

Maoyan Entertainment (1896 HK)

The total movie box office during 2021 Chinese New Year hits a record high, the Chinese film industry recovers in an orderly manner

5 March 2021

China | TMT Sector | Update Report

Investment Summary

The movie box office for 2020 was RMB 20.3 billion, which is in line with our previous expectation

Affected by the epidemic, all of the cinemas in China was temporarily suspended from January 24, 2020 to July 19, 2020, and only started gradually reopened on the 20th of July. According to the data from Maoyan Professional Edition, the total movie box office of China in 2020 was RMB 20.3 billion, down 68% yoy, which is in line with our previous expectations.

The total movie box office during 2021 Chinese New Year reached RMB 7.8 billion and hit a record high

The total movie box office during 2021 Chinese New Year was up by 32.47% yoy, reaching RMB 7.8 billion and hitting a record high. During the Chinese New Year holiday, the company has participated in 5 major films as either producer or distributor or both. These 5 films are Hi Mom (你好,李焕英), Detective ChinaTown 3 (唐人街探案 3), A Writer's Odyssey (刺杀小说家), Boonie Bears: The Wild Life (熊出没·狂野大陆) and The Yinyang Master (侍神令). As of 23rd February, the box office rankings of these 5 movies were 1st, 2nd, 4th, 7th and 11th respectively, with a total box office of RMB 9.93 billion. Hi Mom (你好,李焕英) directed by Jia Ling is one of the dark horses among all the high-quality movies during the Chinese New Year holiday. According to Maoyan Professional Edition, as of February 23, the total box office of Hi Mom (你好,李焕英) reached RMB 4.31 billion, with a forecast box office is RMB 5.22 billion. Hi Mom (你好,李焕英) currently ranked fourth on the box office rankings of Chinese film history. Hi Mom (你好,李焕英) has a Maoyan rating of 9.5/10, and more than 88% of the audience have given a 5-star rating to the movie, both of which ranked 1st among all movies during the same period. As the lead publisher and one of the main producer of Hi Mom (你好,李焕英), the company is expected to receive a relative high box office share as revenue.

As of February 23, 2021, the total box office of Chinese films has reached RMB 14.4 billion, and the total box office has already reached 71% of that of 2020. It can be seen that even under the policy of restricting attendance in cinemas, the recovery of Chinese movie industry remains strong. We expect the total box office in 2021 to return to the level prior the pandemic. As the leading movie ticketing platform in China (According to the Maoyan Professional Edition, the movie tickets sold through Maoyan platform have accounted for about 60% of the total during the Chinese New Year holiday), the company's earnings in 2021 will be substantially restored.

Valuation and Investment Thesis

We continue to be optimistic about the company's strategies in different entertainment formats and the company's "TenMao Alliance" with Tencent. We believe that the main future growth driver of the company will come from the entertainment content sector, while the movie ticketing sector will provide the company with a stable cash flow for investment in different entertainment formats.

Buy (Upgrade)

CMP HKD 14.80

(Closing price as at 3 March)

TARGET HKD 19.16 (29%)

COMPANY DATA

O/S SHARES (MN) :	1137
MARKET CAP (HKD MN) :	16829
52 - WK HI/LO (HKD):	8.01/19.30

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: Wind, Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY19	FY20E	FY21E	FY22E
Net Sales	4268	1394	4461	5204
Sales Per share, CNY	3.84	1.24	3.97	4.63
P/S, x	3.28	10.15	3.17	2.72
Net Profit, Adj	703	-415	833	1092
EPS, Adj, CNY	0.63	-0.37	0.74	0.97
P/E, Adj, x	19.88	N/A	16.99	12.96
ROE, Adj, %	8.48	-5.35	9.84	11.57
ROA, Adj, %	6.19	-3.90	7.19	8.63

Source: Company reports, Phillip Securities Est.

(Market closing price as of 3rd March)

Research Analyst

Kevin Chiu (+ 852 2277 6514)

kevinchiu@phillip.com.hk

After considered that 1) the pandemic has a greater impact to the movie industry in China than we previously forecasted 2) the delay in production projects 3) the total impairment provision recognized by the company in FY2020 is expected to be ranged between RMB 350-420 million, we cut our 2020E/2021E/2022E revenue to RMB 1.39/4.46/5.20 billion from RMB 1.58/5.17/6.13 billion and cut our 2020E/2021E/2022E Non-GAAP net income to RMB -0.42/0.83/1.09 billion from RMB 0.08/0.98/1.30 billion. Since the sector is recovering in an orderly manner with a clearer prospect, we raise our 2021 target Non-GAAP PE to 22x and raise our TP to HKD 19.16, with respective 2020/2021/2022 Non-GAAP PE at NA/22.0x/16.8x. We upgrade to BUY rating. (Market closing price as of 3rd March) (exchange rate: RMB 0.85/HKD)

Risk

- 1) Pandemic broke out again in China
- 2) Business extension progress slower than expected
- 3) The film industry recovers slower than expected
- 4) The box office of company's productions is worse than expected

Figure 1: Peer Comparison Table

Company	Stock code	Closing Price	Market Cap	P/E			P/B		
				TTM	2021	2022	TTM	2021	2022
(listed currency) (million RMB)									
Movie Platform									
Maoyan Entertainment*	1896 hk equity	14.8	14,023	-	17.2x	12.4x	1.8x	1.6x	1.5x
Ali Pictures	1060 hk equity	1.08	24,148	-	180.0x	45.0x	1.7x	1.8x	1.7x
			Average	-	98.6x	28.7x	1.7x	1.7x	1.6x
			Median	-	98.6x	28.7x	1.7x	1.7x	1.6x
Theatres									
IMAX CHINA	1970 hk equity	15.50	4,495	-	19.2x	15.4x	3.3x	2.9x	2.6x
			Average	-	19.2x	15.4x	3.3x	2.9x	2.6x
			Median	-	19.2x	15.4x	3.3x	2.9x	2.6x
Content Producers									
Huayi Brothers	300027 CH equity	3.96	11,006	-	32.2x	25.9x	2.7x	1.9x	1.7x
Enlight	300251 CH equity	13.04	38,254	-	36.3x	30.9x	4.3x	3.8x	3.4x
Alpha Group	002292 CH equity	5.74	7,790	-	43.2x	30.7x	2.0x	1.9x	1.8x
New Culture Media	300336 CH equity	3.06	2,467	-	9.3x	8.5x	1.3x	1.3x	1.3x
CiWen Media	002343 CH equity	6.11	2,902	50.3x	17.5x	14.4x	1.8x	1.7x	1.5x
Zhejiang Huace	300133 CH equity	6.11	10,727	-	18.3x	15.6x	2.0x	1.7x	1.5x
			Average	50.3x	26.1x	21.0x	2.4x	2.0x	1.9x
			Median	50.3x	25.3x	20.7x	2.0x	1.8x	1.6x
Media Conglomerates									
Oriental Pearl	600637 CH equity	9.18	31,345	15.3x	16.9x	15.6x	1.1x	1.0x	1.0x
China Film	600977 CH equity	13.57	25,335	-	26.1x	21.7x	2.3x	2.1x	2.0x
Beijing Jingxi	000802 CH equity	5.50	3,937	-	-	-	1.7x	-	-
			Average	15.3x	21.5x	18.7x	1.7x	1.5x	1.5x
			Median	15.3x	21.5x	18.7x	1.7x	1.5x	1.5x

Market closing price as of 3rd March

Source: Bloomberg, PSHK

* The Maoyan forecast valuation came from Bloomberg

Financials

Consolidated Statement of Profit or Loss

Dec Y/E, RMB mn	FY18	FY19	FY20E	FY21E	FY22E
Revenue	3755	4268	1394	4461	5204
Gross Profit	2356	2657	558	2543	2862
S&M expense	-1940	-1548	-558	-1249	-1145
Admin expense	-521	-448	-418	-535	-625
Other operating gain/(loss)	-35	14	-220	40	40
Operating Profit	-139	676	-638	799	1133
Net finance income	-7	-14	-8	-21	-23
Other non-operating gain/loss	-2	-1	0	0	0
Profit before tax	-148	661	-646	778	1110
Tax	10	-203	10	-163	-233
NCI	1	5	5	-1	-2
Profit for the year	-137	463	-632	614	875
Non GAAP profit for the year	290	703	-415	833	1092
EPS	-0.143	0.417	-0.561	0.546	0.778
Non GAAP EPS	0.302	0.633	-0.369	0.741	0.971

Key Financial Data

Dec Y/E	FY18	FY19	FY20E	FY21E	FY22E
Valuation Ratio					
P/E ratio, x	N/A	30.16	N/A	23.04	16.18
Non GAAP P/E ratio, x	41.63	19.88	N/A	16.99	12.96
P/S ratio, x	3.22	3.28	10.15	3.17	2.72

Per share data (RMB)

EPS	-0.143	0.417	-0.561	0.546	0.778
Non-GAAP EPS	0.302	0.633	-0.369	0.741	0.971
Revenue per Share	3.911	3.841	1.239	3.966	4.626

Growth & Margin

Revenue Growth	47%	14%	-67%	220%	17%
Operating income growth	N/A	N/A	N/A	N/A	42%
Net income Growth	N/A	N/A	N/A	N/A	43%
Non-GAAP Net income Growth	134%	142%	N/A	N/A	31%
Gross Profit Margin	63%	62%	40%	57%	55%
Operating profit Margin	-4%	16%	-46%	18%	22%
Net Profit Margin	-4%	11%	-45%	14%	17%
Adjusted Net Profit Margin	8%	16%	-30%	19%	21%

Key Ratios

ROE, Non-GAAP	5.08%	8.48%	-5.35%	9.84%	11.57%
ROA, Non-GAAP	3.20%	6.19%	-3.90%	7.19%	8.63%

Market closing price as of 3rd March

Consolidated Statement of Financial Position

Dec Y/E, RMB mn	FY18	FY19	FY20E	FY21E	FY22E
Non Current Asset					
PPE	31	34	36	37	38
Intangible assets	5391	5341	5211	5084	4962
others	80	607	554	552	550
Total Non Current Assets	5502	5982	5800	5673	5550
Current Asset					
T/R	325	552	128	410	479
Inventories	13	28	13	30	37
Prepayments	1315	2336	1704	2182	2546
Cash and cash equivalents	1536	1540	2084	2374	3127
Others	385	913	913	913	913
Total Current Assets	3574	5369	4843	5910	7102
Total Assets	9076	11351	10643	11584	12651
Non Current Liabilities					
Lease Liabilities	0	22	20	18	15
Others	197	186	186	186	186
Total Non Current Liabilities	197	208	206	203	201
Current Liabilities					
Borrowing	600	1162	1162	1162	1162
T/P	295	368	199	427	520
Others	2278	1326	1326	1326	1326
Total Current Liabilities	3173	2855	2686	2914	3007
Equity					
Share capital	0	0	0	0	0
Reserve	5702	8288	7756	8470	9445
Non controlling interest	5	0	-5	-5	-2
Total Equity	5707	8288	7751	8466	9443
Total Liabilities and Equity	9076	11351	10643	11584	12651

Consolidated Statement of Financial Position

Dec Y/E, RMB mn	FY18	FY19	FY20E	FY21E	FY22E
Profit (loss) before tax	-148	662	-646	778	1110
Depreciation and amortization	211	164	179	176	172
change in working capital	-1303	-1695	901	-549	-345
Others	115	-70	168	-43	-110
CFO	-1125	-940	602	362	827
CFI	542	-915	-50	-51	-51
CFF	949	1850	-8	-21	-23
Net Change in Cash	366	-5	543	291	753
Foreign exchange	0	9	0	0	0
Cash and CE at Y/E	1536	1540	2084	2374	3127

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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

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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Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd

250 North Bridge Road, #06-00 Raffles City Tower,
Singapore 179101

Tel : (65) 6533 6001 Fax: (65) 6535 3834

www.phillip.com.sg

INDONESIA

PT Phillip Securities Indonesia

ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A,
Jakarta 10220, Indonesia

Tel (62) 21 5790 0800 Fax: (62) 21 5790 0809

www.phillip.co.id

THAILAND

Phillip Securities (Thailand) Public Co. Ltd.

15th Floor, Vorawat Building, 849 Silom Road,
Silom, Bangrak, Bangkok 10500 Thailand

Tel (66) 2 2268 0999 Fax: (66) 2 2268 0921

www.phillip.co.th

UNITED STATES

Phillip Futures Inc.

141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA

Tel (1) 312 356 9000 Fax: (1) 312 356 9005

MALAYSIA

Phillip Capital Management Sdn Bhd

B-3-6 Block B Level 3, Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur

Tel (60) 3 2162 8841 Fax (60) 3 2166 5099

www.poems.com.my

CHINA

Phillip Financial Advisory (Shanghai) Co. Ltd.

No 436 Heng Feng Road, Green Tech Tower Unit 604
Shanghai 200 070

Tel (86) 21 5169 9400 Fax: (86) 21 6091 1155

www.phillip.com.cn

FRANCE

King & Shaxson Capital Ltd.

3rd Floor, 35 Rue de la Bienfaisance
75008 Paris France

Tel (33) 1 4563 3100 Fax : (33) 1 4563 6017

www.kingandshaxson.com

AUSTRALIA

PhillipCapital Australia

Level 10, 330 Collins Street
Melbourne VIC 3000 Australia

Tel: (61) 3 9618 8238 Fax: (61) 3 9200 2277

www.phillipcapital.com.au

HONG KONG

Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway Hong Kong

Tel (852) 2277 6600 Fax: (852) 2868 5307

www.phillip.com.hk

JAPAN

Phillip Securities Japan, Ltd

4-2 Nihonbashi Kabutocho, Chuo-ku
Tokyo 103-0026

Tel: (81) 3 3666 2101 Fax: (81) 3 3664 0141

www.phillip.co.jp

INDIA

PhillipCapital (India) Private Limited

No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg,
Lower Parel West, Mumbai 400013

Tel: (9122) 2300 2999 Fax: (9122) 6667 9955

www.phillipcapital.in

UNITED KINGDOM

King & Shaxson Ltd.

6th Floor, Candlewick House, 120 Cannon Street
London, EC4N 6AS

Tel (44) 20 7929 5300 Fax: (44) 20 7283 6835

www.kingandshaxson.com

SRI LANKA

Asha Phillip Securities Limited

Level 4, Millennium House, 46/58 Navam Mawatha,
Colombo 2, Sri Lanka

Tel: (94) 11 2429 100 Fax: (94) 11 2429 199

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