

13 September 2016 | Corporate Update

Star Media Group Berhad

Streamlining its business operations

Upgrade to NEUTRAL

(previously SELL)

Revised Target Price (TP): RM2.46

(previously RM1.53)

INVESTMENT HIGHLIGHTS

- **Disposing Capital FM and Red FM to Astro**
- **Proceeds from disposal of RM42.0m for working capital**
- **Minimal earnings impact to Star Media Group Bhd (Star)**
- **Upgrade to NEUTRAL with a revised target price of RM2.46 per share**

Partial disposal of its radio segment. Star is disposing its entire stake in Capital FM Sdn Bhd (CFSB) to **Astro Malaysia Holdings Berhad (BUY; TP: RM3.78)** for a total cash consideration of RM42.0m. The proceeds from the disposal are mainly to fund Star's working capital. Subsequent to the disposal of CFSB, Star will still own two wireless radio stations, which are 988 FM (98.8) and Suria FM (105.3).

Background on CFSB. CFSB is principally engaged in the business of operating the wireless radio broadcasting stations, known as Capital FM and Red FM. Capital FM (88.9) was the only women-centric radio station in Malaysia while Red FM (104.9) is one of Malaysia's top five English radio stations.

Rationale. The purpose of the disposal is to streamline Star's businesses to concentrate on profitable operations while divesting those that do not contribute significantly to the group's financials. Given that Star's entire radio segment is loss-making, we do not discount the probability that Star may totally exit the radio industry should it choose to dispose the remaining two wireless radio stations.

Our view. We are positive on the group's effort to streamline its business operations. The move will enable the group to maintain a healthy cash level to fund its working capital and to remain dedicated to its dividend commitments.

Earnings impact. For FY15, CFSB recorded a loss after tax of -RM4.1m, in comparison to the group's total earnings of in FY15 of RM133.0m. Excluding the loss from CFSB, Star's FY15 earnings would have been higher marginally by approximately +3.0%. We view that the exclusion of CFSB's FY16 and FY17 contributions would only lift Star's bottomline marginally. As such, we are maintaining our earnings estimates at this juncture.

RETURN STATS	
Price (9 th Sept 2016)	RM2.57
Target Price	RM2.46
Expected Share Price Return	-4.3%
Expected Dividend Yield	+5.8%
Expected Total Return	+1.5%

STOCK INFO	
KLCI	1,686.44
Bursa / Bloomberg	6084 / STAR MK
Board / Sector	Main/ Media
Syariah Compliant	No
Issued shares (mil)	738.0
Par Value (RM)	1.00
Market cap. (RM'm)	1,896.5
Price over NA	1.7x
52-wk price Range	RM2.27 – RM2.70
Beta (against KLCI)	0.61
3-mth Avg Daily Vol	0.3m
3-mth Avg Daily Value	RM0.8m
Major Shareholders (%)	
MCA	42.46
ASB	15.44
EPF	5.98
LTH	5.39

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Target price. In acknowledgement of the group's effort to improve its financial standing, we take a longer term view on the group. As such, we migrate our valuation methodology from PER valuation to dividend discount model valuation. We arrive at a revised target price of **RM2.46** per share (Discount rate of 6.1%).

Upgrade to NEUTRAL. The group is slowly shifting its business model which predominantly places heavy reliance on the print and digital segment. This is done by putting more emphasis on the exhibition segments, amongst others. In addition, at current trading price, we view that the share price provides an attractive dividend yield of approximately 6.0% which is supported by its healthy cash level. All factor considered, we are upgrading our recommendation to **NEUTRAL** from SELL previously.

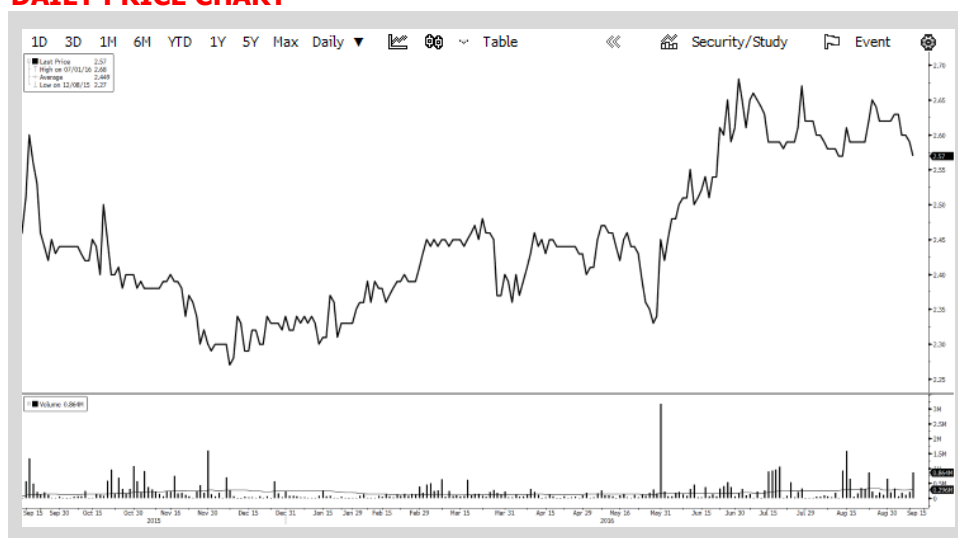


INVESTMENT STATISTICS

FYE 31 st Dec	FY14	FY15	FY16F	FY17F
Revenue (RM'm)	1,013.7	1,019.0	985.2	1,022.4
EBIT (RM'm)	156.8	173.2	120.1	135.5
Pretax Profit (RM'm)	153.4	170.1	116.8	132.2
Net Profit after MI (RM'm)	111.4	133.0	90.8	102.7
Normalised Net Profit after MI (RM'm)	140.5	131.2	90.8	102.7
Normalised EPS (sen)	19.0	17.8	12.3	13.9
Normalised EPS growth (%)	-1.9	-6.6	-30.8	13.1
PER(x)	12.6	13.4	19.4	17.2
Dividend (sen)	18	18	14	15
Dividend Yield (%)	7.0	7.0	5.4	5.8

Source: Company, MIDFR

DAILY PRICE CHART

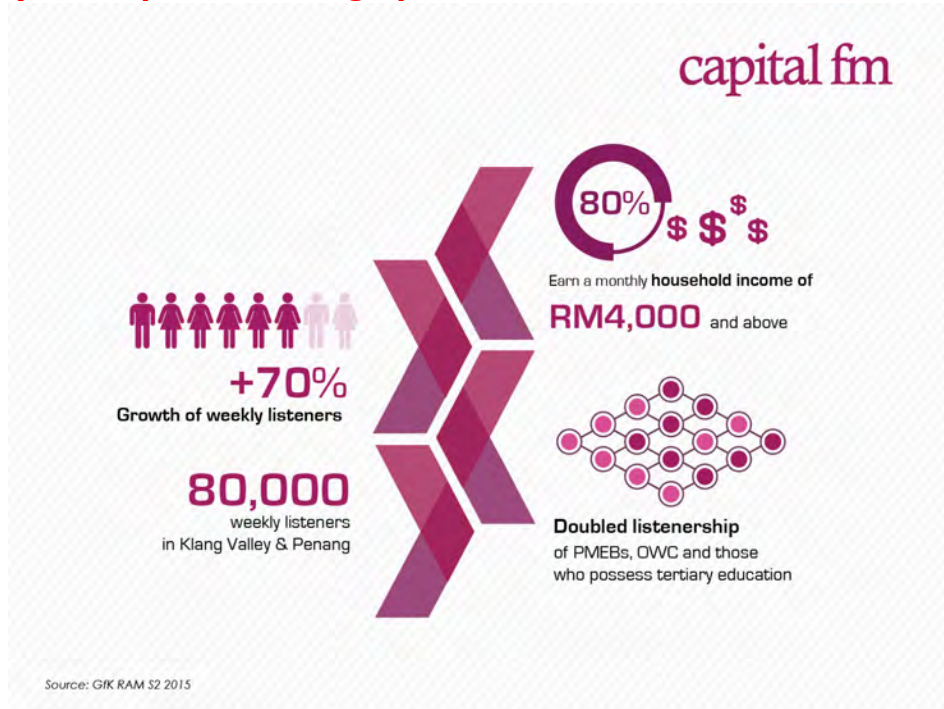


Source: MIDFR, Company

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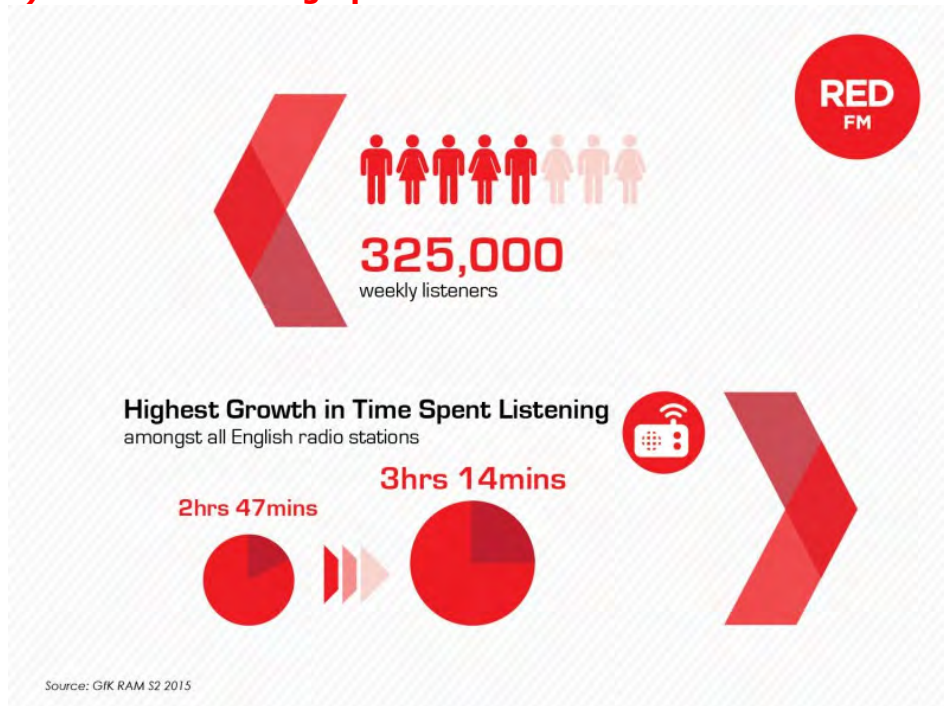
Appendix

i) Capital FM's infographic



Source: Company

ii) Red FM's infographic



Source: Company

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.