

Friday, 23 October 2020

**BUY**  
**Maintain**

Last price (IDR)	1,010
Target Price (IDR)	1,500
Upside/Downside	+48.5%
Previous Target Price (IDR)	1,600
<b>Stock Statistics</b>	
Sector	Retail
Bloomberg Ticker	LPPF IJ
No of Shrs (mn)	2,626
Mkt. Cap (IDRbn/USDmn)	2,968/199
Avg. daily T/O (IDRbn/USDmn)	33.5/2.3

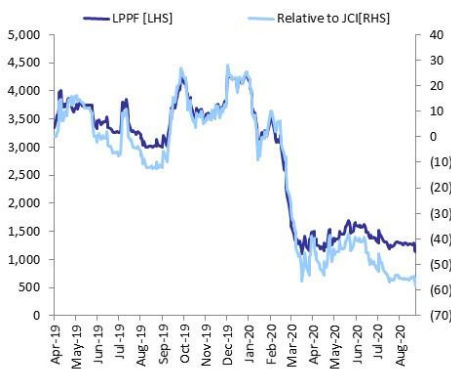
**Major shareholders (%)**

PT Multipolar Tbk	17.5
Estimated free float	82.5
Estimated free float	80.6

**EPS Consensus (IDR)**

	2020F	2021F	2022F
Danareksa	(279.9)	192.9	230.0
Consensus	(26.6)	223.8	276.8
Danareksa/Cons	952.2	(13.8)	(16.9)

**LPPF relative to JCI Index**



Source : Bloomberg



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# Matahari Department Store (LPPF IJ)

## 9M20 Improving, yet Still Anemic

The 9M20 earnings reached –IDR616.6bn (-152% yoy) below our initial figure and the consensus due to -57.7% SSSG in 1H20, a byproduct of lower than normal traffic and the second strict PSBB starting on 14 September 2020. October's SSSG reportedly witnessed a single-digit gain from the previous month. The management is now focusing on transforming its strategy in-store, online, and focusing on efficiency and effectiveness. Implementation includes some EBITDA accretive store closures and rationalizing its underperforming consignment brands. This will not translate into positive performance until 2021, however. In light of the result, we trim our bottom line estimates by a further -12.9% in 2021F as we lower our sales estimate by -4.7%. The result is a IDR100 lower 2021 TP, now standing at IDR1,500.

**3Q20 marks an improvement** with SSSG standing at -40.9% vs -83.7% in 2Q20, reflecting the PSBB easing period, which was tightened again in mid-September. The SSSG sequential improvement led to a mere IDR1.1tn of sales in 3Q20 (-42.8% yoy, 52.7% qoq) and IDR3.3tn in 9M20 (-57.5% yoy). Store re-openings mean opex also picked up by 14.4% QoQ, but still -19.9% yoy. There was an inventory provision in 3Q20 totaling IDR65.1bn, and excluding this the overall GPM was 60.9% in 9M20 vs the reported figure of 58.9%. EBIT remains negative at IDR478.9bn and the bottom line was –IDR616.6bn in 1H20, far below our estimate and the consensus.

**4Q20 to improve, but still challenging.** As the management noted a sequential improvement in Oct20's SSSG vs Sep20, we believe the trend should continue throughout 4Q20, before the massive vaccination of the Indonesian population reportedly to start in Nov/Dec20. Costs will track the same path of QoQ growth as LPPF will revert the salary cut in-line with expected sales recovery. The aim is for a more agile, more profitable LPPF via: 1) better store layouts to start rollout in Q2 2021, 2) Re-launching of Matahari Rewards in Nov20, 3) revamping in merchandising, 4) rationalizing unprofitable stores as well as partnering with brands that fit the new strategy, and 5) integration with the soon-to-be rebooted Matahari.com for its online to offline initiative. Zero based budgeting is also on the cards, and also repayment of short-term debt is also to gradually return to normalcy of a zero balance at year-end.

**Maintain BUY with a lower TP of IDR1,500.** We maintain our BUY call although the aforementioned earnings cut reduces our TP by IDR100 to IDR1,500. The key risks to our call are: 1) a prolonged Covid-19 pandemic in Indonesia, 2) deterioration in macro conditions, 3) a more rapid shift to digital, and 4) execution risk in the new strategy direction.

**Key Financials**

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue (IDRbn)	10,245	10,276	4,999	7,650	8,189
EBITDA (IDRbn)	2,638	2,084	(167)	1,104	1,253
EBITDA Growth (%)	(2.4)	(21.0)	(108.0)	(761.0)	13.5
Net profit (IDRbn)	1,097	1,367	(735)	507	604
EPS (IDR)	377.3	470.0	(279.9)	192.9	230.0
EPS growth (%)	(42.3)	24.6	(159.6)	(168.9)	19.2
BVPS (IDR)	624.4	600.6	385.2	578.1	715.4
DPS (IDR)	459.1	320.8	0.0	0.0	92.7
PER (x)	2.7	2.1	n/m	5.2	4.4
PBV (x)	1.6	1.7	2.6	1.7	1.4
Dividend yield (%)	45.5	31.8	0.0	0.0	9.2
EV/EBITDA (x)	0.7	0.8	(20.4)	1.4	1.2

Source : LPPF, Danareksa Estimates

### Exhibit 1. LPPF 9M20 result, below

LPPF 9M20 Result	3Q19	2Q20	3Q20	qoq	yoy	9M19	9M20	yoy	2020E			
									Initial	A/F	Cons.	A/cons.
Gross Sales	1,880	704	1,075	52.7%	-42.8%	7,830	3,328	-57.5%	5,832	57.1%	5,219	63.8%
Gross profits	1,017	432	611	41.2%	-40.0%	4,747	1,961	-58.7%	3,312	59.2%	2,968	66.1%
EBIT	23	(264)	(186)	-29.5%	N/M	1,504	(479)	-131.8%	(59)	N/M	(241)	N/M
Pretax profits	31	(264)	(258)	-2.3%	N/M	1,508	(613)	-140.6%	(215)	N/M	(271)	N/M
Net profits	25	(264)	(259)	-2.0%	N/M	1,187	(617)	-152.0%	(171)	N/M	(216)	N/M
<b>Margins</b>												
GPM	54.1%	61.4%	56.8%			60.6%	58.9%		56.8%		57.0%	
EBIT	1.2%	-37.4%	-17.3%			19.2%	-14.4%		-1.0%		-4.6%	
Net Income	1.3%	-37.5%	-24.1%			15.2%	-18.5%		-2.9%		-4.1%	

Source: Company, Danareksa Sekuritas

### Exhibit 2. Earnings Revisions

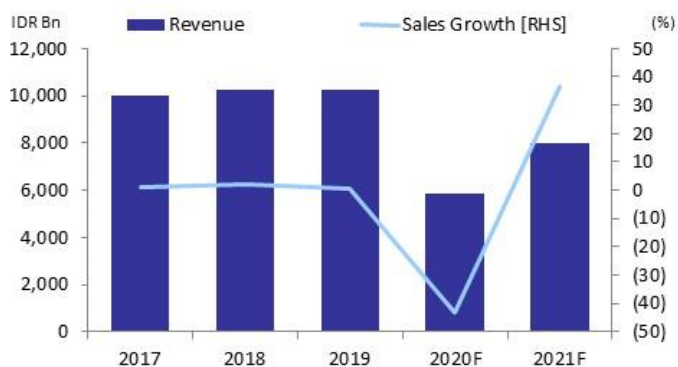
In IDR bn	Before		Revised		Δ	
	2020F	2021F	2020F	2021F	2020F	2021F
Gross Sales	10,260	14,036	8,721	13,378	-15.0%	-4.7%
Net Sales	5,832	7,976	4,999	7,650	-14.3%	-4.1%
Gross profit	3,312	4,676	2,847	4,543	-14.0%	-2.9%
Operating profit	(59)	816	(537)	695	808.0%	-14.8%
Pretax profit	(215)	709	(717)	618	234.3%	-12.9%
Net profit	(171)	581	(735)	507	331.0%	-12.9%
<b>Margins</b>						
GPM	56.8%	58.6%	57.0%	59.4%		
EBIT	-1.0%	10.2%	-10.7%	9.1%		
EBT	-3.7%	8.9%	-14.3%	8.1%		
Net Income	-2.9%	7.3%	-14.7%	6.6%		

### Assumptions

In IDR bn	Before		Revised		Δ	
	2020F	2021F	2020F	2021F	2020F	2021F
Sales Area	949,275	954,875	949,275	954,875	0.0%	0.0%
Sales/ Sqm growth	-40.0%	36.0%	-49.0%	52.5%	-9.0%	16.5%

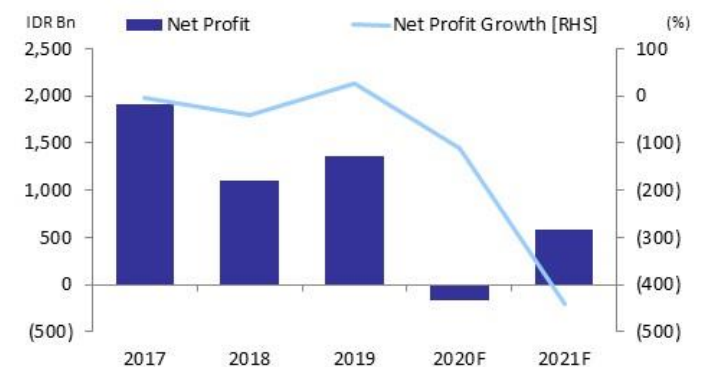
Source: Company, Danareksa Sekuritas

### Exhibit 3. Revenues and Growth



Source: Company, Danareksa Sekuritas estimates

### Exhibit 4. Net Profits and Growth



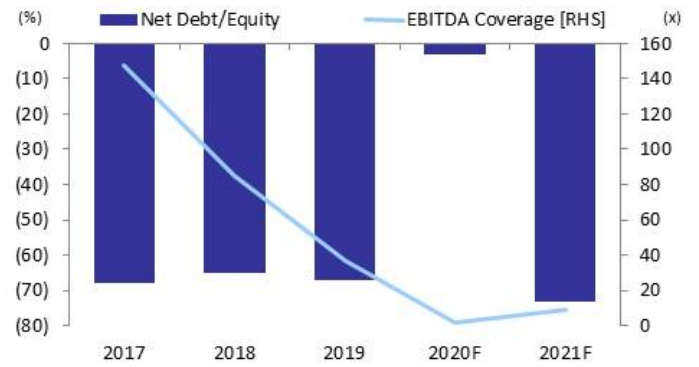
Source: Company, Danareksa Sekuritas estimates

**Exhibit 5. Margins**



Source: Company, Danareksa Sekuritas estimates

**Exhibit 6. Gearing Level**



Source: Company, Danareksa Sekuritas estimates

### Exhibit 7. Income Statement

Year to 31 Dec (IDRbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>10,245</b>	<b>10,276</b>	<b>4,999</b>	<b>7,650</b>	<b>8,189</b>
COGS	(3,867)	(4,120)	(2,151)	(3,107)	(3,307)
<b>Gross profit</b>	<b>6,378</b>	<b>6,156</b>	<b>2,847</b>	<b>4,543</b>	<b>4,882</b>
<b>EBITDA</b>	<b>2,638</b>	<b>2,084</b>	<b>(167)</b>	<b>1,104</b>	<b>1,253</b>
<b>Oper. profit</b>	<b>2,330</b>	<b>1,766</b>	<b>(537)</b>	<b>695</b>	<b>802</b>
Interest income	40	32	29	3	14
Interest expense	(31)	(57)	(85)	(100)	(90)
Forex Gain/(Loss)	0	0	0	0	0
Income From Assoc. Co's	0	0	0	0	0
Other Income (Expenses)	(763)	22	(125)	20	20
<b>Pre-tax profit</b>	<b>1,575</b>	<b>1,763</b>	<b>(717)</b>	<b>618</b>	<b>746</b>
Income tax	(478)	(396)	(18)	(111)	(142)
Minority interest	0	0	0	0	0
<b>Net profit</b>	<b>1,097</b>	<b>1,367</b>	<b>(735)</b>	<b>507</b>	<b>604</b>
<b>Core Net Profit</b>	<b>1,097</b>	<b>1,367</b>	<b>(735)</b>	<b>507</b>	<b>604</b>

### Exhibit 8. Balance Sheet

Year to 31 Dec (IDRbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	1,184	1,173	246	1,068	1,091
Receivables	155	113	85	100	120
Inventory	1,291	1,099	956	1,122	1,102
Other Curr. Asset	385	365	174	214	231
Fixed assets - Net	1,249	1,433	1,240	1,304	1,395
Other non-curr.asset	773	651	4,214	4,233	4,258
<b>Total asset</b>	<b>5,036</b>	<b>4,833</b>	<b>6,915</b>	<b>8,041</b>	<b>8,196</b>
ST Debt	0	0	1,000	0	0
Payables	1,800	1,598	75	1,676	1,446
Other Curr. Liabilities	940	1,000	1,418	1,428	1,439
Long Term Debt	0	0	0	0	0
Other LT. Liabilities	481	488	3,411	3,419	3,432
<b>Total Liabilities</b>	<b>3,221</b>	<b>3,086</b>	<b>5,904</b>	<b>6,523</b>	<b>6,317</b>
Shareholder's Funds	1,816	1,747	1,011	1,518	1,879
Minority interests	0	0	0	0	0
<b>Total Equity &amp; Liabilities</b>	<b>5,036</b>	<b>4,833</b>	<b>6,915</b>	<b>8,041</b>	<b>8,196</b>

### Exhibit 9. Cash Flow

Year to 31 Dec (IDRbn)	2018A	2019A	2020F	2021F	2022F
Net income	1,097	1,367	(735)	507	604
Depreciation and Amort.	308	318	369	410	451
Change in Working Capital	(248)	31	(1,353)	1,420	(230)
Other Oper. Cash Flow	(127)	227	388	52	55
<b>Operating Cash Flow</b>	<b>1,031</b>	<b>1,944</b>	<b>(1,331)</b>	<b>2,388</b>	<b>881</b>
Capex	(584)	(503)	(176)	(474)	(542)
Others Inv. Cash Flow	40	32	29	3	14
<b>Investing Cash Flow</b>	<b>(544)</b>	<b>(470)</b>	<b>(147)</b>	<b>(471)</b>	<b>(529)</b>
Net change in debt	0	0	0	0	0
New Capital	0	(62)	0	0	0
Dividend payment	(1,335)	(933)	0	0	(243)
Other Fin. Cash Flow	(314)	(491)	(80)	(95)	(85)
<b>Financing Cash Flow</b>	<b>(1,649)</b>	<b>(1,485)</b>	<b>(80)</b>	<b>(95)</b>	<b>(328)</b>
<b>Net Change in Cash</b>	<b>(1,162)</b>	<b>(12)</b>	<b>(1,557)</b>	<b>1,822</b>	<b>24</b>
Cash - begin of the year	1,583	1,184	1,173	246	1,068
Cash - end of the year	1,184	1,173	246	1,068	1,091

### Exhibit 10. Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
<b>Growth (%)</b>					
Sales	2.2	0.3	(51.4)	53.0	7.0
EBITDA	(2.4)	(21.0)	(108.0)	(761.0)	13.5
Operating profit	(3.3)	(24.2)	(130.4)	(229.5)	15.4
Net profit	(42.5)	24.6	(153.8)	(168.9)	19.2
<b>Profitability (%)</b>					
Gross margin	62.3	59.9	57.0	59.4	59.6
EBITDA margin	25.7	20.3	(3.3)	14.4	15.3
Operating margin	22.7	17.2	(10.7)	9.1	9.8
Net margin	10.7	13.3	(14.7)	6.6	7.4
ROAA	21.0	27.7	(12.5)	6.8	7.4
ROAE	53.0	76.7	(53.3)	40.1	35.6
<b>Leverage</b>					
Net Gearing (x)	(0.7)	(0.7)	0.7	(0.7)	(0.6)
Interest Coverage (x)	74.7	31.0	(6.3)	6.9	8.9

Source : LPPF, Danareksa Estimates

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