

PT Ramayana Lestari Sentosa Tbk (RALS)

Company Focus

September 27, 2019

Margin Expansion from Existing Store Restructuring

Earnings performance in 1H19 is in-line with expectation. RALS posted gross sales of IDR 3.72trn (+141.1% QoQ, +1.7% YoY) in 2Q19, which brings 1H19 results came in at IDR 5.27trn (+1.6% YoY) or representing 60.5% of our estimation at IDR 8.71trn in FY19F. Robust quarterly growth was supported by the sales during Lebaran which fell on June this year. Revenue mainly contributed from the clothing segment, especially men's clothing (36.9%), followed by women (10.8%), and children (10.5%). In terms of region, Java Island (64.6%) is still dominating the sales contribution. Same store sales growth (SSSG) in 1H19 stood at 1.5%, remain stable compared to 1.9% recorded in 1H18.

Transformation of store concepts to attract a wider target market.

There are 5 "Ramayana Prime" stores with a lifestyle mall concept operates up until June 2019. RALS will continue the transformation by opening 5-6 lifestyle mall in 2H19. The new store format aims a wider target market with higher purchasing power, to help the company's dependency on the sales during the Lebaran period. Last year, sales in 2Q18 recorded at IDR 2.45trn, which then decline by -58.3% QoQ to IDR 1.02trn in 3Q18. The sales contribution from the Lebaran period reached 42.9% of total sales last year. RALS will attract the middle class segment by offering various shopping experience, as the company leased its retail space for F&B outlets and specialty stores. The company also collaborates with Cinema XXI, as an effort to increase consumer traffic. There have been 16 theaters in Ramayana's stores, while the company will increase the number to 26 theaters by the end of 2019. RALS has secured a contract with Cinema XXI to open the theater in 33 Ramayana's store. The remaining 7 theaters will be opened in 2020.

Bottom line was driven by margin expansion. While sales growth has been flat in 1H19, net profit still able to grow by 21.3% YoY due to better margin amid the ongoing store restructuring. This year, RALS carried out less expansion as there isn't any new store launched in 1H19, while there are 2 store that has been closed. The focus is for the restructuring of existing store in the midst of a highly competitive market. The closing and downsizing of unprofitable supermarket has been resulted in the margin expansion. Operating profit margin was recorded at 11.8% in 1H19, higher compared to 11.0% in 1H18. Net profit margin also increased from 9.4% in 1H18 to 11.2% in 1H19. Net profit in 1H19 recorded at IDR 590bn, already exceeded the net profit in full-year 2018 of IDR 587bn. The store restructuring also leads to better productivity level of IDR 29,416 per sqm per day and IDR 5.3mn per sqm per year in 1H19.

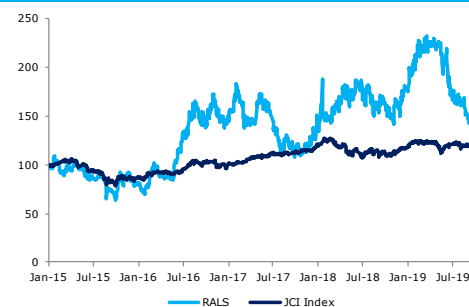
Year to Dec.	Net Sales (Bn IDR)	OP (Bn IDR)	Pre-tax (Bn IDR)	NP (Bn IDR)	EPS (IDR)	BPS (IDR)	PER (x)	EV/EBITDA (x)	PBV (x)	ROAE (%)
2017	5,623	377	467	407	57	492	20.9	16.4	2.4	11.9
2018	5,740	607	717	587	83	539	14.5	10.3	2.2	16.0
2019F	5,830	657	766	655	92	592	13.0	9.1	2.0	16.3
2020F	6,279	728	834	708	100	648	12.0	7.9	1.9	16.1
2021F	6,476	759	864	727	102	707	11.7	7.1	1.7	15.1

Source: Company, Shinhan Sekuritas Indonesia

Overweight

Current Price (IDR) (26/09)	1,195
Target price (IDR)	1,650
Upside/Downside (%)	38%
52 Week High (IDR)	1,875
52 Week Low (IDR)	1,100
Major Shareholders:	
PT Ramayana Makmursentosa	55.88%

Stock Price Movement



Source: Bloomberg, Shinhan Sekuritas Indonesia

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Adaptive to changing consumer behavior. The size of Indonesia's e-commerce recorded at USD 12.2bn in 2018 and expected to reach USD 53bn in 2025. It is estimated that e-commerce in Indonesia will grow in the same trajectory to that of China and US which accounted for 11-12% of total retail sales, while the current e-commerce sales in Indonesia representing only 2-3%. The potential upside and changing trend will be capitalized by RALS through a penetration to e-commerce platform such as Lazada, Tokopedia, and Shopee. E-commerce contribution to the company total sales is still low at 0.5%, but RALS plan to increase it to reach 10%. Besides that, RALS also collaborate with e-wallet platform, including Gopay, OVO, and Dana for non-cash payment in addition to receiving payments using credit and debit cards. The sales contribution from the e-wallet payment had reached 6% of the total company's sales in 1H19, in-line with the growing smartphone users which recorded at 28% of the total Indonesian population in 2019.

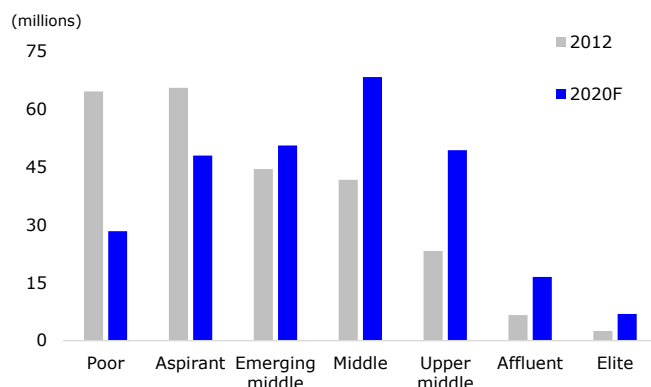
Valuation. We maintain our overweight recommendation in RALS as the company's strategic plan to transform and restructuring its stores has resulted in margin expansion and also translated to solid net profit growth. We also upgrade our TP for RALS to IDR 1,650 (16% higher than our previous TP at IDR 1,425) based on our blended DCF method using 9% WACC and 4% terminal growth rate.

RALS latest financial highlight

Bn IDR	1Q18	1Q19	YoY	1H18	1H19	YoY
Gross Sales	1,520	1,544	1.6%	5,181	5,266	1.6%
Gross Profit	416	444	6.8%	1,554	1,569	1.0%
Operating Expense	(423)	(401)	-5.1%	(982)	(947)	-3.6%
Operating Income	(7)	42	-	572	623	9.0%
Income Before Tax	16	76	373.2%	619	697	12.5%
Net Income	15	78	428.2%	486	590	21.3%
(%)	1Q18	1Q19		1H18	1H19	
Gross Margin	27.3%	28.7%		30.0%	29.8%	
Operating Margin	-0.5%	2.7%		11.0%	11.8%	
Net Margin	1.0%	5.0%		9.4%	11.2%	

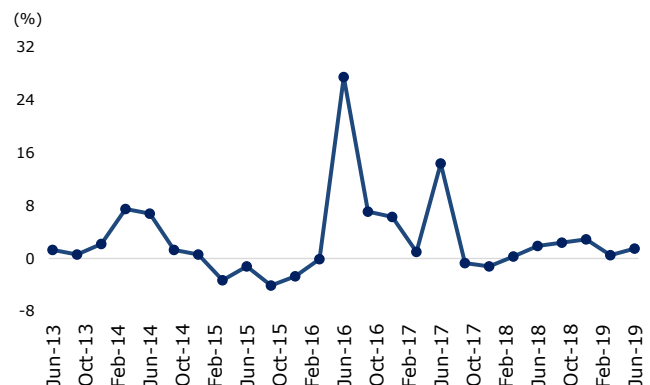
Source: Company, Shinhan Sekuritas Indonesia

RALS's aiming the middle segment as its target market, in-line with Indonesia's demographic



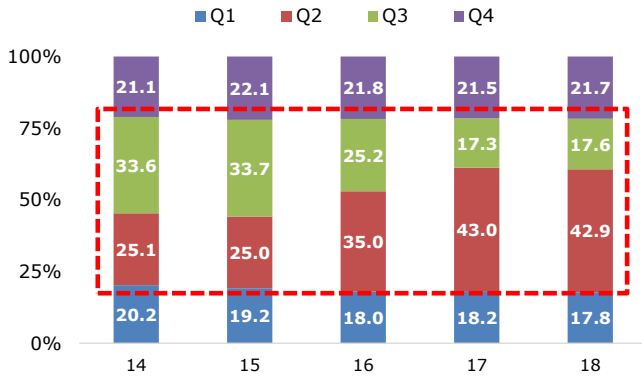
Source: BCG, Shinhan Sekuritas Indonesia

Same store sales growth remain stable at 1.5% in 1H19



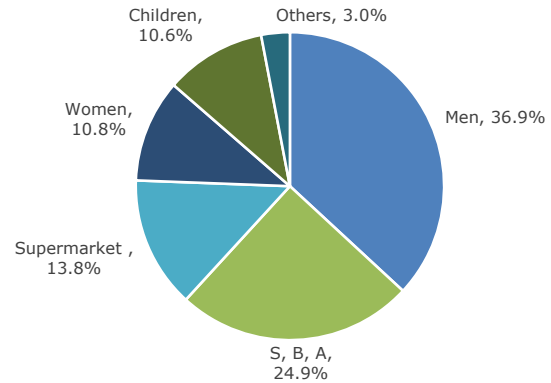
Source: Trading Economics, Shinhan Sekuritas Indonesia

RALS still dependent on sales during the Lebaran period as the largest sales contributor



Source: Company, Shinhan Sekuritas Indonesia

Men's clothing is the main revenue driver of total sales in 1H19



Source: Company, Shinhan Sekuritas Indonesia

Transforming existing store into Ramayana Prime with a lifestyle mall concept



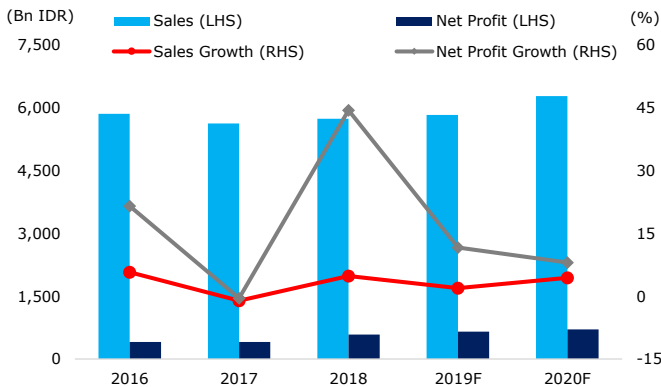
Source: Company, Shinhan Sekuritas Indonesia

Collaborates with Cinema XXI to offers various shopping experience and increase consumer traffic



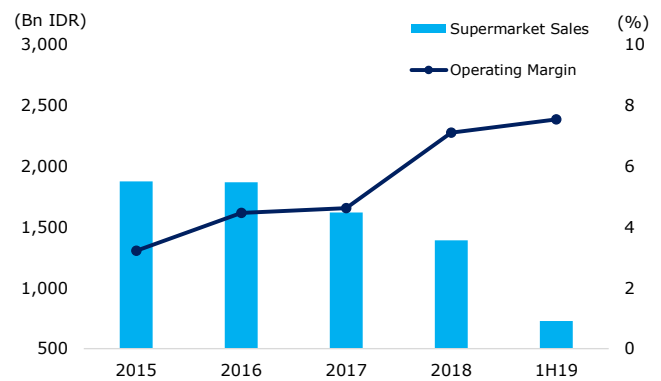
Source: Company, Shinhan Sekuritas Indonesia

Revenue expected to grow by 2.0% YoY amid highly competitive market, while net profit estimated to grow 11.6% YoY in FY19F



Source: Company, Shinhan Sekuritas Indonesia

The closing and downsizing of supermarket outlets resulted in higher operating margin



Source: Company, Shinhan Sekuritas Indonesia

Income Statement

Year-end 31 Dec (Bn IDR)	2017	2018	2019F	2020F
Net Sales	5,623	5,740	5,830	6,279
COGS	3,410	3,233	3,240	3,458
Gross Profit	2,212	2,507	2,590	2,821
EBITDA	558	771	827	903
Operating Expense	1,836	1,900	1,933	2,093
Operating Profit	377	607	657	728
Pre-Tax Profit	467	717	766	834
Income Tax - Net	60	130	110	126
Net Profit	407	587	655	708
EPS (IDR)	57	83	92	100

Source: Company, Shinhan Sekuritas Indonesia Estimates

Balance Sheet

Year-end 31 Dec (Bn IDR)	2017	2018	2019F	2020F
Assets				
Cash and Equivalent	752	1,951	2,527	3,079
Receivables	10	16	27	30
Inventories	741	860	749	813
Others	1,591	731	733	748
Total Current Assets	3,093	3,557	4,037	4,670
Net Fixed Assets	1,235	1,164	1,144	1,069
Other Assets	563	521	527	539
Total Assets	4,892	5,243	5,708	6,278
Liabilities and Equities				
Payables	1,049	1,093	1,169	1,322
Other Short-Term Liabilities	-	-	-	-
Total Current Liabilities	1,049	1,093	1,169	1,322
LT. Debt	-	-	-	-
Other Long Term Liabilities	349	322	339	355
Total Long-Term Liabilities	349	322	339	355
Total Liabilities	1,398	1,416	1,508	1,677
Shareholders' Equity	3,494	3,827	4,199	4,601

Source: Company, Shinhan Sekuritas Indonesia Estimates

Valuation

Year-end 31 Dec	2017	2018	2019F	2020F
PER (x)	20.9	14.5	13.0	12.0
PBV (x)	2.4	2.2	2.0	1.9
EV/EBITDA (x)	16.4	10.3	9.1	7.9
EV/Sales (x)	1.6	1.4	1.3	1.1

Source: Company, Shinhan Sekuritas Indonesia Estimates

Cashflow Analysis

Year-end 31 Dec (Bn IDR)	2017	2018	2019F	2020F
CFs from Operation				
Net Profit	407	587	655	708
Change in NWC	(481)	192	(483)	(636)
CFs from Operation	(75)	779	172	72
CFs from Investments	18	113	15	62
CFs from Financing	48	(26)	17	16
Net Inc./ (Dec.) in Cash	148	1,199	576	552
Cash at End Period	752	1,951	2,527	3,079

Source: Company, Shinhan Sekuritas Indonesia Estimates

Key Ratio Analysis

Year-end 31 Dec (Bn IDR)	2017	2018	2019F	2020F
Profitability				
Gross Margin	27.2%	29.4%	29.7%	31.0%
Operating Margin	4.6%	7.1%	7.5%	8.0%
EBITDA Margin	6.9%	9.0%	9.5%	9.9%
Net Income Margin	5.0%	6.9%	7.5%	7.8%
ROAA	8.5%	11.6%	12.0%	11.8%
ROAE	11.9%	16.0%	16.3%	16.1%
Growth				
Revenue	-1.1%	4.8%	2.0%	4.4%
Operating Profit	2.3%	61.1%	8.2%	10.8%
EBITDA	0.6%	38.2%	7.2%	9.2%
Net Income	-0.5%	44.4%	11.6%	8.0%
Solvability				
Current Ratio (x)	3.0	3.3	3.5	3.5
Quick Ratio (x)	2.2	2.5	2.8	2.9
Debt to Equity (x)	0.4	0.4	0.4	0.4

Source: Company, Shinhan Sekuritas Indonesia Estimates



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