

Animoca Brands Corp. Limited

Operating Metrics Accelerate

AB1 reported 1Q CY2016 cash receipts of \$2.72m (+325% pcp and +70% on 4Q CY2015), unaudited revenue of \$2.2m compared to \$2.4m in 4Q CY2015 and net cash outflow to \$1.6m that includes development of the Mattel e-book launch. Under the agreement Mattel will refund 50% of all e-book development costs and we expect receipt in 4Q CY2016.

Positives from the result were:

- Post 1Q update, the Garfield Chef app through Xiaomi in China, has had over 7m downloads since its launch in December 2015.
- Total new app installs increased 67% from 16m in 1Q CY2015 to 27m in 1Q CY2016, bringing total app installs to 201m in CY2016.
- Average monthly active users (MAUs) increased by 68% pcp to 13.3m in 1Q CY2016, with monthly new users averaging 8.9m.
- Average revenue per user (ARPU) was \$0.08, on 26.7m new users.
- The total app portfolio increased by 22 new games from 411 in 4Q CY2015 to 433 in 1Q CY2016.
- A partnership with Xiaomi, China's largest smart phone maker, for the release of Garfield Chef (1.5m downloads in first month).
- First official worldwide mobile game for Chibi Maruko Chan manga and anime, partnering with Nippon Animation Co. Ltd, a leading Japanese animation studio.
- Completion of an oversubscribed \$6.5m institutional placement at \$0.20 per share and a successful SPP raising \$1m.

Forecasts

We have updated our forecasts incorporating the recent capital raising and the launch of the e-books in 3Q CY2016 to include:

- Conservative initial e-book sales to commence in 3Q CY2016 at 4,000 units per month priced at an annual subscription of A\$122. Increasing to 6,750 units per month in 2017 and 9,000 in 2018.
- We have decreased our MAUs to 14.3m in 2016 (-11%), 20.7m in 2017 (-14%) and 29.9m in 2018 (-17%).
- We have increased expenses by \$1.9m in 2016, \$1.7m in 2017 and \$1.8m in 2018 related to employee and marketing costs for the e-book launch.

Recommendation and valuation

We maintain a BUY and our price target of \$0.40 per share, on a revenue multiple valuation, based on:

- Highly scalable business model – revenues from the portfolio's long tail are anticipated to cover fixed expenses in CY2016.
- Diversified product base to include e-books in 3Q CY2016.
- Growth in distribution channels includes deals with Xiaomi, Tencent and Nippon Animation Co.

AB1.ASX

BUY

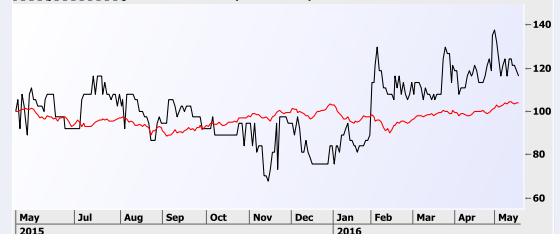
Thursday 19 May 2016

Price	\$0.22
Price Target	\$0.40
Valuation Method	Revenue Multiple
GICS sector	Technology
12 month price range	\$0.12 - \$0.27 per share
Average monthly t/o	0.3m
Market Capitalisation	A\$43.0m
Shares on issue	200.0m
Enterprise value	A\$33.8m
Previous rating	BUY

Year ended Dec 31		14A	15A	16E	17E	18E
Sales revenue	A\$m	1.0	7.5	12.5	19.9	31.7
Net Revenue	A\$m	0.4	4.9	8.1	12.3	17.9
EBIT	A\$m	(1.0)	(4.0)	(1.0)	2.6	7.2
EBIT margin	%	(97.9)	(52.4)	(7.7)	13.0	22.7
NPAT	A\$m	(7.7)	(2.9)	(1.0)	2.6	6.0
EPS	¢ps	na	na	na	1.3	3.0
DPS	¢ps	0.0	0.0	0.0	0.0	0.0
Franking	%	0.0	0.0	0.0	0.0	0.0
Dividend Yield	%	0.0	0.0	0.0	0.0	0.0
PE	x	na	na	na	16.5	7.2
EV/Revenue	x	25.7	4.1	2.9	1.7	0.9
EV/EBITDA	x	na	na	na	13.0	3.9
EV/EBIT	x	na	na	na	13.0	3.9
Debt/Debt + Equity	%	0.0	0.0	0.0	0.0	0.0
Enterprise Value	A\$m	26.5	31.1	36.2	33.8	28.3
ARPU	A\$	0.0	0.12	0.14	0.15	0.17
Monthly Active Users	m	6.3	10.8	14.3	20.7	29.9
Ebook subscription	A\$	0.0	0.0	121.5	121.5	121.5
Ebook users	000	0.0	0.0	24,000	81,000	108,000

Animoca Brands Corporation (AB1.ASX) v Small Industrial Index (XSI)

CBASE (AB1.ASX@AUX): 116.2162 CBASE (XSI.ASX@AUX): 104.1747



Source: IRESS

Activities

Develops and publishes mobile games to the global market.

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Animoca Brands Corporation Limited

Current Price: \$0.22 ps

Valuation: \$0.40 ps

Financial Performance (A\$m)

Year ended December	2014a	2015a	2016e	2017e	2018e
Sales revenue (A\$)	1.0	7.5	12.5	19.9	31.7
Cost of goods sold	(0.6)	(2.6)	(4.4)	(7.5)	(13.8)
Net Revenue	0.4	4.9	8.1	12.3	17.9
Expenses	(1.4)	(8.9)	(9.1)	(9.7)	(10.7)
EBITDA	(1.0)	(4.0)	(1.0)	2.6	7.2
Depreciation & amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	(1.0)	(4.0)	(1.0)	2.6	7.2
Net interest	0.0	0.0	0.0	0.0	0.0
Pre-Tax Profit/(Loss)	(1.0)	(3.9)	(1.0)	2.6	7.2
Tax (paid)/refund	0.0	0.0	0.0	0.0	(1.2)
Abnormals	0.0	0.0	0.0	0.0	0.0
Normalised Profit/(Loss)	(1.0)	(3.9)	(1.0)	2.6	6.0
Significant items*	(6.7)	1.0	0.0	0.0	0.0
Reported Profit/(Loss)	(7.7)	(2.9)	(1.0)	2.6	6.0

Balance Sheet (A\$m)

Year ended December	2014a	2015a	2016e	2017e	2018e
Cash	2.9	4.9	6.8	9.2	14.7
Receivables	0.0	2.4	2.8	4.4	7.1
Other assets	0.0	0.2	0.3	0.5	0.2
Total Assets	2.9	7.6	10.0	14.2	22.0
Payables	1.9	2.9	2.0	3.2	5.1
Current debt	0.0	0.0	0.0	0.0	0.0
Long term debt	3.9	0.0	0.0	0.0	0.0
Other liabilities	0.0	2.9	0.1	0.1	0.0
Total Liabilities	5.9	5.8	2.1	3.3	5.1
Shareholder Funds	(3.0)	1.8	7.9	10.9	17.0

Cash Flow Statement (A\$m)

As at December	2014a	2015a	2016e	2017e	2018e
EBITDA	(1.0)	(4.0)	(1.0)	2.6	7.2
Net interest	0.0	0.0	0.0	0.0	0.0
Income tax paid	0.0	0.0	0.0	0.0	0.0
Working capital	(0.1)	(0.3)	(1.3)	0.3	(0.8)
Operating Cash Flow	(1.2)	(4.3)	(2.2)	2.9	6.4
Capex	0.0	(0.2)	(1.0)	(1.0)	(1.0)
Free Cash Flow	(1.2)	(4.5)	(3.2)	1.9	5.5
Loans to related parties	0.5	(1.0)	0.0	0.0	0.0
Acquisitions	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Equity raised	2.3	7.7	7.1	0.5	0.0
Debt (Repay)/Borrowings	1.2	0.0	0.0	0.0	0.0
Exchange rate adjustments	0.0	(0.1)	0.0	0.0	0.0
Net increase/(decrease) cash	2.9	2.1	3.8	2.4	5.5
Cash at beginning	0.0	2.9	4.9	6.8	9.2
Cash at end	2.9	4.9	8.7	9.2	14.7

Major Shareholders

Major Shareholders	Directors
FingerFun (HK) Limited	7.4% David Kim Chairman
Asyla Investments Limited	7.0% Robert Yung Managing Director
Datahouse Investments Limited	7.0% Yat Siu Non-Exec Director
Intel Capital Corporation	5.5% David Brickler Non-Exec Director
Yong Hui Cap Holdings I Ltd	5.5% Richard Kuo Non-Exec Director
Startive Ventures, Inc	5.5% Martin Green Non-Exec Director
Top 20 (31/12/2015)	57.1% Steven Hu Non-Exec Director

Valuation Metrics

Valuation Metrics	Premium/(Discount)
Price	\$0.22 ps (88%)
Target Price	\$0.40 ps
Market Capitalisation	\$36.0m
Implied 2016 Revenue multiple	5.4x
Implied 2017 Revenue multiple	3.4x

User Metrics

Year ended December	2014a	2015a	2016e	2017e	2018e
Monthly Active Users (m)	6.3	10.8	14.3	20.7	29.9
Ebook users (000)			24,000	81,000	108,000

Growth Ratios (%)

Year ended December	2014a	2015a	2016e	2017e	2018e
Sales revenue	na	630	65.9	58.7	59.5
COGS	na	310	68.2	72.3	82.6
Gross profit	na	1,137	64.6	51.4	45.3
Expenses	na	530.0	2.3	6.9	10.1
EBITDA	na	na	na	na	177.7
Normalised profit	na	na	na	na	131.2

Operating Performance Ratios (%)

Year ended December	2014a	2015a	2016e	2017e	2018e
Net revenue	38.6	65.5	65.0	62.0	56.5
EBITDA/Sales revenue	na	na	na	13.0	22.7
NPBT/Sales revenue	na	na	na	13.1	22.7
Effective tax rate	0.0	0.0	0.0	0.0	16.5

Balance Sheet Ratios

Year ended December	2014a	2015a	2016e	2017e	2018e
Receivables turn (x)	25.5	6.2	4.8	5.5	5.5
Net debt (\$m)	1.1	0.0	0.0	0.0	0.0
Debt/(Debt + Equity) (%)	0.0	0.0	0.0	0.0	0.0
Current Assets/Current Liabilities (x)	1.5	1.3	5.0	4.5	4.3
Net assets (eps)	(2.5)	1.1	3.9	5.5	8.5
Net tangible assets (eps)	(2.5)	1.1	3.9	5.5	8.5
Cash (eps)	0.0	2.9	3.4	4.6	7.4
Price to book value (x)	(8.6)	20.4	5.5	3.9	2.5

Multiples (x)

Year ended December	2014a	2015a	2016e	2017e	2018e
PE Ratio	na	na	na	16.5	7.2
Enterprise value/Revenue	25.7	4.1	2.9	1.7	0.9
Enterprise value/EBITDA	na	na	na	13.0	3.9
Enterprise value/NPAT	na	na	na	13.0	4.7
Cash flow ratio	na	na	na	14.7	6.7

Per Share Data

Year ended December	2014a	2015a	2016e	2017e	2018e
Issued shares - weighted average (m)	77.0	118.3	167.5	200.0	200.0
EPS (eps)	na	na	na	1.3	3.0
EPS - adjusted (eps)	na	na	na	1.3	3.0
Operating cash flow (eps)	na	na	na	1.5	3.2
Free cash flow (eps)	na	na	na	1.0	2.7
DPS (eps)	0.0	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0

* Significant Items - Tranche 2 Performance shares treated as a non-cash item on the P&L to account for the Balance Sheet entry

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Industrials
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RATING

BUY – anticipated stock return is greater than 10%
 SELL – anticipated stock return is less than -10%
 HOLD – anticipated stock return is between -10% and +10%
 SPECULATIVE – High risk with stock price likely to fluctuate by 50% or more

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