

DXB Entertainments PJSC

TP: AED 0.79/ share

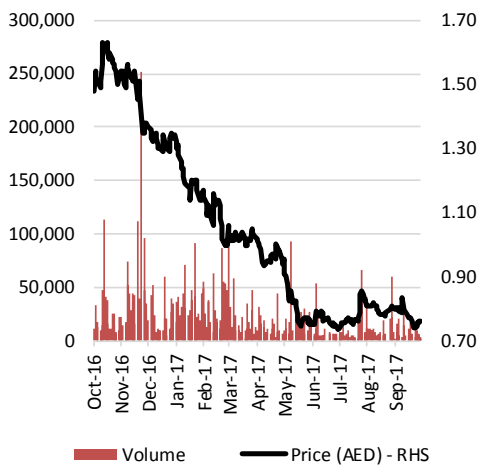
Recommendation	HOLD
Bloomberg Ticker	DXBE UH
Current Market Price (AED)	0.76
52wk High / Low (AED)	1.660/0.730
12m Average Vol. (000)	22,366.4
Mkt. Cap. (USD/AED bn)	1.7/6.1
Shares Outstanding (mn)	7,999.9
Free Float (%)	37%
3m Avg Daily Turnover (AED mn)	9.0
6m Avg Daily Turnover (AED mn)	10.8
PE 2017e (x)	n/m
PBv 2017e (x)	1.0
Dividend Yield '17e (%)	-

Price Performance:

1 month (%)	(5.38)
3 month (%)	2.44
12 month (%)	(48.85)

Source: Bloomberg

Price Volume Chart



Source: Bloomberg

We downgrade our recommendation to **HOLD** on DXB Entertainments with a revised target price of **AED 0.79/share**. Our target price represents an upside of 3.5% to the latest closing price of AED 0.76/share. Drop in the target price mainly resulted from disappointing footfall numbers, drop in ticket price and increase in S, G&A expenses. The stock is down on YTD and 12m basis by 41% and 49%, respectively. DXBE is currently trading at P/bv of 1.0x and 1.1x for 2017 and 2018 respectively.

1H17 performance remained under pressure because of low footfall and high operating expenses

In 1H17, DXBE registered loss of AED 577.9mn, an increase of over 5x YoY from loss of AED134.6mn in 1H16. Comparison with last year numbers will not be justified as majority of the Company attractions came online in 4Q16. Nevertheless, disappointing footfall numbers and over fivefold increase in operating expenses took its toll on the Company. In 1H17, DXBE recorded over 1mn visits with 414,400 visits during the second quarter. Drop in second quarter when compared to first was largely because of seasonality. It would be worth highlighting that the Company was projecting over 6.5mn visits in 2017 whereas we at U Capital estimated visit of 6.4mn for 2017 in our initial coverage report.

(AED 000)	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17
Revenue, Adj	-	-	-	75,926	159,865	119,614
Growth %, YoY	-	-	-	-	-	-
Gross Profit, Adj	-	-	-	68,239	146,714	99,237
Margin %	-	-	-	89.9	91.8	83.0
EBITDA, Adj	- 53,034	- 53,795	- 131,414	- 269,101	- 131,388	- 103,165
Margin %	-	-	-	-354.4	-82.2	-86.2
Net Income, Adj	- 38,349	- 41,253	- 116,274	- 288,962	- 291,764	- 286,190
Margin %	-	-	-	-380.6	-182.5	-239.3

Source: Bloomberg

Third quarter loss expected at AED 270mn

For the third quarter we expect, DXBE to post a loss of AED270mn. Third quarter is expected to have witnessed mix response because of vacation and high temperature summer season. Going forward, we expect fourth quarter to be one of the best quarter for the Company because of combination of better weather and the new competitive pricing strategy.

Support flowing in from the Parent Company

Following more than expected increases in losses, DXBE recently took a AED245mn subordinated loan from its majority shareholder Meraas. As per the announcement, the loan will take the form of an interest bearing unsecured subordinated shareholder loan with no fixed maturity. It will be used to fund operational expenses and debt repayments.

DXBE has entered into a management agreement with Meraas to manage a portfolio of leisure and entertainment offerings including Hub Zero, Splash Pad, The Green Planet, Mattel Play Town and Roxy Cinemas. With the addition of Meraas' leisure and entertainment portfolio, DXBE will be able to identify and build significant cross-marketing synergies and additional revenue from the coordinated management of their diversified portfolio of assets.

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Future Plans

DXB Entertainments in its press release announced that for the remainder of 2017 and into 2018, their primary strategy is to drive visitor volumes, focusing on repeat visitation from the resident and regional markets. The Company is in the process of simplifying its pricing structure and revising its annual pass offering, to include competitive pricing, special offers and an attractive package of additional discounts and benefits. Internationally, they will continue to focus on the core source markets of China, Russia, India, the UK and Germany through their tour and travel network.

Revise our Target Price down to AED 0.79/share

Our target price based on discounted cash flow method offers an upside of 3.5% compared to the current market price of AED 0.76/share. The Company is currently trading at P/bv of 1.0x and 1.1x for 2017 and 2018 respectively.

Financial Statements

(AED mn)	2015	2016	2017e	2018e	2019e	2020e
Income Statement						
Revenue	-	76	728	1,177	2,292	3,040
Cost of Sales	-	(8)	(70)	(105)	(189)	(249)
Gross Profit	-	68	658	1,072	2,104	2,791
SG&A Expenses	(142)	(615)	(1,453)	(1,514)	(1,769)	(1,842)
Operating Profit	(142)	(546)	(795)	(441)	335	949
Interest income	46	69	63	50	40	32
Interest expense	(15)	(8)	(305)	(327)	(325)	(269)
Net Profit	(111)	(485)	(1,037)	(718)	50	712
Balance Sheet						
Cash & Cash Equivalents	3,317	2,524	1,582	458	349	324
Property Plant & Equipment	4,652	9,465	10,083	10,343	10,494	10,326
Investment properties	283	634	634	634	634	634
Prepayments & Receivables	-	111	44	48	54	54
Inventories	-	42	39	45	50	50
Intangible assets	-	-	56	50	43	43
Others	374	37	184	226	83	103
Total Assets	8,626	12,814	12,623	11,803	11,708	11,534
Loans	1,258	3,204	4,689	4,671	4,650	3,846
Due to Related Parties	13	-	-	-	-	-
Trade & Other Payables	1,178	2,212	1,438	1,294	1,165	1,048
Others	-	-	135	184	164	213
Liabilities	2,448	5,416	6,262	6,149	5,978	5,107
Total Shareholders Equity	6,178	7,398	6,361	5,654	5,730	6,426
Total Equity & Liability	8,626	12,814	12,623	11,803	11,708	11,534
Cash Flow Statement						
Cash Flow from Operating Activities	314	678	(1,189)	(177)	737	1,281
Cash Flow from Investing Activities	(1,389)	(3,012)	(997)	(663)	(565)	(252)
Cash Flow from Financing Activities	1,373	3,314	1,244	(284)	(281)	(1,055)
Change in Cash	298	980	(942)	(1,124)	(109)	(26)
Net Cash at End	3,317	2,524	1,582	458	349	324
Ratio Analysis						
Gross Profit Margin	n/m	89.9%	90.4%	91.1%	91.8%	91.8%
EBITDA Margin	n/m	n/m	(57.2%)	(3.2%)	32.7%	45.0%
EBIT Margin	n/m	n/m	(109.2%)	(37.5%)	14.6%	31.2%
Net Profit Margin	n/m	n/m	(142.5%)	(61.0%)	2.2%	23.4%
Return on Assets	-1.3%	-3.8%	-8.2%	-6.1%	0.4%	6.2%
Return on Equity	-1.8%	-6.6%	-16.3%	-12.7%	0.9%	11.1%
EPS (AED)	(0.01)	(0.06)	(0.13)	(0.09)	0.01	0.09
Book Value Per Share (AED)	0.77	0.92	0.80	0.71	0.72	0.80
Market Price (AED) *	1.07	1.32	0.76	0.76	0.76	0.76
Market Capitalization (AED mn)	8,560	10,560	6,104	6,104	6,104	6,104
P/E Ratio (x)	(77.2)	(21.8)	(5.9)	(8.5)	121.1	8.6
P/BV Ratio (x)	1.4	1.4	1.0	1.1	1.1	0.9

Source: Company Filings & U Capital Research

* Market price for 2017 and subsequent years as per closing prices on 10 October 2017

Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%

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