

Singapore Company Update

SPH

Bloomberg: SPH SP | Reuters: SPRM.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

14 Oct 2020

HOLD

Last Traded Price (13 Oct 2020): S\$1.05 (STI : 2,567.65)

Price Target 12-mth: S\$1.09 (4% upside) (Prev S\$1.26)

Analyst

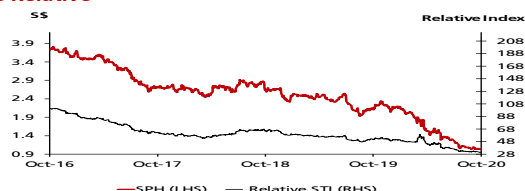
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What's New

- FY20 core earnings below expectations led by disappointment in the Media segment
- Media continues to be a drag, expect property to drive growth in the longer term.
- Cut FY21-22F earnings by 7-18%
- Maintain HOLD with lower S\$1.09 TP

Price Relative



Forecasts and Valuation

FY Aug (S\$m)	2019A	2020A	2021F	2022F
Revenue	959	866	901	883
EBITDA	307	249	266	293
Pre-tax Profit	298	(85.3)	177	205
Net Profit	213	(109)	102	118
Net Pft (Pre Ex.)	155	137	102	118
Net Pft Gth (Pre-ex) (%)	(39.3)	(11.8)	(25.2)	15.6
EPS (S cts)	13.4	(6.8)	6.42	7.42
EPS Pre Ex. (S cts)	9.72	8.58	6.42	7.42
EPS Gth Pre Ex (%)	(39)	(12)	(25)	16
Diluted EPS (S cts)	13.0	(6.6)	6.23	7.21
Net DPS (S cts)	12.0	2.50	2.50	3.50
BV Per Share (S cts)	219	208	212	217
PE (X)	7.9	nm	16.4	14.1
PE Pre Ex. (X)	10.8	12.2	16.4	14.1
P/Cash Flow (X)	nm	7.6	8.5	9.0
EV/EBITDA (X)	14.2	23.8	22.2	20.1
Net Div Yield (%)	11.4	2.4	2.4	3.3
P/Book Value (X)	0.5	0.5	0.5	0.5
Net Debt/Equity (X)	0.3	0.5	0.5	0.5
ROAE (%)	6.2	(3.2)	3.1	3.5
Earnings Rev (%):			(18)	(7)
Consensus EPS (S cts):			7.9	8.8
Other Broker Recs:		B: 0	S: 2	H: 3

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



Brain Box

(Our NEW Pilot Research Platform) is available to Institutional Investors on Demand. Please contact your DBSV Institutional Sales contact for a demonstration.

Weak media segment to persist

Investment Thesis:

Maintain HOLD on a lower TP of S\$1.09. We maintain our HOLD rating on SPH with a lower SOTP-based TP of S\$1.09, led by continued weakness in the media segment in FY21F. We expect weak adex to persist, dragging overall FY21F earnings.

Property to offset Media's earnings decline. Most of SPH's pre-tax profit is contributed by the Property segment, cushioning losses in the Media segment. We expect Media to continue to be a drag in the immediate term given the weak adex outlook, with property segment driving earnings growth and margins. GDP remains weak; we expect GDP to grow by only 5.5% in 2021, after a projected decline of 6.5% in 2020.

Potential catalyst: Our neutral stance is premised on weak earnings visibility. Recovery from an improvement in COVID-19 situation, higher than expected GDP growth and adex are potential catalysts.

Valuation:

TP of S\$1.09 based on sum-of-parts (SOTP) valuation. We value SPH's core newspaper and magazine operations at S\$0.16/share based on discounted cash flow (DCF) model, SPH's property business and other investments at S\$1.89, and net debt at S\$0.96.

Where we differ:

Our FY21F earnings is below consensus, reflecting muted adex outlook and weak media earnings next year in view of COVID-19.

Key Risks to Our View:

Higher adex spending, disposal of investments, and special dividend expectations. An improvement in the COVID-19 situation and pick-up in GDP would lead to adex improvement, which is a key risk to our view. Divestment of its Student Accommodation portfolio could also lead to upside for the stock.

At A Glance

Issued Capital (m shrs)	1,591
Mkt. Cap (S\$m/US\$m)	1,670 / 1,231
Major Shareholders (%)	
Free Float (%)	100
3m Avg. Daily Val (US\$m)	5.7
GIC Industry : Communication Services / Media & Entertainment	



Live more, Bank less

WHAT'S NEW**Expect weak media segment to persist**

FY20 disappoints on higher than expected opex. FY20 core revenue (S\$865.7m, -9.8% y-o-y) was within expectations. However, core operating profit (S\$136m, 48% y-o-y) fell short due to higher than expected operating costs, particularly Premise costs. Even with Jobs Support Scheme and property tax rebates (S\$68.5m), operating profit was below our estimate. FY20 headline earnings included one-off items that contributed to net headline losses of S\$109m. Excluding the one-off items, pre-tax would have been in positive territory at S\$160.3m, but still falling short of our expectations. Dividends were below expectations with final DPS of only 1 Sct declared.

Media disappoints, property earnings contributed by new assets. The media segment disappointed with pre-tax losses of S\$11.4m and operating losses of S\$9.4m. Retrenchment cost was S\$17.4m, and without which operations would have remained profitable, albeit on the low side. Media revenue declined by 23% y-o-y to S\$445m, dragged largely by print advertisements. Meanwhile, circulation revenue remained flat boosted by tablet subscriptions, a slight positive. Property segment's revenue grew 10% y-o-y to S\$327.2m, driven by contribution of UK PBSA assets and Westfield Marion.

Lower operating margins. Operating margins fell to 15.7% (from 27.2% in FY19), a function of lower revenue led by adex decline and higher operating costs. The lower margins led to operating profit trailing our estimates. There were higher premise costs and depreciation as more properties were added to the group's portfolio.

One-off items. There were one-off losses of S\$232m pertaining to fair value change of investment properties - S\$196.5 from retail malls and S\$41.5m from its UK PBSA portfolio. Other one-off items included COVID-19 government aid schemes of S\$68.5m and retrenchment costs of S\$17.4m.

Weak adex expected to persist with slow GDP recovery. Outlook for Adex remains challenging especially with GDP netting a -1% decline over 2020 (-6.5%) and 2021 (+5.5%). We believe this will continue to be a drag on earnings. We have hence lowered our FY21-22F earnings by 7-18% to factor in lower operating margins given its current run rate. Nonetheless, we see property driving earnings growth in the longer term, contributing to better margins for the group from FY22F.

Maintain HOLD with lower TP of S\$1.09. We lower our SOTP-based TP to S\$1.09, in line with our earnings cut. We expect UK PBSA to drive earnings growth in FY21F. We value the core newspaper and magazine operations at S\$0.16/share based on discounted cash flow model, properties and other investments at S\$1.89, and net cash and investments at -\$0.96. Maintain HOLD.

Company Background

Singapore Press Holdings Limited (SPH) publishes, prints and distributes newspapers and magazines, with a dominant market position in Singapore. It also invests in properties, provides multimedia, broadcasting and event management services, and operates internet portals. It has a 63% stake in SPH REIT.

Income Statement (\$m)

FY Aug	FY2019	FY2020	% chg yoy
Revenue	959	866	(9.8)
Cost of Goods Sold	(581)	(602)	3.7
Gross Profit	379	264	(30.3)
Other Oper. (Exp)/Inc	(118)	(128)	8.1
Operating Profit	260	136	(47.8)
Other Non Opg (Exp)/Inc	0.0	68.5	nm
Associates & JV Inc	19.1	3.42	(82.1)
Net Interest (Exp)/Inc	(39.4)	(47.7)	nm
Exceptional Gain/(Loss)	58.1	(246)	nm
Pre-tax Profit	298	(85.3)	nm
Tax	(38.7)	(27.2)	(29.7)
Minority Interest	(46.3)	28.8	nm
Net Profit	213	(109)	nm
Net profit bef Except.	155	137	(11.8)
EBITDA	307	249	(19.0)
Margins (%)			
Gross Margins	39.5	30.5	
Opg Profit Margins	27.2	15.7	
Net Profit Margins	22.2	(12.6)	

Source of all data: Company, DBS Bank

Key Assumptions

FY Aug	2018A	2019A	2020A	2021F	2022F
Adex growth rate (%)	(11.6)	(12.4)	(31.4)	(12.0)	(12.0)
Newsprint (US\$/mt)	522	643	535	500	500
Avg USD/SGD	1.38	1.40	1.37	1.33	1.33
Avg Staff #	4,137	4,085	3,808	3,808	3,808

Segmental Breakdown

FY Aug	2018A	2019A	2020A	2021F	2022F
Revenues (\$\$m)					
Media	656	577	445	411	380
Property	242	297	327	392	400
Elimination & Others	84.4	85.9	93.3	98.0	103
Total	983	959	866	901	883
EBIT (\$\$m)					
Media	98.7	55.7	(9.4)	12.3	15.2
Property	183	215	212	259	264
Elimination & Others	(8.4)	(9.8)	(66.8)	(68.7)	(66.8)
Total	273	260	136	203	213
EBIT Margins (%)					
Media	15.0	9.6	(2.1)	3.0	4.0
Property	75.4	72.4	64.9	66.0	66.0
Elimination & Others	(9.9)	(11.4)	(71.6)	(70.1)	(64.9)
Total	27.8	27.2	15.7	22.5	24.1

Lower Adex to lead revenue decline, slightly offset by more resilient circulation revenue.

Progressive contribution of PBSA UK assets.

Higher on events and exhibitions recovery, and some contribution from Japan Aged Care

Income Statement (\$\$m)

FY Aug	2018A	2019A	2020A	2021F	2022F
Revenue	983	959	866	901	883
Cost of Goods Sold	(591)	(581)	(602)	(576)	(554)
Gross Profit	391	379	264	325	329
Other Opng (Exp)/Inc	(118)	(118)	(128)	(122)	(116)
Operating Profit	273	260	136	203	213
Other Non Opg (Exp)/Inc	0.0	0.0	68.5	10.5	0.0
Associates & JV Inc	(4.9)	19.1	3.42	10.3	36.9
Net Interest (Exp)/Inc	77.7	(39.4)	(47.7)	(46.2)	(44.4)
Exceptional Gain/(Loss)	23.0	58.1	(246)	0.0	0.0
Pre-tax Profit	369	298	(85.3)	177	205
Tax	(47.6)	(38.7)	(27.2)	(17.3)	(23.1)
Minority Interest	(42.9)	(46.3)	28.8	(39.0)	(45.2)
Preference Dividend	0.0	0.0	(25.1)	(18.6)	(18.6)
Net Profit	278	213	(109)	102	118
Net Profit before Except.	255	155	137	102	118
EBITDA	295	307	249	266	293
Growth					
Revenue Gth (%)	(4.8)	(2.4)	(9.8)	4.1	(2.0)
EBITDA Gth (%)	(12.2)	4.1	(19.0)	6.8	10.2
Opg Profit Gth (%)	(8.1)	(4.6)	(47.8)	49.0	5.0
Net Profit Gth (Pre-ex) (%)	6.8	(39.3)	(11.8)	(25.2)	15.6
Margins & Ratio					
Gross Margins (%)	39.8	39.5	30.5	36.0	37.2
Opg Profit Margin (%)	27.8	27.2	15.7	22.5	24.1
Net Profit Margin (%)	28.3	22.2	(12.6)	11.4	13.4
ROAE (%)	8.0	6.2	(3.2)	3.1	3.5
ROA (%)	4.5	3.2	(1.4)	1.1	1.3
ROCE (%)	4.1	3.6	1.8	2.1	2.2
Div Payout Ratio (%)	74.7	89.8	N/A	38.9	47.2
Net Interest Cover (x)	NM	6.6	2.9	4.4	4.8

COVID-19 government support package

Assume property sales at The Woodleigh Residences are deferred

Slightly lower on higher cash balances

Mainly fair value change on investment properties

Dividend on perpetuals

Led by revenue decline, and higher costs

Higher driven by better property segment mix

Source: Company, DBS Bank

Balance Sheet (\$m)

FY Aug	2018A	2019A	2020A	2021F	2022F
Net Fixed Assets	191	188	226	214	201
Invt in Associates & JVs	142	388	373	423	500
Other LT Assets	5,032	5,762	7,222	7,222	7,222
Cash & ST Invt	481	598	865	933	990
Inventory	22.6	23.5	20.1	20.9	20.5
Debtors	293	147	144	150	147
Other Current Assets	0.04	0.02	0.0	0.0	0.0
Total Assets	6,161	7,107	8,850	8,963	9,081
ST Debt	295	411	1,286	1,286	1,286
Creditor	231	228	286	297	291
Other Current Liab	49.6	37.7	23.3	23.3	23.3
LT Debt	1,313	1,646	2,191	2,191	2,191
Other LT Liabilities	75.3	77.2	112	112	112
Shareholder's Equity	3,437	3,639	3,766	3,828	3,907
Minority Interests	761	1,068	1,186	1,225	1,270
Total Cap. & Liab.	6,161	7,107	8,850	8,963	9,081
Non-Cash Wkg. Capital	35.4	(95.1)	(144)	(149)	(147)
Net Cash/(Debt)	(1,126)	(1,459)	(2,613)	(2,544)	(2,487)
Debtors Turn (avg days)	112.8	83.8	61.5	59.6	61.5
Creditors Turn (avg days)	152.5	151.4	167.1	199.0	210.0
Inventory Turn (avg days)	14.4	15.2	14.2	14.0	14.8
Asset Turnover (x)	0.2	0.1	0.1	0.1	0.1
Current Ratio (x)	1.4	1.1	0.6	0.7	0.7
Quick Ratio (x)	1.3	1.1	0.6	0.7	0.7
Net Debt/Equity (X)	0.3	0.3	0.5	0.5	0.5
Net Debt/Equity ex MI (X)	0.3	0.4	0.7	0.7	0.6
Capex to Debt (%)	1.7	1.2	(0.4)	0.9	0.9
Z-Score (X)	1.3	1.1	0.7	0.8	0.8

Source: Company, DBS Bank

Cash Flow Statement (\$5m)

FY Aug	2018A	2019A	2020A	2021F	2022F
Pre-Tax Profit	369	298	(85.3)	177	205
Dep. & Amort.	26.6	27.4	40.6	42.0	43.0
Tax Paid	(48.7)	(49.3)	(32.3)	(17.3)	(23.1)
Assoc. & JV Inc/(loss)	4.93	(19.1)	(3.4)	(10.3)	(36.9)
Chg in Wkg.Cap.	5.40	(13.9)	(5.7)	4.96	(2.5)
Other Operating CF	(135)	(261)	307	0.0	0.0
Net Operating CF	222	(17.5)	221	197	186
Capital Exp.(net)	(27.3)	(25.2)	13.7	(30.0)	(30.0)
Other Invt.(net)	96.5	(428)	(710)	0.0	0.0
Invt in Assoc. & JV	(128)	(69.8)	2.20	(40.0)	(40.0)
Div from Assoc & JV	5.29	87.2	14.2	0.0	0.0
Other Investing CF	26.9	(230)	(709)	0.0	0.0
Net Investing CF	(27.0)	(666)	(1,389)	(70.0)	(70.0)
Div Paid	(242)	(202)	(129)	(39.9)	(39.9)
Chg in Gross Debt	108	470	1,285	0.0	0.0
Capital Issues	0.0	149	298	0.0	0.0
Other Financing CF	(13.9)	461	23.6	(18.6)	(18.6)
Net Financing CF	(148)	878	1,478	(58.5)	(58.5)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	46.9	195	310	68.1	57.2
Opg CFPS (S cts)	13.5	(0.2)	14.2	12.0	11.8
Free CFPS (S cts)	12.2	(2.7)	14.7	10.5	9.77

Includes progressive data centre investment assumption

Lower dividends declared in FY20

Dividends for perpetuals

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	21 Oct 19	2.25	2.19	HOLD
2:	14 Jan 20	2.14	2.12	HOLD
3:	08 Apr 20	1.53	1.56	HOLD
4:	16 Jul 20	1.22	1.26	HOLD

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

Source: DBS Bank

Analyst: Alfie YEO

Andy SIM, CFA

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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 share price catalysts within this time frame)

**Share price appreciation + dividends*

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