

Malaysia Company Guide

Astro Malaysia Holdings

Version 10 | Bloomberg: ASTRO MK | Reuters: ASTR.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

1 Aug 2018

BUY (Upgrade from Hold)

Last Traded Price (31 Jul 2018): RM1.83 (KLCI : 1,784.25)
Price Target 12-mth: RM2.25 (23% upside) (Prev RM2.25)

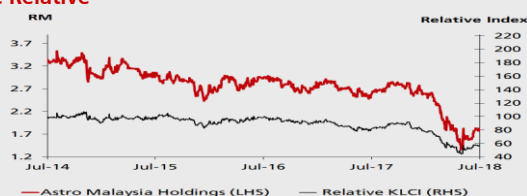
Analyst

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What's New

- Regulatory concerns overblown; licence exclusivity already expired in 2017 while Astro's subscription prices are actually quite in line with regional peers
- Development in the fixed broadband market could be an opportunity for Astro to drive its IPTV services and/or connected boxes
- Valuation is undemanding at 12.5x FY20 PE and 6% net yield. Upgrade to BUY with unchanged RM2.25 TP

Price Relative



Forecasts and Valuation

FY Jan (RMm)	2018A	2019F	2020F	2021F
Revenue	5,531	5,621	5,640	5,743
EBITDA	1,503	1,656	1,737	1,755
Pre-tax Profit	1,073	861	996	1,077
Net Profit	771	651	752	813
Net Pft (Pre Ex.)	678	651	752	813
Net Pft Gth (Pre-ex) (%)	0.2	(4.0)	15.5	8.1
EPS (sen)	14.8	12.5	14.4	15.6
EPS Pre Ex. (sen)	13.0	12.5	14.4	15.6
EPS Gth Pre Ex (%)	0	(4)	16	8
Diluted EPS (sen)	13.0	12.5	14.4	15.6
Net DPS (sen)	12.5	10.5	12.0	13.0
BV Per Share (sen)	12.5	14.5	17.0	19.5
PE (X)	12.4	14.7	12.7	11.7
PE Pre Ex. (X)	14.1	14.7	12.7	11.7
P/Cash Flow (X)	4.7	6.3	7.2	6.2
EV/EBITDA (X)	8.3	7.2	6.8	6.5
Net Div Yield (%)	6.8	5.7	6.6	7.1
P/Book Value (X)	14.6	12.6	10.8	9.4
Net Debt/Equity (X)	4.5	3.3	2.6	1.9
ROAE (%)	120.7	92.2	91.6	85.4
Earnings Rev (%):		0	0	0
Consensus EPS (sen):		13.1	14.3	15.2
Other Broker Recs:		B: 10	S: 1	H: 9

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P

Stay tuned

Upgrade to BUY with unchanged RM2.25 TP. We believe that regulatory concerns over Astro are overblown given that its exclusive direct-to-home (DTH) licence had already expired in early 2017. Despite being the dominant pay-TV operator, we think the regulator recognises that Astro faces competition from other platforms as well, and we also note that its subscription prices are actually quite in line with regional peers. Its share price is currently trading at an undemanding valuation of 12.5x FY20 PE and offers 6% net dividend yield. Upgrade to BUY with unchanged RM2.25 TP. Our TP implies 15.6x FY20 PE, which is about -1SD of its 5-year mean, reflecting its exclusion as a constituent of the FBM KLCI.

Where we differ – Our FY20-21 earnings are slightly above consensus. We assume no subscriber growth in FY19-21 on the back of relatively flat ARPU. We expect forex tailwinds and cost-savings initiatives would help to improve margins, especially from FY20 onwards.

Potential Catalysts. We believe a turnaround in consumer sentiment will be positive for the company, as it could help to drive pay-TV subscriber growth and positive ARPU trend.

Valuation:

Our RM2.25 TP is based on DCF valuation – assuming 8.7% WACC and 1.0% terminal growth. This implies 15.6x FY20 PE.

Key Risks to Our View:

Weak consumer sentiment. Weaker consumer spending may also compel consumers to subscribe to cheaper packages, and/or lead to a higher churn rate.

At A Glance

Issued Capital (m shrs)	5,214
Mkt. Cap (RMm/US\$m)	9,541 / 2,359
Major Shareholders (%)	
Khazanah Nasional Bhd	20.7
Usaha Tegas Group	41.0
T. Rowe	5.1
Free Float (%)	25.0
3m Avg. Daily Val (US\$m)	2.7

ICB Industry : Consumer Services / Media

WHAT'S NEW

Company update – Stay tuned

Regulatory concerns overblown. In the wake of the 14th General Election (GE14) in May, Astro shares suffered a sharp sell-down given the regulatory concerns over its monopoly status, which the new Pakatan Harapan (PH) government intends to review as per its election manifesto. We think that the sentiment on the stock was also further affected by the Government's decision to broadcast selected FIFA World Cup matches on FTA-TV in June (though we note this actually had been the common practice in previous World Cup events).

We believe that regulatory concerns over Astro's monopoly status are overblown given that its exclusive direct-to-home (DTH) licence had already expired in early 2017. Despite being a dominant player in the pay-TV market, we do not think that MCMC harbours any views that Astro is anti-competitive or has abused its dominant position. In fact, based on our conversation with MCMC, the regulator understands the changes in consumers' TV viewing habit and is of the view that Astro faces competition from other platforms such as online streaming services (both legal and illegal).

Furthermore, unlike the case with Telekom Malaysia for fixed broadband, Astro's pricing and content offering are actually quite in line with regional peers, after accounting for the forex differences (about USD24-25 based on RM99 ARPU).

Shift in Astro's content strategy. Due to the depreciating ringgit against USD over the last few years, Astro had been actively re-negotiating contracts with content providers to lower down the costs and/or to obtain additional rights at the same rates (for e.g., on-demand and streaming rights). Getting additional rights had been quite important for Astro as it strives to offer better value propositions for its subscribers with free Video-on-Demand (VOD) services and over-the-top (OTT) application (Astro GO), in tune with the changes in consumers' viewing habits.

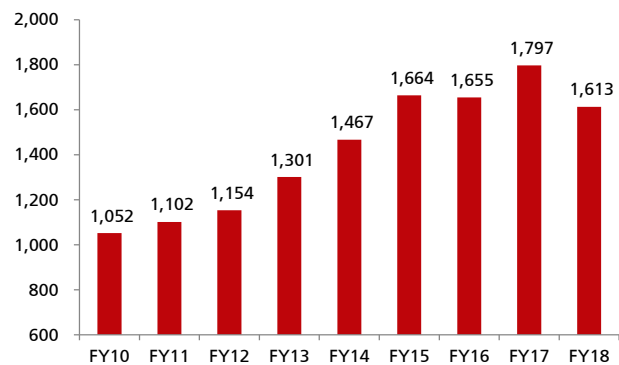
Astro is also re-thinking its approach to exclusive contents, perhaps due to diminishing value over the years as contents are more easily accessible now (whether legal or illegal). We notice the company no longer has exclusivity to FOX non-sport channels, and these channels have been picked up by TM Unifi TV recently. Foreign contents which are still exclusive to Astro are mainly from TVB, HBO, and English Premier League (EPL).

Astro's spending on content costs is still 30:70 split between regional/vernacular vs. international and sport contents. Over time, management intends to spend more on vernacular content and bring the split up to 40%, mainly coming from its own IP production.

Sports content, especially EPL, remains the most expensive content for Astro but it is necessary as a differentiator.

Management is experimenting with various methods to better monetise sports content including: 1) Introducing a lower-priced skinny pack for sports channels; and 2) Ala-carte subscription passes which can also be extended to non-Astro customers via the Astro GO app. This was offered during FIFA World Cup recently, and the same model could potentially be applied to EPL football matches in the future.

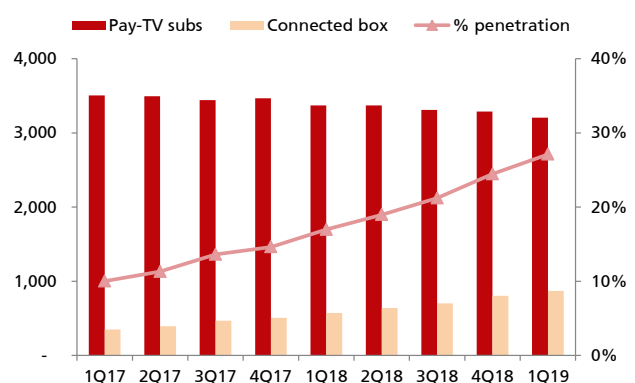
Astro's annual spending on content (in RM m)



Sources: Company

Possible renewed interest in IPTV. In view of the recent implementation of MSAP (Mandatory Standard on Access Pricing), we believe the fixed broadband market in Malaysia is likely to get more vibrant as potential new players enter into the space. In our view, this represents renewed opportunities for Astro who actually offers its own IPTV services (beside satellite DTH) but has not been actively pursuing this market in recent years. Instead, Astro is taking another approach by incentivising its subscribers to upgrade to WiFi-enabled PVR set-top boxes (i.e. connected box). The penetration of connected box among its pay-TV subs is close to 30% as at April 2018.

Astro's connected box (in '000s)



Sources: Company, AllianceDBS estimate

Connected box subscribers are more engaged due to better viewing experience. Astro has alluded that its connected box subscribers are more engaged, which we concur with. The issue goes back again to the changes in consumers' viewing habit – on-demand, non-linear, catch-up, binge, streaming, etc. (basically anytime, anywhere), which is hard to achieve via the traditional satellite DTH platform. Pairing with broadband connectivity will be able to solve this and help to enhance viewing experience to a level that it is similar to OTT apps such as Netflix.

Over the longer term, we believe broadband connectivity will be increasingly important for Astro to enhance the content delivery services to its subscribers. Taking Sky Q TV services in the UK as an example, some of its interesting and premium features include: 1) Multi-room viewing without the need to install additional satellite dish; 2) Seamless multi-screen viewing, be it TV, laptop, tablet or smartphone; 3) Contents available in 4K Ultra HD; and 4) Future option to have TV services delivered via broadband entirely and bypass satellite dish installation.

Maxis-Astro merger? We think there is a lack of synergy in the near term as sister-company Maxis is largely a mobile company and only have some presence in the fixed broadband market currently. However, with the implementation of MSAP, we certainly could see Maxis gaining meaningful market share by being an access seeker on TM's HSBB network, thus providing some angle to the Maxis-Astro merger further down the road. That said, all of these will depend on how the fixed broadband market in Malaysia develops eventually.

Valuation and recommendation

A soft 2QFY19 (May-Jul period). We expect Astro to report soft 2QFY19 results mainly due to the increase in content costs incurred for the FIFA World Cup events. In addition, adex spending is also likely to be tepid during this period as well given various uncertainties from GE14. We understand from Astro that consumer sentiment is exceptionally buoyed by the abolishment of GST in June; therefore, diminishing the need for businesses to advertise in the near term.

Notwithstanding that, we expect business performance for Astro to pick up in 2HFY19, underpinned by the upbeat consumer sentiment.

Key assumptions to our model. We make no changes to our FY19-21F earnings forecast. In our model, we already assume minimal subscriber net addition, flattish ARPU, and Astro Pay-TV household penetration rate to decline to 40% in the long term (from 45% currently), which we deem reasonable. There are still avenues for Astro to drive growth in adex, home shopping business, as well as achieve better management of content costs in the long run.

Upgrade to BUY with unchanged RM2.25 TP. Our DCF-based for Astro is unchanged at RM2.25, based on WACC of 8.7% and TG of 1.0%. We upgrade our recommendation to BUY as we believe Astro's valuation is attractive at 12.5x FY20 PE, on top of its 6% net yield.

CRITICAL DATA POINTS TO WATCH

Critical Factors

Dominant pay-TV operator in Malaysia. As at Apr 2018, we estimate Astro had a residential pay-TV subscriber base of 3.2m, roughly translating into a penetration rate of about 45% of Malaysian households. There should also be about 2.3m subscribers using its free-to-air (FTA) satellite TV service, Njoi.

Besides growing its pay-TV services, Astro has also been seeking new growth areas within its business such as TV advertising, home shopping and content sales, over the past few years.

Challenging to grow its pay-TV sub base. We believe Astro’s pay-TV subscriber growth has been slowing in recent years due to rising cost of living (which impacted discretionary spending) and the emergence of over-the-top (OTT) alternatives. As such, we expect pay-TV subscriber growth for Astro to remain flattish, lagging behind the household formation rate of 2-3% p.a. going forward, with penetration rate remaining stable at 41-44%.

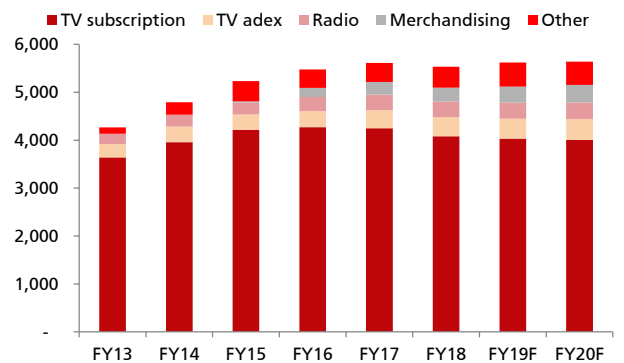
Astro is likely to add more subscribers on its Njoi platform in a bid to retain subscribers who have churned out. This should help to maintain viewership and drive advertising revenue, although monetisation through prepaid channels is generally still very low.

Slowing ARPU. ARPU had been on the rise in FY12-17, largely driven by the increase in take-up rate of HD services when Astro aggressively swapped out set-top boxes (STB) and launched more HD channels. But, given the poor consumer sentiment, ARPU growth had slowed down significantly in recent quarters as subscribers cut back on their spending by downgrading to cheaper packages. We believe overall ARPU growth will be quite muted in the near term, save for occasional price hikes by Astro to mitigate higher content costs.

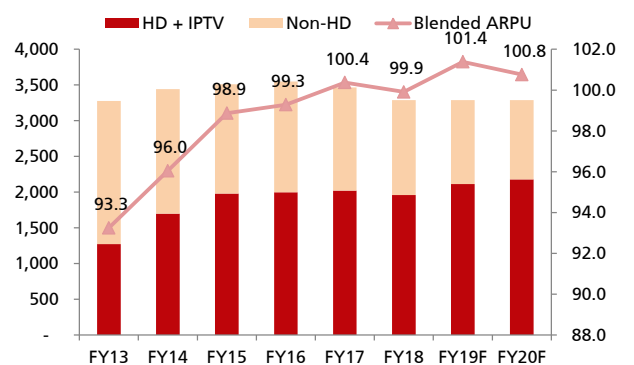
Growing advertising revenue. Post re-listing in 2012, TV advertising is one of Astro’s main focus areas to drive revenue growth. Due to the wider reach to the mass market with the introduction of Njoi and advertisers adopting a more targeted approach to advertising, Astro managed to grow its TV adex by 9-16% in FY12-14 and took market share from Media Prima. TV adex dipped 2% in FY15 owing to poor consumer sentiment before recovering by 6-12% in FY16-17. We expect growth to be modest at 4% in FY19-20F.

Radio is generally more resilient as it typically benefits from downtrading by advertisers during tough times. For Astro, we assume adex growth of 4% p.a. in FY19-20F, regaining some market share and expecting contribution from two new radio stations launched recently.

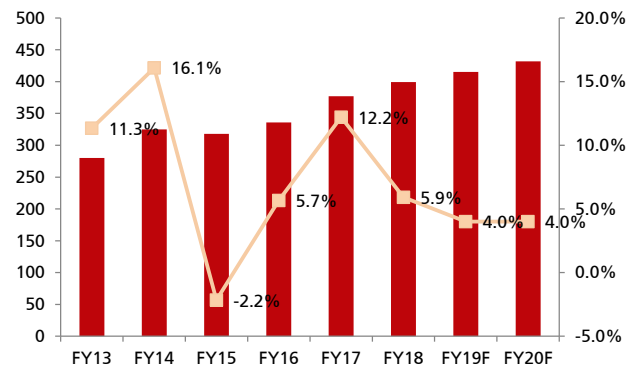
Revenue breakdown (in RM m)



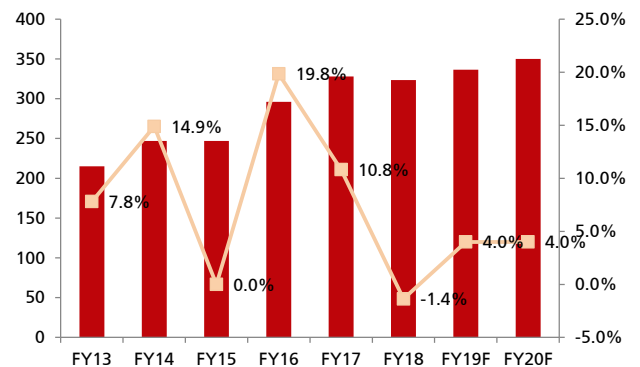
Pay-TV subscribers ('000) and ARPU



TV adex and y-o-y growth (%)



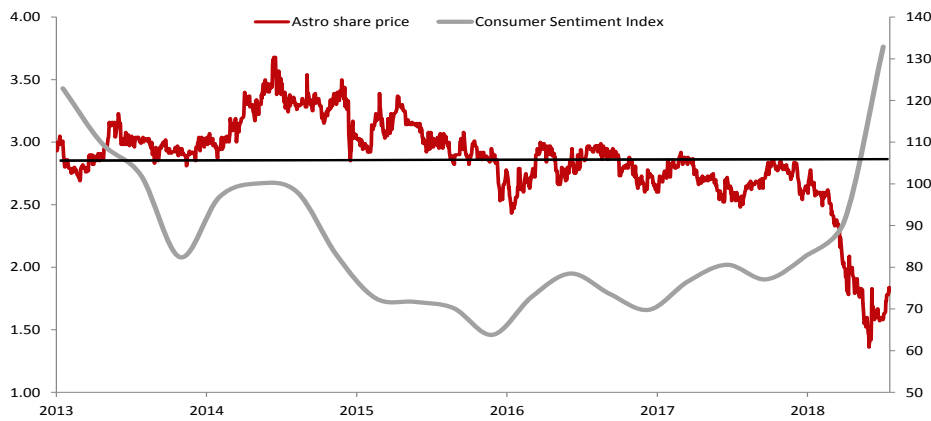
Radio adex and y-o-y growth (%)



Source: Company, AllianceDBS

Appendix 1: A look at Astro Malaysia’s listed history – what drives its share price?

Astro share price vs Consumer Sentiment Index



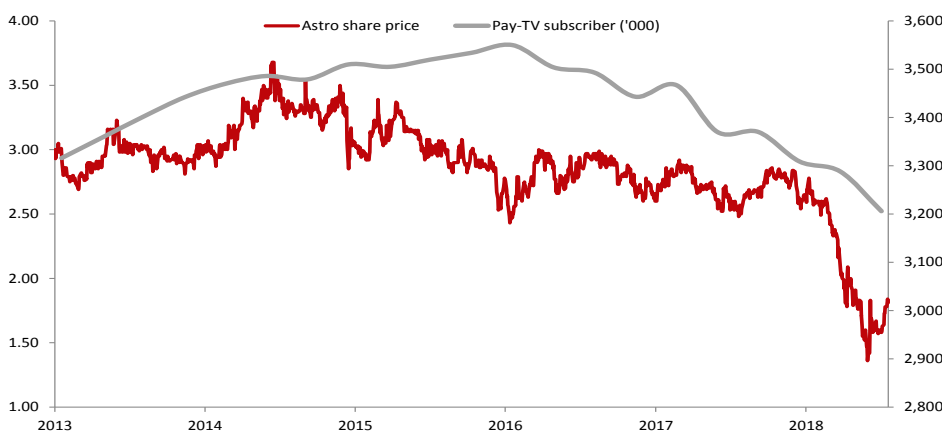
Sources: AllianceDBS Research, Bloomberg Finance L.P, MIER

Remarks

Astro Pay-TV services are influenced by consumer discretionary spending, which is represented by the Consumer Sentiment Index.

It shapes investor expectations on subscriber base and ARPU trend.

Astro share price vs no. of subscribers (in '000)



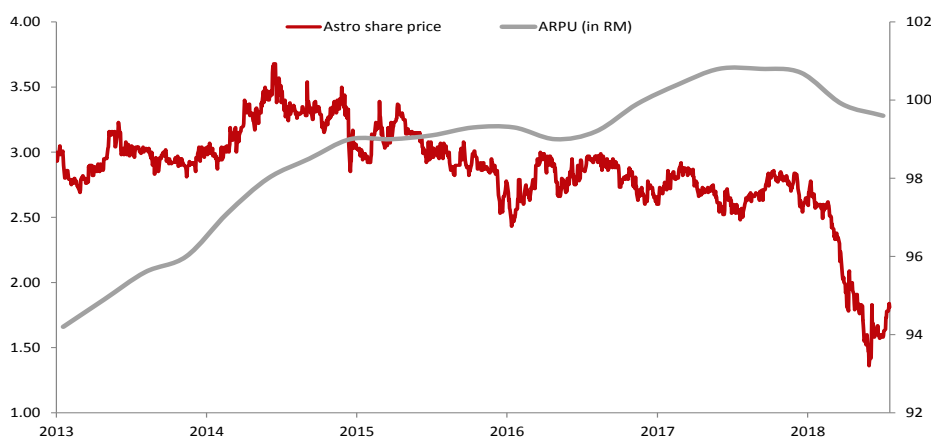
Sources: AllianceDBS Research, Bloomberg Finance L.P

Remarks

When Astro Malaysia was having subscriber gain and uptrend in ARPU, there is a positive effect on share price.

Share price performance is lacklustre given subscriber loss and anaemic ARPU.

Astro share price vs. monthly ARPU



Sources: AllianceDBS Research, Bloomberg Finance L.P

Remarks

Astro is considered a dominant player in the Pay-TV market in Malaysia and naturally has the ability to raise prices.

Any uptrend in ARPU needs to be accompanied by positive subscriber gain in order to drive the share price.

Astro Malaysia Holdings

Balance Sheet:

Still comfortable gearing position. As at Apr 2018, the gearing level for Astro remained comfortable at 1.6x net debt-to-EBITDA. More importantly, all of its USD term loans and USD-based finance leases have been fully-hedged or re-denominated into ringgit since 2013. Currently, Astro's only balance sheet exposure to USD fluctuation is finance lease liabilities and vendor financing for its set-top boxes.

Capex. Cash capex was high in previous years mainly due to the aggressive swap-out of STBs by Astro. STBs are owned by Astro and conservatively amortised over three years. Apart from that, Astro also had some major non-cash capex recently – i.e. finance leases for new satellite transponder capacity to expand its HD channels.

Share Price Drivers:

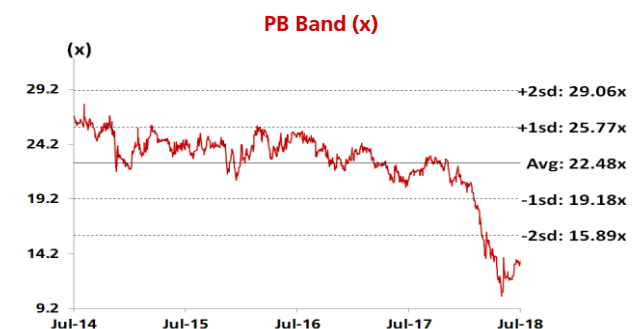
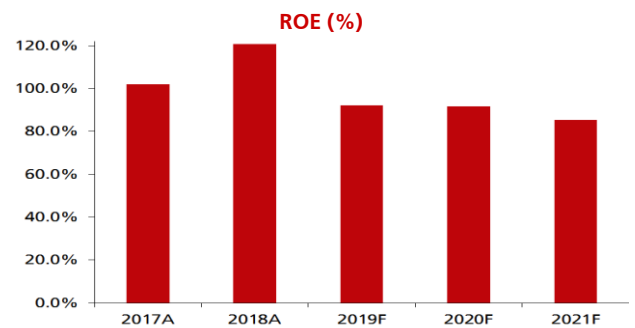
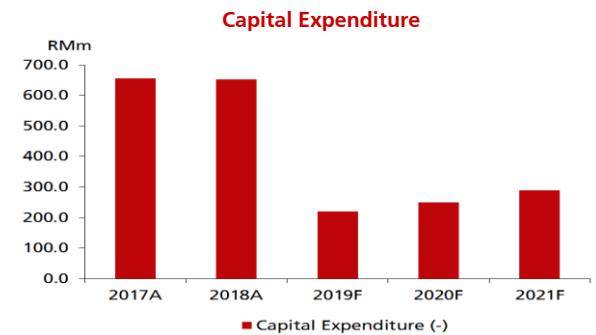
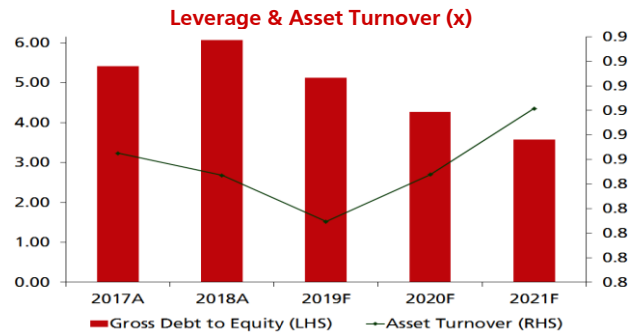
Turnaround in consumer sentiment. As reflected in the share price, Astro's subscription-based revenue has been more resilient in the current weak environment compared to other media companies that rely on advertising. Nevertheless, we believe a turnaround in consumer sentiment will still be positive for the company, as it could help to alleviate concerns over flat ARPU growth.

Key Risks:

Weak consumer sentiment. Weaker consumer spending could also compel consumers to subscribe to cheaper packages, and/or lead to a higher churn rate.

Company Background

Astro Malaysia is the dominant pay-TV operator in Malaysia with more than 80% market share.



Source: Company, AllianceDBS

Key Assumptions

FY Jan	2017A	2018A	2019F	2020F	2021F
Pay-TV subscribers ('000)	3,467	3,288	3,288	3,288	3,288
Blended ARPU (RM/month)	100	99.9	101	101	102
TV adex growth (%)	12.2	5.92	4.00	4.00	4.00
Radio adex growth (%)	10.8	(1.4)	4.00	4.00	4.00

Income Statement (RMm)

FY Jan	2017A	2018A	2019F	2020F	2021F
Revenue	5,613	5,531	5,621	5,640	5,743
Cost of Goods Sold	(3,461)	(3,270)	(3,511)	(3,402)	(3,425)
Gross Profit	2,152	2,261	2,110	2,237	2,318
Other Opg (Exp)/Inc	(1,004)	(1,214)	(1,043)	(1,050)	(1,069)
Operating Profit	1,148	1,047	1,068	1,187	1,249
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(13.3)	(1.6)	0.0	0.0	0.0
Net Interest (Exp)/Inc	(236)	(65.2)	(207)	(191)	(172)
Exceptional Gain/(Loss)	(52.9)	92.7	0.0	0.0	0.0
Pre-tax Profit	846	1,073	861	996	1,077
Tax	(229)	(309)	(215)	(249)	(269)
Minority Interest	6.70	6.70	5.00	5.00	5.00
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	624	771	651	752	813
Net Profit before Except.	677	678	651	752	813
EBITDA	1,608	1,503	1,656	1,737	1,755
Growth					
Revenue Gth (%)	2.5	(1.5)	1.6	0.3	1.8
EBITDA Gth (%)	(11.2)	(6.6)	10.2	4.9	1.1
Opg Profit Gth (%)	3.0	(8.8)	1.9	11.2	5.2
Net Profit Gth (Pre-ex) (%)	10.0	0.2	(4.0)	15.5	8.1
Margins & Ratio					
Gross Margins (%)	38.3	40.9	37.5	39.7	40.4
Opg Profit Margin (%)	20.5	18.9	19.0	21.0	21.8
Net Profit Margin (%)	11.1	13.9	11.6	13.3	14.1
ROAE (%)	101.9	120.7	92.2	91.6	85.4
ROA (%)	9.5	11.8	9.5	11.2	12.3
ROCE (%)	17.2	15.4	15.8	17.6	18.5
Div Payout Ratio (%)	104.3	84.5	84.1	83.2	83.4
Net Interest Cover (x)	4.9	16.1	5.2	6.2	7.2

Lower margins in FY19 due to higher content costs (for FIFA World Cup)

Source: Company, AllianceDBS

Astro Malaysia Holdings

Quarterly / Interim Income Statement (RMm)

FY Jan	1Q2018	2Q2018	3Q2018	4Q2018	1Q2019
Revenue	1,326	1,420	1,397	1,388	1,311
Cost of Goods Sold	(783)	(758)	(880)	(849)	(766)
Gross Profit	544	661	517	539	545
Other Oper. (Exp)/Inc	(243)	(280)	(270)	(328)	(249)
Operating Profit	301	382	247	211	296
Other Non Opg (Exp)/Inc	(8.0)	(7.4)	(8.1)	(70.8)	(0.7)
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(31.1)	(42.0)	(40.8)	48.7	(61.8)
Exceptional Gain/(Loss)	8.10	7.00	7.70	69.9	1.20
Pre-tax Profit	270	339	206	259	235
Tax	(77.1)	(94.1)	(60.1)	(77.9)	(61.0)
Minority Interest	3.50	1.20	0.70	1.30	0.80
Net Profit	196	246	147	182	175
Net profit bef Except.	188	239	139	112	174
EBITDA	544	640	508	424	555

Weak Pay-TV subscriber trend

Growth

Revenue Gth (%)	(5.1)	7.1	(1.6)	(0.6)	(5.6)
EBITDA Gth (%)	(5.3)	17.7	(20.6)	(16.7)	31.1
Opg Profit Gth (%)	9.8	27.0	(35.2)	(14.8)	40.6
Net Profit Gth (Pre-ex) (%)	3.6	27.4	(42.0)	(19.4)	54.9

Margins

Gross Margins (%)	41.0	46.6	37.0	38.8	41.6
Opg Profit Margins (%)	22.7	26.9	17.7	15.2	22.6
Net Profit Margins (%)	14.8	17.3	10.5	13.1	13.3

Balance Sheet (RMm)

FY Jan	2017A	2018A	2019F	2020F	2021F
Net Fixed Assets	1,818	2,401	2,070	1,797	1,590
Invt in Associates & JVs	4.30	2.70	2.70	2.70	2.70
Other LT Assets	2,737	2,403	2,366	2,339	2,330
Cash & ST Invt	827	1,008	1,387	1,484	1,705
Inventory	20.4	19.7	18.7	18.8	19.1
Debtors	859	1,012	937	940	957
Other Current Assets	1.00	2.20	2.20	2.20	2.20
Total Assets	6,266	6,848	6,783	6,584	6,607
ST Debt	629	646	646	646	646
Creditor	1,627	1,653	1,606	1,410	1,436
Other Current Liab	24.3	105	105	105	105
LT Debt	2,776	3,319	3,203	3,078	2,945
Other LT Liabilities	580	472	472	472	472
Shareholder's Equity	623	654	757	883	1,019
Minority Interests	6.40	(0.3)	(5.3)	(10.3)	(15.3)
Total Cap. & Liab.	6,266	6,848	6,783	6,584	6,607
Non-Cash Wkg. Capital	(771)	(725)	(754)	(554)	(563)
Net Cash/(Debt)	(2,579)	(2,958)	(2,461)	(2,240)	(1,885)
Debtors Turn (avg days)	59.0	61.7	63.3	60.7	60.3
Creditors Turn (avg days)	200.7	212.8	203.5	193.0	177.9
Inventory Turn (avg days)	2.5	2.6	2.4	2.4	2.4
Asset Turnover (x)	0.9	0.8	0.8	0.8	0.9
Current Ratio (x)	0.7	0.8	1.0	1.1	1.2
Quick Ratio (x)	0.7	0.8	1.0	1.1	1.2
Net Debt/Equity (X)	4.1	4.5	3.3	2.6	1.9
Net Debt/Equity ex MI (X)	4.1	4.5	3.3	2.5	1.9
Capex to Debt (%)	19.2	16.5	5.7	6.7	8.1
Z-Score (X)	0.9	0.8	0.9	1.1	NA

Source: Company, AllianceDBS

Cash Flow Statement (RMm)

FY Jan	2017A	2018A	2019F	2020F	2021F
Pre-Tax Profit	846	1,073	861	996	1,077
Dep. & Amort.	474	457	588	550	506
Tax Paid	(302)	(268)	(215)	(249)	(269)
Assoc. & JV Inc/(loss)	13.3	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(143)	(28.8)	(314)	(542)	(339)
Other Operating CF	1,001	782	590	578	570
Net Operating CF	1,888	2,016	1,510	1,331	1,544
Capital Exp.(net)	(656)	(653)	(220)	(250)	(290)
Other Invts.(net)	82.9	(443)	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	39.8	118	0.0	0.0	0.0
Net Investing CF	(533)	(977)	(220)	(250)	(290)
Div Paid	(664)	(651)	(547)	(625)	(677)
Chg in Gross Debt	(527)	(57.1)	(117)	(125)	(133)
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(469)	(369)	(247)	(235)	(222)
Net Financing CF	(1,660)	(1,078)	(911)	(984)	(1,033)
Currency Adjustments	0.80	9.40	0.0	0.0	0.0
Chg in Cash	(304)	(29.7)	379	97.0	221
Opg CFPS (sen)	39.0	39.2	35.0	36.0	36.1
Free CFPS (sen)	23.7	26.2	24.8	20.8	24.1

Healthy dividend payout

Source: Company, AllianceDBS

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	15 Sep 17	2.71	3.15	BUY
2:	07 Dec 17	2.77	2.92	HOLD
3:	29 Mar 18	2.04	2.25	HOLD
4:	07 Jun 18	1.65	2.25	HOLD

Source: AllianceDBS

Analyst: TOH Woo Kim

AllianceDBS recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 1 Aug 2018 15:19:01 (MYT)

Dissemination Date: 1 Aug 2018 15:43:21 (MYT)

Sources for all charts and tables are AllianceDBS unless otherwise specified.

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