Singapore Company Guide
mm2 Asia

Version 23 | Bloomberg: MM2 SP | Reuters: MM2A.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

25 Mar 2020

FULLY VALUED (downgrade from HOLD)

Last Traded Price (24 Mar 2020): S$0.12 (**STI :** 2,362.05)
Price Target 12-mth: S$0.11 (-14% downside) (Prev S$0.30)

Analyst
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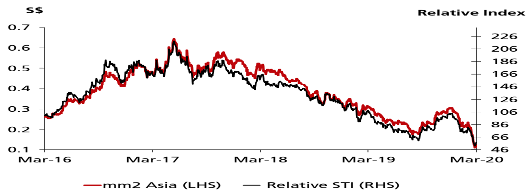
What's New

- Core Business' near-term outlook impacted; demand in China could revive soon
- Cinema affected by postponement of mega movie releases and reduction in audience attendance
- Clampdown of large-scale gathering equals no-show for UnUsUaL
- Downgrade to FULLY VALUED with lower TP of S$0.107

Price Relative



Forecasts and Valuation

FY Mar (S$m)	2019A	2020F	2021F	2022F
Revenue	266	275	197	236
EBITDA	84.5	80.1	65.0	72.6
Pre-tax Profit	39.8	37.0	22.1	29.8
Net Profit	19.1	15.2	2.33	7.93
Net Pft (Pre Ex.)	19.1	15.2	2.33	7.93
Net Pft Gth (Pre-ex) (%)	(14.5)	(20.5)	(84.7)	239.9
EPS (S cts)	1.65	1.31	0.20	0.68
EPS Pre Ex. (S cts)	1.65	1.31	0.20	0.68
EPS Gth Pre Ex (%)	(15)	(20)	(85)	240
Diluted EPS (S cts)	1.65	1.31	0.20	0.68
Net DPS (S cts)	0.0	0.0	0.0	0.0
BV Per Share (S cts)	18.4	19.7	19.9	20.6
PE (X)	7.5	9.5	61.8	18.2
PE Pre Ex. (X)	7.5	9.5	61.8	18.2
P/Cash Flow (X)	79.8	1.7	2.9	3.2
EV/EBITDA (X)	4.7	5.3	7.1	6.7
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	0.7	0.6	0.6	0.6
Net Debt/Equity (X)	0.8	0.7	0.8	0.8
ROAE (%)	9.7	6.9	1.0	3.4
Earnings Rev (%):		(26)	(90)	NEW
Consensus EPS (S cts):		1.70	2.00	2.40
Other Broker Recs:		B: 1	S: 0	H: 2

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

Impact worsened by new measures

Tighter measures implemented to contain COVID-19; cut earnings and TP, downgrade to FULLY VALUED. With the COVID-19 situation worsening especially outside China, more regions are implementing additional measures to contain the spread of the virus. The latest measure in Singapore to close entertainment venues including cinemas from March 26 to April 30 further aggravates mm2 Asia's near-term outlook. We have cut FY20F/FY21F earnings by 26%/90% as the bigger impact will be felt in FY Mar 2021F. Accordingly, our TP is reduced to S$0.107 based on sum-of-parts valuation. Our assumptions include gradual improvement in the fight against COVID-19 from 2HFY21F onwards (September 2020) and a recovery in FY22F. We also expect the group to benefit from more government support packages to help to cushion the impact.

Given that gearing remains high at 0.7x and there is no upside to our revised TP, we downgrade the stock to FULLY VALUED.

Where we differ: We are more bearish on the impact of the COVID-19 on the various business segments.

Potential catalyst: Deleveraging/restructuring to reduce gearing; more projects especially in North Asia; stake sale; assets sale.

Valuation:

Downgrade to FULLY VALUED; TP S$0.107. Our sum-of-parts target price of S$0.107 is pegged to 6x FY21F earnings for core business (in line with de-rating of peers), 2x P/EBITDA for cinema business, and current market valuations 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 (Sm/USm)	144 / 98.7
Major Shareholders (%)	
Ang Wee Chye	38.1
StarHub Ltd	9.8
Yeo Khee Seng	8.2
Free Float (%)	
3m Avg. Daily Val (US$m)	0.14
GIC Industry : Communication Services / Media & Entertainment	

DBS
Live more, Bank less

ed: JS/ sa: JC/AS, PY, CS

WHAT'S NEW

Slashed earnings on worsening COVID-19 situation

Impact of COVID-19

The COVID-19 has affected the various segments of the group. With the worsening situation especially outside China, more regions are implementing additional measures to help contain the spread of the virus. We have cut earnings for FY20F/FY21F by 26%/90%, as the bigger impact will be felt in FY Mar 2021.

Core Business' near-term outlook impacted; demand in China could revive soon. Core content production operations are affected, as countries implement movement restrictions and consumers stay at home to help contain the spread of the virus. The group is tapping on the available government support packages to reduce the impact of the COVID-19 outbreak.

Demand in China is expected to return, as the COVID-19 situation shows signs of coming under control. The risk lies with the nascent recovery in China taking a turn for the worse as Beijing tightens quarantine rules for overseas travellers as China reported a two-fold increase in new coronavirus cases. North Asia contributed c.70% of production revenue in FY19. Also, given the group's global presence in various countries including China, Hong Kong, Taiwan, Singapore and Malaysia, its productions can be easily exported across the region.
About 80% of current production has resumed operation in regions not affected by the lockdown. The group continues to build on its library of films, targeting online platforms like Netflix. Thus, FY20F could still see an increase in revenue, partly helped by projects completed earlier. Going forward, funding for projects may not be readily available given a weaker global economy.

Cinema Business – affected by the postponement of mega-movie releases and reduction in audience attendance. The cinema business is affected by the postponement of scheduled Hollywood mega-movie releases. Cinema attendance is also affected, especially with the current lockdown in Malaysia, and the latest measure in Singapore to close entertainment venues including cinemas, from March 26 to April 30. We expect cinemas to continue to adhere to the social distancing regulation even upon lifting of the temporary closure measure. Cinemas would need to have alternate seat arrangements, which implies a 50% cut in available seats.

To mitigate the reduction in audience attendance, the group has implemented numerous measures including, among others, fixed cost reductions, productivity improvements, and other initiatives to enhance operational efficiency. It could also get some rental rebates from the landlords.

UnUsUaL – no show now; affected by clampdown of large scale gathering. 39%-owned UnUsUaL (UUU) has postponed all scheduled concerts due to the clampdown of large-scale gatherings in most or all its target countries.

To mitigate the impact, UUU has implemented pay cuts of 10% to 20% for all its staff. It is also a beneficiary of government support packages. Bigger competitors like Cirque du Soleil Entertainment Group, is also badly affected, cutting 95% of its workforce recently.

In terms of cashflow, there is no immediate concern as the group has already recovered deposits for the previously scheduled concerts, which forms the bulk of the cash outflow. We expect revenue for FY20F to still register a 20% growth, helped by the 48% increase in 9M FY20F revenue.

Cut FY20F/21F earnings by 26%/90%. We have cut earnings for FY20F/FY21F by 26%/90% to factor in the worsening impact from COVID-19 especially in regions outside China. Our assumptions include gradual improvement in the fight against COVID-19 from 2HFY21F onwards (September 2020) and a recovery in FY22F. We also expect the group to benefit from more government support packages to help to cushion the impact.

Operating cashflow should still be positive as the collection of trade receivables has so far not been significantly affected. However, given the expected prolonged negative impact from the COVID-19, we would not rule out the possibility of weakening cashflows. In terms of financing, the group has refinanced its loan facility with a 5-year secured loan of S$115m entered last year. Close to S$100m debt is due in 2021.

Downgrade to FULLY VALUED with lower TP of S$0.107, based on sum of parts valuation. Catalysts for the stock include the deleveraging and/or restructuring of the group, including stake sale, divestment of assets, to reduce gearing.

Revision to revenue growth (%)

	FY20F		FY21F		FY22F
	Prev	New	Prev	New	New
Core production	+20	+10	+20	-20	+20
Cinema	+3	-10	+3	-30	+20
UUU	+25	+20	+25	-40	+20
Vividthree	+20	-30	+20	-30	+20

Source: DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

Synergistic acquisitions

mm2's investments over the years has helped the group to maintain its competitive advantage, and to build synergies across the entire value chain. Listed entities Vividthree (VV3), a virtual reality, visual effects production studio, and 39.2% owned UnUsUaL Ltd (UUU), a market leader in large-scale live events and concerts, and other OTT platforms, helped the group to expand its product offerings.

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.

Project pipeline

For the core production business, the group has about 80 projects in the pipeline for the next 18 months. UUU is inclined towards recording full-year growth with a robust line-up of concerts/theme shows, including "Walking with Dinosaurs" and "Apollo" family shows. VV3 sees further opportunities in adapting the Train to Busan (TTB) Intellectual Property rights for different show concepts/immersive attractions. It has also entered into a MOU to develop the Doraemon Experience (DE). However, with the current situation, most projects would be shelved for now.

Expansion in North Asia

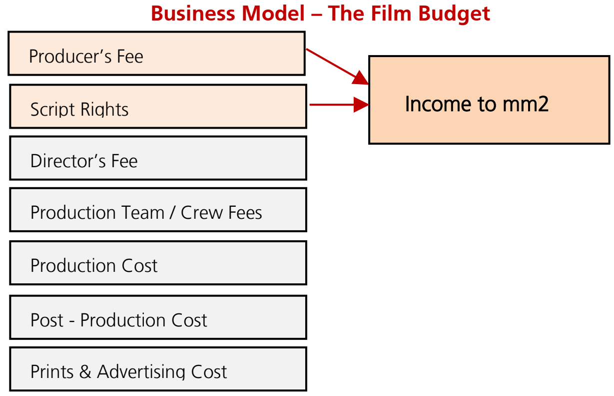
North Asia contributed 70% of production revenue in FY19, up from 36% in FY16, 56% in FY17 and 57% in FY18. We expect North Asia to remain a key contributor. mm2 has a unique presence in all the Chinese markets, including Singapore, Malaysia, Hong Kong, Taiwan, and China. This presents ample cross-border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

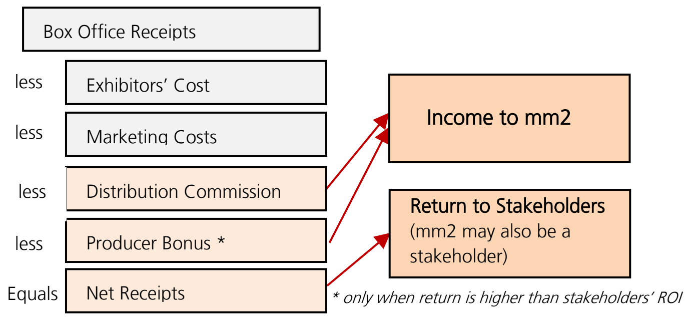
Content production partner to Western and Chinese giant

mm2's strong network of content makers is valuable to players penetrating East and Southeast Asia.

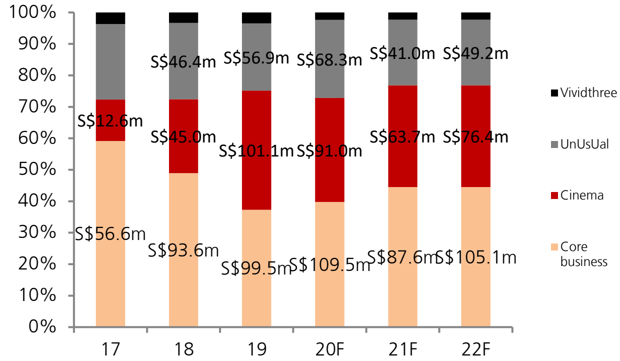
Business Model – The Film Budget



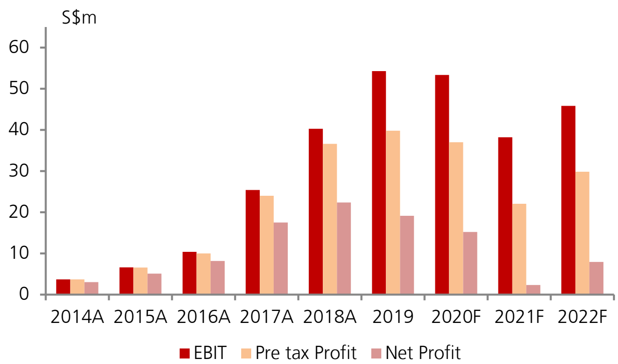
Business Model – Gross Receipts (Box Office)



Revenue Breakdown by Segment



Profitability Trend



Source: Company, DBS Bank

Balance Sheet:

Net gearing position. 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:

Deleveraging effort. 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 has affected the bottomline. Going forward, mm2 would have to deleverage in order to boost earnings.

Options include stake sale and/or divestment of assets. A spinoff of the cinema business could also be an option. Alternatively, the group could explore the option of divesting its 39% holding in UnUsUaL and 42% stake in Vividthree or bring in strategic investors.

COVID-19 impact. The COVID-19 outbreak has affected all business segments. Cinema business is affected by the postponement of mega-movie releases and reduction in audience attendance. No shows for UnUsUaL now, due to clampdown of large scale gathering. Core production projects are also not running at full scale.

Production budget. As mm2 adopts a fee-based model, its revenue is directly correlated to the size of the production budget. An increase in contribution from North Asia, where the production budget is much bigger, could help to propel the group higher.

Key Risks:

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

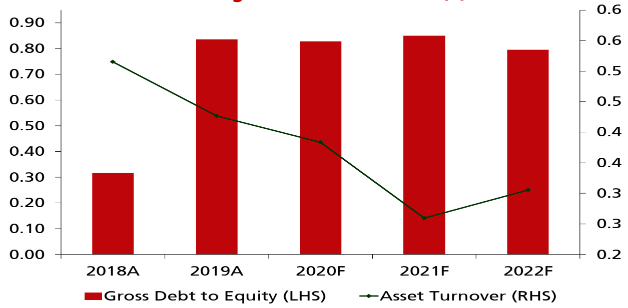
Unavailability of good scripts. Lack of good scripts for production may lead to less support from stakeholders.

Inability to predict the commercial success of movies produced. The commercial success of its productions is primarily determined by inherently unpredictable audience reactions.

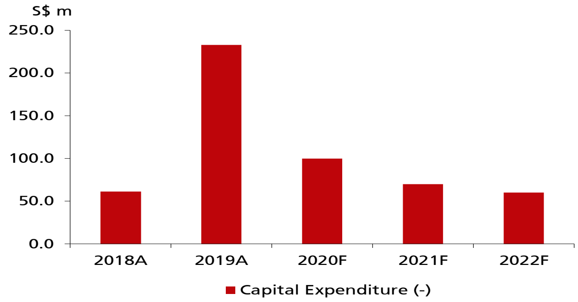
Company Background

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.

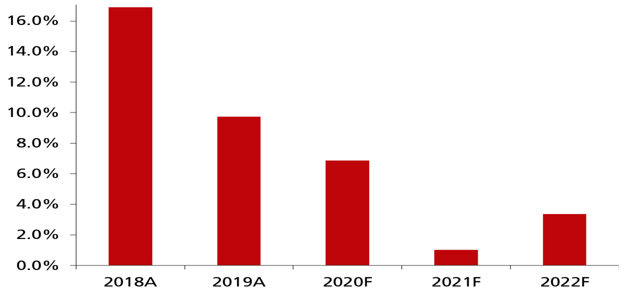
Leverage & Asset Turnover (x)



Capital Expenditure



ROE (%)



Forward PE Band (x)

PB Band (x)

Source: Company, DBS Bank

Segmental Breakdown

FY Mar	2018A	2019A	2020F	2021F	2022F
Revenues (S$m)					
Production & Distribution	93.6	99.5	109	87.6	105
Cinema Operation	45.0	101	91.0	63.7	76.4
Event Production &	46.4	56.9	68.3	41.0	49.2
Post-Production	6.32	9.29	6.50	4.55	5.46
Others	0.62	(0.6)	0.0	0.0	0.0
Total	192	266	275	197	236
Gross profit (S$m)					
Production & Distribution	40.3	44.1	47.1	37.7	45.2
Cinema Operation	28.2	51.4	50.0	35.0	42.0
Event Production &	17.9	23.0	27.5	16.5	19.8
Post-Production	3.86	6.48	4.23	2.96	3.55
Others	0.19	0.19	0.19	0.19	0.19
Total	90.5	125	129	92.4	111
Gross profit Margins (%)					
Production & Distribution	43.1	44.3	43.0	43.0	43.0
Cinema Operation	62.6	50.9	55.0	55.0	55.0
Event Production &	38.5	40.3	40.3	40.3	40.3
Post-Production	61.2	69.8	65.0	65.0	65.0
Others	N/A	N/A	N/A	N/A	N/A
Total	47.1	47.0	46.9	46.9	46.9

Full contribution from Lotus and Cathay

Income Statement (S$m)

FY Mar	2018A	2019A	2020F	2021F	2022F
Revenue	192	266	275	197	236
Cost of Goods Sold	(105)	(142)	(146)	(104)	(125)
Gross Profit	87.3	124	129	92.4	111
Other Opng (Exp)/Inc	(45.9)	(67.0)	(75.7)	(54.1)	(64.9)
Operating Profit	41.4	57.2	53.4	38.2	45.8
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.11	0.49	0.0	0.0	0.0
Net Interest (Exp)/Inc	(4.9)	(17.9)	(16.4)	(16.2)	(16.0)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	36.6	39.8	37.0	22.1	29.8
Tax	(7.1)	(11.1)	(10.3)	(6.2)	(8.3)
Minority Interest	(7.1)	(9.6)	(11.5)	(13.6)	(13.6)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	22.4	19.1	15.2	2.33	7.93
Net Profit before Except.	22.4	19.1	15.2	2.33	7.93
EBITDA	57.8	84.5	80.1	65.0	72.6
Growth					
Revenue Gth (%)	100.6	38.6	3.4	(28.5)	20.0
EBITDA Gth (%)	43.6	46.1	(5.1)	(18.9)	11.7
Opg Profit Gth (%)	62.9	38.1	(6.7)	(28.4)	19.9
Net Profit Gth (Pre-ex) (%)	27.8	(14.5)	(20.5)	(84.7)	239.9
Margins & Ratio					
Gross Margins (%)	45.5	46.7	46.9	46.9	46.9
Opg Profit Margin (%)	21.6	21.5	19.4	19.4	19.4
Net Profit Margin (%)	11.7	7.2	5.5	1.2	3.4
ROAE (%)	16.9	9.7	6.9	1.0	3.4
ROA (%)	6.0	3.1	2.1	0.3	1.0
ROCE (%)	8.7	0.3	(0.2)	(2.4)	(1.3)
Div Payout Ratio (%)	0.0	0.0	0.0	0.0	0.0
Net Interest Cover (x)	8.4	3.2	3.3	2.4	2.9

Mainly to finance acquisition of Cathay cinema chain in Singapore

Source: Company, DBS Bank

Quarterly / Interim Income Statement (S$m)

FY Mar	2Q2019	3Q2019	4Q2019	1Q2020	2Q2020
Revenue	64.9	74.1	78.2	49.0	68.4
Cost of Goods Sold	(37.3)	(44.3)	(44.3)	(18.8)	(40.4)
Gross Profit	**27.6**	**29.8**	**33.9**	**30.2**	**28.0**
Other Oper. (Exp)/Inc	(13.4)	(18.8)	(18.9)	(15.4)	(15.4)
Operating Profit	**14.3**	**11.0**	**15.0**	**14.8**	**12.6**
Other Non Opg (Exp)/Inc	0.29	0.47	1.81	0.09	0.21
Associates & JV Inc	0.0	0.0	0.04	0.0	0.01
Net Interest (Exp)/Inc	(5.5)	(4.3)	(4.9)	(4.7)	(5.5)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	**9.00**	**7.16**	**12.0**	**10.2**	**7.27**
Tax	(3.5)	(2.5)	(2.6)	(2.7)	(2.0)
Minority Interest	(1.7)	(2.7)	(3.2)	(0.5)	(3.1)
Net Profit	**3.74**	**1.96**	**6.20**	**6.95**	**2.23**
Net profit bef Except.	3.74	1.96	6.20	6.95	2.23
EBITDA	17.7	17.6	25.0	25.0	25.2
Growth					
Revenue Gth (%)	32.5	14.1	5.6	(37.3)	39.5
EBITDA Gth (%)	(2.2)	(0.8)	42.1	(0.3)	1.0
Opg Profit Gth (%)	(1.8)	(23.0)	36.8	(1.5)	(15.0)
Net Profit Gth (Pre-ex) (%)	(48.4)	(47.5)	216.2	12.2	(68.0)
Margins					
Gross Margins (%)	42.5	40.2	43.3	61.6	40.9
Opg Profit Margins (%)	22.0	14.8	19.2	30.2	18.4
Net Profit Margins (%)	5.8	2.6	7.9	14.2	3.3

Balance Sheet (S$m)

FY Mar	2018A	2019A	2020F	2021F	2022F
Net Fixed Assets	42.1	36.4	127	187	237
Invts in Associates & JVs	2.63	2.76	0.0	0.0	0.0
Other LT Assets	301	339	325	308	291
Cash & ST Invts	93.2	18.6	25.8	25.1	10.1
Inventory	21.1	22.2	37.7	27.0	32.4
Debtors	108	181	189	135	162
Other Current Assets	14.1	66.2	66.2	66.2	66.2
Total Assets	**582**	**666**	**770**	**748**	**798**
ST Debt	4.97	36.8	56.8	56.8	56.8
Creditor	273	131	189	135	162
Other Current Liab	13.0	27.4	27.4	23.2	25.4
LT Debt	61.0	186	186	206	206
Other LT Liabilities	21.8	17.4	17.4	17.4	17.4
Shareholder's Equity	179	214	229	232	240
Minority Interests	29.9	52.5	63.9	77.5	91.1
Total Cap. & Liab.	**582**	**666**	**770**	**748**	**798**
Non-Cash Wkg. Capital	(143)	110	76.5	69.9	73.1
Net Cash/(Debt)	27.2	(204)	(217)	(238)	(253)
Debtors Turn (avg days)	146.7	197.9	244.8	299.8	229.2
Creditors Turn (avg days)	663.0	640.4	488.7	759.4	548.7
Inventory Turn (avg days)	91.5	68.6	91.6	151.9	109.7
Asset Turnover (x)	0.5	0.4	0.4	0.3	0.3
Current Ratio (x)	0.8	1.5	1.2	1.2	1.1
Quick Ratio (x)	0.7	1.0	0.8	0.7	0.7
Net Debt/Equity (X)	CASH	0.8	0.7	0.8	0.8
Net Debt/Equity ex MI (X)	CASH	1.0	0.9	1.0	1.1
Capex to Debt (%)	93.0	104.4	41.2	26.6	22.8
Z-Score (X)	1.2	1.5	1.3	1.3	1.3

Mainly to finance acquisition of Cathay cinema chain in Singapore

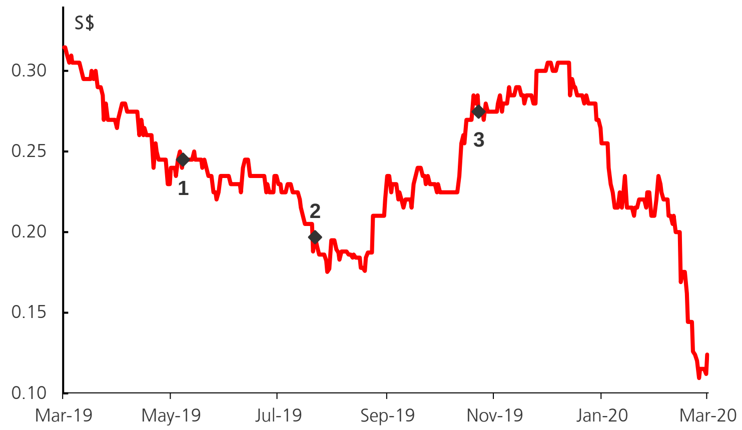
Source: Company, DBS Bank

Cash Flow Statement (S$m)

FY Mar	2018A	2019A	2020F	2021F	2022F
Pre-Tax Profit	36.6	39.8	37.0	22.1	29.8
Dep. & Amort.	16.3	26.7	26.7	26.7	26.7
Tax Paid	(5.2)	(9.8)	(10.3)	(10.3)	(6.2)
Assoc. & JV Inc/(loss)	(0.1)	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(57.3)	(55.0)	33.8	10.7	(5.4)
Other Operating CF	0.0	0.0	0.0	0.0	0.0
Net Operating CF	**(9.7)**	**1.81**	**87.3**	**49.3**	**45.0**
Capital Exp.(net)	(61.3)	(233)	(100.0)	(70.0)	(60.0)
Other Invts.(net)	0.0	25.8	0.0	0.0	0.0
Invts in Assoc. & JV	(2.5)	(0.5)	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(9.8)	(24.0)	0.0	0.0	0.0
Net Investing CF	**(73.7)**	**(232)**	**(100.0)**	**(70.0)**	**(60.0)**
Div Paid	0.0	0.0	0.0	0.0	0.0
Chg in Gross Debt	60.2	150	20.0	20.0	0.0
Capital Issues	81.6	12.0	0.0	0.0	0.0
Other Financing CF	(1.2)	(15.8)	0.0	0.0	0.0
Net Financing CF	**141**	**146**	**20.0**	**20.0**	**0.0**
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	57.2	(83.9)	7.27	(0.7)	(15.0)
Opg CFPS (S cts)	4.09	4.88	4.60	3.31	4.34
Free CFPS (S cts)	(6.1)	(19.9)	(1.1)	(1.8)	(1.3)

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	31 May 19	0.25	0.34	BUY
2:	14 Aug 19	0.20	0.29	BUY
3:	15 Nov 19	0.28	0.30	HOLD

***Note** : Share price and Target price are adjusted for corporate actions.*

Source: DBS Bank

Analyst: Lee Keng LING

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BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
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FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)
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**Share price appreciation + dividends*

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