

17 September 2020

Consumer Cyclical | Retailing

Metrodata Electronics (MTDL IJ)

Not Rated

Riding The Digitalisation Wave

Target Price (Return): N/A
Price: IDR1,665
Market Cap: USD275m
Avg Daily Turnover (IDR/USD) 3,137m/0.21m

- **Conference call KTA with CEO and CFO.** We recently hosted a virtual conference call with Metrodata Electronics' management on business updates and its outlook amidst uncertain COVID-19 conditions. 3Q20 margins will likely grow, given lower price competition in low-end hardware, while revenue growth is still driven by IT solutions (1H20: +13% YoY). Increasing recurring contribution from IT solutions revenue (2019: 40% vs 2017: 25%) provides better performance visibility. Other catalysts: Industry 4.0 and growing fintech and e-commerce start-ups.
- **Resilient business during pandemic.** Management targets flat 2020F revenue growth, but is more optimistic on the bottomline due to higher revenue contributions from IT solutions and lower price competition in low-end products under the distribution segment. In 1H20, MTDL recorded IDR6.2trn in revenue (+0.8% YoY) and IDR156bn (+2.3% YoY) PATMI. The IT solutions and consulting segment continued to show better growth QTD, although distribution has started to see some recovery. The stay-at-home policy has also supported revenue growth, with sales support stemming from new laptop purchases and remote services.
- **Growth catalysts: Industry 4.0 and subscription-based licences.** A competitive business landscape has driven industries to increase production efficiency through implementing/improving business applications (ie SAP and Oracle). Post the initial application sale, MTDL also receives recurring revenue pa for maintenance amounting to c.20% of the initial investment. The increase in sales of subscription-based software licences (ie Microsoft Azure, Office 365) also boosted recurring revenue. Over the past two years, recurring revenue contribution from IT solutions has grown more than 15ppts to 40%.
- **Niche business model.** MTDL has two business segments: Distribution (72% of revenue, 51% of GP), and IT solutions and consulting (28% of revenue, 49% of GP). MTDL's key competitive advantages are economies of scale and bargaining power relative to vendors, as it provides one-stop solutions for B2B customers, with c.4,000 partners and 1,800 dealers – the most in Indonesia. This enables it to provide end-to-end IT solutions at competitive pricing. The dealers distribute products through offline and online resellers, so there is no direct competition in e-commerce.
- **Strong balance sheet and cashflow, attractive valuation.** All retailers under our coverage are struggling with both cash flow and gearing, due to the lockdown. We notice that MTDL is in a net cash position, and had positive operating cash flow of IDR800bn in 1H20. It currently trades at 10.1x annualised 2020F P/E, which is at a 24% discount to the regional peer average – one of the cheapest in the region.

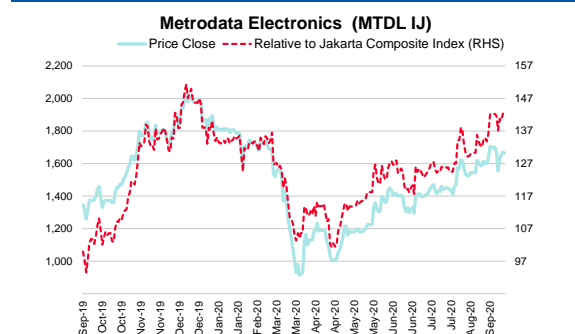
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(11.0)	9.2	18.9	45.4	22.9
Relative	8.0	12.0	16.6	36.7	40.9
52-wk Price low/high (IDR)				915 – 2,030	



Source: Bloomberg

Forecasts and Valuation	Dec-16	Dec-17	Dec-18	Dec-19
Total turnover (IDRb)	10,048	10,817	12,713	15,070
Recurring net profit (IDRb)	221	247	288	357
Recurring net profit growth (%)	(2.6)	12.1	16.4	24.0
Recurring P/E (x)	18.53	16.52	14.19	11.45
P/B (x)	3.1	2.7	2.3	1.9
P/CF (x)	6.13	na	38.70	2,138.20
Dividend Yield (%)	1.5	1.5	0.6	1.5
EV/EBITDA (x)	9.00	8.72	7.08	6.22
Return on average equity (%)	11.9	17.5	17.3	18.3
Net debt to equity (%)	net cash	net cash	net cash	net cash

Source: Company data, RHB

Note:

Small cap stocks are defined as companies with a market capitalization of less than USD1bn.

Financial Exhibits

Asia	Financial summary (IDR)	Dec-16	Dec-17	Dec-18	Dec-19
Indonesia	Recurring EPS	89.87	100.76	117.31	145.42
Consumer Cyclical	DPS	24.53	25.32	10.00	25.00
Metrodata Electronics	BVPS	529.67	621.96	734.93	854.79
MTDL IJ	Return on average equity (%)	11.9	17.5	17.3	18.3
Not Rated					
	Valuation metrics	Dec-16	Dec-17	Dec-18	Dec-19
Valuation basis	Recurring P/E (x)	18.53	16.52	14.19	11.45
N/A	P/B (x)	3.1	2.7	2.3	1.9
	FCF Yield (%)	14.4	(3.3)	(0.0)	(0.1)
Key drivers	Dividend Yield (%)	1.5	1.5	0.6	1.5
i. Industry 4.0;	EV/EBITDA (x)	9.00	8.72	7.08	6.22
ii. Active expansion of its business line;	EV/EBIT (x)	9.27	9.07	7.31	6.19
Key risks	Income statement (IDRb)	Dec-16	Dec-17	Dec-18	Dec-19
i. Soft purchasing power environment;	Total turnover	10,048	10,817	12,713	15,070
ii. Supply disruption on hardware products.	Gross profit	806	851	1,008	1,209
	EBITDA	456	483	594	702
Company Profile	Depreciation and amortisation	(13)	(18)	(19)	3
Metrodata Electronics sells and maintain certain types of computers and other high-technology products related to computers, as well as provides before- and after-sales services. Through its subsidiaries, the company also provides information technology solutions and Internet services.	Operating profit	443	465	576	705
	Net interest	(34)	(9)	(7)	9
	Pre-tax profit	429	468	579	717
	Taxation	(106)	(94)	(153)	(182)
	Reported net profit	221	247	288	357
	Recurring net profit	221	247	288	357
	Cash flow (IDRb)	Dec-16	Dec-17	Dec-18	Dec-19
	Change in working capital	433	(326)	(240)	(397)
	Cash flow from operations	667	(84)	106	2
	Capex	(79)	(52)	(107)	(5)
	Cash flow from investing activities	(147)	(48)	(8)	(25)
	Cash flow from financing activities	(337)	123	61	99
	Cash at beginning of period	349	531	522	681
	Net change in cash	182	(9)	160	76
	Ending balance cash	531	522	681	758
	Balance sheet (IDRb)	Dec-16	Dec-17	Dec-18	Dec-19
	Total cash and equivalents	531	522	681	758
	Tangible fixed assets	170	204	292	300
	Total investments	40	69	76	62
	Total assets	3,876	4,271	4,853	5,625
	Short-term debt	13	33	69	155
	Total long-term debt	22	10	11	0
	Total liabilities	2,027	2,069	2,253	2,582
	Total equity	1,849	2,202	2,600	3,043
	Total liabilities & equity	3,876	4,271	4,853	5,625
	Key metrics	Dec-16	Dec-17	Dec-18	Dec-19
	Revenue growth (%)	0.9	7.7	17.5	18.5
	Recurrent EPS growth (%)	10.8	12.1	16.4	24.0
	Gross margin (%)	8.0	7.9	7.9	8.0
	Operating EBITDA margin (%)	4.5	4.5	4.7	4.7
	Net profit margin (%)	2.2	2.3	2.3	2.4
	Dividend payout ratio (%)	27.3	25.1	8.5	17.2
	Capex/sales (%)	0.8	0.5	0.8	0.0
	Interest cover (x)	10.2	26.4	30.0	74.7

Source: Company data, RHB

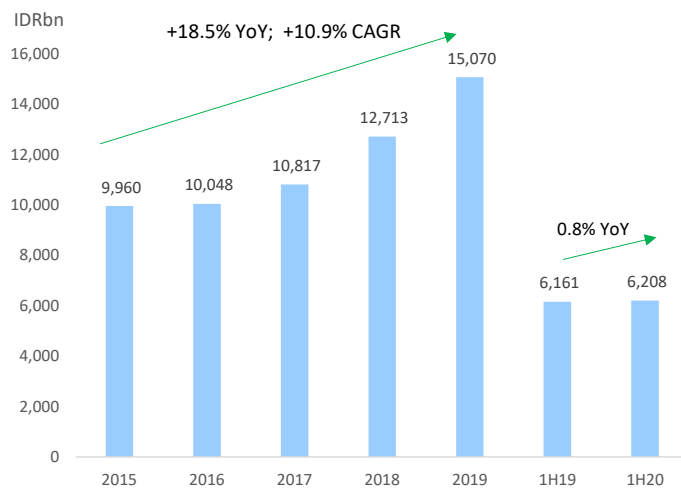
A glance at MTDL

MTDL was established in 1983 and has three main business lines:

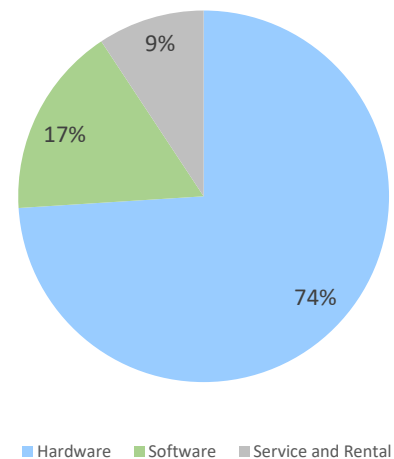
- Distribution business under Synnex Metrodata Indonesia (SMI), where the company delivers hardware and ICT products across the country;
- Solution business under Mitra Integrasi Informatika (MII) which provides complete ICT solutions;
- Consulting business under Soltus Indonesia, which offers innovative business solutions (ie SAP).

Figure 1: MTDL's historical revenue

Figure 2: MTDL's 1H20 revenue composition



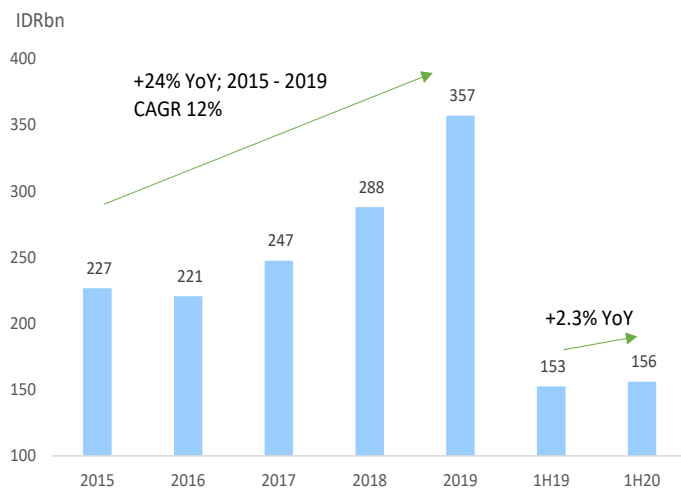
Source: Company data, RHB



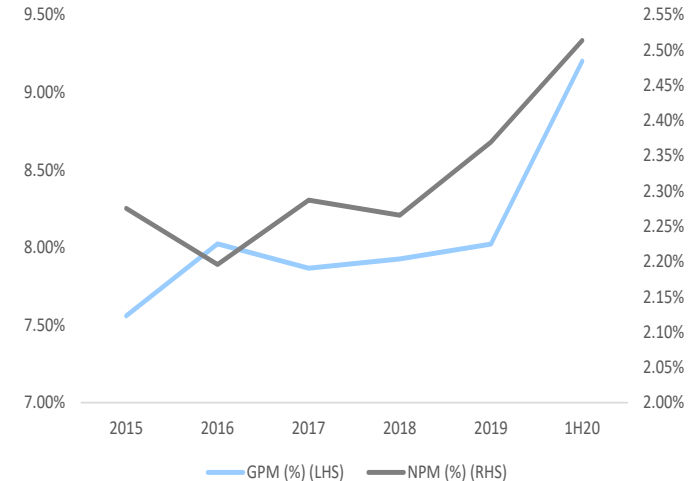
Source: Company data, RHB

Figure 3: MTDL's historical PATMI

Figure 4: MTDL's historical margin

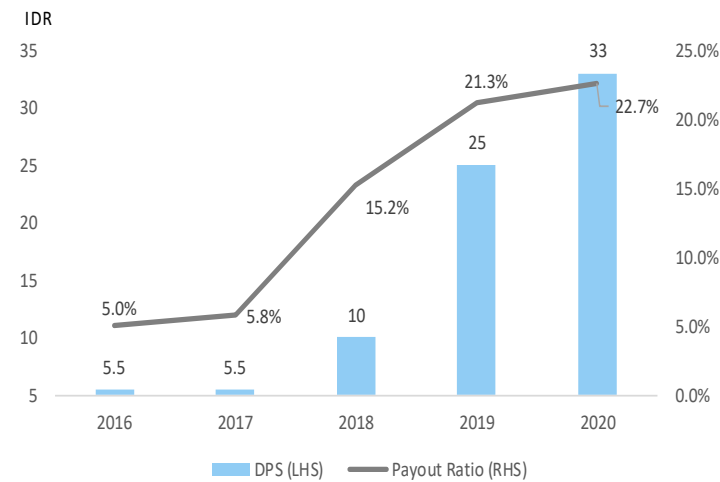


Source: Company data, RHB



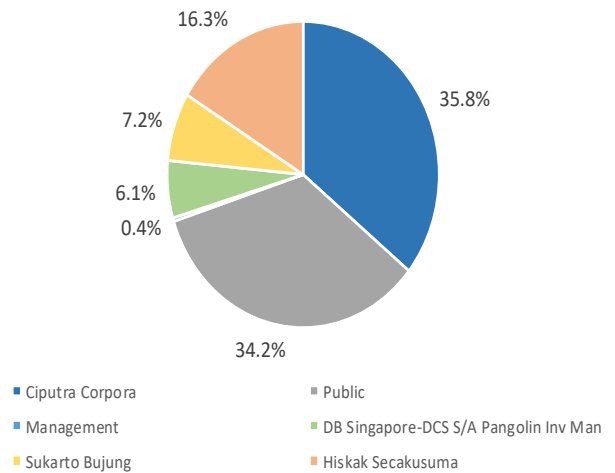
Source: Company data, RHB

Figure 5: MTDL's historical dividend



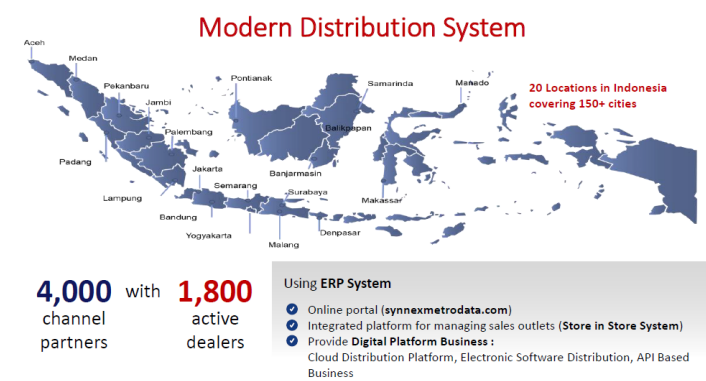
Source: Company Data, RHB

Figure 6: MTDL's shareholding structure



Source: Company Data, RHB

Figure 7: MTDL's distribution channels



Source: Company

Figure 8: MTDL's solution business customers



Source: Company

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2019-09-23	Not Rated	na	1,375

Source: RHB, Bloomberg

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