

NMG UPDATE:

Media giant continues to struggle

Nation Media Group announced their Full Year 2018 results, registering a 16.4% decline in FY18 PBT to KES 1.6Bn from KES 2.0Bn in FY17. Management also slashed FY18 dividend by 50% to KES 3.50 from KES 7.00 in FY17. We have downgraded NMG now to SELL from a HOLD due to the firming up of earnings decline beyond our previous expectation.

Key take away are as follows:

- » Turnover fell by 9.1% in FY18 to KES 9.7Bn as advertising revenues underperformed. Nation Media's turnover continued to decline in FY18 majorly driven by the dismal performance of advertising revenues.
- » Expect advertising revenues to continue to fall. The advertising revenue slippage is likely to continue as the traditional media model that NMG relies on comes under attack from new players. In FY18 the underperformance of advertising was further accelerated by suspension of key accounts and the momentary shutdown of their Kenyan Television during the year.
- » Profit Before Tax performance in FY18 was significantly below our previous expectations. FY18 was a challenging year for NMG, expenses squeezed margins as the PBT margin fell to a new low of 16.8% in FY18 from a margin of 18.4%.
- » The EPS declined by 14% in FY18 overwhelmed by a bevy of headwinds. A decline in NMG's topline in FY18 was further exacerbated by inflationary pressures in FY18 to push PAT to KES 1.1Bn from KES 1.4Bn previously. The actual EPS performance of KES 5.90 was significantly lower than our KES 9.42. We have revised our projections downwards to reflect the new tighter margins and lower profitability in the medium term.
- » The EPS fell by 23% in FY18 to KES 6.90 in FY18 mostly driven by a structural decline in its turnover as digital advertising continue to eat into its market share. The increase in printing cost and other inflationary pressures in FY18 also squeezed earnings lower. We expect earnings to continue to fall and hit KES 4.46 by FY 22.

23rd April 2019

NMG

Target Price
KES 44.92

Current price
KES 60.5

Recommendation
SELL

Downside
27%

52 week range:
KES 57.75 to KES 114

FY18 EPS:
KES 5.90

P/E
8.8x

ROE:
14%

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Income Statement

Statement of Profit & Loss	2016A	2017A	2018A	2019E	2020E
Revenue	11,324.8	10,624.9	9,660.6	9,081.0	8,536.1
Cost of Sales	(2,000.0)	(1,963.7)	-	(1,612.4)	(1,515.7)
Gross Profit	9,324.8	8,661.2	-	7,468.5	7,020.4
Distribution Costs	(341.3)	(325.4)	-	(266.6)	(250.6)
Administrative expenses	(5,005.5)	(4,617.1)	-	(4,434.0)	(4,168.0)
Other expenses	(1,946.1)	(2,176.9)	-	(1,710.5)	(1,607.9)
Operation profit	2,031.9	1,541.8	-	1,057.4	994.0
Finance income	308.3	319.0	-	240.5	226.1
Finance costs	(2.1)	-	-	-	-
Share of Profit after income tax if associates	121.9	93.8	-	101.7	95.6
Profit Before Income Tax	2,460.0	1,954.6	1,634.0	1,399.6	1,315.7
Income tax expense	(771.1)	(643.8)	(516.5)	(419.9)	(394.7)
Profit for the year	1,688.9	1,310.9	1,117.5	979.8	921.0
Profit for the year	1,688.9	1,310.9	1,117.5	979.8	921.0
Per Share					
EPS	8.94	6.92	5.90	5.20	4.88
Shares	188.54	188.54	188.54	188.54	188.54
DPS	10.00	10.00	5.00	3.50	3.50
Payout	112%	145%	85%	67%	72%

Balance sheet

Statement of Financial Position	2016A	2017A	2018A	2019E	2020E
Capital Employed					
Share Capital	471.4	471.4	471.4	471.4	471.4
Other Reserves	(112.5)	(72.5)	(136.4)	(136.4)	(136.4)
Retained earnings	6,882.9	6,302.3	6,826.0	7,145.9	7,406.9
Proposed dividends	1,414.1	1,414.1	659.9	659.9	659.9
Total Shareholders Equity	8,655.9	8,115.3	7,820.9	8,140.8	8,401.8
Non-Controlling interest	47.0	51.0	56.7	56.7	56.7
Total equity	8,702.9	8,166.3	7,877.6	8,197.5	8,458.5
Non-current liabilities					
Total Non-current Liabilities	15.2	25.9	30.0	30.0	30.0
Total equity and non-current liabilities	8,718.1	8,192.2	7,907.6	8,227.5	8,205.7
Non-current assets					
Total Non-current Assets	5,010.8	5,009.2	4,770.0	4,673.2	4,588.8
Current Assets					
Total Current Assets	7,163.3	6,311.1	6,428.0	6,769.9	6,700.0
Current liabilities					
Total Current liabilities	3,456.0	3,128.1	3,290.4	3,215.6	3,083.1
Net current assets	3,707.3	3,183.0	3,137.6	3,554.3	3,616.9

Valuation

Nation Media Group					
Valuation Date	23/04/2019				
1.0 Dividend Discount Mode	31 December 2019	31 December 2020	31 December 2021	31 December 2022	
Dividend Per Share	5.00	5.00	5.00	5.00	
Add Terminal Value	-	-	-	28.90	
Dividends + Terminal Value	5.00	5.00	5.00	33.90	
Time (T)	0.68	1.66	2.65	3.64	
Discount Factor	0.90	0.77	0.66	0.56	
PV of Dividends	4.49	3.83	3.28	18.98	
Fair Value	30.58				
2.0 Residual Model	31 December 2019	31 December 2020	31 December 2021	31 December 2022	
EPS	5.90	5.20	4.88	4.59	
After tax gain of Salvage Value				18.15	
Equity Charge	(1.02)	(0.90)	(0.85)	(3.93)	
Residual Income	4.88	4.30	4.04	18.81	
Time (T)	0.68	1.66	2.65	3.64	
Discount Factor	0.90	0.77	0.66	0.56	
PV of residuals	4.38	3.30	2.65	10.53	
Residual Value	20.85				
Book Value 2018	41.48				
Fair Value	62.33				
3.0 Comparable Method					
P/E:					
Median P/E Comparable SSA	8.73				
X 2019 EPS	5.20				
Fair Value	45.38				
P/S:					
Median P/S Comparable SSA	0.68				
X 2019 Sales	48.16				
	32.68				
P/B:					
Median EV/EBITDA Comparable SSA	1.10				
X 2019 Book Value Per Share	43.18				
	47.54				
Relative Value					
P/E:	45.38				
P/S:	32.68				
P/B:	47.54				
Average	41.87				
4.0 Final Valuation	Value	Weight	Weighted Average		
Dividend Discount Model	30.58	33%	10.19		
Residual Model	62.33	33%	20.78		
Relative Value	41.87	33%	13.96		
Fair Value			44.92		

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