

mm2 Asia (MM2 SP)

Glass neither half empty nor full

Mixed quarter. HOLD.

Although 1Q is a seasonally softer revenue quarter for mm2, event/concert division was unusually slower. Lower gross profit margins (62% vs 67% a year ago) exacerbated this further. We assume revenue catch up in later quarters and maintain revenue forecasts but increase production cost assumptions leading to -2%/-9% in FY20E/21E core profit forecasts. Our 1x PEG based TP on a revised 13% (from 16% previously) core profit CAGR over FY19-22E is consequently lowered by 27% to SGD0.20. Maintain HOLD where core production and cinema performance business are key drivers of our outlook.

Seasonally soft quarter held back further

1QFY20 revenues at SGD49.0m (-37% QoQ; +0.1% YoY) were held back by subsidiary UnUsUal investing time and effort to develop 2HFY20 projects and revenues. The core movie/TV production and cinema businesses were up on an undisclosed individual basis but were up SGD1.6m on a combined YoY basis. 1QFY19 represented 18% of revenues and 39% of FY19 revenues and core profits. 1QFY20 was 17%/15% and 36%/24% of MKE/consensus revenues and core profit forecasts - below expectations.

The revenue line appears intact

Management indicated that the core movie/TV production business had 80 projects at end 1QFY20 against 46 at end FY19. The cinema business has benefited from recent Hollywood blockbusters while keeping costs flat YoY with the next batch of potential big films to be shown in 2HFY20. UnUsUal indicated that a significant number of high value concerts and events are also expected in 2HFY20. Although the aim is to go for higher value productions we forecast these will also involve higher project costs.

Back to the beginning

After a *detailed breakdown of revenues by segment and geography in 4QFY19 results*, disclosure has reverted back to being less transparent. We continue to opine that such visibility would aid the market in evaluating the progress of its major business segments. This is particularly pertinent given management reasserted its plans to separately list the cinema business in FY21.

FYE Mar (SGD m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	192	266	277	299	315
EBITDA	63	75	87	96	101
Core net profit	23	19	19	21	27
Core EPS (cts)	2.1	1.6	1.6	1.8	2.3
Core EPS growth (%)	11.2	(22.6)	1.7	10.2	28.2
Net DPS (cts)	0.0	0.0	0.0	0.0	0.0
Core P/E (x)	24.8	19.2	11.5	10.4	8.1
P/BV (x)	3.3	1.7	0.7	0.6	0.4
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAE (%)	17.3	9.7	7.3	6.0	5.9
ROAA (%)	6.1	3.0	2.8	2.9	3.6
EV/EBITDA (x)	9.1	8.2	5.2	3.9	2.7
Net gearing (%) (incl perps)	net cash	78.9	47.6	19.2	net cash
Consensus net profit	-	-	21	24	30
MKE vs. Consensus (%)	-	-	(8.2)	(13.5)	(12.7)

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HOLD

Share Price	SGD 0.19
12m Price Target	SGD 0.20 (+8%)
Previous Price Target	SGD 0.26

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)	0.42/0.19
3m avg turnover (USDm)	0.1
Free float (%)	38.9
Issued shares (m)	1,163
Market capitalisation	SGD216.3M USD156M

Major shareholders:

ANG WEE CHYE	38.1%
StarHub Ltd.	9.8%
YEO KHEE SENG BENNY	8.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(21)	(26)	(56)
Relative to index (%)	(15)	(23)	(54)

Source: FactSet

Companies/terms mentioned:

UnUsUal Ltd (UNU SP, Not Rated)

Figure 1: Forecast changes

(SGDm, end-Mar)	FY20E	FY21E	FY22E
Revenues - revised	277.2	298.9	314.9
Revenues - previous	277.2	298.9	314.9
Change	0.0%	0.0%	0.0%
Core profit - revised	18.8	20.7	26.6
Core profit - previous	19.2	22.7	29.2
Change	-2.0%	-8.4%	-9.0%
Target price - revised	0.20		
Target price - previous	0.26		
Change	-23.5%		

Source: Company data, Maybank Kim Eng

Figure 2: MKE vs consensus

(end-Mar, SGD m)	FY20E	FY21E	FY22E	FY23E
MKE				
Revenues	277	299	315	325
Core profit	19	21	27	31
Target price	0.20			
FactSet consensus				
Revenues	293	326	332	
Core profit	21	25	30	
Target price	0.31			
MKE vs consensus				
Revenues	-5.5%	-8.3%	-5.3%	
Core profit	-8.3%	-17.6%	-12.7%	
Target price	-34.8%			

Source: FactSet, Maybank Kim Eng

Figure 3: Quarterly income statement

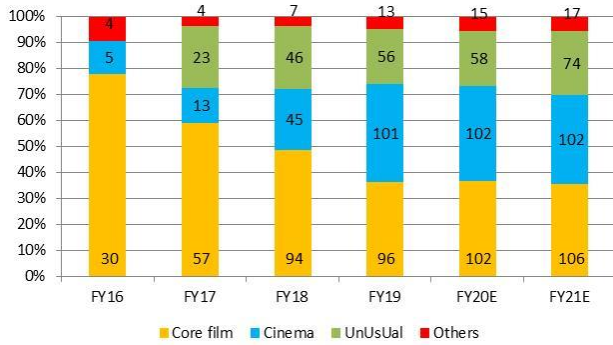
(end-Mar, SGD m)	1QFY19	4QFY19	1QFY20	QoQ	YoY	YTD % of MKE FY19	YTD % of cons FY19
Total revenue	49.0	78.3	49.0	-37.4%	0.1%	17.7%	15.4%
Cost of sales	(16.1)	(44.3)	(18.8)	-57.5%	17.2%		
Gross profit	32.9	33.9	30.2	-11.0%	-8.3%		
Gross profit margin	67.2%	43.4%	61.6%				
Administrative expenses	(18.9)	(18.9)	(15.4)	-18.3%	-18.4%		
EBIT	14.0	15.1	14.8	-1.9%	5.4%		
Other income	0.5	3.1	0.1	-95.9%	-73.3%		
Other gains and losses	0.3	(1.3)	(0.0)	-96.9%	-112.6%		
Associate income	0.0	0.0	-	-100.0%	-100.0%		
Finance expenses	(3.2)	(4.9)	(4.7)	-4.1%	44.4%		
Profit before tax	11.6	12.0	10.2	-14.7%	-12.1%		
Tax	(2.5)	(2.6)	(2.7)	5.0%	8.5%		
Profit before minorities	9.1	9.4	7.5	-20.1%	-17.8%		
Minority interest	(1.9)	(3.2)	(0.5)	-84.0%	-72.3%		
Reported profit	7.2	6.1	7.0	13.7%	-3.7%	36.3%	24.3%
Exceptional items		(2.2)					
Core profit	7.2	3.9	7.0	77.3%	-3.7%	36.3%	24.3%

Source: Company data, Maybank Kim Eng

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 13%, the stock is fairly valued.

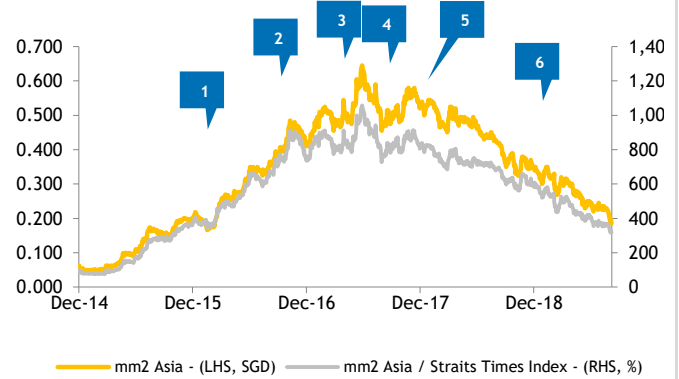
Diversified and growing media revenue base (SGD m)



Source: Company, Maybank Kim Eng estimates

Price Drivers

Historical share price trend



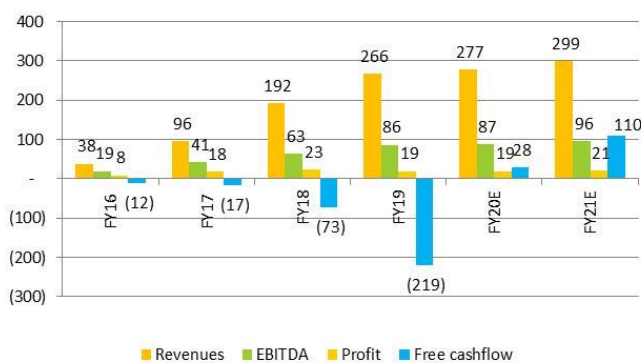
Source: Company, Maybank Kim Eng, Factset

- 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
Key Metrics					
P/E (reported) (x)	25.5	23.6	11.5	10.4	8.1
Core P/E (x)	24.8	19.2	11.5	10.4	8.1
P/BV (x)	3.3	1.7	0.7	0.6	0.4
P/NTA (x)	3.4	1.8	0.8	0.6	0.4
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
FCF yield (%)	nm	nm	13.1	50.7	69.6
EV/EBITDA (x)	9.1	8.2	5.2	3.9	2.7
EV/EBIT (x)	14.2	11.4	9.7	7.7	5.5
INCOME STATEMENT (SGD m)					
Revenue	192.0	266.2	277.2	298.9	314.9
Gross profit	87.3	124.2	135.2	142.0	147.8
EBITDA	62.9	75.2	87.5	95.9	101.2
Depreciation	(5.7)	(9.8)	(22.3)	(24.2)	(27.6)
Amortisation	(16.9)	(11.0)	(18.6)	(22.8)	(24.6)
EBIT	40.3	54.3	46.6	49.0	49.0
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	34.6	37.0	44.1
Income tax	(7.1)	(11.1)	(6.2)	(6.7)	(7.9)
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	18.8	20.7	26.6
Core net profit	22.7	18.5	18.8	20.7	26.6
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	93.2	18.6	55.9	140.2	66.9
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	35.7	38.7	44.3
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
Total assets	582.2	665.7	656.5	761.5	707.0
ST interest bearing debt	5.0	36.8	36.8	36.8	36.8
Accounts payable	273.0	131.4	22.8	26.8	29.9
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
Total Liabilities	373.7	399.1	293.0	299.4	116.5
Shareholders Equity	178.6	214.2	301.5	390.5	509.3
Minority Interest	29.9	52.5	62.0	71.6	81.2
Total shareholder equity	208.5	266.6	363.5	462.1	590.5
Total liabilities and equity	582.2	665.7	656.5	761.5	707.0
CASH FLOW (SGD m)					
Pretax profit	37.0	39.8	34.6	37.0	44.1
Depreciation & amortisation	22.7	20.8	40.9	46.9	52.2
Adj net interest (income)/exp	4.5	17.9	17.2	17.2	10.1
Change in working capital	(57.3)	(55.0)	(86.3)	(19.2)	(16.7)
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	0.1	75.1	81.7
Capex	(10.2)	(4.1)	(4.3)	(4.6)	(4.9)
Free cash flow	(73.0)	(219.5)	28.3	109.6	150.5
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)	6.5	10.9	17.7
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)	37.3	84.3	(73.3)

FYE 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Key Ratios					
Growth ratios (%)					
Revenue growth	100.6	38.6	4.1	7.8	5.3
EBITDA growth	52.1	19.4	16.4	9.6	5.6
EBIT growth	54.6	34.9	(14.2)	5.0	0.1
Pretax growth	47.6	7.7	(13.0)	6.8	19.3
Reported net profit growth	21.2	(15.9)	(1.5)	10.2	28.2
Core net profit growth	21.2	(18.6)	1.7	10.2	28.2
Profitability ratios (%)					
EBITDA margin	32.8	28.2	31.6	32.1	32.2
EBIT margin	21.0	20.4	16.8	16.4	15.6
Pretax profit margin	19.2	15.0	12.5	12.4	14.0
Payout ratio	0.0	0.0	0.0	0.0	0.0
DuPont analysis					
Net profit margin (%)	11.8	7.2	6.8	6.9	8.4
Revenue/Assets (x)	0.3	0.4	0.4	0.4	0.4
Assets/Equity (x)	3.3	3.1	2.2	2.0	1.4
ROAE (%)	17.3	9.7	7.3	6.0	5.9
ROAA (%)	6.1	3.0	2.8	2.9	3.6
Liquidity & Efficiency					
Cash conversion cycle	(327.3)	(262.6)	80.4	194.5	194.8
Days receivable outstanding	144.5	195.1	217.5	195.3	200.7
Days inventory outstanding	77.6	55.0	58.3	56.1	55.3
Days payables outstanding	549.4	512.7	195.4	56.9	61.1
Dividend cover (x)	nm	nm	nm	nm	nm
Current ratio (x)	0.8	1.5	3.5	4.4	3.6
Leverage & Expense Analysis					
Asset/Liability (x)	1.6	1.7	2.2	2.5	6.1
Net gearing (%) (incl perps)	net cash	78.9	47.6	19.2	net cash
Net gearing (%) (excl. perps)	net cash	78.9	47.6	19.2	net cash
Net interest cover (x)	8.2	3.0	2.7	2.9	4.9
Debt/EBITDA (x)	1.2	3.0	2.6	2.4	0.4
Capex/revenue (%)	5.3	1.5	1.5	1.5	1.5
Net debt/ (net cash)	(20.4)	210.3	173.0	88.7	(26.4)

Source: Company; Maybank

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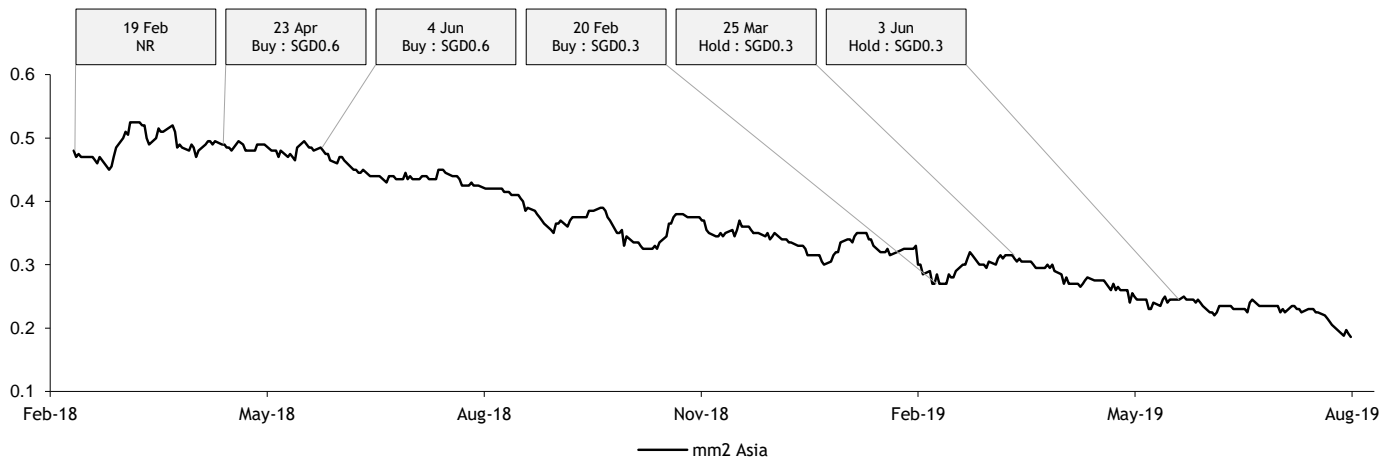
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