

PT HERO TBK

Looks Promising by Recent IKEA Acquisition

NEUTRAL

Indonesian middle class has swollen from 50 million in 2003 to 131 million as at Dec 2011, whilst GDP per capita has tripled over the same period (see table 1). Recent McKinsey report highlights Indonesia's expanding class of consumers with significant purchasing power which is defined as consuming class will double by 2030. The addition of significant number of people to Indonesia's consuming class with considerable discretionary expenditure is huge opportunity. Therefore it will spur retailer's sales growth, especially those who could survive through the tight market penetration and competition.

HERO is one of the largest modern retail stores in Indonesia comprised of large format retailing stores, Giant and Hero, and specialty stores, Starmart and Guardian. Each brand has different market segmentation, for instance Hero supermarket is aiming to serve middle high-class, while Giant serves middle-low class. Guardian, engages in modern pharmacies and health and beauty stores, and Starmart are the fast-growing company's specialty stores brand, marked by increased stores number by 9.4% year to date. Basically, main company's operation was located in Java, but as our point view based on number of stores in Kalimantan and Papua, we thought that East Indonesia still has ample room for modern retail store to grow, especially mentioning fewer number of competitors and cheap land prices. With the absent of competitor, HERO's way to penetrate the market will be much easier.

Hero has strong potential to become a growth stock supported by acquisition of IKEA brand recently. Ikea, one of globally-known furniture brand was expected to spur HERO's sales growth as the new store opening in 2014. While the new store will be located in Alam Sutera, Tangerang, it could probably penetrate Jabodetabek's market as most of the products are flat-packed with instructions to assemble it at home. Yet the management team also indicated that new store would have a totally different concept compared with other IKEA stores thus we expected people will be enticed to visit the store. But, due to lack of guideline from the company, we maintain neutral stance for the time being.

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Stock Data

Sector	Retail
Price	3,450
Ticker	HERO.IJ (BBG)
Market Cap	IDR 13,177 Bn
Shares Outstanding	3,294 mn

HERO Performance



Source: www.corporateinformation.com

	2008	2009	2010	2011	3Q12
Revenues	5,864	6,653	7,667	8,952	7,830
EBIT	212	285	355	426	320
Net Income	97	172	222	274	222
EPS	29	52	67	83	67
Net DPS	0	0	0	0	0

In bn IDR except per share data; Source: Bloomberg, Company data, Sinarmas Sekuritas Research

Profitability	2008	2009	2010	2011	3Q12
Gross Margin%	23	24	23	24	23
EBIT Margin%	4	4	5	5	4
EBITDA Margin%	6	7	7	7	7
Net Dividend Yield		0	0	0	0

Source: Bloomberg, Company data, Sinarmas Sekuritas Research

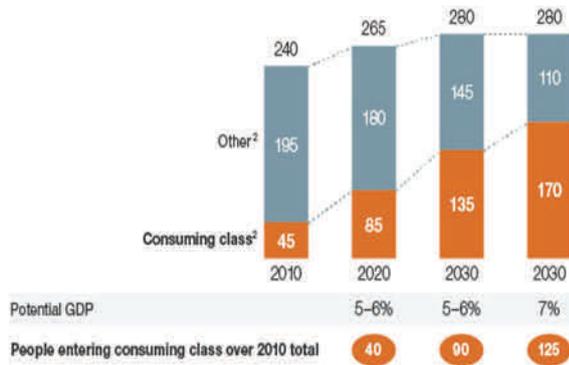
Top Holders

Murgrave Corp B.V.	94.28%
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Source: Bloomberg

Table 1: Indonesian population growth

Indonesia's population by income level, millions of people¹



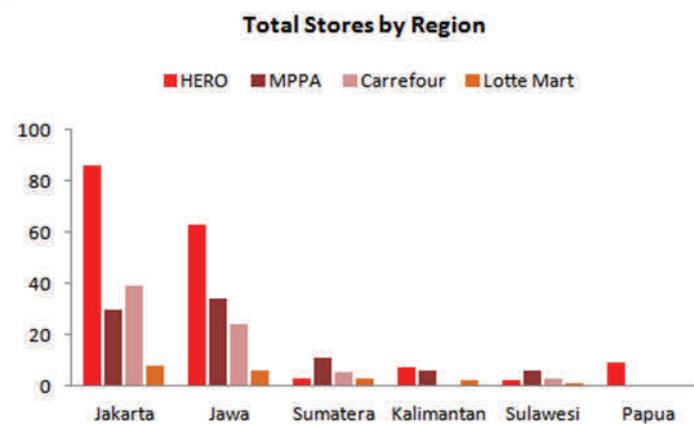
Source: McKinsey

Table 2: HERO's stores number growth



Source: Company Data, Sinarmas Sekuritas Research

Table 3: Total Stores per Retailer by Region



Source: Company Data, Sinarmas Sekuritas Research

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