

Star Media Group Berhad

(6084 | STAR MK) Telecommunications & Media | Media

Strong balance sheet to weather the storm

KEY INVESTMENT HIGHLIGHTS

- **1QFY20 financial performance plunged in negative territory of -RM3.9m which came in below our expectation**
- **Larger decline in revenue of -21.8%yoy, mainly from its mainstay Print segment**
- **Subdued business environment is expected to continue to cause a slowdown in ad-spend in the intermediate term**
- **Fortunately, cash reserve remains healthy which will support the group's focus on executing its digital strategy**
- **Maintain NEUTRAL with a revised TP of RM0.34**

Below expectation. Star Media Group Bhd's (Star) 1QFY20 results reverted to the red with normalised losses of -RM3.9m as compared to profit of RM3.6m in the corresponding period of last year. This came in below ours and consensus expectations. The group's dismal financial performance was caused by larger-than-expected revenue decline (-21.8%yoy), mainly from the print segment (*refer to table 1*).

Covid-19 to dampen ad-spend. The group's 1QFY20 revenue fell by -21.8%yoy to RM65.8m, mainly from its print segment which led to a LBT of -RM4.5m as compared to PBT of RM3.6m in 1QFY19. Coupled with the movement control order (MCO) and dismal economic conditions brought by the Covid-19 pandemic, we opine that businesses across most sectors would be reducing and/or deferring their market budgets. This would create further downward pressure on the advertising revenue. As a result, we are now expecting the group to remain in losses in FY20 before rebounding into positive territory in FY21.

Strong balance sheet to support the group's initiatives. We opine that the group's net cash position of about RM400.0m as of 31 March 2020 remains a strong backstop for the group to focus on its digital strategy (i.e The Star Online and Dimsum). Coupled with continuous cost rationalisation exercises, the group's evolving cost structure could also partially mitigate the decline in revenue going forward. Thus, we posit that this enables the group to be in a better position to ride through the Covid-19 pandemic headwinds. In addition, we also do not discount the possibility of the group to undergo earnings accretive developments with its unused properties.

Table 1: PBT/(LBT) breakdown (RM'm)

Segment	1Q20	1Q19	Variance (%)	Remarks
Print and digital	-4.5	+3.6	<100	Lower revenue
Radio broadcasting	-0.2	-0.1	<100	Cautious spending by
Event, Exhibition,	+1.0	+1.6	-37.5	Due to lesser events

Source: Company, MIDFR

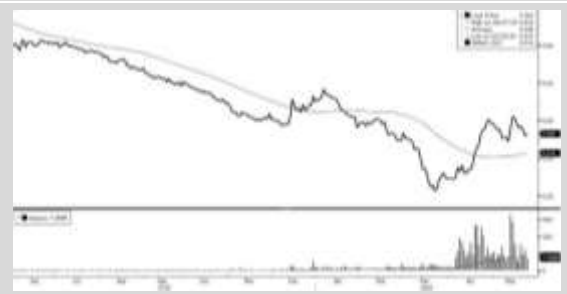
Maintain NEUTRAL

Revised Target Price: RM0.34
(previously RM0.36)

RETURN STATISTICS

Price @ 29 th May 2020 (RM)	0.365
Expected share price return (%)	-6.8
Expected dividend yield (%)	+5.5
Expected total return (%)	-1.3

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-6.4	-12.3
3 months	+49.0	-2.0
12 months	-43.4	-37.6


KEY STATISTICS

FBM KLCI	1,473.25
Syariah compliant	Yes
Issue shares (m)	737.88
Estimated free float (%)	33.55
Market Capitalisation (RM'm)	264.54
52-wk price range	RM0.22 - RM0.67
Beta vs FBM KLCI (x)	1.42
Monthly velocity (%)	11.02
Monthly volatility (%)	13.34
3-mth average daily volume (m)	8.63
3-mth average daily value (RM'm)	2.93
Top Shareholders (%)	
MCA	43.23
Skim Amanah Saham Bumiputera	8.89
EPF	4.11

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Earnings forecast. In view of the lingering negative effects of the Covid-19 pandemic on the adex environment, we are now expecting a loss of -RM15.4m in FY21 and revising downward our earnings estimates for FY21/22 to RM2.3m and RM8.5m respectively.

Target Price. We are revising our target price of **RM0.34** (*previously 0.36*) based on dividend discount model (DDM) valuation methodology. This is premised on attaching a higher discount rate of 6.3% (*previously 5.9%*) to reflect a highly uncertain outlook of the adex environment. Note that our estimated dividend per share of the group remains unchanged, given the group's healthy cash reserve.

Maintain NEUTRAL. While the anticipated weakening economic indicators and MCO are expected to continue to put a downward pressure on the group's financial performance, we opine that continuous effort to rationalise cost could serve as one of the mitigating factors. Moreover, we are comforted by the group's healthy cash balance of about RM400.0m which could potentially help it weather the challenging transition and weaker business environment in the intermediate term. This also provides the group with enough headroom to continue to invest in its digital platforms. Note that the group recently launched "The Star Digital Access" subscription service as well as its bundled packages along with its e-newspaper and video-on-demand (VOD) streaming service. These, in our view, would continue to drive the digital growth. However, profit contribution from this digital segment remains minimal as compared to those from the traditional adex at this juncture. Moving forward, we foresee revenue outlook from the group's business segments to be negatively impacted by the weak adex environment amidst the ongoing Covid-19 pandemic. On another note, we opine that the group's dividend yield of +5.5% appears to be attractive at this juncture. All in, we are maintaining our **NEUTRAL** recommendation on Star. 

INVESTMENT STATISTICS

Financial year ending 31 st Dec (in RM'm, unless otherwise stated)	FY18A	FY19A	FY20E	FY21F	FY22F
Revenue	392.7	315.9	242.6	258.1	262.7
EBIT	7.5	12.5	-30.0	6.0	14.0
PBT/(LBT)	8.9	14.6	-28.0	6.0	15.5
PATANCI/(LATANCI)	5.2	5.7	-15.4	2.3	8.5
Normalised PATANCI/(LATANCI)	1.7	8.5	-15.4	2.3	8.5
Normalised EPS (sen)	0.2	1.0	-2.1	0.3	1.2
Dividend Per Share (sen)	3.0	2.0	2.0	2.0	2.0
Dividend Yield (%)	8.0	5.3	5.5	5.5	5.5
PER (x)	162.8	36.4	n.a.	117.7	31.5

Source: Company, MIDFR

STAR MEDIA GROUP BHD: 1QFY20 RESULTS SUMMARY

(All in RM'm, unless otherwise stated)	Quarterly Results				
	FYE 31 st Dec	1Q20	1Q19	4Q19	% YoY
Revenue	65.8	82.6	76.1	-20.4	-13.5
EBITDA	1.3	10.1	11.3	-87.4	-88.7
Depreciation and amortisation	-7.2	-7.0	-7.3	1.8	-1.4
EBIT	-5.9	3.0	4.0	n.m.	n.m.
Finance costs	-0.3	-0.2	-0.4	71.6	-22.7
Interest and investment income	3.0	2.9	1.4	4.1	119.4
PBT	-3.2	5.7	5.0	n.m.	n.m.
Taxation	-0.7	-2.2	-4.8	-67.2	-85.4
PAT	-3.9	3.6	0.2	n.m.	n.m.
MI	0.0	0.0	0.1	94.7	-148.1
PATANCI	-4.0	3.5	0.2	n.m.	n.m.
Normalised PATANCI	-3.9	3.6	3.1	n.m.	n.m.
Normalised EPS (sen)	-0.5	0.5	0.4	n.m.	n.m.
				+/-ppts	+/-ppts
EBITDA margin (%)	1.9	12.2	14.9	-10.3	-12.9
EBIT margin (%)	-9.0	3.7	5.3	-12.6	-14.3
Normalised PATANCI margin (%)	-5.9	4.4	4.1	-10.3	-10.0
Effective tax rate (%)	-21.8	37.7	96.9	-59.5	-118.7

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 <i>rise</i> 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 <i>fall</i> 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.