Stock Report | Sept 29, 2016 | OTCQB Symbol: TKAT Takung Art Company Ltd Update



GIS Sector Consumer Discretionary **Sub-Industry** Specialized Consumer Services

Summary Based in Hong Kong, Takung Art Company Ltd. provides a secure and easy way for art collectors and investors to acquire shared ownership in Asian fine art

Hong Kong

Key Stock Statistics (Source: Reuters, Yahoo Finance, company reports)

 52-Wk Range
 \$1.85- \$9.50
 PTM Oper. EPS 2017E
 0.62

 Shares Outstanding (M)
 11.10
 Public Float
 1.3M

 P/E Ratio
 12.23x
 CIK
 0001491487

Past performance is not an indication of future performance and should not be relied upon as such.

Highlights

Takung Art Company Ltd. provides a secure and easy way for art collectors and investors to acquire shared ownership in Asian fine art - including paintings, calligraphies, jewelry and precious gems - and participate in the booming Asian art market without fear of price manipulation and forgery. The ability to trade these valuable assets on Takung's proprietary online trading platform has attracted a significant number of fine art investors - including many ordinary people without substantial financial resources. This novel platform significantly expands the number of interactions between sellers and buyers of fine art far beyond those generated by art galleries and auction houses alone.

For providing this unique service, Takung Art Company earns multiple streams of revenue, including listing fees, trading commissions, management fees and authorized agent fees. Takung's business model is to continually add to its fine art listings by offering collectors units in carefully selected items. First, an artwork - either an individual piece or portfolio of several pieces - is presented to Takung by an authorized agent, who helps get the artwork professionally

Market Capitalization (M) \$74.3M Debt-to-Cap. 62% State of Incorporation DE Address: 03-04 20/F Hutchison House 10 Harcourt Road

Phone: +852 3158-0977 website: www.takungart.com

appraised. After making its own assessment, if Takung believes it is clearly marketable and will likely appreciate near-term, the company will - after receiving all offering documents - list the artwork on its site and divide it into equal ownership units based on its appraised value. For this listing the artwork's owner or the offering agent pay Takung a one-time offering fee of 22.5 to 48 percent of the artwork's offering price and a refundable listing deposit of roughly 20 percent of the offering price. In addition, Takung charges trading commissions of about 0.2 percent for the online purchase and sale of artwork units, as well as management fees covering the insurance, storage, and transportation for artwork. Takung may also receive substantial annual fees from those agents authorized to list products on the company's platform.

Traders utilize our platform through a client app available for download from the company's commercial website. Currently, most of our traders are located in mainland China. To expand our number of traders, Takung has employed various online promotion strategies and also entered into an agreement with an arts marketing agency that has a broad network of both amateur and professional art traders and dealers. In July 2016, the company initiated its first major expansion of operations outside of China when it introduced the trading platform to residents of Russia, Mongolia, Australia and New Zealand.

As of July 31, 2016, Takung had 135 art listings trading on our platform, with an aggregate initial listing value of US\$33.65 million. Most of the listed pieces and portfolios have traded actively and shown significant appreciation since their introduction on the site. The purchase and sale of ownership units of Takung's listed artwork generated a total transaction value of US\$2.09 billion during the first six months of calendar/fiscal 2016 versus US\$510.95 million transacted in the like year-ago period.

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Revenue/Earnings Data (Million \$)												
	1Q	2Q	3Q	4Q	Year							
2016	3.78	4.68										
2015	1.27	.936	2.70		11.33							
2014	1.045	.468	.921		4.719							
2013					0.358							
2012												

Fiscal year ended Dec. 31. Next earnings report expected: 11/13/16. Revenue increase over the course of five years is directly related to the development of the company's online art auction business. The company went public in 2014 and was incorporated in 2012.

Sub-Industry Outlook

Our fundamental outlook for the specialized consumer services sub-industry is positive. This sub-industry contains a variety of companies in different lines of business. The state of the economy is prime source of our sub-industry outlook. S&P Global Economics forecasts a slow-growing U.S. economy, with real GDP growth estimated at 2.3% in 2016, compared to 2015's 2.4%. A major factor for growth is an improving labor market. The current unemployment rate estimate for 2016 stands at 5.0%+/-, but the trend appears to be moving in the right direction.

Consumer confidence also pays a key role for this sub sector as spending levels remain positive worldwide. But with consumer spending somewhat slow, we believe the sub sector will continue to show growth albeit slower than the global economy has grown in the past. We believe personal spending will advance roughly in line with GDP growth in 2016. Luxury spending on such items as gold and jewelry have been somewhat slow, appreciation of fine art remains consistent.

Due to the diverse nature of this sub-industry, we think each company and its respective peer group should be evaluated on its own merits.

By comparison, year to date through June 10, the S&P Specialized Consumer Services Index was down 11.4% vs. a 3.0% increase in the S&P 1500 Index. In 2015, the subindustry index declined 3.6%, versus a 1% loss for the S&P 1500.

Risk Assessment

Our risk assessment reflects the cyclical and seasonal nature and the price volatility of the consumer discretionary industry, offset by the company's historical growth and unique positions of its main product lines.

Price Target Media Quality Ranking is C+

Long-term Debt-to-capital, while over 60%, 18.4M in debt to 28.5M in current assets, seems excessive, though 16.1M of that debt is in the form of Customer Deposits, which we deducted and therefore gave TKAT a lower risk assessment. Due to its exponential growth rate on earnings, in conjunction to deducting Customer Deposits as a liability, we gave the Company a C+ rank.

UPDATE: Price Target Media has raised its 2017 earnings estimate to \$0.62 per share from \$0.55 based on recent news released by TKAT on revenue and earnings growth.

In a conference call with investors on 9/28/16, Chief Financial Officer Mr. Leslie Chow, stated that "transaction buying and selling was 50 million units per day currently, compared to 15 million in 2016. And that revenue was now \$1 billion a month compared to \$2.3 billion for all of 2015." For that reason, PTM increased its earnings estimate in this Updated Stock Report.

During the question and answer period of the call, an investor asked if Takung Art Company Ltd planned on listing to an exchange anytime soon, in which Mr. Chow said, "we have begun active discussions with one of the major exchanges to list."

PTM looks for TKAT to announcing listing to an exchange shortly. Once listed, we're forecasting a dramatic increase to trading volume and price.

At its current price level, if TKAT earns \$.62 per share, it would equate to P/E Ratio of 10.65X, which leaves room for upside to as much as double the current price (see, *Peer Group, Tiffany & Co.*, page two, below for comparable).



Sub-Industry: Specialized Consumer Services Peer Group*: Major Specialized Consumer Services

Peer Group	Symbol	Mkt Cap	Price	52-wk hi/lo	Beta	Yield (%)	P/E Ratio	Quality Ranking	RoR (%)	LTD to Cap (%)
Southeby's	BID	2.24B	40.63	41.23 – 18.86	1.79	1.00	78.44	B-	3.9	66.4
Michael Kors Holdings	KORS	8.49B	50.21	59.49 – 34.83	0.08	NA	11.33	В	17.2	NA
Coach	СОН	10.88B	38.99	43.71 – 27.22	0.55	3.47	23.63	C+	10.3	24.2
Tiffany & Co	TIF	9.2B	72.98	84.19 – 56.99	1.87	2.45	20.82	B-	11.1	19.5

NA- Not Applicable, *Peer Group selected for the specialized consumer services sector within U.S. major companies. Quality Ranking based on Price Target Media ranking system, which should not be relied upon for investment decisions. Market Cap is in billions.

Price Target Media Quality Ranking

Numerous factors contribute to Quality Ranking, including earnings and revenue growth. However, other factors such as product category served, or niche markets, are also considered. Quality Rankings are designed to capture the nature of a record for a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock is measured against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of this sample has been aligned with the following ladder of rankings:

A High

B to B+ Average to Above Average

C to C+ Below Average to Lower

D Lowest or in Reorganization

Risk Assessment

Risk assessments are based on the financial condition of a company at the time of a Report and take into consideration both the Quality Ranking elements of analysis as well as the overall market, or sector, of a company being reported on and are not a basis of analysis for investment. Assessment gauges the then-current outlook or likelihood, under a company's then financial condition, as to whether or not it can show improvement without additional stimulus, such as an infusion of capital or improving sales.

General Disclosure

Price Target Media, Inc. received no compensation from this company for this report. Nor has Takung Art Co Ltd. hired Price Target Media in the prior twelve months for investor relations services.

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