

Electronic City Indonesia

Sector: Consumer discretionary (Neutral)

NOT RATED

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PX: IDR2,950
JCI: 4,276

Company visit notes: Electric but expensive relative to peers

- Indonesia's largest electronic retail store by end 2014:** Established in 2001, Electronic City Indonesia (ECII) is Indonesia's largest electronic products modern retailer, owned and founded by Ingrid Pribadi. Backed by 8 warehouses (6 in Java), ECII has 2 different store concepts: Electronic City stores (above 700m²; aimed at middle and upper class customers) and Electronic City outlets (300-700m²; aiming at entry level customers). ECII has a diversified product range in its line-up, including audio video (55.2% of 9M13 revenue), home appliances (27.6%), mobile devices & gadgets (11.6%) and IT & office equipment (5.6%).
- Future growth support from innovation and partners:** Post IPO, ECII has added 9 outlets, bringing ytd total number of stores to 50 (34 EC stores and 16 EC Outlets), of which 80% are in Java. With another 3 new store openings planned by end 2013, ECII's footprint would surpass that of its competitors: Electronic Solution (50 stores) and Best Denki (18 stores). With a total of 51k m² gross selling area, ECII sells a variety of renowned electronic brands (e.g. Samsung, LG, Sony) and partners with property developers, various banks and finance companies. Note that ECII was the first to implement interest-free credit card installment in Indonesia.
- Higher margin on labor-cost sharing and improved trading terms:** On the operating cost front, salaries (34%) and rentals (21%) were the largest contributors in 9M13. With another 19.8% minimum wage hike set by the Government for 2014, management believes that labor costs will have minimal impact on ECII's earnings as its brand partners are responsible for providing 60% of the total number of store workers, amounting to some 20% of total opex. Additionally, ECII has managed to renegotiate trading terms (ie, bigger discounts and longer payable days) with its brand partners resulting in higher gross margins, from 11.7% in 2011 to 19.2% in 9M13. This improvement has been helped, in part, by ECII having its brand partners cover some of the marketing costs in the form of fixed promotions and discounts.

Outlook & valuation: Not without risks; 27x 2013F PE above peers

In 2014-15, ECII plans to add 20 outlets per year, bringing total store count to 93. With a focus on new openings outside of Java, EC stores would comprise 65% of total, and leased outlets 90% of total. Per management, the expansion would cost around IDR7m/m² (for stand-alone stores), IDR3.5-4m/m² (EC stores) and IDR2.5-3.2m/m² (EC outlets). ECII's net cash position was helped by its IPO and provides support for future expansion and working capital needs. Given the rapid pace of store expansion, ECII is not immune to margin pressure from store cannibalization, while plans to expand outside of Java could increase transportation costs. ECII currently trades at a 2013F PE of 27x (annualizing 9M13 EPS), a 5% premium to Indonesia's consumer discretionary sector and 6% premium to regional peers. ECII's share price has underperformed the JCI by ~3% in the past three months (exhibit 4).

Exhibit 1. Company information

Market cap (IDRb/USDm)	: 3,936/329
3M avg.daily t.o.(IDRb/USDm)	: 2.0/0.2
Bloomberg code	: ECII JJ

Exhibit 2. Shareholders information

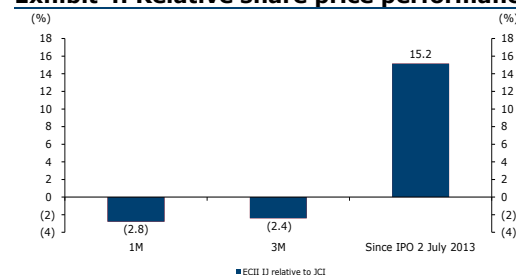
Graha Surya Kirana (%)	: 25.6
Andi Bharata Winata (%)	: 23.1
Graha Berkat Kirana (%)	: 13.8
Ridwan Pribadi (%)	: 12.5
Est. free float (%)	: 25.0

Exhibit 3. Key forecasts and valuations

Year to 31 Dec	2010	2011	2012	9M13
Revenue (IDRb)	826	1,162	1,431	1,357
EBIT (IDRb)	10	26	147	106
Net profit (IDRb)	7	25	125	96
EPS (IDR)	7	25	125	109*
EPS growth (%)	-	271.8	398.8	(34.5)
EV/EBITDA (x)	177.6	88.1	18.9	25.6
PER (x)	437.7	117.7	23.6	27.0*
FCFPS (IDR)	57	46	(108)	(332)
FCF yield (%)	1.9	1.5	(3.7)	(11.3)
BVPS (IDR)	23	48	225	1,345
PBV (x)	130.0	61.6	13.1	2.2
DPS (IDR)	-	-	-	-
Yield (%)	-	-	-	-
ROAA (%)	3.4	11.0	34.5	8.1
ROAE (%)	19.1	71.0	91.5	10.6
EBIT margin (%)	1.3	2.2	10.3	7.8
Net gearing (%)	nc	nc	nc	nc

Source: Company *9M13 earnings annualized
Pricing as of close on 10 December 2013

Exhibit 4. Relative share price performance



Source: Bloomberg

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Electronic City Indonesia

Year to 31 December **2010** **2011** **2012** **9M13**

PROFIT & LOSS (IDRb)

Sales	826	1,162	1,431	1,357
Gross profit	105	136	276	261
EBITDA	16	33	155	119
Depreciation	6	6	8	13
EBIT	10	26	147	106
Net interest inc./ (expense)	(3)	2	1	2
Forex gain/(losses)	-	-	-	-
Other income/(expense)	1	0	(0)	1
Pre-tax profit	8	28	147	109
Taxes	2	3	22	13
Minority interest	(0)	0	0	0
Extraordinary gain/(losses)	-	-	-	-
Net profit	7	25	125	96

Annualized 2013 sales growth of 26% y-y on the back of rapid new store openings

BALANCE SHEET (IDRb)

Cash and equivalents	57	94	86	949
Trade receivables	4	8	9	14
Inventories	76	86	165	334
Fixed assets	17	47	117	349
Other assets	45	19	90	256
Total assets	199	256	469	1,903
Interest bearing liabilities	21	14	55	48
Trade payables	119	159	136	234
Other liabilities	37	34	52	51
Total liabilities	176	208	243	333
Minority interest	0	0	0	0
Shareholders' equity	23	48	225	1,570

Cash levels boosted by recent IPO ...

CASH FLOW (IDRb)

EBIT	10	26	147	106
Depreciation	6	6	8	13
Working capital	65	26	(104)	(75)
Other operating items	(18)	17	(83)	(187)
Operating cash flow	63	76	(32)	(143)
Net capital expenditure	(6)	(31)	(76)	(244)
Free cash flow	57	46	(108)	(387)
Equity raised/(bought)	-	-	78	1,249
Net borrowings	(22)	(7)	41	(7)
Other financing	(0)	(1)	59	1,257
Net cash flow	35	37	(8)	863
Cash flow at beginning	22	57	94	86
Ending cash flow	57	94	86	949

... to finance future store expansion ...

RATIOS

ROAE (%)	19.1	71.0	91.5	10.6
ROAA (%)	3.4	11.0	34.5	8.1
EBITDA margin (%)	2.0	2.8	10.8	8.7
EBIT margin (%)	1.3	2.2	10.3	7.8
Net margin (%)	0.8	2.2	8.7	7.0
Payout ratio (%)	-	-	-	-
Current ratio (x)	1.1	1.1	1.8	5.8
Interest coverage (x)	3.3	na	na	na
Net gearing (%)	nc	nc	nc	nc
Debts to assets (%)	10	5	12	3
Debtor turnover (days)	2	2	2	4
Creditor turnover (days)	60	57	43	78
Inventory turnover (days)	10	12	7	3

... while maintaining net cash position

Source: Company

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