

NZME Limited

Ad Market Weakness Drives Newshub Closure

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In significant news for New Zealand's media industry, Warner Bros. Discovery New Zealand has announced a restructuring that will see the closure of its multi-platform news operation, Newshub, by June 2024. The decision to close Newshub reflects an ongoing deterioration in New Zealand's ad market and financial headwinds. Newshub is a significant rival to NZME (NZM), with its online news site (newshub.co.nz) consistently ranking #3 in visitation metrics behind Stuff and the NZ Herald. Newshub's unfortunate closure will likely solidify NZM's market-leading position in online publishing, with potential benefits to costs, viewership, and ad revenues. Additionally, Newshub's closure gives us improved confidence in the growth outlook for NZM's digital subscription business (we forecast subscriber growth of +12% to 145,600 in FY24). We had expected NZM to benefit from industry disruption and consolidation, which has begun to eventuate. We do not change our forecasts at this time, and our blended spot valuation is unchanged at NZ\$1.20.

NZX Code	NZM	Financials: Dec/	23A	24E	25E	26E	Valuation (x)	23A	24E	25E	26E
Share price	NZ\$0.98	Rev (NZ\$m)	347.6	358.5	363.4	367.9	PE	14.6	10.4	9.6	8.2
Spot Valuation	NZ\$1.20	NPAT* (NZ\$m)	12.2	17.5	19.0	22.2	EV/EBIT	11.2	8.9	8.4	7.6
Risk rating	Medium	EPS* (NZc)	6.7	9.4	10.2	11.9	EV/EBITDA	5.2	4.6	4.3	4.2
Issued shares	183.9m	DPS (NZc)	9.0	9.0	9.0	9.0	Price / NTA	n/a	n/a	n/a	n/a
Market cap	NZ\$180m	Imputation (%)	100	100	100	100	Cash div yld (%)	9.2	9.2	9.2	9.2
Avg daily turnover	50.3k (NZ\$49k)	*Based on normalised profits					Gross div yld (%)	12.8	12.8	12.8	12.8

NZM poised to benefit, but industry challenges remain

The closure of Newshub could offer several potential benefits to NZM, including: (1) reduced pressure on reporter and editorial expenses, (2) an uplift in viewership for NZM's NZ Herald and BusinessDesk platforms as Newshub's audience migrates, (3) increased advertising revenue as displaced Newshub advertisers seek new platforms, and (4) the potential to accelerate NZM's digital subscriber growth beyond the +12% we currently forecast in FY24 (down from the +15% and +37% seen in FY23 and FY22 respectively). We expect advertisers to relatively quickly move campaigns to other platforms given Newshub's impending closure. Further, Stuff.co.nz is also dealing with the same challenging ad market, and its attempt to move to a subscription model suggest further industry changes are possible. While industry headwinds persist, NZM's strengthened competitive position, potential support for its digital subscription strategy, and conservative balance sheet offer resilience and potential upside.

NZ ad market under pressure

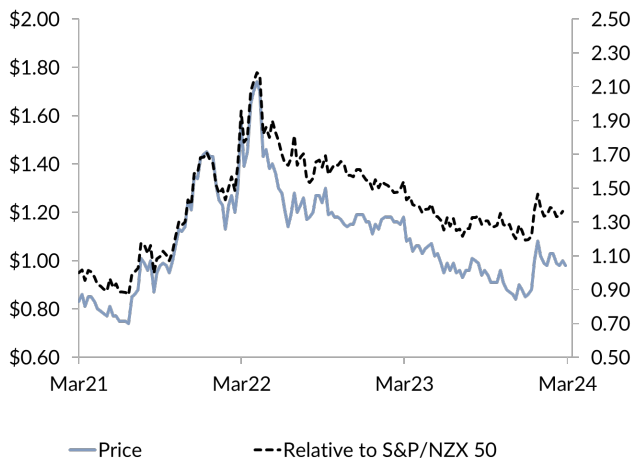
The advertising market in New Zealand has faced a tumultuous period recently, reflecting broader economic uncertainties and a challenging digital landscape where supernationals Meta and Google dominate. A confluence of factors, including last year's election, heightened inflationary pressures, a cautious consumer spending environment, and the ripple effects of global geopolitical tensions has hit the sector hard. NZM is not immune to these challenges, with print advertising, digital publishing advertising, and radio advertising revenue falling -13%, -8%, and -2%, respectively, in FY23. As the trend towards digitalisation continues, audiences and advertising have proportionally moved to supernationals Meta and Google. This dynamic has disproportionately impacted traditional New Zealand media outlets which have struggled to compete with the tech giants' global reach and targeting capabilities.

NZME Limited (NZM)

Market Data (NZ\$)						Spot valuation (NZ\$)					
Priced as at 28 Feb 2024					0.98	Peers comparable					1.20
52 week high / low					1.21 / 0.83	DCF					1.20
Market capitalisation (NZ\$m)					180.2	n/a					n/a
Carbon and ESG (CESG)**						Key WACC assumptions					
CESG rating					n/a	Risk free rate					5.00%
CESG score					n/a	Equity beta					1.16
Sector average CESG score					n/a	WACC					10.2%
NZ average CESG score					n/a	Terminal growth					1.5%
Profit and Loss Account (NZ\$m)						Valuation Ratios					
	2022A	2023A	2024E	2025E	2026E		2022A	2023A	2024E	2025E	2026E
Revenue	365.9	347.6	358.5	363.4	367.9	EV/Sales (x)	0.8	0.8	0.8	0.7	0.7
Normalised EBITDA	64.7	54.6	60.2	62.0	63.1	EV/EBITDA (x)	4.3	5.2	4.6	4.3	4.2
Depreciation and amortisation	(27.4)	(28.6)	(29.0)	(29.9)	(27.7)	EV/EBIT (x)	7.4	11.2	8.9	8.4	7.6
Normalised EBIT	37.3	26.0	31.3	32.1	35.4	PE (x)	7.9	14.6	10.4	9.6	8.2
Net interest	(5.7)	(7.7)	(6.3)	(5.2)	(4.0)	Price/NTA (x)	n/a	n/a	n/a	n/a	n/a
Associate income	(0.2)	(0.6)	(0.6)	(0.6)	(0.6)	Free cash flow yield (%)	8.2	8.8	11.4	11.8	11.5
Tax	(8.6)	(5.6)	(6.8)	(7.4)	(8.6)	Adj. free cash flow yield (%)	8.2	8.8	11.4	11.8	11.5
Minority interests	0	0	0	0	0	Net dividend yield (%)	9.2	9.2	9.2	9.2	9.2
Normalised NPAT	22.9	12.2	17.5	19.0	22.2	Gross dividend yield (%)	12.8	12.8	12.8	12.8	12.8
Abnormals/other	(0.3)	0	0	0	0	Capital Structure					
Reported NPAT	22.7	12.2	17.5	19.0	22.2	Interest cover EBIT (x)	6.6	3.3	4.9	6.1	8.7
Normalised EPS (cps)	12.3	6.7	9.4	10.2	11.9	Interest cover EBITDA (x)	11.4	7.1	9.5	11.9	15.7
DPS (cps)	9.0	9.0	9.0	9.0	9.0	Net debt/ND+E (%)	12.6	13.6	11.0	7.6	4.5
Growth Rates						Net debt/EBITDA (x)	0.3	0.3	0.2	0.2	0.1
	2022A	2023A	2024E	2025E	2026E	Key Ratios					
Revenue (%)	0.1	-5.0	3.1	1.4	1.2		2022A	2023A	2024E	2025E	2026E
EBITDA (%)	-2.0	-15.5	10.2	3.0	1.8	Return on assets (%)	12.1	8.8	11.2	12.3	14.4
EBIT (%)	1.0	-31.5	20.6	2.8	10.5	Return on equity (%)	18.8	10.7	15.4	16.2	18.1
Normalised NPAT (%)	-5.1	-46.8	43.8	8.1	17.0	Return on funds employed (%)	8.7	4.9	7.8	9.2	11.7
Normalised EPS (%)	-33.2	-45.8	40.5	8.1	17.0	EBITDA margin (%)	17.7	15.7	16.8	17.1	17.2
Ordinary DPS (%)	12.5	0.0	0.0	0.0	0.0	EBIT margin (%)	10.2	7.3	8.6	8.7	9.5
Cash Flow (NZ\$m)						Capex to sales (%)	2.9	3.2	3.2	3.4	3.5
	2022A	2023A	2024E	2025E	2026E	Capex to depreciation (%)	-53	-56	-62	-68	-73
EBITDA	64.7	54.6	60.2	62.0	63.1	Imputation (%)	100	100	100	100	100
Working capital change	(8.6)	0.6	(1.1)	(1.1)	(0.9)	Pay-out ratio (%)	73	135	96	89	76
Interest & tax paid	(18.2)	(19.3)	(13.1)	(12.6)	(12.7)	Operating Performance					
Other	(0.4)	4.0	0	0	0		2022A	2023A	2024E	2025E	2026E
Operating cash flow	37.5	40.0	46.0	48.4	49.6	Audio					
Capital expenditure	(10.7)	(11.0)	(11.5)	(12.2)	(12.9)	External customers revenue	113.5	113.3	119.7	120.9	122.5
(Acquisitions)/divestments	(3.6)	0	0	0	0	Operating EBITDA	22.8	23.3	26.5	26.2	26.0
Other	(11.3)	(13.1)	(13.9)	(14.9)	(16.0)	Operating EBITDA margin	20%	21%	22%	22%	21%
Funding available/(required)	11.9	15.8	20.6	21.3	20.7	Publishing					
Dividends paid	(25.4)	(16.6)	(16.8)	(16.8)	(16.8)	External customers revenue	216.8	204.3	210.4	211.4	211.0
Equity raised/(returned)	(17.6)	0	0	0	0	Operating EBITDA	47.4	38.7	36.8	38.1	38.1
(Increase)/decrease in net debt	(31.0)	(0.7)	3.8	4.5	3.9	Operating EBITDA margin	22%	19%	17%	18%	18%
Balance Sheet (NZ\$m)											
	2022A	2023A	2024E	2025E	2026E	OneRoof					
Working capital	1.9	1.3	2.4	3.5	4.4	External customers revenue	22.9	20.8	25.3	28.0	31.3
Fixed assets	23.1	20.3	15.1	11.9	9.2	Operating EBITDA	-1.4	-1.4	1.2	1.9	3.2
Intangibles	141.5	142.4	140.1	137.0	136.3	Operating EBITDA margin	-6%	-7%	5%	7%	10%
Right of use asset	63.7	58.2	48.0	37.7	27.5						
Other assets	17.9	13.7	13.7	13.7	13.7						
Total funds employed	248.1	236.0	219.3	203.8	191.1						
Net debt/(cash)	17.5	18.0	14.1	9.6	5.7						
Lease liability	91.2	84.7	72.0	58.3	43.5						
Other liabilities	13.3	13.5	13.5	13.5	13.5						
Shareholder's funds	127.0	119.9	119.7	122.4	128.4						
Minority interests	(0.8)	0	0	0	0						
Total funding sources	248.1	236.0	219.3	203.8	191.1						

* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend** Information on Forsyth Barr's Carbon and ESG (CESG) ratings can be found at www.forsythbarr.co.nz/corporate-news-events/cesg-report

Figure 1. Price performance



Source: Forsyth Barr analysis

Figure 2. Substantial shareholders

Shareholder	Latest Holding
Repertoire Partners LP	19.9%
Spheria Asset Management	13.4%
Osmium Partners LLC	7.6%
Pinnacle Investment Management	5.2%
Nomura Holdings Inc	5.0%

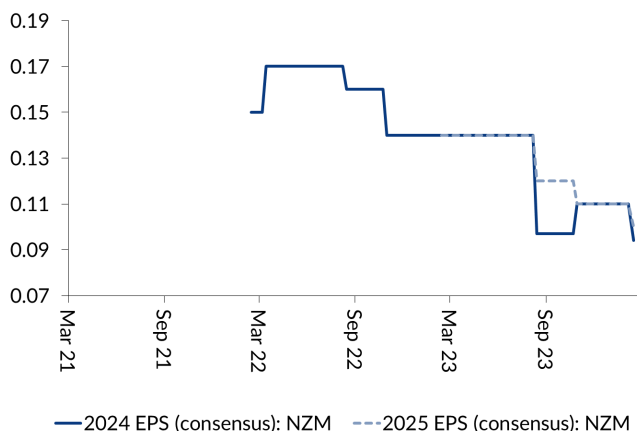
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 3. International valuation comparisons

Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 2025E
				2024E	2025E	2024E	2025E	2024E	2025E	
NZME	NZM NZ	NZ\$0.98	NZ\$180	10.4x	9.6x	4.6x	4.3x	8.9x	8.4x	9.2%
Nine Entertainment Co Holdin	NEC AU	A\$1.80	A\$2,916	15.2x	13.2x	7.3x	6.7x	10.4x	9.4x	5.3%
Seven West Media	SWM AU	A\$0.23	A\$346	3.8x	3.8x	3.8x	3.9x	4.7x	4.8x	6.7%
New York Times Co-A	NYT US	US\$43.55	US\$7,147	26.0x	23.2x	15.3x	13.8x	18.0x	15.6x	1.2%
Reach Plc	RCH LN	£0.64	£203	3.6x	2.8x	2.1x	2.1x	2.5x	2.4x	11.6%
Gannett Co Inc	GCI US	US\$2.07	US\$308	>75x	5.4x	5.6x	5.0x	13.9x	9.9x	n/a
Arn Media	A1N AU	A\$0.91	A\$283	9.1x	8.2x	5.6x	5.1x	7.8x	7.1x	9.0%
Southern Cross Media Group L	SXL AU	A\$0.98	A\$235	10.8x	9.6x	6.1x	5.8x	9.6x	9.0x	7.7%
Sirius Xm Holdings Inc	SIRI US	US\$4.76	US\$18,290	15.9x	14.7x	10.3x	10.1x	14.1x	13.6x	2.5%
Cumulus Media Inc-CI A	CMLS US	US\$4.70	US\$79	<0x	<0x	9.1x	6.7x	28.9x	14.0x	n/a
Domain Holdings Australia Lt	DHG AU	A\$3.40	A\$2,144	39.2x	32.1x	16.4x	14.6x	23.8x	20.4x	2.0%
Rea Group	REA AU	A\$188.07	A\$24,847	50.5x	42.3x	29.6x	25.6x	34.4x	29.2x	1.3%
Compco Average:				19.3x	15.5x	10.1x	9.0x	15.3x	12.3x	5.2%
NZM Relative:				-46%	-38%	-55%	-52%	-41%	-31%	75%

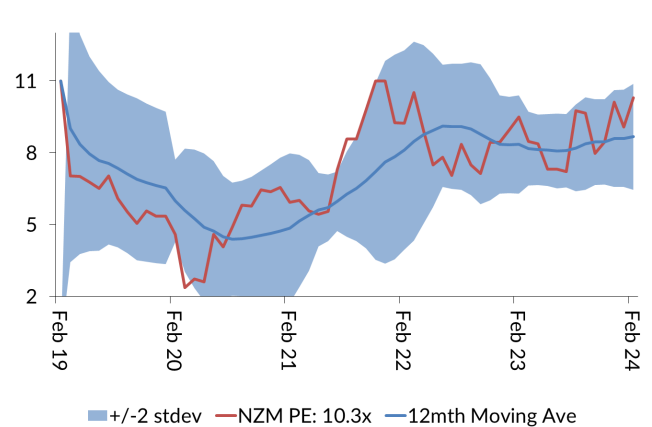
EV = Mkt cap+net debt+lease liabilities+min interests-investments
 Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (NZM) companies fiscal year end

Figure 4. Consensus EPS momentum (NZ\$)



Source: Forsyth Barr analysis

Figure 5. One year forward PE (x)



Source: Forsyth Barr analysis

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