

Singapore Company Guide

mm2 Asia

Version 20 | Bloomberg: MM2 SP | Reuters: MM2A.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

31 May 2019

BUY (Upgrade from Hold)

Last Traded Price (30 May 2019): S\$0.24 (STI : 3,143.00)

Price Target 12-mth: S\$0.34 (43% upside) (Prev S\$0.33)

Analyst

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What's New

- FY19 revenue in line; net profit slightly above
- Growth across all business segments
- Tweaked earnings by 1-3%
- Negatives priced in; upgrade to BUY with revised TP of S\$0.34

Price Relative



Forecasts and Valuation

FY Mar (\$m)	2018A	2019A	2020F	2021F
Revenue	192	266	307	355
EBITDA	57.8	84.5	87.7	95.9
Pre-tax Profit	36.6	39.8	46.0	55.9
Net Profit	22.4	19.1	21.7	26.7
Net Pft (Pre Ex.)	22.4	19.1	21.7	26.7
Net Pft Gth (Pre-ex) (%)	27.8	(14.5)	13.4	23.1
EPS (S cts)	1.93	1.65	1.87	2.30
EPS Pre Ex. (S cts)	1.93	1.65	1.87	2.30
EPS Gth Pre Ex (%)	15	(15)	13	23
Diluted EPS (S cts)	1.93	1.65	1.87	2.30
Net DPS (S cts)	0.0	0.0	0.0	0.0
BV Per Share (S cts)	15.4	18.4	20.3	22.6
PE (X)	12.5	14.6	12.9	10.4
PE Pre Ex. (X)	12.5	14.6	12.9	10.4
P/Cash Flow (X)	nm	154.5	2.5	4.2
EV/EBITDA (X)	4.9	6.3	5.3	4.6
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	1.6	1.3	1.2	1.1
Net Debt/Equity (X)	CASH	0.8	0.4	0.2
ROAE (%)	16.9	9.7	9.6	10.7
Earnings Rev (%)			3	1
Consensus EPS (S cts):			2.30	2.90
Other Broker Recs:		B: 1	S: 0	H: 2

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

Upgrade to BUY as value emerges

Value emerging; upgrade to BUY. Share price has shed 27% since our downgrade to HOLD after the release of 3QFY19 results in February. At current level, we see value emerging. 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 only S\$144m, which works out to P/EBITDA of slightly over 2x, which is too low in our view. mm2 paid 13.8x for the Cathay cinema chain in Singapore and about 8-9x for the Malaysia cinemas while peers are trading at about 5.5x P/EBITDA. Though the group still needs to deleverage given the swing to 0.8x net gearing at end-FY19 and high interest expense, we believe the negatives are already priced in. We see value emerging at the current level with 43% upside to our revised TP of S\$0.34. Upgrade to BUY.

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

Potential catalyst: More projects especially in North Asia; successful cinema operation spinoff.

Valuation:

Upgrade to BUY, TP S\$0.34. Our sum-of-parts target price of S\$0.34 is pegged to 16x FY20F earnings for core business, in line with peers listed in Asia, 5.5x P/EBITDA for cinema business, and current market valuation 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)	279 / 202
Major Shareholders (%)	
Ang Wee Chye	38.1
StarHub Ltd	9.8
Yeo Khee Seng	8.2
Free Float (%)	43.9
3m Avg. Daily Val (US\$m)	0.15
ICB Industry : Consumer Services / Media	



WHAT'S NEW

FY19 earnings slightly above expectations; all segments registered growth

Result Highlights

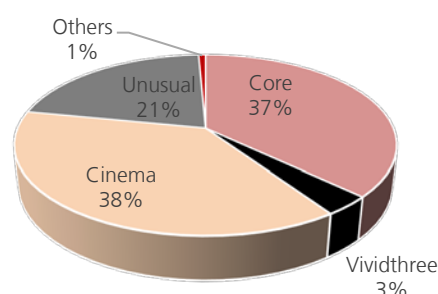
FY19 revenue in line; net profit slightly above. Total revenue for FY19 surged 39% y-o-y to S\$266.2m, mainly driven by the full year contribution for Cathay cinema, vs four-month contribution in FY18; in line with our forecast. Net earnings of S\$19.1m (-14% y-o-y) is slightly above our expectation of S\$16.8m on better margins.

Slight improvement in gross margin; net margin hit by interest cost. Gross margin for the group of 46.7% was slightly higher than 45.5% in FY18. Net margin of 7.2% saw a steep drop from 11.7% in FY18, as the Group took on more debt, mainly to fund the acquisition of Cathay cinemas in Singapore.

All business segments registered growth. For the core production segment, revenue grew 6% y-o-y, partly attributable to the blockbuster movie, "More than Blue". Revenue for the Cinema segment surged 124% y-o-y, mainly driven by the full year contribution for Cathay cinemas, vs four-month contribution in FY18. Both UnUsUaL and Vividthree did well, on revenue gains of 23% and 47% respectively.

In terms of geographical breakdown, Singapore accounted for almost 50% of the total group revenue. For the core production segment, revenue from North Asia accounted for 70% vs 57% in FY18, in line with our expectations of higher contribution from North Asia.

Segmental Revenue Breakdown



Source: DBS Bank; Company

Outlook and Strategy

Platform business (Cinema) and core production unit

mm2 continues to enter into slate deals to co-produce high quality digital and live content with international content distributors in North Asia especially, and also in other regions

like Korea. In FY2019 to date, the group has won several awards for its films.

UnUsUaL – Healthy project pipeline

UnUsUaL has a visible project pipeline for the next one to three years. For live concerts, UnUsUaL has already lined up its artistes in various locations including Singapore, China, Hong Kong, Malaysia, Bangkok and Jakarta.

The family entertainment shows, which have a wider target audience reach, provide even greater visibility. "Disney on Ice", which was already launched last year, will continue its tour for the second half of this year. "Walking with Dinosaurs" will have 117 shows in 11 cities starting from August 2019. "Apollo" has scheduled a 3-year tour in North America from mid-2019.

Vividthree – Riding on the momentum of TTB

Following the completion of the flagship Train to Busan VR (TTB VR) tour set in Beijing, the next destination is Xiamen. Vividthree has granted a local promoter a 1-year exclusive territorial right to host the TTB VR tour in the province. The sequel to TTB, slated for release in 2020, should help to keep up the momentum. Outside TTB, Vividthree is also exploring new intellectual property products to expand its business.

Earnings and Recommendation

Tweaked earnings by 1-3%. We have tweaked our FY20F and FY21F earnings by 1-3% after incorporating FY19 numbers. Our sum-of-parts target price of S\$0.34 (Prev S\$0.33) is pegged to 16x FY20F earnings for core production business, 5.5x P/EBITDA for cinema business, and current market valuations for UnUsUaL and Vividthree. We have assumed slightly higher earnings for the core production segment.

Value emerging; upgrade to BUY. Share price has shed 27% since our downgrade to HOLD after the release of 3Q19 results in February. At current level, we see value emerging. Based on the sum of parts valuation, and stripping out its stakes in UnUsUaL and Vividthree, the market is valuing the core production and the cinema segment at only S\$144m, which works out to P/EBITDA of slightly over 2x, which is too low in our view. mm2 paid 13.8x for the Cathay cinema chain in Singapore and about 8-9x for the Malaysia cinemas while peers are trading at about 5.5x P/EBITDA. At current level, we believe the negatives are already priced in. Upgrade to BUY.

In need of deleveraging

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

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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% in UnUsUaL and 42% stake in Vividthree, or bring in strategic investors.

Quarterly / Interim Income Statement (\$m)

FY Mar	4Q2018	3Q2019	4Q2019	% chg yoy	% chg qoq
Revenue	83.6	74.1	78.2	(6.5)	5.6
Cost of Goods Sold	(49.5)	(44.3)	(44.3)	(10.4)	0.1
Gross Profit	34.1	29.8	33.9	(0.7)	13.8
Other Oper. (Exp)/Inc	(20.5)	(18.8)	(18.9)	(7.8)	0.4
Operating Profit	13.7	11.0	15.0	10.0	36.8
Other Non Opg (Exp)/Inc	0.16	0.47	1.81	nm	290.1
Associates & JV Inc	0.16	0.0	0.04	-	(458.3)
Net Interest (Exp)/Inc	(3.4)	(4.3)	(4.9)	(41.6)	(13.5)
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Pre-tax Profit	10.5	7.16	12.0	14.0	68.0
Tax	(2.0)	(2.5)	(2.6)	32.9	5.6
Minority Interest	(1.9)	(2.7)	(3.2)	(68.1)	18.1
Net Profit	6.67	1.96	6.20	(7.1)	216.2
Net profit bef Except.	6.67	1.96	6.20	(7.1)	216.2
EBITDA	28.9	17.6	25.0	(13.4)	42.1
Margins (%)					
Gross Margins	40.8	40.2	43.3		
Opg Profit Margins	16.3	14.8	19.2		
Net Profit Margins	8.0	2.6	7.9		

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 subsidiary 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 TTb VR set will move to Xiamen after Beijing. Outside TTb, Vividthree is also exploring new intellectual property products to expand its business.

Expansion in North Asia

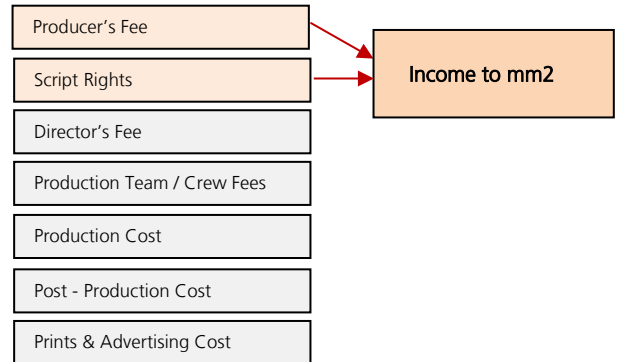
North Asia contributed 70% of production revenue in FY19, up from 36% in FY16, 56% in FY17 and 57% in FY18. We expect North Asia to remain a key contributor. mm2 has a unique presence in all the Chinese markets, including Singapore, Malaysia, Hong Kong, Taiwan, and China. This presents ample cross-border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

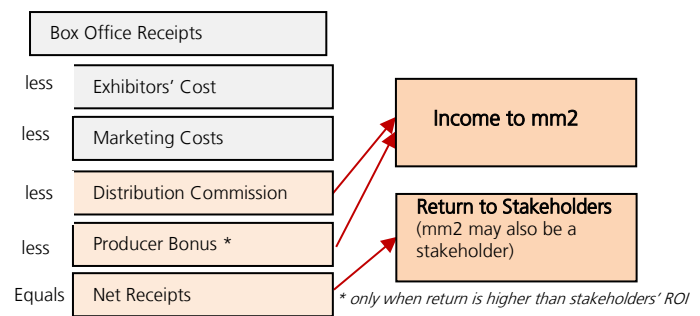
Digital age shift – content is king

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.

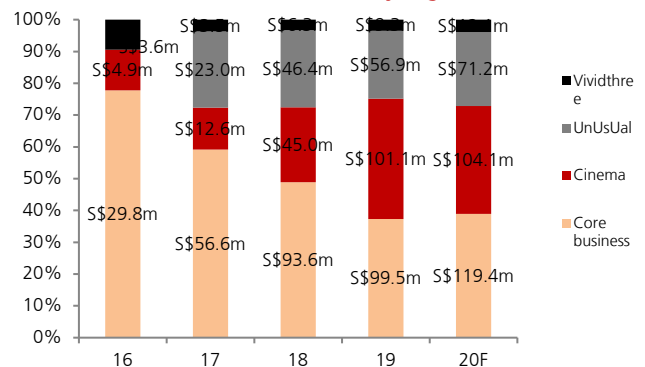
Business Model – The Film Budget



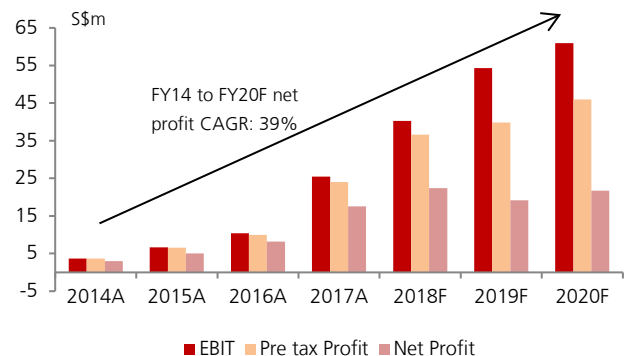
Business Model – Gross Receipts (Box Office)



Revenue Breakdown by Segment



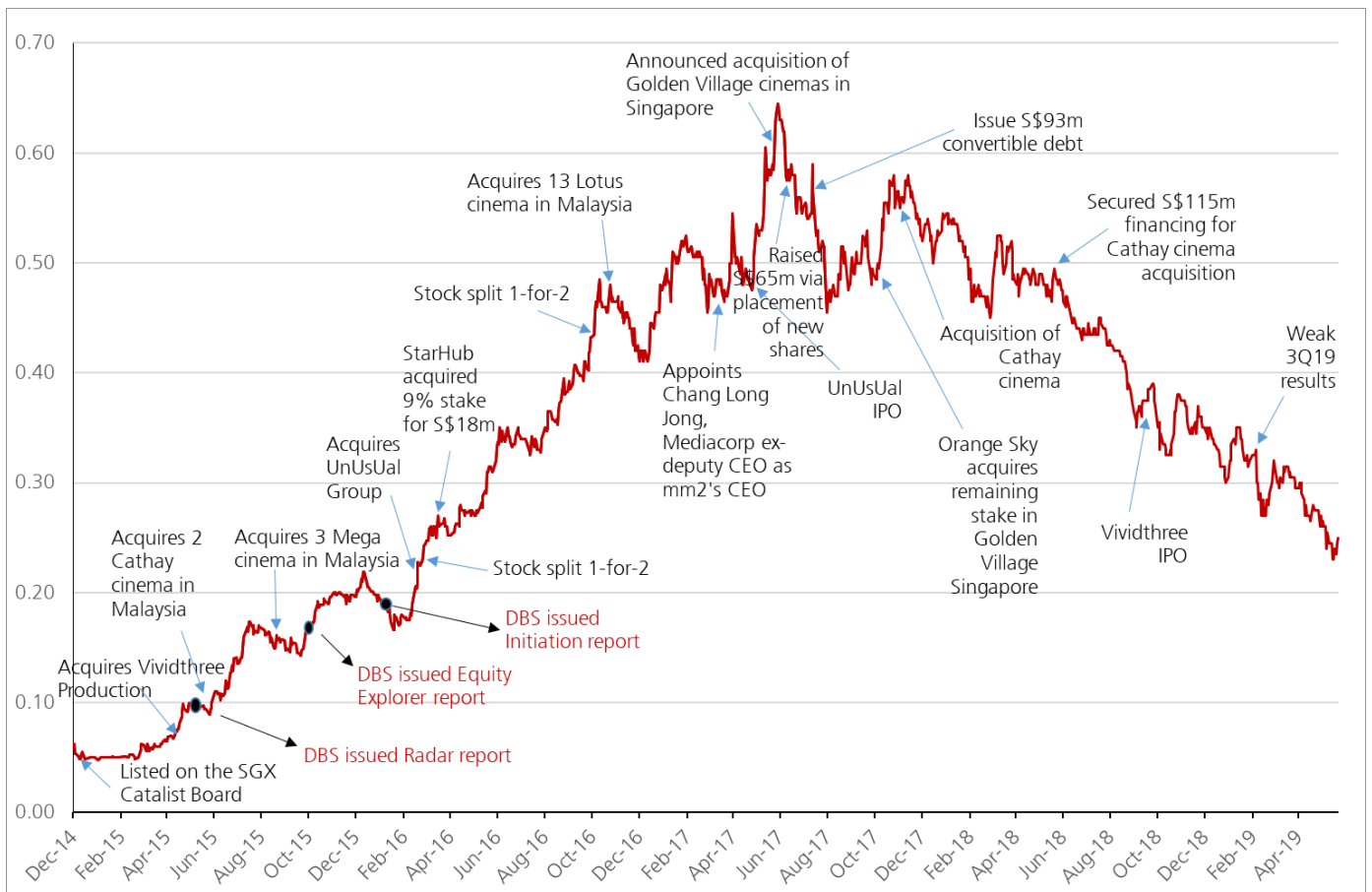
Profitability Trend



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:

Cost savings and efficiency from horizontal integration. The full integration of the content business (production of movies, Vividthree) and platform business (Cinema, UnUsUaL) would lead to better efficiency and cost savings for the group. For example, ownership of cinemas not only provides a source of recurring income but also cost savings as mm2 usually has to pay about 50% of its gross box office proceeds for rental of cinemas. Cinema operations is a profitable business and may even be profitable with less than 30% of the seats occupied. mm2's multiple platform capabilities would place the group in a position to better distribute and exhibit content to reach a wider audience.

Bigger production budget = higher growth

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% to 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:

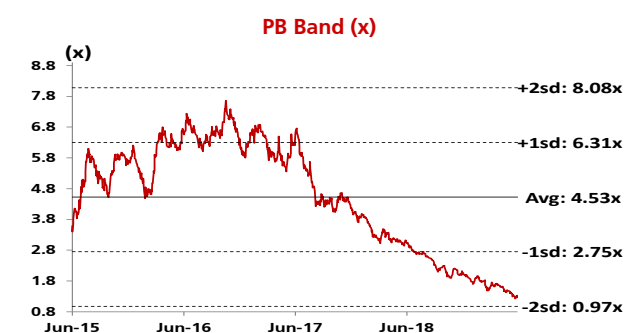
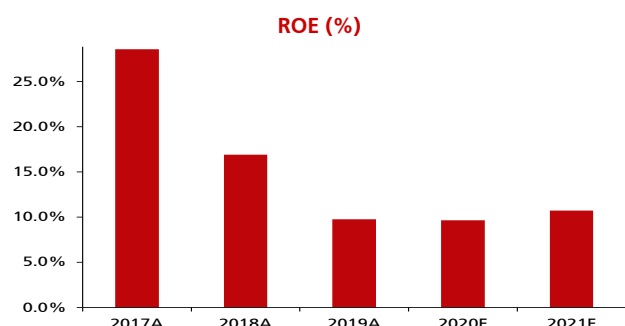
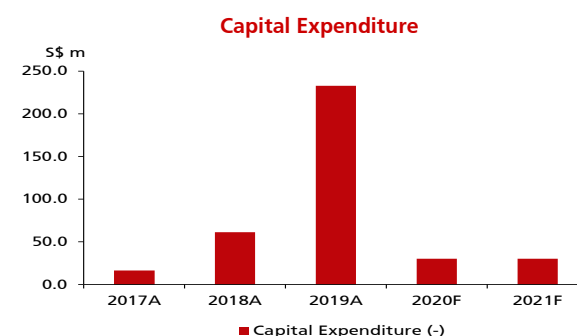
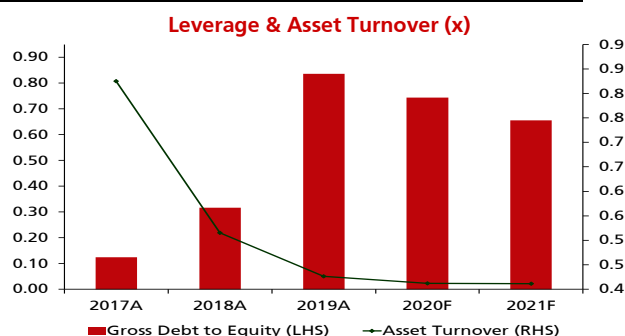
No long-term financing arrangements for productions. The commencement of each production is dependent on mm2's ability to secure funding.

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	12.1	15.7
Others	0.04	0.62	(0.6)	0.0	0.0
Total	95.7	192	266	307	355

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	307	355
Cost of Goods Sold	(50.5)	(105)	(142)	(161)	(188)
Gross Profit	45.3	87.3	124	145	167
Other Opng (Exp)/Inc	(19.8)	(45.9)	(67.0)	(84.4)	(97.7)
Operating Profit	25.4	41.4	57.2	61.0	69.2
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)	(15.0)	(13.3)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	24.0	36.6	39.8	46.0	55.9
Tax	(3.7)	(7.1)	(11.1)	(12.8)	(15.6)
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	21.7	26.7
Net Profit before Except.	17.5	22.4	19.1	21.7	26.7
EBITDA	40.3	57.8	84.5	87.7	95.9
Growth					
Revenue Gth (%)	149.7	100.6	38.6	15.2	15.8
EBITDA Gth (%)	108.0	43.6	46.1	3.9	9.3
Opg Profit Gth (%)	145.1	62.9	38.1	6.6	13.4
Net Profit Gth (Pre-ex) (%)	114.3	27.8	(14.5)	13.4	23.1
Margins & Ratio					
Gross Margins (%)	47.3	45.5	46.7	47.4	47.0
Opg Profit Margin (%)	26.6	21.6	21.5	19.9	19.5
Net Profit Margin (%)	18.3	11.7	7.2	7.1	7.5
ROAE (%)	28.6	16.9	9.7	9.6	10.7
ROA (%)	15.1	6.0	3.1	2.9	3.1
ROCE (%)	21.8	8.7	0.3	1.3	2.4
Div Payout Ratio (%)	0.0	0.0	0.0	0.0	0.0
Net Interest Cover (x)	18.0	8.4	3.2	4.1	5.2

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	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019
Revenue	83.6	49.0	64.9	74.1	78.2
Cost of Goods Sold	(49.5)	(16.1)	(37.3)	(44.3)	(44.3)
Gross Profit	34.1	32.9	27.6	29.8	33.9
Other Oper. (Exp)/Inc	(20.5)	(18.4)	(13.4)	(18.8)	(18.9)
Operating Profit	13.7	14.5	14.3	11.0	15.0
Other Non Opg (Exp)/Inc	0.16	0.33	0.29	0.47	1.81
Associates & JV Inc	0.16	0.01	0.0	0.0	0.04
Net Interest (Exp)/Inc	(3.4)	(3.2)	(5.5)	(4.3)	(4.9)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	10.5	11.6	9.00	7.16	12.0
Tax	(2.0)	(2.5)	(3.5)	(2.5)	(2.6)
Minority Interest	(1.9)	(1.9)	(1.7)	(2.7)	(3.2)
Net Profit	6.67	7.25	3.74	1.96	6.20
Net profit bef Except.	6.67	7.25	3.74	1.96	6.20
EBITDA	28.9	18.2	17.7	17.6	25.0

Growth

Revenue Gth (%)	59.6	(41.4)	32.5	14.1	5.6
EBITDA Gth (%)	93.6	(37.2)	(2.2)	(0.8)	42.1
Opg Profit Gth (%)	37.5	6.2	(1.8)	(23.0)	36.8
Net Profit Gth (Pre-ex) (%)	3.7	8.6	(48.4)	(47.5)	216.2

Margins

Gross Margins (%)	40.8	67.2	42.5	40.2	43.3
Opg Profit Margins (%)	16.3	29.6	22.0	14.8	19.2
Net Profit Margins (%)	8.0	14.8	5.8	2.6	7.9

Balance Sheet (\$5m)

FY Mar	2017A	2018A	2019A	2020F	2021F
Net Fixed Assets	11.2	42.1	36.4	56.6	76.8
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	102	138
Inventory	23.3	21.1	22.2	37.8	43.8
Debtors	46.4	108	181	235	272
Other Current Assets	0.58	14.1	66.2	66.2	66.2
Total Assets	163	582	666	822	905
ST Debt	11.1	4.97	36.8	36.8	36.8
Creditor	48.4	273	131	252	292
Other Current Liab	7.56	13.0	27.4	29.9	32.6
LT Debt	0.58	61.0	186	186	186
Other LT Liabilities	0.97	21.8	17.4	17.4	17.4
Shareholder's Equity	86.5	179	214	236	263
Minority Interests	7.94	29.9	52.5	63.9	77.5
Total Cap. & Liab.	163	582	666	822	905
Non-Cash Wkg. Capital	14.3	(143)	110	57.3	57.8
Net Cash/(Debt)	14.1	27.2	(204)	(121)	(85.0)
Debtors Turn (avg days)	135.0	146.7	197.9	247.5	260.9
Creditors Turn (avg days)	369.8	663.0	640.4	519.6	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	1.4	1.4
Quick Ratio (x)	1.1	0.7	1.0	1.1	1.1
Net Debt/Equity (X)	CASH	CASH	0.8	0.4	0.2
Net Debt/Equity ex MI (X)	CASH	CASH	1.0	0.5	0.3
Capex to Debt (%)	141.0	93.0	104.4	13.5	13.5
Z-Score (X)	1.1	1.1	1.1	1.1	1.1

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	46.0	55.9
Dep. & Amort.	14.8	16.3	26.7	26.7	26.7
Tax Paid	(3.8)	(5.2)	(9.8)	(10.3)	(12.8)
Assoc. & JV Inc/(loss)	0.01	(0.1)	0.0	0.0	0.0
Chg in Wkg.Cap.	(30.8)	(57.3)	(55.0)	50.5	(3.3)
Other Operating CF	0.0	0.0	0.0	0.0	0.0
Net Operating CF	4.24	(9.7)	1.81	113	66.5
Capital Exp.(net)	(16.5)	(61.3)	(233)	(30.0)	(30.0)
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)	(30.0)	(30.0)
Div Paid	0.0	0.0	0.0	0.0	0.0
Chg in Gross Debt	17.8	60.2	150	0.0	0.0
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	0.0	0.0
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	13.5	57.2	(83.9)	83.0	36.5
Opg CFPS (S cts)	3.34	4.09	4.88	5.37	6.00
Free CFPS (S cts)	(1.2)	(6.1)	(19.9)	7.13	3.14

Mainly to finance
Cathay cinema chain
acquisition

Proceeds from share
placement

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	30 May 18	0.49	0.70	BUY
2:	15 Aug 18	0.42	0.62	BUY
3:	15 Nov 18	0.36	0.50	BUY
4:	13 Feb 19	0.30	0.33	HOLD

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: 31 May 2019 08:49:20 (SGT)

Dissemination Date: 31 May 2019 08:51:31 (SGT)

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

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