

PT Matahari Department Store Tbk.

Higher ASP Supports Lebaran Performance



NEUTRAL (TP: IDR 4,200)

31 July 2019

Flat top-line growth, with lower GPM due to product mix. LPPF recorded a well-expected 1H19 performance in which net revenue was posted at IDR 5.95 tn (+0.6% YoY), and bottom line came in at IDR 1.16 tn (-14.1% YoY). This brings 2Q19 net sales amounting to IDR 4.02 tn (+1.7% YoY) and net profit of IDR 1.02 tn (-8.8% YoY). SSSG grew along with revenue figures (2Q19: +1.7%; 6M19: +0.6%), though there were 3 net store openings during 2Q19 (1 large format, 2 361° stand-alone stores). The sales growth was mainly contributed by ASP increases (+6.3% YoY) which offset weak volume (-5.4% YoY). Region-wise, outside Java area delivered the best performance with +2.6% SSSG, while Jakarta and Java areas managed to result in 0.7% and 1.4% of SSSG respectively. On the margins side, gross margin declined by 95 bps (63% in 2Q19/63.9% in 2Q18) on the back of lower DP products contribution to overall sales (35% in 2Q19 vs 37% in 2Q18). Rent costs, in addition, burdened the company at the operating level given its relatively high growth (6M19: +6.2% YoY). On the other hand, we see stabilizing marketing expense amidst plenty rebranding activities that the company has in plans.

Update on LPPF's revamping initiatives. Matahari has been focusing on promoting its exclusively-partnered products, starting from Disney, 361°, to newly launched OVS. This is paired with continuous development on its matahari.com platform which focuses on offering LPPF's DP products. Based on our observation, there seems to be moderate enthusiasm towards some of the key improvement aspects. These rollouts, however, have yet to translate into significant sales contribution. Going ahead, LPPF would continue to work on bringing new exclusive brand partnership as an effort to improve the company's brand portfolio and store productivity as well as developing omni-channel sales.

Within our model, we slightly adjust LPPF's DP/CV mix which resulted in 30bps lower gross margin, while maintaining other drivers intact. We continue to see intense competition on the middle-class fashion retailers and still aggressive online sales penetration to restrain the company's ability to significantly drive revenue higher. This hampers the company's bottom-line figure given limited improvement in gross margin and high growing operating costs. **We maintain our NEUTRAL recommendation on LPPF with lower TP of IDR 4,200, implying 7.1x FY20F P/E as we price in lower multiple to the stock.**

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Stock Information

Sector	Retail
Bloomberg Ticker	LPPF IJ
Market Cap. (IDR tn)	10.771
Share Out./Float (mn)	2,805/2,295
Current Price	3,840
FY19F Target Price	4,200
Upside	8.3%

Share Price Performance

52W High (03/19/19)	9,575
52W Low (05/09/18)	3,220
52W Beta	0.77
YTD Change	-31.4%

Relative Valuations

Trailing P/E	12.0
Forward P/E	6.6
P/BV	6.0

Highlights (IDR Bn)	2017	2018	2019E	2020F	2021F
Net Revenue	10,024	10,245	10,478	10,687	10,873
% growth	1.3%	2.2%	2.3%	2.0%	1.7%
Gross Profit	6,262	6,378	6,497	6,631	6,750
Net Profit	1,907	1,097	1,739	1,705	1,673
Core Profit	1,907	1,867	1,739	1,705	1,673
% growth	-5.6%	-2.1%	-6.9%	-1.9%	-1.9%
Gross Margin (%)	62.5%	62.3%	62.0%	62.0%	62.1%
Net Margin (%)	19.0%	10.7%	16.6%	16.0%	15.4%
Return on Equity (%)	91.2%	53.0%	85.5%	69.2%	58.0%
Return on Assets (%)	37.1%	35.7%	33.0%	29.7%	26.9%
EPS	646	376	595	584	573

LPPF 2Q19 Earnings Summary

IDR bn	2Q18	1Q19	2Q19	%QoQ	%YoY	6M18	6M19	%YoY	% DH	% Cons
Net Revenues	3,954	1,927	4,023	108.7%	1.7%	5,915	5,950	0.6%	57%	57%
COGS	(1,425)	(732)	(1,489)	103.4%	4.4%	(2,164)	(2,221)	2.6%		
Gross Profit	2,528	1,195	2,534	112.0%	0.2%	3,751	3,730	-0.6%		
Operating Profit	1,385	184	1,301	607.0%	-6.1%	1,688	1,485	-12.0%		
Net Income	1,098	143	1,019	615.4%	-7.2%	1,345	1,162	-13.6%	67%	69%
Gross Margin	63.9%	62.0%	63.0%			63.4%	62.7%			
Operating Margin	35.0%	9.5%	32.3%			28.5%	25.0%			
Opex to Sales	28.9%	52.5%	30.8%			35.2%	37.8%			
Net Margin	27.8%	7.4%	25.3%			22.7%	19.5%			

Source: Company Data, Sinarmas Investment Research

Income Statement (IDR Bn)	2017	2018	2019E	2020F	2020F
Revenue	10,024	10,245	10,478	10,687	10,873
Cost of Revenue	(3,762)	(3,867)	(3,981)	(4,057)	(4,123)
Gross Profit	6,262	6,378	6,497	6,631	6,750
% growth	0.8%	1.9%	1.9%	2.1%	1.8%
Operating Expenses	(3,853)	(4,048)	(4,329)	(4,505)	(4,664)
Opex to Sales (%)	38.4%	39.5%	41.3%	42.1%	42.9%
EBITDA	2,690	1,884	2,500	2,464	2,429
% growth	-3.7%	-30.0%	32.7%	-1.4%	-1.4%
EBT	2,396	1,575	2,185	2,142	2,102
% growth	-5.4%	-34.3%	38.7%	-1.9%	-1.9%
Tax	(489)	(478)	(446)	(437)	(429)
Net Profit	1,907	1,097	1,739	1,705	1,673
Core Profit	1,907	1,867	1,739	1,705	1,673
% growth	-5.6%	-2.1%	-6.9%	-1.9%	-1.9%

Balance Sheet (IDR Bn)	2017	2018	2019E	2020F	2020F
Cash and Cash Equivalent	1,583	1,184	1,919	2,574	3,253
Trade Receivables	134	129	140	143	146
Inventories	1,005	1,291	1,046	1,067	1,085
Other Current Assets	251	410	326	330	334
Total Current Assets	2,974	3,014	3,431	4,113	4,818
Fixed Assets	974	1,249	1,317	1,111	869
Other Non Current Assets	1,480	773	742	757	770
Total Assets	5,427	5,036	5,490	5,981	6,457
Trade Payables	1,645	1,698	1,719	1,753	1,784
Bank Loans	-	-	-	-	-
Other Current Liabilities	966	1,042	1,010	1,030	1,048
Total Current Liabilities	2,611	2,740	2,729	2,784	2,832
Other Non Current Liabilities	489	481	511	521	530
Total Liabilities	3,099	3,221	3,240	3,305	3,362
Share & APIC	582	582	582	582	582
Retained Earnings	5,513	5,324	5,759	6,185	6,604
Non Controlling Interest	-	-	-	-	-
Other Components of Equity	(3,767)	(4,091)	(4,091)	(4,091)	(4,091)
Total Equity	2,328	1,816	2,250	2,677	3,095
Total Equity & Liabilities	5,427	5,036	5,490	5,981	6,457

Source: Company Data, Sinarmas Investment Research

Cash Flow (IDR Bn)	2017	2018	2019E	2020F	2020F
Net Income	1,907	1,097	1,739	1,705	1,673
Depreciation	254	235	646	526	567
Chg. in NWC	99	248	(280)	(13)	(11)
Chg. in Other CT Assets	(62)	(152)	78	(4)	(3)
Chg. in Other CT Liabilities	53	89	(51)	18	16
CF from Operating	2,054	1,022	2,692	2,258	2,264
Capital Expenditure	248	511	714	319	326
Chg. in LT Assets	575	(707)	(30)	15	13
Chg in LT Liabilities	73	(8)	30	10	9
CF from Investing	(749)	189	(653)	(324)	(330)
Chg. in Share & APIC	-	-	-	-	-
Chg. in Debt	-	-	-	-	-
Dividends Paid	1,434	1,286	1,304	1,279	1,255
Others	0	(324)	0	0	0
CF from Financing	(1,434)	(1,609)	(1,304)	(1,279)	(1,255)
Change in Cash	(130)	(399)	735	655	679
Beginning Cash	1,713	1,583	1,184	1,919	2,574
Ending Cash	1,583	1,184	1,919	2,574	3,253

Financial Ratio	2017	2018	2019E	2020F	2020F
Profitability					
ROE	91.2%	53.0%	85.5%	69.2%	58.0%
ROA	37.1%	35.7%	33.0%	29.7%	26.9%
Gross Margin	35.8%	35.7%	35.6%	35.6%	35.6%
Operating Margin	23.7%	15.3%	20.8%	20.0%	19.2%
EBITDA Margin	26.8%	18.4%	23.9%	23.1%	22.3%
Liquidity & Solvency					
Current Ratio	1.1	1.1	1.3	1.5	1.7
Debt to Equity	-	-	-	-	-
Debt to Assets	-	-	-	-	-
Valuation					
Price to Earning (PE)	6.5	11.1	7.0	7.2	7.3
Price to Book (PBV)	5.3	6.7	5.4	4.6	4.0

Key Assumptions	2017	2018	2019E	2020F	2020F
Combined SSSG	-1.2%	3.5%	1.0%	1.5%	1.5%
Number of Stores	163	167	170	172	173
Receivable Days	4	5	5	5	5
Payable Days	60	60	60	59	59
Inventory Days	36	41	41	36	36
Cash Conversion Cycle	-20	-14	-14	-18	-18

Source: Company Data, Sinarmas Investment Research

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