

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

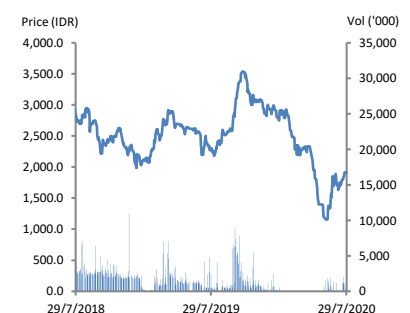
52 WK HIGH

3,570

52 WK LOW

1,130

Target Price IDR 4,110



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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
Revenues						
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.
Gross Profits						
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
Revenues		
Digital Product Aggregator	7,843.2	8,294.4
Digital Cloud Advertising	163.2	154.5
Gross Profits		
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
Total Gross Revenue	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%
COGS	(6,044)	(8,311)	(9,698)	(10,589)	(11,595)
Gross Profit	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)
EBITDA	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)
EBIT	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)
EBT	75	107	220	298	376
Tax	(17)	(24)	(48)	(60)	(75)
Net Income	57	84	172	238	301
Minority Interests	22	33	65	93	117
Attributable Net Income	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
EPS (IDR)	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
Current Assets	1,258	1,340	1,527	1,749	2,086
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
Total Assets	1,341	1,583	1,808	2,048	2,381
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
Total Liabilities	284	442	496	497	529
Shareholder's Capital	67	67	67	67	67
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
Total Equity	1,057	1,141	1,313	1,551	1,852
Total Liabilities and Equity	1,341	1,583	1,808	2,048	2,381

Source: SCCM Research

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