

# GoTo Gojek Tokopedia (GOTO IJ)

## Will TikTok become a partner?

### New regulation: TikTok will need e-commerce license

In late Sep, Indonesia's government effectively banned social media platforms from direct overseas imports (positive list, minimum USD100) and vertical integration of their social media and e-commerce platforms (TikTok Shop is banned unless it gets an e-commerce license). The question is how will TikTok adapt to the new regulations.

### Five key points of the new e-commerce regulations

The five key points of new e-commerce regulation (No.31/2023) are: 1) e-commerce and social media must be on different platforms; 2) a positive list for imported products and a minimum value of USD100; 3) all products (including imported products) must comply with Indonesia's product standardization (SNI) criteria and must state the country of origin. Products must also comply with halal regulations, especially for halal food and beverages. 4) e-commerce operators are not allowed to sell their brands/products unless in partnership with SMEs (Small Medium Enterprise) and must state the producers' name; 5) Cross-border e-commerce operators must establish a representative office in Indonesia.

### Will #Tiktokcomebackstronger?

TikTok only has one week to shut its live shopping features and is complying (TikTok Shop closed 4 Oct 2023). We believe TikTok will continue to expand its e-commerce business, as Indonesia is a lucrative market. We think there are three strategies TikTok can implement: 1) collaborate with existing players via an API; 2) establish an e-commerce platform; 3) acquire existing players. Local media is speculating that TikTok Shop will return to Indonesia on 10 Nov 2023 (Indonesia's Hero Day).

### We think GOTO could be an ideal partner for TikTok

We think the fastest way for TikTok Shop to return to operation is via a partnership with an existing player. We suggest three essential requirements to be TikTok's partner: 1) Have an integrated ecosystem (logistics, digital payments); 2) A massive user base in Indonesia; 3) Deep understanding of local markets. Assuming a partnership model, we believe GOTO is a prime candidate. We retain our BUY on GOTO with a TP of IDR153. Risk to our thesis is TikTok sets up its own e-commerce company.

FYE Dec (IDR b)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	4,536	11,349	17,361	25,039	30,502
EBITDA	(19,968)	(27,417)	(12,302)	(6,701)	(735)
Core net profit	(21,215)	(28,121)	(14,673)	(9,340)	(3,611)
Core EPS (IDR)	(18)	(27)	(14)	(9)	(3)
Core EPS growth (%)	na	nm	nm	nm	nm
Net DPS (IDR)	0	0	0	0	0
Core P/E (x)	na	nm	nm	nm	nm
P/BV (x)	na	0.8	0.6	0.6	0.6
Net dividend yield (%)	na	0.0	0.0	0.0	0.0
ROAA (%)	na	(19.1)	(10.7)	(7.0)	(2.7)
EV/EBITDA (x)	nm	nm	nm	nm	nm
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	(12,971)	(7,127)	(1,319)
MIBG vs. Consensus (%)	-	-	(13.1)	(31.1)	(173.7)

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# BUY

Share Price	IDR 66
12m Price Target	IDR 153 (+132%)
Previous Price Target	IDR 153

### Company Description

GOTO provides online ride-hailing and food delivery (GoJek), digital financial services (e-wallet/GoPay), and a C2C e-commerce platform (Tokopedia)

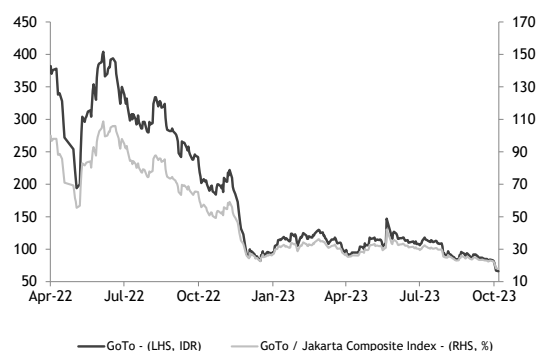
### Statistics

52w high/low (IDR)	222/66
3m avg turnover (USDm)	15.6
Free float (%)	68.6
Issued shares (m)	1,056,363
Market capitalisation	IDR69.7T
	USD4.4B

### Major shareholders:

Alibaba Group Holding Ltd.	8.8%
SVF GT Subco (Singapore) Pte Ltd.	8.7%
Goto Peopleverse Fund	7.6%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(28)	(42)	(67)
Relative to index (%)	(27)	(42)	(68)

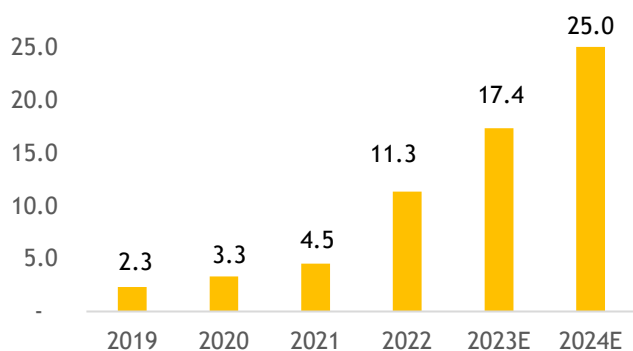
Source: FactSet

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Tear Sheet Insert

## Value Proposition

- GOTO is the most integrated digital service provider in Indonesia, offering on-demand services (food delivery: GoFood, online ride-hailing: GoCar and GoJek), e-commerce (C2C: Tokopedia), and digital financial services (e-wallet: GoPay, digital bank: Bank Jago).
- GOTO is in a high-growth phase, fuelled by aggressive marketing and promotions.
- We think the digital economy in Indonesia is heading towards consolidation with two leading players, GOTO and Grab. We believe GOTO will become the leader in on-demand services (competing with Grab) and in the C2C marketplace (competing with Shopee).

### GOTO revenue trend (IDRt)

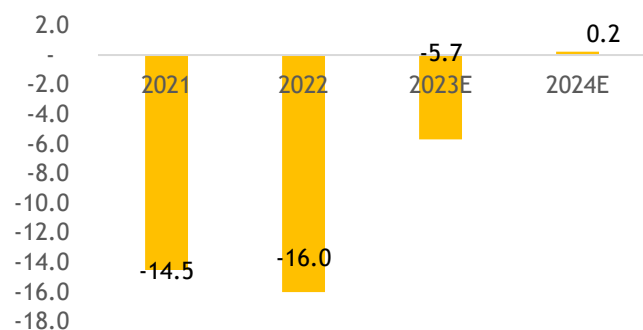


Source: Company

## Financial Metrics

- GTV and the net-take rate (i.e. fees) are critical for measuring the outlook for GOTO.
- Marketing and promotions are necessary expenses. Therefore, monitoring the marketing expense-to-GTV ratio is also important.
- We think adjusted EBITDA margin is also an important metric to track the path towards profitability.
- Cash balance is important for monitoring its run rate, as the company is still making an operating loss.

### Adjusted EBITDA (IDRt)



Source: Company

## Price Drivers

### Historical share price trend



Source: Company, Maybank IBG Research

- Sector de-rating and concerns about when it will become profitable and the sustainability of the business.
- Management plans to improve efficiency and targets.
- GOTO achieves a contribution margin in 1Q23. Contribution margin is calculated beginning with net revenue and deducting total cost of revenue, a portion of sales and marketing expenses related to promotional expense and product marketing, and other insignificant expenses.

## Swing Factors

### Upside

- Higher GTV, take-up rate, and revenue growth, driven by rising income per capita.
- Efficiency in discounts and promotions can lead to a better profit outlook.
- The US Fed pivoting to a lower interest rate environment could spur a sector re-rating.

### Downside

- Steeper-than-expected promotions to retain market share.
- Slower-than-expected growth as price normalization may affect GTV growth and GOTO's ability to improve take-up rate and revenue.
- The company is still in the red. However, we forecast adjusted EBITDA to turn positive by FY24E.
- High inflation could accelerate pace of interest rate hikes and may lead to sector de-rating.

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Risk Rating & Score <sup>1</sup>	21.1 (Medium Risk)
Score Momentum <sup>2</sup>	-0.0/+0.0
Last Updated	26 September 2022
Controversy Score <sup>3</sup>	0 - No evidence of controversies

## Business Model & Industry Issues

- GOTO is a leading tech-enabled consumer-facing company in Indonesia, with the most integrated ecosystem, ranging from on-demand services of food delivery (GoFood) to online ride-hailing (GoCar - four-wheeler, and GoRide - two-wheeler). In addition, it owns Indonesia's leading C2C marketplace (Tokopedia) and e-wallet (Go-Pay) under digital financial services. GOTO also owns 21.4% of a digital bank (Bank Jago, ARTO IJ).
- We think operating loss is a structural risk for GOTO IJ, caused by its high discount and marketing expenses. We believe the industry is still in the growth stage, with intense competition. But we expect no significant contenders in the near term due to the high initial investment required (i.e. customer acquisition costs).
- We think with the current burn rate, the company can still operate until FY24E before needing to raise new capital (explained in the IPO prospectus). However, we believe marketing rationalization and efficiency can prolong the operation.
- We believe revenue multiple is the proper method for valuing this counter, as the company is still at an operating loss. We project positive adjusted EBITDA margin is imminent, possibly in FY24E.

## Material E issues

- GOTO indirectly produces plastic waste from merchants' packaging.
- GOTO produced 335,089 MT of waste in FY22, 64,534 MT of which came from GoFood (19.3% waste) and 268,891 MT from Tokopedia's merchants (80.2% of waste).
- The company produced 1,508 tCO<sub>2</sub>e in scope 1, 9,946 tCO<sub>2</sub>e in scope 2, and 965,497 tCO<sub>2</sub>e in scope 3 in FY22.
- GOTO targets zero carbon emission, zero waste, and zero barriers by 2030.  
GOTO started its electric vehicle pilot project in 2021 with 500 electric motorcycles and targets 100% EVs by 2030.

## Material S issues

- GOTO makes a significant social impact in Indonesia, as it provides job opportunities for workers (as driver partners) and SMEs in digital commerce (Go-Food and Tokopedia).
- It had 2.7m drivers and 17.7m sellers in FY22, and GOTO's ecosystem GTV was equal to 1.8-2.2% of Indonesia's GDP.
- GOTO trained 3,100 SMEs to be adaptable to the digital economy in FY22.  
The company employed 3,375 women, equal to 35.6% of permanent employees in FY22.

## Key G metrics and issues

- GOTO has nine members on the Board of Commissioners and seven on the Board of Directors in 2022. In addition, the company has an audit committee and internal audit. Three directors are women in 2022 (43% of the BOD).
- Compensation for the key management in FY22 was IDR4.95t, of which IDR4.92t (99%) was in shares. Short-term employee benefits were IDR37.7b, equal to 0.3% of revenue. Total compensation (including shares-based compensation) was equal to 43.6% of revenue.
- EY was the auditor for GOTO in FY22.
- GOTO has multiple voting rights. Each series B share has 30 voting rights. For example, the multiple voting shares holders own a 6.08% stake but had 58.3% voting rights in FY22.
- GOTO improves privacy and safety by hiding customers' and drivers' phone number.

<sup>1</sup>**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <sup>2</sup>**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. <sup>3</sup>**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

## 1. New e-commerce regulation is protective

The Indonesian government on 26 Sep 2023 introduced new regulations for e-commerce, Peraturan Menteri Perdagangan/ Permendag (Ministry of Commerce Regulations) no. 31/2023, to revise previous regulations, Permendag no. 50/2020. Key points of the regulations are:

1. e-commerce and social media must be on different platforms.
2. a positive list for imported products and a minimum value of USD100.
3. all products (including imported products) must comply with Indonesia's product standardization (SNI) criteria and must state its origin country. Products must also comply with halal regulations, especially for halal food and beverages.
4. e-commerce operators not allowed to sell their brands/products unless in partnership with SMEs (Small Medium Enterprise) but must state the producers' name.
5. Cross-border e-commerce operators must establish a representative office in Indonesia.

We believe predatory pricing and competition fairness are the government's primary concerns, as shipping costs from China can be more competitive than local delivery, while imported products can be cheaper than local market prices.

The new e-commerce regulations will positively impact the industry, especially in the customer-to-customer (C2C) marketplace. The new regulations will protect local sellers from directly competing with sellers from mainland China, as e-commerce platforms can no longer import from overseas, including Shopee Indonesia (subsidiary of SEA).

### 1.1 Tokopedia main beneficiary, in our view.

We view Tokopedia, a GOTO subsidiary, as potentially a prime beneficiary of the new regulations as it has no direct imports from China and limited exposure to live shopping (social media).

In addition, we believe Shopee Indonesia is also benefiting from this regulation as it no longer needs to compete with TikTok's live streaming, which is gaining market share in Indonesia.

However, Shopee Indonesia is only slightly impacted by the regulation as it previously facilitated direct imports from China. Post regulations, consumers won't buy products from mainland China directly on Shopee.co.id.

The question is; how will TikTok adapt to the new regulations.

## 2. Will #Tiktokcomebackstronger?

The new regulation was published on 26 Sep 2023, and TikTok only has one week to shut its live shopping features (TikTok Shop closed 4 Oct 2023). TikTok is complying with the regulation and has already shutdown its live shopping.

However, we believe TikTok will continue expanding its e-commerce business, as Indonesia is a lucrative market. We see three potential strategies that TikTok could implement:

1. **Collaborate** with existing players via an API (Application Programming Interface). Collaboration can be done through business agreements or, to a greater extent, via joint ventures. We believe the host-to-host API connection can be as seamless as TikTok's 'Yellow Cart' experience.
2. **Establish its e-commerce platform.** TikTok could develop its e-commerce platform. However, this can take time, especially to obtain the permits to operate as an e-commerce platform. There are regulatory risks, mainly as vertical integration (social media, e-commerce, digital payments) could breach the anti-monopolistic law.
3. **Acquire existing e-commerce company.** TikTok could also acquire an e-commerce license from an existing company. The e-commerce industry in Indonesia will need consolidation to remain competitive, while we think it is also a case of survival of the fittest, as TikTok is aiming for profitability.
4. Several big names, such as Rakuten.com and JD.ID have exited the Indonesian market. Meanwhile, Momentum Works is reporting that Alibaba is restructuring Lazada.
5. Local media is speculating that TikTok Shop will return to Indonesia on 10 November 2023 (Indonesia's Hero Day). However, the Ministry of Trade stated that TikTok will need e-commerce licenses to continue its operation, and the government is willing to facilitate the permit process.

### 3. Can GOTO be Tiktok's partner?

The fastest way for TikTok Shop to return to operation would be through a partnership with existing players. The partners could set up a host-to-host API connection to create a similar experience to Tiktok's existing 'Yellow Cart', which we believe is possible with current technology.

Hence, the next question is, who would be the most prominent candidate to be Tiktok's partner?

We theorise three essential requirements to be Tiktok's partner:

1. Possess an integrated ecosystem, specifically for logistics and digital payments.
2. Possess a massive user base in Indonesia.
3. Deep understanding of the local market. An Indonesian-based company with a domestic focus would be a plus, as they tend to have good relations with the regulators.

**Fig 1: Comparison of products and services in Indonesia**

Floor (IDR)	GOTO IJ	BELI IJ	BUKA IJ	TikTok	Shopee Indonesia	Lazada Indonesia
Transportation	✓	-	-	-	-	-
Food delivery	✓	-	-	-	✓	-
Logistics	✓	✓	-	-	✓	✓
E-commerce	✓	✓	✓	Ceased operation to comply with new regulation	✓	✓
Digital Payments	✓	-	-	-	✓	✓
Entertainment	-	-	-	✓	-	-
Groceries	✓	✓	-	-	✓	-
Travel	-	✓	-	-	-	-

Source: Maybank IBG Research

We think that Tiktok Shop will return to Indonesia, but we do not know the exact timeline and in what form it will return, or whether it will set up its own e-commerce company or a partnership with an existing e-commerce platform.

Assuming a partnership model, we believe GOTO is the strongest candidate to be Tiktok's partner in Indonesia as GOTO is the most integrated e-commerce platform in Indonesia, with an Indonesian focus. We retain our BUY call on GOTO IJ with a TP of IDR153.

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Metrics</b>					
P/E (reported) (x)	na	nm	nm	nm	nm
Core P/E (x)	na	nm	nm	nm	nm
P/BV (x)	na	0.8	0.6	0.6	0.6
P/NTA (x)	na	0.8	0.6	0.6	0.6
Net dividend yield (%)	na	0.0	0.0	0.0	0.0
FCF yield (%)	na	nm	nm	1.2	5.0
EV/EBITDA (x)	nm	nm	nm	nm	nm
EV/EBIT (x)	nm	nm	nm	nm	nm

**INCOME STATEMENT (IDR b)**

Revenue	4,535.8	11,349.2	17,360.7	25,039.1	30,502.3
EBITDA	(19,967.7)	(27,416.7)	(12,301.6)	(6,701.3)	(735.0)
Depreciation	(2,417.0)	(2,912.9)	(3,030.0)	(3,146.2)	(3,275.8)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	(22,384.7)	(30,329.6)	(15,331.6)	(9,847.6)	(4,010.8)
Net interest income /(exp)	59.7	384.8	226.2	289.5	326.9
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	113.7	(10,599.8)	0.0	0.0	0.0
Pretax profit	(22,211.3)	(40,544.6)	(15,105.4)	(9,558.1)	(3,683.9)
Income tax	(217.9)	136.1	278.2	123.3	33.1
Minorities	(1,038.3)	(837.3)	(153.9)	(94.3)	(40.2)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	(21,390.9)	(39,571.2)	(14,673.2)	(9,340.4)	(3,610.7)
Core net profit	(21,215.3)	(28,121.1)	(14,673.2)	(9,340.4)	(3,610.7)

**BALANCE SHEET (IDR b)**

Cash & Short Term Investments	31,150.9	29,009.2	25,189.4	26,460.7	30,339.4
Accounts receivable	2,937.1	2,460.8	2,510.0	2,761.0	3,037.1
Inventory	34.5	71.2	71.2	79.8	87.8
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	1,470.3	1,457.3	1,552.4	1,579.5	1,549.6
Intangible assets	106,426.9	93,069.0	90,683.0	88,359.7	85,991.3
Investment in Associates & JVs	6,137.4	4,151.6	4,359.0	4,489.8	4,624.5
Other assets	6,980.0	8,997.4	9,664.1	10,064.9	10,476.7
<b>Total assets</b>	<b>155,137.0</b>	<b>139,216.6</b>	<b>134,029.2</b>	<b>133,795.4</b>	<b>136,106.3</b>
ST interest bearing debt	1,605.7	616.0	1,000.0	1,100.0	1,155.0
Accounts payable	5,545.7	6,950.9	6,710.2	7,381.3	8,119.4
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	776.3	1,826.3	2,008.9	2,209.8	2,320.3
Other liabilities	8,185.0	7,100.0	9,218.0	10,015.0	10,886.0
<b>Total Liabilities</b>	<b>16,112.6</b>	<b>16,493.2</b>	<b>18,937.5</b>	<b>20,706.4</b>	<b>22,480.6</b>
Shareholders Equity	140,316.7	124,921.1	117,399.3	115,512.0	116,169.9
Minority Interest	(1,292.2)	(2,197.8)	(2,307.6)	(2,423.0)	(2,544.2)
<b>Total shareholder equity</b>	<b>139,024.4</b>	<b>122,723.3</b>	<b>115,091.7</b>	<b>113,089.0</b>	<b>113,625.7</b>
<b>Total liabilities and equity</b>	<b>155,137.0</b>	<b>139,216.6</b>	<b>134,029.2</b>	<b>133,795.4</b>	<b>136,106.3</b>

**CASH FLOW (IDR b)**

Pretax profit	(22,211.3)	(40,544.6)	(15,105.4)	(9,558.1)	(3,683.9)
Depreciation & amortisation	2,417.0	2,912.9	3,030.0	3,146.2	3,275.8
Adj net interest (income)/exp	(59.7)	(384.8)	(226.2)	(289.5)	(326.9)
Change in working capital	1,479.5	1,844.8	(289.9)	411.5	454.0
Cash taxes paid	(217.9)	136.1	278.2	123.3	33.1
Other operating cash flow	3,910.2	16,745.3	7,098.1	7,453.0	4,268.6
Cash flow from operations	(7,794.9)	(20,834.7)	(3,877.9)	1,672.9	4,377.8
Capex	(1,137.7)	(452.1)	(700.0)	(850.0)	(877.5)
Free cash flow	(8,932.6)	(21,286.9)	(4,577.9)	822.9	3,500.3
Dividends paid	0.0	0.0	0.0	0.0	0.0
Equity raised / (purchased)	162,571.4	17,827.1	0.0	0.0	0.0
Change in Debt	(228.3)	445.1	792.8	590.4	492.4
Other invest/financing cash flow	(137,579.0)	873.0	(34.7)	(142.1)	(114.1)
<b>Net cash flow</b>	<b>15,831.6</b>	<b>(2,141.7)</b>	<b>(3,819.7)</b>	<b>1,271.3</b>	<b>3,878.7</b>

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	na	150.2	53.0	44.2	21.8
EBITDA growth	na	nm	nm	nm	nm
EBIT growth	na	nm	nm	nm	nm
Pretax growth	na	nm	nm	nm	nm
Reported net profit growth	na	nm	nm	nm	nm
Core net profit growth	na	nm	nm	nm	nm
<b>Profitability ratios (%)</b>					
EBITDA margin	nm	nm	nm	nm	nm
EBIT margin	nm	nm	nm	nm	nm
Pretax profit margin	nm	nm	nm	nm	nm
Payout ratio	0.0	0.0	0.0	0.0	0.0
<b>DuPont analysis</b>					
Net profit margin (%)	nm	nm	nm	nm	nm
Revenue/Assets (x)	0.0	0.1	0.1	0.2	0.2
Assets/Equity (x)	1.1	1.1	1.1	1.2	1.2
ROAE (%)	na	na	na	na	na
ROAA (%)	na	(19.1)	(10.7)	(7.0)	(2.7)
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	na	(321.4)	(375.4)	(315.5)	(303.8)
Days receivable outstanding	na	85.6	51.5	37.9	34.2
Days inventory outstanding	na	3.5	4.5	3.8	3.7
Days payables outstanding	na	410.5	431.5	357.2	341.7
Dividend cover (x)	nm	nm	nm	nm	nm
Current ratio (x)	2.9	2.8	2.2	2.1	2.2
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	9.6	8.4	7.1	6.5	6.1
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	nm	78.8	67.8	34.0	12.3
Debt/EBITDA (x)	nm	nm	nm	nm	nm
Capex/revenue (%)	25.1	4.0	4.0	3.4	2.9
Net debt/ (net cash)	(28,768.9)	(26,566.9)	(22,180.5)	(23,150.9)	(26,864.1)

Source: Company; Maybank IBG Research



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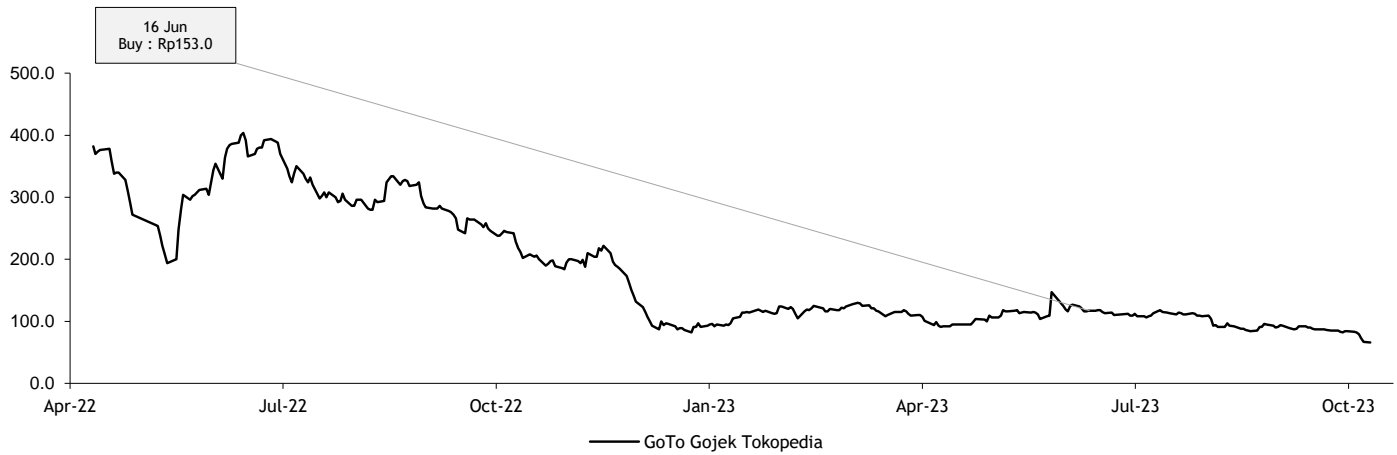
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