

# Matahari Department Store

**BUY** (unchanged)

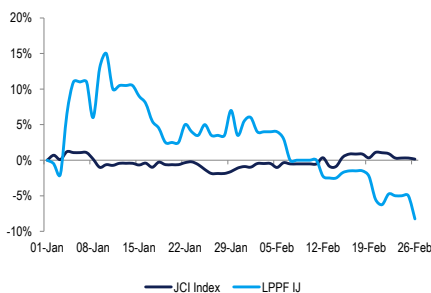
Company Update | Consumer Discretionary | LPPF IJ | 26 February 2024

**Stock Data**

Target price	Rp2,750
Prior TP	Rp3,500
Current price	Rp1,835
Upside/downside	+46%
Shares outstanding (mn)	2,260
Market cap (Rp bn)	4,418
Free float	41%
Avg. 6m daily T/O (Rp bn)	7

**Price Performance**

	3M	6M	12M
Absolute	7.3%	-31.8%	-63.3%
vs. JCI	3.4%	-37.4%	-69.5%
52w low/high (Rp)	1,535 – 5,175		


**Major Shareholders**

Auric Digital Retail Pte Ltd	42.5%
PT Multipolar Tbk	9.3%

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## 4Q23 results: miss in profit from inventory clearance

- LPPF booked FY23 net profit of Rp675bn (-51% yoy) and missed our/consensus estimate at 73/81% respectively.
- 4Q23 registered a net profit of Rp45bn, a huge -86% yoy decline due to lower GPM (-259bps yoy) on the back of aged inventory clearance
- We cut FY24/25F earnings by -21/-20% but view that the FY23 weakness is largely priced-in. Maintain BUY with lower TP of Rp2,750

**FY23 results: below both ours/consensus estimate**

LPPF printed FY23 net profit of Rp675bn (-51.2% yoy) and this came below at 73/81% of our/consensus FY23F estimate. FY23 gross sales grew marginally by 1.7% yoy to Rp12.6tr on the back of FY23 SSSG of -2.4%. GPM (based on gross sales) declined to 34.3% (vs. 35.6% in FY22), while opex to sales rose by 201bps yoy to 24.7% as rental cost (rent + dep. right of use assets) rose by 2.8% yoy amid the absence of rental discounts coupled with higher salaries expense of 14.8% yoy. In terms of store count, LPPF added 6 stores in FY23 (opened 8 and closed 2), taking total store count to 154 stores as of Dec23. To note, LPPF added a provision of impairment for closed stores of c.Rp85bn (vs. FY22' impairment reversal of Rp107bn).

**4Q23 results: discounting of aging inventory resulted in lower margins**

4Q23 net profit declined significantly to Rp45bn (-86.4% yoy). Gross sales rose only by 2.1% yoy to Rp2.9tr (+34.7% qoq, but GPM declined to 32.9% vs. 33.4/35.5% in 3Q23/4Q22) as LPPF aims to reduce inventory days to 26 days (vs. Sep23/FY22' 39/41 days). Opex to sales rose to 26.1% (+375bps yoy) as salary to sales expense ratio rose by 184bps yoy to 7.4% as there was a normalization from restatement of employee benefit liabilities amounting to Rp74bn in 4Q22 (salary expense reduction in 4Q22).

**Outlook and strategy: a cautious tone**

For FY24F, management would focus on quality store opening rather than quantity; and targets only 4-6 Matahari stores and 1 Mu&Ku stores (4Q24F). Additionally, they have 29 stores under watch-list (FY23 SSSG: -12.8% vs. regular stores' of -1.5%) with plans to close 10 of them. Management has withheld financial FY24F guidance until further clarity in 1Q24. Further, LPPF plans to distribute dividends of Rp200/sh (67% DPR, 10.9% yield).

**Maintain Buy at TP of Rp2,750 with FY24F Lebaran as key catalyst**

Amid FY23 earnings achievement, we cut our FY24/25F earnings by 21.2/19.7%. Next Lebaran shall be key for LPPF and we note FY23's Lebaran's low base may translate favourably for them. Maintain BUY with lower TP of Rp2,750 based on 7.8x FY24F PE (-1.s.d from its 5yr avg). We note that Auric has also increased their stake in LPPF to 42.5% (vs. 37.2% in Dec22) which is an encouraging sign, in our view.

Financial Summary (Rp bn)	2022A	2023A	2024F	2025F	2026F
Net Revenue	6,455	6,539	7,081	7,947	8,882
EBITDA	1,795	1,445	1,541	1,718	1,876
Net Profit	1,383	675	800	960	1,090
EPS growth	63.4%	-48.9%	18.4%	20.1%	13.5%
ROE	174.4%	217.6%	373.1%	143.7%	87.0%
PER (x)	3.1	6.1	5.2	4.3	3.8
Dividend Yield	13.7%	14.4%	10.9%	9.6%	11.6%
Forecast change			-21%	-20%	N/A
IPS/consensus			70%	82%	N/A

Sources: Company, Indo Premier

Share Price Closing as of : 26 February 2024

Fig. 1: LPPF 4Q23 result summary

(Rp bn)	4Q23	4Q22	% YoY	3Q23	%QoQ	12M23	12M22	% YoY	IPS FY23F	% IPS	Cons FY23F	% Cons	Comment
Gross sales	2,977	2,917	2.1%	2,211	34.7%	12,564	12,351	1.7%					
Net sales	1,559	1,490	4.6%	1,128	38.1%	6,539	6,455	1.3%	6,873	95%	6,674	98%	In-line
COGS	(579)	(455)		(391)		(2,225)	(2,053)						
Gross profit	980	1,035	-5.4%	738	32.8%	4,313	4,401	-2.0%					
Opex	(777)	(652)		(728)		(3,109)	(2,809)						
EBIT	203	383	-47.2%	9	2089.3%	1,204	1,592	-24.4%	1,434	84%	1,453	83%	Below
Other income (charges)	(146)	(50)		(77)		(374)	44						
PBT	57	333	-82.9%	(68)	N/A	831	1,637	-49.3%					
Tax benefit (expense)	(12)	(4)		14		(155)	(254)						
Net profit	45	329	-86.4%	(53)	N/A	675	1,383	-51.2%	925	73%	834	81%	Below
<b>Margins (%)</b>													
Gross margin	32.9%	35.5%		33.4%		34.3%	35.6%						
EBIT margin	6.8%	13.1%		0.4%		9.6%	12.9%						
EBITDA margin	9.1%	15.0%		3.4%		11.5%	14.5%						
Net profit margin	1.5%	11.3%		-2.4%		5.4%	11.2%						
*using gross sales													
<b>Sales</b>													
Direct Purchase	899	829	8.5%	631	42.6%	3,729	3,708	0.6%					
Consignment	2,075	2,083	-0.4%	1,578	31.5%	8,823	8,627	2.3%					
<b>Gross profit</b>													
Direct Purchase	320	374	-14.4%	240	33.5%	1,504	1,655	-9.1%					
Consignment	656	657	0.0%	495	32.5%	2,798	2,731	2.4%					
<b>GPM</b>													
Direct Purchase	35.6%	45.1%		38.1%		40.3%	44.6%						
Consignment	31.6%	31.5%		31.4%		31.7%	31.7%						

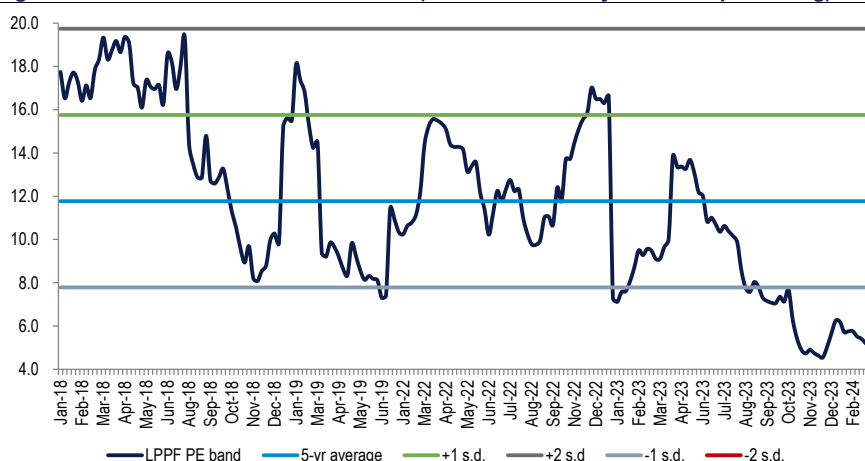
Source: Company, Indo Premier

Fig. 2: LPPF earnings changes

	Previous		Current		Changes	
	2024F	2025F	2024F	2025F	2024F	2025F
<b>Financial Performance (Rp bn)</b>						
Gross sales	14,136	15,728	13,629	15,296	-3.6%	-2.7%
Net sales	7,322	8,147	7,081	7,947	-3.3%	-2.5%
Gross profit	4,981	5,542	4,699	5,274	-5.7%	-4.8%
EBIT	1,498	1,722	1,300	1,470	-13.2%	-14.7%
EBITDA	1,738	1,966	1,541	1,718	-11.3%	-12.6%
Net profit	1,015	1,195	800	960	-21.2%	-19.7%
EPS (Rp)	449	529	354	425	-21.2%	-19.7%
<b>Profitability (%)</b>						
Gross margin	35.2%	35.2%	34.5%	34.5%	-0.8%	-0.8%
Operating margin	10.6%	10.9%	9.5%	9.6%	-1.1%	-1.3%
Net margin	7.2%	7.6%	5.9%	6.3%	-1.3%	-1.3%
<b>Key Drivers</b>						
New space added, in sq m	60,000	60,000	70,000	70,000	16.7%	16.7%
SSSG	4.0%	5.0%	4.0%	5.0%	0.0%	0.0%
<b>Growth driver (%)</b>						
Space grow th yoy	6.0%	5.7%	6.9%	6.5%	15.5%	14.5%
Sales grow th yoy	6.5%	11.3%	8.5%	12.2%	29.6%	8.6%
Net profit grow th yoy	9.7%	17.8%	18.4%	20.1%	90.0%	13.0%

Source: Company, Indo Premier

Fig. 3: LPPF is traded at 5.0x fwd. 12M PE (-1.7 s.d. from its 5yr ex-Covid period avg)



Source: Bloomberg, Indo Premier

Income Statement (Rp bn)	2022A	2023A	2024F	2025F	2026F
Net revenue	6,455	6,539	7,081	7,947	8,882
Cost of sales	(2,053)	(2,225)	(2,381)	(2,673)	(2,987)
<b>Gross profit</b>	<b>4,401</b>	<b>4,313</b>	<b>4,699</b>	<b>5,274</b>	<b>5,894</b>
SG&A Expenses	(2,809)	(3,109)	(3,399)	(3,805)	(4,267)
<b>Operating profit</b>	<b>1,592</b>	<b>1,204</b>	<b>1,300</b>	<b>1,470</b>	<b>1,628</b>
Net interest	(211)	(345)	(310)	(286)	(288)
Forex gain (loss)	0	0	0	0	0
Others	256	(28)	(28)	(28)	(28)
<b>Pre-tax income</b>	<b>1,637</b>	<b>831</b>	<b>962</b>	<b>1,155</b>	<b>1,311</b>
Income tax	(254)	(155)	(162)	(195)	(221)
Minority interest	0	0	0	0	0
<b>Net income</b>	<b>1,383</b>	<b>675</b>	<b>800</b>	<b>960</b>	<b>1,090</b>

Balance Sheet (Rp bn)	2022A	2023A	2024F	2025F	2026F
Cash & equivalent	354	508	509	1,215	2,030
Receivable	64	60	68	76	85
Inventory	896	793	857	962	1,075
Other current assets	131	88	85	85	85
<b>Total current assets</b>	<b>1,446</b>	<b>1,448</b>	<b>1,519</b>	<b>2,338</b>	<b>3,275</b>
Fixed assets	686	705	1,064	1,309	1,516
Goodwill	0	0	0	0	0
<b>Total non-current assets</b>	<b>4,304</b>	<b>4,432</b>	<b>4,988</b>	<b>5,434</b>	<b>5,845</b>
<b>Total assets</b>	<b>5,750</b>	<b>5,880</b>	<b>6,507</b>	<b>7,772</b>	<b>9,120</b>
ST loans	0	0	0	0	0
Payable	1,210	1,227	1,477	1,658	1,853
Other payables	98	140	0	0	0
Current portion of LT loans	0	0	0	0	0
<b>Total current liab.</b>	<b>2,356</b>	<b>2,953</b>	<b>2,636</b>	<b>2,867</b>	<b>3,114</b>
Long term loans	0	0	0	0	0
Other LT liab.	343	368	368	368	368
<b>Total liabilities</b>	<b>5,170</b>	<b>5,850</b>	<b>5,708</b>	<b>6,115</b>	<b>6,537</b>
Equity	254	244	244	244	244
Retained earnings	4,410	3,433	3,780	4,340	4,950
Minority interest	0	0	0	0	0
<b>Total SHE + minority int.</b>	<b>580</b>	<b>41</b>	<b>388</b>	<b>949</b>	<b>1,558</b>
<b>Total liabilities &amp; equity</b>	<b>5,750</b>	<b>5,890</b>	<b>6,096</b>	<b>7,063</b>	<b>8,095</b>

Source: Company, Indo Premier

Cash Flow Statement (Rp bn)	2022A	2023A	2024F	2025F	2026F
EBIT	1,592	1,204	1,300	1,470	1,628
Depr. & amortization	202	241	241	248	248
Changes in working capital	97	227	127	82	89
Others	(198)	(239)	(193)	(183)	(193)
<b>Cash flow from operating</b>	<b>1,694</b>	<b>1,433</b>	<b>1,476</b>	<b>1,617</b>	<b>1,771</b>
Capital expenditure	(222)	(392)	(458)	(493)	(455)
Others	327	(137)	(226)	(229)	(233)
<b>Cash flow from investing</b>	<b>106</b>	<b>(529)</b>	<b>(684)</b>	<b>(722)</b>	<b>(688)</b>
Loans	0	0	0	0	0
Equity	(269)	372	0	0	0
Dividends	(596)	(596)	(452)	(400)	(480)
Others	(12)	604	(339)	211	211
<b>Cash flow from financing</b>	<b>(878)</b>	<b>379</b>	<b>(791)</b>	<b>(188)</b>	<b>(269)</b>
<b>Changes in cash</b>	<b>922</b>	<b>1,283</b>	<b>1</b>	<b>707</b>	<b>814</b>

Key Ratios	2022A	2023A	2024F	2025F	2026F
Gross margin	68.2%	66.0%	66.4%	66.4%	66.4%
Operating margin	24.7%	18.4%	18.4%	18.5%	18.3%
Pre-tax margin	25.4%	12.7%	13.6%	14.5%	14.8%
Net margin	21.4%	10.3%	11.3%	12.1%	12.3%
ROA	23.8%	11.6%	12.9%	13.5%	12.9%
ROE	174.4%	217.6%	373.1%	143.7%	87.0%
Acct. receivables TO (days)	2.1	1.8	1.8	1.8	1.8
Inventory TO (days)	41.1	35.1	35.1	35.1	35.1
Payable TO (days)	60.1	60.5	60.5	60.5	60.5
Debt to equity	N/A	N/A	N/A	N/A	N/A
Interest coverage ratio (x)	(32.9)	13.4	30.9	N/A	N/A
Net gearing	-61.1%	104.1%	-131.1%	-128.1%	-130.2%

Source: Company, Indo Premier

## INVESTMENT RATINGS

BUY	: Expected total return of 10% or more within a 12-month period
HOLD	: Expected total return between -10% and 10% within a 12-month period
SELL	: Expected total return of -10% or worse within a 12-month period

## ANALYSTS CERTIFICATION

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