Media

Unrelenting Assault by Digital Media

UNDERWEIGHT

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By Kylie Chan Sze Zan l kyliechan@kenanga.com.my

We maintain our UNDERWEIGHT recommendation on the media sector due to: (i) sustained adex market share erosion for traditional media, (ii) prevailing cord cutting trends, and (iii) generative AI will likely widen digital media's competitive edge. Furthermore, we are concerned that consumer sentiment and discretionary spending will be weighed by the looming luxury taxes and higher sales and service tax rate of 8% (from 6%). We do not have any stock picks for the sector.

Sluggish adex after a solid CY23. We maintain our CY24 adex forecast of 0.3% contraction (CY23: 1.7% growth) as we expect consumer discretionary spending will be weighed by implementation of new taxes in CY24. They consist of: (i) luxury taxes (5%-10% on certain goods valued above RM10k), and (ii) higher sales and service tax (SST) rate of 8% (from 6%) on qualified transactions. However, in line with digital media's dominance and growth traction, we expect CY24 total adex (ex digital) to contract by a greater 1.8% YoY and digital adex to grow by 5% YoY.

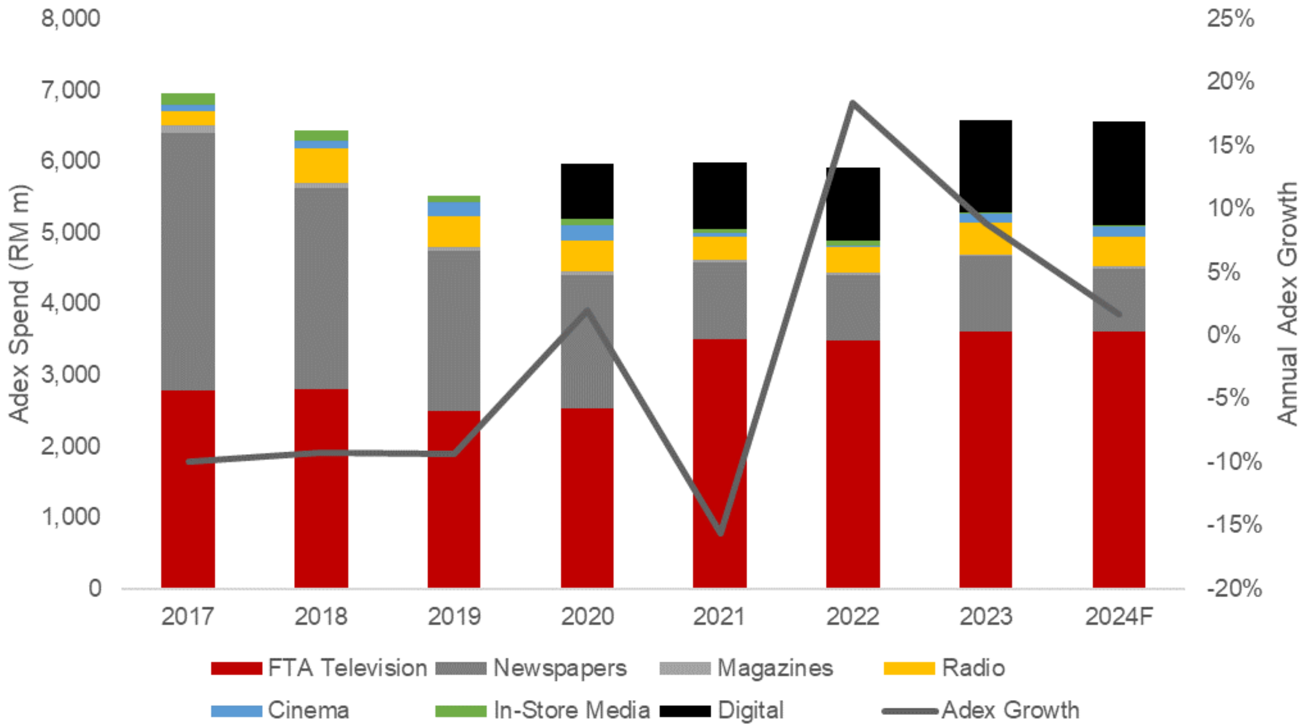
Sentiment remains stubbornly weak. On the bright side, there are emerging signs that signal the potential recovery of sentiment in the medium term. This is evident from the recovery in the Malaysian Institute of Economic Research's (MIER) Business Conditions Index (BCI) to 89 points in 4QCY23. This translates to a sequential rebound of 9.3 points, after its descent to 79.7 points in 3QCY23, which signified its lowest level since 2QCY20, during the pandemic's onset. Although the BCI remains below the 100-point optimism threshold, there is a possibility that it may have reached its inflexion point in 4QCY23. According to MIER, in 4QCY23, companies expressed confidence in their outlook for the next three months, particularly in the beverage and textile sectors. Meanwhile, according to the Department of Statistics Malaysia (DoSM), Malaysia's inflation rate remained stable at 1.5% in December 2023 (CY23: 2.5%). Hence, this corroborates with the possibility that consumer sentiment may potentially be on the cusp of recovery, especially if there is muted impact from higher SST and luxury taxes.

Digital media's market gains will likely prevail. We believe it is unlikely that traditional media (i.e. TV, radio and newspapers) will be able to recover adex share lost to digital media. This is due to the structural trend where interest is shifting into: (i) streaming apps or websites (eg.Youtube, Spotify, Apple Music), (ii) mobile apps (e.g. Waze, Grab, CamScanner), and (iii) social media platforms (e.g. celebrity influencers, Instagram, TikTok, Facebook, X). Evidently, over the past three years, digital media's adex share has progressively inched up from 15.7% in 4QCY20 to 23.5% in 4QCY23. Whilst this had led to topline weakness for traditional media players, the corresponding reduction to their fixed cost base has been relatively lower. As such, the lag in cost adjustment has resulted in a steeper decline to bottomline.

Generative AI revolution is on digital media's side. Moreover, digital media continues to improve and evolve rapidly given the current revolution in generative artificial intelligence (AI) technology. As such, the economic moat between digital and traditional media continues to widen due to: (i) proliferation of digital content creators given low barriers of entry, (ii) structural shift in interest to short video formats and livestream sales on digital platforms, and (iii) application of AI in digital media that curates personalized content and commercials. Therefore, for local media companies, their market niche will likely be limited to audiences that seek high quality local vernacular content.

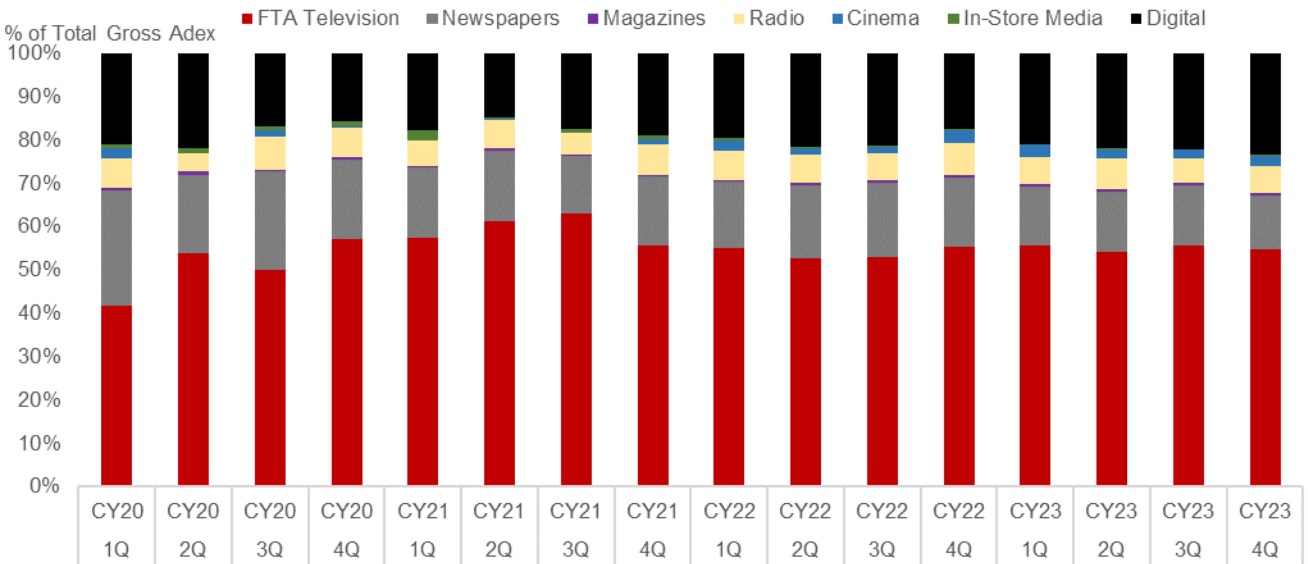
Underweight as digital continues to dominate. We maintain our **UNDERWEIGHT** recommendation on the sector as we believe that the outlook for traditional media appears dire, unless they are able to swiftly reinvent themselves or slash costs to the point that they are comfortably profitable in spite of a revenue contraction. We do not have any stock picks for the sector.

Annual Adex



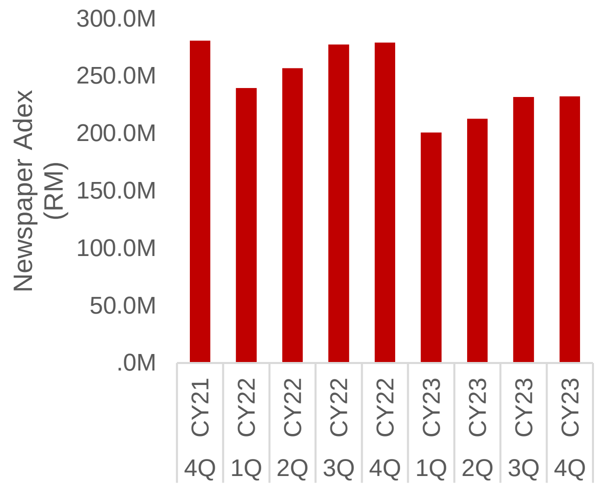
Source: Nielsen, Kenanga Research

Quarterly Adex Market Share



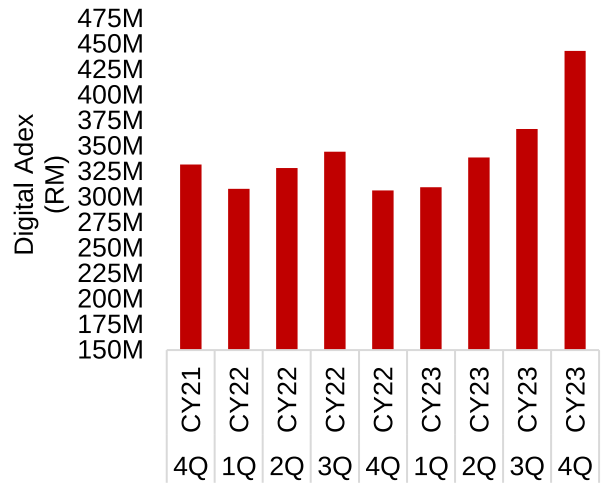
Source: Nielsen, Kenanga Research

Newspaper Adex



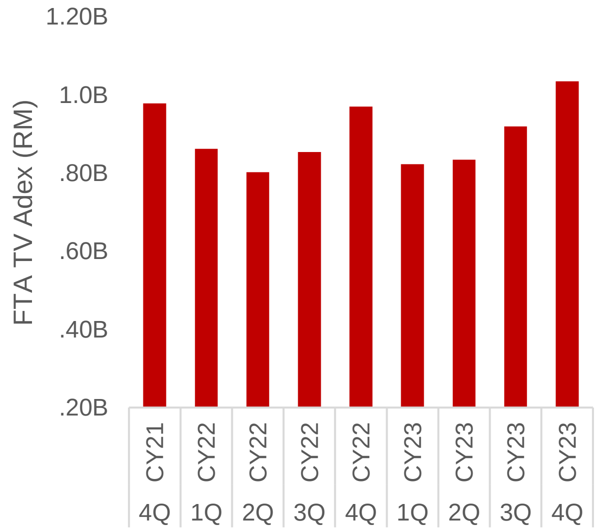
Source: Nielsen, Kenanga Research

Digital Adex



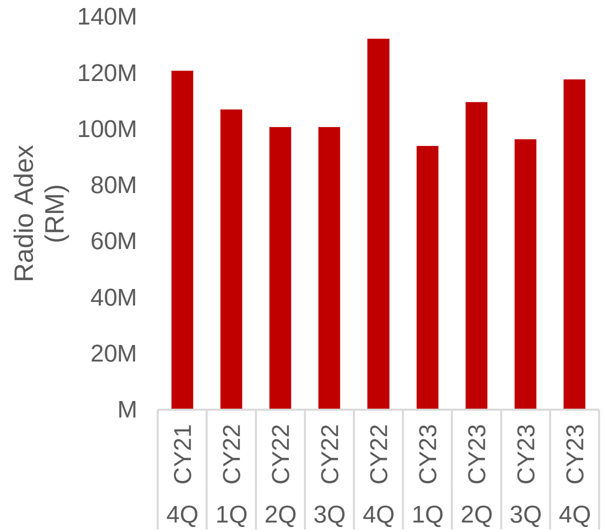
Source: Nielsen, Kenanga Research

FTA TV Adex



Source: Nielsen, Kenanga Research

Radio Adex



Source: Nielsen, Kenanga Research

Peer Comparison – Media

Name	Rating	Last Price as of 01/12/23 (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.
MEDIA																	
ASTRO MALAYSIA HOLDINGS BHD	UP	0.305	0.270	-11.5%	1,591.8	N	01/2025	3.7	4.1	-9.9%	11.2%	8.2	7.4	1.3	16.5%	1.0	3.3%
MEDIA CHINESE INTERNATIONAL	UP	0.125	0.100	-20.0%	210.9	Y	03/2024	(2.0)	(2.3)	-1625.0%	-11.6%	N.A.	N.A.	0.3	-5.1%	0.0	0.0%
MEDIA PRIMA BHD	UP	0.455	0.340	-25.3%	504.7	N	06/2024	2.7	3.4	-51.4%	27.0%	16.8	13.2	0.7	6.3%	1.5	3.3%
STAR MEDIA GROUP BHD	UP	0.420	0.314	-25.2%	304.4	Y	12/2024	(0.0)	0.5	94.4%	1750.0%	N.A.	92.2	0.5	0.0%	0.0	0.0%
SECTOR AGGREGATE					**2,611.8**					**-30.3%**	**15.5%**	**13.8**	**11.9**	**0.8**	**5.8%**		**1.6%**

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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KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my