

Singapore Company Update

mm2 Asia

Bloomberg: MM2 SP | Reuters: MM2A.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

16 Nov 2020

FULLY VALUED

Last Traded Price (12 Nov 2020): S\$0.170 (STI : 2,711.39)
Price Target 12-mth: S\$0.13 (26% downside) (Prev S\$0.14)

Analyst

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What's New

- Huge loss in 1H FY21 as all segments affected by COVID pandemic
- Core business is the only bright spot; cinema segment continues to bleed; no shows lined up for UnUsUal
- Expect steep net losses in FY21F and FY22F
- Maintain FULLY VALUED with lower TP of S\$0.13; c.50% debt due within a year is a key concern

Price Relative



Forecasts and Valuation

FY Mar (S\$m)	2019A	2020A	2021F	2022F
Revenue	266	236	76.0	154
EBITDA	84.5	87.6	33.9	58.9
Pre-tax Profit	39.8	10.0	(43.0)	(17.0)
Net Profit	19.1	3.54	(33.6)	(20.9)
Net Pft (Pre Ex.)	19.1	3.54	(33.6)	(20.9)
Net Pft Gth (Pre-ex) (%)	(14.5)	(81.5)	nm	37.7
EPS (S cts)	1.65	0.30	(2.9)	(1.8)
EPS Pre Ex. (S cts)	1.65	0.30	(2.9)	(1.8)
EPS Gth Pre Ex (%)	(15)	(82)	nm	38
Diluted EPS (S cts)	1.65	0.30	(2.9)	(1.8)
Net DPS (S cts)	0.0	0.0	0.0	0.0
BV Per Share (S cts)	18.4	18.7	15.8	14.0
PE (X)	10.3	55.9	nm	nm
PE Pre Ex. (X)	10.3	55.9	nm	nm
P/Cash Flow (X)	109.5	25.0	nm	4.5
EV/EBITDA (X)	5.4	5.5	16.5	9.6
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	0.9	0.9	1.1	1.2
Net Debt/Equity (X)	0.8	0.8	1.2	1.3
ROAE (%)	9.7	1.6	(16.7)	(12.1)
Earnings Rev (%):			-	-
Consensus EPS (S cts):			0.20	0.80
Other Broker Recs:		B: 0	S: 1	H: 0

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



Brain Box

(Our NEW Pilot Research Platform) is available to Institutional Investors on Demand. Please contact your DBSV Institutional Sales contact for a demonstration.

No signs of a turnaround

Investment Thesis:

Remains loss-making. We expect mm2 to be in the red for FY Mar 21F and FY22F. In 1HFY21, core business has resumed production, but there are no shows slated for the concert segment in most regions except for one show in Taiwan that took place in late August 2020. The closure of Malaysia cinemas and restricted capacity for the Singapore cinemas were a drag on earnings. The concert segment could see pent-up demand once the COVID-19 lockdown eases but cinemas, together with the high cost of debt, could continue to impact the group's bottomline.

High gearing of 1.2x with c.50% of debt due within a year is a key concern.

Catalysts for the stock include deleveraging and/or restructuring of the group, including stake sale and divestment of assets, to reduce gearing.

Valuation:

Maintain FULLY VALUED; TP S\$0.13. Our sum-of-parts target price of S\$0.13 is pegged to 10x FY22F earnings for core business (in line with de-rating of peers), 6x EV/EBITDA for cinema business, and current market valuations for UnUsUal and Vividthree.

Where we differ:

Currently, we are the only broker covering mm2 Asia.

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 (S\$m/US\$m)	198 / 147
Major Shareholders (%)	
StarHub Ltd	9.8
Yeo Khee Seng	8.3
Yeo Khee Seng	8.2
Free Float (%)	
3m Avg. Daily Val (US\$m)	0.01
GIC Industry : Communication Services / Media & Entertainment	



Live more, Bank less

WHAT'S NEW**Huge loss in 1H FY21; all segments affected by COVID-19 pandemic**

Huge loss in 1H FY21. Group revenue for 1H21 plummeted by 83% y-o-y to S\$19.9m, due to the adverse impact from the outbreak of COVID-19 as all the group's business segments were affected. As a result of the plunge in revenue, the group recorded huge net loss of S\$22.4m, vs S\$9.2m profit in 1H FY20, though EBITDA remains positive at S\$6.2m.

Core business is still the only bright spot. Revenue for core business decreased by 54.4% y-o-y to S\$13.4m in 1H FY21, mainly due to lesser number of projects delivered and distribution income was also affected by cinema closures during the first three months of the financial period.

Nevertheless, the group's core business in content development will continue to be a key driver, with its diversified businesses, including distribution of content to platform providers, and multi-market presence to help mitigate the impact on other group businesses that have been more adversely affected by COVID-19. The group's strategy remains focused on North Asia.

Cinema segment continues to bleed. As expected, the cinema segment was loss making in 1HFY21. Revenue for the cinema segment plunged by 92.7% y-o-y to S\$3.6m, as its operations were temporarily closed due to directives of both the Singapore and Malaysia governments. The cinemas in Singapore were closed from 26 March and re-opened in mid-July with a 50-person restriction. This restriction was raised to 150 patrons from 1 October for large cinema halls with more than 300 seats. In Malaysia, cinemas remain closed in light of the Movement Control Order (MCO) to combat the COVID-19 pandemic. Hence, 1HFY21 was loss-making and we expect losses to continue at least till 2HFY22/FY23F.

No shows for UnUsUaL, except in Taiwan. 1H FY21 revenue for concert and event dived 96.8% to S\$3.6m, as this segment did not hold any live entertainment events/concerts during 1H FY21, except for the first post-pandemic, full scale concert by Mandopop singer-songwriter Eric Chou at Taipei Arena in late August 2020. Most of the large-scale projects have been deferred to contain the spread of COVID-19. Hence, the concert segment also reported a net loss for 1HFY21.

Expect steep net losses in FY21F and FY22F. With the steeper than expected loss in 1HFY21, we now expect FY21F and FY22F to continue to register steep losses, and recovery only in FY Mar 2023. Our sum-of-parts target price of S\$0.13 (prev S\$0.14) is pegged to 10x FY22F earnings for core business (in line with de-rating of peers), 6x EV/EBITDA for cinema business, and current market valuations for UnUsUaL and Vividthree.

We could see pent-up demand for out-of-home and live entertainment after easing of COVID-19 lockdowns. But the cinema segment could take a longer time to turnaround given the suspension of business in Malaysia and the restrictions in Singapore. Furthermore, gearing for the group remained high at 1.2x, and c.50% of the debt is due within a year, which is a key concern.

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.

mm2 Asia

Interim Income Statement (\$m)

FY Mar	1H2020	2H2020	1H2021	% chg yoy	% chg hoh
Revenue	117	118	20	(83.0)	(83.2)
Cost of Goods Sold	(59)	(87)	(20)	(66.6)	(77.3)
Gross Profit	58	31	0	(99.8)	(99.6)
Other Oper. (Exp)/Inc	(31)	(29)	(14)	(53.3)	(50.6)
Operating Profit	27	2	(14)	nm	nm
Other Non Opg (Exp)/Inc	0	0	(1)	nm	nm
Associates & JV Inc	0	0	0	-	-
Net Interest (Exp)/Inc	(10)	(9)	(10)	5.8	(4.1)
Exceptional Gain/(Loss)	0	0	0	-	-
Pre-tax Profit	17	(7)	(25)	nm	(235.6)
Tax	(5)	1	(1)	(83.3)	nm
Minority Interest	(4)	1	3	nm	539.8
Net Profit	9	(6)	(22)	nm	297.4
Net profit bef Except.	9	(6)	(22)	nm	297.4
EBITDA	50	37	6	(87.6)	(83.4)
Margins (%)					
Gross Margins	49.6	26.4	0.7		
Opg Profit Margins	23.3	1.8	(71.6)		
Net Profit Margins	7.8	(4.8)	(112.6)		

Sum-of-parts valuation table

Segment	Stake	Valuation (\$m)	Assumption
Production & Distribution	100%	62.5	Based on 10x PE, discount to peers
Cinema Operation	100%	25.7	Based on 6x EV/EBITDA, discount to peers
Post-Production	42%	5.0	Based on current valuation
Event Production & Concert Promotion	39%	52.9	Based on current valuation
Total value		146.0	
Number of shares		1,162.8	
Value per share (\$)		0.13	

Source: Bloomberg Finance L.P., DBS Bank estimates

Historical PB band



Source: Bloomberg Finance L.P., DBS Bank estimates

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Segmental Breakdown

FY Mar	2018A	2019A	2020A	2021F	2022F
Revenues (\$m)					
Production & Distribution	93.6	99.5	76.9	50.0	62.5
Cinema Operation	45.0	101	87.9	10.0	30.0
Event Production & Post-Production	46.4	56.9	61.8	15.0	60.0
Others	6.32	9.29	5.78	1.00	1.20
	0.62	(0.6)	3.46	0.0	0.0
Total	192	266	236	76.0	154
Gross profit (\$m)					
Production & Distribution	40.3	44.1	35.4	16.0	25.0
Cinema Operation	28.2	51.4	39.5	(5.0)	(2.0)
Event Production & Post-Production	17.9	23.0	13.1	0.50	18.0
Others	3.86	6.48	2.06	(1.0)	(0.5)
	0.19	0.19	0.19	0.19	0.19
Total	90.5	125	90.3	10.7	40.7
Gross profit Margins (%)					
Production & Distribution	43.1	44.3	46.0	32.0	40.0
Cinema Operation	62.6	50.9	45.0	(50.0)	(6.7)
Event Production & Post-Production	38.5	40.3	21.2	3.3	30.0
Others	61.2	69.8	35.6	(100.0)	(41.7)
Total	47.1	47.0	38.3	14.1	26.5

Income Statement (\$m)

FY Mar	2018A	2019A	2020A	2021F	2022F
Revenue	192	266	236	76.0	154
Cost of Goods Sold	(105)	(142)	(146)	(65.3)	(113)
Gross Profit	87.3	124	89.4	10.7	40.7
Other Opng (Exp)/Inc	(45.9)	(67.0)	(59.9)	(35.0)	(40.0)
Operating Profit	41.4	57.2	29.5	(24.3)	0.69
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)	(19.4)	(18.7)	(17.7)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	36.6	39.8	10.0	(43.0)	(17.0)
Tax	(7.1)	(11.1)	(3.4)	14.6	5.76
Minority Interest	(7.1)	(9.6)	(3.1)	(5.2)	(9.7)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	22.4	19.1	3.54	(33.6)	(20.9)
Net Profit before Except.	22.4	19.1	3.54	(33.6)	(20.9)
EBITDA	57.8	84.5	87.6	33.9	58.9
Growth					
Revenue Gth (%)	100.6	38.6	(11.4)	(67.8)	102.2
EBITDA Gth (%)	43.6	46.1	3.8	(61.4)	73.8
Opg Profit Gth (%)	62.9	38.1	(48.5)	(182.4)	(102.8)
Net Profit Gth (Pre-ex) (%)	27.8	(14.5)	(81.5)	nm	37.7
Margins & Ratio					
Gross Margins (%)	45.5	46.7	37.9	14.1	26.5
Opg Profit Margin (%)	21.6	21.5	12.5	(32.0)	0.4
Net Profit Margin (%)	11.7	7.2	1.5	(44.2)	(13.6)
ROAE (%)	16.9	9.7	1.6	(16.7)	(12.1)
ROA (%)	6.0	3.1	0.5	(4.8)	(3.1)
ROCE (%)	8.7	0.3	(2.9)	(8.5)	(6.2)
Div Payout Ratio (%)	0.0	0.0	0.0	N/A	N/A
Net Interest Cover (x)	8.4	3.2	1.5	(1.3)	0.0

Source: Company, DBS Bank

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Interim Income Statement (\$m)

FY Mar	1H2019	2H2019	1H2020	2H2020	1H2021
Revenue	114	152	117	118	19.9
Cost of Goods Sold	(53.4)	(88.6)	(59.2)	(87.1)	(19.8)
Gross Profit	60.5	63.7	58.2	31.2	0.13
Other Oper. (Exp)/Inc	(31.8)	(37.6)	(30.8)	(29.1)	(14.4)
Operating Profit	28.8	26.0	27.4	2.10	(14.3)
Other Non Opg (Exp)/Inc	0.63	2.28	0.30	(0.3)	(1.4)
Associates & JV Inc	0.0	0.03	0.0	0.0	0.23
Net Interest (Exp)/Inc	(8.7)	(9.1)	(10.2)	(9.2)	(9.6)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	20.6	19.2	17.5	(7.5)	(25.0)
Tax	(6.1)	(5.1)	(4.7)	1.28	(0.8)
Minority Interest	(3.6)	(6.0)	(3.6)	0.53	3.38
Net Profit	11.0	8.16	9.18	(5.6)	(22.4)
Net profit bef Except.	11.0	8.16	9.18	(5.6)	(22.4)
EBITDA	35.9	42.6	50.2	37.5	6.23

Growth

Revenue Gth (%)	(16.3)	33.7	(22.9)	0.8	(83.2)
EBITDA Gth (%)	(18.1)	18.7	17.7	(25.2)	(83.4)
Opg Profit Gth (%)	21.9	(9.6)	5.3	(92.3)	(778.7)
Net Profit Gth (%)	(16.2)	(25.7)	12.5	(161.5)	297.4

Margins

Gross Margins (%)	53.1	41.8	49.6	26.4	0.7
Opg Profit Margins (%)	25.3	17.1	23.3	1.8	(71.6)
Net Profit Margins (%)	9.6	5.4	7.8	(4.8)	(112.6)

Balance Sheet (\$m)

FY Mar	2018A	2019A	2020A	2021F	2022F
Net Fixed Assets	42.1	36.4	33.6	32.4	41.3
Invt in Associates & JVs	2.63	2.76	2.72	2.72	2.72
Other LT Assets	301	339	443	416	389
Cash & ST Invt	93.2	18.6	29.4	8.63	12.8
Inventory	21.1	22.2	3.24	2.08	4.21
Debtors	108	181	141	125	160
Other Current Assets	14.1	66.2	84.8	84.8	84.8
Total Assets	582	666	737	672	695
ST Debt	4.97	36.8	127	127	127
Creditor	273	131	91.8	25.0	50.5
Other Current Liab	13.0	27.4	40.7	20.1	28.9
LT Debt	61.0	186	131	181	181
Other LT Liabilities	21.8	17.4	73.1	73.1	73.1
Shareholder's Equity	179	214	218	184	163
Minority Interests	29.9	52.5	56.2	61.5	71.2
Total Cap. & Liab.	582	666	737	672	695
Non-Cash Wkg. Capital	(143)	110	96.1	167	170
Net Cash/(Debt)	27.2	(204)	(228)	(299)	(295)
Debtors Turn (avg days)	146.7	197.9	248.7	637.8	338.3
Creditors Turn (avg days)	663.0	640.4	461.9	2,990.9	251.4
Inventory Turn (avg days)	91.5	68.6	52.7	136.2	20.9
Asset Turnover (x)	0.5	0.4	0.3	0.1	0.2
Current Ratio (x)	0.8	1.5	1.0	1.3	1.3
Quick Ratio (x)	0.7	1.0	0.7	0.8	0.8
Net Debt/Equity (X)	CASH	0.8	0.8	1.2	1.3
Net Debt/Equity ex MI (X)	CASH	1.0	1.0	1.6	1.8
Capex to Debt (%)	93.0	104.4	10.0	9.7	13.0
Z-Score (X)	0.9	1.3	0.9	0.9	1.1

Source: Company, DBS Bank

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Cash Flow Statement (\$m)

FY Mar	2018A	2019A	2020A	2021F	2022F
Pre-Tax Profit	36.6	39.8	10.0	(43.0)	(17.0)
Dep. & Amort.	16.3	26.7	58.2	58.2	58.2
Tax Paid	(5.2)	(9.8)	(8.5)	(6.0)	14.6
Assoc. & JV Inc/(loss)	(0.1)	0.0	0.03	0.0	0.0
Chg in Wkg.Cap.	(57.3)	(55.0)	(51.8)	(49.9)	(11.7)
Other Operating CF	0.0	0.0	0.0	0.0	0.0
Net Operating CF	(9.7)	1.81	7.91	(40.8)	44.2
Capital Exp.(net)	(61.3)	(233)	(25.8)	(30.0)	(40.0)
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)	(3.0)	0.0	0.0
Net Investing CF	(73.7)	(232)	(28.8)	(30.0)	(40.0)
Div Paid	0.0	0.0	0.0	0.0	0.0
Chg in Gross Debt	60.2	150	32.0	50.0	0.0
Capital Issues	81.6	12.0	0.66	0.0	0.0
Other Financing CF	(1.2)	(15.8)	(28.9)	0.0	0.0
Net Financing CF	141	146	3.78	50.0	0.0
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	57.2	(83.9)	(17.1)	(20.8)	4.15
Opg CFPS (S cts)	4.09	4.88	5.13	0.79	4.80
Free CFPS (S cts)	(6.1)	(19.9)	(1.5)	(6.1)	0.36

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	15 Nov 19	0.28	0.30	HOLD
2:	25 Mar 20	0.14	0.11	FULLY VALUED
3:	01 Jun 20	0.18	0.14	FULLY VALUED

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

Source: DBS Bank

Analyst: Lee Keng LING

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

Completed Date: 16 Nov 2020 08:38:44 (SGT)

Dissemination Date: 16 Nov 2020 09:03:53 (SGT)

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