

28 February 2020

Star Media Group (STAR)

FY19 Within Expectations

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FY19 core PATAMI of RM7.3m (-74%) is within expectations, although the 2.0 sen dividend announcement was a positive surprise. Though traditional media is still expected to continue its decline, we believe the group is able to secure sustainability with a new management and initiatives. Recently, we believe the stock was oversold on fears of another earnings disappointment. Hence, we upgrade it to OP (from UP) while maintaining our TP of RM0.420.

FY19 within expectations. FY19 adjusted PATAMI of RM7.3m made up 95% of both our and consensus full-year estimates, which we deem to be in line. The 2.0 sen declared is way above our initial estimate of 1.1 sen or slightly above 100% payout.

YoY, FY19 turnover dropped by 20% to RM315.9m owing to softer revenue across all segments; (i) Print and Digital (-18%), (ii) Radio (-16%), and (iii) Event and Exhibition (-20%). The softer market conditions stemmed from weakness in traditional media platforms as a means for advertising, with digital mediums are becoming the preferred choice for advertisers. Adjusting for one-off items (mainly the mutual separation scheme in FY18 with RM19.9m paid for retrenchment), FY19 core PATAMI fell by 74% to RM7.3m, coinciding with the lower top-line.

QoQ, 4QFY19 revenue declined by 5% mainly due to fewer events being held. The key segments of Print and Digital alongside Radio were stable, likely to be seasonally held by the higher advertising appetite with the year-end holiday seasons. Despite softer revenue, 4QFY19 chalked up a core PATAMI of RM2.4m (from 3QFY19 LATAMI of RM0.2m) thanks to more cost optimization exercises undergone.

Finding buoyancy. To combat the declining interest of conventional media outlets, the group is seeking to boost its digital capabilities. Recently, Star Online has introduced user registration which could be an analytic means to understand consumer behavior and preference to curate relevant content more effectively. Meanwhile, it is reasonable to anticipate further collaborations on its dimsum platform to grow niche offerings to capture more subscribers against aggressive international competitors (i.e. Netflix, HBO Go, Disney+). While we do not anticipate that the group would heavily restructure its traditional newspaper publishing business (having recently undergone a right-sizing exercise in FY18), we believe that cost management will remain a focus of the group to keep sustainability in check.

Post-results, we introduce our FY21E numbers where we anticipate PATAMI to be weaker by 3%, mainly due to the continual decline in revenue given that the current mix is still predominantly traditional media channels (i.e. publications).

Upgrade to OUTPERFORM (from UNDERPERFORM) while maintaining our TP of RM0.420, based on an unchanged 0.4x FY20E NTA (1SD below the stock's 3-year mean). Although we anticipate earnings to be under some slight pressure in the near-term, we believe that the passiveness towards the stock could be overdone, which we fault 3QFY19 disappointing earnings delivery. With a new management to helm the business, it is possible that we could see fresh ideas to aid the group, which we have not accounted for yet. Additionally, we believe our cost savings assumptions are also conservative, in light of the shift in industry trends.

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

OUTPERFORM ↑

Price : **RM0.375**
Target Price : **RM0.420** ↔

Share Price Performance



KLCI	1,505.59
YTD KLCI chg	-5.2%
YTD stock price chg	-22.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	STAR MK Equity
Market Cap (RM m)	276.7
Shares Outstanding	737.9
52-week range (H)	0.81
52-week range (L)	0.38
3-mth avg daily vol:	1,010,355
Free Float	20%
Beta	0.7

Major Shareholders

Malaysian Chinese Association	42.5%
Skim Amanah Saham Bumiputra	9.9%
Employees Provident Fund	8.4%

Summary Earnings Table

FYE Dec (RM m)	2019A	2020E	2021E
Turnover	315.9	268.7	255.6
EBIT	12.5	14.8	14.8
PBT	14.6	13.1	12.7
PATAMI	5.7	8.5	8.2
Core PATAMI	7.3	8.5	8.2
Consensus (NP)	-	5.8	5.1
Earnings Revision (%)	-	0%	-
EPS (sen)	1.0	1.1	1.1
EPS growth (%)	-74.3	15.6	-3.4
DPS (sen)	2.0	1.0	1.0
NTA/Share (RM)	1.07	1.05	1.04
PER (x)	37.8	32.7	33.8
Price/NTA (x)	0.35	0.36	0.36
Net Gearing (x)	0.0	0.0	0.0
Dividend Yield (%)	5.3	2.7	2.7

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Results Highlight

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Dec (RM m)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Turnover	76.1	79.6	-4.4%	93.0	-18.3%	315.9	392.7	-19.5%
EBIT	5.4	1.2	346.2%	-13.4	140.3%	15.8	10.9	45.2%
PBT	5.0	0.9	450.7%	-13.4	137.3%	14.6	8.9	63.7%
Taxation	-4.8	-0.5	-783.2%	4.4	-209.7%	-8.9	-3.5	-156.6%
Minority Interest	0.1	-0.1	171.3%	-0.1	153.1%	0.0	-0.2	81.1%
PATAMI	0.2	0.3	-8.0%	-9.1	102.5%	5.7	5.2	8.6%
Core PATAMI*	2.4	-0.2	N.M.	9.9	-75.5%	7.3	28.5	-74.3%
EPS (sen)	0.3	0.0	865.6%	1.3	-75.5%	1.1	3.3	-67.5%
DPS (sen)	2.0	-		3.0		2.0	3.0	
EBIT margin	7.1%	1.5%		-14.4%		5.0%	2.8%	
PBT margin	6.6%	1.1%		-14.4%		4.6%	2.3%	
Core PATAMI margin	0.1%	-0.1%		-0.2%		0.0%	-0.1%	
Effective tax rate	96.9%	-60.4%		33.0%		61.0%	38.9%	

Note:

* Core adjustments account for: (i) loss on liquidation of subsidiary, (ii) allowances (and reversal) of credit loss, (iii) mutual separation schemes (4Q18: RM15.8m and FY18: RM19.9m).

Source: Company, Kenanga Research

Segmental Highlight

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
Revenue (RM m)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Print and Digital	68.0	67.6	0.6%	80.3	-15.3%	277.3	338.7	-18.1%
Radio	7.1	6.7	6.0%	7.7	-7.7%	24.8	29.5	-15.9%
Event and Exhibition	0.9	5.4	-82.6%	5.1	-81.6%	13.8	17.2	-19.8%
Others	0.0	0.0	N.M.	0.0	N.M.	0.0	7.2	N.M.
Total	76.0	79.6	-4.5%	93.0	-18.3%	315.9	392.7	-19.5%
Profit Before Tax (RM m)								
Print and Digital	6.7	-0.3	N.M.	-13.5	-149.9%	13.2	7.6	74.0%
Radio	1.4	-0.1	N.M.	1.8	-21.8%	0.8	2.9	-72.1%
Event and Exhibition	-0.5	0.7	-173.9%	0.5	-211.5%	1.8	2.7	-33.6%
Others	-2.6	0.6	-576.8%	-2.2	19.7%	-1.1	-4.2	-73.2%
Total	5.0	0.9	447.1%	-13.4	-137.3%	14.6	8.9	63.9%
PBT margin								
Print and Digital	9.9%	-0.4%		-16.8%		4.8%	2.2%	
Radio	20.4%	-1.4%		24.1%		3.3%	9.8%	
Event and Exhibition	-57.9%	13.7%		9.5%		12.8%	15.4%	
Others	N.M.	N.M.		N.M.		N.M.	-58.3%	
Total	6.6%	1.1%		-14.4%		4.6%	2.3%	

Source: Company, Kenanga Research

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Peer Table Comparison

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.			
Stocks Under Coverage																	
ASTRO MALAYSIA HOLDINGS BHD	1.19	6,205.3	N	01/2020	-2.1%	-0.1%	53.2%	1.2%	13.3	8.7	8.6	9.1	7.6	95.2%	9.2%	2.00	OP
MEDIA CHINESE INTERNATIONAL	0.200	337.4	Y	03/2020	-9.1%	-3.5%	54.1%	-10.3%	12.3	8.0	8.9	0.5	0.5	6.0%	7.3%	0.245	OP
MEDIA PRIMA BHD	0.180	199.7	N	12/2020	-4.0%	-0.6%	272.2%	51.3%	N.A.	7.8	5.1	0.3	0.3	4.2%	0.0%	0.225	OP
STAR MEDIA GROUP BHD	0.375	276.7	Y	12/2020	-14.9%	-4.9%	15.6%	-3.4%	37.8	32.7	33.8	0.3	0.3	1.0%	2.7%	0.420	OP
Simple Average					-7.5%	-2.3%	98.7%	9.7%	21.1	14.3	14.1	2.6	2.2	26.6%	4.8%		

Source: 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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