

# Indonesia Technology Sector

## Unicorn startups Bukalapak & GoTo seeks IPO

Sector Update | Technology

The IPO of Bukalapak and GoTo is expected to impact the Indonesia Stock Exchange in terms of valuation significantly. These startups with a value of more than US\$1 billion are rumored to be entering the Indonesia Stock Exchange through an IPO scheme. It is estimated that the corporate action can be realized this year.

Investors highly anticipate the technology sector as several giant tech companies are ready for IPO. This debut would become Indonesia's most immense listing in 10 years and the largest ever for the country by startups. Bukalapak and GoTo's plan for an IPO on the Indonesian stock market has the potential to attract foreign investors to re-enter the domestic capital market that has been lacking technology-based companies. Having millennial investors interested in technology dominate the capital market will drive the IPO enthusiasm.

According to CGS-CIMB data, with an estimated capitalization of GoTo of US\$ 35 billion to US\$ 40 billion (around Rp 500-Rp 572 trillion, exchange rate Rp 14,300/US\$) and Bukalapak of US\$ 3 billion to US\$ 4 billion (around Rp 43-57 trillion) can increase the weight of the technology sector in the JCI.

Exhibit 2: Impact of technology sector IPO on JCI weight

Sektor/ Sector	Penyesuaian free float/ Free float adjustment	Penyesuaian free float (skenario vs basis dasar) Free float adjustment (scenario vs base base)		Penyesuaian free float (skenario vs basis dasar)		Penyesuaian free float (skenario vs basis dasar)	
	Basis dasar/ Based	+GoTo USD35miliar, 40% float	+GoTo USD40miliar, 50% float	+BL USD3miliar, 50% float	+BL USD4miliar, 50% float	+GoTo USD35miliar, 40% float +BL USD3miliar, 50% float	+GoTo USD40miliar, 50% float +BL USD4miliar, 50% float
Energi	3,9%	3,5%	3,5%	3,9%	3,9%	3,5%	3,5%
Industri	9,0%	8,1%	8,0%	8,9%	8,9%	8,0%	7,9%
Industri Dasar	9,0%	8,2%	8,1%	9,0%	8,9%	8,1%	8,0%
Infrastruktur	11,6%	10,5%	10,4%	11,5%	11,5%	10,4%	10,2%
Kesehatan	2,7%	2,5%	2,4%	2,7%	2,7%	2,4%	2,4%
Keuangan	40,6%	36,7%	36,2%	40,3%	40,1%	36,4%	35,8%
Konsumsi Non-Siklus	10,4%	9,4%	9,3%	10,3%	10,3%	9,3%	9,2%
Konsumsi Siklus	3,6%	3,2%	3,2%	3,6%	3,6%	3,2%	3,2%
Properti	3,2%	2,9%	2,9%	3,2%	3,2%	2,9%	2,8%
Teknologi	5,5%	14,7%	15,8%	6,3%	6,6%	15,4%	16,7%
Transportasi	0,3%	0,3%	0,3%	0,3%	0,3%	0,3%	0,3%
TOTAL	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

Source: CGS-CIMB Research

As Bukalapak aims to raise as much as Rp21.9tr (US\$1.5bn) in its 21 August IPO, offering 25.76bn shares (25% of total post-IPO), the startup would allocate most of the proceeds to its working capital (66%). The remaining portion disperses among its six subsidiaries (15% to PT Buka Mitra Indonesia, 15% to PT Buka Usaha Indonesia, 1% to PT Buka Investasi Bersama, 1% to Buka Pengadaan Indonesia, 1% to Bukalapak Pte Ltd, and another 1% to PT Five Jack).

Bukalapak's listing comes ahead of the planned IPO of GoTo - the merged entity of Tokopedia and ride-hailing and payments firm Gojek. Sources have said GoTo is looking to raise at least \$2 billion in pre-IPO funding in the next few months. GoTo also planned for dual listing in the US, which then hoped that it would increase the image of the Indonesian stock exchange in the eyes of global investors.

Bukalapak had also been weighing a US listing via a special purpose acquisition company that could value it at \$4 billion to \$5 billion, Bloomberg News reported in March. Bukalapak representatives have declined to comment on its IPO plans.

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### Investment Disclaimer

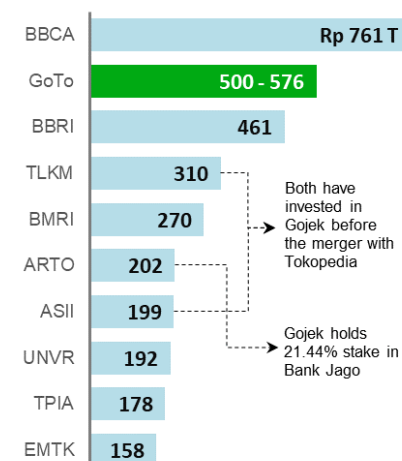
Analyst opinions are their own and do not constitute financial advice in any way whatsoever. Investors should consider this research as only a single factor in making investment decisions and recommended to conduct own due diligence.

Exhibit 1. Investor demographic



Source: KSEI

Exhibit 3. GoTo market cap comparison<sup>1</sup>



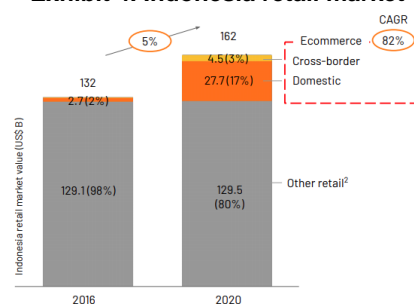
Source: Bloomberg, Analyst Research  
<sup>1</sup>= as of 14 July 2021

With a population of 270 million (4th largest in the world) and a GDP of over US\$1 trillion (15th in the world), Indonesia has the largest retail market in Southeast Asia. The retail market grew 5% CAGR from 2016, which fragmented around three major channels 1) Traditional trade channels: Warungs (mom & pop stores/street stalls), street hawkers, wet markets, local stores, 2) Modern trade channels: Big retail chains (including supermarkets, hypermarkets and franchises), Convenience stores, speciality stores, and 3) E-commerce. Ecommerce constituted 20% of total retail sales and grew at 82% CAGR from 2016-2020.

The E-commerce industry is highly competitive because of a high degree of commercialization. The COVID-19 pandemic accelerates technology adoption due to lockdown situations and social restrictions, which encourage the use of devices for daily activities. E-commerce, on a sectoral level, is receiving a significant boost thanks to the pandemic, as people view e-commerce as a safer way to transact in meeting their daily needs. Momentum Works reported that the total gross merchandise value (GMV) by the large marketplaces in 2020 reached US\$40.1 billion, or a 91% growth from the previous year.

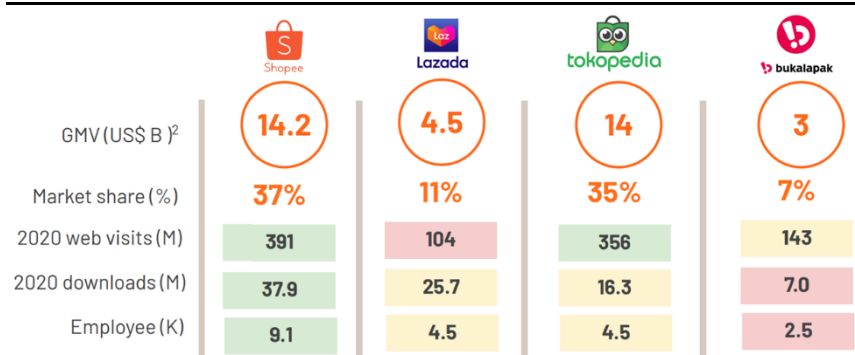
Tokopedia ranked 2nd across multiple metrics, overtaken by Shopee. Lazada and Bukalapak formed the 2nd tier, while Blibli and JD.id formed the 3rd tier. As Indonesia's smartphone market is 91.7% dominated by Android users, Shopee and Tokopedia lead Google Play Store ranking.

**Exhibit 4. Indonesia retail market**



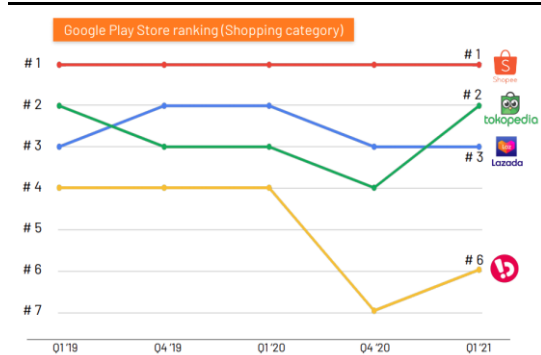
Source: World Bank, Bank Indonesia, Euromonitor, CLSA, Momentum Works analysis

**Exhibit 5. E-commerce comparison**



Source: App Annie, iPrice, AppMagic, Company website, Momentum Works

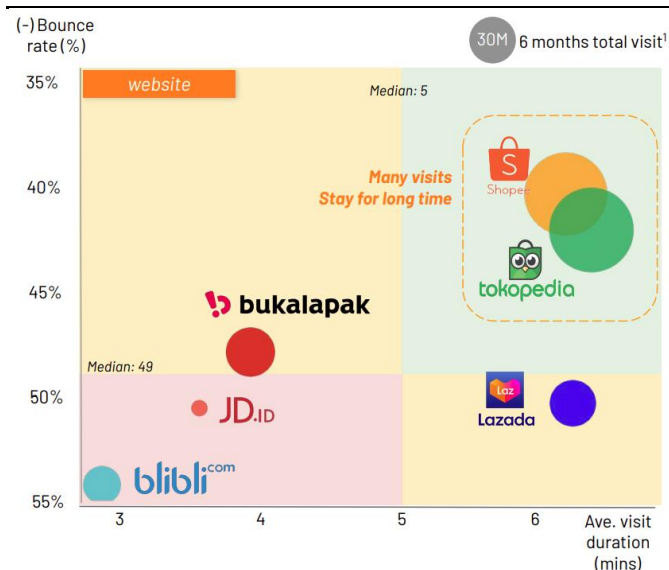
**Exhibit 6. Google Play Store ranking**



Source: Google Play Store, Momentum Works

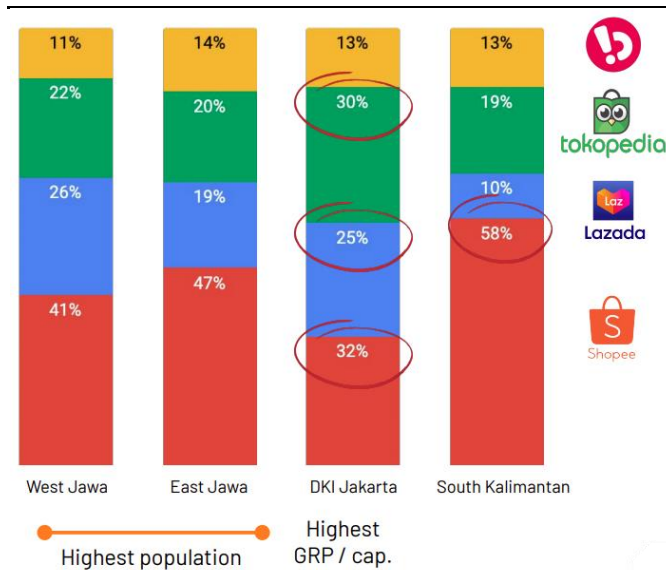
Shopee and Tokopedia also lead with the most website visit and most prolonged visit duration. As most Indonesian have searched for major e-commerce platforms, using Google search trend as a proxy is applicable for representing the general interest. Although Shopee dominates the google search trend over the last three years, shares of interest in DKI Jakarta are evenly split.

**Exhibit 7. E-commerce website traffic**



Source: AppAnnie, Sensortower, Momentum Works

**Exhibit 8. E-commerce share of interest**



Source: Google trend, Momentum Works

# Valuation Approach

Valuing technology companies, especially e-commerce startups, may differ from other sectors due to their distinctive business nature. There are two categories of valuation metrics, customer metrics and financial metrics.

E-commerce may apply different customer metrics depending on the management's justification. For instance, Bukalapak views total processing value (TPV) as an operating metric that is more representative of the company's business conditions than GMV. TPV does not consider GMV transactions that are unpaid. GMV-non-payment rates are generally higher in Indonesia than in other countries due to higher rates of payment friction caused by the low penetration of digital payments, digital wallets, and credit cards, resulting in unpaid orders.

## Exhibit 9: Bukalapak's customer metrics

Customer Metrics	Description
Total Processing Value (TPV)	The volume of paid purchases facilitated by the company's platform, including physical and virtual products
Average Transaction Value (ATV)	Total Processing Value (TPV) divided by total transaction
Annual Transaction Users (ATU)	Number of users who made at least one paid transaction in the last 12 months
Annual Transaction Mitras (ATM)	Number of partners who have made transactions paid at least once in the last 12 months
Customer Acquisition Cost (CAC)	A combined cost to acquire new users and reactivated users after being inactive for the last 12 months
Active Customers	Number of customers who ordered in the last 12 months
Active Merchants	Number of merchants who sold in the last 12 months

Source: Company Data

Valuation on e-commerce startups has no differ from valuing other businesses. However, using common ratios as the P/E and P/BV have some drawbacks. E-commerce startups spent much capital on marketing and website development. These bolstered the startups' value, but because they are intangible, they are not capitalized. As a result, traditional accounting resulted in losses and asset-light balances, leaving common ratios such as P/E and P/BV less relevant.

Instead, financial metrics such as EV/Active Customers, EV/TPV, EV/Revenue, EV/Gross Profit, and EV/EBITDA comes as an appropriate approach. These metrics are suitable for pre-revenue business or a business before profitability, and these metrics are referenced in the industry. Valuation using DCF is possible; however, it is inapplicable for early-stage e-commerce startups, which tend to have negative or significant variance in cash flows, limited historical financial information, and highly uncertain growth.

## Exhibit 10: Bukalapak's key financials

IDR Mn	2018A	2019A	2020A
ATV (In thousand)	154.47	79.11	162.57
ATU	9.3	13.6	16.6
ATM	0.7	1.6	3.6
CAC (In thousand)	221.6	164.7	79.4
Active Customers	32.4	84.3	104.9
Active Merchants	1.3	3.4	6.9
IDR Bn			
TPV	28,338	57,391	85,082
Revenue	291.91	1,076.60	1,351.66
Sales Marketing Expenses	1,997.16	2,322.63	1,519.72
Revenue – SM Expenses	(1,705.25)	(1,246.03)	(168.05)
EBITDA	(2,219.00)	(2,687.00)	(1,672)

Source: Company Data

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