Media

Sector Study

June 2021

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MEDIA | INTRODUCTION

- 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:
- **Print Media**: includes all printed forms of media, the most common being newspapers and magazines.
- **Broadcast Media**: includes information transmitted through one of several mass communication channels, such as television (TV) and radio.
- **Digital Media**: includes content distributed online on websites and social media applications.
- **Out-Of-Home (OOH) Media**: 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 where 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.


PACRA

Overview

- The global media market consisting of sales of television and radio programs, motion pictures, digital content, and commercials along with video and audio recordings, games and print publications, reached a value of USD~1,713bln in CY20 after increasing at a Compound Annual Growth Rate of ~3.8% since CY15.
- North America is the largest region in the global media market, accounting for 33% of the market in CY20 while Asia Pacific was the second largest region accounting for 29% of the global market. Meanwhile, Africa was the smallest region in the global media market.
- The media industry was hit hard by the COVID-19 pandemic. Social distancing protocols prevented public gatherings, which resulted in the cancellation of live events at stadiums, arenas, theatres and cinemas around the world leading to losses in revenue from advertising and promotional activities. In addition, movie and television productions were halted during lockdown and did not resume until sufficient protocols could be implemented resulting in the cancellation or delay in release of new content.
- The consumption patterns of audiences changed significantly due to the pandemic as people spent more time at home and were able to explore new mediums and diverse types of content. Streaming platforms gained a lot of momentum during the pandemic with Netflix experiencing a ~23% surge in subscriptions while Disney+ reached 50mln subscribers.
- As a result, companies in the media market are increasing their focus and re-allocating revenues towards “direct to consumer” and other digital platforms in order to stay up to date with the changing market dynamics.

Source: Global Newswire, The Business Research Company

Overview

- Pakistan's media industry, particularly television and radio, bloomed in the last two decades after the broadcasting sector was opened up to private players in 2002. As of December 2020, the Pakistan Electronic Media Regulatory Authority (PEMRA) had issued a total of 106 Satellite TV licenses and 4,062 Cable TV licenses.
- The media industry earns majority of its revenue from advertisements. Other revenue streams include production revenue, subscription revenue and revenue earned by selling user data.
- In FY20, the size of the media industry in terms of advertisement revenue stood at PKR~58.6bln, a decline of ~13% from the previous year when advertising revenue stood at PKR~67.2bln.
- PEMRA has also issued 257 FM Radio licenses along with 61 other licenses including for Mobile TV, Internet Protocol TV (IPTV) and Direct-to-Home (DTH) licenses. In addition, there are approximately 707 newspapers and periodicals currently being published in the country.
- As per Gallup Pakistan survey, average TV viewership was on a declining trend, falling from ~205 minutes per day per viewer in 2002 to ~112 minutes in 2018. This is likely due to growing popularity of digital platforms and increasing usage of mobile phones which provide easy access to social media apps.
- Cellular mobile subscribers in Pakistan reached 183 million in May 2021 as compared to 169 million in June 2020, a growth of ~8.3%. Moreover, broadband connections as of March 2021 reached 100 million, growing ~19.7% from June 2020.

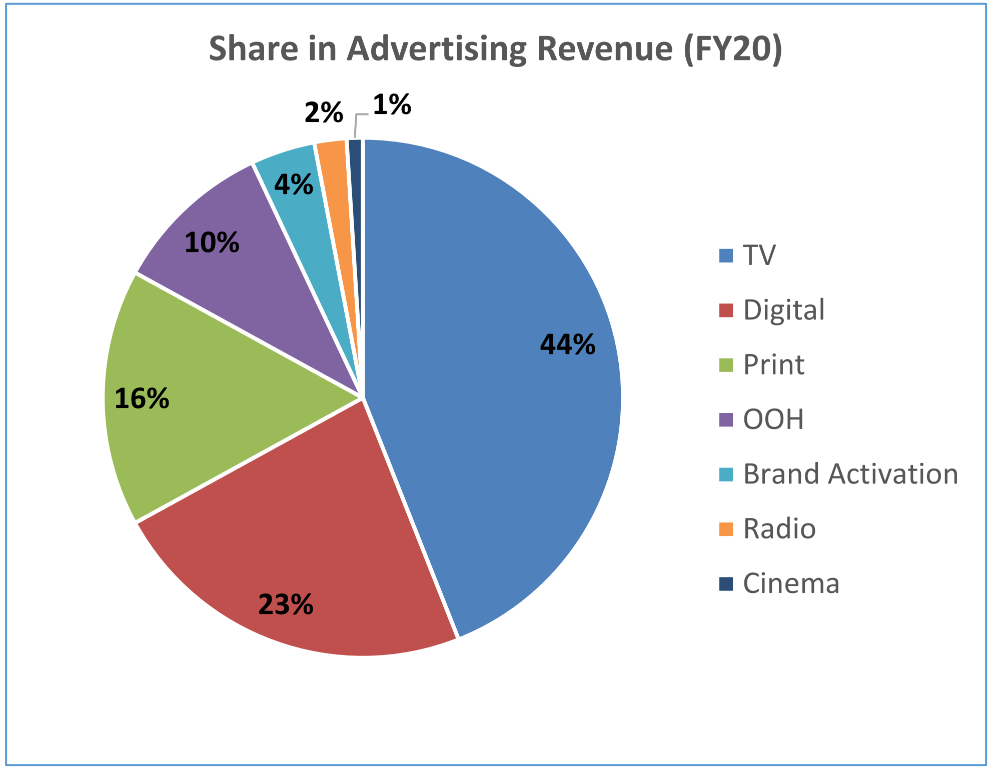
Source: PBS, PTA, PES, Dawn, PEMRA

Advertising Revenue

- Advertising revenue is the largest revenue stream for the media industry. The industry has experienced a decline in advertising revenue in the last three years, from PKR~87.7bln in FY17 to PKR~58.6bln in FY20.
- The table shows the ad revenue earned by various media segments. TV remains the largest segment with PKR~26bln ad revenue earned in FY20. Meanwhile, digital has taken over the second spot with consistent growth in ad revenue in last few years.

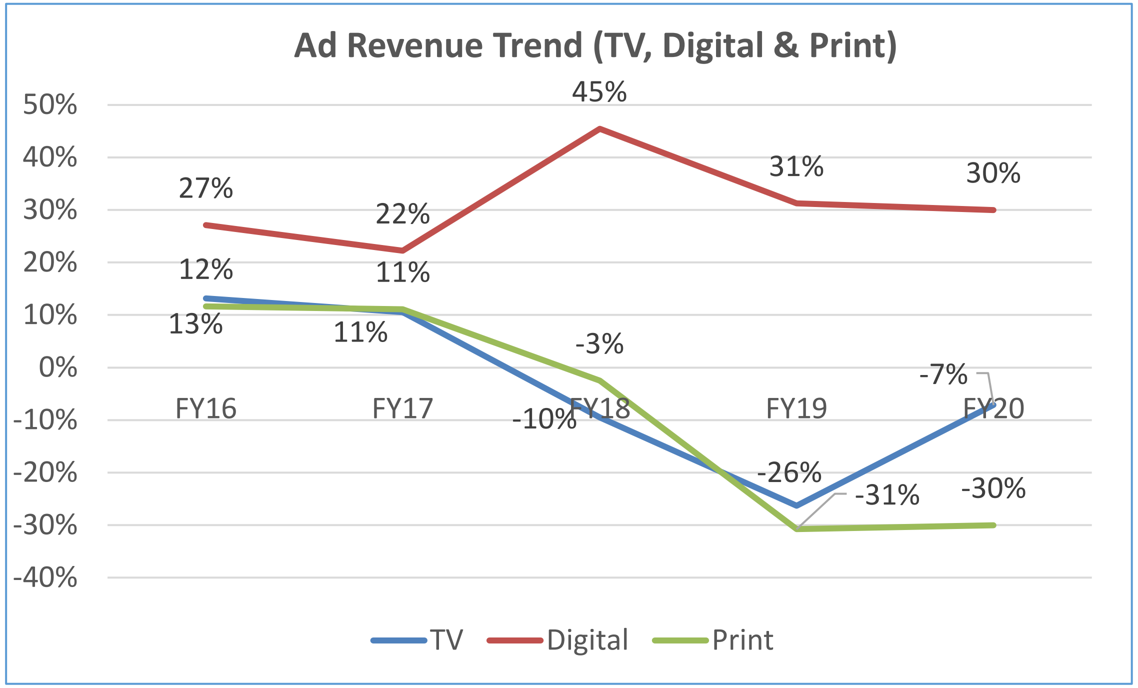
Annual Advertising Revenue Break Up

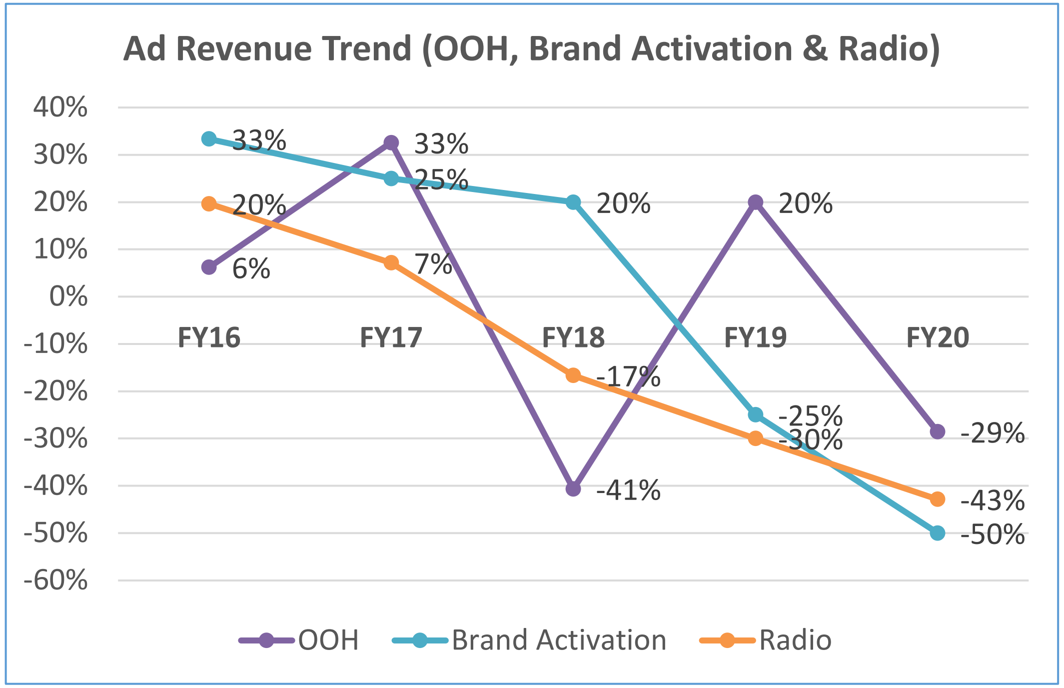
Period	FY16	FY17	FY18	FY19	FY20
TV	38.0	42.0	38.0	28.0	26.0
Digital	4.5	5.5	8.0	10.5	13.7
Print	18.0	20.0	19.5	13.5	9.5
OOH	8.9	11.8	7.0	8.4	6.0
Brand Activation	4.0	5.0	6.0	4.5	2.3
Radio	2.8	3.0	2.5	1.8	1.0
Cinema		0.4	0.6	0.5	0.3
Total	**76.2**	**87.7**	**81.6**	**67.2**	**58.6**



Trends in Advertising Revenue

- The only medium to have experienced growth consistently in recent years is the digital segment, which has exhibited a CAGR of ~31% since FY16. Meanwhile, other segments have experienced an overall decline, particularly since FY18.
- Meanwhile, the total advertising revenue has declined from PKR~76.2bln in FY16 to PKR~58.6bln in FY20, an overall decline of ~23%.
- The print medium experienced the most significant decline, falling from PKR~18mln in FY16 to PKR~9.5mln in FY20, an overall decrease of ~48%.





Digital Media

- Digital media has grown exponentially in recent years alongside growth in internet and social media usage. There are approximately 61mln internet users and approximately 46mln social media users in Pakistan which makes up almost ~27% and ~20% of the population, respectively.
- In terms of social media usage, YouTube leads the way with ~44mln monthly active users (MAU). Meanwhile, Facebook has ~36mln MAU followed by TikTok with ~24mln MAU. Instagram and Twitter have ~6mln and ~4mln MAU, respectively.
- However, in terms of revenue earned from advertisements, Facebook leads the way, contributing PKR~6.8bln which amounts to ~50% of the total digital advertising revenue.
- Google, which owns YouTube, also has a significant share of PKR~5.5bln or ~40% of the total digital advertising revenue in Pakistan.

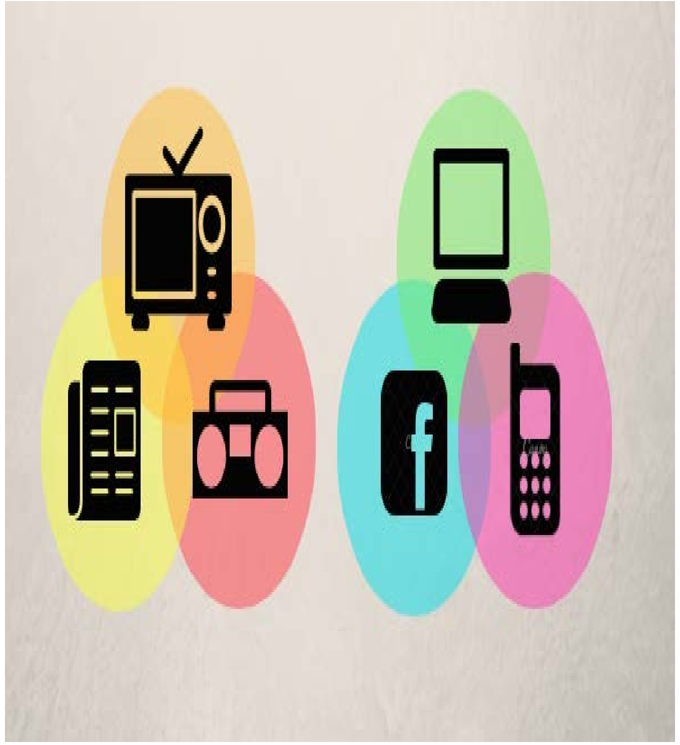
Break Up of Digital Ad Revenue (FY20)		
Website	**Amount (PKR bln)**	**Share**
Facebook	6.8	50%
Google and YouTube	5.5	40%
Other websites/platforms	1.4	10%
Total	**13.7**	**100%**

Latest Available figures: FY20

Source: Dawn

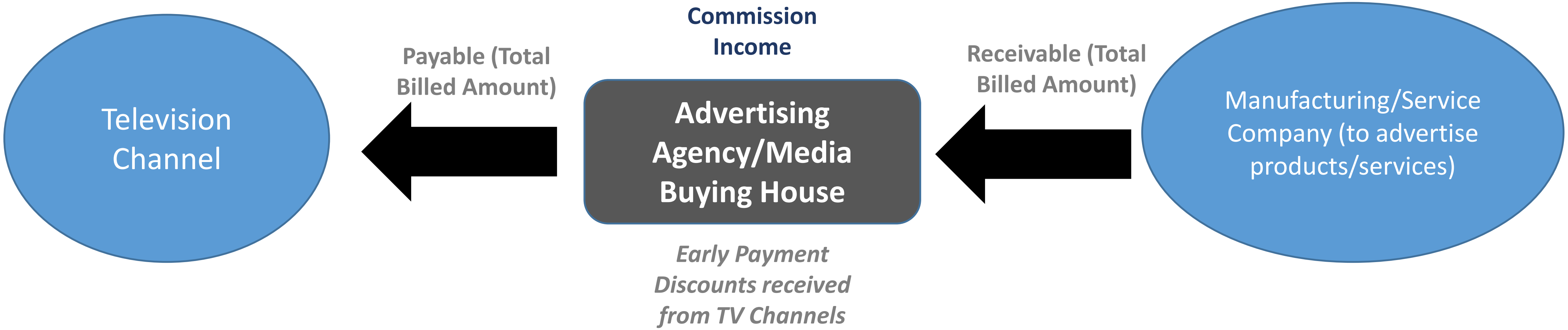
Business Risk | TV

- **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.
- **Falling Advertising Revenues:** While the digital medium is expanding and reaching a wider audience, the overall industry is experiencing a decline in terms of total advertising revenue. This decline has been witnessed particularly since FY18 with one of the reasons being reduction of ~70% in government advertising budget, which was previously a backbone of print and television industries. Simultaneously, the challenging economic environment also had a detrimental impact on advertising revenue earned from FMCGs industry. As a result, the media industry has contracted and some companies have been forced to lay off employees while others have ceased or reduced scale of operations.
- **COVID-19 Impact:** In addition, advertising revenues fell in the last year as FMCGs and other major advertisers were focused on preserving margins and profitability as demand for many consumer products fell as a result of the COVID-19 pandemic due to which advertising and marketing budgets were reduced.
- **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.



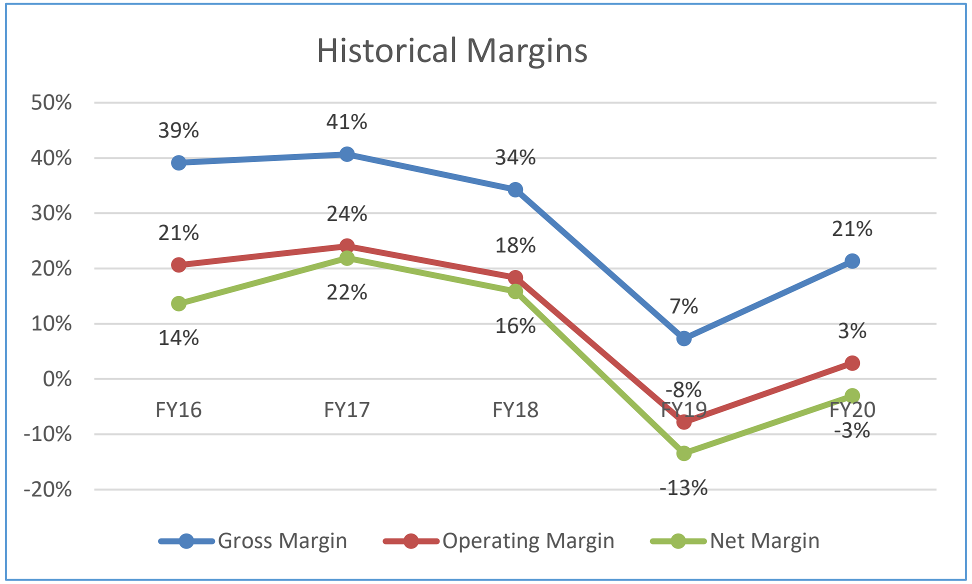
Business Risk | Media Buying

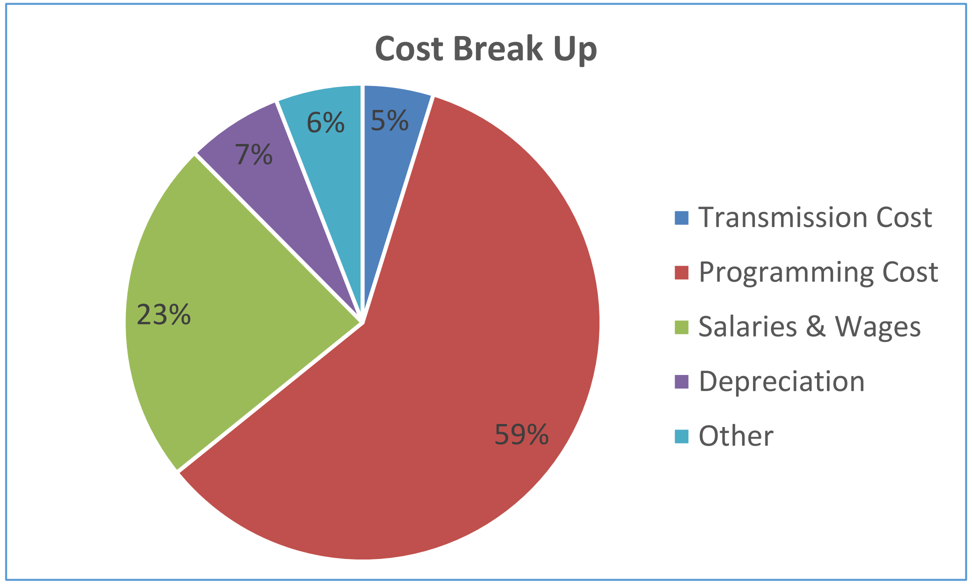
- **Reduced Client Budgets:** Due to challenging economic situation along with detrimental impact of COVID-19, there has been a significant reduction in marketing and advertising budgets of clients which have a significant contribution to media buying agencies' toplines in the form of commission revenue.
- **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 segments margins had been on an overall declining trend since FY17, with gross margin falling from ~41% to ~7% in FY19 and net margin falling from ~22% to ~-13% in FY19. This decline was largely due to falling advertising revenues and rising finance costs.
- However, in FY20, the industry experienced a recovery with gross margin increasing to ~21% due to effective cost control. This improvement also had a trickle down effect on net margins which improved but remained ~-3%,due to increase in finance costs during the period.
- The largest component within direct costs for the industry is programming cost, including both in house and outsourced program costs, which amounts to ~59% of total direct costs. In addition, salaries and wages expenses also constitute a significant ~23% of total direct costs for the industry.



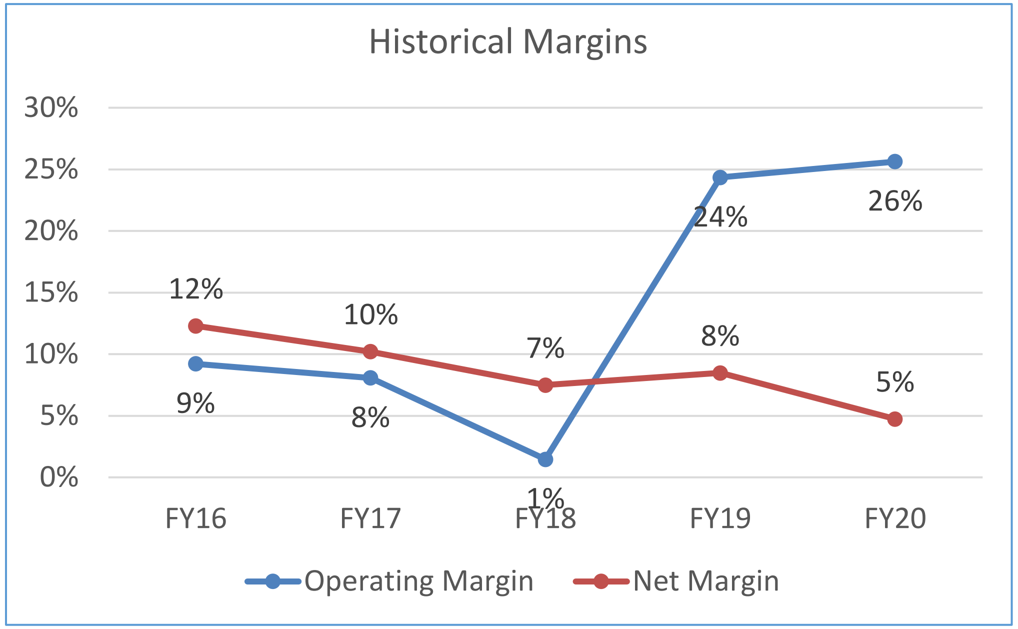


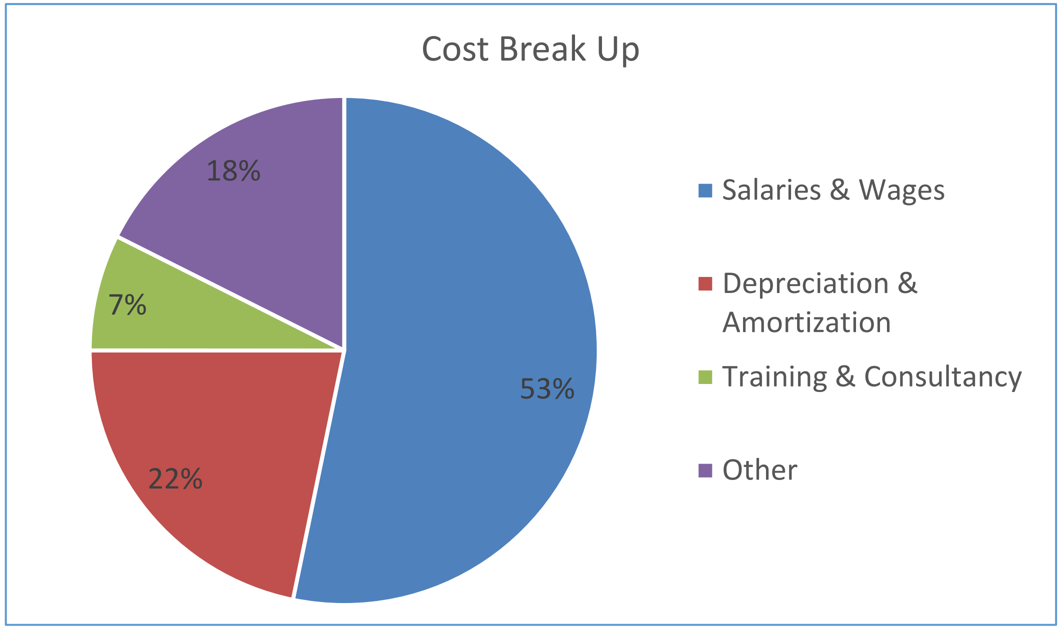
Margins and cost break up figures are representative of 1 players.

Source: PSX, PACRA Database

Margins & Cost Structure | Media Buying

- The operating margins of media buying agencies has been relatively volatile in recent years as the players are reliant on advertising budgets of clients which fluctuate due to various factors. In FY20, operating margin improved slightly from ~24% in FY19 to ~26% in FY20.
- The net margins of media buying agencies had been on an overall declining trend in recent years, falling from ~12% in FY16 to ~5% in FY19 and net margin falling from ~15% to ~-2% in FY19.
- The largest component within operational costs for the segment is salaries and wages which amounts to ~53% of total operational costs.



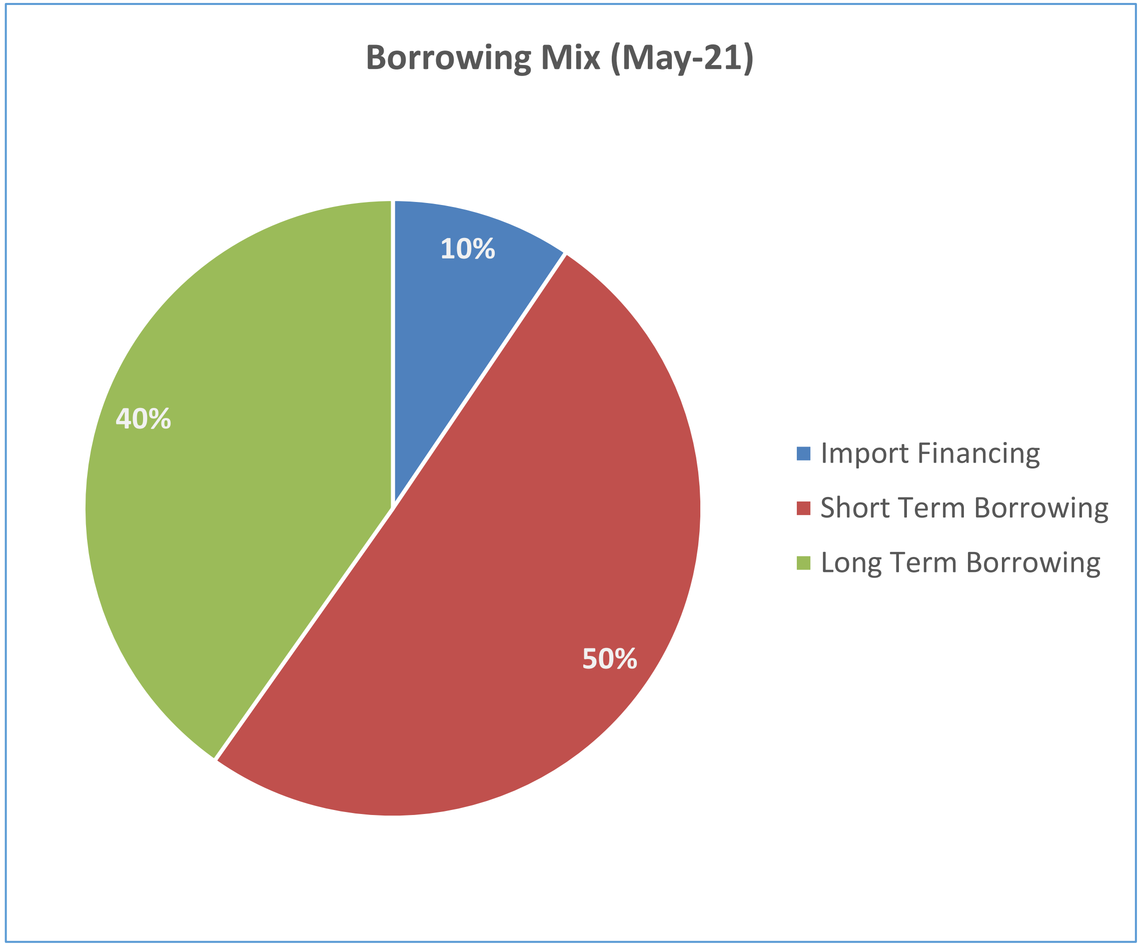


Margins and cost break up figures are representative of 1 players.

Source: PSX, PACRA Database

Financial Risk

- The total borrowing of the media industry stood at PKR~2,914mln at the end of May 2021 as compared to PKR~2,265mln at the end of June 2020, an increase of ~29%.
- The largest component is short term borrowing which stands at PKR~1,460mln and constitutes ~50% of the total borrowing.
- Meanwhile, long term borrowing stands at PKR~1,167mln and contributes ~40% to total borrowing and import financing stands at PKR~275mln and contributes ~10% to total borrowing.
- The industry's average leveraging is estimated to be ~50%



Average leveraging figure is representative of 2 players.

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:

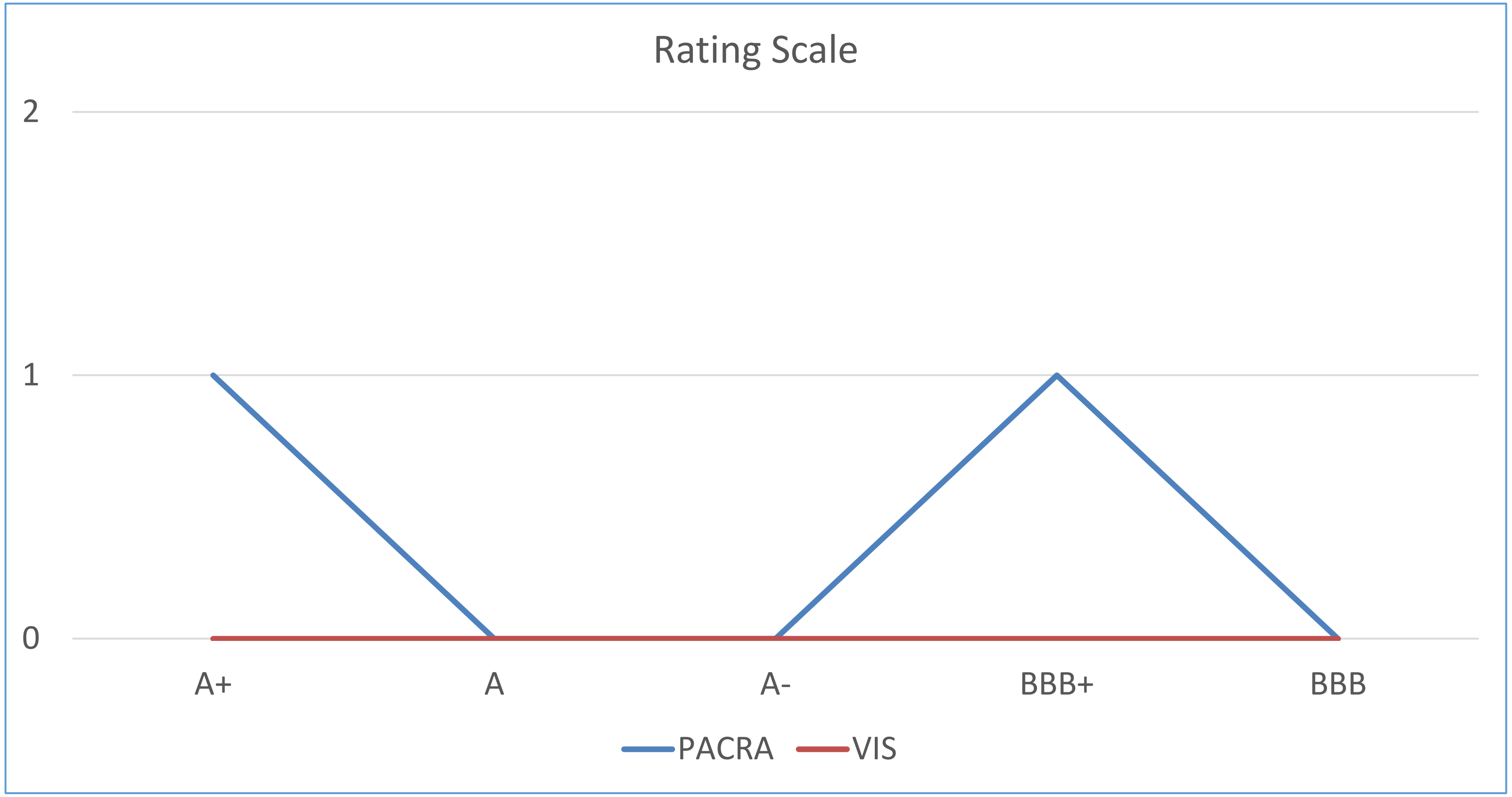
1. To improve the standards of information, education and entertainment
2. To improve access of the people to mass media at the local and community level
3. To enlarge the choice available to the people in media for news, current affairs, art, culture, sports and other areas of interest.
4. To ensure accountability, transparency and good governance by optimizing the free flow of information.

- During 2020 PEMRA issued 26 new licenses of which 16 were for satellite TV, 2 for FM radio, 6 for landing right permission and 2 for IPTV.
- Media organizations are required to abide by the Electronic Media (Programs & Advertisement) Code of Conduct, 2015 as notified by the Ministry of Information & Broadcasting. During 2019 and 2020, a total of 335 show cause notices were issued to various Satellite TV channels for violations of the Code of Conduct which resulted in total fines of PKR~23mln.
- The industry is represented by a number of organizations which includes All Pakistan Newspapers Society, Pakistan Broadcasters Association and Digital Media Association of Pakistan.
- With respect to Income Tax, the industry is under the Normal Tax Regime (NTR). In addition, a withholding tax (WHT) of 3% is also applicable with respect to provision of advertising services, excluding print and electronic media, to non-residents. In addition, Sales Tax of 17% is applicable on the services provided by the industry.

Source: PEMRA

Rating Scale

- 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

- The industry is heavily reliant on advertising revenue which has exhibited a declining trend.
- Reduction in newspaper subscriptions and average TV viewership

Threats

- Traditional mediums must adapt to changing consumption patterns of audiences or face obsoletion

Opportunities

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

Outlook: Stable

- Pakistan's economy is on the path of recovery after the decline witnessed due to the COVID-19 pandemic, which caused various industries to suspend operations and restricted demand. Likewise, it also resulted in closure of cinemas and other public gatherings which in turn had a detrimental impact on advertising revenue for the media industry.
- However, the pandemic has forced a number of people towards remote working and learning and simultaneously increased the consumption of media on digital platforms which is already the fastest growing medium in the overall media industry.
- Industrial activity has picked up in various sectors with the Large Scale Manufacturing Industries output increasing ~12.84% YoY during the first ten months of FY21. This is expected to bolster advertising spending by the fast moving consumer goods industry. In addition, among the sectors with highest growth are textile, automobile and food & beverage industries which are some of the largest contributors to advertising revenue of the media industry.
- In addition, the reduction in policy rate during previous year by 625bps has lowered finance costs for the industry. Moreover, interest rate levels are not expected to witness any major hike in the near term.
- The inflation level in the country has also declined. The average inflation rate during 11MFY21 stood at ~8.83% as compared to an average inflation rate of ~10.7% during FY20.
- The declining trend in the Advertising Expenditure is expected to reverse, considering revived economic activity and growth in FMCG Sector. The shift from Television 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

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