

Modern Internasional


MDRN IJ / MDRN.JK

FLASH NOTE

➤ **Market Cap**
US\$309.3m
 Rp3,576,582m

➤ **Avg Daily Turnover**
US\$0.06m
 Rp635.7m

➤ **Free Float**
43.9%
 4,159 m shares

Current **Rp860.0**
 Target **Rp1,050** 
 Prev. Target **Rp900.0**
 Up/Downside **22.1%**

SHORT TERM (3 MTH) **LONG TERM**

TRADING BUY	OUTPERFORM
TRADING SELL	NEUTRAL
	UNDERPERFORM

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Share price info

Share price perf. (%)	1M	3M	12M
Relative	8	1.3	6.1
Absolute	4.9	-3.4	7.5

Major shareholders	% held
Asialink Electronic	38.9
Inti Putra Modern	17.2

A fresh take on convenience

Modern's 7-Eleven chain celebrated its 4th anniversary in its Matraman office last Thursday, 7 Nov, during which it introduced a new range of fresh food products as well as new services. We think that this will set 7-Eleven apart from its rivals.

As part of its new strategy, the company said it will open more of its smaller "box-type" stores while converting existing stores to house the new fresh food products. The rollout of new products will begin in 2014. We are still of the view that its new strategy will reinforce its market leadership if executed well. We maintain our Outperform rating and raise our DCF-based target price to Rp1,050 (WACC: 14.3%) as we roll it forward to end-2014.

What Happened

7-Eleven has adopted new strategies 1) expansion of fresh food products to third-party brands such as Cold Stone and Krispy Kreme, 2) provision of delivery services in partnership with Go-Jek, a Jakarta-based motorcycle taxi company, and 3) box-type store rollout. Management hinted that its agreements with both MAPI (brand owner of Krispy Kreme and Cold Stone) and Go-Jek are still at the final stages and that the rollout of products and services will not start until 2014.

What We Think

We believe the new fresh food product range can increase 7-Eleven's sales (fresh food products account for some 30% of sales) while the new delivery service could further expand 7-Eleven's reach. However, the wastage rate could rise if the company is unable to manage the increasingly complex fresh food products. All else equal, we think that these new strategies should boost its SSSG beyond the current 7%. The introduction of box-type stores in busy areas such as train stations and apartment buildings should generate better yields despite their non-exclusivity as a tenant in the area.

What You Should Do

A slowdown in store expansion and additions to fresh food offerings will further differentiate 7-Eleven from a growing number of competitors. We expect good traction, hence our unchanged Outperform rating.

Financial Summary

	Dec-11A	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue (Rpb)	897	1,009	1,261	1,880	2,654
Operating EBITDA (Rpb)	93.5	133.8	153.9	232.2	357.6
Net Profit (Rpb)	56.6	55.3	54.2	74.9	125.0
Core EPS (Rp)	9.22	12.98	13.03	18.01	30.06
Core EPS Growth	70.9%	40.8%	0.4%	38.2%	66.9%
FD Core P/E (x)	82.51	66.25	65.99	47.76	28.61
DPS (Rp)	10.00	4.09	3.99	3.91	5.40
Dividend Yield	1.16%	0.48%	0.46%	0.45%	0.63%
EV/EBITDA (x)	42.27	27.67	25.06	17.46	12.19
P/FCFE (x)	46.61	NA	NA	NA	NA
Net Gearing	88.0%	12.2%	26.8%	43.7%	65.6%
P/BV (x)	8.54	3.64	3.50	3.31	3.03
ROE	9.7%	7.7%	5.4%	7.1%	11.1%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			0.65	0.62	1.24

SOURCE: CIMB, COMPANY REPORTS

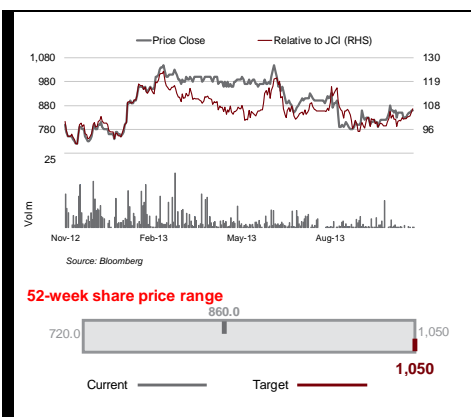


Figure 1: Krispy Kreme will be available at all 7-eleven stores starting in 2014



SOURCES: CIMB, COMPANY REPORTS

Figure 2: Go-Jek fleets used for 7-eleven's delivery service



SOURCES: CIMB, COMPANY REPORTS

Figure 3: Another addition to the fresh food product range



SOURCES: CIMB, COMPANY REPORTS

Figure 4: Sector Comparisons

Company	Bloomberg Ticker	Recom.	Price (local curr)	Target Price (local curr)	Market Cap (US\$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)			EV/EBITDA (x)		Dividend Yield (%)	
						CY13	CY14		CY13	CY14	CY15	CY13	CY14	CY13	CY14		
Ace Hardware Indonesia	ACES IJ	Outperform	620.0	800.0	920	24.1	20.1	8.5%	5.38	4.36	26.4%	24.0%	24.5%	15.4	13.5	0.6%	0.6%
Matahari Department Store	LPPF IJ	Outperform	11,400	15,500	2,877	28.8	20.2	31.4%	na	81.85	-91.2%	-887.0%	186.3%	14.9	13.1	0.0%	1.4%
Mitra Adi perkasa	MAPI IJ	Neutral	4,950	6,300	711	19.3	15.8	8.7%	3.26	2.76	19.4%	18.9%	20.5%	7.9	7.2	0.7%	0.9%
Modern Internasional	MDRN IJ	Outperform	860.0	1,050	309	66.0	47.8	24.2%	3.50	3.31	5.8%	7.1%	11.1%	22.9	17.2	0.5%	0.6%
Ramayana Lestari	RALS IJ	Outperform	1,190	1,500	730	20.7	17.9	6.7%	2.64	2.47	14.0%	14.2%	16.5%	9.8	8.6	3.0%	2.9%
Indonesia Average						25.8	19.8	18.1%	8.07	6.21	38.5%	35.5%	35.1%	12.8	11.2	0.6%	1.4%
Dairy Farm Int'l	DFI SP	Outperform	10.68	11.90	14,440	28.8	25.0	13.1%	10.43	9.07	38.9%	38.9%	38.1%	18.1	15.6	2.3%	2.8%
Parkson Retail Asia	PRA SP	Underperform	1.04	1.38	562	17.2	14.8	8.7%	2.65	2.43	16.2%	17.2%	17.7%	6.9	5.8	2.9%	3.4%
Sheng Siong Group	SSG SP	Outperform	0.62	0.74	682	21.6	19.3	13.5%	5.46	5.31	25.8%	27.9%	29.4%	13.2	11.8	4.2%	4.7%
Singapore Average						27.7	24.1	12.8%	9.12	8.05	35.1%	35.5%	35.2%	17.2	14.8	2.4%	2.9%
Big C Supercentre	BIGC TB	Underperform	191.0	217.0	4,983	24.7	20.5	14.4%	4.33	3.74	19.2%	19.5%	20.7%	13.8	12.3	1.1%	1.3%
CP All PCL	CPALL TB	Outperform	41.00	54.00	11,648	31.3	23.2	22.6%	13.02	11.09	43.3%	51.7%	55.1%	21.5	15.1	2.2%	3.2%
Home Product Center	HMPRO TB	Neutral	11.10	15.00	3,366	31.8	23.0	31.6%	7.25	5.56	25.8%	27.4%	31.6%	18.4	14.3	0.1%	0.2%
Robinson Department Store	ROBINS TB	Neutral	56.75	67.00	1,993	27.3	20.4	24.0%	5.54	4.70	21.7%	24.9%	27.1%	14.7	11.3	1.4%	1.5%
Siam Global House	GLOBAL TB	Outperform	18.40	32.50	1,521	36.7	23.0	72.3%	4.65	3.99	13.1%	18.7%	23.2%	19.2	12.6	0.7%	1.2%
Thailand Average						29.6	22.3	23.7%	7.38	6.23	26.8%	30.3%	33.2%	18.5	13.9	1.5%	2.2%
Sa Sa International Holding	178 HK	Outperform	8.30	11.00	3,036	24.5	20.6	19.6%	10.65	9.21	46.7%	47.8%	49.0%	16.9	14.2	2.9%	3.4%
Samsonite Int'l S.A.	1910 HK	Outperform	20.80	26.00	3,775	19.0	16.2	27.4%	3.50	3.09	18.7%	20.3%	20.5%	10.9	8.9	1.3%	1.5%
Golden Eagle Retail Group	3308 HK	Outperform	11.46	13.00	2,742	13.4	12.0	12.9%	3.33	3.25	24.4%	27.4%	32.1%	9.6	8.6	1.9%	2.1%
Intime Retail	1833 HK	Outperform	8.91	11.50	2,305	15.4	13.0	18.3%	1.92	1.73	12.4%	14.0%	15.3%	10.8	8.9	2.9%	3.1%
Parkson Retail Group	3368 HK	Underperform	2.72	2.20	985	9.6	9.6	-7.0%	1.06	1.04	11.0%	10.9%	11.3%	4.8	3.8	2.3%	2.3%
Springland Int'l	1700 HK	Neutral	4.14	4.40	1,335	11.2	10.0	12.0%	1.73	1.50	16.4%	16.9%	17.6%	6.8	6.2	5.3%	6.0%
Hongkong Average						12.8	11.5	10.0%	1.99	1.85	15.6%	16.8%	18.4%	8.4	7.2	2.9%	3.1%
Average (all)						23.8	19.6	17.6%	5.51	4.85	24.4%	26.4%	28.2%	14.7	12.1	1.9%	2.4%

SOURCES: CIMB, COMPANY REPORTS

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Description:		Excellent	Very Good	Good	N/A

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Spitzer Chart for stock being researched (2 year data)



Distribution of stock ratings and investment banking clients for quarter ended on 31 October 2013		
1252 companies under coverage		
	Rating Distribution (%)	Investment Banking clients (%)
Outperform/Buy/Trading Buy	49.8%	6.8%
Neutral	34.0%	5.7%
Underperform/Sell/Trading Sell	16.2%	4.6%

Recommendation Framework #1 *

Stock

OUTPERFORM: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.

NEUTRAL: The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.

UNDERPERFORM: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.

TRADING BUY: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 3 months.

TRADING SELL: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 3 months.

Sector

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.

TRADING BUY: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 3 months.

TRADING SELL: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 3 months.

* This framework only applies to stocks listed on the Singapore Stock Exchange, Bursa Malaysia, Stock Exchange of Thailand, Jakarta Stock Exchange, Australian Securities Exchange, Taiwan Stock Exchange and National Stock Exchange of India/Bombay Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.

Recommendation Framework #2 **

Stock	Sector
OUTPERFORM: Expected positive total returns of 10% or more over the next 12 months.	OVERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +10% or better over the next 12 months.
NEUTRAL: Expected total returns of between -10% and +10% over the next 12 months.	NEUTRAL: The industry, as defined by the analyst's coverage universe, has either (i) an equal number of stocks that are expected to have total returns of +10% (or better) or -10% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +10% to -10%; both over the next 12 months.
UNDERPERFORM: Expected negative total returns of 10% or more over the next 12 months.	UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -10% or worse over the next 12 months.
TRADING BUY: Expected positive total returns of 10% or more over the next 3 months.	TRADING BUY: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +10% or better over the next 3 months.
TRADING SELL: Expected negative total returns of 10% or more over the next 3 months.	TRADING SELL: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -10% or worse over the next 3 months.

*** This framework only applies to stocks listed on the Korea Exchange, Hong Kong Stock Exchange and China listings on the Singapore Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.*

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (IOD) in 2012.

AAV – not available, **ADVANC** - Excellent, **AEONTS** – Good, **AMATA** - Very Good, **ANAN** – not available, **AOT** - Excellent, **AP** - Very Good, **BANPU** - Excellent, **BAY** - Excellent, **BBL** - Excellent, **BCH** – not available, **BCP** - Excellent, **BEC** - Very Good, **BGH** - not available, **BJC** – Very Good, **BH** - Very Good, **BIGC** - Very Good, **BTS** - Excellent, **CCET** - Good, **CENTEL** – Very Good, **CK** - Very Good, **CPALL** - Very Good, **CPF** - Very Good, **CPN** - Excellent, **DELTA** - Very Good, **DTAC** - Very Good, **EGCO** – Excellent, **ERW** – Excellent, **GLOBAL** - Good, **GLOW** - Very Good, **GRAMMY** – Excellent, **HANA** - Very Good, **HEMRAJ** - Excellent, **HMPRO** - Very Good, **INTUCH** – Very Good, **ITD** – Very Good, **IVL** - Very Good, **JAS** – Very Good, **KAMART** – not available, **KBANK** - Excellent, **KK** – Excellent, **KTB** - Excellent, **LH** - Very Good, **LPN** - Excellent, **MAJOR** - Good, **MAKRO** – Very Good, **MCOT** - Excellent, **MINT** - Very Good, **PS** - Excellent, **PSL** - Excellent, **PTT** - Excellent, **PTTGC** - Excellent, **PTTEP** - Excellent, **QH** - Excellent, **RATCH** - Excellent, **ROBINS** - Excellent, **RS** – Excellent, **SAMART** – Excellent, **SC** – Excellent, **SCB** - Excellent, **SCC** - Excellent, **SCCC** - Very Good, **SIRI** - Good, **SPALI** - Very Good, **SRICHA** – not available, **SSI** – not available, **STA** - Good, **STEC** - Very Good, **TCAP** - Very Good, **THAI** - Excellent, **THCOM** – Very Good, **TICON** – Very Good, **TISCO** - Excellent, **TMB** - Excellent, **TOP** - Excellent, **TRUE** - Very Good, **TTW** – Very Good, **TUF** - Very Good, **VGI** – not available, **WORK** – Good.