

**BUY**

**TP: Rp3,200 (+17.2%)**

## Surya Citra Media

### Beneficiary of stronger consumption

#### Robust consumption to boost advertising spending

We expect advertising spending of fast moving consumer goods companies (FMCG) to grow by 9.0% this year supported by consumer purchasing power revival and special events such as Asian Games and FIFA World Cup. We believe consumer purchasing power is bottoming out this year driven by 1) robust investment (FDI) and government spending which should boost consumption, 2) more government populist policies ahead of presidential election 3) campaign spending by political parties in regional elections and 3) low inflation environment. Our economist expects GDP-consumption to accelerate from 4.9% in 2017 to 5.1% in 2018. We strongly believe media advertisement spending is highly leveraged to the general economy. Meanwhile, Elang Mahkota Teknologi (EMTK), the parent company of Surya Citra Media (SCMA) has won the broadcasting right for Asian Games. SCMA is aiming for Rp200.0bn-Rp250.0bn additional revenue from this event. SCMA is the owner of FTA channels, SCTV and Indosiar (IVM), which are major Free-to-Air (FTA) TV stations in Indonesia.

#### Beneficiary of rising internet player's advertisement

We believe the growth of ecommerce and digital advertisement spending will not significantly threaten TV advertisement revenue. SCMA argues although online advertisement has taken some of the pie, the company keeps on maintaining its advertising revenue as online companies (including Traveloka, Tokopedia, are currently in aggressive expansion, leading to their bigger advertisement in TV. Therefore it offset the TV ad revenue lost to digital advertising. Advertisement from online companies comprised 10.0% of SCMA total advertising revenue and is expected to grow by 30.0%-40.0% every year. Hence, we believe this will be more catalyst rather than threat for SCMA.

#### Highest audience share in Jan'18

Throughout Jan'18, the company has a combined highest audience share at 36.0% (SCTV and IVM) compared to MNCN group prime-time audience share of 33.1% and ANTV of 16.3%. SCMA audience share was driven by the sinetron "Orang Ketiga", "Anak Langit", and "Siapa Takut Jatuh Cinta". As for IVM, it was previously driven by D'Academy, however the season has over and is replaced by Liga Dangdut that are currently on the way. The company aims SCTV and IVM to book at least 18.0% and 12-14% audience share, respectively.

#### Better earnings outlook seen

We expect the company performance to rebound this year with revenue growth of 13.8% and EPS growth of 17.4% on the back of national 9.0% advertising spending growth. We believe the robust consumption will be fruitful for media companies. SCMA has also a very well capitalized balance sheet with the company in a net cash position.

#### Valuation and recommendation

We re-initiate our coverage on SCMA with a BUY rating with target price of Rp3,200 (17.2%) upside. We derived our TP based on forward FY19F PE of 24.2x, slightly lower than +0.5stdev historical mean. At the moment, SCMA is trading at 22.4x 2018F PER or premium compared to its peers; MNCN valuation of 15.1x. We believe it is justified by SCMA's higher EPS growth, ROE and stronger balance sheets (see exhibit 9).

#### Exhibit 1 : Financial Highlights

Year to 31 Dec	2015A	2016A	2017F	2018F	2019F
Revenue (Rpbn)	4,238	4,524	4,618	5,256	5,664
Operating profit (Rpbn)	2,015	2,003	2,034	2,397	2,600
Net profit (Rpbn)	1,524	1,501	1,521	1,786	1,932
EPS (Rp)	104.2	102.7	104.1	122.1	132.1
EPS growth (%)	4.7	-1.5	1.4	17.4	8.2
EV/EBITDA (x)	19.5	18.7	18.9	16.0	14.7
PER (x)	26.3	26.7	26.3	22.4	20.7
PBV (x)	12.7	11.7	10.7	9.8	8.9
Dividend yield (%)	4.6	3.0	3.0	3.6	3.9
ROE (%)	48.4	43.8	40.7	43.6	43.0

Source : SCMA, Ciptadana Estimates

Sector	Media
Bloomberg Ticker	SCMA IJ

#### Share Price Performance

Last price (Rp)	2,730		
Avg. daily T/O (Rpbn/USDmn)	32.6/2.4		
	<b>3m</b>	<b>6m</b>	<b>12m</b>
Absolute (%)	24.1	19.7	-10.8
Relative to JCI (%)	13.8	6.7	-35.1
52w High/Low price (Rp)	3,180/1,935		



Outstanding shrs (mn)	14,622
Mkt. Cap (Rpbn/USDmn)	39,917/2,941
Estimated free float (%)	41.7

#### Major shareholders

Elang Mahkota Teknologi	63.6%
Capital Group Companies Inc	3.6%
Schroder Investment Management	2.5%

#### EPS Consensus

	Ciptadana	Cons.	% Diff
2017F	104.1	103.7	0.3
2018F	122.1	115.6	5.6
2019F	132.1	121.2	9.0

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## Industry review

### Supportive consumption growth and election to boost up advertising spending

In FY18F, the media sector will bear the fruit of robust consumption that is driven by Asian Games and FIFA World Cup. Prior to those festive seasons which would take place in 2Q18 and 3Q18 we expect FMCG companies to be robust on their advertising spending that will benefit media companies as TV advertisement is still the most relevant platform for branding. Hence, looking at SCMA with its superior audience share, we believe this will be a positive catalyst. Further, following the regional election in mid-FY18F and presidential election in FY19F, we believe government and political parties advertising spending to increase this year. We are convinced that TV advertisement will still dominate the advertising campaign.

### Competitive landscape of traditional and online advertisement

The competition in the advertisement market is getting stiffer every year. At the moment online advertisement comprised 15% of total advertisement, meanwhile TV comprised 65%. Previously, before online advertisement enters the market, TV comprised 67% of the advertisement market, only down by 2%. Based on this data, we can conclude that TV is not the first one to face the competitive market from online. We believe billboard and radio are the earliest to get hit.

Hence, for media companies, in the near term we are optimistic TV will still dominate the market and at the same time online advertisement will slowly grabbing the pie as well. Further, at the moment internet in Indonesia is still underpenetrated, hence online advertisement is still immaterial.

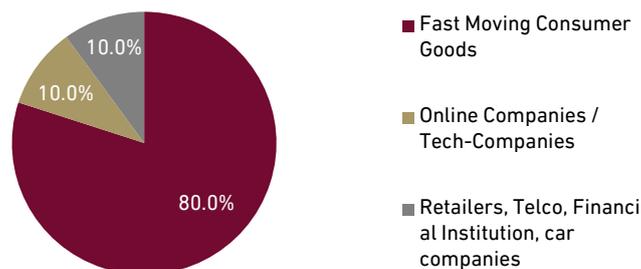
### Online companies aggressive branding

Today, online companies are mushrooming. They are in a competition in order to stay in the business. As a result, the companies are aggressively advertising their brand to be known and to attract the viewers. Hence, media companies are the beneficiary of this competition. As SCMA said that although Youtube, Instagram, Facebook, and other online advertisers are grabbing their pie, however online companies namely Tokopedia, Traveloka, and others are still aggressively advertise on their platform, hence we are convinced that media companies are still enjoying their advertising market.

### FMCG maintains its position as the biggest advertising spender

70.0%-80.0% of TV advertisement is dominated by FMCG companies. In FY18F as consumption is expected to be robust, we expect this will be in line with the advertising spending. Next in line after FMCG are online companies with 10.0% contribution to advertising spending. Noting, that online companies only started to be aggressive in FY15, within approximately 3yrs those companies already grab 10.0% portion of advertising spending, hence this conclude that the advertising growth for the companies is surprisingly high. Going forward, it is expected advertising spending from online companies to grow by 30.0%-40.0%.

### Exhibit 2: SCMA Advertising Spending portion



Source: Company, Ciptadana

### Possibility of industry consolidation

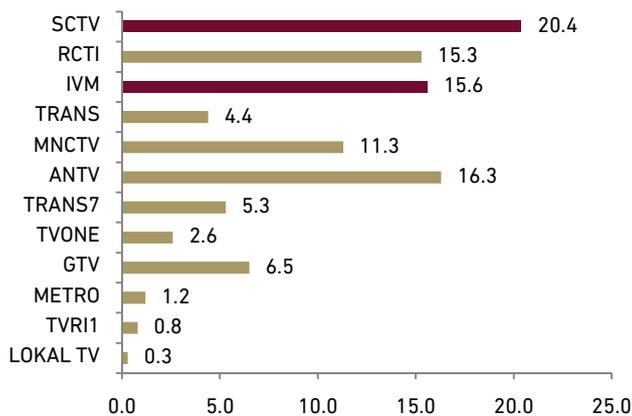
Looking at the players of the industry, there might be a possibility of industry consolidation to reduce the competition. We believe this is positive catalyst for big players in the industry. Based on audience share, two of the most influential players in the sector are SCMA and Media Nusantara Citra (MNCN). Hence, with possibility of mergers and acquisition we believe this will improve the performance of both companies depending on the company's strategy. At the moment, MNCN is the only one that has three channels including RCTI, MNCTV, and Global TV. And the others only have one or two channels including SCMA.

## Investment Thesis

### Rising audience share

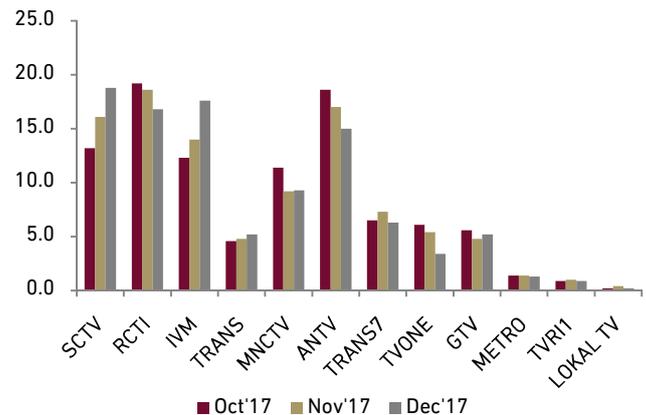
In Dec'17 SCMA has slowly climbed the audience share ladder after a relatively weak 1Q, 2Q, and 3Q. Throughout 4Q17 the company constantly booked growing audience share at 25.5% in Oct'17, 30.1% in Nov'17, and 36.4% in Dec'17. In Jan'18, SCMA audience share was down by 0.4% MoM standing at 36.0% and still in the top of the line. The decline in the audience share is due to IVM's D'Academy that has ended its season in Dec'17 resulting in IVM's audience share degraded by 2.0% MoM. However, at the moment IVM has replaced D'Academy with Liga Dangdut that is currently on going. In FY18F, the company is aiming for SCTV and IVM to book an audience share of 18.0% and 12.0%-14.0% respectively driven by SCTV's "Orang Ketiga", "Anak Langit", "Siapa Takut Jatuh Cinta", and IVM's "Liga Dangdut".

Exhibit 3: Jan'18 Prime Time audience share (%)



Source : Company, Nielsen and Ciptadana

Exhibit 4: 4Q17 Prime Time audience share (%)



Source : Company, Nielsen and Ciptadana

### Asian Games broadcast right

Elang Mahkota Teknologi (EMTK) has secured the broadcast right for the Asian Games that will be held on 3Q18. SCTV and IVM would be the main beneficiary for this broadcast right. We believe this will boost the company's audience share as we believe Indonesian people are enthusiastic enough to sports TV show. Not only boosting up audience share but we also believe as this will lead to robust consumption, hence we believe FMCG companies will be aggressive on advertising spending. Further, in having the broadcast right for Asian Games, the company seeks revenue of Rp200.0bn-Rp250.0bn which might be an additional 15.0%-20.0% to 3Q18 revenue.

**Exhibit 5: Asian Games Official Broadcaster**



Source : Vidio.com and Ciptadana

**FMCG companies maintain the highest portion of advertising spending**

FMCG comprised the highest portion of Advertising spending accounting 70.0%-80.0%. Followed by, Online/Tech-companies with 10.0% and others (retailers, telco, financial institution, and car companies) at 10.0% as well. The company stated TV is still the most relevant platform for advertising. Further, the company mentioned Unilever Indonesia (UNVR) advertising spending to SCMA in 1Q18 will approximately increase by 24.0% and Proctor and Gamble (P&G) will also increase by around 16.0%. We believe this is good start of FY18F. We are optimistic with all the sector catalyst advertising spending will continue going forward.

**Whisper Media targets to grow by 150.0%**

In mid-FY14 SCMA has invested in Whisper Media. This is a media that provides Digital Brand Integration (DBI) and placement that enables advertisers to place their brand or product directly to contents.

This year Whisper Media will implement their strategy to split the content placement into seven different broadcasting. This means that one advertisement content could be spread out to seven different locations with different product placement. We believe this strategy will be beneficial for FMCG companies as they have many brands and might have different product demand geographically. Driven by the strategy, this year, SCMA targets Whisper Media to book 150.0% revenue growth standing at Rp500.0bn. Noting, in Indonesia Whisper Media is exclusive for SCMA.

## Financial Analysis

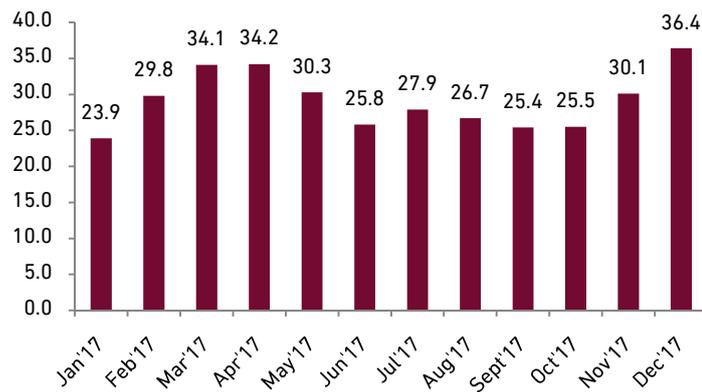
### FY17 Review

FY17 was a challenging year for SCMA. After a weak 1Q17, as revenue, operating profit and net profit declined by 6.0%, 16.7%, and 16.5% respectively. The company stated that in 1Q17 SCTV prime time audience share only improved after 20 Feb'17 onwards post Sinemart acquisition. Although during the quarter SCTV booked an improving YoY average audience share to 15.1%, however IVM's audience share has degraded by 2.5 points standing at 11.6% resulting SCMA only booked 26.7%, slightly increased by 0.8 points.

However, although it was a tough year for SCMA, in 4Q17 the company has started to get back in its stance after a series of declining audience share months after months until Oct'17 prime time audience share started to rise again and booked the highest gain in Dec'17 with a combined (SCTV & IVM) audience share of 36.4%, the highest compared to the competitors.

In FY17, we expect the company to book a flat or a slight improvement as it was not the best year for the company. We forecast the company to book 2.1% revenue growth standing at Rp4.6tn and 1.4% net profit growth to Rp1.5tn translating to 34.1% net margin.

**Exhibit 6: SCMA FY17 Prime Time Audience Share**



Source : Company, Nielsen and Ciptadana

### FY18 Earnings Outlook

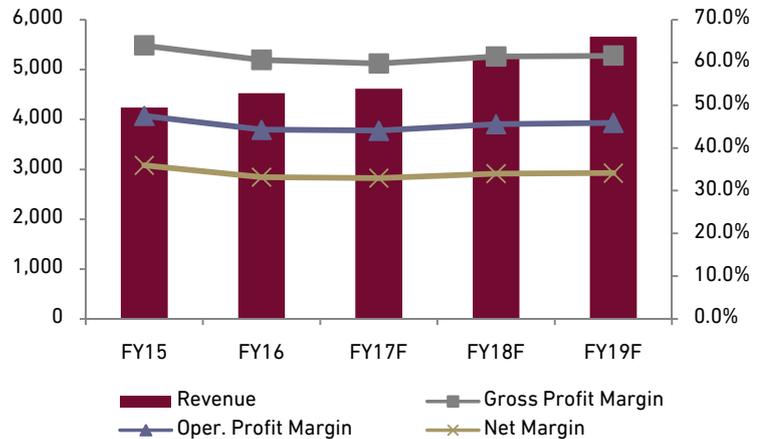
SCMA booked the highest audience share again in Jan'18 with 36.0% audience share. After a weak 1Q17, in 1Q18, the company targets a 12.0% revenue growth approximately at Rp1.1tn which we believe still driven by the 3 sinetrons with the highest audience share including "Orang Ketiga", "Anak Langit", and Siapa Takut Jatuh Cinta".

In 2Q18, we expect advertising spending to be robust, as although FIFA World Cup is not broadcasted by SCMA but this will boost consumption and hence FMCG companies will be competing among each other and be more aggressive on advertising. Hence, the tightening competition will benefit media companies including SCMA. We are optimistic that this will be a positive catalyst for the sector. Not only FIFA World Cup, in 2Q18 consumption will also robust following the Ramadan month.

Furthermore, parallel to Ramadan month is also prior to regional election in 3Q18 hence this will also complement boosting up consumption and advertising spending. Last but not least, Asian Games that will be held starting Aug'18 will be huge advantage for SCMA being the broadcaster.

All in all, after all the positive catalyst, in FY18F we expect SCMA's performance to rebound. We forecast revenue to grow by 13.8% and EPS to grow by 17.4% on the back of 9.0% advertising spending growth. We expect the company will maintain its strong margin throughout the year. We projected gross, operating, and net margin to stand at 61.4%, 45.6%, and 34.0% respectively.

**Exhibit 7: SCMA Revenue and Margins Forecast**

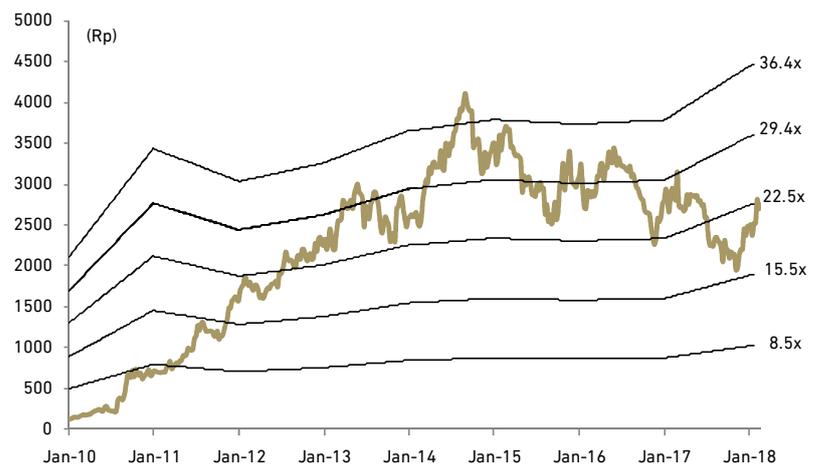


Source : Company and Ciptadana

**Valuation & Recommendation**

We re-initiate our coverage on SCMA with a BUY rating with target price of Rp3,200 (17.2% upside). We derived our TP based on forward (FY19F) PE of 24.2x, slightly lower than +0.5stddev historical mean. At the moment, SCMA is trading at 22.4x 2018F PER or premium compared to its peers; MNCN valuation of 15.1x. We believe it is justified by SCMA's higher EPS growth, ROE and stronger balance sheets (see exhibit 9).

**Exhibit 8: P/E Band**



Source : Bloomberg and Ciptadana

**Exhibit 9: Peer comparison**

Ticker	Last Price	Mkt. Cap (Rp tn)	EPS Growth		ROE	PER		EV/EBITDA	
			18F(%)	19F(%)	18F(%)	18F	19F	18F	19F
SCMA	2,740	40.1	17.4	8.2	43.6	22.4	20.9	16.0	14.7
MNCN	1,560	22.2	6.7	3.3	16.2	13.2	12.34	8.6	8.0
<b>Average :</b>			<b>12.1</b>	<b>5.8</b>	<b>29.9</b>	<b>17.8</b>	<b>16.6</b>	<b>12.3</b>	<b>11.4</b>

Source : Bloomberg and Ciptadana

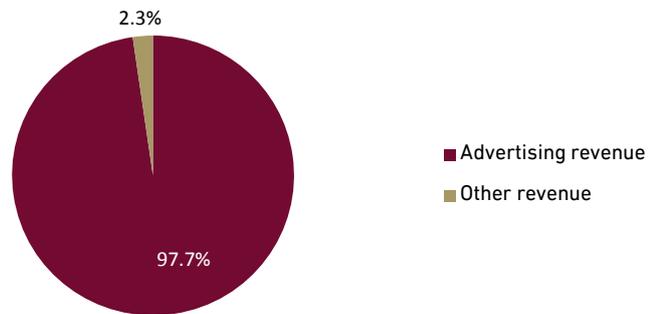
## Company Background

PT Surya Citra Media was first established in 1999. The company has been one of the most influential media companies in the country comprising two channels namely SCTV and Indosiar. At the moment, the company has seven production houses under PT Indonesia Entertainment Group (IEG) including PT Indonesia Entertainment Studio, Sinemart Pictures, PT Amanah Surga Produksi, Screenplay Productions, Screenplay Films, PT Indonesia Entertainment Produksi and PT Visual Indomedia Produksi. Out of the seven production houses, four produce TV series and motion pictures and three diversified content productions including shows, animation, and online videos. Not only production houses, SCMA has also invested in Whisper Media back in mid-2014, this is digital brand integration that provides platform for companies for product placement to existing contents. In Indonesia, Whisper Media is exclusive for SCMA.

## SCMA revenue breakdown

Advertising revenue is the main revenue driver for SCMA comprising 97.7% of the company's total revenue. In FY18F, we expect advertising revenue to improve by 13.7% on the back of 9.0% advertising spending growth translating to 17.4% EPS growth.

**Exhibit 10: SCMA Revenue and Margins Forecast**



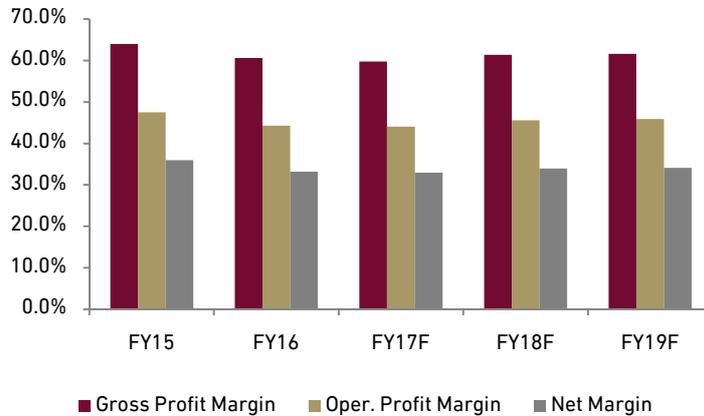
Source : Company and Ciptadana

The company stated 80.0% of the advertising comes from FMCG companies, followed by 10.0% from online companies and another 10.0% from retail, telecommunication, financial institutions and car companies. Thus, following several programs in FY18F including FIFA World Cup, Asian Games, and Regional Election, we are convinced that consumption will be robust throughout the year and FMCG companies will bear the fruit and hence this will be reflected in the increasing advertising spending to media companies.

## SCMA margins breakdown

For several years SCMA has been maintaining strong margins and we expect to continue strong going forward. The company has been maintain its gross, operating, and net margin at 60.0%, 44.0%, and 33.0% respectively. This year we projected the company to achieve 61.4% gross margin, 45.6% operating margin, and 34.0% net margin.

**Exhibit 11: SCMA Revenue and Margins Forecast**



Source : Company and Ciptadana

## Risk and Concerns

### Competition between traditional and online advertising

Since online advertising platform has entered the business, it is true that Youtube, Instagram, Facebook, etc has eaten some of the pie of traditional advertisement. We see that this might be a threat for the media sector including SCMA going forward. However, in the near term, we believe TV advertisement is not the first to get hit. We believe billboards and radios will be first to be affected.

### Unstable economic condition

The media sector is very much affected by consumption. We see that unstable economic condition might be a threat for the media sector as the deteriorating economic condition will lead to worsening consumption as well. We believe the media sector advertising spending is highly dependent to consumption growth and general economy.

**Exhibit 12 - Income Statement**

Year to 31 Dec (Rpbn)	2015A	2016A	2017F	2018F	2019F
<b>Revenue</b>	<b>4,238</b>	<b>4,524</b>	<b>4,618</b>	<b>5,256</b>	<b>5,664</b>
COGS	-1,526	-1,782	-1,859	-2,029	-2,175
<b>Gross profit</b>	<b>2,712</b>	<b>2,742</b>	<b>2,759</b>	<b>3,227</b>	<b>3,489</b>
Oper. expenses	-697	-738	-725	-830	-889
<b>Oper. profit</b>	<b>2,015</b>	<b>2,003</b>	<b>2,034</b>	<b>2,397</b>	<b>2,600</b>
<b>EBITDA</b>	<b>2,031</b>	<b>2,128</b>	<b>2,117</b>	<b>2,485</b>	<b>2,694</b>
Interest income	67	47	51	55	59
Interest expense	-43	-29	-65	-78	-93
Other income (exp.)	-4	-1	1	1	1
<b>Pre-tax profit</b>	<b>2,035</b>	<b>2,021</b>	<b>2,021</b>	<b>2,375</b>	<b>2,566</b>
Income tax	-513	-510	-495	-582	-629
Minority interest	2	-10	-4	-7	-6
<b>Net profit</b>	<b>1,524</b>	<b>1,501</b>	<b>1,521</b>	<b>1,786</b>	<b>1,932</b>

**Exhibit 13 - Balance Sheet**

Year to 31 Dec (Rpbn)	2015A	2016A	2017F	2018F	2019F
Cash & cash equivalent	686	455	318	541	756
Acct, receivables	1,380	1,484	1,540	1,678	1,808
Inventory	533	689	721	648	698
Other curr, asset	245	324	213	321	352
<b>Total current asset</b>	<b>2,844</b>	<b>2,952</b>	<b>2,792</b>	<b>3,187</b>	<b>3,614</b>
Fixed assets - net	962	967	1,033	1,129	1,231
Other non-curr.asset	570	604	1,127	1,145	1,158
<b>Total asset</b>	<b>4,566</b>	<b>4,821</b>	<b>5,257</b>	<b>5,772</b>	<b>6,320</b>
ST debt + curr. maturity	150	207	260	311	373
Acct, payable	155	246	237	258	277
Advances received	0	0	0	0	0
Other curr. liab	556	538	592	640	680
Long term debt	0	0	0	0	0
Other non-curr, liab,	292	125	126	127	129
<b>Total liabilities</b>	<b>1,152</b>	<b>1,115</b>	<b>1,215</b>	<b>1,338</b>	<b>1,459</b>
Shareholder equity	3,146	3,427	3,735	4,097	4,489
Minority interest	267	279	307	337	371
<b>Total liab + SHE</b>	<b>4,566</b>	<b>4,821</b>	<b>5,257</b>	<b>5,772</b>	<b>6,320</b>

**Exhibit 14 - Per Share Data**

(Rp)	2015A	2016A	2017F	2018F	2019F
EPS	104.2	102.7	104.1	122.1	132.1
BVPS	215.2	234.3	255.5	280.2	307.0
DPS	125.0	83.0	83.2	97.7	105.7
FCF per share	77.9	74.4	68.0	106.9	113.4

Source : SCMA, Ciptadana Estimates

**Exhibit 15 - Cash Flow**

Year to 31 Dec (Rpbn)	2015A	2016A	2017F	2018F	2019F
Net income	1,524	1,501	1,521	1,786	1,932
Depreciation	17	124	82	88	94
Chg in working cap.	-207	-267	69	-103	-153
Other	0	0	0	0	0
<b>CF-Oper activities</b>	<b>1,333</b>	<b>1,358</b>	<b>1,673</b>	<b>1,771</b>	<b>1,873</b>
Capital expenditure	-215	-129	-149	-184	-197
Others	21	-141	-530	-25	-19
<b>CF-Investing activities</b>	<b>-195</b>	<b>-270</b>	<b>-679</b>	<b>-209</b>	<b>-215</b>
Net change in debt	-104	-110	54	53	63
Net change in equity	0	0	0	0	0
Dividend payment	-1,828	-1,214	-1,217	-1,429	-1,546
Other financing	230	4	32	36	39
<b>CF-Financing activities</b>	<b>-1,701</b>	<b>-1,319</b>	<b>-1,131</b>	<b>-1,340</b>	<b>-1,443</b>
<b>Net cash flow</b>	<b>-563</b>	<b>-231</b>	<b>-136</b>	<b>223</b>	<b>215</b>
Cash - begin of the year	1,249	686	455	318	541
Cash - end of the year	686	455	319	541	756

**Exhibit 16 - Key Ratios**

Year to 31 Dec	2015A	2016A	2017F	2018F	2019F
<b>Growth</b>					
Revenue (%)	4.0	6.8	2.1	13.8	7.8
Operating profit (%)	4.5	-0.6	1.5	17.8	8.5
Net profit (%)	4.7	-1.5	1.4	17.4	8.2
<b>Profitability Ratios</b>					
Gross margin (%)	64.0	60.6	59.8	61.4	61.6
Operating margin (%)	47.5	44.3	44.1	45.6	45.9
EBITDA margin (%)	47.9	47.0	45.8	47.3	47.6
Net margin (%)	35.9	33.2	32.9	34.0	34.1
ROA (%)	33.4	31.1	28.9	30.9	30.6
ROE (%)	48.4	43.8	40.7	43.6	43.0
<b>Liquidity Ratios</b>					
Current ratio (x)	3.3	3.0	2.6	2.6	2.7
Quick ratio (x)	2.7	2.3	1.9	2.1	2.2
Cash conversion cycle (days)	225.0	240.5	242.1	211.1	212.2
<b>Activity Ratio</b>					
Inventory turnover (days)	127.4	141.1	141.6	116.6	117.2
Receivable turnover (days)	114.1	115.6	119.5	111.7	112.3
Payable turnover (days)	16.5	16.2	19.1	17.2	17.3
<b>Solvency Ratio</b>					
Interest cover (x)	47.2	74.6	32.6	31.9	28.9
Debt to equity ratio (x)	0.0	0.1	0.1	0.1	0.1
Net debt to equity (x)	Net Cash				

Source : SCMA, Ciptadana Estimates

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