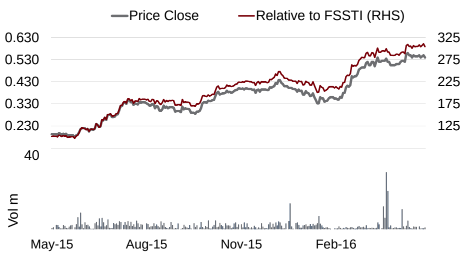
Singapore

ADD *(previously NOT RATED)*

Current price:	S$0.54
Target price:	S$0.70
Previous target:	S$
Up/downside:	29.9%
Reuters:	MM2A.SI
Bloomberg:	MM2 SP
Market cap:	US$179.7m
	S$244.3m
Average daily turnover:	US$0.76m
	S$1.02m
Current shares o/s	451.7m
Free float:	40.0%

Key changes in this note

- Not applicable.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	6.9	50	173.4
Relative (%)	8.4	44.6	193.3

mm2 Asia

The next big bang

- mm2, a film/TV producer, is poised to ride on the rise of the film business in China.
- Multiple acquisitions in cinema and events management complement growing core business in production, driving FY16-18 topline growth of 16-122%.
- High-margin business that focuses on content production and distribution, with little movie financing to minimise risk of commercial success.
- We initiate coverage with an Add recommendation and TP of S$0.70, based on a CY17 P/E of 22.0x. This is backed by a 3-year forecast EPS CAGR of 28.8%.

Potential to be the next CJ E&M or Dalian Wanda

mm2 is a film/TV production company in Asia offering a spectrum of movie-making services, and first expanded into North Asia in 2013 via co-productions with local partners. We believe mm2 is able to capitalise on its close ties with these established industry players (e.g. China's Hesheng Media), to gain better traction in China. Not only is China an attractive market due to booming end-consumer demand, but also because of bigger production budgets and wider audience reach.

Robust earnings momentum driven by production and acquisitions

We expect a growing production pipeline (from a total budget of S$11.5m in FY15 to FY16's S$23m and FY17's S$44m) to be the key revenue driver for mm2. Meanwhile, its newly purchased cinemas in Malaysia will contribute to its FY16 earnings and its 51%-owned concert production business will start contributing earnings in FY17, in our view, with potential synergies for mm2 to unlock across these acquisitions.

Content producer, not a speculator

Unlike most production and media companies, mm2 typically does not take an equity stake in its movie productions (or not more than 10% in cases where it is unable to secure financing from other investors). This makes it less dependent on the films' commercial success. mm2 derives income from film budgets (in the form of producer fees, script rights), as well as movie distribution. We also like its high-margin (gross ~40%, net ~20%) business model.

Favourable support from local governments

Most film authorities in countries where mm2 has a presence in are supportive of local content producers, be it in terms of grants and subsidies (of up to 40% of the qualifying expenditure), or protectionist measures on number of films (local vs. foreign). More notably, China's Five-Year Plan has the cultural sector as one of the pillars, meaning more government investment in entertainment.

Initiating coverage at Add with a TP of S$0.70

We initiate coverage with an Add rating and target price of S$0.70, based on a CY17 P/E of 22x, pegged to peer average but with higher EPS growth. Potential re-rating catalysts include a stronger-than-expected project pipeline and more earnings-accretive acquisitions. Any unforeseen production delay or lack of funding could pose downside risks.

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Financial Summary	Mar-14A	Mar-15A	Mar-16F	Mar-17F	Mar-18F
Revenue (S$m)	16.1	24.3	40.1	88.7	105.9
Operating EBITDA (S$m)	7.22	9.87	14.88	29.87	38.14
Net Profit (S$m)	2.74	5.08	6.92	14.81	17.32
Core EPS (S$)	0.008	0.012	0.016	0.028	0.033
Core EPS Growth	236%	58%	27%	81%	17%
FD Core P/E (x)	69.24	46.65	35.96	19.10	16.32
DPS (S$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	26.38	22.08	15.91	8.93	7.19
P/FCFE (x)	1,049	NA	NA	NA	NA
Net Gearing	13.9%	(28.4%)	(8.1%)	(23.7%)	(15.5%)
P/BV (x)	52.05	11.64	6.79	3.48	2.87
ROE	121%	45%	25%	25%	19%
% Change In Core EPS Estimates					
CIMB/consensus EPS (x)			0.92	0.91	0.87

SOURCE: COMPANY DATA, CIMB FORECASTS

The next big bang

Investment Merits

Unique business model…

mm2 is a movie/TV production company in Asia covering production, distribution, financing, and marketing, with a high-margin and asset-light business model. The bulk of its income is derived from producer fees, script rights, producer bonuses and distribution income, often as a portion of the production budget. In this way, mm2 is, we believe, less dependent on the films' commercial success, as it limits its equity stake in a film to no more than 10%.

…with diversified revenue streams

mm2's production and distribution revenue is rising in tandem with the increase in its production budgets. Meanwhile, its newly acquired cinemas in Malaysia will contribute to its FY16 earnings (albeit not for the full year), while its 51%-owned concert production business will start contributing earnings in FY17. mm2 is also poised to reap synergies in the following ways: 1) increasing network with international production studios and distributors through its cinemas in Malaysia, and 2) potential content creation through concert production and promotion with international celebrities.

…and established relationships with strategic partners

mm2 has long built close working relationships with various strategic partners, as its key management team has worked in roles across advertising, media, and across geographical regions. Not only can these strategic partners, which include FOX International Channel, Starhub and China's Hesheng Media, help finance its production budgets and provide content distribution channels, they also pave the way to reach the bigger North Asian market.

Overseas expansion: bigger budget

Based on its current production pipeline, mm2 has an expanding FY16-18 budget: S$23m, S$44m, and S$55m, respectively, vs. S$11.5m in FY15. The company predominately makes movies in Singapore and Malaysia, but as it gains foothold in North Asian markets such as HK, Taiwan and China, we expect these markets to take up a greater proportion of its budget (10-20% annually). In these countries, production budgets are more substantial (3-31x its current average budget of S$1m-2m) and the audience reach wider (which means bigger box office).

Government support gives it another push

One positive trend we see is the increasing support from most film authorities that would benefit small local content producers such as mm2. The film authorities of the countries in which the company operates (for example, the Taipei Film Commission and the Media Development Authority of Singapore) promote and provide grants and subsidies of up to 40% of the qualifying expenditure. More notably, the cultural sector is one of the key pillars under China's Five-Year Plan, and there is a 'compulsory screening scheme' in Malaysia to protect the local film industry.

Initiating coverage at Add with a TP of S$0.70

Apart from the expansion plans into a booming China media industry, we like mm2 for its scalable core business model and robust growth profile. We therefore initiate coverage with an Add recommendation and target price of S$0.70. This is premised on a CY17 P/E of 22.0x (peer average), and supported by FY16-18F EPS CAGR of 28.8%.

CIMB

How does mm2 make money?

Business model

Established in 2008 and listed on SGX-Catalist in Dec 2014, mm2 Asia is Singapore's leading producer of movies and TV/online content with geographic presence in Singapore, Malaysia, Hong Kong, Taiwan and China. As a producer, mm2 provides a wide spectrum of services covering the entire value chain of filmmaking, which consists of financing, production, marketing and distribution. It currently derives revenue from three principal sources – production, distribution, and sponsorship – in addition to new revenue streams from its newly-acquired **cinema business** (five cinemas in Malaysia) and **concert production business UnUsUaL Group**.

- **Production revenue** – mm2 receives income from various stages of filmmaking. This includes producer fees (generally 10-20% of the film budget) and script rights (Figure 1), as well as producer bonus (if the film performs well). In Asia, producer bonuses generally vary from 8-10% of net profits vs. Hollywood's 20-25%.
- **Distribution income** – mm2 earns distribution commission (generally 7.5-10% of box office receipts) when it distributes movies produced or co-produced by itself or third parties, which can be done via various platforms – local and overseas cinemas, pay-TV, free-TV, online, DVD, airlines and others. Distribution income also comes from licensing of script rights, adaptation and sequel rights for its film library via third-party licensing arrangements.
- **Sponsorship income** – Advertisers pay sponsorship commissions (15% of sponsorship amount, on average) to mm2 for featuring products and services in their films.

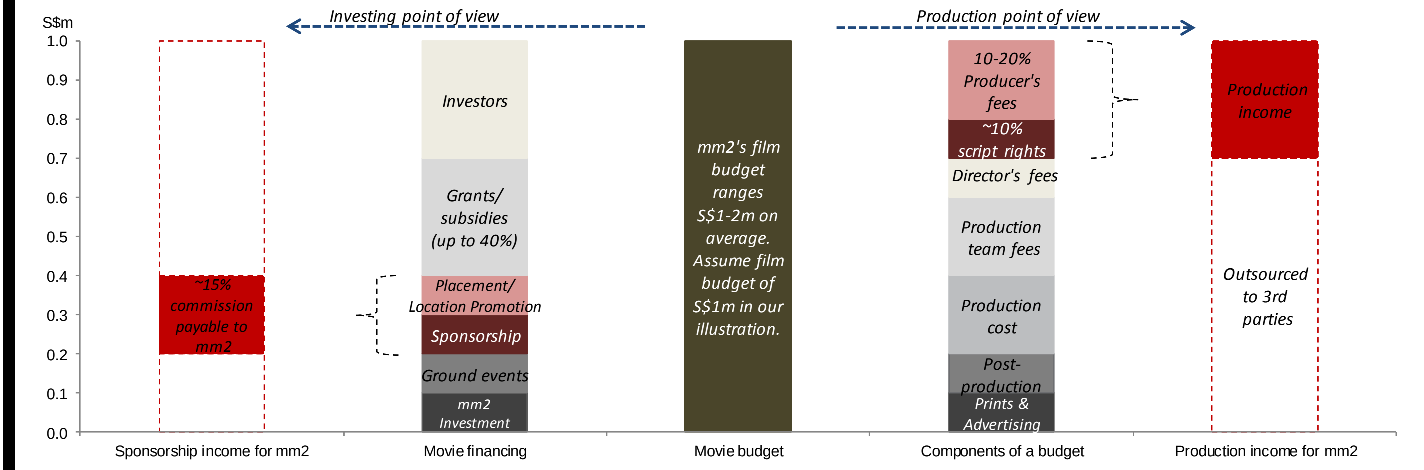
Understanding mm2: it is a content producer, not a blockbuster speculator

We believe the key difference between mm2 and other media companies lies in it being a content producer and earning utility-type fees. It is really not much of a content speculator. As a producer, mm2 draws up a film budget for production costs, script rights, and fees for the producer, director and production team etc. before any filming commences. It then derives its revenue from the production budget as mentioned above and illustrated in Figures 1-2.

Each production can be financed via various means – mm2 may approach investors that usually take up at least 10% of the budget each, apply for grants/subsidies from the local authorities (most film authorities may subsidise up to 40% of the qualifying expenditure) and solicit sponsorships from corporations. In cases where there is a shortfall in funding sources, mm2 will underwrite the remaining budget at no more than 10%, as compared to other media companies which tend to take up a larger equity stake.

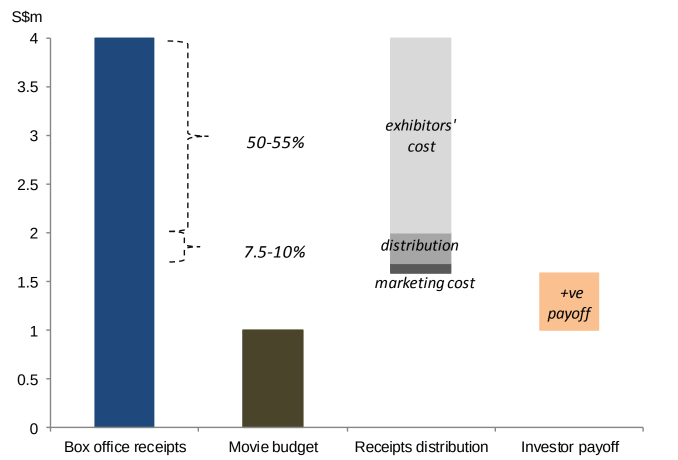
We understand that in general, from a movie investor's perspective, 1/3 of movies made make money, 1/3 would break even, while the remaining 1/3 may lose money. A movie will usually make money for the investors if it is capable of garnering box office receipts of c.3x the budget size (since half of the movie's gross receipts first go to the cinema operators). Figures 3-4 demonstrate how investors can make/lose money from a good/bad film, while Figures 5-6 show us how mm2 earns income along the value chain of filmmaking.

Figure 1: mm2 earns both production and sponsorship income from a movie budget



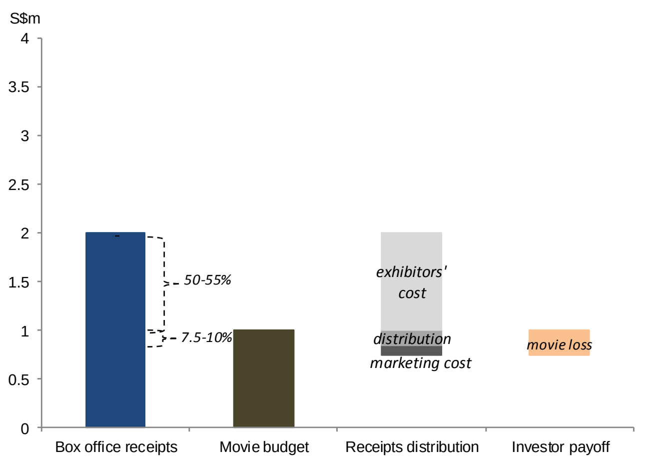
SOURCES: CIMB, COMPANY REPORTS

Figure 2: Investor payoff for a good movie (box office receipts: S$4m)



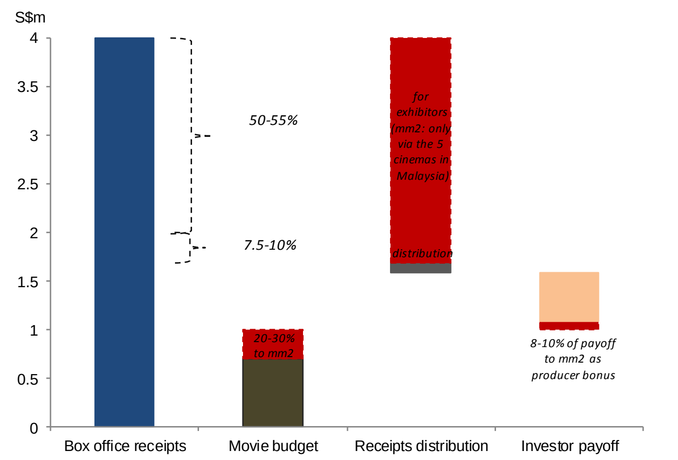
SOURCES: CIMB, COMPANY REPORTS

Figure 3: Investor payoff for a bad movie (box office receipts: S$2m)



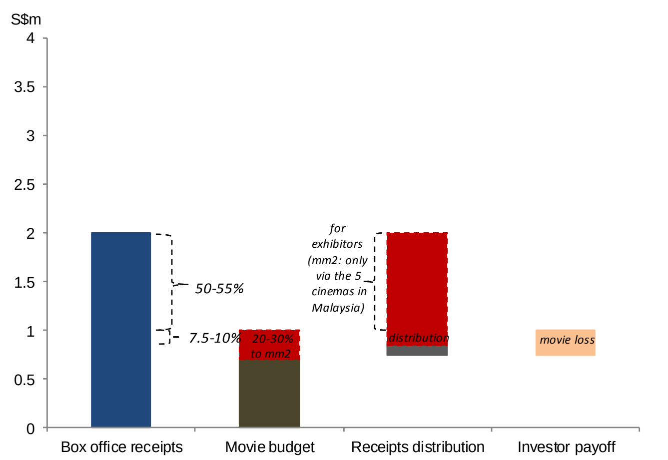
SOURCES: CIMB, COMPANY REPORTS

Figure 4: mm2's revenue for a good movie: In a blockbuster, mm2 earns from multiple sources.



SOURCES: CIMB, COMPANY REPORTS

Figure 5: mm2's revenue for a bad movie: In a failure, mm2's revenue does not drop significantly.



SOURCES: CIMB, COMPANY REPORTS

Explaining utility earnings of production

Production income a function of budget size

The average production budget for movies made by mm2 in Singapore and Malaysia is S$1m-2m. mm2 makes money from the producer's fees and script rights, which typically make up 20-30% of a production budget, as well as from the producer's bonus when the film fares exceptionally well. The rule of thumb for producer bonus in Asia is ~8-10% of net profits, compared with 20-25% in Hollywood. Other components of the production budget, such as director's fees, production cost and advertising cost, are outsourced to third parties, allowing mm2 to retain its lean and asset-light business model. It also limits its risk to box office performance by keeping its equity stake of the budget to no more than 10%. It is rare for mm2 to not be able to secure financing from investors.

Stronger production pipeline and overseas expansion

mm2 produced a total of nine movies in FY15, including the popular *Ah Boys to Men 3* and *1965*, and targets to complete production of 18 movies/dramas in FY16. Based on the production pipeline, the estimated production budgets for FY16-18 are S$23m, S$44m and S$55m, respectively, vs. S$11.5m in FY15, providing revenue visibility. While most of its annual production budget is currently allocated for productions in Singapore and Malaysia, management expects North Asia (where the audience is wider and budgets bigger) to take up a greater portion of its production budget from FY17 onwards.

Besides movies, it also has a pipeline of television dramas, and has the potential to venture into variety shows by leveraging its strong relationships with Chinese media companies like Hesheng Media and Star China Media. We see the recent investment by Starhub into mm2 as a win-win partnership for both parties – mm2 will have an additional production budget of up to S$25m over a three-year period for local content creation, while Starhub will be able to leverage its exclusive partnership with mm2 to produce original local content in a more cost-efficient manner given the escalating costs of international content.

Value-adds in getting funding to kick start production

One of the key roles for mm2 as a movie producer is to arrange financing of production budget. With government support and product placements (Figure 6) on the rise, mm2 is poised to benefit in two ways: 1) it stands to earn approximately 15% of sponsorship amount as commission, and 2) production projects could kick off earlier with sufficient funding.

Film authorities in various countries, such as the Hong Kong Film Development Council (FDC), Media Development Authority (MDA) of Singapore, National Film Development Corporation Malaysia (FINAS) and Taipei Film Commission (TFC), have been actively promoting and rendering support to their respective film industries, be it in terms of grants, subsidies or tax rebates. For example, FINAS has previously launched initiatives to attract producers into Malaysia, including a 30% rebate on the total qualifying expenditure. The MDA in Singapore has also thus far given out more than S$60m in grants, ranging from production assistance to development assistance and talent assistance.

Figure 6: Successful product placements in movies

Successful product placements in movies	
E.T. (1982)	Hershey, maker of Reese's Pieces, saw its profits increase by 65% during the run of Steven Spielberg's landmark children's film (at the time, the largest box office smash in history). M&M manufacturer Mars, Inc. was Spielberg's first choice to appear in the movie; they turned him down.
Risky Business (1983)	Tom Cruise sported Ray-Ban Wayfarers, a line once slated for cancellation by the sunglasses manufacturer. Sales of the Wayfarers increased dramatically during the run of the film, which catapulted both its star and his shades to pop culture stardom. The sale of over 360,000 pairs of Wayfarers were attributed to this product placement.
Top Gun (1986)	Once again, a partnership between Ray-Ban and a Tom Cruise flick paid off handsomely. Sales of the company's Aviator sunglasses rose by 40% as a result of their use in the movie.
The Firm (1993)	Tom Cruise worked his product-placement mojo once again, driving up sales of Red Stripe beer by 50% in the US in 30 days through a very blatant placement in the movie.
Sideways (2004)	The Paul Giamatti comedy caused a 150% sales increase for sponsor Blackstone Winery's pinot noir (and a 2% drop in US sales of merlot, which Giamatti bashes in the film).

SOURCES: CNBC

Utility business #2: Cinema business

Acquired cinemas in Malaysia to contribute in FY16

Mm2 announced the acquisition of five cinemas in Malaysia in 2015, comprising three Mega cinemas (which come with a profit target of RM1.7m for two years), and two Cathay cinemas. We expect partial contribution from the five newly-acquired cinemas in FY16 (around five months for the two Cathay Cineplexes) and full-year contribution from FY17 onwards. The intangible benefits to mm2 may be in the form of building networks with international production studios for better future partnership prospects.

The cinema business is a source of recurring income, as approximately 50% of gross box office receipts are paid to cinema operators. The downside risk surfaces when cinemas pay a hefty minimum guarantee for the distribution rights of movies that subsequently do not perform well. Cinema operators have the discretion to take non-performing films offline within 2-3 days of showing.

Untapped synergies in the latest UnUsUaL Group

Working towards a holistic entertainment group

With its recent acquisition of a 51% interest in UnUsUaL Group, mm2 broadened its content offering to include concert and event management. UnUsUaL Group has not only participated in world-class events such as the Singapore F1 Grand Prix and Youth Olympic Games, but also organised concerts for well-known artistes such as Michael Buble, A-mei and Andy Lau.

We believe there are synergies in this acquisition for mm2 to unlock and complement its core business: 1) the filming and production of concerts and events could translate into differentiated content for the bigger screens; and 2) establishing close contacts with these international artistes may pave the way for future collaboration opportunities in film/TV production.

In 2015, UnUsUaL Group has organised 23 concerts/events and three special projects. Since the beginning of 2016, the company has completed four concerts (almost all sold out) with two confirmed upcoming ones. These are a testament to its expertise in sound, stage and lighting, as well as its track record. This acquisition also came with a 3-year profit target of S$5m (US$3.7m) for each year, translating to ~20% sales contribution from FY17 onwards.

Competitor Analysis

What mm2 has done

Since its IPO in Dec 2014, mm2 has conducted a series of fund-raising exercises (see Figure 7) to finance its acquisitions. Its share capital increased by 18% from 206.3m shares to about 243.5m shares on a fully diluted basis. In Dec 2015, the company announced a 1:2 share split, intended to increase the stock's market liquidity and broaden its shareholder base. As of Apr-16, mm2 has a share base of 451.7m shares, which we expect to increase to approximately 523.7m shares in FY17, after factoring in all proposed share placement and conversion of convertible notes. Management continues to see M&A opportunities in the near to medium term, and does not rule out further fund-raising activities.

Figure 7: Series of fund-raising activities

Announcement date	Details
Jun-15	Issued convertible notes (5.91m shares) due Jun 2017 to Phillip Asia Pacific Opportunity Fund at conversion price of S$0.4892. [All already fully converted]
Jul-15	Issued exchangeable notes (up to S$2.6m in principal amount) with greenshoe option (up to additional S$1.3m) to 3VS1 Asia Growth Fund 2 Ltd. Conversion price at S$0.5635. [have been exercised and converted]
Aug-15	To issue 9.94m shares @S$0.6351 for acquisition of Mega cinemas [expect to complete in FY17]
Dec-15	Placement of 6.35m shares to Hesheng Media, Apex Capital and Maxi-Harvest Group for S$5m at S$0.7872. [already completed before share split]
Feb-16	Proposed issuance of convertible notes of up to S$5m (with greenshoe option for up to additional S$2.5m) to Orientivity Capital. [completed on 11 Apr-16 for FY17]
Mar-16	Share placement of 44m new shares to Starhub Ltd for consideration of S$18.04m [expect to complete in FY17]

SOURCES: CIMB, COMPANY REPORTS

What mm2 can do? What it does not want to do?

The closest listed comparable mm2 has in Singapore is Spackman Entertainment Group (SEG SP, Not Rated), while other overseas-listed peers include Orange Sky Golden Harvest (1132 HK, Not Rated), Huayi Brothers (300027 CH, Not Rated), Major Cineplexes (MAJOR TB, Hold) and CJ E&M (130960 KS, Not Rated). MM2 also competes against private production companies in Singapore and Malaysia. For example, Clover Films, Raintree Pictures Pte Ltd, and Primeworks Studios Sdn Bhd. We identified four competitors, and did a deep dive to illustrate what mm2 can do or will not do to become more successful in the industry (Figure 8).

Figure 8: Competitor Analysis

Competitor	Who does it do?	What mm2 can or will not do?
Scorpio East (KOPL SP)	a) Distributor of TV programmes, TVB serial programmes and films.	1) It will not adopt a pure distribution model as distribution income is thin and securing of distribution rights hinges on how strong a relationship it has with the production companies.
	b) Ventured into manufacturing of VCDs and CDs, as well as investing in film productions.	2) It will not actively invest in film productions as movie's success is unpredictable.
	c) Has since transformed into global real estate development and hospitality business after RTO.	
Spackman Entertainment (SEG SP)	a) Develops, produces, finances and distributes theatrical motion pictures and documentaries in Korea.	1) It will not take equity stake of more than 10% (Spackman: 30%) in film budget.
	b) Owns the Upper West café lounge (still loss-making), talent management agency (UAA Korea), and professional photography studio (Noon Pictures).	2) It will not rely on three key star producers.
		3) It can benefit from sponsorship income and government grants/ subsidies which are more prevalent in SG, MY, TW and HK.
CJ Entertainment (130960 KS)	a) South Korea's largest content provider, engaged in broadcasting, movies, games, music and performances.	1) It can broaden its content offering beyond film production into other genres of entertainment like concerts/ events.
	b) Also operates the largest cinema in South Korea, and has expanded its geographical footprint to China and Thailand.	2) It can strengthen its regional presence and penetrate further into China, where a booming media and entertainment industry exists.
Dalian Wanda Wanda Cinema (002739 CH)	a) Largest commercial real-estate developer in China which has aggressively entered into the media and entertainment industry. Also owns 187 cinemas in China (the largest cinema operator).	1) It can own more movie theatres in various countries, thereby expanding its network with international production studios.
	b) Acquired AMC Entertainment (hence became the largest movie theatre operator globally), Legendary Entertainment (Hollywood studio known for the Batman and Jurassic World), and is in the midst of developing a large movie-production facility in China.	2) It can enlarge its movie production capability through investments in other content-generating platforms.

SOURCES: CIMB, COMPANY REPORTS

**Green denotes what mm2 can do, relative to its competitors.*
**Red denotes what mm2 will not do, relative to its competitors.*

Financials

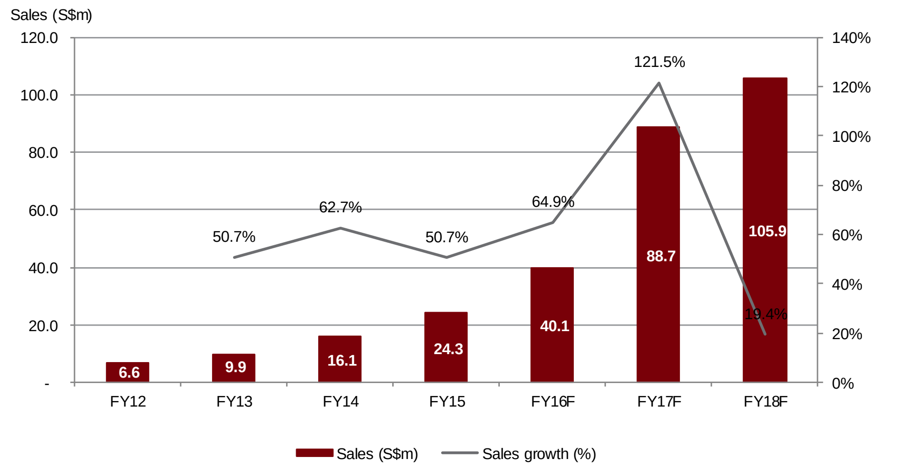
Robust topline growth largely driven by production

mm2's topline expanded at an FY12-15 CAGR of 54.6%, thanks to its increasing number of movie productions and distribution of successful movie titles the likes of "The Journey" in Malaysia. We expect such growth momentum to continue (Figure 9), spurred by a strong production pipeline (18 movies in FY16 vs. nine in FY15), and bigger production budgets as mm2 gains a stronger foothold in Taiwan, HK and China (Figure 10).

Production budgets for movies, drama serials and variety shows in the North Asian countries are typically larger, which translates to more substantial producer fees. We forecast mm2's production budget to increase from S$11.5m in FY15 to S$23m in FY16, S$44m in FY17, and S$55m in FY18. The content production and distribution business adopts a high-margin, and asset-light model, typically averaging 40-50% for local productions while foreign productions may have lower gross margins of 35-45%.

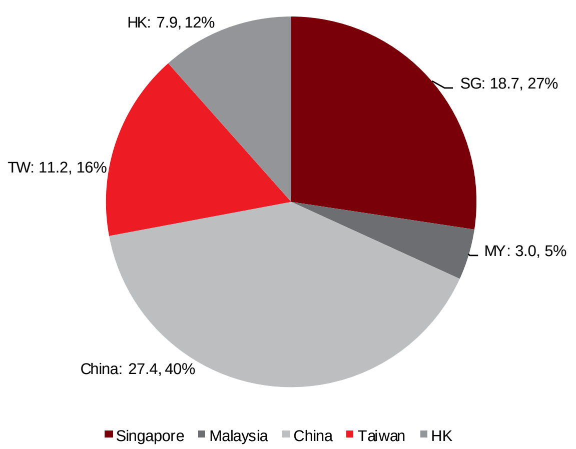
The recent collaboration between mm2 and Starhub to produce up to S$25m (US$18.5m) worth of original local content productions over a three-year period also contributes to mm2's production budget, which we conservatively estimate at S$5m per year starting FY17, leaving us room for more upside.

Figure 9: Acquisition-led growth complements strong production pipeline



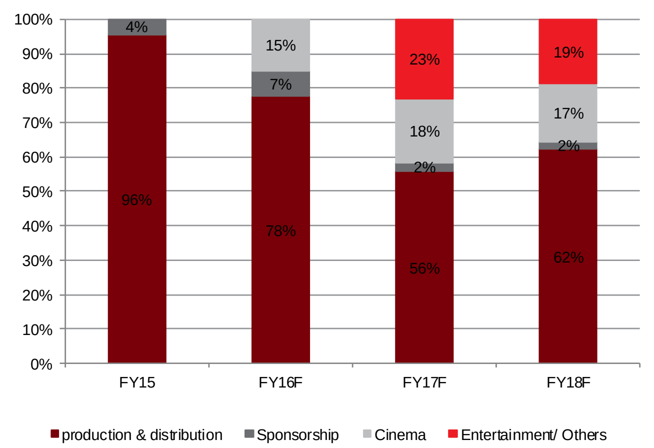
SOURCES: CIMB, COMPANY REPORTS

Figure 10: Budget split by countries (S$m, %) till end FY17



SOURCES: CIMB, COMPANY REPORTS

Figure 11: FY15-18 revenue split by segment (%)



SOURCES: CIMB, COMPANY REPORTS

Apart from production and distribution income, we expect new revenue streams (Figure 11) from recent acquisitions to come online: 1) five cinemas in Malaysia to make partial contribution in FY16 (15-20% of total FY16-18 sales), and 2) ~20% contribution from UnUsUal Group starting FY17.

a) Recurring income base from cinema

mm2 announced the acquisition of two Cathay Cineplexes in Apr 2015, and three Mega Cineplexes in Aug 2015 (Figure 12) which came with a 2-year profit target of S$0.57m, assuming S$/RM exchange rate of 2.9 (US$0.42m). Our cross-checks with Golden Village theatres in Singapore (50% owned by Orange Sky Golden Harvest, 50% owned by Village Roadshow) suggest that exhibition revenue in Singapore has been stable, and after-tax profit margin had been fairly consistent at 13-14% over FY11-15. Based on an NPAT margin of 13% and CY14 net profit of S$0.9m (US$0.7m) for Cathay Cineplexes and the profit target of S$0.6m (US$0.4m) for Mega Cineplexes, we estimate cinema sales contribution to be S$6m (US$4.4m) in FY16, S$16m (US$11.9m) in FY17, and S$17.6m (US$13.0m) in FY18.

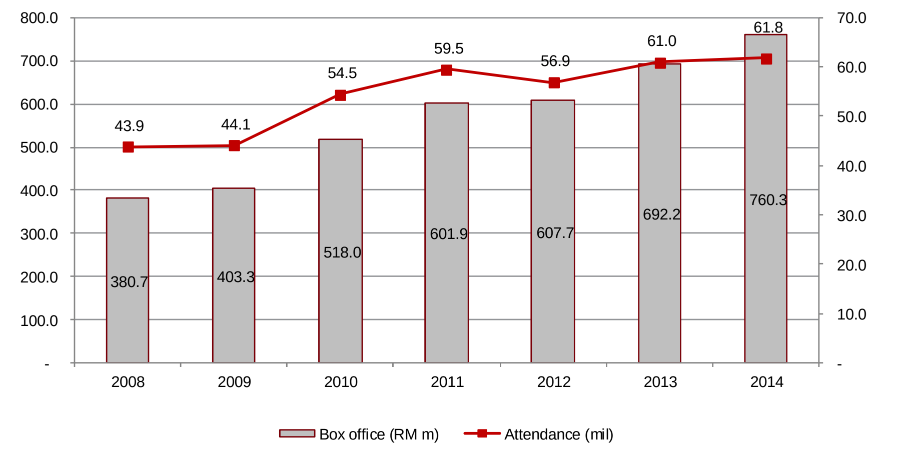
Unlike Singapore, which is a relatively mature market for the cinema business, the Malaysian cinema scene can be considered a growing market, expanding at an average of 13.9% p.a. (Figure 13). Through possible initiatives like ticket price adjustments, more F&B concessions and marketing activities, there is potential for higher attendance and sales, which underpins our 10% revenue growth assumption for FY18.

Figure 12: mm2's operating assets and newly-acquired cinema business

Cinemas	Place	Capacity
Cathay Cineplex, City Square	Johor Bahru	14 screens, 2826 seats
Cathay Cineplex, Damansara	Damansara	16 screens, 2472 seats
Mega Cineplex, Prai	Penang	6 screens, 1420 seats
Mega Cineplex, Langkawi	Langkawi	3 screens, 536 seats
Mega Cineplex, Bertam	Bertam	4 screens, 756 seats
Total		**43 screens, 8010 seats**

SOURCES: CIMB, COMPANY REPORTS

Figure 13: Malaysia's box office expanded at an average 13.9% p.a. over 2010-2014



SOURCES: CIMB, COMPANY REPORTS

b) Diversified revenue from UnUsUal Group

The 51% stake acquisition in UnUsUaL Group comes with a profit target of S$5m per year over the next five years. We understand from our channel checks that industry gross margins are around 25-30% (in line with industry peers such as Pico and Kingsmen), and net margins range 20-25%. This translates to approximately S$20m in turnover for FY17-18, which represents ~20% of mm2's total sales. Should there be a stronger project pipeline, we can expect further upside to our earnings.

Valuation

Initiating coverage at Add with a TP of S$0.70

mm2 saw sales growth of 63% in FY14 and 51% in FY15, with net profit growth at even more impressive rates of 292% in FY14 and 68% in FY15. We expect this robust growth trend to be sustained till at least FY18, with an estimated 65% revenue growth in FY16, 122% in FY17 and 19% in FY18. Even after factoring in share dilution from its share placement and all the existing convertible notes (by FY17), EPS would still grow 27%/81%/17% in FY16/17/18, in our view. The company's expanding production budget backed by a strong production pipeline and contributions from acquisitions are the main drivers for our bullish growth forecasts.

Based on our CY17 EPS forecast of 3.2 Scts and P/E multiple of 22.0x (in line with industry average), we initiate coverage on mm2 with a target price of S$0.70. We think a 22x P/E is fair given that mm2 has a forecasted CY15-18 EPS CAGR of 28.8%, which is one of the highest in industry, and CY16-17 average ROE of 23%. It is currently trading at a CY16 P/E of 21.4x, which is a 25% discount to its regional peer average of 28.4x.

Figure 14: Peer 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	0.54	0.70	180	21.4	16.9	28.8%	4.0	3.0	25.0%	20.4%	na	na
Regional														
Spackman Entertainment Group L	SEG SP	Not rated	0.13	na	37	na	na	na	na	na	na	na	na	na
Village Roadshow Ltd	VRL AU	Not rated	5.11	na	607	15.4	13.3	-10.9%	1.6	1.5	10.0%	11.7%	5.5%	5.8%
Alibaba Pictures Group Ltd	1060 HK	Not rated	1.75	na	5,691	na	na	na	na	na	na	na	na	na
IMAX China Holding Inc	1970 HK	Not rated	44.20	na	2,024	33.2	25.6	na	8.6	6.7	32.6%	30.0%	0.5%	0.7%
Media Asia Group Holdings Ltd	8075 HK	Not rated	0.61	na	168	na	na	na	na	na	na	na	na	na
China 3D Digital Entertainment	8078 HK	Not rated	0.70	na	346	na	na	na	na	na	na	na	na	na
Interactive Entertainment Chin	8081 HK	Not rated	0.14	na	73	na	na	na	na	na	na	na	na	na
Huayi Brothers Media Corp	300027 CH	Not rated	13.37	na	5,724	28.0	23.7	15.4%	3.1	2.8	10.2%	11.3%	0.8%	0.9%
YG Entertainment Inc	122870 KS	Not rated	39,950	na	516	22.1	18.6	9.1%	2.8	2.5	13.0%	13.6%	0.9%	0.9%
CJ E&M Corp	130960 KS	Not rated	73,300	na	2,436	33.4	24.6	34.5%	1.8	1.7	5.3%	6.7%	0.0%	0.3%
SHOWBOX Corp	086980 KS	Not rated	8,340	na	448	38.6	26.0	31.0%	4.0	3.5	10.8%	14.3%	0.6%	0.7%
Simple average						**28.4**	**22.0**	**15.8%**	**3.7**	**3.1**	**13.7%**	**14.6%**	**1.4%**	**1.5%**
International														
Comcast Corp	CMCSA US	Not rated	61.4	na	149,078	17.3	15.7	na	2.7	2.5	16.0%	16.1%	1.8%	2.0%
Walt Disney Co/The	DIS US	Not rated	105.5	na	172,196	18.0	16.6	0.0%	3.9	3.7	21.6%	22.3%	1.3%	1.5%
Twenty-First Century Fox Inc	FOX US	Not rated	29.5	na	55,907	15.4	13.3	na	4.0	3.9	24.5%	31.1%	1.1%	1.1%
Time Warner Inc	TWX US	Not rated	74.9	na	58,893	13.9	12.4	13.6%	2.5	2.5	17.8%	19.1%	2.2%	2.3%
Simple average						**16.2**	**14.5**	**6.8%**	**3.2**	**3.1**	**20.0%**	**22.1%**	**1.6%**	**1.7%**
Simple average (overall excluding mm2)						**22.3**	**18.2**	**11.3%**	**3.4**	**3.1**	**16.8%**	**18.4%**	**1.5%**	**1.6%**

SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

Risks

Growing online piracy

Film piracy is a global issue faced by the entertainment industry, and is particularly pronounced in some Asian countries which mm2 operates in. Technological advances have facilitated unauthorised sharing of films and related content through various channels, such as DVDs, set-top boxes, unlicensed broadcasts on free television and the Internet. The prevalence of online piracy will not only result in revenue losses and significant expenses arising from costly anti-piracy measures, but also makes it challenging for media companies to enforce their intellectual property (IP) rights.

Unexpected production delays or cost overruns

In the event of a budget overrun, producers are contractually required to fund the overrun themselves, or may seek additional financing. Substantial budget overruns could lead to delays in the completion and release of a film, which could cause box office underperformance and thus the overall financial success of the film.

No guarantee of government grants or external funding

A film's budget is typically funded by grants/subsidies, sponsorships and external investor financing. As these financing arrangements are not long term in nature and highly dependent on the producer's ability to secure funding, any failure to obtain sufficient funds may lead to production delay.

Figure 15: SWOT analysis

Strengths	Opportunities
• Leading producer in Singapore and Malaysia	• Expansion into China where films typically command bigger budgets, better margins than local productions
• Strong network of business relationships helmed by industry veterans	• Growing demand and support for domestic productions in respective countries
• Integrated film-making company with asset-light, high-margin business model	
Weaknesses	**Threats**
• No long term financing arrangement for production	• Subject to censorship laws and licence requirements in various countries
• Lack of predictability for commercial success of movies	

SOURCES: CIMB, COMPANY REPORTS

CIMB

Appendix

Management team

mm2 is helmed by industry veteran Mr Melvin Ang (Figure 16), who is both founder and CEO of the group. He is responsible for overseeing and managing productions, as well as sourcing new business opportunities for the group. After graduating from Macquarie University with an MBA in 1996, he joined the Television Corporation of Singapore (TCS) as VP of Business Development. He was subsequently employed by SPH MediaWorks Ltd as Chief Operating Officer of its Media Business Group, and then Managing Director of MediaCorp Studios. He was Media Prima Berhad's Executive Advisor before setting up mm2 Malaysia and mm2 Singapore. Ang is supported by a team of experienced executive officers (Figure 17).

In terms of headcount, mm2 has a staff count of about 50 in the Singapore office, of which approximately half are producers and the rest are in sales and marketing, distribution etc. It also has seven employees in Beijing, China, four in Hong Kong and another four in Taipei.

Figure 16: Both founder and CEO of mm2

SOURCES: COMPANY REPORTS

Figure 17: The management team behind mm2

SOURCES: COMPANY REPORTS

Figure 18: mm2 Asia's group structure and acquisitions

mm2 Asia	
mm2 Singapore	**mm2 Malaysia**
mm2 Hong Kong	mm2 Film Distribution
Vividthree Productions (51% stake): 3D animation company	
mm2 Screen Management: cinema management	
Millinillion (70% stake): digital media start-up	
Unusual Group* (51% stake): concert/ events management	

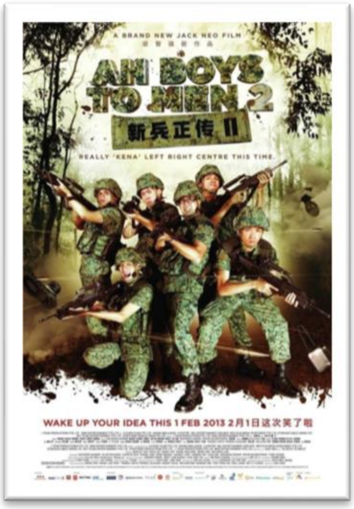
**pending completion of acquisition*

SOURCES: CIMB, COMPANY REPORTS

Track record

mm2 Asia started when CEO Melvin Ang incorporated mm2 Malaysia in 2008 to produce and distribute Chinese-language TV programmes and movies in Malaysia and Singapore. In 2009, mm2 Singapore was incorporated to tap the regional market and commenced production of its first two movies, *We Not Naughty* and *23:59,* in 2011. It completed its first co-productions in China in 2013), in Taiwan in 2014, and in Hong Kong in 2015. Some of the notable movies it has distributed include *The Journey* (2014), *Ode to My Father* (2015) which is the second-most successful film in Korean Box office history, and the *The Priest* (2016).

Figure 19: Co-production of the successful franchise of *Ah Boys to Men*



SOURCES: COMPANY REPORTS

Figure 20: Notable distribution titles include *The Journey*, the highest grossing local film in Malaysia in 2014 (RM17m)

SOURCES: COMPANY REPORTS

Figure 21: "ATM", mm2's first movie co-produced in Hong Kong (Jun 14)

SOURCES: COMPANY REPORTS

Figure 22: "Turn you around", mm2's first China co-production (2013) featuring The Voice of China stars

SOURCES: COMPANY REPORTS

Expanding collection of IP rights and film library

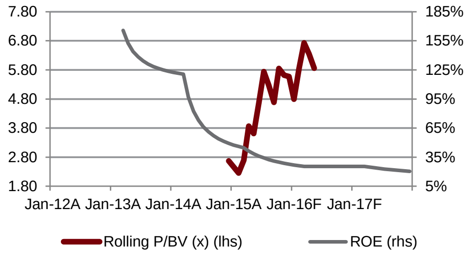
As at Jul 2015, mm2 has a library of over 30 movies. Many industry sources believe that the true value of a company may reside on the hits of its past rather than the future, based on the current trend of popular remakes or sequels of past movies, such as *Star Wars*, *Ocean's Eleven* and *Jurassic Park*. According to management, mm2 will continue to invest in new titles and leverage its existing intellectual property (IP) rights to enhance the value of its movie library.

BY THE NUMBERS

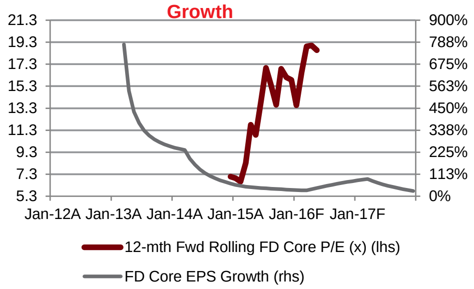
Share price info

Share px perf. (%)	1M	3M	12M
Relative	8.4	44.6	193.3
Absolute	6.9	50	173.4
Major shareholders			**% held**
Wee Chye Ang			52.2
Yeo Khee Seng			7.8
Phillip Apac Opp Fun			4.0

P/BV vs ROE



12-mth Fwd FD Core P/E vs FD Core EPS Growth



We project topline growth of 65% in FY16, 122% in FY17 and 19% in FY18, via both organic and inorganic means.

Profit & Loss

(S$m)	Mar-14A	Mar-15A	Mar-16F	Mar-17F	Mar-18F
Total Net Revenues	**16.1**	**24.3**	**40.1**	**88.7**	**105.9**
Gross Profit	**5.1**	**9.5**	**15.9**	**33.2**	**40.0**
Operating EBITDA	**7.2**	**9.9**	**14.9**	**29.9**	**38.1**
Depreciation And Amortisation	(3.4)	(3.3)	(5.4)	(7.2)	(12.4)
Operating EBIT	**3.8**	**6.6**	**9.5**	**22.7**	**25.8**
Financial Income/(Expense)	(0.0)	(0.0)	(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)	0.0	0.0	0.0	0.0
Profit Before Tax (pre-EI)	**3.7**	**6.6**	**9.5**	**22.6**	**25.7**
Exceptional Items					
Pre-tax Profit	**3.7**	**6.6**	**9.5**	**22.6**	**25.7**
Taxation	(0.7)	(1.5)	(1.7)	(4.3)	(4.9)
Exceptional Income - post-tax					
Profit After Tax	**3.0**	**5.1**	**7.8**	**18.3**	**20.8**
Minority Interests	(0.3)	0.0	(0.9)	(3.5)	(3.5)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**2.7**	**5.1**	**6.9**	**14.8**	**17.3**
Recurring Net Profit	2.7	5.1	6.9	14.8	17.3
Fully Diluted Recurring Net Profit	**2.7**	**5.1**	**6.9**	**14.8**	**17.3**

We have accounted for all share placements and assumed all convertible notes will be converted by FY17 in our model. We do not rule out further fund-raising to finance inorganic growth.

Cash Flow

(S$m)	Mar-14A	Mar-15A	Mar-16F	Mar-17F	Mar-18F
EBITDA	7.22	9.87	14.88	29.87	38.14
Cash Flow from Invt. & Assoc.	0.00	0.00	0.00	0.00	0.00
Change In Working Capital	(6.95)	(12.01)	(10.40)	(13.69)	(33.84)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	(0.04)	(0.02)	(0.05)	(0.05)	(0.05)
Tax Paid	0.00	(0.07)	(1.71)	(4.29)	(4.88)
Cashflow From Operations	**0.23**	**(2.23)**	**2.73**	**11.83**	**(0.64)**
Capex	(0.01)	(0.03)	(0.50)	(1.00)	(1.00)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	0.00	0.00	(13.81)	(24.70)	(2.17)
Other Investing Cashflow	(0.52)	(1.94)	0.00	0.00	0.00
Cash Flow From Investing	**(0.52)**	**(1.98)**	**(14.31)**	**(25.70)**	**(3.17)**
Debt Raised/(repaid)	0.48	2.92	(0.03)	(0.03)	(0.03)
Proceeds From Issue Of Shares	0.00	7.75	9.08	31.30	0.00
Shares Repurchased					
Dividends Paid					
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	**0.48**	**10.67**	**9.05**	**31.27**	**(0.03)**
Total Cash Generated	0.18	6.46	(2.53)	17.40	(3.83)
Free Cashflow To Equity	**0.18**	**(1.29)**	**(11.61)**	**(13.90)**	**(3.83)**
Free Cashflow To Firm	**(0.25)**	**(4.19)**	**(11.53)**	**(13.82)**	**(3.76)**

SOURCE: CIMB RESEARCH, COMPANY DATA

BY THE NUMBERS

Mm2 has an asset-light model, with most of its investments in recent acquisitions (five cinemas and the UnUsUal Group), and other assets in film products/rights.

Balance Sheet

(S$m)	Mar-14A	Mar-15A	Mar-16F	Mar-17F	Mar-18F
Total Cash And Equivalents	0.6	5.8	3.2	20.6	16.8
Total Debtors	11.4	20.6	25.0	43.7	45.3
Inventories					
Total Other Current Assets	1.5	4.8	9.0	15.9	33.9
Total Current Assets	**13.5**	**31.1**	**37.2**	**80.2**	**96.0**
Fixed Assets	0.1	0.1	0.1	0.1	0.1
Total Investments	0.0	0.0	13.8	38.5	40.7
Intangible Assets	3.8	6.3	8.1	13.5	24.5
Total Other Non-Current Assets	0.1	0.0	0.0	0.0	0.0
Total Non-current Assets	**4.0**	**6.5**	**22.1**	**52.1**	**65.3**
Short-term Debt	0.1	0.2	0.2	0.2	0.2
Current Portion of Long-Term Debt					
Total Creditors	11.4	15.0	19.9	43.3	51.5
Other Current Liabilities	0.2	1.1	1.1	1.1	1.1
Total Current Liabilities	**11.7**	**16.4**	**21.2**	**44.7**	**52.8**
Total Long-term Debt	1.0	0.1	0.1	0.1	0.1
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0.0	0.0	0.0	0.0	0.0
Total Non-current Liabilities	**1.0**	**0.1**	**0.1**	**0.1**	**0.1**
Total Provisions	0.9	1.9	1.9	1.9	1.9
Total Liabilities	**13.7**	**18.4**	**23.2**	**46.7**	**54.8**
Shareholders' Equity	3.6	19.2	35.2	81.3	98.6
Minority Interests	0.1	0.0	0.9	4.4	7.9
Total Equity	**3.8**	**19.2**	**36.0**	**85.6**	**106.5**

Movie production and cinemas are high-margin businesses (gross: 40-45%). We forecast the concert production business to command gross margin of 30% on average.

Key Ratios

	Mar-14A	Mar-15A	Mar-16F	Mar-17F	Mar-18F
Revenue Growth	63%	51%	65%	121%	19%
Operating EBITDA Growth	343%	37%	51%	101%	28%
Operating EBITDA Margin	44.8%	40.6%	37.2%	33.7%	36.0%
Net Cash Per Share (S$)	(0.001)	0.013	0.007	0.039	0.031
BVPS (S$)	0.01	0.05	0.08	0.16	0.19
Gross Interest Cover	83.8	365.1	190.5	453.1	515.2
Effective Tax Rate	18.0%	22.7%	18.0%	19.0%	19.0%
Net Dividend Payout Ratio	NA	NA	NA	NA	NA
Accounts Receivables Days	223.4	240.0	208.4	141.5	153.4
Inventory Days	-	-	-	-	-
Accounts Payables Days	335.9	325.8	264.1	207.9	262.4
ROIC (%)	399%	126%	61%	107%	90%
ROCE (%)	104%	48%	32%	36%	26%
Return On Average Assets	22.1%	18.5%	16.1%	19.2%	14.2%

Key growth drivers are: 1) increasing production and distribution income, led by bigger production budgets; and 2) cinema business, which will contribute ~20% of total sales.

Key Drivers

	Mar-14A	Mar-15A	Mar-16F	Mar-17F	Mar-18F
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)	37.1%	80.8%	33.7%	63.0%	30.4%
Newsppr adex rev. grth (%)	0.0%	0.0%	0.0%	166.7%	10.0%
Newspaper ASP (% Change)	N/A	N/A	N/A	N/A	N/A
Newsppr 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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Score Range:	90 - 100	80 - 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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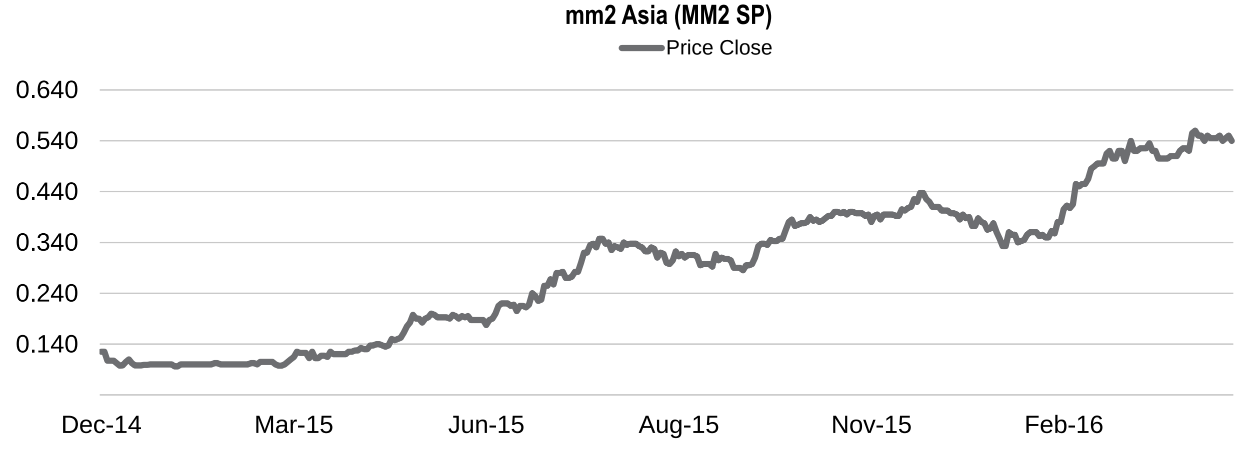
	Rating Distribution (%)	Investment Banking clients (%)
Add	59.2%	6.9%
Hold	30.9%	3.1%
Reduce	8.7%	0.5%

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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Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.