

8 NOVEMBER 2018

COMPANY UPDATE

BUY

STOCK INFORMATION

Bloomberg Code	LPPF IJ
Sector	Retail
Current Price	Rp4,730
Target Price	Rp8,000
Upside/ Downside	69.1%
Share Out (bn shares)	2.92
Market Cap (Rpbn)	13,802
52 – w range (low-high)	Rp4,650-11,650
52 – w average daily	Rp 9,090

PRICE CHART



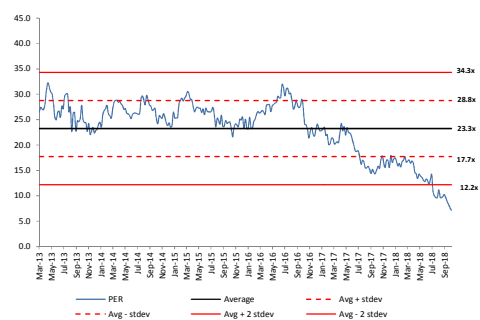
Source: Bloomberg

SHAREHOLDER'S INFORMATION, AS OF SEPT 30, 2018

PT Multipolar Tbk (MLPL.IJ)	17.5%
Public	82.5%

Source: Company data

PE BAND



Source: Bloomberg

PT MATAHARI DEPARTMENT STORE TBK

BEEN OVERSOLD, TIME TO BOTTOM-FISH!

9M18: Sluggish Growth with positive SSSG

During 9M18, LPPF booked a total gross sales of Rp13.65 trillion, slightly grew by 2.9% YoY from Rp13.27 trillion in 9M17, on the back of 4.4% SSSG, which was much better than -2.7% in 9M17. On the bottomline, net income was a little declined by 60bps to Rp1.50 trillion. In detail, the SSSG was mostly driven by the increase in ASP of 3.0%, while the sales volume hiked by 1.3% - yet the management claims that both of the basket size and number of transaction has also been improving YoY. Geographical-wise, the Central Java and commodity-based regions, i.e Kalimantan and Sumatera, has delivered the most significant improvement in SSSG.

Margin Remains Stable

In terms of profitability, the company managed to maintain its GPM at 35.8% (vs 36.0% in 9M17), while the EBIT margin declined by 60bps from 14.2% to 13.6% due to higher marketing cost (+55.72% YoY) in order to boost direct purchase sales, but partially compensated by lower rental cost (from 13.8% to sales in 9M17 to 13.5% to sales in 9M18) following the store closures. Note that YTD, the company has added 2 new stores in Mamuju and Cilegon, while 2 stores were permanently closed due to fire and lease expiry and 2 stores were temporarily closed in Jambi (fire) and Palu (tsunami). The company expects to open 1 new store in December 2018, making the total store count to 156 by the end of year.

New app launched in 4Q

This year, LPPF eyeing a 4-6% SSSG, on the back of 4Q festive season (usually contributed c.25% to annual sales), and few initiatives to boost sales i.e increasing space allocation on Disney products as they will extend the collection from kids to youth apparels and plush toys, new merchandising in home products (currently on test pilot stage) and active wear (in collaboration with 361 Degrees International brand, the main sponsor of Asian Games 2018). The company also plans to open 361 Degrees stand-alone specialty stores at prominent well-known malls in major cities from 2019 onwards. Regarding the e-commerce segment, as mataharistore.com has been rebranded to matahari.com in 2Q18, the sales has encouragingly grew by 24.2% YoY in 3Q. In addition, by the end of year, the company will launched the app which will be linked as well to Matahari Reward members.

Share Buyback Program

The share price has drop as much as 52.1% YTD on 1) negative sentiment on the recent case that hit Lippo Group, 2) investor's concern on potential MSCI's exclusion, 3) soft performance growth YTD, and 4) negative news on store closures. Recently on Oct 8th, the EGM has approved the share buyback program in order to retire up to Rp1.25 trillion (c.7% stake) to reduce equity on its balance sheet and regain shareholder's trust on the stock. The buyback itself has been started this month and valid for 18 months after approval or by Apr 2020. We believe this will be a positive catalyst in the near term.

The Stock Been Oversold, Time to Bottomfish! TP of Rp8,000/ share – BUY

We expect LPPF sales in 2018F/19F to grow by 4.6%/5.0% YoY on the back of conservative 4% SSSG, respectively. Hence we generate a target price of Rp8,000/ share, which offers a 69.1% upside, as we believe the stock has been oversold YTD. Our TP implies PER and EV/EBITDA 2019F of 11.6x and 7.7x, respectively, while the stock is currently traded at 6.8x and 3.6x PER and EV/EBITDA 2019F.

Financial Summary

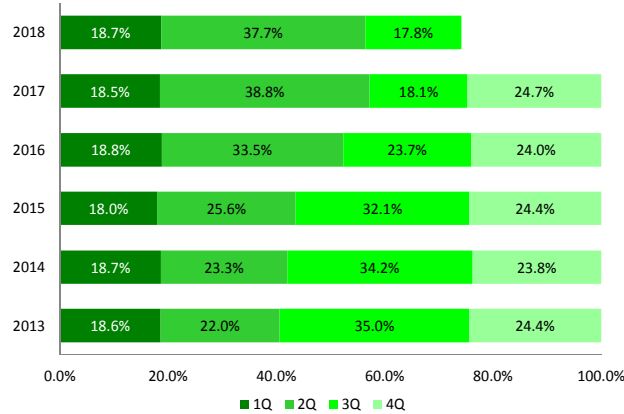
(Rp billion)	2016A	2017A	2018F	2019F	2020F
Revenue	9,897	10,024	10,485	11,005	11,687
EBITDA	2,795	2,670	2,732	2,933	3,079
Net profit	2,020	1,907	1,869	2,019	2,133
EPS (Rp)	692	654	641	692	731
PER (x)	6.8	7.2	7.4	6.8	6.5
BVPS (Rp)	636	798	981	1,225	1,472
PBV (x)	7.4	5.9	4.8	3.9	3.2
EV/EBITDA (x)	4.3	4.6	4.1	3.6	3.3
Dividend yield (%)	9	10.25	9.68	9.48	10.24
RoE (%)	136.4	91.2	72.0	62.8	54.2

Source: Company data and Lotus Andalan Research

Interim Financial Result										
	9M17	9M18	YoY	FY18F	Coverage	2Q18	3Q18	QoQ	Comment	
P/L (In Rpbn)										
Gross revenue	13,267.5	13,654.4	2.9%	18,329.3	74.5%	7,016.8	3,251.9	-53.7%	4.4% SSSG vs -2.7% in 9M17 (3.6% SSSG in 3Q18 vs -26.0% SSSG in 3Q17)	
Net revenue	7,547.5	7,777.8	3.1%	10,485.5	74.2%	3,953.9	1,862.4	-52.9%		
Cost of revenue	2,775.1	2,892.1	4.2%	3,934.4	73.5%	1,425.4	727.9	-48.9%		
Gross profit	4,772.4	4,885.7	2.4%	6,551.1	74.6%	2,528.5	1,134.4	-55.1%		
Operating expense	2,890.8	3,027.1	4.7%	4,094.4	73.9%	1,143.1	963.6	-15.7%		
Operating profit	1,881.6	1,858.6	-1.2%	2,456.6	75.7%	1,385.4	170.8	-87.7%		
EBITDA	2,095.1	2,083.4	-0.6%	2,732.1	76.3%	1,459.6	251.4	-82.8%		
Net profit	1,504.9	1,495.8	-0.6%	1,869.4	80.0%	1,098.1	150.9	-86.3%		
Profitability										
Gross margin	36.0%	35.8%		35.7%		36.0%	34.9%			Down by 110bps QoQ due to typical post-Lebaran markdown, while on YoY basis the GPM stable
EBIT margin	14.2%	13.6%		13.4%		19.7%	5.3%			
EBITDA margin	15.8%	15.3%		14.9%		20.8%	7.7%			
Net margin	11.3%	11.0%		10.2%		15.6%	4.6%			

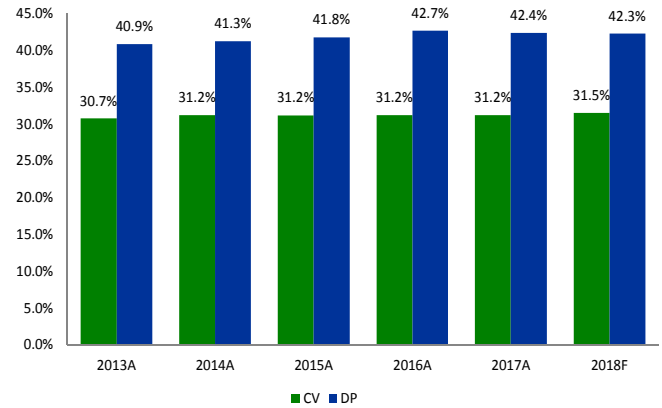
Source: Company data and Lotus Andalan Research

Quarterly performance



Source: Company data, Lotus Andalan Research

Gross margin breakdown



Source: Company data, Lotus Andalan Research

FINANCIAL HIGHLIGHTS OF PT MATAHARI DEPARTMENT STORE, TBK

In Rp Billion											
BALANCE SHEET	2016A	2017A	2018F	2019F	2020F	INCOME STATEMENT	2016A	2017A	2018F	2019F	2020F
ASSETS						Revenue	9,897	10,024	10,485	11,005	11,687
Cash & cash equivalents	1,713	1,583	2,505	3,116	3,713	COGS	(3,685)	(3,762)	(3,934)	(4,117)	(4,379)
Accounts receivable	73	134	96	114	129	Gross profit	6,212	6,262	6,551	6,888	7,308
Inventories - net	995	1,005	1,056	1,105	1,176	Operating expenses	(3,678)	(3,885)	(4,094)	(4,233)	(4,506)
Current assets - others	193	251	264	256	286	Operating profit	2,534	2,377	2,457	2,655	2,802
Total Current Assets	2,974	2,974	3,922	4,591	5,304	EBITDA	2,795	2,670	2,732	2,933	3,079
Plant, Property, Equipment	980	974	1,025	1,075	1,132	Finance income	31	38	36	38	41
Long Term Rent	396	366	383	402	426	Finance cost	(32)	(18)	-	-	-
Noncurrent Assets - Others	509	1,114	712	845	997	Other income (expenses)	-	-	-	-	-
Total noncurrent Assets	1,885	2,454	2,120	2,322	2,555	Total other income/(expenses)	(1)	20	36	38	41
TOTAL ASSETS	4,859	5,427	6,041	6,913	7,859	Income before tax	2,533	2,396	2,493	2,692	2,844
LIABILITIES & EQUITY						Tax expense	(513)	(489)	(623)	(673)	(711)
Accounts Payable	1,663	1,645	1,720	1,800	1,914	Net profit before minority interest	2,020	1,907	1,869	2,019	2,133
Tax payable	35	67	79	65	78	Minority interest	-	-	-	-	-
Other current liabilities	891	899	930	984	1,043	Net profit	2,020	1,907	1,869	2,019	2,133
Current maturities - Bank Loan	-	-	-	-	-	EPS (Rp)	692	654	641	692	731
Total Current Liabilities	2,588	2,611	2,728	2,849	3,036	KEY FINANCIAL RATIOS	2016A	2017A	2018F	2019F	2020F
Bank Loan	-	-	-	-	-	Growth (%)					
Other noncurrent liabilities	415	489	451	490	531	Sales	9.9	1.3	5	5	6.2
Total Non-Current Liabilities	415	489	451	490	531	Gross profit	9.5	0.8	5	5	6.1
Capital Stock & Paid-in Capital	(3,185)	(3,185)	(3,185)	(3,185)	(3,185)	Operating Profit	8.4	(6.2)	3	8	5.6
Others	-	-	-	-	-	EBITDA	8.4	(4.5)	2.3	7.4	5.0
Retained earnings	5,040	5,513	6,048	6,758	7,478	Net Profit	13.4	(5.6)	(2.0)	8.0	5.6
Total Equity	1,855	2,328	2,862	3,573	4,293	Profitability (%)					
TOTAL LIABILITIES & EQUITY	4,859	5,427	6,041	6,913	7,859	Gross margin	62.8	62.5	62.5	62.6	62.5
CASH FLOW STATEMENT	2016A	2017A	2018F	2019F	2020F	Operating margin	25.6	23.7	23.4	24.1	24.0
Net profit	2,020	1,907	1,869	2,019	2,133	EBITDA margin	28.2	26.6	26.1	26.7	26.3
Depreciation & Amortization	261	293	275	278	276	Net Profit margin	20.4	19.0	17.8	18.3	18.2
Change in WC	90	(89)	63	13	29	ROA	46.2	37.1	32.6	31.2	28.9
Others	11	(26)	(1)	(5)	(17)	ROE	136.4	91.2	72.0	62.8	54.2
Net Operating Cash Flow	2,381	2,085	2,207	2,305	2,421	Solvency (x)					
Change in fixed assets - net	(364)	(287)	(327)	(328)	(334)	Current ratio	1.1	1.1	1.4	1.6	1.7
Others	(165)	(575)	386	(153)	(176)	Quick ratio	0.8	0.8	1.1	1.2	1.4
Net Investing Cash Flow	(530)	(862)	59	(480)	(510)	DER	-	-	-	-	-
Change in borrowings - net	-	-	-	-	-	EBITDA coverage	87.9	146.1	#DIV/0!	#DIV/0!	#DIV/0!
Change in equity	-	-	-	-	-	Net debt to equity	Net cash	Net cash	Net cash	Net cash	Net cash
Change in other liabilities	185	82	(8)	95	99						
Dividend payment	(1,247)	(1,414)	(1,335)	(1,309)	(1,413)						
Adjustment	(24)	(20)	-	-	-						
Net Financing Cash Flow	(1,086)	(1,353)	(1,342)	(1,214)	(1,314)						
Change in cash	766	(130)	923	611	597						
Cash at the beginning period	947	1,713	1,583	2,505	3,116						
Cash at the ending period	1,713	1,583	2,505	3,116	3,713						

Source: Company data and Lotus Andalan Research

Notes:

The definitions of Lotus Andalan Research for Investment Ratings:

- **BUY** : +15% and above, over the next 12 months
- **NEUTRAL** : -15% to +15%, over the next 12 months
- **SELL** : -15% and worse, over the next 12 months

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