

Integra Indocabinet

Attractive valuation and earnings momentum

US' stronger property market post Covid is positive for Integra

The US accounts for >75% of Integra's revenue in 9M20. The US economy is in an upward trend indicated by positive macroeconomics indicators (i.e. higher PMI and GDP growth). We also see a growing trend of people leaving metropolitan centers to suburbs and exurbs due to WFH policies, creating a need to furnish bigger homes. We expect demand for furniture and houses to continue to increase with several indicators such as 1) US retail sales of furniture and home furnishings are increasing (refer to figure 1), 2) lower average days on the market for houses as of Jan 21 at 34 days (vs. 5-year average at 44 days), and 3) Weekly applications of survey mortgage loans continue to break new highs (refer to figure 4). Therefore, we expect Integra to post 20% earnings CAGR in 2020-22F on the back of 14% higher building component segments' (BC) utilization to 72% (from 58% in 2020F).

Continue to expand export markets

Ever since the start of the US-China trade wars, furniture and BC from China are more expensive. Integra has had more BC capacity to meet the demands of US market, and the company is ready to join the "grab market-share from China" trend this year alongside Vietnam (who gained the most market share). However, according to [Vietnam's local news](#), the wood processing industry's skilled laborers are tending to become scarce as many workers need to be re-trained due to the digitization and modernization of newer wood processing companies. Therefore, there may be a tipping point where Vietnam can't fulfill the demand from U.S. As a result, we upgrade our net profit estimates for 2020-22F to IDR286/348bn/IDR410bn (+7%/+10%/+12%) respectively as we believe its BC business scale has been running well.

Earnings upside from selling un-used land bank

Note that the company still owns ~30ha land that is available for sale that the company bought in 2017. That land was previously meant for its new factory and is possibly now worth IDR450bn as the price has appreciated. And if sold at that price, it may result in IDR190-210bn of extraordinary gain. However, it is still difficult to sell land bank of that size only after a year of Covid19 pandemic. But it is reasonable to argue that Integra is likely to be able to sell this land bank when the economy has started to stabilize – we have not included such potential gain in our estimates.

Maintain BUY rating for WOOD with higher TP of IDR900

We maintain our BUY call and raise TP to IDR900 (from IDR820) as we raise 2021F earnings by +10%, while maintain our target P/E of 17x. The stock currently trades at an attractive 11.2x 2021 P/E and 1.1x P/BV, a hefty 55/74% discount to global furniture and building component peers. Key risks include: 1) Significant slowdown in US new home sales and furniture and 2) Weather and operational disruption.

Company Data

Year end Dec	2018	2019	2020F	2021F	2022F
Revenue (IDR bn)	2,101	2,136	2,779	3,357	3,790
Net Profit (IDR bn)	239	217	286	348	410
Core EPS (IDR)	37	34	43	53	63
EPS growth	3%	-9%	27%	24%	19%
BVPS	384	424	468	523	587
EV/ EBITDA (x)	10.8	10.2	8.6	8.0	7.3
Core P/E (x)	16.0	17.6	13.9	11.2	9.5
P/ BV (x)	1.5	1.4	1.3	1.1	1.0

BUY (Maintained)

Target Price IDR900 (+51 ups.%)
Previous TP IDR820
Current Price IDR595



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Stock Data & Indices

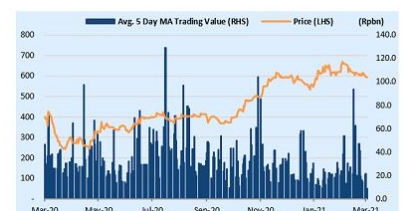
Bloomberg Code	WOOD.IJ
JCI Group	JAKCONS
MSCI Indonesia	No
JII	No
LQ45	No
Kompas 100	No

Key Data

Issued Shares (mn)	6,306.3
Free Float (est)	25.5%
Mkt. Cap (IDRbn)	3,752.2
Mkt. Cap (USDmn)	260.6
ADTV 6 month (IDRbn)	19.1
52 Wk-range	710 / 234

Performance (%)

	YTD	1m	3m	12m
Absolute	6.3	-11.2	0.8	52.6
Relative to JCI	2.6	-11.2	-3.6	33.8



Income Statement

Year end Dec (Rp bn)	2018	2019	2020F	2021F	2022F
Revenue	2,101	2,136	2,779	3,357	3,790
Gross Profit	739	744	941	1,068	1,192
Operating Profit	473	490	611	664	725
EBITDA	561	592	704	760	824
Net Interest expense/(Exp)	-156	-211	-250	-233	-227
Gain/(loss) Forex	1	-5	0	0	0
Total other Income (Expense)	7	5	20	17	15
Pre-tax Profit	325	284	380	448	514
Income Tax Expense	-83	-66	-93	-99	-103
Minority Interest	0	0	0	0	0
Net profit	239	217	286	348	410
Core profit	237	215	272	336	399

Balance Sheet

Year end Dec (Rp bn)	2018	2019	2020F	2021F	2022F
Cash and equivalents	64	24	27	182	246
Other curr asset	2,262	3,028	3,238	3,597	3,897
Net fixed asset	1,933	2,363	2,390	2,373	2,354
Other asset	329	101	146	146	175
Total asset	4,588	5,515	5,800	6,297	6,671
ST debt	1,648	2,091	2,161	2,043	1,959
Other currliab	186	257	228	265	290
LT debt	58	211	177	406	427
Other LT Liab	247	252	252	252	252
Minority interest	2,138	2,812	2,817	2,965	2,928
Total Liabilities	10	10	11	12	13
Shareholders Equity	2,440	2,694	2,972	3,320	3,730
Net Debt/(Cash)	1,642	2,279	2,311	2,266	2,140
Total cap employed	2,754	3,167	3,412	3,990	4,423
Net Working capital	492	703	877	1,471	1,894

Cash Flow

Year end Dec (Rp bn)	2018	2019	2020F	2021F	2022F
Net profit	239	217	286	348	410
Depr / Amort	88	102	93	97	99
Chg in Working Cap	-600	-737	-134	-351	-305
Others	-142	11	-105	30	30
CF's from oprs	-414	-406	140	123	234
Capex	-260	-519	-120	-80	-80
Others	59	235	-45	0	-29
CF's from investing	-145	-208	-165	-80	-109
Net change in debt	385	597	35	111	-62
Others	253	-23	-7	1	1
CF's from financing	638	574	28	112	-61
Net cash flow	79	-41	3	155	64
Cash at BoY	54	64	24	27	182
Cash at EoY	133	24	27	182	246
Free Cashflow	-675	-926	20	43	154

Ratio Analysis

Year end Dec(Rp bn)	2018	2019	2020F	2021F	2022F
Profitability					
Gross Margin	35%	35%	34%	32%	31%
Opr Margin	23%	23%	22%	20%	19%
EBITDA Margin	27%	28%	25%	23%	22%
Net Margin	11%	10%	10%	10%	11%
ROE	11%	8%	10%	11%	12%
ROA	6%	4%	5%	6%	6%
Stability (x)					
Current ratio	1.3	1.3	1.4	1.6	1.8
Net Debt to Equity	0.7	0.8	0.8	0.7	0.6
Net Debt to EBITDA	2.9	3.8	3.3	3.0	2.6
Interest Coverage	3.0	2.3	2.4	2.9	3.2
Efficiency (days)					
Account Payable	21	42	30	30	30
Account Receivable	80	160	85	78	75
Inventory Day	384	465	435	400	390

Company Background

PT Integra Indocabinet Tbk is a vertically integrated wooden furniture manufacturer with products such as knock-down furniture, fully-assembled furniture and building components. Integra commands 5.2% market share

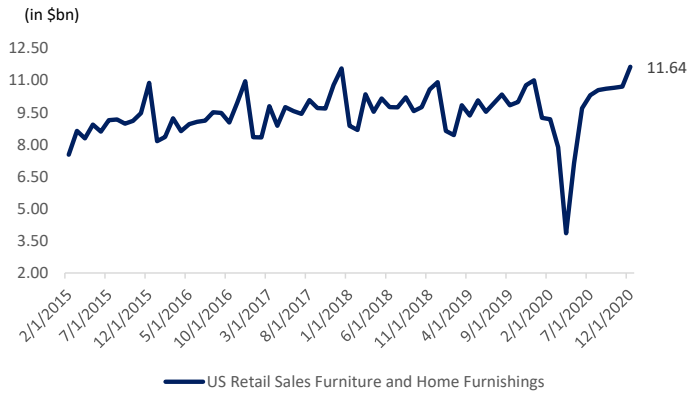
Major Shareholders

PT Integra Indo Lestari	69%
Public	31%

SWOT Analysis

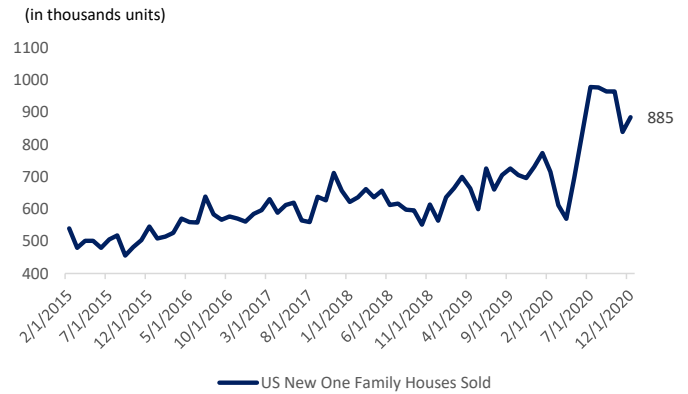
Strength One of the largest and most vertical wooden furniture manufacturer with high expertise	Weakness Weak distribution channel may hamper inter-city domestic delivery
Opportunity Strong US and China market is conducive for Integra's sales	Threat Rising wood price due to factory closures in China and expanding global economy

Figure 1. US retail sales furniture and home furnishings trends



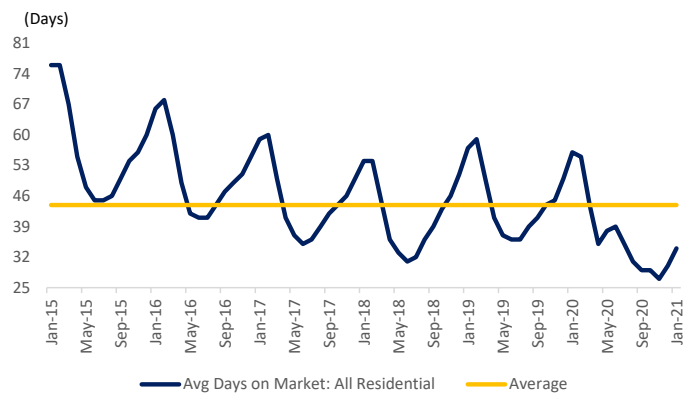
Source: Trimegah Research, Bloomberg

Figure 2. US new one family houses sold trends



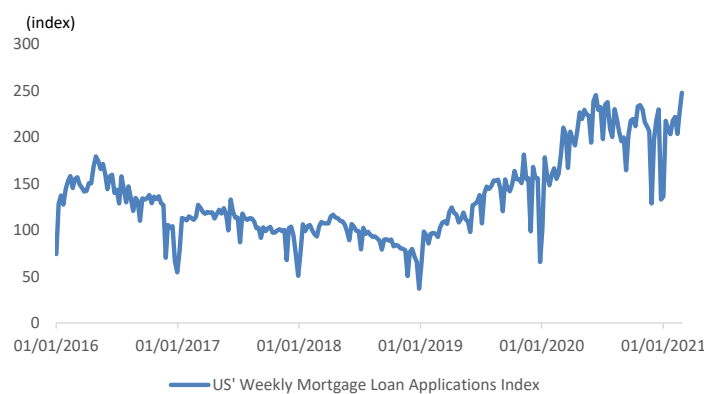
Source: Trimegah Research, Bloomberg

Figure 3. Home sales average days on market all residential trends



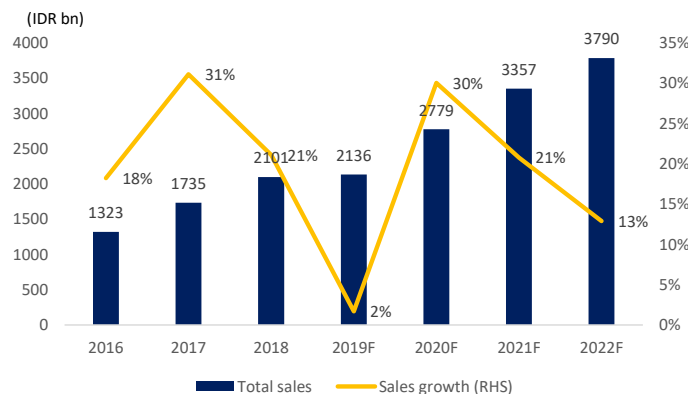
Source: Trimegah Research, CEIC

Figure 4. US' weekly mortgage loan applications index trends



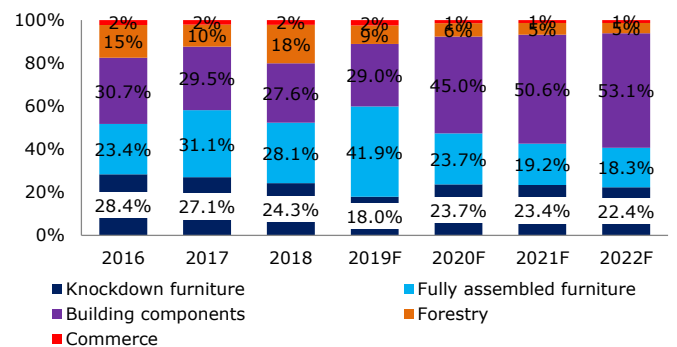
Source: Trimegah Research, CEIC

Figure 5. Integra sales and growth trends



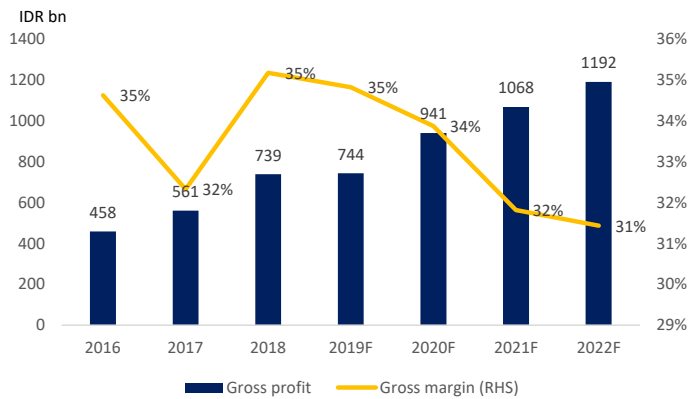
Source: Trimegah Research, Company's data

Figure 6. Sales breakdown



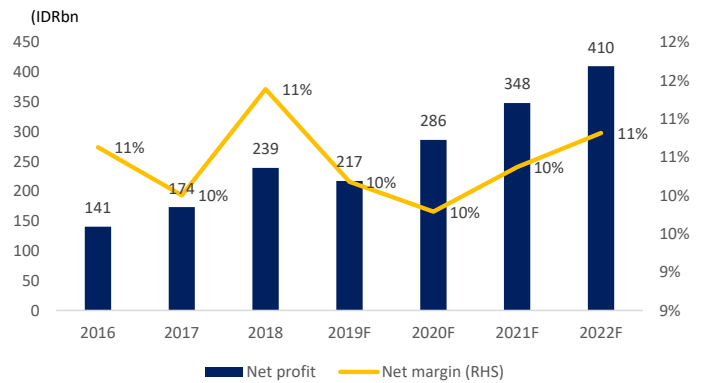
Source: Trimegah Research, Company's data

Figure 7. Gross profit and margin trends



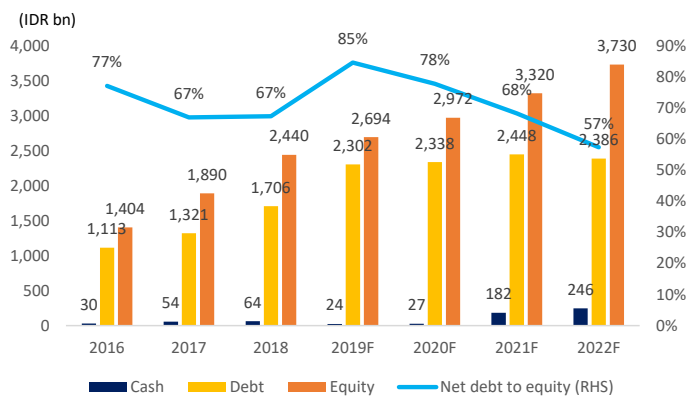
Source: Trimegah Research, Company's data

Figure 8. Net profit and net margin trends



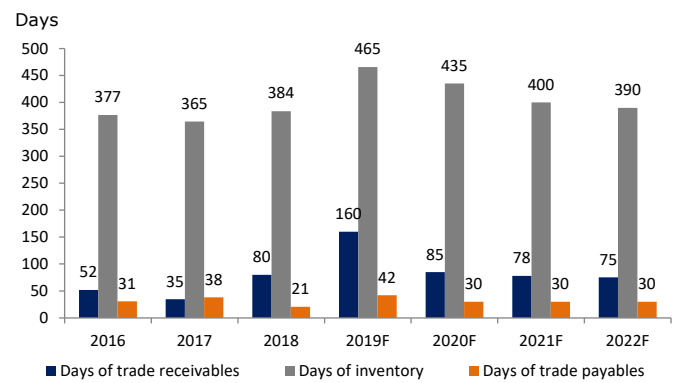
Source: Trimegah Research, Company's data

Figure 9. Cash, debt, equity, and net gearing trends



Source: Trimegah Research, Company's data

Figure 10. Working capital days trends



Source: Trimegah Research, Company's data

Figure 11. Change of estimates

In IDRbn	New			Old			% Change		
	2020F	2021F	2022F	2020F	2021F	2022F	2020F	2021F	2022F
Revenue	2,779	3,357	3,790	2,658	3,092	3,488	5%	9%	9%
Gross profit	941	1,068	1,192	894	979	1,076	5%	9%	11%
Gross margin	33.9%	31.8%	31.4%	33.6%	31.7%	30.8%			
Operating profit	611	664	725	575	599	647	6%	11%	12%
Operating margin	22%	20%	19%	22%	19%	19%			
Net profit	286	348	410	268	316	365	7%	10%	12%
Net margin	10%	10%	11%	10%	10%	10%			

Source: Trimegah Research

Figure 12. Peers comparison

	Ticker	Market cap (USDMn)	PER (x)		PBV (x)		EV/EBITDA (x)		ROE (%)	
			2021Y	2022Y	2021Y	2022Y	2021Y	2022Y	2021Y	2022Y
		*as of	3/10/2021							
SUOFEIYA HOME COLLECTION C-A	002572 CH Equity	4,612	22.09	19.35	4.31	3.81	14.07	12.46	19.76	19.89
JASON FURNITURE HANGZHOU C-A	603816 CH Equity	7,146	28.82	24.47	6.14	5.30	20.56	17.61	20.67	21.10
WILLIAMS-SONOMA INC	WSM US Equity	9,816	15.18	16.65	6.15	5.40	8.49	9.42	45.89	32.47
DEHUA TB NEW DECORATION-A	002043 CH Equity	1,288	15.07	11.64	3.75	3.17	11.29	8.99	24.88	25.72
FABRYKI MEBLI FORTE SA	FTE PW Equity	285	10.97	10.43	1.47	1.42	8.65	8.40	14.30	15.50
GUANGZHOU SHANGPIN HOME CO-A	300616 CH Equity	2,517	28.48	24.30	3.93	3.45	19.81	16.97	13.86	14.33
HOWDEN JOINERY GROUP PLC	HWDN LN Equity	5,702	21.18	18.17	5.14	4.46	12.45	11.01	25.30	26.32
CENTURY PLYBOARDS INDIA LTD	CPBI IN Equity	979	39.95	27.72	5.85	5.00	23.00	17.28	15.12	18.84
GREENPLY INDUSTRIES LTD	MTLM IN Equity	311	36.19	19.76	5.24	4.26	19.83	12.91	15.21	23.10
DONGWHA ENTERPRISE CO LTD	025900 KS EQUITY	815	31.77	19.80	1.49	1.38	11.13	8.93	4.97	7.54
Global average		3,323	25.0	19.2	4.3	3.8	14.9	12.4	20.0	20.5
INTEGRA INDOCABINET TBK PT	wood ij equity	261	11.24	9.47	1.14	1.01	7.97	7.35	11.07	11.63
Premium (disc.)			-55%	-51%	-74%	-73%	-47%	-41%	-45%	-43%

Source: Trimegah Research, Bloomberg

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Company Ticker	Disclosure (as applicable)
WOOD	5

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