Media Chinese International

Evaluating AI tools and Cost Measures

UNDERPERFORM ↔

Price :	**RM0.13**
Target Price :	**RM0.11 ↔**

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MEDIAC is mulling additional cost optimization measures, and evaluating ways to navigate the new AI era. Additionally, in terms of financial performance, it is hopeful that the worst is over. Hence, it is optimistic of improved financial results after incurring losses in FY23-24. We maintain our forecasts, TP of RM0.11 and UNDERPERFORM call.

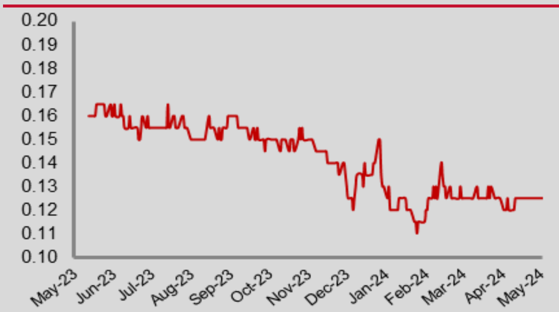
Staying relevant in the AI era. To navigate the generative artificial-intelligence (AI) era, MEDIAC is hopeful that it could monetize its intellectual property or news content in future. The optimism is driven by recent developments, including a content-licensing pact struck between News Corp and OpenAI last week. According to media sources, this deal could be worth more than USD250m over five years, where News Corp could be compensated in cash and credits for use of OpenAI technology. Nearer to home, MEDIAC is collaborating with local publishers via the Malaysian Newspapers Publishing Association to collectively approach and engage multinational AI companies on this matter. Nevertheless, given its niche in Chinese language content, MEDIAC is more sanguine of reaching commercial agreements with emerging AI players in China such as Baidu, Tencent etc.

Leveraging on AI tools. MEDIAC is exploring ways to integrate AI into its operations. Hence, the group is evaluating AI tools that streamline content distribution. These tools enable publication of news articles on multi digital platforms within minutes in a single click. Concurrently, these AI tools can also generate accompanying videos, and render digital human presenters to narrate news content. Based on the efficiency gains offered by AI, MEDIAC estimates that at least 30% of its staff could be laid off within two years following the adoption of AI. On the back of this, MEDIAC has initiated internal training for its staff to equip them with the necessary skills to effectively utilize AI tools.

Restructuring to manage costs. Meanwhile, pending the AI transition, MEDIAC believes it can extract significant cost savings by downsizing its work force and encouraging its employees to multitask. As part of its ongoing restructuring, MEDIAC estimates that its workforce may potentially be reduced from 1,800 to circa 1,000 employees in future. To recap, manpower comprises the most significant cost driver for MEDIAC, accounting for c. 50% of costs, followed by newsprint (c.20%). On top of that, if unit publishing costs increase further in future, MEDIAC may shutter its printing plants at Johor and Penang. Thereafter, it would centralize print operations at its plant in Petaling Jaya, Selangor.

New ad platform to patch up adex hole. To recap, MEDIAC experienced significant erosion in programmatic advertising income in FY24 due to a decline in digital traffic across the group's websites. This resulted from changes in Facebook's news feed algorithm, which led to fewer readers being directed to MEDIAC's sites. Nevertheless, MEDIAC is hopeful that it can partially offset this loss in digital adex via the launch of MCIL Ad Manager, a self-serve ad platform offering lower prices to attract small and medium-sized advertisers.

Share Price Performance



KLCI	1,605.35
YTD KLCI chg	10.4%
YTD stock price chg	-3.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MCIL MK Equity
Market Cap (RM m)	219.3
Shares Outstanding	1,687.2
52-week range (H)	0.17
52-week range (L)	0.11
3-mth avg. daily vol.	383,818
Free Float	48%
Beta	0.7

Major Shareholders

Tiong Toh Siong Holdings	22.5%
Conch Co Ltd	15.1%
Kinta Hijau Sdn Bhd	7.7%

Summary Earnings Table

FY Mar (RM m)	2024A	2025F	2026F
Revenue	695.4	899.8	978.4
EBITDA	-11.2	-22.0	-16.9
EBIT	-38.1	-45.8	-38.5
PBT	-64.3	-41.8	-39.3
Net Profit	**-61.1**	**-38.5**	**-35.9**
Core Net Profit	**-30.5**	**-38.5**	**-35.9**
Consensus (NP)	-	-34.5	-38.5
Earnings Revision (%)	-	-	-
Core EPS (sen)	-1.79	-2.28	-2.13
Core EPS Growth (%)	1412.5	27.3	-6.8
DPS (sen)	0.7	0.7	0.7
BV/Share (sen)	36.0	33.5	31.3
NTA/Share (sen)	35.8	33.3	31.2
PER (x)	-7.2	-5.7	-6.1
PBV (x)	0.36	0.39	0.41
P/NTA (x)	0.36	0.39	0.42
Net Gearing (x)	-0.53	-0.28	-0.24
Div. Yield (%)	5.5	5.5	5.5

Hopeful the worst is behind. Moving forward, MEDIAC is optimistic that the worst is over in terms of financial performance. This is underpinned by: (i) cover price hikes for its key publications since 4QCY24, (ii) improved profit traction at its travel segment, (iii) stabilized newsprint costs at c. USD600/MT, (iv) reduction in depreciation and amortization (D&A) costs, (v) increased advertisement placements (e.g. congratulatory notices) for Sin Chew Jit Poh's 95th anniversary celebrations, and (vi) launch of MCIL ad manager. Meanwhile, lower D&A is seen from recent asset write-downs in 4QFY24 for: (i) MEDIAC's smaller printing plants, and (ii) mast heads of its major publications. Therefore, whilst the declining trend in circulation is expected to prevail, MEDIAC is hopeful of improved earnings in FY24.

Travel the only bright spot. MEDIAC is fairly confident of sustained earnings traction for its travel business in FY25. This is anchored by: (i) continued high demand for outbound premium tours from Hong Kong to China, and (ii) robust uptake for tours to America. Moreover, there is potential upside from increased tours to Europe. To recap, at this juncture, MEDIAC is holding back on offering tours to Europe due to prohibitively expensive flight tickets. Nevertheless, MEDIAC believes that pricing will rationalize over the medium-to-long term as flight frequencies ramp up.

Forecasts. Maintained.

Valuations. We also keep our TP of RM0.11 based on 0.3x FY25F P/NTA, which implies a discount of 40% versus the sector's (excluding ASTRO) historical average of 0.5x forward P/NTA. This is to reflect expectations of sustained losses in the near-to-medium term, as well as its smaller market cap relative to peers. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see page 5).

Investment case. We remain cautious on MEDIAC due to: (i) sustained adex market share erosion, (ii) margin pressure from heightened fixed costs amidst topline weakness, and (iii) fierce competition from digital media given their competitive advantages (e.g. application of artificial intelligence, low barriers of entry, lean cost base).

Key risks to our call include: (i) recovery in adex for traditional Chinese newspapers, (ii) sustained traction in cost cutting initiatives drive fixed costs lower, and (iii) successful inroads into new digital media or synergistic businesses to diversify from legacy earnings.

Income Statement

FYE Mar (RM m)	2022A	2023A	2024A	2025F	2026F
Revenue	515	586	695	900	978
EBITDA	**29**	**27**	**(11)**	**(22)**	**(17)**
Depreciation	(29)	(24)	(27)	(24)	(22)
EBIT	**0**	**3**	**(38)**	**(46)**	**(39)**
Net Interest	3	4	4	4	(1)
Associates	0	(0)	(0)	0	0
Exceptionals	(1)	1	(31)	0	0
PBT	**2**	**8**	**(64)**	**(42)**	**(39)**
Taxation	(2)	(11)	(0)	(0)	(0)
Minority Interest	2	3	3	3	4
PATAMI	**2**	**(1)**	**(61)**	**(39)**	**(36)**
Core Net Profit	**3**	**(2)**	**(30)**	**(39)**	**(36)**

Balance Sheet

FYE Mar (RM m)	2022A	2023A	2024A	2025F	2026F
Fixed Assets	247	228	196	175	157
Intangible Assets	33	30	3	3	3
Oth. Fixed Assets	107	112	94	93	93
Inventories	48	49	42	65	64
Receivables	79	83	101	129	141
Other Curr Assets	8	14	42	42	42
Cash	401	413	452	278	249
Total Assets	**923**	**930**	**929**	**784**	**749**
Payables	84	79	90	0	0
ST Borrowings	95	93	128	119	124
Other ST Liability	37	57	88	87	87
LT Borrowings	0	0	0	0	0
Other LT Liability	24	27	25	24	24
Net Assets	**682**	**674**	**599**	**553**	**514**
S/holders' Equity	683	677	607	565	529
Minority Interests	(1)	(3)	(8)	(11)	(15)
Total Equity	**682**	**674**	**599**	**553**	**514**

Cashflow Statement

FYE Mar (RM m)	2022A	2023A	2024	2025F	2026F
Operating CF	55	29	6	(164)	(29)
Investing CF	(19)	(17)	23	(3)	(4)
Financing CF	(49)	(19)	15	(4)	4
Change In Cash	**(13)**	**(7)**	**44**	**(171)**	**(29)**
Free CF	53	27	3	(167)	(33)

Financial Data & Ratios

Growth	2022A	2023A	2024A	2025F	2026F
Revenue	5.8%	13.8%	18.7%	29.4%	8.7%
EBITDA	-16.0%	-5.3%	-141.1%	96.4%	-23.4%
EBIT	-92.3%	>100%	>-100%	20.4%	-15.9%
PBT	>100%	>100%	->-100%	-35.0%	-6.1%
Core Net Profit	-15.6%	>-100%	>-100%	26.5%	-6.8%
Profitability					
EBITDA margin	5.6%	4.7%	-1.6%	-2.4%	-1.7%
EBIT Margin	0.0%	0.5%	-5.5%	-5.1%	-3.9%
PBT Margin	0.3%	1.3%	-9.2%	-4.6%	-4.0%
Core Net Margin	0.6%	-0.3%	-4.4%	-4.3%	-3.7%
Eff. Tax Rate	142.2%	151.7%	-0.3%	-0.4%	-0.4%
ROA	0.3%	-0.2%	-3.3%	-4.9%	-4.8%
ROE	0.4%	-0.3%	-5.0%	-6.8%	-6.8%
DuPont Analysis					
Net Margin	0.6%	-0.3%	-4.4%	-4.3%	-3.7%
Asset T/over(x)	0.6	0.6	0.7	1.1	1.3
Leverage (x)	1.4	1.4	1.5	1.4	1.4
ROE	0.4%	-0.3%	-5.0%	-6.8%	-6.8%
Leverage					
Debt/Asset (x)	0.1	0.1	0.1	0.2	0.2
Debt/Equity (x)	0.1	0.1	0.2	0.2	0.2
Net Cash(RM m)	(305)	(320)	(324)	(158)	(125)
Net Gearing (x)	(0.4)	(0.5)	(0.5)	(0.3)	(0.2)
Valuations					
Core EPS (sen)	0.2	(0.1)	(1.8)	(2.3)	(2.1)
DPS (sen)	0.6	0.7	0.7	0.7	0.7
BV/share (RM)	0.4	0.4	0.4	0.3	0.3
Core PER (x)	73.8	(109.6)	(7.2)	(5.7)	(6.1)
Div. Yield (%)	4.9	5.1	5.5	5.5	5.5
PBV (x)	0.3	0.3	0.4	0.4	0.4
EV/EBITDA (x)	169	199	(542)	(306)	(408)

Source: Kenanga Research

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	0.330	0.270	-18.2%	1,722.3	N	01/2025	3.7	4.1	-9.9%	11.2%	8.9	8.0	1.4	16.5%	1.0	3.0%
MEDIA CHINESE INTERNATIONAL	UP	0.130	0.110	-15.4%	219.3	Y	03/2025	(2.3)	(2.1)	-26.2%	6.8%	N.A.	N.A.	0.4	-6.7%	0.7	5.4%
MEDIA PRIMA BHD	UP	0.460	0.320	-30.4%	510.2	N	06/2024	2.0	3.2	-63.5%	56.0%	22.7	14.5	0.7	5.4%	1.5	3.3%
STAR MEDIA GROUP BHD	UP	0.395	0.314	-20.5%	286.3	Y	12/2024	(0.3)	(0.3)	33.3%	16.7%	N.A.	N.A.	0.4	-0.4%	0.0	0.0%
SECTOR AGGREGATE					**2,738.1**					**-27.7%**	**21.3%**	**15.6**	**12.9**	**0.9**	**5.6%**		**2.9%**

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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