

## mm2 Asia (MM2 SP)

# Brighter 2H Picture

# BUY

Share Price	SGD 0.35
12m Price Target	SGD 0.57 (+64%)
Previous Price Target	SGD 0.57

### 1HFY19 in line; maintain BUY

1HFY19 core EPS forms 41%/41% of MKE/consensus estimates (Fig 1). With 2H traditionally driving the bulk of its annual profits - 58% in 2HFY18, results were in line. We maintain our forecasts, 1x PEG-based TP of SGD0.57 and BUY as management has indicated continued improvements in its cinema business. A strong production pipeline, including Netflix work, should contribute by 4Q. Any production delays or cost over-runs are key risks to our outlook.

### Reported profits dragged by one-off

1HFY19 revenue makes up 41%/36% of MKE/consensus estimates, with YoY growth driven by its Cathay Cineleisure cinema acquisition and QoQ growth by concert and event production. The bulk of its core movie and TV production business typically contributes in 2H. Due to a SGD1.6m exceptional cost related to Cathay's final valuation, reported 1H19 EPS only forms 27%/31% of MKE/consensus.

### Promising 2H

Management outlined a healthy core production pipeline, up YoY to about 80 from 50. This is inclusive of recently-announced production work for Netflix's 2019 Asia programming. Its Netflix relationship took two years to build. More B2B deals similar to Netflix's are expected, that should lift volume and upfront payments, although these may have lower margin. Its concert and event production business is expected to scale up further. Management indicated that six months into its acquisition of Cathay, cinema EBITDA is higher from both revenue enhancement and cost reduction. Its recently-Catalist-listed post-production and virtual-reality (VR) arm, Vividthree, will be booking gains from its initial VR show sales.

### Focus areas

mm2 continues to focus on non-box-office cinema revenue sources such as F&B and advertising to create a platform for the eventual listing of its cinema business. The latter should help in balance-sheet de-leveraging. As for its core business, it is targeting more TV production work.

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	31	41	48
Core EPS (cts)	1.9	2.4	2.6	3.5	4.1
Core EPS growth (%)	100.2	29.2	10.7	31.9	17.2
Net DPS (cts)	0.0	0.0	0.0	0.0	0.0
Core P/E (x)	25.4	21.3	13.2	10.0	8.6
P/BV (x)	5.7	3.3	1.5	1.1	0.9
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAE (%)	31.0	19.8	17.7	12.8	11.4
ROAA (%)	16.0	7.1	5.1	6.0	6.0
EV/EBITDA (x)	11.5	9.1	7.8	5.8	4.6
Net gearing (%) (incl perps)	net cash	net cash	70.4	50.2	28.8
Consensus core profit	-	-	31	38	44
MKE vs. Consensus (%)	-	-	0.4	8.0	10.0

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### Company Description

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

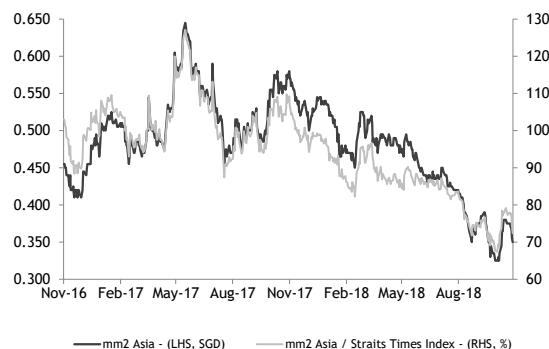
### Statistics

52w high/low (SGD)	0.58/0.33
3m avg turnover (USDm)	0.2
Free float (%)	40.2
Issued shares (m)	1,163
Market capitalisation	SGD407.0M USD296M

### Major shareholders:

ANG WEE CHYE	38.1%
StarHub Ltd.	9.8%
YEO KHEE SENG BENNY	6.0%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	4	(17)	(39)
Relative to index (%)	3	(13)	(34)

Source: FactSet

### Companies and terms mentioned:

Netflix (NFLX US, Not Rated)  
Vividthree (VTH SP, Not Rated)  
B2B - business to business  
VR - virtual reality  
F&B - food and beverage

Figure 1: Quarterly results

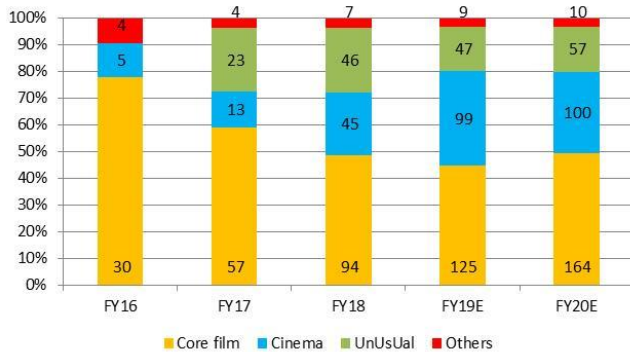
(end-Mar, SGD m)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	QoQ	YoY	% of MKE FY19	% of cons FY19
<b>Total revenue</b>	<b>31.4</b>	<b>52.4</b>	<b>83.6</b>	<b>49.0</b>	<b>64.9</b>	<b>32.5%</b>	<b>106.7%</b>	<b>40.7%</b>	<b>35.5%</b>
Cost of sales	(16.8)	(28.2)	(47.3)	(16.1)	(37.3)	132.3%	122.2%		
<b>Gross profit</b>	<b>14.6</b>	<b>24.2</b>	<b>36.3</b>	<b>32.9</b>	<b>27.6</b>	<b>-16.2%</b>	<b>88.9%</b>		
<i>Gross profit margin</i>	<i>46.5%</i>	<i>46.1%</i>	<i>43.4%</i>	<i>67.2%</i>	<i>42.5%</i>				
Administrative expenses	(6.7)	(14.2)	(21.8)	(18.9)	(13.4)	-29.2%	99.7%		
<b>EBITDA</b>	<b>9.74</b>	<b>14.27</b>	<b>28.35</b>	<b>17.95</b>	<b>17.45</b>	<b>-2.8%</b>	<b>79.2%</b>	<b>41.5%</b>	
<i>EBITDA margin</i>	<i>31.0%</i>	<i>27.2%</i>	<i>33.9%</i>	<i>36.6%</i>	<i>26.9%</i>				
Amortization of film rights	(0.6)	(2.3)	(8.1)	(0.2)	(0.6)	164.8%	0.3%		
Amortization of other film	(0.5)	(0.5)	(3.1)	(1.0)	(0.4)	-64.4%	-25.1%		
Depreciation of PPE	(0.7)	(1.5)	(2.7)	(2.6)	(2.2)	-14.9%	212.8%		
<b>EBIT</b>	<b>7.9</b>	<b>9.9</b>	<b>14.5</b>	<b>14.0</b>	<b>14.2</b>	<b>1.3%</b>	<b>79.6%</b>		
Other income	0.4	0.1	0.2	0.5	0.5	9.4%	36.8%		
Other gains and losses	0.1	0.4	(0.0)	0.3	(0.3)	-184.7%	-452.5%		
Associate income	(0.2)	0.2	0.2	0.0					
Finance expenses	(0.2)	(0.2)	(1.3)	(3.2)	(5.5)	71.2%	2504.2%		
<b>Profit before tax</b>	<b>8.0</b>	<b>10.4</b>	<b>13.5</b>	<b>11.6</b>	<b>8.9</b>	<b>-23.2%</b>	<b>11.9%</b>		
Tax	(1.6)	(1.9)	(2.5)	(2.5)	(3.5)	40.9%	115.8%		
<b>Profit before minorities</b>	<b>6.3</b>	<b>8.5</b>	<b>10.9</b>	<b>9.1</b>	<b>5.4</b>	<b>-40.8%</b>	<b>-15.0%</b>		
Minority interest	(1.8)	(2.0)	(1.9)	(1.9)	(1.7)	-8.6%	-2.2%		
<b>Reported profit</b>	<b>4.6</b>	<b>6.4</b>	<b>9.0</b>	<b>7.2</b>	<b>3.7</b>	<b>-49.2%</b>	<b>-19.8%</b>	<b>27.0%</b>	<b>30.7%</b>
Exceptional item adjustments	-	-	-	-	1.6				
<b>Core profit</b>	<b>4.6</b>	<b>6.4</b>	<b>9.0</b>	<b>7.2</b>	<b>5.3</b>	<b>-27.1%</b>	<b>15.0%</b>	<b>40.7%</b>	<b>40.8%</b>

Source: Company data, Maybank Kim Eng, 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 0.6x based on FY18-21E core profit growth of 22%, the stock is offering value against regional and global peers trading at a 2x PEG.

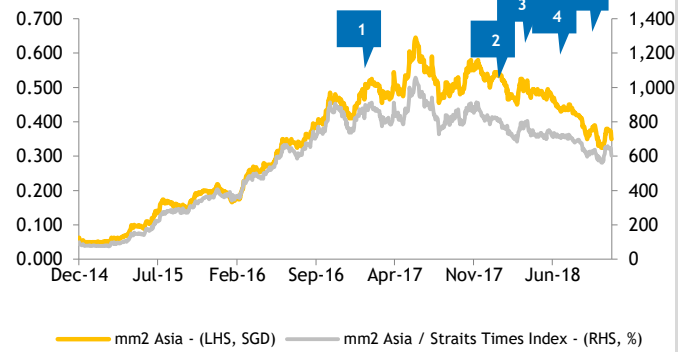
### Diversified and growing media revenue base (SGD m)



Source: Company, Maybank Kim Eng estimates

## Price Drivers

### Historical share price trend



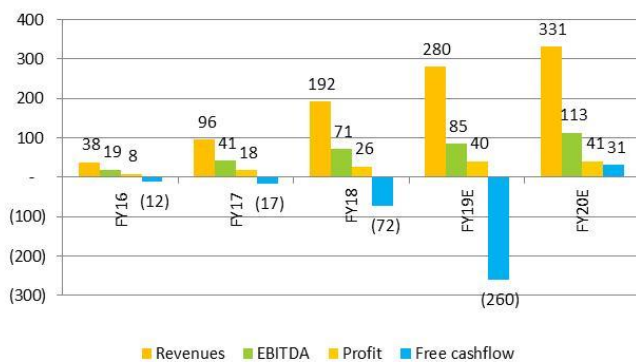
Source: Company, Maybank Kim Eng, Factset

- StarHub acquired initial 8.8% stake in mm2.
- IPO of subsidiary UnUsUal (UNU SP, Not Rated).
- StarHub increased stake to 9.8%.
- Deal to acquire Golden Village cinemas fell through.
- Finalisation of Cathay Cineplex acquisition.

## 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 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	10.1	10.0	8.6
Core P/E (x)	25.4	21.3	13.2	10.0	8.6
P/BV (x)	5.7	3.3	1.5	1.1	0.9
P/NTA (x)	11.6	3.4	1.5	1.1	0.9
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
FCF yield (%)	nm	nm	nm	7.5	21.0
EV/EBITDA (x)	11.5	9.1	7.8	5.8	4.6
EV/EBIT (x)	18.2	13.7	12.8	9.3	7.6
<b>INCOME STATEMENT (SGD m)</b>					
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)	(9.0)	(13.9)	(13.9)
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	13.1	1.1	1.1
Pretax profit	25.0	41.4	55.9	57.0	66.6
Income tax	(3.7)	(7.9)	(10.6)	(10.8)	(12.6)
Minorities	(2.8)	(7.1)	(4.8)	(5.6)	(6.4)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	18.8	26.4	40.5	40.6	47.6
Core net profit	18.8	26.4	30.8	40.6	47.6
<b>BALANCE SHEET (SGD m)</b>					
Cash & Short Term Investments	25.8	93.5	34.8	50.7	103.2
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>623.3</b>	<b>729.2</b>	<b>857.1</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	274.4	361.8	473.1
Minority Interest	11.5	31.0	35.8	41.4	47.7
<b>Total shareholder equity</b>	<b>96.5</b>	<b>212.5</b>	<b>310.2</b>	<b>403.2</b>	<b>520.8</b>
<b>Total liabilities and equity</b>	<b>166.0</b>	<b>581.9</b>	<b>623.3</b>	<b>729.2</b>	<b>857.1</b>
<b>CASH FLOW (SGD m)</b>					
Pretax profit	25.0	41.4	55.9	57.0	66.6
Depreciation & amortisation	15.3	21.4	33.6	42.9	51.4
Adj net interest (income)/exp	1.4	1.4	9.0	13.9	13.9
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	(36.7)	39.6	67.4
Capex	(9.7)	(10.6)	(15.4)	(18.2)	(20.2)
Free cash flow	(17.0)	(72.5)	(259.8)	30.7	85.4
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)	(216.6)	(4.6)	24.3
Effect of exch rate changes	(0.2)	(0.3)	9.5	(0.8)	(19.0)
Net cash flow	21.6	67.7	(58.7)	16.0	52.5

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	34.9	2.0	16.8
Reported net profit growth	129.4	40.9	53.1	0.3	17.2
Core net profit growth	129.4	40.9	16.4	31.9	17.2
<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	19.9	17.2	18.1
Payout ratio	0.0	0.0	0.0	0.0	0.0
<b>DuPont analysis</b>					
Net profit margin (%)	19.6	13.8	14.4	12.3	13.0
Revenue/Assets (x)	0.6	0.3	0.4	0.5	0.4
Assets/Equity (x)	2.0	3.2	2.3	2.0	1.8
ROAE (%)	31.0	19.8	17.7	12.8	11.4
ROAA (%)	16.0	7.1	5.1	6.0	6.0
<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	4.2	4.8	5.6
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.4	1.6	2.0	2.2	2.5
Net gearing (%) (incl perps)	net cash	net cash	70.4	50.2	28.8
Net gearing (%) (excl. perps)	net cash	net cash	70.4	50.2	28.8
Net interest cover (x)	18.4	22.2	5.8	5.0	5.7
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)	218.4	202.4	149.9

Source: Company; Maybank

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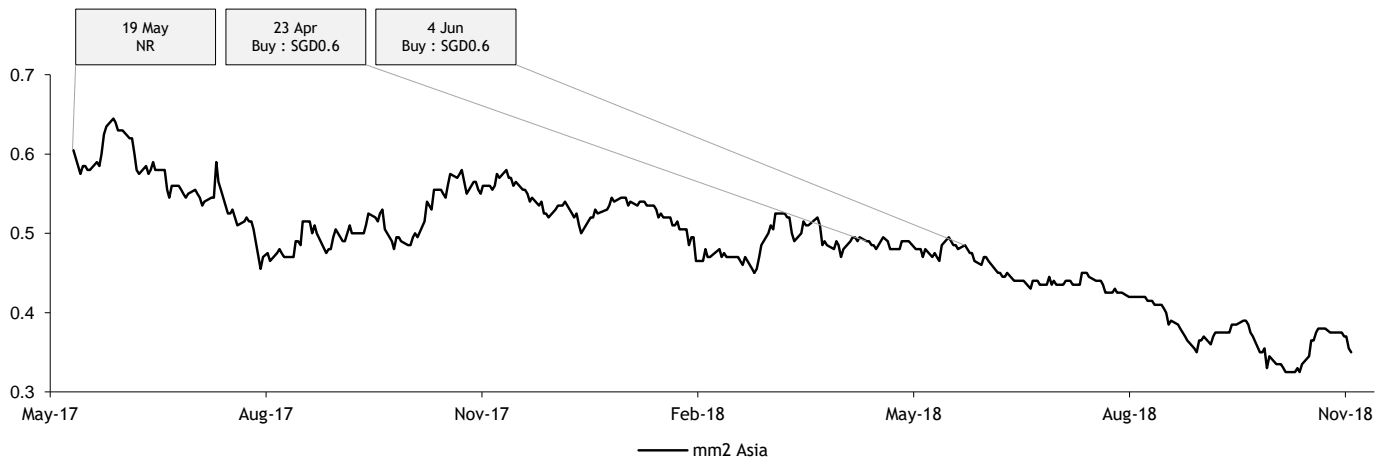
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