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Wednesday, May 20, 2015

Star Media Group Bhd

“Challenging Year”

Results Review

- Actual vs. expectations.** Star Media Group Bhd (The Star) 1Q15 net profit of RM24 million jumped by double digits (55% y-o-y) during the quarter but came in below ours and consensus estimates, accounting 15% and 16% of both estimates full year net profit forecast. The shortfall in earnings were due to Event and Exhibition’s PBT losses from RM5k to RM5.3 million due to higher direct cost and lower profit margin by Cityneon. However, the better-than-expected earnings performance in 1Q15 was lifted by higher contribution from Print and Digital segment as its PBT soared by 78% y-o-y to RM44 million.
- Dividend.** There was no dividend declared during the period.
- Top line vs. Bottom line.** 1Q15 revenue gained marginally to RM217 million (+3% y-o-y, -23% q-o-q) mainly due to higher revenue contribution from the Events and Exhibition (23% y-o-y) and Television (5% y-o-y) segment. Events and Exhibition, revenue increased to RM38 million from RM31 million last year, thanks to the contribution from Cityneon Holdings and I.Star Ideas Factory (Perfect Livin’) as they ramped up additional exhibition shows during 1Q15 taking advantage from few festive seasons. The Star’s EBIT gained to RM40 million (74% y-o-y) from RM24 million in the corresponding year, due to lower operating expenses and higher operating income and hence, broadening its margin to 18% (1Q14: 11%; 4Q14: 12%). 1Q15 PBT soared to RM38 million (74% y-o-y) attributed, among others by the gains in Print and Digital’s PBT and higher EBIT during the quarter.
- Star Weak Adex remains.** As we estimate muted adex growth in 2015 in view of the lack of key events and seasonality factor as apparent in lethargic 1Q15 Adex.

HOLD (TP: RM2.47)

Current Price (RM)	RM2.41
New Fair Value (RM)	RM2.47
Previous Fair Value (RM)	RM2.53
Previous Recom	HOLD
Upside to the Fair Value	2%
Dividend Yield (FY15)	7.3%

Stock Code

Bloomberg	STAR MK
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Stock & Market Data

Listing	MAIN MARKET
Sector	Media
Shariah Compliance	Yes
Issued Shares	738mn
Market Cap	1,778.5mn
YTD Chg In Share Price	5.6%
Beta (x)	0.39
52-week Hi/Lo (RM)	2.76 2.17
6M Average Volume (shares)	0.216mn
Estimated Free Float	29%

Major Shareholders

Malaysian Chinese Association	42.46%
Skim Amanah Saham Bumiputera	9.89%
Aberdeen	6.77%

The Star still reiterate its weak outlook on print and digital print as it is still contribute a lower print circulation and digital revenue, dragging along Radio segment as advertisers conserving their advertising and promotion budget due to GST uncertainties and maybe the changes in advertisement rates. Overall, we expect advertising expenditure to remain weak coincide with the poor consumer sentiments. Nonetheless, we estimate that the consumer sentiment may positively lift by the Year of Festival Malaysia 2015, however, our concern could be weighed by i) the rising of cost living, ii) backlash on spending due to GST, iii) the subsidy rationalization and iv) uncertainties that would affect the impact and direction of the media sector.

- **Change to forecast.** We have done some house-keeping exercise and came-out with new FY15 and FY16 forecast. However, we cut our FY15 earnings by 39% due to a challenging year and poor consumer sentiment for the media sector. Nevertheless, we estimate that FY15 earnings to be 14% lower than FY14 but FY16 earnings are expected to gain by 8% y-o-y boosted several sexy events, among others the Rio 2016 Olympic Games.
- **Valuation and Recommendation.** We derive a new target price on The Star of RM2.47 pegged at FY15 PER of 19x and the stock is a **HOLD** lifted by i) Year of Festival in FY15 and ii) the attractive net dividend yield of 7.1% in FY15 and iii) its cost control initiatives by evaluating the usage of 42 gsm newsprint and mitigating the loss making segments.

Table 1: Peers Comparison

Company	Year Ended	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	Div Yield (%)	Target Price	Call
			FY14	FY15	FY14	FY15	FY14	FY15				
Media Prima	Dec	1.62	20	22	12	11	1.6	1.6	13.2	8.3	1.80	Hold
Astro	Jan	3.15	11	14	31	24	28.2	25.3	81.2	2.2	3.39	Hold
MCIL	Mar	0.85	9	9	10	9	2.2	2.0	22.7	5.0	0.72	Hold
Star	Dec	2.41	19	21	14	13	1.8	1.4	12.0	4.5	2.47	Hold
Average			13	15	17	15	8.4	7.6				

Source: Bloomberg, M&A Securities

Table 2: Earnings Forecast

YE: Dec (RM million)	FY12	FY13	FY14	FY15F	FY16F
Revenue	1,080	1,025	1,014	991	997
EBIT	275	204	164	137	148
PBT	260	193	153	131	142
Net profit	208	143	111	95	103
EPS (sen)	28	19	15	13	14
PBT margin	24%	19%	19%	13%	14%
Net profit margin	19%	14%	14%	10%	10%
PER (x)	9	12	13	19	18
P/BV (x)	1.7	1.4	1.5	1.7	1.7
DPS (sen)	18	15	18	18	18
Div Yield (%)	6%	7%	7%	7%	7%
ROA (%)	13%	13%	8%	6%	7%
ROE (%)	18%	19%	12%	9%	10%
Div Payout (%)	71%	64%	120%	140%	129%

Source: Company, M&A Securities

Table 3: Results Highlight

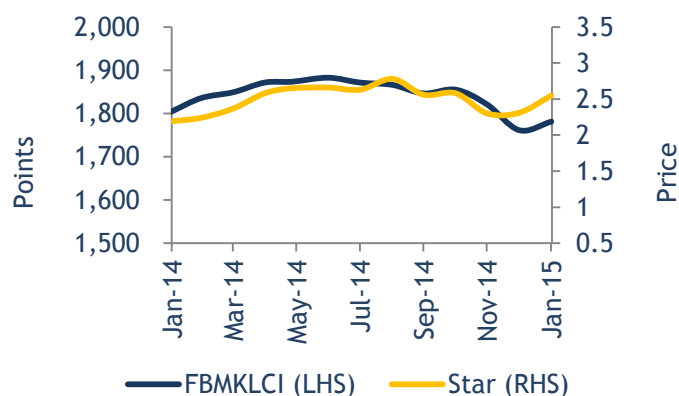
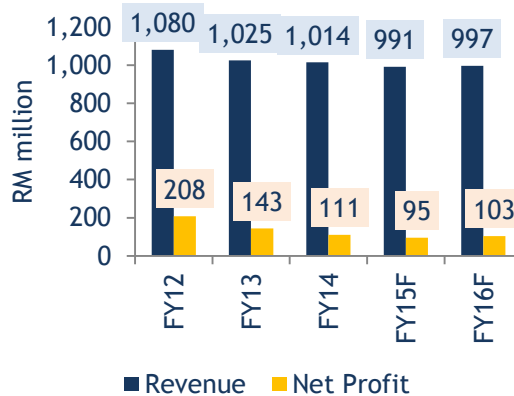
YE: Dec (RM million)	1Q15	1Q14	4Q14	QoQ	YoY	3M15	3M14	YoY
Revenue	217	211	281	-23%	3%	217	211	3%
EBIT	40	24	35	15%	65%	40	24	65%
PBT	38	22	32	16%	74%	38	22	74%
Taxation	(14)	(6)	(8)	69%	121%	(14)	(6)	121%
Net Profit	24	15	21	11%	55%	24	15	55%
EPS (sen)	4	2	3	24%	64%	4	2	64%
EBIT margin	18%	11%	12%			18%	11%	
PBT margin	17%	10%	11%			17%	10%	
Net profit margin	11%	7%	8%			11%	7%	
Effective tax rate	-36%	-29%	-25%			-36%	-29%	

Source: Company, M&A Securities

Table 4: Segmental Analysis

	Print and Digital (RM'mil)			Radio (RM'mil)			Events & Exhibitions (RM'mil)			Television (RM'mil)		
	3M15	3M14	y-o-y	3M15	3M14	y-o-y	3M15	3M14	y-o-y	3M15	3M14	y-o-y
Revenue	163	163	0%	12	12	-2%	38	31	23%	3	3	5%
PBT	44	25	78%	1	(1)	-167%	(5)	(0)	NA%	(2)	(1)	22%

Source: Company, M&A Securities

Star Publications Share Price vs. KLCI
(Jan FY14-YTD)Net Profit vs Revenue
(FY12-FY16F)

Source: Bloomberg, 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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