

## SMI Corporation Ltd.

### Triple number of theatre seats in three years

to summarize...

- The company operated 15 movie theatres in the PRC as end of 2010 with 95 screens and 14,075 seats.
- Based on completed acquisitions, number of seats is expected to reach 43,432 by 2013. Premises have been secured for developing additional 60+ theatres.
- Average revenue per seat was HK\$39,751 in FY12/10A, which may be diluted temporarily by new theatres rollout.
- Full-year contribution of 12 theatres acquired in Jul 2010 and maturity of green cinemas will be two earnings drivers in FY12/11F.

**Runs 15 movie theaters in China.** After series of restructuring and assets injection, SMI now is one of the largest movie cinema operators in the PRC, operating total 15 theatres in nine cities with 95 screens and 14,075 seats as end of 2010 as end of 2010 (table 1). Meanwhile, through an acquisition completed in Sep 2010, the company obtained leasing contracts for another 25 theatre sites, which are under development and will be put into operation successively from 2011 through 2013. Notably, for most theatres, the company owns only 49.0% equity interest due to regulation restriction on overseas investors. However, via acquiring economy interest, SMI is entitled to 90%+ profit generated, according to the management.

**Number of seats may triple in three years.** According our latest discussion with the management, around 10 new theatres, out of the 25 sites acquired last year, launched operation already this year, which seems a bit behind disclosed timetable (table 1). Certainly, such delay is acceptable for us considering various uncertainties amid real operation. In our estimates, accordingly, a universal assumption of 6 months delay for all the 25 projects was adopted. Thus, we calculated SMI's number of theater seats will increase from 14,075 in 2010 to 33,092 in 2011, 39,182 in 2012 and 43,432 in 2013 (table 2).

**Temporary dilution of TPS.** A certain theatre's profitability, measured by turnover per seat (TPS), is positively correlated with length of its operation life. Normally, the longer time under operation the greater profitability a theatre has, which can be more or less explained by average seat occupancy rate (ASOR). ASOR is 15-25% for a newly established theatre (1-2 years in operation) while 25-40% for a developing one (3-4 years in operation) and +40% for an established one (4+ years in operation). In FY12/09A, blended TPS was HK\$43,134, which declined to HK\$39,751 in FY12/10A due to acquisition of relatively green theatres in 2010. We reckon, with a large number of new theaters put into operation in 2011 and 2012, SMI's blended TPS may be diluted further and recover in 2013.

**Foreseeable earnings growth.** For FY12/11F, we identified major growth drivers may include:

- The company will book full-year contribution from the 12 theatres acquired in the second acquisition, versus 5-month last year.
- 10 of these 12 theatres commenced operation after 2007 and are still in its early booming stage (backed by the improving ASOR, a theatre grows rapidly in the first 4-5 years, average at 30-40% p.a., which, then, slows down to ~10% thereafter).
- As new cinema takes at least 8-12 months to break even, newly launched theatres will have impact mainly on the top line.

In addition, the company is seeking sites to open more theaters across China. According to the management, it has secured ~90 premises (incl. the 25 in the third acquisition) for future development.

Ticker	0198 HK
Rating	Not Rated
Price (HK\$)	0.375
Target Price (HK\$)	n.a.
12m Price Range (HK\$)	0.315-0.700
Market cap. (US\$m)	383.4
Daily t/o (US\$m)	1.1
Free float (%)	39.12

#### Financial summary

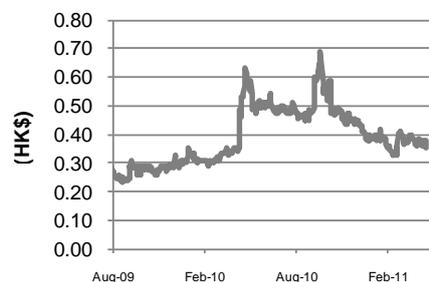
Year to Dec	09A	10A
Turnover (HK\$m)	72	357
Net Profit (HK\$m)	24	123
EPS (HK\$)	0.016	0.029
P/E (x)	23.3	13.1
P/B (x)	4.98	1.21
EV/EBITDA (x)	(411.0)	24.2
Yield (%)	0.0	0.0
ROE (%)	12.7	11.2
ROCE (%)	15.1	10.2
N. Gear. (%)	cash	9.1

Source: SBI E2-Capital

	11F	12F	13F
Consensus EPS (HK\$)	0.059	0.082	-
Previous earnings (HK\$m)	-	-	-
Previous EPS (HK\$)	-	-	-

#### Price performance

Year to Dec	1m	3m	12m
Relative to HSI (%)	(6.5)	(1.7)	(39.2)
Actual price changes (%)	2.2	(16.7)	(54.3)



Source: Bloomberg

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**Valuation premium for China exposure.** After taking into account the unexercised in-the-money convertible notes, the counter is trading at 24.6x fully-diluted historical P/E, which might drop significantly this year (street: 19.2x FY12/11F, 13.9x FY12/12F). P/E wise, SMI is more expensive than OSGH (1132 HK), another HK-listed cinema operator (16.8 FY03/11A). We justify the premium with SMI's pure exposure to the PRC (OSGH: only 9 out of total 33 theatres).

**Table 1. Theatres list**

	% owned	m2	screens	seats	date of operation
<b>1<sup>st</sup> acquisition (Jul 2009)</b>					
Beijing Stella	72.9	10,889	7	1,351	Dec 04
Beijing Wangjing	60.0	7,140	7	1,066	Dec 06
Shanghai Stella	management contract	7,000	7	1,158	Dec 06
<b>2<sup>nd</sup> acquisition (Jul 2010)</b>					
Beijing Huilonguan	49.0	3,000	6	985	Aug 08
Tianjin SMI	49.0	1,926	5	588	Aug 08
Shenyang SMI	49.0	3,370	7	726	Oct 08
Chongqiong SMI	49.0	5,000	7	930	Jan 07
Xuzhou SMI	49.0	4,500	6	1,426	Nov 07
Shanghai SMI	75.0	5,911	8	1,158	Jan 09
Beijing Shijiecheng	49.0	3,000	6	834	Dec 09
Lanzhou SMI	49.0	3,000	5	804	Sep 09
Shanghai Lemo SMI	75.0	4,008	5	836	Aug 07
Guangzhou Huaying	46.6	1,500	6	670	Apr 10
Chengdu Shahe SMI	57.0	2,000	7	563	Oct 04
Chengdu SMI Xinan	57.0	4,070	6	980	Oct 04
<b>3<sup>rd</sup> acquisition (Sep 2010)</b>					
重慶財富中心	lease contract	7,149	7	1,200	Jan 11
長春盛世中心	lease contract	3,900	8	1,000	Jan 11
長沙青和	lease contract	6,000	7	1,307	Jan 11
瀋陽大悅城	lease contract	7,000	12	1,500	Feb 11
合肥印象城	lease contract	4,295	8	1,100	Nov 10
常熟虞景文華	lease contract	3,121	7	1,068	Oct 10
北京分鐘寺	lease contract	3,443	9	1,100	Nov 10
青島新城廣場	lease contract	3,356	7	1,100	Dec 10
陽光西安	lease contract	3,490	7	1,250	Feb 11
朝陽北京金泉	lease contract	5,000	10	2,100	Apr 11
合肥綠地海頓	lease contract	3,000	5	534	Apr 11
貴陽綠地	lease contract	3,800	7	1,000	Nov 12
徐州綠地	lease contract	4,700	9	1,600	Nov 11
上海百聯金山	lease contract	3,607	7	1,000	Oct 10
合肥旺角	lease contract	6,500	11	2,000	Jan 13
天津友誼新城市	lease contract	3,480	8	1,250	Sep 12
蘇州李公提	lease contract	3,700	8	1,500	Dec 11
天津中山門	lease contract	4,500	7	1,400	Oct 10
南京文鼎	lease contract	1,920	6	700	Jul 11
昆明金鷹	lease contract	3,206	6	800	Dec 10
山東煙臺祥隆	lease contract	2,682	8	1,030	Dec 11
山東龍口博商	lease contract	2,560	7	758	Feb 11
無錫站前	lease contract	2,700	7	1,100	Jan 11
哈爾濱盛基	lease contract	3,633	6	1,130	Aug 11
吳江盛澤新生	lease contract	2,700	7	830	Dec 11

Source: Company data

**Table 2. Operating figures**

Year to Dec	09A	10A	11F	12F	13F
Number of theaters	14	22	37	39	40
floor area (m2)	64,814	91,842	151,976	159,256	165,756
Number of screens	89	146	260	275	286
Number of seats	3,575	14,075	33,092	39,182	43,432
Effective number of seats	1,499	8,408	23,666	37,174	41,886

Source: Company data, SBI E2-Capital

Table 3. Major developments

	Event
Apr 11	issued HK\$141m CB@0.25% to major shareholder with conversion price at HK\$0.47 each
Sep 11	acquired rights and obligations in building lease contracts in respect of 25 cinemas in China
Jul 10	acquired 12 movie theatres in China
Nov 09	issued HK\$39.75m CB@1% interest rate with conversion price at HK\$0.265 each
Oct 09	issued 269m new shares via a top-up placement at HK\$0.265 each

Source: compiled by SBI E2-Capital

Table 4. Key financials

Year to Dec (HK\$m)	09A	10A
Revenue	72.0	356.6
Gross profit	25.3	233.4
Operating profit	(9.2)	118.2
Net profit	24.0	123.4
EBITDA	(7.7)	131.3
Fixed assets	36.6	153.8
Inventories	0.5	1.6
Receivables	51.5	261.6
Payables	87.1	158.2
Cash	76.2	253.8
Short-term debt		
Long-term debt	0.0	440.7
Shareholders' fund	189.7	2,012.1
Total equity	199.5	2,059.8
Net cash from operating activities	(62.8)	(125.4)
Net cash used in investing activities	(24.2)	(282.8)
Net cash from financing activities	154.4	587.4
Net change in cash and cash equivalents	67.4	179.2

Source: Company data

Table 5. P&amp;L

Year to Dec (HK\$m)	09A	10A
<b>Continuing operations</b>		
Revenue	72.0	356.6
Cost of sales	(46.7)	(123.3)
Gross profit	25.3	233.4
Other Income	0.1	17.2
Gain on disposal of held-for-trading investments	7.7	16.8
Selling and marketing expenses	(7.4)	(72.3)
Administrative Expenses	(21.3)	(68.4)
Other Operating Expenses	(13.6)	(8.5)
Profit from operations	(9.2)	118.2
Finance costs	(1.9)	(15.4)
Impairment loss on interests in associates	(18.2)	0.0
Impairment loss on interests in jointly controlled entities	(6.7)	0.0
Share of profits of associates	0.0	1.5
Share of profits of a jointly controlled entity	0.0	34.7
Gain/(loss) on disposal of an associate	(3.6)	4.0
Gain on disposal of jointly controlled entities	0.0	1.7
Gain on disposal of subsidiaries	0.3	14.9
Gain on deconsolidation of subsidiaries	10.3	0.0
Equity-settled share-based expenses	0.0	(29.3)
Profit before taxation	(28.9)	130.1
Income tax expenses	(4.2)	(7.4)
Profit for the period from continuing operations	(33.1)	122.7
<b>Discontinued operations</b>		
Gain on deconsolidation of a subsidiary	61.1	0.0
Profit for the period	28.0	122.7
Attributable to:		
Owners of the Company	24.0	123.4
Non-controlling interests	4.0	(0.6)
EPS - Basic (HK\$)	0.016	0.029
EPS - Diluted (HK\$)	-	0.027

Source: Company data

Table 6. Shareholding structure

Shareholders	Interest
Qin Hui	55.10%
Fidelity	5.78%
Others	39.12%
Total	100.00%

Source: HKEx

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**BUY** : absolute upside of >10% over the next six months

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**SELL** : absolute downside of >10% over the next six months

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