

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

1 Jun 2022

HOLD

Last Traded Price (31 May 2022): S\$0.056 (STI : 3,232.49)

Price Target 12-mth: S\$0.06 (7% upside) (Prev S\$0.067)

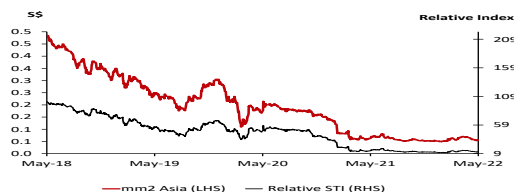
Analyst

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What's New

- FY22 net loss decreased to S\$35.8m, but still below expectations
- Expect strong recovery within 12 to 18 months due to lifting of most pandemic related restrictions
- Riding on the reopening theme, but more concrete debt-paring plans need to be in place
- Maintain HOLD with lower TP of S\$0.06; suspending coverage

Price Relative



Forecasts and Valuation

FY Mar (S\$m)	2021A	2022A	2023F	2024F
Revenue	75.2	113	193	273
EBITDA	(31.1)	14.2	40.2	52.4
Pre-tax Profit	(98.1)	(41.2)	(14.3)	(1.0)
Net Profit	(90.8)	(35.8)	(13.4)	(2.0)
Net Pft (Pre Ex.)	(90.8)	(35.8)	(13.4)	(2.0)
Net Pft Gth (Pre-ex) (%)	nm	60.6	62.6	85.1
EPS (S cts)	(7.8)	(1.5)	(0.5)	(0.1)
EPS Pre Ex. (S cts)	(7.8)	(1.5)	(0.5)	(0.1)
EPS Gth Pre Ex (%)	nm	81	68	85
Diluted EPS (S cts)	(7.8)	(1.5)	(0.5)	(0.1)
Net DPS (S cts)	0.0	0.0	0.0	0.0
BV Per Share (S cts)	10.7	6.64	5.23	5.16
PE (X)	nm	nm	nm	nm
PE Pre Ex. (X)	nm	nm	nm	nm
P/Cash Flow (X)	nm	360.4	8.3	8.7
EV/EBITDA (X)	nm	26.2	9.7	7.4
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	0.5	0.8	1.1	1.1
Net Debt/Equity (X)	1.5	1.0	1.0	1.0
ROAE (%)	(53.0)	(25.2)	(8.8)	(1.4)
Earnings Rev (%)			(70)	-
Consensus EPS (S cts):			0.50	1.00
Other Broker Recs:		B: 1	S: 0	H: 1

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

Awaiting deleveraging initiatives

Investment Thesis:

Concrete plans to reduce gearing need to be in place; suspending coverage due to re-allocation of resources. Net debt of S\$195m (net gearing of 1.22x) as at end-FY22 remains high, despite the recent capital-raising exercises that drummed up about S\$80m. The high gearing level remains a key concern, as the previously proposed initiatives to pare down debt have lapsed. We are suspending coverage due to the re-allocation of resources.

Expect strong revenue recovery within 12 to 18 months. With the lifting of most restrictions from April 2022, business conditions are expected to improve going forward. The group is seeing strong demand for regional content, global cinema box office recovery, as well as expected pent-up demand for concerts and events. We believe that the group is on the recovery path, but without concrete plans to reduce gearing, a swift turnaround to profitability is unlikely.

Valuation:

Maintain HOLD with lower TP of S\$0.06. Our sum-of-the-parts-based TP of S\$0.06 is pegged to 10x FY23F earnings for the core business (in line with the de-rating of peers), 6x EV/EBITDA for the cinema business, and current market valuations for UnUsUaL and Vividthree.

Where we differ:

We have adopted a more conservative view, given that the group has yet to firm up any concrete plans to reduce the gearing level.

Key Risks to Our View:

Inability to execute plans to restructure the cinema business, no long-term financing arrangements for productions, and lack of good scripts.

At A Glance

Issued Capital (m shrs)	2,401
Mkt. Cap (S\$m/US\$m)	134 / 98.3
Major Shareholders (%)	
Ang Wee Chye	22.0
Oei Hong Leong	8.5
Goi Seng Hui	7.0
Free Float (%)	56.7
3m Avg. Daily Val (US\$m)	0.83

GIC Industry : Communication Services / Media & Entertainment



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WHAT'S NEW

Reduced net loss for FY22, but still below expectations

FY22 net loss decreased to S\$35.8m, but still below expectations. mm2 Asia reported net loss of S\$35.8m, an improvement from the S\$90.8m loss in FY21. Revenue saw a 50% y-o-y increase to S\$113m, driven by the further relaxing of COVID-19 restrictions in Singapore and Malaysia. Overall, FY22 results were below expectations, as we were expecting the net loss to reduce further, to S\$17.4m.

Expect strong recovery within 12 to 18 months. With the lifting of most restrictions from April 2022, business conditions are expected to improve going forward. For the cinema segment, with the release of more titles and consumers returning to the new normal, business has gradually picked up. Additionally, concert businesses in Singapore and Malaysia have been able to operate at full capacity since April 2022. The group is seeing strong demand for regional content, global cinema box office recovery, as well as expected pent-up demand for concerts and events as COVID restrictions ease.

Fundraising to accelerate post-COVID recovery growth plan. After a tough ride in the last two years, the group is beginning to see positive traction for its businesses as more markets emerge from the pandemic. To ride on this recovery path, mm2 conducted two fundraising exercises in the last two months, raising S\$25.5m via the placement of new shares. The group placed 75m new shares at S\$0.08 in March 2022, and another tranche of 390m new shares at S\$0.05 to Singaporean businessmen Sam Goi and Oei Hong Leong in April 2022. In April 2021, the group raised S\$54.6m via a rights issue of shares.

Riding on the reopening theme, but more concrete debt-paring plans need to be in place to ensure turnaround. With the reopening of the global economies, we can expect a strong recovery for the group's projects, including content production and concerts. A key bright spot is the resumption of concert production, where its 39%-owned subsidiary UnUsUaL

will be a key beneficiary. UnUsUaL is the first to present a large-scale, indoor LIVE concert (A-LIN – A LINK WITH PASSENGERS WORLD TOUR) at the Singapore Indoor Stadium on 28 May 22, since “reopening” or the relaxation of the safe management measures.

However, its high gearing will still be a main drag on the group. More concrete plans need to be in place to address this hurdle to stage a swift turnaround.

Exploring new avenues to reduce gearing; initial plans have lapsed. mm2 Asia had proposed several initiatives in the past to pare down its debt, but these have since lapsed. Previous proposals include spin-off and listing of cinemas, sale of cinemas, and merger of the cinema business with Golden Village cinemas in Singapore. The group continues to explore new avenues to pare down its debt.

Maintain HOLD with lower TP of S\$0.06; suspending coverage. We project the group to register net loss of S\$13.4m in FY23F, vs. our earlier expectation of S\$7.8m, on the back of the 30% cut in revenue projection, partly offset by higher gross margin assumptions of 24.5%, vs. 17.8% previously. Our sum-of-the-parts TP is reduced to S\$0.06, from S\$0.067, mainly due to the company's enlarged share capital after the recent placements.

We are suspending coverage on the stock due to the reallocation of resources.

Company Background

mm2 Asia is a leading producer of films and TV/online content in Asia. As a producer, mm2 Asia provides services over the entire film-making process – from financing and production to marketing and distribution, and thus has diversified revenue streams. The group also owns entertainment company UnUsUaL, and cinemas in Malaysia and Singapore.

mm2 Asia

Interim Income Statement (S\$m)

FY Mar	2H2021	1H2022	2H2022	% chg yoy	% chg hoh
Revenue	55	46	67	20.6	44.1
Cost of Goods Sold	(49)	(37)	(58)	17.6	57.8
Gross Profit	6	9	8	45.4	(9.6)
Other Oper. (Exp)/Inc	(71)	(16)	(30)	(57.3)	90.3
Operating Profit	(65)	(6)	(22)	(66.6)	235.1
Other Non Opg (Exp)/Inc	1	0	0	nm	-
Associates & JV Inc	0	1	0	-	nm
Net Interest (Exp)/Inc	(9)	(7)	(7)	29.6	3.1
Exceptional Gain/(Loss)	0	0	0	-	-
Pre-tax Profit	(73)	(13)	(28)	61.3	(117.8)
Tax	(1)	(1)	0	nm	nm
Minority Interest	5	2	4	(27.2)	61.9
Net Profit	(68)	(11)	(24)	64.4	113.1
Net profit bef Except.	(68)	(11)	(24)	64.4	113.1
EBITDA	(43)	12	2	nm	(80.7)
Margins (%)					
Gross Margins	10.5	20.2	12.7		
Opg Profit Margins	(117.2)	(14.0)	(32.5)		
Net Profit Margins	(123.5)	(24.7)	(36.5)		

Source of all data: Company, DBS Bank

Valuation Table

Segment	Stake	Valuation(S\$m)	Assumption
Production & Distribution	100%	71.2	Based on 10x PE, discount to peers
Cinema Operation	100%	36.0	Based on 6x EV/EBITDA, discount to peers
Post-Production	42%	6.6	Based on current valuation
Event Production & Concert Promotion	39%	53.3	Based on current valuation
Total value		167.1	
Number of shares (m)		2,790.6	
Value per share (S\$)		0.06	

Source:: Company, DBS Bank

Historical PE and PB band



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

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Segmental Breakdown

FY Mar	2020A	2021A	2022A	2023F	2024F
Revenues (\$m)					
Production & Cinema Operation	76.9	52.5	73.0	94.9	123
Event Production & Concert Promotion	87.9	15.7	29.2	73.1	87.7
Post-Production	61.8	1.34	3.59	18.0	53.9
Others	5.78	2.00	2.81	3.93	5.11
	3.46	3.72	4.30	3.00	3.00
Total	236	75.2	113	193	273

Income Statement (\$m)

FY Mar	2020A	2021A	2022A	2023F	2024F
Revenue	236	75.2	113	193	273
Cost of Goods Sold	(146)	(69.3)	(95.1)	(146)	(201)
Gross Profit	89.4	5.96	17.8	47.3	72.5
Other Opng (Exp)/Inc	(59.9)	(85.0)	(46.0)	(49.0)	(61.9)
Operating Profit	29.5	(79.1)	(28.1)	(1.7)	10.5
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.07	0.42	0.0	0.0
Net Interest (Exp)/Inc	(19.4)	(19.0)	(13.5)	(12.5)	(11.5)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	10.0	(98.1)	(41.2)	(14.3)	(1.0)
Tax	(3.4)	(1.5)	(0.9)	(0.3)	0.0
Minority Interest	(3.1)	8.76	6.34	1.19	(1.0)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	3.54	(90.8)	(35.8)	(13.4)	(2.0)
Net Profit before Except.	3.54	(90.8)	(35.8)	(13.4)	(2.0)
EBITDA	87.6	(31.1)	14.2	40.2	52.4
Growth					
Revenue Gth (%)	(11.4)	(68.1)	50.2	70.8	41.6
EBITDA Gth (%)	3.8	nm	nm	182.7	30.6
Opg Profit Gth (%)	(48.5)	(368.2)	(64.4)	(93.8)	(702.3)
Net Profit Gth (Pre-ex) (%)	(81.5)	nm	60.6	62.6	85.1
Margins & Ratio					
Gross Margins (%)	37.9	7.9	15.8	24.5	26.5
Opg Profit Margin (%)	12.5	(105.1)	(24.9)	(0.9)	3.9
Net Profit Margin (%)	1.5	(120.6)	(31.6)	(6.9)	(0.7)
ROAE (%)	1.6	(53.0)	(25.2)	(8.8)	(1.4)
ROA (%)	0.5	(13.3)	(5.9)	(2.4)	(0.4)
ROCE (%)	(2.9)	(19.7)	(10.3)	(5.9)	(3.1)
Div Payout Ratio (%)	0.0	N/A	N/A	N/A	N/A
Net Interest Cover (x)	1.5	(4.2)	(2.1)	(0.1)	0.9

Source: Company, DBS Bank

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Interim Income Statement (\$m)

FY Mar	2H2020	1H2021	2H2021	1H2022	2H2022
Revenue	118	19.9	55.3	46.3	66.7
Cost of Goods Sold	(87.1)	(19.8)	(49.5)	(36.9)	(58.2)
Gross Profit	31.2	0.13	5.83	9.37	8.47
Other Oper. (Exp)/Inc	(29.1)	(14.4)	(70.6)	(15.8)	(30.1)
Operating Profit	2.10	(14.3)	(64.8)	(6.5)	(21.7)
Other Non Opg (Exp)/Inc	(0.3)	(1.4)	1.37	(0.2)	0.18
Associates & JV Inc	0.0	0.23	(0.2)	0.54	(0.1)
Net Interest (Exp)/Inc	(9.2)	(9.6)	(9.4)	(6.9)	(6.6)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	(7.5)	(25.0)	(73.0)	(13.0)	(28.2)
Tax	1.28	(0.8)	(0.7)	(0.9)	0.0
Minority Interest	0.53	3.38	5.38	2.42	3.92
Net Profit	(5.6)	(22.4)	(68.3)	(11.4)	(24.3)
Net profit bef Except.	(5.6)	(22.4)	(68.3)	(11.4)	(24.3)
EBITDA	37.5	6.23	(43.3)	11.9	2.30

Growth

Revenue Gth (%)	0.8	(83.2)	177.9	(16.4)	44.1
EBITDA Gth (%)	(25.2)	(83.4)	nm	nm	(80.7)
Opg Profit Gth (%)	(92.3)	(778.7)	354.6	(90.0)	235.1
Net Profit Gth (%)	(161.5)	297.4	204.9	(83.3)	113.1

Margins

Gross Margins (%)	26.4	0.7	10.5	20.2	12.7
Opg Profit Margins (%)	1.8	(71.6)	(117.2)	(14.0)	(32.5)
Net Profit Margins (%)	(4.8)	(112.6)	(123.5)	(24.7)	(36.5)

Balance Sheet (\$m)

FY Mar	2020A	2021A	2022A	2023F	2024F
Net Fixed Assets	113	88.0	59.8	47.2	34.7
Invts in Associates & JVs	2.61	2.68	3.20	3.20	3.20
Other LT Assets	366	331	308	293	279
Cash & ST Invts	29.4	12.1	14.6	18.4	21.3
Inventory	0.41	1.83	1.01	2.88	4.08
Debtors	138	113	103	95.2	142
Other Current Assets	87.6	77.3	89.9	89.9	89.9
Total Assets	737	626	579	550	574
ST Debt	132	197	160	160	160
Creditor	91.7	79.2	91.7	79.3	105
Other Current Liab	40.8	34.6	38.5	36.6	36.3
LT Debt	126	73.0	49.8	49.8	49.8
Other LT Liabilities	73.3	70.7	36.6	36.6	36.6
Shareholder's Equity	218	125	159	146	144
Minority Interests	56.1	46.8	43.1	41.9	42.9
Total Cap. & Liab.	737	626	579	550	574
Non-Cash Wkg. Capital	93.9	78.0	63.5	72.0	95.1
Net Cash/(Debt)	(228)	(257)	(195)	(191)	(188)
Debtors Turn (avg days)	247.0	609.0	348.1	187.3	158.6
Creditors Turn (avg days)	461.7	1,461.6	586.0	300.8	211.6
Inventory Turn (avg days)	46.9	19.2	9.7	6.9	8.0
Asset Turnover (x)	0.3	0.1	0.2	0.3	0.5
Current Ratio (x)	1.0	0.7	0.7	0.7	0.9
Quick Ratio (x)	0.6	0.4	0.4	0.4	0.5
Net Debt/Equity (X)	0.8	1.5	1.0	1.0	1.0
Net Debt/Equity ex MI (X)	1.1	2.1	1.2	1.3	1.3
Capex to Debt (%)	10.0	3.5	3.2	7.2	7.2
Z-Score (X)	0.9	0.9	1.1	1.1	1.1

Source: Company, DBS Bank

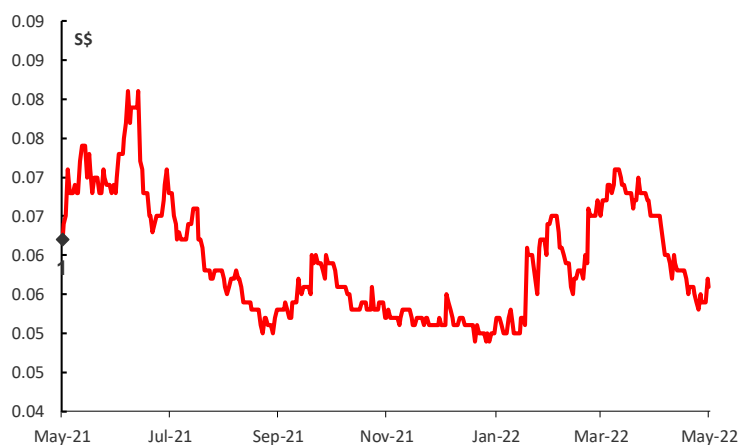
mm2 Asia

Cash Flow Statement (\$m)

FY Mar	2020A	2021A	2022A	2023F	2024F
Pre-Tax Profit	10.0	(98.1)	(41.2)	(14.3)	(1.0)
Dep. & Amort.	58.2	47.9	41.9	41.9	41.9
Tax Paid	(8.5)	(2.9)	(1.0)	(2.3)	(0.3)
Assoc. & JV Inc/(loss)	0.03	(0.1)	(0.4)	0.0	0.0
Chg in Wkg.Cap.	(51.8)	(10.8)	1.09	(6.6)	(22.8)
Other Operating CF	0.0	0.0	0.0	0.0	0.0
Net Operating CF	7.91	(63.9)	0.37	18.8	17.9
Capital Exp.(net)	(25.8)	(9.5)	(6.7)	(15.0)	(15.0)
Other Invs.(net)	0.0	0.0	0.0	0.0	0.0
Invs in Assoc. & JV	0.0	0.06	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(3.0)	0.02	0.44	0.0	0.0
Net Investing CF	(28.8)	(9.4)	(6.2)	(15.0)	(15.0)
Div Paid	0.0	0.0	0.0	0.0	0.0
Chg in Gross Debt	32.0	4.27	(77.7)	0.0	0.0
Capital Issues	0.66	0.0	70.2	0.0	0.0
Other Financing CF	(28.9)	(15.9)	(10.4)	0.0	0.0
Net Financing CF	3.78	(11.6)	(17.9)	0.0	0.0
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(17.1)	(84.9)	(23.8)	3.82	2.88
Opg CFPS (S cts)	5.13	(4.6)	0.0	0.91	1.46
Free CFPS (S cts)	(1.5)	(6.3)	(0.3)	0.14	0.10

Source: Company, DBS Bank

Target Price & Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	31 May 21	0.06	0.07	HOLD

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

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