

Matahari Department Store (LPPF IJ)

Declining trajectory ahead; D/G to SELL

Lower TP to IDR1,500; prefer MAPI

D/G to SELL from HOLD as we believe LPPF's FY24-25 earnings growth will decelerate due to low footfall. We have cut FY23-24E SSSG and EBIT margin estimates, and rolled forward our valuation base to FY24E. This lowers our TP to IDR1,500 (from IDR4,500), based on 4.3x FY24E PER, 1SD below its 3-year mean. Main upside risks are higher-than-expected SSSG and EBIT margin. We prefer Mitra Adi Perkasa (MAPI IJ, BUY, CP IDR1,905, TP IDR2,600) for its stronger earnings growth.

Negative SSSG ahead due to business model issues

We cut FY23/24E SSSG by -1,100/-800 bps to -6.0%/-3.0%. On top of rising business competition from LPPF's closest rivals, namely Uniqlo; H&M; and elevating e-commerce transactions (Figs 15,16) driven by heavy promotions, we think LPPF's turnaround initiative to revamp its store designs has not been fruitful to attract footfall back to its stores. Unlike Mitra Adi Perkasa, LPPF's high reliance on consignment business (72% of FY24E sales, shown in Fig 11) weakens its ability to roll out state-of-the-art merchandise.

Weakening dividend-paying ability

We think LPPF's weakening FY24-25E 1) earnings outlook and 2) balance sheet will impair its future dividend-paying ability. We believe LPPF will only be paying out 15% of its FY23-25E earnings into a dividend. This is in line with LPPF's historical dividend payout ratio of 15% in FY14A when LPPF had net gearing of 54% (FY24E: 41%). That said, we argue LPPF is no longer an attractive dividend-play stock as its FY24E dividend yield of 2.0% is at the low end of our consumer universe (1.6% - 9.2%).

Revised FY23-24E EPS; still below FY19 level

Our revised SSSG and net margins lower our FY23-24E earnings to IDR870b (-34%) and IDR833b (-44%), respectively. We have also introduced FY25E estimates. Meanwhile, our new earnings estimates suggest LPPF's core profit will decline by 4% in FY24 and will grow positively at the rate of +7% in FY25E. Our FY24/25 earnings forecasts are still -39%/-35% below prepandemic FY19A levels.

FYE Dec (IDR b)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	10,257	12,351	11,154	12,469	13,137
EBITDA	1,999	2,144	1,647	1,814	1,887
Core net profit	913	1,383	870	833	890
Core EPS (IDR)	375	612	368	352	376
Core EPS growth (%)	nm	63.1	(39.9)	(4.2)	6.8
Net DPS (IDR)	245	525	55	53	56
Core P/E (x)	11.1	7.8	6.9	7.2	6.7
P/BV (x)	10.0	18.5	22.7	6.2	3.5
Net dividend yield (%)	5.9	11.1	2.2	2.1	2.2
ROAE (%)	115.0	174.4	206.1	135.4	66.0
ROAA (%)	15.0	23.8	13.8	11.4	10.7
EV/EBITDA (x)	4.7	4.8	3.8	3.5	3.3
Net gearing (%) (incl perps)	net cash	net cash	124.7	41.0	14.8
Consensus net profit	-	-	1,179	1,263	na
MIBG vs. Consensus (%)	-	-	(26.2)	(34.0)	na

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SELL

[Prior:HOLD]

Share Price IDR 2,530

12m Price Target IDR 1,500 (-37%)

Previous Price Target IDR 4,500

Company Description

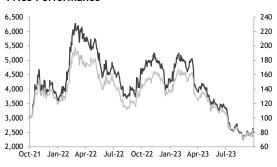
Matahari Department Store operates and manages department stores.

Statistics

52w high/low (IDR)	5,250/2,250
3m avg turnover (USDm)	0.5
Free float (%)	48.0
Issued shares (m)	2,259
Market capitalisation	IDR5.7T
	USD360M

03030011
42.5%
9.3%
0.0%

Price Performance



——Matahari Dept - (LHS, IDR) ——Matahari Dept / Jakarta Composite Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	5	(24)	(46)
Relative to index (%)	10	(23)	(44)

Source: FactSet

Stocks mentioned in this report

Fast Retailing (Uniqlo) (9983 JP, Not Rated, CP JPY35,310) H&M Hennes & Mauritz AB (HMB EU, Not Rated, CP EUR14)

Mitra Adiperkasa (MAPI IJ, BUY, CP IDR1,855, TP IDR2,600)



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Value Proposition

- Largest department store operator in Indonesia by number of stores; growth driven by middle class' rising demand for fashion items.
- Competitive pricing and convenience are LPPF's core advantages. Rising competition may put pressure on margins.
- Consignment and direct purchase breakdown is likely to remain stable at c.70:30%.
- Competition is rising with a growing number of independent local brands and e-commerce portals.
- Negative shareholder equity since 2010, but turned positive in 2015. In 1H23, LPPF is back to negative equity position. We are also expecting for the business' ROE to decline in the next three years.

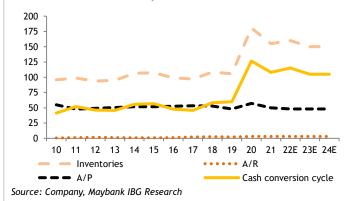




Financial Metrics

- We forecast revenue growth of +12%5% YoY in FY24-25E.
- Gross margin is likely to compress on rising competition, leading to EBIT margin compression along with higher opex.Expect lower DPR of 15%, due to LPPF's declining earnings.

LPPF's cash conversion cycle



Price Drivers



Source: Company, Maybank IBG Research

- Weaker sales growth and margin compressed continued over 2017-18.
- 2. Earnings eroded by e-commerce related impairment costs of IDR770b (41% of FY18 core earnings).
- 3. Weak SSSG performance in1Q20.
- 4. Lack of catalysts for earnings growth in 2H20. The initiatives to turnaround the department stores are delayed to FY21.
- 5. Improvement in its earnings outlook, due to its clear plans to revamp its core business.

Swing Factors

Upside

- Upgrading from low-end segment or downgrading from middle-upper segment.
- Decline in rental rate, leading to lower operating expenses.
- Returns to consignment that would lead to lower inventory and cost-hike risks.

Downside

- Faster-than-expected consumer shift to smaller retail format or online retail.
- Further increase in minimum wage.
- Further increase in electricity tariffs.

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Risk Rating & Score ¹	20.4		
Score Momentum ²	+1.7		
Last Updated	07 Apr 2022		
Controversy Score ³ (Updated: 23 Dec 2013)	0 - No reported incidents		

Business Model & Industry Issues

- The E aspect of ESG implementation looks good with LPPF's "Go Green" initiatives. The initiative discourages the use of paper and plastic. The company has successfully enforced the use of LED lighting and bio-degradable shopping bags and product packaging for all of its stores since 2019.
- LPPF has a policy to hire locals for its stores (c.81% of total employees). Still, three of its BoC (50%) and two of its BoD (33%) are foreigners. Also, there is one/two female representation on the BoC/BoD, respectively. We see an opportunity for LPPF to nurture local talent and increase female participation in its board to improve the S aspect of ESG.
- While all of LPPF's directors are professionals, there has been a high turnover in its BoD over the last three years. Meanwhile, LPPF's free float is falling at 40% in 2022 (vs. 59% in FY19).

Material E issues

- In 2019, LPPF switched to LED lighting for its stores and warehouses. The initiative yielded a 50% reduction in electricity consumption as well as annual savings of c.35 GWh electricity use and c.24k tons of CO2 emissions every year.
- In 2011, LPPF switched to biodegradable plastic bags. Now, all of LPPF's stores use cassava-based shopping bags which are 100% biodegradable.
- The company appoints third-party partners to handle its waste management and ensures that these partners comply with the prevailing regulations sets by Ministry of Environment.

Material S issues

- Balanced ratio of male-to-female in the workforce, at 44%:56% in 2022. One of six BoC members (17%) is female while two of six BoD members (33%) are female. LPPF adheres to the local minimum wage regulation.
- LPPF enforces the Occupational Health and Safety system, in compliance with the prevailing safety regulations. LPPF also partners with SOS international to provide regular "First Aid" training to its staff. In 2022, there were no reports on work-related accidents in LPPF's stores and distribution centres.
- LPPF provides staff training to build competency and skills. In 2022, employee training reached 12,228 hours.
- LPPF has a Community Development Programme that provides scholarships and financial assistance for educational purposes, regular humanitarian initiatives, and donations to social institutions.

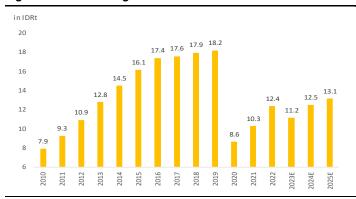
Key G metrics and issues

- The company's business operations are managed by the BoD, which are supervised by the Board of Commissioner (BoC), and assisted by an independent audit committee. There are no BoC members on the BoD. The BoC consists of six members, three of which (50%) are independent commissioners. The BoD consists of six members.
- The single largest shareholder of LPPF is PT Auric Digital Retail (37.21%). Multipolar (MLPL) controls 8.88% of LPPF.
- The BoC holds at least one meeting every two months, and also holds a meeting every four months with the BoD. In 2022, the joint meetings of the BoC and BoD were held twelve times.
- In 2022, total remuneration of the BoC and BoD accounted for 0.17% of sales. PwC has been the auditor of the company for the last 10 years.
- In 2010, Asia Color Company Limited (ACC), a JV between MLPL (20%) and CVC (80%), acquired 90.7% of LPPF stake from MPPA and 7.2% from Pacific Asia Holding (97.9% in total). ACC had fully divested its stake in LPPF to the public and MLPL in 2013-2016.
- LPPF invested IDR770b for a 19.6% stake in e-commerce platform MM.com (related party) in 2016-2017. Following the failure of the platform, LPPF fully impaired the investment in 2018 (c.80% of net profit).
- In 2018, LPPF invested a total of IDR500b in its wholly-owned logistics subsidiary for trucking and logistics centre in West Java.
- In Nov'20, LPPF invested IDR549b for a 16% stake in NOBU bank from IAP (its shareholder). NOBU is an affiliated entity.
- LPPF enters into recurring related-party transactions, for rental arrangements (c.0.64% of total operating expenses in 2022) and other operational activities. In 2022, related-party transaction accounted for c.2.0% of total operating expenses.

<u>Risk Rating & Score</u> - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <u>*Score Momentum</u> - indicates changes to the company's score since the last update - a <u>negative</u> integer indicates a company's improving risk score; a <u>positive</u> integer indicates a deterioration. <u>*Tontroversy Score*</u> - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Focus Chats

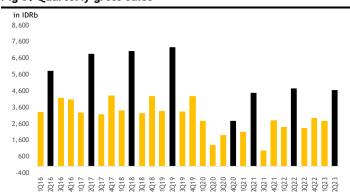
Fig 1: LPPF's annual gross sales*...



Source: Company, Maybank IBG Research

*We calculate gross sales as the sum of direct purchase and consignment sales.

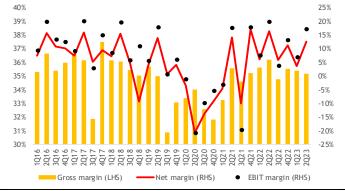
Fig 3: Quarterly gross sales*



Source: Company, Maybank IBG Research

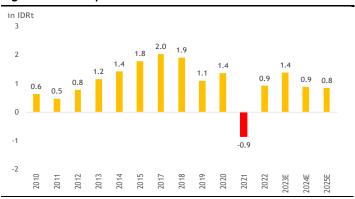
*We calculate gross sales as the sum of direct purchase and consignment sales. Black bar graph indicates the quarter with most sales during the year.

Fig 5: Quarterly gross, EBIT, and net margin



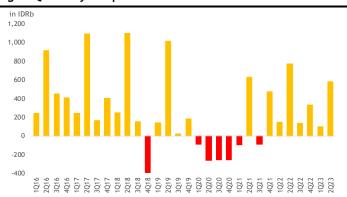
Source: Company, Maybank IBG Research

Fig 2: ... and net profit



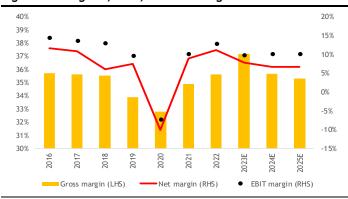
Source: Company, Maybank IBG Research

Fig 4: Quarterly net profit



Source: Company, Maybank IBG Research

Fig 6: Annual gross, EBIT, and net margin



Source: Company, Maybank IBG Research

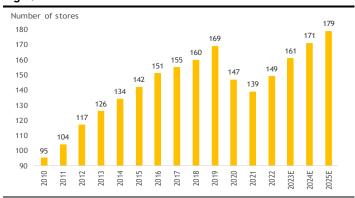
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Fig 7: Changes to our estimates

	2023E	2024E	2025E
SSSG (%)			
New	-6.0%	-3.0%	0.0%
Old	5.0%	5.0%	-
Change (bps)	-1,100	-800	-
EBIT margin (%)			
New	9.8%	10.1%	10.2%
Old	12.0%	13.0%	-
Change (bps)	-218	-287	-
Sales, IDR b			
New	11,154	12,469	13,137
Old	13,458	15,453	-
Change (%)	-17.1%	-19.3%	-
Net income, IDR b			
New	870	833	890
Old	1,311	1,494	-
Change (%)	-33.6%	-44.2%	_

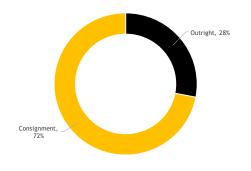
Source: Maybank IBG Research

Fig 9: LPPF store count



Source: Company, Maybank IBG Research

Fig 11: LPPF's FY24E sales mix



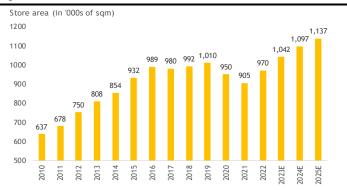
Source: Company, Maybank IBG Research

Fig 8: Our revised FY23-25E estimates

	2023E	2024E	2025E
Store area, sqm	1,041,999	1,096,999	1,136,999
growth	7.4 %	5.3 %	3.6%
SSSG (%)	-6.0%	-3.0%	0.0%
Inventory days	190	136	152
Profit & Loss, IDR b			
Sales	11,154	12,469	13,137
growth	- 9.7 %	11.8%	5.4 %
EBIT	1,096	1,263	1,336
growth	-31.2%	15.2 %	5.8%
Net profit	870	833	890
growth	-37.1%	-4.2%	6.8%

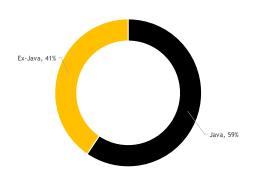
Source: Maybank IBG Research

Fig 10: LPPF store area



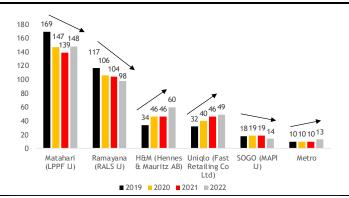
Source: Company, Maybank IBG Research

Fig 12: FY22 geographic sales mix



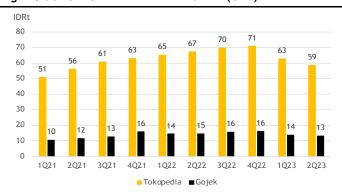
Source: Company, Maybank IBG Research

Fig 13: Store count of LPPF and its closest competitors



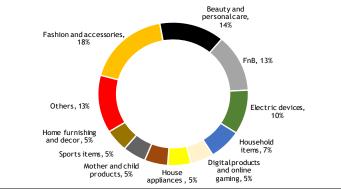
Source: Company, Euromonitor, Maybank IBG Research

Fig 15: GOTO's Gross Transaction Value (GTV)



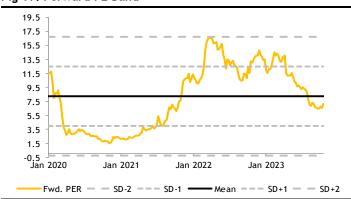
Source: Companies, Maybank IBG Research

Fig 17: Tiktok segment products available in ASEAN countries



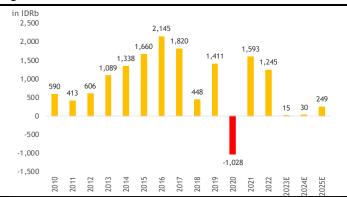
Source: BCG, Tiktok, Maybank IBG Research

Fig 19: Forward PE Band



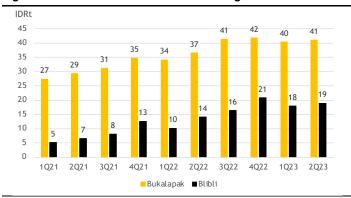
 ${\it Source: Bloomberg, Maybank IBG Research}$

Fig 14: LPPF free cash flow



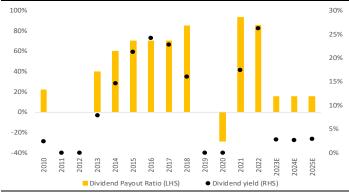
Source: Company, Euromonitor, Maybank IBG Research

Fig 16: BUKA's and BELI's Total Processing Value



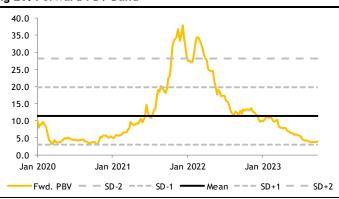
Source: Companies, Maybank IBG Research

Fig 18: LPPF's dividend yield



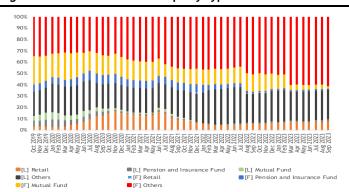
Source: Company, Maybank IBG Research

Fig 20: Forward PBV Band



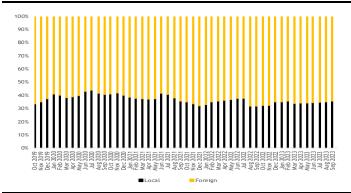
Source: Bloomberg, Maybank IBG Research

Fig 21: LPPF share of ownerships by type of institutions...



Source: KSEI, Maybank IBG Research

Fig 22: ...and by local/foreign



Source: KSEI, Maybank IBG Research



FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics	. 1	7.7	4.0	7.3	. 7
P/E (reported) (x)	6.1	7.7	6.9	7.2	6.7
Core P/E (x)	11.1	7.8	6.9 22.7	7.2 6.2	6.7
P/BV (x)	10.0 10.0	18.5 18.5	22.7	6.2	3.5 3.5
P/NTA (x)	5.9	11.1	2.2	2.1	2.2
Net dividend yield (%)	15.8	11.6	0.3	0.5	4.2
FCF yield (%) EV/EBITDA (x)	4.7	4.8	3.8	3.5	3.3
EV/EBIT (x)	9.1	6.5	5.8	5.1	4.7
INCOME STATEMENT (IDR b)					
Revenue	10,257.4	12,350.7	11,154.0	12,469.2	13,136.9
EBITDA	1,998.6	2,143.8	1,647.0	1,814.0	1,887.2
Depreciation	(961.5)	(551.4)	(551.4)	(551.4)	(551.4)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	1,037.1	1,592.4	1,095.6	1,262.6	1,335.8
Net interest income /(exp)	(19.5)	(211.1)	(88.2)	(167.9)	(170.4)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	85.3	255.6	80.0	(53.0)	(53.0)
Pretax profit	1,102.9	1,636.9	1,087.4	1,041.8	1,112.4
Income tax	(190.0)	(253.7)	(217.5)	(208.4)	(222.5)
Minorities	0.0	0.0	0.0	0.0	0.0
Reported net profit	912.9	1,383.2	869.9	833.4	889.9
' '	912.9	1,383.2	869.9	833.4	889.9
Core net profit	912.9	1,303.2	009.9	633.4	007.7
BALANCE SHEET (IDR b)	***	254.2	020.7	752.2	0040
Cash & Short Term Investments	661.4	354.3	820.7	753.2	894.0
Accounts receivable	25.8	64.5	94.5	105.6	111.3
Inventory	746.8	896.0	585.3	716.4	700.8
Property, Plant & Equip (net)	647.3	685.6	1,545.7	2,324.9	3,031.1
Intangible assets Other assets	0.0 3,769.9	0.0 3,749.8	0.0 3,771.5	0.0 3,960.5	0.0 4,106.3
Total assets	•	•	•	-	-
	5,851.2 0.0	5,750.2 0.0	6,817.6 1,150.0	7,860.5	8,843.5
ST interest bearing debt		1,210.3	•	1,150.0	1,150.0
Accounts payable	730.4 0.0	*	921.2	1,054.5	1,117.8
LT interest bearing debt Other liabilities		0.0	0.0	0.0	0.0 4,844.0
Total Liabilities	4,115.0	3,960.0 5 170.1	4,482.0	4,689.0 6,893.6	,
Shareholders Equity	4,845.3 1,006.0	5,170.1 580.2	6,553.7 264.0	966.9	7,111.8 1,731.8
• •	0.0	0.0	0.0	0.0	0.0
Minority Interest					1,731.8
Total shareholder equity Total liabilities and equity	1,006.0 5,851.2	580.2 5,750.2	264.0 6,817.6	966.9 7,860.5	8,843.5
Total liabilities and equity	3,631.2	3,730.2	0,017.0	7,800.3	0,043.3
CASH FLOW (IDR b)	1 102 0	1 424 0	1 007 4	1 0/1 9	1 112 4
Pretax profit Depreciation & amortisation	1,102.9	1,636.9 551.4	1,087.4 551.4	1,041.8 551.4	1,112.4 551.4
Depreciation & amortisation	961.5		551.4		
Adj net interest (income)/exp	0.0 550 6	0.0 202.0	0.0	0.0	0.0
Change in working capital	559.6	292.0 (253.7)	(8.4)	(8.9)	73.2
Cash taxes paid Other operating cash flow	(190.0)	(253.7)	(217.5)	(208.4)	(222.5)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	2,345.7	1,834.2	1,426.4	1,361.0	1,507.0
Capex Froe each flow	(752.9) 1.502.8	(589.7) 1 244 5	(1,411.4) 15.0	(1,330.6)	(1,257.6)
Free cash flow	1,592.8	1,244.5	15.0	30.4	249.4
Dividends paid Equity raised / (purchased)	(254.9)	(596.2)	(1,186.1)	(130.5)	(125.0)
Equity raised / (purchased)	(233.1)	(1,212.8)	0.0	0.0	0.0
Change in Debt Other invest/financing cash flow	(1,011.0)	0.0	1,150.0	0.0	0.0
Other invest/financing cash flow	(32.3)	63.1	(29.6)	32.5	16.5
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	61.5	(501.4)	(50.7)	(67.6)	140.9



FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	18.8	20.4	(9.7)	11.8	5.4
EBITDA growth	547.2	7.3	(23.2)	10.1	4.0
EBIT growth	nm	53.5	(31.2)	15.2	5.8
Pretax growth	nm	48.4	(33.6)	(4.2)	6.8
Reported net profit growth	nm	51.5	(37.1)	(4.2)	6.8
Core net profit growth	nm	51.5	(37.1)	(4.2)	6.8
Profitability ratios (%)					
EBITDA margin	19.5	17.4	14.8	14.5	14.4
EBIT margin	10.1	12.9	9.8	10.1	10.2
Pretax profit margin	10.8	13.3	9.7	8.4	8.5
Payout ratio	65.3	85.8	15.0	15.0	15.0
DuPont analysis					
Net profit margin (%)	8.9	11.2	7.8	6.7	6.8
Revenue/Assets (x)	1.8	2.1	1.6	1.6	1.5
Assets/Equity (x)	5.8	9.9	25.8	8.1	5.1
ROAE (%)	115.0	174,4	206.1	135.4	66.0
ROAA (%)	15.0	23.8	13.8	11.4	10.7
Liquidity & Efficiency					
Cash conversion cycle	16.5	(5.4)	(14.1)	(12.2)	(13.0)
Days receivable outstanding	1.5	1.3	2.6	2.9	3.0
Days inventory outstanding	44.1	37.2	38.1	29.2	30.0
Days payables outstanding	29.1	43.9	54.8	44.4	46.0
Dividend cover (x)	1.5	1.2	6.7	6.7	6.7
Current ratio (x)	0.7	0.6	0.5	0.5	0.5
Leverage & Expense Analysis					
Asset/Liability (x)	1.2	1.1	1.0	1.1	1.2
• • •				41.0	14.8
Net gearing (%) (incl perps) Net gearing (%) (excl. perps)	net cash net cash	net cash net cash	124.7 124.7	41.0	14.8
Net interest cover (x)	53.2	7.5	124.7	7.5	7.8
Debt/EBITDA (x)	0.0	0.0	0.7	0.6	0.6
Capex/revenue (%)	7.3	4.8	12.7	10.7	9.6
Net debt/ (net cash)	7.3 (661.4)	(354.3)	329.3	396.8	9.6 256.0
Several Company Market IBC Bas	(001.4)	(334.3)	347.3	370.0	250.0

Source: Company; Maybank IBG Research



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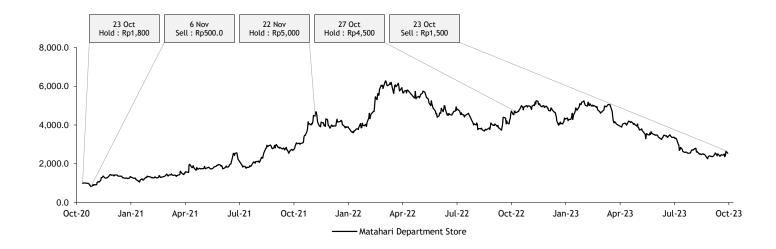
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