

14767/09/2012(030761)

Friday, May 29, 2015

Media Chinese International Limited

“Impairment Loss Culprit”

Results Review

- Actual vs. expectations.** Media Chinese International Limited (MCIL) posted net profit of RM115 million in FY15 (-37% y-o-y) that came in below with ours and consensus estimate respectively, accounting 73% and 88% of ours and consensus full year net profit forecast. Stripping-off the impairment loss of goodwill and impairment loss of interest in associate amounting to RM28 million, FY15 net profit registered at RM148 million (-21% y-o-y) accounting 93% of ours estimates. MCIL FY15 revenue dropped to RM1.6 billion (-8% y-o-y), mainly due to the drop in publishing revenue from Malaysia due to the poor consumer sentiment from the nervousness of the pre-GST implementation which negatively impacted the advertising market due to advertisers cautiousness.
- Dividend.** Declared a final interim dividend of 1.83sen/share for the quarter, bringing total dividend to 3.44sen/share for FY15, translating into a dividend payout ratio of 50% (FY14: 50%)
- Top line.** As expected, MCIL FY15 revenue dropped to RM1.6 billion (-8% y-o-y) mainly hammered by the publishing and printing segment as revenue declined by 11% y-o-y in Malaysia and North America to RM926 and RM87 million respectively in FY15 due to 1) impending implementation of GST that resulted in lower advertising revenue and soft consumer sentiment in Malaysia 2) slow economy in North America region and 3) the weakening of Canadian dollar. On the travel segment, revenue declined to RM318 million (-3% y-o-y) due to poor performance in the North America operation due to intense competition in tours to China.

HOLD (TP: RM0.63)

Current Price (RM)	RM0.62
New Fair Value (RM)	RM0.63
Previous Fair Value (RM)	0.72
Previous Recomm.	HOLD
Upside To Fair Value	2%
Dividend Yield (FY16)	5.8%

Stock Code

Bloomberg	MCIL MK
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Stock & Market Data

Listing	MAIN MARKET	
Sector	Media	
Shariah Compliance	Yes	
Issued Shares	1,687mn	
Market Cap	RM1,425mn	
YTD Chg In Share Price	-13.33%	
Beta (x)	0.78	
52-week Hi/Lo	RM1.05	RM0.81
6M Average Volume (shares)	0.390mn	
Estimated Free Float	42%	

Major Shareholders

Progresif Growth SdnBhd	19.35%
Conch Co Ltd.	14.96%
Hiew King Tiong	5.18%

Furthermore, 4Q15 revenue plunged to RM369 million (-13% y-o-y, -13% q-o-q) hammered by the poor contribution from both print (-35% y-o-y) and travel (-7% y-o-y) segment.

- **Bottom line.** FY15 PBT fell to RM175 million or shedding by 31% y-o-y due to impairment loss of goodwill and impairment loss of interest in associate of RM19 million and RM7 million. 4Q15 net profit contracted to RM6 million (-85% q-o-q, -83% y-o-y) pounded by the drop in PBT during the quarter, as HK/China print media segment's PBT dropped to a net loss of RM4 million from RM48k in 1Q14 due to weak magazine advertising market as advertisers tightened their advertising and promotion spending which resulted into lower contribution coupled with the impairment loss of goodwill amounted to RM1.3 million.
- **Outlook.** To combat weak sentiment in the media sector, the group has revamped its print segment by altering the publications circulation frequencies of its four newspapers to reflect the weak consumer sentiment. In addition, the GST implementation may contribute to weak adex in line with cautious consumer spending. Nevertheless, the up the up-coming SEA Games (5th -16th June) and Rio Olympic Games in FY16 could lend hands to the adex and hence, we foresee that 1Q16 adex could offset the weak consumer sentiment.
- **Change to forecast.** We have done some house-keeping exercise and came-out with new FY16 and FY17 earnings forecast. Hence, we have cut our FY16 and FY17 earnings by 15% due to challenging year and poor consumer sentiment for the media sector. Nevertheless, we estimate that FY16 earnings will be lower than FY14 but FY17 earnings are expected to gain by 2% y-o-y boosted by Rio 2016 Olympic Games.
- **Valuation and Recommendation.** We derive a new target price on MCIL of RM0.63 and the stock is a **HOLD** pegged at 3 years average PER of 7x underpinned by 1) the attractive net dividend yield of 6% in FY16 and FY17 respectively

Table 1: Peers Comparison

Company	Year Ended	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	Div Yield (%)	Target Price	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
Media Prima	Dec	1.61	14	15	11	11	1.1	1.1	4.1	10.0	1.80	Hold
Astro	Jan	3.14	13	15	24	20	22.9	25.3	79.5	2.9	3.39	Hold
MCIL	Mar	0.62	6	6	9	8	2.2	2.0	19.1	5.6	0.72	Hold
Star	Dec	2.46	20	21	13	12	1.7	1.4	12.0	3.5	2.47	Hold
Average			13	14	14	13	7.0	7.5				

Source: Bloomberg, M&A Securities

Table 2: Earnings Forecast

YE: March (RM million)	FY13	FY14	FY15	FY16F	FY17F
Revenue	1,560	1,531	1,589	1,531	1,530
EBIT	263	252	208	211	210
PBT	252	224	176	197	196
Net profit	185	158	115	139	142
EPS (sen)	11	9	7	9	9
Pre-tax margin	16%	15%	15%	13%	13%
Net profit margin	12%	10%	10%	9%	9%
PER (x)	10	9	8	9	9
P/BV (x)	2.8	2.2	1.5	1.4	1.3
DPS (sen)	5.2	4.8	4.6	4.0	4.1
Div Yield	5%	5%	6%	6%	6%
ROA	11%	11%	10%	9%	9%
ROE	18%	18%	19%	16%	15%

Source: Company, M&A Securities

Table 3: Results Highlight

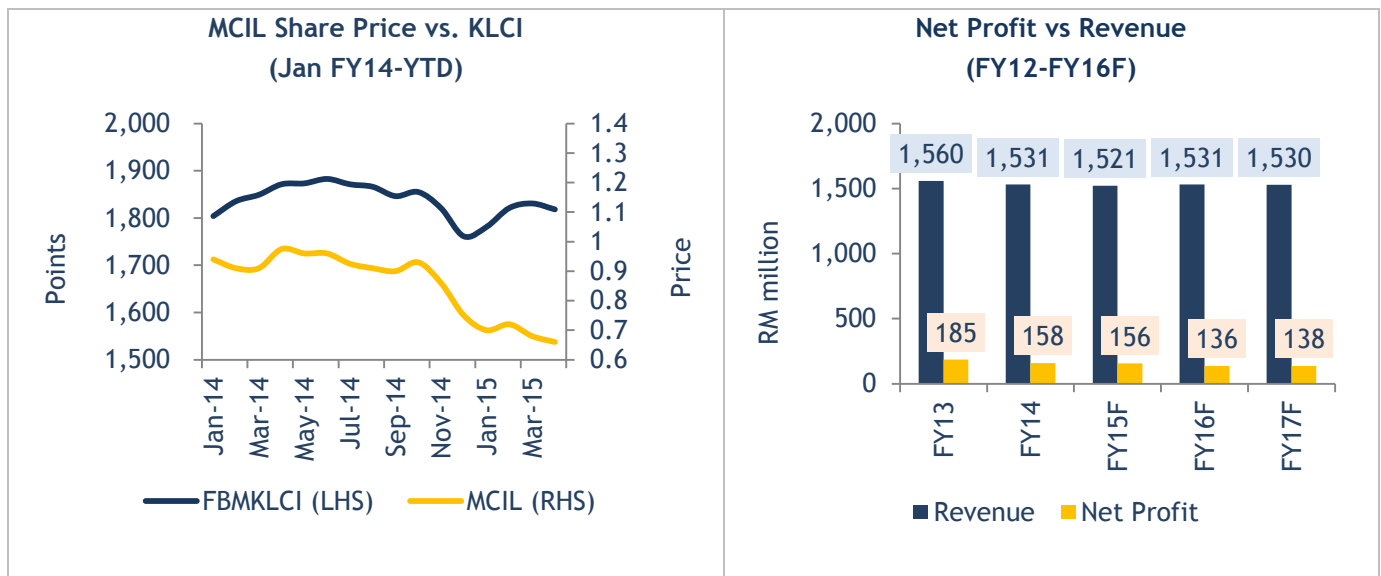
YE: March (RM million)	4Q15	4Q14	3Q15	q-o-q	y-o-y	12M15	12M14	y-o-y
Revenue	321	369	368	-13%	-13%	1,589	1,736	-8%
EBIT	34	55	60	-43%	-38%	208	286	-27%
PBT	21	48	54	-60%	-55%	176	254	-31%
Taxation	-16	-15	-15	4%	5%	-61	-71	-15%
Net Profit	6	33	37	-85%	-83%	115	182	-37%
EPS (sen)	1	2	2	-75%	-71%	7	11	-35%
EBIT margin	11%	15%	16%			13%	16%	
PBT margin	7%	13%	15%			11%	15%	
Net profit margin	2%	9%	10%			7%	11%	
Effective tax rate	-74%	-31%	-28%			-35%	-28%	

Source: Company, M&A Securities

Table 4: Segmental Result

YE: March (RM million)	4Q15	4Q14	y-o-y	12M15	12M14	y-o-y
Revenue						
Print Malaysia	207	244	-15%	926	1046	-11%
Print HK/China	54	57	-5%	258	265	-3%
Print North America	20	24	-15%	87	98	-11%
Travel	40	44	-7%	318	327	-3%
PBT						
Print Malaysia	34	47	-27%	179	246	-27%
Print HK/China	(4)	0	-8408%	17	24	-27%
Print North America	0	2	-75%	1	4	-70%
Travel	(2)	(2)	-9%	14	16	-11%

Source: Company, M&A Securities



Source: Company, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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