

31 July 2023

Consumer Cyclical | Retailing

## Matahari Department Store (LPPF IJ)

**Neutral** (Maintained)

### Weaker-Than-Expected Performance

Target Price (Return):	IDR3,500 (7.0%)
Price (Market Cap):	IDR3,270 (USD489m)
ESG score:	2.8 (out of 4)
Avg Daily Turnover (IDR/USD)	6,490m/0.44m

- **Keep NEUTRAL, new IDR3,500 TP from IDR5,300, 7% upside.** We cut FY23-25 earnings by 35-40% following Matahari Department Store's weaker-than-expected 2Q23 results, and roll forward our valuation base to 2024. Weak purchasing power impacted its *Lebaran* sales, and this is expected to continue in 3Q23. There is upside risk from rising CPO prices and the upcoming elections, which should boost domestic demand. Our TP is based on 7x 2024F P/E – close to the 5-year P/E mean (current valuation: 5-6x 2023F, c.-1SD), based on the potential recovery in 2024.

- **2Q23 results below expectations...** LPPF recorded 2Q23 net profit of IDR583bn (+475.3% QoQ, -24.7% YoY), bringing 1H23 net income to IDR684bn (-25.5% YoY). This was below expectations at 43.8% and 49.3% of our and consensus' 2023 forecasts. We believe this was mainly due to weaker revenue generation owing to the high inflationary environment and soft purchasing power. The company recorded 2Q23 revenue of IDR2.4trn revenue (+66.9% QoQ, -2.7% YoY). 1H23 topline was at IDR3.8trn (+2.4% YoY) – below expectations at c.52% of our and consensus' 2023 estimates.

- **... along with weak operational data.** LPPF booked -5.9% SSSG in 2Q23 (1Q23: 10.4%, 2Q22: 7.4%), bringing 1H23 SSSG to -0.4%. Transactions and the number of units sold declined by 5.4% and 7.3% in 1H23. We remain concerned its 3Q23 performance, as we believe the soft purchasing power will persist despite the back-to-school sales momentum. That said, we cut our SSSG assumption from 12% to -2% in 2023.

- **Continuing with its expansion plans...** We estimate LPPF will open 11 new stores in 2023 – slightly below the company's target of 12 stores. It already opened seven stores in 1H23. LPPF has also revamped (refurbishments, mini refits, relocations) 15 stores YTD 2023. More stores are expected to be transformed, as the company has seen its revamped stores performing better. Its official online stores on Lazada and Shopee have also been doing well. Its Blibli store was launched in July; Tokopedia reboot will be in August, and the company plans to add 2-3 more new channels by the year-end. However, its online sales still account for <5% of total sales.

- **... and merchandising initiatives.** Developing a shop-in-shop format will be LPPF's key focus with the Royal Sporting House, Nevada Sport, House of Characters, Baby Fashion, and SUKO labels to fuel growth. LPPF will also focus on beauty and denim products. It plans to launch a MU&KU concept that targets the higher-end of LPPF's retail segment. We have concerns on this initiative, given the intense competition and declining interest in the department store concept among mid- to high-income consumers.

- **Pinning hopes on high dividend yields.** We expect LPPF to record a high dividend yield of c.12% in 2024. It booked negative equity in 2Q23, post dividend payout, but this is likely to turn positive by the year-end.

- **ESG.** We applied a 4% ESG discount to LPPF's intrinsic value to derive our new TP, based on its 2.8 ESG score (below the country median).

### Analysts

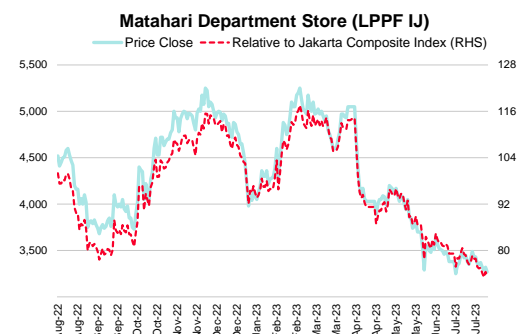
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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(31.2)	(3.3)	(19.3)	(23.6)	(29.4)
Relative	(31.9)	(6.9)	(19.1)	(23.6)	(28.6)
52-wk Price low/high (IDR)	3,250 – 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	7,384	8,374
Recurring net profit (IDRb)	842	1,167	1,012	1,245	1,498
Recurring net profit growth (%)	-	38.6	(13.3)	23.0	20.3
Recurring P/E (x)	10.10	6.66	7.30	5.94	4.93
P/B (x)	6.9	7.5	9.3	6.8	5.2
P/CF (x)	6.51	4.96	3.88	3.40	3.26
Dividend Yield (%)	3.0	7.7	16.1	12.1	14.4
EV/EBITDA (x)	4.06	3.16	3.01	2.21	1.69
Return on average equity (%)	103.2	121.4	102.4	126.1	112.1
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

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## Financial Exhibits

Asia	Financial summary (IDR)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Indonesia	Recurring EPS	323.84	491.12	447.66	550.67	662.72
Consumer Cyclical	DPS	98.01	250.89	524.84	394.46	471.33
<b>Matahari Department Store</b>	BVPS	476.35	437.73	350.72	479.96	632.06
LPPF IJ	Return on average equity (%)	103.2	121.4	102.4	126.1	112.1
Neutral						
	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Recurring P/E (x)	10.10	6.66	7.30	5.94	4.93
	P/B (x)	6.9	7.5	9.3	6.8	5.2
	FCF Yield (%)	17.4	18.4	22.4	25.6	26.3
	Dividend Yield (%)	3.0	7.7	16.1	12.1	14.4
	EV/EBITDA (x)	4.06	3.16	3.01	2.21	1.69
	EV/EBIT (x)	7.56	4.66	4.83	3.39	2.46
	Income statement (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total turnover	5,586	6,455	6,502	7,384	8,374
	Gross profit	3,579	4,401	4,377	5,054	5,779
	EBITDA	1,932	2,350	2,179	2,521	2,845
	Depreciation and amortisation	(894)	(758)	(823)	(878)	(893)
	Operating profit	1,037	1,592	1,356	1,643	1,952
	Net interest	(19)	(211)	(115)	(126)	(126)
	Pre-tax profit	1,103	1,637	1,151	1,443	1,718
	Taxation	(190)	(254)	(213)	(260)	(309)
	Reported net profit	913	1,383	938	1,184	1,409
	Recurring net profit	842	1,167	1,012	1,245	1,498
	Cash flow (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Change in working capital	409	84	34	179	162
	Cash flow from operations	1,307	1,567	1,904	2,174	2,265
	Capex	174	(138)	(249)	(283)	(321)
	Cash flow from investing activities	330	(65)	(386)	(616)	(419)
	Cash flow from financing activities	(1,500)	(1,809)	(1,037)	(581)	(1,065)
	Cash at beginning of period	524	661	354	835	1,812
	Net change in cash	137	(307)	481	977	780
	Ending balance cash	661	355	835	1,812	2,593
	Balance sheet (IDRb)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	661	354	835	1,812	2,593
	Tangible fixed assets	647	686	720	777	860
	Total assets	5,851	5,750	6,529	8,062	9,210
	Total liabilities	4,845	5,170	6,048	6,978	7,781
	Total equity	1,005	580	482	1,085	1,428
	Total liabilities & equity	5,851	5,750	6,529	8,062	9,210
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	15.4	15.5	0.7	13.6	13.4
	Recurrent EPS growth (%)	0.0	51.7	(8.9)	23.0	20.3
	Gross margin (%)	64.1	68.2	67.3	68.4	69.0
	Operating EBITDA margin (%)	34.6	36.4	33.5	34.1	34.0
	Net profit margin (%)	16.3	21.4	14.4	16.0	16.8
	Dividend payout ratio (%)	27.9	43.1	126.4	75.3	75.6
	Capex/sales (%)	(3.1)	2.1	3.8	3.8	3.8
	Interest cover (x)	28.2	7.3	10.8	11.2	12.1

Source: Company data, RHB

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Figure 1: Results summary

IDRbn	2Q22	1Q23	2Q23	QoQ (%)	YoY (%)	6M22	6M23	YoY (%)	6M23/ RHB	6M23/ Cons
<b>Sales</b>	2,474	1,443	2,408	66.9	(2.7)	3,762	3,852	2.4	52.1%	52.2%
COGS	763	474	781	64.8	2.4	1,200	1,256	4.7		
<b>Gross profit</b>	<b>1,712</b>	<b>969</b>	<b>1,627</b>	<b>67.9</b>	<b>(4.9)</b>	<b>2,562</b>	<b>2,596</b>	1.3	51.2%	51.6%
Operating expenses	769	776	827	6.5	7.6	1,440	1,604	11.4		
<b>Operating profit</b>	<b>943</b>	<b>193</b>	<b>800</b>	<b>315.3</b>	<b>(15.2)</b>	<b>1,122</b>	<b>992</b>	(11.6)	53.2%	55.2%
Net interest income/(expense)	(54)	(69)	(81)	16.4	49.7	(102)	(150)	47.0		
Interest income	4	1	3	144.3	(28.5)	6	4	(36.5)		
Interest expense	(58)	(70)	(83)	18.5	44.5	(108)	(154)	42.3		
FX gain (expense)	-	-	-							
Other income/(expense)	81	5	(6)	nm	nm	132	(1)	nm		
<b>Total other income (costs)</b>	<b>27</b>	<b>(64)</b>	<b>(87)</b>	<b>34.2</b>	<b>nm</b>	<b>30</b>	<b>(151)</b>	<b>nm</b>		
<b>Pretax profit</b>	<b>970</b>	<b>128</b>	<b>713</b>	<b>456.8</b>	<b>(26.4)</b>	<b>1,152</b>	<b>841</b>	(27.0)	45.0%	48.7%
Taxation	(196)	(27)	(131)	386.9	(33.4)	(234)	(157)	(32.7)		
Minority interest		-								
<b>Net profit</b>	<b>773</b>	<b>101</b>	<b>583</b>	<b>475.3</b>	<b>(24.7)</b>	<b>918</b>	<b>684</b>	(25.5)	43.8%	49.3%
<b>Margin (%)</b>										
Gross margin (%)	69.2	67.1	67.6			68.1	67.4			
Operating margin (%)	38.1	13.3	33.2			29.8	25.8			
Pretax margin (%)	39.2	8.9	29.6			30.6	21.8			
Net margin (%)	31.3	7.0	24.2			24.4	17.8			
<b>Turnover days</b>										
Inventory Days	96	275	101			122	126			
Receivable Days	1	3	2			2	2			
Payable Days	97	337	93			123	116			
CCC Days	1	(59)	9			1	12			

Source: Company data, Bloomberg, RHB

Figure 2: Changes in estimates

	RHB			Old			New/Old (%)		
	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F
<b>Income statement (IDRbn)</b>									
Total turnover	6,502	7,384	8,374	7,387	8,534	9,785	(12.0)	(13.5)	(14.4)
Gross profit	4,377	5,054	5,779	5,071	5,862	6,711	(13.7)	(13.8)	(13.9)
EBIT	1,356	1,643	1,952	1,865	2,176	2,525	(27.3)	(24.5)	(22.7)
Pretax profit	1,151	1,443	1,718	1,869	2,194	2,559	(38.4)	(34.2)	(32.8)
Net profit	938	1,184	1,409	1,563	1,834	2,139	(39.9)	(35.5)	(34.1)
<b>Key metrics</b>									
Revenue growth (%)	0.7	13.6	13.4	14.4	15.5	14.7			
EPS growth (%)	(28.7)	26.1	19.0	13.0	17.4	16.6			
EBITDA margin (%)	34.1	33.8	33.2	37.7	36.3	35.1			
EBIT margin (%)	20.9	22.3	23.3	25.2	25.5	25.8			
Net profit margin (%)	14.4	16.0	16.8	21.2	21.5	21.9			

Source: Company data, RHB

Figure 3: RHB vs consensus

IDRbn	RHB			Cons.			RHB/Cons (%)		
	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F
Net revenue	6,502	7,384	8,374	7,387	8,276	9,055	88.0	89.2	92.5
Gross profit	4,377	5,054	5,779	5,026	5,627	6,105	87.1	89.8	94.6
EBIT	1,356	1,643	1,952	1,790	1,974	2,096	75.8	83.3	93.1
EBITDA	2,217	2,494	2,780	2,046	2,236	2,395	108.4	111.5	116.1
Profit before tax	1,151	1,443	1,718	1,698	1,877	1,985	67.8	76.9	86.6
NPAT	938	1,184	1,409	1,360	1,496	1,593	69.0	79.1	88.4

Source: Company data, Bloomberg, RHB

Figure 4: Valuation

Net Income 2024F (in IDR bn)	1,184
Number of shares (in bn)	2.26
EPS	524
P/E Target	7x
TP (IDR/share)	3,668
ESG premium (Discount)	-4%
TP (in IDR/share)	3,521

Source: Company data, RHB

Figure 5: Comparison with Mitra Adiperkasa's (MAPI IJ, BUY, TP: IDR2,300) CAGR per segment (2011-2019)

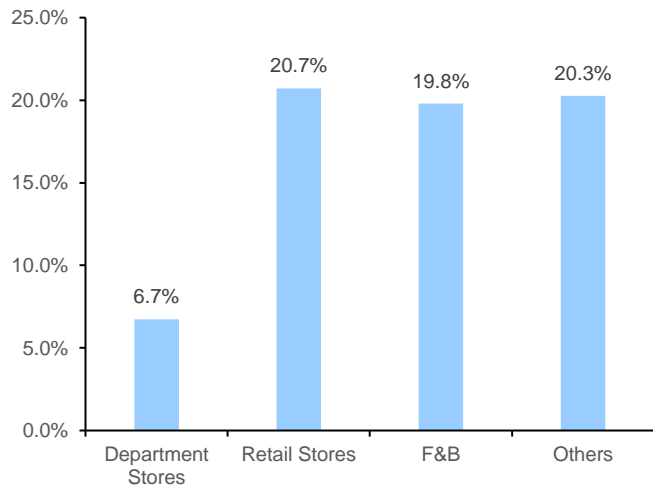
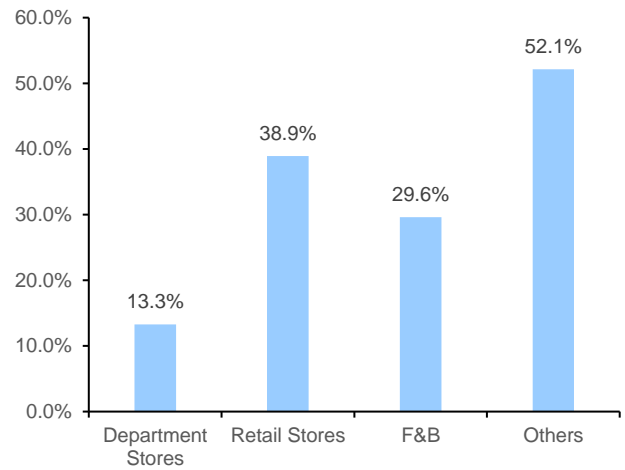


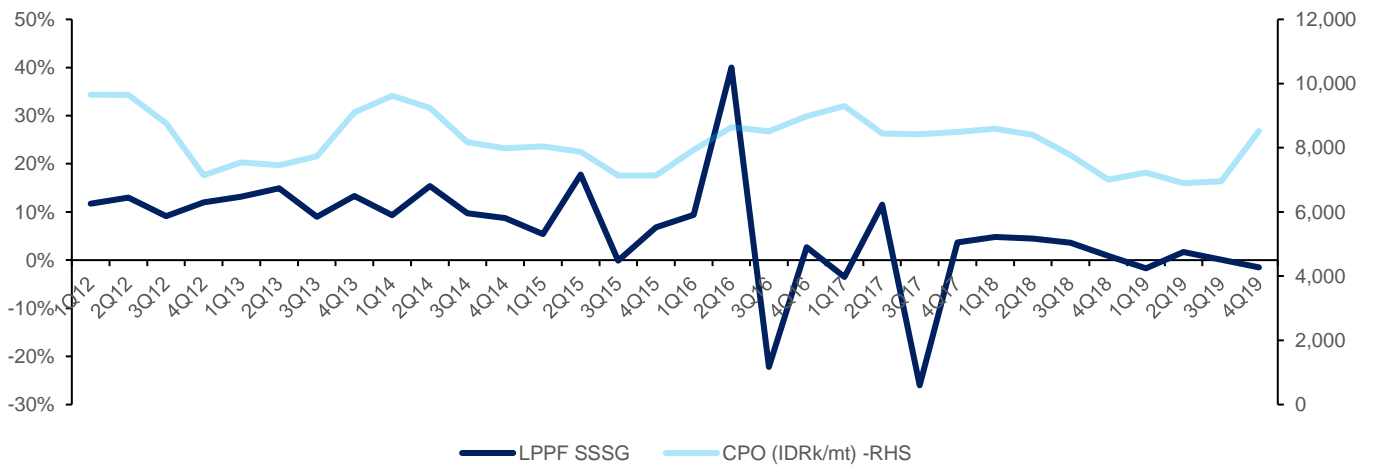
Figure 6: MAPI's CAGR per segment (2020-2022)



Source: Company data, RHB

Source: Company data, RHB

Figure 7: Higher CPO prices may support LPPF's SSSG



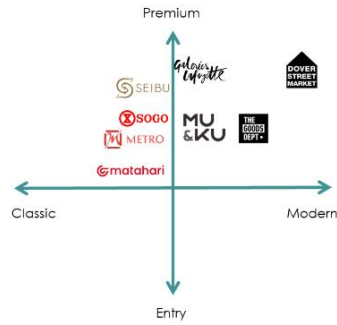
Source: Company data, Bloomberg, RHB

Figure 8: MU&KU store concept

# MU & KU BRAND POSITIONING

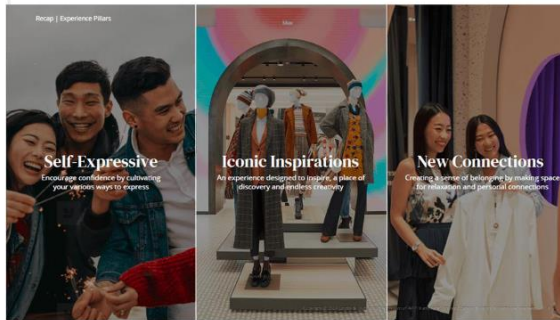


- o A curated multi-brand store
- o Targeting millennials, young professionals & families
- o Age range 28 - 45 yrs, with 'middle income segment'
- o Delivering stylish aspirational international & Indonesian brands



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# MU & KU



# EXPANSION PLAN

- 2023**  
1st store by 'December' in 1st tier mall in Jakarta, subject to availability
- 2024**  
3 store in 1st tier malls in 1st tier cities ( Jakarta, Surabaya, Bali )
- 2025**  
5+ stores in 1st tier malls in 1st tier cities ( Jakarta, Surabaya, Medan, Yogyakarta, Bali, Makassar)

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Source: Company data, RHB

## Recommendation Chart

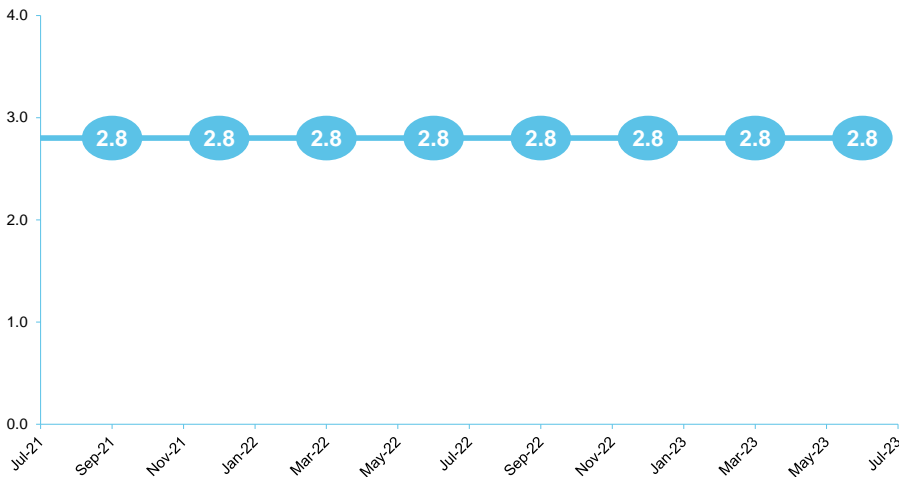


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2018-10-31	Buy	11,000	4,850

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

## RHB Guide to Investment Ratings

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