

Modern Internasional

MDRN.IJ / MDRN.JK

Market Cap
US\$264.2m
Rp3,160,701m

Avg Daily Turnover
US\$0.06m
Rp736.4m

Free Float
43.9%
4,159 m shares

Current Target
Prev. Target
Up/Downside

Rp760.0
Rp1,050
Rp1,050
38.2%

STOCK RATING

ADD

HOLD

REDUCE

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Share price info

Share price perf. (%)	1M	3M	12M
Relative	-3.7	-7.9	5.7
Absolute	-8.4	-3.8	4.1

Major shareholders	% held
Asialink Electronic	38.9
Inti Putra Modern	17.2

Time to deliver

Modern's yield has been under pressure in 2013 due to the scaling back of its expansion plan and intensifying competition. The tweaking of its store format and expansion of its fresh food offerings under a new JV partner should rejuvenate Modern's sales and margin.

So is the expected commissioning of the long delayed commissary. Its store expansion, which should be back on track in 2014, remains its key stock catalyst. We see 7-Eleven's increasing popularity and brand loyalty as the key expansion thrust while execution remains the key risk. It is not cheap on a nominal P/E basis but attractive on a PEG basis (0.7x vs retail peers' 1x). We maintain our DCF-based target price (WACC 14.3%) and have an Add rating for the stock (previously Outperform).

Growth outlook still appealing

After this year's setback, 7-Eleven's expansion should accelerate next year, leveraging the popularity of its brand and the loyalty of its customers. In view of weakening daily sales, Modern has revamped its expansion plan with a new store format that it expects will lead the chain through the tough competition. A wider range of fresh food products, supported by a commissary (expected to be operational soon after a long delay), provides the company further support in its attempt to differentiate itself. Together, these will translate to

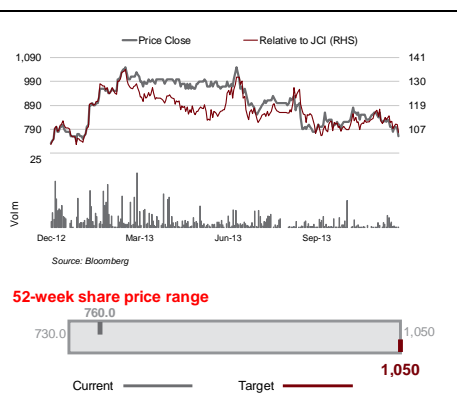
higher sales growth and stronger SSSG.

Watch out for...

Timely execution continues to be the key risk and we think Modern should heed the possibility of prolonged macro challenges. The weakening rupiah as well as rising cost of debt could lead to further cost increase. Moreover, an expanding fresh food offering could increase its working capital, raising its leverage. Stiffer competition and possible changes to relevant regulations are still risks as well.

A rocky road

Topline growth has been relatively muted in FY13. The year started on a sour note with the massive flooding in the Jakarta area, adversely affecting some of its 7-Eleven outlets. Fuel price and interest rate hikes further dampened consumer spending. Nonetheless, Modern has been more resilient than its peers as its share price has increased by 5% YTD vs. its peers' decline of 10-27% (ex. LPPF). The stock may come under pressure next year should it fail to meet the expansion expectations.



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	236.5	364.2
Net Profit (Rpb)	56.6	55.3	52.1	73.9	119.1
Core EPS (Rp)	9.22	12.98	12.53	17.77	28.65
Core EPS Growth	70.9%	40.8%	(3.5%)	41.8%	61.2%
FD Core P/E (x)	72.91	58.55	60.67	42.77	26.53
DPS (Rp)	10.00	4.09	3.99	3.76	5.33
Dividend Yield	1.32%	0.54%	0.53%	0.49%	0.70%
EV/EBITDA (x)	37.82	24.56	22.40	15.65	11.12
P/FCFE (x)	41.19	NA	NA	NA	NA
Net Gearing	88.0%	12.2%	31.0%	49.7%	75.0%
P/BV (x)	7.55	3.22	3.10	2.94	2.69
ROE	9.7%	7.7%	5.2%	7.1%	10.6%
% Change In Core EPS Estimates			0.000%	0.061%	0.088%
CIMB/consensus EPS (x)			0.66	0.65	1.32

SOURCE: CIMB, COMPANY REPORTS

Profit & Loss

(Rpb)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Net Revenues	1,009	1,261	1,880	2,654
Gross Profit	370	477	696	971
Operating EBITDA	134	155	237	364
Depreciation And Amortisation	(45)	(62)	(95)	(158)
Operating EBIT	89	94	142	206
Total Financial Income/(Expense)	(55)	(42)	(70)	(86)
Total Pretax Income/(Loss) from Assoc.	0	0	0	0
Total Non-Operating Income/(Expense)	33	17	27	39
Profit Before Tax (pre-EI)	67	70	99	159
Exceptional Items	0	0	0	0
Pre-tax Profit	67	70	99	159
Taxation	(11)	(17)	(25)	(40)
Exceptional Income - post-tax				
Profit After Tax	55	52	74	119
Minority Interests	(0)	(0)	(0)	(0)
Preferred Dividends - post tax	0	0	0	0
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	55	52	74	119
Recurring Net Profit	54	52	74	119
Fully Diluted Recurring Net Profit	54	52	74	119

Cash Flow

(Rpb)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
EBITDA	133.8	155.4	236.5	364.2
Cash Flow from Inv. & Assoc.				
Change In Working Capital	35.7	(35.5)	(35.0)	(6.5)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	(55.9)	17.5	26.9	39.0
Net Interest (Paid)/Received	(54.6)	(41.7)	(69.7)	(86.0)
Tax Paid	(11.3)	(17.4)	(24.7)	(39.8)
Cashflow From Operations	47.7	78.3	134.0	270.9
Capex	0.0	0.0	0.0	0.0
Disposals Of FAs/subsidiaries	3.9	0.0	0.0	0.0
Acq. Of Subsidiaries/investments	(290.4)	(257.8)	(338.4)	(595.4)
Other Investing Cashflow	0.0	0.0	0.0	0.0
Cash Flow From Investing	(286.5)	(257.8)	(338.4)	(595.4)
Debt Raised/(repaid)	65.9	62.8	120.0	230.0
Proceeds From Issue Of Shares	515.0	0.0	0.0	0.0
Shares Repurchased	0.0	0.0	0.0	0.0
Dividends Paid	(3.4)	(16.6)	(15.6)	(22.2)
Preferred Dividends				
Other Financing Cashflow	3.2	(0.3)	0.0	0.0
Cash Flow From Financing	580.7	45.9	104.4	207.8
Total Cash Generated	341.9	(133.6)	(100.0)	(116.7)
Free Cashflow To Equity	(172.9)	(116.7)	(84.3)	(94.5)
Free Cashflow To Firm	(184.2)	(137.8)	(134.6)	(238.5)

Balance Sheet

(Rpb)	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Cash And Equivalents	397	263	164	47
Total Debtors	126	109	113	121
Inventories	244	211	224	205
Total Other Current Assets	218	290	339	395
Total Current Assets	986	874	840	768
Fixed Assets	344	540	784	1,221
Total Investments	0	0	0	0
Intangible Assets	0	0	0	0
Total Other Non-Current Assets	404	404	404	404
Total Non-current Assets	748	945	1,188	1,626
Short-term Debt	220	270	374	420
Current Portion of Long-Term Debt				
Total Creditors	134	119	151	189
Other Current Liabilities	74	74	74	74
Total Current Liabilities	428	464	599	684
Total Long-term Debt	298	310	326	510
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	22	21	21	21
Total Non-current Liabilities	319	332	348	532
Total Provisions	0	0	0	0
Total Liabilities	747	796	947	1,216
Shareholders' Equity	983	1,019	1,077	1,174
Minority Interests	4	4	4	5
Total Equity	987	1,023	1,081	1,178

Key Ratios

	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue Growth	12.5%	25.0%	49.1%	41.2%
Operating EBITDA Growth	43.1%	16.2%	52.2%	54.0%
Operating EBITDA Margin	13.3%	12.3%	12.6%	13.7%
Net Cash Per Share (Rp)	(29.0)	(76.3)	(129.1)	(212.5)
BVPS (Rp)	236.4	244.9	258.9	282.2
Gross Interest Cover	1.55	1.88	1.89	2.34
Effective Tax Rate	16.9%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio	26.1%	27.1%	18.0%	15.8%
Accounts Receivables Days	53.07	34.06	21.57	16.09
Inventory Days	120.6	105.9	67.0	46.5
Accounts Payables Days	66.64	58.88	41.62	36.83
ROIC (%)	10.9%	8.3%	10.4%	12.6%
ROCE (%)	7.7%	6.6%	8.7%	10.7%

Key Drivers

	Dec-12A	Dec-13F	Dec-14F	Dec-15F
ASP (% chg, main prod./serv.)	N/A	N/A	N/A	N/A
Unit sales grth (% , main prod./serv.)	N/A	N/A	N/A	N/A
No. of POS (main prod./serv)	57	117	142	167
SSS grth (% , main prod./serv)	11.0%	16.0%	10.0%	5.0%
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A
Unit sales grth (% ,2ndary prod./serv)	N/A	N/A	N/A	N/A
No. of POS (2ndary prod./serv)	966	1,206	1,303	1,397
SSS grth (% , 2ndary prod./serv)	N/A	N/A	N/A	N/A

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Description:	Excellent	Very Good	Good		N/A

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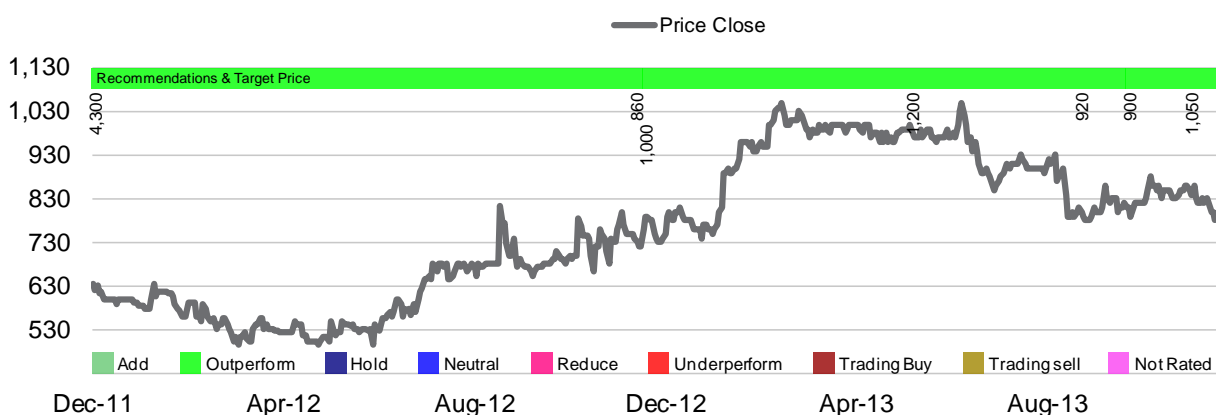
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Spitzer Chart for stock being researched (2 year data)



Distribution of stock ratings and investment banking clients for quarter ended on 31 October 2013		
1251 companies under coverage for quarter ended on 31 October 2013		
	Rating Distribution (%)	Investment Banking clients (%)
Outperform/Buy/Trading Buy/Add	49.8%	7.1%
Neutral/Hold	34.0%	5.7%
Underperform/Sell/Trading Sell/Reduce	16.2%	4.6%

As at the time of publishing this report CIMB is phasing in an absolute recommendation structure for stocks (Framework #1). Please refer to all frameworks for a definition of any recommendations stated in this report.

CIMB Recommendation Framework #1

Stock Ratings	Definition
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock.
Stock price targets have an investment horizon of 12 months.

Sector Ratings	Definition
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings	Definition
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

CIMB Stock Recommendation Framework #2 *

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 3% 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 3% or more 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.

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CIMB Stock Recommendation Framework #3 **

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.

** 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.