Media

Digital Media's Tight Grip on Adex

UNDERWEIGHT

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We maintain our UNDERWEIGHT recommendation on the media sector due to: (i) traditional media's lack of innovation vis-à-vis digital media, (ii) declining PayTV subscription trends, (iii) generative AI will likely widen digital media's competitive moat, and (iv) traditional media's bloated legacy cost base weighing on bottom line. Additionally, we believe that Malaysian adex is not out of the woods yet, as both consumer and business sentiment indices remain below the 100-point optimism threshold. We do not have any stock picks for the sector.

Expect some recovery in adex after a sluggish CY23. We maintain our FY24 adex growth estimate of 10.8% YoY as we assume a modest recovery following a sluggish FY23 (+1.7% YoY). The growth is largely driven by digital media and free-to-air TV (FTA TV) on the back of improving consumer and business sentiment. However, for 2QCY24, we believe that YoY adex growth will moderate as advertisers hold back in anticipation of the upcoming Paris Summer Olympics that will be held from 26 July to 11 August.

On the flipside, we believe that traditional media is unable to fully leverage from improved adex given stiff competition from new media that includes: (i) streaming apps or websites (e.g. Youtube, Spotify, Apple Music), (ii) mobile apps (e.g. Waze, Grab, KLSE Screener), and (iii) social media platforms (e.g. Instagram, TikTok, Facebook, X). Their popularity stems from: (i) structural shift in interest to short video formats and live-stream sales, (ii) application of artificial intelligence (AI) to curate personalized content and commercials, (iii) relatively lower cost per impression, (iv) interactive digital platforms enable two-way communication and user engagement. As a result, consumers are increasingly fixated on digital devices, where they dedicate a significant portion of their time. Therefore, we expect brands and retailers to continue spending on digital advertising to direct traffic to their respective online shopping sites.

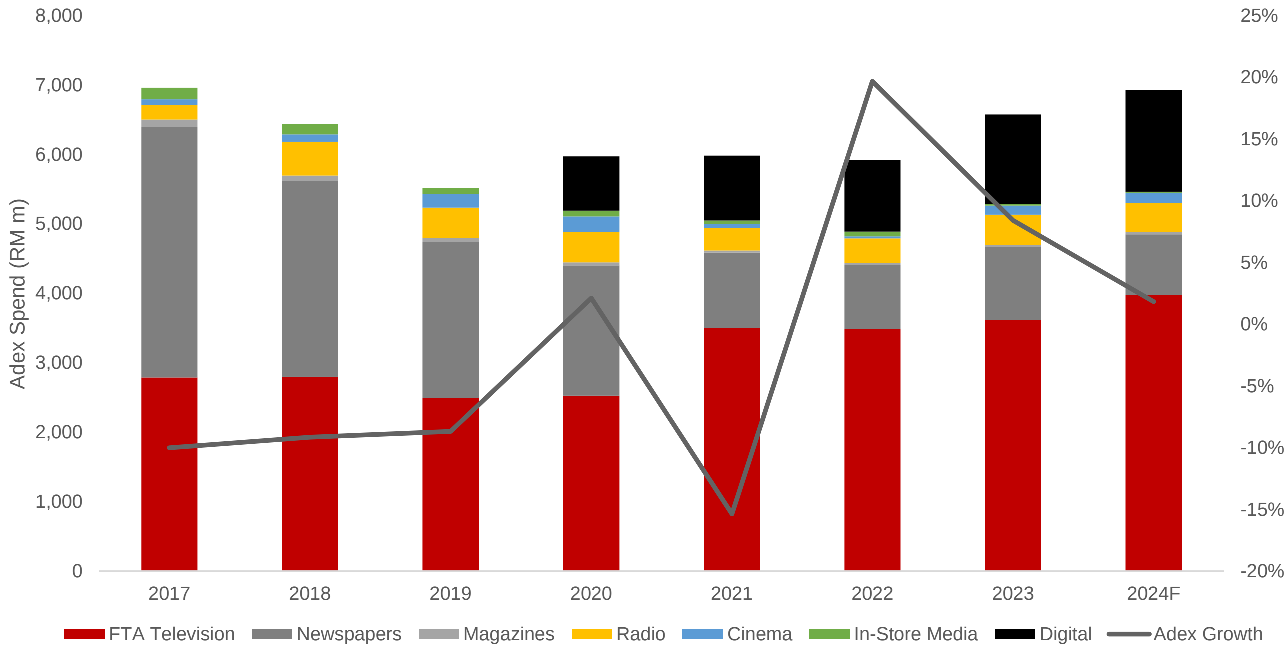
Mixed leading indicators. According to the Malaysian Institute of Economic Research (MIER), the Consumer Sentiment Index (CSI) slipped by 2.3 points sequentially to 87.1 in 1QCY24. The QoQ decline was attributed to amongst others, persistent concerns on inflation, employment prospects and personal finances. On a more encouraging note, the Business Conditions Index (BCI) sustained its upwards trajectory by expanding 5.3 points QoQ to reach 94.3 points in 1QCY24. This was underpinned by higher sales, particularly domestic orders, which more than offset a drop in capital investments. Given the mixed indicators above, and as both indices remain below the 100-point optimism threshold, we believe that Malaysian adex is not out of the woods yet. Furthermore, there was merely average and selective spending by consumers during recent festivities (ie. Hari Raya and Chinese New Year), according to the Malaysian Retailers Association.

On a brighter note, implementation of the High-Value Goods Tax has been put on hold from its initial targeted date of 1st May. Furthermore, over the longer term, starting from December, civil servants will enjoy a salary hike of more than 13%. Additionally, Rahmah Cash Aid targeted subsidies may be raised following the successful rollout of Central Database System (PADU). As such, these may play a part in propping consumer and business sentiment to cushion the impact of higher Sales and Services Tax (SST).

Potential relief in PayTV subscriber rout. Moving forward, in 3QCY24 and beyond, we expect cord-cutting trends to moderate following the introduction of **ASTRO (UP; TP: RM)** cheaper entry level packages with prices starting from RM40 per month. We believe this would partially ease its continuous loss of market share to over-the-top (OTT) streaming services. Furthermore, traction on **ASTRO**'s broadband bundling strategy may also enhance customer retention and alleviate customer churn. To recap, in 1QCY24, Pay TV subscriptions in Malaysia declined by 3.7% YoY, continuing its steady sequential decline based on the latest data on our records that stretch from 4QCY20.

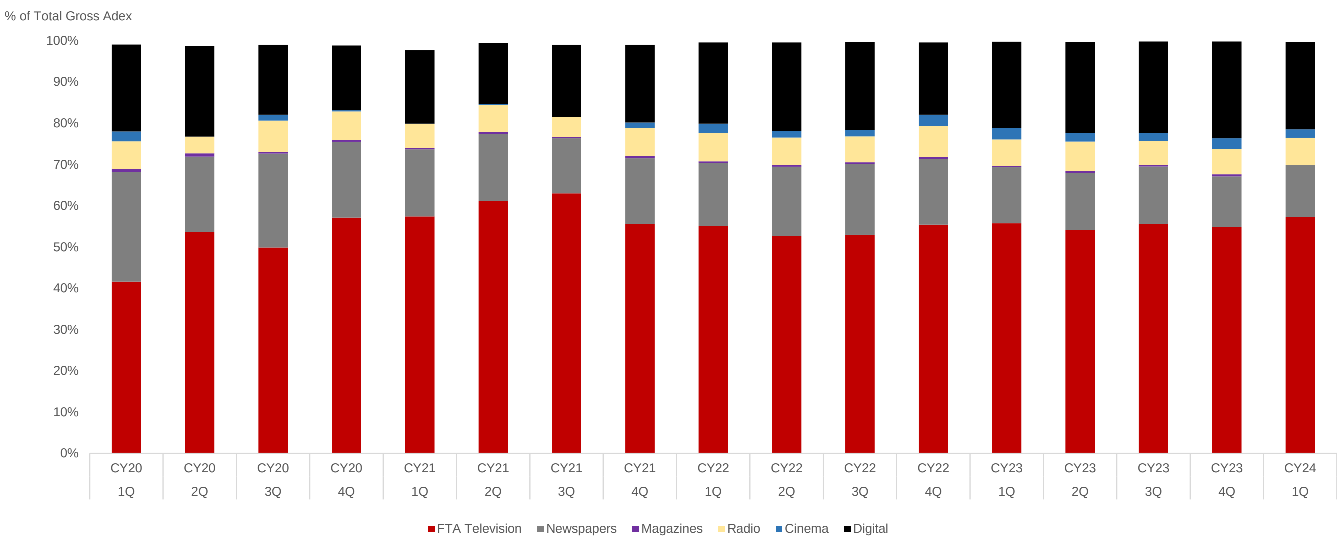
Underweight on gloomy earnings outlook. We maintain our **UNDERWEIGHT** recommendation on the sector as we believe that the outlook for traditional media remains murky, unless they are able to swiftly reinvent themselves or diversify into profitable adjacent businesses. In the meanwhile, we are concerned that smaller media players will struggle to break even whilst larger ones will grapple with softer top lines amidst a structurally high-cost base (vis-à-vis digital media). In terms of fixed expenses, digital content creators are essentially start-ups with a lean staff force and limited investments in production equipment (i.e. studios, cameras, lighting equipment, audio recording devices). In contrast, traditional media companies have legacy assets comprising expansive corporate headquarters, costly advanced production equipment and a bloated staff force. The low-cost structure for digital content creators enables them to be morenimble in responding to rapid changes in market trends. We do not have any stock picks for the sector.

Annual Adex



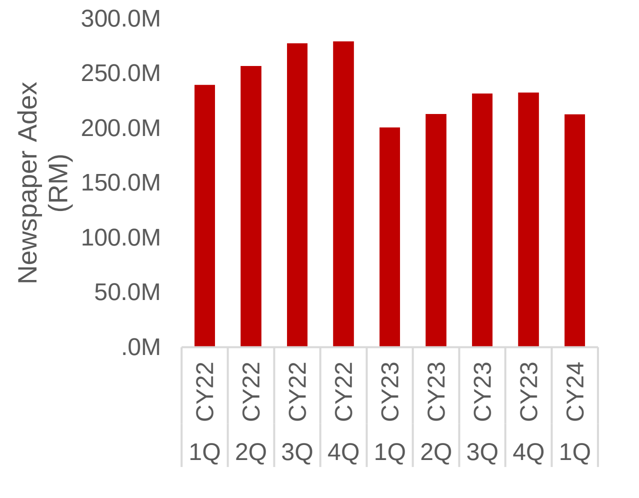
Source: Nielsen, Kenanga Research

Quarterly Adex Market Share



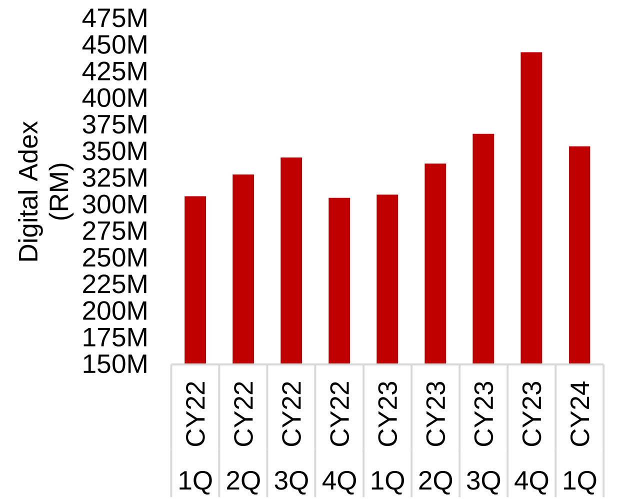
Source: Nielsen, Kenanga Research

Newspaper Adex



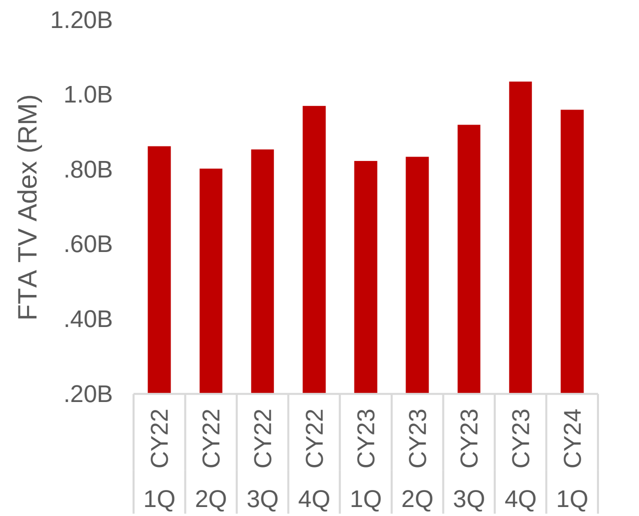
Source: Nielsen, Kenanga Research

Digital Adex



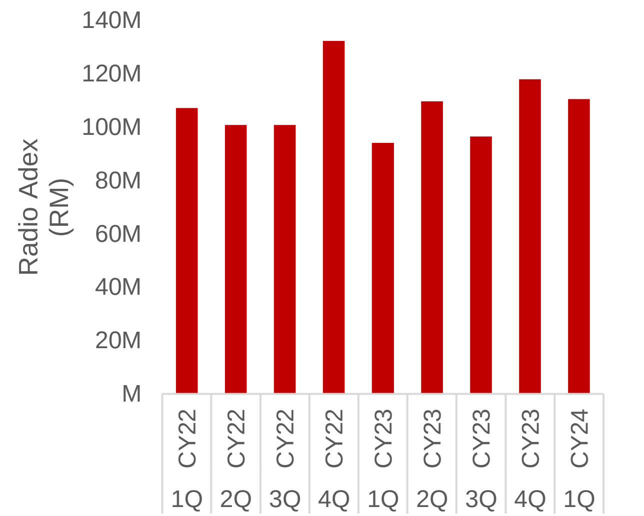
Source: Nielsen, Kenanga Research

FTA TVAdex



Source: Nielsen, Kenanga Research

Radio Adex



Source: Nielsen, Kenanga Research

Peer Comparison – Media

Name	Rating	Last Price (14/06/24) (RM)	Target Price (RM)	Upside	Market Cap (RMm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net Div. (sen)	Net Div. Yld.
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
MEDIA																	
ASTRO MALAYSIA HOLDINGS BHD	UP	0.360	0.270	-25.0%	1,878.8	N	01/2025	3.7	4.1	-9.9%	11.2%	9.7	8.7	1.5	16.5%	1.0	2.8%
MEDIA CHINESE INTERNATIONAL	UP	0.135	0.110	-18.5%	227.8	Y	03/2025	(2.3)	(2.1)	-26.2%	6.8%	N.A.	N.A.	0.4	-6.7%	0.7	5.2%
MEDIA PRIMA BHD	UP	0.465	0.320	-31.2%	515.8	N	06/2024	2.0	3.2	-63.5%	56.0%	22.9	14.7	0.8	5.4%	1.5	3.2%
STAR MEDIA GROUP BHD	UP	0.390	0.314	-19.5%	282.7	Y	12/2024	(0.3)	(0.3)	33.3%	16.7%	N.A.	N.A.	0.4	-0.4%	0.0	0.0%
SECTOR AGGREGATE					**2,905.1**					**-27.7%**	**21.3%**	**16.6**	**13.6**	**0.9**	**5.6%**		**2.8%**

Source: Bloomberg, Kenanga Research **** (as of 14/06/2024)***

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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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