

26 February 2021

Star Media Group

FY20 Slightly Above Expectations

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FY20 core LATAMI of RM58.3 beat our/consensus expectation possibly due to over-estimation of the group's operating cost. Absence of dividend was not a surprise to us judging from its frail financials. With MCO re-implemented in 1QFY21, we believe STAR may have a poor start to FY21. With no immediate earnings catalysts in place, we are keeping our UNDERPERFORM rating to the stock but with a higher TP of RM0.295 as we roll over our valuation base to FY22E.

FY20 beat expectation. FY20 core LATAMI of RM58.3 beat our/consensus full year LATAMI estimates of RM62.5m/RM63.8m. The positive deviation may be due to the over-estimation of the group's operating cost. No dividend was declared, as expected.

YoY, FY20 revenue shrank by 40% mainly due to the weak performance of all segments which were impacted by the prolonged MCO in 2020. Event and exhibition segment declined by 73% as movement restrictions and strict physical distancing resulted in event cancellations. On the other hand, print and digital and radio broadcasting segments declined by 38% and 18% as advertisers were cautious on adex expenditure. After adjusting for one-off items, FY20 LATAMI collapsed by 895% from PATAMI of RM7.3m in FY19.

QoQ, 4QFY20 revenue came in at RM50.9m, up by 6% from 3QFY20. The increase in revenue is attributed to all key segments rising QoQ. Event and exhibition manage to record a revenue of RM0.6m after failing to generate revenue in 3QFY20. Radio broadcasting rose by 13% which is in line with Nielson's findings on radex expenditure rising by 9% in 4QFY20 whereas the print and digital had a slight uptick by 3%. After adjusting for one-off impairments of assets of RM12.0m in the print and digital segment, 4QFY20 recorded a LATAMI of RM5.8m.

Outlook. Of late STAR has launched several digital initiatives and will continue to focus on new technologies and analytics to expand its revenue beyond its traditional print segment. However, it is noted as the digital competition tightens, STAR's digital initiatives have yet to offset the decline in income from the traditional print segment. With that said along with no M&A in sight yet, we believe the continuous cost rationalization exercises may help to lessen the burden on its bottom line in the short term. Moreover, with MCO imposed in several states from January till March 2021, we anticipate FY21 to be a poor start for STAR as their adex revenue may take a hit once again as businesses may refrain from advertising. However, with vaccinees rolled out in February 2021, we opine economic outlook to improve in 2HFY21, thus, encouraging businesses to invest in advertising and therefore improving STAR's adex revenue then.

Post-results, we extend FY21E by 8% due to soft business prosperity and introduce our FY22E earnings forecast where we anticipate LATAMI to fall by 150% as businesses revert to investing in advertising.

Maintain UNDERPERFORM with a higher TP of RM0.295 (previously RM0.280) as we roll over our valuation base to FY22E NTA/share (from FY21E NTA/share) based on an unchanged P/NTA of 0.3x. (-1.5SD below mean level). With no immediate earnings catalysts in place, we are keeping our UNDERPERFORM rating to the stock. Given the group's revenue still heavily relies on traditional media channels and the slow growth of their digital initiatives, we believe with the vaccine rollout STAR may turn to the black in FY22. In addition, the group has a solid cash pile of RM352.2 (RM48 net cash/share) and no borrowings which will help the group to weather through these difficult times. However, we do believe the group will continue to conserve cash for golden opportunities and thus the prospects of dividends may be dim in the near-term.

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 : RM0.360
Target Price : RM0.295 ↑

Share Price Performance



KLCI	1,581.54
YTD KLCI chg	-2.8%
YTD stock price chg	1.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	STAR MK Equity
Market Cap (RM m)	257.3
Shares Outstanding	724.8
52-week range (H)	0.42
52-week range (L)	0.23
3-mth avg daily vol	1,435,977
Free Float	35%
Beta	1.1

Major Shareholders

Malaysian Chinese Association	43.2%
Amanah Saham Nasional	7.7%
Employees Provident Fund	4.1%

Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Turnover	196.4	217.5	240.1
EBIT	-16.3	-8.5	9.1
PBT	-16.5	-9.4	8.2
PATAMI	-19.7	-9.8	4.9
Core PATAMI	-58.3	-9.8	4.9
Consensus (NP)	-	-22.5	-14.2
Earnings Revision	-	-8%	NEW
EPS (sen)	-8.0	-1.3	0.7
EPS growth (%)	-905.5	-83.2	-149.8
DPS (sen)	0.0	0.0	0.0
NTA/Share (RM)	1.04	1.00	0.99
PER (x)	-4.5	-26.7	53.7
Price/NTA (x)	0.35	0.36	0.36
Net Gearing (x)	-0.4	-0.4	-0.4
Dividend Yield (%)	0.0	0.0	0.0

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Result Highlight

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Dec (RM'm)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Turnover	50.9	48.2	5.7%	76.1	-33.0%	196.4	315.9	-37.8%
EBIT	-18.7	33.4	-156.0%	5.4	-447.1%	-15.2	15.8	-195.6%
Core EBIT	-20.4	-15.8	-29.0%	5.9	-445.5%	-65.1	16.9	-484.4%
PBT	-19.2	33.1	-157.9%	5.0	-484.7%	-16.5	14.6	-213.0%
Taxation	3.4	-6.3	154.8%	-4.8	170.9%	-3.3	-8.9	63.5%
Minority Interest	0.0	0.0	-31.3%	0.1	-57.1%	0.1	-0.044	256.8%
PATAMI	-15.7	26.9	-158.4%	0.2	-6932.2%	-19.7	5.7	-447.3%
Core PATAMI (LATAMI)*	-5.8	-22.3	74.1%	2.4	-339.9%	-58.3	7.3	-894.9%
EPS (sen)	-0.8	-3.1	74.1%	0.3	-342.9%	-7.9	1.0	-899.6%
DPS (sen)	0.0	0.0		2.0		0.0	2.0	
				0				
Core EBIT margin	-40.1%	-32.9%		7.1%		-33.1%	5.4%	
PBT margin	-37.6%	68.7%		6.6%		-8.4%	4.6%	
Core PATAMI margin	-11.4%	-46.3%		0.1%		-29.7%	2.3%	
Effective tax rate	17.9%	18.9%		96.9%		-19.7%	61.0%	

Note:

* Core adjustments account for: (i) loss on liquidation of subsidiary, (ii) allowances (and reversal) of credit loss, (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, and (iv) impairments of assets

Source: Kenanga Research

Segmental Breakdown

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
Ex-Revenue (RM'm)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Print and Digital	44.042	42.671	3.2%	68.0	-35.2%	172.5	277.3	-37.8%
Radio broadcasting	6.268	5.535	13.2%	7.1	-12.0%	20.3	24.8	-18.3%
Event	0.635	0.000	N.A.	0.9	-32.0%	3.7	13.8	-73.4%
Others	0.013	0.000	N.A.	0.0	-200.0%	0.0	0.0	-100.0%
Total	51.0	48.2	5.7%	76.1	-33.0%	196.4	315.9	-37.8%
Profit Before Tax (RM'm)								
Print and Digital	-20.9	-16.9	24.1%	6.7	-411.4%	-67.7*	13.2	-612.8%
Radio broadcasting	0.2	-0.4	-143.2%	1.4	-88.6%	-3.4	0.8	-516.0%
Event	-0.4	-0.8	-53.8%	-0.5	-33.1%	-0.4	1.8	-121.6%
Others	1.0	0.6	59.2%	-2.7	-136.9%	3.4	-1.2	-391.7%
Total	-20.2	-17.4	15.7%	4.9	-507.2%	-68.0	14.6	-565.8%
PBT margin								
Print and Digital	-47.6%	-39.5%		9.9%		-39.2%	4.8%	
Radio broadcasting	2.6%	-6.9%		20.3%		-16.6%	3.3%	
Event	-57.0%	#DIV/0!		-57.9%		-10.3%	12.8%	

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 (%)	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	0.935	4,875.6	N	01/2021	-3.9%	-0.3%	-16.5%	-12.4%	7.4	8.9	10.1	5.2	4.2	51.9%	6.4%	0.830	MP
MEDIA CHINESE INTERNATIONAL	0.170	286.8	Y	03/2021	-37.1%	16.4%	-124.7%	240.0%	9.4	N.A.	27.3	0.4	0.4	-1.1%	0.0%	0.155	UP
MEDIA PRIMA BHD	0.550	610.1	N	12/2021	19.2%	2.9%	1231.9%	16.7%	N.A.	11.5	9.8	1.1	1.0	8.9%	0.0%	0.365	UP
STAR MEDIA GROUP BHD	0.355	257.3	Y	12/2021	10.7%	10.4%	-116.8%	150.0%	N.A.	N.A.	52.8	0.3	0.3	-1.3%	0.0%	0.295	UP
Simple Average					-2.7%	7.4%	243.5%	98.6%	8.4	10.2	25.0	1.7	1.5	14.6%	1.6%		

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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