

04 October 2019

## Media

### Bleak outlook persist

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# NEUTRAL



Weakness persists given the structural issues in media, as revealed in the sector incumbents' report cards. MEDIA and MEDIAC results were within our expectations, while STAR was below. We expect total gross Adex to be weak in 2H19, no thanks to the lack of nationwide events and the growing preference for interactive content while Ex-Astro players are pressing on efforts in expanding their digital fronts. Meanwhile, we believe the impact is minimal from the analogue switch-off (ASO) which is due to be completed nationwide by 31 Oct 2019. We currently have MP calls on MEDIAC (MP, TP: RM0.165) and STAR (MP, TP: RM0.570); UP on MEDIA (UP, TP: RM0.260), while ASTRO is our sole OP call (OP, TP: RM2.00), which commands high dividend yields (>7%) and is trading at cheap valuations relative to the sector.



**Weakness continues**, with the sector's incumbent recent report cards showing no clear signs of bottoming out, with the on-going digitalisation of media phasing out traditional channels. STAR 6M19 results came in way below expectations, as it's Print and Digital segment (c.90% of revenue) continued to drag the group's performance. MEDIAC 1QFY20 results came in broadly within, as the decline in its print segment was cushioned by its travel segment's seasonally stronger 1H. MEDIA's reported losses were also within, as declining revenue in all fronts except its home shopping segment outweighed the gain from the group's cost saving initiative. Only **ASTRO** within our media coverage continued to deliver strong earnings in 1HFY20 thanks to the cost saving initiatives on marketing and distribution costs in addition to lower content cost with less sporting events compared to the previous year.

**Weaker Adex likely in 3Q19.** Referencing Nielsen's total national gross adex statistics for 2Q19, despite the introduction of digital adex as a component (12% of 1H19), the overall industry remains weak due to growing digitalization and preference for interactive content by consumers. 2Q19 total gross adex declined by 16% YoY, dragged by FTA TV (-18%), Newspaper (-18%), Radio (-12%) and Magazines (-16%). On the flipside Cinema and In-Store media increased by 10% and 12% respectively, but only accounted for 5% of the market. All in, we expect the declining trend to persist and with 3Q19 adex to decline by 10% YoY and QoQ due to the lack of (i) major sporting events and festive season, (ii) weak consumer sentiment, and (iii) persistent digital disruptions as internet usage becomes highly common place.

**Digitalisation at focus.** Amid the structural challenges faced by the media industry, we see media players ramping up their effort in search of new revenue streams. MEDIA steers the lead with its Odyssey Transformation Strategy that includes expanding its digital efforts with brands such as Rev Asia and Ripple. STAR shared its 3-pillar strategy, which includes using artificial intelligence to increase its transactional revenue (B2B & B2C) while leveraging on the strength of the group's journalism. On the flipside, MEDIAC has set up its creative arm WAW Creation which provides holistic solutions to advertisers as it includes content creation, editing services and talents for promotional materials. Despite these efforts, digital contribution from the three players remain relatively weak (<10% of revenue). Challenges to grow this segment mainly comes from rising competition from international media platforms (i.e Facebook, Google and Youtube). Moreover, we could see higher operating costs going forward from these players in an effort to boost the above in the face of the rapid deterioration in their bread and butter traditional media and advertising business.

**Minimal impact from analogue switch-off (ASO).** MCMC highlighted that Malaysia will fully switch its transmission of FTA-TV from analogue to digital by 31 Oct 2019. The move was to free up its currently occupied 700MHz to be relocated in expanding the nationwide 4G LTE coverage. Digitalising television platforms is also part of the government's efforts to narrow the digital gap between suburbs and rural area which were previously fully dependent on analogue television. Upon the full re-allocation, we see minimal impact to MEDIA and ASTRO which are involved in FTA-TV and Paid-TV offerings. During MEDIA's recent briefing, we gathered that the ASO could lower transmission cost for all its channels. However, we remain neutral as we believe that potential savings from the switch to DTT would not be sufficient to cover its current losses, as transmission cost only amount to at a mere 6-8% of MEDIA's group's total direct costs. On the other hand, we believe ASTRO's free set top boxes NJOI, would not be meaningfully impacted by the ASO. Despite a RM400 initial installation cost, we believe NJOI would still appeal to customers with its wider range of 30 freemium tv channels, 20 radio channels and flexibility to opt for premium content as compared to myFreeview Digital TV which only provides 15 channels and 6 radio channels.

**Sector 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 growing penetration rate in both broadband and mobile cellular segments. Our sole OUTPERFORM stock is **ASTRO (OP, TP:RM2.00) which commands high dividend yield (>7%) and cheap valuation** (Fwd. FY20E PER of 10x vs. our media coverage of 15x). Meanwhile, we have an UNDERPERFORM rating on MEDIA (TP: RM0.260) and MARKET PERFORM call for STAR (TP: RM0.570) and MEDIAC (TP: RM0.165) which we believe have their negatives priced in.

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## Peer Comparison – Media

Name	Last Price @ 20-Sep-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.		
<b>Stocks Under Coverage</b>																	
ASTRO MALAYSIA HOLDINGS BHD	1.42	7,404.3	N	01/2020	-2.0%	0.1%	26.3%	2.0%	13.2	10.4	10.2	12.7	10.3	108.6%	7.7%	2.00	OP
MEDIA CHINESE INTERNATIONAL	0.180	303.7	Y	03/2020	-2.5%	-0.7%	6.6%	0.3%	11.1	10.4	10.4	0.4	0.4	4.2%	5.6%	0.165	MP
MEDIA PRIMA BHD	0.475	526.9	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	0.550	405.8	Y	12/2019	-13.1%	-0.3%	-38.0%	-2.8%	23.7	23.4	20.7	0.5	0.5	1.3%	2.1%	0.570	MP
<b>Simple Average</b>					<b>-5.9%</b>	<b>0.0%</b>	<b>-33.8%</b>	<b>-44.2%</b>	<b>16.0</b>	<b>14.7</b>	<b>13.8</b>	<b>3.6</b>	<b>3.0</b>	<b>25.9%</b>	<b>3.8%</b>		

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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