

06 December 2018 | 3QFY19 Results Review

## Astro Malaysia Holdings Berhad

*Sequentially lower content costs*

### INVESTMENT HIGHLIGHTS

- **3QFY19 normalised earnings grew +32.1%yoy mainly supported by the rise in profit margin to 12.9%**
- **Nonetheless, 9MFY19 normalised earnings decline by -28.6%, in-line with our expectation**
- **9MFY18 cumulative dividend amounted to 7.5sen per share, on track to meet our FY19 dividend estimates**
- **Maintain NEUTRAL with a revised target price of RM1.32**

**Lower content cost improves profitability.** Astro Malaysia Holdings Bhd's 3QFY19 normalised earnings amounted to RM178.7m, an increase of +32.1%yoy. This was mainly attributable to lower content costs, license, copyright and loyalty fees and impairment of receivables. Consequently, the normalised profit margin to 12.9% from 9.7% in 3QFY18. Note that 3QFY19 revenue remains flat at approximately RM1.4b.

**In-line with expectation.** Despite recording a strong 3QFY19, cumulatively 9MFY19 normalised earnings decreased -28.6%yoy to RM RM404.0m. This was mainly impacted by: i) higher content costs from the broadcasting of FIFA World Cup, ii) increase in merchandise costs, and iii) increase in interest expenses for borrowings and finance lease liabilities. All in, Astro's 9MFY19 financial performance came in within our expectation, accounting for 80.4% of full year FY19 earnings estimate.

Table 1: PBT performance (RM'm)

Segment	9MFY18	9MY19	Remark
Television	344.5	588.8	Lower package take-up rate and slowing advertising market
Radio	113.6	127.1	Lower client advertising spend
Home-shopping	-6.5	-12.1	Tactical campaign executed for the current period to capitalise on the tax holiday and anniversary celebration

Source: Company, MIDFR

**Earnings impact.** We are fine-tuning FY19 earnings estimate slightly higher by +1.9% as we cut our content cost assumption to better reflects the results thus far. However, we made no change to our FY20 earnings estimate at this juncture.

**Maintain NEUTRAL**

**Revised Target Price (TP): RM1.32**  
(Previously RM1.55)

RETURN STATS	
Price (5 <sup>th</sup> December 2018)	RM1.29
Target Price	RM1.32
Expected Share Price Return	+2.3%
Expected Dividend Yield	+7.8%
<b>Expected Total Return</b>	<b>+10.1%</b>

STOCK INFO	
KLCI	1,688.27
Bursa / Bloomberg	6399 / ASTRO MK
Board / Sector	Main/ Telecommunications and Media
Syariah Compliant	No
Issued shares (mil)	5,214.3
Market cap. (RM'm)	6,726.5
Price over NA	20.2x
52-wk price Range	RM1.05 – RM2.85
Beta (against KLCI)	1.26
3-mth Avg Daily Vol	9.9m
3-mth Avg Daily Value	RM13.7m
Major Shareholders (%)	
Pantai Cahaya Bulan Ventures	20.67
All Asia Media Equities Ltd	19.43
E Asia Broadcast	8.09
Employees Provident Fund	7.05
Usaha Tegas Entertainment System	4.52


**Table 1: TV and radio operational statistics**

	9MFY18	9MY19	Growth
TV households (000s)	7,288	7,405	+1.6%
TV Household penetration rate (%)	73	76	4pp
TV customer base (000s)	5,334	5,662	6%
Pay TV ARPU (RM)	100.7	99.9	-0.8%
Astro TV viewership share (%)	77	75	-2pp
Share of TV adex (%)	43	43	0
Radio listenership (000s)	16.5	16.2	-2%
Share of radio adex (%)	73	74	1pp

Source: Company, MIDFR

**Dividend.** The group announced 3QFY19 dividend of 2.5sen per share. This leads to 9MFY19 dividend of 7.5sen per share which is in-line with our full FY19 dividend estimate of 10sen per share.

**Target price.** We are deriving a new target price of **RM1.32** (previously RM1.55). This is premised on revised forward PER of 12.7x which is one standard deviation below its one-year historical average pegged against FY20 EPS of 10.4sen per share. Note that previously we were attaching a forward PER of 14.9x which is one standard deviation below its three-year historical average. Our change in target PER reflects the evolving competitive landscape of the Pay-TV industry whereby the availability of faster broadband speeds at a more affordable pricing could potentially entice the younger generation to switch to the service of over-the-top (OTT), streaming sites and/or android TV box.

**Maintain NEUTRAL.** Historically, 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. Fortunately, the home shopping segment continues to gain positive traction as its loss-making position continues to improve. 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 will come in below 10%. Meanwhile, we view that the healthy free cash flow would enable the group to support its dividend commitment. At this juncture, we anticipate that the attractive dividend yield of more than seven percent would help to partially buffer for the expected weakness in share price performance. All factors considered, despite the slightly higher than 10% expected total return, we maintain our **NEUTRAL** recommendation on Astro. 

## INVESTMENT STATISTICS

FYE 31 <sup>st</sup> Jan	2017	2018	2019F	2020F
Revenue (RM'm)	5,612.6	5,530.8	5,566.7	5,687.4
EBIT (RM'm)	1,080.0	1,140.0	1,020.5	1,086.8
Pretax Profit (RM'm)	845.5	1,073.2	697.9	728.3
Net Profit (RM'm)	623.7	770.7	512.5	541.0
Normalised Net Profit (RM'm)	648.0	677.7	512.5	541.0
EPS (sen)	12.4	13.5	9.8	10.4
EPS growth (%)	-2.2	8.4	-27.0	5.6
PER(x)	10.4	9.6	13.1	12.4
Net Dividend (sen)	12.5	12.5	10.0	10.0
Net Dividend Yield (%)	9.7	9.7	7.8	7.8

Source: Company, MIDFR

## ASTRO MALAYSIA HOLDINGS: 3QFY19 RESULTS SUMMARY

(All in RM'm unless stated otherwise)	Quarterly			Cumulative		
FYE 31 <sup>st</sup> January	3Q19	% YoY	% QoQ	FY2019	FY2018	% YoY
Revenue	1,383.8	-0.9	-2.3	4,111.2	4,142.5	-0.8
EBITDA	565.1	9.4	45.4	1,398.7	1,716.3	-18.5
Depreciation and amortisation	-257.4	-4.4	-2.5	-670.1	-787.0	-14.9
EBIT	307.7	24.5	146.8	728.6	929.3	-21.6
Finance costs	-102.2	56.7	-3.8	-280.1	-170.6	64.2
Finance income	10.5	-57.0	1.9	30.7	56.7	-45.9
Investment income	-0.3	n.m.	n.m.	0.6	-0.7	-185.7
PBT	215.7	4.7	638.7	479.8	814.7	-41.1
Taxation	-62.1	3.3	328.3	-137.6	-231.3	-40.5
MI	-0.4	-157.1	-121.1	2.3	5.4	-57.4
PATAMI	153.2	4.5	822.9	344.5	588.8	-41.5
Normalise PATAMI	178.7	32.1	283.5	404.0	566.0	-28.6
EPS (sen)	3.4	32.0	283.8	7.7	10.9	-28.7
		+/-ppts	+/-ppts			+/-ppts
EBITDA margin (%)	40.8	3.9	13.4	34.0	41.4	-7.4
EBIT margin (%)	22.2	4.5	13.4	17.7	22.4	-4.7
PBT margin (%)	15.6	0.8	13.5	11.7	19.7	-8.0
Normalised PATAMI margin (%)	12.9	3.2	9.6	9.8	13.7	-3.8
Effective tax rate (%)	28.8	-0.4	-20.9	28.7	28.4	0.3

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.