Malaysia

MARKET DATELINE ● PP 7767/09/2011(028730)

RHB
RHB Research Institute Sdn Bhd
A member of the RHB Banking Group
Company No: 233327 -M

New Listing

10 January 2011

Asia Media Group

Issue Price : RM0.23
Fair Value : RM0.29

Public Issue Of 98.0m Shares to Malaysian Public, Eligible Employees and Identified Investors

Table 1: Investment Statistics — **Bloomberg: AMGB MK**

FYE Dec	Turnover (RMm)	Net Profit (RMm)	EPS (sen)	EPS Growth (%)	PER (x)	P/NTA (x)	Net Gearing (%)	ROE (%)	GDY (%)
2009	13.2	3.4	2.6	n.m.	11.2	n.a.	n.a.	n.a.	0.0
2010f	18.6	13.8	3.9	51.0	7.4	1.9	0.0	22.2	0.0
2011f	23.2	11.0	4.8	24.2	6.0	1.4	0.0	21.6	0.0
2012f	25.5	12.2	5.3	10.2	5.4	1.1	0.0	21.3	0.0

Valuations based on estimated fair value of RM0.29/share

Issued capital (m shares)	228.0 (RM0.10 par)	**Market capitalisation (RMm)**	66.1

- **Background.** Asia Media Group, a MSC Malaysia Status company, commenced its business operations in Oct '07 to operate the Transit-TV network system via its flagship channel that uses LCD-TV screens to deliver information and to provide entertainment programmes, advertisements, community-driven messages and public bulletin in public transports, namely in RapidKL buses, Causeway Link Buses, Plusliner, Nice and Nice++. Currently, the company has installed over 3,293 LCD-TV on 1,450 buses. Overall, the company communicates it to over 500,000 viewers daily, travelling within Klang Valley and Johor Bahru.

- **Future plans.** The company plans to carry out the following strategies in the future to further strengthen their position as the leading digital out-of-home media player, which includes: 1) expanding coverage to other public transport systems such as KL Monorail, LRT and KTMB Komuter, where the company would be able to reach out to more public transport users; 2) overseas expansion, namely Indonesia, given its large population and high percentage of its population uses public transportation; and 3) improving its DTTB technology and techniques, where the company would be able to deliver a wide variety of live programmes provided by the local TV stations. In addition, this system allows them to provide live information such as disaster warning.

- **Forecasts.** We project Asia Media to post FY09-12 core net profit CAGR of 53.6% driven by its ongoing expansion and penetration of its transit-TV network, which includes additional systems in public transport and operating stationary advertising platforms for major bus and train stations. As per the prospectus, Asia Media does not have a fixed dividend policy in place and as such, we have assumed that the company will not be paying any dividends in the near-mid term.

- **Valuations.** Our indicative fair value for Asia Media is based on a relative valuation method using PERs. Applying a target FY11 PER of 6x, we arrive at an indicative fair value of RM0.29. Our target PER is at a 60% discount to our target CY11 PER for Media Prima of 16x, mainly to reflect its significantly smaller size, in terms of market capitalisation and revenue base.

LISTING DETAILS

Listing Sought	ACE Market of Bursa Malaysia
Listing Date	11 Jan 2011
Public Issue	98.0m shares comprising: - 90.0m private placement; and - 8.0m to Malaysian public.

MAJOR SHAREHOLDERS

Wong SK Holdings Sdn Bhd	45.6%

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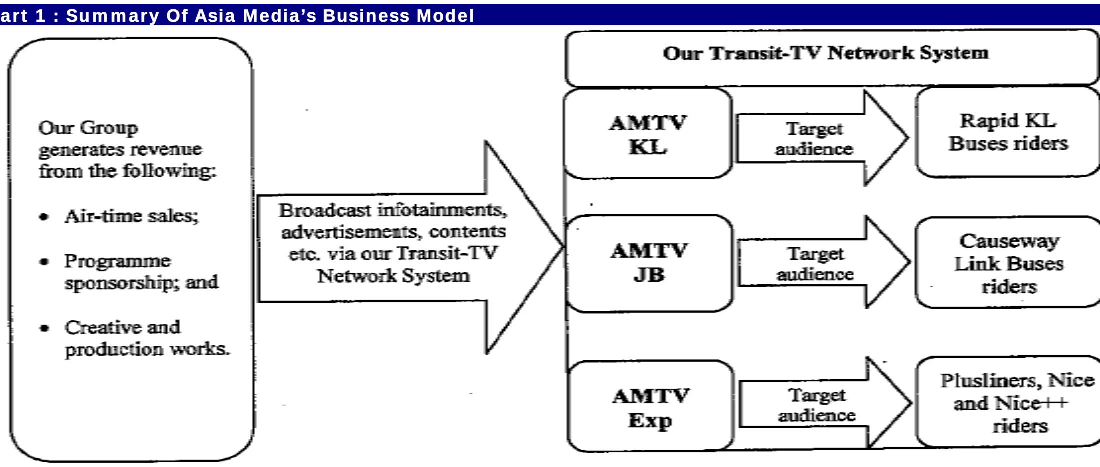
Please read important disclosures at the end of this report.

- **Background.** Asia Media Group, a MSC Malaysia Status company, commenced its business operations in Oct '07 to operate the Transit-TV network system via its flagship channel that uses LCD-TV screens to deliver information and to provide entertainment programmes, advertisements, community-driven messages and public bulletin in public transports, namely in RapidKL buses, Causeway Link Buses, Plusliner, Nice and Nice++. Currently, the company has installed over 3,293 LCD-TV on 1,450 buses. Its Transit-TV network system delivers international content such as music videos and in-house productions that focus and targets the young audience travelling on intra-city buses. In addition, the company's creative and production segment provides a 'one-stop centre' to fulfill customers' advertising and marketing needs, which include services such as conceptualisation, design and pre and post production. Overall, the company communicates to over 500,000 viewers daily, travelling within Klang Valley and Johor Bahru.

Chart 1 : Summary Of Asia Media's Business Model



Source: Prospectus

- **Range of services provided.** The company currently provides the following services:

  - **Air-time sales –** These are slots of time for advertisement sold to advertisers, content providers or parties that wish to convey their messages via the company's Transit-TV network system in public transport;
  - **Programme sponsorship –** Provides an alternative option for anchor advertisers who wish to leverage on the company's Transit-TV network system to gain more publicity and goodwill instead of just advertising their products and services in one of the airtime slots; and
  - **Creative and production works –** Provides customers with an end-to-end solution from conceptualisation to broadcasting of marketing campaigns, which include assisting customers in producing their advertisements such as basic animation, filming and video shooting.

Chart 2 : Revenue Breakdown According To Segment In 1HFY10

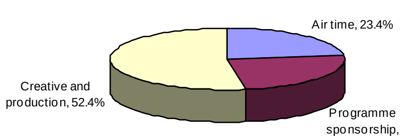
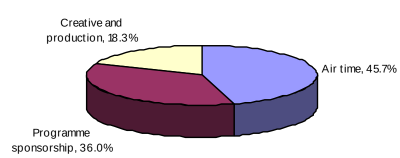


Chart 3: GP Breakdown According To Segment In 1HFY10



Source: Prospectus

- **Sector outlook – growing albeit from a small base.** According to the market research report by Frost and Sullivan, the digital out-of-home transit media industry is expected to grow from about RM15.5m in 2009 to an estimated RM62.5m in 2014. This represents an estimated CAGR of 32.2%, largely because the industry is still in its infancy stage and growing from a small adex base. The industry growth is further aided by the price erosion of digital screens, where the average price of digital screens is expected to decrease by a CAGR of approximately 2.6% over the period from 2007 to 2014. Furthermore, with the Government's initiative to ramp up the development of public transportation services in the country, this should also help to boost the growth for digital out-of-home transit media industry further.

- **Risk factors.** We see the following key risk factors:

  - **Weaker-than-expected adex growth.** The demand for advertising time in the company's Transit-TV Network System is particularly sensitive to changes in general economic conditions. For 2011, we project adex growth of 10.5% as consumer sentiment improves further. This is based on our projected 2011 GDP growth of 5% (+7.3% estimated for 2010) and the average GDP multiplier of 2.1x (between 1989 and 2009).
  - **Execution risk from its capacity expansion.** Any delays in the company's expansion plans could dampen its future earnings growth.

- **Future plans.** The company plans to carry out the following to further strengthen their position as the leading digital out-of-home media player:

  - **Expanding its coverage.** The company is looking to expand their coverage to other public transport systems such as KL Monorail, LRT and KTMB Komuter, where the company would be able to reach out to more public transport users, hence increasing the exposure and publicity of its customers;
  - **Overseas expansion.** Currently, the company's entire earnings are derived locally but moving forward, the company plans to further broaden their revenue via expanding their presence regionally, namely in Indonesia within two years. Indonesia's attraction is its large population and a high percentage of the population uses public transportation. Thus there is potential growth for the digital out-of-home transit media industry to grow further; and
  - **Improving its DTTB technology and techniques.** The company plans to utilise most of the proceeds to be raised from IPO for the purchase of transmission equipment, network facilities and integration of network system in the Klang Valley in order to roll out its initial stage of Digital Terrestrial Television Broadcasting ("DTTB") in 1H2011. With this new system, the company would be able to deliver a wide variety of live programmes provided by the local TV stations. In addition, this system allows them to provide live information such as disaster warning.

- **Listing and offer proceeds.** The total proceeds from the public issue will amount to RM22.5m and will be utilised as per Table 2.

Table 2: Utilisation Of Proceeds From The Public Issue

	RMm
Capital expenditure	16.0
Working capital	5.0
Estimated listing expenses	1.5
Total	**22.5**

Source: Prospectus

- **Forecasts.** We project Asia Media to post FY09-12 topline CAGR of 24.7% driven by its ongoing expansion and penetration of transit-TV network, which includes additional systems in public transport and operating stationary advertising platforms for major bus and train stations. The growth in revenue is generally across all of its three segments coming from both of its new and existing customers. We have, however, projected a higher FY09-12 core net profit CAGR of 53.6%, thanks to margin expansion on the back of higher revenue and its high fixed cost structure. Therefore, any increase in topline should flow straight to its bottomline. As at 1HFY10, the company recorded an exceptional item of RM4.9m, which relates to a gain in negative goodwill. Note also that the company was awarded MSC Status in Oct '07, which exempts the company from tax for five years.

  As per the prospectus, Asia Media does not have a fixed dividend policy in place and as such, we have assumed that the company will not be paying any dividends in the near-mid term.

- **Valuations.** Our indicative fair value for Asia Media is based on a relative valuation method using PERs. Applying a target FY11 PER of 6x, we arrive at an indicative fair value of RM0.29. Our target PER is at a 60% discount to our target CY11 PER for Media Prima of 16x, mainly to reflect its significantly smaller size, in terms of market capitalisation and revenue base.

Table 3: Comparative valuations

Company	Bloomberg ticker	FYE	Market cap (RMm)	FY09 revenue (RMm)	CY10 PE (x)	CY11 PER (x)	FY09 Operating Margin (%)
Media Prima	MPR MK	Dec	2,728.1	744.0	18.8	16.0	9.1
Asia Media	**AMGB MK**	**Dec**	**66.1**	**41.9**	**7.4**	**6.0**	**25.8**

Valuation for Asia Media based on our fair value estimate of RM0.29

Source: RHBRI and Bloomberg

Table 4: Earnings Forecasts

FYE Dec (RMm)	**2008PF**	**2009PF**	**2010f**	**2011f**	**2012f**
Revenue	**6.5**	**13.2**	**18.6**	**23.2**	**25.5**
Growth (%)	*n.a.*	*+>100*	*41.2*	*25.0*	*10.0*
EBITDA	**2.2**	**4.2**	**9.5**	**12.4**	**13.8**
EBITDA margin (%)	*33.5*	*32.2*	*51.1*	*53.5*	*54.2*
Depreciation	(0.8)	(0.8)	(1.4)	(1.4)	(1.5)
EBIT	**1.4**	**3.4**	**9.0**	**11.2**	**12.4**
EBIT margin (%)	*20.9*	*25.8*	*48.4*	*48.4*	*48.4*
Net interest expense	0.0	(0.0)	(0.1)	(0.2)	(0.2)
Exceptionals	0.0	0.0	4.9	0.0	0.0
PBT	**1.4**	**3.4**	**13.8**	**11.0**	**12.2**
Tax	0.0	0.0	0.0	0.0	0.0
Minority interest	0.0	0.0	0.0	0.0	0.0
Net profit	**1.4**	**3.4**	**13.8**	**11.0**	**12.2**
Core Net Profit	**1.4**	**3.4**	**8.9**	**11.0**	**12.2**

Source: Company data, RHBRI's forecasts

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Trading Buy = Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 15% or more over a period of three months, but fundamentals are not strong enough to warrant an Outperform call. It is generally for investors who are willing to take on higher risks.

Market Perform = The stock return is expected to be in line with the FBM KLCI benchmark (+/- five percentage points) over the next 6-12 months.

Underperform = The stock return is expected to underperform the FBM KLCI benchmark by more than five percentage points over the next 6-12 months.

Industry/Sector Ratings

Overweight = Industry expected to outperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Neutral = Industry expected to perform in line with the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Underweight = Industry expected to underperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

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