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MM2 Asia MM2A.SI MM2 SP

EQUITY: CONSUMER RELATED

Emerging force across content value chain

Initiate at Buy and TP of SGD0.68

Global Markets Research

15 March 2018

Rating Starts at	**Buy**
Target Price Starts at	SGD 0.68
Closing price 12 March 2018	SGD 0.50
Potential upside	+36%

Action: Initiate at Buy and SOTP-derived TP of SGD0.68

We initiate coverage of MM2 Asia Ltd (MM2) with a Buy rating and SOTP-derived TP of SGD0.68, as we remain optimistic over its growth prospects. MM2 is one of Asia's leading content producers and entertainment groups, with four key businesses in content production, post-production, cinema operations and events, concerts production and promotion. We believe the company's growth plans are on track, as we see three catalysts to look forward to in FY19F:

- The announcement of a multi-currency MTN facility (link) of USD300mn could alleviate any funding concerns over the acquisition of Cathay Cineplexes. In fact, we estimate that only SGD166mn (less than 50% of the MTN) would be needed for the acquisition, should MM2 utilise the facility.
- Immediate EPS accretion of c.15% to MM2's FY19F PATMI after the acquisition of Cathay Cineplexes.
- Potential listing of its post-production arm, VividThree (VV3), by 3Q18, highlighting likely value-unlocking for shareholders. We also expect VV3 to contribute ~SGD2-3mn/SGD4-5mn in NPAT in FY18F/FY19F, backed by its foray into virtual reality (VR). VV3 is likely to collaborate with top-notch IPs such as the announced "Train to Busan" (link).

Apart from these three catalysts, MM2's larger and growing network across the content-creation value chain could enable the company to reap synergistic benefits, resulting in potential better margins across the group.

MM2 trading at 9-25% discount to peers, which we believe is unjustified

MM2 trades at FY19F P/E of 16.5x, implying a 9-25% discount to peers trading at 18-22x. While MM2 could be smaller vs. peers, we believe this should be mitigated through its better integrated platform across the content value chain. Our SOTP-derived TP of SGD0.68 (implying 36% upside) suggests MM2 would be trading at FY19F P/E of 22x, in line with peers.

Year-end 31 Mar	FY17		FY18F		FY19F		FY20F
Currency (SGD)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	96		167		261		296
Reported net profit (mn)	19		26		35		40
Normalised net profit (mn)	19		26		35		40
FD normalised EPS	1.85c		2.22c		3.03c		3.44c
FD norm. EPS growth (%)	90.3		20.0		36.4		13.4
FD normalised P/E (x)	27.0	N/A	22.5	N/A	16.5	N/A	14.6
EV/EBITDA (x)	13.9	N/A	11.3	N/A	10.5	N/A	9.4
Price/book (x)	5.9	N/A	3.3	N/A	2.7	N/A	2.3
Dividend yield (%)	na	N/A	na	N/A	na	N/A	na
ROE (%)	30.6		19.6		18.1		17.2
Net debt/equity (%)	net cash		3.1		109.7		97.1

Source: Company data, Nomura estimates

Anchor themes

Content is king, especially in the current digital age where consumption patterns are shifting drastically. We believe that MM2 is well positioned to capture these shifts, by leveraging on its strong content development capabilities and multi-platform business. We are confident & sanguine on MM2's long term growth prospect

Nomura vs consensus

Our FY19F Revenue/EBITDA/PATMI estimates are largely in line with consensus

Research analysts

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Key company data: See next page for company data and detailed price/index chart.

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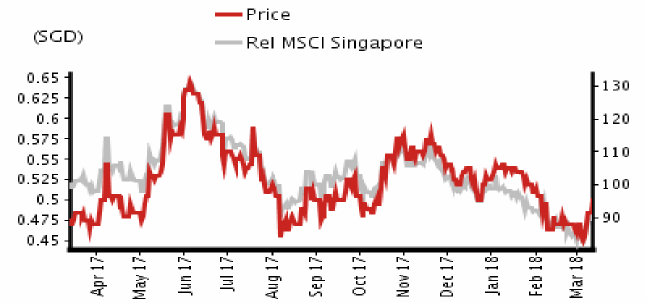
Key data on MM2 Asia

Relative performance chart



Source: Thomson Reuters, Nomura research

Notes:

Performance

(%)	1M	3M	12M		
Absolute (SGD)	7.5	-6.5	3.1	M cap (USDmn)	442.3
Absolute (USD)	8.5	-4.0	10.7	Free float (%)	43.9
Rel to MSCI Singapore	2.9	-9.1	-13.5	3-mth ADT (USDmn)	0.7

Income statement (SGDmn)

Year-end 31 Mar	FY16	FY17	FY18F	FY19F	FY20F
Revenue	38	96	167	261	296
Cost of goods sold	-20	-50	-89	-136	-154
Gross profit	18	45	78	125	142
SG&A	-8	-19	-39	-63	-74
Employee share expense					
Operating profit	10	26	39	62	68
EBITDA	19	41	53	79	91
Depreciation	-1	-2	-3	-4	-5
Amortisation	-8	-14	-11	-14	-17
EBIT	10	26	39	62	68
Net interest expense	0	-1	-1	-9	-9
Associates & JCEs	0	0	0	0	0
Other income	0	0	1	1	1
Earnings before tax	10	26	39	54	61
Income tax	-1	-4	-7	-10	-11
Net profit after tax	9	22	32	44	50
Minority interests	-1	-3	-6	-9	-10
Other items					
Preferred dividends					
Normalised NPAT	8	19	26	35	40
Extraordinary items					
Reported NPAT	8	19	26	35	40
Dividends					
Transfer to reserves	8	19	26	35	40
Valuations and ratios					
Reported P/E (x)	51.4	27.0	22.5	16.5	14.6
Normalised P/E (x)	51.4	27.0	22.5	16.5	14.6
FD normalised P/E (x)	51.4	27.0	22.5	16.5	14.6
Dividend yield (%)	na	na	na	na	na
Price/cashflow (x)	na	53.8	na	61.0	58.3
Price/book (x)	11.6	5.9	3.3	2.7	2.3
EV/EBITDA (x)	30.4	13.9	11.3	10.5	9.4
EV/EBIT (x)	57.5	22.1	15.3	13.6	12.6
Gross margin (%)	48.0	47.3	46.7	47.9	48.1
EBITDA margin (%)	49.8	43.2	31.8	30.5	30.8
EBIT margin (%)	26.3	27.2	23.6	23.6	23.2
Net margin (%)	21.3	19.6	15.5	13.5	13.5
Effective tax rate (%)	11.0	14.9	18.0	18.0	18.0
Dividend payout (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	29.5	30.6	19.6	18.1	17.2
ROA (pretax %)	15.7	25.9	18.5	13.8	10.6
Growth (%)					
Revenue	57.9	149.7	74.2	56.4	13.3
EBITDA	95.7	117.0	28.2	49.7	14.5
Normalised EPS	60.8	90.3	20.0	36.4	13.4
Normalised FDEPS	60.8	90.3	20.0	36.4	13.4

Source: Company data, Nomura estimates

Cashflow statement (SGDmn)

Year-end 31 Mar	FY16	FY17	FY18F	FY19F	FY20F
EBITDA	19	41	53	79	91
Change in working capital	5	1	1	-3	-1
Other operating cashflow	-28	-33	-55	-67	-80
Cashflow from operations	-4	9	-1	10	10
Capital expenditure	-1	-10	-10	-10	-10
Free cashflow	-5	-1	-11	0	0
Reduction in investments					
Net acquisitions					
Dec in other LT assets					
Inc in other LT liabilities					
Adjustments	-8	-16	-72	-218	-3
CF after investing acts	-13	-17	-83	-218	-3
Cash dividends	0	0	0	0	0
Equity issue	6	18	65	0	0
Debt issue	0	10	20	170	0
Convertible debt issue	5	11	49	0	0
Others	0	-1	-1	-9	-9
CF from financial acts	12	38	132	161	-9
Net cashflow	-1	21	49	-57	-12
Beginning cash	6	5	26	75	18
Ending cash	5	26	75	18	5
Ending net debt	-2	-14	5	233	245

Balance sheet (SGDmn)

As at 31 Mar	FY16	FY17	FY18F	FY19F	FY20F
Cash & equivalents	5	26	75	18	5
Marketable securities					
Accounts receivable	24	46	81	126	143
Inventories	0	1	1	2	2
Other current assets	10	23	63	110	166
Total current assets	39	96	219	255	316
LT investments					
Fixed assets	4	11	18	24	29
Goodwill	14	44	116	334	338
Other intangible assets	11	9	8	6	3
Other LT assets	1	2	2	2	2
Total assets	69	163	364	621	687
Short-term debt	0	6	6	6	6
Accounts payable	24	47	82	126	142
Other current liabilities	4	9	9	9	9
Total current liabilities	28	62	98	141	157
Long-term debt	3	5	74	244	244
Convertible debt					
Other LT liabilities	1	0	0	0	0
Total liabilities	32	68	172	386	402
Minority interest	1	8	14	23	33
Preferred stock					
Common stock	57	88	153	153	153
Retained earnings	17	36	61	97	137
Proposed dividends					
Other equity and reserves	-38	-37	-37	-37	-37
Total shareholders' equity	36	87	177	212	252
Total equity & liabilities	69	163	364	621	687

	FY16	FY17	FY18F	FY19F	FY20F
Liquidity (x)					
Current ratio	1.39	1.55	2.25	1.81	2.01
Interest cover	26.8	44.4	32.0	6.9	7.6
Leverage					
Net debt/EBITDA (x)	net cash	net cash	0.10	2.93	2.69
Net debt/equity (%)	net cash	net cash	3.1	109.7	97.1
Per share					
Reported EPS (SGD)	0.97c	1.85c	2.22c	3.03c	3.44c
Norm EPS (SGD)	0.97c	1.85c	2.22c	3.03c	3.44c
FD norm EPS (SGD)	0.97c	1.85c	2.22c	3.03c	3.44c
BVPS (SGD)	0.04	0.09	0.15	0.18	0.22
DPS (SGD)	0.00	0.00	0.00	0.00	0.00
Activity (days)					
Days receivable	176.4	134.8	138.8	144.6	166.5
Days inventory	4.7	3.3	3.7	3.9	4.5
Days payable	337.3	254.7	264.3	279.0	318.9
Cash cycle	-156.2	-116.7	-121.8	-130.5	-147.9

Source: Company data, Nomura estimates

Three key catalysts to look out for…

MTN facility announced – likely to resolve funding concerns on the Cathay Cineplex acquisition

MM2's acquisition of Cathay Cineplex, for SGD230mn, was announced in November 2017, generated a sense of market scepticism over its execution (likely due to the decision not to acquire GV in July 2017). Alongside that, there were concerns over funding and the potential accretion contribution of Cathay Cineplex towards MM2's PATMI, bringing about a share price overhang to what we perceive as an acquisition of a quality asset. MM2 has recently reported a new multi-currency MTN facility of USD300mn, which we believe should alleviate the above concerns (link).

The sequence of events leading up to the share price decline was as follows:

- May 2017 to June 2017 – Rumours surface of the acquisition of GV from Village Roadshow at c.SGD184mn for a 50% stake, and the transaction is subsequently announced. Share price reacts positively.
- June 2017 to July 2017 – Series of capital-raising exercises announced to fund the GV acquisition. Rumours surface of a failed acquisition, which are subsequently confirmed. Share price reacts negatively.
- November 2017 – The acquisition of Cathay Cineplex is announced, without adequate details on funding. Share price reacts negatively.

Given that the payment for the Cathay acquisition would have to be made by 2 May 2018, we believe the details of its drawdown on the newly established MTN should be finalised soon. As per our current estimate, we believe the MTN terms are likely to involve a cost of debt of c.4-4.5% and tenure of no longer than three years.

Fig. 1: Historical share price narrative of MM2 Asia – share price likely to be positive once funding is announced

Source: Bloomberg, company data, Nomura research

Cathay Cineplex acquisition to result in c.15% accretion to MM2's FY19F PATMI

Based on our estimates, with the corresponding base case capital structure assumptions, we believe this acquisition is likely to be accretive at c.15%. We run a further sensitivity analysis, varying the cost of debt and Cathay Cineplexes' profitability, and we remain sanguine that this acquisition is likely to be accretive by 7-23.6% to FY19F's PATMI. This should dispel any concerns surrounding valuations, acquisition multiple and its corresponding dilution impact on EPS, if any. At the same time, the current accretion impact has been factored into our forecast.

Fig. 2: Acquisition analysis – Cathay Cineplex likely to provide c.15% accretion to PATMI, based on funding structure below

Pre-acquisition	Acquirer	Target	Remarks
	MM2 ex Cathay	Cathay	
PATMI (SGD mn) FY19F	30.5	11.0	Expecting new screens at Parkway Parade, as well as margins expansion from synergistic benefits
No. of outstanding shares (mn)	1163		
Capital funding assumptions			
Acquisition cost (SGD mn)	230.0		Based on SGX's announcement
Equity raised (SGD mn)	0		
Cash paid (SGD mn)	15.0		
Debt raised (SGD mn)	215.0		
Cost of debt - blended (%)	3.5		Based on c.4% on SGD166mn, 2% on CB of SGD49mn
Cost of CB (%)	2.0		Cost of Convertible Securities at 2% as announced
Cost of borrowings (%)	4.0		Cost of borrowing, assumed at 4%
Post-acquisition			
PATMI before interest (SGD mn)	41.5		
Additional interest expense (SGD mn)	7.6		
Interest tax shield (SGD mn)	1.3		
New PATMI (SGD mn)	35.2		
Post-acq no. of outstanding shares	1163		
New EPS (cents)	3.03		
Old EPS (cents)	2.62		
Accretion %	**15.3**		

Source: Company data, Nomura estimates

Fig. 3: Sensitivity analysis on Cathay Cineplex accretion to MM2 Asia

Sensitivity Analysis (Cathay earnings, interest cost on extra borrowings)								
		Cathay Cineplexes Singapore's FY19F earnings (SGD mn)						
		9.5	**10**	**10.5**	**11**	**11.5**	**12**	**12.5**
Cost of borrowing on the remaining SGD166mn (%)	**3.25**	13.8	15.4	17.1	18.7	20.4	22.0	23.6
	3.50	12.7	14.3	15.9	17.6	19.2	20.9	22.5
	3.75	11.5	13.2	14.8	16.5	18.1	19.7	21.4
	4.00	10.4	12.1	13.7	15.3	17.0	18.6	20.2
	4.25	9.3	10.9	12.6	14.2	15.8	17.5	19.1
	4.50	8.2	9.8	11.4	13.1	14.7	16.3	18.0
	4.75	7.0	8.7	10.3	11.9	13.6	15.2	16.9

Source: Company data, Nomura estimates

IPO of Vividthree (VV3) a catalyst in sight – likely boosted by new "Train to Busan" IP and likely larger contribution from VR.

We expect VV3 to contribute around SGD2-3mn in NPAT in FY18F and around SGD4-5mn in FY19/20F, post VV3's proposed listing on the SGX-ST Catalist board, due CY3Q18. While VV3's contribution to MM2 is small now (accounting for c.4% of the group's revenue in FY17), we think this is highly positive as the development of VR, most noticeably, on the new "Train to Busan" IP, is likely to result in various monetization opportunities, resulting in better contributions to MM2 and its shareholders.

Valuations

We rate MM2 a Buy, with a SOTP-derived TP of SGD0.68

Fig. 4: MM2's SOTP-derived fair value of SGD0.68

Year ended 31 March (SGD mn)					
Sum-of-the-parts valuation					
	Stake	**Multiple**	**Valuation (SGD mn)**	**MM2's portion (SGD mn)**	**Remarks**
Core Production & Distribution	100%	20	389.1	389.1	10% below peers
Post-Production (VividThree)	51%	20	80.0	40.8	10% below peers
Cinema Operations	100%	22	142.9	142.9	In-line with peers
Concert Promotions (UnUsUal)	42%	na	509.4	213.5	As per valuation as of 12 March' 18
Total				**786.3**	
Shares outstanding (mn)	1162.8				
Implied Fair Value per share	**SGD 0.68**				

Source: Bloomberg, Company data, Nomura estimates

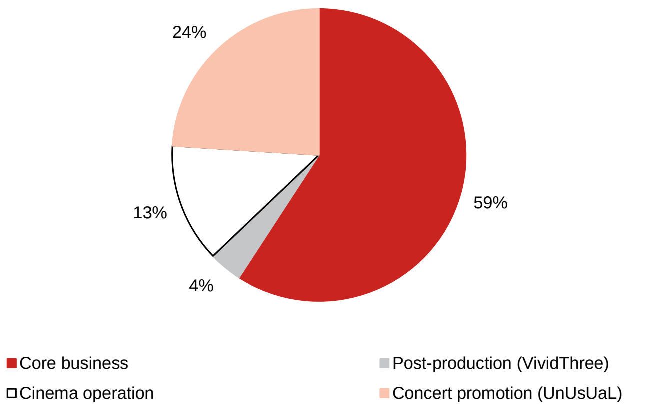
Our fair value estimate reflects a SOTP-derived TP of SGD0.68, premised on the following:

- P/E multiple of 20x to 22x on a calendarized, rolling 12M basis, largely in line or 10% below peers.
- FY19F NPAT estimate of SGD44.2mn, from four different business units and minority interest of SGD8.9mn, due mainly to the minority stake from VV3 and UnUsUaL.
- Market value of UnUsUaL as of 12 March 2018.

This implies a FY19F P/E of 22.3x on our FY19F PATMI estimate of SGD35.2mn. As a cross-check, our implied target price is slightly below or in line with the regional film exhibitors or regional entertainment players on a rolling 12M basis, due to calendarization (MM2's fiscal year ends in March, compared with peers whose year-end is December). In our opinion, this is consistent as we believe MM2 has the right assets to be an integrated content producer and entertainment player. At the same time, due to MM2's smaller size relative to peers , we think MM2 should trade at a slight discount relative to peers. Regional peers are trading at a FY19F calendarized, rolling 12M P/E or 22x to 24x. No dividend policy is in place at the moment, as MM2 is in its growth phase.

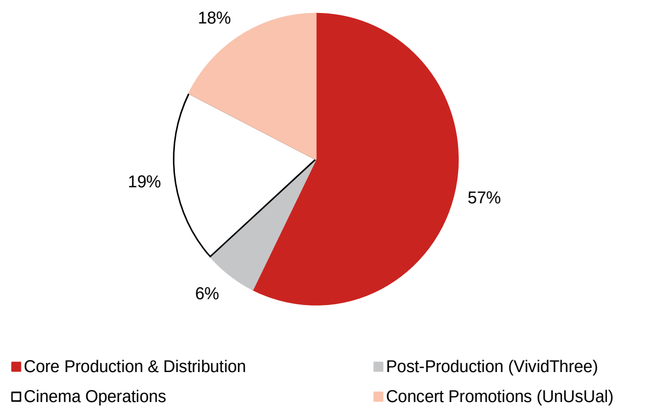
Our fair value forecast has incorporated the three aforementioned catalysts and suggest that the main contribution is likely to stem from MM2's core business, while its cinema operations would be the second largest contributor on the PATMI level. We expect Cathay Cineplex to contribute c.SGD85-90mn in FY19F post the full year earnings impact from the opening of seven screens in Parkway Parade, mitigated by the closure of three screens at Cineleisure Orchard in 2016. At the same time, we expect both UnUsUaL and VV3 to record excellent y-y growth, primarily on the back of higher demand and a foray into VR respectively.

Fig. 5: MM2's revenue mix



Source: Bloomberg, Company data, Nomura estimates

Fig. 6: MM2's PATMI mix



Source: Bloomberg, Company data, Nomura estimates

Fig. 7: Summary of content, media peers' valuation comparison

	Bloomberg ticker	Cncy	Rating	Local price	Mkt Cap (US$ mn)	PE (x) 18E	PE (x) 19E	EV/EBITDA (x) 18E	EV/EBITDA (x) 19E	Div Yield (%) 18E	Div Yield (%) 19E	FCF Yield (%) 18E	FCF Yield (%) 19E
MM2 Asia	MM2 SP	SGD	Buy	0.5	452	22.5	16.5	11.3	10.5	na	na	na	na
FTA TV													
SCMA	SCMA IJ	IDR	Neutral	2,750	2,922	26.5	23.7	18.3	16.3	2.7	2.8	3.2	3.6
MNC	MNCN IJ	IDR	Neutral	1,530	1,587	14.6	12.9	9.0	8.4	3.1	3.6	6.7	6.8
BEC	BEC TB	THB	Rating Suspended	12.3	786	37.6	26.5	6.1	5.5	3.0	3.8	6.4	8.8
Media Prima	MPR MK	MYR	NR	0.44	124	na	na	4.8	4.1	4.8	5.1	nm	nm
Global Mediacom	BMTR IJ	IDR	NR	620	640	na	na	na	na	na	na	na	na
ABS-CBN	ABS PM	PHP	NR	29.8	494	7.5	7.2	4.6	4.0	3.5	2.9	0.2	4.0
Zee Entertainment	Z IN	INR	Buy	576	8,521	40.3	32.1	25.2	21.1	0.6	0.7	1.4	2.0
Sun TV Network	SUNTV IN	INR	Neutral	893	5,418	30.5	24.3	17.0	13.8	1.7	2.2	2.3	3.3
Average						**26.2**	**21.1**	**12.1**	**10.5**	**2.8**	**3.0**	**3.4**	**4.7**
Median						**28.5**	**24.0**	**9.0**	**8.4**	**3.0**	**2.9**	**2.7**	**3.8**
Pay TV													
Astro Malaysia	ASTRO MK	MYR	Neutral	2.38	3,178	16.8	16.1	8.1	8.3	5.6	5.7	9.5	6.3
MSKY	MSKY IJ	IDR	NR	750	407	na	na	na	na	na	na	na	na
Dish TV	DITV IN	INR	Buy	66	1,080	na	73.7	8.7	6.3	0.0	0.1	(7.2)	5.3
StarHub	STH SP	SGD	Reduce	2.46	3,240	18.6	20.0	8.7	8.8	6.4	6.3	4.6	5.0
PCCW	8 HK	HKD	NR	4.56	4,490	20.7	17.5	5.6	5.4	6.1	6.1	19.2	20.5
Sky plc	SKY LN	GBP	NR	1,327	31,696	20.3	19.1	13.2	12.4	2.3	2.0	3.9	4.7
Average						**19.1**	**29.3**	**8.8**	**8.2**	**4.1**	**4.0**	**6.0**	**8.4**
Median						**19.5**	**19.1**	**8.7**	**8.3**	**5.6**	**5.7**	**4.6**	**5.3**
Film Exhibitors													
Major	Major TB	THB	Neutral	26.8	765	22.7	19.8	11.9	10.9	4.4	4.7	5.3	6.4
Wanda	002739 CH	CNY	Rating Suspended	52	9,652	34.3	25.9	20.1	15.3	0.6	0.7	2.3	4.3
CJ CGV	079160 KS	KRW	NR	68,000	1,351	26.0	18.2	na	na	0.5	0.5	4.1	6.7
PVR	PVRL IN	INR	NR	1,324	953	50.5	32.6	17.4	13.5	0.2	0.2	1.1	2.1
IMAX China	1970 HK	HKD	Rating Suspended	24	1,101	22.6	20.5	13.0	11.5	0.9	1.2	0.6	0.5
Cineworld	Cine LN	GBp	NR	241	4,581	11.3	12.4	18.1	5.8	4.8	4.4	3.2	6.9
Cinemark	CNK US	USD	NR	41	4,821	17.1	15.6	8.3	7.8	3.1	3.2	9.3	9.5
Regal Entertainment	RGC US	USD	NR	23	3,610	na	na	9.0	8.8	na	na	6.6	na
Average						**26.3**	**20.7**	**14.0**	**10.5**	**2.1**	**2.1**	**4.1**	**5.2**
Median						**22.7**	**19.8**	**13.0**	**10.9**	**0.9**	**1.2**	**3.7**	**6.4**
Regional Entertainment													
Spackman Entertainment	SEG SP	SGD	NR	0.09	47	6.9	6.9	na	na	1.5	1.5	na	na
Village Roadshow	VRL AU	AUD	NR	3.31	422	31.8	16.1	6.9	5.9	1.3	3.7	22.5	6.2
Alibaba Pictures Group	1060 HK	HKD	NR	1.08	3,508	na	na	na	na	na	na	na	na
IMAX China	1970 HK	HKD	Rating Suspended	24.10	1,101	22.6	20.5	13.0	11.5	0.9	1.2	0.6	0.5
Media Asia Group Holdings	8075 HK	HKD	NR	0.21	57	na	na	na	na	na	na	na	na
HMV Digital China Group	8078 HK	HKD	NR	0.24	415	na	na	na	na	na	na	na	na
Interactive Entertainment	8081 HK	HKD	NR	0.04	28	na	na	na	na	na	na	na	na
YG Entertainment Inc	122870 KS	KRW	NR	29,450	503	23.4	23.0	na	na	0.7	0.7	(1.8)	(3.8)
CJ E&M Corp	130960 KS	KRW	NR	92,000	3,345	25.7	20.8	na	na	0.3	0.3	6.7	7.2
Showbox Corp	086980 KS	KRW	NR	5,960	350	32.0	21.2	na	na	0.8	0.8	10.7	12.4
Average						**23.7**	**18.1**	**9.9**	**8.7**	**0.9**	**1.4**	**7.7**	**4.5**
Median						**24.6**	**20.7**	**9.9**	**8.7**	**0.9**	**1.0**	**6.7**	**6.2**

Source: Bloomberg, Nomura estimates, pricing as of 12 March 2018.

Key earnings forecast & assumptions

- On its core business, we expect a 21% y-y increase in FY19F revenue to c.SGD85mn, driven largely by the higher production budget set forth in FY19F as per Fig. 14. We expect the number of movies produced to increase from the 19 in FY17 to 30 in FY19F, while the production budget will reach above SGD76mn in FY19F from a base of SGD49mn set in FY17. That said, on the cost front, we expect margins to be slightly lower on a y-y basis by around 2pp due to a greater focus on North Asia.
- On its post-production business, we expect VV3 to increase its revenue to c.SGD7mn, 30% y-y in FY19F, largely in line with the higher number of movies produced and potentially higher contribution from the virtual reality segment.
- On the cinema front, we expect Cathay Cineplexes to raise its revenue contribution to around SGD88mn in FY19F, after taking into account the full year impact of the seven new screens at Parkway Parade. At the same time, we expect the full year impact from the 13 Lotus Malaysia screens to add another SGD12mn to its revenue. As a result, we expect cinema revenue to more than double on a y-y basis in FY19F.
- On UnUsUaL, we expect FY19F revenue to grow by c.50% to SGD60mn, due largely to the increasing demand of concert events across Asia. More notably, the strong revenue is likely backed by UnUsUaL's recent announcement that it would present 48 "Disney On Ice" shows across North Asia.

Leading integrated media entertainment and content company in Asia

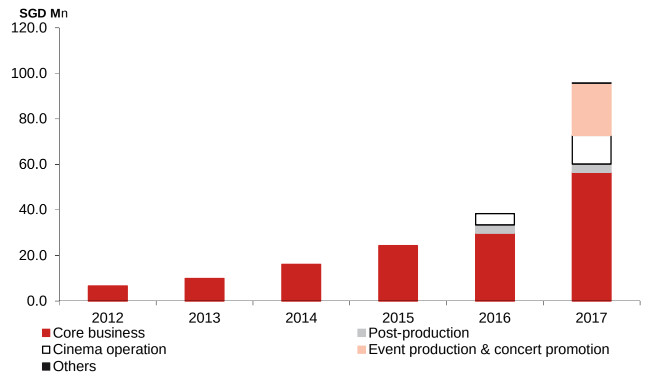
Since its establishment in 2008, MM2 has created several competitive advantages and has become one of the leading media entertainment and content companies in Asia. MM2's core business involves being a producer, where it provides a wide spectrum of services across the value chain of filmmaking, ranging from financing, production, marketing and lastly, distribution.

Post its listing on the SGX-ST Catalist board in December 2014, several acquisitions have been made to add to its existing core business, which includes but are not limited to: 1) majority stake in VividThree Productions (VV3); 2) stake in UnUsUaL Limited; 3) its foray into the film exhibition scene, via stakes in Cathay Cineplexes (Singapore), Cathay CIneplexes Malaysia, Mega Cinemas and Lotus Fivestar Cinemas.

Revenue sources from MM2 stem from four key business segments:

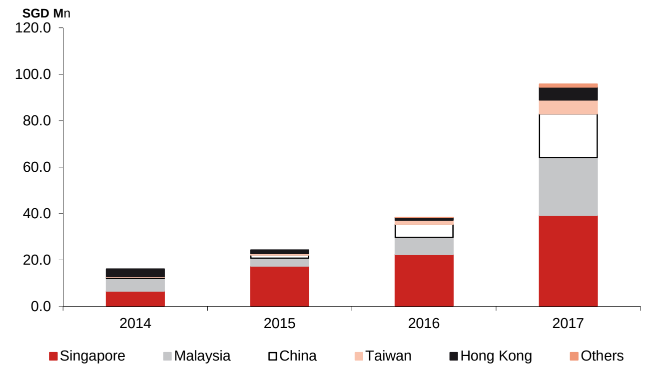
- **Core Content** – MM2's core business lies in film, TV and online content production. Revenue from its core business is derived mainly from three key sources, namely, Production, Distribution and Sponsorship. MM2 does not speculate on content, but it mostly defines the film budget, secures financing and provides end-to-end services to investors who contributed to the budget from inception to exhibition. The core business makes up c.59% of MM2's FY17's revenue.
- **Post-Production** – post-production services are offered mainly through VV3, which is a leading multi-award winning 3D animation, visual effects and computer-generated imagery company. VV3 caters to commercial, film and television content, with a global clientele across various sectors. MM2 owns c.51% of VV3. The post-production business makes up c.4% of MM2's FY17's revenue.
- **Cinema Operation** – a new subsidiary, mmCineplexes, has been formed to hold its Malaysia screens with a presence in Johor Bahru, Kuala Lumpur, Bertam, Prai and Langkawi. Together with its new acquisition of Cathay Cineplex in Singapore, mmCineplexes is now one of the largest film exhibitors in Singapore and Malaysia. Cinema operations make up c.13% of MM2's FY17's revenue.
- **Events Production & Concert Promotion** – UnUsUaL Limited is the key contributor within this segment, with MM2 holding 41.91% in UnUsUaL post its listing on the SGX-ST Catalist in April 2017. UnUsUaL is a leading player within the live entertainment arena, where it produces and promotes large-scale events and concerts for renowned international artistes. Beyond that, it continues to offer comprehensive creative and technical solutions for events and concerts across Asia. UnUsUaL Limited makes up c.24% of MM2's FY17's revenue.

Fig. 8: MM2's revenue by segmental split



Source: Company data, Nomura research

Fig. 9: MM2's revenue by geographical split



Source: Company data, Nomura research

We expect revenue streams to be increasingly more diversified as MM2 ventures into new business areas across the value chain, while gestating parts of its existing business to realise synergistic gains across both content and distribution platforms. Above all, we also expect contributions from North Asia to increase significantly. For illustration; we expect 65%-75% of production revenue to be attributed to North Asia from FY18F to FY19F (vs c.56%/36% in FY17 and FY16 respectively).

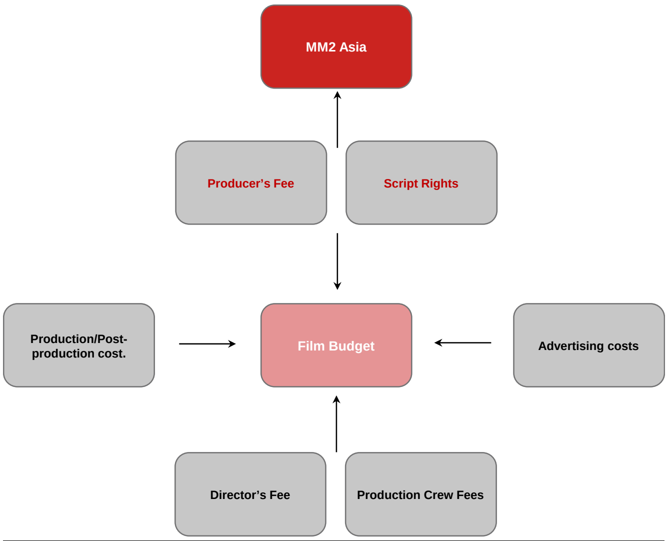
Core content business – a deeper look into this unique business model
In our view, MM2's core business is unique, where it does not speculate on content, unlike most other players in the market. Instead, MM2 takes on a role of a professional producer and seeks to fund all productions through various stakeholders, advertisers or grants.

Each production can be usually financed via various methodologies: they include but are not limited to external investors, who usually take up at least 10% of the budget each; grants/subsidies from the local authorities; and sponsorships from corporations in the form of product placements. MM2 would only step in to underwrite the remaining budget at no more than 10%, should there be a shortfall in terms of funding.

MM2 derived revenue from three key sources:

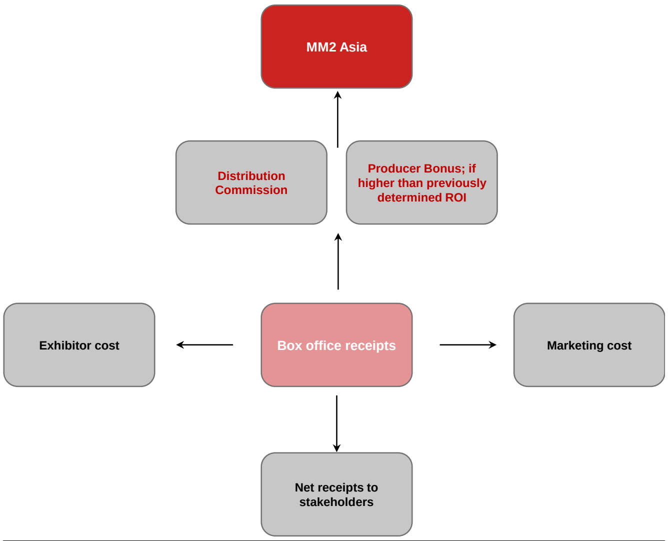
- **Production income** – revenue is derived from various stages of the filmmaking process. This includes producer fees (usually around 10-20% of film budget), producer bonus (which are known as fees relating to fund production costs, which can be around 8-25% on a global basis), and grants from authorities among others.
- **Distribution income** – MM2 also receives distribution commission (around 5-10% of the box office receipts) when movies produced or co-produced are being distributed across platforms through the entire value chain, such as film exhibitors, airlines and pay-TV among others. Beyond that, MM2 is entitled to commission income from the licensing of scripts, adaptation and sequel rights for its existing content library, should there be any interest from third-parties.
- **Sponsorship income** – this portion is largely contributed by advertisers to promote their products and services via above-the-line marketing. Such income usually contributes to 10-20% of the film budget.

Fig. 10: Snapshot of revenue derived from the film budget



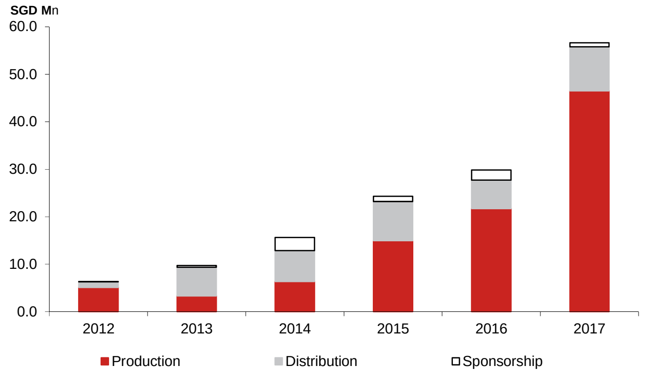
Source: Company data, Nomura research

Fig. 11: Snapshot of revenue from box office receipts



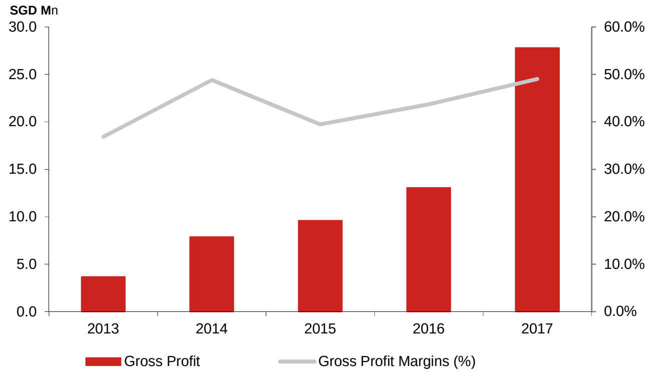
Source: Company data, Nomura research

Fig. 12: Core business segmental trend



Source: Company data, Nomura research

Fig. 13: Core business gross margins trend



Source: Company data, Nomura research

Fig. 14: MM2's rolling 18M production pipeline, by country

Rolling 18M production pipeline			
Countries	**# of productions**	**Unit Budget (SGD mn)**	**Total Budget (SGD mn)**
Singapore	8	1.5	12.0
Malaysia	4	0.5	2.0
Hong Kong	5	2.0	10.0
Taiwan	6	2.2	13.2
China - Drama	1	15.0	15.0
China - Movie	4	3.0	12.0
China - Variety	1	8.0	8.0
Regional - Variety	1	4.0	4.0
Total	30	nm	76.2

Source: Company data, Nomura research

Food for thought: implied stub valuation may suggest that MM2's core production business is undervalued

We run through a simple valuation to determine the current valuation of MM2's core business. Our methodology would be as follows:

- Starting with MM2 current market cap, subtracting MM2's stake in UnUsUaL based on its current market cap, VV3's and the Cinemas' book value on MM2's balance sheet.
- Establishing the estimated PATMI contribution from MM2's core business.

Our analysis suggests that its core business remains undervalued at a FY19F PE of c.5x, which is trading a steep discount relative to peers.

Fig. 15: MM2's stub core valuation implies it is trading at a steep discount to peers

Year ended 31 March (SGD mn)		
MM2's stub valuation		
	Value (SGD mn)	**Remarks**
MM2's current market cap	593	As per 12th March 2018
UnUsUaL's market cap	509	As per 12th March 2018
MM2's stake in UnUsUaL	213	MM2's 41.91% stake in UNU SP
Book value of VV3	3	As per acquisition price
Book value of Malaysian screens	53	As per acquisition price
Book value of Cathay Cineplex	230	As per acquisition price
MM2's core business stub	93.2	
MM2's core business PATMI	19.5	As per FY19F forecast
MM2's stub Implied valuation	**4.8x**	

Source: Company data, Bloomberg, Nomura research

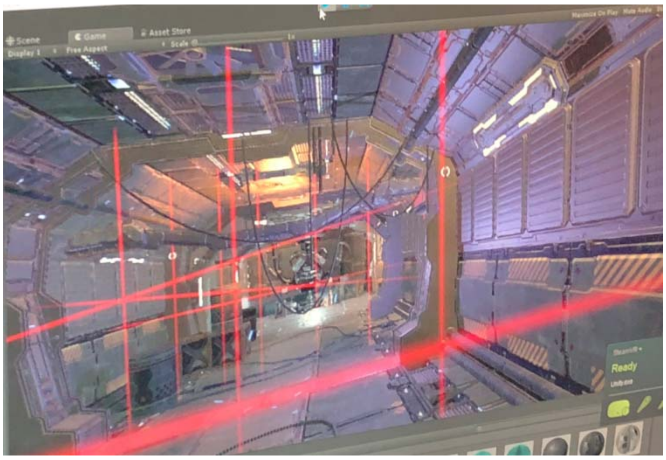
Post-production: VV3 is seeking a listing on the SGX-ST Catalist board, due to list by CY3Q18

We understand VV3 is seeking listing on the SGX-ST Catalist board, preferably by CY3Q18. VV3 is a 3D animation company that has grown to become a key player in the field of visual effects (VFX), 3D animation, virtual reality and computer generation imagery (CGI) in Singapore. MM2 acquired a 51% stake in VV3 in early 2015 for a consideration of c.SGD3mn, at around 3x trailing P/E.

While VV3's contribution to mm2 is small now (accounting for 5-6% of the group's revenue in FY17), we think the recent focus on Virtual Reality (VR) could be the next kicker for the company. A successful listing should provide more avenues to pave the way for better growth ahead, while unlocking value for shareholders for MM2 simultaneously.

We made a quick visit to VV3's VR testing studio, and were heartened by its recent strides in content development. We understand that the team is developing a few IPs, both original and through partnerships, with tightly stipulated deadlines to provide a whole new experience to end users. In our view, the development of VR is likely to extend the shelf life of various content and increase various monetization opportunities, resulting in better contributions to MM2 and its shareholders.

Fig. 16: Part of the original VR content that VV3 is developing



Source: Company data, Nomura research

Fig. 17: VV3's VR testing studio/arena

Source: Company data, Nomura research

Upside to VV3's earnings, led by VR, in our view – 'Train to Busan' IP announced

MM2 has recently announced a binding term sheet with Contents Panda, which owns the IP rights to the highest ever grossing Korean film in Singapore, "Train to Busan", to develop a VR tour (Link). We understand that the completion of the "Train to Busan" VR tour is due before the IPO of VV3. In our view, this could be one of the first of many IPs to come, as it presents IP owners with a clear additional revenue stream and an attractive marketing tool for future sequels, if any.

As a result, we expect VV3 to contribute around SGD2-3mn in NPAT in FY18F and around SGD4-5mn in FY19/20F.

Cinema Operations – MM2 a key player in SG & MY, screens as a paramount distribution platform

MM2 made its first foray into the film exhibitor scene in 2015, when it announced the acquisition of five cinemas in Malaysia (three Mega Cinemas and two Cathay Cnemas). Subsequently, 13 screens from Lotus Fivestar Cinemas were acquired by 3Q17, making MM2 the fourth largest cinema operator in Malaysia, with 18 cinemas. That said, we only expect the contribution from Malaysia screens to come in at c.SGD2mn in FY19F. Despite a largely flat pricing structure across cities in Malaysia and potentially lower rental costs vis-a-vis Singapore screens, the presence of an entertainment tax (estimated at c.25%) proved a drag on margins and the attractiveness of Malaysian screens.

MM2 then announced the acquisition of Cathay Cineplex in November 2017, which drew investor concerns relating to valuations and the gradual shift from an asset-light business model towards an asset-heavy one. While we do not dispute on the higher asset base in this deal, we highlight that Cathay Cineplex's acquisition would likely come across as EPS-accretive, as per our illustration above (Fig. 2).

As a result, the announcement of the Cathay Cineplex deal came as welcome news, in our view, as it puts MM2 into a stronger strategic position to optimise its working capital, and supplier terms, to better reap economies of scale. Cathay Cineplexes has 64 screens, and c.12,200 screens as per our estimates, making it the second largest player in Singapore (by number of seats).

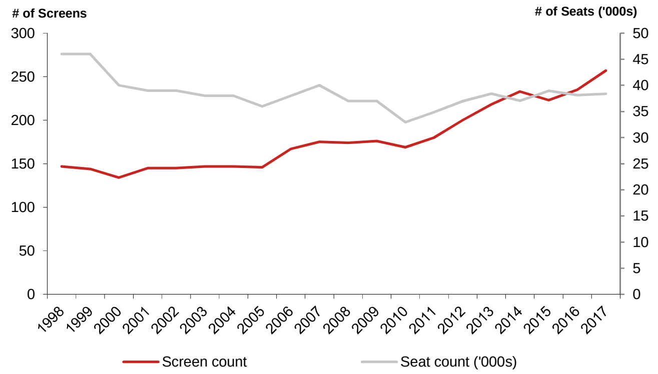
Fig. 18: Snapshot of Cathay Cineplex's current screens and seats

Cathay Cineplex						
Location	Screens	Seats	Opening Year	Digital	3D Digital	Platinum Movie Suites
Cineleisure Orchard	12	2189	1997	Yes	Yes	Yes
The Cathay	8	1946	2006	Yes	Yes	Yes
Causeway Point	7	1475	1999	Yes	Yes	No
AMK Hub	8	1784	2007	Yes	Yes	No
Downtown East	6	980	2008	Yes	Yes	No
West Mall	6	1160	2013	Yes	Yes	No
JEM	10	1752	2013	Yes	Yes	Yes
Parkway Parade	7	924	2017	Yes	Yes	No
	64	12210				

Source: Company data, Nomura research

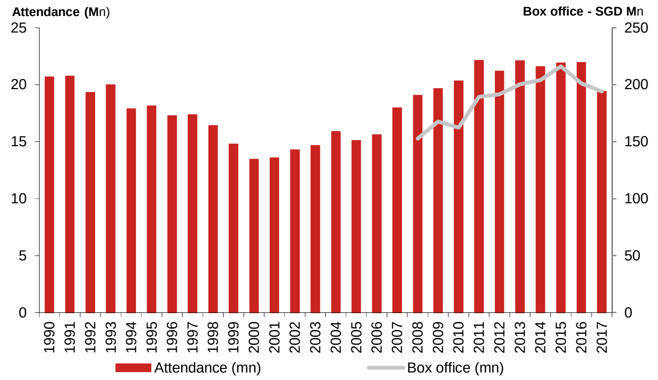
Cathay commands around 39-40% of Singapore's box office over 2015/2016, while total cinema attendance remains relatively flat over the last five years. In our view, the outlook for Singapore's film exhibitors is likely to remain stable. We expect the number of screens, attendances and box office to grow modestly, by c.2-5%.

Fig. 19: Number of seats per screen is now falling



Source: Singapore Film Commission, Nomura research

Fig. 20: Attendance and box offices remained relatively flat



Source: Singapore Film Commission, Nomura research

Comparison of Cathay Cineplex vs Major Cineplex (MAJOR TB; Neutral, THB30)

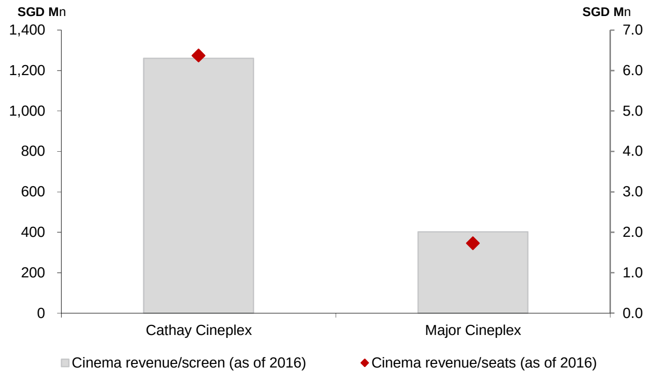
Drawing comparisons with one of its ASEAN peers, Major Cineplex, revenue/seat and revenue/screen recorded for Cathay Cineplex is c.3-4 times higher compared with Major Cineplex, likely as a function of the higher ticket prices (ATP) in Singapore, as well as the lower utilisation rate that Major Cineplex is recording upcountry. We estimate ATP for Singapore to be around SGD10, while ATP for Thailand is around SGD7. Utilisation level differs from location to location; we believe that Cathay Cineplex is recording around 25%-50% utilisation across its screens within the island, while hall sizes in Singapore are noticeably falling with fewer seats, in an attempt to maximize profitability.

Fig. 21: Average movie ticket cost around the world as of end-2016

Average Movie Ticket Cost		
City	Weekday Ticket Price (SGD)	Weekend ticket Price (SGD)
Jakarta, Indonesia	2.6 to 5.3	3.7 to 6.4
Kuala Lumpur, Malaysia	3.10 or more	up to 5.8
Manila, Philippines	5.7 to 7.15	5.7 to 7.15
Singapore	8.5 to 9	12 to 13
Bangkok, Thailand	4.2 to 8	6.3 to 12.2
Hong Kong	9.7 to 12.9	9.7 to 12.9
Seoul, South Korea	9.8 to 11	11.1 to 12.3
Taipei, Taiw an	11.3 to 13.35	11.3 to 13.35
Beijing, China	16 to 24	16 to 24
New York, United States	17.5	17.5
Tokyo, Japan	22	22
Sydney, Australia	23.5	23.5 to 27

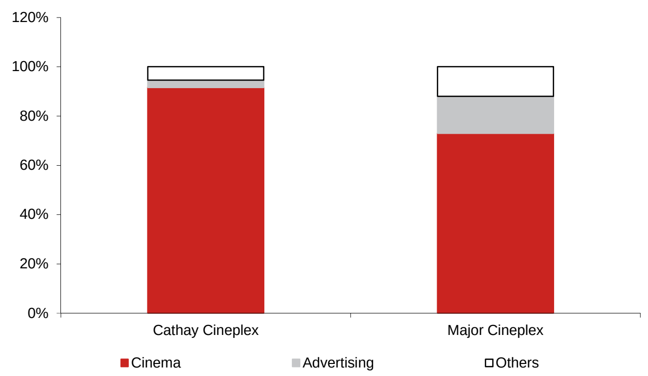
Source: *Straits Times*, cinema websites, Nomura research

Fig. 22: Higher revenue per seat for Cathay (vs Major)



Source: Company data, Nomura research, data as of 2016

Fig. 23: Major has a much larger advertising mix (vs Cathay)



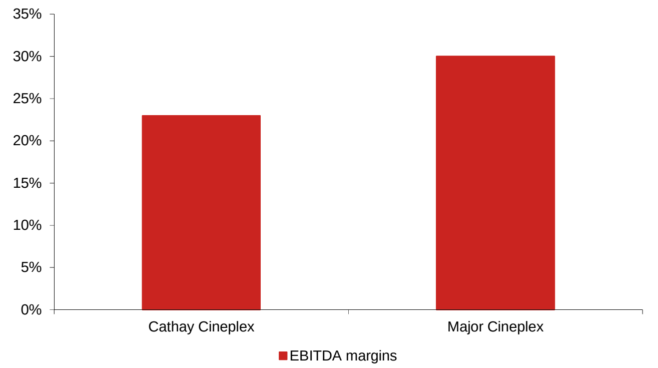
Source: Company data, Nomura research, data as of 2016

In terms of revenue mix, 92% of Cathay's contribution comes from admissions and concessions (vs 73% for Major Cineplex). However, advertising revenue for Cathay is much lower at 3% (vs 15% for Major Cineplex). That said, we believe there should be long-term potential for Cathay to increase this portion of its revenue, given the synergistic benefits as well as strategic stakes from the likes of Starhub and Singapore Press Holdings. As a result, we believe advertising revenue as a percentage of sales mix is likely to trend towards 5-6% over the next three years.

Due to a difference in sales mix, Major Cineplex reports a higher EBITDA margin at c.30% vs Cathay's 23% (after adjusting for SGD6.1mn in director fees, which we understand would not be paid out post the acquisition by MM2) as of 2016. Based on historical data, the advertising business usually commands a gross margin of 75-90% vs the blended gross margin of c.25% for the cinema business (admission margins are highly dependent on movie line-up and can range from 10-25%, while concessions are generally c.65-80%).

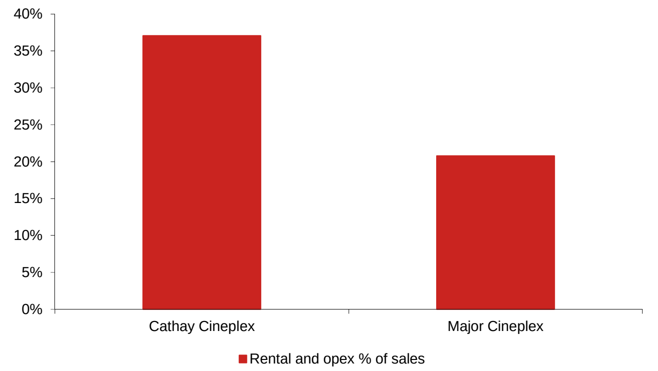
On cost structure, overheads (rental and wages) as a percentage of sales we estimate to be c.37% compared with Major's 21%, likely as a result of the higher land cost and wage expectations in Singapore. While we do not expect the overhead mix to change much in future, we think MM2 is likely to command better rental terms, due to the scale involved post the acquisition of Cathay.

Fig. 24: Major has higher EBITDA margins (vs Cathay)



Source: Company data, Nomura research, data as of 2016. Directors' fees of SGD6.12mn are added back to Cathay's EBITDA for comparison purposes.

Fig. 25: Overheads/sales at c.2x for Cathay (vs Major)



Source: Company data, Nomura research, data as of 2016

UnUsUaL: likely to record superior profits y-y in FY19F

Established in 1997, UnUsUaL started as a stage, sound and lighting equipment rental business before growing into one of the leading producer and promoters of concerts and live event. Post MM2's acquisition in UnUsUaL and its subsequent IPO, UnUsUaL has continued to broaden its content offering, where it not only participated in world-class events such as the Youth Olympic Games, but also organized concerts for well-known artistes such as Jacky Cheung. UnUsUaL continues to secure rights to various artistes, and we believe it is in line to record a NPAT of SGD9-10mn in FY18F.

Beyond FY18F, with a continued increase in demand for concerts and events, we expect UnUsUaL to record NPAT of closer to SGD14mn, representing c.40%-50% growth y-y. This is likely backed by the recent announcement of its intention to present 48 "Disney On Ice" shows across North Asia. In our view, we think that this could potentially open doors to future collaboration, bringing more Disney offerings closer to Asia.

Above that, we note UnUsUaL's announcement of a recent collaboration with JFJ Productions (link), co-founded by the famous and popular artiste, JJ Lin, highlighting possible work in a range of concerts and events across the region. In the event that this materialise, we believe there could be potential upside to our NPAT forecast across FY19/20F.

Fig. 26: Snapshot of UnUsUaL's quarterly P&L

Year ended 31 March (SGD mn)	1Q17	2Q17	3Q17	1Q18	2Q18	3Q18
	Jun-16	Sep-16	Dec-16	Jun-17	Sep-17	Dec-17
Income Statement						
Total Revenue	2.3	8.6	4.4	6.2	13.3	10.6
% Chg q-q		268%	-49%	na	115%	-20%
% Chg y-y				166%	56%	143%
COGS	1.8	3.9	2.2	3.4	8.9	6.1
% Chg q-q		119%	-44%	na	166%	-32%
% Chg y-y				88%	127%	177%
Gross Profit	0.5	4.6	2.2	2.8	4.4	4.5
Gross margins(%)	**23%**	**54%**	**49%**	**46%**	**33%**	**42%**
% Chg q-q		774%	-53%	na	55%	3%
% Chg y-y				433%	-6%	108%
G&A costs (excl D&A)	0.8	0.7	0.8	0.7	1.0	1.4
EBITDA	0.9	4.4	1.4	2.2	3.5	3.1
EBITDA Margins (%)	**39%**	**51%**	**31%**	**35%**	**26%**	**30%**
% Chg q-q		386%	-69%	na	60%	-10%
% Chg y-y				140%	-21%	131%
D&A	0.2	0.3	0.2	0.4	0.4	0.1
Depreciation of PPE	0.2	0.3	0.2	0.4	0.4	0.1
Finance costs	0.0	0.0	0.0	0.0	0.0	0.0
Finance income	0.0	0.0	0.0	0.0	0.0	0.0
PBT	0.7	4.1	1.2	1.8	3.1	3.0
Tax	0.1	0.5	0.2	0.2	0.6	0.5
Effective tax rate	16%	13%	18%	12%	19%	18%
NPAT	0.6	3.6	1.0	1.5	2.5	2.5
NPAT Margins (%)	**26%**	**42%**	**22%**	**25%**	**19%**	**24%**
% Chg q-q		489%	-73%	na	61%	1%
% Chg y-y				152%	-31%	158%

Source: Company data, Nomura research, 4Q17 is not available due to a change in fiscal year-end

Fig. 27: Snapshot of announced concerts by UnUsUaL Limited

UnUsUaL's upcoming concerts pipeline

- **Teresa Teng Virtual Reality World Tour 2018 邓丽君虚拟人再现 2018 世界巡回演唱会**
- **"Sister Loves You" Jeannie Hsieh Concert Tour in Singapore《姐姐爱你》谢金燕巡回演唱会新加坡站**
- **Liu San Jie, The Musical《刘三姐》 彩调歌舞剧**
- **NAMIE AMURO Final Tour 2018 ~Finally~" in SHENZHEN 安室奈美惠告别巡回演唱会海外首站登陆深圳**
- **12 Shows: Disney On Ice 'Let's Party' Seoul, Korea (10 -14 October 2018)**
- **(24 + 12 Shows) Disney On Ice 'Frozen': 2019, Seoul & Busan, Korea; 8 - 2019, Taipei, Taiwan**

Source: Company data, Nomura research. List is not exhaustive as other shows signed are embargoed for announcement

Investment risks

Lack of financing arrangement for productions

We note MM2's dependency on funds' availability for any potential commencement of a production. Hence, there exists a risk that MM2, at best, would encounter roadblocks to accessing funds by way of loans, third-party funding for sponsorships, advertisers and potential investors. We think any potential difficulty on this front is likely to hamper MM2's ability to proceed with any production business.

Cost uncertainties from delays or overrun, resulting in a shortfall in budget

In the event of a budget overrun, we understand MM2 would be liable to fund the shortfall itself, and has the onus to seek additional financing. We also take note that there could be factors that are beyond MM2's control. Other risks, including shortage of manpower, equipment and technical difficulties, could potentially result in higher costs or overruns, and potentially, a shortfall in budget.

Growing piracy issues and lack of IP protection could limit MM2's growth prospect

We note the issue of widespread piracy, especially pronounced across developing countries, that could potentially hamper MM2's growth prospects. This is likely to be exacerbated through technology proliferation in the medium term. At the same time, a lack of regulatory protection for IP owners, such as MM2, may prove to be detrimental in the longer run.

Unexpected capital expenditure required for Cinema business

In the event of unforeseen circumstances, additional capital expenditure may be required to be deployed for its cinema business, and this may be substantial. As a result, this may be a drag on cash flow and working capital. Furthermore, if not resolved in time, it may lead to potential future business losses.

MM2 Asia: management team

Melvin Ang – Group Executive Chairman and Executive Director
Melvin Ang is the Executive Chairman and Executive Director of MM2 Asia, where he is responsible for the overall business operations and management of the group.

Before setting up MM2 Singapore in 2009, he served as Media Prima's executive advisor between 2007 and2008. Prior to that, he was Managing Director of MediaCorp Studios from 2003 to 2007 and was the COO, Media Business Group, of SPH MediaWorks Ltd between 2000 and 2003. Mr Ang graduated from Macquarie University with a Masters of Business Administration in 1996.

Chang Long Jong – Group CEO
Chang Long Jong is the Group CEO, responsible for overseeing and managing business operations, in particular the production division, while sourcing new business opportunities.

Prior to joining the Group in 2017, he was the Deputy CEO and Chief Customer Officer of MediaCorp Pte Ltd. He has a 30-year career in the business, with invaluable experience in channel management, content development and production, content licensing and distribution media business development and talent management.

Chong How Kiat – Group CFO
Chong How Kiat is responsible for all finance-related matters of the group. He has close to 20 years of financial experience in the property management and development, construction and media industries.

Hock Ong – Group Chief Corporate Development officer, CEO of MM2 Screen Management
Hock Ong oversees the group's cinema business and is responsible for all corporate finance matters related to the group. He has extensive debt and capital markets experience spanning Hong Kong, Malaysia, Thailand, Vietnam and China, and has been involved in several multi-million dollar transactions across various markets.

Leslie Ong – CEO and Executive Director of UnUsUaL
Leslie Ong is responsible for UnUsUaL's management operations, strategic planning and business development. He has more than 20 years of extensive experience in the production and promotion of concerts and events.

Charles Yeo – CEO of VividThree Productions
Charles Yeo is experienced in identifying new businesses and investments, and he is in charge of VividThree Production's business strategy.

Appendix A-1

Analyst Certification

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Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
MM2 Asia	MM2 SP	SGD 0.50	14-Mar-2018	Buy	N/A	

MM2 Asia (MM2 SP) **SGD 0.50 (14-Mar-2018)** Buy (Sector rating: N/A)

Chart Not Available

Valuation Methodology Our TP of SGD0.68 is derived from an SOTP valuation methodology, ascribing a PE multiple of 20x/20x/22x to the FY19F PATMI of its core business/post-production business/Cinema operations respectively. Valuation of UnUsUaL is as per current market cap on 12 March

Risks that may impede the achievement of the target price key downside risks include: 1)Lack of financing arrangement for productions; 2)Cost uncertainties from delays or overrun, resulting in a shortfall in budget; 3)Growing piracy issues and lack of IP protection could limit MM2's growth prospect; 4)Unexpected capital expenditure required for Cinema business

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