

## TOPLINE

# Fourth IP on the way for a rebranded Cityneon

Company is moving towards creative and design while aligning its traditional core business with the intellectual property rights business, says its CEO. **BY STEPHANIE LUO**

**T**HERE is nothing more frustrating for Ron Tan than the public's level of knowledge (or the lack of it) of his company, but it is also the catalyst that is pushing him to transform the firm as it prepares to complete its fourth intellectual property (IP) by the first half of this year.

The executive chairman and group CEO of Cityneon Holdings is on a quest to break away from perceptions formed of the company with others in the same industry like Pico Group and Kingsmen Creatives.

"We're trying to move towards creative and design, so that people understand that we're no longer in the category. In our industry, they like to call us the 'Phua Chu Kang'. We have Pico, Cityneon, and Kingsmen. I like to say that 'C' already left the PCK category," Mr Tan told *The Business Times* in a recent interview, drawing reference to the popular Singaporean sitcom character in the 1990s.

Cityneon, in its results announcement last month, said that it will continue to align the group's traditional core business with the intellectual property rights (IPR) business, especially in the area of creative and design.

The company, which started out as a supplier of electrical appliances in 1956, now has five business units: exhibition services, experiential environment, event management, interior architecture, and IPR, its strongest performing segment.

For the full-year ended Dec 31, 2017, Cityneon's net profit jumped 160 per cent to S\$17.4 million. Gross profit increased 84 per cent to S\$63.8 million in FY 2017, and gross profit margin rose to 54.7 per cent from 36 per cent a year ago.

Revenue in FY 2017 increased 21 per cent to S\$116.7 million, of which the IPR segment saw a 187 per cent increase to S\$50.7 million in sales compared to the year-ago period. Revenue in the other segments decreased.

Expansion in the IPR business has been aggressive. The group's third and latest IP acquired in August last year granted it the full global rights to Jurassic World Exhibition after a deal was made via a sale and purchase agreement to acquire all of JP Exhibitions LLC for US\$25 million. This allows Cityneon to make full use of the exhibition's IP in partnership with Universal Studios.

The first two IPs secured by Cityneon's wholly-owned subsidiary Victory Hill Exhibitions were Disney's Marvel Avengers S.T.A.T.I.O.N. and Hasbro's Transformers Autobots Alliance.

On its fourth IP, Mr Tan said that it "won't be anywhere close to what we did for Jurassic".

"For the recent (IP in) Jurassic, people assume that I'm going to buy another company, but people forget that Avengers and Transformers (were) not purchased. They were developed by me. My fourth (and) fifth IP can be developed here," he said.

Cityneon announced last August that it recruited the former director of creations at

**"Name me one company in Singapore that works with Disney, Marvel, Universal, Hasbro. These huge companies give us their brand and we produce the experience around these brands."**

**Ron Tan, executive chairman and group CEO, Cityneon Holdings, who believes that the company is undervalued**



Mr Tan says that he is growing the current workforce dedicated to creative and design from 7 per cent to about 50 per cent.

Cirque du Soleil, Welby Altidor, who is now group chief creative officer of the company.

Mr Tan told BT that he is growing the current workforce dedicated to creative and design from 7 per cent to about 50 per cent, but would not disclose who else he is hiring.

BT understands that Cityneon is currently close to finalising a deal with a global design and production company and the additional manpower for Cityneon's design team will come from that company.

Recently, Cityneon had managed to snag US\$60 million in funding for mergers and acquisitions and its fourth IP, which Mr Tan said was no mean feat.

"If you look at the size of the company, we are only over S\$200 million in market cap. How do we raise US\$60 million? We are able to (based on) the relationship my financial partners have in China and Hong Kong."

Still, the achievements of Cityneon don't seem to be reflected in its trading multiples today, Mr Tan added. He believes that the company, which has grown about 15 times since he joined in the second half of 2015, is undervalued in the stock market.

"Name me one company in Singapore that works with Disney, Marvel, Universal, Hasbro. These huge companies give us their brand and we produce the experience around these brands. For that matter, name me one in Asia. You cannot! I find it excruciatingly painful," he said.

In an equity research report dated Feb 28, DBS Group Research issued a "buy" call for Cityneon and pinned a target price of S\$1.45 based on a price-to-earnings (PE) valuation peg of 14.4 times, which is at a "20 per cent discount to peers' average PE of 18 (times)" on FY 2018 forecasted earnings.

On March 1, UOB Kay Hian similarly issued a "buy" call on the stock and set a PE-based target price of S\$1.55 that was pegged to peers' 15.4 times 2018 forecasted PE. At current levels, the stock is trading at a bargain of 9.8 times 2018 forecasted PE, the brokerage said.

On Friday, Cityneon closed one Singapore cent higher at S\$1.03.

"(Pico and Kingsmen) are trading around 11 or 12 times. They're giving us almost the same multiple as them. Our multiples have to go up because a creative and design company trades at a different multiple. It's very obvious that the financial industry doesn't understand who we are," Mr Tan said, adding that Cityneon should be trading at a PE ratio of 20 to 25 times.

He did, however, acknowledge that it was "partly our fault" that Cityneon's branding is not visible enough.

"I spend a lot of time focusing on the business, the fundamentals. Last year, I had to spend so much time on (a) corporate exercise. This year, we built up our management team. (The company) was spending a lot more time on the road so that people understand who

we are. You cannot blame the investors. It takes time and I believe the time will come," he said.

Mr Tan is aiming high, setting an ambitious target of bringing the company to S\$1 billion in market capitalisation, but that means that big changes have to be made to enhance the appeal of the company.

As a result, Cityneon is undergoing a major rebranding exercise that is expected to finish by June this year. He tells BT that for this move, there will be "someone external recommended by a government agency, someone who's really known".

Cityneon's management team will also be expanding, and although there are scant details, Mr Tan is sure that he will retain his executive chairmanship and CEO position post-rebranding.

"It is my baby. I am here to see through this change and transformation. This rebranding will then tell what Cityneon is going to be."

Some considerations in this move include a possible change in logo or even the name of the company, but Mr Tan is not of the opinion that there is a need to alter the latter.

"To be honest with you, I *she bu de* ('can't bear to' in Mandarin). It's an old brand name that's been around for many years. We have to change how we position ourselves, how people know who we are. That's what I want to achieve," he said.

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## SID | BOARDROOM MATTERS

# Remuneration disclosures: Is 'comply-or-explain' enough?

Transparency on executive pay should not be taken lightly in S'pore in view of stricter practices elsewhere. **BY CHUA WEI HWA**

**D**IRECTOR and executive pay is usually the subject of intense scrutiny by regulators, investors and the general public.

It is thus not surprising that remuneration is one of the focus areas of the recent review of the Code of Corporate Governance. What is surprising though, is that despite the poor showing of current remuneration disclosures, little change is being proposed by the Corporate Governance Council.

### State of remuneration disclosures

Currently, Guideline 9.2 of the Code recommends detailed disclosure, on a named basis, of the amounts and structure of individual director and CEO remuneration. In addition, Guideline 9.3 of the Code recommends similar disclosure of at least the remuneration of the top five key management personnel, in bands of S\$250,000, as well as the aggregated total remuneration paid to these five key management personnel.

Several studies have shown that these two guidelines are usually among the most poorly complied provisions of the Code, which are only on a "comply-or-explain" basis.

In July 2016, the Singapore Exchange (SGX) released the results of its inaugural review of 545 mainboard companies' disclosures in their annual reports. Disclosures related to remuneration matters were flagged as the area where compliance to the Code is lowest.

Similarly, the *Singapore Directorship Report 2016* by the Singapore Institute of Directors (SID) and Institute of Singapore Chartered Accountants found that of 758 listed entities on

SGX, only 34 per cent and 27 per cent of these companies fully disclose the remuneration of their directors on a named basis, and their CEOs' remuneration, respectively.

The Board of Directors Survey 2017 by SID and SGX found that less than half of the respondent companies complied with Guideline 9.2. Of note, 95 per cent of those that did not comply indicated that they have no intention of doing so within the next two years. Justifications by respondents for non-disclosures were "confidentiality of remuneration", to "prevent poaching", and to "prevent internal comparison and maintain morale".

These reasons are consistent with the comply-or-explain explanations by boards in their annual reports for their deviations from Guidelines 9.2 and 9.3 of the Code.

### Other jurisdictions

A review of what is happening in other countries on remuneration disclosures may be instructive.

In the US, since 2006, federal securities law has required public companies to make detailed disclosures of remuneration policy and the remuneration paid to individual directors, CEO, CFO and the three other most highly-paid executives.

In 2011, the US Securities and Exchange Commission (SEC) implemented "say-on-pay" where shareholders of public companies indicate their agreement with executive compensation, on an advisory basis, at least once every three years.

Starting in 2018, public companies in the US will also now be required to disclose the ratio of CEO compensa-



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tion to the median compensation of other employees. While yet to be adopted, the SEC had in April 2015 proposed legislated disclosures on how actual executive compensation is tied to total shareholder return.

In the UK, quoted companies are required to prepare and disclose the total remuneration paid to each individual director, as well as specific details of CEO compensation and other employees. There is also a requirement to disclose the link between pay and performance of directors.

The UK has implemented "say-on-pay" on a binding basis, along with 10 other major jurisdictions including Australia, Japan and several European countries.

Closer to home, the Hong Kong Exchange mandates disclosures pertaining to directors and the five highest-paid individuals in its listing rules, rather than relegating this to its code of corporate governance which

is also on a "comply-or-explain" basis.

### Going forward in Singapore

In Singapore, instead, the Corporate Governance Council issued a specific proclamation in the negative - no "say-on-pay". Granted that pay can be an emotive issue, it might be understandable that the Council deems it a matter best left to rational discussion in the boardroom.

However, the Council's approach to remuneration disclosures is to leave the current Code, including Guidelines 9.2 and 9.3, largely intact but with two tweaks. The first is to include a disclosure between remuneration and value creation (in addition to performance). The second is to extend disclosure of details of remuneration to employees who are substantial shareholders or their immediate family members (in addition to those who are directors or the CEO).

It is hard to see how these two

tweaks can be sufficient in the light of the poor state of current remuneration disclosures, and the stricter practices elsewhere. While the Council may expect the enhancements to the implementation and enforcement of the comply-or-explain regime to improve disclosures, it is a stretch to expect remuneration disclosure to improve given the intractable response by companies to date.

The case for remuneration transparency is to counter perceived excessive executive compensation and pay disparity, although these are often cited as a problem of the West.

The Willis Towers Watson's *2016/2017 Global 50 Remuneration Planning Report*, however, shows that Singapore and Hong Kong have the highest top and senior management pay levels in the Asia-Pacific. In addition, the HR firm's *2016 Global Workforce Study* shows that only half of employees surveyed in Asia-Pacific consider their pay to be fair. These findings indicate that transparency on executive compensation should not be taken lightly in Singapore.

In that regard, the Council should have considered moving the disclosures of remuneration into the Listing Rules as it did for director independence and other important areas. That would, no doubt, significantly improve the transparency of remuneration disclosures.

Dr Chua is a member of the Singapore Board of Directors Survey Committee of the Singapore Institute of Directors.

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## RHT to review Datapulse's practices

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LAW firm RHTLaw Taylor Wessing LLP will undertake an independent review of embattled company Datapulse's internal controls and corporate governance practices.

Datapulse announced RHT's appointment on Sunday, just under two weeks after the Singapore Exchange (SGX) slapped the company with a notice of compliance, mandating that independent professionals be appointed to review its internal processes.

On Feb 23, SGX instructed Datapulse to appoint the reviewers by March 9, but the mainboard-listed company said that the deadline was extended till the end of Sunday.

RHT will review, among other things, the facts and circumstance surrounding the board's approval for the acquisition of personal care product company Wayco Manufacturing on Dec 12, 2017.

A group led by Ng Bie Tjin and Uniseraya Holdings that holds a combined 16 per cent stake in Datapulse had contested the company's proposed diversification into personal care business through buying out Wayco.

RHT's review will commence from Nov 23, 2000, the date when Datapulse was transferred to the SGX mainboard.

Considering Ms Ng had left the company in 2014, Datapulse also said that the scope of the review is expanded to include processes relating to changes to its board.

This will allow RHT to arrive at more holistic recommendations, it explained.

Datapulse last traded at 34 Singapore cents, down three cents.