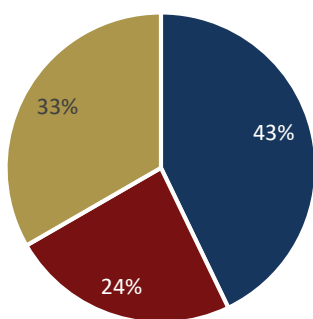


### Neutral

#### Stock Recommendation

Ticker	Rating	Price (IDR)	TP (IDR)	Upside
MNCN	HOLD	635	700	10.2%
SCMA	SELL	157	130	(17.2%)
FILM	BUY	3,800	Under-Review	n.a

#### Sector Market Cap Weighting



■ FILM ■ MNCN ■ SCMA

## Digital Triumph; Potential M&A in Play?

**Resilient AdEx with digital leading the force.** According to the latest Nielsen data, Indonesia's overall AdEx is projected to reach approximately USD 4.8 billion (+7.5% yoy) in 2023, with online ads as the main contributor (2023 projection: USD 2.18 billion, +12.2% yoy; 45.5% of total AdEx). FMCG is projected to remain the biggest ad spender in Indonesia, contributing around 48.9% of total AdEx, followed by telco & tech (14.9%). The growth in digital ad spending is heavily influenced by the usage of social media on boosting ads of FMCG companies. We think digital media still offers more lucrative growth than FTA as digital media is projected to book USD 2.9 billion in ad spend in 2027, (5-year CAGR: 6.2%), contributing 51.2% of total ad spend. Companies are shifting the ad spend trend by boosting their campaign through social media and other digital platforms, as they provide an average ROI of 95% on their campaign, according to various studies. This ROI is well-justified as TV advertising charge IDR 30-40 million for 30 seconds of content with an average usage of 2.53 hours per day, whilst social media in Indonesia only charge around USD 2.7 per 1,000 views with an average usage of 3.18 hours per day. Going forward, we believe digital media players will benefit from the shift making them a more viable investment than conventional media.

**FTA as the attractive M&A play?** We believe rather than just surviving on depleted margins and cash bleed, FTA companies are viable acquisition targets for digital media players. Media M&A has been going around since 1989, when Sony Corp acquires Columbia Pictures for USD 3.4 billion. Even in Indonesia, the likes of SCMA have acquired plenty of media companies, whilst MNCN acquiring several FTA channels including RCTI, GTV, etc. Now, as we move to the digital side, we see there is an opportunity for digital media, or even content creators, to acquire FTA companies, especially after the freefall of various FTA stocks such as SCMA (-17.79% YTD), NETV (-30.7% YTD), and MNCN (-12.75% YTD), which makes them cheaper to acquire. Also, acquiring FTA companies means acquiring their advertising share, which should help boost market share and provide a nice cash cow to support the company's sustainability. If we take a look at just SCMA, who has an ad share of 34.3%, it generated 354 billion of net profit in 1Q23 (IDR 1.4 trillion annualized FY23F); however, the valuation for its whole business came in at 12.9x P/E due to Vidio, OOH, and digital ads, all of which are losing money. Assuming we apply a 30% discount to the current valuation, that would yield a total FTA valuation of IDR 12.8 trillion, a very discounted value that might attract new media players to acquire the company through a series of equity or debt fundraising.

**Bullish view on new media players.** It's a no-brainer that when it comes to media, we prefer new media players which provide robust growth despite their smaller size. We think there is going to be an M&A play in the near future, where new media players acquire the old ones. We think FILM is the most suitable company to prove our thesis, since acquiring traditional FTAs will help improve its content distribution and provide a cash generator for the business, thus we maintain bullish view on the company, though we need a valuation review to determine the fair value of the company. Regarding FTAs, **we have a HOLD rating for MNCN with a TP of IDR 700 and a SELL rating for SCMA with a TP of IDR 130.** We believe MNCN will be able to maintain its lucrative ad share and develop its digital arm (MSIN) further, though its growth outlook might be not as attractive as before. While for SCMA, we believe it's all downhill for the traditional FTA business, given the spike in broadcasting cost, and potentially low AdEx, gives very little growth story for the company.

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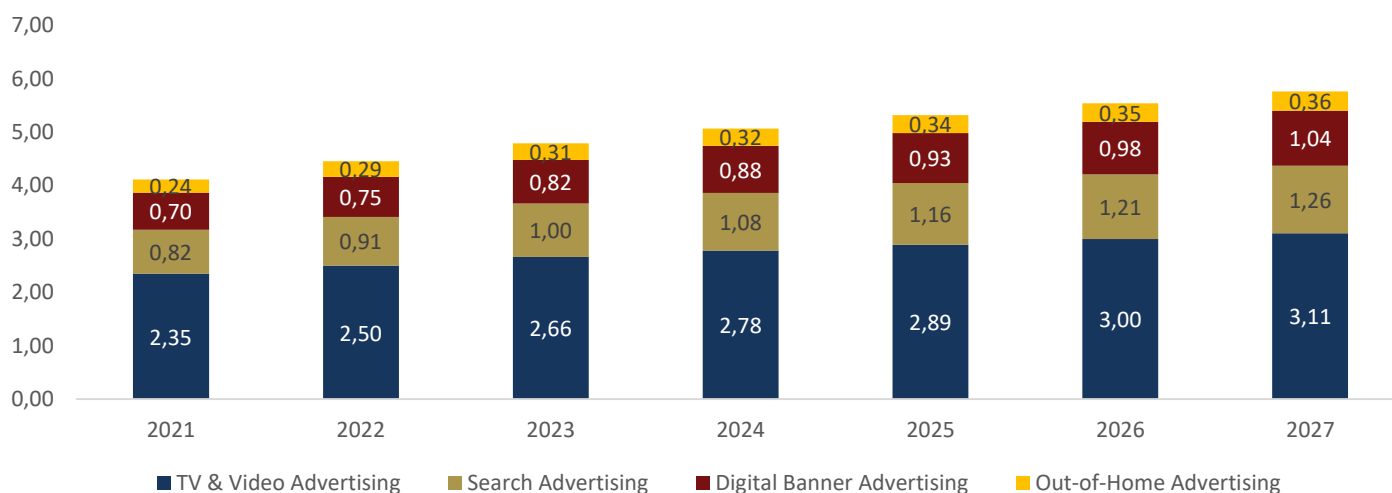
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**Figure 1. US Media Historical M&A**

Year	Company Related	Type of Deal	Deal Size (in USD mn)
1989	Sony Corp & Columbia Pictures	Acquisition	\$ 3,400
2009	Comcast & NBC	Acquisition	\$ 30,000
2014	AT&T & DirectTV	Acquisition	\$ 49,000
2018	Disney & 21st Century Fox	Acquisition	\$ 71,300
2019	Viacom & CBS	Merger	\$ 15,400
2019	Disney & Hulu	Acquisition	\$ 9,000
2020	Fox & Tubi	Acquisition	\$ 440
2022	WarnerMedia & Discovery	Merger	\$ 43,000
2022	Amazon & MGM	Acquisition	\$ 8,500

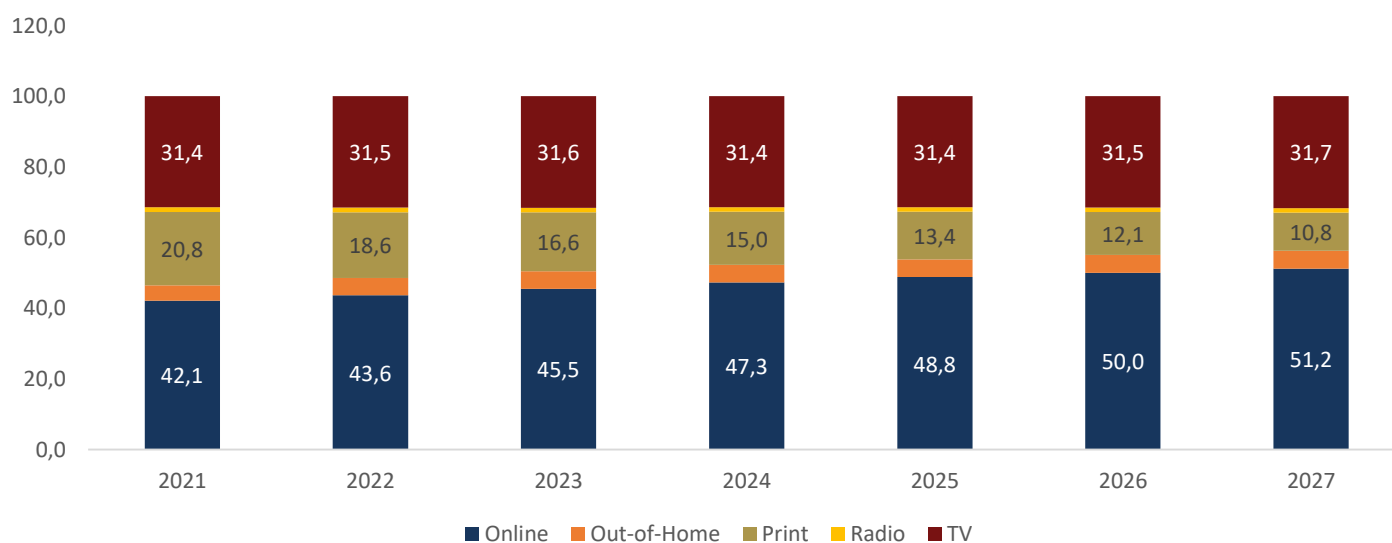
Source: Various Sources, SSI research

**Figure 2. Advertising Expenditure Forecast (USDbn)**



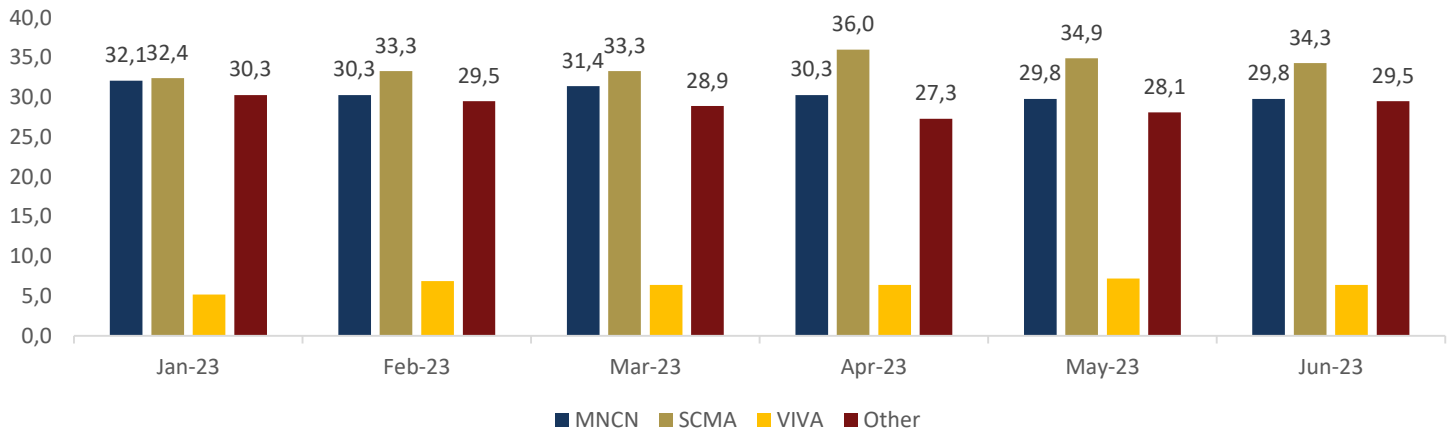
Source: Statista, PwC, SSI research

**Figure 3. Advertising Expenditure by Media (%)**



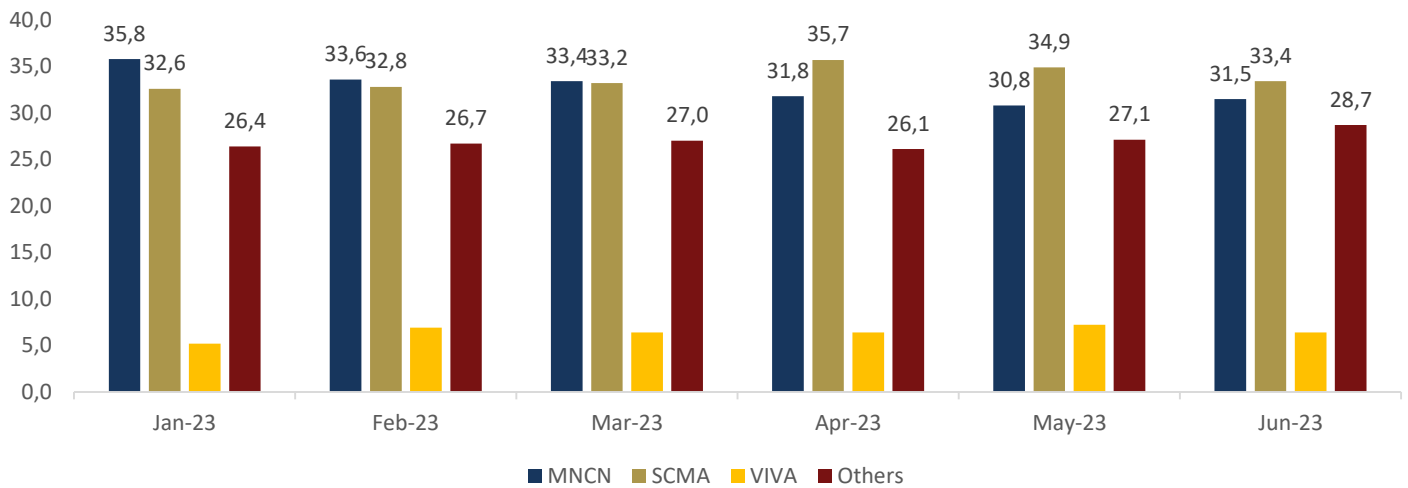
Source: Statista, PwC, SSI research

**Figure 4. YTD AT Audience Shares (Restated including ASO/Digital FTA)**



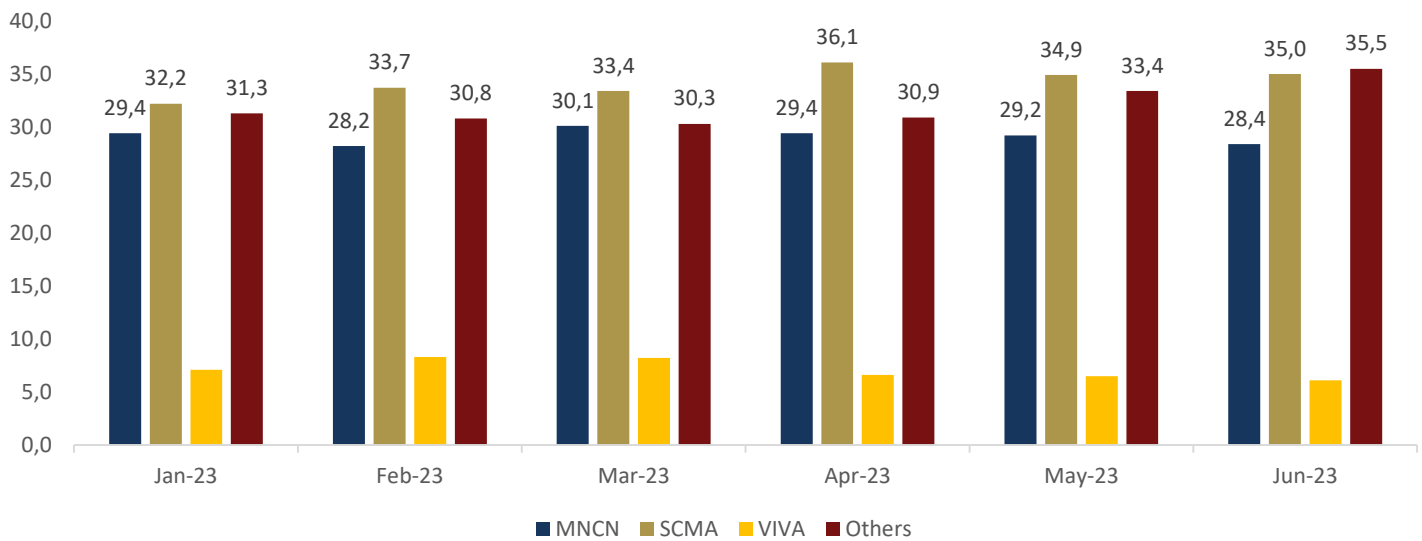
Source: Nielsen, SSI research

**Figure 5. YTD Prime Time Audience Shares (Restated including ASO/Digital FTA)**



Source: Nielsen, SSI research

**Figure 6. YTD Non-Prime Time Audience Shares (Restated including ASO/Digital FTA)**



Source: Nielsen, SSI research

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