

Astro Malaysia (ASTRO MK)

Not a great start to the year but there is hope yet

Maintain BUY call with lower TP of MYR1.24 (-9%)

Our read of the 1QFY1/23 results implies to us that the current high inflation environment is having a negative impact on ASTRO's results. Thus, we cut our EPS estimates by 12-15% and DPS estimates by 1.5sen p.a. That said, we note that authorities may finally be acting against content pirates after the Copyright (Amendment) Act 2022 was gazetted. Thus, we trim our DCF-based TP to MYR1.24 from MYR1.36 but maintain our BUY call.

Core earnings within but EBITDA below expectations

1QFY1/23 core net profit of MYR119m was within our expectations at 27% of our FY estimate. That said, 1QFY1/23 EBITDA of MYR314.7m and first interim DPS of 1.25sen were below our expectations at 24% and 18% of our FY estimate. Recall that ASTRO will incur high FIFA World Cup content cost in 4QFY1/23, suppressing earnings then. We gather that the EBITDA and DPS underperformance was due to TV subscription (-2% QoQ) and home shopping (-19% QoQ) revenue continuing to weaken.

Cut EPS estimates by 12-15% but...

ASTRO explained that after Malaysia emerged from the COVID-19 pandemic, consumer sentiment remains fragile due to the current high inflation environment. Given the significantly lower-than-expected home shopping revenue, we slash our home shopping revenue forecasts by 42% p.a. to cut our FY23E/FY24E/FY25E EPS estimates by 15%/12%/12% and DPS estimates by 1.5sen p.a. For now, we maintain our forecast that TV subscription revenue will grow 1-2% p.a. going forward.

... there are +ve things to look out for

This is because authorities are launching raids against malls, enterprises and retailers selling or using illegal streaming devices (ISD) after the Copyright (Amendment) Act 2022 was gazetted on 18 Mar 2022. ASTRO stated that more parties will be targeted, which we gather will include e-commerce and social media platforms that openly sell ISDs. On another note, we expect its TV adex to get a lift from addressable (i.e. targeted) advertising which it launched last week.

FYE Jan (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	4,360	4,176	4,104	4,215	4,299
EBITDA	1,472	1,286	1,243	1,360	1,393
Core net profit	534	475	383	505	562
Core FDEPS (sen)	10.2	9.1	7.3	9.7	10.7
Core FDEPS growth(%)	(18.7)	(11.3)	(19.4)	32.1	11.1
Net DPS (sen)	8.0	6.8	5.5	7.0	8.5
Core FD P/E (x)	8.3	10.6	12.9	9.7	8.8
P/BV (x)	4.1	4.4	4.0	3.6	3.3
Net dividend yield (%)	9.4	7.0	5.9	7.4	9.0
ROAE (%)	55.8	41.8	32.6	39.1	39.5
ROAA (%)	8.9	8.5	7.1	9.7	11.6
EV/EBITDA (x)	4.9	5.9	6.0	4.9	4.5
Net gearing (%) (incl perps)	239.2	211.4	189.4	122.1	88.0
Consensus net profit	-	-	515	581	555
MKE vs. Consensus (%)	-	-	(25.6)	(12.9)	1.2

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BUY

Share Price	MYR 0.94
12m Price Target	MYR 1.24 (+37%)
Previous Price Target	MYR 1.36

Company Description

Astro Malaysia is an integrated consumer media entertainment group in Malaysia with operations in Pay-TV, Radio, Publications and Digital Media.

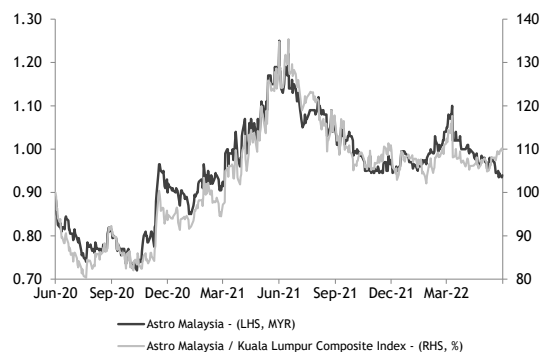
Statistics

52w high/low (MYR)	1.25/0.94
3m avg turnover (USDm)	0.7
Free float (%)	36.2
Issued shares (m)	5,215
Market capitalisation	MYR4.9B USD1.1B

Major shareholders:

Krishnan Tatparanandam Ananda	41.3%
Khazanah Nasional Bhd.	20.7%
Harapan Terus Sdn. Bhd.	8.7%

Price Performance



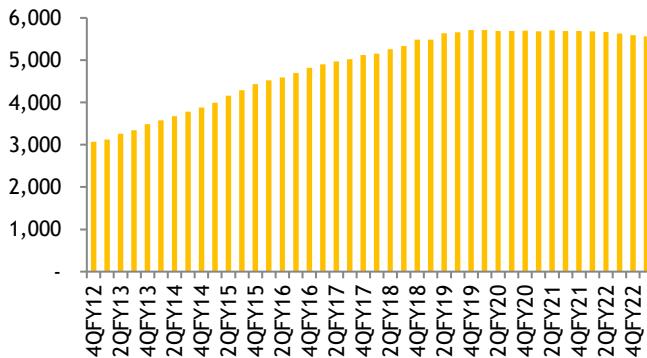
	-1M	-3M	-12M
Absolute (%)	(4)	(10)	(20)
Relative to index (%)	3	(0)	(13)

Source: FactSet

Value Proposition

- Integrated media group with operations in Pay-TV (90% of revenue), radio, publications and digital media.
- Largest Pay-TV operator with 5.6m subscribers - Pay-TV and subscription-free viewers (NJOI).
- Penetration rate in Malaysia is 71%. Growth driven by upgrading NJOI viewers to Pay-TV viewers.
- Challenge is to upsell HD products, diversify to IPTV and SVOD while managing content cost.
- That said, ASTRO is a lot more resilient than the adex-based media groups due to its stable subscriber base.
- Highly FCF generative. Capex is mostly maintenance and set-top-boxes (STB).

Number of viewers (Pay-TV and NJOI) ('000)

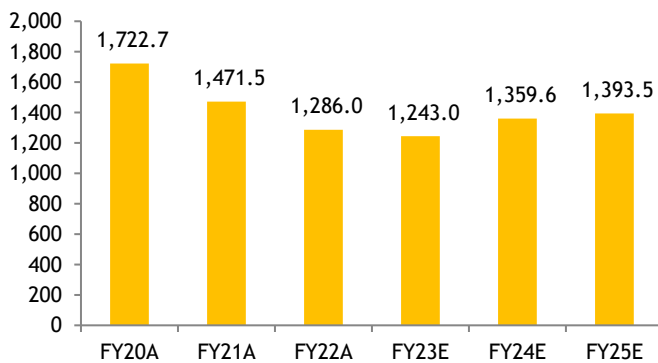


Source: Company

Financial Metrics

- Key financial metric is EBITDA because depreciation and amortisation are substantial at MYR500m-MYR600m p.a.
- Mismatch between net profit and FCF due to depreciation of STBs (3 years when useful life is often longer).
- Forecast FY23E EBITDA to ease 3% YoY largely due to lower home shopping revenue YoY.
- Forecast FY24E EBITDA to recover 9% YoY due to non-recurrence of FIFA World Cup content cost.
- Net gearing high at >200% as at end-FY22A but net debt/EBITDA manageable at <2x.

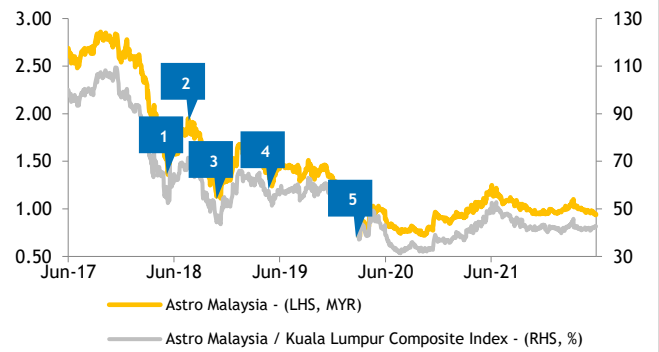
EBITDA (MYRm)



Source: Company (historical), Maybank IBG Research (forecasts)

Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

1. YoY decline in TV subscription revenue continued to accelerate.
2. New Pakatan Harapan government zero-rated Goods & Services Tax, boosting consumer sentiment.
3. Regulatory concerns arose that the new Pakatan Harapan government may license more competitors.
4. YoY decline in TV subscription revenue continued to accelerate.
5. COVID-19 pandemic strikes Malaysia. To date, there are 4.5m cases and 35.7k deaths.

Swing Factors

Upside

- More Pay-TV subscribers - require six to twelve months to break-even but they drive long-term growth.
- More HD products subscribers - drive ARPU growth due to their high monthly subscription fees.
- Higher average revenue per user (ARPU) - all else being equal, higher ARPUs translate into higher margins.

Downside

- Higher content cost - ~30% of total cash expenses and vulnerable to fluctuations in the USDMYR exchange rate.
- Stronger MYR/USD exchange rate - STBs, satellite transponders and 2/3 of content cost are denominated in USD.
- More new competitors - monopoly on direct-to-home services ended in Feb 2017.

Figure 1: Summary Results Table

FY Jan (MYRm)	1Q23	1Q22	% YoY	4Q22	% QoQ
Turnover	962.1	1,061.5	(9.4)	1,031.3	(6.7)
Operating expenses	(647.4)	(687.5)	(5.8)	(725.8)	(10.8)
EBITDA	314.7	374.0	(15.9)	305.5	3.0
Depreciation & amortisation	(128.5)	(139.1)	(7.6)	(117.6)	9.3
EBIT	186.2	234.9	(20.7)	187.9	(0.9)
Net interest expense	(34.2)	(40.2)	(14.9)	(30.3)	12.7
Associates	(0.1)	(0.2)	(50.0)	-	N/M
Exceptional items	(25.0)	(7.9)	216.7	(5.3)	375.0
Pre-tax profit	126.9	186.6	(32.0)	152.3	(16.7)
Tax	(31.1)	(43.9)	(29.2)	(27.3)	13.9
Minority interest	4.2	(1.5)	(380.0)	1.6	162.5
Net profit	100.0	141.2	(29.2)	126.6	(21.0)
Core net profit	119.0	147.2	(19.2)	130.6	(8.9)
	1Q23	1Q22	% YoY	4Q22	% QoQ
EBITDA margin (%)	32.7	35.2	(2.5)	29.6	3.1
Tax rate (%)	24.5	23.5	1.0	17.9	6.6
Segmental Results Table					
Turnover	962.1	1,061.5	(9.4)	1,031.3	(6.7)
- Television subscription	730.6	776.7	(5.9)	741.8	(1.5)
- Other television	128.6	126.8	1.4	166.1	(22.6)
- Radio broadcasting	48.8	42.8	14.0	56.5	(13.6)
- Home shopping	54.0	115.2	(53.1)	66.9	(19.3)
- Others	0.1	-	N/M	-	N/M
EBITDA	314.7	374.0	(15.9)	305.5	3.0
- Television	296.9	349.0	(14.9)	286.3	3.7
- Radio broadcasting	28.4	20.2	40.6	45.3	(37.3)
- Home shopping	(8.3)	5.7	(245.6)	(3.5)	137.1
- Others	(2.3)	(0.9)	155.6	(22.6)	(89.8)
Key statistics					
Total subscribers - Pay TV & NJOI ('000)	5,561	5,681	(2.1)	5,588	(0.5)
MAT ARPU (MYR)	97.4	97.2	0.2	97.2	0.2

Source: Company

Results analysis

- 1QFY1/23 EBITDA was down 16% YoY largely due to weaker TV subscription and home shopping revenue YoY dealt by inflation driven poor consumer sentiment.
- 1QFY1/23 EBITDA was up 3% QoQ largely due to lower content cost QoQ (MYR272m vs. MYR285m) and non-recurrence of certain write-offs and impairments.

Other updates

- ASTRO is well hedged foreign currency wise for the rest of FY1/23E as foreign exchange rates were locked in last financial year (i.e. FY1/22A).
- Going forward, depreciation will rise due to the delivery of satellite transponders on MEASAT-3D.

Figure 2: ASTRO DCF-based valuation

	MYRm	MYR/sh	Comments
DCF	6,743.9	1.29	10.1% WACC, g=0.0%
Investments	263.0	0.05	End-FY1/23E
Net debt ex-finance lease liabilities	(549.6)	(0.11)	End-FY1/23E
Total	6,457.3	1.24	

Source: Maybank IBG Research

FYE 31 Jan	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	8.5	11.5	12.8	9.7	8.7
Core P/E (x)	8.3	10.5	12.8	9.7	8.7
Core FD P/E (x)	8.3	10.6	12.9	9.7	8.8
P/BV (x)	4.1	4.4	4.0	3.6	3.3
P/NTA (x)	(5.2)	(5.7)	(6.3)	(7.6)	(9.3)
Net dividend yield (%)	9.4	7.0	5.9	7.4	9.0
FCF yield (%)	34.8	20.1	33.7	28.7	29.5
EV/EBITDA (x)	4.9	5.9	6.0	4.9	4.5
EV/EBIT (x)	8.3	10.1	11.2	8.6	7.6

INCOME STATEMENT (MYR m)

Revenue	4,359.7	4,175.5	4,103.6	4,214.6	4,298.7
EBITDA	1,471.5	1,286.0	1,243.0	1,359.6	1,393.5
Depreciation	(595.4)	(531.8)	(580.8)	(578.3)	(567.5)
EBIT	876.1	754.2	662.2	781.3	826.0
Net interest income / (exp)	(191.1)	(145.2)	(169.7)	(130.6)	(103.1)
Associates & JV	(0.1)	0.1	0.1	0.1	0.1
Exceptionals	8.0	(18.4)	0.0	0.0	0.0
Pretax profit	692.8	590.7	492.6	650.8	723.0
Income tax	(165.0)	(130.1)	(118.7)	(156.8)	(174.2)
Minorities	12.0	0.3	8.6	11.4	12.7
Reported net profit	539.8	460.9	382.6	505.4	561.5
Core net profit	533.8	474.9	382.6	505.4	561.5

BALANCE SHEET (MYR m)

Cash & Short Term Investments	264.9	165.2	268.1	254.1	368.5
Accounts receivable	568.0	719.2	534.7	549.1	560.1
Inventory	12.8	19.7	12.1	12.4	12.7
Property, Plant & Equip (net)	1,725.1	1,562.6	2,133.3	1,815.0	1,510.7
Intangible assets	1,934.2	2,004.7	2,004.7	2,004.7	2,004.7
Investment in Associates & JVs	2.1	2.2	2.3	2.4	2.5
Other assets	1,278.1	851.1	539.6	289.6	289.6
Total assets	5,785.2	5,324.7	5,494.7	4,927.3	4,748.9
ST interest bearing debt	322.5	893.7	724.9	277.6	320.8
Accounts payable	855.4	755.8	847.3	845.6	860.5
LT interest bearing debt	2,690.7	1,815.9	1,988.0	1,710.4	1,389.6
Other liabilities	768.0	656.0	644.0	674.0	653.0
Total Liabilities	4,636.5	4,121.0	4,203.9	3,507.5	3,223.4
Shareholders Equity	1,077.8	1,125.3	1,221.1	1,361.5	1,479.8
Minority Interest	70.9	78.4	69.8	58.3	45.6
Total shareholder equity	1,148.8	1,203.7	1,290.8	1,419.8	1,525.4
Total liabilities and equity	5,785.2	5,324.7	5,494.7	4,927.3	4,748.9

CASH FLOW (MYR m)

Pretax profit	692.8	590.7	492.6	650.8	723.0
Depreciation & amortisation	595.4	531.8	580.8	578.3	567.5
Adj net interest (income)/exp	198.6	135.9	169.7	130.6	103.1
Change in working capital	13.2	(220.8)	283.6	(16.4)	3.7
Cash taxes paid	(171.5)	(148.0)	(106.1)	(151.0)	(171.6)
Other operating cash flow	44.6	100.3	17.2	17.2	17.2
Cash flow from operations	1,682.9	1,284.6	1,775.0	1,535.2	1,574.0
Capex	(138.7)	(278.0)	(123.1)	(126.4)	(129.0)
Free cash flow	1,544.1	1,006.6	1,651.9	1,408.8	1,445.0
Dividends paid	(286.8)	(443.2)	(286.8)	(365.0)	(443.2)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(443.0)	(385.4)	(892.1)	(724.9)	(277.6)
Other invest/financing cash flow	(844.2)	(277.1)	(370.0)	(332.8)	(609.8)
Effect of exch rate changes	(0.8)	(0.6)	0.0	0.0	0.0
Net cash flow	(30.7)	(99.7)	102.9	(14.0)	114.4

FYE 31 Jan	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	(11.2)	(4.2)	(1.7)	2.7	2.0
EBITDA growth	(14.6)	(12.6)	(3.3)	9.4	2.5
EBIT growth	(18.3)	(13.9)	(12.2)	18.0	5.7
Pretax growth	(19.7)	(14.7)	(16.6)	32.1	11.1
Reported net profit growth	(17.6)	(14.6)	(17.0)	32.1	11.1
Core net profit growth	(18.7)	(11.0)	(19.4)	32.1	11.1
Profitability ratios (%)					
EBITDA margin	33.8	30.8	30.3	32.3	32.4
EBIT margin	20.1	18.1	16.1	18.5	19.2
Pretax profit margin	15.9	14.1	12.0	15.4	16.8
Payout ratio	77.3	76.4	75.0	72.2	78.9
DuPont analysis					
Net profit margin (%)	12.4	11.0	9.3	12.0	13.1
Revenue/Assets (x)	0.8	0.8	0.7	0.9	0.9
Assets/Equity (x)	5.4	4.7	4.5	3.6	3.2
ROAE (%)	55.8	41.8	32.6	39.1	39.5
ROAA (%)	8.9	8.5	7.1	9.7	11.6
Liquidity & Efficiency					
Cash conversion cycle	(51.1)	(42.9)	(43.9)	(58.9)	(57.7)
Days receivable outstanding	50.9	55.5	55.0	46.3	46.4
Days inventory outstanding	1.6	2.0	2.0	1.5	1.6
Days payables outstanding	103.6	100.4	100.9	106.7	105.7
Dividend cover (x)	1.3	1.3	1.3	1.4	1.3
Current ratio (x)	1.1	0.7	0.6	0.6	0.6
Leverage & Expense Analysis					
Asset/Liability (x)	1.2	1.3	1.3	1.4	1.5
Net gearing (%) (incl perps)	239.2	211.4	189.4	122.1	88.0
Net gearing (%) (excl. perps)	239.2	211.4	189.4	122.1	88.0
Net interest cover (x)	4.6	5.2	3.9	6.0	8.0
Debt/EBITDA (x)	2.0	2.1	2.2	1.5	1.2
Capex/revenue (%)	3.2	6.7	3.0	3.0	3.0
Net debt/ (net cash)	2,748.2	2,544.4	2,444.8	1,733.9	1,341.8

Source: Company; Maybank IBG Research

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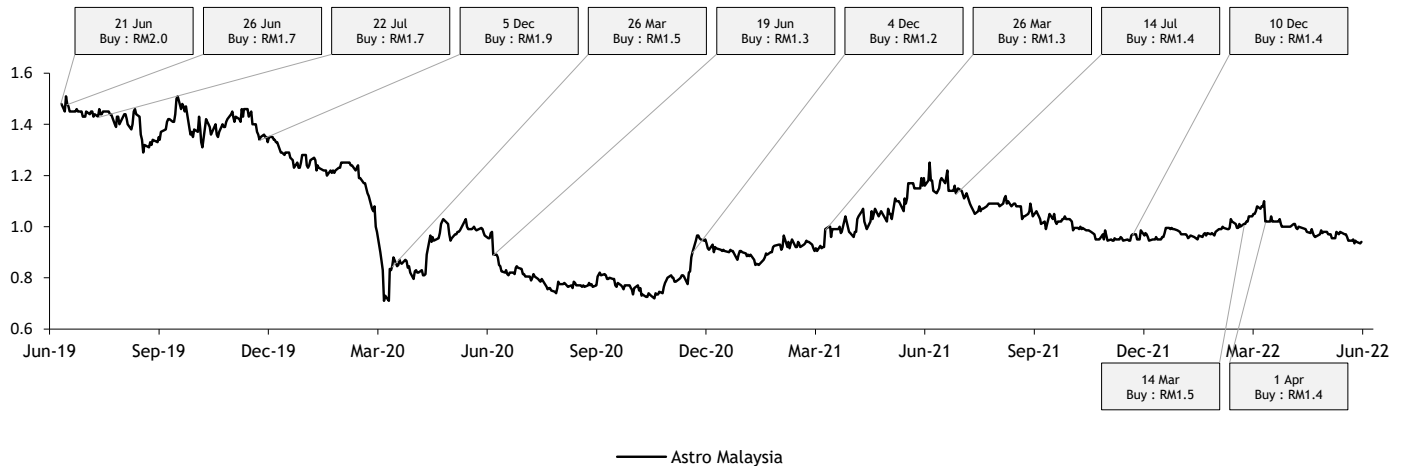
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