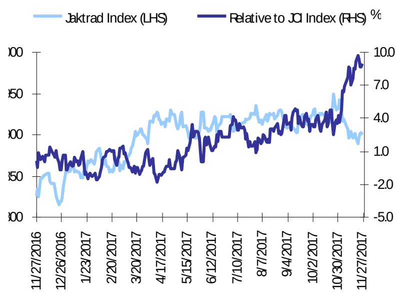
Media Sector

More bullish on FTA TV ad spending in 2018

Wednesday, 06 December 2017

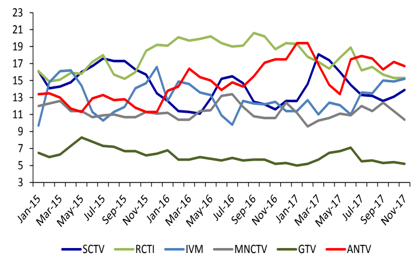
OVERWEIGHT

Jaktrade relative to JCI Index



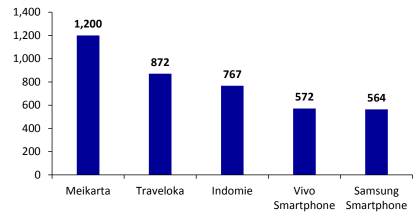
Source: Bloomberg

November audience shares, %



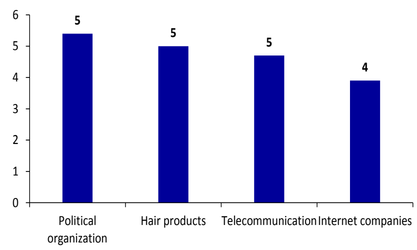
Source: Nielsen

Brand ad spend in 9M17, IDRbn



Source: Nielsen

Segmental ad spend in 9M17, IDRbn



Source: Nielsen

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We are positive on the outlook for the media sector next year given: 1) FTA TV ad spending will improve in 2018 driven by local FMCG and internet companies, 2) higher expected revenues growth for both SCMA and MNCN as they maintain their leading positions in terms of audience share, 3) content cost efficiencies which can drive better profitability and earnings, and 4) attractive dividend yields for both SCMA and MNCN.

Ad spend to grow in 2018. FTA TV ad spending is expected to improve in 1H18, relative to 1H17, thanks to higher consumption growth in 2018. We think that supported by higher fiscal subsidies in 2018, local FMCG companies will record higher revenues and ad spending growth next year of around 11% and 9% yoy for the companies under our coverage (UNVR, ICBP, MYOR, KLBF), assuming cost efficiency strategies are still implemented. We believe FMCG companies will seek to expand further, particularly by launching new products. Meanwhile, a recent Nielsen survey reveals that: 1) internet companies such as Traveloka have been advertising heavily in recent quarters, and, 2) TV dominancy in the adverting industry persists with nearly 80% market share despite an increase in digital ads.

SCMA and MNCN to maintain their leading audience share positions. SCMA and MNCN can be expected to maintain their large scale advantage during the demand upturn next year despite stiffer competition from ANTV. We expect MNCN to maintain its no. 1 position in terms of audience share at 34-35% in 2017-18F with SCMA no. 2 with audience share at 27-28% in 2017-18F. The companies will be supported in 4Q17 by the high-rating TV dramas "Cahaya Hati" and "Dunia Terbalik" (RCTI) and "Siapa Takut Jatuh Cinta" and "Anak Langit" (SCTV).

Higher revenues growth in 2018; better content cost efficiencies. We forecast aggregate revenues growth in 2018 of +5.5% yoy for SCMA and MNCN, taking into account: 1) better expected SCTV and IVM revenues growth next year and 2) RCTI's recently booked billing commitments and more upside on MNCN's content revenues from Malaysia's DTH satellite pay-TV license. SCMA and MNCN can 1) leverage on strong in house production capabilities to gain further content cost efficiencies and 2) monetize their local content library by selling it to various video drama streaming and Over the Top (OTT) platforms. We estimate better gross and EBITDA margins in 2018, which will translate into better earnings.

Attractive dividend yields, cheap valuations with expected better earnings on the cards. Attractive dividend yields for both SCMA and MNCN will provide further support for the stocks to rerate ahead, in our view. With capex intensity likely to be modest, we expect SCMA to maintain its net cash and MNCN to have stable net gearing going forward. Our top pick is MNCN (BUY/Target Price: IDR1,750, +35.7%) given its cheap valuation, stronger estimated revenues growth and improving profitability in 2018, followed by SCMA (BUY/Target Price: IDR2,800, +20.2%). The risks to our call include: 1) audience share stagnating or worsening, 2) higher content and operating costs, 3) stiffer competition.

Company	Ticker	Rec	Price, IDR	Target Price, IDR	Market Cap, IDRbn	EPS Growth, %		----- P/E, x -----		----- P/B, x -----		EV/EBITDA, x		ROE, %
						2017F	2018F	2017F	2018F	2017F	2018F	2017F	2018F	
Surya Citra Media	SCMA	BUY	2,330	2,800	29,243	(0.6)	18.5	22.9	21.3	9.1	8.2	15.8	14.6	40.5
Media Nusantara Citra	MNCN	BUY	1,290	1,750	20,629	7.7	19.5	12.5	10.5	2.0	1.8	7.2	6.5	18.2

Investment Highlights 2018

1. **Ad spending to grow in 2018F.** FTA TV ad spending is likely to start to recover in 1H18 thanks to improving consumption in 2018 ahead of the 2019 elections which may translate into higher ad spending by local FMCG companies.

   a) **Fiscal subsidies in 2018 may boost purchasing power, thus supporting local FMCG.** We think that consumer companies will enjoy volume growth on the back of fiscal support in 2018. This will help boost growth in the consumer sector. Despite the cost discipline measures undertaken by FMCG companies, we still estimate that ad spending will grow, albeit at a rate which is lower than the expected revenues growth. All in all, we expect the ad spending growth among Indonesian FMCG companies such as UNVR, ICBP, MYOR, and KLBF to reach ~9% on average in 2018 (vs. ~11% top line growth). In our view, local FMCG companies will remain as the main drivers of national ADEX growth.

   b) **Internet companies will continue to spend, although TV ads will still dominate.** Ad spending by internet companies such as Traveloka has been growing rapidly, according to Nielsen. This will provide more room for ad spending to grow going forward. A recent Nielsen survey also reveals that although digital ad spending is growing, TV ads still dominate with an 80% overall share of the advertising business.

   c) **Large scale advantages.** We believe that both SCMA and MNCN have scale advantages with 27% and 34% audience share, respectively. This can help them achieve more stable revenues than smaller players. We estimate aggregate revenues growth for SCMA and MNCN in 2018F of around 5.5% yoy, despite competition from ANTV.

2. **Content cost efficiencies remain intact; stronger balance sheets.**
   SCMA and MNCN can leverage their in house production capabilities to gain content cost efficiencies and better profitability, in our view, by focusing on local content. Improving margins should be on the cards, along with stronger balance sheet positions as reflected in a stable net cash position for SCMA and a net gearing ratio of only 0.2x for MNCN.

3. **Overweight on the sector.** We are overweight on both SCMA and MNCN with a TP of IDR2,800 and IDR1,750, respectively, based on DCF valuation. We see room for multiples expansion given: 1) potential ad spending recovery and 2) profitability expansion in 2018. We believe that the share price corrections offer an opportunity for investors to collect Indonesian media stocks at a significant discount. We think SMCA's (21.3x P/E 2018F) valuation premium over MNCN (10.4x P/E 2018F) should persist given its superior ROE profile (40-45% vs. 15-20%).

4. **Risks to rating and target price.** The risks: 1) audience share stagnating or worsening, 2) higher content and operating costs, and 3) stiffer competition from ANTV.

Exhibit 1. Revenues growth SCMA and MNCN

(IDRbn)	2012	2013	2014	2015	2016	2017F	2018F	2016-2017F yoy growth (%)	2017F-2018F yoy growth (%)
SCMA	2,240	3,695	4,056	4,238	4,524	4,530	4,779	0.1	5.5
MNCN	6,265	6,522	6,666	6,445	6,730	6,887	7,266	2.3	5.5
Revenues	8,505	10,217	10,722	10,683	11,254	11,417	12,045		
Yoy % changes	10.5	20.1	4.9	(0.4)	5.3	1.4	5.5		

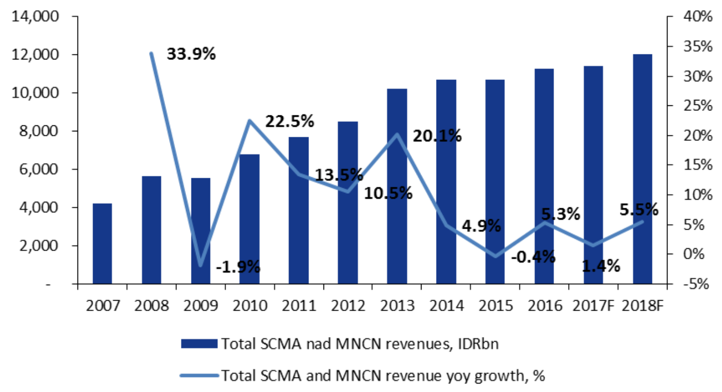
Source: Companies, Danareksa Sekuritas

Exhibit 2. Net profits growth SCMA and MNCN

(IDRbn)	2012	2013	2014	2015	2016	2017F	2018F	2016-2017F yoy growth (%)	2017F-2018F yoy growth (%)
SCMA	913	1,280	1,454	1,520	1,501	1,491	1,605	(0.6)	7.6
MNCN	1,657	1,691	1,762	1,186	1,369	1,474	1,760	7.7	19.5
Net profits	2,570	2,971	3,216	2,706	2,870	2,965	3,365		
Yoy % changes	29.6	15.6	8.3	(15.9)	6.1	3.3	13.5		

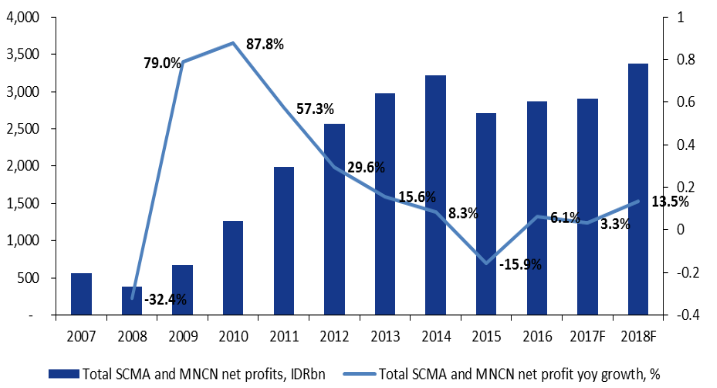
Source: Companies, Danareksa Sekuritas

Exhibit 3. Media revenues, IDRbn



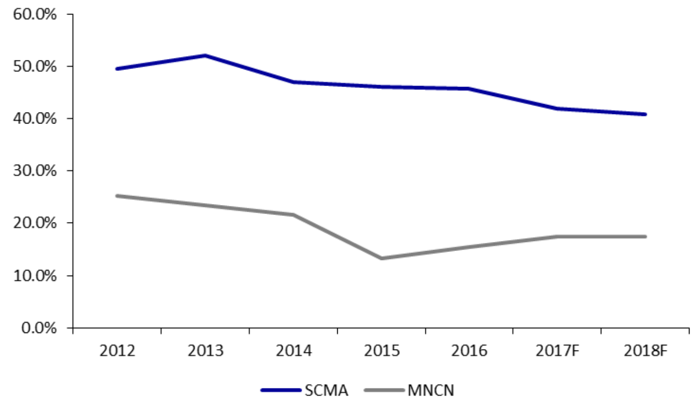
Source: Companies, Danareksa Sekuritas

Exhibit 4. Media net profits, IDRbn



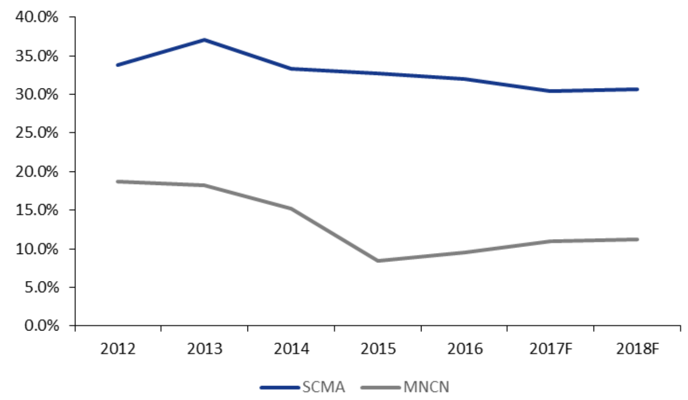
Source: Companies, Danareksa Sekuritas

Exhibit 5. ROAE 2017-2018F



Source: Companies, Danareksa Sekuritas

Exhibit 6. ROAA 2017-2018F



Source: Companies, Danareksa Sekuritas

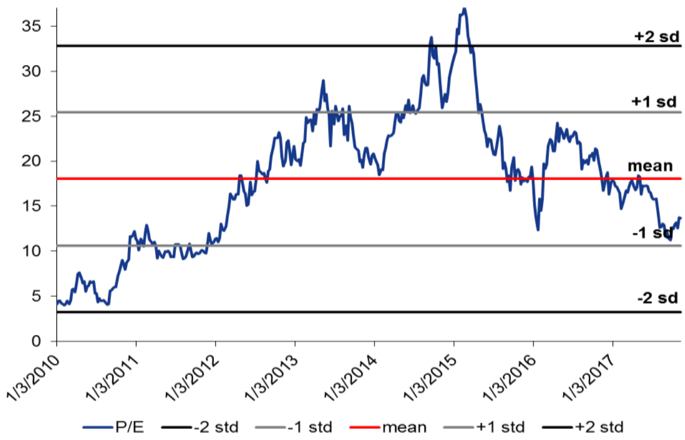
Cheap Valuations

SMCA currently trades at 21.3x P/E 2018F and MNCN at 10.5x P/E 2018F. The media sector trades below its mean average based on the 2010-2016 P/E historical trend, offering an opportunity to buy the stocks.

Exhibit 7. SCMA's P/E Band, x

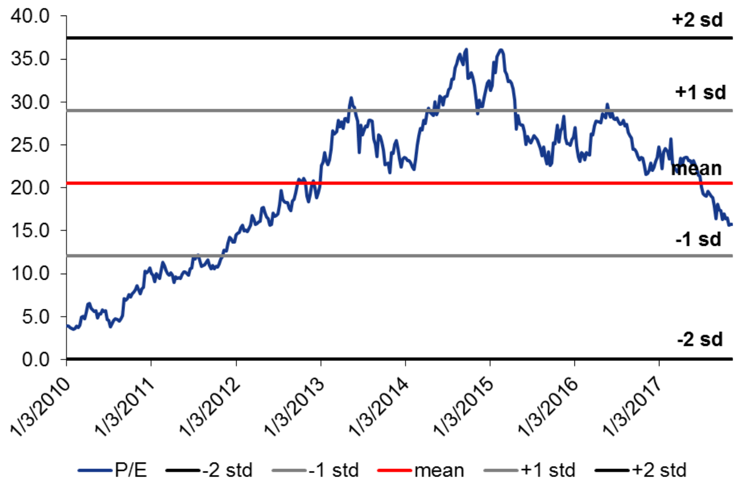
Source: Companies, Danareksa Sekuritas

Exhibit 8. MNCN's P/E Band, x



Source: Companies, Danareksa Sekuritas

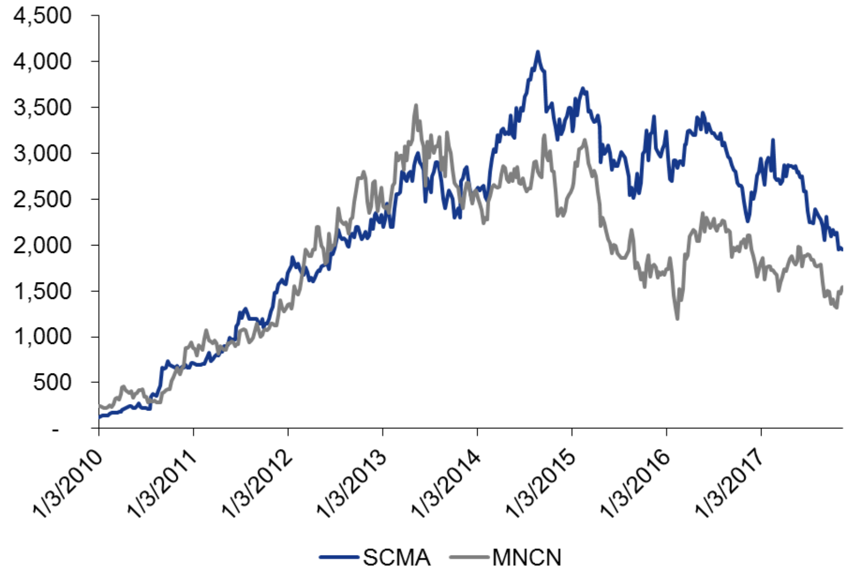
Exhibit 9. Media's P/E Band, x



Source: Companies, Danareksa Sekuritas

Collect ahead of the expected upswing

Exhibit 10. Year-to-date share price performance



Source: Companies, Danareksa Sekuritas

Too cheap to ignore. The share prices of both SCMA and MNCN have been trending down. A main concern for investors was the weak consumer spending during the Lebaran festivities in June/July, when spending is typically strong. We estimate that Indonesia's real GDP growth will accelerate from 5.1%-5.2% in 2017F to 5.3% in 2018F, boosting consumer sentiment. We think that given the sector's growth drivers, the earnings growth of SCMA and MNCN should be higher next year supported by higher expected FMCG ad spending.

Our stock picks

We think that local FMCG companies will enjoy volume growth on the back of fiscal support in 2018. Despite cost discipline, we still expect ad spending to grow by around 9% in 2018F. Recent share price corrections offer an opportunity to buy the stocks, in our view, at a discount.

Surya Citra Media (SCMA) – BUY TP of IDR2,800

We think that: 1) higher expected local FMCG ad spending will lead to a better top line for SCMA next year (+5.5% yoy), despite the flattish revenues growth expected this year, as we still estimate revenues growth of -0.1% yoy. Also, 2) SCMA's dominant position with the second-highest audience share will remain intact in our view despite competition from ANTV. In 4Q17 alone, we estimate an improvement in SCTV's prime time audience share on the back of recent high-ranking TV dramas called "Siapa Takut Jatuh Cinta" and "Anak Langit". Furthermore, 3) content cost efficiency will remain a focus of the management in following years, with SCMA relying more on local content production. In turn, this should lead to better EBITDA margins. Finally, 4) SCMA has a strong balance sheet with an attractive dividend yield of around 3.5% in 2017-18F. We initiate coverage on SCMA with a BUY rating.

Media Nusantara Citra (MNCN) – BUY TP of IDR1,750 (Top pick)

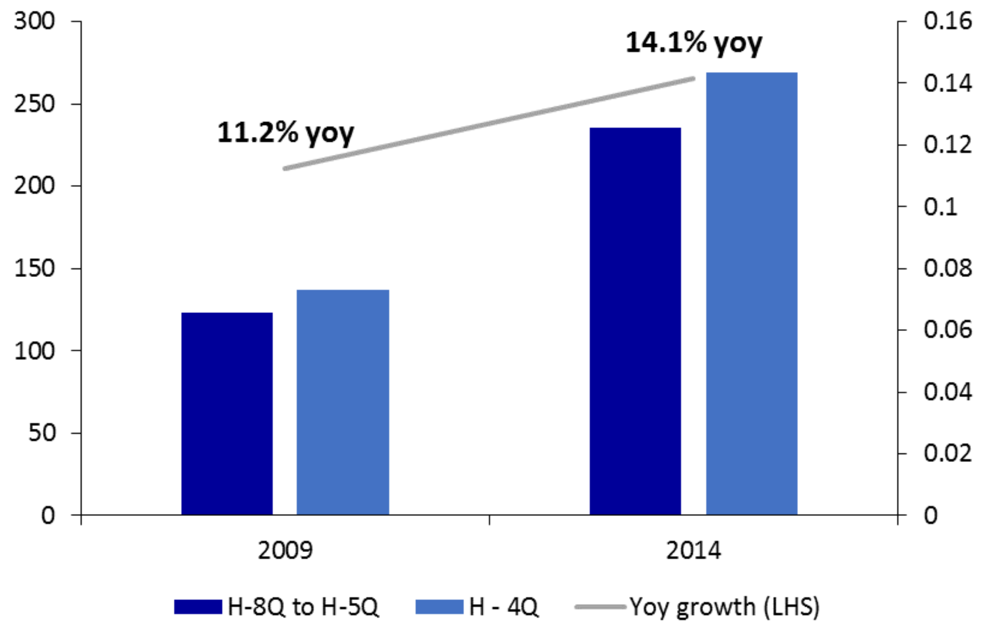
MNCN is our top pick in the sector given its more attractive valuation compared to SCMA. As such, the stock has greater upside, in our view. Meanwhile, higher expected ad spending growth in 2018 has been reflected in the recent RCTI booked billing commitments of IDR7.7tn for 2018 revenues. There is also more upside from content revenues next year as the company just secured Malaysia's direct to home (DHT) satellite pay-TV license. MNCN's strong leadership with the no. 1 audience share in the Indonesian TV industry gives it greater bargaining power than its peers despite the stiffer competition. On the content side, MNCN's newly-built broadcasting facilities and strong in-house production team have so far yielded strong ratings. And, more importantly, the management's focus on local content going forward will filter through to better EBITDA margins going forward. The stock is cheap as it trades at only 10.4x P/E 2018F due to the recent drop in MSCI's share price. We initiate coverage on MNCN with a BUY rating.

A better consumption story thanks to elections

Welcome boost from regional elections in 2018 and the 2019 presidential election
The regional elections in 2018 may potentially boost consumer demand in 2018, we believe. In turn, this should lead to higher ad spending as well. To note, there will be 171 regional elections (on 27 June 2018) in 17 provinces, 115 municipalities and 39 cities, involving around 80% of the country's population, right after the Idul Fitri holidays in 2Q18. This figure is nearly double the number of regional elections in 2017 (101 only).

Meanwhile, going into 2019, presidential elections will be held in April 2019. From the past two presidential elections (2009 and 2014), data from consumer companies shows that in the 4 quarters before the election, there has always been revenues growth on a yearly basis, both for FMCG companies such as UNVR, IBCP, MYOR, and KLBF, as well as for cigarette companies such as GGRM and HMSP.

Exhibit 11. FMCG and cigarette companies H-4Q revenues growth before the elections



Source: Companies, Danareksa Sekuritas Estimates

Favorable government programs to bolster purchasing power in 2018
More populist government policies will be implemented in 2018 to please the nation's grassroots as incumbent provincial rulers seek to get reelected. Thus, provincial fiscal spending may accelerate next year and stimulate more consumption. This may owe to: 1) higher energy subsidies, 2) higher health care subsidies, 3) increasing coverage for non-cash social assistance, and 4) uniform fuel prices.

Exhibit 12. RAPBN 2018

	Government Expenditure: Budget: CGE: Subsidies: Energy	Government Expenditure: Revised Budget: CGE: Subsidies: Energy	Government Budget: Health
	IDRbn	IDRbn	IDRtn
2004	17,890	59,179	
2005	22,363	43,786	13
2006	54,276	95,458	23
2007	87,676	88,048	25
2008	75,591	187,108	24
2009	103,569	99,939	28
2010	106,527	143,997	33
2011	136,614	195,289	37
2012	168,560	202,353	41
2013	274,743	299,830	47
2014	282,100	350,311	61
2015	344,703	137,824	74
2016	102,080	94,355	104
2017	77,314	89,864	104
2018F	**103,400**		**110.2**

Source: Bank Indonesia

1. Higher energy subsidies
In 2017, purchasing power was depressed by higher electricity tariffs, higher fuel prices and higher registration fees for 2W-4W vehicles. For 2018, the government proposes IDR103.4tn of energy subsidies, up 33.7% from the amount in 2017's budget (or +15% from the revised budget).

2. Higher health care subsidies
For 2018, subsidies for health have been increased by 5.9% to IDR110tn, or much higher than IDR104tn in the previous year.

3. Increasing coverage for non-cash social assistance
In 2018, the government wants 10mn low-income households to receive non-cash social assistance as beneficiaries of the electronic-based food assistance program. The first phase of this program will be implemented from February to August 2018. The number of households targeted is higher than in 2017 (6mn households).

4. Uniform fuel prices
The government seeks a uniform fuel price throughout Indonesia by 2019. By end-Oct 2017, prices are uniform in 25 municipalities in 15 provinces. This is expected to reach 160 municipalities by the end of 2019 with estimated funds needed of around IDR3tn.

5. Cash-basis intensive projects launched next year
The government plans to launch cash-basis labor intensive projects in 2018, to increase the people's purchasing power. President Jokowi will initiate the program to absorb unemployment by providing direct income, which will be funded by village funds. Infrastructure projects such as roads and bridges are expected to absorb labor next year.

Asian Games
Looking further ahead, Indonesia will host the 2018 Asian Games. As such, government spending on infrastructure, transportation, and tourism and promoting the games during the course of 2017 will give the economy an additional boost, with ad spending benefiting as well, in our view.

Exhibit 13. Asian Games in 2018

Source: Tempo

Higher local FMCG company revenues and ad spending growth in 2018

Local FMCG companies are regularly introducing new products

Local FMCG companies have been regularly introducing new products to the market to boost revenues. For example, Mayora (MYOR) has recently introduced Tora Café, while UNVR has recently introduced Pure Line Fresh Hijab Ads, both TV ads. We think that with the continued expansion undertaken by local FMCG companies, this may result in more aggressive advertising spending as FMCG companies seek to gain market share. This would bode well for media companies.

Exhibit 14. MYOR's Tora Café new product

Source: MYOR

Exhibit 15. UNVR's Pure Line Fresh Hijab TV Ads

Source: UNVR

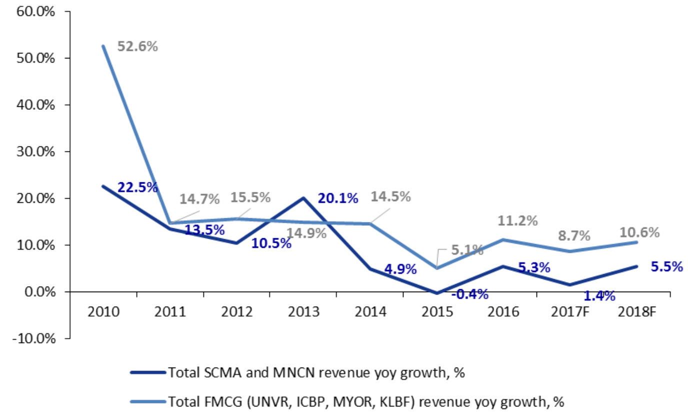
Local FMCG companies will continue their ad spending in 2018
We think the market may be discounting the potentially sluggish growth of FMCG companies too severely. Local FMCG companies (Indofood, Mayora, Wings Group, to name but a view) have a dominant position in Indonesia and their ad spending still accounted for a sizeable chunk of the revenues of media companies in 2017, based on our channel checks. Going forward, we expect the dominance of local FMCG companies in national ad spending to continue despite the weaker demand faced by cigarette companies as the government seeks to limit tobacco-product related ads on television and radio, with the trend now more towards below the line advertising.

Exhibit 16. Cigarette advertising in a concert

Source: Companies

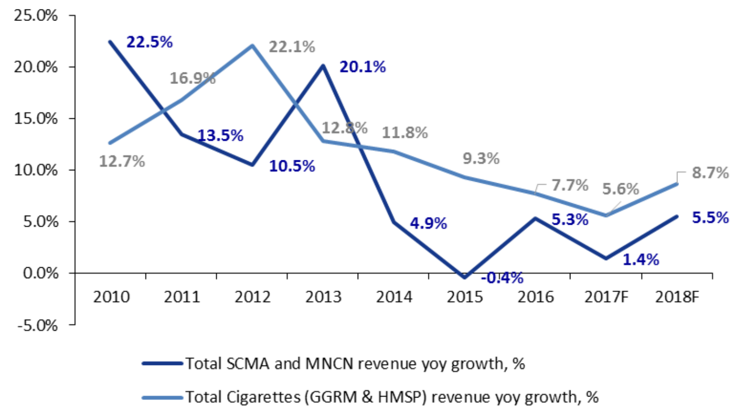
Expecting higher ad spending and stronger media revenues growth in 2018
We estimate that national advertising spending will grow in 2018. We estimate that the revenues of local FMCG companies such as UNVR, ICBP, MYOR, and KLBF will grow by 10.6% yoy. We also expect ad spending growth of 9.2% yoy in 2018. From our channel checks with FMCG companies, digital ad spending has accounted for around 10% of their total ADEX. Assuming, +/- 10% ADEX to sales in 2018, we think the total media sector can still grow by at least 5.5% yoy in 2018.

Exhibit 17. Media vs. FMCG revenues growth yoy, %



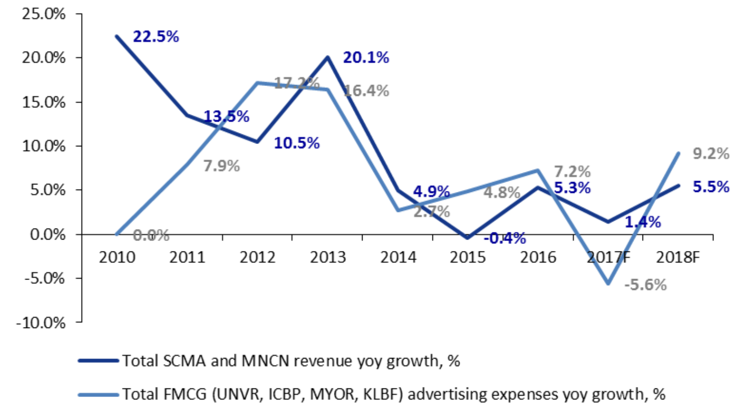
Source: Companies, Danareksa Sekuritas Estimates

Exhibit 18. Media vs. Cigarette revenues growth yoy, %



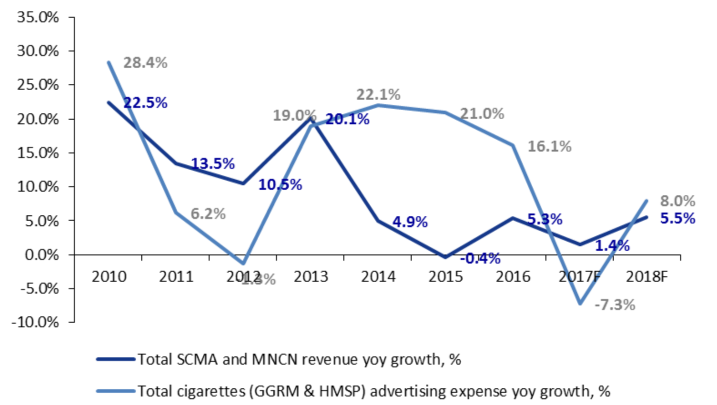
Source: Companies, Danareksa Sekuritas Estimates

Exhibit 19. Media vs. FMCG ad spending growth yoy, %



Source: Companies, Danareksa Sekuritas Estimates

Exhibit 20. Media vs. Cigarettes ad spending growth yoy, %

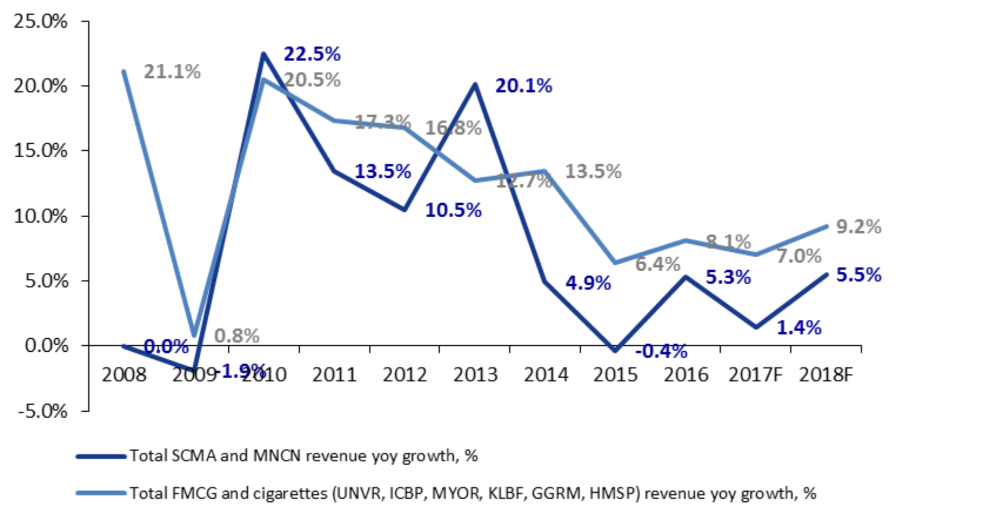


Source: Companies, Danareksa Sekuritas Estimates

Ad spending lagged in 2017 due to efficiencies

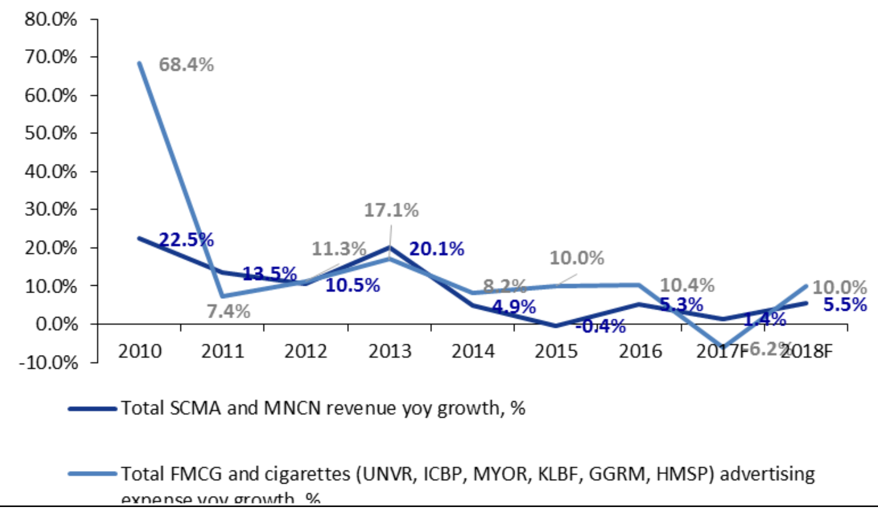
We expect media revenues to only grow by 1.4% yoy in 2017. Nonetheless, we still expect the revenues growth of both FMCG and cigarette companies (exhibit 20) to reach around +7.0% yoy this year. Advertising expenses (exhibit 21), however, are expected to drop by around 6.2% yoy in 2017F. This decline in advertising expenses reflects the move by many FMCG and cigarette companies to control their costs in order to maintain margins in the face of weak purchasing power and sluggish volume growth.

Exhibit 21. Media vs. FMCG and Cigarettes revenues growth yoy, %



Source: Companies, Danareksa Sekuritas Estimates

Exhibit 22. Media vs. FMCG and Cigarettes ad spending growth yoy, %

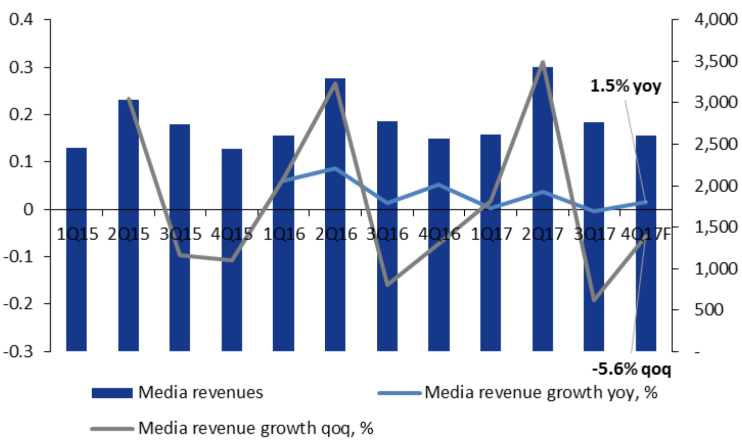


Source: Companies, Danareksa Sekuritas Estimates

Overview of media revenues growth in 4Q17

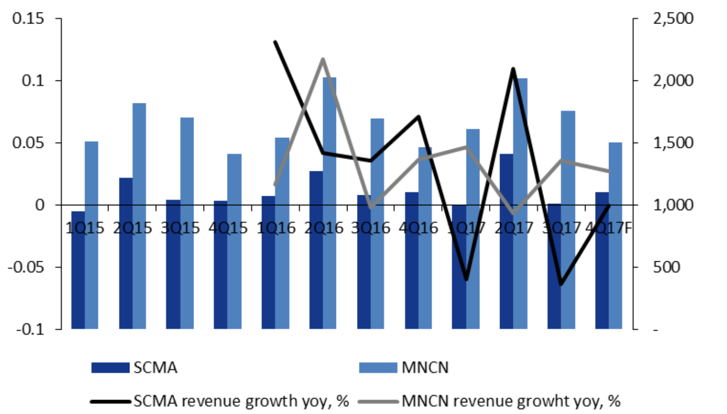
For 4Q17, we estimate media revenues growth to lag at just +1.5% yoy and -5.6% qoq due to seasonality. By company, we estimate that SCMA's revenues growth will be more sluggish at -0.1% yoy in 4Q17 compared to MNCN's revenues growth at +2.7% yoy in 4Q17. Based on our channel checks, both SCMA and MNCN as well as FMCG companies such as UNVR, ICBP, KLBF, and MYOR still expect flattish ad spending in 4Q17 as there is potentially no sizeable pick-up in consumer demand due to macro challenges in the near term, although an improvement is expected to start in 1Q18.

Exhibit 23. 4Q17 media revenues, IDRbn



Source: Companies, Danareksa Sekuritas Estimates

Exhibit 24. 4Q17 SCMA and MNCN revenues growth yoy, %



Source: Companies, Danareksa Sekuritas Estimates

More ad spending coming from internet companies

Reaping the benefits of stiffer competition among internet companies
Indonesian e-commerce has been booming in recent years with investors coming in from all over the world to invest in companies like Tokopedia, Traveloka, Gojek, etc. A recent Nielsen survey found that ad spending by e-commerce companies grew the most in 2015 (+44% yoy). MNCN claims that the revenues coming from e-commerce companies have grown significantly, reaching around 5% of total revenues in 2015 or up from less than 1% of total revenues in 2014. We foresee that this extraordinary growth will continue in 2017 with e-commerce companies eager to gain the attention of consumers via advertising.

SCMA explained that the contribution to its revenues from internet companies has increased from around 1% in 2014 to almost 10% in 2016 and possibly 2017. Going forward, we think ad spending by internet companies will continue to grow given:

Recent equity raising and corporate actions by Tokopedia, Go-Jek and Blibli
Tokopedia, which was named the top advertiser in 2015-16, has not spent as aggressively and was not named among the top spenders in 1H17. This may soon change, however, as the company recently secured a USD1.1bn investment from Alibaba Group. Gojek has recently secured another USD1.2bn from Tencent, and Blibli (part of the Djarum Group) just acquired Tiket.com. We argue that internet space in Indonesia is still in its infancy and companies will continue to spend on ads in order to secure brand value and increase market share.

Exhibit 25. Recent investments and corporate actions in Indonesia's e-commerce space

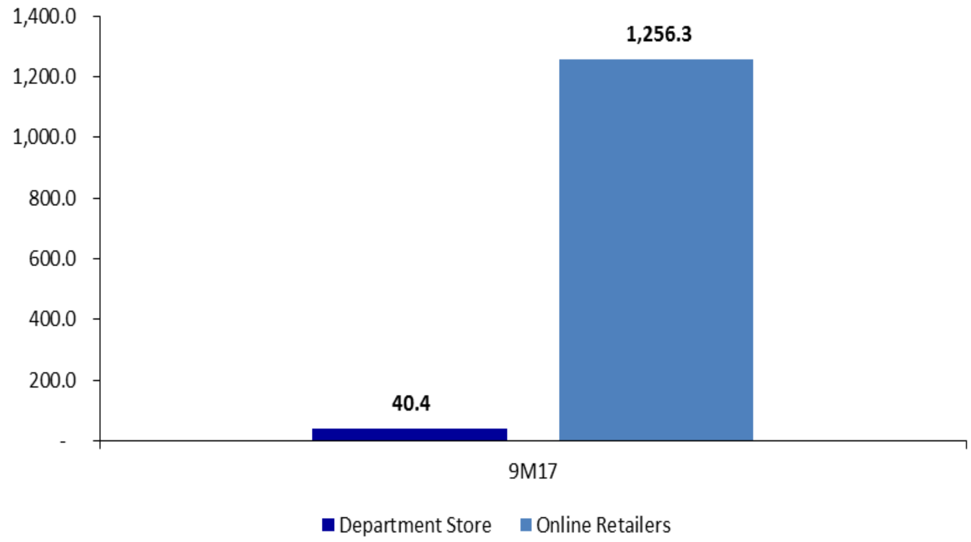
Alibaba invested USD1.1 in Tokopedia	In August 2017, Alibaba made a USD1.1bn investment in Tokopedia a well-established online market place in Indonesia.
Tencent invested USD1.2bn	Gojek has recently secured a USD1.2bn investment from a consortium led by Tencent and JD.com. In six month's time, Gojek plans to make its e-wallet GoPay an independent application. This would enable users to utilize GoPay as a payment method for services outside the Gojek application.
Djarum Group's Blibli.com acquired Tiket.com	In June, Blibli.com (an e-commerce company) acquired the online travel agent Tiket.com. Blibli has ventured into travel products since late 2016, and with the acquisition it aims to grow its size by 2-3 times in the near term.
EMTK entered into an agreement with Ant Financial Services	EMTK entered into an agreement with Ant Financial Services, the mobile payment unit of Alibaba. EMTK holds the global consumer licenses for BBM, with some 60mn users in Indonesia.
Expedia invested USD350mn in Traveloka	In addition to Expedia, it was reported that Traveloka raised an additional USD150mn in the last year from several investors, including JD.com

Source: Various Local News Sources

Indonesia's burgeoning e-commerce sector has led the growth in advertising spending for television and print media thanks to the rapid rise of tech start-ups. Data from global market researcher Nielsen shows that ad spending from the e-commerce sector grew 50% yoy to IDR2.26tn (USD163.9bn) in 9M17, reflected mainly on Traveloka.

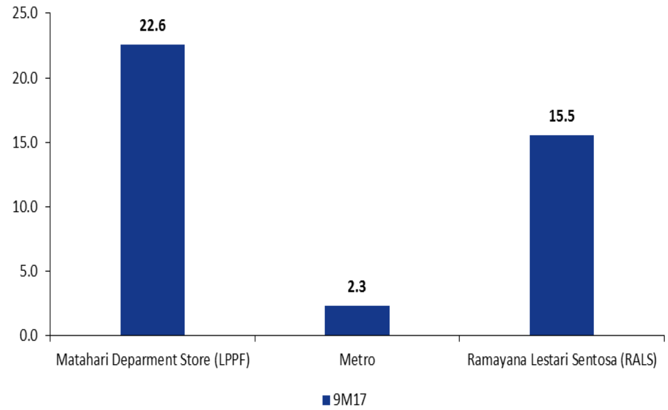
Based on recent survey from Adstensity, online retailers, such as Bukalapak.com, Tokopedia, Shopee, Blibli.com, OLX, and Lazada, has showed much higher TV ads spending as of 9M17 compared to fashion department stores, such as LPPF, Metro, and RALS.

Exhibit 26. TV Ads Spending Department Store vs. Online Retailers, IDRbn



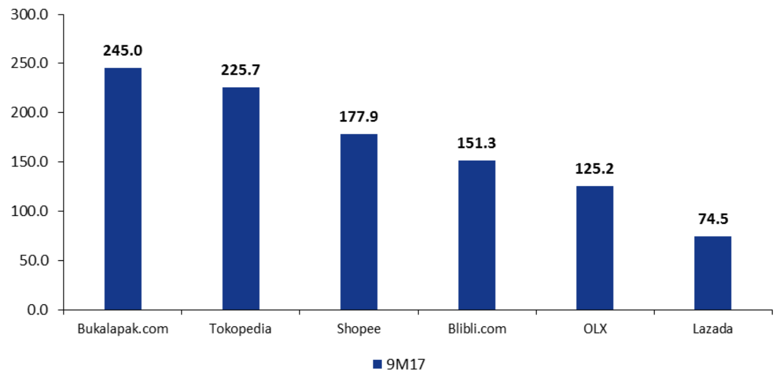
Source: Adstensity

Exhibit 27. TV Ads Spending Department Stores, IDRbn



Source: Adstensity

Exhibit 28. TV Ads Spending Online Retailers, IDRbn



Source: Adstensity

E-commerce players push into electronic payment services

Bank Indonesia recently issued regulation No. 19/10/PBI/2017, providing the framework for the electronic payment industry in Indonesia. This allows banks and non-banks to offer e-wallet services in Indonesia, provided they obtain licenses and implement certain procedures such as customer due diligence and anti-money laundering policies.

E-commerce companies such as Tokopedia and Gojek do offer such payment services. If we look at their investors (Alibaba and Tencent), we think they will make a big push into e-wallet advertising. In Indonesia, we have identified over 30 players (banks, telecoms and internet companies) offering electronic/online payment services. We think advertising spending will follow e-wallet market growth.

Bank Tabungan Pensiunan Nasional (BTPN IJ) has marketed mobile payment services dubbed “Jenius” since early this year. Other companies that offer e-wallet services (but license pending) include Tokopedia, Shopee, Bukalapak and Grab. In addition, EMTK may introduce BBM chat with mobile payment features.

Exhibit 29. Companies have obtained a Central Bank license for electronic payments

Sector	Company name
Internet/IT	PT Artajasa Pembayaran Elektronis, PT Dompet Anak Bangsa (Gojek/GoPay), PT Witami Tunai Mandiri, PT Espay Debit Indonesia Koe, PT Buana Media Teknologi, PT Bimasakit Multi Sinergi, PT Visionet International
Telco	Finnet Indonesia, Indosat, Nusa Satu Inti Artha (Doku), Skye Sab Indonesia, PT Telekomunikasi Indonesia, Telekomunikasi Seluler Indonesia, XL Axiata, Smartfren Telecom
Bank	Bank Central Asia, CIMB Niaga, Bank DKI, Bank Mandiri, Bank Mega, Bank Negara Indonesia, Bank National Nobu, Bank Permata, Bank Rakyat Indonesia, Bank QNB Indonesia, BPD Sumsel Babel

Source: Bank Indonesia

TV advertisements will remain despite the rise of online digital ads

TV still dominates advertising spending in Indonesia, according to Nielsen

A recent Nielsen survey in 9M17 reveals that although digital advertising is growing, TV ads still dominate the overall advertising business with a share around 80%. According to the survey, however, a slowdown has been seen in printed ads such as newspaper ads (9M17: IDR21tn vs. 9M16: IDR21.9tn) and magazine ads (9M17: IDR800bn vs. 9M16: IDR1.2tn).

The rise of online digital advertising

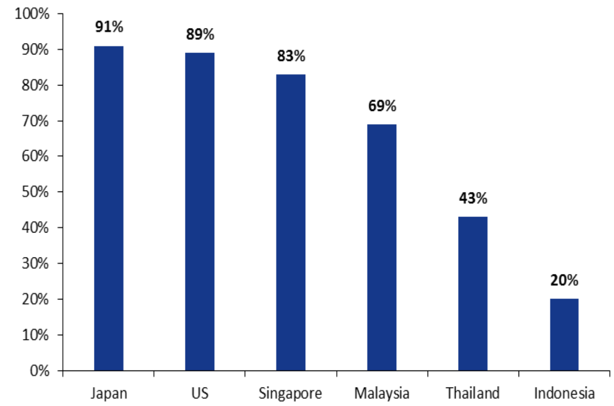
As we have seen in some developed countries, online digital advertising has been taking away TV’s share of total advertising revenues. Research undertaken by eMarketer in the US predicts that digital advertising will dominate total ADEX in the US by 2017. This owes to the fact that online penetration in the US is very high (88.5% in 2016, according to Internet Live Stats) and because penetration will increase further in 2017-18F.

Indonesia’s online digital advertising is growing

Indonesia’s digital advertising has been rising significantly in recent years, up from less than 1% of total ADEX in 2012 to around 5% in 2015, according to Nielsen. The figure is set to reach 10-15% by 2018, in our view. However, with only 20.4% internet penetration in 2016 (according to Internet Live Stats) and given the country’s challenging geographical nature which might hinder internet penetration, we do not expect online digital advertising to take over TV advertising anytime soon.

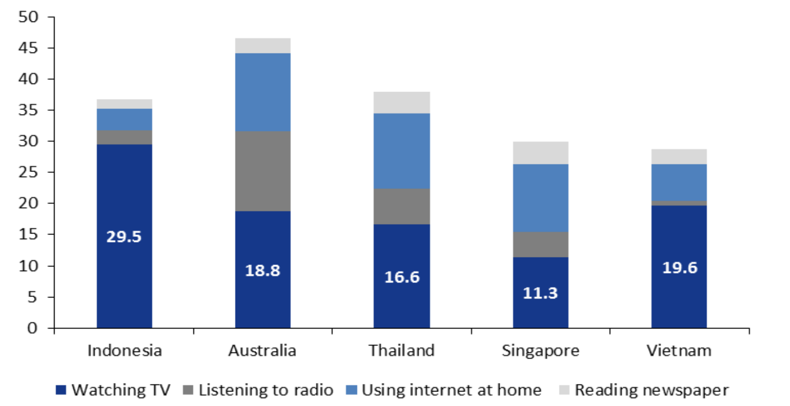
TV advertising will remain the most effective form of advertising in Indonesia
Our recent channel checks also showed that local FMCG companies still find top of the line advertisements to be more effective in introducing new products to consumers compared to below the line advertisements. This emphasis is supported by research conducted by Roy Morgan that found that Indonesians spend more hours/week watching TV than citizens in any other country. With the TV penetration rate in 2017 already >80% (according to Media Partners Asia), we think TV advertising will remain the preferred choice to reach the largest audience in Indonesia despite the exceptional growth of digital advertising.

Exhibit 30. Internet Penetration Rate in 2016



Source: Internet Live Stats

Exhibit 31. Indonesians Spend More Hours Watching TV per Week



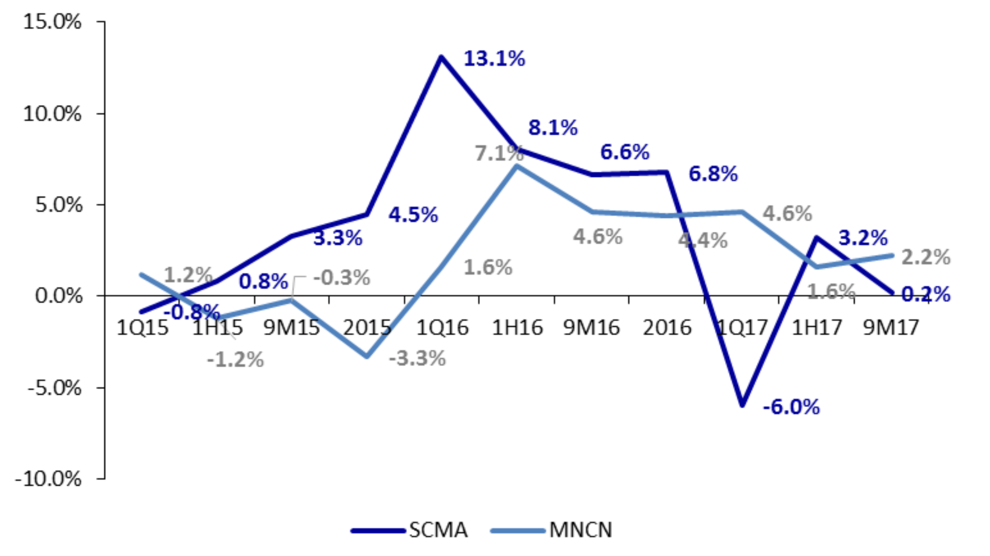
Source: Roy Morgan

Two of the world's biggest advertisers are cutting back on their digital ad spending
Protect & Gamble and Unilever appear to have pulled back on their digital ad spending, reducing their budgets and the number of sites they buy on. According to estimates from MediaRadar, a New York-based advertising intelligence company, P&G's ad spending dropped 41% yoy, while Unilever's dropped 59% yoy this year. P&G ran ads on 712 of the same websites between 2016 and 2017, including Yahoo News, BuzzFeed and Reuters, among others.

Recent Nielsen Survey in 9M17…

The 8% yoy Ad Spending Nationwide growth in 9M17 was not reflected in SMCA and MNCN's revenues performance in 9M17
The recent Nielsen Survey revealed that the 9M17 ad spending nationwide in Indonesia reached IDR107.7tn, or +8% yoy, mainly on the back of robust TV ad spending of IDR85.7tn, +12% yoy. However, these numbers were not reflected in the revenues performance of SCMA and MNCN in 9M17 because Nielsen's ad spending numbers, according to our channel check, were based on the gross rate card without considering sponsorship, discounts, bonuses, promotions, and others.

Exhibit 32. SCMA and MNCN's 9M17 revenues performance

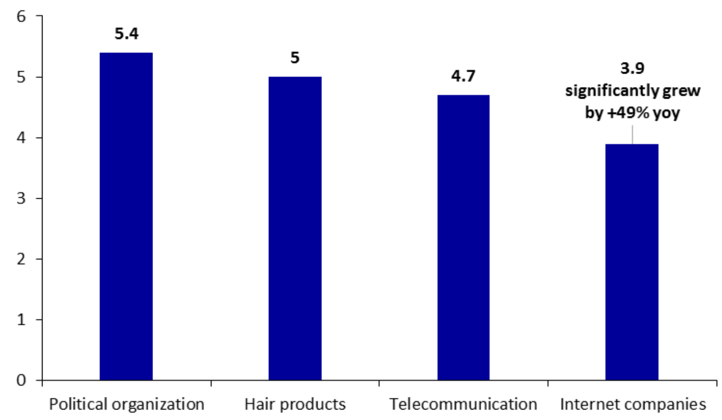


Source: Companies, Danareksa Sekuritas Estimates

Political organizations and internet companies

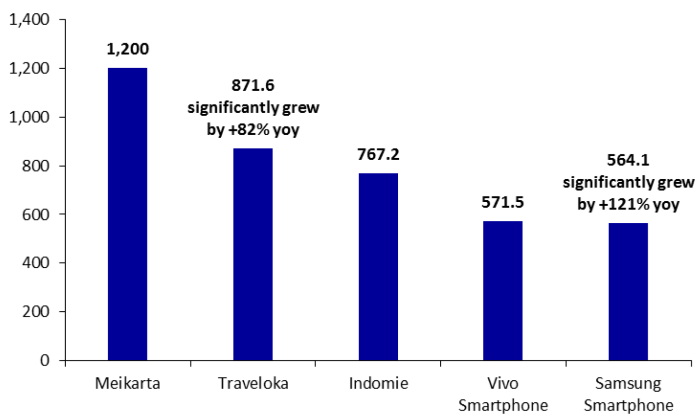
The survey also reveals that political organizations accounted for a large chunk of the ad spending pie in 9M17 (exhibit xx), followed by hair products and telecommunications. It is worth noting that the highest growth comes from internet companies (+49% yoy). Traveloka, for example, was the second-largest ad spender in 9M17, with its ad spending up 82% yoy in 9M17.

Exhibit 33. Segmental Ad Spend, IDRtn



Source: Nielsen Survey

Exhibit 34. Brand Ad Spend, IDRbn



Source: Nielsen Survey

New TV ad formats

Nielsen has identified new trends in TV ad formats. These include running text, product placement, template, squeeze frame, built-in, and others. According to Nielsen, in the period from May to October 2017, approximately 22% of the total 2.7 million commercials were built-in during the TV program. 29% of them were product placement, 18% running text, and 17% template.

The growth of local FMCG companies in Indonesia is still faster than in other ASEAN countries

The Nielsen survey estimates that the revenues growth of local FMCG companies in Indonesia in 2017 will be around 8.3% yoy – or faster than in other ASEAN countries. Growth will be supported by: 1) lower inflation, 2) the stable IDR/USD exchange rate, 3) higher exports, 4) a lower unemployment rate, 5) a higher CCI, and 6) improving GDP growth of 5%. Based on Kantar World Panel, FMCG are still a major expense for many Indonesian households and the outlook is for more growth in the future.

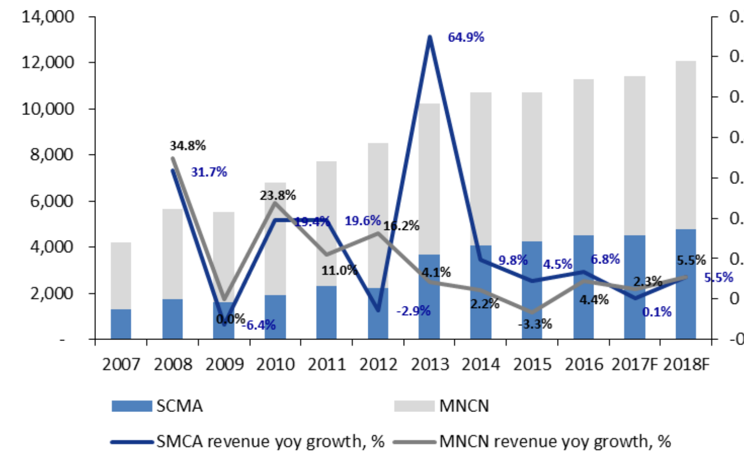
SCMA and MNCN's scale advantage during ad downturn

Scale advantage

We believe that SCMA and MNCN have scale advantage during ad demand downturn. Note that media buyers typically place more of their ads with the bigger media companies when ad demand is muted in order to ensure maximum audience reach. We view both SCMA and MNCN as integrated media conglomerates with 25-40% audience share. In addition, MNC may have greater leverage to secure stable revenue commitments due to its highest audience share in Indonesia, in our view.

We estimate the growth of media sector revenues in 2018F to be around 5.5% yoy, for both SCMA and MNCN, despite an expected lag in revenues performance this year.

Exhibit 35. +5.5% yoy media industry revenues growth in 2018F

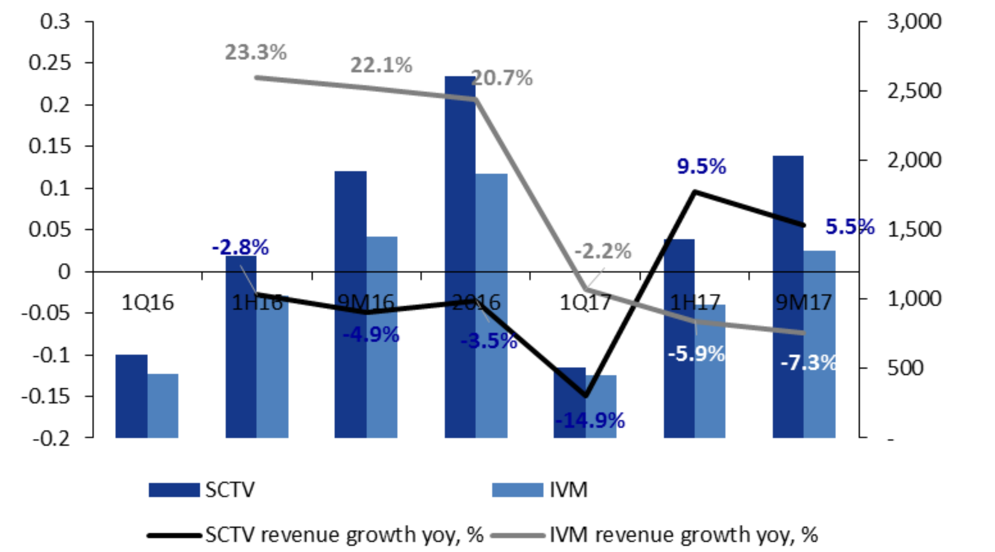


Source: Companies, Danareksa Sekuritas

SCMA: SCTV and IVM revenues should improve

Both SCTV's and Indosiar's ad revenues declined in 9M17, with Indosiar's taking the bigger hit. However, Indosiar has revamped its live music competition show and plans to offer more interactive ads and promo campaigns to advertisers. As such offerings help advertisers to get more tangible brand recognition, they command higher pricing premiums. Thus, as TV stations bundle FTA TV ad slots with on-the-ground campaigns, the disconnection between audience share and revenue share can be sustained, in our view, but this should get better gradually.

Exhibit 36. SCTV vs. IVM revenues, IDRbn

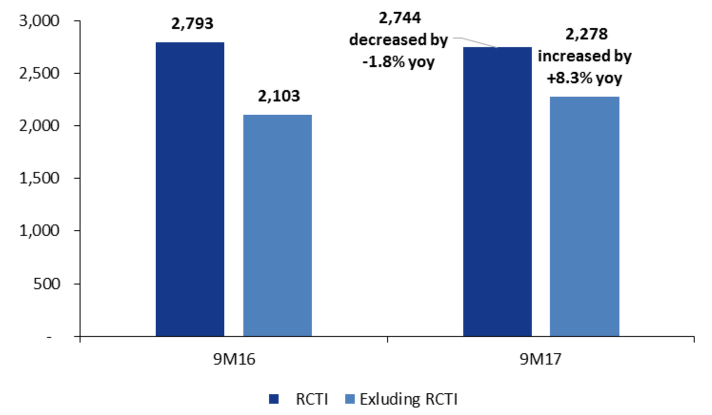


Source: Companies, Danareksa Sekuritas

MNCN: RCTI booked billing commitments; more upside from Malaysia's DTH satellite pay-TV license

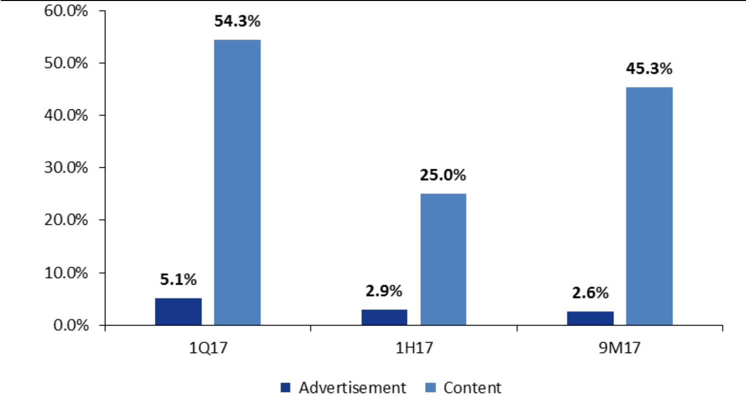
For MNCN, the management is optimistic on ad revenues generation in 2018, mainly given advertisers' larger appetite to gain market share during the pre-election year. Moreover, for its RCTI channel, the company has booked billing commitments amounting to IDR1.074tn for 2018. We believe this reflects the optimistic outlook of FMCG companies. Meanwhile, we also see more upside from content revenues next year, as the company just secured Malaysia's direct to home (DTH) satellite pay-TV license, meaning it will supply content to the 10 pay-TV channels in 2018.

Exhibit 37. RCTI vs. MNC TV, GTV, and iNEWS TV



Source: Companies, Danareksa Sekuritas Estimates

Exhibit 38. Driven by content revenues, yoy growth %



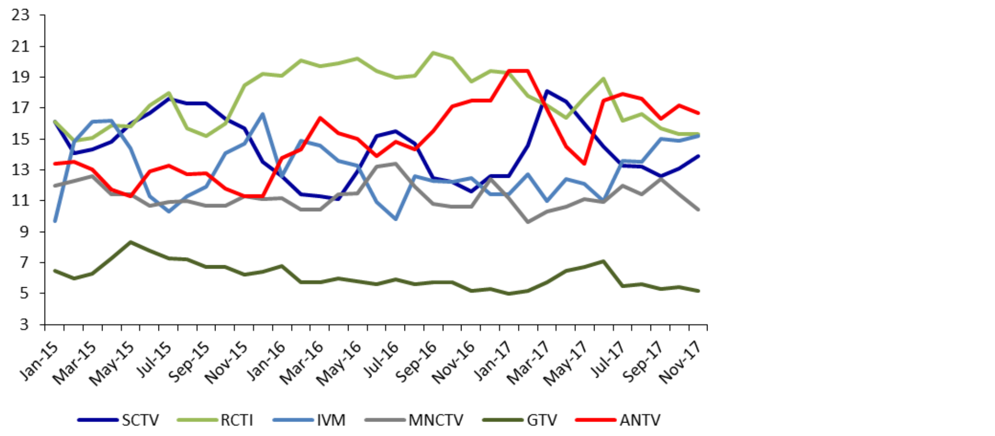
Source: Companies, Danareksa Se

Improving audience shares despite stiffer competition from ANTV

Competition from ANTV stiffens

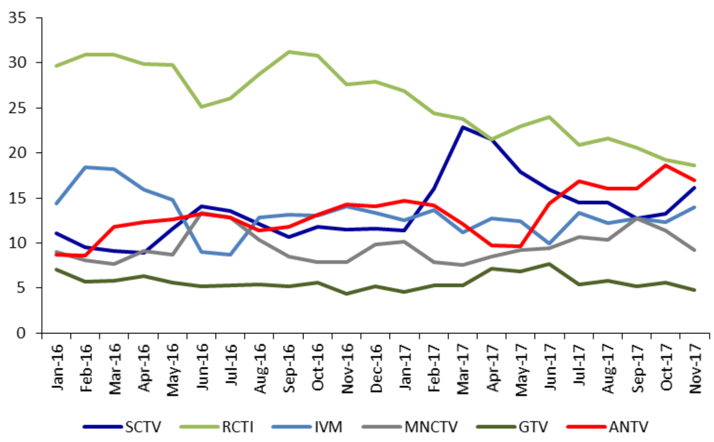
Stiffer competition from ANTV poses a greater threat to both SCMA and MNCN. Recently, the prime time audience shares of both SCTV and RCTI have eroded due to tougher competition in the young female and housewives segment. The strategic move by ANTV to launch titles in similar genres as those shown by SCTV and RCTI in recent months has helped ANTV to capture sizeable audience share from both stations. ANTV has gained 6.4% prime time audience share on a YTD basis at the expense of SCTV primarily, backed with content from Multivision Plus (a top content supplier to RCTI and SCTV back in the 1990's – 2000's.

Exhibit 39. All Time Audience Shares



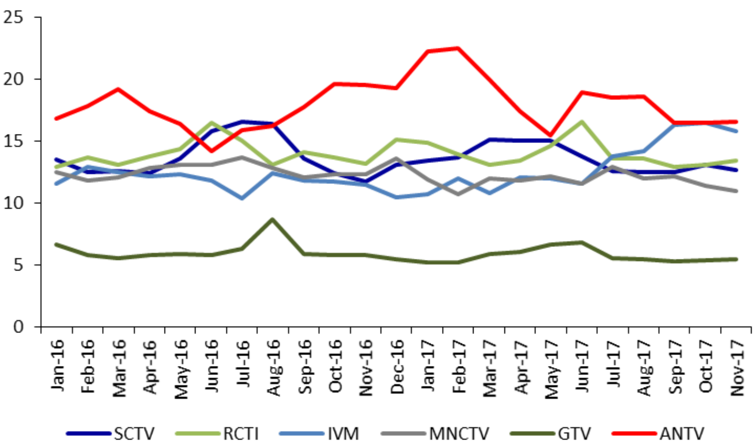
Source: Companies, Danareksa Sekuritas

Exhibit 40. Prime Time Audience Shares



Source: Companies, Danareksa Sekuritas

Exhibit 41. Non-Prime Time Audience Shares



Source: Companies, Danareksa Sekuritas

SCMA has made efforts to increase its audience share

SCMA has significantly underperformed due to its weaker audience share. We think the underperformance is unwarranted, however, as the 11M17 average audience share has improved yoy. SCTV has been reshuffling its prime time titles to counter ANTV's strong performance. For instance, SCTV rolled out 3 new prime time titles on 9 October 2017 in a bid to recover its prime time audience share. Meanwhile, SCTV's recently launched prime time TV show called Siapa Takut Jatuh Cinta has ranked well and may help to push up SCTV's overall audience share in 4Q17.

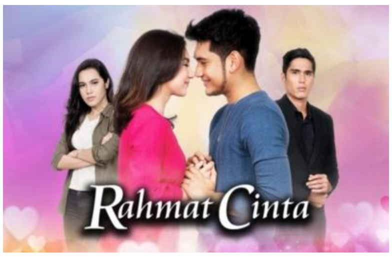
Key prime titles in November 2017

Exhibit 42. RCTI's November 2017

RCTI				
Title	**Production House**	**Prime Time Rating Rank**	**Poster**	**Genre**
Cahaya Hati	MNC Pictures	Rank 1-3		Family drama TV series
Dunia Terbalik	MNC Pictures	Rank 1-5		Family drama TV series
Tukang Ojek Pengkolan	MNC Pictures	Rank 5-10		Family drama TV series

Source: Companies, Danareksa Sekuritas

Exhibit 43. SCTV's November 2017

SCTV				
Title	**Production House**	**Prime Time Rating Rank**	**Poster**	**Genre**
Siapa Takut Jatuh Cinta	Sinemart	Rank 1-5		High school/college/early working experience drama TV series
Anak Langit	Sinemart	Rank 5-10		High school/college/early working experience drama TV series
Rahmat Cinta	Sinemart	Rank 5-10		High school/college/early working experience drama TV series

Source: Companies, Danareksa Sekuritas

Exhibit 44. ANTV's November 2017

ANTV				
Title	Production House	Prime Time Rating Rank	Poster	Genre
Jodoh Wasiat Bapak	Tobali Putra Productions	Rank 1-3		Family drama TV series
Ada Si Manis Di Jembatan	Soraya Intercine Films	Rank 5-10		Horror
Rohaya & Anwar Kecil Kecil Jadi Manten	Dwisetyo Production House Gorontalo	Rank >10		High school/college/early working experience drama TV series

Source: Companies, Danareksa Sekuritas

Exhibit 45. Film's synopsis

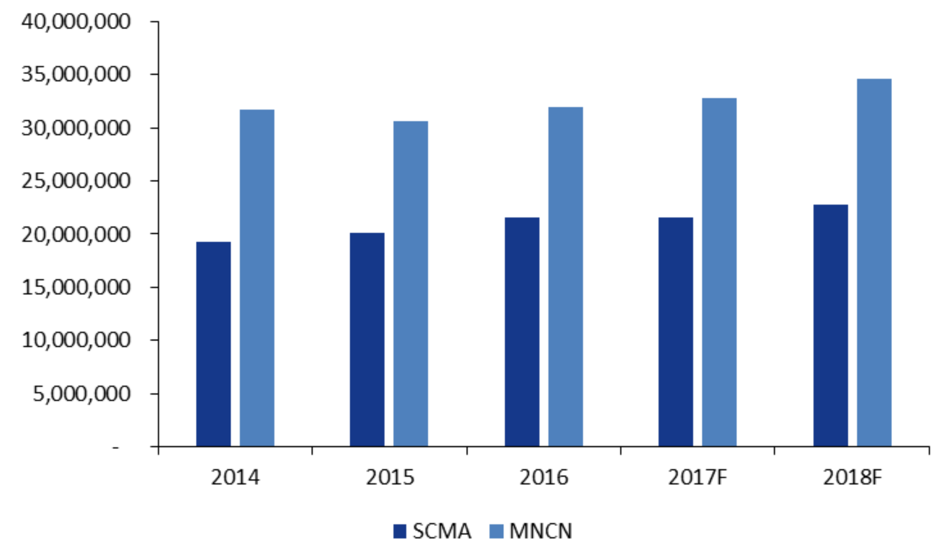
Title of the shows	Synopsis
Cahaya Hati	Yusuf and Azizah were raised in a loving family. Both of their parents tried to equip them with enough religious knowledge because some people in the village where they live behaved immorally. Their happiness was shattered as flash floods hit their village.
Dunia Terbalik	Dunia Terbalik is a comedy series that tells the story of the husbands who have been abandoned by their wives to work abroad. Starting from the story of Akum, Aceng, Idoy and one of the nemesis of Aceng and Dadang. They should educate children and take care of the household affairs that are usually the business of women.
Siapa Takut Jatuh Cinta	Siapa Takut Jatuh Cinta is a triangle love story. Laras has just received a scholarship at Palm University and she will take the opportunity to change her life, especially after her father has been cheated by his business associates. To finance her life alone, she needs to work part time in food delivery. One day, her motorcycle was almost hit by Vino and Leon's cars while they were racing on the street. Vino falls in love with Laras, but Laras loves Satya, Vino's little brother.
Anak Langit	Anak Langit tells the story of 3 motorcycle children, AL, Andra, and Kei who live in Babe Rozaq Orphanage and Nyak Ida. They are Babe Rozaq and Nyak Ida's closest children and are considered to be like their own children. AL stands for the son of heaven as Babe Rozaq found him on the street in front of the mosque when he was a baby.
Jodoh Wasiat Bapak	Kania has asked her boyfriend to marry her but Adam hesitates to marry Kania because he is unemployed. Meanwhile, Adam's father suddenly falls ill and passes away, and he asked Adam to continue his funeral business. The father has also asked Adam not to marry before his sister, Sista, and his widowed mother.

Source: Companies, Danareksa Sekuritas

Rate card improvements should be on the cards

From our understanding, none of the media companies send out their rate cards. However, every year each of the channels has the same number of 30 second ad spots capacity to sell and that number is 210,240 ad spots per year. We can roughly ascertain the blended nett rate card trends for SCMA and MNC by using revenue/adslots to work out the blended average price per advertisement, assuming the capacity is nearly 100%. Nonetheless, this assumption may not take into account sponsorship programs, discounts, built-in or virtual advertising.

Exhibit 46. Rate card trends for SCMA and MNCN per TV station



Source: Companies, Danareksa Sekuritas

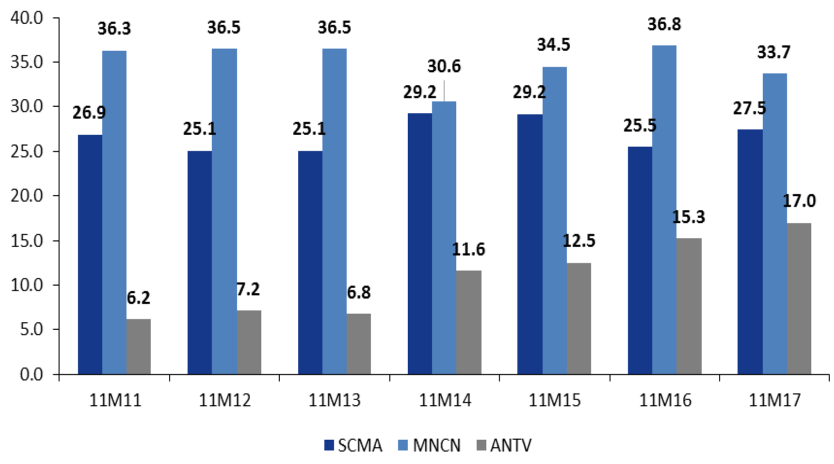
For MNCN, the blended net rate card is higher than SCMA's because MNCN has 4 TV stations (RCTI, MNC TV, GTV, and iNews TV). However, in general, MNC TV, GTV and iNews TV have nett rate cards that are much lower than those of SCTV and IVM and we see that this represents room for improvement in the future, in-line with the rosier audience share outlook.

A premium time slot, which is usually aired from around 6:00pm-11:00pm according to Nielsen, has around a 25-30% loading rate or minutes of ads per hour of programming. In terms of the nett rate card, premium time slots usually have 2x the nett rate card compared to non-premium time slots. Meanwhile, non-premium time slots have a loading rate of around 17%. The average loading rate for both premium and non-premium slots is approximately 20%. Hence, revenues generated from a premium time slot, even though coming from only 4 hours a day, can reach nearly 50% or more of total revenues on average.

Audience share outlook in 2018

We believe MNCN and SCMA will stay in the top 2 positions of all-time audience share in 2018. MNCN's all-time audience share in 11M17 was 33.7% (11M16: 36.8%) and SCMA's all-time audience share in 11M17 was 27.5% (11M16: 25.5%). ANTV's all-time audience share is starting to pick up (reaching 17.0% in 11M17 vs. 15.3% in 11M16). We think RCTI will maintain its top position in primetime slots supported by its famous Cahaya Hati and Dunia Terbalik drama series, while ANTV will perform well in the non-primetime slots thanks to its strong Indian drama series. SCMA and MNCN will compete hard against each other.

Exhibit 47. SCMA, MNCN, and ANTV audience share, all time

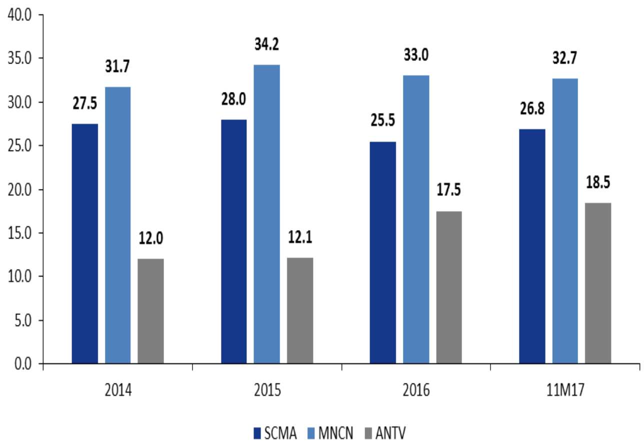


Source: Companies, Danareksa Sekuritas Estimates

Prime time vs. Non Prime Time

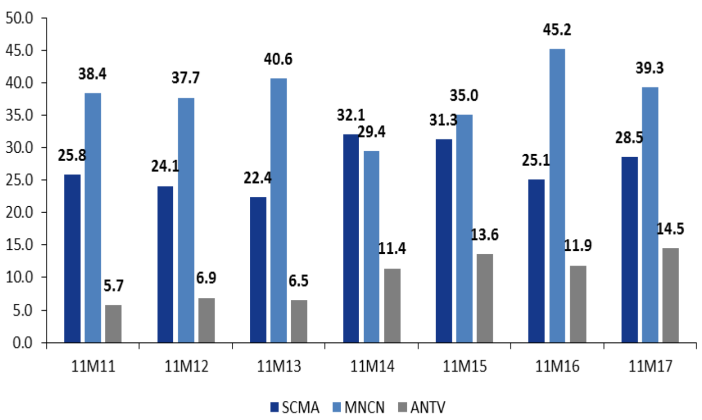
Non-prime time programs still offer a sizeable revenues base and growth opportunities for TV companies. However, the prime time market remains key for a TV station as it helps establish the TV company's brand and pricing premium. Hence, we will continue to track SCMA and MNCN's prime time performance to gauge the trajectory of future revenues growth.

Exhibit 48. SCMA, MNCN, and ANTV audience share prime time



Source: Companies, Danareksa Sekuritas Estimates

Exhibit 49. SMCA, MNCN, and ANTV audience share non prime time



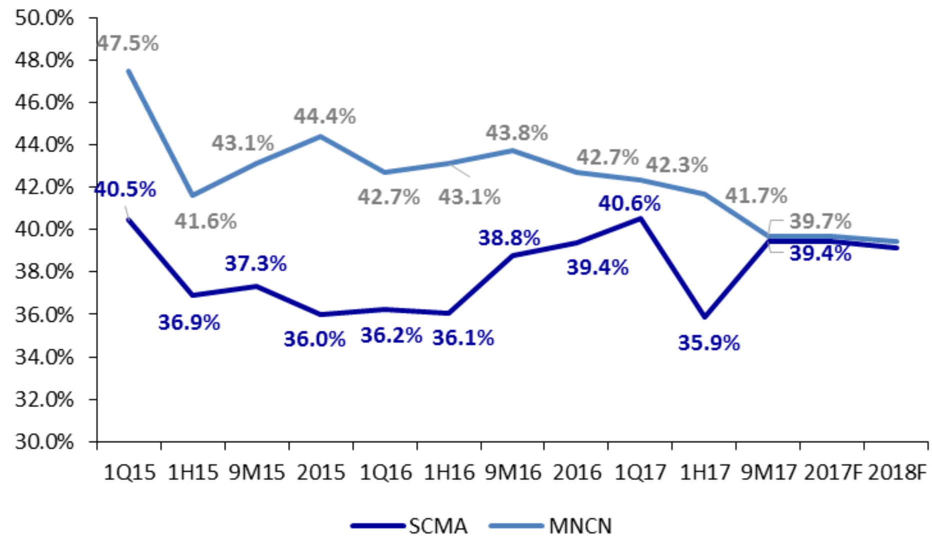
Source: Companies, Danareksa Sekuritas Estimates

Content cost efficiency is the key for earnings growth

Focus on content cost efficiencies

Given that industry revenues growth will likely be around +5.5% yoy in 2018 in our estimate, SCMA and MNCN could still leverage on their in house production capabilities to gain content costs efficiency and improve profitability. SCMA and MNCN can potentially offset pressures on revenues growth and still achieve steady earnings growth in 2018 by ensuring content cost efficiency. Content costs are 36-44% of both companies' revenues in the past 2 years and we expect content costs to decline slightly to 39.1% and 39.4% of revenues for SCMA and MNCN, respectively, in 2018.

Exhibit 50. Content costs/revenues, %



Source: Companies, Danareksa Estimates

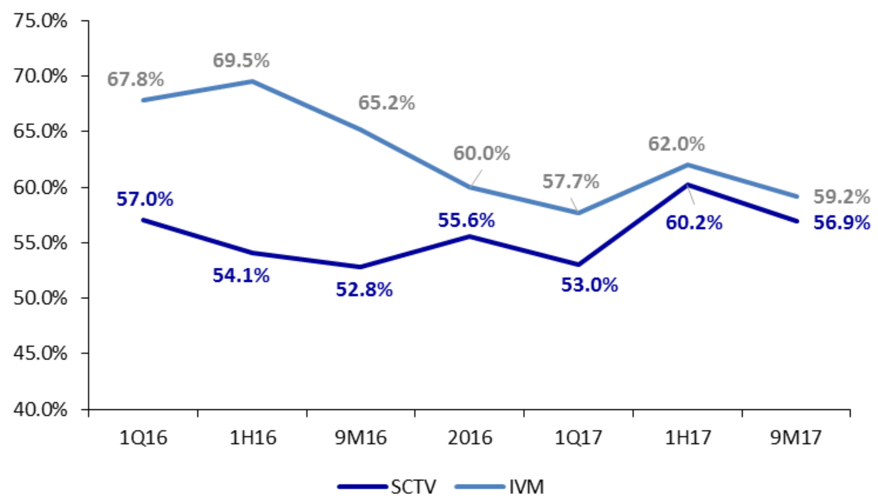
SCMA's content cost trends

Both SCTV and IVM saw higher program costs in 3Q17 due to: 1) the launching costs of numerous prime time titles at SCTV, coupled with 2) the airing of the President's Cup and SEA Games which were broadcast across both of SCTV and IVM channels, as well as 3) investing in new and fresh programs on IVM and new fresh series and FTVs on SCTV to shore up audience share.

The company expects content costs to remain steady at the current level despite not continuing the premium Torabika soccer programming in 2H17, as SCTV continues to find new winning prime time titles to help regain audience share, especially from ANTV. D&A will also continue to be at the current run-rate due to broadcasting and transmission equipment refurbishment.

There is room for a very slight improvement in gross margins in 2018, which we estimate to hover around 60.9% (2017F: 60.6%), as we think content cost efficiencies remain a key objective.

Exhibit 51. SCTV vs. IVM's gross margins

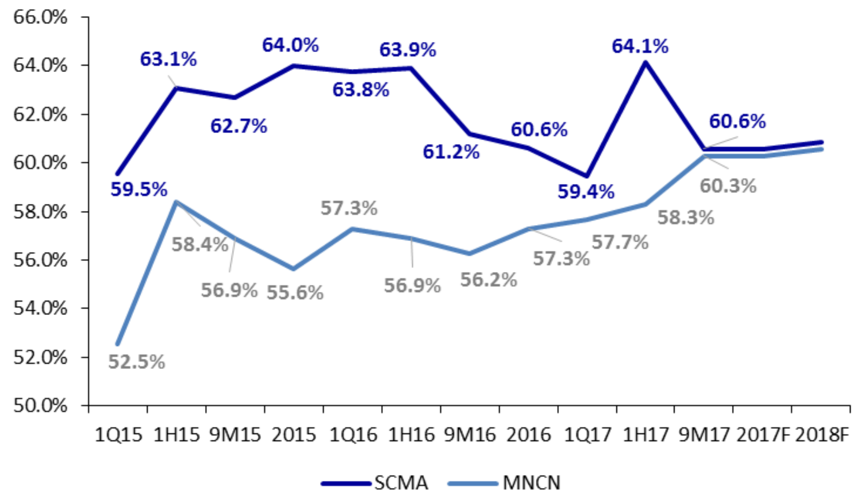


Source: Companies, Danareksa Sekuritas Estimates

MNCN's content cost trends

For MNCN, on the content side, production has improved significantly in quantity and quality with lower programming costs. The company has been seeing stronger monetization initiatives on its local content library from content license sales to various video drama streaming and Over The Top (OTT) platforms. MNC Channels, the pay TV channels business, will see a stronger revenues stream because of greater penetration of the Malaysian market. MNCN is ready to cater to local content demand as the company boasts strong in-house production (MNC Pictures) and it possesses its own integrated studio facility.

Exhibit 52. Gross margin



Source: Companies, Danareksa Sekuritas Estimates

MNCN's newly-built broadcasting facilities and strong in-house production team (MNC Pictures) have so far yielded strong ratings and high audience share, and more importantly, reduced dependency on external content producers. MNCN is unaffected by Sinemart's departure, which took place early this year, and has found new strengths from its own production company, MNC pictures. Meanwhile, the company said MNC has terminated contracts with Warner Brothers. Despite keeping ongoing contracts with Universal, Disney, and Fox, some may be dropped going forward, as the management believes local content is more profitable (higher revenues and margins).

MNCN's FTA business has been strong with four revenue streams: 1) traditional TV commercials, 2) built-in advertising, 3) virtual advertising, and 4) digital advertising. Notably, the company's "Dunia Terbalik" program has achieved the highest revenues of all time for a 2 hour drama program.

MNCN's Global TV and iNews re-branding

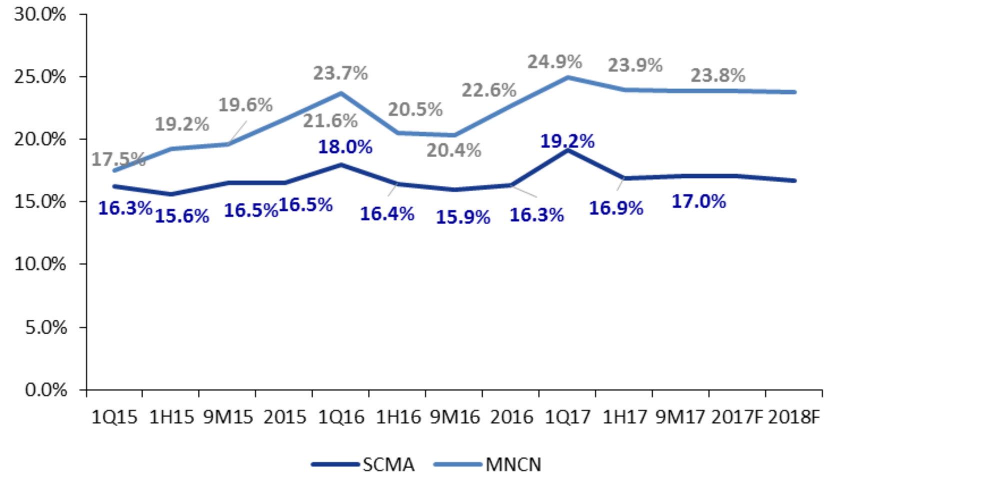
MNC has recently engaged in a campaign to re-brand and re-position Global TV and iNews TV. On top of a logo change, Global TV has also shifted its target audience to the modern family by offering more local reality show content and placing more emphasis on local content over foreign content. In line with this localization strategy, MNC will also rebrand iNewsTV with a new logo, "iNews". The aim is to make the station the largest news TV station in the country. MNC also highlighted that the iNews program will be aired on RCTI, MNC TV and Global TV.

….filters through to better employee productivity

Opex/revenue trends

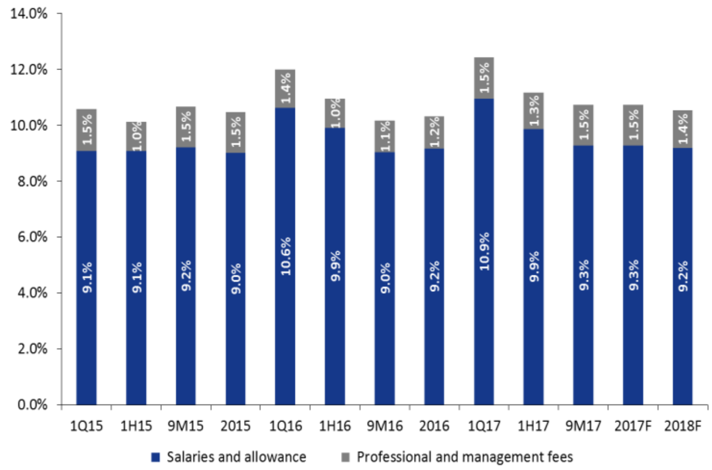
MNCN has a higher opex/revenues ratio than that of SCMA, mainly due to lower employee productivity ratios. This is reflected in 9M17 salaries/revenues ratios that are higher than those of SCMA (exhibit 53).

Exhibit 53. Opex/revenue trends, %



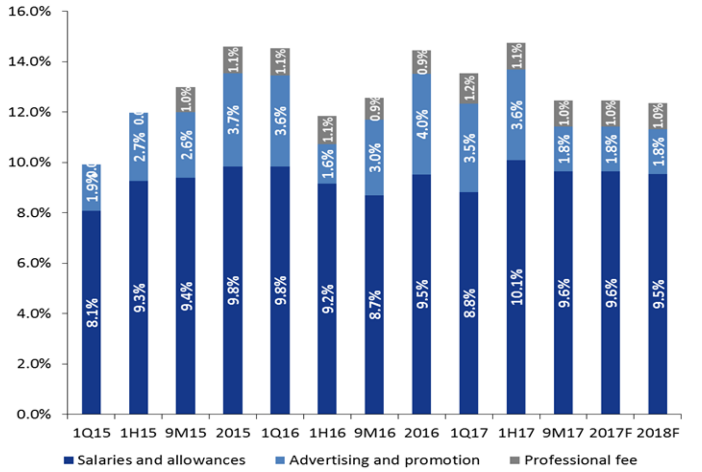
Source: Companies, Danareksa Sekuritas Estimates

Exhibit 54. SCMA's opex/revenue breakdown, %



Source: Companies, Danareksa Sekuritas Estimates

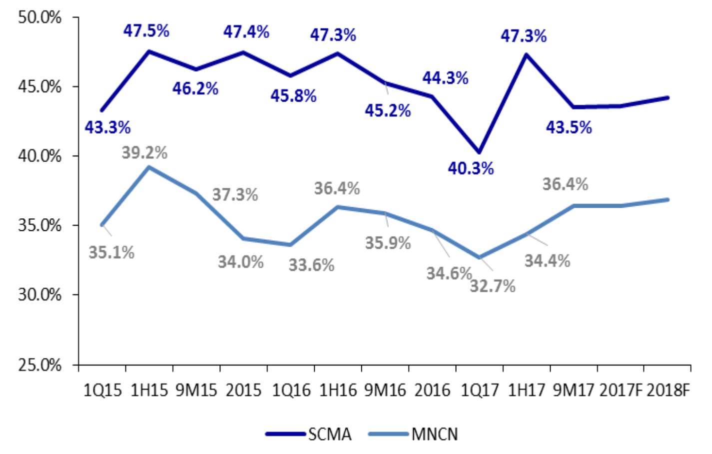
Exhibit 55. MNCN's opex/revenue breakdown, %



Source: Companies, Danareksa Sekuritas Estimates

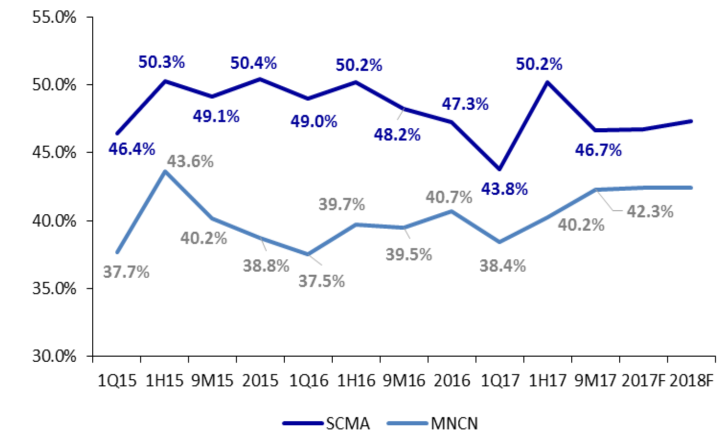
SCMA and MNCN's EBITDA margins trend
MNCN's EBITDA margin has historically been lower than that of SCMA although the trend started to improve in 9M17. We believe that with better revenues and content cost efficiencies ahead, employee productivity will improve in the future as well. This will lead to slightly higher EBITDA margins going forward.

Exhibit 56. SCMA and MNCN's operating margins trend, %



Source: Companies, Danareksa Sekuritas Estimates

Exhibit 57. SCMA and MNCN's EBITDA margins trend, %

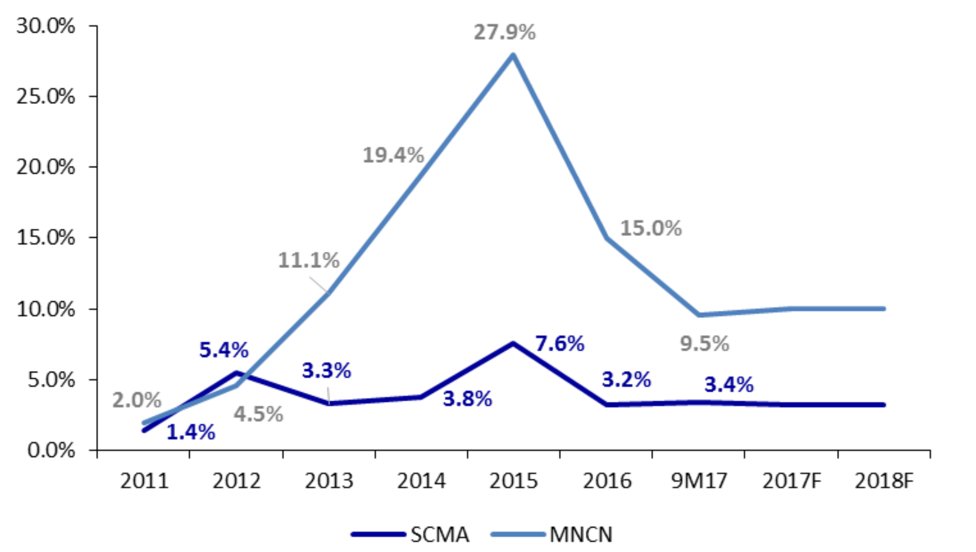


Source: Companies, Danareksa Sekuritas Estimates

Capex intensity has been declining

Both SCMA and MNCN's managements believe capex intensity has been declining (exhibit 58). Going forward, we believe capex intensity will be relatively stable since the majority of the investments have already been made. Future capex should largely focus on maintenance. Specifically for MNCN, for example, the management reported that recent capex has prepared the company for digital broadcasting migration. All broadcasting facilities have been upgraded to be digital-ready and MNC now owns one of the largest and most modern broadcasting facilities in Southeast Asia.

Exhibit 58. SCMA and MNCN's capex/revenues ratio, %

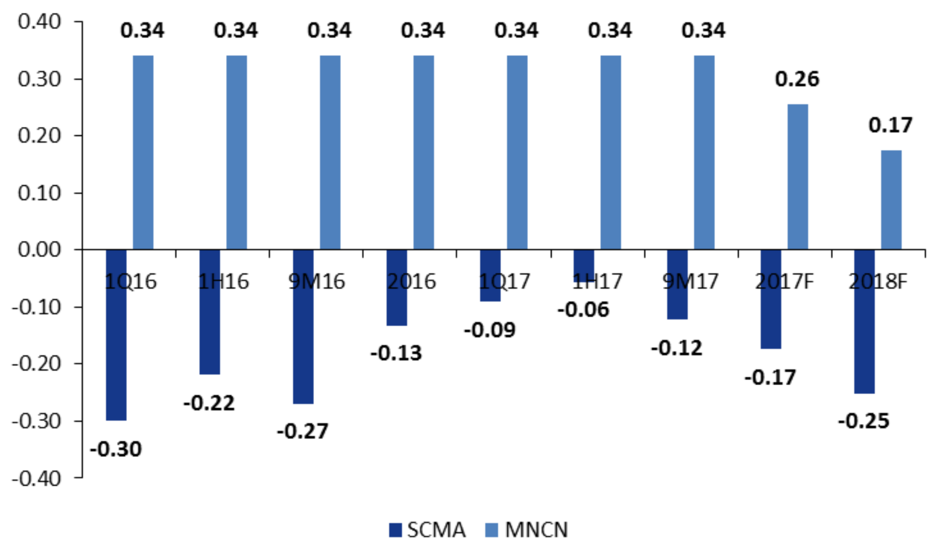


Source: Companies, Danareksa Sekuritas Estimates

SCMA's healthier balance sheet and better profitability

SCMA has better financial leverage
Compared to MNCN, SCMA has stronger financial leverage, as reflected in its net cash position. Meanwhile, MNCN's net gearing is around 0.26x in 2017F, in our estimate, yet still acceptable.

Exhibit 59. Net gearing, x



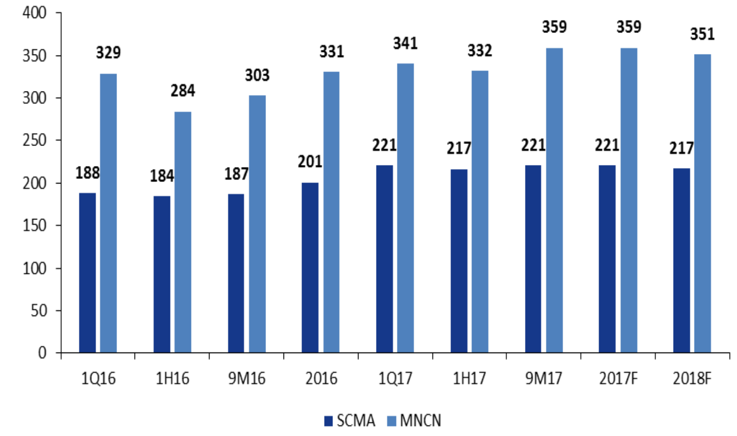
Source: Companies, Danareksa Sekuritas Estimates

SCMA has better efficiency in managing cash
In terms of the cash conversation ratio, SCMA is also in a better position with a cash to cash cycle of around 221 days in 2017F, in our estimate, or much lower than MNCN's this year. SCMA also has much lower inventory days of 149 days in 2017F, or much lower than MNCN's 256 days.

For SCMA's inventory accounting policy, a live show such as news, academy or sport event will be booked 100% for the first time. For TV series, such as local content TV dramas, they will be booked 90% first time and 10% for the second time. Meanwhile, for films, this will be 50%, 30% and 20% for the first, second and third times.

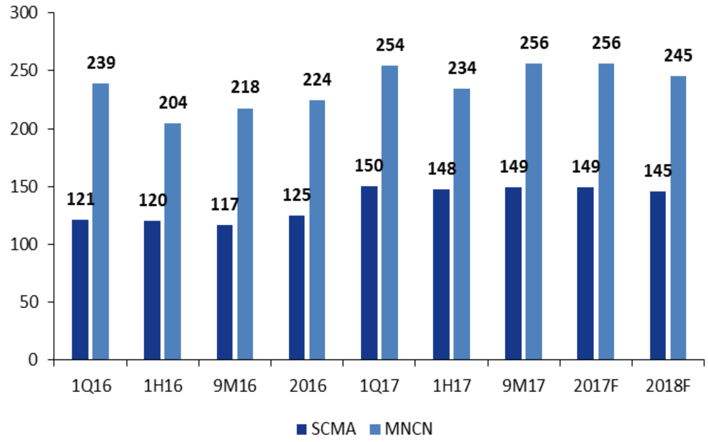
For MNCN's inventory accounting policy, a live show is booked 100% for the first time. For TV series, 70% is booked for the first time and 30% for the second time. For films, it will depend on the license.

Exhibit 60. Cash to cash cycle (days)



Source: Companies, Danareksa Sekuritas Estimates

Exhibit 61. Inventory turnover (days)

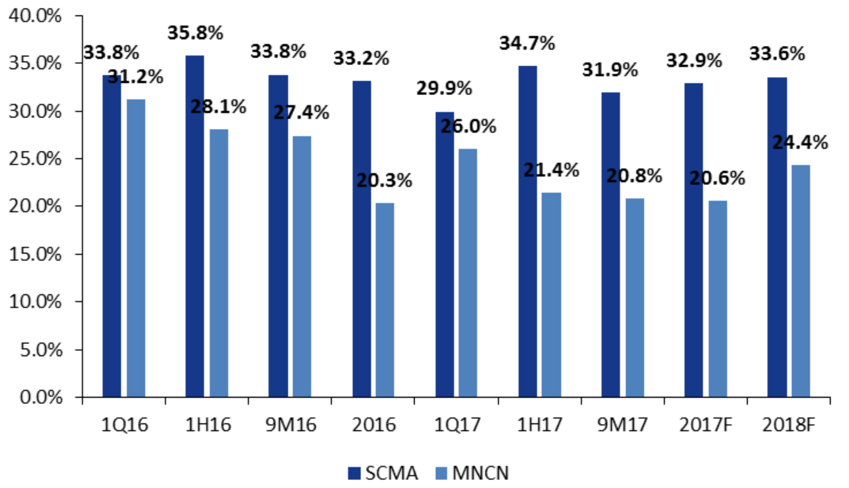


Source: Companies, Danareksa Sekuritas Estimates

SCMA has better profitability

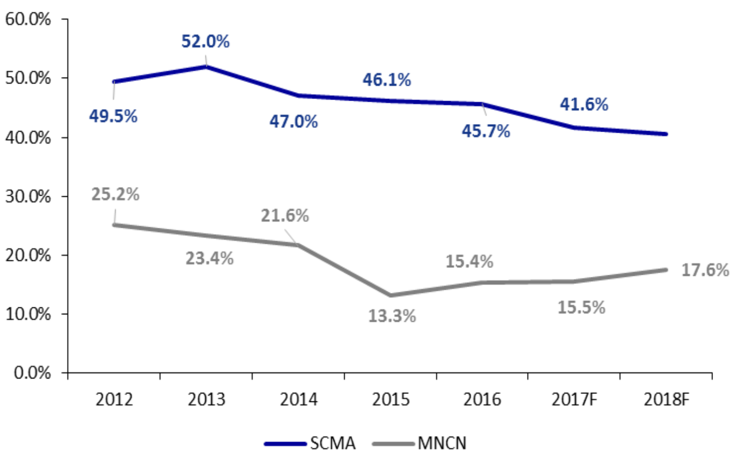
SCMA also has better net margins than MNCN, translating into a higher ROAE and ROAA. We think this will remain the case going forward.

Exhibit 60. Net margins



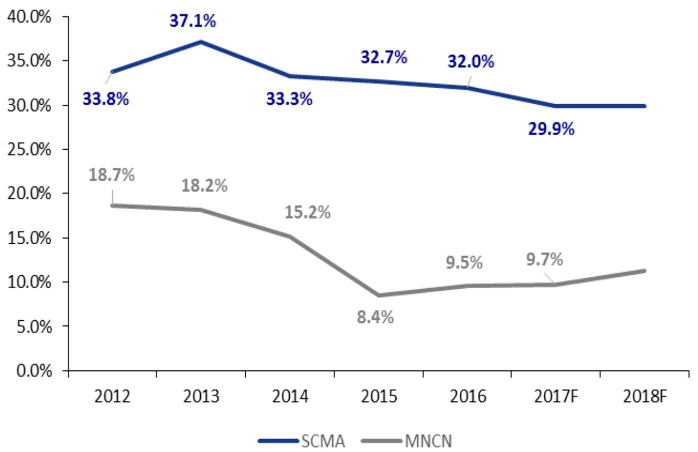
Source: Companies, Danareksa Sekuritas Estimates

Exhibit 61. ROAE



Source: Companies, Danareksa Sekuritas Estimates

Exhibit 62. ROAA



Source: Companies, Danareksa Sekuritas Estimates

Dividend yield support may prevent further valuation de-ratings

High dividend yields for both stocks

The valuation gap between SCMA/MNCN (in terms of the future 12 months P/E ratio) and consumer names has expanded since 2014, owing to weak ad spending trends. SCMA now trades on its long term 6 years average future 12 months P/E of 21.3x, while MNCN already trades at 1 standard deviation below its long term 6 year average. However, we believe the current valuations are justified given the revenues growth challenges, online media substitution risk, and digital broadcasting uncertainties. Nonetheless, we see limited risk for further valuation de-rating given the yield support. Note that SCMA and MNCN pay around 80% and 50% of their net profits, respectively, as dividends. For dividend yield in exhibit 65, we use current price.

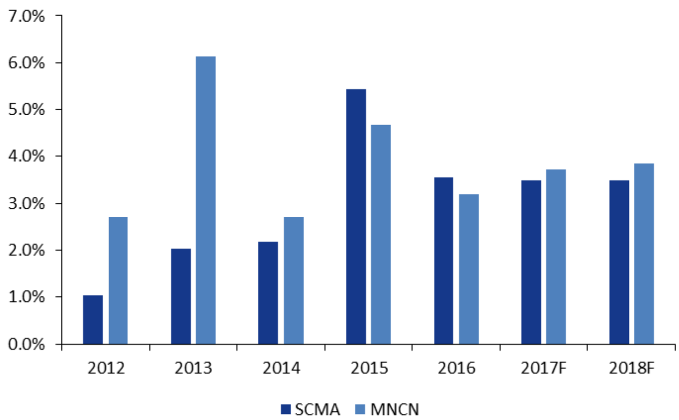
Exhibit 63. SCMA's P/E Band

Source: Companies, Danareksa Sekuritas Estimates

Exhibit 64. MNCN's P/E Band

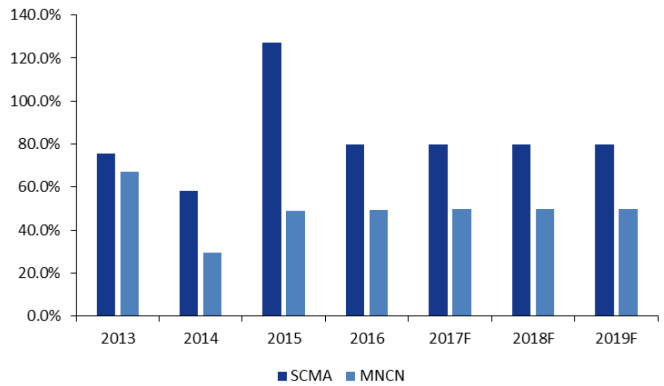
Source: Companies, Danareksa Sekuritas Estimates

Exhibit 65. Dividend yield, %



Source: Companies, Danareksa Sekuritas Estimates

Exhibit 66. Dividend pay-out ratio, %



Source: Companies, Danareksa Sekuritas Estimates

MNCN recently taken out of the MSCI Main Index

Morgan Stanley Capital International (MSCI) Main Index recently conducted rebalancing of its indices. As a result, MNCN was removed from the MSCI main Index and the move caused MNCN's share price to decline. Regarding the drop in MNCN's share price, we don't believe it reflects perceptions on the company's fundamentals and performance. Indeed, MNCN continues to focus on improving its performance, as reflected in its 9M17 results, which were better than SCMA's 9M17 results.

Update on Sinemart

The recent Sinemart case has been a concern for investors. Here are a few things we have learnt from the companies about this case:

Exhibit 67. Sinemart's case

April 13, 2017

On April 13, 2017, AFS Partnership as the attorney of PT Rajawali Citra Televisi Indonesia (RCTI) published a notice and warning in Sindo's daily newspaper regarding a court judgment in relation to the sale of shares of PT Sinemart Indonesia and the sale of programs produced by PT Sinemart Indonesia, pursuant to West Jakarta District Court's Decision No. 9/PDT.G/2017/PN.JKT.BRT dated March 16, 2017 based on a claim that is lodged and registered in the registry case dated 6 January 2017 (West Jakarta District Court Decision) against Mr. Leo Sutanto (as Defendant 1) and PT Sinemart Indonesia (as Defendant 2)

April 18, 2017

DR. Luhut M.P. Pangaribuan, SH. LLM. and Reinhard S.C. Situmorang, SH. MH. as the attorney of PT Sinermart Indonesia made an announcement in the daily newspaper Kompas, to provide an explanation to the public that the West Jakarta District Court Decision No. 9/PDT.G/2017/PN.JKT.BRT dated March 16, 2017 was made without the presence and without knowledge of the defendants (Verstek), Mr. Leo Sutanto (as Defendant 1) and PT Sinemart Indonesia (as Defendant 2).

April 27, 2017

Mr. Leo Sutanto as Plaintiff in Opposition filed an opposition claim (Verzet) against the West Jakarta District Court Decision, as registered in the Case Registry No. 9/Pdt.Plw/2017/PN.Jkt.Brt (Opposition Claim).

June 19, 2017

RCTI as the Respondent in Opposition submitted Exception and Response, and on the same date, PT Sinemart Indonesia as Co-Respondent in Opposition also submitted its Response as Co-Respondent in Opposition on the Opposition Claim and Objection of PT Sinemart Indonesia on the rendering of the West Jakarta District Court's Decision that is issued in absentia of the defendants.

West Jakarta District Court in its court proceeding on October 16,2017 has rendered its judgment with regards to the Opposition Claim submitted by Mr. Leo Sutanto and ruled that the said Opposition Claim cannot be accepted (Niet Ontvankelijke Verlaard) (West Jakarta District Court Verzet Decision).

The reason is that although Mr. Leo Sutanto legally lives in Kedoya Elok Apartment, Kedoya Selatan, West Jakarta, but based on the fact that when the notice for the court's proceedings was submitted to the Urban Village (Kelurahan) and the Urban Village (Keluraha) of Sukabumi Selatan the court notice designated to Bapak Leo Sutanto was accepted; hence it should be deemed that the court notice has been received in person by Mr. Leo Sutanto. Hence, any opposition claim should be submitted by 6 April 2017 at latest and Mr. Leo Sutanto's Opposition Claim cannot be accepted because it was submitted on 27 April 2017.

Source: SCMA

Mr. Leo Sutanto first knew about the information on the West Jakarta District Court Verstek Decision when there was an announcement in Sindo Newspaper on 13 April 2017 made by AFS Partnership as the attorney of RCTI; hence it is impossible for Mr. Leo Sutanto to submit the opposition claim prior to 6 April 2017. The address in Jl. H. Soleh I, Sukabumi Selatan, Jakarta Barat, is an empty warehouse with rolling doors closed all the time and no one lives there.

On October 27, 2017
PT Sinemart Indonesia submitted an appeal to the High Court of Jakarta on the West Jakarta District Court Verzet Decision.

Source: SCMA

How much is SCMA and MNCN's power ratio?

Power ratio
The power ratio is the group's all time audience share (over say the last 9 months) relative to its revenues share over the same time period, which we have to make a rough estimate, since neither Trans nor Metro publish financial statements. This method of calculation is commonly used by media companies to measure revenues performance compared to their audience share.

SCMA vs. MNCN power ratio
Based on recent management channel checks, as of 9M17, SCMA's power ratio was around 1.03x. This is derived from 28% revenues share per the management's estimate divided by 27.2% all time consolidated average audience share in Jan-Sep 2017. In terms of the segmental breakdown, SCTV's power ratio, according to the company, is around 1.14x while IVM's power ratio is around 0.91x. The ideal power ratio should be around 1.0x, which means <1.0x depicts underperformance and >1.0x depicts outperformance. This means that for SCMA, SCTV has been outperforming and the key driver of growth.

For MNCN, the average power ratio is around 1.1x-1.2x historically, according to the management. This should be maintained in 9M17. This means that if the power ratio is 1.1x in 9M17, this figure is derived from 37.4% revenues share from our estimate divided by 34% all time consolidated average audience share in Jan-Sep 2017. The company has not provided any hints regarding the segmental breakdown, but we believe that RCTI will remain the key outperformer and the company's driver of growth.

Risks

1. Lag in ad spending in 2018
Lower-than-expected consumption growth in 2018 combined with a lag in ad spending among local FMCG companies would potentially result in lower-than-expected revenues growth for SCMA and MNCN.

2. Audience share stagnating or worsening due to stiffer competition
Stiffer competition from ANTV could lead to stagnating or weakening audience share for SCMA and MNCN. In turn, this would potentially lead to weaker revenues growth.

3. Higher content costs and higher operating costs
Higher content costs due to ineffective strategies could possibly drag down profitability and earnings in the future. This would filter through to lower employee productivity.

4. Lower dividend payout ratio
A lower dividend payout would potentially lead to further de-ratings in the valuations, in our view. Both stocks will be less attractive if the dividend yield <3%.