

NZME Limited

FY24 Guidance Downgraded, Plus Web Insights

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NZME (NZM) has downgraded its FY24 EBITDA guidance by -8% at the midpoint, reflecting weaker-than-expected advertising revenue and cost pressures. After a solid start, advertising revenue growth slowed over the first nine months of FY24 as signs of improving sentiment faltered. September 2024 was a particularly challenging month, resulting in advertising revenue falling -1% in 3Q24 versus the prior comparable period. NZM is leveraged to a potential recovery in the economy and the property market. There are emerging signs that advertising has reached this inflection point, with 4Q24 revenues expected to be up +5%. However, cost-out efforts have been slower to materialise. We make cuts to our earnings estimates, primarily on higher costs. We also see this update making it harder for NZM to maintain the 9cps of dividends it declared in FY23/FY22, and see a lowered chance of a capital return. We now forecast 8cps fully imputed DPS over the next few years, down from our prior expectations of 9cps. Our blended spot valuation falls -9cps to NZ\$1.08.

NZX code	NZM	Financials: Dec/	23A	24E	25E	26E	Valuation (x)	23A	24E	25E	26E
Share price	NZ\$1.04	Rev (NZ\$m)	347.6	353.2	358.0	363.2	PE	15.5	14.6	12.7	10.2
Spot Valuation	NZ\$1.08 (from 1.17)	NPAT* (NZ\$m)	12.2	13.3	15.3	19.1	EV/EBIT	11.7	11.6	10.5	9.0
Risk rating	Medium	EPS* (NZc)	6.7	7.1	8.2	10.2	EV/EBITDA	5.4	5.3	4.9	4.7
Issued shares	183.9m	DPS (NZc)	9.0	8.0	8.0	8.0	Price / NTA	n/a	n/a	n/a	n/a
Market cap	NZ\$191m	Imputation (%)	100	100	100	100	Cash div yld (%)	8.7	7.7	7.7	7.7
Avg daily turnover	147.2k (NZ\$134k)	*Based on normalised profits					Gross div yld (%)	12.0	10.7	10.7	10.7

What's changed?

- **Earnings:** EBITDA estimates fall -6%/-5%/-3% and NPAT is cut -17%/-12%/-7% in FY24/FY25/FY26 respectively.
- **Spot valuation price:** Our blended spot valuation falls -8% to NZ\$1.08, due mostly to falls in our peer relative and DDM valuations.

Advertising weaker in September, recovering into 4Q24

Advertising revenue trends deteriorated sequentially for NZM in the first nine months of FY24, with growth slowing from +4% in 1Q24 to -1% in 3Q24. At NZM's 1H24 result on 27 August 2024, 3Q24 advertising revenue was tracking +1% ahead of 3Q23, implying a significant further slowdown in September 2024. Pleasingly, 4Q24 has begun on a more positive note. NZM expects 4Q24 revenue to be +5% ahead of 4Q23, against a backdrop of improving business and consumer confidence.

Costs more stubborn than our prior expectations

NZM has set a new EBITDA guidance range for FY24 of NZ\$53m to NZ\$55m, down from the prior range of NZ\$57m to NZ\$61m. Advertising revenue is tracking broadly in line with our expectations, suggesting cost-out initiatives have been more challenging to implement than previously expected. NZM flagged ~NZ\$6m of annualised cost savings at its 1H24 result, which were expected to take effect in 2H24. While we continue to expect solid cost discipline (opex growth of +2% in FY24), we take a more conservative view on cost control, which flows through to operating deleverage and mid-single-digit EBITDA declines in our forecasts.

We lower our dividend forecasts, with leverage remaining higher for longer

We see downside risk to dividends, with NZM's stated dividend policy and leverage constraining its payout. We now forecast 8cps of fully imputed dividends over the next few years, down from our prior expectations of 9cps. NZM's dividend policy is to pay 50%-80% of free cash flow, subject to remaining within a target leverage ratio of 0.5x-1.0x rolling 12-month pre-IFRS 16 EBITDA. NZM would need to pay out ~100% of free cash flow in FY24 to maintain a 9cps dividend. With leverage already in the upper half of the range (1H24 net debt to EBITDA of 0.8x), and trading conditions remaining somewhat uncertain, we see a dividend cut as prudent.

NZME Limited (NZM)

Market Data (NZ\$)						Spot valuation (NZ\$)						
Priced as at 11 Nov 2024						1.04	Peers comparable					1.13
52 week high / low						1.09 / 0.81	DCF					1.16
Market capitalisation (NZ\$m)						191.3	Dividend Discount Model					0.85
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	353.2	358.0	363.2	EV/Sales (x)	0.8	0.9	0.8	0.8	0.8	
Normalised EBITDA	64.7	54.6	54.2	57.0	59.1	EV/EBITDA (x)	4.4	5.4	5.3	4.9	4.7	
Depreciation and amortisation	(27.4)	(28.6)	(28.9)	(29.9)	(27.6)	EV/EBIT (x)	7.7	11.7	11.6	10.5	9.0	
Normalised EBIT	37.3	26.0	25.3	27.2	31.5	PE (x)	8.4	15.5	14.6	12.7	10.2	
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 (%)	7.8	8.3	8.6	9.0	9.2	
Tax	(8.6)	(5.6)	(5.2)	(6.0)	(7.4)	Adj. free cash flow yield (%)	7.8	8.3	8.6	9.0	9.2	
Minority interests	0	0	0	0	0	Net dividend yield (%)	8.7	8.7	7.7	7.7	7.7	
Normalised NPAT	22.9	12.2	13.3	15.3	19.1	Gross dividend yield (%)	12.0	12.0	10.7	10.7	10.7	
Abnormals/other	(0.3)	0	0	0	0							
Reported NPAT	22.7	12.2	13.3	15.3	19.1	Capital Structure						
Normalised EPS (cps)	12.3	6.7	7.1	8.2	10.2	Interest cover EBIT (x)	6.6	3.3	4.0	5.0	7.1	
DPS (cps)	9.0	9.0	8.0	8.0	8.0	Interest cover EBITDA (x)	11.4	7.1	8.7	10.8	13.6	
						Net debt/ND+E (%)	12.6	13.6	12.8	11.2	9.0	
						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	1.6	1.4	1.4	Return on assets (%)	12.1	8.8	9.1	10.3	12.6	
EBITDA (%)	-2.0	-15.5	-0.8	5.1	3.7	Return on equity (%)	18.8	10.7	11.9	13.6	16.3	
EBIT (%)	1.0	-31.5	-2.9	7.5	16.4	Return on funds employed (%)	8.7	4.9	5.9	7.4	9.9	
Normalised NPAT (%)	-5.1	-46.8	8.9	15.4	24.7	EBITDA margin (%)	17.7	15.7	15.4	15.9	16.3	
Normalised EPS (%)	-33.2	-45.8	6.4	15.4	24.7	EBIT margin (%)	10.2	7.3	7.0	7.4	8.5	
Ordinary DPS (%)	12.5	0.0	-11.1	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	112	97	78	
Cash Flow (NZ\$m)						Operating Performance						
	2022A	2023A	2024E	2025E	2026E		2022A	2023A	2024E	2025E	2026E	
EBITDA	64.7	54.6	54.2	57.0	59.1	Audio						
Working capital change	(8.6)	0.6	(1.2)	(1.8)	(1.0)	External customers revenue	113.5	113.3	117.6	117.6	118.1	
Interest & tax paid	(18.2)	(19.3)	(11.4)	(11.2)	(11.8)	Operating EBITDA	22.8	23.3	21.1	20.3	19.7	
Other	(0.4)	4.0	0	0	0	Operating EBITDA margin	20%	21%	18%	17%	17%	
Operating cash flow	37.5	40.0	41.6	44.0	46.3							
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	204.4	203.0	201.6	
Other	(11.3)	(13.1)	(13.9)	(14.9)	(16.0)	Operating EBITDA	47.5	38.7	34.2	35.0	35.1	
Funding available/(required)	11.9	15.8	16.5	17.1	17.6	Operating EBITDA margin	22%	19%	17%	17%	17%	
Dividends paid	(25.4)	(16.6)	(14.9)	(14.9)	(14.9)							
Equity raised/(returned)	(17.6)	0	0	0	0	OneRoof						
(Increase)/decrease in net debt	(31.0)	(0.7)	1.5	2.2	2.7	External customers revenue	22.9	20.8	28.1	34.3	40.3	
						Operating EBITDA	-1.3	-1.4	3.1	5.8	8.3	
						Operating EBITDA margin	-6%	-7%	11%	17%	21%	
Balance Sheet (NZ\$m)												
	2022A	2023A	2024E	2025E	2026E							
Working capital	1.9	1.3	2.5	4.2	5.3							
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	219.2	204.3	191.6							
Net debt/(cash)	17.5	18.0	16.4	14.2	11.6							
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	117.3	118.2	123.0							
Minority interests	(0.8)	0	0	0	0							
Total funding sources	248.1	236.0	219.2	204.3	191.6							

* 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

Earnings revisions

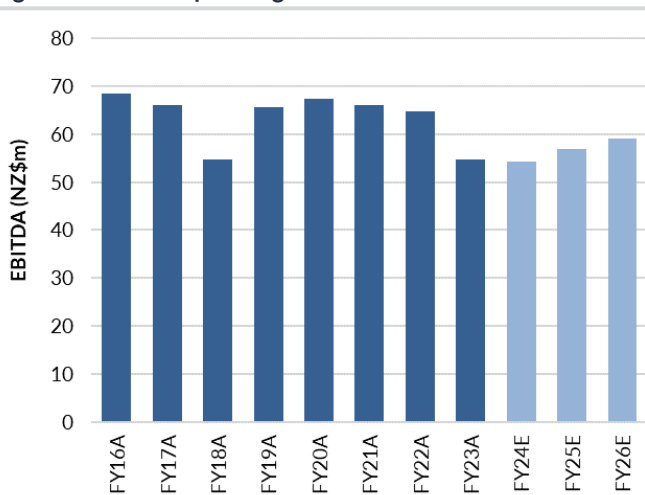
We make very minor changes to our revenue assumptions, with advertising growth broadly in line with our prior expectations. However, we now assume greater cost pressure across our forecast horizon, which flows through to operating leverage and EBITDA declines of -6%, -5%, and -3%, in FY24, FY25, and FY26 respectively. Our new EBITDA estimate for FY24 is near the middle of management's new guidance range of NZ\$53m to NZ\$55m, at NZ\$54.2m. These changes flow through to NPAT cuts of -17%/-12%/-7% in our FY24/FY25/FY26 forecasts respectively. We reduce our DPS from 9cps to 8cps across FY24, FY25 and FY26.

Figure 1. Earnings revisions (NZ\$m)

NZ\$m	FY24E			FY25E			FY26E		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenue (from external customers)	347.3	346.7	-0%	351.6	351.4	-0%	356.3	356.3	-0%
Finance and other income	6.5	6.5	+0%	6.7	6.7	+0%	6.9	6.9	+0%
Total revenue and other income	353.8	353.2	-0%	358.3	358.0	-0%	363.2	363.2	-0%
Opex	(295.8)	(299.0)	+1%	(298.4)	(301.0)	+1%	(302.0)	(304.0)	+1%
EBITDA	57.9	54.2	-6%	59.9	57.0	-5%	61.2	59.1	-3%
Total depreciation and amortisation	(28.9)	(28.9)	-0%	(29.9)	(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	24.7	-13%	29.4	26.6	-10%	33.0	30.9	-6%
Significant items	-	-		-	-		-	-	
EBIT	28.4	24.7	-13%	29.4	26.6	-10%	33.0	30.9	-6%
Net interest	(6.3)	(6.3)	-0%	(5.3)	(5.3)	+0%	(4.4)	(4.4)	+0%
Pre-Tax Profit	22.1	18.4	-17%	24.2	21.3	-12%	28.6	26.6	-7%
Taxation	(6.2)	(5.2)	-17%	(6.8)	(6.0)	-12%	(8.0)	(7.4)	-7%
Profit / (loss) for the year	15.9	13.3	-17%	17.4	15.3	-12%	20.6	19.1	-7%

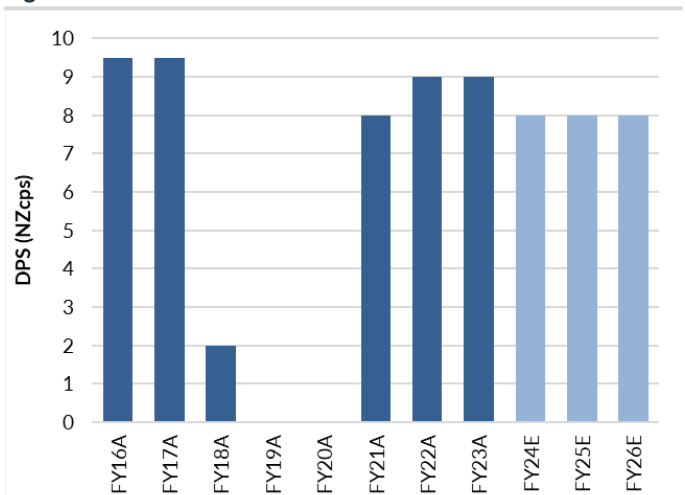
Source: Company, Forsyth Barr analysis

Figure 2. NZM – Operating EBITDA



Source: Company, Forsyth Barr analysis

Figure 3. NZM – DPS



Source: Company, Forsyth Barr analysis

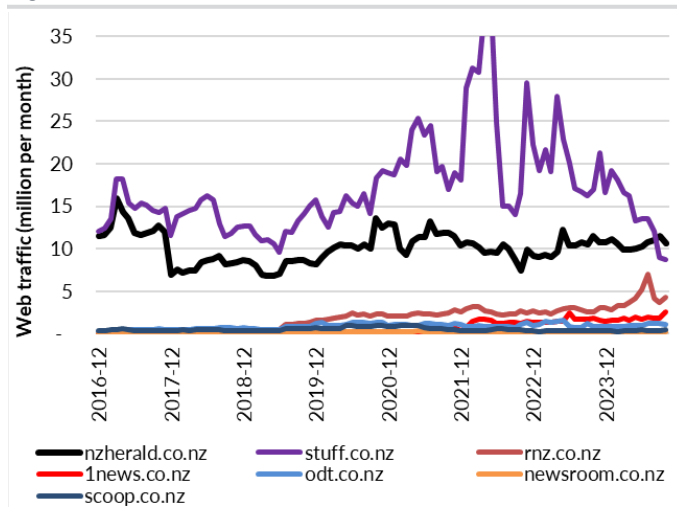
Web tracking NZM's news and property brands vs competitors

Our newly compiled web traffic data series provides insights into engagement with NZM's news and property sites over time, benchmarked to competitors. The data shows the relative performance of NZM's sites, highlighting trends and shifts in consumer engagement.

In Figure 4, we display **web traffic for NZ news sites** over the last eight years up to October 2024. The data illustrates a relatively stable trajectory for NZHerald visitor numbers over the last four to five years, despite some content moving behind a paywall. This contrasts with the fluctuating fortunes at competitor stuff.co.nz, which experienced a large uptick in visitation over COVID-19 and as NZ Herald implemented paywall restrictions. However, subsequently stuff.co.nz has experienced a significant fall in web traffic views from its peak. Importantly, nzherald.co.nz is now seeing more monthly web traffic than stuff.co.nz. Other news websites – namely Radio NZ, OneNews, and the Otago Daily Times – have smaller audiences, while newsroom.co.nz and scoop.co.nz have negligible visitation relatively. The prior number #3, newshub.co.nz, closed in June 2024. See our 29 February 2024 note *Ad Market Weakness Drives Newshub Closure* for reference.

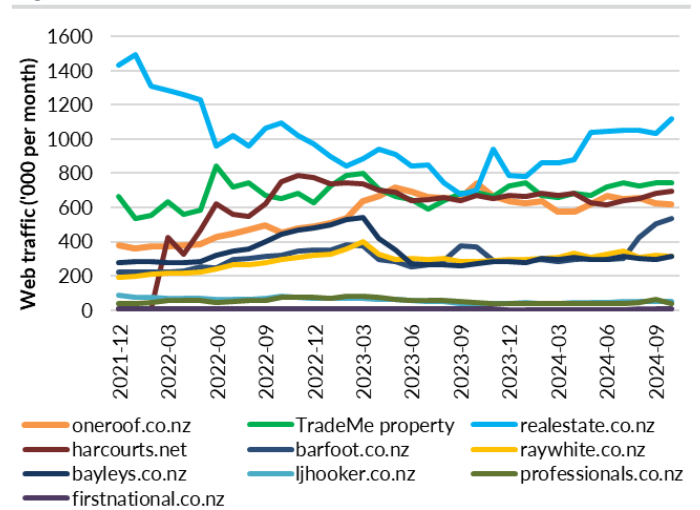
In Figure 5, we focus on **web traffic to NZ real estate websites** over the last three years up to October 2024. While Trade Me Property significantly leads the market in terms of revenue, our data suggests realestate.co.nz leads from a web visits perspective. Oneroof.co.nz has experienced a solid increase in web traffic, demonstrating NZM's effective engagement strategies and OneRoof's growing market presence. For reference, we estimate that Trade Me Property has 100% of listings, realestate.co.nz 94%-97% of listings and Oneroof.co.nz around 90%-93% of total residential listings. The collective web traffic for direct real estate companies outside of the three large online property portals – namely Harcourts, Barfoot & Thompson, Ray White, Bayleys, LJ Hooker, Professionals and FirstNational – shows varied performance with moderate traffic levels, reflecting solid viewership but, on average, much fewer views as compared to the leading platforms.

Figure 4. NZ news sites monthly web traffic (to October 2024)



Source: SEMRUSH, Forsyth Barr analysis

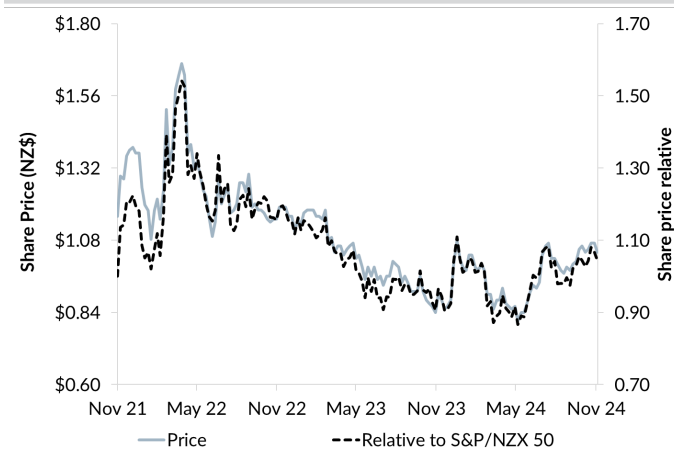
Figure 5. NZ real estate monthly web traffic (to October 2024)



Source: SEMRUSH, Forsyth Barr analysis

Additional data

Figure 6. Share price performance



Source: LSEG, Forsyth Barr analysis

Figure 7. Substantial shareholders

Shareholder	Latest Holding
Spheria	19.1%
Pinnacle	9.8%
Osmium Partners	6.6%
Repertoire Partners	5.4%
Nomura	5.3%

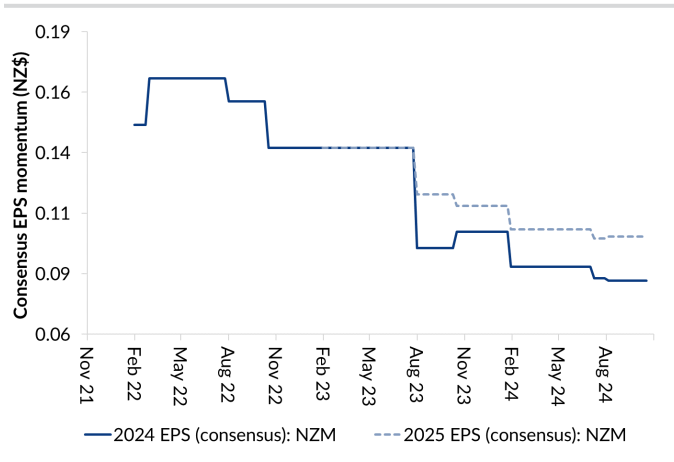
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 8. International valuation comparisons using consensus data (one and two year forward)

Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 1yr
				1yr	2yr	1yr	2yr	1yr	2yr	
NZME	NZM NZ	NZ\$1.04	NZ\$194	10.5x	8.8x	5.7x	5.5x	11.1x	9.8x	9.0%
Nine Entertainment	NEC AT	A\$1.13	A\$1,796	12.1x	10.2x	6.8x	6.3x	10.5x	9.3x	6.1%
Seven West Media	SWM AT	A\$0.17	A\$262	4.4x	4.1x	5.4x	5.3x	7.1x	7.0x	2.9%
New York Times	NYT US	US\$56.28	US\$9,227	27.4x	24.9x	16.3x	14.9x	19.4x	17.8x	1.0%
Reach	RCH LN	£95.00	£302	>75x	>75x	3.1x	3.1x	3.8x	3.7x	0.1%
Gannett	GCI US	US\$5.55	US\$818	<0x	>75x	7.5x	6.9x	27.6x	19.5x	0.0%
Arn Media	A1N AT	A\$0.68	A\$214	8.8x	8.1x	4.6x	4.3x	8.9x	8.4x	6.3%
Southern Cross Media Group	SXL AT	A\$0.53	A\$127	8.2x	6.9x	6.9x	6.7x	12.2x	11.3x	8.0%
Cumulus Media	CMLS US	US\$0.88	US\$15	<0x	<0x	12.2x	10.3x	<0x	56.3x	0.0%
Domain Holdings Australia	DHG AT	A\$2.70	A\$1,709	30.4x	26.0x	12.6x	11.4x	18.8x	16.7x	2.4%
REA GROUP	REA AT	A\$238.48	A\$31,507	52.4x	45.4x	31.4x	27.4x	36.9x	31.6x	1.1%

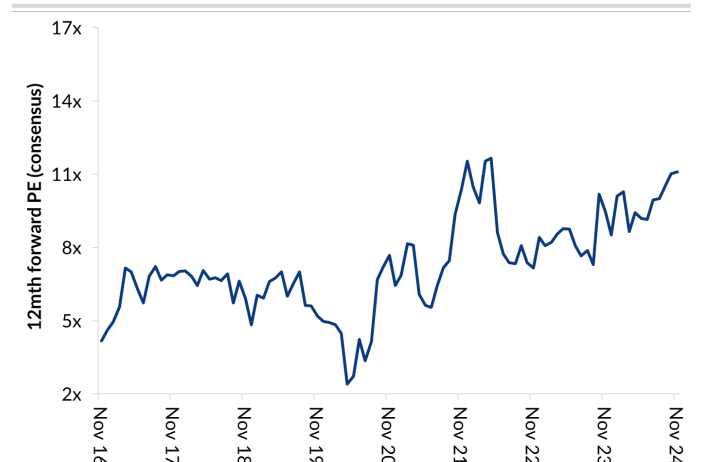
Source: Forsyth Barr analysis, Bloomberg, NOTE: all multiples based on Bloomberg consensus estimates, EV = market cap+net debt+lease liabilities+min interests-investments

Figure 9. Consensus EPS momentum (NZ\$)



Source: Bloomberg, Forsyth Barr analysis

Figure 10. Consensus one year forward PE (x)



Source: LSEG, Forsyth Barr analysis, NOTE: Data excluded when PE<0x or >75x

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