

## Premier Insight

27 September 2016

## Mitra Adiperkasa (MAPI IJ; Buy)

## Pruning for Growth

- Restoring department store profitability
- Restructuring in F&B
- Good inventory management should sustain
- Upgrade to BUY

**Restoring department store profitability.** We are bullish on management's efforts to restore profitability in the department store segment, by discontinuing underperforming stores including Debenhams and Lotus, which have been a drag on company performance. We think the curative action on department stores is crucial as it is a strategic asset for MAPI to leverage on rental rates to get a 10% discount for all of its store types, including department stores, specialty stores, F&B and others. Focusing on the development of well performing department store brands such as Sogo and Seibu should remove the earnings drag and boost SSSG to 3.5%-4% over FY17F, FY18F and FY19F, up from previously expected 1% over the next 3 years for the department store segment.

**Faster expansion in F&B from restructuring.** After seeing success in its active and sports division upon strategic investor CVC's involvement, MAPI is following similar steps in its F&B segment by restructuring four subsidiaries in the segment into a new subsidiary and simultaneously issuing Rp1.08tn bonds to be acquired by strategic investor General Atlantic. The funds received will be partly used to pay down existing debt and partly for higher expansion mainly of the highly profitable Starbucks operation. We expect F&B store expansion to jump to 60 stores/year compared to 30 store/year without the restructuring.

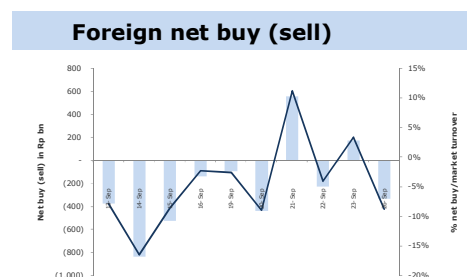
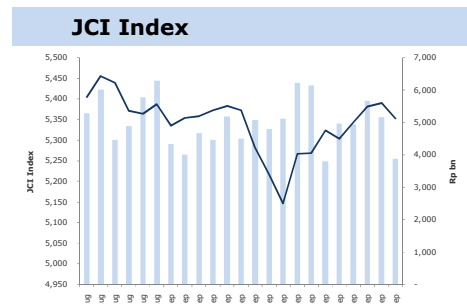
**Better-than-expected inventory management.** Inventory management was better than expected with inventory days down by 5% yoy as of 1H16 at 170 days, from 179.4 days a year ago. This shows that MAPI is better at managing its inventory not only post involvement of CVC in the active and sports division, but also through learning from customer database collected from MAPClub to better understand customer behaviour. With its big data initiatives collected from the loyalty membership program, we believe MAPI still has upside to further improve its inventory management.

**Upgrade to BUY.** We raise our price target by 36.4% driven by higher SSSG and increased expansion that should translate into top line growth. Furthermore, we expect lower interest expense to pave the way for higher margin expansion after the recent involvement of the strategic investor in the F&B segment. We lower our earnings estimates for FY16 due to higher interest expense, but upgrade FY17 net profit by 26.6% yoy, resulting in a new DCF-based (WACC: 10.7%; TG: 3%) target price of Rp5,110, providing 20.5% upside potential. We reiterate our Buy rating on MAPI.

Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue (RpBn)	11,822	12,833	14,041	16,171	18,191
EBITDA (RpBn)	536	527	654	773	891
EBITDA Growth (%)	-29.0	-1.7	24.0	18.2	15.3
Net Profit (RpBn)	78	30	182	276	381
EPS (Rp)	47	18	110	167	230
EPS Growth (%)	-76.1	-61.4	505.6	51.4	38.0
Net Gearing (%)	58.3	22.6	32.4	8.9	54.1
PER (x)	90.0	233.0	38.5	25.4	18.4
PBV (x)	2.8	2.4	2.2	2.0	1.9
Dividend Yield (%)	0.5	0.0	0.1	0.4	0.6
EV/EBITDA (x)	10.4	12.0	9.2	8.7	5.6

Source : MAPI, IndoPremier

Share Price Closing as of : 23-September-2016



## Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	5,352	-0.7%	27.1%	16.5%
LQ45	925	-0.9%	32.2%	16.8%
DJI	18,095	-0.9%	10.9%	3.8%
SET	1,490	-0.2%	8.2%	15.7%
HSI	23,318	-1.6%	10.1%	6.4%
NKY	16,545	-1.3%	-7.5%	-14.2%
FTSE	6,818	-1.3%	11.6%	9.2%
FSSTI	2,850	0.1%	0.6%	-1.1%
EIDO	26	-1.0%	50.1%	24.6%

## Commodity price

Commodities	Last price	Ret 1 day	Ret 1 year
(in USD)			
Oil/barrel (WTI)	45.9	3.6%	0.5%
CPO/tonne	655.7	1.5%	15.9%
Soy/bushel	9.3	-1.0%	5.5%
Rubber/kg	1.7	-0.4%	20.0%
Nickel/tonne	10,485	-1.2%	5.7%
Tins/tonne	19,805	0.6%	29.5%
Copper/tonne	4,819	-0.3%	-4.4%
Gold/try.oz (Spot)	1,338	0.0%	16.7%
Coal/tonne	71.8	-0.2%	24.8%
Corn/bushel	3.0	-2.4%	-18.3%
Wheat/bushel*	133.6	-14.7%	-32.9%

\* : 1 month change

Source : Bloomberg

## News & Analysis

### Corporates

**SMSM:** Selamat Sempurna (SMSM IJ; Rp4,480; Hold) estimates a better 2H16 with growth of 5% from its 1H16, especially from the export market of China and US. In the 1H16, revenue growth was only 3.8% yoy with net profit growth of 2.0% yoy. With such growth estimates, SMSM is likely only to achieve revenue growth of 5.6% in FY16 lower than earlier expectation of 10-15% revenue growth. (Bisnis Indonesia)

*Comment: This is evident that global slowdown has affected demand on manufacturing goods, despite that weaker Rupiah has made our products more competitive. Recovery of the global economy will be the key factor to SMSM growth.*

**WIKA:** Wijaya Karya (WIKA IJ; Rp2,510; Buy) reported new contract in 8M16 of Rp23.4tn or grew 75.4% yoy. Most of projects are dominated by toll road and bridges (30.9%) followed by building (20.5%) and industrial plant. Major awarded projects in 8M16 are Balikpapan – Samarinda toll road of Rp6tn, Wisma Atlit building of Rp978.7bn and Tanjung Sekong Fuel of Rp969bn. (Company)

*Comment: we should see higher jump of new contract to Rp40.4tn or 77% of target if company managed to secure HSR contrac in September 2016. WIKA's right issue could also provide better working capital for the company. Reiterate Buy on WIKA.*

### Markets & Sector

**Automotive sector:** LCGC models accounts about 20% of the total 4W sales volume of 691k units up to Aug16. This segment has been growing by 28% yoy to 133.6k units up to Aug16, which significantly faster than the overall industry. Best selling model was Agya-Ayla with market share of 47.5% from the LCGC segment, followed by Datsun Go 17.2%, Honda Brio 15% and the newly launched model Calya-Sigra 15%. Nevertheless Calya Sigra has been introduced only for two months but already competing with Honda Brio. (Bisnis Indonesia)

*Comment: Toyota-Daihatsu accounts market share of 62.3% way ahead of its competitors Datsun and Honda. However, growing LCGC indicates that consumers have limited purchasing power as affordable car is the preferred choice.*

**Transportation sector:** Online transportation driver association (ADO) has called on the government to suspend the implementation of the Transportation Regulation No.32/2016, which is scheduled to effectively implement on 1 October 2016. ADO rejects the clause that forces online-drivers to convert their private car ownership rights to corporate-owned public transportation. (Investor Daily)

*Comment: We believe there should be an extension to cater ADO's concerns, which prolong the negative business climate to conventional taxi players (TAXI & BIRD). To note, the House of Representative has advised the respective ministry to extend the implementation date beyond 1 October 2016. We reiterate Sell rating to Express Transindo (TAXI IJ; Rp154; Sell).*

### Economic

**Tax revenue:** Realised tax revenue achieved Rp729.7tn by September 25<sup>th</sup>, or equal to 52.3% of tax revenue target set by the government in the revised state budget (equal to Rp1355.2tn). The figure has already included receipt from tax amnesty program. (Kontan)

*Comment: The tax realisation is low considering the time frame the government has to collect the remaining. If the trend is not reversed, the government is threatened to cut spending further or allow wider deficit (currently expected at 2.7%).*

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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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