

6 MARCH 2019

COMPANY UPDATE

BUY

STOCK INFORMATION

Bloomberg Code	LPPF IJ
Sector	Retail
Current Price	Rp4,280
Target Price	Rp5,750
Prev. Target Price	Rp8,000
Upside/ Downside	34.3%
Share Out (bn shares)	2.91
Market Cap (Rpbn)	12,446
52 – w range (low-high)	Rp4,280-11,650
52 – w average daily	Rp 7,470

PRICE CHART



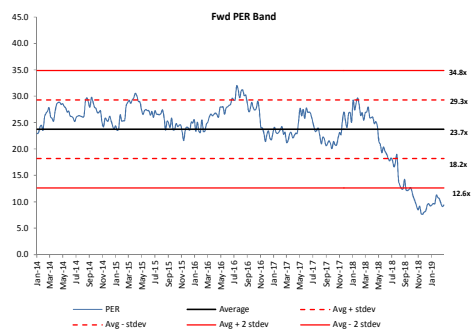
Source: Bloomberg

SHAREHOLDER'S INFORMATION, AS OF DEC 31, 2018

PT Multipolar Tbk (MLPL.IJ)	17.5%
Public	82.5%

Source: Company data

PE BAND



Source: Bloomberg

PT MATAHARI DEPARTMENT STORE TBK

TUMBLING BY ONE-OFF LOSS

In Line Sales, while the bottomline tumbled by one-off loss

During FY18, LPPF booked a total gross sales of Rp17,92 trillion (+2.0% YoY), in line with our FY18F of Rp18.33 trillion (made up 97.7% of our projection), on the back of 3.5% SSSG (missed the company's previous guideline of 4-6%, but in line with our projection of 3.5%). Geographical-wise, the outside Java area (mostly commodity-based regions i.e Sumatra and Kalimantan) delivered the strongest SSSG of 4.1%, in line with the overall recovery in commodity prices during the year. On the bottomline, the company suffered a 42.5% YoY decline in net profit from Rp1.91 trillion to Rp1.1 trillion, mostly due to one-off, non-cash loss from investment in PT Global Ecommerce Indonesia (operator of mataharimall.com – which was terminated in the end of Nov18) as much as Rp769.78 billion. Aside the investment loss, however, LPPF's net profit was actually slightly declined by only 2.1% YoY to Rp1.87 trillion. On quarterly basis, as the company usually enjoyed peak season in 4Q, the gross sales solidly grew by 31.1% QoQ to Rp4.26 trillion (contributed 24.1% to total sales) on the back of 0.9% SSSG, with Greater Jakarta area delivered the strongest SSSG of 1.2%.

Margin Remains Stable

In terms of profitability, the company managed to maintain its GPM at 35.6% (vs 35.6% in FY17), while the EBIT margin before impairment (the one-off loss) declined by 50bps from 13.5% to 13.0% due to higher marketing cost (+14.2% YoY) in order to boost sales, particularly the higher-margin direct purchase (DP) products – which resulted in greater DP contribution from 37.2% in FY17 to 37.4%, but partially compensated by lower rental cost (from 13.8% to sales in FY17 to 13.7% to sales in FY18) following the store closures. Note that during the year the company has opened 7 new stores, permanently close down 3 stores due to fire and lease expiry; making the total store count to 159 by the end of 2018.

Unexciting Guidance

This year, LPPF guided a very conservative target of flat to low single digit SSSG (0-3%) and 4-6 new stores along with the anticipation of 2-3 underperforming store closures. The current 4-year high inventory level of 130 days (due to rollout of new merchandising and CNY preparation in 1Q19) is also expected to normalize to 120-125 days, as the company initiate few strategies to boost sales i.e. continue to run big data, new merchandising both in home products and active wear, as well as strengthening its logistics network to support sales growth. This year, the company allocates capex of Rp 400-500 billion as regular capex and addition of Rp200 billion to further development of logistics. The company also plans to open 361 Degrees stand-alone specialty stores at well-known malls in major cities from 2019 onwards in order to enhance brand awareness. Regarding the e-commerce segment, as mataharistore.com has been rebranded to matahari.com in 2Q18, the sales grew by 80.8% YoY in FY18 following the increase of 31.7% in number of transaction.

Share Buyback Program & Change in Dividend Policy

On Oct18 the EGM has approved the share buyback program to retire up to Rp1.25 trillion (c.7% stake) to reduce equity on its balance sheet and regain shareholders' trust on the stock. The corporate action has been started in Nov18 and valid until Apr20. To date, the company has bought back 67 million shares (2.3% stake), with the average share price of Rp4,825 or equal to Rp324 billion. On the other hand, the management will change the DPR policy to 50% from 70% for the past 3 years. The higher cash retention from the lower payout ratio will be used to support the Company's growth strategies to develop its assortments, expand both its large format stores, as well as smaller formats and specialty stores.

Temporary Price Drop, but Lower TP of Rp5,750/ share at Shadier Outlook – Maintain BUY

We believe the current share price has been undervalued, while we expect LPPF sales in 2019F/20F to grow by 3.5%/2.6% YoY on the back of conservative 0% and 1% SSSG, respectively, lower than our previous expectation of 4% due to shadier outlook in department store concept amid wilder competition in fashion retail industry both in store or on the web, but we are optimistic on company's next initiatives to reformat both the store size and assortments as well as expand more to specialty store concept. Hence we generate a new target price of Rp5,750/ share, from previous target price of Rp8,000, which offers a 34.3% upside, as we believe the stock has been oversold. Our TP implies PER and EV/EBITDA 2019F of 9.1x and 5.7x, respectively, while the stock is currently traded at 6.8x and 3.7x PER and EV/EBITDA 2019F.

Financial Summary

(Rp billion)	2017A	2018A	2019F	2020F	2021F
Revenue	10,024	10,245	10,658	10,938	11,243
EBITDA	2,670	1,875	2,718	2,732	2,734
Net profit	1,907	1,097	1,843	1,849	1,847
EPS (Rp)	654	377	634	636	635
PER (x)	6.5	11.3	6.8	6.7	6.7
BVPS (Rp)	798	624	1,069	1,388	1,706
PBV (x)	5.4	6.9	4.0	3.1	2.5
EV/EBITDA (x)	4.1	6.0	3.7	3.3	2.9
Dividend yield (%)	11.33	10.73	4.41	7.40	7.43
RoE (%)	91.2	53.0	74.8	51.7	41.1

Source: Company data and Lotus Andalan Research

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Interim Financial Result

	FY17	FY18	YoY	FY18F	Coverage	3Q18	4Q18	QoQ		Comment
P/L (In Rpbn)										
Gross revenue	17,572.0	17,941.7	2.1%	18,329.3	97.9%	3,251.9	4,287.4	31.8%	3.5% SSSG vs -1.2% in FY17 (3.6% SSSG in 3Q18 vs -0.9% SSSG in 4Q18)	
Net revenue	10,024.0	10,245.2	2.2%	10,485.5	97.7%	1,862.4	2,467.4	32.5%		
Cost of revenue	3,762.0	3,867.1	2.8%	3,934.4	98.3%	727.9	975.0	33.9%		
Gross profit	6,261.9	6,378.1	1.9%	6,551.1	97.4%	1,134.4	1,492.4	31.6%		
Operating expense	3,885.3	4,811.2	23.8%	4,094.4	117.5%	963.6	1,784.1	85.2%		
Operating profit	2,376.7	1,566.9	-34.1%	2,456.6	63.8%	170.8	(291.7)	-270.8%		
EBITDA	2,670.0	1,875.2	-29.8%	2,732.1	68.6%	251.4	(208.2)	-182.8%		
Net profit	1,907.1	1,097.3	-42.5%	1,869.4	58.7%	150.9	(398.4)	-363.9%		
Profitability										
Gross margin	35.6%	35.5%		35.7%		34.9%	34.8%			Remains stable
EBIT margin	13.5%	8.7%		13.4%		5.3%	-6.8%			Drop due to impairment provision for investment loss in GEI of Rp769.77 bn
EBITDA margin	15.2%	10.5%		14.9%		7.7%	-4.9%			
Net margin	10.9%	6.1%		10.2%		4.6%	-9.3%			

Source: Company data and Lotus Andalan Research

Forecast Changes

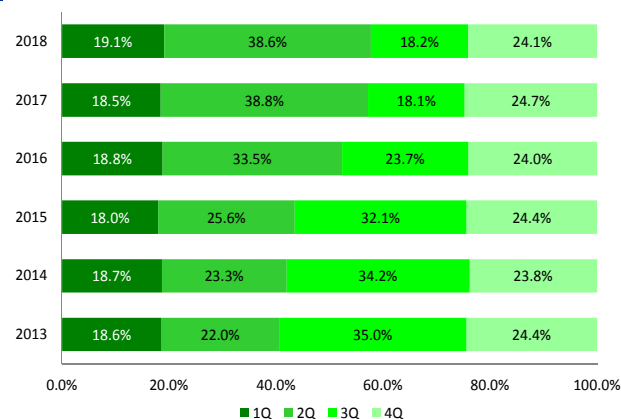
	Previous			New			% change		
	2019F	2020F	2021F	2019F	2020F	2021F	2019F	2020F	2021F
Gross revenue	19,237	20,430	19,578	18,563	19,042	19,578	-3.5%	-6.8%	0.0%
Net revenue	11,005	11,687	11,243	10,658	10,938	11,243	-3.2%	-6.4%	0.0%
Gross Profit	6,888	7,308	7,007	6,655	6,819	7,007	-3.4%	-6.7%	0.0%
Operating Profit	2,655	2,802	2,424	2,420	2,427	2,424	-8.8%	-13.4%	0.0%
Net Income	2,019	2,133	1,847	1,843	1,849	1,847	-8.7%	-13.3%	0.0%
Sales growth	7.4%	6.2%	2.8%	4.0%	2.6%	2.8%	-3.4%	-3.6%	0.0%
SSSG	3.0%	4.0%	1.0%	0.0%	1.0%	1.0%	-3.0%	-3.0%	0.0%

Financial Ratios

Gross profit/ gross sales	35.8%	35.8%	35.8%	35.9%	35.8%	35.8%	0.0%	0.0%	0.0%
Operating margin	13.8%	13.7%	12.4%	13.0%	12.7%	12.4%	-0.8%	-1.0%	0.0%
Net margin	10.5%	10.4%	9.4%	9.9%	9.7%	9.4%	-0.6%	-0.7%	0.0%

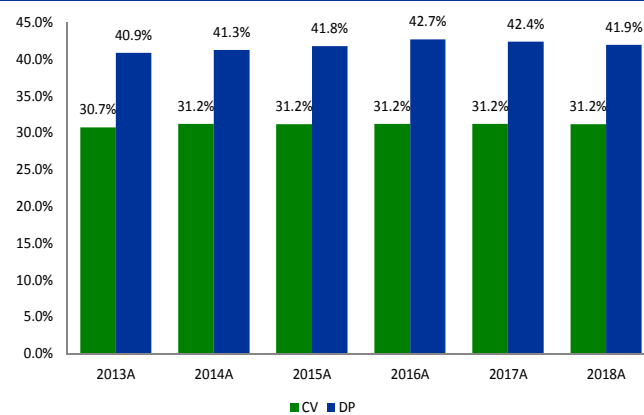
Source: Lotus Andalan Research

Quarterly performance



Source: Company data, Lotus Andalan Research

Gross margin breakdown



Source: Company data, Lotus Andalan Research

FINANCIAL HIGHLIGHTS OF PT MATAHARI DEPARTMENT STORE, TBK

In Rp Billion											
BALANCE SHEET	2017A	2018A	2019F	2020F	2021F	INCOME STATEMENT	2017A	2018A	2019F	2020F	2021F
ASSETS						Revenue	10,024	10,245	10,658	10,938	11,243
Cash & cash equivalents	1,583	1,184	2,363	3,296	4,414	COGS	(3,762)	(3,867)	(4,003)	(4,118)	(4,236)
Accounts receivable	134	129	127	143	145	Gross profit	6,262	6,378	6,655	6,819	7,007
Inventories - net	1,005	1,291	1,338	1,377	1,416	Operating expenses	(3,885)	(4,811)	(4,235)	(4,392)	(4,583)
Current assets - others	251	410	300	340	372	Operating profit	2,377	1,567	2,420	2,427	2,424
Total Current Assets	2,974	3,014	4,127	5,156	6,347	EBITDA	2,670	1,875	2,718	2,732	2,734
Plant, Property, Equipment	974	1,249	1,159	1,091	1,032	Finance income	38	40	37	39	39
Long Term Rent	366	375	390	400	411	Finance cost	(18)	(31)	-	-	-
Noncurrent Assets - Others	1,114	398	716	792	668	Other income (expenses)	-	-	-	-	-
Total noncurrent Assets	2,454	2,022	2,265	2,283	2,112	Total other income/(expenses)	20	8	37	39	39
TOTAL ASSETS	5,427	5,036	6,392	7,439	8,459	Income before tax	2,396	1,575	2,457	2,465	2,463
LIABILITIES & EQUITY						Tax expense	(489)	(478)	(614)	(616)	(616)
Accounts Payable	1,645	1,698	1,758	1,809	1,860	Net profit before minority interest	1,907	1,097	1,843	1,849	1,847
Tax payable	67	71	61	71	72	Minority interest	-	-	-	-	-
Other current liabilities	899	970	975	1,006	1,042	Net profit	1,907	1,097	1,843	1,849	1,847
Current maturities - Bank Loan	-	-	-	-	-	EPS (Rp)	654	377	634	636	635
Total Current Liabilities	2,611	2,740	2,794	2,885	2,974	KEY FINANCIAL RATIOS	2017A	2018A	2019F	2020F	2021F
Bank Loan	-	-	-	-	-	Growth (%)					
Other noncurrent liabilities	489	481	489	516	525	Sales	1.3	2	4	2.6	2.8
Total Non-Current Liabilities	489	481	489	516	525	Gross profit	0.8	2	4	2.5	2.8
Capital Stock & Paid-in Capital	(3,185)	(3,185)	(3,185)	(3,185)	(3,185)	Operating Profit	(6.2)	(34)	54	0.3	(0.1)
Others	-	(324)	(324)	(324)	(324)	EBITDA	(4.5)	(29.8)	45.0	0.5	0.0
Retained earnings	5,513	5,324	6,619	7,546	8,469	Net Profit	(5.6)	(42.5)	67.9	0.3	(0.1)
Total Equity	2,328	1,816	3,110	4,038	4,960	Profitability (%)					
TOTAL LIABILITIES & EQUITY	5,427	5,036	6,392	7,439	8,459	Gross margin	62.5	62.3	62.4	62.3	62.3
CASH FLOW STATEMENT	2017A	2018A	2019F	2020F	2021F	Operating margin	23.7	15.3	22.7	22.2	21.6
Net profit	1,907	1,097	1,843	1,849	1,847	EBITDA margin	26.6	18.3	25.5	25.0	24.3
Depreciation & Amortization	293	308	298	306	310	Net Profit margin	19.0	10.7	17.3	16.9	16.4
Change in WC	(89)	(227)	15	(4)	11	ROA	37.1	21.0	32.2	26.7	23.2
Others	(26)	(155)	100	(30)	(31)	ROE	91.2	53.0	74.8	51.7	41.1
Net Operating Cash Flow	2,085	1,024	2,255	2,120	2,136	Solvency (x)					
Change in fixed assets - net	(287)	(584)	(208)	(237)	(251)	Current ratio	1.1	1.1	1.5	1.8	2.1
Others	(575)	707	(333)	(86)	112	Quick ratio	0.8	0.6	1.0	1.3	1.7
Net Investing Cash Flow	(862)	123	(541)	(324)	(139)	DER	-	-	-	-	-
Change in borrowings - net	-	-	-	-	-	EBITDA coverage	146.1	60.1	#DIV/0!	#DIV/0!	#DIV/0!
Change in equity	-	-	-	-	-	Net debt to equity	Net cash	Net cash	Net cash	Net cash	Net cash
Change in other liabilities	82	(260)	13	58	45						
Dividend payment	(1,414)	(1,335)	(549)	(921)	(925)						
Adjustment	(20)	49	-	-	-						
Net Financing Cash Flow	(1,353)	(1,546)	(536)	(863)	(879)						
Change in cash	(130)	(399)	1,178	933	1,118						
Cash at the beginning period	1,713	1,583	1,184	2,363	3,296						
Cash at the ending period	1,583	1,184	2,363	3,296	4,414						

Source: Company data and Lotus Andalan Research

Notes:

The definitions of Lotus Andalan Research for Investment Ratings:

- **BUY** : +15% and above, over the next 12 months
- **NEUTRAL** : -15% to +15%, over the next 12 months
- **SELL** : -15% and worse, over the next 12 months

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