

# Singapore Company Focus

## mm2 Asia

Bloomberg: MM2 SP | Reuters: MM2A.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

5 Jan 2016

### BUY

(Initiating Coverage)

Last Traded Price: S\$0.77 (STI : 2,834.23)

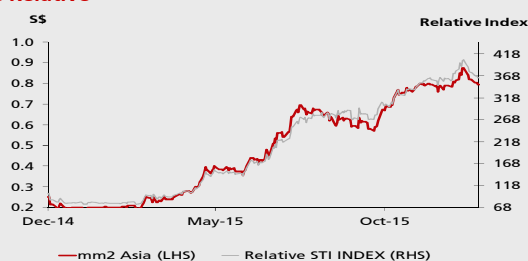
Price Target : S\$1.05 (36% upside)

Potential Catalyst: Earnings accretive acquisitions

#### Analyst

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#### Price Relative



#### Forecasts and Valuation

FY Mar (\$m)	2015A	2016F	2017F	2018F
Revenue	24.3	43.9	66.6	78.3
EBITDA	9.92	14.8	21.2	24.9
Pre-tax Profit	6.58	9.79	16.2	19.9
Net Profit	5.08	8.13	13.4	16.5
Net Pft (Pre Ex.)	5.13	8.13	13.4	16.5
EPS (S cts)	2.46	3.34	5.51	6.80
EPS Pre Ex. (S cts)	2.48	3.34	5.51	6.80
EPS Gth (%)	67	36	65	23
EPS Gth Pre Ex (%)	68	35	65	23
Diluted EPS (S cts)	2.46	3.34	5.51	6.80
Net DPS (S cts)	0.0	0.0	0.0	0.0
BV Per Share (S cts)	9.28	18.2	23.7	30.5
PE (X)	31.3	23.1	14.0	11.3
PE Pre Ex. (X)	31.0	23.1	14.0	11.3
P/Cash Flow (X)	439.7	15.0	17.4	10.6
EV/EBITDA (X)	15.5	11.9	8.0	6.3
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	8.3	4.2	3.2	2.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	44.5	25.6	26.3	25.1

Consensus EPS (S cts): -

Other Broker Recs: B: 0 S: 0 H: 0

ICB Industry : Consumer Services

ICB Sector: Media

Principal Business: mm2 Asia is a leading producer of films and TV/online content in Asia. As a producer, mm2 provides services over the entire filmmaking process – from financing and production to marketing and distribution, thus has a diversified revenue stream.

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

### Premier movie producer

- **Riding on growing demand and support for local production; gaining traction overseas**
- **High margins business model; new revenue streams to strengthen competitive edge and build recurring income base**
- **Spreading its wings in China, one of the world's most lucrative movie markets to support growth**
- **Initiate with BUY, S\$1.05 TP**

**Riding on growing demand and support for local production; gaining traction overseas.** mm2 Asia (mm2) is poised to ride on the growing demand for local production and will continue to grow its presence in Taiwan, Hong Kong and China, by leveraging on the business relationships it has established.

**Spreading its wings in China to support growth.** We expect mm2 to grow at EPS CAGR of 40% for FY15 to FY18F. To support this growth, mm2 intends to spread its wings to one of the most lucrative movie market – China. The group has already co-produced several productions in China since 2013 and is currently working on a few movies in China. Chinese films generally have bigger budgets and better margins than local productions.

**High margins business model; new revenue streams to strengthen competitive edge.** Besides movie production and distribution which offers high gross margin of about 40% to 45%, mm2 recently acquired five cineplexes in Malaysia and some related businesses. Cinemas will provide a source of recurring income to the group and cost savings in the longer term, as mm2 usually has to pay about 50% of its gross intake receipts for rental of cinemas. EBITDA margin for cinemas is about 15%.

**Initiate with BUY, S\$1.05 TP.** mm2 is trading at 23x FYMar16F PE and 14x FY17F PE, based on its enlarged share capital, compared to peers' 27x FY16F PE. Taking a 30% discount to peers given its much smaller size, we arrive at a target PE of 19x to derive our target price of S\$1.05 on FY Mar17F EPS. The stock offers a potential upside of 36%, and it trades at an attractive PEG of 0.31x.

#### At A Glance

Issued Capital (m shrs)	209
Mkt. Cap (S\$m/US\$m)	161 / 113
Major Shareholders	
Wee Chye Ang (%)	62.5
Philip Apac Opp Fund (%)	8.4
Yeo Khee Seng (%)	6.2
Free Float (%)	31.3
3m Avg. Daily Val (US\$m)	0.52

## INVESTMENT THESIS

Profile	Rationale
<p>mm2 Asia is a leading producer of films and TV/online content in Asia. As a producer, mm2 provides services over the entire filmmaking process – from financing and production to marketing and distribution, and thus has a diversified revenue stream.</p>	<p><b>Riding on growing demand and support for local production; gaining traction overseas.</b> mm2 is poised to ride on the growing demand for local production and it will continue to grow its presence in Taiwan, Hong Kong and China, by leveraging on the business relationships it has established.</p> <p><b>Spreading its wings in China to support growth.</b> We expect mm2 to grow at EPS CAGR of 40% for FY15 to FY18F. To support this growth, mm2 intends to spread its wings to one of the most lucrative movie market – China. The group has already co-produced several productions in China since 2013 and is currently working on a few movies in China. Chinese films generally have bigger budgets and better margins than local productions.</p> <p><b>High margins business model; new revenue streams to strengthen competitive edge.</b> Besides movie production and distribution which offers high gross margin of about 40% to 45%, mm2 recently acquired five cineplexes in Malaysia and some related businesses. Cinemas will provide a source of recurring income to the group and cost savings in the longer term, as mm2 usually has to pay about 50% of its gross intake receipts for rental of cinemas. EBITDA margin for cinemas is about 15%.</p>
Valuation	Risks
<p>mm2 is trading at 23x FYMar16F PE and 14x FY17F PE, based on its enlarged share capital, compared to peers' 27x FY16F PE. Taking a 30% discount to peers given its much smaller size, we arrive at a target PE of 19x to derive our target price of S\$1.05 on FY Mar17F EPS. The stock offers a potential upside of 36%, and it trades at an attractive PEG of 0.31x.</p>	<ul style="list-style-type: none"> <li>• <b>No long term financing arrangements for productions.</b> The commencement of each production is dependent on mm2's ability to secure funding.</li> <li>• <b>Productions may be adversely affected by delays and cost overruns.</b> The production process is subject to a number of uncertainties, most of which are beyond mm2's control.</li> <li>• <b>Unable to predict the commercial success of movies produced.</b> Operating in the movie industry involves a substantial degree of risk as mm2's success is affected by the commercial success of its productions, which is primarily determined by inherently unpredictable audience reactions.</li> </ul>

Source: DBS Bank

## SWOT Analysis

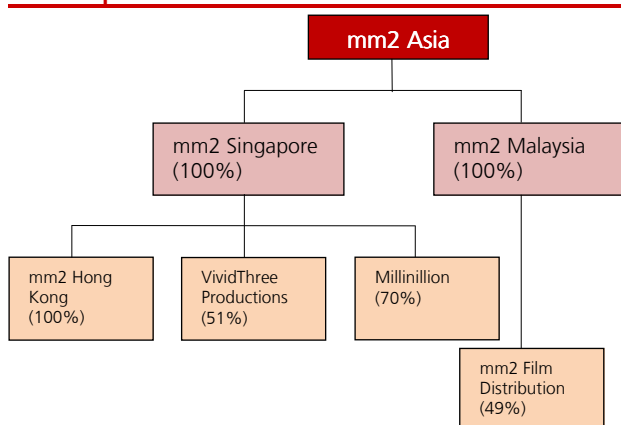
Strengths	Weakness
<ul style="list-style-type: none"> <li>• <b>Integrated movie producer.</b> mm2 has the capability and experience to service and derive revenue from all relevant stages of the filmmaking process.</li> <li>• <b>Helmed by industry veteran.</b> CEO Melvin Ang has 20 years of industry experience.</li> <li>• <b>Strong network of business relationships with key industry players.</b> mm2 has forged and maintained strong business relationships with key industry players in Singapore, Malaysia, Hong Kong, Taiwan and the PRC.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>No long term financing arrangements for productions.</b> The commencement of each production is dependent on mm2's ability to secure funding.</li> <li>• <b>Productions may be adversely affected by delays and cost overruns.</b> The production process is subject to a number of uncertainties, most of which are beyond mm2's control.</li> <li>• <b>Unable to predict the commercial success of movies produced.</b> Operating in the movie industry involves a substantial degree of risk as mm2's success is affected by the commercial success of its productions, which is primarily determined by inherently unpredictable audience reactions.</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• <b>Consolidating its position in local market.</b> mm2 will leverage on its entrenched position in the local market to propel itself higher. As the industry leader, it is poised for more opportunities ahead.</li> <li>• <b>Spreading its wings in China.</b> mm2 also intends to spread its wings to one of the most lucrative movie market – China. The group has already co-produced several productions in China since 2013. It is currently working on a few movies in China. Chinese films generally have bigger budgets and better margins than local productions.</li> <li>• <b>Gaining traction in other overseas markets.</b> In the past three years, mm2 started co-producing movies in China, Taiwan and Hong Kong. Going forward, mm2 targets to co-produce more films overseas, leveraging on its successful track record.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Movies produced are subject to censorship laws and regulations.</b> The content of its productions and scripts are subject to censorship laws and regulations in Singapore, Malaysia and other countries where mm2 has production or distribution activities.</li> <li>• <b>May not be able to obtain the necessary licences and/or approvals for production and distribution activities.</b> Depending on the location of its production and distribution activities, it may be necessary for mm2 to obtain licences and/or approvals from the relevant government authorities in order to carry out such activities.</li> </ul>

Source: DBS Bank

### Company Background

**Integrated movie producer.** Founded in 2008 and listed on the Catalist Board of the SGX-ST on 9 December 2014, mm2 Asia is a leading producer of films and TV/online content in Asia. As a producer, mm2 provides services over the entire filmmaking process – from financing and production to marketing and distribution. In May 2014, the group incorporated mm2 Entertainment Hong Kong Limited to establish a presence in North Asia.

#### Group Structure

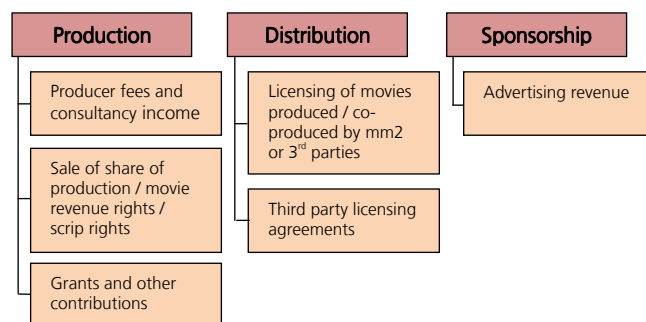


Source: Company, DBS Bank

The group derives its revenue from three main sources :-

- 1. Production income.** This is derived from all relevant stages of the filmmaking process. This includes income from securing financing for a production, consultancy and producers’ fees (usually about 10% to 20% of the film budget), producer bonuses (fees for helping to look for investors to fund the production cost), government grants and subsidies, script development, pre-production, principal photography, post-production as well as other contributions.
- 2. Distribution income.** Besides distributing its own movies or those co-produced with third parties, mm2 also receives income from third party licensing arrangements. It receives distribution income from the distribution of films across various platforms – cinemas, Pay TV, Free TV, online, DVD, airlines and others. For some films, mm2 acts as a stakeholder and is entitled to a percentage of net receipts from the film’s distribution across these platforms. Commission income also comes from the licensing of scripts, adaptation and sequel rights for its film library via third-party licensing arrangements.
- 3. Sponsorship income.** This is usually from advertisers to promote their products and services in mm2’s films.

### Revenue Contribution

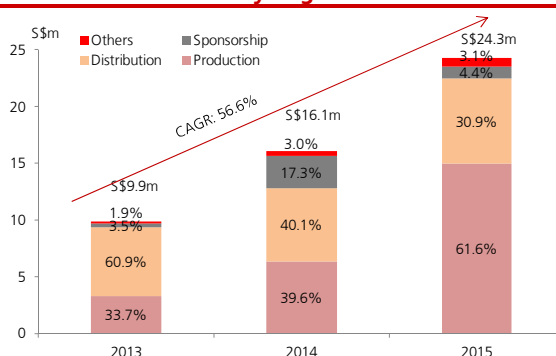


Source: Company, DBS Bank

In terms of revenue breakdown, Production accounted for 61.6% of FY15 revenue, up from 33.7% in FY13.

For its cost structure, cost of sales, which include crew member salaries and renting of premises, accounts for about 60% of total sales. Administrative expenses, which include overhead expenses, account for another 10% to 15% of total revenue.

### Revenue Breakdown by Segment



Source: Company, DBS Bank

### Professional producer; investment risk mitigated

mm2 is a professional producer and seeks to fund all its productions through stakeholders, advertising and grants. mm2 only underwrites a portion of the budget, if it is not covered by the inflow of funds.

For box office receipts, about 50% will go to cinema operators. The balance will be for other costs, including marketing cost.

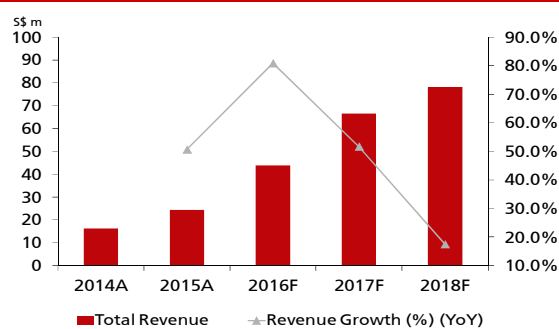
### Production and distribution list

Since 2008, the group has produced, co-produced and/or distributed over 50 films. Out of this, FY Mar15 accounted for 30 films.

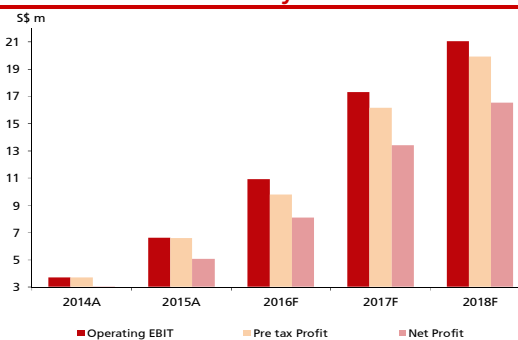
### Notable Production and Distribution Titles

Title	Year	Comment
<b>Production</b>		
Ah Boys to Men	2012	Singapore's highest-grossing local production of 2012: S\$6.21m
Ah Boys to Men 2	2013	Singapore's highest-grossing local production of all time: S\$7.89m
Ah Boys to Men 3	2015	Singapore's highest-grossing opening weekend Asian film of all time: S\$2.83m in 4 days
THE LION MEN 獅神决战	2014	Directed by Jack Neo; cast from Ah Boys to Men
THE LION MEN: ULTIMATE SHOWDOWN 獅神决战之 终极一战	2014	Directed by Jack Neo; cast from Ah Boys to Men
1965	2015	A historical drama to commemorate Singapore's 50 years of independence
<b>Co-production</b>		
为你转身	2013	mm2's first China co-production
做你爱做的事	2014	mm2's first Taiwan co-production
ATM 提款机	2015	mm2's first Hong Kong co-production
<b>Distribution</b>		
THE JOURNEY 一路有你	2014	Malaysia's highest-grossing local production of all time: RM\$17m
CAFÉ . WAITING . LOVE 等一个人 咖啡	2014	Malaysia's highest-grossing Taiwanese film of all time: RM\$4.98m
ODE TO MY FATHER 我们不平凡的爸爸	2015	The second most successful film in Korean Box Office history

### Sales Trend



### Profitability Trend



Source: Company, DBS Bank

## Management Composition

**Helmed by industry veteran.** mm2 is helmed by CEO Melvin Ang, who has 20 years of industry experience and was named as one of the top 5 individuals in Singapore's arts, entertainment and lifestyle sectors in the Straits Times Annual Power List. Mr Ang started his career at the then Television Corporation of Singapore (TCS) in 1997. TCS was

subsequently renamed as MediaCorp. With his vast experience and together with his team of executive officers, the group has established a wide network of personal relationships with leading talent, crew and staff, distribution companies, stakeholders and other key participants in the movie industry. mm2 has subsidiaries in Singapore, Malaysia and Hong Kong with business partners in Taiwan and China.

## Key Management Team

Melvin Ang, <i>CEO &amp; Exec. Director</i>	Melvin Ang is the (CEO) and Executive Director of mm2 Asia, responsible for overseeing and managing productions, as well as sourcing new business opportunities for the group. Mr Ang graduated from Macquarie University with a MBA in 1996. In August 1997, he was employed by the Television Corporation of Singapore as Vice President, Business Development. Between March 2000 and October 2000, he was appointed as Chief Business Development & Marketing Officer and Group Executive Vice President of novaSPRINT Pte Ltd. Mr Ang was subsequently employed by SPH MediaWorks Ltd as its Chief Operating Officer of its Media Business Group between November 2000 and April 2003. Between July 2003 and March 2007, Mr Ang was employed as Managing Director of MediaCorp Studios. Before setting up mm2 Malaysia and mm2 Singapore in January 2009, he served as Media Prima Berhad's Executive Advisor between July 2007 and December 2008.
Ng Say Yong, <i>COO</i>	Mr Ng is overall in charge of the creative content development of the group's productions. He is a media industry veteran who has produced and directed some of the most successful TV dramas in Singapore such as 'Growing Up', 'Triple Nine' and 'Shiver'. Mr Ng joined the Singapore Broadcasting Corporation, which subsequently became Television Corporation of Singapore in 1994, as a producer and director of current affairs and entertainment programmes. In 1998, he joined MediaCorp Studios as an Assistant Vice-President and was subsequently promoted to Senior Vice President. After leaving MediaCorp Studios in 2007, Mr Ng stayed in Australia for three years before joining mm2 Singapore in 2010 as a Creative Director.
Chong How Kiat, <i>CFO</i>	Mr Chong is responsible for overseeing all financial and accounting matters of the group. Mr Chong started out his career as an audit assistant in 1995 at KS Lam & Co, Public Accountant. Prior to joining mm2 Asia, he held the position of Finance Manager at ITD Vertex Consortium Sdn Bhd.
Tan Liang Pheng, <i>Non-Exec. Chairman &amp; Independent Director</i>	Mr Tan worked for 35 years in two multinational corporations, responsible for their accounting, treasury and financial functions, and later sat on the Board of Directors of Tetra Pak Group of Companies in Singapore. In 2009, Mr Tan was appointed General Manager of Iviria Pte Ltd., and was subsequently promoted to Executive Director in 2010. Mr Tan served as Executive Director of Iviria Pte. Ltd. until November 2012.
Mr Tay Joo Heng, <i>CEO of mm2 Screen</i>	Mr Tay was appointed CEO of mm2 Screen Management Sdn Bhd (mm2 Screen) with effect from 1 Oct 15. In this new role, he will oversee the group's cinema business. Mr Tay has more than 20 years of financial and operational experience in media, content production, technology and trading industries.
Angelin Ong, <i>COO of mm2 Screen</i>	Ms Angelin Ong was appointed COO of mm2 Screen with effect from 1 Oct 15. In this new role, she will be responsible for the overall operations of mm2 Screen. Ms. Ong will continue in her role as General Manager of mm2 Malaysia. Before joining mm2 Malaysia in 2009, Ms Ong worked in various advertising agencies and also Sistem Televisyen Malaysia and AltMedia, a subsidiary of Media Prima.

Source: Company, DBS Bank

## Competitive Strengths

**Ability to provide full spectrum of services in the entire Production and Distribution process.** mm2 has the capability and experience to service and derive revenue from all relevant stages of the filmmaking process. This flexibility enables the group to capitalise on a wide range of industry opportunities and not be solely dependent on box office revenue, which may be unpredictable.

**Strong network of business relationships with key industry players.** Leveraging on its established commercial track record, production brand names, reputation and extensive experience, mm2 has forged and maintained strong business relationships with key industry players in Singapore, Malaysia, Hong Kong, Taiwan and the PRC, including stakeholders, major exhibitors, production studios, actors/actresses, directors, crew and post-production companies.

**An established multi-market presence.** With subsidiaries in Singapore, Malaysia and Hong Kong, and business partners in Taiwan and the PRC, mm2 is able to tap on business opportunities in these markets. By engaging talented individuals from different countries and having access to various markets in the region, mm2 has the flexibility to produce movies that cater to the preferences of audiences in these markets, thus increasing the commercial potential of each movie.

**Experienced in various movie genres with quick response to changing consumer preferences.** mm2 has produced and distributed various genres of movies including comedies, dramas and horror. Its team of media industry veterans have been quick to identify and react to changes in consumer preferences, resulting in commercially viable movies that have enabled mm2 to maximise its revenue potential.

**Committed and experienced management team with extensive relevant expertise.** CEO and Controlling Shareholder, Melvin Ang, and Executive Officers, Ng Say Yong and Angelin Ong, have each been involved in the TV and entertainment industries for more than a decade, and have established a wide network of personal relationships with various key players in the movie industry in Singapore and Malaysia. Melvin Ang was named as one of the Top 5 on the Straits Times annual Power List in the arts, entertainment and lifestyle sectors. The management team is supported by members with strong finance and accounting experience, lending financial discipline and knowledge to its approach on movie making. This balance of expertise and experience throughout the management team differentiates mm2 in the movie making industry.

## Growth Strategies

### Acquisitions to drive growth, build income base and strengthen competitive edge

Post IPO in December 2014, mm2 has made several acquisitions to maintain its competitive advantage. In April, mm2 acquired a 51% stake in Singapore's leading multi-award winning 3D animation company, Vividthree Productions, to strengthen its competitive advantage as a movie producer. Subsequent to that, mm2 acquired five cineplexes in Malaysia. The ownership of cinemas will provide a source of recurring income to the group and cost savings in the longer term, as mm2 usually has to pay about 50% of its gross intake for rental of cinemas. Cinemas operation is a profitable business; the group could be profitable even with less than 50% of the seats occupied. In December, mm2 acquired a majority stake in a tech-setup developing interactive solutions for digital users.

### Cinemas

#### Owns five cinemas with total of 43 screens and 8,010 seats.

mm2 bought a total of five cinemas in Malaysia. The first two Cathay cineplexes were acquired in April 2015 for RM40m cash. Cathay Cineplex City Square was established in 2006 and now holds 14 screens with 2,826 seats in total and is the largest multiplex outside the Klang Valley region. Cathay Cineplex Damansara was established in 2006 and holds 16 screens with 2,472 seats in total and is currently the largest multiplex in Petaling Jaya. Acquisition for these two cinemas was completed in November.

In August, mm2 bought another three cinemas in Northern Malaysia from Mega Cinemas for a total of RM22m, funded by RM17m in shares and RM5m cash. Mega Cineplex Prai was established in 2004 and now holds 6 screens with a total of 1,420 seats. Mega Cineplex Langkawi, which is the only cinema on the island of Langkawi, was established in 2011 and holds 3 screens with a total of 536 seats. Mega Cineplex Bertam was established in 2013 and holds 4 screens with a total of 756 seats. Acquisition for the Mega cinemas is expected to be completed by 1Q16.

### Details of cinemas acquired

Cinema	Place	Capacity
Cathay Cineplex City Square	Johor Bahru	14 screens, 2,826 seats
Cathay Cineplex Damansara	Damansara	16 screens, 2,472 seats
Mega Cineplex Prai	Penang	6 screens, 1,420 seats
Mega Cineplex Langkawi	Langkawi	3 screens 536 seats
Mega Cineplex Bertam	Bertam	4 screens 756 seats

Source: Company, DBS Bank

### Complimentary businesses

**Owens majority stake in 3D company.** mm2 has also bought a 51% stake in a 3D animation company, Vividthree Productions, for S\$3.06m. Vividthree Productions specialises in 3D stereoscopic animation, 3D animation and visual effects for feature films and commercials. It also has a film production/content development arm. The acquisition allows the group to diversify and expand into complimentary business areas within the film production value chain, to strengthen its competitive advantage as a movie producer and eventually gain access to new markets, customers and business opportunities.

**Plans to launch its own OTT.** mm2 entered into an agreement in December to acquire a 70% in a tech-setup developing interactive solutions for digital users, Millinillion, for approximately S\$350,000. This marks mm2's first step into the digital media and technology sector. Millinillion is a company specialising in developing Business to Consumer (B2C) mobile applications and digital interactive solutions for clients. mm2 and Millinillion will jointly develop a series of mobile applications in data-based marketing, music and industry talent pool management. The group also plans to launch its own Over-the-top (OTT) media streaming platform, allowing users to watch short films and movie content through devices such as mobile phones, tablets, laptops and smart TVs. This new platform will also offer interactive features that will enable mm2 to engage a community of users for the development of movie ideas and marketing of mm2's content.

### More acquisitions on the card?

In just one year since listing in Dec 14, mm2 has made several acquisitions and undertaken a few fund raising exercises to fund the acquisitions.

As a result, its share capital base has increased 18% to about 243.5m shares, on a fully diluted basis, from 206.3m since listing. On 3 Dec-15, mm2 had proposed a share split of every one (1) existing ordinary share into two (2) shares. The group believes that the reduced price of each share after the proposed share split will make each share more affordable to investors, thus encouraging greater participation and increasing market liquidity of the shares. This exercise is also expected to broaden its shareholder base.

With the group on an acquisition spree based on the recent purchases of cinemas and related businesses, we would not rule out further acquisitions going forward.

### Recent events

#### Acquisitions

Date announced	Details
Apr 15	Acquired a 51% stake in Singapore's leading multi-award winning 3D animation company, Vividthree Productions for S\$3.06m
Apr 15	Acquired two Cathay cineplexes in Malaysia for RM40m cash.
Aug 15	Bought another three cinemas in Northern Malaysia from Mega Cinemas for a total of RM22m
Dec 15	Acquired 70% stake in Millinillion, a digital media company, for approximately S\$350,000.

#### Fund raising exercises

Date announced	Details
8-Apr	Issued shares for acquisition of 3D animation company, Vividthree Productions
29-Jun	Issued convertible notes due June 2017 to Phillip Asia Pacific Opportunity Fund. Conversion price S\$0.4892
10-Jul	Issued up to S\$2.6m principal amount of exchangeable notes, with a Greenshoe Option for up to an additional S\$1.3m in principal amount of the Notes to 3VS1 Asia Growth Fund 2 Ltd. Conversion price S\$0.5635
20-Aug	Issued 9.14m shares @S\$0.6351 for acquisition of Mega cinemas
4-Dec	Placement of 6.35m shares at S\$0.7872 each

Source: DBS Bank

### Consolidating its position in local market

The successful box office for local productions like 'Ah Boys to Men' indicates the growing demand for locally-produced content in Singapore and Malaysia. Ah Boys to Men 1, released in Nov-12, received box office receipts of S\$6.21m in Singapore and another RM2.02m in Malaysia. Part 2 sequel, released in Feb-13, received S\$6.37m and RM3.5m in Singapore and Malaysia respectively. Two years later, Ah Boys to Men 3 also recorded impressive box office receipts of S\$7.52m in Singapore and RM3.63m in Malaysia.

Going forward, mm2 will leverage on its entrenched position in the local market to propel itself higher. As the industry leader, it is poised for more opportunities ahead. Following the successful launch of Ah Boys to Men, production is set to begin on Ah Boys to Men 4 in 2017. Besides this, mm2 has also launched "The Movie Makers Short Film Competition", which is an initiative to discover and groom new talents in the film industry.

In terms of support, the Singapore government also plans to inject S\$250m per year for the next 5 years into improving public sector communications. A portion will be used to promote the local film industry and digital video sectors



through the “Watch Local” initiative. As the industry leader, mm2 will benefit from these initiatives.

With this backdrop, mm2 is poised to ride on the demand for local production. In Asia and the global scene, mm2 will continue to grow its presence in Taiwan, Hong Kong and China, leveraging on the business relationships it has established.

### Spreading its wings in China

mm2 also intends to spread its wings to one of the most lucrative movie market – China. The group has already co-produced several productions in China since 2013. It is currently working on a few movies in China. There will be at least three other movie projects that could come to the market beginning 2017. Chinese films generally have bigger budgets and better margins than local productions.

On top of producing films that are made and distributed in China, mm2 also hopes to distribute China-made films overseas. mm2 may also look into producing reality TV, which makes up a sizeable segment of the China entertainment market.

To further cement its foothold in China, mm2 has placed more shares to Hesheng Media, which is principally involved in the business of film and television investment, production, marketing and distribution in China. Hesheng Media has been a shareholder of the group since prior to mm2’s initial public offering. Together with the recent placement, Hesheng’s stake in mm2 has increased to about 1.5%.

Thus, we expect contribution from the China market to increase from FY17 onwards, from 5% in FY15 in terms of total revenue breakdown.

### Gaining traction in other overseas markets

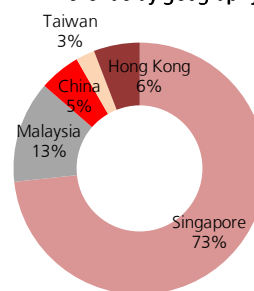
In the past three years, mm2 has started co-producing movies in China, Taiwan and Hong Kong, starting with China in 2013, followed by Taiwan and Hong Kong in 2014 and 2015 respectively. Going forward, mm2 targets to co-produce more films overseas, leveraging on its successful track record.

In Taiwan and Malaysia, mm2 has acquired films from third parties. mm2’s first Taiwan co-production was in 2014 - 做你爱做的事. In 2014, “Café.Waiting.Love” has become the highest-grossing Taiwanese film in Malaysia of all time. “The Journey”, also in 2014, was Malaysia’s highest-grossing local production of all time, raking in RM\$17m.

In terms of geographical breakdown, Singapore still accounts for the bulk of revenue contribution. Going forward, mm2 aims to target the lucrative China market. Revenue contribution from China is already creeping up, from 2% in FY14 to 5% in FY15.

### FY15 Revenue Breakdown by Country

FY 15 Revenue by geography



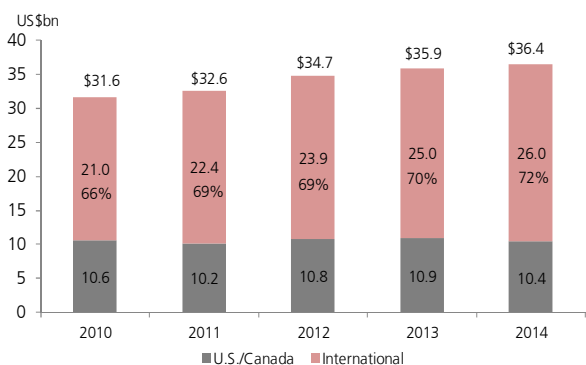
Source: Company, DBS Bank

Industry Landscape

Increasing box office receipts

The trend of increasing box office receipts both globally and in Asia indicates an increase in demand for movies and thus more revenue opportunities. According to statistics compiled by Motion Pictures Association of America, globally, box office revenues increased by 1% in 2014 to US\$36.4 bn. Growth was driven primarily by the Asia Pacific region (+12%). China is the highest grossing market with US\$4.8bn in box office receipts, followed by Japan (US\$2.0bn) and France (US\$1.8bn). Cinema screens increased by 6% worldwide in 2014 to over 142,000, due in large part to continued double digit growth in the Asia Pacific region (+15%).

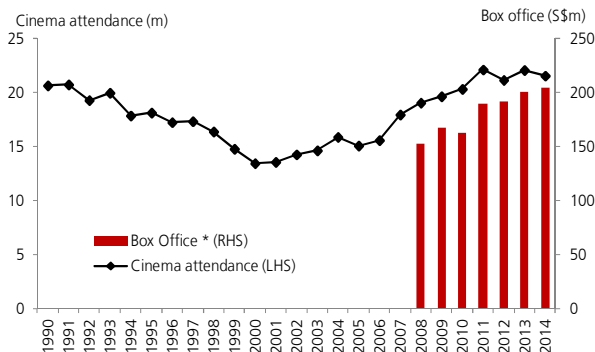
Global Box Office – All Films



Source: Motion Pictures Association of America

In Singapore, box office receipts for major commercial cinemas rose by 2% to S\$204.1m in 2014. Despite the increase in the number of distribution channels for audio-visual content, including online platforms due to the increased internet use over the years, cinema attendance has increased at a CAGR of 3.4% from 2000.

Cinema attendance and box office receipts in Singapore



\* based on major commercial theatres

Source: Singapore Film Commission

mm2 produced movies in top 5 position

In FY2012 to FY2015, mm2 produced a total of 26 movies in Singapore. The majority of these were in the top 5 position in terms of gross box office receipts in Singapore.

Number of movies produced

Year	Number of movies produced
FY Mar 2012	3
FY Mar 2013	6
FY Mar 2014	8
FY Mar 2015	9

Source: DBS Bank, company

Ranking of local films based on Singapore box office receipts

Film Title	Ranking
<b>2012</b>	
Ah Boys to Men	Highest-grossing Local Film: S\$6.21m
We Not Naughty	2nd Highest-grossing Local Film
Greedy Ghost	4th Highest-grossing Local Film
Imperfect	5th Highest-grossing Local Film
<b>2013</b>	
Ah Boys to Men 2	Highest-grossing Local Film of 2013 and of All Time: S\$7.89m
Everybody Business	4th Highest-grossing Local Film
That Girl in Pinafore	5th Highest-grossing Local Film
Ghost Child	6th Highest-grossing Local Film
<b>2014</b>	
The Lion Men	Highest-grossing Local Film
The Lion Men: Ultimate Showdown	2nd Highest-grossing Local Film
Wayang Boy	6th Highest-grossing Local Film
<b>2015</b>	
Ah Boys to Men 3: Frogmen	Highest-grossing Local Film: S\$7.6m
1965	3rd Highest-grossing Local Film
Mr Unbelievable	4th Highest-grossing Local Film
3688	5th Highest-grossing Local Film
Bring Back The Dead	6th Highest-grossing Local Film

Source: company, DBS Bank

## Valuation and recommendation

mm2's share price has more than tripled to hit a high of S\$0.88 since its listing on the Catalist Board of the SGX-ST on 9 December 2014 at S\$0.25 per share (based on 16x FY14 PE). At current level, mm2 is trading at 23x FY Mar16F PE and 14x FY Mar17F PE, based on its enlarged share capital. Its peers are trading at an average PE of 27x for FY16F. Taking a 30% discount to peers given its much smaller size, we arrive at a target PE of 19x to derive a TP of S\$1.05 based on FY Mar17F EPS. The TP implies potential upside of 36% from the current price. Our forecast is supported by a slew of projects in the pipeline. Furthermore, with the group on an acquisition spree based on the recent purchase of cinemas and related businesses, we expect the valuation gap between mm2 and its peers to narrow.

With an impressive growth of >50% for FY17F based on our forecast, mm2 is trading at an attractive PE to growth (PEG) of just 0.36x, compared to about 1x for its peers.

### Project Pipeline to March 2017

Movies	Total production estimate (\$m)
<b>Singapore</b>	
10 movies	10
<b>Malaysia</b>	
6 movies	3
<b>China</b>	
5 movies / drama	38
<b>Taiwan</b>	
6 movies	11
<b>Hong Kong</b>	
6 movies	8
<b>TOTAL</b>	<b>70</b>

Source: DBS Bank

### Peers comparison

BB code	Company	Last price	Mkt Cap (\$m)	Quoted currency	PE (x) Yr 1	PE (x) Yr 2	P/B (x)	ROE (%)	Dvd Yld (%)	PE to Gth (x)
MM2 SP	mm2 ASIA LTD	0.79	165	SGD	24.0	14.5	8.6	44.5	0	0.31
SEG SP	SPACKMAN	0.15	58	SGD	n.a.	n.a.	2.5	-63.5	0	-
VRL AU	VILLAGE ROADSHOW	7.42	1,190	AUD	19.8	17.8	2.3	8.6	3.8	1.51
1132 HK	ORANGE SKY GOLDE	0.63	1,728	HKD	63.0	21.0	1.0	0.2	0	0.45
1970 HK	IMAX CHINA HOLD	55.00	19,543	HKD	n.a.	42.2	n.a.	154.7	0	-
1060 HK	ALI PICTURES	1.91	48,198	HKD	n.a.	n.a.	2.5	-1.9	n.a.	-
1326 HK	PEGASUS ENT	0.65	1,640	HKD	n.a.	n.a.	4.3	-2.4	0	-
300027 CH	HUAYI BROTHERS-A	41.72	57,930	CNY	52.5	41.4	6.3	15.3	n.a.	1.54
BONA US	BONA FILM GR-ADR	13.20	855	USD	41.3	28.4	3.5	0.3	0	0.63
AMC US	AMC ENTERTAINMENT	23.66	2,305	USD	22.0	17.3	1.5	6.1	3.4	0.63
041510 KS	SM ENTERTAINMNT	43,000	895,359	KRW	28.3	23.3	3.1	11.2	n.a.	1.08
<b>Average (excluding mm2)</b>					<b>37.8</b>	<b>27.3</b>	<b>3.0</b>	<b>12.9</b>	<b>1.0</b>	<b>0.97</b>

Source: DBS Bank, Bloomberg Finance L.P.

## Key Risks

**No long term financing arrangements for productions.** The commencement of each production is dependent on mm2's ability to secure funding by way of loans, sale of commercial exploitation rights associated with the production, sponsorship from third-parties, stakeholders, advertisers and government grants. As mm2 does not have any long term arrangements with such parties, there is no assurance that there will be continued availability of such financing arrangements on commercial terms acceptable to mm2. Further, there is no guarantee that mm2 will be awarded government grants for movies produced.

**Productions may be adversely affected by delays and cost overruns.** The production process is subject to a number of uncertainties, most of which are beyond mm2's control. The group would need to source for replacements if any existing cast and/or crew members fail or are unable to continue to provide their services for any reason. There is no guarantee that it will be able to find replacements on commercially acceptable terms and this may result in delays and cost overruns. Other risks, such as shortages of necessary equipment, technical difficulties with special effects or other aspects of production may also result in delays and cost overruns.

**Unable to predict the commercial success of movies produced.** Operating in the movie industry involves a substantial degree of risk as mm2's success is affected by the

commercial success of its productions, which is primarily determined by inherently unpredictable audience reactions. Generally, the popularity and commercial success of movies produced or co-produced by mm2 depend on many factors, including critics' reviews, negative publicity of the cast and other key talent, the genre and subject matter, the quality and popularity of the group's competitors' movies released at or around the same time, the success of its promotional efforts, the availability of alternative forms of entertainment, general economic conditions and other factors such as prevailing consumer preferences. mm2 is unable to control many of these factors, which may change from time to time.

**Movies produced are subject to censorship laws and regulations.** The content of its productions and scripts are subject to censorship laws and regulations in Singapore, Malaysia and other countries where mm2 has production or distribution activities. Any tightening of censorship laws and regulations may result in the group incurring additional costs to comply with the new censorship laws and regulations.

**May not be able to obtain the necessary licences and/or approvals for production and distribution activities.** Depending on the location of its production and distribution activities, it may be necessary for mm2 to obtain licences and/or approvals from the relevant government authorities in order to carry out such activities.

**Segmental Breakdown**

<b>FY Mar</b>	<b>2014A</b>	<b>2015A</b>	<b>2016F</b>	<b>2017F</b>	<b>2018F</b>
<b>Revenues (\$m)</b>					
Production & Distribution	16.1	24.3	31.8	38.8	50.5
Cinema	0.0	0.0	6.67	20.0	20.0
Other investments	0.0	0.0	5.50	7.80	7.80
<b>Total</b>	<b>16.1</b>	<b>24.3</b>	<b>43.9</b>	<b>66.6</b>	<b>78.3</b>
<b>Gross profit (\$m)</b>					
Production & Distribution	5.09	9.58	12.7	17.5	22.7
Cinema	0.0	0.0	3.00	9.00	9.00
Other investments	0.0	0.0	2.48	3.51	3.51
<b>Total</b>	<b>5.09</b>	<b>9.58</b>	<b>18.2</b>	<b>30.0</b>	<b>35.2</b>
<b>Gross profit Margins (%)</b>					
Production & Distribution	31.6	39.5	40.0	45.0	45.0
Cinema	N/A	N/A	45.0	45.0	45.0
Other investments	N/A	N/A	45.0	45.0	45.0
<b>Total</b>	<b>31.6</b>	<b>39.5</b>	<b>41.4</b>	<b>45.0</b>	<b>45.0</b>

Full year contribution  
from the five cinemas

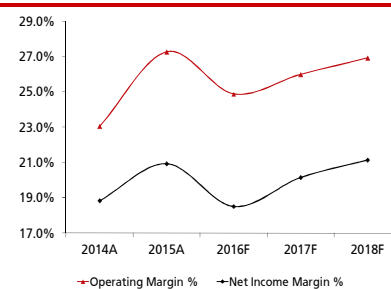
Source: Company, DBS Bank

## Income Statement (\$m)

FY Mar	2014A	2015A	2016F	2017F	2018F
Revenue	16.1	24.3	43.9	66.6	78.3
Cost of Goods Sold	(11.0)	(14.7)	(25.7)	(36.6)	(43.0)
<b>Gross Profit</b>	<b>5.09</b>	<b>9.58</b>	<b>18.2</b>	<b>30.0</b>	<b>35.2</b>
Other Opng (Exp)/Inc	(1.4)	(3.0)	(7.3)	(12.7)	(14.1)
<b>Operating Profit</b>	<b>3.72</b>	<b>6.62</b>	<b>10.9</b>	<b>17.3</b>	<b>21.1</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	0.0	0.0	(1.1)	(1.1)	(1.1)
Exceptional Gain/(Loss)	0.0	(0.1)	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>3.70</b>	<b>6.58</b>	<b>9.79</b>	<b>16.2</b>	<b>19.9</b>
Tax	(0.7)	(1.5)	(1.7)	(2.8)	(3.4)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>3.04</b>	<b>5.08</b>	<b>8.13</b>	<b>13.4</b>	<b>16.5</b>
Net Profit before Except.	3.05	5.13	8.13	13.4	16.5
EBITDA	7.16	9.92	14.8	21.2	24.9
<b>Growth</b>					
Revenue Gth (%)	N/A	50.7	80.8	51.7	17.5
EBITDA Gth (%)	nm	38.5	49.3	43.1	17.7
Opg Profit Gth (%)	nm	78.3	65.0	58.4	21.7
Net Profit Gth (Pre-ex) (%)	nm	68.1	58.4	65.1	23.2
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	31.6	39.5	41.4	45.0	45.0
Opg Profit Margin (%)	23.0	27.3	24.9	26.0	26.9
Net Profit Margin (%)	18.8	20.9	18.5	20.2	21.1
ROAE (%)	166.5	44.5	25.6	26.3	25.1
ROA (%)	34.8	18.5	13.4	14.1	13.9
ROCE (%)	104.8	37.7	17.7	19.1	19.4
Div Payout Ratio (%)	0.0	0.0	0.0	0.0	0.0
Net Interest Cover (x)	NM	NM	9.6	15.2	18.5

Source: Company, DBS Bank

## Margins Trend



**Interim Income Statement (\$Sm)**

<b>FY Mar</b>	<b>1H2015</b>	<b>2H2015</b>	<b>1H2016</b>
Revenue	9.7	14.6	12.7
Cost of Goods Sold	(4.0)	(10.7)	(4.3)
<b>Gross Profit</b>	<b>5.7</b>	<b>3.9</b>	<b>8.4</b>
Other Oper. (Exp)/Inc	(1.2)	(1.8)	(3.0)
<b>Operating Profit</b>	<b>4.5</b>	<b>2.1</b>	<b>5.4</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0
Net Interest (Exp)/Inc	0.0	0.0	0.0
Exceptional Gain/(Loss)	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>4.5</b>	<b>2.0</b>	<b>5.4</b>
Tax	(0.9)	(0.6)	(0.9)
Minority Interest	0.0	0.0	0.0
<b>Net Profit</b>	<b>3.6</b>	<b>1.5</b>	<b>4.5</b>
Net profit bef Except.	0.0	0.0	0.0
EBITDA	5.3	4.6	6.7

**Growth**

Revenue Gth (%)		51	(13)
EBIT Gth (%)		(54)	161
Pre Profit Gth (%)		(55)	165
Net Profit Gth (Pre-ex) (%)		(60)	208

**Margins**

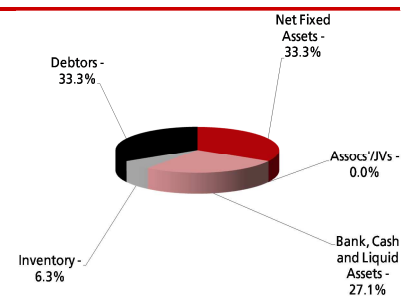
Gross Margins (%)	58.7	26.7	66.1
EBITDA Margins (%)	54.4	31.5	52.6
Net Profit Margins (%)	37.4	10.0	35.5

Volatile margins mainly due to different stages of revenue recognition

**Balance Sheet (\$m)**

<b>FY Mar</b>	<b>2014A</b>	<b>2015A</b>	<b>2016F</b>	<b>2017F</b>	<b>2018F</b>
Net Fixed Assets	3.86	6.45	28.8	33.2	37.6
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	0.14	0.01	(3.2)	(6.5)	(9.7)
Cash & ST Invts	0.60	5.76	23.4	29.2	42.0
Inventory	1.49	4.77	5.48	7.80	9.17
Debtors	11.4	20.6	28.9	43.8	51.5
Other Current Assets	0.0	0.0	0.0	0.0	0.0
<b>Total Assets</b>	<b>17.5</b>	<b>37.6</b>	<b>83.4</b>	<b>108</b>	<b>130</b>
ST Debt	0.10	0.22	0.22	0.22	0.22
Creditor	11.4	14.7	22.8	32.5	38.2
Other Current Liab	0.24	1.46	2.81	3.90	4.53
LT Debt	1.02	0.09	11.3	11.3	11.3
Other LT Liabilities	0.94	1.92	1.92	1.92	1.92
Shareholder's Equity	3.65	19.2	44.3	57.7	74.3
Minority Interests	0.13	0.0	0.0	0.0	0.0
<b>Total Cap. &amp; Liab.</b>	<b>17.5</b>	<b>37.6</b>	<b>83.4</b>	<b>108</b>	<b>130</b>
Non-Cash Wkg. Capital	1.23	9.19	8.72	15.2	17.9
Net Cash/(Debt)	(0.5)	5.45	11.9	17.7	30.5
Debtors Turn (avg days)	128.6	240.0	205.5	199.2	222.2
Creditors Turn (avg days)	273.9	417.3	313.3	308.3	329.4
Inventory Turn (avg days)	35.9	100.2	85.6	74.0	79.1
Asset Turnover (x)	1.8	0.9	0.7	0.7	0.7
Current Ratio (x)	1.1	1.9	2.2	2.2	2.4
Quick Ratio (x)	1.0	1.6	2.0	2.0	2.2
Net Debt/Equity (X)	0.1	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	0.1	CASH	CASH	CASH	CASH
Capex to Debt (%)	46.0	645.4	199.8	43.4	43.4

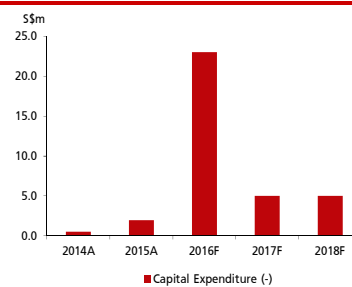
Source: Company, DBS Bank

**Asset Breakdown**



**Cash Flow Statement (\$m)**

FY Mar	2014A	2015A	2016F	2017F	2018F
Pre-Tax Profit	3.70	6.58	9.79	16.2	19.9
Dep. & Amort.	3.45	3.29	3.87	3.87	3.87
Tax Paid	0.67	1.50	(0.3)	(1.7)	(2.8)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(7.0)	(12.0)	(0.9)	(7.6)	(3.3)
Other Operating CF	1.00	1.00	0.0	0.0	0.0
<b>Net Operating CF</b>	<b>1.87</b>	<b>0.36</b>	<b>12.5</b>	<b>10.8</b>	<b>17.7</b>
Capital Exp.(net)	(0.5)	(2.0)	(23.0)	(5.0)	(5.0)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.0	0.0	0.0	0.0	0.0
<b>Net Investing CF</b>	<b>(0.5)</b>	<b>(2.0)</b>	<b>(23.0)</b>	<b>(5.0)</b>	<b>(5.0)</b>
Div Paid	0.0	0.0	0.0	0.0	0.0
Chg in Gross Debt	0.0	2.94	11.2	0.0	0.0
Capital Issues	0.0	7.75	17.0	0.0	0.0
Other Financing CF	0.46	(1.7)	0.0	0.0	0.0
<b>Net Financing CF</b>	<b>0.46</b>	<b>9.05</b>	<b>28.2</b>	<b>0.0</b>	<b>0.0</b>
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	1.81	7.43	17.7	5.80	12.7
Opg CFPS (S cts)	4.27	5.98	5.49	7.55	8.65
Free CFPS (S cts)	0.65	(0.8)	(4.3)	2.38	5.22

**Capital Expenditure**

Acquisition of five cinemas and a 3D company

Issue of shares to finance recent acquisitions

Proceeds from IPO

Source: Company, DBS Bank

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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