

NZME Limited

Displaying Progress With 1H24 Result

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NZME (NZM) reported a commendable 1H24 result, given the challenging economic backdrop. While group revenues rose marginally, opex rose faster than expected, and, as a result, EBITDA was below our forecasts. The weak economic environment continued to impact, with total ad revenue rising +4% in 1Q24, +2% in 2Q24 and management stating that 3Q24 was only up +1% to date. OneRoof's performance was solid, with lifts in the uptake of premium listings and the volume of listings, as ongoing strategic initiatives prove successful. Our confidence in OneRoof is building, as such, we lift our projections materially, which supports our thesis that NZM's property business is an important driver of value. The Audio division continued to see marginal revenue growth, but EBITDA fell -25% as opex costs rose +10%. NZM's Publishing divisional results were flat on 1H23. NZM declared a fully imputed interim dividend of 3cps, flat on last year. NZM retained its FY24 guidance range of NZ\$57m to NZ\$61m at the EBITDA line, but said it would be at the lower end of that range despite cost-out initiatives. We make minor amendments to our estimates; however, we retain our NZ\$57.9m FY24 EBITDA forecast. Our spot valuation lifts +1cps to NZ\$1.17.

NZX Code	NZM	Financials: Dec/	23A	24E	25E	26E	Valuation (x)	23A	24E	25E	26E
Share price	NZ\$0.96	Rev (NZ\$m)	347.6	353.8	358.3	363.2	PE	14.3	11.3	10.3	8.7
Spot Valuation	NZ\$1.17 (from 1.16)	NPAT* (NZ\$m)	12.2	15.9	17.4	20.6	EV/EBIT	11.1	9.6	9.0	8.0
Risk rating	Medium	EPS* (NZc)	6.7	8.5	9.3	11.0	EV/EBITDA	5.2	4.7	4.4	4.3
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\$177m	Imputation (%)	100	100	100	100	Cash div yld (%)	9.4	9.4	9.4	9.4
Avg daily turnover	105.2k (NZ\$91k)	*Based on normalised profits					Gross div yld (%)	13.0	13.0	13.0	13.0

What's changed?

- **Earnings:** NPAT flat in FY24, up +3% in FY25 and up +1% in FY26, with OneRoof upgrades offsetting reductions in other segments.
- **Spot valuation:** Lifts +1% to NZ\$1.17.

Digital transition continues

NZM's digital-first focus continues, with good progress across the divisions. OneRoof saw digital listing revenue rise +63%, Audio digital revenues rose +33%, and digital subscriptions in the Publishing segment rose +13%. Total digital revenues represented NZ\$50m (or 29%) of 1H24's total NZ\$171m in revenues, up from 26% in 1H23.

OneRoof remains key to long-term growth and opportunity

OneRoof had a good 1H24, with a +47% lift in total revenue over 1H23. The +63% growth in digital listings revenue was helped by property listing volumes rebounding and the mix of higher-value listing packages improving yield. The audience gap to market leader Trade Me continues to close, being now only -10%. NZM is growing its non-listing revenue, with segment display and native advertising up +13% in the half. OneRoof reported EBITDA of +NZ\$1.2m in 1Q24 but only +NZ\$0.2m in 2Q24. We, however, see: (1) continued progress on upgrades to premium packages, and (2) upcoming OCR rate cuts helping lift revenues and EBITDA by stimulating increased property market activity, given total listings remain -20% below historical norms.

Cost-out to assist 2H24 and allows NZM to maintain its EBITDA guidance range

Opex costs in 1H24 were +3% higher versus our +1% growth estimate. However, costs will likely fall to meet our FY24 expectations, given NZM has implemented a NZ\$6m cost-out programme, outside of OneRoof, with near full benefits to flow into 2H24.

NZME Limited (NZM)

Market Data (NZ\$)						Spot valuation (NZ\$)					1.17
Priced as at 27 Aug 2024					0.96	Peers comparable					1.26
52 week high / low					1.08 / 0.81	DCF					1.22
Market capitalisation (NZ\$m)					176.6	Dividend Discount Model					1.02
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	353.8	358.3	363.2	EV/Sales (x)	0.8	0.8	0.8	0.8	0.7
Normalised EBITDA	64.7	54.6	57.9	59.9	61.2	EV/EBITDA (x)	4.2	5.2	4.7	4.4	4.3
Depreciation and amortisation	(27.4)	(28.6)	(28.9)	(29.9)	(27.6)	EV/EBIT (x)	7.3	11.1	9.6	9.0	8.0
Normalised EBIT	37.3	26.0	29.0	30.0	33.5	PE (x)	7.8	14.3	11.3	10.3	8.7
Net interest	(5.7)	(7.7)	(6.3)	(5.3)	(4.4)	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 (%)	8.4	9.0	10.7	10.7	10.7
Tax	(8.6)	(5.6)	(6.2)	(6.8)	(8.0)	Adj. free cash flow yield (%)	8.4	9.0	10.7	10.7	10.7
Minority interests	0	0	0	0	0	Net dividend yield (%)	9.4	9.4	9.4	9.4	9.4
Normalised NPAT	22.9	12.2	15.9	17.4	20.6	Gross dividend yield (%)	13.0	13.0	13.0	13.0	13.0
Abnormals/other	(0.3)	0	0	0	0						
Reported NPAT	22.7	12.2	15.9	17.4	20.6	Capital Structure					
Normalised EPS (cps)	12.3	6.7	8.5	9.3	11.0	Interest cover EBIT (x)	6.6	3.3	4.5	5.6	7.6
DPS (cps)	9.0	9.0	9.0	9.0	9.0	Interest cover EBITDA (x)	11.4	7.1	9.2	11.4	14.0
						Net debt/ND+E (%)	12.6	13.6	12.4	10.8	9.1
						Net debt/EBITDA (x)	0.3	0.3	0.3	0.2	0.2
Growth Rates						Key Ratios					
	2022A	2023A	2024E	2025E	2026E		2022A	2023A	2024E	2025E	2026E
Revenue (%)	0.1	-5.0	1.8	1.3	1.4	Return on assets (%)	12.1	8.8	10.4	11.4	13.5
EBITDA (%)	-2.0	-15.5	6.0	3.4	2.2	Return on equity (%)	18.8	10.7	14.1	15.3	17.4
EBIT (%)	1.0	-31.5	11.7	3.6	12.0	Return on funds employed (%)	8.7	4.9	7.0	8.3	10.6
Normalised NPAT (%)	-5.1	-46.8	30.5	9.3	18.3	EBITDA margin (%)	17.7	15.7	16.4	16.7	16.8
Normalised EPS (%)	-33.2	-45.8	27.5	9.3	18.3	EBIT margin (%)	10.2	7.3	8.0	8.2	9.1
Ordinary DPS (%)	12.5	0.0	0.0	0.0	0.0	Capex to sales (%)	2.9	3.2	3.2	3.4	3.5
						Capex to depreciation (%)	-53	-56	-61	-67	-72
						Imputation (%)	100	100	100	100	100
						Pay-out ratio (%)	73	135	105	97	82
Cash Flow (NZ\$m)						Operating Performance					
	2022A	2023A	2024E	2025E	2026E		2022A	2023A	2024E	2025E	2026E
EBITDA	64.7	54.6	57.9	59.9	61.2	Audio					
Working capital change	(8.6)	0.6	(1.4)	(2.1)	(1.3)	External customers revenue	113.5	113.3	117.6	117.6	118.1
Interest & tax paid	(18.2)	(19.3)	(12.5)	(12.0)	(12.4)	Operating EBITDA	22.8	23.3	22.4	21.1	20.0
Other	(0.4)	4.0	0	0	0	Operating EBITDA margin	20%	21%	19%	18%	17%
Operating cash flow	37.5	40.0	44.0	45.8	47.5						
Capital expenditure	(10.7)	(11.0)	(11.3)	(12.0)	(12.7)	Publishing					
(Acquisitions)/divestments	(3.6)	0	0	0	0	External customers revenue	216.8	204.3	204.5	202.6	200.9
Other	(11.3)	(13.1)	(13.9)	(14.9)	(16.0)	Operating EBITDA	47.5	38.7	36.2	36.5	36.0
Funding available/(required)	11.9	15.8	18.8	18.9	18.8	Operating EBITDA margin	22%	19%	18%	18%	18%
Dividends paid	(25.4)	(16.6)	(16.8)	(16.8)	(16.8)						
Equity raised/(returned)	(17.6)	0	0	0	0	OneRoof					
(Increase)/decrease in net debt	(31.0)	(0.7)	2.0	2.1	2.0	External customers revenue	22.9	20.8	28.6	35.0	41.0
						Operating EBITDA	-1.3	-1.4	3.5	6.4	9.1
						Operating EBITDA margin	-6%	-7%	12%	18%	22%
Balance Sheet (NZ\$m)											
	2022A	2023A	2024E	2025E	2026E						
Working capital	1.9	1.3	2.7	4.8	6.1						
Fixed assets	23.1	20.3	15.0	11.8	9.1						
Intangibles	141.5	142.4	140.0	136.8	136.0						
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	219.5	204.8	192.5						
Net debt/(cash)	17.5	18.0	15.9	13.8	11.8						
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	118.1	119.2	123.6						
Minority interests	(0.8)	0	0	0	0						
Total funding sources	248.1	236.0	219.5	204.8	192.5						

* 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

1H24 result summary

For NZM, 1H24 was a reasonable result given the weak economic environment. Reported group NPAT was NZ\$1.9m compared to NZ\$2.0m in 1H23, with operating EBITDA of NZ\$21.4m, in line with last year's NZ\$21.3m. Total operating expenses rose +NZ\$4.9m (+3%) in the half year, and included an +18% (+NZ\$1.0m) rise in Audio transmission costs, while people costs rose +1%. Selling and marketing costs rose +16% as NZM invested in its Audio and OneRoof platforms, while technology expenses were NZ\$5.7m for the half, up +5% on 1H23. Ongoing market share gains helped NZM's ad revenue in a depressed and falling ad market.

Key points of interest from 1H24:

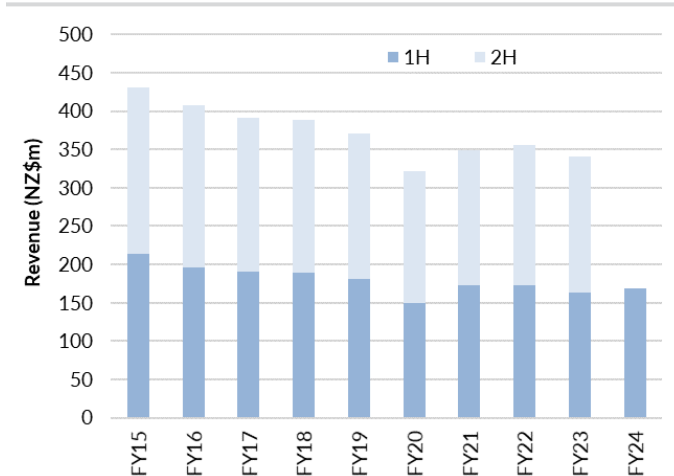
- **Audio:** Revenue rose +3%, but EBITDA fell -25% to NZ\$7.9m. Digital audio revenue growth was up +33%.
- **Publishing:** Total operating revenue fell -2%, with EBITDA down -2% to NZ\$14.6m. Digital Publishing revenue grew by +13%.
- **OneRoof:** Revenue rose +47% to NZ\$14.1m and EBITDA came in at NZ\$1.4m.
- **Digital:** ~29% of operating revenues were digital in 1H24, up from ~26% in 1H23 (see Figures 5 to 8).
- **Balance sheet:** Net debt of NZ\$30m at the end of 1H24, but the company expects this to fall over the remainder of the year. Net debt to EBITDA was 0.8x (against target range of 0.5-1.0x) when adjusting for IFRS 16 (see Figure 9).
- **Cash flow:** Operating free cash flow was NZ\$12.1m, ahead of the NZ\$8.8m in 1H23.

Figure 1. 1H24 results analysis

NZ\$m	1H23	1H24	Change
Revenue (from external customers)	163.3	168.3	+3%
Finance and other income	2.9	3.0	+1%
Total revenue and other income	166.2	171.3	+3%
Opex	(145.7)	(150.5)	+3%
EBITDA	20.5	20.7	+1%
Total depreciation and amortisation	(13.8)	(14.0)	+1%
Share of JV and associates net loss after tax	(0.2)	(0.2)	n/a
EBIT (before significant items)	6.6	6.6	-0%
Significant items	-	-	
EBIT	6.6	6.6	-0%
Net interest	(3.7)	(3.7)	+0%
Profit/(loss) from discontinued operations	-	-	
Pre-Tax Profit	2.9	2.8	-1%
Taxation	(0.9)	(1.0)	+7%
Profit/(loss) for the year	2.0	1.9	-4%

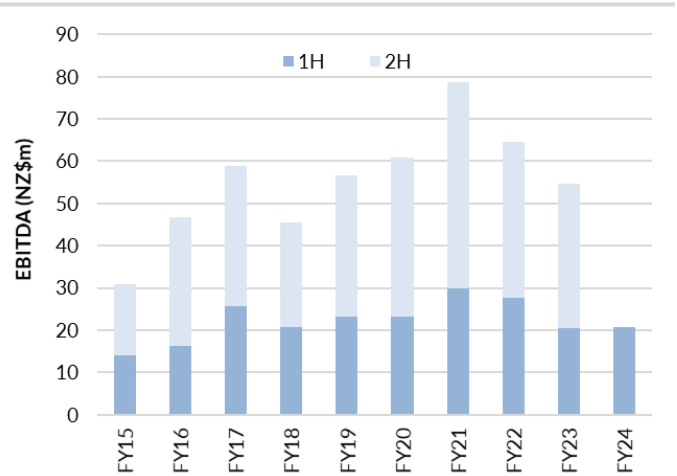
Source: Company, Forsyth Barr analysis

Figure 2. NZM – Operating revenue (half years)



Source: Company, Forsyth Barr analysis

Figure 3. NZM – EBITDA (half years)



Source: Company, Forsyth Barr analysis

Earnings revisions

We make a number of changes to our forecasts, albeit minor. This sees our Publishing and Audio revenue expectations fall marginally. Given the operational and revenue progress seen at OneRoof, our confidence is growing that it can close more of the revenue gap to market leader Trade Me. This sees our revenue and EBITDA expectations for OneRoof lift substantially across our investment horizon, more than offsetting the cuts put through in other divisions.

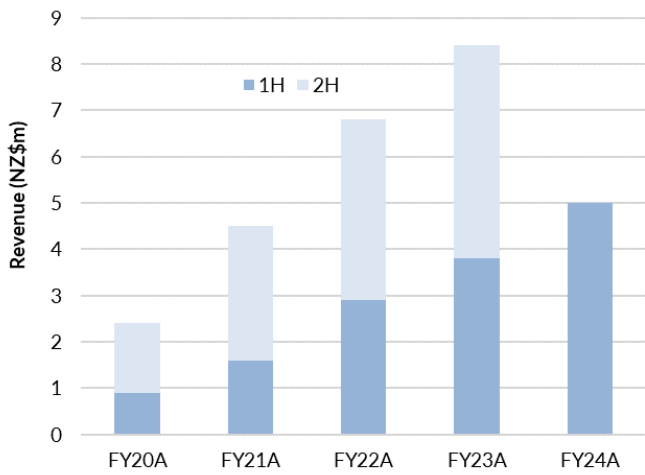
Figure 4. Earnings revisions

NZ\$m	FY24E			FY25E			FY26E		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenue (from external customers)	347.4	347.3	-0%	350.2	351.6	+0%	354.4	356.3	+1%
Finance and other income	6.5	6.5	+0%	6.7	6.7	+0%	6.9	6.9	+0%
Total revenue and other income	353.9	353.8	-0%	356.9	358.3	+0%	361.3	363.2	+1%
Opex	(296.0)	(295.8)	-0%	(297.7)	(298.4)	+0%	(300.7)	(302.0)	+0%
EBITDA	57.9	57.9	-0%	59.2	59.9	+1%	60.5	61.2	+1%
Total depreciation and amortisation	(28.9)	(28.9)	-0%	(29.8)	(29.9)	+0%	(27.6)	(27.6)	+0%
Share of JV and associates net loss after tax	(0.6)	(0.6)	n/a	(0.6)	(0.6)	n/a	(0.6)	(0.6)	n/a
EBIT (before significant items)	28.4	28.4	+0%	28.8	29.4	+2%	32.3	33.0	+2%
Significant items	-	-		-	-		-	-	
EBIT	28.4	28.4	+0%	28.8	29.4	+2%	32.3	33.0	+2%
Net interest	(6.3)	(6.3)	-1%	(5.2)	(5.3)	+1%	(4.0)	(4.4)	+8%
Profit/(loss) from discontinued operations	-	-		-	-		-	-	
Pre-Tax Profit	22.1	22.1	+0%	23.6	24.2	+3%	28.3	28.6	+1%
Taxation	(6.2)	(6.2)	+0%	(6.6)	(6.8)	+3%	(7.9)	(8.0)	+1%
Profit/(loss) for the year	15.9	15.9	+0%	17.0	17.4	+3%	20.4	20.6	+1%

Source: Forsyth Barr analysis

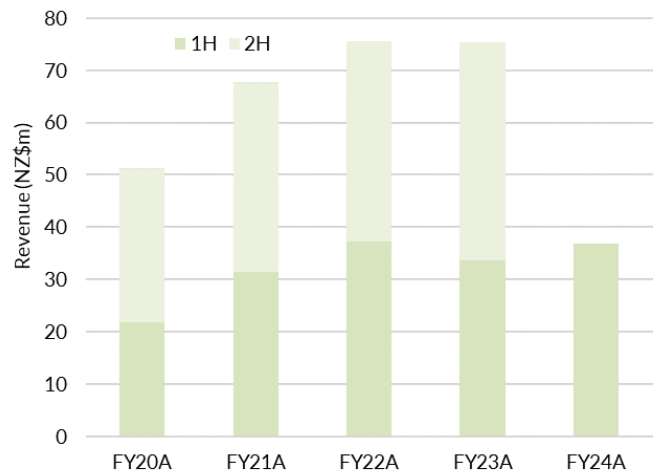
Key charts

Figure 5. NZM – Digital Audio revenue (half years)



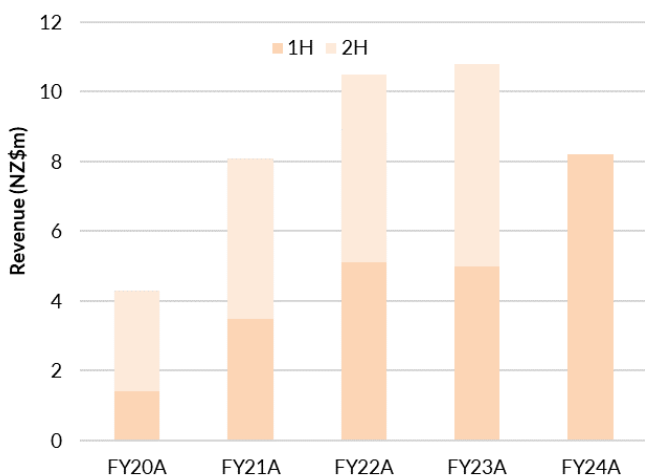
Source: Company, Forsyth Barr analysis

Figure 6. NZM – Digital Publishing revenue (half years)



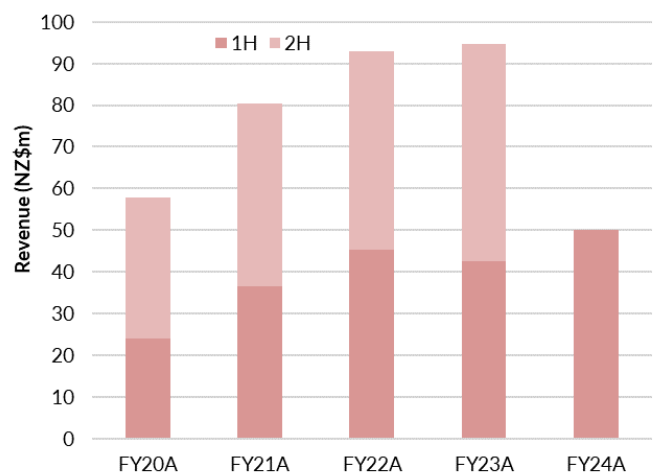
Source: Company, Forsyth Barr analysis

Figure 7. NZM – Digital OneRoof revenue (half years)



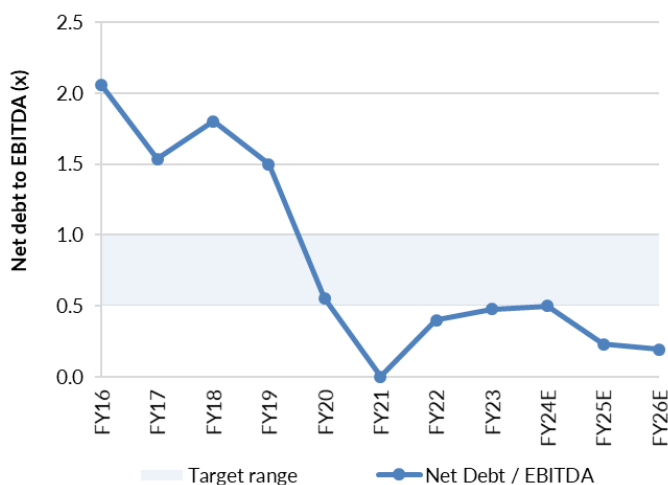
Source: Company, Forsyth Barr analysis

Figure 8. NZM – Total digital revenue (half years)



Source: Company, Forsyth Barr analysis

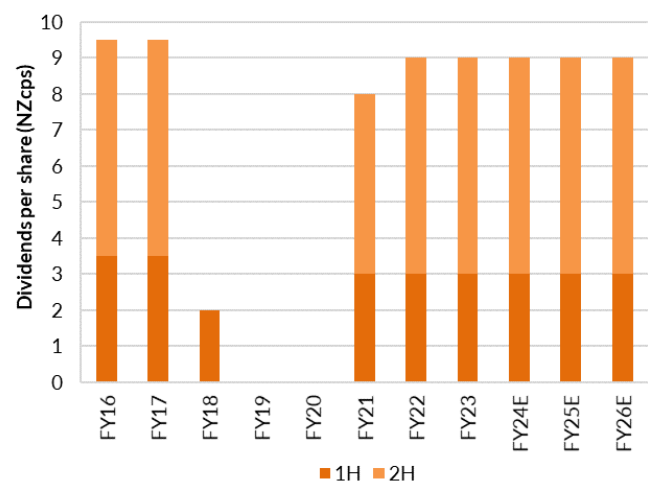
Figure 9. NZM – Net debt to EBITDA (pre NZ IFRS 16)



Source: Company, Forsyth Barr analysis

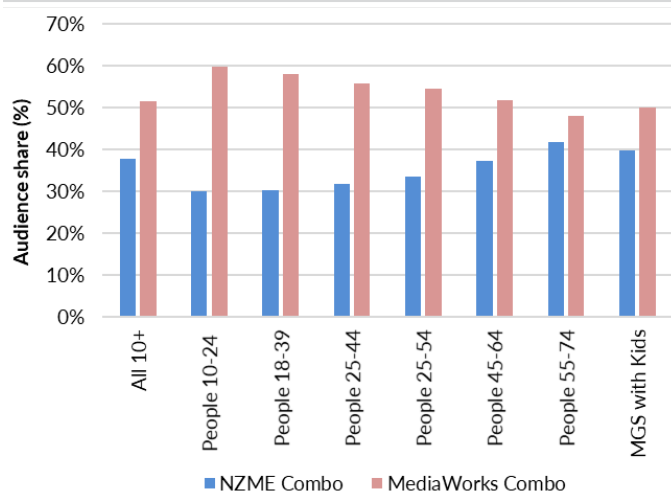
Target = 0.5 – 1.0 Net debt to EBITDA multiple

Figure 10. NZM – Dividends



Source: Company, Forsyth Barr analysis

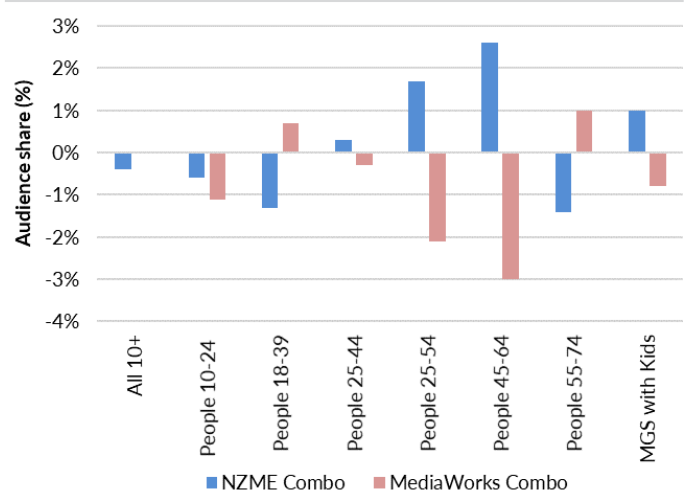
Figure 11. Audience share of NZ radio by owner (May 2024)*



Source: GfK, Forsyth Barr analysis

* Station Share (%) by Demographic... Mon-Sun 12mn-12mn... All 10+ share

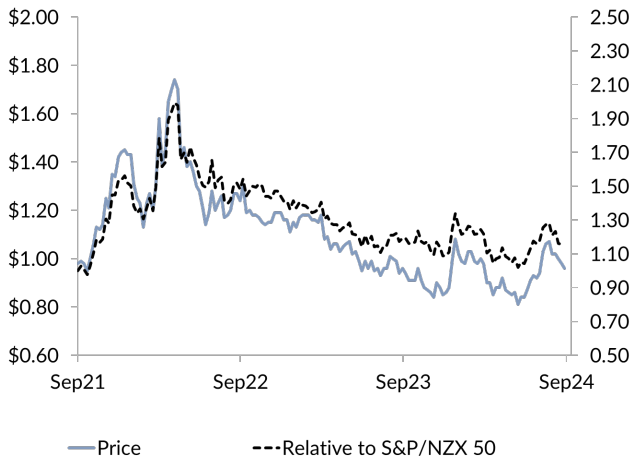
Figure 12. One-year change in audience share (May 2024)*



Source: GfK, Forsyth Barr analysis

* Station Share (%) by Demographic... Mon-Sun 12mn-12mn... All 10+ share

Figure 13. Price performance



Source: Forsyth Barr analysis

Figure 14. Substantial shareholders

Shareholder	Latest Holding
Spheria Asset Management	19.1%
Repertoire Partners LP	10.1%
Pinnacle Investment Management	9.8%
Osmium Partners LLC	6.6%
Nomura Holdings Inc	5.0%

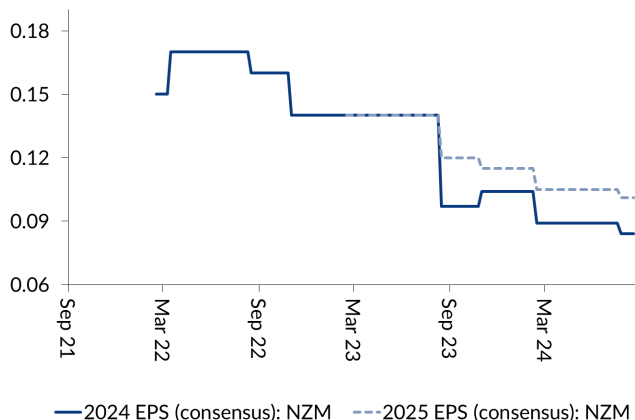
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 15. 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\$0.96	NZ\$177	11.3x	10.3x	4.7x	4.4x	9.6x	9.0x	9.4%
Nine Entertainment Co Holdin	NEC AU	A\$1.36	A\$2,153	11.7x	10.8x	5.9x	5.7x	8.5x	8.1x	6.4%
Seven West Media	SWM AU	A\$0.16	A\$242	4.3x	3.3x	3.4x	4.0x	5.8x	5.0x	7.0%
New York Times Co-A	NYT US	US\$54.53	US\$8,955	29.2x	26.5x	18.1x	16.2x	21.7x	18.9x	1.0%
Reach Plc	RCH LN	£1.00	£318	4.5x	4.4x	3.0x	3.0x	3.7x	3.6x	7.5%
Gannett Co Inc	GCI US	US\$4.81	US\$710	<0x	22.6x	6.7x	6.2x	46.4x	15.2x	0.0%
Arn Media	A1N AU	A\$0.61	A\$189	7.8x	6.8x	5.7x	4.8x	9.7x	8.6x	10.1%
Southern Cross Media Group L	SXL AU	A\$0.57	A\$137	7.9x	6.7x	5.3x	5.1x	8.7x	7.9x	9.7%
Sirius Xm Holdings Inc	SIRI US	US\$3.14	US\$12,090	10.1x	9.5x	7.9x	7.8x	11.0x	10.6x	3.8%
Cumulus Media Inc-CI A	CMLS US	US\$1.65	US\$28	<0x	<0x	9.2x	9.0x	<0x	>75x	n/a
Domain Holdings Australia Lt	DHG AU	A\$2.82	A\$1,778	36.3x	29.5x	14.1x	12.6x	21.0x	18.3x	2.4%
Rea Group	REA AU	A\$216.37	A\$28,586	67.1x	47.6x	35.5x	28.2x	42.3x	33.0x	1.2%
Compco Average:				19.9x	16.8x	10.4x	9.3x	17.9x	12.9x	4.9%
NZM Relative:				-43%	-39%	-55%	-53%	-46%	-30%	91%

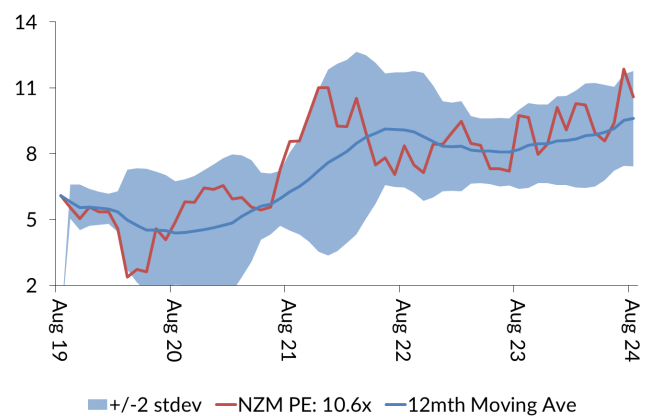
EV = Mkt cap+net debt+lease liabilities+min interests-investments
 Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (NZM) companies fiscal year end

Figure 16. Consensus EPS momentum (NZ\$)



Source: Forsyth Barr analysis

Figure 17. One year forward PE (x)



Source: Forsyth Barr analysis

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