

Friday, 21 February 2020

OVERWEIGHT Maintain

SCMA relative to JCI Index



MNCN relative to JCI Index



Source : Bloomberg

Media

Attractive Regardless of Omnibus Law Conundrum

Given the depressed share prices of late, both MNCN and SCMA are trading at attractive valuations with EV/EBITDA currently standing at 6.5x and 10.0x, respectively. Recent regulatory policy in the form of the Omnibus Law may, however, pose a threat to earnings should the law go through as it is. **Maintain OVERWEIGHT with a BUY call on SCMA and 2020 TP of IDR1,725 and a BUY call on MNCN with a 2020 TP of IDR1,900.**

“USO”-esque cost to be added, odds might be low. Nestled in the Chapter 33 revision, point 2 on Legislation no.32 2002 within the Omnibus Law proposal, there is listed a license fee as a percentage of revenues for broadcasting companies. The proposal is consistent with the previously proposed law (RUU) which calls for the percentage of revenues to be at 1.75%, arguing the contribution from broadcasting has been very minimal. The proposed rate will increase the COGS by IDR128.0bn for MNCN and by IDR86.5bn for SCMA.

Media groups believe that the USO-like tariff should not be applied to them, as their programs are broadcast free-to-air. They also see that the new tariffs will not be passed by parliament. On digitization, which is touched on in Chapter 60A, analog switch off (ASO) is to be done 2 years post the legislation. In our rough calculations, we estimate additional capex for MNCN and SCMA of less than USD20mn each, and <USD10mn assuming no new tower sites. The government will not issue new broadcasting licenses, eliminating the threat of new entrants upon digitization as was the case in Thailand.

Pro-forma lower earnings by -4%. Plugging in the proposed increase of the cost structure of MNCN and SCMA, the additional costs would trim 2020 earnings by -4.2% for MNCN and -4.6% for SCMA. Core profits growth figures will still be double digits for MNCN at 10.9% yoy, while for SCMA the slim positive growth would turn to -2.9% yoy. All in all, assuming that this policy is applied, then our DCF based TP for MNCN would slip to IDR1,825 (now IDR1,900) while for SCMA it would edge lower to IDR1,650 (now IDR1,725).

Despite the lower potential earnings and TP, the 2020 EV/EBITDA multiples will remain attractive at 13.9x for SCMA and 7.7x for MNCN at the decreased TP. These valuations are still below their 4 year averages and proforma of the cost increases, the MNCN and SCMA valuations will still hover near -1STD, i.e. still attractive in our view.

Expecting 5.6% revenues growth for MNCN and SCMA collectively. Media Partners Asia has predicted 3% top-line growth for the TV industry, while MNCN is expecting 8-12% in FTA top line growth due to collaboration with SCMA. We believe that the figure for both media groups will be 5.6%, a more conservative figure considering the challenges that consumer companies are facing in 2020.

Maintain Overweight, BUY ratings all round. We maintain our OVERWEIGHT stance on the media sector with BUY calls on both SCMA and MNCN with 2020 TPs of IDR1,725 and IDR1,900, respectively. As the proposed Omnibus Law has not been approved by the House of Representatives yet, and the likelihood of the cost increases proposal being passed is reasonably low in our view, we thus maintain our 2020 estimates and TP.



Andreas Kenny

(62-21) 5091 4100 ext. 3509

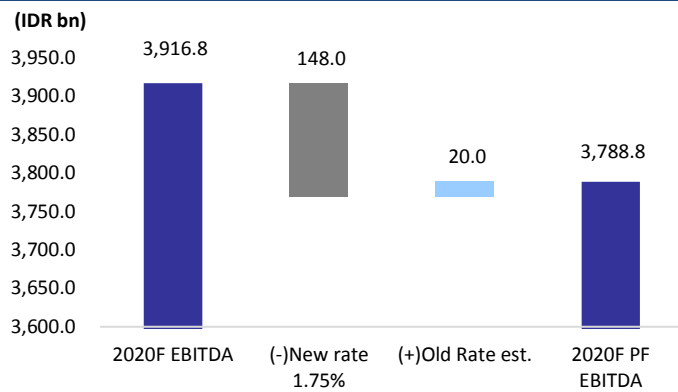
andreas.kenny@danareksa.co.id

Company	Ticker	Rec	Target Price	Market Cap.	P/E (x)		P/BV (x)		ROE (%)
			(Rp)	(RpBn)	2019F	2020F	2019F	2020F	2020F
Surya Citra Media	SCMA IJ	BUY	1,725	19,642.5	15.6	13.9	3.7	3.3	25.3
MNC	MNCN IJ	BUY	1,900	21,057.2	10.1	9.1	1.8	1.6	18.8

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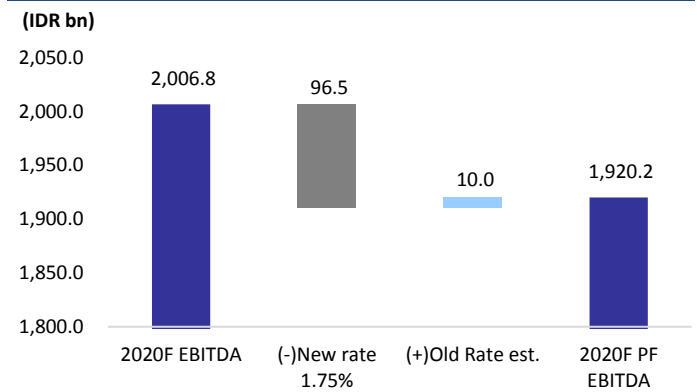
See important disclosure at the back of this report

Exhibit 1. MNCN 2020F EBITDA and proforma EBITDA bridge



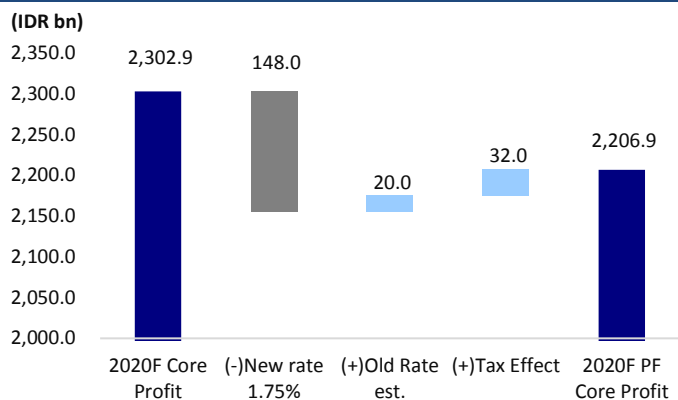
Source: Company, Danareksa Sekuritas estimates

Exhibit 2. SCMA 2020F EBITDA and proforma EBITDA bridge



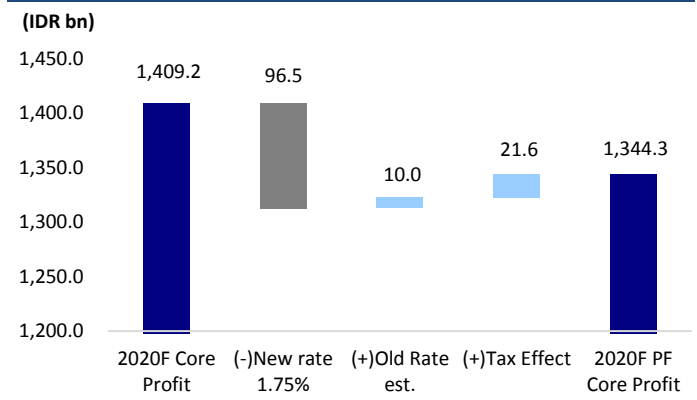
Source: Company, Danareksa Sekuritas estimates

Exhibit 3. MNCN 2020F Earnings and proforma Earnings bridge



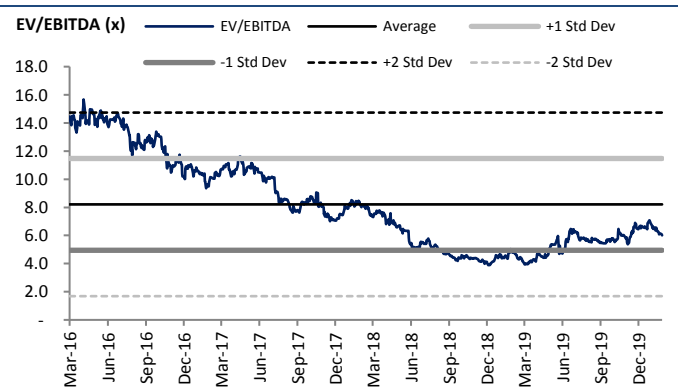
Source: Company, Danareksa Sekuritas estimates

Exhibit 4. SCMA 2020F Earnings and proforma Earnings bridge



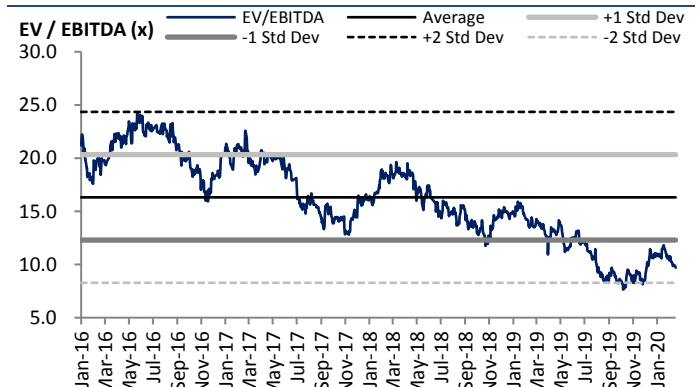
Source: Company, Danareksa Sekuritas estimates

Exhibit 5. MNCN Forward EV/EBITDA



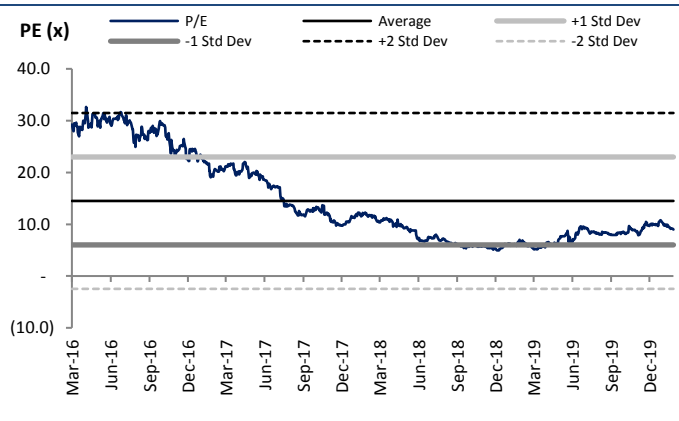
Source: Company, Danareksa Sekuritas estimates

Exhibit 6. SCMA Forward EV/EBITDA



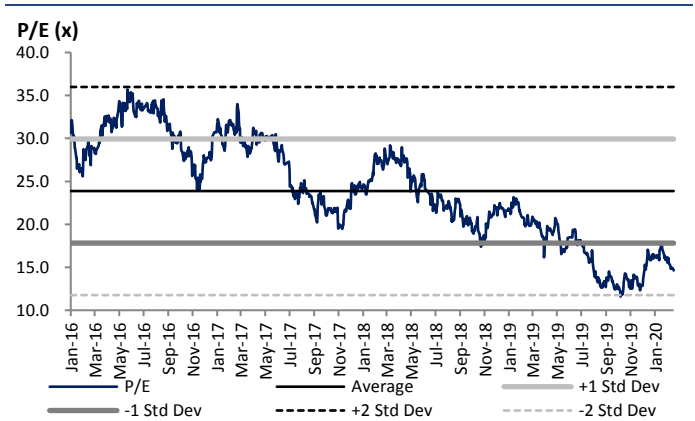
Source: Company, Danareksa Sekuritas estimates

Exhibit 7. MNCN Forward PE



Source: Company, Danareksa Sekuritas estimates

Exhibit 8. SCMA Forward PE



Source: Company, Danareksa Sekuritas estimates

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