

08 APRIL 2019

COMPANY UPDATE

NEUTRAL

STOCK INFORMATION

Bloomberg Code	RALS IJ
Sector	Retail
Current Price	Rp1,760
Target Price	Rp1,800
Prev. target price	Rp1,100
Upside/ Downside	2.3%
Share Out (bn shares)	6.7
Market Cap (Rp bn)	11,832
52 – w range (low-high)	Rp1,130 – 1,850
52 – w average daily	Rp1,426

PRICE CHART



Source: Bloomberg

SHAREHOLDER'S INFORMATION

PT Ramayana Makmursentosa	55,8 %
Public (below 5%)	44,2 %

Source: Company data

P/E BAND



Source: Company data

PT RAMAYANA LESTARI SENTOSA TBK

WHAT AN EXCEPTIONAL YEAR

Despite the low single digit growth in FY18's gross sales by 4.8% YoY to Rp8.54 trillion, we applaud company's effort to boost its margins through tight discount policy, better store layout that creates bigger basket size and better sales productivity, as well as operational efficiencies. Demand-wise, in our view, despite the potential electricity and fuel price hike (which likely will occur in 2H19) as well as weak commodity prices YTD, the consumption of low-income segment this year will continue to grow, particularly due to increase of employment in formal sector and increasing portion of government's social assistance program (Program Keluarga Harapan/ PKH and Dana Desa). To reflect much-better than expected profitability margins, we revisit our projection and come up with higher TP of Rp1,800/ share. Maintain NEUTRAL.

4 Key Drivers to 220bps Surge in GPM

RALS booked a total gross sales of Rp8.54 trillion, grew by 4.8% YoY on the back of 2.9% SSSG (vs -1.2% in 2017), in line with strong CCI and relatively low inflation over the year. The higher-priced consignment sales also grew strong by 11.1% YoY to Rp3.73 trillion and contributed 43.7% to total sales (vs 41.2% in 2017). Interestingly, the net profit boosted by 44.4% YoY to Rp587 billion, which mostly contributed by 220bps YoY increase in GPM, that was mainly driven by: 1) tight discount policy, in which the company has set a "discount matrix" in order to control the discount timing; 2) better store layout and certain zoning of product display that creates bigger basket size and better sales productivity; 3) changes in store managers' KPI, which encourage them to prioritize EBIT growth instead of sales growth, and; 4) on supermarket side, following the partnership termination with SPAR due to lack of compatibility in business standpoint in 2018, the company reviewed the products composition (cut down number of SKUs and reduce the composition of fresh products which had been burdensome, as customer prefer to shop fresh products in wet market nearby), closed down 2 loss-making stores (total 16 stores to date) and downsized several stores. This led to increase of supermarket's GPM by 200bps to all-time-high level of 15.2%. Furthermore, EBIT margin expanded by 250bps YoY to 7.1% resulted from higher GPM, better sales productivity and efficiencies in opex i.e salary cost (-7.5% YoY in line with decline of employee number by 17.3% YoY), utility costs (-2% YoY), etc.

Expansion Plan: Smaller Format, Ramayana Prime and Revamp Existing Stores

In terms of expansion, last year the company opened 5 new Ramayana stores (including 3 Ramayana Prime) and closed down 2 stores due to underperforming (Pondok Aren) and tsunami (Palu), making the total stores owned to 119. The current expansion, as guided by company, is more focused on smaller and more efficient format, by only 4,000-5,000 sqm/ store. In 2019, the company plans to open 5 new stores that will be rolled out in 2H19. RALS allocates capex from its internal cash amounted to Rp350 billion this year, which will be used for 1) Rp100 billion for 5 new store openings (approx. Rp20 billion each); 2) Rp100 billion for revamping 20 existing stores (25 stores had been revamped during 2016-2018); 3) Rp100 billion for normal maintenance, and 4) Rp50 billion for upgrading the existing stores' front display.

Grab as Much in 1H19

Demand-wise, in our view, the consumption of low-income segment this year will continue to grow, particularly in 1H19 due to increase of employment in formal sector to date, political campaign prior to election in April, and increasing portion of government's social assistance program (Program Keluarga Harapan/ PKH and Dana Desa) which also estimated to be disbursed in April and Lebaran that falls in May this year. However in 2H19, there will be some challenges from potential electricity and fuel price hike (which likely will occur in 2H19, after the election) as well as weak commodity prices YTD. All-in-all, the company guided a conservative sales growth by 4.5%-5% this year, SSSG of 3.7% YoY, while GPM expected to expand by 50-150bps YoY.

Higher TP of Rp1,800/ share. Already Priced in, NEUTRAL

We made several changes in our projections particularly in margins, SSSG and sales area assumption. Hence, we came up with new higher fair value of Rp1,800/ share (from prev. Rp1,100/ share), which implies a 19.9x PER and 11.9x EV/EBITDA 2019F. Based on yesterday's closing price, our fair value still offers a 2.3% upside and the stock is currently traded at 19.5x and 11.3x PER and EV/EBITDA 2019F, respectively. According to our definitions of investment rating, our recommendation on RALS is currently NEUTRAL.

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Financial Summary					
(Rp billion)	2017A	2018A	2019F	2020F	2021F
Gross sales	8,145.9	8,538.7	8,938.3	9,426.1	9,946.8
Revenue	5,622.7	5,739.6	6,048.4	6,310.3	6,658.9
EBITDA	560.5	782.3	811.6	843.0	898.3
Net profit	406.6	587.1	608.3	649.7	724.1
EPS (Rp)	60.5	87.3	90.5	96.6	107.7
PER (x)	29.1	20.2	19.5	18.2	16.3
BVPS (Rp)	519.8	569.3	600.9	637.7	681.9
PBV (x)	3.4	3.1	3.0	2.8	2.6
EV/EBITDA (x)	17.5	12.0	11.3	10.5	9.5
Dividend yield (%)	2.0%	2.3%	3.3%	3.4%	3.6%
RoE (%)	11.9	16.0	15.5	15.6	16.3

Source: Company data and Lotus Andalan Research

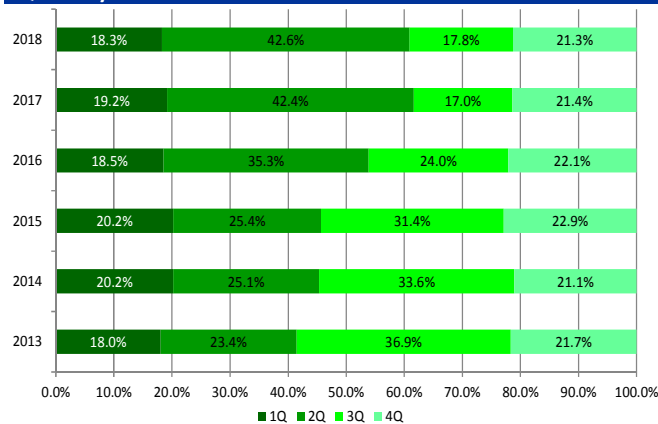
Interim Financial Review

P/L (In Rp billion)	FY17	FY18	YoY	FY18F	% coverage	3Q17	4Q17	QoQ	Comment
Gross sales	8,146	8,539	4.8%	9,020	94.7%	1,500	1,858	23.8%	2.9% SSSG FY18 vs -1.2% FY17
Revenue	5,623	5,740	2.1%	6,430	89.3%	1,021	1,223	19.8%	
Cost of revenue	3,410	3,233	-5.2%	3,984	81.1%	570	721	26.6%	
Gross profit	2,212	2,507	13.3%	2,445	102.5%	451	502	11.2%	
Operating Expense	1,836	1,900	3.5%	2,083	91.2%	449	468	4.2%	
Operating profit	377	607	61.1%	363	167.3%	2	33	1588.0%	
Net Profit	407	587	44.4%	414	141.7%	41	60	45.3%	

Profitability	FY17	FY18	FY18F	3Q17	4Q17	Comment
Gross profit/ gross sales	27.2%	29.4%	27.1%	30.1%	27.0%	+220bps YoY Higher GPM thanks to tight discount policy, better display layout
EBIT margin	4.6%	7.1%	4.0%	0.1%	1.8%	+250bps YoY due to further operational efficiencies post-transformation
Net margin	5.0%	6.9%	4.6%	2.7%	3.2%	

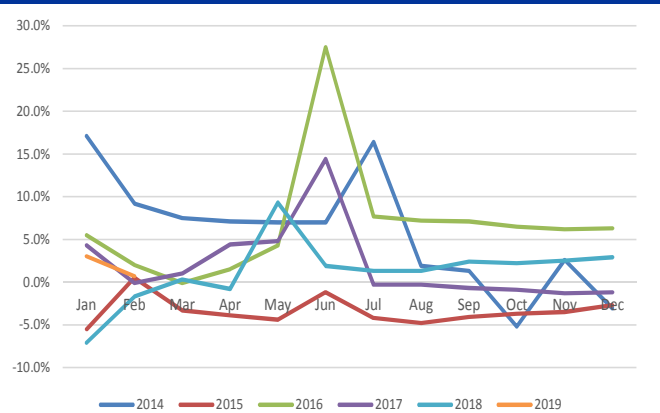
Source: Company data and Lotus Andalan Research

Quarterly Sales



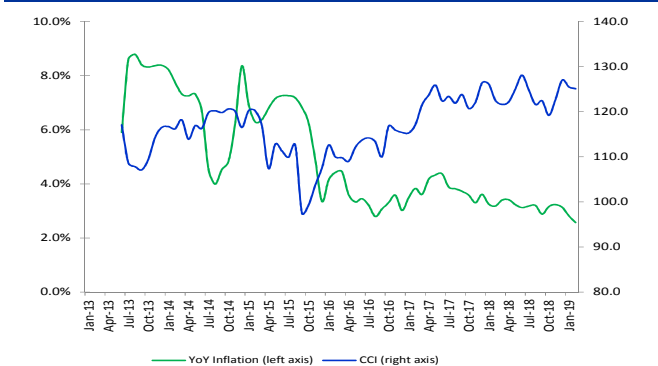
Source: Company data, Lotus Andalan Research

SSSG Data



Source: Company data, Lotus Andalan Research

CCI vs Inflation Chart – Strong CCI Trend



Sumber: Badan Pusat Statistik

Source: Bank Indonesia, Lotus Andalan Research

Ramayana Prime



FINANCIAL HIGHLIGHTS OF PT RAMAYANA LESTARI SENTOSA, TBK

In Rp Billion											
BALANCE SHEET	2017A	2018A	2019F	2020F	2021F	INCOME STATEMENT	2017A	2018A	2019F	2020F	2021F
ASSETS						Revenue	5,623	5,740	6,048	6,310	6,659
Cash & cash equivalents	2,031	2,415	2,671	2,957	3,318	COGS	(3,410)	(3,233)	(3,435)	(3,547)	(3,729)
Accounts Receivable	10	38	17	17	18	Gross profit	2,212	2,507	2,614	2,763	2,930
Inventories - net	741	860	922	952	1,001	Operating expenses	(1,836)	(1,900)	(2,020)	(2,128)	(2,218)
Other current assets	311	245	275	302	301	Operating profit	377	607	594	635	711
Total Current Assets	3,093	3,557	3,885	4,228	4,639	EBITDA	560	782	812	843	898
Fixed asset & long term rent	1,688	1,572	1,512	1,471	1,435	Financial income	90	110	104	110	120
Non-Current Assets - Others	111	114	108	121	126	Total other income/(expenses)	90	110	104	110	120
Total Non-Current Assets	1,798	1,686	1,620	1,592	1,561	Income before tax	467	717	698	746	831
TOTAL ASSETS	4,892	5,243	5,504	5,820	6,200	Tax expense	(60)	(130)	(90)	(96)	(107)
LIABILITIES & EQUITY						Net profit before minority interest	407	587	608	650	724
Accounts Payable	956	941	999	1,032	1,085	Minority interest	-	-	1	2	2
Tax payable	49	97	73	79	92	Net profit	407	587	607	648	722
Accrued expenses	44	55	50	54	59	EPS (Rp)	60	87	90	97	108
Total Current Liabilities	1,049	1,093	1,122	1,165	1,236	KEY FINANCIAL RATIOS	2017A	2018A	2019F	2020F	2021F
Post-Employment Benefit	349	322	342	368	379	Growth (%)					
Deferred Tax Liabilities	-	-	-	-	-	Gross sales	(1.1)	4.8	4.7	5.5	5.5
Total Non-Current Liabilities	349	322	342	368	379	Revenue	(4.0)	2.1	5.4	4.3	5.5
Minority Interest						Gross profit	0.4	13.3	4.3	5.7	6.0
Capital Stock & Paid-in Capital	147	147	147	147	147	Operating Profit	2.3	61.1	(2.2)	7.0	12.0
Other comprehensive income	(65)	(50)	(57)	(57)	(55)	EBITDA	1.0	39.6	3.7	3.9	6.6
Retained earnings	3,412	3,730	3,950	4,197	4,492	Net Profit	(0.5)	44.4	3.6	6.8	11.5
Total Equity	3,494	3,827	4,040	4,287	4,584	Profitability (%)					
TOTAL LIABILITIES & EQUITY	4,892	5,243	5,504	5,820	6,200	Gross margin	39.3	43.7	43.2	43.8	44.0
CASH FLOW STATEMENT	2017A	2018A	2019F	2020F	2021F	Operating margin	6.7	10.6	9.8	10.1	10.7
Net profit	407	587	608	650	724	EBITDA margin	10.0	13.6	13.4	13.4	13.5
Depreciation & Amortization	184	175	218	208	187	Net Profit margin	7.2	10.2	10.1	10.3	10.9
Change in WC	148	(162)	17	2	3	ROA	8.5	11.6	11.3	11.5	12.0
Others	(100)	127	(60)	(17)	18	ROE	11.9	16.0	15.5	15.6	16.3
Net Operating Cash Flow	638	727	784	842	932	Solvency (x)					
Change in fixed assets - net	(137)	(60)	(157)	(167)	(151)	Current ratio	3.0	3.3	3.5	3.6	3.8
Others	(29)	(3)	6	(13)	(5)	Quick ratio	2.2	2.5	2.6	2.8	2.9
Net Investing Cash Flow	(166)	(62)	(152)	(180)	(156)	DER	-	-	-	-	-
Change in borrowings - net	-	-	-	-	-	EBITDA coverage	-	-	-	-	-
Change in equity	-	-	-	-	-	Net debt to equity	Net cash	Net cash	Net cash	Net cash	Net cash
Change in other liabilities	41	(12)	12	26	14						
Dividend payment	(242)	(269)	(388)	(402)	(430)						
Adjustment	-	-	-	-	-						
Net Financing Cash Flow	(201)	(280)	(376)	(377)	(415)						
Change in cash	270	384	256	286	360						
Cash at the beginning period	1,761	2,031	2,415	2,671	2,957						
Cash at the ending period	2,031	2,415	2,671	2,957	3,318						

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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