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## Could Cityneon Holdings Be Poised For More Than 30% Upside?



Two years ago, Cityneon turned from a little-known stock to become one of the most well-known names among Marvel fans.

Cityneon announced the acquisition of Victory Hill Exhibitions at \$21 million (\$10 million in cash, \$9 million in new Cityneon shares and \$2 million deferred payment) back in 2016.

At that point of time, nobody knew that Cityneon would turn into one of the best performing stocks over the past two years. Cityneon’s share price surged from \$0.20 to its peak of \$1.14 in 2016.

Today, Cityneon is repeating its growth with an acquisition of another game-winning intellectual property (IP): Jurassic Park.

### Building on past success

Following its Marvel success, Cityneon is building its next phase of growth with another travel exhibition.

This time, Cityneon set its sight on another popular exhibition set, Jurassic Park. Cityneon entered into a sale and purchase agreement for the proposed acquisition of 100% of JP Exhibition LLC via Victory Hills Exhibition.

JP Exhibition is just like Victory Hills Exhibition. But instead of running the Marvels S.T.A.T.I.O.N.S exhibition, JP Exhibition runs the Jurassic Park exhibition.

The acquisition will be Victory Hill Exhibition’s third IP acquisition associated with blockbuster movies. The other two IPs are Disney’s Marvel Avengers S.T.A.T.I.O.N. and Hasbro’s Transformers Autobot Alliance.

The acquisition marks the start of a partnership with Universal Studios. According to **CIMB Research**, a majority stake investment in related travelling sets for the 25th anniversary of Jurassic Park could be in talks in the future.

## Jurassic Park acquisition at a bargain



Cityneon will fork out US\$25 million for 100% ownership of JP Exhibition. The payment will be split into an upfront fee of US\$20 million and an incentive payment of US\$5 million.

The incentive payment will be dependent on whether JP Exhibition achieves audited net profit of US\$5 million for the 12-month period ending 7th January 2018.

At US\$25 million, **UOB Kay Hian Research** (UOBKH) and CIMB Research believe that Cityneon has managed to snatch a bargain.

Cityneon would be acquiring the rights to the Jurassic Park IP at only 5x forward earnings. UOBKH Research notes that the deal would be EPS-accretive to Cityneon.

### Acquisition already a success

Travelling sets are an extension of movie blockbusters, in terms of reaching out to loyal fans and enhancing the overall film franchise.

According to Box Office Mojo, Jurassic World is the fourth-highest grossing box office worldwide. In addition, there is a sequel Jurassic World (Fallen Kingdom) slated for release in mid-2018.



Previously, JP Exhibition took its Jurassic World travelling set to Melbourne Museum in 2016 for six months.

Throughout the six-month period, JP Exhibition saw over 430,000 visitors to its Jurassic World exhibition. Australian news even reported that it was the museum's most popular attraction since 2011.

Following which, the travelling exhibit made its next stop in Philadelphia. The exhibit recorded total visitorship of more than 400,000 people at the Franklin Institute.

Two future destinations are already planned for, implying that the orderbook for Jurassic World: The Exhibition is filled till at least 2019.

#### **Opportunities to expand**

Cityneon's management has been carrying out restructuring to streamline operations in its low-margin event management business.

Moving forward, there are a number of opportunities for Cityneon to expand in North Asia.

The management cites possible expansion through projects like Hong Kong Disneyland, Shanghai Legoland and Singapore Wildlife Reserves.

If Cityneon is able to secure additional IP rights for other franchises such as Star Wars, it could further catalyse the share price of Cityneon.

#### **Attractive valuation against its peers**

According to UOBKH Research's estimates, 2018/19 net profit could be raised by 12.2% and 7.5% respectively following JP Exhibition's acquisition.

However, UOBKH Research notes that it is being conservative on the estimates. If the exhibition continues to perform as well as it did historically, there could be even more upside to Cityneon's earnings.

As Cityneon enters the next stage of growth, Cityneon could be focusing its finances on expansion. As such, UOBKH Research foresees Cityneon to retain its earnings instead of paying dividends for the year.

The cash-generative capabilities of the existing sets will be used to fund additional capex for future growth.

Thus, UOBKH Research believes that a PE valuation of Cityneon is better able to capture the earnings potential of the stock.

With the stock trading at around 10.1x 2018F PE (against peer average 15.4x 2018F PE), Cityneon could be poised for more than 30% upside.

**UOB Kay Hian Research: Cityneon Holdings Limited (SGX: 5HJ) – BUY; Target Price \$1.50**