

Wednesday, 30 May 2018

BUY
Maintain

Last price (IDR)	1,260
Target Price (IDR)	1,750
Upside/Downside	+38.9%
Previous Target Price (IDR)	1,750

Stock Statistics

Sector	Media
Bloomberg Ticker	MNCN IJ
No of Shrs (mn)	14,276
Mkt. Cap (IDRbn/USDmn)	17,988/1,285
Avg. daily T/O (IDRbn/USDmn)	30.1/2.1

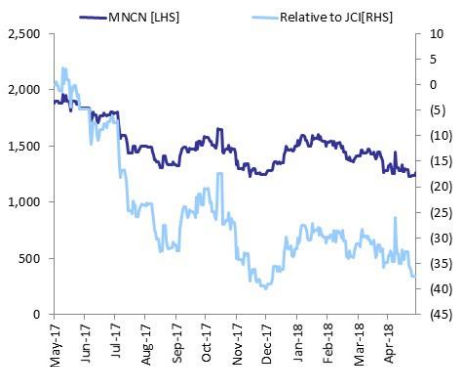
Major shareholders (%)

Global Mediacom	63.8
Estimated free float	40.8

EPS Consensus (IDR)

	2018F	2019F	2020F
Danareksa	130.7	143.3	156.3
Consensus	122.1	133.9	157.7
Danareksa/Cons	7.0	7.1	(0.9)

MNCN relative to JCI Index



Source : Bloomberg



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Media Nusantara(MNCN IJ)

Sluggish 1Q18 performance

MNCN booked lower-than-expected 1Q18 revenues and net profits, mainly on the back of weak advertising revenues and higher content costs in 1Q18 compared to 4Q17. This led to gross margins compression in 1Q18 compared to previous quarters, although gross margins were still higher versus 1Q17. MNCN also booked significant forex losses in 1Q18 and a higher tax rate. We are currently reviewing our forecast.

Lower-than-expected 1Q18 net profits. MNCN booked sluggish 1Q18 net profits of only IDR274bn (vs. IDR419bn in 1Q17), -34.6% yoy and -17.3% qoq, or reaching only 14.7% of our full year forecast and 15.9% of consensus estimates, far below expectations. This mainly reflects: 1) lower-than-expected revenues in 1Q18 and 2) higher-than-expected 1Q18 content costs, which were much higher than in 4Q17, resulting in lower 1Q18 gross margins compared to the previous quarter, albeit still higher compared to 1Q17. As a result, the 1Q18 operating margin was much lower than in 4Q17, although still better than in 1Q17. MNCN also booked large forex losses in 1Q18, mainly due to its US dollar denominated long-term bank loan (IDR3.3tn), which is equivalent to ~82% of MNCN's total interest bearing debts. The company also booked a higher tax rate in 1Q18 of 30% (vs. an estimated 25% for FY18F).

Lower-than-expected 1Q18 revenues. At the top line, MNCN only booked IDR1.6tn of revenues (vs. IDR1.6tn in 1Q17), -0.4% yoy and -4.1% qoq, or reaching 21.6% of our full year forecast and 21.2% of consensus estimates. This falls short of expectations as in the last 3 years, the 1Q figure was usually around 23% of the full year number, and mainly reflects lower-than-expected 1Q18 advertising revenues. In addition, we also note that MNCN's audience share in 4Q17 and 1Q18 has trended down from its level in 3Q17. Nonetheless, on a more positive note, the company signaled a pick-up in audience share during Ramadan thanks to good viewing figures for 1) "Dunia Terbalik" and 2) "Amana Wali" which have been aired during prime time and sahur – considered as a prime-time slot during the fasting month.

Reviewing our forecast. We are currently reviewing our forecast. The stock's valuation is cheaper than its peer in the media sector (SCMA) although the latter is our top pick. The risks to our call include: 1) audience share stagnating, 2) higher content and operating costs, and 3) stiffer competition.

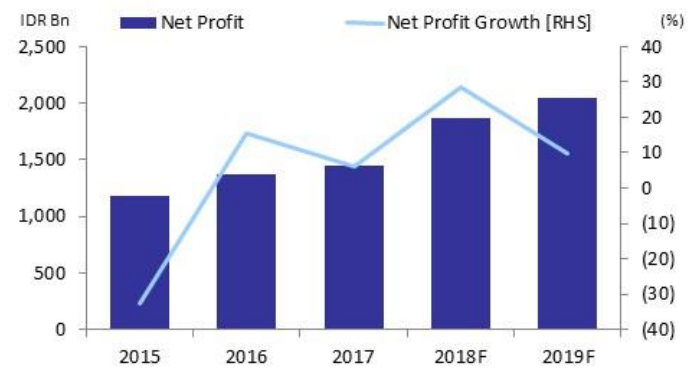
Key Financials

Year to 31 Dec	2016A	2017A	2018F	2019F	2020F
Revenue (IDRbn)	6,730	7,053	7,405	7,850	8,399
EBITDA (IDRbn)	2,603	3,124	3,258	3,454	3,696
EBITDA Growth (%)	4.2	20.0	4.3	6.0	7.0
Net profit (IDRbn)	1,369	1,453	1,866	2,046	2,231
EPS (IDR)	95.9	101.8	130.7	143.3	156.3
EPS growth (%)	15.4	6.2	28.4	9.6	9.0
BVPS (IDR)	617.7	632.2	717.0	803.4	897.3
DPS (IDR)	41.2	41.7	44.3	56.9	62.4
PER (x)	13.5	12.7	9.9	9.0	8.3
PBV (x)	2.1	2.0	1.8	1.6	1.4
Dividend yield (%)	3.2	3.2	3.4	4.4	4.8
EV/EBITDA (x)	8.3	6.9	6.4	5.9	5.4

Source : MNCN, Danareksa Estimates

Exhibit 1. Revenues and Growth

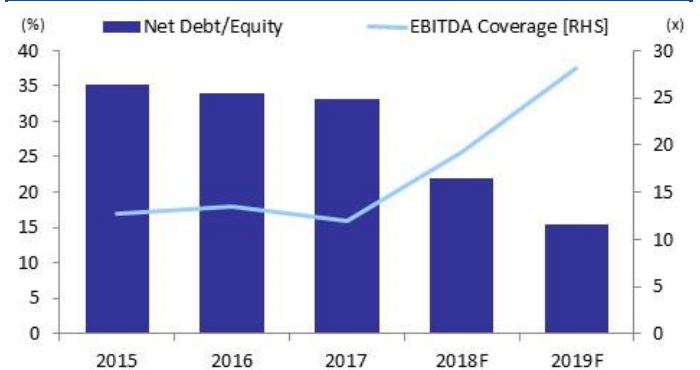

Source: Company, Danareksa Sekuritas estimates

Exhibit 2. Net Profits and Growth


Source: Company, Danareksa Sekuritas estimates

Exhibit 3. Margins


Source: Company, Danareksa Sekuritas estimates

Exhibit 4. Gearing Level


Source: Company, Danareksa Sekuritas estimates

Exhibit 5. MNCN's 1Q18 results

MNCN's 4Q17 results	1Q17	4Q17	1Q18	qoq	yoy	2018F	A/F
Revenues, IDRbn	1,610	1,671	1,602	-4.1%	-0.4%	7,405	21.6%
Gross profits, IDRbn	928	1,138	939	-17.5%	1.2%	4,624	20.3%
Operating profits, IDRbn	527	704	528	-25.1%	0.1%	2,829	18.7%
Pretax profits, IDRbn	568	582	423	-27.3%	-25.6%	2,683	15.8%
Net profits, IDRbn	419	332	274	-17.3%	-34.6%	1,866	14.7%
Gross margins	57.7%	68.1%	58.6%			62.4%	
Operating margins	32.7%	42.2%	32.9%			38.2%	
Pretax margins	35.3%	34.8%	26.4%			36.2%	
Net margins	26.0%	19.8%	17.1%			25.2%	

Source: Company, Danareksa Sekuritas estimates

Exhibit 6. Income Statement

Year to 31 Dec (IDRbn)	2016A	2017A	2018F	2019F	2020F
Revenue	6,730	7,053	7,405	7,850	8,399
COGS	(2,875)	(2,670)	(2,782)	(2,925)	(3,105)
Gross profit	3,856	4,382	4,624	4,925	5,294
EBITDA	2,603	3,124	3,258	3,454	3,696
Oper. profit	2,332	2,666	2,829	3,030	3,275
Interest income	36	20	33	44	40
Interest expense	(194)	(260)	(169)	(123)	(98)
Forex Gain/(Loss)	44	(31)	0	0	0
Income From Assoc. Co's	0	0	0	0	0
Other Income (Expenses)	(66)	20	(10)	(10)	(10)
Pre-tax profit	2,153	2,416	2,683	2,941	3,207
Income tax	(670)	(848)	(671)	(735)	(802)
Minority interest	(114)	(114)	(146)	(160)	(174)
Net profit	1,369	1,453	1,866	2,046	2,231
Core Net Profit	1,324	1,484	1,866	2,046	2,231

Exhibit 7. Balance Sheet

Year to 31 Dec (IDRbn)	2016A	2017A	2018F	2019F	2020F
Cash & cash equivalent	499	469	634	566	577
Receivables	3,054	3,026	3,192	3,383	3,620
Inventory	1,950	2,359	2,244	2,354	2,493
Other Curr. Asset	588	568	362	381	404
Fixed assets - Net	4,824	5,307	5,845	6,423	7,050
Other non-curr.asset	2,777	3,032	3,003	3,034	3,073
Total asset	14,240	15,057	15,577	16,438	17,514
ST Debt	3,464	320	92	0	0
Payables	435	740	612	643	683
Other Curr. Liabilities	300	399	314	333	354
Long Term Debt	252	3,387	2,992	2,500	2,000
Other LT. Liabilities	302	410	410	410	410
Total Liabilities	4,753	5,256	4,420	3,886	3,447
Shareholder's Funds	8,818	9,025	10,236	11,470	12,811
Minority interests	669	776	922	1,082	1,256
Total Equity & Liabilities	14,240	15,057	15,577	16,438	17,514

Exhibit 8. Cash Flow

Year to 31 Dec (IDRbn)	2016A	2017A	2018F	2019F	2020F
Net income	1,369	1,453	1,866	2,046	2,231
Depreciation and Amort.	271	458	430	424	420
Change in Working Capital	(177)	(144)	(150)	(276)	(344)
Other Oper. Cash Flow	1,336	678	228	84	64
Operating Cash Flow	2,799	2,445	2,373	2,278	2,371
Capex	(950)	(940)	(968)	(1,002)	(1,047)
Others Inv. Cash Flow	(139)	(234)	62	14	1
Investing Cash Flow	(1,090)	(1,174)	(906)	(989)	(1,046)
Net change in debt	(50)	(9)	(624)	(583)	(500)
New Capital	0	0	0	0	0
Dividend payment	(588)	(596)	(632)	(812)	(890)
Other Fin. Cash Flow	(971)	(696)	(46)	37	76
Financing Cash Flow	(1,609)	(1,301)	(1,302)	(1,358)	(1,314)
Net Change in Cash	101	(30)	165	(68)	11
Cash - begin of the year	398	499	469	634	566
Cash - end of the year	499	469	634	566	577

Exhibit 9. Key Ratios

Year to 31 Dec	2016A	2017A	2018F	2019F	2020F
Growth (%)					
Sales	4.4	4.8	5.0	6.0	7.0
EBITDA	4.2	20.0	4.3	6.0	7.0
Operating profit	6.3	14.3	6.1	7.1	8.1
Net profit	15.4	6.2	28.4	9.6	9.0
Profitability (%)					
Gross margin	57.3	62.1	62.4	62.7	63.0
EBITDA margin	38.7	44.3	44.0	44.0	44.0
Operating margin	34.6	37.8	38.2	38.6	39.0
Net margin	20.3	20.6	25.2	26.1	26.6
ROAA	9.5	9.9	12.2	12.8	13.1
ROAE	15.4	16.3	19.4	18.9	18.4
Leverage					
Net Gearing (x)	0.3	0.3	0.2	0.2	0.1
Interest Coverage (x)	12.0	10.3	16.8	24.7	33.4

Source : MNCN, Danareksa Estimates

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