

# Maoyan Entertainment (1896 HK)

## Strong Shareholder Support, Ongoing Upward Venture

China | TMT Sector | Company Initiation

23 July 2020

### Investment Summary

#### Obvious drop in online ticketing subsidies

In order to compete for market shares, we have seen the market leaders in online ticketing sector, such as Maoyan and Ali Picture, spending significant amount of online ticket subsidies in recent years. Nonetheless, due to the stable market leading position of Maoyan in online movie ticketing sector, we do not think that it is necessary for Maoyan to keep spending a significant amount on subsidies in the future. In fact, the company's marketing and promotion cost (which mainly includes subsidy expenses) as a percentage of online ticketing revenue has been dropping in recent years. The decrease of online ticketing subsidy expense in 2019 was also the major reason for the company's first ever-yearly positive earnings recorded in 2019. We expect that the company can continue the decreasing trend of subsidy expense as percentage of online ticketing revenue in the future.

#### Strategic support from the strong shareholder's background

The company has received significant strategic support from its shareholders which includes Tencent, Meituan and Enlight. Their support facilitated the huge expansion and enhanced the users experience of the company. The company obtains free entry portals from Wechat and Meituan App, which allow the company to benefit from the huge user traffic of Tencent and Meituan. In August 2019, the number of users of Maoyan's Wechat mini program has reached 250 million, which is nearly 30% of the total internet users in China. In July 2019, the company has launched the "TenMao" Alliance along with Tencent. Maoyan and Tencent will take advantage of their rich resources across various entertainment sectors to deepen the cooperation and create a superior entertainment experience for Chinese consumers.

#### Ongoing Upstream Ventures

Maoyan has received intensive B-end and C-end data from the cinemas and its users. The Maoyan Research Institute, which is a leading analysis platform in the entertainment industry, was set up specifically to apply big data analysis on these data (both B-end and C-end data) and make analyses on user's preference and needs. The analysis can be used to facilitate decision making process in promotion and distribution for movies and come up with a more effective and cost efficient marketing and distribution strategy for each movies. By leveraging on its strong big data capabilities, Maoyan has expanded its business quickly along the value chain and has already become the largest lead distributor for domestic movies in 2018. We believe the movie distribution business will be one of the key driver for the company's future. Besides movie promotion and distribution, Maoyan is also aggressively extending into upstream production investment, which we believe is another potential driver for the company in the future. In March 2019, Maoyan has invested into Huanxi Media Group Limited, which is a renowned film company, and has established a strategic partnership with it. This investment allows Maoyan to make production investment on Huanxi Media's top quality movies and TV dramas in priority to others movie producers.

#### Valuation

We believe the company's 2020 performance will be hugely affected by the COVID-19 outbreak, in line with the announcement of the company on 22<sup>nd</sup> May. But it is unlikely to affect the company's long term growth. We forecast the company's adjusted EPS are RMB 0.07/0.85/1.14 in 2020/2021/2022. We have set a target price of 16.6HKD, which implies a PE ratio of 17.5x/13.1x on the company's 2021/2022 adjusted EPS. We initiate with an "Accumulate" rating. (Market closing price as of 21th July) (exchange rate: RMB 0.9/HKD)

#### Risk

1) The COVID-19 last longer than expected 2) The box office of movies in China recovered slower than expected 3) Upward Ventures of the company is less effective than expected

### Accumulate (Initiation)

CMP HKD 14.32

(Closing price as at 21 July)

TARGET HKD 16.60 (+16%)

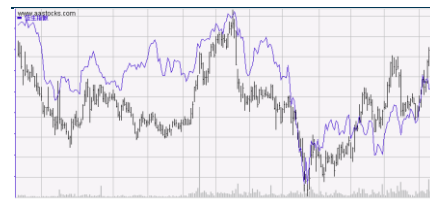
#### COMPANY DATA

O/S SHARES (MN) :	1,132
MARKET CAP (HKD MN) :	16207
52 - WK HI/LO (HKD):	8.01/16.36

#### SHARE HOLDING PATTERN, %

Vibrant Wide Limited	24.61
Hong Kong Pictures International Limited	17.13
Image Flag Investment (HK) Limited	13.91

#### PRICE VS. HSI



Source: Phillip Securities (HK) Research

#### KEY FINANCIALS

CNY mn	FY18	FY19	FY20E	FY21E	FY22E
Net Sales	3755	4268	2147	5106	6046
Net Profit, Adj	291	708	77	960	1280
EPS, Adj, CNY	0.30	0.64	0.07	0.85	1.14
P/E, Adj, x	42.5	20.2	188.4	15.1	11.3
BVPS, CNY	5.94	7.46	7.34	8.11	9.16
P/BV, x	2.2	1.7	1.8	1.6	1.4
ROE, Adj, %	5.1	8.5	0.9	10.5	12.4
ROA, Adj, %	3.2	6.2	0.7	7.8	9.2

Source: Company reports, Phillip Securities Est.

#### Research Analyst

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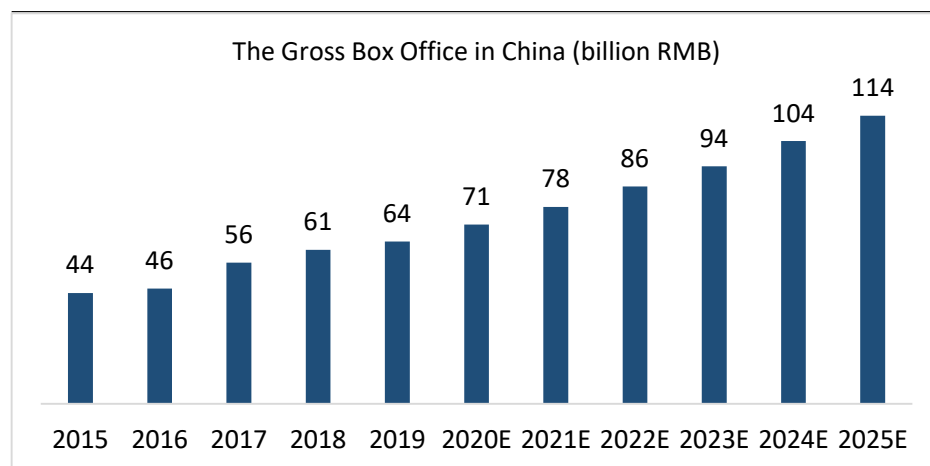
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## Industry Review and Forecast

### The China's movie market is expected to continue its growth in future

The china's movie market is already the second largest in the world, just behind the US's market. According to QianZhan industry research institute, the gross box office in China has rose from RMB 55.9 billion in 2017 to RMB 64.3 billion in 2019, with a CAGR of 7.3%. The gross box office in China is expected to grow to 114 billion RMB in 2025, with a CAGR of 10.1% from 2019 to 2025. These estimates were made prior the COVID-19 outbreak.

Figure 1: The Estimated Gross Box Office in China (prior the COVID-19 Outbreak)



Source: qianzhan industry research institute, PSHK

The growth in the Chinese movie markets was mainly attributed by the following factors.

- 1) The availability of a greater number of high quality domestic movies has propelled the growth of China's movie industry. According to the China Film Administration, the number of domestic movies released increased from 229 in 2012 to 422 in 2019, as movie genres become more diversified and with higher quality. The percentage of gross box office contributed by domestic movies has increased from 49% in 2012 to 64% in 2019.
- 2) China is witnessing a rapid development of its movie infrastructure. According to IResearch, although China already has the highest number of movie screens in the world, the nation's number of screens and movie admission per capita are still at a much lower level compared with those of the United States. This indicates a huge growth opportunity.
- 3) China's movie market currently still relies hugely on ticket sales with gross box office in China accounting for 73.5% of the total market size in 2017. As China's movie market continues to develop, more revenue streams have become available, ie, movie merchandise products and in-cinema food and beverages.

### The online movie ticketing market

According to IResearch, the online penetration rate of movie ticketing in China has increased from 18.4% in 2012 to 85.5% in the nine months ended September 30, 2018. It is expected that the online penetration rate will remain stable in the future. The online movie ticketing industry used to be more fragmented. With the intensive use of user incentives and trend of mergers and combinations, the market is relatively concentrated now. According to IResearch, the largest and the second largest market participant in the sector have a total of 90%+ market share in terms of total GMV of the ticketing business in 2019

**The online entertainment event ticketing market**

The current online penetration rate of entertainment event ticketing in China is at a relatively low level. According to IResearch, this penetration rate will rise to 78.9% in 2022. Further, the sector is relatively fragmented. In recent years, established online movie ticketing service providers have entered the online entertainment event ticketing market by leveraging on their user base to cross-sell entertainment event tickets. The entertainment event market is still nascent with considerable growing potential, the leading online movie ticketing service providers can benefit hugely by leveraging and capitalizing on the scale of their online movie ticketing services user base and their experience in online marketing and promotion.

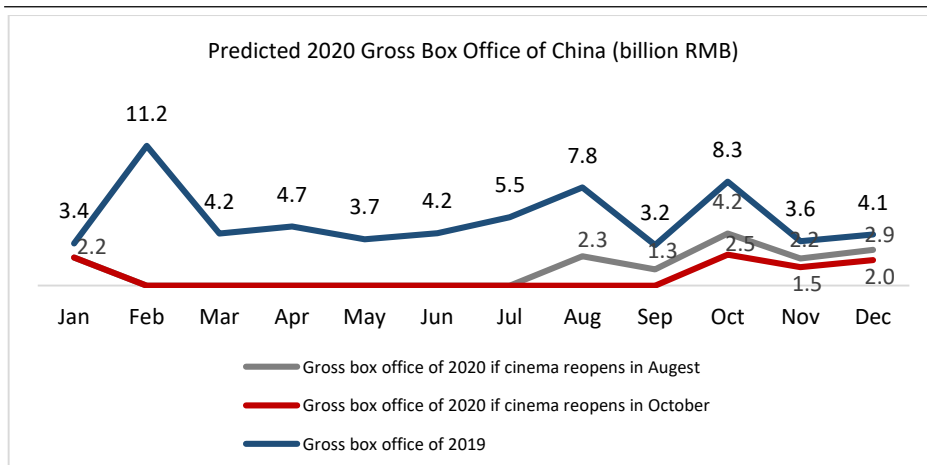
**Entertainment content services**

China’s entertainment industry is fragmented with a large number of participants along the value chain from content production/investment to promotion and distribution and across entertainment content formats, such as movies, TV series, web series, web movies, variety shows as well as entertainment events. Internet-empowered entertainment content service platforms have emerged to connect consumers with vertical players such as production companies and distributors and empower different industry participants to optimize operating results, leveraging their large user base, data analytics capabilities and industry resources. The traditional market participants and the Internet-empowered entertainment content service platforms both have their own advantages. Internet-empowered entertainment platforms possess the user base and insights required to compete with traditional market participants, while traditional market participants have more established industry knowledge and operational expertise in the sector. Platforms with a large user base and extensive industry resources are likely to better understand the audience’s preferences and industry needs, allowing them to conduct their businesses more effectively and efficiently.

**COVID-19 impact**

Cinemas in Mainland China have been closed for half a year. The entire movie industry has been stalled, from production and distribution to screening. On 20<sup>th</sup> July, the cinemas located in “low risk” area in China have finally begun reopening. According to the China Film Association, the Gross box office of China in 2020 Q1 was RMB 2.24 billion down by 88% yoy. The gross box ticket of China in 2020 is expected to be RMB 12.8 billion /RMB 6.0 billion if the all cinemas in China resume operation in August/October, according to China Film Association. Ever since the outbreak, the Chinese Government has issued multiple policies with the aim to help ease the impact on the movie industry in China (including subsidies, tax relief, lending out loans etc.) According to the China Film Association, 58% of the Cinemas found these policies helpful.

Figure 2: The Estimated 2020 Gross Box Office in China



Source: China Film Association, PSHK

## Company Overview and its Competitive Advantages

### A leading Internet empowered entertainment platform

Maoyan’s revenue stream is separated into 3 main parts.

#### 1) Online Entertainment ticketing services

The company provides online entertainment ticketing services which includes movie ticketing and entertainment event ticketing (concerts and sport events etc). The company is already the obvious leader in the movie ticketing sector with more than 60% of the market shares in terms of the GMV of online ticketing services. Maoyan is cooperating with 95%+ of cinemas in China covering more than 600 cities. In terms of Entertainment event ticketing business, Maoyan is currently the second largest in providing entertainment event ticketing services in terms of market share. Maoyan is charging a commission fee ranging from 4%-8%/3%-30% for each movie /entertainment event ticket sold through its platform.

#### 2) Entertainment Content Services

By leveraging the company’s big data capabilities, the company is able to develop profound insights on the user and industry to help its business partner to create suitable promotional strategies their movies. Besides that, the company has also carried out vertical integration and starting to participate in movie projects as distributor and/or producers. In terms of the distribution business, Maoyan has leveraged its big data analysis and has established itself a brand name in the movie distribution sector by becoming the largest lead distributor of domestic movies in 2018. The fee received as lead distributor/ co distributors typically ranges from 5% to 12%/ 1% to 2% respectively. In terms of Movie Production business, the company is aggressively extending its business into upstream production investments in recent year.

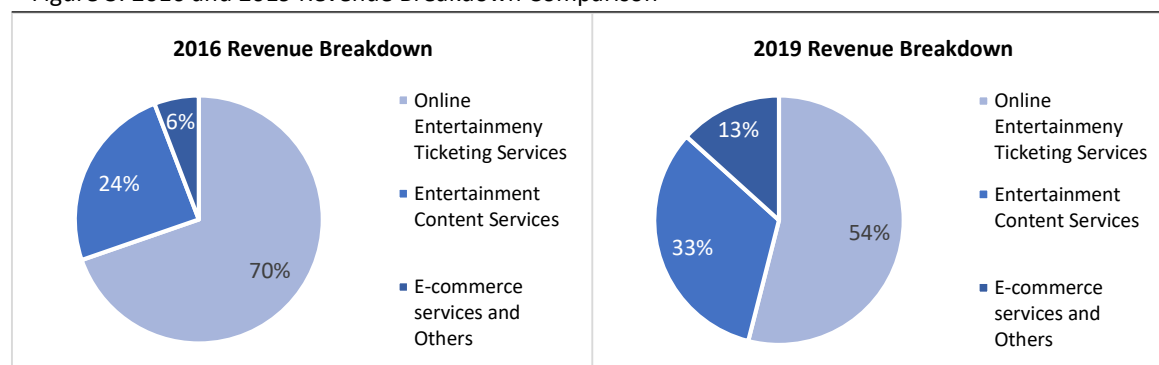
#### 3) Advertising and e-commerce businesses

Maoyan provides advertising services to advertisers by placing media content on its mobile platforms. In addition, the company provide entertainment e – commerce services such as preordering in-venue food and beverages etc.

### A more diversified revenue mix

The company has become less reliant on its online ticketing business as the revenue contribution from online ticketing business as a % of total revenue has gradually decreased. This % was 54% in 2019 and it was down by a lot comparing to the 70%, 59% and 61% in 2016,2017 and 2018 respectively. Since the online penetration of ticketing services as well as the market share of the company in movie online ticketing services are already at a very high level. In addition, the growth of the gross box office in China is expected to be slow in the future (CAGR of 10% from 2019 to 2025 according to QianZhan industry research institute). Therefore, the company will not be able to sustain its high growth in the future if it is only relying on its online ticketing business. We believe the entertainment content business of the company will be the main growth driver for the company in the future. The company’s revenue from entertainment content services has increased by 31% yoy in 2019.

Figure 3: 2016 and 2019 Revenue Breakdown Comparison



Source: Company, PSHK

**Obvious drop in online ticketing subsidies**

The online ticketing segment used to be more fragmented, with many small to medium sized online ticketing service providers in the segments. In order to compete for market shares, we have seen the market leaders in online movie ticketing sector, such as Maoyan and Ali Picture, spending significant amount of online ticket subsidies. The “subsidies for market share” strategy is no longer appeared strange to us as we have seen this strategy been used in multiple segments such as the e-commerce and food delivery platform, in recent years. Nonetheless, the market is now relatively concentrated with Maoyan and Ali picture owning 90%+ of the market share in terms of GMV of online ticketing and the online penetration is relatively high at 85%+, we do not think that it is necessary for the Maoyan to keep spending a significant amount on subsidies in the future. In fact, the amount of marketing and promotion cost (which mainly includes subsidy expenses) as a percentage of online ticketing revenue have been dropping in recent years. The market and promotion cost as a percentage of online ticketing revenue were 86%, 76% and 56% in 2017, 2018 and 2019 respectively. The decrease of subsidies in 2019 was also the major reason for the company’s first ever-yearly positive earnings recorded in 2019. We expect that the company can continue the decreasing trend of subsidies as percentage of total online ticketing revenue in the future.

**Strategic support from the strong shareholder’s background**

The company has received significant strategic support from its shareholders which includes Tencent, Meituan and Enlight. Their support facilitated the huge expansion and enhanced the users experience of the company.

- 1) **Tencent:** Maoyan and Tencent have formed a strategic partnership in 2017 and Tencent has set up a free entry portal to Maoyan’s platform on Wechat App and QQ App. This partnership makes Maoyan the only entertainment platform embedded in Weixin and QQ App. This allows Maoyan to benefit from the huge user base of Tencent. In August 2019, the number of users of Maoyan’s Wechat mini program has reached 250 million, which is nearly 30% of the total internet users in China, according to 44th Statistical Report on the Internet Development in China by China Internet Network Information Center. Besides that, the company also cooperates with Tencent Pictures, Penguin Pictures, Tencent Video and other Tencent platforms and enjoys certain preferred rights in online movie and entertainment ticketing services as well as the distribution, promotion and production of movies and other entertainment content. In July 2019, the company has launched the “TenMao” Alliance along with Tencent. Maoyan and Tencent will take advantage of their rich resources, extensive data and advanced products across various entertainment sectors to deepen the cooperation and create a superior entertainment experience for Chinese consumers.

Figure 4: Maoyan’s entry portal via Wechat mini program and Wechat Wallet



Source: Company

- 2) **Meituan:** Maoyan is the exclusive business partner in entertainment ticketing and services on Meituan app and Dianping app. The strategic partnership also allows Maoyan to set up a free entry portal on these Apps. The strategic partnership is up until September 2022.

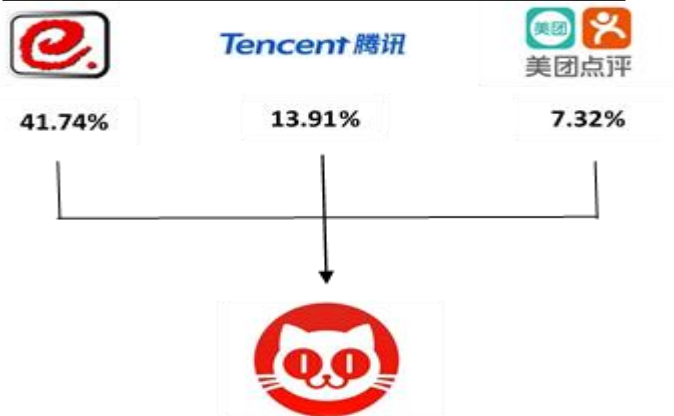
Figure 5: Maoyan’s entry portal via Meituan and Dianping App



Source: Company

- 3) **Enlight:** Enlight has sufficient resources and expertise in the TV and movie production industry in China. Maoyan and Enlight Media has signed a strategic agreement in 2018 which includes cooperation in various aspects including movie productions and distribution cooperation.

Figure 6: Strong Shareholder Background



Source: Company, PSHK

**Clear online ticketing business model, with relatively strong liquidity**

The business model of Maoyan’s online ticketing business can be decomposed into 3 steps.

- 1) By leveraging the huge user traffic of Maoyan’s platform itself and the platform of its strategic partners, Maoyan can deliver the details of newly released movies to the users effectively. Users can also write movie reviews on Maoyan’s platform and share it on his/her wechat moments, which further enlarges the company’s reach on users.
- 2) After delivering details of movies to the users, users can purchase movie tickets on Maoyan’s system via the entry portal of Wechat /Meituan App or Maoyan’s platform itself. By setting up a SaaS system on every cinemas

partnering up Maoyan, Maoyan can receive information from each cinemas (including timetables of movies and available seats for each screening). Thus, the platform can provide real time cinema seat selection to the users.

- 3) Maoyan is acting as an agent between end consumers and cinemas. It will charge for a commission rate ranging from 4-8%.

**Ongoing Upstream Ventures**

While providing SaaS solution to the cinemas, Maoyan is also receiving intensive B-end (business end) data (including operation data and real-time box office statistics) from these cinemas at the same time. In addition, Maoyan has already accumulated a gigantic C-end (customer end) database from its huge user traffic (including the part contributed by Tencent and Meituan). The Maoyan Research Institute, which is a leading analysis platform in the entertainment industry, was set up specifically to apply big data analysis on these data (both B-end and C-end data) and make analyses on user’s preference and needs. The analysis can be used to facilitate decision making process in promotion and distribution for movies as well as coming up with a more effective and cost efficient marketing and distribution strategy for each movies.

One of the most exciting features of Maoyan’s big data analysis is that it can come up with a Potential Audience Profile, which shows the age, gender, education background etc of each movie’s potential audience. Maoyan and its business partner can then use this information to adjust their marketing and distribution strategies and focus on the appropriate channels with the optimal timing to reach viewers who are most likely to react favorably. Further, Maoyan can also generate a “Hype! index” for each movie, which is a statistic that indicates the user anticipation level for a movie prior its release. This index is extremely helpful for Maoyan and its business partners to determine the optimal pricing strategies for each movie in order to maximize their operational results.

Figure 7: Potential Audience Profile and Hype! Index



Source: Company

By leveraging on its strong big data capabilities, Maoyan has expanded its business quickly along the value chain and has already become the largest lead distributor for domestic movies in terms of China gross box office just only 2 years after its first involvement as lead distributor for movies. In 2019, the company has acted as the lead distributor for 14 movies with a total gross box office of 7.4 billion RMB. We believe the movie distribution business will be one of the key driver for the company’s future.

Besides movie promotion and distribution, Maoyan is also aggressively extending into upstream production investment, which we believe is another potential driver for the company in the future. In march 2019, Maoyan has invested into Huanxi Media Group Limited, which is a renowned film company, and has established a strategic partnership

with it. This investment allows Maoyan to make production investment on Huanxi Media’s top quality movies and TV dramas in priority to others movie producers. Despite that the earnings from production and investments of movies / TV dramas are volatile by nature. However, Maoyan can provide valuable market-oriented advices on productions (ie cast selections, shooting and editing styles) and distributions to the lead producer by leveraging on its big data capabilities. This can greatly improve the return on investments of Movie / TV dramas.

Figure 8: Maoyan’s selected landmark movie where it provided entertainment content services in 2019



Name: Kill Mobile  
Year : 2018-2019  
Role: lead distributor



Name: P storm  
Year: 2019  
Role: lead distributor / producer



Name: My People, My Country  
Country  
Year: 2019  
Role: lead distributor / co-producer



Name: Ip Man 4  
Year: 2019  
Role: lead distributor



Name: Looking Up  
Year: 2019  
Role: lead distributor / producer



Name: The Wandering Earth  
Year: 2019  
Role: co distributor



Name: Pegasus  
Year: 2019  
Role: lead distributor / producer



Name: The White Storm 2 - Drug Lords  
Year: 2019  
Role: co-distributor / co-producer



Name: Better Days  
Year: 2019  
Role: co-distributor / co-producer



Name: The Climbers  
Year: 2019  
Role: co-distributor / co-producer

Source: Company, PSHK

**The COVID – 19 impact**

Despite the huge impact of COVID-19, we believe that since the company has sufficient cash on hand and has a relatively high ability to resist risk. We expect that the epidemic will only affect the company’s short term performance and will not affect the company’s long term growth. The company operating performance should resume normal before 2021. In addition, we believe that many small to mid-sized movie distributors and producers may face bankruptcy during the COVID-19 period. Thus, we expect Maoyan, the largest lead distributor for domestic movies in China, can potentially increase its market share after the outbreak by further consolidate the movie production and distribution sector in China.



## Financial Analysis and Forecast

### Operating indicator

We believe that the Covid-19 outbreak has a huge negative impact on the company's total ticketing GMV in 2020. Cinemas in Mainland China have been closed for half a year and have only started reopening on 20<sup>th</sup> July. Besides that, many live events (including concerts) are held via the internet during the year. Thus, we believe the total ticketing GMV of the company will drop hugely in 2020, and after that, it will normalize to the pre Covid-19's relatively high level in 2021 and 2022. We forecast that the total ticketing GMV of 2020/2021/2022 are RMB 16.0/37.3/41.8 billion respectively, up by -54%/201%/12% yoy.

On the other hand, the company's leading position in online movie ticketing sector is relatively solid. We also expect that the market share of the company's online entertainment event ticketing sector will rise in the future. Hence, the company's bargaining power is likely to increase and we expect the company's average take rate from its ticketing business will therefore have a steady rise each year for the following years. We forecast the average online ticketing take rate of the company are 6.67%/6.88%/7.09% in 2020/2021/2022 respectively, up by 1%/3%/3% yoy.

Figure 9: The operating indicators of the company

	2017	2018	2019	2020E	2021E	2020E
<b>GMV of Maoyan Ticket (billion RMB)</b>	22.01	32.70	34.89	16.00	37.30	41.81
<b>yoy</b>	53%	49%	7%	-54%	133%	12%
<b>Average Take rate</b>	6.77%	6.97%	6.60%	6.67%	6.88%	7.09%
<b>yoy</b>	2%	3%	-5%	1%	3%	3%

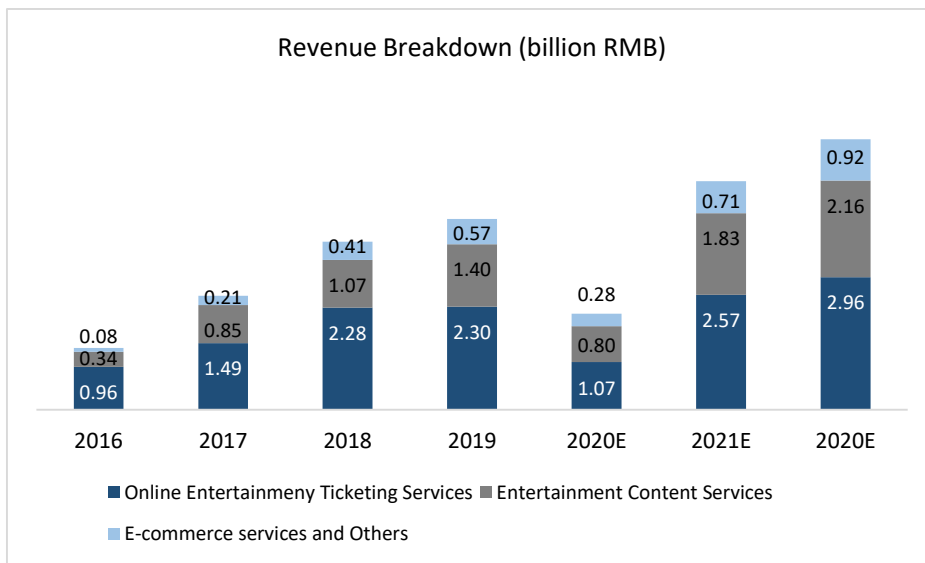
Source: Company, PSHK

### Revenue

The company's revenue has increased from RMB 1.38 billion in 2016 to RMB 4.27 billion in 2019, with a CAGR of 45% from 2016-2019. We forecast the company's revenue of 2020/2021/2022 are RMB 2.15/5.11/6.05 billion, with a CAGR of 12% from 2019-2022. As affected by the COVID-19, we expect that the company's revenue of 2020 will down by 50% yoy. Among all revenue sources of the company, we believe that the epidemic will have the greatest impact on the company's revenue of online ticketing in 2020 and we forecast that it will drop to RMB 1.07 billion, down by 54% yoy. In addition, the company's revenue generated from entertainment content services/ advertising services and e-commerce services are forecasted to be RMB 0.80/0.28 billion, also down by 43%/50% yoy.

We believe that the Chinese movie industry will gradually recover in 2020 H2. Hence, we expect the company's revenue will be able to resume to the high level prior the epidemic in 2021 and 2022. The revenue contributed by online ticketing business is forecasted to be RMB 2.57 billion in 2021, up by 11% /140% comparing to the figure in 2019/2020. This figure is expected to rise by 15% in 2022 and reach RMB 2.96 billion. This growth will be mainly driven by the increase in live entertainment ticketing online penetration rate and the growing market share of the company in this sector. On the other hand, we forecast that the company's revenue in entertainment content services in 2021/2022 are RMB 1.83/2.16 billion, up by 130%/18%. The main driving force behind this growth will be the company's big data analysis and its continuing upward ventures. Regarding to the advertising and e-commerce business, we expect there will be a huge growth in 2021 onwards. Nonetheless it will still remain relatively insignificant comparing to the total revenue. We forecast it will rise to RMB 0.71/0.92 billion in 2021/2022, up by 150%/30% yoy.

Figure 10: The company's past and forecasted revenue

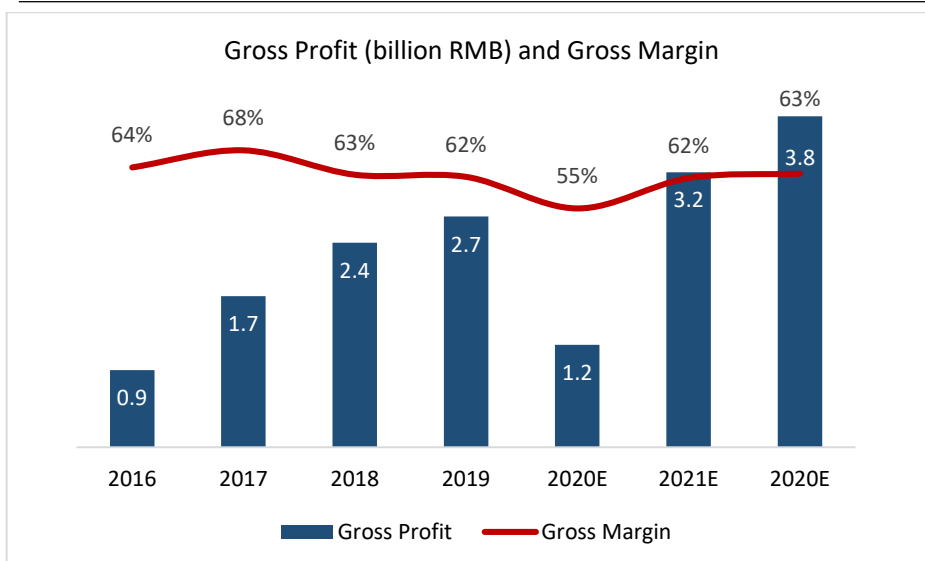


Source: Company, PSHK

### Gross Profit and Gross Margin

The company's gross margin is relatively stable for the past few years (floating between 62%-68%). However, as a result of the Covid-19 epidemic, we believe the average movie ticket price will drop in 2020H2 (after the re-operation of cinemas) in order to attract more audiences. This will have a negative impact on the gross margin of the company in 2020. We forecast it will drop to 55%. Nonetheless, as the movie industry gradually recover, as well as the increase of revenue contribution by the relatively higher gross margin businesses (including, movie distribution, e-commerce and advertising) of the company, we expect the gross margin of the company will rise in 2021 and 2022 and reach 62% and 63% respectively. We forecast that the gross profit of the company are RMB 1.2/3.2/3.8 billion respectively in 2020/2021/2022, up by -56%/168%/20% yoy.

Figure 11: The company's past and forecasted Gross Profit

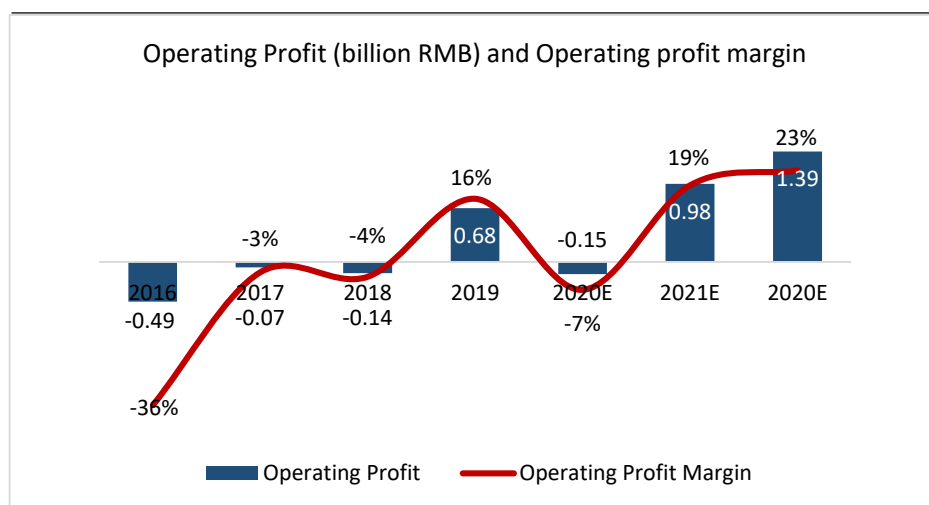


Source: Company, PSHK

### Operating Profit and Operating Margin

The company's selling and distribution expense as % of revenue has an obvious decreasing trend for the past few years as the ticketing subsidy expense as % of revenue decreases. We believe the company can continue this decreasing trend in the future since the company's leading position is solid. Nonetheless, since we expect the company revenue will drop significantly in 2020, hence, this expense ratio is expected to rise in 2020. We expect the selling and distribution expenses as % of revenue are 45%/33%/31% in 2020/2021/2022. On the other hand, since the company's administrative expense is relatively fixed, therefore the administrative expense as % of revenue in 2020 will be high at 20%. After the epidemic, it will normalize to 11%/10% in 2021/2022. We forecast the company's operating profit in 2020/2021/2022 are RMB -0.15/0.98/1.39 billion, with the corresponding operating margin at -7%/19%/23%.

Figure 12: The company's past and forecasted Operating Profit

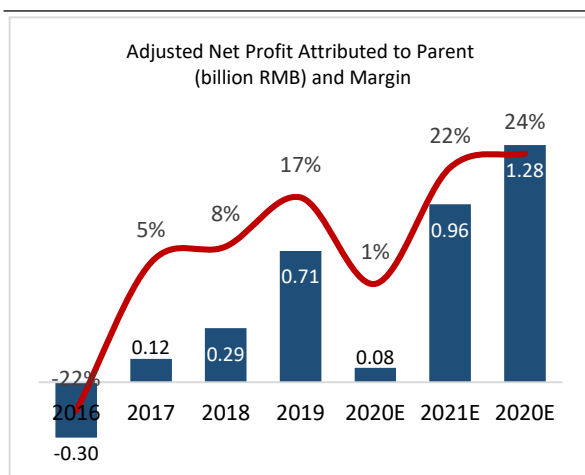


Source: Company, PSHK

### Adjusted Net Profit Attributed to Parent and Adjusted EPS

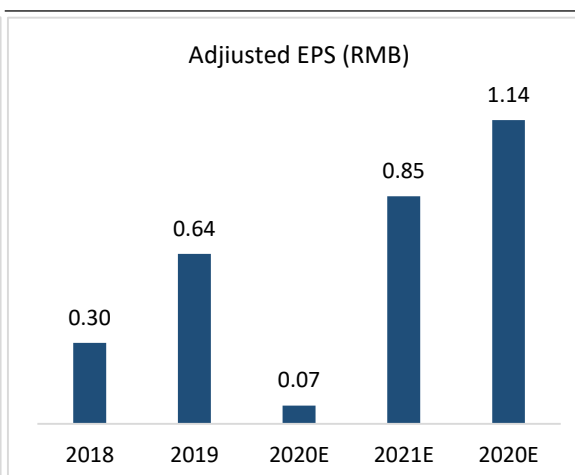
We believe that comparing with Net profit attributed to parents, adjusted net profit attributed to parent can better reflect the company's result and performance. This is because the Net profit attributed to parents is after the deduction of the equity-settled share-based expense and amortization of intangible assets resulting from business combinations, which are one-off non-operating expenses. We forecast the adjusted net profit attributed to parent are RMB 0.08/0.96/1.28 billion, with corresponding adjusted EPS at RMB 0.07/0.85/1.14.

Figure 13: Adjusted Net Profit Attributed to Parent



Source: Company, PSHK

Figure 14: Adjusted EPS



## Valuation

### We have set a target price of 16.6HKD

We believe the company's 2020 performance will be hugely affected by the COVID-19 outbreak, in line with the announcement of the company on 22nd May. But it is unlikely to affect the company's long term growth. We forecast the company's adjusted EPS are RMB 0.07/0.85/1.14 in 2020/2021/2022. We have set a target price of 16.6HKD, which implies a PE ratio of 17.5x/13.1x on the company's 2021/2022 adjusted EPS. We initiate with an "Accumulate" rating. (Market closing price as of 21th July) (exchange rate: RMB 0.9/HKD)

Figure 15: Comps Table

Company	Stock code	Closing Price	Market Cap	PE			PB			
				2019	2020	2021	2019	2020	2021	
(listed currency) (million RMB)										
<b>Movie Platform</b>										
Maoyan Ent	1896 hk equity	14.32	14,616	24.7x	154x	14.1x	1.79x	1.80x	1.63x	
Ali Pictures	1060 hk equity	1.21	29,268	-	-	-	-	2.06x	2.17x	
<b>Theatres</b>										
IMAX CHINA	1970 hk equity	12.98	3,809	13.4x	29.9x	13.8x	2.00x	2.45x	2.11x	
IMAX Corp	IMAX US equity	11.41	4,074	13.0x	-	22.4x	1.45x	1.70x	1.44x	
SMI holdings	198 hk equity	2.34	5,486	7.5x	-	-	0.60x	-	-	
<b>Content Producers</b>										
Huayi Brothers	300027 CH equity	5.29	12,852	-	51.2x	25.6x	2.58x	2.38x	2.01x	
Enlight	300251 CH equity	15.47	40,689	37.4x	65.1x	37.7x	4.21x	4.29x	3.92x	
Alpha Group	002292 CH equity	10.30	13,897	114x	75.9x	52.5x	3.45x	2.96x	2.90x	
New Culture Media	300336 CH equity	5.59	4,200	47.4x	17.7x	12.4x	1.61x	1.69x	1.57x	
CiWen Media	002343 CH equity	10.63	4,336	25.1x	18.7x	15.0x	2.64x	2.35x	2.22x	
Zhejiang Huace	300133 CH equity	8.82	13,729	-	26.6x	21.4x	2.15x	2.37x	2.13x	
<b>Media Conglomerates</b>										
Oriental Pearl	600637 CH equity	10.80	35,477	18.6x	22.7x	18.8x	1.20x	1.19x	1.14x	
China Film	600977 CH equity	15.65	27,632	23.3x	185.0x	22.0x	2.29x	2.32x	2.15x	
				<b>Average</b>	<b>32.4x</b>	<b>64.7x</b>	<b>23.2x</b>	<b>2.2x</b>	<b>2.3x</b>	<b>2.1x</b>
				<b>Median</b>	<b>24.0x</b>	<b>40.6x</b>	<b>21.4x</b>	<b>2.1x</b>	<b>2.3x</b>	<b>2.1x</b>

Market closing price as of 21th July

Source: Bloomberg, PSHK

## Financials

### Key Financial Data

FYE DEC	FY18	FY19	FY20E	FY21E	FY22E
<b>Valuation Ratio</b>					
P/E ratio	-90.2x	30.9x	-119.1x	19.0x	13.4x
Adjusted P/E ratio	42.5x	20.2x	188.4x	15.1x	11.3x
P/B ratio	2.2x	1.7x	1.8x	1.6x	1.4x
<b>Per share data (RMB)</b>					
EPS	-0.14	0.42	-0.11	0.68	0.96
Adjusted EPS	0.30	0.64	0.07	0.85	1.14
Book value per share	5.94	7.46	7.34	8.11	9.16
<b>Growth &amp; Margin</b>					
Revenue Growth	47.4%	13.7%	-49.7%	137.8%	18.4%
Growth profit growth	35.3%	12.8%	-55.6%	168.1%	20.3%
Operating income growth	N/A	-584.8%	-122.2%	-752.7%	41.3%
Adjusted Net income Growth	133.9%	142.9%	-89.1%	1147.1%	33.4%
Gross Profit Margin	62.8%	62.3%	55.0%	62.0%	63.0%
Operating profit Margin	-3.7%	15.8%	-7.0%	19.2%	22.9%
Net Profit Margin	-3.7%	10.9%	-5.7%	15.0%	17.9%
Adjusted Net Profit Margin	7.8%	16.6%	3.6%	18.8%	21.2%
<b>Key Ratios</b>					
ROE	-2.4%	5.6%	-1.5%	8.4%	10.5%
Adjusted ROE	5.1%	8.5%	0.9%	10.5%	12.4%
ROA	-1.5%	4.1%	-1.1%	6.2%	7.8%
Adjusted ROA	3.2%	6.2%	0.7%	7.8%	9.2%

Market closing price as of 6th July

**Consolidated Statement of Profit or Loss**

(million RMB)	2016	2017	2018	2019	2020E	2021E	2020E
Online entertainment ticketing	960.1	1490.0	2280.2	2303.2	1067.2	2565.8	2963.1
Entertainment content services	337.3	852.3	1068.6	1396.8	796.2	1831.2	2160.8
E-commerce services	80.1	205.7	406.1	567.5	283.8	709.4	922.2
<b>Total Revenue</b>	<b>1377.5</b>	<b>2548.0</b>	<b>3754.9</b>	<b>4267.5</b>	<b>2147.1</b>	<b>5106.4</b>	<b>6046.1</b>
Cost of revenue	(489.9)	(806.0)	(1398.8)	(1610.4)	(966.2)	(1940.4)	(2237.1)
<b>Gross Profit</b>	<b>887.6</b>	<b>1742.0</b>	<b>2356.2</b>	<b>2657.1</b>	<b>1180.9</b>	<b>3165.9</b>	<b>3809.0</b>
Selling and marketing expenses	(1027.8)	(1419.5)	(1940.4)	(1547.8)	(966.2)	(1685.1)	(1874.3)
General and administrative expenses	(332.3)	(381.3)	(520.5)	(447.8)	(429.4)	(556.1)	(604.6)
Other income and Other gain / (losses), net	(22.3)	(7.3)	(32.3)	56.2	64.4	56.2	56.2
Financial gain / (loss)	0.0	0.0	(2.5)	(41.9)	0.0	0.0	0.0
<b>Operating profit</b>	<b>(494.8)</b>	<b>(66.0)</b>	<b>(139.4)</b>	<b>675.9</b>	<b>(150.3)</b>	<b>981.0</b>	<b>1386.3</b>
Net finance cost	(3.6)	(11.2)	(6.8)	(13.8)	(7.2)	(14.5)	(15.2)
Share of losses of investments	0.0	1.4	(1.8)	(0.6)	(3.2)	1.2	1.5
<b>Profit/Loss before tax</b>	<b>(498.4)</b>	<b>(75.9)</b>	<b>(148.0)</b>	<b>661.5</b>	<b>(160.7)</b>	<b>967.7</b>	<b>1372.6</b>
tax expense	(9.8)	(0.2)	9.6	(202.6)	33.7	(203.2)	(288.3)
<b>Profit/Loss for the year</b>	<b>(508.2)</b>	<b>(76.1)</b>	<b>(138.4)</b>	<b>458.9</b>	<b>(127.0)</b>	<b>764.5</b>	<b>1084.4</b>
Non Controlling Interest	0.0	0.5	1.3	4.6	5.2	(0.6)	(2.2)
<b>Net profit attributed to parent</b>	<b>(508.2)</b>	<b>(75.5)</b>	<b>(137.1)</b>	<b>463.5</b>	<b>(121.8)</b>	<b>763.9</b>	<b>1082.2</b>
<b>Adjusted net profit</b>	<b>(300.2)</b>	<b>124.0</b>	<b>290.1</b>	<b>703.2</b>	<b>71.8</b>	<b>960.4</b>	<b>1282.6</b>
<b>Adjusted net profit attributed to parent</b>	<b>(300.2)</b>	<b>124.6</b>	<b>291.4</b>	<b>707.8</b>	<b>77.0</b>	<b>959.8</b>	<b>1280.4</b>
<b>EPS</b>			(0.14)	0.42	(0.11)	0.68	0.96
<b>Adjusted EPS</b>			0.30	0.64	0.07	0.85	1.14

**Consolidated statement of Financial Position**

(million RMB)	2016	2017	2018	2019	2020E	2021E	2022E
<b>Non-current assets</b>							
Property, plant and equipment	3.6	31.8	30.9	34.4	38.4	42.9	47.8
Right-of-use assets	-	-	-	35.3	38.8	42.7	47.0
Intangible assets	-	5608.2	5390.8	5341.1	5212.9	5317.2	5423.5
Others	0.0	75.4	80.2	571.5	632.7	690.1	747.8
<b>Total Non Current Assets</b>	3.6	5715.4	5501.9	5982.3	5922.8	6092.8	6266.1
<b>Current assets</b>							
Inventories	0.3	3.6	13.5	28.2	39.5	27.67	33.20
Accounts receivables	140.8	311.0	324.6	551.6	236.2	561.7	665.1
Cash and cash equivalents	1102.2	1170.1	1536.5	1540.4	1578.5	1877.1	2349.6
Others	321.0	1838.6	1700.0	3248.7	3295.4	3771.9	4629.5
<b>Total Current Assets</b>	1564.4	3323.4	3574.5	5369.0	5149.6	6238.3	7677.4
<b>Total assets</b>	1567.9	9038.8	9076.4	11351.2	11072.4	12331.1	13943.5
<b>Total Non-current Liabilities</b>	4.2	221.8	197.0	208.0	208.0	208.0	208.0
<b>Total Current Liabilities</b>	1549.4	3285.7	3172.9	2855.2	2603.3	2997.6	3425.6
<b>Total Liabilities</b>	1553.5	3507.5	3369.9	3063.2	2811.3	3205.6	3633.5
<b>Equity</b>							
Share capital	-	-	0.1	0.2	0.2	0.2	0.2
Reserves	274.3	5838.3	6157.0	8283.0	8383.0	8483.0	8583.0
Retained earnings/(accumulated losses)	-259.9	-318.1	-455.2	4.9	-116.9	647.0	1729.1
Non-controlling interests	-	11.1	4.6	-	-5.2	-4.6	-2.4
<b>Total Equity</b>	14.4	5531.3	5706.5	8288.0	8261.1	9125.5	10309.9
<b>Total Equity and Liabilities</b>	1567.9	9038.8	9076.4	11351.2	11072.4	12331.1	13943.5

**Cash Flow Statement**

(million RMB)	2016	2017	2018	2019	2020E	2021E	2022E
<b>profit / (loss) before income tax</b>	(498.3)	(75.8)	(148.0)	661.5	(160.7)	967.7	1372.6
Depreciation and Amortization	9.1	95.5	211.3	163.9	156.6	155.9	161.3
change in working capital	322.4	881.0	(1302.7)	(1695.3)	528.3	(843.1)	(755.8)
Others	231.5	173.5	114.6	(70.0)	79.7	(146.1)	(230.8)
<b>Cash (used in)/generated from operation:</b>	64.7	1074.1	(1124.9)	(939.9)	603.9	134.4	547.4
<b>Investing Cashflow</b>	(23.9)	(1080.0)	542.2	(914.7)	(36.0)	(268.5)	(276.9)
<b>Financing Cashflow</b>	997.6	74.0	949.1	1850.0	(529.9)	432.7	202.0
<b>Net increase / (decrease) in cash</b>	1038.5	68.0	366.4	(4.6)	38.0	298.6	472.5
<b>Cash at beginning</b>	63.7	1102.2	1170.1	1536.5	1540.4	1578.5	1877.1
<b>exchange losses</b>	0.0	(0.1)	(0.1)	8.6	0.0	0.0	0.0
<b>Cash at the end</b>	1102.2	1170.1	1536.5	1540.4	1578.5	1877.1	2349.6

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>+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

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