

Friday, 15 March 2019
Not Rated

Integra Indocabinet (WOOD IJ)

Solid export growth to continue

Last price (IDR)

870

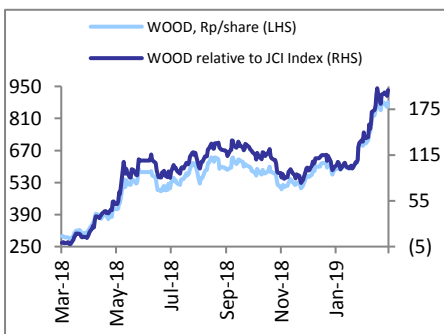
Integra targets strong revenues growth in FY19, as the company stands to benefit, it believes, from the trade tensions between China and the US. The company also has sizable forest concessions in Indonesia, giving it access to a rich variety of woods. These strengths, coupled with the company's proven track-record in the industry, bode well for sustained orders from export markets going forward.

Stock Statistics

Sector	Manufacturer
Bloomberg Ticker	WOOD IJ
No of Shrs (mn)	6,306
Mkt. Cap (IDRbn/USDmn)	5,549/389
Avg. daily T/O (IDRbn/USDmn)	19.7/1.4
Major shareholders (%)	
PT Integra Indo Lestari	78.6
Estimate free float	21.4

Strong FY18 earnings growth of 36% yoy. We met with the management of Integra and learnt that the company provided guidance for FY18 revenues growth of 18% yoy to IDR2tn. WOOD, which mainly produces fully-assembled and knock-down furniture, has been buoyed by growing demand from the US, where it serves major retailers such as Target, Costco, CTI and Ikea. Export revenues are crucial to the company (66-78% of total revenues in 2016-18), making WOOD a beneficiary of the rupiah's weakness in 2018. Combined with a higher price for shorea (Meranti), the gross margin widened to 35.6% in FY18 from 32.3% in FY17. This filtered through to a strong FY18 bottom line of IDR236bn, +36% yoy.

WOOD relative to JCI Index



Solid top line growth of 50% yoy expected in 2019. The company targets 50% yoy revenues growth in 2019. To this end, the company seeks to raise the utilization rate at its floor based/plywood facility, increase the production of rattan furniture, and launch 3 new products (White Prime Wood Molding/Gesso, Wooden Blinds and Metal Furniture). For Gesso, the company should benefit from having access to various types of Indonesian wood such as Mahogany and Pine to tap the USA market. For wooden blinds, various types of Hardwood can be used including Mahogany, Pine and Albazia. Meanwhile, Metal furniture will be sold to both export and domestic markets. As the US has slapped 10% tariffs on products imported from China, US demand for the company's products may increase. In addition, Integra also plans to broaden its export markets to the UK, EU, India, South East Asia, the Middle East & Africa.

Benefiting from US-China trade tensions. The company enjoys competitive advantages as an integrated timber manufacturer given: (1) 163,425ha of forest concessions – FSC certified to tap export markets, (2) sizeable facilities, (3) a 30-year track-record in the industry combined with (4) a proven track-record and good relationships with international retailers. With China subject to US tariffs, WOOD stands to benefit as one of the many furniture exporters in Indonesia. At its current share price, WOOD trades at FY18 PE of 22.6x.

Key Financials

	2014	2015	2016	2017	9M18
Revenue, IDRbn	996	1,119	1,323	1,735	1,379
EBITDA, IDRbn	120	173	354	444	385
EBITDA Growth (%)	n/a	44.7	104.3	25.4	16.5
Net profit, IDRbn	15	38	141	174	181
EPS, IDR	n/a	n/a	n/a	31	39
EPS growth (%)	n/a	n/a	n/a	n/a	31.4
BVPS, IDR	n/a	n/a	n/a	302	335
DPS, IDR	n/a	n/a	n/a	n/a	n/a
PER (x)	n/a	n/a	n/a	28.4	22.6
PBV (x)	n/a	n/a	n/a	2.9	2.6
Dividend yield (%)	n/a	n/a	n/a	n/a	n/a
EV/EBITDA (x)	57.6	39.8	19.5	15.5	13.9

Source : Bloomberg, Company

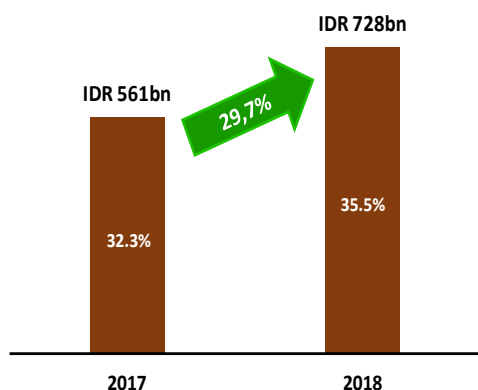


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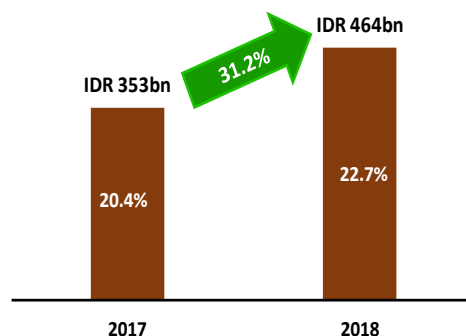
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Exhibit 1. Gross profit & GPM, 2017-18



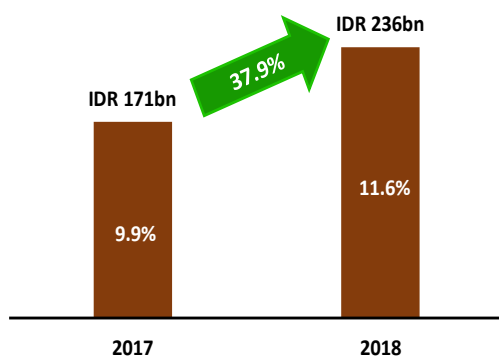
Source: Company

Exhibit 2. Operating profit & OPM, 2017-18



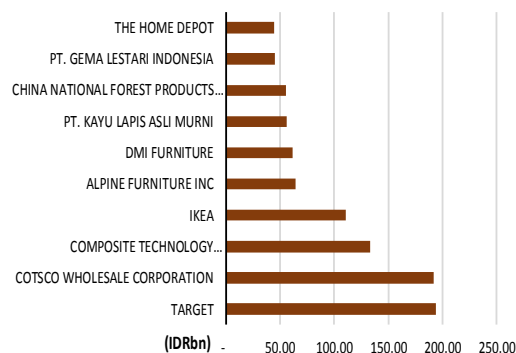
Source: Company

Exhibit 3. Net profit & net margin, 2017-18



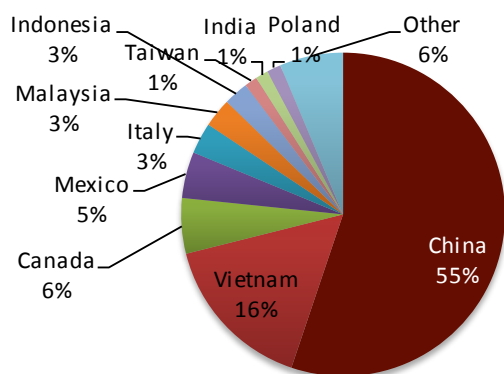
Source: Company

Exhibit 4. Top 10 customers – December 2018



Source: Company

Exhibit 5. Major countries exporting to US - 2017



Source: CSIL Processing of UN, Eurostat, and national data; Furniture Today

Exhibit 6. Peer comparison

	M.Cap IDR tn	PE x	ROE %	Sales g %	EBITDA margin (%)
WOOD	5.4	28.2	10.6	31.1	25.7
GEMA	0.5	20.7	7.1	41.3	5.7
CINT	0.3	14.6	5.4	5.0	9.8

Source: Bloomberg, 14 March 2019

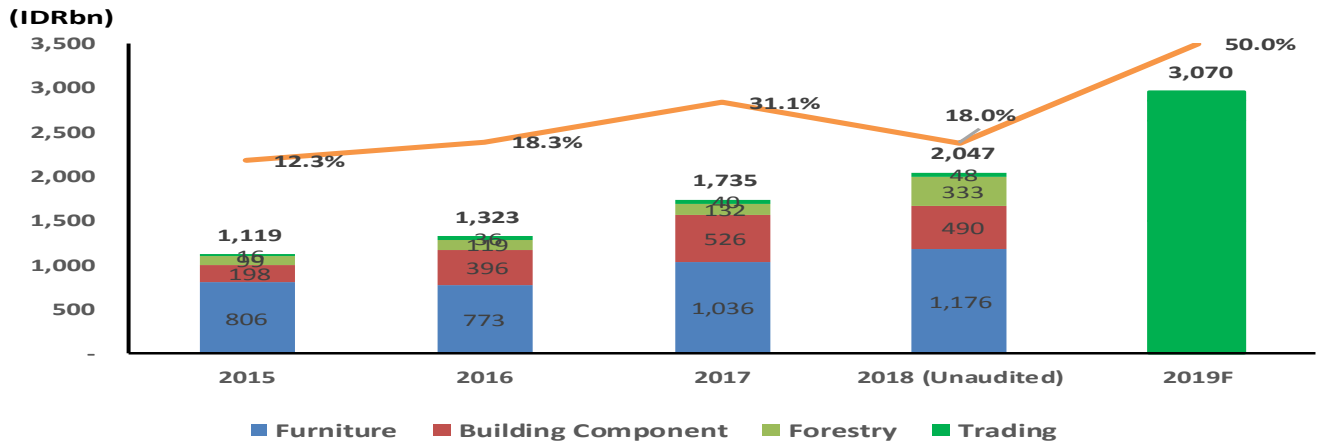
* GEMA: Vinoti Brand

* CINT: Chitose Brand

Solid FY18 top line growth, supported by furniture exports.

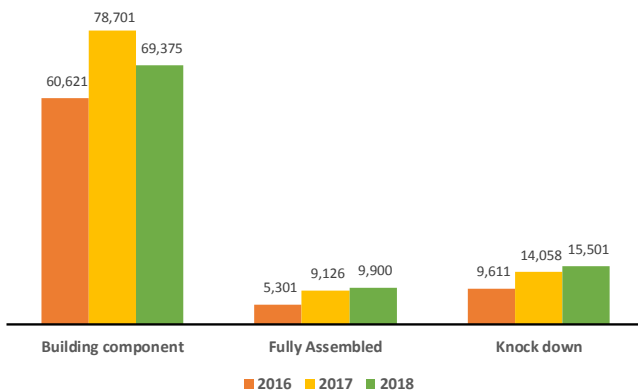
In 2018, export revenues grew by 12.2% yoy, supported by increasing demand for fully-assembled and knock-down products. Meanwhile, with unattractive pricing for the barecore products, the company has converted its facilities to produce Gesso/White prime wood molding, tapping the captive USA market. As a result, following the lower volume of building components'(BC) sold, the company reported -6.8% yoy revenues growth for BC in 2018. However, thanks to solid export revenues and the strong Shorea (Meranti) wood price, the company booked solid 18% yoy revenues growth in 2018.

Exhibit 7. Revenue by segment 2015 – 19F



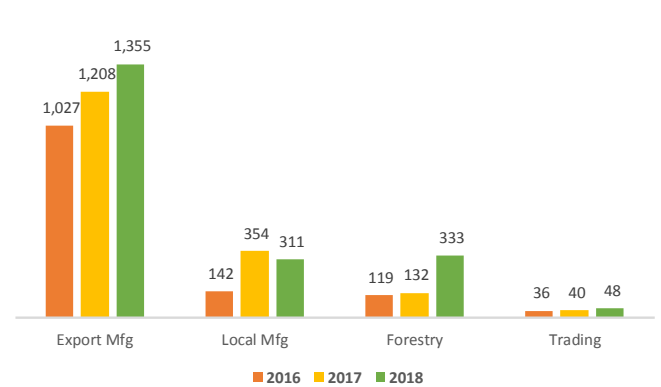
Source: Company

Exhibit 8. Sales volume – in m3 (2015-18)



Source: Company

Exhibit 9. Manufacturing revenue – IDR bn (2015-18)

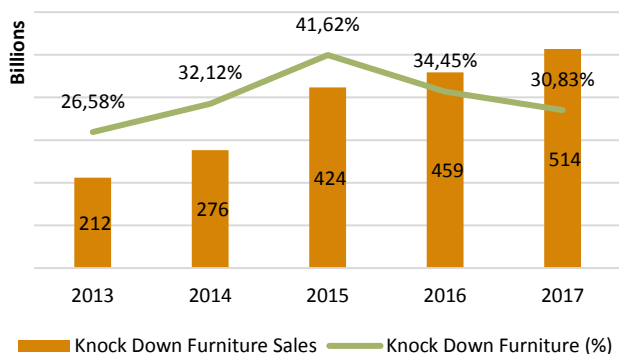


Source: Company

WOOD is one of a few local knock-down wooden furniture manufactures

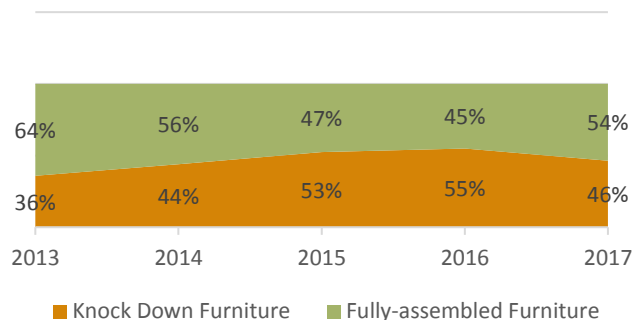
Integra is one of a few local manufacturers that have the capability to produce high-quality knock-down wooden furniture. Demand for knock-down furniture has increased significantly in the past few years due to its more competitive pricing and easier transportation to end-customers. For the company, knock-down products maximize the shipment capacity and these products are also well-suited to be sold via growing e-commerce channels.

Exhibit 10. Global sales of knock-down wooden furniture (USD bn)



Source: Company

Exhibit 11. Global fully assembled Vs Knock down furniture



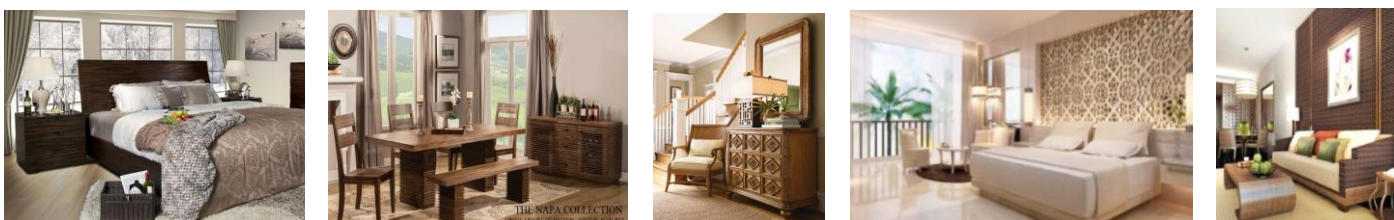
Source: Company

Exhibit 12. WOOD's product categories

Knock-down furniture



Fully-assembled furniture



Building components

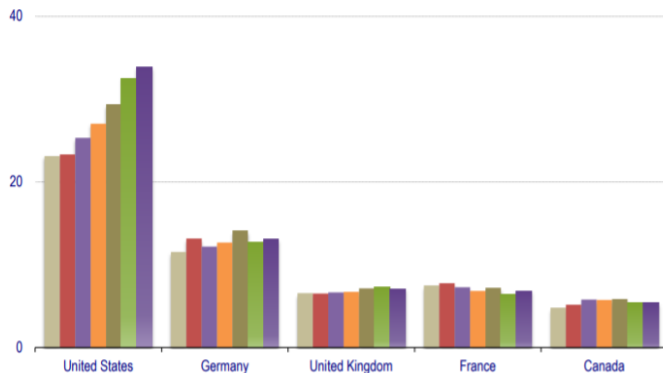


Source: Company

Benefiting from US-China trade tensions.

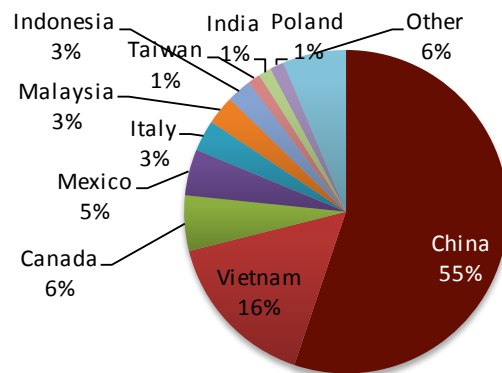
In September 2018, US President Donald Trump imposed 10% tariffs on USD200bn worth of Chinese goods exported to the USA, including wood-based products. In the period 2010-17, the USA was the biggest importer of furniture, followed by Germany, the UK, France and Canada with a total value of USD132bn in 2016. On the flip side, China was the biggest furniture exporter to the US (accounting for 55% of the total), far more than Vietnam (16%). With China subject to US tariffs, other exporter countries including Indonesia stand to benefit.

Exhibit 13. Major furniture importing countries, 2010-16 (USD bn)



Source: CSIL Processing of UN, Eurostat and national data, Furniture today

Exhibit 14. Major countries exporting to US - 2017



Source: CSIL Processing of UN, Eurostat and national data, Furniture today

Indonesia has the largest FSC-certified forests in Asia.

Indonesia’s wooden furniture manufacturing industry is a highly fragmented industry with around 965 manufacturers (2014 data), of which only 263 have sizeable facilities, including Integra. On top of that, there are two certifications: FSC (Forest Stewardship Council) and SVLK (Sistem Verifikasi Legalitas Kayu) which are required to undertake exports. To tap the US and European markets, the company must have FSC certification.

By the end of December 2017, Indonesia had the largest FSC-certified forests in Asia. Among the 39 forests, WOOD has two forest concessions in East Kalimantan with a total area of 163,425ha. Both forests are FSC-certified and SVLK-certified.

Exhibit 15. FSC-certified forest area in Asia

Asian Country	Total Area (ha)	No
Cambodia	7,896	1
China	985,822	73
India	521,510	7
Indonesia	3,078,285	39
Japan	402,575	36
Rep. Of Korea	395,871	8
Laos	14,379	2
Malaysia	755,404	13
Sri Lanka	17,501	3
Taiwan	1,677	5
Thailand	55,362	15
Turkey	2,348,136	7
Vietnam	221,522	29
TOTAL	8,805,941	238

Source: FSC Market info pack 2017, Forest certification for ecosystem services

Exhibit 16. WOOD’ forest concession

	Belayan River Timber	Narkata Rimba
Location	Kutai Kartanegara, East Kalimantan	East Kutai, East Kalimantan
Year of Acquisition	2008	2008
Concession Period	55 years since August 5, 1996	45 years since March 28, 2009
Concession Area	97,500 ha	65,925 ha
Type of Products	Shorea (Meranti)	Shorea (Meranti)
Total Employees	481*	144*
Production Capacity	60,000 m ³ /year	30,000 m ³ /year

Source: Company

Integrated manufacturer of timber products - room for growth ahead.

















We believe that WOOD stands to benefit from the ongoing trade dispute between the US and China as furniture demand in non-China countries will increase. With sizable forest concessions in Indonesia, the company has easier access to a rich variety of woods used to produce furniture products. These strengths, coupled with the company’s 30-year track-record in the industry and sound relationships with international retailers, bode well for sustained orders from export markets going forward.

Exhibit 17. Wood’s geographical footprint

Region	United States	Asia ex-Indonesia	Indonesia	Europe	Others
Proportion of Revenue	42.7%	12.7%	30.4%	14.1%	0.16%
Products Type	• Wooden furniture	• Furniture • Building components	• Wooden furniture • Non-wooden furniture	• Wooden furniture • Building components	• Building components
Customers Type	• Physical Retailers • Online retailers • Importers	• Importers	• Government Agencies • Corporate Customers • Retail Customers	• Distributors • Retailers	• Importers
Branding	• None/OEM	• None/OEM	• THEMA • Festiva	• None/OEM	• None/OEM

Source: Company

Exhibit 18. Customers of WOOD’s wooden furnitures

Mass-Market Retailers	  
Furniture stores	  
Boutique furniture stores	
Web-based stores	  
Hotels and apartments	  
Government	  

Source: Company

Solid top line growth of 50% yoy expected in 2019.

The company targets stronger growth in 2019, providing guidance for 50% yoy revenues growth. To tap the higher expected demand for furniture/building components products, the company will focus on these products whilst also continuing to produce its existing furniture products:

- Gesso or White Prime Wood Molding
- Wooden Blinds
- Metal Furniture
- Rattan Wooden Furniture
- Sofas

In 2018, the company converted its barecore facilities to Gesso. Combined with the expansion of its existing plant in Lamongan, the company now has a total capacity for Furniture and Building components of 41,650m³ (2017: 38,106m³) and 129,836m³ (2017: 129,238m³), respectively.

Exhibit 19. Segments/products that wil push the 2019 revenue driver

Item	Target Market	Competitive Advantage	Capacity		Notes	Incl in US-China trade war
			Containers/month	m ³ /year		
Gesso	US & later UK Markets	-Indonesian Wood Species like Mahogany, Pine	300	132,000	Serve the captive USA market, so far is the only Indonesia company supplying US market	Yes
Wooden blind	USA, EU Countries, UK	- Indonesian Hardwood: Mahogany, Pine, Albazia - Labor Cost	30	13,200	- Captive USA market - Shorten learning curve by hiring chinese experts	Yes
Metal Furniture	USA, EU Countries, UK, Domestic	- Combination metal with Indonesian wood - Labor Cost	10	1,650 m ³ of wood	- Existing captive USA market - Hire chinese metal experts	No
Rattan Wooden	USA, EU Countries,	- Natural Indonesian Rattan - Labor Cost	30	4,950 m ³	- Currently serve IKEA, - Target and H&M will be target customers	No
Sofa	USA & local	- Skilled workmanship - Utilizing offcut wooden frame - Relative Lower of Labor Cost	50	5,500 m ³ of wood	- Existing captive USA customers and domestic market	Yes

Source: Company

Exhibit 20. Gesso/White Prime Wood Molding



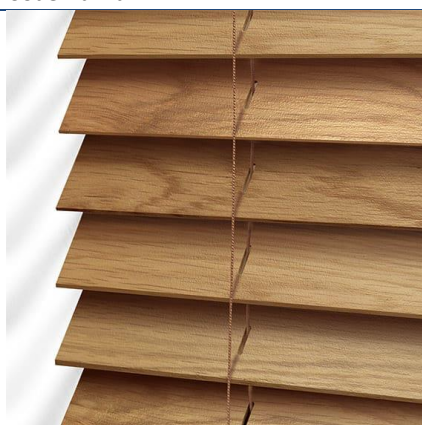
Source: Company

Exhibit 21. Gesso/White Prime Wood Molding



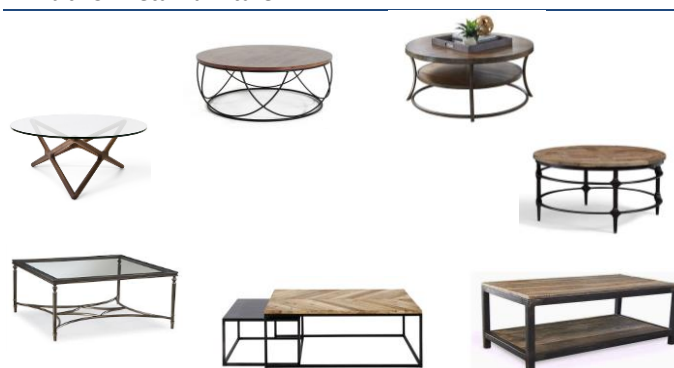
Source: Company

Exhibit 22. Wooden blind



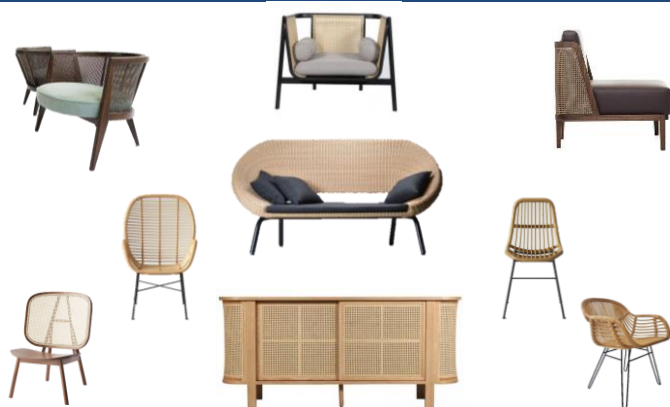
Source: Company

Exhibit 23. Metal Furniture



Source: Company

Exhibit 24. Rattan Wooden Furniture



Source: Company

Exhibit 25. Sofa



Source: Company

Exhibit 26. Income Statement

IDR bn	2014	2015	2016	2017	9M18
Revenue	996	1,119	1,323	1,735	1,379
COGS	(837)	(877)	(865)	(1,174)	(903)
Gross profit	159	242	458	561	476
EBITDA	120	173	354	444	385
Oper. profit	75	116	284	353	317
Interest income	0	1	1	5	0
Interest expense	(61)	(67)	(106)	(127)	(104)
Forex Gain/(Loss)	6	7	9	(0)	6
Income From Assoc. Co's	-	-	-	-	-
Other Income (Expenses)	3	(14)	7	3	14
Pre-tax profit	22	43	195	234	233
Income tax	(7)	(4)	(54)	(62)	(52)
Minority interest	1	1	0	(2)	-
Net profit	15	38	141	174	181

Exhibit 27. Balance Sheet

IDR bn	2014	2015	2016	2017	9M18
Cash & cash equivalent	27	116	30	43	43
Receivables	126	103	188	165	293
Inventory	371	576	893	1,173	1,195
Other Curr. Asset	191	217	216	285	420
Fixed assets - Net	746	955	1,643	1,680	1,674
Other non-curr.asset	61	48	111	497	388
Total asset	1,521	2,014	3,082	3,843	4,012
ST Debt	618	790	943	1,230	1,379
Payables	95	133	133	198	127
Other Curr. Liabilities	9	25	25	56	16
Long Term Debt	22	209	170	91	101
Other LT. Liabilities	180	149	381	355	284
Total Liabilities	925	1,307	1,652	1,930	1,907
Shareholder's Funds	577	666	1,404	1,890	2,095
Minority interests	20	41	26	22	10
Total Equity & Liabilities	1,521	2,014	3,082	3,843	4,012

Exhibit 28. Key Ratios

	2014	2015	2016	2017	9M18
Growth (%)					
Sales	n/a	12.3	18.3	31.1	8.5
EBITDA	n/a	44.7	104.3	25.4	16.5
Operating profit	n/a	55.5	144.3	24.6	19.4
Net profit	n/a	157.1	271.3	23.3	33.3
Profitability (%)					
Gross margin	16.0	21.6	34.6	32.3	34.5
EBITDA margin	12.0	15.5	26.8	25.6	27.9
Operating margin	7.5	10.4	21.4	20.4	23.0
Net margin	1.5	3.4	10.6	10.0	13.1
ROE	2.5	5.4	9.8	9.1	8.6
ROA	1.0	1.9	4.6	4.5	4.5
Leverage					
Net Gearing (x)	1.0	1.2	0.8	0.7	0.7
Interest Coverage (x)	1.2	1.7	2.7	2.8	3.0

Source : Company, Bloomberg

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