

## Modern Internasional


MDRN IJ / MDRN.JK

## 2QFY13 RESULTS NOTE

▶ **Market Cap**  
**US\$297.5m**  
 Rp3,327,053m

▶ **Avg Daily Turnover**  
**US\$0.13m**  
 Rp1,300m

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

Current  
 Target   
 Prev. Target  
 Up/Downside

**Rp800.0**  
**Rp920.0**  
**Rp1,200**  
**15.0%**

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

TRADING BUY	<b>OUTPERFORM</b>
TRADING SELL	NEUTRAL
	UNDERPERFORM

### CIMB Analyst(s)



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### Share price info

Share price perf. (%)	1M	3M	12M
Relative	0.5	1.6	13.1
Absolute	-11.1	-17.5	14.1
Major shareholders	% held		
Asialink Electronic	38.9		
Inti Putra Modern	17.2		

## Growing pains

*1H13 sales and earnings were below our and consensus estimates due to the sales yield and expansion falling short of expectations.*

1H13 core earnings formed merely 37-38% of our and consensus FY13 forecasts. In line with the lower guidance, we cut our FY13-15 earnings by 35-45%, factoring in the weaker sales yield and later store openings. We lower our FY13 DCF-based target price by 23% to Rp920 (0.85x CY14 PEG) but maintain Outperform due to the potential 15% share price upside and key catalysts of 7-Eleven expansion and execution.

### Misses and hits at 7-Eleven

7-Eleven sales accounted for 66% of total sales in 1H13. 7-Eleven registered robust sales growth of 66.4% yoy in 2Q13 (65.3% in 1Q13) but this fell short of expectations, forming 39% of our FY13 forecast and 44% of consensus. This was mainly due to the lower-than-expected sales per day for both the existing and new stores, as well as the delayed new store expansion. 1H13 SSSG was robust, at an estimated 6-10%. 7-Eleven's gross margin fell to 38.8% from its 1Q13 high but was largely in line with guidance. 7-Eleven's 1H13 net profit

of Rp2.8bn has already matched FY12's. Rental income rose by a sharp 57% yoy as the increasing store network size and popularity attracted more ATMs and services (logistics and laundry). Management expects more services in FY13.

### Unexciting non-7-Eleven

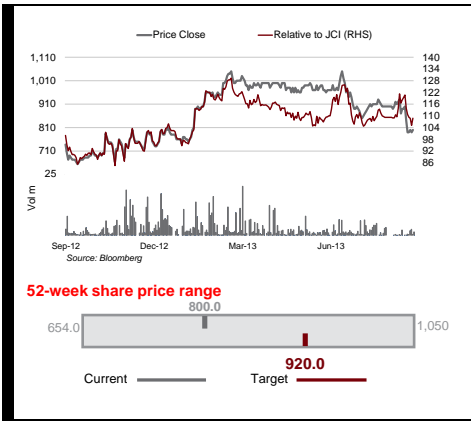
Non-7-Eleven's gross margin rose to 41.8% from 31.5% in 2012, as the low-margin telecom vouchers were phased out and the demand for high-margin medical imaging equipment provided a buffer. However, sales contracted by 17% yoy. Gross debt at end-2Q13 rose 4% qoq to Rp582bn (1Q: Rp559bn) due to higher capex for the industrial branch.

### Execution is (still) key

The key catalyst remains the 7-Eleven expansion and execution. The current valuation suggests that the stock is suitable for long-term investors.

Result Comparison	2QFY13	2QFY12	yoy %	1QFY13	qoq %	6M13	6M12	yoy %	Prev.	
FYE Dec (Rp bn)			chg	chg		Cum	Cum	chg	FY13F	Comments
Revenue	309.2	238.8	29	293.7	5	603.0	483.0	24.8	1,546.9	Below, forming 39% of our FY13 estimate and 44% of consensus
Operating costs	(98.2)	(68.9)	43	(3.7)	2,568	(188.8)	(135.5)	39.3	(957.6)	
EBITDA	40.3	33.6	20	41.3	(2)	81.7	67.6	20.8	201.6	
EBITDA margin (%)	13.0%	14.1%	(7)	14%	(7)	13.5%	14.0%	(3.2)	13.0%	
Depn & amort.	(16.7)	(11.3)	49	(13.7)	22	(30.4)	(22.5)	35.2	61.2	
EBIT	23.6	22.4	5	27.7	(15)	51.3	45.1	13.6	140.4	
Interest expense	(13.1)	(15.0)	(13)	(13.8)	(5)	(26.9)	(25.8)	4.5	(44.1)	Above, at 61% of our FY13 estimate
Interest & invt inc	1.1	0.0	7,195	3.7	(71)	4.7	0.6	632.1	8.1	Above, at 61% of our FY13 estimate
Gain (loss) from asset sales	0.1	0.4	(83)	0.0	651	0.1	1.2	(93.9)	-	
Forex gain (loss)	(0.7)	0.3	(331)	0.8	(186)	0.1	0.3	(65.5)	-	
Rental income	12.9	8.2	57	2.9	345	15.8	9.3	69.1	27.3	Slightly above, at 58% of our FY13 estimates
Others	1.2	(2.1)	156	0.6	103	1.7	(2.1)	(181.6)	-	
Pretax profit	24.9	14.1	76	21.8	14	46.7	28.7	62.7	131.6	
Tax	(5.4)	(1.1)	384	(4.6)	19	(10.0)	(5.3)	88.1	(32.9)	Below
Tax rate (%)	21.9%	8%		21%	5	21%	19%	15.6	25%	
Minority	0.6	-		0.5		1.1	0.0		0.08	
Net profit	18.8	13.0	45	16.8	12	35.7	23.4	52.3	98.6	Below, at 37% of our and consensus FY13 estimates
Core net profit	19.4	12.4	56	16.1	20	35.5	21.9	61.9	98.6	Below, at 36% of our and consensus FY13 estimates

SOURCE: CIMB, COMPANY REPORTS



### Financial Summary

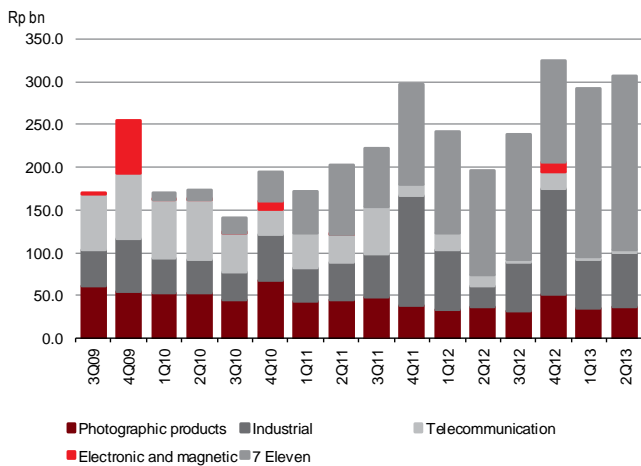
	Dec-11A	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue (Rpb)	897	1,009	1,365	2,113	2,922
Operating EBITDA (Rpb)	93.5	133.8	166.6	240.5	353.8
Net Profit (Rpb)	56.6	55.3	64.2	89.3	131.7
Core EPS (Rp)	9.22	12.98	15.44	21.47	31.68
Core EPS Growth	70.9%	40.8%	19.0%	39.0%	47.6%
FD Core P/E (x)	76.75	61.63	51.80	37.27	25.26
DPS (Rp)	4.09	3.99	4.63	6.44	9.50
Dividend Yield	0.51%	0.50%	0.58%	0.80%	1.19%
EV/EBITDA (x)	39.60	25.80	21.41	15.92	11.29
P/FCFE (x)	43.35	NA	NA	NA	NA
Net Gearing	88.0%	12.2%	22.8%	45.0%	54.8%
P/BV (x)	7.95	3.38	3.23	3.02	2.76
Recurring ROE	9.7%	7.7%	6.4%	8.4%	11.4%
% Change In Core EPS Estimates			(34.8%)	(43.4%)	(44.7%)
CIMB/consensus EPS (x)			0.66	0.65	0.93

SOURCE: CIMB, COMPANY REPORTS

### New stores opening ▶

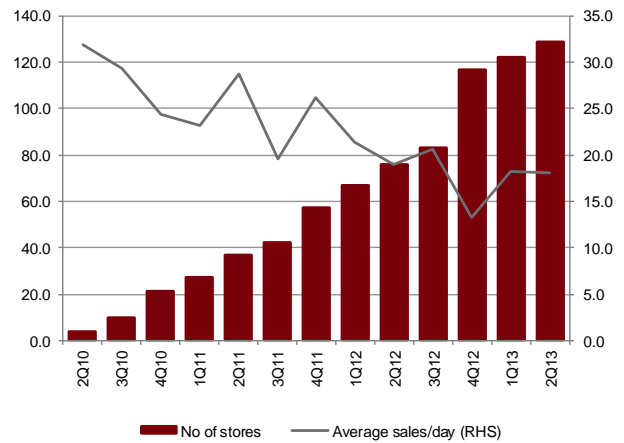
Although there are only 12 new stores YTD, management expects to meet its target of 96 new stores in FY13. The long-awaited CDC store is complete and slated for opening in Oct. The planned JV with a Japanese partner is in the final stages and will expand fresh food offerings that will boost sales and margins.

Figure 1: 7-Eleven is still the main contributor to overall sales...



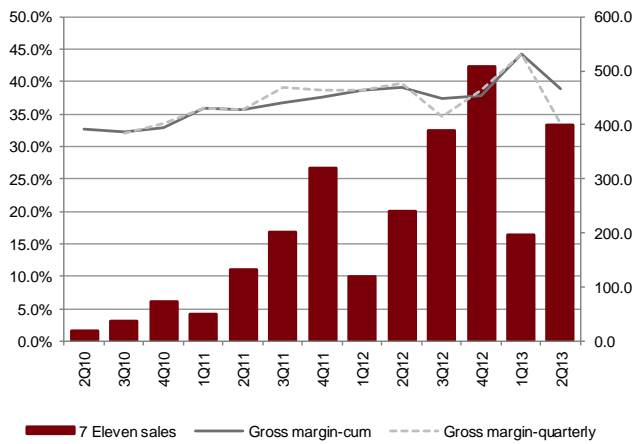
SOURCES: CIMB, COMPANY REPORTS

Figure 2: ...Even though its sales-per-day are not as strong as expected.



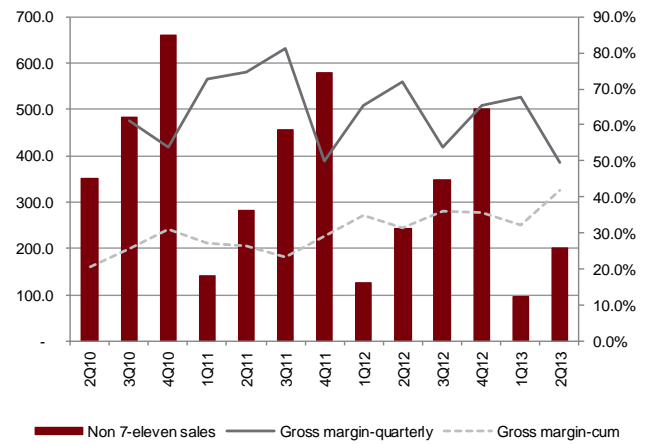
SOURCES: CIMB, COMPANY REPORTS

**Figure 3: 2Q13 gross margin declined. Management hopes that the almost-finalised JV will improve FY13 gross margin.**



SOURCES: CIMB, COMPANY REPORTS

**Figure 4: Cumulative gross margin has steadily increased mainly due to the high margins of industrial products.**



SOURCES: CIMB, COMPANY REPORTS

**Figure 5: Forecast changes**

	Previous			New			Changes		
	2013F	2014F	2015F	2013F	2014F	2015F	2013F	2014F	2015F
Sales	1,546.9	2,458.3	3,408.9	1,364.7	2,112.9	2,922.2	-11.8%	-14.1%	-14.3%
COGS	(957.6)	(1,494.4)	(2,050.4)	(846.5)	(1,305.1)	(1,778.6)	-11.6%	-12.7%	-13.3%
Gross profit	589.3	963.8	1,358.4	518.3	807.8	1,143.6	-12.1%	-16.2%	-15.8%
Income to Franchise	5.8	73.4	160.8	-	16.5	76.2			
Opex	443.1	681.5	880.4	414.6	649.7	866.9	-6.4%	-4.7%	-1.5%
EBIT	140.4	208.9	317.3	103.6	141.6	200.5	-26.2%	-32.2%	-36.8%
Tax	(32.9)	(52.7)	(79.6)	(21.5)	(29.8)	(44.0)	-34.8%	-43.4%	-44.7%
Minorities	0.1	0.1	0.1	0.1	0.3	0.4			
Net income	98.6	158.0	238.8	64.2	89.3	131.7	-34.9%	-43.5%	-44.8%
Core profit	98.6	158.0	238.8	64.2	89.3	131.7	-34.9%	-43.5%	-44.8%
Gross margin	38.1%	39.2%	39.8%	38.0%	38.2%	39.1%	-0.1%	-1.0%	-0.7%
EBIT margin	9.1%	8.5%	9.3%	7.6%	6.7%	6.9%	-1.5%	-1.8%	-2.4%
Core margin	6.4%	6.4%	7.0%	4.7%	4.2%	4.5%	-1.7%	-2.2%	-2.5%
New stores	96	108	120	96	108	120	0.0%	0.0%	0.0%
Sales per day	17.96	18.86	19.80	16.58	17.21	18.07	-7.7%	-8.7%	-8.7%
interest rate	10.50%	10.50%	10.50%	10.50%	10.50%	10.50%	0.0%	0.0%	0.0%

SOURCES: CIMB, COMPANY REPORTS

**Figure 6: Sector Comparisons**

Company	Bloomberg Ticker	Recom.	Current Target		Market Cap (US\$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)			EV/EBITDA (x)		Dividend Yield (%)	
			(local curr)	(local curr)		CY13	CY14		CY13	CY14	CY13	CY14	CY15	CY13	CY14	CY13	CY14
Ace Hardware Indonesia	ACES IJ	Underperform	700.0	680.0	1,073	27.4	21.6	11.6%	6.08	4.87	26.0%	25.1%	25.7%	17.9	14.9	0.5%	0.5%
Matahari Department Store	LPPF IJ	Outperform	11,300	14,300	2,948	28.6	19.8	36.3%	na	77.78	-86.9%	-933.3%	184.3%	14.6	11.9	0.0%	1.4%
Mitra Adi perkasa	MAPI IJ	Outperform	4,800	5,850	712	16.0	12.6	15.8%	3.07	2.53	22.2%	21.9%	22.7%	7.3	6.4	0.7%	0.9%
Modern Internasional	MDRN IJ	Outperform	800.0	920.0	297	51.8	37.3	27.0%	3.23	3.02	6.8%	8.4%	11.4%	21.4	15.9	0.6%	0.8%
Ramayana Lestari	RALS IJ	Outperform	1,010	1,300	641	14.9	13.1	9.1%	2.19	2.03	16.2%	16.1%	16.9%	7.9	7.1	3.6%	4.1%
<b>Indonesia Average</b>						<b>27.7</b>	<b>20.9</b>	<b>23.8%</b>	<b>3.64</b>	<b>3.12</b>	<b>17.8%</b>	<b>17.9%</b>	<b>19.2%</b>	<b>13.8</b>	<b>11.3</b>	<b>1.1%</b>	<b>1.5%</b>
Dairy Farm Int'l	DFI SP	Neutral	10.06	12.23	13,602	27.1	23.4	14.1%	9.82	8.53	38.9%	39.0%	38.8%	17.0	14.5	2.5%	3.0%
Parkson Retail Asia	PRA SP	Underperform	1.25	1.38	664	20.8	17.8	8.7%	3.20	2.93	16.2%	17.2%	17.7%	8.8	7.4	2.4%	2.8%
Sheng Siong Group	SSG SP	Outperform	0.66	0.77	711	22.8	19.8	14.3%	5.81	5.65	26.3%	28.9%	30.8%	14.0	12.3	4.0%	4.5%
<b>Singapore Average</b>						<b>26.5</b>	<b>22.9</b>	<b>13.8%</b>	<b>8.73</b>	<b>7.69</b>	<b>35.1%</b>	<b>35.8%</b>	<b>35.9%</b>	<b>16.4</b>	<b>14.0</b>	<b>2.6%</b>	<b>3.0%</b>
Big C Supercentre	BIGC TB	Underperform	187.0	221.0	4,799	24.4	19.5	16.8%	4.24	3.64	18.6%	20.1%	21.0%	13.3	11.2	1.1%	1.4%
CP All PCL	CPALL TB	Outperform	32.75	54.00	9,151	25.0	18.5	22.6%	10.40	8.86	43.3%	51.7%	55.1%	18.3	12.8	2.8%	4.1%
Home Product Center	HMPRO TB	Neutral	11.20	15.00	2,863	32.1	23.2	31.6%	7.31	5.61	25.8%	27.4%	31.6%	18.2	14.2	0.1%	0.2%
Robinson Department Store	ROBINS TB	Neutral	46.00	67.00	1,589	22.2	16.5	24.0%	4.49	3.81	21.7%	24.9%	27.1%	11.7	9.0	1.8%	1.8%
Siam Global House	GLOBAL TB	Outperform	14.90	32.50	1,211	29.8	18.6	72.3%	3.76	3.23	13.1%	18.7%	23.2%	15.6	10.3	0.9%	1.4%
<b>Thailand Average</b>						<b>25.7</b>	<b>19.1</b>	<b>24.3%</b>	<b>6.36</b>	<b>5.36</b>	<b>26.5%</b>	<b>30.4%</b>	<b>33.1%</b>	<b>16.3</b>	<b>12.1</b>	<b>1.8%</b>	<b>2.5%</b>
<b>H-share listed department stores</b>																	
Sa Sa International Holdings	178 HK	Outperform	8.35	9.20	3,049	25.4	21.5	16.9%	11.06	9.65	46.3%	47.9%	47.7%	17.5	14.8	2.8%	3.2%
Samsonite Int'l S.A.	1910 HK	Outperform	20.50	26.00	3,720	18.7	16.0	27.4%	3.45	3.05	18.7%	20.3%	20.5%	10.7	8.8	1.3%	1.6%
Golden Eagle Retail Group	3308 HK	Outperform	10.84	13.00	2,597	12.7	11.4	12.9%	3.16	3.08	24.4%	27.4%	32.1%	9.1	8.1	2.0%	2.2%
Intime Retail	1833 HK	Outperform	8.98	11.50	2,321	15.5	13.2	18.1%	1.95	1.76	12.4%	14.0%	15.3%	10.9	8.9	2.8%	3.0%
Parkson Retail Group	3368 HK	Underperform	3.06	2.20	1,108	10.8	10.9	-7.0%	1.19	1.17	11.0%	10.9%	11.3%	5.4	4.4	2.1%	2.1%
Springland Int'l	1700 HK	Neutral	4.25	4.40	1,370	11.6	10.3	12.0%	1.79	1.55	16.4%	16.9%	17.6%	7.0	6.3	5.2%	5.8%
<b>Hongkong Average</b>						<b>12.9</b>	<b>11.6</b>	<b>9.9%</b>	<b>2.00</b>	<b>1.86</b>	<b>15.6%</b>	<b>16.8%</b>	<b>18.4%</b>	<b>8.4</b>	<b>7.2</b>	<b>2.8%</b>	<b>3.1%</b>
<b>Average (all)</b>						<b>23.0</b>	<b>18.2</b>	<b>20.2%</b>	<b>4.8</b>	<b>4.2</b>	<b>22.5%</b>	<b>24.3%</b>	<b>25.9%</b>	<b>13.0</b>	<b>10.5</b>	<b>2.0%</b>	<b>2.4%</b>

SOURCES: CIMB, COMPANY REPORTS

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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 July 2013

1189 companies under coverage

	Rating Distribution (%)	Investment Banking clients (%)
Outperform/Buy/Trading Buy	51.8%	7.5%
Neutral	33.5%	4.6%
Underperform/Sell/Trading Sell	14.8%	5.6%

**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
<b>OUTPERFORM:</b> Expected positive total returns of 10% or more over the next 12 months.	<b>OVERWEIGHT:</b> 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.
<b>NEUTRAL:</b> Expected total returns of between -10% and +10% over the next 12 months.	<b>NEUTRAL:</b> 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.
<b>UNDERPERFORM:</b> Expected negative total returns of 10% or more over the next 12 months.	<b>UNDERWEIGHT:</b> 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.
<b>TRADING BUY:</b> Expected positive total returns of 10% or more over the next 3 months.	<b>TRADING BUY:</b> 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.
<b>TRADING SELL:</b> Expected negative total returns of 10% or more over the next 3 months.	<b>TRADING SELL:</b> 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.