

Takung Art

Growing the retail base

Q1 figures

Retail

22 May 2018

Price **US\$2.19**
Market cap **US\$25m**

Net cash (\$m) at 31 March 18 13.6
(non-restricted)
Shares in issue 11.3m
Free float 16.6%
Code TKAT
Primary exchange NYSE
Secondary exchange FRA

Share price performance



%	1m	3m	12m
Abs	7.4	(0.5)	(68.9)
Rel (local)	4.9	(1.7)	(72.9)
52-week high/low	US\$7.0	US\$2.0	

Business description

Based in Hong Kong, Takung Art Company provides a secure and easy way for art collectors and investors to acquire shared ownership in Asian and other fine art - including paintings, calligraphy, jewellery and precious gems - and participate in the booming international art market without fear of price manipulation and forgery.

Next events

HY figures Mid-August 2018

Analysts

Fiona Orford-Williams +44 (0)20 3077 5739
Alasdair Young +44 (0)20 3077 5700

media@edisongroup.com

[Edison profile page](#)

**Takung Art is a research client
of Edison Investment
Research Limited**

Takung Art's Q118 results show it is making progress at reorienting its user base more towards the retail market, which significantly increases its potential reach. There has also been some success in the quarter in increasing the average listing values of the items listed on the trading platform and in diversifying the offering, with five new pieces of sports memorabilia listed in the period. The FY17 reconstruction makes direct comparison with Q117 figures of limited use. The share price is yet to reflect the scale or quality of the potential opportunity.

Year end	Revenue (\$m)	PBT* (\$m)	EPS* (\$)	DPS (c)	P/E (x)	Yield (%)	EV/EBITDA (x)
12/16	19.1	9.5	0.66	0.00	3.3	N/A	1.2
12/17	12.9	(1.1)	(0.15)	0.00	N/A	N/A	N/A
12/18e**	18.9	1.2	0.08	0.00	28.4	N/A	7.0
12/19e**	23.3	4.4	0.29	0.00	7.5	N/A	2.5

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. **Revenues adjusted for change in accounting.

Driving up the quality

Takung has built a scalable tech platform that is also flexible enough to adapt to different categories of trading items. Short term, the group is offering reduced commission percentages to build the user base, while it is increasing the quality of the portfolios on offer. Management is also investing in additional people and property, with overhead recovery set to improve as the top line grows. The shift in emphasis has meant fewer portfolios being listed, but at higher average values. This included five paintings with an average listing value of \$562k, compared with the 40 paintings listed since inception at an average of \$486k. As at end March, the group had a total of 260 art listings, at an aggregate listing value of \$62.8m. Q118 listing fees at \$2.0m compared with Q417 at \$0.8m.

On track for FY18e

Our EBITDA forecast is unchanged from our [initiation note](#), but the adoption of new accounting principles alters the presentation of revenue. Commission rebates earned by traders and service agents were netted off against revenue, at an undisclosed level. These are now included as a cost of sales, at \$606k in Q118, resulting in a reduction of the gross profit margin from 94% to 77% (note historic numbers are not restated).

Valuation: Considerable potential upside

Valuation is complicated by the recent changes in the group's business model and lack of true peers. There are few quoted art market stocks with earnings forecasts, making the normal metrics unreliable. Valuations accorded to other art businesses and online retail/gaming and trading platforms suggest that Takung's shares could trade markedly higher. A DCF on our model (excluding newer ventures or identified opportunities) implies a lower value. The two methods average out at \$3.75. Continuing evidence of strong new listings and increased levels of platform trade should support our forecasts and provide catalysts for share price appreciation.

Exhibit 1: Financial summary

	\$'000s	2016	2017	2018e	2019e
31-December		GAAP	GAAP	GAAP	GAAP
INCOME STATEMENT					
Revenue		19,143	12,922	18,909	23,255
Cost of Sales		(1,129)	(1,247)	(4,349)	(5,349)
Gross Profit		18,014	11,675	14,560	17,906
EBITDA		9,779	(338)	1,713	4,825
Operating Profit (before amort. and except.)		9,255	(1,081)	713	3,825
Share-based payments		(813)	(751)	(250)	(250)
Reported operating profit		8,443	(1,832)	463	3,575
Net Interest		(202)	(601)	(200)	(150)
Other income		416	577	637	705
Joint ventures & associates (post tax)		0	0	0	0
Exceptionals		0	0	0	0
Profit Before Tax (norm)		9,469	(1,104)	1,150	4,380
Profit Before Tax (reported)		8,140	(719)	900	4,130
Reported tax		(1,769)	(343)	(225)	(1,032)
Profit After Tax (norm)		7,411	(1,631)	863	3,285
Profit After Tax (reported)		6,371	(1,062)	675	3,097
Minority interests		0	0	0	0
FX translation adjustment		(1,082)	763	993	0
Discontinued operations		0	0	0	0
Net income (normalised)		6,329	(868)	1,856	3,285
Net income (reported)		5,289	(298)	1,668	3,097
Average Number of Shares Outstanding (m)		10,641	11,078	11,206	11,223
EPS - normalised (\$)		0.70	(0.15)	0.08	0.29
EPS - diluted normalised (\$)		0.66	(0.15)	0.08	0.29
EPS - basic reported (\$)		0.60	(0.10)	0.06	0.28
Dividend per share (c)		0.00	0.00	0.00	0.00
Revenue growth (%)		69	(32)	46	23
Gross Margin (%)		94	90	77	77
EBITDA Margin (%)		51	(3)	9	21
Normalised Operating Margin		48	(8)	4	16
BALANCE SHEET					
Fixed Assets		2,696	3,262	3,262	3,262
Intangible Assets		21	22	22	22
Tangible Assets		2,065	2,191	2,191	2,191
Investments & other		610	1,049	1,049	1,049
Current Assets		45,540	49,567	54,090	60,339
Restricted cash		21,743	25,274	27,801	30,581
Debtors		3,059	2,292	3,072	4,541
Cash & cash equivalents		13,395	11,867	12,642	13,869
Loan Receivables/Other		7,342	10,134	10,575	11,348
Current Liabilities		30,603	34,911	37,581	40,361
Creditors		22,712	26,906	29,575	32,355
Tax and social security		550	313	313	313
Short term borrowings		6,309	7,209	7,209	7,209
Other		1,032	484	484	484
Long Term Liabilities		0	0	0	0
Long term borrowings		0	0	0	0
Other long term liabilities		0	0	0	0
Net Assets		17,633	17,918	19,772	23,241
Minority interests		0	0	0	0
Shareholders' equity		17,633	17,918	19,772	23,241
CASH FLOW					
Op Cash Flow before WC and tax		9,779	(338)	1,713	4,825
Working capital		(3,591)	(4,001)	(1,142)	(2,121)
Exceptional & other		1,896	4,381	1,444	705
Tax		(3,025)	(1,830)	(1,032)	(1,032)
Net operating cash flow		5,059	(1,789)	983	2,377
Capex		(1,412)	(814)	(1,000)	(1,000)
Loan payables/ loan receivables		(66)	0	0	0
Net interest		(435)	(526)	(200)	(150)
Equity financing		0	0	0	0
Dividends		0	0	0	0
Other		1,032	1,000	0	0
Net Cash Flow		4,178	(2,129)	(217)	1,227
Opening net debt/(cash)		(10,769)	(13,461)	(12,492)	(11,649)
FX		(1,552)	1,360	0	0
Other non-cash movements		66	(199)	(625)	0
Closing net debt/(cash)		(13,461)	(12,492)	(11,649)	(12,876)

Source: Company accounts, Edison Investment Research

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Pty Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Copyright 2018 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Takung Art and prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Investment Research Pty Ltd (Corporate Authorised Representative (1252501) of Myonlineadvisers Pty Ltd (AFSL: 427484)) and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2018. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.