

Star Publications (Malaysia)

Hold

(RM3.44 STAR MK)

Target Price: RM3.36

Proposes JV to develop Section 13 land

MEDIA

• JVs with JAKS Island Circle

Star entered into a JV with JAKS Island Circle (JIC; 51% owned by JAKS Resource, 49% owned by Island Circle Development (M)) to develop its six acre land in Section 13 which currently houses Universiti Tunku Abdul Rahman (UTAR). It will comprise a 20 storey office block (Tower A), a 20 storey educational block (Tower B), a 15 storey office block (Tower C) and a 15 storey residential block (Tower D). The GDV is about RM370m.

• Construction to be handled by JAKS Island Circle

Star will execute a power of attorney in favour of JIC. All costs will be borne by JIC except for the lease extension (from 52 years to 99 years) and conversion (from Industry to Building). The estimated development cost is RM280m. JIC will apply for approval of the development within 12 months and secure a plot ratio of no less than 1:3.5. Thereafter, construction is expected to be completed within 60 months.

• Star to get an office block and maybe more

Under the agreement, Star will be entitled to office units in the development of 30% of the GDV or RM111m whichever is higher. It will first be satisfied by delivery of Tower C (220,000 sqf) and other units if necessary. If JIC increases the plot ratio beyond 1:3.5, Star will be entitled to a further 5% of the increase in GDV.

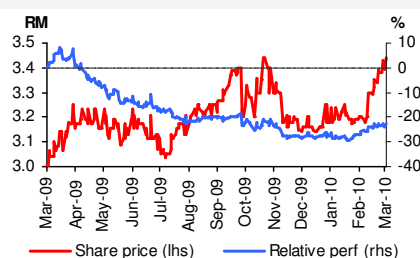
• Minimal earnings impact

Star will forego the rental income from UTAR of RM1.4m p.a. It will also amortise the RM111m Tower C over the 99 year lease or RM1.1m p.a. Tower C will house Star's three radio stations which are currently housed in rented premises and other media divisions. As the impact to our earnings estimate is <2%, we leave them unchanged. That said, as the RM111m value is RM86.9m more than the book value of the Section 13 land as at 31 Dec 2008, it will accrete 12 sen or 7% to BVPS.

• Net cash pile still idle, maintain Hold

We maintain our Hold call and RM3.36 TP based on 15x FY11F PE. As Tower C will not in itself contribute to earnings via rental income or sale, we continue to value Star utilising PE methodology. We reiterate our view that it needs to utilise its net cash pile (RM474.2m or RM0.64/share as at 31 Dec 2009) constructively in order to warrant a re-rating.

Share Price Chart



Source: Bloomberg

Price Performance

Price (RM)	3.44
52-week Range (RM)	3.00 – 3.44
Avg Daily Volume ('000)	307.0

	1M	3M	6M
Absolute (%)	7.8	8.9	5.5
Relative (%)	5.6	7.5	-3.7

Key Data

Market Cap (RM m)	2,541
Issued Shares (m)	739

Major Shareholders

	%
Huaren Holdings	41.5
Employees Provident Fund	14.7
Skim Amanah Saham Bumiputera	7.2

Balance Sheet Highlights (RM m)

(@ 31.12.2010) (performance indicator's annualised)

Total Assets	1,481.2
Total Liabilities	225.2
Total Debt (Gross)	0.0
Shareholders' Equity	1,226.2

Return on Assets (%)	8.9
Return on Equity (%)	11.9
Net Cash / Share (RM)	0.5

Debt/Equity (x)	0.0
Interest Cover (x)	Net cash

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Financial summary

FYE 31 Dec	2008	2009	2010F	2011F	2012F
Revenue (RM m)	831.0	974.4	889.8	910.1	931.1
EBITDA (RM m)	261.8	265.8	235.1	255.1	261.1
Net profit (RM m)	162.1	144.6	147.8	167.6	172.9
EPS (sen)	22.0	19.6	20.0	22.7	23.4
ECM / Consensus (%)			98.3	99.8	88.0
EPS growth (%)	-6.0	-10.8	2.2	13.4	3.2
P/E (x)	15.7	17.6	17.2	15.2	14.7
Net DPS (sen)	17.3	17.3	17.3	17.3	17.3
Dividend yield (%)	5.0	5.0	5.0	5.0	5.0
BVPS (RM)	1.64	1.70	1.66	1.71	1.78
P/BV (x)	2.1	2.0	2.1	2.0	1.9

STAR PUBLICATIONS (MALAYSIA)
FINANCIAL SUMMARY
Date: 03 March 2010
Balance Sheet

FY 31 Dec (RM m)	2008A	2009A	2010F	2011F	2012F
PPE	656.7	642.9	610.3	587.2	564.0
Other investments	73.6	130.1	73.6	73.6	73.6
Inventories	214.9	85.5	247.2	247.3	253.0
Receivables	161.6	201.0	173.0	177.0	181.0
Other assets	0.9	1.2	0.9	0.9	0.9
Deposit, bank and cash	621.6	773.2	376.2	440.2	506.2
Total Assets	1,729.2	1,834.0	1,481.2	1,526.1	1,578.6
LT borrowings	251.3	253.4	-	-	-
ST borrowings	34.4	45.6	-	-	-
Payables	120.9	160.8	139.1	139.1	142.3
Other liabilities	88.6	91.5	86.2	87.3	87.6
Liabilities	495.2	551.2	225.2	226.4	229.9
Share capital	738.6	738.6	738.6	738.6	738.6
Reserves	472.3	515.5	487.6	527.8	573.3
Shareholders' equity	1,210.9	1,254.1	1,226.2	1,266.4	1,311.9
Minority interest	23.1	28.7	29.8	33.3	36.9
Total Equity	1,234.0	1,282.8	1,256.0	1,299.7	1,348.7
Total Equity and Liabilities	1,729.2	1,834.0	1,481.2	1,526.1	1,578.6

Cash Flow Statement

FY 31 Dec (RM m)	2008A	2009A	2010F	2011F	2012F
Pretax profit	201.5	197.1	199.6	225.9	233.0
Depreciation & amortisation	45.6	48.3	48.2	48.2	48.2
Change in working capital	(29.1)	129.2	(195.5)	(4.0)	(6.6)
Net interest received / (paid)	(8.5)	(2.1)	(12.7)	(19.0)	(20.1)
Tax paid	(66.3)	(45.4)	(46.8)	(53.7)	(56.3)
Others	19.2	8.4	-	-	-
Operating Cash Flow	162.4	335.5	(7.2)	197.4	198.2
Capex	(11.4)	(25.4)	(25.0)	(25.0)	(25.0)
Others	(65.9)	(52.4)	18.0	19.0	20.2
Investing Cash Flow	(77.3)	(77.8)	(7.0)	(6.0)	(4.8)
Issuance of shares	-	-	-	-	-
Changes in borrowings	34.2	13.0	(250.0)	-	-
Dividend paid	(126.3)	(127.4)	(127.4)	(127.4)	(127.4)
Others	(12.1)	(16.5)	(5.3)	(0.1)	(0.1)
Financing Cash Flow	(104.2)	(130.9)	(382.7)	(127.5)	(127.5)
Net cash flow	(19.1)	126.7	(396.9)	64.0	65.9
Forex	(17.4)	24.9	-	-	-
Beginning cash	658.1	621.6	773.2	376.2	440.2
Ending cash	621.6	773.2	376.2	440.2	506.2

Income Statement

FY 31 Dec (RM m)	2008A	2009A	2010F	2011F	2012F
Revenue	831.0	974.4	889.8	910.1	931.1
EBITDA	261.8	265.8	235.1	255.1	261.1
Depreciation & amortisation	(45.6)	(48.3)	(48.2)	(48.2)	(48.2)
Net interest income	8.5	(15.7)	12.7	19.0	20.1
Share of associates	(0.1)	(4.7)	-	-	-
Exceptional items	(23.2)	-	-	-	-
Pretax profit	201.5	197.1	199.6	225.9	233.0
Taxation	(62.8)	(47.7)	(48.2)	(54.8)	(56.6)
Minority interest	0.2	(4.8)	(3.5)	(3.5)	(3.5)
Net profit	138.9	144.6	147.8	167.6	172.9
Adj net profit	162.1	144.6	147.8	167.6	172.9

Key Statistics & Ratios

FY 31 Dec	2008A	2009A	2010F	2011F	2012F
Growth					
Revenue	3.1%	17.2%	-8.7%	2.3%	2.3%
EBITDA	-0.3%	1.5%	-11.6%	8.5%	2.3%
Pretax profit	-9.8%	-2.1%	1.2%	13.2%	3.1%
Net profit	-17.9%	4.1%	2.2%	13.4%	3.2%
Adj EPS	-6.0%	-10.8%	2.2%	13.4%	3.2%

Profitability

EBITDA margin	31.5%	27.3%	26.4%	28.0%	28.0%
Net profit margin	16.7%	14.8%	16.6%	18.4%	18.6%
Effective tax rate	31.2%	24.2%	24.2%	24.3%	24.3%
Return on assets	9.6%	8.1%	8.9%	11.1%	11.1%
Return on equity	13.3%	11.7%	11.9%	13.4%	13.4%

Leverage

Total debt / total assets (x)	0.2	0.2	-	-	-
Total debt / equity (x)	0.2	0.2	-	-	-
Net debt / equity (x)	Cash	Cash	Cash	Cash	Cash

Key Drivers

FY 31 Dec (RM m)	2008A	2009A	2010F	2011F	2012F
Daily circulation	304,904	300,000	300,000	300,000	300,000
Adex growth	1.3%	-6.0%	3.0%	3.0%	3.0%

Valuation

FY 31 Dec	2008A	2009A	2010F	2011F	2012F
Adj EPS (Sen)	22.0	19.6	20.0	22.7	23.4
P/E (x)	15.7	17.6	17.2	15.2	14.7
EV/EBITDA (x)	8.4	10.9	9.2	8.2	7.8
Net DPS (sen)	17.3	17.3	17.3	17.3	17.3
Net dividend yield	5.0%	5.0%	5.0%	5.0%	5.0%
BV per share (RM)	1.64	1.70	1.66	1.71	1.78
P/BV(x)	2.1	2.0	2.1	2.0	1.9

Key to stock recommendations:

Buy = Share price is expected to appreciate by >10% over the next 12 months

Hold = Share price is expected to move by less than +/-10% over the next 12 months

Sell = Share price is expected to decline by >10% over the next 12 months

Key to sector recommendations:

Overweight = Industry expected to outperform the market over the next 12 months

Neutral = Industry expected to perform in-line with the market over the next 12 months

Underweight = Industry expected to underperform the market over the next 12 months

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