

# Surya Citra Media

(SCMA IJ)

## 3Q20 Earnings review: inline with better cost management; Vidio's subscribers rising

**Buy**  
(Upgrade)

TP: IDR2,100  
Upside: 39.1%

Mirae Asset Sekuritas Indonesia

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### 3Q20 net profit in line with expectation due to a lot of cost savings

### SCMA's 3Q20 bottom line reaches IDR312.7bn (-7.1%QoQ, -24.3%YoY)

- SCMA booked a net profit of IDR312.7bn in 3Q20, declining by 7.1% QoQ and 24.3% YoY. Cumulatively in 9M20, bottom line hit IDR913.6bn, which we deem in line, at 76% run-rate against our FY20F estimate and 83% against the consensus' FY20F expectation.
- GPM in 3Q20 rose by 7.2%p YoY to 53.2%, while NPM expanded by 9.2%YoY to 25.6% as the company has been doing a lot of cost savings during the pandemic by broadcasting re-runs of programs. SCMA will gradually increase programming costs along with increased revenue and maintain margins, which is well appreciated by the market in the midst of economic turmoil.

### Strong IVM revenue

### 3Q20 revenue reaches IDR1.2tr (-19%QoQ, -26.7%YoY)

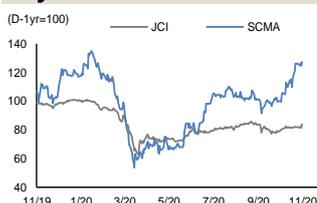
- Meanwhile, revenue in 3Q20 declined by 19% QoQ and 26.7% YoY to IDR1.2tr. Cumulatively in 9M20, revenue came in at IDR3.5tr (-13.5% YoY), achieving 71% and 74% of our and the consensus' FY20F forecast, respectively. SCTV achieved net revenue of IDR1.8tr for 9M20, a decrease of 25.2% YoY, while Indosiar Visual Mandiri (IVM) achieved net revenue of IDR1.4tr, an increase of 1.8%YoY.

### Upgrade to Buy; Expect re-rating given strong demand for SCMA's digital business, in particular Vidio SVOD

### Expect re-rating given strong demand for SCMA's digital business, in particular Vidio SVOD

We upgrade our Trading Buy recommendation to Buy on SCMA with a higher TP. Our new TP of IDR2,100 is based on a higher target P/E of 23.1x (10-year mean P/E) on 2021F EPS as we expect a re-rating on the company. We believe positive sentiments should arise from huge opportunities for the company ahead with its digital business (which has been the main challenger for FTA TV business), as the company sees enthusiasm from the increasing subscriber number. We think the company would focus on developing Vidio's SVOD over the longer time horizon, which we think would generate big upside revenue and contribution to bottom line one day. With Liga 1 starting in February, this will lead to more direct subscription rather than through telco bundles, which should increase ARPU. According to SCMA, the recent addition of subscribers (from 750k to 950k subscribers) were all premium paid subscribers.

### Key data



Share Price (11/5/20, IDR)	1,510	Market Cap (IDRbn)	22,309.8
Consensus NP (21F, IDRbn)	1,251	Shares Outstanding (mn)	14,774.7
NP Mirae Asset vs. consensus (21F, %)	4.7	Free Float (%)	38.9
EPS Growth (21F, %)	9.8	Beta (Adjusted, 24M)	1.2
P/E (21F, x)	3.6	52-Week Low (IDR)	600
Industry P/E (Current, x)	12.5	52-Week High (IDR)	1,625
Benchmark P/E (21F, x)	13.5		

### Share performance

(%)	1M	6M	12M
Absolute	24.9	82.7	24.9
Relative	21.9	71.9	43.4

### Earnings and valuation metrics

	2016F	2017	2018	2019	2020F	2021F
FY (IDRbn)						
Revenue (IDRbn)	4,524.1	4,453.8	5,276.8	5,523.4	5,069.1	5,493.7
Gross Profit (IDRbn)	2,741.7	2,619.2	2,918.4	2,660.5	2,800.6	3,035.2
Operating Profit (IDRbn)	2,003.3	1,779.3	1,848.6	1,483.3	1,535.1	1,663.7
Net profit (IDRbn)	1,511.1	1,331.5	1,484.8	1,070.2	1,199.9	1,310.3
EPS (IDR)	103	91	102	73	82	90
BPS (IDR)	234	267	329	336	377	422
P/E (x)	6.4	5.7	4.6	4.5	4.0	3.6
P/B (x)	46.0	36.3	34.1	22.0	23.0	22.4
ROE (%)	32.2	26.1	24.8	16.1	17.1	17.1
ROA (%)	5.5	4.8	3.6	3.7	2.7	3.0
Dividend yield (%)	46.0	36.3	34.1	22.0	23.0	22.4

Note: Net profit refers to net profit attributable to controlling interests

Source: Company data, Mirae Asset Sekuritas Indonesia Research

### 3Q20 results: Bottom line reaches IDR312.7bn (-7.1%QoQ, -24.3%YoY)

- SCMA booked a net profit of IDR312.7bn in 3Q20, declining by 7.1% QoQ and 24.3% YoY.
- Cumulatively in 9M20, bottom line hit IDR913.6bn, which we deem in line, at 76% run-rate against our FY20F estimate and 83% against the consensus' FY20F expectation.
- GPM in 3Q20 rose by 7.2%p YoY to 53.2%, while NPM expanded by 9.2%YoY to 25.6% as the company has been doing a lot of cost savings during the pandemic by broadcasting re-runs of programs.

### 3Q20 revenue reaches IDR1.2tr (-19%QoQ, -26.7%YoY)

- Meanwhile, revenue in 3Q20 declined by 19% QoQ and 26.7% YoY to IDR1.22tr. In our view, this is due to the COVID-19 situation, which has slowed down the overall economy. Despite the management's optimistic view on the first two months of the quarter, the large-scale social restrictions (PSBB) were tightened again in mid September.
- Cumulatively in 9M20, revenue came in at IDR3.5tr (-13.5% YoY), achieving 71% and 74% of our and the consensus' FY20F forecast, respectively. SCTV achieved net revenue of IDR1.8tr for 9M20, a decrease of 25.2% YoY, while Indosiar Visual Mandiri (IVM) achieved net revenue of IDR1.4tr, an increase of 1.8%YoY.
- Indosiar Visual Mandiri (IVM) has been fortunate to be able to re-run many FTVs during the PSBB, which has boosted rating high and attracted slightly limited ad revenue available in the market. IVM's Prime Time average audience share was 15.7% in 9M20, an increase of 2.0%p YoY. As the company started to transition out of that, it was easier for IVM to start producing live programmes inside the studios (6-7hours/day) than outside to film *sinetrons*. Thus, IVM's strong performance was due to very strong re-runs and very strong fresh live contents in the studios.
- The COVID-19 pandemic and the government-mandated PSBB policy had initially brought a significant negative impact on revenue in the advertising market and the business. However, the overall expected deterioration in the company's revenue in 2020F was lower than what was initially expected as the company's sales teams executed programmes well during the difficult environment.
- On a positive note, PSBB has been relaxed since mid October, and we expect in-studio live events to continue with safe protocols, which should support SCMA's revenue.

Table 1. Quarterly financial data and 9M20 run-rate against our and consensus' forecasts

	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	QoQ (%)	YoY (%)	Mirae Asset's FY20F	9M20/ Mirae Asset	9M20/ Cons
Revenue	1,442.0	1,379.2	1,378.1	1,304.4	1,056.9	1,223.6	-19.0	-26.7	5,069.1	71%	74%
Cost of revenue	-666.6	-744.9	-850.9	-580.9	-407.1	-572.6	-29.9	-38.9			
Gross profit	775.4	634.3	527.2	723.5	649.8	651.0	-10.2	-16.2	2,800.6	72%	77%
Operating expenses	-335.5	-285.3	-287.4	-308.0	-257.0	-285.3	-16.5	-23.4			
Operating profit	440.0	349.0	239.8	415.6	392.7	365.7	-5.5	-10.7	1,535.1	76%	100%
Other income/ expenses	6.2	-29.0	-101.8	37.5	-25.9	21.1	NM	NM			
Finance cost	0.2	-0.4	-0.8	-0.4	-0.3	-0.1	-15.9	NM			
Pre-tax profit	446.4	319.6	137.1	452.6	366.5	386.7	-19.0	-17.9	1,436.4	84%	91%
Final tax expense	-113.1	-87.4	-77.5	-124.6	-91.8	-78.3	-26.4	-18.9			
Minority interests	17.2	-7.2	3.2	-16.5	14.6	4.3	NM	-15.0			
Net profit	382.5	224.9	62.7	311.5	289.4	312.7	-7.1	-24.3	1,199.9	76%	83%
GPM	53.8%	46.0%	38.3%	55.5%	61.5%	53.2%			55.2%		
OPM	30.5%	25.3%	17.4%	31.9%	37.2%	29.9%			30.3%		
NPM	26.5%	16.3%	4.6%	23.9%	27.4%	25.6%			23.7%		

Source: Company data, Mirae Asset Sekuritas Research

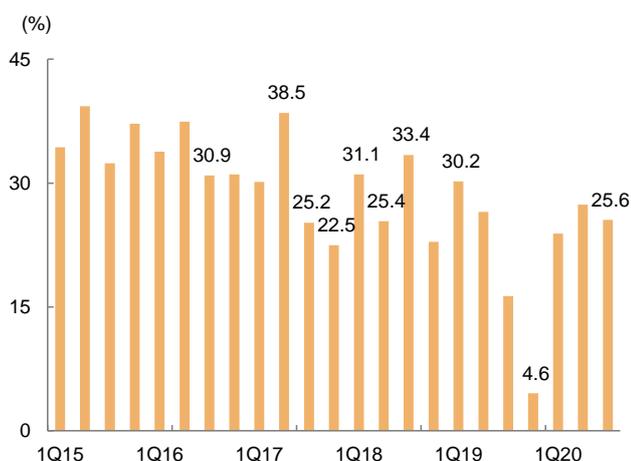
Table 2. 9M20 earnings run-rates against Mirae Asset's and consensus' full-year estimates

(IDRbn)

	9M20	9M19	YoY (%)	Mirae Asset's FY20F	9M20/ Mirae Asset	Consensus FY20F	9M20/ Cons
Net revenue	3,585	4,145.3	-13.5%	5,069	71%	4,843	74%
Gross profit	2,024	2,133.3	-5.1%	2,598	72%	2,620	77%
GPM	56.5%	51.5%		51.2%		54.1%	
Operating profit	1,174	1,244	-5.6%	1,368	76%	1,173	100%
Net profit	914	1,007.4	-9.3%	1,200	76%	1,104	83%
NPM	25.5%	24.3%		23.7%		22.8%	

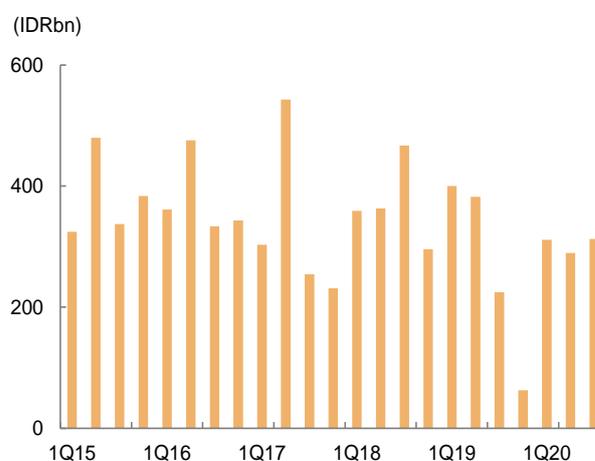
Source: Company data, Mirae Asset Sekuritas Research

Figure 1. Quarterly NPM



Source: Mirae Asset Daewoo Research

Figure 2. Quarterly net profit (IDRbn)



Source: Mirae Asset Daewoo Research

### Vidio.com's self-funding = More confidence over the longer term

#### No dividend payment, cash preserves for Vidio's content making

SCMA is not paying dividend for 2020 and does not plan to pay out any dividend for the next 9 months as it has spent some cash for buying back shares.

As of October 31, 2020, SCMA has bought back 1.2bn shares (since December 2018), which represents almost 8.25% of the shares outstanding for a total sum of IDR1.3tr. Meanwhile, during August-October 2020, SCMA bought back 600mn shares amounting to IDR750.3bn. The repurchased shares will be treated as treasury stocks and will still be going on, as the company has yet to decide what to do with the treasury stocks. As a note, as of 9M20, SCMA's cash balance is still ample despite the recent buyback, standing at IDR801.7bn (vs. IDR701mn as of 1H20). With ample cash balance, the company plans to do self-fundraising for Vidio.com next year as the company sees higher growth in subscribers ahead of its peers, such as Netflix and Disney Plus, because Vidio offers local and sports contents.

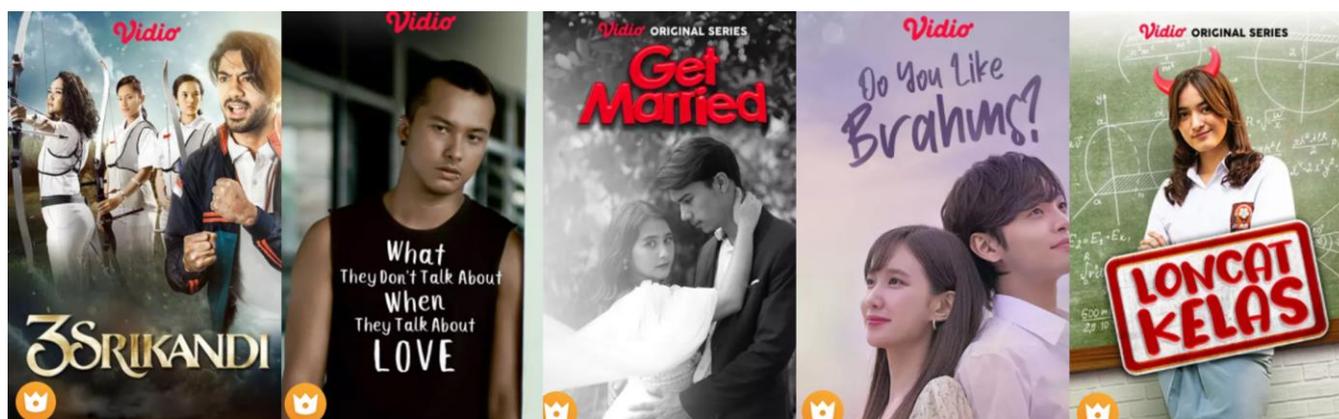
As of today, Vidio has drawn around 950k subscribers (growing from below 400k in February). Vidio's greater performance for this year (digital revenue losses declined in 9M20 to only -IDR68bn vs. -IDR142.7bn in 9M19) was basically supported by: 1) the rising number of premium paid subscribers recently when Champions League came back in and Vidio's release of new drama series; and, 2) low content production cost on Vidio due to PSBB.

**Figure 3. Champions League in 2019-2020**



Source: Vidio.com, Mirae Asset Sekuritas Research

**Figure 4. Some of Vidio's movies and drama series**



Source: Vidio.com, Mirae Asset Sekuritas Research

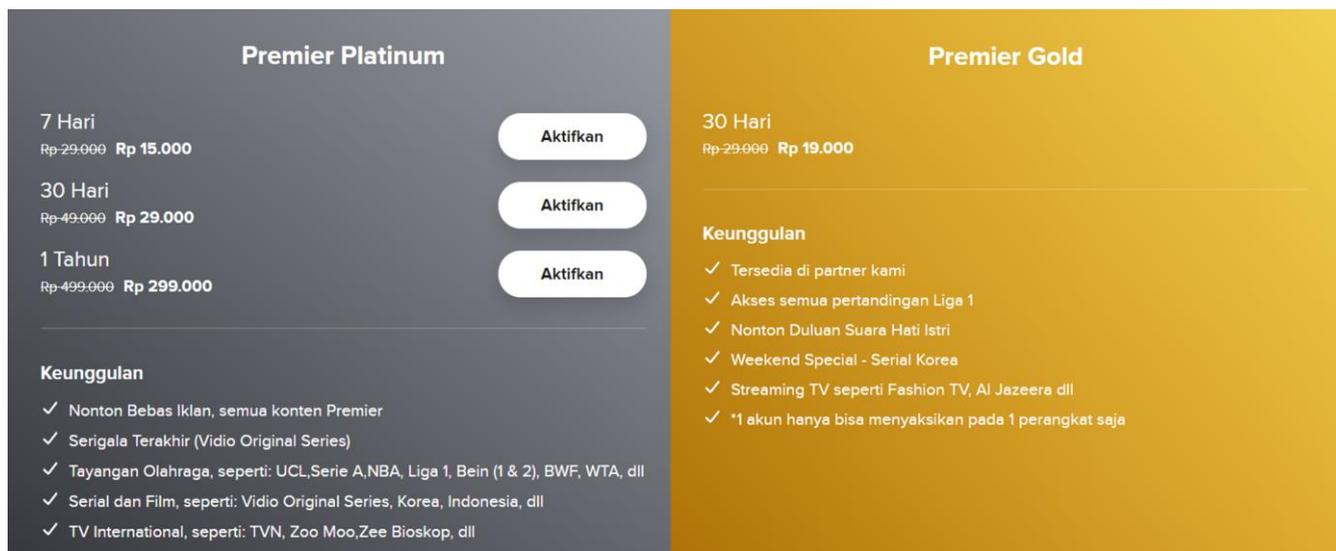
On top of that, Vidio's AVOD was able to grow ad revenue contribution (to 50% of total revenue as of June), and we believe that Vidio's AVOD should be one of the beneficiaries of advertising switching to OTT platforms. Despite that, SCMA believes that its Vidio's SVOD would be the main focus over the longer time horizon, which we think would generate big upside revenue and contribution to bottom line one day.

**Vidio to keep making loss in 2021F, but aiming for higher number of subscribers**

Nonetheless, we believe SCMA's Vidio will still be seeing net losses in 2021F, as it is planning to double its number of drama series to 3-4 series per month (vs. the current 2 drama series per month), which should translate into a bigger burn rate as it will be all self funded.

The company should see huge opportunities ahead, we think, given the enthusiasm from the increasing number of subscribers, despite the recent launch of Disney Plus OTT platform in September, because SCMA is in the sweet spot of being the pioneer in terms of live events, local contents, and sports programmes for Indonesian viewers, who majorly love local contents. The current Vidio subscribers stand at 950k without Liga 1. With Liga 1 starting in February, this will lead to more direct subscription rather than through telco bundles, which should increase ARPU. According to SCMA, the recent addition of subscribers (from 750k to 950k subscribers) were all premium paid subscribers.

**Figure 5. Vidio's Premier packages**



Source: Vidio.com, Mirae Asset Sekuritas Research

**Funding from investors unlikely in foreseeable future but possible**

Initially, SCMA was seeking to raise funding worth USD300-400mn for Vidio.com when Vidio’s size was only half of what it is now, and the company thought of spinning it up at some point. Nonetheless, as there was strong growth at Vidio in terms of MAU, advertising revenue, and paid subscribers during this year, although partially supported by the pandemic situation (people stay at home and look for OTT entertainment), SCMA as the national OTT champion feels confident about Vidio’s performance, which prevents them from spinning that off (e.g. seeking an investor and selling stake). We believe that given the expected rise in ARPU and higher subscriber number, re-rating is possible, whilst we are still waiting for Vidio to make some profit in the next 3 years. Strategic partnerships might also be doable when its subscriber number keeps increasing. Thus, the company should maintain the existing subscribers by producing more fresh contents in the future, which is costly, in our view.

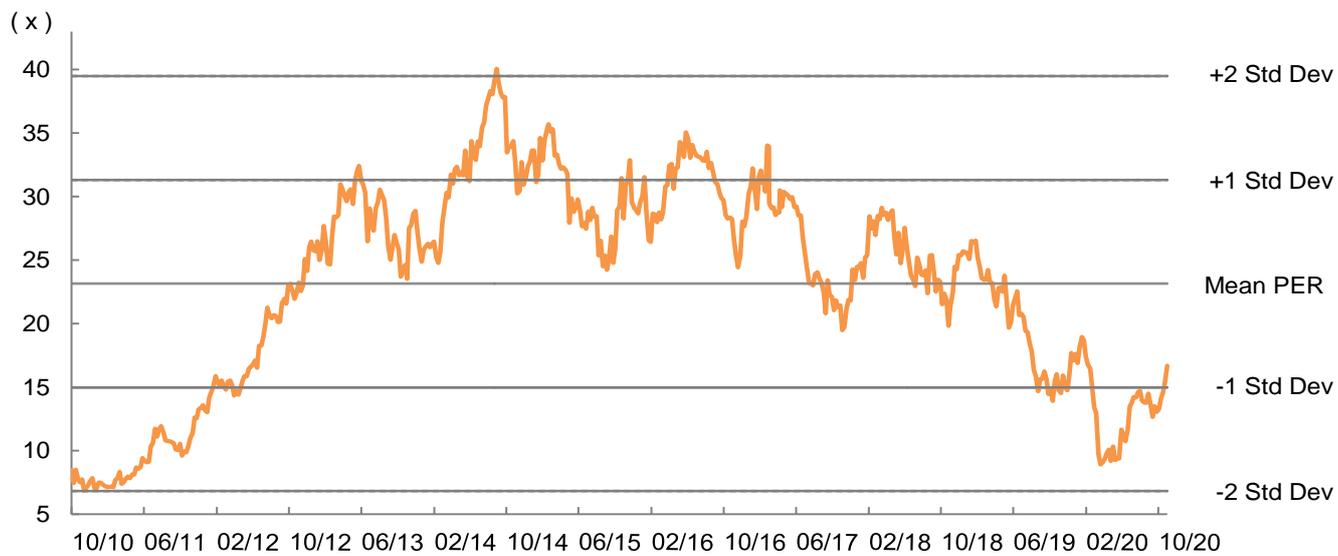
**Maintaining margin; Programming cost to go up in 4Q, in line with revenue**

SCMA is guiding a stable margin for 4Q20, despite its plan to increase programming costs (in order to maintain market share in the top 2/3 all-time audience shares, the company will continue to produce fresh contents in 4Q20) compared to the 2<sup>nd</sup> and 3<sup>rd</sup> quarter, given the expected rebound in revenue. The company is guiding a -3% to +2% YoY for the 4<sup>th</sup> quarter with a positive momentum and stated that a recovery pattern is looking good with a steady ad spend improvement. As for 2021, no guidance is given from the company as uncertainties linger due to the pandemic. However, the company plans to maintain margin by maintaining the current cost structure going forward.

**Upgrade to Buy (from Trading Buy) with a higher TP**

We upgrade our Trading Buy recommendation to Buy on SCMA with a higher TP. Our new TP of IDR2,100 is based on a higher target P/E of 23.1x (10-year mean P/E) on 2021F EPS as we expect a re-rating on the company. We believe positive sentiments should arise from huge opportunities for the company ahead with its digital business (which has been the main challenger for FTA TV business), as the company sees enthusiasm from the increasing subscriber number. We think the company would focus on developing Vidio’s SVOD over the longer time horizon, which we think would generate big upside revenue and contribution to bottom line one day. With Liga 1 starting in February, this will lead to more direct subscription rather than through telco bundles, which should increase ARPU. According to SCMA, the recent addition of subscribers (from 750k to 950k subscribers) were all premium paid subscribers.

**Figure 6. SCMA's forward P/E band**



Source: Bloomberg, Mirae Asset Sekuritas Research

## Surya Citra Media (SCMA IJ)

## Income statement (summarized)

IDRbn	2018	2019	2020F	2021F
Revenue	5,277	5,523	5,069	5,494
Programming expenses	-2,358	-2,863	-2,268	-2,459
Gross Profit	2,918	2,660	2,801	3,035
Opex	0	0	0	0
Operating Profit	1,849	1,483	1,535	1,664
Other income/(expenses)	18	13	12	13
Profit before income tax	1,859	1,373	1,436	1,538
Income tax expenses	-466	-401	-316	-308
Minority interest	10	19	0	0
Net profit	1,485	1,070	1,200	1,310
EBITDA	2,013	1,660	1,841	1,753

## Balance sheet (summarized)

IDRbn	2018	2019	2020F	2021F
<b>Assets</b>				
Cash and equivalents	994	545	1,018	1,514
Receivables	1,690	1,781	1,789	1,938
Inventories	956	925	745	807
Others	28	165	127	126
Total current assets	3,792	3,559	3,823	4,530
Fixed assets - net	1,071	1,502	1,759	1,834
LT investments	50	115	115	115
Total non-current assets	2,797	3,157	3,460	3,534
Total assets	6,590	6,717	7,283	8,064
<b>Liabilities and equity</b>				
ST bank loans and current maturities	16	12	23	24
Trade payables	506	500	417	442
Total current liabilities	920	989	840	885
Long term debt	1	0	1	1
Total liabilities	1,139	1,228	1,097	1,165
Minority interests	645	580	669	735
Shareholders' equity	4,807	4,908	5,517	6,164

IDRbn	2018	2019	2020F	2021F
<b>CF from operation</b>				
Net profit	1,485	1,070	1,200	1,310
Depreciation/amortization	164	230	306	90
Change in working capitals	-205	-45	76	-181
Others	36	-102	-27	14
CF from operation	1,480	1,154	1,555	1,234
<b>CF from Investments</b>				
Net capex	-292	-503	-564	-166
Others	11	-172	-45	3
CF from investments	-284	-590	-609	-164
<b>CF from financing activity</b>				
Increase/(decrease) in debt	-50	-5	12	1
Increase/(decrease) in equity	0	165	0	0
Dividend payments	-804	-820	-591	-663
Others	419	-355	107	88
CF from financing activity	-436	-1,016	-473	-574
Net changes in cash	760	-452	474	496
Non cash adjustment	0	3	0	0
Ending balance	994	545	1,018	1,514

Key ratios/growth metrics (%)	2018	2019	2020F	2021F
<b>Leverage (X)</b>				
Current ratio	4.1	3.6	4.6	5.1
Quick ratio	3.1	2.7	3.7	4.2
Debt to equity	0.4%	0.2%	0.4%	0.4%
Net debt to equity	Net cash	Net cash	Net cash	Net cash
Interest coverage	543.9	644.2	325.2	356.5
P/E ratio (x)	14.9	20.6	18.4	16.9
P/BV ratio (x)	4.6	4.5	4.0	3.6
Dividend yield (%)	3.6%	3.7%	2.7%	3.0%
EV/EBITDA (x)	10.5	12.7	11.5	12.0
EPS (IDR)	102	73	82	90
DPS (IDR)	55	56	40	45
BPS (IDR)	329	336	377	422
<b>Growth (%)</b>				
Revenue	18.5	4.7	-8.2	8.4
OP	3.9	-19.8	3.5	8.4
EBITDA	14.6	-17.5	10.9	-4.8
Net profit	11.5	-27.9	12.1	9.2

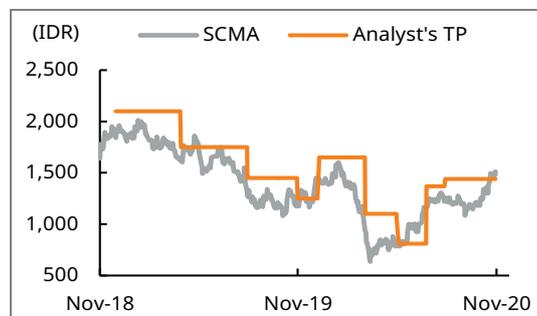
Source: Company data, Mirae Asset Sekuritas Indonesia Research estimates

## APPENDIX 1

### Important Disclosures & Disclaimers

#### 2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
SCMA J	11/6/2020	Buy	2,100
	8/4/2020	Trading Buy	1,440
	7/1/2020	Trading Buy	1,370
	5/10/2020	Hold	810
	5/7/2020	Trading Buy	950
	3/10/2020	Trading Buy	1,100
	12/16/2019	Trading Buy	1,650
	11/6/2019	Hold	1,250
	8/6/2019	Hold	1,450
	4/5/2019	Hold	1,750
	12/6/2018	Hold	2,100



#### Stock Ratings

Buy	: Relative performance of 20% or greater
Trading Buy	: Relative performance of 10% or greater, but with volatility
Hold	: Relative performance of -10% and 10%
Sell	: Relative performance of -10%

#### Industry Ratings

Overweight	: Fundamentals are favorable or improving
Neutral	: Fundamentals are steady without any material changes
Underweight	: Fundamentals are unfavorable or worsening

Ratings and Target Price History (Share price (—), Target price (—), Not covered (■), Buy (▲), Trading Buy (■), Hold (●), Sell (◆))

\* Our investment rating is a guide to the relative return of the stock versus the market over the next 12 months.

\* Although it is not part of the official ratings at PT Mirae Asset Sekuritas Indonesia, we may call a trading opportunity in case there is a technical or short-term material development.

\* The target price was determined by the research analyst through valuation methods discussed in this report, in part based on the analyst's estimate of future earnings.

\* The achievement of the target price may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

#### Equity Ratings Distribution

	Buy	Trading Buy	Hold	Sell
Equity Ratings Distribution	44.68%	31.91%	19.15%	4.26%

\* Based on recommendations in the last 12-months (as of September 30, 2020)

#### Disclosures

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