

6 November 2018

# Indonesia Retail

## 3Q18 Roundup: Downgrade LPPF/ERAA TPs; Still BUY

Maintain OVERWEIGHT on the sector post strong overall 3Q18 performances on high sales productivity despite IDR depreciation. ACES, ERAA, and RALS booked above-than-expected earnings, while MAPI and LPPF were in line. Consolidated EBIT margins are at a 5-year high, mainly driven by ERAA and RALS' operational improvements. We downgrade LPPF and ERAA's TP to IDR7,500 and IDR3,300 on potential impairment losses from the GEI investment, as well as lower SSSG assumptions from slower execution by LPPF and higher interest rates, weak USD outlook, and new DCF calculations for ERAA. Maintain BUYs on LPPF and ERAA. Our Top Picks remain LPPF and ERAA, as well as MAPI.

**3Q18 consolidated sales growth: +24% YoY**, mainly driven by Erajaya Swasembada (ERAA), Ace Hardware (ACES) and Mitra Adiperkasa (MAPI). A strong set of 3Q18 results were mainly driven by ERAA (revenue growth: +47% YoY on 15 new smartphone launches and a low-base effect of Xiaomi sales), ACES (3Q18 revenue growth: +23% YoY – fuelled by lifestyle segments like homeware accessories), and MAPI (revenue growth: +18% YoY on sporting goods and the food & beverage segments). Matahari Department Store's (LPPF) 3Q18 sales were slightly below our expectations, as management reassesses initiatives to drive up sales.

**Gross profit contractions on IDR depreciation.** MAPI, ERAA and ACES saw lower 3Q18 gross margins YoY on an 11% YTD depreciation of the IDR vs the USD: ~50-70% of their merchandise is imported. This brought down 3Q18 consolidated gross margin to 26% (3Q17: 28.6%). MAPI contributed the largest drop (181bps lower YoY), mainly from the retail segment and USD/IDR. It was followed by ERAA (155bps lower YoY), on lower sales mix (lower-priced phones generally have decreased GPM than premium phones) and IDR depreciation. ACES' GPM contracted 87bps YoY, mostly on IDR depreciation.

**EBIT margin improvement driven by Ramayana Lestari (RALS) and ERAA.** Consolidated EBIT margin in 3Q18 improved 117bps YoY. RALS achieved operating breakeven in 3Q18 (3Q17: IDR50bn EBIT loss, -3.6% EBIT margin), as the firm closed down 18 supermarkets YTD. RALS still has 98 supermarkets in operation. ERAA's EBIT margin rose 219bps YoY, mainly on lower advertising & promotions expenses (24.2bps to sales were lower YoY). This was as more promotional expenses were covered by brand principals, as well as additional income from provisioned inventories that were sold in 3Q18.

**Toning down LPPF's forecast, downgrading TP to IDR7,500 from IDR11,000, still BUY.** Post the slightly disappointing 3Q18 results, we tone down LPPF's 2018F-2020F EBITDA forecast by c.6-13%, mainly on lower SSSG assumptions and store rollouts. We tone down 2018-2020F SSSG to 2-3.5% YoY from 4.5-5%. As for NPAT, we conservatively expect the worst outcome when LPPF fully-impaired its investment in Global Ecommerce Indonesia (GEI) (the parent of *MatahariMall.com*) for FY18 at c.IDR700bn. Consequently, we adjust down 2018F net profit 33%, while trimming 2019-2020F earnings 12-15% on lower recurring income assumptions. Downside risks include negative sentiment on the Lippo group over white collar crime allegations with regards to the Meikarta project.

**ERAA – lower TP on higher interest rate outlook and weak currency.** ERAA has the lowest interest coverage ratio (3Q18: 4.4x) among the four other retailers covered: its effective loan interest of 9.25% is fixed for just one year – the firm is now prone to an interest rate hike next year. We also adjust down 2018-2020 smartphone sales volume assumptions on a more benign market share gain expectations, but also with lower promotional expenses – this is as more portions are covered by brand principals. Consequently, we arrive at our new DCF-based TP (with a higher risk-free rate) of IDR3,300 from IDR4,100. See our 1 Nov 2018 report [Indonesia Retail: 3Q18 Results Round-Up: Mostly a Beat](#) for more details.

Company Name	Rating	Price (IDR)	Target (IDR)	% Upside (Downside)	P/E (x) Dec-19F	P/B (x) Dec-19F	Yield (%) Dec-19F
Matahari Department Store	BUY	4,770	7,500	57.2	6.7	4.0	7.1
Erajaya Swasembada	BUY	1,520	3,300	117.1	5.3	0.9	4.3
Mitra Adiperkasa	BUY	810	1,050	29.6	17.5	2.7	1.1
Ramayana Lestari	BUY	1,130	1,700	50.4	14.6	2.0	3.7
Ace Hardware	NEUTRAL	1,395	1,500	7.5	21.1	5.1	2.1

Source: Bloomberg, RHB, Note: Data as at 5 Nov 2018

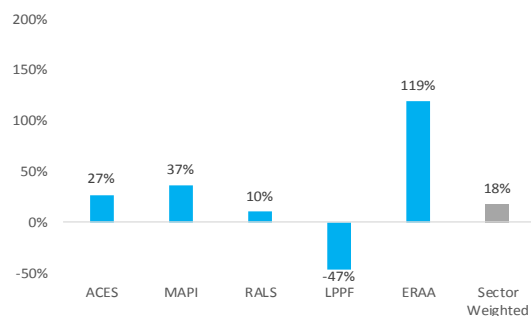
**Overweight** (Maintained)

Stocks Covered: 5  
Ratings (Buy/Neutral/Sell): 4 / 1 / 0

### Top Picks

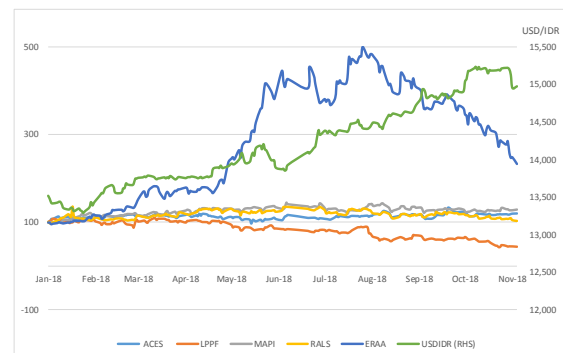
Company Name	Target Price
Matahari Department Store (LPPF IJ – BUY)	IDR7,500
Mitra Adiperkasa (MAPI IJ – BUY)	IDR1,050
Erajaya Swasembada (ERAA IJ – BUY)	IDR3,300
Ramayana Lestari (RALS IJ – BUY)	IDR1,700

### Indonesian retail stocks' performance vs JCI (YTD)



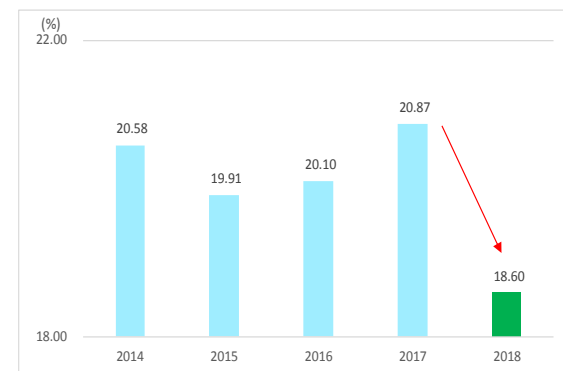
Note: Data as at 31 Oct 2018  
Source: Bloomberg, RHB

### Indonesian retail stocks' performance vs USD/IDR



Note: Data as at 31 Oct 2018;  
Source: Bloomberg, RHB

### Improved efficiencies; lower opex/sales ratio (%)



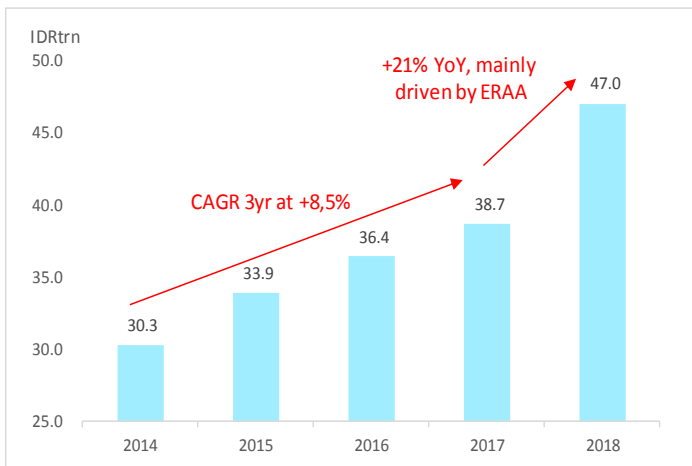
Note: \*Data represents 2Q and 3Q numbers only  
Source: Company data, RHB

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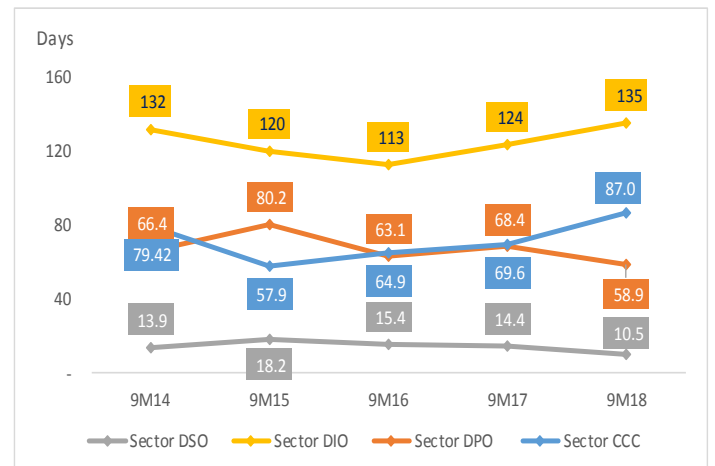


Figure 1: Consolidated revenue trailing 6M (2Q+3Q) (IDRtrn)



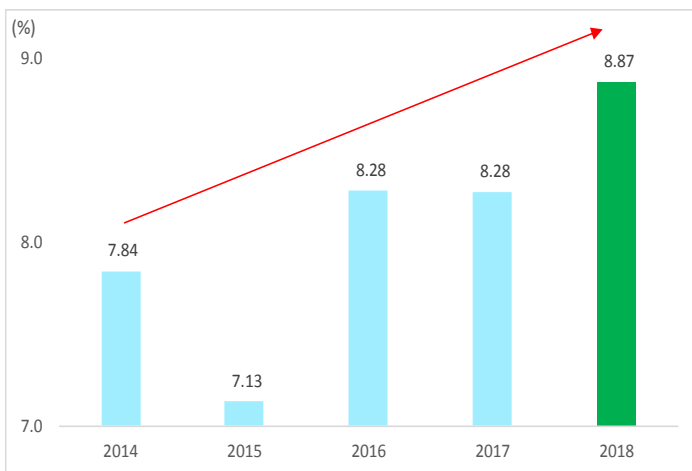
Note: \*Data represents 2Q and 3Q numbers only  
Source: Company data, RHB

Figure 2: CCC, 3Q14-3Q18 (days)



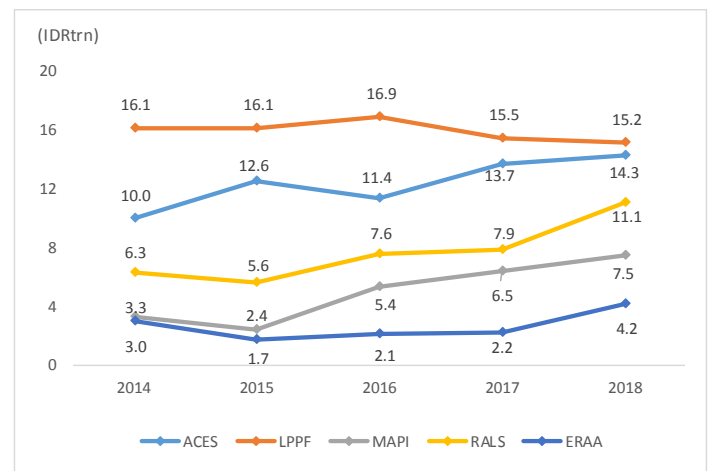
Source: Company data, RHB

Figure 3: EBIT margins trailing 6M improved +98bps YoY



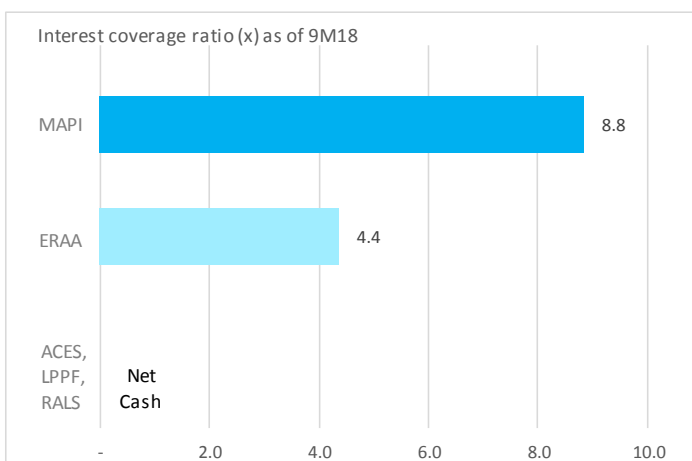
Note: \*Data represents 2Q and 3Q numbers only  
Source: Company data, RHB

Figure 4: EBIT margins trailing 6M per company (IDRtrn)



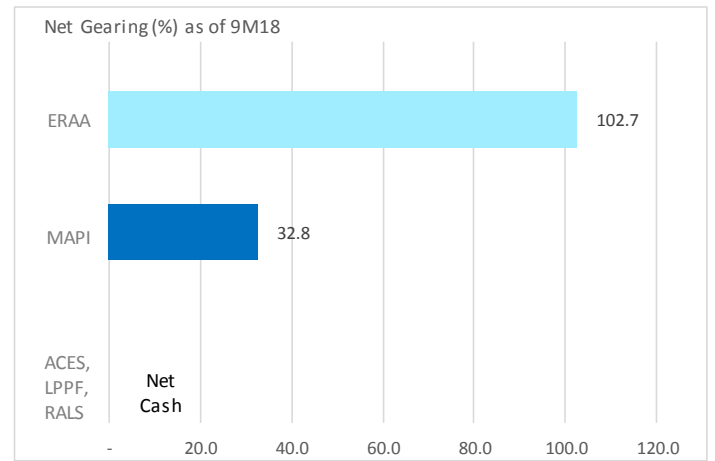
Note: \*Data represents 2Q and 3Q numbers only  
Source: Company data, RHB

Figure 5: ERAA has the lowest interest coverage ratio at 4.4x



Note: Data as at 9M18  
Source: Company data, RHB

Figure 6: ERAA is also the most leveraged amongst all retail companies under our coverage



Note: Data as at 9M18  
Source: Company data, RHB

Figure 7: LPPF's earnings revision

	New			Old			New/Old (%)		
	2018F	2019F	2020F	2018F	2019F	2020F	2018F	2019F	2020F
<b>Income Statement (IDRb)</b>									
Total Turnover	10,458	10,946	11,508	10,788	11,679	12,622	-3.1	-6.3	-8.8
Gross Profit	6,557	6,867	7,217	6,787	7,377	7,995	-3.4	-6.9	-9.7
EBITDA	2,677	2,826	2,970	2,867	3,215	3,512	-6.6	-12.1	-15.4
Net Profit	1,406	2,063	2,175	2,098	2,359	2,588	-33.0	-12.6	-16.0
<b>Key Metrics</b>									
EPS (IDR)	482	707	745	719	809	887	-33.0	-12.6	-16.0
DPS (IDR)	457	337	495	457	503	566	0.0	-33.0	-12.6
BVPS (IDR)	822	1,192	1,442	1,059	1,365	1,685	-22.4	-12.7	-14.4
Revenue Growth (%)	4.3	4.7	5.1	7.6	8.3	8.1			
EPS Growth (%)	(26.3)	46.7	5.4	10.0	12.5	9.7			
Gross Margin (%)	35.9	36.1	36.2	62.9	63.2	63.3			
EBITDA Margin (%)	14.7	14.8	14.9	26.6	27.5	27.8			
Net Profit Margin (%)	7.7	10.8	10.9	19.5	20.2	20.5			
Dividend Payout Ratio (%)	70.0	70.0	70.0	70.0	70.0	70.0			
Return on average equity (%)	59.5	70.2	56.6	77.4	66.7	58.2			

Note: Data as at 5 Nov 2018

Source: Company data, RHB

Figure 8: ERAA's earnings revision

	New			Old			New/Old (%)		
	2018F	2019F	2020F	2018F	2019F	2020F	2018F	2019F	2020F
<b>Income Statement (IDRb)</b>									
Total Turnover	33,584	39,608	46,000	33,999	41,034	48,433	-1.2	-3.5	-5.0
Gross Profit	3,081	3,520	4,116	3,169	3,645	4,364	-2.8	-3.4	-5.7
EBITDA	1,330	1,455	1,761	1,249	1,444	1,741	6.5	0.8	1.2
Net Profit	832	921	1,107	778	902	1,055	7.0	2.1	4.9
<b>Key Metrics</b>									
EPS (IDR)	261	289	347	244	283	331	7.0	2.1	4.9
DPS (IDR)	27	65	72	27	61	71	0.0	7.0	2.1
BVPS (IDR)	1,467	1,690	1,965	1,450	1,672	1,932	1.2	1.1	1.7
Revenue Growth (%)	38.6	17.9	16.1	40.3	20.7	18.0			
EPS Growth (%)	122.8	10.7	20.2	108.3	16.0	17.0			
Gross Margin (%)	9.2	8.9	8.9	9.3	8.9	9.0			
EBITDA Margin (%)	4.0	3.7	3.8	3.7	3.5	3.6			
Net Profit Margin (%)	2.5	2.3	2.4	2.3	2.2	2.2			
Dividend Payout Ratio (%)	25.0	25.0	25.0	25.0	25.0	25.0			
Return on average equity (%)	17.8	17.1	17.7	16.8	16.9	17.1			

Note: Data as at 5 Nov 2018

Source: Company data, RHB

Figure 9: LPPF's new DCF

IDRbn	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F
<b>EBIT</b>	<b>2,411</b>	<b>2,536</b>	<b>2,655</b>	<b>2,791</b>	<b>2,936</b>	<b>3,083</b>	<b>3,227</b>	<b>3,390</b>	<b>3,561</b>	<b>3,744</b>	<b>3,936</b>
<b>EBIT (1-t)</b>	<b>1,917</b>	<b>2,016</b>	<b>2,111</b>	<b>2,219</b>	<b>2,334</b>	<b>2,451</b>	<b>2,565</b>	<b>2,695</b>	<b>2,831</b>	<b>2,976</b>	<b>3,129</b>
Depreciation & Amortization	265	290	315	341	369	401	435	470	508	549	592
Change in net working capital	(23)	32	32	35	(2)	37	37	40	43	45	47
Capex	(271)	(271)	(270)	(287)	(305)	(344)	(365)	(388)	(413)	(440)	(468)
<b>Net free cash flow to firm</b>	<b>1,888</b>	<b>2,068</b>	<b>2,188</b>	<b>2,309</b>	<b>2,397</b>	<b>2,545</b>	<b>2,672</b>	<b>2,817</b>	<b>2,969</b>	<b>3,130</b>	<b>3,300</b>
Terminal value											26,930
PV	1,888	1,806	1,669	1,538	1,394	1,293	1,186	1,092	1,005	925	7,805
Terminal growth	2.0%										
WACC	14.5%										
Total discounted firm value	21,602										
Less: Net debt	(1,811)										
Less: Minority interest	-										
Equity value	23,413										
Number of shares (bn)	3										
<b>Equity value per share (IDR)</b>	<b>8,024</b>										

Source: RHB

Figure 10: ERAA's new DCF

IDRbn	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F
<b>EBIT</b>	<b>1,238</b>	<b>1,347</b>	<b>1,635</b>	<b>1,933</b>	<b>2,295</b>	<b>2,685</b>	<b>3,066</b>	<b>3,513</b>	<b>3,978</b>	<b>4,514</b>	<b>4,959</b>
<b>EBIT (1-t)</b>	<b>896</b>	<b>975</b>	<b>1,183</b>	<b>1,399</b>	<b>1,661</b>	<b>1,943</b>	<b>2,219</b>	<b>2,543</b>	<b>2,879</b>	<b>3,267</b>	<b>3,589</b>
Depreciation & Amortization	93	108	126	149	165	183	197	213	227	242	272
Change in working capital	(441)	(551)	(536)	(570)	(656)	(702)	(695)	(781)	(809)	(902)	(837)
Capex	(207)	(163)	(160)	(205)	(125)	(139)	(103)	(112)	(92)	(100)	(223)
<b>Net free cash flow to firm</b>	<b>340</b>	<b>369</b>	<b>614</b>	<b>774</b>	<b>1,045</b>	<b>1,285</b>	<b>1,618</b>	<b>1,862</b>	<b>2,205</b>	<b>2,508</b>	<b>2,801</b>
Terminal Value											24,061
PV	340	328	483	540	646	705	787	804	844	851	8,085
Terminal growth	0										
WACC	0										
Total discounted firm value	14,412										
Less: net debt	1,333										
Less: minority interest	98										
Equity value	12,981										
Number of shares (bn)	3										
<b>Equity value per share (IDR)</b>	<b>4,069</b>										

Source: RHB

Figure 11: LPPF's financial figures

<b>Financial Summary</b>	<b>2016</b>	<b>2017</b>	<b>2018F</b>	<b>2019F</b>	<b>2020F</b>
EPS (IDR)	692	654	482	707	745
DPS (IDR)	427	485	457	337	495
BVPS (IDR)	636	798	822	1,192	1,442
<b>Valuation Metrics</b>	<b>2016</b>	<b>2017</b>	<b>2018F</b>	<b>2019F</b>	<b>2020F</b>
P/E (x)	6.9	7.3	9.9	6.7	6.4
P/B (x)	7.5	6.0	5.8	4.0	3.3
Dividend Yield (%)	9.0	10.2	9.6	7.1	10.4
EV/EBITDA (x)	4.7	5.0	4.9	4.6	4.4
<b>Income Statement (IDRb)</b>	<b>2016</b>	<b>2017</b>	<b>2018F</b>	<b>2019F</b>	<b>2020F</b>
Total Turnover	9,897	10,024	10,458	10,946	11,508
Gross Profit	6,212	6,262	6,557	6,867	7,217
EBITDA	2,784	2,631	2,677	2,826	2,970
Depreciation and Amortisation	256	254	265	290	315
Operating Profit	2,528	2,377	2,411	2,536	2,655
Net Interest	(1)	20	57	59	80
Pre-Tax Profit	2,533	2,396	1,768	2,595	2,735
Taxation	(513)	(489)	(363)	(532)	(561)
Minority Interests	-	-	-	-	-
Net Profit	2,020	1,907	1,406	2,063	2,175
<b>Cash Flow (IDRb)</b>	<b>2016</b>	<b>2017</b>	<b>2018F</b>	<b>2019F</b>	<b>2020F</b>
Working Capital	81	(99)	(23)	32	32
Cash Flow from Operations	2,490	2,054	1,659	2,431	2,550
Capex	(360)	(248)	(271)	(271)	(270)
Cash Flow from Investing Activities	(165)	(575)	213	(227)	32
Shares issued (net of buyback)	(1,199)	(1,361)	(1,372)	(947)	(1,409)
Cash Flow from Financing Activities	(1,199)	(1,361)	(1,372)	(947)	(1,409)
Cash at Beginning of Period	947	1,713	1,583	1,811	2,798
Net Change in Cash	766	(130)	228	987	903
Ending Balance Cash	1,713	1,583	1,811	2,798	3,701
<b>Balance Sheet (IDRb)</b>	<b>2016</b>	<b>2017</b>	<b>2018F</b>	<b>2019F</b>	<b>2020F</b>
Total Cash and Equivalents	1,713	1,583	1,811	2,798	3,701
Tangible Fixed Assets	980	974	980	960	915
Total Assets	4,859	5,427	5,528	6,770	7,688
Interest-bearing Debt	-	-	-	-	-
Other Liabilities	1,212	1,339	1,313	1,392	1,481
Total Liabilities	3,004	3,099	3,129	3,292	3,480
Shareholders' Equity	1,855	2,328	2,399	3,478	4,208
Minority Interests	-	-	-	-	-
Total Liabilities & Equity	4,859	5,427	5,528	6,770	7,688
<b>Key Metrics</b>	<b>2016</b>	<b>2017</b>	<b>2018F</b>	<b>2019F</b>	<b>2020F</b>
Revenue Growth (%)	9.9	1.3	4.3	4.7	5.1
EPS Growth (%)	13.4	-5.6	-26.3	46.7	5.4
Gross Margin (%)	35.7	35.6	35.9	36.1	36.2
EBITDA Margin (%)	16.0	15.0	14.7	14.8	14.9
Net Profit Margin (%)	11.6	10.9	7.7	10.8	10.9
Dividend Payout Ratio (%)	70.0	70.0	70.0	70.0	70.0
Cash Conversion Cycle (days)	-75	-68	-61	-62	-62
Net gearing (%)	nc	nc	nc	nc	nc

Source: RHB

Figure 12: ERAA's financial figures

<b>Financial Summary</b>	<b>2016</b>	<b>2017</b>	<b>2018F</b>	<b>2019F</b>	<b>2020F</b>
EPS (IDR)	91	117	261	289	347
DPS (IDR)	20	20	27	65	72
BVPS (IDR)	1,155	1,251	1,467	1,690	1,965
<b>Valuation Metrics</b>	<b>2016</b>	<b>2017</b>	<b>2018F</b>	<b>2019F</b>	<b>2020F</b>
P/E (x)	16.7	13.0	5.8	5.3	4.4
P/B (x)	1.3	1.2	1.0	0.9	0.8
Dividend Yield (%)	1.3	1.3	1.8	4.3	4.7
EV/EBITDA (x)	14.9	13.6	6.1	5.6	4.6
EV/EBIT (x)	16.8	15.5	6.6	6.0	5.0
<b>Income Statement (IDRb)</b>	<b>2016</b>	<b>2017</b>	<b>2018F</b>	<b>2019F</b>	<b>2020F</b>
Total Turnover	20,547	24,230	33,584	39,608	46,000
Gross Profit	1,792	2,159	3,081	3,520	4,116
EBITDA	544	596	1,330	1,455	1,761
Depreciation and Amortisation	60	73	93	108	126
Operating Profit	484	523	1,238	1,347	1,635
Net Interest	(150)	(140)	(187)	(198)	(254)
Pre-Tax Profit	384	480	1,175	1,301	1,564
Taxation	(122)	(133)	(325)	(359)	(432)
Minority Interests	2	(8)	(19)	(21)	(25)
Net Profit	264	339	832	921	1,107
<b>Cash Flow (IDRb)</b>	<b>2016</b>	<b>2017</b>	<b>2018F</b>	<b>2019F</b>	<b>2020F</b>
Working Capital	844	(1,309)	(441)	(551)	(536)
Cash Flow from Operations	1,188	(1,097)	123	294	502
Capex	(89)	(101)	(207)	(163)	(160)
Cash Flow from Investing Activities	34	6	(356)	(494)	(511)
Shares issued (net of buyback)	7	0	306	-	-
Cash Flow from Financing Activities	(734)	843	234	841	325
Cash at Beginning of Period	127	615	366	367	1,008
Net Change in Cash	488	(248)	0	642	316
Ending Balance Cash	615	366	367	1,008	1,324
<b>Balance Sheet (IDRb)</b>	<b>2016</b>	<b>2017</b>	<b>2018F</b>	<b>2019F</b>	<b>2020F</b>
Total Cash and Equivalents	615	366	367	1,008	1,324
Tangible Fixed Assets	673	760	967	1,130	1,290
Total Assets	7,425	8,874	11,239	14,136	16,491
Short-Term Debt	801	1,747	1,700	2,700	3,200
Total Long-Term Debt	3	3	-	-	-
Other Liabilities	78	116	161	189	220
Total Liabilities	4,015	5,167	6,461	8,625	10,078
Shareholders' Equity	3,349	3,627	4,680	5,392	6,269
Minority Interests	61	79	98	119	144
Total Liabilities & Equity	7,425	8,874	11,239	14,136	16,491
<b>Key Metrics</b>	<b>2016</b>	<b>2017</b>	<b>2018F</b>	<b>2019F</b>	<b>2020F</b>
Revenue Growth (%)	2.7	17.9	38.6	17.9	16.1
EPS Growth (%)	16.7	28.7	122.8	10.7	20.2
Gross Margin (%)	8.7	8.9	9.2	8.9	8.9
EBITDA Margin (%)	2.6	2.5	4.0	3.7	3.8
Net Profit Margin (%)	1.3	1.4	2.5	2.3	2.4
Dividend Payout Ratio (%)	25.7	22.0	25.0	25.0	25.0
Cash Conversion Cycle (days)	18	36	37	41	41
Net gearing (%)	8.6	38.1	28.5	31.4	29.9

Source: RHB

### RHB Guide to Investment Ratings

**Buy:** Share price may exceed 10% over the next 12 months

**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months

**Take Profit:** Target price has been attained. Look to accumulate at lower levels

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**Not Rated:** Stock is not within regular research coverage

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