

Singapore

August 15, 2018 - 10:05 AM

ADD (no change)

Consensus ratings*: Buy 4 Hold 0 Sell 0

Current price: S\$0.42

Target price: S\$0.72

Previous target: S\$0.72

Up/downside: 70.4%

CGS-CIMB / Consensus: 8.8%

Reuters: MM2A.SI

Bloomberg: MM2 SP

Market cap: US\$355.3m

S\$488.4m

Average daily turnover: US\$0.27m

S\$0.36m

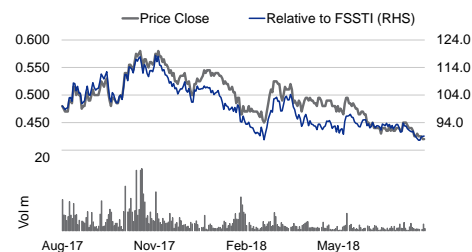
Current shares o/s 1,163m

Free float: 36.4%

*Source: Bloomberg

Key financial forecasts

	Mar-18A	Mar-19F	Mar-20F
Net Profit (S\$m)	26.44	34.22	39.84
Core EPS (S\$)	0.023	0.029	0.034
Core EPS Growth	35.1%	26.0%	16.4%
FD Core P/E (x)	17.98	14.27	12.26
Recurring ROE	19.8%	17.2%	16.9%
P/BV (x)	2.69	2.26	1.91
DPS (S\$)	-	-	-
Dividend Yield	0%	0%	0%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-3.5	-12.5	-11.6
Relative (%)	-3	-3.5	-9.6

Major shareholders	% held
Wee Chye Ang	45.9
Yeo Khee Seng	9.2
Starhub Ltd	8.6

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mm2 Asia

1QFY19 in line; content development underway

- 1QFY19 core PATMI of S\$7.2m was broadly in line with our/consensus expectations.
- North Asia remains the focus for mm2's core production business while geographical and content diversification will enable Unusual to capture greater audience share.
- We like Vividthree's 'Train to Busan' set; its upcoming listing is a potential catalyst.

1QFY19 in line; seasonal weakness expected

- mm2 reported 1QFY19 core PATMI of S\$7.2m, up 10% yoy but down 20% qoq. This formed 21%/22% of our/consensus full-year forecasts, which we deem as in line as 1Q is seasonally weaker for both the production and concert businesses.
- Acquisitions of both Lotus Fivestar and Cathay Cineplex (which was completed in 3QFY18) contributed to the bulk of mm2's 99% yoy topline growth to S\$49m.
- Financing expenses surged from S\$0.2m in 1Q18 to S\$3.2m due to additional borrowings taken for the cinema acquisition (S\$115m term loan facility, S\$50m MTN and S\$48m convertible debt securities), with 0.7x net gearing as of end-Jun 18.
- Admin costs were also significantly higher because of an increase in staff costs and rental expenses from the expanded cinema platform.

North Asia remains key for mm2

- mm2 continues to gain traction in North Asia, accounting for 34% of total revenue in 1QFY19. Apart from a previously announced 3-year slate financing partnership with CJ E&M (13096 KS, NR), the group has also inked a co-investment and co-production agreement with Chinese partners for 5 films and multiple online films (total US\$25m).

Unusual broadening its content portfolio

- Unusual (39%-owned by mm2) registered strong growth in 1QFY19, with earnings up 53% yoy on steady revenue and better gross margins (1Q19: 64%, 1Q18: 46%).
- Apart from the upcoming 'Disney on Ice' shows and penetrating deeper into North Asia, we expect its earnings growth to be underpinned by new theme-related shows like 'Walking with Dinosaurs' and the acquisition of intellectual property for "APOLLO 11 Moon Landing", for which the company will develop and produce content.

Awaiting the launch of 'Train to Busan'

- We recently visited mm2's subsidiary Vividthree's 'Train to Busan' mock set and were impressed by the virtual reality (VR) stations. We believe the travelling sets will be well received, creating additional revenue streams for the group.
- Beyond post-production and 3D animation effects, Vividthree is also looking to explore other content rights and immersive productions as new business avenues.

Maintain Add

- Maintain Add with unchanged estimates and an SOP-based target price of S\$0.72. Downside risks could stem from unexpected production delays or cost overruns and balance sheet mismanagement. Strategic partnerships and Vividthree listing remain the key potential catalysts for the stock.

Figure 1: Results comparison

FYE March (S\$m)	1QFY19	1QFY18	yoy % chg	4QFY18	qoq % chg	Prev FY19F	Comments
Revenue	49	25	99.0	84	(41.4)	294	1QFY19 formed 17% of our/consensus full-year numbers
Operating costs	(31)	(13)	129.7	(55)	(43.9)	(201)	
EBITDA	18	11	61.9	29	(36.7)	94	
EBITDA margin (%)	37	45	(8.4)	34	2.7	32	In line
Depn & amort.	(3)	(1)	138.9	(14)	(76.2)	(27)	
EBIT	15	10	51.0	15	0.7	67	
Interest expense	(3)	(0)	1,940.5	(1)	147.6	(10)	Due to additional borrowings taken for cinema acquisition
Interest & invt inc	0	-	na	0	na	-	
Associates' contrib	0	(0)	na	0	na	0	
Exceptionals	-	(0)	na	-	na	-	
Pretax profit	11.6	9.6	21.5	13.6	(14.3)	57	
Tax	(3)	(2)	41.3	(3)	(2.2)	(11)	
Tax rate (%)	22	19	3.0	19	2.7	20	In line
Minority interests	2	1.4	34.8	2	(5.4)	11	
Net profit	7.2	6.4	13.2	9.0	(19.7)	34	1QFY19 formed 21%/22% of our/consensus full-year numbers
Core net profit	7.2	6.6	9.9	9.0	(19.7)	34	Deemed in line as 1Q is seasonally weaker
EPS (cts)	0.62	0.61	2.0	0.78	(19.7)	3.0	
Core EPS (cts)	0.62	0.63	(1.0)	0.78	(19.7)	3.0	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Peer comparison

Company	Bloomberg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)		Dividend Yield (%)	
						CY18F	CY19F		CY18F	CY19F	CY18F	CY19F	CY18F	CY19F
mm2 Asia	mm2 SP	ADD	0.42	0.72	355	15.0	12.7	26.3%	2.4	2.0	17.8%	17.0%	na	na
Movie/ TV production														
Spackman Entertainment Group L	SEG SP	Not rated	0.06	na	33	8.1	5.2	7.2%	0.7	0.6	na	na	2.4%	2.4%
Alibaba Pictures Group Ltd	1060 HK	Not rated	0.89	na	2,890	na	na	na	na	na	na	na	na	na
Zhejiang Talent Television & F	300426 CH	Not rated	9.07	na	527	8.3	6.5	52.3%	2.3	1.7	27.3%	27.6%	1.9%	2.3%
Zhejiang Huace Film & TV Co Lt	300133 CH	Not rated	9.39	na	2,421	21.2	16.5	25.0%	2.2	1.9	10.7%	12.5%	0.5%	0.6%
HMV Digital China Group Ltd	8078 HK	Not rated	0.23	na	394	na	na	na	na	na	na	na	na	na
Huayi Brothers Media Corp	300027 CH	Not rated	5.81	na	2,342	16.6	14.3	14.5%	1.5	1.4	9.0%	9.6%	0.4%	0.5%
Simple average						15.4	12.4	30.6%	2.0	1.7	15.7%	16.6%	0.9%	1.1%
Cinema Theatres														
Wanda Film Holding Co Ltd	002739 CH	Not rated	34.56	na	8,844	27.3	22.1	na	4.4	3.7	17.1%	18.0%	0.7%	0.9%
Orange Sky Golden Harvest Ente	1132 HK	Not rated	0.44	na	157	na	na	na	na	na	na	na	na	na
Major Cineplex Group PCL	MAJOR TB	Add	25.75	30.00	691	27.3	24.6	14.0%	3.6	3.5	12.9%	14.4%	4.7%	4.6%
SHOWBOX Corp	086980 KS	Not rated	3970	na	220	18.2	15.5	na	1.7	1.5	9.4%	10.2%	1.3%	1.3%
Simple average						24.3	20.7	14.0%	3.2	2.9	13.1%	14.2%	2.2%	2.3%
Concert/ Events production														
Live Nation Entertainment Inc	LYV US	Not rated	48.93	na	10,229	1322.4	141.4	na	7.6	5.8	3.4%	4.3%	0.0%	0.0%
YG Entertainment Inc	122870 KS	Not rated	35450	na	571	49.4	26.4	19.2	1.9	1.8	3.6%	7.0%	0.4%	0.6%
Media Asia Group Holdings Ltd	8075 HK	Not rated	0.09	na	26	na	na	na	na	na	na	na	na	na
SMC Entertainment Inc	SMCE US	Not rated	0.00	na	0	na	na	na	na	na	na	na	na	na
SM Entertainment Co Ltd	041510 KS	Not rated	41250	na	833	26.7	22.9	113.5	2.6	2.5	9.9%	10.7%	0.0%	0.0%
FNC Entertainment Co Ltd	173940 KS	Not rated	8870	na	113	na	na	na	na	na	na	na	na	na
Simple average						466.2	63.6	66.3%	4.0	3.4	5.7%	7.4%	0.1%	0.2%
Simple average (overall excluding mm2)						168.6	32.2	37.0%	3.1	2.7	11.5%	12.7%	1.1%	1.2%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG (as of 14 Aug 18)

BY THE NUMBERS

Profit & Loss

(\$M)	Mar-17A	Mar-18A	Mar-19F	Mar-20F
Total Net Revenues	95.72	192.05	294.40	324.63
Gross Profit	45.25	90.45	133.37	146.06
Operating EBITDA	41.39	63.45	93.72	111.27
Depreciation And Amortisation	(16.37)	(21.40)	(27.19)	(36.22)
Operating EBIT	25.02	42.05	66.52	75.05
Financial Income/(Expense)	(1.41)	(1.89)	(9.70)	(9.50)
Pretax Income/(Loss) from Assoc.	(0.01)	0.11	0.20	0.50
Non-Operating Income/(Expense)	0.41	1.14	0.00	0.00
Profit Before Tax (pre-EI)	24.01	41.41	57.02	66.05
Exceptional Items				
Pre-tax Profit	24.01	41.41	57.02	66.05
Taxation	(3.67)	(7.86)	(11.40)	(13.21)
Exceptional Income - post-tax				
Profit After Tax	20.34	33.55	45.62	52.84
Minority Interests	(2.81)	(7.12)	(11.40)	(13.00)
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	17.52	26.44	34.22	39.84
Recurring Net Profit	17.52	26.44	34.22	39.84
Fully Diluted Recurring Net Profit	17.52	26.44	34.22	39.84

Balance Sheet

(\$M)	Mar-17A	Mar-18A	Mar-19F	Mar-20F
Total Cash And Equivalents	25.76	93.46	58.30	70.24
Total Debtors	46.27	114.10	138.62	150.96
Inventories	0.65	0.64	0.64	0.64
Total Other Current Assets	23.41	25.92	38.18	42.00
Total Current Assets	96.08	234.12	235.74	263.84
Fixed Assets	11.18	41.57	44.57	46.57
Total Investments	1.49	2.63	2.83	3.33
Intangible Assets	56.55	298.36	316.03	330.57
Total Other Non-Current Assets	0.68	5.19	5.19	5.19
Total Non-current Assets	69.90	347.74	368.62	385.66
Short-term Debt	6.22	5.07	5.07	5.07
Current Portion of Long-Term Debt				
Total Creditors	47.39	282.91	94.78	87.07
Other Current Liabilities	8.53	10.25	10.25	10.25
Total Current Liabilities	62.13	298.22	110.10	102.39
Total Long-term Debt	5.46	68.07	233.07	233.07
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	0.00	0.00	0.00	0.00
Total Non-current Liabilities	5.46	68.07	233.07	233.07
Total Provisions	1.87	3.09	3.09	3.09
Total Liabilities	69.46	369.38	346.26	338.55
Shareholders' Equity	84.99	181.49	215.71	255.55
Minority Interests	11.53	31.00	42.40	55.40
Total Equity	96.51	212.49	258.11	310.95

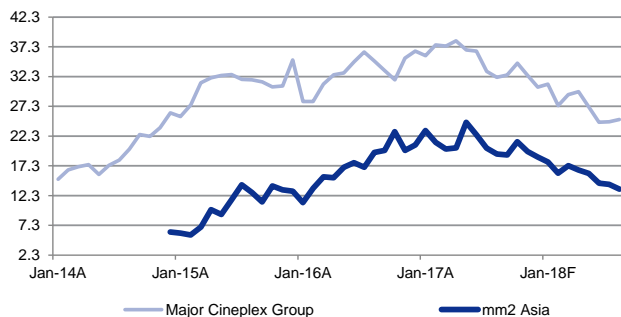
Cash Flow

(\$M)	Mar-17A	Mar-18A	Mar-19F	Mar-20F
EBITDA	41.39	63.45	93.72	111.27
Cash Flow from Inv. & Assoc.	0.01	(0.11)	(0.20)	(0.50)
Change In Working Capital	(30.77)	(57.23)	(257.47)	(61.31)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense	0.04	0.01	0.00	0.00
Other Operating Cashflow				
Net Interest (Paid)/Received	(1.39)	(1.43)	(9.70)	(9.50)
Tax Paid	(1.96)	(5.16)	(11.40)	(13.21)
Cashflow From Operations	7.31	(0.47)	(185.06)	26.74
Capex	(9.68)	(10.56)	(12.00)	(12.00)
Disposals Of FAs/subsidiaries				
Acq. Of Subsidiaries/investments	(19.79)	(61.12)	(3.30)	(3.30)
Other Investing Cashflow	3.01	(0.72)	0.00	0.00
Cash Flow From Investing	(26.45)	(72.39)	(15.30)	(15.30)
Debt Raised/(repaid)	17.76	60.16	165.00	0.00
Proceeds From Issue Of Shares	18.04	64.08	0.00	0.00
Shares Repurchased				
Dividends Paid				
Preferred Dividends				
Other Financing Cashflow				
Cash Flow From Financing	35.80	124.24	165.00	0.00
Total Cash Generated	16.66	51.38	(35.36)	11.44
Free Cashflow To Equity	(1.38)	(12.71)	(35.36)	11.44
Free Cashflow To Firm	(17.73)	(70.97)	(190.66)	20.94

Key Ratios

	Mar-17A	Mar-18A	Mar-19F	Mar-20F
Revenue Growth	150%	101%	53%	10%
Operating EBITDA Growth	117%	53%	48%	19%
Operating EBITDA Margin	43.2%	33.0%	31.8%	34.3%
Net Cash Per Share (\$)	0.01	0.02	(0.15)	(0.14)
BVPS (\$)	0.08	0.16	0.19	0.22
Gross Interest Cover	17.69	22.22	6.86	7.90
Effective Tax Rate	15.3%	19.0%	20.0%	20.0%
Net Dividend Payout Ratio	NA	NA	NA	NA
Accounts Receivables Days	134.8	152.4	156.7	163.2
Inventory Days	3.32	2.32	1.44	1.30
Accounts Payables Days	254.7	589.8	425.3	183.9
ROIC (%)	69.1%	50.8%	34.5%	17.1%
ROCE (%)	33.1%	21.1%	16.9%	14.3%
Return On Average Assets	18.5%	9.5%	9.3%	9.9%

12-mth Fwd FD P/E (x)



Key Drivers

	Mar-17A	Mar-18A	Mar-19F	Mar-20F
TV Adex Rate (% Change)	N/A	N/A	N/A	N/A
Average Utilisation Rate (%)	N/A	N/A	N/A	N/A
Prime Time Utilisation Rate (%)	N/A	N/A	N/A	N/A
Non Prime Time Utilisation Rate (%)	N/A	N/A	N/A	N/A
Programming Costs (% Change)	89.7%	65.4%	20.0%	10.0%
Newspaper adex rev. grth (%)	158.1%	257.6%	122.1%	5.0%
Newspaper ASP (% Change)	N/A	N/A	N/A	N/A
Newspaper circulation grth (%)	N/A	N/A	N/A	N/A
Newspaper Cost (% Change)	N/A	N/A	N/A	N/A

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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Description:	Excellent	Very Good	Good	N/A	

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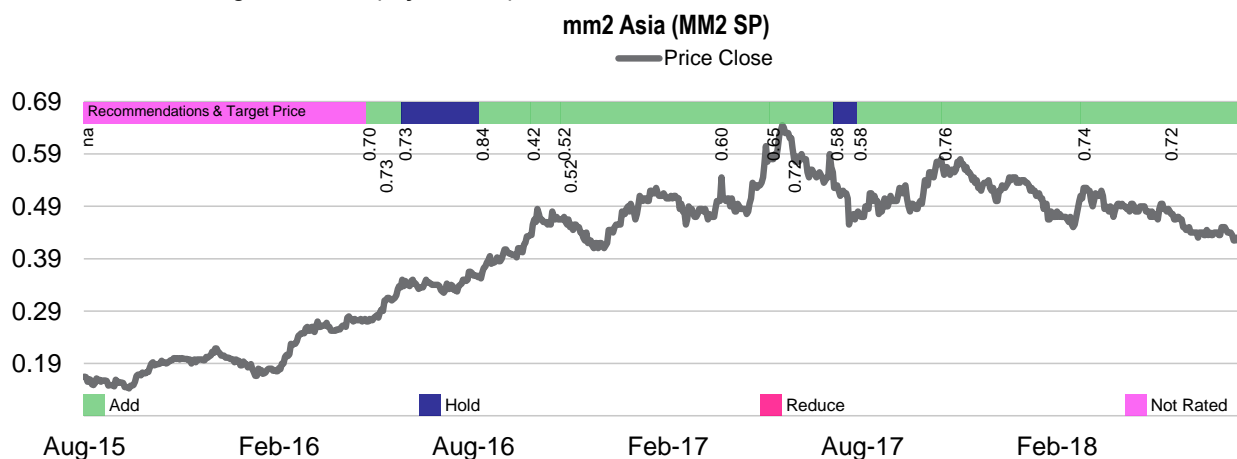
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	Rating Distribution (%)	Investment Banking clients (%)
Add	62.3%	4.5%
Hold	26.2%	2.5%
Reduce	9.3%	0.8%

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 2017, Anti-Corruption 2017

AAV – Very Good, n/a, **ADVANC** – Excellent, Certified, **AEONTS** – Good, n/a, **AMATA** – Very Good, n/a, **ANAN** – Excellent, n/a, **AOT** – Excellent, Declared, **AP** – Excellent, Declared, **ASK** – Very Good, Declared, **ASP** – Very Good, Certified, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Declared, **BCP** - Excellent, Certified, **BCPG** – Very Good, n/a, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – not available, n/a, **BH** - Good, n/a, **BJC** – Very Good, Declared, **BJCHI** – Very Good, Declared, **BLA** – Very Good, Certified, **BPP** – Good, n/a, **BR** - Good, Declared, **BTS** - Excellent, Certified, **CBG** – Good, n/a, **CCET** – Good, n/a, **CENDEL** – Very Good, Certified, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available, Declared, **CPF** – Excellent, Declared, **CPN** - Excellent, Certified, **DELTA** - Excellent, n/a, **DEMCO** – Excellent, Certified, **DIF** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Very Good, n/a, **ECL** – Very Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Very Good, n/a, **GFPT** - Excellent, Declared, **GGC** – not available, Declared, **GLOBAL** – Very Good, Declared, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Declared, **GRAMMY** - Excellent, n/a, **GUNKUL** – Excellent, Declared, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **ICHI** – Excellent, n/a, **III** – not available, n/a, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JAS** – not available, Declared, **JASIF** – not available, n/a, **JUBILE** – Good, Declared, **KAMART** – not available, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KGI** – Very Good, Certified, **KKP** – Excellent, Certified, **KSL** – Very Good, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified,

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- Companies that have declared their intention to join CAC, and
- Companies certified by CAC

Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
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