Singapore Press Holdings Ltd (SGX: T39)

10 October 2017

This is a review of Singapore Press Holdings' (SPH) business, business environment and valuation of its business.

Business Profile

SPH has three main areas of business: media, property and others. The media arm consists of creating and publishing content on the major daily newspapers in Singapore as well as a range of magazines. Other areas of business under this arm consists of providing outdoors advertisements on platforms such as billboards and digital media.

The property arm consists primarily of running and developing income-generating commercial/retail property. SPH owns three malls (Paragon, Clementi Mall, and Seletar Mall), of which, two (Paragon and Clementi Mall) have been injected into a REIT. In the past, SPH has also developed and sold a residential property through a wholly-owned subsidiary.[1]

SPH has a host of other businesses that they classify under "others". These consists of a wide range of businesses such as: a minority stake in an education provider, an events management business, and a nursing home provider.

SPH's main lines of revenue come from its media arm which mainly generates revenue from selling ads and circulation of its daily newspaper. In recent years, the property arm has also started contributing more (approximately 20%) towards the total revenue earned by SPH while the "others" segment's share of revenue remains small (approximately 5%).

Declining revenues from core business

The problem for SPH is that its core business has been declining due to structural reasons. Traditionally, the main way for retailers and businesses to reach out to would-be customers was through advertisements on one of the three forms of mass media: newspaper, television and radio. For many years, people have been predicting

[1] Sky@eleven, a residential development situated in the Thomson area.

about the death of the newspaper but that never happened as locals still need reporting from a credible source on news that is localised.

Furthermore, if we turn the clock back some 15 years or so, internet speeds for the masses were not fast enough to support the quick transfer of large volumes of data. This meant that the masses mostly viewed web pages that were static (i.e. mostly images and text). As such, the internet merely provided a new medium and nothing of extra value. More importantly, web browsing was confined to the home or workplace.

Presently, everything has changed. The mobile internet connection, in a developed country like Singapore, supports quick loading of pictures and videos so that ads can now be displayed on mobile devices. Social media platforms and apps encourage the sharing of content. This means that many people no longer trawl through an entire newspaper but only read what what others have curated or is popular. Content creation is also no longer the near-monopoly of SPH. In fact, some of the most popular content creators are smaller-sized outfits that take pride in their relative independence from the establishment.

This environment is probably SPH's biggest challenge and this is evident from the following chart.

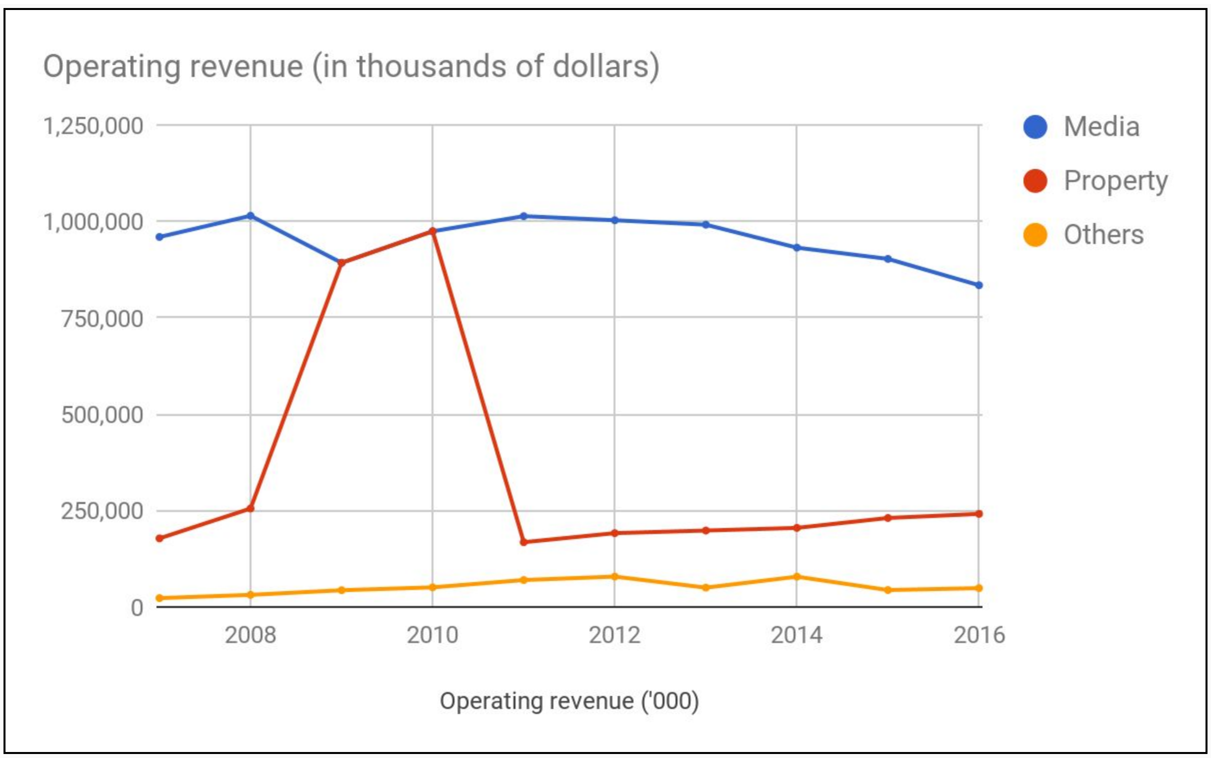

Chart 1: SPH’s revenue (by segment), 2007-2016

From chart 1, revenues for the media arm peaked in 2011 and have been on a downward trend. Revenues are even lower than the cyclical lows reached in 2009 which was the nadir of the Global Financial Crisis.

Falling margins

Furthermore, margins have been falling (see chart 2). This is a terrible thing for any business as it means that the business will have to sell more product in order to make up for the drop in price that they sell the product.

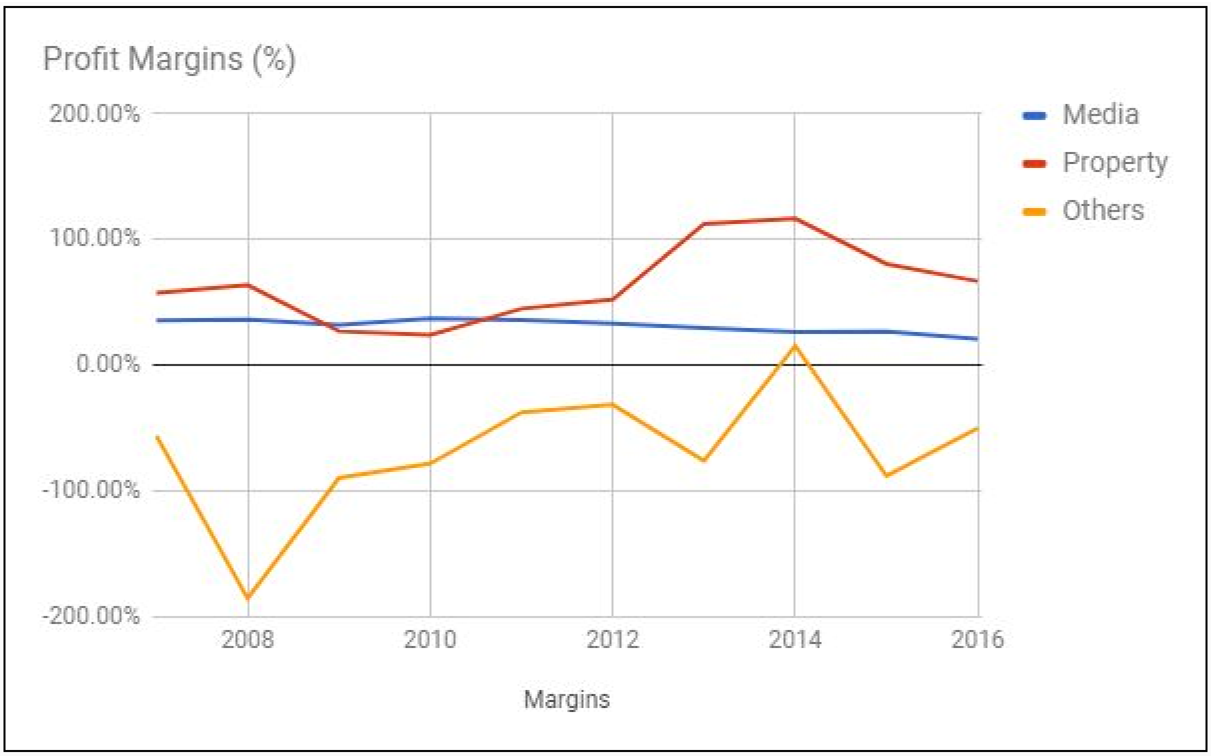

Chart 2: Net profits (by segment), 2007-2016

It’s not so clear from chart 2 but the profit margins from the media arm have traditionally been about 35%. In 2016, this declined to 21%. This further underscores SPH’s biggest challenge. In the face of competition from nontraditional sources, they have had to slash prices in order to keep customers (hence the falling profit margins) but this has not translated into increased revenues.

Falling profits

Not surprisingly, this has also translated into falling profits for shareholders.

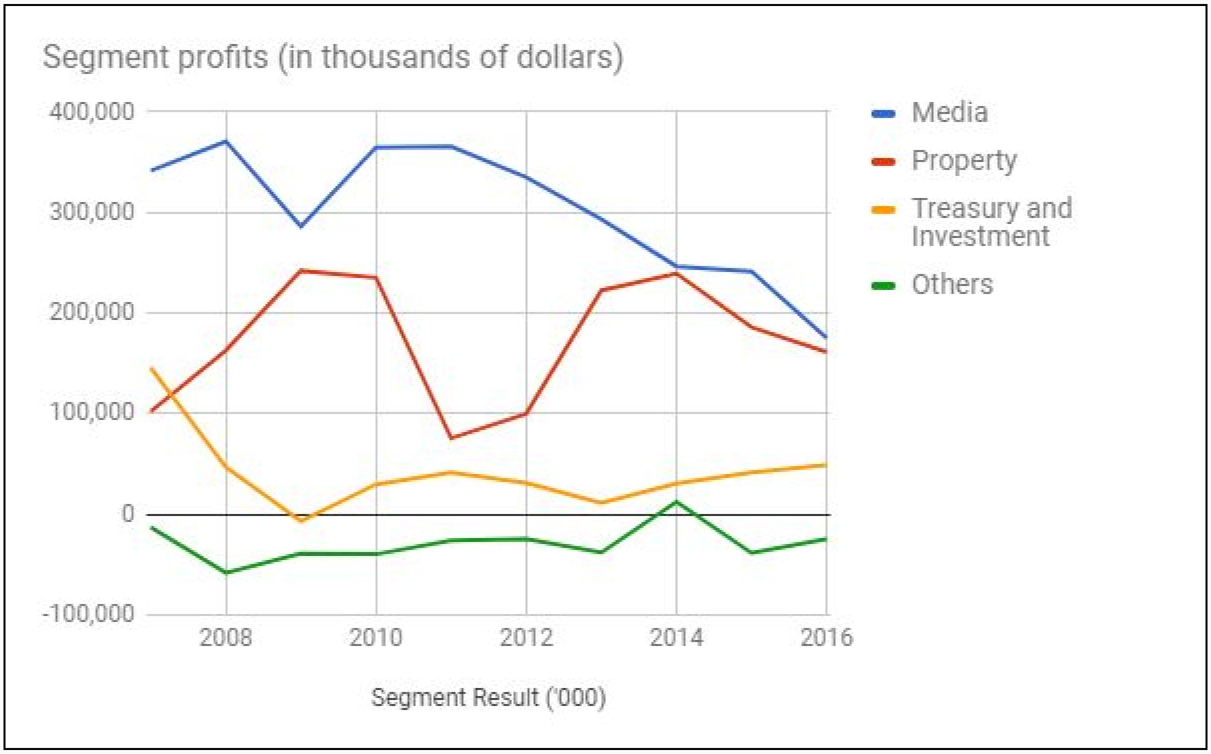

Chart 3: Net Profit (by segment), 2007-2016

Profits from the media arm have fallen so much that their property arm now contributes almost as much to the business as their media arm. Furthermore, the “others” segment has almost always been a drag on profits while the “Treasury and Investment” segments are miniscule and volatile, to say the least.[2]

Investors should not count on the property arm to pick up the slack as the residential property “Sky@eleven” was completed, fully sold and does not contribute to earnings any longer. Now that ‘The Paragon’ and ‘Clementi Mall’ have been divested into a REIT, shareholders should expect a stable but lower return from those assets too. That leaves the ‘Seletar Mall’ which would likely be injected into the REIT in the near future. After which, contributions from property will most probably be from SPH’s stake in the REIT as well as fees for managing the REIT.

[2] In the last 10 years, the only time the “others” segment turned a profit was in 2014.

SPH has done a relatively decent job with their property arm. They have developed a portfolio of relatively well-visited malls that can continue to contribute to their bottom-line in the foreseeable future. The issue is whether this strategy is sustainable given the number of malls that Singapore already has given the gloom on Orchard Road as well as the proliferation of suburban malls. A sign to bear in mind is that more established players like Capitaland and Keppel Land have been looking overseas (in China and Vietnam respectively) for expansion in recent years.

Recent corporate actions

A look at SPH's corporate announcements in the last few years will give us a good idea of the direction that they are heading in.

Date	**Headline**	**Description**
22 July 2015	Giosis Pte Ltd Raises US$82.1 Million in Series A Funding	SPH becomes an investor in Giosis Pte Ltd which is the parent company for popular online marketplace, Qoo10 (link)
26 Sept 2016	Expansion of Online Investor Relations Business	SPH's wholly owned subsidiary, ShareInvestor.com Holdings Pte. Ltd. entered into a conditional subscription and shareholders' agreement with Wholesale Investor Pty Ltd, an Australian-based investor services company, to offer online investor relations and related services to listed and private companies in Australia and New Zealand. (link)
28 Nov 2016	ACQUISITION OF ADDITIONAL 20% INTEREST IN PERENNIAL CHINATOWN POINT LLP	SPH subsidiary increases its stake (to 27.35%) in company that owns Chinatown Point. (link)
25 April 2017	ACQUISITION OF ORANGE VALLEY HEALTHCARE PTE. LTD.	SPH takes over Orange Valley Healthcare Pte Ltd for S$164 million. (link)

12 May 2017	DIVESTMENT OF STAKE IN 701SEARCH PTE. LTD.	SPH subsidiary divests its stake in 701Search Pte. Ltd. for a consideration of approximately US$109 million. (link)
21 June 2017	SUCCESSFUL TENDER FOR MIXED DEVELOPMENT AT UPPER SERANGOON ROAD	SPH, as part of a consortium, wins a land bid at Bidadari to build a mixed commercial and residential development. (link)
28 July 2017	INVESTMENT IN AN ASSOCIATED COMPANY	SPH subsidiary enters into a Joint-Venture with Chinese firm. JV known as ZBJ-SPH. ZBJ-SPH's principal activity is the operation of an online B2B creative services marketplace which connects freelance/small-medium enterprise (SME) service providers with buyers of services such as website design, brand/logo design and translation. (link)
4 August 2017	CHANGE OF SHAREHOLDING IN SUBSIDIARY	SPH subsidiary enters in a joint-venture with company that owns and runs Han Language centre. (link)

Table 1: list of major transactions, 2015-2017

SPH is moving away from its reliance on media as evidenced by divestments in its online classifieds business (701 search). Management is banking on its property arm as evidence by the increased, albeit small, stake in Chinatown Point as well as the bid for the Bidadari site.

While SPH previously placed bets on e-commerce, it appears that their recent investments have been in traditionally stable and predictable sectors like education (through Han Language and MindChamps) and healthcare (Orange Valley nursing home).

The problem with such a strategy is that it will take a lot to replace the profits earned by its traditional high-margin media arm as education and healthcare are industries with much lower barriers to entry than the near-monopoly SPH had on the newspaper business. At its peak, the media arm earned roughly $350 million in profits a year on margins of 35%. Assuming that the media arm's profits decline to $200 million a year, SPH will need other arms to grow at a much faster pace.[3] This has not happened so far.

Management changes

SPH has seen changes at the very top level. In May 2017, both the CEO, Alan Chan, and the Deputy CEO, Patrick Daniel, resigned after having been with the organisation for many years. Taking over as CEO is Ng Yat Chung.

Ng Yat Chung's track record as CEO of a major corporation is, at best, mixed and at worst, unflattering. Under his watch, local shipping firm, Neptune Orient Lines (NOL) was sold to CMA GGM after enduring years of losses despite Ng's cost-cutting efforts. Ng will not be on most of his staff's christmas list this year with the announcement of job cuts at SPH so shortly after taking over.[4]

The fact that the CEO and deputy CEO are stepping down is not so much a problem given the troubles that have ailed SPH in recent years. In fact, one may view this as a positive step as previous management may have been more attuned to operating in an environment that was arguably more favourable to the newspaper business. With the current disruption in the industry, it is probably best that someone more familiar with current trends breathe some fresh air into an organisation that may have been getting complacent with its market share.

The issue is whether the new CEO, given his background in the military, a sovereign wealth fund and a shipping line will be well-equipped to take over the reins at a company that is facing massive disruption in the industry. Personally, I think someone with a more entrepreneurial resume would be more suitable. Hopefully, for Ng, this won't be another sinking ship.[5]

Valuations

While SPH's media business is declining, we cannot ascribe a valuation of zero to it. Furthermore, we need to account for the growth of the other arms which will soften the blow from the media arm.

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[3] Apart from the property arm, the other businesses have much lower margins than the media arm.
[4] For a good review of Ng's credentials and the general reaction to his appointment as CEO of SPH, see this article (link).
[5] Pun totally intended!

Valuing SPH is a tricky business because while the media arm's profits may be declining in line with trends seen in the US (see here), SPH has some options, namely:

1. Reduce staff costs (which they have already tabled. See here)
2. The Singapore government nationalises the newspaper arm which they have done with SMRT.
3. Fall in circulation and readership start to level off, easing pressure on SPH. This would be optimistic for them as they can focus on the other lines of business without having to worry about the media arm.

Going forward, I predict that SPH's future hinges on number 1 and 3. The drop in staff expenses, combined with the fall in circulation levelling off will most likely mean that the media arm's profits stabilise at $200 million. Therefore, any future growth will come from the non-media arms of the company.

Of course, there is a limit to how fast SPH can grow their other lines of business. Property development takes a lot of time and money while any bolt-on acquisitions will be costly. Moonshots, like their investments in web-based, digital platforms may be cheap but are more like lottery tickets with very uncertain payoffs. This is pretty evident from the drag that the "others" segment has put on profits in most years.

Furthermore, SPH's capacity for debt has diminished in recent years. As of FY2016, their long-term debt to Net Income stands at 4.5x, a level they have never ever reached. By the more conventional debt to equity ratio, SPH is stands at 0.37x, below the highs of 0.64x reached in FY2010. However, we should expect SPH's debt levels to rise with their upcoming property development.

Projecting too far into the future is always a futile endeavour but the next five years should be relatively easy to foresee. What's even better is doing a reverse DCF to see what the market is projecting, given the current price of SPH.

Given some reasonable assumptions about terminal growth rates (2% which is about long-run GDP growth) and discount rates (9% which is fair for a large-cap firm), **the market is currently expecting SPH's owners' earnings to decline by about 18% per year over the next 5 years**.

Whether the market is accurate, under-reacting or overreacting to the headwinds facing SPH's business is for the individual investor to decide. A good starting point would be to look at the financials for the first three quarters of FY2017 before deciding if things will get better or are really as dire as it seems.[6]

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[6] Spoiler alert. Based on the financials published for 3Q17, there are at least 2 reasons why I think things are not as dire as they seem. For the short-run at least.

Appendices

Background

Incorporated in 1984, main board-listed Singapore Press Holdings Ltd (SPH) is Asia's leading media organisation, engaging minds and enriching lives across multiple languages and platforms.

Profile

Main lines of business

1. Media

The **English/Malay/Tamil Media group** comprises the print and digital operations of The Straits Times, The Business Times, The New Paper, Berita Harian, Tamil Murasu, tabla! and their respective student publications. It also includes subsidiaries book publishing arm Straits Times Press

SPH Data Services, which licenses the use of the Straits Times Index in partnership with the Singapore Exchange and FTSE-Russell Ltd; financial data company ShareInvestor; the two English stations of SPH Radio - Kiss92 and ONE FM 91.3 and SPH Golf (including SPH Pacom Ltd).

The **Chinese Media group** publishes three Chinese newspapers in print and digital format - Lianhe Zaobao, Lianhe Wanbao and Shin Min Daily News; four student weeklies - zbCOMMA, Thumbs Up, Thumbs Up Junior and Thumbs Up Little Junior, and ZBBZ Newsgazine. It also operates SPH Radio's Chinese radio station, UFM100.3, and Focus Publishing, which produces a range of books and magazines including U-Weekly.

SPH's **other digital media** initiatives include AsiaOne, Stomp, zaobao.sg and zaobao.com.

SPH Magazines, SPH's wholly-owned subsidiary, publishes and produces more than 80 magazine titles and has various online sites, like hardwarezone.com, herworldplus.com and luxuryinsider.com in Singapore and the region, covering a broad range of interests from lifestyle to information technology. It has also invested in digital newsstand Magzter.

SPH also provides **out-of-home (OOH) advertising options** where it manages large format digital screens and static billboards at key locations in the Central Business District, Orchard Road, City Fringe as well as major heartland hubs.

SPH Buzz is a modern retail convenience chain with a network of stores around the island.

2. Property

SPH REIT is a Singapore-based REIT established to invest in a portfolio of income-producing real estate primarily for retail purposes. SPH REIT comprises Paragon, a premier upscale retail mall and medical suite/office property in Orchard Road and The Clementi Mall, a mid-market suburban mall in the centre of Clementi town.

The Seletar Mall, located in Sengkang, is SPH's latest retail development. This property is a potential asset to be injected into SPH REIT.

SPH’s wholly-owned subsidiary, **Times Development Pte Ltd**, also developed a 43-storey upmarket residential condominium, Sky@eleven, at Thomson Road.

3. Others

Online Classified
SPH’s online classifieds include the leading online marketplace for jobs (STJobs, FastJobs), property (STProperty), cars (STCars) and general classifieds (STClassifieds), sgCarMart and StreetSine.

SPH's regional joint venture online classifieds business has a number of leading online classifieds sites in the region.

Events and Exhibitions
Sphere Exhibits, Sphere Conferences, Exhibits Inc and Bizlink Exhibition Services organise innovative consumer and trade events and exhibitions as well as large scale conferences in Singapore and the region.

Healthcare
SPH owns Orange Valley which operates nursing homes.

Education
SPH has a 22 per cent stake in preschool and enrichment provider MindChamps.

Reverse DCF Valuation

Recent owners' earnings	305.9		
Growth Rate	-18%		
Terminal Growth Rate	2%		
Discount Rate	9%		
Shares Outstanding	1621.48		
Year	FCF	Growth	PV
1	250.84	-18%	$230.13
2	205.69	-18%	$173.12
3	168.66	-18%	$130.24
4	138.30	-18%	$97.98
5	113.41	-18%	$73.71
Terminal Yr CF	115.68		
Terminal Value	5783.88		
PV Terminal CF	$3,759.12		
Sum PV year 1-5	$705.17		
IV per share	$2.75		