Media Prima Berhad

(4502 | MPR MK) Telecommunications and Media | Media

Positive signs of regaining profitability

Upgrade to BUY

(previously NEUTRAL)

***Revised* Target Price: RM0.32**

(previously RM0.30)

KEY INVESTMENT HIGHLIGHTS

- **4QFY19 earnings turned into black to RM7.4m since 2QFY17 as compared to –RM66.2m in 4QFY18**
- **FY19 normalised losses almost halved to –RM62.8m (+47.7%yoy) which is above our and consensus expectations**
- **Recovery in 4QFY19 normalised earnings indicates healthy signs from the group's first phase of transformation plan**
- **Current valuation indicates a discount to its historical average of price-book value**
- **Upgrade to BUY with revised target price of RM0.32**

Above expectation. Media Prima Berhad (MPB) 4QFY19 results turned profitable since 2QFY17 which posted normalised earnings of RM7.4m (+111.1%yoy). This recovery was primarily driven by the improvement in traditional and digital ad spend as well as higher grossing box office movie such as 'Ejen Ali' of approximately RM30.0m. Meanwhile, the group's FY19 normalised losses narrowed by almost halved of to -RM62.8m (+47.7%yoy). This was above our and consensus expectations, accounting for only 67% and 65% of the full year estimates of losses respectively. The exceptional items amounted to about RM100.0m which was mainly comprised of the provision for rightsizing exercises.

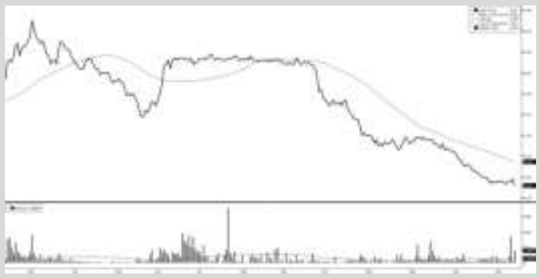
New revenue more than doubled. Improving contribution from its new revenue sources (i.e. digital and commerce) under the transformation plan has been promising as it has grown by two-fold between FY17 and FY19. The new revenue had accounted for 29% of total revenue in FY19 which amounted to RM318.0m in FY19, presenting encouraging performance from its new revenue-generating initiatives. This saw the group's net revenue from commerce activities rose by +9.0%yoy to RM270.6m as mainly driven by its digital (+20.0%yoy) and home-shopping segments (+9.0%yoy). Moving forward, the group has also set a target of RM290.0m net revenue from CJ Wow Shop in FY20.

A leaner operation. The group's manpower rationalization is expected to be completed by 1QFY20 and reduced its workforce by about one-fourth, primarily from the TV segment. This could result in a 9-month estimated cost savings of RM70m in FY20 and an annual saving of RM80m moving forward. In addition, the group plans to focus on more cross pollination of content and integration of sales within its vast array of media and digital assets. We opine that this is a good move to further improve operational efficiency and capitalize on any opportunity gap.

Printing segment. The increase in 4QFY19 circulation and revenue from the group's publishing arm were mainly driven by less competition after the closure of Utusan Melayu. This has partially led to the higher utilization rate at its printing plant at about 80% from <50% previously.

RETURN STATISTICS	
Price @21th November 2019 (RM)	0.18
Expected share price return (%)	+77.7
Expected dividend yield (%)	+0.0
Expected total return (%)	**+77.7**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-21.7	-17.7
3 months	-35.7	-33.1
12 months	-58.6	-52.4

KEY STATISTICS	
FBM KLCI	1,495.19
Syariah compliant	No
Issue shares (m)	1,109.2
Estimated free float (%)	44.59
Market Capitalisation (RM'm)	199.66
52-wk price range	0.17 – 0.60
Beta vs FBM KLCI (x)	0.71
Monthly velocity (%)	11.02
Monthly volatility (%)	39.11
3-mth average daily volume (m)	1.33
3-mth average daily value (RM'm)	0.34
Top Shareholders (%)	
Aurora Mulia Sdn Bhd	31.90
Morgan Stanley	12.83
Employee Provident Fund	11.73

Analyst(s)
Khoo Zhen Ye
khoo.zy@midf.com.my
03-2772 1655

Earnings estimates. In view of expected cost savings and revenue-generating initiatives, we are forecasting a positive bottom line from FY20 onward, premised on lower operating costs and steady revenue growth moving forward.

Target price. We are revising a new target price of **RM0.32** *(previously RM0.30)* based on price-to-book valuation methodology. Note that we have attached a target price-to-book ratio of 0.7x which is the group's two-year historical average.

Upgrade to BUY. We are positive on the group's potential turnaround in FY20. This is predominantly driven by its aggressive cost rationalization plan and expected steady revenue growth from multiple fronts. The estimated annual cost savings of RM80.0m from the reduction in workforce is expected to help the group to improve its bottom line significantly. This should be able to partially support the group's earnings momentum despite the traditional business still facing a tough transition. Nonetheless, the digital segment and new initiatives under its transformation plans are showing positive progress for the company as evidenced by its increasing contribution of new revenue sources. The group is also looking at investing in several intellectual properties-contents with estimated high gross box office-movies in FY20, with a focus on attracting revenue from abroad. Moving forward, we opine that enhancing its revenue-generating abilities through its vast digital assets will be key focus in ensuring a steady revenue growth. Coupled with a leaner operation through improved operational and business efficiency, we believe the group might be able to turn profitable in FY20. We also of the view that the valuation for MPB is at a considerable discount as it is current 0.3x price-to-book value as compared to its two-year historical average. All in, we are upgrading our recommendation on MPB to **BUY** *(previously NEUTRAL)*.

INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm, unless otherwise stated)	**FY18A**	**FY19A**	**FY20E**	**FY21F**	**FY22F**
Revenue (RM'm)	1185.7	1106.0	1111.6	1146.7	1184.9
EBIT (RM'm)	74.2	-164.4	17.5	27.0	31.1
Pretax Profit (RM'm)	60.6	-173.0	1.8	11.6	17.9
Net Profit after MI (RM'm)	59.0	-185.5	8.6	19.2	26.2
Normalised Net Profit after MI (RM'm)	**-120.1**	**-62.8**	**8.6**	**19.2**	**26.2**
Normalised EPS (sen)	n.a.	n.a.	0.8	1.7	2.4
PER(x)	n.a.	n.a.	23.3	10.4	7.6

Source: Company, MIDFR

Table 1: PBT breakdown by media platform

Platform	**FY19 (RM'm)**	**FY18 (RM'm)**	**Remarks**
Television networks	-24.1	-112.7	Lower adex take up in the FTA Television segment
Publishing	-113.0	142.7	Lower advertising and newspaper sales
Out-of-home	7.1	22.7	Lower occupancy on static roll-outs
Radio	-4.0	9.4	Lower advertising take up by advertisers
Digital media	1.7	10.2	Excluding the shared service revenue, revenue increased by 7%
Content creation	6.9	-18.0	Lower sales of TV program production and sales of program broadcast rights
Home shopping	-10.6	-4.0	Greater exposure achieved through more hours dedicated for Home Shopping slots on NTV7 and Ch-9, resulting to higher sales by 9.0%

Source: Company, MIDFR

MEDIA PRIMA BHD: 4QFY19 RESULTS SUMMARY

Financial year ending 31st December (in RM'm, unless otherwise stated)	Quarterly			Cumulative		
	4Q19	% YoY	% QoQ	FY19	FY18	% YoY
Revenue	**304.6**	**4.7**	**14.7**	**1106.0**	**1185.7**	**-6.7**
EBITDA	**-120.8**	**-285.1**	**-519.8**	**-40.6**	**148.5**	**-127.4**
Depreciation and amortisation	20.7	16.1	-142.6	123.8	74.3	66.6
(LBIT)/EBIT	**-100.1**	**-220.5**	**407.9**	**-164.4**	**74.2**	**-321.6**
Finance costs	-1.5	-22.1	-78.3	-16.4	-19.7	-16.8
Finance income	1.9	44.3	20.0	7.7	6.2	24.3
(LBT)/PBT	**-99.7**	**-221.0**	**294.8**	**-173.0**	**60.6**	**-385.3**
Taxation	-6.7	432.8	2022.6	-12.5	-1.6	657.2
(LAT)/PAT	**-106.3**	**-231.0**	**316.0**	**-185.5**	**59.0**	**-414.4**
MI	1.9	-196.9	-234.1	7.7	-0.4	-2184.5
(LATAMI)/PATAMI	**-104.5**	**-231.9**	**332.3**	**-177.8**	**58.6**	**-403.3**
Normalised (LATAMI) /PATAMI	**7.4**	**-111.1**	**-130.9**	**-62.8**	**-120.1**	**-47.7**
Normalised (LPS)/EPS (sen)	0.7	-111.1	-130.9	-5.7	-10.8	-47.7
		+/- ppts	+/- ppts			+/- ppts
EBITDA margin (%)	-39.6	-62.1	-50.5	-3.7	12.5	-16.2
EBIT margin (%)	-32.9	-61.4	-25.4	-14.9	6.3	-21.1
Normalised PATAMI margin (%)	2.4	25.2	11.4	-5.7	-10.1	4.4
Effective tax rate (%)	-6.7	-8.2	-5.4	-7.2	2.7	-9.9

Source: Company, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878 – X)).
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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.