

Southern Cross Media Group Ltd

Revenues showing signs of improving into H218

Southern Cross Media Group (SXL) owns metro and regional radio stations and regional television stations. The metro radio assets, Triple M and the Hit networks, hold a combined 29.1% commercial share of metro radio advertising. During FY17 the company successfully transitioned its regional television stations to Nine Network's programming across three of the four aggregated markets on the east coast of Australia and sold its non-core assets of 45 transmission sites and its northern NSW Ten Network licence. The company also has focussed on the high growth podcasting market and out-of-home advertising, striking partnerships for each of these new ventures in the past 12 months. SXL reported interim NPAT of \$38.2m, down 21.2% on pcp. SXL noted group revenues were up ~5% y-o-y for January/February and that the full year costs would be flat y-o-y.

Strategy

SXL switched its regional television affiliation arrangement from Ten Network to Nine Network programming from 1 July 2016 and in H118 this delivered 5 additional share points to SXL and lifted the power ratio (commercial TV share versus audience share) to 1.09 times by the end of the half. The regional business consists of both regional television and radio and accounts for 61% of group revenues and 75% of group EBITDA. Metro radio has experienced contraction due to underperformance of 2Day FM Sydney and cyclical declines in ad spending for male skews at Triple M. The company has invested in a new national drive show on Triple M and is focussed on improving 2Day FM Sydney with a new breakfast format. Net debt has also been reduced under this management team by \$150m to \$324.8m in the two years to December 2017.

Interim result

SXL reported H118 revenues of \$333.3m down 5.3% on pcp but up 1.3% on a like for like basis excluding the impact of NNSW TV which the company divested in the prior period. Regional revenues on a like for like basis increased 4.6%. H118 EBITDA was \$78.1m, down 15.6% on PCP but on a like for like basis the decline was 9.1%. For every dollar lost in revenue in H118, the company clawed back \$0.26 in costs. Cash conversion in the half improved to 88.1% from 82.4% in pcp. The interim dividend was maintained at \$0.0375/share.

Outlook

SXL has highlighted group revenues were up ~5% year-on-year for January/February 2018 (excluding the divested NNSW TV) and that regional markets continue to benefit from strengthening national advertising. The company has guided for full year costs outlook flat on the prior year.

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	639.6	167.7	138.9	77.2	6.25	10.1	10.6	3.7	5.8
06/17	687.2	177.4	146.5	97.5	7.75	12.7	8.5	7.1	7.2
06/18e	660.6	n/p	n/p	84.6	7.71	11.0	9.7	n/p	7.2
06/19e	670.6	n/p	n/p	86.7	7.93	11.3	9.5	n/p	7.4

Source: Company data; Consensus for FY18 and FY19 derived from Stockopedia.com *NPAT adjusted for one-off items in FY17 of \$10.9m

Share details

ASX Code	SXL
Share Price	\$1.07
Market Capitalisation	\$824M
Number of shares	769.0m
Enterprise Value	\$1,148M
Sector	Media
Free Float	96.8%

Share price performance



RaaS RAP 5-point score* = 4/5

Revenue increasing (1); EPS increasing (1), Return on Capital Employed [ROCE] (1); EBIT interest cover >3x (1) Gross Operating cash flow/EBITDA >90%(0)

Upside Case

- Switch to Nine affiliation has repositioned SXL with advertisers
- Strong balance sheet with EBIT/ interest cover of 10x and net debt/EBITDA cover of 1.81x
- Management's LTI adjusted to target 3-8% CAGR in EPS and 10.1-12.5% ROIC

Downside Case

- Regional television still experiencing structural decline
- Highly regulated sector, particularly on content requiring such restrictions for digital competitors
- Revenue uplift from switch to Nine unlikely to be repeatable

Catalysts

- Confirmation of continued H2 revenue growth
- Potential M&A activity following media reforms

Comparative companies (Australia & NZ)

PRT.AX, NEC.AX, SWM.AX, NZM.NZ

Substantial Institutional Shareholders

Allan Gray (13.87%), Ubique Asset (8.81%), Investors Mutual (6.24%), CBA (8.33%), CGF (7.26%), Retail Employees Superannuation 5.015%

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