

03 December 2018 | 3QFY18 Results Review

Star Media Group Berhad

Cost management efforts yielding positive results

INVESTMENT HIGHLIGHTS

- Turn to loss in 3QFY18 as revenue record a steep decline of -23.5%yoy to RM91.1m
- Cumulative 9MFY18 normalised earnings of RM11.3m came in below ours and consensus expectations
- No dividend declared yet thus far, anticipating lower dividend payment of 4sen per share in 4QFY18
- Maintain NEUTRAL with a revised target price of RM0.69

Loss-making quarter. Star Media Group Bhd's (Star) 3QFY18 normalised loss came in at -RM1.7m as compared to a normalised earnings of RM16.0m as at 3QFY17. This was mainly premised on the steep decline in revenue to RM91.1m (-23.5%yoy).

Below expectations. Cumulatively, 9MFY18 normalised earnings improved by +95.7%yoy to RM11.3m mainly due to better cost management following the MSS/ERO in 4QFY17 and lower depreciation expenses from the Print segment. Nonetheless, the improvement in the group's 9MFY18 financial performance failed to keep pace with ours and consensus expectations, accounting for merely 32.9% and 39.4% of full year FY18 earnings estimates.

Table 1: PBT breakdown (RM'm)

Segment	9M18	9M17	Remarks
Print and digital	21.1	31.6	Losses from its OTT venture, dimsum.my
Radio broadcasting	1.1	4.3	Slowdown in radio ad spending
Event, Exhibition, Interior and thematic (EET)	2.1	-0.4	Higher number of events and better cost management

Source: Company, MIDFR.

Impact to earnings. We are reducing FY18 and FY19 earnings estimates to RM17.6m and RM23.0m as we cut our revenue assumption primarily from the print segment.

Maintain NEUTRAL


Revised Target Price (TP): RM0.69
(previously RM1.04)

RETURN STATS	
Price (30 th November 2018)	RM0.75
Target Price	RM0.69
Expected Share Price Return	-8.0%
Expected Dividend Yield	+5.3%
Expected Total Return	-2.7%

STOCK INFO	
KLCI	1,679.86
Bursa / Bloomberg	6084 / STAR MK
Board / Sector	Main/ Media
Syariah Compliant	Yes
Issued shares (mil)	737.9
Market cap. (RM'm)	553.4
52-wk price Range	RM0.715 – RM1.70
Beta (against KLCI)	0.96
3-mth Avg Daily Vol	0.5m
3-mth Avg Daily Value	RM0.4m
Major Shareholders (%)	
MCA	42.46
PNB + associated funds	15.45
EPF	9.12
LTH	5.39

No dividend announced yet. The group did not announce any dividend for 9MFY18. However, we are reducing both our FY18 and FY19 dividend estimates to 4sen per share (previously 6sen per share). This is in view of the group's weak ability to generate operating cash. Moreover, the group's cash level has reduced to RM313.2m from RM480.1m as at 4QFY17 as it significantly pared down its borrowings. Note that as at 3QFY18, the total borrowings have reduced remarkably to RM1.7m from RM102.5m as at 4QFY17.

Target Price. Subsequent to the reduction in our dividend assumptions, we are reducing our target price to **RM0.69** 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. We are also concern on the group's declining cash balance. This would impact the group's ability to distribute dividend on a longer term horizon as the group's cash generating ability remains under jeopardy. 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. 

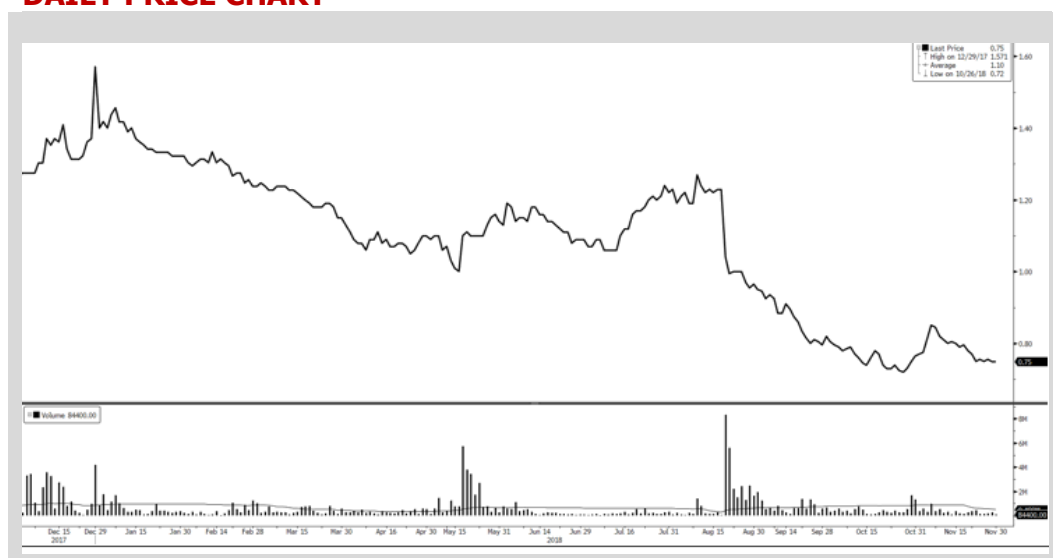
INVESTMENT STATISTICS

FYE 31 st Dec	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	630.4	517.7	402.5	410.6
EBIT (RM'm)	126.6	41.6	18.6	26.2
Pretax Profit (RM'm)	123.0	39.8	25.3	33.1
Net Profit after MI (RM'm)	109.9	90.3	17.6	23.0
Normalised Net Profit after MI (RM'm)*	68.5	36.1	17.6	23.0
Normalised EPS (sen)	9.3	4.9	2.4	3.1
Normalised EPS growth (%)	-48.5	-47.3	-51.3	30.7
PER(x)	26.2	49.7	102.1	78.1
Dividend (sen)	18	42	4	4
Dividend Yield (%)	24.0	56.0	5.3	5.3

Source: Company, MIDFR

*Excludes contribution from Cityneon

DAILY PRICE CHART



STAR MEDIA GROUP: 3Q18 RESULTS SUMMARY

Financial Year Ending 31 st December <i>(All in RM'm unless stated otherwise)</i>	Quarterly			Cumulative		
	3Q18	% YoY	% QoQ	2018	2017	%YTD
Revenue	91.1	-23.5	-8.4	299.6	354.9	-15.6
EBITDA	6.2	n.m.	n.m.	35.1	254.5	n.m.
Depreciation and amortisation	-6.7	-41.8	-4.3	-20.5	-35.3	-42.0
EBIT	-0.4	n.m.	n.m.	14.7	219.3	n.m.
Finance costs	0.0	-99.6	-99.4	-2.0	-3.8	-47.9
Interest income	2.9	-48.2	-8.5	9.6	12.1	-20.1
PBT	2.5	-98.9	9.0	22.3	227.5	-90.2
Taxation	-0.9	-61.5	9.2	-7.9	-7.4	5.8
PAT	1.6	n.m.	n.m.	14.4	220.0	-93.4
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	0.9	n.m.
PATAMI	1.6	-99.3	12.9	14.3	245.4	-94.2
Normalised PATAMI	-1.7	-110.8	-219.7	11.3	30.3	-62.8
Normalised PATAMI excluding profit from discontinued operations	-1.7	n.m.	-219.7	11.3	5.8	95.7
Normalised EPS (sen)	-0.2	n.m.	-219.7	1.5	0.7	103.6
		+/-ppts	+/-ppts			+/-ppts
EBITDA margin (%)	6.9	-184.2	-0.1	11.7	71.7	-60.0
EBIT margin (%)	-0.5	-181.9	-0.4	4.9	61.8	-56.9
Normalised PATAMI margin (%)	-1.9	-15.4	-3.4	3.8	8.5	-4.8
Effective tax rate (%)	35.8	34.7	0.1	35.3	3.3	32.1

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.