



# IMAX China (1970 HK)

Exclusive provider of IMAX cinema equipment to China at 7.5x P/E



ASIAN  
CENTURY  
STOCKS

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# Summary

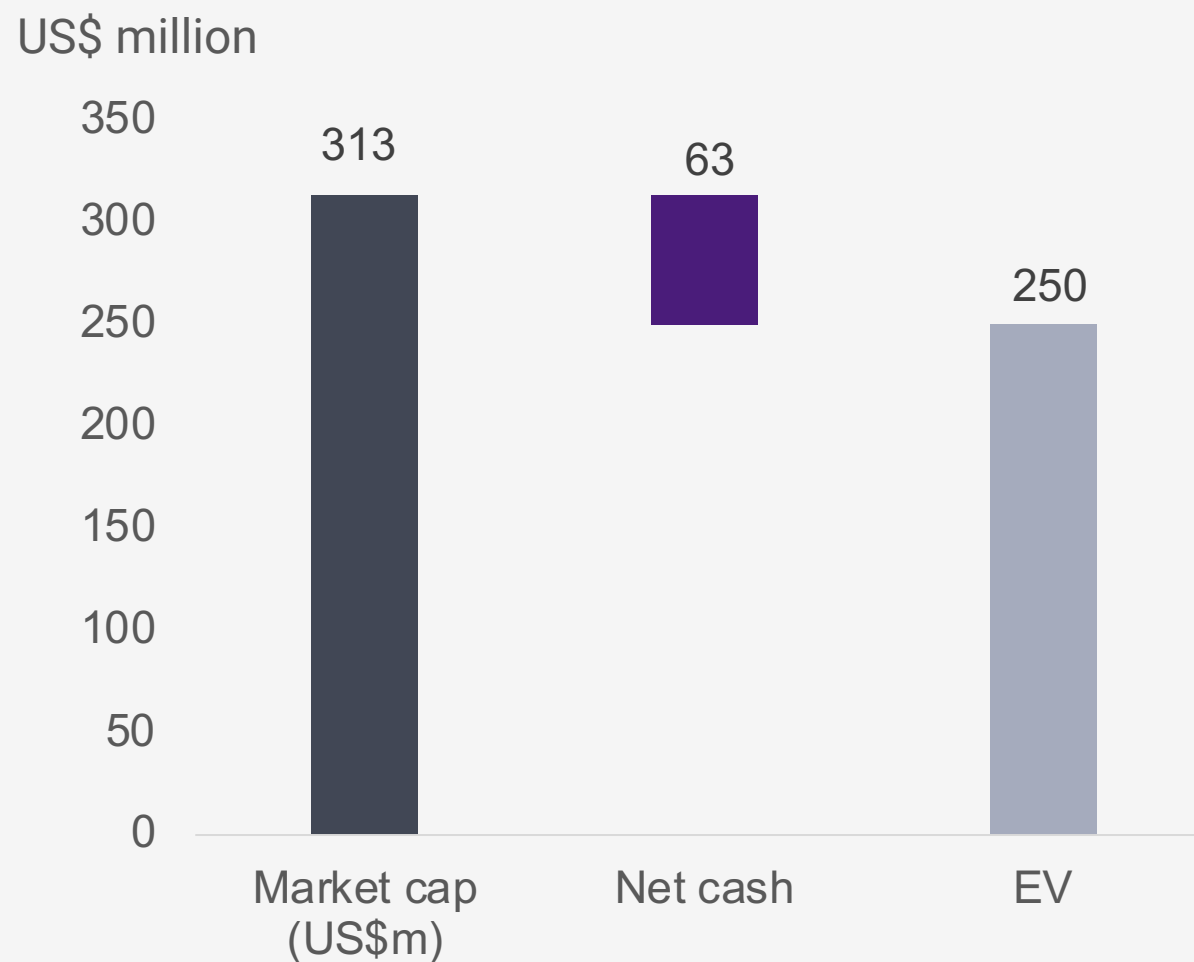


1. IMAX China (1970 HK) is the exclusive provider of IMAX cinema systems to the Greater Chinese market. It installs projectors, audio systems into theatres across China and helps maintain them under long-term contracts. It also helps studios convert movies into IMAX's proprietary format through its so-called DMR Technology.
2. What IMAX offers movie-goers is a far more immersive cinema experience. The screens are much larger, with a different aspect ratio, better resolution, steep seating arrangements and immersive sound. Consumers instinctively know that IMAX offers better experiences, though at higher ticket prices. For special movies such as Star Wars or Dune, they're willing to pay the extra money.
3. IMAX is a highly profitable entity, with operating margins in the mid-40s percent. That seems to suggest they have a "moat". Studios are willing to pay IMAX to get their movies converted since they don't want to miss out on IMAX studio revenues. And customers are willing to pay for IMAX since they know they'll get the best experience possible. Though IMAX charges quite a bit for their services, perhaps even too much.
4. The stock has traded down over time, as installation revenue hit a peak in 2017 and maintenance revenues failed to make up for the frantic pace of IMAX cinema build-outs back then. But today, over 70% over revenues are recurring, and IMAX China is on a better footing. Also, China's cinema industry suffered from the COVID-19 pandemic but is now in a clear recovery mode. Management guidance is positive that a recovery is within reach thanks to a stronger Hollywood movie slate and improved cinema visitation.
5. The stock trades around 7-8x P/E on a forward-looking basis. And that doesn't take into account the fact that IMAX China's net cash position represents roughly 20% of its market cap. On EV/EBIT, the multiple is around 5x.
6. The greatest risks are corporate governance-related. Parent company IMAX Corporation tried to buy out IMAX China at a bargain price, but luckily minority shareholders rejected the offer. IMAX's CEO Richard Gelfond has previously said that dividends from IMAX China are equivalent to "cash leakage", suggesting he does not respect minorities. If the parent wants to access the cash in IMAX China, it could also play around with transfer pricing. That said, I doubt minorities will accept another deal close to HK\$10/share.

# Capitalisation



- Share price: HK\$7.22
- Shares outstanding: 339 million
- Market cap: US\$313 million
- Net cash: US\$63 million
- Enterprise value: US\$250 million
  
- Average daily trading volume: US\$153,000



\* HK\$ = Hong Kong Dollar. HKD/USD = 7.82



# Business overview



- IMAX China is a cinema technology provider operating as a subsidiary of US-listed IMAX Corporation.
- The company has an exclusive license of the IMAX brand in the Greater China region.
- It two principal businesses:
  - **The theater business:** designing, procuring and providing digital theater systems at partner movie theaters as well as regular maintenance.
  - **The film business:** re-mastering of Hollywood and Chinese language films into the IMAX format, and then exhibiting these films across IMAX theaters within the reigon.
- The main draw of IMAX cinemas is the superior experience, with larger screens in better aspect ratios, better sound, steeper seating arrangements and higher-quality pictures.

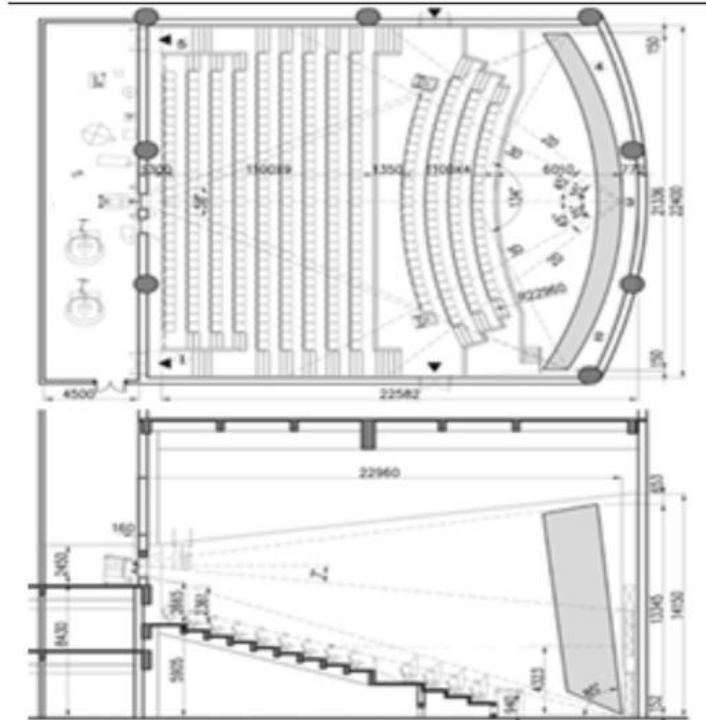


# What is IMAX Technology?



- IMAX screens offer more immersive experiences than normal cinema screens
- The **size** is far larger than standard cinema screens, often 24x18 meters in width / height and with a 1.43:1 aspect ratio
- Historically, they've used **high-resolution** 70mm analog film compared to standard 35mm film, and in digital formats still higher resolution than normal cinemas
- Remastering technique called **digital remastering** that optimizes colors, contrast and noise reduction
- Custom-designed **sound systems** with a large number of speakers and a steeper stadium seating for a better audio experience
- There are also specific formats such as **IMAX GT** (documentaries), **IMAX 3D**, **IMAX Laser**, **IMAX Enhanced** (for home experiences)
- The newest **laser technology** offers 50% brighter screens, higher contrast ratio, wider color gamut and smoother motion at 60fps

**Figure- 5: IMAX Cinema Design**



Source: the Company, Guotai Junan International.

The IMAX aspect ratio allows you to see more of the movie... but only if the movie was shot in "open matte" 1.43:1 format



"Dune" in an IMAX



"Dune" in a traditional cinema





IMAX cinemas offer impressive experiences with screens 8 stories tall and roughly 1/2 the size of a football field





# The IMAX hardware kit



## IMAX laser projector



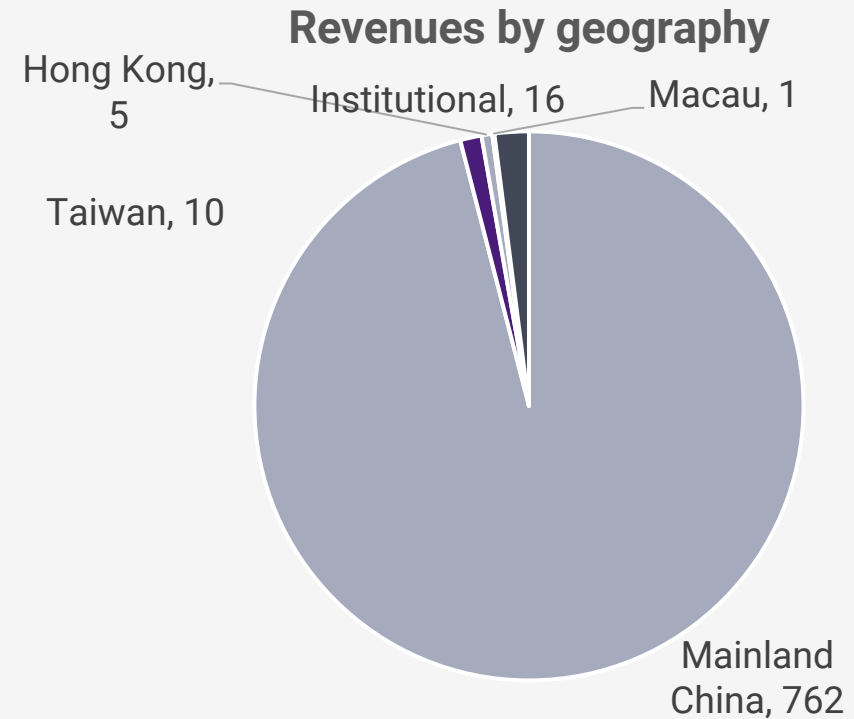
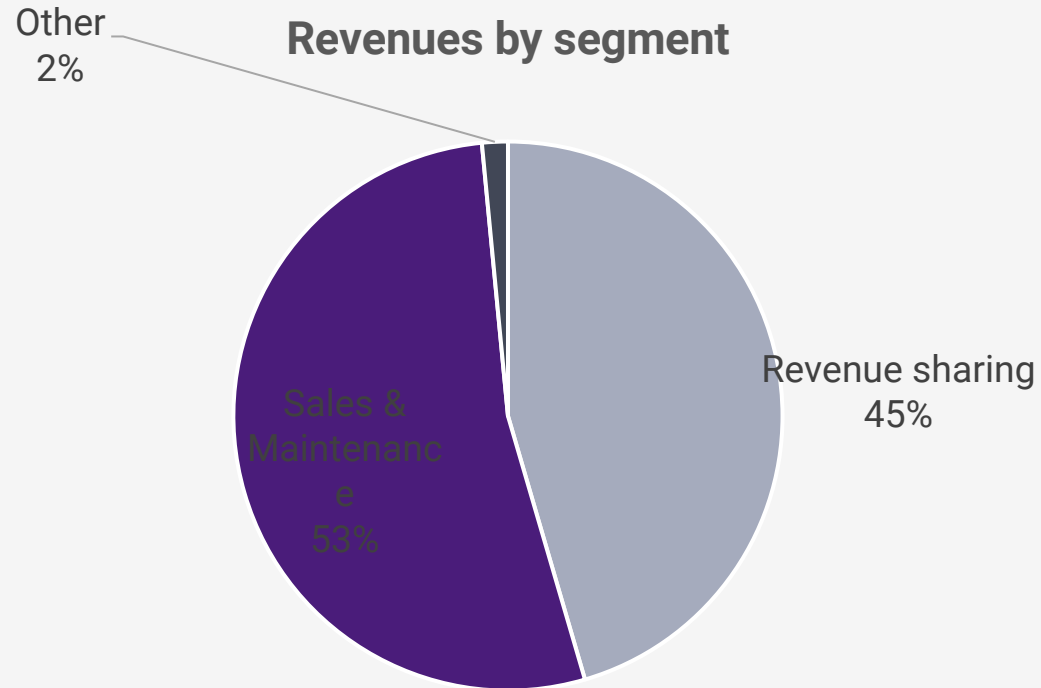
## IMAX audio systems



## IMAX Cameras



# IMAX sells cinema systems & film conversion services in in China



## Segment 1: Theater business (IMAX Network)



- In the theater business, IMAX China has partnerships with dozens of distributors, including Wanda, CJ CGV, Shanghai United Cinema, etc.
- It also has close relationships with commercial real estate developers such as Wanda Plaza, CR Land and Longfor to identify new IMAX theater locations
- IMAX China uses a view ways to structure deals with exhibitors:
  - **Sales of equipment:** IMAX sells theater systems to them, and receives ongoing fees for maintenance. The cost of hardware for a single IMAX theater can cost US\$500k on the low end and more than US\$1.5 million for a laser system.
  - **Full revenue sharing:** IMAX gives away the hardware for no or a very small fee, and then shares 16% of the box office revenues, on top of regular maintenance fees. IMAX retains ownership of the equipment. Payback 3-4 yrs for IMAX.
  - **Hybrid revenue-sharing:** IMAX partners with exhibitors for 10-12 years, contributing with the theater system at a medium cost of about US\$500,000 and then shares in the percentage of box office receipts, typically 8-10% of the total.



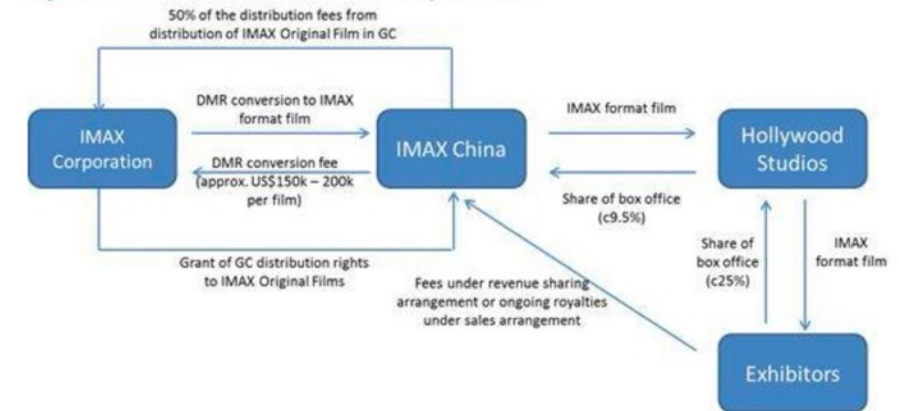


## Segment 2: Film business



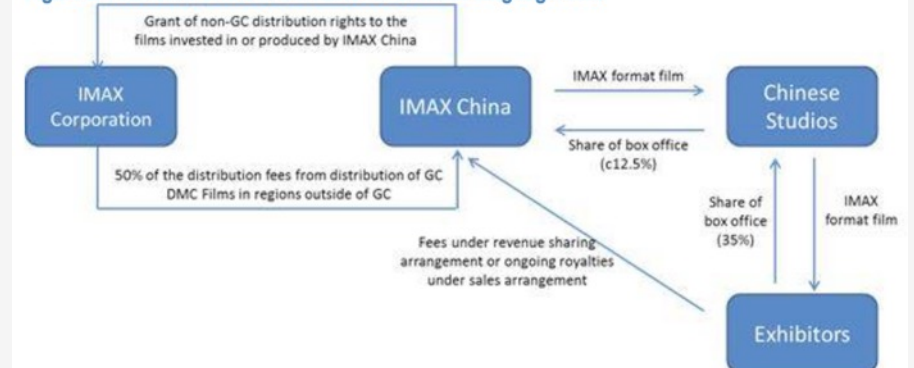
- IMAX China works with studios such as Huayi Brothers, Wanda Media and Filmko to convert their Chinese language films into IMAX formats.
- IMAX uses a remastering technique called Digital Media Remastering (“DMR”) for these conversions. IMAX China pays US\$150-200k to the parent as a conversion fee.
- To convert a traditional 16:9 movie to IMAX format, some cropping, stretching or zooming might be necessary. It is not an automatic process, hence the cost.
- When a converted movie is played, IMAX receives 9.5% of box office receipts for China box office movies and 12.5% for Hollywood movies.
- IMAX has historically converted around 35-40 movies per year to its own format, though this number may have gone up recently.

Figure 27: Revenue and cost streams for Hollywood films



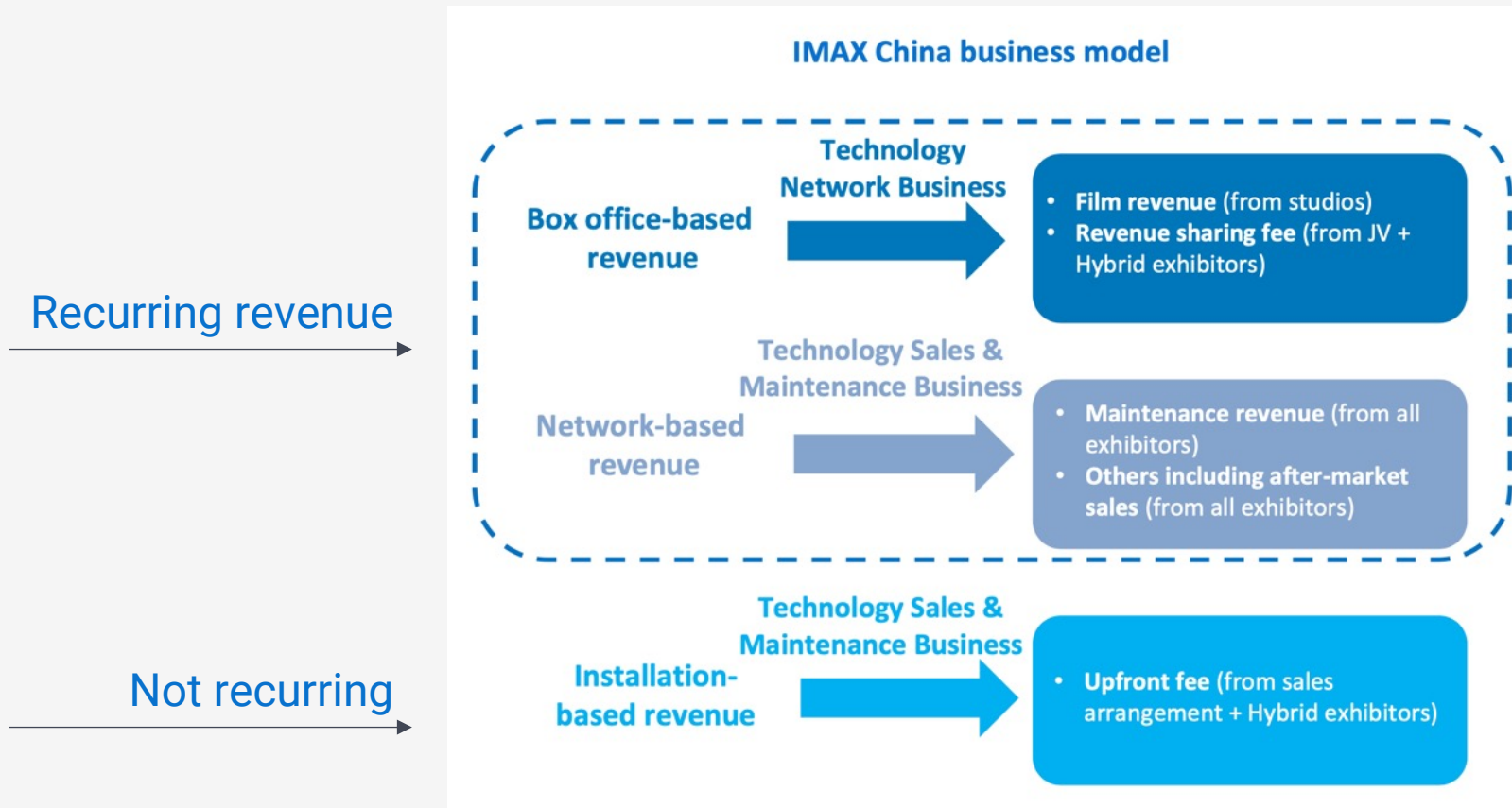
Source: Company data and J.P. Morgan research.

Figure 28: Revenue and cost streams for Chinese language films

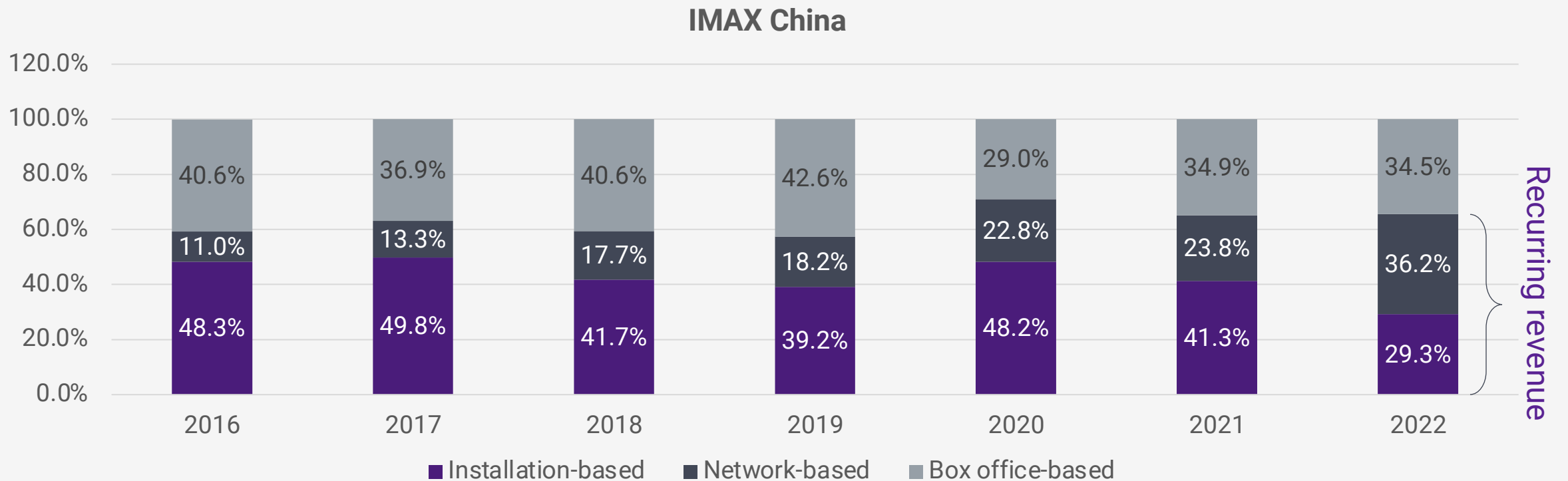


Source: Company data and J.P. Morgan research.

# IMAX has three revenue streams... two of which are recurring



IMAX China's revenues is already 71% recurring... the largest portion now comes from film revenue or revenue sharing fees

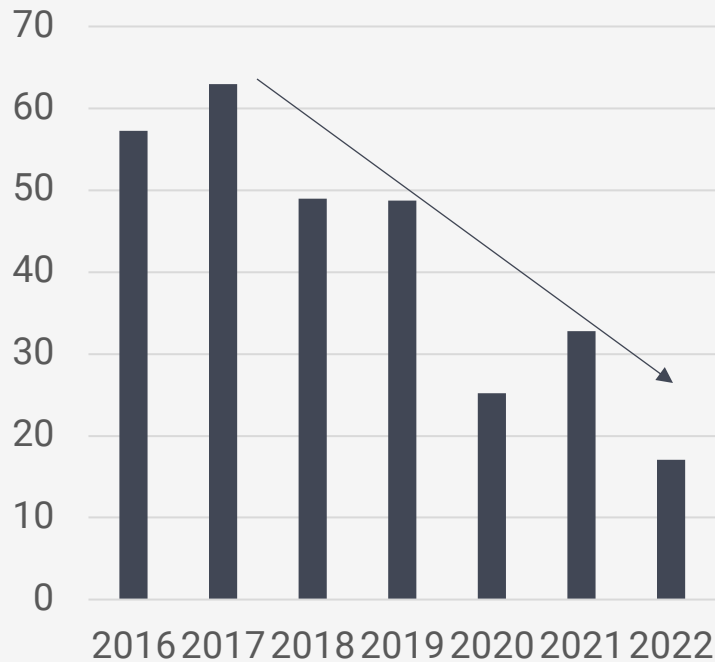




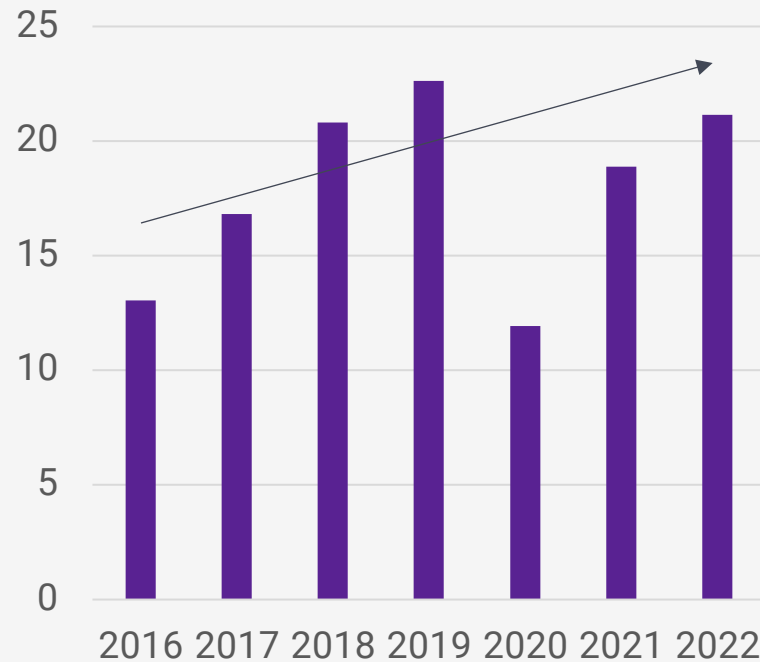
# Installation-based revenues have come down... but recurring revenues should both be going up on a secular basis



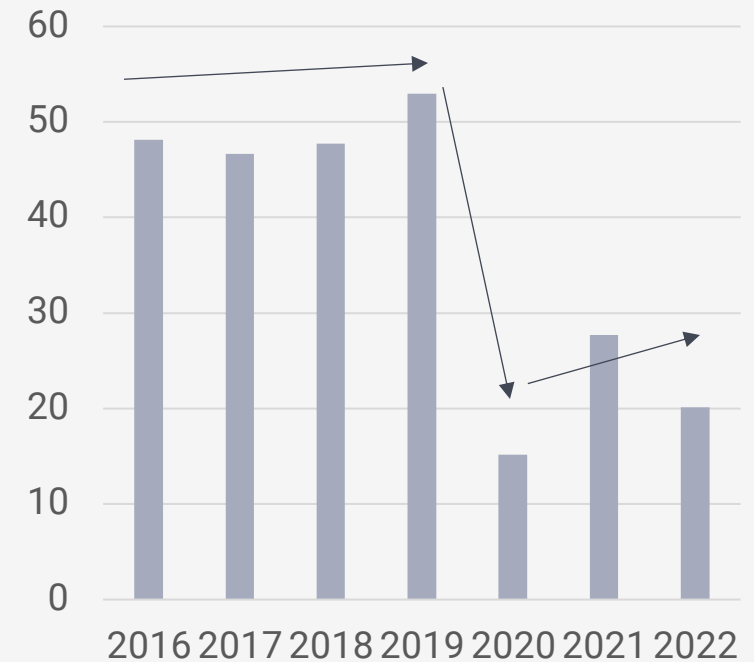
### Installation revenues



### Network revenues



### Box office-based revenues



# IMAX China has divided the country into 1,400 zones with exhibitors having potential exclusivity for each of those zones



- As of end 2022, there were **794** IMAX systems in China, and another **204** in the backlog.
- **762** out of those were in mainland China, **10** in Taiwan, **5** in Hong Kong and only **1** in Macau.
- In addition, there are **16** so-called institutional IMAX theaters which include museums, zoos, aquaria and other entertainment sites that do not exhibit commercial films
- IMAX China has defined **1,400** zones across China. If one customer has installed a IMAX equipment in a zone, others cannot buy any IMAX system. This might put a limit to the penetration of IMAX systems in the country, though there are still 600 zones left to populate.



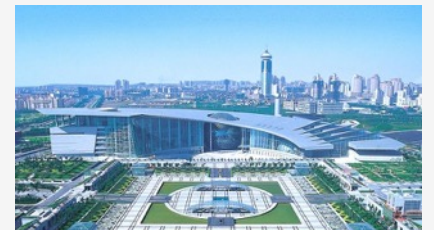
# History of IMAX China



- IMAX Corporation was founded in **1967** by four Canadians to develop a new cinema projection standard called IMAX GT. It used very large screens of 18x24 meters and an aspect ratio of 1.43:1. Initially, it was primarily used in special circumstances such as museums and science centres.
- The company entered China in **1998**, and three years after the first IMAX cinema was opened at the Shanghai Science and Technology Museum.
- In **2002**, conversion of normal movies to IMAX format was made possible through DMR Technology. Before this, studios had to use IMAX cameras to shoot films in 1.43:1 format.
- The first commercial IMAX theater in China came two years later in **2003**, at the Peace Cinema in Shanghai
- In **2007**, IMAX formed an agreement with Wanda Cinema Line to install 10 commercial IMAX theaters in the next few years.
- In **2008**, IMAX introduced its digital xenon projection system, thus moving away from analog projectors
- In **2009**, IMAX entered into a partnership with major studio Huayi Brothers to release up to three IMAX-supported Chinese films. The same year, “Avatar” was released in China on IMAX, to great acclaim.
- In **2010**, IMAX China was set up as an independent subsidiary and it shifted revenue sharing business models, first with Korea’s CJ CGV. Soon thereafter, it signed an agreement with Wanda Cinema Line for the lease of 75 theaters in China and then another 210 theaters.
- CMC and Fountainvest became 20% cornerstone investors in IMAX China in **2014** and the year after, IMAX China was listed on the Hong Kong Stock Exchange in 2015. It set up a film fund together with shareholder CMC to invest in 15 Chinese-language films in **2016**.
- From **2020**, China’s box office suffered due to the onset of COVID-19 but recovered nicely in **2023**.



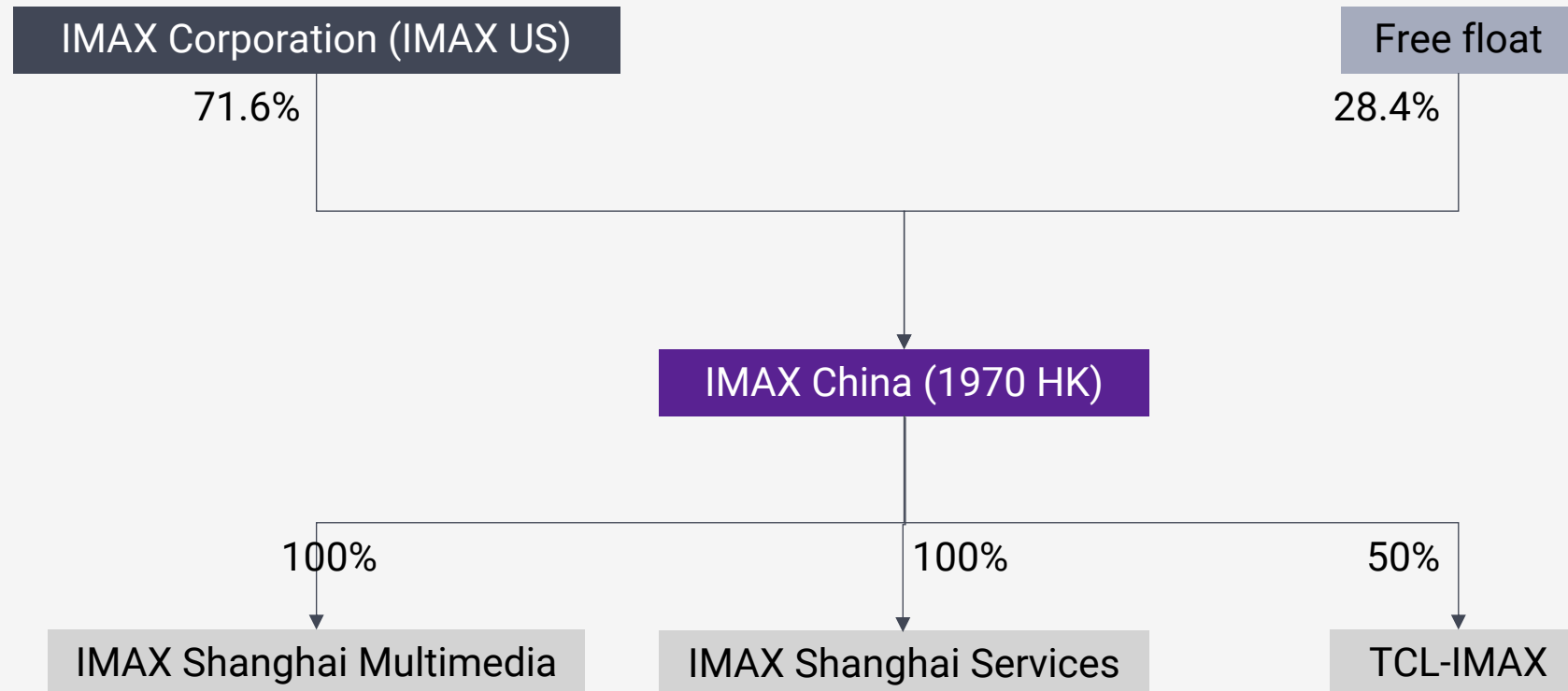
1976 IMAX show “To Fly”



Shanghai Science & Technology Museum



# IMAX China's free float remains small



# IMAX China's new CEO is from CAA, which to me tells me he's a driven individual with strong relationships within Chinese studios



- **Richard Gelfond** is IMAX China's Chairman and also the CEO of parent IMAX Corporation.
- He started his career as a lawyer, and then became an investment banker at Drexel, before starting an investment company that then acquired IMAX. Richard then became co-CEO in 1996 and CEO in 2009.
- On the positive side, he managed IMAX through a transition when it was overly indebted and introduced DMR Technology, which created a moat for the business. On the other hand, he's a micro-manager that's seen as aggressive.
- He has law degrees from Stony Brook and Northwestern.



- **Daniel Manwaring** became IMAX China's CEO in early 2023, succeeding the previous CEO Jiande Chen who is now Vice Chairman.
- Prior to IMAX China, Manwaring worked at Hollywood agent CAA's China business. As a former talent agent, he's worked for many years with Chinese film makers and distribution companies.
- He's lived in China since 2006 and speaks mandarin Chinese. Also worth noting is that he's married to Zhang Mo, the daughter of China's most well-known filmmaker Zhang Yimou.

# IMAX China has to pay its parent for use of its technologies



Type of contract	Purpose	Term	Fees
Trademark license agreement	Exclusive right to use the IMAX trademark	25 years	2% of gross revenues
Technology license agreement	Exclusive right to use certain IMAX Technologies	25 years	3% of gross revenues
DMR Services agreement	Provision of digital re-mastering services	25 years	Hollywood movies: cost + 10% Chinese movie distributed overseas: 50% of fee to parent
Equipment supply agreements	Supply of IMAX equipment	25 years	Cost + 10%
Master distribution agreements	Exclusive platform for exhibiting Hollywood films in Greater China	25 years	US\$150k for most 2D films 50% of distribution of IMAX Originals



# Competitive advantages



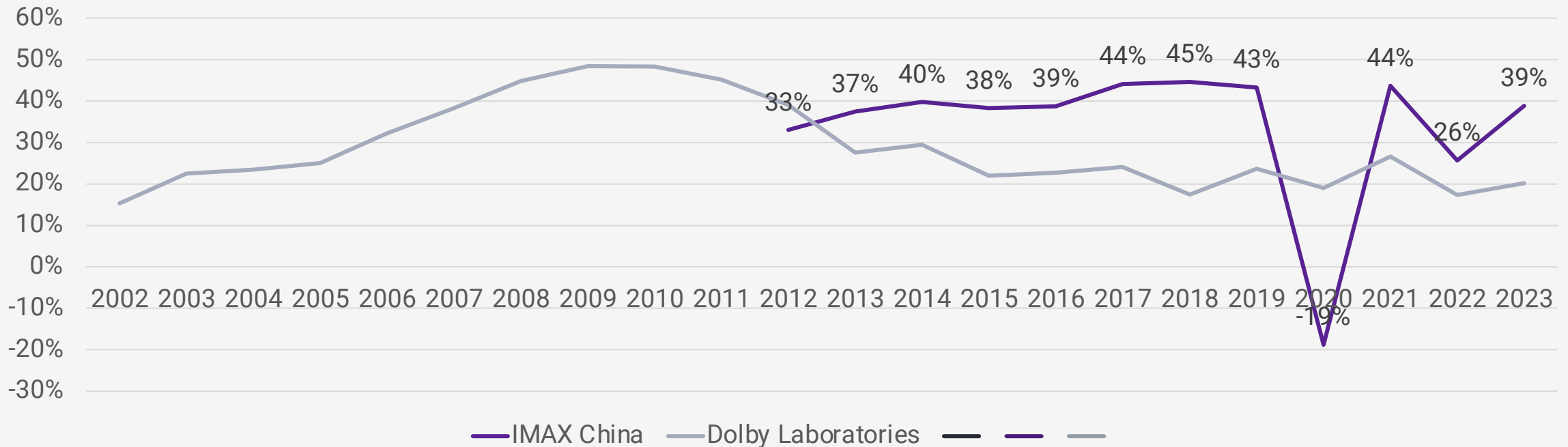
- **Technology:** Exclusive licensee of the the IMAX theater system in Greater China, with proprietary technology across cameras, projectors and audio systems.
- **Premium brand:** IMAX tickets have historically cost around +60% more than a conventional ticket. While that may sound excessive, customers don't mind paying extra for special experiences, including for unique blockbuster movies. The fact that IMAX has the greatest average box office per screen in China suggests that it does have pricing power.
- **Supplier relationships:** the number of movies that have been converted to IMAX format is large, and is growing larger by the month. IMAX China is the exclusive distributor for those movies. And they increase the attractiveness of IMAX's own technology.
- **Asset-light business model:** Since IMAX doesn't build cinemas itself or own any real estate, it's able to benefit from the growth of China's cinema market without much additional capital investment.



IMAX China doesn't have any direct peers... but it's clear that its margins are high, suggesting a clear competitive advantage



Operating margins

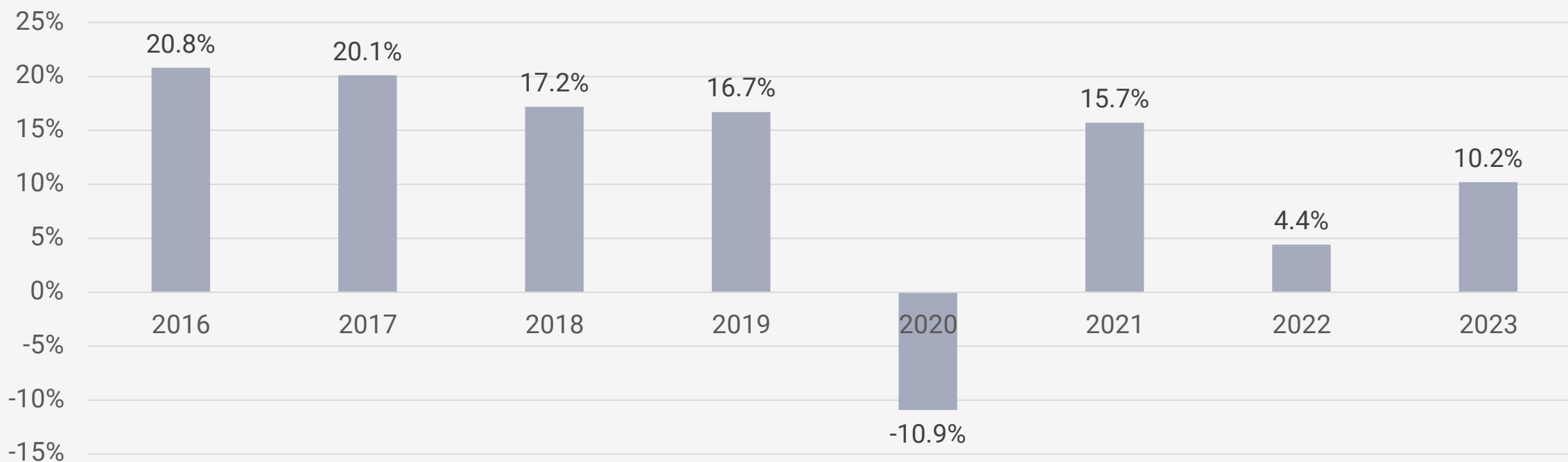


Source: TIKR

Before COVID-19, IMAX China's return on equity used to be close to 20%



Return on equity



Do IMAX China's unit economics make sense? On my numbers a conversion to IMAX seems difficult to justify. But I could be wrong.



Comment	Estimate
China total box office	US\$8.0 billion
IMAX market share	4.6%
Number of IMAX screens	794
Implied revenue/screen	US\$470k
Est EBIT margin post-fee	15%
Implied EBIT per screen	US\$70k
EBIT per normal screen	~US\$20k
Uplift per conversion	US\$50k
Construction cost	US\$500k+
Implied payback period	>10 years



# IMAX vs Dolby Cinema



Imax

- + Better aspect ratio for IMAX movies
- + Better base sound
- + IMAX with dual laser has better picture quality



Dolby Cinema

- + More immersive 360 degree sound
- + Better seats
- + More consistent experience



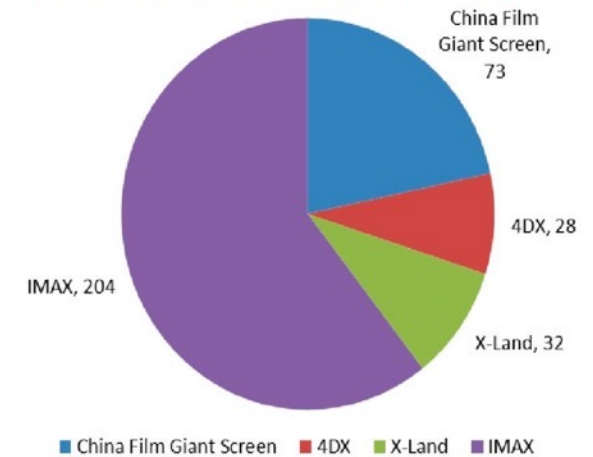
It's not obvious who has the better technology, but IMAX definitely has a better brand name



## There is also competition from China Film Group

- Other than Dolby, there are several Chinese competitors as well developing non-conventional cinema standards.
- The top Chinese competitor is China Film Group, which has expanded aggressively in recent years though IMAX is still by far the market leader
- China Film Group has two offerings:
  - CINITY: Offers a giant screen in a 1.43:1 aspect ratio – the same as IMAX's, using a screen woven with silver nanoparticles
  - DMAX: A standard wide screen with a 1.90:1 aspect ratio – the projector is better than IMAX's xenon system but worse than IMAX laser's
- The benefit of China Film Group's technologies is that they're far cheaper at roughly 1/5 of the prices of an IMAX cinema, though not nearly as impressive. Filmmakers also pay a great deal less to convert movies into DMAX format. The lower cost enables DMAX movies to charge just RMB 10 more than a standard ticker.
- DMAX currently leads in the sound department thanks to its cooperation with Dolby Labs. It offers 11 sound tracks vs IMAX's 6 sound tracks.
- The big disadvantage of DMAX is that it uses 35mm film, which means much lower resolution than in IMAX cinemas. DMAX resolution is 2K whereas IMAX xenon offers 4-6K and IMAX laser 8K.
- There are also other standards such as CJ CGV's 4DX and Wanda's X-Land, but they are specific to each theater chain

Figure 22: Non-conventional theatre screens in PRC in 2014



Source: Company data and J.P. Morgan estimates.

# Glassdoor reviews for IMAX Corporation (the parent)



## Positives

- *"Exciting projects to work on"*
- *"Cool facilities with lots of snacks Movie screenings"*
- *"Unlimited opportunities to take on new responsibilities and help create IMAX 3.0 Generous benefits, fair compensation, genuinely nice people across the company"*
- *"Caring people, well known brand"*
- *"Amazing company and great people"*
- *"People are generally friendly and knowledgable. Health and other benefits are pretty great. Content you work on is top notch tentpole films."*
- *"Great people all over. Fairly transparent."*
- *"Fast-paced work environment with good perks (movie screenings)."*
- *"Fun, exciting environment. IMAX is continually evolving and moving forward and willing to change with the times to retain their edge."*

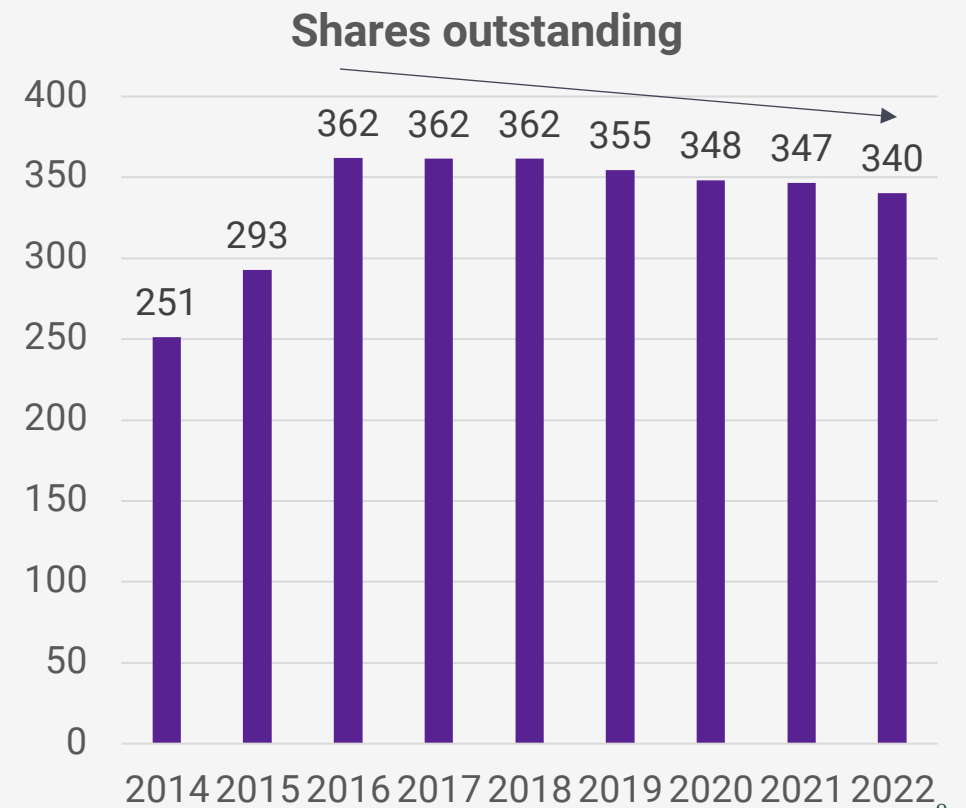
## Negatives

- *"President is eager to get into new fields but doesn't think it through and projects are starved for capital"*
- *"Full-time in-office expectation"*
- *"Lacks workforce culture and community"*
- *"Leadership + Strategy gaps"*
- *"High fees kill smaller theaters, which is why so many "institutional" theaters have moved to other PLF brands or left educational programming behind altogether"*
- *"No downsides I have been very satisfied"*
- *"Questionable decision-making by top brass. New initiatives are often poorly planned and so inevitably poorly executed."*
- *"Vision for company long term is questionable."*
- *"IMAX doesn't know how to keep people. My last few months there, so many people left. No one lasts more than 2 years."*

# Corporate governance and capital allocation



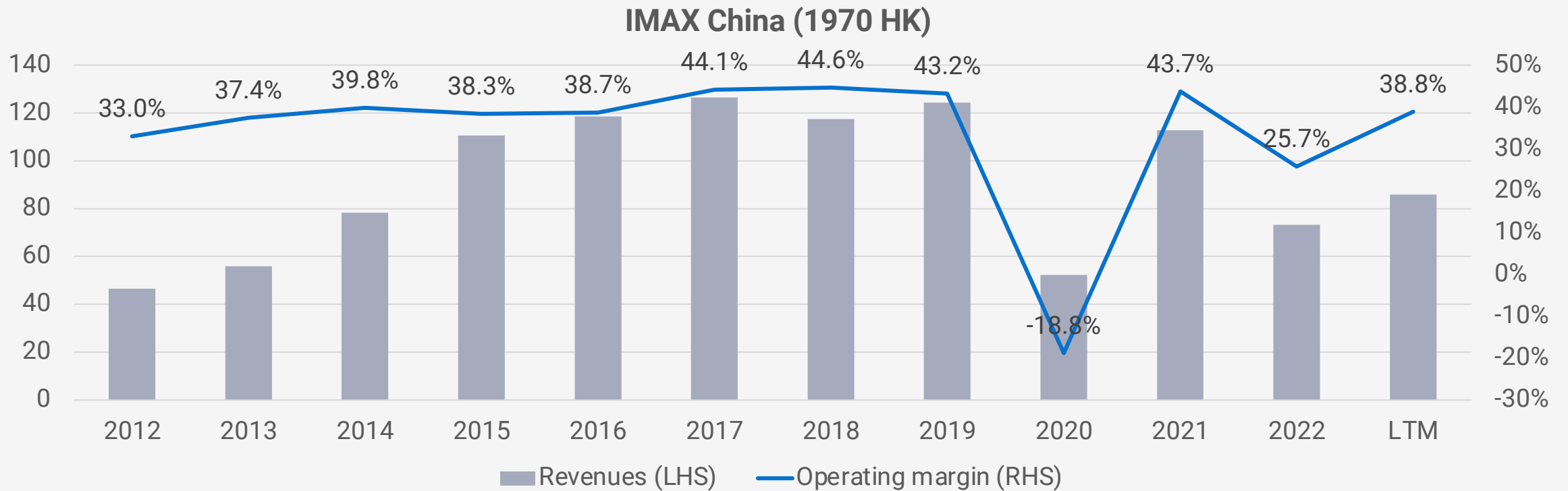
- IMAX China has been buying back shares at an average pace of 1% per year — not much, but positive and unusual in a Chinese context.
- A recent dividend pay-out ratio of ~50% is acceptable for an asset light company that doesn't grow much anymore.
- A return on equity of about 20% is decent given the tough external environment. It used to be higher due to upfront — but ultimately unsustainable — revenues.
- Parent IMAX Corporation tried to take IMAX China private in 2023 at HK\$10/share, but the transaction was luckily rejected by minority shareholders. It suggests a conflict of interest between the parent and IMAX China minorities.
- One comment that I did not like in the mid-2023 earnings call from the CEO of IMAX Corporation Richard Gelfong: *“There is also cash leakage because we paid a dividend out of China and obviously close to 30% of that went outside the IMAX... So after this transaction, we'll have the ability to keep that cash as well.”* — calling dividends to minority shareholders “cash leakage” is rich, to say the least.



Source: IMAX China

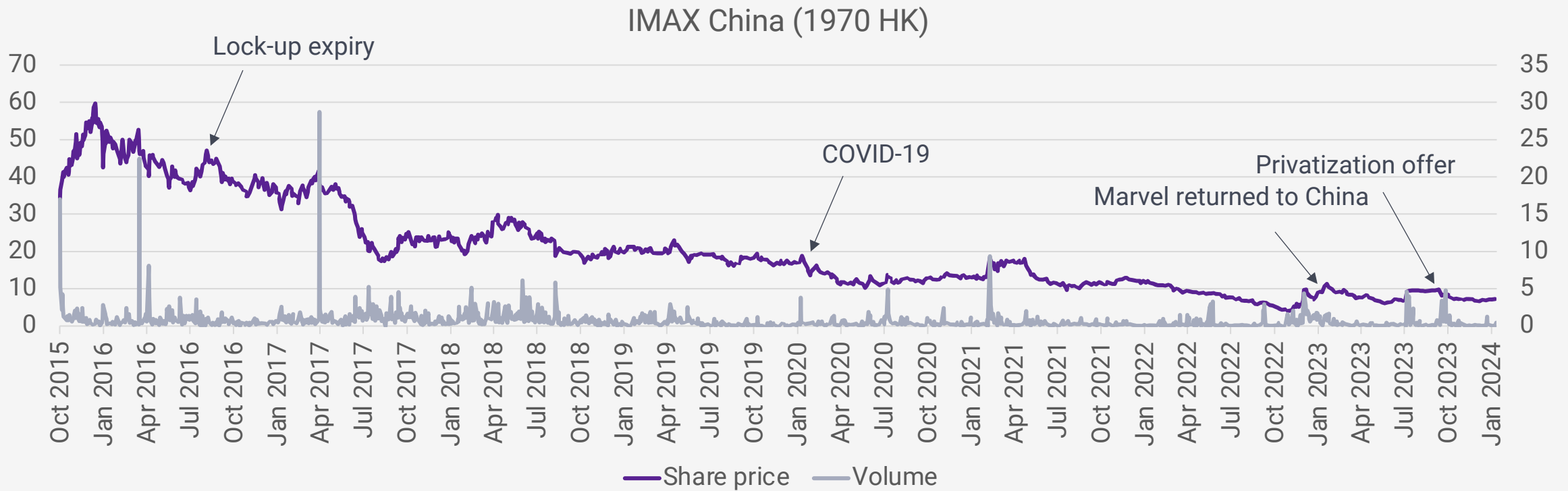


## IMAX China's growth was slow prior to COVID-19... but increasingly higher quality thanks to greater contribution from recurring revenues



Source: TIKR

# IMAX China's share price lingers at post-IPO lows





# The failed take-private transaction in 2023

- In July 2023, parent IMAX Corporation announced its proposal to acquire the remaining 96.3 million shares it did not already own for HK\$10.0 per share.
- The offer represented a premium of +49% to the prior month's average trading price.
- IMAX justified the transaction by saying that *"there was \$78 million of cash sitting at the IMAX China level"* and that it would help the parent company grow.
- Shareholders rejected the proposal as more than 10% of votes turned it down (in Hong Kong, 90% is the minimum required for a forced takeover).
- Canadian investment group Letko, Brosseau & Associates, which controls 1.7% of IMAX China's shares said the bid significantly undervalued the company and appeared "opportunistic" given its yet-to-be-seen recovery from the COVID-19 pandemic.

## IMAX Corporation Announces Intent to Acquire Full Ownership of IMAX China Subsidiary



NEWS PROVIDED BY  
IMAX Corporation →  
12 Jul, 2023, 18:00 ET

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*Proposed Transaction to Further Enhance Financial Profile of IMAX Corporation while Fueling New Growth Opportunities in China*

*Company to host conference call today at 6:15 p.m. ET to discuss transaction; details available below and at [imax.com/content/investor-relations](https://imax.com/content/investor-relations)*

NEW YORK, July 12, 2023 /PRNewswire/ -- IMAX Corporation (NYSE: [IMAX](#)) today announced it has filed a proposal to acquire the outstanding 96.3 million shares in IMAX China (HKSE:1970), a Hong Kong-listed subsidiary established by IMAX Corporation to oversee its business in Greater China, for approximately HK\$10 per share in cash / \$124 million. The offer represents an approximate 49% premium to the the 30-trading day average closing price. Upon approval of the offer and the scheme of arrangement, IMAX Corporation will own 100% of IMAX China.

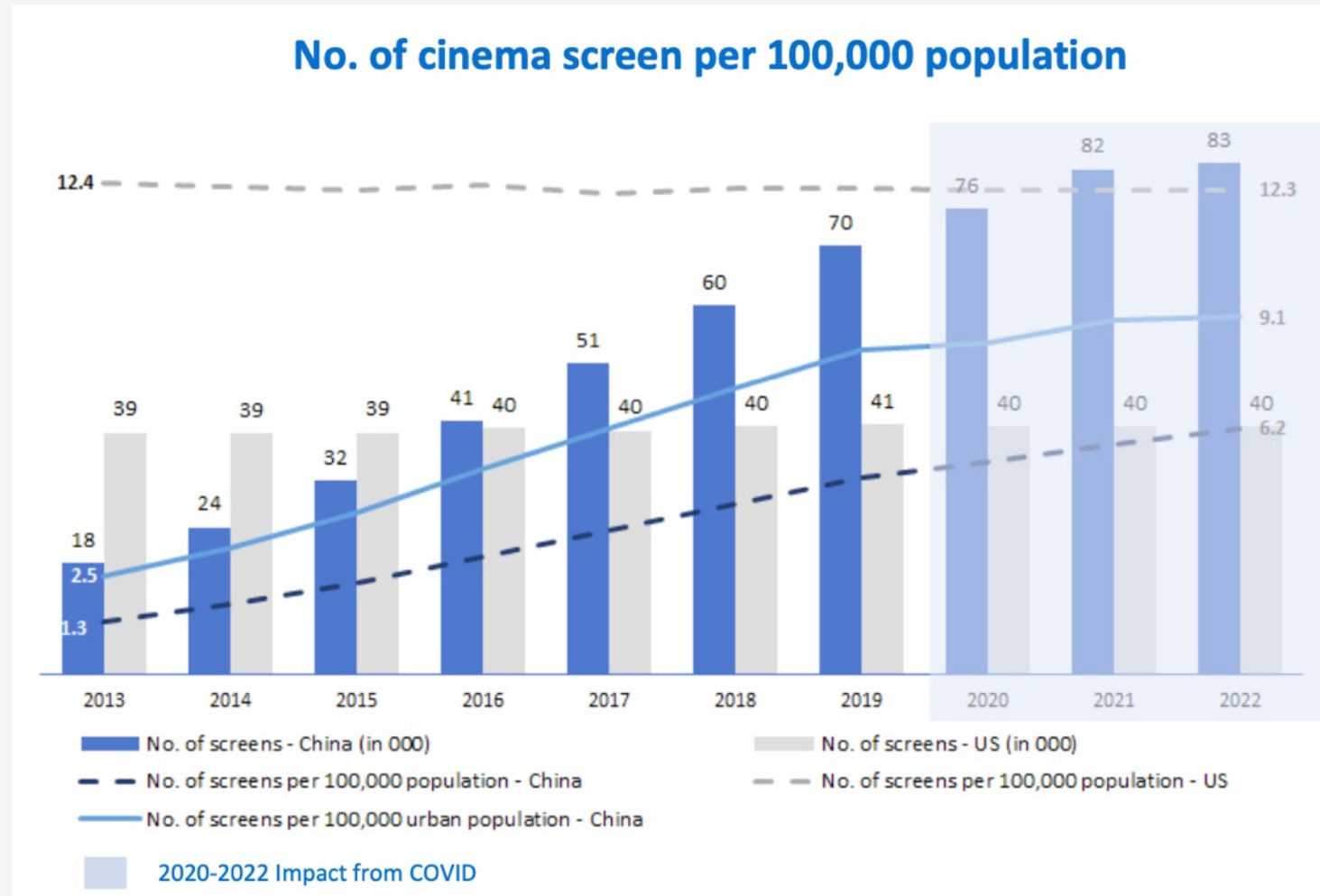
# Long-term industry trends



1. **Slow growth:** China now has 83,000 screens in total, or roughly 6.2 per 100,000 people. This is roughly half of the level of the United States. Given that IMAX China has roughly 800 screens, that means that the company only has a 1% market share. Most of the growth will come from lower-tier cities.
2. **COVID-19:** The Chinese box office was weak during the pandemic but in 2023, the movie-going population mostly return to theaters. It remains roughly 18% below the 2019 level but greater supply of movies should help close the gap.
3. **Netflix:** Younger generations seem to be less inclined to go to cinemas, preferring to stay at home and watch Netflix instead. COVID-19 may have accelerated the shift towards on-demand content consumption.
4. **Shift to Chinese language movies:** The government wants to sett 55%+ box office contribution from local language movies, and they're therefore given priority over Hollywood productions. In the 11 first months of 2023, the domestic film box office reached 116% of 2019 level vs only 37% for foreign films.
5. **"Blockbusterization":** IMAX China is dependent on Hollywood blockbusters. And while they've hit competition from domestic movies, there's also a shift from normal variety Hollywood movies to blockbuster hero-movies, which tend to disproportionately be played on IMAX theaters.



# China's number of screens per capita remains roughly 1/2 that of the United States



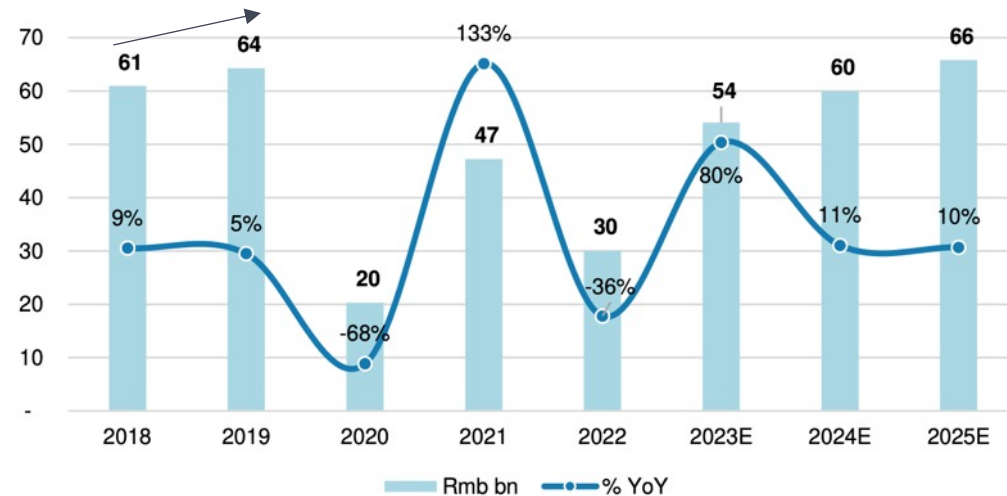
Source: IMAX China

# The Chinese box office grew mid-single digits prior to COVID-19, despite a falling number of Chinese movies being made...



**Exhibit 7:** We forecast industry film box office to grow 11% to Rmb60bn in 2024, 93% recovery (vs. 84% in 2023)

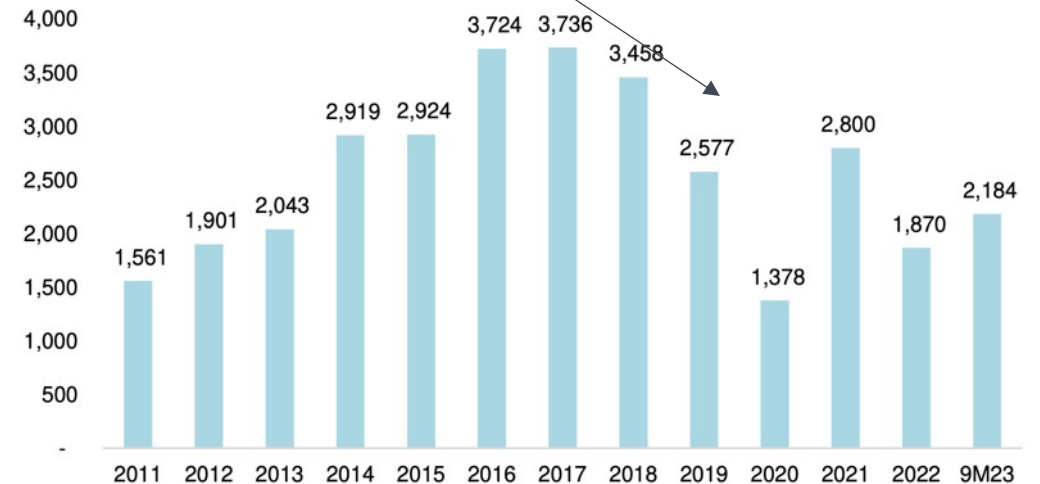
Film box office



Source: NRTA, Maoyan Pro, Morgan Stanley Research (E) estimates

**Exhibit 9:** Film supply quantity should grow in 2024, on top of quality improvement

No. of filed films



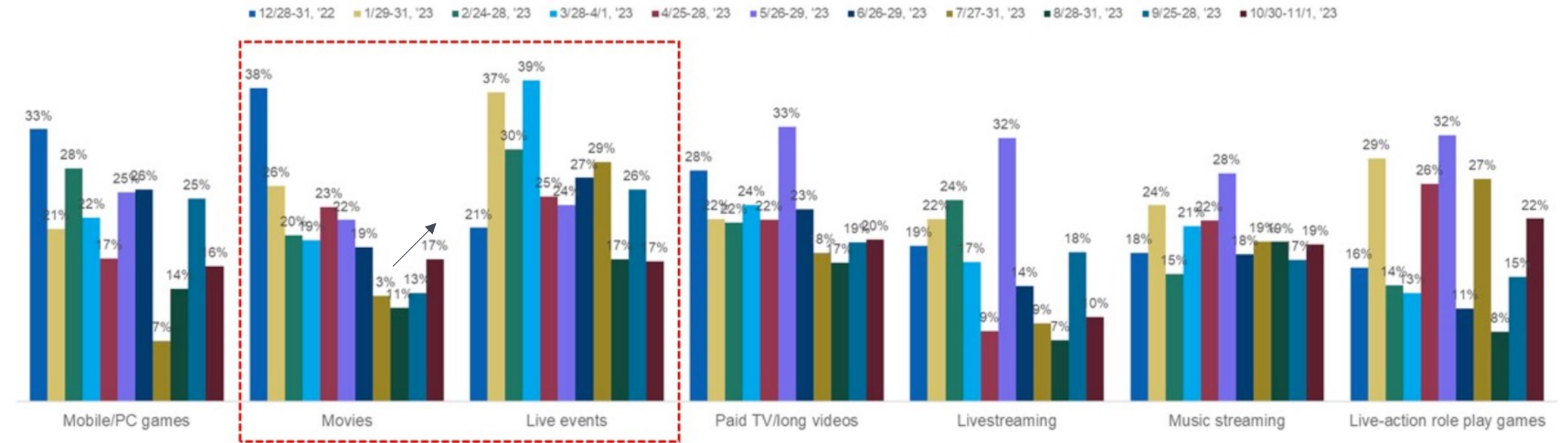
Source: China Film Administration, Morgan Stanley Research

Source: Morgan Stanley

# Consumers' willingness to spend on movies went up in 2023

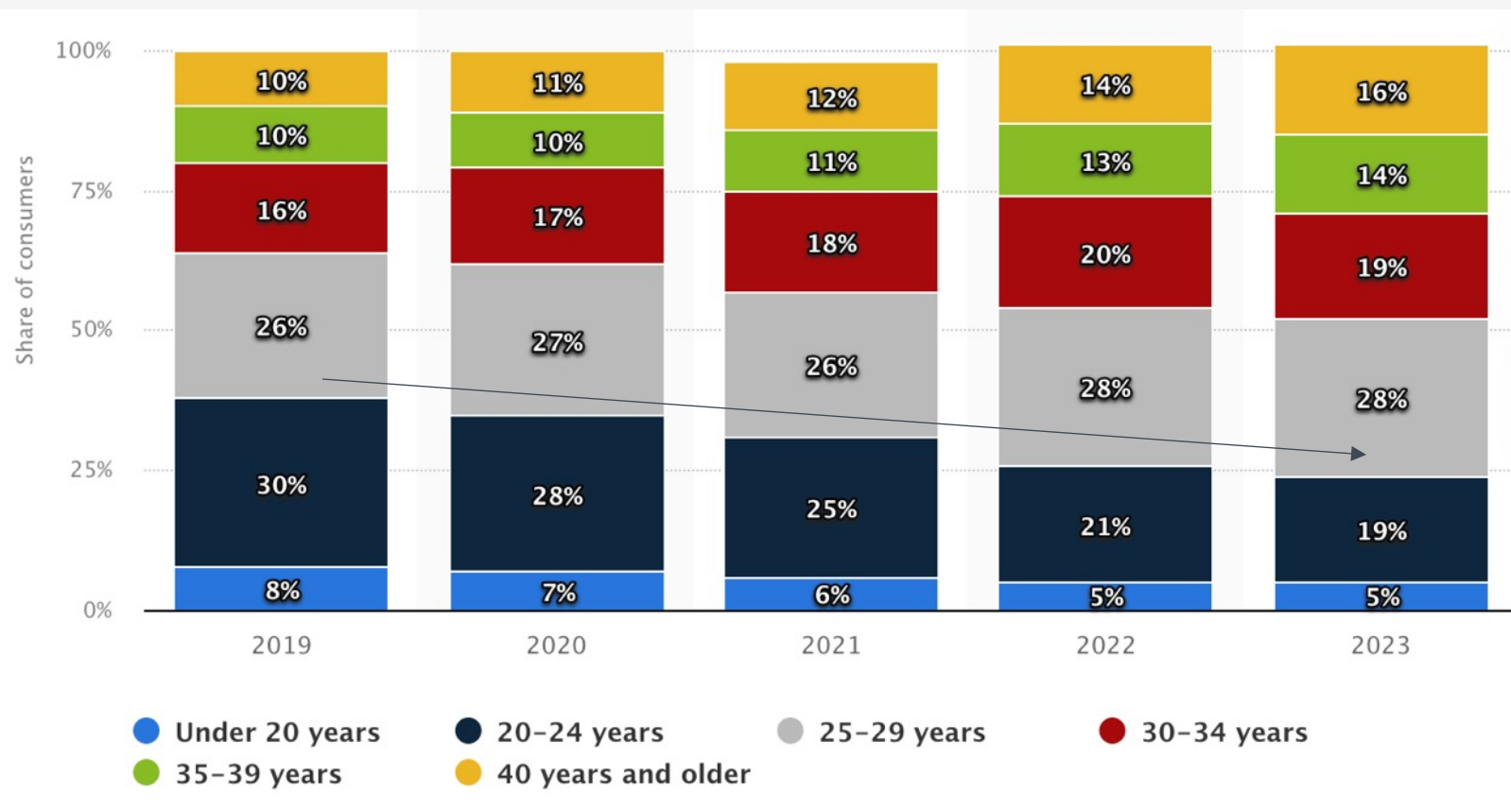


Entertainment Spend Next Month:  
NET Score Among Purchaser



Source: Morgan Stanley

# In China, the 10-24 year old cohort is moving away from cinemas in favor of on-demand streaming services

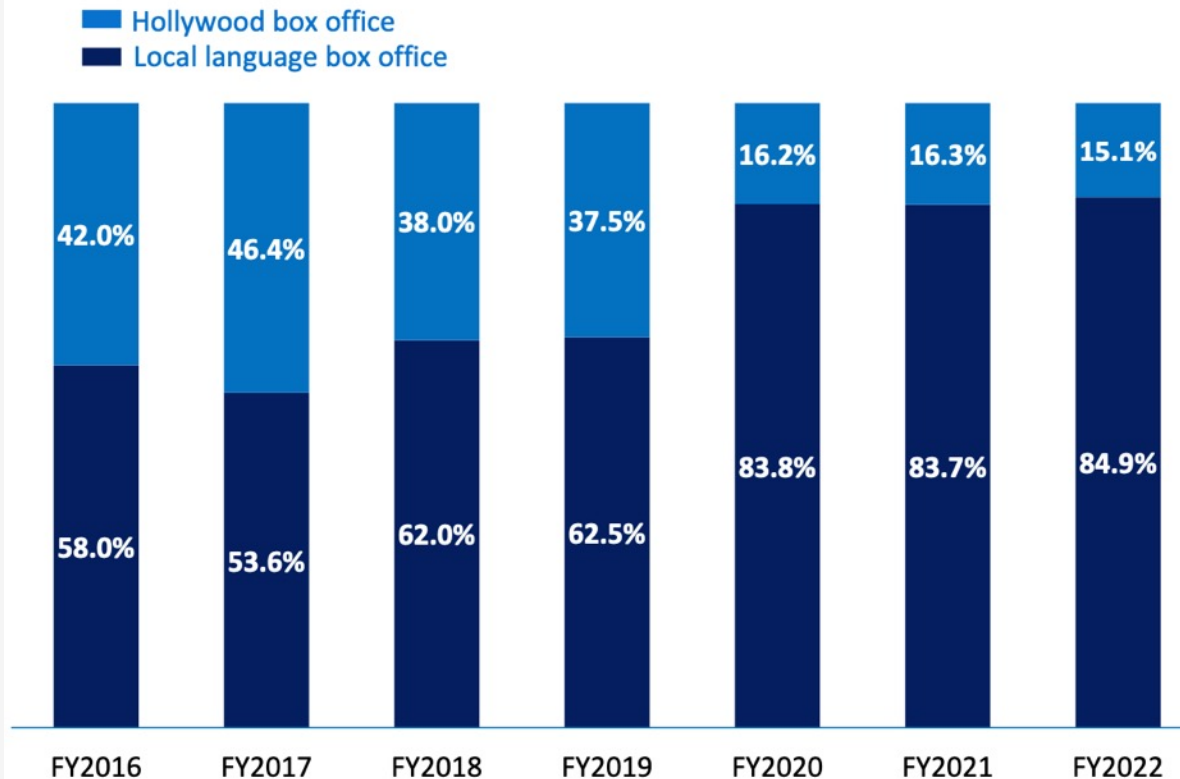




There's been a big shift to Chinese language movies... partly because of a weak Hollywood movie slate. But the government is also pushing for it.



China box office distribution (Hollywood vs. Local)

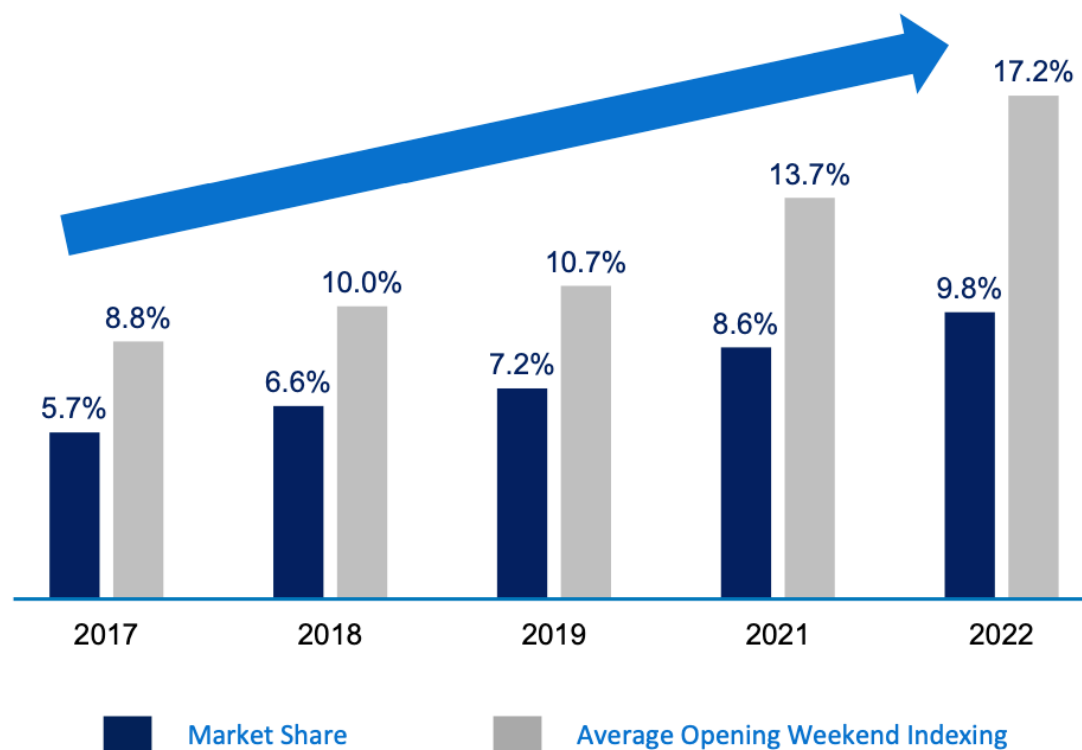


Source: IMAX China

# Blockbusterization



## IMAX China Box Office Market Share and Indexing<sup>(1)</sup> in Hollywood Titles



Source: IMAX China

# What is going to change for IMAX China?

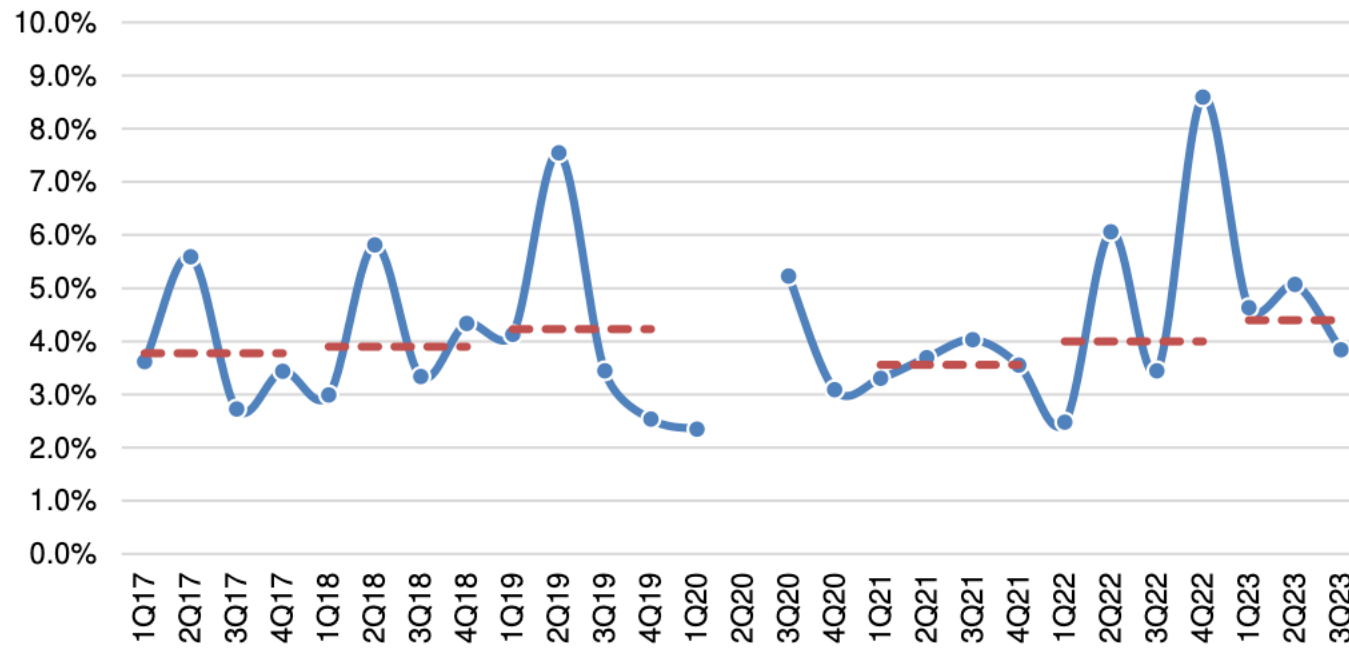


1. **Higher IMAX cinema penetration:** The number of screens per capita could long-term double, and the IMAX penetration rate could also go from 1% to Hong Kong's 2% per screen (or 4% to 8% on box office numbers).
2. **COVID-19 recovery:** Since the zero-COVID policy was deserted in late 2022, China's box office has been in a recovery mode. Almost all of IMAX China's theaters reopened in December 2022 and are now doing well. Installs should also recover as COVID restrictions have now eased fully.
3. **Hollywood pipeline:** Despite a writers strike in mid-2023, the Hollywood blockbuster pipeline is slowly coming back to its pre-pandemic level. We're starting to see great new movies being released on IMAX including Dune 2 and Marvel's Deadpool 3. Chinese film censors are also becoming more lax in approving Hollywood movies, including Oppenheimer in 2023.
4. **Shift to Chinese content:** According to the company, more and more Chinese filmmakers use IMAX compatible cameras to shoot their movies. Part of the attraction is getting access to IMAX's network of theaters. And Chinese studios are becoming more adept at creating blockbuster content, with movies such as *Eight Hundred*, *The Battle at Lake Changjin*, etc.
5. **IMAX Enhanced:** IMAX Corporation is now pushing a home theater certification standard called "IMAX Enhanced". They're partnering with Chinese TV makers like TCL, Hisense, etc. I don't see the point of recreating IMAX in your living room as it would require TVs that are much larger than the typical models.

IMAX's market share dropped a bit during COVID-19 due to the high cost of IMAX tickets... but it's on a clear recovery path



IMAX box office market share in China

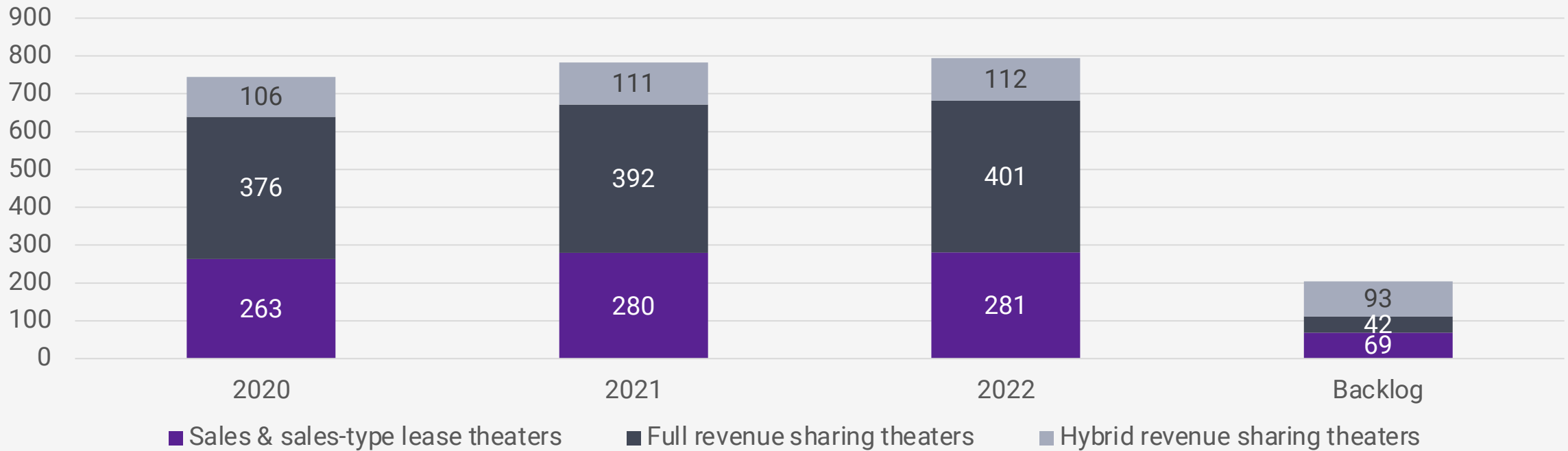


Source: Company data, Morgan Stanley Research

# The company continues to have a decent backlog of 204 screens

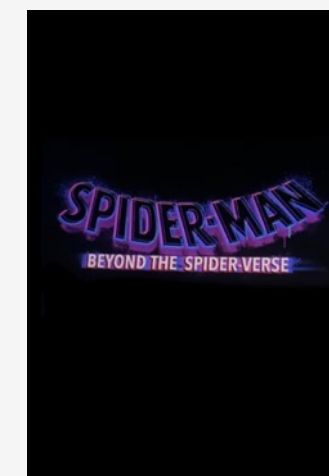
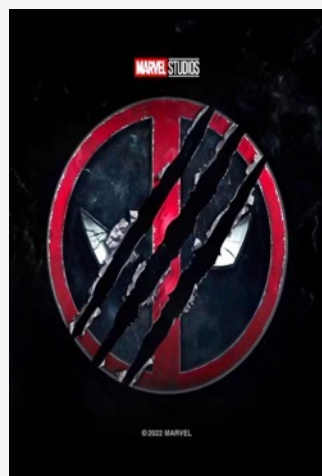


# of screens by concept





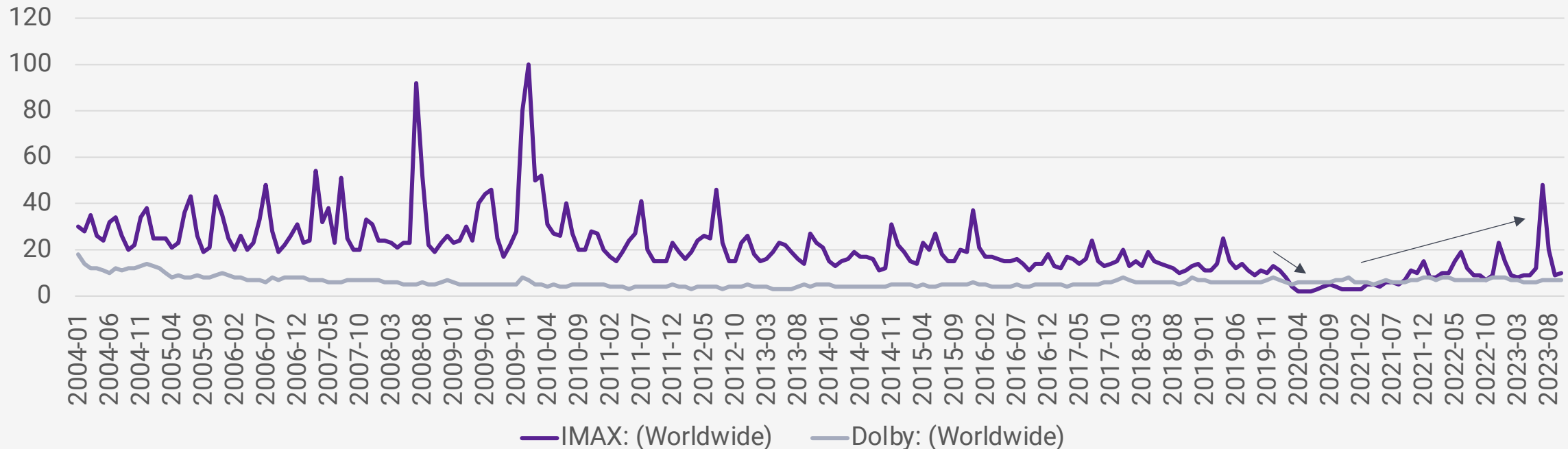
# The current Hollywood movie pipeline



The number of global Google search queries for “IMAX” have recovered nicely since COVID-19... it retains consumer mindshare



Google search query indices



# IMAX China now trades among the lowest of the peer group



Asian cinemas (NTM)	Ticker	Country	Mkt cap (US\$m)	EV/S	EV/EBIT	P/E	Div yield
IMAX China	1970 HK	China	313	2.39x	5.6x	13.6x	6.0%
Wanda Film	002739 CH	China	3,763	2.17x	18.9x	21.1x	1.0%
Major Cineplex	MAJOR TB	Thailand	338	1.57x	13.6x	15.7x	5.1%
PVR Inox	PVRINOX IN	India	1,781	3.19x	20.2x	34.5x	0.1%
CJ CGV	079160 KS	South Korea	483	1.24x	25.4x	n.a.	n.a.
Kinopolis	KIN BB	Belgium	1,175	2.94x	16.6x	16.9x	1.8%
EVT	EVT AU	Australia	1,307	2.52x	19.6x	25.9x	2.6%
Cineplex	CGX CN	Canada	380	1.63x	12.1x	9.3x	n.a.
Dolby	DLB US	United States	8,010	5.54x	28.4x	22.8x	1.3%
AMC	AMC US	United States	1,032	2.08x	n.a.	n.a.	12.9%
Cinemark	CNK US	United States	1,620	1.55x	16.7x	18.7x	2.2%
Marcus Corporation	MCS US	United States	431	1.09x	63.5x	n.a.	0.7%
Reading International	RDI US	United States	61	1.94x	365.7x	n.a.	n.a.
Average ex-IMAX China			1,511	2.30x	58.2x	20.5x	3.3%
Median ex-IMAX China			1,032	1.94x	19.9x	18.7x	2.0%

# Prior to COVID-19, IMAX China traded with a mid-teens P/E



## IMAX China Holding, Inc. (1970)

• 1970 NTM Price / Normalized Earnings (P/E): Mean: 20.18x High: 55.39x Low: 4.17x Last: 7.54x

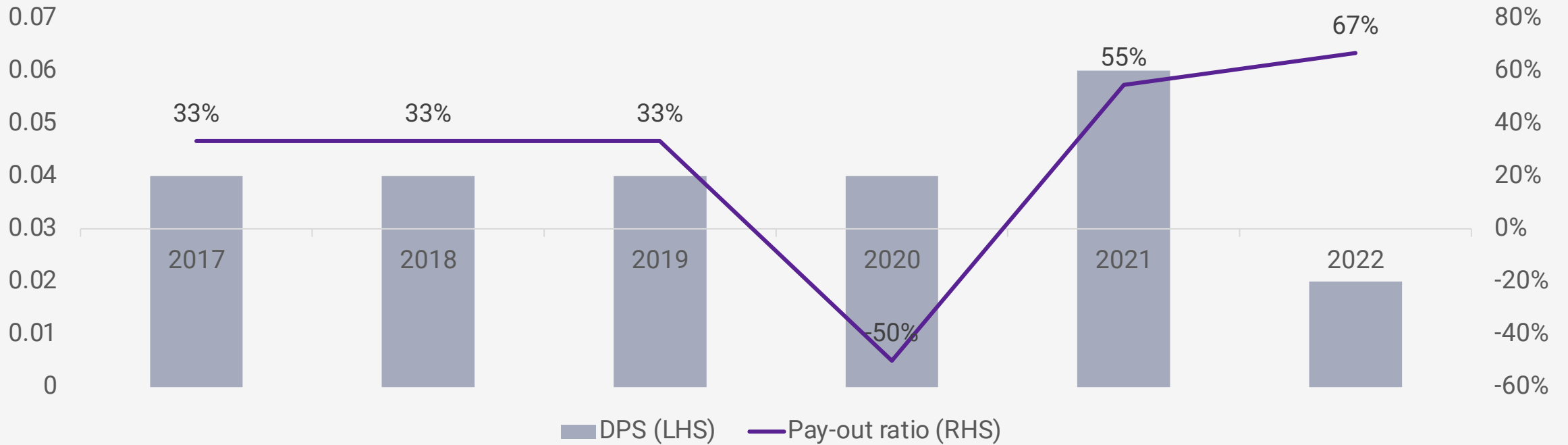
Zoom 3m 6m ytd 1yr 3yr 5y 10y all



The dividend payout ratio has been close to



IMAX China dividend per share & pay-out ratio





It's not difficult to see IMAX China trade at a single digit P/E...  
despite having a very robust balance sheet with plenty of cash



<u>IMAX China (1970 HK)</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Total revenues	124.3	52.3	112.8	73.3	92.7	106.3	116.3
Cost of sales	-47.6	-33.0	-44.6	-33.6	-37.1	-42.5	-46.5
<u>Gross profit</u>	<u>76.6</u>	<u>19.3</u>	<u>68.2</u>	<u>39.7</u>	<u>55.6</u>	<u>63.8</u>	<u>69.8</u>
SG&A	-16.5	-14.4	-16.8	-15.5	-16.0	-16.5	-17.0
Net impairment lossees	-0.5	-10.9	4.0	-5.8	0.0	0.0	0.0
Other operating expenses	-6.5	-3.9	-6.1	-4.0	0.0	0.0	0.0
<u>Operating profit</u>	<u>53.2</u>	<u>-9.8</u>	<u>49.3</u>	<u>14.4</u>	<u>39.6</u>	<u>47.3</u>	<u>52.8</u>
Interest income	1.8	1.3	1.6	1.0	1.0	1.0	1.0
Interest expense	-0.1	-0.1	-0.5	-0.2	-0.2	-0.2	-0.2
<u>Pretax profit</u>	<u>54.8</u>	<u>-8.6</u>	<u>50.5</u>	<u>15.3</u>	<u>40.5</u>	<u>48.2</u>	<u>53.6</u>
Income tax	-12.0	-18.1	-12.3	-4.5	-8.9	-10.6	-11.8
<u>Net profit</u>	<u>42.9</u>	<u>-26.7</u>	<u>38.2</u>	<u>10.8</u>	<u>31.6</u>	<u>37.6</u>	<u>41.8</u>
EPS (US\$)	0.126	-0.079	0.113	0.032	0.093	0.111	0.123
<u>P/E</u>	<u>7.3x</u>	<u>-11.7x</u>	<u>8.2x</u>	<u>29.1x</u>	<u>9.9x</u>	<u>8.3x</u>	<u>7.5x</u>
<u>EV/EBIT</u>	<u>4.7x</u>	<u>-25.4x</u>	<u>5.1x</u>	<u>17.3x</u>	<u>6.3x</u>	<u>5.3x</u>	<u>4.7x</u>
<u>Div yield</u>	<u>4.3%</u>	<u>4.3%</u>	<u>6.5%</u>	<u>2.2%</u>	<u>5.0%</u>	<u>6.0%</u>	<u>6.7%</u>

# Potential downside risks



- **Weakening brand name:** When IMAX introduced their smaller, lower-resolution digital IMAX screens with 1.9:1 aspect ratios some film enthusiasts called them “Lie-max” because they didn’t live up to the IMAX brand. An absence of such “quality control” could continue to dilute the still relatively strong IMAX brand.
- **Related party issues:** Parent IMAX is the largest supplier at roughly 80% of COGS. And the parent also wants to privatize the subsidiary at a bargain price. These two factors introduce conflicts of interest.
- **Competition:** Dolby entered China in 2016 and has sold Dolby Atmos audio equipment. But it has failed to make much of a dent with their Dolby Cinema theaters, mostly due to branding problems. Also, IMAX has signed contracts with customers forbidding them to cooperate with Dolby, reducing the threat.
- **Key man risk:** Christopher Nolan has been a great brand ambassador, and Marvel has been supportive too. Might there be key man or supplier risks?
- **Streaming:** Young people seem to prefer streaming services over cinema, as they offer greater selection and instant gratification.
- **The property downturn:** Growth has come from new installations, including with Wanda (which used to be 50% of screens but now much lower). China’s private property market is in disarray, and Wanda is dealing with over-indebtedness.



# Catalysts



- Privatization at higher share price
- China box office recovery
- Greater analyst coverage (now only 3)
- Greater dividends or buybacks

