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Wednesday, August 19, 2015

Star Media Group Bhd

“Earnings Bounce Back in 6M15”

Results Review

- Actual vs. expectations.** Star Media Group Bhd (The Star) 6M15 net profit of RM60 million that jumped 8% y-o-y during the quarter came in above our estimates, but below consensus expectation, accounting 63% and 42% of both estimates full year net profit forecast. The better-than-expected earnings were lifted by higher profit recorded for the print and radio segment to RM84 million (15% y-o-y) and RM229 thousand for 6M15 (110% y-o-y). The group's EBIT increased to RM86 million (7% y-o-y) from RM80 million in the corresponding year, thanks to lower operating expenses of RM416 million (6M14: RM420 million) and higher operating income of RM19 million (6M14: RM15 million) and hence, widening its margin to 18% (6M14: 16%).
- Dividend.** The Star declared its first interim dividend of 9.0 sen/share for the current quarter, translating into a dividend payout of 199% which is higher than 2Q14 of 169%.
- Top line vs. Bottom line.** 6M15 revenue dropped marginally to RM484 million (-0.4% y-o-y) mainly due to lower contribution from the Print segment (-8% y-o-y) and Radio segment (-4% y-o-y) as advertisers remained cautious after the implementation of GST in April. However, Events and Exhibition's revenue increased by double digits (29% y-o-y) to RM123 million from RM95 million last year, thanks to improving contribution from Cityneon Holdings and I.Star Ideas Factory (Perfect Livin') as both had ramped up additional exhibition shows during 2Q15. The Star's 6M15 PBT soared to RM81 million (+8% y-o-y) attributed, among others, by gains in Print's PBT segment (+15% y-o-y) and higher EBIT during the quarter.

HOLD (TP: RM2.45)

Current Price (RM)	RM2.41
New Fair Value (RM)	RM2.45
Previous Fair Value (RM)	RM2.47
Previous Recom	HOLD
Upside to the Fair Value	2%
Dividend Yield (FY15)	7.5%

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)	0.56
52-week Hi/Lo (RM)	2.76 2.17
6M Average Volume (shares)	0.283mn
Estimated Free Float	31%

Major Shareholders

Malaysian Chinese Association	42.46%
Skim Amanah Saham Bumiputera	9.89%
Lembaga Tabung Haji	5.39%

- Star Weak Adex remains.** As we estimate adex growth would be flat in 2015, in view of lack of key events and seasonality factor as apparent in the sluggish 1H15 Adex (-10% yo-y). The Star reiterates its weak outlook on print and digital print on lower print circulation and digital revenue, including in Radio segment as advertisers are seen conserving their advertising and promotion budget due to GST uncertainties, the depreciation of ringgit against the greenback and maybe the changes in advertisement rates. Overall, we expect advertising expenditure to remain weak coinciding with poor consumer sentiments. Nonetheless, we reiterate our view that the consumer sentiment may get lifted by the Year of Festival Malaysia 2015, conversely, our concern could be weighed by i) the rising cost of 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.
- Impact on Ringgit weakening against cost print.** We estimates newspaper cost would be stable at USD520/tonne range in FY15 which is poised to drop by 7% y-o-y from USD559/tonne in FY14. However as Ringgit weakens, it is expected to pose a threat to the group's newsprint and content cost as they are in USD. Hence to mitigate the impact, the management is currently using its newsprint to 42 gsm newsprint which is thinner compared to 45 gsm. Furthermore, the Group may also import newsprint from Asean countries which may save about 10% of import duty. Hence, if the Group wishes to use the 42 gsm newsprint and import newsprint from other Asean countries, it may save the cost of newsprint by RM7-8 million and RM12-13 million per annum. Currently, the group's newsprint costs are hovering around RM140 million per year. Given the likely savings, Star's net profit would jump by almost 6%, benefitting from the cost rationalisation.
- Change to forecast.** We have done some house-keeping exercise and came out with new FY15 and FY16 earning forecast. In that, we have imputed higher forecast in FY15 and FY16 by 15% respectively premised by the promising outlook in the Events and Exhibition segment due to additional events organised by the Group which would resulted higher revenue. However, we still estimate adex will be soft for the rest of the year due to challenging outlook. In sum, FY15 earnings are expected to be 2% lower than FY14 but FY16 earnings are expected to gain by 8% y-o-y boosted several prominent events, among others the Rio 2016 Olympic Games and expanding into digital business in video content (TheStarTV) and its Audience Interest Marketing (AIM).
- Valuation and Recommendation.** We re-value The Star at RM2.45 based on PER multiple of 15x over its FY16 EPS at 16sen and the stock is a **HOLD**. The valuation is pegged to 1+ SD above 5-years average PER of 13x and justified by i) the upcoming Olympic Games in Brazil, ii) the UEFA Euro in France, iii) its cost control initiatives by evaluating the usage of 42 gsm newsprint and mitigating the loss making segments. Our target price of RM2.45 offers 2% upside potential in addition to 7.5% dividend yield in FY15.

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	1.62	14	15	8	8	1.0	1.0	4.12	9.7	1.80	Buy
Astro	Jan	3.15	13	15	24	20	22.5	25.3	85.8	3.1	3.24	Hold
MCIL	Mar	0.85	7	7	6	6	2.2	2.0	14.7	6.8	0.63	Hold
Star	Dec	2.41	20	21	12	12	1.6	1.4	11.0	3.8	2.45	Hold
Average			12	13	13	11	6.8	7.4				

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	1,027	1,076
EBIT	275	204	164	156	168
PBT	260	193	153	150	162
Net profit	208	143	111	109	118
EPS (sen)	28	19	15	15	16
PBT margin	24%	19%	19%	15%	15%
Net profit margin	19%	14%	14%	11%	11%
PER (x)	9	12	13	17	16
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%	7%	7%
ROE (%)	18%	19%	12%	10%	11%
Div Payout (%)	71%	64%	120%	122%	113%

Source: Company, M&A Securities

Table 3: Results Highlight

YE: Dec (RM million)	2Q15	2Q14	1Q15	QoQ	YoY	6M15	6M14	YoY
Revenue	266	275	217	22%	-3%	484	486	0%
EBIT	46	56	40	14%	-18%	86	80	7%
PBT	43	53	38	14%	-19%	81	74	8%
Taxation	(10)	(14)	(14)	-30%	-30%	(23)	(20)	17%
Net Profit	33	39	24	39%	-15%	60	56	8%
EPS (sen)	5	5	4	25%	-16%	8	8	8%
EBIT margin	17%	20%	18%			18%	16%	
PBT margin	16%	19%	17%			17%	15%	
Net profit margin	13%	14%	11%			12%	11%	
Effective tax rate	-22%	-26%	-36%			-29%	-27%	

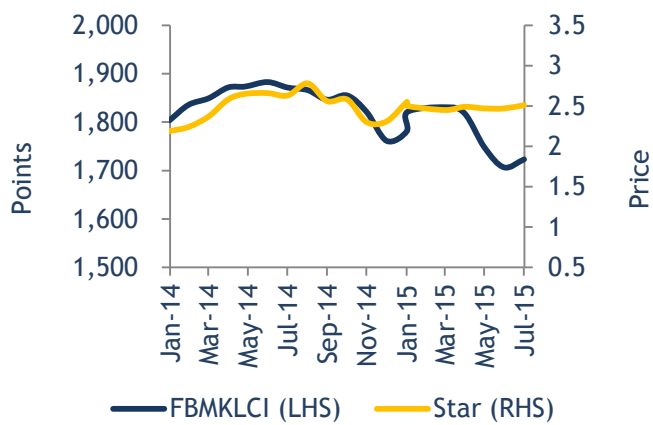
Source: Company, M&A Securities

Table 4: Segmental Analysis

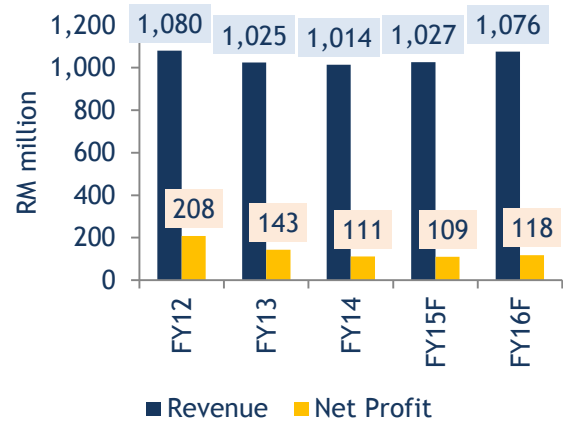
	Print and Digital (RM'mil)			Radio (RM'mil)			Events & Exhibitions (RM'mil)			Television (RM'mil)		
	6M15	6M14	y-o-y	6M15	6M14	y-o-y	6M15	6M14	y-o-y	6M15	6M14	y-o-y
Revenue	328	357	-8%	24	25	-4%	123	95	29%	5	5	-1%
PBT	84	73	15%	0	(2)	NA	(0)	7	NA	(4)	(3)	18%

Source: Company, M&A Securities

Star Publications Share Price vs. KLCI
(Jan 2014-YTD)



Net Profit vs Revenue
(FY12-FY16F)



Source: Bloomberg, 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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