

Well-expected Lebaran performance. 2019's Lebaran was quite a success for RALS as we see timely social program disbursements amounting to IDR 54tn as per April 2019 (+75.75% YoY) or accounting for 53% of the country's total social assistance budget has helped ensuring lower-end purchasing power. This is evident by May 2019's sales which was recorded at IDR 1.98tn while SSSG at 92.5% YoY, in-line with our forecast, though below consensus' numbers. The immense growth at SSSG figure was due to 11 days forward shift in Ramadan days. As May 2019 has more Ramadan days compared to that of last year's, June sales figure release would give clearer outlook on Lebaran period performance. Cumulative gross sales for 5M19 came at IDR 4.17tn (47% of our FY19F forecast), and we expect the company to deliver IDR 1.2tn in sales in June to achieve regular portion of Lebaran period (~40% of FY sales). June sales should be supported by the remaining Ramadan days, Lebaran holiday and preparation for new academic year period.

Continuous margin improvement. RALS' efforts to push margins higher through unified pricing policy and improved product mix has resulted in better overall gross margin. 1Q19's results indicated better GPM both in direct purchase and consignment business segments (+235bps/+35bps YoY improvement respectively). The same trend persisted in April and May, bringing YTD GPM (to gross sales) at 29.3% (vs 27.4% in 5M18).

Halfway through 2019. We believe that further upgrade in merchandising system and store productivity would give another boost to margins. On the other hand, we anticipate the possibility of hikes on subsidized fuel and other utility prices as the government aims to improve CAD level and shift budget to a more production-oriented area, which would highly dampen lower-end purchasing power.

We think that the recent share price correction provides a bargain for RALS as it is currently trading at 1SD below its 3-yr avg. P/E mean. Nevertheless, the seasonally soft 3Q performance and the chance of subsidized fuel and utility prices hikes provide downside risks to our call. We take into account the aforementioned key risks and apply lower multiple to the valuation as we bake in 3-yr avg. P/E mean into our valuation, lower than previous +1SD P/E multiple. **As a result, we tone down our recommendation on RALS to ADD with target price of IDR 1,650 which implies 17.4x FY19F P/E.**

Highlights (IDR bn)	2017	2018	2019E	2020F	2020F
Net Revenue	5,623	5,740	5,971	6,132	6,296
% growth	-4.0%	2.1%	4.0%	2.7%	2.7%
Gross Profit	2,212	2,507	2,608	2,684	2,755
Net Profit	407	587	647	665	685
% growth	0.3%	53.7%	10.2%	2.8%	2.9%
Gross Margin (%)	39.3%	43.7%	43.7%	43.8%	43.8%
Net Margin (%)	7.2%	10.2%	10.8%	10.9%	10.9%
Return on Equity (%)	11.9%	16.0%	16.9%	17.4%	17.9%
Return on Assets (%)	8.5%	11.6%	12.3%	12.7%	13.0%
EPS	60	86	95	98	101

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Sector	Retail
Bloomberg Ticker	RALS IJ
Market Cap. (IDR tn)	10.14
Share Out./Float (mn)	7.1/2.6
Current Price	1,430
FY19F Target Price	1,650
Upside	15.3%

Share Price Performance

52W High (03/19/19)	1,875
52W Low (05/09/18)	1,050
52W Beta	0.63
YTD Change	0.7%

Relative Valuations

Trailing P/E	14.8
Forward P/E	15.1
P/BV	2.5

Income Statement (IDR Bn)	2017	2018	2019F	2020F	2020F
Net Revenue	5,623	5,740	5,971	6,132	6,296
% growth	-4.0%	2.1%	4.0%	2.7%	2.7%
Cost of Revenue	3,410	3,233	3,363	3,449	3,541
Gross Profit	2,212	2,507	2,608	2,684	2,755
% growth	0.4%	13.3%	4.1%	2.9%	2.7%
Operating Expenses	1,856	1,899	1,972	2,024	2,074
Opex to Sales (%)	33.0%	33.1%	33.0%	33.0%	32.9%
Operating Profit	377	607	656	680	702
% growth	1.1%	66.2%	4.8%	3.6%	3.3%
EBT	467	717	791	813	837
% growth	0.3%	53.7%	10.2%	2.8%	2.9%
Tax	60	130	143	147	152
Net Profit for the Year	407	587	647	665	685
% growth	-0.5%	44.4%	10.2%	2.8%	2.9%

Balance Sheet (IDR Bn)	2017	2018	2019F	2020F	2020F
Cash and Cash Equivalent	752	1,951	1,894	1,915	1,944
Trade Receivables	57	38	38	38	38
Inventories	741	860	843	865	888
Other Current Assets	1,543	709	711	716	721
Total Current Assets	3,093	3,557	3,486	3,535	3,592
Fixed Assets	1,235	1,164	1,232	1,189	1,138
Other Non Current Assets	563	521	523	526	530
Total Assets	4,892	5,243	5,240	5,250	5,259
Trade Payables	956	941	944	950	957
Other Current Liabilities	92	152	153	154	155
Total Current Liabilities	1,049	1,093	1,097	1,104	1,111
Other Non Current Liabilities	349	322	324	326	328
Total Liabilities	1,398	1,416	1,420	1,430	1,439
Share & APIC	487	487	487	487	487
Treasury Shares	(340)	(340)	(340)	(340)	(340)
Retained Earnings	3,412	3,730	3,730	3,730	3,730
Other Components of Equity	(65)	(50)	(57)	(57)	(57)
Total Equity	3,494	3,827	3,820	3,820	3,820
Total Equity & Liabilities	4,892	5,243	5,240	5,250	5,259

Cash Flow (IDR Bn)	2017	2018	2019F	2020F	2020F
Net Income	407	587	647	665	685
Depreciation	173	234	105	193	204
Chg. in NWC	(68)	14	(20)	16	17
Chg. in Other CT Assets	143	(793)	2	4	4
CF from Operating	504	1,600	771	838	869
Capital Expenditure	133	175	173	150	154
Chg. in LT Assets	26	(42)	2	3	3
Chg in LT Liabilities	48	(26)	1	2	2
CF from Investing	(111)	(159)	(173)	(151)	(155)
Chg. in Share & APIC	-	-	-	-	-
Dividends Paid	(242)	(269)	(647)	(665)	(685)
Others	(8)	15	(7)	-	-
CF from Financing	(250)	(254)	(655)	(665)	(685)
Change in Cash	144	1,187	(57)	21	29
Beginning Cash	604	752	1,951	1,894	1,915
Ending Cash	747	1,939	1,894	1,915	1,944

Financial Ratio	2017	2018	2019F	2020F	2020F
Profitability					
ROE	11.9%	16.0%	16.9%	17.4%	17.9%
ROA	8.5%	11.6%	12.3%	12.7%	13.0%
Gross Margin	39.3%	43.7%	43.7%	43.8%	43.8%
Operating Margin	6.7%	10.6%	11.0%	11.1%	11.1%
Net Margin	7.2%	10.2%	10.8%	10.9%	10.9%
Liquidity & Solvency					
Current Ratio	3.0	3.3	3.2	3.2	3.2
Debt to Equity	-	-	-	-	-
Debt to Assets	-	-	-	-	-
Valuation					
Price to Earning (PE)	27.7	19.2	17.4	17.0	16.5
Price to Book (PBV)	3.2	2.9	3.0	3.0	3.0

Key Assumptions	2017	2018F	2019F	2020F	2020F
Combined SSSG	-1.2%	2.9%	3.7%	2.0%	2.0%
Number of Stores	113	116	119	123	125
Receivable Days	4	3	2	2	2
Payable Days	60	60	58	56	55
Inventory Days	84	90	92	90	90
Cash Conversion Cycle	27	33	37	36	37

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