

# Takung Art

## Pausing new listings

Q2 results

Retail

16 August 2018

**Price** **US\$1.00**  
**Market cap** **US\$11m**

Net cash (\$m) at 30 June 18 10.2  
 Shares in issue 11.2m  
 Free float 16.6%  
 Code TKAT  
 Primary exchange NYSE  
 Secondary exchange FRA

### Share price performance



### 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

Q3 results Mid-November 2018

### Analysts

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Takung's H118 results show good progress in the number of new listings, with accompanying fees up 137% on the comparative period. Patterns in commission revenue reflect the previously announced shift in emphasis towards the retail market. In light of the disruption to online transactions in China as a result of contagion from problems in peer-to-peer lending, management has decided to pause new listings for Q3 and possibly beyond, with some associated internal restructuring. We have reduced our FY18 and FY19 forecasts accordingly. The group had \$10.2m of net cash at the period end, giving it plenty of resource to ride out short-term volatility.

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	2.0	N/A	0.3
12/17	12.9	(1.1)	(0.15)	0.00	N/A	N/A	N/A
12/18e**	12.5	(2.8)	(0.18)	0.00	N/A	N/A	N/A
12/19e**	13.5	(1.3)	(0.09)	0.00	N/A	N/A	N/A

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

## Reining in

The group has a strong pipeline of potential new listings, but is reluctant to launch them into such an uncertain market for both primary and secondary trading. Customer deposits, a good lead indicator for trading activity on the platform, have been drifting in recent weeks as confidence in online transactions in China and investor sentiment has deteriorated. Pulling the short-term listing programme is a sensible precaution and should help support trading in the existing portfolios. Setting listing fee revenue to zero for Q318 and with a modest Q418 contribution, our FY18 revenue forecast reduces from \$18.9m to \$12.5m and FY19 from \$23.3m to \$13.5m. This moves the group from a forecast profit to a loss for both years. With cash of \$10.2m at the half year and a programme to reduce general and administrative costs by 10%, our modelling indicates comfortable levels of funding to see the group through.

## Growing e-commerce ambitions

Takung's main business activity relates to its platform for trading fractionalised ownerships (see [Initiation note](#)). More recently (Q417) it has launched a more conventional e-commerce platform focusing on Chinese art and collectibles. The response has been very encouraging, with more than 13,000 registered users and over 5,000 listings of artworks. Takung is now evaluating the feasibility for a launch in the US.

## Valuation: Reflecting uncertainty

The move into loss and the degree of uncertainty over the timing of any resumption of listing activity makes valuation very subjective. On an EV/revenue basis other art businesses and online retail/gaming and trading platforms trade on 3.5x, suggesting that Takung's shares could trade markedly higher. A DCF on our revised numbers indicates a value of \$1.90 (from \$3.66 before), still well ahead of the current level.

**Exhibit 1: Financial summary**

	\$'000s	2016	2017	2018e	2019e
31-December		GAAP	GAAP	GAAP	GAAP
<b>INCOME STATEMENT</b>					
Revenue		19,143	12,922	12,500	13,500
Cost of Sales		(1,129)	(1,247)	(3,750)	(4,050)
Gross Profit		18,014	11,675	8,750	9,450
EBITDA		9,779	(338)	(1,974)	(558)
Operating Profit (before amort. and except.)		9,255	(1,081)	(2,974)	(1,558)
Share-based payments		(813)	(751)	(250)	(250)
Reported operating profit		8,443	(1,832)	(3,224)	(1,808)
Net Interest		(202)	(601)	(200)	(150)
Other income		416	577	421	409
Joint ventures & associates (post tax)		0	0	0	0
Exceptionals		0	0	0	0
Profit Before Tax (norm)		9,469	(1,104)	(2,753)	(1,299)
Profit Before Tax (reported)		8,140	(719)	(3,003)	(1,549)
Reported tax		(1,769)	(343)	1,208	387
Profit After Tax (norm)		7,411	(1,631)	(2,066)	(974)
Profit After Tax (reported)		6,371	(1,062)	(1,795)	(1,162)
Minority interests		0	0	0	0
FX translation adjustment		(1,082)	763	(1,829)	0
Discontinued operations		0	0	0	0
Net income (normalised)		6,329	(868)	(3,895)	(974)
Net income (reported)		5,289	(298)	(3,624)	(1,162)
Average Number of Shares Outstanding (m)		10,641	11,078	11,206	11,223
EPS - normalised (c)		69.64	(14.72)	(18.44)	(8.68)
EPS - normalised fully diluted (c)		65.53	(14.72)	(18.41)	(8.68)
EPS - basic reported (\$)		59.87	(9.58)	(32.34)	(10.35)
Dividend per share (c)		0.00	0.00	0.00	0.00
Revenue growth (%)		69	(32)	(3)	8
Gross Margin (%)		94	90	70	70
EBITDA Margin (%)		51	(3)	(16)	(4)
Normalised Operating Margin		48	(8)	(24)	(12)
<b>BALANCE SHEET</b>					
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	42,666	43,831
Restricted cash		21,743	25,274	24,448	26,403
Debtors		3,059	2,292	2,217	2,394
Cash & cash equivalents		13,395	11,867	6,345	5,182
Loan Receivables/Other		7,342	10,134	9,656	9,852
Current Liabilities		30,603	34,911	34,037	35,993
Creditors		22,712	26,906	26,032	27,987
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	11,891	11,101
Minority interests		0	0	0	0
Shareholders' equity		17,633	17,918	11,891	11,101
<b>CASH FLOW</b>					
Op Cash Flow before WC and tax		9,779	(338)	(1,974)	(558)
Working capital		(3,591)	(4,001)	(168)	(252)
Exceptional & other		1,896	4,381	252	409
Tax		(3,025)	(1,830)	387	387
Net operating cash flow		5,059	(1,789)	(1,503)	(13)
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)	(2,703)	(1,163)
Opening net debt/(cash)		(10,769)	(13,461)	(12,492)	(8,174)
FX		(1,552)	1,360	(990)	0
Other non-cash movements		66	(199)	(625)	0
Closing net debt/(cash)		(13,461)	(12,492)	(8,174)	(7,011)

Source: Company accounts, Edison Investment Research

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