

Singapore Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity

24 May 2017

mm2 Asia (mm2 SP) : BUY

Mkt. Cap: US\$433m | 3m Avg. Daily Val: US\$1.5m

Last Traded Price (23 May 2017): S\$0.585

Price Target 12-mth: S\$0.70 (20% upside)

Company Guide

[mm2 Asia](#)



Summary of our point of view, and highlights the relevant data points, which are actively tracked

Analyst

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FY2017 net earnings beat our expectations by 13%

- **FY2017 net profit of S\$18.8m (+130% y-o-y) beat our expectations by 13%**
- **Gross profit margin of 47.5% better than expected**
- **Improving cash position**
- **Maintain BUY; TP S\$0.70 based on SOTP valuation**

Forecasts and Valuation

FY Mar (\$m)	2016A	2017A	2018F	2019F
Revenue	38.3	95.4	147	182
EBITDA	19.4	41.4	44.9	52.5
Pre-tax Profit	9.99	23.2	33.1	40.7
Net Profit	8.18	16.7	22.6	28.0
Net Pft (Pre Ex.)	8.18	16.7	22.6	28.0
Net Pft Gth (Pre-ex) (%)	59.4	103.9	35.4	24.0
EPS (S cts)	0.90	1.59	2.16	2.68
EPS Pre Ex. (S cts)	0.90	1.80	2.16	2.68
EPS Gth Pre Ex (%)	46	76	35	24
Diluted EPS (S cts)	0.90	1.59	2.16	2.68
Net DPS (S cts)	0.0	0.0	0.0	0.0
BV Per Share (S cts)	4.00	6.78	8.94	11.6
PE (X)	64.7	32.6	27.4	22.0
PE Pre Ex. (X)	64.7	32.6	27.4	22.0
P/Cash Flow (X)	nm	38.0	24.7	17.3
EV/EBITDA (X)	27.3	14.3	12.0	10.2
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	14.6	8.6	6.5	5.0
Net Debt/Equity (X)	CASH	CASH	0.0	CASH
ROAE (%)	29.5	31.1	27.5	26.1

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

What's New

Results highlight

mm2 Asia reported a strong set of FY Mar 2017 results. Net profit for FY2017 of S\$18.8m (+130%) was 13% above our expectations due to better margin. Revenue came in at S\$95.4m (+149%). The increase in revenue was mainly due to additional revenue generated from its newly acquired subsidiary, UnUsUal, which recorded revenue of S\$22.6m, and additional revenue generated from cinema business of S\$7.7m. Revenue from core business increased by 86% to S\$55.3m in FY2017, whereas revenue from its post production business (Vividthree) increased by 36% y-o-y to S\$4.9m in FY2017.

Gross profit margin better than expected at 47.5%

Gross profit increased by 146% y-o-y to S\$45.3m in FY2017, partly contributed by S\$8.5m from UnUsUal, and partly from its new cinema business of S\$4.7m. Gross profit of core business doubled to S\$26.4m whereas post production business increased by 8% to S\$2.7m in FY2017. Overall, gross profit margin for FY2017 was 47.5%, vs 48% for FY2016, and our earlier projection of 42%.

Improving cash position

Net cash position in FY2017 improved to S\$14.1m, from S\$1.7m a year ago. On a cashflow basis, mm2 recorded an increase in net cash of about S\$18.3m as compared to a net cash decrease of S\$1.5m in FY2016.

Recommendation

We continue to project that mm2 will grow at an EPS CAGR of 52% from FY16-FY19, underpinned by growth in productions, expansion into the China market, and contribution from UnUsUal. The cinema arm, on the other hand, builds a recurring income base.

Flash Note

North Asia contributed 56% of the group's production revenue in FY2017, up from 35.7% in FY2016. Going forward, we expect North Asia to contribute >70% of core revenue. Upside to earnings could come from more projects, especially in China where the market is bigger and budgets are much higher.

Maintain BUY with TP of S\$0.70 based on SOTP valuation. We have switched our valuation methodology for mm2 to sum-of-parts valuation from the PE method, as contribution from the different business units will be more meaningful going forward.

Target price based on SOTP valuation

Segment	Stake	FY Mar 18F	
		Net Profit (\$m)	Valuation (\$m)
Core Business	100%	18.4	515.7
Cinema	100%	1.6	34.3
Vividthree	51%	2.5	35.7
UnUsUal	41.91%	8.2	145.6
Total value			731.2
Number of shares			1,047.8
Value per share (\$)			0.70

Source: DBS Bank

Interim Income Statement (\$m)

FY Mar	1H16	2H16	1H17	2H17	% chg yoy	% chg hoh
Revenue	12.7	25.6	35.0	60.3	135.3	72.2
Cost of Goods Sold	(4.3)	(15.6)	(15.3)	(34.8)	122.7	128.1
Gross Profit	8.4	10.0	19.8	25.5	155.1	29.0
Other Oper. (Exp)/Inc	0.0	(0.1)	(0.2)	0.0	-	-
Operating Profit	8.4	9.9	19.5	25.5	158.1	30.6
Other Non Opg (Exp)/Inc	0.0	(0.0)	0.2	(0.2)	604.0	-200.0
Associates & JV Inc	0.0	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	0.0	0.0	0.0	0.0	-	-
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	-	-
Pre-tax Profit	5.4	4.6	10.9	15.0	228.9	38.6
Tax	(0.9)	(0.2)	(2.0)	(1.8)	925.6	-7.7
Minority Interest	(0.5)	(0.7)	(1.0)	(2.2)	208.3	118.4
Net Profit	4.0	3.7	7.8	11.0	198.8	40.2
Net profit bef Except.	4.0	3.7	7.8	11.0	198.8	40.2
EBITDA	6.7	4.6	12.0	15.2	230.9	27.3
Growth						
Revenue Gth (%)	(13)	102	37	72		
EBITDA Gth (%)	45	(31)	160	27		
Opg Profit Gth (%)	118	18	98	31		
Net Profit Gth (Pre-ex) (%)	175	(9)	113	40		
Margins						
Gross Margins (%)	66.1	39.0	56.4	42.3		
Opg Profit Margins (%)	66.1	38.6	55.8	42.3		
Net Profit Margins (%)	31.6	14.3	22.4	18.2		

Source of all data: Company, DBS Bank

Target Price & Ratings History



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 catalysts within this time frame)

Share price appreciation + dividends

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