

Hartadinata Abadi (HRTA IJ)

Not Rated

A Golden Path Ahead

Fair Value (Return):	IDR620 (+31%)
Price (Market Cap):	IDR472 (USD138m)
ESG score:	N/A
Avg Daily Turnover (IDR/USD)	13,734m/0.88m

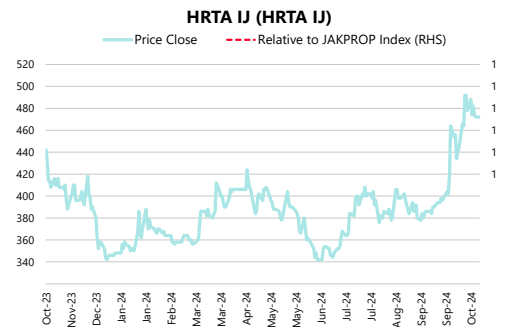
- **IDR620 FV, based on back-on-the-envelope DCF (WACC 12%, TG 3%).** We see strong potential for Hartadinata Abadi, supported by: i) Resilient demand for safe haven products, especially in domestic market, ii) market potential from pawn business segment, and iii) increase in domestic market share from improved penetration (c.19% now vs 7% in 2017). Management anticipates annual growth at c.15% for both topline and bottomline for medium- to long-term. There is also a positive appreciation from foreign funds, signalling HRTA's prudent business strategy as a long-term investment choice.
- **Consistent volume, reliable payment.** Currently, HRTA's gold sales are primarily dominated by the wholesales channel (83%, with GPM: c.5%), followed by retail (17%, GPM: c.12%). The wholesales scheme enables the company to distribute its gold production (at 16-18 tonnes pa) in large quantities while ensuring certainty in payments – HRTA receives the payments (in 30-60 days terms) in gold scraps or other finished form. This agreement also ensures the availability of raw materials for the continuity of HRTA's gold production, while also linking benefits to rising gold prices. HRTA offers its products in bullion and jewellery – management stated that the current market preference is for smaller-sized gold bars, which could provide a better margin. Moving forward, the company also sees potential in the retail segment, which can be supported by improvements in purchasing power. HRTA's retail stores increased to 85 units, up from 12 units in 2017.
- **Hidden value.** HRTA sees significant potential in non-bankable loans market through its 91 pawnshop stores spread across several provinces in Indonesia, up from just three stores in 2018. Although revenue contribution from this segment is still relatively small (less than c.1%), the margins generated are significantly higher than HRTA's other existing businesses – with the possibility of contributing up to c.10-15% of HRTA's bottomline. Looking ahead, management anticipates loan disbursements to exceed IDR1trn (vs c.IDR400bn currently, translating to revenue from loan interest at c.IDR60bn). As comparison, Pegadaian (a subsidiary of Bank Rakyat Indonesia (BBRI IJ, BUY, TP: IDR5,900)) has a total market size of c.IDR30trn.
- **Enticing valuation.** With robust growth potential supported by stable demand for gold, store expansion, and the additional earnings from pawnshops, we believe management's target of achieving c.15% growth in revenue and bottomline is quite feasible (with net profit margin hovering at 4-5%). Our DCF valuation indicates an attractive upside and displays a multiple that remains appealing vs its sector peers – HRTA's P/E at c.6x (FY24F EPS growth at +20% YoY) vs average consumers (discretionary and retails) at c.15x. Additionally, the company's fair management is evidenced by regular dividend payouts since its public listing in 2017 (23-25% DPR, c.3% annual yield).

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	35.6	19.2	17.4	17.4	7.8
Relative	35.6	19.2	17.4	17.4	7.8
52-wk Price low/high (IDR)				342	-492



Source: Bloomberg

Forecasts and Valuation	Dec-21	Dec-22	Dec-23
Total turnover (IDRb)	5,238	6,918	12,857
Recurring net profit (IDRb)	194	254	306
Recurring net profit growth (%)	13.3	30.7	20.6
Recurring P/E (x)	11.21	8.57	7.11
P/B (x)	1.4	1.3	1.1
P/CF (x)	na	387.51	na
Dividend Yield (%)	1.7	2.1	2.5
EV/EBITDA (x)	9.12	7.30	6.52
Return on average equity (%)	13.5	15.7	16.6
Net debt to equity (%)	120.8	112.8	127.0

Source: Company data, RHB

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Financial Exhibits

Asia	Financial summary (IDR)	Dec-21	Dec-22	Dec-23
Indonesia	Recurring EPS	42.12	55.05	66.40
Consumer Cyclical	DPS	8.00	10.00	12.00
Hartadinata Abadi	BVPS	328.17	373.03	427.25
HRTA IJ	Return on average equity (%)	13.5	15.7	16.6
Not Rated				
	Valuation metrics	Dec-21	Dec-22	Dec-23
	Recurring P/E (x)	11.21	8.57	7.11
	P/B (x)	1.4	1.3	1.1
	FCF Yield (%)	(19.0)	3.8	(21.2)
	Dividend Yield (%)	1.7	2.1	2.5
	EV/EBITDA (x)	9.12	7.30	6.52
	EV/EBIT (x)	9.41	7.50	6.70
	Income statement (IDRb)	Dec-21	Dec-22	Dec-23
	Total turnover	5,238	6,918	12,857
	Gross profit	573	743	947
	EBITDA	440	564	719
	Depreciation and amortisation	(14)	(15)	(20)
	Operating profit	426	549	699
	Net interest	(178)	(223)	(302)
	Pre-tax profit	248	326	396
	Taxation	(54)	(72)	(90)
	Reported net profit	194	254	306
	Recurring net profit	194	254	306
	Cash flow (IDRb)	Dec-21	Dec-22	Dec-23
	Change in working capital	(616)	(212)	(777)
	Cash flow from operations	(433)	6	(509)
	Capex	21	77	48
	Cash flow from investing activities	(30)	(112)	(53)
	Dividends paid	(37)	(46)	(55)
	Cash flow from financing activities	475	150	749
	Cash at beginning of period	50	62	106
	Net change in cash	12	44	187
	Ending balance cash	62	106	293
	Balance sheet (IDRb)	Dec-21	Dec-22	Dec-23
	Total cash and equivalents	62	106	293
	Tangible fixed assets	141	204	233
	Total assets	3,478	3,849	5,029
	Short-term debt	649	885	1,893
	Total long-term debt	1,243	1,163	904
	Total liabilities	1,963	2,127	3,057
	Total equity	1,516	1,723	1,973
	Total liabilities & equity	3,478	3,849	5,029
	Key metrics	Dec-21	Dec-22	Dec-23
	Revenue growth (%)	26.6	32.1	85.8
	Recurrent EPS growth (%)	13.3	30.7	20.6
	Gross margin (%)	10.9	10.7	7.4
	Operating EBITDA margin (%)	8.4	8.2	5.6
	Net profit margin (%)	3.7	3.7	2.4
	Dividend payout ratio (%)	19.0	18.2	18.1
	Capex/sales (%)	(0.4)	(1.1)	(0.4)
	Interest cover (x)	2.38	2.44	2.29

Source: Company data, RHB

Trading strategy

Considering HRTA's strong performance throughout this year, we see the potential for the company's FY24F EPS to grow above +20% YoY. This growth is supported by higher-than-expected gold sales volume (FY24F: 14 tonnes; +11% YoY) – especially in regions with economic growth linked to commodity movements, ie Indonesia's eastern region – against prevailing pressure from weakened purchasing power, and improvements in margins, eg increase in jewellery sales. We also factor in the potential contribution from pawnshop operations in our back-of-the-envelope calculations, with potential revenue from loan interest gradually increasing up to IDR130-175bn in the next five years. HRTA sees significant market potential among communities outside the reach of banks, aligning with management's target to distribute loans in the range of c.IDR1trn through its gold pawnshop business.

While current concerns are focused on the company's substantial inventory levels, it is noteworthy that when compared to its closest peers, HRTA's cash conversion cycle is virtually better (Figure 9). Another important point to consider is the willingness of financial institutions to support the company by using its current inventory value as collateral. This indicates a reasonable valuation of the company's working capital health, in our view. Management also mentioned several interests from foreign institutions in Finland, Germany, and US, which are eyeing solid business opportunities in HRTA. The stock has moved up 35% YTD with robust liquidity (c.IDR13bn of daily trading value).

Figure 1: Valuation methodology

DCF		2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F
EBITDA	IDRbn	1,008	1,045	1,162	1,163	1,382	1,439	1,503	1,572	1,647	1,726	1,810
Δ WC	IDRbn	(1,580)	(217)	(1,036)	(217)	(387)	(465)	(493)	(522)	(552)	(584)	(617)
Capex	IDRbn	(46)	(50)	(54)	(60)	(65)	(72)	(76)	(80)	(84)	(89)	(94)
Tax	IDRbn	(116)	(143)	(160)	(151)	(189)	(190)	(192)	(194)	(196)	(198)	(199)
FCF	IDRbn	(733)	634	(89)	736	741	712	742	777	815	856	900
Period	#	0	1	2	3	4	5	6	7	8	9	10
PV FCF	IDRbn	(733)	567	(71)	525	472	405	377	353	331	310	291
WACC	%	12%										
Terminal growth	%	3%										
Sum of PV FCF	IDRbn	2,826										
PV of terminal value	IDRbn	3,529										
Total	IDRbn	6,356										
Net debt (cash)	IDRbn	3,710										
NCI	IDRbn	6										
Equity value	IDRbn	2,640										
# shares	bn	4.6										
EV/share	IDR	570										
P/E												
EPS 2024F*	IDR/share	89										
EPS 2025F*	IDR/share	110										
24/25F RHB EPS*	IDR/share	100										
24/25F Cons EPS	IDR/share	87										
Cons 12-M TP	IDR	580										
Target multiple (Cons)	x	6										
Rounded TP	IDR	670										
Combined valuation												
Average TP	IDR	620										
Last price	IDR	472										
Upside	%	31%										

Note: *Unofficial, extrapolated by margin and growth scenarios during 1H24's achievements

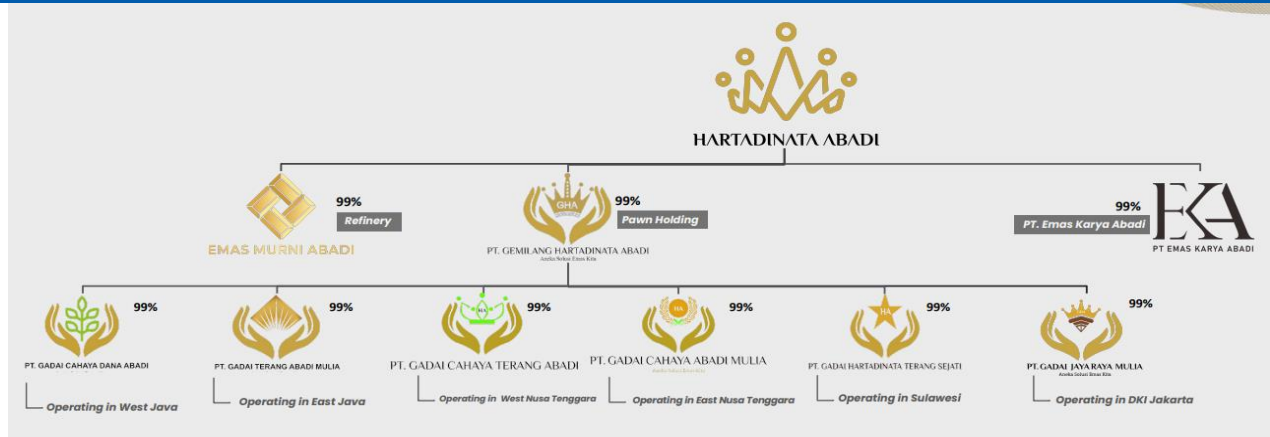
Source: Company data, RHB

Figure 2: HRTA's milestones

1989	Ferriyady Hartadinata established his gold business.
1995	Started own jewellery production with 625,000 g/month capacity and set up the first factory.
1998	ACC Gold Jewelry was the first outlet opened.
2004	Hartadinata Abadi was officially established 29 Mar 2004.
2006	The company opened its first modern outlet under the name "Claudia Perfect Jewellery" and established a second factory for casting products (capacity 500,000 g/month).
2009	Opened its third casting factory (capacity of 375,000 g/month).
2015	Opened its fourth factory for necklace product (capacity 1,000,000 g/month), first two modern outlets for "Celine Jewellery", and "Sapphire" gold chain factory.
2016	The company opened a second outlet for "Claudia Perfect Jewellery".
2017	Made its initial public listing on the Indonesia Stock Exchange under the ticker code HRTA.
2018	HRTA expanded its business by opening several stores under the ACC brand in Jakarta, Bandung, Madura, and Batam.
2019	<ul style="list-style-type: none"> The company continued to open several stores under the ACC and ACC Premium brands in West Java, East Java, Jakarta and Makassar, reopened one Claudia Perfect Jewellery store in Bandung and opened ACC Matahari Department Store in Jakarta, Bekasi, Cirebon, Madiun, Kediri, Depok, Malang, and Bandung. Launched the Metamorphosa Collection jewellery design and participated in the Indonesian Fashion Designers Association (IPMI) Trend Show 2020.
	<ul style="list-style-type: none"> The company has an exclusive partnership with Shopee under ACC (Aurum Collection Center) jewellery collection
2020	<ul style="list-style-type: none"> Hartadinata Gold Bar was launched in small fractions simultaneously across the company's network. Participated in the IPMI Virtual Trend Show 2021. The company collaborates with Emas Antam Indonesia, a subsidiary of Aneka Tambang (ANTM IJ, BUY, TP: IDR1,800), and launches gold products under the name Emaskita for micro gold products and Kencana for gold jewellery products with a gold content of 99.99%.
	<ul style="list-style-type: none"> It has an exclusive partnership with Tokopedia
2021	<ul style="list-style-type: none"> Selected as The Top 50 Best Companies 2021, according to Forbes Indonesia magazine. Held exhibitions of Emaskita and Kencana jewellery simultaneously in West Java, Central Java, and East Java. Participated in an event entitled "Cipta, Rasa, and Karsa: Art in Creating and Collaborating" by streaming on Instagram together with Era Soekamto (Fashion Designer & Nusantara Wisdom Consultant) and Lina Gun (Editor-in-Chief Indonesia Design Magazine). Rebranded the ACC Store to Hartadinata Abadi Store. Opening of several shops and pop-up stores under Hartadinata Abadi Store brand in areas such as Jakarta, East Java, West Java, Yogyakarta, North Sumatra, Riau, and South Sulawesi.
	<ul style="list-style-type: none"> Participates in various events, ie the Wedding Fair Bridestory Market, Wedding EXPO 2022, Asia's Largest International B2B Jewellery Event in 2022, and the 25th Surabaya International Jewellery Fair. The company sponsored various events, eg Vesak Day Lantern Festival, MNC Charity Fun Run 2022, and Pabbajja Samanera Sementara 2022. Holding exhibitions of Emas Kita Precious Metals and Kencana jewellery in the East Java region and participating in several events such as the 14th Jakarta International Jewellery Fair 2023.
2023	<ul style="list-style-type: none"> Opened several new stores in Jakarta, East Java, Central Java, Riau Islands, South Sumatra, and South Sulawesi. On 25 Jan 2023, HRTA signed a Refinery Cooperation Agreement with Emas Murni Abadi. On 28 Feb 2023, the signing of the export cooperation to open promising international expansion opportunities. On 15 Dec 2023, the signing of the export cooperation with Bright Metal Refiners (BMR).

Source: Company data

Figure 3: HRTA's corporate structure



Source: Company data

Figure 4: HRTA's gold factories



Source: Company data

Figure 5: HRTA's gold value chain



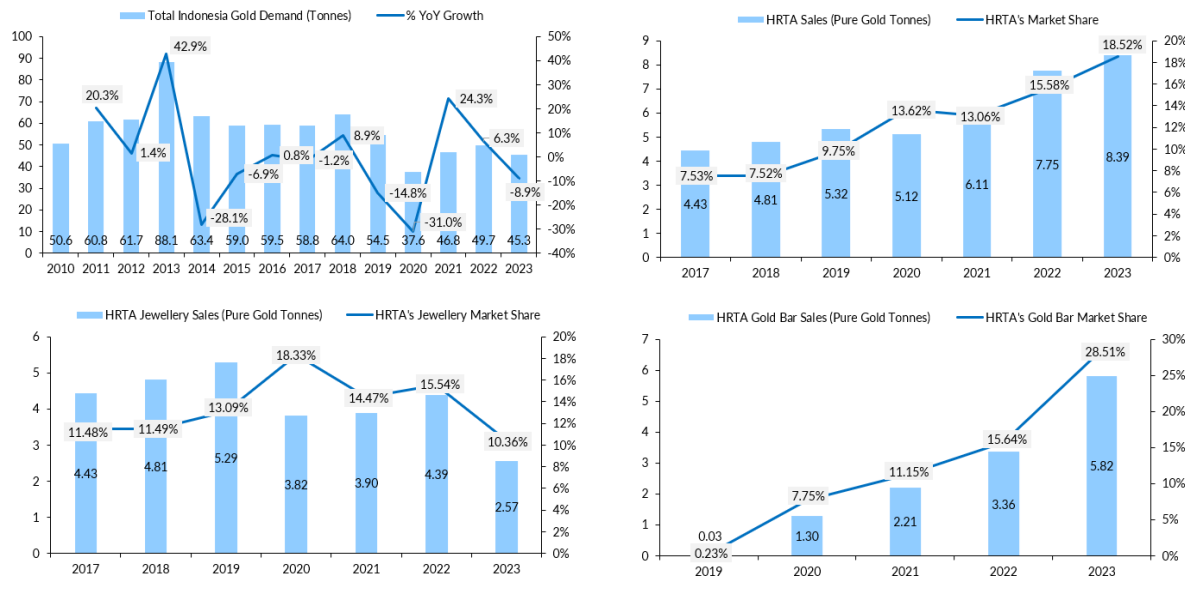
Source: Company data

Figure 6: HRTA's channel and business diversification



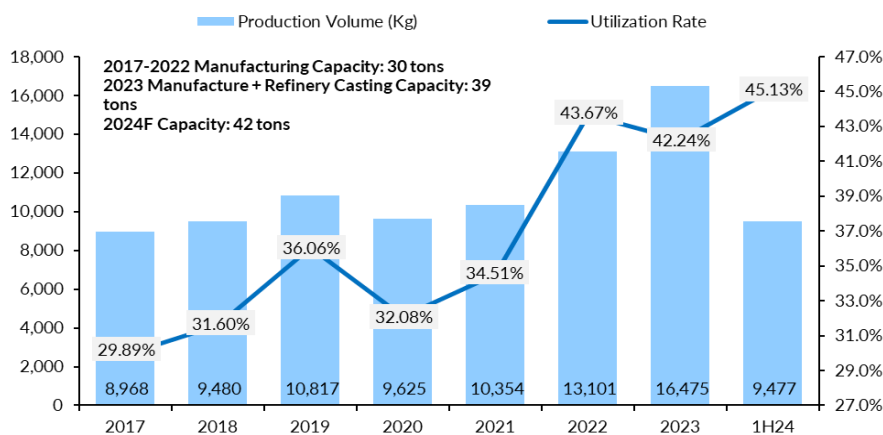
Source: Company data

Figure 7: HRTA's improvement in market share for overall gold business (gold bar and jewellery)



Source: Company data, RHB

Figure 8: HRTA's production vs utilisation



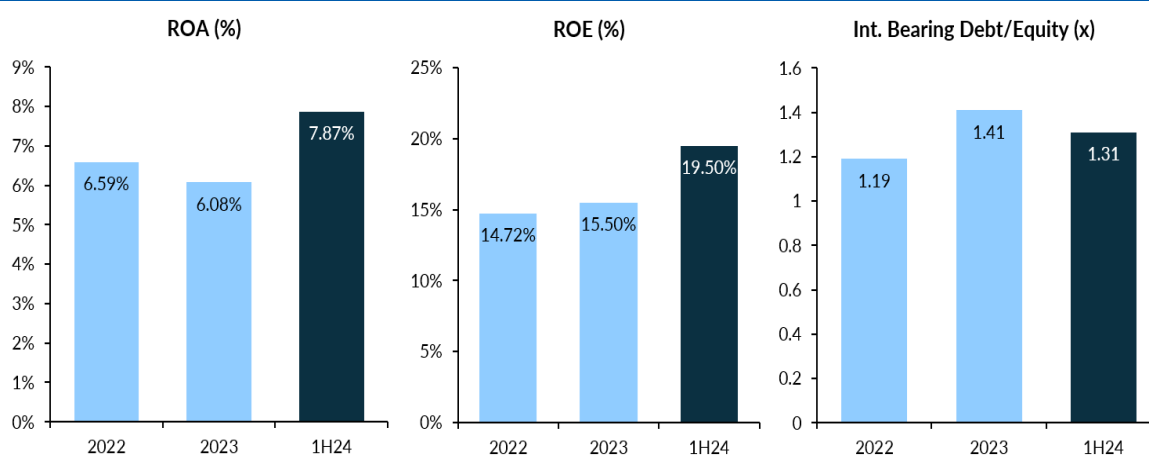
Source: Company data, RHB

Figure 9: HRTA's peers comparison

	Chow Tai Fook	Titan Co Ltd	PNJ	HRTA
Operating and efficiency	Hongkong/China	India	Vietnam	Indonesia
ROA (%)	6.15	13.48	13.26	6.08
ROE (%)	16.31	30.73	19.06	15.50
Gross Margin (%)	22.36	24.81	18.23	7.36
Operating Margin (%)	8.07	11.08	7.39	5.43
Net Margin (%)	5.69	8.04	5.34	2.38
Cash Conversion Cycle	296.09	171.73	127.83	127.95
Growth (3-year average)				
Revenue (%)	18.60	24.47	25.84	48.16
Net Income (%)	22.89	29.36	14.89	21.55
Valuation				
PER (x)	19.01	92.07	19.80	5.76
PBV (x)	4.78	25.64	3.35	0.83
P/S (x)	1.28	6.73	1.21	0.16

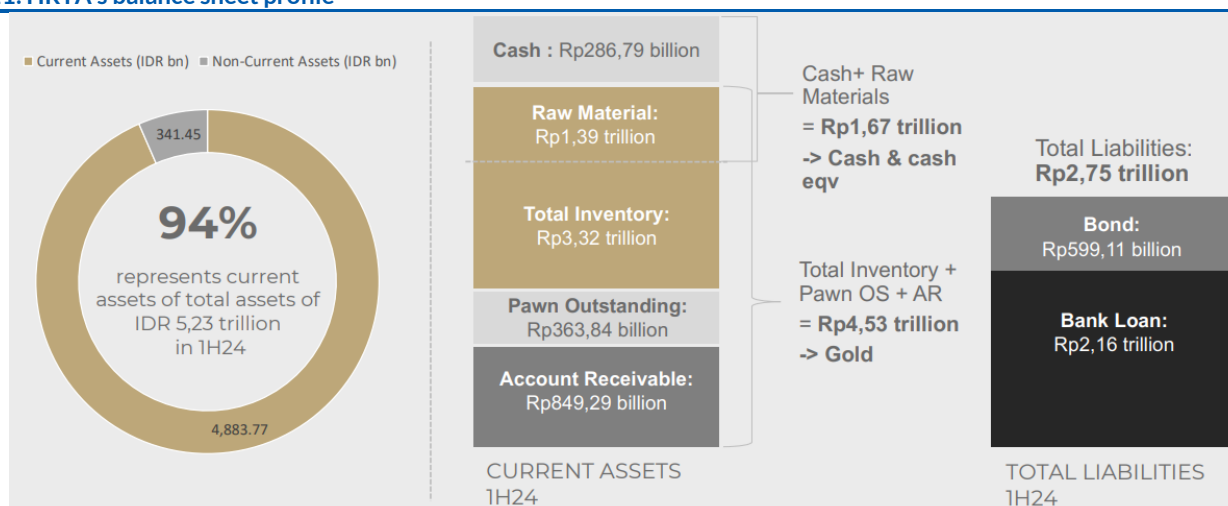
Source: Company data, RHB

Figure 10: HRTA's profitability and debt management



Source: Company data, RHB

Figure 11: HRTA's balance sheet profile



Source: Company data

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