Singapore Company Update

mm2 Asia

Bloomberg: MM2 SP | Reuters: MM2A.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

19 Feb 2021

HOLD (Upgrade from Fully Valued)

Last Traded Price (18 Feb 2021): S$0.084 (STI : 2,908.85)
Price Target 12-mth: S$0.089 (6% upside) (Prev S$0.13)

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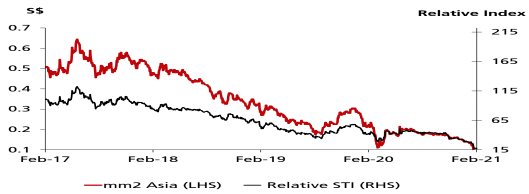
What's New

- Upgrade to HOLD for positive initiatives to pare down debt
- Catalysts in place now; pending execution of plans
- Core business is improving, with more titles slated to be rolled out in FY22F
- Deleveraging could reduce debt by over 50%

Price Relative



Forecasts and Valuation

FY Mar (S$m)	2019A	2020A	2021F	2022F
Revenue	266	236	76.0	154
EBITDA	84.5	87.6	33.9	58.9
Pre-tax Profit	39.8	10.0	(39.5)	(10.0)
Net Profit	19.1	3.54	(31.3)	(16.3)
Net Pft (Pre Ex.)	19.1	3.54	(31.3)	(16.3)
Net Pft Gth (Pre-ex) (%)	(14.5)	(81.5)	nm	47.9
EPS (S cts)	1.65	0.30	(2.7)	(1.4)
EPS Pre Ex. (S cts)	1.65	0.30	(2.7)	(1.4)
EPS Gth Pre Ex (%)	(15)	(82)	nm	48
Diluted EPS (S cts)	1.65	0.30	(2.7)	(1.4)
Net DPS (S cts)	0.0	0.0	0.0	0.0
BV Per Share (S cts)	18.4	18.7	20.5	19.1
PE (X)	5.1	27.6	nm	nm
PE Pre Ex. (X)	5.1	27.6	nm	nm
P/Cash Flow (X)	54.1	12.3	nm	2.0
EV/EBITDA (X)	4.2	4.4	11.9	6.8
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	0.5	0.4	0.4	0.4
Net Debt/Equity (X)	0.8	0.8	0.8	0.8
ROAE (%)	9.7	1.6	(13.7)	(7.1)
Earnings Rev (%):			(7)	(22)
Consensus EPS (S cts):			(2.9)	(1.8)
Other Broker Recs:		B: 0	S: 1	H: 0

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

Deleveraging initiatives in place

Investment Thesis:

Positive developments to reduce gearing. We are upgrading mm2 Asia to HOLD from FULLY VALUED, on the back of the positive developments that the group has embarked on recently, in a bid to pare down its debt that stood at S$264m as at end-September 2020, or 1.1x net gearing. The high gearing is one of the biggest concerns for the group, besides the challenging environment due to the COVID-19 pandemic.

Catalysts in place now; pending execution of plans. We have been highlighting in our previous reports that catalysts for the stock include deleveraging and/or restructuring of the group, including stake sale and divestment of assets, to reduce gearing. The catalysts are in place now, pending the completion of the proposed plans. Post deleveraging, the debt level could be reduced by over 50%.

Core business improving with strong project pipeline. The group's core business in content production and distribution has a strong pipeline of 26 projects valued at S$99m till FY22, higher than previous years, and with the bulk of the financing already secured.

Valuation:

Upgrade to HOLD with adjusted TP of S$0.089. Our sum-of-parts target price of S$0.089 is pegged to 10x FY22F earnings for core business (in line with de-rating of peers), 6x EV/EBITDA for cinema business, and current market valuations for UnUsUaL and Vividthree.

Where we differ:
Currently, we are the only broker covering mm2 Asia.

Key Risks to Our View:

Unable to execute on the plans to restructure the cinema business; no long-term financing arrangements for productions; unavailability of good scripts.

At A Glance

Issued Capital (m shrs)	1,163
Mkt. Cap (Sm/USm)	97.7 / 73.6
Major Shareholders (%)	
Ang Wee Chye	38.1
StarHub Ltd	9.8
Yeo Khee Seng	8.4
Free Float (%)	43.7
3m Avg. Daily Val (US$m)	0.09
GIC Industry : Communication Services / Media & Entertainment	

WHAT'S NEW

Initiatives in place to pare down debt

Upgrade to Hold on initiatives to reduce gearing while core business is improving

Positive developments to reduce gearing. We are upgrading mm2 Asia to HOLD from FULLY VALUED, on the back of the positive developments that the group has embarked on recently, in a bid to pare down its debt that stood at S$264m as at end-September 2020, or 1.1x net gearing. The high gearing is one of the biggest concerns for the group, besides the challenging environment due to the COVID-19 pandemic.

These initiatives could pare down more than 50% of the debt at the group level. Hence, we could see a significant improvement in the balance sheet as well as profitability at the mm2 group level.

Core business improving with strong project pipeline. The group's core business in content production and distribution has a strong pipeline of 26 projects valued at S$99m till FY22, higher than previous years. Financing has been secured for the bulk of these projects.

With the increasing demand for more content by various streaming platforms in Asia, the group targets to derive 40% of the content production revenue from streaming channels by FY22.

UUU could see pent-up demand. We could see pent-up demand for out-of-home and live entertainment after the easing of COVID-19 lockdowns. Hence its 39%-owned UnUsUaL could turn around once demand returns.

Proposals the group embarked recently include:

1) Spin-off and listing of the cinema business

mm2 Asia is evaluating the feasibility of a possible spin-off and listing of the cinema business on the Catalist board of the SGX-ST. The proposed spin-off and listing, targeted for 3Q this year, will allow the cinema business to be financially independent from the group and raise the funds required for its new growth opportunities without relying on the group for financing or financial support.

mm2 operates 151 screens across 20 locations in Malaysia under the brand "mmCineplexes". In Singapore, following the acquisition of Cathay Cineplexes, the group became the second-largest cinema operator in Singapore, with 64 screens across eight locations under the brand "Cathay Cineplexes".

A successful spin-off and listing of the cinema business would enable mm2 to turn around at a faster rate. Though the cinema business has helped the group to build synergies across the entire value chain and to provide cashflow for its other business segments given that cinema operations are highly cash generative, we believe a successful spin-off is overall positive for the group. Gearing would hence be reduced. The absence of huge interest expenses would help to boost its bottomline.

Furthermore, the cinema business was badly affected by the COVID-19 pandemic. The cinemas in Malaysia remained closed, though there were some indications that certain locations may be allowed to open but subject to restrictions. The Singapore ones are operating on a restricted capacity. In 1H21, revenue for the cinema segment plunged by 92.7% y-o-y to S$3.6m, and hence reported a huge loss. We expect losses to continue at least till 2HFY22/FY23F.

2) Merger of the cinema business with Golden Village cinemas in Singapore

mm2 Asia has entered into a Heads of Agreement for the possible merger of its cinema business with Golden Village cinemas in Singapore, which is owned by Orange Sky Golden Harvest Entertainment (OSGH). Both parties will bring in one or more new investors to inject capital into the merged businesses.

Mm2 Asia operates eight cinemas in Singapore under the "Cathay" brand and 14 cinemas in Malaysia under the "Cathay Cineplexes Malaysia", "Mega Cinemas" and "Lotus Fivestar" brands, as well as a movie film distribution business and an online streaming business. OSGH has 14 cinemas in Singapore under the "Golden Village" brand.

The details of the merger, including mm2's stake in the merged entity, have not been finalised yet.

Need relevant parties' approval, including CCC, by end-2021. The proposed merger is subject to the approvals of, among others, shareholders from both sides, the SGX-ST and HKSE, and also the approvals or rulings from the applicable governmental authorities, including the Competition and Consumer Commission of Singapore (CCCS) in relation to anti-trust issues.

If the agreements or conditions for the proposed transaction cannot be satisfied or agreed by 31 December 2021, the Heads of Agreements will be terminated.

Proposals 1) and 2) to run in parallel. The proposed merger will run in parallel with the proposed spin-off and listing of the cinema business on the Catalist board. In the event that the IPO is completed successfully, mm2 and OSGH will discuss in good faith the basis on which the merger would take place, taking into account the listed spin-off business.

Economies of scale from a larger and stronger cinema platform. The merged entity would be the largest cinema operator in Singapore and hence would provide advantageous economies of scale to the mm2 Cinema Business. A larger and stronger platform is also in a better position to fend off competition from online streaming platforms.

3) Launches rights issue to strengthen its financial position

SGX approval secured and fully underwritten. mm2 Asia has received an in-principle approval from the SGX for its proposed rights issue. The proposal involves the issuance of one rights share for every one existing share held, at S$0.047 for each rights share. The issue price is at a 60.8% discount to the last closing price on 1 Feb 2021. Upon the completion of the rights issue, expected to take place in the first week of April, mm2 will receive net proceeds of S$52.2m, which will be mainly utilised to pay off the medium-term note due on 27 April 2021 (S$50m + 7% interest). The renounceable rights issue is fully underwritten by the lead manager, UOB Kay Hian.

4) Entry of strategic investor

On 7 Feb 21, the group has received a non-binding term sheet from a Singapore private equity investor expressing interest in a potential acquisition involving taking a minority stake in one of the group's core businesses. The terms of this term sheet are still subject to finalisation.

Outlook and Strategy

Strong project pipeline with committed funds

The group's core business in content production and distribution has a strong pipeline of 26 projects for films, television and online streaming, with total project value of about S$99m, to be completed by FY22. Financing has been secured for the bulk of these projects.
The number of projects is also much higher compared to the typical 14 to 18 annual titles released in previous years.

Furthermore, its main markets in North Asia, in particular China and Taiwan, also have a better control in terms of the COVID-19 situation, as compared to most other countries. China has already achieved up to 80% of pre-COVID-19 box office numbers.

Additionally, for the distribution business, mm2 has recently confirmed the interest of internationally renowned cinematic distributors and streaming services in distributing its content, valued at over US$15m and slated for release in 2021/2022.

New revenue driver from streaming

mm2 targets to derive 40% of the content production revenue from streaming channels by FY22. mm2 is currently working with some of the leading platform owners. Leading platforms include Netflix, HBO GO, HBO Max, Hulu, Amazon Studios, iQIYI, Youku and Tencent. With the increasing demand for more content by various streaming platforms in Asia, the group targets to derive 40% of the content production revenue from streaming channels by FY22.

Target to pare down over 50% of debt at group level

mm2 targets to reduce its debt by over 50% following the rights issue and cinema IPO. The bulk of the debts are currently at the group level. Post the cinema IPO, a portion would be converted to cinema equity and some of the debts could be transferred to the cinema entity. About S$54.7m convertible bonds are expected to be converted to cinema equity, while another estimated S$30m of debt could be transferred from the parent level to the standalone cinema entity. Hence, we could see a significant improvement in the balance sheet as well as profitability at the mm2 group level.

Possible scenario post rights issue and cinema IPO

(S$m)	As at Sep 20	After rights issue	After cinema IPO
Total net borrowings	264.4	212.2	127.5
Total equity	247.7	299.9	299.9
Net gearing (x)	1.1x	0.7x	0.4x

Source: Company; DBS Bank

Earnings and Recommendation

Initiatives in place to pare down debts. All these initiatives are the group's effort to pare down its debt, which stood at S$264m as at end-September 2020, or 1.1x net gearing. The group 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 debt level has been a drag to the group's balance sheet and the high interest costs has also affected its bottomline.

The proceeds from the rights issue and the cash injection from the strategic investor provided a much-needed life buoy for the group. With this, together with the cinema IPO, gearing can be expected to be reduced to 0.4x from 1.1x.

Catalysts in place now; pending execution of plans. We have been highlighting in our previous reports that catalysts for the stock include deleveraging and/or restructuring of the group, including stake sale and divestment of assets, to reduce gearing. The catalysts are in place now, pending the execution of the proposed plans.

Current share price already factored in the negatives. Share price has tanked c.30% following the announcement of the 1-for-1 rights issue at S$0.047 per rights share, a 60.8% discount to the last closing price on 1 Feb 2021. We believe the current share price is at a depressed level and has already factored in the negative issues, including the high gearing concern, besides the damage caused by the COVID-19 pandemic to all its business segments – core production, cinemas, post production and live concert organiser, UnUsUaL.

Forecasts adjusted for rights issue. As the rights issue is fully underwritten and has already received the approval from the SGX, we have adjusted our numbers to take into consideration the rights issue. We have not factored in the proposed cinema IPO and the merger with Golden Village.

Upgrade to HOLD with adjusted TP of S$0.089. With the positive initiatives in place, and the share price is already trading at depressed level, we upgrade mm2 to HOLD from FULLY VALUED. Catalysts are in place now, pending the execution of the plans. Our sum-of-parts target price is now S$0.089, after adjusting for the rights issue and also higher valuation for the core production business.

Sum-of-parts valuation

Segment	Stake	Valuation (S$m)	Assumption
Production & Distribution	100%	112.5	Based on 10x PE, discount to peers
Cinema Operation	100%	25.7	Based on 6x EV/EBITDA, discount to peers
Post-Production	42%	5.0	Based on current valuation
Event Production & Concert Promotion	39%	64.6	Based on current valuation
Total value		207.8	
Number of shares		2,325.6	
Value per share (S$)		0.089	

Source: DBS Bank

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.

Segmental Breakdown

FY Mar	2018A	2019A	2020A	2021F	2022F
Revenues (S$m)					
Production &	93.6	99.5	76.9	50.0	62.5
Cinema Operation	45.0	101	87.9	10.0	30.0
Event Production &	46.4	56.9	61.8	15.0	60.0
Post-Production	6.32	9.29	5.78	1.00	1.20
Others	0.62	(0.6)	3.46	0.0	0.0
Total	192	266	236	76.0	154

Income Statement (S$m)

FY Mar	2018A	2019A	2020A	2021F	2022F
Revenue	192	266	236	76.0	154
Cost of Goods Sold	(105)	(142)	(146)	(65.3)	(113)
Gross Profit	87.3	124	89.4	10.7	40.7
Other Opng (Exp)/Inc	(45.9)	(67.0)	(59.9)	(35.0)	(40.0)
Operating Profit	41.4	57.2	29.5	(24.3)	0.69
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)	(15.2)	(10.7)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	36.6	39.8	10.0	(39.5)	(10.0)
Tax	(7.1)	(11.1)	(3.4)	13.4	3.39
Minority Interest	(7.1)	(9.6)	(3.1)	(5.2)	(9.7)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	22.4	19.1	3.54	(31.3)	(16.3)
Net Profit before Except.	22.4	19.1	3.54	(31.3)	(16.3)
EBITDA	57.8	84.5	87.6	33.9	58.9
Growth					
Revenue Gth (%)	100.6	38.6	(11.4)	(67.8)	102.2
EBITDA Gth (%)	43.6	46.1	3.8	(61.4)	73.8
Opg Profit Gth (%)	62.9	38.1	(48.5)	(182.4)	(102.8)
Net Profit Gth (Pre-ex) (%)	27.8	(14.5)	(81.5)	nm	47.9
Margins & Ratio					
Gross Margins (%)	45.5	46.7	37.9	14.1	26.5
Opg Profit Margin (%)	21.6	21.5	12.5	(32.0)	0.4
Net Profit Margin (%)	11.7	7.2	1.5	(41.2)	(10.6)
ROAE (%)	16.9	9.7	1.6	(13.7)	(7.1)
ROA (%)	6.0	3.1	0.5	(4.4)	(2.4)
ROCE (%)	8.7	0.3	(2.9)	(7.5)	(4.3)
Div Payout Ratio (%)	0.0	0.0	0.0	N/A	N/A
Net Interest Cover (x)	8.4	3.2	1.5	(1.6)	0.1

Source: Company, DBS Bank

Interim Income Statement (S$m)

FY Mar	1H2019	2H2019	1H2020	2H2020	1H2021
Revenue	114	152	117	118	19.9
Cost of Goods Sold	(53.4)	(88.6)	(59.2)	(87.1)	(19.8)
Gross Profit	60.5	63.7	58.2	31.2	0.13
Other Oper. (Exp)/Inc	(31.8)	(37.6)	(30.8)	(29.1)	(14.4)
Operating Profit	28.8	26.0	27.4	2.10	(14.3)
Other Non Opg (Exp)/Inc	0.63	2.28	0.30	(0.3)	(1.4)
Associates & JV Inc	0.0	0.03	0.0	0.0	0.23
Net Interest (Exp)/Inc	(8.7)	(9.1)	(10.2)	(9.2)	(9.6)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	20.6	19.2	17.5	(7.5)	(25.0)
Tax	(6.1)	(5.1)	(4.7)	1.28	(0.8)
Minority Interest	(3.6)	(6.0)	(3.6)	0.53	3.38
Net Profit	11.0	8.16	9.18	(5.6)	(22.4)
Net profit bef Except.	11.0	8.16	9.18	(5.6)	(22.4)
EBITDA	35.9	42.6	50.2	37.5	6.23
Growth					
Revenue Gth (%)	(16.3)	33.7	(22.9)	0.8	(83.2)
EBITDA Gth (%)	(18.1)	18.7	17.7	(25.2)	(83.4)
Opg Profit Gth (%)	21.9	(9.6)	5.3	(92.3)	(778.7)
Net Profit Gth (%)	(16.2)	(25.7)	12.5	(161.5)	297.4
Margins					
Gross Margins (%)	53.1	41.8	49.6	26.4	0.7
Opg Profit Margins (%)	25.3	17.1	23.3	1.8	(71.6)
Net Profit Margins (%)	9.6	5.4	7.8	(4.8)	(112.6)

Balance Sheet (S$m)

FY Mar	2018A	2019A	2020A	2021F	2022F
Net Fixed Assets	42.1	36.4	33.6	32.4	41.3
Invts in Associates & JVs	2.63	2.76	2.72	2.72	2.72
Other LT Assets	301	339	443	416	389
Cash & ST Invts	93.2	18.6	29.4	14.3	24.3
Inventory	21.1	22.2	3.24	2.08	4.21
Debtors	108	181	141	125	160
Other Current Assets	14.1	66.2	84.8	84.8	84.8
Total Assets	582	666	737	677	706
ST Debt	4.97	36.8	127	127	127
Creditor	273	131	91.8	25.0	50.5
Other Current Liab	13.0	27.4	40.7	21.3	31.3
LT Debt	61.0	186	131	131	131
Other LT Liabilities	21.8	17.4	73.1	73.1	73.1
Shareholder's Equity	179	214	218	239	222
Minority Interests	29.9	52.5	56.2	61.5	71.2
Total Cap. & Liab.	582	666	737	677	706
Non-Cash Wkg. Capital	(143)	110	96.1	166	167
Net Cash/(Debt)	27.2	(204)	(228)	(244)	(234)
Debtors Turn (avg days)	146.7	197.9	248.7	637.8	338.3
Creditors Turn (avg days)	663.0	640.4	461.9	2,990.9	251.4
Inventory Turn (avg days)	91.5	68.6	52.7	136.2	20.9
Asset Turnover (x)	0.5	0.4	0.3	0.1	0.2
Current Ratio (x)	0.8	1.5	1.0	1.3	1.3
Quick Ratio (x)	0.7	1.0	0.7	0.8	0.9
Net Debt/Equity (X)	CASH	0.8	0.8	0.8	0.8
Net Debt/Equity ex MI (X)	CASH	1.0	1.0	1.0	1.1
Capex to Debt (%)	93.0	104.4	10.0	11.6	15.5
Z-Score (X)	0.9	1.3	0.9	0.9	1.1

Source: Company, DBS Bank

Cash Flow Statement (S$m)

FY Mar	2018A	2019A	2020A	2021F	2022F
Pre-Tax Profit	36.6	39.8	10.0	(39.5)	(10.0)
Dep. & Amort.	16.3	26.7	58.2	58.2	58.2
Tax Paid	(5.2)	(9.8)	(8.5)	(6.0)	13.4
Assoc. & JV Inc/(loss)	(0.1)	0.0	0.03	0.0	0.0
Chg in Wkg.Cap.	(57.3)	(55.0)	(51.8)	(49.9)	(11.7)
Other Operating CF	0.0	0.0	0.0	0.0	0.0
Net Operating CF	(9.7)	1.81	7.91	(37.3)	50.0
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
Net Investing CF	(73.7)	(232)	(28.8)	(30.0)	(40.0)
Div Paid	0.0	0.0	0.0	0.0	0.0
Chg in Gross Debt	60.2	150	32.0	0.0	0.0
Capital Issues	81.6	12.0	0.66	52.2	0.0
Other Financing CF	(1.2)	(15.8)	(28.9)	0.0	0.0
Net Financing CF	141	146	3.78	52.2	0.0
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	57.2	(83.9)	(17.1)	(15.1)	9.96
Opg CFPS (S cts)	4.09	4.88	5.13	1.09	5.30
Free CFPS (S cts)	(6.1)	(19.9)	(1.5)	(5.8)	0.86

Source: Company, DBS Bank

Target Price & Ratings History

***Note** : Share price and Target price are adjusted for corporate actions.*

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	25 Mar 20	0.14	0.11	FULLY VALUED
2:	01 Jun 20	0.18	0.14	FULLY VALUED
3:	16 Nov 20	0.16	0.13	FULLY VALUED

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: 19 Feb 2021 12:11:17 (SGT)
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Sources for all charts and tables are DBS Bank unless otherwise specified.

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