Media

Earnings Outlook Still Cloudy

UNDERWEIGHT

↔

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

The earnings delivery (versus our expectations) of media companies under our coverage improved sequentially in 1QCY24. YoY adex receipts in 1QCY24 were mixed, whereby ASTRO (UP; TP: RM0.27), and MEDIA (UP; TP: RM0.32) enjoyed a recovery, whilst MEDIAC (UP; TP: RM0.11) experienced a contraction. Meanwhile, for Pay-TV, the sequential rout in subscribers sustained, and the quarterly ARPU expansion trend was derailed by a slight downtick. We maintain our UNDERWEIGHT stance as we believe that adex is not out of the woods, while competition with new media has intensified with the advent of generative artificial intelligence (AI). We do not have any stock picks for the sector.

Some segments mired in losses. The earnings delivery (versus our expectations) of media companies under our coverage improved sequentially in 1QCY24, with 25%, 25% and 50% beating, meeting and missing our projections, compared with 25%, 0% and 75% respectively, three months ago (Exhibit 1). **MEDIAC** outperformed as its QoQ losses narrowed following traction in cost savings. Meanwhile, the disappointments stemmed from: (i) **STAR (UP; TP: RM0.31)** as topline and cost pressures at its print segment led to sustained quarterly losses, and (ii) MEDIA being dragged by higher overheads and losses at the Out-of-Home (OOH) and Home Shopping segments.

Mixed adex receipts. YoY receipts for adex in 1QCY24 was higher at **ASTRO** (+11%), and **MEDIA** (+7%), corresponding with broader industry trends. To recap, based on Nielson data, 1QCY24 total industry adex (excluding PayTV) expanded by 14% YoY on the back of a recovery in the Free-to-Air television (FTA) segment. On the other hand, adex receipts were weaker for **MEDIAC** (-7%) as according to Nielson, total adex for major newspapers published by **MEDIAC** in Malaysia contracted by 3% YoY in 1QCY24. Whilst **STAR** does not disclose its adex receipts, based on Nielson data, adex for The Star publication inched up 3% YoY in 1QFY24. However, this did not translate to corresponding topline growth for STAR's bread-and-butter print segment, and it continued to be loss-making.

Sustained cord-cutting trends. In 4QFY24, **ASTRO**'s pay TV subscription revenue sustained its QoQ decline since 2QFY22 (except for a seasonal uptick in 4QFY23 due to the FIFA World Cup) as subscriber base rout prevailed. Moreover, the slight contraction in quarterly ARPU to RM99.7 (4QFY23: RM99.8) ended its expansion streak since 3QFY23. We attribute this to the introduction of new plans with 'lower floor price' of RM40-RM60 per month. According to **ASTRO**, this takes into account the recent decline in average disposable incomes among Malaysians.

Adex not out of the woods yet. We maintain our FY24 adex growth estimate of 10.8% YoY as we assume a modest recovery following a sluggish FY23 (+1.7% YoY). On the flipside, we believe that traditional media is unable to fully leverage from improved adex given stiff competition from new media. The latter's popularity stems from: (i) structural shift in interest to short video formats and live-stream sales, (ii) application of AI to curate personalized content and commercials, (iii) relatively lower cost per impression, and (iv) interactive digital platforms that enable two-way communication and user engagement.

Furthermore, we believe that Malaysian adex is not out of the woods yet as the Consumer Sentiment Index and Business Conditions Index by the Malaysian Institute of Economic Research (MIER) remained below the 100-point optimism threshold at 87.1 and 94.3 points, respectively. Moving forward, for 2QCY24, we believe that YoY adex growth will moderate as advertisers hold back in anticipation of the upcoming Paris Summer Olympics that will be held from 26 July to 11 August.

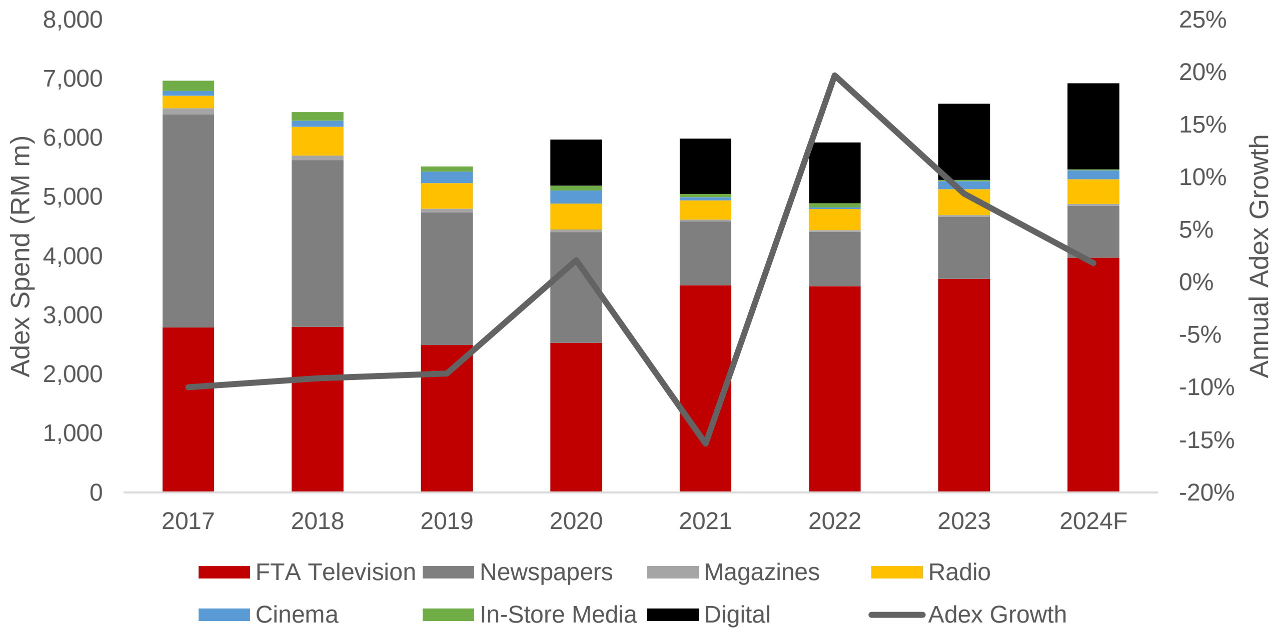
Legacy weights on costs and earnings. We maintain our **UNDERWEIGHT** recommendation on the sector as we believe that in the near-to-medium term, smaller media players will struggle to break even. Meanwhile, the larger ones will grapple with softer top lines amidst a structurally high-cost base (vis-à-vis new media). In terms of fixed expenses, digital content creators are essentially start-ups with a lean staff force and limited investments in production equipment (i.e. studios, cameras, lighting equipment, audio recording devices). In contrast, traditional media companies have legacy assets comprising expansive corporate headquarters, costly advanced production equipment and a bloated staff force. The low-cost structure for digital content creators enables them to be more nimble in responding to rapid changes in market trends. Therefore, the earnings outlook for traditional media remains cloudy, unless they manage to overhaul their business model or diversify into profitable businesses. We do not have any stock picks for the sector.

Exhibit 1: Quarterly Results Performance

	1QCY24						4QCY23					
	KENANGA			CONSENSUS			KENANGA			CONSENSUS		
	Above	Within	Below	Above	Within	Below	Above	Within	Below	Above	Within	Below
ASTRO		1		1					1			1
MEDIA			1			1			1			1
MEDIAC	1						1					
STAR			1			1			1			1
Total	**1**	**1**	**2**	**1**	**0**	**2**	**1**	**0**	**3**	**0**	**0**	**3**
Total (%)	**25**	**25**	**50**	**33**	**0**	**67**	**25**	**0**	**75**	**0**	**0**	**100**

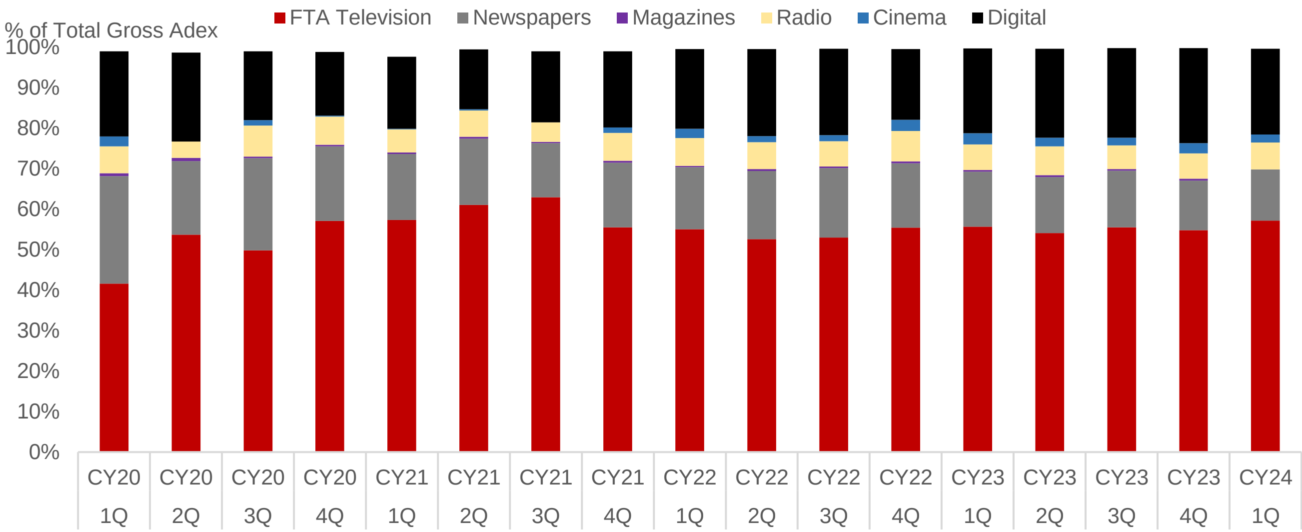
Source: Kenanga Research, Bloomberg

Annual Adex



Source: Nielsen, Kenanga Research

Quarterly Adex Market Share



Source: Nielsen, Kenanga Research

This space is intentionally left blank.

Peer Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RMm)	Shariah Compliant	Current FYE	Core EPS (sen) 1-Yr. Fwd.	Core EPS (sen) 2-Yr. Fwd.	Core EPS Growth 1-Yr. Fwd.	Core EPS Growth 2-Yr. Fwd.	PER (x) - Core Earnings 1-Yr. Fwd.	PER (x) - Core Earnings 2-Yr. Fwd.	PBV (x) 1-Yr. Fwd.	ROE 1-Yr. Fwd.	Net. Div. (sen) 1-Yr. Fwd.	Net Div Yld 1-Yr. Fwd.
MEDIA																	
ASTRO MALAYSIA HOLDINGS BHD	UP	0.375	0.270	-28.0%	1,957.1	N	01/2025	3.7	4.1	-9.9%	11.2%	10.1	9.1	1.6	16.5%	1.0	2.7%
MEDIA CHINESE INTERNATIONAL	UP	0.125	0.110	-12.0%	210.9	Y	03/2025	(2.3)	(2.1)	-26.2%	6.8%	N.A.	N.A.	0.4	-6.7%	0.7	5.6%
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					**2,964.6**					**-27.7%**	**21.3%**	**16.9**	**13.9**	**0.9**	**5.6%**		**2.9%**

Source: Bloomberg, Kenanga Research

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.***

Published by:

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