

13 November 2020

Star Media Group

3QFY20 Below Expectations

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9MFY20 core LATAMI of RM52.6m (-860%) missed expectations as revenue persists to be soft amidst heavy than expected cost exposure. Absence of dividends was expected. Short-term outlook could continue to remain bleak as advertisers manoeuvre around economic uncertainties. Materialisation of potential acquisitions could be a positive short-term rerating. Maintain UP and TP of RM0.280.

9MFY20 weaker than expected. 9MFY20 core LATAMI of RM52.6m is deemed to have missed our/consensus full-year LATAMI estimates of RM52.1m/RM39.1m. The negative deviation is due to a deeper operating cost overrun (mainly for the print and digital business) as revenue streams were impeded by the Covid-19 MCO restrictions. No dividend was declared, as expected.

YoY, 9MFY20 revenue declined to RM145.5m (-39%) as all segments slowed from the implementation of the MCO in 2QFY20. During this time, physical newspaper sales were heavily impeded and many businesses refrained from advertising as private consumption and spending were held back. The group recognised RM50.5m compensation income from Jaks Island Circle Sdn Bhd (JAKS) for the late delivery of vacant possession of the investment property under construction. This penalty pertains to late payment interests of 8% per annum on the balance purchase price owed by JAKS to STAR between 25 October 2015 and 6 July 2020. Removing this with other adjustments, 9MFY20 core LATAMI registered at RM52.6m (-860%).

QoQ, 3QFY20 turnover improved by 53% to RM48.2m as movement controls were progressively relaxed and businesses recommenced with advertisements and consumer engagements. However, it is noted that the group's Event and Exhibition segment did not book any revenue in lieu of the new restrictions. That said, the growth was not sufficient to support group operating activities. Following the same abovementioned adjustments, core LATAMI came in a RM22.3m, but was 16% better QoQ from the higher top-line.

More meaningful tidings needed. STAR looks to instil advertisers with its data analytics know-how and various platforms for more effective consumer engagement and monetisation. However, the cautious economic outlook and soft business prosperity might continue to hinder companies from investing too heavily into their marketing spends. Meanwhile, STAR is working to further rationalise and streamline operating functions to keep costs leaner, of which we believe much more needs to be done. On the flipside, the group is on the lookout for synergistic opportunities via acquisition, touting a cash pile of over RM350m.

Post-results, we extend our losses for FY20E/FY21E by 20%/110% on even bleaker margin assumptions. Given the group may continue to operate in a high cost environment, we believe it will take longer for the group to return to profitability.

Maintain UNDERPERFORM and TP of RM0.280. Our valuation is based on an unchanged 0.3x FY21E P/NTA at 1.5SD below mean level. We believe this has sufficiently weighed in the bleak outlook for the group coupled with the lack of dividend prospects in the near-term. We believe returning to the black could be a huge challenge as we believe the group has limited cost cutting options available and would require a more meaningful revenue booster to turn around. Though it is introducing new revenue streams, they might not see the aspired traction given the current economic landscape.

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

UNDERPERFORM ↔

Price: **RM0.320**
Target Price: **RM0.280** ↔

Share Price Performance



KLCI	1,590.78
YTD KLCI chg	0.1%
YTD stock price chg	-34.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	STAR MK Equity
Market Cap (RM m)	231.9
Shares Outstanding	724.8
52-week range (H)	0.52
52-week range (L)	0.23
3-mth avg daily vol:	567,662
Free Float	34%
Beta	1.1

Major Shareholders

Malaysian Chinese Association	43.2%
Amanah Saham Nasional	8.9%
Employees Provident Fund	4.1%

Summary Earnings Table

FYE Dec (RM m)	2019A	2020E	2021E
Turnover	315.9	190.6	211.8
EBIT	12.5	-14.6	-9.6
PBT	14.6	-13.4	-8.7
PATAMI	5.7	-13.9	-9.1
Core PATAMI	7.3	-62.5	-9.1
Consensus (NP)	-	-39.1	-14.0
Earnings Revision	-	-20%	-110%
EPS (sen)	1.0	-8.6	-1.2
EPS growth (%)	-74.3	-964.0	-85.4
DPS (sen)	2.0	0.0	0.0
NTA/Share (RM)	1.05	0.96	0.93
PER (x)	322.4	N.M.	N.M.
Price/NTA (x)	3.04	3.34	3.46
Net Gearing (x)	-0.4	-0.4	-0.4
Dividend Yield (%)	0.6	0.0	0.0

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Results Highlight

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Turnover	48.2	31.5	53.0%	79.6	-39.4%	145.5	239.9	-39.4%
EBIT/(LBIT)	33.4	-26.9	224.0%	1.2	N.M.	3.6	10.5	-66.0%
Core EBIT*	-15.8	-26.5	40.2%	1.6	N.M.	-45.0	12.0	-476.5%
PBT/(LBT)	33.1	-27.2	221.6%	0.9	N.M.	2.6	9.6	-72.6%
Taxation	-6.3	0.3	N.M.	-0.5	N.M.	-6.7	-4.1	-63.4%
Minority Interest	0.0	0.0	92.0%	-0.1	144.4%	0.0	-0.1	129.8%
PATAMI/(LATAMI)	26.9	-26.9	199.9%	0.3	N.M.	-4.0	5.4	-173.5%
Core PATAMI/(LATAMI)*	-22.3	-26.5	15.7%	0.6	N.M.	-52.6	6.9	-856.9%
EPS (sen)	-3.1	-3.6	14.6%	0.1	N.M.	-7.2	0.9	-860.9%
DPS (sen)	0.0	0.0		0.0		0.0	0.0	
Core EBIT/(LBIT) margin	-32.9%	-84.0%		2.0%		-30.9%	5.0%	
PBT/(LBT) margin	68.7%	-86.5%		1.1%		1.8%	4.0%	
Core PATAMI/(LATAMI) margin	-46.3%	-84.1%		0.8%		-36.1%	2.9%	
Effective tax rate	18.9%	-1.0%		60.4%		252.8%	42.4%	

Note:

* Core adjustments account for: (i) loss on liquidation of subsidiary, (ii) allowances (and reversal) of credit loss, and (iii) 3Q20's RM50.54m compensation income for the late delivery of vacant possession of the investment property under construction from Jaks Island Circle Sdn Bhd

Source: Company, Kenanga Research

Segmental Highlight

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
Revenue (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Print and Digital	42.7	29.3	45.5%	67.6	-36.9%	128.4	209.3	-38.6%
Radio	5.5	2.0	173.9%	6.6	-16.7%	14.0	17.7	-20.9%
Event and Exhibition	0.0	0.2	-100.0%	5.4	-100.0%	3.0	12.9	-76.4%
Others	0.0	0.0	N.M.	0.0	N.M.	0.0	0.0	N.M.
Total	48.2	31.5	53.0%	79.6	-39.4%	145.5	239.9	-39.4%
Profit Before Tax (RM m)								
Print and Digital	-16.9	-25.4	-33.6%	-0.3	N.M.	-46.7*	6.5	N.M.
Radio	-0.4	-3.0	-87.2%	-0.1	308.6%	-3.5	-0.6	457.4%
Event and Exhibition	-0.8	-0.3	190.0%	0.7	-207.0%	0.0	2.3	-100.8%
Others	0.6	1.4	-55.8%	0.5	13.3%	2.4	1.5	58.5%
Total	-17.4	-27.2	-36.1%	0.9	N.M.	-47.9	9.7	-595.9%
PBT margin								
Print and Digital	-39.5%	-86.6%		-0.4%		-36.4%	3.1%	
Radio	-6.9%	-147.3%		-1.4%		-25.2%	-3.6%	
Event and Exhibition	N.M.	-173.1%		13.7%		-0.6%	17.9%	
Others	N.M.	N.M.		N.M.		N.M.	N.M.	
Total	-36.1%	-86.5%		1.1%		-32.9%	4.0%	

Note:

* Adjusting for 3Q20's RM50.54m compensation income for the late delivery of vacant possession of the investment property under construction from Jaks Island Circle Sdn Bhd

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 (%) 1-Yr. Fwd.	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	0.790	4,119.5	N	01/2021	-3.9%	-0.3%	-16.5%	-12.4%	6.3	7.5	8.6	4.4	3.5	51.9%	7.6%	0.830	OP	
MEDIA CHINESE INTERNATIONAL	0.160	270.0	Y	03/2021	-38.9%	15.9%	-148.0%	141.1%	8.9	N.A.	44.4	0.4	0.4	-2.1%	0.0%	0.150	MP	
MEDIA PRIMA BHD	0.175	194.1	N	12/2020	-10.7%	0.8%	16.7%	45.4%	N.A.	N.A.	N.A.	0.3	0.4	-9.1%	0.0%	0.105	UP	
STAR MEDIA GROUP BHD	0.320	231.9	Y	12/2020	-39.7%	11.1%	-956.2%	85.4%	32.3	N.A.	N.A.	0.3	0.3	-8.0%	0.0%	0.280	UP	
Simple Average					-23.3%	6.9%	-276.0%	64.9%	15.8	7.5	26.5	1.3	1.1	8.2%	1.9%			

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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