

Friday, 29 November 2019

**BUY**  
**Maintain**

Last price (IDR) 3,580  
Target Price (IDR) 4,100  
Upside/Downside +14.5%  
Previous Target Price (IDR) 11,500

**Stock Statistics**

Sector Retail  
Bloomberg Ticker LPPF JJ  
No of Shrs (mn) 2,804  
Mkt. Cap (IDRbn/USDmn) 10,038/712  
Avg. daily T/O (IDRbn/USDmn) 34.5/2.4

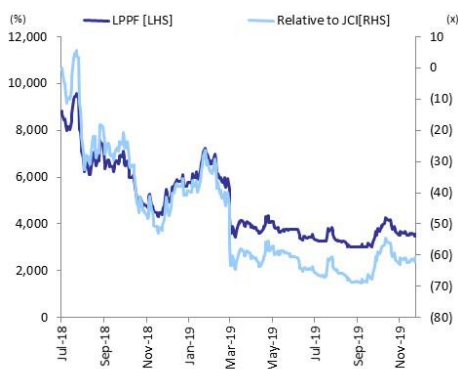
**Major shareholders (%)**

PT Multipolar Tbk 17.5  
Estimated free float 82.5

**EPS Consensus (IDR)**

	2019F	2020F	2021F
Danareksa	516.4	531.8	535.7
Consensus	530.3	529.6	534.7
Danareksa/Cons	(2.6)	0.4	0.2

**LPPF relative to JCI Index**



Source : Bloomberg



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# Matahari Department Store(LPPF JJ)

## The Discounter, Discounted

LPPF is replacing the area formerly occupied by MAPI consignment, using it instead for Active Zone. Due to more direct purchases, margins should improve starting in 2020 despite the steep learning curve. Note that the 3Q19 gross margin nosedived to 29.3% (-11p.p yoy, -12.3p.p qoq) hit by inventory clear-out stemming from: 1) less than optimum purchases and 2) setting aside space for new inventory. The GPM compression will continue up to 4Q19, in our view. LPPF now utilizes data analytics to spot trends and single-view inventory for both off and online stores to avoid repeats. We believe earnings will bounce back in 2020 despite -1% sales/sqm given the low base effect in 2019. We resume coverage on LPPF, maintaining our BUY call on the stock as we believe the valuation is too-cheap-to ignore, despite earnings declines of -30.0% and -31.7% in FY19F and FY20F.

**Flattish and -1.0% sales/sqm forecast.** Looking at the sales figure in more detail reveals a slowdown as sales/sqm growth is barely positive at 0.5% in 9M19 (0.1% in 3Q19). We forecast 0.25% sales/sqm growth in 2019 and -1.0% growth in 2020. The negative sales/sqm growth figure is mainly macro driven (especially from the removal of electricity subsidies for 900VA households along with other cost increases). Our sales/sqm revisions translate into gross sales estimates of IDR17.9tn and IDR18.0tn for FY19 and FY20, or -4.2% and -8.1% from our previous forecasts. Our net income estimates of IDR1.4tn and IDR1.5tn are -30.0% and -31.7% vs earlier estimates. We believe transition will be rewarding although execution remains a risk as evident in the margins taking a hit due to purchase mishaps and the rollout of more OVS and 361<sup>o</sup>.

**2020 earnings to bounce off a low base.** Starting from a low base, the gross margin is expected to recover from the inventory clearing in 2H19. We forecast the overall GPM to increase from 59.5% in FY19 to 61.2% in FY20F as we expect the DP margin to creep back up from 37.4% to 41.4% as the amount of discounts normalises. The increase in the GPM would be enough to absorb higher opex, helping the EBIT to inch up by 2.0% yoy in FY20, leading to 3.0% yoy higher earnings in 2020 of IDR1.5tn.

**Depressed valuation and a decent dividend yield.** We believe LPPF's valuation is very depressed, near -2 STD of its 2-year earnings. Our revisions which take onboard both lower sales and higher costs result in 3% growth in 2020's net profits, but due to the low share price, the forward dividend yield would be 7.2% for 2020 making the stock very attractive, factoring 50% pay-out in 2020.

**Resuming coverage with BUY on deep valuation discount.** We maintain our BUY call on LPPF with a new TP of IDR4,100 (previously: IDR11,500) as we believe the company will still be able to book bottom line growth coming off a low base in 2019. The stock is hands-down cheap, trading at just 6.7x 2020F P/E, or hovering just above its 2 years -2 STD. The risks to our call include failure to properly execute its new merchandising strategy, lower-than-expected GDP growth, higher inflation, and cost of living increases in 2020.

**Key Financials**

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
Revenue (IDRbn)	10,024	10,245	10,390	10,487	10,904
EBITDA (IDRbn)	2,702	2,638	2,219	2,294	2,333
EBITDA Growth (%)	(3.1)	(2.4)	(15.9)	3.3	1.7
Net profit (IDRbn)	1,907	1,097	1,448	1,491	1,502
EPS (IDR)	653.8	377.3	516.4	531.8	535.7
EPS growth (%)	(5.6)	(42.3)	36.8	3.0	0.7
BVPS (IDR)	798.1	624.4	767.9	1,040.8	1,310.6
DPS (IDR)	491.7	459.1	332.7	259.0	265.9
PER (x)	5.5	9.5	6.9	6.7	6.7
PBV (x)	4.5	5.7	4.7	3.4	2.7
Dividend yield (%)	13.7	12.8	9.3	7.2	7.4
EV/EBITDA (x)	3.3	3.5	4.1	3.8	3.5

Source : LPPF, Danareksa Estimates

**Exhibit 1. Earnings Revisions**
**Forecast changes**

In IDR bn	Before			Revised			Δ		
	2019F	2020F	2021F	2019E	2020F	2021F	2019E	2020F	2021F
Gross Sales	19,020	20,028	21,055	18,240	18,191	18,719	-4.1%	-9.2%	-11.1%
Net Sales	10,843	11,413	11,993	10,390	10,487	10,904	-4.2%	-8.1%	-9.1%
Gross profit	6,788	7,156	7,520	6,180	6,419	6,660	-8.9%	-10.3%	-11.4%
Operating profit	2,601	2,734	2,766	1,865	1,902	1,901	-28.3%	-30.4%	-31.3%
Pretax profit	2,600	2,742	2,783	1,810	1,864	1,878	-30.4%	-32.0%	-32.5%
Net profit	2,069	2,182	2,214	1,448	1,491	1,502	-30.0%	-31.7%	-32.2%
<b>Margins</b>									
GPM	62.6%	62.7%	62.7%	59.5%	61.2%	61.1%			
EBIT	24.0%	24.0%	23.1%	17.9%	18.1%	17.4%			
EBT	24.0%	24.0%	23.2%	17.4%	17.8%	17.2%			
Net Income	19.1%	19.1%	18.5%	13.9%	14.2%	13.8%			

**Assumptions**

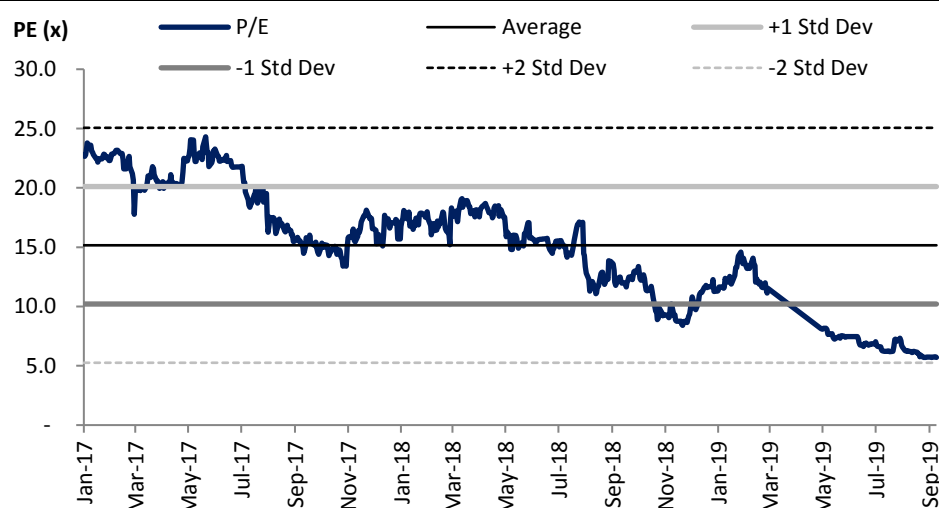
In IDR bn	Before			Revised			Δ		
	2019F	2020F	2021F	2019E	2020F	2021F	2019E	2020F	2021F
Sales Area	1,089,170	1,135,099	1,181,028	1,005,355	1,012,805	1,026,805	-7.7%	-10.8%	-13.1%
Sales/ Sqm growth	1.0%	1.0%	1.0%	0.3%	-1.0%	1.5%	-0.8%	-2.0%	0.5%

Source: Company, Danareksa Sekuritas

**Exhibit 2. 9M19 Results**

Result	3Q18	2Q19	3Q19	qoq	yoy	9M18	9M19	yoy	2019E	A/F	Cons.	A/cons.
Sales, IDRbn	1,862	4,023	1,880	-53.3%	0.9%	7,778	7,830	0.7%	10,390	75.4%	10,365	75.5%
Gross profits, IDRbn	1,134	2,534	1,017	-59.9%	-10.3%	4,886	4,747	-2.8%	6,180	76.8%	6,276	75.6%
Operating profits, IDRbn	187	1,297	23	-98.2%	-87.6%	1,859	1,504	-19.1%	1,865	80.7%	1,884	79.9%
Pretax profits, IDRbn	188	1,295	31	-97.6%	-83.6%	1,883	1,508	-19.9%	1,810	83.3%	1,938	77.8%
Net profits, IDRbn	151	1,019	25	-97.6%	-83.7%	1,496	1,187	-20.7%	1,448	82.0%	1,726	68.7%
<b>Margins</b>												
Gross margins	60.9%	63.0%	54.1%			62.8%	60.6%		59.5%		60.6%	
Operating margins	10.0%	32.2%	1.2%			23.9%	19.2%		17.9%		18.2%	
Pretax margins	10.1%	32.2%	1.6%			24.2%	19.3%		17.4%		18.7%	
Net margins	8.1%	25.3%	1.3%			19.2%	15.2%		13.9%		16.7%	

Source: Company, Danareksa Sekuritas

**Exhibit 3. LPPF' 2-year forward PE band 2017-2019**


Source: Company, Danareksa Sekuritas

#### Exhibit 4. Income Statement

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
<b>Revenue</b>	<b>10,024</b>	<b>10,245</b>	<b>10,390</b>	<b>10,487</b>	<b>10,904</b>
COGS	(3,762)	(3,867)	(4,210)	(4,067)	(4,244)
<b>Gross profit</b>	<b>6,262</b>	<b>6,378</b>	<b>6,180</b>	<b>6,419</b>	<b>6,660</b>
<b>EBITDA</b>	<b>2,702</b>	<b>2,638</b>	<b>2,219</b>	<b>2,294</b>	<b>2,333</b>
<b>Oper. profit</b>	<b>2,409</b>	<b>2,330</b>	<b>1,865</b>	<b>1,902</b>	<b>1,901</b>
Interest income	38	40	15	12	17
Interest expense	(18)	(31)	(70)	(50)	(40)
Forex Gain/(Loss)	0	0	0	0	0
Income From Assoc. Co's	0	0	0	0	0
Other Income (Expenses)	(32)	(763)	0	0	0
<b>Pre-tax profit</b>	<b>2,396</b>	<b>1,575</b>	<b>1,810</b>	<b>1,864</b>	<b>1,878</b>
Income tax	(489)	(478)	(362)	(373)	(376)
Minority interest	0	0	0	0	0
<b>Net profit</b>	<b>1,907</b>	<b>1,097</b>	<b>1,448</b>	<b>1,491</b>	<b>1,502</b>
<b>Core Net Profit</b>	<b>1,907</b>	<b>1,097</b>	<b>1,448</b>	<b>1,491</b>	<b>1,502</b>

#### Exhibit 5. Balance Sheet

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Cash & cash equivalent	1,583	1,184	948	1,304	1,912
Receivables	152	155	158	158	169
Inventory	1,005	1,291	1,579	1,469	1,474
Other Curr. Asset	233	385	367	379	390
Fixed assets - Net	974	1,249	1,422	1,848	2,159
Other non-curr.asset	1,480	773	795	821	848
<b>Total asset</b>	<b>5,427</b>	<b>5,036</b>	<b>5,267</b>	<b>5,979</b>	<b>6,953</b>
ST Debt	0	0	0	0	0
Payables	1,760	1,800	1,680	1,613	1,817
Other Curr. Liabilities	851	940	948	957	966
Long Term Debt	0	0	0	0	0
Other LT. Liabilities	489	481	486	490	495
<b>Total Liabilities</b>	<b>3,099</b>	<b>3,221</b>	<b>3,114</b>	<b>3,060</b>	<b>3,278</b>
Shareholder's Funds	2,328	1,816	2,153	2,918	3,675
Minority interests	0	0	0	0	0
<b>Total Equity &amp; Liabilities</b>	<b>5,427</b>	<b>5,036</b>	<b>5,267</b>	<b>5,979</b>	<b>6,953</b>

### Exhibit 6. Cash Flow

Year to 31 Dec (IDRbn)	2017A	2018A	2019F	2020F	2021F
Net income	1,907	1,097	1,448	1,491	1,502
Depreciation and Amort.	293	308	355	392	432
Change in Working Capital	(99)	(248)	(411)	42	188
Other Oper. Cash Flow	(603)	(127)	60	8	(7)
<b>Operating Cash Flow</b>	<b>1,498</b>	<b>1,031</b>	<b>1,451</b>	<b>1,933</b>	<b>2,115</b>
Capex	(287)	(584)	(527)	(817)	(743)
Others Inv. Cash Flow	38	40	15	12	17
<b>Investing Cash Flow</b>	<b>(249)</b>	<b>(544)</b>	<b>(512)</b>	<b>(805)</b>	<b>(727)</b>
Net change in debt	0	0	0	0	0
New Capital	0	0	0	0	0
Dividend payment	(1,434)	(1,335)	(933)	(726)	(746)
Other Fin. Cash Flow	55	(314)	(243)	(45)	(35)
<b>Financing Cash Flow</b>	<b>(1,379)</b>	<b>(1,649)</b>	<b>(1,176)</b>	<b>(771)</b>	<b>(781)</b>
<b>Net Change in Cash</b>	<b>(130)</b>	<b>(1,162)</b>	<b>(236)</b>	<b>357</b>	<b>608</b>
Cash - begin of the year	1,713	1,583	1,184	948	1,304
Cash - end of the year	1,583	1,184	948	1,304	1,912

### Exhibit 7. Key Ratios

Year to 31 Dec	2017A	2018A	2019F	2020F	2021F
<b>Growth (%)</b>					
Sales	1.3	2.2	1.4	0.9	4.0
EBITDA	(3.1)	(2.4)	(15.9)	3.3	1.7
Operating profit	(4.7)	(3.3)	(20.0)	2.0	(0.1)
Net profit	(5.6)	(42.5)	31.9	3.0	0.7
<b>Profitability (%)</b>					
Gross margin	62.5	62.3	59.5	61.2	61.1
EBITDA margin	27.0	25.7	21.4	21.9	21.4
Operating margin	24.0	22.7	17.9	18.1	17.4
Net margin	19.0	10.7	13.9	14.2	13.8
ROAA	37.1	21.0	28.1	26.5	23.2
ROAE	91.2	53.0	73.0	58.8	45.6
<b>Leverage</b>					
Net Gearing (x)	(0.7)	(0.7)	(0.4)	(0.4)	(0.5)
Interest Coverage (x)	131.8	74.7	26.6	38.0	47.5

Source : LPPF, Danareksa Estimates

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