

Modern Internasional

MDRN IJ / MDRN.JK

1QFY13 RESULTS NOTE

Market Cap US\$411.3m Rp4,034,052m	Avg Daily Turnover US\$0.26m Rp2,489m	Free Float 43.9% 4,159 m shares	Current Target Rp970.0 Rp1,200 Prev. Target Rp1,200 Up/Downside 23.7%	SHORT TERM (3 MTH) TRADING BUY TRADING SELL	LONG TERM OUTPERFORM NEUTRAL UNDERPERFORM
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Share price info

Share price perf. (%)	1M	3M	12M
Relative	-0.9	-11	51.4
Absolute	1	-4	82.3

Major shareholders

	% held
Asialink Electronic	38.9
Inti Putra Modern	17.2

Flooded, but still shining

7 Eleven sales dominated in 1Q13 despite being affected by floods in Jakarta, while sales at non 7 Elevens contracted further as the company exited low-margin products. With management's focus on expansion in 2Q, we expect store expansion to accelerate.

We believe the results are in line, despite sales forming 19% of full-year forecasts and earnings 16%. Thus, our forecasts and target price are unchanged. The key catalyst is in-line expansion. Maintain Outperform and DCF-based target price of Rp1,200

floods also affected 15 7 Eleven stores, inundating two. They were fully restored by 2Q, costing about Rp7bn, which was fully covered by insurance. Core profit grew 69%, partly boosted by higher rental income.

7 Eleven dominated

Sales grew by 20.3% yoy, while the 7 Elevens grew by 65.3%. The non-7 Elevens contracted 22.5%, led by an 85.7% decline in low-margin phone voucher sales. Gross margin expanded to 40.3%, as 7 Elevens expanded to 44.2% from 38.6% a year ago, vs. about 37.8% in 4Q12. EBIT margin was largely unchanged at 9.4%, as selling expense grew 94.1% yoy. In 4Q12, 7 Eleven opened 34 stores, but sales failed to pick up in 1Q13, hindered by the Jakarta floods, which affected distribution. The

Gearing rose on subs level

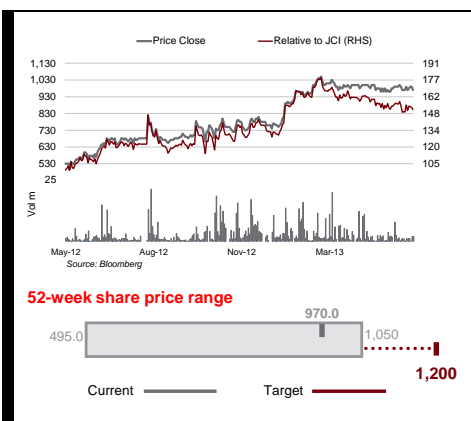
Meanwhile, gross debt rose 9.4% to Rp558.8bn, while net gearing was 0.3x vs. 0.11x in 4Q12, but sharply lower than the 1.15x in 1Q12. Most of the debt drawdown was at the subsidiary level related to the 7 Eleven expansion.

Execution is key

At 41x and 25.6x FY13-14 P/E and an expected three-year CAGR of 62%, or FY13 0.8x PEG, the valuation reflects growth expectations. Investing in Modern is a proxy on 7 Eleven expansion in Indonesia, in our view.

Result comparison	1QFY13	1QFY12	yoy %	4QFY12	qoq %	3M13	3M12	yoy %	Prev.	
FYE Dec (Rpbn)			chg	chg	Cum	Cum	chg	FY13F	Comments	
Revenue	293.7	244.2	20	272.8	8	293.7	244.2	20.3	1,546.9	In line, considering flood in beginning of year, at 19% and 17% of ours and consensus
Operating costs	(90.6)	(66.7)	36	(2.8)	3,125	(90.6)	(66.7)	35.9	(957.6)	Operating costs were below our estimates at 9% of FY13
EBIT	27.7	22.7	22	15.3	81	27.7	22.7	21.6	140.4	
Interest expense	(13.8)	(10.7)	29	(16.7)	(17)	(13.8)	(10.7)	28.7	(44.1)	Slightly ahead, at 31% of our FY13
Interest & invt inc	3.7	0.6	481	2.1	73	3.7	0.6	481.4	7.8	Ahead, at 47% of our FY13
Gain (loss) from asset sales	0.0	0.8	(99)	1.3	(99)	0.0	0.8	(99.0)	-	
Forex gain (loss)	0.8	0.0	6,143	0.8	11	0.8	0.0	6,142.6	-	
Rental income	2.9	1.1	155	12.3	(77)	2.9	1.1	155.0	27.3	Behind, at 11% of our estimates
Others	0.6	(0.0)	1,869	(1.9)	130	0.6	(0.0)	(1,869.1)	-	
Pretax profit	21.8	14.6	50	13.1	67	21.8	14.6	49.6	131.4	
Tax	(4.6)	(4.2)	9	3.0	(253)	(4.6)	(4.2)	8.7	(32.8)	Below
Tax rate (%)	20.9%	29%		-23%	192	21%	29%	(27.3)	25%	
Net profit	17.3	10.4	66	16.0	8	17.3	10.4	66.1	98.5	In line, at 18% and 15% of ours and consensus
Core net profit	16.1	9.5	69	14.7	10	16.1	9.5	69.0	98.5	In line, at 16% and 14% of ours and consensus

SOURCE: CIMB, COMPANY REPORTS



Financial Summary

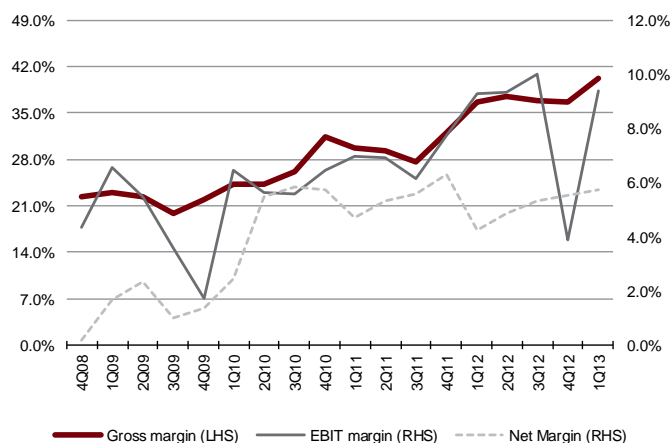
	Dec-11A	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue (Rpb)	897	1,009	1,547	2,458	3,409
Operating EBITDA (Rpb)	93.5	134.1	202.3	305.5	467.9
Net Profit (Rpb)	56.6	55.6	98.5	157.6	238.1
Core EPS (Rp)	9.22	13.06	23.68	37.89	57.26
Core EPS Growth	70.9%	41.6%	81.3%	60.0%	51.1%
FD Core P/E (x)	93.06	74.27	40.97	25.60	16.94
DPS (Rp)	4.09	4.01	7.10	11.37	17.18
Dividend Yield	0.42%	0.41%	0.73%	1.17%	1.77%
EV/EBITDA (x)	47.16	31.01	20.82	14.38	9.56
P/FCFE (x)	52.57	NA	NA	NA	60.38
Net Gearing	88.0%	12.2%	16.3%	29.6%	31.4%
P/BV (x)	9.63	4.10	3.79	3.38	2.92
Recurring ROE	9.7%	7.8%	9.6%	14.0%	18.5%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			1.03	1.02	

SOURCE: CIMB, COMPANY REPORTS

Key earnings driver: expansion and margin ▶

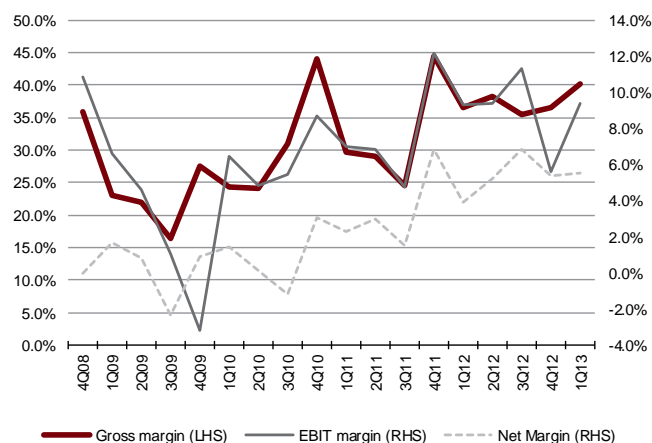
Against its FY13 target of 96 stores, only five stores were established up to Apr 2013 as management's energy was focused on restoring its flood-damaged stores. The seven new stores set up in May showed the company's focus had returned to expansion. Our recent discussion with management suggested an unchanged target. Better gross margin at the 7 Eleven showed higher food sales and better efficiency and productivity. The new commissary's completion is delayed, which we understand is waiting for a potential strategic partnership tie up which may enhance know-how and likely accelerate fresh food offerings. We remain more conservative on the margin front, compared with the strong achievement in 1Q.

Figure 1: Cumulative margin: gross and net margin continued to improve as 7 Eleven margin expanded further



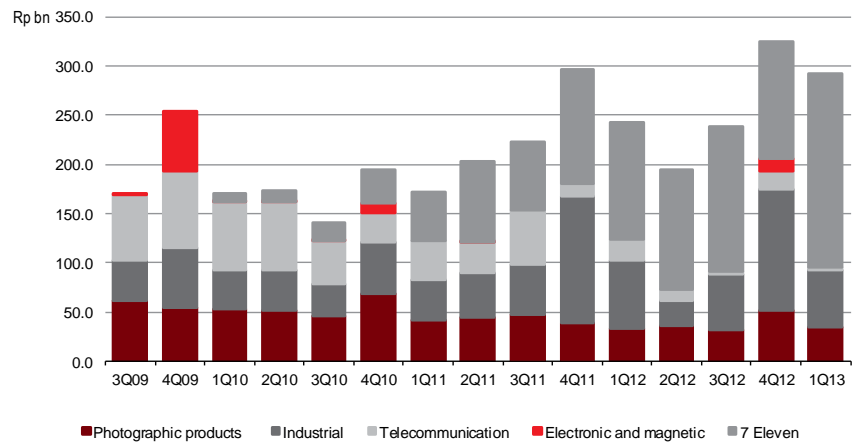
SOURCES: CIMB, COMPANY REPORTS

Figure 2: Quarterly margin: erratic EBIT margin could be due to ongoing adjustments and restatement



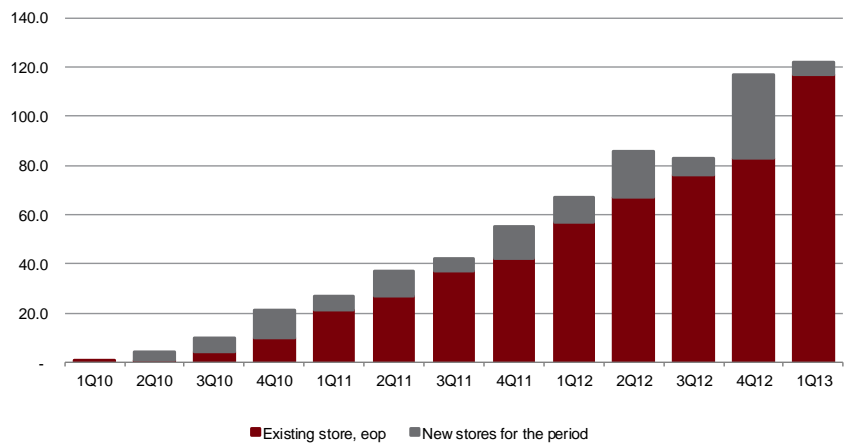
SOURCES: CIMB, COMPANY REPORTS

Figure 3: 7 Eleven accounted for 67% of sales in 1Q13, up from 50% in FY12 and 49% in 1Q12



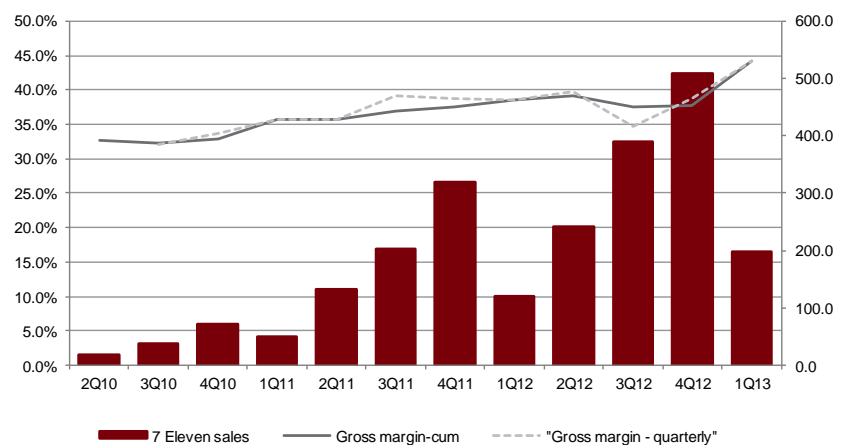
SOURCES: CIMB, COMPANY REPORTS

Figure 4: There was a flurry of store openings in 4Q12, but openings were hampered by floods in 1Q13



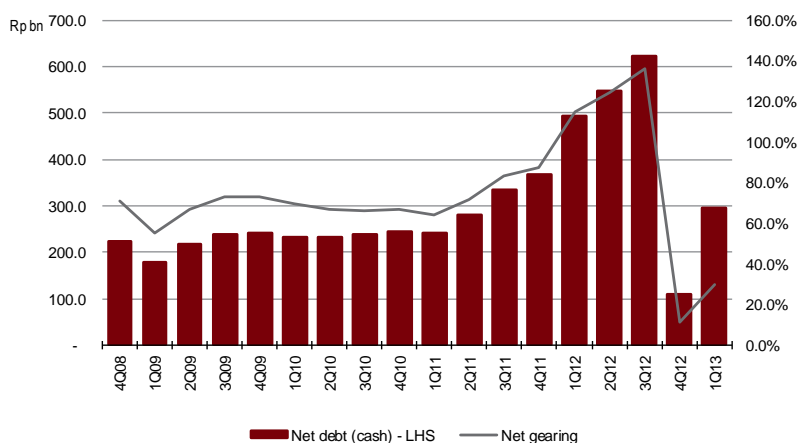
SOURCES: CIMB, COMPANY REPORTS

Figure 5: Cumulative 7 Eleven sales: increased by 65% yoy to Rp197bn in 1Q13, while gross margin continued to improve from higher-margin fresh food offering



SOURCES: CIMB, COMPANY REPORTS

Figure 6: Net debt inched up due to drawdowns at subsidiary levels for 7-eleven expansions, albeit still much lower than a year ago



SOURCES: CIMB, COMPANY REPORTS

Figure 7: 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 (%)	
						CY2013	CY2014		CY2013	CY2014	CY2013	CY2014	CY2015	CY2013	CY2014	CY2013	CY2014
Ace Hardware Indonesia	ACES IJ	UNDERPERFORM	920.0	870.0	1,609	34.4	27.3	18.8%	7.91	6.30	25.5%	25.7%	26.8%	24.1	19.0	0.4%	0.4%
Matahari Department Store	LPPF IJ	OUTPERFORM	13,050	14,300	3,884	33.1	22.9	38.7%	na	89.93	-84.6%	-931.5%	184.4%	19.4	15.5	0.0%	1.2%
Mitra Adi perkasa	MAPI IJ	OUTPERFORM	9,000	9,000	1,524	28.5	22.5	23.1%	5.70	4.67	21.8%	22.8%	23.5%	12.9	10.6	0.4%	0.5%
Modern Internasional	MDRN IJ	OUTPERFORM	970.0	1,200	411	41.0	25.6	61.3%	3.79	3.38	9.6%	14.0%	18.5%	20.8	14.4	0.7%	1.2%
Ramayana Lestari	RALS IJ	OUTPERFORM	1,510	1,800	1,093	21.5	18.6	15.8%	3.26	3.01	15.7%	16.8%	17.6%	13.1	11.0	2.4%	2.8%
Indonesia Average						30.6	23.0	28.5%	10.21	7.68	38.8%	38.2%	36.8%	17.4	14.0	0.5%	1.1%
Dairy Farm Int'l	DFI SP	OUTPERFORM	13.10	13.55	17,712	33.1	28.1	16.9%	12.71	10.88	41.4%	41.7%	40.6%	21.3	18.1	2.1%	2.4%
Sheng Siong Group	SSG SP	OUTPERFORM	0.66	0.75	720	23.0	20.6	13.4%	5.86	5.69	26.1%	28.1%	29.5%	14.1	12.6	3.9%	4.4%
Singapore Average						32.5	27.7	16.7%	12.15	10.49	40.1%	40.7%	39.8%	21.0	17.9	2.2%	2.5%
Big C Supercentre	BIGC TB	UNDERPERFORM	220.0	226.0	6,012	26.6	21.3	19.4%	4.92	4.19	19.4%	21.2%	20.8%	15.2	12.5	1.0%	1.3%
CP All PCL	CPALL TB	OUTPERFORM	43.25	52.00	12,869	28.3	22.5	26.6%	12.00	9.81	45.5%	48.0%	48.1%	17.2	13.3	2.3%	2.9%
Home Product Center	HMPRO TB	NEUTRAL	16.60	16.30	4,520	40.7	31.8	35.2%	10.63	8.04	26.9%	28.8%	31.2%	22.1	16.6	0.1%	0.1%
Robinson Department Store	ROBINS TB	Outperform	77.00	88.00	2,833	32.4	24.1	32.3%	7.31	6.08	23.9%	27.5%	29.6%	19.3	14.3	1.1%	1.2%
Siam Global House	GLOBAL TB	Outperform	25.50	32.50	2,120	51.0	31.9	74.8%	6.44	5.53	12.9%	18.7%	23.2%	26.8	16.9	0.5%	0.8%
Thailand Average						30.7	24.0	28.3%	8.25	6.82	28.2%	31.1%	32.1%	17.9	13.8	1.4%	1.8%
Average (all)						31.3	24.9	24.7%	9.53	7.85	32.7%	34.5%	34.7%	18.7	15.0	1.5%	1.9%

SOURCES: CIMB, COMPANY REPORTS

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CIMBS does not confirm nor certify the accuracy of such survey result.

Score Range:	90 – 100	80 – 89	70 – 79	Below 70 or	No Survey Result
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 30 April 2013		
1002 companies under coverage		
	Rating Distribution (%)	Investment Banking clients (%)
Outperform/Buy/Trading Buy	51.4%	7.8%
Neutral	35.1%	4.7%
Underperform/Sell/Trading Sell	13.5%	4.9%

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.

NEUTRAL: Expected total returns of between -10% and +10% over the next 12 months.

UNDERPERFORM: Expected negative total returns of 10% or more over the next 12 months.

TRADING BUY: Expected positive total returns of 10% or more over the next 3 months.

TRADING SELL: Expected negative total returns of 10% or more over the next 3 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: 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.

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: 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: 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, **CENDEL** – 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.