

MORNING HIGHLIGHT

FROM RESEARCH

Ramayana Lestari Sentosa: Struggling to maintain growth

(RALS IJ. Rp 770. SELL. TP Rp 660)

RALS posted a disappointing set of 1Q15 results due to depressed demand - which we believe owed to the weaker purchasing power of its customers - and higher expenses which put pressure on its margins. April was also a weak month, culminating in a 3.8% yoy decline in sales in the first four months of the year at Rp1,981 bn. In the remainder of the year, the company will open 5 new stores, all located in Java, as there are scant signs of an improvement in demand in areas out of Java. Despite the expansion, we don't expect a significant improvement in profitability over the near term. Taking into account these factors, we arrive at a new Target Price of Rp660. Downgrade to SELL.

Previous Reports:

- Consumer Sector: Unexciting macro clouding over (NEUTRAL) - [Snapshot20150515](#)
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MARKET NEWS

*Analysts' comment inside

- Alam Sutera will sell shares worth IDR 2tn (ID)
- BRI prepares IDR 1Tn to add capital to subsidiary, (ID)
- BRI do selection for 5 potential partners (BI)
- SSIA Targeting Land Acquisition of 1,300 Ha (BI)

IDX ANNOUNCEMENT

Cash Announcement

Code	Ex-Date	Date Payable	Amount (Rp)
AAJI	22-Apr-15	15-May-15	472
SMGR	24-Apr-15	20-May-15	375.34
TLKM	27-Apr-15	21-May-15	89.46

Source: KSEI

Key Index

	Close	Chg (%)	Ytd (%)	Vol (US\$ m)
Asean - 5				
Indonesia	5,227	(0.4)	0.0	377
Thailand	1,512	1.0	1.0	983
Philippines	7,882	0.6	9.0	164
Malaysia	1,812	0.2	2.9	504
Singapore	3,463	0.2	2.9	782
Regional				
China	4,309	(1.6)	33.2	-
Hong Kong	27,822	2.0	17.9	18,121
Japan	19,733	0.8	13.1	13,983
Korea	2,105	(0.1)	9.9	4,717
Taiwan	9,579	(0.3)	2.9	2,747
India	27,324	0.4	(0.6)	399
NASDAQ	5,048	(0.0)	6.6	68,718
Dow Jones	18,273	0.1	2.5	9,220

Currency and Interest Rate

	Rate	w-w (%)	m-m (%)	ytd (%)
Rupiah (Rp/1US\$)	13,090	0.7	(0.6)	(5.3)
SBI rate (%)	6.67	(0.3)	(0.3)	(0.6)
10-y Govt Indo bond	7.98	(0.2)	0.4	0.2

Hard Commodities

	Unit	Price	d-d (%)	m-m (%)	ytd (%)
Coal	US\$/ton	59	n/a	(0.9)	(17.2)
Gold	US\$/toz	1,223	(0.1)	1.6	3.2
Nickel	US\$/mt.ton	13,942	1.5	10.3	(7.5)
Tin	US\$/mt.ton	15,745	(0.5)	(0.3)	(19.0)

Soft Commodities

	Unit	Price	d-d (%)	m-m (%)	ytd (%)
Cocoa	US\$/mt.ton	3,134	1	9	5
Corn	US\$/mt.ton	156	1.0	(2.8)	(14.1)
Crude Oil	US\$/barrel	67	0	5	17
Palm oil	MYR/mt.ton	2,172	(1)	2	(5)
Rubber	US\$/kg	153	1	11	1
Pulp	US\$/tonne	853	n/a	(1)	(9)
Coffee	US\$/60kgbag	131	(53)	(54)	(50)
Sugar	US\$/MT	368	(1)	(1)	(6)
Wheat	US\$/mt.ton	188	(63)	(62)	(69)

Source: Bloomberg

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SELL

Target Price, IDR 660

Upside (Downside) (14.3%)

RALSII/RALS.JK

Last Price, IDR 770

No. of shares (mn) 7,096

Market Cap, IDR bn 5,464

(US\$ mn) 418

3M T/O, US\$m 0.8

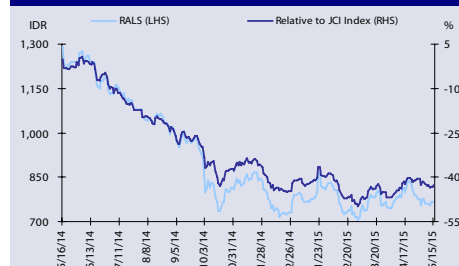
Last Recommendation

04-May-2015 BUY IDR 910

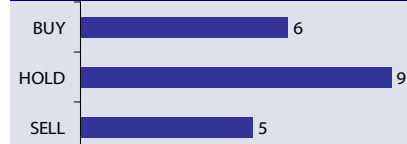
31-Mar-2015 BUY IDR 910

05-Mar-2015 BUY IDR 910

RALS relative to JCI Index



Market Recommendation



Danareksa vs Consensus

	Our	Cons	% Diff
Target price, IDR	660	799	-17.4
EPS 2015F, IDR	34.3	51	-32.7
PER 2015F, x	22.4	15.0	49.3



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Ramayana Lestari Sentosa

Struggling to maintain growth

RALS posted a disappointing set of 1Q15 results due to depressed demand - which we believe owed to the weaker purchasing power of its customers - and higher expenses which put pressure on its margins. April was also a weak month, culminating in a 3.8% yoy decline in sales in the first four months of the year at Rp1,981 bn. In the remainder of the year, the company will open 5 new stores, all located in Java, as there are scant signs of an improvement in demand in areas out of Java. Despite the expansion, we don't expect a significant improvement in profitability over the near term. Taking into account these factors, we arrive at a new Target Price of Rp660. Downgrade to SELL.

April data: Still weak

RALS' monthly data up to April 2015 doesn't show any signs of an improvement in demand. In April, the company booked Rp489.3 bn of sales, resulting in a total of Rp1,981 bn of sales in the first four months of the year. This number is 3.8% lower than the Rp2,059 bn of sales recorded in the same period last year. SSG remains weak: up to April, the company recorded negative 3.9% YTD SSG, with the out of Java stores still the worst performers with negative 7.6% YTD SSG. Nonetheless, the out of Java stores still made the largest contribution to RALS' total sales up to April 2015 at 42.6% of the total.

Expansion focused in Java

The company didn't undertake any expansion last year and actually closed 2 stores whilst reducing floor space in 3 others. For the first time in 10 years, the company reduced its net space (down 17,994 sqm). This year, however, the company will get back on the expansionary path, opening 5 new stores in Malang, Tajur, Sumedang, Solo and Semarang. The expansion is focused in Java as there are scant signs of an improvement in demand in areas out of Java. By adding new stores in Java, RALS expects the contribution from its Java stores to increase (it currently stands at 57.4% - including Greater Jakarta), giving a boost to overall sales. Yet despite the expansion, we still expect negative topline growth this year with total sales reaching Rp7,746 bn (-2.5% yoy).

Profitability squeezed

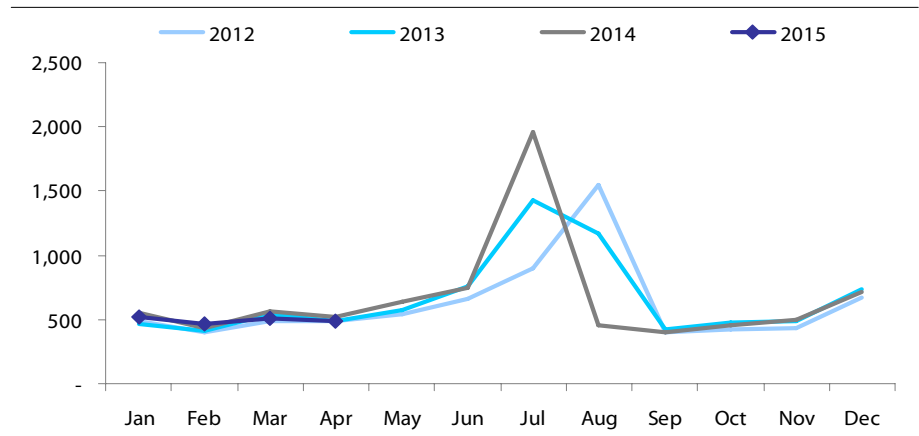
RALS' gross margin contracted by 260 bps in 1Q15 to only 23.9%, as both outright and consignment products booked lower gross margins. The higher opex to sales ratio also put pressure on the company's profitability. Although the company has made efforts to shore up its profitability, most notably by revamping its Supermarket business and trying to raise the contribution of consignment products, we don't expect any significant improvement in profitability over the near term. By the end of the year we expect the net margin to stand at only 3.1%, or down from 4.5% in FY14.

	2013	2014	2015F	2016F	2017F
Revenue, IDR bn	7,968	7,942	7,746	7,988	8,240
EBITDA, IDR bn	576	490	456	494	543
EBITDA growth, %	(2.3)	(14.9)	(6.9)	8.2	10.1
Net profit, IDR bn	391	355	243	255	284
Core profit, IDR bn	391	354	243	255	284
Core EPS, IDR	55.0	49.9	34.3	35.9	40.0
Core EPS growth, %	(7.8)	(9.3)	(31.2)	4.7	11.3
Net gearing, %	net cash	net cash	net cash	net cash	net cash
Core PER, x	14.0	15.4	22.4	21.4	19.3
PBV, x	1.7	1.6	1.6	1.6	1.5
EV/EBITDA, x	7.3	7.7	8.6	7.9	7.1
Yield, %	4.7	4.3	3.9	2.7	2.8

April data: Still weak

RALS' monthly data up to April 2015 doesn't show any signs of an improvement in demand. In April, the company booked Rp489.3 bn of sales, lower by 4.1% compare to sales in March. It resulting in a total of Rp1,981 bn of sales in the first four months of the year, which down by 3.8% compare to Rp2,059 bn of sales recorded in the same period last year. The highest sales contribution was still came from outside Java stores, accounted 42.6% from the total sales, as most of company's stores are located in outside Java (39.7% from total spaces).

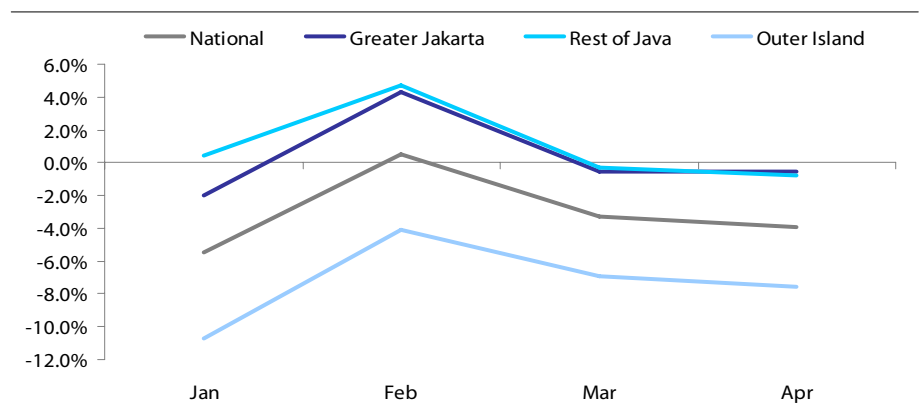
Exhibit 1. RALS' monthly sales (Rp bn)



Source: Company

SSG remains weak: up to April, the company recorded negative 3.9% YTD SSG overall. Outside Java, the biggest sales contributor, was still became the worst performers with negative 7.6% YTD SSG. While the greater Jakarta and Java stores posted negative 0.5% and negative 0.8% SSG up to April 2015.

Exhibit 2. SSG remains weak



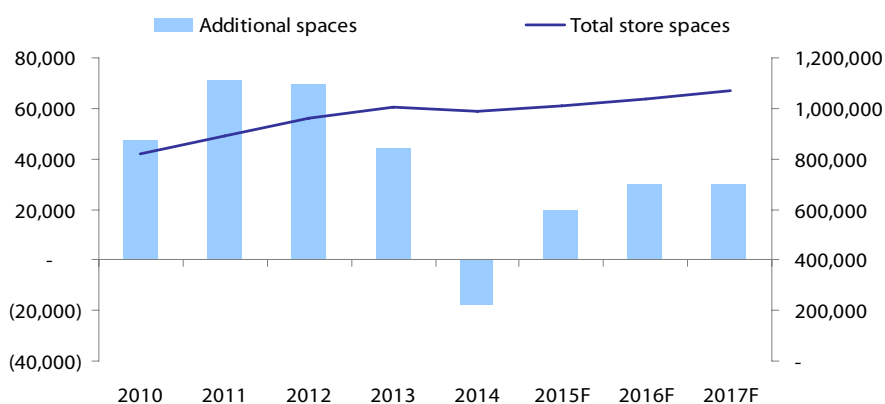
Source: Company

Expansion focused in Java

As the company focused on improving overall performance last year, no new store has opened during 2014. On the other hand, RALS closed 2 stores in Tasikmalaya and Bandung and reduced its floor space in 3 stores (Semarang, Bogor, and Pekalongan). For the first time in 10 years, the company reduced its net space, the total store spaces was down by 17,994 sqm to 988,787 sqm.

This year, the company will get back on the expansionary path. RALS has secured 5 locations for this year's new stores in: Malang, Tajur, Sumedang, Solo and Semarang. The expansion is focused in Java as there are scant signs of an improvement in demand in areas out of Java. By adding new stores in Java, RALS expects the contribution from its Java stores to increase (it currently stands at 57.4% - including Greater Jakarta), giving a boost to overall sales. From target 5 new stores opening, two stores will be opened in the first half of the year, before the Lebaran.

Exhibit 3. Store expansion (sqm)



Source: Company, Danareksa Sekuritas

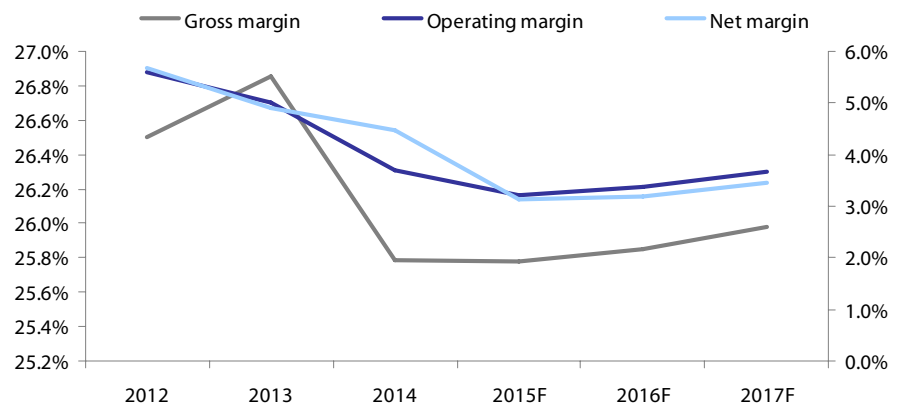
The new stores will help to support the company's sales growth for this year. Moreover, we also expect better performance in the 2Q15 and 3Q15 as RALS always booked the highest sales seasonality during the Ramadhan and Lebaran month. Yet despite the expansion and high season sales, we still expect negative topline growth this year, with total sales reaching Rp7,746 bn (-2.5% yoy).

Profitability squeezed

RALS' gross margin was contracted by 260 bps in 1Q15 to only 23.9%. Both outright and consignment products booked lower gross margins, at 23.3% and 25.0% in 1Q15 (compare to 25.7% and 28.2% in 1Q14). Moreover, the higher opex to sales ratio also put pressure on the company's profitability; it was up by 170 bps to 26.1% in 1Q15 from 24.4% in 1Q14.

The company has made efforts to shore up its profitability, most notably by revamping its Supermarket business and trying to raise the contribution of consignment products. For the Supermarket business (30.3% contribution to total sales in 1Q15), with its new concept under SPAR brand, management expects to have 30% improvement on Supermarket return per sqm and 250 bps improvement in Supermarket's gross margin in the future.

However, we don't expect any significant improvement in profitability over the near term. By the end of the year we expect the net margin to stand at only 3.1%, or down from 4.5% in FY14.

Exhibit 4. Need more time for profitability improvement

Source: Company, Danareksa Sekuritas

Downgrade to SELL, TP of Rp660

We have adjusted our numbers to incorporate the company's weaker-than-expected FY14 and 1Q15 results. On a more positive note, the 2Q15 performance should be better with sales buoyed by the Ramadan fasting month which begins in the middle of June. Nonetheless, we still expect the full year topline and bottom line numbers to be lower by 2.5% and 31.4% yoy. Against this rather bleak backdrop, we downgrade our recommendation to SELL with a new Target Price of Rp660.

Exhibit 5. Changes in forecast (Rp bn)

	2014	Current			Previous			Changes, %		
		2015F	2016F	2017F	2015F	2016F	2017F	2015F	2016F	2017F
Net sales	7,942	7,746	7,988	8,240	7,894	8,336	8,678	(1.9)	(4.2)	(5.0)
Gross profit	2,048	1,997	2,065	2,141	2,129	2,250	2,357	(6.2)	(8.2)	(9.1)
Operating profit	294	250	271	302	406	444	464	(38.4)	(39.1)	(34.8)
Opex to sales ratio, %	22.1	22.6	22.5	22.3	21.8	21.7	21.8	3.3	3.7	2.3
Net profit	355	243	255	284	409	444	465	(40.4)	(42.6)	(39.0)
Expansion, sqm	(17,994)	20,000	30,000	30,000	45,000	50,000	35,000	(55.6)	(40.0)	(14.3)

Source: Company, Danareksa Sekuritas

Exhibit 6. Profit and loss (IDR bn)

	2013	2014	2015F	2016F	2017F
Sales	7,968	7,942	7,746	7,988	8,240
COGS	5,828	5,894	5,749	5,923	6,099
Gross profit	2,140	2,048	1,997	2,065	2,141
SG&A	1,742	1,754	1,747	1,794	1,839
Depreciation	177	197	207	223	241
EBITDA	576	490	456	494	543
Operating income	399	294	250	271	302
Interest income	55	90	31	24	26
Other income (exp)	4	4	3	3	3
Pre-tax income	458	388	284	298	332
Income tax	(67)	(33)	(41)	(43)	(48)
Net income	391	355	243	255	284

Source: Company, Danareksa Sekuritas

Exhibit 7. Balance sheet (IDR bn)

	2013	2014	2015F	2016F	2017F
Cash and cash equivalent	869	625	480	513	539
Account receivables	20	23	11	11	12
Inventories	872	809	801	825	850
Other current assets	613	1,238	1,258	1,260	1,261
Total current assets	2,375	2,695	2,549	2,609	2,661
PPE	1,445	1,375	1,469	1,546	1,655
Long term rent - net	503	429	429	429	429
Others	55	55	55	55	55
Total assets	4,379	4,555	4,502	4,639	4,800
Short term loan and overdraft	-	-	-	-	-
Account payable	908	921	795	819	843
Other current liabilities	55	46	90	94	100
Total current liabilities	963	968	885	912	943
Deferred tax liabilities - net	-	-	-	-	-
Long term rent - net	-	-	-	-	-
Other long term liabilities	198	228	228	228	228
Total non-current liabilities	198	228	228	228	228
Total liabilities	1,161	1,195	1,113	1,140	1,170
Capital stock	355	355	355	355	355
Additional paid in	118	118	118	118	118
Stock option	-	-	-	-	-
Unrealized gain on stock	(8)	(8)	(8)	(8)	(8)
Retained earnings	2,753	2,895	2,926	3,035	3,166
Total liabilities and equity	4,379	4,555	4,502	4,639	4,800

Source: Company, Danareksa Sekuritas

Exhibit 8. Cash flow ((IDR bn)

	2013	2014	2015F	2016F	2017F
Cash flow from operating activities					
Cash receipt from sales	7,964	7,925	7,746	7,988	8,240
Cash payment to suppliers & employees	(7,057)	(7,034)	(7,373)	(7,493)	(7,693)
Payments for income taxes	(88)	(56)	(41)	(43)	(48)
Receipt of interest income	53	87	31	24	26
Others	(40)	0	3	3	3
Net cash flow from operating activities	831	923	367	480	529
Cash flow from investing activities					
Additional PPE	(422)	(127)	(300)	(300)	(350)
Proceed (placement) from sale of ST investment	-	-	-	-	-
Placement ST investment	-	(35)	-	-	-
Additional advance to long term rent	(249)	(168)	-	-	-
Proceed from sale of PPE	3	-	-	-	-
Additional of security deposit	(251)	(623)	-	-	-
Others	(0)	(0)	-	-	-
Net cash flow from investing activities	(919)	(953)	(300)	(300)	(350)
Cash flow from financing activities					
Dividend payment	(213)	(213)	(213)	(146)	(153)
Option exercised	-	-	-	-	-
Others	-	-	-	-	-
Net cash flow from financing activities	(213)	(213)	(213)	(146)	(153)
Changes in cash and cash equivalent	(300)	(244)	(146)	34	26
Forex	-	-	-	-	-
Beginning balance	1,169	869	625	480	513
Ending balance	869	625	480	513	539

Source: Company, Danareksa Sekuritas

Exhibit 9. Ratios

	2013	2014	2015F	2016F	2017F
Profitability (%)					
Gross profit margin	26.9	25.8	25.8	25.8	26.0
Operating margin	5.0	3.7	3.2	3.4	3.7
Pretax margin	5.7	4.9	3.7	3.7	4.0
Net margin	4.9	4.5	3.1	3.2	3.4
ROA	9.2	7.9	5.4	5.6	6.0
ROE	12.5	10.8	7.2	7.4	8.0
Leverage					
Net debt/equity (%)	(39.6)	(50.2)	(45.5)	(45.0)	(44.1)

Source: Company, Danareksa Sekuritas

MARKET NEWS

Alam Sutera will sell shares worth IDR 2tn (ID)

Alam Sutera (ASRI) will carry out a capital increase with the issuance of non pre-emptive right (non-ER) worth IDR 1.2tn, or 10% of the shares, with an exercise price of IDR 641 per share. Proceeds will be used for working capital. Alam Sutera will hold EGM on June 23, 2015, and if it works then the proportion of ownership will be changed as follows; Manunggal Prima Development 23.8%, Tangerang Fajar Industrial Estate 22.9% and Public 44.1%. Alam Sutera also recently signed an MOU with companies from Southeast Asia to form a JV in for an international projects exhibition and congress center projects in an area of 20ha.

BRI prepares IDR 1Tn to add capital to subsidiary, (ID)

Bank Rakyat Indonesia (BBRI) budgeted IDR 500bn for each subsidiary, BRI Syariah and BRI Agro. For BRI Agro, it will be conducted through the issuance of non-preemptive rights shares. Currently BRI has a 80% stakes in BRI Agro and will be the standby buyer for its entire rights. BRI Agro will do a right issue of 5.5bn new shares or equivalent 558.8bn. BRI Agro will hold an EGM on June 18, 2015.

BRI do selection for 5 potential partners (BI)

Bank Rakyat Indonesia (BBRI) selects five potential partners in the development of insurance business. The five candidates who came from America, Europe and Asia are partly a subsidiary of a foreign insurance companies that already operates in Indonesia through its subsidiary. The candidates would be chosen by JP Morgan as financial advisor BRI and will be pursued into three names before finally elected in October 2015. BRI has set up a fund worth IDR 2tn to acquire an insurance company.

SSIA Targeting Land Acquisition of 1,300 Ha (BI)

Surya Semesta Internusa (SSIA) is targeting to acquire an area of 1300ha, 1000ha in Subang and 300ha in Bekasi, after the issuance of debt securities worth USD 200mn. 57% of these funds will be used by the subsidiary PT Surya Cipta Organization (SCS) to add and develop new land gradually in 2015-2017, 26% of the funds will be used to pay off the 2012 bonds, and the remainder will be used for general corporate purposes and capital expenditures. Currently SSIA has a industrial area development permit in the Subang area for 2000 ha and 700ha in Bekasi.

COVERAGE PERFORMANCE

LEADERS

	Code	Price as on		Chg, %	w-w, %	m-m, %	YTD, %	Rating
		15-May-2015	13-May-2015					
Tower Bersama	TBIG	9,200	8,900	3.4	8.2	(0.5)	(5.2)	HOLD
Unilever	UNVR	43,500	42,300	2.8	0.2	14.1	34.7	SELL
MNC Sky Vision	MSKY	1,500	1,460	2.7	-	0.7	(6.3)	HOLD
Bukit Asam	PTBA	10,550	10,300	2.4	14.7	(1.9)	(15.6)	BUY
Astra Agro Lestari	AALI	26,400	26,000	1.5	29.1	14.3	8.9	BUY
Pembangunan Perumahan	PTPP	4,010	3,950	1.5	(1.0)	0.2	12.2	BUY
Ace Hardware	ACES	700	690	1.4	5.3	1.4	(10.8)	BUY
Indo Tambangraya Megah	ITMG	15,200	15,000	1.3	14.1	1.0	(1.1)	HOLD
Sarana Menara Nusantara	TOWR	3,895	3,850	1.2	(1.4)	(2.6)	(6.1)	BUY
Wika Beton	WTON	1,095	1,085	0.9	(0.5)	(9.9)	(15.8)	HOLD

Sources: Bloomberg

LAGGARDS

	Code	Price as on		Chg, %	w-w, %	m-m, %	YTD, %	Rating
		15-May-2015	13-May-2015					
Kimia Farma	KAEF	1,130	1,135	(0.4)	(7.4)	(6.2)	(22.9)	BUY
Bank Tabungan Pensiunan Nasional	BTPN	3,865	3,860	0.1	(3.4)	(3.4)	(2.2)	BUY
Adhi Karya	ADHI	2,735	2,725	0.4	(3.2)	(12.5)	(21.4)	BUY
Alam Sutera	ASRI	635	635	-	(3.1)	(0.8)	13.4	BUY
Jasa Marga	JSMR	6,150	6,375	(3.5)	(2.4)	(10.5)	(12.8)	BUY
Indofood CBP	ICBP	13,600	13,625	(0.2)	(2.2)	(5.2)	3.8	HOLD
Bank Mandiri	BMRI	10,950	11,250	(2.7)	(2.0)	(8.8)	1.6	BUY
XL Axiata	EXCL	3,920	3,905	0.4	(1.6)	(11.2)	(19.4)	BUY
Sarana Menara Nusantara	TOWR	3,895	3,850	1.2	(1.4)	(2.6)	(6.1)	BUY
Kalbe Farma	KLBF	1,795	1,780	0.8	(1.4)	(3.5)	(1.9)	HOLD

Sources: Bloomberg

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