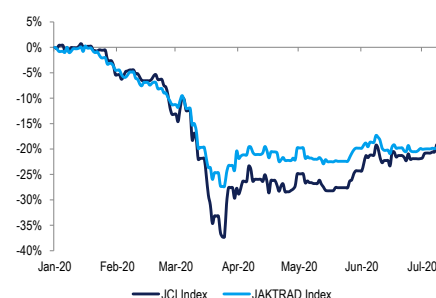


Sector Index Performance (JAKTRAD)

	3M	6M	12M
Absolute	-0.2%	-19.8%	-25.0%
Relative to JCI	-6.4%	-0.6%	-4.4%



Summary Valuation Metrics

P/E (x)	2020F	2021F	2022F
ACES IJ	30.1	24.1	22.8
LPPF IJ	10.0	5.6	5.6
MAPI IJ	20.6	10.1	6.8
RALS IJ	17.0	7.0	6.4

EV/EBITDA (x)	2020F	2021F	2022F
ACES IJ	23.2	18.5	17.4
LPPF IJ	2.9	1.7	1.7
MAPI IJ	5.0	3.1	2.0
RALS IJ	8.2	2.2	1.4

Div. Yield	2020F	2021F	2022F
ACES IJ	2.0%	1.7%	2.1%
LPPF IJ	0.0%	7.0%	12.6%
MAPI IJ	1.2%	0.8%	1.5%
RALS IJ	9.1%	3.4%	8.2%

Kevie Aditya

PT Indo Premier Sekuritas  
kevie.aditya@ipc.co.id  
+62 21 5088 7168 ext. 717

Elbert Setiadharmha

PT Indo Premier Sekuritas  
elbert.setiadharmha@ipc.co.id  
+62 21 5088 7168 ext. 718

## HIPPINDO concall takeaways

- We recently hosted a conference call with Indonesian Shopping Centers Tenants Association's (HIPPINDO) representatives.
- With Covid-19 cases remain high, malls traffic remain soft (c.30% of normal capacity) with F&B and selective fast fashion stores as winners.
- Maintain Neutral as opex efficiency benefit may be offset by worse than expected inventory clearance. ACES remain our preferred pick.

### Traffic remains soft despite malls re-openings

While almost all malls across Indonesia have re-opened, traffic remains soft especially in first-tier cities (i.e. Jakarta and Surabaya), estimated at around 30% of normal (with 50% capped capacity), albeit better at around 50-60% (no capped capacity) in second (i.e. Balikpapan) and third-tier cities (i.e. Cirebon). There wasn't any major excitement during reopening compared to neighbouring countries like Thailand (see our previous [report](#)). We believe this was due to persistently high Covid-19 cases as mid-upper segment is not confident enough to visit malls (despite having better purchasing power), while mid-lower segment's purchasing power was badly hit as many experienced significant pay cut. Also worth noting, non-malls (i.e. traditional markets, street hawkers) were notably more crowded than malls.

### Time to re-focus on brands

Better crowds were seen in the F&B establishments and selective fast fashion stores with notable brands are having its mid-year sale (i.e. Zara). Moreover, Hippindo also seeing the shift to online shopping (due to Covid-19) as positive, as existing offline retailers have better online infrastructure, as well as brand equity to compete with other online retailers. Nonetheless, they have seen online purchases to start trending down from its peak in Apr-May as some customers shifted to offline shopping when malls started to reopen.

### Cost cutting is still going strong

As Covid-19 hits retailers hard, many smaller players were shutting down their businesses while bigger players are considering scaling down its store size. As such, we believe retailers (especially anchor tenants, i.e. MAPI) will be able to secure a better rental rate in 2H20, or even up to next year. In the early months of re-openings, retailers also continuously negotiate rental discounts to the landlords as traffic remains soft (we think likely up to 50% or even more).

### Maintain Neutral with ACES as our top pick

We believe SSSG and GPM shall bottom in 2Q20. In sum, we have estimated an aggregate earnings decline of -47% yoy in FY20F. On a more positive note, traffic is improving although gradually, while cost cutting may continue to partially alleviate burdens. While weakness in FY20F shall be partially priced in, traffic recovery in 2021F may be slow and gradual. We maintain our Neutral call on the sector; ACES is our top pick thanks to its nature as home improvement retailer and excellent product mix.

## Expert talks: HIPINDO

### Traffic remains soft amidst malls re-openings

While almost all malls across Indonesia have re-opened, traffic remains soft especially in first-tiered cities, estimated at around 30% of normal, albeit better at around 50-60% in second- and third-tiered cities. No major excitement was seen, unlike in Thailand (see our previous [report](#)) as Covid-19 cases remain high. Mid-upper segment is not confident enough to visit malls despite having maintained purchasing power, while mid-lower segment's purchasing power was badly hit as many received significant pay cut. Also worth noting, non-malls (i.e. traditional markets, street hawkers) were notably more crowded than malls.

**Fig. 1: Our channel check to Grand Indonesia shopping centre on weekend of 4 July. Traffic has slowly improved since the first weekend of re-openings, although remains soft**



Source: Indo Premier

### Cost cutting is still going strong

As Covid-19 hits retailers hard, many smaller players were shutting down their businesses. On top of that, many bigger players are considering to scale down its store size. As such, we believe retailers (especially anchor tenants, i.e. MAPI) will be able to secure a better rental rate going forward. In the early months of re-openings, retailers also continuously negotiate rental discounts to the landlords as traffic remains soft.

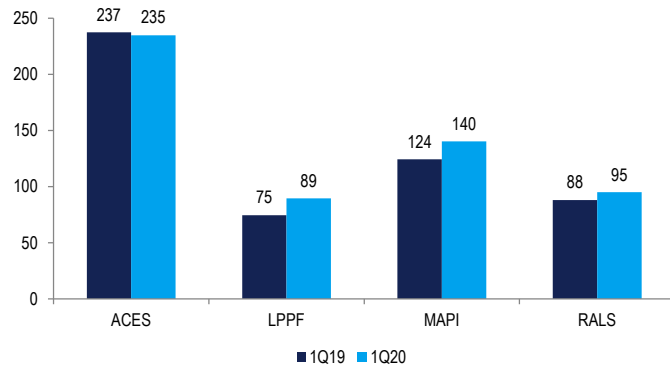
Nonetheless, with current inventory build-ups, we think heavy discounting may continue until the end of FY20F. In sum, we estimated -80bp yoy weighted-average GPM decline in FY20F, with -80bp yoy GPM decline in LPPF, -110bp yoy GPM decline in MAPI, and -83bp yoy GPM decline in RALS, while only ACES will be able to maintain its GPM amid its solid product mix and stable US\$/Rp.

**Fig. 2: Retailers' 1Q20 performance in a glance**

	ACES	LPPF	MAPI	RALS
Sales growth	6%	-18%	1%	-12%
GPM increase / (decrease) *	+162bps	-236bps	-45bps	-121bps
Net profit growth	4%	-166%	-94%	-83%

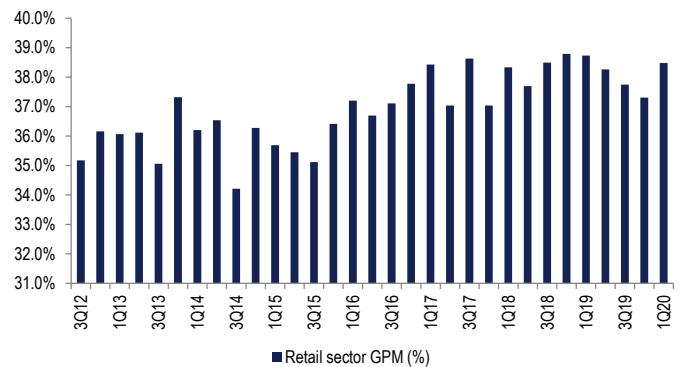
Source: Company, Indo Premier

Fig. 3: Retailers' inventory days as of 1Q20 (vs. 1Q19)



Source: Company, Indo Premier

Fig. 4: Retailers' blended GPM fell to 38.5% in 1Q20 (-25bps yoy, +117bps qoq)



Source: Company, Indo Premier

Fig. 5: Retailers' performance matrix

	SSSG (%)			GPM (%)			EBIT margin (%)			Core profit growth (%)		
	2019	2020F	2021F	2019	2020F	2021F	2019	2020F	2021F	2019	2020F	2021F
ACES	5.5%	-6.0%	10.0%	45.5%	45.5%	45.5%	13.6%	11.1%	12.0%	9.1%	-14.8%	25.1%
LPPF	0.0%	-35.0%	30.0%	33.9%	33.1%	33.4%	9.7%	4.4%	5.9%	-27.7%	-70.8%	77.8%
MAPI	4.0%	-20.0%	20.9%	41.4%	40.3%	41.2%	7.8%	5.6%	7.4%	25.3%	-41.9%	90.6%
RALS	0.0%	-30.0%	40.0%	29.3%	28.4%	28.4%	6.7%	0.7%	4.8%	8.9%	-62.5%	141.4%
<b>Weighted-average</b>	<b>2.8%</b>	<b>-22.4%</b>	<b>23.6%</b>	<b>38.8%</b>	<b>38.0%</b>	<b>38.5%</b>	<b>9.2%</b>	<b>5.7%</b>	<b>7.5%</b>	<b>7.2%</b>	<b>-46.7%</b>	<b>81.9%</b>

Source: Company, Indo Premier

## Maintain Neutral with ACES as our top pick

We believe SSSG and GPM shall bottom in 2Q20. In sum, we have estimated an aggregate earnings decline of -47% yoy in FY20F. On a more positive note, traffic is improving although gradually, while cost cutting may continue to partially alleviate burdens. While weakness in FY20F shall be partially priced in, traffic recovery in 2021F may be slow and gradual. We maintain our Neutral call on the sector; ACES is our top pick thanks to its nature as home improvement retailer and excellent product mix.

Fig. 6: Sector comparison table

Company	Bloomberg Ticker	Current Price (in local currency)	Market Cap (US\$ mn)	3-year EPS CAGR (%)	P/E (x)		EV/EBITDA (x)		ROE (%)		Div. Yield (%)	
					2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F
Ace Hardware Indonesia	ACES U	1,540.0	1,847	4.3%	30.1	24.1	23.2	18.5	18.1%	20.5%	2.0%	1.7%
Matahari Dept. Store	LPPF U	1,410.0	277	-20.0%	10.0	5.6	2.9	1.7	20.3%	29.8%	0.0%	7.0%
Mitra Adiperkasa	MAPI U	725.0	842	24.2%	20.6	10.1	5.0	3.1	7.6%	13.5%	1.2%	0.8%
Ramayana Lestari Sentosa	RALS U	575.0	328	0.0%	17.0	7.0	8.2	2.2	5.8%	13.6%	9.1%	3.4%
<b>Regional</b>												
Central Retail Corp	CRC TB	33.5	6,438	-8.8%	44.0	27.2	16.7	13.3	8.9%	11.3%	1.0%	1.5%
Home Product Center	HMPRO TB	15.6	6,538	4.7%	39.6	32.3	22.4	19.7	25.2%	27.3%	2.0%	2.5%
Robinsons Retail Holdings	RRHI PM	64.8	2,035	12.5%	24.9	21.3	8.5	7.9	6.0%	6.7%	0.9%	0.9%
Aeon Co	8267 JP	2,533.5	20,463	6.5%	160.6	63.7	9.7	8.1	0.2%	3.6%	1.5%	1.5%
<b>America</b>												
Target Corp	TGT US	118.1	59,032	4.5%	24.2	18.3	11.7	9.9	20.7%	27.4%	2.3%	2.4%
Walmart Inc	WMT US	127.0	359,517	5.5%	24.1	22.3	12.0	11.7	16.9%	19.9%	1.8%	1.8%
Macy's Inc	M US	6.6	2,035	-28.9%	N/A	12.0	N/A	4.7	-22.3%	4.6%	4.0%	15.3%
The Home Depot Inc	HD US	247.4	266,031	5.1%	25.4	23.2	17.2	15.9	19.2%	19.9%	2.3%	2.4%

Source: Bloomberg, Indo Premier

## SECTOR RATINGS

- OVERWEIGHT : An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation
- NEUTRAL : A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation
- UNDERWEIGHT : An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation

## COMPANY 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

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