

Maoyan Entertainment (1896 HK)

The storm is over, Expecting a huge rebound of movie sector in 2H20
China | TMT Sector | Update Report

8 Sept 2020

Investment Summary

The 2020 H1 interim result

Affected by the epidemic, the company's 1H20 revenue was down by 89.8% yoy to RMB 203 million. The gross loss/net loss/adjusted net loss for the period were RMB 20.56 million/ RMB 431 million / RMB 307 million respectively. In terms of business segments, the company's online entertainment ticketing revenue was RMB 103 million, decreased by 90.4% yoy. The entertainment content service revenue was approximately RMB 15.6 million, decreased by 98% yoy. The advertising services and others were least affected by the epidemic, the revenue was RMB 83.7 million, down by 64.5% yoy. The company's revenue for the interim was lower than our expectation, especially entertainment content service revenue.

The movie sector is expected to rebound in 2H20, despite the poor performance in 1H20

All movie theaters in China have been temporarily closed from 24th January 2020, due to the epidemic. Therefore, the total box office and the number of movie viewings in China in the first half of 2020 have dropped significantly yoy. Further, the Spring Festival movies and other movie projects that the company have participated in production/distribution had all been postponed. The company unconditionally refunded all the movie tickets of the movies withdrawn during the Chinese New year holidays, and paid all refunds in advance. The accumulated refunds amounted to about 5 million tickets worth over RMB 200 million.

Starting from July 20, 2020, movie theaters in China have resumed operation in an orderly manner. The day-box office continued to grow after the reoperation of work and the cumulative box office broke the RMB 100 million mark in the first week after the reoperation of cinemas. According to the data of Maoyan Pro, China's total box office for the week from August 10th to 16th was RMB 270 million. We believe this figure is relatively impressive considering that no high quality/highly anticipated movies were released during that period. "The Eight Hundred" was released on the 21th of August. The total box office was more than 700 million yuan for the three days since it was released, reflecting the strong demand of high quality cinema movies from the people in China. Starting from August 10th, local governments have introduced a series of strategies, such as raising the attendance rate of cinemas to 50%, with the aim to help the recovery of the Chinese movie sector. In addition, many highly anticipated movies had finalized their release date recently, including "My People My Homeland", "Master Jiang and The Six Kingdoms" and "Leap". The management expressed full confidence in the control of the epidemic in China, and believed that with the further control of the epidemic, the government's epidemic prevention measures for movie theaters will gradually relax. The number of movie viewings and box office are expected to return to pre-epidemic levels.

The company has a huge new-movie reserves, many of those will be released in 2H20

2020 is the first year that Maoyan has served as the lead producer for Chinese movies. The company has continuously strengthened its ability to produce high quality content during the epidemic. The company's self-produced film "Back to the Wharf" was nominated for the Golden Goblet Awards in the 23rd Shanghai International Film Festival, fully demonstrated the company's ability of creating quality content. On the other hand, the company currently has a large movie reserve, with many movies waiting to be released. Among them, "Leap", "Master Jiang and The Six Kingdoms" and other Spring Festival films have been scheduled to release during the National Day period. Other movies such as "One Second" directed Zhang YiMou, "Assassin in Red" directed by Lu Yang, "Sons of the Neon Light" and "Warrior of Futures" will all be released at an appropriate schedule later on.

Accumulate (Maintain)

CMP HKD 15.22

(Closing price as at 4 Sept)

TARGET HKD 16.86 (+11%)

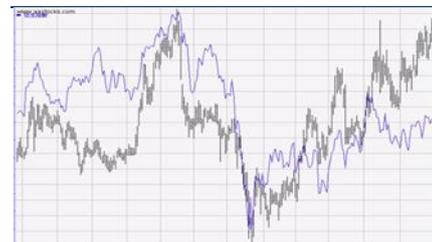
COMPANY DATA

O/S SHARES (MN) :	1,132
MARKET CAP (HKD MN) :	17432
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	1576	5175	6127
Net Profit, Adj	291	708	83	975	1301
EPS, Adj, CNY	0.30	0.64	0.07	0.87	1.16
P/E, Adj, x	42.5	20.2	186.8	15.8	11.8
BVPS, CNY	5.94	7.46	7.35	8.13	9.20
P/BV, x	2.2	1.7	1.9	1.7	1.5
ROE, Adj, %	5.1	8.5	0.9	10.7	12.6
ROA, Adj, %	3.2	6.2	0.7	7.9	9.3

Source: Company reports, Phillip Securities Est.

(Market closing price as of 4th Sept)

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The epidemic has accelerated the company's business expansion to online distribution

During the epidemic, the vast majority of movies such as "Lost in Russia" and "The Winner" have been distributed through online video platforms. However, there are huge differences in the business models and attributes (including film returns, cost input, content, etc.) between online movies and theatrical movies. Therefore, there is no duplication or contradiction between the two sub-sectors. The company's big data analysis used to serve the theatrical movies and have a market leading position. However, since the cinemas were closed down during the epidemic, the company has also acted distributor for multiple online movies and TV series, and have achieved impressive results. The company has now equipped with the ability to act as the lead distributor for online movies and TV series. Therefore, the epidemic has in a sense accelerated the company's online distribution business expansion. We believe that the company will gradually extend its advantages in the theatrical movie sector to the online movie sector.

The Multilateral cooperation of "TenMao" Alliance

In the July of 2019, Tencent and Maoyan have initiated the "TenMao" Alliance. In 1H20, they have deepened their collaboration in multiple entertainment formats (Music, online TV series, live entertainment events). First of all, the company has laid the groundwork to form a movie-TV soundtrack value chain in 1H20 for the first time and have reached an exclusive copyright sharing agreement with Tencent Music Entertainment Group regarding the original soundtrack for Shichahai (什刹海), a popular TV series simultaneously broadcasted on CCTV 1, Tencent Video, iQIYI, and Youku. Further, Tencent Video and Maoyan have also strengthen their business collaboration in TV drama production by co-producing TV dramas such as "Miss Crow and Mr. Lizard" as well as "Babel". In addition, Maoyan has acted as the exclusive ticketing agency and distribution partner for "Rocket Girls 101" live concert and the exclusive general ticketing agency for the "2020 Honor of Kings World Final Championship Cup". Both of these events were backed by Tencent. Lastly, Maoyan Pro officially interfaced with Tencent Video to exchange data about online movie revenue split between partners. Thus the company became the first platform in China that have integrated access to the online movie box office data from Tencent Video, iQIYI, and Youku. This has provided a certain degree of transparency for the online film industry in terms of online movie revenue split. In conclusion, ever since the initiation of the "TenMao" alliance last year, the two companies have deepened their strategic collaboration in different aspects. We believe they will continue their strategic partnership in the future and they are expected to fully utilize their advantages and resources in the whole pan entertainment industry.

Valuation

We are optimistic about the recovery of the film industry in 2H20 and the high growth brought by the company's future expansion of businesses. Although the company's 2020 interim results were set back by the epidemic and were worse than our expectations, we believe that the epidemic will not affect the company's long-term growth logic and have in some ways accelerated the company's business expansion. We have lowered the adjusted EPS of the company for 2020 to RMB 0.07, and increased the adjusted EPS of 2021/2022 to RMB 0.87/1.16. We have raised the target price to HKD 16.86, representing 17.5x/13.1x FY2021E/FY2022E adjusted P/E. We maintain the "Accumulate" rating. (Market closing price as of 4th Sept) (exchange rate: RMB 0.9/HKD)

Figure 1: Peer Comparison Table

Company	Stock code	Closing Price	Market Cap	P/E			P/B		
				TTM	2020	2021	TTM	2020	2021
(listed currency) (million RMB)									
Movie Platform									
Ali Pictures	1060 hk equity	1.19	28,178	-	-	-	2.03x	1.98x	2.09x
Theatres									
IMAX CHINA	1970 hk equity	12.66	3,889	-	74.2x	14.1x	2.69x	2.48x	2.13x
IMAX Corp	IMAX US equity	15.40	6,199	-	-	33.6x	2.06x	2.06x	1.67x
SMI holdings	198 hk equity	2.34	5,597	-	-	-	2.46x	-	-
Content Producers									
Huayi Brothers	300027 CH equity	5.91	16,477	-	140.7x	40.5x	3.89x	3.17x	2.80x
Enlight	300251 CH equity	17.49	51,309	59.9x	97.2x	46.5x	5.81x	5.42x	4.91x
Alpha Group	002292 CH equity	8.29	11,251	-	84.6x	41.9x	2.84x	2.58x	2.46x
New Culture Media	300336 CH equity	6.01	4,845	-	26.7x	16.3x	2.41x	2.08x	2.00x
CiWen Media	002343 CH equity	9.38	4,455	59.8x	24.6x	16.4x	2.73x	2.54x	2.25x
Zhejiang Huace	300133 CH equity	9.25	16,240	-	32.9x	25.9x	3.01x	2.86x	2.57x
Media Conglomerates									
Oriental Pearl	600637 CH equity	10.63	36,296	18.4x	22.4x	19.5x	1.25x	1.21x	1.17x
China Film	600977 CH equity	15.68	29,275	-	402.1x	24.0x	2.69x	2.47x	2.29x
Beijing Jingxi	000802 CH equity	9.55	6,837	-	20.3x	16.5x	2.81x	-	-
Average				46.0x	92.6x	26.8x	2.8x	2.6x	2.4x
Median				59.8x	53.6x	24.0x	2.7x	2.5x	2.2x

Market closing price as of 4th Sept

Source: Bloomberg, PSHK

Financials

Key Financial Data

FYE DEC	FY18	FY19	FY20E	FY21E	FY22E
Valuation Ratio					
P/E ratio	N/A	32.8x	N/A	19.8x	14.0x
Adjusted P/E ratio	N/A	21.5x	186.8x	15.8x	11.8x
P/B ratio	N/A	1.8x	1.9x	1.7x	1.5x
Per share data (RMB)					
EPS	N/A	0.42	-0.10	0.69	0.98
Adjusted EPS	N/A	0.64	0.07	0.87	1.16
Book value per share	N/A	7.46	7.35	8.13	9.20
Growth & Margin					
Revenue Growth	47.4%	13.7%	-63.1%	228.3%	18.4%
Growth profit growth	35.3%	12.8%	-67.4%	270.1%	20.3%
Operating income growth	N/A	-584.8%	-121.5%	-793.1%	41.1%
Adjusted Net income Growth	133.9%	142.9%	-88.3%	1082.0%	33.4%
Gross Profit Margin	62.8%	62.3%	55.0%	62.0%	63.0%
Operating profit Margin	-3.7%	15.8%	-9.2%	19.5%	23.2%
Net Profit Margin	-3.7%	10.9%	-7.4%	15.1%	18.0%
Adjusted Net Profit Margin	7.8%	16.6%	5.2%	18.8%	21.2%
Key Ratios					
ROE	-2.4%	5.6%	-1.4%	8.5%	10.7%
Adjusted ROE	5.1%	8.5%	0.9%	10.7%	12.6%
ROA	-1.5%	4.1%	-1.1%	6.3%	7.9%
Adjusted ROA	3.2%	6.2%	0.7%	7.9%	9.3%

Market closing price as of 4th Sept

Consolidated Statement of Profit or Loss

(million RMB)	2016	2017	2018	2019	2020E	2021E	2022E
Online entertainment ticketing	960.1	1490.0	2280.2	2303.2	733.7	2565.8	2963.1
Entertainment content services	337.3	852.3	1068.6	1396.8	558.7	1899.6	2241.6
E-commerce services	80.1	205.7	406.1	567.5	283.8	709.4	922.2
Total Revenue	1377.5	2548.0	3754.9	4267.5	1576.2	5174.8	6126.9
Cost of revenue	(489.9)	(806.0)	(1398.8)	(1610.4)	(709.3)	(1966.4)	(2266.9)
Gross Profit	887.6	1742.0	2356.2	2657.1	866.9	3208.4	3859.9
Selling and marketing expenses	(1027.8)	(1419.5)	(1940.4)	(1547.8)	(725.0)	(1685.1)	(1874.3)
General and administrative expenses	(332.3)	(381.3)	(520.5)	(447.8)	(394.0)	(556.1)	(604.6)
Other income and Other gain / (losses), net	(22.3)	(7.3)	(32.3)	56.2	106.8	40.4	40.4
Financial gain / (loss)	0.0	0.0	(2.5)	(41.9)	0.0	0.0	0.0
Operating profit	(494.8)	(66.0)	(139.4)	675.9	(145.4)	1007.6	1421.5
Net finance cost	(3.6)	(11.2)	(6.8)	(13.8)	(8.3)	(20.7)	(23.2)
Share of losses of investments	0.0	1.4	(1.8)	(0.6)	0.0	0.0	0.0
Profit/Loss before tax	(498.4)	(75.9)	(148.0)	661.5	(153.7)	986.9	1398.3
tax expense	(9.8)	(0.2)	9.6	(202.6)	32.3	(207.3)	(293.6)
Profit/Loss for the year	(508.2)	(76.1)	(138.4)	458.9	(121.4)	779.7	1104.6
Non Controlling Interest	0.0	0.5	1.3	4.6	5.2	(0.6)	(2.2)
Net profit attributed to parent	(508.2)	(75.5)	(137.1)	463.5	(116.2)	779.1	1102.4
Adjusted net profit	(300.2)	124.0	290.1	703.2	77.3	975.7	1302.8
Adjusted net profit attributed to parent	(300.2)	124.6	291.4	707.8	82.5	975.1	1300.6
EPS			(0.14)	0.42	(0.10)	0.69	0.98
Adjusted EPS			0.30	0.64	0.07	0.87	1.16

Consolidated statement of Financial Position

(million RMB)	2016	2017	2018	2019	2020E	2021E	2022E
Non-current assets							
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	678.3	718.7	759.2
Total Non Current Assets	3.6	5715.4	5501.9	5982.3	5968.4	6121.5	6277.5
Current assets							
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	173.4	569.2	674.0
Cash and cash equivalents	1102.2	1170.1	1536.5	1540.4	1532.5	1873.5	2385.9
Others	321.0	1838.6	1700.0	3248.7	3295.4	3771.9	4629.5
Total Current Assets	1564.4	3323.4	3574.5	5369.0	5040.8	6242.2	7722.6
Total assets	1567.9	9038.8	9076.4	11351.2	11009.2	12363.7	14000.1
Total Non-current Liabilities	4.2	221.8	197.0	208.0	210.2	212.6	215.3
Current liabilities							
Borrowings	-	-	600.0	1161.6	638.9	1086.1	1303.3
Accounts payables	124.7	331.2	295.2	367.7	195.9	543.2	626.2
Other current liabilities	1424.6	2954.5	2277.7	1326.0	1697.6	1375.5	1504.4
Total Current Liabilities	1549.4	3285.7	3172.9	2855.2	2532.4	3004.8	3433.8
Total Liabilities	1553.5	3507.5	3369.9	3063.2	2742.6	3217.4	3649.2
Equity							
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	-111.4	667.7	1770.1
Non-controlling interests	-	11.1	4.6	-	-5.2	-4.6	-2.4
Total Equity	14.4	5531.3	5706.5	8288.0	8266.6	9146.3	10350.9
Total Equity and Liabilities	1567.9	9038.8	9076.4	11351.2	11009.2	12363.7	14000.1

Cash Flow Statement

(million RMB)	2016	2017	2018	2019	2020E	2021E	2022E
profit / (loss) before income tax	(498.3)	(75.8)	(148.0)	661.5	(153.7)	986.9	1398.3
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)	520.1	(835.2)	(756.1)
Others	231.5	173.5	114.6	(70.0)	33.8	(127.0)	(210.9)
Cash (used in)/generated from operation:	64.7	1074.1	(1124.9)	(939.9)	556.8	180.6	592.6
Investing Cashflow	(23.9)	(1080.0)	542.2	(914.7)	(36.0)	(268.5)	(276.9)
Financing Cashflow	997.6	74.0	949.1	1850.0	(528.8)	429.0	196.7
Net increase / (decrease) in cash	1038.5	68.0	366.4	(4.6)	(8.0)	341.0	512.4
Cash at beginning	63.7	1102.2	1170.1	1536.5	1540.4	1532.5	1873.5
exchange losses	0.0	(0.1)	(0.1)	8.6	0.0	0.0	0.0
Cash at the end	1102.2	1170.1	1536.5	1540.4	1532.5	1873.5	2385.9

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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

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