

17 May 2018 | 1Q18 Results Review

## Star Media Group Berhad

*Declining reserves to restrict future dividend payment*

**Downgrade to NEUTRAL**

*(previously BUY)*

**Lowered Target Price (TP): RM1.04**  
*(previously RM1.80)*

### INVESTMENT HIGHLIGHTS

- **Improvement on 1Q18 normalised earnings as a result of better cost management and lower depreciation expenses**
- **1Q18 financial performance came in-line with ours and consensus expectations**
- **Future dividend payment to be capped in view of declining reserves**
- **Downgrade to NEUTRAL with lowered target price of RM1.04**

**Stronger 1Q18 bottomline.** Star Media Group Bhd's (Star) 1Q18 normalised earnings came in at RM11.6m. This translates into an increase of +92.3%yoy from RM6.0m as at 1Q17. The improvement in 1Q18 normalised earnings was largely contributed by better cost management and lower depreciation expenses (-41.3%yoy) from the print segment. This is despite a -8.8%yoy decline in the group revenue to RM109.0m in light of lower revenue contribution from the print and digital segment (-10.7%yoy).

**Within expectations.** The group's 1Q18 financial performance kept pace with ours and consensus expectations, accounting for 27.5% and 25.4% of full year FY18 earnings estimates respectively.

**Table 1: PBT/ (LBT) breakdown (RM'm)**

Segment	1Q18	1Q17	Remarks
Print and digital	20.7	8.1	Lower salaries and depreciation expenses from the Print segment
Radio broadcasting	1.6	1.1	Better costs management
Event, Exhibition, Interior and thematic (EET) – <b>excludes Cityneon</b>	2.7	-0.1	Higher number of events
Television channel	0	-1.3	Cessation of operations in October 2017

Source: Company, MIDFR.


**Impact.** No change to our earnings estimates at this juncture.

RETURN STATS	
Price (16 <sup>th</sup> May 2018)	RM1.00
Target Price	RM1.04
Expected Share Price Return	+4.0%
Expected Dividend Yield	+6.0%
<b>Expected Total Return</b>	<b>+10.0%</b>

STOCK INFO	
KLCI	1,858.26
Bursa / Bloomberg	6084 / STAR MK
Board / Sector	Main/ Media
Syariah Compliant	No
Issued shares (mil)	737.9
Market cap. (RM'm)	737.9
52-wk price Range	RM1.00 – RM2.22
Beta (against KLCI)	1.15
3-mth Avg Daily Vol	0.4m
3-mth Avg Daily Value	RM0.5m
Major Shareholders (%)	
MCA	42.46
PNB + associated funds	15.56
EPF	8.83
LTH	5.39

**Future dividend payment to be capped.** The group did not announce any dividend as at 1Q18. However, we are reducing both FY18 and FY19 dividend assumptions to 6sen per share from 11sen per share previously. This is in view of the group's declining reserves. Note that Star's 1Q18 reserves stands at RM103.0m, a decrease of -24.7%yoy as compared to 4Q17 reserves of RM138.8m. We view that this would limit the group's commitment to allocate generous dividend payment.

**Target Price.** Subsequent to the downward revision in dividend, we are lowering our target price to **RM1.04** per share (previously RM1.80 per share) based on dividend discount model (DDM) valuation methodology (Discount rate of 6.1%).

**Downgrade to NEUTRAL.** While the group start the year on a positive note, we view that there is limited earnings upside moving forward. Star's earnings would be mainly supported by additional advertising income derived from major sporting events as well as effective cost management initiatives. However, we expect future dividend payment to be limited by the annual earnings capability of the group. This is in view of the declining reserve balance. Meanwhile, there is not much traction on the group's effort to execute earnings accretive acquisitions. We opine that the longer the delay, the budget allocation for the proposed acquisition would reduce gradually. Given the lack of significant positive catalysts, we are downgrading our recommendation to **NEUTRAL** from buy previously. 

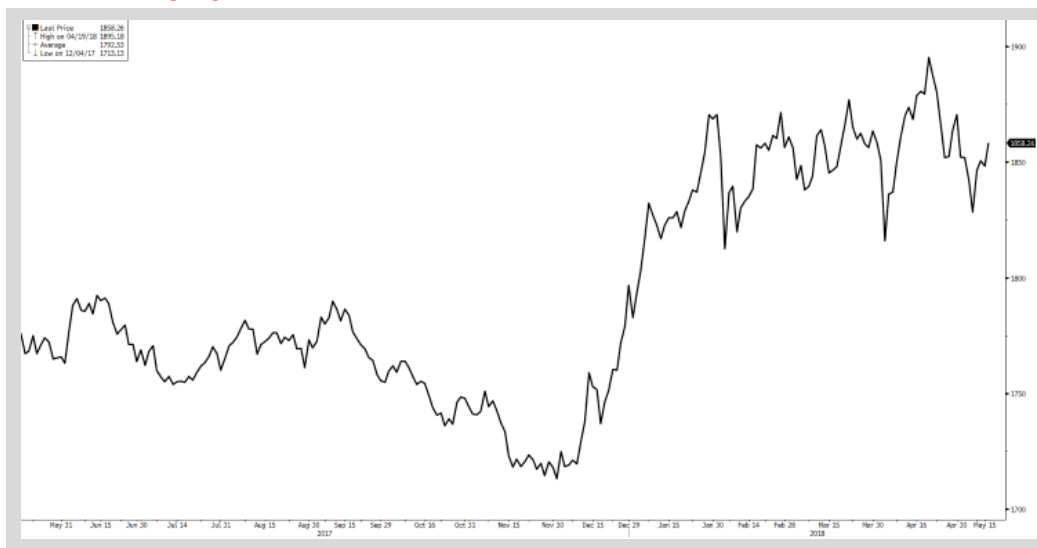
## INVESTMENT STATISTICS

FYE 31 <sup>st</sup> Dec	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	630.4	517.7	540.1	552.1
EBIT (RM'm)	126.6	41.6	61.1	65.9
Pretax Profit (RM'm)	123.0	39.8	52.7	57.3
Net Profit after MI (RM'm)	109.9	90.3	42.1	45.7
Normalised Net Profit after MI (RM'm)	68.5*	36.1*	42.1	45.7
Normalised EPS (sen)	9.3	4.9	5.7	6.2
Normalised EPS growth (%)	-48.5	-47.3	16.4	8.7
PER(x)	26.2	49.7	42.7	39.2
Dividend (sen)	18	42	6	6
Dividend Yield (%)	18.0	42.0	6.0	6.0

Source: Company, MIDFR

\*Excludes contribution from Cityneon

## DAILY PRICE CHART



Martin Foo Chuan Loong  
 martin.foo@midf.com.my  
 +603 2173 8354

## STAR MEDIA GROUP: 1Q18 RESULTS SUMMARY

<i>(All in RM'm unless stated otherwise)</i>	Quarterly				
<b>FYE 31<sup>ST</sup> Dec</b>	<b>1Q18</b>	<b>1Q17</b>	<b>% YoY</b>	<b>4Q17</b>	<b>% QoQ</b>
Revenue	109.0	118.6	126.3	126.3	-13.7
EBITDA	24.8	18.8	30.8	30.8	n.m.
Depreciation and amortisation	-6.8	-11.6	-11.3	-11.3	-39.7
EBIT	17.9	7.1	15.3	15.3	n.m.
Finance costs	-1.2	-1.4	-1.2	-1.2	-2.1
Interest income	0.8	0.7	0.8	0.8	1.0
PBT	17.6	6.4	-187.7	-187.7	-109.4
Taxation	-6.2	-3.1	30.6	30.6	-120.3
PAT	11.4	3.3	-157.1	-157.1	n.m.
Profit from discontinued operations	0.0	6.0	0.0	0.0	n.m.
MI	-0.1	-2.6	12.1	12.1	n.m.
PATAMI	11.3	6.6	-145.0	-145.0	-107.8
Normalised PATAMI	11.6	6.0	32.2	32.2	-64.0
Normalised PATAMI excluding profit from discontinued operations	11.6	0.1	32.2	32.2	-64.0
Normalised EPS (sen)	1.6	0.0	4.4	4.4	-64.0
			+/-ppts		+/-ppts
EBITDA margin (%)	22.7	15.8	24.4	24.4	-1.7
EBIT margin (%)	16.5	6.0	12.1	12.1	4.4
Normalised PATAMI margin (%)	10.6	5.1	25.5	25.5	-14.9
Effective tax rate (%)	35.2	48.7	16.3	16.3	19.0

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#### 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.