

07 March 2018 | Corporate Update

Star Media Group Berhad

Major events to spur advertising spending

INVESTMENT HIGHLIGHTS

- **Undergoing business process reengineering to create a more lean business structure**
- **On the lookout for digital talents to strengthen its digital offerings**
- **Upcoming general election and 2018 World Cup could incite advertising spending**
- **Maintain BUY with unchanged target price of RM1.80**

Business process reengineering. To recall, Star Media Group Bhd's (Star) managed to maintain profitable in FY17, as compared to its immediate peer, despite a reduction in advertisement spending. We attribute this to effective cost management initiatives taken by the group. To create a more lean and sustainable business structure, management is currently engaging an external consultant group to relook into the group's business and operation. The exercise would take approximately three to four months to complete.

Rightsizing the workforce. Star Media Group Bhd (Star) had also booked a mutual separation scheme / early retirement option expenses amounting to RM56.4m in 4Q17. This involves rightsizing the group's workforce by 250 headcounts to 1,250 headcounts currently. Nonetheless, we understand that Star is also on the lookout for prospective staff with the right digital skills to further expand and strengthen its digital offerings.

Advertising expenditure (adex) expected to improve. The management expect advertising spending to be encouraging in the immediate term, driven by the upcoming general elections and 2018 World Cup which commences in the middle of June 2018. Note that Star has 71% display market share for FY17. This would serve as a competitive advantage to the group as compared to its peers.

Awaiting the completion of Tower A in Pacific Star Business Hub. In 2011, Star has sold a piece of land in Section 13 for RM135m in return for a 15-storey office block known as Tower A. We understand that the tower is currently 95% completed and Star is demanding that Jaks Resources Bhd to rectify the remaining defective segment. Once completed, the group is planning to shift the radio and 'dimsum' operations to the new Tower A. At present, the radio operation is operating at Tropicana City Office Tower. The eventual relocation to Tower A would translate into an annual rental cost saving of approximately RM1m.


Maintain BUY

Unchanged Target Price (TP): RM1.80

RETURN STATS	
Price (6 March 2018)	RM1.29
Target Price	RM1.80
Expected Share Price Return	+39.5%
Expected Dividend Yield	+8.5%
Expected Total Return	+48.0%

STOCK INFO	
KLCI	1,848.37
Bursa / Bloomberg	6084 / STAR MK
Board / Sector	Main/ Media
Syariah Compliant	No
Issued shares (mil)	738.0
Market cap. (RM'm)	951.9
52-wk price Range	RM1.29 – RM2.22
Beta (against KLCI)	1.05
3-mth Avg Daily Vol	0.8m
3-mth Avg Daily Value	RM1.1m
Major Shareholders (%)	
MCA	42.46
PNB + associated funds	15.69
EPF	5.78
LTH	5.39

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

Maintain BUY. Despite the tough market condition and disposal of Cityneon, the group managed to show improvement in its 4Q17 results. This is in light of the group's effective cost management initiatives. We expect further cost optimisation in FY18 to support the group's bottomline in the near term. Coupled with sizeable cash reserve, we view that the group would still be able to provide an attractive dividend yield of 8%. Note that we have imputed a conservative dividend payment to cater for the group's investment opportunities to grow its earnings base. All factors considered, we are maintaining our **BUY** recommendation with unchanged target price of **RM1.80** per share based on dividend discount model (DDM) valuation methodology (discount rate of 6.1%). 

INVESTMENT STATISTICS

FYE 31 st Dec	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	630.4	517.7	540.1	504.8
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	11	11
Dividend Yield (%)	14.0	32.6	8.5	8.5

Source: Company, MIDFR

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.