

**1H18 financial performance.** Net revenue was recorded at IDR 3.5tn as of 1H18, grew by 0.9% yoy, while net profit was booked at IDR 486bn, increased by 31.8% yoy. Top-line achievement accounts for 58% of our estimates while bottom-line beats market expectation. Breaking down Ramayana's top-line, fashion division performed great with 10.7% hike in sales. On the other hand, supermarket business division posted 20.6% decline, dragging down Ramayana's revenue figures. The segment's contribution declined to 25% level (vs 31% in 1H17) as company chose to shutdown the loss-making supermarkets. We think these closures though pressurize top-line, granting Ramayana with higher net margin since supermarket used to record deficit on EBIT level. In 1H18, supermarket division has turned profitable and became 2.9% EBIT margin (vs -4.1% EBIT margin in 1H17).

**An end to EBIT loss from supermarket division.** Ending its 7-years EBIT loss, supermarket closures has contributed to 330bps net margin improvement in 1H18. We view that further closedown on underperformed supermarket branches is a necessary measure for Ramayana, since the smaller underperformed supermarket revenue contribution is, the higher profitability company has.

**Improvement all the way.** Heading to non-Lebaran period, sales usually softens. In order to stimulate traffic, Ramayana has been applying some breakthroughs. Company firstly transformed ample spaces from supermarket closures by renting them to cinema, food merchants, and specialty stores. We think that this should give a hand for Ramayana to secure sales during those non-Ramadhan months. This July, the company recorded IDR 567bn of sales, rose by 0.5% YoY. Fashion business line performed well with +10% growth, while supermarket experienced 19.3% down.

**Festive mood and social programs to assist lower-end consumption.** This year came as a favorable one for Ramayana as 2018 is filled with a series of events started from Regional Elections, Ramadhan, FIFA World Cup and will soon be followed by Asian Games and Presidential Election 2019. The festive mood is enlivened by a number of social assistance programs which becomes one of government's main focus. Government has also stated in various news that it plans to increase amount of budget allocated for PKH and Village Fund in 2019. This should give quite a relief for lower-end disposable income, benefitting lower-end retailers and staples in the process. We believe these catalysts to spark consumption appetite, notably those in lower-end segment, given the purchasing aid. **Thus, we raise our call in RALS to BUY with TP of IDR 1,550 which implies 15.6x FY19P/E.**

Highlights (IDR Bn)	2016	2017	2018E	2019F	2020F
Net Revenue	5,857	5,623	5,861	6,073	6,271
% growth	5.9%	-4.0%	4.2%	3.6%	3.3%
Gross Profit	2,202	2,212	2,437	2,532	2,620
Net Profit	408	407	601	669	728
% growth	27.5%	0.3%	48.1%	11.2%	8.9%
Gross Margin (%)	37.6%	39.3%	41.6%	41.7%	41.8%
Net Margin (%)	7.0%	7.2%	10.3%	11.0%	11.6%
Return on Equity (%)	12.0%	11.7%	16.4%	16.9%	17.1%
Return on Assets (%)	8.7%	8.4%	11.8%	12.4%	12.8%
EPS	60	60	88	98	107

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Sector	Retail
Bloomberg Ticker	RALS IJ
Market Cap. (IDR tn)	9.2
Share Out./Float (mn)	7.1/2.6
Current Price	1,295
FY19F Target Price	1,550
Upside (%)	19.7%

**Share Price Performance**

52W High (07/06/17)	1,555
52W Low (09/27/18)	835
52W Beta	0.64
YTD Change (%)	(10)

**Relative Valuations**

Trailing P/E	16.6x
Forward P/E	13.2x
P/BV	2.4x
EV/EBITDA	8.1x

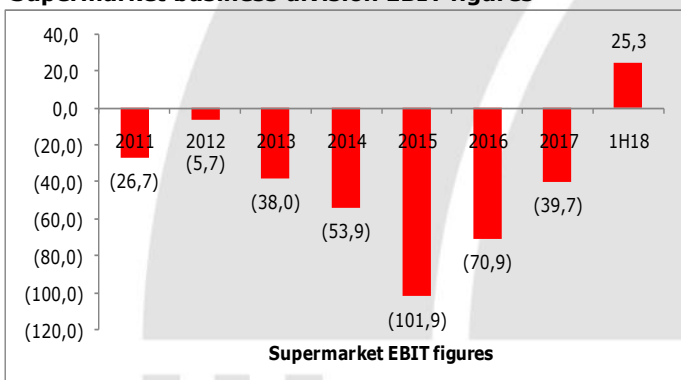
**Potential addition of IDR 40tn for social assistance programs.** Since consumption stands as the backbone of Indonesia economic growth, government puts intensive concern on the welfare of the citizens. The action is taken through various social programs conducted, mainly focusing on helping those in mid-to-low social class. Following are some changes delivered in the proposed state budget (RAPBN 2019) to elevate Indonesian consumption,

- 1) PKH. This year, government allocated IDR 17.3tn and targets 10 million households as recipients with each household receiving IDR1.89mn/year. In the following year, government is planning to increase the amount of benefits received by PKH recipients up to IDR 34.4tn of allocation.
- 2) Village fund. Currently allocated with IDR 60tn, government is planning to raise the budget to IDR 85tn.
- 3) Education and Healthcare. Government announced in RAPBN 2019 meeting that it will raise 9.9% of budget allocation for education and healthcare sector. Both will receive IDR 488tn and IDR 122tn of allocation respectively.

**Internal store transformation.** Ramayana has been implementing a number of internal innovation through centrally controlled merchandising system which is purposed to improve turnover and product aging. In addition, various merchants such as XXI, J.Co, Starbucks, and etc are taking over store spaces from closed supermarket. Those outlets also help serving as traffic pooler during post-Lebaran period while giving better shopping experience for Ramayana’s customers.

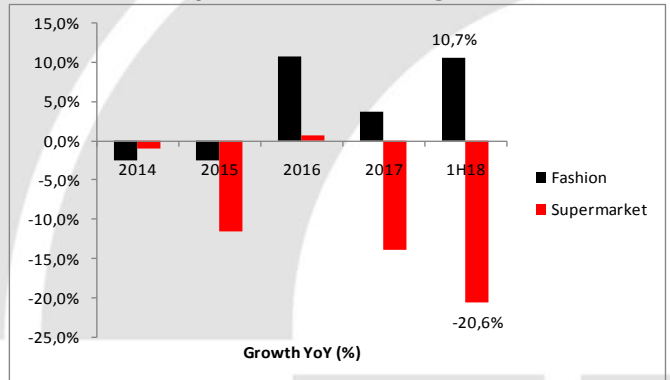
**Joining the e-commerce hype.** In the midst of online sales euphoria, Ramayana expanded its business distribution into online sales by joining several notable e-commerce platforms, such as Tokopedia, Lazada and Shopee. Though accounted for a very minimum part of revenue, we believe this move to be a positive step taken by company to sustain its existence, to obtain e-commerce exposure, and to leverage from massive promotional activities done by those platforms. However, we currently still think that the majority of Ramayana’s target market is relatively less prone towards e-commerce menace due to lower bank and smartphone penetration in those segment of social class.

**Supermarket business division EBIT figures**



Source: Company data, Sinarmas Investment Research

**Fashion and supermarket revenue growth**



Source: Company data, Sinarmas Investment Research

<b>Income Statement (IDR Bn)</b>	<b>2016</b>	<b>2017</b>	<b>2018E</b>	<b>2019F</b>	<b>2020F</b>
<b>Revenue</b>	<b>5,857</b>	<b>5,623</b>	<b>5,861</b>	<b>6,073</b>	<b>6,271</b>
Cost of Revenue	3,655	3,410	3,424	3,541	3,651
<b>Gross Profit</b>	<b>2,202</b>	<b>2,212</b>	<b>2,437</b>	<b>2,532</b>	<b>2,620</b>
% growth	10.3%	0.4%	10.2%	3.9%	3.5%
Operating Expenses	1,845	1,856	1,877	1,936	2,001
Opex to Sales (%)	31.5%	33.0%	32.0%	31.9%	31.9%
<b>EBITDA</b>	<b>652</b>	<b>650</b>	<b>835</b>	<b>917</b>	<b>1,006</b>
% growth	157.7%	-0.2%	28.3%	9.9%	9.7%
<b>EBT</b>	<b>465</b>	<b>467</b>	<b>691</b>	<b>769</b>	<b>837</b>
% growth	27.5%	0.3%	48.1%	11.2%	8.9%
Tax	57	60	90	100	109
<b>Net Profit for the Year</b>	<b>408</b>	<b>407</b>	<b>601</b>	<b>669</b>	<b>728</b>
% growth	21.6%	-0.5%	47.9%	11.2%	8.9%

<b>Balance Sheet (IDR Bn)</b>	<b>2016</b>	<b>2017</b>	<b>2018E</b>	<b>2019F</b>	<b>2020F</b>
Cash and Cash Equivalent	604	752	957	1,303	1,695
Trade Receivables	52	57	58	58	58
Inventories	834	741	824	799	770
Other Current Assets	1,341	1,543	1,562	1,571	1,575
<b>Total Current Assets</b>	<b>2,831</b>	<b>3,093</b>	<b>3,400</b>	<b>3,732</b>	<b>4,099</b>
Fixed Assets	1,279	1,235	1,217	1,190	1,154
Other Non Current Assets	537	563	570	573	575
<b>Total Assets</b>	<b>4,647</b>	<b>4,892</b>	<b>5,187</b>	<b>5,496</b>	<b>5,827</b>
Trade Payables	904	956	968	974	976
Other Current Liabilities	105	92	93	94	94
<b>Total Current Liabilities</b>	<b>1,009</b>	<b>1,049</b>	<b>1,061</b>	<b>1,068</b>	<b>1,070</b>
Other Non Current Liabilities	301	349	353	355	356
<b>Total Liabilities</b>	<b>1,310</b>	<b>1,398</b>	<b>1,414</b>	<b>1,423</b>	<b>1,427</b>
Share & APIC	487	487	487	487	487
Treasury Shares	(340)	(340)	(340)	(340)	(340)
Retained Earnings	3,247	3,412	3,682	3,983	4,310
Other Components of Equity	(57)	(65)	(57)	(57)	(57)
<b>Total Equity</b>	<b>3,337</b>	<b>3,494</b>	<b>3,772</b>	<b>4,073</b>	<b>4,401</b>
<b>Total Equity &amp; Liabilities</b>	<b>4,647</b>	<b>4,892</b>	<b>5,187</b>	<b>5,496</b>	<b>5,827</b>

Cash Flow (IDR Bn)	2016	2017	2018E	2019F	2020F
<b>Net Income</b>	<b>408</b>	<b>407</b>	<b>601</b>	<b>669</b>	<b>728</b>
Depreciation	170	179	190	201	213
Chg. in NWC	48	(68)	72	(29)	(32)
Chg. in Other CT Assets	144	143	17	9	4
<b>CF from Operating</b>	<b>386</b>	<b>511</b>	<b>702</b>	<b>891</b>	<b>969</b>
Capital Expenditure	116	135	171	175	176
Chg. in LT Assets	126	26	7	3	1
Chg in LT Liabilities	20	48	4	2	1
<b>CF from Investing</b>	<b>(222)</b>	<b>(113)</b>	<b>(174)</b>	<b>(176)</b>	<b>(177)</b>
Chg. in Share & APIC	15	-	-	-	-
Dividends Paid	(207)	(242)	(331)	(368)	(400)
Others	(213)	(8)	8	-	-
<b>CF from Financing</b>	<b>(405)</b>	<b>(250)</b>	<b>(323)</b>	<b>(368)</b>	<b>(400)</b>
Change in Cash	(241)	148	205	347	392
Beginning Cash	844	604	752	957	1,303
<b>Ending Cash</b>	<b>604</b>	<b>752</b>	<b>957</b>	<b>1,303</b>	<b>1,695</b>

Financial Ratio	2016	2017	2018E	2019F	2020F
<b>Profitability</b>					
ROE	12.0%	11.7%	16.4%	16.9%	17.1%
ROA	8.7%	8.4%	11.8%	12.4%	12.8%
Operating Margin	6.3%	6.7%	9.9%	10.2%	10.2%
EBITDA Margin	11.1%	11.6%	14.2%	15.1%	16.0%
<b>Liquidity &amp; Solvency</b>					
Current Ratio	2.8	3.0	3.2	3.5	3.8
Debt to Equity	0.4	0.4	0.4	0.3	0.3
Debt to Assets	0.3	0.3	0.3	0.3	0.2
<b>Valuation</b>					
Price to Earning (PE)	25.6	25.7	17.4	15.6	14.3
Price to Book (PBV)	3.1	3.0	2.8	2.6	2.4

Key Assumptions	2016	2017	2018E	2019F	2020F
Combined SSSG	6.3%	-1.2%	3.0%	3.0%	3.0%
Number of Stores	114	113	116	119	121
Receivable Days	2.7	3.5	3.6	3.5	3.4
Payable Days	56.2	60.4	59.9	58.3	56.7
Inventory Days	51.7	51.1	48.7	48.8	45.7
Cash Conversion Cycle	-1.9	-5.7	-7.6	-6.1	-7.7

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