

7 MARCH 2015

COMPANY UPDATE

BUY

STOCK INFORMATION

Bloomberg Code	RALS JJ
Sector	Retail
Current Price	Rp 755
Target Price	Rp 950
Upside/ Downside	28.5%
Share Out (bn shares)	7,096
Market Cap (Rp bn)	5,357
52 – w range (low-high)	Rp 705 – 1,430
52 – w average daily	Rp 1,011

PRICE CHART



Source: Bloomberg

SHAREHOLDER'S INFORMATION

PT Ramayana Makmursentosa	55,9 %
Public (below 5%)	40,5 %
Paulus Tumewu	3,6 %

Source: Company data

FRESHLY OPENED: THE FIRST 3 SPAR OUTLETS IN INDONESIA



Source: SPAR International 2013 Annual Report

PT RAMAYANA LESTARI SENTOSA TBK

(FINALLY!) SPAR LAUNCHING

AFTER BEING POSTPONED FROM LAST QUARTER, FINALLY RALS HAS OFFICIALLY OPENED SPAR, 3 OUTLETS AT ONCE LOCATED IN BOGOR, CIBITUNG, AND CIBINONG (WEST JAVA). THIS YEAR, THE COMPANY PLANS TO OPEN ANOTHER 12 SPAR STORES, FOCUSED IN GREATER JAKARTA AREA AND EAST JAVA, BY CONVERTING ITS EXISTING ROBINSON SUPERMARKET STORES.

An Attempt to Revamp the Supermarket

During this week's analyst meeting, we were given a virtual tour and we see a more exciting concept and better ambiance that SPAR delivers, a fresh modern market with convenience, such as fresh fruit, vegetables, and meat; in-store bakery; health and beauty zone; play area for children; coffee shop and mini-restaurant inside the store that could accommodate up to 40 pax. The company also offers loyalty card to attract customers to accumulate points in exchange for discounts. RALS is confident that the cooperation with SPAR will be fruitful given the strong reputation of SPAR with worldwide operations, and it aims an aggressive target of +2.5% gross margin expansion and +30% annual growth from the business. One strategy to achieve the gross margin expansion and more foot traffic, the company will increase the portion of fresh product and food sales from 11% to 25% and 37% to 40% of each store, respectively. Within the next 3 years the company plans to open 30-50 new SPAR outlets, mostly by renovating its existing Robinson stores. With this new concept, the company will enter the low-middle consumer segment, while its department store business still targeting the low segment. In our view, in the first 3 years it will need to commit with higher opex, especially in adapting to new brand, image, system, promotions, as well as human resources trainings. We think the company will be able to turnaround its supermarket business, however, we do not expect a "booming" effect on the brand since it will compete with well-known competitors such as Hero, Carrefour, Hypermart, Giant, Lotte Mart, etc.

One Step at a Time

This year, instead of setting an aggressive expansion for its Ramayana department store, the company will focus more on the development of SPAR, in which the company will convert another 12 Robinson outlets into SPAR that require around Rp3 million/sqm. Furthermore, the company said that it will open only a couple of new store this year in total of 50k sqm (gross) in Java Area for both department store and supermarket and prepare capex attaining to Rp450 billion, all funded by internal cash.

Result Update

While the FY14 audited result will be published by the end of this month, the company reported that the estimated FY14 sales was amounted to Rp7,941 billion (99.1% of our estimates) along with total gross space of 988.787 sqm, as 2 of its store in Lamongan (-3.432 sqm) and Pamulang (-1.553 sqm) have been closed. As of January 2015, the company reported a total sales of Rp518.5 billion (6.0% our FY15 estimates), with national SSSG of -5.5% YoY.

Upgrade to BUY (from NEUTRAL) recommendation – Fair Value Rp 950 per share

We maintain our target price of Rp950/ share, BUY recommendation for the stock. At yesterday's closing price, RALS was trading at 10.3x PER 2015F and 4.6x EV/EBITDA 2015F.

Financial Summary

(Rp billion)	2012A	2013A	2014F	2015F	2016F
Gross sales	7,453.6	7,968.5	8,012.5	8,609.3	9,673.0
Revenue	5,699.7	6,000.8	5,734.8	6,366.5	7,151.6
EBITDA	618.6	580.5	622.0	837.2	983.6
Net profit	423.7	390.5	355.5	518.5	632.0
EPS (Rp)	59.7	55.0	50.1	73.1	89.1
PER (x)	18.9	19.3	15.8	10.3	8.5
BVPS (Rp)	428.7	453.4	476.5	524.1	576.4
PBV (x)	2.6	2.3	1.7	1.4	1.3
EV/EBITDA (x)	10.8	10.8	7.0	4.6	3.6
Dividend yield (%)	2.7%	2.8%	3.5%	3.3%	4.9%
RoE (%)	14.4	12.5	10.8	14.6	16.2

Source: Company data and Lautandhana Research

As a strategy to increase daily foot traffic, SPAR increases the portion of fresh products and food sales

Robinson vs SPAR Supermarket model			
	Robinson	SPAR Indonesia	SPAR Europe
Fresh products	11%	25%	40%
Dry food and drinks	37%	40%	45%
Toiletries	30%	22.5%	10%
Non-food	22%	12.5%	5%

Source: Company presentation

The increasing portion of fresh and food sales also contributed the largest to the total of supermarket gross margin (4.5% and 3%, respectively)

Merchandising and margin mix			
	Sales share (%)	Margin (%)	Contribution
Toys	2%	25%	0.50%
Stationary	1%	25%	0.25%
Bed and bath	2%	25%	0.50%
Household	3%	25%	0.75%
Electronics	3%	25%	0.75%
Toiletries	19%	15%	2.85%
Food	30%	15%	4.50%
Drinks	15%	13%	1.95%
Fresh product	25%	12%	3.00%
	100%		15.05%

Source: Company presentation

What's inside the store



Source: Company presentation

With the new concept, the company offers loyalty card program in exchange of product discounts, shopping points, merchant discounts, and updates for members activity, in order to attract repeat customers.

Loyalty card program



Source: Company presentation

FINANCIAL HIGHLIGHTS OF PT RAMAYANA LESTARI SENTOSA, TBK

In Rp Billion											
BALANCE SHEET	2012A	2013A	2014F	2015F	2016F	INCOME STATEMENT	2012A	2013A	2014F	2015F	2016F
ASSETS						Revenue	5,700	6,001	5,735	6,367	7,152
Cash & cash equivalents	1,322	1,272	1,231	1,508	1,777	COGS	(3,725)	(3,861)	(3,650)	(3,934)	(4,411)
Accounts Receivable	10	20	16	17	20	Gross profit	1,975	2,140	2,084	2,432	2,740
Inventories - net	763	872	800	862	967	Operating expenses	(1,529)	(1,737)	(1,724)	(1,886)	(2,073)
Other current assets	224	210	274	259	295	Operating profit	446	403	360	546	667
Total Current Assets	2,319	2,375	2,322	2,647	3,058	EBITDA	619	580	622	837	984
Deferred tax asset	6	10	5	8	9	Financial income	48	55	56	62	74
Fixed asset & long term rent	1,712	1,949	2,063	2,165	2,256	Total other income/(expenses)	48	55	56	62	74
Other financial assets - non-current	7	13	10	10	11	Income before tax	495	458	417	608	741
Non Current Assets - Others	30	32	31	34	38	Tax expense	(71)	(67)	(61)	(89)	(109)
Total Non Current Assets	1,754	2,004	2,109	2,216	2,314	Net profit before minority interest	424	391	355	519	632
TOTAL ASSETS	4,073	4,379	4,431	4,863	5,372	Minority interest	-	-	-	-	-
						Net profit	424	391	355	519	632
LIABILITIES & EQUITY						EPS (Rp)	60	55	50	73	89
Accounts Payable	774	895	800	862	967						
Tax payable	64	34	49	54	54	KEY FINANCIAL RATIOS	2012A	2013A	2014F	2015F	2016F
Accrued expenses	34	34	32	37	41	Growth (%)					
Total Current Liabilities	872	963	881	953	1,062	Gross sales	13.0	6.9	0.6	7.4	12.4
Post-Employment Benefit	160	198	168	192	220	Revenue	12.1	5.3	(4.4)	11.0	12.3
Deferred Tax Liabilities	-	-	-	-	-	Gross profit	11.5	8.4	(2.6)	16.7	12.7
Total Non Current Liabilities	160	198	168	192	220	Operating Profit	18.2	(9.7)	(10.6)	51.6	22.1
Minority Interest						EBITDA	13.0	(6.2)	7.2	34.6	17.5
Capital Stock & Paid-in Capital	472	472	472	472	472	Net Profit	12.2	(7.8)	(9.0)	45.9	21.9
Other comprehensive income	(6)	(8)	(3)	(6)	(6)	Profitability (%)					
Retained earnings	2,576	2,753	2,913	3,252	3,624	Gross margin	34.7	35.7	36.3	38.2	38.3
Total Equity	3,042	3,217	3,381	3,719	4,090	Operating margin	7.8	6.7	6.3	8.6	9.3
TOTAL LIABILITIES & EQUITY	4,073	4,379	4,431	4,863	5,372	EBITDA margin	10.9	9.7	10.8	13.1	13.8
						Net Profit margin	7.4	6.5	6.2	8.1	8.8
CASH FLOW STATEMENT	2012A	2013A	2014F	2015F	2016F	ROA	10.8	9.2	8.1	11.2	12.3
Net profit	424	391	355	519	632	ROE	14.4	12.5	10.8	14.6	16.2
Depreciation & Amortization	172	177	262	291	317	Solvency (x)					
Change in WC	26	2	(18)	(2)	(2)	Current ratio	2.7	2.5	2.6	2.8	2.9
Others	154	(15)	(51)	24	(31)	Quick ratio	1.8	1.6	1.7	1.9	2.0
Net Operating Cash Flow	776	555	548	832	916	DER	-	-	-	-	-
Change in fixed assets - net	(298)	(414)	(375)	(393)	(408)	EBITDA coverage	-	-	-	-	-
Others	(3)	(13)	9	(5)	(7)	Net debt to equity	Net cash	Net cash	Net cash	Net cash	Net cash
Net Investing Cash Flow	(300)	(427)	(367)	(398)	(415)						
Change in borrowings - net	-	-	-	-	-						
Change in equity	-	-	-	-	-						
Change in other liabilities	12	36	(25)	21	29						
Dividend payment	(213)	(213)	(196)	(179)	(260)						
Adjustment	-	-	-	-	-						
Net Financing Cash Flow	(200)	(177)	(222)	(157)	(232)						
Change in cash	275	(50)	(41)	277	269						
Cash at the beginning period	1,047	1,322	1,272	1,231	1,508						
Cash at the ending period	1,322	1,272	1,231	1,508	1,777						

Source: Company data and Lautandhana Research

Notes:

The definitions of Lautandhana 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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