

# Singapore Equity Explorer

## mm2 Asia

Bloomberg: MM2 SP | Reuters: MM2A.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

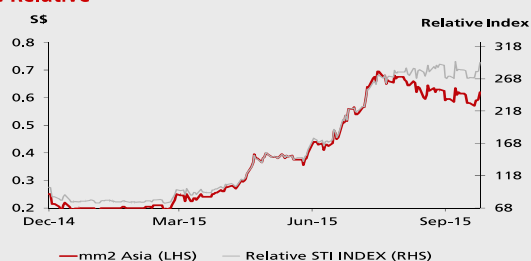
6 Oct 2015

**NOT RATED S\$0.665 STI : 2,851.25**

Return \*: 2

Risk: Moderate

Potential Target \* : 12-Month S\$ 0.84 (27% upside)

**Analyst**LING Lee Keng +65 6682 3703  
leekeng@dbs.com**Price Relative****Forecasts and Valuation**

FY Mar (\$\$ m)	2014A	2015A	2016F	2017F
Turnover	16.1	24.3	38.7	60.0
EBITDA	3.8	6.7	10.2	14.4
Pre-tax Profit	3.7	6.6	8.4	12.6
Net Profit	3.0	5.1	7.0	10.5
Net Pft (Pre Ex.)	3.1	5.1	7.0	10.5
EPS (S cts)	1.5	2.5	3.2	4.7
EPS Pre Ex. (S cts)	1.5	2.5	3.2	4.7
EPS Gth (%)	nm	67.5	31.9	44.4
EPS Gth Pre Ex (%)	nm	68.1	30.7	44.4
Diluted EPS (S cts)	1.5	2.5	3.2	4.7
Net DPS (S cts)	0.0	0.0	0.0	0.0
BV Per Share (S cts)	1.8	9.3	15.0	19.1
PE (X)	45.3	27.0	20.5	14.2
PE Pre Ex. (X)	45.1	26.8	20.5	14.2
P/Cash Flow (X)	nm	nm	15.5	25.0
EV/EBITDA (X)	36.8	19.8	14.3	10.4
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	37.7	7.2	4.4	3.5
Net Debt/Equity (X)	0.1	CASH	0.1	0.0
ROAE (%)	nm	44.5	27.2	27.9

ICB Industry : Consumer Services

ICB Sector: Media

Principal Business: mm2 Asia is a leading producer of films and TV/online content in Asia.

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

**Integrated movie producer**

- Provides services over the entire filmmaking process
- Riding on growing demand and support for local production; gaining traction overseas
- New revenue streams to strengthen competitive edge
- Fair value of \$0.84 based on 18x FY Mar17F EPS

**The Business**

**Integrated movie producer.** mm2 Asia is a leading producer of films and TV/online content in Asia. As a producer, mm2 provides services over the entire filmmaking process – from financing and production to marketing and distribution, thus has a diversified revenue stream.

**Riding on growing demand and support for local production; gaining traction overseas.** mm2 is poised to ride on the growing demand for local production. In Asia and the global scene, mm2 will continue to grow its presence in Taiwan, Hong Kong and China, leveraging on the business relationships it has established.

**New revenue streams to strengthen competitive edge.**

Besides movie production and distribution, mm2 has also acquired a 3D animation company and five cineplexes in Malaysia. This 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.

**The Stock**

**Fair value of S\$0.84 based on 18x FY Mar17F EPS.** At current level, mm2 is trading at 20x FY16F PE and 14x FY17F PE. Its peers are trading at average PE of 26x for FY16F. Taking a 30% discount to peers given its much smaller size, we arrive at a PE target of 18x based on FY Mar17F EPS. Based on this, our fair value works out to be S\$0.84 per share, offering potential upside of 27% from current price.

**At A Glance**

Issued Capital (m shrs)	207
Mkt. Cap (S\$m/US\$m)	137 / 96.0
Major Shareholders	
Wee Chye Ang (%)	63.2
Philip Apac Opp Fund (%)	9.3
Yeo Khee Seng (%)	5.0
Free Float (%)	22.5
Avg. Daily Vol. ('000)	962

\*This Equity Explorer report represents a preliminary assessment of the subject company, and does not represent initiation into DBSV's coverage universe. As such DBSV does not commit to regular updates on an ongoing basis. The rating system is distinct from stocks in our regular coverage universe and is explained further on the back page of this report.

## REVENUE DRIVERS

**Integrated movie producer.** Listed on the Catalist Board of the SGX-ST on 9 December 2014, mm2 Asia is a leading producer of films and TV/online content in Asia. As a producer, mm2 provides services over the entire filmmaking process – from financing and production to marketing and distribution. Since 2008, the group has produced, co-produced and/or distributed over 50 films. Out of this, 30 films were recognised in FYMar15. The group derives its revenue from three main sources :-

1. **Production income.** This is derived from all relevant stages of the filmmaking process. This includes income from securing financing for a production, consultancy and producers' fees (usually about 10% to 20% of the film budget), producer bonuses (fees for helping to look for investors to fund the production cost), government grants and subsidies, script development, pre-production, principal photography, post-production as well as other contributions.
2. **Distribution income.** Besides distributing its own movies or those co-produced with third parties, mm2 also receives income from third party licensing arrangements. It receives distribution income from the distribution of films across various platforms – cinemas, Pay TV, Free TV, online, DVD, airlines and others. For some films, mm2 acts as stakeholder and is entitled to a percentage of net receipts from the film's distribution across these platforms. Commissions also come from the licensing of script, adaptation and sequel rights for its film library via third-party licensing arrangements.
3. **Sponsorship income.** This is usually from advertisers to promote their products and services in mm2's films.

## COST STRUCTURE

**Crew members and rental of premises from bulk of costs.** Cost of sales, which include crew member salaries and renting of premises, accounts for about 60% of total sales. Administrative expenses, which include overhead expenses, account for another 10% to 15% of total revenue.

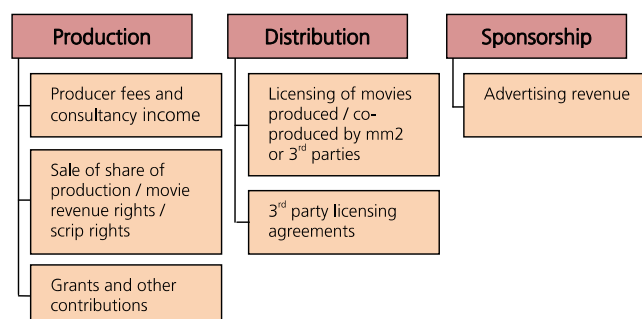
## KEY OPERATING ASSETS

**Owns five cinemas with total of 43 screens and 8,010 seats.**

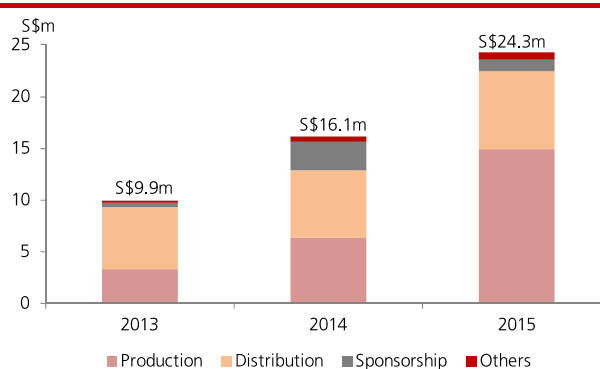
mm2 purchased a total of five cinemas in Malaysia. The first two Cathay cineplexes were bought in April 2015 for RMB40m. In August, mm2 bought another three cinemas in Northern Malaysia for a total of RMB22m.

**Owns majority stake in 3D company.** mm2 has also acquired a 51% stake in a 3D animation company for S\$3.06m. The acquisition allows the group to diversify and expand into complementary business areas within the film production value chain.

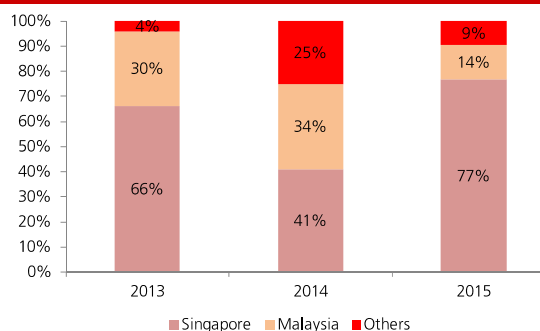
**Chart 1: Revenue Contribution**



**Chart 2: Revenue Breakdown - By segment**



**Chart 3: Revenue Breakdown - By geographical**



**Table 1: Details of cinemas acquired**

Cinema	Place	Capacity
Cathay Cineplex City Square	Johor Bahru	14 screens, 2,826 seats
Cathay Cineplex Damansara	Damansara	16 screens, 2,472 seats
Mega Cineplex Prai	Penang	6 screens, 1,420 seats
Mega Cineplex Langkawi	Langkawi	3 screens 536 seats
Mega Cineplex Bertam	Bertam	4 screens 756 seats

Source: Company, DBS Bank

## GROWTH PROSPECTS

**Growing demand and support for local production.** The success at the box office for local productions like ‘Ah Boys to Men’ and ‘The Journey’ indicates the growing demand for locally-produced content in Singapore and Malaysia. Ah Boys to Men 1, released in Nov-12, received box office revenues of S\$6.21m in Singapore and another RM2.02m in Malaysia. The Part 2 sequel, released in Feb-13, received S\$6.37m and RM3.5m in Singapore and Malaysia respectively. Two years later, Ah Boys to Men 3 enjoyed impressive box office receipts of S\$7.52m in Singapore and RM3.63m in Malaysia.

In terms of support, the Singapore government also plans to inject S\$250m per year for the next 5 years into improving public sector communications. A portion will be used to promote the local film industry and digital video sector through the “Watch Local” initiative. As the industry leader, mm2 will benefit from these initiatives.

With this backdrop, mm2 is poised to ride on the demand for local production. In Asia and the global scene, mm2 will continue to grow its presence in Taiwan, Hong Kong and China, leveraging on the business relationships it has established.

**Gaining traction in overseas markets.** In the past three years, mm2 started co-producing movies in China, Taiwan and Hong Kong, starting with China in 2013, followed by Taiwan and Hong Kong in 2014 and 2015 respectively. Going forward, mm2 is targeting to co-produce more films overseas, leveraging on its successful track record.

**New revenue streams to strengthen competitive edge.** Post IPO in December last year, mm2 has made several acquisitions to maintain its competitive advantage. In April, mm2 acquired a 51% stake in Singapore’s leading multi-award winning 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.

**Helmed by industry veteran.** mm2 is helmed by CEO Melvin Ang, who has 20 years of industry experience and was named as one of the top 5 individuals in Singapore’s arts, entertainment and lifestyle sectors in the Straits Times Annual Power List. Mr Ang started his career at the then Television Corporation of Singapore (TCS) in 1997. TCS was subsequently renamed as MediaCorp. With his vast experience and together with his team of executive officers, the group has established a wide network of personal relationships with leading talent, crew and staff, distribution companies, stakeholders and other key participants in the movie industry. mm2 has subsidiaries in Singapore, Malaysia and Hong Kong with business partners in Taiwan and China.

**Table 2: Notable Production and Distribution Titles**

Title	Year	Comment
Ah Boys to Men	2012	Singapore’s highest-grossing local production of 2012: S\$6.21m
Ah Boys to Men 2	2013	Singapore’s highest-grossing local production of all time: S\$7.89m
Ah Boys to Men 3	2015	Singapore’s highest-grossing opening weekend Asian film of all time: S\$2.83m in 4 days
THE JOURNEY 一路有你	2014	Malaysia’s highest-grossing local production of all time: RM\$17m
为你转身	2013	mm2’s first China co-production
做你爱做的事	2014	mm2’s first Taiwan co-production
CAFÉ . WAITING . 等一个人 咖啡	2014	Malaysia’s highest-grossing Taiwanese film of all time: RM\$4.98m
ATM 提款机	2015	mm2’s first Hong Kong co-production

**Table 3: Key Management Team**

Melvin Ang, <i>CEO &amp; Exec. Director</i>	Mr Ang is responsible for overseeing and managing productions, as well as sourcing new business opportunities for the group. Mr Ang graduated from Macquarie University with an MBA in 1996. In Aug-97, he was employed by Television Corporation of Singapore (renamed MediaCorp) as Vice President, Business Development. Mr Ang was subsequently employed by SPH MediaWorks and MediaCorp Studios. Before setting up mm2 Malaysia and mm2 Singapore in Jan-09, he served as Media Prima Berhad’s Executive Advisor.
Tan Liang Pheng, <i>Non-Exec. Chairman &amp; Independent Director</i>	Mr Tan worked for 35 years in two multinational corporations, responsible for accounting, treasury and financial functions, and later sat on the Board of Directors of Tetra Pak Group of Companies in Singapore. In 2009, Mr Tan was appointed General Manager of Iviria Pte Ltd., and was subsequently promoted to Executive Director in 2010. Mr Tan served as Executive Director of Iviria Pte. Ltd. until Nov-12.
Chong How Kiat, <i>CFO</i>	Mr Chong is responsible for overseeing all financial and accounting matters of the group. Mr Chong started out his career as an audit assistant in 1995 at KS Lam & Co, Public Accountant. Prior to joining mm2 Asia, he held the position of Finance Manager at ITD Vertex Consortium Sdn Bhd.

**Table 4: Management Remuneration Structure**

Name of directors	Salary (%)	Other Benefits (%)	Directors’ Fees (%)	Total (%)
<b>Below S\$250,000</b>				
Mr Tan Liang Pheng	-	-	100	100
Mr Melvin Ang	32	68	-	100
Mr Jack Chia	-	-	100	100
Mr Thomas Lei	-	-	100	100
Mr Terry Mak	-	-	100	100

Source: Company, DBS Bank

## Segmental Breakdown

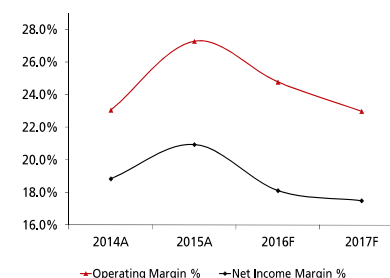
FY Mar	2014A	2015A	2016F	2017F
<b>Revenues (\$\$ m)</b>				
Production & Distribution	16.1	24.3	27.4	35.0
Cinema			6.7	20.0
Other investments			4.6	5.0
<b>Total</b>	<b>16.1</b>	<b>24.3</b>	<b>38.7</b>	<b>60.0</b>
<b>Gross profit (\$\$ m)</b>				
Production & Distribution	5.1	9.6	11.0	14.0
Cinema			3.0	9.0
Other investments			2.1	2.3
<b>Total</b>	<b>5.1</b>	<b>9.6</b>	<b>16.0</b>	<b>25.3</b>
<b>Gross profit Margins (%)</b>				
Production & Distribution	31.6	39.5	40.0	40.0
Cinema			45.0	45.0
Other investments			45.0	45.0
<b>Total</b>	<b>31.6</b>	<b>39.5</b>	<b>41.5</b>	<b>42.1</b>

Full year contribution from the five cinemas acquired

## Income Statement (\$\$ m)

FY Mar	2014A	2015A	2016F	2017F
Revenue	16.1	24.3	38.7	60.0
Cost of Goods Sold	(11.0)	(14.7)	(22.6)	(34.8)
<b>Gross Profit</b>	<b>5.1</b>	<b>9.6</b>	<b>16.0</b>	<b>25.3</b>
Other Opng (Exp)/Inc	(1.4)	(3.0)	(6.5)	(11.5)
<b>Operating Profit</b>	<b>3.7</b>	<b>6.6</b>	<b>9.6</b>	<b>13.8</b>
Other Non Opng (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	(1.1)	(1.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>3.7</b>	<b>6.6</b>	<b>8.4</b>	<b>12.6</b>
Tax	(0.7)	(1.5)	(1.4)	(2.1)
Minority Interest	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>3.0</b>	<b>5.1</b>	<b>7.0</b>	<b>10.5</b>
Net Profit before Except.	3.1	5.1	7.0	10.5
EBITDA	3.8	6.7	10.2	14.4
<b>Growth</b>				
Revenue Gth (%)	nm	50.7	59.1	55.2
EBITDA Gth (%)	nm	77.5	52.9	41.3
Opg Profit Gth (%)	nm	78.3	44.5	44.0
Net Profit Gth (%)	nm	67.5	37.7	49.9
<b>Margins &amp; Ratio</b>				
Gross Margins (%)	31.6	39.5	41.5	42.1
Opg Profit Margin (%)	23.0	27.3	24.8	23.0
Net Profit Margin (%)	18.8	20.9	18.1	17.5
ROAE (%)	166.5	44.5	27.2	27.9
ROA (%)	34.8	18.5	13.2	13.2
ROCE (%)	104.8	37.7	17.4	18.3
Div Payout Ratio (%)	0.0	0.0	0.0	0.0
Net Interest Cover (x)	NM	NM	8.4	12.1

## Margins Trend



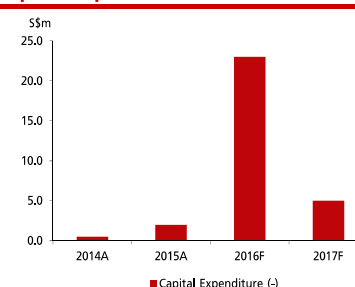
Higher gross margins due to higher contribution from cinemas

Source: Company, DBS Bank

**Balance Sheet (\$\$ m)**

FY Mar	2014A	2015A	2016F	2017F
Net Fixed Assets	3.9	6.4	28.8	33.2
Invt in Associates & JVs	0.0	0.0	0.0	0.0
Other LT Assets	0.1	0.0	0.0	0.0
Cash & ST Invt	0.6	5.8	9.4	10.4
Inventory	1.5	4.8	4.8	7.4
Debtors	11.4	20.6	25.4	39.5
Other Current Assets	0.0	0.0	0.0	0.0
<b>Total Assets</b>	<b>17.5</b>	<b>37.6</b>	<b>68.5</b>	<b>90.4</b>
ST Debt	0.1	0.2	0.2	0.2
Other Current Liab	11.6	16.2	22.7	34.1
LT Debt	1.0	0.1	11.3	11.3
Other LT Liabilities	0.9	1.9	1.9	1.9
Shareholder's Equity	3.6	19.2	32.4	42.9
Minority Interests	0.1	0.0	0.0	0.0
<b>Total Cap. &amp; Liab.</b>	<b>17.5</b>	<b>37.6</b>	<b>68.5</b>	<b>90.4</b>
Non-Cash Wkg. Capital	1.2	9.2	7.6	12.7
Net Cash/(Debt)	(0.5)	5.4	(2.1)	(1.2)
Debtors Turn (avg days)	128.6	240.0	217.2	197.3
Creditors Turn (avg days)	189.0	324.8	288.5	272.2
Inventory Turn (avg days)	24.8	78.0	79.6	65.4
Asset Turnover (x)	1.8	0.9	0.7	0.8
Current Ratio (x)	1.1	1.9	1.7	1.7
Quick Ratio (x)	1.0	1.6	1.5	1.5
Net Debt/Equity (X)	0.1	CASH	0.1	0.0
Net Debt/Equity ex MI (X)	0.1	CASH	0.1	0.0
Capex to Debt (%)	46.0	645.4	199.8	43.4

Debt financing for part of the acquisition of five cinemas

**Capital Expenditure****Cash Flow Statement (\$\$ m)**

FY Mar	2014A	2015A	2016F	2017F
Pre-Tax Profit	3.7	6.6	8.4	12.6
Dep. & Amort.	0.0	0.0	0.6	0.6
Tax Paid	0.7	1.5	(0.3)	(1.4)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(6.9)	(12.0)	0.5	(5.9)
Other Operating CF	1.0	1.0	0.0	0.0
<b>Net Operating CF</b>	<b>(1.5)</b>	<b>(2.9)</b>	<b>9.2</b>	<b>6.0</b>
Capital Exp.(net)	(0.5)	(2.0)	(23.0)	(5.0)
Other Invt.(net)	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0
Other Investing CF	0.0	0.0	0.0	0.0
<b>Net Investing CF</b>	<b>(0.5)</b>	<b>(2.0)</b>	<b>(23.0)</b>	<b>(5.0)</b>
Div Paid	0.0	0.0	0.0	0.0
Chg in Gross Debt	0.0	2.9	11.2	0.0
Capital Issues	0.0	7.8	6.2	0.0
Other Financing CF	0.5	(1.6)	0.0	0.0
<b>Net Financing CF</b>	<b>0.5</b>	<b>9.0</b>	<b>17.4</b>	<b>0.0</b>
Currency Adjustments	0.0	0.0	0.0	0.0
Chg in Cash	(1.6)	4.2	3.6	1.0
Opg CFPS (\$ cts)	2.6	4.4	4.1	5.3
Free CFPS (\$ cts)	(1.0)	(2.4)	(6.4)	0.4

Acquisition of five cinemas and a 3D company

Debt financing for part of the acquisition of five cinemas

Issue of shares for acquisition of cinemas

Proceeds from IPO

Source: Company, DBS Bank

## VALUATIONS

**Share price surged >2x post IPO.** mm2 was listed on the Catalyst Board of the SGX-ST on 9 December 2014 at S\$0.25 per share based on 16x FY14 PE. Since then, its share price has more than doubled to hit a high of \$0.70 before the market was dragged down by concerns about slower global growth, especially in China and other issues like weak regional currencies vs USD.

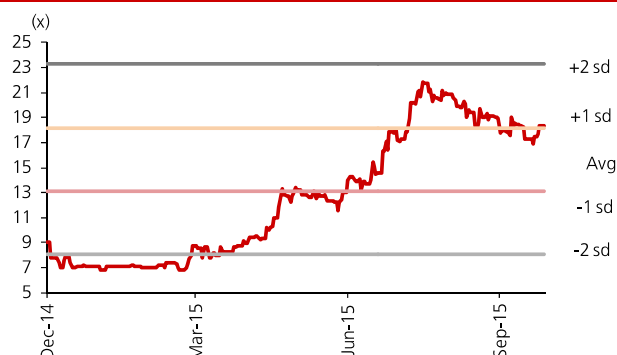
**Fair value of S\$0.84 based on 18x FY Mar17F EPS.** At current level, mm2 is trading at 20x FY16F PE and 14x FY17F PE. Its peers are trading at average PE of 26x for FY16F. Taking a 30% discount to peers given its much smaller size, we arrive at a PE target of 18x based on FY Mar17F EPS. Based on this, our fair value works out to be S\$0.84 per share, offering potential upside of 27% from current price.

**Risk Assessment: Moderate**

Category	Risk Rating 1 (Low) - 3 (High)	Wgt	Wgtd Score
Earnings	2	40%	0.8
Financials	1	20%	0.2
Shareholdings	1	40%	0.4
Overall			1.4

**Key risks.** Key risks include failure to secure financing and also delays and cost overruns for production of films. The commercial success of movies produced or co-produced by mm2 is another unpredictable outcome.

mm2 has also incurred more debt to part finance the acquisition of the five cinemas. As a result, the group has turned from net cash in FY15 to net debt/equity of 0.1x for FY16F.

**Chart 2: 12 month forward PE ratio (x)****Table 6: Peers' Comparison**

Name	Mkt Cap (US\$m)	Px Last Date	FY1 PE (x)	FY2 PE (x)	Sales FY Act (mlns)	Net Profit FY Act (mlns)	Gross Mar. FY Act (%)	Net Debt to Equity (x)
MM2 ASIA LTD	89.4	S\$0.620	20.5	14.2	24.3	5.1	39.5	(28.4)
SPACKMAN ENTERTA	16.4	S\$0.059	-	-	16.1	(8.0)	3.2	(59.3)
VILLAGE ROADSHOW	1,593.5	A\$6.99	18.4	16.8	967.6	43.9	90.5	76.5
ORANGE SKY GOLDE	219.4	HK\$0.62	62.0	20.7	1,082.8	12.7	59.2	19.6
CHINA 3D DIGITAL	244.8	HK\$1.98	-	-	111.2	(97.1)	14.8	20.2
PEGASUS ENT	202.8	HK\$0.64	-	-	155.2	(215.3)	30.2	(22.2)
ALI PICTURES	5,860.9	HK\$1.80	-	-	159.4	(525.2)	(49.4)	(87.2)
SHOCHIKU CO LTD	1,181.8	¥1,019	46.7	41.8	89,806.5	4,180.2	43.7	83.0
NEO TELEMEDIA LT	549.2	HK\$0.67	-	-	34.6	(567.4)	31.6	n.a.
<b>Average (ex mm2)</b>			<b>42.4</b>	<b>26.4</b>				

Source: DBS Bank, Bloomberg Finance L.P.

DBS Bank Equity Explorer return ratings reflect return expectations based on an assumed earnings profile and valuation parameters:

- |   |   |
|---|---|
| 1 | (>20% potential returns over the next 12 months)    |
| 2 | (0 - 20% potential returns over the next 12 months) |
| 3 | (negative potential return over the next 12 months) |

The risk assessment is qualitative in nature and is rated as either high, low or moderate risk. (see section on risk assessment)

Note that these assessments are based on a preliminary review of factors deemed salient at the time of publication. DBSV does not commit to ongoing coverage and updated assessments of stocks covered under the Equity Explorer product suite. Such updates will only be made upon official initiation of regular coverage of the stock.

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