

**BUY**

TP: IDR 4,110

▲ 114.6%

## PT NFC Indonesia Tbk

NFCX IJ

### Setting a Strong Foundation

**2Q20 Revenue +60% YoY but Core Attributable Net Income -69% YoY. Both segments recorded strong growth but gross margins were hurt by COVID-19. Nonetheless, the expanding network lays a strong foundation for NFCX. The slew of new initiative rollouts by DMMX will provide near term support. Reiterate BUY with unchanged TP of IDR4,110/share.**

- Gaining stronger foothold:** 2Q20 Revenue +59.6% YoY to IDR2.18tn, driven by expanded Digital Product Aggregator member base (+182.6% YoY to 114.7k members) and ad spot network (+80.9% YoY to 10,730 screens). Meanwhile, 2Q20 Core Attributable Net Income -68.6% YoY to IDR 4.9bn, as margin took a hit from lockdown. 1H20 Revenue/Core Attributable Net Income met 52.9%/17.9% of our full-year FY20E forecasts.
- COVID-19 continued to be a drag in 2Q20; But likely to improve on re-opening:**
  - Digital Product Aggregator:** 2Q20 Gross Profit -28.3% YoY as margin halved from 2Q19's 1.9% to 0.9% on competitive pricing. However, margin recovered (+10 bps QoQ) albeit marginal and slow.
  - Digital Cloud Advertising:** DMMX has deployed a total of 3,600 new screens YTD, i.e. 24% of its FY20E target of ~15k screen deployments. Management is optimistic on delivering the remaining ~11k screens in 2H20 as it ramps up deployment effort.
- DMMX, its subsidiary, has much to offer:** DMMX has embarked on an expansion spree. Recently, it has announced 3 new initiatives that could lift revenue and earnings in short to long term. These include: (a) Smart Detection Solution for contactless screening; (b) Investment in Bumilangit to enrich its digital content offerings; and (c) 236 screens into its AdEx (Advertising Exchange) Hub network via partnership with Transjakarta and its sister company, DIVA.
- Reiterate BUY with DCF-derived TP of IDR4,110/share:** In view of recent developments, we have adjusted our FY20E Revenue and Core Attributable Net Income by +5.5% and -13.3% to IDR8.45bn and IDR50.2bn, respectively. Meanwhile, its EBITDA and earnings post-FY20E remain largely unchanged. Note that we have yet to include contributions from Smart Detection Solution. We remain cautiously optimistic on business activity recovery in 2H20 and we believe that its continuous expansion effort will provide a strong foundation for future growth.

#### Consolidated Financial highlights

| Y/E 31 Dec (IDR'bn)          | FY19A | FY20E | FY21E | FY22E  | FY23E  |
|------------------------------|-------|-------|-------|--------|--------|
| Revenue                      | 6,154 | 8,449 | 9,977 | 10,955 | 12,044 |
| Revenue Growth               | 147%  | 37%   | 18%   | 10%    | 10%    |
| Core Attributable Net profit | 31    | 50    | 106   | 145    | 184    |
| Outstanding shares (M)       | 0.67  | 0.67  | 0.67  | 0.67   | 0.67   |
| Core EPS (IDR)               | 46    | 75    | 160   | 218    | 276    |
| Core EPS growth (%)          | 1201% | 63%   | 112%  | 36%    | 26%    |
| Core Attributable NPM (%)    | 0.5%  | 0.6%  | 1.1%  | 1.3%   | 1.5%   |
| ROE (%)                      | 7.3%  | 9.3%  | 16.5% | 18.4%  | 18.9%  |
| Core P/E (x)                 | 25.0  | 25.4  | 12.0  | 8.8    | 7.0    |

Source: SCCM Research, Prices as of 29 July 2020



30 July 2020

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PRICE CLOSE (29 July 2020)

IDR 1,915

MARKET CAP

IDR 1.277 tn

USD 87.3 mln

SHARES O/S

666.7mln

FREE FLOAT

24.4%

3M AVG DAILY VOLUME/VALUE

IDR 361.1 mln / USD 24,878

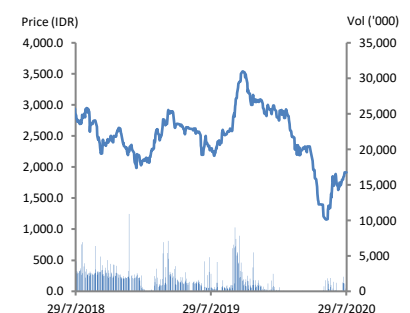
52 WK HIGH

3,570

52 WK LOW

1,130

Target Price IDR 4,110



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## PT NFC Indonesia Tbk

NFCX IJ

Results Review

Indonesia

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## Operation Review

Fig 1 - 2Q20 Results vs Estimates

| In IDR'Bn                     | 2Q20    | 2Q19    | YoY (%) | 1Q20    | QoQ (%) | FY20E   | % of Est. | Remarks  |
|-------------------------------|---------|---------|---------|---------|---------|---------|-----------|--|
| Revenue                       | 2,182.7 | 1,367.2 | 59.6%   | 2,053.9 | 6.3%    | 8,006.4 | 52.9%     | Both business segments grew at double-digit rate                                   |
| Gross Profit                  | 25.8    | 33.0    | -22.0%  | 25.9    | -0.4%   | 158.4   | 32.6%     |  |
| Gross Profit Margin           | 1.2%    | 2.4%    |         | 1.3%    |         | 2.0%    |           | COVID-19 drags on margin   |
| EBITDA                        | 16.6    | 25.0    | -33.3%  | 15.6    | 6.9%    | 112.8   | 28.5%     |  |
| EBITDA Margin                 | 0.8%    | 1.8%    |         | 0.8%    |         | 1.4%    |           | Better cost management; OpEx % of Revenue decreased to 0.45% from 0.62% a year ago |
| Operating Profit              | 15.9    | 24.6    | -35.3%  | 15.0    | 6.0%    | 98.9    | 31.3%     |  |
| Operating Profit Margin       | 0.7%    | 1.8%    |         | 0.7%    |         | 1.2%    |           | Higher depreciation and amortization expenses                                      |
| Core Net Profit*              | 5.2     | 14.2    | -63.5%  | 5.1     | 1.8%    | 57.9    | 17.7%     |  |
| Core NPM                      | 0.2%    | 1.0%    |         | 0.2%    |         | 0.7%    |           |  |
| Core Attributable Net Profit* | 4.9     | 15.6    | -68.6%  | 5.3     | -7.7%   | 57.9    | 17.6%     |  |
| Core Attributable NPM         | 0.2%    | 1.1%    |         | 0.3%    |         | 0.7%    |           |  |

Source: Company, SCCM Research, \* Adjusted for one-off gains

Fig 2 - 2Q20 Segmental Analysis

| In IDR'bn                  | 2Q20    | 2Q19    | YoY (%) | FY20E   | % of Est. | Remarks   |
|----------------------------|---------|---------|---------|---------|-----------|---|
| <b>Revenues</b>            |         |         |         |         |           |   |
| Digital Product Aggregator | 2,157.6 | 1,351.7 | 59.6%   | 7,843.2 | 53.4%     | Digital Product Aggregator Members +182.6% YoY to 114,751. Average transaction value per member -43.5% YoY to IDR18.8mn as Trade Marketing from "Pojok Bayar" App (with significantly smaller average ticket size) increased its contribution from 1.1% a year ago to 5.0% in 2Q20. |
| Digital Cloud Advertising  | 25.1    | 15.6    | 61.3%   | 163.2   | 29.9%     | Ad spot network +80.9% YoY to 10,730 screens. Expect screen deployment activities to pick up in 2H20.   |
| <b>Gross Profits</b>       |         |         |         |         |           |   |
| Digital Product Aggregator | 18.4    | 25.7    | -28.3%  | 93.5    | 36.3%     | Due to margin compression from NFCXC, Gross Profit Margin -1.0pps to 0.9%. Expect margin recovery in 2H20.  |
| Digital Cloud Advertising  | 7.4     | 7.4     | 0.0%    | 64.9    | 27.4%     | Gross Profit Margin decreased to 29.3% in 2Q20 from 42.5% a year ago, due to timing of revenue recognition – delayed arising from lockdown; should resolve by 3Q20  |

Source: Company, SCCM Research

## Updating FY20E Estimates

- In view of:
  - (a) Higher sales from Digital Product Aggregator;
  - (b) Potential advertising revenue from 'KasirKu' digital kiosks;
  - (c) Lower gross profit margin from NFCXC which is partially offset by enhanced gross profit margin from Pojok Bayar App; and
  - (d) Delayed screen deployment for IaaS (Infrastructure as a Service),
 We have revised our assumptions to better reflect revenue and profit mix.
- Effectively, the revised FY20E Revenue was up 5.5% while Core Attributable Net Profit was trimmed by 13.3%. Nonetheless, **we maintained our BUY rating and TP of IDR4,110/share**, as we are positive on its strong fundamentals and earnings prospects.

**Fig 3 - Revised FY20E vs. Old FY20E Estimates**

| In IDR'Bn                     | FY20E   | Revised FY20E |
|-------------------------------|---------|---------------|
| Revenue                       | 8,006.4 | 8,448.9       |
| Gross Profit                  | 158.4   | 137.7         |
| Gross Profit Margin           | 2.0%    | 1.6%          |
| EBITDA                        | 112.8   | 95.1          |
| EBITDA Margin                 | 1.4%    | 1.1%          |
| Operating Profit              | 98.9    | 86.5          |
| Operating Profit Margin       | 1.2%    | 1.0%          |
| Core Net Profit*              | 57.9    | 50.2          |
| Core NPM                      | 0.7%    | 0.6%          |
| Core Attributable Net Profit* | 57.9    | 50.2          |
| Core Attributable NPM         | 0.7%    | 0.6%          |

Source: Company, SCCM Research, \* Adjusted for one-off gains

**Fig 4 - Adjusted Segmental Contributions**

| In IDR'bn                  | FY20E   | Revised FY20E |
|----------------------------|---------|---------------|
| <b>Revenues</b>            |         |               |
| Digital Product Aggregator | 7,843.2 | 8,294.4       |
| Digital Cloud Advertising  | 163.2   | 154.5         |
| <b>Gross Profits</b>       |         |               |
| Digital Product Aggregator | 93.5    | 79.8          |
| Digital Cloud Advertising  | 64.9    | 57.9          |

Source: Company, SCCM Research

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**Appendix: Financial Statements****Fig 5 - Consolidated P&L**

| Y/E 31 Dec (IDR bn)            | FY19A   | FY20E   | FY21E   | FY22E    | FY23E    |
|--------------------------------|---------|---------|---------|----------|----------|
| <b>Total Gross Revenue</b>     | 6,154   | 8,449   | 9,977   | 10,955   | 12,044   |
| <i>Gross Revenue Growth</i>    | 147.2%  | 37.3%   | 18.1%   | 9.8%     | 9.9%     |
| <b>COGS</b>                    | (6,044) | (8,311) | (9,698) | (10,589) | (11,595) |
| <b>Gross Profit</b>            | 109     | 138     | 279     | 366      | 449      |
| <i>Gross Margin</i>            | 1.8%    | 1.6%    | 2.8%    | 3.3%     | 3.7%     |
| Other Operating Expenses       | (43)    | (43)    | (55)    | (59)     | (63)     |
| <b>EBITDA</b>                  | 66      | 95      | 224     | 308      | 386      |
| <i>EBITDA Margin</i>           | 1.1%    | 1.1%    | 2.2%    | 2.8%     | 3.2%     |
| Depreciation Expense           | (2)     | (9)     | (31)    | (43)     | (54)     |
| <b>EBIT</b>                    | 65      | 87      | 193     | 265      | 332      |
| <i>EBIT Margin</i>             | 1.1%    | 1.0%    | 1.9%    | 2.4%     | 2.8%     |
| Interest Income                | 8       | 28      | 32      | 36       | 47       |
| Interest Expense               | (3)     | (7)     | (5)     | (3)      | (2)      |
| Other Income/(Expenses)        | 5       | (0)     | (0)     | (0)      | (0)      |
| <b>EBT</b>                     | 75      | 107     | 220     | 298      | 376      |
| Tax                            | (17)    | (24)    | (48)    | (60)     | (75)     |
| <b>Net Income</b>              | 57      | 84      | 172     | 238      | 301      |
| Minority Interests             | 22      | 33      | 65      | 93       | 117      |
| <b>Attributable Net Income</b> | 36      | 50      | 106     | 145      | 184      |
| <i>Net Margin</i>              | 0.6%    | 0.6%    | 1.1%    | 1.3%     | 1.5%     |
| Shares Outstanding in Billions | 0.667   | 0.667   | 0.667   | 0.667    | 0.667    |
| <b>EPS (IDR)</b>               | 53      | 75      | 160     | 218      | 276      |
| <i>EPS Growth</i>              | 125.6%  | 41.2%   | 112.0%  | 36.5%    | 26.5%    |

Source: SCCM Research

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**Fig 6 - Consolidated Balance Sheet**

| Y/E 31 Dec (IDR bn)                 | FY19A        | FY20E        | FY21E        | FY22E        | FY23E        |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Cash                                | 465          | 531          | 602          | 777          | 1,013        |
| Short Term Investments              | 115          | 0            | 0            | 0            | 0            |
| Trade & Other Receivables           | 260          | 337          | 395          | 417          | 464          |
| Inventories                         | 177          | 0            | 0            | 0            | 0            |
| Other Current Assets                | 241          | 472          | 530          | 555          | 609          |
| <b>Current Assets</b>               | <b>1,258</b> | <b>1,340</b> | <b>1,527</b> | <b>1,749</b> | <b>2,086</b> |
| Net Fixed Assets                    | 19           | 174          | 208          | 221          | 213          |
| Net Intangible Assets               | 12           | 17           | 22           | 26           | 30           |
| Other Non-Current Assets            | 53           | 53           | 53           | 53           | 53           |
| <b>Total Assets</b>                 | <b>1,341</b> | <b>1,583</b> | <b>1,808</b> | <b>2,048</b> | <b>2,381</b> |
| Trade & Other Payables              | 195          | 353          | 419          | 435          | 480          |
| OD & ST Debt                        | 4            | 15           | 15           | 15           | 15           |
| Other ST Liabilities                | 84           | 25           | 27           | 28           | 30           |
| Lt Debt                             | 0            | 49           | 34           | 19           | 4            |
| Other LT Liabilities                | 1            | 1            | 1            | 1            | 1            |
| <b>Total Liabilities</b>            | <b>284</b>   | <b>442</b>   | <b>496</b>   | <b>497</b>   | <b>529</b>   |
| <b>Shareholder's Capital</b>        | <b>67</b>    | <b>67</b>    | <b>67</b>    | <b>67</b>    | <b>67</b>    |
| APIC                                | 283          | 283          | 283          | 283          | 283          |
| Retained Earnings                   | 51           | 101          | 208          | 353          | 537          |
| Other Reserves                      | 86           | 86           | 86           | 86           | 86           |
| Minority Interest                   | 570          | 604          | 669          | 762          | 879          |
| <b>Total Equity</b>                 | <b>1,057</b> | <b>1,141</b> | <b>1,313</b> | <b>1,551</b> | <b>1,852</b> |
| <b>Total Liabilities and Equity</b> | <b>1,341</b> | <b>1,583</b> | <b>1,808</b> | <b>2,048</b> | <b>2,381</b> |

Source: SCCM Research

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|----------------|--|
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