

News Analysis: Auditor raised going concern issue

- Key areas of focus include significant net loss, current liabilities exceeded current assets, high carrying value of goodwill
- We view this as a prudent measure on the part of the auditor, as these issues are not new
- Initiatives in place to reduce gearing
- Pending new source of funds and refinancing existing debt with longer repayment period

Auditor raised going concern issue. The independent auditor for mm2 Asia, Nexia TS Public Accounting Corporation, has highlighted material uncertainty related to going concern, based on the FY March 2021 financial statement.

Key areas of focus include 1) Significant net loss (exclude minority interest) of S\$99.5m for FY Mar 21; 2) Current liabilities exceeded its current assets by S\$119.5m and 3) Carrying value of goodwill amounting to S\$219.4m. Other areas of focus include revenue recognition method, trade receivables, which account for 55% of the group's total current assets, and the valuation of film rights, film intangibles and film inventories, which are non-monetary assets and judgmental in nature.

Our take

Prudent measure. These issues were already in existence since the Group was affected by the COVID-19 pandemic last year. We view this as a prudent measure on the part of the auditor.

Initiatives in place to reduce gearing. Furthermore, the Group has put in place several initiatives in a bid to pare down its debt of S\$270m as at FY Mar 21, as gearing swelled to >2x. These initiatives include 1) Spin-off and listing of the cinema business; 2) Merger of the cinema business with Golden Village cinemas in Singapore; 3) Launches rights issue to strengthen its financial position, which was already completed in April 2021; 4) Entry of strategic investor to deleverage.

Strong recovery in 2H21. The Group is on the road of recovery from COVID-19, as 2H21 saw a strong recovery, accounting for 73% of the total revenue for FY21.

Pending new source of funds and refinancing existing debt with longer repayment period. The Group has been engaging continually with various lenders for refinancing of its existing loans and to seek new credit facilities to secure its financial sustainability. The Group is currently negotiating with a financial institution who has offered an indicative proposal to refinance up to \$123m of its existing borrowings and a new credit facility amounting to \$25m for working capital purpose. The first principal repayment will only be required in 18 months later from the first draw down date (i.e. 4Q of FY Mar 23). Accordingly, the refinance exercise would allow the Group to preserve sufficient working capital for its recovery of COVID-19. The negotiations are still in progress.

Maintain HOLD, TP: S\$0.067. We currently have a HOLD call on mm2 Asia, pending the execution of the initiatives that were announced earlier.