Media

UNDERWEIGHT

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Digitalization Quickens

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We downgrade our call to UNDERWEIGHT (from OVERWEIGHT) on the media sector, having capitalised on the sector's weakness during the early days of the MCO. We expect sentiment to take a dip as the sector is bridled by lower advertising appetite as businesses and consumers, facing economic uncertainties, strap on their cash reserves. Furthermore, the surge in home-bound consumers during the period has propelled the importance of going digital as a top priority, which is bad news for traditional media outlets. We also anticipate the sector-wide earnings disappointment to be a telling sign that market leaders could be hit worse in 2QCY20, when the MCO was in full effect. In reaction to this, players are seeking to continue rationalising costs while introducing new marketing solutions and taking their brands to the digital stage. However, we fear it might not be sufficient to meaningfully cushion any strong blows in the near-term. In this piece, we upgrade ASTRO (TP: RM0.830) to MARKET PERFORM. All other calls remain as UNDERPERFORM with unchanged TPs. In spite of our cheap applied valuations (0.3x-0.7x P/NTA), we believe near-term sentiment and meek prospects could ultimately weigh down on prices, pushing them even lower.

Downer quarter in 1QCY20. During the last reporting season, all media players reported misses in earnings, painting a bleaker outlook for the sector especially during the Covid-19 induced MCO. Advertising revenue persists to see little light as traditional platforms of newspaper, television and radio continued to shed market share to digital platforms. Although it had previously reaped the benefits of cost savings and tax incentives, MEDIAC felt the brunt of suppressed international travel as Covid-19 halted its tourism products. ASTRO's recent 1QFY21 results also reported a miss as ARPU declined from a higher take-up of freemium offerings as opposed to paid packages. This is also likely to have stemmed from customers tightening their commitments with income stability becoming an uncertainty.

Buckle up, the worst is yet to come. The sudden imposition of the MCO drove consumers to be almost entirely home-bound which have led to a web of tribulations. On the business front, low consumer spending and revenue forced the need to skim expenses (i.e. adex). Meanwhile, consumers are withholding discretionary spending (i.e. non-essential goods, subscriptions) with looming concerns of job security. In addition, the paucity of outdoor movement and spending expedited the adoption of e-commerce transactions, further ramping up the dependency of digital channels as a means of advertising. Moreover, physical distributions and print were also impeded by movement restrictions. All in, **we anticipate 2QCY20 results to post comparatively worse results for all media players.** That said, we anticipate corporate earnings would rebound in 3QCY20 as economic activity picks up and consumers become more confident to splurge again.

Scrap and strap. As earnings outlook takes another unfriendly turn, companies are re-making their cost structure to be much leaner, eradicating as much redundancies as possible. We had gathered that most media players are considering this move, while balancing a need to ensure only quality content is being churned. Most advertisers whom already have a grasp in their niche markets are starting to aggressively providing "one-stop" advertising solutions, by cross selling across their platforms and expertise to incentivise customers with as much value propositions as possible. STAR hosts multiple platforms with its Star Online, Star e-Paper, dimsum, StarProperty and so on, tapping onto data analytics to provide a more effective market reach. Meanwhile, MEDIA's Omnia integrated marketing solutions functions to cross sell advertising space across the group's television networks, radio channels and newspapers. On the flipside, MEDIAC looks to build a name by hosting digital activities and events (i.e. webinars, conferences). **To hasten their growth in the digital space, mergers and acquisitions could be an excellent means** and a possible positive re-rating factor for the acquirer. STAR has been explicit about its acquisition ambitions, having set aside RM300m of its war chest to bolster its portfolio.

Downgrade sector to UNDERWEIGHT (from OVERWEIGHT). In this testing time for advertisers and media players, their relevance will be put to the test more so than ever. As earnings risks becomes more prominent, we advise investors to steer clear from these stocks for the time being. In the previous quarter, we saw an opportunity in this space given the market wide stock sell-down, which has now waned. That said, we take this opportunity to **re-rate ASTRO (TP: RM0.830) to MARKET PERFORM (from UNDERPERFORM)** given its shares sell-down post 1QFY21 earnings disappointment. It will also be our only recommendation for investors who need exposure within the space, as it still offers strong dividend potential (+7% yield) at current price levels, even after adjusting for lower paid subscriber numbers and ARPU. On the flipside, we have UNDERPERFORM call for all our other stock coverages as we anticipate earnings risk to weigh down on investor sentiment in the near term. This is in spite of our already cheap applied valuations, ranging from a 0.3x-0.7x P/NTA.

Peer Comparison – Media

Name	Last Price @ 30-Jun-20 (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	0.830	4,328.0	N	01/2021	-3.9%	-0.3%	-16.5%	-12.4%	6.6	7.9	9.0	4.6	3.7	51.9%	7.2%	0.830	MP
MEDIA CHINESE INTERNATIONAL	0.175	295.3	Y	03/2021	-30.4%	1.9%	-70.7%	64.0%	9.7	33.0	20.1	0.4	0.4	1.3%	1.1%	0.155	UP
MEDIA PRIMA BHD	0.150	166.4	N	12/2020	-10.7%	0.8%	18.6%	41.6%	N.A.	N.A.	N.A.	0.3	0.3	-8.8%	0.0%	0.105	UP
STAR MEDIA GROUP BHD	0.350	253.7	Y	12/2020	-31.6%	-4.1%	-168.5%	80.0%	35.4	N.A.	N.A.	0.3	0.3	-0.6%	0.0%	0.300	UP
Simple Average					**-19.1%**	**-0.4%**	**-59.3%**	**43.3%**	**17.2**	**20.5**	**14.6**	**1.4**	**1.2**	**10.9%**	**2.1%**		

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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