

Prime Media Group Ltd

Guidance for FY18 earnings decline of ~30%

Prime Media Group operates regional television broadcasting stations under affiliation arrangements with the Seven Network in New South Wales, Victoria, Western Australia, the Australian Capital Territory and the Northern Territory. The affiliation arrangements deliver Prime all Seven's content including key sports programming assets such as the Olympic Games coverage and AFL series and finals. Prime has long been an advocate for the removal of media ownership restrictions, both of which were removed by the Federal Government in October 2017. It sees itself as a natural participant in any merger activity in the sector as a result of these regulatory changes. On February 16, the company reported H118 NPAT excluding one-off items of \$14.0m, down 21.1% on pcp and noted that it now expects the full year decline in NPAT to be at the bottom end of its guidance range of 25-30% decline.

Strategy

Prime Media Group, a key advocate for the removal of media ownership restrictions including the 75% audience reach rule for television broadcasters, sees its future in consolidation of the sector. Chairman John Hartigan told shareholders at the company's 2017 AGM that to remain relevant and sustainable Prime must consolidate with another media company. He confirmed that discussions with 11.68% shareholder Seven West Media had taken place to that end but were unsuccessful. Outside media reforms, the company continues to experience structural headwinds in its business, despite garnering the highest share of TV advertising revenue and audiences in its regions.

Interim Result, Outlook and Consensus forecasts

PRT reported H118 revenues of \$113.3m, down 13.3% on pcp and a 22.1% decline in EBITDA to \$24.3m. The company took a \$31m one-time impairment on its television licenses resulting in a statutory loss of \$8.4m for the half. Adjusted NPAT declined 21.1% to \$14m but was ahead of its October 2017 guidance for core NPAT to be between \$11.7m and \$12.7m. PRT also suspended its dividend to focus on paying down debt. Net debt at 31 December was \$29.2m. The company said current trading conditions suggest that it will be at the bottom end of its previous guidance range for a 25% to 30% reduction in NPAT in FY18, inclusive of a successful Commonwealth Games and Winter Olympics. WE note that consensus, for which there is only one broker, continues to include dividends in FY18 and FY19 despite reducing FY18 NPAT forecasts by 7% and FY19 by 10%.

Earnings history and Consensus forecasts (A\$m)

Y/E	Revenue	EBITDA	EBIT	NPAT*	DPS (c)	EPS (c)*	PE (x)	P/CF (x)	Yield (%)
06/16	238.8	55.4	45.1	27.4	3.7	7.5	3.4	2.8	14.4
06/17	240.1	64.1	54.1	35.6	3.4	9.7	2.6	2.1	13.2
06/18e	216.6	n/a	n/a	25.7	3.0	7.0	3.7	n/a	11.7
06/19e	203.7	n/a	n/a	24.5	3.0	7.0	3.7	n/a	11.7

Source: Company data; Consensus for FY18 and FY19 derived from Stockopedia.com *NPAT

Share details

ASX Code	PRT
Share Price	\$0.26
Market Capitalisation	\$94M
Number of shares	366.3m
Enterprise Value	\$123M
Free Float	81.8%

Share price performance



RaaS RAP 5-point score* = 5/5

Revenue increasing (1); EPS increasing (1); Return on Capital Employed [ROCE] (1); EBIT interest cover >3x (1) Gross Operating cash flow/EBITDA >90%(1)

Upside Case

- Winter Olympics and Commonwealth Games on the Gold Coast should underpin audiences in 2H18
- Benefitting from a greater share of advertising relative to its audience share
- Potential target in any industry consolidation following media reforms

Downside Case

- Regional television still experiencing structural decline
- Highly regulated sector, particularly on content requirements while no such restrictions for digital competitors
- Programming arrangement with Seven up for renegotiation in FY19, potentially negative

Catalysts

- Trading update in April
- Potential M&A activity from media reforms

Comparative companies (Australia & NZ)

SXL.AX, NEC.AX, SWM.AX, NZM.NZ

Substantial Institutional Shareholders

Speria Asset Management 11.11%
IOOF Holdings (8.22%)

RaaS Advisory contacts

Finola Burke +61 414 354 712
finola.burke@raasgroup.com
Moir Daw +61 418 697 275
moira.daw@raasgroup.com

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