

22 March 2024

Communications | Media

## Astro Malaysia (ASTRO MK)

**Neutral** (Maintained)

### The Slow Grind

- **NEUTRAL, new MYR0.32 TP (DCF) from MYR0.37, 7% upside, c.4% FY25F (Jan) yield.** Astro Malaysia's FY24F results missed our expectations, but were in line with Street's. Underlying subscription revenue momentum remained weak due to challenging economic conditions. Post results call, we cut FY25-26 estimates further by 22-33%. The stock's risk-reward profile is largely balanced, in our view, with valuation at -1SD of the historical EV/EBITDA mean, and the sharp 59% share price de-rating over the past 12 months.
- **Results underwhelmed.** 4QFY24 core earnings of MYR35m (-16.7% QoQ, +94.4% YoY) brought Astro's full-year core earnings to a record low of MYR181m (-41.4% YoY), at 68% of our forecast (consensus: 99%). Key deviations were weaker-than-expected TV subscription revenue (-7% YoY) and advertising sales (adex; -9% YoY) amid weak discretionary spending. Full-year net core earnings margin narrowed 3.1% YoY to 5.4%, mainly due to higher net finance and broadband costs. Full-year DPS stood at 0.25 sen (31% DPR) with no dividend declared for the quarter.
- **ARPU at MYR99.70**, supported by bundled fibre broadband (FBB) subscriptions, with broadband customers up 21% YoY. It was slightly lower sequentially on lower on-demand releases. Management expects ARPU to remain flat due to the challenging economic backdrop. Overall TV subscription revenue eased further (-2.7% QoQ, -9.5% YoY), reflecting the lower contracted TV subs base (-0.5 QoQ, -2.8% YoY) on tighter discretionary spending. Advertising sales grew 11.2% QoQ (-12.8 YoY) on seasonal factors, alongside contributions across TV, radio, and digital platforms. It is worth noting that full-year addressable advertising sales tripled (still insignificant relative to overall adex) as Astro leveraged on first-party data and technology for a more targeted offering.
- **Outlook.** The focus remains on enhancing adjacent businesses, namely FBB, addressable advertising, enterprise, and refining Sooka (over-the-top (OTT) business), with strong vernacular content as a key narrative and differentiator. Astro aims to introduce more affordable packages, given the inflationary environment and notably tighter purse strings. We remain cautious on its earnings outlook due to prevailing macroeconomic conditions, including the impact of the recent sales and service tax (SST) revision.
- **Lower forecasts and TP.** We cut FY25-26F core earnings by 22-33% after lowering TV ARPU assumptions and raising content costs (stronger USD; FY25F being a sporting year). FY27F estimates are introduced. Our DCF TP is cut to MYR0.32 (includes 4% ESG premium). Downside risks: Extended macroeconomic headwinds, weaker-than-expected earnings, and continued decline in subscription revenues. Upside risks: Stronger-than-expected earnings, and positive industry developments in the fight against piracy.

Target Price (Return): MYR0.32 (7%)  
Price (Market Cap): MYR0.30 (USD323m)  
ESG score: 3.2 (out of 4)  
Avg Daily Turnover (MYR/USD) 2.06m/0.42m

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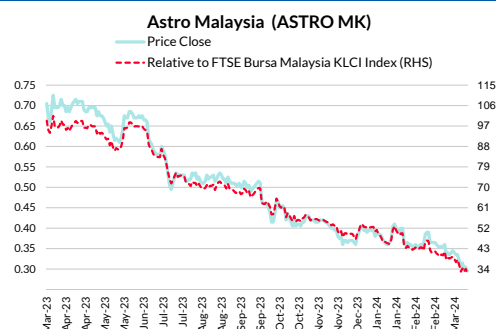


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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(25.3)	(19.2)	(27.2)	(42.2)	(58.8)
Relative	(31.3)	(18.5)	(33.1)	(48.6)	(68.4)
52-wk Price low/high (MYR)	0.30 - 0.73				



Source: Bloomberg

#### Overall ESG Score: 3.2 (out of 4)

##### E: GOOD

Astro is committed to the reduction of carbon footprint and rigorously tracks greenhouse gas (GHG) emissions as defined under the GHG protocol. Overall GHG emissions fell some 5% in FY22 with energy efficiency programs put in place. New set-top boxes are also of smaller form factor compared to the older PVR boxes which addresses the issue of electronic wastes.

##### S: EXCELLENT

The Company performs admirably in its social agenda with significant programmes for the community at large. In collaboration with the Ministry of Education, Astro runs the Astro Kampus programme. Complementary viewing of selected content was offered during population lockdowns. It has also equipped COVID-19 quarantine centres with free decoders and TV sets, and suspended disconnections with goodwill rebates for eligible customers

##### G: GOOD

The Board is made up of nine Directors, of which >40% are independent non-executive and females. The remuneration disclosures of independent directors are on a named basis. An investor relations team provides regular updates to the investment community via face to face meetings and/or conference calls.

#### Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Forecasts and Valuation	Jan-22	Jan-23	Jan-24	Jan-25F	Jan-26F
Total turnover (MYRm)	4,175	3,617	3,343	3,298	3,314
Recurring net profit (MYRm)	475	309	181	171	188
Recurring net profit growth (%)	(11.0)	(34.9)	(41.4)	(5.6)	9.7
Recurring P/E (x)	3.24	4.98	8.51	9.01	8.21
P/B (x)	1.4	1.4	1.4	0.9	0.9
P/CF (x)	1.49	1.71	2.74	1.45	2.28
Dividend Yield (%)	22.9	10.2	0.8	3.7	3.7
EV/EBITDA (x)	2.86	4.40	5.09	4.40	4.37
Return on average equity (%)	42.4	23.6	3.9	12.3	10.8
Net debt to equity (%)	211.4	287.2	263.3	147.7	128.5

Source: Company data, RHB

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## Financial Exhibits

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Jan-22</b>	<b>Jan-23</b>	<b>Jan-24</b>	<b>Jan-25F</b>	<b>Jan-26F</b>
Malaysia	Recurring EPS	0.09	0.06	0.03	0.03	0.04
Communications	DPS	0.07	0.03	0.00	0.01	0.01
<b>Astro Malaysia</b>	BVPS	0.21	0.20	0.21	0.32	0.35
ASTRO MK	Return on average equity (%)	42.4	23.6	3.9	12.3	10.8
Neutral						
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Jan-22</b>	<b>Jan-23</b>	<b>Jan-24</b>	<b>Jan-25F</b>	<b>Jan-26F</b>
DCF (WACC: 10.2%, TG: 1%)	Recurring P/E (x)	3.24	4.98	8.51	9.01	8.21
	P/B (x)	1.4	1.4	1.4	0.9	0.9
	FCF Yield (%)	28.3	37.3	18.2	52.1	24.7
	Dividend Yield (%)	22.9	10.2	0.8	3.7	3.7
	EV/EBITDA (x)	2.86	4.40	5.09	4.40	4.37
	EV/EBIT (x)	5.50	11.00	12.76	9.67	9.11
<b>Key drivers</b>	<b>Income statement (MYRm)</b>	<b>Jan-22</b>	<b>Jan-23</b>	<b>Jan-24</b>	<b>Jan-25F</b>	<b>Jan-26F</b>
i. ARPU uplift from discretionary services, on-demand viewing and fibre broadband bundling;	Total turnover	4,175	3,617	3,343	3,298	3,314
ii. Opex efficiencies;	Gross profit	1,425	1,132	1,000	994	1,015
iii. Subscriber growth.	EBITDA	1,451	1,071	905	955	943
	Depreciation and amortisation	(697)	(643)	(544)	(521)	(491)
	Operating profit	754	429	361	434	452
	Net interest	(164)	(128)	(298)	(252)	(252)
	Pre-tax profit	591	301	63	182	200
	Taxation	(130)	(79)	(22)	(46)	(50)
	Reported net profit	461	256	42	171	188
	Recurring net profit	475	309	181	171	188
<b>Key risks</b>	<b>Cash flow (MYRm)</b>	<b>Jan-22</b>	<b>Jan-23</b>	<b>Jan-24</b>	<b>Jan-25F</b>	<b>Jan-26F</b>
Downside risks:	Change in working capital	(136)	87	(41)	372	(3)
i. Extended macroeconomic headwinds;	Cash flow from operations	1,029	900	562	1,064	676
ii. Weaker-than-expected earnings;	Capex	(594)	(326)	(281)	(262)	(295)
iii. Continued decline in subscription revenues	Cash flow from investing activities	(880)	(294)	(331)	(228)	(258)
	Dividends paid	(443)	(156)	(13)	(57)	(57)
Upside risk:	Cash flow from financing activities	(1,078)	(612)	(221)	(395)	(297)
i. Stronger-than-expected earnings;	Cash at beginning of period	265	165	159	169	610
ii. Positive industry developments in the fight against piracy.	Net change in cash	(929)	(6)	10	441	121
	Ending balance cash	(664)	159	169	610	731
<b>Company Profile</b>	<b>Balance sheet (MYRm)</b>	<b>Jan-22</b>	<b>Jan-23</b>	<b>Jan-24</b>	<b>Jan-25F</b>	<b>Jan-26F</b>
Astro is Malaysia's leading multi-platform pay-TV operator with a dominant share of TV households. The company has forged various strategic partnerships, including with Netflix, Disney+ Hotstar, iQiyi and TVB Anywhere as part of its transformation into an OTT content aggregator	Total cash and equivalents	165	159	169	610	731
	Tangible fixed assets	614	582	614	518	475
	Total investments	13	6	6	6	6
	Total assets	5,325	5,701	5,664	6,636	6,802
	Short-term debt	894	712	290	290	290
	Total long-term debt	1,816	2,601	2,910	2,910	2,910
	Total liabilities	4,121	4,603	4,513	4,883	4,881
	Total equity	1,204	1,098	1,151	1,753	1,921
	Total liabilities & equity	5,325	5,701	5,664	6,636	6,802
	<b>Key metrics</b>	<b>Jan-22</b>	<b>Jan-23</b>	<b>Jan-24</b>	<b>Jan-25F</b>	<b>Jan-26F</b>
	Revenue growth (%)	(4.2)	(13.4)	(7.6)	(1.3)	0.5
	Recurrent EPS growth (%)	(11.0)	(34.9)	(41.5)	(5.6)	9.7
	Gross margin (%)	34.1	31.3	29.9	30.2	30.6
	Operating EBITDA margin (%)	34.8	29.6	27.1	29.0	28.5
	Net profit margin (%)	11.0	7.1	1.3	5.2	5.7
	Dividend payout ratio (%)	76.4	61.0	30.8	33.6	30.6
	Capex/sales (%)	14.2	9.0	8.4	7.9	8.9
	Interest cover (x)	4.17	2.92	1.12	1.60	1.66

Source: Company data, RHB

## Results At A Glance

Figure 1: Astro's results

FYE Jan (MYRm)	4QFY23	3QFY24	4QFY24	QoQ (%)	YoY (%)	FY23	FY24	YoY (%)	Comments
<b>Revenue</b>	<b>949.3</b>	<b>828.5</b>	<b>819.9</b>	<b>(1.0)</b>	<b>(13.6)</b>	<b>3,616.8</b>	<b>3,342.7</b>	<b>(7.6)</b>	TV subscription revenue fell 9.5% YoY
<b>EBITDA</b>	<b>184.0</b>	<b>184.3</b>	<b>234.7</b>	<b>27.3</b>	<b>27.6</b>	<b>1,048.0</b>	<b>897.0</b>	<b>(14.4)</b>	
EBITDA Margin (%)	19.4	22.2	28.6			29.0	26.8		Higher staff costs (VSS programme) and broadband costs
Depreciation & Amortisation	250.0	132.0	152.0	15.2	(39.2)	619.0	535.0	(13.6)	
<b>EBIT</b>	<b>(59.7)</b>	<b>52.3</b>	<b>82.7</b>	<b>58.1</b>	<b>(238.5)</b>	<b>428.6</b>	<b>361.2</b>	<b>(15.7)</b>	
EBIT Margin (%)	(6.3)	6.3	10.1			11.9	10.8		
Interest expense	102.0	(105.5)	(34.3)	(67.5)	(133.6)	(146.8)	(322.8)	119.9	
Interest Income	7.8	6.0	6.8	13.3	(12.8)	18.8	24.8	31.9	
Associates	0.0	(0.1)	0.1	-		(0.1)	0.0	(100.0)	
Exceptional Items	0.0	0.0	0.0	-	-	0.0	0.0	n.a.	
<b>Pretax profit</b>	<b>50.0</b>	<b>(47.3)</b>	<b>55.3</b>	<b>(216.9)</b>	<b>10.6</b>	<b>300.5</b>	<b>63.2</b>	<b>(79.0)</b>	
Pretax Margin (%)	5.3	(5.7)	6.7			8.3	1.9		
Tax	(26.2)	6.2	(10.8)	(274.2)	(58.8)	(78.5)	(22.0)	(72.0)	
Effective tax rate (%)	(52.4)	(13.1)	(19.5)			(26.1)	(34.8)		
Minority Interest	33.2	0.5	0.0	(100.0)	(100.0)	34.3	1.1	(96.8)	
<b>Net Profit</b>	<b>57.0</b>	<b>(40.6)</b>	<b>44.5</b>	<b>(209.6)</b>	<b>(21.9)</b>	<b>256.3</b>	<b>42.3</b>	<b>(83.5)</b>	
<b>Core Profit</b>	<b>18.0</b>	<b>42.0</b>	<b>35.0</b>	<b>(16.7)</b>	<b>94.4</b>	<b>309.0</b>	<b>181.0</b>	<b>(41.4)</b>	Below expectations
Net Margin (%)	1.9	5.1	4.3			8.5	5.4		

Source: Company data

## Emissions And ESG

### Trend analysis

Scope 1 emissions fell 45% in 2023 due to the zero incident of refrigerant leakage at the broadcast centres. Scope 2 emissions were marginally lower due to the reduction in data center footprint, use of solar energy and workspace consolidation while Scope 3 emissions narrowed 5% due to the rollout of plug & play set-top boxes which reduced truck rolls for installations

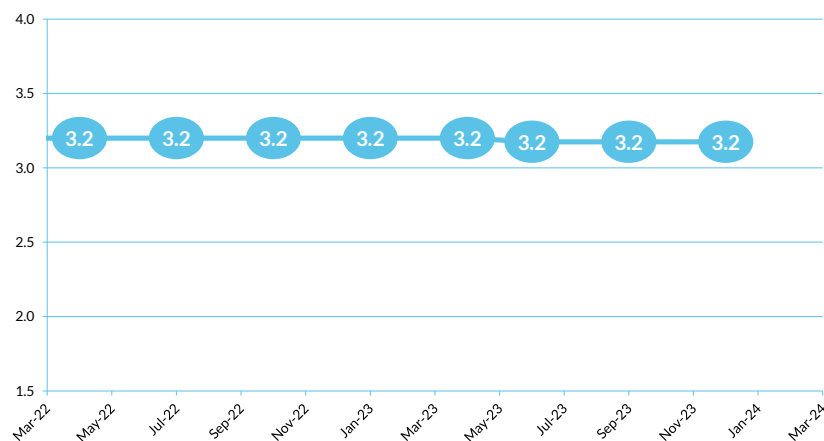
Emissions (tCO2e)	Jan-21	Jan-22	Jan-23
Scope 1	538	1,079	598
Scope 2	25,838	24,045	23,261
Scope 3	5,506	4,908	4,669
Total emissions	31,882	30,032	28,528

Source: Company data, RHB

## Latest ESG-Related Developments

A climate roadmap is being developed with estimated completion in FY24 to guide the group in decarbonising with a commitment to ensure carbon neutrality by 2040

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-12-15	Neutral	0.37	0.36
2023-09-26	Neutral	0.50	0.47
2023-06-20	Buy	0.84	0.62
2023-03-28	Buy	0.84	0.69
2022-12-16	Buy	0.94	0.69
2022-09-27	Buy	0.99	0.80
2022-06-22	Buy	1.17	0.92
2022-04-01	Buy	1.37	1.02
2021-12-10	Buy	1.30	0.97
2021-11-10	Buy	1.45	0.95
2021-09-22	Buy	1.45	1.04
2021-05-21	Buy	1.48	1.03
2020-09-17	Buy	1.31	0.82
2020-06-19	Buy	1.31	0.89
2020-03-26	Buy	1.65	0.85

Source: RHB, Bloomberg

## RHB Guide to Investment Ratings

<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
<b>Sell:</b>	Share price may fall by more than 10% over the next 12 months
<b>Not Rated:</b>	Stock is not within regular research coverage

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