

11 July 2023

# Star Media Group

## Shareholder Activism at Its Best

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We believe the emergence of Tan Sri Tong Kooi Ong as a substantial shareholder in STAR will contribute significantly to the following catalysts: (i) enhanced corporate governance and best practices, and (ii) deployment of STAR's sizeable war chest for accretive M&As, divestitures or ventures. Given improved asset monetization prospects, we upgrade our TP to RM0.555 (from RM0.315) and upgrade our call to OUTPERFORM (from UNDERPERFORM).

**Finally a saviour is here?** To recap, the founder and owner of The Edge Communications Sdn Bhd (TECSB), Tan Sri Tong Kooi Ong, emerged as a substantial shareholder of STAR in late April. His combined stake amounted to 5.424%, comprising direct (0.254%) and indirect interest (5.17%) via TECSB. Tong is currently one of the top-three shareholders in STAR after MCA (43.2% stake) and EPF (4.1%). In the two days preceding and following the announcement of Tong's entry, STAR's share price skyrocketed by more than 30%. This alludes that investors are generally upbeat about his interest in the company.

**Small wins may lead to ultimate victory.** According to The Edge, Tong indicated that his stake in STAR is purely an investment. In spite of Tong's remarks, his shareholder activism was clearly evident when he published an opinion article in The Edge back in May. This is via the column "Tong's Portfolio" whereby he explained his reasons to vote against Star's resolution to dispose property assets to Matang Berhad. To recap, this RM33m deal was deemed as a related-party transaction (RPT) given that MCA owns 17.15% stake in Matang Berhad. Tong's multi-page article ends with a profound conclusion as encapsulated below:

*"Star should monetise its assets and unlock value, but it has to be done in a way that enhances value for ALL shareholders, not only its major controlling shareholder. And as we wrote previously in this column, the occurrence of such governance issues..."*

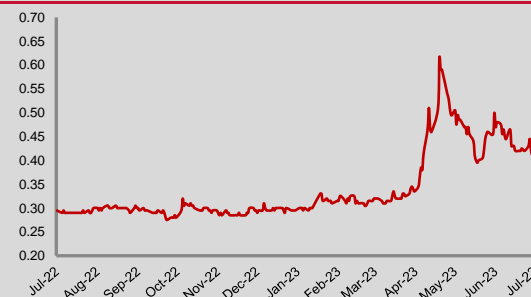
Recall that the Matang Berhad's proposal was eventually rejected by shareholders at an extraordinary general meeting. Moving forward, we do not discount the possibility that Tong may embark on similar campaigns to advocate for enhanced corporate governance and best practices by STAR's board of directors (BOD).

**No nonsense under his watch.** In our view, Tong's Portfolio, published since 2014, is an influential platform that has a wide reach to the investment community. We opine that its well-articulated ideas and opinions will be a key reference for STAR's minority shareholders in evaluating future proposals. Furthermore, given his current stewardship of The Edge, Tong has a wealth of knowledge and experience in the media and publishing business. To top it off, he also has past experience in property development, which aligns with STAR's recent diversification. This is derived from his roles as Executive Chairman of Sunrise Berhad (2003-10), and Director at UEM Land Holdings Berhad (2010-13). Therefore, given his relevant expertise, we believe that investors will value Tong's opinions on STAR.

**OUTPERFORM** ↑

Price : RM0.41  
Target Price : RM0.555 ↑

### Share Price Performance



KLCI	1,383.06
YTD KLCI chg	-7.5%
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	14,123,320
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)	-	7.2	12.2
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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**Ensures war chest is deployed wisely.** STAR owns a substantial portfolio of investment assets, which also includes valuable land bank for potential development. In FY22, the book value of these assets amounted to RM143m, which translates to 22% of net assets. Furthermore, there is upside to this figure, given that valuations on STAR’s key assets were last conducted in 1995-2004. In addition, STAR is sitting on a huge cash pile of RM368m with zero borrowings. Nevertheless, we believe that investors are only willing to ascribe a premium to these assets if their value is unlocked via accretive M&As, divestitures or ventures. Therefore, Tong’s scrutiny and unabashed feedback of STAR’s RPTs and operations are an effective oversight over management. Moving forward, if Tong continues to analyse STAR’s proposals with the same depth of detail, we believe it will result in enhanced management competency and informed voting by minority shareholders. In turn, this implies that any future asset monetization and M&As will likely result in value creation. Correspondingly, this may boost potential dividend payouts and augment STAR’s ESG profile. As such, when this plays out, enhanced investor confidence will catalyse STAR’s share price.

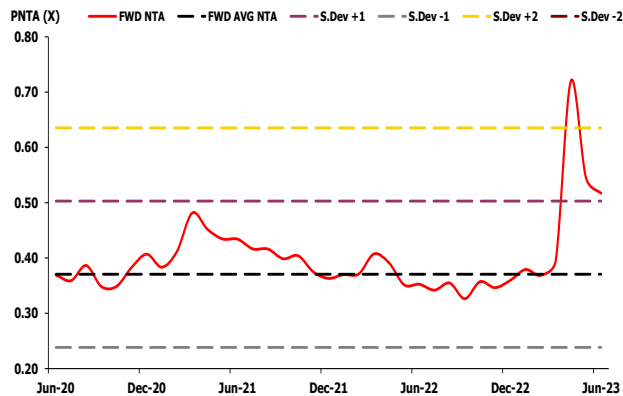
**Valuations still attractive.** As highlighted above, we believe that odds have now improved for STAR’s assets to be monetized effectively. Correspondingly, this is reflected in its current valuation that has re-rated upwards to an average of 0.6x FY24 P/NTA over the past three months. This translates to an upgrade versus its 3-year historical average of 0.4x. Nevertheless, STAR’s valuations remain attractive at this juncture given that it is currently trading below the sector average of 0.9x P/NTA (excluding ASTRO that has negative goodwill). Furthermore, valuations have now normalized to 0.5x P/NTA after having peaked at a high of 0.72x back in April. Moving forward, we believe there is still upside to valuations as the above catalysts have just started to unfold.

**Upgrade to OUTPERFORM.** Given improved asset monetization prospects, we raise our P/NTA valuation on STAR to 0.7x (from 0.4x). This implies a discount versus sector average of 0.9x to reflect its lower ROE versus sector leader MEDIA. Following this, our TP is raised to RM0.555 (from RM0.315). There is no change to our TP based on ESG given a 3-star rating as appraised by us (see Page 5). Upgrade to **OUTPERFORM** from **UNDERPERFORM**.

We like STAR due to: (i) proactive plans to future proof its earnings via a 5-year transformation journey, (ii) strong balance sheet with sizeable war chest, and (iii) traction in efforts to transition to digital media.

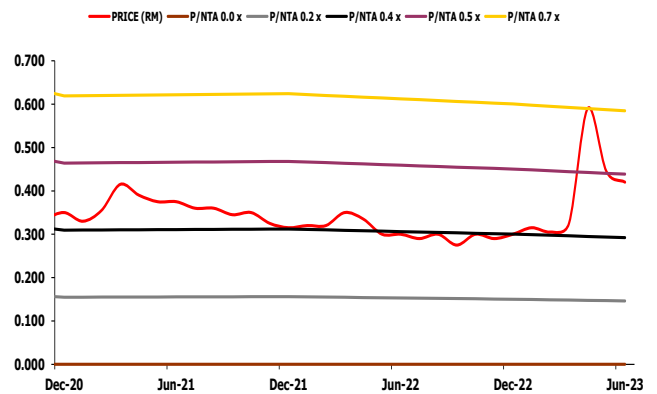
**Key risks to our call include:** (i) sluggish progress in digitalization, (ii) inflated newsprint cost, and (iii) venture into property development turns sour.

**Historical Rolling 1-Year Forward Average P/NTA**



Source: Bloomberg, Kenanga Research

**Average Forward P/NTA Band**



Source: Bloomberg, Kenanga Research

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Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F	FY Dec	2020A	2021A	2022A	2023F	2024F
Revenue	196.4	187.1	216.8	215.7	220.0	<b>Growth (%)</b>					
Operating Profit	-16.3	-148.8	9.7	22.6	12.0	Turnover	-37.8%	-4.7%	15.9%	-0.5%	2.0%
Depreciation	-38.9	-25.3	-14.6	-14.6	-14.6	EBITDA	-45.6%	-648.4%	-119.6%	53.4%	-28.3%
Interest Inc/(Exp)	-0.2	-0.7	-0.9	-1.4	-1.4	Operating Profit	-230.2%	810.9%	-106.5%	134.1%	-46.7%
Associate Earnings	0.0	0.0	0.0	15.6	0.0	PBT	-212.9%	804.2%	-105.9%	141.9%	-49.8%
Profit Before Tax	-16.5	-149.5	8.8	21.2	10.6	Core Net Profit	-674.8%	-86.5%	-193.2%	-20.7%	39.4%
Taxation	-3.3	17.3	-1.9	-5.1	-2.5	<b>Profitability (%)</b>					
Minority Interest	0.1	0.1	0.0	0.1	0.0	Operating Margin	-8.3%	-79.5%	4.5%	10.5%	5.5%
PATAMI	-19.7	-132.1	6.9	16.2	8.1	PBT Margin	-8.4%	-79.9%	4.0%	9.8%	4.8%
Core PATAMI	-58.3	-7.9	7.3	5.8	8.1	Core Net Margin	-29.7%	-4.2%	3.4%	2.7%	3.7%
<b>Balance Sheet</b>						Effective Tax Rate	-19.7%	11.6%	21.3%	-24.0%	-24.0%
FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F	ROA	-2.1%	-15.6%	0.9%	2.2%	1.2%
Fixed Assets	255.5	169.6	155.4	140.8	126.2	ROE	-2.5%	-18.5%	1.1%	2.4%	1.2%
Intangible Assets	25.1	24.0	23.5	63.5	103.5	<b>DuPont Analysis</b>					
Other Fixed Assets	170.4	163.7	157.1	157.1	157.1	Net Margin (%)	-29.7%	-4.2%	3.4%	2.7%	3.7%
Inventories	15.7	6.0	9.4	14.2	14.5	Assets Turnover (x)	0.2	0.2	0.3	0.3	0.3
Receivables	100.1	46.5	46.6	70.0	57.8	Leverage Factor (x)	1.2	1.2	1.2	1.0	1.0
Other Current Assets	8.0	9.6	18.6	18.6	18.6	ROE (%)	-2.5%	-1.1%	1.1%	0.9%	1.2%
Cash	353.2	343.1	364.8	218.5	213.1	<b>Leverage</b>					
<b>Total Assets</b>	<b>928.0</b>	<b>762.4</b>	<b>775.3</b>	<b>682.6</b>	<b>690.7</b>	Debt/Asset (x)	0.0	0.0	0.0	0.0	0.0
Payables	105.9	100.4	108.9	0.0	0.0	Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
Short Term Borrowings	2.7	2.2	2.7	2.7	2.7	Net (Cash)/Debt	-334.0	-326.7	-350.6	-204.3	-198.9
Other Short Term Liabil	0.0	0.1	0.0	0.0	0.0	Net Debt/Equity (x)	-0.4	-0.5	-0.5	-0.3	-0.3
Long Term Borrowings	16.5	14.2	11.5	11.5	11.5	<b>Valuations</b>					
Other Long Term Liabilit	25.1	0.0	0.1	0.1	0.1	Core EPS (sen)	-8.0	-1.1	1.0	0.8	1.1
<b>Net Assets</b>	<b>777.9</b>	<b>645.5</b>	<b>652.2</b>	<b>668.3</b>	<b>676.4</b>	NDPS (sen)	0.0	0.0	1.0	0.0	0.0
Shareholders' Equity	779.8	647.5	652.2	668.3	676.4	BV/sh (RM)	1.1	0.9	0.9	0.9	0.9
Minority Interests	-1.9	-1.9	0.0	0.0	0.0	PER (x)	-5.1	-37.7	40.5	51.0	36.6
<b>Total Equity</b>	<b>777.9</b>	<b>645.5</b>	<b>652.2</b>	<b>668.3</b>	<b>676.4</b>	Div. Yield (%)	0.0%	0.0%	2.4%	0.0%	0.0%
<b>Cashflow Statement</b>						PBV (x)	0.4	0.5	0.5	0.4	0.4
FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F	EV/EBITDA (x)	26.1	(4.5)	23.4	15.3	16.5
Operating CF	-9.0	-9.5	20.9	-120.5	36.1						
Investing CF	-0.3	4.1	4.4	-24.4	-40.0						
Financing CF	-23.3	-4.1	-3.3	-1.4	-1.4						
Change In Cash	-32.7	-9.5	22.0	-146.3	-5.4						
Free CF	-12.0	-14.4	16.7	-120.5	36.1						

Source: 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	0.495	0.660	33.3%	2,581.2	N	01/2024	5.9	4.9	-11.6%	-16.6%	8.4	10.1	2.2	26.7%	4.0	8.1%
MEDIA CHINESE INTERNATIONAL	MP	0.155	0.150	-3.2%	261.5	Y	03/2024	(0.2)	(0.2)	-300.0%	-28.1%	N.A.	N.A.	0.4	-0.5%	0.6	3.9%
MEDIA PRIMA BHD	MP	0.435	0.420	-3.4%	482.5	N	06/2023	5.4	4.2	7.8%	-21.7%	8.1	10.4	0.7	9.2%	2.0	4.6%
STAR MEDIA GROUP BHD	OP	0.410	0.555	35.4%	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>3,622.4</b>					<b>-10.3%</b>	<b>-16.9%</b>	<b>9.8</b>	<b>11.8</b>	<b>1.1</b>	<b>11.6%</b>		<b>4.1%</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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