

# Indonesia Flash Note

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DBS Group Research . Equity

2 Aug 2018

## Surya Citra Media (SCMA JJ) : BUY

Mkt. Cap: US\$2,085m | 3m Avg. Daily Val: US\$2.0m

Last Traded Price ( 1 Aug 2018): Rp2,060

Price Target 12-mth: Rp2,600 (26% upside)

### Analyst

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### Heading into a better quarter

- 1H18 earnings in line with our expectation
- Expect strong 3Q topline growth on the back of Asian Games, and improvement in audience share
- UNVR and P&G will reduce their adex budget; but this would be offset by higher adex by staple companies (MYOR, Garuda Food) and online service companies
- Maintain our BUY call with TP of Rp2,600/share

Forecasts and Valuation FY Dec (Rpbn)	2016A	2017A	2018F	2019F
Revenue	4,524	4,454	4,854	5,222
EBITDA	2,140	1,970	2,184	2,411
Pre-tax Profit	2,024	1,782	1,999	2,210
Net Profit	1,501	1,331	1,484	1,641
Net Pft (Pre Ex.)	1,501	1,331	1,484	1,641
Net Pft Gth (Pre-ex) (%)	(1.5)	(11.3)	11.4	10.6
EPS (Rp)	103	91.1	101	112
EPS Pre Ex. (Rp)	103	91.1	101	112
EPS Gth Pre Ex (%)	(1)	(11)	11	11
Diluted EPS (Rp)	103	91.1	101	112
Net DPS (Rp)	0.0	0.0	0.0	0.0
BV Per Share (Rp)	234	267	318	372
PE (X)	20.1	22.6	20.3	18.4
PE Pre Ex. (X)	20.1	22.6	20.3	18.4
P/Cash Flow (X)	21.8	24.1	19.8	17.7
EV/EBITDA (X)	14.0	15.4	13.7	12.1
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	8.8	7.7	6.5	5.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	45.7	36.3	34.7	32.5

Source of all data on this page: Company, DBSVI, Bloomberg Finance L.P.

### Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

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### What's New

**1H18 earnings in line with our expectation.** Surya Citra Media (SCMA) posted 2Q18 earnings of Rp485.3bn (-9.8% y-o-y; +35.1% q-o-q), bringing 1H18 earnings to Rp844bn (+0.7% y-o-y). This represents 50.4%/56.9% of consensus/our estimate – in line with our expectation.

**1H18 audience share shows improvement.** SCMA's all-time audience share for 1H18 increased by 2ppts y-o-y to 17.5%. Meanwhile, Indosiar's (IVM) all-time audience increased by 2.8ppts y-o-y to 14.6%. In 1H18, SCTV's prime time audience share improved by 2.1ppts to 19.7% due to a number of drama series produced by Sinemart, namely Orang Ketiga, Anak Langit, and Siapa Takut Jatuh Cinta. Furthermore, Indosiar's 1H18 prime time audience share improved by 2.3ppts to 14.4% on the back of new programmes like Liga Dangdut (LIDA). We believe that the strong improvement of audience share will enable the company to charge for a higher rate card.

**Revenue declined due to longer festive holidays.** SCMA posted 2Q18 revenue of Rp1.3tr (-6.2% y-o-y; +14.3% q-o-q), bringing 1H18 revenue to Rp2.5tr (+2.6% y-o-y). In 2Q18, SCTV's revenue declined to Rp754.1bn (-18.5% y-o-y; +30.6% q-o-q); while Indosiar's revenue also slipped to Rp500.4bn (-1.8% y-o-y; -3.8% q-o-q). The revenue performance of SCMA was broadly in line with market conditions and the audience share changes in the previous year. However, June 2018 experienced a significant and unexpected y-o-y decline due to longer festive holidays.

## Flash Note

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**Content revenue jumped significantly in 1H18.** SCMA's content revenue improved significantly to Rp126.4bn in 1H18 (vs Rp16.8bn in 1H17) as it was able to sell more content to third parties. Previously, content revenue was always eliminated due to more sales to internal parties. The company sold its content to Sinemart21, Netflix, Iflix, and its content library to OTT players. This year, IEG has been able to produce and sell two movies to Netflix at very high margins, as the cost of production is borne by Netflix. We believe that its higher content sales going forward would be able to offset the downtrend in advertising revenue for TV stations

**Cost of programming up by 6.7% y-o-y.** In 2Q18, SCMA's cost of programming increased by 6.7% y-o-y to Rp488.8bn (+1.1% q-o-q) mainly due to investments in new and fresh programming on Indosiar (IVM), notably LIDA that featured contestants from all of Indonesia's provinces, more fresh-run FTV episodes, and the Liga 1 Go-Jek Soccer Championship whose broadcasting kicked off in March 2018. As a result, SCMA's GPM slipped to 63% in 2Q18 (vs 67.5% in 2Q17).

**2H outlook.** Management has guided for revenue growth of 25% y-o-y in 3Q18 on the back of (i) Asian Games which could boost August and September audience share numbers, leading to higher revenue in 3Q, and (ii) improvement in audience share numbers on a y-o-y basis, which enables it to charge for a higher rate card.

However, in 4Q18, there will be some challenges in the advertising expenditure (adex) environment. As some of the FMCG companies intend to cut their adex budget for TV and carry out more targeted marketing. Such companies as UNVR, and Procter and Gamble have indicated their plans to cut their adex budget – as both companies posted weak topline and bottomline growth. But we think that the lower adex budget from these two companies would be offset by potentially higher adex from staple consumer companies like MYOR and Garuda Food, as well as online service companies.

Thus, we maintain our BUY call on SCMA with a TP of Rp2,600/share.

## Quarterly / Interim Income Statement (Rpbn)

FY Dec	2Q2017	1Q2018	2Q2018	% chg yoy	% chg qoq
Revenue	1,410	1,157	1,322	(6.2)	14.3
Cost of Goods Sold	(458)	(484)	(489)	6.7	1.1
<b>Gross Profit</b>	<b>952</b>	<b>673</b>	<b>833</b>	<b>(12.4)</b>	<b>23.8</b>
Other Oper. (Exp)/Inc	(215)	(204)	(228)	5.9	11.3
<b>Operating Profit</b>	<b>737</b>	<b>469</b>	<b>606</b>	<b>(17.8)</b>	<b>29.3</b>
Other Non Opg (Exp)/Inc	3.21	3.84	1.81	(43.5)	(52.8)
Associates & JV Inc	0.0	4.83	6.53	nm	35.2
Net Interest (Exp)/Inc	(2.1)	1.63	3.78	nm	131.5
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
<b>Pre-tax Profit</b>	<b>738</b>	<b>479</b>	<b>619</b>	<b>(16.1)</b>	<b>29.3</b>
Tax	(195)	(119)	(141)	(27.7)	18.4
Minority Interest	(5.1)	(0.6)	8.31	nm	(1,529.5)
<b>Net Profit</b>	<b>538</b>	<b>359</b>	<b>485</b>	<b>(9.8)</b>	<b>35.1</b>
Net profit bef Except.	538	359	485	(9.8)	35.1
EBITDA	776	515	655	(15.6)	27.1
<b>Margins (%)</b>					
Gross Margins	67.5	58.2	63.0		
Opg Profit Margins	52.3	40.5	45.8		
Net Profit Margins	38.1	31.1	36.7		

Source of all data: Company, DBSVI

## Target Price &amp; Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	25 Jun 18	2220	2600	BUY
2:	27 Jun 18	2170	2600	BUY
3:	13 Jul 18	2180	2600	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: DBSVI

Analyst: David Arie Hartono

DBSVI recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return i.e. > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

*Share price appreciation + dividends*

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