

MNC Investama

(BHIT IJ)

The diamond in the rough

Holding companies

Company report
August 20, 2014

Not Rated

Target Price (12M, IDR)	N/A
Share Price (8/20/14, IDR)	372
Expected Return	N/A

Market Cap (IDRbn)	13,389.9		
Shares Outstanding (mn)	35,994.4		
52-Week Low	298		
52-Week High	410		
(%)	1M	6M	12M
Absolute	14.8	22.4	-3.4
Relative	13.2	9.0	-27.1

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This report is an extended version of our Daily Focus write up, titled "Diamond or a broken glass?" dated August 5. Through this report, we aim to draw investor attention to MNC Investama (BHIT) which is on our focus list.

A proxy to Indonesia's domestic growth story

We consider BHIT to be a proxy to Indonesia's domestic growth story. Established in 1989, MNC Investama (BHIT) is the ultimate listed holding company of the MNC group. The group operates in three main areas of businesses: integrated media, financial services, and property. The company and its subsidiaries are less affected by the ongoing external noises (e.g., geopolitical risks, etc), given its earnings are mostly domestically driven (revenue generated from its media-related subsidiaries accounted for 84.5% of the group's consolidated figures).

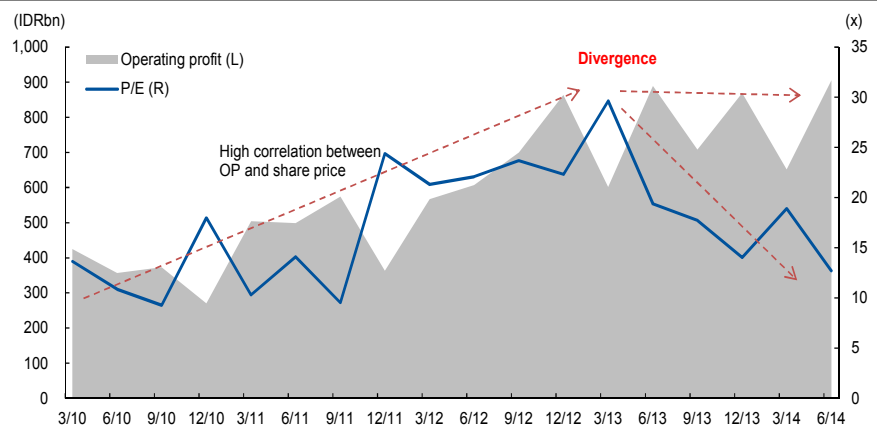
Strong core earnings growth to gain investor attention

BHIT recorded a consolidated net loss of IDR159.4bn in 2Q14. However, weak bottom line earnings were not driven by deterioration of its core operations. Indeed, BHIT's revenue and operating profit both hit historical high for the quarter with IDR3,286.7bn and IDR905.9bn, respectively. The main culprit behind BHIT's weak bottom line earnings was losses incurred from weakening of the local currency (BHIT reflected foreign exchange losses of IDR413.7bn in 2Q14). However, we consider BHIT's bottom line earnings to be non-operational and expect to see stability as FX rates normalize.

Attractive growth at compelling price

Given its diversified business lineup, we believe BHIT is well positioned to capture the domestic growth agenda. Given positive demographics profile of Indonesia and rising middle class, we think its media subsidiaries are able to generate sustainable growth over the longer horizon. Despite the fact that its financial units are less likely to drive top line earning growth, we believe they will generate cost synergies for the group. We also expect to see stable earnings flow from its property business, on the back of a favorable property market outlook. From a valuation perspective, we do not think current share price correctly reflects BHIT's earnings generating ability. In our view, there has been a sharp divergence between earnings and valuations since 1Q13. Furthermore, our analysis shows that BHIT's valuations (P/OP of 12.7x) are relatively discounted against its subsidiaries (P/OP: BMTR 37.2x, MNCN 47.8x, KPIG 356.5x). From a historical perspective, current valuations are lower than its post crisis average of 17.3x.

Share price trajectory vs. valuations

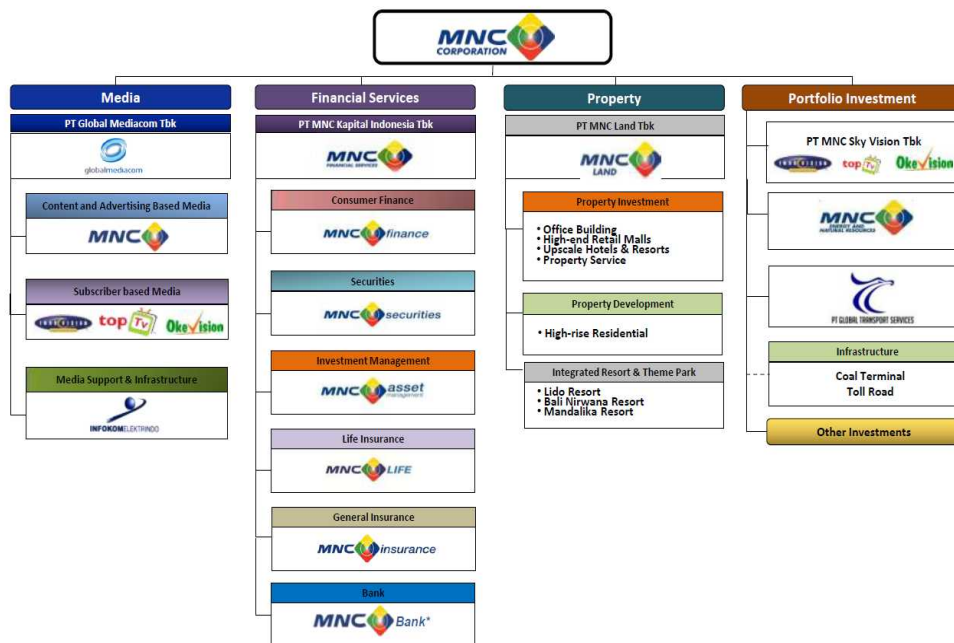


Note: In calculating our P/E, we compared BHIT's share price to operating profit per share
Source: Company data, KDB Daewoo Securities Indonesia Research

Company snapshot

MNC Investama (BHIT) is the ultimate listed holding company of the MNC group listed in the Indonesian market (ticker: BHIT IJ). The company was established in 1989 under the name Bhakti Investama (which was later renamed as MNC Investama) and is mainly engaged in investments. MNC group has three main businesses, namely, integrated media, financial services, and property. Well-known subsidiaries include Global Mediacom (BMTR IJ), Media Nusantara Citra (MNCN IJ), MNC Kapital Indonesia (BCAP IJ), MNC Land (KPIG IJ) and others. In addition to the group’s key area of businesses, the company owns various companies as portfolio investments.

Figure 1. MNC group structure



Source: Company data, KDB Daewoo Securities Indonesia

Table 1. Consolidated subsidiaries (2Q14)

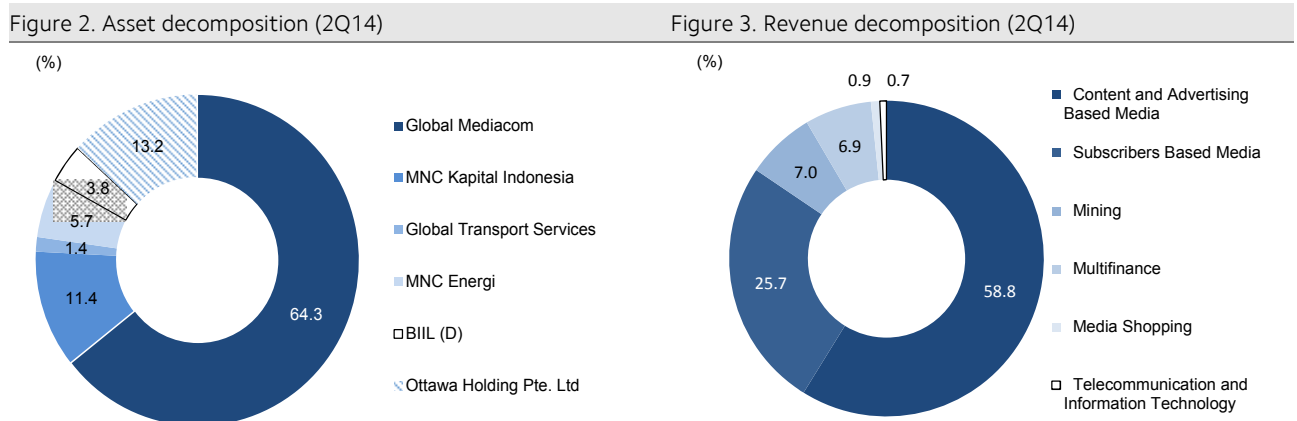
Name	Ticker	Domicile	Inception	Ownership	Total assets
PT. Global Mediacom	BMTR	Jakarta	1982	53.15	22,060,499
- PT. Media Nusantara Citra	MNCN	Jakarta	1997	66.42	10,406,224
- Global Mediacom International Ltd		Dubai	2012	100.00	2,470,170
- PT. MNC Sky Vision	MSKY	Jakarta	1988	78.13	5,857,427
- PT. Sky Vision Networks		Jakarta	2007	100.00	174,837
- PT. Infokom Elektrindo		Bekasi	1998	99.99	412,567
- PT MNC GS Homeshopping		Jakarta	2013	60.00	94,715
- PT. Citra Kalimantan Energi		Jakarta	-	80.00	1,055
- PT. MNC Licensi Internasional		Jakarta	2000	88.14	2,725
PT MNC Kapital Indonesia	BCAP	Jakarta	2000	88.14	3,918,769
- PT. MNC Asset Management		Jakarta	1999	99.99	50,735
- PT. MNC Securities		Jakarta	2004	99.99	928,501
- PT. MNC Finance		Jakarta	1989	99.99	1,902,696
- PT. MNC Life Assurance		Jakarta	1988	99.97	354,895
- PT. MNC Asuransi Indonesia		Jakarta	1987	99.97	309,615
PT. Global Transport Services		Jakarta	2007	99.99	490,782
PT MNC Energi		Jakarta	2012	99.99	1,970,777
Bhakti Investama International Limited (BIILC)		Cayman Islands	2007	100.00	2,510
Bhakti Investama International Limited (BIILD)		Dubai	2009	100.00	1,307,199
Ottawa Holding Pte. Ltd		Singapore	2013	100.00	4,538,883
- Ottawa International		Singapore	2013	100.00	4,919,572
PT MNC Finansindo		Jakarta	2013	99.99	1,029

Note: Consolidated subsidiaries of more than 50% ownership either directly or indirectly

Note: Subsidiaries’ total assets are inclusive of the company and its subsidiaries

Source: Company data, KDB Daewoo Securities Indonesia

On a consolidated basis, the company’s assets are heavily concentrated towards the media sector. According to the latest company filings (2Q14), Global Mediacom and its subsidiaries accounted for 64.3% of the group’s total assets. On the earnings side, revenue generated from its media-related subsidiaries accounted for 84.5% of the group’s consolidated figures (aggregated sum of content and advertising-based media and subscribers-based media).



Source: Company data, KDB Daewoo Securities Indonesia

Source: Company data, KDB Daewoo Securities Indonesia

Among the top 4 largest shareholders, HT Investment Development, PT Bhakti Panjiwira and Mr. Hary Tanoesoedibjo collectively owns 55.1% stake (or 19.5bn shares) in the company. According to our findings from multiple press reports, they are known to be directly or indirectly related to Mr. Tanoesoedibjo.

Most of the BHIT’s senior management team has stake in the company (representing 7.1% of the outstanding shares). In our view, management team’s ownership in the company is a clear indication that the management’s interest is aligned well with shareholder value.

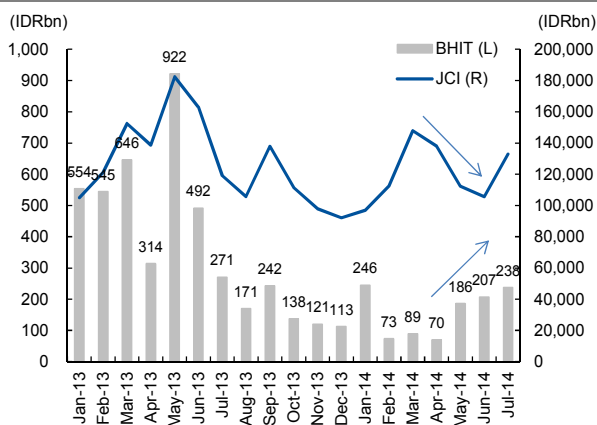
Table 2. Shareholder structure (2Q14) (Shares, %)

Shareholder	Number of shares	Percentage	Note
HT Investment Development Ltd	12,213,652,016	34.44	
UOB Kay Hian (Hongkong) Ltd	7,311,553,000	20.62	
PT Bhakti Panjiwira	5,079,807,112	14.32	
Hary Tanoesoedibjo	2,240,374,500	6.32	President director
Liliana Tanaja	90,762,000	0.26	Commissioner
Ratna Endang Soelistiowati	68,864,000	0.19	Commissioner
Bambang Rudijanto Tanoesoedibjo	46,364,500	0.13	Commissioner
Darma Putra	29,359,100	0.08	Director
Tien	25,510,000	0.07	Director
Henry Suparman	15,780,500	0.04	Director
Natalia Purnama	5,657,000	0.02	Director
Posma Lumban Tobing	1,846,500	0.01	Independent Commissioner
Public	8,334,498,479	23.50	
Total	35,464,028,707	100.00	
Treasury stock	530,398,600		
Total	35,994,427,307		

Source: Company data, KDB Daewoo Securities Indonesia

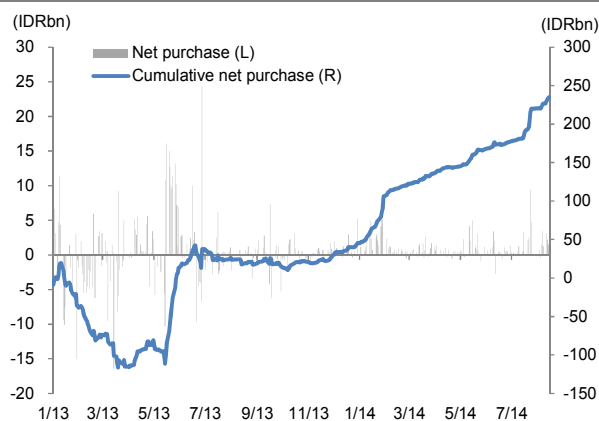
Since marking a trough during last April, BHIT’s transaction volume has started to pick up. As of July, monthly transaction volume leaped 237.7% to IDR237.7bn from IDR70.3bn in April. What is notable is that BHIT’s transaction volume increased significantly while market (JCI) transaction volume was trending downwards. Uncovering the trends, we underscore that foreigners were actively accumulating BHIT shares since the start of 2014. We believe foreign investors were behind the recent transaction volume increase.

Figure 4. BHIT monthly transaction volume



Source: HOTS, KDB Daewoo Securities Indonesia

Figure 5. Foreign net purchase (daily & cumulative)



Source: Bloomberg, KDB Daewoo Securities Indonesia

Well-diversified domestic play

In our view, BHIT is a well-diversified company with most of the earnings coming from the domestic market, which embeds ample growth potential. In other words, the company and its subsidiaries are less affected by the on-going external noises (e.g., geopolitical risks and others), given its core earnings are mostly domestically driven (i.e., media, financial services, property). That said, we consider BHIT to be a good proxy to Indonesia’s growing domestic market.

Table 3. BHIT’s business strategy

Sector	Key subsidiary	Ticker	Business strategy
Media	Global Mediacom	BMTR	Focus on our core business and reinforce our market leading position
			- Increase audience share in FTA Television
			- Increase the number of channels in pay TY to increase the number of subscribers
Financial services	MNC Kapital	BCAP	Grow our own financial services business as a "financial supermarket"
			- Acquisition of a bank to increase synergy
			- Broaden our product offers with prudent risk management
Property	MNC Land	KPIG	Become one of the most integrated and trustworthy property companies in Indonesia
			- Focus on establishing an integrated resort to be "The most integrated resort and entertainment property development"
			- Deliver high-quality properties to increase market competitiveness
Portfolio investments			Pursue other strategic portfolio companies
			- Focus on strategic investments that benefits from fast growing Indonesia's macro economy
			- Accelerate exploration to increase coal reserves
			- Accelerate the establishment of supporting infrastructures
			- Improve efficiency to increase profit margin

Source: Company data, KDB Daewoo Securities Indonesia

Media

The large population base in Indonesia is a strong foundation for robust and sustainable economic growth. Moreover, a young demographic profile of Indonesia is quite promising. According to Indonesia Bureau of Statistics, 84% of Indonesian population is below 50 years old. A fast-growing economy is expected to lead to higher household income, which should broaden the consumption base. At the end of the day, we expect BHIT to be able to capture the growing middle class agenda given higher income will lead to more audiences. According to the company, the average daily TV viewing time per person in Indonesia is c. 300min, which is similar to US (293min), but relatively higher than Russia (238min), Brazil (216min), Australia (186min) and China (164min).

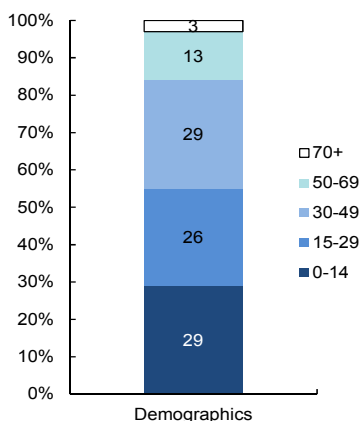
This favorable macro backdrop is expected to drive advertisement spending. According to Media Partners Asia, ad spend growth in 2014 is expected to be paced at 15.5%, which should be one of the highest within the region. We also believe that TV is one of the most efficient medium to expand companies' brand (product) awareness. Furthermore, given low base, there is ample room for growth, in our view. Its Pay TV business (through MNC Skyvision and others) is also expected to generate solid earnings growth. Given low pay TV penetration (lowest among Asian peers), we believe pay TV market also embeds ample organic growth potential. Collectively, we consider its media subsidiaries to generate stable earnings growth going forward.

Table 4. Financial summary of Global Mediacom (IDRbn)

	2008	2009	2010	2011	2012	2013
Revenue	5,384.6	5,034.9	6,326.5	7,162.9	8,925.4	10,020.0
Operating profit	572.7	612.9	1,383.6	1,930.1	2,645.3	2,857.3
Net profit	425.7	157.2	578.9	779.4	1,299.1	620.4
ROE (%)	6.1	2.2	8.0	10.1	14.0	6.3

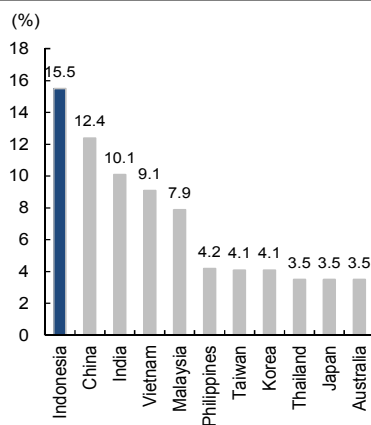
Source: Company data, KDB Daewoo Securities Indonesia

Figure 6. Young population



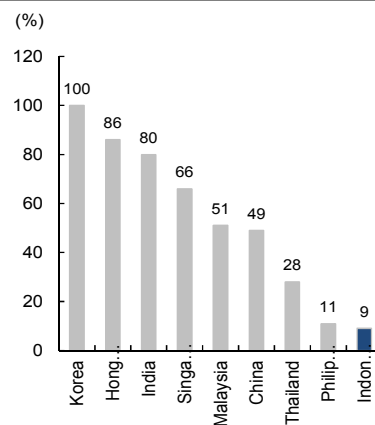
Source: Indonesia Bureau of Statistics, company data, KDB Daewoo Securities Indonesia

Figure 7. Ad spend growth (2014F)



Source: Media Partners Asia 2013, company data, KDB Daewoo Securities Indonesia

Figure 8. Pay TV penetration



Source: Media Partners Asia, company data, KDB Daewoo Securities Indonesia

Table 5. Top 20 channels

(As of 1Q14)

No.	Channel	No.	Channel
1	Cartoon Network	11	MNC Infotainment
2	Disney Junior/Playhouse	12	MNC Life Style
3	Cinemax	13	S-One
4	MNC Sport 1	14	AXN
5	HBO Hits	15	MNC Muslim
6	Cbeebies	16	Disney XD
7	Disney Channel	17	Fox Movies Premium
8	MNC Shop	18	MNC Entertainment
9	MNC Sports 2	19	Yo Yo TV Asia
10	MNC Kids	20	MNC News

Source: Company data, KDB Daewoo Securities Indonesia

Financial services

MNC group provides a wide range of comprehensive financial services. Under the umbrella of the financial arm of the group, MNC Kapital (BCAP IJ), MNC provides consumer finance, brokerage, life/non-life insurance, and asset management services. MNC Kapital also owns 39.75% stake in PT Bank ICB Bumiputera (as of July 25), which management plans to consolidate in the near horizon.

However, we do not expect the financial services units to be the group’s key revenue driver in the near term. While the management showed keen interest in strengthening its finance units, we think chances are low for the group to significantly outperform market growth. While MNC Kapital’s consolidated assets contribute 11.4% of the group’s total assets, revenue contribution stood at 6.9%. Our key arguments are: 1) its financial subsidiaries have weaker footprints in the local market compared to its well-reputed media subsidiaries. 2) Furthermore, despite high entry barriers, market is highly fragmented and competition is fierce. To elaborate further, even if the company delivers a meaningful Q increase, P is likely to remain squeezed. Collectively, we think achieving organic growth is an elusive ideal for the group. We consider in-organic growth to be a better fit strategy for the group to gain exposure to the fast-growing financial market.

Despite our expectations that its financial arm is unlikely to drive top line growth for the group, we believe that its financial companies can contribute to reducing the group’s unnecessary expenses related to the group’s financial activities. We highlight that the group has a full line up of financial companies which enables the group to capture any leakages.

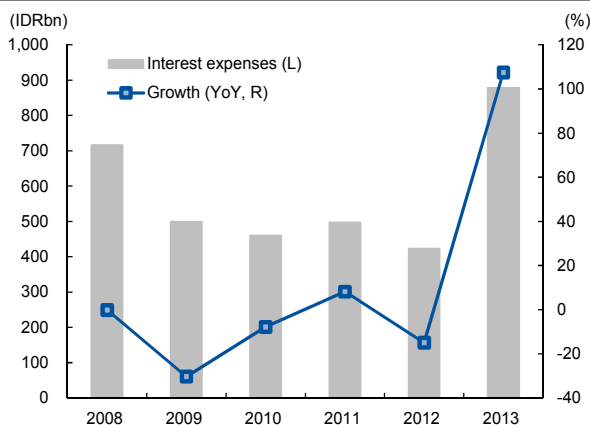
Given the nature of the financials industry being highly regulated and capital intensive, we believe prudent capital management is highly important. We think it is imperative for the management to identify potential segment(s) of growth and deploying capital to capture the growth on their financial statements. The price tag on the license should also be a key consideration for both the management and investors as potential overpayment risk in pursuing its in-organic strategy should deteriorate investor sentiment.

Table 6. Financial summary of MNC Kapital (IDRbn)

	2008	2009	2010	2011	2012	2013
Revenue	162.7	133.7	239.7	298.7	603.6	592.4
Operating profit	201.0	61.1	779.3	508.0	1,776.1	319.0
Net profit	16.1	6.9	90.3	50.5	161.7	5.6
ROE (%)	4.4	1.8	21.3	10.3	25.0	0.7

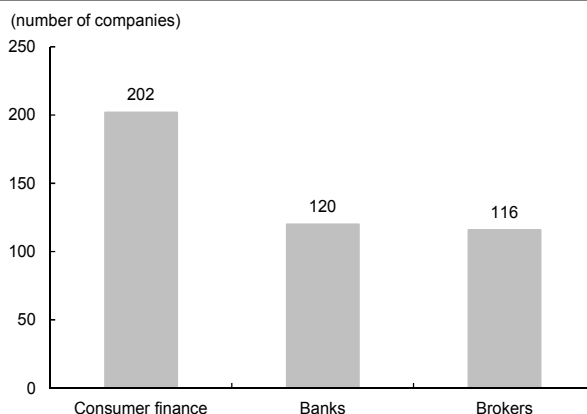
Source: Company data, KDB Daewoo Securities Indonesia

Figure 9. Consolidated interest expenses (BHIT)



Source: Company data, KDB Daewoo Securities Indonesia

Figure 10. Number of financial companies in Indonesia



Source: Bank Indonesia, IDX, APPI, KDB Daewoo Securities Indonesia

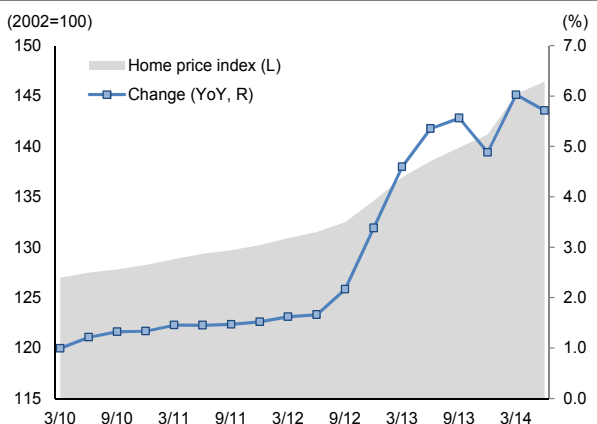
Property and others

MNC Land is a listed arm of the group (KPIG IJ) engaging in property business. Its revenue sources stem from its hotels (74.8%), office space rental (20.1%), and property management services (5.1%). On June 28, 2013, BHIT acquired 26.6% stake in KPIG increasing its stake holding in the company to 41%. The company is currently recognized as investment in associates.

The company believes that the outlook for the property market is favorable. Indeed, according to recent trends, home prices are still heading north while office rent prices remain stable with low vacancy rate. Its existing commercial property portfolios are strategically located in Jakarta (Grand Hyatt, Keraton At the Plaza) and Bali (Westin Hotel, Pan Pacific Nirwana Bali Resort). Furthermore, KPIG has a number of on-going commercial projects in Surabaya, Jakarta which are expected to contribute to its earnings upon completion.

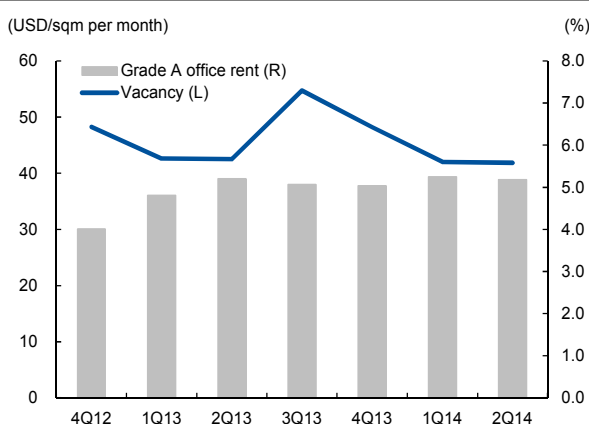
All in all, we believe KPIG’s earnings contribution will reduce the group’s earnings volatility over the long-term as most of the earnings generated from its business are likely to be recurring earnings. Reduced earnings volatility should reinforce investor confidence on BHIT, we think.

Figure 11. Home price index (Indonesia main 13 cities)



Source: Bloomberg, KDB Daewoo Securities Research

Figure 12. Commercial property price and vacancy trends



Source: Cushman & Wakefield, KDB Daewoo Securities Research

Table 7. Financial summary of MNC Land

	2008	2009	2010	2011	2012	2013
Revenue	46.7	55.7	71.1	81.0	409.0	588.1
Operating profit	-17.7	4.3	22.2	23.6	108.8	103.8
Net profit	-107.6	127.9	163.1	45.6	109.8	278.0
ROE (%)	-11.5	7.3	8.6	2.4	5.8	8.6

Source: Company data, KDB Daewoo Securities Indonesia

Through its subsidiary, MNC Energi (not listed), BHIT is exploring new business opportunities in energy and natural resources, in particular coal, oil and gas mining. While MNC Energi is considered a new comer to the group (inception: 2012), its earnings contribution to the group was quite impressive. MNC Energi contributed 6.0% of the group’s consolidated revenues as of 2013 (6.9% in 2Q14). MNC Energi holds 8 Mining Business Licenses in South Sumatera (1 mining concession at production stage, 7 mining concession at exploration stage) and 1 Mining Business License in East Kalimantan which is currently at the production stage. According to the company, it will focus on production development in 2014. Although relatively small in size, we believe its coal business can generate solid earnings amid recent discussions of the new administration planning to lift domestic consumption of coal.

Solid core earnings growth to gain investor attention

BHIT recorded a consolidated net loss of IDR159.4bn in 2Q14. We suspect that 2Q14 earnings were a disappointment to investors after delivering solid earnings rebound in 1Q14. However, we would like to make note of the fact that weak bottom line earnings were not driven by deterioration of its core operations. Indeed, BHIT’s revenue and operating profit both hit historical high for the quarter with IDR3,286.7bn and IDR905.9bn, respectively.

The main culprit behind BHIT’s weak bottom line earnings was losses incurred from weakening of the local currency (BHIT reflected foreign exchange losses of IDR413.7bn in 2Q14). According to the latest company filings, BHIT has two significant USD liabilities exposures: 1) Senior secured notes (USD365mn; Note 26. Bonds Payable – Net) and 2) Syndication loans (USD215mn; Note 25. Long-Term Loans). We consider BHIT’s bottom line earnings to be non-operational and expect to see stability as FX rates normalizes. Quick details regarding the FX exposures are as follows:

- **Senior secured notes (USD365mn):** On May 16, 2013, Ottawa Holding issued senior secured notes of USD365mn embedding a fixed rate of 5.875% per annum with maturity of 5 years. The proceeds were used to pay off the bridge loan which was borrowed to acquire new shares issued by MNC Land and other general purposes.
- **Syndication loans (USD215mn):** On November 19, 2013, MNC Sky Vision signed a syndication loan agreement of USD215mn (interest rate: LIBOR+4.25%) from a syndication of banks. The loan has a maturity of 3 years with 25% of the principle due on the 33rd month and the remaining on the 36th month from the first utilization.

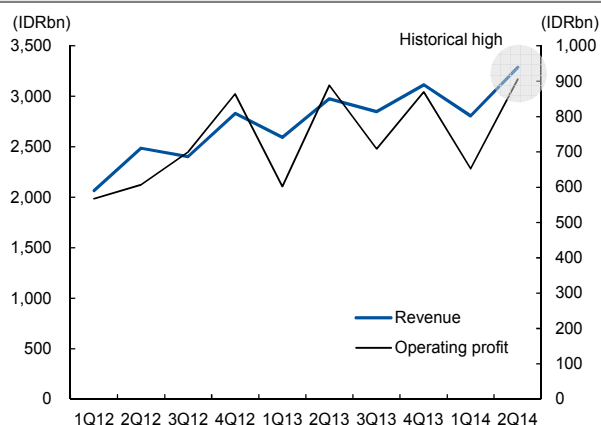
Table 8. Consolidated income statement of BHIT (Quarterly)

(IDRbn)

	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14
Revenue	2,066.9	2,486.6	2,403.0	2,830.8	2,594.3	2,974.7	2,847.6	3,115.1	2,805.7	3,286.7
- Cost of Revenue	1,078.4	1,376.6	1,197.4	1,432.7	1,508.1	1,453.5	1,527.7	1,803.5	1,682.1	1,729.3
Gross Profit	988.5	1,110.0	1,205.6	1,398.1	1,086.2	1,521.2	1,319.9	1,311.6	1,123.6	1,557.5
+ Other Operating Revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
- Operating Expenses	421.1	503.0	505.3	534.0	484.1	632.4	611.5	442.4	471.5	651.5
Operating Profit	567.4	607.0	700.3	864.1	602.0	888.8	708.4	869.1	652.1	905.9
- Interest Expense	100.5	102.5	127.3	93.1	134.1	179.1	212.9	352.6	208.8	177.8
- Foreign Exchange Losses (Gains)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,549.5	-484.7	413.7
- Net Non-Operating Losses (Gains)	-108.0	-5.8	-192.5	56.3	-323.0	50.5	897.6	-691.3	-30.5	40.3
Pretax Income	574.9	510.3	765.5	714.7	791.0	659.1	-402.1	-341.6	958.5	274.2
- Income Tax Expense	100.8	159.8	147.9	181.2	128.7	193.8	-30.9	19.8	228.7	124.4
Income Before XO Items	474.1	350.5	617.6	533.5	662.3	465.3	-371.3	-361.4	729.8	149.8
- Minority Interests	269.8	289.2	372.4	349.3	279.8	402.5	47.4	8.9	344.4	309.2
Net Profit	204.3	61.3	245.2	184.2	382.5	62.9	-418.7	-370.3	385.4	-159.4

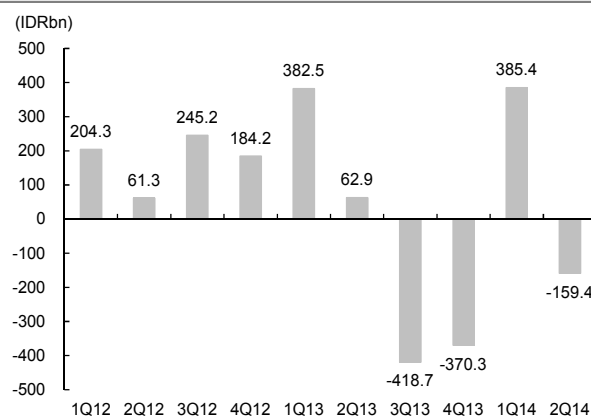
Source: Company data, KDB Daewoo Securities Indonesia

Figure 13. Core earnings marked record high in 2Q14



Source: Company data, KDB Daewoo Securities Indonesia

Figure 14. Bottom line earnings swing driven by non-op items



Source: Company data, KDB Daewoo Securities Indonesia

Attractive domestic growth story at compelling price

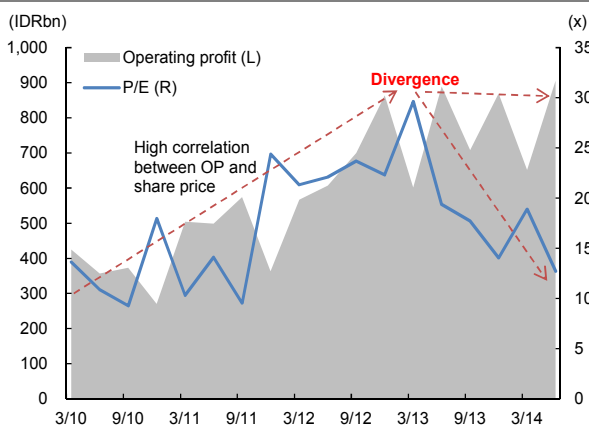
We consider BHIT to be a proxy to Indonesia’s domestic growth story. Also, given its diversified business lineup, we believe BHIT is well positioned to capture the domestic growth agenda, we think. Our view on its businesses are summarized below

- Its media business is expected to deliver solid growth as rising middle class should translate into higher revenue. Since post-GFC, BMTR and its subsidiaries exhibited resilient revenue growth evident by its average growth pace of 18.9% per annum. In 2013, BMTR posted revenue and operating profit of IDR10.0tr and IDR2.9tr respectively which both came in at record highs.
- Although we do not consider BHIT’s financial subsidiaries to drive top line earnings, through its well-diversified financial lineup of businesses, we think the group’s financial units will generate cost synergies. Prudent capital management is the key in achieving in-organic growth. However, given the management team’s ownership in the company, we believe BHIT’s strategic approach is less likely to be value destructive, in our view.
- The outlook for Indonesia’s property market is favorable. We consider most of the revenue to be recurring supported by the fact that its revenue delivery was not in any way affected by the recent GFC. That said, we believe KPIG’s earnings contribution to the group will lead to reduced volatility which should reinforce investor confidence.

Given BHIT recorded a net loss for the full year of 2013 and quarterly net loss in 2Q14, we believe assessing (or valuing) its core earnings generating ability is more relevant than using the traditional net profit method. To get a brief sense of how the company is valued, we are comparing the core earnings generating ability of BHIT and its subsidiaries by using operating profit per share. Below are some of our findings:

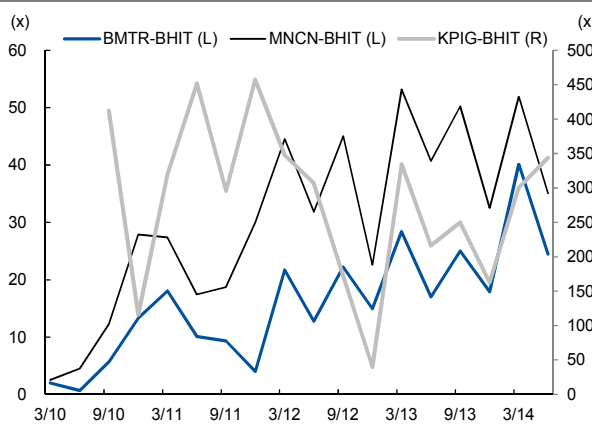
- According to our analysis, the correlation between BHIT’s share price and its operating profit has been broken since 1Q13. In other words, BHIT’s share price does not correctly reflect its core earnings generating ability, we think (figure 15).
- Although coming off the peak, we note that the valuation gap between BHIT and its subsidiaries are still wide. Valuation gaps between BMTR, MNCN, and KPIG stand at 24.5x, 35.0x and 343.8x, respectively vs. post GFC average at 16.0x, 30.5x, and 283.0x (figure 16).
- As of last trade on June 30, the company’s shares are trading at 12.7x current price to operating profit, which represents a 26.6% discount to post GFC average of 17.3x.

Figure 15. Share price is not correctly reflecting earnings generating ability of the company



Source: Company data, KDB Daewoo Securities Research

Figure 16. Widening valuation gap between BHIT vs. subsidiaries



Source: Company data, KDB Daewoo Securities Research

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