



**Story-I Limited is an Apple Authorised Reseller that operates 16 Apple and related stores in Indonesia (through its 95% owned subsidiary PT Inetindo Infocom) and 1 Apple Premium Reseller in Vietnam. Their store portfolio includes 6 iConnect stores retailing Samsung and Lenovo devices, computers and lifestyle accessories instore and online, and GeekZone providing Apple software, equipment servicing and apps. A minimum of 4 new store openings (target of 7) in Indonesia already confirmed to open by end of FY16.**

## Company Strategy

An aggressive growth strategy; strong organic growth in domestic and regional store openings while driving customer reach through its Enterprise and Education divisions and with its recently launched online and application strategy. Recent partnerships penetrate non-retail sectors, in particular the lucrative Education and Enterprise market, and additionally provide recurrent revenue.

## Event

We initiate on Story-I with a BUY recommendation and A\$0.15 price target.

## Catalysts

- **Replication of business model and strategy across core markets:** Story-I is moving towards becoming a consolidator of the fragmented Apple legacy resellers in Indonesia, targeting middle to high income households. Current plan is to continue South East Asian expansion with close co-operation with Apple on approved sites. iConnect stores have Lenovo distribution rights, targeting low to middle income households. Appointment as Citrix reseller penetrates the B2B market with a leading global brand, and capitalises on the growth of SMEs and MNCs in South East Asia. Already strong interest is experienced from a major automobile company. Partnership with Indonesian private education provider BPK Penabur indicates additional revenue contribution will be derived from the inelastic demand from a potential of 55 million students from over 250 000 schools, with 65% of senior secondary being private.
- **"Premium" reseller status from "authorised" delivers favourable pricing terms during growth:** Story-I has built the platform with store and online presence across its retail, distribution, enterprise, education, and expanding E-commerce divisions to maintain their reputation of third largest Apple reseller in Indonesia and growing (Apple has approached Story-I as its main reseller). Sustained investment in brand and market positioning via retail, Enterprise, Education and E-commerce and app engagement capitalises on the market's "Western" brand image of Apple, Samsung and Lenovo that drives sales.
- **Favourable trends in demographics and economic growth of target markets:** Population of three core markets Indonesia, Vietnam and Myanmar total to 399m. Over 60% of Indonesia and Vietnam's population is under the age of 40, with median age at 29 years. Indonesia's consumer electronics and appliances market is the largest in South East Asia and is expected to grow from A\$222m to A\$243m in 3 year's time. This facilitates the expected doubling of smartphone users from 52m to 103m by 2018. Associated lifestyle expenditure and class hierarchy underpins demand for high margin accessories.
- **Strong earnings growth outlook:** EBIT forecasted to grow from A\$1.9m in FY15 to A\$2.5m in FY16 driven by divisions growth. There is strong potential to add scale to existing network via acquisitions of less than 4 times EBITDA given the fragmented industry of Apple legacy resellers. A\$648 000 capital was raised during FY15, with further A\$1.08m capital raised in early FY16 to drive store roll out, building the Enterprise, Education and E-commerce platform and working capital.
- Key risks to our view are potential disruptions in supply chain after aggressive growth strategy, failure to negotiate exclusive distribution rights or favourable terms of trade, cash flow timing issues due to high capital investments, unhedged fluctuations in US, Singaporean and Indonesian currency. These risks are considered low.

## Price

- A\$0.15 based on 20% EV/EBITDA 80% P/E methodology
- Catalyst: Execution of strategy exceeds expectations

## Investment Case

**Indonesia, the world's 4th most populous nation at 253m people, is expected to grow to over 280m by 2030.** There has been rapid urbanisation rate of 2.7% over the past five years and the urban population is expected to reach 71% in 2030 up from 53% as of 2015. Story-I is positioned in the strongly growing middle-class and affluent consumer (MAC) population, expected to increase from 30% to 50% of the population by 2020 at a rate of 8-9m people annually. Rising incomes drives discretionary spending in electronics



and appliances market. Story-I is also positioned for growth due to low levels of smartphone penetration (27%) in electronics market. Smartphone user penetration as share of mobile phone users is expected to increase from 37% in 2014 to 50% in 2019. Similar exposure to ASEAN trends saw iCar and iProperty grow enormously despite making losses. In contrast, Story-I is profitable, and consumer luxuries such as smartphones are purchased earlier than vehicles or real estate assets as GDP grows.

**Increase in demand for thin client applications using Apple's iOS system expected to form 20% of FY16 revenue.** Citrix (CTXS. NASDAQ) is a US MNC that provides secure mobile workspaces and experienced CY14 \$3.14b revenue. The FY16 signed reseller agreement with Citrix bundles Apple devices with Citrix enterprise software solutions to facilitate business mobility, supply chain and employee productivity through mobile access to desktop, data and cloud based application software. The Enterprise division expects doubling of revenue from high margin device sales and Enterprise software commissions, while annual software service and upgrade contracts are a recurring income source. Story-I is the most active in the Enterprise sector and growth is driven by manufacturing and supply chain MNCs, creating potential to reach the greater ASEAN region and achieve significant upside to FY17 revenue.

**A\$2.5m of FY16 revenue and 40% annual revenue growth expected from the Education division.** Story-I secured an agreement early FY16 with Indonesian education provider BPK Penabur to supply and service 45 Indonesian private schools (preschool to tertiary) with Apple bundled devices and solutions, infrastructure to support online education and host their servers. This places the Company in a strong position to deliver upgrades and new products over the long term. Established in 1950, BPK Penabur provides access to 15 cities in Indonesia, Asia's third largest education system with over 55m students. Education is central to the Indonesian Government's development agenda with a 13.3% increase in Budget spending to A\$14.5b in CY15. Apple technology has potential to transform the classroom with innovative tools in its iPads and Macs tailored to varied educational requirements.

**iConnect website launched late FY15 provides significant reach beyond brick and mortar store locations with low labour costs and 30% annual revenue growth.** Indonesia's E-commerce community is expected to reach a \$10b valuation in CY15, with 40% growth over the short term. This is driven by the increasing online purchase activity currently witnessed in the fastest growing customer demographic, those between 16 and 30 years old. Two of Indonesia's top three online networks, tokopedia.com and bukalapak.com, have agreed on joint promotions to further capitalise on this. Story-I will deepen its product offerings with a membership program re-launched at the start of FY16 with prioritised special promotions, discounts and rebates. Continued investment in market data analytics leverages the online customer database into in-store repeat sales. There is a monthly rate of over 2000 membership sign-ups in store during the sale process, an indicator of growth in their loyal customer base.

**Management expect to operate over 23 stores by end of CY16 in Indonesia, Vietnam and Myanmar.** A minimum of 4 new store openings (target of 7) in Indonesia already confirmed to open by end of FY16 and expected to contribute 15% of revenue. Positive revenue contribution commences 6 months from store opening. The first flagship Apple store, counting as the 17th outlet for Story-I, opened in new luxury SC VivoCity mall in Ho Chi Minh City, Vietnam early FY16. Opportunities exist in replication of the successful Indonesian business model in Vietnam with better terms of trade. FY16 management forecasts are based on 20 stores in portfolio. This is based also on current roll out rate for FY16 with 14 stores and 2 additional stores that opened in Q1FY16.

**Visits and sales of first Apple Premium Reseller store in Vietnam exceeded expectations.** The SC VivoCity mall in Vietnam is a 5 storey mall, positioned as a family lifestyle destination for locals and expats, and is part of a 4.4 hectare complex comprising of modern office blocks and internationally operated serviced apartments. Vietnam has a 92m population with similar demographic and lifestyle consumer market trends to Indonesia, making it the next high growth market. 8 further outlets are expected over the next 3 years, 1 of which is expected end of FY16. Such growth signals the start of a strategy that will penetrate the growing middle class of South East Asia's 600m population.

**Acquisitions and growth in Enterprise, Education and E-Commerce Division has not been fully factored in, hence considerable upside likely for FY17 earnings.** FY15 revenue of A\$22.7m is a 3.8% increase from FY14. NPAT was A\$1.93m, a 7.9% increase from FY14, growing faster than revenue from cost efficiencies. FY15 OPAT was A\$1.24m, up 18.2% on pcp. New Apple product launches including new generation iPhone 6S Plus, Macbook, iMac, Apple Watch 2, iPod and Apple TV are planned up until April 2016. Small electronic purchases (phones, smart watches, etc.) are the fastest growing sector. The Company expects to enhance its net margins through a higher percentage of revenue derived from the high margin wearables, which are expected to be well received. Better product mix and leverage to the upgrade cycle of products will improve gross margins, whilst recurring revenue is sourced through Geek Zone's maintenance services. Expansion into Vietnam and replication of strategy will scale revenue growth.

**The Company has a short-term revolving credit facility with Bank CTBC which funds stock purchases and accounts receivable.** As at 30 June 2015, A\$1.3 million was drawn down. The utilisation of the revolving credit facility would fluctuate and depends largely on seasonal requirements around new product launches and large Enterprise sales. Recent capital raising of A\$1 million will allow Story-I to minimise the utilisation of the revolving credit line and thereby reduce the interest expense. The Company will maintain this credit facility as a standby facility for peak seasonal working capital requirements.

**FY16 free cash flow conversion is expected to improve significantly from the inflow of A\$7.5m worth of receivables, exceeding total liabilities of A\$5.3m.** Positive operating cash flow to be realised in FY16. FY15 decline in cash conversion is attributed to negative operating and investing cash flows, particularly the reduced receipts from customers and interest paid during FY15. The security deposit for the acquisition of Story-I Ltd caused a rise in investing cash outflow. These will be offset by an A\$1.08m inflow from the issue of 18m shares, with E-commerce and store expansion attracting higher sales revenue of A\$28m (conservative) for FY16.



## Key Risks

**Lack of owner diversification potential for reputation risk:** Majority large shareholders are established Indonesian warehouse and logistics providers, who may be inclined to unfavourable treatment of ASX investors. Negative accounts increases risk of minimal returns to shareholders. However, the latest capital raising on ASX indicates steps taken towards making most of the growth opportunities using ASX as a platform for expansion. The Company's voluntary listing on the ASX also signals desire to impose transparency and quality corporate governance in managing such growth.

**Foreign exchange risk:** Exposure results from the denomination of certain transactions in US dollars, Singapore dollars and Indonesian Rupiah due to operations in Indonesia and administrative expenses in Singapore. However a significant portion of purchases are Indonesian Rupiah which mitigates the exposure. Exposure may result in future cash flows of a financial instrument fluctuating due to foreign exchange rate movements. These exposures are not hedged against. Nonetheless the short-term revolving credit facility with Bank CTBC funds stock purchases and accounts receivable transacts mostly in local currency (IDR), which minimises foreign currency risks.

**Capital intensive investments incur high costs in short term:** Store roll out target of 7 new stores combined with distribution agreements such as with Lenovo is capital intensive, though favourable terms of trade can be achieved by stakeholders in the supply chain such as suppliers and end consumers. This is likely as the two largest Apple resellers Infinite (30 stores) and iBox (25 stores) are concentrated in Jakarta whilst Story-I stores are spread over ten cities throughout Indonesia and now Vietnam; therefore they have a decent risk profile. FY16 working capital expected to reach A\$8m.

## Valuation

Story I		
Year ended 30 Jun	FY15	FY16
Market Value Equity	8,428,000	20,766,000
Debt*	5,356,677	8,000,000
(Cash)	80,596	90,000
Shares Outstanding	120,400,000	138,440,000
Sales Revenue	22,700,631	28,000,000
Valuation		
EV	13,704,081	28,676,000
EBIT	1,846,142	2,500,000
EBITDA	1,961,579	2,615,437
EV/EBIT	7.42	11.47
EV/EBITDA	6.99	10.96
Share Price	0.07	0.15
EPS	0.015	0.018
Annual EPS Growth	14%	18%
PE Ratio	5	8
PEG Ratio	32.61	46.25
Relative PE	57	.
Average Annual PE	9.10	.
PB Ratio	0.07	0.15
Returns		
ROA	14.6%	31.3%
ROC	31.4%	17.9%
ROE	28.3%	16%
Leverage		
Net Gearing	24.2%	50.4%
Net Interest Cover	10.4	8.3
Debt/Equity Ratio	0.64	0.39
Operating		
Net Profit Margin	5.9%	8.9%
Working Capital Turnover	456%	350%

\*includes trades payables, bank borrowings and other payables

Source: Company Documents

Comparables 2015	EV/EBITDA	PE Ratio
Story I Ltd	7	5
Dick Smith Holdings Ltd	8	9
Erajaya Swasembada	6	8
Vita Group	9	0.2
Mobile World	10.5	16
Average	8.3	8
Story I Prem/Disc	-16%	-40%

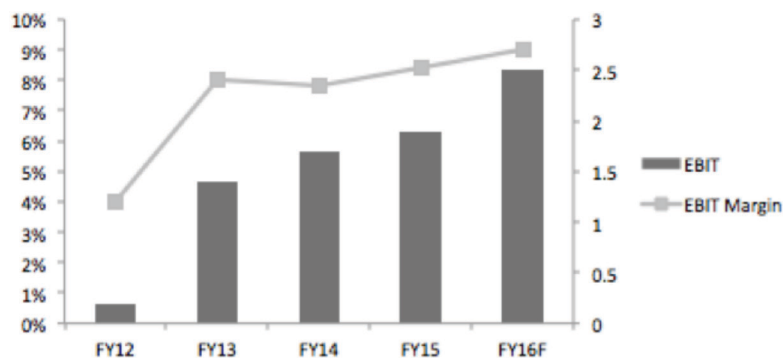
Share Price Valuation Ranges	EV/EBITDA	PE Ratio
Low	0.053	0.003
Average	0.091	0.127
High	0.127	0.245

Share Price Valuation Target

Source: Company Documents

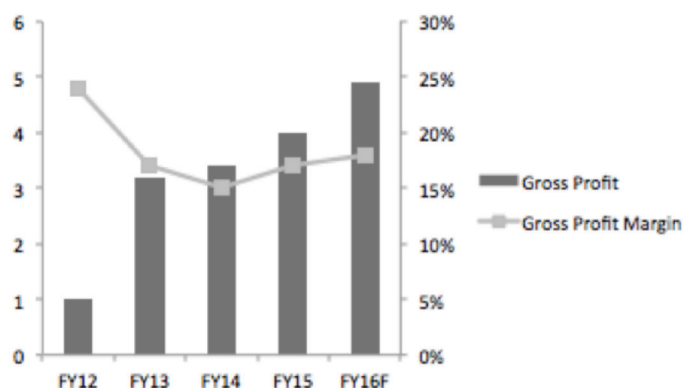


## Appendix



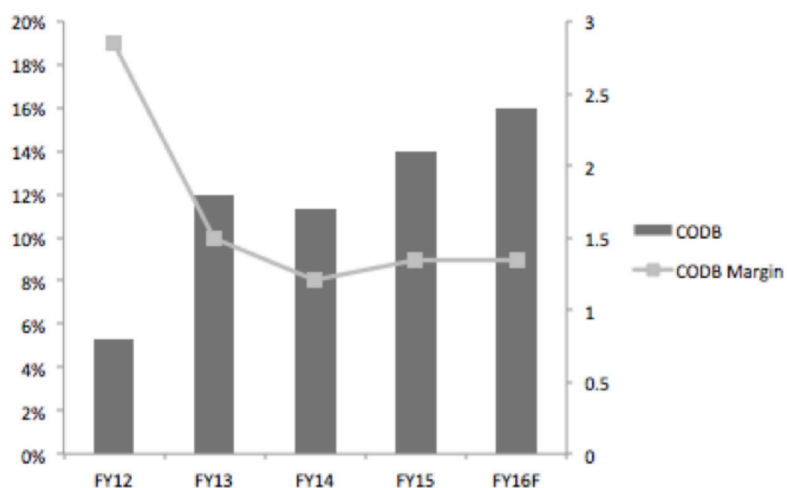
Source: Company Documents

Past performance is not indicative of future performance.



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