

# Singapore Company Guide

## mm2 Asia

Version 24 | Bloomberg: MM2 SP | Reuters: MM2A.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

1 Jun 2020

### FULLY VALUED

Last Traded Price ( 29 May 2020): S\$0.171 (STI : 2,510.75)  
Price Target 12-mth: S\$0.14 (-19% downside) (Prev S\$0.11)

#### Analyst

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#### What's New

- FY20 PATMI plunged 81.5%, impacted by COVID-19, way below expectations
- Expect gradual resumption of activities; Concert & Events and Cinema operations at half strength
- FY21F to remain weak; expect recovery in FY22F
- Maintain FULLY VALUED with TP of S\$0.14, based on sum of parts valuation

#### Price Relative



#### Forecasts and Valuation

FY Mar (\$m)	2019A	2020A	2021F	2022F
Revenue	266	236	202	258
EBITDA	84.5	87.6	88.3	105
Pre-tax Profit	39.8	10.0	11.5	28.8
Net Profit	19.1	3.54	2.35	9.29
Net Pft (Pre Ex.)	19.1	3.54	2.35	9.29
Net Pft Gth (Pre-ex) (%)	(14.5)	(81.5)	(33.5)	295.4
EPS (S cts)	1.65	0.30	0.20	0.80
EPS Pre Ex. (S cts)	1.65	0.30	0.20	0.80
EPS Gth Pre Ex (%)	(15)	(82)	(34)	295
Diluted EPS (S cts)	1.65	0.30	0.20	0.80
Net DPS (S cts)	0.0	0.0	0.0	0.0
BV Per Share (S cts)	18.4	18.7	18.9	19.7
PE (X)	10.4	56.2	84.6	21.4
PE Pre Ex. (X)	10.4	56.2	84.6	21.4
P/Cash Flow (X)	110.1	25.1	nm	5.4
EV/EBITDA (X)	5.4	5.5	5.9	5.1
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	0.9	0.9	0.9	0.9
Net Debt/Equity (X)	0.8	0.8	0.9	0.9
ROAE (%)	9.7	1.6	1.1	4.1
Earnings Rev (%)			1	17
Consensus EPS (S cts)			0.13	0.70
Other Broker Recs:		B: 0	S: 1	H: 2

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

### Expect another year of weakness

**FY21F to remain weak; recovery in FY22F; Maintain FULLY VALUED.** FY20 results were impacted by the COVID-19 pandemic. PATMI plunged 81.5% y-o-y to S\$3.5m on 11.4% decline in revenue. Going forward, we expect a gradual resumption of activities for the Core business in content production and Concert & Events business, likely from September onwards. The Core business division will remain a key driver, with its diversified businesses and multi-market presence to help mitigate the impact on other group businesses that have been more adversely affected by COVID-19. The cinema segment is likely to be loss-making in 1H FY21F. Overall, FY21F is expected to remain weak, with a recovery in FY22F.

Given the still weak FY21F outlook and high gearing of 0.9x with c.50% of debt due within a year, we continue to maintain our FULLY VALUED call.

**Where we differ:** We are more bearish on the impact of the COVID-19 on the various business segments.

**Potential catalyst:** Deleveraging/restructuring to reduce gearing; more projects especially in North Asia; stake sale; assets sale.

#### Valuation:

**Maintain FULLY VALUED; TP S\$0.14.** Our sum-of-parts target price of S\$0.14 is pegged to 6x FY21F earnings for core business (in line with de-rating of peers), 16x EV/EBITDA for cinema business, 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)	199 / 141
Major Shareholders (%)	
StarHub Ltd	9.8
Yeo Khee Seng	8.3
Free Float (%)	81.9
3m Avg. Daily Val (US\$m)	0.13
<b>GIC Industry</b> : Communication Services / Media & Entertainment	



Live more, Bank less

## mm2 Asia

## WHAT'S NEW

## A weak set of FY20 results, hit by COVID-19

**FY20 results way below expectations.** Group revenue was down 11.4% y-o-y to S\$235.8m. All segments - Core business, Cinema and Post-production (Vividthree) - saw a decline in revenue except Concerts & Events (UnUsUaL) division. The operations of Core business and Post-production segment in North Asia and Southeast Asia have been disrupted during 4Q FY2020 by the movement restrictions due to COVID-19. Consequently, the release of various project titles and tour shows have been rescheduled. Cinema operations in Malaysia and Singapore were also forced to temporarily cease operations during the lockdown period. Gross profit for FY20 declined 28% y-o-y to S\$89.4m, with gross margin falling to 37.9% from 46.7% in FY19. Coupled with an impairment loss on goodwill of S\$10.7m (S\$3.7m in Malaysia and S\$7m in Singapore) in view of the negative impact of COVID-19 on the cinema operations, and partly offset by other gains including forex, PATMI plunged 81.5% y-o-y to S\$3.5m, way below expectations.

**Gearing remains high at 0.9x.** The group managed to obtain a repayment deferment of \$15.5m as its businesses were affected by the COVID-19 in 4Q FY20. Gearing remains high, at 0.9x. Out of the total debt of S\$257.8m as at FY Mar 2020, S\$127.1m is due within one year.

**Core business continues to be a key driver.** We expect a resumption of production projects, likely by September. The Group's core business in content development will continue to be a key driver, with its diversified businesses, including distribution of content to platform providers, and multi-market presence to help mitigate the impact on other group businesses that have been more adversely affected by COVID-19. The group's strategy remains focused on North Asia.

**Concert & Events Business – UnUsUaL partial resumption likely in September.** The Group foresees a pent-up demand for out-of-home and live entertainment after COVID-19 lockdowns ease. China is expected to resume operations in September, and Singapore in November. However, given the safe distancing measures that is likely to be still in place, concerts may only be allowed to run at 50% capacity.

**Cinema business – expect to be still loss making in 1H FY21F.** We expected the cinema segment to be in the red for 1H FY21F, and to resume operation in September at half strength. But there could also be pent-up demand once the lockdowns ease. Furthermore, since the beginning of COVID-19, a strong pipeline of Hollywood and Asian movies has accumulated to be released.

**FY21F to remain weak; recovery in FY22F.** Our assumptions include a gradual improvement in the fight against COVID-19 from 2H FY21F onwards (September 2020) and a recovery in FY22F. So far, the group has not experienced any cancellation in projects as a result of the pandemic situation. We also expect the group to benefit from more government support packages to help to cushion the impact.

**Maintain FULLY VALUED with TP of S\$0.14, based on sum of parts valuation.** Given the still weak FY22F and the high gearing with c.50% of debt due within a year, we continue to maintain our FULLY VALUED call. Catalysts for the stock include the deleveraging and/or restructuring of the group, including stake sale, divestment of assets, to reduce gearing.

## Segmental Breakdown

(\$m)	Core business	Vividthree	Cinema	UnUsUaL	Others	Total
Revenue	76.9	5.8	87.9	61.8	3.5	235.8
Y-o-Y (%)	-22.7	-37.8	-13.1	+8.5	-37.8	-11.4
EBITDA	49.3	0.055	39.3	10.2	-0.48	98.3
Y-o-Y (%)	-0.7	-98.8	-7.7	-75.4	n.m.	-4.1
Pretax profit	12.7	-0.83	-7.1	6.5	-1.3	10.0
Y-o-Y (%)	-56.1	n.m.	n.m.	-83.0	n.m.	-74.8
Net profit	11.6	-0.83	-8.3	5.4	-1.2	6.6
Y-o-Y (%)	-47.4	n.m.	n.m.	-84.8	n.m.	-77.0

Source: DBS Bank; Company

**mm2 Asia**

**CRITICAL DATA POINTS TO WATCH**

**Critical Factors**

**Synergistic acquisitions**

mm2’s investments over the years have helped the group to maintain its competitive advantage, and to build synergies across the entire value chain. Listed entities Vividthree (VV3), a virtual reality, visual effects production studio, and 39.2%-owned UnUsUal Ltd (UUU), a market leader in large-scale live events and concerts, and other OTT platforms, helped the group to expand its product offerings.

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.

**Project pipeline**

For the core production business, the group has about 80 projects in the pipeline for the next 18 months. UUU also has a robust line-up of concerts/theme shows, including “Walking with Dinosaurs” and “Apollo” family shows. VV3 sees further opportunities in adapting the Train to Busan (TTB) Intellectual Property rights for different show concepts/immersive attractions. It has also entered into a MOU to develop the Doraemon Experience (DE). However, with the current situation, most projects would be shelved for now.

**Expansion in North Asia**

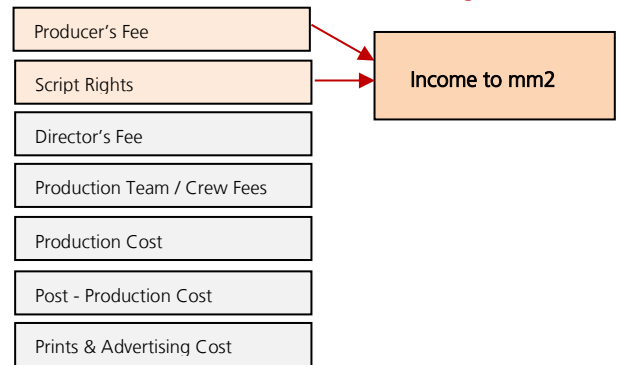
North Asia remains the key focus for the group, contributing 57% of core production revenue. Though lower than the 70% contribution in FY19, it still accounted for >50%. We expect North Asia to remain a key contributor. mm2 has a unique presence in all the Chinese markets, including Singapore, Malaysia, 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.

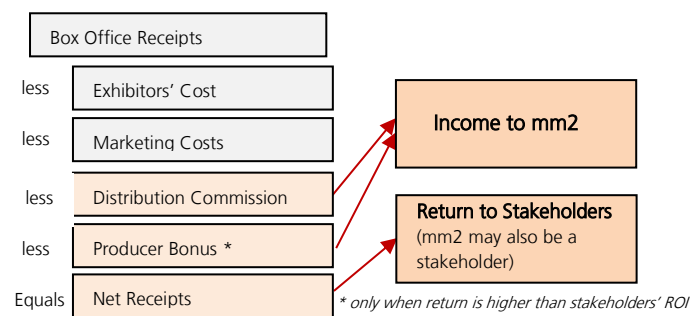
**Content production partner to Western and Chinese giant**

mm2’s strong network of content makers is valuable to players penetrating East and Southeast Asia.

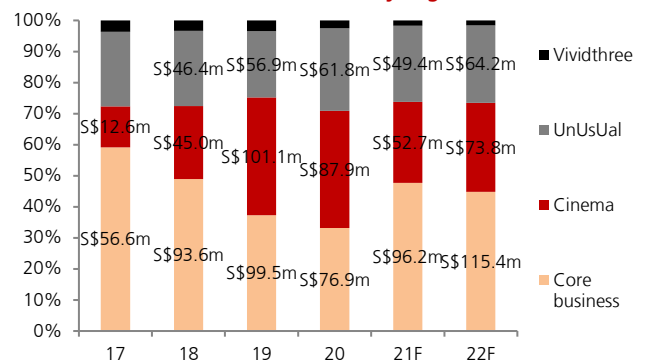
**Business Model – The Film Budget**



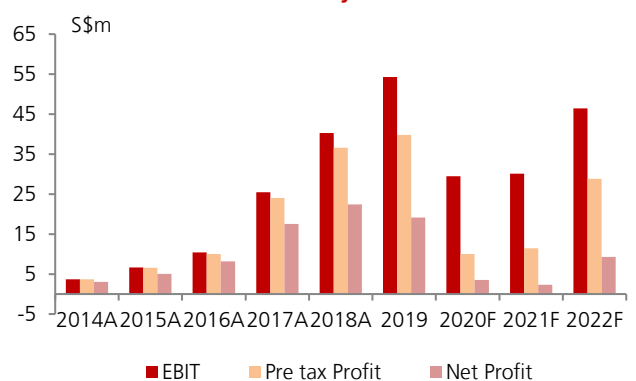
**Business Model – Gross Receipts (Box Office)**



**Revenue Breakdown by Segment**



**Profitability Trend**



Source: Company, DBS Bank

**mm2 Asia**

**Balance Sheet:**

**Net gearing position.** The group took on more debt to finance the acquisition of Cathay cinemas in Singapore. Net gearing for FY21F increased to 0.9x, 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 has affected the bottomline. Going forward, mm2 would have to deleverage in order to boost earnings.

Options include stake sale and/or divestment of assets. A spinoff of the cinema business could also be an option. Alternatively, the group could explore the option of divesting its 39% holding in UnUsUaL and 42% stake in Vividthree or bring in strategic investors.

**COVID-19 impact.** The COVID-19 outbreak has affected all business segments. Cinema business is affected by the postponement of mega-movie releases and reduction in audience attendance. No shows for UnUsUaL now, due to clampdown of large scale gathering. Core production projects are also not running at full scale.

**Production budget.** As mm2 adopts a fee-based model, its revenue is directly correlated to the size of the production budget. An increase in contribution from North Asia, where the production budget is much bigger, could help to propel the group higher.

**Key Risks:**

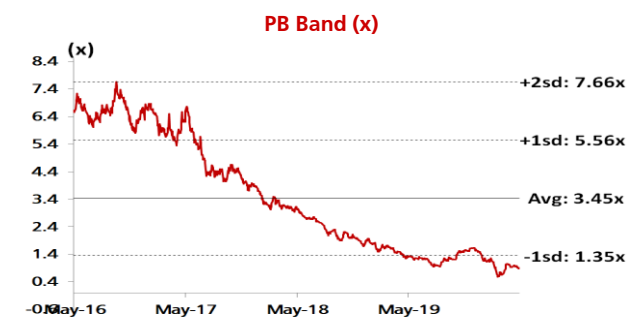
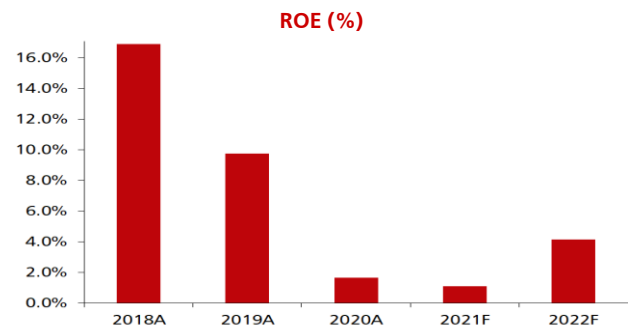
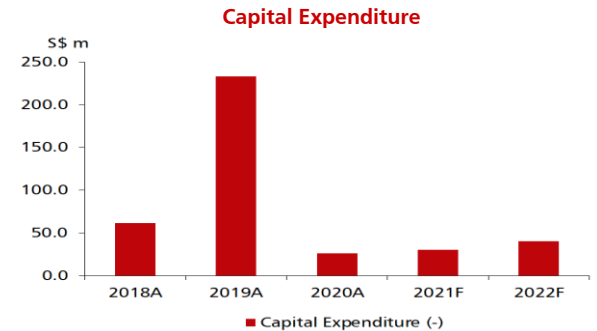
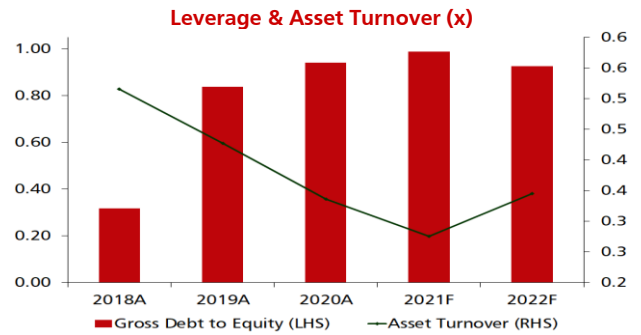
**No long-term financing arrangements for productions.** The commencement of each production is dependent on mm2’s ability to secure funding.

**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

## mm2 Asia

## Segmental Breakdown

FY Mar	2018A	2019A	2020A	2021F	2022F
<b>Revenues (\$m)</b>					
Production & Distribution	93.6	99.5	76.9	96.2	115
Cinema Operation	45.0	101	87.9	52.7	73.8
Event Production & Post-Production	46.4	56.9	61.8	49.4	64.2
Others	0.62	(0.6)	3.46	0.0	0.0
<b>Total</b>	<b>192</b>	<b>266</b>	<b>236</b>	<b>202</b>	<b>258</b>
<b>Gross profit (\$m)</b>					
Production & Distribution	40.3	44.1	35.4	43.3	53.1
Cinema Operation	28.2	51.4	39.5	22.1	33.2
Event Production & Post-Production	17.9	23.0	13.1	12.4	22.5
Others	0.19	0.19	0.19	0.19	0.19
<b>Total</b>	<b>90.5</b>	<b>125</b>	<b>90.3</b>	<b>79.2</b>	<b>110</b>
<b>Gross profit Margins (%)</b>					
Production & Distribution	43.1	44.3	46.0	45.0	46.0
Cinema Operation	62.6	50.9	45.0	42.0	45.0
Event Production & Post-Production	38.5	40.3	21.2	25.0	35.0
Others	N/A	N/A	N/A	N/A	N/A
<b>Total</b>	<b>47.1</b>	<b>47.0</b>	<b>38.3</b>	<b>39.2</b>	<b>42.9</b>

Full contribution from Lotus and Cathay

## Income Statement (\$m)

FY Mar	2018A	2019A	2020A	2021F	2022F
Revenue	192	266	236	202	258
Cost of Goods Sold	(105)	(142)	(146)	(123)	(147)
<b>Gross Profit</b>	<b>87.3</b>	<b>124</b>	<b>89.4</b>	<b>79.2</b>	<b>110</b>
Other Opng (Exp)/Inc	(45.9)	(67.0)	(59.9)	(49.1)	(64.0)
<b>Operating Profit</b>	<b>41.4</b>	<b>57.2</b>	<b>29.5</b>	<b>30.1</b>	<b>46.5</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.11	0.49	0.0	0.0	0.0
Net Interest (Exp)/Inc	(4.9)	(17.9)	(19.4)	(18.7)	(17.7)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>36.6</b>	<b>39.8</b>	<b>10.0</b>	<b>11.5</b>	<b>28.8</b>
Tax	(7.1)	(11.1)	(3.4)	(3.9)	(9.8)
Minority Interest	(7.1)	(9.6)	(3.1)	(5.2)	(9.7)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>22.4</b>	<b>19.1</b>	<b>3.54</b>	<b>2.35</b>	<b>9.29</b>
Net Profit before Except.	22.4	19.1	3.54	2.35	9.29
EBITDA	57.8	84.5	87.6	88.3	105
<b>Growth</b>					
Revenue Gth (%)	100.6	38.6	(11.4)	(14.4)	27.7
EBITDA Gth (%)	43.6	46.1	3.8	0.8	18.5
Opg Profit Gth (%)	62.9	38.1	(48.5)	2.2	54.2
Net Profit Gth (Pre-ex) (%)	27.8	(14.5)	(81.5)	(33.5)	295.4
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	45.5	46.7	37.9	39.2	42.9
Opg Profit Margin (%)	21.6	21.5	12.5	14.9	18.0
Net Profit Margin (%)	11.7	7.2	1.5	1.2	3.6
ROAE (%)	16.9	9.7	1.6	1.1	4.1
ROA (%)	6.0	3.1	0.5	0.3	1.2
ROCE (%)	8.7	0.3	(2.9)	(2.6)	(1.3)
Div Payout Ratio (%)	0.0	0.0	0.0	0.0	0.0
Net Interest Cover (x)	8.4	3.2	1.5	1.6	2.6

Mainly to finance acquisition of Cathay cinema chain in Singapore

Source: Company, DBS Bank

## mm2 Asia

**Balance Sheet (\$\$m)**

<b>FY Mar</b>	<b>2018A</b>	<b>2019A</b>	<b>2020A</b>	<b>2021F</b>	<b>2022F</b>
Net Fixed Assets	42.1	36.4	33.6	32.4	41.3
Invt in Associates & JVs	2.63	2.76	2.72	2.72	2.72
Other LT Assets	301	339	443	416	389
Cash & ST Invt	93.2	18.6	29.4	19.0	15.9
Inventory	21.1	22.2	3.24	5.53	7.06
Debtors	108	181	141	166	226
Other Current Assets	14.1	66.2	84.8	84.8	84.8
<b>Total Assets</b>	<b>582</b>	<b>666</b>	<b>737</b>	<b>726</b>	<b>767</b>
ST Debt	4.97	36.8	127	127	127
Creditor	273	131	91.8	55.3	70.6
Other Current Liab	13.0	27.4	40.7	38.6	44.5
LT Debt	61.0	186	131	151	151
Other LT Liabilities	21.8	17.4	73.1	73.1	73.1
Shareholder's Equity	179	214	218	220	229
Minority Interests	29.9	52.5	56.2	61.5	71.2
<b>Total Cap. &amp; Liab.</b>	<b>582</b>	<b>666</b>	<b>737</b>	<b>726</b>	<b>767</b>
Non-Cash Wkg. Capital	(143)	110	96.1	162	203
Net Cash/(Debt)	27.2	(204)	(228)	(259)	(262)
Debtors Turn (avg days)	146.7	197.9	248.7	277.3	277.5
Creditors Turn (avg days)	663.0	640.4	461.9	417.0	258.2
Inventory Turn (avg days)	91.5	68.6	52.7	24.8	25.8
Asset Turnover (x)	0.5	0.4	0.3	0.3	0.3
Current Ratio (x)	0.8	1.5	1.0	1.2	1.4
Quick Ratio (x)	0.7	1.0	0.7	0.8	1.0
Net Debt/Equity (X)	CASH	0.8	0.8	0.9	0.9
Net Debt/Equity ex MI (X)	CASH	1.0	1.0	1.2	1.1
Capex to Debt (%)	93.0	104.4	10.0	10.8	14.4
Z-Score (X)	0.9	1.3	1.1	1.0	1.0

Mainly to finance acquisition of Cathay cinema chain in Singapore

Source: Company, DBS Bank

## mm2 Asia

## Cash Flow Statement (\$m)

FY Mar	2018A	2019A	2020A	2021F	2022F
Pre-Tax Profit	36.6	39.8	10.0	11.5	28.8
Dep. & Amort.	16.3	26.7	58.2	58.2	58.2
Tax Paid	(5.2)	(9.8)	(8.5)	(6.0)	(3.9)
Assoc. & JV Inc/(loss)	(0.1)	0.0	0.03	0.0	0.0
Chg in Wkg.Cap.	(57.3)	(55.0)	(51.8)	(64.0)	(46.2)
Other Operating CF	0.0	0.0	0.0	0.0	0.0
<b>Net Operating CF</b>	<b>(9.7)</b>	<b>1.81</b>	<b>7.91</b>	<b>(0.4)</b>	<b>36.9</b>
Capital Exp.(net)	(61.3)	(233)	(25.8)	(30.0)	(40.0)
Other Invts.(net)	0.0	25.8	0.0	0.0	0.0
Invts in Assoc. & JV	(2.5)	(0.5)	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(9.8)	(24.0)	(3.0)	0.0	0.0
<b>Net Investing CF</b>	<b>(73.7)</b>	<b>(232)</b>	<b>(28.8)</b>	<b>(30.0)</b>	<b>(40.0)</b>
Div Paid	0.0	0.0	0.0	0.0	0.0
Chg in Gross Debt	60.2	150	32.0	20.0	0.0
Capital Issues	81.6	12.0	0.66	0.0	0.0
Other Financing CF	(1.2)	(15.8)	(28.9)	0.0	0.0
<b>Net Financing CF</b>	<b>141</b>	<b>146</b>	<b>3.78</b>	<b>20.0</b>	<b>0.0</b>
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	57.2	(83.9)	(17.1)	(10.4)	(3.1)
Opg CFPS (S cts)	4.09	4.88	5.13	5.47	7.15
Free CFPS (S cts)	(6.1)	(19.9)	(1.5)	(2.6)	(0.3)

Source: Company, DBS Bank

## Target Price &amp; Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	31 May 19	0.25	0.34	BUY
2:	14 Aug 19	0.20	0.29	BUY
3:	15 Nov 19	0.28	0.30	HOLD
4:	25 Mar 20	0.14	0.11	FULLY VALUED

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: 1 Jun 2020 11:55:58 (SGT)

Dissemination Date: 1 Jun 2020 12:10:25 (SGT)

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

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