

20 August 2018 | 2Q18 Results Review

Star Media Group Berhad

Remain profitable in 2Q18

INVESTMENT HIGHLIGHTS

- **Better cost management and lower depreciation expenses keep Star on profitability path**
- **Nonetheless, recovery in 1H18 financial performance is slower than expected**
- **No dividend declared for in 1H18**
- **Maintain NEUTRAL with an unchanged target price of RM1.04**

Manage to stay profitable in 2Q18. Star Media Group Bhd (Star) managed to remain profitable in 2Q18 with normalised earnings of RM1.4m. Despite a -15.1%yoy decline in revenue, Star's 2Q18 financial performance was mainly supported by better cost management efforts and lower depreciation expenses from the print segment. To recall, in FY17, Star made an impairment of its printing assets and carried out a mutual separation scheme and early retirement option.

Below expectations. Cumulatively, 1H18 normalised earnings amounted to RM13.0m. In comparison, Star's would have posted a loss of -RM10.1m in 1H17 after excluding the earnings contribution from Cityneon. Nonetheless, the recovery in 1H18 earnings came in below ours and consensus' expectations, accounting for 30.8% and 27.6% respectively of full year FY18 earnings estimates.

Table 1: PBT breakdown (RM'm)

Segment	1H18	1H17	Remarks
Print and digital	19.3	11.1	Lower salaries and depreciation expenses from the Print segment and higher digital revenue
Radio broadcasting	1.6	2.1	Slow-down in radio ad spending
Event, Exhibition, Interior and thematic (EEIT)	2.9	0.0	Higher number of events and better cost management

Source: Company, MIDFR

Maintain NEUTRAL

Unchanged Target Price (TP): RM1.04


RETURN STATS	
Price (17 th August 2018)	RM1.23
Target Price	RM1.04
Expected Share Price Return	-15.4%
Expected Dividend Yield	+4.9%
Expected Total Return	-10.5%

STOCK INFO	
KLCI	1,783.47
Bursa / Bloomberg	6084 / STAR MK
Board / Sector	Main/ Media
Syariah Compliant	No
Issued shares (mil)	737.9
Market cap. (RM'm)	907.6
52-wk price Range	RM1.00 – RM2.22
Beta (against KLCI)	0.99
3-mth Avg Daily Vol	0.4m
3-mth Avg Daily Value	RM0.4m
Major Shareholders (%)	
MCA	42.46
PNB + associated funds	15.69
EPF	8.14
LTH	5.39

Impact to earnings. We are revising downwards FY18 and FY19 revenue contribution from the print and digital as well as the radio segment. In addition, we are fine-tuning our profit margin assumption to better reflect the results thus far. All in, our FY18 and FY19 earnings estimates are reduced to RM34.2m and RM38.8m respectively.

No dividend announced. The group did not announce any dividend for 1H18. Nonetheless, we are maintaining both our FY18 and FY19 dividend estimates at 6sen per share. This translates into annual dividend payment of approximately RM44.0m. We view that the group would still be able to continue its annual dividend payment at this juncture, albeit at a lower quantum, given its cash reserve which remained sizeable at RM309.3m (-35.7%yoy) as at 2Q18.

Target Price. We are maintaining our target price to **RM1.04** per share based on dividend discount model (DDM) valuation methodology (Discount rate of 6.1%).

Maintain 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 sports events as well as effective cost management initiatives. Uncertainty from the upcoming implementation of SST would also lead to advertisers adopting a wait-and-see approach. Fortunately, the group's cash reserve remains sizeable. This would support the group's annual dividend payment, albeit at a lower quantum. On another note, 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 maintaining our **NEUTRAL** recommendation on the stock. 

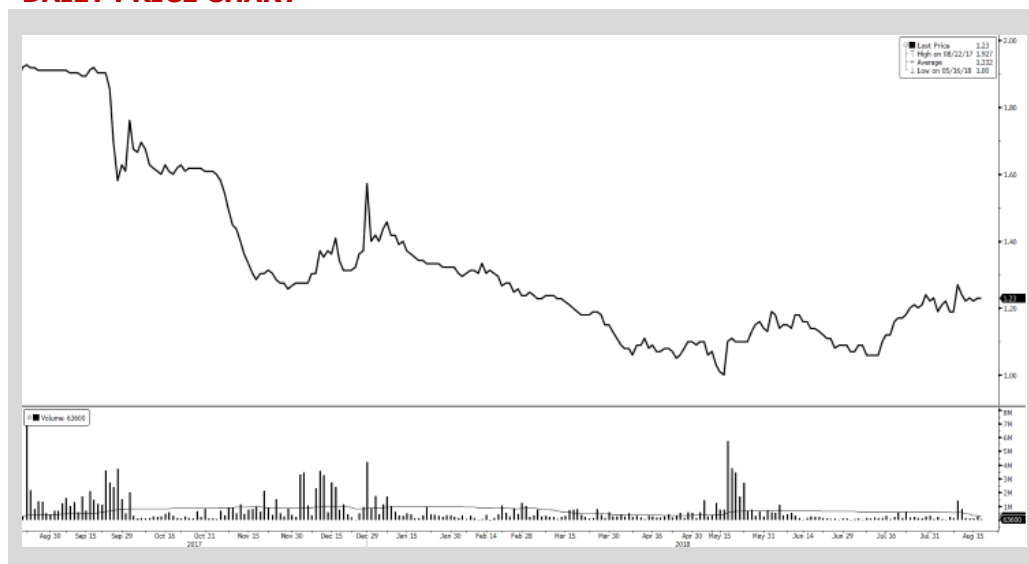
INVESTMENT STATISTICS

FYE 31 st Dec	2016	2017	2018F	2019F
Revenue (RM'm)	630.4	517.7	498.7	510.3
EBIT (RM'm)	126.6	41.6	51.2	57.1
Pretax Profit (RM'm)	123.0	39.8	42.8	48.6
Net Profit after MI (RM'm)	109.9	90.3	34.2	38.8
Normalised Net Profit after MI (RM'm)*	68.5	36.1	34.2	38.8
Normalised EPS (sen)	9.3	4.9	4.6	5.3
Normalised EPS growth (%)	-48.5	-47.3	-5.4	13.5
PER(x)	26.2	49.7	52.5	46.3
Dividend (sen)	18	42	6	6
Dividend Yield (%)	14.6	34.1	4.9	4.9

Source: Company, MIDFR

*Excludes contribution from Cityneon

DAILY PRICE CHART



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STAR MEDIA GROUP: 2Q18 RESULTS SUMMARY

Financial Year Ending 31 st December <i>(All in RM'm unless stated otherwise)</i>	Quarterly			Cumulative		
	2Q18	% YoY	% QoQ	2018	2017	%YTD
Revenue	99.5	-15.1	-8.7	208.5	235.8	-11.6
EBITDA	6.9	n.m.	n.m.	28.9	27.0	n.m.
Depreciation and amortisation	-7.0	-42.8	1.9	-13.8	-23.8	42.1
EBIT	-0.1	n.m.	n.m.	15.1	3.1	n.m.
Finance costs	-0.8	-37.1	-32.3	-2.0	-2.6	24.2
Interest income	3.1	10.7	278.1	6.7	6.5	3.9
PBT	2.3	298.4	-87.2	19.8	7.0	183.5
Taxation	-0.8	-60.7	-87.0	-7.0	-5.2	-35.4
PAT	1.4	n.m.	n.m.	12.8	1.8	603.0
Profit from discontinued operations	0.0	n.m.	n.m.	0.0	24.5	n.m.
MI	0.0	n.m.	n.m.	-0.1	-11.2	n.m.
PATAMI	1.4	-83.4	-87.5	12.7	15.2	-16.0
Normalised PATAMI	1.4	-82.7	-87.5	13.0	14.4	-10.0
Normalised PATAMI excluding profit from discontinued operations	1.4	n.m.	-87.5	13.0	-10.1	227.9
Normalised EPS (sen)	0.2	n.m.	-87.5	1.8	-1.4	227.9
		+/-ppts	+/-ppts			+/-ppts
EBITDA margin (%)	6.9	-2.6	-15.8	13.9	11.4	2.4
EBIT margin (%)	-0.1	0.8	-16.6	7.2	1.3	5.9
Normalised PATAMI margin (%)	1.5	-5.7	-9.2	6.2	6.1	0.1
Effective tax rate (%)	35.7	-325.9	0.4	35.3	73.9	-38.6

Source: Company, MIDFR

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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.