

## Ramayana Lestari Sentosa (RALS IJ; Buy)

### Era of Transformation

- Fashion makeover
- Supermarket transformation
- Manageable operating expense
- Recommend Buy

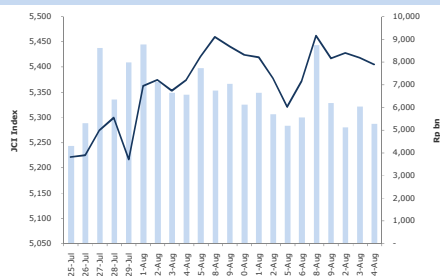
**Fashion makeover.** In the midst of a consumer purchasing power recovery, we are upbeat on Ramayana's initiatives to transform its business strategy from being outside Java sales dependent for cheap and conventional clothing into a value for money fashion-forward department store to answer the needs of people's lifestyles. After losing market share from 22.9% in FY10 to 14.4% in FY15, we believe the fashion transformation will allow Ramayana to regain back the lost market share and sustain growth by widening its target market not only to the mid-low income class but also to the middle income class.

**Supermarket transformation.** We are upbeat on Ramayana's initiative to transform its supermarket segment through its collaboration with Dutch supermarket under the SPAR brand. The new SPAR stores will carry more "fresh" assortment contribution to supermarket sales (~30%) as the add-on for its customers. Meanwhile, wholesale business has been eliminated to improve gross margins and the layout of the supermarket will have a facelift under the SPAR brand to improve the shopping experience. We believe the SPAR strategy could work out because the perishable nature of fresh category that is suitable for customers for daily-weekly shopping trips (vs. monthly shopping) with small but more frequent basket size to maintain traffic flow. After years of negative earnings in the supermarket segment, we believe Ramayana's initiative to transform its supermarkets into SPAR is critical for the company's success.

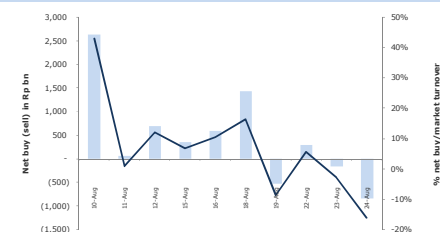
**Manageable operating expense.** The various transformation initiatives will bring about a higher operating expense due to higher promotional fees in fashion transformation and higher consultant fees and handling in the supermarket transformation. However, we believe Ramayana is adopting adequate measures in keeping the operating expense to sales ratio stable at 32% through improving efficiencies in employee productivity, rental expense and utilities. Furthermore, we believe Ramayana is able to maintain a negative conversion cycle in the coming years through having longer payable days despite increased inventory days and receivable days.

**Recommend Buy.** We are initiating coverage on Ramayana Lestari with a Buy rating and a Rp1,550 price target, a 22% upside potential. We are positive on the sustainability of Ramayana's transformation done under the right ecosystem. Our price target is based on Ramayana's shares selling at one standard deviation above the 4-year PE average of 26x on our FY17 EPS estimate of Rp59.54.

### JCI Index



### Foreign net buy (sell)



### Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	5,404	-0.2%	27.8%	17.7%
LQ45	929	-0.3%	31.2%	17.3%
DJII	18,481	-0.4%	18.0%	6.1%
SET	1,548	0.5%	16.9%	20.1%
HSI	22,821	-0.8%	6.6%	4.1%
NKY	16,597	0.6%	-6.8%	-13.2%
FTSE	6,836	-0.5%	12.4%	9.5%
FSSTI	2,870	0.7%	-0.6%	-0.5%
EIDO	26	0.5%	47.3%	25.1%

### Commodity price

Commodities	Last price	Ret 1 day	Ret 1 year
(in USD)			
Oil/barrel (WTI)	46.5	-2.5%	22.0%
CPO/tonne	644.0	0.9%	10.0%
Soy/bushel	10.1	-0.8%	15.0%
Rubber/kg	1.7	-2.5%	11.0%
Nickel/tonne	9,941	-2.7%	4.9%
Tins/tonne	18,859	0.7%	32.9%
Copper/tonne	4,615	-1.7%	-7.1%
Gold/try.oz (Spot)	1,324	-1.0%	16.1%
Coal/tonne	67.0	-0.1%	14.5%
Corn/bushel	3.1	-0.3%	-13.1%
Wheat/bushel*	156.7	-0.6%	-21.6%

\* : 1 month change

Source : Bloomberg

Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue (RpBn)	5,861	5,533	5,874	6,371	7,008
EBITDA (RpBn)	491	380	450	484	550
EBITDA Growth (%)	-14.2	-22.7	18.7	7.4	13.7
Net Profit (RpBn)	356	336	384	423	468
EPS (Rp)	50	48	54	60	66
EPS Growth (%)	-8.9	-4.9	14.2	10.1	10.9
Net Gearing (%)	-49.7	-54.8	-56.2	-52.4	-49.9
PER (x)	23.1	24.3	21.3	19.4	17.5
PBV (x)	2.5	2.5	2.2	2.1	2.0
Dividend Yield (%)	0	0	0	0	0
EV/EBITDA (x)	20.1	26.4	22.8	21.1	18.6

Source : RALS, IndoPremier

Share Price Closing as of : 22-August-2016

Refer to Important disclosures on the last of this report

## News & Analysis

### Corporates

**DMAS:** AFP International Capital Pte Ltd, a subsidiary of Sinarmas group, has sold 4.85bn shares or 10.1% of Puridelta Lestari (DMAS IJ; Rp262; Not Rated). The transaction is estimated at Rp1.21tn and share price at Rp250/share. The transaction is taken as secondary block placement with Mandiri Sekuritas, CIMB securitites and Deutsche Securitites Indonesia. (Investor Daily)

**JSMR:** Jasa Marga (JSMR IJ; Rp5,050; Buy) to repay its Rp400bn bond when it is due on September 2016 using the company's internal cash. JSMR has no plan to issue more bonds this year as the company is currently preparing for the right issue. Currently, the company plans to invest in 17 toll-roads (approx. 711.71 km long) with 51% of ownership. Recently, the company won a bid to construct 3 more toll-roads with cost estimation of Rp5.12tn. (Bisnis Indonesia)

**PGAS:** Perusahaan Gas Negara (PGAS IJ; Rp3,200; Buy) will add pipeline network of 1,685km in 2016-19. This project account for 24% of existing pipeline network of 6,971km. PGAS' expanded pipeline network of 8,656km by 2019, will be able to distribute and transmit gas of 1,902 MMscfd. (Investor Daily)

### Markets & Sector

**Banks:** BI has eased its minimum LFR (loan-to-funding ratio) target to 80%, from 78%, to be effective on 24 Aug 2016, to incentivise banks to lend more as loan growth in the banking industry was slow at 8.8% yoy as of June 2016, prompting the central bank to cut its credit growth target to 7-9% this year, from 10-11% (although OJK is still optimistic for loan growth of 11-12%). (Kontan).

*Comment: While this news is positive for banks, we don't expect it to have a significant impact on loan growth outlook as slow credit growth can be attributed to lack of demand while banks are also more cautious in lending due to a sharp rise in NPLs in the past two years. Bank Mandiri (BMRI IJ; Rp11,350; Buy) and Bank Tabungan (BTBN IJ; Rp1,985; Buy) remain our top sector picks*

**Construction sector:** House of Representative (DPR) has approved SOE's right issue plan but request minimum ownership of the companies. As such, government must hold mandatory 65.05% in Wijaya Karya (WIKA IJ; Rp3,250; Buy), 70% on Jasa Marga (JSMR IJ; Rp5,050; Buy), 80% on Krakatau Steel (KRAS IJ; Rp905; Not Rated), and PT Pembangunan Perumahan (PTPP IJ; Rp4,500; Buy) on 51% ownership. Approved state owned injection (PMN) as follows; Rp4tn for WIKA, Rp1.25tn for JSMR, Rp1.5tn for KRAS, and Rp2.25tn for PTPP. (Bisnis Indonesia)

**Packaging Industry:** Packaging industry in Indonesia has reached Rp70tn with estimated growth target of 7% in the next few years. According to Head of Indonesian Packaging Federation, the demand in packaging industry is driven by the robust growth of middle class population in Indonesia. The fastest growing packaging segment is rigid plastic, which is mostly used for beverages, cosmetic and personal care products. (Bisnis Indonesia)

*Comment: We might see the robust growth in rigid plastic to be a positive indication especially for companies with exposure to beverage, cosmetic and personal care products such as KINO, UNVR, and MYOR.*

**Retail sector:** Modern retail sales outside Java grew double digit 10.6% in 1H16, not a bad number compare to Java at 13%, and many modern retailers are starting to see expansion in the area more appealing according to Indonesian Retailers Association (APRINDO). Although there seem to be a tight competition of modern retailers in first tier cities such as Jakarta and Surabaya, the overall penetration of modern retailers is still low with much room to grow in Indonesia at 52 stores/million population (vs 124 and 156 stores/million population in Thailand and

Malaysia). Developing infrastructure is still one of the biggest issue for any retail presence due to complex shipping and logistics, but some retailers are already building DC centers that makes expansion in second and third tier cities their current go-to expansion destination to take advantage of the recovering economy.

*Comment: We believe RALS will be the first to take advantage of the economic recovery and sales potential due to its already strong presence outside Java. An established distribution network will also allows RALS to expand relatively easier compare to other retailers who are still focused in Greater Jakarta and Java (e.g. MAPI)*

## Economic

**Policy package:** The Coordinating Ministry of Economy just launched yet another economic policy package, the 13<sup>th</sup> policy package, concerning licensing simplification to develop low-cost housing. The govt will reduce as many 33 licenses and stages into just 11 licenses and recommendations in addition to minimising time required in acquiring those licenses from 769-981 days to 44 days. Based on data, 17.3% or around 11.8 million households remain living in properties under other people's ownership. (Coordinating Ministry of The Economy)

*Comment: We think this might be positive for PT PP Properti (PPRO) as it is currently in discussion with Perumnas to develop low-cost housing. BBTN is also considered in the list of beneficiaries of this package, having considered its participation in the financing program for low-cost housing.*

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**INVESTMENT RATINGS**

BUY : Expected total return of 10% or more within a 12-month period  
HOLD : Expected total return between -10% and 10% within a 12-month period  
SELL : Expected total return of -10% or worse within a 12-month period

**ANALYSTS CERTIFICATION.**

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