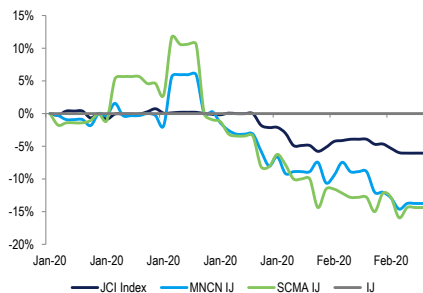


Sector Index Performance (JAKTRAD)

	3M	6M	12M
Absolute	-10.4%	-11.2%	-13.2%
Relative to JCI	-6.2%	-4.5%	-5.0%



Summary Valuation Metrics

P/E	2019F	2020F	2021F
MNCN IJ	10.6	9.3	8.2
SCMA IJ	15.6	12.3	11.2
EV/EBITDA	2019F	2020F	2021F
MNCN IJ	6.9	5.9	5.1
SCMA IJ	10.1	7.9	7.7
Div. Yield	2019F	2020F	2021F
MNCN IJ	3.6%	4.7%	5.4%
SCMA IJ	4.8%	6.1%	6.7%

## Possible downside from the new Omnibus Law draft

- Newly added clause in the Omnibus Law draft may be negative for FTA TV broadcasters, i.e. MNCN and SCMA.
- Article 33 of UU no.32/2002 requires broadcasters to pay a certain % of revenue as licensing fees; formula undecided. Article 60A regulates migration from analog to digital technology within two years.
- Rate card increase and boost from digitals will still allow increase in companies' FY21F earnings, even if we assume 1.5% licensing fees.

### Mention of new operating fee scheme in Omnibus Law draft

The Omnibus Law draft encompasses a new clause that was added to Article 33 of the UU no.32/2002, which states that "broadcasting institutions are required to pay licensing fees for undertaking broadcasting activities from a certain percentage of broadcasting revenues." From our understanding, this may refer to the previously reported operating rights fee (BHP) that the government proposed last year in order to increase the sector's contribution to the overall government's non-tax income. This may be similar to the universal service obligation (USO) imposed on the telco sector, which is currently set at 1.5% of revenue. Note that other countries, i.e. Singapore and Australia, have set their broadcasting BHP at a much higher level of 2.5% and 4.5% of revenue respectively.

### Possible sizeable impact to earnings for media companies

We expect BHP implementation to happen in 2021F the earliest which shall be negative for bottom line. Assuming the government is going to set the BHP at similar level to telco at 1.5% of revenue (worst case scenario in our view, since media industry size is much smaller than telco), the impact to SCMA's and MNCN's 2021F earnings will be c.5-6% (see Figure 2 and 3).

### Migration from analog to digital technology may happen soon

In addition to the changes in Article 33, a new Article 60A was also added to the UU no.33/2002, which will regulate the transition from analog to digital broadcasting technology within the next two years of the enactment of this law. While this may carry some risks of lower barriers to entry causing heightening competition, we are in view that FTA TV competition will remain limited to current incumbents looking at their current dominance.

### Impact still unquantifiable with no further details; maintain Overweight

While the impact generally is more negative than positive, we think overall rate card increase and boost from digitals will still allow some solid increase in the companies' FY21F earnings; as it will still imply a +6.3% and +4.1% yoy increase for MNCN and SCMA respectively even after assuming 1.5% BHP. Recent de-rating (-13% to -14%) within the past month, shall provide better entry point to investors in our view. We maintain sector Overweight and Buy call on both MNCN and SCMA.

### Elbert Setiadharmas

PT Indo Premier Sekuritas  
elbert.setiadharmas@ipc.co.id  
+62 21 5088 7168 ext. 718

### Keve Aditya

PT Indo Premier Sekuritas  
keve.aditya@ipc.co.id  
+62 21 5088 7168 ext. 717

**Fig. 1: Some of the important additions made to UU no.3/2002 in the Omnibus Law draft**

**IPS Omnibus Law Related to the Media Sector; Some important additions made to UU no.32/2002:**

**Article 33**

(2) Broadcasting institutions are required to pay licensing fees for undertaking broadcasting activities from a certain percentage of broadcasting revenues.

**Article 60A**

- (1) Broadcasting activities should be carried out while keeping with technological developments including the migration of broadcasting from analog technology to digital technology.
- (2) The migration of television broadcasting from analog technology to digital technology as meant in paragraph (1) and the analog switch off is to be completed within 2 (two) years from the enactment of this law.
- (3) Further provisions on the transmission of broadcasting from analog technology to digital technology as referred to in paragraph (1) and paragraph (2) will be governed by government regulations.

Sources: Government, IndoPremier

**Fig. 2: SCMA earnings simulation with BHP implementation**

Rp bn	2021F				2022F			
	Current	0.5% BHP	1.0% BHP	1.5% BHP	Current	0.5% BHP	1.0% BHP	1.5% BHP
<b>Net revenue</b>	<b>6,804</b>	<b>6,804</b>	<b>6,804</b>	<b>6,804</b>	<b>7,195</b>	<b>7,195</b>	<b>7,195</b>	<b>7,195</b>
BHP	0	(34)	(68)	(102)	0	(36)	(72)	(108)
P&B expenses	(3,001)	(3,001)	(3,001)	(3,001)	(3,168)	(3,168)	(3,168)	(3,168)
<b>Gross profit</b>	<b>3,803</b>	<b>3,769</b>	<b>3,735</b>	<b>3,701</b>	<b>4,028</b>	<b>3,992</b>	<b>3,956</b>	<b>3,920</b>
Opex	(1,402)	(1,402)	(1,402)	(1,402)	(1,481)	(1,481)	(1,481)	(1,481)
<b>EBIT</b>	<b>2,402</b>	<b>2,368</b>	<b>2,334</b>	<b>2,300</b>	<b>2,547</b>	<b>2,511</b>	<b>2,475</b>	<b>2,439</b>
Other income	56	56	56	56	62	62	62	62
<b>PBT</b>	<b>2,457</b>	<b>2,423</b>	<b>2,389</b>	<b>2,355</b>	<b>2,609</b>	<b>2,573</b>	<b>2,537</b>	<b>2,501</b>
Tax expenses	(666)	(666)	(666)	(666)	(694)	(694)	(694)	(694)
<b>Net profit</b>	<b>1,792</b>	<b>1,758</b>	<b>1,723</b>	<b>1,689</b>	<b>1,915</b>	<b>1,879</b>	<b>1,843</b>	<b>1,807</b>
% change to earnings		-1.9%	-3.8%	-5.7%		-1.9%	-3.8%	-5.6%
 <i>Gross margin</i>	 55.9%	 55.4%	 54.9%	 54.4%	 56.0%	 55.5%	 55.0%	 54.5%
<i>EBIT margin</i>	35.3%	34.8%	34.3%	33.8%	35.4%	34.9%	34.4%	33.9%
<i>Net margin</i>	26.3%	25.8%	25.3%	24.8%	26.6%	26.1%	25.6%	25.1%

Source: IndoPremier

**Fig. 3: MNCN earnings simulation with BHP implementation**

Rp bn	2021F				2022F			
	Current	0.5% BHP	1.0% BHP	1.5% BHP	Current	0.5% BHP	1.0% BHP	1.5% BHP
<b>Net revenue</b>	<b>9,760</b>	<b>9,760</b>	<b>9,760</b>	<b>9,760</b>	<b>10,529</b>	<b>10,529</b>	<b>10,529</b>	<b>10,529</b>
BHP	0	(49)	(98)	(146)	0	(53)	(105)	(158)
P&B expenses	(3,494)	(3,494)	(3,494)	(3,494)	(3,671)	(3,671)	(3,671)	(3,671)
<b>Gross profit</b>	<b>6,265</b>	<b>6,216</b>	<b>6,168</b>	<b>6,119</b>	<b>6,858</b>	<b>6,805</b>	<b>6,753</b>	<b>6,700</b>
Opex	(2,383)	(2,383)	(2,383)	(2,383)	(2,565)	(2,565)	(2,565)	(2,565)
<b>EBIT</b>	<b>3,882</b>	<b>3,833</b>	<b>3,784</b>	<b>3,736</b>	<b>4,293</b>	<b>4,241</b>	<b>4,188</b>	<b>4,135</b>
Other income	(195)	(195)	(195)	(195)	(168)	(168)	(168)	(168)
<b>PBT</b>	<b>3,687</b>	<b>3,638</b>	<b>3,589</b>	<b>3,540</b>	<b>4,125</b>	<b>4,072</b>	<b>4,020</b>	<b>3,967</b>
Tax expenses	(922)	(922)	(922)	(922)	(1,031)	(1,031)	(1,031)	(1,031)
<b>Net profit</b>	<b>2,605</b>	<b>2,557</b>	<b>2,508</b>	<b>2,459</b>	<b>2,903</b>	<b>2,851</b>	<b>2,798</b>	<b>2,745</b>
% change to earnings		-1.9%	-3.7%	-5.6%		-1.8%	-3.6%	-5.4%
 <i>Gross margin</i>	 64.2%	 63.7%	 63.2%	 62.7%	 65.1%	 64.6%	 64.1%	 63.6%
<i>EBIT margin</i>	39.8%	39.3%	38.8%	38.3%	40.8%	40.3%	39.8%	39.3%
<i>Net margin</i>	26.7%	26.2%	25.7%	25.2%	27.6%	27.1%	26.6%	26.1%

Source: 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

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