Media

Recovery Ahead

NEUTRAL

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We upgrade the sector to NEUTRAL from UNDERWEIGHT on the premise of better economic prospects and easing of movement restrictions. That said, we believe advertiser's appetite to market products/services will return strongly in 2HCY21. Interestingly, we note YoY digital adex has taken up a higher share of total adex as it now commands c.19% of total adex, up by 6ppt YoY, whereas newspapers adex continued its downtrend (CY20: 22% of total adex vs CY19: 32% of total adex). We believe this trend will continue as digital media has a more effective outreach comparatively. Thus, we anticipate corporates to continue leveraging and upscaling their existing digital platforms to serve clients better as advertisers move towards digital advertising. With international borders gradually reopening, we upgrade MEDIAC (TP: RM0.190) to NEUTRAL from UNDERPERFORM as we opine MEDIAC's travel segment is set to recover in 2HCY21. Lastly, we select ASTRO (OP; TP: RM1.05) as our preferred pick, mainly for its stellar dividend yield potential of c.10% and more resilient subscription-based model as opposed to other advertising-dependent players.

Visible improvement. The sector's latest 4QCY20 report cards show all media players reporting earnings improvement QoQ on easing movement restrictions and better economic landscape. Thanks to MEDIA's success in cost rationalisation exercises that took place in 2QFY20, 4QFY20 and in the past, the group managed to incur lower operating expenses which surpassed our/consensus expectations. Moreover, its home-shopping segment, WOWSHOP, has finally recorded its very first net profit since its inception in 2016. On the other hand, although STAR performed slightly better than expected due to an over-estimation of the group's operating costs, the group still struggled in a high-cost environment (core EBIT margin worsened from -33% in 3QFY20 to -40% in 4QFY20). MEDIAC performed within expectations due to higher adex revenue. However, its travel segment remained muted QoQ with revenue plunging by 99.9% YTD. Lastly, ASTRO's earnings came within expectations but its 4.0 sen dividend was a positive surprise being 2.0 sen above our expectations.

Better times ahead. The year 2020 witnessed the media industry facing a challenging situation with the implementation of movement restrictions and businesses refraining from advertising to conserve cash, resulting in total adex plunging in CY20, especially traditional adex in 2QCY20. However, recent adex numbers suggest that adex is slowly recovering though it is noted that traditional adex's contribution to total adex has fallen YoY as digital adex is picking up momentum (digital adex now commands c.19% of total adex, up by 6ppt YoY). Having said that, adex may see a slower uptick in 1QCY21 as CY21 began with stringent lockdowns. With movement restrictions easing and businesses reopening in late 1QCY21 along with vaccines being rolled out in February 2021, we opine that advertising buys may return strongly in 2HCY21 as we believe advertisers may regain their appetite to advertise along with a potential recovery in consumers' purchasing power.

Shifting to digital battle field. Interestingly, we note that the newspaper and digital adex numbers are closing in possibly due to advertisers' shifting their preference to digital platforms which present a more effective outreach to customers than newspapers. We believe digital adex may overtake newspaper adex in CY21 and continue its upward trend to become one of the top two contributors to total adex replacing newspapers. Thus, to remain in the game, media players are improving their methods to help their clients market more effectively. Notably, Media Prima collaborated with Lazada in November 2020 to market Lazada 11.11 sale by airing Lazada 11.11 Super Show on TV3. Moreover, Star Media is focusing on growing their digital segment to drive new revenue streams beyond prints; thus, Star has embarked on various digital initiatives including a One Stop Shop that offers end-to-end solution-based marketing planning from content strategy to content execution to advertisers.

Upgrade to NEUTRAL from UNDERWEIGHT. With IMF projecting the Malaysian economy to grow at 6.5% coupled with the easing of movement restrictions and the rollout of vaccines domestically, we believe advertising buys may return strongly in 2HCY21. However, media players are left with the challenge to upscale their digital platforms to remain competitive as the digital trend continues to grow with Youtube controlling c.85% of the digital adex. **ASTRO (OP, TP**: **RM1.05)** remains our preferred pick for the sector due to its enticing high dividend yield (+10%) and more resilient subscription-based model as opposed to other advertising-dependent players. **We upgrade MEDIAC from UNDERPERFORM to NEUTRAL and TP from RM0.155 to RM0.190 based on FY22E P/NTA of 0.5x (previously 0.4x, -0.5 SD to 3-year mean)** as we believe its travel segment is set to recover from 2HCY21 onwards as countries worldwide are gradually relaxing their international border restrictions (e.g. France, a major tourist destination, has relaxed its travel restrictions for selected countries and US aims to open borders in mid-May 2021). That said, we project MEDIAC's FY22E net profit to increase by 29% to RM13.5m.

Peer Comparison – Media

Name	Last Price @ 19-March-2021 (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	0.905	0.0	N	01/2022	14.5%	-1.8%	11.7%	1.5%	8.8	7.9	7.8	4.1	3.7	49.2%	9.9%	1.05	OP
MEDIA CHINESE INTERNATIONAL	0.190	0.0	Y	03/2021	-37.1%	21.5%	-124.7%	280.0%	10.5	N.A.	23.7	0.5	0.5	-1.1%	0.0%	0.190	MP
MEDIA PRIMA BHD	0.630	0.0	N	12/2021	19.2%	2.9%	1231.9%	16.7%	N.A.	13.1	11.3	1.2	1.1	8.9%	0.0%	0.365	UP
STAR MEDIA GROUP BHD	0.455	0.0	Y	12/2021	10.7%	10.4%	-116.8%	150.0%	N.A.	N.A.	67.7	0.4	0.4	-1.3%	0.0%	0.295	UP
Simple Average					**1.9%**	**8.2%**	**250.5%**	**112.1%**	**9.7**	**10.5**	**27.6**	**1.6**	**1.4**	**13.9%**	**2.5%**		

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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