

mm2 Asia (MM2 SP)

Brighter 2H Picture

1HFY19 in line; maintain BUY

1HFY19 core EPS forms 41%/41% of MKE/consensus estimates (Fig 1). With 2H traditionally driving the bulk of its annual profits - 58% in 2HFY18, results were in line. We maintain our forecasts, 1x PEG-based TP of SGD0.57 and BUY as management has indicated continued improvements in its cinema business. A strong production pipeline, including Netflix work, should contribute by 4Q. Any production delays or cost over-runs are key risks to our outlook.

Reported profits dragged by one-off

1HFY19 revenue makes up 41%/36% of MKE/consensus estimates, with YoY growth driven by its Cathay Cineleisure cinema acquisition and QoQ growth by concert and event production. The bulk of its core movie and TV production business typically contributes in 2H. Due to a SGD1.6m exceptional cost related to Cathay's final valuation, reported 1H19 EPS only forms 27%/31% of MKE/consensus.

Promising 2H

Management outlined a healthy core production pipeline, up YoY to about 80 from 50. This is inclusive of recently-announced production work for Netflix's 2019 Asia programming. Its Netflix relationship took two years to build. More B2B deals similar to Netflix's are expected, that should lift volume and upfront payments, although these may have lower margin. Its concert and event production business is expected to scale up further. Management indicated that six months into its acquisition of Cathay, cinema EBITDA is higher from both revenue enhancement and cost reduction. Its recently-Catalist-listed post-production and virtual-reality (VR) arm, Vividthree, will be booking gains from its initial VR show sales.

Focus areas

mm2 continues to focus on non-box-office cinema revenue sources such as F&B and advertising to create a platform for the eventual listing of its cinema business. The latter should help in balance-sheet de-leveraging. As for its core business, it is targeting more TV production work.

| FYE Mar (SGD m) | FY17A | FY18A | FY19E | FY20E | FY21E |
|------------------------------|----------|----------|-------|-------|-------|
| Revenue | 96 | 192 | 280 | 331 | 367 |
| EBITDA | 41 | 63 | 85 | 113 | 131 |
| Core net profit | 19 | 26 | 31 | 41 | 48 |
| Core EPS (cts) | 1.9 | 2.4 | 2.6 | 3.5 | 4.1 |
| Core EPS growth (%) | 100.2 | 29.2 | 10.7 | 31.9 | 17.2 |
| Net DPS (cts) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Core P/E (x) | 25.4 | 21.3 | 13.2 | 10.0 | 8.6 |
| P/BV (x) | 5.7 | 3.3 | 1.5 | 1.1 | 0.9 |
| Net dividend yield (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| ROAE (%) | 31.0 | 19.8 | 17.7 | 12.8 | 11.4 |
| ROAA (%) | 16.0 | 7.1 | 5.1 | 6.0 | 6.0 |
| EV/EBITDA (x) | 11.5 | 9.1 | 7.8 | 5.8 | 4.6 |
| Net gearing (%) (incl perps) | net cash | net cash | 70.4 | 50.2 | 28.8 |
| Consensus core profit | - | - | 31 | 38 | 44 |
| MKE vs. Consensus (%) | - | - | 0.4 | 8.0 | 10.0 |

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BUY

| | |
|-----------------------|-----------------|
| Share Price | SGD 0.35 |
| 12m Price Target | SGD 0.57 (+64%) |
| Previous Price Target | SGD 0.57 |

Company Description

mm2 Asia Ltd. is a media and entertainment conglomerate exposed to film production and distribution, cinema management, and event production.

Statistics

| | |
|------------------------|----------------------|
| 52w high/low (SGD) | 0.58/0.33 |
| 3m avg turnover (USDm) | 0.2 |
| Free float (%) | 40.2 |
| Issued shares (m) | 1,163 |
| Market capitalisation | SGD407.0M USD296M |

Major shareholders:

| | |
|---------------------|-------|
| ANG WEE CHYE | 38.1% |
| StarHub Ltd. | 9.8% |
| YEO KHEE SENG BENNY | 6.0% |

Price Performance



| | -1M | -3M | -12M |
|-----------------------|-----|------|------|
| Absolute (%) | 4 | (17) | (39) |
| Relative to index (%) | 3 | (13) | (34) |

Source: FactSet

Companies and terms mentioned:

Netflix (NFLX US, Not Rated)
Vividthree (VTH SP, Not Rated)
B2B - business to business
VR - virtual reality
F&B - food and beverage

Figure 1: Quarterly results

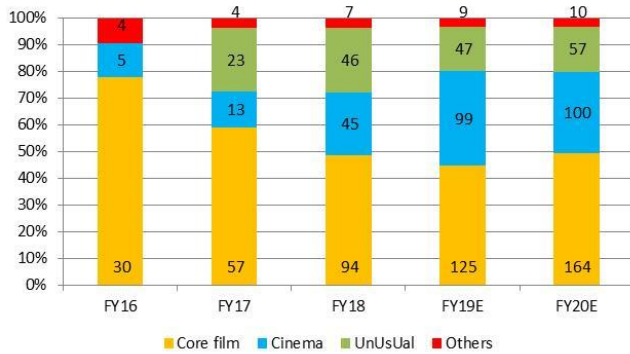
| (end-Mar, SGD m) | 2QFY18 | 3QFY18 | 4QFY18 | 1QFY19 | 2QFY19 | QoQ | YoY | % of MKE FY19 | % of cons FY19 |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|------------------|-------------------|
| Total revenue | 31.4 | 52.4 | 83.6 | 49.0 | 64.9 | 32.5% | 106.7% | 40.7% | 35.5% |
| Cost of sales | (16.8) | (28.2) | (47.3) | (16.1) | (37.3) | 132.3% | 122.2% | | |
| Gross profit | 14.6 | 24.2 | 36.3 | 32.9 | 27.6 | -16.2% | 88.9% | | |
| <i>Gross profit margin</i> | <i>46.5%</i> | <i>46.1%</i> | <i>43.4%</i> | <i>67.2%</i> | <i>42.5%</i> | | | | |
| Administrative expenses | (6.7) | (14.2) | (21.8) | (18.9) | (13.4) | -29.2% | 99.7% | | |
| EBITDA | 9.74 | 14.27 | 28.35 | 17.95 | 17.45 | -2.8% | 79.2% | 41.5% | |
| <i>EBITDA margin</i> | <i>31.0%</i> | <i>27.2%</i> | <i>33.9%</i> | <i>36.6%</i> | <i>26.9%</i> | | | | |
| Amortization of film rights | (0.6) | (2.3) | (8.1) | (0.2) | (0.6) | 164.8% | 0.3% | | |
| Amortization of other film | (0.5) | (0.5) | (3.1) | (1.0) | (0.4) | -64.4% | -25.1% | | |
| Depreciation of PPE | (0.7) | (1.5) | (2.7) | (2.6) | (2.2) | -14.9% | 212.8% | | |
| EBIT | 7.9 | 9.9 | 14.5 | 14.0 | 14.2 | 1.3% | 79.6% | | |
| Other income | 0.4 | 0.1 | 0.2 | 0.5 | 0.5 | 9.4% | 36.8% | | |
| Other gains and losses | 0.1 | 0.4 | (0.0) | 0.3 | (0.3) | -184.7% | -452.5% | | |
| Associate income | (0.2) | 0.2 | 0.2 | 0.0 | | | | | |
| Finance expenses | (0.2) | (0.2) | (1.3) | (3.2) | (5.5) | 71.2% | 2504.2% | | |
| Profit before tax | 8.0 | 10.4 | 13.5 | 11.6 | 8.9 | -23.2% | 11.9% | | |
| Tax | (1.6) | (1.9) | (2.5) | (2.5) | (3.5) | 40.9% | 115.8% | | |
| Profit before minorities | 6.3 | 8.5 | 10.9 | 9.1 | 5.4 | -40.8% | -15.0% | | |
| Minority interest | (1.8) | (2.0) | (1.9) | (1.9) | (1.7) | -8.6% | -2.2% | | |
| Reported profit | 4.6 | 6.4 | 9.0 | 7.2 | 3.7 | -49.2% | -19.8% | 27.0% | 30.7% |
| Exceptional item adjustments | - | - | - | - | 1.6 | | | | |
| Core profit | 4.6 | 6.4 | 9.0 | 7.2 | 5.3 | -27.1% | 15.0% | 40.7% | 40.8% |

Source: Company data, Maybank Kim Eng, FactSet

Value Proposition

- Vertically and horizontally integrated media and entertainment group.
- Pursuing regional expansion and new acquisitions for growth.
- Film, TV and event production and promotion to underpin growth. Cinema business to provide steady cash flows.
- At FY19E PEG ratio of 0.6x based on FY18-21E core profit growth of 22%, the stock is offering value against regional and global peers trading at a 2x PEG.

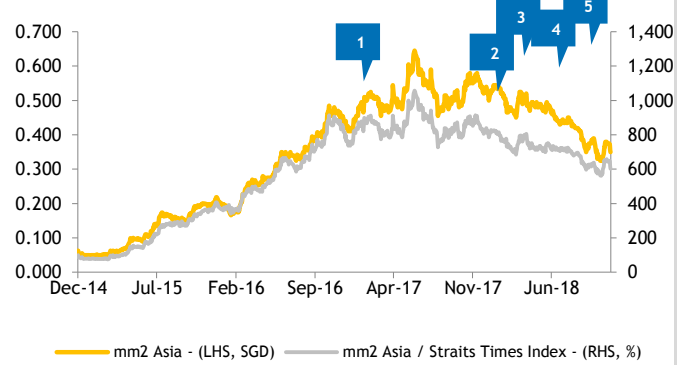
Diversified and growing media revenue base (SGD m)



Source: Company, Maybank Kim Eng estimates

Price Drivers

Historical share price trend



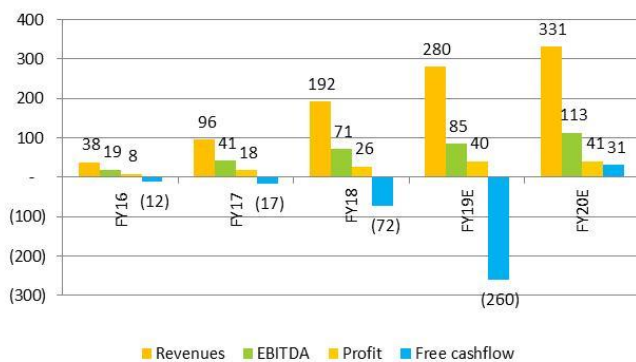
Source: Company, Maybank Kim Eng, Factset

- StarHub acquired initial 8.8% stake in mm2.
- IPO of subsidiary UnUsUal (UNU SP, Not Rated).
- StarHub increased stake to 9.8%.
- Deal to acquire Golden Village cinemas fell through.
- Finalisation of Cathay Cineplex acquisition.

Financial Metrics

- Revenue and profit growth to come from recent acquisitions and organic growth at its core film business.
- Payment for Cathay acquisition to result in negative FCF & gearing in FY19E but reversal expected in FY20E from business expansion.
- Our forecasts do not account for further acquisitions or any listing gains from its currently unlisted parts.

Scaling impact will raise FCF post acquisition digestion



Source: Company, Maybank Kim Eng estimates

Swing Factors

Upside

- A series of movie blockbusters whether in-house produced or distributed can produce positive surprises.
- More event production or co-production deals for UnUsUal for Disney shows and/or other big names in content can help it build scale faster.
- Successful listing of various components could unlock value.

Downside

- Worsening of content piracy, which would affect film, TV and cinema demand.
- Any issues in paying for remaining SGD215m for its Cathay acquisition.
- Unfavourable regulations in regional markets for its film expansion.

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| FYE 31 Mar | FY17A | FY18A | FY19E | FY20E | FY21E |
|------------------------|-------|-------|-------|-------|-------|
| Key Metrics | | | | | |
| P/E (reported) (x) | 21.5 | 22.0 | 10.1 | 10.0 | 8.6 |
| Core P/E (x) | 25.4 | 21.3 | 13.2 | 10.0 | 8.6 |
| P/BV (x) | 5.7 | 3.3 | 1.5 | 1.1 | 0.9 |
| P/NTA (x) | 11.6 | 3.4 | 1.5 | 1.1 | 0.9 |
| Net dividend yield (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| FCF yield (%) | nm | nm | nm | 7.5 | 21.0 |
| EV/EBITDA (x) | 11.5 | 9.1 | 7.8 | 5.8 | 4.6 |
| EV/EBIT (x) | 18.2 | 13.7 | 12.8 | 9.3 | 7.6 |

INCOME STATEMENT (SGD m)

| | | | | | |
|-----------------------------|--------|--------|--------|--------|--------|
| Revenue | 95.7 | 192.0 | 280.1 | 330.7 | 367.4 |
| Gross profit | 45.3 | 90.5 | 132.9 | 160.8 | 179.9 |
| EBITDA | 41.4 | 63.4 | 85.2 | 112.5 | 130.6 |
| Depreciation | (1.6) | (5.6) | (8.9) | (13.0) | (17.8) |
| Amortisation | (14.8) | (15.8) | (24.7) | (29.8) | (33.6) |
| EBIT | 26.0 | 42.0 | 51.6 | 69.7 | 79.3 |
| Net interest income / (exp) | (1.4) | (1.9) | (9.0) | (13.9) | (13.9) |
| Associates & JV | (0.0) | 0.1 | 0.1 | 0.1 | 0.1 |
| Exceptionals | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other pretax income | 0.4 | 1.1 | 13.1 | 1.1 | 1.1 |
| Pretax profit | 25.0 | 41.4 | 55.9 | 57.0 | 66.6 |
| Income tax | (3.7) | (7.9) | (10.6) | (10.8) | (12.6) |
| Minorities | (2.8) | (7.1) | (4.8) | (5.6) | (6.4) |
| Discontinued operations | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Reported net profit | 18.8 | 26.4 | 40.5 | 40.6 | 47.6 |
| Core net profit | 18.8 | 26.4 | 30.8 | 40.6 | 47.6 |

BALANCE SHEET (SGD m)

| | | | | | |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Cash & Short Term Investments | 25.8 | 93.5 | 34.8 | 50.7 | 103.2 |
| Accounts receivable | 46.3 | 114.1 | 181.6 | 235.9 | 277.5 |
| Inventory | 24.0 | 26.6 | 36.1 | 47.4 | 56.1 |
| Reinsurance assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Property, Plant & Equip (net) | 11.2 | 41.6 | 61.1 | 83.2 | 106.6 |
| Intangible assets | 48.5 | 273.9 | 277.4 | 279.6 | 281.1 |
| Investment in Associates & JVs | 1.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other assets | 8.7 | 32.3 | 32.4 | 32.5 | 32.6 |
| Total assets | 166.0 | 581.9 | 623.3 | 729.2 | 857.1 |
| ST interest bearing debt | 6.2 | 5.1 | 5.1 | 5.1 | 5.1 |
| Accounts payable | 46.6 | 281.7 | 43.0 | 53.5 | 61.3 |
| LT interest bearing debt | 5.5 | 68.1 | 248.1 | 248.1 | 248.1 |
| Other liabilities | 11.0 | 15.0 | 17.0 | 19.0 | 22.0 |
| Total Liabilities | 69.5 | 369.4 | 313.1 | 326.0 | 336.3 |
| Shareholders Equity | 85.0 | 181.5 | 274.4 | 361.8 | 473.1 |
| Minority Interest | 11.5 | 31.0 | 35.8 | 41.4 | 47.7 |
| Total shareholder equity | 96.5 | 212.5 | 310.2 | 403.2 | 520.8 |
| Total liabilities and equity | 166.0 | 581.9 | 623.3 | 729.2 | 857.1 |

CASH FLOW (SGD m)

| | | | | | |
|-----------------------------------|--------|--------|---------|--------|--------|
| Pretax profit | 25.0 | 41.4 | 55.9 | 57.0 | 66.6 |
| Depreciation & amortisation | 15.3 | 21.4 | 33.6 | 42.9 | 51.4 |
| Adj net interest (income)/exp | 1.4 | 1.4 | 9.0 | 13.9 | 13.9 |
| Change in working capital | (30.8) | (57.2) | (124.4) | (63.2) | (51.7) |
| Cash taxes paid | 1.7 | 2.7 | 0.0 | 0.0 | 0.0 |
| Other operating cash flow | 0.4 | (0.1) | (0.1) | (0.1) | (0.1) |
| Cash flow from operations | 9.4 | 1.7 | (36.7) | 39.6 | 67.4 |
| Capex | (9.7) | (10.6) | (15.4) | (18.2) | (20.2) |
| Free cash flow | (17.0) | (72.5) | (259.8) | 30.7 | 85.4 |
| Dividends paid | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Equity raised / (purchased) | 28.5 | 197.1 | 20.5 | 0.0 | 0.0 |
| Change in Debt | 10.9 | (55.2) | 180.0 | 0.0 | 0.0 |
| Perpetual securities distribution | (0.1) | (0.2) | 0.0 | 0.0 | 0.0 |
| Other invest/financing cash flow | (17.3) | (64.8) | (216.6) | (4.6) | 24.3 |
| Effect of exch rate changes | (0.2) | (0.3) | 9.5 | (0.8) | (19.0) |
| Net cash flow | 21.6 | 67.7 | (58.7) | 16.0 | 52.5 |

| FYE 31 Mar | FY17A | FY18A | FY19E | FY20E | FY21E |
|--|----------|----------|---------|-------|-------|
| Key Ratios | | | | | |
| Growth ratios (%) | | | | | |
| Revenue growth | 149.7 | 100.6 | 45.8 | 18.1 | 11.1 |
| EBITDA growth | 115.4 | 53.3 | 34.3 | 32.1 | 16.1 |
| EBIT growth | 154.1 | 61.4 | 22.8 | 34.9 | 13.8 |
| Pretax growth | 146.7 | 65.4 | 34.9 | 2.0 | 16.8 |
| Reported net profit growth | 129.4 | 40.9 | 53.1 | 0.3 | 17.2 |
| Core net profit growth | 129.4 | 40.9 | 16.4 | 31.9 | 17.2 |
| Profitability ratios (%) | | | | | |
| EBITDA margin | 43.2 | 33.0 | 30.4 | 34.0 | 35.5 |
| EBIT margin | 27.2 | 21.9 | 18.4 | 21.1 | 21.6 |
| Pretax profit margin | 26.2 | 21.6 | 19.9 | 17.2 | 18.1 |
| Payout ratio | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| DuPont analysis | | | | | |
| Net profit margin (%) | 19.6 | 13.8 | 14.4 | 12.3 | 13.0 |
| Revenue/Assets (x) | 0.6 | 0.3 | 0.4 | 0.5 | 0.4 |
| Assets/Equity (x) | 2.0 | 3.2 | 2.3 | 2.0 | 1.8 |
| ROAE (%) | 31.0 | 19.8 | 17.7 | 12.8 | 11.4 |
| ROAA (%) | 16.0 | 7.1 | 5.1 | 6.0 | 6.0 |
| Liquidity & Efficiency | | | | | |
| Cash conversion cycle | 3.4 | (341.8) | (130.5) | 213.4 | 240.6 |
| Days receivable outstanding | 132.9 | 150.3 | 190.0 | 227.2 | 251.5 |
| Days inventory outstanding | 121.8 | 89.7 | 76.6 | 88.4 | 99.4 |
| Days payables outstanding | 251.2 | 581.7 | 397.1 | 102.2 | 110.2 |
| Dividend cover (x) | nm | nm | nm | nm | nm |
| Current ratio (x) | 1.5 | 0.8 | 4.2 | 4.8 | 5.6 |
| Leverage & Expense Analysis | | | | | |
| Asset/Liability (x) | 2.4 | 1.6 | 2.0 | 2.2 | 2.5 |
| Net gearing (%) (incl perps) | net cash | net cash | 70.4 | 50.2 | 28.8 |
| Net gearing (%) (excl. perps) | net cash | net cash | 70.4 | 50.2 | 28.8 |
| Net interest cover (x) | 18.4 | 22.2 | 5.8 | 5.0 | 5.7 |
| Debt/EBITDA (x) | 0.3 | 1.2 | 3.0 | 2.2 | 1.9 |
| Capex/revenue (%) | 10.1 | 5.5 | 5.5 | 5.5 | 5.5 |
| Net debt/ (net cash) | (14.1) | (20.3) | 218.4 | 202.4 | 149.9 |

Source: Company; Maybank

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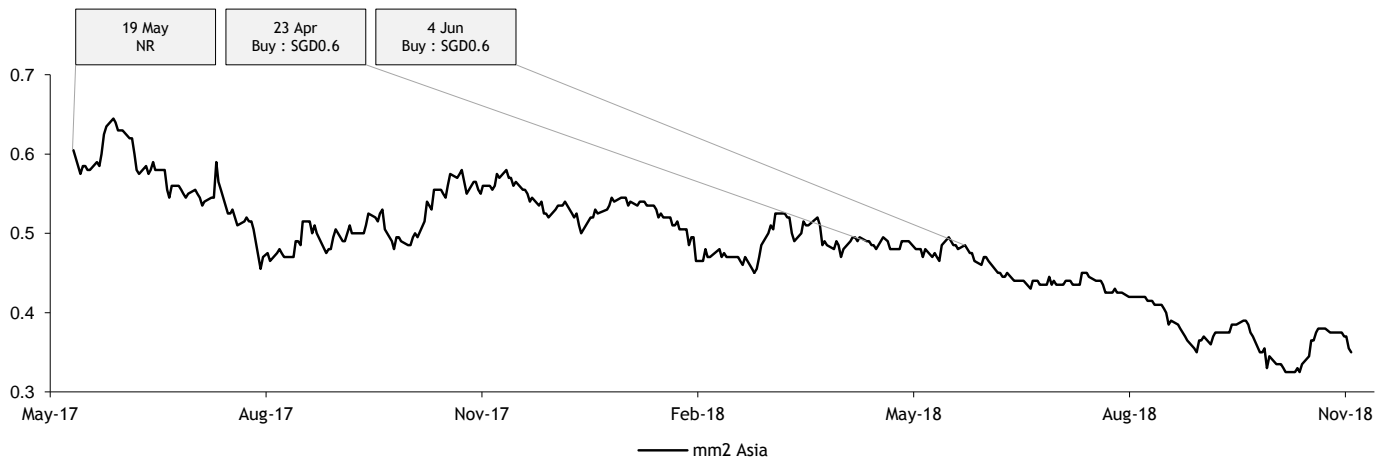
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