

30 June 2022

Consumer Cyclical | Retailing

## Ramayana Lestari (RALS IJ)

**Neutral** (Maintained)

On Shaky Ground; Keep NEUTRAL

Target Price (Return):	IDR610 (+4%)
Price (Market Cap):	IDR585 (USD279m)
ESG score:	2.80 (out of 4)
Avg Daily Turnover (IDR/USD)	5,588m/0.39m

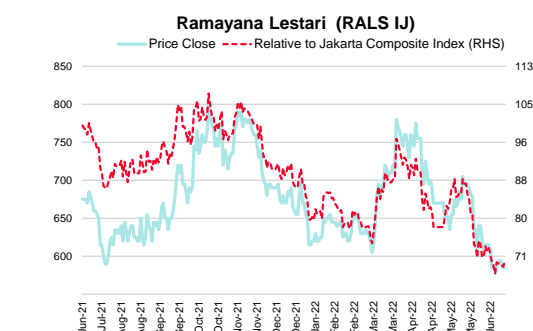
### Analyst

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- **Reiterate NEUTRAL, with new IDR610 TP from IDR750, 4% upside.** A decline in COVID-19 cases led to uninterrupted *Lebaran* festivities, while cash distribution to the grassroots translated to strong shopping activities in 2Q22. Still, we think all the positives have been priced in. We remain cautious on Ramayana Lestari's outlook in 2H22, owing to uncertainties on the continuation of the Government's subsidy programme, seasonality, the hyperinflationary environment, and normalising commodity prices. As such, we cut our earnings forecasts by 17-19% for 2022-2024.
- **Monetising the strong momentum in 2Q22...** The company should be able to monetise the strong buying momentum during *Lebaran*, after two years of strict social restrictions. From our ground checks, RALS stores were packed with visitors, particularly a week before *Lebaran*. We witness positive catalysts that fuelled shopping appetite ie strong purchasing power from the cash distribution to the grassroots, and tailwind of high commodity prices. We believe this will help to propel the company's performance, especially following its weak results in 1Q22 given high COVID-19 cases from the Omicron variant. Additionally, the return of overseas foreign workers (OFW) should partly help to boost RALS's performance. We are still waiting for 2Q22 results, but think there is a possibility of better-than-expected 2Q22 results, which will be a key upside risk to our call.
- **.... though upside will be limited in 2H22, in our view.** Nonetheless, we have concerns on its outlook after the *Lebaran* festivities. Low seasonality pattern, coupled with a hyperinflationary environment may bring challenges to RALS' performance. The likely potential of further increases in fuel prices and normalising commodity prices could pressurise consumer purchasing power. This is further exacerbated by the fact that most of RALS' customers are from the mid- to low-income segment. Additionally, there is also a lack of clarity regarding the Government's plans on continuing its social assistance programme. We believe this set of challenges may be key downside risks to our call.
- **Expansion may continue.** We think store closures may reduce as the company resumes its business expansion to seize the brighter economic momentum. We forecast 2-3 (fashion retailer concept) net store openings from 2022. The supermarket business remains challenging in our view, given RALS' low brand positioning and intense competition from wet markets and general trade for its mid to low customers. The company aims to boost online contribution to >2% in 2022. Currently, it does not have any short-term plans to launch its own digital application. We think it will take time to see more meaningful online contribution, given cash transactions account for 75-80% of its customer's payment mode.
- **Lower ESG score.** Based on our in-house methodology, we derive a lower ESG score of 2.80 from 2.90, and as such, apply a 4% discount to derive our TP. The company's disclosures are somewhat limited vs other retailers.

### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(10.7)	(15.8)	(24.0)	(11.4)	(13.3)
Relative	(16.2)	(14.6)	(23.0)	(16.6)	(30.0)
52-wk Price low/high (IDR)					580 – 800



Source: Bloomberg

### Overall ESG Score: 2.80 (out of 4)

#### E: GOOD

The company engages in managing environmental impact such as reducing energy consumption and plastic waste. RALS has put efforts in conducting proper measurement to see actual impact on its strategies. However, future targets have not been mentioned yet.

#### S: GOOD

The company is actively engaged in corporate social responsibility activities, to empower enhance mass community's welfare. RALS has complied with latest workforce and labour regulation. There are no major issues between employees and employers.

#### G: GOOD

The company continued to complied with current regulations, such as regularly conducting shareholders meeting and ensure equal distribution of public information to all stakeholders. All capital market participants can have access to disclosures of material information. Nonetheless, we noted its disclosure became more limited compared to the other retailers.

#### Note:

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

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (IDRb)	2,528	2,593	3,332	3,784	4,237
Recurring net profit (IDRb)	(131)	12	200	331	401
Recurring net profit growth (%)	(119.5)	-	1,514.5	65.6	21.5
Recurring P/E (x)	na	319.06	19.76	11.93	9.82
P/B (x)	1.0	0.9	0.9	0.9	0.8
P/CF (x)	na	16.01	8.79	5.94	6.46
Dividend Yield (%)	8.5	na	4.8	2.8	4.5
EV/EBITDA (x)	na	182.25	3.76	0.40	-
Return on average equity (%)	(4.1)	3.9	5.2	8.1	9.2

Source: Company data, RHB

## Financial Exhibits

Asia	Financial summary (IDR)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F	
Indonesia	Recurring EPS	-	19.42	1.83	29.60	49.03	59.56
Consumer Cyclical	DPS		50.01	-	27.92	16.54	26.57
Ramayana Lestari	BVPS		603.31	628.61	633.83	670.44	707.15
RALS IJ	Return on average equity (%)		(4.1)	3.9	5.2	8.1	9.2
Neutral							
<b>Valuation basis</b>							
Our 12M TP is derived from a 10-year DCF valuation							
<b>Key drivers</b>							
i. Faster-than-expected recovery post COVID-19 disruptions;							
ii. Fresh new operational changes and initiatives that could drive sales up.							
<b>Key risks</b>							
i. Lack of growth catalysts on minimal operational turnaround story;							
ii. Weak consumer-purchasing outlook on potential fuel price hike;							
iii. E-commerce disruption.							
<b>Company Profile</b>							
Ramayana Lestari operates department stores, which include Ramayana, Robinson, and Cahaya.							

	Financial summary (IDR)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F	
	Recurring P/E (x)	na	319.06	19.76	11.93	9.82	
	P/B (x)	1.0	0.9	0.9	0.9	0.8	
	FCF Yield (%)	(7.6)	7.8	5.9	10.7	8.9	
	Dividend Yield (%)	8.5	-	4.8	2.8	4.5	
	EV/EBITDA (x)	na	182.25	3.76	0.40	-	0.24
	EV/EBIT (x)	na	na	7.32	0.60	-	0.35
	<b>Income statement (IDRb)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	
	Total turnover	2,528	2,593	3,332	3,784	4,237	
	Gross profit	1,078	1,210	1,557	1,704	1,849	
	EBITDA	(112)	7	329	481	512	
	Depreciation and amortisation	(184)	(73)	(160)	(160)	(159)	
	Operating profit	(296)	(66)	169	321	353	
	Net interest	133	80	81	92	149	
	Pre-tax profit	(217)	181	279	448	533	
	Taxation	43	(21)	(56)	(90)	(107)	
	Reported net profit	(175)	160	223	358	427	
	Recurring net profit	(131)	12	200	331	401	
	<b>Cash flow (IDRb)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	
	Change in working capital	234	(124)	22	112	26	
	Cash flow from operations	(222)	246	449	664	610	
	Capex	(79)	62	(217)	(244)	(259)	
	Cash flow from investing activities	(636)	168	(127)	(192)	(215)	
	Dividends paid	(337)	0	(188)	(111)	(179)	
	Cash flow from financing activities	204	(386)	(138)	632	(47)	
	Cash at beginning of period	2,208	1,554	1,582	1,766	2,870	
	Net change in cash	(654)	28	184	1,104	348	
	Ending balance cash	1,554	1,582	1,766	2,870	3,218	
	<b>Balance sheet (IDRb)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	
	Total cash and equivalents	2,635	2,585	2,708	3,749	4,065	
	Tangible fixed assets	1,002	867	923	1,008	1,108	
	Total investments	0	0	0	0	0	
	Total assets	5,286	5,086	5,279	6,323	6,751	
	Total liabilities	1,566	1,489	1,637	1,803	1,984	
	Total equity	3,719	3,597	3,643	4,520	4,767	
	Total liabilities & equity	5,286	5,086	5,279	6,323	6,751	
	<b>Key metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>	
	Revenue growth (%)	(54.8)	2.6	28.5	13.6	12.0	
	Recurrent EPS growth (%)	(119.5)	0.0	1514.5	65.6	21.5	
	Gross margin (%)	42.6	46.7	46.7	45.0	43.6	
	Operating EBITDA margin (%)	(4.4)	0.3	9.9	12.7	12.1	
	Net profit margin (%)	(6.9)	6.2	6.7	9.5	10.1	
	Dividend payout ratio (%)	(193.2)	0.0	84.4	31.1	42.0	
	Capex/sales (%)	3.1	(2.4)	6.5	6.4	6.1	

Source: Company data, RHB

Figure 1: Retailers' online presence

	ERAA	RALS	MAPI	ACES	LPPF
Shopee	√	√	√	√	√
Tokopedia	√	√	√	√	√
Lazada		√	√		
Bukalapak	√	√			
Blibli.com	√	√	√		
Zalora			√		
JD ID		√	√		
iLotte	√		√		
Own platform	√		√	√	√
Whatsapp	√	√	√	√	√

Source: Company data, RHB

Figure 2: Changes to our estimates

	New			Old			New/Old (%)		
	2022F	2023F	2024F	2022F	2023F	2024F	2022F	2023F	2024F
<b>Income Statement (IDRbn)</b>									
Total turnover	3,332	3,784	4,237	3,920	4,481	5,007	(15.0)	(15.5)	(15.4)
Gross profit	1,557	1,704	1,849	1,696	1,967	2,210	(8.2)	(13.4)	(16.4)
EBITDA	329	481	512	402	583	642	(18.3)	(17.5)	(20.4)
Net profit	223	358	427	269	441	518	(17.2)	(18.9)	(17.7)
<b>Key Metrics</b>									
EPS (IDR)	33	53	63	40	65	77	(17.2)	(18.9)	(17.7)
DPS (IDR)	28	17	-	-	19	-			
Revenue growth (%)	28.5	13.6	12.0	43.2	14.3	11.8			
EBITDA margin (%)	9.9	12.7	12.1	10.3	13.0	12.8			
Net profit margin (%)	6.7	9.5	10.1	6.9	9.9	10.4			

Source: Company data, RHB

Figure 3: RHB vs Street projections

	RHB			Consensus			RHB/Cons (%)		
IDRbn	2022F	2023F	2024F	2022F	2023F	2024F	2022F	2023F	2024F
Net revenue	3,332	3,784	4,237	4,061	4,730	5,161	82.0	80.0	82.1
Gross profit	1,557	1,704	1,849	1,879	2,190	2,398	82.8	77.8	77.1
EBITDA	329	481	512	639	828	939	51.5	58.1	54.5
PBT	279	448	533	364	452	514	76.6	99.1	103.8
NPAT	223	358	427	322	484	488	69.4	74.0	87.4

Source: Company data, Bloomberg, RHB

Figure 4: DCF valuation

IDRbn	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
<b>EBIT</b>	169	321	353	426	509	580	650	684	703	703	680
<b>EBIT (1-t)</b>	135	257	282	341	407	464	520	548	563	563	544
Depreciation & Amortisation	160	160	159	158	157	155	154	151	149	146	143
Change in working capital	33	76	(8)	24	16	16	17	17	18	18	18
Capex	(217)	(244)	(259)	(266)	(279)	(298)	(316)	(334)	(362)	(391)	(419)
<b>Net free cash flow to firm</b>	<b>112</b>	<b>249</b>	<b>174</b>	<b>257</b>	<b>301</b>	<b>337</b>	<b>374</b>	<b>382</b>	<b>367</b>	<b>336</b>	<b>285</b>
Terminal Value											3,367
PV	112	218	134	174	179	176	171	154	130	104	994
Total discounted firm value	2,546										
Less: net debt	1,765										
Less: minority interest	-										
Equity value	4,310										
Number of shares (bn)	6.7										
<b>Equity value per share (IDR)</b>	<b>639</b>										

Source: Company data, RHB

Figure 5: Foot traffic at RAL's Seasons City a week before Lebaran



Source: RHB

## Recommendation Chart

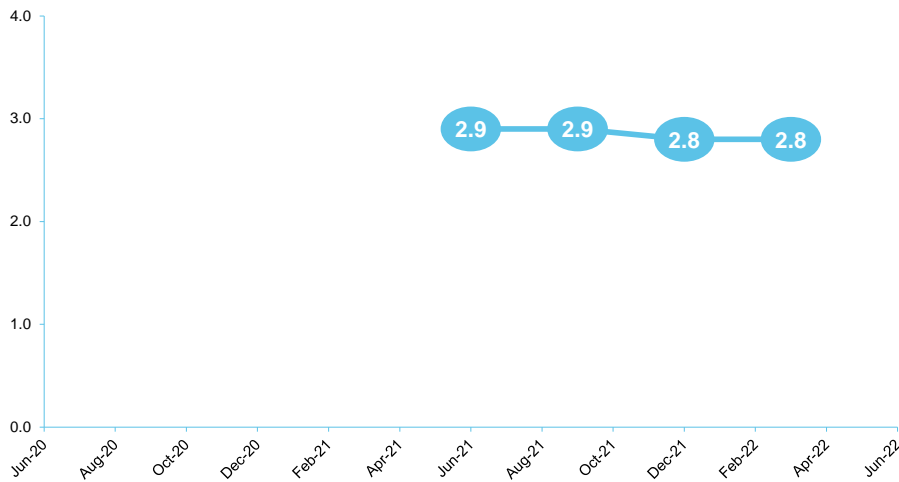


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-12-08	Neutral	750	695
2021-06-16	Sell	550	675
2020-11-24	Neutral	710	775
2020-08-12	Buy	900	625
2019-11-04	Neutral	1,100	1,185
2019-08-21	Sell	1,100	1,305
2019-05-08	Sell	1,500	1,800
2019-02-18	Neutral	1,750	1,805
2019-01-14	Neutral	1,600	1,515
2018-10-12	Buy	1,600	1,190

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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Analyst	Company
-	-

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