

25 February 2021

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Southern Cross Media Group

Communication Services

UNDERPERFORM

SXL A\$2.34 TARGET PRICE A\$1.94

Southern Cross Media Group Limited (SXL) is a media provider which owns and engages in the broadcasting of content on free to air commercial radio (AM, FM and digital), TV and online media platforms across Australia. These media assets are monetised via revenue generated from the development and sale of advertising solutions for clients.

Company Data

Number of shares	246.2 M
Market Capitalisation	\$642.0 M
Free float (%)	96.3
12-month high/low	\$5.33/\$1.1
Average Daily Turnover (\$m)	1.355
% S&P/ASX200	0.03%
DDM Ranking	282
% All Ordinaries	0.03%
GICS Industry Group	Media & Entertainment

Source: FactSet, Barclay Pearce Capital

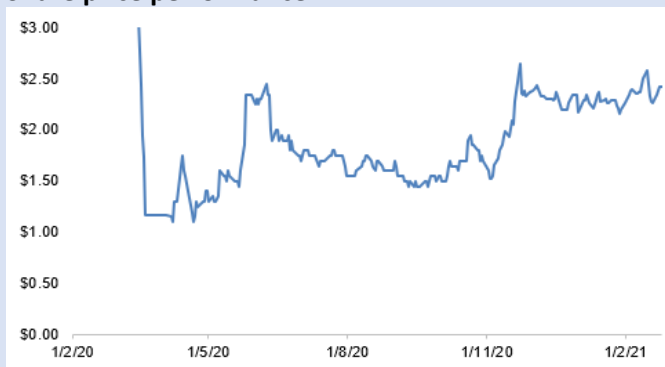
Earnings Summary (AUD)

Year end June	2020A	2021F	2022F	2023F
Revenue (\$M)	540.2	556.7	595.0	601.3
EBITDA (\$M)	93.0	115.6	112.2	114.2
Reported NPAT (\$M)	25.1	42.9	44.4	50.1
Adjusted NPAT (\$M)	34.2	40.8	42.7	48.4
Reported EPS (c)	17.7	16.9	18.2	19.7
Adjusted EPS (c - FD)	24.1	15.4	16.2	18.3
Adjusted EPS growth (%)	-64.6	-36.0	4.9	13.1
Adjusted P/E (x)	10.1	15.7	15.0	13.3
Dividend (c/sh)	20.0	-	7.5	9.8
Gross yield (%)	11.8	-	4.2	5.5
Net yield (%)	8.2	-	2.9	3.9
ROIC (%)	4.8	5.7	5.9	6.5

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet, Nucleus 195, Capital IQ and Bloomberg.

Share price performance.



Source: FactSet, Barclay Pearce Capital

FY21 Half Year Results

On 25th February, Southern Cross media Group (SXL) released their Interim results for the half year ended 31 December 2020 with the following highlights:

	1H21 (\$m AUD)	1H20 (\$m AUD)
Revenue	259.2	308.1
Expenses	-183.9	-240.6
EBITDA	75.3	67.5
NPAT (Underlying)	32.5	20.4
Net Debt	66.4	131.6

- Group EBITDA, NPAT and operating margins improved compared to H1 FY20;
 - These positive results were driven by pro-active measures to implement a leaner operating model, while also being assisted by temporary Government support (JobKeeper \$31.9M and PING 2 \$3.4M).
- Under the leaner operating model introduced during last year, SCA's non-revenue related costs of \$106.1M were 30% lower than in H1 FY20;
- Net debt reduced by half since a year ago to a historic low of \$66.4M, providing financial stability and support to pursue growth opportunities; and
 - The Group's leverage ratio of 0.39x annualised Q2 EBITDA provides significant headroom against the banking leverage covenant of 4.5x.
- Audio revenue of \$173.3M was 17.8% lower than in H1 FY20; and
- Television markets recovered more quickly than radio markets, with television revenues of \$84.9M down by 11.7% on H1 FY20.

Outlook

- Non-revenue related costs are expected to be \$255M-\$260M for the full year; and
- Operating cashflow conversion of 134% showed the quality of SCA's assets and earnings in difficult trading conditions.
 - With working capital benefits of \$15M (through COVID-related expense deferrals and the timing of government grants) to reverse in the second half, it is expected this will return to 90%-100% for the full year.

SXL CEO, Grant Blackley, said:

"We are pleased to report EBITDA for the half of \$75.3M, which was 11.5% ahead of the prior year NPAT grew by 59.3% to \$32.5M off the back of a leaner operating model and historically low debt levels. This has strengthened our balance sheet and provides confidence to invest in new organic products and services to optimise audience and revenue outcomes."

"Advertising markets are continuing to improve towards pre-COVID levels as the economy recovers and government restrictions stabilise and ease. Our Q3 revenue is forecast to be between 6% and 8% below the prior corresponding period while costs for the full year will reflect the benefits of work done over the past few years to restructure our business."

Earnings changes

Given SXL's Q3 and full year outlook, we do not expect any significant earnings revisions.

Valuation

We are initiating on SXL with a price target of \$1.94 and an UNDERPERFORM recommendation. The price target is underpinned by our valuation.

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Barclay Pearce Capital provides research services to its client. Mr Wright is General Manager of Research and has over twenty (26) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2017 where he has been involved in the research and publication of reports. Prior to this Mr Wright worked at a number of entities where he held Director/Head of Research and General Manager of Research positions. Mr Wright holds a Bachelor of Mathematics (Honours) from Edinburgh University and has completed the SDIA Accreditation Program (RG146) through DeakinPrime.

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Hold – Describes stocks that are neither a buy nor underperform.

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NR – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Barclay Pearce Capital policies.

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Buy	40.2%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Speculative Buy	0.4%	(100.0% of stocks with recommendations are Barclay Pearce clients)
Hold	19.5%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	40.0%	(0.0% of stocks with recommendations are Barclay Pearce clients)