

SMALL/MID CAP HIGHLIGHTS

Vividthree Holdings (VTH SP)

Transforming Into A Scalable Content Producer

Vividthree is transforming from a post-production provider into a digital content producer, with the new segment contributing 60% of FY18 net profit. It should benefit from the rising penetration of VR, having recently secured the rights to develop a VR thematic tour show for a popular film. If executed well, the VR tour will be highly profitable and transform Vividthree's business model into a highly scalable one which it could grow with more recurring royalty income and IPs. For each VR set, Vividthree expects S\$1.0m-1.5m net profit (37-56% of FY18 net profit).

WHAT'S NEW

- We issued an NOT-RATED report on Vividthree Holdings (Vividthree) (please refer to "Money Talk:" Transforming To A Scalable Content Producer" dated 4 Oct 18 for full report).

INVESTMENT HIGHLIGHTS

- Transiting to a more profitable business model that focuses on content production.** Net profit from content production made a maiden contribution in FY18 and became a key contributor, forming 60% of full-year net profit. Vividthree aims to grow profit contribution from content production aggressively in the next two years as it evolves from a post-production company to a content powerhouse. Earlier in 2018, Vividthree secured the intellectual property (IP) rights to develop a virtual reality (VR) tour for a popular Korean film, Train To Busan (TTB), for all countries except South Korea. Vividthree will develop the master VR content including the storyline and VR experience. On the other hand, post production will continue to provide the base profit.
- Attractive industry prospects and investment proposition.** As shopping mall operators increasingly seek theme-based experience to drive traffic, VR tour could stand to benefit. Vividthree's tour set is also highly modular, potentially attracting venue owners of different sizes, including theme parks and VR gaming providers. With a relatively low initial capital outlay of S\$2m-3m for a VR set, management expects the investment payback period at only around one year, making it an attractive investment. Vividthree will sell the VR tour sets consisting mostly of software to stakeholders on a build-to-order basis and earn a fixed production income. It will continue to enjoy the success through royalties. Should promoters request for exclusive operation of the VR tour in a region, Vividthree may earn additional territorial rights fee.
- Extracting synergies from the parent.** Leveraging the extensive network of its parent company, mm2 Asia, Vividthree has gained new business opportunities, particularly in North Asia where sales have increased to 32% of FY18 total revenue from 0% in FY16. More importantly, Vividthree gained access to the IP rights of the TTB VR tour through the cinema network of mm2, which we believe it may continue to pave the way for Vividthree to secure more blockbuster IPs for immersive experiences via strategic access to global film studios or other IP owners like Apollo Space Travel, Walking With Dinosaurs and Disney etc.

KEY FINANCIALS

Year to 31 Mar (\$\$m)	2016	2017	2018
Net turnover	4.0	5.3	7.1
EBITDA	1.7	1.7	3.4
Operating profit	1.5	1.3	3.2
Net profit (rep./act.)	1.4	1.3	2.7
Net profit (adj.)	1.4	1.3	2.7
EPS (S cent)	0.5	0.5	1.0
PE (x)	48.9	52.4	25.5
P/B (x)	15.8	12.1	8.2
EV/EBITDA (x)	45.7	47.3	23.3
Dividend yield (%)	0.0	0.0	0.0
Net margin (%)	35.7	25.0	38.4
Net debt/(cash) to equity (%)	(3.4)	(5.1)	(26.5)
Interest cover (x)	64.5	72.2	234.3
ROE (%)	32.2	26.2	38.4

Source: Bloomberg UOB Kay Hian

NOT RATED

Share Price	S\$0.245
Target Price	n.a.
Upside	n.a.

COMPANY DESCRIPTION

Vividthree Holdings operates as a holding company. The company, through its subsidiaries, produces and distributes motion pictures. Vividthree serves customers in Singapore, China and Malaysia.

STOCK DATA

GICS sector	-
Bloomberg ticker:	VTH SP
Shares issued (m):	334.0
Market cap (S\$ m):	81.8
Market cap (US\$ m):	59.3
3-mth avg t'over (US\$ m):	0.4

Price Performance (%)

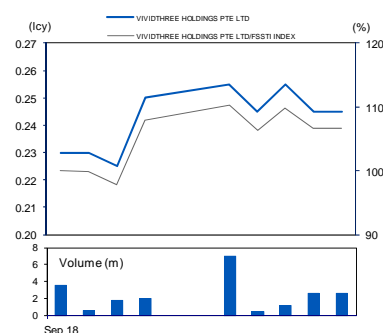
52-week high/low	S\$0.260/S\$0.215			
1mth	3mth	6mth	1yr	YTD
(2.0)	(2.0)	(2.0)	(2.0)	(2.0)

Major Shareholders

	%
MM2 Asia	41.5
Charles Yeo	13.2
Jay Hong	13.2

NAV/Share (S\$)	0.07
Net Cash/Share (S\$)	0.02

PRICE CHART



Source: Bloomberg

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VALUATION/RECOMMENDATION

- Based on peers' 18.7-18.9x FY20F PE, the valuation range for Vividthree is S\$0.44-0.45. If Vividthree meets its VR sales target, it expects net profit to grow 64-74% for FY19-20, driven by the sale of TTB VR tour set, slated to launch in 2HFY19. For every VR tour set sold, Vividthree targets to earn a production income of S\$1.0m-1.5m (37-56% of FY18 net profit) and some royalty fees. Vividthree has secured the clients for two VR tour sets in 2019 and aims to sell three in 2020.

NET PROFIT

YE 31 Mar (S\$m)	2016	2017	2018	2019F	2020F	Remarks
Net profit (rep.)	1.4	1.3	2.7	3.5	7.7	2019 will incur a one-off IPO expense of S\$1.2m
yoy % chg		-7	105	30	120	
Net profit (adj.)	1.4	1.3	2.7	4.7	7.7	Growth will be driven by sale of new VR sets.
yoy % chg		-5	102	74	64	Each set could generate net profit of S\$1.0m-1.5m, with higher profits for each subsequent set due to economies of scale. Has secured clients for two VR tour sets in 2019 and aims to sell three sets in 2020. Net profits for 2019-20 are based on Vividthree's expectations from its VR sales.

Source: Vividthree, UOB Kay Hian

PEER COMPARISON

Company	Ticker	Price @ 4 Oct 18 (S\$)	Market Cap (US\$m)	FY	PE				Yield 2018 (%)	ROE 2018 (%)	P/B (x)	Net Gearing (%)
					2017 (x)	2018 (x)	2019 (x)	2020 (x)				
Vividthree Holdings Pte Ltd	VTH SP	0.245	59	Mar-18	25.5	n.a.	n.a.	n.a.	n.a.	3.7	(59.8)	
Exhibition												
Viad Corp	VVI US	58.22	1,183	Dec-17	20.6	21.9	19.9	n.a.	n.a.	2.8	43.6	
Merlin Entertainment	MERL LN	398.7	5,285	Dec-17	19.4	19.6	17.7	15.8	1.9	2.6	79.5	
Average					20.0	20.8	18.8	15.8	1.9	2.7	61.6	
Entertainment Content												
Xilam Animation	XIL FP	46.45	262	Dec-17	33.2	38.5	23.1	17.5	n.a.	4.8	15.9	
Walt Disney Co/The	DIS US	116.91	173,874	Sep-17	20.4	16.6	15.6	14.7	1.4	3.8	37.8	
Average					26.8	27.6	19.4	16.1	1.4	4.3	26.8	
Others - VFX & VR												
Vhq Media Holdings Ltd	4803 TT	157	202	Dec-17	15.6	12.9	n.a.	n.a.	2.5	4.1	30.9	
Surgical Science Sweden Ab	SUS SS	77.8	42	Dec-17	n.a.	235.8	51.2	37.2	n.a.	4.8	(33.2)	
Average					15.6	124.3	51.2	37.2	2.5	4.4	(1.1)	

Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (\$m)	2016	2017	2018
Net turnover	4.0	5.3	7.1
EBITDA	1.7	1.7	3.4
Deprec. & amort.	0.3	0.4	0.2
EBIT	1.5	1.3	3.2
Total other non-operating income	0.1	0.1	0.1
Associate contributions	0.0	0.0	0.0
Net interest income/(expense)	(0.0)	(0.0)	(0.0)
Pre-tax profit	1.5	1.4	3.2
Tax	(0.1)	(0.1)	(0.5)
Minorities	0.0	0.0	0.0
Net profit	1.4	1.3	2.7
Net profit (adj.)	1.4	1.3	2.7

BALANCE SHEET

Year to 31 Mar (\$m)	2016	2017	2018
Fixed assets	0.4	0.3	0.3
Other LT assets	3.0	3.0	2.9
Cash/ST investment	0.5	0.6	2.4
Other current assets	1.9	3.1	4.6
Total assets	5.8	7.0	10.1
ST debt	0.1	0.2	0.1
Other current liabilities	1.0	0.9	1.5
LT debt	0.2	0.1	0.0
Other LT liabilities	0.0	0.1	0.1
Shareholders' equity	4.4	5.7	8.4
Minority interest	0.0	0.0	0.0
Total liabilities & equity	5.8	7.0	10.1

CASH FLOW

Year to 31 Mar (\$m)	2016	2017	2018
Operating	1.4	0.5	2.1
Pre-tax profit	1.5	1.4	3.2
Tax	(0.1)	(0.1)	(0.5)
Deprec. & amort.	0.3	0.4	0.2
Associates	0.0	0.0	0.0
Working capital changes	(0.4)	(1.3)	(1.3)
Non-cash items	0.0	0.0	0.0
Other operating cashflows	0.1	0.0	0.4
Investing	(0.9)	(0.3)	(0.1)
Capex (growth)	(0.3)	(0.2)	(0.1)
Investment	0.0	0.0	0.0
Others	(0.6)	(0.1)	0.0
Financing	0.0	(0.1)	(0.2)
Dividend payments	0.0	0.0	0.0
Proceeds from borrowings	0.1	0.0	0.0
Loan repayment	(0.1)	(0.1)	(0.2)
Others/interest paid	(0.0)	(0.0)	(0.0)
Net cash inflow (outflow)	0.5	0.1	1.8
Beginning cash & cash equivalent	0.0	0.5	0.6
Changes due to forex impact	0.0	0.0	0.0
Ending cash & cash equivalent	0.5	0.6	2.4

KEY METRICS

Year to 31 Mar (%)	2016	2017	2018
Profitability			
EBITDA margin	44.0	31.8	48.5
Pre-tax margin	38.4	26.4	45.7
Net margin	35.7	25.0	38.4
ROA	24.5	20.8	31.7
ROE	32.2	26.2	38.4
Growth			
Turnover	-	33.7	33.5
EBITDA	-	(3.4)	103.3
Pre-tax profit	-	(8.0)	131.0
Net profit	-	(6.6)	105.3
Net profit (adj.)	-	(6.6)	105.3
EPS	-	(6.6)	105.3
Leverage			
Debt to total capital	6.1	4.4	1.2
Debt to equity	8.1	5.4	1.5
Net debt/(cash) to equity	(3.4)	(5.1)	(26.5)
Interest cover (x)	64.5	72.2	234.3

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