

<b>Astro All Asia Networks Plc</b>	<b>Price:</b>	RM3.58	
	<b>Market Capitalisation:</b>	RM6923.72m	
	<b>Board:</b>	Main Board	
	<b>Sector:</b>	Trading/Services	
<b>Stock Code:</b>	5076	<b>Recommendation:</b>	BUY

Key Stock Statistics	FY07	FY08F	FY09F
EPS (sen)	7.8	9.3	10.2
P/E (x)	45.9	38.5	35.1
Dividend	7.0	7.0	7.0
NTA/Share (sen)	0.71	0.75	0.78
Book Value/Share (sen)	0.95	1.00	1.05
Issued Capital (m shares)	1934	1934	1934

52-weeks share price range (RM) (3.18-5.65)

Major Shareholders:	%
Tan Sri Ananda Krishnan	42.5%
Khazanah Nasional	21.5%

Per Share Data	2006	2007	2008F	2009F
Book Value (RM)	0.93	0.95	1.00	1.05
Cash Flow (sen)	15.5	18.2	16.9	18.3
Earnings (sen)	11.9	8.3	9.3	10.2
Dividend (sen)	5.0	7.0	7.0	7.0
Payout Ratio	42.3%	84.3%	75.3%	71.4%
PER (x)	30.1	43.1	38.5	35.1
P/Cash Flow (x)	23.1	19.7	21.2	19.6
P/Book Value (x)	3.8	3.8	3.6	3.4
Dividend Yield (%)	1.4	2.0	2.0	2.0
ROE (%)	12.8	8.7	3.1	5.0
Net Gearing (%)	n.a.	n.a.	n.a.	n.a.

P&L Analysis (RM mil)	2006	2007	2008F	2009F
<b>Year-end: Jan 31</b>				
Revenue	2012.5	2224.3	2567.3	2869.2
Operating Profit	274.3	422.9	468.0	526.0
Depreciation	58.2	66.2	70.0	75.0
Amortisation	160.9	137.5	140.0	140.0
Interest Expenses	19.1	(17.5)	(15.0)	(10.0)
Pre-tax Profit	259.1	280.4	239.0	262.0
Effective Tax Rate	14.4%	46.1%	25.1%	24.8%
Net Profit	221.5	151.3	179.0	197.0
Operating Margin	13.6%	19.0%	18.5%	21.9%
Pre-tax Margin	12.9%	12.6%	9.5%	10.8%
Net-Margin	11.0%	6.8%	8.0%	8.2%

**Investment Highlights/Summary:**

- Astro All Asia Plc (“Astro”) is the dominant direct-to-home (“DTH”) satellite service provider in Malaysia which started operations in 1996. It currently offers more than 80 channels marketed through different packages from an initial offering of only 22 channels in 1996. Throughout the years, it had added new services and last year it introduced Astro MAX, a digital multimedia recorder to enhance the consumer viewing experience by giving them more viewing options.
- Its subscriber base stands at 2.2 million subscribers, growing at 12% CAGR over the past three years, which represent about 39% of Malaysian TV homes. Spreading its wings, Astro had ventured into the regional markets in Indonesia and India but both investments are still in the gestation period and losses are expected in the medium-term to long-term.
- As the sole provider of DTH satellite television services in Malaysia, Astro is well positioned to benefit from organic growth arising from population growth and consumer leisure spending. Its current core earnings base from its DTH and radio broadcasting services is providing a steady source of earnings and growth which is seen maintaining into the longer-term.
- Astro trades at a FY08F PE multiple of 38.5x and 35.1x on FY09F earnings which are not exactly cheap given anticipated losses from its overseas ventures. As it is, Astro is a long-term investment proposition as its overseas ventures will likely erode its bottom-line in the short to medium-term and affect sentiment for the stock. Thereafter, if things pan out as planned, its overseas ventures will enhance its earnings base significantly. Hence, we peg Astro as an investment BUY, mainly for its leading and virtual monopolistic position in Malaysia. For the longer-term investors, Astro is appealing at current level.

## **Background:**

### **Corporate Profile**

With a subscriber base of over 2 million Malaysian TV homes, Astro is a virtual monopoly in Malaysia in the absence of substantial competitions. At this juncture of the market stage, entry barrier is high for new players due to its entrenched market leadership, especially in contents sourcing and viewers are also unlikely to switch over to new providers given that Astro already offers most of the mainstream entertainment channels.

The successful launching of Measat-3 satellite which carries transponder tailored to Astro's requirements had enabled Astro to expand its offerings in 2007 and beyond. With 10 transponders able to broadcast 13 channels each, there is ample room to expand its channels as currently only six transponders are being utilised. Under the broadcasting licence granted to Astro in 1996, Astro is the exclusive provider of DTH television broadcasting services until 2017 and a non-exclusive provider until 2022. It also operates eight FM terrestrial radio programmes in Malaysia with a cumulative 11 million listener or approximately 50% of the country's listeners and it also packages 17 digital radio channels over the DTH platform.

Through Celestial Pictures which was acquired in 2003, Astro owns the world's largest Chinese film library with an estimated 760 Chinese language titles making it a major licensor and distributor of Chinese language films and programming. Celestial has ventured into producing its own programs to enhance its position as a content provider and expand its market reach.

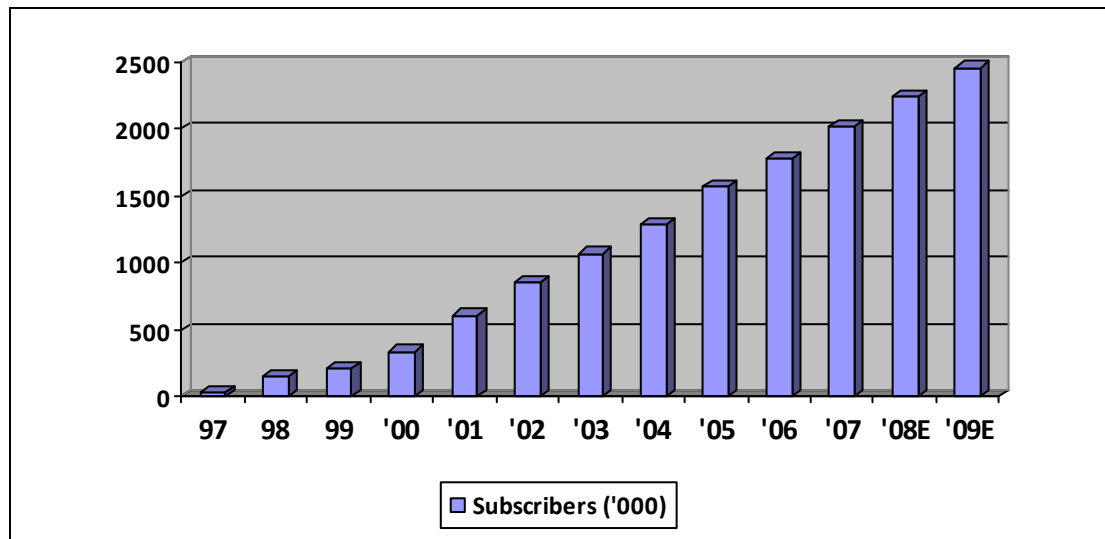
Given the limited domestic market size, Astro had ventured abroad to Indonesia, India and China to enhance its earnings potential and we expect a long gestation period before any meaningful impact can be seen. Start-up losses incurred on its Indonesian DTH satellite venture had clawed heavily into its core operational income and its new foray into India is also expected to impact adversely on its bottom-line in the medium to long term.

- **DTH television broadcasting**

### **A virtual monopoly in DTH satellite multi-channel services**

Astro is a well-known brand name in Malaysia having been around for more than ten years. With no substantial competition, Astro is a virtual monopoly in Malaysia and given its entrenched market leadership, we expect this situation to be maintained into the long-term. From inception, its subscriber base has grown by leap and bounds, from only 35,000 in 1997 to over 2.2 million currently with a Malaysian TV home penetration rate of 39%.

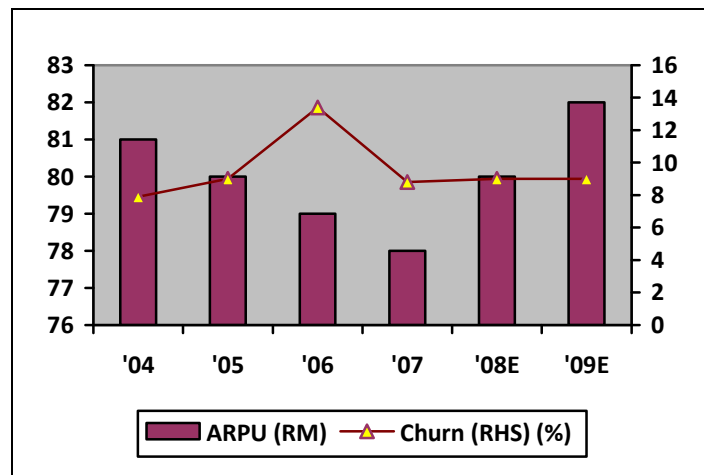
### **Subscriber base growth**



Its churn rate, the difference between total subscriber disconnections and total reconnections, had been relatively stable at 9.8% simple average for the last four years while its average revenue per user ("ARPU") was at RM78 for FY07. In FY006, the churn rate shot up to 13.6% due to some billings issue but Astro had since resolved the issue. The ARPU had been trending down slightly due to the higher ratio of new subscribers who opted for lower priced packages as a result of Astro's strategy to enlarge its market universe through lower-priced packages for the mass market. ARPU is expected to recover as new channels are introduced coupled with premium packages targeted at the higher-income market.

Customer acquisition cost ("CAC") which comprise mainly subsidies on set-top boxes and related sales and marketing expenses declined to RM667 per unit in FY07 from RM749 the previous year on efficiency improvement and one-off costs savings. Another substantial cost component is content cost which is also tightly managed and capped at around 30% of revenue. As content are mainly bought from overseas providers, the stronger ringgit will benefit Astro.

## ARPU & Churn Rate



- **Radio broadcasting services**

With a listener base of 11 million people, Astro's radio broadcasting services is the leading player and commands approximately 51% of the country's listeners and 73% of the radio industry advertising expenditure. This division is a steady profitable performer and contributed about 7% to group revenue in FY07.

- **Library licensing and distribution**

Through its subsidiary Celestial Pictures, Astro owns the world's largest Chinese film library and its digitally re-mastered films for release and distribution worldwide. It has successfully widened the global footprint of the Shaw Brothers' pay-TV, home video and video-on-demand products with distribution deals across the world. Since acquisition, Celestial has been in the red due to amortisation charges of about RM150 million per annum. The break-even point is being prolonged as Celestial incur additional investment on new ventures to enhance its library by producing new contents to break into new markets. Assuming that its revenue maintains its uptrend, we expect Celestial to be profitable over the next three years as its amortisation costs gradually diminished combined with contributions from new ventures.

## **Overseas ventures**

- **Indonesia**

Astro entered into an agreement with PT Ayunda Mitra, a subsidiary of PT Broadband Multimedia Tbk to participate in PT Direct Vision ("PTDV") to provide multi-channel digital satellite television and multimedia services in Indonesia. The service was launched in February 2006 by PTDV under a trademark

license agreement with MEASAT Broadcast Network Systems. Up to Oct 2007, PTDV had secured 140,000 subscribers with an ARPU of RM66.

A decree issued by the Indonesian authority, Komisi Penyiaran Indonesia limiting foreign equity participation to 20% caused the original agreement between Astro and its Indonesian parties to lapse and new negotiations were started to restructure the venture. Astro has decided not to equity account for the joint-venture and opted to expense off costs related to the venture. Its board had also decided that if the negotiations failed to conclude, Astro is expected to account for settlement costs relating to existing commitments which are estimated at RM200 million. Nevertheless, Astro will continue to support the operations pending an outcome.

- **India**

Through a joint-venture with the Maran Group, one of the leading media groups in India, Astro will invest up to RM636 million for 20% of Sun Direct TV Private Limited, a company incorporated in India which has a licence to provide DTH television services across India. The Indian market offers 118 million television households which is expected to grow to 150 million over the next decade and currently there are 65 million pay-TV homes. Its services started in Dec 07 which attracted an estimated subscriber base of 100,000 households to date.

- **China**

Through a joint-venture, its radio broadcasting division will produce and distribute advertisement and act as agent for local and foreign entities in China. At the preliminary stage, we do not expect any meaningful contribution impact from this venture yet.

### **Outlook**

As the sole provider of DTH satellite television services in Malaysia, Astro is well positioned to benefit from organic growth arising from population growth and consumer leisure spending. Its current core earnings base from its DTH and radio broadcasting services is providing a steady source of earnings and growth which is seen maintaining into the longer-term. Its value is further strengthened by the apparent lack of any credible competitors to even put a dent on its growing subscriber base.

Moving out of its comfort zone in Malaysia, Astro expanded regionally into Indonesia and India which in our opinion is the natural progression of its growth cycle as the domestic market with about 5 million TV-household is a limiting factor. For example, the TV-household TV in Indonesia is estimated at around 50 million while in India, as an indication of the prospects, the current pay-TV subscriptions is around 70 million. It is clear that Astro need to expand regionally in order to be a sizeable player and both markets offer tremendous opportunities.

One of the main concerns over its overseas foray is the long gestation period and huge outlay incurred as DTH-broadcasting requires heavy capex and investment. As it is, the fate of the Indonesian venture is uncertain due to changes in regulations which require fresh negotiations and the outcome remains unknown. These two ventures will impact its bottom-line substantially for years to come as earnings from the existing operations are unable to make up for the write-offs and start-up expenses which are relatively massive due to the huge capex requirements. Furthermore, there are other issues like political risks and currency risks and unlike in Malaysia where it is a monopoly, Astro has to contend with existing and new competitors in those markets.

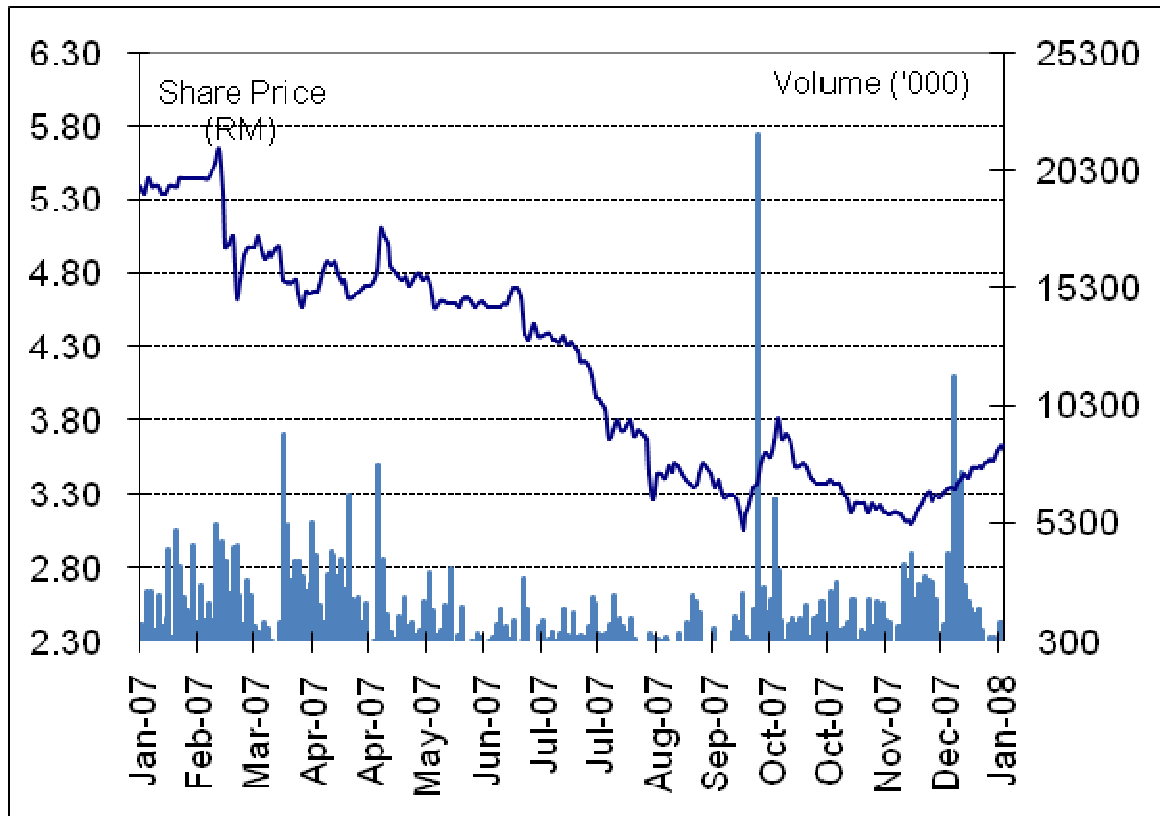
In the short to medium term, its earnings trend is expected to be flat due to potential write-offs and expenses relating to the overseas ventures which will dampen investors' enthusiasm for the stock. Nevertheless, there is inherent value in Astro, especially for the longer term investors, being the only DTH provider in Malaysia and from its 2.2 million subscriber base.

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## Valuation and recommendation

On-going and anticipated losses from its overseas ventures are casting a sense of uncertainties over Astro and there was even market talk of privatization a few months back. As it is, Astro is a long-term investment proposition as its overseas ventures will erode its bottom-line in the short to medium-term and affect sentiment for the stock. Despite that, we peg Astro as a BUY, mainly for its leading and virtual monopolistic position in Malaysia. We believe there are trading opportunities in the short to medium term after the sell down as the stock is slightly oversold. For the longer-term investors, Astro is appealing at current level.

## Share price chart of Astro



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Investment ratings:

Buy (generally >10% upside over the next 12 months)

Hold (generally negative 10% downside to positive 10% upside over the next 12 months)

Sell (generally >10% downside over the next 12 months)

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