

mm2 Asia (MM2 SP)

Keeping the Faith

BUY

Share Price	SGD 0.42
12m Price Target	SGD 0.57 (+36%)
Previous Price Target	SGD 0.57

In line with 2H19 ramp-up expectations

mm2's 1QFY19 results may appear light at 18% of MKE/FactSet consensus profit estimates but both the core movie and event production business segments have seasonally weakest revenues during the June quarter. Meanwhile, we continue to expect the value creation efforts for the cinema business to be more a 2H19 event. We maintain our forecasts and 1x PEG based TP of SGD0.57. Maintain BUY. Any production delays or withdrawals are the key risks to our outlook.

Reassurances given

We attended the post-results briefing where management highlighted: (1) the movie production pipeline remains healthy at 35-40 projects with higher value North Asia continuing to grow; (2) improving metrics for cinema will be more evident in six to nine months; and (3) value realization efforts for post-production subsidiary Vividthree (Not Listed) and cinema are on track. Revenue and earnings momentum will build up in subsequent quarters.

Execution is key

Although the company is being offered a myriad of potential deals and alliances in the entertainment space, share-price performance in the short-to-medium term needs to be driven by execution of prior transactions. The initial investment, increased earnings visibility and now operational momentum of subsidiary UnUsUal (UNU SP, Not Rated) are a prime example of what needs to happen for the cinema business.

Key investment drivers intact

With management continuing to focus on gaining more high value movie and TV projects in North Asia and event production ramping up more family oriented shows globally, revenue and earnings momentum should continue to build throughout this year and onwards. Progress on these and margin enhancement measures at the cinema division are key to unlocking value in the entertainment conglomerate.

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)	21.5	22.0	15.9	12.0	10.3
P/BV (x)	4.8	3.4	1.8	1.3	1.0
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	8.7	6.5	5.3
Net gearing (%) (incl perps)	net cash	net cash	70.4	50.2	28.8
Consensus core profit	-	-	33	40	45
MKE vs. Consensus (%)	-	-	(6.2)	1.8	5.8

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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)	0.58/0.42
3m avg turnover (USDm)	0.3
Free float (%)	40.2
Issued shares (m)	1,163
Market capitalisation	SGD488.4M USD355M

Major shareholders:

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

Price Performance



— mm2 Asia - (LHS, SGD) — mm2 Asia / Straits Times Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	(3)	(13)	(12)
Relative to index (%)	(3)	(4)	(10)

Source: FactSet

Post-results briefing highlights

Results

- 1Q is always the weakest revenue quarter for the production business.
- Pipeline for this year and FY20E remains strong for movie and event production businesses.
- Even taking into account finance costs, the cinema business on a standalone basis was profitable during the quarter.
- Increase in finance charges were primarily driven (40% of the quarter's amount) by one-off fees related to loan facilities. These fees were non-tax deductible and hence the effective tax rate for the quarter was higher than normal.

Business segment updates

- The main cinema hosting segment is generally a stable revenue business but management is driving other segments such as advertising and confectionary. New marketing and payment platforms (e.g. Grab Pay) are being launched to improve the movie watching experience. With a new business model and mind set, time is needed for staff and systems to adjust. mm2 management expects more visible results in six to nine months.
- Aside from hosting Disney on Ice shows in Korea in FY20E, UnUsUal will also expand the relationship into shows in China and Taiwan.
- Previously disclosed event production and hosting for the Asia leg of Walking with Dinosaurs and the global tour of the commemoration of the Apollo moon landing are also FY20E events that will scale up long-term revenues with multi-year contracts.
- Plans for unlisted online portal AsiaOne will materialize in FY20E.

Figure 1: Quarterly income statement

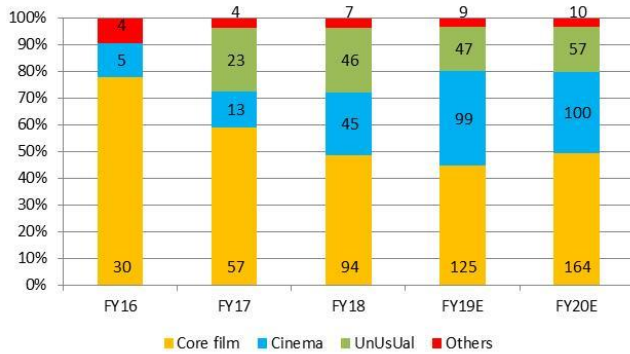
(end-Mar, SGD m)	1QFY18	4QFY18	1QFY19	QoQ	YoY	% of MKE FY19	% of cons FY19
Revenue							
Core business	13.90	46.3	na				
Post production	na	na	na				
Cinema operation	4.53	14.0	na				
Event production and concert	6.19	16.3	6.0	-63.1%	-2.6%	12.9%	
Total revenue	24.6	83.6	49.0	-41.4%	99.0%	17.5%	14.8%
Cost of sales	(9.3)	(47.3)	(16.1)	-66.1%	73.4%	10.9%	
Gross profit	15.4	36.3	32.9	-9.3%	114.4%	24.8%	
Gross profit margin	62.4%	43.4%	67.2%				
Administrative expenses	(5.6)	(21.8)	(18.9)	-13.5%	234.7%	23.2%	
EBITDA	11.09	28.35	17.95	(0.37)	0.62	21.1%	
<i>EBITDA margin</i>	45.1%	33.9%	36.6%				
Amortization of film rights	(0.5)	(8.1)	(0.2)	-97.1%	-50.3%		
Amortization of other film	(0.2)	(3.1)	(1.0)	-66.1%	385.0%		
Depreciation of PPE	(0.7)	(2.7)	(2.6)	-3.9%	275.8%		
EBIT	9.7	14.5	14.0	-3.0%	44.6%	27.2%	
Other income	0.2	0.2	0.5	179.2%	90.7%		
Other gains and losses	(0.2)	(0.0)	0.3	-1248.3%	-273.4%		
Associate income	(0.0)	0.2	0.0	-91.3%	-138.9%		
Finance expenses	(0.2)	(1.3)	(3.2)	147.6%	1940.5%		
Profit before tax	9.6	13.5	11.6	-13.7%	21.5%	20.8%	
Tax	(1.8)	(2.5)	(2.5)	-1.3%	41.3%	23.7%	
<i>Tax rate</i>	-18.6%	-18.9%	-21.6%				
Profit before minorities	7.8	10.9	9.1	-16.6%	17.0%	20.2%	
Minority interest	(1.4)	(1.9)	(1.9)	-2.5%	34.8%		
Reported profit	6.4	9.0	7.2	-19.6%	13.2%	17.9%	17.9%

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.
- FY19E PEG ratio of 0.7x based on FY18E-21E profit growth of 21% the stock is offering value against regional and global peers trading at a 2x PEG.

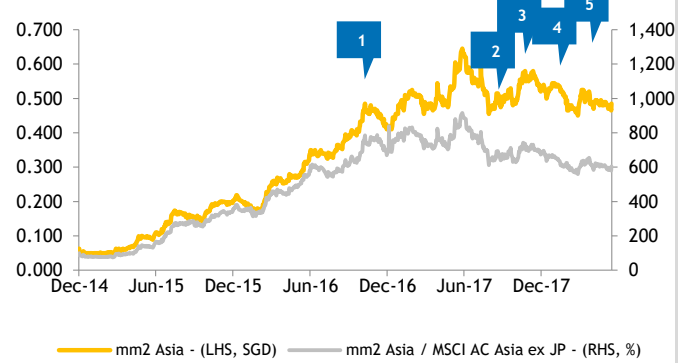
Diversified and growing media revenue base (SGD m)



Source: Company, Maybank Kim Eng estimates

Price Drivers

Historical share price trend



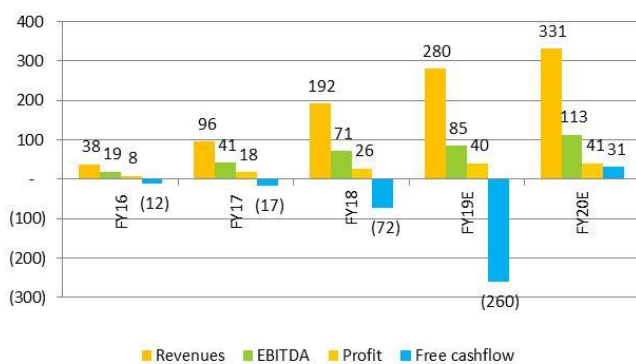
Source: Company, Maybank Kim Eng

- 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	12.1	12.0	10.3
Core P/E (x)	21.5	22.0	15.9	12.0	10.3
P/BV (x)	4.8	3.4	1.8	1.3	1.0
P/NTA (x)	9.8	3.5	1.8	1.4	1.0
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
FCF yield (%)	nm	nm	nm	6.3	17.5
EV/EBITDA (x)	11.5	9.1	8.7	6.5	5.3
EV/EBIT (x)	18.2	13.7	14.4	10.5	8.7
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)
Perpetual securities	0.0	0.0	0.0	0.0	0.0
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
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
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
Perpetual securities	0.0	0.0	0.0	0.0	0.0
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
Perpetual securities	0.0	0.0	0.0	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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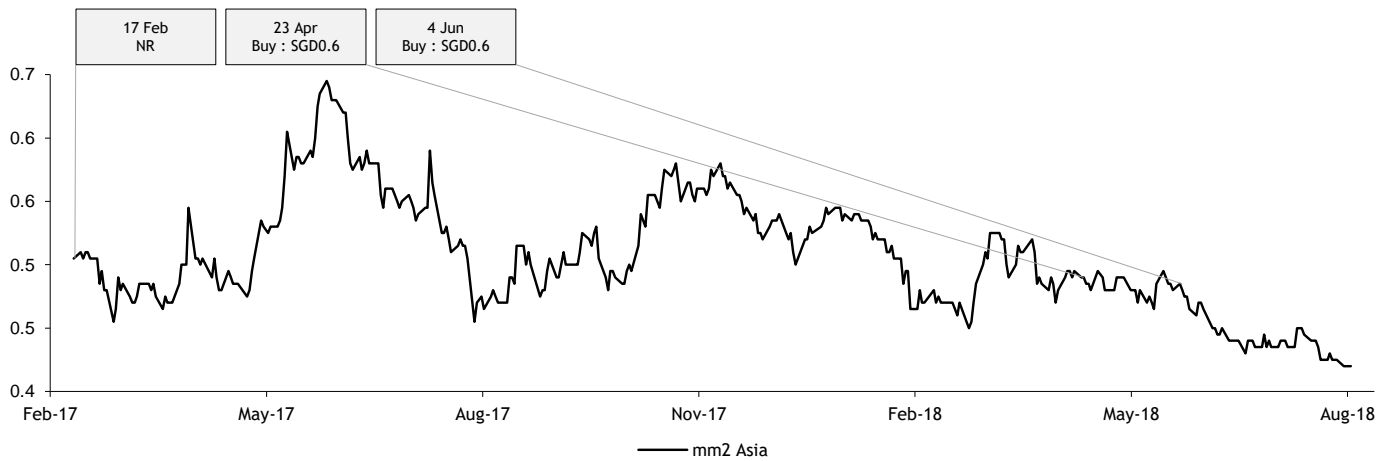
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