STOCKS DOWN UNDER

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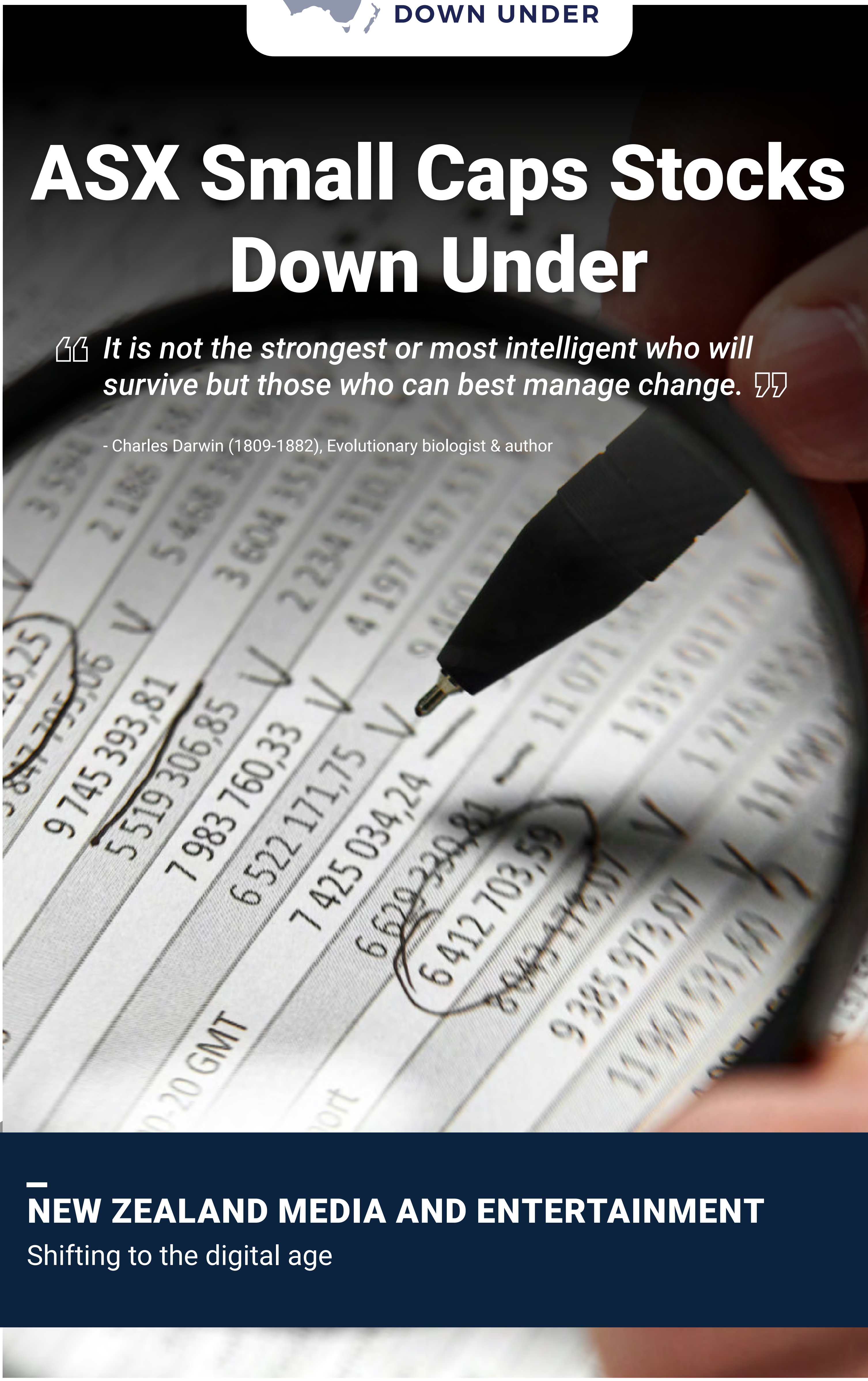
ASX Small Caps Stocks Down Under

It is not the strongest or most intelligent who will survive but those who can best manage change.

- Charles Darwin (1809-1882), Evolutionary biologist & author



NEW ZEALAND MEDIA AND ENTERTAINMENT

Shifting to the digital age

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Stocks Down Under rating: ★★★★

ASX: NZM
Market cap: A$222.5M

52-week range: A$0.90 / A$1.66
Share price: A$1.11

Rapid change in industries can claim the scalps of businesses that don't adapt, but businesses that *can* adapt don't just survive, they often emerge stronger. New Zealand Media and Entertainment (ASX: NZM), hereafter referred to as NZME, has done its damnedest in recent years to adapt to the new world of media. Will it fail, will it just survive, or will it emerge as a stronger business than ever before?

Share price chart

Source: Tradingview

Aotearoa's media

NZME owns a number of Kiwi media and content assets including the New Zealand Herald, dozens of regional and community papers, and New Zealand's Radio Network. It has three divisions: Publishing (with its newspapers), Audio (with its radio stations) and OneRoof, which is a real estate classified site – think of it as the Kiwi equivalent of Domain or REA.

NZME was formed in September 2014 as part of a merger of various Kiwi and Australian entities. The company is still in the process of fully transitioning to the digital age, but is gradually digitizing its subscriber base. Print media may be dying, but companies like News Corp and the New York Times are at record earnings, having successfully adapted. How is NZME doing? Well, not bad. It has 2.2m readers for the NZ Herald alone, with 206,000 active subscriptions across print and digital. The latter figure may seem like a small proportion, but the company has been growing it over time. Over 6 million hours are spent listening to NZME's radio stations every single month, and over 500,000 Kiwis find their next home with OneRoof.

COVID was a gut punch, but things are improving

CThe media industry was substantially hit by the pandemic given the lack of advertising revenue. This was somewhat ironic because more people were consuming media thanks to the pandemic, being stuck at home, and all that. NZME was forced to lay off roughly 15% of its workers and offload certain brands. This didn't stop it trying to merge with Stuff, an NZME competitor, for the second time in four years. NZME was unsuccessful this time as well, but that ill-fated second attempt still made an impact on its hip-pocket because the New Zealand Market Disciplinary Tribunal fined it NZ$80,000. That was because NZME, it alleged, gave the impression that the deal was more advanced than it was, implying the only obstacle was a fait accompli meeting with competition regulators.

Over two years on, things are looking better for NZME. Advertising revenues are recovering, and, indeed, are now slightly higher compared to pre-COVID levels. NZME has multiple sources of revenue and is not reliant on any source of income. Radio advertising is the strongest, with 29%, followed by print advertising and digital advertising with 17% each. The company has a market share of over 40% in radio and print. Assuming it pays a full year dividend of 6cps, double the 3ps it paid in 1H, it offers a yield of 5.5% at the current share price. We observe that this is short of current inflation levels, but you might argue it is an impressive feat to be paying anything whatsoever. NZME paid a further special dividend in June of 5cps and bought back $5.3m in shares.

NZME has some attractive features, but is it worth the risk?

NZME uses the calendar year as its financial year. For 2022, consensus estimates are projecting $325.4m in revenue and $61.5m in EBITDA, up nearly 4% from 2021 when it recorded $313m in revenue and $59.2m in EBITDA. The company's own guidance is for NZ$67-$72m in EBITDA, which is A$59.9m-A$64.4m. That guidance could be for 8.7% growth at best but only 1% at worst. Looking to 2023, consensus estimates are forecasting $328.4m in revenue and $63.5m in EBITDA which would be up 3% and 0.1% respectively from 2022. NZME is trading at attractive multiples of 4.7x EV/EBITDA and 7.5x P/E. The 1H results for 2022 show it is on track with a ~$9m profit, up 30% from the year before. Sure, the company is in a net debt position, but only by $2.9m. It is also positive on a cash flow from operations basis, by $11.9m in 1H22.

NZME's share price crashed below 20c in the Corona Crash but surged to as high as $1.60 in early April 2022. Since then, the stock has retreated to just over $1 but that still capitalises NZME at over A$200m. So, is now a chance to buy the dip, or could the dip keep on dipping? We admit it is anyone's guess, but it all depends on one thing - whether or not NZME can continue to monetise its user base. We think that it can and combined with its reasonable multiple and healthy balance sheet, the stock is four stars in our view. NZME does not have the highest growth forecasted for CY23 by any means, so investors looking for high-growth options may want to consider alternative options. That said, in a rising interest rate environment, there's also no shortage of companies forecast to go backwards in the next year or so.

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