

Spackman Entertainment Group

Refer to important disclosures at the end of this report

DBS Group Research . Equity

17 Jul 2014

Issue Statistics

Offer Price	S\$0.26
Placement Share	69.44m placement (50m new, 19.44m vendor)
Market Cap	S\$102.78m
Placement Close	18 July 2014 at 12.00 noon
Share Trading	22 Jul 2014 at 9.00 am (Catalist)
Sponsor, Issue Manager	Primepartners Corporate Finance Pte. Ltd

Financials

FY Dec (US\$ m)	2012A	2013A
Revenue	4.4	11.9
Gross Profit	2.0	5.5
Pre-tax Profit	(0.5)	3.2
Net Profit	(0.3)	2.6

Ratios / Margins

PE (X)	nm	26.5
P/NAV (X)	-	4.6
Gross Margin (%)	45.5	46.2
Pre-tax Margin (%)	nm	26.9
Net Margin (%)	nm	21.8

SWOT Analysis

Strengths	Weakness
<ul style="list-style-type: none"> Owner of two renowned film production brands in Korea: ZIP Cinema and OPUS Pictures Established track record of producing commercially successful films Strong network of business relationships with key participants in the domestic film industry Committed, experienced and balanced management team 	<ul style="list-style-type: none"> No assurance that films made will be successful Absence of long-term arrangements for financing by third party investors' funds Dependent on distributorship Delays and cost overruns of films
Opportunities	Threats
<ul style="list-style-type: none"> Increase investment into films produced by the group and third parties Expand operations via acquisitions, joint ventures and investments 	<ul style="list-style-type: none"> Risks of liability claims for media content Copyright challenges by third parties

Source of all data: Company, DBS Bank, Bloomberg Finance L.P

Business

Spackman primarily produces, presents and invests in theatrical films. Its two film production subsidiaries, Zip Cinema and Opus Pictures, are two of the most recognised film production labels in Korea and have produced some of Korea's most commercially successful theatrical films for the past seven years. The Group also distributes foreign films in Korea.

Secondarily to the core film business, The Group also invests in entertainment companies, operates a café-lounge and produces documentary programmes for broadcast and cable television.

Notable films

Film	Production cost (KRW bn)	Tickets sold (m)	Korean Box-office (KRW bn)
COLD EYES (crime/thriller film)	6.75	5.51	39.38
ALL ABOUT MY WIFE (comedy/romance/drama film)	4.78	4.60	34.22
CONFESSION * (crime/drama film)	5.20	n.a.	n.a.
FOR THE EMPEROR ** (crime/action film)	4.80	0.59	4.75
SNOWPIERCER (sci-fi/action film)	42.00	9.35	67.01
HOWLING (crime/drama film)	7.41	1.61	11.77

* Released on 9 July 2014

** Released on 11 June 2014, data as at 9 July 2014

Competitive Strengths

Owner of two renowned film production brands in Korea: Zip Cinema and Opus Pictures

Zip Cinema and Opus Pictures are two of the most renowned film production companies in Korea. They have each produced and released eight films, making a combined total of 16 films, including award winning movies – COLD EYES, SNOWPIERCER, and ALL ABOUT MY WIFE.

Established track record of producing commercially successful films

Since Zip Cinema and Opus Pictures became part of the group, three out of four films produced have made a profit. Its track record of producing award winning and commercially successful films provide Spackman access to leading talent, high quality scripts, film investors and key business

Spackman Entertainment Group

relationships, which are crucial for success in the industry. Significant experience in developing marketing strategies for the films also plays an important part. Spackman is one of few production firms with an in-house marketing team.

Strong network of business relationships with key participants in the domestic film industry

Established commercial track record, production brand names, reputation and extensive experience that the management has built over the years enable Spackman to forge and maintain a strong network of business relationships with key players in the Korean film industry. In addition, Spackman is also among the first Korean production firms to produce an English language, Hollywood-style film, SNOWPIERCER.

Business Strategies and Outlook

Increasing investment in films produced by the group and third parties

Spackman aims to scale up its business over time by increasing the number of films produced to at least four films per year in FY2016 and thereafter. It also intends to invest in films produced by third parties.

Expanding operations via acquisitions, joint ventures and investments

This can be done via mergers and acquisitions, or entering into partnerships, joint ventures and strategic alliances in overseas markets to expand the group's presence internationally.

To establish offices in Los Angeles, California, USA and Singapore

Key Risks

External factors in the film industry

Unable to ensure that the films will obtain favourable reviews or will perform well at the box office or in ancillary markets.

Absence of long-term arrangements for financing by third party investors' funds

The company relies on third party investors to fund the majority of the production costs of the films produce and do not have any long-term arrangements for such financing.

Delays and cost overruns of films

Spackman's business model requires it to be efficient in the production of films. Actual film production costs may exceed budgets.

Competitive industry

The film industry is highly competitive and at times may create an oversupply of films in the market.

Risks of liability claims by third parties

Exposed to potential liability claims for defamation, invasion of privacy, negligence, copyright or trademark infringement.

Dividend Policy

The Group has not adopted any formal dividend policy and has yet to distribute any dividend since its incorporation.

Use of Proceeds

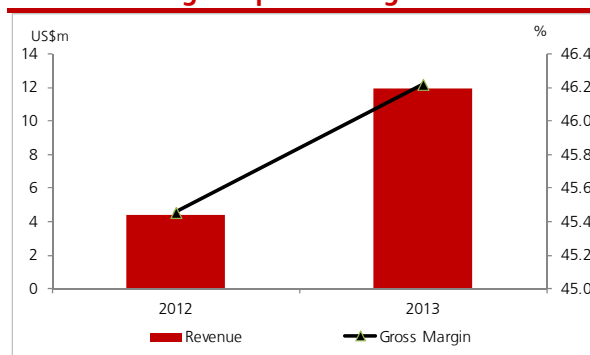
Intended Use	Amount (\$m)	% of Net Proceeds
Investment in films produced by the group or third parties	5.5	42.3
Expansion of Group's operations	2.0	15.4
Establishment of overseas offices	1.0	7.7
General working capital	2.3	18.0
IPO expenses	2.2	16.6
Total	13.0	100

Source: Company, DBS Bank

Historical Peer Comparison

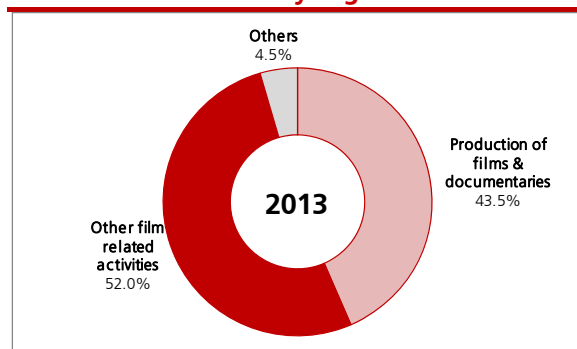
There are no comparables listed on SGX.

Revenue and gross profit margin



Source: Company, DBS Bank

Revenue breakdown by segment



Source: Company, DBS Bank

DBSV recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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