

**3Q19 review.** LPPF recorded a sluggish 3Q19 performance as sales remained weak while margin was pressured by sales discounts to clear up inventories. Net revenue was recorded at IDR 3.3tn, relatively flat as seen through +0.7% YoY net revenues and +0.1% SSSG in the quarter. Gross margin significantly dropped by 890bps to 54.1% level due to aggressive clearance sales for its direct purchase goods as the company wants to renew its inventory units. Consequently, DP margin declined to 29.3% from 41.6% in 2Q19, while consignment margin was stable at 30.8%. Opex grew by 4.9% YoY (53% to sales), while finance costs increased by 173% YoY. As a result, bottom-line stood at IDR 24.6bn (-89.9% YoY).

**Recent store traffic.** The company has opened one 361° store in Medan, and two OVS specialty stores in Jakarta. However, these stores have yet to materialize into sales improvement for the company as the new brands still have low brand awareness amongst Indonesians. Region-wise, 3Q19 SSSG was quite good in outside Java (+2.7%), while Jakarta and Java area each reported 1.9% and 1.3% decline in SSSG. This seems to be caused by intense competition from offline and online fashion players in the Java region. On the other side, the company experienced improving demands from its online sales as it saw higher basket size per transaction.

**Future outlook.** Going forward, LPPF expects to close down two stores which have been underperformed for a while, both are located in Jakarta, though impact is likely to be minimum. Meanwhile, it plans to open up two other mono-brand stores and two large format ones and continue to explore potential exclusive brands partnership. Management expects that pressure on margins to continue in 4Q19 as the clearance season remains and would begin to recover in 1Q20. Given the sluggish 9M19 performance, we tone down our SSSG assumption to 0.5% (vs 1% previously), while keeping FY20F's SSSG estimate intact. In addition, LPPF seeks to improve its current inventory and supply chain management, as it expects to minimize expenses on the operating level.

**We maintain our NEUTRAL recommendation on LPPF with lower TP of IDR 4,100 which implies 8.2x FY20F P/E.** We continue to see challenging environment for the company as indicated by its soft sales volume despite of the inventory clearance occurred in 3Q19. Upside risk to our call is the potential M&A deals which might lead to positive sentiment for the share price.

Highlights (IDR Bn)	2017	2018	2019E	2020F	2021F
Net Revenue	10,024	10,245	10,391	10,526	10,647
% growth	1.3%	2.2%	1.4%	1.3%	1.1%
Gross Profit	6,262	6,378	6,150	6,398	6,609
Net Profit	1,907	1,097	1,400	1,469	1,519
Core Profit	1,907	1,867	1,400	1,469	1,519
% growth	-5.6%	-2.1%	-25.0%	5.0%	3.4%
Gross Margin (%)	62.5%	62.3%	59.2%	60.8%	62.1%
Net Margin (%)	19.0%	10.7%	13.5%	14.0%	14.3%
Return on Equity (%)	91.2%	53.0%	66.5%	56.5%	50.3%
Return on Assets (%)	37.1%	35.7%	27.7%	27.8%	26.5%
EPS	646	376	479	503	520

**Paulina**

Equity Analyst

+62 21 392 5550 ext. 610

[paulina@sinarmassekuritas.co.id](mailto:paulina@sinarmassekuritas.co.id)**Stock Information**

Sector	Retail
Bloomberg Ticker	LPPF IJ
Market Cap. (IDR tn)	10.5
Share Out./Float (mn)	2.8/2.3
Current Price	3,760
FY20F Target Price	4,100
Upside	9.0%

**Share Price Performance**

52W High (01/28/19)	7,325
52W Low (08/27/18)	2,940
52W Beta	0.79
YTD Change	-32.9%

**Relative Valuations**

Trailing P/E	11.7x
Forward P/E	8.1x
P/BV	5.8x

**LPPF 3Q19 Earnings Summary**

<b>IDR bn</b>	<b>3Q18</b>	<b>2Q19</b>	<b>3Q19</b>	<b>%QoQ</b>	<b>%YoY</b>	<b>9M18</b>	<b>9M19</b>	<b>%YoY</b>	<b>% DH</b>	<b>% Cons</b>
<b>Net Revenues</b>	<b>1,862</b>	<b>4,023</b>	<b>1,880</b>	-53.3%	0.9%	<b>7,778</b>	<b>7,830</b>	0.7%	<b>75%</b>	<b>75%</b>
<b>COGS</b>	<b>(728)</b>	<b>(1,489)</b>	<b>(862)</b>	-42.1%	18.5%	<b>(2,892)</b>	<b>(3,083)</b>	6.6%		
<b>Gross Profit</b>	<b>1,134</b>	<b>2,534</b>	<b>1,017</b>	-59.9%	-10.3%	<b>4,886</b>	<b>4,747</b>	-2.8%		
<b>Operating Profit</b>	<b>184</b>	<b>1,301</b>	<b>40</b>	-96.9%	-78.2%	<b>1,872</b>	<b>1,525</b>	-18.5%		
<b>Net Income</b>	<b>151</b>	<b>1,019</b>	<b>25</b>	-97.6%	-83.7%	<b>1,496</b>	<b>1,187</b>	-20.7%	<b>85%</b>	<b>74%</b>
<b>Gross Margin</b>	<b>60.9%</b>	<b>63.0%</b>	<b>54.1%</b>			<b>62.8%</b>	<b>60.6%</b>			
<b>Operating Margin</b>	<b>9.9%</b>	<b>32.3%</b>	<b>2.1%</b>			<b>24.1%</b>	<b>19.5%</b>			
<b>Opex to Sales</b>	<b>50.9%</b>	<b>30.8%</b>	<b>52.9%</b>			<b>38.9%</b>	<b>41.4%</b>			
<b>Net Margin</b>	<b>8.1%</b>	<b>25.3%</b>	<b>1.3%</b>			<b>19.2%</b>	<b>15.2%</b>			

Source: Company Data, Sinarmas Investment Research

<b>Income Statement (IDR Bn)</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>	<b>2020F</b>	<b>2020F</b>
<b>Revenue</b>	<b>10,024</b>	<b>10,245</b>	<b>10,391</b>	<b>10,526</b>	<b>10,647</b>
Cost of Revenue	(3,762)	(3,867)	(4,241)	(4,128)	(4,037)
<b>Gross Profit</b>	<b>6,262</b>	<b>6,378</b>	<b>6,150</b>	<b>6,398</b>	<b>6,609</b>
% growth	0.8%	1.9%	-3.6%	4.0%	3.3%
Operating Expenses	(3,853)	(4,048)	(4,299)	(4,455)	(4,600)
Opex to Sales (%)	38.4%	39.5%	41.4%	42.3%	43.2%
<b>EBITDA</b>	<b>2,690</b>	<b>1,884</b>	<b>2,179</b>	<b>2,276</b>	<b>2,346</b>
% growth	-3.7%	-30.0%	15.7%	4.4%	3.1%
<b>EBT</b>	<b>2,396</b>	<b>1,575</b>	<b>1,866</b>	<b>1,959</b>	<b>2,025</b>
% growth	-5.4%	-34.3%	18.5%	5.0%	3.4%
Tax	(489)	(478)	(467)	(490)	(506)
<b>Net Profit</b>	<b>1,907</b>	<b>1,097</b>	<b>1,400</b>	<b>1,469</b>	<b>1,519</b>
<b>Core Profit</b>	<b>1,907</b>	<b>1,867</b>	<b>1,400</b>	<b>1,469</b>	<b>1,519</b>
% growth	-5.6%	-2.1%	-25.0%	5.0%	3.4%

<b>Balance Sheet (IDR Bn)</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>	<b>2020F</b>	<b>2020F</b>
Cash and Cash Equivalent	1,583	1,184	840	1,259	1,695
Trade Receivables	134	129	139	141	143
Inventories	1,005	1,291	1,222	1,238	1,253
Other Current Assets	251	410	443	447	451
<b>Total Current Assets</b>	<b>2,974</b>	<b>3,014</b>	<b>2,645</b>	<b>3,086</b>	<b>3,541</b>
Fixed Assets	974	1,249	1,674	1,678	1,661
Other Non Current Assets	1,480	773	736	746	754
<b>Total Assets</b>	<b>5,427</b>	<b>5,036</b>	<b>5,055</b>	<b>5,509</b>	<b>5,957</b>
Trade Payables	1,645	1,698	1,155	1,170	1,183
Bank Loans	-	-	-	-	-
Other Current Liabilities	966	1,042	1,002	1,015	1,026
<b>Total Current Liabilities</b>	<b>2,611</b>	<b>2,740</b>	<b>2,156</b>	<b>2,184</b>	<b>2,209</b>
Other Non Current Liabilities	489	481	506	513	519
<b>Total Liabilities</b>	<b>3,099</b>	<b>3,221</b>	<b>2,663</b>	<b>2,697</b>	<b>2,728</b>
Share & APIC	582	582	582	582	582
Retained Earnings	5,513	5,324	5,901	6,320	6,738
Non Controlling Interest	-	-	-	-	-
Other Components of Equity	(3,767)	(4,091)	(4,091)	(4,091)	(4,091)
<b>Total Equity</b>	<b>2,328</b>	<b>1,816</b>	<b>2,392</b>	<b>2,812</b>	<b>3,229</b>
<b>Total Equity &amp; Liabilities</b>	<b>5,427</b>	<b>5,036</b>	<b>5,055</b>	<b>5,509</b>	<b>5,957</b>

Source: Company Data, Sinarmas Investment Research

Cash Flow (IDR Bn)	2017	2018	2019E	2020F	2020F
<b>Net Income</b>	<b>1,907</b>	<b>1,097</b>	<b>1,400</b>	<b>1,469</b>	<b>1,519</b>
Depreciation	254	235	289	313	337
Chg. in NWC	99	248	461	1	1
Chg. in Other CT Assets	(62)	(152)	(39)	(4)	(4)
Chg. in Other CT Liabilities	53	89	(58)	11	10
<b>CF from Operating</b>	<b>2,054</b>	<b>1,022</b>	<b>1,131</b>	<b>1,788</b>	<b>1,861</b>
Capital Expenditure	248	511	714	317	321
Chg. in LT Assets	575	(707)	(37)	10	9
Chg in LT Liabilities	73	(8)	26	7	6
<b>CF from Investing</b>	<b>(749)</b>	<b>189</b>	<b>(651)</b>	<b>(320)</b>	<b>(324)</b>
Chg. in Share & APIC	-	-	-	-	-
Chg. in Debt	-	-	-	-	-
Dividends Paid	1,434	1,286	823	1,050	1,102
Others	0	(324)	0	0	0
<b>CF from Financing</b>	<b>(1,434)</b>	<b>(1,609)</b>	<b>(823)</b>	<b>(1,050)</b>	<b>(1,102)</b>
Change in Cash	(130)	(399)	(344)	419	436
Beginning Cash	1,713	1,583	1,184	840	1,259
<b>Ending Cash</b>	<b>1,583</b>	<b>1,184</b>	<b>840</b>	<b>1,259</b>	<b>1,695</b>

Financial Ratio	2017	2018	2019E	2020F	2020F
<b>Profitability</b>					
ROE	91.2%	53.0%	66.5%	56.5%	50.3%
ROA	37.1%	35.7%	27.7%	27.8%	26.5%
Gross Margin	35.8%	35.7%	34.0%	34.9%	35.6%
Operating Margin	23.7%	15.3%	17.9%	18.5%	18.9%
EBITDA Margin	26.8%	18.4%	21.0%	21.6%	22.0%
<b>Liquidity &amp; Solvency</b>					
Current Ratio	1.1	1.1	1.2	1.4	1.6
Debt to Equity	-	-	-	-	-
Debt to Assets	-	-	-	-	-
<b>Valuation</b>					
Price to Earning (PE)	6.4	11.0	8.6	8.2	7.9
Price to Book (PBV)	5.2	6.6	5.0	4.3	3.7

Key Assumptions	2017	2018	2019E	2020F	2020F
Combined SSSG	-1.2%	3.5%	0.5%	1.0%	1.0%
Number of Stores	163	167	171	173	174
Receivable Days	4	5	5	5	5
Payable Days	60	60	50	40	40
Inventory Days	36	41	44	43	43
Cash Conversion Cycle	-20	-14	-1	7	7

Source: Company Data, Sinarmas Investment Research

## SINARMAS SEKURITAS INVESTMENT RATINGS GUIDE

**BUY:** Share price may rise by more than 15% over the next 12 months.

**ADD:** Share price may range between 10% to 15% over the next 12 months.

**NEUTRAL:** Share price may range between -10% to +10% over the next 12 months.

**REDUCE:** Share price may range between -10% to -15% over the next 12 months.

**SELL:** Share price may fall by more than 15% over the next 12 months.

### DISCLAIMER

This report has been prepared by PT Sinarmas Sekuritas, an affiliate of Sinarmas Group.

This material is: (i) created based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such; (ii) for your private information, and we are not soliciting any action based upon it; (iii) not to be construed as an offer to sell or a solicitation of an offer to buy any security.

Opinions expressed are current opinions as of original publication date appearing on this material and the information, including the opinions contained herein, is subjected to change without notice. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst (s) responsible for the preparation of this publication may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, integrating and interpreting market information. Research will initiate, update and cease coverage solely at the discretion of Sinarmas Research department. If and as applicable, Sinarmas Sekuritas' investment banking relationships, investment banking and non-investment banking compensation and securities ownership, if any, are specified in disclaimers and related disclosures in this report. In addition, other members of Sinarmas Group may from time to time perform investment banking or other services (including acting as advisor, manager or lender) for, or solicit investment banking or other business from companies under our research coverage. Further, the Sinarmas Group, and/or its officers, directors and employees, including persons, without limitation, involved in the preparation or issuance of this material may, to the extent permitted by law and/or regulation, have long or short positions in, and buy or sell, the securities (including ownership by Sinarmas Group), or derivatives (including options) thereof, of companies under our coverage, or related securities or derivatives. In addition, the Sinarmas Group, including Sinarmas Sekuritas, may act as market maker and principal, willing to buy and sell certain of the securities of companies under our coverage. Further, the Sinarmas Group may buy and sell certain of the securities of companies under our coverage, as agent for its clients.

Investors should consider this report as only a single factor in making their investment decision and, as such, the report should not be viewed as identifying or suggesting all risks, direct or indirect, that may be associated with any investment decision. Recipients should not regard this report as substitute for exercise of their own judgment. Past performance is not necessarily a guide to future performance. The value of any investments may go down as well as up and you may not get back the full amount invested.

Sinarmas Sekuritas specifically prohibits the redistribution of this material in whole or in part without the written permission of Sinarmas Sekuritas and Sinarmas Sekuritas accepts no liability whatsoever for the actions of third parties in this respect. If publication has been distributed by electronic transmission, such as e-mail, then such transmission cannot be guaranteed to be secure or error-free as information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete, or contain viruses. The sender therefore does not accept liability for any errors or omissions in the contents of this publication, which may arise as a result of electronic transmission. If verification is required, please request a hard-copy version.

### Additional information is available upon request.

Images may depict objects or elements which are protected by third party copyright, trademarks and other intellectual properties.

©Sinarmas Sekuritas(2019). All rights reserved.