

17 September 2021

Consumer Cyclical | Retailing

Matahari Department Store (LPPF IJ)

Buy (from Sell)

Seeing It In a New Light; U/G To BUY

- **U/G BUY from Sell, new IDR3,500 TP from IDR630, 19% upside.** We lift our net profit forecasts by 42-53% for 2021 and 2022, following Matahari Department Store's stellar 1H21 numbers. We also increase our valuation to 15x 2021F P/E, as our outlook for the company has improved. We now have better clarity on its future strategies, and note that some initiatives have started to bear fruit.
- **The worst should be mostly over, with 3Q21 being the only challenging quarter left.** The company's initiatives have started to bear more fruit, but we remain concerned about its 3Q21 performance, due to the impact of lockdown-related (PPKM) measures. LPPF closed 117 out of its 145 stores, as foot traffic has plunged to just 30% of levels recorded prior to the PPKM period. That said, the impact of such measures should be felt less when compared to its 2020 experience. End-1H21 inventory was valued at c.IDR820bn, which was half that of 1H20. That said, we think there is now lesser urgency for the company to clear out inventory, resulting in softer margin pressure.
- **Expects to gear up ahead.** LPPF aims to close more non-performing stores in 2021, and we expect it to end the year with 137 stores. We expect the store closures to be over by year-end, and new store openings may begin from 2022 onwards. We expect to see 3-5 net store openings from 2022 onward. Note that LPPF views the opening of new stores to boost its performance – it has already opened one in Balikpapan, and aims to open another two over the rest of the year.
- **Merchandising initiatives still a central factor.** LPPF aims to terminate some brands such as 361°, OVS and others. It only has 7% of items left over from these brands, which should alleviate the pressure on its margins ahead. Also, it is working with Royal Sporting House (RSH) and Sociolla to expand its brand offerings. We are upbeat on this, as the initiative should bring in more customers and boost its revenue streams – especially in sports apparel and beauty products. LPPF already retails RSH products in >30 stores, and Sociolla products in four stores.
- **Further benefits from possible Ping An Bank (Ping An) – Bank Nationalnobu (NOBU IJ, NOT RATED) collaboration?** Media reports indicate that Ping An may forge a collaboration with Nobu, which should be positive for the latter, given Ping An's extensive expertise in various financial segments. Note that Ping An is a leading financial player in China. We do need to have better clarity on its expansion strategy – especially in growing its network, enlarging its customer base, and widening product offerings. Over the short term, we think Nobu may benefit from LPPF's store network expansion (note that LPPF has a stake in Nobu). In the long term, if this partnership bring about positive results, LPPF might reap some rewards in terms of higher traffic and fee-based income. LPPF has mentioned that it has no plan to divest or partake in Nobu's rights issue.

Forecasts and Valuation	Dec-18	Dec-19	Dec-20	Dec-21F	Dec-22F
Total turnover (IDRb)	10,245	10,276	4,839	6,004	7,427
Recurring net profit (IDRb)	1,629	1,350	(629)	655	973
Recurring net profit growth (%)	-	(17.1)	(146.6)	-	48.5
Recurring P/E (x)	5.29	6.20	na	12.41	8.36
P/B (x)	4.0	3.9	15.3	7.1	5.0
P/CF (x)	8.49	4.70	5.85	26.34	4.14
Dividend Yield (%)	na	na	na	na	na
EV/EBITDA (x)	2.81	3.44	27.92	4.24	2.90
Return on average equity (%)	-	64.4	(66.3)	73.4	66.3
Net debt to equity (%)	net cash	net cash	83.8	net cash	net cash

Source: Company data, RHB

Target Price (Return):	IDR3,500 (+19%)
Price:	IDR2,950
Market Cap:	USD544m
Avg Daily Turnover (IDR/USD)	65,937m/4.62m

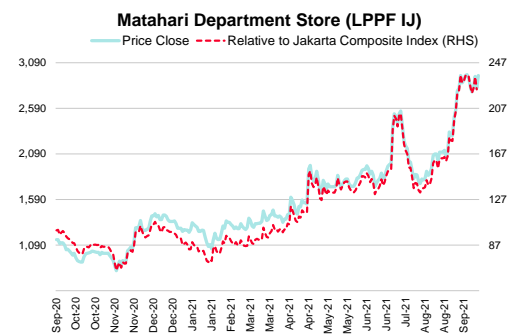
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	131.4	39.8	55.3	109.2	156.5
Relative	129.2	39.4	54.8	112.4	135.7
52-wk Price low/high (IDR)	810 – 2,960				



Source: Bloomberg

Overall ESG Score: 2.8 (out of 4)

E: Good

LPPF has realised the importance of its performance in the "E" pillar. It has strategies to manage electricity usage, energy, emissions as well as waste, particularly when it comes to plastic waste. Nevertheless, detailed insights on areas like electricity and energy usage reduction are not yet available.

S: Good

The company has placed emphasis on enhancing community welfare. It has conducted a number of corporate social responsibility programmes, to create a positive social impact that would benefit stakeholders. There are no major issues between employees and employers.

G: Good

The company has continued to comply with current regulations, such as regularly conducting shareholders meetings and ensuring equal distribution of public information to all stakeholders.

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD1bn.

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Financial Exhibits

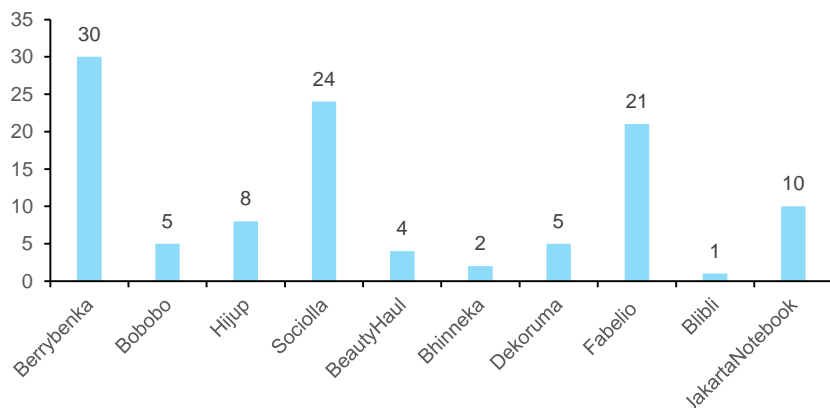
Asia	Financial summary (IDR)	Dec-18	Dec-19	Dec-20	Dec-21F	Dec-22F
Indonesia	Recurring EPS	558.18	475.62	(227.91)	237.66	352.81
Consumer Cyclical	BVPS	733.15	763.19	192.23	415.34	593.99
Matahari Department Store	Return on average equity (%)	-	64.4	(66.3)	73.4	66.3
LPPF IJ						
Buy						
	Valuation metrics	Dec-18	Dec-19	Dec-20	Dec-21F	Dec-22F
	Recurring P/E (x)	5.29	6.20	na	12.41	8.36
	P/B (x)	4.0	3.9	15.3	7.1	5.0
	FCF Yield (%)	5.8	15.6	22.5	1.4	18.9
	EV/EBITDA (x)	2.81	3.44	27.92	4.24	2.90
	EV/EBIT (x)	3.19	4.06	na	8.03	4.73
	Income statement (IDRb)	Dec-18	Dec-19	Dec-20	Dec-21F	Dec-22F
	Total turnover	10,245	10,276	4,839	6,004	7,427
	Gross profit	6,378	6,156	2,830	3,838	4,753
	EBITDA	2,638	2,084	309	1,708	2,154
	Depreciation and amortisation	(308)	(318)	(936)	(806)	(834)
	Operating profit	2,330	1,766	(627)	903	1,320
	Net interest	8	(25)	(46)	(29)	(22)
	Pre-tax profit	1,575	1,763	(934)	820	1,231
	Taxation	(478)	(396)	61	(205)	(308)
	Reported net profit	1,097	1,367	(873)	615	923
	Recurring net profit	1,629	1,350	(629)	655	973
	Cash flow (IDRb)	Dec-18	Dec-19	Dec-20	Dec-21F	Dec-22F
	Change in working capital	0	144	(271)	(432)	281
	Cash flow from operations	1,014	1,780	1,392	309	1,963
	Capex	(511)	(478)	437	(193)	(423)
	Cash flow from investing activities	196	(356)	(2,759)	1,114	(527)
	Cash flow from financing activities	(1,609)	(1,436)	719	(1,062)	(431)
	Cash at beginning of period	1,583	1,184	1,173	524	885
	Net change in cash	(399)	(12)	(649)	361	1,006
	Ending balance cash	1,184	1,172	524	885	1,891
	Balance sheet (IDRb)	Dec-18	Dec-19	Dec-20	Dec-21F	Dec-22F
	Total cash and equivalents	1,184	1,173	524	885	1,891
	Tangible fixed assets	1,249	1,433	862	758	855
	Total assets	5,036	4,833	6,319	5,643	7,013
	Short-term debt	0	0	1,011	0	0
	Total liabilities	3,221	3,086	5,738	4,497	5,375
	Total equity	1,816	1,747	581	1,146	1,638
	Total liabilities & equity	5,036	4,833	6,319	5,643	7,013
	Key metrics	Dec-18	Dec-19	Dec-20	Dec-21F	Dec-22F
	Revenue growth (%)	0.0	0.3	(52.9)	24.1	23.7
	Recurrent EPS growth (%)	0.0	(14.8)	(147.9)	0.0	48.5
	Gross margin (%)	62.3	59.9	58.5	63.9	64.0
	Operating EBITDA margin (%)	25.7	20.3	6.4	28.5	29.0
	Net profit margin (%)	10.7	13.3	(18.0)	10.2	12.4
	Capex/sales (%)	5.0	4.6	(9.0)	3.2	5.7
	Interest cover (x)	74.7	31.0	(7.7)	17.8	22.2

Source: Company data, RHB

Possible O2O Strategies

LPPF's extensive store network (c.40% outside Java) presents an attractive opportunity for online players to partner with. Collaboration with online players should help to unlock its value. We have seen a number of online global players setting up physical stores to bring about a more seamless customer experience. In Indonesia, players like Bhinneka, Deko Ruma, Sociolla, JD ID and others have followed suit.

Figure 1: Number of physical stores opened by online players



- ◆ The offline stores might help to enhance customer value, especially in showcasing and improving assurance for customers when they purchase goods
- ◆ Also, these offline stores might serve as a channel to provide after-sales services. This is crucial in maintaining and improving customer loyalty

Source: Tech in Asia

Figure 2: LPPF's number of stores

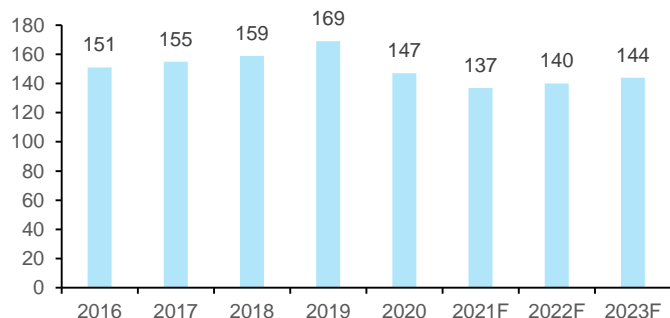


Figure 3: LPPF's store locations



	Stores as of Jun'21	Gross Sales/Region	
		2Q 2021	1H 2021
Greater Jakarta	37	24.9%	24.5%
Java (ex G. Jkt)	50	36.3%	35.2%
Outside Java	61	38.9%	40.3%
Total	148	100.0%	100.0%

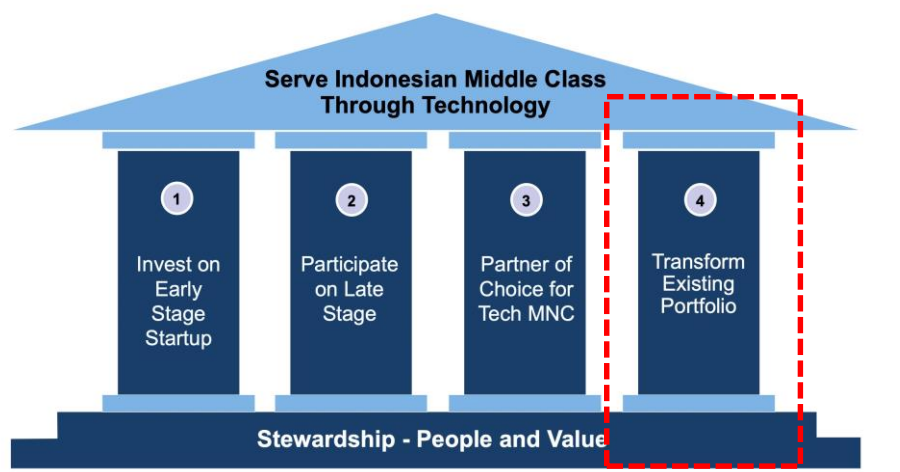
Source: Companies data, RHB

Source: Companies data, RHB

We believe that a closer collaboration between LPPF and online players may happen – which is in line with its major shareholder (19.42% stake) Multipolar's (MLPL IJ, NR) strategy. Based on our discussion with MLPL's management, the group aims to transform its "old economy" companies to embrace digitalisation. Of these, MLPL prefers to partner these conventional companies with tech players to instantly unlock value. The latest example is its supermarket business subsidiary Matahari Putra Prima's (MPPA IJ, BUY IDR1,750) partnership with GoTo. Aside from this, Multipolar Technology (MLPT IJ, NOT RATED; MLPL's subsidiary in the IT business) is partnering with international players on data centres. Meanwhile, there is new flow on Ping An cooperating with Nobu, which is also MLPL's subsidiary in the banking business.

As such, LPPF working with online players may enable it to grow its presence rapidly and in a more cost-efficient manner. Having a substantial portion of its outlets located outside Java may help it cut the costs of penetrating these areas. Although ex-Java areas present ample growth opportunities, the cost of establishing its market presence might be high – given the challenging distribution infrastructure. As such, we believe, partnering with offline retailers might be enable it to maintain efficiency and effectiveness.

Figure 4: MLPL's business strategy pillars

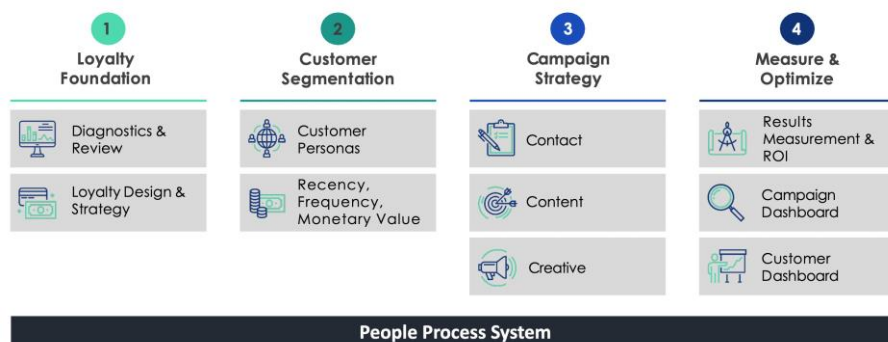


- ◆ MLPL's fourth pillar is the most relevant strategy for enhancing LPPF's business
- ◆ We have seen concrete implementation of this strategy, with the MPPA-GoTo partnership being the most highlighted business case

Source: Company

Partnering with online players should also benefit LPPF as well, especially in boosting its online contribution to total numbers, while it can digitalise the overall business operation. Its online business accounted for c.7% during the last PPKM emergency, as it only listed products on Shopee and JD ID, as well as through its own platform. Aside from this, we believe partnering its tech players will help to digitalise its business, as it may lean on the latter's expertise to better fulfil customer demand.

Figure 5: LPPF's data-driven strategies



- ◆ This should allow LPPF to enhance customer segmentation, which ought to drive merchandise strategies and personalise loyalty outreach

Source: Company

Data-driven strategies should allow it to enhance customer segmentation, which will drive merchandising strategies and personalising loyalty outreach. The personalised approach, based on a Google Cloud webinar, suggests a positive outcome – successful personalization can lead to 1-2% sales growth, a 10-20% reduction in marketing costs, and 20% increase in customer satisfaction.

Meanwhile, Sociolla is also a MLPL company – which may enable LPPF to work more closely with it. Early cooperative initiatives have just started, with LPPF selling Sociolla products in four of its stores, in Arion Jakarta, Delta Surabaya, Nagoya Batam and SKA Pekanbaru.





Figure 6: Sociolla’s section inside LPPF stores



Source: Company

Sociolla has been aggressive in opening its offline stores. It currently has 24 stores, all located in Java areas. Partnering with LPPF may be a way for it to grow its market presence – especially in ex-Java areas – more rapidly and efficiently. We believe Sociolla is currently targeting the middle-income segment, which is broadly similar to LPPF’s target market. We conducted a channel check across a number of its best-selling products. The price of its top selling items on average hover at around IDR100-200K, vs LPPF’s average customer basket size of c.IDR300K.

Figure 7: Sociolla’s offline stores

 <p>Sociolla Central Park Central Park LG Unit L-245 Letjen S. Parman St No.28, Tanjung Duren, Grogol petamburan, Jakarta Barat 11470</p> <p>☐ Senin - Minggu 🕒 10:00 - 20:00</p> <p>DIRECTION</p>	 <p>Sociolla Sunplaza Medan Sun Plaza Medan C01-05 Jl. KH. Zainul Arifin No.7, Madras Hulu, Kec. Medan Polonia, Kota Medan, Sumatera Utara 2015</p> <p>☐ Senin - Minggu 🕒 10:00 - 20:00</p> <p>DIRECTION</p>
 <p>Sociolla Margocity Depok Margo City LG 46-47 Jl. Margonda Raya No.358, Kemiri Muka, Kecamatan Beji, Kota Depok, Jawa Barat 16423</p> <p>☐ Senin - Minggu 🕒 10:00 - 19:00</p> <p>DIRECTION</p>	 <p>Sociolla Mall of Indonesia Mall Of Indonesia 1F-A5-A6 Jl. Boulevard Bar. Raya, RT.18/RW.8, Klp. Gading Bar., Kec. Klp. Gading, Jakarta Utara 14240</p> <p>☐ Senin - Minggu 🕒 10:00 - 20:00</p> <p>DIRECTION</p>

Source: Company

In our view, Sociolla should continue on this omnichannel strategy, which would give it a better picture of overall consumer demand. It has been able to gather more complete data about market demand, efficiency of customer reach and potential store openings.

For LPPF, we think it could reap multiple benefits – especially in growing product offerings and banking on Sociolla’s large customer base. Sociolla clocked over 1m downloads from Google Play. Sephora is a major competitor, but serves a different target market, ie the high-income segment.

Figure 8: Comparison of beauty product retailing apps

	Number of reviews	Rating	Number of downloads
Sociolla	14,000	4.3	1M+
Sephora	13,000	4.5	1M+
Body Shop	4,000	4.7	500k+
C&F Store	5	5	500+
Ponny Beaute	197	4.6	10k+
Beauty Haul	145	4.2	10k+

Source: Various sources, RHB

Currently, there is no detailed disclosure on any strategic partnerships between these companies. We believe LPPF and Sociolla are still testing the waters, before they ramp up the cooperation. Also, there is yet to be any clarity on how such partnerships will help to boost LPPF's performance. The beauty products segment accounted for about 3-6% of LPPF's revenue over the last few years.

Figure 9: Changes to our estimates

	RHB			Old			New/Old (%)		
	2021F	2022F	2023F	2021F	2022F	2023F	2021F	2022F	2023F
Income Statement (IDRbn)									
Total Turnover	6,004	7,427	8,324	6,256	6,725	6,753	(4.0)	10.4	23.3
Gross Profit	3,838	4,753	5,358	3,743	4,048	4,077	2.5	17.4	31.4
EBITDA	1,759	2,203	2,462	1,496	1,775	1,822	17.6	24.1	35.1
Net Profit	615	923	1,102	433	602	605	42.2	53.5	82.1
Key Metrics									
EPS (IDR)	234	351	419	165	229	230	42.2	53.5	82.1
Revenue Growth (%)	24.1	23.7	12.1	41.8	7.5	0.4			
EPS Growth (%)	N/M	50.1	19.3	N/M	39.0	0.6			
EBITDA Margin (%)	29.3	29.7	29.6	23.9	26.4	27.0			
Net Profit Margin (%)	10.2	12.4	13.2	6.9	8.9	9.0			

Source: Company data, RHB

Figure 10: RHB vs Street projections

IDRbn	RHB			Street			RHB/Street (%)		
	2021F	2022F	2023F	2021F	2022F	2023F	2021F	2022F	2023F
Net revenue	6,004	7,427	8,324	6,439	7,667	8,431	93.2	96.9	98.7
Gross profit	3,838	4,753	5,358	3,893	4,677	5,172	98.6	101.6	103.6
EBITDA	1,759	2,203	2,462	1,036	1,482	1,646	169.8	148.6	149.6
Profit before tax	820	1,231	1,469	573	1,004	1,181	143.3	122.6	124.4
NPAT	615	923	1,102	451	799	940	136.3	115.6	117.2

Source: Company data, Bloomberg, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-11-24	Sell	630	1,280
2020-08-12	Neutral	1,350	1,260
2019-10-29	Sell	3,200	3,760
2019-04-30	Buy	5,000	4,070
2019-03-05	Buy	7,500	4,280
2018-08-14	Buy	11,000	6,100

Source: RHB, Bloomberg

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