

Initiating Coverage

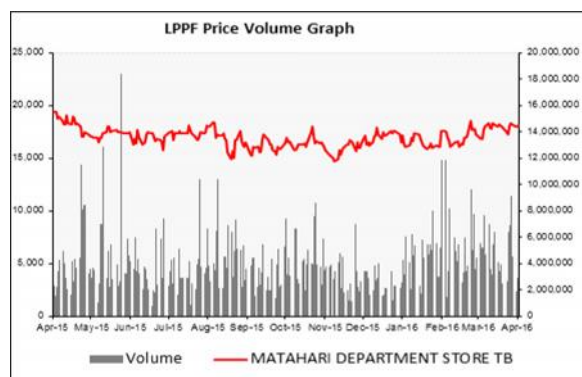
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PT Matahari Department Store Tbk (LPPF)
The King of Indonesian Department Stores
NEUTRAL


PT Matahari Department Store Tbk engages in the retail business for several types of products such as clothes, accessories, bags, shoes, cosmetics, household appliances, and management consulting services.

Current Price: IDR 18,050

52-Week Target Price: IDR 17,500



Neutral TP IDR 17,500/share. We initiate LPPF with Neutral rating with 52-week target price of IDR 17,500/share, mainly due to its premium valuation relatively to peers. However, for long-term investment purposes, we believe the company would continue to deliver outperformance among Indonesian retail business.

Superb Operator. The company is Indonesia's largest department store operator by retail sales value. The company has strong brands, a large store network across Indonesia and strong supply chain and logistic capabilities, in which we believe this company will continue to outperform among peers. Moreover, the company will be benefited from the growing middle income population as that is the company's market segment target.

Vast Distribution Network. As the company's stores are spread out all across Indonesia, the company has a major competitive advantage in logistic distribution compare to peers. Smaller competitors or new entrants would have difficulties to compete over the medium term.

Plenty Amount of Cash and Zero Debt Position. The company has strong and healthy balance sheet supported with its zero debt position. The company has fully repaid its bank term loan balance of IDR 700bn in December 2015. Furthermore, with plenty amount of internal cash of almost IDR 1tn as of 31 December 2015, the company has the flexibility to fund its future expansion plan.

FY16E and FY17F Performances Outlook. We estimate the company's overall performances will keep strong on the back of new store expansion, higher SSSG, low inflation rate, and recovery in both domestic economy and CCI. The company will booked IDR 9.37tn (+4% YoY) and IDR 10.39tn (+11% YoY) in FY16E and FY17 net revenues in respectively. Net profit will grow by 21% YoY to IDR 2.15tn in FY16E and by 15% YoY to IDR 2.47tn in FY17F.

Risks. Beside macro risks, the key downside risks are delays in execution of store expansion plans, competition with e-commerce.

Share Price Performance

Price (IDR)	18,050
52-Week High (05/08/15)	19,725
52-Week Low (12/14/15)	14,300
52-Week Beta	1.04
YTD Change/%	450 / +2.56%

Stock Information

Market Cap (IDR)	52,668.1B
Shares Out/Float (M)	2,917.8/2,320

Financial Highlights	2014	2015	2016E	2017F	2018F
Net Revenue (IDR bn)	7,926	9,007	9,368	10,389	11,590
% growth	17%	14%	4%	11%	12%
Gross Profit (IDR bn)	5,048	5,671	6,045	6,692	7,475
Net Profit (IDR bn)	1,455	1,780	2,149	2,469	2,851
% growth	27%	22%	21%	15%	15%
Gross Margin (%)	63.7%	63.0%	64.5%	64.4%	64.5%
Net Margin (%)	18.4%	19.8%	22.9%	23.8%	24.6%
Return on Equity (%)	913.3%	160.9%	90.9%	69.7%	61.1%
Return on Assets (%)	42.6%	45.8%	41.7%	37.6%	35.3%

Source: Company Data, Sinarmas Investment Research

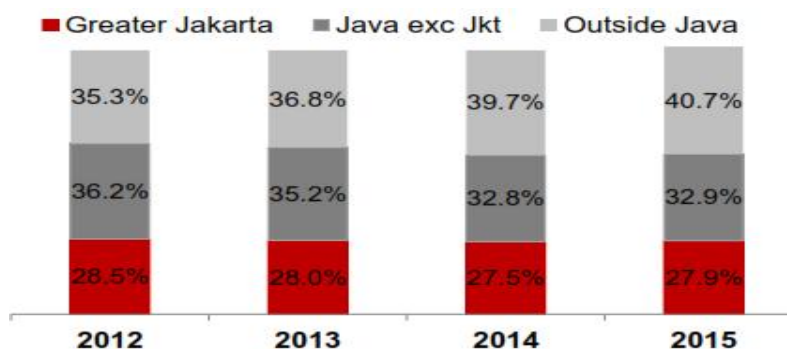
Investment Thesis. The company is Indonesia's largest department store operator by retail sales value. The company has strong brands, a large store network across Indonesia and strong supply chain and logistic capabilities, in which we believe this company will continue to outperform among peers. Moreover, the company will be benefited from the growing middle income population as that is the company's market segment target. From industry view, according to Euromonitor, the department store retailing market in Indonesia is likely to increase by 14% CAGR until FY18.

A More Conservative New Store Expansion to Increase Productivity. Last year, there were 11 new stores (~77k sqm) opened across nationwide with the proportion of 3 new stores in Greater Jakarta area, 3 new stores in Java (exclude Jakarta), and 5 new stores outside Java which making the company's total store to 142 stores (~932k sqm) in 62 cities, the most extensive department store network in Indonesia. The last two stores opened in 4Q15 were in Lombok and Yogyakarta. In FY16E, the company conservatively plans to expand by 6-8 new stores which half of them will be opened before Lebaran period. Amidst the current economy condition, we believe by targeting less new store will maximize the existing store productivity and will lead to better control in operating expense.

No. of Store by Region

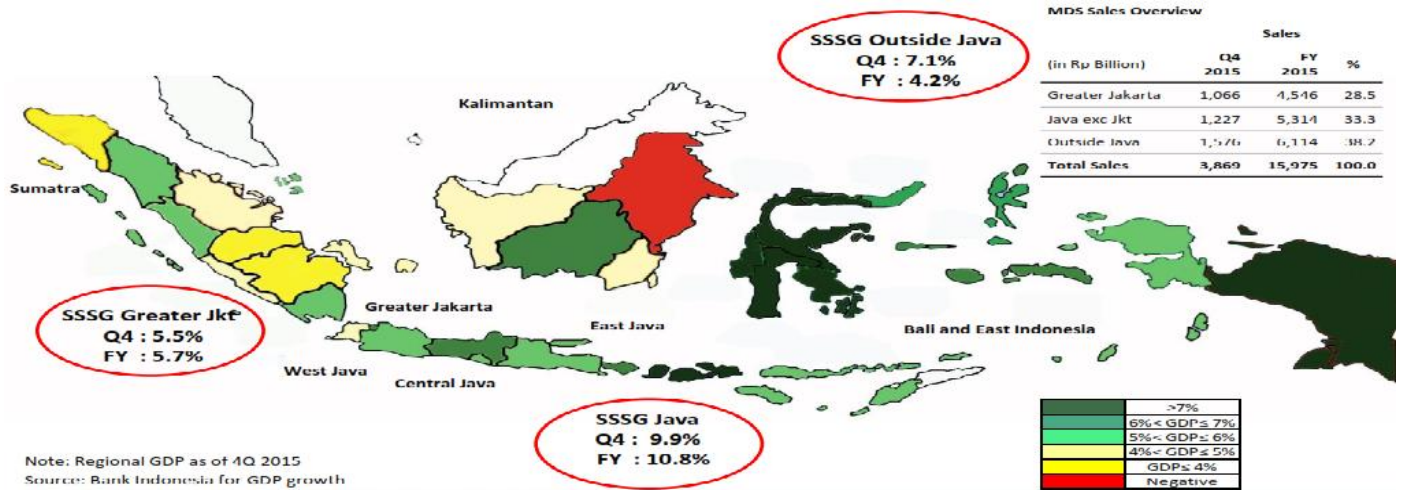
No	Geographic area	Actual		Forecast		
		FY2014	FY2015	FY2016	Future Pipeline 2017 and onwards	
		# of stores	# of stores	# of stores	# of stores	% mix
1	Jabodetabek (Greater Jakarta)	36	39	1-2	12	22.2%
2	Java (Exc Greater Jakarta)	43	46	1-2	13	24.1%
3	Outside Java	52	57	4	29	53.7%
	Total	131	142	6-8	54	100.0%

Store Count Split by Region

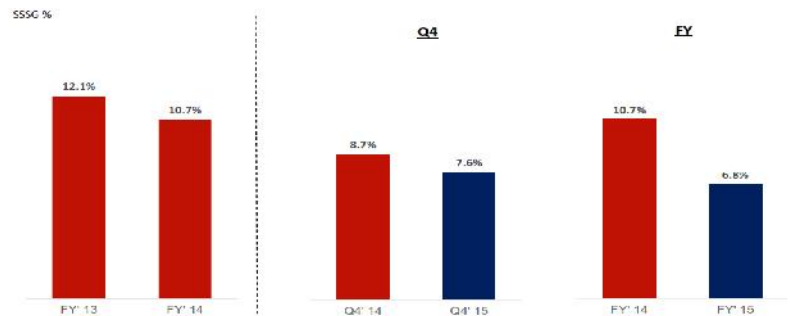


SSSG Improved, Demand Seems to Recover. SSSG improved from -0.1% in 3Q15 to 7.6% in 4Q15 which brought SSSG reached 6.8% last year, came in line at the lowest range of company's target of 7%-9%. Despite the increase in ASP by 2.1% YoY, volume grew at a faster pace by 5.3% YoY, which indicates a demand recovery. Also, this was back up by the demand recovery in industry as shown in the improvement in Consumer Confidence Index (CCI).

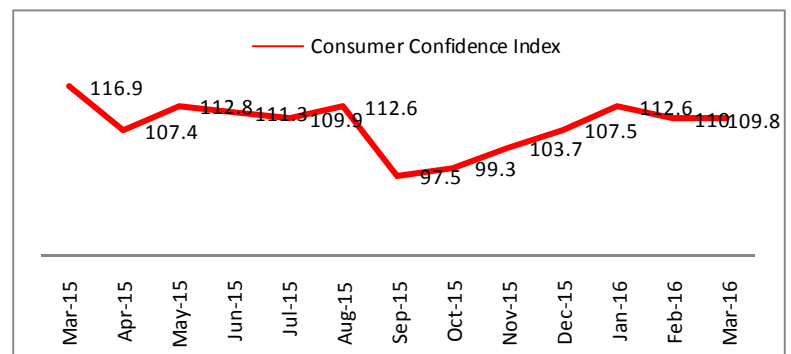
GDP Growth, SSSG and Sales per Region



SSSG in 4Q15 and FY15



Consumer Confidence Index



Sales in Java Dominates Matahari's Revenue. Around 60% of Indonesia's population is located in Java island, where most of Matahari's stores (60% of total 142 stores in FY15) are also located on. Historically, Java is the biggest contributor to the company's total sales by 61.8% in FY15, 62.0% in FY14 and 62.1% in FY13.

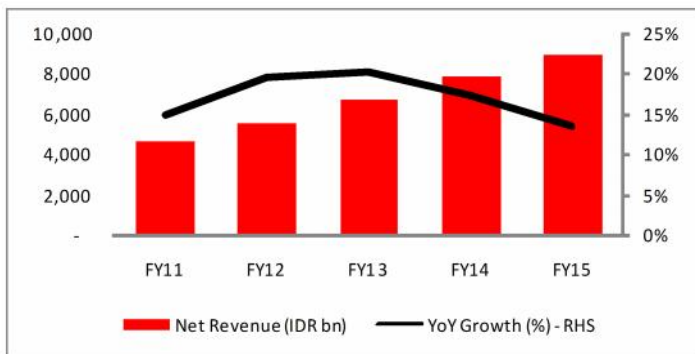
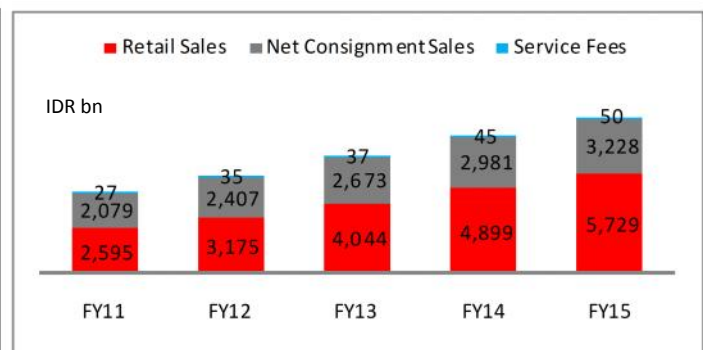
Sales by Region (IDR bn)	FY13	FY14	FY15
Greater Jakarta	3,780	4,188	4,546
<i>% total sales</i>	<i>29.7%</i>	<i>29.0%</i>	<i>28.5%</i>
Java excl. Jakarta	4,132	4,762	5,314
<i>% total sales</i>	<i>32.4%</i>	<i>33.0%</i>	<i>33.3%</i>
Outside Java	4,823	5,471	6,114
<i>% total sales</i>	<i>37.9%</i>	<i>37.9%</i>	<i>38.3%</i>
Total Gross Sales	12,735	14,421	15,974

The Planning Process of New Store Expansion. After the space rental agreement being signed, the company can fit out a new store within approximately three to four months of lease. The majority of Matahari stores typically cover an area of between 5,000 and 9,000 sqm. Generally, each new store costs the company approximately between IDR 8.6bn and IDR 26.2bn to open, depending on the location, size and layout. Each capital investment is expected to be repaid within three to four years.

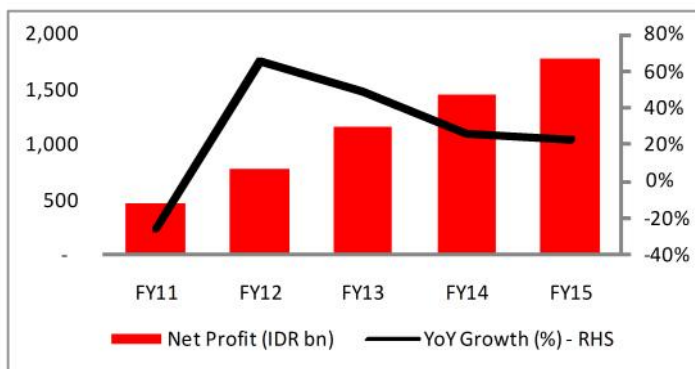
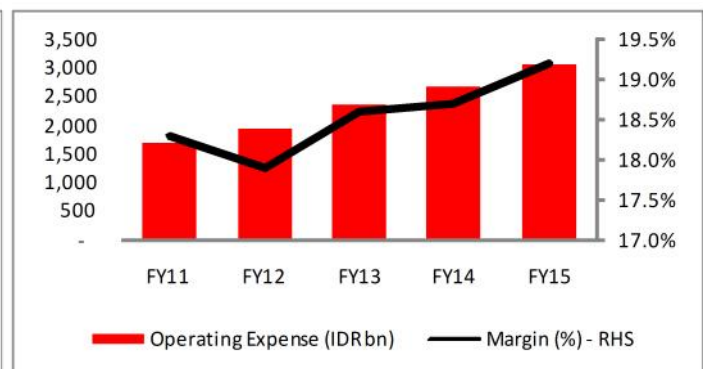
Vast Distribution Network. As the company's stores are spread out all across Indonesia, the company has a major competitive advantage in logistic distribution compare to peers. Smaller competitors or new entrants would have difficulties to compete over the medium term. Moreover, with the depth and efficiency of logistics operations supported by vast distribution network, over 200 consignment vendors use its services to transport their merchandise which they have to pay a service fee (IDR 50.21bn in FY15).

The Strategy of Pampering Its Customers. Matahari's customer care call centre, Halo Matahari, is a dedicated channel for customers to give input and request information on any aspect of its products, services, promotions, stores, and loyalty programs. The company launched Matahari Club Card (MCC) loyalty program in June 2011 which its members have access to exceptional benefits such as reward points including special discounts with over 120 hotels, foods & beverages and entertainment merchants, etc. MCC members has proven to give a quite significant contribution to company's total gross sales. From company side, they can mine those data to track merchandise preferences and purchasing habits, time-specific basis, and tailor marketing and merchandising programs accordingly, which could be used to improve the company's future performances.

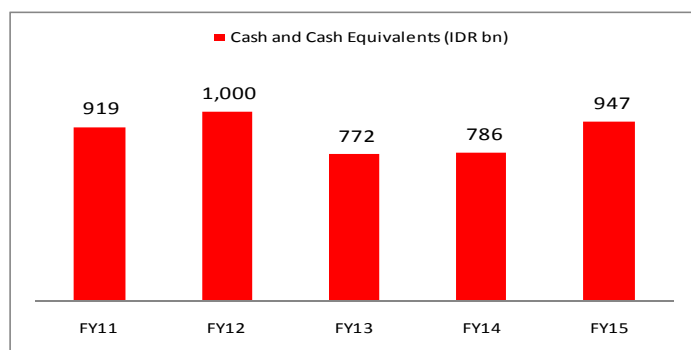
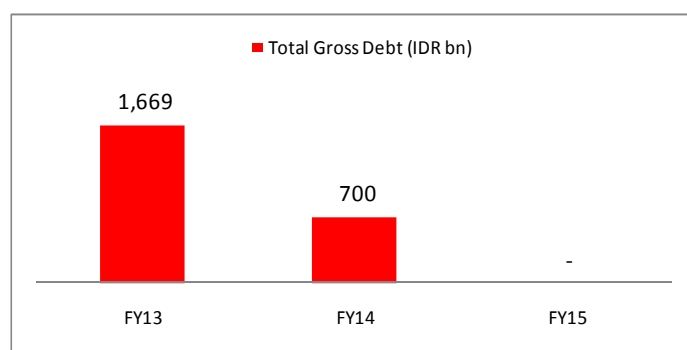
Strong Revenue Supported by SSSG. We view this company has a strong net revenue growth as it grew by 15% CAGR during FY11-FY15. Even despite the FY15 GDP growth touched the lowest level in the last 5 years, net revenue was successfully booked increase by 13.6% YoY to IDR 9.01tn on the back of stronger revenue generated in all business lines. Retail sales contributed an increase by 17% YoY to IDR 5.73tn, the biggest contributor to net revenue by 63.6%. That was followed by consignment sales and service fees which each of those contributed by IDR 3.23tn (+8.3% YoY) and IDR 50.2bn (+10.6% YoY) in respectively or equal to 35.8% and 0.6% contribution to net revenue. Gross sales was booked IDR 16.08tn, supported by SSSG of 6.8%. We expect to see robust sales growth on the back of store expansion.

Net Revenue

Net Revenue Breakdown by Segmentation


Operational Improvement, Robust Net Profit. The strong revenue growth during FY11-FY15 was followed by the strong net profit growth which it robustly grew by 40% CAGR, mainly on the back of the continuation to roll out operational improvements such as reducing electricity bills by using LED lights in its stores, which designed to strengthen efficiency and profitability. Moreover, the company gradually reduced their debt to reach zero level in FY15 which helps to reduce its finance costs during the period.

Net Profit

Operating Expense


Plenty Amount of Cash and Zero Debt Position. The company has strong and healthy balance sheet supported with its zero debt position. The company has fully repaid its bank term loan balance of IDR 700bn in December 2015. For its working capital, a revolver facility of IDR 1tn was put in place in December 2015 but no amount has been drawn down from the facility so far. Furthermore, with plenty amount of internal cash of almost IDR 1tn as of 31 December 2015, the company has the flexibility to fund its future expansion plan.

Cash and Cash Equivalents

Total Gross Debt


Bigger Dividend Payout. The company plans to bigger its dividend payout ratio from 60% to 70%. With the 10% addition in payout ratio and the robust growth in net profit, the amount of dividend payment will be bigger. This will further increase dividend yield start from this year onwards.

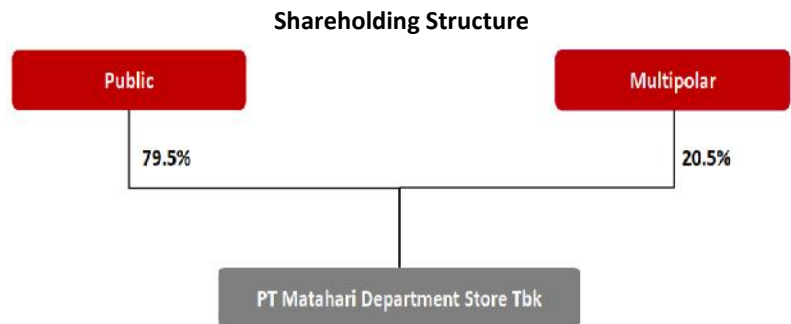
Rising e-Commerce. With the changing of people's lifestyle and the increasing internet connectivity, which also has support to the rising e-commerce business ultimately, has caused the competition in the retail industry getting tighter. Modern retail stores sell their products via internet online, might have gradually undermined the market share of conventional stores. In line with the boom in e-commerce concept, the company has increased to 10% shares ownership in Mataharimall.com which has swallowed an investment fund of approximately IDR 180bn, to go with the flow. However, there might be a potential sales cannibalism as the company's downside risk.

FY16E and FY17F Performances Outlook. We estimate the company's overall performances will keep strong on the back of new store expansion, higher SSSG, low inflation rate, and recovery in both domestic economy and CCI. The company will booked IDR 9.37tn (+4% YoY) and IDR 10.39tn (+11% YoY) in FY16E and FY17 net revenues in respectively. Retail sales will contribute approximately 62% to net revenue or by IDR 5.82tn this year and IDR 6.45tn next year. With the improvement in the operational costs and also zero debt position, net profit will grow by 21% YoY to IDR 2.15tn in FY16E and by 15% YoY to IDR 2.47tn in FY17F.

Financial Statement (IDR bn)	FY15	FY16E	FY17F
No. of Store (unit)	142	150	158
SSSG (%)	6.8%	10.5%	11.7%
Net Revenue	9,007	9,369	10,389
<i>growth</i>		4.0%	10.9%
Retail Sales	5,729	5,815	6,449
<i>growth</i>		1.5%	10.9%
Net Consignment Sales	3,228	3,500	3,880
<i>growth</i>		8.4%	10.9%
Services Fee	50	54	60
<i>growth</i>		8.0%	11.1%
Gross Profit	5,671	6,045	6,692
<i>growth</i>		6.6%	10.7%
<i>% net revenue</i>		64.5%	64.4%
EBITDA	2,581	2,994	3,410
<i>growth</i>		16.0%	13.9%
<i>% net revenue</i>		32.0%	32.8%
Net Profit	1,780	2,149	2,469
<i>growth</i>		20.7%	14.9%
<i>% net revenue</i>		22.9%	23.8%

Company Profile. PT Matahari Department Store Tbk (ticker: LPPF.IJ) is one of Indonesia's leading retailers of affordable fashion apparel, accessories, beauty products and homeware. Matahari partners with trusted suppliers in Indonesia and overseas to deliver a compelling mix of fashion-forward, high quality merchandise that resonates with value-conscious consumers. Matahari's modern, spacious stores offer a dynamic and inspiring shopping experience that keeps customers coming back and has helped to make Matahari the preferred department store of Indonesia's growing middle class.

Matahari opened its first store in October 1958, and went to pioneer the modern department store concept in Indonesia, opening its first department store in 1972. As at 31 Dec 2015, Matahari has 142 stores located in 62 cities nationwide which covered approximately 932k sqm of total store space.



Appendix I: Financial Statements

Balance Sheet (IDR bn)	2014	2015	2016E	2017F	2018F
Current Assets					
Cash and cash equivalents	786	947	2,273	3,620	4,992
Trade Receivables	45	39	58	59	70
Inventories	955	1,008	1,134	1,258	1,405
Total current assets	2,118	2,273	3,767	5,258	6,816
Non-current Assets					
Fixed assets - Net	726	877	815	746	698
Other non-current assets	25	153	25	25	25
Total non-current assets	1,295	1,616	1,385	1,316	1,268
Total Assets	3,413	3,889	5,152	6,574	8,083
Current Liabilities					
Trade payables					
- third parties	1,411	1,552	1,744	1,916	2,122
Long term bank loans					
- portion due within one year	279	-	-	-	-
Total current liabilities	2,519	2,439	2,411	2,615	2,956
Non-current liabilities					
Long term bank loans					
- portion due over one year	410	-	-	-	-
Total non-current liabilities	735	344	377	415	460
Total liabilities	3,254	2,783	2,788	3,030	3,416
EQUITY					
Share capital (type A,B,C)	387	387	387	387	387
Additional paid-in capital	(3,572)	(3,572)	(3,572)	(3,572)	(3,572)
Retained earnings					
- Appropriated	116	116	116	116	116
- Unappropriated	3,228	4,175	5,433	6,613	7,736
Total equity	159	1,106	2,365	3,544	4,667

Income Statement (in IDR bn)	2014	2015	2016E	2017F	2018F
Net revenue	7,926	9,007	9,368	10,389	11,590
COGS	2,878	3,336	3,323	3,697	4,115
Gross Profit	5,048	5,671	6,045	6,692	7,475
Total Operating Expenses	2,702	3,090	3,050	3,283	3,560
EBITDA	2,346	2,581	2,994	3,410	3,915
EBIT	2,111	2,329	2,722	3,110	3,612
Total other income/(expense)	(225)	(85)	24	24	20
Profit Before Tax	1,886	2,244	2,747	3,134	3,632
Income Tax Expense	431	464	598	665	781
Profit After Tax	1,455	1,780	2,149	2,469	2,851

Source: Company data, Sinarmas Investment Research

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