

## RETAIL/COMPANY UPDATES

# Matahari Department Store

## Issues on the corporate governance

**We downgrade our recommendation on LPPF from BUY to SELL, concerned by corporate governance issues. We believe there is a potential conflict of interests in regard to its planned transaction that raises its stake in GEI.**

### What is the transaction? LPPF plans to increase its stake in Mataharimall.com

LPPF has confirmed its intention to increase its stake in PT Global Ecommerce Indonesia (GEI), the parent company of MatahariMall.com. The management confirmed that the company would increase its stake by injecting an estimated Rp 590bn in several tranches from the end of 2016 until 3Q17. The purpose of this transaction is to strengthen its strategic long-term relationship with GEI, MatahariMall.com and to avoid dilution given Mitsui's plan to invest USD100mn for a 20% stake in GEI. By the end of 2015, LPPF had invested Rp179.8bn (a 10.3% stake) in GEI – according to the company's disclosure in January 2016. However, LPPF's ownership in GEI was diluted to 9.5% after MPPA increased its ownership in GEI. According to the last disclosure concerning LPPF's investment in MatahariMall.com in 2015, the valuation of GEI was Rp1.3tn.

### What is the impact of the transaction? To foster O2O e-commerce components

The company believes that the investment in GEI and partnership with MatahariMall.com will foster O2O e-commerce components and significantly boost sales in the future. However, in our recent meeting with the company, no further details were provided regarding the impact of this transaction on earnings. Nonetheless, based on the Regulation of Bapepam and LK Number IX.E.2, the value of this transaction (Rp 590bn) is considered material as it is around 40% of the company's 9M16 equity (Rp 1.4tn). As such, the company will be required to provide disclosure concerning this transaction.

### What is the issue?

Corporate governance - as we are concerned by a potential conflict of interests. By the end of September 2016, the majority shareholder in LPPF was Multipolar (20.5%) while the remaining 79.5% of the shares were held by the public. For GEI, the majority shareholder is IDV (PT Investama Digital Ventura) (77.4%) – according to the data provided in January 2016. However, we think that the investor in MatahariMall.com and the single majority shareholder which controls LPPF are similar. Based on disclosures provided in December 2015 and January 2016, the management declared that the two transactions (Rp53bn in December 2015 and Rp94bn in January 2016 – see exhibit 3) had the nature of an affiliated relationship because one of the LPPF commissioners has a family relationship with the indirect controlling shareholder of IDV, based on the Regulation of Bapepam and LK Number IX.E.1.

### Downgrade from BUY to SELL

Following the in-line 9M16 results, we estimate that the company's FY16F revenues will grow by 9% yoy. With a solid balance sheet, we estimate that the company will maintain its net cash position until 2017. However, the valuation has weakened significantly since our last report, and the stock is currently trading at FY17F P/E of 17.9x. However, we believe concerns on corporate governance may continue to put pressure on the share price going forward. Downgrade to SELL with a lower TP of Rp 12,000, implying FY17F P/E of 14.9x (-2.5 STD based on 3 years historical P/E).

	2014	2015	2016F	2017F	2018F
Revenue, Rp bn	7,926	9,007	9,810	10,830	11,937
EBITDA, Rp bn	2,339	2,570	2,868	3,245	3,617
Net profit, Rp bn	1,412	1,799	2,080	2,370	2,658
EPS, Rp	486	611	706	805	903
EPS growth (%)	23.4	25.7	15.6	14.0	12.1
P/E Ratio (x)	29.6	23.6	20.4	17.9	15.9
EV/EBITDA (x)	17.9	16.1	14.3	12.6	11.2
ROAE (%)	795.3	162.6	120.2	97.1	82.1
Net gearing (%)	net cash	net cash	net cash	net cash	net cash

## SELL

Target Price, Rp 12,000

Upside (Downside) (16.6%)

LPPF IJ/LPPF..JK

Last Price, Rp 14,400

No. of shares, mn 2,918

Market Cap, Rpbn 42,019

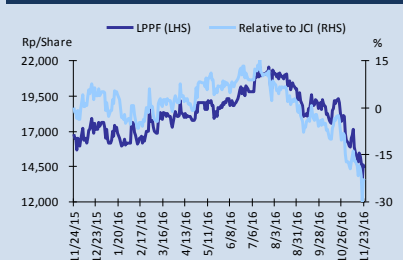
(US\$ mn) 316

3M T/O, US\$mn 1.1

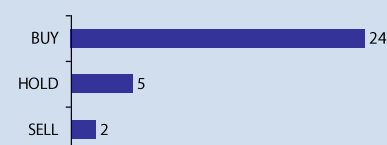
### Last Recommendation

6 Oct 2016 BUY Rp 21,500

### xxx relative to JCI Index



### Market Recommendation



### Danareksa vs Consensus

	Our	Cons	% Diff
Target Price, IDR	12,000	21,108	-43.1
EPS 2017F, IDR	805	842	-4.4
PE 2017F, x	17.9	17.1	4.7

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## Why do we advise investors to sell LPPF?

We are concerned by corporate governance issues in LPPF, regarding a potential conflict of interests in regard to its planned transaction. Given the uncertainty, we think at this stage, the risks are too high and we downgrade our recommendation from BUY to SELL.

### What is the transaction?

Time line
<p><b>November 16, 2016</b></p> <p>LPPF confirmed its intention to increase its stake in GEI, the parent company of MatahariMall.com. Prior to Mitsui's recent investment of USD100mn in MatahariMall.com, LPPF held 9.5% of GEI's shares. The management confirmed the company would increase its stake by injecting an estimated Rp 590bn in several tranches from the end of 2016 until 3Q17. LPPF confirmed that upon this fund injection, its stake in MatahariMall.com would increase yet remain below 20% with possible gradual dilution in the coming years as LPPF does not plan to participate in any further funding initiatives by GEI or MatahariMall.com ahead. The management confirmed that the source of the funding will be from internal cash.</p>
<p><b>November 9, 2016</b></p> <p>LPPF had recently launched MatahariStore, a landing page to expand LPPF's product range available online and leverage its 3.5mn loyalty card members. MatahariStore is a collaboration between LPPF and MatahariMall.com and will be accessible through MatahariMall.com, allowing the company to leverage its logistics and technological expertise.</p>
<p><b>November 2, 2016</b></p> <p>Mitsui confirmed it would invest USD100mn in MatahariMall.com. The funds would be disbursed in tranches over the next 12 months: an 11% stake would be acquired in the first tranche with subsequent investments lifting its stake to 20%. To avoid dilution, LPPF would make an additional investment in MatahariMall.com to increase its stake.</p>
<p><b>July 2015</b></p> <p>Going back to mid-2015, Lippo Group launched the beta version of MatahariMall.com to those who signed up on its website. Registered customers are sent promotional updates on different product categories on a daily basis. The officially be sometime in 3Q15 and will offer more than 500,000 products spanning electronics, fashion, lifestyle, and F&amp;B. Lippo group is investing up to USD500mn in the next 2-3 years to develop MatahariMall.com as the biggest e-commerce website in Indonesia. Currently, it is in the first phase of fund raising, and is expected to raise USD200mn.</p>
<p><b>April 2015</b></p> <p>To facilitate e-commerce development, LPPF signed a cooperation agreement of product sales through MatahariMall.com on April 8, 2015.</p>

### What is MatahariMall.com?

MatahariMall.com is an e-commerce platform that offers Matahari Department Store and Hypermart products (although not the full SKU range), as well as being a marketplace concept. For instance, Hypermart will supply some 10,000 SKUs (of its ~30,000 SKUs per store) – mostly groceries. Nonetheless, Mataharimall.com is a separate entity from Matahari Department Store (LPPF) and Matahari Putra Prima (MPPA); thus logistics will be done separately.

MatahariMall owns a 10,000sqm warehouse in Halim, East Jakarta, outside Matahari and Hypermart's distribution centre in Balaraja. For Matahari, in particular, the management's strategy is to treat MatahariMall.com just as another new store in its portfolio.

### Exhibit 1. Some of the ladies' fashion brands are supplied by LPPF

Categories	Brands			
Handphone & Tablet	Accent	Details	La Viola	<b>St. Yves *)</b>
TV, Audio & Game	Adore	Dhindri Hijab	Lawrensia	Super T
Ladies Fashion	Amary	Dr. Kevin	LGS	Symbolize
Men Fashion	Ando	Felancy	Marie & Frisco	Tomkins
Camera & Video Camera	Anissa	Fleurette	Mobile Power	Von Lorenz
Health & Beauty	Ballin	Graphis	<b>Nevada *)</b>	
Watches & Jewellery	Batik Nandhut	Gudang Fashion	Nike	
Household electronics	BLF	Hassenda	Peter Kezia	
Computers & Laptops	Candice	Heath	Phenomenal	
Bags & Luggage	Chanira	Inside	Puricia	
Sports & Outdoor	Cillo	Jakarta Lingerie	Quincy	
Kids & Baby Supplies	Cloudberry	Kampung Souvenir	QuincyLabel	
Automotive	CMYK Project	Kelme	Sanubari	
F&B	<b>Cole *)</b>	Kloom	Simplicity	
Books & Magazine	<b>Connexion *)</b>	Kuki	Sorella	

\*) Refers to LPPF's private label brands

Source: MatahariMall.com

### Exhibit 2. MatahariMall.com



Source: MatahariMall.com

### What is the impact of the transaction?

The company believes that the investment in GEI and partnership with MatahariMall.com will foster O2O e-commerce components and significantly boost sales in the future. The company also foresees the chance to invest in the initial stage at a preferable price, as well as to seize the opportunity to display and market the company's exclusive brands throughout Indonesia via e-commerce. The company views the e-commerce business as a good way to expand its business network throughout Indonesia as a retail company.

**What are the issues? Corporate governance**

There is a potential conflict of interests in regard to the transaction, in our view. By the end of September 2016, the majority shareholder in LPPF was Multipolar (20.5%) while the remaining 79.5% of the shares were held by the public. For GEI, the majority shareholder is IDV (PT Investama Digital Ventura) (77.4%) – according to the data provided in January 2016. However, we think that the investor in MatahariMall.com and the single majority shareholder which controls LPPF are similar. Based on disclosures provided in December 2015 and January 2016, the management declared that the two transactions (Rp53bn in December 2015 and Rp94bn in January 2016 – see exhibit 3) had the nature of an affiliated relationship because one of the LPPF commissioners has a family relationship with the indirect controlling shareholder of IDV, based on the Regulation of Bapepam and LK Number IX.E.1.

**Exhibit 3. The total purchase of GEI shares by LPPF is as follows:**

No	Transactions Date	Number of Shares	Price per Share (Rp)	Total Value (Rp)
1	August 11, 2015	2,631,580	12,065	31,750,000,000
2	December 30, 2015	4,404,700	12,065	53,142,705,500
3	January 20, 2016	7,864,075	12,065	94,880,064,875
<b>Total</b>				<b>179,772,770,375</b>

Source: Company

**Previous transactions:****a) August 11, 2015**

The first transaction was done in early August 2015 as LPPF acquired 2.6mn shares worth Rp31.7bn (Rp12,065 per share).

**b) December 30, 2015**

By the end of December 2015, LPPF provided disclosure to acquire 4.4mn shares worth Rp53.1bn (Rp12,065 per share). In the disclosure, the Board of Directors and Board of Commissioners of LPPF, whether severally or jointly, declared that this transaction was not a conflict of interests as stipulated in Regulation IX.E.1 and did not constitute a Material Transaction as stipulated in Regulation IX.E.2.

**c) January 20, 2016**

In January 20,2016, LPPF provided disclosure regarding an Affiliated and Material Transaction to acquire 7.86mn shares in GEI worth Rp94.8bn (or Rp12,065 per share). This transaction is material and has the nature of an affiliated relationship of parties. However, the Board of Directors and Board of Commissioners of LPPF, whether severally or jointly, declared that this Transaction did not contain a conflict of interests as stipulated in Regulation IX.E.1.

**Nature of Material Transactions**

According to the management, the series of transactions amounted to Rp 179,772,770,375 which is 31.36% of LPPF's total equity of Rp 573bn as stated in LPPF's financial statements for the period ended 31 July 2015 and were therefore material transactions as stipulated in Regulation No. IX.E.2. Because the value of the total series of transactions exceeds 20% but is less than 50% of LPPF's total equity, the execution of the transactions did not need approval from LPPF's shareholders as stipulated in the Regulation No.IX.E.2.

**Nature of the affiliated relationship of parties conducting transactions with LPPF**

According to the management, the transactions have an affiliated relationship because one of LPPF's commissioners has a family relationship with an indirect controlling shareholder of IDV (PT. Investama Digital Ventura).

**Exhibit 4. Shareholding structure of GEI as of January 20, 2016**

Description	Total Shares	
<b>A. Authorized Capital</b> Rp1,000/share	200,000,000	
<b>B. Issued and Paid-up Capital</b> Rp1,000/share	144,184,950	
Shareholders	Total Shares	%
1. PT Matahari Department Store, Tbk	14,900,355	10.33 *)
2. PT Matahari Putra Prima, Tbk	2,631,580	1.83
3. PT Duta Wibisana Anjaya	5,000,000	3.47
4. PT Dutamas Sinar Mustika	10,000,000	6.94
5. PT Investama Digital Ventura	111,653,015	77.44
Total	144,184,950	100.00
<b>C. Shares in Portfolio</b>	55,815,050	

\*) with the assumption that all option holders as mentioned in KPPS dated 13 August 2015 as if it has implemented its option, then LPPF's shares in GEI will be diluted to 10%.

**Exhibit 5. Financial performance of GEI as of July 31, 2015**

Total Assets	Rp 53,868,396,984
Total Equity – Net	Rp 40,552,548,705
Net Revenue	Rp 161,668,732
Total Loss	Rp 59,447,453,295

Source: Consolidated Financial Statements of GEI and Its Subsidiaries

**Exhibit 6. LPPF – historical shareholding structure**

Shareholding stake (%)	Dec 2009	Dec 2010	Dec 2011	Dec 2012	Dec 2013	Dec 2014	Dec 2015	Sep 2016
Matahari Putra Prima	90.76							
Pacific Asia Holding	7.24							
Asia Color Company (CVC)	-	98.15	98.15	98.15	32.17	14.18	-	-
Multipolar	-	-	-	-	20.48	20.48	20.48	20.48
John Riady (Commissioner)	-	-	-	-	-	-	0.00	0.00
Public	-2.00	1.85	1.85	1.85	47.34	65.35	79.52	79.52

Source: Annual report \*In percentage

**The valuation has declined**

On November 22, 2016, LPPF’s stock price fell the most in 5 years on concerns over its online operations. LPPF’s stock price dropped 9.4%, the sharpest decline since December 2011 with volume 1.5x the 3-mo. avg. Investors may have some concerns over the company’s involvement in the online shopping business MatahariMall.com. LPPF’s valuation has fallen below its historical average.

**Exhibit 7. Forward P/E Band (based on 3 years historical)**



Source: Bloomberg

**Exhibit 8. Profit and Loss, in Rp bn**

	<b>2014</b>	<b>2015</b>	<b>2016F</b>	<b>2017F</b>	<b>2018F</b>
Revenue	7,926	9,007	9,810	10,830	11,937
COGS	(2,878)	(3,336)	(3,597)	(3,895)	(4,272)
Gross profit	5,048	5,671	6,213	6,935	7,665
Operating expenses	(2,937)	(3,342)	(3,599)	(3,957)	(4,326)
Operating profit	2,111	2,330	2,614	2,978	3,339
Other income / expenses	(27)	8	9	10	11
Net interest	(233)	(93)	(2)	-	-
Pre-tax profit	1,851	2,245	2,621	2,988	3,350
Taxes	(431)	(464)	(542)	(617)	(692)
Minority Interest	(7)	18	-	-	-
Net profit	1,412	1,799	2,080	2,370	2,658

Source: Company, Danareksa Sekuritas

**Exhibit 9. Balance Sheet, in Rp bn**

	<b>2014</b>	<b>2015</b>	<b>2016F</b>	<b>2017F</b>	<b>2018F</b>
Cash	786	947	1,393	2,032	2,626
Receivables	109	76	126	97	149
Inventories	955	1,008	1,077	1,161	1,266
Others	267	242	243	243	243
Total current assets	2,118	2,273	2,839	3,533	4,284
Property & plant - net	726	877	1,046	1,244	1,479
Other assets	565	740	741	741	742
Total non-current assets	1,291	1,616	1,786	1,985	2,221
Total assets	3,408	3,889	4,625	5,518	6,504
Account payable	1,703	1,814	1,925	2,106	2,294
Short term debt	279	-	-	-	-
Others	537	625	626	626	627
Total current liabilities	2,519	2,439	2,551	2,733	2,921
Long term debt	410	-	-	-	-
Other long term	302	344	344	345	345
Total non-current liabilities	712	344	344	345	345
Total liabilities	3,231	2,783	2,895	3,077	3,266
Total equity	178	1,106	1,730	2,441	3,238

Source: Company, Danareksa Sekuritas

**Exhibit 10. Cash Flow, in Rp bn**

	<b>2014</b>	<b>2015</b>	<b>2016F</b>	<b>2017F</b>	<b>2018F</b>
Net profit	1,419	1,781	2,080	2,370	2,658
Depreciation	228	241	254	267	278
Changes in working capital	(77)	125	(9)	126	31
Others	(3)	(95)	(0)	(0)	0
Cash flow from operating	1,567	2,052	2,325	2,763	2,967
Fixed assets	(183)	(385)	(423)	(465)	(512)
Investment other assets	-	-	-	-	-
Cash flow from investing	(183)	(385)	(423)	(465)	(512)
Additional (reduction) in loan	(907)	(689)	-	-	-
New shares issuance	-	-	-	-	-
Dividend payment	(453)	(870)	(1,456)	(1,659)	(1,860)
Others	(9)	53	0	0	0
Cash flow from financing	(1,369)	(1,506)	(1,455)	(1,659)	(1,860)
Changes in cash	14	161	446	639	594
Beginning in cash	772	786	947	1,393	2,032
Ending in cash	786	947	1,393	2,032	2,626

Source: Company, Danareksa Sekuritas

**Exhibit 11. Key Ratios, in Rp bn**

	2014	2015	2016F	2017F	2018F
<b>Growth (% YoY)</b>					
Revenue	13.5	11.3	8.9	10.4	10.2
Gross profit	15.7	12.3	9.6	11.6	10.5
Operating profit	18.5	10.3	12.2	13.9	12.1
Net profit	22.8	27.3	15.6	14.0	12.1
<b>Profitability (%)</b>					
Gross margin	63.7	63.0	63.3	64.0	64.2
Operating margin	26.6	25.9	26.6	27.5	28.0
Net margin	17.8	20.0	21.2	21.9	22.3
ROAA	41.4	46.2	45.0	43.0	40.9
ROAE	795.3	162.6	120.2	97.1	82.1
<b>Leverage</b>					
Net gearing (%)	net cash	net cash	net cash	net cash	net cash

Source: Company, Danareksa Sekuritas

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