Astro Malaysia Holdings Berhad

(6399 | ASTRO MK) Telecommunications and Media | Media

Downgrade to NEUTRAL

(previously BUY)

Declining subscription and adex to impact earnings

***Revised* Target Price: RM0.86**

(previously RM1.04)

KEY INVESTMENT HIGHLIGHTS

- **1QFY21 normalised earnings plunged by -41.8%yoy to RM107.0m which came in below our expectations**
- **This was mainly due to the decline in revenue from the subscription (-11.5%yoy) and adex (-37.6%yoy) segment**
- **Covid-19 pandemic is expected to dampen advertising expenditure (adex) and subscribers' purchasing power**
- **Continuous cost optimisation and resilient free cash flow generation to partially help the group to weather the storm**
- **Downgrade to NEUTRAL with a revised target price of RM0.86**

Below expectation. Astro Malaysia Holdings Bhd's (Astro) 1QFY21 normalised earnings declined sharply by -41.8%yoy to RM107.0m, primarily due to lower revenue from its subscription and adex segment. This came in below both our and consensus expectations, accounting for 15.2% and 17.4% of full year FY21 earnings estimates respectively. However, the lower 1QFY21 earnings were partially mitigated by lower operating expenses and higher commerce sales from Go Shop. Moving forward, we foresee the group's earnings performance to remain lacklustre given the subdued economic indicators amidst the ongoing Covid-19 outbreak

Covid-19 pandemic to negatively impact revenue. Astro's 1QFY21 revenue decreased by -14.7%yoy to RM1.0b, primarily attributable to the lower subscription and adex revenue to RM821.5m (-11.5%yoy) and RM90.3m (-37.6%yoy) respectively. We gathered that the subdued consumer sentiment has led to some cancellation as well as conversion from the existing subscriber to the NJOI platform. This had also impacted the ARPU which fell by -1.0%yoy to RM99.1. Moreover, we view that the restriction on the installation of set-top box during the MCO period further limits the addition of new subscriber. Moving forward, we opine that the weakening economic indicator brought about by the Covid-19 will continue to dampen adex across media platforms as businesses would possibly hold back or cut their marketing budget.

Ongoing cost optimisation to serve as a cushion. Astro's 1QFY21 total cost dropped by -8.8%yoy to RM868.0m, predominantly premised on lower content and other expenses which fell by -10.0yoy and -8.2%yoy to RM309.0m and RM559.0m respectively. We postulate that the lower content cost was partially due to the deferral of two major sporting events (i.e. Euro Cup and Olympic) to year 2021 as well as less movie production during the period under review. Meanwhile, the -8.2%yoy reduction in other expenses was mainly stem from the lower cost of sales, marketing costs and administrative cost which fell by -5.9%yoy, -24.9%yoy, -13.4%yoy to RM686.1m, RM69.4m and RM112.8m respectively. As such, we foresee continuous improvement in operational efficiency to be a mitigating factor in a subdued business environment for the group.

RETURN STATISTICS	
Price @18th June 2020 (RM)	0.98
Expected share price return (%)	-12.2
Expected dividend yield (%)	+7.8
Expected total return (%)	**-4.4**

SHARE PRICE CHART

Share price performance (%)	Absolute	Relative
1 month	+1.0	-5.3
3 months	+15.3	-2.8
12 months	-31.9	-25.3

KEY STATISTICS	
FBM KLCI	1,504.91
Syariah compliant	No
Issue shares (m)	5214.51
Estimated free float (%)	37.39
Market Capitalisation (RM'm)	5,110.22
52-wk price range	RM0.70 - RM1.61
Beta vs FBM KLCI (x)	1.18
Monthly velocity (%)	11.02
Monthly volatility (%)	26.14
3-mth average daily volume (m)	8.08
3-mth average daily value (RM'm)	7.35
Top Shareholders (%)	
Pantai Cahaya Bulan Ventures	20.67
ALL Asia Media Equities Limited	19.43
Employee Provident Fund	8.09

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Table 1: Reported PBT performance (RM'm)

Segment	1Q21	1Q20	Variance (%)	Remark
Television	88.3	203.1	-56.5	Mainly due to a decrease in subscription and advertising revenue
Radio	5.5	28.9	-80.9	Mainly due to lower advertising spend
Home-shopping	0.6	-4.5	>100.0	Higher viewership and festive season during the quarter

Source: Company, MIDFR

Table 2: TV and radio operational statistics

	1Q21	1Q20	Growth (YoY)
TV households (000s)	7,589	7,470	+2.0%
TV Household penetration rate (%)	75	77	-2p.p.
TV customer base (000s)	5,680	5,711	-1.0%
Pay TV ARPU (RM)	99.1	100.4	-1.0%
Astro TV viewership share (%)	74	73	+1p.p.
Radio listenership (000s)	16.9	16.6	+1.0%
Digital monthly unique visitors (mn)	12.3	9.3	+32.0%
Connected STBs (000s)	1,003	1,024	-2.0%

Source: Company, MIDFR

Earnings forecasts. We are revising downwards our earnings estimates for FY21/22/23 to RM493.9m, RM581.8m and RM644.6m respectively in view of the weakening business conditions impacting both the subscription and adex revenue stream of the group.

Dividend. The group announced first interim dividend of 1.0sen per share in 1QFY21 payable on 17 July 2020 as compared to 2.0sen per share in 1QFY20. Note that we are also revising downward our dividend per share forecast for FY21/22/23 to 5.0sen, 6.5sen, 7.5sen respectively given the assumption of the group's need to conserve cash flow amidst the uncertainties surrounding the ongoing Covid-19 situation.

Target price. We are rolling forward our valuation base year to FY22 and deriving a new target price of **RM0.86** *(previously RM1.04)*. This is premised on forward PER of 7.7x pegging against FY22 EPS of 11.2sen per share. Note that the target PER represents a 1.0x SD-discount to the group's 2 year historical average to account for the near-term negative sentiments and unfavourable economic conditions due to COVID-19 outbreak.

Downgrade to NEUTRAL. We are expecting the earnings outlook of Astro to be subdued, predicating on the possibly lower subscription and adex revenue amidst a soft business and consumer sentiments arising from the Covid-19 outbreak. Moving forward, we do not discount the possibility of existing subscribers to opt for a cheaper alternative viewing platform (e.g. NJOI, MYTV and other streaming service providers) or lower-priced package, all of which could dampen the group's revenue and earnings momentum. In addition, we opine that the anticipated weakening economic indicators will lead to businesses to curtail their advertising budgets. This could lead to a downward pressure on the group's advertising income. Nonetheless, we believe that the continuous cost optimisation initiatives to be a partial mitigating factor in weathering the storm as evidenced through its lower expenses. Meanwhile, the pay-TV ARPU was still resilient at about RM99.1 which is supported by the increase in NJOI's prepaid buys (+20%) during MCO. There is also potential conversion of the new 250k sign-ups from non-Astro customers for Astro Go during the MCO period into paying-customers. All factors considered, we are downgrading our recommendation on Astro to **NEUTRAL** from previously BUY.

INVESTMENT STATISTICS

FYE 31st Jan	2019A	2020A	2021E	2022F	2023F
Revenue (RM'm)	5,479.1	4,911.8	4,442.2	4,648.9	4,820.2
EBIT (RM'm)	929.6	1,072.1	927.2	1,028.4	1,091.1
Pretax Profit (RM'm)	651.1	862.7	645.2	762.4	846.1
Net Profit (RM'm)	462.9	655.3	493.9	581.8	644.6
Normalised Net Profit (RM'm)	**563.0**	**657.0**	**493.9**	**581.8**	**644.6**
EPS (sen)	10.8	12.6	9.5	11.2	12.4
EPS growth (%)	-19.9	16.7	-24.8	17.8	10.8
PER(x)	7.7	6.6	8.8	7.4	6.7
Net Dividend (sen)	9.0	7.5	5.0	6.5	7.5
Net Dividend Yield (%)	10.8	9.0	6.0	7.8	9.0

Source: Company, MIDFR

ASTRO MALAYSIA HOLDINGS: 1QFY21 RESULTS SUMMARY

(All in RM'm unless stated otherwise)	**Quarterly**				
FYE 31st January	**1Q21**	**1Q20**	**4Q20**	**% YoY**	**% QoQ**
Revenue	**1,052.9**	**1,234.4**	**1,225.6**	**-14.7**	**-14.1**
EBITDA	**398.8**	**524.5**	**495.4**	**-24.0**	**-19.5**
Depreciation and amortisation	-213.3	-239.9	-268.0	-11.1	-20.4
EBIT	**185.5**	**284.6**	**227.4**	**-34.8**	**-18.4**
Finance costs	-96.2	-64.9	-54.9	48.2	75.2
Finance income	7.2	6.7	23.4	7.5	-69.2
Share of post-tax results from investment	0.3	0.1	0.0	n.m.	n.m.
PBT	**96.8**	**226.5**	**195.9**	**-57.3**	**-50.6**
Taxation	-23.9	-57.2	-58.2	-58.2	-58.9
MI	0.9	6.9	1.2	-87.0	-25.0
PATAMI	73.8	176.2	138.9	-58.1	-46.9
Normalised PATAMI	**107.0**	**184.0**	**128.0**	**-41.8**	**-16.4**
EPS (sen)	2.1	3.5	2.5	-41.8	-16.4
				+/-ppts	+/-ppts
EBITDA margin (%)	37.9	42.5	40.4	-4.6	-2.5
EBIT margin (%)	17.6	23.1	18.6	-5.4	-0.9
PBT margin (%)	9.2	18.3	16.0	-9.2	-6.8
Normalised PATAMI margin (%)	10.2	14.9	10.4	-4.7	-0.3
Effective tax rate (%)	24.7	25.3	29.7	-0.6	-5.0

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.