

## Nation Media Group– 1H18 Earnings Update

**Nation Media Group announced a 35.4% y/y plunge in 1H18 net earnings, highlighting difficult times for the giant media house. The sharp decline in the bottom-line was mainly attributed to dwindling revenues in television and print businesses, further exacerbated by a KES 856M government debt which continues to constrain the company's operations. The Board declared an interim dividend of KES 1.50 down from KES 2.50 in 1H17 (-40.0% y/y).**

### Deteriorating print business weighs down top-line growth

Nation Media Group's revenues fell 6.7% y/y to KES 4.9B on the back of a 9.0% y/y and 12.0% y/y decline in print sales in Kenya and Tanzania respectively. The decline in Tanzania's Mwananchi revenues was attributed to subdued government advertising combined with a tough regulatory environment. Print media, which accounts for 80.0% of the group's revenue, is bleeding from digital disruption, with conventional advertising channels rapidly losing out to social media and other digital platforms. The digital business however grew 6.0% y/y with direct costs rising 27.0% y/y resulting in a 20.0%y/y jump in operating profit for the segment.

### Provision for bad debts hurts bottom-line performance

The Group lamented a burgeoning government debt to the tune of KES 856M with provisions for overdue debts escalating 94.0% y/y to KES 291.6M. The ballooning provisions, coupled with a revaluation loss of KES 49.7M in the company's financial assets exerted negative pressure on the bottom-line which culminated in a 35.5% y/y nose-dive in net earnings. Government-debt which now stands at 17.4% of revenues has stifled NMG's cash flow position forcing the media house to enforce credit suspension strategies on government advertising. This move could worsen the company's revenue growth though management is keen to chase alternative sources of revenue to shield its top-line.

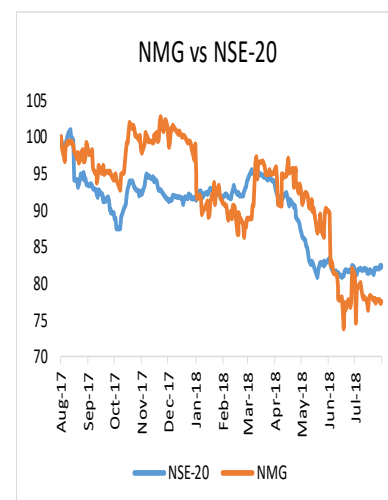
### Future outlook

- ◆ The group will seek to capitalize on its elevated status as the number two media house (up from position 3) in the country following a successful airing of the World Cup which increased its viewership by 19.0%. Nation Media Group also enjoys a wide reach of up to 33.6M users across all its platforms which could contribute significantly to the company's top-line growth should management find an effective strategy of monetizing its following.
- ◆ Despite continued interest in the digital platform, the revenue gains made by the plat-

Bloomberg Ticker:	NMG KN
Reuters Ticker:	NMG.NR

Share Statistics	
Current Price (KES)	89.50
Issued shares (M)	188.5
Market cap (USD M)	195.9
Year end	Dec
Foreign ownership (%)	58.8
Free float (%)	43.6
Av daily trading vol (USD k)	22.4

### Price Trend



Source: Bloomberg

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form have not been sufficient to cover the dips recorded by the traditional media. With NMG dragging to enter into this space, the digital business is unlikely to make up for the lower print and broadcasting revenues resulting in a dwindling top-line.

- ◆ The media house has also invested heavily on its people, undertaking a major facelift on NTV's line-up of news anchors which is anticipated to strengthen the brand in addition to growing its viewership.
- ◆ The group hopes that the existing stalemate with regard to the government debt will soon be resolved allowing the company to channel the funds into revenue generating activities that will drive up value for its investors.
- ◆ Nation Media Group is currently pursuing other sources of revenue in music, gaming, events management and education which may protect the top-line going forward.

## Conclusion

Despite the poor performance posted in the Group's 1H18 results, the board has proposed a KES 1.50 interim dividend. This marks a 530bps y/y increase in the company's payout ratio to 62.5% though the effective DPS has decreased. The firm appears unable to sustain its dividend of KES 10.00 going forward. The apparent inability to sustain dividend has seen the share price fall 22.8% YTD to KES 89.50. It's P/E of 37.3x and P/B of 2.0x deem NMG a pricey counter. Though the dividend announced is welcome, it falls below market expectations. As such, lower dividends coupled with slumping earnings are anticipated to pile pressure on the counter's price at the bourse.

Financials (KES M)	1H17	FY17	1H18	y/y% ch
<b><u>Income statement</u></b>				
Revenue	5,274.2	10,624.9	4,923.1	-6.7
<b>PBT</b>	<b>1,171.2</b>	<b>1,954.6</b>	<b>1,103.1</b>	<b>-5.8</b>
Income Tax Expense	(351.4)	(643.8)	(232.6)	-33.8
<b>PAT</b>	<b>819.8</b>	<b>1,310.8</b>	<b>529.2</b>	<b>-35.4</b>
Other Comprehensive Income	5.8	40.1	(74.2)	-1379
Total Comprehensive Income	825.6	1,350.9	455.0	-44.9
<b>EPS</b>	<b>4.37</b>	<b>6.90</b>	<b>2.40</b>	<b>-45.1</b>
<b>DPS (Interim)</b>	<b>2.50</b>	<b>10.00</b>	<b>1.50</b>	<b>-40.0</b>
<b><u>Statement of Financial Position</u></b>				
Share Capital	471.4	471.4	471.4	0.0
Other Reserves	(84.6)	(72.5)	(142.0)	67.8
Retained Earnings	7,207.1	6,302.3	6,545.3	-9.2
Proposed Dividends	1,885.5	1,414.1	1,696.9	-10.0
Capital and Reserves	9,479.4	8,115.3	8,571.6	-9.6
Non-controlling Interest	48.7	51.0	49.7	2.1
<b>Total Equity</b>	<b>9,528.1</b>	<b>8,166.3</b>	<b>8,621.3</b>	<b>-9.5</b>
Non-current Liabilities	15.0	25.9	25.0	66.7
Non-current Assets	4,827.1	5,009.2	4,892.1	1.3
Current Assets	7,934.9	6,311.1	7,093.6	-10.6
Current Liabilities	(3,218.9)	(3,128.1)	(3,339.4)	3.7
Net Working Capital	4,716.0	3,183.0	3,754.2	-20.4
<b><u>Statement of Cashflows</u></b>				
Net Cash From Operating Activities	1483.4	2184.0	820.1	-44.7
Net Cash Used In Investing Activities	147.0	45.3	(36.5)	-124.8
Net Cash Used In Financing Activities	-	(1885.5)	-	-
<b>Increase In Cash &amp; C/ Equivalents</b>	<b>1630.4</b>	<b>343.8</b>	<b>783.6</b>	<b>-51.9</b>
<b><u>Ratios (%)</u></b>				
Net Margin	15.5	12.3	10.7	
Payout Ratio	57.2	144.9	62.5	
Current Ratio	2.5	2.0	2.1	
ROA	12.8	23.2	8.8	
ROE	17.2	32.1	12.3	
<b>P/E</b>		<b>37.3</b>		
<b>P/B</b>		<b>2.0</b>		
<b>Dividend Yield (%)</b>		<b>10.0</b>		

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