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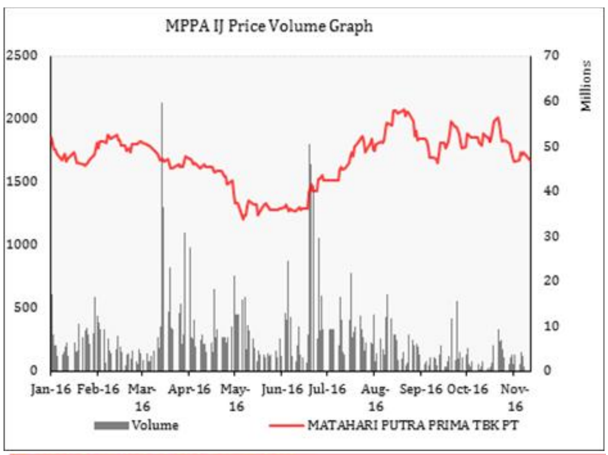
PT. Matahari Putra Prima Tbk

PT Matahari Putra Prima Tbk operates retail stores. The Company focuses on merchandising operations which includes general merchandise and food discount stores, including hypermarkets. Matahari Putra Prima offers its services throughout Indonesia.

Current Price: IDR 1,670

52-Week Target Price: IDR 1,880



Share Price Performance	
Price (IDR)	1,670
52- Week High (08/18/16)	2,130
52- Week Low (05/10/16)	1,185
52- Week Beta	1.16
YTD Change/%	-8.49%

Stock Information	
Market Cap (IDR)	8,921.2bn
Share Out/Float (M)	5,378.0/ 1,273.6

Company Ownership	
Prime Star Investment Pte. Ltd	26.1%
PT Multipolar Tbk	50.2%
Public	23.7%

Source: Company, Bloomberg, Sinarmas Investment Research

Initiating Coverage

PT Matahari Putra Prima Tbk (MPPA)

On the Path Towards Recovery

NEUTRAL

We initiate our coverage on PT Matahari Putra Prima Tbk (MPPA) as a NEUTRAL rating, with a 52-week target price of IDR 1,880 representing a (12.6)% upside. We conducted our analysis using DCF valuation with WACC: 12.9% and terminal growth 2.5% on the back of encouraging 3Q results as MPPA posted their first positive net income of IDR 32.57bn as they look towards ending the year on a brighter note now that the inventory write-downs have been completed.

Inventory write-off completed. MPPA has informed us that the inventory write-off process was completed as of 6M16. There were several factors which necessitated the write-down as 1) developers were unable to complete site constructions on time, 2) over-purchase leading to inventory build-up and 3) weak macro conditions during 2015. As a result, inventory days rose to ~90 days, above managements comfort level of 85. Moving on, MPPA has begun focusing on improving their inventory management as it has cut the number of SKU's from 140,000 to 40,00 during the past 12 months constituting largely from an SKU reduction in the non-food department, which ranked as one of the worst selling items last year.

Looking to end the year on a brighter note. On a yoy basis, MPPA suffered declines from the top as net revenues fell by 0.5%, gross profit by 7.2%. operating profits 73.6% and net income by 87.5%. Part of the decline can be attributed towards the high finance costs incurred coming as a result of the additional loans taken by the company this year. Additionally, due to the seasonality shifts to post Idul Fitri, MPPA also had a drop in revenues by ~9% qoq with an SSSG of –2.9% as of 9M16. As such, we forecast a low negative single digit SSSG of –1% for the year based on management guidance.

Turning over a new leaf. With the G7 formats thus far resulting in sales improvements by 10-30% compared to the old format in addition to the Smartclub B2B wholesale business returning on up to 2.5x the sales of an average Hyperrmart store, MPPA recovery process is on the right track heading into 2017. Additionally, we are encouraged by signs from management that MPPA has lowered their selling prices for SKU's sold in Alfamarts (AMRT) as the threat of minimarts towards grocery retailers continues to pick up steam.

Financial Highlights	2014	2015	2016E	2017F	2018F
Net Revenue (IDR Bn)	13,590	13,929	14,472	15,786	17,323
% growth		*2.5%*	*3.9%*	*9.1%*	*9.7%*
Gross Profit (IDR Bn)	2,354	2,357	2,452	2,717	3,028
Net Profit (IDR Bn)	554	183	109	207	295
% growth		*-67.0%*	*-40.4%*	*89.9%*	*42.4%*
EV/ EBITDA (x)	6.0	18.5	29.5	14.3	14.3
Gross Margin (%)	17.3%	16.9%	16.9%	17.2%	17.5%
Net Margin (%)	4.1%	1.3%	0.8%	1.3%	1.7%
Return on Equity (%)	18.1%	6.5%	3.9%	7.1%	9.6%
Return on Assets (%)	8.9%	3.0%	1.7%	3.1%	4.2%

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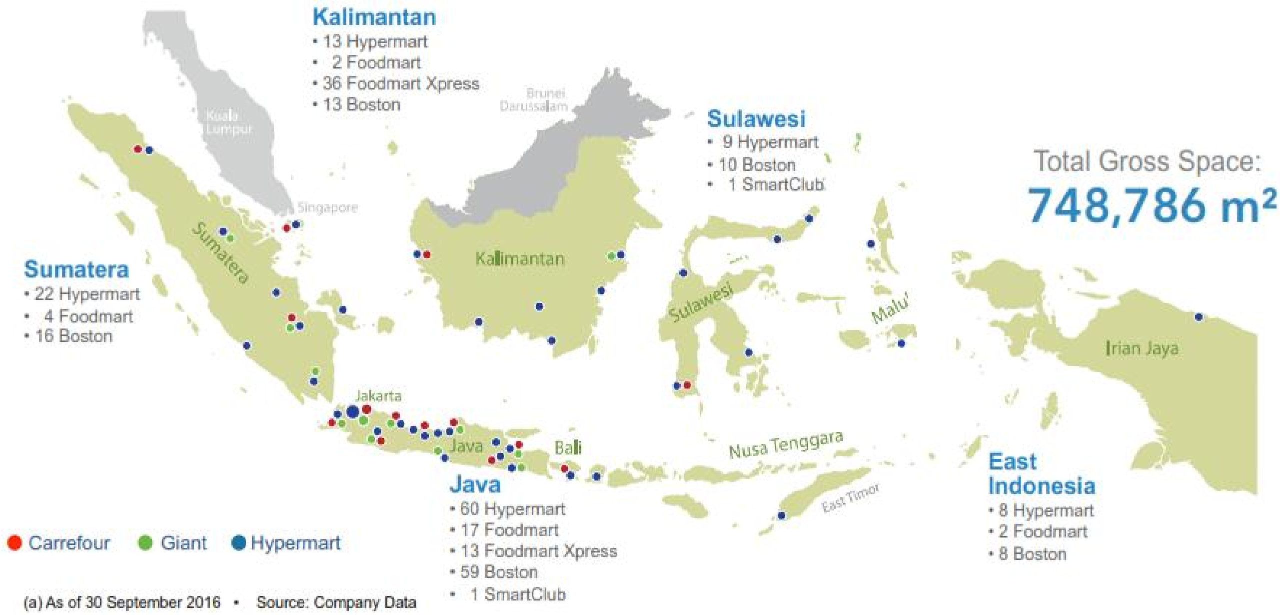
Company Information

Established in 1996, PT Matahari Putra Prima Tbk (MPPA) has successfully operated a number of subordinate companies across multiple industries. Following the divestment of non-core assets at the end of 2012, MPPA has gone on to become the fastest growing multi-format retailer in Indonesia. With an extensive nationwide store footprint consisting of more than 300 stores across 68 cities in Indonesia, MPPA continues to expand as 60% of new stores this year will be opened in the outer islands of Indonesia.

As part of the multi-format approach, MPPA operates its main business i.e. Hypermart stores targeting the middle income class along with Foodmart Primo, MPPA's higher end supermarkets. MPPA also operate convenience stores via Foodmart Express (FMX), Health and Beauty format with Boston Health and Beauty Stores and as of 2015, opened their Smartclub's as part of the wholesale format. Under the retail formats, grocery sales contributes to ~54.5% of sales making up the largest share followed by electronic goods including brands such as Samsung, LG and Sharp.

MPPA has also began venturing into the E-commerce market through their recent investment into MatahariMall.com. MPPA up until recently had about a 10% stake in MatahariMall similar to that of LPPF (PT Matahari Department Store, however with the recent news of a USD100 million investment into MatahariMall, there is now further news as yet in regards to the potential dilution of MPPA's stake in MatahariMall.com.

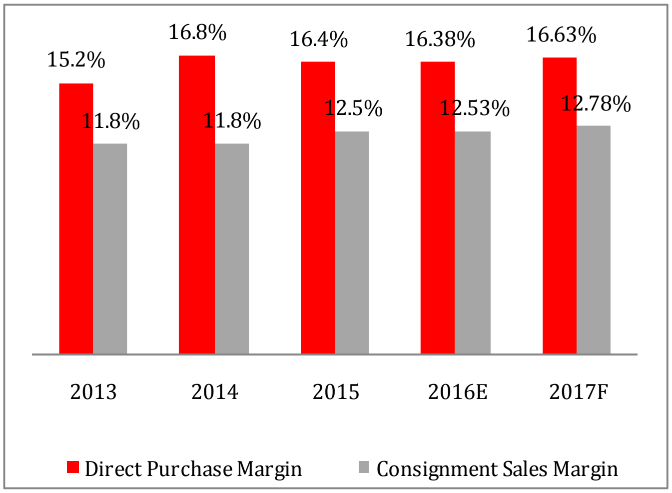


Source: Company data

With Hypermarket representing the main source of revenue for MPPA, historically the company's main competitors have been the other hypermart chains in Indonesia including Giant Supermarkets (HERO) and Transmart Carrefour stores also located across the country. Recently, however MPPA has also begun to fell the affects of the aggressive expansions conducted by convenience stores, namely Alfamarts who have over 11,000 minimarkets located across Indonesia, at relatively lower prices (for similar SKU's) compared to Hypermart stores. This has proven to be one of MPPA's most concerning barriers to growth along with recent inventory actions which have come as a result of huge inventory buildup. The costly inventory process led to consecutive negative incomes for the periods 4Q15 and 1Q16 as MPPA performed its inventory write-downs along with renovations of 2 Hypermart stores in Sun Plaza and Manado Town, converted 2 Hypermarts into a Smartclub and Foodmart Primo and permanently closed 1 Hypermart at GTC Makassar.

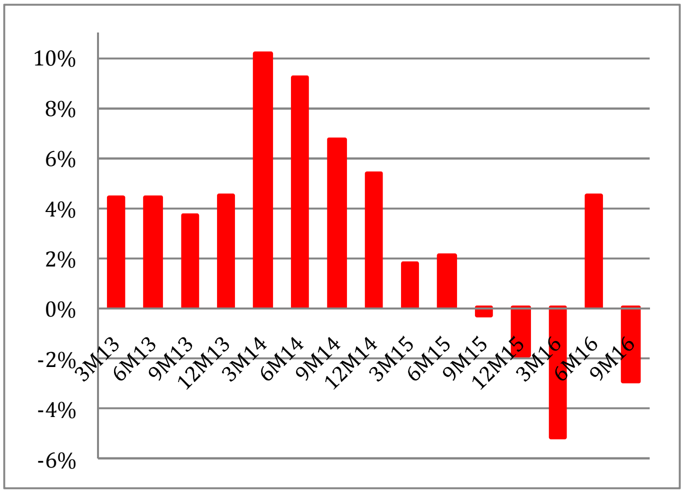
Macro conditions were also unsupportive during these periods as discretionary spending on non-food items slowed and the regions of Kalimantan and Sumatra suffered sharp declines. In turn, MPPA's sales were directly affected as these two regions contribute ~28% of sales, further adding on to the weak start to 2016 experienced by MPPA.

Gross Margin Breakdown



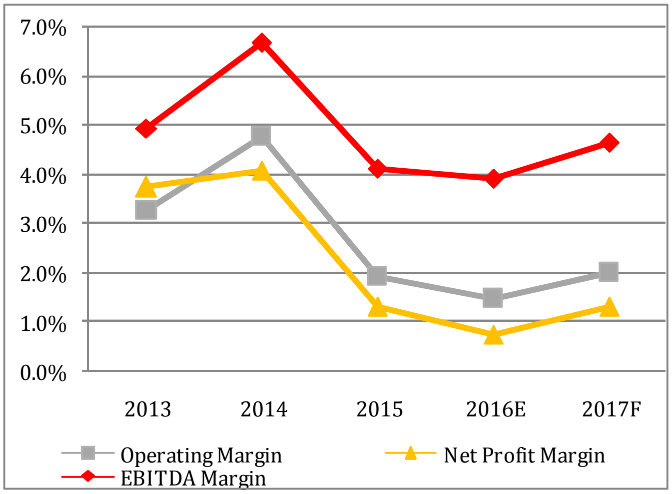
Source: Sinarmas Investment Research, Company data

SSSG YTD



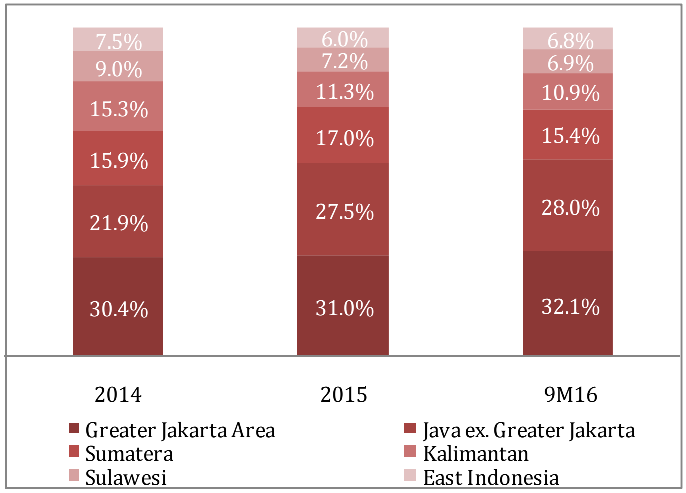
Source: Sinarmas Investment Research, Company data

Profitability Margins



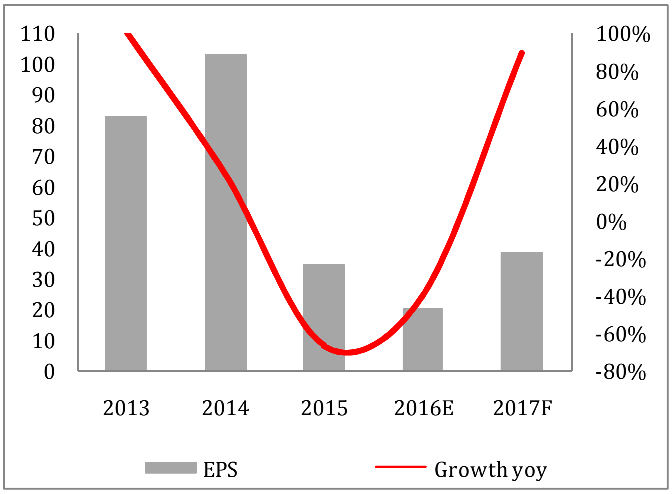
Source: Sinarmas Investment Research, Company data

Revenue Breakdown by Region



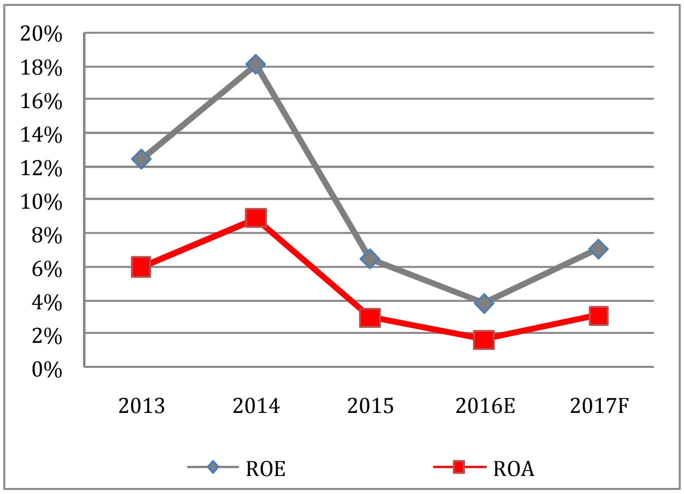
Source: Sinarmas Investment Research, Company data

EPS Growth



Source: Sinarmas Investment Research, Company data

ROE & ROA Trends



Source: Sinarmas Investment Research

Investment Theses:

Catalysts:

- **Improved Inventory Management.** MPPA's painful inventory write-off process has begun to bear fruit as the company has posted net income of IDR 32.568bn as of 9M16 after ending 1Q16 with a negative net income of IDR 123.071bn. The clean up process which required over a year to complete was caused by a massive inventory buildup in MPPA's Hypermart stores. In part due to inefficient purchasing conducted by MPPA, the inventory buildup was also caused by delays in construction completions as developers were unable to complete renovations and new store openings on time. As a result, inventory days rose from its average of 85-87 days up to 92 days. To improve on this, MPPA has installed a new system to better track inventory purchases as the company has now reduced the number of SKU's to ~40,000 from 140,000 as of 2015.The new system installed as part of the G7 format, focuses more towards its fresh food line as management have classified the fresh food products as traffic pullers whereas the worst selling items including non-food items represented a significant portion of the SKU cuts. Given the changes being implemented by MPPA, we conservatively set our inventory days at 85 days for 2017. Additionally, we are confident that COGS levels will be controlled as a result of more efficient purchases performed by the company, hence we forecast gross profit margins to improve by 30bps yoy.

	9M15	12M15	3M16	6M16	9M16
Net Sales	**10,447.96**	**13,928.86**	**3,265.28**	**7,001.07**	**10,393.91**
COGS	(8,626.57)	(11,572.38)	(2,806.39)	(5,869.48)	(8,703.90)
Gross Profit	1,821.39	2,356.48	458.90	1,131.60	1,690.01
Selling Expenses	(141.21)	(249.47)	(90.02)	(160.01)	(133.38)
G & A Expenses	(1,323.79)	(1,824.59)	(476.01)	(963.52)	(1,458.24)
Other Expenses	(10.69)	(14.00)	(2.75)	(5.57)	(7.70)
Other Income	0.39	0.21	-	-	0.60
Operating Profit	346.10	268.62	(109.89)	2.49	91.29
Finance Income	10.17	11.02	1.68	3.73	5.60
Finance Costs	(23.28)	(46.60)	(18.10)	(38.42)	(61.16)
Profit before income tax	332.99	233.05	(126.30)	(32.19)	35.74
Income tax benefit/expenses	(66.02)	(42.55)	5.30	15.44	1.85
Final tax expenses	(5.88)	(7.50)	(2.09)	(3.99)	(5.01)
Income for the period	**261.09**	**183.00**	**(123.09)**	**(20.74)**	**32.57**

- **Updated Pricing Strategies.** To better cope with the expansion of convenience stores namely Alfamart and Indomaret, management informs us that it has lowered the selling prices for the SKU's directly competing with these convenience stores. This in response to Alfamart's (AMRT) stellar returns this year, with net income increasing from IDR 223.095bn as of 9M15 to IDR 337.486 through 9M this year. Moving forward management also informs us that research has begun on adopting pricing strategies to better compete with traditional markets, who continue to be competitors with MPPA especially in Indonesia's outer islands of Kalimantan and Sumatera. As MPPA generates almost 28% sales from these regions, we forecast that the aggressive pricing strategies should improve MPPA' revenues moving forward as the company will be better equipped to handle the increased competition from large minimart chains in addition to the traditional markets as MPPA begins its entry into the traditional trade.

- **New Format's providing Optimism.** Early returns from MPPA's new B2B format have thus far been solid, as a SmartClub has generated sales equivalent to that of 2.5 times the average Hypermart store in addition to Hypermart's G7 formats generating sales at a 10-30% improvement in comparison to the previous G6 format. For 2017, MPPA plans to open 6 new Hypermart stores along with 2 SmartClubs as we forecast revenues to reach IDR 15.875tn, representing an increase of 9.1% yoy.

Source: Sinarmas Investment Research, Company data

- **Commodity Rally.** Through 9M16, MPPA's SSSG remained at –2.9% heavily affected by the weak spending in the Sumatera and Kalimantan regions. On further analysis, the low SSSG was also affected by several store closures, as SSSG would have been closer to +1.3% removing the store closures. Moving forward, we are of the opinion that MPPA could benefit with the recent rally of commodity prices, given that the economies outer regions of Indonesia are dependant on commodity prices this should provide a short term boost in sales. With MPPA planning to open 60% of new stores in the outer islands, we are optimistic this should improve new store sales heading into 2017. We forecast new stores sales will grow by 5% yoy up to ~IDR 1.004tn approaching the levels achieved in MPPA's best financial year 2014.

Key Risks:

- **Potential Dilution of stake in Mataharimall.com.** In light of the recent news regarding Mitsui & co. investing USD 100mn in the e-commerce company, MPPA's stake in MatahariMall is likely to be diluted, possibly leading the need to reinvest into the e-commerce platform. Given the uncertainty surrounding this issue, plus the fact that MPPA have already made a significant investment into this partnership we believe has led to investors taking a wait-and-see approach until further clarity is presented on the issue.

- **Margins at Risk.** Rising minimum wage levels have the potential to negatively affect MPPA's bottom line margin as minimum wage is set to rise roughly by GDP + inflation levels for 2017 and beyond. With salary expenses making up the largest component of MPPA's OPEX (~43%), MPPA may need to resort to other avenues to control operating expenses. Furthermore, although MPPA's pricing strategies are likely to catalyze sales and improve inventory turnover, this action may be sacrificing margins given that profits will be cut either through the lowering of prices or via heavy discounting. MPPA's lowering of prices have been necessitated not only by the emergence of large scale minimarkets, but also by the heavy discounting currently on offer in Transmart Carrefour, one of MPPA's main competitors.

- **Sustainability of commodity prices.** Excluding the Java area, MPPA derives ~40% of its sales from regions outside of this area. With recent rally of commodity prices providing optimism in the short term, any weakness in the price of commodities will likely impact sales in these regions, as discretionary spending is likely to fall.

- **Delays in expansion & renovation plans.** With inventory management now improved, MPPA's recent problems of late store openings and costly renovations have dampened sales this year. This year included, MPPA plans to remodel up to 40 Hypermart stores over the next 4 years with capital expenditure equating to ~4-5% of sales for this year. Should there be any delays in terms of prolonged store closures or new store openings, this is likely to negatively effect SSSG as experienced in 3Q16 and dampen future revenues.

- **Rise of the Minimarts.** AMRT currently has over 11,000 operational minimarts across Indonesia, this has not only allowed for them to take advantage of economies of scale but also take a portion of MPPA's national market share. Minimarkets in our opinion, provide the nest best alternative to the more traditional small stores known as *waroengs.* Although minimarts like Alfa and Indomaret do not sell fresh food products, it is probable that MPPA will lose their share for sales involving non-fresh food items, particularly grocery products which makes up ~54% of MPPA's total retail sales (excluding wholesale).

Our Conclusion

- **Dictated by Macro Conditions.** Our outlook for MPPA and furthermore for all grocery retailers we believe will be dictated by economic conditions in 2017. With an average salary increase at roughly 8-10% a year especially for the medium to low income segment combined with low inflation of ~3.5%, general purchasing power levels should improve. Taking into account the largely painful process of inventory write-offs performed by MPPA, 2017 should see the company return to more acceptable levels in terms of bottom line earnings. We forecast MPPA to book net profits of IDR 206bn in 2017, representing an 89.9% increase yoy.

- **Uncertainties still present.** While we are bullish on MPPA's return to form next year, our NEUTRAL recommendation is based on uncertainty regarding its investment into Mataharimall. Although we remain bearish on E-commerce sales having any significant effects on grocery sales or discretionary consumption, we are of the opinion that MPPA's potential need to reinvest into Mataharimall.com could have negative consequences in terms of the company's cash flow. We therefore, prefer to take a wait and see approach for MPPA as investors seek further clarity on the ownership situation in Mataharimall.com.

Financial Highlights (IDR Bn)	2013	2014	2015	2016E	2017F	2018F
Number of Stores (unit)	221	267	296	328	360	391
SSSG	5%	5%	-2%	-1%	6%	6%
Current Store Sales	10,769.73	12,464.25	13,240.37	13,420.77	14,671.50	16,161.98
% growth		*16%*	*6%*	*1%*	*9%*	*10%*
New Store Sales	1,055.93	1,032.56	599.43	954.61	1,004.74	1,036.45
% growth		*-2%*	*-42%*	*59%*	*5%*	*3%*
Gross Sales	12,564.23	14,288.19	14,550.95	15,147.00	16,531.03	18,152.87
% growth		*14%*	*2%*	*4%*	*9%*	*10%*
Net Sales	11,912.76	13,590.41	13,928.89	14,472.06	15,785.54	17,322.85
% growth		*14%*	*2%*	*4%*	*9%*	*10%*
Gross Profit	1,888.82	2,354.46	2,356.51	2,451.83	2,716.71	3,028.02
% growth		*25%*	*0%*	*4%*	*11%*	*11%*
Total Operating & Selling Expense	1,500.16	1,707.51	2,087.86	2,236.75	2,400.46	2,606.07
% growth		*14%*	*22%*	*7%*	*7%*	*9%*
EBITDA	588.886	908.876	575.891	566.067327	732.010964	908.588796
% growth		*54%*	*-37%*	*-2%*	*29%*	*24%*
Net Profit	444.91	554.02	183.03	109.01	206.99	294.70
% growth		*25%*	*-67%*	*-40%*	*90%*	*42%*
net profit Margin	*3.7%*	*4.1%*	*1.3%*	*0.8%*	*1.3%*	*1.7%*

Source

Appendix I: Financial Statements

Balance Sheet (IDR Bn)	2013	2014	2015	2016E	2017F	2018F
Cash & Cash Equivalents	1,302.6	747.7	408.9	491.6	211.3	161.0
Trade Receivables	33.9	31.3	26.0	29.8	32.5	35.7
Other Receivables	380.2	351.9	647.9	519.4	566.5	621.7
Inventory	2,273.5	2,655.0	2,759.0	2,823.6	2,951.4	3,082.4
Other Current Assets	177.8	118.1	129.4	140.0	149.9	160.3
Fixed Assets	1,086.8	1,272.6	1,461.7	1,674.1	1,872.8	2,060.4
Other Non-Current Assets	1,324.8	657.4	861.3	909.9	966.3	1,034.7
Total Assets	6,579.5	5,834.0	6,294.2	6,588.3	6,750.8	7,156.3
Account Payables	1,989.1	1,893.3	1,763.3	1,885.2	1,995.8	2,132.9
Other Current Liabilities	1,048.3	859.0	1,051.5	1,104.9	1,029.0	1,117.9
Other Non-Current Liabilities	247.1	253.2	703.9	753.5	753.0	751.6
Total Liabilities	3,284.5	3,005.5	3,518.6	3,743.6	3,777.8	4,002.5
Total Equity	3,294.9	2,828.5	2,775.6	2,844.7	2,972.9	3,153.8

Income Statement (IDR Bn)	2013	2014	2015	2016E	2017F	2018F
Direct Sales	11,825.7	13,496.8	13,839.8	14,375.4	15,676.3	17,198.5
Consignment Sales	738.6	791.4	711.2	771.6	854.7	954.3
Gross Sales	12,564.2	14,288.2	14,551.0	15,147.0	16,531.0	18,152.9
Net Sales	11,912.8	13,590.4	13,928.9	14,472.1	15,785.5	17,322.9
Cost of Goods Sold	10,023.9	11,235.9	11,572.4	11,932.6	12,632.8	13,500.7
Operating Expense	1,500.2	1,707.5	2,087.9	2,236.7	2,400.5	2,606.1
Depreciation	200.0	261.7	307.0	350.8	415.5	486.3
Operating Profit	388.7	646.9	268.7	215.1	316.3	421.9
EBITDA	588.9	908.9	575.9	566.1	732.0	908.6
Income before Tax	585.0	730.8	233.1	138.8	263.6	375.3
Tax Expense	140.1	176.8	50.0	29.8	56.6	80.6
Net Profit	444.9	554.0	183.0	109.0	207.0	294.7
net profit growth		24.5%	-67.0%	-40.4%	89.9%	42.4%

Appendix II: Valuation Assumptions

WACC	12.9%	NPV/ Share (Rp)	1,880
Cost of Debt	10.6%	Number of shares	5.38
Tax Rate	21.0%		
After tax cost of debt	8.4%	Current Price	1,670
% of debt	21.1%	ETR(%)	12.6%
Cost of Equity	14.2%	Terminal Growth	2.5%
RfR	7.0%	Terminal Multiple	9.59
Beta	1.30		
Market Risk Premium	5.5%		
% of equity	78.9%		

Source: Sinarmas Investment Research

Appendix III: Financial Ratios

Financial Ratios	2013	2014	2015	2016E	2017F	2018F
Profitability						
ROE	12.5%	18.1%	6.5%	3.9%	7.1%	9.6%
ROA	6.0%	8.9%	3.0%	1.7%	3.1%	4.2%
Gross Profit Margin	15.9%	17.3%	16.9%	16.9%	17.2%	17.5%
Operating Profit Margin	3.3%	4.8%	1.9%	1.5%	2.0%	2.4%
Net Profit Margin	3.7%	4.1%	1.3%	0.8%	1.3%	1.7%
EBITDA Margin	4.9%	6.7%	4.1%	3.9%	4.6%	5.2%
Valuation						
EPS	82.73	103.02	34.03	20.27	38.49	54.80
P/E	20.19	16.21	49.07	82.39	43.39	30.48
EV/EBITDA	4.07	5.98	18.54	29.45	14.34	14.34
Liquidity						
Current Ratio	1.37	1.42	1.41	1.34	1.29	1.25
Quick Ratio	0.57	0.41	0.38	0.35	0.27	0.25
Cash Conversion Cycle	26.97	36.88	49.42	42.71	41.88	39.91
Activity						
Receivables						
turnover	28.77	35.46	20.67	26.35	26.35	26.35
days	12.69	10.29	17.66	13.85	13.85	13.85
Inventories						
turnover	4.41	4.23	4.19	4.23	4.28	4.38
days	82.79	86.25	87.02	86.37	85.28	83.34
Payables						
turnover	5.33	6.12	6.61	6.35	6.38	6.37
days	68.50	59.66	55.26	57.51	57.25	57.28
Asset Turnover	2.57	3.37	3.54	3.63	3.99	4.35
Fixed Asset Turnover	**12.80**	**11.52**	**10.19**	**9.23**	**8.90**	**8.81**
NWC Turnover	**18.76**	**14.74**	**9.90**	**9.17**	**10.38**	**10.96**
Solvency						
Debt Equity Ratio	6%	0%	23%	27%	20%	19%
Financial Leverage	2.03	2.16	2.29	2.29	2.27	2.26

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