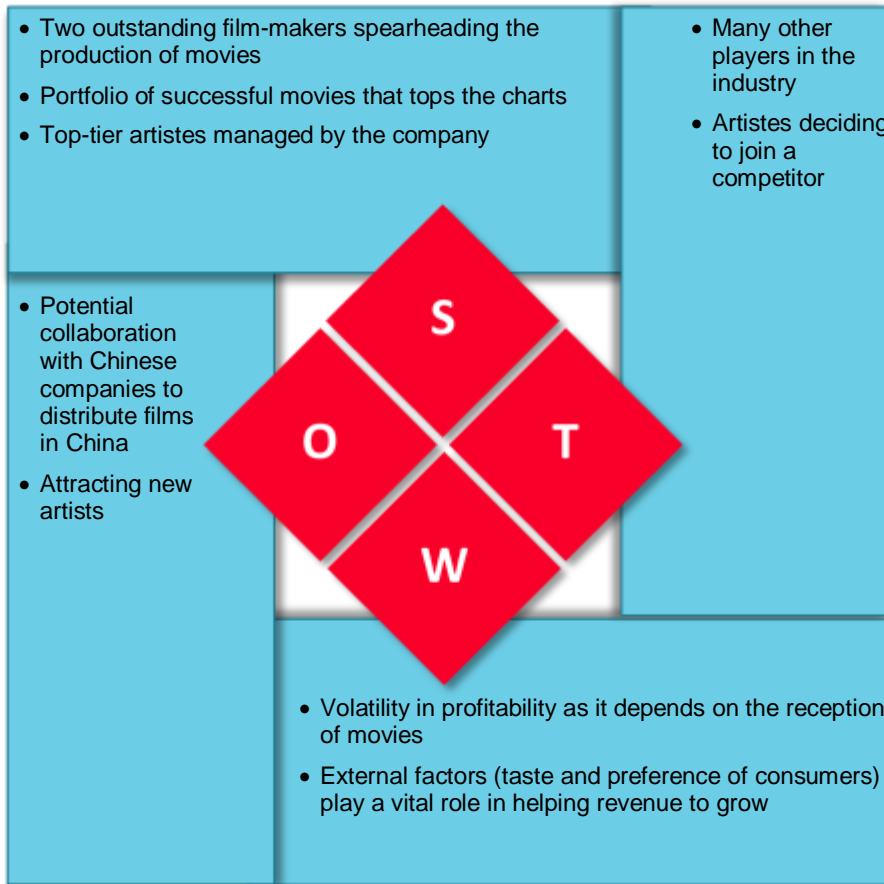
Figure 2: Korean movie box office (USD)

Dec 25, 2016 

Rank	Film	Release Date	Daily Gross (Total)	Admissions (Total)	Number of Screens	Revenue Share
1	 Master South Korea (CJ E&M Corp.)	Dec 21, 2016	\$6,395,541 (\$20,662,838)	902,753 (3,002,263)	1,495	54.98%
2	 Sing U.S.	Dec 21, 2016	\$1,617,624 (\$3,772,311)	239,199 (567,023)	795	13.9%
3	 Pandora South Korea (Contents Panda)	Dec 07, 2016	\$1,173,871 (\$25,930,176)	172,986 (3,935,732)	654	10.09%
4	 LA LA LAND U.S.	Dec 07, 2016	\$1,084,205 (\$13,760,805)	147,830 (1,944,026)	680	9.32%
5	 Will You Be There? South Korea (Lotte)	Dec 14, 2016	\$554,003 (\$6,673,214)	75,602 (995,163)	574	4.76%

Source: Korean Film Biz Zone

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2016-10-12	Buy	0.22	0.11

Source: RHB, Bloomberg

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