Media

Lacklustre outlook persists

NEUTRAL

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Lacklustre outlook remains due to prolonged weak advertising revenue of traditional media companies, a trend validated yet again by the sector incumbents' report cards. STAR, MEDIA and MEDIAC missed our expectations owing to the consumer and advertisers continued shift from the traditional to digital media. Meanwhile the challenging Pay-TV operating landscape continues as both the legal and illegal operators pose stiff competition. Our UP call for MEDIA (UP,TP: RM0.260) and STAR (UP,TP: RM0.600) are maintained. Meanwhile, we downgrade MEDIAC to UP (from MP) with a lower TP of RM0.165 (from RM0.200) on lower valuations. All in, we maintain our NEUTRAL view on the sector. Our sole OP call remains to be ASTRO (OP,TP: RM2.00) given its high dividend yield and cheap valuation relative to the sector.

Remained lacklustre. The sector incumbents' report cards for 1QCY19 remained uninspiring, mainly due to the prolonged weak advertising revenue as a result of subdued adex outlook on a slower economy and policies' uncertainties.

STAR's 1QFY19 results came in below our expectations from lower-than-expected print turnover given the weak newsprint adex outlook. Meanwhile, MEDIAC earnings continued to disappoint due to a shift in advertising to the digital space and prolonged weakness in consumer spending. Despite the continual efforts by both companies (STAR, MEDIAC) in their respective digital initiatives, we believe meaningful earnings could be a long term endeavour owing to their gestation phases. MEDIA recorded losses, missing our expectation, due to weaker ads revenue, lack of economies of scale and persistently high operating expenditure. ASTRO's 1QFY20 results came slightly above expectation mainly due to better-than-expected operating margins. Moving forward, ASTRO's focus will still be on strengthening its core TV business through its offering of vernacular and premium contents to its customer.

Weak Adex outlook continues. Total gross adex numbers reported a decline in 1Q19 to RM1.16b (c.-14% YoY), mainly dragged by the FTA TV and Newspaper segments which dropped to RM536.9m (-9%) and RM457.3m (-22%) respectively *(Source: Nielsen)*. The decline in traditional adex was driven by the (i) lack of key sporting events in FY19, (ii) weak on-going consumer sentiment, and (iii) continual digital disruption. Further, with the lack of major events in the near term, we do not expect a lift in traditional adex in 2H19. On the flipside, we have reason to believe that digital adex would only expand further, premised by the growing broadband and mobile cellular penetration rate in the country which should boost online content consumption.

Lower newsprint price but do not expect immediate flow through. Newsprint cost declined from c.USD650-700/mt last year to c.USD550-600/mt this year, as newsprint supply-demand normalises from the correction of newsprint shortages. Our recent meeting with industry players revealed that print players are taking advantage by stocking up on lower newsprint prices. While this move could provide some savings later, it may not be as significant immediately as newspaper circulation has declined and current inventory levels were stocked up at the c.USD650-700/mt.

Challenging Pay-TV operating landscape. Achieving meaningful subscriptions for Pay TV remains challenging as operators continue to face stiff competition from both legal and illegal sides. Legal competition comes from a mix of OTT players, both local (i.e. iflix, dimsum) and foreign (i.e. Netflix). In a move to smoothen competition, Pay TV operator opted for partnerships with other global OTT players to increase their content offerings to a wider scope of viewers. For example, ASTRO's recent partnership with IQiYi was meant to capture more Chinese content viewer while the HBO GO partnership is to capture the English speaking market. Nevertheless, piracy has increasingly been a threat to the point now that the government is planning anti-piracy initiatives according to channel checks. Though we are unable to ascertain the full impact as details at this juncture are still scarce, in our opinion, any results from these initiatives are likely to be beneficial to ASTRO as users could migrate to consume their exclusive content.

Sector's call maintained at NEUTRAL The sector's prospect remains challenging amid the soft adex outlook while the digital trend continues to reshape the media industry. Advertisers continue to switch from traditional media type (i.e. TV and Print) given the penetration rate in both the broadband and mobile cellular that is progressively growing. Our sole OUTPERFORM stock is **ASTRO (OP, TP : RM2.00) given its high dividend yield (>7%) and cheap valuation** (Fwd. FY20E PER of 11x vs. our media coverage of 15x). UNDERPERFORM ratings on MEDIA (TP: RM0.260) and STAR (TP: RM0.600) are maintained, given the uninspiring outlook in the traditional adex space. Meanwhile, we downgrade MEDIAC to UP (from MP) on the back of a lower TP of RM0.165 (from RM0.200). This is premised on a rolled over valuation base to FY21E, but with a lower P/NTA per share of 0.4x as we re-look at our benchmarked -1.5SD over its 3-year Fwd Avg.

Peer Comparison - Media

Name	Last Price @21-June-19 (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 MALAYSIA HOLDINGS BHD	1.48	7,717.2	N	01/2020	-2.0%	0.1%	26.3%	2.0%	13.7	10.9	10.7	13.2	10.7	108.6%	7.4%	2.00	OP
MEDIA CHINESE INTERNATIONAL	0.185	312.1	Y	03/2020	-2.5%	-0.7%	6.6%	0.3%	11.4	10.7	10.7	0.5	0.4	4.2%	5.4%	0.165	UP
MEDIA PRIMA BHD	0.470	521.3	N	12/2019	-6.1%	1.1%	-130.2%	-176.5%	N.A.	N.A.	N.A.	0.6	0.7	-10.6%	0.0%	0.260	UP
STAR MEDIA GROUP BHD	0.660	487.0	Y	12/2019	-10.8%	8.6%	1.8%	12.6%	28.4	28.1	24.8	0.6	0.6	2.1%	3.0%	0.600	UP
Simple Average					**-5.4%**	**2.3%**	**-23.9%**	**-40.4%**	**17.9**	**16.6**	**15.4**	**3.7**	**3.1**	**26.1%**	**4.0%**		

Source: Bloomberg, Kenanga Research

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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.***

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