BROKER'S CALLS

Cityneon cut to 'hold' amid emerging concerns, lack of catalysts

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15/05/18, 04:36 pm

SINGAPORE (May 15): CGS-CIMB Research has downgraded Cityneon Holdings from “add” to “hold” and slashed its target price by around 27% to $1.16 on the back of expectations of higher depreciation and financing expenses ahead.

“The additional loans taken to build new sets led to higher net gearing for [Cityneon], from 1.4x as at end Dec-17 to 1.5x,” says

According to analyst Ngoh Yi Sin, Cityneon’s additional loans to build new sets has raised its net gearing to 1.5 times as at end-March 2018, from 1.4 times as at end-December 2017.

“We expect net gearing to remain elevated in the near term with the company still in expansionary mode,” Ngoh says.

Meanwhile, the group’s 1Q18 trade receivables remained largely unchanged from a year ago at $62.8 million, mostly stemming from sizeable projects in its traditional business. In FY16, Cityneon saw trade receivables of only $28.7 million.

“We see potential risks from higher receivables, rising net gearing and shift in strategy,” Ngoh says.

At the same time, the group saw operating expenses jump 45.8% y-o-y, largely due to higher depreciation expenses from more set and the Jurassic World acquisition, as well as a 35.5% increment in staff costs.

“We think employee expenses could remain on an uptrend as [Cityneon] invests in expanding its management team and creative capabilities. Admin costs were also slightly higher as a result of freight charges incurred for moving the interactive set build to various venues,” Ngoh says.

Despite the higher expenses, Cityneon saw its 1Q18 earnings surge 80.4% to $4.0 million, on the back of a 38.4% increase in revenue to $23.5 million.

The increase was almost entirely contributed by the Intellectual Properties

Experience (IPE) segment, which now contributes 62.2% of the total revenue, from 43.8% a year ago.

See: Cityneon posts 80.4% surge in 1Q earnings to $4 mil on higher IP revenue

“[Cityneon] currently has seven exhibits, and plans to have at least 9-10 permanent and travelling sets by end-2018,” says Ngoh. “We also understand there could be plans for the group to self-manage overseas operations, which we deem riskier versus the current model of leveraging on local partners.”

As at 4.34pm, shares of Cityneon are trading 2 cents down, or 1.9% lower, at $1.04. This implies an estimated price-to-earnings ratio of 11.2 times and price-to-book value of 3.0 times for FY18.

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