

Singapore Company Guide

mm2 Asia

Version 4 | Bloomberg: MM2 SP | Reuters: MM2A.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

25 May 2016

BUY

Last Traded Price: S\$0.58 (STI : 2,750.23)
Price Target : S\$0.75 (29% upside) (Prev S\$0.63)

Potential Catalyst: Earnings-accretive acquisitions

Analyst

Ling Lee Keng +65 6682 3703 leekeng@db.com

What's New

- **FY16 earnings beat expectations**
- **Expect higher contributions from North Asia**
- **New revenue stream from UnUsUal; cinemas to build recurring income base**
- **Maintain BUY with higher TP of S\$0.75**

Price Relative



Forecasts and Valuation

FY Mar (\$ m)	2015A	2016A	2017F	2018F
Revenue	24.3	38.3	94.9	114
EBITDA	9.92	19.4	30.8	35.3
Pre-tax Profit	6.58	9.99	21.4	26.0
Net Profit	5.08	8.90	17.8	21.5
Net Pft (Pre Ex.)	5.13	8.90	17.8	21.5
Net Pft Gth (Pre-ex) (%)	68.1	73.4	99.6	21.3
EPS (\$ cts)	1.23	1.97	3.40	4.12
EPS Pre Ex. (\$ cts)	1.24	1.97	3.40	4.12
EPS Gth Pre Ex (%)	68	59	73	21
Diluted EPS (\$ cts)	1.23	1.97	3.40	4.12
Net DPS (\$ cts)	0.0	0.0	0.0	0.0
BV Per Share (\$ cts)	4.64	8.01	13.8	17.9
PE (X)	47.2	29.5	17.1	14.1
PE Pre Ex. (X)	46.7	29.5	17.1	14.1
P/Cash Flow (X)	nm	nm	21.8	11.5
EV/EBITDA (X)	23.6	13.5	9.3	7.5
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	12.5	7.2	4.2	3.2
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	44.5	32.1	32.8	26.0
Earnings Rev (%):			7	6
Consensus EPS (\$ cts):		1.70	3.00	3.60
Other Broker Recs:		B: 2	S: 0	H: 0

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

Strong growth profile

Stellar FY16 results. mm2 posted strong growth in both revenue and profit for FY16. Gross margin improved to 48% from 44% in FY15. We expect mm2 to grow at an EPS CAGR of 62% from FY15-FY18, underpinned by growth in local productions, expansion into the China market, and contribution from cinema operations and newly acquired entertainment company, UnUsUal Group. The entry of StarHub with a 9.05% stake could raise its profile and pave the way for bigger opportunities ahead. We maintain our BUY call on mm2 with a higher target price of S\$0.75.

Spreading its wings in China to support growth. mm2 intends to spread its wings to one of the most lucrative movie markets – China. The group has already co-produced several productions in China since 2013 and is currently working on a few movies in China. Chinese films generally have bigger budgets and better margins than local productions.

Valuation:

Maintain BUY with higher TP of S\$0.75. We have adjusted earnings for FY17 and FY18 up by 6-7%, after factoring in higher margins from cinemas and its recent acquisitions. mm2 is trading at 17x FYMar17F PE and 14x FY18F PE, based on its enlarged share capital, compared to peers' 22x FY17F PE. Using peers' average of 22x, up from 20x, we derive a higher target price of S\$0.75 on FYMar17F EPS, from S\$0.63 previously. The stock offers potential upside of 29%, and trades at an attractive PEG of 0.23x. Maintain BUY.

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.

Productions may be adversely affected by delays and cost overruns. The production process is subject to a number of uncertainties, most of which are beyond mm2's control.

At A Glance

Issued Capital (m shrs)	452
Mkt. Cap (\$m/US\$m)	262 / 190
Major Shareholders (%)	
Wee Chye Ang	59.2
Yeo Khoo Seng	7.8
Free Float (%)	33.0
3m Avg. Daily Val (US\$m)	0.85
ICB Industry : Consumer Services / Media	

WHAT'S NEW**FY16 earnings beat expectations****Results highlights**

Strong growth in both revenue and profits. FY16 net profit of S\$8.9m (+75% y-o-y) beat our expectations by 9%. Revenue surged 58% y-o-y to S\$38.3m, with core business, production and distribution, growing by 22.6%. Revenue was also boosted by its newly-acquired subsidiary, Vividthree, and recent acquisition of the cinema business.

Gross margin improved to 48%. The group's gross profit for FY16 increased by 91.7% y-o-y to S\$18.4m, with overall gross profit margin improving to 48.0% from 39.5% in FY15.

Higher staff costs. Total costs jumped by almost 180% to S\$8.3m, mainly attributable to higher employee compensation costs due to the increase in employees resulting from the group's expansion as well as its acquisitions of a new subsidiary and cinema business.

Outlook

Expect higher contributions from North Asia. Productions in North Asia are expected to contribute more revenue in the coming year. North Asia contributed approximately 30% of the group's production revenue in FY16, which was a healthy increase of 20%. China is one of the most lucrative movie markets and mm2 has already co-produced several productions there since 2013.

UnUsUal to provide new revenue streams. With the acquisition of 51% stake in the UnUsUal Group of companies, mm2 intends to unlock new revenue streams with the addition of its event and concert promotion arm. UnUsUal Group's strong presence in Asia and network of regional artistes will synergise with the group's growth in North Asia.

Cinemas to strengthen network and build recurring income base. After acquiring five cinemas in Malaysia, mm2 is poised to further strengthen its network of international film producers and distributors and also to build its recurring income base.

Adjust earnings forecast up by 6-7%. We have adjusted earnings for FY17 and FY18 up by 6-7%, after factoring in higher margins from cinemas and its recent acquisitions. Overall gross profit margin is raised to 44%, from 42% previously.

Maintain BUY with higher TP of S\$0.75. mm2 is trading at 17x FYMar17F PE and 14x FY18F PE, based on its enlarged share capital, compared to peers' 22x FY17F PE. Using peers' average of 22x, up from 20x, we derive a higher target price of S\$0.75 on FYMar17F EPS, from S\$0.63 previously. The stock offers potential upside of 29%, and trades at an attractive PEG of 0.23x. Maintain BUY.

Quarterly / Interim Income Statement (\$m)

FY Mar	2H15	1H16	2H16	% chg yoy	% chg hoh
Revenue	14.6	12.7	25.6	75.5	102.0
Cost of Goods Sold	(10.7)	(4.3)	(15.6)	46.2	263.6
Gross Profit	3.9	8.4	10.0	155.9	19.1
Other Oper. (Exp)/Inc	(1.8)	(3.0)	(5.4)	192.6	79.7
Operating Profit	2.1	5.4	4.6	123.1	-14.7
Other Non Opg (Exp)/Inc	(0.0)	0.0	(0.0)	-	-
Associates & JV Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	0.0	0.0	0.0	-	-
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Pre-tax Profit	2.0	5.4	4.6	123.4	-15.5
Tax	(0.6)	(0.9)	(0.2)	69.2	-80.3
Minority Interest	0.0	0.0	0.0	-	-
Net Profit	1.5	4.5	4.4	200.3	-2.4
Net profit bef Except.	1.5	4.5	4.4	200.3	-2.4
EBITDA	4.6	6.7	4.6	-0.1	-31.1
Growth					
Revenue Gth (%)	51	(13)	102		
EBITDA Gth (%)	(13)	45	(31)		
Opg Profit Gth (%)	(54)	161	(15)		
Net Profit Gth (Pre-ex) (%)	(60)	208	(2)		
Margins					
Gross Margins (%)	26.7	66.1	39.0		
Opg Profit Margins (%)	14.1	42.4	17.9		
Net Profit Margins (%)	10.0	35.5	17.1		

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:**Acquisitions to strengthen competitive edge and build income base**

mm2 has made several acquisitions to maintain its competitive advantage. In April 2015, mm2 acquired a 51% stake in a 3D animation company, Vividthree Productions, to strengthen its competitive advantage as a movie producer. Subsequent to that, mm2 acquired five cineplexes in Malaysia. The ownership of cinemas will provide a source of recurring income to the group and cost savings in the longer term, as mm2 usually has to pay about 50% of its gross intake for rental of cinemas. Cinema operation is a profitable business, and could be profitable even with less than 50% of the seats occupied. In December 2015, mm2 acquired a majority stake in a tech set-up that develops interactive solutions for digital users. The most recent one is UnUsUal Group for S\$26m. This will enable mm2 to better project its presence in the Southeast Asia and North Asia markets.

Consolidating its position in local market; tapping on StarHub's strong brand name

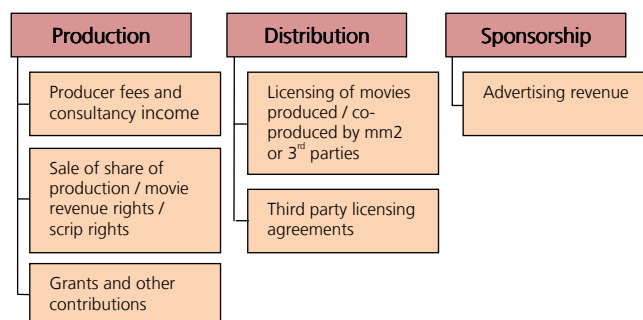
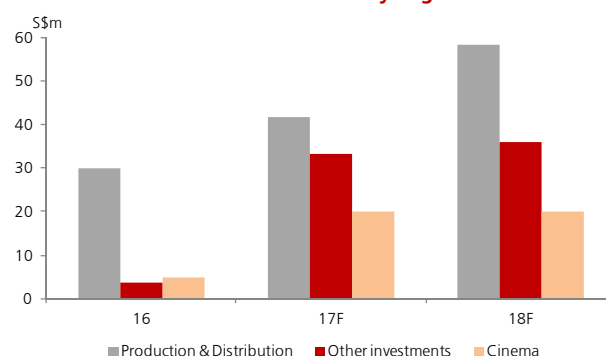
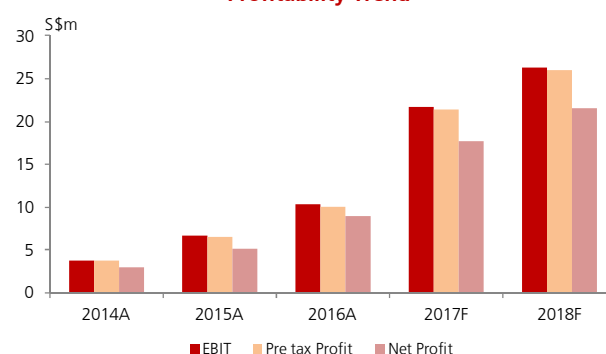
As the industry leader, mm2 is poised for more opportunities ahead. With the recent entry of StarHub with a 9.05% stake, mm2 can tap on the former's strong brand name and this could raise its profile and pave the way for bigger opportunities ahead. mm2 could also leverage on StarHub to attract more sponsorship for its productions. StarHub can choose to tap on mm2's cineplex business to showcase its content, as well as gain access to top-rated concerts and artistes through UnUsUal, in which mm2 owns a 51% stake.

Spreading its wings in China

mm2 also intends to spread its wings to one of the most lucrative movie markets – China. The group has already co-produced several productions in China since 2013. Chinese films generally have bigger budgets and better margins than local productions.

On top of producing films that are made and distributed in China, mm2 also hopes to distribute China-made films overseas. mm2 may also look into producing reality TV, which makes up a sizeable segment of the China entertainment market.

To further cement its foothold in China, mm2 has placed more shares to Hesheng Media, which is principally involved in the business of film and television investment, production, marketing and distribution in China. Hesheng's stake in mm2 has increased to about 1.5%. Thus, we expect contribution from the China market to increase from FY17 onwards.

Revenue Contribution**Revenue Breakdown by Segment****Profitability Trend**

Source: Company, DBS Bank

Balance Sheet:

Net cash position. mm2 is in a net cash position as at Mar 2016. Though we do not rule out the possibility of the group taking on more debt, as it is constantly on the lookout for acquisitions that can complement its existing business and also to build its recurring income base, the full impact from its recent acquisitions should lead to stronger earnings and equity base.

Asset-light business model. More than half of its assets are current assets, comprising mainly cash and receivables.

Share Price Drivers:**More acquisitions or strategic investments on the cards?**

In just slightly more than a year since listing in Dec-14, mm2 has made several acquisitions and undertaken a few fund-raising exercises to fund acquisitions. Besides acquiring cinemas, entertainment company, UnUsUal Group, and other related businesses, mm2 has also managed to attract strategic investors like StarHub and Hesheng Media, a film and TV production company in China. With such an active flow of activities, we would not rule out further acquisitions or strategic investments going forward.

Growing production and distribution income

In terms of production project pipeline to March 2017, we are expecting mm2 to produce 10 movies in Singapore with an estimated total production budget of about S\$10m, and another 18 films in Malaysia, Taiwan and Hong Kong. In China, mm2 is currently working on a few movies. We are expecting about five movies/dramas with an estimated total production cost of about S\$38m that could come onstream by Mar-17. Chinese films generally have bigger budgets and better margins than local productions. Mm2, together with Clover Films, has also recently clinched the distribution rights for 19 movies in Singapore and Malaysia.

Key Risks:

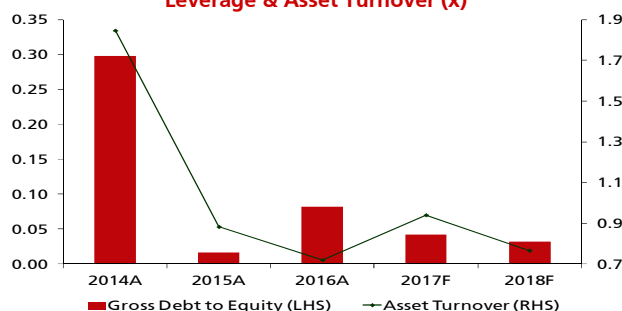
No long-term financing arrangements for productions. The commencement of each production is dependent on mm2's ability to secure funding.

Productions may be adversely affected by delays and cost overruns. The production process is subject to a number of uncertainties, most of which are beyond mm2's control.

Unable to predict the commercial success of movies produced. The commercial success of its productions is primarily determined by inherently unpredictable audience reactions.

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.

Leverage & Asset Turnover (x)**Project Pipeline to March 2017**

Movies	Total production estimate (\$m)
Singapore	
10 movies	10
Malaysia	
6 movies	3
China	
5 movies / drama	38
Taiwan	
6 movies	11
Hong Kong	
6 movies	8
TOTAL	70

Number of movies produced

Year	Number of movies produced
FY Mar 2012	3
FY Mar 2013	6
FY Mar 2014	8
FY Mar 2015	9

**PB Band (x)**

Source: Company, DBS Bank

Segmental Breakdown

FY Mar	2014A	2015A	2016A	2017F	2018F
Revenues (\$m)					
Production & Distribution	16.1	24.3	29.8	41.7	58.4
Cinema	0.0	0.0	4.90	20.0	20.0
Other investments	0.0	0.0	3.64	33.2	36.0
Total	16.1	24.3	38.3	94.9	114
Gross profit (\$m)					
Production & Distribution	5.09	9.58	13.1	18.8	26.3
Cinema	0.0	0.0	2.80	11.0	11.0
Other investments	0.0	0.0	2.50	11.9	13.1
Total	5.09	9.58	18.4	41.7	50.4
Gross profit Margins (%)					
Production & Distribution	31.6	39.5	44.0	45.0	45.0
Cinema	N/A	N/A	57.1	55.0	55.0
Other investments	N/A	N/A	68.7	36.0	36.3
Total	31.6	39.5	48.0	43.9	44.0

Full-year contributions from the five cinemas

Include contribution from UnUsUal Group and collaboration with StarHub

Income Statement (\$m)

FY Mar	2014A	2015A	2016A	2017F	2018F
Revenue	16.1	24.3	38.3	94.9	114
Cost of Goods Sold	(11.0)	(14.7)	(20.0)	(53.2)	(64.1)
Gross Profit	5.09	9.58	18.4	41.7	50.4
Other Opng (Exp)/Inc	(1.4)	(3.0)	(8.0)	(19.9)	(24.0)
Operating Profit	3.72	6.62	10.4	21.8	26.3
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	0.0	0.0	(0.4)	(0.4)	(0.4)
Exceptional Gain/(Loss)	0.0	(0.1)	0.0	0.0	0.0
Pre-tax Profit	3.70	6.58	9.99	21.4	26.0
Tax	(0.7)	(1.5)	(1.1)	(3.6)	(4.4)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	3.04	5.08	8.90	17.8	21.5
Net Profit before Except.	3.05	5.13	8.90	17.8	21.5
EBITDA	7.16	9.92	19.4	30.8	35.3
Growth					
Revenue Gth (%)	N/A	50.7	57.9	147.6	20.5
EBITDA Gth (%)	nm	38.5	95.2	58.9	14.8
Opg Profit Gth (%)	nm	78.3	56.7	109.9	21.0
Net Profit Gth (Pre-ex) (%)	nm	68.1	73.4	99.6	21.3
Margins & Ratio					
Gross Margins (%)	31.6	39.5	48.0	43.9	44.0
Opg Profit Margin (%)	23.0	27.3	27.1	22.9	23.0
Net Profit Margin (%)	18.8	20.9	23.2	18.7	18.8
ROAE (%)	166.5	44.5	32.1	32.8	26.0
ROA (%)	34.8	18.5	16.7	17.6	14.4
ROCE (%)	104.8	37.7	27.3	29.5	24.2
Div Payout Ratio (%)	0.0	0.0	0.0	0.0	0.0
Net Interest Cover (x)	NM	NM	26.8	56.3	68.1

Source: Company, DBS Bank

Quarterly / Interim Income Statement (\$m)

	1H15	2H15	1H16	2H16
Revenue	9.7	14.6	12.7	25.6
Cost of Goods Sold	(4.0)	(10.7)	(4.3)	(15.6)
Gross Profit	5.7	3.9	8.4	10.0
Other Oper. (Exp)/Inc	(1.2)	(1.8)	(3.0)	(5.4)
Operating Profit	4.5	2.1	5.4	4.6
Other Non Opg (Exp)/Inc	0.0	(0.0)	0.0	(0.0)
Associates & JV Inc	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	0.0	0.0	0.0	0.0
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0
Pre-tax Profit	4.5	2.0	5.4	4.6
Tax	(0.9)	(0.6)	(0.9)	(0.2)
Minority Interest	0.0	0.0	0.0	0.0
Net Profit	3.6	1.5	4.5	4.4
Net profit bef Except.	3.6	1.5	4.5	4.4
EBITDA	5.3	4.6	6.7	4.6

Growth

Revenue Gth (%)		51	(13)	102
EBITDA Gth (%)		(13)	45	(31)
Opg Profit Gth (%)		(54)	161	(15)
Net Profit Gth (Pre-ex) (%)		(60)	208	(2)

Margins

Gross Margins (%)	58.7	26.7	66.1	39.0
Opg Profit Margins (%)	46.7	14.1	42.4	17.9
Net Profit Margins (%)	37.4	10.0	35.5	17.1

Volatile margins mainly due to different stages of revenue recognition

Balance Sheet (\$m)

FY Mar	2014A	2015A	2016A	2017F	2018F
Net Fixed Assets	0.10	0.10	3.65	18.1	22.6
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	3.90	6.36	26.1	17.6	9.18
Cash & ST Invts	0.60	5.76	4.74	21.7	43.1
Inventory	1.49	4.77	9.83	19.5	23.4
Debtors	11.4	20.6	24.4	55.7	67.2
Other Current Assets	0.0	0.0	0.26	0.26	0.26
Total Assets	17.5	37.6	69.0	133	166
ST Debt	0.10	0.22	0.20	0.20	0.20
Creditor	11.4	14.7	23.8	51.4	61.8
Other Current Liab	0.24	1.46	4.21	4.80	5.57
LT Debt	1.02	0.09	2.85	2.85	2.85
Other LT Liabilities	0.94	1.92	0.75	0.75	0.75
Shareholder's Equity	3.65	19.2	36.2	72.0	93.5
Minority Interests	0.13	0.0	0.98	0.98	0.98
Total Cap. & Liab.	17.5	37.6	69.0	133	166
Non-Cash Wkg. Capital	1.23	9.19	6.49	19.3	23.5
Net Cash/(Debt)	(0.5)	5.45	1.69	18.7	40.0
Debtors Turn (avg days)	128.6	240.0	214.2	154.0	196.0
Creditors Turn (avg days)	273.9	417.3	640.7	310.1	375.0
Inventory Turn (avg days)	35.9	100.2	243.0	120.9	142.2
Asset Turnover (x)	1.8	0.9	0.7	0.9	0.8
Current Ratio (x)	1.1	1.9	1.4	1.7	2.0
Quick Ratio (x)	1.0	1.6	1.0	1.4	1.6
Net Debt/Equity (X)	0.1	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	0.1	CASH	CASH	CASH	CASH
Capex to Debt (%)	46.0	645.4	279.3	492.0	164.0
Z-Score (X)	9.5	7.6	4.7	4.2	4.1

Source: Company, DBS Bank

Cash Flow Statement (\$m)

FY Mar	2014A	2015A	2016A	2017F	2018F
Pre-Tax Profit	3.70	6.58	9.99	21.4	26.0
Dep. & Amort.	3.45	3.29	8.98	8.98	8.98
Tax Paid	(0.7)	(1.5)	(1.1)	(3.1)	(3.6)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(7.0)	(12.0)	(22.6)	(13.4)	(5.0)
Other Operating CF	1.00	1.00	0.0	0.0	0.0
Net Operating CF	0.53	(2.6)	(4.7)	13.9	26.4
Capital Exp.(net)	(0.5)	(2.0)	(8.5)	(15.0)	(5.0)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.0	0.0	0.0	0.0	0.0
Net Investing CF	(0.5)	(2.0)	(8.5)	(15.0)	(5.0)
Div Paid	0.0	0.0	0.0	0.0	0.0
Chg in Gross Debt	0.0	2.94	2.35	0.0	0.0
Capital Issues	0.0	7.75	9.10	18.0	0.0
Other Financing CF	0.46	(1.7)	(0.7)	0.0	0.0
Net Financing CF	0.46	9.05	10.7	18.0	0.0
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	0.47	4.44	(2.5)	17.0	21.4
Opg CFPS (\$ cts)	1.81	2.27	3.96	5.23	5.99
Free CFPS (\$ cts)	0.00	(1.1)	(2.9)	(0.2)	4.08

Acquisition of five cinemas and a 3D company

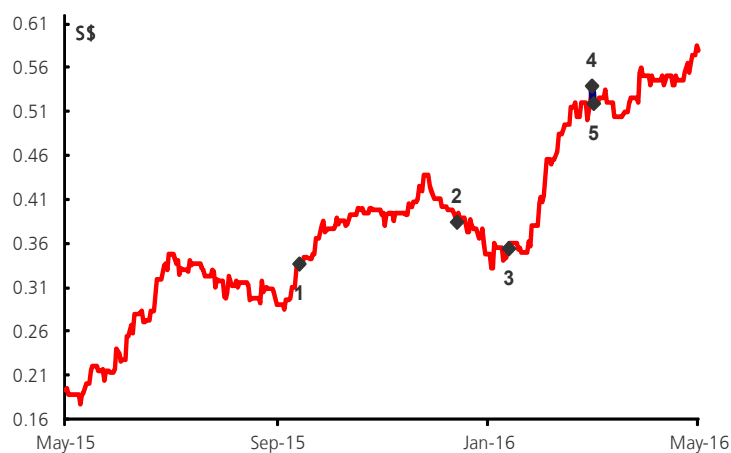
Placement of shares to StarHub

Issue of shares to finance recent acquisitions

Proceeds from IPO

Source: Company, DBS Bank

Target Price & Ratings History



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

S.No.	Date	Closing Price	Target Price	Rating
1:	06 Oct 15	0.34	0.42	NOT RATED
2:	05 Jan 16	0.39	0.52	BUY
3:	04 Feb 16	0.36	0.52	BUY
4:	23 Mar 16	0.54	0.52	BUY
5:	24 Mar 16	0.52	0.63	BUY

Source: DBS Bank

DBS Bank recommendations are based on 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 catalysts within this time frame)

Share price appreciation + dividends

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DBS Bank Ltd

12 Marina Boulevard, Marina Bay Financial Centre Tower 3

Singapore 018982

Tel. 65-6878 8888

Company Regn. No. 196800306E