Nation Media Group

Recommendation:

HOLD

Price Target: KES 101.61

Price on 18th April 2018:
KES 111

Potential Upside/(Downside):
(9.2%)

52-week Trading Range:
KES 124 to KES 73.5

EPS:
KES 6.9

P/E
15.90

P/B
2.58

ROE
16.0%

ROA
11.69%

Dividend Yield:
9.1%

Market cap:
KES 20.93Bn

Estimated Free float:
43.61%

Shares Outstanding:
188.54 Million

Latest Full Year Results:
The Full Year 2017

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The Nation Media Group released their full year 2017 (**FY17)** results posting a **22%** decline in Profit After Tax (PAT) from **KES 1,634.7Mn** in **FY16** to **1,305.9Mn** in FY17 and Profit Before Tax (PBT) declining **20%** from **KES 2,460.0Mn** to **KES 1,954.6Mn**.

The media company saw its turnover drop by **6.2%** from **KES 11,324.8Mn** in **FY16** to **KES 10,624.9Mn FY17**. Net margins dipped from **14.9%** to **12.3%** over the same period**.** The drop in turnover can be attributed to uncertainty in the economic environment due to the prolonged electioneering period in 2017, advertising revenue generated from corporate clientele declined coupled with a fall in sales of print media. However, they remain in a strong cash position with a **25.9%** increment from **KES 1,344.7Bn** in 2016 to **KES 1,692.6Bn** in 2017. The revenues were suppressed by a delayed payment by the government which has amassed to **KES 700Mn.**

The Earnings Per Share **(EPS)** slid **22.5%** downwards to **KES 6.9** from **KES 8.9** in 2016. The company will pay a final dividend of **KES 7.50** which in addition to the interim dividend paid out in October brings the total FY17 dividends to **KES 10.00 (2016: 10.00)**

Balance sheet: Shareholders equity shrunk from **KES 8,718.1Mn** in **FY16** to **KES 8,192.2Mn** in **FY17** due to a decline in retained earnings**.** Total assets decreased by **7%** due to decline in current assets. The Return On Assets (ROA) fell from **13.9%** to **11.69%** while Return On Equity (ROE) eased from **19.4%** to **16.0.** Correspondingly, the current ratio dropped from **2.07** to **2.02** over the same period.

Cost Drivers: An extended election period resulted in an increase in costs which was not matched by revenues. In addition, a substantial **KES 260Mn** was expended to reorganize the company into a converged structure whereby priority was first extended to its digital platform. The decrease in income from print media led the company to revamp its Business Daily paper pushing its line cost up by **10%**.

Future Revenue Drivers: The Company is adapting to an evolving business environment through the procurement of a **KES 150Mn** Multi-channel Publishing system which will allow the company to converge its platforms to ease content distribution. The growth of the digital platform is set to increase the revenue contribution from **4%.**

Challenges: Targeting Small and Medium sized Enterprises (SME's) to refurnish the reduction of advertising revenue lost due to a cutback of large corporate clients. High competition from social media platforms such as Facebook and Google due to their higher consumer base may prove to be a major challenge for the company.

Forecast 2018: We value the company at **KES 101.61** which is a downside **9.2%** from the current price of **KES 111.00**. We anticipate the EPS to dip to **6.38** from **6.9.** The value loss will be induced by lower advertising and distribution revenues with cost remaining stagnant. In spite of potential increase in digital revenues, it may not be sufficient to cover the erosion from other sources. The projected loss in value of **9.2%** can be recovered by the dividend yield forecasted at **10.2%**

CERTIFICATIONS AND REQUIRED DISCLOSURES BEGIN ON PAGE 2

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Research Disclosure

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