INDOPREMIER

Equity | Indonesia | Retail

Matahari Dpt. Store (LPPF IJ)

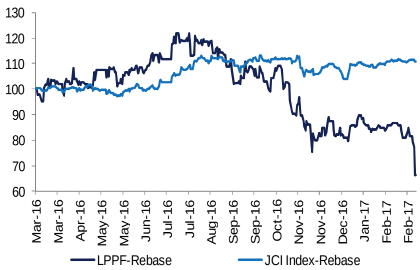
02 March 2017

Results Note

BUY (Unchanged)

Stock Data	
Target price (Rp)	Rp16,350
Prior TP (Rp)	*Rp24,300*
Shareprice (Rp)	Rp11,725
Upside/downside (%)	*+39.4*
Sharesoutstanding (m)	2,918
Marketcap. (US$ m)	2,560
Free float (%)	65.4
Avg. 6m dailyT/O (US$ m)	8.2

Price Performance	**3M**	**6M**	**12M**
Absolute (%)	-21.6	-40.5	-30.2
Relative to JCI (%)	-23.8	-40.6	-41.7
52w high/low (Rp)	11,725 - 11,725		



Major Shareholders	
Multipolar Tbk PT	20.5%
Asia Color Co Ltd	14.2%
Blackrock	2.4%

Estimate Change; Vs. Consensus	2017F	2018F
Latest EPS (Rp)	710	767
Vs. Prior EPS (%)	(12.3)	(9.0)
Vs. Consensus (%)	(12.2)	(10.1)

Source: Bloomberg

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Lackluster growth going forward

- **Lower than expected FY16 profit due to slow 4Q.**
- **Margin contraction due to aggressive discounts in 4Q.**
- **We cut our FY17/18F earnings, on the back of soft demand.**
- **Maintain Buy with a revised TP of Rp16,350 (from Rp24,300).**

Weak 4Q profit. LPPF reported net profit of Rp2.0tn in FY16 (+13% yoy), which was 6% below our expectation, despite lower interest expense. Gross revenue grew 8.3% in FY16 on the back of 5.5% SSSG (vs. 6.8% in 2015), reflecting slower recovery in purchasing power from middle-income earners. On quarterly basis, LPPF posted lower net profit of Rp410bn in 4Q16 (-9.6% qoq, +3.2% yoy), due to higher operating costs after opening 4 new stores. Gross revenue was recorded at Rp4.1tn (-2.4% qoq, +5.4% yoy) with 4Q SSSG of 2.7% (4Q15: 7.6%), which showed the relatively weak demand in 2016 year-end festive.

Margin contraction. Although net revenue grew 8.2% yoy in 4Q, gross margin narrowed to 61.5% (4Q15: 62.8%), which we believe was attributable to the contraction in direct purchase (DP) margin. DP margin was reduced to 41.9% in 4Q16 (4Q15: 42.7%), on the back of aggressive discounts to stimulate higher volume sales amidst soft demand. Meanwhile, consignment (CV) margin was relatively stable at 31.3% in 4Q16. Going forward, company plans to increase the sales contribution from DP by focusing on specialty stores expansion (ie. NEVADA brand contributes 32% to total DP sales). Operating margin fell to 21.4% in 4Q16 (4Q15: 24.9%), due to higher marketing expense related to the Mataharistore.com landing page.

Earnings revision. We cut our FY17/18F earnings on the back of lower net sales as we lower our SSSG assumption to 6.0%/7.0% (from 7.5%/8.0%) for FY17/18F respectively, reflecting soft demand and our optimism towards management strategy. Moreover, we reduce new stores sales productivity to reflect the shifting shopping behavior favoring online retail. Lastly, we factor in the capex guidance at Rp450bn, in which four (out of 8 new stores) will be located in existing mall.

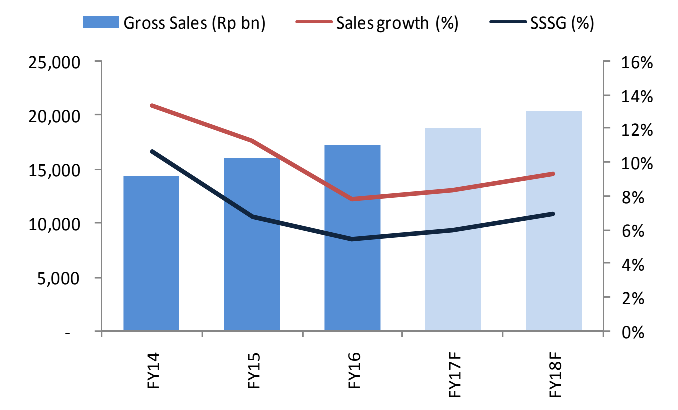
Valuation. We lower our TP to Rp16,350 on the back of our earnings cuts and using one standard deviation below 3-year historical PE at 23x on our FY17F EPS estimate of Rp710. We believe yesterday's share price drop (-12.7%) was due to negative sentiment towards LPPF's risky involvement in Mataharimall.com and perceived uncertainty over future growth and strategy. We believe that by not participating in any further investments in Mataharimall.com could potentially improve investor sentiment on the stock. We maintain our Buy rating.

Year To 31 Dec	**2015A**	**2016A**	**2017F**	**2018F**	**2019F**
Revenue (RpBn)	9,007	9,897	10,736	11,825	13,112
EBITDA (RpBn)	2,570	2,789	2,938	3,186	3,515
EBITDA Growth (%)	9.9	8.5	5.3	8.4	10.3
Net Profit (RpBn)	1,781	2,020	2,071	2,237	2,461
EPS (Rp)	611	692	710	767	844
EPS Growth (%)	25.5	13.4	2.5	8.0	10.0
Net Gearing (%)	(85.6)	(92.3)	(95.9)	(95.6)	(98.0)
PER (x)	19.2	16.9	16.5	15.3	13.9
PBV (x)	30.9	18.4	13.5	10.3	8.3
Dividend Yield (%)	(2.5)	(3.6)	(4.1)	(4.2)	(4.9)
ROAA (%)	48.8	46.2	39.4	36.1	33.7

Source : LPPF, IndoPremier *Share Price Closing as of : 01-March-2017*

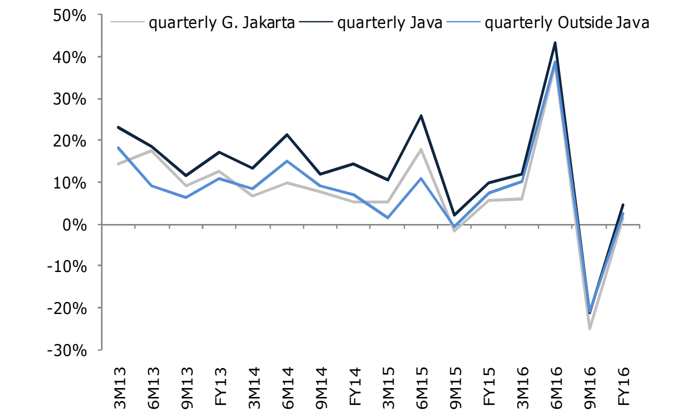
LPPF Results Note

Fig. 1: Slower recovery gross sales and SSSG in 2017



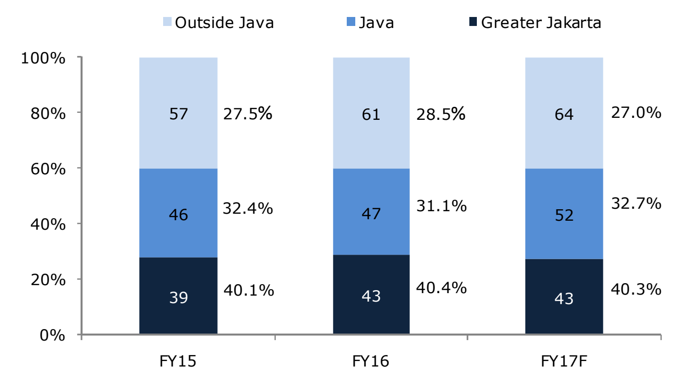
Source: LPPF, IndoPremier

Fig. 2: Weak SSSG in 4Q16 post slump in 3Q16.



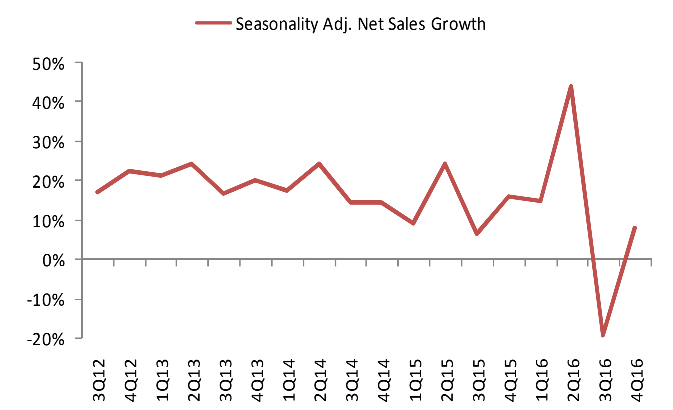
Source: LPPF, IndoPremier

Fig. 3: Focus expanding outside Greater Jakarta for 2017



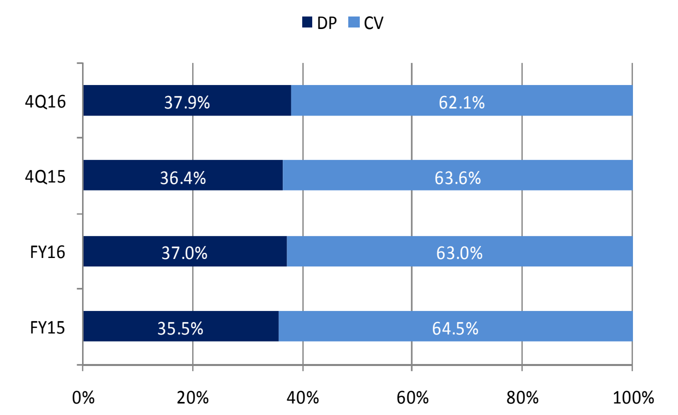
Source: LPPF, IndoPremier

Fig. 4: Decreasing trend in net sales growth



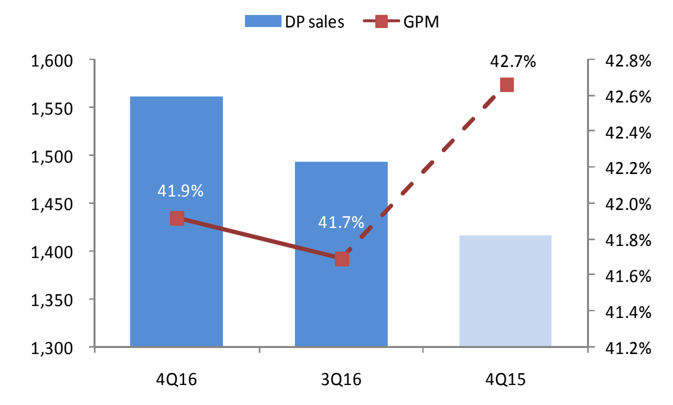
Source: LPPF, IndoPremier

Fig. 5: Direct Purchase (DP) contribution to total gross sales



Source: LPPF, IndoPremier

Fig. 6: Direct Purchase (DP) GPM shrunk YoY



Source: LPPF, IndoPremier

Fig. 7: 4Q16 results summary

	4Q16	3Q16	4Q15	*Change*		12M16	12M15	*Change*
(IDR b)	**(IDR b)**	**(IDR b)**	**(IDR b)**	**(q-q%)**	**(y-y%)**	**(IDR b)**	**(IDR b)**	***(y-y %)***
Gross sales	4,079	4,181	3,869	(2.4)	5.4	17,294	15,975	8.3
Net Sales	**2,375**	**2,343**	**2,194**	***1.4***	***8.2***	**9,897**	**9,007**	***9.9***
COGS	(915)	(874)	(816)	*4.7*	*12.2*	(3,685)	(3,336)	*10.5*
Gross profit	**1,460**	**1,468**	**1,378**	***(0.6)***	***5.9***	**6,212**	**5,671**	***9.5***
Operating cost	(953)	(909)	(831)	*4.8*	*14.6*	(3,684)	(3,342)	*10.2*
Operating profit	**507**	**560**	**547**	***(9.4)***	***(7.3)***	**2,528**	**2,330**	***8.5***
Interest expense	(4)	4	(49)	*(187.9)*	*(92.0)*	(1)	(93)	*(98.7)*
Others	7	0	6	*1,774.1*	*32.4*	6	8	
Pre-tax profit	**511**	**565**	**504**	***(9.6)***	***1.3***	**2,533**	**2,245**	***12.8***
Tax	(101)	(112)	(107)	*(9.3)*	*(5.5)*	(513)	(464)	*10.6*
Net profit	**410**	**453**	**397**	***(9.6)***	***3.2***	**2,020**	**1,781**	***13.4***
Others								
Gross margin (%)	*61.5*	*62.7*	*62.8*			*62.8*	*63.0*	
Operating margin (%)	*21.4*	*23.9*	*24.9*			*25.5*	*25.9*	
Pre tax margin (%)	*21.5*	*24.1*	*23.0*			*25.6*	*24.9*	
Net margin (%)	*17.2*	*19.3*	*18.1*			*20.4*	*19.8*	

Source: LPPF, IndoPremier

Fig. 8: Changes in earnings forecast

(Rp Bn)	**FY17F**			**FY18F**		
	old	**new**	**change**	**old**	**new**	**change**
Net Revenue	11,484	10,736	-6.5%	12,170	11,825	-2.8%
Gross Profit	7,153	6,731	-5.9%	7,721	7,401	-4.1%
Operating Profit	3,052	2,634	-13.7%	3,216	2,822	-12.2%
Net Profit	2,340	2,071	-11.5%	2,568	2,237	-12.9%
New stores (unit)	9	8		9	8	
New store sales (Rpmn/sqm)	9.34	7.37	-21.1%	8.84	7.96	-9.9%
SSSG	7.5%	6.0%		8.0%	7.0%	
GPM	62.3%	63.5%		62.0%	63.4%	
OPM	26.6%	27.1%		26.2%	26.5%	
NPM	20.7%	21.6%		20.6%	21.3%	

Source: LPPF, IndoPremier

Year To 31 Dec (RpBn)	2015A	2016A	2017F	2018F	2019F
Income Statement					
Net Revenue	9,007	9,897	10,736	11,825	13,112
Cost of Sales	(3,336)	(3,685)	(4,005)	(4,424)	(4,915)
Gross Profit	5,671	6,212	6,731	7,401	8,197
SG&A Expenses	(3,342)	(3,684)	(4,097)	(4,579)	(5,106)
Operating Profit	2,330	2,528	2,634	2,822	3,090
Net Interest	(93)	(1)	(45)	(26)	(14)
Forex Gain (Loss)	0	0	0	0	0
Others-Net	8	6	0	0	0
Pre-Tax Income	2,245	2,533	2,589	2,796	3,077
Income Tax	(464)	(513)	(518)	(559)	(615)
Minorities	0	0	0	0	0
Net Income	1,781	2,020	2,071	2,237	2,461
Balance Sheet					
Cash & Equivalent	947	1,713	2,424	3,170	4,018
Receivable	76	95	91	96	112
Inventory	1,008	995	1,027	1,095	1,176
Other Current Assets	242	171	252	279	287
Total Current Assets	2,273	2,974	3,793	4,640	5,593
Fixed Assets - Net	1,247	1,376	1,542	1,751	1,903
Goodwill	0	0	0	0	0
Non Current Assets	331	469	281	311	325
Total Assets	3,889	4,859	5,659	6,747	7,867
ST Loans	0	0	0	0	0
Payable	1,552	1,663	0	1,971	2,172
Other Payables	887	926	919	1,022	1,114
Current Portion of LT Loans	0	0	0	0	0
Total Current Liab.	2,439	2,588	2,721	2,992	3,286
Long Term Loans	0	0	0	0	0
Other LT Liab.	344	415	409	438	481
Total Liabilities	2,783	3,004	3,130	3,431	3,767
Equity	(3,185)	(3,185)	(3,185)	(3,185)	(3,185)
Retained Earnings	4,291	5,040	5,714	6,501	7,285
Minority Interest	0	0	0	0	0
Total SHE + Minority Int.	1,106	1,855	2,529	3,316	4,100
Total Liabilities & Equity	3,889	4,859	5,659	6,747	7,867

Source : LPPF, IndoPremier

Year to 31 Dec	2015A	2016A	2017F	2018F	2019F
Cash Flow					
Net Income (Excl.Extraordinary&Min.Int)	1,781	2,020	2,071	2,237	2,461
Depr. & Amortization	28	23	47	60	60
Changes in Working Capital	164	207	(16)	147	155
Others	371	(174)	119	49	79
Cash Flow From Operating	2,343	2,077	2,221	2,492	2,755
Capital Expenditure	(359)	(290)	(26)	(299)	(225)
Others	31	31	25	44	56
Cash Flow From Investing	(328)	(260)	(1)	(255)	(168)
Loans	(410)	0	0	0	0
Equity	0	0	0	0	0
Dividends	851	1,247	1,397	1,450	1,677
Others	(124)	(32)	(70)	(70)	(70)
Cash Flow From Financing	318	1,215	1,327	1,380	1,607
Changes in Cash	2,332	3,032	3,547	3,617	4,194
Financial Ratios					
Gross Margin (%)	63.0	62.8	62.7	62.6	62.5
Operating Margin (%)	25.9	25.5	24.5	23.9	23.6
Pre-Tax Margin (%)	24.9	25.6	24.1	23.6	23.5
Net Margin (%)	19.8	20.4	19.3	18.9	18.8
ROA (%)	48.8	46.2	39.4	36.1	33.7
ROE (%)	281.5	136.4	94.5	76.5	66.4
ROIC (%)	216.2	138.5	95.6	78.0	67.9
Acct. Receivables TO (days)	1.7	2.1	2.2	1.9	1.9
Acct. Receivables - Other TO (days)	2.0	1.1	0.9	1.0	1.0
Inventory TO (days)	3.4	3.7	4.0	4.2	4.3
Payable TO (days)	162.1	159.2	157.8	155.6	153.8
Acct. Payables - Other TO (days)	16.5	13.9	8.1	4.3	4.3
Debt to Equity (%)	0.0	0.0	0.0	0.0	0.0
Interest Coverage Ratio (x)	0.1	0.0	0.0	0.0	0.0
Net Gearing (%)	(85.6)	(92.3)	(95.9)	(95.6)	(98.0)

Source : LPPF, IndoPremier

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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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