

Modern Internasional

MDRN IJ / MDRN.JK

3QFY13 RESULTS NOTE

➤ **Market Cap**
US\$309.8m
Rp3,576,582m

➤ **Avg Daily Turnover**
US\$0.06m
Rp662.2m

➤ **Free Float**
43.9%
4,159 m shares

Current **Rp860.0**
Target ➤ **Rp1,050**
Prev. Target **Rp1,050**
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	9	2	15.1
Absolute	4.9	-5.5	14.7

Major shareholders

	% held
Asialink Electronic	38.9
Inti Putra Modern	17.2

Late but sweet

MDRN's 3Q13 results came late but did not disappoint. At 87% of our FY13 forecast and 78% of consensus numbers, 9M13 core earnings beat expectations. Sales were in line, at 71% of our forecast and 70% of consensus. This was despite a qoq dip in 3Q revenue due to Ramadan.

We made some housekeeping adjustment to account for higher than expected capex which affects the interest cost. The target of 50 new stores by end-FY13 is on track as the company has opened 23 stores YTD and 7-Eleven managed to open 34 new stores in 4Q12. The main catalysts remain expansion and timely execution. We reiterate our Outperform call and DCF-based target price of Rp1,050 (WACC: 14.3%), which implies 0.7x FY14 PEG.

A slight glitch ➤

7-Eleven's 9M13 sales reached Rp573.5bn (64% of total sales) and yielded a gross margin of 38.8%. Resilient margin was due to higher-yield fresh food contribution (29% of 7-Eleven sales). Sales growth in 9M13 was 47% yoy (vs. 66% in 1H13). The slight decline in sales is due to the Jul-Aug timing of this year's Ramadan season, during which food consumption tends to be less and a large number of Jakarta residents commute out of the city. Non-7-Eleven gross margin remain

high, at 39.6% despite revenue falling by 7.3% yoy (vs. -16.5% in 1H13). Rental income continued to swell, rising 90% yoy to reach Rp24.7bn in 9M13.

Seasonal cost rise ➤

Operating margin shrank by 0.4% pts on a qoq basis on the back of the 13th month salary payment and costs associated with new stores openings. Weakening Rupiah further squeezed net margin down to 4.6% from 2Q13's 5.9%. Capex came ahead of our FY13 forecast at Rp247bn, hence we made some corresponding housekeeping adjustment.

Going more Japanese ➤

The signed MOU with Warabeya marked another positive step forward. We equally like the recently launched new products. MDRN is expected to continue taking 7-Eleven towards a sustainable growth making its long-term plan achievable.

Result comparison

FYE Dec (Rp bn)	3QFY13	3QFY12	yoy %	2QFY13	qoq %	9M13	9M12	yoy %	Prev. Comments
			chg		chg	Cum	Cum	chg	FY13F
Revenue	293.1	253.5	16	309.2	(5)	896.1	736.5	21.7	1,261.3 In line at 71% of ours and 70% of consensus forecasts
Operating costs	(88.8)	(61.5)	45	(4.7)	1,773	(277.6)	(197.0)	41.0	(784.1)
EBITDA	23.6	39.9	(41)	40.3	(42)	105.3	107.6	(2.1)	155.4
EBITDA margin (%)	8.0%	15.8%	(49)	13%	(38)	11.7%	14.6%	(19.6)	12.3%
Depn & amort.	(2.5)	(11.3)	(78)	(16.7)	(85)	(32.9)	(33.8)	(2.5)	61.6
EBIT	21.1	28.7	(26)	23.6	(11)	72.4	73.8	(2.0)	93.8 In line at 77% of our FY13 forecast
Interest expense	(16.9)	(14.9)	13	(13.1)	28	(43.8)	(40.7)	7.7	(49.9)
Interest & invt inc	1.4	0.0	3,748	1.1	27	6.1	0.7	792.4	8.3
Gain (loss) from asset sales	0.2	-	-	0.1	164	0.2	1.2	(79.8)	-
Forex gain (loss)	(7.5)	(2.0)	283	(0.7)	933	(7.4)	(1.6)	352.8	-
Rental income	8.9	3.7	143	12.9	(30)	24.7	13.0	90.0	17.5
Others	1.3	9.7	(87)	1.2	8	3.0	7.5	(60.1)	-
Pretax profit	8.5	25.2	(66)	24.9	(66)	55.2	54.0	2.4	69.6
Tax	(12.3)	(9.0)	38	(10.0)	23	(12.3)	(14.3)	(13.5)	(17.4)
Tax rate (%)	145.3%	35%		40%	262	22%	26%	(15.5)	25%
Minority									0.12
Net profit	(3.8)	16.3	(124)	14.9	(126)	42.9	39.7	8.1	52.1 Above at 79% of our FY13 estimates
Core net profit	11.5	17.3	(33)	19.4	(40)	47.0	39.2	20.0	52.1 Above, forming 87% of our FY13 forecasts

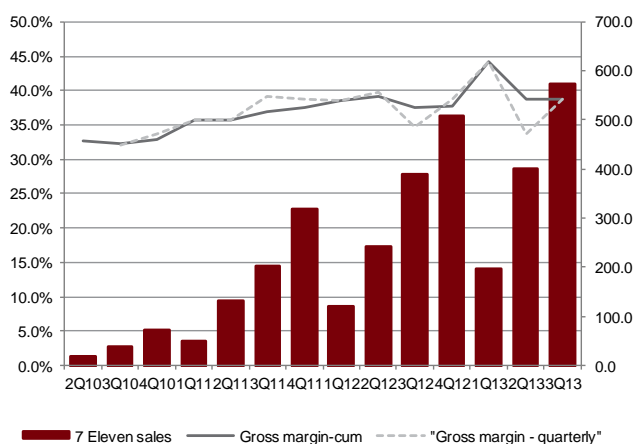
SOURCE: CIMB, COMPANY REPORTS

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	155.4	236.7	365.0
Net Profit (Rpb)	56.6	55.3	52.1	73.9	119.0
Core EPS (Rp)	9.22	12.98	12.53	17.76	28.62
Core EPS Growth	70.9%	40.8%	(3.5%)	41.8%	61.2%
FD Core P/E (x)	82.51	66.25	68.65	48.43	30.05
DPS (Rp)	10.00	4.09	3.99	3.76	5.33
Dividend Yield	1.16%	0.48%	0.46%	0.44%	0.62%
EV/EBITDA (x)	42.27	27.67	25.08	17.41	12.26
P/FCFE (x)	46.61	NA	NA	NA	NA
Net Gearing	88.0%	12.2%	31.0%	50.1%	75.8%
P/BV (x)	8.54	3.64	3.51	3.32	3.05
ROE	9.7%	7.7%	5.2%	7.0%	10.6%
% Change In Core EPS Estimates			(3.88%)	(1.39%)	(4.77%)
CIMB/consensus EPS (x)			0.66	0.62	1.13

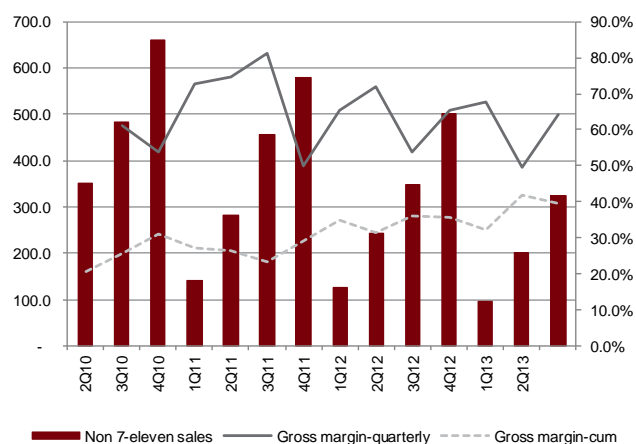
SOURCE: CIMB, COMPANY REPORTS

Figure 1: Quarterly sales slightly decline but gross margin remain robust at 38.8%



SOURCES: CIMB, COMPANY REPORTS

Figure 2: High margins of industrial products continues to provide buffer for contracting non 7-Eleven sales



SOURCES: CIMB, COMPANY REPORTS

Figure 3: Sector Comparisons

Company	Bloomberg Ticker	Recom.	Price	Target Price	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	Outperform	630.0	800.0	936	24.5	20.4	8.5%	5.47	4.43	26.4%	24.0%	24.5%	15.7	13.8	0.6%	0.6%
Matahari Department Store	LPPF IJ	Outperform	11,400	15,500	2,881	28.8	20.2	31.4%	na	81.85	-91.2%	-887.0%	186.3%	15.0	13.1	0.0%	1.4%
Mitra Adi perkasa	MAPI IJ	Neutral	4,950	6,300	712	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	840.0	1,050	303	64.5	46.6	23.4%	3.42	3.24	5.9%	7.1%	11.1%	22.7	17.1	0.5%	0.5%
Ramayana Lestari	RALS IJ	Outperform	1,130	1,500	695	19.6	17.0	6.7%	2.51	2.34	14.0%	14.2%	16.5%	9.3	8.1	3.2%	3.1%
Indonesia Average						25.7	19.7	18.1%	8.04	6.18	38.6%	35.5%	35.2%	12.7	11.2	0.6%	1.4%
Dairy Farm Int'l	DFI SP	Outperform	10.67	11.90	14,427	28.8	24.9	13.1%	10.42	9.07	38.9%	38.9%	38.1%	18.1	15.6	2.3%	2.8%
Parkson Retail Asia	PRA SP	Outperform	0.97	1.51	527	16.2	14.0	9.5%	2.48	2.28	16.0%	16.9%	17.7%	6.3	5.2	3.1%	3.6%
Sheng Siong Group	SSG SP	Outperform	0.62	0.74	687	21.8	19.5	13.5%	5.50	5.35	25.8%	27.9%	29.4%	13.3	11.9	4.1%	4.6%
Singapore Average						27.6	24.0	12.9%	9.09	8.01	35.0%	35.4%	35.1%	17.2	14.8	2.4%	2.9%
Big C Supercentre	BIGC TB	Underperform	189.0	217.0	4,936	24.4	20.3	14.4%	4.28	3.70	19.2%	19.5%	20.7%	13.7	12.2	1.1%	1.3%
CP All PCL	CPALL TB	Outperform	41.25	54.00	11,730	31.5	23.3	22.6%	13.10	11.16	43.3%	51.7%	55.1%	21.6	15.2	2.2%	3.2%
Home Product Center	HMPRO TB	Neutral	11.20	15.00	3,400	32.1	23.2	31.6%	7.31	5.61	25.8%	27.4%	31.6%	18.5	14.5	0.1%	0.2%
Robinson Department Store	ROBINS TB	Neutral	56.75	67.00	1,995	27.3	20.4	24.0%	5.54	4.70	21.7%	24.9%	27.1%	14.7	11.4	1.4%	1.5%
Siam Global House	GLOBAL TB	Outperform	18.50	32.50	1,530	36.9	23.1	72.3%	4.67	4.01	13.1%	18.7%	23.2%	19.3	12.6	0.7%	1.2%
Thailand Average						29.7	22.3	23.7%	7.40	6.24	26.8%	30.3%	33.2%	18.5	14.0	1.5%	2.1%
Sa Sa International Holdings	178 HK	Outperform	8.09	11.00	2,959	23.9	20.1	19.6%	10.38	8.97	46.7%	47.8%	49.0%	16.5	13.8	2.9%	3.5%
Samsonite Int'l S.A.	1910 HK	Outperform	21.15	26.00	3,947	19.9	17.0	27.4%	3.66	3.23	18.7%	20.3%	20.5%	11.4	9.4	1.3%	1.5%
Golden Eagle Retail Group	3308 HK	Outperform	11.48	13.00	2,745	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	8.83	11.50	2,285	15.2	12.9	18.3%	1.91	1.72	12.4%	14.0%	15.3%	10.8	8.8	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	4.11	4.40	1,325	11.1	9.9	12.0%	1.72	1.49	16.4%	16.9%	17.6%	6.8	6.1	5.4%	6.0%
Hongkong Average						12.7	11.5	10.0%	1.98	1.84	15.6%	16.8%	18.4%	8.4	7.2	2.9%	3.1%
Average (all)						23.9	19.6	17.6%	5.51	4.85	24.4%	26.4%	28.2%	14.8	12.1	1.9%	2.4%

SOURCES: CIMB, COMPANY REPORTS

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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 31 October 2013		
1252 companies under coverage		
	Rating Distribution (%)	Investment Banking clients (%)
Outperform/Buy/Trading Buy	49.8%	7.1%
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.