

MONEY TALK

SPACKMAN ENTERTAINMENT (SEG SP)

Riding on the K-Craze wave

VALUATION

- Spackman (SEG) is trading at 2013F PE and P/B of 43x and 128x respectively.

INVESTMENT HIGHLIGHTS

- SEG is engaged in the development, production and financing of theatrical motion pictures in Korea. It owns two picture production subsidiaries, namely Zip Cinema Co and Opus Pictures LLC. Zip Cinema has produced several top Korean movies such as Cold Eyes (grossed KRW40b) and All About My Wife (KRW34.2b) while Opus has produced movies such as Snowpiercer (KRW67b) and The Man From Nowhere (KRW47.1b).
- As a movie producer and financier, the company will generate revenue from ticket sales in the domestic market, overseas markets and also ancillary markets including IPTV, digital cable, broadcast television and home video/DVD.
- Although the arrangement varies with each individual movie, 55-60% of the box office revenue will go to theatre operators and presenter's fees. After which, SEG will pay the principal movie investors for the production and advertisement expenditure and will only take an approximately 38% cut of what's remaining (film's profit) as its share of profit. In short, SEG will receive a share of profit if 40-45% of the box office revenue is able to cover production costs.
- SEG can also enjoy further returns by investing in a film budget that will make an investment profit if there is box revenue remaining after payment to theatre operators and total production costs.
- The next upcoming movie will be My Brilliant Life by Zip Cinema with a production budget of KRW5.9b, which will start screening on 3 Sep 14. Our rough calculations show that the production will break even once it is able to sell about 2m tickets and record a share of profit of about S\$4m if it is able to sell 5m tickets. Investors can track ticket sales on www.kobis.or.kr.

OUR VIEW

- The above revenue-sharing model will limit the financial risk of film production, unless SEG participates in the financing of the movie. With the S\$13m IPO proceeds raised, SEG could either produce/invest in more movies or distribute third-party production in order to diversify its risks.
- The macroeconomic picture remains positive with ticket admissions at the Korean box office on the rise in addition to the increased demand for Korean films in the international market.

KEY FINANCIALS

Year to 31 Dec (\$m)	2012	2013
Net Turnover	4.4	11.9
Gross Profit	2.0	5.5
EBITDA	(0.2)	3.2
EBIT	(0.3)	3.2
PATMI	(0.3)	2.7
EPS (cts)	-0.09	0.78
P/E (x)	n.a.	41.6
P/B (x)	29.2	12.5
Dividend Yield (%)	-	-
PATMI Margin (%)	(7.0)	22.6
Net Gearing (%)	94.2	(6.7)
Interest cover (x)	(6.2)	23.2
ROE (%)	-	42.0

Source: Bloomberg, UOB Kay Hian

NOT RATED

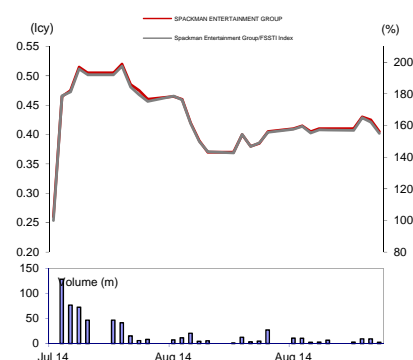
Share Price	S\$0.405
Target Price	n.a.
Upside	n.a.

COMPANY DESCRIPTION

Spackman Entertainment is a producer, presenter and investor of theatrical films. The company also distributes foreign films in South Korea.

GICS sector	Consumer Discretionary
Bloomberg ticker:	SEG SP
Shares issued (m):	395.3
Market cap (S\$m):	160.1
Market cap (US\$m):	128.3
3-mth avg t'over (US\$m):	7.4

PRICE CHART



Source: Bloomberg

ANALYST

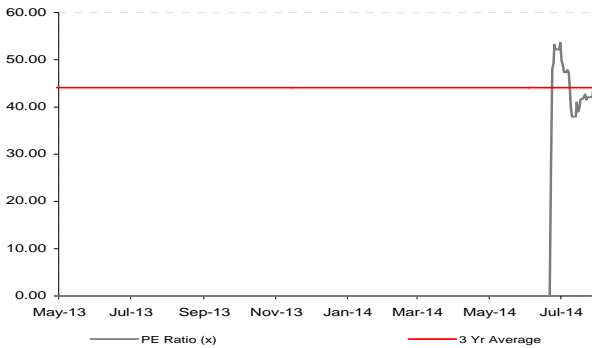
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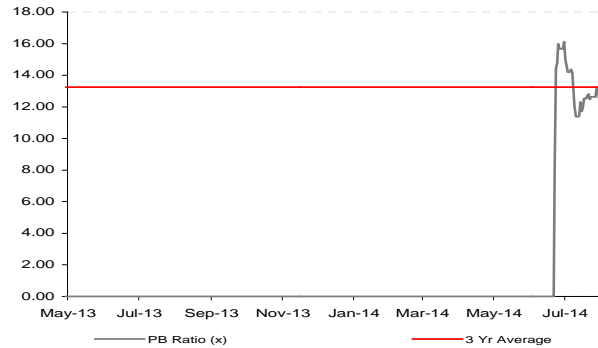
Bloomberg Consensus

Recommendation	Buy	Sell	Hold	Valuation Ratios	12/12	12/13	12/14E	12/15E
8/15/2014	-	-	-	P/E	-	-	-	-
Target Price	-	-	-	EV/EBIT	-	-	-	-
Upside	-	-	-	EV/EBITDA	-	-	-	-
				P/S	-	-	-	-
				P/B	-	-	-	-
				Div Yield	-	-	-	-
Income Statement	12/12	12/13	12/14E	12/15E	Profitability Ratios %			
Revenue	5	15			Gross Margin	45.8	46.6	-
Gross Income	3	7			EBITDA Margin	-4.3	27.2	-
Operating Income	-0	4			Operating Margin	-7.9	26.6	-
Pretax Income	-1	4			Profit Margin	-7.0	22.6	-
Net Income Adjusted*	-	-			Return on Assets	-	13.8	-
EPS Adjusted	-	-			Return on Equity	-	42.0	-
Dividends Per Share	-	-						
Payout Ratio (%)	-	-						
EBITDA	-0	4						
Peer Comparison	Ticker	Price @ 25 Aug 14	Market Cap (US\$m)	----PE----		----P/B----		Yield
				FY13 (x)	FY14F (x)	FY13 (x)	FY14F (x)	FY14F (%)
Cj Cgv Co Ltd	079160 KS	51200	106,818	24.6	22.7	2.4	2.3	0.7
Mediaplex Inc	086980 KS	3635	22,434	95.7	n.a.	2.1	n.a.	n.a.
S.M.Entertainment Co	041510 KS	39300	80,003	45.9	31.9	3.5	3.2	-
Yg Entertainment Inc	122870 KS	48700	72,105	46.9	n.a.	6.4	n.a.	0.6
Average				53.3	27.3	3.6	2.7	0.4
Spackman Entertainment Group	SEG SP	0.405	128	41.5	n.a.	12.4	n.a.	n.a.

Price Earnings Ratio (3 years average)



Price to Book Ratio (3 years average)



Source: Bloomberg, UOB Kay Hian

Technical View



Source: Nextview

Spackman Entertainment Group (SEG SP, 40E)

This is a recent IPO counter. On the hourly chart, the stock appears to be trading above its prior resistance turned support level at S\$0.405. Potential resistance levels to watch for could be at S\$0.435 and S\$0.475.

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