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FBM KLCI: 1,525.56

Asia Media Group Berhad

Coming to You Live in FY12

Friday, January 13, 2012

TP: RM0.42 *(+42%)*

Business Summary	: Largest Transit-TV network operator in Malaysia
Major Shareholders (%)	: Wong SK Holdings Sdn Bhd (45.61)
Company Website	: www.asiamedia.net.my
IR Contact	: Kelly Ang (603 5882 7788)

Recommendation:	Buy
Market Capitalisation (RMmn):	RM67.3
Current Price:	RM0.30
Market/ Sector:	ACE/Media
Stock Code:	0159

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Key Stock Statistics

YE Dec 31		2011F	2012F
EPS	(sen)	6.8	10.6
PER	(x)	4.3	2.8
Gross div/ share	(sen)	-	-
NTA/share	(RM)	0.20	0.31
Book value/ share	(RM)	0.21	0.32
Issued capital	(mn shares)	228.0	
52 weeks share price range	(RM)	0.21 / 0.39	

Per Share Data

YE Dec 31		2010*	2011F	2012F	2013F
Book Value	(RM)	0.10	0.21	0.32	0.45
Cash Flow	(sen)	0.7	(6.1)	(3.8)	8.3
Earnings	(sen)	4.5	6.8	10.6	13.5
Dividend	(sen)	-	-	-	2.5
Payout Ratio	(%)	-	-	-	0.2
PER (x)	(x)	6.5	4.3	2.8	2.2
P/ Cash Flow	(x)	na	(0.0)	(0.1)	0.0
P/ Book Value	(x)	2.9	1.4	0.9	0.6
Dividend Yield	(%)	-	-	-	8.5
ROE	(%)	44.2	43.4	39.6	35.0
Net Gearing	(%)	Net cash	0.1	0.2	Net cash

* Based on 15MFY10

P&L Analysis (RMmn)

YE Dec 31		2010*	2011F	2012F	2013F
Revenue		16.6	39.2	60.8	82.2
Operating Profit / EBIT		10.3	15.8	24.7	31.0
Depreciation		(1.0)	(2.3)	(3.9)	(4.6)
Interest Expenses		(0.1)	(0.2)	(0.7)	(0.2)
Pre-tax Profit		10.3	15.6	24.1	30.8
Effective Tax Rate	(%)	0.0	0.0	0.0	0.0
Reported Net Profit		10.3	15.6	24.1	30.8
Core Net Profit		10.3	15.6	24.1	30.8
Operating Margin	(%)	62.4	40.3	40.7	37.7
Pre-tax Margin	(%)	62.1	39.9	39.6	37.5
Net-Margin	(%)	62.1	39.9	39.6	37.5

Share Price relative to the **FBM KLCI**

Source: Bloomberg

Broadcasting live to Klang Valley in FY12

Asia Media Group's (AMGB) will roll-out Digital Terrestrial Television Broadcasting (DTTB) in the Klang Valley as early as 1HFY12. By integrating DTTB into its existing TransNet Transit-TV network, AMGB will be able to broadcast real-time news and information on LCD screens installed on public transport.

Proposed 35% private placement withdrawn

AMGB announced that it will not proceed with its proposed private placement of up to 35% of its share capital as it is no longer required to meet the Bumiputera equity condition imposed by Malaysian Communications and Multimedia Commission (MCMC) once wholly-owned subsidiary Asia Media Sdn Bhd (AMSB) transfers its DTTB-related licenses to 70%-owned subsidiary Maha Semarak Sdn Bhd (MSSB). There will be a marginal dilutive impact on earnings from the minority interest but no effect on business operations.

Earnings to grow by 23% 3-year forward CAGR

We have tweaked our FY11 and FY12 earnings estimates down by a marginal 1% in both years to account for 1) more moderate revenue growth assumptions 2) realistic airtime utilisation rates of 30% in FY11 and 35% in FY12, and 3) minority interest associated with the 70% subsidiary MSSB from FY12 onwards, and 4) removal of the 79.8mn proposed private placement shares.

Valuation & recommendation

Raising our target price to RM0.42 (from RM0.32 previously) based on the same 4x FY12 PER, largely from the scrapping of private placement shares. The stock is currently trading at an undemanding 2.8x FY12 PER, which is at a 78% discount to the Media sector average of 13x. Reiterate Buy recommendation on AMGB for its market leadership position (with 85% market share) in niche high-growth Digital Out-Of-Home (DOOH) transit media segment. Positive re-rating catalysts for the stock would be 1) securing of the LRT concession, 2) government's more aggressive expansion of public transport system, and 3) Chinese radio channel coming on-stream earlier than expected.

1. Recent Developments

Live digital video broadcasting in 1HFY12
Asia Media Group 's (AMGB) roll-out of Digital Out –of-Home (DOOH) Digital Terrestrial Television Broadcasting (DTTB) in Klang Valley as early as 1HFY12. The company has invested RM25mn (RM16mn from IPO proceeds) in DTTB infrastructure and equipment so far, which includes 2 transmission towers erected in USJ and Berjaya Times Square. The company intends to put up another 3 in KL and Selangor in FY12 at an average cost of RM2.3mn each.

On-going DTTB trials conducted on 30 buses plying the Shah Alam and Kelana Jaya route have been successful and Management does not foresee any problems integrating DTTB into its TransNet network for all the 1,500 RapidKL buses servicing the Klang Valley.

AMGB has also committed to investing RM500mn by CY15 to extend DTTB countrywide as an Entry Point Project partner under the Government Transformation Programme. We understand that the company intends to roll-out DTTB to Johor Bahru in FY13 and to Penang in FY14. We have assumed more modest capex of RM30mn in FY11 and RM35mn in FY12 as we expect the DTTB roll-out beyond the Klang Valley to occur gradually and only if commercially viable for AMGB.

Key benefits of DTTB:
1) Reduce advertisers fatigue with dynamic, up-to-date content.
2) Allows for dayparting, that is greater segmentation of broadcast programming. This allows AMGB to charge higher rates for airtime during peak hours. The company's airtime is now divided into only 2 time bands with no price differentiation.
3) Enables higher degree of content customization that would enable advertisers to reach a specific demographic more effectively. For example, youth-centric programming shown after school hours. Expect greater response from advertisers to DTTB to raise utilization rate from 30% at present closer to target of 50%.
4) Competitive advantage when bidding for new concessions. No other DOOH transit media player (Simfoni Maya Sdn Bhd and YTL Info Screen Sdn Bhd) has live broadcast capability.
5) Extends AMGB's network beyond public transport to other electronic devices such as mobile phones and personal computers.
6) Allows for the introduction of mobile interactive services. These include smart messaging to mobile phones, where passengers are able to download contents via their mobile phones for a fee.

Proposed 35% private placement withdrawn with transfer of DTTB licenses
AMGB announced on Bursa that it would not proceed with the proposed private placement of up to 35% of its share capital as the exercise was no longer necessary to comply with the Bumiputera equity condition imposed by the Malaysian Communications and Multimedia Commission (MCMC) when granting the licenses.

AMGB is one of only 3 companies in Malaysia with the CASP-I license for 3 media platforms- terrestrial radio, subscription and non-subscription based TV broadcasting. The other 2 are BERNAMA news agency and the Measat group of companies.

The Bumiputera requirement was fulfilled when its wholly-owned subsidiary Asia Media Sdn Bhd (AMSB) transferred the licenses to 70%-owned subsidiary Maha Semarak Sdn Bhd (MSSB) effective on 13 December 2011. The remaining 30% stake in MSSB is owned by Datuk Wira Syed Ali bin Tan Sri Abbas Alhabshee, Non-Executive chairman of AMGB. No consideration was paid for the transfer and shareholder approval was not required.

The transfer of licenses will have a marginal dilutive impact on AMGB's earnings but there would be no effect on the group's business operations. FY12 EPS would be diluted by 6% from the 30% minority interest in MSSB. However, we expect AMGB's strong earnings momentum to make up for the dilution and note that the effect of the transfer would be significantly less dilutive than the initial proposed private placement. The removal of the private placement alone would adjust our FY11 EPS upwards by 33% and FY12 by 31%. Taken in concert, the dilution from MI in MSSG and scrapping of AMGB private placement shares would result in FY11 EPS improving by 33% and FY12 EPS by 28%.

Figure 1: Impact on EPS from removal of 35% private placement shares and dilution from MI

Year	EPS with placement (sen)	EPS without placement (sen)	% change (%)
FY11	5.1	6.8	33.3
FY12	7.6	10.2	27.5

Source: TA Research

2. Overview of 9MFY11 results

AMGB's revenue in 9MFY11 close to doubled YoY to RM27.9mn, due to strong sales growth in all divisions. Programme sponsorship in particular, achieved notable sales growth of 329% YoY as more corporate sponsors were attracted to AMGBs widening network from additional buses. Half of 9MFY11 revenue came from the creative and production segment due to higher content requirements from greater customer demand for airtime and sponsorship.

The bulk of 9MFY11 pretax profit however came from programme sponsorship (55%) and airtime sales (27%). The airtime segment earns the highest pretax profit margin (79% in 9MFY11) as it makes 100% gross profit margin. This is because the amount of advertising time available is fixed and the primary cost- LCD screens- is already sunken cost. The creative and production segment's pretax margin is the lowest (13%) due to a high proportion of outsourcing for content creation.

We highlight AMGB's close-to-zero tax rate which stems from its MSC status, valid from CY07-CY12. We have assumed minimal taxation in our forecast as we expect the company to get a 5-year extension of its MSC status in CY13 onwards.

At end-September 2011, AMGB held net cash of RM13.6mn which translates to net cash per share of 6.0 sen, with minimal borrowings of RM0.7mn.

3. Earnings Outlook

DOOH transit media industry's growth to overtake total Malaysian adex

The DOOH transit media industry has expanded at a historical 3-year (CY07-09) CAGR of 55%, significantly ahead of total Malaysian adex CAGR of 7% over the same period. The DOOH transit media segment is expected to grow by a 4-year (CY10-14) forward CAGR of 30.5% driven by increased public acceptance of advertising in transit and declining prices of LCD screens. DOOH transit media made up 7.8% of total OOH market in FY09, which in turn comprised 1.6% of total adex. Based on revenue, AMGB captured an estimated 11% share of the OOH market (digital and print) in FY10.

AMGB's earnings to grow by 23% 3-year forward CAGR

Our net profit estimates project a 3-year forward (FY11-13) earnings CAGR of 23% based on the following assumptions:

1) Adex growth of 52% in FY11 and 19% in FY12. Adex growth in FY12 may be stronger than expected should AMGB win new concessions or the public bus network expands at a more aggressive rate.

2) Airtime utilisation rate of 30% in FY11 and 35% in FY12. The company's utilisation rate currently is 30%.

Proxy to public transportation upgrade

AMGB would be a direct beneficiary from the government's initiatives to increase usage of public transport. The government targets 30% of the population in CY15 to use public transit from 12% in CY09. To this end, Syarikat Prasarana Negara Bhd (Prasarana) has spearheaded strategic collaborations with other stage bus companies in the Klang Valley and commissioned 400 new buses in CY11. AMGB benefits immediately from Prasarana's efforts as its Transit-TV system would be installed in all new RapidKL buses.

LRT to be next potential leg of growth

We understand that AMGB is in advanced negotiations with Prasarana to expand its TransNet network to LRT stations and trains. Should they be successful, LCD screens could be installed in stations as early as 1HFY12. We believe that AMGB's DTTB proposition and established track record with RapidKL buses will give it an edge in competing for the LRT concession. Winning the LRT concession would potentially add 0.6mn viewers per day (based on LRT and Monorail ridership) to AMGB's base.

The only other media company operating in the LRT space is Media Prima's Big Tree that currently has a monopoly on advertisements in train stations and trains that take the form of bulkheads, station sponsorship and in-train panels. However, Big Tree's lightboxes display static content installed at 20 LRT stations, which we think is not comparable to AMGB's digital and soon-to-be live offering.

Chinese radio network next

The introduction of a new Chinese radio channel in 2QFY12 will provide a new income stream for AMGB. The rationale for the radio channel is to take maximize the potential of the CASP-I license and to offer a more comprehensive portfolio of services across several media platforms. The value channel will have a similar target market as Media Prima's One FM and 988 FM radio stations.

4. Removal of dilutive share placement offsets 1% adjustment in FY11 and FY12 earnings estimates

Our FY11 and FY12 earnings estimates adjust downwards by 1% after taking into account 1) more moderate revenue growth of 137% in FY11 (from 198% previously) in view of 9MFY11 revenue of RM27.9mn, 2) realistic airtime utilisation rates of 30% in FY11 and 35% in FY12 (from previous 42% and 54% respectively), 3) removal of 79.8mn private placement shares which would adjust AMGB's share capital to 228.0mn (from 307.8mn) and, 4) minority interest associated with 70% subsidiary MSSB from FY12 onwards and 5) updated 15MFY10 audited financial results, replacing FY10 proforma.

5. Valuation and Recommendation

Raising our fair value to RM0.42 from RM0.32 previously, after excluding private placement shares from total share capital and adjusting earnings forecast. Our target PER remains at 4x FY12 PER for AMGB which is based on a 70% discount to Media Prima's 14x PER to account for AMGB's smaller market capitalisation and lack of track record.

Our Neutral recommendation on the Media sector notwithstanding, we are bullish on the stock for 1) first-mover advantage in rapid-growth DOOH transit media segment, and 2) as a prime beneficiary of the government's public transportation improvement initiatives.

Re-rating catalysts for the stock would come from 1) securing of the LRT concession and 2) government's more aggressive expansion of the public transport system, and 3) earlier launch of the radio network. Downside risks to our Buy recommendation are 1) non-renewal of concession agreements, 2) revocation of licenses, and 3) delays in DTTB roll-out.

Earnings Summary

FYE 31 Dec (RMmn)		2010*	2011F	2012F	2013F	2014F
Revenue		16.6	39.2	60.8	82.2	105.1
EBITDA		11.3	18.1	28.7	35.6	45.4
EBITDA margin	(%)	68.4	46.3	47.2	43.3	43.2
Pretax profit		10.3	15.6	24.1	30.8	39.2
Net profit		10.3	15.6	24.1	30.8	39.1
Core net profit		10.3	15.6	24.1	30.8	39.1
EPS	(sen)	4.5	6.8	10.6	13.5	17.2
Core EPS	(sen)	4.5	6.8	10.6	13.5	17.2
Core EPS growth	(%)	74.8	51.9	54.2	28.1	26.9
PER	(x)	6.5	4.3	2.8	2.2	1.7
Net DPS	(sen)	-	-	-	2.5	2.5
Net div yield	(%)	-	-	-	8.5	8.5
Core ROE	(%)	44.2	43.4	39.6	35.0	31.8

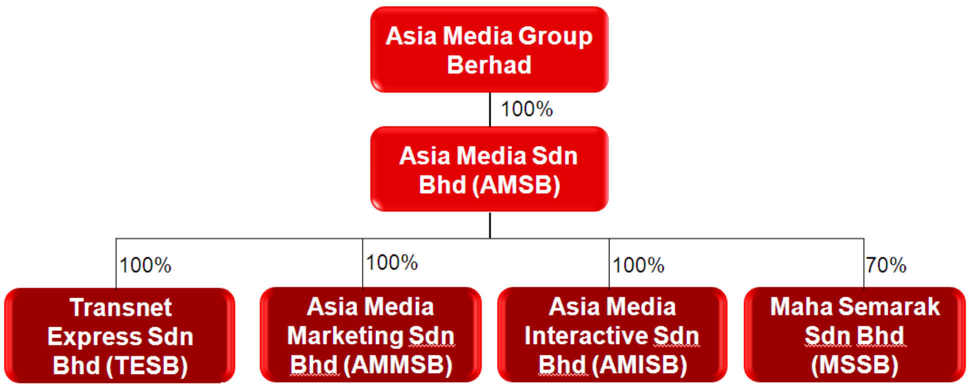
**Based on 15MFY10*

Figure 2: Peer Comparison Chart

Company	Share Price 9/01/2012	Market Cap (RMmn)	PER (x) CY11	PER (x) CY12	Div. Yield CY11	Div. Yield CY12	ROE (%) CY11	ROE (%) CY12
Asia Media Group*	0.30	67.3	4.3	2.8	-	-	43.4	39.6
Media Prima	2.54	2,713.1	14.6	13.6	4.7	4.6	14.3	13.9
Star Publications (M)	3.25	2,400.3	12.8	12.4	5.8	6.1	17.8	17.0
Average			**13.7**	**13.0**	**5.3**	**5.3**	**16.1**	**15.5**

**Based on TA estimates*

Figure 3: Corporate Structure



Source: Company

Figure 4: Licenses transferred from AMSB to MSSB

License	Activity	AMGB's Activity	Tenure
Application Service Provider Class (ASP Class)	Provision of application services such as voice services, data services and content-based services.	Programme sponsorship with audience participation via mobile phone	2009 (renewable annually)
Content Application Service Providers Individual (CASP-i)	Provision of terrestrial radio, subscription and non-subscription based TV broadcasting.	DTTB	2010-2020
Network Services Providers Individual (NSP-i)	Provision of basic connectivity and bandwidth to support a variety of applications.	DTTB	2010-2020
Network Facilities Providers Individual (NFP-i)	Provision, construction and maintenance of telecommunications infrastructure such as broadcasting transmission towers and equipment.	DTTB	2010-2020

Source: Company, MCMC

Figure 5: List of CASP-i License Holders (with 2 platforms or more)

Company	Terrestrial Radio	Satellite	Subscription	Non-Subscription
Asia Media Sdn Bhd	√		√	√
Pertubuhan Berita Nasional Malaysia (BERNAMA)		√	√	√
Measat Broadcast Network Systems Sdn Bhd		√	√	√
Measat Radio Communications Sdn Bhd	√			
Vasetti Datatech Bhd			√	√

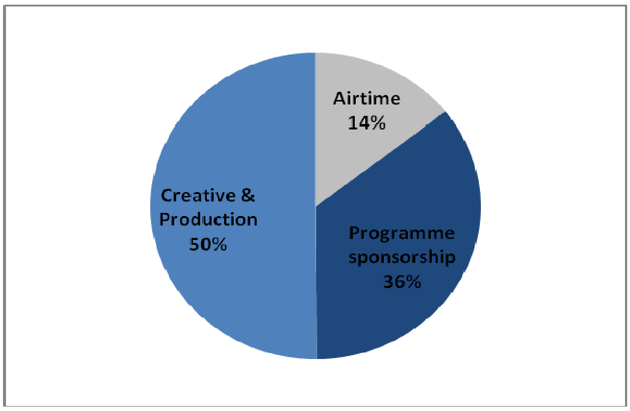
Source: MCMC

Figure 6: AMGB's viewer base

AMGB Platform	Bus Company	Fleet Size	Viewers/month (m)	Contract tenure
TransNet KL	Rapid KL	1,500	15.0	2009-2012
TransNet JB	Handal Indah	250	7.5	2008-2013
TransNet Ex	Plusliner Nice ++	200	0.3	2011-2017

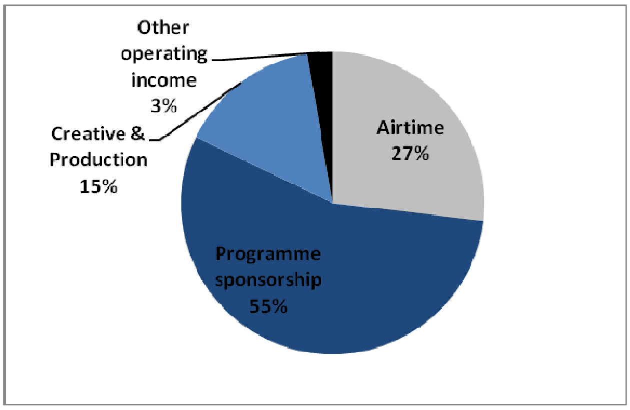
Source: Company

Figure 7: Segmented Revenue (9MFY11)



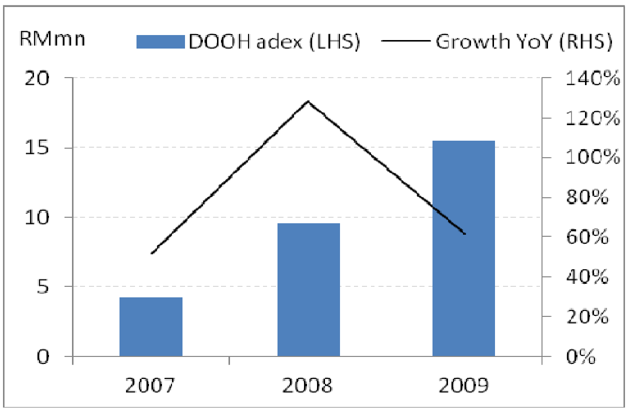
Sources: Company

Figure 8: Segmented Pretax Profit (9MFY11)



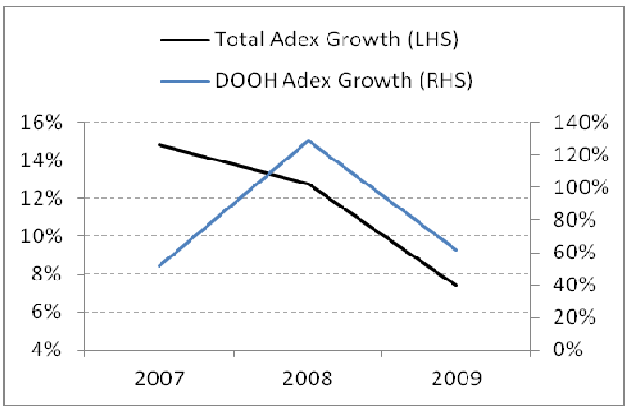
Source: Company

Figure 9: DOOH adex growth (FY07-09)



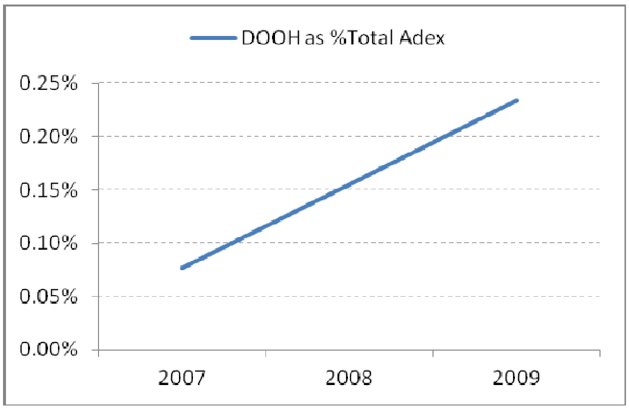
Sources: Frost & Sullivan

Figure 10: Total vs DOOH adex growth (FY07-09)



Sources: Nielsen Media Research, Frost & Sullivan

Figure 11: DOOH as % Total Adex (FY07-FY09)



Source: Nelsen Media Research, Frost & Sullivan

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