VM Wealth Management Limited

Company Analysis: Radio Jamaica Ltd. (RJR) Q1 2023-24

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- Stock Recommendation: **UNDERWEIGHT**
- Target Price: **$ 1.25**
- Current Price: $ 1.69

- Shares Outstanding: 3,023,506,931
- Financial Year End: March 31

ABOUT THE COMPANY

Radio Jamaica Limited ("the Company") is incorporated and domiciled in Jamaica. The Company is listed on the Jamaica Stock Exchange, and its registered office is 32 Lyndhurst Road, Kingston 5.

The Group's primary activities are operating a 'free-to-air' television station, three cable television channels, four radio stations and publishing two newspapers in print and digital formats. The Group is organized into three main business segments based on its business activities. The segments are: -

1. Audio Visual: comprising the operations of the free-to-air television station, cable stations, 1SpotMedia and TVJ International.
2. Audio: comprising the operations of the radio stations, associated radio infrastructure and associate companies.
3. Print & Others: comprising the print, digital and multimedia operations.

In December 20222, the merger of 1834 Investments and Radio Jamaica was finalized, which indicates that Radio Jamaica Ltd has now assumed the assets and liabilities of 1834 Investments Ltd.

FINANCIAL PERFORMANCE SUMMARY

In J$ '000	FY 2021-22	FY 2022-23	Q1 2022-23	Q1 2023-24
Revenue	5,711,158	5,436,507	1,298,267	1,297,690
Gross Profit	3,201,777	2,573,897	710,072	741,693
Operating Profit/(Loss)	468,946	(200,360)	(38,004)	(31,376)
Net Profit	341,691	196,518	(39,838)	(37,845)
Total Assets	4,993,687	6,720,960	4,992,189	6,804,425
Total Liabilities	2,203,753	2,099,914	2,245,639	2,222,208
Total Equity	2,789,934	4,621,046	2,746,550	4,582,217

Dividend Policy

RJR has no implicit dividend policy; however, the Company recently paid $0.016 per share in September 2023. Before that, in September 2022, shareholders received a dividend payment of $0.02 per share. The 12-Month Dividend Yield is approximately 0.95%.

Outlook

We expect RJR's revenues to remain mostly flat over the short-to-medium term on the back of lingering subdued advertising. Marketing and advertising expenses are usually one of the first costs businesses cut during challenging times. We expect more robust revenue prospects only after some economic improvement. We also anticipate that the competitive forces from alternative methods of transmitting information may continue to restrict long-term business growth. Notwithstanding, the amalgamation of 1834 Investments Ltd has strengthened RJR's balance sheet, which should help facilitate any capital raises needed to complete planned investments for further growth. Additionally, implementing Digital Transformation initiatives and other cost management activities should improve margins somewhat in the future. We therefore view the outlook as balanced at best.

Projections and Valuation

We used a Discounted Cash Flow (DCF) Model to obtain our target price. Using the CAPM model, a cost of equity of 10.70% was derived. In addition, a long-term growth rate of 3.0% was estimated. This resulted in a target price of **$1.25.**

Risks to Price Target

The upside risks may outweigh the downside if the demand for advertising, the rental of studios & equipment, airtime, and program material increases. In addition, upside risks are likely to be amplified if RJR successfully manages to increase its One Spot media subscribers with support from the Diaspora. Downside risks include greater competition from other media outlets, which might erode RJR's market share, and prolonged economic uncertainty (locally and globally), negatively impacting advertising spend.

FIRST QUARTER ENDED JUNE 30, 2023

For the three months ended June 30, 2023, RJR reported total Revenue of $1.2 billion, which remained relatively flat when compared to the Revenue recorded in the previous year for the same period. The Company experienced a downturn in the Audio-Visual and the Print segments. However, this was balanced by some growth in the Audio segment. Both the Company and the broader industry saw subdued activity in the advertising market as businesses highlighted ongoing strains from the local and global economic environment.

Direct expenses amounted to $555.9 million compared to $588.1 million in the prior year, representing a decrease of 5.4% year-over-year (YoY). According to the Company, this was due to an 11.0% decrease in newsprint usage. Newsprint is the type of paper used for printing newspapers. This is likely a result of reduced sales from the Print segment.

The foregoing resulted in Gross Profit of $741.6 million for the period, compared to $710.0 million in the previous year. This represents growth of 4.4% YoY, as the decrease in Direct expenses outweighed the reduction in Revenue. The Gross Profit Margin improved to 57.1% from the 54.6% recorded in the previous year.

Selling Expenses fell to $255.1 million compared to $259.2 million in the previous year, showing a decline of 1.6% YoY. This was driven by lower sales-related costs, impacted by reduced revenues.

Administration expenses increased to $400.2 million from $361.8 million, representing growth of 10.6% YoY. This was mainly due to one-off consultancy charges and increased depreciation expenses for infrastructure upgrades and software implementation. There were also substantial increases in staff-related expenses, including canteen costs, training, and welfare. Other operating expenses decreased by 7.0%, driven by lower maintenance and repair costs.

RJR proceeded to make an Operating Loss of $31.3 million during the period compared to a loss of $38.0 million in the previous year. Finance costs rose marginally to $13.3 million from $12.7 million, representing an increase of 4.7%. Ultimately, RJR recorded a Net Loss of $37.8 million compared to a Loss of $39.8 million during the corresponding period in 2022.

Total Assets grew to $6.8 billion during the period, compared to the $4.9 billion recorded in the previous year. This represented growth of 36.3% YoY, driven by a $1.1 billion increase in Fixed Assets and a $537.5 million increase in Investment securities. This was due to the recent amalgamation of 1834 Investments Limited. Total Shareholders' Equity grew to $4.5 billion from $2.7 billion, showing an increase of approximately 67.0%, driven by a $1.5 billion growth in Share Capital as the 1834 merger involved a share swap deal where shareholders in 1834 could opt to receive one RJR share for every 2.5 shares they had. They also had the option of trading shares for cash. Total Liabilities remained relatively flat at $2.2 billion YoY.

The Current Ratio improved to 1.7x from the 1.3x recorded in 2023. This remains below the commonplace benchmark of at least 2.0x, indicating the Company may experience some strain in meeting short-term obligations as they fall due. RJR's Debt-to-equity ratio improved to 11.0% from 14.7%, meaning that debt makes up a relatively small portion of the total capital structure, which indicates room for financial flexibility going forward.

OUTLOOK

Subdued Advertising and Demand for Print to Constrain Revenue Growth

Marketing and advertising expenses are generally among the first costs businesses cut during challenging times. We expect that subdued advertising activity should continue to pressure RJR's revenue growth over the short-to-medium term as companies continue to undergo strain due to the current economic environment, which is riddled with higher-than-desired inflation and interest rates. In Jamaica, point-to-point inflation rose for the fourth consecutive month, reaching 6.8% in August 2023. The higher inflation was expected, with the Bank of Jamaica (BOJ) commenting that there would likely be an uptick in inflation above the target range during the September 2023 quarter in its June Monetary Policy Committee (MPC) decision to maintain the policy rate at 7.0%. We expect rates to remain in the current region of 7.0% until the second half of 2024, when some rate-cutting may occur, supported by an anticipated decline in imported prices, as well as the impact of past monetary policy actions. Only after some improvement in the economic environment do we expect better revenue prospects.

Aside from Advertising income, we expect revenue from RJR's Print segment to be particularly subdued in two ways: a decline in physical newspaper readership and greater competition from other media outlets, especially The Observer. Demand for physical newspapers has steadily declined over the years, primarily due to the loss in readership and advertising revenue, which have migrated to other media platforms, most notably digital ones. The decline is not a recent phenomenon but has been happening since the mid-1990s with the advent of the internet, significantly reducing the friction of distributing information. Going forward, we expect declining physical newspaper readership to continue, supported by digital transformation, changing consumer habits, and the proliferation of online news platforms. Although The Gleaner has a website through which articles are published, a subscription is required, and readers must pay a fee to access the information. This puts RJR at a competitive disadvantage compared to the Observers website, which allows users free access to articles. With the foregoing decline in physical print and stiff online competition from The Observer, we therefore view the Print revenue segment for RJR as having especially weak growth potential over the coming years.

Amalgamation of 1834 Investments Limited Strengthens Balance Sheet and Cost-Cutting Initiatives Might Support Margins
1834 Investments was the real estate and investment spin-off of the former Gleaner Company Limited, with its primary activity being the management of its income-generating real estate, bond and equity investments and the management of its joint venture and subsidiary companies. Two years ago, the Gleaner Company was bought out by RJR Group and its operations amalgamated to form the RJRGLEANER Communications Group with the real estate and investment holdings of the Gleaner Company transitioning to a new company, 1834 Investments, which was successfully amalgamated into RJR during FY 2022-23. The transaction, among other benefits, gave the RJR full ownership of the previously leased building and premises at 7 North Street in Kingston, the location of RJR's print operations, and brought the Group a substantial investment portfolio. The resulting strengthening of the Group's balance sheet and asset base is expected to provide the capital needed to complete planned investments in the Digital Switchover process while providing a platform for future growth.

We expect some improvement in margins going forward. Cost management is a priority for the Company. Upgrading to modern management systems across various operational areas like accounting, commercial traffic management, customer relationship management, and human resources management is mentioned in the Company's most recent Annual Report. This modernization should likely improve operational efficiency, which could lead to cost savings. Robust cybersecurity training is also mentioned, which, while not a direct cost-cutting measure, could potentially prevent costly cybersecurity incidents. Diversification into complementary digital businesses like Starapple Analytics, Keez, Gustazos, and ePost may create synergies, leverage market strengths, and potentially lead to cost efficiencies or additional revenue streams.

INVESTMENT POSITIVES

- **Gross Profit Growth:** Increased gross profit by 4.4% YoY, reflecting effective cost containment, which outweighed the decrease in revenue.
- **Asset Growth:** Substantial growth in total assets by 36.3% YoY, driven by increases in fixed assets and investment securities.
- **Improved Financial Ratios:** Better debt-to-equity ratio (11.0%, down from 14.7%) and improved current ratio indicate enhanced financial stability.
- **Amalgamation with 1834 Investments Limited:** Strengthened the balance sheet and provided capital for planned digital switchover investments, contributing to future growth potential.
- **Digital Transformation and Operational Efficiency Initiatives:** Progress has been made in the Group's digital transformation drive, with the installation of new NextGen Television transmission services and the advancement of the digital backhaul network installation. This indicates a focus on adapting to changing technological trends and improving services, which should improve RJR's cost efficiency.
- **Strong Market Presence:** RJR is one of the largest and more established media company in Jamaica, this recognition can attract more viewers, readers and advertisers, creating a virtuous cycle of popularity and revenue.

INVESTMENT NEGATIVES

- **Revenue Stagnation:** Revenue remained flat YoY at $1.2 billion, with downturns in the Audio-Visual and Print segments.
- **Subdued Advertising Market:** The subdued activity, influenced by local and global economic strains, will likely continue impacting revenue growth negatively.
- **Increased Administrative Expenses:** A significant 10.6% YoY increase in administrative expenses due to one-off consultancy charges, increased depreciation, and staff-related costs.
- **Operating and Net Losses:** Continued operating loss of $31.3 million and net loss of $37.8 million during the period, although slightly improved from the previous year.
- **Challenges in Print Segment:** Ongoing decline in physical newspaper readership and competition from other media outlets, notably The Observer, impacting the Print segment revenue.
- **Below Benchmark Current Ratio:** The current ratio of 1.7x remains below the commonplace benchmark of 2.0x, indicating potential strain in meeting short-term obligations.
- **Declining Dividend Payout:** In September 2023, RJR paid out the lowest Dividend since 2017 of $0.016. Between 2017-2023, RJR made four dividend payouts of $0.02.

CONCLUSION

We expect RJR's revenues to remain mostly flat over the short-to-medium term on the back of lingering subdued advertising. Marketing and advertising expenses are usually one of the first costs businesses cut during challenging times. We expect more robust revenue prospects only after some economic environment improvement. We also anticipate that the competitive forces from alternative methods of transmitting information may continue to restrict long-term business growth. Notwithstanding, the amalgamation of 1834 Investments Ltd has strengthened RJR's balance sheet, which should help facilitate any capital raises needed to complete planned investments for further growth. Additionally, implementing Digital Transformation initiatives and other cost management activities should improve margins in the future. We therefore view the outlook as balanced at best.

Based on our assessment of the health of the company and our expectation of what is likely achievable based on our analysis, we have established a price target of **$1.25**, which is below the current market price of $1.69. Therefore, we've assigned a **UNDERWEIGHT** recommendation to investors. Furthermore, even if the company consistently pays dividends, which could result in increased cash flow, the dividend yield of 0.95% is insufficient to offset short-term price swings.

SOURCES

Radio Jamaica Limited Annual & Quarterly Reports, Jamaica Stock Exchange (JSE), The Gleaner Company, Loop News Jamaica, The Jamaica Observer, Financial Services Commission (FSC), OUR Today, Oppenheimer & Co., Forbes Magazine, Statistical Institute of Jamaica (STATIN), Chartr.

DISCLAIMER

DEFINITIONS

- **OVERWEIGHT** - Security is deemed to be undervalued and is expected to outperform compared to the average market return and/or return of comparable securities in the same sector or industry.
- **MARKETWEIGHT** – Security is expected to provide similar returns compared to the market in general or at the same pace as comparable companies; neither strongly positive nor negative.
- **UNDERWEIGHT** – Security is deemed to be overvalued and is expected to underperform compared to the average market return and/or return of comparable securities in the same sector or industry.
- **ZEROWEIGHT** – This security is substantially distressed or at risk of a shock which may