Print remains under pressure

We expect prospects for the print media industry to remain weak in 2016 given the challenging market environment, poor consumer sentiment as well as the structurally declining trend of print adex and hard copy circulation. As such, we maintain our SELL rating on Star with an unchanged target price of RM1.95 (based on 12x 2016E EPS).

Print adex and hard copy circulation on declining trend

We believe the challenging market environment, poor consumer sentiment as well as the weak Ringgit against the US$ has caused advertisers to be cautious on their advertising expenditure (adex) spending. On top of that, we expect the outlook for print media sector to remain challenging in 2016, given the continuous shift in adex revenue towards the broadcast segment coupled with the decline in hard copy newspaper circulation.

Restructuring in the radio segment

Star's radio segment is undergoing some restructuring. Among Star's English radio channels, Capital FM is already on autopilot mode as most of its Deejays have exited the station, while Red FM will likely run until end-December 2015 before going on autopilot mode as well. The group will decide whether to keep their four radio channels or sell them off.

Drop from Shariah compliant stocks list

Back in November 15, Star was delisted from the Securities Commission (SC) Shariah compliant stocks list. This was mainly due to its failure to meet the Cash/Total Asset criterion. As such, the group has invested approximately RM128m in Shariah compliant products to bring down its Cash/Total Asset below the 33% level. The group believes that they will be included back in the Shariah compliant stocks list in 2016.

Maintain SELL rating with target price unchanged at RM1.95

We maintain our SELL rating on Star, with an unchanged 12-month target price of RM1.95 based on a 12x 2016E PER. We are cautious on Star due to: 1) it being adversely affected by the shift in adex revenue towards the broadcast segment from print; 2) potentially cautious ad spending given the GST implementation, uncertainties in the market coupled with the poor business and consumer sentiment; and 3) negative effects on hard copy circulation due to the continuous shift in preference for reading on mobile/Internet.

Earnings & Valuation Summary

FYE 31 Dec	2013	2014	2015E	2016E	2017E
Revenue (RMm)	1,025.3	1,013.7	1,023.2	1,044.7	1,088.6
EBITDA (RMm)	231.6	221.6	181.7	194.9	197.8
Pretax profit (RMm)	192.6	153.4	155.6	170.2	174.9
Net profit (RMm)	142.9	111.4	111.2	120.1	132.5
EPS (sen)	19.3	15.1	15.1	16.3	17.9
PER (x)	12.0	15.4	15.4	14.3	12.9
Core net profit (RMm)	141.4	145.0	111.2	120.1	132.5
Core EPS (sen)	19.2	19.6	15.1	16.3	17.9
Core EPS growth (%)	(5.2)	2.5	(23.3)	8.0	10.3
Core PER (x)	12.1	11.8	15.4	14.3	12.9
Net DPS (sen)	15.0	18.0	18.0	18.0	18.0
Dividend Yield (%)	6.5	7.8	7.8	7.8	7.8
EV/EBITDA (x)	6.2	6.1	7.2	6.4	6.0
Chg in core EPS (%)			-	-	-
Affin/Consensus (x)			1.0	1.0	1.0

Source: Company, Affin Hwang estimates

Company Update

Star Media

STAR MK
Sector: Media

RM2.32 @ 30 December 2015

SELL (maintain)

Downside 16%

Price Target: RM1.95

Previous Target: RM1.95

Price Performance

	1M	3M	12M
Absolute	+0.9%	-4.9%	+3.4%
Rel to KLCI	-0.6%	-9.2%	+7.7%

Stock Data

Issued shares (m)	738.0
Mkt cap (RMm)/(US$m)	1,712.1/398.9
Avg daily vol - 6mth (m)	0.2
52-wk range (RM)	2.22-2.63
Est free float	30.0%
BV per share (RM)	1.5
P/BV (x)	1.6
Net cash/ (debt) (RMm) (3Q15)	418.3
ROE (2015E)	9.7%
Derivatives	Nil
Shariah Compliant	No

Key Shareholders

MCA	42.5%
ASB	9.9%
LTH	5.4%

Source: Affin Hwang, Bloomberg

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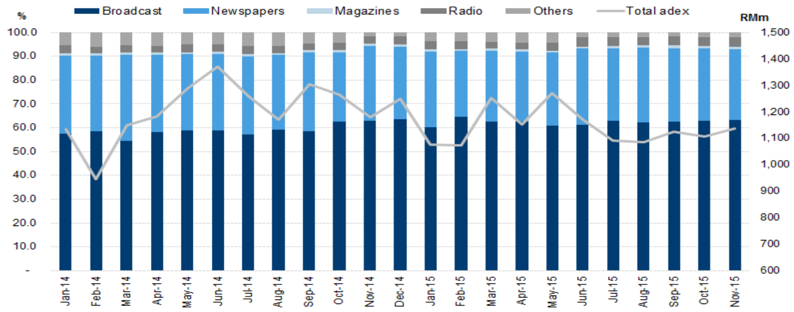
Declining trend in print likely to persist

Adex likely to remain soft

We believe the challenging market environment, poor consumer sentiment as well as the weak Ringgit against the US$ has caused advertisers to be cautious on their adex spending. On top of that, we believe that the outlook for print media industry is likely to remain challenging given the continuous shift in adex revenue towards the broadcast segment coupled with the decline in hard copy newspaper circulation. Total industry adex in 11M15 declined by 5.4% yoy to RM12.5bn. The market share for print adex in 11M15 dropped to 30.4% vs. 32.2% in 11M14, while the broadcast segment grew to 62.3% vs 58.8% in 11M14. Within the broadcast segment, the FTA's market share of adex declined to 20.7% in 11M15 (11M14: 22.1%), while that of pay TV increased to 41.5% (11M14: 36.7%). Radio adex market share in 11M15 increased to 3.4% from 3.1% in 11M14.

Fig 1: Market share of adex contribution

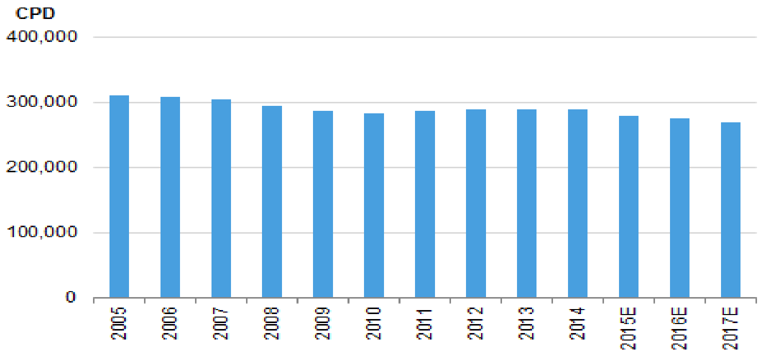


Source: Nielsen Media Research, Affin Hwang

Hard copy circulation on downward trend

For 1H15, Star's daily hard copy circulation stood at 272.5k copies, declining from 286.4k copies in 2H14. Going forward, we believe that the hard copy circulation will continue to drop given the rising momentum of online reading habits. On a more positive note, Star's e-paper circulation increased to 93.3k in 1H15 from 85.8k subscribers in 2H14. By end-2015, management is forecasting the number of its e-paper subscribers to reach 120k, most likely to be driven by the Star bundle package. Despite an improvement in total circulation (hard copy and e-paper), we believe Star's revenue from print and digital segment is likely to continue to decline partly due to the continuous shift in adex revenue towards the broadcast and online from print segment.

Fig. 2: Star's average daily hard copy newspaper circulation

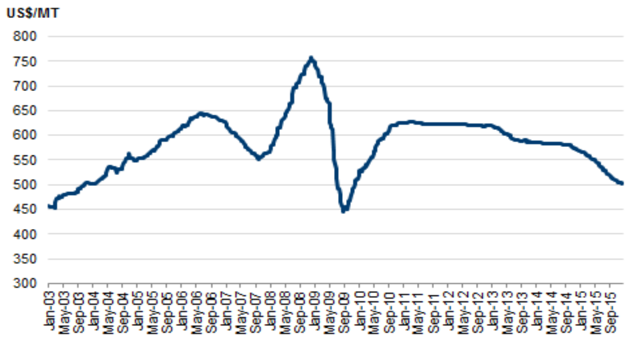


Source: Audit bureau circulation, Affin Hwang estimates

Strong US$ is of no help in lowering newsprint prices

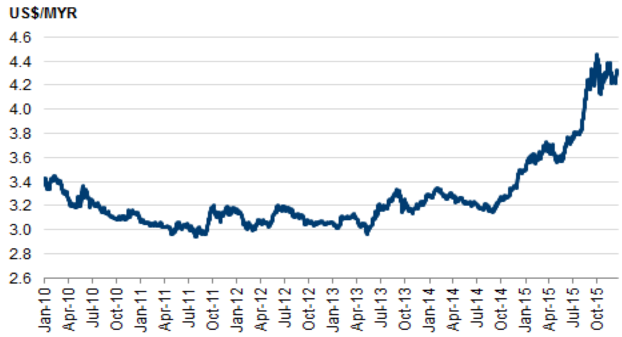
Despite the weakening of newsprint prices to US$500/MT in December 2015 (which is a boon for Star), the strong US$ is of no help in lowering the newsprint prices in Ringgit terms. Currently, Star holds newsprint inventory of about 6-9 months.

Fig 3: Newsprint prices



Source: Bloomberg, Affin Hwang

Fig 4: US$ vs. RM



Source: Bloomberg, Affin Hwang

Beyond the print division

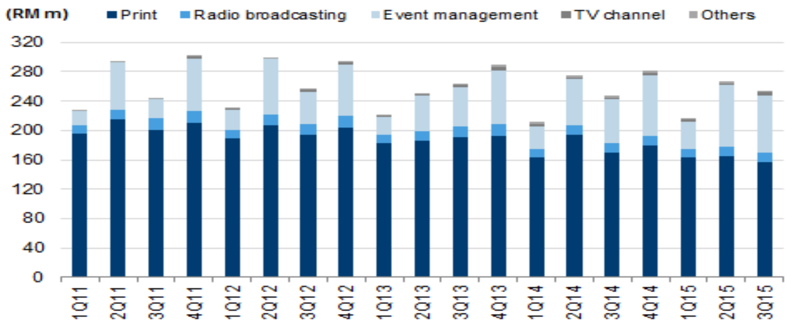
Restructuring in the radio segment

Star's radio segment, which contributes about 5% of the group's revenue, is undergoing some restructuring. Among Star's English radio channels, Capital FM is already on autopilot mode as most of its Deejays have exited the station, while Red FM will likely run until end-December 2015 before going on autopilot mode as well. The group will restructure the radio division and will decide whether to keep all the four radio channels that they currently have (which are Capital FM, Red FM, Suria FM and 988 channel) or sell some of their radio channels.

Transformers exhibition in Las Vegas likely to start in 1Q16

Star's subsidiary Cityneon Holdings Ltd had recently acquired the exclusive rights to the Transformers exhibition. The exhibition will make its debut together with the Marvel exhibition at the Treasure Island Hotel and Casino Las Vegas in 1Q16. Currently, no Marvel exhibitions are running as both the New York and Korea exhibitions have ended. We believe this event and exhibition division could help to provide an additional source of income and diversify the group's existing businesses.

Fig. 5: Star's quarterly revenue breakdown



Source: Star, Affin Hwang

Valuation & Recommendation

Drop from Shariah compliant stocks list

Back in November 15, Star was delisted from the Securities Commission (SC) Shariah compliant stocks list. This was mainly due to its failure to meet the Cash/Total Asset criterion (Star's cash to total asset was above the 33% threshold). As such, the group has invested approximately RM128m in Shariah compliant products to bring down its Cash/Total Asset below the 33% level. The group believes that it will be included back in the Shariah compliant stocks list in 2016. The SC's next Shariah review is scheduled for May 2016.

Maintain SELL rating with target price unchanged at RM1.95

We maintain our SELL rating on Star, with an unchanged 12-month target price of RM1.95 based on a 12x 2016E PER (1SD below the 4-year average mean). We are cautious on Star due to: 1) it being adversely affected by the shift in adex revenue towards the broadcast segment from print; 2) potentially cautious adex spending given the GST implementation, uncertainties in the market coupled with the poor business and consumer sentiment; and 3) negative effects on hard copy circulation due to the continuous shift in preference for reading on mobile/Internet.

Key risks

Key upside risks to our recommendation include a sharp rebound in adex revenue, a substantial improvement in hard copy newspaper circulation and a higher-than-expected earnings contribution from the non-print segment.

Star – FINANCIAL SUMMARY

Profit & Loss Statement

FYE 31 Dec (RMm)	2013	2014	2015E	2016E	2017E
Revenue	1,025	1,014	1,023	1,045	1,089
Operating expenses	(794)	(792)	(842)	(850)	(891)
EBITDA	232	222	182	195	198
Depreciation	(54)	(50)	(44)	(38)	(36)
EBIT	178	171	138	157	162
Net interest income/(expense)	14	19	18	13	13
Pretax profit	193	153	156	170	175
Tax	(53)	(41)	(43)	(43)	(44)
Minority interest	3	(1)	(1)	(8)	1
Net profit	143	111	111	120	132
Core net profit	141	145	111	120	132

Balance Sheet Statement

FYE 31 Dec (RMm)	2013	2014	2015E	2016E	2017E
Fixed assets	515	484	455	430	408
Other long term assets	321	153	153	153	153
Total non-current assets	**836**	**638**	**608**	**584**	**561**
Cash and equivalents	538	621	671	730	791
Stocks	117	97	102	107	113
Debtors	202	307	307	307	307
Other current assets	5	7	7	7	7
Total current assets	**862**	**1,033**	**1,087**	**1,151**	**1,218**
Creditors	155	154	162	170	179
Short term borrowings	61	65	65	65	65
Other current liabilities	8	4	5	5	5
Total current liabilities	**224**	**224**	**232**	**240**	**249**
Long term borrowings	205	204	204	204	204
Other long term liabilities	107	100	101	108	107
Total long term liabilities	**312**	**304**	**305**	**312**	**311**
Shareholders' Funds	**1,162**	**1,143**	**1,158**	**1,182**	**1,219**

Cash Flow Statement

FYE 31 Dec (RMm)	2013	2014	2015E	2016E	2017E
EBIT	178	171	138	157	162
Depreciation & amortisation	54	50	44	38	36
Working capital changes	28	38	3	3	3
Cash tax paid	(59)	(49)	(43)	(43)	(44)
Others	9	5	18	13	13
Cashflow from operations	**210**	**216**	**159**	**169**	**171**
Capex	(19)	(14)	(14)	(14)	(14)
Disposal/(purchases)					
Others	(3)	20	-	-	-
Cash flow from investing	**(21)**	**6**	**(14)**	**(14)**	**(14)**
Debt raised/(repaid)	-	-	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Net int inc/(exp)	14	19	18	13	13
Dividends paid	(80)	(96)	(96)	(96)	(96)
Others	(58)	(65)	(18)	(13)	(13)
Cash flow from financing	**(124)**	**(141)**	**(96)**	**(96)**	**(96)**
Free Cash Flow	**191**	**202**	**145**	**155**	**157**

Source: Company data, Affin Hwang estimates

Key Financial Ratios and Margins

FYE 31 Dec (RMm)	2013	2014	2015E	2016E	2017E
Growth					
Revenue (%)	(5.1)	(1.1)	0.9	2.1	4.2
EBITDA (%)	(4.4)	(4.3)	(18.0)	7.3	1.5
Core net profit (%)	(5.2)	2.5	(23.3)	8.0	10.3
Profitability					
EBITDA margin (%)	22.6	21.9	17.8	18.7	18.2
PBT margin (%)	18.8	15.1	15.2	16.3	16.1
Net profit margin (%)	13.9	11.0	10.9	11.5	12.2
Effective tax rate (%)	27.6	27.0	27.9	25.0	25.0
ROA (%)	16.8	10.9	13.2	13.7	14.5
Core ROE (%)	12.3	12.6	9.7	10.3	11.0
ROCE (%)	12.6	12.1	9.7	10.9	11.0
Dividend payout ratio (%)	77.5	119.3	119.6	110.7	100.4
Liquidity					
Current ratio (x)	3.9	4.6	4.7	4.8	4.9
Op. cash flow (RMm)	209.6	215.7	159.1	168.9	170.8
Free cashflow (RMm)	190.9	201.8	145.1	155.0	156.9
FCF/share (sen)	25.9	27.3	19.7	21.0	21.2
Asset management					
Debtors turnover (days)	72	111	110	107	103
Stock turnover (days)	42	35	36	38	38
Creditors turnover (days)	55	56	58	59	60
Capital structure					
Net gearing (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Interest cover (x)	22.7	21.8	17.3	18.1	18.4

Quarterly Profit & Loss

FYE 31 Dec (RMm)	3Q14	4Q14	1Q15	2Q15	3Q15
Revenue	247	281	217	266	255
Operating expenses	(195)	(215)	(176)	(217)	(220)
EBITDA	52	66	42	49	35
Depreciation	(12)	(14)	(11)	(11)	(11)
EBIT	40	52	31	38	24
Net int income/(expense)	6	6	6	4	4
Associates' contribution	(0)	(0)	-	-	-
Exceptional Items	1	(26)	1	1	1
Pretax profit	47	32	38	43	29
Tax	(13)	(8)	(14)	(10)	(8)
Minority interest	1	(3)	3	(0)	2
Net profit	34	21	27	33	24
Core net profit	31	47	26	32	22
Margins (%)					
EBITDA	21.2	23.5	19.2	18.5	13.7
PBT	18.9	11.5	17.3	16.1	11.5
Net profit	13.9	7.6	12.2	12.5	9.3

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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