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Media

Sector Study

March 2023

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MEDIA | INTRODUCTION

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- The media industry comprises organizations that are involved in the production, publication and distribution of various types of content. This content can be for informative, entertainment or promotional purposes and can be relayed to consumers on a range of platforms.
- The common types of content produced by media organizations consist of tv programs, films, newspapers, magazines, games and music, all of which is disseminated to the audience using various types of media platforms.
- The broad categories of media include -
  - **<u>Print Media</u>**: includes all printed forms of media, the most common being newspapers and magazines.
  - **<u>Broadcast Media</u>**: includes information transmitted through one of several mass communication channels, such as television (TV) and radio.
  - **<u>Digital Media</u>**: includes content distributed online on websites and social media applications.
  - **<u>Out-Of-Home (OOH) Media</u>**: includes content that reaches people outside the home on mediums such as billboards and hoardings.
- Many media companies operate in a combination of these categories. News organizations, for example, often maintain websites and e-papers alongside publishing traditional newspapers.
- Media buying is a process undertaken by agencies in order to identify and purchase ad space on channels that are relevant to the target audience at the optimal time, for the least amount of money. Media buying is a process relevant to both traditional marketing platforms and digital channels.

MEDIA | GLOBAL INDUSTRY

Overview

- The global entertainment and media industry rebounded in CY21, following a slump in the preceding year, with revenues recording a ~10.4% growth. It is expected to grow at a CAGR of ~4.6% through CY21-26. By CY26, the global E&M industry is forecast to approach USD~3trn in revenues.
- Traditional TV, beset by competition from OTT (over-the-top) streaming services, will experience shrinking global revenues global revenue at ~(0.8%) CAGR, from USD~231bln in CY21 to USD~222bln in CY26. Simultaneously, video games revenue, which increased by ~32% during CY19-21, will further inch up at ~8.4% CAGR through CY26, creating a USD~321bln industry.
- In CY22, advertisement revenues generated from digital sources amounted to USD~0.6trn, up ~2.0% from USD~0.5trn recorded in the preceding year, whereas those generated from non-digital sources clocked in at USD~0.3trn, not changing since CY21.
- Of the three main entertainment and media segments, consumer spending, advertisement and internet access, advertisement is set to become the largest sector, growing to ~35.1% in CY26, from ~31.9% in CY21.
- Global cinema revenues climbed up to USD~38.0bln in CY22, from USD~22.8bln in CY21. By CY26, revenues are poised to be recorded at USD~52.7bln.
- With respect to major global digital advertisement selling companies, the top five players were Google, Meta, Alibaba, Amazon and ByteDance, with worldwide net advertising revenues of USD~168.4bln, USD~112.7bln, USD~41.1bln, USD~37.9bln and USD~29.1bln, respectively.
- Going forward, the global advertising market is expected to continue undergoing diversification. Revenue streams like connected TV and in-app video game advertising is on the rise. Advertising revenues generated from connected TV in CY2 amounted to USD~16.6bln (CY21: USD~12.5bln), whilst that from in-app video game advertising rose to USD~65.1bln (CY21: USD~54.0bln). These are expected to respectively grow to USD~272.7bln and USD~118.6bln by CY26.

Source: PwC, Digiday

Overview

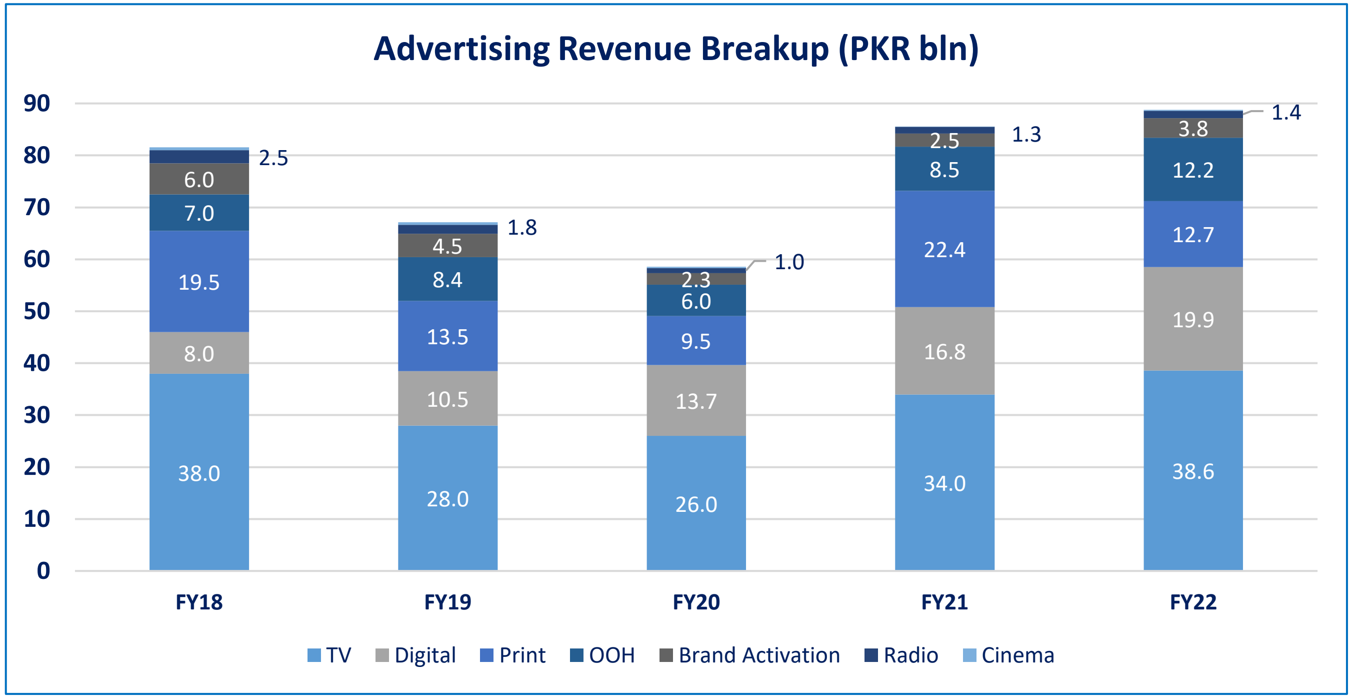
- Pakistan's media industry, particularly television and radio was opened up to the private players in 2002. The sector employs more than ~300,000 people in the fields of journalism, management and technical.
- As of 10MFY22, the Pakistan Electronic Media Regulatory Authority (PEMRA) had issued a total of 265 licenses for FM Radio, 4,152 Cable TV licenses and 123 Satellite TV Licenses. During 10MFY22, the Authority issued 9 Satellite and 47 new Cable TV licenses. 3 licenses for Direct-to-Home (DTH) have also been issued.
- In FY22, the size of the media industry in terms of advertisement revenue stood at PKR~88.7bln, an increase of ~17% from the previous year when advertising revenue stood at PKR~75.6bln.
- Average daily viewership per person in FY22 was ~2.95hrs, down ~14% YoY (FY21: ~3.4hrs). This is likely due to growing popularity of digital platforms and increasing usage of mobile phones which provide easy access to social media apps.
- During FY22, the number of mobile cellular subscriptions reached ~192.9mln, compared with ~188mln during FY21, indicating an increase of ~2.6% YoY. Tele-density figures clocked in at ~89% during FY22 (FY21: ~87%).
- The number of mobile cellular subscriptions in Pakistan has reached ~193mln as of Jan'23.

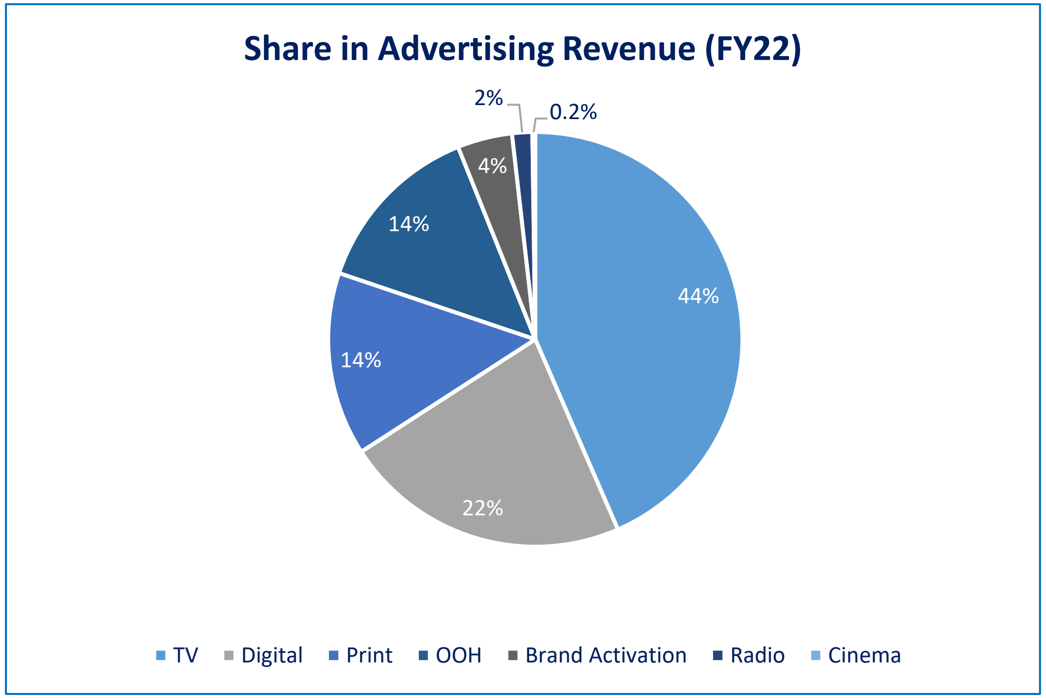
Local Overview	FY21	FY22
Advertising Revenue (PKR bln)	75.6	88.7
YoY Growth	*29%*	*17%*
Authority	Pakistan Electronic Media Regulatory Authority (PEMRA)	
Total Licenses issued by PEMRA till date		
Satellite TV licenses	122	123
Cable TV licenses	4,084	4,152
FM Radio licenses	235	265
Others	70	76

Source: PES, Dawn, PTA, PEMRA

Advertising Revenue

- Advertising revenue is the largest revenue stream for the media industry. Industry's total advertising revenue increased by ~17.3% YoY during FY22, up from PKR~75.6bln during FY21.
- The table shows the ad revenue earned by various media segments. TV remains the largest segment, recording PKR~38.6bln in ad revenue earned in FY22. Meanwhile, digital recorded at the second spot, growing at a CAGR of ~19.9% over the last five years (FY18-22).
- During FY22, the share of TV in industry's total ad revenue recorded at ~43.5% (FY21: ~44.9%), while digital formed ~22.4% of the total ad revenue in FY22 (FY21: ~22.2%).





Source: Dawn

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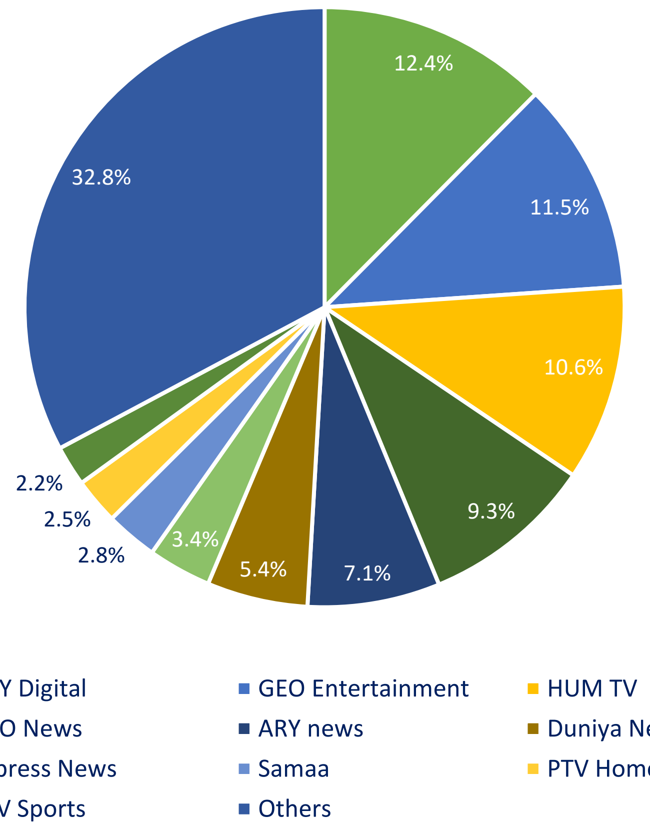
Advertising Revenue| TV Channels

- Compared to FY21, the rankings of top seven TV channels remained unchanged in FY22.
- Of the total PKR~38.6bln in TV ad revenue, the top seven TV channels included ARY Digital, Geo Entertainment, HUM TV, Geo News, ARY news, Dunya News and Express News, making up ~59.8% share.
- During FY22, Samaa TV climbed one rank up to become the eighth largest TV channel in terms of ad revenue (FY21: seventh rank).
- Similarly, PTV Sports has climbed four ranks up to become the tenth largest player, generating ~2.2% of the total ad revenue (PKR~0.84bln).

TV Advertisement Revenue | Channel-wise Breakdown (FY22)

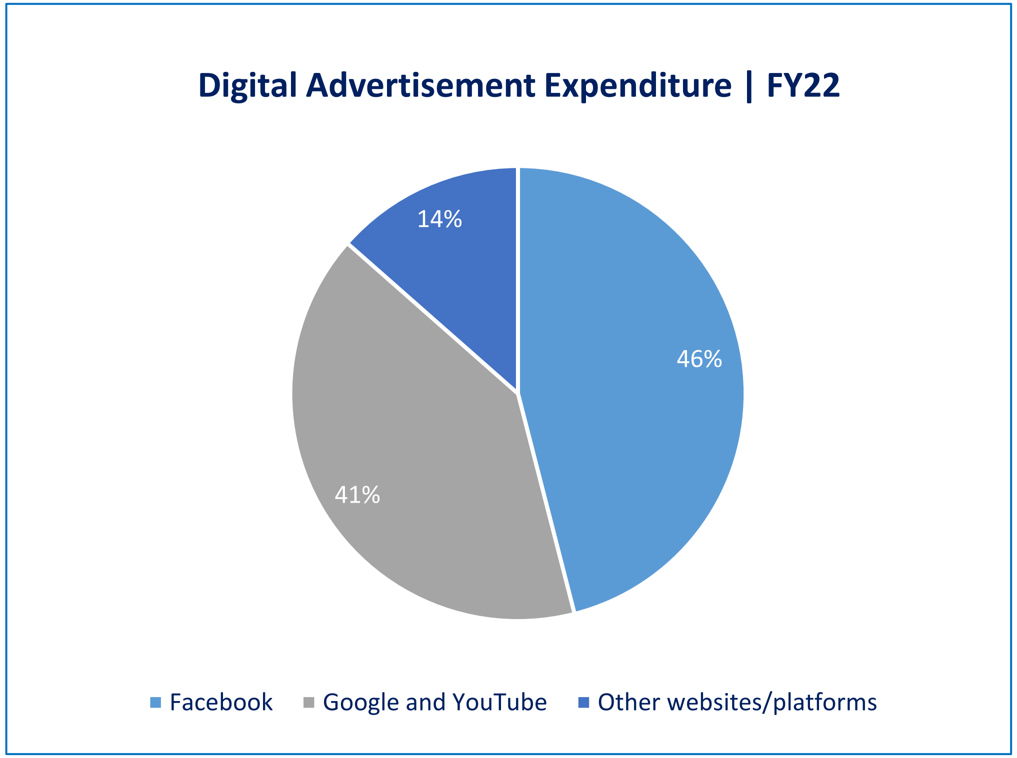


Source: Dawn

MEDIA | LOCAL INDUSTRY

Advertising Revenue| Digital Media

- Digital media has grown exponentially in recent years alongside growth in internet and social media usage.
- As of End-FY22, ~78% of the country's population is covered by 3G and ~75% by 4G mobile signals, indicating significant internet penetration across the country.
- A major chunk of mobile operators' revenue comes from provision of data services. The share of data revenue in the gross revenue generated by mobile operators increased from ~38% in FY18 to ~61% in FY22.
- In terms of social media usage, YouTube leads the way with ~72mln social media accounts by End-FY22. Meanwhile, Facebook recorded ~57.5mln accounts, Snack Video with ~20.0mln accounts, Snapchat with ~18.8mln accounts and TikTok with ~18.3mln accounts during the same period. Instagrams and Twitter accounts amounted to ~15.6mln and ~3.4mln, respectively.
- In terms of revenue earned from advertisements, Facebook forms the major chunk at ~46%, with Google and YouTube trailing closely at ~41% share. Combined, these contributed ~87% of the total ad revenues generated in FY22 (FY21: ~85%).
- Of the total PKR~19.9bln digital revenue, Facebook recorded PKR~9.2bln, while Google and YouTube recorded ~8.1bln during FY22.



Source: Dawn, Tribune

Business Risk | TV

- **Traditional Media:** As mobile phone usage and access to internet services increases among the population, traditional media such as TV, print and radio, faces significant threat from the digital medium which is increasing in popularity. Moreover, as consumers switch to digital platforms so do the advertisers who want to reach their respective target audiences.

- **Dependence of Advertising Revenues on Government Policies:** The media industry earns majorly from its advertising segment, which is highly dependent on government policies. Even after the consistent expansion of digital medium, the overall industry experienced a decline particularly in FY18 with reduction of ~7% in advertising budget, which is the backbone of print and television industries. However, the advertising segment started showing signs of recovery in FY21, seeing as the total revenue generated from advertising increased from PKR~58.6bln in FY20 to PKR~75.6bln in FY21, increasing further to PKR~88.7bln in FY22.

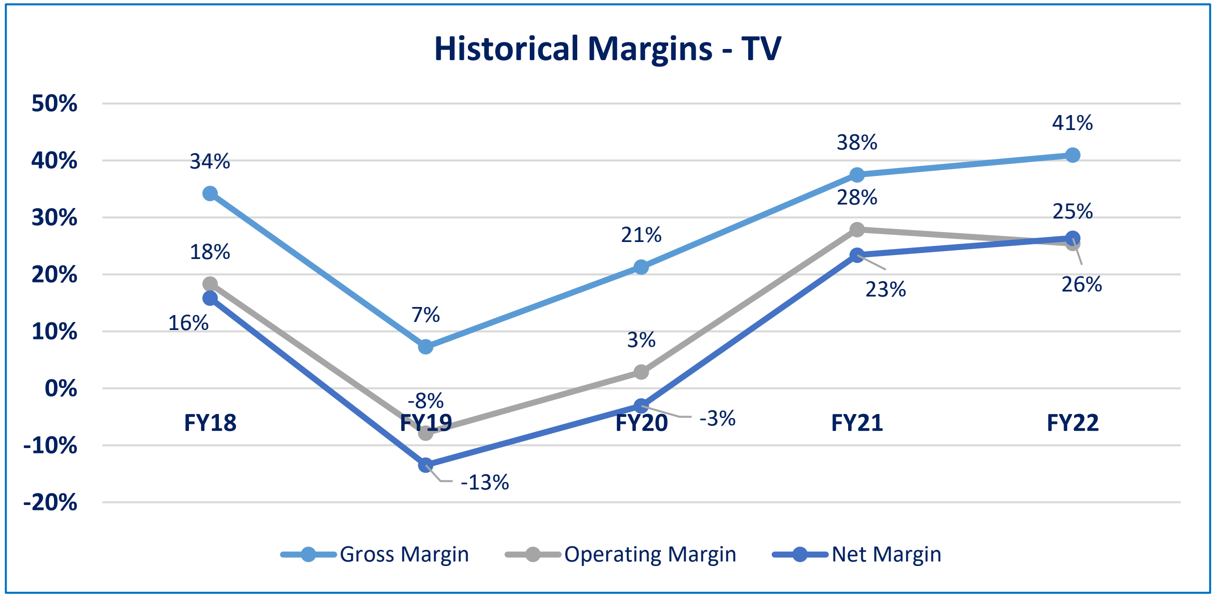
- **Censorship:** The media industry also faces stringent scrutiny of its content from the regulator and must ensure that guidelines regarding content are met to avoid censure or penalties in the form of fines etc. As the content is distributed on public platforms, it is also open to criticism from the general public who may lodge complaints with the regulator if they find the content objectionable.

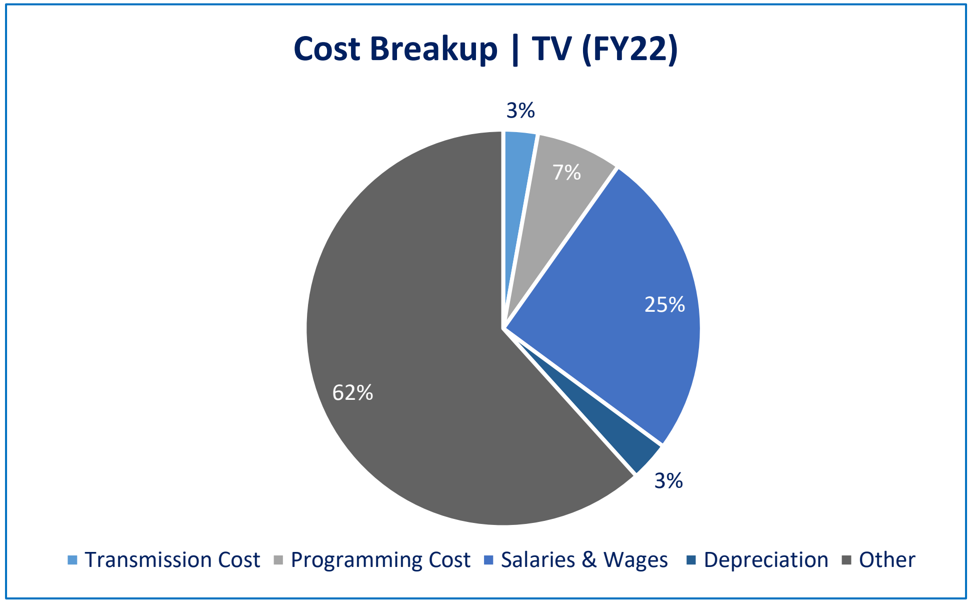
Business Risk | Media Buying

- **High level of competition:** There are a large number of media agencies operating in the market for media buying making it highly competitive. Players have to maintain their market shares without compromising on quality which can squeeze margins.
- **In-House Media Buying:** A growing trend is for large players in consumer goods industry to establish in-house media buying departments as it allows them to have greater control over cost and closer communication with marketing departments. However, this trend erodes the market share of independent media buying agencies.

Margins & Cost Structure | TV

- The television segment margins had been on an overall declining trend from FY17-19, with gross margins falling from ~41% to ~7% and net margins from ~22% to ~-13% in FY19. This decline was largely due to falling advertising revenues and rising finance costs.
- The segment started to recover with gross margin increasing to ~21% in FY20 and further to ~38% in FY21 due to effective cost control. Gross margins improved further to ~41% during FY22, on account of further cost controls and increased sales. Net margins exhibited a sharp increase in FY21 due to a one-off transaction in the sample of players under study (for this section). Moreover, finance costs also reduced sharply by ~58.7% YoY in FY21. During FY22, the increase in net margins continued on the back of lower finance costs.
- The largest component within direct costs for the segment is transmission and programming costs, including both in-house and outsourced program costs, which amounted to ~32% of total direct costs in FY22. In addition, salaries and wages expenses also constitute a significant ~3% of total direct costs for the segment.



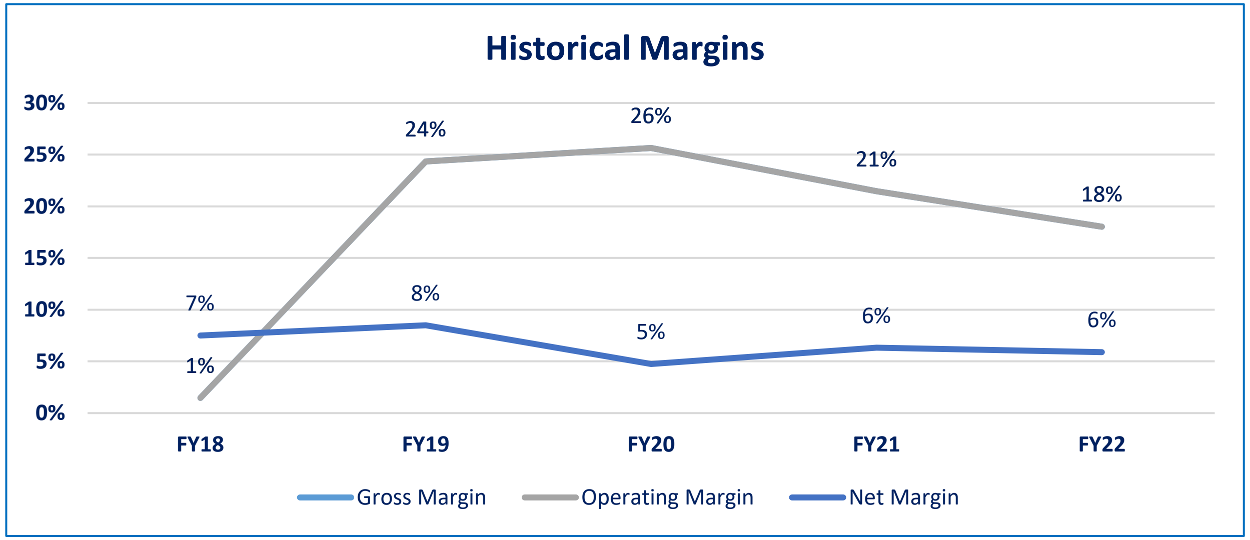


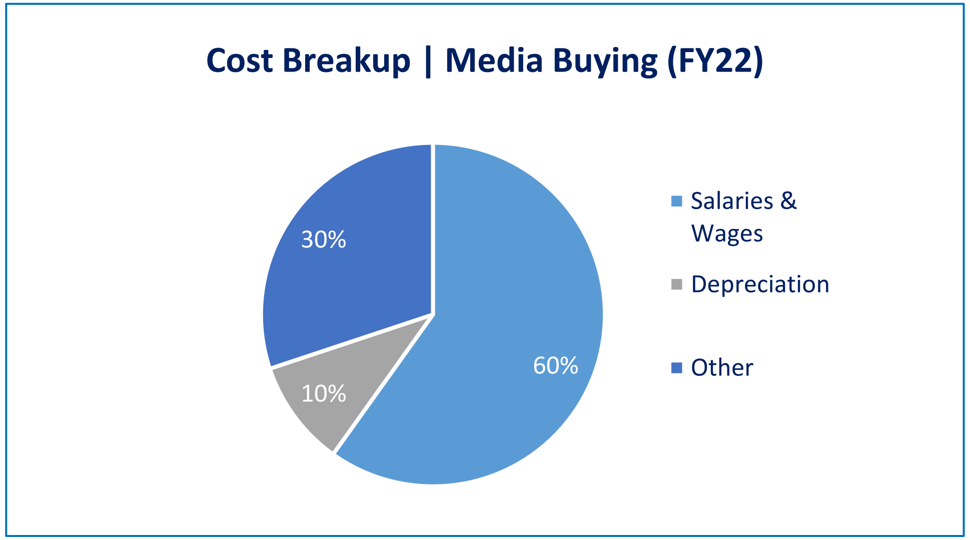
Margins and cost breakup figures are representative of 1 segment player.

Source: PACRA Database

Margins & Cost Structure | Media Buying

- The operating margins of media buying agencies have been relatively volatile in recent years as the players are reliant on advertising budgets of clients which fluctuate due to various factors.
- Based on media buying segment's business model, the segment's gross and operating margins are largely similar. The media buying agencies operate on early payments and bulk discounts which they receive from TV channels, in addition to charging service fees.
- The segment's gross and operating margins dipped from ~26% to ~21% in FY21. However, net margins experienced a slight improvement from ~5% in FY20 to ~6% in FY21 due to lower finance costs. During FY22, gross margins declined further to ~18%, likely due to fall in income from discounts. Concurrently, net margins decreased slightly to ~5.9% in FY22, due to increased finance costs.
- The largest component within operational costs for the segment is salaries and wages which amounts to ~62% of total operational costs. This is followed by depreciation and amortization (~10%).



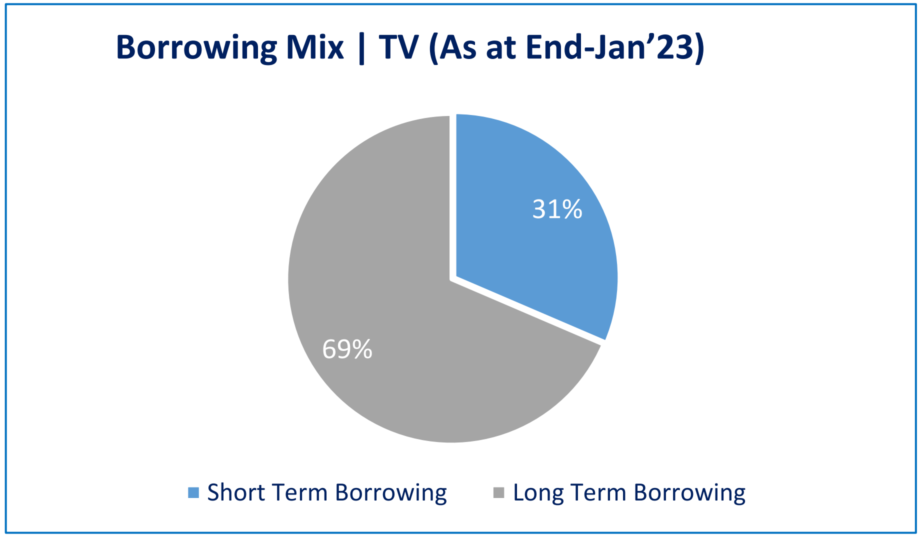


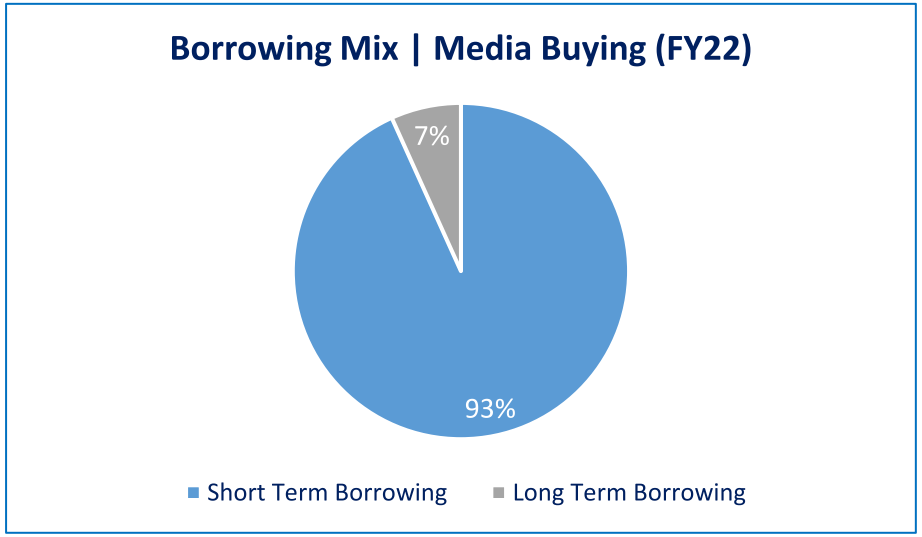
Margins and cost breakup figures are representative of 1 segment player.

Source: PACRA Database

Financial Risk

- The total borrowing of the media sector's TV segment stood at PKR~3,781mln at the end of Jan'23 as compared to PKR~2,509mln at the end of SPLY, depicting an increase of ~51% YoY.
- The largest component is long-term borrowing which stood at PKR~2,592mln and constitutes ~69% of the total borrowings.
- Meanwhile, short-term borrowing stood at PKR~1,189mln and comprised ~31% of total borrowing. The borrowing patters was reverse as at End-Jan'22, when short-term borrowing made up for ~59% of the total borrowing and stood at PKR~1,484mln.
- On the other hand, the media buying segment is reliant majorly on short-term borrowing, as this made up for ~93.3% of the segment's total borrowings in FY22 (FY21: ~93.6%). The segment's main source of revenue are the early payment discounts which they receive from the TV channels, thus the short-term borrowings help finance their working capital needs, by providing a positive spread to these agencies against their total billings.
- Average leveraging for the TV segment was estimated to be on the lower end for the TV segment at ~8.3% and on the higher end at ~73.3% for media buying in FY22.





Leverage figures are representative of 1 player in each segment.

Source: SBP, PACRA Database

Regulatory Framework

- Pakistan's media industry is regulated by the Pakistan Electronic Media Regulatory Authority (PEMRA) which was established through the promulgation of PEMRA Ordinance in 2002, later passed as an Act of Parliament in 2007.
- PEMRA's mandate consists of four main objectives:
    1. To improve the standards of information, education and entertainment
    2. To improve access of the people to mass media at the local and community level
    3. To enlarge the choice available to the people in media for news, current affairs, art, culture, sports and other areas of interest.
    4. To ensure accountability, transparency and good governance by optimizing the free flow of information.
- Media organizations are required to abide by the Electronic Media (Programs & Advertisement) Code of Conduct, 2015 as notified by the Ministry of Information & Broadcasting. As per the code of conduct, at least 365 show-cause notices were issued to various channels until July 2021, while action was also taken against 28 advertisements and dramas. This has resulted in total fines of PKR~25mln.
- The industry is represented by a number of organizations which includes All Pakistan Newspapers Society, Pakistan Broadcasters Association and Digital Media Association of Pakistan.

Source: PEMRA

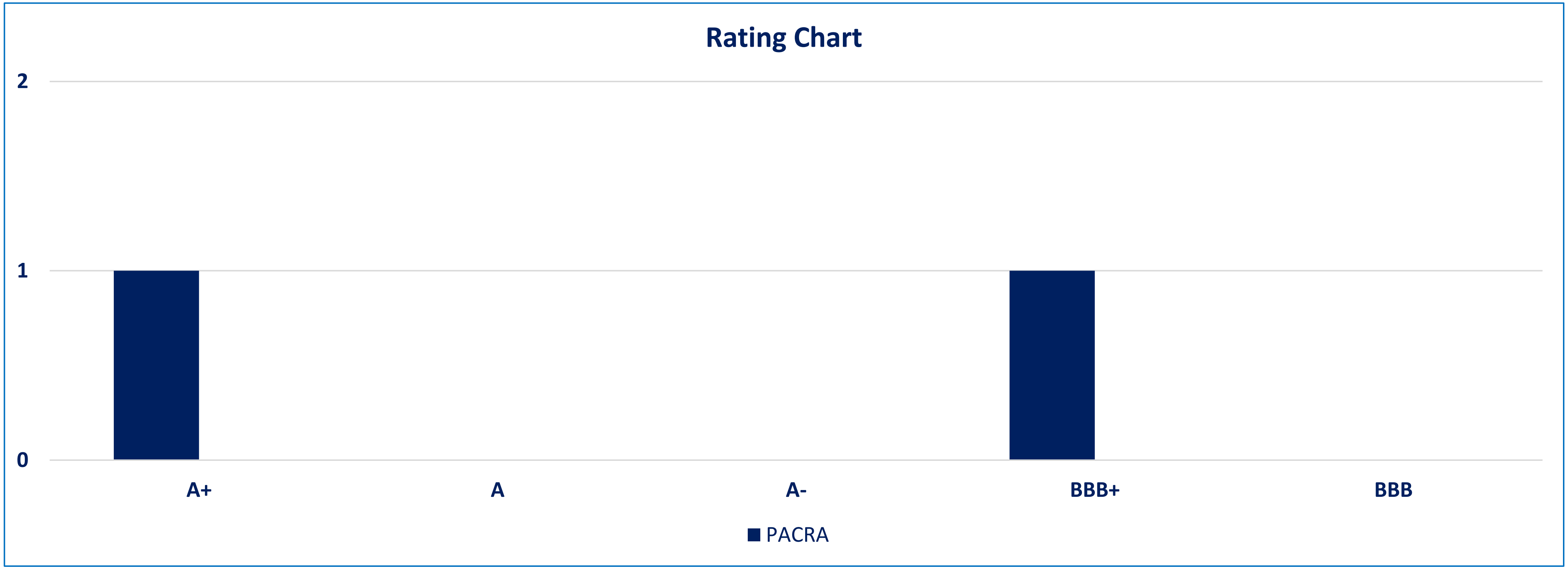
Duty Structure

Description	Advance Tax		Sales Tax	
	FY22	FY23	FY22	FY23
Foreign produced TV drama serial or play	0	PKR 1mln/episode	-	-
Foreign produced TV play (single episode)	0	PKR 3mln	-	-
Advertisement starring foreign actor	0	PKR 0.5mln/second	-	-
Provision of advertising services, excluding print and electronic media, to non-residents	0%	0%	-	-
Person providing advertisement services	0%	0%	17%	18%

Source: FBR

Rating Chart

PACRA rates two entities in the media industry, one is a media buying house and the other a television network.



Source: PACRA Database

SWOT Analysis

Strengths

- Increasing mobile phone and internet connectivity amongst consumers allowing them to access various types of social media and online streaming
- Presence of multiple industry representatives such as All Pakistan Newspapers Society, Pakistan Broadcasters Association and Digital Media Association of Pakistan.

Weaknesses

- Concentration of revenue in the advertising segment
- Reduction in newspaper subscriptions and average TV viewership

Threats

- Changing consumption patterns of audiences
- Increasing Cybersecurity issues with rise of digital platforms

Opportunities

- Growth opportunities in digital platforms.
- Ample room for locally produced content in film and television industries that cater to significant proportion of youth in the country.

MEDIA | OUTLOOK & FUTURE PROSPECTS

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Outlook: Stable

- Following post-Covid economic slowdown, Pakistan's economy experienced robust growth in FY22, with the real GDP recording an increase of ~5.9% YoY. This reflected across almost all sectors of the economy and the media sector, too, recorded an increase in revenues, combined with higher advertisement budgets of the private sector. Moreover, re-opening of cinemas and public gatherings boosted the demand of the advertising segment.
- The pandemic-led trend of remote working and learning continued well into FY22, increasing the consumption of media on digital platforms which was already the fastest growing medium in the overall media industry. In the period under discussion, advertisement revenue contributed by the digital segment was recorded at PKR~19.9bln, an increase of ~18.5% YoY. Overall, it contributed ~22.4% of the total advertising revenue in the media industry (FY21: ~22.2%).
- This growth in digital segment is majorly a shift from traditional TV and print media. The share of advertisement revenue contributed by the TV segment decreased from ~44.9% in FY21 to ~43.5% in FY22. Similarly, the share of print segment in advertisement revenue generation also fell from ~29.6% in FY21 to ~14.3% in FY22. Moreover, average daily viewership per person in FY22 was ~2.95hrs, down ~14% YoY (FY21: ~3.4hrs) .
- Additionally, the number of internet and social media users is consistently rising in the country. As of FY22, over ~72mln social media accounts were recorded in the country.
- The margins of the sector are expected to face challenges due to increased finance costs after the 500bps hike in policy rate in the 9MFY23 (currently, policy rate stands at 20%, up from 15% in Jul'22), and the advertisement budget-cuts in private sector because of consistently rising inflation level in the country. The average inflation rate has accelerated to ~26% and is expected to hover around ~29% by End-FY23.
- Overall, advertising revenues may be adversely impacted due to the impending economic slowdown (real GDP is forecast to slow down to ~2% during FY23). The shift from television and print to digital media advertisement is, however, growing at a fast pace, which may pose a risk to the television channels and intermediary advertising agents.

Source: PBS, SBP, PTA

- Pakistan Bureau of Statistics (PBS)
- Pakistan Stock Exchange (PSX)
- State Bank of Pakistan (PBS)
- Pakistan Electronic Media Regulatory Authority (PEMRA)
- Pakistan Economic Survey (PES)
- PwC Media Outlook Report 2021-2025
- PACRA Database
- Aurora (Dawn)
- Daily Times
- PR Newswire
- The Business Research Company

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