

## mm2 Asia (MM2 SP)

# Road to redemption?

# HOLD

Share Price SGD 0.25  
 12m Price Target SGD 0.26 (+7%)  
 Previous Price Target SGD 0.34

### FY19 core profit below. Maintain HOLD on lower TP

With FY19 reported profit propped by an unexpected SGD4m gain, core profit at SGD18m (-19% YoY) was 84% of MKE/consensus estimates. With a 16%-23% cut in our FY20-22E revenue outlook (Fig 1) our core profit forecasts are reduced by 46%-48% and our 1x PEG based TP is lowered to SGD0.26. Maintain HOLD where core production and cinema performance business are key upside and downside risks to our outlook.

### The bad news: Revenue shortfall

The 5% shortfall vs MKE revenue forecasts came from YoY drops in Singapore and Malaysia's core production revenues (Fig 3) which partially offset gains in North Asia. Combined with the higher finance expenses, that included non-cash, exceptional items; this led to the underperformance in core profit.

### The good news: Better transparency and guidance

Management delivered on its promise to provide business segment transparency for FY19 vs FY18 results (Fig 7) that showcased improved EBITDA margins for the cinema business. The progress and path to enhancing the cinema business was also discussed thoroughly in its results briefing. Furthermore, for the first time management revealed its 18-month core production pipeline (Fig 6) which shows SGD162m worth of contracts secured. Event and concert subsidiary UnUsUal (UNU SP, Not Rated) recently unveiled the launch of its new family entertainment line-up of shows for CY19. As such, we believe our revised revenue outlook (CAGR of 6% over FY19-22E) is attainable.

### What the market would like to see

We believe the key to further re-rating of the stock will have to come from discernible progress in the cinema EBITDA and margins and new regional production work for the core business. This would entail similar levels of disclosure on a quarterly basis and not just year-end. Any opportunities to execute on the strategic sell down of the cinema business would also be a share price catalyst.

FYE Mar (SGD m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	192	266	277	299	315
EBITDA	63	75	82	91	96
Core net profit	23	19	19	23	29
Core EPS (cts)	2.1	1.6	1.7	1.9	2.5
Core EPS growth (%)	11.2	(22.6)	3.7	17.9	29.0
Net DPS (cts)	0.0	0.0	0.0	0.0	0.0
Core P/E (x)	24.8	19.2	14.8	12.6	9.8
P/BV (x)	3.3	1.7	0.9	0.7	0.5
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAE (%)	17.3	9.7	7.4	6.5	6.4
ROAA (%)	6.1	3.0	2.9	3.2	3.9
EV/EBITDA (x)	9.1	8.2	6.4	5.1	3.8
Net gearing (%) (incl perps)	net cash	78.9	50.1	22.4	net cash
Consensus net profit	-	-	29	35	na
MKE vs. Consensus (%)	-	-	(33.1)	(35.5)	na

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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)	0.49/0.23
3m avg turnover (USDm)	0.2
Free float (%)	38.9
Issued shares (m)	1,163
Market capitalisation	SGD284.9M
	USD207M

### Major shareholders:

ANG WEE CHYE	38.1%
StarHub Ltd.	9.8%
YEO KHEE SENG BENNY	8.2%

### Price Performance



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

	-1M	-3M	-12M
Absolute (%)	(11)	(13)	(49)
Relative to index (%)	(3)	(10)	(44)

Source: FactSet

Figure 1: Forecast revisions

(SGDm, end-Mar)	FY20E	FY21E	FY22E
Revenues - revised	277.2	298.9	314.9
Revenues - previous	330.7	367.4	406.9
Change	-16.2%	-18.6%	-22.6%
Gross profit - revised	131.7	142.1	149.3
Gross profit - previous	160.8	179.9	200.5
Change	-18.1%	-21.0%	-25.5%
Core profit - revised	19.2	22.7	29.2
Core profit - previous	35.7	43.5	55.0
Change	-46.1%	-48.0%	-46.9%
Target price - revised	0.26		
Target price - previous	0.34		
Change	-23.1%		

Source: Company data, Maybank Kim Eng

Figure 2: MKE vs consensus\*

(end-Mar, SGD m)	FY20E	FY21E
<b>MKE</b>		
Revenues	277	299
Reported profit	19	23
Core profit	19	23
Target price	0.26	
<b>FactSet consensus</b>		
Revenues	319	361
Reported profit	29	35
Core profit	29	35
Target price	0.34	
<b>MKE vs consensus</b>		
Revenues	-13.0%	-17.2%
Reported profit	-33.1%	-35.5%
Core profit	-33.1%	-35.5%
Target price	-23.1%	

Source: Company data, Maybank Kim Eng, FactSet

\*Consensus is made up of three estimates

Figure 3: Quarterly income statement

(end-Mar, SGD m)	4QFY18	3QFY19	4QFY19	QoQ	YoY	FY18	FY19	YoY	YTD % of MKE FY19	YTD % of cons FY19
Core business	46.3	na	na	na	na	93.6	98.2	4.9%		
Post production						6.3	9.3	47.0%		
Cinema operation	14.0	na	na	na	na	45.0	100.7	123.7%		
Event production and concert	16.3	na	na	na	na	46.4	56.2	21.0%		
Others						0.6	1.8	188.1%		
<b>Total revenue</b>	<b>83.6</b>	<b>74.1</b>	<b>78.3</b>	<b>5.7%</b>	<b>-6.4%</b>	<b>192.0</b>	<b>266.2</b>	<b>38.6%</b>	<b>95.0%</b>	<b>95.0%</b>
Cost of sales	(50.5)	(44.3)	(44.3)	0.1%	-12.1%	(104.7)	(142.0)	35.6%		
Gross profit	33.2	29.8	33.9	14.0%	2.3%	87.3	124.2	42.3%		
Gross profit margin	39.7%	40.2%	43.4%			45.5%	46.7%			
Administrative expenses	(20.5)	(18.8)	(18.9)	0.4%	-7.8%	(47.0)	(69.9)	48.6%		
<b>EBIT</b>	<b>12.7</b>	<b>11.0</b>	<b>15.1</b>	<b>37.3%</b>	<b>18.6%</b>	<b>40.3</b>	<b>54.3</b>	<b>34.9%</b>		
Other income	0.2	0.5	3.1	582.4%	1728.0%	0.9	4.5	385.8%		
Other gains and losses	0.3	0.0	(1.3)	-9013.3%	-507.6%	0.6	(1.3)	-321.4%		
Associate income	0.2	(0.0)	0.0	-266.7%	-87.5%	0.1	0.0	-80.4%		
Finance expenses	(4.3)	(4.3)	(4.9)	13.5%	11.8%	(4.9)	(17.9)	262.4%		
<b>Profit before tax</b>	<b>9.0</b>	<b>7.2</b>	<b>12.0</b>	<b>67.3%</b>	<b>32.7%</b>	<b>37.0</b>	<b>39.7</b>	<b>7.4%</b>		
Tax	(1.8)	(2.5)	(2.6)	5.6%	45.3%	(7.1)	(11.1)	56.5%		
<b>Profit before minorities</b>	<b>7.2</b>	<b>4.7</b>	<b>9.4</b>	<b>99.6%</b>	<b>29.6%</b>	<b>29.9</b>	<b>28.6</b>	<b>-4.2%</b>		
Minority interest	(1.9)	(2.7)	(3.2)	18.5%	68.7%	(7.1)	(9.6)	34.6%		
<b>Reported profit</b>	<b>5.3</b>	<b>2.0</b>	<b>6.1</b>	<b>213.0%</b>	<b>15.4%</b>	<b>22.7</b>	<b>19.0</b>	<b>-16.4%</b>	<b>93.9%</b>	<b>93.7%</b>
Exceptional item adjustments	-	-	(0.9)	-	-	-	(0.6)			
<b>Core profit</b>	<b>5.3</b>	<b>2.0</b>	<b>5.2</b>	<b>167.1%</b>	<b>-1.5%</b>	<b>22.7</b>	<b>18.4</b>	<b>-19.0%</b>	<b>84.3%</b>	<b>84.1%</b>

Source: Company data, Maybank Kim Eng, FactSet

Figure 4: Core production revenue breakdown

(End-Mar, SGD m)	FY17	FY18	FY19
Singapore	19.6	28.7	16.4
Malaysia	10.8	11.0	7.5
China	15.8	37.2	29.1
Taiwan	6.1	9.6	30.7
Hong Kong	4.4	6.7	9.9
Others	0.0	0.5	4.5
<b>Total</b>	<b>56.6</b>	<b>93.6</b>	<b>98.2</b>

Source: Company data

Figure 5: Core production revenue breakdown

	FY17	FY18	FY19
Singapore	33.0%	30.6%	16.7%
Malaysia	19.5%	11.8%	7.6%
China	28.5%	39.7%	29.6%
Taiwan	11.0%	10.2%	31.3%
Hong Kong	8.0%	7.2%	10.1%
Others	0.0%	0.5%	4.6%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
North Asia	47.5%	57.1%	71.0%

Source: Company data

Figure 6: Core business production pipeline over the next 18months

Country	No of productions	Production rev (SGD m)	Rev per production (SGD m)
Malaysia	5	4.00	0.80
Singapore - drama	2	3.20	1.60
Singapore - movie	6	13.90	2.32
Hong Kong - drama	2	14.60	7.30
Hong Kong - movie	9	20.40	2.27
Taiwan - drama	5	24.90	4.98
Taiwan - movie	8	29.60	3.70
China - drama	2	17.90	8.95
China - movie	4	20.00	5.00
Others	3	14.00	4.67
<b>Total</b>	<b>46</b>	<b>162.50</b>	<b>3.53</b>

Source: Company data

Figure 7: Segmental disclosure\*

(end-Mar, SGD m)	FY18	FY19	Change
<b>Core business</b>			
Revenues	94	98	4.9%
EBITDA	43	50	15.2%
EBITDA margin	46.0%	50.6%	4.5%
Reported profit	23	22	-4.1%
<b>Cinema</b>			
Revenues	45	101	123.7%
EBITDA	6	18	218.3%
EBITDA margin	12.3%	17.4%	5.2%
Reported profit**	(4)	2	-141.8%
<b>Concert and event</b>			
Revenues	46	56	21.0%
EBITDA***	14	41	206.1%
EBITDA margin	29.2%	73.7%	44.6%
Reported profit	9	35	275.0%
<b>Post production and content</b>			
Revenues	6	9	46.6%
EBITDA	3	4	27.7%
EBITDA margin	55.2%	48.1%	-7.1%
Reported profit	3	3	20.5%

Source: Company data

\*Does not add up to consolidated as intragroup elimination is not excluded from the figures

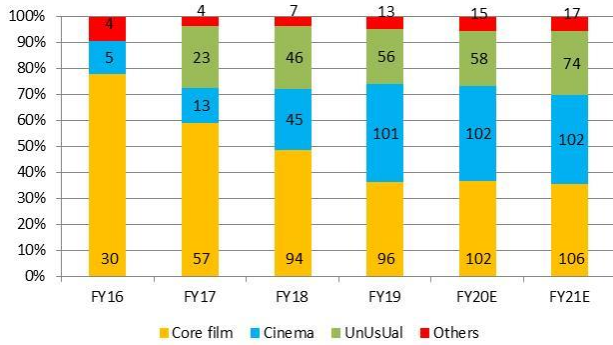
\*\*FY19 profit inclusive of SGD4.3m revaluation gain

\*\*\*FY19 boosted by gain from stake sale

## 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 FY20E PEG ratio of 0.9x based on FY19-22E core profit growth of 16%, the stock is fairly valued.

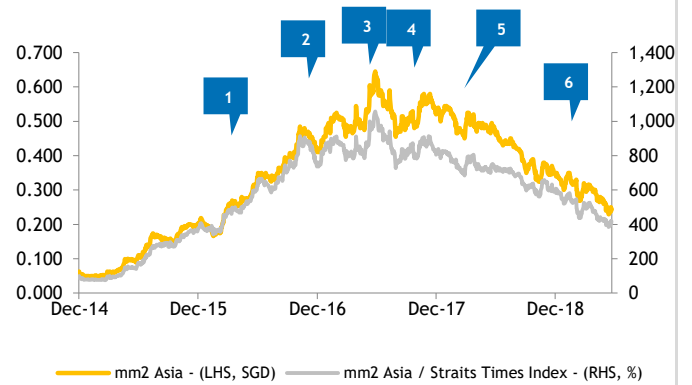
### Diversified and growing media revenue base (SGD m)



Source: Company, Maybank Kim Eng estimates

## Price Drivers

### Historical share price trend



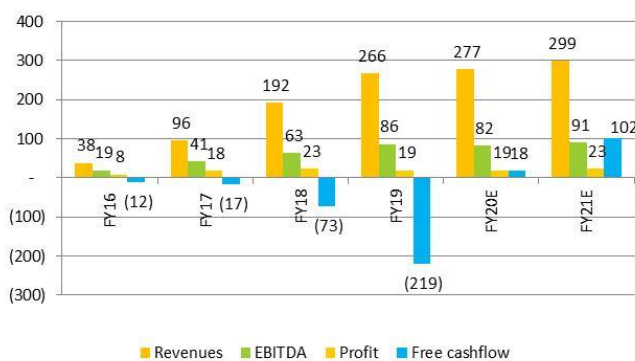
Source: Company, Maybank Kim Eng, Factset

- 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.
- 9MFY19 hit by Cathay acquisition related finance charges.

## Financial Metrics

- Revenue and profit growth to come from recent acquisitions and organic growth at its core film business.
- Payment for Cathay acquisition to resulted in negative FCF & gearing in FY19 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 TV or 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.
- Unfavourable regulations in regional markets for its film expansion.

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FYE 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Key Metrics</b>					
P/E (reported) (x)	25.5	23.6	14.8	12.6	9.8
Core P/E (x)	24.8	19.2	14.8	12.6	9.8
P/BV (x)	3.3	1.7	0.9	0.7	0.5
P/NTA (x)	3.4	1.8	1.0	0.7	0.6
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
FCF yield (%)	nm	nm	6.3	35.8	50.5
EV/EBITDA (x)	9.1	8.2	6.4	5.1	3.8
EV/EBIT (x)	14.2	11.4	11.2	9.0	6.9
<b>INCOME STATEMENT (SGD m)</b>					
Revenue	192.0	266.2	277.2	298.9	314.9
Gross profit	87.3	124.2	131.7	142.1	149.3
EBITDA	62.9	75.2	82.4	90.5	95.6
Depreciation	(5.7)	(9.8)	(11.6)	(14.7)	(18.4)
Amortisation	(16.9)	(11.0)	(23.8)	(24.5)	(25.0)
EBIT	40.3	54.3	47.1	51.3	52.2
Net interest income / (exp)	(4.9)	(17.9)	(17.2)	(17.2)	(10.1)
Associates & JV	0.1	0.1	0.1	0.1	0.1
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	1.5	3.2	5.1	5.1	5.1
Pretax profit	37.0	39.8	35.1	39.3	47.3
Income tax	(7.1)	(11.1)	(6.3)	(7.1)	(8.5)
Minorities	(7.1)	(9.6)	(9.6)	(9.6)	(9.6)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	22.7	19.1	19.2	22.7	29.2
Core net profit	22.7	18.5	19.2	22.7	29.2
<b>BALANCE SHEET (SGD m)</b>					
Cash & Short Term Investments	93.2	18.6	46.2	124.4	46.8
Accounts receivable	107.9	180.7	154.3	169.9	181.1
Inventory	21.1	22.2	23.8	25.2	26.1
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	42.1	36.4	46.4	58.9	73.6
Intangible assets	299.2	333.3	312.2	312.8	313.9
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	18.7	74.5	74.6	74.7	74.8
<b>Total assets</b>	<b>582.2</b>	<b>665.7</b>	<b>657.5</b>	<b>765.9</b>	<b>716.3</b>
ST interest bearing debt	5.0	36.8	36.8	36.8	36.8
Accounts payable	273.0	131.4	22.8	26.8	29.8
LT interest bearing debt	67.8	192.1	192.1	192.1	3.7
Other liabilities	28.0	39.0	41.0	44.0	46.0
<b>Total Liabilities</b>	<b>373.7</b>	<b>399.1</b>	<b>293.0</b>	<b>299.4</b>	<b>116.4</b>
Shareholders Equity	178.6	214.2	302.5	394.8	518.6
Minority Interest	29.9	52.5	62.0	71.6	81.2
<b>Total shareholder equity</b>	<b>208.5</b>	<b>266.6</b>	<b>364.5</b>	<b>466.5</b>	<b>599.8</b>
<b>Total liabilities and equity</b>	<b>582.2</b>	<b>665.7</b>	<b>657.5</b>	<b>765.9</b>	<b>716.3</b>
<b>CASH FLOW (SGD m)</b>					
Pretax profit	37.0	39.8	35.1	39.3	47.3
Depreciation & amortisation	22.7	20.8	35.3	39.2	43.4
Adj net interest (income)/exp	4.5	17.9	17.2	17.2	10.1
Change in working capital	(57.3)	(55.0)	(91.4)	(21.0)	(17.2)
Cash taxes paid	1.9	1.3	0.0	0.0	0.0
Other operating cash flow	(0.6)	(1.6)	(0.1)	(0.1)	(0.1)
Cash flow from operations	0.7	12.2	(10.2)	67.5	75.1
Capex	(10.2)	(4.1)	(4.3)	(4.6)	(4.9)
Free cash flow	(73.0)	(219.5)	18.0	102.0	143.8
Dividends paid	0.0	0.0	0.0	0.0	0.0
Equity raised / (purchased)	197.1	14.0	20.5	0.0	0.0
Change in Debt	(55.3)	150.8	0.0	0.0	(188.4)
Perpetual securities distribution	(0.1)	(11.1)	7.1	12.3	20.0
Other invest/financing cash flow	(64.4)	(236.3)	15.4	22.0	63.6
Effect of exch rate changes	(0.3)	(0.0)	(0.8)	(19.0)	(43.0)
Net cash flow	67.4	(74.6)	27.7	78.1	(77.6)

FYE 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	100.6	38.6	4.1	7.8	5.3
EBITDA growth	52.1	19.4	9.7	9.8	5.7
EBIT growth	54.6	34.9	(13.3)	8.9	1.8
Pretax growth	47.6	7.7	(11.8)	12.0	20.3
Reported net profit growth	21.2	(15.9)	0.5	17.9	29.0
Core net profit growth	21.2	(18.6)	3.7	17.9	29.0
<b>Profitability ratios (%)</b>					
EBITDA margin	32.8	28.2	29.7	30.3	30.4
EBIT margin	21.0	20.4	17.0	17.2	16.6
Pretax profit margin	19.2	15.0	12.7	13.2	15.0
Payout ratio	0.0	0.0	0.0	0.0	0.0
<b>DuPont analysis</b>					
Net profit margin (%)	11.8	7.2	6.9	7.6	9.3
Revenue/Assets (x)	0.3	0.4	0.4	0.4	0.4
Assets/Equity (x)	3.3	3.1	2.2	1.9	1.4
ROAE (%)	17.3	9.7	7.4	6.5	6.4
ROAA (%)	6.1	3.0	2.9	3.2	3.9
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(327.3)	(262.6)	83.7	194.5	194.8
Days receivable outstanding	144.5	195.1	217.5	195.3	200.7
Days inventory outstanding	77.6	55.0	56.9	56.2	55.8
Days payables outstanding	549.4	512.7	190.7	57.0	61.6
Dividend cover (x)	nm	nm	nm	nm	nm
Current ratio (x)	0.8	1.5	3.3	4.2	3.4
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.6	1.7	2.2	2.6	6.2
Net gearing (%) (incl perps)	net cash	78.9	50.1	22.4	net cash
Net gearing (%) (excl. perps)	net cash	78.9	50.1	22.4	net cash
Net interest cover (x)	8.2	3.0	2.7	3.0	5.2
Debt/EBITDA (x)	1.2	3.0	2.8	2.5	0.4
Capex/revenue (%)	5.3	1.5	1.5	1.5	1.5
Net debt/ (net cash)	(20.4)	210.3	182.7	104.5	(6.3)

Source: Company; Maybank

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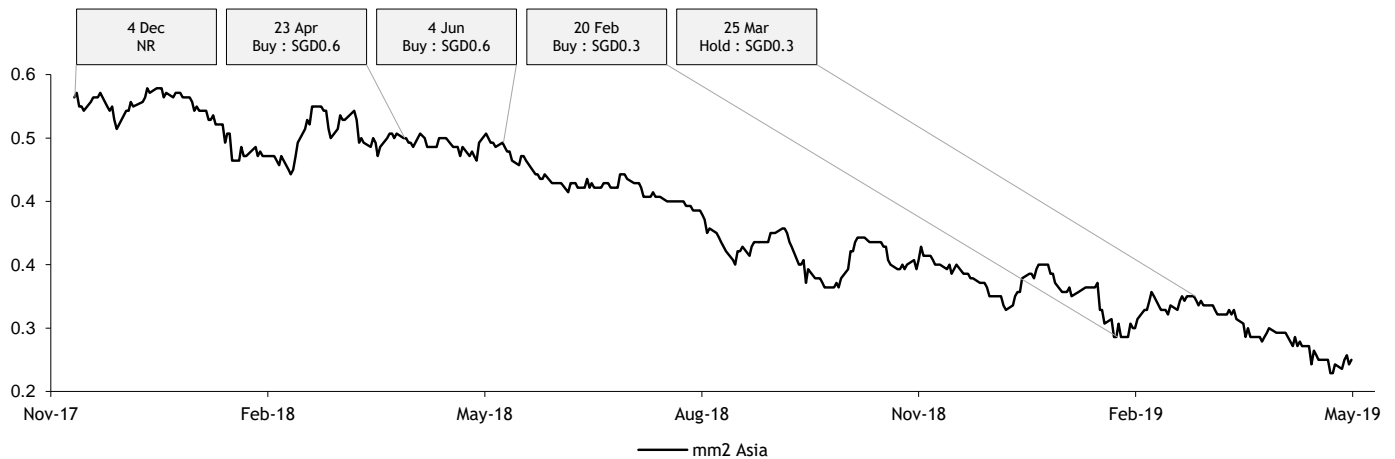
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