

15 December 2023

Communications | Media

## Astro Malaysia (ASTRO MK)

VSS Cost Reflected

**Neutral** (Maintained)

Target Price (Return): MYR0.37 (0%)  
Price (Market Cap): MYR0.37 (USD408m)  
ESG score: 3.2 (out of 4)  
Avg Daily Turnover (MYR/USD) 2.43m/0.52m

• **Maintain NEUTRAL, new MYR0.37 TP (DCF) from MYR0.50, 0% upside/downside, c.4% FY24F (Jan) yield.** Astro Malaysia's 9MFY23F results missed our and Street's expectations due to the persistently challenging operating landscape. We cut FY24-26F estimates further on weaker subscription revenue and down-trading. The stock's risk-reward is largely balanced, in our view, trading at -1SD of the historical EV/EBITDA mean, following the sharp 44% share price decline YTD.

• **A miss yet again.** 9MFY24 core earnings fell short, at c.50% and 61% of our and consensus' forecasts. After backing-out the voluntary separation scheme (VSS) cost (MYR40m) and unrealised FX gains (MYR108m) for the quarter, 3QFY24 core earnings were flat sequentially from lower EBITDA and higher financing costs. EBITDA margin was down c.5% QoQ to 22% largely from the higher staff costs (including VSS cost) and would have been up 2ppts QoQ excluding the VSS impact, with content cost being stable.

• **Advertising expenditure (adex) revenue up 12% QoQ**, off the preceding quarter's low, with more signature content and originals that premiered during the current quarter. Nonetheless, this was offset by continued slippage in television (TV) subscription revenue (-2.1% QoQ, -5.7% YoY) alongside a lower TV subscription base (-2.5% YoY, -1% QoQ). Fibre broadband (FBB) customer growth stayed robust (+22% YoY) reflecting good bundling and upselling efforts with blended ARPU (MYR99.80) up for the fourth consecutive quarter.

• **Operational pivot.** Astro's loss-making home shopping business, Go Shop (AGS) ceased operations on 11 Oct (since re-classified as discontinuing operations). Moving forward, management will continue to sharpen its focus on FBB bundles, addressable advertising and Sooka, the over-the-top (OTT) business which is targeted at youths and digital natives via more value packages and attractive content. Management highlighted that the VSS programme had managed to reduce staff headcount by 20% with an estimated payback of a year.

• **Forecasts and TP downgraded further.** Post the results call, we lower our core earnings by another 9-20%, after moderating our assumptions for TV subscription revenues and removing the contribution from AGS. Consequently, our DCF-derived TP (includes a 4% ESG premium) is lowered to MYR0.37.

• **Key risks** are extended macroeconomic headwinds, weaker-than expected earnings, and the continued decline in subscription revenues. A possible catalyst would be the upcoming Olympics 2024 in Paris.

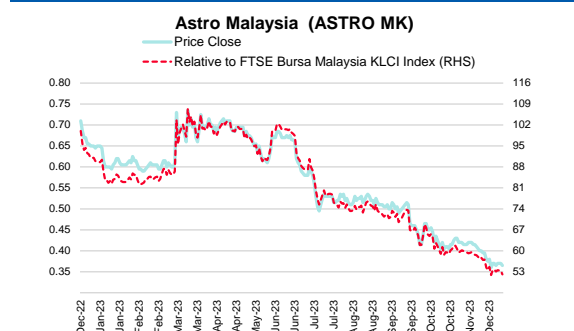
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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(43.9)	(12.1)	(27.7)	(45.9)	(49.0)
Relative	(41.3)	(12.4)	(28.2)	(51.0)	(47.2)
52-wk Price low/high (MYR)	0.36 – 0.74				



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 (GHS) 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-24F	Jan-25F	Jan-26F
Total turnover (MYRm)	4,175	3,800	3,565	3,510	3,535
Recurring net profit (MYRm)	475	272	268	256	246
Recurring net profit growth (%)	(11.0)	(42.7)	(1.6)	(4.3)	(3.8)
Recurring P/E (x)	4.01	7.00	7.12	7.44	7.74
P/B (x)	1.7	1.8	1.2	1.1	1.0
P/CF (x)	1.85	2.14	1.57	2.39	2.48
Dividend Yield (%)	18.5	8.2	4.2	5.5	5.5
EV/EBITDA (x)	3.11	4.79	3.90	4.04	4.06
Return on average equity (%)	42.4	23.9	19.7	14.8	13.1
Net debt to equity (%)	211.4	287.2	148.6	122.4	103.4

Source: Company data, RHB

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Jan-22</b>	<b>Jan-23</b>	<b>Jan-24F</b>	<b>Jan-25F</b>	<b>Jan-26F</b>
Malaysia	Recurring EPS	0.09	0.05	0.05	0.05	0.05
Communications	DPS	0.07	0.03	0.02	0.02	0.02
<b>Astro Malaysia</b>	BVPS	0.21	0.20	0.32	0.35	0.37
ASTRO MK	Return on average equity (%)	42.4	23.9	19.7	14.8	13.1
Neutral						
	<b>Valuation metrics</b>	<b>Jan-22</b>	<b>Jan-23</b>	<b>Jan-24F</b>	<b>Jan-25F</b>	<b>Jan-26F</b>
<b>Valuation basis</b>	Recurring P/E (x)	4.01	7.00	7.12	7.44	7.74
DCF (WACC: 10.2%, TG: 0.5%)	P/B (x)	1.7	1.8	1.2	1.1	1.0
	FCF Yield (%)	22.9	28.1	47.1	25.8	24.3
<b>Key drivers</b>	Dividend Yield (%)	18.5	8.2	4.2	5.5	5.5
i. ARPU uplift from discretionary services, on-demand viewing and fiber broadband bundling;	EV/EBITDA (x)	3.11	4.79	3.90	4.04	4.06
ii. Opex efficiencies;	EV/EBIT (x)	5.98	12.18	7.68	8.13	8.07
iii. Subscriber growth.						
	<b>Income statement (MYRm)</b>	<b>Jan-22</b>	<b>Jan-23</b>	<b>Jan-24F</b>	<b>Jan-25F</b>	<b>Jan-26F</b>
<b>Key risks</b>	Total turnover	4,175	3,800	3,565	3,510	3,535
Downside risks:	Gross profit	1,425	1,169	1,146	1,103	1,115
i. Macroeconomic headwinds	EBITDA	1,451	1,060	1,153	1,075	1,043
ii. Weaker-than-expected earnings	Depreciation and amortisation	(697)	(643)	(567)	(540)	(519)
iii. Weaker MYR/USD	Operating profit	754	417	586	535	524
	Net interest	(164)	(128)	(262)	(262)	(262)
Upside risk:	Pre-tax profit	591	289	324	273	263
i. The upcoming Olympics 2024 in Paris.	Taxation	(130)	(79)	(81)	(68)	(66)
	Reported net profit	461	259	268	256	246
	Recurring net profit	475	272	268	256	246
<b>Company Profile</b>	<b>Cash flow (MYRm)</b>	<b>Jan-22</b>	<b>Jan-23</b>	<b>Jan-24F</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	Change in working capital	(136)	87	378	(0)	4
	Cash flow from operations	1,029	889	1,213	796	769
	Capex	(594)	(354)	(316)	(305)	(306)
	Cash flow from investing activities	(880)	(308)	(291)	(254)	(257)
	Dividends paid	(443)	(156)	(81)	(104)	(104)
	Cash flow from financing activities	(1,078)	(586)	(316)	(342)	(344)
	Cash at beginning of period	265	165	159	765	966
	Net change in cash	(929)	(6)	606	201	168
	Ending balance cash	(664)	159	765	966	1,134
	<b>Balance sheet (MYRm)</b>	<b>Jan-22</b>	<b>Jan-23</b>	<b>Jan-24F</b>	<b>Jan-25F</b>	<b>Jan-26F</b>
	Total cash and equivalents	165	159	765	966	1,134
	Tangible fixed assets	614	582	484	403	338
	Total investments	13	6	6	6	6
	Total assets	5,325	5,701	6,708	6,904	7,102
	Short-term debt	894	712	712	712	712
	Total long-term debt	1,816	2,601	2,601	2,601	2,601
	Total liabilities	4,121	4,603	4,994	4,987	4,994
	Total equity	1,204	1,098	1,715	1,918	2,109
	Total liabilities & equity	5,325	5,701	6,708	6,904	7,102
	<b>Key metrics</b>	<b>Jan-22</b>	<b>Jan-23</b>	<b>Jan-24F</b>	<b>Jan-25F</b>	<b>Jan-26F</b>
	Revenue growth (%)	(4.2)	(9.0)	(6.2)	(1.6)	0.7
	Recurrent EPS growth (%)	(11.0)	(42.7)	(1.7)	(4.3)	(3.8)
	Gross margin (%)	34.1	30.8	32.1	31.4	31.5
	Operating EBITDA margin (%)	34.8	27.9	32.3	30.6	29.5
	Net profit margin (%)	11.0	6.8	7.5	7.3	7.0
	Dividend payout ratio (%)	76.4	60.4	30.2	40.8	42.4
	Capex/sales (%)	14.2	9.3	8.9	8.7	8.7
	Interest cover (x)	4.17	2.84	2.08	1.90	1.86

Source: Company data, RHB

## Results At a Glance

Figure 1: Astro's results

FYE Jan (MYRm)	3QFY23	2QFY24	3QFY24	QoQ (%)	YoY (%)	9MFY23	9MFY24	YoY (%)	Comments
<b>Revenue</b>	<b>885.0</b>	<b>837.4</b>	<b>828.5</b>	<b>(1.1)</b>	<b>(6.4)</b>	<b>2,768.2</b>	<b>2,557.0</b>	<b>(7.6)</b>	TV subscription revenue fell 6% in 9MFY24 and excludes discontinued operation
<b>EBITDA</b>	<b>266.0</b>	<b>227.0</b>	<b>184.3</b>	<b>(18.8)</b>	<b>(30.7)</b>	<b>863.6</b>	<b>658.8</b>	<b>(23.7)</b>	
EBITDA Margin (%)	30.1	27.1	22.2			31.2	25.8		Higher staff costs (VSS cost) and opex
Depreciation & Amortisation	135.0	127.0	132.0	3.9	(2.2)	379.0	383.0	1.1	
<b>EBIT</b>	<b>88.8</b>	<b>65.3</b>	<b>52.3</b>	<b>(19.9)</b>	<b>(41.1)</b>	<b>442.4</b>	<b>241.1</b>	<b>(45.5)</b>	
EBIT Margin (%)	10.0	7.8	6.3			16.0	9.4		
Interest expense	(141.7)	(74.1)	(105.5)	42.4	(25.5)	(248.8)	(288.6)	16.0	
Interest Income	3.3	6.0	6.0	0.0	81.8	11.0	18.1	64.5	
Associates	0.0	0.0	(0.1)	-	-	(0.1)	(0.1)	0.0	
Exceptional Items	0.0	0.0	0.0	-	-	0.0	0.0	n.a.	
<b>Pretax profit</b>	<b>(43.5)</b>	<b>5.2</b>	<b>(47.3)</b>	<b>(1,009.6)</b>	<b>8.7</b>	<b>210.6</b>	<b>(21.5)</b>	<b>(110.2)</b>	
Pretax Margin (%)	(4.9)	0.6	(5.7)			7.6	(0.8)		
Tax	11.4	(9.9)	6.2	(162.6)	(45.6)	(52.2)	(11.2)	(78.5)	
Effective tax rate (%)	(26.2)	(190.4)	(13.1)			(24.8)	52.1		
Minority Interest	2.8	3.9	2.4	(38.5)	(14.3)	10.8	9.1	(15.7)	
<b>Net Profit</b>	<b>(29.3)</b>	<b>(0.8)</b>	<b>(38.7)</b>	<b>4,737.5</b>	<b>32.1</b>	<b>169.2</b>	<b>(23.6)</b>	<b>(113.9)</b>	
<b>Core Profit</b>	<b>73.0</b>	<b>43.0</b>	<b>42.0</b>	<b>(2.3)</b>	<b>(42.5)</b>	<b>295.5</b>	<b>147.0</b>	<b>(50.3)</b>	Below expectations
Net Margin (%)	8.2	5.1	5.1			10.7	5.7		

Source: Company data

## Emissions And ESG

### Trend analysis

Scope 1 emissions fell 45% in 2023 due to the zero incidents of refrigerant leakages at the broadcast centres. Scope 2 emissions were marginally lower due to the reduction in data centre 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)

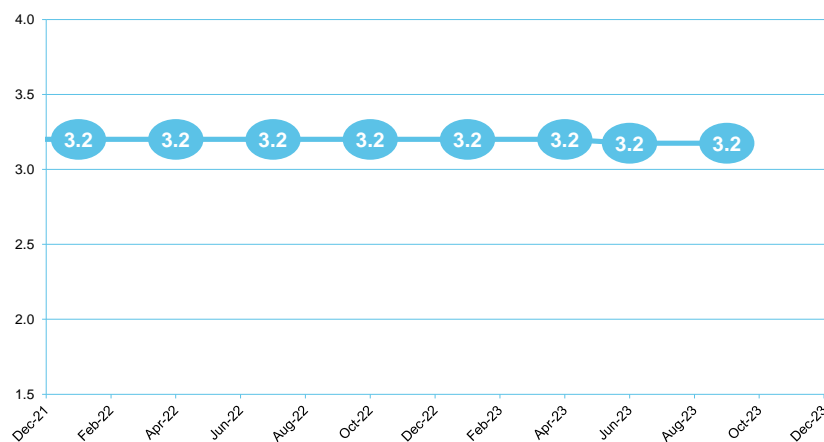
	Jan-21	Jan-22	Jan-23
Scope 1	538	1,079	598
Scope 2	25,838	24,045	23,261
Scope 3	5,506	4,908	4,669
Total emissions	31,882	30,032	28,528

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
2023-09-26	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
2019-12-05	Buy	1.93	1.34

Source: RHB, Bloomberg

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<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
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