

27 September 2018 | 2QFY19 Results Review

Astro Malaysia Holdings Berhad

Paying the price of broadcasting FIFA World Cup

INVESTMENT HIGHLIGHTS

- **1HFY19 normalised earnings of RM225.3m (-47.6%yoy) failed to kept pace with ours and consensus expectations**
- **Broadcasting of FIFA World Cup and higher net finance cost led to single digit profit margin in 1HFY19**
- **Home shopping is the only segment that outperformed**
- **Downgrade to NEUTRAL with a revised target price of RM1.55**

Surge in content cost reduces profitability. Astro Malaysia Holdings Bhd's (Astro) 2QFY19 normalised earnings amounted to RM46.6m. This translates into a decline of -80.8%yoy. The appalling results was mainly attributable to: i) higher content cost in relation to the broadcast of FIFA World Cup, ii) higher cost of merchandise sales and' iii) higher net finance cost.

Cumulative normalised earnings below expectations. The weak 2QFY19 normalised lead to lower 1HF19 normalised earnings of RM225.3m (-47.6%yoy). This came in below ours and consensus expectations, accounting for 32.1% and 33.1% of full year FY19 earnings estimates respectively.

Television. 1HFY19 segment revenue fell by -1.8%yoy to RM2,407.1m following lower package take-up and lower adex revenue. Coupled with higher content costs arising from FIFA World Cup, PBT declined by -65.5%yoy to RM191.2m.

Radio. The segment recorded 1HFY19 revenue of RM142.7m, a decrease of -10.9%yoy. This was mainly due to lower client advertising spending. As a result, PBT was lowered to RM72.5m (-13.2%yoy).

Home-shopping. 1FH19 revenue from the home-shopping segment surged by +33.8%yoy to RM177.0m. This was mainly driven by higher number of products sold in view of successful tactical campaign executed during the period. This reduced the segment's loss before tax to -RM7.0m from RM-9.3m recorded for 1HFY18.

Earnings impact. We are assuming a more conservative FY19 and FY20 earnings estimates of RM502.7m and RM541.0m respectively. Note that we are lowering our FY18 and FY19 profit margin to 9.1% and 9.5% to take into account higher content cost and higher net finance cost.

**Downgrade to NEUTRAL
(Previously BUY)**

**Revised Target Price (TP): RM1.55
(Previously RM2.06)**

RETURN STATS

| | |
|---|--------------|
| Price (26 th September 2018) | RM1.66 |
| Target Price | RM1.55 |
| Expected Share Price Return | -6.6% |
| Expected Dividend Yield | +6.0% |
| Expected Total Return | -0.6% |

STOCK INFO

| | |
|----------------------------------|---------------------------------------|
| KLCI | 1,798.72 |
| Bursa / Bloomberg | 6399 / ASTRO MK |
| Board / Sector | Main/ Telecommunications and Media |
| Syariah Compliant | No |
| Issued shares (mil) | 5,213.9 |
| Market cap. (RM'm) | 8,655.0 |
| Price over NA | 20.2x |
| 52-wk price Range | RM1.31 – RM2.94 |
| Beta (against KLCI) | 1.16 |
| 3-mth Avg Daily Vol | 1.8m |
| 3-mth Avg Daily Value | RM7.1m |
| Major Shareholders (%) | |
| Pantai Cahaya Bulan Ventures | 20.67 |
| All Asia Media Equities Ltd | 19.43 |
| E Asia Broadcast | 8.09 |
| Employees Provident Fund | 8.08 |
| Usaha Tegas Entertainment System | 4.52 |


Table 1: TV and radio operational statistics

| | 1HFY18 | 1HFY19 | Growth |
|-----------------------------------|--------|--------|--------|
| TV households (000s) | 7,261 | 7,380 | 1.6% |
| TV Household penetration rate (%) | 72 | 76 | 4pp |
| TV customer base (000s) | 5,262 | 5,635 | 7% |
| Pay TV ARPU (RM) | 100.8 | 99.9 | -0.9% |
| Astro TV viewership share (%) | 77 | 75 | -1.5pp |
| Share of TV adex (%) | 43 | 41 | 2pp |
| Radio listenership (000s) | 16.1 | 16.9 | 5.0% |
| Share of radio adex (%) | 74 | 75 | 1pp |

Source: Company, MIDFR

Dividend. The group announced 2QFY19 dividend of 2.5sen per share. This lead to 1HFY19 dividend of 5sen per share which is in-line with our full FY19 dividend estimates of 10sen per share.

Target price. Subsequent to our earnings downgrade, we are deriving a new target price of RM1.55 per share (previously RM2.06 per share). This is premised on forward PER of 14.9x which is one standard deviation below its 3-year historical average pegged against FY20 EPS of 10.4sen per share.

Downgrade to NEUTRAL. Astro has benefitted from the broadcasting of major sporting events. However, the escalating content cost has served as a double-edged sword for the group as seen in its latest quarterly earnings performance. The radio segment also performed poorly as their clients' advertising spending reduces. Meanwhile, the home shopping segment continues to gain positive traction as its loss-making position continues to ameliorate. Collectively, we expect these factors will put Astro in a difficult position to grow its profit margin and, thus, profitability. In the foreseeable term, we expect Astro's profit margin to come in below 10%. On another note, we view that the healthy free cash flow would enable the group to support its dividend commitment. At this juncture, we anticipate that the dividend yield of 6% would help to partially buffer for the expected weakness in share price performance. All factors considered, we downgrading our recommendation to **NEUTRAL** from buy previously. 

INVESTMENT STATISTICS

| FYE 31 st Jan | 2017 | 2018 | 2019F | 2020F |
|------------------------------|---------|---------|---------|---------|
| Revenue (RM'm) | 5,612.6 | 5,530.8 | 5,535.7 | 5,687.4 |
| EBIT (RM'm) | 1,080.0 | 1,140.0 | 952.3 | 1,035.3 |
| Pretax Profit (RM'm) | 845.5 | 1,073.2 | 684.3 | 727.8 |
| Net Profit (RM'm) | 623.7 | 770.7 | 502.7 | 541.0 |
| Normalised Net Profit (RM'm) | 648.0 | 677.7 | 502.7 | 541.0 |
| EPS (sen) | 12.4 | 13.5 | 9.6 | 10.4 |
| EPS growth (%) | -2.2 | 8.4 | -28.4 | 7.6 |
| PER(x) | 13.4 | 12.3 | 17.2 | 16.0 |
| Net Dividend (sen) | 12.5 | 12.5 | 10.0 | 10.0 |
| Net Dividend Yield (%) | 7.5 | 7.5 | 6.0 | 6.0 |

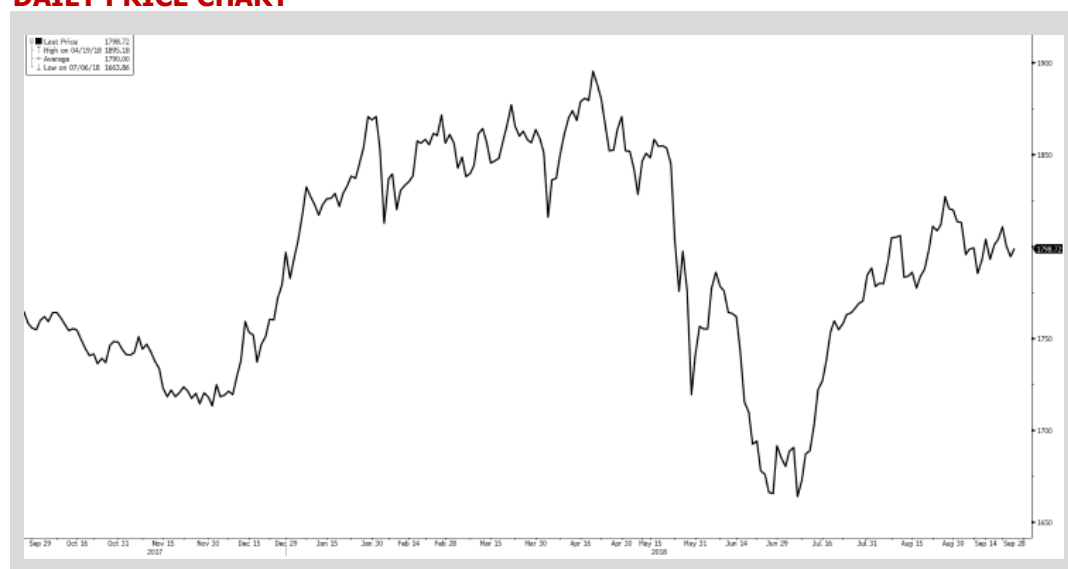
Source: Company, MIDFR

ASTRO MALAYSIA HOLDINGS: 2QFY19 RESULTS SUMMARY

| (All in RM'm unless stated otherwise) | Quarterly | | | Cumulative | | |
|---------------------------------------|-----------|---------|---------|------------|---------|---------|
| FYE 31 st January | 2QFY19 | % YoY | % QoQ | FY2019 | FY2018 | % YoY |
| Revenue | 1,416.5 | -0.2 | 8.1 | 2,727.4 | 2,745.8 | -0.7 |
| EBITDA | 388.7 | -40.0 | -28.7 | 933.6 | 1,204.2 | -22.5 |
| Depreciation and amortisation | -264.0 | -0.8 | 6.2 | -512.7 | -517.7 | -1.0 |
| EBIT | 124.7 | -67.3 | -57.9 | 420.9 | 686.5 | -38.7 |
| Finance costs | -106.2 | 92.7 | 43.1 | -178.1 | -106.2 | 67.7 |
| Finance income | 10.3 | -21.4 | -16.9 | 20.4 | 33.1 | -38.4 |
| Investment income | 0.4 | n.m. | n.m. | 0.9 | -0.3 | -400.0 |
| Impairment of investment | 0.0 | n.m. | n.m. | 0.0 | -4.4 | n.m. |
| PBT | 29.2 | -91.4 | -87.6 | 264.1 | 608.7 | -56.6 |
| Taxation | -14.5 | -84.6 | -76.2 | -75.5 | -171.2 | -55.9 |
| MI | 1.9 | 58.3 | 137.5 | 2.7 | 4.7 | -42.6 |
| PATAMI | 16.6 | -93.3 | -90.5 | 191.3 | 442.2 | -56.7 |
| Normalise PATAMI | 46.6 | -80.8 | -73.9 | 225.3 | 430.2 | -47.6 |
| EPS (sen) | 0.9 | -80.8 | -73.9 | 4.3 | 8.2 | -47.6 |
| | | +/-ppts | +/-ppts | | | +/-ppts |
| EBITDA margin (%) | 27.4 | -18.2 | -14.1 | 34.2 | 43.9 | -9.6 |
| EBIT margin (%) | 8.8 | -18.1 | -13.8 | 15.4 | 25.0 | -9.6 |
| PBT margin (%) | 2.1 | -21.8 | -15.9 | 9.7 | 22.2 | -12.5 |
| Normalised PATAMI margin (%) | 3.3 | -13.8 | -10.3 | 8.3 | 15.7 | -7.4 |
| Effective tax rate (%) | 49.7 | 21.9 | 23.7 | 28.6 | 28.1 | 0.5 |

Source: MIDFR, Company

DAILY PRICE CHART



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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

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

| | |
|----------|--|
| 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. |