

KNeo Media Limited

KNM A\$0.03 TARGET PRICE A\$0.10

BUY

KNeoMedia (KNM) is an online educational games publishing company that delivers 'edutainment' (education + entertainment) content to global education and consumer markets

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Asia Pacific
Prudential Securities

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Over 14,000 consumer downloads in China within only three days

KNeoMedia Limited (ASX:KNM) is an online educational games publishing company that delivers 'edutainment' (education + entertainment) content to global education and consumer markets. Following a recent \$1.25 million capital raising, KNM is targeting expansion into the high growth US and Chinese edutainment markets.

In China, KNM and SmartTrans Holdings (ASX:SMA) entered into an agreement where SMA will promote and distribute KNM's Mandarin language product, KNeoJunior. This agreement provides KNM with unrivalled reach to over 1.26 billion mobile subscribers.

On 28 July KNM announced:

- KNeoJUNIOR trial has been enthusiastically received by Chinese consumers with 14,000 individual downloads via its distribution agreement with SMA;
- The pricing structure for a large-scale roll-out of KNeoJUNIOR product to multiple Chinese provinces is currently being finalised;
- Positive consumer uptake and feedback has KNM well positioned to capitalise on the growing Chinese Edutainment sector; and
- KNM is currently assessing additional distribution opportunities throughout China and South East Asia to secure multiple revenue streams (an agreement in this regard is expected to be announced shortly).

The targeted KNeoJUNIOR trial was conducted in Guangdong Province to determine consumer interest levels and assess acceptable product pricing points prior to the official product launch (Guandong holds 106m people).

The launch of KNeoJUNIOR is a key pillar in the Company's strategic push into the growing Chinese Edutainment sector, and represents the first of several Mandarin language products to be distributed across multiple Chinese provinces under the agreement with SMA.

KNM's CEO, James Kellett added: "We are confident that the official launch of KNeoJUNIOR will generate meaningful revenue for the company and our strategy is to continue to roll out new edutainment products so we have multiple revenue streams."

Earnings changes

We are retaining our 12-month price target of A\$0.10/sh and a BUY recommendation. The price target is underpinned by our DDM valuation and uses a cost of equity of 9.7%.

Company Data

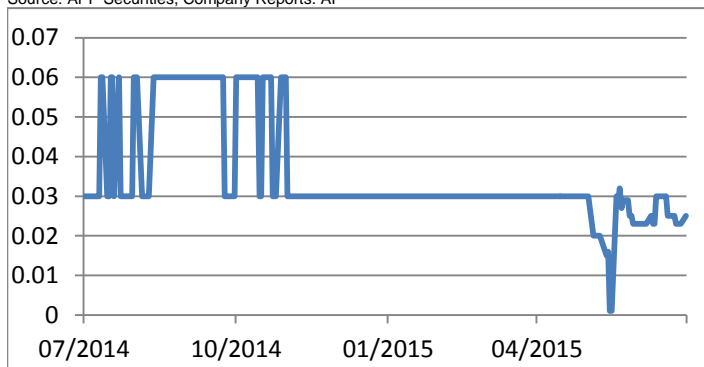
Number of shares	171.9M
Market capitalisation	\$ 4.3M
Free Float (%)	0
12 month high/low	\$0.075 /\$0.015
Average monthly turnover	0
% S&P/ASX 200	
% All Ordinaries	
DDM Ranking	1
ESG Score (Ranking)	n/a
GICS Industry Group	Information Technology Services

Earnings Summary (AUD)					
Year end June	2014A	2015F	2016F	2017F	2018F
Revenue (\$M)	0.2	0.0	4.8	10.1	11.7
EBITDA (\$M)	-1.7	-1.5	2.6	7.5	8.5
Reported NPAT (\$M)	-1.8	-1.5	2.3	5.2	5.9
Adjusted NPAT (\$M)	-1.8	-1.5	2.3	5.2	5.9
Reported EPS (¢)	-0.1	-0.5	0.7	1.6	1.8
Adjusted EPS (¢ - FD)	-0.1	-0.5	0.7	1.6	1.8
Adjusted EPS growth (%)	-	-	n/m	n/m	13.5%
Adjusted P/E (x)	-	6.3	4.3	1.8	1.6
Dividend (¢/sh)	-	-	-	1.0	1.1
Gross yield (%)	-	-	-	32.5	36.8
Net yield (%)	-	-	-	32.5	36.8
ROIC (%)	-	-	-	-	-

Data Source: APP Securities

KNM Share Price Performance

Source: APP Securities, Company Reports, AP



Securities contributes all company estimates to Bloomberg, Thomson Reuters, FactSet and Capital IQ.

Note: Numbers displayed are a sub-set
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Contact with **KNeo Media Limited** has been made during the preparation of this report for assistance with verification of facts.

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Free Float (float / current shares outstanding) *100 – This float figure is the number of shares that are available to the public and is calculated by subtracting the shares held by insiders and those deemed to be stagnant shareholders. Stagnant holders include ESOP's, ESOT's, QUEST's, employee benefit trusts, founding shareholder equity stake plus senior management equity stake, corporations not actively managing money, venture capital companies and shares held by Governments.

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