Malaysia entertainment and media outlook 2014-2018

Seizing the initiative: as growth goes digital, advertising spearheads the migration

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Foreword

Welcome to the Malaysian entertainment and media (E&M) outlook 2014. This booklet summarises our insights on the key trends and developments across the sector, specific to Malaysia.

This publication highlights snapshots of Malaysia's E&M market. It is an extract from the 15th annual Global Entertainment and Media Outlook 2014-2018. The Outlook is a comprehensive online source for global analysis covering both consumer and advertising spend data, with forecasts and industry trends observations.

Malaysia's E&M industry is categorised under the "up and comers" group of countries, which is expected to exhibit significant growth rates. With a CAGR of 8.9% over the period 2013-2018, this group is worthy of attention.

This nascent and emerging digital market has changed the way of doing business. It is no longer about having the right digital strategy, it is about advancing from a *digital* strategy – to a *business* strategy fit for a digital age. It is about learning to be an "Innovation Decathlete" – an organisation that excels at innovating across multiple disciplines, with a new mind set towards doing business: not just quicker, but more **targeted, experimental, experiential, inclusive and collaborative**.

In the years to come, the Malaysian E&M landscape will continue to grow and change, with 6 main underlying shifts. These are outlined and expounded upon here to give you a better idea on what the focus will be for the future.

We hope you find this publication useful and look forward to sharing our insights further with you.

Irvin Menezes
Technology Information Communication & Entertainment Leader
PwC Malaysia

Outlook Snapshot

Consumer/end-user & advertising spending

5 year historic & 5 year forecast data

54 countries

13 segments

- Internet access spending
- Internet advertising
- TV subscriptions and licence fees
- Television advertising
- Filmed entertainment
- Video games
- Music
- Consumer magazine publishing
- Newspaper publishing
- Radio
- Out-of-home advertising
- Consumer and educational book publishing
- Business-to-business

Source: PwC Global Entertainment and Media Outlook: 2014-2018, www.pwc.com/outlook

PwC's 15th Global Entertainment and Media Outlook 2014-2018: A quick overview

The Outlook is a comprehensive online source for global analysis of consumer and advertising spend data, with like-for-like, five-year historical and forecast data up to 2018, across 13 E&M segments in 50 countries, including Malaysia.

The Outlook is a leading reference for thousands of executives, not just for the E&M sector. Many from the technology, communications, retail and financial services sector, and some of the largest advertisers in the world, have also subscribed to the Outlook.

To get insights into our forecasts and industry trends, take a tour of the Outlook's extensive online functionality at www.pwc.com/outlook, and find out which subscription option suits you best.

Content guide

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1. Market forecast

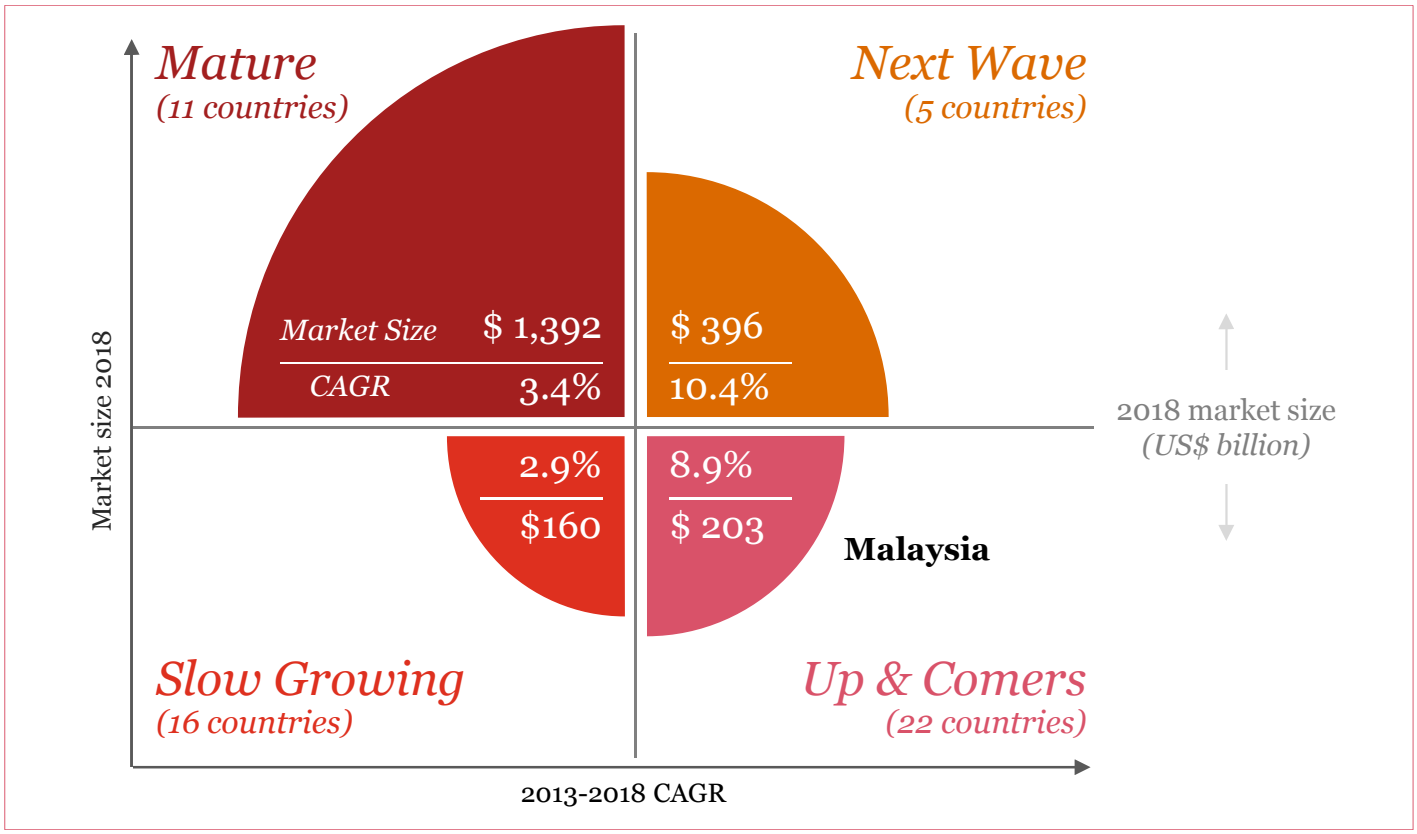
The best of both worlds

Malaysia's entertainment and media (E&M) industry is expected to grow at a CAGR rate of 8.9% over the period 2013-2018. Malaysia's E&M market is located between the "next wave" and the fast "up & comers" group due to the presence of both mature and emerging segments.

Amongst the emerging and fast growing segments is Internet access, which is expected to double in size between 2013 and 2018 to US$3.2 billion at a CAGR of 13.8%. This shows that the Malaysian consumers have taken to the internet and are shaping the country's digital space.

There are also established segments such as advertising and consumer spending, which account for around two thirds of the E&M market. They are forecasted to grow at a moderate CAGR of 5.3% and 1.5%, respectively.

Figure 1: Global E&M markets based on growth and market size



Source: PwC Global Entertainment and Media Outlook: 2014-2018, www.pwc.com/outlook

2. The internet landscape in Malaysia

Internet access

Malaysia's internet access market has developed strongly over the last decade to become one of the most developed in the Southeast Asian region, although much of the development has taken place around urban centres such as the Kuala Lumpur area. *(note: however, 60% of broadband subscriptions are outside KL & Selangor).*

Led by broadband

The backbone of the improvement on the fixed broadband side has been the deployment of the MYR11.3 billion (US$3.7 billion) High Speed Broadband (HSBB) network, a 70/30 joint venture between Telekom Malaysia and the national government.

The HSBB's fibre-to-the-home/building (FTTH/B) network was not only completed to its 1.4 million premises target on time and under budget, but has also boosted competition in the fixed broadband market by bringing in new players.

Fixed broadband subscription has reached 2.4 million in the first quarter of 2014, with the majority served by Telekom Malaysia, although other operators including Maxis, Celcom and Packet One Networks are offering services on the network.

The fixed broadband access revenue is set to increase from US$784 million to US$1 billion over the 2013-2018 period, largely on the back of adoption of higher-quality FTTH/B services.

Wireless broadband

The mobile internet access market is set to be boosted by the widespread deployment of LTE, with total LTE subscribers forecasted to increase from just 500,000 at end 2013 to 14 million by end 2018. This booming LTE market will help to drive mobile internet access revenue from US$912 million in 2013 to US$2.2 billion in 2018.

One of the major opportunities for local operators will be profiting from consolidation in the overcrowded mobile internet market. There are four mobile operators and two operational WiMAX operators in a country of just 29 million people. The government has also allocated LTE spectrum in the 2.6GHz band to eight licensees – including two new players – creating further competitive pressure on existing operators.

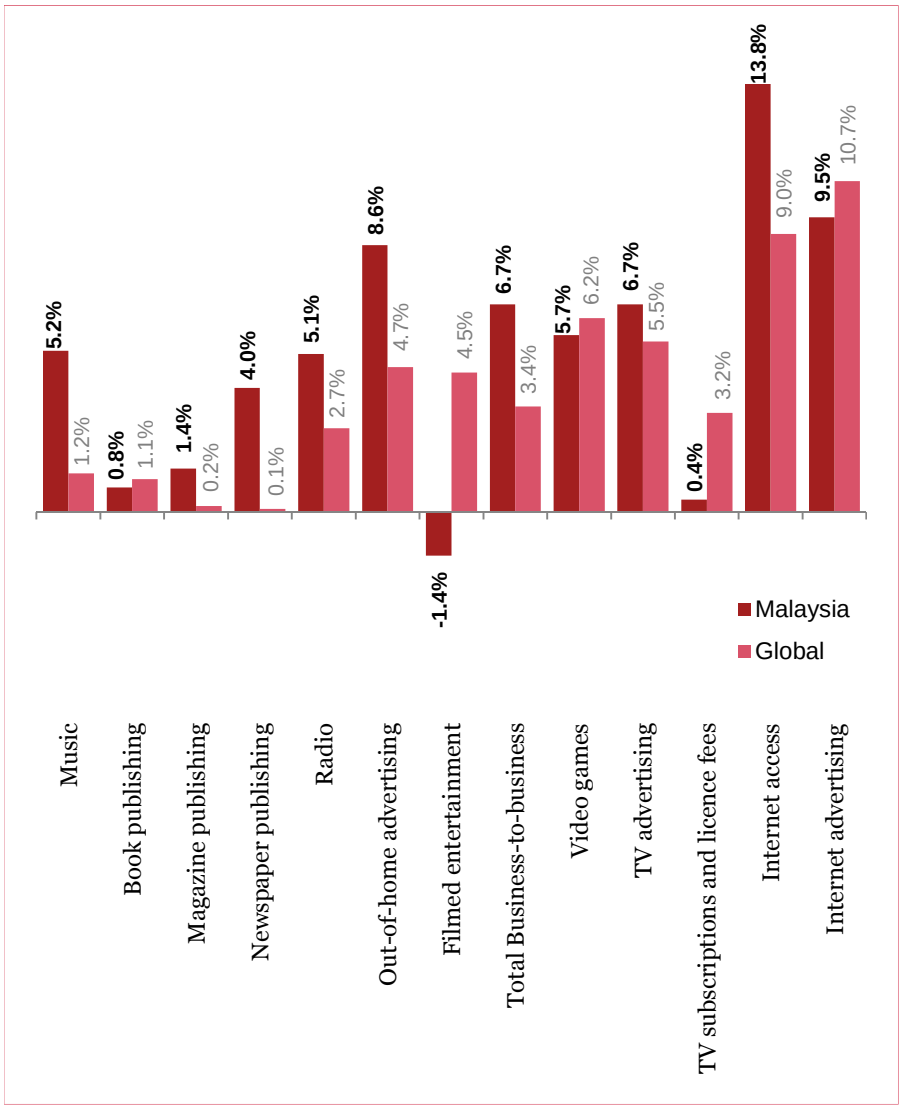
Internet advertising

Malaysia's internet advertising market was worth US$116 million in 2013, more than double its size in 2009 at US$50 million. Total internet advertising revenue is forecasted to rise by only a CAGR of 9.5% to US$182 million in 2018.

Despite Malaysia technically being a developing Asian market, its internet advertising market shares more characteristics with many of the developed markets. Broadband penetration, at 67% is higher than in most other developing markets, suggesting a potential for strong growth.

The increased adoption of smart phones will also help to spur growth, while improvements in the country's economy will mean that internet advertising revenue will also keep pace with the regional average.

Figure 2: Malaysia's E&M segment growth (CAGR 2013-2018)



Source: PwC Global Entertainment and Media Outlook: 2014-2018, www.pwc.com/outlook

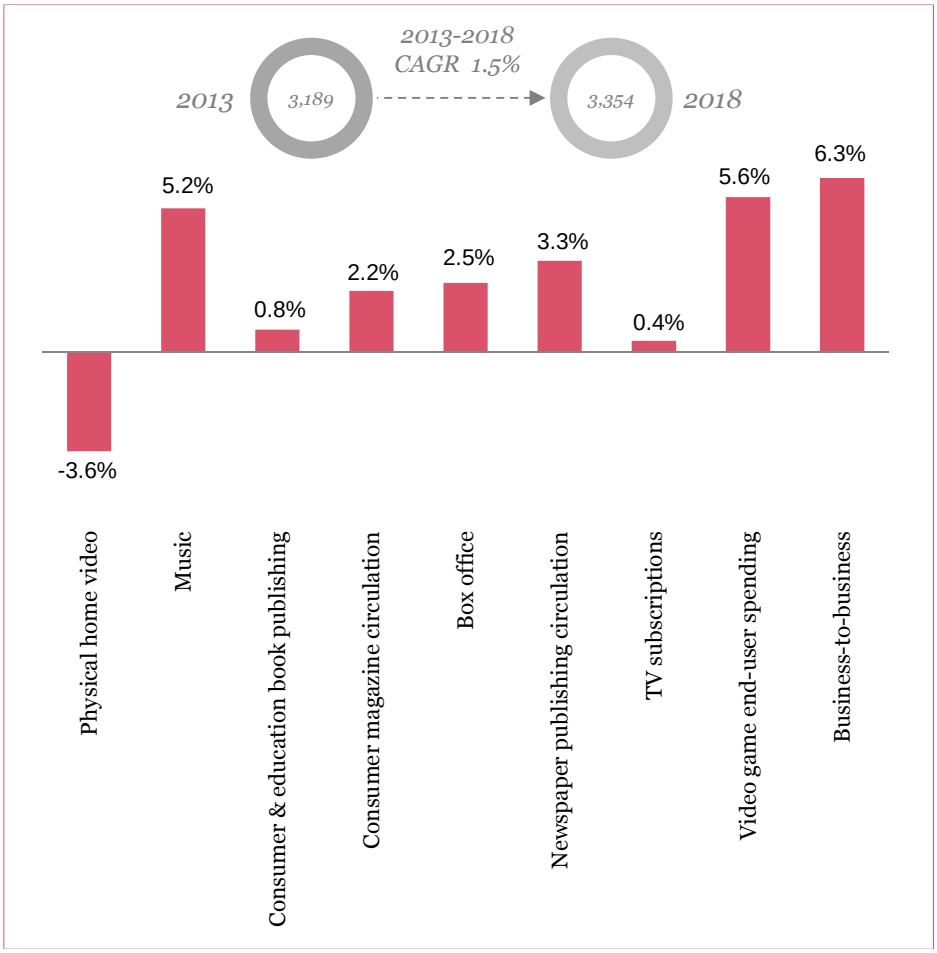
3. Consumer spending

A mature consumer market

Malaysia's E&M consumer spending is growing marginally at a CAGR of 1.5% over the 2013-2018 period, and is slightly below global average growth.

Key growth segments within consumer spending are business-to-business, music, video games and radio. Meanwhile, the major consumer spending items in 2013 to 2018 are TV subscriptions, newspaper publishing and filmed entertainment.

Figure 3: Malaysia's growth in consumer spending (CAGR 2013-2018)



Source: PwC Global Entertainment and Media Outlook: 2014-2018, www.pwc.com/outlook

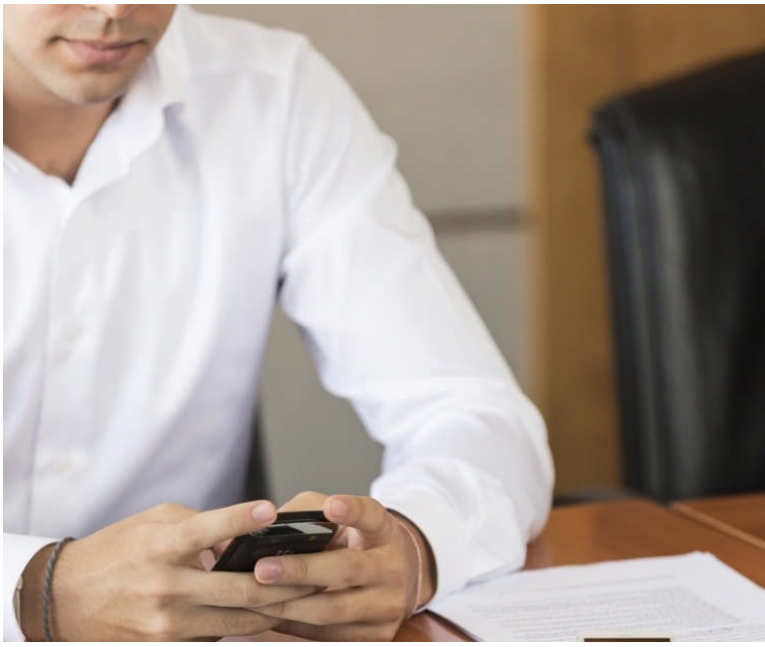
Growth segments

Business-to-business (B2B)

Malaysia's total B2B revenue was US$212 million in 2013, up 4.5% from 2012 and US$66 million higher than in 2009. Total B2B revenue will reach US$481 million in 2018, rising by a CAGR of 6.3% from 2013 to 2018.

Total business information revenue is comfortably the largest B2B segment, accounting for 95% of total B2B revenue in 2013. This segment is forecasted to grow by a CAGR of 6.2%, to US$271 million in 2018. The business information segment will benefit from Malaysia's 7.6% annual increase in GDP throughout the forecast period.

The Malaysian Digital Association will promote the switch to digital platforms further with its agreement with comScore to provide the association and its members with statistical reports and analytics packages to help Malaysian publishers understand and quantify their digital audiences.



Video games

Total video games revenue in Malaysia was US$227 million in 2013, up from US$191 million in 2009, and is forecasted to grow by a CAGR of 5.6% to reach US$298 million in 2018.

Increasing smartphone penetration will drive mobile games revenue, which will reach US$80 million in 2018, up from US$53 million in 2013, at a CAGR of 8.6%. Malaysia also has a large young population, with 16.5 million people below the age of 30 as of 2013, meaning there is a large growth opportunity for video games fuelled by social gaming especially online games.

Large segments

TV subscriptions

Malaysia's pay-TV penetration of TV households is only set to rise to 58.7% in 2018, compared with 56.9% in 2013. The satellite sector will continue to dominate but organic subscriber growth will be difficult: most of the expansion will be focused on the IPTV sector which is forecasted to grow at a CAGR of 10.9% over 2013 to 2018.

In January 2014, The Malaysian Communications and Multimedia Commission (MCMC) selected Puncak Semangat Sdn Bhd as the successful bidder to build, operate and manage the infrastructure for the digital terrestrial television broadcast (DTTB) services in Malaysia. The DTTB services is expected to be completed and implemented by 2017. This will offer a more compelling free-to-air DTTB option and will provide more competition to subscription TV.

Although competition is beginning to emerge in Malaysia's pay-TV market, Astro All Asia Networks still dominates. Astro will have 3.9 million subscribers as of end 2014 up 11.4% year-on-year. Astro has resisted the competition from cable and IPTV, largely by offering a comprehensive range of contents and exclusive popular local-language content.

Newspaper publishing

Newspapers have retained the largest share of the country's advertising market, bringing the newspaper sector healthy year-on-year growth for the foreseeable future. Total newspaper revenue (combining both circulation and advertising revenue) is forecasted to grow from US$2.1 billion in 2013 to US$2.6 billion in 2018, at a CAGR of 4.0%.

Circulation has risen: the average daily unit circulation total is forecasted to grow at a CAGR of 1.6% between 2013 and 2018.

In 2013, total newspaper circulation revenue was US$585 million, while total newspaper advertising revenue was US$1.5 billion: advertising is set to increase its share of total newspaper revenue, growing at a CAGR of 4.3% between 2013 and 2018, compared with 3.3% CAGR for circulation.

Younger consumers are turning more and more to online sources for news. Digital newspaper advertising revenue reached US$15 million in 2013, which was 1% of the total newspaper advertising revenue. The publishers' challenge will be to snag these younger audiences while continuing to grow the print sector.

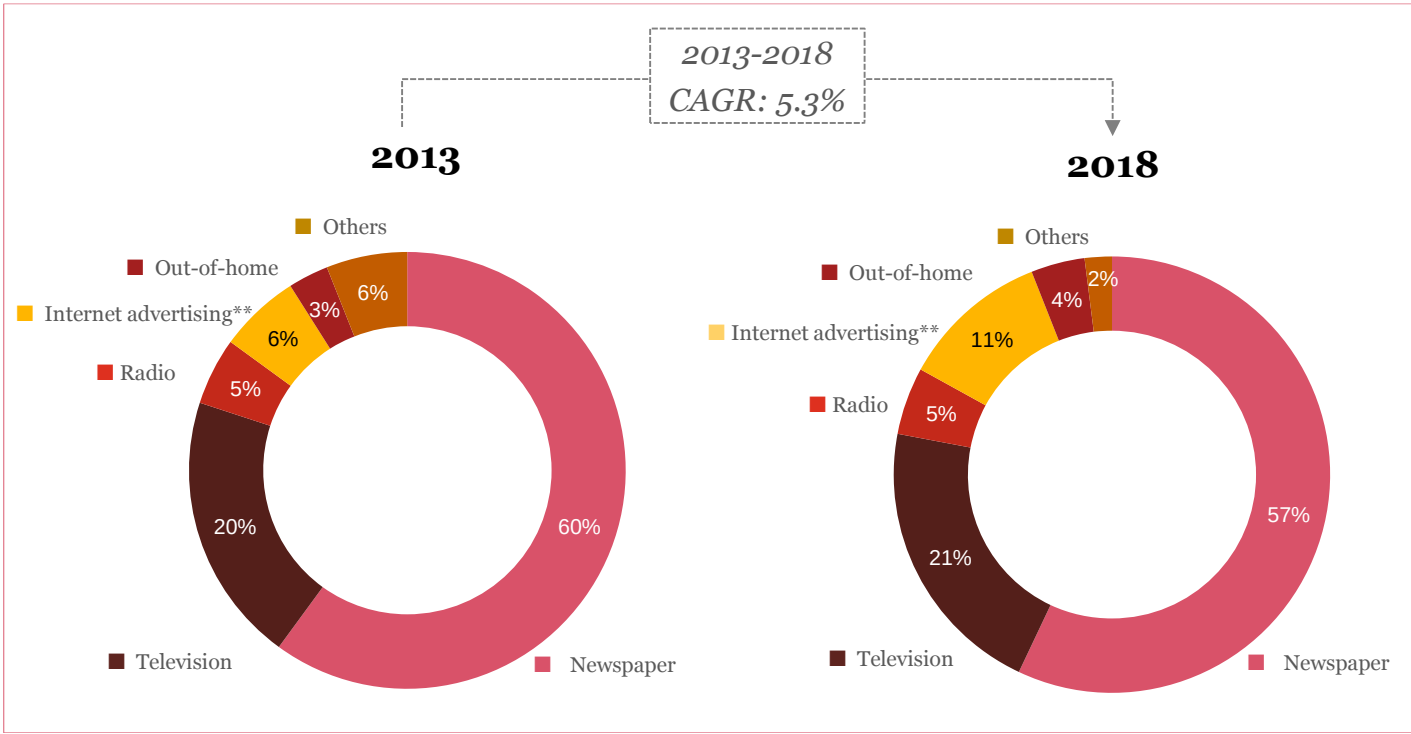
4. Advertising by segment

Slightly faster than consumer spending

Malaysia's advertising revenue is projected to experience stable growth at CAGR of 5.3% over 2013-2018, with limited changes in the share of total advertising expenditure. Newspaper advertising is expected to remain the dominant platform over the next five years, followed by television.

B2B and internet advertising are close contenders for third place in the years up to 2018, with a forecasted CAGR of 7.3% and 9.5% respectively over the period.

Figure 4: Malaysia's advertising spending by platform (share of total spending)*



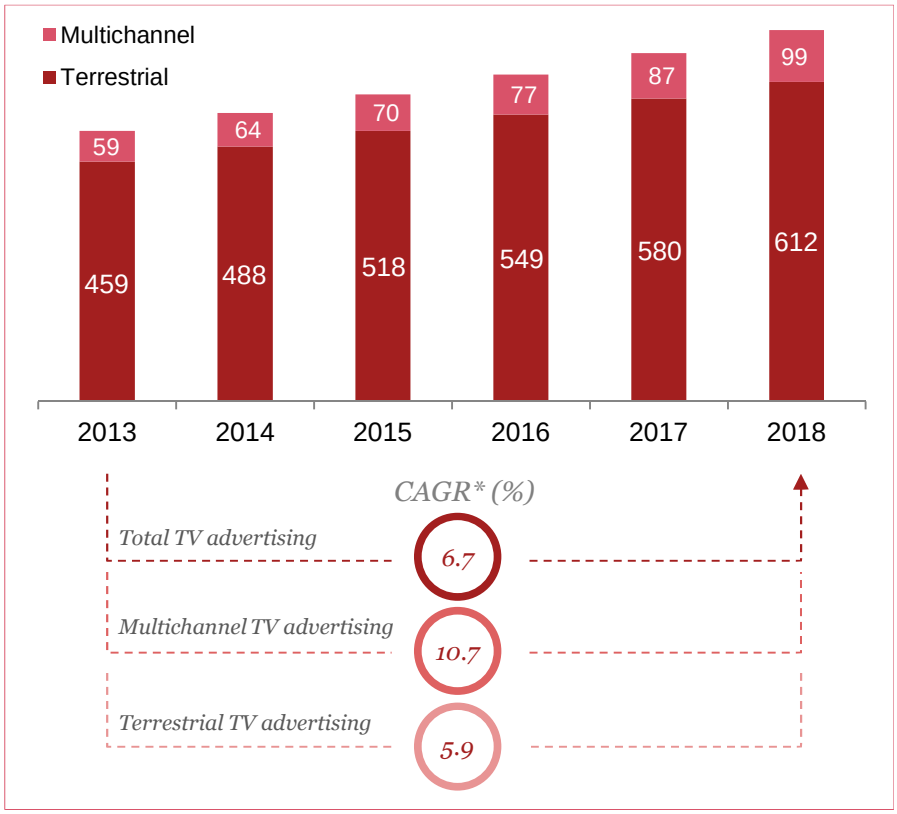
* *Each advertising segment only includes traditional advertising revenues.*

** *All digital advertising revenues across all segments are aggregated in "Internet advertising".*

Source: PwC Global Entertainment and Media Outlook: 2014-2018, www.pwc.com/outlook

Advertising at a glance

Figure 5: Malaysia's total TV advertising spending (US$million)



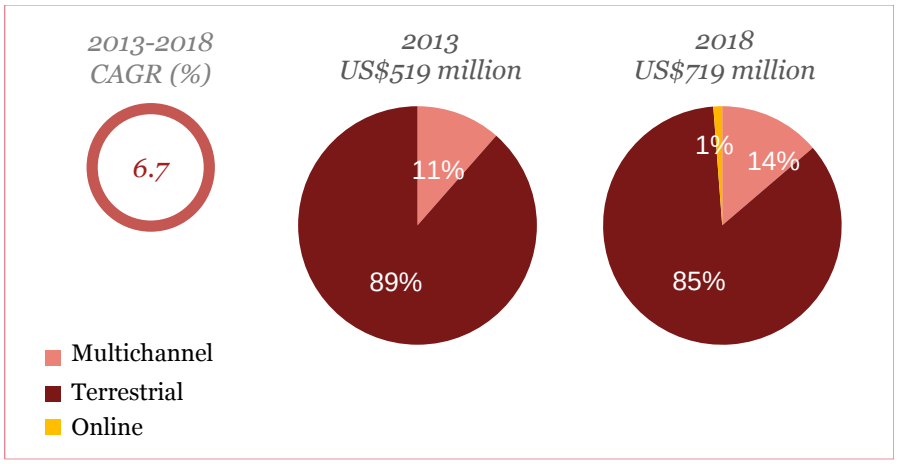
Source: PwC Global Entertainment and Media Outlook: 2014-2018, www.pwc.com/outlook

- Total annual TV advertising revenue is expected to grow at a CAGR of 6.7%, between 2013 – 2018.
- Multichannel advertising revenues will see considerable growth over the period, with a CAGR of 10.7%, rising to US$99million in 2018.
- Terrestrial advertising is forecasted to grow more moderately at a CAGR of 5.9%.
- Online TV advertising is still small but is expected to grow at a CAGR of 73.5%.

* *Forecasts are built around factors likely to have an impact on future trends. They include economic, demographic, behavioural, technological, competitive and government legislation.*

Advertising at a glance (cont'd)

Figure 6: Malaysia's share of TV advertising spending

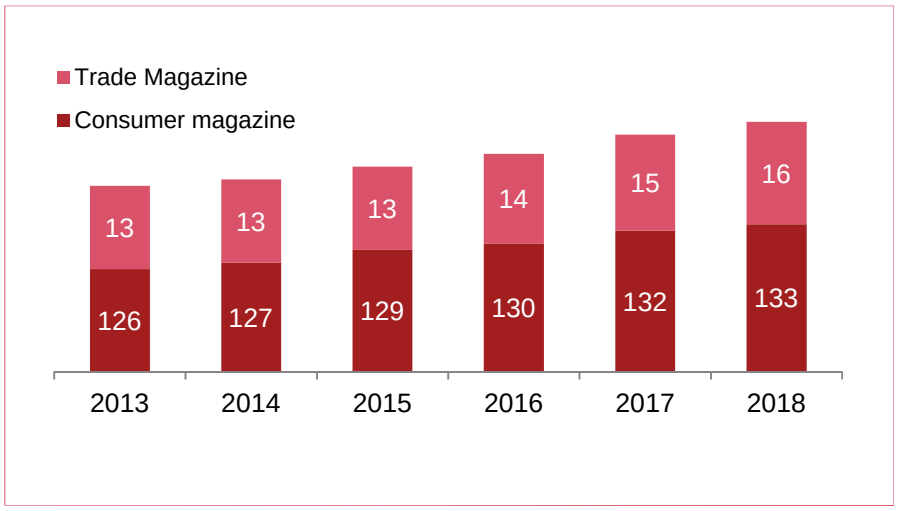


Source: PwC Global Entertainment and Media Outlook: 2014-2018, www.pwc.com/outlook

- Terrestrial advertising still dominates the advertising landscape in 2018, with 85% market share.
- Despite higher growth, multichannel share of TV advertising will only rise to 14%, up from 11% in 2013.
- Online TV advertising is only expected to take up 1% of TV advertising spending in 2018.

This section includes revenues only from broadcast TV viewed online on broadcaster-owned websites, and excludes TV content viewed on sites not owned by broadcasters (such as YouTube, which is included under video internet advertising).

Figure 7: Malaysia's total magazine spending (US$ million)

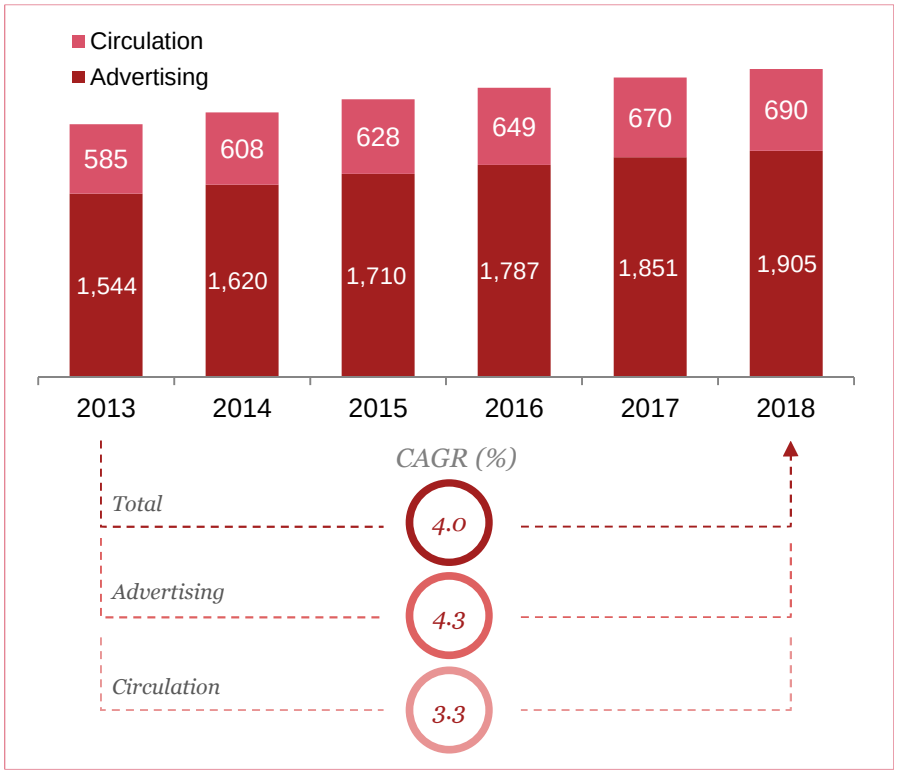


Source: PwC Global Entertainment and Media Outlook: 2014-2018, www.pwc.com/outlook

- Magazine revenue is expected to grow at a CAGR of 1.4% between 2013 and 2018.
- Advertising accounts for 31% of total magazine revenue and is forecasted to have the same shares up until 2018.
- Digital consumer magazine revenue is expected to remain minimal, making up 4.7% of total magazine revenue by 2018.
- Trade magazine revenue is expected to rise to US$ 15 million in 2018, or 10.1% of total magazine revenue.

Advertising at a glance (cont'd)

Figure 8: Malaysia's total newspaper publishing spending (US$ million)

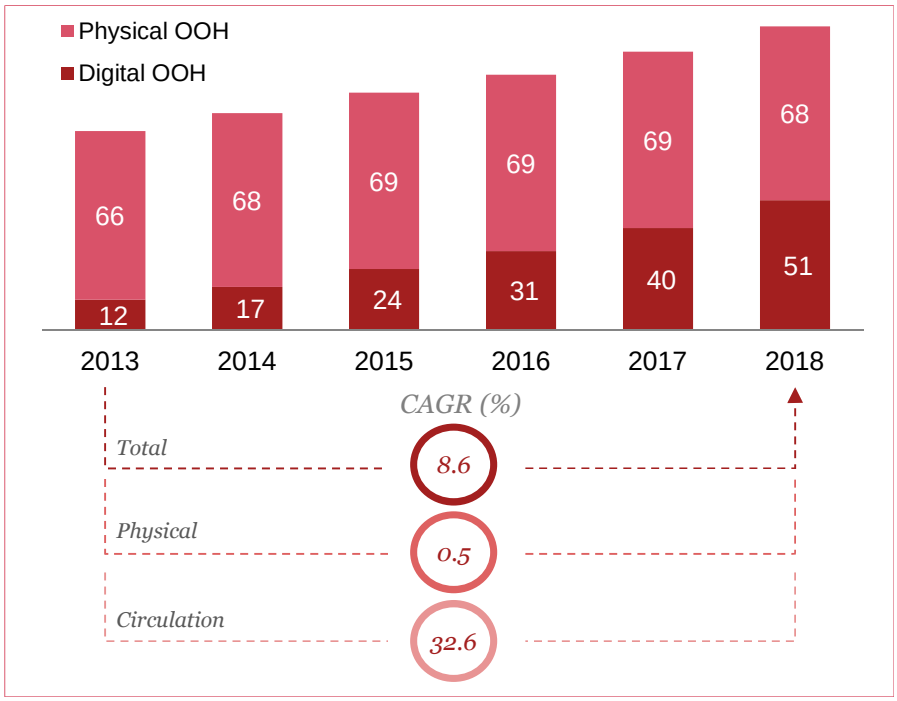


Source: PwC Global Entertainment and Media Outlook: 2014-2018, www.pwc.com/outlook

- Newspapers have retained the largest share of the country's advertising market.
- Total newspaper revenue is forecasted to grow at a CAGR of 4.0% between 2013 and 2018.
- Newspaper advertising revenue is expected to grow at a CAGR of 4.3% over the same period, compared with 3.3% CAGR for circulation.
- Digital newspaper advertising revenue to grow by 30% CAGR over the same period, accounting for 3% total newspaper advertising in 2018, up from 1% in 2013.

Advertising at a glance (cont'd)

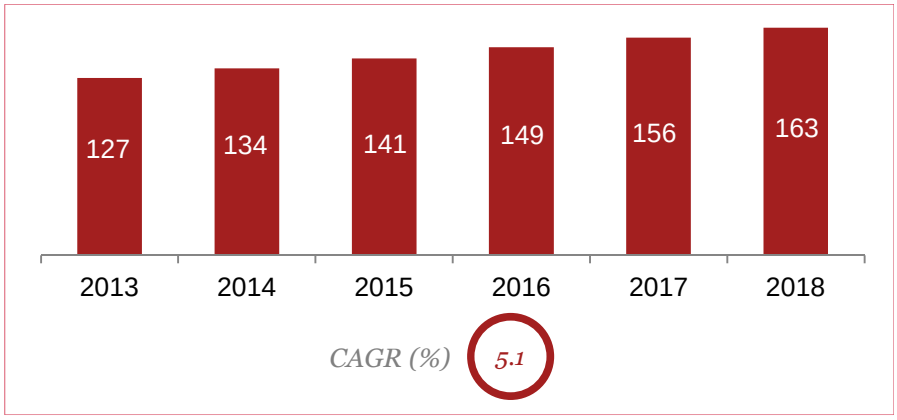
Figure 9: Malaysia's total out-of-home spending (US$ million)



Source: PwC Global Entertainment and Media Outlook: 2014-2018, www.pwc.com/outlook

- Malaysia's OOH advertising revenue is forecasted to grow at a CAGR of 8.6%.
- Physical OOH spending growth, including outdoor billboard, is forecasted to be minimal over the next 5 years.
- Digital OOH advertising revenue is expected to rise from US$12 million in 2013 to US$51 million in 2018, accounting for 43% of the segment's total revenue at the end of the forecast period.

Figure 10: Malaysia's total radio spending (US$ million)



Source: PwC Global Entertainment and Media Outlook: 2014-2018 www.pwc.com/outlook

- Malaysia's radio advertising will register moderate growth over the next few years (2013-2018) at a CAGR of 5.1%.

5. Digital vs non-digital

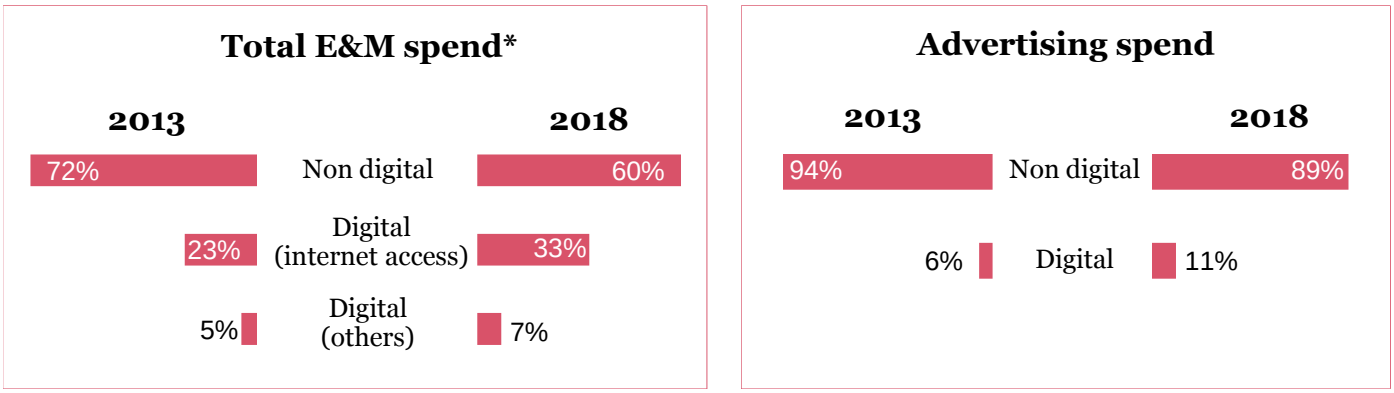
Fast growing, but digital spending is still small

Even though traditional, non-digital media will continue to dominate overall E&M spending through the coming five years, the growth will be concentrated in digital platforms, with revenues increasing at a CAGR of 17.6%. The bulk of the revenues will be from the rise in internet access.

Malaysia's digital consumer spending and presence in the advertising space is small and in its infancy. For example, internet advertising accounts for 6% of total advertising expenditure in 2013 and is only expected to increase to 11% in 2018.

Much of Malaysia's digital potential remains untapped despite the growth in internet access and mobile Internet penetration. To harness this segment and compete effectively in the digital space, E&M companies must get connected to consumers. The explosion in their media choices propelled by the rise of the internet has put consumers increasingly in control over the information they can access.

Figure 11: Malaysia's share of digital and non-digital spending



** Digital spending includes spending on Internet access, consumer spending on digital content and digital advertising spending*

Source: PwC Global Entertainment and Media Outlook: 2014-2018, www.pwc.com/outlook

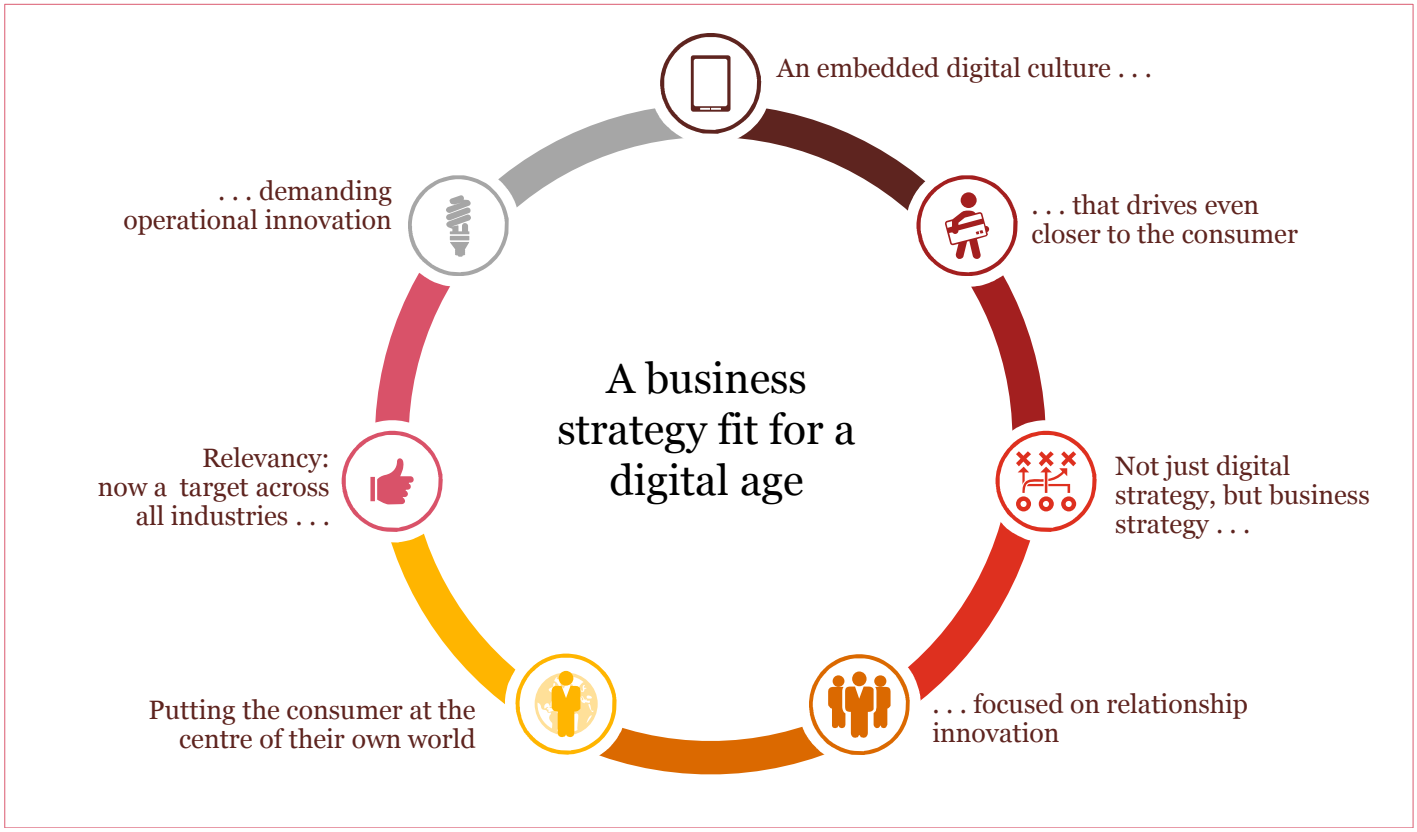
6. A strategy fit for a digital age

Digital success is not just about technology. It's about applying a digital mindset to build the right behaviour. The underlying shift triggered by digital is profound: an irreversible migration to a more complicated world, where businesses move faster and sustaining competitive advantage becomes harder.

Consumers have realised they can be at the centre of their own world of entertainment and media, constantly enjoying content experiences that are shaped around them.

Delivering such an experience demands more than crunching data: it means getting to know people as individuals, and them knowing you back. When this happens, the result is relevancy – which brings the company that delivers it a disproportionate share of that individual's lifetime value.

So businesses no longer need a digital strategy. What they need is a business strategy fit for a digital age – one that looks beyond digital innovation to target relationship innovation.



Source: PwC Global Entertainment and Media Outlook: 2014-2018, www.pwc.com/outlook

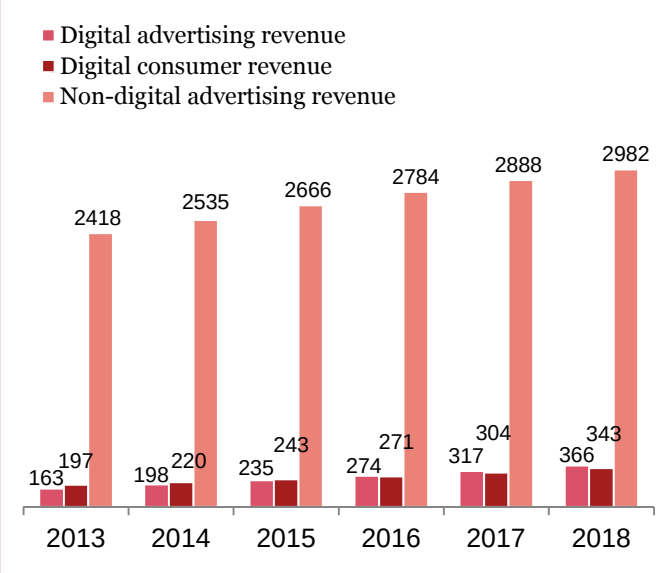
7. Insights into the future of Malaysia's E&M market

Over the coming five years, Malaysia's entertainment and media revenues will continue to grow – in line with its historical trend – ahead of Malaysia's GDP. But this apparently consistent picture masks deep discontinuities, as digital drives revenue growth and spending diverges across different segments. In 2018, non-digital media will continue to account for the largest share of Malaysia's spending; newspapers and TV will still be the biggest advertising medium in Malaysia. But – respectively – digital revenues and internet advertising will have slightly narrowed the gap. This evolving environment will be characterised by six main underlying shifts.

Advertising revenue is outpacing consumer revenue in the migration to digital

Contribution of digital revenue from advertising in 2013 of 6% will rise to only 11% by 2018. In contrast, digital entertainment and media consumer revenue in 2018 will account for just 10% of total entertainment and media consumer revenue in Malaysia. Meanwhile, non-digital advertising revenue will rise at a CAGR of 4.3% through the forecast period.

Figure 12: Malaysia's total digital and non-digital spending (US$ million)

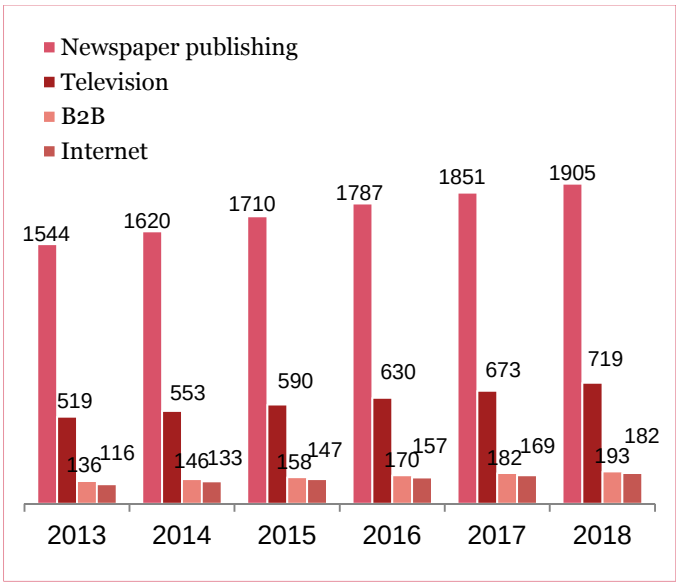


Source: PwC Global Entertainment and Media Outlook: 2014-2018, www.pwc.com/outlook

Newspaper and TV advertising will remain as the largest advertising segment

Whilst the global figures point to 2018 as the tipping point for internet advertising overtaking TV as the largest advertising segment, Malaysia's figures shows that internet advertising will only contribute 11% of total advertising spend by 2018. Nevertheless, Malaysian businesses should start considering the opportunity internet advertising offers.

Figure 13: Malaysia's total advertising spending by platform (US$ million)

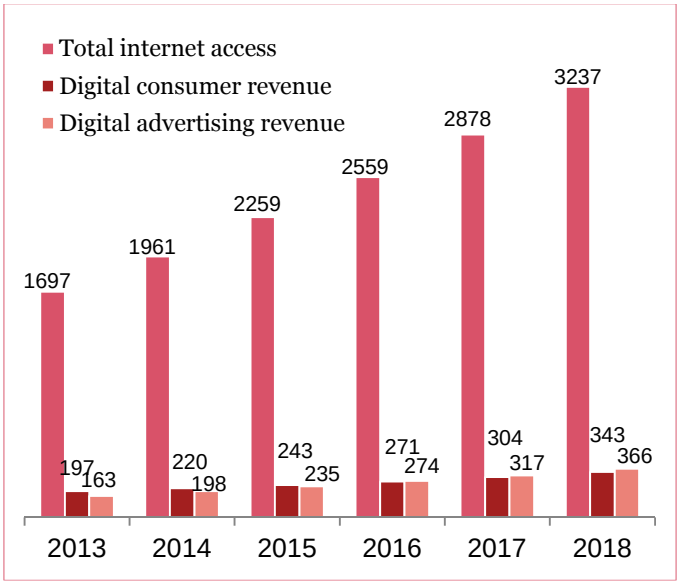


Source: PwC Global Entertainment and Media Outlook: 2014-2018, www.pwc.com/outlook

The biggest challenge is monetising the digital consumer

Although consumers are embracing the digital content experiences, consumer revenues from digital sources – excluding internet access – will reach only 10% in 2018 from 7% in 2013. More must be done to encourage not just consumers' digital behaviours, but their digital spending. Learning new ways of monetising digital content will become increasingly important as traditional business to consumer companies traverse to business to business operating models to bolster income profiles. The impact of this will reach far into operating models, ways of working and will disrupt entertainment and media companies.

Figure 14: Malaysia's total digital spending (US$ million)

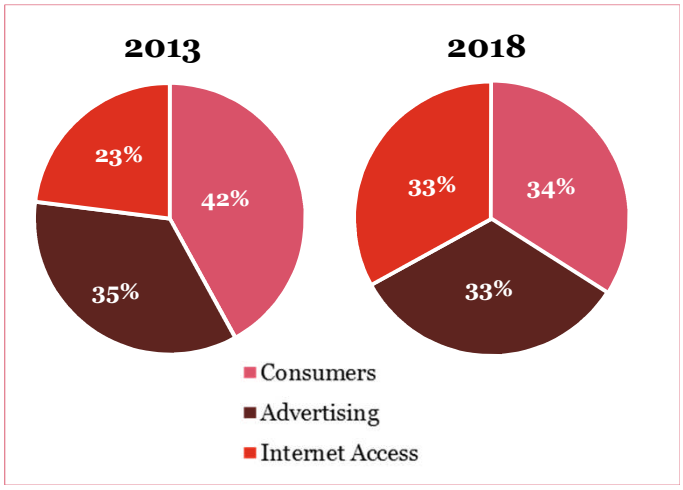


Source: PwC Global Entertainment and Media Outlook: 2014-2018, www.pwc.com/outlook

Revenue growth is being driven by Internet access rather than content spending

A concern for content providers is that spending on Internet access may be taking share away from spending on content and services. In 2013, 42% of total entertainment and media revenue came from consumers, 35% from advertising and 23% from internet access. But by 2018, Internet access's share will rise to 33%, while the proportion from consumers will slip to 34%. Content providers must have a strategy for a digital age to remain relevant.

Figure 15: Malaysia's share of total E&M revenue



Source: PwC Global Entertainment and Media Outlook: 2014-2018, www.pwc.com/outlook

Rising consumer revenue may be driven by 24/7 success

Two of the best-performing consumer sub-segments globally use a model by which consumers pay for round-the-clock access: digital music streaming and electronic home video OTT/streaming. These point the way forward for Malaysian businesses to consider a 24/7 operating model that reflect customer needs, be that in relation to payment, access, search or engagement.

One-third of revenue growth from consumers and advertising will be digital

Of the US$2billion growth in total entertainment and media consumer and advertising revenue from 2013 to 2018, US$700 million will come from digital sources. So, 35% of Malaysia's entertainment and media growth - approximately only one in every three extra dollars - will be from digital. The transition in the migration to digital is happening in Malaysia, but relative to global figures, it is happening at a much slower pace. Digital growth, both in terms of consumption and advertising revenue can be correlated to broadband and wireless broadband penetration. Malaysian businesses should monitor this closely to be able to maximise their digital potential.

Let's talk

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