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5 reasons why Cityneon is set for 'explosive growth': DBS

By: Xavier Ong
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SINGAPORE (June 15): DBS Group Research is sticking to its 'buy' call for Cityneon Holdings, with a target price of \$1.05.

The research house has also raised earnings forecast for FY16 and FY17 by 11% and 4% respectively to incorporate contribution from the Singapore set.

Cityneon currently has Intellectual Property (IP) rights for two franchises: Hasbro Studios' Transformers and Disney subsidiary Marvel Entertainment's The Avengers. It has two permanent sets in Las Vegas and two travelling sets.

According to a Thursday report, DBS believes that Cityneon has upside for "explosive growth" ahead for the following reasons:

Expanding project pipeline

Victory Hills Exhibition (VHE), a wholly-owned subsidiary of Cityneon, has targeted launching Transformers in Las Vegas and China by end-2016. The company also intends to launch the franchise in the Middle East, rest of Asia and parts of China in 2017.

The Avengers exhibition, on the other hand, is expected to travel to Taiwan, Middle East, Sweden and other parts of Europe in 2017 following its tours in New York, Seoul and Paris.

With a strong pipeline of Avengers and Transformers movies stretching to 2020, visitor numbers to these exhibitions is expected to perform well.

Moreover, with no limits on locations for its IP rights, VHE can organise exhibitions in any part of the world with the two existing franchises. This offers "vast opportunities" for VHE, the report added.

Scalable business model

DBS expects Cityneon to have a total of six sets by end-2017 and eight sets by 2018. With subsequent sets costing only about one-third of the US\$8-9 million (\$10.8-12.2 million) that was spent to construct the first set, Cityneon is able to achieve operational leverage with every subsequent set built.

An increase in capacity would also enable Cityneon to move the location of its sets

with more frequency. For every location or project, Cityneon would be able to book revenue that includes licensing fees, merchandise sales and minimum guarantees on royalties, which is an upfront fee paid by its partners to use the exhibition set built by Cityneon.

Manageable execution risk

For Cityneon's travelling exhibits, the bulk of the risk is borne by the operator. The operator will bear the execution risk while Cityneon will mainly build and provide the sets for exhibition.

Potential for third IP

There is a huge pool of franchises to be tapped under the Disney umbrella. Options include Star Wars and Spiderman. DBS expects the VHE team to leverage their credentials in developing the Avengers and Transformers exhibits to secure the next IP.

Entry of strategic investors

DBS believes that tie-ups with strategic investors like CMC will help institutionalise Cityneon's investor base and increase liquidity, thus giving Cityneon the resources to capitalise on any potential opportunities for growth.

Cityneon closed 1.8% lower at 81 cents on Tuesday.

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