

24 May 2023

# Star Media Group

## Moving Away from Media Business

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STAR's 1QFY23 results missed our expectations as margins were hit by sustained increase in printing cost. Looking forward, the group is looking to diversify away from its original media business, branching out into property and other sectors. We cut our FY23-24F earnings forecasts by 28% and 16%, respectively, lower our TP by 6% to RM0.315 (from RM0.335) and downgrade our call to UNDERPERFORM from OUTPERFORM.

**Below our expectations.** 1QFY23 core net profit came in at 22% and 30% of our full-year forecast and the full-year consensus estimate, respectively. We deem the results below our forecast but within market expectation as the 1QFY23 core net profit was inflated by an unusually low tax (that should normalise going forward). We believe the variance against our forecast came from weaker-than-expected radio's earnings as well as higher-than-expected printing cost.

**YoY.** 1QFY23 revenue remained relatively flat YoY as the fall in print and radio segments' revenue was offset by growth from the group's property segment. However, margin was hit by a 7% increase in operating cost, resulting in EBIT falling 58% YoY. The group attributes this drop to an increase in printing costs as well as weaker ad revenue from the radio segment. The print and digital segment saw a 21% decrease YoY in earnings following the increased printing costs stemming from elevated commodity pricing. However, radio earnings dropped by a larger 63% YoY. While the group attributes this to seasonal factors, we believe the drop is partially attributable to the stronger base in 1QFY22, during which adex was exceptionally strong across the board for the sector. Otherwise, the group's new property business narrowed its losses to RM0.5m vs. RM1m the year before, offsetting some of the contractions in its core business.

Overall, despite the large drop in EBIT, core net profit contracted by a smaller 22% YoY as the group recognised minimal tax during 1QFY23 with its tax rate amounting to only 1% of PBT. We believe the group has begun utilising its deferred tax assets, with the reported amount on its balance sheet falling to RM1.8m from RM9.4m at the end of FY22.

**QoQ.** 1QFY23 revenue fell 10.4%, largely due to the seasonal factor contributing to increased adex during 4QFY22. Overall, revenue contraction in print and digital (-11.8%) and radio (-12.3%) segments resulted in PBT dropping 32%.

However, core net profit grew by nearly five times QoQ, stemming largely from both the lower tax during 1QFY23 and recognition of deferred tax in 4QFY22.

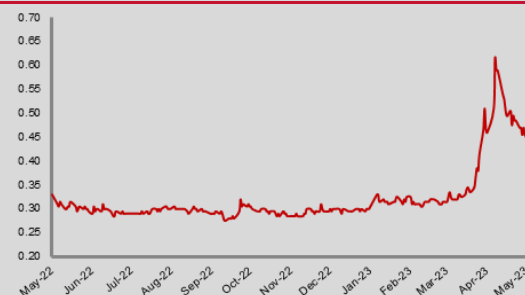
The key takeaways from its results briefing are as follows:

- On 3 Apr 2023, the group increased its daily's cover price from RM2 to RM3. The group guided that the price increase more than offset the decrease in circulated copies during 2QFY23, resulting in revenue growth in the period thus far.
- The group intends to diversify its business away from its media roots with plans to expand into property as well as other sectors. The group shared its 5-year plan which targets a revenue split of 34% media, 33% property and 33% new businesses which the group did not specify. Currently, its media segments make up over 90% of overall revenue.

# UNDERPERFORM

Price : RM0.410  
Target Price : RM0.315

### Share Price Performance



KLCI 1,411.54  
YTD KLCI chg -5.6%  
YTD stock price chg 36.7%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	STAR MK Equity
Market Cap (RM m)	297.2
Shares Outstanding	724.8
52-week range (H)	0.64
52-week range (L)	0.28
3-mth avg daily vol	10,250,550
Free Float	44%
Beta	0.4

### Major Shareholders

Malaysian Chinese Association	43.2%
The Edge Comn Sdn Bhd	5.2%
Employees Provident Fund	4.1%

### Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Revenue	217.0	215.7	220.0
EBIT	9.7	22.6	12.0
PBT	8.7	21.2	10.6
<b>Net Profit</b>	<b>6.9</b>	<b>16.2</b>	<b>8.1</b>
<b>Core Net Profit</b>	<b>7.2</b>	<b>5.8</b>	<b>8.1</b>
Consensus (NP)	-	6.0	11.0
Earnings Revision	-	-28%	-16%
Core EPS (sen)	1.0	0.8	1.1
Core EPS growth (%)	-191.8	-19.5	39.4
NDPS (sen)	1.0	0.0	0.0
BVPS (RM)	0.87	0.83	0.79
PER (x)	41.1	51.0	36.6
PBV (x)	0.47	0.49	0.52
Net Gearing (x)	-0.5	-0.3	-0.3
Net Div. Yield (%)	2.4	0.0	0.0

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3. The group has begun the construction of its maiden property development, Star Business Hub, in May 2023. The project has an estimated GDV of RM130m and consists of five office complexes cum warehouses located in Bukit Jelutong.
4. The group intends to sell two of these buildings to Matang Berhad, a plantation company for a total consideration of RM33m. However, RM28.9m of the consideration will be settled via the issuance of 357m shares in Matang, with the remaining in cash. The group commented that this exercise is part of its plans to diversify into other sectors. Post exercise, the group will hold a 13% stake in Matang Berhad.
5. Finally, when questioned on rumours of privatisation, the group commented that it is “not aware” of any privatisation plans and that the recent emergence of Tong Kooi Ong as a substantial shareholder is solely for the purpose of investment.

**Post results**, we adjust our FY23F net profit to reflect the sale of the 2 properties to Matang Berhad. However, we lower our FY23-24F core net profit by 18% and 6%, respectively, after considering the following: (i) stripping out the issuance of shares by Matang Berhad, (ii) net associate income from Matang Berhad, (iii) lower earnings from the print and digital segments, offset partially by the price hike, and (iv) lower contributions from the radio segment.

**Downgrade to UNDERPERFORM.** We lower our TP by 6% to RM0.315 as we roll over our valuation basis to FY24, based on 0.4x P/NTA, in line with the sector’s historical average. Coupled with the recent run-up in share price, we downgrade our call to **UNDERPERFORM**.

We remain wary of STAR’s prospects given: (i) its shrinking margins following the increase in printing costs, (ii) the antiquated nature of its core printing business faces heavy competition from digital media and (iii) the potential dilution of its core business following its attempts to diversify into other sectors.

**Key risks to our call include:** (i) the traditional media to stay relevant for longer due to a slow pace of digitalisation, (ii) lower-than-expected newsprint cost, and (iii) favourable forex movements.

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## Results Highlights

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY23	FY22	Chg	FY22	Chg	FY23	FY22	Chg
Turnover	52.0	58.0	-10.4%	52.1	-0.2%	52.0	52.1	-0.2%
EBIT	1.4	1.9	-28.8%	3.2	-57.8%	1.4	3.2	-57.8%
Core EBIT	2.0	1.9	5.6%	3.0	-32.7%	2.0	3.0	-32.7%
PBT	1.1	1.7	-32.1%	3.0	-61.3%	1.1	3.0	-61.3%
Taxation	-0.01	-1.3	99.2%	-0.5	97.7%	0.0	-0.5	97.7%
Minority Interest	0.0	0.0		0.0		0.0	0.0	
Net Profit	1.1	0.4	193.3%	2.5	-54.5%	1.1	2.5	-54.5%
Core Net Profit*	1.8	0.3	469.0%	2.3	-22.0%	1.8	2.3	-22.0%
EPS (sen)	0.25	0.0	469.0%	0.3	-22.0%	0.2	0.3	-22.0%
DPS (sen)	0.0	1.0		0.0		0.0	0.0	
Core EBIT margin	3.9%	3.3%		5.7%		3.9%	5.7%	
PBT margin	2.2%	2.9%		5.7%		2.2%	5.7%	
Core Net Profit margin	3.4%	0.5%		4.4%		3.4%	4.4%	
Effective tax rate	1.0%	77.1%		15.8%		1.0%	15.8%	

Note: Core adjustments account for: (i) forex lossof RM0.03m during 1QFY23 and forex gain of RM0.07m in 4QFY22, (ii) reversal of allowance of credit loss of RM0.14m in 1QFY23 and iii) allowance of credit loss of RM0.513 in 1QFY23

Source: Company, Kenanga Research

## Segmental Breakdown

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
Ex-Revenue (RM m)	FY23	FY22	Chg	FY22	Chg	FY23	FY22	Chg
Print and Digital	43.1	48.9	-11.8%	43.3	-0.5%	43.1	43.3	-0.5%
Radio broadcasting	7.6	8.7	-12.3%	8.5	-10.7%	7.6	8.5	-10.7%
Event	0.0	0.5	-100.0%	0.3	-100.0%	0.0	0.3	-100.0%
Others	1.3	1.0	33.4%	0.0	-4874.1%	1.3	0.0	4874.1%
<b>Total</b>	<b>52.0</b>	<b>59.0</b>	<b>-11.9%</b>	<b>52.1</b>	<b>-0.2%</b>	<b>52.0</b>	<b>52.1</b>	<b>-0.2%</b>
<b>Profit Before Tax (RM'm)</b>								
Print and Digital	0.5	0.4	43.7%	0.6	-20.5%	0.5	0.6	-20.5%
Radio broadcasting	0.8	1.1	-28.5%	2.2	-63.2%	0.8	2.2	-63.2%
Event	0.0	-0.2	-100.0%	-0.2	-100.0%	0.0	-0.2	100.0%
Others	-0.2	0.4	-146.6%	0.3	-154.6%	-0.2	0.3	154.6%
<b>Total</b>	<b>1.1</b>	<b>1.6</b>	<b>-29.9%</b>	<b>3.0</b>	<b>-61.3%</b>	<b>1.1</b>	<b>3.0</b>	<b>61.3%</b>
<b>PBT margin</b>								
Print and Digital	1.2%	0.7%		1.5%		1.2%	1.5%	
Radio broadcasting	10.7%	13.1%		25.9%		10.7%	25.9%	
Event	N.M.	-45.6%		-65.7%		N.M.	-65.7%	
Others	-13.7%	39.3%		N.M.		N.M.	N.M.	
<b>Total</b>	<b>2.2%</b>	<b>2.8%</b>		<b>5.7%</b>		<b>2.2%</b>	<b>5.7%</b>	

Source: Company, Kenanga Research

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### Peer Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
<b>MEDIA</b>																	
ASTRO MALAYSIA HOLDINGS BHD	MP	0.620	0.730	17.74%	3,233.0	N	01/2024	8.3	7.5	28.9%	-10.6%	7.4	8.3	2.3	34.9%	6.3	10.2%
MEDIA CHINESE INTERNATIONAL	MP	0.165	0.160	-3.03%	278.4	Y	03/2023	0.6	0.6	2325.0%	-2.1%	28.7	29.3	0.4	1.4%	0.6	3.6%
MEDIA PRIMA BHD	OP	0.425	0.570	34.12%	471.4	N	06/2023	7.1	5.7	41.7%	-19.6%	6.0	7.5	0.7	12.0%	2.0	4.7%
STAR MEDIA GROUP BHD	UP	0.410	0.315	-23.17%	297.2	Y	12/2023	0.8	1.1	-20.5%	39.7%	51.2	36.7	0.4	2.5%	0.0	0.0%
<b>Sector Aggregate</b>					<b>4,280.0</b>					<b>32.0%</b>	<b>-11.2%</b>	<b>8.1</b>	<b>9.1</b>	<b>1.2</b>	<b>15.4%</b>		<b>4.6%</b>

Source: Bloomberg, Kenanga Research

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**Stock ESG Ratings:**

	Criterion	Rating		
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★	☆
	Community & Investment	★	★	☆
	Workforce Safety & Wellbeing	★	★	★
	Corporate Governance	★	★	★
	Anti-Corruption Policy	★	★	★
	Emissions Management	★	★	★ ☆
<b>SPECIFIC</b>	Content Management	★	★	★
	Digitalisation & Innovation	★	★	★ ☆
	Cybersecurity/Data Privacy	★	★	★
	Diversity & Inclusion	★	★	★
	Energy Efficiency	★	★	★
	Supply Chain Management	★	★	★
<b>OVERALL</b>		★	★	★

☆ denotes half-star  
 ★ -10% discount to TP  
 ★★ -5% discount to TP  
 ★★★ TP unchanged  
 ★★★★ +5% premium to TP  
 ★★★★★ +10% premium to TP

**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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