

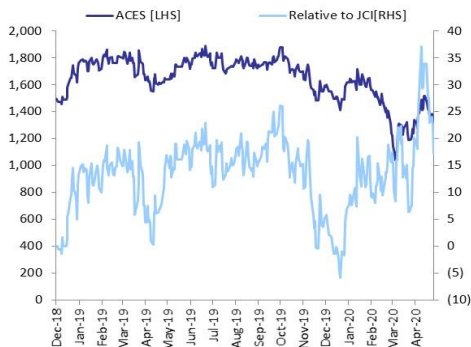
Monday, 29 June 2020

NEUTRAL
Maintain

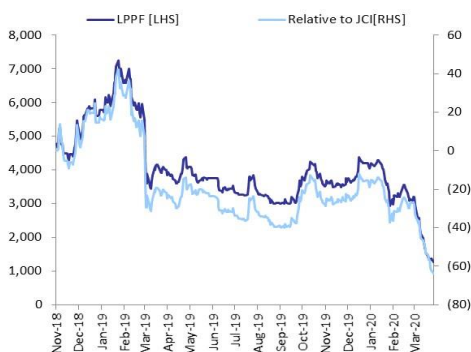
Retail

Varying Pace of Recovery

ACES relative to JCI Index



LPPF relative to JCI Index



Source : Bloomberg



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We visited a few malls in South and West Jakarta on the first payday weekend post PSBB relaxation and our observations suggest: 1) a more rapid recovery in South Jakarta, more moderate in West Jakarta, 2) middle-up targeted shops are crowded, and thus a clear indication of pent-up demand, while the middle and mid-low segments have yet to meaningfully recover, 3) more discount offerings to attract more sales. All in all, our observations corroborate our view of a stronger middle-up recovery as captured in MAPI and ACES but a slower middle and mid-low recovery pace as represented by LPPF and RALS. We maintain our Neutral rating on the sector given its cheap valuation, even though 2020's performance has been hit by Covid-19.

The middle-up segment is still willing and able to spend as our visit to Kota Kasablanka (Kokas) in South Jakarta and Lippo Mall Puri (Lippo) suggest. MAPI group stores stole the limelight in Kokas, with almost all of its flagship fashion brands namely Pull & Bear, Mango, and Zara all busy with shoppers looking to take advantage of attractive discounts. Sports Station (MAPA) was also crowded in both Kokas and Lippo.

ACES traffic too is seeing some increase, albeit 10-20% lower than normal, which is better than what the management internally expected. Overall, South Jakartans have returned back to malls, while the malls in West Jakarta have only witnessed a moderate recovery.

Middle and mid-low improved, but still weak. We spent our "Malam Minggu", i.e. Saturday Night at Lippo. We noticed a lukewarm footfall, miles off the normal level, with hallways fairly quiet, while its key competitor, Uniqlo enjoyed a healthy return of customers. On Sunday we visited a RALS' City Plaza and also saw a modest footfall, still miles below the normal level.

The middle and mid-low retailers are the most affected by the pandemic and will take longer to recover to a respectable level due to: 1) more online purchases due to PSBB, 2) overall lower incomes, partly resulting from layoffs and paycuts. Furthermore, Tanah Abang Fashion Market is also reportedly still seeing sluggish post PSBB spending, with sales slumping 50-70%.

A year to forget, a PSBB encore unlikely we believe. Covid-19 will ultimately drag 2020 earnings into negative territory even though a recovery should ensue. The likelihood of further massive scale PSBB is slim in our view due to economic hardships directly associated with PSBB, despite the possibility that the Covid-19 pandemic worsens. Nevertheless, the 3Q and 4Q performance recovery will create positive sentiment. Higher discounts to amass more sales are both logical and acceptable but will mean some decline in margins.

Maintain Neutral on the valuation as all retailers (except ACES) are still trading at sub -1.5 STD 2020 earnings which makes them cheap, and we expect strong growth coming in 2021 by virtue of the 2020 low base. Within the next 2 months earnings rollover will come, thus focus will shift to 2021 performance.

| Company | Ticker | Rec | Target Price (Rp) | Market Cap. (RpBn) | P/E (x) | | P/BV (x) | | ROE (%) |
|---------------------------|---------|------|-------------------|--------------------|---------|-------|----------|-------|---------|
| | | | | | 2020F | 2021F | 2020F | 2021F | 2021F |
| Ace Hardware Indonesia | ACES IJ | SELL | 1,150 | 25,810.8 | 29.1 | 22.8 | 4.7 | 4.4 | 19.9 |
| Matahari Department Store | LPPF IJ | BUY | 2,100 | 4,388.6 | 4.4 | 3.5 | 2.1 | 1.6 | 50.9 |
| Mitra Adiperkasa | MAPI IJ | BUY | 925 | 12,865.0 | 14.8 | 11.4 | 1.9 | 1.7 | 15.6 |
| Ramayana | RALS IJ | BUY | 750 | 4,328.6 | 11.0 | 8.2 | 1.0 | 0.9 | 11.5 |

Exhibit 1. Overall Ambience



Source: Danareksa Sekuritas

Exhibit 2. MAPI and MAPA stores Crowded Overall between Kokas and Lippo



Source: Danareksa Sekuritas

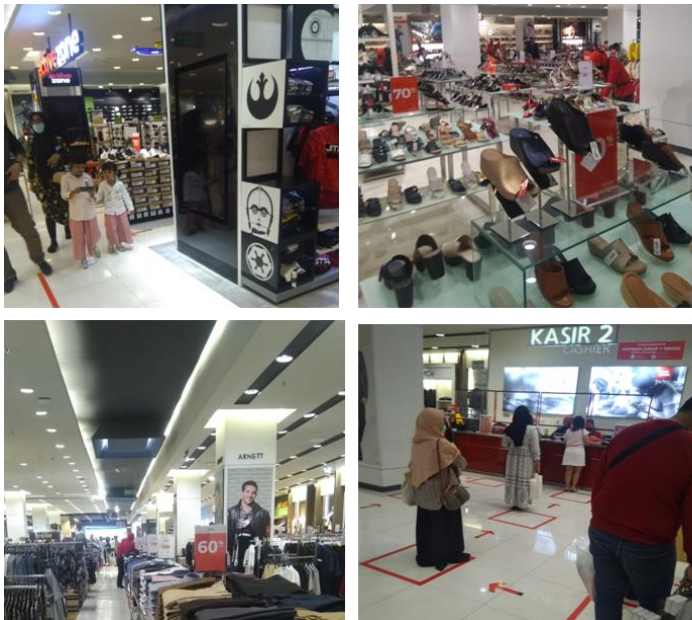
Exhibit 3. ACES stores – Traffic has picked up



Source: Danareksa Sekuritas

Exhibit 4. LPPF – Recovering, but still far below normal

LPPF- Lippo Mall Puri



Uniqlo - Lippo Mall Puri



Source: Danareksa Sekuritas

Exhibit 5. RALS – Recovering , but still far below normal



Source: Danareksa Sekuritas

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