

Tuesday, 4 December 2018

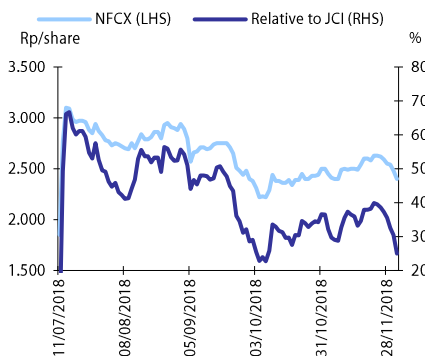
Not Rated

Last price (IDR) 2,400

Stock Statistics

Sector	IT Services
Bloomberg Ticker	NFCX
No of Shrs (mn)	667
Mkt. Cap (IDRbn/USDmn)	1,640/115
Avg. daily T/O (IDRbn/USDmn)	6.7/0.5
Major shareholders (%)	
PT Kresna Jubileum	26.25
PT Nusantara Teknologi	18.75
PT M Cash Integrasi Tbk	15.00

NFCX relative to JCI Index



Source : Bloomberg

NFC (NFCX:IJ)

The Digital Trailblazer

NFC is a pioneer in the development of digital platforms with its profit-making telco pulsa/credit exchange. And through OONA TV, the company is a prospective force in media using the advertising Video on Demand (VOD) business model with low opex/capex. NFC's products create uses for TSEL's Tcash. Going forward, the company seeks to foster new partnerships and more digital projects.

NFC's asset light model will thrive on new digital initiatives. NFC has an asset-light model which seeks to exploit existing market imperfections by being more efficient among various ecosystems, essentially disrupting the status quo. NFC currently has three main products: 1) the telco pulsa exchange (which has been NFC's revenues stream since FY15), 2) OONA TV VOD, and 3) DMS marketing solutions which are expected to start generating revenues in the coming months. NFC looks well placed to ride the digital wave on rising smartphone penetration and growing consumption.

NFCXC.com marketplace for pulsa. In the pulsa marketplace, visibility can be limited at times leading to unexpected inventory excess and shortages for distributors. These agents deal with each other to optimize their positions. NFCXC.com is one of the few exchanges that helps aggregate inventory positions, and agent members in the exchange almost doubled over the last 3 months to 1,800 in Sep 18 from 918 in June 18. This helped both revenues and earnings to increase in 3Q18.

OONA: Internet TV with intuitive digital marketing functionalities. OONA TV is an internet TV platform offering users a vast choice of channels with local and international content. In parallel, it scientifically identifies user needs and delivers digital advertisements in a more precise and targeted manner. Around the time of its IPO, Oona only had 20,000 subscribers, setting a target of 500,000 subs by YE18. As of October, Oona surpassed the initial target, with 1.2million subscribers of which 35% are active users. It is plausible that the company ends the year with 3 mn subs, according to our contact. The model is in pilot mode till it garners a sizable base with commercialization expected to commence in 2019.

No debt exposure with a positive bottom line. Like Go-Jek, vendors and buyers meet in an online marketplace to trade goods & services to clear the market from idle capacity and demand. Based on this model, NFCXC can be very robust posting solid growth in 3Q18. After its IPO and raising Rp300 bn, NFC remains asset light and debt free offering leeway for OONA and other digital projects to develop traction and support the future valuation. NFCX is currently trading at PER-19 of 26.3x based on consensus earnings estimates.

Exhibit 1: Key Financials

Year to 31 Dec	2015	2016	2017	6M18	9M18
Revenue (IDRmn)	9,849	43,507	95,555	265,248	706,617
EBITDA (IDRmn)	-230	18	109	2,860	7,092
EBITDA Growth (%)	n/a	n/a	498	n/a	6,089
Net profit (IDRmn)	-224	-1	65	2,540	14,427
EPS (IDR)	-1	0	0	11	30
EPS growth (%)	n/a	-100	n/a	n/a	42
BVPS IDR	1	2	100	105	541
DPS IDR	-	-	-	-	-
PER (x)	n/a	n/a	8,052.9	246.9	87.4
PBV (x)	1,834.7	1,392.5	26.2	24.9	4.8
Dividend yield (%)	n/a	n/a	n/a	n/a	n/a
EV/EBITDA (x)	n/a	81,405	13,606	488	209



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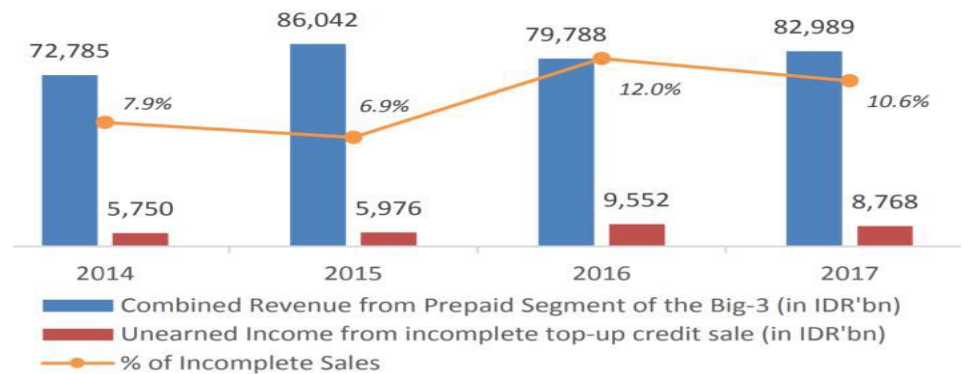
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NFC benefits from imbalances in pulsa inventories. Over 95% of telco sales are prepaid pulsa top-ups relying extensively on 3rd party distributors to sell the pulsa to cellular subscribers with specific denominations, pricing terms and timeframe. The information in our exhibit shows that there are substantial unearned revenues from prepaid sales with the possibility of unsold inventory.

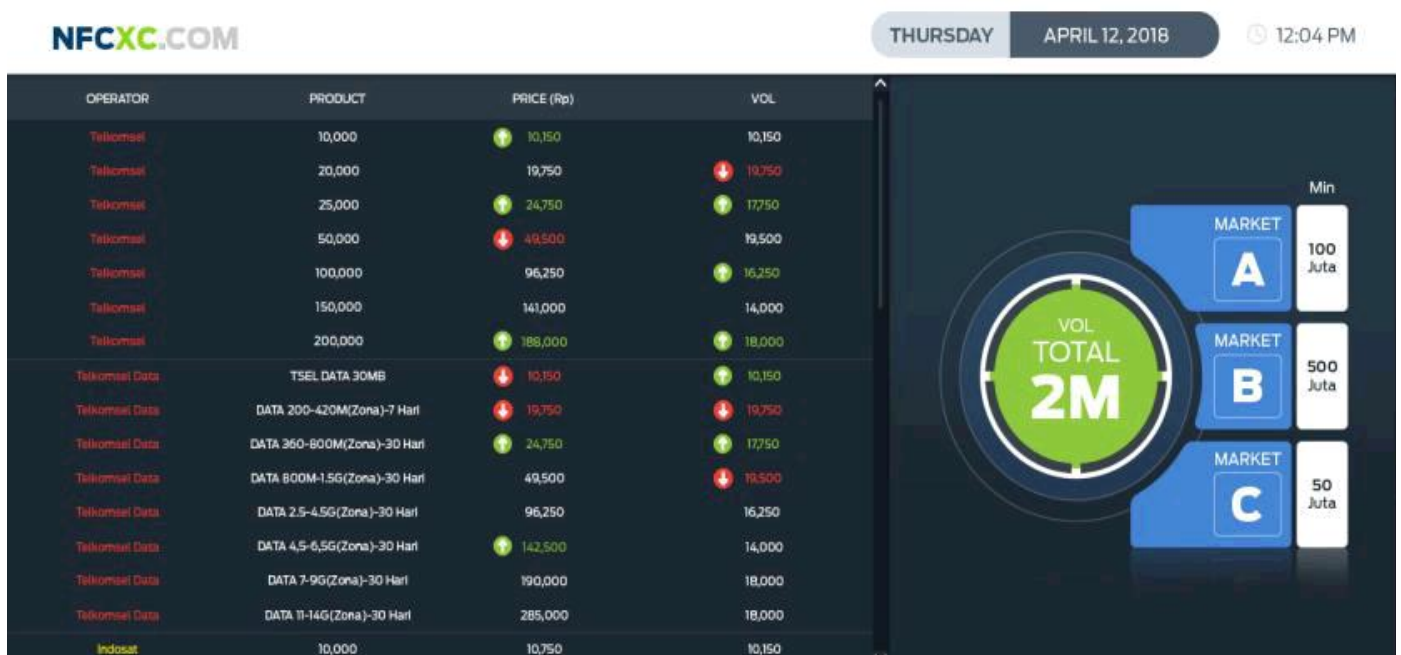
Exhibit 2: Incomplete top-up credit sales in the Prepaid segment of the big 3-telcos in Indonesia (Rp bn)



Source: NFCX, telco disclosures

Telcos assign to distributors a certain quantity of vouchers to sell within a week. Time is limited to disseminate the inventory and collect the proceeds. Given the market dynamics, there is bound to be excess and/or depleted inventory. A centralized option which helps to identify these imbalances faster will help distributors meet their deadlines. This is where NFCXC.com comes in to drive the market clearing process faster. The online exchange offers transparency to market agents helping them to identify other agents and manage inventory levels with more flexibility.

Exhibit 3: Online pulsa exchange



Source : XL Axiata & Danareksa Sekuritas

NFCXC.com currently offers the basic cashflow for NFC to fund the making of new exchanges for digital commodities as well as jobs.

Exhibit 4: NFCXC.com exchange was the driver in NFC's 3Q18 results

<i>IDR mn, otherwise stated</i>	9M17	9M18	Δ YoY, %	3Q17	3Q18	Δ , % QoQ
Revenues	44,089	706,617	<i>1,503</i>	27,252	441,369	<i>1,520</i>
Phone credit digital exchange	44,089	697,936	<i>1,483</i>	27,252	432,688	<i>1,488</i>
Digital cloud advertising	-	8,681	<i>n/a</i>	-	8,681	<i>n/a</i>
COGS	43,728	693,814	<i>1,487</i>	26,978	433,605	<i>1,507</i>
Gross Profit	361	12,803	<i>3,449</i>	274	7,763	<i>2,730</i>
Selling expenses	-	1,121	<i>n/a</i>	-	973	<i>n/a</i>
G&A	256	4,633	<i>1,712</i>	99	2,592	<i>2,518</i>
Operating Profit	105	7,049	<i>6,610</i>	175	4,199	<i>2,294</i>
Net income (expense) others	1	12,184	<i>n/m</i>	5	12,189	<i>n/m</i>
Bank admin cost	-	(11)	<i>n/a</i>	-	(11)	<i>n/a</i>
Interest income	1	2,627	<i>n/m</i>	1	2,621	<i>n/m</i>
Gain on bargain purchases	-	9,369	<i>n/a</i>	-	9,369	<i>n/a</i>
Other - net	(0)	199	<i>-47,363</i>	4	209	<i>4,736</i>
Pretax income	106	19,233	<i>18,109</i>	180	16,387	<i>8,981</i>
tax expense	(26)	(2,470)	<i>9,274</i>	(31)	(1,335)	<i>4,225</i>
Net profit	79	16,763	<i>21,047</i>	150	15,052	<i>9,963</i>
<i>Gross profit margin (%)</i>	0.8	1.8	<i>1.0</i>	1.0	1.8	<i>0.8</i>
<i>Operating profit margin (%)</i>	0.2	1.0	<i>0.8</i>	0.6	1.0	<i>0.3</i>
<i>Net profit margin (%)</i>	0.2	2.4	<i>2.2</i>	0.5	3.4	<i>2.9</i>

Source: NFCX, telco disclosures

OonaTV: free TV on the go with premium content. OonaTV is a TV channel aggregator for smartphone users offering free access to more than 130 channels of Free-To-Air (FTA), Video-On-Demand (VOD) and premium content with the number of channels steadily increasing. NFCX has a controlling 51% stake in PT OONA Media Indonesia OMI (OonaTV). OONA has wide local content coverage including the Syahrini channel where the TV celebrity directly addresses her fans in a similar way to the Kardashian family utilizing reality TV. Another channel is Angkasa Pura II's flight information and entertainment channel.

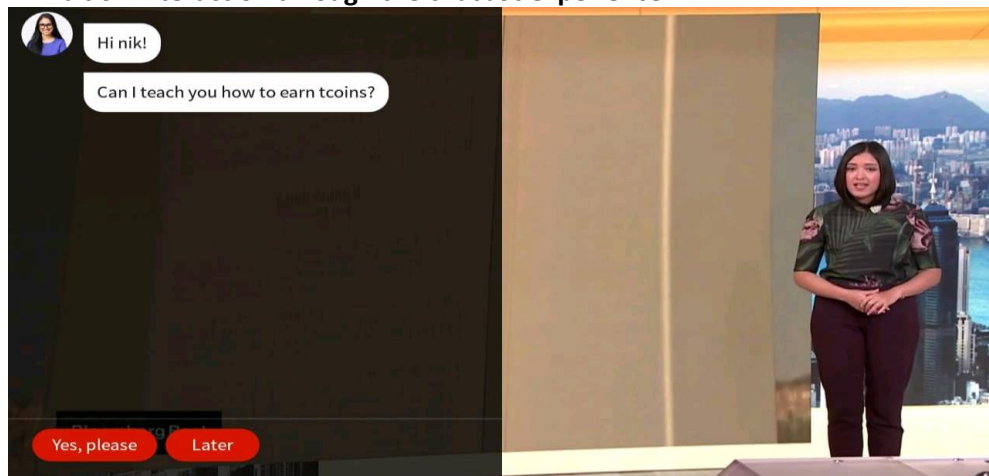
Taking TV advertising a step further. Monetization is pretty similar to FTA television channels for traditional TV sets, with TV content acting as a magnet for viewers. OONA goes further to mining data using chatbot and Artificial Intelligence driving interaction and Q&A sessions with the viewer to extract personal information while the TV channels are viewed. NFC will map the preference of the users through ultra-large data analysis and then provide suitable ads. Those ads appear on the screen enticing the user to click them in exchange for Tcoins. Users can also receive Tcoins by sharing content with friends in social media. Tcoins can then be redeemed on TSEL's Tcash bonus balance to transact with Tcash merchant partners, as well as with clients from the sister company DIVA. This process is dynamic and feeds advertising agencies instantaneously with data without having to wait for AC Nielsen ratings.

Exhibit 5: OONA TV pockets of content



Source : NFCX

Exhibit 6: Interaction through the chatbot experience



Source : OONA TV

Exhibit 7: All OONA TV options in a few clicks

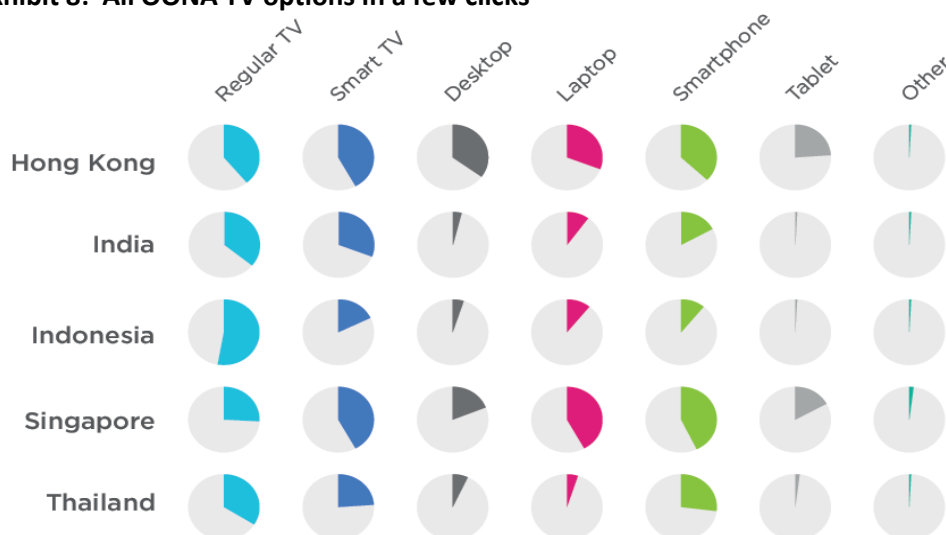


Source : OONA TV

Sharing economy model with low OPEX and CAPEX. OMI expects to receive advertising revenues for user clicks to charge advertising agencies ~US\$4-7 per 1,000 clicks. OMI will then share the revenues with involved parties for their contribution with TV channels getting 50% of the revenues for sharing the content, 30% to Telkom for sharing its subs base and distribution, 5% to Oona global for sharing the engine platform, and the remaining 15% for OMI itself. Thus in this sharing economy model, OMI essentially bears zero direct costs. The company revealed that it is close to making a similar deal with XL Axiata.

A strong case for OONA TV. We think the OONA free TV model has a very good chance to gain strong traction given current TV evolution trends. Brightcove, a leading US-based software company, specializes in sending video content via the cloud. In its research report, Indonesia is shown to lag viewership in data formats while regular TV remains strong unlike other countries. However, with increasing data consumption, internet TV may become much more popular in the near future. CISCO projects suggest that Indonesia’s Internet video traffic will grow 7-fold from 2016 to 2021, 48% cagr. Total internet video traffic will be 74% of all Internet traffic in 2021, up from 52% in 2016.

Exhibit 8: All OONA TV options in a few clicks



Source : Brightcove, ASIA OTT TELEVISION RESEARCH REPORT 2018.

NFC tapping SMEs with digital advertising. NFC provides a digital marketing solution with industrial grade displays placed in minimarkets and buildings with elevators. NFC recently acquired 30% in the PT Digital Marketing Solution (DMS) platform which controls advertisements via the cloud. This is in contrast to its main competitor AMG which still uses manual data transfer with USB. Via cameras, the screen collects data such as gender, age range and visitor numbers. DMS will collect data for analytics and adjust content for greater audience appeal.

Each display screen has a capacity of 24 slots which are played throughout the day in turns. Currently, 15 of the 24 slots are booked by corporates, while the other 9 are allocated to smaller businesses through an online bidding process powered by NFC. Advertisers have the ability to bid and acquire ad space on an on-demand basis adding a dynamic element. DMS currently has 19 service points in major Indonesian islands with >4,000 outlets and >5,000 screens. NFC effectively helps SMEs to reach target groups and connect them with well-tuned advertising.

Exhibit X. Income Statement

Year to 31 Dec (IDRmn)	2015	2016	2017	6M18	9M18
Revenue	9,849	43,507	95,555	265,248	706,617
COGS	(9,727)	(43,111)	(95,033)	(260,209)	(693,814)
Gross profit	122	396	522	5,039	12,803
EBITDA	(230)	18	109	2,860	7,092
Oper. profit	(231)	2	92	2,850	7,049
Interest income	0	1	1	5	2,627
Interest expense	-	-	-	-	-
Forex Gain/(Loss)	-	-	-	-	-
Income From Assoc. Co's	-	-	-	-	-
Other Income (Expenses)	8	0	6	(10)	9,557
Pre-tax profit	(238)	2	87	2,846	19,233
Income tax	15	(2)	(23)	(1,135)	(2,470)
Minority interest	0	0	0	829	(2,336)
Net profit	(224)	(1)	65	2,540	14,427
Core Net Profit	(224)	(1)	65	2,540	14,427

Exhibit X. Balance Sheet

Year to 31 Dec (IDRmn)	2015	2016	2017	6M18	9M18
Cash & cash equivalent	497	728	3	17,252	191,320
Receivables	0	0	12,215	8,588	36,835
Inventory	3	166	9,690	49,964	130,736
Other Curr. Asset	0	0	906	391	56,979
Fixed assets - Net	5	56	39	90	1,184
Other non-curr.asset	15	19	274	960	4,158
Total asset	519	969	23,127	77,155	421,213
ST Debt	-	-	-	-	-
Payables	208	524	3,102	23,031	33,460
Other Curr. Liabilities	-	-	-	1,774	1,293
Long Term Debt	-	-	-	-	-
Other LT. Liabilities	26	70	94	95	113
Total Liabilities	234	594	3,195	24,900	34,867
Shareholder's Funds	285	375	19,932	52,472	360,836
Minority interests	-	-	-	-216	25,509
Total Equity & Liabilities	519	969	23,127	77,155	421,213

Exhibit X. Cash Flow

Year to 31 Dec (IDRmn)	2015	2016	2017	9M17	9M18
Net income	(224)	(1)	65	2,540	14,427
Depreciation and Amort.	1	17	17	10	43
Change in Working Capital	251	191	(20,301)	(15,240)	(155,967)
Other Oper. Cash Flow	-	-	-	-	-
Operating Cash Flow	28.1	207	(20,220)	(12,690)	(141,498)
Capex	(5)	(52)	0	(61)	(1,016)
Others Inv. Cash Flow	0	0	0	0	(198)
Investing Cash Flow	(5)	(52)	0	(61)	(1,214)
Net change in debt	-	-	-	-	-
New Capital	-	-	-	30,000	331,464
Dividend payment	-	-	-	-	-
Other Fin. Cash Flow	0	76	19,495	-	-
Financing Cash Flow	0	76	19,495	30,000	331,464
Net Change in Cash	23	231	(725)	17,249	188,753
Cash - begin of the year	474	497	728	3	2,568
Cash - end of the year	497	728	3	17,252	191,320

Exhibit X. Key Ratios

Year to 31 Dec	2015	2016	2017	9M17	9M18
Growth (%)					
Sales	n/a	342	120	1,475	1,503
EBITDA	n/a	n/a	498	n/a	6,089
Operating profit	n/a	n/a	5,790	n/a	6,610
Net profit	n/a	100	n/a	n/a	18,099
Profitability (%)					
Gross margin	1.2	0.9	0.5	1.9	1.8
EBITDA margin	(2.3)	0.0	0.1	1.1	1.0
Operating margin	(2.3)	0.0	0.1	1.1	1.0
Net margin	(2.3)	(0.0)	0.1	1.0	2.0
ROAA	n/a	(0.1)	0.5	3.9	1.7
ROAE	n/a	(0.2)	0.6	5.1	4.0
Leverage					
Net Gearing (x)	(174.7)	(194.2)	(0.0)	(0.3)	(49.5)
Interest Coverage (x)	n/a	n/a	n/a	n/a	n/a

Source : xxxxxx

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