

Company Analysis: Main Event Entertainment Group Limited 9M 2022/23

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- Recommendation: **UNDERWEIGHT**
 - Target Price: **\$10.68**
 - Current Price: **\$15.95**
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- Shares Outstanding: 300,005,000
 - Financial Year End: October 31

ABOUT THE COMPANY

Main Event Entertainment Group Limited (MEEG) is a Jamaican company specializing in marketing, event planning, promotion, and management. It became publicly listed on the JSE Junior Market in February 2017. MEEG

MEEG offers a wide range of related services, including equipment rental, graphic design, online marketing, project marketing, and sound and video production. Their primary focus is on comprehensive event coordination, covering everything from initial concept design and planning to the complete execution of events.

The company faced operational disruptions due to the COVID-19 pandemic in 2020 and 2021. However, as global and domestic containment measures have been lifted, MEEG has experienced an increase in both revenue and net profit. Now that MEEG is back in the entertainment industry, benefiting from the pent-up demand among patrons, they are preparing to relaunch M-academy, which will provide on-the-job training for their staff members.

FINANCIAL PERFORMANCE SUMMARY

J\$'000	FY 2021	FY 2022	9M 2022	9M 2023
Revenue	758,393	1,549,003	1,094,063	1,586,931
Operating Profit	32,854	178,612	127,439	251,985
Net Profit	16,138	151,249	103,941	215,687
Total Assets	791,255	1,094,673	987,245	1,248,522
ROAA	2.0%	17.7%	12.03%*	23.53%*
Total Equity	549,748	670,997	653,689	856,684
ROAE	3.0%	27.4%	18.54%^	34.83%^
Total Liabilities	241,507	423,676	333,556	391,838

Source: MEEG Financial Statements

(*) TTM ROAA

(^*) TTM ROAE

Dividend Policy

Upon listing on the Junior Market in 2017, the Board agreed to a dividend policy of no less than 25% of net profit. However, since listing, the company has only made dividend payments in 3 financial years at an average payout ratio of 19.16%, excluding FY 2019/20, when the company paid dividends despite making a net loss.

Outlook

We don't expect great returns from purchasing the stock right now, due to it trading well above our target price. However, the outlook for the entertainment industry is generally positive and MEEG is anticipated to benefit fundamentally from the ongoing resurgence of the entertainment sector, propelled by relatively inelastic demand for their products and services and their large share of the industry. To continue growing the company must be responsive to new trends and challenges as they arise.

Projections and Valuation

We used a free cash flow to firm (FCFF) model to determine the value for the stock, with a **14.70%** cost of equity and a weighted average cost of capital (WACC) of **15.70%**. We obtained a consensus target price of **\$10.68** which represents a significant downside of 49.34% relative to its current price.

Risks to Price Target

Our target price is below the current trading price, but there are upside risks to our projections, heavily tending towards the resurgence of the local entertainment industry. However, the lack of sector and geographic diversity, the inflationary climate and the recent reduction in Jamaica's growth forecast by the IMF pose stronger downside risks to our projections.

NINE MONTHS ENDED JULY 31, 2023

The complete reopening of the entertainment and tourism sectors has had a positive impact on MEEG's year-to-date (YTD) operations. In the 9-month period ending in July 2023, their revenue increased significantly by 45.05% to reach \$1.59 billion compared to July 2022. Inflationary pressures led to a 28.29% year-over-year (YOY) increase in direct expenses, totalling \$747.83 million. Consequently, the gross profit saw a substantial rise of 64.16%, amounting to \$839.10 million during the 9-month period, and the gross profit margin improved from 46.72% to 52.88%.

Total expenses for the reporting period nearly doubled from \$383.97 million in 2022 to \$600.78 million in 2023. This increase of \$216.82 million was primarily due to a 74.69% rise in administrative and general expenses due to increased activities and related costs. Despite remaining elevated, the operating efficiency ratio improved during the reporting period, moving from 75.08% to 70.45%, as income growth outpaced the growth in total expenses. As a result, operating profit almost doubled, increasing from \$127.44 million in July 2022 to \$251.99 million in July 2023, and the operating profit margin reached 15.88% for the 9-month period, showing a 423-basis point improvement.

Despite the high-interest rate environment, MEEG's finance costs decreased by 22.66% to \$7.40 million. Pre-tax profit more than doubled by the end of July 2023, reaching \$244.59 million, with the taxation margin remaining constant at 11.82%. Net profit surged to \$215.69 million, more than doubling the prior year's \$103.94 million, and the net profit margin saw a significant 409-basis point improvement, ending at 13.59%. Earnings per share (EPS) also improved from \$0.35 to \$0.72.

Looking at the balance sheet, the asset base expanded by 26.47% to \$1.25 billion as of July 31, 2023, primarily due to the addition of short-term deposits and a 70.96% increase in cash and cash equivalents, which offset the 15.53% decline in receivables and a 26.47% decrease in due from related parties. The trailing twelve-month (TTM) return on average assets (ROA) saw a significant improvement, rising from 12.03% to 23.53%, as TTM growth outpaced total assets.

Although share capital remained unchanged at \$103.65 million, higher net profit resulted in retained earnings increasing by 36.91% to \$753.03 million, raising total shareholders' equity to \$856.68 million. The 31.05% growth in equity contributed to the TTM return on average equity (ROE) increasing from 18.54% to 34.83%, as TTM growth exceeded total equity. The book value per share (BVPS) experienced a slight increase, going from \$2.18 to \$2.86.

During the reporting period, the company's total liabilities grew by 17.47%, reaching \$391.84 million by the end of July 2023. This growth was attributed to a 30.71% increase in total current liabilities, which offset the 23.93% decline in total non-current liabilities. The increase in current liabilities was driven by higher current portions of long-term loans and lease liabilities, taxation payable, and payables, which increased by 16.35%, 44.12%, 40.43%, and 31.27%, respectively. The company's liquidity improved slightly over the period, with the current ratio moving from 2.22x to 2.42x.

OUTLOOK

Relatively Inelastic Demand for the Orange Economy

The COVID-19 pandemic halted activities within the entertainment sector, which saw MEEG's margins dipping. However, the removal of the Disaster Risk Management Act (DRMS) has been met with pent up demand for local entertainment events, both corporate and private, by patrons both locally and internationally. Demand has cooled but it remains elevated, much like inflation, but price pressures are not anticipated to significantly put a dent in the company's performance due to the relative inelastic demand for the services and products offered to serve within the vibrant orange economy in Jamaica.

Increased Live Events and Concerts are Expected to Grow Revenue

Within the last year, Jamaica has welcomed international acts such as Chris Brown, Burna Boy, Ashanti and Rick Ross at live events held at various locations across the island. Jamaica is poised to continue hosting both local and international acts at similar live events, leading to a substantial increase in the revenue generated by MEEG, which is a premier event management group. While there is competition within the industry, MEEG is one of the largest players and therefore, anticipated to reap noticeable from these events.

INVESTMENTS POSITIVES

- MEEG has paid out relatively frequent dividend to shareholders, which can be an added return on the shareholders' investment.
- The company is trading below the sector's average price to earnings ratio, which may indicate that it is marginally undervalued and has the potential to growing further.
- The company is expected to benefit from the buoyant entertainment industry, which should see profits and subsequently, EPS, growing year-over-year.

INVESTMENTS NEGATIVES

- There is little product/sector diversity, so in the event of a natural disaster or a disease outbreak, similar to the COVID-19 pandemic, the company's performance will be negatively impacted, and EPS will fall.
- There are liquidity concerns if the purchases of new and/or additional equipment are not properly monitored, due to the high costs attached.
- The efficiency ratio remains high, and the current inflationary environment presents upside risks, which can pull down the company's net profit.



CONCLUSION

MEEG encountered operational challenges in 2020 and 2021 because of the COVID-19 pandemic. However, since the restrictions related to COVID-19 have eased, the company's financial performance has notably improved. The entertainment industry is currently on an optimistic trajectory, and MEEG is expected to gain from this resurgence due to increased concerts, parties and social gatherings, the strong demand for their offerings and their significant market presence.

Nevertheless, in order to sustain their growth, MEEG must remain adaptable to emerging trends and difficulties by diversifying their products and expanding into new geographic markets.

We used a free cash flow to firm (FCFF) model to determine the value for the stock, with a 15.70% cost of equity and a weighted average cost of capital (WACC) of 14.70%. We obtained a consensus target price of \$10.68 which represents a significant downside of 49.34% relative to its current price.

While MEEG remains a fundamentally sound company, the downside risks to our projections outweigh the positives. The company is trading well above our target price, which has priced-in the reopening of the entertainment sector, but without growth initiatives this price trajectory is deemed unsustainable in the medium to long-term.

SOURCES

MEEG Website and Financial Statements, The Gleaner Company, Loop News Jamaica, The Jamaica Observer, PSOJ, Bloomberg, JSE

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- **MARKETWEIGHT** – Security is expected to provide similar returns compared to the market in general or at the same pace as comparable companies; neither strongly positive nor negative.
- **UNDERWEIGHT** – Security is deemed to be overvalued and is expected to underperform compared to the average market return and/or return of comparable securities in the same sector or industry.
- **ZEROWEIGHT** – This security is substantially distressed or at risk of a shock which may significantly impair its value.