

Haichang Ocean Park (2255.HK)

Rising profitability of new projects

Hong Kong | Leisure&Recreation | Update Report

11 June 2019

Rating: BUY

CMP HKD: 1.43
(Closing price as at 6 June 2019)
TARGET HKD: 2.05 (+43%)

Investment Summary

Stable Revenue Growth in Theme Park Segment with Continuous Improvement of Revenue Structure

Haichang Ocean Park, China's leading theme park developer and operator, is operating ten projects in Dalian, Qingdao, Tianjin, Yantai, Wuhan, Chengdu, Chongqing, Shanghai and Sanya. The operating projects include seven ocean theme parks, one adventure-themed amusement park, one immersive ocean-themed entertainment complex and one water-themed park. In addition, a new project is under construction in Zhengzhou.

The Company's operation segment maintained a stable growth in 2018, as revenue generated from ten theme parks reached RMB1.62 billion, grew by 7.9% year-on-year; specifically, ticket revenue was RMB1.27 billion (+7.8%yoy) while non-ticket revenue, the proportion of which increased to 29%, reached RMB470 million (+8.5%yoy). Revenue generated from the Company's property segment decreased by 30% to RMB44.4 million. The Company's other income and gains increased from RMB160 million in 2017 to RMB440 million, mainly due to the increase in government grants.

FY2018 Result Suffered from High Opening Expenses of New Projects in Shanghai/Sanya

Haichang Ocean Park reported revenue of RMB1.79 billion in 2018, increased by 6.5% compared to that of 2017. Net profit attributable to owners of the parent company decreased to RMB39.56 million, down 86% yoy compared to RMB280 million in 2017, mainly attributable to the one-off preliminary expenses incurred from the opening of the Shanghai Project and the commencement of trial operation of the Sanya Project.

Shanghai Haichang Ocean Park opened on November 16, 2018, and the Sanya Project commenced its trial operation on December 28, 2018. During the period, selling costs, selling and marketing expenses and administrative expenses reported an substantial yoy increase of 19% (or RMB140 million), 54% (or RMB80 million) and 63% (or RMB230 million) respectively, lowering overall gross profit margin by 5.3 ppts to 48.8%, increasing selling expenses by 3.7 ppts to 12.2% and administrative expenses by 11.7 ppts to 33.5%. Finance costs increased year-on-year by 83% or RMB120 million to RMB270 million in 2018, mainly resulting from financing these two new major projects.

In addition, the Shanghai Project recorded only over 300,000 tourists for the year as it did not officially open during the Golden Week of the National Day. Moreover, due to promotion and tourist attraction strategies like free tickets in the early stage of opening and other reasons, its revenue only recorded over RMB60 million and the price per customer was more than RMB200, generating a limited contribution to overall revenue.

Revenue-doubling Plan for 2019 because of New Projects

During the Spring Festival, peak season, Shanghai Haichang Ocean Park received 150,000 tourists, with price per customer reaching RMB344/person (RMB240 for ticket and RMB104 for non-ticket). For Q2, Shanghai Haichang Ocean Park will start its night operation. The construction of its Whale Shark Rafting Area will soon be completed and this area will be ready to open. After ticket price offer for sale promotion expires, the price will regain to a normal range, RMB299-360/person. It is expected that the Shanghai Project will receive over 4.5 million tourists in 2019, contributing revenue of more than RMB1.3 billion and a gross profit margin of over 46%.

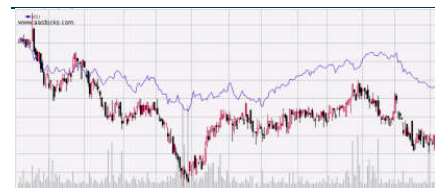
COMPANY DATA

O/S SHARES (MN) :	4000
MARKET CAP (HKD MN) :	5720
52 - WK HI/LO (HKD):	2.29/1.18

SHARE HOLDING PATTERN, %

Haichang Group Limited	42.1
Time Dynasty Limited	10
Oriental Camellia Investment Limited	9.83

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY17	FY18	FY19E	FY20E
Net Sales	1680	1790	3470	4103
Net Profit	280	40	356	537
EPS, CNY	0.07	0.01	0.09	0.13
P/E, x	17.0	127.3	14.1	9.4
BVPS, CNY	1.08	1.09	1.22	1.35
P/BV, x	1.1	1.2	1.0	0.9
DPS (HKD)	0.00	0.00	0.00	0.00
Div. Yield (%)	0.0%	0.0%	0.0%	0.0%

Source: Company reports, Phillip Securities Est.

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SanyaHaichang Fantasy Town is an open project where a new mode of no ticket expenses but separate charges for venues is trialed. This attracts tourist groups and facilitates multiple experiences of individual tourists. During the Spring Festival, SanyaHaichang Fantasy Town received approximately 200,000 tourists, achieving a tourism market penetration rate of 20% in Sanya. It is expected that its overall revenue in 2019 will be around RMB200-250 million and thus reporting break-even. From 2020, as expenditures of all costs and expenses become stable in the future, it is expected that Shanghai Project and Sanya Project will accelerate to unleash the profitability. Zhengzhou Project is currently under construction and will officially open in 2020.

Future Transformation to Light-asset Mode for Partially Relief of Financial Pressure

Though adhering to a development strategy of equal focus on light asset and heavy asset, the Company has been faced with sudden finance pressure as a result of investing three new major projects in the past few years. As at the end of 2018, the net gearing ratio increased to 135%. In the future, in addition to attaching great importance to developing existing projects, the Company also plans to actively develop its light asset business. For example, the Company will focus on the deployment of Midoo Park Project to quickly expand this business nationwide. In 2018 the Company newly signed 11 contracts. By now the Company has commenced 18 projects in 13 PRC cities and has entered into 45 contracts in total, with an aggregate contracted amount of approximately RMB400 million. It is planned that the profit contribution rate of light asset business will increase from 10% in 2017 to 30% in 2020.

With respect to existing projects, the Company aims to introduce new products and enrich tourist experience. In particular, a new ancient aquarium is added in Tianjin Project and a new Marine Mozoo World in Wuhan Project; Chongqing Anping Camping Hotel grandly opened; the Chongqing Hot Spring product was put into operation so as to maintain stable growth. We believe that stable contribution from existing projects in cash flow, rising profitability of new projects and influence of light asset projects will gradually relieve the Company's finance pressure.

Peer Comparison

代码	名称	M Cap (USD mil)	P/E	B/Est P/E:1FY	ROE
2255 HK Equity	海昌海洋公园	729	127.53	16.36	0.94
600593 CH Equity	大连圣亚	593	65.99	58.35	11.73
002159 CH Equity	三特索道	288	16.11	29.53	-0.83
300144 CH Equity	宋城演艺	4312	22.36	20.72	16.00
SEAS US Equity	海洋世界娱乐股份有限公	2467	23.29	21.16	47.91
SIX US Equity	六旗娱乐公司	4367	16.41	18.64	#N/A N/A
FUN US Equity	Cedar Fair有限合伙企业	2782	18.94	15.03	#N/A N/A
ACBM US Equity	ACRO BIOMEDICAL CO L	219	1423.70	#N/A N/A	3.04

Source: Bloomberg, Phillip Securities Hong Kong Research

Investment Thesis

China's theme park industry has huge growth prospects and high barriers to entry. The company's business belongs to the industry's first echelon, and it is expected to continue to benefit from the prosperity of domestic tourism consumption in the future.

We expect the company's net profit for 2019/2020 to reach 356/537 million yuan and the target price of HK\$2.05, corresponding to 2019/2020 20/13.4x P/E, Buy rating. (Closing price as at 6 June 2019)

Forward P/E,P/B



Source: Bloomberg, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY15	FY16	FY17	FY18	FY19F	FY20F
Valuation Ratios						
P/E (X), adj.	20.8	25.4	17.0	127.3	14.1	9.4
P/B (X)	1.2	1.3	1.1	1.2	1.0	0.9
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Per share data (RMB)						
EPS, (Basic)	0.06	0.05	0.07	0.01	0.09	0.13
EPS, (Diluted)	0.06	0.05	0.07	0.01	0.09	0.13
DPS	0.00	0.00	0.00	0.00	0.00	0.00
BVPS	0.96	1.01	1.08	1.09	1.22	1.35
Growth & Margins (%)						
Growth						
Revenue	-7.4%	16.4%	1.8%	6.5%	93.9%	18.2%
EBIT	8.6%	-8.4%	-1.6%	-15.6%	120.1%	28.9%
Net Income, adj.	20.3%	-13.0%	39.1%	-85.9%	799.8%	50.8%
Margins						
Gross margin	55.5%	54.7%	54.1%	48.8%	53.7%	55.0%
EBIT margin	43.5%	34.2%	33.1%	26.2%	29.8%	32.4%
Net Profit Margin	16.3%	12.2%	16.6%	2.2%	10.3%	13.1%
Key Ratios						
ROE	6.2%	5.1%	6.7%	0.9%	7.7%	10.5%
Income Statement (RMB mn)						
Revenue	1417	1650	1680	1790	3470	4103
Gross profit	787	902	909	874	1863	2257
EBIT	617	565	556	469	1032	1331
Profit before tax	463	418	407	196	746	1046
Tax	-213	-201	-116	-156	-373	-481
Profit for the period	250	218	291	40	373	565
Minority interests	19	17	12	0	17	28
Total capital share	4000	4000	4000	4000	4000	4000
Net profit	231	201	280	40	356	537

Source: PSR

(Financial figures as at 6 June 2019)

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within \pm 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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