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STV Group 13/09/2018 **FAT-UK-750**

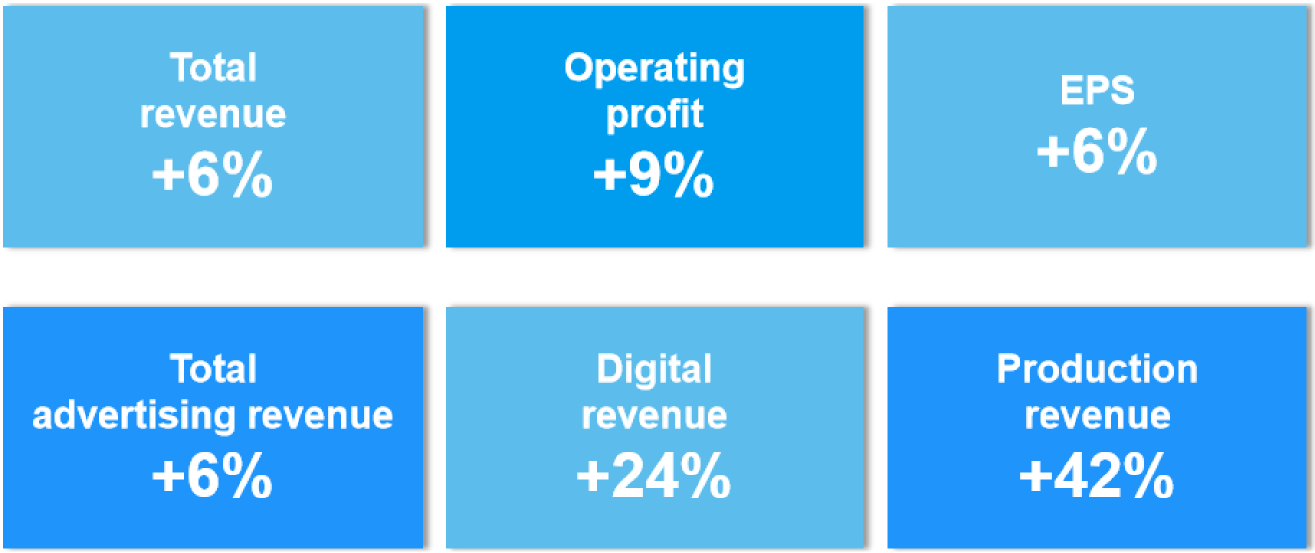
STVG GBP £4.02 Spec. MED. S

Fat Prophets Taking Remaining Profits

Shares in Scottish broadcaster **STV Group** (LSE.STVG) have retreated since our last review, and sell half, take profit recommendation. This is despite the company releasing a strong half year result, and a new venture with Virgin Money. With the company not immune to further disruption and the shares finely poised at the psychological 400p level, we are taking the decision to take the remainder of profits on this recommendation. **We recommend Members sell their holdings in STV group.**

Recent first half results were strong in our view, with total revenues growing 6% and good growth across all the company's divisions; Broadcast, Digital and Production. The company saw a 6% rebound in advertising revenues to £57.7m and at the bottom line, profit before tax and exceptionals and IAS19 (pension charges) was up 8% at £9.4m.

Underpinning the revenue performance and advertising revenues were strong viewership numbers. In fact, STV's share of viewing was the strongest since 2009 at 18.7%, 13% higher year on year and 10% higher than the company's bigger counterpart south of the border, ITV. Online viewing on STV Player rose 73%.



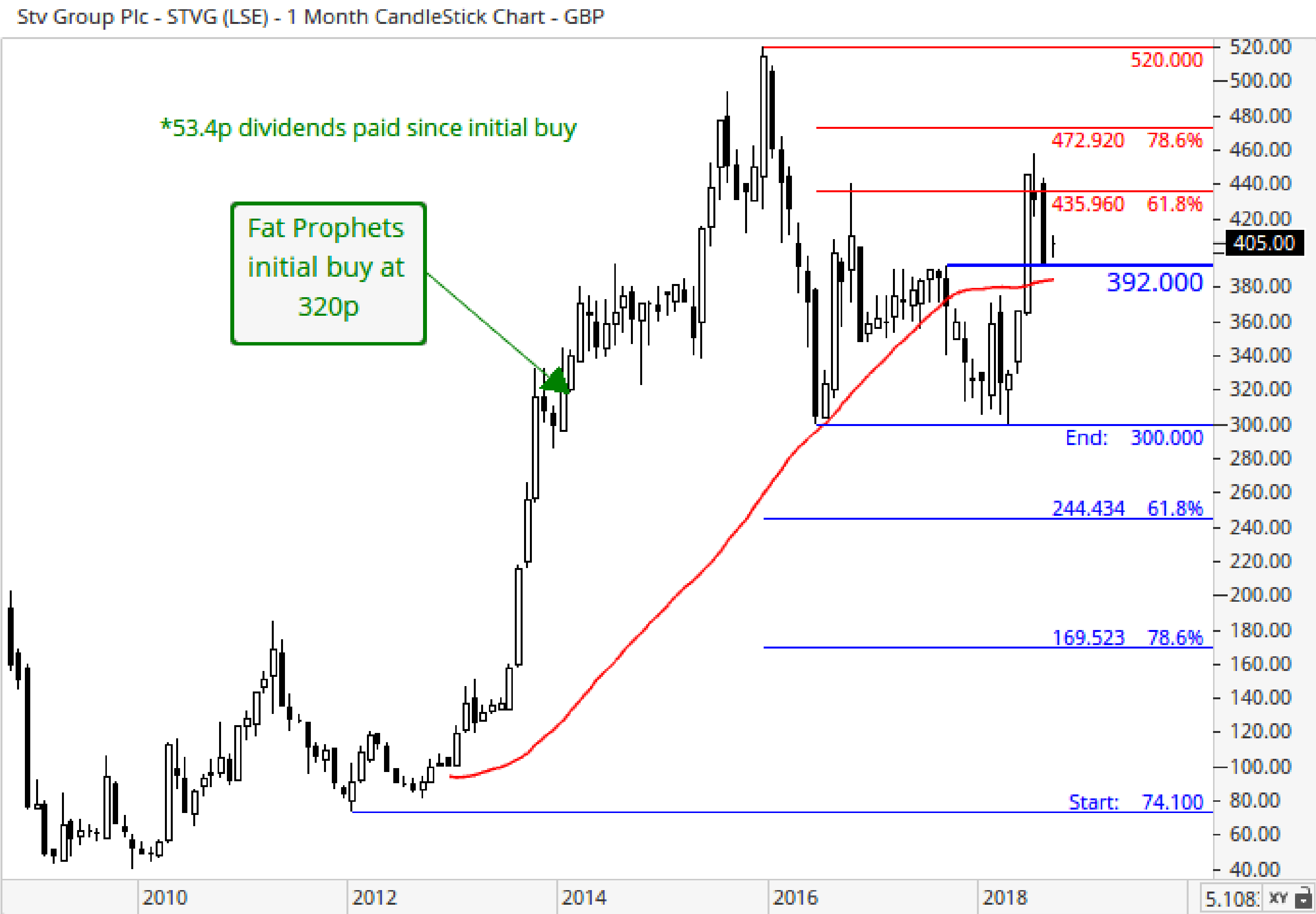
Source Investor Presentation.

An encouraging feature was that digital revenue were up some 24%, and growth here has been central to our positive outlook. We have also been encouraged by management's new strategic plan (albeit so has the market given the share price re-rating). A cost out program has been part of this and the company is on target to make around £2m in cost savings to fund new investments. The company has also closed STV2 on 30 June as planned and licences sold. Key executive management appointments have also been made across the group as promised with new heads of Broadcast and Digital. A new appointment for the Production unit is also imminent.

The company is also streamlining its Production business and will rebrand to focus more on consistent and "market-relevant" content to strengthen its brand instead of having a mix of more random content it has been spewing out over the years.

All said, this will entail significant upfront costs, but management has noted that the cost savings generated from lopping off STV2 and some other changes will be sufficient to pay for the strategic shift.

Shareholders also took some of the spoils from the result with an interim dividend of 6 pence per share confirmed, and full year dividend payment of 20 pence per share proposed, up 18% year on year.



The company has announced a new four-year strategic partnership with Virgin Media, to deliver "an enhanced viewing experience across STV and STV Player and providing significant incremental value to both parties."

With such a plethora of good news, we would have expected a more positive reaction from the share price, but this also goes to the fact that much had been priced into the shares after the recent run (that said an earnings multiple of 11 times is hardly demanding). We are also conscious that confidence towards the sector and stock could be undermined if Brexit negotiations go the wrong way,

As such and having already taken some profits at higher levels, we are happy to call time on the stock for now. It will remain on our watchlist and in the event there is an entry opportunity at lower levels.

We recommend Members sell their holdings in STV group.

Snapshot STVG

STV Group

Latest Closing Price: £4.0249

STV group is a Scottish media company which was originally formed as Scottish Television. The business has undergone a number of transformational changes over the years through acquisitions and divestments. And a rapidly changing industry landscape has also seen the regularly seen the company involved in corporate activity speculation, either as the acquirer or target.

Acquisitions over the years included the purchase of two newspapers in Glasgow in 1996, which were subsequently sold as the group looked to focus on television and media assets, a decision which looks to have been well founded given current ad trends.

A key deal involved the acquisition of Grampian, the ITV license holder for Northern Scotland, in 1997. Scottish Television (which owns the license for Central Scotland) and Grampian merged brands in 2006 to form STV. And after selling off print based and radio assets, the name change also reflected management intention to focus back on core TV assets.

Market Capitalisation:£158.92m

	FY1	FY2
Price to Earnings	11.0	9.8
Dividend Yield (%)	5.2	4.9
EV/EBITDA	9.3	8.1