Astro Malaysia Holdings Berhad

Maintain BUY

(6399 | ASTRO MK) Telecommunications and Media | Media

A potential beneficiary of COVID-19 lockdown

***Revised* Target Price: RM1.04**
(Previously RM1.84)

KEY INVESTMENT HIGHLIGHTS

- **Higher 4QFY20 normalised earnings of RM128.0m (+8.1%yoy) due to continuous cost improvement initiatives**
- **FY20 normalised earnings improved by +16.7%yoy to RM657.0m, in line with both our and consensus expectations**
- **Healthy traction for Astro's contents and Go Shop seen during the early period of movement control order (MCO)**
- **FY20's dividend amounted to 7.5sen per share, representing a dividend payout ratio of 60%**
- **Maintain BUY with a revised target price of RM1.04**

Within expectation. Astro Malaysia Holdings Bhd's (Astro) 4QFY20 normalised earnings increased by +8.1%yoy to RM128.0m, primarily due to continuous cost rationalisation. Meanwhile, Astro's FY20 normalised earnings increased by +16.7%yoy to RM657.0m. This was in line with both our and consensus expectations, accounting for 97.2% and 94.3% of full year FY20 earnings estimates respectively. The better FY20 earnings were primarily attributable to the notable reduction in total cost in line with its focus on operational efficiency.

Profit margin on upward trend. FY20 profit margin improved to 13.4% (+3.1ppts). This was supported by the resilient ARPU and overall reduction in cost. This was in spite of the decline in revenue to RM4.9b (-10.4%yoy), indicating the positive progress on leaner cost structure. Note that the ARPU remains healthy at about RM100.0 as of FY20.

Continual focus on building a leaner operation. Astro's FY20 total cost dropped by -15.5%yoy to RM3.8b, resulting from its improving operational efficiency in major cost areas such as content and other expenses at the TV segment. Lower content cost was also partially due to high base effect seen in FY19 in view of the FIFA World Cup 2018. All in, FY20 content cost contracted by -20.4%yoy to RM1.4b. Meanwhile, the -12.4%yoy reduction in other expenses was mainly stem from the lower marketing and distribution costs which fell by -21.6%yoy to RM384.8m. Note that the finance cost decreased as well, by -24.7%yoy to -RM238.9m. Moving forward, we foresee content cost to continue to improve in FY21 in view of the deferral of two major sporting events (i.e. Euro Cup and Olympic) to year 2021.

Table 1: Reported PBT performance (RM'm)

Segment	FY20	FY19	Variance (%)	Remark
Television	744.3	539.4	+38.0	Mainly due to lower content costs and marketing and distribution costs
Radio	153.2	157.5	-3.0	Unfavourable operating environment leading to lower client advertising spend
Home-shopping	-15.8	-7.4	-114.0	Mainly due to lower revenue as compared with corresponding period which came from a higher base

Source: Company, MIDFR

RETURN STATISTICS	
Price @25th March 2020 (RM)	0.83
Expected share price return (%)	+25.3
Expected dividend yield (%)	+10.8
Expected total return (%)	**+36.1**

SHARE PRICE CHART

Share price performance (%)	Absolute	Relative
1 month	-33.1	-24.4
3 months	-34.6	-21.5
12 months	-45.8	-32.4

KEY STATISTICS	
FBM KLCI	1324.50
Syariah compliant	No
Issue shares (m)	5214.51
Estimated free float (%)	36.63
Market Capitalisation (RM'm)	4328.04
52-wk price range	RM0.70 - RM1.61
Beta vs FBM KLCI (x)	1.44
Monthly velocity (%)	11.02
Monthly volatility (%)	26.14
3-mth average daily volume (m)	3.13
3-mth average daily value (RM'm)	3.54
Top Shareholders (%)	
Pantai Cahaya Bulan Ventures	20.67
ALL Asia Media Equities Limited	19.43
Employee Provident Fund	8.39

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Table 2: TV and radio operational statistics

	FY19	FY20	Growth (YoY)
TV households (000s)	7,439	7,559	+2.0%
TV Household penetration rate (%)	77	75	-2p.p.
TV customer base (000s)	5,713	5,697	-0.3%
Pay TV ARPU (RM)	99.9	100.0	+0.1%
Astro TV viewership share (%)	75	76	+1p.p.
Radio listenership (000s)	16.2	16.9	+4.0%
Digital monthly unique visitors (mn)	8.3	11.6	+40.0%
Connected STBs (000s)	1,003	1,005	+0.2%

Source: Company, MIDFR

A potential beneficiary of MCO. We are of the view that Astro will benefit from the current MCO through higher consumption of its contents and larger sales from its multitude of platforms (i.e. NJOI, Astro Go, Go Shop) as most people are confined in their homes. Through our channel checks with management, the current purchases of NJOI contents are trending at 1.5x-2.0x of normal run rates since MCO which could possibly contribute positively to ARPU. A healthy traction is also seen at its Go Shop's online purchases by customers. Meanwhile, we gather that there are currently about 50k non-Astro customers already have signed up for the free viewing of contents on Astro Go thus far since 22nd March 2020, indicating a reasonably strong interests for Astro's contents in a short span of time. We also expect the number to be increasing in view of the extension of MCO until 14th April 2020. As a result, we opine that this is a positive development as these non-Astro customers might possibly have a higher likelihood to be nurtured into paying-customers subsequently post-MCO. While the operation of set-top box installation is temporarily prohibited under MCO, we postulate there will be a pent-up demand in 2QY20 after the MCO is lifted.

Earnings forecasts. In light of the postponement of major sporting events, we are revising upwards our earnings estimates for FY21 to RM703.8m and adjust slightly downward for FY22 to account for the deferment of higher content costs to the following year. Note that during a year of major sporting events, Astro would normally experience a higher content cost (i.e. +2.0p.p. to +3.0p.p. higher). We are introducing our new set of earnings estimates for FY23 as well.

Dividend. The group announced 4QFY20 second interim dividend of 1.5sen per share, leading to a total dividend declared of 7.5sen per share in FY20 which represents a 60% dividend payout ratio. Note that the payout ratio is a deviation from its normal dividend policy of at least 75% in view of the current COVID-19 outbreak and anticipated short-term unfavourable economic conditions. Meanwhile, we are maintaining our dividend assumption of 9.0sen per share in FY21 in view of the group's improving cost structure and healthy cash position as well as its commitment to maintain its dividend policy.

Target price. We are revising our target price to **RM1.04** *(previously RM1.84)*. This is premised on forward PER of 7.7x pegging against FY21 EPS of 13.5sen 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.

Maintain BUY. We remain positive on the outlook of Astro as it continues to show meaningful progress on its cost optimisation plan while pursuing profitability through its multitude of platforms. We believe that the earnings momentum of the group to be primarily driven by its improving cost structure going forward. Meanwhile, the pay-TV ARPU was also managed to stay around RM100 which we postulate to be mainly through the higher consumption from its On Demand VOD, OTT platforms (i.e. Astro Go) and NJOI. Moreover, we opine that the MCO period would possibly help to further drive content consumption and online purchases from Astro's platforms. The expected encouraging sign-ups from non-Astro customers for Astro Go during the MCO period which might possibly be converted into paying-customers could bode well with the well-being of the group as well. We also postulate there will be pent-up demand for its set-top boxes as well as its Ultra Box in 2QCY20 post MCO given the healthy orders traction since its launch. In terms of valuation, the stock appears to be attractive as it is currently trading at a 1.5x SD-discount to its 2-year historical average PE of 11.7x. We expect this would increase monetization opportunities for Astro's pay-tv segment. Coupled with the appealing dividend yield of 10.8% stock, we are maintaining our **BUY** recommendation on Astro.

INVESTMENT STATISTICS

FYE 31st Jan	2019A	2020A	2021E	2022F	2023F
Revenue (RM'm)	5,479.1	4,911.8	4,862.9	4,912.8	4,883.1
EBIT (RM'm)	929.6	1,072.1	1,160.7	1,099.9	1,127.4
Pretax Profit (RM'm)	651.1	862.7	963.7	903.9	932.4
Net Profit (RM'm)	462.9	655.3	703.8	660.8	681.3
Normalised Net Profit (RM'm)	563.0	657.0	703.8	660.8	681.3
EPS (sen)	10.8	12.6	13.5	12.7	13.1
EPS growth (%)	-19.9	16.7	7.1	-6.1	3.1
PER(x)	7.7	6.6	6.1	6.5	6.4
Net Dividend (sen)	9.0	7.5	9.0	9.0	9.0
Net Dividend Yield (%)	10.8	9.0	10.8	10.8	10.8

Source: Company, MIDFR

ASTRO MALAYSIA HOLDINGS: 4QFY20 RESULTS SUMMARY

(All in RM'm unless stated otherwise)	Quarterly			Cumulative		
FYE 31st January	**4Q20**	**% YoY**	**% QoQ**	**FY20**	**FY19**	**% YoY**
Revenue	**1,225.6**	**-10.4**	**0.8**	**4,911.8**	**5,479.1**	**-10.4**
EBITDA	**495.4**	**2.1**	**-9.9**	**2,090.0**	**1,967.3**	**6.2**
Depreciation and amortisation	-268.0	-5.7	3.8	-1,017.9	-1,037.7	-1.9
EBIT	**227.4**	**13.1**	**-22.0**	**1,072.1**	**929.6**	**15.3**
Finance costs	-54.9	-10.9	-31.9	-238.9	-317.1	-24.7
Finance income	23.4	-26.2	165.9	29.4	37.8	-22.2
Share of post-tax results from investment accounted for using the equity method	0.0	n.m.	n.m.	0.1	0.8	-87.5
PBT	**195.9**	**14.4**	**-10.8**	**862.7**	**651.1**	**32.5**
Taxation	-58.2	10.4	16.9	-218.1	-190.3	14.6
MI	1.2	-700.0	9.1	10.7	2.1	409.5
PATAMI	138.9	17.3	-18.7	655.3	462.9	41.6
Normalised PATAMI	**128.0**	**8.1**	**-25.2**	**657.0**	**563.0**	**16.7**
EPS (sen)	2.5	8.1	-25.2	12.6	10.8	8.1
		+/-ppts	+/-ppts			+/-ppts
EBITDA margin (%)	40.4	4.9	-4.8	42.6	35.9	6.6
EBIT margin (%)	18.6	3.9	-5.4	21.8	17.0	4.9
PBT margin (%)	16.0	3.5	-2.1	17.6	11.9	5.7
Normalised PATAMI margin (%)	10.4	1.8	-3.6	13.4	10.3	3.1
Effective tax rate (%)	29.7	-1.1	7.0	25.3	29.2	-3.9

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.