

Singapore Company Guide

mm2 Asia

Version 17 | Bloomberg: MM2 SP | Reuters: MM2A.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

15 Aug 2018

BUY

Last Traded Price (14 Aug 2018): S\$0.42 (STI : 3,242.87)
Price Target 12-mth: S\$0.62 (48% upside) (Prev S\$0.70)

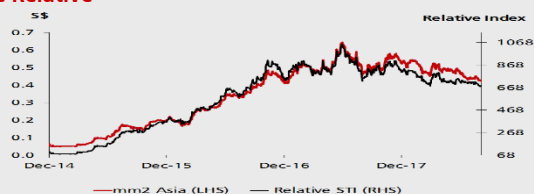
Analyst

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What's New

- 1Q19 net profit gained 13.2% y-o-y as revenue doubled
- North Asia remains key market; tapping into other regions
- Enhancing platforms capabilities with foray into virtual reality show and IP ownership
- Reiterate BUY, TP reduced to S\$0.62 on lower valuation multiple

Price Relative



Forecasts and Valuation

FY Mar (\$m)	2017A	2018A	2019F	2020F
Revenue	95.7	192	298	346
EBITDA	40.3	64.7	79.1	86.3
Pre-tax Profit	24.0	41.4	47.0	56.5
Net Profit	17.5	26.4	33.2	41.1
Net Pft (Pre Ex.)	17.5	26.4	33.2	41.1
Net Pft Gth (Pre-ex) (%)	114.3	50.9	25.7	23.8
EPS (S cts)	1.67	2.27	2.86	3.54
EPS Pre Ex. (S cts)	1.67	2.27	2.86	3.54
EPS Gth Pre Ex (%)	85	36	26	24
Diluted EPS (S cts)	1.67	2.27	2.86	3.54
Net DPS (S cts)	0.0	0.0	0.0	0.0
BV Per Share (S cts)	8.25	15.6	18.5	22.0
PE (X)	25.1	18.5	14.7	11.9
PE Pre Ex. (X)	25.1	18.5	14.7	11.9
P/Cash Flow (X)	103.9	1540.6	40.2	5.6
EV/EBITDA (X)	10.8	7.6	8.7	7.9
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	5.1	2.7	2.3	1.9
Net Debt/Equity (X)	CASH	CASH	0.6	0.5
ROAE (%)	28.6	19.7	16.8	17.5
Earnings Rev (%):			-	-
Consensus EPS (S cts):			2.90	3.40
Other Broker Recs:		B: 4	S: 0	H: 0

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

Continues to deliver

Growth path on track. We continue to expect strong earnings CAGR of 25% for FY18-20F, underpinned by growth in production, expansion into the China market, and contribution from UnUsUaL. The stronger cinema arm, with the completion of Cathay cinema acquisition, helps the group build a recurring income base. Having a strong presence in the entire value chain of content creation and distribution further cements mm2's status as the leader in the media/entertainment industry.

1Q19 results: Growth in revenue from all segments; 1Q19 revenue doubled to S\$49m while net profit gained 13.2% y-o-y to S\$7.2m.

Where we differ: Slight difference in valuation peg vs consensus. We value the production business at 18x PE, in line with peers listed in Asia, vs consensus' valuation of about 22x. For UnUsUaL, we value it at current valuation. For the cinema segment, we use 21x PE vs consensus' 20x.

Potential catalyst: Reaping the fruits of labour in North Asia. We expect North Asia to contribute >60% of production revenue from FY19F, up from 36% in FY16, 56% in FY17 and 57% in FY18. Upside to earnings would come from more projects, especially in China, where the market is bigger and budgets are much larger.

Valuation:

Reiterate BUY, TP reduced to S\$0.62. Our sum-of-parts target price is now S\$0.62, pegged to 18x FY19F earnings for core business, cinema and post production segment, and current valuation for UnUsUaL, reduced from 21x previously, in line with peers.

Key Risks to Our View:

No long-term financing arrangements for productions. The commencement of each production is dependent on mm2's ability to secure funding.

Unavailability of good scripts. Lack of good scripts for production may lead to less support from stakeholders.

At A Glance

Issued Capital (m shrs)	1,163
Mkt. Cap (S\$m/US\$m)	488 / 355
Major Shareholders (%)	
Ang Wee Chye	38.1
StarHub Ltd	9.8
Yeo Khee Seng	8.2
Free Float (%)	43.9
3m Avg. Daily Val (US\$m)	0.30

ICB Industry : Consumer Services / Media

WHAT'S NEW

1Q19 net profit gained 13.2% y-o-y on doubling of revenue

RESULTS HIGHLIGHT

Growth in all segments. 1Q19 revenue doubled to S\$49m, mainly contributed by Lotus and Cathay cinema chain, and also content production, distribution and sponsorship, post-production, event production and concert promotion. Gross profit surged 114% y-o-y to S\$17.6m on strong gross margin of 67.2% vs 62.4% in 1Q18. Net profit of S\$7.2m (+13.2% y-o-y) accounted for 22% of our FY19F earnings, broadly in line. Net margins eased to 14.8% vs 26% in 1Q18, mainly due to higher contribution from the cinema business, which has lower margins.

North Asia remains key market; tapping into other regions.

The group has made several advancements in China recently, including Memorandum of Understanding (MoU) with several partners, to co-invest over the next 3 years a total of US\$25m and to co-produce five films and multiple online films. Beyond the Chinese market, which offers huge growth potential, mm2 is also seeking opportunities for regional film co-productions, and has formed a partnership to co-invest and co-produce 6 Thai and Indonesian films over the next three years.

Enhancing platforms capabilities. mm2's integrated content platforms and capabilities now span across most of the entire media supply chain, from production to distribution in various media formats including cinemas, concerts and virtual reality tour shows. Vividthree (planning for a Catalist listing on SGX)

is developing the upcoming Train to Busan Virtual Reality Tour Show while UnUsUaL has become an intellectual property (IP) owner to develop and produce APOLLO, a show that celebrates the 50th anniversary of man's first steps on the moon. The group has also set up a joint venture company that operates the AsiaOne website, to create engaging digital lifestyle and entertainment content targeted at the growing local and regional demand for interactive digital editorial and video content.

EARNINGS & RECOMMENDATION

Reiterate BUY with lower TP of S\$0.62. We maintain our forecasts for FY19F and FY20F but lower our TP to S\$0.62 as we have pegged the core business and post production segment at 18x FY19F earnings, from 21x previously, in line with peers. Our sum-of-parts target price is now S\$0.62 (prev S\$0.70).

Sum of parts valuation

Segment	Stake	Valuation	
		(\$m)	Assumption
Production & Distribution	100%	328.6	Based on 18x PE, in line with peers
Cinema Operation	100%	180.8	Based on 21x PE, in line with peers
Post-Production	51%	36.7	Based on 18x PE, in line with peers
Event Production & Concert Promotion	39.2%	177.4	Based on current valuation
Total value		723.5	
Number of shares		1,162.8	
Value per share (\$)		0.62	

Quarterly / Interim Income Statement (S\$m)

FY Mar	1Q2018	4Q2018	1Q2019	% chg yoy	% chg qoq
Revenue	24.6	83.6	49.0	99.0	(41.4)
Cost of Goods Sold	(9.3)	(47.3)	(16.1)	73.4	(66.1)
Gross Profit	15.4	36.3	32.9	114.4	(9.3)
Other Oper. (Exp)/Inc	(5.8)	(23.0)	(21.6)	273.1	(5.9)
Operating Profit	9.55	13.3	11.3	18.1	(15.3)
Other Non Opg (Exp)/Inc	0.05	0.14	0.33	516.7	139.6
Associates & JV Inc	0.0	0.16	0.01	nm	(91.3)
Net Interest (Exp)/Inc	0.0	0.0	0.0	-	-
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Pre-tax Profit	9.57	13.6	11.6	21.5	(14.6)
Tax	(1.8)	(2.6)	(2.5)	41.3	(2.2)
Minority Interest	(1.4)	(2.0)	(1.9)	(34.8)	(5.4)
Net Profit	6.40	9.07	7.25	13.2	(20.1)
Net profit bef Except.	6.40	9.07	7.25	13.2	(20.1)
EBITDA	11.0	27.3	14.9	36.3	(45.4)
Margins (%)					
Gross Margins	62.4	43.4	67.2		
Opg Profit Margins	38.8	15.9	23.0		
Net Profit Margins	26.0	10.8	14.8		

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

Synergistic acquisitions

mm2 has made several acquisitions to maintain its competitive advantage, and to build synergies across the entire value chain. The group acquired a 51% stake in Vividthree, a computer graphic studio, which is planning to go for a Catalyst listing on SGX. It owns a 42% stake in UnUsUaL Ltd, a market leader in large-scale live events and concerts, and is also beefing up its OTT (over-the-top) platform. In terms of cinema, mm2 is the number four player in Malaysia, and owns a total of 18 cinemas with a market share of about 14% in terms of number of screens. It has also acquired the entire eight Cathay cinemas in Singapore.

Healthy production pipeline

For the core production business, mm2 has tied-up with several partners to co-invest and co-produce several films in China and other regions. The securing of the various titles by subsidiary UnUsUaL and Vividthree should further boost the production pipeline. UnUsUaL has recently secured the rights to present a total of 48 “Disney On Ice” shows in Korea and Taiwan, and also forays into North America with the intellectual property (IP) rights to develop and produce APOLLO, a show that celebrates the 50th anniversary of man’s first steps on the moon. For Vividthree, it has secured the IP rights to develop virtual reality tour show for the film “Train to Busan” outside Korea.

Expansion in North Asia

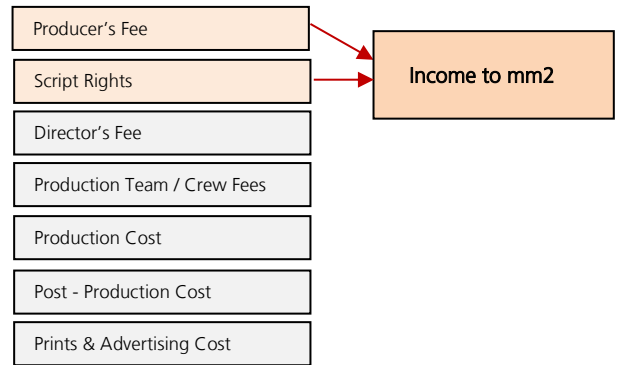
We expect North Asia to contribute >60% of production revenue from FY19F, up from 36% in FY16, 56% in FY17 and 57% in FY18. mm2 has a unique presence in all the Chinese markets, including Singapore, Malaysia, Hong Kong, Taiwan, and China. This presents ample cross-border collaboration opportunities. mm2 is also looking to expand to non-Chinese speaking markets like Korea, Japan, Thailand, India, and the US.

UnUsUaL is also leveraging on mm2’s network of contacts in the media and entertainment industry to expand into North Asia.

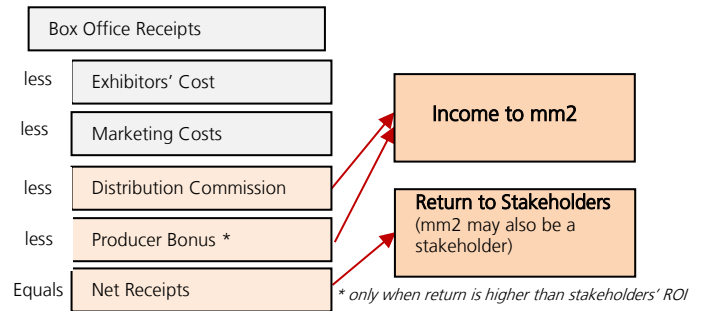
Digital age shift – content is king

The evolution of the media industry, from traditional media (TV, radio, newspaper) to digital media leads to increasing opportunities for mm2, which is strong in content creation and platform businesses.

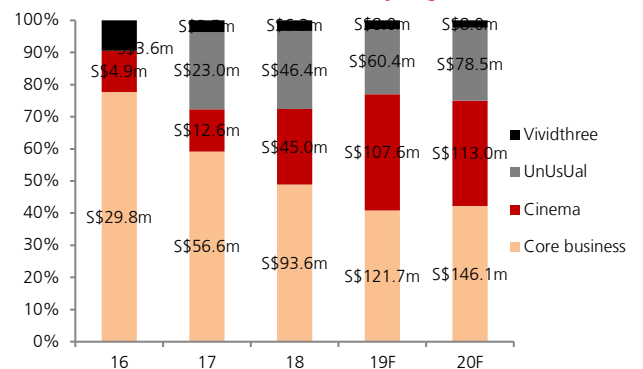
Business Model – The Film Budget



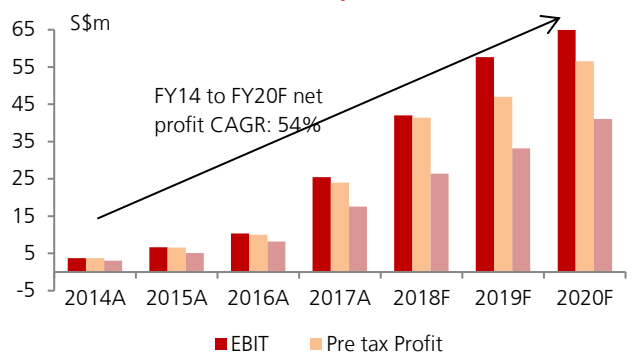
Business Model – Gross Receipts (Box Office)



Revenue Breakdown by Segment

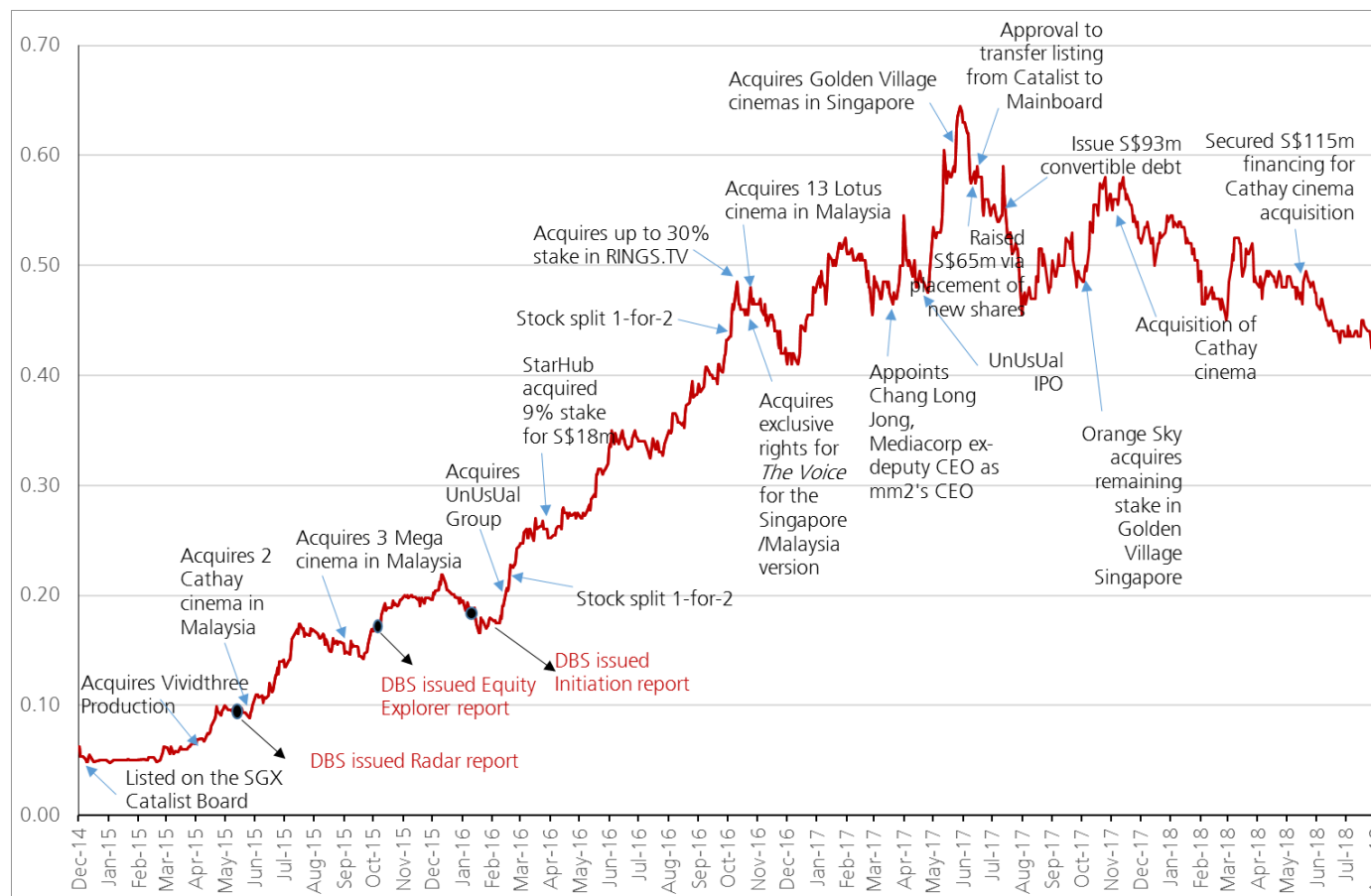


Profitability Trend



Source: Company, DBS Bank

Appendix 1: A look at Company's listed history – what drives its share price?



mm2 Asia

Balance Sheet:

Net gearing position in FY19F. We expect the group to take on more debt financing for the acquisition of the Cathay cinemas in Singapore. Net gearing for FY19F is thus expected to increase to 0.77x, from net cash in FY18.

Share Price Drivers:

Cost savings and efficiency from horizontal integration. The full integration of the content business (production of movies, Vividthree) and platform business (Cinema, UnUsUaL) would lead to better efficiency and cost savings for the group. For example, the ownership of cinemas not only provides a source of recurring income but also cost savings as mm2 usually has to pay about 50% of its gross box office proceeds for rental of cinemas. Cinema operations is a profitable business and may even be profitable with less than 30% of the seats occupied. mm2’s multiple platform capabilities would place the group in a position to better distribute and exhibit content to reach a wider audience.

Bigger production budget = higher growth

As mm2 adopts a fee-based model, its revenue is directly correlated to the size of the production budget. We expect North Asia, especially China, to contribute >60% of production revenue from FY19F, up from 36% in FY16, 56% in FY17 and 57% in FY18. The budget for China tends to be much bigger, about S\$10m on average per production, vs average of S\$1-2m for Singapore and Malaysia projects, and S\$3m for Hong Kong and Taiwan productions.

Key Risks:

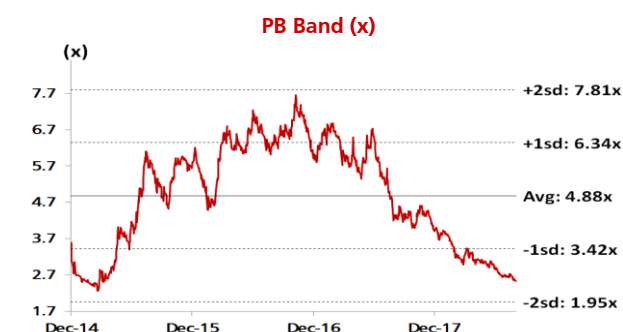
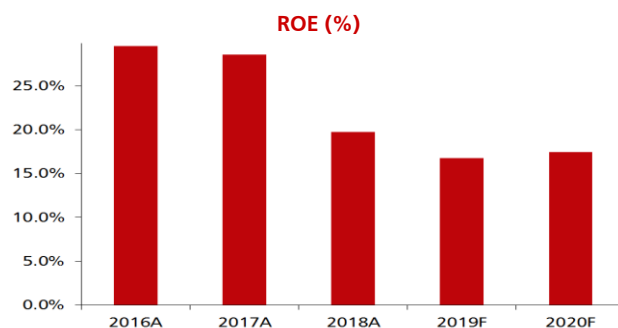
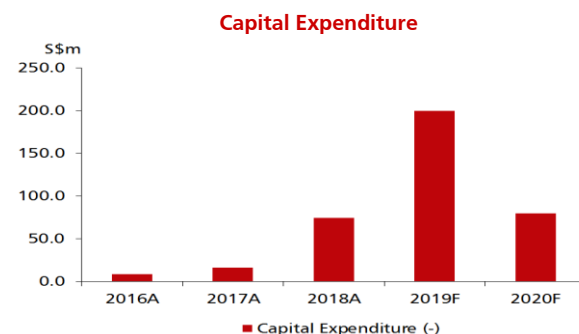
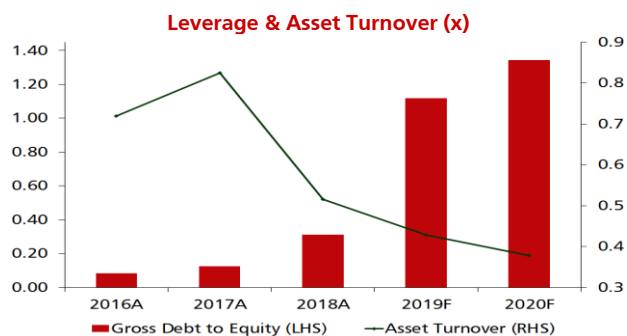
No long-term financing arrangements for productions. The commencement of each production is dependent on mm2’s ability to secure funding.

Unavailability of good scripts. Lack of good scripts for production may lead to less support from stakeholders.

Inability to predict the commercial success of movies produced. The commercial success of its productions is primarily determined by inherently unpredictable audience reactions.

Company Background

mm2 Asia is a leading producer of films and TV/online content in Asia. As a producer, mm2 provides services over the entire film-making process – from financing and production to marketing and distribution, and thus has diversified revenue streams. mm2 also owns entertainment company, UnUsUaL, and cinemas in Malaysia and Singapore.



Source: Company, DBS Bank

Segmental Breakdown

FY Mar	2016A	2017A	2018A	2019F	2020F
Revenues (\$m)					
Production & Distribution	29.8	56.6	93.6	122	146
Cinema Operation	4.90	12.6	45.0	108	113
Event Production & Post-Production	0.0	23.0	46.4	60.4	78.5
Others	3.64	3.52	6.32	8.00	8.00
Others	0.0	0.04	0.62	0.62	0.62
Total	38.3	95.7	192	298	346
Gross profit (\$m)					
Production & Distribution	13.1	26.5	40.3	52.3	62.8
Cinema Operation	2.80	7.56	28.2	59.2	62.1
Event Production & Post-Production	N/A	8.55	17.9	23.2	30.2
Others	2.50	2.69	3.86	4.80	4.80
Others	0.0	0.0	0.19	0.19	0.19
Total	18.4	45.3	90.5	140	160
Gross profit Margins (%)					
Production & Distribution	44.0	46.7	43.1	43.0	43.0
Cinema Operation	57.1	60.0	62.6	55.0	55.0
Event Production & Post-Production	N/A	37.2	38.5	38.5	38.5
Others	68.7	76.6	61.2	60.0	60.0
Others	N/A	N/A	N/A	N/A	N/A
Total	48.0	47.3	47.1	46.8	46.3

Contributions from Lotus and Cathay

Partial contribution from UnUsUaL

Income Statement (\$m)

FY Mar	2016A	2017A	2018A	2019F	2020F
Revenue	38.3	95.7	192	298	346
Cost of Goods Sold	(20.0)	(50.5)	(102)	(159)	(186)
Gross Profit	18.4	45.3	90.5	140	160
Other Opng (Exp)/Inc	(8.0)	(19.8)	(47.3)	(82.0)	(95.2)
Operating Profit	10.4	25.4	43.2	57.7	64.9
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.11	0.0	0.0
Net Interest (Exp)/Inc	(0.4)	(1.4)	(1.9)	(10.7)	(8.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	9.99	24.0	41.4	47.0	56.5
Tax	(1.1)	(3.7)	(7.9)	(8.0)	(9.6)
Minority Interest	(0.7)	(2.8)	(7.1)	(5.8)	(5.8)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	8.18	17.5	26.4	33.2	41.1
Net Profit before Except.	8.18	17.5	26.4	33.2	41.1
EBITDA	19.4	40.3	64.7	79.1	86.3
Growth					
Revenue Gth (%)	57.9	149.7	100.6	55.3	16.0
EBITDA Gth (%)	95.2	108.0	60.7	22.2	9.1
Opg Profit Gth (%)	56.7	145.1	69.8	33.6	12.5
Net Profit Gth (Pre-ex) (%)	59.4	114.3	50.9	25.7	23.8
Margins & Ratio					
Gross Margins (%)	48.0	47.3	47.1	46.8	46.3
Opg Profit Margin (%)	27.1	26.6	22.5	19.3	18.8
Net Profit Margin (%)	21.3	18.3	13.8	11.1	11.9
ROAE (%)	29.5	28.6	19.7	16.8	17.5
ROA (%)	15.3	15.1	7.1	4.8	4.5
ROCE (%)	25.0	21.8	12.4	5.4	5.2
Div Payout Ratio (%)	0.0	0.0	0.0	0.0	0.0
Net Interest Cover (x)	26.8	18.0	22.8	5.4	7.7

Mainly to finance acquisition of Cathay cinema chain in Singapore

Source: Company, DBS Bank

Quarterly / Interim Income Statement (\$m)

FY Mar	1Q2018	2Q2018	3Q2018	4Q2018	1Q2019
Revenue	24.6	31.4	52.4	83.6	49.0
Cost of Goods Sold	(9.3)	(16.8)	(28.2)	(47.3)	(16.1)
Gross Profit	15.4	14.6	24.2	36.3	32.9
Other Oper. (Exp)/Inc	(5.8)	(6.9)	(14.5)	(23.0)	(21.6)
Operating Profit	9.55	7.71	9.72	13.3	11.3
Other Non Opg (Exp)/Inc	0.05	0.46	0.50	0.14	0.33
Associates & JV Inc	0.0	(0.2)	0.16	0.16	0.01
Net Interest (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	9.57	7.99	10.4	13.6	11.6
Tax	(1.8)	(1.6)	(1.9)	(2.6)	(2.5)
Minority Interest	(1.4)	(1.8)	(2.0)	(2.0)	(1.9)
Net Profit	6.40	4.60	6.43	9.07	7.25
Net profit bef Except.	6.40	4.60	6.43	9.07	7.25
EBITDA	11.0	9.81	14.7	27.3	14.9

Growth

Revenue Gth (%)	(42.3)	27.6	66.9	59.6	(41.4)
EBITDA Gth (%)	8.9	(10.4)	49.9	86.0	(45.4)
Opg Profit Gth (%)	4.7	(19.3)	26.0	37.1	(15.3)
Net Profit Gth (Pre-ex) (%)	0.2	(28.2)	40.0	41.0	(20.1)

Margins

Gross Margins (%)	62.4	46.5	46.1	43.4	67.2
Opg Profit Margins (%)	38.8	24.5	18.5	15.9	23.0
Net Profit Margins (%)	26.0	14.6	12.3	10.8	14.8

Balance Sheet (\$m)

FY Mar	2016A	2017A	2018A	2019F	2020F
Net Fixed Assets	3.65	11.2	41.6	236	310
Invts in Associates & JVs	0.0	1.49	0.0	0.0	0.0
Other LT Assets	26.1	54.3	306	290	275
Cash & ST Invts	4.74	25.8	93.5	121	248
Inventory	9.83	23.3	25.9	38.4	45.0
Debtors	24.4	46.4	114	125	145
Other Current Assets	0.26	0.58	0.64	0.64	0.64
Total Assets	69.0	163	582	811	1,024
ST Debt	0.20	11.1	5.07	5.07	5.07
Creditor	23.8	48.4	282	258	302
Other Current Liab	4.21	7.56	11.5	10.3	11.9
LT Debt	2.85	0.58	61.2	276	396
Other LT Liabilities	0.75	0.97	9.96	9.96	9.96
Shareholder's Equity	36.2	86.5	181	215	256
Minority Interests	0.98	7.94	31.0	36.8	42.6
Total Cap. & Liab.	69.0	163	582	811	1,024
Non-Cash Wkg. Capital	6.49	14.3	(152)	(104)	(124)
Net Cash/(Debt)	1.69	14.1	27.2	(161)	(153)
Debtors Turn (avg days)	214.2	135.0	152.5	146.1	142.0
Creditors Turn (avg days)	640.7	369.8	751.2	717.5	620.6
Inventory Turn (avg days)	243.0	169.5	111.9	85.6	92.5
Asset Turnover (x)	0.7	0.8	0.5	0.4	0.4
Current Ratio (x)	1.4	1.4	0.8	1.0	1.4
Quick Ratio (x)	1.0	1.1	0.7	0.9	1.2
Net Debt/Equity (X)	CASH	CASH	CASH	0.6	0.5
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	0.7	0.6
Capex to Debt (%)	279.3	141.0	112.7	71.1	19.9
Z-Score (X)	9.3	5.7	5.7	1.4	1.3

Mainly to finance acquisition of Cathay cinema chain in Singapore

Source: Company, DBS Bank

Cash Flow Statement (\$m)

FY Mar	2016A	2017A	2018A	2019F	2020F
Pre-Tax Profit	9.99	24.0	41.4	47.0	56.5
Dep. & Amort.	8.98	14.8	21.4	21.4	21.4
Tax Paid	(1.1)	(3.8)	(5.2)	(9.2)	(8.0)
Assoc. & JV Inc/(loss)	0.0	0.01	(0.1)	0.0	0.0
Chg in Wkg.Cap.	(22.6)	(30.8)	(57.2)	(47.1)	18.0
Other Operating CF	0.0	0.0	0.0	0.0	0.0
Net Operating CF	(4.7)	4.24	0.32	12.1	87.9
Capital Exp.(net)	(8.5)	(16.5)	(74.7)	(200)	(80.0)
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	(9.5)	0.46	0.0	0.0
Net Investing CF	(8.5)	(26.0)	(74.2)	(200)	(80.0)
Div Paid	0.0	0.0	(0.1)	0.0	0.0
Chg in Gross Debt	2.35	17.8	60.2	215	120
Capital Issues	9.10	18.0	81.6	0.0	0.0
Other Financing CF	(0.7)	(0.5)	(0.8)	0.0	0.0
Net Financing CF	10.7	35.3	141	215	120
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(2.5)	13.5	67.0	27.1	128
Opg CFPS (S cts)	1.98	3.34	4.95	5.09	6.01
Free CFPS (S cts)	(1.5)	(1.2)	(6.4)	(16.2)	0.68

Assume debt financing for future acquisitions

Mainly to finance Cathay cinema acquisition

Proceeds from share placement

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	14 Aug 17	0.48	0.60	BUY
2:	02 Nov 17	0.57	0.73	BUY
3:	03 Nov 17	0.55	0.73	BUY
4:	08 Feb 18	0.50	0.75	BUY
5:	22 Apr 18	0.50	0.75	BUY
6:	30 May 18	0.49	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

Completed Date: 15 Aug 2018 08:11:43 (SGT)

Dissemination Date: 15 Aug 2018 08:23:50 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

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