

3 January 2024

Consumer Cyclical | Retailing

Matahari Department Store (LPPF IJ)

Neutral (Maintained)

Challenging Environment To Persist

- **Stay NEUTRAL and IDR1,950 TP, 2% downside.** We cut our TP by 13-19% for 2024F-2025F on the back of minimal catalysts. There may be concerns on consumer purchasing power in the near term, particularly on the mid- to low-segment from sticky inflation and low minimum wage growth. This could hamper Matahari Department Store's effective growth strategy going forward. As such, we also lower our valuation to 5x 2024F P/E (vs 7x), or -1SD from its 5-year mean, given the challenging outlook ahead.
- **Weathering the storm from a challenging economic backdrop.** We are of the view that a slight increase in minimum wage growth may pressure consumer purchasing power on top of sticky inflation, which is expected to persist in 1H24. LPPF, being a retailer that caters to the mid- to low-income segment, should feel the pinch even more. A minimum increase in energy subsidy will provide added pressure for its target consumer's purchasing power. However, there might be some upside risk from higher social assistance in the state budget in 2024 and the potential increase of CPO prices due to the *El-Nino* impact, which may benefit its customers' purchasing power, as c.40% of its stores are in ex-Java areas.
- **Maintaining its expansion plans...** Eight new stores were opened in 9M23 (vs our FY23F of 11 net store openings) with the latest opening in Kediri Mall. It aims to put a higher focus of several newly launched private label brands, ie SUKO and Anyday. SUKO is planned in another 14 stores (bringing total store count of SUKO products to 34 outlets in FY23) – LPPF expects further expansion this year. The company plans to have its Anyday products within 50 stores (which has better pricing point), to manage the inflationary pressure.
- **... with a prudent approach.** LPPF is targeting a more prudent store expansion during the mid-term with four Matahari and two MU&KU stores in 2024, vs our forecast of 12 store openings. We will stay vigilant on the MU&KU stores' performance since it aims to cater to the mid-income segment. Also, it has earmarked 29 stores for further improvement.
- **Cautiously monitoring other initiatives.** LPPF aims to accelerate rebranding and focus on capex spending in selected A+ and A stores, given more resilient spending power in the mid- and mid-upper income segment. LPPF's focus is to improve several brands' product range, ie Cole (modern wear) and Connexion (work wear) to enhance growth. Additionally, the company plans to introduce a new brand in 2024 relating to the athleisure concept and active theme. We think this could be challenging, given dwindling interest for department store concept in key cities by the mid- to mid-upper segment as well as MAP Aktif Adiperkasa's (MAPA IJ, BUY, TP: IDR1,150) strong presence in the active theme market.
- **We apply a 4% ESG discount** to LPPF's intrinsic value to derive our new TP, based on its 2.8 ESG score, which is below the country median.

Target Price (Return):	IDR1,950 (-2%)
Price (Market Cap):	IDR1,990 (USD292m)
ESG score:	2.8 (out of 4)
Avg Daily Turnover (IDR/USD)	7,550m/0.49m

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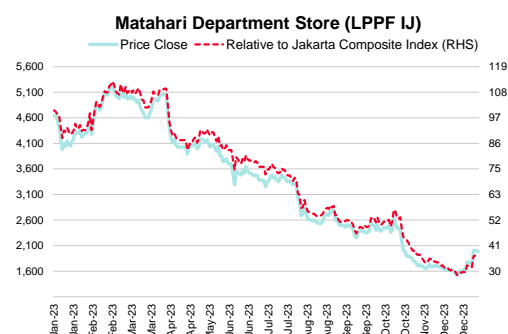


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(0.5)	19.9	(22.0)	(41.1)	(57.2)
Relative	(0.5)	16.9	(26.5)	(50.3)	(63.4)
52-wk Price low/high (IDR)				1,535 – 5,250	



Source: Bloomberg

Overall ESG Score: 2.8 (out of 4)

E: GOOD

LPPF has realised the importance of improving its environmental aspect. It has strategies on managing the use of electricity, energy, emissions, and waste, particularly on plastic waste. Nevertheless, detailed insights on energy and electricity reductions, and its targets ahead have largely not been mentioned.

S: GOOD

The company has placed attention towards enhancing community welfare. It has conducted a number of CSR programmes aimed at creating a positive social impact for its stakeholders. There are also no major issues between employees and employers.

G: GOOD

LPPF continues to comply with current regulations, such as regularly conducting shareholders meeting and striving for equal distribution of public information to all stakeholders. Nonetheless, we have concerns over its business, as the company previously recorded subpar performances and issued limited disclosures.

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (IDRb)	5,586	6,455	6,502	7,311	8,185
Recurring net profit (IDRb)	842	1,167	959	1,085	1,229
Recurring net profit growth (%)	-	38.6	(17.8)	13.1	13.2
Recurring P/E (x)	6.14	4.05	4.69	4.14	3.66
P/B (x)	4.2	4.5	6.1	4.9	3.9
P/CF (x)	3.96	3.02	2.42	2.23	2.28
Dividend Yield (%)	4.9	12.6	26.4	18.7	20.5
EV/EBITDA (x)	2.34	1.86	1.75	1.21	0.86
Return on average equity (%)	103.2	121.4	99.5	123.1	110.5
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (IDR)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Indonesia	Recurring EPS	323.84	491.12	424.49	480.20	543.60
Consumer Cyclical	DPS	98.01	250.89	524.84	372.57	407.82
Matahari Department Store	BVPS	476.35	437.73	327.67	408.24	504.58
LPPF IJ	Return on average equity (%)	103.2	121.4	99.5	123.1	110.5
Neutral						
	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Valuation basis	Recurring P/E (x)	6.14	4.05	4.69	4.14	3.66
P/E Multiple	P/B (x)	4.2	4.5	6.1	4.9	3.9
	FCF Yield (%)	28.6	30.2	35.7	38.5	36.9
Key drivers	Dividend Yield (%)	4.9	12.6	26.4	18.7	20.5
i. Challenging purchasing power from modest minimum wage growth;	EV/EBITDA (x)	2.34	1.86	1.75	1.21	0.86
ii. New stores expansion;	EV/EBIT (x)	4.35	2.75	2.86	1.93	1.32
iii. Initiatives to improve merchandising						
	Income statement (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Key risks	Total turnover	5,586	6,455	6,502	7,311	8,185
Upside risks:	Gross profit	3,579	4,401	4,340	4,863	5,424
i. Lower inflation rate;	EBITDA	1,932	2,350	2,119	2,337	2,521
ii. Stronger impact from election period;	Depreciation and amortisation	(894)	(758)	(823)	(874)	(882)
iii. Additional cash assistance from the Government.	Operating profit	1,037	1,592	1,296	1,463	1,639
	Net interest	(19)	(211)	(115)	(126)	(126)
Downside risks:	Pre-tax profit	1,103	1,637	1,092	1,261	1,403
i. Weaker purchasing power;	Taxation	(190)	(254)	(205)	(237)	(264)
ii. Soft traction from new merchandising strategy;	Reported net profit	913	1,383	886	1,024	1,139
iii. Weaker-than-expected commodity price.	Recurring net profit	842	1,167	959	1,085	1,229
	Cash flow (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Company Profile	Change in working capital	409	84	39	181	152
Matahari Department Store operates as one of Indonesia's leading department stores. The company engages in the retail business for several types of products such as clothes, accessories, bags, shoes, cosmetics, and household appliances.	Cash flow from operations	1,307	1,567	1,857	2,012	1,974
	Capex	174	(138)	(249)	(280)	(314)
	Cash flow from investing activities	330	(65)	(386)	(614)	(412)
	Cash flow from financing activities	(1,500)	(1,809)	(1,037)	(519)	(895)
	Cash at beginning of period	524	661	354	788	1,668
	Net change in cash	137	(307)	434	880	667
	Ending balance cash	661	355	788	1,668	2,335
	Balance sheet (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	661	354	788	1,668	2,336
	Tangible fixed assets	647	686	720	774	851
	Total assets	5,851	5,750	6,482	7,867	8,805
	Total liabilities	4,845	5,170	6,052	6,944	7,665
	Total equity	1,005	580	430	923	1,140
	Total liabilities & equity	5,851	5,750	6,482	7,867	8,805
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	15.4	15.5	0.7	12.4	11.9
	Recurrent EPS growth (%)	0.0	51.7	(13.6)	13.1	13.2
	Gross margin (%)	64.1	68.2	66.7	66.5	66.3
	Operating EBITDA margin (%)	34.6	36.4	32.6	32.0	30.8
	Net profit margin (%)	16.3	21.4	13.6	14.0	13.9
	Dividend payout ratio (%)	27.9	43.1	133.8	82.2	80.9
	Capex/sales (%)	(3.1)	2.1	3.8	3.8	3.8
	Interest cover (x)	28.2	7.3	10.3	10.0	10.3

Source: Company data, RHB

Figure 1: Changes in estimates

	RHB			Old			New/Old (%)		
	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025
Income statement (IDRbn)									
Total turnover	6,502	7,311	8,185	6,502	7,384	8,374	0.0	(1.0)	(2.3)
Gross profit	4,340	4,863	5,424	4,377	5,054	5,779	(0.9)	(3.8)	(6.1)
EBIT	1,296	1,463	1,639	1,356	1,643	1,952	(4.4)	(11.0)	(16.0)
EBITDA	2,148	2,304	2,458	2,217	2,494	2,780	(3.1)	(7.6)	(11.6)
Pretax profit	1,092	1,261	1,403	1,151	1,443	1,718	(5.2)	(12.6)	(18.3)
Net profit	886	1,024	1,139	938	1,184	1,409	(5.5)	(13.5)	(19.1)
Key Metrics									
EPS (IDR)	392	453	504	415	524	623	(5.5)	(13.5)	(19.1)
Revenue growth (%)	0.7	12.4	11.9	0.7	13.6	13.4			
EPS growth (%)	(32.6)	15.5	11.3	(28.7)	26.1	19.0			
EBITDA margin (%)	33.0	31.5	30.0	34.1	33.8	33.2			
EBIT margin (%)	19.9	20.0	20.0	20.9	22.3	23.3			
Net profit margin (%)	13.6	14.0	13.9	14.4	16.0	16.8			

Source: Company data, RHB

Figure 2: RHB vs consensus

IDRbn	RHB			Cons			RHB/Cons (%)		
	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F
Net revenue	6,502	7,311	8,185	6,683	7,224	7,580	97.3	101.2	108.0
Gross profit	4,340	4,863	5,424	4,480	4,869	5,081	96.9	99.9	106.8
EBIT	1,296	1,463	1,639	1,377	1,487	1,508	94.1	98.4	108.7
EBITDA	2,148	2,304	2,458	1,591	1,708	1,782	135.0	134.9	137.9
Profit before tax	1,092	1,261	1,403	1,261	1,352	1,356	86.6	93.3	103.5
NPAT	886	1,024	1,139	906	1,103	1,201	97.9	92.8	94.9

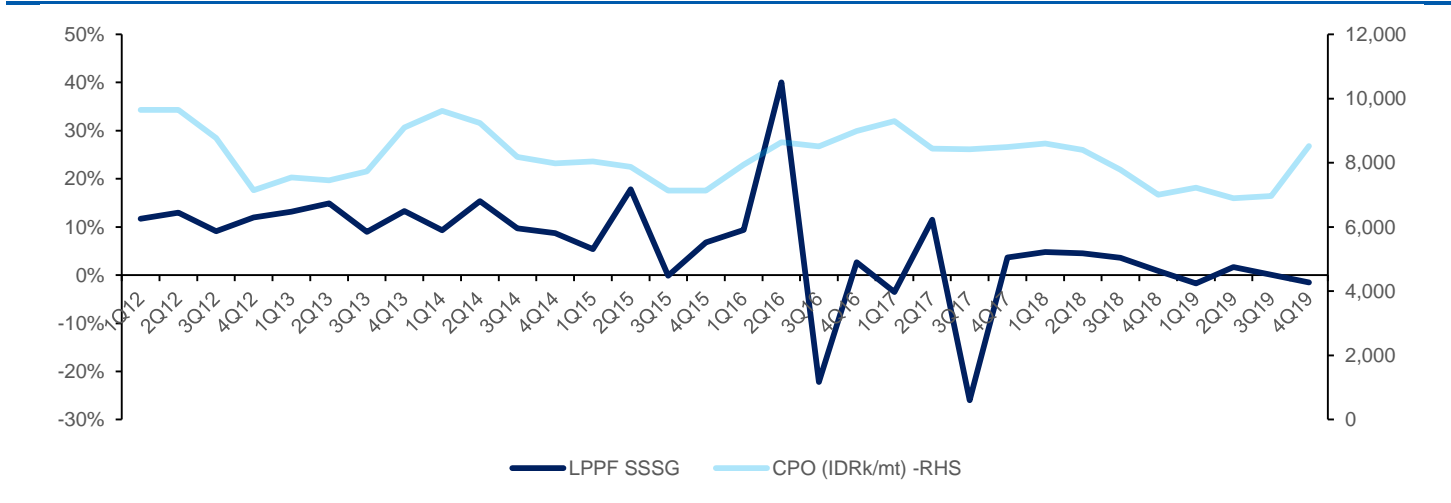
Source: Company data, Bloomberg, RHB

Figure 3: Valuation

Net income 2024F (in IDR bn)	1,024
Number of shares (in bn)	2.26
EPS	453
P/E target	5x
TP (IDR/share)	2,039
ESG premium (Discount)	-4%
TP (in IDR/share)	1,957

Source: Company data, RHB

Figure 4: Higher CPO prices may support LPPF's SSSG



Source: Company data, Bloomberg, RHB

Emissions And ESG

Trend analysis

There was an increase in 2022 driven from an increase in activities from the economic reopening

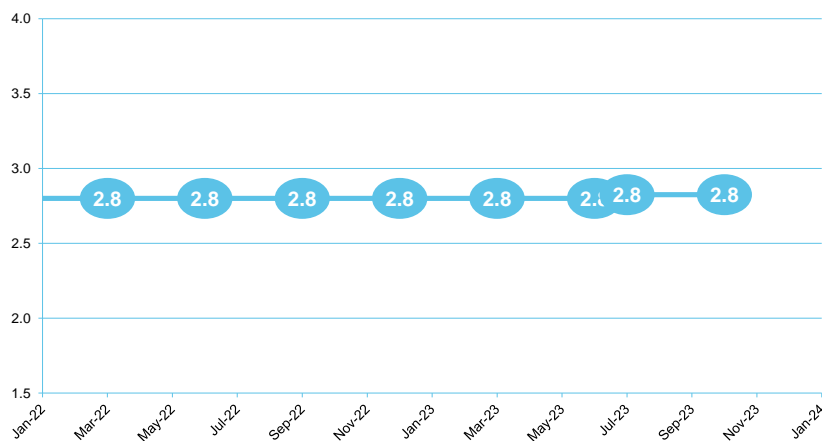
Emissions (tCO2e)	Dec-20	Dec-21	Dec-22
Scope 1	5,539	296	355
Scope 2	59	94	110
Scope 3	92,050	96,584	117,932
Total emissions	97,648	96,974	118,397

Source: Company data, RHB

Latest ESG-Related Developments

- The company will provide more recycling dropboxes as an expansion of initiatives with greater opportunity for customers to participate.
- Providing clothing and footwear support for students in need.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-07-31	Neutral	3,500	3,020
2023-02-26	Neutral	5,300	5,000
2022-10-26	Neutral	4,800	4,720
2022-03-07	Buy	6,600	5,300
2021-11-16	Neutral	4,200	4,080
2021-09-17	Buy	3,500	2,990
2021-04-26	Sell	630	1,830
2021-02-02	Sell	630	1,165
2020-11-24	Sell	630	1,280
2020-08-12	Neutral	1,350	1,260
2019-10-29	Sell	3,200	3,760
2019-10-02	Buy	5,000	3,520
2019-04-30	Buy	5,000	4,070
2019-03-21	Buy	7,500	4,150
2019-03-05	Buy	7,500	4,280

Source: RHB, Bloomberg

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