

13 September 2019

Astro Malaysia Holdings

1H20 Within Expectation

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1H20 earnings came in within our, but above consensus, expectation, at 50% and 57%, respectively. Top-line diminished marginally but better cost optimisation and lower content cost led to better profitability. Going forward, ASTRO will continue to focus on defending its earnings through better cost management and strategic tie-ups. Maintain **OUTPERFORM** and TP of RM2.00 (based on WACC: 10.8%, TG: 1.0%).

Within expectations. 1H20 Core PATAMI of RM352.6m came in within our but slightly above consensus expectation at 50% and 57%, respectively. The miss from the consensus was likely due to their overly pessimistic cost assumptions. Note that a post-tax unrealised forex loss of RM7m was excluded from our Core PATAMI calculation. The interim dividend of 2.0 sen (YTD: 4.0 sen) is deemed to be broadly within our estimate.

YoY, 1H20 revenue declined to RM2.5b (-9%) due to: (i) lower subscription revenue (-9%), (ii) weaker radio revenue (-12%), and (iii) almost flat merchandising revenue (-2%) which was partially mitigated by the increase in advertising revenue (+5%). Despite the decline in revenue, Core PATAMI came in higher at RM352.6m (+57%), due to the absence of FIFA which inflated 1H19 content cost to 39.6% (vs. 1H20 at 33.1%). More favourable marketing and distribution costs amid the on-going cost containment effort also contributed. **QoQ**, revenue inched up to RM1.2b (+0.2%) as Radio (+10%) and Home Shopping (+8%) growth cushioned the slight decline in TV subscriptions (-1%). However, due to higher content cost in 2Q20, EBITDA margin diminished to 35.3% (-1.3ppt) which translated to a lower core PATAMI of RM168.4m (-9%).

Notable trend. ARPU in 1H20 increased to RM100.0 (+0.1% YoY) owing to rising consumption across platforms, while TV customers based grew perpetually to 5.7m (+1% YoY) as ASTRO TV viewership continued to gain market share at 75%. Note that, ARPU in 1H20 was closely in-line to the RM100 level mark (above its 1H19 average), which we deem a positive and expect it to hold at current levels, as the group is able to find an optimal price point for its packages.

Reaching out to a bigger audience. The media industry appears to be undergoing structural changes, where competition arises not just from piracy but also pressures from international OTT platforms (Apple TV, Netflix and Disney). To combat this, management maintains focus towards: (i) vernacular content to cater to local flavors, (ii) strategic tie-ups with local telco players to enable cross-selling opportunities, and (iii) enhancing seamless experience that customers could enjoy with its offerings (exclusive rewards and privileges). Apart from these, the group continues its effort on cost optimization initiatives, which include digitalization of processes and content cost renegotiation. All in, we concur with management's focus to strengthen its core business and also their on-going cost optimization efforts.

Post results, we made no changes to our earnings estimates.

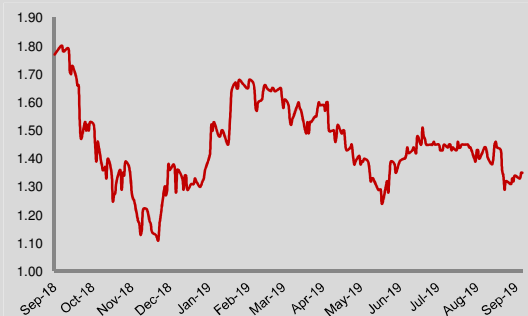
Maintain OUTPERFORM and DCF-driven TP of RM2.00. Our DCF-driven TP of RM2.00 (WACC: 10.8%, Terminal Growth Rate: 1.0%) implies FY20 PER of 14.7x (-1.5SD level to its 5-year mean). Among the media companies under our coverage, we think that ASTRO is currently trading at a cheap valuation of Fwd. PER (FY20E) of 10x vs. our media coverage average of 14x. Moreover, we continue to like ASTRO for its attractive dividend yield (8%) while earnings remain relatively resilient as effective cost management buffers top-line weaknesses.

Risks to our call include: (i) lower-than-expected subscription and adex revenue, and (ii) higher-than-expected content cost and operating expenses.

OUTPERFORM ↔

Price : RM1.34
Target Price : RM2.00 ↔

Share Price Performance



KLCI	1,601.00
YTD KLCI chg	-5.3%
YTD stock price chg	3.1%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	ASTRO MK Equity
Market Cap (RM m)	6,987.2
Shares Outstanding	5,214.3
52-week range (H)	1.82
52-week range (L)	1.05
3-mth avg daily vol:	1,784,851
Free Float	37%
Beta	1.3

Major Shareholders

Pantai Cahaya Bulan Ventures Sdn Bhd	20.7%
All Asia Media Equities Limited	19.4%
Employees Provident Fund Board	8.3%

Summary Earnings Table

FYE Jan (RM'm)	2019A	2020E	2021E
Turnover	5,479	5,368	5,372
EBITDA	1,740	1,890	1,908
EBIT	1,029	1,218	1,205
PBT	651	967	986
PATAMI	463	710	724
Core PATAMI	562	710	724
Consensus (CNP)		623	619
Earnings Revision		-	-
Core EPS (sen)	10.8	13.6	13.9
Core EPS growth (%)	-17.1	26.3	2.0
DPS (sen)	9.0	11.0	11.0
BV/Share (RM)	0.13	0.16	0.18
Core PER (x)	12.4	9.8	9.7
PBV (x)	10.3	8.6	7.3
Net Gearing (x)	5.6	3.9	2.9
Dividend Yield (%)	6.7	8.2	8.2

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Result Highlight								
FYE Jan (RM'm)	2Q20	1Q20	QoQ Chg	2Q19	YoY Chg	1H20	1H19	YoY Chg
Revenue	1236.4	1234.4	0.2%	1416.5	-12.7%	2470.8	2727.4	-9.4%
EBITDA	436.7	451.6	-3.3%	318.7	37.0%	888.3	783.9	13.3%
Core EBIT	267.7	292.6	-8.5%	154.7	73.0%	560.3	454.9	23.2%
-Net Interest Expense	-48.0	-58.2	-17.5%	-95.9	-49.9%	-106.2	-157.7	-32.7%
+Share of Associates	0.1	0.1	0.0%	0.4	-75.0%	0.2	0.9	-77.8%
-One-off Items	1.0	-8.0	-112.5%	-30.0	-103.3%	-7.0	-34.0	-79.4%
PBT	220.8	226.5	-2.5%	29.2	656.2%	447.3	264.1	69.4%
-Taxation	-52.9	-57.2	-7.5%	-14.5	264.8%	-110.1	-75.5	45.8%
-Minority Interest	1.5	6.9	-78.3%	1.9	-21.1%	8.4	2.7	211.1%
PATAMI	169.4	176.2	-3.9%	16.6	920.5%	345.6	191.3	80.7%
Core PATAMI	168.4	184.2	-8.6%	46.6	261.4%	352.6	225.3	56.5%
Core EPS (sen)	3.2	3.5		0.9		6.8	4.3	
DPS (sen)	2.0	2.0		2.5		4.0	5.0	
EBITDA Margin	35.3%	36.6%		22.5%		36.0%	28.7%	
Core EBIT Margin	21.7%	23.7%		10.9%		22.7%	16.7%	
PBT Margin	17.9%	18.3%		2.1%		18.1%	9.7%	
Core PATAMI Margin	13.6%	14.9%		3.3%		14.3%	8.3%	
Effective Tax Rate	24.0%	25.3%		49.7%		24.6%	28.6%	

Source: Kenanga Research

Segmental breakdown								
FYE Jan (RM'm)	2Q20	1Q20	QoQ Chg	2Q19	YoY Chg	1H20	1H19	YoY Chg
Total Revenue	1,236.4	1,234.4	0.2%	1,416.5	-12.7%	2,470.8	2,727.4	-9.4%
Television	1,080.4	1,091.4	-1.0%	1,247.5	-13.4%	2,171.8	2,407.1	-9.8%
Radio	65.5	59.5	10.1%	75.2	-12.9%	125.0	142.7	-12.4%
Home Shopping	90.5	83.5	8.4%	93.5	-3.2%	174.0	177.0	-1.7%
Corporate Function	0.0	0.0	N.M	0.3	N.M	0.0	0.6	N.M
Segment PBT	226.5	226.5	0.0%	29.2	675.7%	447.3	264.1	69.4%
Television	201.5	203.1	-0.8%	-13.5	-1592.6%	404.6	191.2	111.6%
Radio	34.4	28.9	19.0%	39.5	-12.9%	63.3	72.5	-12.7%
Home Shopping	-3.6	-4.5	20.0%	-4.6	21.7%	-8.1	-7.0	-15.7%
Others	2.2	-1.7	229.4%	-2.4	191.7%	0.5	-6.0	108.3%
Corporate Function	-10.8	-7.7	-40.3%	-10.8	0.0%	-18.5	-16.4	-12.8%
Elimination	-2.9	8.4	-134.5%	21.0	-113.8%	5.5	29.8	-81.5%

Source: Company, Kenanga Research

Segmental Breakdown			
Highlights (RM'm)	1H20	1H19	Growth
TV			
Total revenue	2,470.8	2,727.1	-9.4%
Subscription revenue	1,853.0	2,032.0	-8.8%
Advertising revenue	177.4	169.3	4.8%
Radio revenue	125.0	142.7	-12.4%
Merchandising revenue	174.0	177.0	-1.7%
Other revenue	141.4	206.1	-31.4%
TV household penetration (%)	75%	75%	0.0%
TV household penetration (k)	5,690.0	5,635.0	1.0%
ARPU (RM)	100.0	99.9	0.1%
Content costs/TV rev.	33.1%	39.6%	-6.6%

Source: Company, Kenanga Research

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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.		
Stocks Under Coverage																	
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%	6.3%	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	0.555	409.5	Y	12/2019	-13.1%	-0.3%	-38.0%	-2.8%	23.9	23.6	20.9	0.5	0.5	1.3%	2.1%	0.570	MP
Simple Average					-5.9%	0.0%	-33.8%	-44.2%	15.6	14.4	13.4	3.4	2.8	25.9%	3.6%		

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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