

## mm2 Asia (MM2 SP)

### Needs to be “More Than Blue”

#### Movie optimism reflected; D/G to HOLD

Reported good showing of mm2's latest movie “More Than Blue” that has led to another tie-up with Fox Networks Group Asia has likely driven the stock's recent re-rating. We make no changes to forecasts as we await divisional disclosures in fiscal-year-end reporting, particularly on the cinema side. We think optimism has been priced in and downgrade the stock to HOLD from BUY. Maintain our 1x PEG-based TP of SGD0.34. Cinema performance and its impact on leverage are key upside and downside risks to our outlook.

#### Not windfall gain but decent one, nonetheless

Although mm2 itself is not an investor in the above film, it stands to gain from 8-12% producer bonus fees from any hits. Assuming the movie cost SGD5m to produce, additional revenue could be SGD0.4-0.6k. However, the market may be anticipating gains more proportionate to the SGD66m box office grossed by the movie over its first weekend in China. We also note that mm2 has entered into a SGD115m refinancing facility that could lower its future interest expenses, a positive.

#### Hits are more long-term than near-term positives

Recall that by focussing on production rather than film investments, mm2's core production business is insulated from volatility, in either direction. However, the more hits mm2 produces theoretically provides reputational gains to bag future production work from regional/global players - hence, its recent Netflix and Fox production deals. Management actively connects investors with writers/directors to get production work.

#### Lifting the fog would help

We continue to view its content-production business favourably, supported by a healthy pipeline. Big-screen content risks due to changing - and a new generation of - viewer habits remains a perception issue, hence more content for streaming could be essential. Unfortunately, its Cathay cinema acquisition has clouded all interim visibility of its production business and overall prospects due to leverage. Although upcoming fiscal-year results could provide visibility of all parts, this would be followed by a 9-month revenue fog unless management enhances interim disclosures.

FYE Mar (SGD m)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	96	192	280	331	367
EBITDA	41	63	85	113	131
Core net profit	19	26	22	36	44
Core EPS (cts)	1.9	2.4	1.9	3.1	3.7
Core EPS growth (%)	100.2	29.2	(21.4)	63.1	22.1
Net DPS (cts)	0.0	0.0	0.0	0.0	0.0
Core P/E (x)	25.4	21.3	16.8	10.3	8.4
P/BV (x)	5.7	3.3	1.4	1.1	0.8
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAE (%)	31.0	19.8	9.3	12.1	11.2
ROAA (%)	16.0	7.1	3.7	5.4	5.6
EV/EBITDA (x)	11.5	9.1	7.5	5.6	4.5
Net gearing (%) (incl perps)	net cash	net cash	79.7	57.0	33.7
Consensus net profit	-	-	19	23	28
MKE vs. Consensus (%)	-	-	8.9	56.1	54.7

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# HOLD

[Prior:BUY]

Share Price	SGD 0.32
12m Price Target	SGD 0.34 (+8%)
Previous Price Target	SGD 0.34

#### Company Description

mm2 Asia Ltd. is a media and entertainment conglomerate exposed to film production and distribution, cinema management, and event production.

#### Statistics

52w high/low (SGD)	0.52/0.27
3m avg turnover (USDm)	0.3
Free float (%)	36.8
Issued shares (m)	1,163
Market capitalisation	SGD366.3M USD271M

#### Major shareholders:

ANG WEE CHYE	38.1%
StarHub Ltd.	9.8%
YEO KHEE SENG BENNY	8.2%

#### Price Performance



— mm2 Asia - (LHS, SGD) — mm2 Asia / Straits Times Index - (RHS, %)

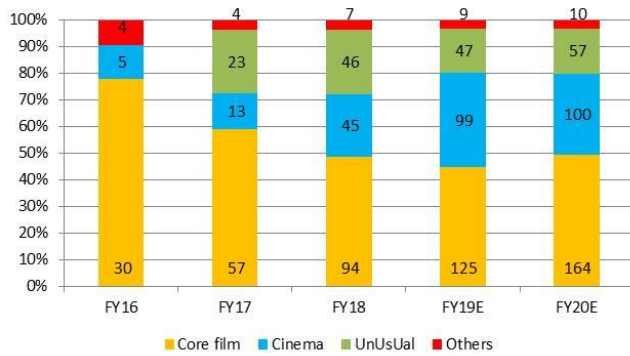
	-1M	-3M	-12M
Absolute (%)	17	(6)	(37)
Relative to index (%)	19	(11)	(32)

Source: FactSet

## Value Proposition

- Vertically and horizontally integrated media and entertainment group.
- Pursuing regional expansion and new acquisitions for growth.
- Film, TV and event production and promotion to underpin growth. Cinema business to provide steady cash flows.
- At FY19E PEG ratio of 0.9x based on FY18-21E core profit growth of 18%, the stock is fairly valued.

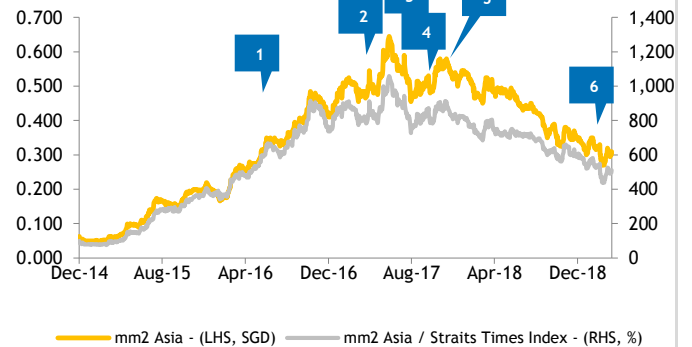
### Diversified and growing media revenue base (SGD m)



Source: Company, Maybank Kim Eng estimates

## Price Drivers

### Historical share price trend



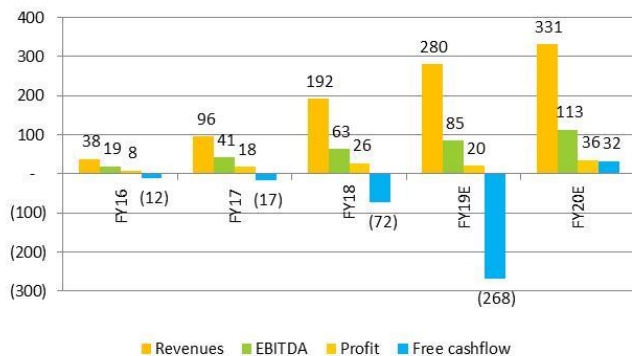
Source: Company, Maybank Kim Eng, Factset

1. StarHub acquired initial 8.8% stake in mm2.
2. IPO of subsidiary UnUsUal (UNU SP, Not Rated).
3. StarHub increased stake to 9.8%.
4. Deal to acquire Golden Village cinemas fell through.
5. Finalisation of Cathay Cineplex acquisition.
6. 9MFY19 hit by Cathay acquisition related finance charges.

## Financial Metrics

- Revenue and profit growth to come from recent acquisitions and organic growth at its core film business.
- Payment for Cathay acquisition to result in negative FCF & gearing in FY19E but reversal expected in FY20E from business expansion.
- Our forecasts do not account for further acquisitions or any listing gains from its currently unlisted parts.

### Scaling impact will raise FCF post acquisition digestion



Source: Company, Maybank Kim Eng estimates

## Swing Factors

### Upside

- A series of TV or movie blockbusters whether in-house produced or distributed can produce positive surprises.
- More event production or co-production deals for UnUsUal for Disney shows and/or other big names in content can help it build scale faster.
- Successful listing of various components could unlock value.

### Downside

- Worsening of content piracy, which would affect film, TV and cinema demand.
- Any issues in paying for remaining SGD215m for its Cathay acquisition.
- Unfavourable regulations in regional markets for its film expansion.

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FYE 31 Mar	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Key Metrics</b>					
P/E (reported) (x)	21.5	22.0	18.1	10.3	8.4
Core P/E (x)	25.4	21.3	16.8	10.3	8.4
P/BV (x)	5.7	3.3	1.4	1.1	0.8
P/NTA (x)	11.6	3.4	1.5	1.1	0.8
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
FCF yield (%)	nm	nm	nm	8.7	23.6
EV/EBITDA (x)	11.5	9.1	7.5	5.6	4.5
EV/EBIT (x)	18.2	13.7	12.4	9.1	7.5

**INCOME STATEMENT (SGD m)**

Revenue	95.7	192.0	280.1	330.7	367.4
Gross profit	45.3	90.5	132.9	160.8	179.9
EBITDA	41.4	63.4	85.2	112.5	130.6
Depreciation	(1.6)	(5.6)	(8.9)	(13.0)	(17.8)
Amortisation	(14.8)	(15.8)	(24.7)	(29.8)	(33.6)
EBIT	26.0	42.0	51.6	69.7	79.3
Net interest income / (exp)	(1.4)	(1.9)	(16.3)	(16.5)	(16.5)
Associates & JV	(0.0)	0.1	0.1	0.1	0.1
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.4	1.1	1.1	1.1	1.1
Pretax profit	25.0	41.4	36.6	54.5	64.1
Income tax	(3.7)	(7.9)	(7.3)	(9.8)	(11.5)
Minorities	(2.8)	(7.1)	(9.0)	(9.0)	(9.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	18.8	26.4	20.3	35.7	43.5
Core net profit	18.8	26.4	21.9	35.7	43.5

**BALANCE SHEET (SGD m)**

Cash & Short Term Investments	25.8	93.5	18.8	33.2	84.3
Accounts receivable	46.3	114.1	181.6	235.9	277.5
Inventory	24.0	26.6	36.1	47.4	56.1
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	11.2	41.6	61.1	83.2	106.6
Intangible assets	48.5	273.9	277.4	279.6	281.1
Investment in Associates & JVs	1.5	0.0	0.0	0.0	0.0
Other assets	8.7	32.3	32.4	32.5	32.6
<b>Total assets</b>	<b>166.0</b>	<b>581.9</b>	<b>607.3</b>	<b>711.7</b>	<b>838.2</b>
ST interest bearing debt	6.2	5.1	5.1	5.1	5.1
Accounts payable	46.6	281.7	43.0	53.5	61.3
LT interest bearing debt	5.5	68.1	248.1	248.1	248.1
Other liabilities	11.0	15.0	17.0	19.0	22.0
<b>Total Liabilities</b>	<b>69.5</b>	<b>369.4</b>	<b>313.1</b>	<b>326.0</b>	<b>336.3</b>
Shareholders Equity	85.0	181.5	254.2	336.7	443.9
Minority Interest	11.5	31.0	40.0	49.0	58.0
<b>Total shareholder equity</b>	<b>96.5</b>	<b>212.5</b>	<b>294.2</b>	<b>385.7</b>	<b>501.9</b>
<b>Total liabilities and equity</b>	<b>166.0</b>	<b>581.9</b>	<b>607.3</b>	<b>711.7</b>	<b>838.2</b>

**CASH FLOW (SGD m)**

Pretax profit	25.0	41.4	36.6	54.5	64.1
Depreciation & amortisation	15.3	21.4	33.6	42.9	51.4
Adj net interest (income)/exp	1.4	1.4	16.3	16.5	16.5
Change in working capital	(30.8)	(57.2)	(124.4)	(63.2)	(51.7)
Cash taxes paid	1.7	2.7	0.0	0.0	0.0
Other operating cash flow	0.4	(0.1)	(0.1)	(0.1)	(0.1)
Cash flow from operations	9.4	1.7	(45.4)	40.6	68.5
Capex	(9.7)	(10.6)	(15.4)	(18.2)	(20.2)
Free cash flow	(17.0)	(72.5)	(268.4)	31.7	86.5
Dividends paid	0.0	0.0	0.0	0.0	0.0
Equity raised / (purchased)	28.5	197.1	20.5	0.0	0.0
Change in Debt	10.9	(55.2)	180.0	0.0	0.0
Perpetual securities distribution	(0.1)	(0.2)	0.0	0.0	0.0
Other invest/financing cash flow	(17.3)	(64.8)	(224.0)	(7.2)	21.8
Effect of exch rate changes	(0.2)	(0.3)	9.5	(0.8)	(19.0)
Net cash flow	21.6	67.7	(74.7)	14.4	51.1

FYE 31 Mar	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	149.7	100.6	45.8	18.1	11.1
EBITDA growth	115.4	53.3	34.3	32.1	16.1
EBIT growth	154.1	61.4	22.8	34.9	13.8
Pretax growth	146.7	65.4	(11.7)	48.9	17.6
Reported net profit growth	129.4	40.9	(23.4)	76.0	22.1
Core net profit growth	129.4	40.9	(17.3)	63.1	22.1
<b>Profitability ratios (%)</b>					
EBITDA margin	43.2	33.0	30.4	34.0	35.5
EBIT margin	27.2	21.9	18.4	21.1	21.6
Pretax profit margin	26.2	21.6	13.1	16.5	17.4
Payout ratio	0.0	0.0	0.0	0.0	0.0
<b>DuPont analysis</b>					
Net profit margin (%)	19.6	13.8	7.2	10.8	11.8
Revenue/Assets (x)	0.6	0.3	0.5	0.5	0.4
Assets/Equity (x)	2.0	3.2	2.4	2.1	1.9
ROAE (%)	31.0	19.8	9.3	12.1	11.2
ROAA (%)	16.0	7.1	3.7	5.4	5.6
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	3.4	(341.8)	(130.5)	213.4	240.6
Days receivable outstanding	132.9	150.3	190.0	227.2	251.5
Days inventory outstanding	121.8	89.7	76.6	88.4	99.4
Days payables outstanding	251.2	581.7	397.1	102.2	110.2
Dividend cover (x)	nm	nm	nm	nm	nm
Current ratio (x)	1.5	0.8	4.0	4.5	5.4
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.4	1.6	1.9	2.2	2.5
Net gearing (%) (incl perps)	net cash	net cash	79.7	57.0	33.7
Net gearing (%) (excl. perps)	net cash	net cash	79.7	57.0	33.7
Net interest cover (x)	18.4	22.2	3.2	4.2	4.8
Debt/EBITDA (x)	0.3	1.2	3.0	2.2	1.9
Capex/revenue (%)	10.1	5.5	5.5	5.5	5.5
Net debt/ (net cash)	(14.1)	(20.3)	234.4	220.0	168.9

Source: Company; Maybank

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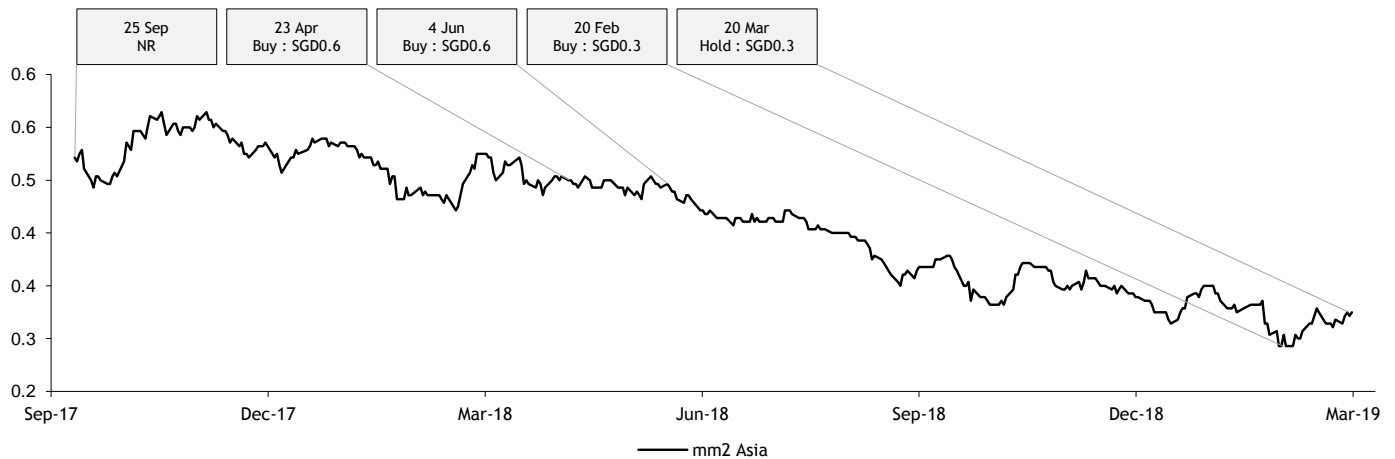
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