

## Animoca Brands Corporation (AB1)

### RECOMMENDATIONS

Rating	<b>BUY ▲</b>
Risk	High
Price Target	<b>\$0.45</b>
Share Price	\$0.17

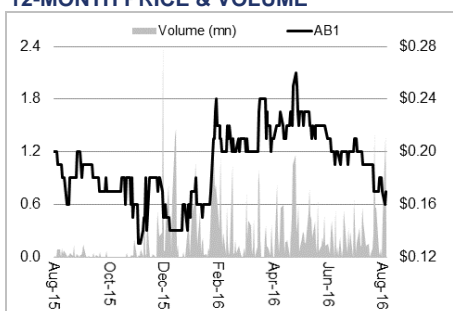
### SNAPSHOT

Monthly Turnover	\$1.2mn
Market Cap	\$31mn
Shares Issued	191.0mn
52-Week High	\$0.27
52-Week Low	\$0.13
Sector	Information Technology

### BUSINESS DESCRIPTION

Animoca Brands Corporation Limited is a pure developer & publisher of mobile games.

### 12-MONTH PRICE & VOLUME



### RESEARCH ANALYST

**Nick Caley**

+ 613 9602 9283

[ncaley@baillieuholst.com.au](mailto:ncaley@baillieuholst.com.au)

**Nicolas Burgess, CFA**

+ 613 9602 9379

[nburgess@baillieuholst.com.au](mailto:nburgess@baillieuholst.com.au)

**Josh Kannourakis**

+ 613 9602 9265

[jkannourakis@baillieuholst.com.au](mailto:jkannourakis@baillieuholst.com.au)

### Disclosure

The author owns no shares in AB1.

### COMPANY REPORT

#### Smile and wave

- New agreement:** AB1 has signed a new licensing agreement with Dreamworks Animation (Dreamworks) to develop character based e-books for Asian markets. Dreamworks is a US based company (one of the founders was Steven Spielberg) which produces animated films and TV. It has a well-established list of franchise characters and AB1 has been licensed to create e-books around five of its existing franchises: 1) How to Train Your Dragon; 2) Madagascar; 3) Kung Fu Panda; 4) The Croods; and 5) Trolls. The licensing agreement is non-exclusive which is typical of other like deals in the industry such as AB1's existing relationship with Mattel.
- Upside for AB1:** Including Mattel, Dreamworks and its game portfolios, AB1 now has access to 20 well recognised global character brands. AB1 intends to launch the e-books on both the Apple IOS and Google Android platforms. Terms of the deal between AB1 and Dreamworks are confidential although typical terms in the industry are to pay 30% of revenue to the platform providers. Google and Apple have recently announced a 50% reduction in this fee subject to minimum volume milestones being attained. A further 30% royalty is paid to the licensor based on net revenues after platform fees. AB1 intends to launch the Dreamworks e-books under a monthly subscription model although there might be some early freemium element. The launch of Dreamworks based e-books has been scheduled for 1H17.
- Highly successful franchises:** Whilst we would have liked to see the Dreamworks/AB1 portfolio contain Shrek, the titles offered have been very successful. Box Office Mojo cites global box office revenue as: 1) How to Train Your Dragon – US\$395m (two films); 2) Madagascar – US\$673m (four films); and Kung Fu Panda – US\$524m (three films).
- Changes to forecasts:** We have lowered FY16 forecasts by 10% (from a low base) to provide for additional product development costs for Dreamworks e-books which we also carry in 1H17. We have increased FY17 and FY18 forecasts by 3% and 9% respectively based upon additional e-book subscribers – we acknowledge our modelling will remain more of a guesstimate until we see the performance of the Mattel e-book product due to launch later this month.
- Investment view:** BUY call retained with revised DCF valuation of A\$0.43 (prev. A\$0.40) and price target of A\$0.45 (prev. A\$0.40). Although early in development, AB1 continues to provide one of the few listed entry points to the boom in casual gaming. We view FY16 as very much a year of development for AB1 in which a host of deals have been struck with a number of major players in both gaming and entertainment space (see page 3 of this note). We expect revenue to build strongly from FY17 as these deals are executed and mature. We view the addition of quasi-recurring revenue through a successful e-book launch as a major re-rating point. Further upside exists from further acquisitions such the recent TicBits deal.

### INVESTMENT SUMMARY

Year End: 31 December		2014 (A)	2015 (A)	2016 (E)	2017 (E)	2018 (E)
Revenue	\$mn	1	8	10	21	32
EBITDA	\$mn	-6.4	-4.0	-2.2	3.5	7.0
EBIT	\$mn	-6.4	-4.0	-2.2	3.5	7.0
Reported Profit	\$mn	-4.5	-2.9	-1.8	3.7	7.0
Adjusted Profit	\$mn	-4.5	-2.9	-1.8	3.7	7.0
EPS (Reported)	¢	-5.8	-2.3	-1.0	1.8	3.4
EPS (Adjusted)	¢	-5.8	-2.3	-1.0	1.8	3.4
EPS Growth	%	N/A	N/A	N/A	N/A	91.3
PER (Reported)	x	N/A	N/A	N/A	9.2	4.8
PER (Adjusted)	x	N/A	N/A	N/A	9.2	4.8
Dividend	¢	0.0	0.0	0.0	0.0	0.0
Yield	%	0.0	0.0	0.0	0.0	0.0
Franking	%	0	0	0	0	0

## Financial summary

<b>Animoca Brands Corporation</b>		<b>Rating:</b>	<b>BUY</b>
<b>Analyst:</b>	Nick Caley	<b>Price Target:</b>	\$0.45
<b>Date:</b>	09-August-2016	<b>Valuation:</b>	\$0.43
<b>Share Price (\$A):</b>	\$0.17	<b>Upside/(Downside):</b>	173%
<b>Year End:</b>	31 December	<b>Risk:</b>	High

<b>PROFIT &amp; LOSS (A\$m)</b>	<b>FY14A</b>	<b>FY15A</b>	<b>FY16E</b>	<b>FY17E</b>	<b>FY18E</b>	<b>EARNINGS</b>	<b>FY14A</b>	<b>FY15A</b>	<b>FY16E</b>	<b>FY17E</b>	<b>FY18E</b>
Sales Revenue	0.9	7.5	9.9	21.3	32.0	EPS - Reported	-5.8	-2.3	-1.0	1.8	3.4
Cost Of Goods Sold	0.5	2.6	3.5	7.0	10.6	EPS - Normalised	-5.8	-2.3	-1.0	1.8	3.4
<b>Gross Profit</b>	<b>0.4</b>	<b>4.9</b>	<b>6.4</b>	<b>14.3</b>	<b>21.4</b>	EPS Growth (%)	n/a	n/a	n/a	n/a	91%
Other Income	0.0	0.0	0.0	0.0	0.0	DPS	0.0	0.0	0.0	0.0	0.0
Total Net Revenue	0.4	4.9	6.4	14.3	21.4	Franking (%)	0.0	0.0	0.0	0.0	0.0
<b>Total Cash Expenses</b>	<b>6.7</b>	<b>8.9</b>	<b>8.6</b>	<b>10.8</b>	<b>14.4</b>	Payout Ratio (%)	0%	0%	0%	0%	0%
<b>EBITDA</b>	<b>-6.4</b>	<b>-4.0</b>	<b>-2.2</b>	<b>3.5</b>	<b>7.0</b>						
Depreciation & Amortisation	0.0	0.0	0.0	0.0	0.0	<b>VALUATION</b>	<b>FY14A</b>	<b>FY15A</b>	<b>FY16E</b>	<b>FY17E</b>	<b>FY18E</b>
<b>EBIT</b>	<b>-6.4</b>	<b>-4.0</b>	<b>-2.2</b>	<b>3.5</b>	<b>7.0</b>	P/E (x)	-2.8	-7.1	-17.4	9.2	4.8
<b>Net Interest Expense</b>	<b>0.0</b>	<b>0.0</b>	<b>-0.4</b>	<b>-0.4</b>	<b>-0.4</b>	EV/EBIT (x)	n/a	-6.1	-13.3	7.4	2.9
Fair Value Gain On Perf.Shares	1.9	1.0	0.0	0.0	0.0	EV/EBITDA (x)	-2.1	-6.1	-13.3	7.4	2.9
<b>Net Profit Before Tax</b>	<b>-4.5</b>	<b>-2.9</b>	<b>-1.9</b>	<b>3.9</b>	<b>7.4</b>	Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Income Tax Expense	0.0	0.0	-0.1	0.2	0.4	Price/Book (x)	-8.0	15.7	4.5	3.0	1.9
<b>NPAT - Reported</b>	<b>-4.5</b>	<b>-2.9</b>	<b>-1.8</b>	<b>3.7</b>	<b>7.0</b>	Price/NTA (x)	-8.0	15.7	5.8	3.6	2.3
						Price/Cash/Flow per Share (x)	-13.5	-4.9	-11.0	8.1	4.8

<b>BALANCE SHEET (A\$m)</b>	<b>FY14A</b>	<b>FY15A</b>	<b>FY16E</b>	<b>FY17E</b>	<b>FY18E</b>	<b>GROWTH</b>	<b>FY14A</b>	<b>FY15A</b>	<b>FY16E</b>	<b>FY17E</b>	<b>FY18E</b>
<b>Current Assets</b>						Sales Revenue Growth (% pcp)	n/a	708%	31%	116%	50%
Cash	2.3	4.9	7.2	11.2	16.4	Op. Expense Growth (% pcp)	n/a	32%	-3%	26%	33%
Inventories	0.0	0.0	0.0	0.0	0.0	EBITDA Growth (% pcp)	n/a	n/a	n/a	n/a	103%
Receivables	0.0	2.4	1.8	2.5	3.4	NPBT Growth (% pcp)	n/a	n/a	n/a	n/a	91%
Other	0.0	0.2	0.2	0.2	0.2	NPAT Growth (% pcp)	n/a	n/a	n/a	n/a	91%
<b>Total Current Assets</b>	<b>2.4</b>	<b>7.6</b>	<b>9.3</b>	<b>14.0</b>	<b>20.0</b>						
<b>Non Current Assets</b>						<b>MARGINS &amp; RETURNS</b>	<b>FY14A</b>	<b>FY15A</b>	<b>FY16E</b>	<b>FY17E</b>	<b>FY18E</b>
Property, Plant & Equipment	0.0	0.0	0.7	0.9	1.3	Gross Profit Margin %	42%	65%	65%	67%	67%
Intangibles	0.0	0.0	1.7	1.7	3.2	EBITDA Margin %	-681%	-52%	-22%	16%	22%
<b>Total Non Current Assets</b>	<b>0.0</b>	<b>0.0</b>	<b>2.4</b>	<b>2.6</b>	<b>4.5</b>	EBIT Margin %	-681%	-52%	-22%	16%	22%
<b>Total Assets</b>	<b>2.4</b>	<b>7.6</b>	<b>11.7</b>	<b>16.6</b>	<b>24.4</b>	NPBT Margin %	201%	13%	0%	0%	0%
<b>Current Liabilities</b>						ROIC %	n/a	167%	-29%	51%	56%
Payables	1.6	2.9	1.2	2.5	3.3	ROE %	n/a	167%	-27%	42%	48%
Loans & Borrowings	0.0	0.0	0.0	0.0	0.0	ROA %	n/a	-108%	-17%	27%	34%
Other	0.0	2.9	2.9	2.9	2.9	Effective Tax Rate %	0%	0%	5%	5%	5%
<b>Total Current Liabilities</b>	<b>1.6</b>	<b>5.8</b>	<b>4.2</b>	<b>5.4</b>	<b>6.3</b>						
<b>Non Current Liabilities</b>						<b>GEARING</b>	<b>FY14A</b>	<b>FY15A</b>	<b>FY16E</b>	<b>FY17E</b>	<b>FY18E</b>
Loans & Borrowings	0.0	0.0	0.0	0.0	0.0	Net Debt (A\$m)	-2	-2	-4	-8	-13
Other	3.2	0.0	0.0	0.0	0.0	Net Debt/Equity (%)	95%	-113%	-57%	-74%	-74%
<b>Total Non Current Liabilities</b>	<b>3.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>						
<b>Total Liabilities</b>	<b>4.8</b>	<b>5.8</b>	<b>4.2</b>	<b>5.4</b>	<b>6.3</b>	<b>SEGMENTAL (A\$m)</b>	<b>FY14A</b>	<b>FY15A</b>	<b>FY16E</b>	<b>FY17E</b>	<b>FY18E</b>
<b>Equity</b>						<b>Revenue</b>					
Contributed Capital	6.9	16.2	23.7	23.7	23.7	Gaming	3.0	7.5	9.4	13.9	17.9
Reserves	-4.8	-3.8	-3.8	-3.8	-3.8	eBooks	0.0	0.0	0.5	7.4	14.1
Retained Earnings	-4.5	-10.6	-12.4	-8.7	-1.7	<b>Total Revenue</b>	<b>3.0</b>	<b>7.5</b>	<b>9.9</b>	<b>21.3</b>	<b>32.0</b>
<b>Total Equity</b>	<b>-2.4</b>	<b>1.8</b>	<b>7.5</b>	<b>11.2</b>	<b>18.2</b>						

<b>CASH FLOW (A\$m)</b>	<b>FY14A</b>	<b>FY15A</b>	<b>FY16E</b>	<b>FY17E</b>	<b>FY18E</b>	<b>Revenue</b>	<b>FY14A</b>	<b>FY15A</b>	<b>FY16E</b>	<b>FY17E</b>	<b>FY18E</b>
<b>Cash at Start</b>	<b>0.0</b>	<b>2.3</b>	<b>4.9</b>	<b>7.2</b>	<b>11.2</b>	<b>Gaming</b>					
Cash Flow from Ops	-0.9	-4.3	-2.8	4.2	7.0	MAU (000)	6,200	8,600	13,082	18,836	24,721
Cash Flow From Investing	0.4	-0.2	-4.2	-0.2	-1.8	Average Revenue/Download Acps	n/a	\$0.12	\$0.10	\$0.13	\$0.13
Cash Flow From Financing	2.8	6.7	7.5	0.0	0.0	<b>e-books</b>					
Net Cash Flow	2.3	2.2	0.5	4.0	5.2	Average Users	n/a	n/a	7,500	57,750	109,740
Other Adjustments	0.0	0.4	1.8	0.0	0.0	Average Price Per User (A\$)	n/a	n/a	\$10.74	\$10.74	\$10.74
<b>Cash At End</b>	<b>2.3</b>	<b>4.9</b>	<b>7.2</b>	<b>11.2</b>	<b>16.4</b>						

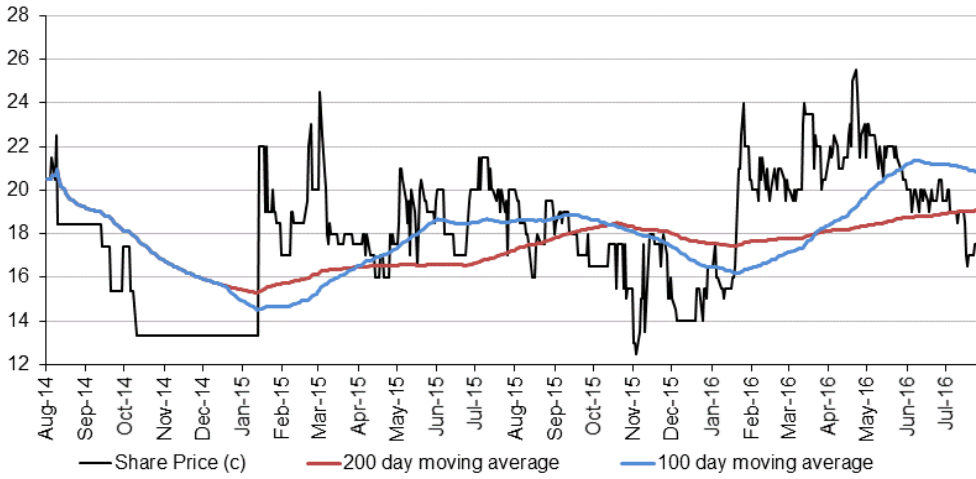
**FIG.1: SUMMARY OF AB1 DEALS TO DATE**

Date Announced	Counterparty	Nature of Arrangement	Additional commentary
May-14	Nippon Animation	Licensing agreement	Use of character Chibi Maruko-chan and related characters.
May-14	Ryo Taniguchi	Licensing agreement	Use of graphic designs in connection with the development of social gaming.
Aug-11	Paws Inc	Licensing agreement	Use of character Garfield and related characters.
Oct-12	Tsuburaya Productions	Licensing agreement	Use of Ultraman and related characters in the movie Mega Monster Battle Ultra Galaxy.
Aug-13	Fujio Pro	Licensing agreement	Use of Doraemon and related characters.
Aug-13	Neocyon Inc	Publishing agreement	AB1 to publish Ragnarok branded games. In May 2015 AB1 published Cinderella Farm.
Nov-13	Dakota Interactive	Publishing agreement	AB1 to publish mobile games under the Hayride brand.
May-14	Beijing Capital & BLUELab Co	Publishing agreement	AB1 to publish mobile game titles under the Bluemoon brand.
Mar-15	Paris Hilton Entertainment	Licensing agreement	AB1 has acquired the right use the name, likeness of Paris Hilton. AB1 has launched casual games using Paris Hilton as a character under the Star Girl brand. Star Girl is owned by Complete Star with AB1 acting as publisher. In August 2015 AB1 launched the sale of Paris Hilton branded merchandise within Star Girl.
Apr-15	Gravity Co	Publishing agreement	AB1 has published Ragnarok Kingdoms:King of Horns on behalf of Gravity.
May-15	Mattel Inc	Licensing agreement	Agreement for AB1 to develop and distribute mobile games using Mattel's portfolio of brands. Both AB1 and Mattel jointly undertake marketing and promotion. First game title launched in October 2015 - Ever After High™ Tea Party Dash. Multiple Mattel branded games launched from December 2015.
May-15	Ourpalm Co (China)	Distribution agreement	Ourpalm agrees to distribute AB1's Doraemon Gadget Rush in China. Ourpalm takes 11.1% stake in AB1 for A\$3.1m with option to invest further US\$5m subject to AB1's share price. Framework publishing agreement between AB1 and Ourpalm signed with revenue sharing.
Jun-15	Google	Distribution agreement	15 AB1 game titles to feature on Google's "Designed for Families" section of Google Play store.
Sep-15	Tencent	Distribution agreement	AB1 to distribute Tencent's Armies of Dragons game in Hong Kong, Indonesia, Malaysia, Singapore and Thailand. AB1 and Tencent share revenue from in-app purchases.
Jan-16	Lionsgate/Splash Entertainment	Licensing agreement	AB1 to develop and distribute two mobile games based on film "Norm of the North".
Feb-16	Xiaomi	Distribution agreement	Xiaomi granted exclusive rights to publish AB1's Garfield Chef title in China.
Ongoing	Apple/Google/Amazon	Standard agreements	Agreement to publish and display for sale apps on each platform.
Mar-16	Tencent	Distribution agreement	Agreement for Tencent to publish AB1's Groove Planet game in China.
Jul-16	TicBits	Acquisition	AB1 acquires Finland based game developer TicBits.
Aug-16	Dreamworks Animation	Licensing agreement	AB1 to manufacture and distribute 5 franchise titles on behalf of Dreamworks Animation in e-book form.

Source: AB1, Baillieu Holst

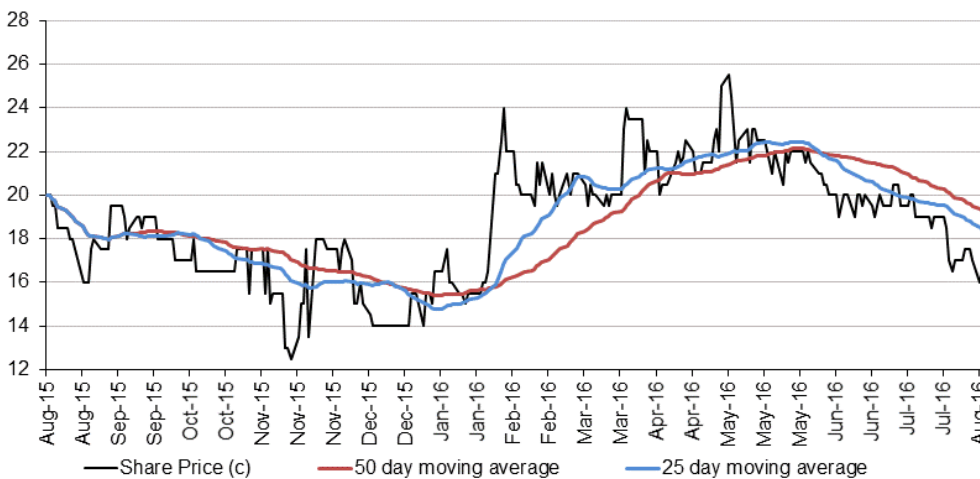
## Appendix

**FIG.1: LONG TERM MOMENTUM INDICATORS**



Source: Iress

**FIG.2: SHORT TERM MOMENTUM INDICATORS**



Source: Iress

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**Hold:** The stock's total return is expected to trade within a range of  $\pm 10-15$  percent from the current share price over the next 12 months.

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**Baillieu Holst Analysts' stock ratings distribution as of June 30, 2016:**

**Buy:** 63%

**Hold:** 35%

**Sell:** 2%

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**Baillieu Holst Ltd**

ABN 74 006 519 393

Australian Financial Service Licence No. 245421

Participant of ASX Group

Participant of NSX Ltd

**www.baillieuholst.com.au**

**Melbourne (Head Office)**

**Address** Level 26, 360 Collins Street

Melbourne, VIC 3000 Australia

**Postal** PO Box 48, Collins Street West

Melbourne, VIC 8007 Australia

**Phone** +61 3 9602 9222

**Facsimile** +61 3 9602 2350

**Email** melbourne@baillieuholst.com.au

**Adelaide Office**

**Address** 1, 341 Payneham Road

Marden, SA 5070 Australia

**Phone** +61 8 7074 8400

**Facsimile** +61 8 8362 3942

**Email** adelaide@baillieuholst.com.au

**Bendigo Office**

**Address** Cnr Bridge & Baxter Streets

Bendigo, VIC 3550 Australia

**Postal** PO Box 40

North Bendigo VIC 3550 Australia

**Phone** +61 3 4433 3400

**Facsimile** +61 3 4433 3430

**Email** bendigo@baillieuholst.com.au

**Brisbane Office**

**Address** Level 18, 333 Ann Street

Brisbane, QLD 4000 Australia

**Phone** +61 7 3232 1110

**Email** brisbane@baillieuholst.com.au

**Geelong Office**

**Address** 16 Aberdeen Street

Geelong West Vic 3218

**Postal** PO Box 364

Geelong Vic 3220 Australia

**Phone** +61 3 5229 4637

**Facsimile** +61 3 4229 4142

**Email** geelong@baillieuholst.com.au

**Newcastle Office**

**Address** Level 1, 120 Darby Street

Cooks Hill, NSW 2300 Australia

**Postal** PO Box 111

The Junction, NSW 2291 Australia

**Phone** +61 2 4037 3500

**Facsimile** +61 2 4037 3511

**Email** newcastle@baillieuholst.com.au

**Perth Office**

**Address** Level 10, 191 St Georges Terrace

Perth WA 6000 Australia

**Postal** PO Box 7662, Cloisters Square

Perth, WA 6850 Australia

**Phone** +61 8 6141 9450

**Facsimile** +61 8 6141 9499

**Email** perth@baillieuholst.com.au

**Sydney Office**

**Address** Level 18, 1 Alfred Street

Sydney, NSW 2000 Australia

**Postal** PO Box R1797

Royal Exchange, NSW 1225 Australia

**Phone** +61 2 9250 8900

**Facsimile** +61 2 9247 4092

**Email** sydney@baillieuholst.com.au