

Company Note

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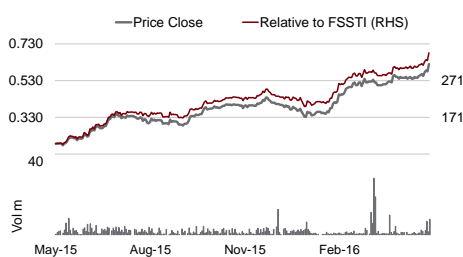
ADD (no change)

Consensus ratings: Buy 2 Hold 0 Sell 0

Current price:	S\$0.62
Target price:	S\$0.73
Previous target:	S\$0.70
Up/downside:	17.6%
CIMB / Consensus:	9.6%
Reuters:	MM2A.SI
Bloomberg:	MM2 SP
Market cap:	US\$202.9m
	S\$280.5m
Average daily turnover:	US\$0.87m
	S\$1.24m
Current shares o/s:	451.7m
Free float:	40.0%

Key changes in this note

- ▶ FY17F EPS increased by 0.5%.
- ▶ FY18F EPS increased by 5.0%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	12.7	49.4	217.9
Relative (%)	17.3	43.1	238

Major shareholders	% held
Wee Chye Ang	52.2
Yeo Khee Seng	7.8
Phillip Apac Opp Fun	4.0

Analyst(s)



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mm2 Asia

A strong content aggregator

- mm2's FY3/16 core net profit of S\$8.2m beat our full-year estimate at 118%.
- Meaningful contributions from newly-acquired Cathay cinemas and Vividthree production in FY16, with more to come in FY17-18.
- Content production is still the main driver, with increasing North Asia productions.
- We are seeing synergies across the various acquisitions, starting with Vividthree which offers post-production services (3D graphics effects etc.).
- Reiterate Add with a higher TP of S\$0.73, based on 22x CY17 P/E (peers' average).

Boosted by both organic and inorganic growth

mm2 reported 58% yoy growth in topline, of which movie production and distribution generated S\$25.3m and S\$6m sales respectively. Recent acquisitions of Vividthree (51% stake) and Cathay cinemas also contributed S\$3.8m and S\$4.9m respectively, benefitting the bottomline as well due to their higher-margin businesses. We saw an uptick in FY16 overall gross margin to 48% vs. FY15's 39%.

FY16 net profit rose 75% yoy despite higher operating costs

While FY16 revenue of S\$38.3m was broadly in line with our full-year forecast at 96%, core net profit was above at 118% due to better revenue mix with higher margins. Operating expenses rose 177% yoy, partly due to S\$3.6m inherited from newly-acquired operations, as well as S\$1.3m of professional fees arising from such M&A activities. One-off distortion of effective tax rate helped offset the higher costs, resulting in FY16 net profit growth of 75% yoy.

Film/content production remains the key driver

With the combined financial support of up to S\$30m from Starhub and Singapore's MDA for more local productions, we believe content creation remains the key driver for mm2. Apart from Vividthree (3D animation and graphics firm) which contributed S\$3.6m of post-production revenue with gross margins of close to 70%, we expect to see further realisation of synergies across the various acquisitions. North Asia productions, which accounted for c.30% of FY16 revenue (FY15:20%), are expected to increase from FY17.

Solidifying its cinema presence

mm2 has successfully completed the rebranding of 2 Cathay cinemas in Malaysia, which saw a 5 months' contribution in FY16. We expect the earnings from three Mega cinemas in Malaysia and 51% stake in Unusual Entertainment group to come online in 1-2 months' time, giving another boost to our FY17F EPS growth of 52%. We think there is potential for mm2 to enlarge its cinema presence in Malaysia, or expand into Singapore.

Maintain Add with higher target price of S\$0.73

As we revise our assumptions for FY17-18 production budget, our EPS estimates increase by 0.5-5.0%. Our target price thus inches up slightly to S\$0.73, still pegged to peers' average of 22x P/E multiple. Potential catalysts include greater penetration into China and more earnings-accretive acquisitions, while key risk to our Add call is any unexpected production delay.

Financial Summary	Mar-15A	Mar-16A	Mar-17F	Mar-18F	Mar-19F
Revenue (S\$m)	24.3	38.3	93.2	111.9	127.1
Operating EBITDA (S\$m)	9.87	19.07	30.64	39.84	54.33
Net Profit (S\$m)	5.08	8.18	14.88	18.18	21.66
Core EPS (S\$)	0.012	0.018	0.028	0.035	0.041
Core EPS Growth	57.7%	50.3%	53.7%	22.2%	19.1%
FD Core P/E (x)	53.56	34.94	21.82	17.86	14.99
DPS (S\$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	25.43	14.34	10.24	7.88	6.04
P/FCFE (x)	NA	NA	NA	98.84	NA
Net Gearing	(28.4%)	(4.6%)	(17.8%)	(17.3%)	(6.3%)
P/BV (x)	13.36	7.58	3.94	3.23	2.66
ROE	44.5%	29.5%	25.1%	19.9%	19.4%
% Change In Core EPS Estimates			0.48%	4.95%	
CIMB/consensus EPS (x)			0.95	0.96	

SOURCE: COMPANY DATA, CIMB FORECASTS

Figure 1: Results comparison

FYE March (S\$ m)	2HFY16	2HFY15	yoy % chg	hoh % chg	2HFY16 Cum	2HFY15 Cum	yoy % chg	Prev FY16F	Comments
Revenue	26	15	75.5	101.9	38	24	57.8	40	Broadly in line at 96% of full-year estimates. mm2 recorded 58% yoy increase in topline, led mainly by increase in production income and revenue contribution from the 2 newly-acquired Cathay cinemas (S\$4.9m).
Operating costs	(13)	(10)	28.4	118.5	(19)	(14)	31.7	(25)	Including professional fees of S\$1.3m (FY16) and S\$0.3m (FY15)
EBITDA	13	4	182.3	87.2	19	10	95.8	15	
EBITDA margin (%)	49	31	na	na	50	41	24.1	37	Better than expected margins due to higher sales mix of production income
Deprn & amort.	(8)	(3)	203.1	501.6	(9)	(3)	172.9	(5)	Above due to greater amortisation of film rights arising from more movie production
EBIT	5	2	154.9	(9.9)	10	7	57.3	10	
Interest expense	(0)	-	na	775.0	(0)	(0)	1,850.0	(0)	Above due to additional interest expenses for new convertible notes (S\$0.04m) and deferred payment of purchase consideration for a new cinema business (S\$0.1m)
Interest & invt inc	0	0	(91.7)	na	0	0	233.3	-	
Associates' contrib	-	-	na	na	-	-	na	-	
Exceptionals	-	-	na	na	-	-	na	-	
Pretax profit	5	2	123.4	(15.5)	10	7	51.9	9	Broadly in line
Tax	(0)	(1)	(69.0)	(80.4)	(1)	(2)	(26.7)	(2)	
Tax rate (%)	4	28	na	(76.8)	11	23	(51.7)	18	Below due to one-off distortion
Minority interests	(6)	(6)	5.1	(188.9)	1	-	na	1	
Net profit	10	7	46.1	609.0	8	5	60.9	7	Above our full-year forecasts at 118%
Core net profit	10	7	46.1	609.0	8	5	60.9	7	
EPS (cts)	2.3	1.7	36.5	575.9	1.8	1.2	59.8	1.6	Above our full-year forecasts at 118%
Core EPS (cts)	2.3	1.7	36.5	575.9	1.8	1.2	59.8	1.6	

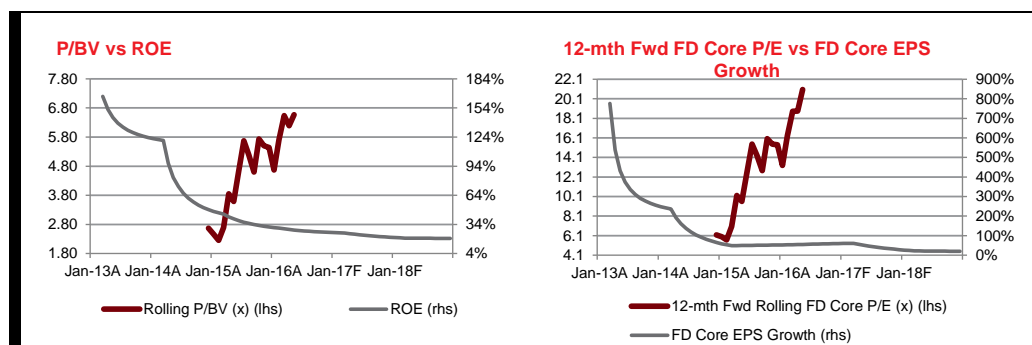
SOURCE: CIMB RESEARCH, COMPANY

Figure 2: Peers Comparison

Company	Bloomberg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$ m)	Core P/E (x) CY2016	Core P/E (x) CY2017	3-year EPS CAGR (%)	P/BV (x) CY2016	P/BV (x) CY2017	Recurring ROE (%) CY2016	Recurring ROE (%) CY2017	Dividend Yield (%) CY2016	Dividend Yield (%) CY2017
mm2 Asia Ltd	mm2 SP	ADD	0.62	0.73	203	23.8	18.7	32.2%	4.5	3.4	25.5%	20.9%	na	na
Regional														
Spackman Entertainment Group L	SEG SP	Not rated	0.11	na	33	na	na	na	na	na	na	na	na	na
Village Roadshow Ltd	VRL AU	Not rated	5.09	na	590	15.4	13.4	-11.2%	1.6	1.5	9.9%	11.6%	5.5%	5.7%
Alibaba Pictures Group Ltd	1060 HK	Not rated	1.77	na	5,751	na	na	na	na	na	na	na	na	na
IMAX China Holding Inc	1970 HK	Not rated	37.15	na	1,700	27.7	21.5	na	7.4	5.6	31.6%	29.4%	0.6%	0.8%
Media Asia Group Holdings Ltd	8075 HK	Not rated	0.50	na	138	na	na	na	na	na	na	na	na	na
China 3D Digital Entertainment	8078 HK	Not rated	0.90	na	444	na	na	na	na	na	na	na	na	na
Interactive Entertainment Chin	8081 HK	Not rated	0.12	na	75	na	na	na	na	na	na	na	na	na
Huayi Brothers Media Corp	300027 CH	Not rated	14.09	na	5,978	32.5	28.0	13.8%	3.8	3.5	10.2%	11.2%	0.6%	0.8%
YG Entertainment Inc	122870 KS	Not rated	46,700	na	594	25.3	22.0	6.7%	3.2	2.8	12.1%	12.4%	0.8%	0.8%
CJ E&M Corp	130960 KS	Not rated	76,000	na	2,489	37.3	26.6	34.2%	1.9	1.8	4.9%	6.4%	0.0%	0.3%
SHOWBOX Corp	086980 KS	Not rated	7,590	na	402	34.9	23.6	31.3%	3.6	3.2	10.9%	14.3%	0.7%	0.7%
Simple average						28.8	22.5	14.9%	3.6	3.1	13.3%	14.2%	1.3%	1.5%
International														
Comcast Corp	CMCSA US	Not rated	62.4	na	151,554	17.6	16.0	na	2.7	2.5	15.9%	16.0%	1.8%	2.0%
Walt Disney Co/The	DIS US	Not rated	99.5	na	161,449	17.1	15.9	-0.2%	3.6	3.5	21.3%	21.9%	0.6%	1.6%
Twenty-First Century Fox Inc	FOX US	Not rated	28.8	na	54,334	15.1	13.1	na	3.8	3.6	24.6%	30.5%	1.1%	1.2%
Time Warner Inc	TWX US	Not rated	73.1	na	57,509	13.6	12.1	13.7%	2.4	2.4	17.9%	19.2%	2.2%	2.4%
Simple average						15.8	14.3	6.7%	3.1	3.0	19.9%	21.9%	1.4%	1.8%
Simple average (overall excluding mm2)						22.3	18.4	10.8%	3.4	3.0	16.6%	18.0%	1.4%	1.6%

SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(\$m)	Mar-15A	Mar-16A	Mar-17F	Mar-18F	Mar-19F
Total Net Revenues	24.3	38.3	93.2	111.9	127.1
Gross Profit	9.5	18.4	36.0	43.6	52.0
Operating EBITDA	9.9	19.1	30.6	39.8	54.3
Depreciation And Amortisation	(3.3)	(9.0)	(7.9)	(13.0)	(22.6)
Operating EBIT	6.6	10.1	22.7	26.8	31.7
Financial Income/(Expense)	(0.0)	(0.4)	(0.1)	(0.1)	(0.1)
Pretax Income/(Loss) from Assoc.	0.0	0.0	0.0	0.0	0.0
Non-Operating Income/(Expense)	0.0	0.3	0.0	0.0	0.0
Profit Before Tax (pre-EI)	6.6	10.0	22.7	26.8	31.7
Exceptional Items					
Pre-tax Profit	6.6	10.0	22.7	26.8	31.7
Taxation	(1.5)	(1.1)	(4.3)	(5.1)	(6.0)
Exceptional Income - post-tax					
Profit After Tax	5.1	8.9	18.4	21.7	25.7
Minority Interests	0.0	(0.7)	(3.5)	(3.5)	(4.0)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	5.1	8.2	14.9	18.2	21.7
Recurring Net Profit	5.1	8.2	14.9	18.2	21.7
Fully Diluted Recurring Net Profit	5.1	8.2	14.9	18.2	21.7

Cash Flow

(\$m)	Mar-15A	Mar-16A	Mar-17F	Mar-18F	Mar-19F
EBITDA	9.87	19.07	30.64	39.84	54.33
Cash Flow from Inv. & Assoc.	0.00	0.00	0.00	0.00	0.00
Change In Working Capital	(12.01)	(22.57)	(18.06)	(28.19)	(47.47)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	0.00	0.12	0.00	0.00	0.00
Other Operating Cashflow					
Net Interest (Paid)/Received	(0.02)	(0.38)	(0.05)	(0.05)	(0.05)
Tax Paid	(0.07)	(0.09)	(4.31)	(5.09)	(6.02)
Cashflow From Operations	(2.23)	(3.84)	8.22	6.51	0.78
Capex	(0.03)	(0.59)	(1.00)	(1.00)	(1.00)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	0.00	(7.71)	(24.70)	(2.17)	(10.00)
Other Investing Cashflow	(1.94)	(0.23)	0.00	0.00	0.00
Cash Flow From Investing	(1.98)	(8.53)	(25.70)	(3.17)	(11.00)
Debt Raised/(repaid)	2.92	2.30	(0.05)	(0.05)	(0.05)
Proceeds From Issue Of Shares	7.75	9.10	31.30	0.00	0.00
Shares Repurchased					
Dividends Paid					
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	10.67	11.39	31.25	(0.05)	(0.05)
Total Cash Generated	6.46	(0.97)	13.77	3.29	(10.27)
Free Cashflow To Equity	(1.29)	(10.07)	(17.53)	3.29	(10.27)
Free Cashflow To Firm	(4.19)	(11.98)	(17.43)	3.39	(10.17)

BY THE NUMBERS

Balance Sheet

(S\$m)	Mar-15A	Mar-16A	Mar-17F	Mar-18F	Mar-19F
Total Cash And Equivalents	5.8	4.7	18.5	21.8	11.5
Total Debtors	20.6	24.4	46.0	47.8	46.0
Inventories	0.0	0.3	0.3	0.3	0.3
Total Other Current Assets	4.8	9.8	20.2	32.9	44.6
Total Current Assets	31.1	39.3	85.0	102.8	102.4
Fixed Assets	0.1	3.6	3.6	3.6	3.6
Total Investments	0.0	0.0	24.7	26.9	36.9
Intangible Assets	6.3	25.3	25.4	35.8	57.1
Total Other Non-Current Assets	0.0	0.8	0.8	0.8	0.8
Total Non-current Assets	6.5	29.7	54.5	67.1	98.4
Short-term Debt	0.2	0.2	0.2	0.2	0.2
Current Portion of Long-Term Debt					
Total Creditors	15.0	24.4	45.3	54.0	59.2
Other Current Liabilities	1.1	3.6	3.6	3.6	3.6
Total Current Liabilities	16.4	28.2	49.1	57.8	63.0
Total Long-term Debt	0.1	2.8	2.8	2.8	2.8
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0.0	0.0	0.0	0.0	0.0
Total Non-current Liabilities	0.1	2.8	2.8	2.8	2.8
Total Provisions	1.9	0.8	0.8	0.8	0.8
Total Liabilities	18.4	31.8	52.7	61.4	66.6
Shareholders' Equity	19.2	36.2	82.4	100.6	122.2
Minority Interests	0.0	1.0	4.5	8.0	12.0
Total Equity	19.2	37.2	86.8	108.5	134.2

Key Ratios

	Mar-15A	Mar-16A	Mar-17F	Mar-18F	Mar-19F
Revenue Growth	51%	58%	143%	20%	14%
Operating EBITDA Growth	36.7%	93.4%	60.7%	30.0%	36.4%
Operating EBITDA Margin	40.6%	49.8%	32.9%	35.6%	42.7%
Net Cash Per Share (S\$)	0.013	0.004	0.030	0.036	0.016
BVPS (S\$)	0.05	0.08	0.16	0.19	0.23
Gross Interest Cover	365.1	26.1	454.9	536.4	634.5
Effective Tax Rate	22.7%	11.0%	19.0%	19.0%	19.0%
Net Dividend Payout Ratio	NA	NA	NA	NA	NA
Accounts Receivables Days	240.0	214.8	137.8	153.0	134.7
Inventory Days	0.00	2.42	1.68	1.41	1.28
Accounts Payables Days	325.8	356.1	218.4	261.8	272.2
ROIC (%)	126%	64%	63%	57%	50%
ROCE (%)	48.3%	32.4%	34.6%	26.4%	25.3%
Return On Average Assets	18.5%	17.4%	17.7%	14.0%	13.9%

Key Drivers

	Mar-15A	Mar-16A	Mar-17F	Mar-18F	Mar-19F
TV Adex Rate (% Change)	N/A	N/A	N/A	N/A	N/A
Average Utilisation Rate (%)	N/A	N/A	N/A	N/A	N/A
Prime Time Utilisation Rate (%)	N/A	N/A	N/A	N/A	N/A
Non Prime Time Utilisation Rate (%)	N/A	N/A	N/A	N/A	N/A
Programming Costs (% Change)	80.8%	28.5%	81.8%	32.7%	19.8%
Newspr adex rev. grth (%)	0.0%	0.0%	207.3%	6.0%	6.0%
Newspaper ASP (% Change)	N/A	N/A	N/A	N/A	N/A
Newspr circulation grth (%)	N/A	N/A	N/A	N/A	N/A
Newsprint Cost (% Change)	N/A	N/A	N/A	N/A	N/A

SOURCE: CIMB RESEARCH, COMPANY DATA

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(a) mm2 Asia

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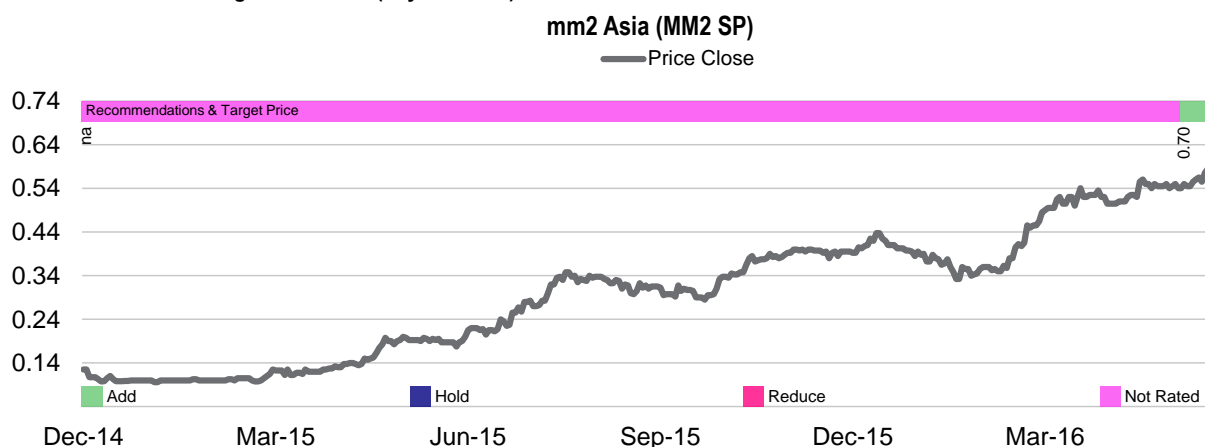
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1539 companies under coverage for quarter ended on 31 March 2016		
	Rating Distribution (%)	Investment Banking clients (%)
Add	59.2%	6.9%
Hold	30.9%	3.1%
Reduce	8.7%	0.5%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2015, Anti-Corruption Progress Indicator 2015.

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Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.

Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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Definition:

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