

# Star Media Group (STAR)

## 2Q19 Below Expectations

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STAR posted a disappointing 6M19 owing to the weak Print and Digital segment's revenue and high opex. With that, we slash our FY19-20E by 39-48% respectively. Despite the challenges ahead, we believe the sell-down of the stock could be overdone as its digital assets could yield meaningful results in the near-term to buffer the weaker traditional media outlets. Upgrade to MP but with a lower TP of RM0.570 (from RM0.600).

**Below expectations.** 6M19 PATAMI of RM5.2m (-59% YoY) came in below expectations at 30%/35% of our/market's FY19 estimates. Key negative deviations were mainly due to overly optimistic opex assumptions, mainly from the Print and Digital segment. As expected, no dividend was announced during the quarter.

**YoY**, 6M19 revenue dropped to RM160.3m (-23%), mainly due to lower Print and Digital contribution of RM141.7m (-20%). This came from weaker consumer sentiment and the lack of major events during the period, whereas 6M18 was enthused by the general election. PBT plunged to RM8.8m (-56%) as the decline in revenue did not soften the stubborn opex. Losses were seen in the Radio broadcasting segment at RM0.5m (-133%) following a 28% decline in revenue. The Events division also recorded a lower PBT of RM1.6m (-45.7%). Subsequently, 6M19 group PATAMI registered at RM5.2m (-59%).

**QoQ**, the group's 2Q19 revenue declined marginally by 6%, due to the same lower print and event revenue. However, PATAMI fell even further by 53% as high opex persisted in line with the group's continued efforts to explore into new revenue streams (i.e. wider digital offerings).

**Competition arises.** Broadly speaking, we believe that STAR would continue to see insurmountable challenges as traditional media and advertising channels gradually lose their relevance against digital platforms. With regards to this, the group is also investing heavily to grow its presence, with mediums such as StarProperty, Dimsum, Kualu and its E-tuition platform. However, it may not be smooth running as consumers could be spoilt for choice given the wide array of international offerings, enabled by borderless internet access. Still, we believe that STAR could see favourable traction on the back of its strong localised content and identity as a reliable news platform.

**We slash our FY19-20E PATAMI** by 39-48% given the disappointing 2Q19 report card. We continue to expect opex to increase going forward, premised on higher cost on its OTT platform and on-going search for new revenue streams.

**Upgrade to MARKET PERFORM while reducing our TP to RM0.570 (from RM0.600, previously).** The lower TP came from a weaker NTA/share of RM1.10 (from RM1.16) following our earnings cut, while leaving our 0.52x FY20E P/NTA valuation unchanged. This is in line with the stock's -1.5SD over its 3-year Fwd. average. We believe that most of the negatives have already been priced in following the YTD share price decline of 16%, where it is also currently at its lowest price level. We believe sentiment has already floored as most of the negatives have already been priced in and we believe that its digital assets could potentially cushion the impact from its declining traditional adex revenue going forward.

**Key risks to our call include:** (i) higher/lower-than-expected adex revenue, and (ii) better/worse-than-expected margins following various cost initiative plans.

## MARKET PERFORM ↑

Price : **RM0.575**  
Target Price : **RM0.570** ↓

### Share Price Performance



KLCI 1,589.82  
YTD KLCI chg -6.0%  
YTD stock price chg -16.1%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	STAR MK Equity
Market Cap (RM m)	424.3
Shares Outstanding	737.9
52-week range (H)	1.00
52-week range (L)	0.57
3-mth avg daily vol:	130,611
Free Float	39%
Beta	1.0

### Major Shareholders

Malaysian Chinese Association	42.5%
Skim Amanah Saham Bumiputra	9.5%
Employees Provident Fund	8.9%

### Summary Earnings Table

FYE Dec (RM'm)	2018A	2019E	2020E
Turnover	393	341	340
EBIT	11	17	15
PBT	9	17	15
<b>PATAMI</b>	<b>5</b>	<b>11</b>	<b>10</b>
<b>Core PATAMI</b>	<b>17</b>	<b>11</b>	<b>10</b>
Consensus (NP)		15	14
Earnings Revision (%)		-39	-48
EPS (sen)	2.3	1.4	1.4
EPS growth (%)	-58.5	-38.3	-2.6
DPS (sen)	3.0	1.1	1.1
NTA/Share (RM)	1.07	1.08	1.10
PER	24.8	40.2	41.3
Price/NTA (x)	0.5	0.5	0.5
Net Gearing (x)	-0.4	-0.4	-0.4
Dividend Yield (%)	5.2	2.0	1.9

29 August 2019

<b>Result Highlight</b>								
<b>FYE Dec (RM'm)</b>	<b>2Q19</b>	<b>1Q19</b>	<b>QoQ Chg</b>	<b>2Q18</b>	<b>YoY Chg</b>	<b>6M19</b>	<b>6M18</b>	<b>YoY Chg</b>
<b>Turnover</b>	<b>77.7</b>	<b>82.6</b>	<b>-5.9%</b>	<b>99.5</b>	<b>-21.9%</b>	<b>160.3</b>	<b>208.5</b>	<b>-23.1%</b>
EBIT	3.4	5.9	-43.0%	3.1	9.8%	9.3	21.8	-57.6%
PBT	3.0	5.7	-46.7%	2.3	35.2%	8.8	19.8	-55.9%
Taxation	(1.4)	(2.2)	35.3%	(0.8)	-73.3%	(3.5)	(7.0)	49.4%
Minority Interest	0.0	(0.0)	131.6%	(0.0)	117.6%	(0.0)	(0.1)	88.0%
<b>PATAMI</b>	<b>1.7</b>	<b>3.5</b>	<b>-53.2%</b>	<b>1.4</b>	<b>17.2%</b>	<b>5.2</b>	<b>12.7</b>	<b>-59.2%</b>
<b>Core PATAMI</b>	<b>1.7</b>	<b>3.5</b>	<b>-53.2%</b>	<b>1.4</b>	<b>17.2%</b>	<b>5.2</b>	<b>12.7</b>	<b>-59.2%</b>
EPS (sen)	0.2	0.5	-53.2%	0.2	17.2%	0.7	1.7	-59.2%
DPS (sen)	-	-		-		-	-	
EBIT margin	4.3%	7.1%		3.1%		5.8%	10.5%	
PBT margin	3.9%	6.9%		2.3%		5.5%	9.5%	
Core PATAMI margin	2.1%	4.3%		1.4%		3.2%	6.1%	
Effective tax rate	-45.7%	-37.7%		-35.7%		-40.5%	-35.3%	

Source: Company, Kenanga Research

<b>Segmental – Revenue &amp; PBT Breakdown</b>								
<b>FYE Dec (RM'm)</b>	<b>Revenue</b>			<b>PBT</b>			<b>PBT Margin</b>	
	<b>2Q19</b>	<b>2Q18</b>	<b>YoY Chg</b>	<b>2Q19</b>	<b>2Q18</b>	<b>YoY Chg</b>	<b>2Q19</b>	<b>2Q18</b>
Print and Digital	69.8	71.9	-2.9%	3.6	20.7	-82.4%	5.2%	28.8%
Radio broadcasting	5.7	5.4	5.5%	(0.1)	1.6	-106.1%	-1.7%	29.0%
Event	2.2	5.3	-57.9%	1.6	2.7	-41.0%	72.5%	51.8%
Others	-	-	N.A	0.5	(7.4)	107.4%	N.M	N.M
<b>TOTAL</b>	<b>77.7</b>	<b>82.6</b>	<b>-5.9%</b>	<b>5.7</b>	<b>17.6</b>	<b>-67.5%</b>	<b>7.3%</b>	<b>21.3%</b>

Source: Company, Kenanga Research

<b>Segmental – Revenue &amp; PBT Breakdown</b>								
<b>FYE Dec (RM'm)</b>	<b>Revenue</b>			<b>PBT</b>			<b>PBT Margin</b>	
	<b>1H19</b>	<b>1H18</b>	<b>YoY Chg</b>	<b>1H19</b>	<b>1H18</b>	<b>YoY Chg</b>	<b>1H19</b>	<b>1H18</b>
Print and Digital	141.7	177.5	-20.1%	6.8	19.3	-65.0%	4.8%	10.9%
Radio broadcasting	11.1	15.4	-28.1%	(0.5)	1.6	-133.2%	-4.9%	10.6%
Event	7.5	9.6	-21.5%	1.6	2.9	-45.7%	20.9%	30.2%
Others	-	6.1	-100.0%	1.0	(4.0)	-124.1%	N.A	-65.7%
<b>TOTAL</b>	<b>160.3</b>	<b>208.5</b>	<b>-23.1%</b>	<b>8.8</b>	<b>19.8</b>	<b>-55.9%</b>	<b>5.5%</b>	<b>9.5%</b>

Source: Company, Kenanga Research

29 August 2019

### Peer Comparison - Media

Name	Last Price (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.		
<b>Stocks Under Coverage</b>																	
ASTRO MALAYSIA HOLDINGS BHD	1.34	6,987.2	N	01/2020	-2.0%	0.1%	26.3%	2.0%	12.4	9.8	9.7	11.9	9.7	108.6%	8.2%	2.00	OP
MEDIA CHINESE INTERNATIONAL	0.170	286.8	Y	03/2020	-2.5%	-0.7%	6.6%	0.3%	10.5	9.8	9.8	0.4	0.4	4.2%	5.9%	0.165	MP
MEDIA PRIMA BHD	0.480	532.4	N	12/2019	-6.1%	1.1%	-130.2%	-176.5%	N.A.	N.A.	N.A.	0.7	0.7	-10.6%	0.0%	0.260	UP
STAR MEDIA GROUP BHD	0.575	424.3	Y	12/2019	-13.1%	-0.3%	-38.3%	-2.6%	24.8	24.5	21.6	0.5	0.5	1.3%	2.0%	0.570	MP
<b>Simple Average</b>					<b>-5.9%</b>	<b>0.0%</b>	<b>-33.9%</b>	<b>-44.2%</b>	<b>15.9</b>	<b>14.7</b>	<b>13.7</b>	<b>3.4</b>	<b>2.8</b>	<b>25.9%</b>	<b>4.0%</b>		

Source: Bloomberg, Kenanga Research

29 August 2019

**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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Published and printed by:

**KENANGA INVESTMENT BANK BERHAD (15678-H)**

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