Media

Uninspiring Outlook

NEUTRAL

↔

By Cheow Ming Liang I cheowml@kenanga.com.my

Persistently challenging prospect amid soft adex outlook coupled with disruptive new technologies will continue to reshape the media industry. Despite most of our media companies trading at near, if not at, trough valuations, there are no immediate earnings catalysts for now. Key company/events to watch out for in 2019 include ASTRO and the progressive development of the stake-limit ruling. There are no changes to our media companies' earnings estimate. ASTRO (OP, TP: RM1.60) is our preferred pick for the sector due to its relatively resilience earnings and attractive dividend yield. We maintain our UNDERPERFORM call and target price on MEDIA (UP, TP: RM0.300), MEDIAC (TP: RM0.150) and STAR (TP: RM0.600). Maintain NEUTRAL.

Deep in the woods. The sector incumbents' report cards for 3QCY18 remained uninspiring, mainly due to the prolonged weak advertising revenue as a result of subdued adex outlook on the slower economy and policies' uncertainties. MEDIA and STAR's 3Q18 results came in below expectations, owing to lower-than-expected top-line and higher-than-expected OPEX. Indeed, both companies' adex revenues have come in lower sequentially as advertisers remained cautious with their spending post the 14th GE. MEDIAC's report card, on the other hand, came in within expectations, mainly underpinned by its better-than-expected travel segment (thanks to an increase in incentive tours and tours for the FIFA World Cup). Nevertheless, the group's bread-and-butter Publishing segment's turnover continued to show weakness (similar to industry peers) sequentially in 3QCY18 coupled with slower travel seasons ahead, suggested that its outlook is getting more challenging. ASTRO, meanwhile, reported a decent report card for 3Q19, lifted by a rebound in adex and higher contribution from its home-shopping segment. The home-shopping segment's revenue contribution has improved to 6.7% in 9M19 (vs. 4.9% in the same period last year) and contributed a maiden EBITDA of RM1.0m after ten quarters of operations.

Transformation programme continues; further cost rationalization plans. Similar to other industries' players, the sector incumbents have continued to explore and find ways to venture into the digital space. While the efforts are set to continue, it is not expected to complement the deteriorating traditional adex revenue, at least over the short-to-medium-term. To cushion the earnings impact, most of the media operators (i.e. ASTRO, MEDIA and STAR) have launched yet more cost reduction programs, which are set to reduce and optimize the human resources as well as operating costs further. The moves, however, are expected to provide some pressures to the short-term financial performance but could yield better growth prospect over the longer term.

Potential shares overhang remains a concern. There is no solid follow-up development since the authority commented to review the stakes held by political parties in media companies to 10% in last September. While we understand the government's intention is to enhance press freedom and media independence for the country, the implementation of the proposed ruling is easier said than done given that valuations could be a major concern. Extensive share overhang is expected to emerge should the stake-limit ruling is applied. Having said that, we believe Putrajaya may likely provide the incumbents reasonable time frame to seek for new investors, if any, as well as to allow for exemption subject to the authority's approvals.

ASTRO in focus again. The waning share price performance (YTD: -49%, as of end 14-December, 2018) coupled with continued challenging operating outlook have led the market to speculate on the next move of the company in the coming months. Press has reported recently that its major shareholder - T. Ananda Krishnan, is weighing the possibility of either taking ASTRO private or a merger with MAXIS (which the billionaire controlled 62.4% equity stake via BGSM Equity S/B). While we do not rule out any of the possibilities, we are of the view that it will be making more business sense for the billionaire to privatize ASTRO due to its attractive current valuation coupled with healthy operating cash flow. Merger between ASTRO and MAXIS may not provide momentous synergies, in our view, as both companies had been tied-up to cross sell their strengths – contents and broadband services since year 2013, thus limiting its synergies post the merger though some could argue that it could strengthen their bundled services further with potential saving operationally.

Sector's call maintained at NEUTRAL. All in, moving into year 2019, we expect the sector's prospect to remain uninspiring amid the soft adex outlook (no thanks to the lack of adex-friendly events) coupled with new technologies that continue to reshape the media industry. Advertisers will likely continue to remain subdued towards the traditional media type (i.e. TV and Print) while seeking new opportunity in the digital media. All the media companies under our coverage are currently trading at near, if not at, trough valuations. We made no changes to all our media companies' earnings forecasts. **ASTRO (OP, TP at RM1.60) is our preferred pick for the sector due to its relatively resilient earnings** (underpinned by its growing digital adex coupled with rising home shopping segment contribution) and attractive dividend yield of more than 7%. **We are keeping our pessimistic view unchanged on MEDIA (UP, TP: RM0.300), MEDIAC (UP, TP: RM0.150) and STAR (UP, TP: RM0.600).**

Peer Comparison - Media

Name	Last Price @14-Dec-18 (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
Stocks Under Coverage																	
ASTRO	1.36	7,090.9	N	01/2019	-1.3%	-0.6%	-16.8%	19.1%	10.5	12.6	10.6	10.8	10.2	74.8%	7.4%	1.60	OP
MEDIA	0.375	416.0	N	12/2018	-2.7%	2.0%	-155.2%	-790.5%	N.A.	N.A.	N.A.	0.5	0.5	9.8%	0.0%	0.300	UP
MEDIAC	0.190	320.6	Y	03/2019	0.7%	-10.2%	-3.1%	-1.5%	8.4	8.7	8.8	0.4	0.4	4.5%	7.1%	0.150	UP
STAR	0.670	494.4	Y	12/2018	-25.5%	-19.4%	-62.6%	15.0%	12.0	32.0	27.8	0.6	0.6	1.8%	2.5%	0.600	UP
Simple Average					**-7.2%**	**-7.0%**	**-59.5%**	**-189.4%**	**10.2**	**17.6**	**15.7**	**3.0**	**2.8**	**22.7%**	**4.3%**		

Source: Bloomberg, Kenanga Research

This section is intentionally left blank

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 12, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

Chan Ken Yew
Head of Research