

**BUY**

TP: IDR 5,045

▲ 210.5%

## PT M Cash Integrasi Tbk

MCAS IJ

### Charting A Digital Transformation

**1Q20 Core Attributable Net Profit -21.4% YoY to IDR13.3bn with higher revenue offset by lower margin. We expect the depressed margin to reverse in coming quarters as evidenced by June transactions. Nurturing new growth engines: (a) Recently listed TFAS and DMMX; and (b) Soft-launched new contactless digital initiatives. Reiterate BUY with revised TP of IDR5,045.**

- Stronger revenue on expanded distribution network:** 1Q20 Revenues +44.8% YoY to IDR2.9tn, but Core Attributable Net Profit, which excludes one-off exceptional items, -21.4% YoY to IDR13.3bn. The total number of distribution points +114.1% YoY to 167,675 in 1Q20, but average revenue per digital points -32.4% YoY to IDR17,545.
- Temporary weakness in NFCXC:** The phone credit marketplace saw +136.7% YoY growth in 1Q20 Revenue as member base expanded. However, due to arbitrary shift in product mix towards lower-margin products, 1Q20 gross profit margin -2.2pp to 0.8%. We expect margin pressure to ease in coming quarters as management noted signs of margin recovery in Jun-20. We also believe that further re-opening of Indonesia economy could spur higher demand.
- Unlocked values of TFAS and DMMX:** TFAS (a direct subsidiary of MCAS) and DMMX (an indirect subsidiary through NFCX) were spun-off listed in late FY19. Flushed with IPO proceeds, both entities are poised for new growth trajectory. In particular, we believe that DMMX will be the near-term key growth driver. As at end-Mar 20, DMMX has a net cash balance of IDR303.8bn to fulfil its order book (target to deploy ~15,000 new screens in FY20E) as well as to capitalize on growth opportunities such as Office Solutions for video conference purpose.
- IoT gaining momentum, Revenue +442.9% YoY to IDR3.3bn:** On Gross Profit front, IoT segment contributed 4.9% of Group Gross Profit vs 0.9% in 1Q19. Meanwhile, MCAS continue to build up IoT segment with new contactless digital initiatives, including Enterprise Communication Platform (WABA) DigiRetail, end-to-end food ordering solution (DigiResto) and logistics & delivery support chatbot (LDN).
- Maintain BUY with revised DCF-derived TP of IDR5,045/share:** Moving forward, MCAS maintained its opportunistic stance on spinning-off commercially viable companies. Potential candidates include the fast-growing Pawoon, WABA and DigiResto. Note that the potential upsides from investment gains and the new contactless digital initiatives have not been included in our model. MCAS is currently trading at 16.6x FY20E P/E with EPS growing at 3-year CAGR at 57.2% p.a.

#### Consolidated Financial highlights

Y/E 31 Dec (IDR'bn)	FY19A	FY20E	FY21E	FY22E	FY23E
Revenue	11,090	13,369	16,255	18,680	21,526
Revenue Growth	74%	21%	22%	15%	15%
Core Attributable Net Profit	47	85	137	184	245
Outstanding shares (m)	0.87	0.87	0.87	0.87	0.87
Core EPS (cents)	55	98	158	213	282
Core EPS growth (%)	2%	79%	61%	35%	33%
Core Attributable NPM (%)	0.4%	0.6%	0.8%	1.0%	1.1%
Adjusted ROE (%)	7.0%	11.1%	15.2%	17.0%	18.4%
Adjusted P/E (x)	65.1	16.6	10.3	7.6	5.8

Source: Company, SCCM Research; as of 30 Jun 20



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#### REPORT AUTHORS

Soh Lin Sin

+65 6671 8112

linsin.soh@sccmasia.com

PRICE CLOSE (30 Jun 2020)

IDR 1,625

MARKET CAP

 IDR 1.41 tn  
 USD 97.7 m

SHARES O/S

867.9 m

FREE FLOAT

32.8%

3M AVG DAILY VOLUME/VALUE

IDR 1.52 bn / USD 106,928

52 WK HIGH

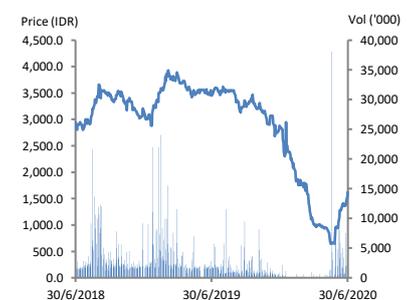
3,660

52 WK LOW

600

Target Price

IDR 5,045



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## PT M Cash Integrasi Tbk

MCAS IJ

Results Review

Indonesia

IT Infrastructures

## Operation Review

## Growth Story Intact Despite Temporary Weakness

Fig 1 - 1Q20 results vs new FY20E estimates

In IDR'Bn	1Q20	1Q19	YoY (%)	FY20E	% of Est.	Remarks
Revenue	2,941.9	2,031.9	44.8%	13,368.7	22.0%	The total number of distribution points +114.1% YoY to 167,675 in 1Q20, dragged by lower average revenue per digital points.
Gross Profit	61.3	65.9	-7.1%	347.0	17.7%	Margin pressure mainly from Digital Product Aggregator, which experienced arbitrary shift in product mix towards lower-margin products.
Gross Profit Margin	2.08%	3.25%		2.60%		
EBITDA	39.3	44.8	-12.4%	228.2	17.2%	Benefitting from economies of scale. Operating expenses as a percentage of Revenue decreased 0.2pp to 0.9%.
EBITDA Margin	1.33%	2.21%		1.71%		
Operating Profit	36.1	43.8	-17.5%	203.9	17.7%	Higher depreciation and amortization expenses.
Operating Profit Margin	1.23%	2.15%		1.53%		
Attributable Net Profit*	29.4	32.3	-8.8%	169.8	17.3%	
Attributable Net Profit Margin	1.00%	1.59%		1.27%		
Core Attributable Net Profit*	13.3	16.9	-21.4%	84.9	15.6%	Absence of one-off investment gains compared to 1Q19.
Core Attributable Net Profit Margin	0.45%	0.83%		0.64%		

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

Fig 2 - 1Q20 Segmental results

In IDR'bn	1Q20	1Q19	YoY (%)	Remarks
<b>Revenues</b>				
Digital Products	884.7	1,186.5	-25.4%	The total number of distribution points for Digital Product (including Kiosks and Digital Agents) +22.4% YoY to 57,917 in 1Q20 but average revenue per digital points -39.1% YoY to IDR15.3k.
Digital Product Aggregator	2,030.2	833.8	143.5%	Member base expanded +288.8%YoY to 102,393 members, partially offset by lower average transaction value per member. Average ticket size -37.4% YoY to IDR19.8mn as Trade Marketing from "Pojok Bayar" App (with significantly smaller average ticket size) increased its contribution from 0.3% a year ago to 3.0% in 1Q20.
Digital Cloud Advertising	23.7	10.9	116.8%	Ad spot network grew +58.2% YoY to 7,365 advertising points. Number of screens deployed +68.9% YoY to 9,748 screens. Expect slow 1H20 and screen deployment activities to pick up in 2H20.
IoT	3.3	0.6	442.9%	
<b>Gross Profits</b>				
Digital Products	32.4	37.9	-14.5%	Gross Profit Margin +0.5pp to 3.7% due to change in product mix, cushioning the impact from lower revenue.
Digital Product Aggregator	15.5	24.3	-36.2%	Due to margin compression from NFCXC, Gross Profit Margin -2.1pps to 0.8%. Expect margin recovery in 2H20.
Digital Cloud Advertising	10.4	3.2	229.4%	Gross Profit Margin rose to 43.9% in 1Q20 from 28.9% in 1Q19, due to better cost structure.
IoT	3.0	0.6	390.3%	

Source: Company, SCCM Research

## Nurturing New Growth Drivers

- **Newly spin-off listed DMMX and TFAS, focusing on digital advertising and digital human resource platform.**
  - (a) **DMMX:** Targets to deploy ~15,000 new screens (+209.0% YoY) in FY20E. As at end-Mar 20, DMMX has a net cash balance of IDR303.8bn to fulfil its order book as well as to capitalize on growth opportunities such as Office Solutions for video conference purpose.
  - (b) **TFAS:** Its budding digital HR platform taps into Indonesia's lucrative labor market of 136mn workforce (according to Statistics Indonesia as at Feb-19). The digital platform connects blue-collar workers with employers online and collects commission from every salary from successful matching. Currently, it has built a network of 10,000+ members, 9,000+ retailers and 500+ business partners. Key customers include PT Indosat Tbk, PT Pertamina Lubricants and PT Coca-cola Amatil Indonesia.
- **Recently launched digital contactless initiatives are showing promising results:**
  - (a) **Enterprise Communication Platform (WABA) DigiRetail:** WABA provides a simple communication platform between business and customers via WhatsApp. Its AI driven chatbot will enhance brand loyalty and customers' engagement. The soft-launched with Lotte has seen an average transaction of IDR20mn/day. Mayora will also be joining MCAS' network under this initiative soon.
  - (b) **End-to-end food ordering solution (DigiResto):** A platform that connects merchants with potential customers through WhatsApp. It provides customers more convenient and efficient way to order, from a wide range of F&B merchants. It is also integrated with POS to facilitate the transaction processing and streamline business processes.
  - (c) **Logistics & delivery support chatbot (LDN):** Strategic partnership with a fast-growing logistics provider allows MCAS to tap into the huge demand for last mile delivery amidst a booming e-commerce in Indonesia. On the other hand, the pervasive offline footprints of MCAS' SME partners provide the third party logistics player with various distribution points which are dispersed and located close to the customer. Currently, LDN is already tracking 4,000 deliveries per day with a 900,000++ user base.

## DCF Valuation Methodology

- **We have revised our forecasts accordingly based the latest developments:**
  - (a) Moderated FY20E Gross Profit Margin on the back of margin pressure in Digital Product Aggregator and COVID-19 impacts on Digital Cloud Advertising (including slower screens deployment and potentially one-year deferment in AdEx rollout).
  - (b) Loss of future potential contributions from TKDI and OonaTV, as both businesses ceased as a result from strategic reviews.
  - (c) Improving operating efficiency.
- **Overall, we expect FY20E Core Attributable Net Profit to grow 78.8% YoY to IDR84.9bn.** Note that we have yet to account for the new growth drivers, i.e. its contactless digital initiatives.
- After adjusting our WACC assumptions to reflect the latest market rates and required return, our newly derived TP of IDR5,045 implies FY20E P/E of 51.5x or 41.9x on ex-cash basis.
- **Potential upside catalysts include:** (a) higher than expected adoption rate and transaction value; (b) strong take-up rate and earlier than expected rollout for AdEx; (c) better than expected margins, (d) investment gains amidst market recovery, and (e) successful execution and monetization of its contactless digital initiatives.

Fig 3 - DCF summary and assumptions

DCF Summary		WACC assumptions	
Cumulative PV of FCF	1,400	Debt-to-Capital	13.7%
Perpetuity Growth Rate	3%	Cost of Debt	10.3%
PV of Terminal Value	3,519	Tax Rate	20.0%
Enterprise Value	4,919	After-tax Cost of Debt	8.2%
Add: Net debt	513	Risk-free Rate	7.9%
Add: Restricted timed deposits	24	Market Risk Premium	3.5%
Add: Investments	78	Levered Beta	1.15
Add: Tax assets	3	Cost of Equity	11.9%
Add: Other assets	2	WACC	11.4%
Less: Tax liabilities	(22)		
Less: Employee benefits liabilities	(5)		
Less: Non-controlling Interest	(1,133)		
Implied Equity Value	4,378		
Shares Outstanding (bn)	0.8679		
<b>Implied Share Value (IDR)</b>	<b>5,045</b>		

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Indonesia

IT Infrastructures

**Appendix: Financial Statements****Fig 4 - Consolidated P&L**

Y/E 31 Dec (IDR bn)	FY19A	FY20E	FY21E	FY22E	FY23E
<b>Total Gross Revenue</b>	11,090	13,369	16,255	18,680	21,526
<i>Gross Revenue Growth</i>	74.4%	20.5%	21.6%	14.9%	15.2%
<b>COGS</b>	(10,835)	(13,022)	(15,740)	(18,025)	(20,695)
<b>Gross Profit</b>	255	347	515	655	832
<i>Gross Margin</i>	2.3%	2.6%	3.2%	3.5%	3.9%
Other Operating Expenses	(102)	(119)	(143)	(164)	(188)
<b>EBITDA</b>	153	228	372	491	644
<i>EBITDA Margin</i>	1.4%	1.7%	2.3%	2.6%	3.0%
Depreciation Expense	(9)	(24)	(42)	(56)	(69)
<b>EBIT</b>	144	204	330	435	575
<i>EBIT Margin</i>	1.3%	1.5%	2.0%	2.3%	2.7%
Interest Income	14	31	41	44	53
Interest Expense	(16)	(17)	(19)	(17)	(16)
Other Income/(Expenses)	104	(0)	(0)	(0)	(0)
<b>EBT</b>	246	218	351	461	612
Tax	(34)	(48)	(77)	(92)	(122)
<b>Net Income</b>	212	170	274	369	489
Minority Interests	60	85	137	184	245
<b>Attributable Net Income</b>	152	85	137	184	245
<i>Net Margin</i>	1.4%	0.6%	0.8%	1.0%	1.1%
Shares Outstanding in Billions	0.868	0.868	0.868	0.868	0.868
<b>EPS (IDR)</b>	176	98	158	213	282
<i>EPS Growth</i>	-33.1%	-44.3%	61.2%	34.8%	32.6%

Source: SCCM Research

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**Fig 5 - Consolidated Balance Sheet**

Y/E 31 Dec (IDR bn)	FY19A	FY20E	FY21E	FY22E	FY23E
Cash	516	814	883	1,058	1,355
Short Term Investments	439	0	0	0	0
Trade & Other Receivables	344	359	430	469	539
Inventories	305	519	604	693	796
Other Current Assets	371	446	532	605	690
<b>Current Assets</b>	<b>1,974</b>	<b>2,138</b>	<b>2,449</b>	<b>2,825</b>	<b>3,381</b>
Net Fixed Assets	153	307	342	356	343
Net Intangible Assets	18	25	31	37	43
Other Non-Current Assets	95	95	94	94	94
<b>Total Assets</b>	<b>2,240</b>	<b>2,565</b>	<b>2,917</b>	<b>3,313</b>	<b>3,860</b>
Trade & Other Payables	266	406	492	526	593
OD & ST Debt	90	116	130	145	142
Other ST Liabilities	107	62	71	78	87
Lt Debt	44	78	48	19	4
Other LT Liabilities	5	5	5	5	5
<b>Total Liabilities</b>	<b>512</b>	<b>667</b>	<b>745</b>	<b>772</b>	<b>830</b>
<b>Shareholder's Capital</b>	<b>87</b>	<b>87</b>	<b>87</b>	<b>87</b>	<b>87</b>
APIC	291	291	291	291	291
Retained Earnings	392	477	614	798	1,043
Other Reserves	-89	-89	-89	-89	-89
Minority Interest	1,048	1,133	1,270	1,455	1,699
<b>Total Equity</b>	<b>1,728</b>	<b>1,898</b>	<b>2,172</b>	<b>2,541</b>	<b>3,030</b>
<b>Total Liabilities and Equity</b>	<b>2,240</b>	<b>2,565</b>	<b>2,917</b>	<b>3,313</b>	<b>3,860</b>

Source: SCCM Research

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