

Singapore Company Guide

mm2 Asia

Version 21 | Bloomberg: MM2 SP | Reuters: MM2A.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

14 Aug 2019

BUY

Last Traded Price (14 Aug 2019): S\$0.197 (STI : 3,147.60)
Price Target 12-mth: S\$0.29 (47% upside) (Prev S\$0.34)

Analyst

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What's New

- 1Q20 figures broadly in line; steady improvements in core and cinema business; weaker event and concert segment
- Strong project pipeline for core production and UnUsUaL
- Potential catalyst: Group's deleveraging/restructuring
- Tweak earnings down by 6% to 10%; TP lowered to S\$0.29

Price Relative



Forecasts and Valuation

FY Mar (S\$m)	2018A	2019A	2020F	2021F
Revenue	192	266	306	353
EBITDA	57.8	84.5	87.4	95.1
Pre-tax Profit	36.6	39.8	44.3	52.2
Net Profit	22.4	19.1	20.5	24.0
Net Pft (Pre Ex.)	22.4	19.1	20.5	24.0
Net Pft Gth (Pre-ex) (%)	27.8	(14.5)	6.9	17.4
EPS (S cts)	1.93	1.65	1.76	2.07
EPS Pre Ex. (S cts)	1.93	1.65	1.76	2.07
EPS Gth Pre Ex (%)	15	(15)	7	17
Diluted EPS (S cts)	1.93	1.65	1.76	2.07
Net DPS (S cts)	0.0	0.0	0.0	0.0
BV Per Share (S cts)	15.4	18.4	20.2	22.2
PE (X)	10.2	12.0	11.2	9.5
PE Pre Ex. (X)	10.2	12.0	11.2	9.5
P/Cash Flow (X)	nm	126.8	2.1	3.6
EV/EBITDA (X)	4.0	5.8	5.6	5.6
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	1.3	1.1	1.0	0.9
Net Debt/Equity (X)	CASH	0.8	0.6	0.7
ROAE (%)	16.9	9.7	9.1	9.7
Earnings Rev (%)			(6)	(10)
Consensus EPS (S cts)			1.80	2.20
Other Broker Recs:		B: 2	S: 0	H: 1

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

Value emerging

Negatives priced in; near term catalyst: deleveraging or restructuring. We see value in mm2 Asia at the current share price. Based on sum-of-the-parts valuation, and stripping out its stakes in UnUsUaL and Vividthree, the market is valuing the core production and cinema segment at about S\$100m, which works out to P/EBITDA of below 2x, which is too low in our view. The synergistic effect from owning cinemas takes time to realise. mm2 paid 13.8x P/EBITDA for the Cathay cinema chain in Singapore and about 8-9x for the Malaysia cinemas while peers are trading at about 4.8x. It has been penalized by the market with the share price down by c.70% from the peak before the announcement of the cinema acquisition. Near-term catalysts would include deleveraging or restructuring in order to maintain a higher margin. Reiterate BUY.

Where we differ: Slight difference in valuation peg vs consensus. We value the production segment based on a lower PE multiple, and P/EBITDA for the cinema. For UnUsUaL and Vividthree, we value these at current market valuations, vs PE valuations used by consensus.

Potential catalyst: Deleveraging/restructuring to reduce gearing; more projects especially in North Asia; successful cinema operation spinoff.

Valuation:

Maintain BUY with lower TP of S\$0.29. Our sum-of-parts target price of S\$0.29 is pegged to 12.8x FY20F earnings for core business (in line with peers listed in Asia), 4.4x P/EBITDA for cinema business (a 20% discount to peers), and current market valuations for UnUsUaL and Vividthree.

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)	229 / 166
Major Shareholders (%)	
Ang Wee Chye	38.1
StarHub Ltd	9.8
Yeo Khee Seng	8.2
Free Float (%)	
3m Avg. Daily Val (US\$m)	0.09
ICB Industry : Consumer Services / Media	



Live more, Bank less

mm2 Asia

WHAT'S NEW

1Q20 – Steady improvements in core and cinema businesses; weaker event and concert, and post-production segments

1Q20 results broadly in line. 1Q20 revenue of S\$49m was flat y-o-y but down 37% q-o-q. The stronger performance for the core business and cinema segment was offset by weaker performance for UnUsUaL (UUU) and Vividthree (VV3). Gross profit margin of 61.6% is lower than 1Q19's 67.2% but much higher than 4Q19's 43.3%, partly due to higher-margin service-related revenue for 1Q20 as compared to the previous quarter, and also difference in types of project. Overall, net profit of S\$6.95m (-4% y-o-y, +12% q-o-q) accounts for 32% of our FY20F numbers, broadly in line as 1Q is traditionally a stronger quarter.

UUU weaker as the larger projects will be recognised mainly from 2Q20 onwards. UUU reported a 28% and 54% y-o-y drop in revenue and net profit respectively for 1Q20 as most of its larger-scale projects like "Walking with Dinosaurs" and "Apollo" would only be recognised from 2Q20 onwards.

Lower content production and margins for VV3. The 11.3% y-o-y drop in 1Q20 revenue to S\$1.6m was mainly due to lower contribution from the content production segment. A lower net margin of 19.4%, partly due to higher admin costs vs 55.7% in 1Q19, led to a 69% drop in 1Q20 earnings to S\$0.31m.

Strong project pipeline. For the core production business, the group has about 40 productions with a total budget of about S\$150m in the pipeline for the next 12-18 months. UUU is inclined towards a full-year growth with a robust line-up of concerts/theme shows including Westlife, Andy Lau, Kang Daniel, JJ Lin, Disney's "Frozen" and "Walking with Dinosaurs".

VV3 signed MOU for "Doraemon Experience" show. VV3 has signed an MOU for "Doraemon Experience" (DE) project. Under the MOU, VV3 will collaborate to develop the DE show with an immersive experience integrating the elements of virtual reality and augmented reality. The DE show is intended to be made available in Singapore within the next 12 months, followed by other regional parts of Asia.

Muted growth for cinema business. For the cinema segment, the split in revenue for Singapore and Malaysia is about 70%/30%. Cathay in Singapore is ranked second, with a market share of about 28% while top-ranked Golden Village has a 39% share. With a stable outlook in terms of cinema attendance, average ticket price and box office receipt, contribution from the Singapore cinema should at least be maintained going forward.

Outlook for the Malaysia cinema is brighter. mm2 is ranked fourth with a market share of about 12%. All key indicators - cinema attendance, average ticket price and box office receipt, registered moderate growth in 2018. We expect this trend to continue. Overall, we forecast a moderate 3% growth each for FY20F and FY21F for the group's cinema business.

Tweak earnings down by 6-10% each; TP lowered to S\$0.29. We have adjusted earnings down by 6% for FY20F and 10% for FY21F, to account for higher interest expenses as a result of higher debt assumption. The Group has secured an additional debt of S\$27.5m as at end 1Q20, mainly for the core production segment. TP is adjusted lower to S\$0.29 (previously S\$0.34) based on sum-of-parts valuation, as we have used a lower valuation peg at a 20% discount to peers for the core production and cinema segments, pending the successful deleveraging/restructuring efforts to improve margins.

Potential catalyst: Deleveraging/restructuring. mm2 moved into a net debt position following the acquisition of Cathay Cineplexes for S\$230m in November 2017, that was financed mainly via debt. The high interest has affected the bottom line. Going forward, mm2 would have to deleverage in order to maintain a decent net margin.

A spinoff of the cinema business could be an option to address this issue in the long run. Alternatively, the group could explore the option of divesting its 39% holding in UnUsUaL and 42% stake in Vividthree, or bring in strategic investors.

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Quarterly / Interim Income Statement (S\$m)

FY Mar	1Q2019	4Q2019	1Q2020	% chg yoy	% chg qoq
Revenue	49.0	78.2	49.0	0.1	(37.3)
Cost of Goods Sold	(16.1)	(44.3)	(18.8)	17.2	(57.5)
Gross Profit	32.9	33.9	30.2	(8.3)	(10.9)
Other Oper. (Exp)/Inc	(18.4)	(18.9)	(15.4)	(16.4)	(18.3)
Operating Profit	14.5	15.0	14.8	2.0	(1.5)
Other Non Opg (Exp)/Inc	0.33	1.81	0.09	(72.7)	(95.0)
Associates & JV Inc	0.01	0.04	0.0	nm	(162.8)
Net Interest (Exp)/Inc	(3.2)	(4.9)	(4.7)	(44.6)	4.0
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Pre-tax Profit	11.6	12.0	10.2	(12.3)	(15.2)
Tax	(2.5)	(2.6)	(2.7)	8.5	5.0
Minority Interest	(1.9)	(3.2)	(0.5)	72.3	(84.0)
Net Profit	7.25	6.20	6.95	(4.1)	12.2
Net profit bef Except.	7.25	6.20	6.95	(4.1)	12.2
EBITDA	18.2	25.0	25.0	37.5	(0.3)
Margins (%)					
Gross Margins	67.2	43.3	61.6		
Opg Profit Margins	29.6	19.2	30.2		
Net Profit Margins	14.8	7.9	14.2		

Source of all data: Company, DBS Bank

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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 41.5% stake in Vividthree, a computer graphic studio listed on the Catalist Board of SGX. It also owns a 39.2% 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 all 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 subsidiaries UnUsUaL and Vividthree should further boost the production pipeline. UnUsUaL has secured the rights to present a total of 48 "Disney On Ice" shows in Korea and Taiwan. "Walking with Dinosaurs" will have 117 shows touring 11 cities starting from August 2019. "Apollo" has scheduled a 3-year tour in North America from mid-2019. For Vividthree, the Train to Busan (TTB) virtual reality set will move to Xiamen after Beijing. Beyond TTB, Vividthree is also exploring new intellectual property products to expand its business. It has recently signed a MOU for "Doraemon Experience" show, which is intended to be made available in Singapore within the next 12 months, followed by other regional parts of Asia.

Expansion in North Asia

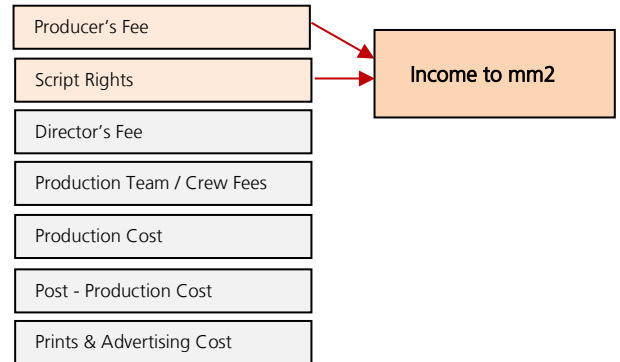
North Asia contributed 70% of production revenue in FY19, up from 36% in FY16, 56% in FY17 and 57% in FY18. We expect North Asia to remain a key contributor. mm2 has a unique presence in all the Chinese markets, including Singapore, Malaysia, Hong Kong, Taiwan, and China. This presents ample cross-border 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.

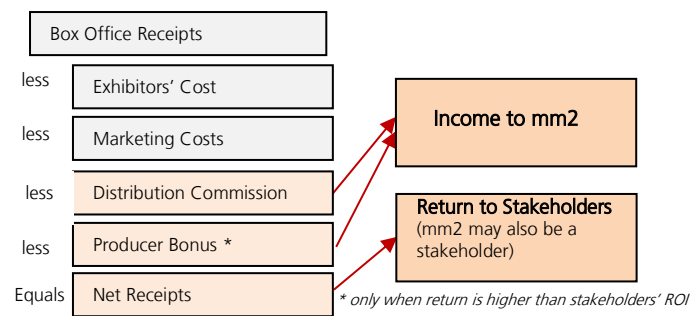
Digital age shift – content is king

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.

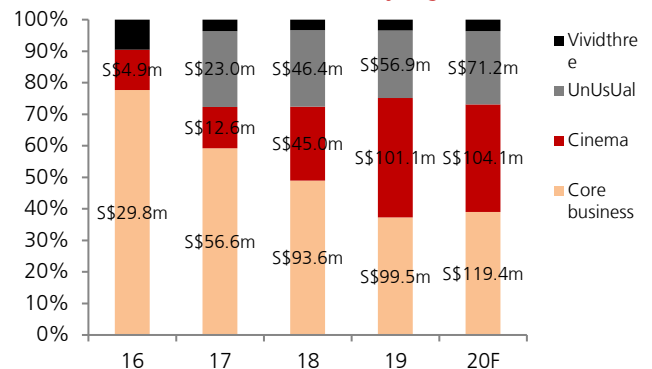
Business Model – The Film Budget



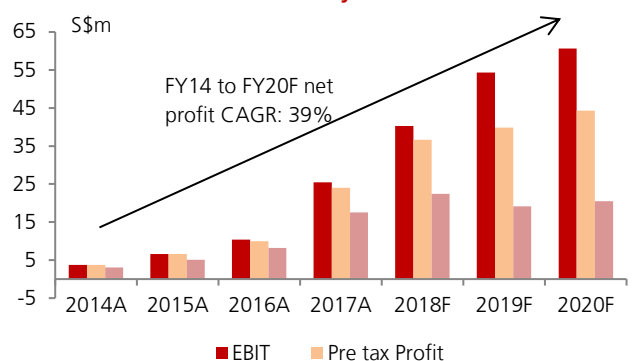
Business Model – Gross Receipts (Box Office)



Revenue Breakdown by Segment



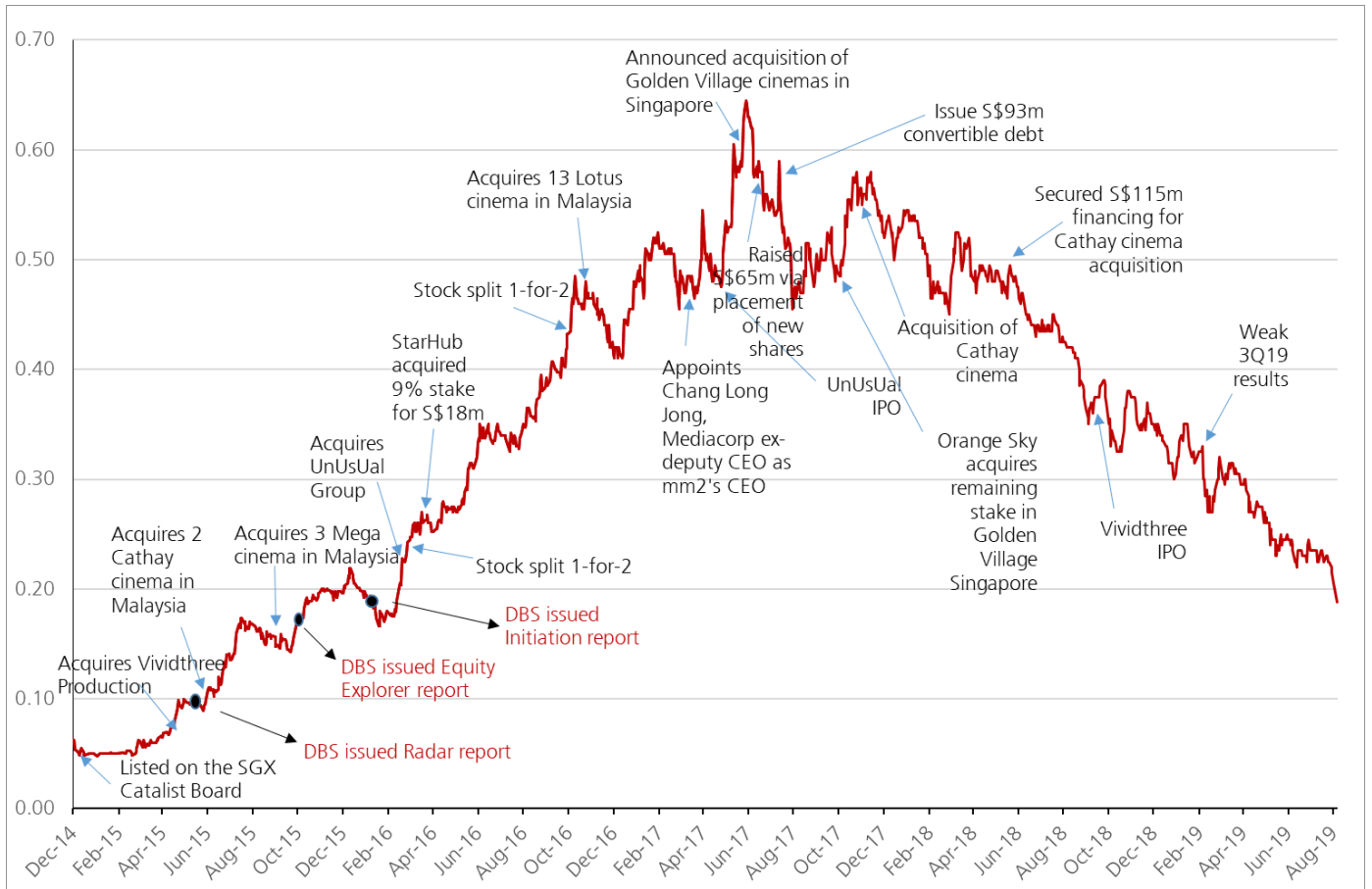
Profitability Trend



Source: Company, DBS Bank

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



Source: DBS Bank, ThomsonReuters

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Balance Sheet:

Net gearing position in FY19. The group took on more debt to finance the acquisition of Cathay cinemas in Singapore. Net gearing for FY19 increased to 0.8x, from net cash in FY18. We believe the group will aim to deleverage itself after a period of acquisitions.

Share Price Drivers:

Deleveraging effort. mm2 moved into a net debt position following the acquisition of Cathay Cineplexes for S\$230m in November 2017, that was financed mainly via debt. The high interest expense led to a 14.5% drop in net earnings for FY19, while net margins fell to 7.2% from 11.7% in FY18. Going forward, mm2 would have to deleverage in order to maintain a decent net margin.

A spinoff of the cinema business could be an option to address this issue in the long run. Alternatively, the group could explore the option of divesting its 39% holding in UnUsUaL and 42% stake in Vividthree, or bring in strategic investors.

Production budget. 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 about 60-80% of production revenue going forward. 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:

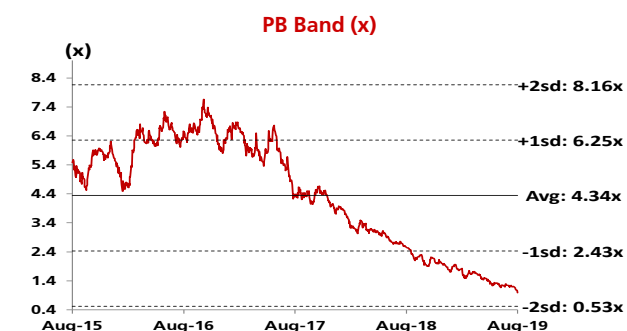
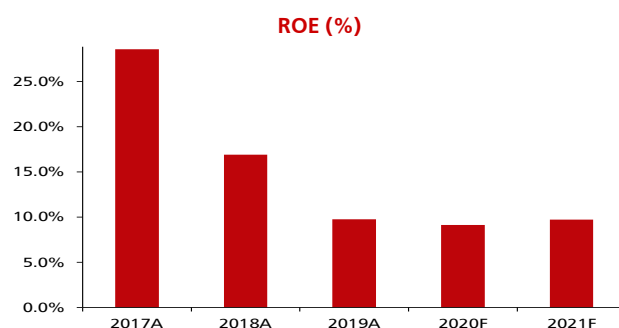
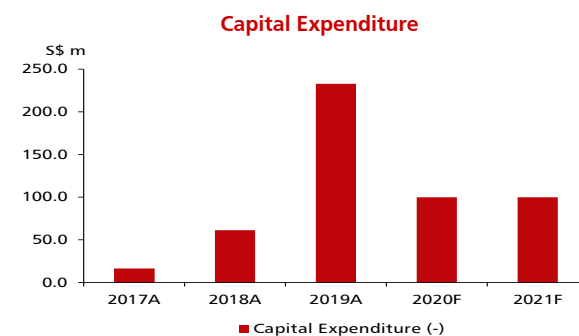
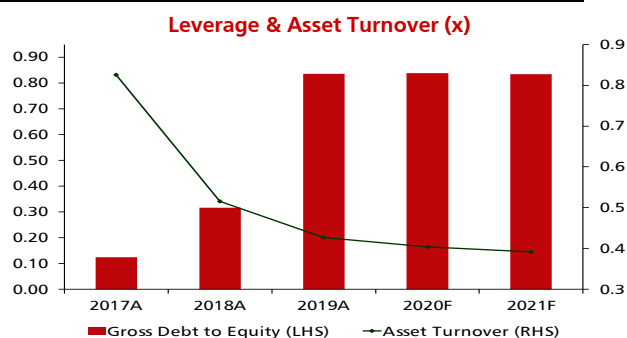
No long-term financing arrangements for productions. The commencement of each production is dependent on mm2's ability to secure funding.

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

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Segmental Breakdown

FY Mar	2017A	2018A	2019A	2020F	2021F
Revenues (\$\$m)					
Production & Distribution	56.6	93.6	99.5	119	143
Cinema Operation	12.6	45.0	101	104	107
Event Production & Post-Production	23.0	46.4	56.9	71.2	89.0
Others	3.52	6.32	9.29	11.1	13.4
Total	95.7	192	266	306	353

Full contribution from Lotus and Cathay

Partial contribution from UnUsUaL

Income Statement (\$\$m)

FY Mar	2017A	2018A	2019A	2020F	2021F
Revenue	95.7	192	266	306	353
Cost of Goods Sold	(50.5)	(105)	(142)	(161)	(188)
Gross Profit	45.3	87.3	124	145	165
Other Opng (Exp)/Inc	(19.8)	(45.9)	(67.0)	(84.1)	(97.0)
Operating Profit	25.4	41.4	57.2	60.6	68.3
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.11	0.49	0.0	0.0
Net Interest (Exp)/Inc	(1.4)	(4.9)	(17.9)	(16.4)	(16.2)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	24.0	36.6	39.8	44.3	52.2
Tax	(3.7)	(7.1)	(11.1)	(12.4)	(14.5)
Minority Interest	(2.8)	(7.1)	(9.6)	(11.5)	(13.6)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	17.5	22.4	19.1	20.5	24.0
Net Profit before Except.	17.5	22.4	19.1	20.5	24.0
EBITDA	40.3	57.8	84.5	87.4	95.1
Growth					
Revenue Gth (%)	149.7	100.6	38.6	14.9	15.4
EBITDA Gth (%)	108.0	43.6	46.1	3.5	8.8
Opg Profit Gth (%)	145.1	62.9	38.1	6.0	12.7
Net Profit Gth (Pre-ex) (%)	114.3	27.8	(14.5)	6.9	17.4
Margins & Ratio					
Gross Margins (%)	47.3	45.5	46.7	47.3	46.9
Opg Profit Margin (%)	26.6	21.6	21.5	19.8	19.4
Net Profit Margin (%)	18.3	11.7	7.2	6.7	6.8
ROAE (%)	28.6	16.9	9.7	9.1	9.7
ROA (%)	15.1	6.0	3.1	2.7	2.7
ROCE (%)	21.8	8.7	0.3	0.8	1.3
Div Payout Ratio (%)	0.0	0.0	0.0	0.0	0.0
Net Interest Cover (x)	18.0	8.4	3.2	3.7	4.2

Mainly to finance acquisition of Cathay cinema chain in Singapore

Source: Company, DBS Bank

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Quarterly / Interim Income Statement (\$5m)

FY Mar	1Q2019	2Q2019	3Q2019	4Q2019	1Q2020
Revenue	49.0	64.9	74.1	78.2	49.0
Cost of Goods Sold	(16.1)	(37.3)	(44.3)	(44.3)	(18.8)
Gross Profit	32.9	27.6	29.8	33.9	30.2
Other Oper. (Exp)/Inc	(18.4)	(13.4)	(18.8)	(18.9)	(15.4)
Operating Profit	14.5	14.3	11.0	15.0	14.8
Other Non Opg (Exp)/Inc	0.33	0.29	0.47	1.81	0.09
Associates & JV Inc	0.01	0.0	0.0	0.04	0.0
Net Interest (Exp)/Inc	(3.2)	(5.5)	(4.3)	(4.9)	(4.7)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	11.6	9.00	7.16	12.0	10.2
Tax	(2.5)	(3.5)	(2.5)	(2.6)	(2.7)
Minority Interest	(1.9)	(1.7)	(2.7)	(3.2)	(0.5)
Net Profit	7.25	3.74	1.96	6.20	6.95
Net profit bef Except.	7.25	3.74	1.96	6.20	6.95
EBITDA	18.2	17.7	17.6	25.0	25.0

Growth

Revenue Gth (%)	(41.4)	32.5	14.1	5.6	(37.3)
EBITDA Gth (%)	(37.2)	(2.2)	(0.8)	42.1	(0.3)
Opg Profit Gth (%)	6.2	(1.8)	(23.0)	36.8	(1.5)
Net Profit Gth (Pre-ex) (%)	8.6	(48.4)	(47.5)	216.2	12.2

Margins

Gross Margins (%)	67.2	42.5	40.2	43.3	61.6
Opg Profit Margins (%)	29.6	22.0	14.8	19.2	30.2
Net Profit Margins (%)	14.8	5.8	2.6	7.9	14.2

Balance Sheet (\$5m)

FY Mar	2017A	2018A	2019A	2020F	2021F
Net Fixed Assets	11.2	42.1	36.4	127	217
Invts in Associates & JVs	1.49	2.63	2.76	0.0	0.0
Other LT Assets	54.3	301	339	325	308
Cash & ST Invts	25.8	93.2	18.6	57.4	50.7
Inventory	23.3	21.1	22.2	37.7	43.5
Debtors	46.4	108	181	235	271
Other Current Assets	0.58	14.1	66.2	66.2	66.2
Total Assets	163	582	666	847	956
ST Debt	11.1	4.97	36.8	64.3	64.3
Creditor	48.4	273	131	251	290
Other Current Liab	7.56	13.0	27.4	29.4	31.6
LT Debt	0.58	61.0	186	186	216
Other LT Liabilities	0.97	21.8	17.4	17.4	17.4
Shareholder's Equity	86.5	179	214	235	259
Minority Interests	7.94	29.9	52.5	63.9	77.5
Total Cap. & Liab.	163	582	666	847	956
Non-Cash Wkg. Capital	14.3	(143)	110	57.7	58.7
Net Cash/(Debt)	14.1	27.2	(204)	(193)	(230)
Debtors Turn (avg days)	135.0	146.7	197.9	247.8	261.3
Creditors Turn (avg days)	369.8	663.0	640.4	519.9	614.5
Inventory Turn (avg days)	169.5	91.5	68.6	81.4	92.2
Asset Turnover (x)	0.8	0.5	0.4	0.4	0.4
Current Ratio (x)	1.4	0.8	1.5	1.1	1.1
Quick Ratio (x)	1.1	0.7	1.0	0.8	0.8
Net Debt/Equity (X)	CASH	CASH	0.8	0.6	0.7
Net Debt/Equity ex MI (X)	CASH	CASH	1.0	0.8	0.9
Capex to Debt (%)	141.0	93.0	104.4	39.9	35.7
Z-Score (X)	1.4	1.0	1.4	1.2	1.3

Mainly to finance acquisition of Cathay cinema chain in Singapore

Source: Company, DBS Bank

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Cash Flow Statement (\$m)

FY Mar	2017A	2018A	2019A	2020F	2021F
Pre-Tax Profit	24.0	36.6	39.8	44.3	52.2
Dep. & Amort.	14.8	16.3	26.7	26.7	26.7
Tax Paid	(3.8)	(5.2)	(9.8)	(10.3)	(12.4)
Assoc. & JV Inc/(loss)	0.01	(0.1)	0.0	0.0	0.0
Chg in Wkg.Cap.	(30.8)	(57.3)	(55.0)	50.6	(3.2)
Other Operating CF	0.0	0.0	0.0	0.0	0.0
Net Operating CF	4.24	(9.7)	1.81	111	63.3
Capital Exp.(net)	(16.5)	(61.3)	(233)	(100.0)	(100.0)
Other Invt.(net)	0.0	0.0	25.8	0.0	0.0
Invt in Assoc. & JV	0.0	(2.5)	(0.5)	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(9.5)	(9.8)	(24.0)	0.0	0.0
Net Investing CF	(26.0)	(73.7)	(232)	(100.0)	(100.0)
Div Paid	0.0	0.0	0.0	0.0	0.0
Chg in Gross Debt	17.8	60.2	150	27.5	30.0
Capital Issues	18.0	81.6	12.0	0.0	0.0
Other Financing CF	(0.5)	(1.2)	(15.8)	0.0	0.0
Net Financing CF	35.3	141	146	27.5	30.0
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	13.5	57.2	(83.9)	38.8	(6.7)
Opg CFPS (S cts)	3.34	4.09	4.88	5.22	5.72
Free CFPS (S cts)	(1.2)	(6.1)	(19.9)	0.97	(3.2)

Mainly to finance
Cathay cinema chain
acquisition

Mainly to finance
Cathay cinema chain
acquisition

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	15 Aug 18	0.42	0.62	BUY
2:	15 Nov 18	0.36	0.50	BUY
3:	13 Feb 19	0.30	0.33	HOLD
4:	31 May 19	0.25	0.34	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 share price catalysts within this time frame)

**Share price appreciation + dividends*

Completed Date: 14 Aug 2019 18:53:37 (SGT)

Dissemination Date: 14 Aug 2019 18:59:45 (SGT)

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

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