Retail Sector

Top to Bottom Play

NEUTRAL

21 April 2017

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FY16 Review. FY16 results turned out to be a mixed bag amongst Indonesia's retailers as the strong national GDP growth (5.04%) together with lower inflation levels (3.3%) did not translate into high sales growth figures for all the premier Indonesian retailers. Buoyed by lower inflation levels and continued *pro-rakyat* government initiatives by the government, RALS posted top line growth for the first time since 2013 as the Jane Tumewu revolution continues with recent celebrity collaborations (RA Jeans) and new product launches (Disney) just part of RALS new look. With Ramayana department stores revitalized, the same cannot be said for LPPF whose top line growth was compromised by the increased competition coming from the recent entrances of foreign retailers and the emergence of E-Commerce platforms as an alternative shopping method. Going further up the income ladder, MAPI's strong FY16 results was driven largely by strong sales growth figures from their specialty stores and F & B segment as MAPI'S department stores continued to underperform compared to the company's other segments. Moving on from fashion retailers, grocery retailer MPPA's weak 4Q16 SSSG figures –9.4% came as a surprise considering that the year long inventory clean up process had already been completed as of 3Q16.

What's happened since. Through 3M17, rising administered electricity prices and an uptick in vehicle registration fees look to have contributed to sluggish private consumption. Low BI retail sales figures for January +6.3% YoY, February +3.7% YoY and projected +2.6% YoY for March coupled together with RALS SSSG figures (-0.1% 2M17, -5.8% Feb'17) point to a weakening purchasing power amongst the lower income segment. As for the middle to high segments, LPPF management has already guided for negative single digit SSSG with MAPI recording +4% SSSG through January and similarly in February. Also amongst the high end retailers, ACES recorded +5% SSSG through 3M17 and +7% SSSG in March indicating that discretionary spending amongst the higher end appears strong relative to the middle to low end income segment.

What's the thinking. With private consumption amongst the upper segment looking far superior compared to the lower segment, MAPI looks to be the safest bet amongst all retailers considering that unlike the other retailers RALS & LPPF, MAPI also benefits from the company's ever growing F & B segment. Not to go unnoticed, encouraging sales figures from MAPI'S Zara store in Vietnam with another store set to open this year only adds to what is already an impressive retail portfolio. The conclusion of the tax amnesty program and interest rate cuts makes us more inclined to favor high end retailers given the lower correlation to government spending and subsidies for which low-end consumption is highly correlated to. Taking into account all the above, we reiterate our NEUTRAL recommendation for both RALS and LPPF with the upcoming *Lebaran* period looming large for both retailers. MAPI remains our only BUY recommendation given the clear room for growth in both local and overseas (Vietnam) retail markets. On the other end of the spectrum, we have downgraded our recommendation from NEUTRAL to REDUCE for MPPA given the poor 4Q16 performance and unclear growth plans moving forward.

Retailers	Previous Recommendation	Previous Target Price (IDR)	Updated Recommendation	New 52 W— Target Price (IDR)
MPPA IJ	NEUTRAL	1,880	REDUCE	820
MAPI IJ	BUY	6,050	BUY	7,300
RALS IJ	NEUTRAL	1,450	NEUTRAL	1,200

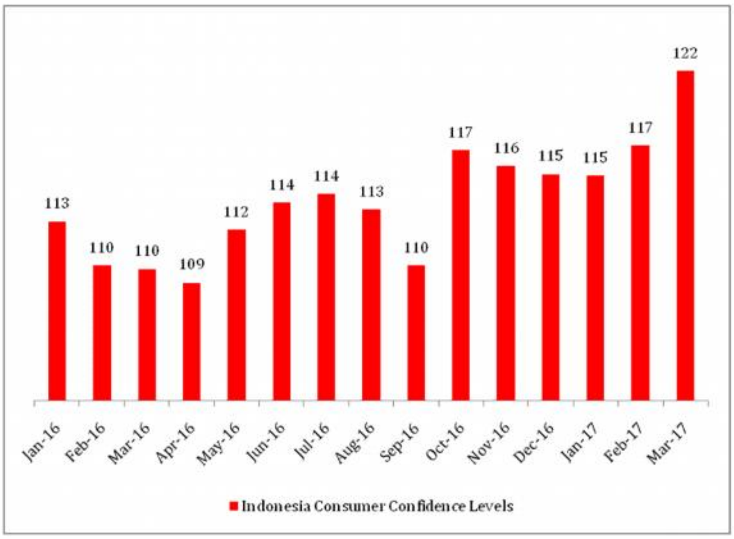
Source: Sinarmas Investment Research

Weakened Purchasing Power providing cloudy outlook. On the heels the Indonesian economy experiencing low inflation levels together with solid GDP growth, expectations for a strong start to the year was expected with the added benefit of rising commodity prices paving the way towards improved purchasing power levels. The real increase in minimum wage levels however, look to have dipped given the recent increase in electricity price tariffs as a result of infrastructure projects taking up a larger portion of the governments budget. On a region basis, the effect of rising commodity prices on the retail market seem to display contradicting views. On one end, weak Ex-Java (+0.4% through 3M17) and Java o/s Jakarta (-1.5% through 3M17) SSSG figures posted by RALS indicate weakened consumption in the outer regions compared to Greater Jakarta's resilient SSSG figure of 4.1% YTD. ACES' strong YTD SSSG figures (4.3%/6.2%/4%, Jakarta, Java o/s Jakarta & o/s Java respectively) however, indicate that private consumption looks to have been driven by the upper segment. Adding on to the speculation, conclusion of the tax amnesty's 2nd period may have catalyzed increasing private consumption judging from MAPI's posted SSSG figures of 0%/ 2%/ for Nov'16 and Dec'16 respectively compared to ~3-4% for Jan'17. It must also be noted, ACES strong SSSG figures comes from a higher 3M16 (+2.8%) base compared to RALS' 3M16 figure of –0.1%.

Taking a different view. While MAPI's and ACES' performance through 3M17 point to a higher spending rate amongst the higher income segment. Conducting a direct comparison to department store retailers like RALS & LPPF doesn't paint the full picture. From a consumers point of view, the emergence of E-commerce makes spending on discretionary items like fashion brands even more selective than ever. In other words, the simplicity of purchasing goods from smaller specialty stores or E-commerce may be more favored in contrast to shopping in larger department stores. Taking from LPPF's recent FY16 conference call, the expanded presence of foreign specialty stores including H&M and UNIQLO across large shopping centers in Indonesia has left LPPF's higher ticket items less popular amongst consumers. On further analysis, LPPF's SSG growth for the Greater Jakarta area proved to be the lowest in comparison to the outside regions where presence of foreign specialty stores remains very limited. MAPI's underperforming department stores also point to specialty stores being the more favored shopping destination especially considering that MAPI's department stores sell similarly priced, high end items. Considering all the above, we see Ex-Greater Jakarta growth being the main driver for LPPF & RALS going forward with the added benefit of E-commerce penetration being relatively weaker in the outer areas due to the infrastructure constraints.

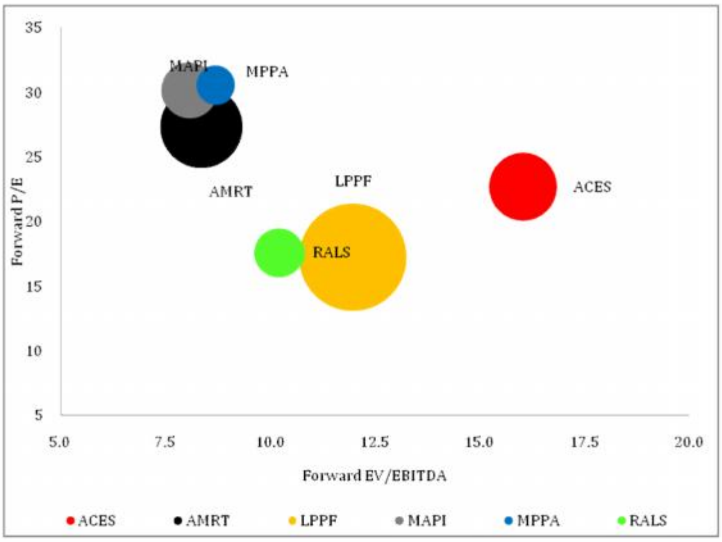
Maintaining a Neutral Position. From our point of view, sticking with the retailer with a clear growth route remains the best option. MAPI remains as our top pick for the sector on the back of a successful restructuring process adding to Starbucks expanded presence expected to provide the highest growth returns over the next few years. The intense competition amongst fashion retailers in Indonesia makes Zara's presence in Vietnam even more appealing taking into account that MAPI's sales in Vietnam represented 3% from overall sales in 4Q16. As for RALS, we remain intrigued by the continued revolution under Jane Tumewu but the uncertain outlook and highly successful *Lebaran* period FY16 may result in a weaker set of results than projected. On the other end of the spectrum however, the continued expansion of convenience stores including AMRT & Indomaret makes MPPA's growth potential severely limited across all regions. Viewing from Nielsen's FY16 data, Minimarket's contribution to Indonesia total grocery improved from 27% to 28.5% whilst contribution from super and hyper market stores decreased from 14.5% to 13.4% signifying a –1% growth YoY. Having reduced SKU'S following the completed inventory clear out and price levels to better compete with the likes of Indomaret. With that said we have downgraded our recommendations for MPPA as we view valuations to be demanding and see limited upside to revenue growth due to weakening demand in the sector.

Indonesia Consumer Confidence Index Levels



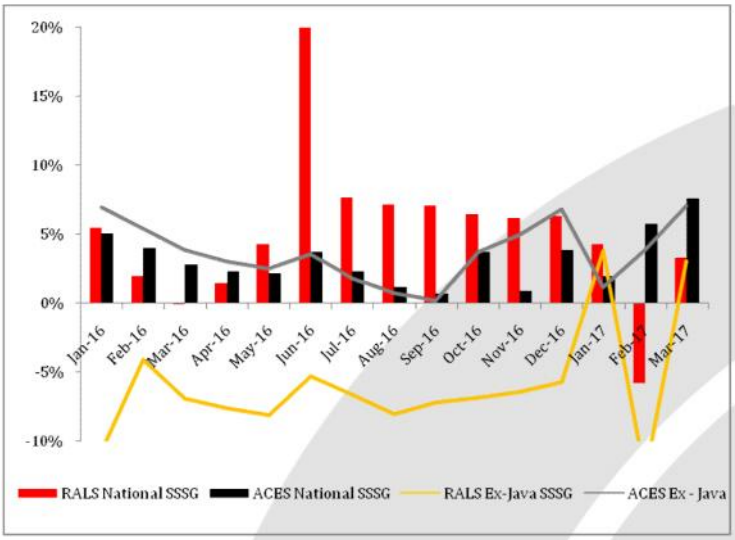
Source: Sinarmas Investment Research

Indonesian Retail Valuation Matrix



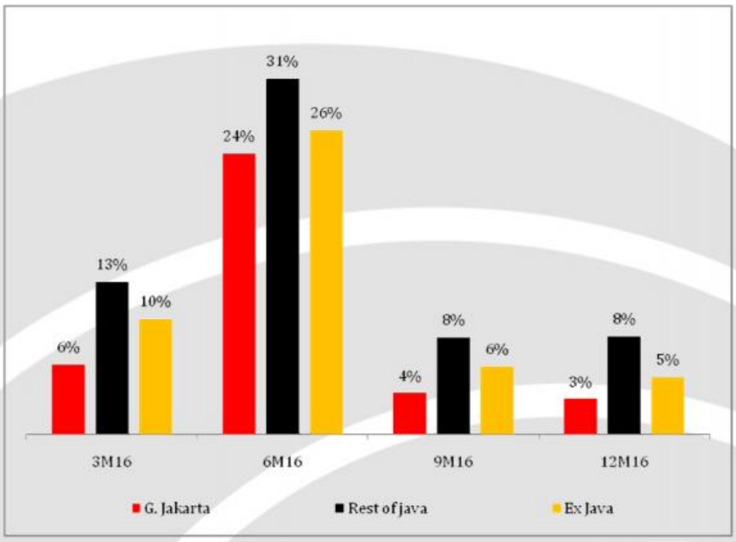
Source: Sinarmas Investment Research

RALS vs. ACES Monthly SSSG



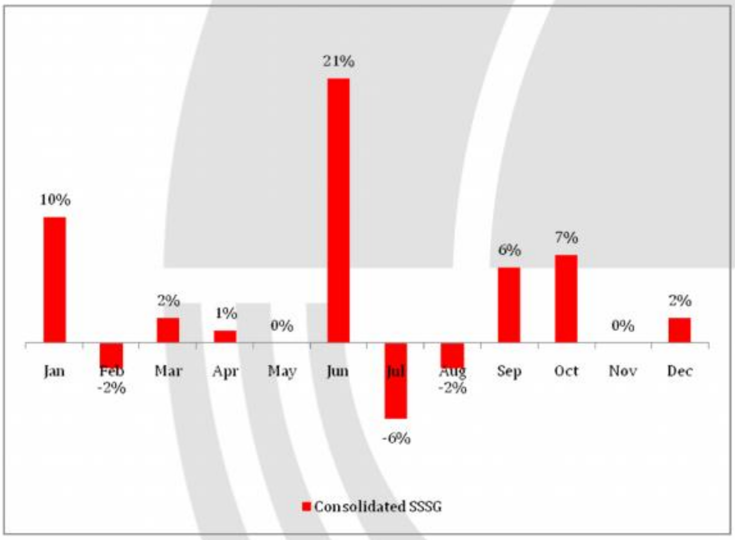
Source: Sinarmas Investment Research

LPPF FY16 SSSG — Regional Breakdown



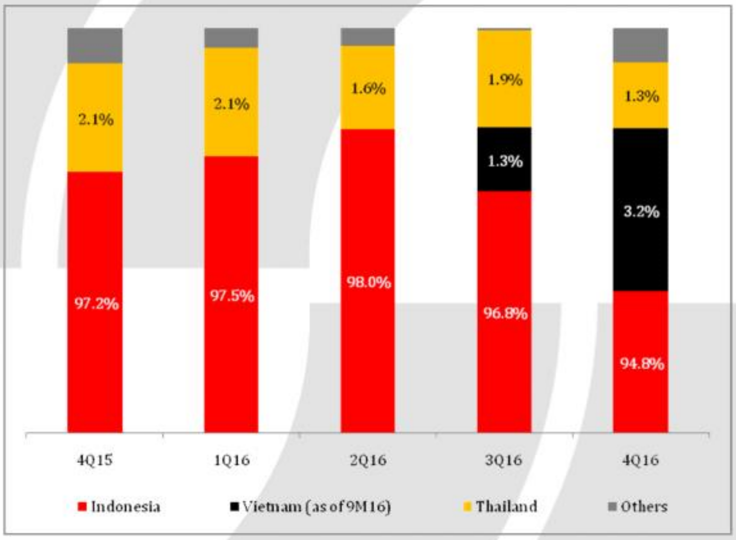
Source: Sinarmas Investment Research

MAPI Monthly Consolidated SSSG



Source: Sinarmas Investment Research, Company

MAPI Revenue Contribution by Country



Source: Sinarmas Investment Research

PT Ramayana Lestari Sentosa

Tempering Expectations

NEUTRAL (TP: IDR 1,200)

21 April 2017

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FY16 Results. Bouncing back from two consecutive years of negative sales growth, RALS aggresive marketing campaign paid off with net revenues, operating and net profits improving by 5.9%/ 46.9%/ 21.6% respectively. Margins at the operating level also improved drastically as operational expenses accounted for ~31.5% of net sales, down 40bps from 31.9% FY15. Despite the strong set of results, RALS was unable to achieve the targeted number of store openings as overall only 2 new stores were opened with 3 stores closing down FY16. Weaker than expected 4Q16 results (+2% YoY), especially in November also resulted in RALS missing the company's internal gross sales target of IDR 8.4bn, while margins at the operating level with pension and severance payments accounting for the slight increase in salary expenses.

Keeping the Flow. Having successfully launched their Disney products towards the end of 4Q16 to follow up on the massive success of the RA jeans line, RALS' focus for this year will be on improving their consignment products after posting only a 4.8% YoY growth in comparison to overall sales growth of 5.8% YoY. FY17, RALS plans to open up to 7 new stores with a further 20 stores up for refurbishment FY17 after 13 stores were succesfully transformed FY16. Given RALS track record however, we project RALS to open only 4-5 considering that the last 2 stores in Sumedang and Depok are slated for openings towards the end of the year.

Tempering Expectations. While the RALS transformation story continues, we remain cautious on earnings expectations for the year given the weak start to the year. Through 2M17, RALS posted SSSG figures of –0.1% YTD despite posting +4.3% SSSG in January. We suspect the weak consumption can be attributed to the recent increase in electricity price with further subsidy cuts planned in the upcoming months as the government may be reallocating funds to other sectors in the economy. Furthermore, volatile food prices and an uptick in vehicle registration fees look to have caused a further reduction of purchasing power levels of the lower segment.

Uncertainty Remains. Given the uncertain economy outlook, we have conservatively set a 3% SSSG figure for RALS this year, indicating net revenues and NPAT to grow by 5.4% and 8% respectively. **Taking everything into account, we reiterate our NEUTRAL recommendation on RALS while lowering our 52-W TP to IDR 1,200 pegging our valuations to FY17E PE. The stock currently trades at 18.7x PE.**

Financial Highlights	2015	2016	2017E	2018F	2019F
Net Revenue (IDR Bn)	5,533	5,857	6,171	6,534	6,888
% growth		*6%*	*5%*	*6%*	*5%*
Gross Profit (IDR Bn)	1,996	2,202	2,336	2,501	2,653
Net Profit (IDR Bn)	336	408	441	483	510
% growth		*22%*	*8%*	*10%*	*6%*
Gross Margin (%)	25.6%	26.7%	27.1%	27.5%	27.7%
Net Margin (%)	4.3%	5.0%	5.1%	5.3%	5.3%
Return on Equity (%)	7.2%	8.7%	9.1%	9.5%	9.6%
Return on Assets (%)	7.3%	8.7%	9.3%	9.7%	9.8%
EPS (IDR)	47	60	69	76	80

Source: Sinarmas Investment Research

Stock Information	
Sector	Retail
Bloomberg Ticker	RALS IJ
Market Cap. (IDR tn)	7.983
Share Out./Float (mn)	7,096/2,101
Current Price	IDR 1,125
52-week Target Price	IDR 1,200
Upside (%)	6.7%

Share Price Performance	
52W High (02/06/17)	1,510
52W Low (05/19/16)	650
52W Beta	1.28
YTD Change (%)	-5.8%

Relative Valuations	
Trailing P/E	18.8x
Forward P/E	17.5x
P/BV	2.3X
EV/EBITDA	11.1X

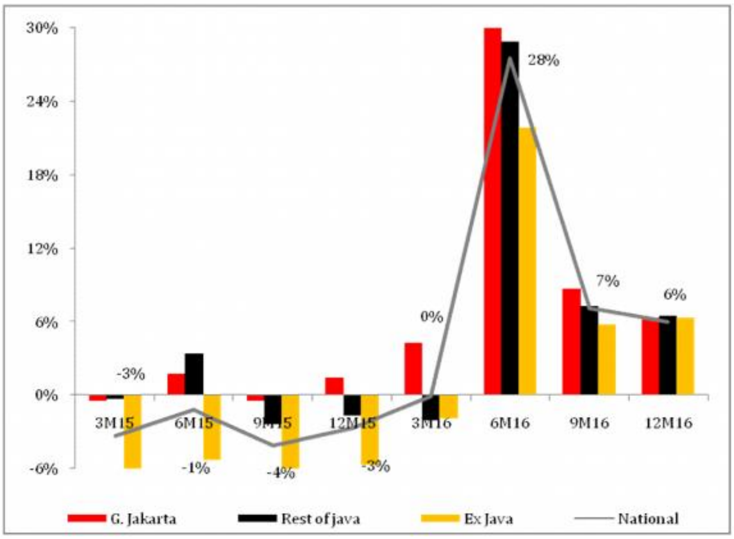
Flat 1Q17 Results. Coming on the heels of a breakthrough year for the company, RALS performance through 1Q17 have thus far been below expectations. Growth YTD has been stagnant at –0.2% (flat considering 1 extra day in FY16) with direct purchase (DP) and supermarket sales down –2.6%/ -1.7% respectively as RALS switches focus to consignment products, +3.7% YoY. After successfully revamping their SPAR supermarkets and successful launching of their new DP products (RA Jeans, Disney among others), the switch in focus towards consignment brands represents the next step of the RALS transformation as quality control across the multiple brands sold in Ramayana department stores being at top of the company's agenda. Despite all that, RALS reported 23.2% gross margin through 1Q17 (-1.5% QoQ, -3.3% YoY) represents a slight cause for concern considering the stagnant sales growth. Adding on to that, the recent rise in commodity prices which was expected to catalyze sales in the outer regions may have been overstated as sales in the Kalimantan, Sulawesi & Maluku regions were down –10.4% YoY in 4Q16. Typically the time lag between an uptick in commodity prices and improved discretionary spending ranges between 3-6 months, however, the recent cut in electricity subsidies along with volatile food prices look to have reduced purchasing power levels considerably.

SPAR Supermarkets continue to Underperform. Despite the successful rebranding of its supermarket chain SPAR, returns from their supermarket chain remain weak with –1.4% growth YoY through 2M17 and similarly –1.7% YoY through 3M17. We believe there are several factors hindering the growth of SPAR supermarkets which include store location, store concept and intensified competition coming from the rise of convenience stores and traditional markets. We argue that SPAR's growth may be hindered due to the current concept applied to most of its stores locations which still uses the old store-in-store concept. Under this concept we argue that consumers will continue to view the supermarket as a larger convenience store thereby are less likely to purchase in larger basket sizes typically associated with large supermarkets. Additionally, with most of RALS stores typically located close to wet markets, we believe that while this may play in favor of their traditional stores (considering the targeted consumer segment) it is likely hurting the chances of growth for its supermarkets. The variety and low prices offered in traditional markets makes shopping in SPAR supermarkets less attractive despite management having improved the fresh food line which had been a long term problem for the supermarket.

Make or Break? Upcoming *Lebaran* period to determine FY17 success. Basing upon the stagnant 1Q17 results, the upcoming *Lebaran* period will determine RALS success given the high internal target set by management of IDR 8.9trn in gross sales (Gross Sales FY16 was IDR 8.235trn). On a macro level, private spending appears to be top heavy especially considering the weakness in 2W sales for Mar'17, -16% YoY compared to 4W sales which is up +8% YoY. With high end retailers including MAPI & ACES showing improved SSSG levels, we remain cautious on private spending amongst the lower income segment. Given the unclear outlook, we have set a conservative SSSG target of 3% FY17 translating to gross sales and NPAT growth of 4.8% & 8% respectively. With the *lebaran* period accounting for ~34% total FY sales historically, RALS success this year will be predicated on the company's ability to at the very least, match last years performance for the same period (27.5% SSSG in Jun'16).

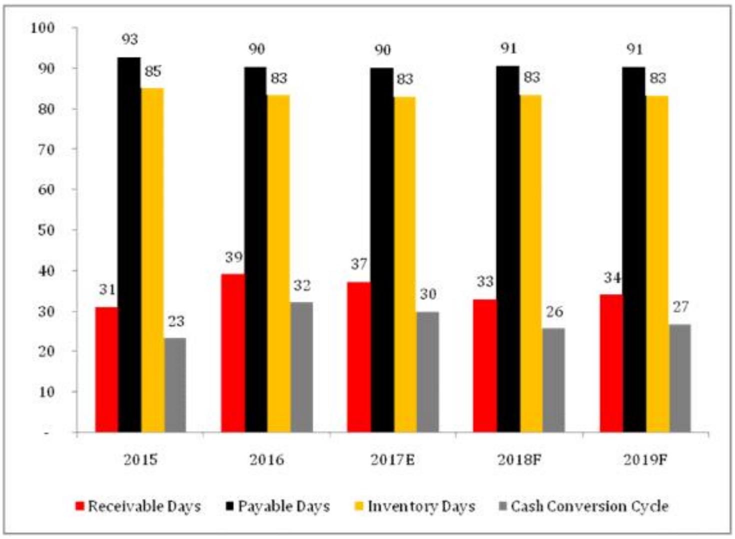
Taking a cautious position. Given the uncertain outlook for RALS, we recommend our investors to take a more cautious wait and see approach and thus we reiterate our NEUTRAL recommendation (TP: IDR 1,200) on RALS as we keep a close eye on their sales progress in 2Q16. We have pegged our valuations to 17x FY17E PE, equal to RALS' 3 year average PE.

RALS SSSG YTD



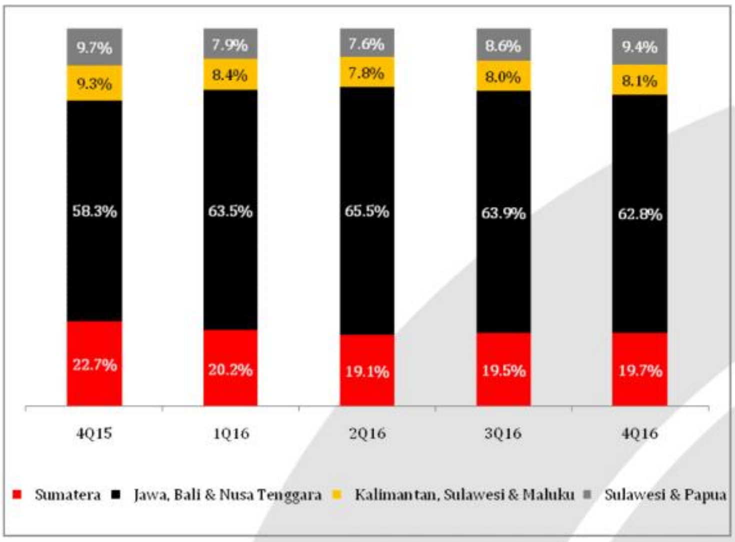
Source: Sinarmas Investment Research, Company

RALS Forecasted Cash Conversion Cycle



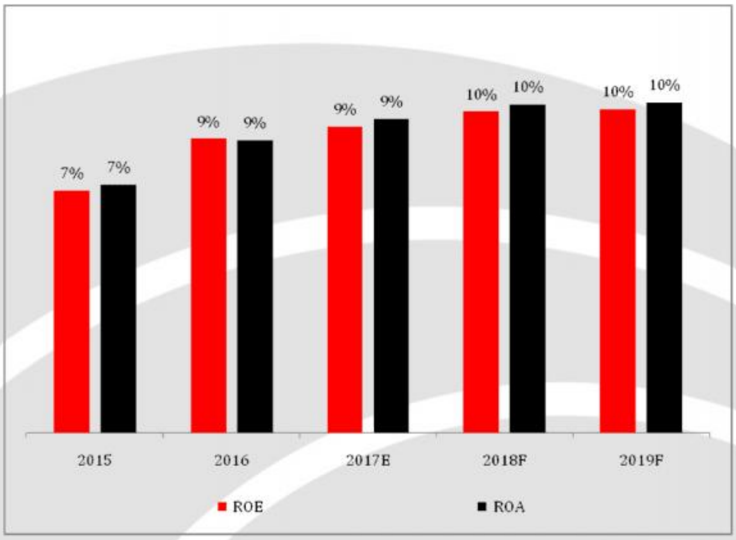
Source: Sinarmas Investment Research

RALS Revenue Contribution by Region



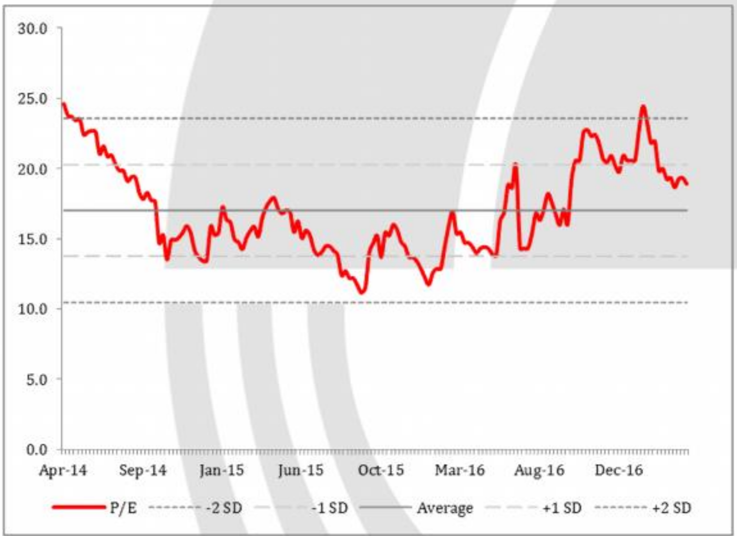
Source: Sinarmas Investment Research

RALS Forecasted ROE & ROA



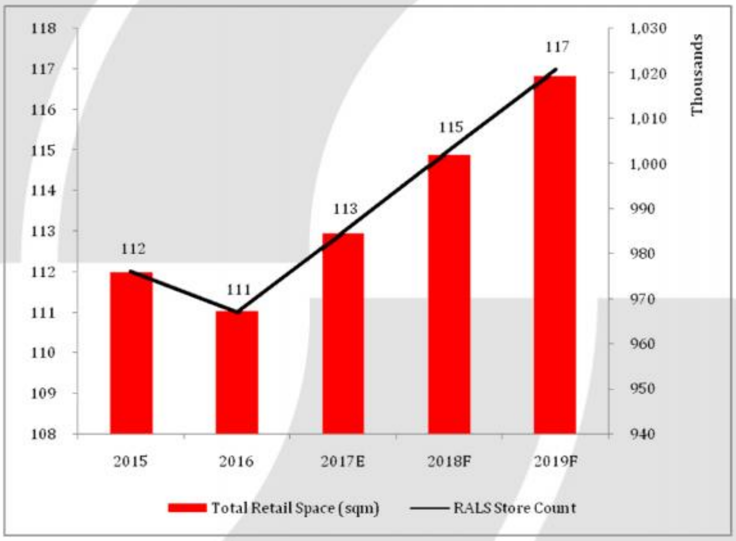
Source: Sinarmas Investment Research

RALS Trailing P/E Band



Source: Sinarmas Investment Research, Company

RALS Targeted Store Expansion



Source: Sinarmas Investment Research

Income Statement (IDR Bn)	2015	2016	2017E	2018F	2019F
Gross Revenues	7,786	8,235	8,631	9,091	9,582
Net Revenues	**5,533**	**5,857**	**6,171**	**6,534**	**6,888**
Cost of Goods Sold	(3,537)	(3,655)	(3,835)	(4,034)	(4,234)
Gross Profit	**1,996**	**2,202**	**2,336**	**2,501**	**2,653**
Operating Expenses	(1,762)	(1,845)	(1,947)	(2,071)	(2,199)
Depreciation	186	187	193	213	232
Operating Income	**251**	**368**	**400**	**442**	**467**
EBITDA	436	555	593	655	699
Tax Expenses	(29)	(57)	(61)	(67)	(71)
Net Income	**336**	**408**	**441**	**483**	**510**
EPS (Rp.)	47.6	60.0	64.8	71.0	74.9

Profitability Margins	2015	2016	2017E	2018F	2019F
Gross Profit Margin	25.6%	26.7%	27.1%	27.5%	27.7%
Operating Profit Margin	3.2%	4.5%	4.6%	4.9%	4.9%
EBITDA Margin	5.6%	6.7%	6.9%	7.2%	7.3%
Net Profit Margin	4.3%	5.0%	5.1%	5.3%	5.3%

Balance Sheet (IDR Bn)	2015	2016	2017E	2018F	2019F
Current Assets					
Cash & Cash Equivalents	844	604	582	524	521
Trade & Other Receivables	34	52	44	49	52
Inventories	824	834	871	922	966
Total Current Assets	**2,831**	**2,831**	**2,844**	**2,950**	**3,059**
Fixed Assets	1,333	1,279	1,423	1,547	1,651
Investments & Others	411	537	568	595	620
Total Assets	**4,575**	**4,647**	**4,834**	**5,091**	**5,330**
Current Liabilities					
Trade & Other Payables	900	904	949	1,003	1,050
Accrued Expenses	29	43	39	43	43
Current Loans	-	-	-	-	-
Total Current Liabilities	**961**	**1,009**	**1,044**	**1,114**	**1,167**
Long Term Liabilities	280	301	312	325	339
Total Liabilities	**1,241**	**1,310**	**1,356**	**1,439**	**1,506**
Total Equity					
Share Capital & APIC	472	487	472	472	472
Retained Earnings	3,045	3,247	3,402	3,577	3,748
Total Liabilities & Equity	**4,575**	**4,647**	**4,834**	**5,091**	**5,330**

Cash Flow (IDR Bn)	2015	2016	2017E	2018F	2019F
Net Income	**336**	**399**	**441**	**483**	**510**
Depreciation	186	187	193	213	232
Change in Current Assets	(108)	212	5	109	64
Change in Current Liabilities	(17)	43	(9)	16	5
Change in Net Working Capital	15	24	(16)	2	(0)
Operating Cash Flow	**597**	**394**	**635**	**601**	**684**
Fixed Assets	143	133	337	337	337
Other Assets	(85)	126	31	27	25
Change in Long Term Liabilities	8	20	11	13	14
Investing Cash Flow	**(51)**	**(239)**	**(356)**	**(351)**	**(348)**
Dividends	191	197	286	309	338
Debt	-	-	-	-	-
Share Capital & APIC	(136)	(198)	(15)	-	-
Financing Cash Flow	**(327)**	**(396)**	**(301)**	**(309)**	**(338)**
Change in Cash Position	219	(241)	(21)	(59)	(2)
Cash and cash equivalents Position b/f	625	844	604	582	524
Cash Position c/f	**844**	**604**	**582**	**524**	**521**

Financial Ratios	2015	2016	2017E	2018F	2019F
P/E	24.35	19.33	17.89	16.33	15.48
Yield (%)	2.3%	2.6%	3.6%	3.9%	4.3%
P/B	2.33	2.24	2.15	2.05	1.96
EV/EBITDA	10.11	13.08	11.64	10.63	9.96
ROE	7%	9%	9%	10%	10%
ROA	7%	9%	9%	10%	10%
Current Ratio	2.95	2.81	2.72	2.65	2.62
Debt to Equity	-	-	-	-	-
Debt to Assets	-	-	-	-	-

Retail Specifics	2015	2016	2017E	2018F	2019F
National SSSG	**-2.70%**	**6.30%**	**2.95%**	**3.50%**	**3.61%**
RALS Store Count	112	111	113	115	117
Receivable Days	31	39	40	35	36
Payable Days	93	90	90	91	91
Inventory Days	85	83	83	83	83
Cash Conversion Cycle	23	32	32	28	29

PT Mitra Adiperkasa

Bright at the Top

BUY (TP: IDR 7,300)

21 April 2017

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FY16 Results. A display of positive accomplishments across the board, MAPI posted net revenues of IDR 14.149 bn (+10.3% YoY) with specialty stores growing 14.4% YoY the highest growth followed by the F&B segment improving by 12.5% YoY. FY16, MAPI recorded SSSG figures of 6% for specialty stores, 7% F&B and –3% for department stores dragging down consolidated SSSG to 3% as net revenues from MAPI's department stores declined –2.9% YoY. On further discussion with management, we were informed Inditex specialty store brands including Zara, Pull & Bear, Stradivarius etc accounted for ~15% from total sales with specialty stores now accounting for almost 69% of MAPI's revenues. We were also encouraged to learn that MAPI's improvement in inventory days was ahead of schedule thanks in part to the involvements of private equity, CVC Capital Partner, in the sports active division and General Atlantic in the F&B division. Additionally, the company has also decided to bring on BCG as they attempt to resolve the declining performance of its department stores.

Inventory Days a Boon. Standing at 157 days to end FY16, MAPI's previous inventory issues are now fully a thing of the past as the figure provides breathing room below managements comfort level of 175-180 inventory days. Based on discussions with management, the only remaining inventory pile up comes in the golf division as weakened demand has left inventory days >12 months for the division. Despite that we were also encouraged to learn that CVC's influence on the active division has begun to pay fruition with EBITDA levels FY16 almost 3x the levels in 2015.

Aggressive Store Openings and Closures. Setting up for a big year, MAPI plans to open 50-60 new Starbucks stores, 1 new department store, 100-150 new specialty stores including 100 for active division outlets (as per MAPI's agreement wit CVC) and lastly another Zara outlet in Vietnam following the IDR 123.9 bn revenue contribution in 4Q16 from the company's first Zara store in Vietnam. Encouragingly, the company has also begun to close down underperforming stores as all of Lotus department stores outside of the Jakarta area have been closed to begin the year.

Clear Growth Plan. Unlike other retailers, MAPI is the only retailer with a clear growth plan given the strong brand loyalty towards two its biggest brands Zara & Starbucks. With the tax amnesty program completed, we suspect improved discretionary spending amongst the upper segment will continue to boost MAPI's sales. **Placing it all together, we reiterate our BUY call on MAPI with improved TP of IDR 7,300 implying 4.4x FY17E EV/EBITDA.**

Financial Highlights	2015	2016	2017E	2018F	2019F
Net Revenue (IDR Bn)	12,833	14,150	15,823	17,815	20,069
% growth		*10%*	*12%*	*13%*	*13%*
Gross Profit (IDR Bn)	6,002	6,873	7,712	8,734	9,911
Net Profit (IDR Bn)	30	208	369	496	645
% growth		*593%*	*77%*	*34%*	*30%*
Gross Margin (%)	46.8%	48.6%	48.7%	49.0%	49.4%
Net Margin (%)	0.2%	1.5%	2.3%	2.8%	3.2%
Return on Equity (%)	1.0%	6.5%	10.6%	12.9%	15.3%
Return on Assets (%)	0.3%	2.1%	3.4%	4.3%	5.1%
EPS (IDR)	18.1	125.6	222.3	298.6	388.4

Source: Sinarmas Investment Research

Stock Information	
Sector	Retail
Bloomberg Ticker	MAPI IJ
Market Cap. (IDR tn)	10.209
Share Out./Float (mn)	1,660/730.4
Current Price	IDR 6,150
52-week Target Price	IDR 7,300
Upside (%)	22%

Share Price Performance	
52W High (04/06/17)	6,750
52W Low (05/31/16)	3,760
52W Beta	1.00
YTD Change (%)	13.9%

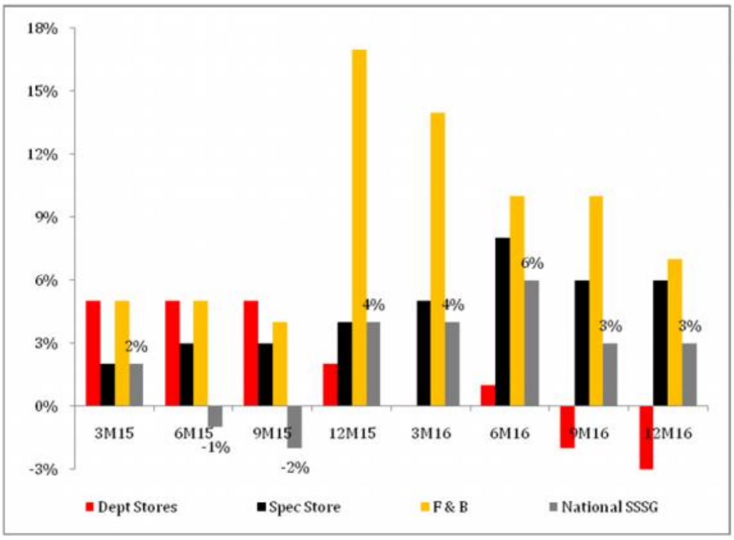
Relative Valuations	
Trailing P/E	48.9x
Forward P/E	29.8x
P/BV	3.2x
EV/EBITDA	8.7x

Inventory Restructuring Complete. Based on the solid set of results posted by MAPI (NPAT +590% YoY), the company's aggressive internal restructuring strategy certainly looks to be ahead of schedule. While the margin expansions and high growth were widely expected considering the low base from FY14-15, MAPI's inventory days dropping to 157 days was surprising. On a YoY basis MAPI's specialty stores posted strongest revenue growth +14.4% YoY followed by the F & B segment +12.5% YoY, while the department stores declined –2.9% YoY as had been expected. MAPI also posted strong improvements on the EBITDA and operating margin level (+210bps & +220bps respectively) in large part due to the improved inventory management leading to higher gross margins (+180bps YoY) to go along with improved efficiency as operating expenses represented 40.3% of net sales, up 40bps YoY. On further discussions with management, we were informed that the improved margins had a lot to do with CVC's influence in MAPI's active division with EBITDA levels improving since CVC began their involvement in 2015. Despite that, inventory days remains an issue for the active division with the golf division in particular, currently posting inventory days >12months largely due to a lack of demand. Moving forward, management expects to open between 100-125 new stores annually for the active segment in accordance with MAPI's agreement with CVC.

Focusing on the Best Performers. Continuing their aggressive store closures, MAPI opened the year closing all of the underperforming LOTUS department stores located outside the Jakarta area. For continued growth, MAPI's focus will be towards taking advantage of their strongest performing brands with management unlikely to add more brands to their already vast portfolio. Managements main focus, continued penetration of its high performing Inditex group specialty stores including Zara, Stradivarius, Bershka and Pull & Bear which combined to contribute ~15% of revenues. Another one of managements goal, the continued expansion of its Starbucks franchise with CAPEX for the F & B segment reaching an all time high FY16. In their attempt to control CAPEX, most of Starbucks new stores will operate in smaller store spaces with Starbucks chains in office buildings expected to be in the form a booth rather than the typical models seen previously. Given Starbucks' popularity, aided with the propensity of the working class to consume coffee, we are encouraged that these actions taken by management will results in both the continued growth of Starbucks' franchise while maintaining margins for the segment. Despite the optimism, MAPI's department stores continue to underperform with management guiding that its Debenhams department stores continue to be the worst performer with SOGO & SEIBU department stores actually recording positive SSSG for FY16. In their attempt to identify the weakness of their department stores, management has appointed BCG to identify and rectify issues pertaining to the underperforming segment. With that said, we view department stores as having limited upside with specialty stores the more favored consumer choice and thus we have set negative SSSG for department stores. As for the other two segments, we expect the F & B segment to contribute to highest growth FY17 due to the lack of competition present as we expect the continued entrance of foreign specialty stores and booming E-commerce spending as relevant threats to MAPI's specialty stores.

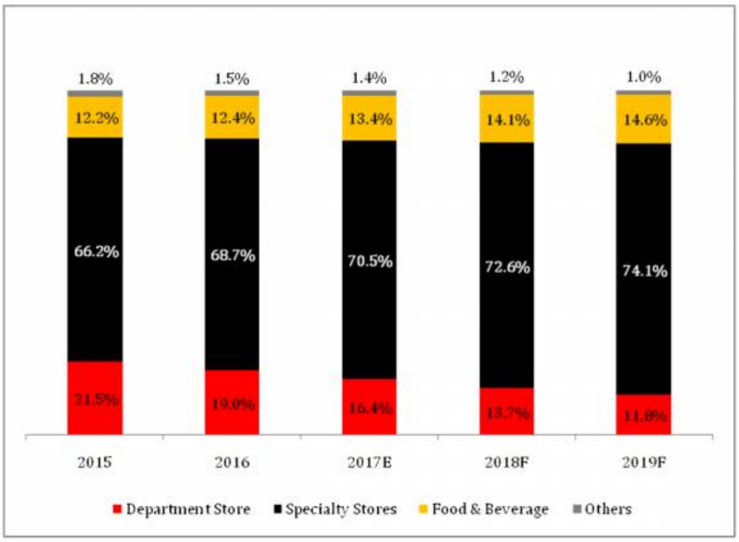
MAPI The Clear Choice. With MAPI starting the year off strong (4% SSSG through 1M17), the conclusion of the tax amnesty program paving the way for greater propensity to spend and clear potential for growth in the future, MAPI remains is our clear top pick for the retail sector. While MAPI's performance will always be susceptible to volatile exchange rates given that ~60% of COGS are imported, we remain confident the IDR will see less volatility against the USD compared to years past and potentially gain against the EUR & GBP. Based on this, we forecast MAPI to see slight improvements on the gross margin level with the superior gains to be realized on the operating and EBITDA levels given the efficiency plans set by management. We therefore reiterate our BUY recommendation for MAPI and raise our FY17 TP for MAPI to IDR 7,300 implying 4.4x FY17E EV/EBITDA.

MAPI SSSG YTD



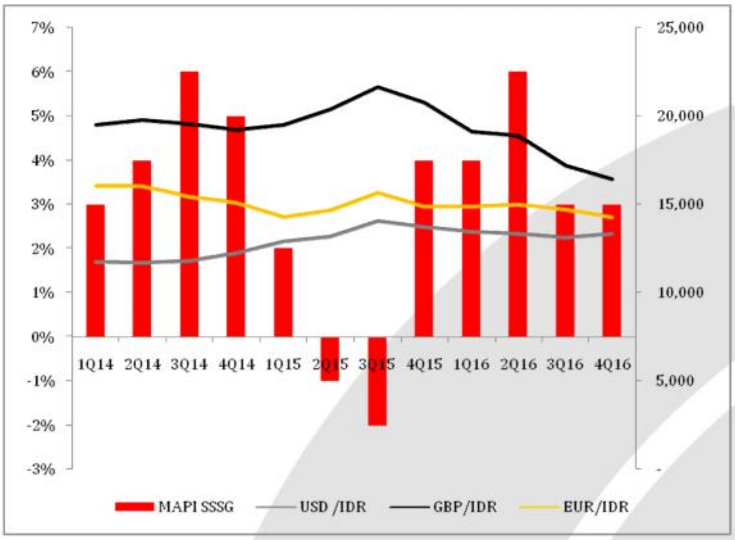
Source: Sinarmas Investment Research

MAPI Revenue by Segment



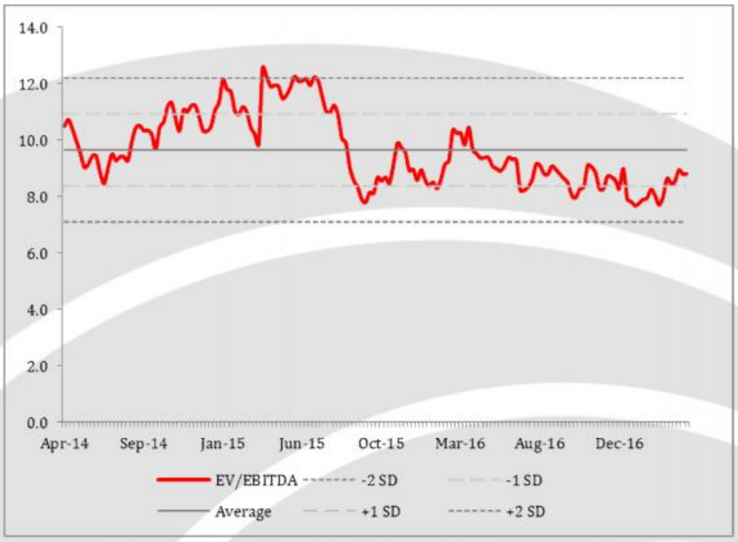
Source: Sinarmas Investment Research

MAPI SSSG vs. GBP, EUR & USD



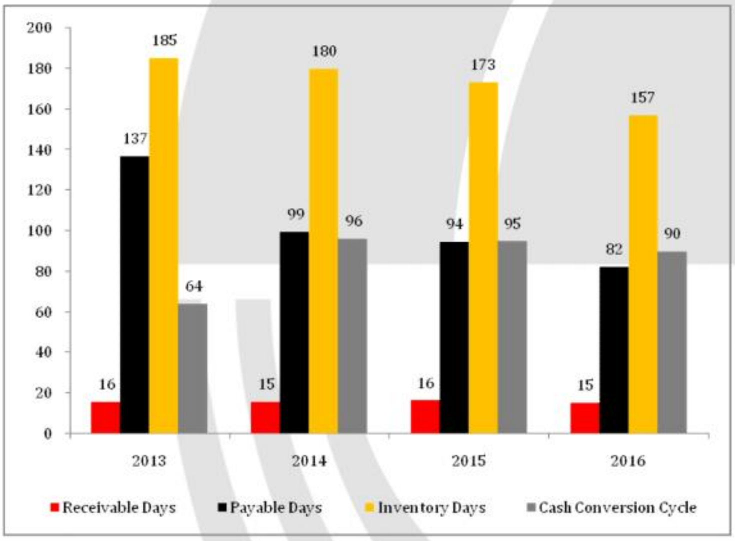
Source: Sinarmas Investment Research

MAPI's Trailing EV/EBITDA Band



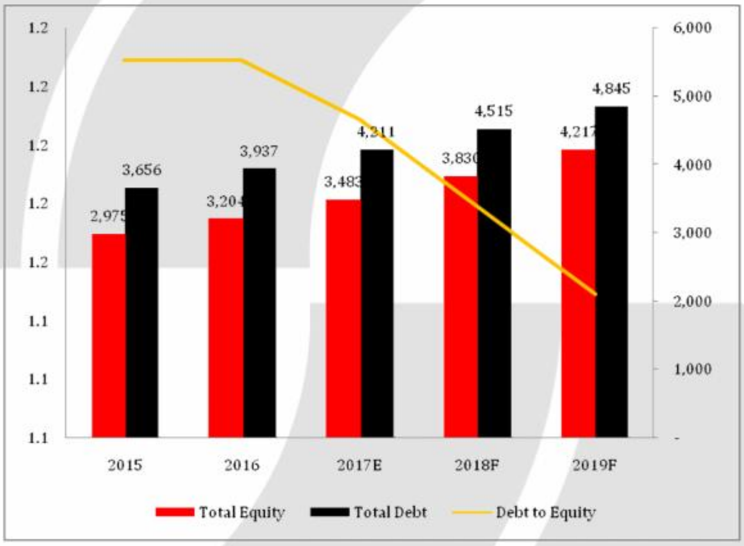
Source: Sinarmas Investment Research

MAPI Cash Conversion Cycle



Source: Sinarmas Investment Research, Company

MAPI Debt to Equity Ratio



Source: Sinarmas Investment Research

Income Statement (IDR Bn)	2015	2016	2017E	2018F	2019F
Gross Revenues	13,043	14,371	16,071	18,094	20,384
Net Revenues	**12,833**	**14,150**	**15,823**	**17,815**	**20,069**
Cost of Goods Sold	(6,831)	(7,277)	(8,111)	(9,081)	(10,159)
Gross Profit	**6,002**	**6,873**	**7,712**	**8,734**	**9,911**
Operating Expenses	(5,480)	(5,985)	(6,592)	(7,339)	(8,196)
Depreciation	597	644	716	803	896
Operating Income	**523**	**888**	**1,120**	**1,395**	**1,715**
EBITDA	1,120	1,532	1,836	2,197	2,611
Tax Expenses	(118)	(193)	(246)	(330)	(430)
Net Income	**30**	**208**	**369**	**496**	**645**
EPS (Rp.)	18.1	125.6	222.3	298.6	388.4

Profitability Margins	2015	2016	2017E	2018F	2019F
Gross Profit Margin	46.8%	48.6%	48.7%	49.0%	49.4%
Operating Profit Margin	4.1%	6.3%	7.1%	7.8%	8.5%
EBITDA Margin	8.7%	10.8%	11.6%	12.3%	13.0%
Net Profit Margin	0.2%	1.5%	2.3%	2.8%	3.2%

Balance Sheet (IDR Bn)	2015	2016	2017E	2018F	2019F
Current Assets					
Cash & Cash Equivalents	504	1,526	1,019	1,008	1,095
Trade & Other Receivables	568	578	667	750	841
Inventories	3,356	3,007	3,285	3,603	3,947
Total Current Assets	**5,696**	**6,616**	**6,667**	**7,434**	**8,360**
Fixed Assets	2,438	2,637	2,784	2,900	2,987
Investments & Others	236	232	308	309	310
Total Assets	**9,483**	**10,683**	**11,069**	**12,124**	**13,325**
Current Liabilities					
Trade & Other Payables	1,766	1,638	1,979	2,181	2,427
Accrued Expenses	235	294	310	348	392
Current Loans	938	1,889	1,053	1,129	1,211
Total Current Liabilities	**3,291**	**4,181**	**3,823**	**4,237**	**4,725**
Long Term Liabilities	2,719	2,611	3,158	3,387	3,634
Total Liabilities	**6,508**	**7,480**	**7,586**	**8,294**	**9,108**
Total Equity	2,975	3,204	3,483	3,830	4,217
Share Capital & APIC	823	823	823	823	823
Retained Earnings	2,996	3,224	3,504	3,851	4,238
Total Liabilities & Equity	**9,483**	**10,683**	**11,069**	**12,124**	**13,325**

Cash Flow (IDR Bn)	2015	2016	2017E	2018F	2019F
Net Income	**30**	**208**	**369**	**496**	**645**
Depreciation	597	644	716	803	896
Change in Current Assets	318	238	189	378	403
Change in Current Liabilities	39	67	137	136	158
Change in Net Working Capital	184	(211)	26	199	189
Operating Cash Flow	**164**	**893**	**1,006**	**858**	**1,107**
Fixed Assets	635	839	939	920	984
Other Assets	210	85	112	170	187
Change in Long Term Liabilities	30	189	(83)	66	80
Investing Cash Flow	**(815)**	**(735)**	**(1,134)**	**(1,025)**	**(1,092)**
Dividends	(7)	(0)	74	149	258
Debt	230	844	(289)	305	330
Share Capital & APIC	405	20	(16)	-	-
Financing Cash Flow	**642**	**864**	**(378)**	**156**	**72**
Change in Cash Position	(9)	1,022	(507)	(11)	87
Cash and cash equivalents Position b/f	513	504	1,526	1,019	1,008
Cash Position c/f	**504**	**1,526**	**1,019**	**1,008**	**1,095**

Financial Ratios	2015	2016	2017E	2018F	2019F
P/E	342.0	49.4	27.9	20.8	16.0
Yield (%)	0.0%	0.2%	0.7%	1.4%	2.5%
P/B	4.1	3.8	3.5	3.2	2.9
EV/EBITDA	10.1	8.0	8.4	7.2	6.1
ROE	1%	7%	11%	13%	15%
ROA	0%	2%	3%	4%	5%
Current Ratio	1.7	1.6	1.7	1.8	1.8
Debt to Equity	1.2	1.2	1.2	1.2	1.1
Debt to Assets	0.4	0.4	0.4	0.4	0.4

Retail Specifics	2015	2016	2017E	2018F	2019F
Department Store SSSG (%)	2%	-3%	-1%	0%	0%
Specialty Stores SSSG (%)	4%	6%	5%	5%	5%
Food & Beverage SSSG (%)	17%	7%	15%	10%	10%
Department Store	59	60	57	57	57
Specialty Stores	1,593	1,517	1,667	1,817	1,967
Food & Beverage	283	341	391	441	491
Receivable Days	16	15	15	15	15
Payable Days	94	82	89	88	87
Inventory Days	173	157	148	145	142
Cash Conversion Cycle	95	90	74	73	70

PT Matahari Putra Prima

Tough Times Remain

REDUCE (TP: IDR 820)

21 April 2017

Disappointing Set of Results. MPPA's 4Q16 results left a lot to be desired as revenues fell –10% YoY and –8% QoQ with sales in Sumatra and Kalimantan particularly weak according to management. The end result, negative growth from top to bottom as revenues fell –3% YoY and NPAT –79% YoY after already declined by –69% YoY between FY14 to FY15. While MPPA's poor performance during the inventory period (4Q15 through 1H16) dragged down earnings, the long anticipated rebound to normality remained absent in 4Q16. Additionally, despite achieving superior gross margins in 4Q16 resulting from the SKU cuts, bottom line margins suffered largely attributed to the high income tax expense. As for the industry, Indonesian grocery sales grew by 7.7% YoY with Modern Trade channel growing by 8.6% YoY from which the Super/Hyper format suffered growth of –1% YoY as the sheer growth of minimarket trade retailers (+13.7% YoY) continues to take away MPPA's market share. FTY, supermarket/ hypermarket retailers contribution to total grocery decreased from 14.5% to 13.4% as minimarket's contribution increased from 27% to 28.5% with traditional stores market share relatively flat.

Uncertain Outlook. The disappointing set of results aside, MPPA's outlook moving forward remains unclear as the growing threat posed by covenience stores looks set to continue with AMRT currently operating 12,336 stores (as of Dec'16) compared to the 116 hypermart stores to go along with a superior distribution network of 40 warehouses scattered throughout Indonesia. On a brighter note, of the 55 food categories, Food items registered a higher growth compared to non food items at 8.2% vs 6.7% YoY respectively which should translate well for MPPA given the shift of focus away from non-food items. MPPA's declining sales in the outer regions also represents a cause for concern as Sumatera and Kalimantan combined to contribute 15.5%/10.9% of MPPA's sales down from 17%/11.3% previously despite the same regions having posted total grocery growth of 5.5%/ 13.4% YoY respectively.

Our Recommendation. Moving forward, we view MPPA's room for growth as being limited considering the declining growth at present for Super/Hyper format segment. In terms of upside, MPPA's venture into the traditional trade route via its B2B Smartclub represents a potential route for growth as MPPA's Hypermarts will unlikely be able to compete with minimarkets both in terms of national presence and the lower prices offered especially in Indomaret stores. **Taking everything into consideration, we have downgraded our recommendation from NEUTRAL to REDUCE for MPPA with 52-Week TP of IDR 820 implying valuations of 29x FY17E PE. The stock currently trades at a demanding valuation of 130x PE.**

Financial Highlights	2015	2016	2017E	2018F	2019F
Net Revenue (IDR Bn)	13,802	13,527	14,374	15,418	16,533
% growth		*-2%*	*6%*	*7%*	*7%*
Gross Profit (IDR Bn)	2,269	2,294	2,495	2,726	2,944
Net Profit (IDR Bn)	222	38	153	187	196
% growth		*-83%*	*297%*	*22%*	*5%*
Gross Margin (%)	16.4%	17.0%	17.4%	17.7%	17.8%
Net Margin (%)	1.6%	0.3%	1.1%	1.2%	1.2%
Return on Equity (%)	8.8%	8.8%	1.6%	6.0%	6.9%
Return on Assets (%)	3.8%	3.8%	0.6%	2.2%	2.6%
EPS (IDR)	41.2	7.1	28.4	34.8	36.4

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Stock Information	
Sector	Retail
Bloomberg Ticker	MPPA IJ
Market Cap. (IDR tn)	4.974
Share Out./Float (mn)	5,378/ 1,273
Current Price	IDR 925
52-week Target Price	IDR 820
Upside (%)	-11.4%

Share Price Performance	
52W High (08/18/16)	2,130
52W Low (04/21/17)	925
52W Beta	1.48
YTD Change (%)	-37.5%

Relative Valuations	
Trailing P/E	129.2x
Forward P/E	30.2x
P/BV	2.0x
EV/EBITDA	10.7x

Long Anticipated Rebound. The company's well known inventory issues, originating towards the back end of FY15 has been well documented as MPPA's earnings suffered for the better part of the year. With the exception of the 2Q16 *Lebaran* period however, MPPA posted negative YoY growth for all other periods during FY16. FTY, In terms of market share, MPPA witnessed yet another decline with 4.2% market share (market share representing MPPA's gross sales vs. overall Indonesian Grocery Sales) representing a slippage of –43bps from FY15's market share. The decline in revenues, compounded by 9% YoY growth in expenses lead to significant margin compressions as the long anticipated rebound in SSSG figures failed to materialize with 3Q16 (-8.9%) and 4Q16 (-9.4%) figures way below market expectations. On a brighter note, the reduction in SKU's appears to have improved gross margins with the 19.3% level recorded in 4Q16 representing an all time high as inventory issues look to have finally been completed.

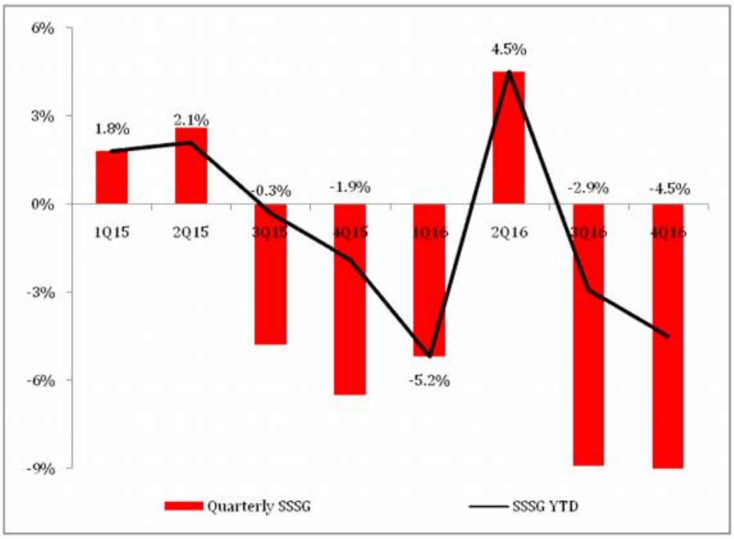
Oversupply vs. Dwindling Demand. Judging on retail industry data, MPPA's weak earnings look to have been caused by an overall decline for the Super/Hyper format rather than internal restructuring issues as the segment recorded a –1% YoY growth FY16. Aside from the seemingly weakened demand, the competition MPPA currently operates in remains fierce with other local grocery retailers including HERO (HERO supermarket & Giant Hypermarket), Ramayana (SPAR) and Super Indo currently operating 146, 101 and 141 stores respectively. Adding on to the intensity, Minimarket retailers Alfamart opened a total of 1,134 new stores with Indomaret opening 1,792 stores FY16 as minimarkets represented 28.5% of total Indonesian groceries, up 150bps YoY. Including cigarette sales into the equation, minimarket retailers contribution to Indonesian total grocery sales increased from 17.7% to 18.6% whilst Super/Hyper format decreased from 8.1% to 7.4%. On a YoY basis, food items registered a higher growth rate compared to non-food categories (8.2% vs. 6.7%) with total FMCG growing 7.7% YoY as compared to 11.5% the year before.

The Climb Begins. Given all the aforementioned results, FY17 represents MPPA's first full year post inventory clear out and SKU reduction. Despite the decline in growth, we argue Hypermart stores still remain a favored grocery destination especially for bulk buying consumers. While we don't anticipate MPPA to reach the levels of 2013—2014 sales, we anticipate FY17E SSSG figures to rebound to the low single digits given the low base SSSG from FY15—FY16. MPPA's venture into the traditional trade market via its B2B Smartclub business also offers upside as does the company's greater focus towards its fresh food line currently being used as traffic pullers under the new G7 Hypermart formats.

Ownership & Potential Investments. Early this year, there were rumors of a potential sale of MPPA's shares by one its primary shareholders Prime Star Investment Pte Ltd (Temasek). who currently own ~26% of shares in the company which resulted in a temporary rise in the stocks market share price. Although there have been no follow up news on that front, any potential sale of the company's ownership shares could rally share prices considering Temasek purchased MPPA at IDR 2,050. On the downside, speculation of MPPA potentially investing into mataharimall.com (GEI) could negatively affect share prices given the most recent investment by LPPF into the E-commerce platform.

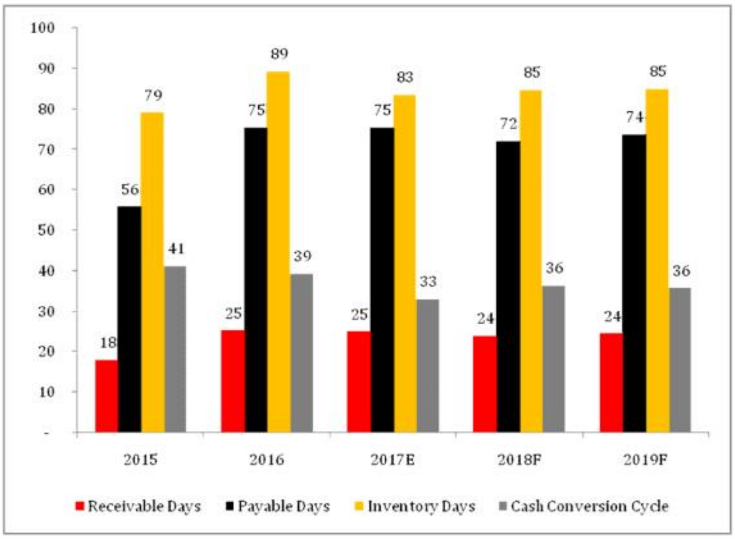
Awaiting Further Developments. After two consecutive years of underachieving, MPPA's climb back to normality represents a challenging one given the seemingly weakening demand in the industry. Given the limited upside to earnings growth, we believe that margin expansion through improved efficiency remains MPPA's highest potential for bottom line growth. **Taking everything into account and factoring in the current demanding valuations, we have downgraded our recommendation for MPPA to REDUCE with a 52—week target price of IDR 820 implying 29x FY17E PE as we await for further guidance from the company.**

MPPA Quarterly SSSG & YTD SSSG



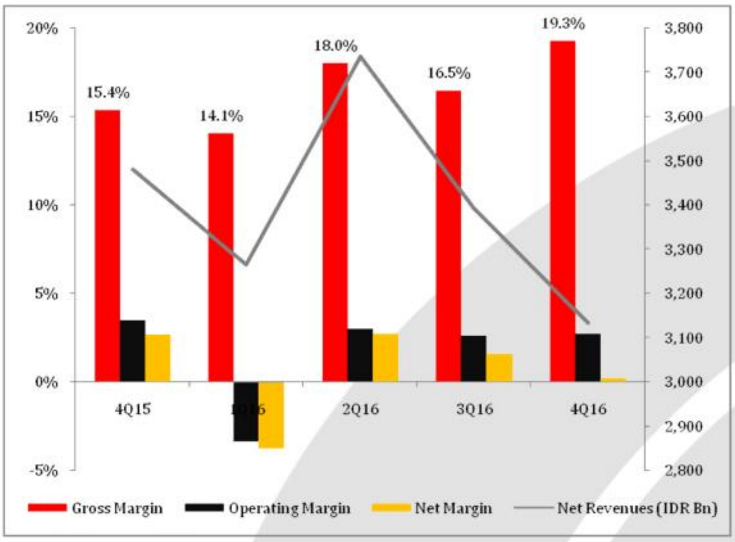
Source: Sinarmas Investment Research, Company

MPPA Forecasted Cash Flow Cycle



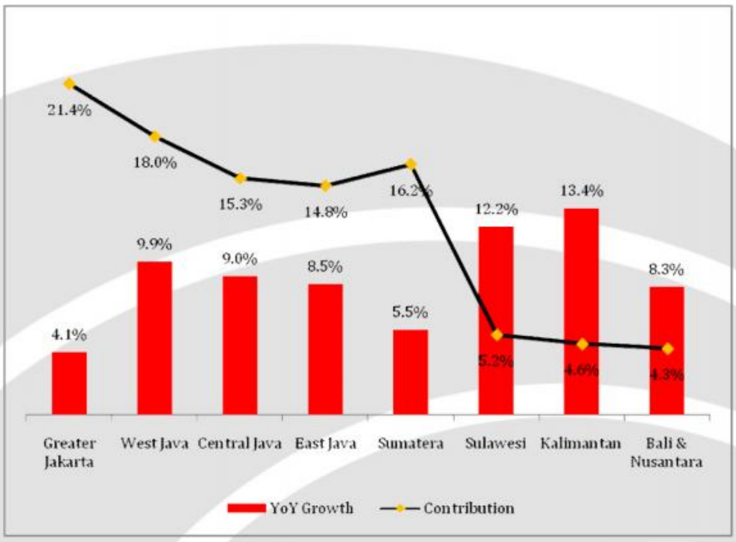
Source: Sinarmas Investment Research

MPPA Profitability by Quarter



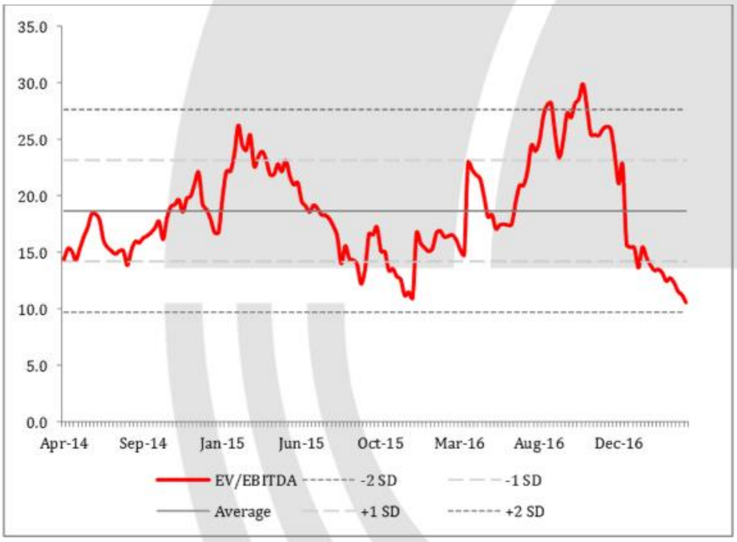
Source: Sinarmas Investment Research, Company

FY16 Indonesia Grocery—Regional Growth & Contribution



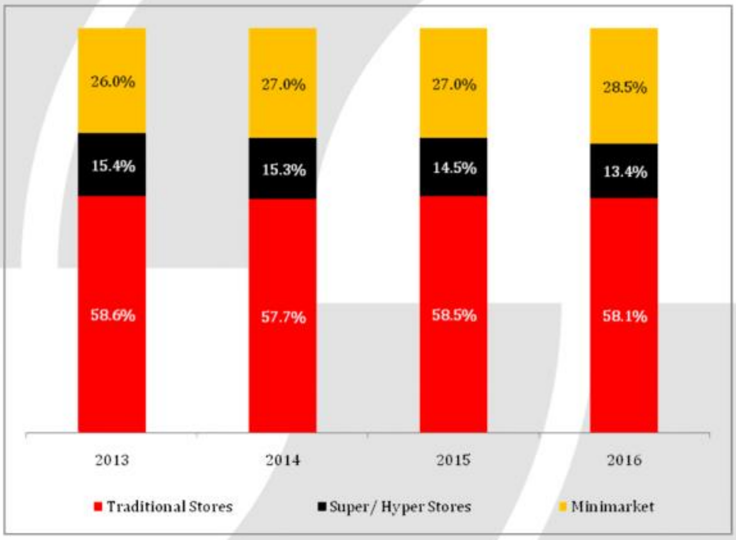
Source: Sinarmas Investment Research, Nielsen Retail Audit

MPPA's Trailing PE Band



Source: Sinarmas Investment Research, Company

FY 16 Indonesia Grocery — Trade Channel Distribution



Source: Sinarmas Investment Research, Nielsen Retail Audit

Income Statement (IDR Bn)	2015	2016	2017E	2018F	2019F
Gross Revenues	14,425	14,097	14,977	16,064	17,223
Net Revenues	**13,802**	**13,527**	**14,374**	**15,418**	**16,533**
Cost of Goods Sold	(11,534)	(11,233)	(11,878)	(12,692)	(13,589)
Gross Profit	**2,269**	**2,294**	**2,495**	**2,726**	**2,944**
Operating Expenses	(1,948)	(2,124)	(2,249)	(2,436)	(2,637)
Depreciation	(307)	(345)	(352)	(405)	(464)
Operating Income	**307**	**177**	**246**	**290**	**307**
EBITDA	615	522	598	695	771
Tax Expenses	(50)	(63)	(27)	(33)	(35)
Net Income	**222**	**38**	**153**	**187**	**196**
EPS (Rp.)	41.23	7.16	28.43	34.79	36.41

Profitability Margins	2015	2016	2017E	2018F	2019F
Gross Profit Margin	16.4%	17.0%	17.4%	17.7%	17.8%
Operating Profit Margin	2.2%	1.3%	1.7%	1.9%	1.9%
EBITDA Margin	4.5%	3.9%	4.2%	4.5%	4.7%
Net Profit Margin	1.6%	0.3%	1.1%	1.2%	1.2%

Balance Sheet (IDR Bn)	2015	2016	2017E	2018F	2019F
Current Assets					
Cash & Cash Equivalents	409	249	335	149	130
Trade & Other Receivables	674	930	978	1,004	1,103
Inventories	2,498	2,747	2,714	2,943	3,164
Total Current Assets	**3,710**	**4,102**	**4,164**	**4,244**	**4,556**
Fixed Assets	1,462	1,576	1,870	2,004	2,119
Investments & Others	2,057	2,696	2,517	2,587	2,848
Total Assets	**6,033**	**6,702**	**6,956**	**7,294**	**7,801**
Current Liabilities					
Trade & Other Payables	1,763	2,318	2,451	2,506	2,743
Accrued Expenses	360	400	388	424	455
Current Loans	250	140	140	179	217
Total Current Liabilities	**2,815**	**3,334**	**3,426**	**3,603**	**3,947**
Long Term Liabilities	400	610	610	610	610
Total Liabilities	**3,519**	**4,272**	**4,387**	**4,592**	**4,968**
Total Equity	2,514	2,430	2,569	2,703	2,833
Share Capital & APIC	1,043	1,043	1,043	1,043	1,043
Retained Earnings	1,471	1,386	1,526	1,659	1,790
Total Liabilities & Equity	**6,033**	**6,702**	**6,956**	**7,294**	**7,801**

Cash Flow (IDR Bn)	2015	2016	2017E	2018F	2019F
Net Income	**222**	**38**	**153**	**187**	**196**
Depreciation	307	345	352	405	464
Change in Current Assets	11	47	(39)	12	11
Change in Current Liabilities	(58)	75	(41)	83	69
Change in Net Working Capital	563	(48)	(118)	199	83
Operating Cash Flow	**(103)**	**460**	**622**	**464**	**634**
Fixed Assets	496	459	647	540	579
Other Assets	204	162	(101)	124	79
Change in Long Term Liabilities	51	24	23	28	32
Investing Cash Flow	**(649)**	**(597)**	**(522)**	**(635)**	**(626)**
Dividends	236	123	13	54	65
Debt	650	100	-	39	38
Share Capital & APIC	0	0	0	0	0
Financing Cash Flow	**414**	**(23)**	**(13)**	**(15)**	**(27)**
Change in Cash Position	(339)	(160)	86	(186)	(19)
Cash and cash equivalents Position b/f	748	409	249	335	149
Cash Position c/f	**409**	**249**	**335**	**149**	**130**

Financial Ratios	2015	2016	2017E	2018F	2019F
P/E	22.7	130.7	32.9	26.9	25.7
Yield (%)	4.6%	2.8%	0.3%	1.1%	1.3%
P/B	2.0	2.1	2.0	1.9	1.8
EV/EBITDA	34.3	18.0	11.0	7.9	7.2
ROE	8.8%	8.8%	1.6%	6.0%	6.9%
ROA	3.8%	3.8%	0.6%	2.2%	2.6%
Current Ratio	1.3	1.3	1.2	1.2	1.2
Debt to Equity	0.3	0.3	0.3	0.3	0.3
Debt to Assets	0.1	0.1	0.1	0.1	0.1

Retail Specifics	2015	2016	2017E	2018F	2019F
National SSSG	**-1.9%**	**-4.5%**	**3.0%**	**4.0%**	**4.0%**
Hypermart Store Count	112	115	120	125	130
Foodmart Store Count	23	26	29	32	35
Boston Health & Beauty Store Count	108	109	117	125	133
Foodmart Express Store Count	49	46	54	62	70
Smartclub Store Count	1	3	5	7	9
Receivable Days	18	25	25	24	24
Payable Days	56	75	75	72	74
Inventory Days	79	89	83	85	85
Cash Conversion Cycle	41	39	33	36	36

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.

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