



Company Report: SMI Holdings Group Limited (00198 HK)

公司报告: 星美控股 (00198 HK)

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A Leading China Cinema Management Company, 'Accumulate'

中国领先的电影院管理公司, “收集”

- **SMI Holdings Limited (SMI) is one of the largest cinema management companies in China.** In 2016, SMI's cinemas and screens could potentially grow to around 300 and 2,070, respectively. Total revenue in 2016 might reach around RMB3.894 bn, up 33.2% yoy.
- **Key points: 1) SMI grows fast through M&A.** We expect SMI's cinemas in 2016-2018 to reach 300, 400, and 500, up 50%, 33% and 25% yoy, respectively. We think SMI's M&A efficiency is very high and could deliver high revenue and net profit growth shortly after M&As. **2) SMI could consistently create economies of scale.** In 2016, SMI's non-box office theatre revenue might account for around 28.7% of total theatre revenue, higher than Wanda Cinema's. SMI could improve acquired cinema's non box office (BO) theatre revenues. **3) China BO might recover in 2Q17.** China BO growth in 2016 might only reach 5.4%. Hollywood film pipeline might become more favorable in 2017.
- **Target Price is set at HKD0.90 and investment rating is 'Accumulate'.** Our FY16-FY18 net profit estimates reach HKD517 mn, HKD670 mn, and HKD857 mn, up 43.6%, 29.7% and 27.8%, respectively. Our FY16-FY18 EPS estimates are HKD0.377, HKD0.457, HKD0.546, up 23.3%, 21.3% and 19.4% yoy. Our TP is set at HKD0.90, representing 1.3x 2015-2018E PEG, based on diluted EPS.
- **星美控股是中国最大的电影院管理公司之一。**2016 年底, 星美的电影院和屏幕数量将达到大约 300 座和 2,070 块。2016 年总收入将可能达到人民币 38.94 亿, 同比增长 33.2%。
- **要点: 1) 星美通过快速并购成长。**我们预期星美电影院在 2016-2018 年将达到 300、400 和 500 家, 分别同比上涨 50%、33% 和 25%。我们认为星美并购的效率很高, 能在并购后很快释放收入和利润。**2) 星美电影院可以持续创造规模效应。**2016 年, 星美非票房影院收入可能将占到总影院收入的 28.7%, 比万达院线高。星美可以帮助被收购的影院提高非票房影院收入。**3) 中国电影票房可能在 2017 年第二季度复苏。**2016 年中国电影票房增速可能只有 5.4%。好莱坞排片将在 2017 年更加有利。
- **目标价为 0.90 港元, 投资评级为“收集”。**我们 2016-2018 年的盈利预测为 517 百万港元、670 百万港元和 857 百万港元, 同比增长 43.6%、29.7%、和 27.8%。我们 2016-2018 年的每股净利预测为 0.377 港元, 0.457 港元, 和 0.546 港元, 同比增长 23.3%、21.3%、和 19.4%。目标价 0.90 港元, 相当于 1.3 倍 2015-2018 年预测 PEG, 基于全面摊薄的每股净利预测。

Rating:

Accumulate

Initial

评级:

收集 (首次覆盖)

6-18m TP 目标价:

HK\$0.90

Share price 股价:

HK\$0.750

Stock performance

股价表现



Change in Stock Price 股价变动	1 M 1 个月	3 M 3 个月	1 Y 1 年
Abs. % 绝对变动 %	(1.3)	5.6	7.1
Rel. % to HSI index 相对恒指变动 %	(0.0)	(0.7)	7.3
Avg. Stock price(HKD) 平均股价 (港元)	0.8	0.7	0.8

Source: Bloomberg, Guotai Junan International.

Year End 年结 12/31	Turnover 收入 (HKD m)	Net Profit 股东净利 (HKD m)	EPS 每股净利 (HK Cents)	EPS 每股净利变动 (Δ%)	PER 市盈率 (x)	BPS 每股净资产 (HKD)	PBR 市净率 (x)	DPS 每股股息 (HKD)	Yield 股息率 (%)	ROE 净资产收益率 (%)
2014A	1,650	131	1.390	0.7	53.2	0.343	2.2	0.446	0.6	4.2
2015A	2,924	360	3.060	120.1	24.2	0.445	1.7	0.318	0.4	8.4
2016F	3,894	517	3.772	23.3	19.6	0.491	1.5	0.392	0.5	8.6
2017F	5,091	670	4.573	21.3	16.2	0.547	1.4	0.475	0.6	9.1
2018F	6,106	857	5.462	19.4	13.5	0.609	1.2	0.568	0.8	9.7

Shares in issue (m) 总股数 (m)

13,611.2

Market cap. (HK\$ m) 市值 (HK\$ m)

10,208.4

3 month average vol. 3 个月平均成交股数 ('000)

32,777.4

52 Weeks high/low (HK\$) 52 周高低

0.970 / 0.630

Major shareholder 大股东

Mr. Qin Hui 59.1%

Free float (%) 自由流通比率 (%)

17.5

FY16 Net gearing FY16 净负债/股东资金 (%)

42.4

FY15-18 PEG FY15-18 市盈率相对盈利增长比率

1.1

Source: the Company, Guotai Junan International.

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Company Profile

Top cinema management company in China. SMI Holdings Group Limited (SMI) has focused on developing the movie theatre business and invested resources to expand non-box-office (non BO) businesses including concession sales and advertising and promotion business. SMI Living is the retail business of SMI, including online shopping and in-Theatre counter sales. SMI facilitates the implementation of the New Membership Integrated Marketing Scheme, and actively promotes the SMI mobile e-commerce client terminal. In 2016, SMI's cinemas and screens might grow to around 300 and 2,070.

SMI expanded rapidly through convertible bond financing. Since Jan 2013, SMI has launched 15 financing activities mainly through share placements and convertible bonds. Before Sep 2013, SMI total shares reached 8,102 mn and Mr. Qin Hui has 5,897.5mn shares, or 69.8% of total shares. As of the end of 3Q16, after the latest issuance of convertible bonds, total number of shares reached 13,611.2 mn and Mr. Qin Hui has 59.1% of total shares. Baidu purchased 600 mn shares in Jun 2015 at HKD0.75/shr, representing around 4.4% of total diluted shares. Recently, SMI has issued convertible bonds of HKD165mn to acquire more shares in SMI Culture (2366 HK) in Sep 2016. As the shareholders' meeting has given the management the right to issue no more than 20% of total shares, we think SMI might continue to finance through bonds, new shares and convertible bonds. SMI's cinemas might increase fast through financing, from 90 cinemas in 2014 to 500 cinemas in 2018. SMI's major competitor also expanded fast through M&A. Wanda Cinema also spent RMB3.0bn to acquire Shimao Cinema and Australia Hoyts Cinema.

Table- 1: SMI Financing Activities since Jan 2013 to Sep 2016

Year	Financing activities	Share amounts mn shares	Share price HKD/share	Raising amount mn HKD	Total share before events mn shares	Diluted shares after events mn shares
2013 Sep	Share placement	350.0	0.180	61.0	8,102	8,452
2014 Jan	Share placement	550.0	0.210	111.8	8,452	9,002
2014 Feb	Issue Bonds and non listing warrants	460.0		147.2	9,002	9,720
2014 Mar	Issue Convertible Bonds	258.8	0.300	77.5	9,002	9,720
2014 May	Issue Bonds			250.0		
2014 Aug	Issue Convertible Bonds	588.2	0.340	199.3	9,396	9,396
2014 Aug	Share placement	780.0	0.285	222.3	9,396	10,176
2014 Oct	Issue Bills and non listing warrants	450.0		153.0		
2014 Nov	Issue Convertible Bonds	229.5	0.340	78.0	10,176	10,405
2015 Apr	Issue new share	139.6	0.278	38.6		
2015 Apr	Issue Convertible Bonds	258.5	0.360	92.8	10,316	10,574
2015 May	Issue Box office-backed securities			1,350.0		
2015 Jun	Share placement	1200.0	0.750	887.0	11,356	12,556
2015 Jul	Redempt private debt			200.0		
2015 Jul	Buyback shares	26.3	0.75-0.71	19.5		
2015 Oct	Issue Convertible Bonds	389.6	0.770	300.0	12,740	13,129
2015 Nov	Issue Convertible Bonds	357.0	0.770	274.6	13,019	13,310
2015 Nov	Issue Convertible Bonds	51.9	0.770	40.0		
2015 Nov	Issue Convertible Bonds	239.0	0.770	183.5		
2016 Apr	Buyback shares	5.0	0.740	3.7		
2016 May	Buyback shares	41.0	0.720	29.4		
2016 Jun	Buyback shares	20.0	0.700	13.7		
2016 Jun	Issue Bonds			40.0		
2016 Jun	Issue Notes			338.3		14,731
2016 Sep	Buyback shares	10.0	0.7	40.0		
2016 Sep	Issue Convertible Bonds	244.4	0.675	165.0		
Total financing amount		6,444.2		5,103.6		

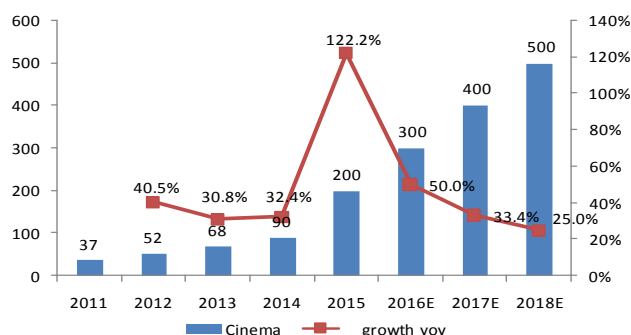
Source: the Company, Guotai Junan International.

Business Model

Theatre Business

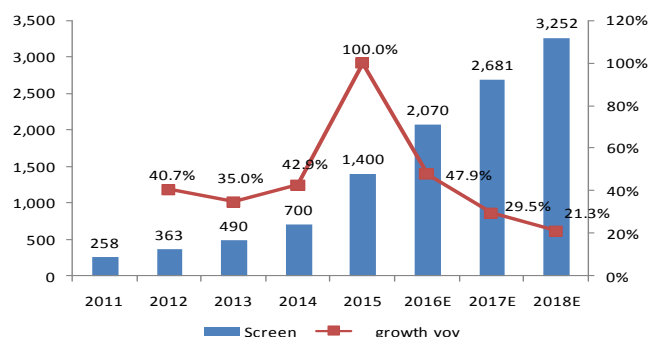
Strong cinema growth through M&A. SMI entered China cinema market since 2009 when SMI only had 3 cinemas. After 2009, SMI began to set up and acquire more and more cinemas nationwide. In 2015, SMI had 200 cinemas and 1,400 screens. In 2015, SMI's most profitable cinemas included Beijing Stellar International Cinema (BO RMB85.9 mn) and Shanghai Zhengda Stellar Cinema in Universal Center (BO RMB72.5 mn). SMI was under China Film Stellar Theatre Circuit, the 2nd largest circuit in China in terms of BO in 2015, founded in 2002. SMI's BO and cinemas accounted for around 2/3 of total BO and cinemas of China Film Stellar Theatres Circuit. After years of cinema operation in 1st and 2nd tier cities, both China Film Stellar Theatres Circuit and SMI have massive experiences to create superior film watching experiences for audiences. As of the end of 1H16, SMI had around 250 cinemas with 1,700 screens, and is expected to grow to 300 cinemas with 2,070 screens at the end of 2016.

Figure- 1: Number of Cinemas in SMI



Source: the Company, Guotai Junan International.

Figure- 2: Number of Screens in SMI

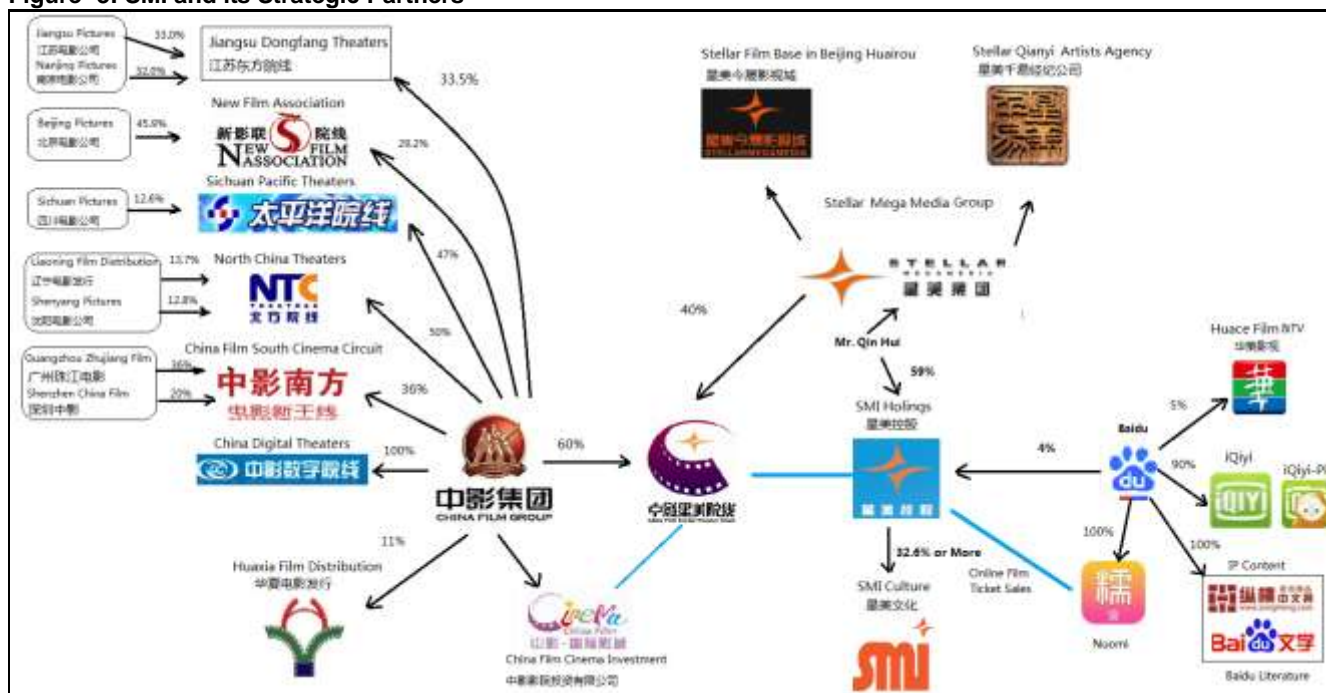


Source: the Company, Guotai Junan International.

SMI has a very close relationship with China Film Group (CFG) and Baidu Group. China Film Group is one of the largest integrated film state companies, owned by the Central Government, engaging in film production, distribution, circuit, cinema investment, and film equipment supply. CFG was the foundation of China Film industry in last several decades and has the exclusive rights of importing and distributing foreign films with Huaxia film. SMI has been one of the first partners of CFG in building up cinemas since 2002. The China Film Stellar Circuits are the largest circuits in CFG's 7 circuits. SMI might get lots of help from CFG in M&A. Moreover, CFG is also the largest cinema equipment supplier in China, who could support SMI's expansion. CFG and Huaxia Film Group have the exclusive rights to import foreign films and distribute them. Baidu Group has established its film industry chain by setting up iQiyi, Nuomi Group Buy, and investment in Huace Film& TV. Currently, iQiyi is the No. 1 online video app with MAU over 200mn. SMI will be a strategic partner in the ecosystem of China Film Group and Baidu Group.

SMI and its related company Stellar Mega Media Group have film ecosystems. 1) **SMI has gained more market share through SMI Culture.** SMI Culture is a film production company which has participated in producing some famous films, including Golden Times (黄金时代) and Honey (亲爱的), in last 2 years. Currently, SMI has increased its shares in SMI Culture from 29.9% to 32.6%, triggering a mandatory offer to buy the rest shares of SMI Culture at HKD0.80, for around 546mn shares, or market value of HKD437mn. Total consideration in the offer will not exceed HKD673mn. We think SMI might begin to expand its film content business. 2) **Stellar Mega Media Group has film assets related to SMI.** Stellar Mega Media Group has a 40% stake in China Film Stellar Theatres Circuit, a big film production base in Beijing Huairou (北京怀柔), and an artist agency company called Stellar Qianyi Artists Agency.

Figure- 3: SMI and its Strategic Partners



Source: the Companies, Guotai Junan International.

Non-box office Business

Promising cinema advertisement business. SMI's ad business continued to expand rapidly. **1) Cinema has created fast growing and high quality offline traffic.** In 2015, the attendance of SMI reached 47.1mn times, up 109.9% yoy. According to EntGroup, 90% of China moviegoers are well-educated, between 18 and 40 years old, with good consumption ability, and they prefer Fast Moving Consumer Goods (FMCG) and internet companies. Total China cinema attendance has reached 1,256 mn, up 51.3% yoy. Cinemas are becoming the main family outdoor entertainment places. **2) Cinemas are excellent marketing places.** SMI has fast growing nationwide cinema network, which are very attractive to large ad agents. SMI's movie Theatre coverage gradually extends into all major cities in China. Moreover, SMI's cinema screen & lobby LED ad and promotion business has evolved into a nationwide platform. SMI could improve the ad business in acquired cinemas. SMI is the biggest cinema screen supplier to Focus Media (002027.CH), the China outdoor media leader. SMI has planned the space and idle time of movie Theatres, screening halls and projection screens in a sensible way accordingly, and installed high-tech equipment, such as LED panels, to sustain the growth of the advertising and promotion business. Thirdly, movie stars usually launch a nationwide cinema tour for fans on the first week when their movie is released. SMI has been diversifying advertising channels while initiating innovative promotion methods, such as holding auto shows in the movie Theatre lobby. As cinema was one of the key places to sell food and beverage, SMI also attracts large beverage sellers, such as Coca Cola. **3) Economies of scale effect.** The ad price per screen will increase constantly as SMI's screen network becomes bigger and bigger. As larger ad resources network could cover more population, they could deliver the information of new brand or new products more quickly and more effectively to the target population than smaller network.

SMI Living (星美汇) specializes in operating in-theatre counter sales and an online shopping platform. SMI Living aims to provide customers with a brand new shopping experience that combines online shopping and in-Theatre counter sales. SMI Living is a key support to its Theatre's non BO business. SMI Living are selling movie related products and other high quality products at very attractive prices. Moreover, SMI Living has also cooperated with JD in online sales.

New membership integrated marketing scheme. The New Membership Scheme has helped SMI to understand customer needs in a systematic approach, thereby retaining the existing customer base while exploring new pools of customers. With the establishment of a comprehensive customer database, the New Membership Scheme has laid a solid foundation for the sustainable development of SMI's core business (movie theatre business) and complementary business (SMI Living). With the New Membership Scheme, SMI has fully explored the potential business opportunities brought by the massive audience and those within the community surrounding movie theatres by providing different contents and utilizing different channels.

Figure- 4: SMI Living in Stellar International Complex


Source: the Company, Guotai Junan International.

Figure- 5: SMI Living in Stellar International Complex


Source: the Company, Guotai Junan International.

China Cinema Industry

China Box Office

China Box Office growth may slow down in the short term. 1) Cinema infrastructure grew fast. We think that China BO growth heavily relies on attendance growth, screen growth, and BO per screen growth. Attendance, or cinema traffic, would be the first and foremost driver behind BO growth. In 2015, cinema attendance reached 1,256 mn times, up 51.3% yoy, or almost 1 time per capita per year, lower than 3.7 times in US. In 2015, BO per screen reached RMB1.60mn, up 12.7% yoy, returning to the peak level of RMB1.69mn in 2011. Total screens reached 31,627 units, up 34.0% yoy, as more new 3D and IMAX screens were installed. In 1H16, new cinemas and screens reached 554 and 3,700. **2) Seasonality impact.** China BO in 2Q16 might slow down significantly, as there were 3 amazingly high quality domestic films, The Mermaid (美人鱼), Mr. Six (老炮儿), and The Ghouls (寻龙诀) were released in 1Q16. As a result, it's very difficult for BO in 2Q16 and 3Q16 to surpass the level of BO in 1Q16. In 2016, we expect China BO might reach RMB46.4bn, up only 5.4% yoy, due to a high base in 2015. **3) China BO might recover in 2Q17.** Hollywood film pipeline will become more favorable in 2017: Kong: Skull Island, Fast and Furious 8, Transformers 5, Star Wars, Spider-Man Reboot, Thor: Ragnarok, Pirates of the Caribbean 5 - Dead Man Tell No Tales, Wolverine 3, Beauty and Beast, War of the Planet of Apes 3, Guardians of the Galaxy 2, Pacific Rim 2, Terminator 6, and perhaps Avatar 2. Therefore, China BO growth might begin to increase in 2Q17 due to the low base in 2Q16.

Table- 2: China Box Office at a glance

		2010	2011	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Total Box Office	bn RMB	10.2	13.2	17.1	21.8	29.6	44.1	46.4	55.7	65.8	75.6	85.5
	%	64.3%	28.9%	29.8%	27.5%	36.0%	48.9%	5.4%	20.0%	18.0%	15.0%	13.0%
Domestic film BO	bn RMB	5.7	7.0	8.3	12.8	16.2	27.4	25.5	30.7	36.2	41.6	47.0
	growth yoy	%	22.7%	17.7%	54.3%	26.5%	69.6%	-6.8%	20.0%	18.0%	15.0%	13.0%
	as % of total BO	%	56.2%	53.5%	48.5%	58.6%	54.6%	62.2%	55.0%	55.0%	55.0%	55.0%
Imported foreign film BO	bn RMB	4.5	6.1	8.8	9.0	13.4	16.7	20.9	25.1	29.6	34.0	38.5
	growth yoy	%	36.9%	43.7%	2.3%	49.4%	24.0%	25.4%	20.0%	18.0%	15.0%	13.0%
Cinema	Unit	1,993	2,796	3,442	4,583	5,158	6,358	6,904	8,509	9,149	10,359	11,491
	growth yoy	%	40.3%	23.1%	33.1%	12.5%	23.3%	8.6%	23.2%	7.5%	13.2%	10.9%
Screen	Unit	6,256	9,286	13,118	18,195	23,600	31,627	34,520	42,544	45,743	52,830	57,455
	growth yoy	%	48.4%	41.3%	38.7%	29.7%	34.0%	9.1%	23.2%	7.5%	15.5%	8.8%
BO per Screen	mn RMB	1.63	1.69	1.52	1.39	1.42	1.60	1.40	1.45	1.49	1.53	1.55
	growth yoy	%	3.8%	-9.9%	-8.8%	1.9%	12.7%	-12.0%	3.0%	3.0%	3.0%	1.0%
Attendance	mn Times	286	370	470	600	830	1,256	1,311	1,557	1,819	2,072	2,318
	growth yoy	%	29.4%	27.0%	27.7%	38.3%	51.3%	4.4%	18.8%	16.8%	13.9%	11.9%
Screen per cinema	Unit	3.1	3.3	3.8	4.0	4.6	5.0	5.0	5.0	5.0	5.1	5.0
	growth yoy	%	5.8%	14.8%	4.2%	15.2%	8.7%	5.0%	5.0%	4.0%	3.0%	3.0%
Attendance per screen	Times	45,716	47,613	41,957	38,323	39,718	45,485	39,630	40,415	41,216	42,032	42,032
	growth yoy	%	4.1%	-11.9%	-8.7%	3.6%	14.5%	-12.9%	2.0%	2.0%	2.0%	0.0%
Avg. film ticket price	RMB	35.7	35.5	36.3	36.3	35.7	35.1	35.4	35.8	36.1	36.5	36.9
	growth yoy	%	-0.3%	2.2%	-0.1%	-1.7%	-1.6%	1.0%	1.0%	1.0%	1.0%	1.0%

Source: Research Report on Chinese Film Industry 2015 (中国电影产业研究报告 2015), SARFT, Guotai Junan International.

Note: BO per Screen is calculated by the average number of screens at the respective year and the previous year.

Geographic expansion is a key driver. China moviegoers' habits and cinema infrastructure differentiated very much across different provinces. **1) Cinemas expand rapidly in tier-3 and tier-5 cities.** Screen per million capita in Beijing and Shanghai reached 46 and 42, almost twice the level of national average of 23. In other words, there are lots of potential cinema demand in Central China and Western China. However, screen per million urban people in Beijing and Shanghai reached 53 and 47, slightly higher than the national average of 41. This indicator in Zhejiang and Fujian reached 67 and 65, respectively, showing a slight oversupply risk, but is still lower than 136 in US. **2) Screen utilization rate is expected to improve.** Attendance per screen in Beijing and Shanghai reached 73,705 times and 66,947 times, almost twice the level of national average of 41,563. It might take a longer time for people in lower tier cities to form a habit to watch movies. Attendance per urban residents in Beijing and Shanghai reached 3.9 times and 3.2 times, very close to the level of 3.7 times in US, more than twice the level of national average of 1.7 times. **3) Great potential hidden in China's rural population.** In China, BO statistics only include BO data from 50 city circuits, excluding any BO from rural areas as there's no cinema in rural areas. Moreover, the cinema attendance data only include the attendance of urban population. More and more people in rural areas are moving to cities, where they might just begin to watch more movies in cinemas.

Table- 3: China Box Office Breakdown by Province

Rank	Province	Box Office	Attendance	Cinema	Screen	Attendance per screen	BO per screen	Population	2015 Urbanization rate	BO per Capita	BO per urban people	Screen per mn capita	Screen per mn urban people	Attendance per urban people
		mn RMB	mn times	Unit	Unit	Times	mn RMB	mn	%	RMB	RMB	Unit	Unit	Times
1	Guangdong	6,241	166	676	3,490	47,678	1.79	106	69%	59	85	33	48	2.3
2	Jiangsu	4,171	128	455	2,588	49,315	1.61	79	64%	53	82	33	51	2.5
3	Zhejiang	3,490	97	387	2,361	41,054	1.48	55	64%	63	99	43	67	2.7
4	Beijing	3,151	72	158	972	73,705	3.24	21	88%	149	170	46	53	3.9
5	Shanghai	2,939	68	192	1,017	66,947	2.89	24	89%	122	136	42	47	3.2
6	Sichuan	2,334	69	289	1,557	44,456	1.50	81	46%	29	62	19	42	1.9
7	Hubei	2,099	66	243	1,289	51,457	1.63	58	56%	36	65	22	40	2.1
8	Shandong	1,709	55	347	1,807	30,379	0.95	97	52%	18	34	19	35	1.1
9	Liaoning	1,672	54	197	1,175	46,142	1.42	44	68%	38	56	27	40	1.8
10	Henan	1,508	49	266	1,234	39,583	1.22	94	44%	16	37	13	30	1.2
11	Fujian	1,488	40	192	917	44,029	1.62	23	62%	65	105	40	65	2.8
12	Anhui	1,268	42	240	1,226	34,482	1.03	38	62%	34	54	32	52	1.8
13	Chongqing	1,250	38	147	950	39,654	1.32	30	60%	42	71	32	54	2.1
14	Hunan	1,127	34	277	1,297	26,398	0.87	67	49%	17	34	19	39	1.0
15	Shaanxi	1,039	32	168	805	39,974	1.29	38	53%	28	53	21	41	1.6
16	Hebei	1,032	32	245	898	35,157	1.15	73	48%	14	29	12	26	0.9
17	Jiangxi	845	27	233	963	27,573	0.88	45	50%	19	37	21	43	1.2
18	Guangxi	775	23	137	631	36,755	1.23	47	46%	16	36	13	29	1.1
19	Heilongjiang	754	22	128	547	39,787	1.38	38	58%	20	34	14	25	1.0
20	Jilin	704	21	114	525	40,017	1.34	28	55%	26	46	19	34	1.4
21	Tianjing	680	19	63	408	46,185	1.67	15	79%	46	58	28	35	1.6
22	Yunnan	665	18	157	604	28,991	1.10	47	41%	14	35	13	32	0.9
23	Shanxi	591	15	138	579	26,028	1.02	36	54%	16	30	16	30	0.8
24	Inner Mongolia	505	12	122	493	24,827	1.02	25	60%	20	34	20	33	0.8
25	Guizhou	438	12	111	436	27,550	1.00	35	39%	12	32	12	32	0.9
26	Gansu	386	9	88	347	27,012	1.11	26	41%	15	36	13	33	0.9
27	Hainan	351	9	36	130	67,344	2.70	9	52%	39	75	15	28	1.9
28	Xinjiang	273	9	119	449	19,498	0.61	23	46%	12	26	20	43	0.8
29	Ningxia	172	5	40	164	29,480	1.05	7	52%	26	50	25	48	1.4
30	Qinghai	105	2	18	85	24,459	1.23	6	50%	18	36	15	30	0.7
31	Xizang	49	1	3	24	44,683	2.04	3	24%	16	67	8	33	1.5
Average						41,563	1.46		55%	33	60	23	41	1.7

Source: Research Report on Chinese Film Industry 2015 (中国电影产业研究报告 2015), SARFT, Guotai Junan International.

China Cinema Circuit

Market concentration is expected to increase. Usually, China circuits gave the rights to cinemas to release films. China circuits have rights to determine what kinds of movies the cinemas should release in certain period, but they don't directly own the cinemas. **1) Top 5 circuits had 43.4% of total BO market in China in 2015.** In past 5 years, top 5 circuits' market share was actually declining from the peak level of 46.9% to the current 43.4%, as too many small cinemas in medium regional circuits grew fast. However, we think this situation might change as the listed Wanda Circuits, Dadi Circuits and China Film Stellar Circuits could finance from financial markets and grow much faster than 2015 through acquisitions. **2) Most cinemas of the top 5 circuits are located in tier-1 and tier-2 cities.** However, top 5 cinema circuits only account for 30.7% of total attendance, 26.1% of cinemas and 26.6% of screens, respectively. In 2015, BO per screen of Wanda Circuit, China Film

Stellar Circuit, Shanghai United Circuit, and Guangzhou Jinyi Zhujiang Circuit reached RMB2.8mn, RMB1.7mn, RMB1.9mn, and RMB1.8mn, respectively, higher than national average of RMB1.4mn. However, as Dadi circuits expanded in 3rd~5th tier cities, its BO per screen only reached RMB1.2mn, up 20% yoy, lower than national average of RMB1.4mn.

Table- 4: China Cinema Circuits

China Cinema Circuit		2009	2010	2011	2012	2013	2014	2015	5Y CAGR	3Y CAGR
Wanda China Cinema Circuit										
Box Office	mn RMB	835	1,403	1,785	2,456	3,161	4,212	6,012	33.8%	34.8%
Film played	mn	0.6	0.8	1.2	1.7	2.1	2.8	4.2	41.0%	35.8%
Attendance	mn times	27.9	36.3	40.9	58.4	77.8	102.0	146.5	32.2%	35.9%
Cinema	Unit	44	71	83	113	142	182	240	27.6%	28.5%
Screen	Unit	374	604	703	980	1,247	1,616	2,133	28.7%	29.6%
Seat	Unit					213,507	251,000	319,950		
BO per Screen	mn RMB	2.2	2.3	2.5	2.5	2.5	2.6	2.8		
China Film Stellar Circuit										
Box Office	mn RMB	794	1,213	1,377	1,620	1,838	2,447	3,760	25.4%	32.4%
Film played	mn	0.8	1.0	1.3	1.6	1.8	2.7	3.7	30.3%	34.0%
Attendance	mn times	24.2	33.4	38.4	43.9	52.2	67.6	106.5	26.1%	34.4%
Cinema	Unit	127	136	165	188	229	279	462	27.7%	34.9%
Screen	Unit	537	684	887	1,059	1,333	1,642	2,189	26.2%	27.4%
Seat	Unit					213,507	244,000	309,000		
BO per Screen	mn RMB	1.5	1.8	1.6	1.5	1.4	1.5	1.7		
Dadi Cinema Circuit										
Box Office	mn RMB	130	376	677	1,105	1,590	2,350	3,472	56.0%	46.5%
Film played	mn	0.2	0.4	0.9	1.9	2.8	3.5	5.2	67.7%	40.3%
Attendance	mn times	0.5	13.5	23.5	38.5	52.4	76.2	112.9	52.9%	43.1%
Cinema	Unit	51	108	214	289	381	479	596	40.7%	27.3%
Screen	Unit	181	399	888	1,319	1,796	2,323	3,003	49.7%	31.6%
Seat	Unit					250,180	313,000	394,000		
BO per Screen	mn RMB	0.7	0.9	0.8	0.8	0.9	1.0	1.2		
Shanghai United Circuit										
Box Office	mn RMB	650	1,070	1,303	1,650	1,840	2,221	3,031	23.5%	22.5%
Film played	mn			1.1	1.5	1.9	2.1	2.7	24.9%	22.2%
Attendance	mn times			37.8	44.7	50.9	60.9	83.0	21.8%	22.9%
Cinema	Unit			192	175	210	256	295	11.3%	19.0%
Screen	Unit			934	849	1,006	1,246	1,622	14.8%	24.1%
Seat	Unit					181,182	214,000	254,911		
BO per Screen	mn RMB			1.4	1.9	1.8	1.8	1.9		
Guangzhou Jinyi Zhujiang Circuit										
Box Office	mn RMB	440	691	850	1,180	1,541	2,088	2,849	32.8%	34.1%
Film played	mn	0.4	0.4	0.8	1.2	1.6	2.4	3.2	49.1%	37.4%
Attendance	mn times	13.5	17.8	23.4	30.9	41.2	54.8	82.8	36.1%	38.9%
Cinema	Unit	35	55	80	127	171	231	306	41.0%	34.1%
Screen	Unit	171	222	460	709	970	1,291	1,588	48.2%	30.8%
Seat	Unit	28,034	36,396	77,236	117,307	155,223	207,602	242,724	46.2%	27.4%
BO per Screen	mn RMB	2.6	3.1	1.8	1.7	1.6	1.6	1.8		
Nationwide										
Box Office	bn RMB	6.2	10.2	13.2	17.1	21.8	29.6	44.1	31.1%	37.2%
Attendance	mn	200	286	370	470	600	830	1,256	30.9%	38.8%
Cinema	Unit	1,687	1,993	2,796	3,442	4,583	5,158	6,358	22.6%	22.7%
Screen	Unit	4,723	6,256	9,286	13,118	18,195	23,600	31,627	36.5%	34.1%
BO per Screen	mn RMB	1.3	1.6	1.4	1.3	1.2	1.3	1.4		
Top 5 Circuits Market Shares										
Box Office	%	46.0%	46.6%	45.6%	46.9%	45.8%	45.0%	43.4%		
Attendance	%			33.3%	33.6%	32.8%	31.3%	30.7%		
Cinema	%			23.3%	22.6%	21.6%	24.1%	26.1%		
Screen	%			34.1%	30.0%	28.1%	27.5%	26.6%		
BO proportion										
Wanda China Cinema Circuit	%	13.5%	13.8%	13.6%	14.4%	14.5%	14.2%	13.6%		
China Film Stellar Theatres Circuit	%	12.8%	11.9%	10.5%	9.5%	8.4%	8.3%	8.5%		
Dadi Cinema Circuit	%	2.1%	3.7%	5.1%	6.5%	7.3%	7.9%	7.9%		
Shanghai United Circuit	%	10.5%	10.5%	9.9%	9.7%	8.5%	7.5%	6.9%		
Guangzhou Jinyi Zhujiang Circuit	%	7.1%	6.8%	6.5%	6.9%	7.1%	7.1%	6.5%		

Source: Research Report on Chinese Film Industry 2015 (中国电影产业研究报告 2015), SARFT, the Companies, Guotai Junan International.

There are 3 business models in the top cinema circuits. **1) Wanda Cinema Circuit is a high-end vertically integrated circuit in China.** First, most of Wanda Cinema is located in its huge shopping malls. Secondly, Wanda Cinema has many high quality screens to enhance audiences' watching experiences. Moreover, Wanda had 146 IMAX screens at the end 2014, more than 50% of China domestic IMAX screen market shares. Moreover, Wanda has 37 X-land systems, developed by Wanda itself. The screen per cinema in Wanda reached 8.9, much higher than 4.7 in China Film Stellar, 5.0 in Dadi Circuit, 5.5 in Shanghai United Circuit, 5.2 in Guangzhou Jinyi Zhujiang Circuit, and 5.0 in national average. **2) Dadi Circuit expanded aggressively in tier-3, tier-4 and tier-5 cities.** In 2015, the number of cinemas under Dadi Circuit reached 462, almost twice that of Wanda Cinema Circuit and only half of the cinemas are directly operated by Dadi Cinema. As a result, Dadi's BO market share kept increasing in last 5 years, from 2.1% in 2009 to 7.9% in 2015. However, fast expansion resulted in shutdown of small cinemas and Dadi had to close several cinemas before 2014. In 2015, Dadi's direct cinema management company began to make net profit of RMB259 mn. **3) China Film Stellar Theatre expanded moderately.** SMI has 90 cinemas and China Film Cinema Investment has around 50~60 cinemas. China Film Stellar Theatre, Shanghai United Circuit, and Guangzhou Jinyi Zhujiang Circuit expanded cautiously in 1st~3rd tier cities. However, they gradually lost market shares because of their cautious strategy.

Cinema Management Companies

The market concentration of cinema management companies is expected to increase. Cinema management companies are owners of cinemas. Besides BO revenue, the cinema management companies also have to create non BO revenue, such as food & beverage revenue and ad revenue. There are several features of the cinema management companies: **1) Top 5 cinema management companies had a combined market share of 30.6% in 2015, down 1.1ppt yoy.** Only Dadi Cinema, SMI, and China Film Cinema Investment grew faster than that of China BO office. **2) SMI grew the fastest in 2015.** SMI Cinema BO (including business tax and film funds) reached RMB1,723mn, up 106.7% yoy, the fastest growth among the Top 10 cinema management companies. **3) Convenient financing channel is crucial.** We think Wanda Cinema, Dadi Cinema, and SMI, which could finance from financial markets, could grow faster than the industry average.

Table- 5: China Top 10 Cinema Management Companies

Rank	Cinema	Box Office mn RMB	Growth yoy %	Attendance mn times	Cinema Unit	Screen Unit	Seats Unit	Attendance rate %	BO per screen mn RMB	Attendance per screen mn Times
1	Wanda China Cinema	6,012	44.0%	146	240	2,133	319,950	24%	2.8	68,669
2	Dadi Cinema	2,210	56.9%	71	282	1,405	196,620	18%	1.6	50,869
3	Jinyi Cinema	1,927	18.2%	52	125	822	130,821	18%	2.3	62,997
4	China Film Cinema Investment	1,723	49.2%	51	90	632	101,904	26%	2.7	80,338
5	Stellar Cinema (SMI)	1,637	106.7%	47	177	1,099	157,630	17%*	1.5*	42,891
6	Hengdian Cinema	1,446	43.6%	44	115	757	102,058	21%	1.9	58,441
7	CGV Cinema Investment	1,032	100.1%	27	53	417	73,326	19%	2.5	65,546
8	UME Cinema Investment	811	14.1%	19	24	284	34,080	25%	2.9	66,261
9	China United Cinema	783	-0.9%	18	39	252	39,093	24%	3.1	71,323
10	Golden Harvest	778	29.9%	22	64	458	68,328	16%	1.7	47,817
	Top 10 market share	41.6%		39.6%	19.0%	26.1%				
	Top 5 market share	30.6%		29.3%	14.4%	19.3%				

Source: China Film Newspaper 2016 (中国电影报 2016), Guotai Junan International.

*Note: SMI's data was worse than peers because SMI's newly acquired cinema BO was calculated into SMI's BO only since the date they were acquired.

China Film Distribution

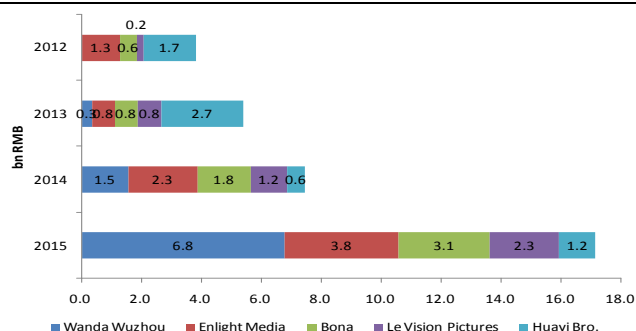
Traditional film distributors are the film copy managers, the film marketing planner in full media channels, and sometimes the key film producers. In 2015, top 5 film distributors, Wanda Wuzhou, Enlight Media, Bona, Le Vision Pictures, and Huayi Brothers created BO of RMB17.1bn, up 130.5% yoy, 38.8% of total market shares, up from 22.2% in 2012. They all have their own film studios to develop IPs and have invested in small & medium film studios. Chinese small & medium film studios are operated by small production teams and usually lack empirical film producers. Traditional film distributors help them in film quality control and determine the release schedule (holidays or weekends). As the film marketing planners, they have to make marketing programs for different media. In social media, producers, distributors, and movie stars have to create as many hot topics as possible for internet users to discuss and share. In video portals, they have to release trailer videos, music videos, and shooting titbits for moviegoers. Furthermore, distributors have to make ground movie promotion with circuits and cinemas. The movie stars will usually participate in the hottest variety shows organised by TV stations and then variety shows will be bought by the video portals.

New media film distributors are the online ticket sellers, owned by internet giants who also own the online video

portals. The online ticket sales are in control of movie ticket pre-sale and discount sales, which are a marketing program with the traditional producers. The fast growing online portals, iQiyi, Tencent Video, and Youku-Tudou, have already gathered lots of moviegoers. The internet giants have given lots of subsidies and mobile traffic to attract online ticket buyers. In 2015, the online ticket sales accounted for around 70% of total market sales. Top 4 film ticket sellers accounted for 86% of market shares of total BO in 1H16. Obviously, online ticket sellers have enlisted huge mobile traffic support from parents companies' and users' big data, but it's impossible to replace the role of traditional distributors in the next few years. Furthermore, competition is fierce among top 4 online ticket sellers, who have to build up close relationships with traditional distributors and large circuits to stabilize their market shares. Cinema circuits might have to carefully choose their strategic partners. Wanda Circuits has a good relationship with Weipiao, whereas SMI is the key strategic partner of Baidu Nuomi.

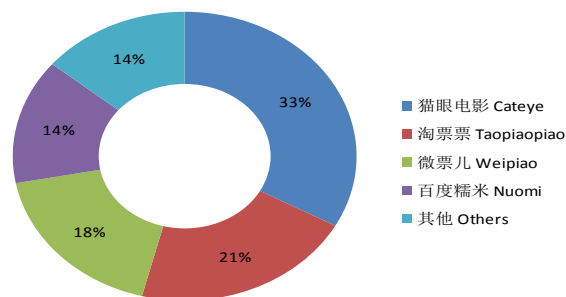
Cinema is the key place for film marketing. 1) **Traditional film distributors have to carry out ground marketing in different cinemas and circuits in order to increase their film row piece volume.** Currently, this is very important as China cinema market is still very scattered. The ground marketing network was one of the key competences of traditional distributors. Furthermore, movie stars sometimes will launch a nationwide cinema tour in the first week when the movie is released. Cinemas could earn marketing expenses from distributors. 2) **Cinema advertisement is growing fast.** In China, there are basically 3 types of cinema ads: embedded ads, in-video ads, and pre-show ads. According to the regulation of SARFT, the ad length of pre-show ads and in-video ads should not exceed 10 minutes. Before the audiences watch the movie, the first 5 minutes ads were pre-show ads, which are operated by cinemas, and the next 5 minutes ads were in-video ads, part of the film copy, which are cooperated by both distributors and cinemas. The embedded brand ads are sold by the producers and distributors. In 1H16, Focus Media's cinema ad revenue reached RMB885 mn, up 60.3% yoy, with gross margin of 56.8%, accounting for 18.0% of its total business. As of the end of 2015, Focus Media covered 1,270 cinemas and 8,300 screens in 270 cities. According to Entgroup, China cinema ad revenue might reach RMB3.0bn in 2016, up 36.3% yoy.

Figure- 6: Traditional China Film Distribution Market



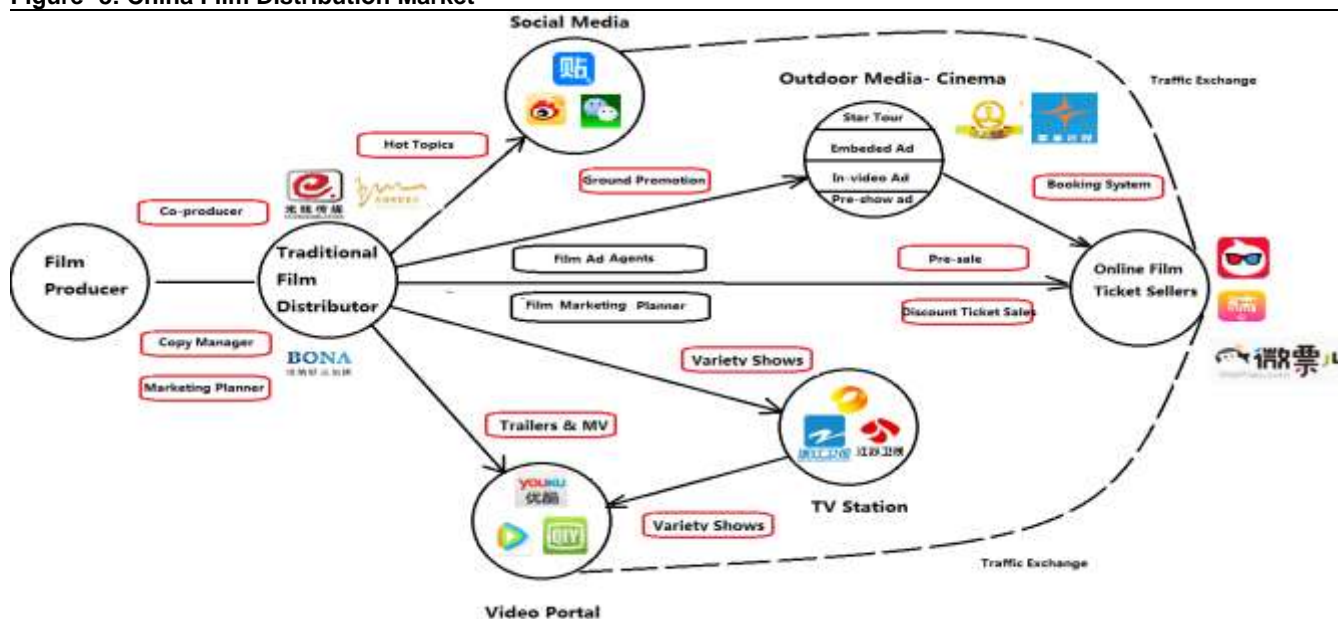
Source: EntGroup, Guotai Junan International.

Figure- 7: China online BO Sales Breakdown in 1Q16



Source: CBNDData, Guotai Junan International.

Figure- 8: China Film Distribution Market



Source: EntGroup, Guotai Junan International.

Financial Analysis

Revenue

3 Year CAGR of SMI revenue growth expected to reach 27.8% in 2015-2018. We expect SMI to grow mainly through acquiring cinemas. By the end of 2016, SMI's cinemas might reach around 300, up 50.0% yoy. In 2017~2018, we expect SMI might add around 100 cinemas annually. As China BO market growth is expected to be very fast in next 5 years, we think SMI could consolidate the acquired targets' revenue immediately and increase their non BO revenue in the future, such as ad revenue, food & beverage revenue, and film distribution revenue. We expect SMI's revenue in 2016~2018 to reach HKD3,894 mn, HKD5,091 mn, and HKD6,106 mn, up 33.2%, 30.8%, and 19.9% yoy, respectively. In 2015, SMI non BO theatre revenue accounted for 25.7% of total theatre revenue and might increase to 30.2% in 2018.

Table- 6: SMI Revenue Breakdown

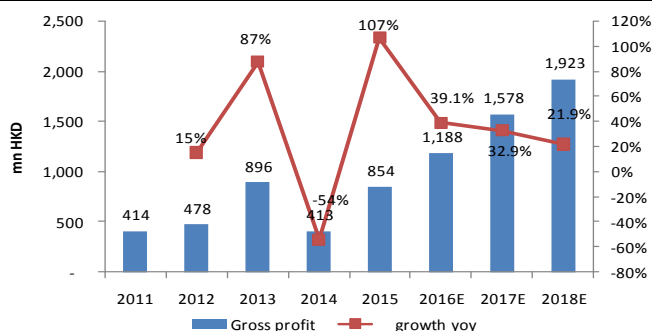
SMI revenue breakdown		2013	2014	2015	2016E	2017E	2018E
Cinema BO	mn RMB	822	930	1,900	2,412	3,136	3,738
growth yoy	%		13.2%	104.3%	26.9%	30.0%	19.2%
Concession sales and other theatre related revenue	mn RMB	382	531	659	903	1,265	1,621
growth yoy	%		38.9%	24.0%	37.1%	40.1%	28.1%
Total theatre operation revenue	mn RMB	1,204	1,461	2,559	3,315	4,401	5,358
growth yoy	%		21.4%	75.1%	29.5%	32.8%	21.8%
Xinmeihui	mn RMB	48	188	364	579	690	748
growth yoy	%		289.2%	94.0%	59.1%	19.2%	8.4%
Total revenue	mn RMB	1,252	1,649	2,923	3,894	5,091	6,106
growth yoy	%		31.7%	77.3%	33.2%	30.8%	19.9%
Non-box-office theatre revenue as % of total theater revenue	%	31.8%	36.3%	25.7%	27.2%	28.7%	30.2%
Cinema	Unit	68	90	200	300	400	500
growth yoy	%		32.4%	122.2%	50.0%	33.4%	25.0%
Screen	Unit	490	700	1,400	2,070	2,681	3,252
growth yoy	%		42.9%	100.0%	47.9%	29.5%	21.3%
BO per screen (divided by avg. screen between 2 years)	mn RMB	1.68	1.33	1.36	1.17	1.17	1.15
growth yoy	%		-20.8%	2.2%	-14.2%	0.4%	-1.7%

Source: the Company, Guotai Junan International.

Gross Profit

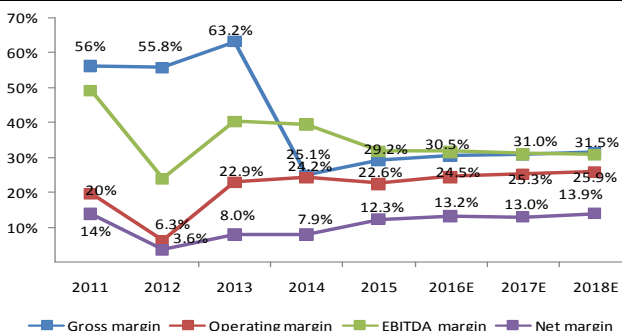
Gross profit expected to grow at 3-Year CAGR of 31.1% in 2015-2018. The main part of COGS is the BO sharing to the circuits, distributors and motion picture companies and food & beverage costs. Circuits and cinema management companies could get 52% of total BO. However, the revenue sharing ratio between circuits and cinemas might be flexible between 4%~6%, due to the size of acquired cinemas. Furthermore, SMI's BO didn't include the business tax (3.3%) and film funds (5%). We think SMI and China film stellar circuit have very stable cooperation and the BO sharing percentage will be stable. However, this ratio might be volatile as cinemas have to share extra BO in IMAX films to film technology companies. And COGS also includes food and beverage supplies, which are relatively stable in price. However, we expect the revenue sharing in cinema to maintain stable in the medium term. In 2016-2018, we expect its gross profit to reach HKD1,188 mn, HKD1,578 mn and HKD1,923 mn, up 39.1%, 32.9% and 21.9% yoy. We expect gross margin to maintain at around 30.5% 31.0%, and 31.5% in 2016-2018.

Figure- 9: SMI Gross Profit Estimates



Source: the Company, Guotai Junan International.

Figure- 106: SMI Margin Estimates

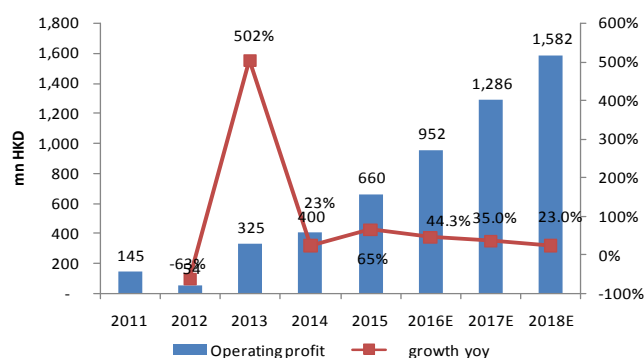


Source: the Company, Guotai Junan International.

Operating Profit

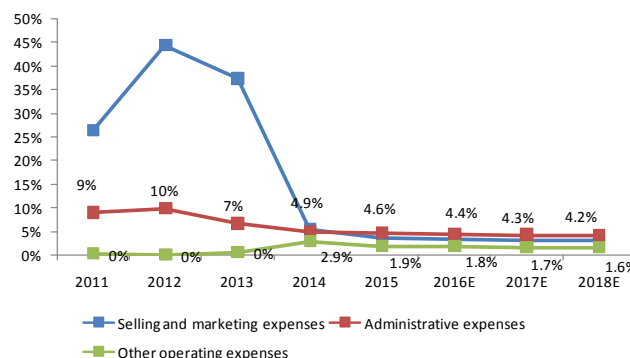
Operating profit expected to grow at 3-Year CAGR of 33.8% in 2015-2018. SMI operating costs mainly include salaries and wages expenses, facility lease expenses, utility costs, depreciation & amortization costs, and general and administrative expenses. We think the general and administrative expenses to revenue ratio might decline due to economies of scale. But in China the wages and rentals might keep increasing at single digits in next 5 years. Other expenses ratio might be stable. As a result, we think total operating expenses ratio to maintain at around 9.5%, 9.2%, and 9.1% in FY16-18. We expect its operating profit in FY16-18 to reach HKD952 mn, HKD1,286 mn, and HKD1,582 mn, up 44.3%, 35.0%, and 23.0% yoy, respectively.

Figure- 7: SMI Operating Profit Estimates



Source: the Company, Guotai Junan International.

Figure- 8: SMI Expense Ratio Estimates

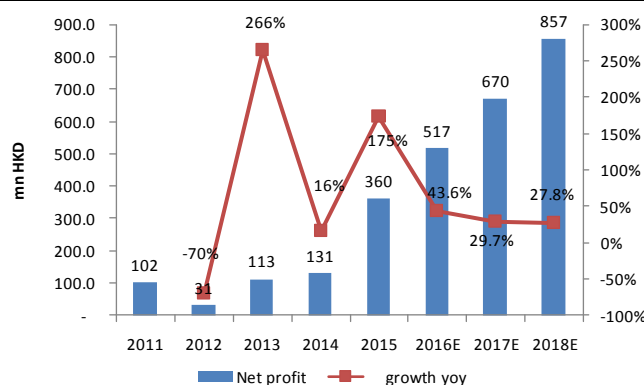


Source: the Company, Guotai Junan International.

Net Profit & EPS

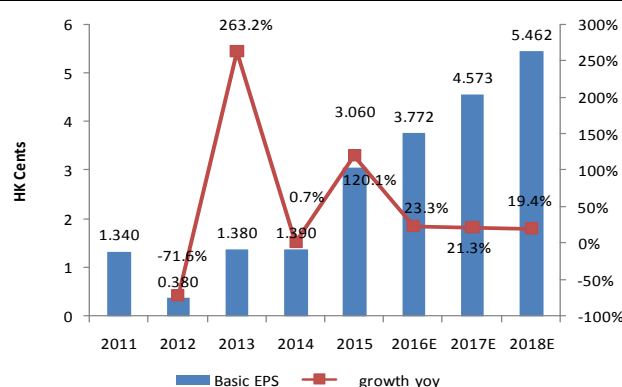
Net profit and basic EPS expected to grow at 3-Year CAGR of 33.0% and 21.3%, respectively. We think strong growth of revenue and stable outlook of margins would be the key drivers of net profits. The whole cinema industry might grow fast constantly in next 5 years and most cinemas' BO might keep growing. However, the new cinemas in the 3rd ~ 5th tier cities might still suffer loss in the short run, especially those cinemas not in CBDs. SMI has the ability to improve non BO revenue of acquired cinemas and is able to achieve economies of scale effect in ad revenue and cinema retails. Increasing wage expenses and rentals might hinder to improve margins. We think the market might focus on SMI's ability to deliver net profit growth after M&A. And the market does not want SMI to close some cinemas which are in bad situation after M&A which might result in asset write-down as Dadi cinema did in the past. SMI's cinema growth and M&A efficiency will be the key drivers to its net profit growth. We expect its net profit in FY16-18 to reach RMB517 mn, RMB670 mn, and RMB857 mn, up 43.6%, 29.7%, and 27.8% yoy. Our FY16-18 Basic EPS estimates are HK Cent 3.772, HK Cent 4.573, HK Cent 5.462, up 23.3%, 21.3%, and 19.4% yoy.

Figure- 9: SMI Net Profit Estimates



Source: the Company, Guotai Junan International.

Figure- 10: SMI Basic EPS Estimates

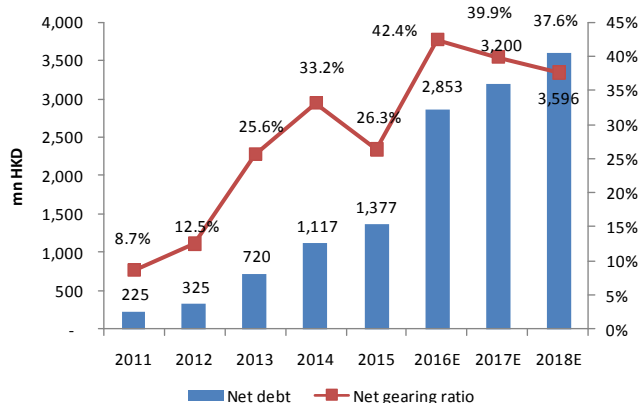


Source: the Company, Guotai Junan International.

Net gearing ratio might be moderate due to improving cash flow after acquisition and convertible bonds financing.

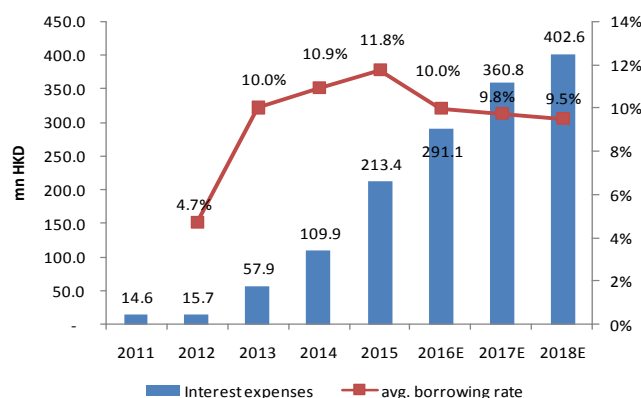
Average consideration of a cinema with 7 screens is around HKD25mn in 1H16. We think China cinemas have improving operating cash flows and convertible bond holders might convert most of their bonds into shares before the bonds are due. After 2018, SMI might have enough operating cash flow to support its annual expansion plan. As a result, we think SMI has the ability to maintain its net gearing ratio at around 40%~50%. According to our cinema expansion estimates, we expect its capex in 2016~2018 to reach HKD2,500mn, HKD2,505mn, HKD2,501mn, respectively. We think SMI will be very cautious in purchasing IMAX systems (USD1.3mn per set). As a result, we expect its net gearing ratio in FY16-18 to reach 42.4%, 39.9% and 37.6% respectively.

Figure- 11: SMI Net Gearing



Source: the Company, Guotai Junan International.

Figure- 12: SMI Interest Expenses



Source: the Company, Guotai Junan International.

Valuation

Target Price is set at HKD0.90 and investment rating is 'Accumulate'. SMI is expected to grow much faster than that of US leaders in next 3-5 years. Moreover, SMI has better net margins over US leaders. In 2015, SMI's net margin reached 12.3%, while Regal, AMC, and Cinemark's net margin only reached 4.9%, 3.5%, and 8.2%, respectively, due to higher labour costs. According to our valuation, SMI's diluted EPS CAGR in 2015-2018E is 20.1%, with PEG in 2015-2018E estimates of 1.1x at current stock price of HKD0.75, below the PEG of its US leaders, reaches 1.3x 2015-2018E PEG. Our TP is HKD0.90, representing 1.3x 2015-2018E PEG, based on diluted EPS estimates, equal to the PEG valuation of US leaders and with slight discount to its China A-share peers.

Wanda Cinema has competitive edge over SMI. 1) Wanda Cinema could create more synergy with Wanda Commercial Property. 2/3 of Wanda cinemas are in located in Wanda squares. Wanda Square in 3rd and 4th tier cities might become the city commercial center with strong traffic, while Wanda IMAX screens also attract more moviegoers. 2) Wanda Cinema has circuit assets, which could get 4%~6% more BO with a higher margin. 3) Wanda Pictures are the NO.1 film maker. Wanda Pictures are the top film distributor and film maker in China and bought Legendary Pictures, the top global film maker. Wanda Pictures and Wanda Cinema might create more synergies in film distribution.

SMI has very high non-BO revenue proportion. We stated that there might be limited room for BO per screen in China in the future. The non BO revenue might be a big god mine for China cinema investment companies. In China, non BO revenue mainly include food and beverage sales, ad revenue, overdue tickets, venue rental fees, gift cards, and other goods sales. There are economies of scale effect in non BO revenue, especially in ad business. We have compared the non BO revenue proportion among Dadi Cinema Management Company, Wanda Cinema Management Company, and SMI. In 2015, their BO proportion reached 79.8%, 79.8%, and 74.3%.

SMI shares might be diluted by 7% annually in FY17-FY18E. According to SMI's expansion plan, SMI needs to finance very frequently in next 3 years, through issuing of new shares, convertible bonds, box office-backed securities and bonds. SMI EPS growth might grow slower than that of net profit. However, we think SMI's profit margin and valuation might improve due to its larger scale. And we think SMI will control its net gearing ratio under 50%.

Table- 2: Dadi Cinema Management Company under Nanhai Holdings (00680 HK)

Dadi Cinema Investment		2009	2010	2011	2012	2013	2014	2015
BO (incl. business tax and film funds)	mn RMB	124	338	534	782	1,002	1,460	2,210
Attendance	mn times	5	12	19	28	35	49	71
Cinema	Unit	42	70	119	151	215	257	282
Screen	Unit	156	275	519	693	1,033	1,262	1,405
Revenue	mn HKD	170	489	780	1,166	1,517	2,200	3,153
Segment profit	mn HKD	(32)	(63)	(116)	17	(163)	(259)	230
Segment profit margin	%	-18.8%	-13.0%	-14.9%	1.5%	-10.7%	-11.8%	7.3%
Box office revenue (incl. business tax and film funds) proportion	%	77.8%	74.5%	77.2%	77.4%	78.2%	78.1%	79.8%

Source: the Company, Guotai Junan International.

Table- 83: Wanda Cinema Circuit and Cinema Management

Wanda Cinema Circuit		2009	2010	2011	2012	2013	2014	2015
Film played	mn	0.6	0.8	1.2	1.7	2.1	2.8	4.2
Attendance	mn times	27.9	36.3	40.9	58.4	77.8	102.0	151.0
Cinema	Unit	44	71	83	113	142	182	292
Screen	Unit	374	604	703	980	1247	1616	2,527
Box Office	mn RMB	835	1,403	1,785	2,456	3,161	4,212	6,388
Concession sales	mn RMB			206	332	478	607	923
Other	mn RMB			218	243	458	522	690
BO proportion	%			80.8%	81.0%	77.2%	78.9%	79.8%
Revenue	mn RMB			2,207	3,031	4,023	5,339	8,001
Gross profit	mn RMB			1,260	1,741	2,399	1,573	2,416
Operating profit	mn RMB			388	469	684	949	1,514
Net profit	mn RMB			307	390	603	801	1,186
Operating margin	%			17.6%	15.5%	17.0%	17.8%	18.9%
Net margin	%			13.9%	12.9%	15.0%	15.0%	14.8%

Source: the Company, Guotai Junan International.

Table- 4: Peers Comparison

Company	Stock Code	Currency	Last price	Market Cap	PE			EV/EBITDA			PEG	ROE	Net margin
				mn HKD	FY16F	FY17F	FY18F	FY16F	FY17F	FY18F	FY15-18	FY16	FY16
US Cinemas													
Amc Entertainment Hlds-CI A	AMC US	USD	31.75	24,003.0	31.0	24.0	19.4	11.1	9.7	8.3	2.0	7.2	8.1
Regal Entertainment Group-A	RGC US	USD	22.68	27,589.9	22.3	18.9	16.8	9.2	8.4	7.8	2.3	(20.6)	10.6
Cinemark Holdings Inc	CNK US	USD	39.98	36,050.1	20.1	17.6	15.6	8.5	7.8	6.8	1.9	19.4	15.3
Carmike Cinemas Inc	CKEC US	USD	32.90	6,225.4	64.8	43.6	26.3	8.8	7.4	6.5	n.a.	4.3	8.7
National Cinemedia Inc	NCMI US	USD	14.18	6,862.6	35.2	28.8	25.0	9.0	8.1	n.a.	(6.6)	(5.8)	38.1
Simple Average					34.7	26.6	20.6	9.3	8.3	7.4	(0.1)	0.9	16.2
Weighted Average					27.1	21.8	18.1	9.4	8.4	7.0	1.3	2.9	13.5
China Cinemas in HK													
Smi Holdings Group Ltd	198 hk	HKD	0.75	10,208.4	16.0	10.9	8.1	9.4	7.0	5.4	0.3	11.3	22.5
Nan Hai Corp Ltd	680 hk	HKD	0.27	18,191.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Poly Culture Group Corp-H	3636 hk	HKD	20.60	5,074.1	13.8	11.7	10.2	5.3	3.9	3.1	0.4	7.8	18.5
Orange Sky Golden Harvest En	1132 hk	HKD	0.38	1,042.2	n.a.	25.3	10.6	26.4	16.0	10.8	n.a.	(0.9)	(5.5)
Imax China Holding Inc	1970 HK	HKD	38.30	13,656.4	36.1	27.2	21.4	22.3	16.6	12.8	1.2	26.1	45.6
Simple Average					22.0	18.8	12.6	15.9	10.9	8.0	0.6	11.1	20.3
Weighted Average					15.1	11.8	9.1	9.4	7.0	5.4	0.4	10.6	19.5
China Cinemas in Shanghai A share													
Wanda Cinema Line Co Ltd-A	002739 CH	CNY	64.74	87,539.1	45.1	33.3	25.5	25.1	18.7	14.4	1.4	16.6	18.3
Omnijoi Media Corp-A	300528 CH	CNY	36.30	12,978.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Simple Average					45.1	33.3	25.5	25.1	18.7	14.4	1.4	16.6	18.3
Weighted Average					45.1	33.3	25.5	25.1	18.7	14.4	1.4	16.6	18.3
Simple Average					31.6	24.1	17.9	13.5	10.4	8.4	0.3	6.6	18.0
Weighted Average					31.3	24.0	19.0	15.2	11.9	9.4	1.2	9.5	16.5

Source: Bloomberg, Guotai Junan International, As at 17 October 2016.

Financial Statements

Income statement (DEC year end, HKD mn)	2014	2015	2016E	2017E	2018E
Revenue	1,650	2,924	3,894	5,091	6,106
Cost of sales	(1,237)	(2,070)	(2,706)	(3,513)	(4,183)
Gross profit	413	854	1,188	1,578	1,923
Other income	207	102	135	177	212
Selling and marketing expenses	(91)	(106)	(131)	(166)	(197)
Administrative expenses	(81)	(136)	(171)	(218)	(259)
Other operating expenses	(48)	(55)	(69)	(85)	(99)
Profit from operations	400	660	952	1,286	1,582
Finance costs	(110)	(213)	(291)	(361)	(403)
Share of profits and losses of associates	(143)	7	0	(10)	(10)
Others	62	(6)	0	0	0
Profit before tax	209	447	661	915	1,169
Income tax expense	(84)	(78)	(132)	(229)	(292)
Profit for the year	125	368	529	686	877
Non-controlling interests	(6)	8	(12)	(16)	(20)
Net profit to the owners of the Company	131	360	517	670	857
Earnings per share					
Basic (HK Cents)	1.39	3.06	3.77	4.57	5.46
Diluted (HK Cents)	1.36	2.96	3.51	4.27	5.12
Weighted shares outstanding (mn shares)	9,825	11,760	13,700	14,659	15,685
Diluted shares outstanding (mn shares)	10,176	12,151	14,738	15,697	16,724
DPS (HK Cents)	0.45	0.32	0.39	0.48	0.57

Cash flow Statement (DEC year end, HKD mn)	2014	2015	2016E	2017E	2018E
Profit before tax	209	447	661	915	1,169
Depreciation and amortization	152	247	254	271	286
Non cash gains and losses	(286)	36	(180)	10	10
Working capital change	121	67	53	113	(159)
Income taxes paid	(60)	(19)	(132)	(229)	(292)
Finance lease charges paid	(7)	(8)	(9)	(9)	(10)
Net cash generated from operating activities	235	969	938	1,431	1,406
Capex	(1,297)	(2,418)	(2,500)	(2,505)	(2,501)
investments	(1)	(172)	(217)	(219)	(20)
Disposal of assets and investments	(47)	(96)	0	0	0
Others	0	8	(213)	0	0
Net cash used in investing activities	(1,345)	(2,678)	(2,930)	(2,724)	(2,522)
Proceeds from share issuance	334	940	1,035	690	770
Net borrowing	564	1,844	1,053	527	547
Repayments to bank loans	(77)	(284)	0	0	0
Interest paid	(79)	(162)	(291)	(361)	(403)
Dividend paid	(37)	(42)	(37)	(54)	(70)
Others	64	284	(191)	669	423
Net cash generated from financing activities	768	2,581	1,568	1,472	1,268
Net cash change	85	872	(424)	180	152
Effect of foreign exchange rate changes	4	5	0	0	0
Cash balance at the beginning	41	130	1,008	584	764
Cash balance at the end	130	1,008	584	764	916

Balance sheet (DEC year end, HKD mn)	2014	2015	2016E	2017E	2018E
Non-current assets					
Property, plant and equipment	1,758	2,266	2,417	2,551	2,670
Goodwill	1,454	3,369	5,000	6,250	7,813
Intangible assets	13	57	62	69	76
Investments in associates	104	168	185	204	224
Prepaid investment deposits	996	914	960	1,008	1,058
Rental deposits	105	145	182	243	264
Prepayments for construction of cinemas	523	377	452	543	651
Others	47	131	134	136	139
Non-current assets	5,001	7,427	9,392	11,003	12,894
Current assets					
Inventories	88	97	144	169	204
Trade and other receivables	692	545	693	702	804
Held-for-trading investment	78	196	216	237	261
Loan to an associate	50	50	55	61	67
Due from a related party	40	14	15	17	18
Restricted bank balances	25	121	133	147	161
Bank and cash balances	130	1,008	584	764	916
Assets classified as held for sale	25	25	28	30	34
Others	3	3	3	3	3
Current assets	1,130	2,058	1,871	2,129	2,468
Current liabilities					
Trade and other payables	1,323	1,507	693	702	804
Due to related parties	1	19	20	22	25
Finance lease payables	23	30	33	36	39
Current tax liabilities	92	146	160	176	194
Liabilities directly associated with assets classified as held for sale	4	4	4	4	5
Short term debt	518	448	1,031	1,189	1,353
Others	1	0	(0)	(0)	(0)
Current liabilities	1,963	2,152	1,941	2,130	2,420
Non-current liabilities					
Finance lease payables	67	51	56	61	68
Deferred income	3	101	111	122	134
Deferred tax liabilities	4	18	20	22	25
Long term debt	729	1,936	2,406	2,775	3,158
Non-current liabilities	803	2,106	2,593	2,981	3,384
Non-controlling interests	53	(4)	(16)	(32)	(52)
Equity attributable to owners of the Company	3,312	5,231	6,746	8,053	9,610
Total Equity	3,365	5,227	6,730	8,021	9,558

Key indicators	2014	2015	2016E	2017E	2018E
Growth%					
Gross profit	-53.8%	106.5%	39.1%	32.9%	21.9%
Operating profit	23.0%	64.9%	44.3%	35.0%	23.0%
EBITDA	14.3%	42.3%	33.1%	28.0%	19.4%
Net profit	15.9%	174.8%	43.6%	29.7%	27.8%
ROE	4.2%	8.4%	8.6%	9.1%	9.7%
ROA	2.5%	4.6%	5.0%	5.5%	6.0%
Net gearing ratio	33.2%	26.3%	42.4%	39.9%	37.6%

Source: the Company, Guotai Junan International.

Appendix- International Theatre Market

North America theatre market is an oligopoly market. There are 3 big circuits: Regal Entertainment (RGC US), AMC (AMC US), and Cinemark (CNK US). In 2015, their BO reached USD5.3bn, up 5.6% yoy, accounting for 47.5% of total US BO. In 2015, the big three had 17,305 screens in North America, flat yoy, accounting for 39.6% of total screens in North America. In 2015, their attendance reached 593mn, down 3.3% yoy, accounting for 44.9% of total attendance. BO per screen reached USD0.304mn, up 2.7% yoy. The average number of screen per cinema of Regal, AMC and Cinemark reached 12.9, 14.0 and 13.4, respectively, higher than national average number of 8.1, which means the average number of screen per cinema in other medium and small theatres only reached 6.4. Moreover, AMC has announced to take over Carmike, the 5th largest theatre in US, which has 275 theatres and 2,938 screens. After the acquisition, AMC has 662 theatres and 8,364 screens in US and become the largest theatre in US. In 2016, the new big 3 theatres' BO market share might increase to around 51%.

Table- 1: North America Theatre Market

North America Theatre Market (mn USD)		2010	2011	2012	2013	2014	2015
Box Office Revenues							
	mn USD	10,566	10,174	10,837	10,921	10,353	11,100
Attendance	mn times	1,339	1,283	1,361	1,343	1,267	1,321
Average Ticket Price	USD	7.89	7.93	7.96	8.13	8.17	8.43
Number of Theatres	Unit	5,399	5,331	5,317	5,359	5,362	5,411
Indoor Screens	Unit	38,902	38,974	39,056	39,424	39,300	43,661
Box Office							
Regal	mn USD	1,956	1,843	1,925	2,060	1,999	2,038
AMC	mn USD	1,765	1,701	1,804	1,847	1,765	1,892
Cinemark North America	mn USD	1,034	1,034	1,100	1,231	1,221	1,338
Sub-total	mn USD	4,755	4,577	4,829	5,138	4,985	5,268
Total Market share	%	45.0%	45.0%	44.6%	47.0%	48.2%	47.5%
Attendance							
Regal	mn times	224	212	216	229	220	217
AMC	mn times	194	200	200	199	187	197
Cinemark North America	mn times	161	158	164	177	174	180
Sub-total	mn times	580	570	580	605	581	593
Total Market share	%	43.3%	44.4%	42.6%	45.1%	45.9%	44.9%
Theatres							
Regal	Unit	539	527	540	580	574	572
AMC	Unit	348	366	344	345	348	387
Cinemark North America	Unit	293	297	298	334	335	337
Total	Unit	1,180	1,190	1,182	1,259	1,257	1,296
Total Market share	%	21.9%	22.3%	22.2%	23.5%	23.4%	24.0%
Screens							
Regal	Unit	6,698	6,614	6,880	7,394	7,367	7,361
AMC	Unit	5,287	5,197	4,988	4,976	4,960	5,426
Cinemark North America	Unit	3,832	3,878	3,916	4,457	4,499	4,518
Total	Unit	15,817	15,689	15,784	16,827	16,826	17,305
Total Market share	%	40.7%	40.3%	40.4%	42.7%	42.8%	39.6%
Tickets							
Regal	USD	8.7	8.7	8.9	9.0	9.1	9.4
AMC	USD	9.1	8.5	9.0	9.3	9.4	9.6
Cinemark North America	USD	6.4	6.5	6.7	7.0	7.0	7.4
National Avg.	USD	7.9	7.9	8.0	8.1	8.2	8.4
Box Office per screen							
Regal	mn USD	0.292	0.279	0.280	0.279	0.271	0.277
AMC	mn USD	0.334	0.327	0.362	0.371	0.356	0.349
Cinemark North America	mn USD	0.270	0.267	0.281	0.276	0.271	0.296
National Avg.	mn USD	0.272	0.261	0.277	0.277	0.263	0.254
Screen per Theatre							
Regal	Unit	12.4	12.6	12.7	12.7	12.8	12.9
AMC	Unit	15.2	14.2	14.5	14.4	14.3	14.0
Cinemark North America	Unit	13.1	13.1	13.1	13.3	13.4	13.4
National Avg.	Unit	7.2	7.3	7.3	7.4	7.3	8.1

Source: the Companies, MPAA, Guotai Junan International.

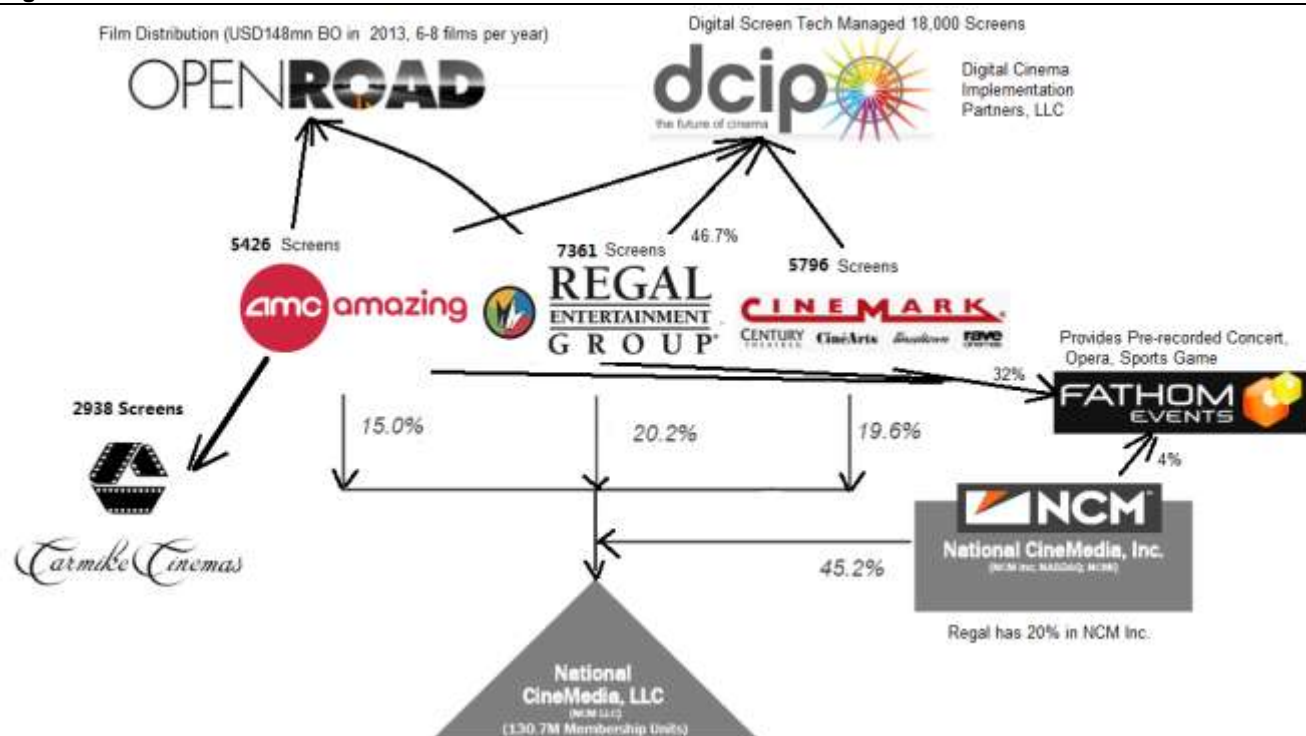
The big 3 theatres' non BO revenue accounted for 36.9% of total revenue in 2015. We think only top theatres in China could create 1/3 non BO revenue as the big 3 theatres did. Actually, the big theatres have jointly set up several companies to extend the non BO revenue: **1) National CineMedia (NCM US) is the largest cinema screen ad company in North America.** The big three theatres jointly set up National CineMedia LLC, which operates all their screens for ad revenue and paid theatre access fees for screen rentals. Regal, AMC, Cinemark, and National CineMedia Inc. have 20.2%, 15.0% and 19.6%, 45.2% of National CineMedia LLC, respectively. National CineMedia LLC also absorbed other medium and small theatres as members. NCM's advertising and entertainment pre-shows are called "First Look" distributed across its digital content network (DCN). Currently, it manages around 20,000 screens, half of the total screens in North America. In 2015, NCM ad revenue reached USD446.5mn, up 13.2% yoy. **2) Regal and AMC jointly set up Open Road, a small film distribution company.** Open Road's distribution BO reached USD148 mn in 2013 and aimed to distribute 6~8 films per year. **3) Digital Cinema Implementation Partners LLC (DCIP) is one of the largest cinema screen tech companies.** The big three jointly set up DCIP helping them to change their analog screens to digital screens smoothly in last decade. Currently, the company is serving other cinemas by providing digital screen technology. **4) The big 3 cinema and NCM jointly set up Fathom Events.** Fathom Events provide pre-recorded concerts, operas, and sports game videos in theatres. **5) Robust non BO revenue.** According to our statistics, the big three's non BO revenue mainly came from ad revenue, concession sales, and other revenues (excluding theatre access fees). In 2015, their BO revenue, ad revenue, and concession sales revenue reached USD5,268 mn, USD342 mn, and USD2,521 mn, respectively. Other theatre revenues include theatre rentals (theatre access fees), internet ticketing surcharges, arcade games and other revenues related to gift card and discount ticket programs.

Table- 2: US Cinema Circuit Operation

Box office revenue		2010	2011	2012	2013	2014	2015
Regal	mn USD	1,956	1,843	1,925	2,060	1,999	2,038
AMC	mn USD	1,765	1,701	1,804	1,847	1,765	1,892
Cinemark North America	mn USD	1,034	1,034	1,100	1,231	1,221	1,338
Total	mn USD	4,755	4,577	4,829	5,138	4,985	5,268
Concession sales							
Regal	mn USD	724	708	748	817	830	902
AMC	mn USD	675	682	748	787	798	910
Cinemark North America	mn USD	503	503	546	609	636	710
Total	mn USD	1,902	1,893	2,043	2,213	2,263	2,521
Ad Revenue from NCM							
Regal	mn USD	139	133	143	156	142	156
AMC	mn USD	110	105	104	105	95	101
Cinemark North America	mn USD	80	78	81	94	86	84
Total	mn USD	329	316	328	355	323	342
Other revenue excl. theatre access fees to NCM							
Regal	mn USD	107	108	109	121	136	136
AMC	mn USD	60	72	119	98	115	126
Cinemark North America	mn USD	35	35	37	44	51	61
Total	mn USD	203	216	264	263	302	323
BO revenue proportion							
Regal	%	66.8%	66.0%	65.8%	65.3%	64.4%	63.1%
AMC	%	67.6%	66.5%	65.0%	65.1%	63.6%	62.5%
Cinemark North America	%	62.6%	62.6%	62.3%	62.2%	61.2%	61.0%
Total	%	66.1%	65.4%	64.7%	64.5%	63.3%	62.3%
Operating margin							
Regal	%	7.7%	8.3%	11.7%	11.2%	10.2%	10.2%
AMC	%	3.5%	-1.7%	1.9%	6.9%	6.5%	8.0%
Cinemark	%	13.7%	13.5%	15.5%	15.5%	13.8%	15.5%
Net Margin							
Regal	%	2.8%	1.5%	5.0%	5.2%	3.5%	4.9%
AMC	%	3.6%	-9.8%	1.8%	13.3%	2.4%	3.5%
Cinemark	%	7.0%	5.8%	6.9%	5.6%	7.4%	8.2%

Source: the Companies, Guotai Junan International.

Figure- 1: US Cinema Circuit Market



Source: the Companies, Guotai Junan International.

Movie market only accounted for 29.4% of North America family tour market in 2015. For US family (usually 4 members), their major outdoor activities include movies, theme parks and sports. In 2015, US family spent USD11.0bn, USD20.3bn, and USD6.1bn in buying tickets in movies, theme parks and sports, respectively. Total ticket spending in 2015 reached USD37.5bn, up 3.5% yoy, mainly driven by theme parks and sports. Obviously, they might spend 20%~40% more on the food & beverage and hotel services in the tour. Movies only accounted for 29.4% of total tour tickets spending, which means US families have lots of choices. However, in China the movie market might play a dominant role in the Chinese family tour market.

Table- 3: North America Family Tour Market

Family tour market		2007	2008	2009	2010	2011	2012	2013	2014	2015
Movies	mn times	1,400	1,364	1,415	1,341	1,285	1,358	1,343	1,268	1,321
Theme Parks	mn times	341	347	342	339	350	359	371	379	388
Sports	mn times	137	141	133	132	133	131	125	134	134
NHL	mn times	21	21	21	21	21	22	13	22	22
NFL	mn times	17	18	18	17	17	17	17	17	17
NBA	mn times	22	22	22	21	21	17	21	21	22
MLB	mn times	77	80	80	73	73	75	74	73	74
Average ticket price (Family of 4)										
Movies	USD	28	29	30	32	32	32	33	33	33
Theme Parks	USD	141	144	149	175	199	199	199	209	209
Sports										
NHL	USD	178	195	195	230	228	244	246	249	249
NFL	USD	261	284	300	310	309	314	326	338	343
NBA	USD	187	200	190	180	194	204	210	216	216
MLB	USD	94	94	115	120	108	108	110	112	116
Total ticket sales	bn USD	26.6	27.5	29.1	31.1	33.1	34.2	34.7	36.2	37.5
Movies	bn USD	9.6	9.8	10.6	10.6	10.2	10.8	10.9	10.4	11.0
Theme Parks	bn USD	12.0	12.5	12.7	14.8	17.4	17.9	18.5	19.8	20.3
Sports	bn USD	4.9	5.3	5.7	5.7	5.5	5.6	5.4	6.0	6.1

Source: MPAA, Guotai Junan International.

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance >15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	Relative Performance <-15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance >5%; or the fundamental outlook of the sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	Relative Performance <-5%; or the fundamental outlook of the sector is unfavorable.

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