

18<sup>th</sup> December 2023

**Indonesia e-commerce follow up: TikTok and GoTo join hands**

On 11<sup>th</sup> December 2023, Chinese social media company TikTok announced that it will invest USD 1.5 billion in Tokopedia, the e-commerce unit of Indonesian tech giant GoTo. TikTok will subscribe to new shares representing 75% of Tokopedia post-dilution. After completion, the official narrative is that Tokopedia will be run as a joint venture between GoTo and TikTok, with GoTo maintaining operational control over the entity.

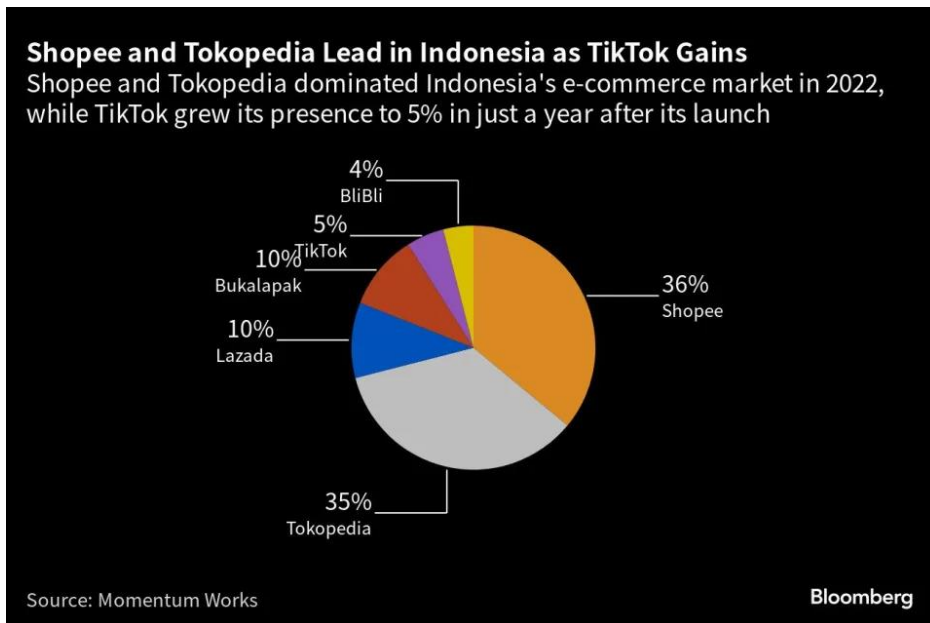


Around early October, the Indonesian government banned TikTok from operating in the country TikTok Shop, the company's e-commerce platform. We wrote a piece on this news that can be retrieved [here](#) which described the Indonesian e-commerce landscape and the perceived reasons as to why the Indonesian government enacted a ban against TikTok Shop.

As a quick reminder, the Indonesian e-commerce landscape is dominated by two companies – Tokopedia that was started in Indonesia and Shopee that was started in and is still managed from Singapore. Both these companies have been struggling to provide strong financial results in a post Covid world where e-commerce growth has slowed down, and at a time when improving margins without cutting growth has become impossible. TikTok Shop made the competitive landscape more difficult to navigate when it opened in Indonesia in 2021 as it reached around 10% market share within two years by massively undercutting the prices of the goods offered by the incumbents. The government reasoning for the ban last October was to protect small “mom and pop” stores in Indonesia, however without backing up its narrative with any market analysis or data. It was widely perceived at that time that the Indonesian government was trying to save its home-grown Tokopedia that was struggling.

The TikTok GoTo so-called “joint venture” that translates into TikTok taking over Tokopedia was announced only a couple of months after the ban against TikTok Shop. It shows TikTok’s eagerness to remain a strong player in the Indonesian e-commerce space, especially as the terms of the deal are perceived to be very sweet for GoTo, Tokopedia’s current owner: The USD 1.5 billion valuation for 75% of Tokopedia is much higher than the valuation most analysts were attaching to Tokopedia prior to the deal being announced.

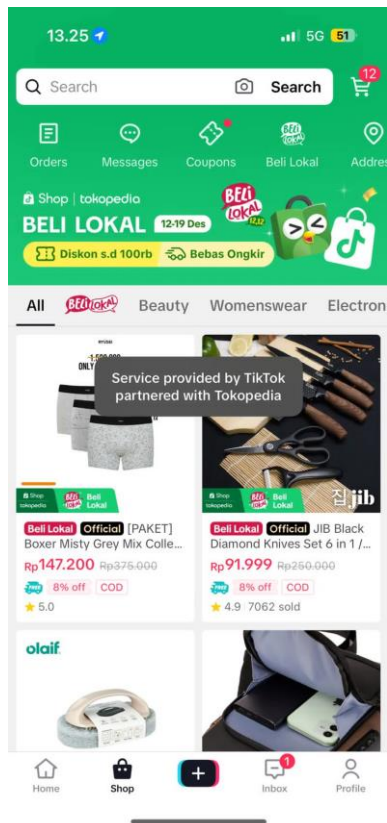
Looking into the details, there will be an initial USD 840 million cash injection by TikTok that will only be used towards accelerating Tokopedia’s growth and increasing its market share. The GoTo CEO openly stated that this was the only way for Tokopedia to maintain its market share.



It was very interesting to notice that as soon as the deal was announced, TikTok Shop resurfaced in Indonesia with a very similar interface to the one it had prior to being banned last October. When the Indonesian government ruled that social media could no longer offer e-commerce services, there was nothing that stipulated that a partnership between an existing e-commerce company and an existing social media such as the one TikTok and Tokopedia just announced would be authorised. However, TikTok seems to be having no problem operating today. This has led to rumours in Indonesia that the initial ban had been implemented for the sole purpose of saving Tokopedia, and that the latest transaction is nothing else than a bailout of Tokopedia by TikTok as Tokopedia was about to hit the wall.

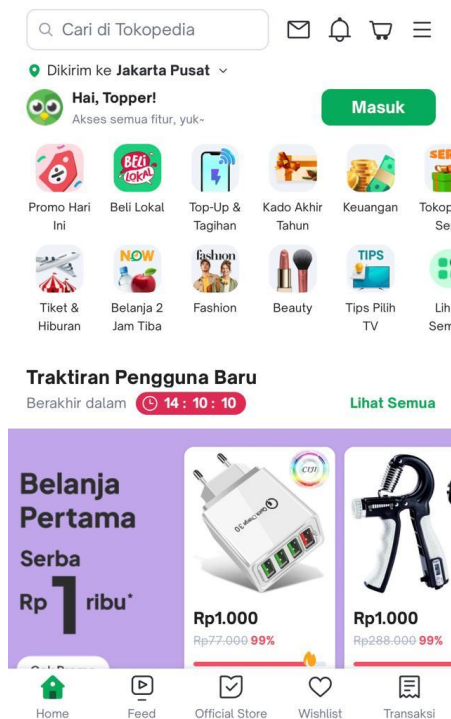
This new information adds an interesting dimension to the analysis. It suggests that the Indonesian government may have adopted a flexible approach to regulation, or that there are loopholes in the legislation that allow arrangements like this to exist. It also reinforces the idea that the initial ban may have been aimed at protecting Tokopedia, and that the current deal is a way for TikTok to enter the Indonesian e-commerce market while complying with government restrictions.

The only two noticeable differences between the old and the new TikTok Shop interface is the mention that it is a "service provided by TikTok, partnered with Tokopedia" and the addition of a Tokopedia logo on the page:



*TikTok Shop interface*

Meanwhile, the Tokopedia platform is still running:



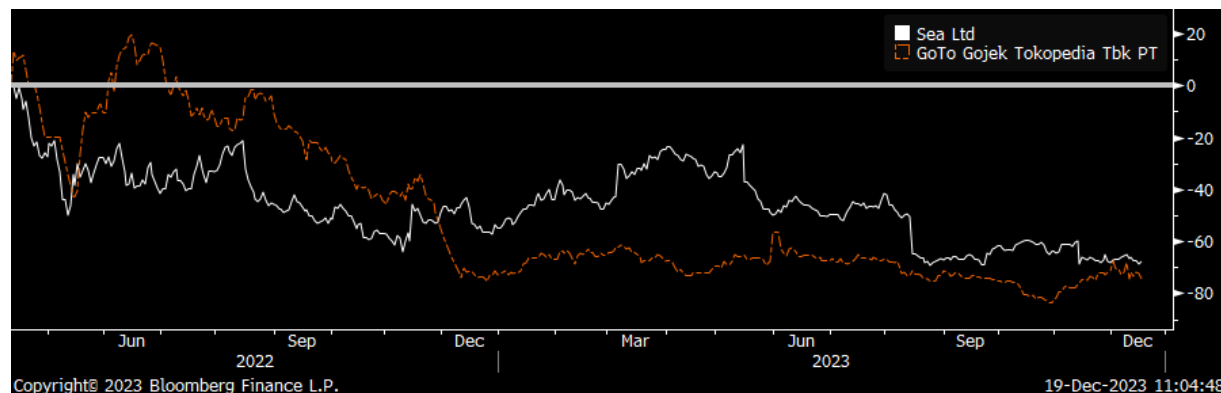
*Tokopedia interface*

As mentioned, the murky nature of the deal has led to speculation in Indonesia that the TikTok Shop ban had been enacted purely to protect Tokopedia. Tiktok Shop is now back in action even though it remains officially banned. Calling this deal a joint venture even after TikTok subscribed to 75% of Tokopedia is ironical. Moreover, one can only speculate as to why the Indonesian government let the deal happen only two months after having banned TikTok Shop from operating in the country. The most popular narrative is that Indonesia does not want to ruffle too many feathers when it comes to China, its largest trading partner, and a key investor in the country. On the social media side, Indonesia is TikTok's second largest market in the world in terms of current user base. One could think that being too harsh on TikTok could have had undesired repercussions.

For now, we remain cautious on the Indonesian e-commerce space. Our view on the sector has remained unchanged ever since we discussed the GoTo IPO in a newsletter, back in April 2022. Growth has been hard to come by, and margins are difficult to push higher without significantly undercutting growth. While the so-called "joint venture" will give some breather to GoTo, Tokopedia's former parent, medium term growth still looks muted. And finally, with the intense competition existing between Tokopedia and its main rival Shopee, and with Tokopedia now having the formal backing of TikTok, competition can only get fiercer.

This is quite certainly what the shareholders of Shopee concluded when they saw the deal between GoTo and TikTok: The share price of Shopee's parent company SEA Ltd (listed on the US Nasdaq) dropped by 22% the next day.

Looking at the following share price comparison between GoTo and SEA Ltd, anyone can easily reach the conclusion that e-commerce in Indonesia has not been a happy investment for shareholders.



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