



AmInvestment Bank

Sector report
23 July 2020

AmInvestment Bank
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MEDIA

Covid-19 quickens decline in traditional media

NEUTRAL

(Maintained)

Rationale for report: Sector update

Investment Highlights

- **We keep our NEUTRAL recommendation on the media sector for 2H20** as the challenging operating environment exacerbated by Covid-19 will dampen prospects further despite plans for more cost-saving initiatives. However, cheap valuations of the companies make them viable targets for merger and acquisition (M&A) and privatization activities. The media sector's lacklustre outlook is due to: (i) the worsening performance of traditional media such as print, radio and TV subscriptions amid the structural shift to digital offerings; (ii) poor adex outlook worsened by the Covid-19 impact; and (iii) the inability of digital revenue growth to offset traditional media declines.
- **Dismal sentiments in 1Q20 as Covid-19 hits:** The Malaysian Institute of Economic Research (MIER) consumer sentiment index slumped 31.2 points to a 32-year-low of 51.1 in 1Q20 as household finances are at its weakest with muted shopping plans of consumers while MIER's business conditions index also fell 5.3 points to 83.0 as confidence weakened slightly followed by drastic shrinking of capex spending (Exhibit 2).
- **YTD adex trends:** According to Nielsen Ad Intel, adex across all media stood at RM1.1bil in 1Q20 (Exhibits 4 and 5). Note that the total adex excludes digital ad spend which it stopped reporting in 2019. On a YoY basis, traditional media segments faltered by 9% overall mainly due to the decline in newspaper and cinema ad spend. Newspaper ad spend, which represented 33% of total adex in 1Q20, shrank 24% YoY by RM111mil, likely worsened by the cessation of operations for Utusan Group's publications *Utusan Malaysia* and *Kosmo!* since 4Q20, on top of the continued reduction in circulation. Meanwhile, cinema ad spend which Nielsen categorizes under "others" had declined 25% YoY by RM11mil.
- **Depressing adex outlook in 2H20:** We believe that tougher economic conditions ahead will caution advertisers and cause them to tighten ad spend. Furthermore, major sporting events such as the UEFA Europa League and the Tokyo Olympic Games have been postponed from June–July 2020 to 2021 due to the Covid-19 pandemic.
- **Traditional media declines accelerated by Covid-19:** We believe circulation, out-of-home (OOH) and traditional radio revenues were not spared by the Covid-19 impact, as less customers are likely to frequent newsstands and with reduced commute during the MCO due to more people working from home and travel restrictions. The events segment would also see an impact as: (i) gatherings were not allowed during the MCO; (ii) social distancing and hygiene measures raise the cost of holding events; and (iii) event participants will be reduced over fears of contracting Covid-19. Another segment obviously hit by the impact of the virus would be **Media Chinese's (HOLD, FV RM0.18)** travel segment which accounted for 36% of group revenue in 9MFY20.
- **...But with a silver lining:** Two segments that were spared from the Covid-19 impact were: (i) home shopping, where **Media Prima (HOLD, FV RM0.22)** saw CJ Wow Shop's revenue rising 3% QoQ and 18% YoY in 1QFY20 and 13% new registered customers YoY while also recording the first ever quarter of breakeven; and (ii) digital segment, in which Media Prima saw a 4% increase in revenue QoQ. Besides that, media players have also shared that engagements rose during the MCO where **Star Media (UNDERWEIGHT, FV RM0.31)** reported increased traffic across its digital platforms, while Media Prima reported higher engagements across its: (i) TV segment due to more viewership of its news programmes, drama and talk shows; (ii) digital segment through its news sites and increase in radio digital listeners; and (iii) commerce segment which saw more buying from home on CJ Wow Shop due to the MCO. We believe that Covid-19 has hastened the decline in traditional media revenues as adex suffers while bringing to light the rush to strengthen digital offerings and diversify non-adex revenues.
- **Next round of cost optimization:** With a challenging operating environment ahead, media companies need to improve operational efficiencies with more prudent cost-saving measures put in place to cushion the impact of lower revenues. One of the key initiatives seen to date is Media Prima's Print Towers Sdn Bhd, launched in January 2020, with the goal of optimizing its print capacity where its facilities would not only cater for its in-house requirements but also for external commercial printing for *The Malaysian Reserve*, *Selangorkini* and *Buletin Mutiara*. Meanwhile, Star Media has recently confirmed that another round of manpower rationalization is in the cards while its top management will be taking a pay cut until the end of the year without divulging any further details. Media Prima has also issued a press release that it will undertake the next phase of its business transformation and does not rule out the possibility of staff cuts.

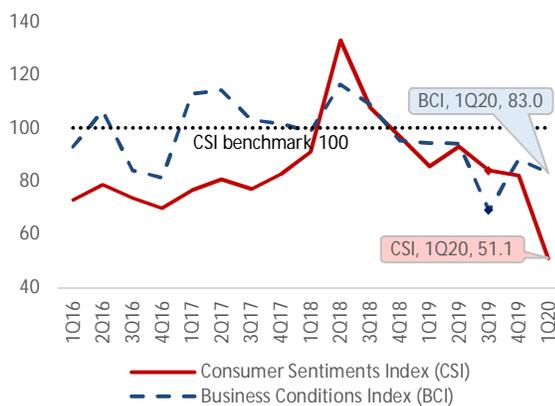
- **Potential changes in sector rating:**
 - We may upgrade the sector to OVERWEIGHT if: (i) growth in digital initiatives can meaningfully offset declines in traditional media; (ii) consumer confidence recovers and adex catalysts re-emerge, translating to higher ad-spend across all mediums; and (iii) possible privatization and M&A opportunities arise.
 - We may downgrade the sector to UNDERWEIGHT if: (i) monetization of digital content remains challenging due to intense competition; (ii) longer-than-expected gestation and traction of media players' digital initiatives; (iii) significant deterioration in adex and traditional media revenues.
- **We maintain our NEUTRAL recommendation and have no top picks for the sector.**

EXHIBIT 1: PEER COMPARISON

Company	Recomm.	Price RM	FV RM	Upside %	Mkt Cap RM mil	P/E (x)		EPS (sen)		EPS Growth (%)		P/B		ROE (%)		DY (%)		EV/EBITDA	
						CY20	CY21	CY20	CY21	CY20	CY21	CY20	CY21	CY20	CY21	CY20	CY21	CY20	CY21
Media Chinese International Ltd	HOLD	0.17	0.18	5.9	286.8	(12.5)	(7.9)	(1.4)	(2.2)	(175.2)	58.3	0.4	0.4	(0.0)	(0.1)	6.7	6.6	(0.7)	(2.1)
Media Prima Bhd	HOLD	0.16	0.22	41.9	177.5	(2.2)	(2.9)	(7.2)	(5.3)	26.7	(26.8)	0.3	0.4	(0.1)	(0.1)	0.0	0.0	6.8	4.0
Star Media Group Bhd	UNDERWEIGHT	0.35	0.31	(11.4)	253.7	(29.3)	(92.7)	(1.2)	(0.4)	(203.6)	(68.4)	0.3	0.3	(0.0)	(0.0)	5.7	5.7	(0.3)	(0.5)
Simple average						(14.7)	(34.5)	(3.3)	(2.6)	(117.4)	(12.3)	0.4	0.4						
Market cap weighted average						(15.9)	(36.7)	(2.7)	(2.3)	(135.3)	(7.5)	0.4	0.4						

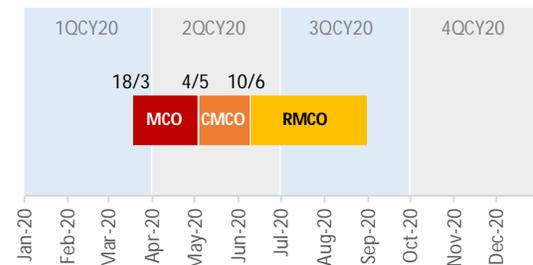
Source: Bloomberg, AmInvestment Bank Bhd. Prices as at 20 July 2020.

EXHIBIT 2: MIER CSI AND BCI



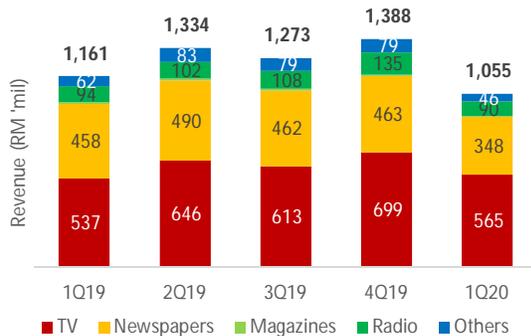
Source: MIER, AmInvestment Bank Bhd

EXHIBIT 3: MOVEMENT CONTROL ORDER (MCO) TIMELINE



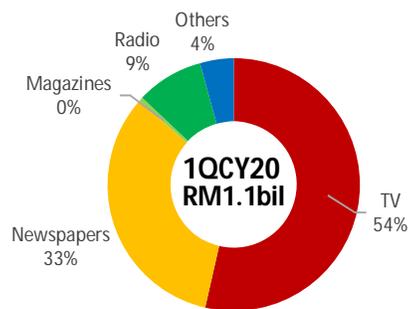
Source: AmInvestment Bank Bhd

EXHIBIT 4: NIELSEN'S ADEX ACROSS ALL MEDIA (EXCLUDING DIGITAL)



Source: Nielsen Ad Intel, AmInvestment Bank Bhd.
 Notes: ⁽¹⁾ Mar-20 newspaper and magazine ad spend not fully reported due to late delivery of some print titles and magazines.

EXHIBIT 5: 1QCY20 ADEX BREAKDOWN BY MEDIA TYPE



Source: Nielsen Ad Intel, AmInvestment Bank Bhd
 Notes: ⁽¹⁾ Mar-20 newspaper and magazine ad spend not fully reported due to late delivery of some print titles and magazines.

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