

Singapore Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity

14 Jun 2017

mm2 Asia (MM2 SP) : BUY

Mkt. Cap: US\$462m | 3m Avg. Daily Val: US\$1.8m

Last Traded Price (13 Jun 2017): S\$0.62

Price Target 12-mth: S\$0.70 (13% upside)

Analyst

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Company Guide

[mm2 Asia](#)



Summary of our point of view, and highlights the relevant data points, which are actively tracked

Acquisition of Golden Village cinema chain in Singapore

- **Acquisition of 50% stake in Golden Village Singapore for S\$184.3m, implying valuation of 10.5x EBITDA**
- **Better bargaining power; complements Malaysia cinema operations**
- **Stable cash business; source of recurring income and potential for cost savings**

What's New

Acquisition of 50% stake in Golden Village Singapore for S\$184.3m, implying 10.5x EBITDA. mm2 Asia is proposing to acquire a 50% stake in Golden Village (GV) cinema business in Singapore for about S\$184.3m or 10.5x the aggregate earnings before interest, taxes, depreciation and amortisation (EBITDA) for GV cinema business for the period ended 31 December 2016. This is slightly higher than the 8 to 9x EBITDA paid for the cinemas in Malaysia.

The proposed acquisition will be funded by a combination of bank borrowings, internal cash resources as well as proceeds from fund raising exercises to be undertaken by the group. The acquisition is expected to be completed by 21 July 2017.

The seller is a wholly-owned subsidiary of Village Roadshow Limited, a company listed on the Australian Securities Exchange. Based on the latest publicly available financial statements for the financial year ended 31 December 2015, the GV cinema business reported net profit of S\$25.1m. The aggregate net tangible asset (NTA) value was S\$33.9m.

Golden Village is top cinema in Singapore. GV is Singapore's leading cinema exhibitor with 11 multiplexes housing 92 screens with locations in various parts of Singapore. Total capacity is 1,390 seats, consisting of 8 auditoriums and 3 Gold Class cinemas. Other cinema operators in Singapore include Shaw, Cathay and WE cinema by Eng Wah. Shaw has about eight cinemas, Cathay seven and WE, one.

Forecasts and Valuation (excluding GV cinema)

FY Mar (\$m)	2016A	2017A	2018F	2019F
Revenue	38.3	95.4	147	182
EBITDA	19.4	41.4	50.8	58.4
Pre-tax Profit	9.99	25.9	32.9	40.5
Net Profit	8.18	18.8	22.4	27.8
Net Pft (Pre Ex.)	8.18	18.8	22.4	27.8
Net Pft Gth (Pre-ex) (%)	59.4	130.1	19.0	24.3
EPS (S cts)	0.90	1.80	2.14	2.65
EPS Pre Ex. (S cts)	0.90	1.80	2.14	2.65
EPS Gth Pre Ex (%)	46	98	19	24
Diluted EPS (S cts)	0.90	1.80	2.14	2.65
Net DPS (S cts)	0.0	0.0	0.0	0.0
BV Per Share (S cts)	4.00	5.90	10.4	13.0
PE (X)	64.7	32.6	28.9	23.3
PE Pre Ex. (X)	64.7	32.6	28.9	23.3
P/Cash Flow (X)	nm	39.3	25.5	17.9
EV/EBITDA (X)	27.3	14.3	12.3	10.5
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	15.1	8.9	5.9	4.8
Net Debt/Equity (X)	CASH	CASH	0.0	CASH
ROAE (%)	29.5	31.1	22.9	22.7

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Flash Note

Better bargaining power, complements Malaysian cinema operations. The proposed acquisition of the GV cinema would further strengthen mm2's presence in the downstream value chain of film distribution. As the market leader, mm2 would now have a better bargaining power in terms of securing distribution titles and screening rights. This will also complement its current cinema operations in Malaysia.

Stable and cash business; source of recurring income and cost savings for the Group. Cinema operation is a relatively stable and cash business. The ownership of cinemas not only provides a source of recurring income to the group but can lead to cost savings for the group as mm2 usually has to pay about 50% of its gross box office proceeds for rental of cinemas. Cinema operation is a profitable business, and may even be profitable even with less than 30% of the seats occupied.

Earnings and Recommendation

Will adjust earnings after details of fundings are finalized.

We will adjust our earnings forecast to take into account the acquisition of the Golden Village cinema chain after the funding details are finalized.

Estimated earnings accretion of 16% to 29% for FY18F.

Depending on the structure of the financing for the purchase consideration of S\$184.3m, earnings for FY18F could improve by 16% to 29%, based on the assumptions in the table below, and assuming an eight-month contribution from the GV cinema. Likewise, earnings for FY19F could jump by 36% to 47%, based on the same assumptions.

DBS assumption for the financing of S\$184m purchase consideration

Debt financing	Equity financing	Assumed interest expense @ 4%	Curr share cap (m)	Enlarged share cap (m)	Assumed equity issue price @ 5% discount to last close	Earnings	Earnings	Revision	Revision	PE	PE
						FY18F (\$m)	FY19F (\$m)	to FY18F earnings	to FY19F earnings	FY18F (x)	FY19F (x)
100%	0	7.4	1,048.7	1,048.7	-	25.9	37.7	16%	36%	25.1	17.2
50%	50%	3.7	1,048.7	1,204.9	0.59	29.0	40.8	29%	47%	25.8	18.3

Note: PE calculated based on last close of S\$0.62

Source: DBS Bank assumption

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	01 Jul 16	0.34	0.41	BUY
2:	13 Sep 16	0.39	0.47	BUY
3:	09 Nov 16	0.47	0.56	BUY
4:	15 Nov 16	0.47	0.56	BUY
5:	11 Jan 17	0.48	0.56	BUY
6:	13 Apr 17	0.51	0.63	BUY
7:	23 May 17	0.59	0.70	BUY
8:	24 May 17	0.59	0.70	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Lee Keng LING

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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