

Matahari Department Store Tbk (LPPF)

Reaps Effective Strategy and Efficiency

Efficiency: Growth Bolster

LPPF posted 4Q17's sales of IDR2.5 trillion (+37% q-q, +4% y-y) and achieved the overall 2017's sales of IDR10 trillion (+1% y-y). **The hike of 3.7% in same store sales growth (SSSG)** edging up from 3Q17's SSSG of -1.2% bolstering the sales.

The incline in SSSG coupled with the incline in gross sales were posted by all stores in Jakarta, Java Island, and non-Java. It also posted the increment of 65% in the total transactions compared to 3Q17's total transactions. Besides, **it also performed the cost efficiency embodied in reforms of store-staff schedule** resulting in a maintainable operational cost and the cash of IDR1.6 trillion (+167% q-q, -8% y-y) albeit the sluggish retail conditions in the domestic market.

A More Effective Marketing Strategy

In 2017, it actively performed a number of strategies to boost its market share, such as the use of **big data analytics** for figuring the trend of consumer behavior. The increment of 47% in loyalty membership program caused **the direct marketing strategy to work more effectively and hit the precise target**. Furthermore, the collaboration with Disney and several local artists also improved the performance of sales segment and the total sales.

Target Price of IDR13,750

We use the estimate of forward P/E of 17.7x (1SD lower than the last 3-year average of 22.9x as the basis for valuation method). The target price implies a 2018E P/E of 18.6x (vs 14.6x at the present time)

Matahari Department Store Tbk | Summary (IDR bn)

	2016/12A	2017/12A	2018/12E	2019/12E
Sales	9,897	10,024	10,670	11,213
<i>Sales growth</i>	9.9%	1.3%	6.4%	5.1%
EBITDA	2,795	2,670	3,016	3,177
Net profit	2,020	1,907	2,160	2,275
EPS (IDR)	692	654	740	779
<i>EPS growth</i>	13.4%	-5.6%	13.2%	5.3%
BVPS (IDR)	636	798	1,146	1,412
EBITDA margin	28.2%	26.6%	28.3%	28.3%
Net Profit Margin	20.4%	19.0%	20.2%	20.3%
ROE	136.4%	91.2%	76.2%	60.9%
ROA	46.2%	37.1%	36.4%	33.0%
ROIC	136.5%	90.4%	76.0%	60.7%
P/E	21.9x	15.3x	14.6x	13.9x
P/BV	23.8x	12.5x	9.4x	7.6x
EV/EBITDA	15.2x	10.3x	9.7x	8.9x
DPS (IDR)	485	392	513	540
<i>Dividend yield</i>	3.2%	3.9%	4.8%	5.0%

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

Company Report | Mar 07, 2018

Buy

Dec 2018 TP (IDR)	13,750
Consensus Price (IDR)	12,751
TP to Consensus Price	+7.8%
vs. Last Price	+27.3%

Shares data

Last Price (IDR)	10,800
Price date as of	Mar 02, 2018
52 wk range (Hi/Lo)	15,950 / 8,475
Free float	82.5%
Outstanding sh.(mn)	2,918
Market Cap (IDR bn)	32,243
Market Cap (USD mn)	2,341
Avg. Trd Vol - 3M (mn)	3.67
Avg. Trd Val - 3M (bn)	39.3
Foreign Ownership	68.9%

Trade, Services & Investment

Retail

Bloomberg	LPPF.IJ
Reuters	LPPF.JK

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Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	8.0%	-0.5%	2.9%	-16.4%
Rel. Ret.	4.4%	0.2%	-6.9%	-38.1%

A Glance at LPPF

LPPF is a retail company running its business through Matahari brand. It was founded in 1958 as the children apparel situated in Central Jakarta. Its businesses covering retail sales, consignment, and service revenues **target the low to middle income classes**. Having 156 stores situated in across Indonesia, it dominates the retail market share in Indonesia.

It performs expansion by launching new stores and developing the online platform with a view to strengthening its market share. Moreover, it also implements the strategy perfecting marketing and merchandising program with a view to strengthening its market penetration.

Indonesia's Retail Industry in ASEAN

Indonesia is the home to biggest population in ASEAN. It develops Indonesia into the **lucrative market for the retail business**. LPPF, RALS, MAPI with their stores across Indonesia dominate the retail market in Indonesia.

The retail industry in ASEAN market is sluggish, for instance it marks the negative sales growth figures in Singapore and Thailand. This backdrop causes the retailers in ASEAN to **strictly curb the operational cost** with a view to balancing market. Nonetheless, in 2017, most of retailers consistently posted high price-earnings ration and two-digit ROE.

In Indonesia, Aprindo targets the growth of 9% in 2018's retail business. In the margin side, the **retailers in Indonesia are capable of posting higher margin** than are its peers in ASEAN.

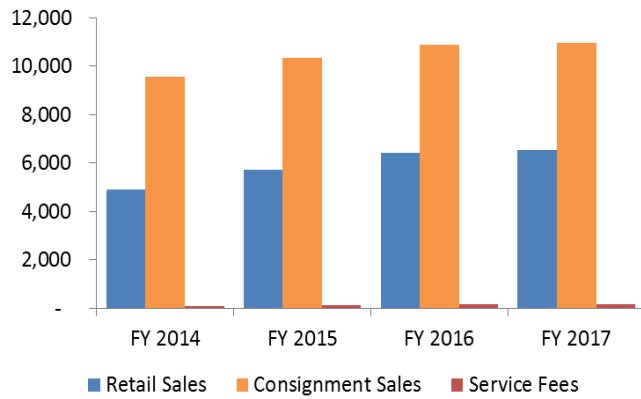
ASEAN Retailers

Company	Market Cap (USD mn)	Total Asset (USD mn)	Sales Growth	Gross Margin	Operating Margin	ROE	P/E	P/BV	Dividend Yield
LPPF	2,341	399	1.28%	63%	23.7%	91.2%	15.3x	12.5x	3.9%
RALS	633	343	5.86%	38%	6.3%	12.3%	19.9x	2.4x	2.9%
MAPI	880	789	10.26%	49%	6.3%	9.5%	35.9x	3.0x	0.3%
Singapore									
Metro Holdings	718	1,114	-15.12%	7%	-1%	13.6%	4.9x	0.6x	4.4%
Malaysia									
Parkson Holdings Bhd	131	2,270	2.07%	N/A	-3%	-4.2%	N/A	0.2x	N/A
Thailand									
Robinson PCL	2,246	846	-0.34%	25%	-1%	17.3%	25.7x	4.3x	2.0%
Philippines									
SM Investments Corp	21,981	19,205	8.63%	39%	16%	10.5%	34.7x	3.5x	0.8%

Source: Bloomberg, NHKS research

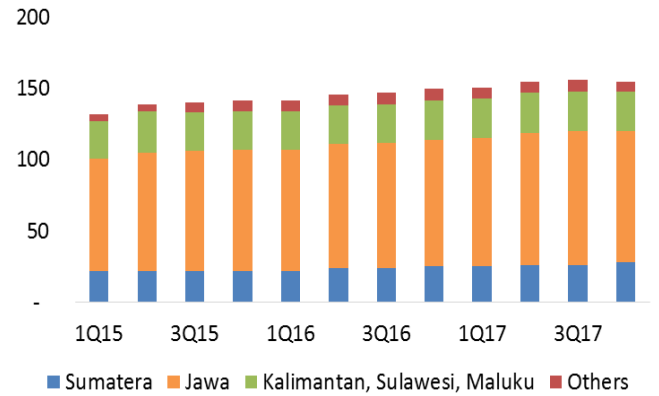
Operational Performance

Sales | 2014 - 2017



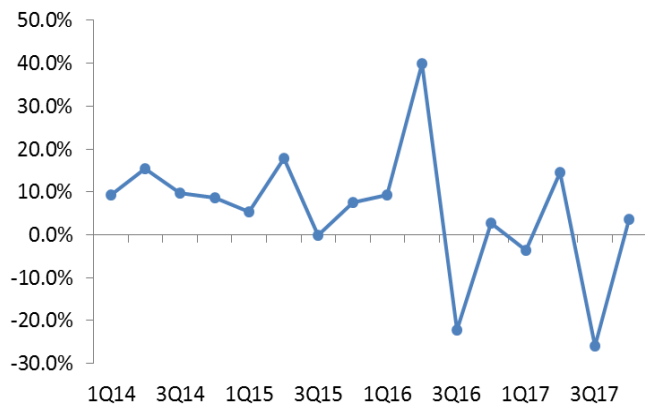
Source: Company, NHKS research

Number of Stores | 1Q15 - 4Q17



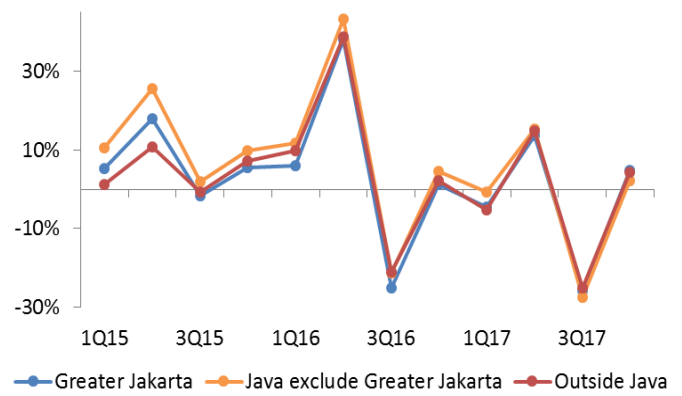
Source: Company, NHKS research

SSSG | 1Q14 - 4Q17



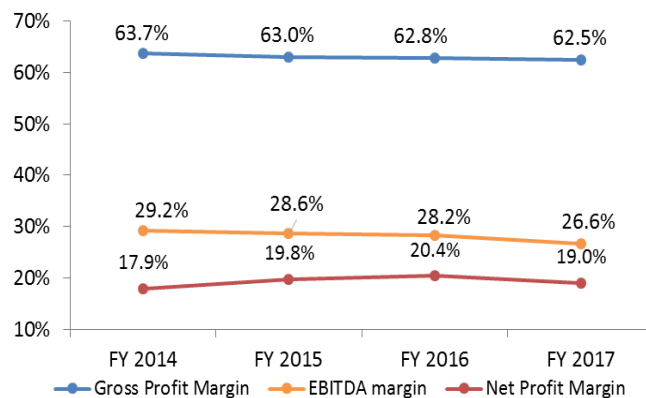
Source: Company, NHKS research

SSSG by Region | 1Q15 - 4Q17



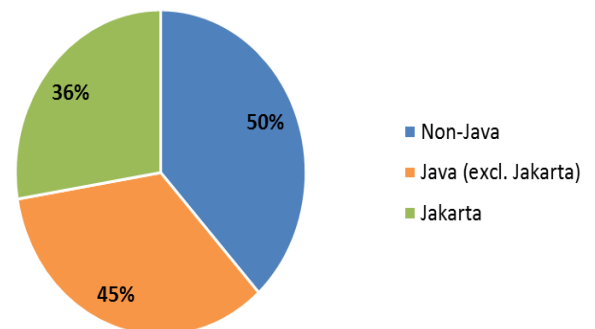
Source: Company, NHKS research

Gross, Net Profit & EBITDA Margin | 2014 - 2017



Source: Company, NHKS research

Geographical Sales | 4Q17



Source: Company, NHKS research

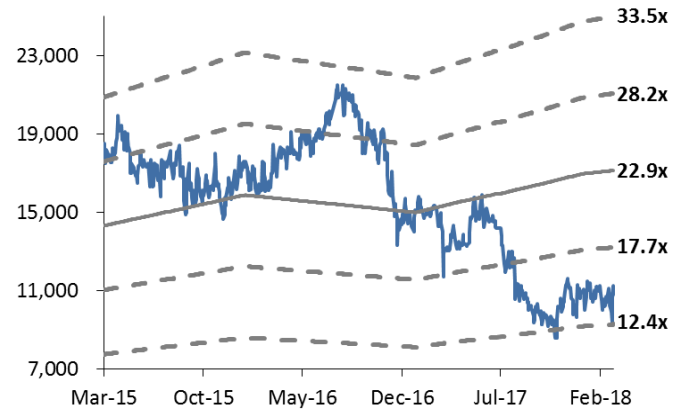
Multiple Valuation

Forward P/E band | Last 3 years



Source: NHKS research

Dynamic Forward P/E band | Last 3 years



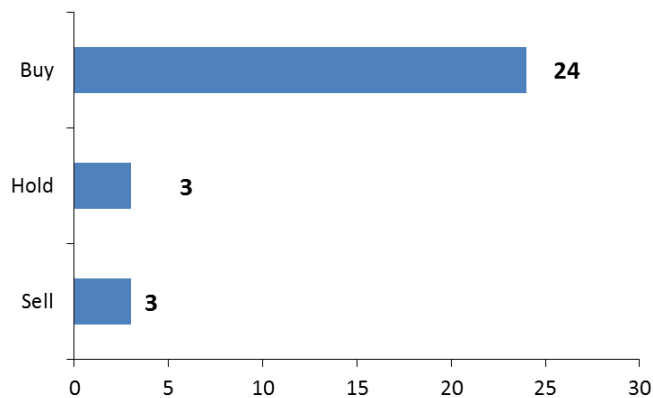
Source: NHKS research

Rating and target price

Date	Rating	Target Price	Last Price	Consensus	vs Last Price	vs Consensus
03/02/2018	Buy	13,750	10,800	12,751	+27.3%	+7.8%

Source: Bloomberg, NHKS research

Analyst Coverage Rating



Source: Bloomberg

Closing and Target Price



Source: NHKS research

NH Korindo Sekuritas Indonesia (NHKS) stock ratings

- Period: End of year target price
- Rating system based on a stock's absolute return from the date of publication
 - Buy : Greater than +15%
 - Hold : -15% to +15%
 - Sell : Less than -15%

Summary of Financials

LPPF Summary		
Last Price (IDR)	March 2, 2018	10,800
Target Price (IDR)	Dec 2018	13,750
Analyst: Michael Tjahjadi	Rating:	Buy

INCOME STATEMENT

In IDR bn	2016/12A	2017/12A	2018/12E	2019/12E
Sales	9,897	10,024	10,670	11,213
Growth (% y/y)	9.9%	1.3%	6.4%	5.1%
COGS	(3,685)	(3,762)	(3,933)	(4,141)
Gross Profit	6,212	6,262	6,737	7,072
Gross Margin	62.8%	62.5%	63.1%	63.1%
Operating Expenses	(3,678)	(3,885)	(4,028)	(4,223)
EBIT	2,534	2,377	2,708	2,849
EBIT Margin	25.6%	23.7%	25.4%	25.4%
Depreciation	261	293	308	328
EBITDA	2,795	2,670	3,016	3,177
EBITDA Margin	28.2%	26.6%	28.3%	28.3%
Interest Expense	(32)	(18)	(25)	(22)
EBT	2,533	2,396	2,714	2,858
Income Tax	(513)	(489)	(554)	(583)
Net Profit	2,020	1,907	2,160	2,275
Growth (% y/y)	13.4%	-5.6%	13.2%	5.3%
Net Profit Margin	20.4%	19.0%	20.2%	20.3%

BALANCE SHEET

In IDR bn	2016/12A	2017/12A	2018/12E	2019/12E
Cash	1,713	1,583	2,358	3,140
Other Current Assets	1,261	1,391	1,418	1,521
Total Current Assets	2,974	2,974	3,776	4,662
Net Fixed Assets	980	974	1,006	1,036
Other Non Current Assets	905	1,480	1,652	1,670
Total Assets	4,859	5,427	6,434	7,368
Trade Payables	1,663	1,645	1,799	1,834
Other Current Liabilities	926	966	839	944
Total Current Liabilities	2,588	2,611	2,638	2,777
LT Debt	-	-	-	-
Other Non Current Liab.	415	489	452	470
Total Liabilities	3,004	3,099	3,090	3,247
Shareholders' Equity	1,855	2,328	3,344	4,121

CASH FLOW STATEMENT

In IDR bn	2016/12A	2017/12A	2018/12E	2019/12E
Net Income	2,020	1,907	2,160	2,275
Deprec & Amortization	261	293	308	328
Chg. In Working Capital	250	13	0	36
CFO	2,531	2,214	2,468	2,638
Capex	(365)	(320)	(340)	(358)
CFI	(507)	(914)	(549)	(358)
Dividends Paid	(1,247)	(1,414)	(1,144)	(1,498)
Net Borrowing	-	-	-	-
CCF	(1,259)	(1,429)	(1,144)	(1,498)
Net Changes in Cash	766	(130)	775	783

OWNERSHIP

By Geography	% Shareholders	%	
United States	38.9	PT Multipolar Tbk	17.5
Indonesia	31.1	Capital Group	5.1
Luxembourg	11.2	Vanguard Group	3.0
Canada	4.1	Blackrock	2.5

PROFITABILITY & STABILITY

	2016/12A	2017/12A	2018/12E	2019/12E
ROE	136.4%	91.2%	76.2%	60.9%
ROA	46.2%	37.1%	36.4%	33.0%
ROIC	136.5%	90.4%	76.0%	60.7%
EBITDA/Equity	188.8%	127.7%	106.4%	85.1%
EBITDA/Assets	63.9%	51.9%	50.9%	46.0%
Cash Dividend (IDR bn)	1,414	1,144	1,498	1,577
Dividend Yield (%)	3.2%	3.9%	4.8%	5.0%
Payout Ratio (%)	70.0%	60.0%	69.3%	69.3%
DER	0.0%	0.0%	0.0%	0.0%
Net Gearing	0.0%	0.0%	0.0%	0.0%
LT Debt to Equity	0.0%	0.0%	0.0%	0.0%
Capitalization Ratio	0.0%	0.0%	0.0%	0.0%
Equity Ratio	38.2%	42.9%	52.0%	55.9%
Debt Ratio	0.0%	0.0%	0.0%	0.0%
Financial Leverage	295.4%	245.9%	209.1%	184.9%
Current Ratio	114.9%	113.9%	143.1%	167.9%
Quick Ratio	76.4%	75.4%	101.9%	127.7%
Cash Ratio	66.2%	60.6%	89.4%	113.1%
Par Value (IDR)	100	100	100	100
Total Shares (mn)	2,918	2,918	2,918	2,918
Share Price (IDR)	15,125	10,000	10,800	10,800
Market Cap (IDR tn)	44.1	29.2	31.5	31.5

VALUATION INDEX

	2016/12A	2017/12A	2018/12E	2019/12E
Price/Earnings	21.9x	15.3x	14.6x	13.9x
Price/Book Value	23.8x	12.5x	9.4x	7.6x
Price/Sales	4.5x	2.9x	3.0x	2.8x
PE/EPS Growth	1.6x	-2.7x	1.1x	2.6x
EV/EBITDA	15.2x	10.3x	9.7x	8.9x
EV/EBIT	16.7x	11.5x	10.7x	9.9x
EV (IDR bn)	42,421	27,596	29,156	28,373
Sales CAGR (3-Yr)	13.6%	8.1%	5.8%	4.2%
EPS CAGR (3-Yr)	20.6%	10.4%	6.6%	4.0%
Basic EPS (IDR)	692	654	740	779
Diluted EPS (IDR)	692	654	740	779
BVPS (IDR)	636	798	1,146	1,412
Sales PS (IDR)	3,392	3,435	3,657	3,843
DPS (IDR)	484.6	392.1	513.2	540.4

DCF, RIM & EVA

	2016/12A	2017/12A	2018/12E	2019/12E
DCF (IDR bn)				
NOPAT	2,021	1,891	2,155	2,267
+Depr./Amor.	261	293	308	328
-CAPEX	(365)	(320)	(340)	(358)
-Incr. (Decr.) in Working Cap.	250	13	0	36
(Unlevered) FCFF	2,167	1,878	2,123	2,273
WACC				
Cost of Debt (Tax Adj.)	0.0%	0.0%	0.0%	0.0%
Cost of Equity (COE)	9.9%	12.2%	13.3%	13.6%
WACC (%)	9.9%	12.2%	13.3%	13.6%
RIM				
Spread (FROE-COE) (%)	172.7%	90.6%	79.4%	54.4%
Residual Income (IDR)	1,911	1,681	1,849	1,820
Equity Charge	109	226	311	455
EVA				
Invested Capital (IDR bn)	1,106	1,855	2,328	3,344
ROIC-WACC (%)	172.8%	89.8%	79.2%	54.2%
EVA (IDR bn)	1,911	1,666	1,845	1,812

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