

Star Publications (Malaysia)

Buy

(RM3.49 STAR MK)

Target Price: RM4.06

Shooting for the stars

MEDIA

- Rousing recovery**

We understand that 1H10 adex growth is in the high teens in percentage terms. Albeit from a low base, recovering consumer sentiment, vibrant property industry and the recently concluded FIFA World Cup all drove this growth. On another note, Star will soon consume newsprint at lower spot prices of approximately USD650/MT. Recall that until recently, it has been consuming newsprint priced at USD750/MT to USD800/MT (after 10% import duty) that were brought forward from 2009.

- Mingguan Star to be hived off as a free paper?**

Since it was launched in late Feb 2010, we understand that circulation for Sunday Star increased by a tad (1 Jan 2009 – 30 Jun 2009: 302,769). The company believes that this was attributed to Mingguan Star's attractive content. It has since been expanded from 24 to 32 pages and experienced advertisement booking rate of 40% versus the initial target of 20% to 25%. We understand that it has not had a material impact on Star's earnings and that it may be distributed free at strategic locations ala *TheSun*.

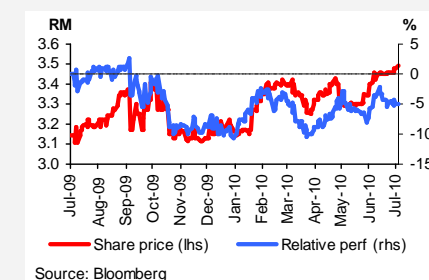
- Enviably net cash pile a good dilemma to have**

Although unspecified, a large portion of its net cash pile will be earmarked for M&As (including expanding into East Malaysia) after repaying the remaining RM100m of its medium term notes on 27 Aug 2010. With such a large reserve, we deem it possible that Star will increase its net DPR from 88% in 2009 to close to 100%. Should that occur, investors can look forward to a generous 7% net dividend yield this year.

- Maintain Buy**

We upgrade our earnings estimates by 3% to 8% (Figure 1) to account for 10% adex growth in FY10 or 2x real GDP growth (5% previously) and 2.5% adex growth in FY11 or 0.5x real GDP growth (5% previously). It is uncommon for media companies to record two successive years of double digit adex growth. Ascribing an unchanged 15x 1-year forward PE we tweak our TP to RM4.06 (RM3.94 previously). We continue to like Star for its modest valuations, defensive share price due to high dividend yields and potential for even higher dividends or capital repayment.

Share Price Chart



Price Performance

Price (RM)	3.49
52-week Range (RM)	3.10 – 3.49
Avg Daily Volume ('000)	581

	1M	3M	6M
Absolute (%)	2.6	4.5	11.1
Relative (%)	0.7	3.0	5.4

Key Data

Market Cap (RM m)	2,578
Issued Shares (m)	739

Major Shareholders

	%
Huaren Holdings	42.1
Employees Provident Fund Board	17.0
Skim Amanah Saham Bumiputera	7.2

Balance Sheet Highlights (RM m)

(@ 31.12.2010) (performance indicator's annualised)

Total Assets	1,596.0
Total Liabilities	264.4
Total Debt (Gross)	45.6
Shareholders' Equity	1,301.3

Return on Assets (%)	10.2
Return on Equity (%)	13.7
Net Cash / Share (RM)	0.64

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

Yin Shao Yang

syin@ecmlibra.com
+603 2178 1207

Financial summary

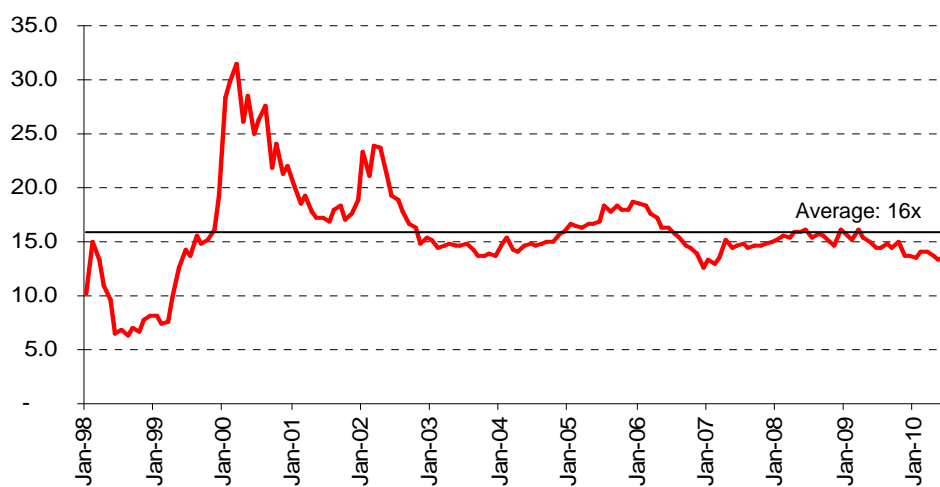
FYE 31 Dec	2008	2009	2010F	2011F	2012F
Revenue (RM m)	831.0	973.9	928.9	947.3	983.2
EBITDA (RM m)	262.9	253.1	286.2	315.7	335.6
Net profit (RM m)	163.2	144.7	174.6	200.3	214.0
EPS (sen)	22.1	19.6	23.6	27.1	29.0
ECM / Consensus (%)			104.3	109.0	107.1
EPS growth (%)	-5.4	-11.3	20.7	14.7	6.8
P/E (x)	15.8	17.8	14.8	12.9	12.0
Net DPS (sen)	17.2	17.3	17.3	19.8	21.1
Dividend yield (%)	4.9	4.9	4.9	5.7	6.1
BVPS (RM)	1.64	1.70	1.76	1.84	1.91
P/BV (x)	2.1	2.1	2.0	1.9	1.8

Figure 1 : Earnings revision

	Previous EPS Sen	Revised EPS Sen	Change %
2010F	21.9	23.6	+7.8%
2011F	26.3	27.1	+3.0%
2012F	28.1	29.0	+3.2%

Source: ECM Libra

Figure 2 : Rolling 1-year forward PE (x)



Source: ECM Libra, Company, Bloomberg

STAR PUBLICATIONS (MALAYSIA)
FINANCIAL SUMMARY
Price Date: 26 July 2010
Balance Sheet

FY 31 Dec (RM m)	2008A	2009A	2010F	2011F	2012F
PPE	604.4	580.0	552.5	522.7	490.4
Other investments	125.9	192.9	188.1	183.1	178.0
Inventories	214.9	85.5	169.1	166.8	171.2
Receivables	161.6	197.3	169.6	173.0	179.5
Other assets	0.9	1.4	1.4	1.4	1.4
Deposit, bank and cash	621.6	773.2	515.3	602.3	679.9
Total Assets	1,729.2	1,830.4	1,596.0	1,649.3	1,700.4
LT borrowings	251.3	45.6	42.8	30.2	17.6
ST borrowings	34.4	253.4	2.8	12.6	12.6
Payables	120.9	157.1	123.4	121.7	125.0
Other liabilities	88.6	91.4	95.4	97.5	98.6
Liabilities	495.2	547.5	264.4	262.0	253.8
Share capital	738.6	738.6	738.6	738.6	738.6
Reserves	472.3	515.5	562.8	616.9	674.8
Shareholders' equity	1,210.9	1,254.1	1,301.3	1,355.5	1,413.3
Minority interest	23.1	28.8	30.3	31.8	33.3
Total Equity	1,234.0	1,282.9	1,331.6	1,387.3	1,446.6
Total Equity and Liabilities	1,729.2	1,830.4	1,596.0	1,649.3	1,700.4

Income Statement

FY 31 Dec (RM m)	2008A	2009A	2010F	2011F	2012F
Revenue	831.0	973.9	928.9	947.3	983.2
EBITDA	262.9	253.1	286.2	315.7	335.6
Depreciation & amortisation	(45.6)	(50.3)	(52.5)	(54.8)	(57.3)
Exceptional items	(24.3)	-	-	-	-
Net interest income	8.5	(1.0)	6.0	13.2	14.1
Share of associates & JVs	(0.1)	(4.7)	(4.8)	(5.0)	(5.1)
Pretax profit	201.5	197.2	234.8	269.1	287.3
Taxation	(62.8)	(47.5)	(58.7)	(67.3)	(71.8)
Minority interest	0.2	(4.9)	(1.5)	(1.5)	(1.5)
Net profit	138.9	144.7	174.6	200.3	214.0
Adj net profit	163.2	144.7	174.6	200.3	214.0

Key Statistics & Ratios

FY 31 Dec	2008A	2009A	2010F	2011F	2012F
Growth					
Revenue	3.1%	17.2%	-4.6%	2.0%	3.8%
EBITDA	0.1%	-3.7%	13.1%	10.3%	6.3%
Pretax profit	-9.8%	-2.1%	19.1%	14.6%	6.8%
Net profit	-17.9%	4.2%	20.7%	14.7%	6.8%
Adj EPS	-5.4%	-11.3%	20.7%	14.7%	6.8%

Profitability

EBITDA margin	31.6%	26.0%	30.8%	33.3%	34.1%
Net profit margin	16.7%	14.9%	18.8%	21.1%	21.8%
Effective tax rate	31.2%	24.1%	25.0%	25.0%	25.0%
Return on assets	9.7%	8.1%	10.2%	12.3%	12.8%
Return on equity	13.4%	11.7%	13.7%	15.1%	15.5%

Leverage

Total debt / total assets (x)	0.2	0.2	0.0	0.0	0.0
Total debt / equity (x)	0.2	0.2	0.0	0.0	0.0
Net debt / equity (x)	Cash	Cash	Cash	Cash	Cash

Key Drivers

FY 31 Dec (RM m)	2008A	2009A	2010F	2011F	2012F
The Star daily circulation	304,904.0	295,479.0	293,112.0	293,112.0	293,112.0
Sunday Star daily circulation	313,609.0	304,357.0	302,769.0	302,769.0	302,769.0
Newspaper adex growth	n.a.	n.a.	10.0%	2.5%	5.0%
Average newsprint price (USD/	n.a.	n.a.	650.0	650.0	650.0
Average USDMYR exchange r	n.a.	n.a.	3.30	3.30	3.30

Valuation

FY 31 Dec	2008A	2009A	2010F	2011F	2012F
Adj EPS (Sen)	22.1	19.6	23.6	27.1	29.0
P/E (x)	15.8	17.8	14.8	12.9	12.0
EV/EBITDA (x)	8.5	8.3	7.4	6.4	5.7
Net DPS (sen)	17.2	17.3	17.3	19.8	21.1
Net dividend yield	4.9%	4.9%	4.9%	5.7%	6.1%
BV per share (RM)	1.64	1.70	1.76	1.84	1.91
P/BV(x)	2.1	2.1	2.0	1.9	1.8

Cash Flow Statement

FY 31 Dec (RM m)	2008A	2009A	2010F	2011F	2012F
Pretax profit	201.5	197.2	234.8	269.1	287.3
Depreciation & amortisation	45.6	50.3	52.5	54.8	57.3
Change in working capital	(29.1)	129.6	(89.6)	(2.7)	(7.8)
Net interest received / (paid)	(11.8)	(2.1)	(9.1)	(16.5)	(17.5)
Tax paid	(66.3)	(45.5)	(54.7)	(65.2)	(70.7)
Others	19.2	8.0	4.8	5.0	5.1
Operating Cash Flow	159.0	337.5	138.8	244.5	253.7
Capex	(11.4)	(15.4)	(25.0)	(25.0)	(25.0)
Others	(62.6)	(54.4)	18.3	18.8	19.4
Investing Cash Flow	(74.0)	(69.8)	(6.7)	(6.2)	(5.6)
Issuance of shares	-	-	-	-	-
Changes in borrowings	34.2	3.1	(253.4)	(2.8)	(12.6)
Dividend paid	(126.3)	(127.4)	(127.4)	(146.2)	(156.1)
Others	(12.1)	(16.5)	(9.2)	(2.4)	(1.9)
Financing Cash Flow	(104.2)	(140.7)	(390.0)	(151.3)	(170.6)
Net cash flow	(19.1)	127.0	(257.9)	87.0	77.5
Forex	(17.4)	24.7	-	-	-
Beginning cash	658.1	621.6	773.2	515.3	602.3
Ending cash	621.6	773.2	515.3	602.3	679.9

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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ECM Libra Capital Sdn Bhd (579116-A)

8A Floor, Wisma Genting
Jalan Sultan Ismail
50250 Kuala Lumpur
Tel: (603) 2178 1888
Fax: (603) 2161 8818