

01 April 2024

Star Media Group

Pivot to Real Estate to Boost Resilience

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To diversify earnings and improve its resilience, STAR is pivoting towards real estate and offering niche weekly publications. However, it is still early days as these ventures require time to show meaningful earnings traction. As such, we remain cautious of sustained losses in its traditional media business due to adex share erosion by digital media. We maintain our forecasts, TP of RM0.31 and UNDERPERFORM call.

Branching out to niche publications. STAR is sanguine on its fresh strategy to introduce niche publications that are distributed via new touchpoints. For instance, Majority 7, was launched in Oct 2022 and is found at upscale F&B establishments such as Starbucks and the Chef Wan group of restaurants. It is Malaysia's first premium weekly Bahasa Malaysia newspaper, with curated content tailored for urbanites. This targeted approach attracts advertisers seeking to reach distinct demographics, such as the affluent urban Malay market in Majority 7's case. Moreover, given its targeted and limited circulation, we believe this translates to cost savings on newsprint and distribution. Additionally, it underscores STAR's pragmatic approach and ability to adapt within a dynamic media landscape. In addition to Majority 7, STAR also offers StarBiz7, which is a weekly niche magazine that caters to elite finance professionals and investors.

Focused on commercial and industrial properties. Within the real estate space, STAR intends to establish its niche in commercial and industrial segments. The conscious decision to focus in these areas were primarily due to shorter project construction periods. Moreover, we note that key assets in STAR's landbank with potential for development mainly comprise industrial and commercial lands at Penang and Perak, respectively. This is on top of four acres of agricultural land at Bentong, Pahang. Moving forward, STAR is strategically allocating resources and intensifying efforts to monetize its landbank. However, future property development endeavours will hinge on the success of its Star Business Hub (SBH) project. In other words, if SBH does not achieve its sales targets, STAR will likely hold back on new property launches in the foreseeable term.

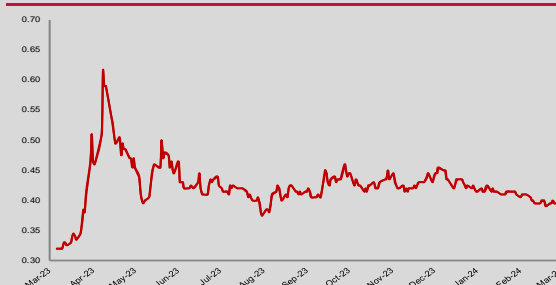
SBH is progressing on track. To recap, STAR's maiden venture in the property sector was via development of the RM130m SBH project. It comprises warehouses, factories and offices complexes (4 semi-detached and 1 detached) at Bukit Jelutong, Shah Alam. As at end Dec 2023, the project had reached c.35% completion, on track to meet its targeted end-FY24 completion date. To-date, the group has sold one semi-detached unit, which aligns with its target to sell two units each in FY24-25. We estimate that this sale translated to lumpy sales recognition of c. RM6.3m in FY23 (51% of total property segment revenue).

Rental income to prop up bottom line. The group is also confident of consistent rental incomes from its key commercial properties. This includes: (i) Menara STAR 2 at Section 13, Petaling Jaya, Selangor, and (ii) an industrial facility at Bayan Lepas, Penang. To recap, the latter previously housed the group's printing plant that was shuttered in Sept 2018. In FY23, it finally achieved full occupancy, which translates to rental income visibility over the next 1-2 years. Other investment assets that contribute to STAR's leasing revenues include 4-5 storey shop offices at (i) USJ Sentral, Subang Jaya, and (ii) Neighbourhood Commercial Center, Putrajaya.

UNDERPERFORM ↔

Price : **RM0.42**
Target Price : **RM0.31** ↔

Share Price Performance



KLCI	1,536.07
YTD KLCI chg	5.6%
YTD stock price chg	-3.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	STAR MK Equity
Market Cap (RM m)	304.4
Shares Outstanding	724.8
52-week range (H)	0.64
52-week range (L)	0.32
3-mth avg. daily vol.	777,789
Free Float	42%
Beta	0.3

Major Shareholders

Malaysian Chinese Association	43.2%
The Edge ComnSdnBhd	5.2%
Employees Provident Fund	4.1%

Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Revenue	220.0	214.8	218.9
EBITDA	17.9	14.5	18.7
EBIT	2.1	-0.7	3.3
PBT	8.3	-0.2	3.8
Net Profit	2.9	-0.2	3.3
Core Net Profit	-3.6	-0.2	3.3
Consensus (NP)		3.1	6.3
Earnings Revision (%)		-	-
Core EPS (sen)	-1.3	-0.03	0.5
Core EPS growth (%)	-245.2	-98.0	>100
NDPS (sen)	0.0	0.0	0.0
BVPS (RM)	0.87	0.79	0.71
PER (x)	-32.7	>100	93.3
PBV (x)	0.5	0.5	0.6
Net Gearing (x)	-0.6	-0.5	-0.4
Net Div. Yield (%)	0.0	0.0	0.0

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Awaiting actual earnings impact. In spite of STAR's various initiatives above, we believe it is still too early to turn positive at this juncture. In the case of SBH, we assume conservative sales of one additional unit in FY25 on top of one unit that was sold in FY23A. Our assumption is less bullish versus STAR's targets as we are concerned that sales traction may be dragged by ample incoming supply of industrial units in the market. To recap, as at Dec 2023, there were c. 4,000 units thought to be under construction, while total units stood at c. 121k units.

Office space remains in oversupply for now. Whereas for its rental properties, the group targets to deliver rental income of RM6m in FY24, matching FY23 collection (FY22: RM3m). We believe these flattish expectations may have accounted for robust upcoming supply. In 1HFCY24, five new office buildings in Klang Valley are expected to reach completion, including Felcra Tower, and The Exchange TRX Office by Lendlease at KL City. Thus, this is expected to boost existing stock and suppress the overall purpose-built office occupancy rate of 78.6% as at end-Dec 2023 (Jun 2023: 79.0%).

Lastly, STAR is in its early days of building its portfolio of niche publications, having just launched two within its stable. Therefore, we believe that earnings contributions from these magazines are not likely to be meaningful at this juncture. On the bright side, we do not discount the possibility that this will turn around as readership builds up over time.

Forecasts. Maintained.

Valuations. We also keep our TP of RM0.31 based on 0.4x FY24F P/NTA. This implies a 20% discount versus the historical sector average of its peers (0.5x) to reflect STAR's negative ROE versus sector leader MEDIA. There is no change to our TP based on ESG given a 3-star rating as appraised by us (see Page 5). Maintain **UNDERPERFORM**.

Key risks to our call include: (i) traction in efforts to transition to digital media and real estate monetization, (ii) earnings turnaround from successful cost cutting measures via its 5-year transformation journey, and (iii) surge in demand for its property development venture.

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Income Statement						Financial Data & Ratios					
FYE Dec (RM m)	2021A	2022A	2023A	2024F	2025F	FYE Dec	2021A	2022A	2023A	2024F	2025F
Revenue	187.1	216.8	220.0	214.8	218.9	Growth					
EBITDA	-247.7	23.8	17.9	14.5	18.7	Revenue	-4.7%	15.9%	1.5%	-2.4%	1.9%
Depreciation	-25.3	-14.6	-15.8	-15.2	-15.4	EBITDA	>-100%	>100%	-24.8%	-19.0%	28.7%
EBIT	-273.0	9.2	2.1	-0.7	3.3	EBIT	>-100%	>100%	-77.1%	>-100%	>100%
Net Finance Cost	-0.7	-0.9	-0.3	0.5	0.4	PBT	>-100%	>100%	-5.6%	>-100%	>100%
Associates	0.0	0.0	0.0	0.0	0.0	Core PATAMI	>-100%	>100%	>-100%	-94.8%	>100%
Exceptionals	124.2	0.4	6.5	0.0	0.0	Profitability					
Profit Before Tax	-149.5	8.8	8.3	-0.2	3.8	EBITDA Margin	>-100%	11.0%	8.1%	6.8%	8.5%
Taxation	17.3	-1.9	-0.8	0.0	-0.5	EBIT Margin	>-100%	4.3%	1.0%	-0.3%	1.5%
Minority Interest	0.1	0.0	0.0	0.0	0.0	PBT Margin	-79.9%	4.0%	3.8%	-0.1%	1.7%
PATAMI	-132.1	6.9	2.9	-0.2	3.3	Core PATAMI	>-100%	3.0%	-1.6%	-0.1%	1.5%
Core PATAMI	-256.3	6.5	-3.6	-0.2	3.3	Eff. Tax Rate	11.6%	21.3%	9.3%	15.3%	12.3%
						ROA	-33.6%	0.8%	-0.5%	0.0%	0.4%
						ROE	-39.6%	1.0%	-0.6%	0.0%	0.5%
Balance Sheet						DuPont Analysis					
FYE Dec (RM m)	2021A	2022A	2023A	2024F	2025F	Net Margin	>-100%	3.0%	-1.6%	-0.1%	1.5%
Fixed Assets	169.6	155.4	108.6	97.9	86.8	Asset T/over (x)	0.2	0.3	0.3	0.3	0.3
Intangible Assets	24.0	23.5	22.7	82.7	142.7	Leverage (x)	1.2	1.2	1.2	1.2	1.2
Other Fixed Assets	163.7	157.1	191.6	191.6	191.6	ROE	-39.6%	1.0%	-0.6%	0.0%	0.5%
Inventories	6.0	9.4	8.5	14.1	14.4	Leverage					
Receivables	46.5	46.6	45.1	47.9	46.9	Debt/Asset (x)	0.0	0.0	0.0	0.0	0.0
Other ST Assets	9.6	18.6	33.3	33.3	33.3	Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
Cash	343.1	364.8	364.2	322.4	266.1	Net Cash(RM m)	-326.7	-350.6	-364.2	-322.4	-266.1
Total Assets	762.4	775.3	773.9	789.8	781.8	Net Gearing (x)	-0.5	-0.5	-0.6	-0.5	-0.4
Payables	100.4	108.9	108.6	124.6	113.3	Valuations					
ST Borrowings	2.2	2.7	0.0	0.0	0.0	Core EPS (sen)	-35.4	0.9	-1.3	0.0	0.5
Other ST Liability	0.1	0.0	2.8	2.8	2.8	DPS (sen)	0.0	1.0	0.0	0.0	0.0
LT Borrowings	14.2	11.5	0.0	0.0	0.0	BV/share (RM)	0.9	0.9	0.9	0.9	0.9
Other LT Liability	0.0	0.1	10.1	10.1	10.1	Core PER (x)	-1.2	47.5	-32.7	>-100	93.3
Net Assets	645.5	652.2	652.4	652.2	655.5	Div. Yield (%)	0.0	2.4	0.0	0.0	0.0
S/holders' Equity	647.5	652.2	652.4	652.2	655.5	PBV (x)	0.5	0.5	0.5	0.5	0.5
Minority Interests	-1.9	0.0	0.0	0.0	0.0	EV/EBITDA (x)	-2.2	23.8	-2.2	23.8	32.5
Total Equity	645.5	652.2	652.4	652.2	655.5						
Cashflow Statement											
FYE Dec (RM m)	2021A	2022A	2023A	2024F	2025F						
Operating CF	-9.5	20.9	0.3	22.2	7.6						
Investing CF	4.1	4.4	9.3	-64.5	-64.3						
Financing CF	-4.1	-3.3	-10.4	0.5	0.4						
Change In Cash	-9.5	22.0	-0.7	-41.8	-56.2						
Free CF	-14.4	16.7	-3.6	17.7	3.3						

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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.
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

Stock ESG Ratings:

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

☆ 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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