INDOPREMIER

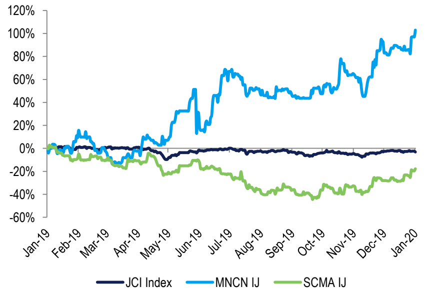
Media

Overweight

Sector Initiation | 20 January 2020

Sector Index Performance (JAKTRAD)

	3M	6M	12M
Absolute	-7.2%	-8.4%	-5.8%
Relative to JCI	-8.1%	-5.1%	-2.7%



Summary Valuation Metrics

P/E (x)	Dec-19F	Dec-20F	Dec-21F
MNCN IJ	12.3	10.8	9.6
SCMA IJ	18.3	14.4	13.1
EV/EBITDA (x)	**Dec-19F**	**Dec-20F**	**Dec-21F**
MNCN IJ	7.9	6.7	5.9
SCMA IJ	11.9	9.3	9.1
Div. Yield	**Dec-19F**	**Dec-20F**	**Dec-21F**
MNCN IJ	3.1%	4.1%	4.6%
SCMA IJ	4.1%	5.2%	5.7%

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A change for the better

- Both MNCN and SCMA have agreed to increase rate cards in FY20F, a move that shall translate to solid earnings growth (10-18% FY20-21F).
- Both incumbents also have been aggressively expanding its digital portfolio. How they can monetize their existing content library is key.
- Rate card increase is near-term catalyst, expansion to digitals as long-term catalyst. Initiate with an Overweight call; SCMA as preferred pick.

Incumbents' rate card increase is a game changer

In Dec 2019, MNCN and SCMA announced their plan to implement rate card synchronization in 2020F. As such, we estimate FTA TV revenue to improve by 5-10% yoy in 2020F, while FTA TV costs shall remain relatively stable, we expect MNCN's and SCMA's core earnings growth to increase by 18% and 27% yoy, respectively in 2020F, strongest we have seen in the past few years. Risks are advertisers may shift to other FTA TV players (i.e. VIVA) or even worse into digitals, but MNCN's and SCMA's joint dominance (65% market share) shall minimize this risks, in our view.

The shift to digitals continues, although FTA TV shall remain dominant

In the past few years, advertisers have been rapidly shifting their advertising budget to digitals from FTA TV. As a result, two largest FTA TV players under our coverage SCMA and MNCN combined, grew by a mere 4.7% revenue CAGR in 2014-19F (vs. 10.9% CAGR in 2009-14). While we believe FTA TV shall remain dominant in the next couple of years, we have seen major FTA TV players showing urgency to invest in digitals.

Investing in OTT; a big gamble with huge upside

In 2Q19, SCMA acquired Vidio.com from its parent company EMTK with a plan to enlarge its paying subscriber base, while in Aug 2019, MNCN launched RCTI+ as an AVOD platform, although they have also mentioned plans to charge subscription fees to more premium contents. While SVOD is indeed the way to the future in our view, it requires a lot of investment to produce original contents for differentiation purposes, hence may erode parent company's near-term profitability.

Initiate sector with an Overweight call; SCMA as our preferred pick

Indeed valuation has de-rated sharply in the last couple of years. Currently SCMA is trading at 13.6x 12M forward P/E (37% discount from 3-year mean) while MNCN is trading at 9.8x P/E (2% discount); likely reflecting the slowing growth in the FTA TV industry. We see that the companies' investment in digitals as necessary for long-term sustainability, as it will be the major catalyst for growth going forward. With huge growth potential and definite improvements in FTA, we initiate the sector with an Overweight call with SCMA as our preferred pick.

Rate card increase between incumbents is a game changer

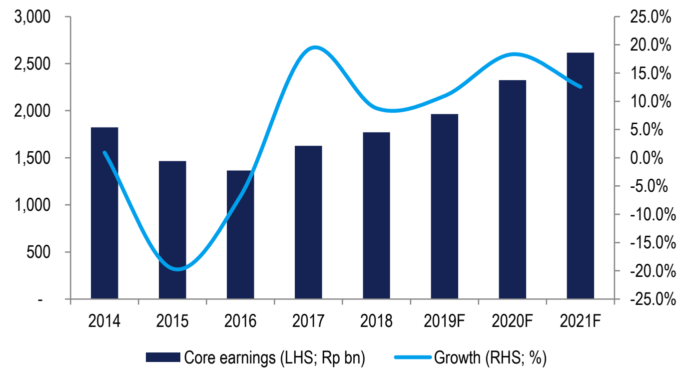
In Dec 2019, MNCN and SCMA announced that they are collaborating with each other in order to gain mutual benefits and avoid unhealthy competitions. According to the companies the collaboration will cover the following grounds:

1) FTA TV rate card synchronization between the two companies. Most likely setting a floor price to cap the minimum rate card, preventing price war between them.
2) Standardization of revenue collections days between MNCN and SCMA.
3) Creating a joint dedicated sales force to bundle and monetize unoccupied ad slots between the two companies.
4) Creating a joint venture (JV) for content production and licensing, specifically for their OTT platforms. Most likely a 50/50 split between them.
5) Shares swap agreement between MNCN and SCMA.

This collaboration between the two incumbents will have a huge effect on the sector, as they remain by far the two largest media companies in the country, controlling a total of 6 FTA TV channels with a total audience share of 65%. In the recent press conference, MNCN has stated its plan to increase rate card by c.30% in 2020F. Our recent talks with SCMA also suggest that SCMA also plans to increase rate card by c.30% starting in Mar 2020.

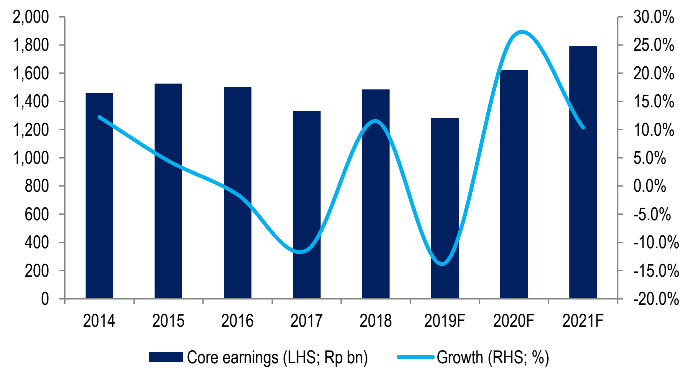
If this happens, it will have a huge impact towards both MNCN's and SCMA's top line growth going forward, especially as we estimate that rate card has been relatively flattish (or only slightly increasing) in the past few years. As such, we estimate MNCN's and SCMA's FTA TV revenue to improve by 5-10% yoy in 2020F (implying a 10% rate card increase, a more conservative estimate compared to both companies' guidance), while at the same time, we expect FTA TV costs shall remain relatively stable which shall translate to MNCN's and SCMA's earnings growth of +18.3% and +26.7% yoy, respectively in FY20F, strongest we have seen in the past few years.

Fig. 1: MNCN's earnings and earnings growth forecast



Sources: Company, IndoPremier

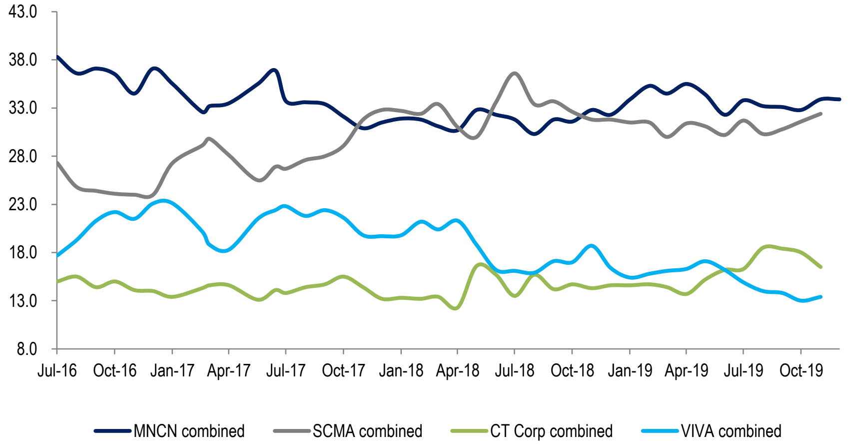
Fig. 2: SCMA's earnings and earnings growth forecast



Sources: Company, IndoPremier

Risk is that this rate card increase will create an even wider rate card gap between the two incumbents with the other FTA players, i.e. VIVA, which may lead to some advertisers shifting to the latter. Even worse, advertisers may shift faster to digitals, if rate card increase is viewed to be too excessive. Nonetheless, MNCN's and SCMA's continued dominance shall minimize this risk, in addition to its wider target market audience of these two incumbents.

Fig. 3: Media sector's all time audience share trend by company

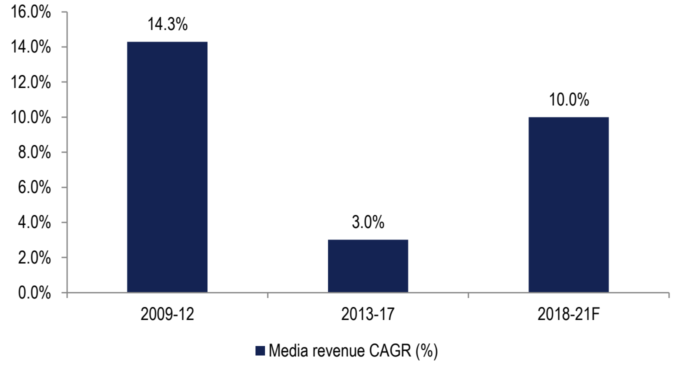


Sources: Nielsen, IndoPremier

Rise of digital advertising

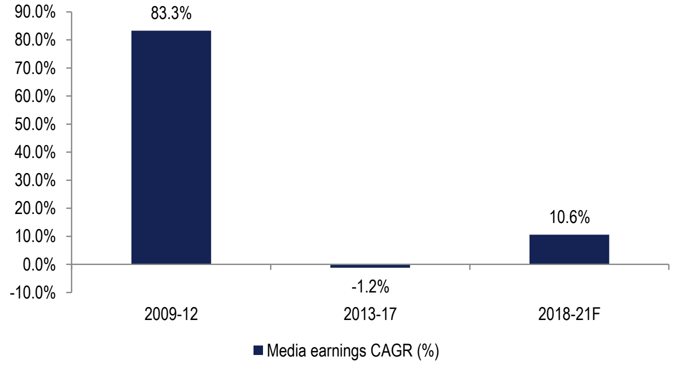
The past few years mark an inevitable decline of the FTA TV industry
Despite the continued dominance of FTA TV in Indonesia's media industry, we cannot ignore their gradual decline in market share in the recent years after the introduction of digital advertising. In the past few years, advertisers have been rapidly shifting their advertising budget to digitals from FTA TV. As a result, two largest FTA TV players under our coverage SCMA and MNCN combined, grew by a mere 4.7% revenue CAGR in 2014-19F (vs. 10.9% CAGR in 2009-14). This is in line with FTA industry adspend growth of merely 12.8% CAGR in 2015-18 (according to Euromonitor), while digital adspend grew by a staggering 49.4% CAGR in the same period, albeit coming from a low base.

Fig. 4: Revenue CAGR slowed down drastically after rise of digital advertising around 2012-13, but we are starting to see pick ups



Sources: Company, IndoPremier

Fig. 5: Earnings is also starting to turn around, albeit large investments in digitals is still hindering growth



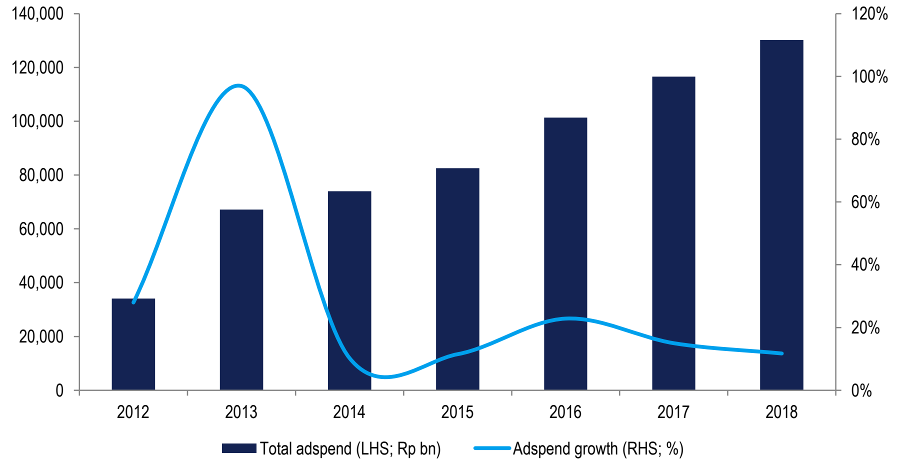
Sources: Company, IndoPremier

We believe that with the rising popularity of OTT and e-commerce platforms in the country, this trend will surely continue going forward and it will at least match if not surpass FTA in the long run. At the current pace it is going now, we estimate it will only take around 3-4 more years for this to happen. If we compare to China for example, they took around 10 years after the rise of digital to be able to match or surpass FTA TV.

Paving way for the future

In the past year or so, media companies have been heavily investing in digital assets and platforms. In 2016-18 digital adspend grew at a staggering 35.6% CAGR, well above FTA TV and print at 10.2% and -4.5% respectively. As of 2018, digital adspend have already made up around 32% of Indonesia's total adspend, compared to only 5% in 2013.

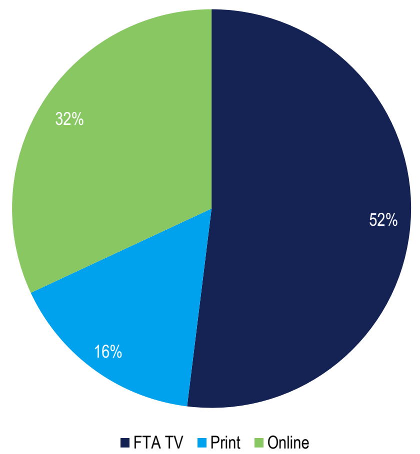
Fig. 6: Indonesia's blended adspend growth trend



Sources: Euromonitor, IndoPremier

The shift from free-to-air (FTA) TV to digital advertising is certainly coming, albeit gradual and not in the very near term, especially in Indonesia in our view. As of 2018, FTA is still dominating the advertising channels in the country making up 52% of total adspend. We believe that major media companies (i.e. SCMA and MNCN) have already been well positioned for this change by trying to be ahead of the curve, aggressively acquiring digital assets and companies that will synergize with their businesses for the past few years. These acquisitions also allow them to provide end-to-end media services for their customers.

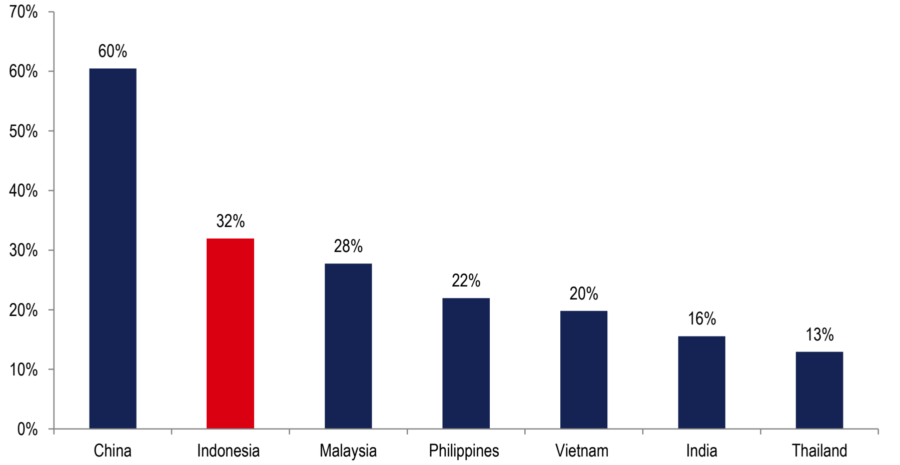
Fig. 7: Indonesia's adspend composition as of 2018



Sources: Euromonitor, IndoPremier

If we compare Indonesia to its peers in Asia, we actually already have one of the highest contributions from digital adspend to total adspend ratio at 32% in 2018 (vs. average in Asia of 27%), but still way behind China at 60%. This entails that there are still a lot of growth potential in the digital advertising space in the country. According to Euromonitor, Indonesia's digital adspend growth seems to remain strong at +23.1% yoy in 2018 and is still expected to grow by double digit in 2019-23.

Fig. 8: Indonesia's digital adspend as % of total adspend compared to regional peers



Sources: Euromonitor, IndoPremier

Digital video is the next big thing

YouTube remains Indonesia's #1 video streaming platform

According to APJII (2017), around 70% of Indonesian internet users used internet to watch video online; as YouTube shall remain as the main video streaming platform in the country. According to SimilarWeb (2019), YouTube is the second most visited website in the country – making it a fertile land for digital advertisers to advertise in.

YouTube is moreover a fertile land for the FTA TV players, since they have huge library to monetize from, while having to employ a very minimal cost. Videos posted on YouTube are mostly just short clips of FTA TV dramas, hence only editing costs is necessary to upload contents on the platform. With a lot of contents reaching millions of views, this will be a very lucrative revenue source with relatively high margin compared to FTA and other digital revenue sources.

In most cases, uploaders get 50% out of its total ads revenue (65% for music videos), while the remaining goes to YouTube.

Out of the top 20 most subscribed YouTube channels in Indonesia, 5 of them are FTA TV channels, namely: TRANS7 (#6), Indosiar (#9), TRANS TV (#15), SCTV (#18), and RCTI (#19) – see Figure 9 – suggesting that their contents remain enjoyable to Indonesian viewers in general.

As a group, MNCN has the biggest market share (5.0% of total YouTube viewership in Indonesia) with a total of more than 200 channels and 65mn subscribers. Currently, YouTube revenue contributes around 25% to total digital revenue. We expect this to go up to 35%/50% in 2020F/21F, implying a steady growth of 40%/43% yoy.

Fig. 9: Top 20 YouTube channels with the highest subscribers in Indonesia

Rank	YouTube Channel	Subscribers (mn)	Videos uploaded	Total views (mn)
1	Atta Halilintar	20.6	696	1,956
2	Ricis Official	18.4	781	2,334
3	Gen Halilintar	13.2	653	2,398
4	Calon Sarjana	12.9	1,039	2,353
5	Rans Entertainment	12.0	995	1,955
6	Trans7 Official	11.9	45,647	4,837
7	YtCrash	11.0	1,476	2,566
8	Ya-Alisa	10.2	97	1,477
9	Indosiar	10.1	36,751	5,699
10	Saaih Halilintar	9.4	278	780
11	The Shiny Peanut	9.2	1,077	1,702
12	Baim Paula	9.1	417	1,016
13	Daftar Populer	8.7	1,933	1,300
14	Raditya Dika	8.3	1,064	1,229
15	Trans TV Official	8.2	38,999	4,180
16	Arif Muhammad	8.1	136	1,218
17	Miaw Aug	7.9	2,151	1,801
18	SCTV	7.8	32,967	3,677
19	RCTI - Layar Drama Indonesia	7.8	41,857	6,195
20	Jess No Limit	7.4	758	871

Sources: YouTube, IndoPremier

FTA TV incumbents are heavily investing on OTT platforms

In addition to Youtube, over-the-top (OTT) media services seem to be the preferred and most heavily invested platform for media companies. SCMA has just recently acquired majority stake in Vidio.com from their parent entity, Elang Mahkota Teknologi (EMTK IJ), while MNCN also recently launched their RCTI+.

Vidio.com was initially established in 2015 as an advertisement-based-video-on-demand (AVOD) OTT platform under Emtek, which focused on drama series (mostly SCMA's) and user generated contents. They have now also expanded their content offerings to sports (i.e. soccer, basketball and tennis), live events and concerts (Shopee's 11.11 and Lazada's 7th Anniversary), as well as foreign movies and series. They have recently started to move towards the AVOD+SVOD (subscription-based-video-on-demand) business model, as they introduced premium subscription earlier this year. As of Dec19, Vidio already has around 50mn MAU with an average of 5-6mn additional MAU per month.

On the other hand, RCTI+ is a newly established OTT platform that MNCN launched in Aug 2019. They are operating on an AVOD business model, as they are at a very early stage and trying to build up their MAU. RCTI+ currently features local movies, a number of foreign movies, as well as behind the scenes and bloopers from MNCN's reality shows (i.e. Indonesian Idols, The Voice and Master Chef). According to the company, as of Oct19 RCTI+ already has 3.3mn MAU and is targeting around 25mn MAU by end of 2020. Management also mentioned that MNCN is also planning to launch a separate new OTT with iQiyi by end of 1Q20.

Fig. 10: SCMA's newly acquired digital assets

Sources: Company, IndoPremier

Fig. 11: MNCN's digital assets

Sources: Company, IndoPremier

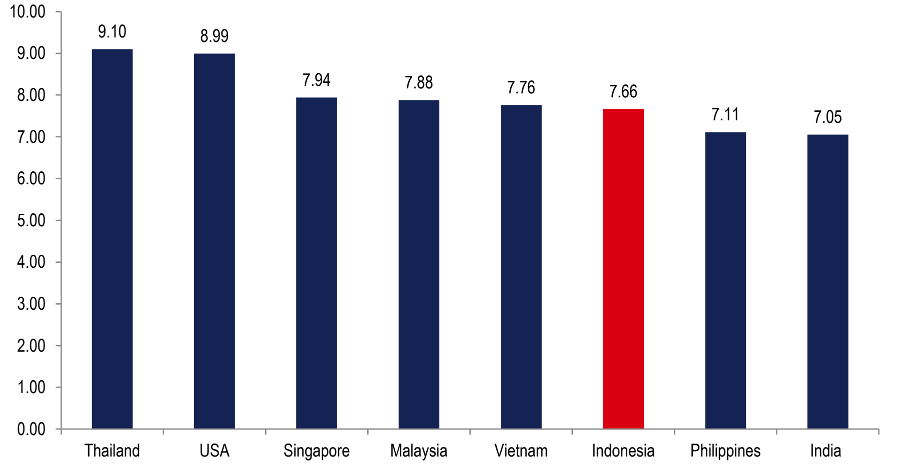
While we agree that the growth potential is huge, fierce competition across platforms will be the main challenge. Globally, these OTT platforms have poured out sizable amount of investment to develop original content meant to be a differentiation point as their competitive advantage. Netflix, for example, committed US$15bn in cash content spending in 2019.

Similarly, in Indonesia, locally-developed OTT platforms also require hefty investments in both infrastructures and contents which returns can only be recouped further down the line when the OTT gains more traction and gets more mature. Vidio.com for example, has already committed to spend around Rp300bn within the time span of 12 months, which we estimate is around 11% of SCMA's total programming and broadcasting costs in 2019F.

The possibility of a JV between MNCN and SCMA for content production and licensing is also very interesting in our view. Considering original content production tend to be very expensive, especially for OTT as subscribers are expecting more premium contents. SCMA is already preparing around Rp250-300bn p.a. just for their Vidio.com original content production. This JV will save both parties considerable amount of money, as it will cut their production cost for their OTT in half. This will in turn improve their margins and get them faster to profitability, without compromising their original content quality. We believe that if all these collaboration targets does go through, it will be hugely positive for the sector and will make the sector very interesting going forward.

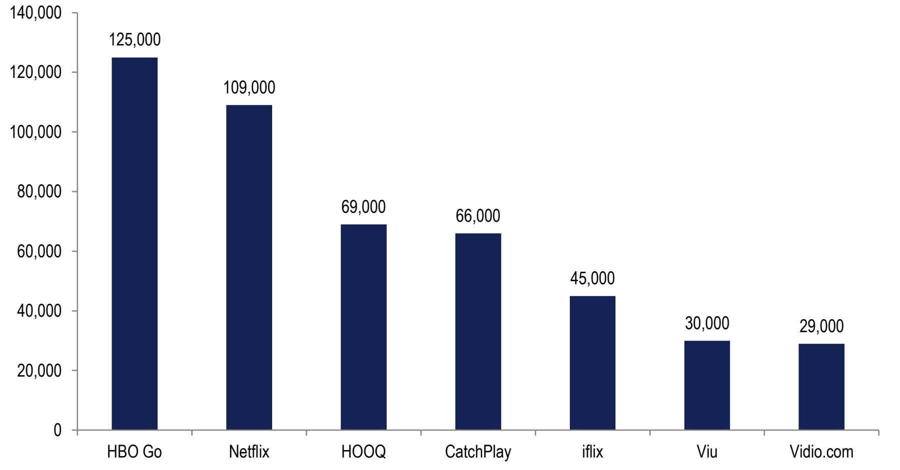
Currently, most OTT services still provide free access to most of their contents, as they try to ramp up their monthly active users (MAU). We believe that this will still continue at least for the near future, as media companies are focusing on retaining and increasing their MAU ahead of profitability. The main reason for this is potential investors' tendency to focus more on the number of MAU and its growth, rather than profitability when it comes to investing in early stage OTT businesses. However, most have actually started introducing varieties of subscription programs which allows access to more premium contents and privileges, such as exclusive drama series and live sport streaming (i.e. English Premier League and UEFA Champions League). Subscription to these OTT services typically starts as low as US$1/month and goes up to around US$2/month, still significantly cheaper compared to Netflix (starts at US$10/month) and Hulu (starts at US$6/month).

Fig. 12: Netflix's subscription price comparison across countries for basic package (US$)



Sources: Comparitech, IndoPremier

Fig. 13: Indonesia's OTT subscription prices comparison (Rp)

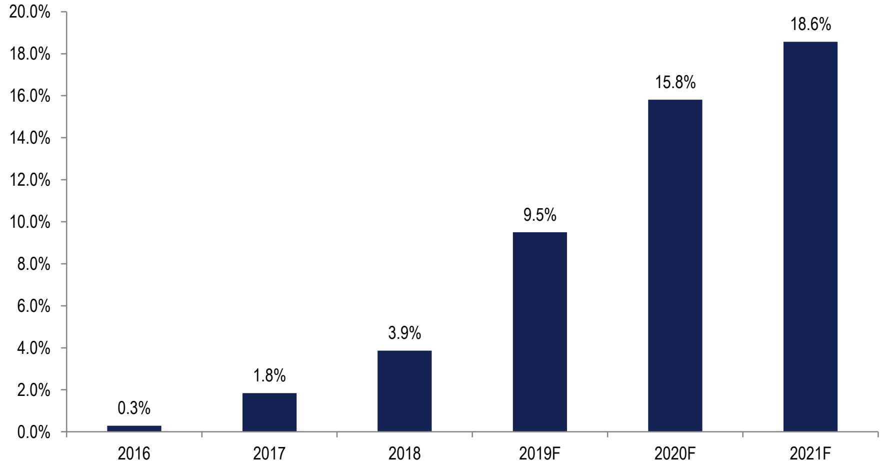


Sources: Various, IndoPremier

SCMA's Vidio.com currently already has around 600k paying-subs as of Dec 2019, while RCTI+ is still on an AVOD business model. The coming predicament that we think these media companies will encounter after improving their MAU base is how to convert these users into paying subscribers, which can be a challenge without significant added value to the customers. Eventually, these media companies hope that these OTT services will be self-sustaining and profitable, as content creation and licensing are very expensive to maintain.

<u>We estimate digital revenue to grow by 43.7% CAGR in 2019F-21F, still far above FTA TV revenue CAGR of 6.1% in the same period</u>. While, digital revenue contribution to media's total sales will also continue to grow, reaching 19% by 2021F in our estimate (from 4% in 2018).

Fig. 14: Blended digital revenue as % of total revenue keeps on growing



Sources: Company, IndoPremier

Trying to change the norm might pose a challenge

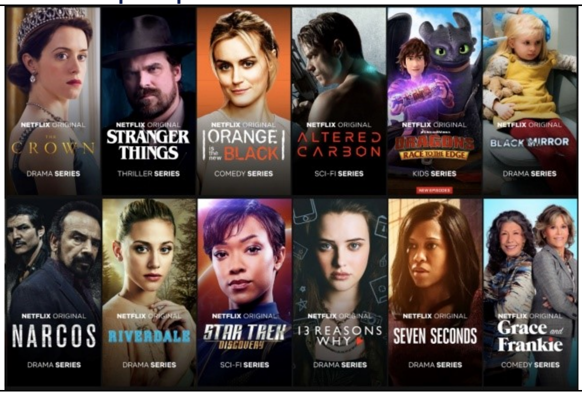
A possible problem that we believe might hinder OTT companies from converting their MAU to paying-subs is changing Indonesian consumers' habit of getting things for free or at a huge discount. With the rise in e-commerce, e-payment systems and also OTT platforms in the country, the battle for market share and user acquisitions have never been more intense. This has caused Indonesian consumers to be overly pampered with massive discounts and free products/contents in the past few years. Trying to change this habit of over reliance on discounts and free contents might prove to be quite a challenge in our view.

As we mentioned previously, most OTT platforms are still offering plenty of free contents, be it local dramas or foreign movies and series. However, this will not be sustainable for the long run; hence we see many OTTs starting to move more to a *'freemium'* (AVOD+SVOD) business model. This means that some of the contents will still be kept free for non-paying users to access, while the more premium contents and access will only be available to paying subscribers of the platform (different level of subscription will also have different degree of content access). This is the business model that iflix, iQiyi and HOOQ just to name a few have been using, unlike Netflix or Hulu that employs a purely SVOD business model.

Fig. 15: Different OTT business models and their examples

Sources: Various

Fig. 16: Netflix boasts outstanding original contents which justifies premium subscription price



Sources: Netflix

In our view, a *freemium* model will actually be the most sustainable and profitable business model going forward, as it allows OTT platforms to still increase their MAU but at the same time start earning revenues from the more premium contents. However, the largest hurdle these OTT companies have to go through is converting these existing users into paying subscribers.

What we see from the regional peers is that, the successful SVODs either have highly in-demand original contents or an exceptional content library – which are very costly. OTT platforms such as Netflix have both outstanding library and original contents such as Marvel Series, Stranger Things and Narcos just to name a few, while Hulu (i.e. The Handmaid's Tale and Castle Rock) and HBONOW (i.e. Game of Thrones and Westworld) also follows the same concept.

With the increase in the number of OTT platforms in the US, competition has never been more intense, hence subscription pricing is becoming more important. Many investors are starting to be concerned over Netflix's premium pricing, as they still refuse to provide a lower price subscription but with ads. New entrants have been coming in with lower monthly subscription price, with Apple TV+ and Disney+ pricing themselves at US$4.99 and US$6.99 respectively. Not to mention, NBC Universal is planning to make their upcoming OTT, Peacock, an AVOD platform and hence access will be free to everyone.

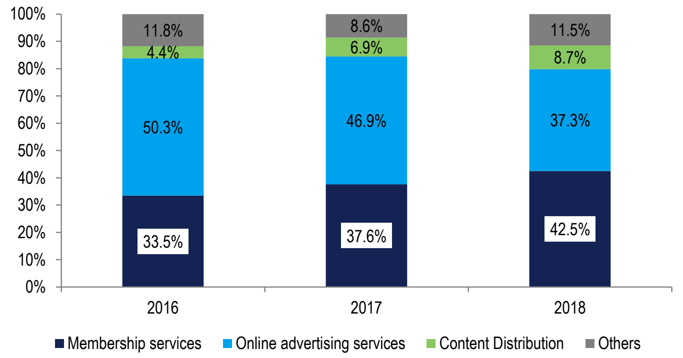
Therefore we are doubtful that pure SVOD model can be sustainable in the long run, especially in Indonesia where customers are even more price sensitive. We think the *freemium* business model – combining the best of both worlds – will best suit the Indonesian demography.

With the *freemium* business model, local OTT platforms will be able to give free content access to the lower class target market (increasing MAU) while making money out of advertisements, and on the other hand charging a subscription fee on access to more premium contents. This allows media companies to continue on increasing their MAU, while also moving closer to profitability.

We have seen regional players, i.e. iQiyi, developing the *freemium* model. As of 2018, 43% of its revenue was derived from membership services, 37% from online advertising services, and the remaining 20% from a combination of content distribution and other businesses (live broadcasting, online games, and talent agency business).

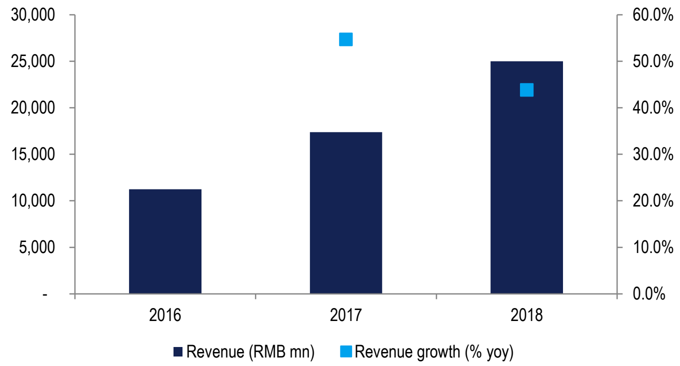
Membership packages will allow iQiyi members to access to streaming of a library of premium content and certain commercial skipping, among others. While iQiyi still recorded a net loss of RMB9,109mn (US$1.3bn) as of 2018 as it continues to produce high-quality content to drive more paying-subscribers, which improved 49% CAGR in 2016-18, its brand advertising's pricing power also continues to improve. As an example, the price for a 60-second ad spot during the season finale of an original content *The Rap of China* reached a record breaking RMB45mn.

Fig. 17: Contribution from membership services to iQiyi's total revenue continue to increase



Sources: Various, IndoPremier

Fig. 18: iQiyi's revenue and revenue growth trend



Sources: Various, IndoPremier

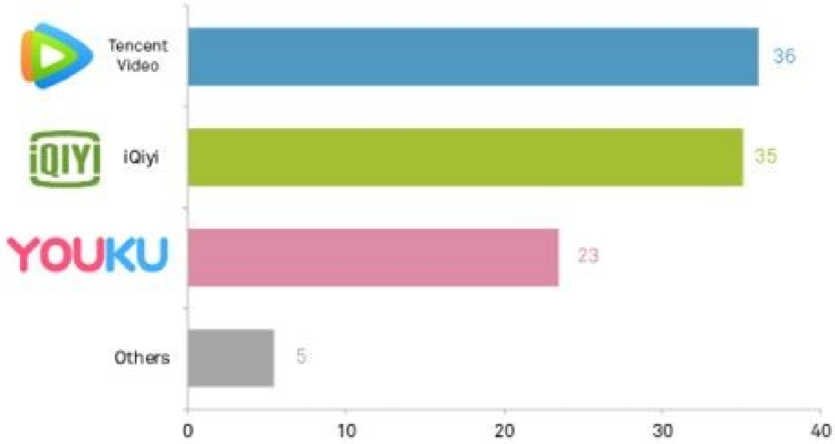
Partnership is the way to go

With the significant amount of investments in establishing and sustaining an OTT service, partnership with a foreign media company that has experience in digital media or content creation seems to make a lot of sense for Indonesian companies. This is exactly what MNCN did recently when they announced their partnership with iQiyi in early 3Q19, one of the largest OTT platform operators in China with more than 500mn MAU. Meanwhile, SCMA has also been trying to secure a partnership with a foreign media company for their Vidio.com, which is still under negotiation and expected to be secured by end of the year or 1Q20 according to management.

These partnerships should be positive for Indonesian media companies as they will be able to minimize the hefty cost burden of operating and maintaining an OTT platform. On average, companies have to spend around Rp300bn in capex for both maintenance and content production annually. Considering these recently established OTTs are still far from being profitable and revenue contribution are also minimal, any cost reduction and saving should be hugely welcomed by their parent entity.

In addition to shared cost, partnering with a foreign media company also usually entails the sharing of their content library. This will bring tremendous values to newly launched OTTs as it will boost their content library right off the bat without incurring a lot of additional costs for new content production. As in the case of MNCN, they claimed that iQiyi has the largest Asian/Chinese video content library in the world, hence this will put their OTT at the forefront of Asian content streaming in Indonesia. MNCN's management also added that with the massive content library among them and iQiyi, they will not have to set aside a lot of capex for new contents going forward.

Fig. 19: iQiyi has the second largest OTT market share in China



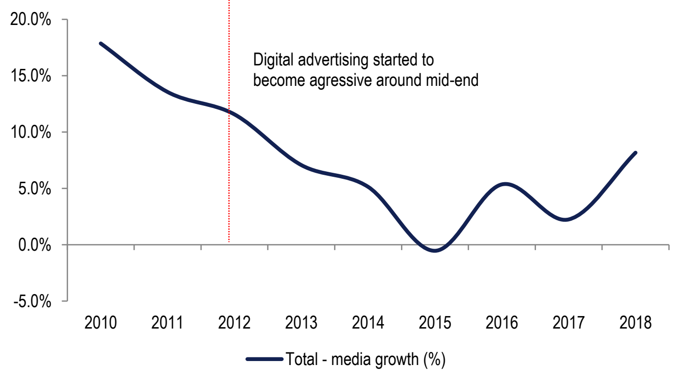
Sources: Various

This seems to be the most ideal route for local OTT operators at least for the time being, as content productions are very costly and time consuming. Approximately it takes around Rp300bn to produce 1 hour of content for FTA TV dramas, however this cost would at least double or triple to produce 1 hour of content for a drama series for OTT. We estimate it should take around 500bn-800bn to make 1 hour of premium content for OTT original series. This is due to the superior content, story and higher definition video quality that are expected in an original drama series in OTTs, as customers are paying a premium for these contents. Hence, we should expect media companies to keep on putting in extensive amount of capex for content production for the foreseeable future.

FTA proves to remain relevant

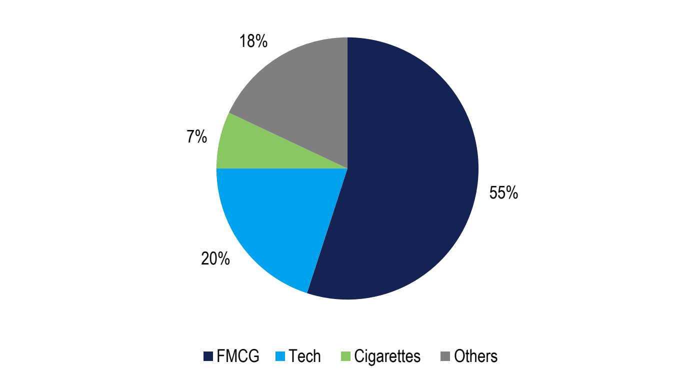
Possible FMCG shift back to FTA, albeit rate card increase is a risk
Since the rise to prominence of digital advertising (i.e. YouTube, online news channels and OTTs) in Indonesia in 2016, a lot of companies, especially FMCGs, have been moving their ad spending to digital media. However recently, many FMCG companies seems to express interests in shifting back their ad spending to FTA TV, as digital advertising seems to lack satisfactory payoffs. This can have a huge impact, as FMCG contributes around 55% of the country's total adspend as of 2019.

Fig. 20: Blended media sector's revenue growth trended down since introduction of digital advertising, albeit has been starting to pickup



Sources: Company, IndoPremier

Fig. 21: Media adspend breakdown by segment in 2019F



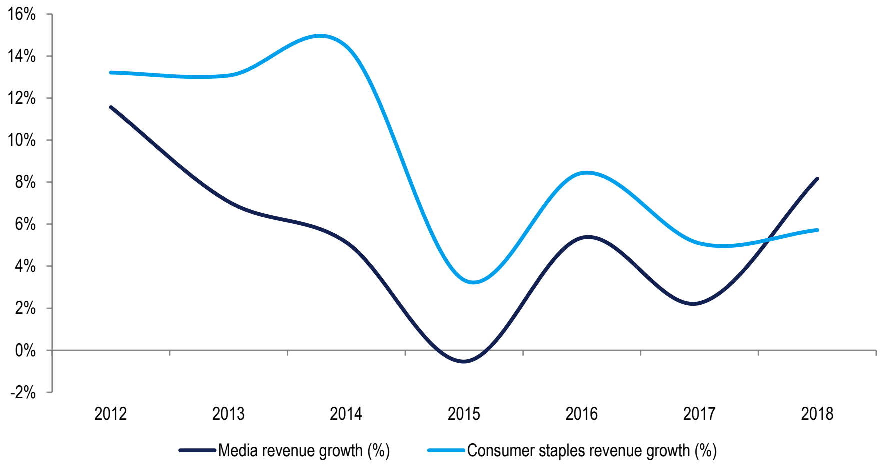
Sources: Company, IndoPremier

The reason for this seems to be related to FMCG's general trade (GT) sales that seemed to have slowed down since they went heavy on digital advertising. This makes sense in our view, as GT sales mainly come from the more rural areas of the county where there is limited cellular coverage and internet speed tend to be relatively slow. A lot of the people in these areas normally still watch FTA TV due to accessibility and limited internet and pay TV infrastructure.

We believe that if this shift back to FTA is to happen, it will be another positive catalyst for all media companies, as FMCG companies remain the number one advertisers in the country. However the recent announcement of rate card increase from media companies might hinder this move in our view, as excessive increase will encourage FMCG companies to spend their A&P spending elsewhere.

Weak purchasing power can also be an additional downside
Historically, media sector's performance has been highly correlated to consumer staples sector's performance, as FMCG players remains the top spender in media advertising. With purchasing power expected to remain weak this year in addition to rise in rate card, we are slightly apprehensive on consumer staples adspend. In 2019 we are already seeing consumer companies trimming down and being more cautious on their A&P spending, as purchasing power has been weaker than expected and sales growth have been relatively sluggish.

Fig. 22: Media sector performance highly correlates with consumer sector's



Sources: Company, IndoPremier

With cut down in government energy subsidy, increase in healthcare premium and higher excise tax, we think that it will be tough for purchasing power to recover next year. Hence, we feel that this might also translate into, consumer companies' adspend, as they will try to be relatively less aggressive on their advertisings following decline in people's willingness to spend. Nonetheless, we think that impact should not be too excessive, considering consumer staples companies are more resilient in weaker economic conditions, compared to consumer discretionary companies (i.e. retailers and F&B). Furthermore, looking at the trend of tech companies' increase in advertising spending, we believe that it might be able to offset this risk.

Aggressive adspend from e-commerce and fintech might offset

With the rapid rise in frequency of online shopping and the use of e-payment systems in the country, adspend from these two sectors have surged significantly in the past year or two. Both FTA TV and digital media have benefitted from this, as they are currently the second largest advertisers in the country, only below FMCG companies. Looking at the intensifying competition for market share amongst the top brands, we believe that aggressive adspend from these companies will still continue going forward, at least for the short to medium term.

On top of conventional FTA and digital advertising, e-commerce companies are now also trying to organize live events and concerts in order to improve their branding and engagement. Lazada and Shopee in particular have been very active in holding these events, especially during their big sales periods (i.e. 11.11 and 12.12) by bringing in renowned international artists as well as local artists. SCMA has been the one organizing and managing many of these live events, such as recent Shopee's 11.11 Big Sale event and Lazada's Super Party earlier this year (see Figure 23 and 24).

Fig. 23: Shopee's 11.11 Big Sale TV show featuring Korean girl group GFriend was live on Indosiar and SCTV

Sources: Various

Fig. 24: Lazada's Super Party for their 7 year anniversary featuring Dua Lipa broadcasted on SCTV

Sources: Various

In addition, media companies are also expecting e-payment systems to start increasing their adspend by end of the year or early next year. E-payment companies such as Gojek, OVO and DANA have been spending ridiculous amount of money on promotions these past year, mostly on retail and F&B purchases. Despite the extensive number of promotions they have given out lately, these companies have only done quite limited number of advertising, especially in FTA TV. Hence, this should give media companies ample amount of opportunities to increase their advertising revenue in the near term, especially knowing the amount of spending potential and willingness these e-payment companies have. We believe that this increase in adspend from e-commerce and fintech companies will also give more revenue buffer for media companies, in the case where FMCG companies' adspend under delivers. In FY19F tech companies contribute around 20% to total adspend, we expect this to go up to around 30% in the next few years.

Regulation changes might pose possible risk

Recently, Indonesia's Ministry of Communication and Information (Kemenkominfo) has just proposed on raising the government's non-tax income (PNBP) from the media sector. According to the ministry, this is mainly due to the sector's minimal contribution to the PNBP, as it only accounts for around Rp92bn annually, compared to the massive Rp17tr the telco sector contributed annually. Kemenkominfo is considering on possibly setting an operating rights fee (BHP) as a certain percentage of gross revenue, similar to telco sector's BHP. Just as a comparison, telco's BHP is currently set at 1.5% of revenue.

Fig. 25: SCMA earnings simulation if BHP were to be implemented

	2020F				2021F			
Rp bn	Current	0.5% BHP	1.0% BHP	1.5% BHP	Current	0.5% BHP	1.0% BHP	1.5% BHP
Net revenue	**6,329**	**6,329**	**6,329**	**6,329**	**6,804**	**6,804**	**6,804**	**6,804**
BHP	0	(32)	(63)	(95)	0	(34)	(68)	(102)
P&B expenses	(2,850)	(2,850)	(2,850)	(2,850)	(3,001)	(3,001)	(3,001)	(3,001)
Gross profit	**3,479**	**3,447**	**3,415**	**3,384**	**3,803**	**3,769**	**3,735**	**3,701**
Opex	(1,288)	(1,288)	(1,288)	(1,288)	(1,402)	(1,402)	(1,402)	(1,402)
EBIT	**2,191**	**2,159**	**2,128**	**2,096**	**2,402**	**2,368**	**2,334**	**2,300**
Other income	51	51	51	51	56	56	56	56
PBT	**2,242**	**2,210**	**2,179**	**2,147**	**2,457**	**2,423**	**2,389**	**2,355**
Tax expenses	(618)	(618)	(618)	(618)	(666)	(666)	(666)	(666)
Net profit	**1,623**	**1,592**	**1,560**	**1,528**	**1,792**	**1,758**	**1,723**	**1,689**
% change to earnings		*-1.9%*	*-3.9%*	*-5.8%*		*-1.9%*	*-3.8%*	*-5.7%*
Gross margin	*55.0%*	*54.5%*	*54.0%*	*53.5%*	*60.1%*	*59.6%*	*59.0%*	*58.5%*
EBIT margin	*34.6%*	*34.1%*	*33.6%*	*33.1%*	*37.9%*	*37.4%*	*36.9%*	*36.3%*
Net margin	*25.6%*	*25.1%*	*24.6%*	*24.1%*	*28.3%*	*27.8%*	*27.2%*	*26.7%*

Sources: IndoPremier

Fig. 26: MNCN earnings simulation with BHP implementation

	2020F				2021F			
Rp bn	Current	0.5% BHP	1.0% BHP	1.5% BHP	Current	0.5% BHP	1.0% BHP	1.5% BHP
Net revenue	**8,972**	**8,972**	**8,972**	**8,972**	**9,760**	**9,760**	**9,760**	**9,760**
BHP	0	(45)	(90)	(135)	0	(49)	(98)	(146)
P&B expenses	(3,271)	(3,271)	(3,271)	(3,271)	(3,494)	(3,494)	(3,494)	(3,494)
Gross profit	**5,701**	**5,656**	**5,611**	**5,566**	**6,265**	**6,216**	**6,168**	**6,119**
Opex	(2,198)	(2,198)	(2,198)	(2,198)	(2,383)	(2,383)	(2,383)	(2,383)
EBIT	**3,503**	**3,458**	**3,413**	**3,368**	**3,882**	**3,833**	**3,784**	**3,736**
Other income	(216)	(216)	(216)	(216)	(195)	(195)	(195)	(195)
PBT	**3,287**	**3,242**	**3,197**	**3,152**	**3,687**	**3,638**	**3,589**	**3,540**
Tax expenses	(822)	(822)	(822)	(822)	(922)	(922)	(922)	(922)
Net profit	**2,465**	**2,420**	**2,376**	**2,331**	**2,765**	**2,716**	**2,667**	**2,619**
% change to earnings		*-1.8%*	*-3.6%*	*-5.5%*		*-1.8%*	*-3.5%*	*-5.3%*
Gross margin	*63.5%*	*63.0%*	*62.5%*	*62.0%*	*64.2%*	*63.7%*	*63.2%*	*62.7%*
EBIT margin	*39.0%*	*38.5%*	*38.0%*	*37.5%*	*39.8%*	*39.3%*	*38.8%*	*38.3%*
Net margin	*27.5%*	*27.0%*	*26.5%*	*26.0%*	*28.3%*	*27.8%*	*27.3%*	*26.8%*

Sources: IndoPremier

While there has been no further update on this and no fix regulation been issued so far, if it were actually to be implemented, it would have a considerable impact to the media companies. Assuming the government is setting the BHP maximum at a similar level to telco's BHP (1.5% of revenue), we estimate up to -5.5% and -5.7% earnings decline to SCMA's and MNCN's FY20F earnings respectively (see Figure 25 and 26).

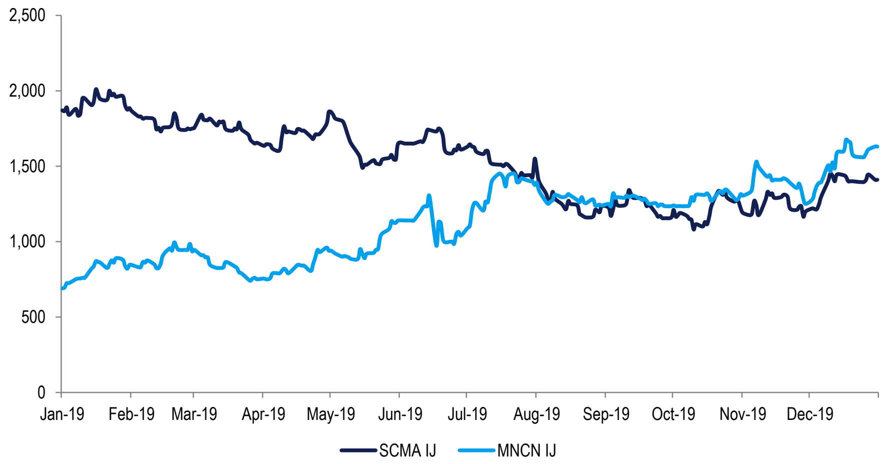
Valuation

Initiate the sector with an Overweight call with SCMA as preferred pick; solid earnings momentum as its main catalyst
In the past three years, the media sector valuation has de-rated by -49%, while also underperforming the JCI by -72%. The sector is currently trading at 11.3x 12M forward P/E, or at around 1 s.d. below its 3-year mean.

With the de-rating in the media sector and cheap valuation, we believe that further downside for the sector should be minimal. Especially with the rate increase and aggressive expansion into digital media, this should have largely addressed investor's concerns in the media sector over the negative outlook for FTA TV in the medium-long term.

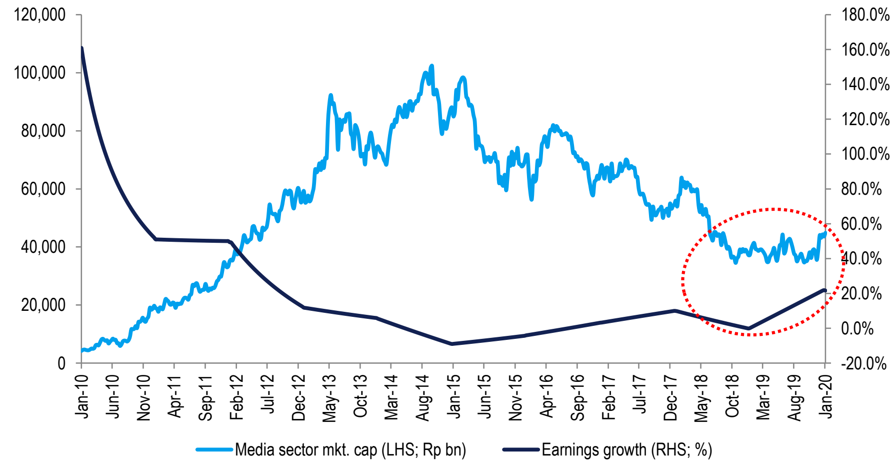
Moreover, we believe that digital media dominance is still far off in Indonesia and FTA will still be the bread and butter for media companies in the near term, but their long-term is also relatively secured with aggressive investments in digitals. MNCN's and SCMA's agreement to both increase rate cards is a near-term catalyst that shall drive earnings momentum in 2020-21F. We estimate MNCN and SCMA to book 18.3% and 26.7% earnings growth in 2020F, respectively, strongest we have seen in the past few years. This underpins our Overweight call on the media sector, with a Buy call on both MNCN and SCMA. However, we pick SCMA as our top pick as we believe there is more upside potential to be gained on the back of higher FY20F EPS growth and expected earnings rebound that have not been reflected in the current share price in our view.

Fig. 27: SCMA's share price still decline by -23%, while MNCN's share price performance already re-rated 33% in 2019



Sources: Bloomberg, IndoPremier

Fig. 28: Media sector's earnings have rebounded in 2019 but valuation have not followed as much



Sources: Bloomberg, Company, IndoPremier

Fig. 29: Indonesian media companies compared to regional peers

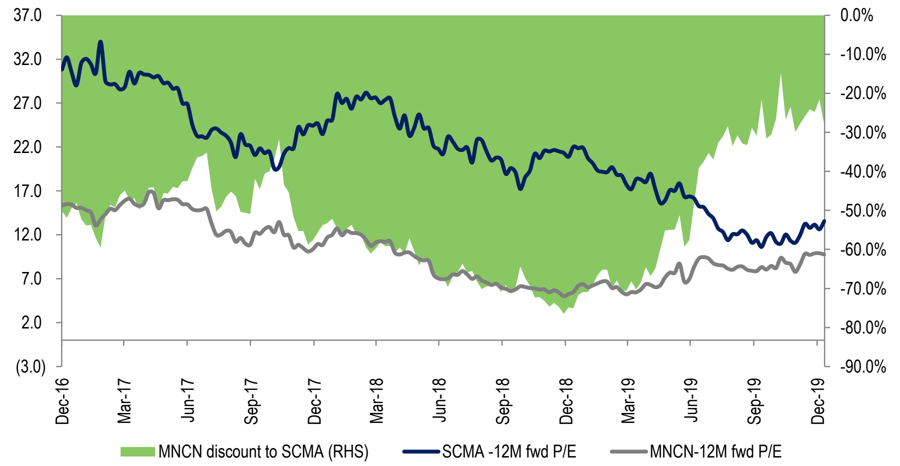
Company	Bloomberg Ticker	Current Price (in local currency)	Market Cap (US$ mn)	3-year EPS CAGR (%)	P/E (x) 2019F	P/E (x) 2020F	P/BV (x) 2019F	P/BV (x) 2020F	ROE (%) 2019F	ROE (%) 2020F	EV/EBITDA (x) 2019F	EV/EBITDA (x) 2020F	Div. Yield (%) 2019F	Div. Yield (%) 2020F
Surya Citra Media	SCMA IJ	1,410.0	1,581	-1.9%	16.7	13.2	3.1	2.9	22.8%	27.2%	10.8	8.5	4.5%	5.7%
Media Nusantara Citra	MNCN IJ	1,630.0	1,632	17.9%	7.2	6.3	1.3	1.3	17.7%	17.2%	7.2	6.3	3.4%	4.5%
FTA TV														
Astro Malaysia Holding	ASTRO MK	1.3	1,586	-13.9%	10.1	9.3	7.7	8.7	74.7%	96.2%	4.4	5.2	6.1%	7.6%
BEC World Public Co.	BEC TB	5.9	410	N/A	N/A	55.4	2.1	2.0	-2.2%	2.2%	4.7	4.1	0.2%	2.0%
ABS-CBN Corp.	ABS PM	15.8	310	-3.6%	4.8	5.0	0.4	0.4	8.1%	7.6%	2.1	2.1	N/A	N/A
Starhub Ltd.	STH SP	1.4	1,889	216.2%	14.6	16.2	5.4	5.1	37.7%	35.2%	6.6	6.9	6.1%	5.1%
TV Asahi Holdings	9409 JP	2,027.0	2,034	-8.0%	17.7	20.8	0.6	0.6	3.8%	3.0%	5.8	6.2	2.5%	2.2%
Sun TV Network	SUNTV IN	460.9	2,565	15.6%	12.7	12.5	3.3	2.9	28.1%	24.8%	8.5	6.5	1.1%	3.1%
Video on Demand														
Netflix Inc.	NFLX US	323.6	148,431	73.4%	100.7	62.3	21.5	15.9	23.6%	27.3%	50.1	35.5	0.0%	0.0%
iQiyi Inc.	IQ US	21.1	17,354	N/A	N/A	N/A	17.6	32.9	-72.9%	-119.7%	32.7	19.3	0.0%	0.0%
Content Production														
Walt Disney Co.	DIS US	144.6	261,708	-6.2%	24.7	26.7	2.9	2.8	16.1%	10.4%	19.8	17.8	1.8%	1.3%
FOX Corp.	FOXA US	37.1	22,935	N/A	14.2	16.0	2.2	2.2	16.3%	16.4%	10.0	10.6	0.6%	1.1%
Toei Animation Co.	4816 JP	5,600.0	2,105	27.0%	19.1	19.6	3.2	3.0	18.2%	15.7%	12.0	11.4	1.1%	1.3%
Studio Dragon Corp.	253450 KS	80,900.0	2,099	10.9%	65.2	40.6	5.5	4.9	8.9%	12.9%	15.5	13.5	0.6%	0.9%

Sources: Bloomberg, IndoPremier

Fig. 30: Media sector's forward P/E – now trading at 11.3x 12M forward P/E vs. 3-year average of 15.0x

Sources: Bloomberg, IndoPremier

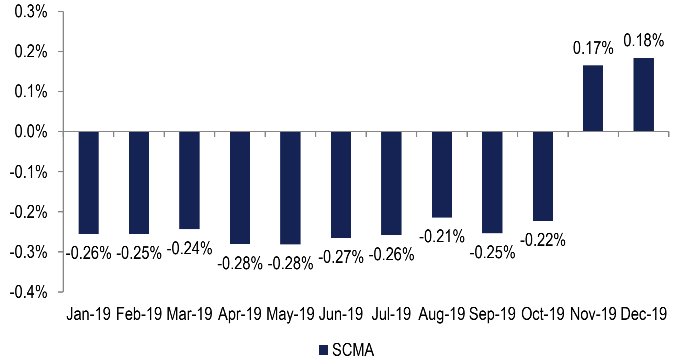
Fig. 31: MNCN's discount to SCMA has been narrowing recently to c.28.0%, compared to 3-year average of 52.7%



Sources: Bloomberg, IndoPremier

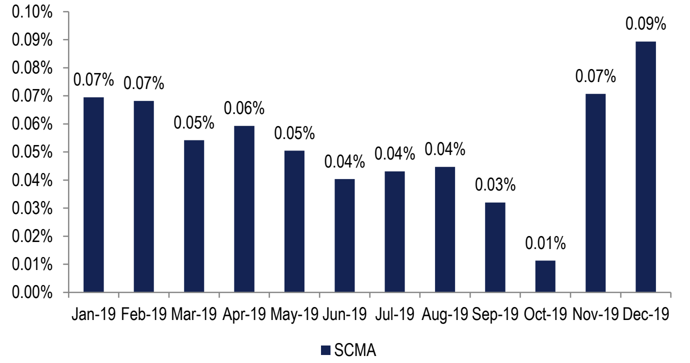
MNCN's discount to SCMA has been narrowing in the past few years, which we think is justified considering MNCN's recent outperformance and notable growth. SCMA, who may have had a rough year reporting -13.7% yoy earnings decline in 2019F, in our estimates, may show stronger earnings growth and allow it to-rate even faster – making it our preferred pick in the sector.

Fig. 32: YTD foreign fund positioning on SCMA vs. MSCI weighting



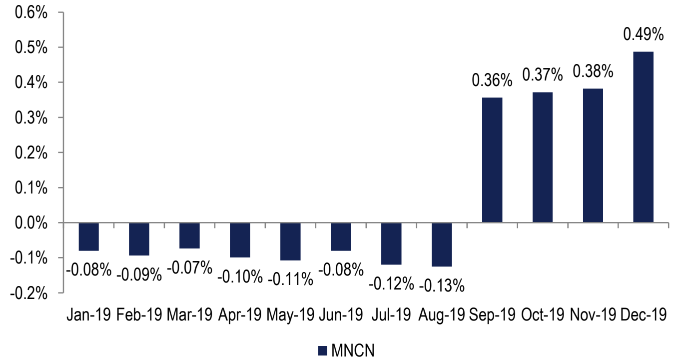
Sources: Company, IndoPremier

Fig. 33: YTD local fund positioning on SCMA vs. JCI weighting



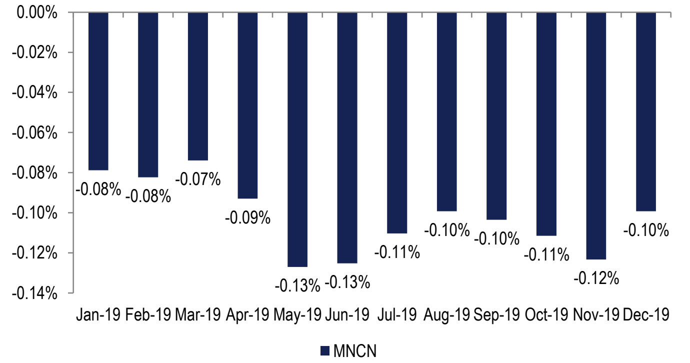
Sources: Company, IndoPremier

Fig. 34: YTD foreign fund positioning on MNCN vs. MSCI weighting



Sources: Company, IndoPremier

Fig. 35: YTD local fund positioning on MNCN vs. JCI weighting



Sources: Company, IndoPremier

INDOPREMIER

Surya Citra Media

BUY

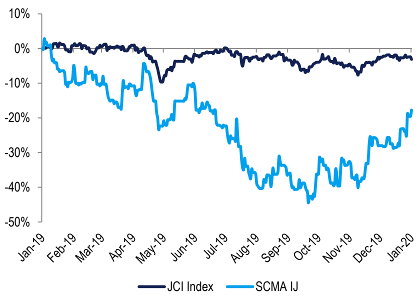
Company Initiation | Media | SCMA IJ | 20 January 2020

Stock Data

Target price	**Rp2,000**
Prior TP	*N/A*
Current price	Rp1,600
Upside/downside	*25%*
Shares outstanding (mn)	14,775
Market cap (Rp bn)	23,639
Free float	38%
Avg. 6m daily T/O (Rp bn)	37.1

Price Performance

	3M	6M	12M
Absolute	29.0%	6.0%	-17.7%
Relative to JCI	28.2%	9.2%	-14.6%
52w low/high (Rp)			1,080 - 2,000



Major Shareholders

PT Elang Mahkota Teknologi	61.9%

Elbert Setiadharma

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Time to switch on

- SCMA's planned rate card increase in Mar 2020 shall increase FTA TV ads revenue by 10% yoy in FY20F.
- While Vidio's partnership with Tsel is positive, it shall continue to record loss in FY20F – although offset by FTA TV's earnings improvement.
- We expect FY20F earnings to grow by a solid 25.6% yoy. We initiate SCMA with a Buy call and Rp2,000 TP.

Rate card increase is a game changer

While SCMA targets to increase overall rate card by 30% in Mar 2020, we estimate FTA TV ads to grow by 10.0% yoy in FY20F – taking into consideration advertisers' ability to negotiate and possible volume downside as an after-effect, especially as weak purchasing power may limit FMCG companies' ability to advertise in FY20F. Nonetheless, this is likely to be the highest growth over the past few years, if we exclude the 11.4% yoy FTA TV ads growth in 2018 due to Asian Games.

Partnership with Telkomsel is positive for Vidio.com

SCMA's recent partnership with Tsel should allow Vidio.com to get significant amount of paying subscribers; although ARPU from Tsel customers may be at a discount to their normal rate. However, coming from a low-base, we estimate Vidio's revenue to grow by more than 400% yoy – on the back of a 150% yoy growth in paying subscribers (from both Tsel and organically) in our estimate. Together with other digital assets, we estimate digital revenue to grow by 72.2% yoy in FY20F; leading to an overall revenue growth of 16.8% yoy.

Better earnings from FTA TV to offset loss from Vidio.com

While we expect Vidio.com to still record net loss in 2020F, significant increase in FTA TV revenue, along with minimum increase in the latter's cost, will allow SCMA's earnings to still grow by 25.6% yoy in FY20F to Rp1,623bn, in our estimates. Our FY20/21F estimates are 9%/8% above consensus'.

Solid earnings momentum; initiate with a Buy call

SCMA's share price has de-rated by -24% in 2019, mostly due to lacklustre sector outlook, weaker earnings, and MSCI exclusion in Nov 2019. With a renewed solid earnings momentum, we expect SCMA's share price to re-rate accordingly. Thus, we initiate SCMA with a Buy call and TP of Rp2,000, which is pegged to 16.2x FY21F P/E, or at a 25% discount to its 3-year mean.

Financial Summary	2017A	2018A	2019F	2020F	2021F
Revenue (Rp bn)	4,454	5,002	5,418	6,329	6,804
EBITDA (Rp bn)	1,922	2,096	1,866	2,373	2,402
EBITDA growth	-10.2%	9.1%	-11.0%	27.2%	1.2%
Net profit (Rp bn)	1,331	1,485	1,282	1,623	1,792
EPS (Rp)	91	102	88	111	123
EPS growth	-11.3%	11.5%	-13.7%	26.7%	10.4%
ROE	32.7%	30.0%	22.8%	27.2%	28.0%
PER (x)	17.6	15.8	18.3	14.4	13.1
EV/EBITDA (x)	12.1	10.7	11.9	9.3	9.1
Dividend yield	4.7%	4.8%	4.1%	5.2%	5.7%
Forecast change			N/A	N/A	N/A
IPS vs. consensus			95%	109%	108%

Sources: Company, IndoPremier *Share price closing as of: 20 January 2020*

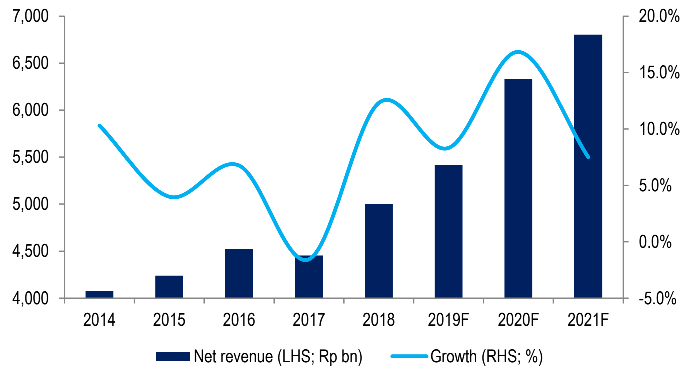
FTA TV remains as its backbone

A well-needed rate card increase
After a few years of drought for the FTA TV industry, dominating stations MNCN and SCMA collaboratively intend for a healthy rate card increase to take place in 2020F. According to both companies, this should be justified as Indonesia still has one of the lowest rate cards in South East Asia.

SCMA intends to increase their rate card by 30% starting in Mar 2020, which in turn may increase FTA TV advertising revenue by 10% yoy in FY20F, in our estimates. This is after considering advertisers' ability to negotiate and possible volume downside as an after-effect; especially considering weak purchasing power that may limit FMCG companies' ability to aggressively advertise in FY20F.

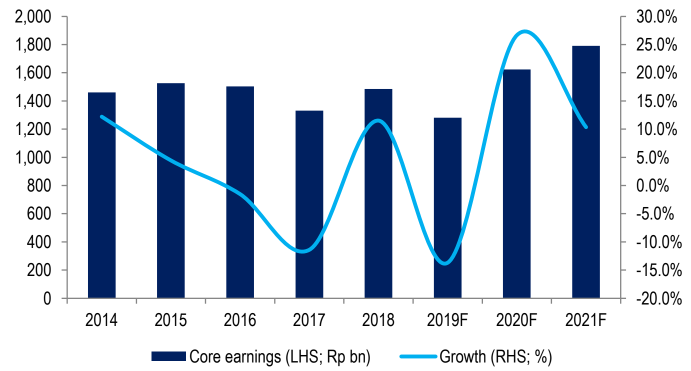
Still, it is possibly the strongest revenue growth for SCMA's FTA TV within the past few years, if we exclude 11.4% yoy growth in FY18 largely thanks to the Asian Games. This shall also offset the near-term negative impact from SCMA's digital assets development (especially Vidio.com) as solid FTA TV revenue growth shall boost earnings, while costs is expected to have a minimal increase in FY20F.

Fig. 36: SCMA's revenue and revenue growth trend



Sources: Company, IndoPremier

Fig. 37: Earnings growth should rebound with increase in rate card



Sources: Company, IndoPremier

Digital businesses as long-term strategy

Vidio.com may continue to record losses in FY20F, although partnership with Telkomsel is positive
SCMA has just recently announced their partnership with Telkomsel for their Vidio.com. The partnership allows SCMA to bundle their Vidio.com subscription with Telkomsel's Maxstream package, which entitles SCMA to receive a fix amount of revenue per subscriber from Telkomsel. We expect the average revenue per user (ARPU) from the Telkomsel partnership to be at a considerable discount compared to Vidio.com's entry subscription of US$1/month (Rp15,000/month). We also estimate that partnership with Telkomsel has added up to around 150k paying subscribers, on top of Vidio.com's existing 150k regular paying subscribers in 2019F; leading to a total of 300k paying subscribers by end of 2019F. We think that this should further increase to a total of 750k/1.1mn paying subscribers in FY20/21F (See Figure 38 for our estimates).

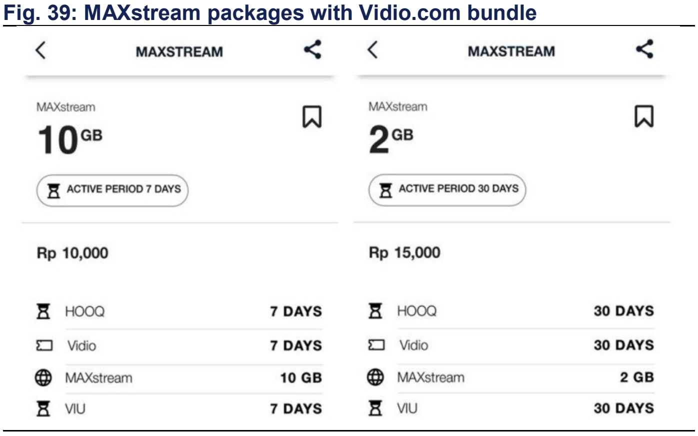
Fig. 38: Our Vidio.com assumptions

Vidio.com - Revenue and Cost Simulation	May-Dec 2019F	2020F	2021F	2022F	2023F	2024F	2025F
Revenue							
No. of reguler subscribers	150,000	350,000	500,000	600,000	700,000	800,000	900,000
ARPU /month (Rp)	15,000	20,000	20,000	20,000	20,000	20,000	20,000
ARPU / year	180,000	240,000	240,000	240,000	240,000	240,000	240,000
No. of subs (Telkomsel)	150,000	400,000	600,000	750,000	900,000	1,050,000	1,200,000
ARPU/month (Rp)	8,000	10,000	10,000	10,000	10,000	10,000	10,000
ARPU/year	96,000	120,000	120,000	120,000	120,000	120,000	120,000
Total paying subscribers	300,000	750,000	1,100,000	1,350,000	1,600,000	1,850,000	2,100,000
Total revenue (Rp bn)	**24**	**132**	**192**	**234**	**276**	**318**	**360**
Original content productions							
COGS / hour (Rp bn)	1	1	1	1	1	1	1
COGS / series (Rp bn)	10	10	10	10	10	10	10
* assuming 10 episodes per series							
No. of series produced	15	20	20	22	22	25	25
COGS - original content (Rp bn)	150	200	200	220	220	250	250
COGS - others (Rp bn)	50	100	100	100	100	130	130
Total COGS (Rp bn)	**200**	**300**	**300**	**320**	**320**	**380**	**380**
Total COGS booked for the year (Rp bn)	**140**	**250**	**290**	**314**	**318**	**362**	**374**

Sources: Company, IndoPremier

This partnership should be very positive for SCMA, as they will be able to increase their subscriber base significantly at a very short period of time. With Telkomsel being the largest telco company in Indonesia, SCMA has the potential to tap into Telkomsel's large user base (currently around 750k MAXstream subscribers) to further increase their revenue. In addition, this partnership will also strengthen the likelihood for SCMA to secure a credible strategic partner for Vidio.com in our view, as it immediately boosts their subscriber base.

Fig. 39: MAXstream packages with Vidio.com bundle



Sources: Telkomsel

Fig. 40: Vidio.com regular subscription prices

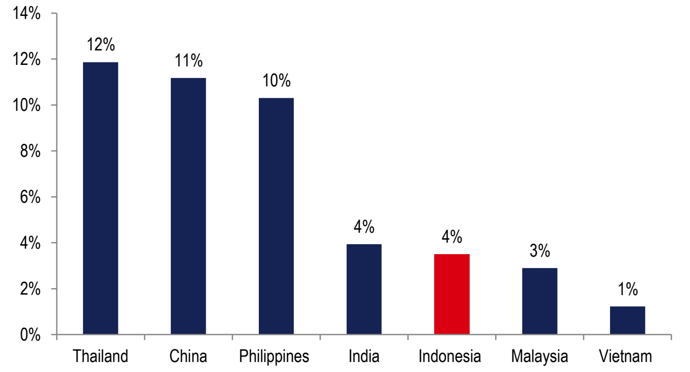
Sources: Vidio.com

In 2019 SCMA has already released three original dramas on Vidio.com, namely "Girls in the City", "I Love You Baby" and "Heart", which are exclusive only to the OTT. According to the company, the three new original series were received very well by the users, with Girls in the City reaching 2 million plays in the first 2 weeks of its release. The costs for these three original contents are approximately the same as their FTA TV dramas, which are around US$30,000 per episode. However, going forward we are expecting this to relatively increase as they are trying to improve the story and quality of the OTT original dramas. SCMA is already planning to release around 12 new original contents in 2020F, with around 13 episodes per title series.

Largely untapped OOH space in the country

We believe that in Indonesia, out-of-home (OOH) advertising has been an overlooked segment of the advertising media for a while now. Indonesia's OOH adspend only makes up less than 5% of total adspend in the country, still relatively small compared to regional peers such as Thailand and China, which makes up 12% and 11% respectively. Indonesia should most closely mimic Thailand's market in our view, as we have similar demographics as well as amount of time spent on the road with comparable heavy traffic.

Fig. 41: Regional OOH contribution to total adspend (%)



Sources: Euromonitor, IndoPremier

Fig. 42: SCMA's EYE advertising space in Senayan

Sources: Company, IndoPremier

Well positioned to capitalized on OOH growth

Amongst all the major media companies, SCMA is probably the only one who has been investing in OOH. They have recently acquired majority of EYE from their parent entity, Emtek (EMTK IJ), as they now own 60% of the company post acquisition (remaining 10% held by Plan B and 30% held by EYE founders). As of Mar-19, EYE operates in three major cities, Jakarta, Bandung and Lombok with 76 screens covering around 1,700sqm.

According SCMA, the current OOH market in Indonesia is still highly fragmented with no apparent market leader, hence this will allow consolidations among smaller or even medium size players in the industry. SCMA has also previously invested in Thailand's leading OOH player, Plan B (pre-IPO), which now in turn also invested in EYE. Plan B has now by far become the market leader in OOH after their recent merger with VGI (the second largest OOH in Thailand). We believe that with SCMA's know-how and capital, they will be able to strengthen their position and potentially become a market leader in the OOH space.

Financials and valuation

Solid FTA TV earnings momentum should offset Vidio.com's losses
With the recent rate card increase announcement, it should give the necessary boost that the media sector lacked for these past few years. Although Vidio.com's losses is expected to slightly widen in FY20F, we believe that FTA TV's rate card driven growth should be able to more than offset this deficit, as we expect core earnings to grow by 26.7% yoy in FY20F.

Initiate with a Buy call and a TP of Rp2,000
We initiate SCMA with a Buy call and a TP of Rp2,000, based on a 16.2x FY21F P/E or at a 25% to its 3-year mean (3-year mean at 21.6x). Although shift to digital is inevitable and rate card increase will offset digital losses in the short-medium term, it will still take a while for SCMA to be able to make profit on Vidio.com in our view, hence our discount to its mean.

Nonetheless, we believe that the worst should have passed for SCMA, as most of the costs needed for their recent digital assets acquisition was mostly booked in 2019, while the company also seems to be closer to securing a partner for Vidio.com. With rate card increase as their immediate-medium term catalyst and digital investments as their long term catalyst, we are bullish on the company's outlook going forward. We expect the company to book 18.2% earnings CAGR in 2019F-21F (vs. -1.9% CAGR in 2017-19F).

Fig. 43: SCMA is currently trading at 13.6x 12M forward P/E, slightly below 1 s.d. from its historical 3-year mean of 21.6x

Sources: Bloomberg, IndoPremier

SCMA's share price has de-rated by -24% in 2019, while valuation also declined to 13.6x 12M forward P/E. We believe this is mainly due to disappointing 9M19, sluggish sector performance and the recent exclusion from MSCI in Nov 2019. However with the recent announcements, considerable improvements in FY20F and its relatively cheap valuation, we think that the share price should re-rate accordingly, hence we prefer SCMA as our top pick with more upside potential to be gained compared to MNCN.

Income Statement (Rp bn)	2017A	2018A	2019F	2020F	2021F
Net revenue	4,454	5,002	5,418	6,329	6,804
Cost of sales	(1,835)	(2,157)	(2,625)	(2,850)	(3,001)
Gross profit	**2,619**	**2,845**	**2,793**	**3,479**	**3,803**
SG&A Expenses	(847)	(907)	(1,097)	(1,288)	(1,402)
Operating profit	**1,772**	**1,938**	**1,696**	**2,191**	**2,402**
Net interest	(1)	22	41	42	46
Forex gain (loss)	0	0	0	0	0
Others	11	9	9	9	9
Pre-tax income	**1,782**	**1,969**	**1,746**	**2,242**	**2,457**
Income tax	(464)	(494)	(464)	(618)	(666)
Minority interest	14	10	0	0	0
Net income	**1,331**	**1,485**	**1,282**	**1,623**	**1,792**

Balance Sheet (Rp bn)	2017A	2018A	2019F	2020F	2021F
Cash & equivalent	245	994	1,167	1,228	1,492
Receivable	1,567	1,690	1,770	2,044	2,186
Inventory	766	956	1,048	1,138	1,198
Other current assets	159	153	153	153	153
Total current assets	**2,737**	**3,792**	**4,138**	**4,562**	**5,029**
Fixed assets	1,052	1,071	1,101	1,119	1,125
Goodwill	1,277	1,269	1,269	1,269	1,269
Total non-current assets	**2,713**	**2,797**	**2,827**	**2,845**	**2,851**
Total assets	**5,450**	**6,590**	**6,965**	**7,407**	**7,880**
ST loans	0	0	0	0	0
Payable	316	380	431	465	487
Other payables	146	126	126	126	126
Current portion of LT loans	65	16	16	16	16
Total current liab.	**779**	**920**	**971**	**1,005**	**1,027**
Long term loans	2	1	1	1	1
Other LT liab.	233	218	220	220	219
Total liabilities	**1,014**	**1,139**	**1,189**	**1,223**	**1,245**
Equity	1,030	1,020	1,020	1,020	1,020
Retained earnings	2,871	3,552	3,874	4,283	4,734
Minority interest	535	880	880	880	880
Total SHE + minority int.	**4,436**	**5,452**	**5,774**	**6,182**	**6,633**
Total liabilities & equity	**5,450**	**6,590**	**6,965**	**7,407**	**7,880**

Sources: Company, IndoPremier

Cash Flow Statement (Rp bn)	2017A	2018A	2019F	2020F	2021F
Net income	1,331	1,485	1,282	1,623	1,792
Depr. & amortization	150	159	170	182	194
Changes in working capital	(211)	(166)	(119)	(330)	(180)
Others	(20)	(276)	0	0	0
Cash flow from operating	**1,251**	**1,201**	**1,333**	**1,476**	**1,805**
Capital expenditure	(288)	(218)	(200)	(200)	(200)
Others	(239)	204	0	0	0
Cash flow from investing	**(526)**	**(14)**	**(200)**	**(200)**	**(200)**
Loans	2	(1)	0	0	0
Equity	0	0	0	0	0
Dividends	(1,097)	(1,111)	(959)	(1,215)	(1,341)
Others	94	556	0	0	0
Cash flow from financing	**(1,000)**	**(556)**	**(959)**	**(1,215)**	**(1,341)**
Changes in cash	**(276)**	**631**	**174**	**61**	**264**

Key Ratios	2017A	2018A	2019F	2020F	2021F
Gross margin	58.8%	56.9%	51.5%	55.0%	55.9%
Operating margin	39.8%	38.7%	31.3%	34.6%	35.3%
Pre-tax margin	40.0%	39.4%	32.2%	35.4%	36.1%
Net margin	29.9%	29.7%	23.7%	25.6%	26.3%
ROA	25.9%	24.7%	18.9%	22.6%	23.4%
ROE	32.7%	30.0%	22.8%	27.2%	28.0%
ROIC	36.7%	35.6%	28.0%	32.7%	33.3%
Acct. receivables TO (days)	124.0	115.6	112.4	106.4	110.1
Acct. receivables - other TO (days)	3.1	3.2	4.2	3.6	3.3
Inventory TO (days)	144.8	145.7	139.3	139.9	142.0
Payable TO (days)	55.9	58.9	56.4	57.4	57.9
Acct. payables - other TO (days)	28.4	23.0	17.5	16.1	15.3
Debt to equity	1.7%	0.4%	0.3%	0.3%	0.3%
Interest coverage ratio (x)	110.4	668.0	849.6	1,097.6	1,203.0
Net gearing	-4.6%	-21.4%	-23.5%	-22.8%	-25.6%

Sources: Company, IndoPremier

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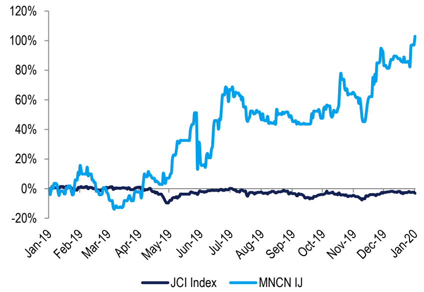
Stock Data

Target price	**Rp2,000**
Prior TP	*N/A*
Current price	Rp1,745
Upside/downside	*15%*
Shares outstanding (mn)	14,276
Market cap (Rp bn)	24,912
Free float	42%
Avg. 6m daily T/O (Rp bn)	49.3

Price Performance

	3M	6M	12M
Absolute	37.4%	21.6%	102.9%
Relative to JCI	36.5%	24.9%	106.1%
52w low/high (Rp)			740 - 1,745



Major Shareholders

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Solid growth with a leaner cost

- Rate card increase and solid digital revenue growth shall allow MNCN's revenue growth to jump by 9.4% CAGR in 2018-21F (vs. 4.9% CAGR in 2015-18).
- Meanwhile, costs employed to expand MNCN's digital businesses remain minimum thanks to its ability to monetize its existing content library.
- While share price has re-rated by 134% in 2019, current valuation at 9.8x 12M forward P/E remains a bargain. We initiate MNCN with a Buy call and Rp2,000 TP.

Solid growth from both FTA TV and digital businesses

We expect MNCN's revenue growth to jump by 9.4% CAGR in 2018-21F, from only 4.9% CAGR in 2015-18. We expect rate card increase to drive FTA TV revenue growth by 5.3% yoy in FY20F, while MNCN's digital businesses are expected to grow more than four times from where it was in 2018. We estimate MNCN's digitals to account for 12% of its total revenue in FY20F and 14% in FY21F, still well below the company's target of 40% by FY22F.

Interesting digital portfolios

MNCN has significantly expanded its digital business portfolios in the past year or so. Some that recorded solid growth include YouTube channels (56mn subscribers as of Nov 2019) and digital broadcast through RCTI Mobile and AVOD OTT platform RCTI+. It also mentioned plans to launch SVOD OTT platform in partnership with Chinese OTT giant iQiyi in 1Q20.

Minimal costs to expand digitals

Huge portion of MNCN's up-and-running digital businesses (RCTI+ and YouTube) run at minimal cost, given that most of the contents are coming from MNCN's existing content library. While new SVOD OTT platform may require MNCN to produce original series in order to attract paying subscribers, at the time being MNCN didn't plan to employ huge resources and will largely be utilizing combined content library from both MNC Group and iQiyi according to management. We expect EBITDA margin to remain at 43-44% in FY19F-21F.

Valuation remains cheap despite its recent re-rating; initiate with a Buy

While MNCN's share price has significantly re-rated by 134% in 2019, we think current valuation of 9.8x 12M forward P/E remains undemanding given its solid revenue and earnings recovery. As such, we initiate MNCN with a Buy call and a TP of Rp2,000, implying a 11.0x FY21F P/E or at a 10% premium to its 3-year mean, on the back of solid FTA and digitals growth.

Financial Summary	2017A	2018A	2019F	2020F	2021F
Revenue (Rp bn)	7,053	7,444	8,118	8,972	9,760
EBITDA (Rp bn)	3,097	3,177	3,530	3,979	4,387
EBITDA growth	17.7%	2.6%	11.1%	12.7%	10.2%
Net profit (Rp bn)	1,453	1,531	2,021	2,314	2,605
EPS (Rp)	102	107	142	162	183
EPS growth	6.2%	5.4%	32.0%	14.5%	12.6%
ROE	15.1%	15.0%	17.7%	17.7%	17.6%
PER (x)	17.1	16.3	12.3	10.8	9.6
EV/EBITDA (x)	9.1	9.1	7.9	6.7	5.9
Dividend yield	2.4%	2.4%	3.1%	4.1%	4.6%
Forecast change			N/A	N/A	N/A
IPS vs. consensus			95%	95%	102%

Sources: Company, IndoPremier *Share price closing as of: 20 January 2020*

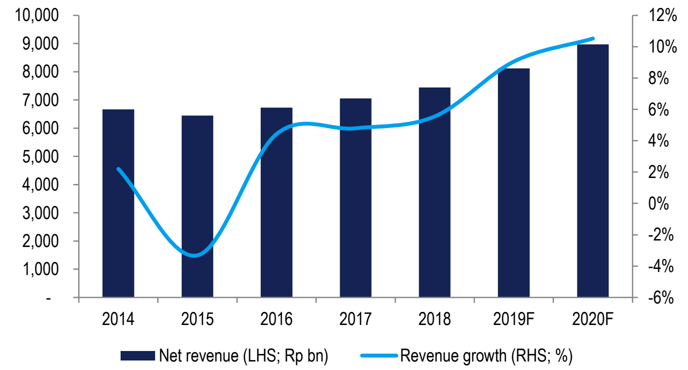
A solid approach to digital expansion

Expect digitals to be a solid revenue growth driver

We expect rate card increase to drive FTA TV revenue growth by 5.3% yoy in FY20F, while MNCN's digital revenue growth shall continue to grow by 60.0% yoy in FY20F – leading to a solid revenue growth of 10.5% in FY20F, strongest we have seen so far since 2012.

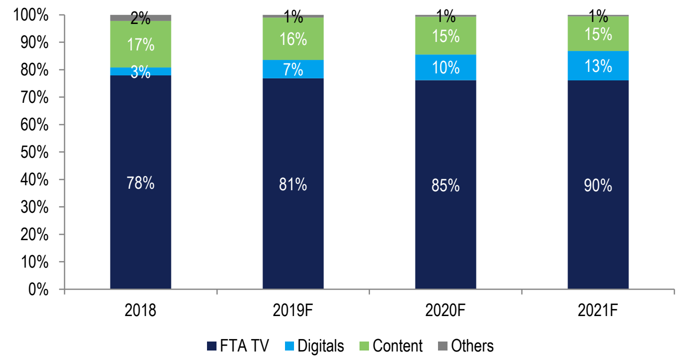
We estimate revenue contribution from digitals is expected go up to 12%/14% in FY20F/21F (vs. 2018 at 4%) – still far below the company's expectation of 40% in FY22F; hence opening more room for further growth going forward.

Fig. 44: Total net revenue and revenue growth is trending up



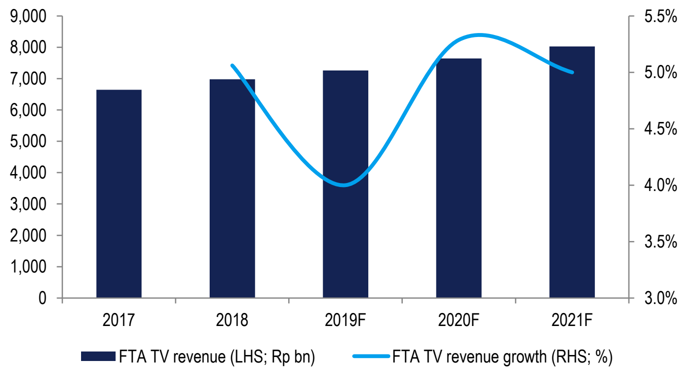
Sources: Company, IndoPremier

Fig. 45: MNCN's segment contribution to total revenue



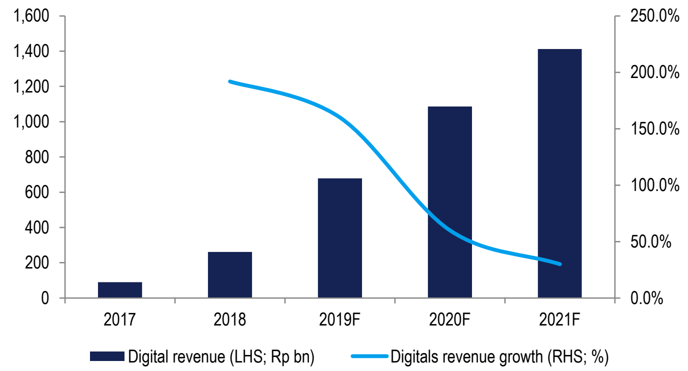
Sources: Company, IndoPremier

Fig. 46: FTA TV revenue growth is expected to rebound in FY20F



Sources: Company, IndoPremier

Fig. 47: Digital revenue also expected to grow significantly



Sources: Company, IndoPremier

Aggressive expansion into OTT platforms

In Aug 2019, MNCN launched RCTI+ mobile apps, an AVOD OTT platform which includes MNCN's extensive content library and made possible live streaming to the four FTA TV channels that MNCN owned. In RCTI+, MNCN puts all their FTA TV dramas, reality TV shows, as well as bloopers and behind the scenes from their shows.

Additionally, MNCN also announced their plan to launch an OTT JV with iQiyi a *'freemium'* platform (AVOD+SVOD). MNCN will own 51% of the JV, while iQiyi will own the remaining 49% shares. MNCN will made use of the combined content library from both MNC Group and iQiyi. We expect more premium dramas and movies will be available in the freemium app, albeit some overlap should be expected.

According to the company, this new OTT will also be available across South East Asia, but near-term main focus will still be in Indonesia. More information and details on this app should come soon and it is planning to be launched by the end of 1Q20.

Minimal digital costs will be an added value

Following MNCN's very recent entry into the OTT market, it makes sense why they are still reluctant on splurging so much on their platforms. With RCTI+ being an AVOD platform, minimal costs should be incurred in our view, as they are using existing FTA contents and costs on making short clips should be relatively cheap.

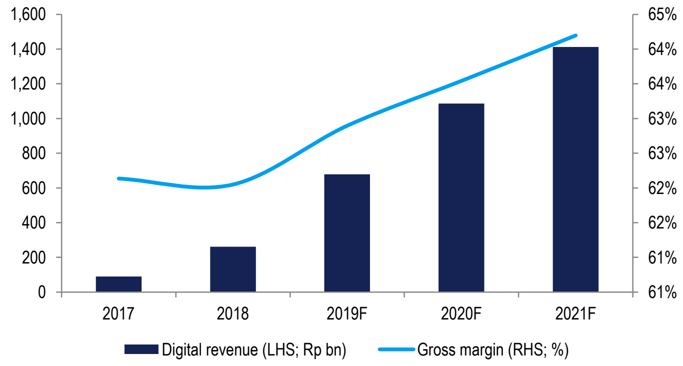
Another dominant contributor to their digital revenue is YouTube (~25% of current digital revenue), as MNCN has the largest market share in terms of views and subscribers in the country vs. other FTA TV players. Even though revenue from YouTube has only been growing, the costs for this has been very minimal as they only need minor editing for their short clips. Additionally, they also produced web-series for third-parties (i.e. Vivo and TOTO) which generates huge gross profit margin for the company.

Meanwhile, for MNCN's *freemium* app with iQiyi, they are still not planning to put a lot of costs into original content production for the near term. With their current content library and iQiyi's extensive library, they are already able to provide enough premium contents for their new platform, at least in the short-medium term.

However, when they do decide to increase their production costs it will also be split evenly with iQiyi, thus we expect programming cost increase to remain moderate in the short-to-medium time frame.

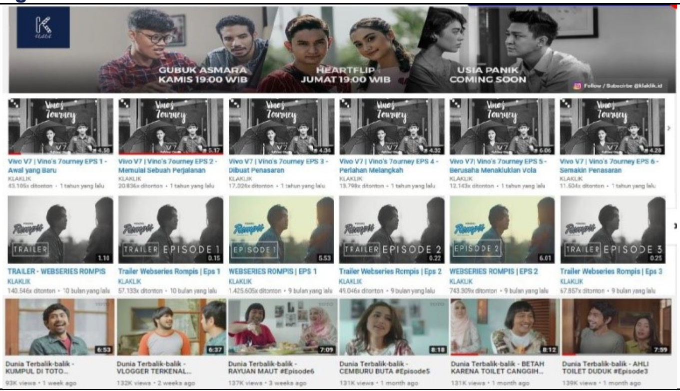
All in, we expect gross margin to continue improving by 90/10bps to 62.9%/63.0% in FY19F/20F.

Fig. 48: Gross margin is improving with increase in digital revenue



Sources: Company, IndoPremier

Fig. 49: Webseries ads MNCN made for Vivo and TOTO



Sources: Company, YouTube

Valuations and outlook

We initiate MNCN with a Buy call and a TP of Rp2,000, which is pegged at 11.0x FY21F P/E or at a 10% premium to its 3-year mean of 10.0x. Which we think is justified, on the back of FY19F outperformance, lean costs on digitals and security of having a strategic OTT partner. Exclusive license for Euro 2020 should also give a short-term boost to FTA TV in FY20F, albeit impact to earnings will not be too significant considering expensive licensing cost. We expect MNCN to book 13.9% earnings CAGR in FY18-21F (vs. 6.5% CAGR in 2015-2018).

Fig. 50: MNCN is currently trading at 9.8x 12M forward P/E, close to its historical 3-year mean of 10.0x

Sources: Bloomberg, IndoPremier

MNCN has re-rated by 134% in 2019, which we think is mostly due to outstanding FY19F performance and a positive outlook going forward. Discount to SCMA has also narrowed quite significantly to 28% (3-year mean at 53%). Nonetheless, we think that the stock (currently trading at 9.8x 12M forward P/E) is still relatively interesting considering its revenue and earnings recovery outlook, despite recent rally.

Income Statement (Rp bn)	2017A	2018A	2019F	2020F	2021F
Net revenue	7,053	7,444	8,118	8,972	9,760
Cost of sales	(2,670)	(2,825)	(3,012)	(3,271)	(3,494)
Gross profit	**4,382**	**4,619**	**5,106**	**5,701**	**6,265**
SG&A Expenses	(1,716)	(1,879)	(2,023)	(2,198)	(2,383)
Operating profit	**2,666**	**2,740**	**3,083**	**3,503**	**3,882**
Net interest	(240)	(323)	(276)	(203)	(182)
Forex gain (loss)	(31)	(300)	90	0	0
Others	20	(13)	(13)	(13)	(13)
Pre-tax income	**2,416**	**2,104**	**2,884**	**3,287**	**3,687**
Income tax	(848)	(498)	(721)	(822)	(922)
Minority interest	(114)	(74)	(141)	(152)	(160)
Net income	**1,453**	**1,531**	**2,021**	**2,314**	**2,605**

Balance Sheet (Rp bn)	2017A	2018A	2019F	2020F	2021F
Cash & equivalent	469	720	356	687	1,797
Receivable	3,026	3,082	3,350	3,685	3,998
Inventory	2,359	2,757	2,727	2,962	3,164
Other current assets	864	778	892	959	1,027
Total current assets	**6,718**	**7,337**	**7,325**	**8,292**	**9,986**
Fixed assets	5,307	5,542	5,695	5,818	5,914
Goodwill	1,147	1,147	1,147	1,147	1,147
Total non-current assets	**8,339**	**9,003**	**9,337**	**9,662**	**9,980**
Total assets	**15,057**	**16,340**	**16,662**	**17,955**	**19,966**
ST loans	143	881	381	381	381
Payable	586	312	330	355	376
Other payables	154	153	157	161	165
Current portion of LT loans	177	506	70	70	70
Total current liab.	**1,459**	**2,154**	**1,308**	**1,377**	**1,443**
Long term loans	3,498	3,241	2,746	2,158	2,205
Other LT liab.	299	303	397	509	653
Total liabilities	**5,256**	**5,697**	**4,450**	**4,043**	**4,300**
Equity	1,707	1,197	1,197	1,197	1,197
Retained earnings	7,318	8,669	10,097	11,645	13,240
Minority interest	776	777	918	1,070	1,229
Total SHE + minority int.	**9,801**	**10,642**	**12,212**	**13,912**	**15,666**
Total liabilities & equity	**15,057**	**16,340**	**16,662**	**17,955**	**19,966**

Sources: Company, IndoPremier

Cash Flow Statement (Rp bn)	2017A	2018A	2019F	2020F	2021F
Net income	1,453	1,531	2,021	2,314	2,605
Depr. & amortization	458	411	447	476	505
Changes in working capital	44	(770)	(249)	(553)	(502)
Others	11	794	127	141	163
Cash flow from operating	**1,967**	**1,967**	**2,347**	**2,377**	**2,771**
Capital expenditure	(915)	(621)	(600)	(600)	(600)
Others	719	426	(87)	(92)	(97)
Cash flow from investing	**(195)**	**(195)**	**(687)**	**(692)**	**(697)**
Loans	29	810	(1,431)	(588)	47
Equity	(664)	(411)	0	0	0
Dividends	(588)	(592)	(593)	(766)	(1,011)
Others	(445)	(1,475)	0	0	0
Cash flow from financing	**(1,668)**	**(1,668)**	**(2,024)**	**(1,354)**	**(964)**
Changes in cash	**104**	**104**	**(365)**	**332**	**1,110**

Key Ratios	2017A	2018A	2019F	2020F	2021F
Gross margin	62.1%	62.0%	62.9%	63.5%	64.2%
Operating margin	37.8%	36.8%	38.0%	39.0%	39.8%
Pre-tax margin	34.3%	28.3%	35.5%	36.6%	37.8%
Net margin	20.6%	20.6%	24.9%	25.8%	26.7%
ROA	9.9%	9.8%	12.2%	13.4%	13.7%
ROE	15.1%	15.0%	17.7%	17.7%	17.6%
Acct. receivables TO (days)	144.5	129.6	129.6	129.6	129.6
Inventory TO (days)	294.5	330.5	330.5	330.5	330.5
Payable TO (days)	74.7	35.2	35.2	35.2	35.2
Debt to equity	42.3%	46.9%	28.3%	20.3%	18.4%
Interest coverage ratio (x)	10.3	7.8	10.4	15.9	19.4
Net gearing	33.8%	36.9%	22.7%	12.7%	3.8%

Sources: Company, IndoPremier

SECTOR RATINGS

OVERWEIGHT	:	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation
NEUTRAL	:	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation
UNDERWEIGHT	:	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation

COMPANY RATINGS

BUY	:	Expected total return of 10% or more within a 12-month period
HOLD	:	Expected total return between -10% and 10% within a 12-month period
SELL	:	Expected total return of -10% or worse within a 12-month period

ANALYSTS CERTIFICATION

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

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