

Wednesday, 20 May 2020

NEUTRAL
Maintain

Retail

Hope For the Best, Well Prepared For The Worst

ACES relative to JCI Index



LPPF relative to JCI Index



Source : Bloomberg



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As a result of the Covid-19 pandemic, economic activities in Indonesia are much weaker and retail sales are sharply down in a seasonally high period marked by Ramadan and Lebaran. This has driven many businesses to stop production and shops to close leading to a wave of furloughing and even layoffs. Kudos to the government for swiftly rolling out efforts to cushion the purchasing power destruction with relief totaling IDR233.7tn, but our calculation suggests IDR59.7tn in spending power over the next 3-4 months from salaries and THR will be lost despite the government's best efforts. Maintain Neutral as nominal share prices are low, indication of pent-up demand in middle up and strong growth for 2021 off a low base in 2020.

Rapid and Proactive Government efforts to aid the affected. A package totaling IDR233.7tn in incentives for the middle low income segment affected by Covid-19 has been rolled out covering the next 3 months. Pre-Employment cards have been handed over to 5.6mn beneficiar Jakarta area for 1.9mn beneficiaries. This implies that from 22.5mn people affected, the aggregate net monthly income lost will moderate from IDR119.3tn to IDR59.7tn.

Around IDR59.7 tn net lost - mostly in 2Q20. Mainly coming from tourism industry which might lose IDR37.1tn for 14.1mn workforce or 11.2% of the total Indonesian workforce has been badly hit. Another group badly affected are Gojek and Grab drivers numbering around 2.5mn. Indonesian Chambers of Commerce earmarked 5.8mn has been furloughed or laid-off due to Covid-19 induced slow-down. Since more than 50% of the Indonesian GDP is consumption, we believe there will be a large impact on 2Q20's GDP.

Spurring more rapid e-commerce adoption. Judging by the digital retailing segment, ACES and MAPI recorded strong orders from this channel. The US is a great example where retail sales are projected to fall -17.8%, but with online retailers now making up around 21.1% of the sales as per April. China also witnessed the same acceleration, despite some moderation post lockdown easing. The same is happening in Indonesia we believe, as E-commerce is feeling some windfall as more people shop from home due to social distancing restrictions (PSBB). This might lead to anemic retailer performance going forward, especially for those that lack a digital presence, namely RALS due to its mid-low target segment.

PSBB easing will lift the economy but is not a panacea. The government has laid out tentative plans to reopen the economy, with a full reopening to come in late July or early August. The re-opening will bring about recovery in economic activity and pent-up demand might re-jolt spending by middle-up income groups, with spending from lower income groups following suit with a 1-2 quarters lag. Taking a look at Thailand, the re-opening of malls resulted in a cohort of shoppers lining up en masse, thus indicating pent-up demand in the middle-up segment and a willingness to spend.

Maintain Neutral. Despite a tempestuous 2020, we believe most of the negatives have been priced in. Positive sentiment from PSBB relaxation and the actual reopening of malls and stores will aid sentiment, even though the 2Q20 results will still be disastrous. Valuations are deeply discounted, most are near -2 STD for retailers, and 2021 will offer stellar growth off a low base.

Company	Ticker	Rec	Target	Market	P/E (x)		P/BV (x)		ROE (%)
			Price (Rp)	Cap. (RpBn)	2019F	2020F	2019F	2020F	2020F
Ace Hardware Indonesia	ACES IJ	SELL	1,150	19,722.5	21.8	25.3	4.8	4.1	17.4
Matahari Department Store	LPPF IJ	BUY	2,100	3,732.0	2.6	3.7	2.1	1.8	52.6
Mitra Adiperkasa	MAPI IJ	BUY	925	11,870.0	12.7	13.7	1.9	1.8	13.4
Ramayana	RALS IJ	BUY	750	4,311.3	6.6	11.0	1.0	0.9	9.1

Admirably swift government reaction to cushion purchasing power. The Indonesian government's movement is rapid to aid Covid-19 affected economy. A package totaling IDR111.7tn to top-up or add new aid to for the next 3-9 months for middle-low income segment. Other program includes relaxation in MSME loans principal and interest payment, lease payment, mortgage payment to alleviate some of the pain from credit side. The government also relinquish its 3% budget deficit limit and now proposing a -6.27% of GDP deficit, and topping-up its central government spending by another IDR108.3tn.

Exhibit 1. Indonesian Government Aid for Consumptions

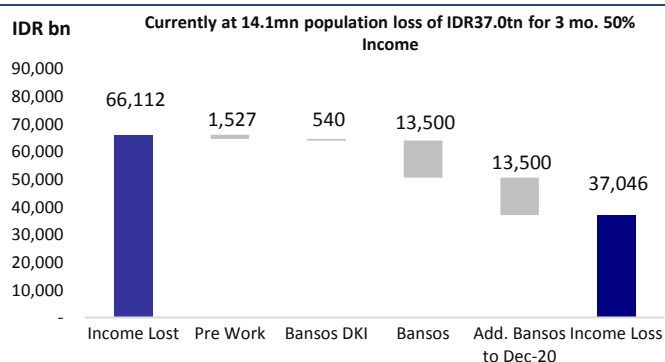
Aid	Addition	Total	Monthly Benefit	Beneficiary (mn)	Tenor (Months)
PKH	8.3	37.4	IDR155k	10.0	12
Kartu Sembako	15.5	43.6	IDR200k Staple	20.0	12
Subsidi Listrik	6.9	61.7	c-IDR30k	24 mn 450 VA Free	6
				7.2 mn 500 VA 50% disc.	6
Bansos	32.4	32.4	IDR600k Staple Apr-Jun	9.0	9
			IDR300k Staple Jul-Dec		
Bansos DKI & BODETAREK	6.8	6.8	IDR1.3mn Staple Apr-Jun	1.3mn DKI	9
			IDR600k Staple Apr-Dec	0.6mn BODETAREK	9
BLT Village	31.8	31.8	IDR600k Cash	11.0	6
Kartu Prakerja	10.0	20.0	Training IDR1.0mn - 1x	5.6	4
			Incentive IDR600k - 4x		
			Survey IDR50k - 3x		
Total Budget (IDR tn)	111.7	233.7			

Source: Bappenas, Ministry of Social Affairs, Ministry of Finance, Danareksa Sekuritas

The hallmark program is Staple Food card blanketing almost 11mn workers getting IDR600k for the next 3 months IDR300k/for subsequent 6 months, and IDR1.3mn for DKI Jakarta citizens in form of staple food all totaling IDR39.2tn. For directly affected workers, a total of IDR20tn is allocated to cover 5.6mn workers with average IDR888/months for the next 4 months totaling IDR3.55mn/beneficiary.

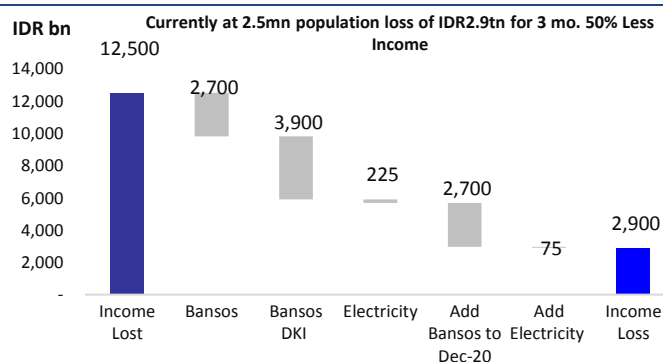
Due to economic slow-down from Large Scale Social Distancing (PSBB) to mitigate Covid-19 spread, many industries have furloughed or even laid off some of their employees. Tourism sector, which employs more than 14.1mn in people as of 2018 is in dire strait as the sector is the hardest hit from the pandemic. Our simulation indicate a IDR37.0tn including a 6 months social aid will be lost from this sector within the next 3 months, which is the highest among other segment, as tourist footfall has plunged 30.1% in 1Q20 with -64.1% yoy in March 2020.

Exhibit 2. Tourism Sector Simulation



Source: BPS, Ministry of Finance, Danareksa Sekuritas estimates

Exhibit 3. Go-Jek and Grab Drivers Simulation

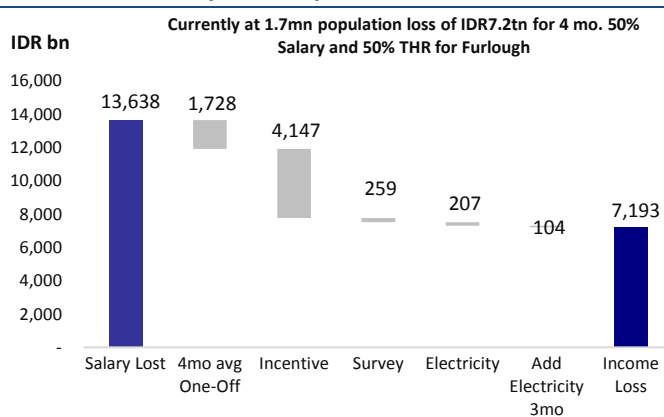


Source: Katadata, Ministry of Finance, Danareksa Sekuritas estimates

Informal sector also lent a helping hand as the government disburse a IDR600/k per person staple food cards up to June and IDR300k/person for Jul-Dec. Some of the most affected are Go-Jek and Grab partners estimated to top 2.5mn person combined falls under this program and will receive staple food worth IDR600k/month for the next 3 months, 1mn receiving the IDR1.3mn/month for the next 3 months. Our simulations indicate some IDR2.9tn loss within the next 4 months for 2.5mn partners collectively as orders slumped due to less economic activity and drivers are not allowed to carry passengers during the PSBB.

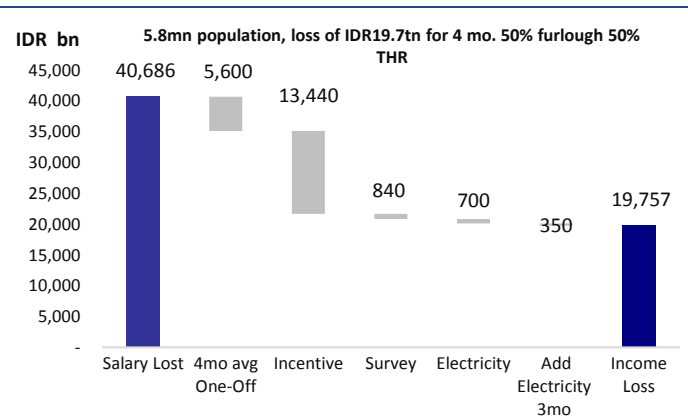
Ministry of Manpower and Transmigration recorded 370k workers has been laid-off and around 1.4mn has been furloughed, another 1.2mn under verification process. Indonesia Chambers of Commerce data earmarked a 5.8mn of furloughed and laid-off. We compare the two data and arrived to a disposable income lost ranging from IDR7.2tn to IDR19.7tn for the next 4 months whereby the worker is blanketed by the pre employment card benefit.

Exhibit 4. Ministry of Manpower data simulation



Source: Ministry of Manpower and Transmigration, Ministry of Finance, Danareksa Sekuritas estimates

Exhibit 5. Indonesia Chambers of Commerce data sim.



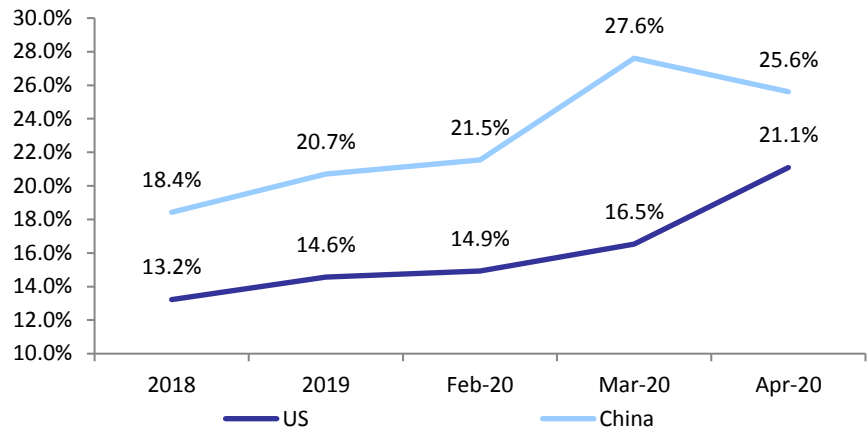
Source: Indonesian Chamber of Commerce, Ministry of Finance, Danareksa Sekuritas estimates

Rapid movement to online. As the government lock-down was imposed in China, the inability to shop outside makes online stores a popular choice. The rise is captured in online penetration jumping from 21.5% in February to as high as 27.6% in March, before moderating to 25.6% in April as store begins to open again. The same phenomenon is happening in US, as penetration surged above 20% for the first time ever at 21.1% in April 2020 from 14.6% in 2019.

The rapid movement might also be occurring in Indonesia, and we believe there will be some stickiness going forward, meaning all the retailer must adapt fast. Online retail still makes up less than 5% penetration, but the pandemic might spark acceleration. In this case we believe MAPI via MAP Email along with its stand alone brand websites and ACES via Rupa-rupa.com and Ace Online will be an effective hedge against the shifting battle ground.

LPPF via its Matahari.com and Online-2-Offline strategy might witness decent traction going forward, but also have to live with some shoppers moving to online due to discounts and promo as well as more choice. RALS is not focusing on digital due to its customer middle-low customer segment, which still prefers to shop offline, but we believe within 2-3 years a proper digital strategy will be needed to survive and thrive.

Exhibit 6. US and China online retail penetration

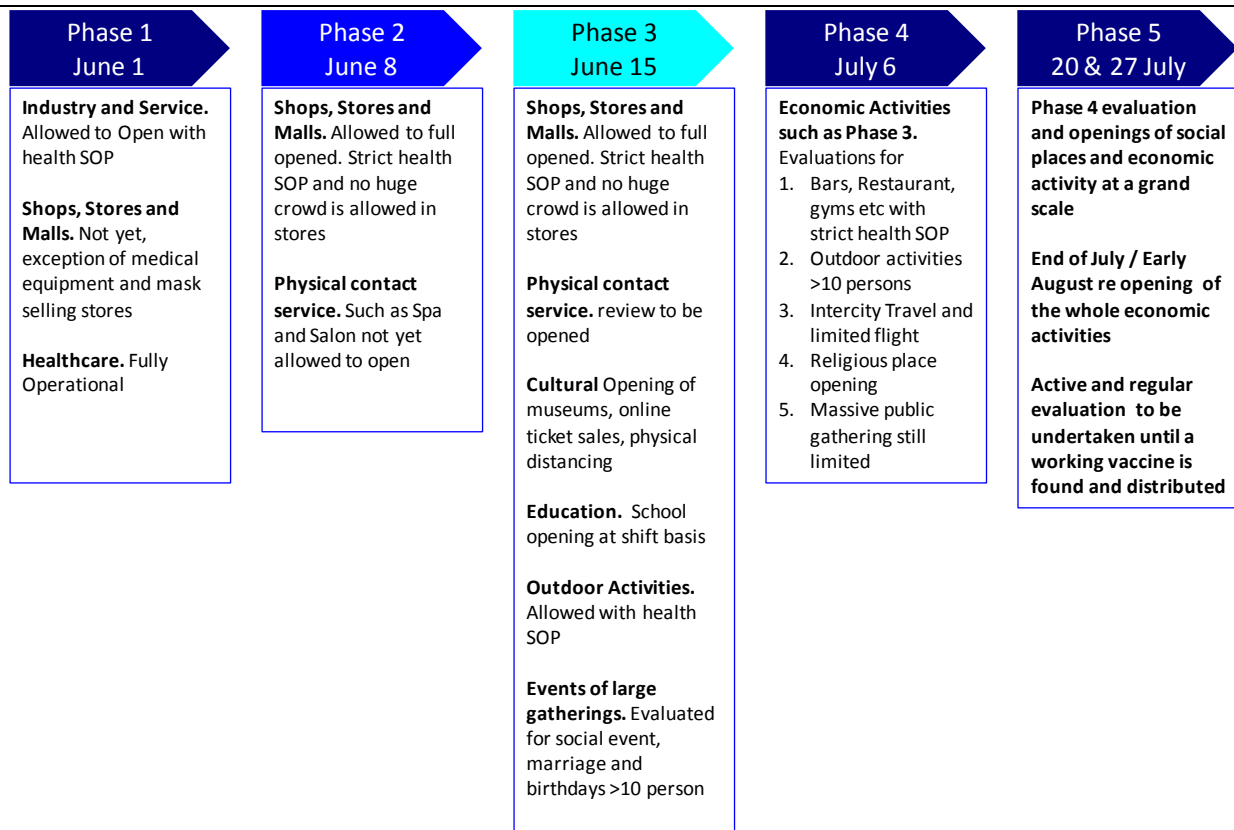


Source: US Bureau of Commerce, China National Bureau of Statistics, Danareksa Sekuritas

PSBB Easing will provide a much needed relief. for both the economy and mental health of Indonesian citizen after a 2 months limited activities mostly from homes. We believe pent-up demand in middle and middle-up lift sales when the mall has been reopened scheduled post June 8. A full economic recovery shall come once vaccine has been found and distributed across the world.

Looking at the case of Thailand which recently eased its lockdown measures. Mall traffic was very large and the same also happen in China whereby purchases flows back in a major, Hermès amassed USD2.7million on its flagship store in Guangzhou on the first day of re-opening implying a pent-up demand on the upper segment. All this is adding hope for Indonesia to witness the same appetite post the PSBB easing which will help both performance and sentiment of retailers share price too.

Exhibit 7. Tentative Re-opening of the economy timetable



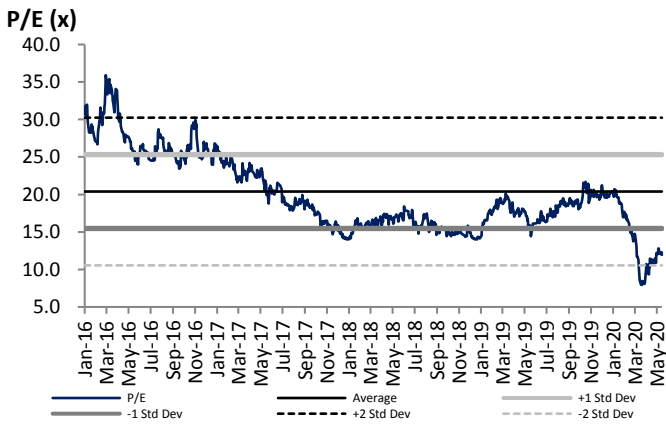
Source: Ministry of Finance, Danareksa Sekuritas

Exhibit 8. Crowded Thailand Mall on the Re-opening day



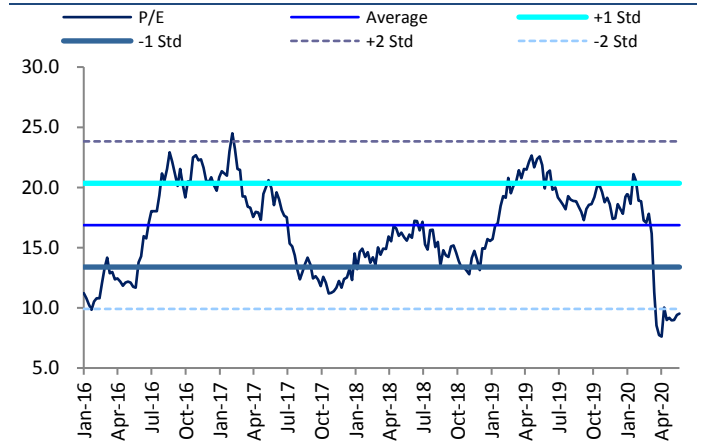
Source: Bangkok Post,

Exhibit 9. MAPI Forward PE



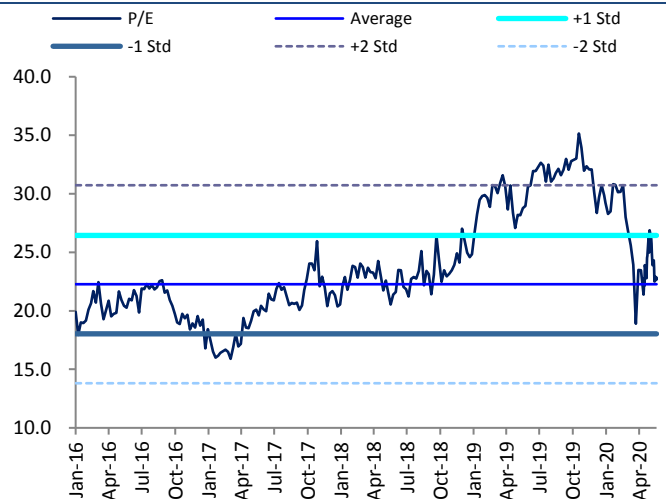
Source: Company, Danareksa Sekuritas estimates

Exhibit 10. RALS Forward PE



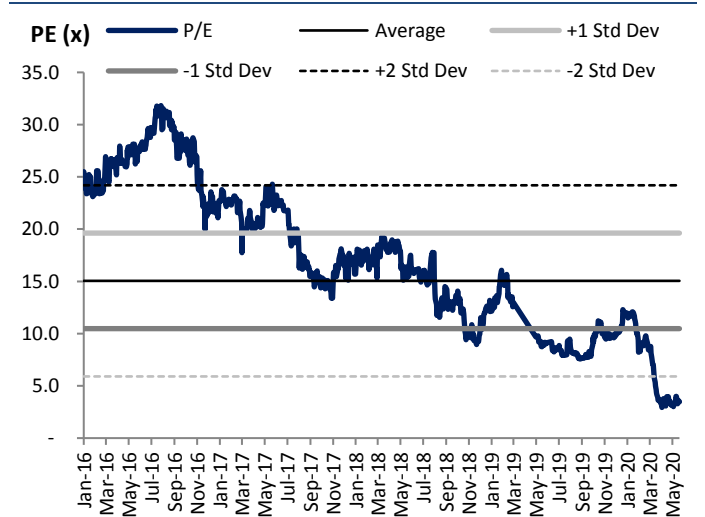
Source: Company, Danareksa Sekuritas estimates

Exhibit 11. ACES Forward PE



Source: Company, Danareksa Sekuritas estimates

Exhibit 12. LPPF Forward PE



Source: Company, Danareksa Sekuritas estimates