

Ramayana Lestari Sentosa Tbk (RALS) Selective Survival

Indonesia's stagnant growth and slowing household consumption make retailers vulnerable to a setback. RALS's lower-than-estimate sales evidence for the industry's modest performance. To counter the risks, RALS transforms Ramayana stores and manages its costs efficiently.

1H19 Lower-than-Estimate Performance

The 2Q19 revenues were at IDR3.72 trillion or a 1.7% y-y growth from IDR3.6 trillion in 2Q18. But 1H19 revenues were at IDR3.48 trillion or a 0.20% y-y decline from IDR3.49 trillion in 1H18. The 1H19 revenues were backed by consignment sales of IDR2.8 trillion or a 1.74% y-y decline. In fact, commissions from the consignment sales increase by 7.30% y-y or reaching IDR627 billion from the prior figure of IDR584 billion. We estimate that Eid Mubarak momentum allowed RALS to post solid 1H19 revenues despite our estimate of 1H19 lower performance. RALS' underperformance was reflected from June's ~1.7% growth in stores' average sales, lower than 2Q19 economic growth of 5.05%.

Cost Efficiencies to Maintain Revenues Margins

Stagnant economic growth worsens the retail industry outlook because household consumption grew but ~5%. To counter risk arising from the sluggish backdrop, RALS closure unproductive brick-and-mortar stores. In 2Q19, it terminated two stores (affiliate and private). Besides, it manages its costs efficiently as it reduces supermarket spaces to boost productivity. The 1H19 financial report disclosed the efficiency it carried out, with a 1.18% y-y decline to IDR1.91 trillion in COGS from IDR1.94 trillion in 1H18.

Expansion of Market Segment

Another to target C and D segments, RALS is still maintaining its strategies for expanding its market segments by targeting B and C segments as it transforms its stores into Ramayana Prime, a lifestyle-concept store. The concept prioritizes small-sized stores of 4,500-5,500sqm much smaller than Ramayana's store. It targets Ramayana Prime to hit the productivity of IDR1.1 million/sqm (vs. IDR750,000/sqm for Ramayana). In 1H19, RALS plans to launch 5 Ramayana Prime stores.

Price Target of IDR1,515

We maintain BUY recommendation, with the target price of IDR1,515 based on the P/E forward valuation of 16.5x and a 26.3% yield upside potential of the current stock price. The risks arising from our price target are 1) Surging inflation; 2) Slowing consumption; 3) Rising prices of fuel and electricity

Ramayana Lestari Sentosa Tbk | Summary (IDR bn)

	2018	2019E	2020F	2021F
Gross Sales	8,539	8,664	8,727	8,785
<i>Gross Sales growth</i>	4.8%	1.5%	0.7%	0.7%
EBITDA	782	861	860	792
Net Profit	587	736	649	627
EPS (IDR)	87	109	97	93
<i>EPS growth</i>	44.4%	25.4%	-11.8%	-3.3%
BVPS (IDR)	569	631	672	715
EBITDA margin	9.2%	9.9%	9.2%	9.0%
NPM	6.9%	8.5%	7.4%	7.1%
ROE	16.0%	18.2%	14.8%	13.5%
ROA	12.3%	14.5%	11.6%	10.5%
ROIC	13.0%	14.1%	11.7%	10.9%
P/E	16.3x	14.9x	13.9x	14.4x
P/BV	2.5x	12.2x	2.0x	1.9x
EV/EBITDA	9.6x	2.1x	8.6x	8.5x
DPS (IDR)	40	50	57	51
<i>Dividend yield</i>	2.8%	3.7%	4.3%	3.8%

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

BUY

Dec 2020 TP (IDR)	1,515
Consensus Price (IDR)	1,670
TP to Consensus Price	-9.3%
vs. Last Price	+26.3%

Shares data

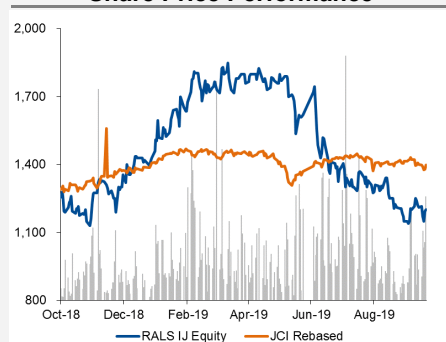
Last Price (IDR)	1,200
Price date as of	Sept 27, 2019
52 wk range (Hi/Lo)	1,850 / 1,130
Free float (%)	37.0
Outstanding sh.(mn)	7,096
Market Cap (IDR bn)	8,550
Market Cap (USD mn)	603
Avg. Trd Vol - 3M (mn)	7.2
Avg. Trd Val - 3M (bn)	9.3
Foreign Ownership	26.0%

Trade, Services & Investment

Retail

Bloomberg	RALS IJ
Reuters	RALS.JK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-14.0%	-0.4%	-14.9%	-9.9%
Rel. Ret.	-14.2%	0.9%	-12.3%	-14.3%

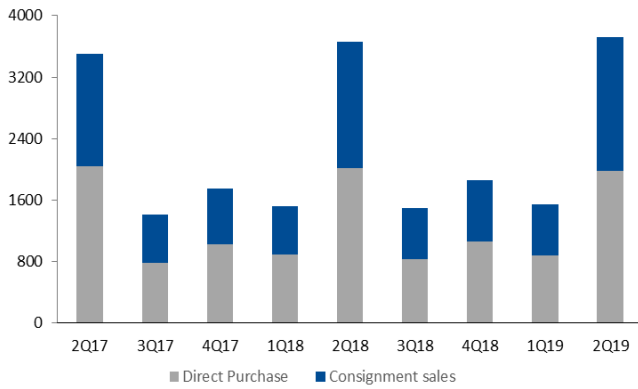
Putu Chantika Putri D.

+62 21 797 6202, ext:114

Putu.Chantika@nhsec.co.id

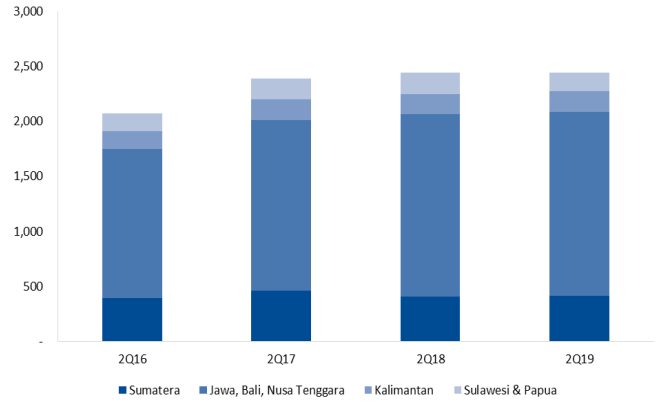
Performance Highlights

RALS Quarterly Gross Sales (IDR bn) | 2Q17 - 2Q19



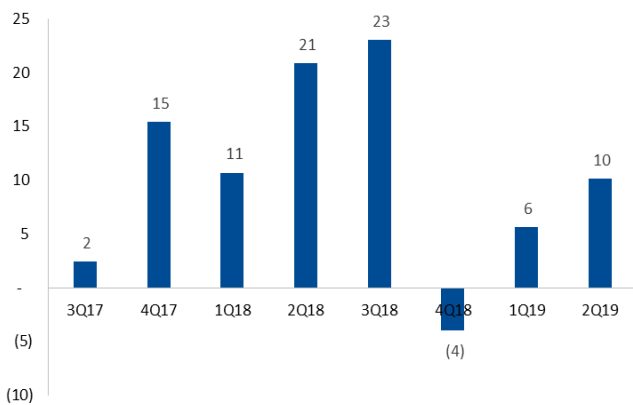
Source: Company, NHKS Research

RALS Quarterly Net Sales by Region (IDR bn)



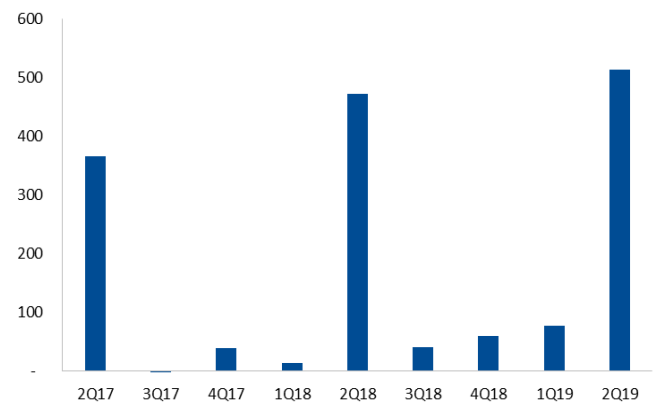
Source: Company, NHKS Research

Supermarket Segment's EBIT (IDR bn) | 3Q17 - 2Q19



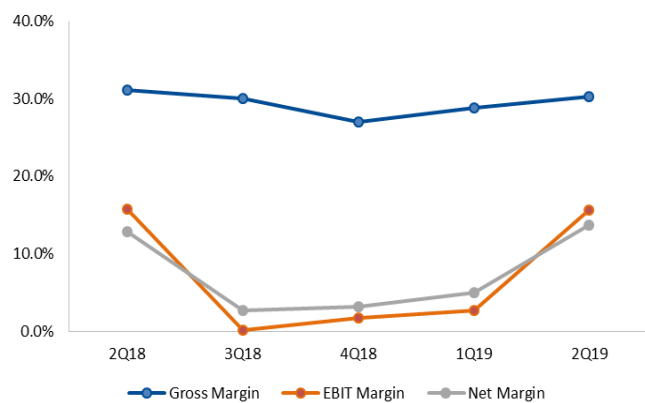
Source: Company, NHKS Research

RALS Quarterly Net Profit (IDR bn) | 2Q17 - 2Q19



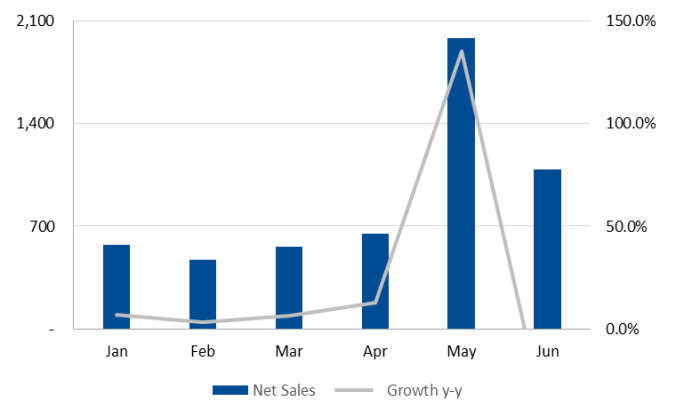
Source: Company, NHKS Research

Margin Ratios | 2Q18 - 2Q19



Source: Company, NHKS Research

RALS' Projected Net Sales | Jan19—June19



Source: Company, NHKS Research

2Q19 review (IDR bn)

	2Q19	3Q19	4Q19	1Q19	2Q19					3Q19E
					Actual	Estimate	y-y	q-q	surprise	
Gross Sales	3,661	1,500	1,858	1,554	3,722		1.7%	141.1%		1,525
Gross Profit	1,138	451	502	444	1,126		-1.1%	153.6%		443
<i>Gross Margin</i>	31.1%	30.1%	27.0%	28.7%	30.2%		-0.9%	1.5%		29.0%
EBIT	579	2	33	42	580		0.3%	1270.2%		10
<i>EBIT Margin</i>	15.8%	0.1%	1.8%	2.7%	15.6%		-0.2%	12.9%		0.7%
EBITDA	622	46	77	88	622		0.0%	604.0%		53
<i>EBITDA Margin</i>	17.0%	3.0%	4.2%	5.7%	16.7%		-0.3%	11.0%		3.5%
Net Profit	471	41	60	78	512		8.7%	561.0%		47
<i>Net Margin</i>	12.9%	2.7%	3.2%	5.0%	13.8%		0.9%	8.7%		3.1%

Source: Bloomberg, NHKS research

Earnings revision (IDR bn)

		2019E	2020F	2021F
Gross Sales	-Revised	8,664	8,727	8,785
	-Previous	8,998	9,419	9,849
	-Change	-3.7%	-7.4%	-10.8%
Gross Profit	-Revised	2,546	2,554	2,572
	-Previous	2,652	2,768	2,889
	-Change	-4.0%	-7.7%	-11.0%
Gross Margin	-Revised	29.4%	29.3%	29.3%
	-Previous	29.5%	29.4%	29.3%
EBIT	-Revised	607	689	632
	-Previous	684	756	795
	-Change	-11.3%	-8.9%	-20.5%
EBIT Margin	-Revised	7.0%	7.9%	7.2%
	-Previous	7.6%	8.0%	8.1%
EBITDA	-Revised	861	803	792
	-Previous	858	928	966
	-Change	0.5%	-13.4%	-18.0%
EBITDA Margin	-Revised	9.9%	9.2%	9.0%
	-Previous	9.5%	9.8%	9.8%
Net Profit	-Revised	736	649	627
	-Previous	693	772	791
	-Change	6.2%	-15.9%	-20.7%
Net Margin	-Revised	8.5%	7.4%	7.1%
	-Previous	7.7%	8.2%	8.0%

Source: NHKS research

A Glance at RALS

RALS is a retail-based company selling apparels and accessories through Ramayana Department Store, and selling groceries through Spar Supermarket. Targeting the low-middle class consumers, it operates 117 stores: 77 stores situated in Java Island and 40 stores situated outside Java Island.

To jostle for making profit amid the sluggish retail sector, RALS cooperates with F&B tenants, cinemas, and specialties shops to offer a lifestyle-based concept through Ramayana Prime Store; indeed, it cooperates with Lazada, Tokopedia, and Shopee to target the e-commerce segment.

Indonesia-based Retail Industry in ASEAN

Indonesia is the home to the biggest population in ASEAN. It furthers Indonesia into the lucrative market for the retail business. LPPF, RALS, MAPI with their stores across Indonesia dominate the retail market in Indonesia. The large number of the middle to low consumer segment across Indonesia is an opportune chance for retailers such as RALS.

The retail industry in ASEAN market is sluggish, for example the negative sales growth Singapore and Thailand based retail industries. This backdrop urge the retailers in ASEAN to strictly curb the operational cost with a view to balancing market. In the margin outlook, Indonesia retailers are successful in posting higher margin than its ASEAN peers' margins are.

ASEAN Retailers Company

Company	Market Cap (USD mn)	Asset (USD mn)	Revenue LTM (USD mn)	Net Profit LTM (USD mn)	Net Profit Growth LTM	Net Margin	ROE LTM	P/E LTM	P/BV
Indonesia									
LPPF	677	349	712	63	-52.22%	8.9%	45.2%	10.7x	5.3x
RALS	602	363	397	48	31.87%	12.1%	17.7%	11.8x	2.0x
MAPI	1,204	876	1,373	52	35.48%	3.8%	14.5%	23.1x	3.0x
Singapore									
Metro Holdings	562	1,405	145	63	-44.52%	43.3%	5.65%	9.0x	0.5x
Malaysia									
Parkson Holdings Bhd	55	2,063	977	(32)	-33.36%	-3.3%	-6.21%	N/A	0.1x
Thailand									
Robinson PCL	2,315	878	791	84	-5.68%	10.7%	15.88%	26.1x	4.0x
Philippines									
SM Investments Corp	22,894	20,251	8,455	797	22.08%	9.4%	11.97%	28.2x	3.2x

Source: Bloomberg

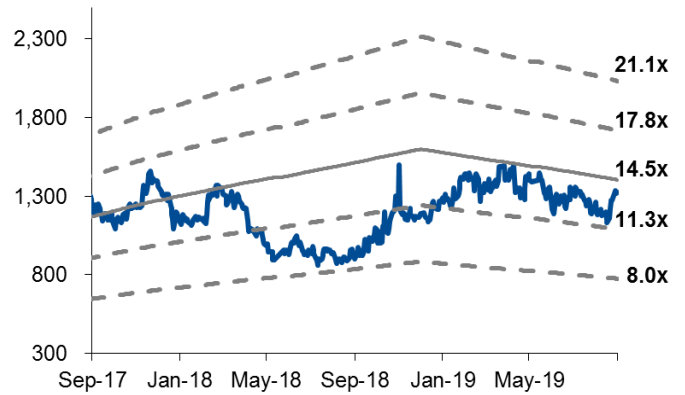
Multiple Valuation

Forward P/E band | Last 4 years



Source: NHKS research

Dynamic Forward P/E band | Last 2 years



Source: NHKS research

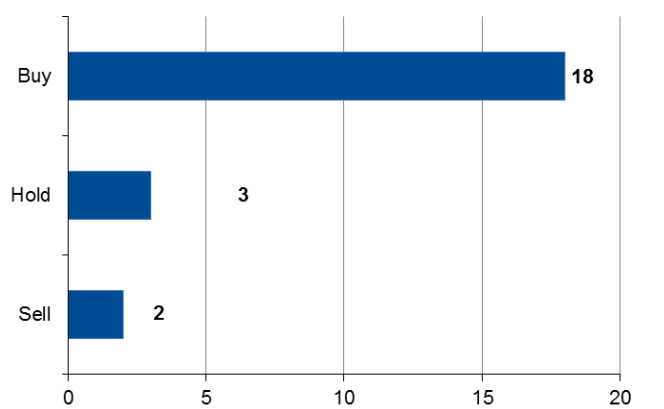
Rating and Target Price Update

Target Price Revision

Date	Rating	Target Price	Last Price	Consensus	vs Last Price	vs Consensus
09/21/2018	Hold	1,525 (Dec 2019)	1,350	1,306	+13.0%	-4.9%
11/19/2018	Hold	1,515 (Dec 2019)	1,325	1,601	+14.3%	-5.3%
2/22/2019	Buy	1,960 (Dec 2020)	1,735	1,675	+13.0%	+17.0%
4/10/2019	Buy	2,070 (Dec 2020)	1,800	1,817	+15.0%	+13.9%
10/1/2019	Buy	1,515 (Dec 2020)	1,200	1,670	+26.3%	-9.3%

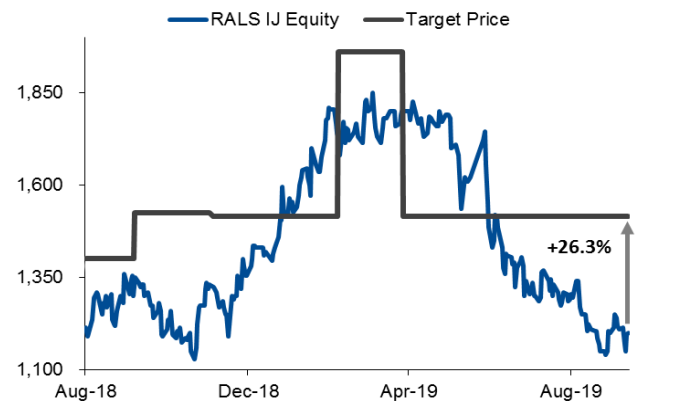
Source: NHKS research, Bloomberg

Analyst Coverage Rating



Source: Bloomberg

Closing and Target Price



Source: NHKS research

NH Korindo Sekuritas Indonesia (NHKS) stock ratings

1. Period: End of year target price
2. 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

INCOME STATEMENT

(IDR bn)	2018/12A	2019/12E	2020/12E	2021/12E
Sales	8,539	8,664	8,727	8,785
<i>Growth</i>	4.8%	1.5%	0.7%	0.7%
Cost of Good Sold	(6,032)	(6,119)	(6,173)	(6,213)
Gross Profit	2,507	2,546	2,554	2,572
<i>Gross Margin</i>	29.4%	29.4%	29.3%	29.3%
Operating Expenses	(1,900)	(1,857)	(1,922)	(1,953)
EBIT	607	689	632	619
<i>EBIT Margin</i>	7.1%	7.9%	7.2%	7.0%
Depreciation	175	173	171	173
EBITDA	782	861	803	792
<i>EBITDA Margin</i>	9.2%	9.9%	9.2%	9.0%
Interest Expenses	(24)	(17)	(17)	(17)
EBT	717	849	739	751
Income Tax	(130)	(113)	(122)	(114)
Minority Interest	-	-	-	-
Net Profit	587	587	736	617
<i>Growth</i>	44.4%	0.0%	25.4%	-16.1%
<i>Net Profit Margin</i>	6.9%	6.8%	8.4%	7.0%

PROFITABILITY & STABILITY

	2018/12A	2019/12E	2020/12E	2021/12E
ROE	16.0%	18.2%	14.2%	13.7%
ROA	12.3%	14.5%	10.3%	9.4%
ROIC	13.0%	14.1%	11.8%	10.9%
Cash Dividend (IDR bn)	269	337	376	323
Dividend Yield	2.8%	3.7%	4.2%	3.6%
Payout Ratio	66.1%	50.0%	51.0%	52.4%
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	73.0%	63.1%	65.7%	63.7%
Debt Ratio	0.0%	0.0%	0.0%	0.0%
Financial Leverage	138.4%	148.3%	155.3%	154.6%
Current Ratio	325.5%	238.7%	251.5%	242.4%
Par Value (IDR)	50	50	50	50
Total Shares (mn)	6,723	6,723	6,723	6,723
Share Price (IDR)	1,420	1,340	1,340	1,340
Market Cap (IDR tn)	9.5	9.0	9.0	9.0

BALANCE SHEET

(IDR bn)	2018/12A	2019/12E	2020/12E	2021/12E
Cash	1,951	3,229	3,692	4,578
Receivables	38	33	53	20
Inventories	860	659	873	669
Total Current Assets	3,557	5,307	5,311	6,102
Net Fixed Assets	1,164	1,113	1,047	973
Other Non Current Asset	82	82	81	81
Total Assets	5,243	6,727	6,821	7,525
Payables	941	1,741	1,472	1,837
ST Bank Loan	-	-	-	-
LT Debt	-	-	-	-
Total Liabilities	1,416	2,483	2,340	2,730
Capital Stock	355	355	355	355
Retained Earnings	3,730	4,131	4,372	4,685
Shareholders' Equity	3,827	4,244	4,481	4,795

VALUATION INDEX

	2018/12A	2019/12E	2020/12E	2021/12E
Price /Earnings	16.3x	12.2x	14.6x	14.1x
Price /Book Value	2.5x	2.1x	2.0x	1.9x
Price/Revenue	1.1x	1.0x	1.0x	1.0x
PE/EPS Growth	0.4x	0.5x	-0.9x	4.4x
EV/EBITDA	9.6x	6.6x	6.5x	5.5x
EV/EBIT	12.4x	8.3x	8.3x	7.1x
EV (IDR bn)	7,546	5,728	5,261	4,375
Revenue CAGR (3-Yr)	3.1%	1.7%	2.3%	1.0%
EPS CAGR (3-Yr)	6.5%	21.4%	21.7%	14.9%
Basic EPS (IDR)	87	109	92	95
Diluted EPS (IDR)	87	109	92	95
BVPS (IDR)	569	631	667	713
Revenue PS (IDR)	1,270.08	1,288.78	1,298.01	1,306.77
DPS (IDR)	40.0	50.1	56.0	48.1

CASH FLOW STATEMENT

(IDR bn)	2018/12A	2019/12E	2020/12E	2021/12E
Operating Cash Flow	787	2,093	1,137	1,311
Investing Cash Flow	681	(1,354)	(294)	(101)
Financing Cash Flow	(272)	(266)	(380)	(323)
Net Changes in Cash	1,196	473	463	886

OWNERSHIP

By Geography	% Shareholders		%
Indonesia	79.9	Ramayana Makmur	55.9
United States	10.0	NTAsian Dis Master	5.8
Unknown	9.2	Makmur Agus	3.8
Norway	2.4	Tumewu Paulus	3.7

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