

# Star Media Group Berhad

(6084 | STAR MK) Telecommunications &amp; Media | Media

**Upgrade to NEUTRAL**

(previously SELL)

## Print and digital segment outperformed

**Unchanged Target Price: RM0.36**

### KEY INVESTMENT HIGHLIGHTS

- **4QFY19 normalised earnings remains in positive territory of RM3.1m albeit lower by -52.2%yoy**
- **FY19 normalised earnings rose by +389.5%yoy to RM8.5m which came in above ours and consensus expectations**
- **This was mainly attributable to higher earnings from its print and digital segment as driven by lower operating expenses**
- **Digital strategy to be gradually gaining traction**
- **However, weaker business environment is expected to cause a slowdown in ad-spend in the near term**
- **Upgrade to NEUTRAL with an unchanged TP of RM0.36**

**Above expectation.** Star Media Group Bhd's (Star) 4QFY19 results remained profitable with normalised earnings of RM3.1m albeit lower by -52.2%yoy. Nonetheless, the group's FY19 normalised earnings rose +389.5%yoy to RM8.5m. This came in above ours and consensus expectations as it accounted for about 111.4% and 110.0% respectively of the FY19 earnings estimates. This was primarily due to the group's better financial performance from the print and digital segment (*refer to table 1*) as driven by lower operating expenses.

**Expansion in EBIT margin.** Star's FY19 EBIT margin improved +2.1ppts yoy to 4.0% as a result of lower operating expenses at its print and digital segment. To recall, the group underwent a manpower rationalisation in 4QFY18. This led to a jump of +73.7%yoy in profit before tax at its print and digital segment despite the fact that revenue dropped by -18.1%yoy.

**Challenging transition into digital platform.** While it is promising to witness a continuous growth from the group's digital revenue stream, we believe it is still insufficient to make up for the fall in the traditional segments. Note that the group achieved a revenue growth of +32.0%yoy and +18.0%yoy in its 4QFY19 and FY19 respectively from its digital segment, in line with its digital strategy. As a result, the group's overall revenue dropped -19.5%yoy to RM315.9m.

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

| Segment  | FY19 | FY18 | Variance (%) | Remarks                          |
|--|------|------|--------------|----------------------------------|
| Print and digital                              | 13.2 | 7.6  | +73.7        | Lower operating expenses         |
| Radio broadcasting                             | 0.8  | 2.9  | -72.4        | Cautious spending by advertisers |
| Event, Exhibition, Interior and thematic (EET) | 1.7  | 2.6  | -34.6        | Due to lesser events held        |

Source: Company, MIDFR

| RETURN STATISTICS                      |             |
|--|-------------|
| Price @ 28 <sup>th</sup> Feb 2020 (RM) | 0.375       |
| Expected share price return (%)        | -4.0        |
| Expected dividend yield (%)            | +5.3        |
| <b>Expected total return (%)</b>       | <b>+1.3</b> |



| Share price performance (%) | Absolute | Relative |
|-----------------------------|----------|----------|
| 1 month                     | -15.7    | -12.0    |
| 3 months                    | -22.7    | -9.1     |
| 12 months                   | -49.3    | -42.3    |


| KEY STATISTICS                   |                  |
|----------------------------------|------------------|
| FBM KLCI                         | 1,505.59         |
| Syariah compliant                | Yes              |
| Issue shares (m)                 | 737.88           |
| Estimated free float (%)         | 19.88            |
| Market Capitalisation (RM'm)     | 276.70           |
| 52-wk price range                | RM 0.37 – RM0.81 |
| Beta vs FBM KLCI (x)             | 0.74             |
| Monthly velocity (%)             | 11.02            |
| Monthly volatility (%)           | 13.34            |
| 3-mth average daily volume (m)   | 1.01             |
| 3-mth average daily value (RM'm) | 0.47             |
| Top Shareholders (%)             |                  |
| MCA                              | 42.46            |
| Skim Amanah Saham Bumiputera     | 9.90             |
| EPF                              | 8.36             |

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**Earnings forecast.** We are revising downward our earnings estimates for FY20 and FY21 to RM9.2m and RM9.8m respectively as well as introducing our earnings forecast for FY22.

**Dividend.** The group declared a total dividend of 2.0sen per share for FY19. This represents a dividend pay-out ratio of 194.0%.

**Target Price.** We are maintaining our target price of **RM0.36** based on dividend discount model (DDM) valuation methodology (maintain discount rate of 5.9%).

**Upgrade to NEUTRAL.** The cost rationalisation done previously seems to be bearing fruits as the group managed to improve its bottom line through lower operating costs at its print and digital segment. Moreover, the digital segment strategy embarked by the group has been showing encouraging performance as evidenced by its increased digital revenue growth. This is in line with the group's aspiration to be a digital-centric organization which will see the group continues to invest in its digital platforms. However, revenue outlook from the group's business segments continue to be soft due to the changing dynamics and unfavourable advertising expenditure (adex) of the media industry. The shift in advertisers' preference to advertise on digital platforms has been putting downward revenue pressure on the traditional businesses of the group. Nonetheless, we are comforted by the group's healthy cash balance of about RM386.0m (+28.6%yoy) as of FY19 which could help it weather the challenging transition and weaker business environment. In addition, we are also of the view that the group's dividend yield of +5.3% appears to be attractive at this juncture. All in, we are upgrading our recommendation on Star to **NEUTRAL** (previously *SELL*). 

## INVESTMENT STATISTICS

| Financial year ending 31 <sup>st</sup> Dec (in RM'm, unless otherwise stated) | FY18A      | FY19A      | FY20E      | FY21F      | FY22F       |
|---|------------|------------|------------|------------|-------------|
| Revenue   | 392.7      | 315.9      | 286.5      | 275.8      | 265.8       |
| EBIT  | 7.5        | 12.5       | 15.0       | 16.1       | 16.5        |
| PBT/(LBT)   | 8.9        | 14.6       | 17.0       | 18.1       | 18.5        |
| PATANCI/(LATANCI)   | 5.2        | 5.7        | 9.2        | 9.8        | 10.0        |
| <b>Normalised PATANCI/(LATANCI)</b>   | <b>1.7</b> | <b>8.5</b> | <b>9.2</b> | <b>9.8</b> | <b>10.0</b> |
| Normalised EPS (sen)  | 0.2        | 1.0        | 1.2        | 1.3        | 1.4         |
| Normalised EPS Growth (%)   | -95.3      | 346.7      | 20.6       | 6.5        | 2.4         |
| Dividend Per Share (sen)  | 3.0        | 2.0        | 2.0        | 2.0        | 2.0         |
| Dividend Yield (%)  | 8.0        | 5.3        | 5.3        | 5.3        | 5.3         |
| PER (x)   | 162.8      | 36.4       | 30.2       | 28.4       | 27.7        |

Source: Company, MIDFR

**STAR MEDIA GROUP BHD: 4QFY19 RESULTS SUMMARY**

| (All in RM'm, unless otherwise stated) | Quarterly Results |               |               | Cumulative   |              |              |
|--|-------------------|---------------|---------------|--------------|--------------|--------------|
| FYE 31 <sup>st</sup> Dec               | 4QFY19            | % YoY         | % QoQ         | FY19         | FY18         | % YoY        |
| <b>Revenue</b>                         | <b>76.1</b>       | <b>-18.3</b>  | <b>-4.4</b>   | <b>315.9</b> | <b>392.7</b> | <b>-19.5</b> |
|  |                   |               |               |              |              |              |
| <b>EBITDA</b>                          | <b>11.3</b>       | <b>-250.7</b> | <b>105.1</b>  | <b>41.4</b>  | <b>34.6</b>  | <b>19.6</b>  |
| Depreciation and amortisation          | -7.3              | 8.9           | -0.2          | -28.8        | -27.1        | 6.4          |
| <b>EBIT</b>                            | <b>4.0</b>        | <b>-128.5</b> | <b>-328.7</b> | <b>12.5</b>  | <b>7.5</b>   | <b>67.8</b>  |
| Finance costs                          | -0.4              | -1661.5       | 34.0          | -1.2         | -2.0         | -39.0        |
| Interest and investment income         | 1.4               | 72.1          | 218.4         | 3.3          | 3.4          | -3.9         |
| <b>PBT</b>                             | <b>5.0</b>        | <b>-137.3</b> | <b>450.7</b>  | <b>14.6</b>  | <b>8.9</b>   | <b>63.9</b>  |
| Taxation                               | -4.8              | -209.7        | 783.2         | -8.9         | -3.5         | 156.6        |
| <b>PAT</b>                             | <b>0.2</b>        | <b>-101.7</b> | <b>-57.3</b>  | <b>5.7</b>   | <b>5.5</b>   | <b>4.8</b>   |
| MI                                     | 0.1               | -153.1        | -171.3        | 0.0          | -0.2         | -81.1        |
| PATANCI                                | 0.2               | -102.5        | -8.0          | 5.7          | 5.2          | 8.6          |
| <b>Normalised PATANCI</b>              | <b>3.1</b>        | <b>-52.2</b>  | <b>324.8</b>  | <b>8.5</b>   | <b>1.7</b>   | <b>389.5</b> |
|  |                   |               |               |              |              |              |
| Normalised EPS (sen)                   | 0.4               | -52.2         | 324.8         | 1.1          | 0.2          | 409.5        |
|  |                   | +/-ppts       | +/-ppts       |              |              | +/-ppts      |
| EBITDA margin (%)                      | 14.9              | 22.9          | 7.9           | 13.1         | 8.8          | 4.3          |
| EBIT margin (%)                        | 5.3               | 20.5          | 7.5           | 4.0          | 1.9          | 2.1          |
| Normalised PATANCI margin (%)          | 4.1               | -2.9          | 3.2           | 2.7          | 0.4          | 2.2          |
| Effective tax rate (%)                 | 96.9              | 64.0          | 36.5          | 60.9         | 38.9         | 22.0         |

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

|                     |  |
|---------------------|--|
| <b>BUY</b>          | Total return is expected to be >10% over the next 12 months.   |
| <b>TRADING BUY</b>  | 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.  |
| <b>NEUTRAL</b>      | Total return is expected to be between -10% and +10% over the next 12 months.  |
| <b>SELL</b>         | Total return is expected to be <10% over the next 12 months.   |
| <b>TRADING SELL</b> | 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

|                 |  |
|-----------------|--|
| <b>POSITIVE</b> | The sector is expected to outperform the overall market over the next 12 months.   |
| <b>NEUTRAL</b>  | The sector is to perform in line with the overall market over the next 12 months.  |
| <b>NEGATIVE</b> | The sector is expected to underperform the overall market over the next 12 months. |