

Singapore Company Guide

mm2 Asia

Version 11 | Bloomberg: MM2 SP | Reuters: MM2A.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

26 May 2017

BUY

Last Traded Price (26 May 2017): S\$0.58 (STI : 3,219.42)

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

Potential Catalyst: Earnings-accretive acquisitions

Analyst

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Price Relative



Forecasts and Valuation

FY Mar (S\$ m)	2016A	2017A	2018F	2019F
Revenue	38.3	95.4	147	182
EBITDA	19.4	41.4	50.8	58.4
Pre-tax Profit	9.99	25.9	32.9	40.5
Net Profit	8.18	18.8	22.4	27.8
Net Pft (Pre Ex.)	8.18	18.8	22.4	27.8
Net Pft Gth (Pre-ex) (%)	59.4	130.1	19.0	24.3
EPS (S cts)	0.90	1.80	2.14	2.65
EPS Pre Ex. (S cts)	0.90	1.80	2.14	2.65
EPS Gth Pre Ex (%)	46	98	19	24
Diluted EPS (S cts)	0.90	1.80	2.14	2.65
Net DPS (S cts)	0.0	0.0	0.0	0.0
BV Per Share (S cts)	4.00	8.25	10.4	13.0
PE (X)	64.1	32.3	27.2	21.9
PE Pre Ex. (X)	64.1	32.3	27.2	21.9
P/Cash Flow (X)	nm	99.3	22.9	14.8
EV/EBITDA (X)	27.0	14.5	12.3	10.5
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	14.5	7.0	5.6	4.4
Net Debt/Equity (X)	CASH	CASH	0.0	CASH
ROAE (%)	29.5	30.7	22.9	22.7

Core earnings Rev (%):

Consensus EPS (S cts):

Other Broker Recs:

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

An UnUsUal boost

Raised target price to S\$0.70 after incorporating a higher valuation for UnUsUal, and slightly higher margins for core business. UnUsUal has staged a spectacular performance post listing on the Catalist board of SGX on 10 April 2017. Share price has gained a whopping 170% vs its IPO price of S\$0.20. After incorporating the current valuation for UnUsUal and tweaked net margins for core business to 25% from 24% previously, our target price is now S\$0.70.

Growth supported by core business and UnUsUal; cinemas to build recurring income. We continue to project mm2 to 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, helps the group to build a recurring income base.

Where we differ: Higher valuation peg vs consensus. We value the core business and post-production segments based on 28x PE, in line with peers listed in Asia, vs consensus of about 25x. For UnUsUal, we value it at current valuation. For the cinema segment, we use a 21x valuation peg.

Potential Catalyst: Reaping fruits of success in North Asia.

We expect North Asia to contribute >70% of core revenue from FY17F, up from 23% in FY16. Upside to earnings could come from more projects, especially in China where the market is bigger and budgets are much higher.

Valuation:

Maintain BUY with a higher TP of S\$0.70 based on SOTP valuation. We have switched the 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.

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.

Availability of good scripts. Lack of good scripts for production may lead to less support from stakeholders.

At A Glance

Issued Capital (m shrs)	1,029
Mkt. Cap (S\$m/US\$m)	597 / 430
Major Shareholders (%)	
Wee Chye Ang	45.1
Yeo Khee Seng	9.2
StarHub Ltd	8.6
Free Float (%)	36.4
3m Avg. Daily Val (US\$m)	1.6
ICB Industry : Consumer Services / Media	

CRITICAL DATA POINTS TO WATCH

Critical Factors:

Acquisitions to strengthen competitive edge and build income base

mm2 has made several acquisitions to maintain its competitive advantage. It has just signed the agreement for the acquisition of 13 cinemas in Malaysia. Upon completion, mm2 will own a total of 18 cinemas with a market share of about 14% in terms of number of screens, propelling the company to become a top four player in Malaysia. In Singapore, mm2 announced that it is in discussion with Village Cinemas for the purchase of its stake in the Golden Village Cinema business in Singapore. Golden Village is Singapore's leading cinema exhibitor with 11 multiplexes housing 92 screens. The ownership of cinemas will provide a source of recurring income to the group and cost savings in the longer term, as mm2 usually has to pay about 50% of its gross intake for rental of cinemas. Cinema operation is a profitable business, and could be profitable even with less than 50% of the seats occupied.

Other than cinemas, mm2 has entered into an MOU to acquire up to 30% stake in RINGS.TV, a leading interactive live streaming broadcast platform, for S\$4.5m in a bid to beef up its OTT (over-the-top) platform. In February 2016, mm2 acquired a 51% stake in UnUsUal Group, one of Asia's largest promoters and organisers of shows and entertainment acts, for S\$26m.

Healthy production pipeline

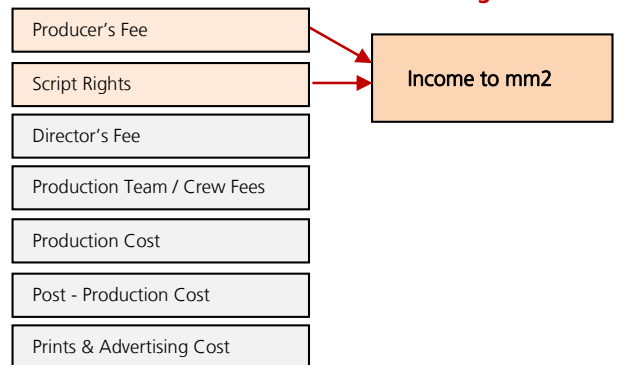
The number of production titles has increased steadily over the last few years; from six production for FY March 2014, to about 18 for FY March 2017. mm2 has a robust production pipeline of 37 production titles for the next 18 months, from April 2017 to September 2018. Out of these, 23 titles or 62% are from North Asia. In terms of production budget, North Asia accounts for almost 80% of the total budget.

Going for niche markets in North Asia; adaptation of successful movies. In terms of strategy in China, instead of competing directly with the local big boys, mm2's strategy is to go for small, niche markets and replicate its proven business model that it has in Singapore.

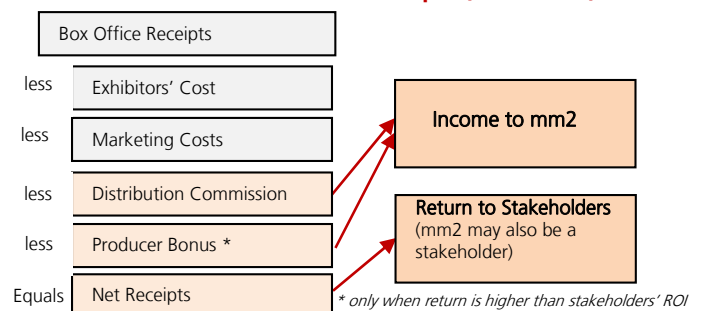
Besides production of movies and dramas, mm2 can also produce variety shows, either on its own or via tie-ups with local players like Hesheng Media, which is one of the largest integrated media companies in China.

Distribution of movies, another core competency of mm2 apart from production and advertising, is also another channel that can broaden mm2's income in China.

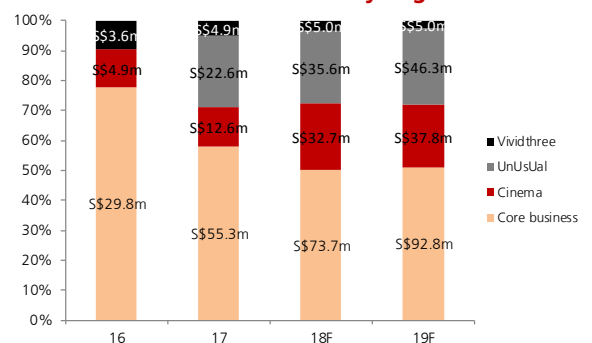
Business Model – The Film Budget



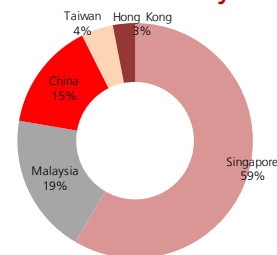
Business Model – Gross Receipts (Box Office)



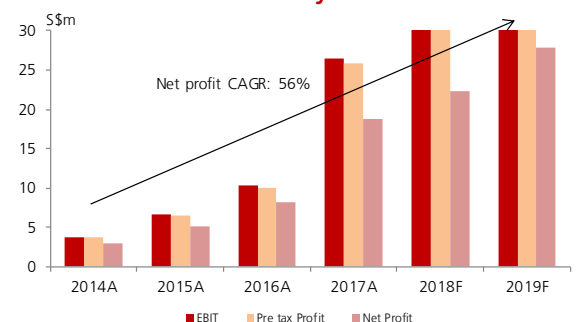
Revenue Breakdown by Segment



FY17 Revenue Breakdown by Country



Profitability Trend



Source: Company, DBS Bank

Balance Sheet:

Net cash position. mm2 was in a net cash position as at September 2016. Though we do not rule out the possibility of the group taking on more debt, as it is constantly on the lookout for acquisitions that can complement its existing business and also to build its recurring income base, the full impact from its recent acquisitions should lead to stronger earnings and equity base.

Asset-light business model. More than half of its assets are current assets, comprising mainly cash and receivables, even with the acquisition of cinemas and UnUsUal.

Share Price Drivers:

UnUsUal listing. UnUsUal was listed on 10 April 2017. This would enable mm2 to crystallise gains and unlock value, and allow UnUsUal to tap on public funds for expansion.

Growing production and distribution income

Its core business, which includes production, distribution and sponsorship, is expected to account for at least 70% of total revenue going forward. We expect more than half of the production to come from North Asia. In China, we are expecting the group to also produce dramas, which will have a much bigger production budget than movies. Even for movies in China, their production budgets and margins are also better than local productions.

To beef up on content creation, mm2 has entered into an agreement with Turner Asia Pacific, a global media conglomerate, to co-produce five cinematic films over the next three years. In Malaysia, mm2 has entered into a non-binding MOU with Pinewood Iskandar Malaysia Studios and Rhizophora Ventures, to produce up to 12 movie projects and up to five dramas in over the next three years.

Key Risks:

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

Availability of good scripts. Lack of good scripts for production may lead to less support from stakeholders.

Unable 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.

Number of Titles (Production & Distribution)

Year	Number of Titles (Production)	Number of Titles (Distribution)
FY Mar 2012	3	2
FY Mar 2013	6	8
FY Mar 2014	6	18
FY Mar 2015	9	26
FY Mar 2016	14	24
FY Mar 2017	18	30
Apr 17 to Sep 18*	37	

* projection

Details of cinemas acquired

Cinema	Place	Capacity
Cathay Cineplex City Square	Johor Bahru	14 screens, 2,826 seats
Cathay Cineplex Damansara	Damansara	16 screens, 2,472 seats
Mega Cineplex Prai	Penang	6 screens, 1,420 seats
Mega Cineplex Langkawi	Langkawi	3 screens 536 seats
Mega Cineplex Bertam	Bertam	4 screens 756 seats
LFS 1 Plaza, Kuala Selangor	Selangor	5 screens, 733 seats
LFS Seri Iskandar	Perak	7 screens, 1,349 seats
LFS 1 Segamat	Johor	8 screens, 1,703 seats
LFS Prangin Mall	Penang	8 screens, 1,490 seats
LFS Bahau	Negeri Sembilan	6 screens, 1,036 seats
LFS Shaw Centre, Point Klang	Selangor	4 screens, 875 seats
LFS Riverside, Kuching	Sarawak	4 screens, 585 seats
LFS IOI Kulai	Johor	6 screens, 920 seats
LFS Kerian Sentral Mall	Perak	8 screens, 1,183 seats
LFS Summer Mall	Sarawak	12 screens, 2,038 seats
LFS Mahkota Parade	Malacca	4 screens, 645 seats
LFS Bukit Jambul	Penang	6 screens, 1,167 seats
LFS Kampar	Perak	6 screens, 846 seats

Forward PE Band (x)**PB Band (x)**

Source: Company, DBS Bank

Segmental Breakdown

FY Mar	2015A	2016A	2017A	2018F	2019F
Revenues (\$m)					
Core Business	24.3	29.8	55.3	73.7	92.8
Cinema		4.9	12.6	32.7	37.8
UnUsUal			22.6	37.9	49.2
Vividthree		3.6	4.9	5.0	5.0
Total	24.3	38.3	95.4	149.2	184.8
Gross profit (\$m)					
Core Business	9.6	13.1	26.5	28.2	36.3
Cinema		2.8	7.6	18.0	20.8
UnUsUal			8.5	15.8	20.5
Vividthree		2.5	2.7	3.5	3.5
Total	9.6	18.4	45.3	65.5	81.1
Gross profit margins (%)					
Core Business	39%	44%	48%	38%	39%
Cinema		57%	60%	55%	55%
UnUsUal			38%	42%	42%
Vividthree		69%	55%	70%	70%
Total	39%	48%	47%	44%	44%

Partial contributions from UnUsUal

Includes partial contribution from latest acquisition of Lotus cinemas

Income Statement (\$m)

FY Mar	2015A	2016A	2017A	2018F	2019F
Revenue	24.3	38.3	95.4	147	182
Cost of Goods Sold	(14.7)	(20.0)	(50.1)	(82.4)	(102)
Gross Profit	9.58	18.4	45.3	64.6	79.9
Other Opng (Exp)/Inc	(3.0)	(8.0)	(18.7)	(28.7)	(36.4)
Operating Profit	6.62	10.4	26.5	35.9	43.5
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	0.00	(0.4)	(0.6)	(3.0)	(3.0)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	6.58	9.99	25.9	32.9	40.5
Tax	(1.5)	(1.1)	(3.8)	(5.6)	(6.9)
Minority Interest	0.0	(0.7)	(3.2)	(4.9)	(5.8)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	5.08	8.18	18.8	22.4	27.8
Net Profit before Except.	5.13	8.18	18.8	22.4	27.8
EBITDA	9.92	19.4	41.4	50.8	58.4
Growth					
Revenue Gth (%)	50.7	57.9	148.8	54.1	23.8
EBITDA Gth (%)	38.5	95.2	113.6	22.8	14.9
Opg Profit Gth (%)	78.3	56.7	155.5	35.5	21.1
Net Profit Gth (Pre-ex) (%)	68.1	59.4	130.1	19.0	24.3
Margins & Ratio					
Gross Margins (%)	39.5	48.0	47.5	43.9	43.9
Opg Profit Margin (%)	27.3	27.1	27.8	24.4	23.9
Net Profit Margin (%)	20.9	21.3	19.7	15.2	15.3
ROAE (%)	44.5	29.5	30.7	22.9	22.7
ROA (%)	18.5	15.3	16.2	10.8	10.0
ROCE (%)	37.7	25.0	24.6	14.3	13.7
Div Payout Ratio (%)	0.0	0.0	0.0	0.0	0.0
Net Interest Cover (x)	NM	26.8	43.1	11.9	14.4

Source: Company, DBS Bank

Quarterly / Interim Income Statement (\$m)

FY Mar	2H15	1H16	2H16	1H17	2H17
Revenue	14.6	12.7	25.6	35.0	60.3
Cost of Goods Sold	(10.7)	(4.3)	(15.6)	(15.3)	(34.8)
Gross Profit	3.9	8.4	10.0	19.8	25.5
Other Oper. (Exp)/Inc	(0.1)	0.0	(0.1)	(0.2)	0.0
Operating Profit	3.8	8.4	9.9	19.5	25.5
Other Non Opg (Exp)/Inc	(0.0)	0.0	(0.0)	0.2	(0.2)
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	2.0	5.4	4.6	10.9	15.0
Tax	(0.6)	(0.9)	(0.2)	(2.0)	(1.8)
Minority Interest	0.0	(0.5)	(0.7)	(1.0)	(2.2)
Net Profit	1.5	4.0	3.7	7.8	11.0
Net profit bef Except.	1.5	4.0	3.7	7.8	11.0
EBITDA	4.6	6.7	4.6	12.0	15.2

Growth

Revenue Gth (%)	51	(13)	102	37	72
EBITDA Gth (%)	(13)	45	(31)	160	27
Opg Profit Gth (%)	(32)	118	18	98	31
Net Profit Gth (Pre-ex) (%)	(60)	175	(9)	113	40

Margins

Gross Margins (%)	26.7	66.1	39.0	56.4	42.3
Opg Profit Margins (%)	26.3	66.1	38.6	55.8	42.3
Net Profit Margins (%)	10.0	31.6	14.3	22.4	18.2

Volatile margins mainly due to different stages of revenue recognition

Balance Sheet (\$m)

FY Mar	2015A	2016A	2017A	2018F	2019F
Net Fixed Assets	0.10	3.65	11.2	56.8	75.7
Invt in Associates & JVs	0.0	0.0	1.49	0.0	0.0
Other LT Assets	6.36	26.1	54.3	42.0	28.2
Cash & ST Invt	5.76	4.74	25.8	35.7	56.7
Inventory	4.77	9.83	23.3	30.1	37.3
Debtors	20.6	24.4	46.4	86.2	107
Other Current Assets	0.0	0.26	0.58	0.58	0.58
Total Assets	37.6	69.0	163	251	305
ST Debt	0.22	0.20	11.1	11.1	11.1
Creditor	14.7	23.8	48.4	79.5	98.4
Other Current Liab	1.46	4.21	7.56	7.56	8.85
LT Debt	0.09	2.85	0.58	30.6	30.6
Other LT Liabilities	1.92	0.75	0.97	0.97	0.97
Shareholder's Equity	19.2	36.2	86.5	109	137
Minority Interests	0.0	0.98	7.94	12.9	18.7
Total Cap. & Liab.	37.6	69.0	163	251	305
Non-Cash Wkg. Capital	9.19	6.49	14.3	29.9	37.4
Net Cash/(Debt)	5.45	1.69	14.1	(6.0)	15.0
Debtors Turn (avg days)	240.0	214.2	135.5	164.7	193.6
Creditors Turn (avg days)	417.3	640.7	373.5	345.6	372.6
Inventory Turn (avg days)	100.2	243.0	171.2	144.4	141.3
Asset Turnover (x)	0.9	0.7	0.8	0.7	0.7
Current Ratio (x)	1.9	1.4	1.4	1.6	1.7
Quick Ratio (x)	1.6	1.0	1.1	1.2	1.4
Net Debt/Equity (X)	CASH	CASH	CASH	0.0	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	0.1	CASH
Capex to Debt (%)	645.4	279.3	141.0	111.7	48.0
Z-Score (X)	17.4	11.3	7.5	4.8	4.5

Source: Company, DBS Bank

Cash Flow Statement (S\$m)

FY Mar	2015A	2016A	2017A	2018F	2019F
Pre-Tax Profit	6.58	9.99	25.9	32.9	40.5
Dep. & Amort.	3.29	8.98	14.8	14.8	14.8
Tax Paid	(1.5)	(1.1)	(3.8)	(5.6)	(5.6)
Assoc. & JV Inc/(loss)	0.0	0.0	0.01	0.0	0.0
Chg in Wkg.Cap.	(12.0)	(22.6)	(30.8)	(15.6)	(8.7)
Other Operating CF	1.00	0.0	0.0	0.0	0.0
Net Operating CF	(2.6)	(4.7)	6.12	26.5	41.0
Capital Exp.(net)	(2.0)	(8.5)	(16.5)	(46.6)	(20.0)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.0	0.0	0.0	0.0	0.0
Net Investing CF	(2.0)	(8.5)	(16.5)	(46.6)	(20.0)
Div Paid	0.0	0.0	0.0	0.0	0.0
Chg in Gross Debt	2.94	2.35	17.8	30.0	0.0
Capital Issues	7.75	9.10	18.0	0.0	0.0
Other Financing CF	(1.6)	(0.7)	0.0	0.0	0.0
Net Financing CF	9.05	10.7	35.8	30.0	0.0
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	4.44	(2.5)	25.4	9.95	21.0
Opg CFPS (S cts)	1.13	1.98	3.52	4.02	4.75
Free CFPS (S cts)	(0.6)	(1.5)	(1.0)	(1.9)	2.00

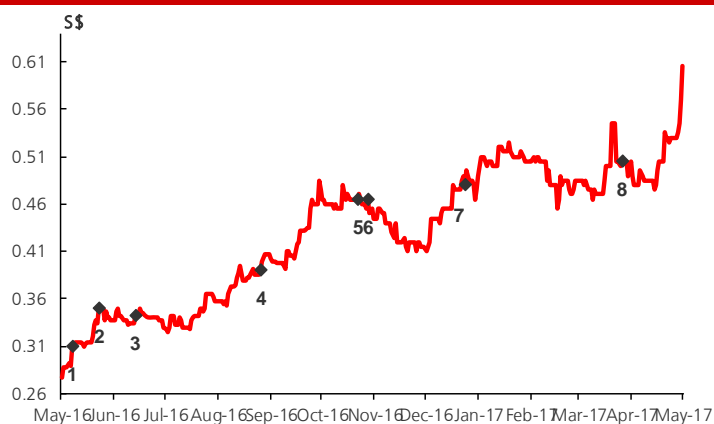
FY17 and FY18 - Acquisition of cinemas and RINGS.TV

Assume partial debt financing for the acquisition of cinemas

Issue of shares to finance recent acquisitions

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1	25 May 16	0.31	0.37	BUY
2	10 Jun 16	0.35	0.37	BUY
3	01 Jul 16	0.34	0.41	BUY
4	13 Sep 16	0.39	0.47	BUY
5	09 Nov 16	0.47	0.56	BUY
6	15 Nov 16	0.47	0.56	BUY
7	11 Jan 17	0.48	0.56	BUY
8	13 Apr 17	0.51	0.63	BUY

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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