

Matahari Department Store

SELL (downgrade)

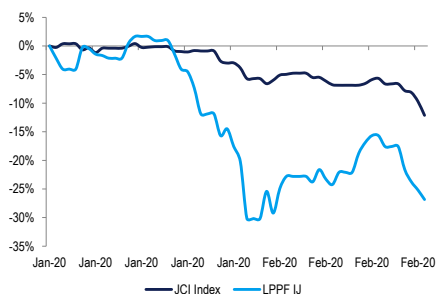
Company Update | Consumer Discretionary | LPPF IJ | 27 February 2020

Stock Data

Target price	Rp2,800
Prior TP	Rp3,800
Current price	Rp3,080
Upside/downside	-9%
Shares outstanding (mn)	2,805
Market cap (Rp bn)	8,639
Free float	74%
Avg. 6m daily T/O (Rp bn)	34.6

Price Performance

	3M	6M	12M
Absolute	-13.2%	2.7%	-44.5%
Relative to JCI	-5.1%	14.5%	-29.3%
52w low/high (Rp)	2,940 - 5,950		



Major Shareholders

PT Multipolar Tbk	18.8%
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Continue to disappoint

- LPPF's FY19 earnings was below our and consensus' estimates; mainly as margins dropped following inventory clearance and weak SSSG.
- 4Q19 SSSG of -1.5% was very weak, but we think we may yet to see the bottom. Inventory clearance shall continue; further eroding GPM.
- We expect -16.8% yoy earnings decline in FY20F on top of -27.7% yoy earnings decline in FY19; downgrade to SELL despite cheap valuation.

FY19 still disappoint despite investors' low expectation

LPPF recorded core profit of Rp1,350bn in FY19 (-27.7% yoy), below our and consensus' estimates at 92% and 91% respectively (net profit improved +24.6% yoy if we ignore the one-off impact from Matahari Mall's Rp770bn write-offs in 4Q18). Main culprit is the massive inventory clearance in 3Q-4Q19 that caused FY19 GPM to fall by 240bps yoy to 33.9%. In addition, FY19 net sales were flattish at Rp10.3tr, still in line with ours and consensus at 101%/99%, on the back of flat SSSG – causing lack of operating leverage.

Disappointment shall continue

The management indicated that 2020F may remain challenging, mainly as weak purchasing power was made worse by the emergence of coronavirus. While LPPF did not directly import their products from China, supply may be disrupted as its suppliers imported their raw materials from China. While 4Q19 SSSG was bad enough at -1.5%, 1Q20 SSSG may come out even worse. We now expect -2% SSSG for FY20F (vs. previously +2%). In addition, LPPF will continue to flush out aging inventories, meaning GPM will remain weak in the next few quarters, we believe.

Welcoming new CEO; change in strategy may be costly in the near term

Starting early this year, LPPF welcomed new CEO, Terry O'Connor (previously at Courts Asia), whom was speaking for the first time during the FY19 earnings call. Mr O'Connor acknowledges the need of making store products right, hence his decision to continue clearing aging inventory. In addition, he also commits on not opening any more specialty stores; while planning to discontinue "361 Degree" specialty stores (which were first opened only recently in Dec 2018). While these strategies may be necessary for the long run, short-term sentiment may be negative, in our view.

No signs of getting better soon; downgrade to SELL

While valuation at 8.7x 12M forward P/E looks appealing, fundamentals show otherwise. We cut our FY20-21F earnings estimates by 26-29%, thus lowering our DCF-based TP of Rp2,800 (implying 7.4x 2021F P/E) and downgrading our call to SELL (previously: HOLD). Potential M&A and its solid 10.6%/8.7% dividend yield are its only catalysts.

Financial Summary (Rp bn)	2018A	2019A	2020F	2021F	2022F
Revenue	10,245	10,276	10,141	10,496	10,862
EBITDA	2,638	2,084	1,810	1,802	1,785
EBITDA growth	-2.4%	-21.0%	-13.1%	-0.5%	-0.9%
Net profit	1,097	1,367	1,122	1,100	1,070
EPS (Rp)	376	469	385	377	367
EPS growth	-42.5%	24.6%	-17.9%	-2.0%	-2.7%
ROE	53.0%	76.7%	61.4%	53.2%	45.0%
PER (x)	8.2	6.6	8.0	8.2	8.4
EV/EBITDA (x)	2.8	3.6	4.0	3.9	3.9
Dividend yield	14.9%	10.4%	10.6%	8.7%	8.6%
Forecast change			-28.5%	-26.6%	N/A
IPS vs. consensus			74%	73%	N/A

Sources: Company, IndoPremier

Share price closing as of: 27 February 2020

Fig. 1: LPPF 4Q19 result summary

(Rp bn)	4Q19	4Q18	% YoY	3Q19	%QoQ	12M19	12M18	% YoY	Prev. FY19F	Comment
Gross sales	4,262	4,287	-0.6%	3,298	29.2%	18,155	17,942	1.2%	18,196	
Net sales	2,447	2,467	-0.8%	1,880	30.2%	10,276	10,245	0.3%	10,192	In line at 101%/99% of ours and consensus'
COGS	-1,037	-975		-862		-4,120	-3,867			
Gross profit	1,409	1,492	-5.6%	1,017	38.6%	6,156	6,378	-3.5%		
Opex	-1,148	-1,021		-994		-4,391	-4,048			
EBIT	261	471	-44.6%	23	1026.2%	1,766	2,330	-24.2%	1,848	In line at 96% of ours, but below consensus at 92%
EBITDA	338	555	-39.0%	103	229.2%	2,084	2,638	-21.0%		
Other income (charges)	-6	-779		8		-3	-754			
PBT	255	-307	-182.9%	31	722.8%	1,763	1,575	11.9%		
Tax benefit (expense)	-74	-91		-6		-396	-478			
Net profit	180	-398	N/A	25	634.6%	1,367	1,097	24.6%		
Core net profit	180	382	-53.0%	11	1524.2%	1,350	1,867	-27.7%	1,473	Below at 92%/91% of ours and consensus'
Margins (%)										
Gross margin	33.1%	34.8%		30.8%		33.9%	35.5%			
EBIT margin	6.1%	11.0%		0.7%		9.7%	13.0%			
EBITDA margin	7.9%	12.9%		3.1%		11.5%	14.7%			
Core NP margin	4.2%	8.9%		0.3%		7.4%	10.4%			

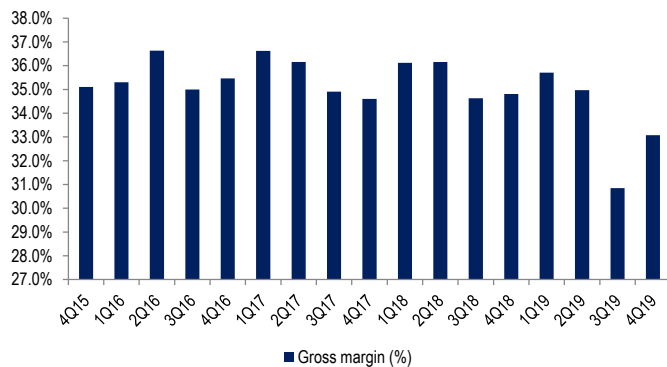
Sources: Company, IndoPremier

Fig. 2: Forecast change adjustments

	Previous		New		Changes	
	2020F	2021F	2020F	2021F	2020F	2021F
Financial Performance (Rp bn)						
Gross sales	18,635	19,122	18,138	18,773	-2.7%	-1.8%
Net sales	10,438	10,737	10,141	10,496	-2.8%	-2.2%
Gross profit	6,423	6,594	6,097	6,344	-5.1%	-3.8%
EBIT	1,888	1,793	1,470	1,442	-22.1%	-19.6%
Core net profit	1,510	1,442	1,122	1,100	-25.6%	-23.7%
Core EPS (Rp)	538	514	400	392	-25.6%	-23.7%
Profitability (%)						
Gross margin	34.5%	34.5%	33.6%	33.8%	-0.9%	-0.7%
Operating margin	10.1%	9.4%	8.1%	7.7%	-2.0%	-1.7%
Net margin	8.1%	7.5%	6.2%	5.9%	-1.9%	-1.6%
Key Drivers						
New space added, in sq m	6,000	6,000	15,000	15,000		
SSSG	2.0%	2.0%	-2.0%	2.0%		
Growth driver (%)						
Space growth yoy	0.6%	0.6%	1.5%	1.5%		
Sales growth yoy	2.4%	2.6%	-0.1%	3.5%		
Net profit growth yoy	2.5%	-4.5%	-16.8%	-2.0%		

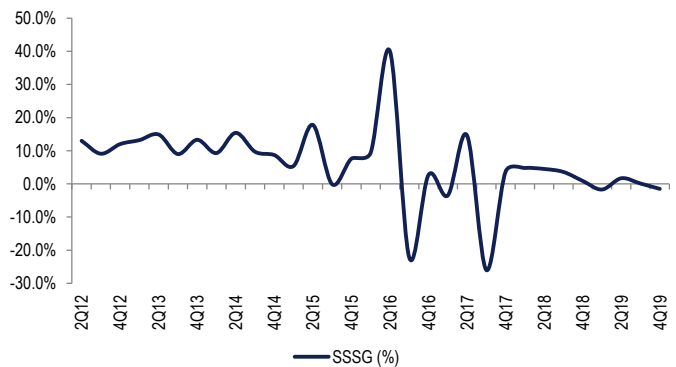
Sources: IndoPremier

Fig. 3: 4Q19 GPM continues to fall by 174bps yoy as inventory clearance continues; although improved by 223bps qoq



Sources: Company, IndoPremier

Fig. 4: 4Q19 SSSG further fell to -1.5%; but we think we may yet to see the bottom



Sources: Company, IndoPremier

Fig. 5: LPPF forward P/E band – currently trading at 8.7x 12M forward P/E



Sources: Bloomberg, IndoPremier

Income Statement (Rp bn)	2018A	2019A	2020F	2021F	2022F
Net Revenue	10,245	10,276	10,141	10,496	10,862
Cost of Sales	(3,867)	(4,120)	(4,044)	(4,152)	(4,261)
Gross Profit	6,378	6,156	6,097	6,344	6,600
SG&A Expenses	(4,048)	(4,391)	(4,626)	(4,902)	(5,193)
Operating Profit	2,330	1,766	1,470	1,442	1,408
Net Interest	8	(25)	(36)	(36)	(39)
Forex Gain (Loss)	0	0	0	0	0
Others-Net	(763)	22	0	0	0
Pre-Tax Income	1,575	1,763	1,435	1,406	1,368
Income Tax	(478)	(396)	(312)	(306)	(298)
Minorities	0	0	0	0	0
Net Income	1,097	1,367	1,122	1,100	1,070

Balance Sheet (Rp bn)	2018A	2019A	2020F	2021F	2022F
Cash & Equivalent	1,184	1,173	1,425	1,584	1,700
Receivable	129	86	113	117	121
Inventory	1,291	1,099	1,058	1,092	1,127
Other Current Assets	410	392	365	365	365
Total Current Assets	3,014	2,749	2,961	3,158	3,313
Fixed Assets - Net	1,249	1,433	1,568	1,721	1,899
Goodwill	0	0	0	0	0
Non-Current Assets	2,022	2,084	2,178	2,352	2,556
Total Assets	5,036	4,833	5,140	5,511	5,869
ST Loans	0	0	0	0	0
Payable	1,698	1,470	1,587	1,638	1,690
Other Payables	102	127	0	0	0
Current Portion of LT Loans	0	0	0	0	0
Total Current Liab.	2,740	2,598	2,739	2,796	2,854
Long Term Loans	0	0	0	0	0
Other LT Liab.	481	488	488	488	488
Total Liabilities	3,221	3,086	3,227	3,284	3,342
Equity	387	325	325	325	325
Retained Earnings	5,324	5,372	5,537	5,851	6,152
Minority Interest	0	0	0	0	0
Total SHE + Minority Int.	1,816	1,747	1,912	2,227	2,527
Total Liabilities & Equity	5,036	4,833	5,140	5,511	5,869

Sources: Company, IndoPremier

Cash Flow Statement (Rp bn)	2018A	2019A	2020F	2021F	2022F
EBIT	2,330	1,766	1,470	1,442	1,408
Depr. & Amortization	308	318	340	360	378
Changes in Working Capital	(317)	85	181	19	19
Others	(470)	(421)	(348)	(342)	(337)
Cash Flow From Operating	1,851	1,748	1,644	1,478	1,467
Capital Expenditure	(605)	(508)	(474)	(513)	(556)
Others	(56)	144	40	(21)	(26)
Cash Flow From Investing	(661)	(364)	(434)	(534)	(581)
Loans	0	0	0	0	0
Equity	(324)	(116)	0	0	0
Dividends	(1,335)	(934)	(957)	(786)	(770)
Others	(8)	8	0	0	0
Cash Flow From Financing	(1,666)	(1,042)	(957)	(786)	(770)
Changes in Cash	(476)	342	253	159	116

Key Ratios	2018A	2019A	2020F	2021F	2022F
Gross Margin	62.3%	59.9%	60.1%	60.4%	60.8%
Operating Margin	22.7%	17.2%	14.5%	13.7%	13.0%
Pre-Tax Margin	15.4%	17.2%	14.1%	13.4%	12.6%
Net Margin	10.7%	13.3%	11.1%	10.5%	9.9%
ROA	21.0%	27.7%	22.5%	20.7%	18.8%
ROE	53.0%	76.7%	61.4%	53.2%	45.0%
Acct. Receivables TO (days)	3.1	2.3	2.3	2.3	2.3
Inventory TO (days)	40.7	33.4	32.4	32.4	32.4
Payable TO (days)	56.8	48.6	48.6	48.6	48.6
Debt to Equity	0.0%	0.0%	0.0%	0.0%	0.0%
Interest Coverage Ratio (x)	74.7	31.0	23.5	20.9	18.6
Net Gearing	-65.2%	-67.1%	-74.5%	-71.2%	-67.3%

Sources: Company, IndoPremier

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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