

INDONESIA



# RETAIL

SHORT TERM (3 MTH)	LONG TERM
TRADING BUY	<b>OVERWEIGHT</b>
TRADING SELL	NEUTRAL
	UNDERWEIGHT

**SECTOR FLASH NOTE**

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### Highlighted Companies

#### Matahari Department Stores

We favour the stock for its asset-light and highly cash generative business model amid a liquidity sap. MDS will also be a prime beneficiary of Indonesia's mass consumption story. Its extensive retail footprint nationwide supports the thesis.

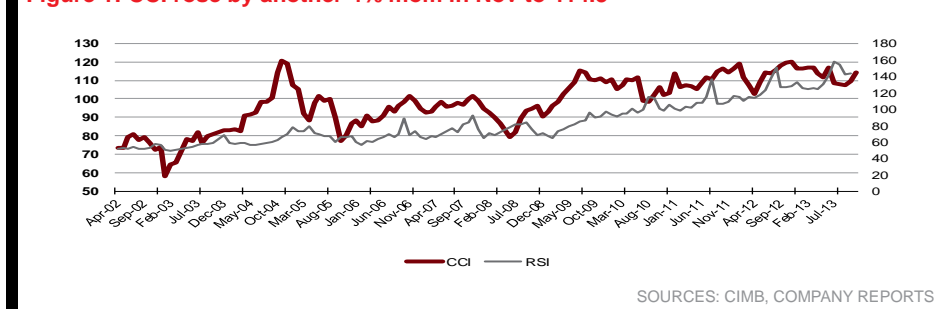
#### Ramayana Lestari

We like Ramayana as 1) it will be a major beneficiary of election spending and 2) its negative working capital business model is appealing amid a liquidity crunch. Ramayana also has ample cash to deploy should it choose to raise its dividend payout ratio.

## In the mood to spend

November's CCI uptick marked the second month of improvement from the low seen after the fuel price hike. Retail sales increased slightly in Oct, beating earlier expectations and reversing the previous month's pullback. Recent data show that consumption is still strong.

Figure 1: CCI rose by another 4% mom in Nov to 114.3



BI's Consumer Confidence Index (CCI) was driven by the perception of better job prospects, income expectations and business climate. Nov sales for selected retailers supported the rise in confidence. We stay Overweight on the sector as consumption remains robust. The upcoming election may further boost spending, hence our preference for retailers with higher exposure to broad-based spending, i.e. MDS and Ramayana.

### What Happened

CCI rose by another 4% mom in Nov to 114.3, making it the second consecutive increase since the low posted after the fuel price hike. Oct RSI also showed signs of improvement and reversed the previous month's contraction by rising 0.4% mom to 143.2, beating expectations by 6%. Helped by 4.7% SSSG, ACES turned in 11M sales growth of 19.4% and achieved 83.8% of our FY13 estimate. MAPI recorded YTD sales growth of 29.1% on the back of 10% SSSG and bagged 91% of our full-year sales target. 1.5% SSSG contributed to RALS's 6.7% growth in sales to 89.4% of our FY13 estimate, in line with its 3-year historical average of 91%. ACES and MAPI recorded sharp mom rebounds in

SSSG, from -2% in Oct to 9.5% in Nov for ACES and from 12% in Oct to 15% in Nov for MAPI.

### What We Think

There is more conviction that inflation has peaked, probably in the 8-8.4% range by end-13, undershooting consensus and BI's expectations and providing comfort that BI's guidance of 3.5-5.5% by end-2014 is achievable. As BI seems to be placing more emphasis on growth downside risk if further tightening is necessary, we think that the policy rate may have also peaked. These factors and potential election goodies suggest that CCI and retail sales will remain buoyant. The risk is if politics heat up beyond a comfortable level.

### What You Should Do

We remain sanguine on the sector's outlook as we think that the headwinds for retailers may turn into tailwinds as cost pressures from labour and rent subside as we head into 2014. Although it seems that the central bank will be less hawkish going forward, interest rates may only be cut in 2H14. We, therefore, favour retailers with strong balance sheets such as ACES, LPPF and RALS.

Figure 2: Sector Comparisons

Company	Bloomberg Ticker	Recom.	Price	Target Price	Market Cap (US\$ m)	Core P/E (x)		3-year EPS	P/BV (x)		Recurring ROE (%)			EV/EBITDA (x)		Dividend Yield (%)	
			(local curr)	(local curr)		CY2013	CY2014	CAGR (%)	CY2013	CY2014	CY2013	CY2014	CY2015	CY2013	CY2014	CY2013	CY2014
Ace Hardware Indonesia	ACES IJ	Add	670.0	780.0	956	26.4	22.6	5.0%	5.8	4.8	26.8%	23.2%	23.9%	16.7	15.5	0.6%	0.6%
Matahari Department Store	LPPF IJ	Add	10,900	15,500	2,645	27.5	19.3	28.8%	na	78.3	-93.8%	-887.0%	186.3%	14.2	12.8	0.0%	1.5%
Mitra Adi Perkasa	MAPI IJ	Reduce	5,600	4,850	773	26.6	23.4	-1.9%	3.8	3.3	16.6%	15.2%	17.3%	9.2	8.7	0.8%	0.6%
Modern Internasional	MDRN IJ	Add	790.0	1,050	273	63.1	44.5	21.5%	3.2	3.1	5.6%	7.1%	10.6%	20.7	15.6	0.5%	0.5%
Ramayana Lestari	RALS IJ	Add	1,040	1,500	614	18.1	15.7	4.3%	2.3	2.2	14.4%	14.2%	16.5%	8.4	7.5	3.5%	3.4%
<b>Indonesia</b>						<b>32.3</b>	<b>25.1</b>	<b>11.5%</b>	<b>3.8</b>	<b>18.3</b>	<b>-6.1%</b>	<b>-165.5%</b>	<b>50.9%</b>	<b>13.8</b>	<b>12.0</b>	<b>1.1%</b>	<b>1.3%</b>
Dairy Farm Int'l	DFI SP	Add	9.61	11.90	12,994	25.9	22.5	13.1%	9.4	8.2	38.9%	38.9%	38.1%	16.2	13.9	2.6%	3.1%
Parkson Retail Asia	PRA SP	Add	1.00	1.51	540	16.7	14.4	9.3%	2.6	2.4	16.0%	16.9%	17.7%	6.6	5.4	3.0%	3.5%
Sheng Siong Group	SSG SP	Add	0.59	0.77	646	20.6	18.4	13.0%	5.2	5.1	25.9%	27.9%	29.4%	13.1	11.7	4.4%	4.9%
<b>Singapore</b>						<b>25.1</b>	<b>21.8</b>	<b>12.9%</b>	<b>8.2</b>	<b>7.3</b>	<b>35.0%</b>	<b>35.5%</b>	<b>35.2%</b>	<b>15.5</b>	<b>13.3</b>	<b>2.7%</b>	<b>3.2%</b>
Sa Sa International Holdings	178 HK	Add	8.74	11.00	3,204	25.8	21.7	19.6%	11.2	9.7	46.7%	47.8%	49.0%	17.9	14.9	2.7%	3.2%
Samsonite Int'l S.A.	1910 HK	Add	22.05	26.00	4,002	20.1	17.2	27.4%	3.7	3.3	18.7%	20.3%	20.5%	11.5	9.5	1.2%	1.5%
Golden Eagle Retail Group	3308 HK	ADD	10.10	11.80	2,401	12.0	11.3	8.9%	2.9	2.9	23.8%	25.6%	28.7%	8.6	8.1	2.1%	2.2%
Intime Retail	1833 HK	Add	8.18	11.50	2,116	14.1	11.9	18.3%	1.8	1.6	12.4%	14.0%	15.3%	10.1	8.2	3.1%	3.3%
Parkson Retail Group	3368 HK	Reduce	2.50	2.00	903	10.5	9.9	-8.9%	1.0	1.0	9.2%	9.7%	10.6%	5.1	3.9	4.3%	4.5%
<b>Hong Kong</b>						<b>12.7</b>	<b>11.2</b>	<b>6.2%</b>	<b>1.4</b>	<b>1.3</b>	<b>11.0%</b>	<b>12.2%</b>	<b>13.4%</b>	<b>8.2</b>	<b>6.4</b>	<b>3.5%</b>	<b>3.7%</b>
<b>Average (all)</b>						<b>20.2</b>	<b>17.7</b>	<b>13.3%</b>	<b>4.4</b>	<b>4.0</b>	<b>22.4%</b>	<b>23.9%</b>	<b>24.9%</b>	<b>12.6</b>	<b>10.8</b>	<b>2.5%</b>	<b>2.9%</b>

SOURCES: CIMB, COMPANY REPORTS

### Continuous improvement ▶

BI's consumer confidence index (CCI) increased by another 4% mom to 114.3 in November, 5% below its historical high of 120.4 in November 2004 when SBY was elected as president. Going by past experience, we expect CCI to continue its upward trajectory, as it had done in the months preceding the elections in the 2005/09 period.

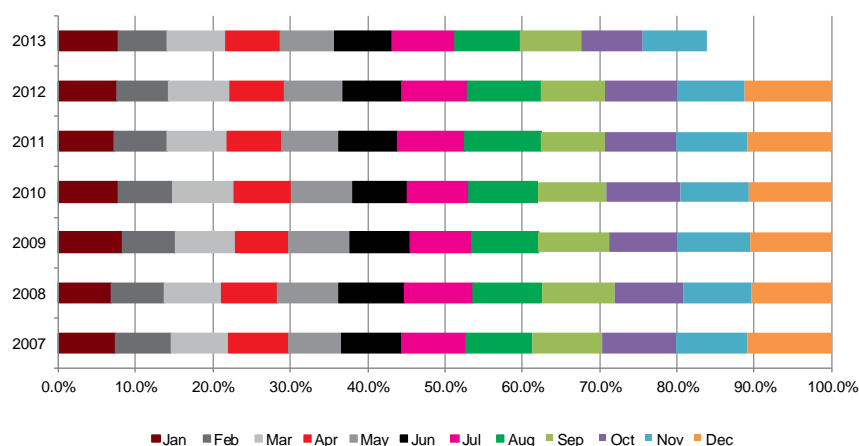
Further details of the CCI survey released by the Indonesian central bank revealed that consumers have also turned more positive on job opportunities, business activities and income expectations, a reversal from last month's concern. The milder inflation and better trade data may also be reasons for the pick-up in consumer confidence. The highest improvement in confidence level was noted among the better-off consumers with disposable incomes of Rp4m-5m per month.

The retail sales index (RSI) edged 0.4% on a mom basis in October to 143.2 but recorded annual growth of 12% which is largely in line with its 3-year CAGR of 13%. The index reading of 143.2 beats initial expectations of 135. This is largely in line with our expectations of growth acceleration towards the end of the year due to festivities. Industry pundits also expect the RSI to continue rising in the month of November. Indeed, the strong monthly sales data reported by selected retailers under our coverage support the above thesis.

### ACES – strong rebound in Nov SSSG ▶

Nov sales came in at Rp336bn, with SSSG at 9.5%, a sharp turnaround from last month's -2% SSSG. YTD, the company has achieved sales of Rp3.4tr, 83.8% of our full-year estimate, which is broadly in line with its 3-year historical average of 89%. Resilient consumer confidence in Nov, particularly in ACES's target market segment, suggests that its sales may be more sheltered than the lower end of the consumer market. Year-end sales events should boost growth.

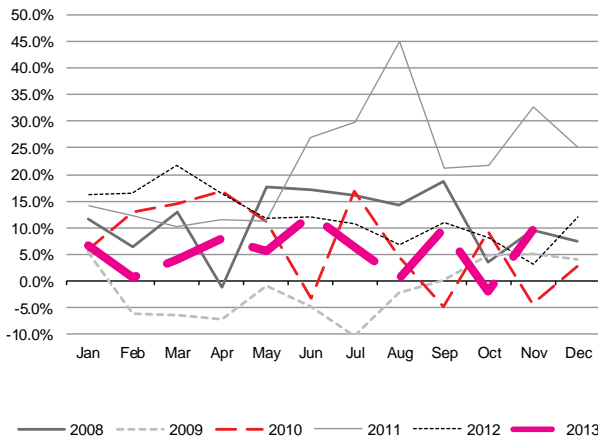
**Figure 3: YTD, the company has achieved sales of Rp3.4tr, 83.8% of our full-year estimate, which is broadly in line with its 3-year historical average of 89%**



SOURCES: CIMB, COMPANY REPORTS

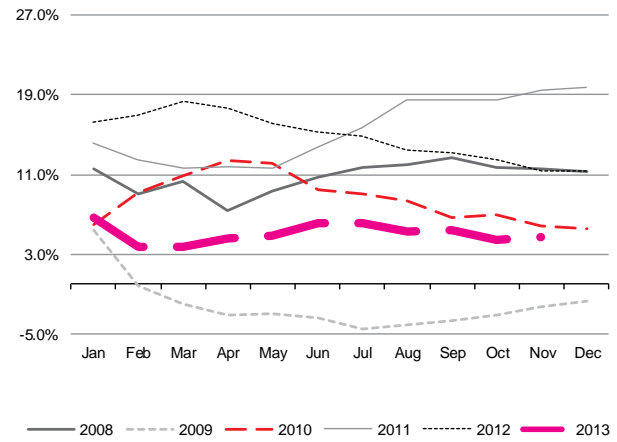
Its Java stores achieved the sharpest rebound in SSSG in November. ACES's more conservative expansion in 2014, particularly in 1H suggests upside to SSSG.

**Figure 4: ACES monthly SSSG: sharp rebound in the month of November**



SOURCES: CIMB, COMPANY REPORTS

**Figure 5: ACES cumulative SSSG**

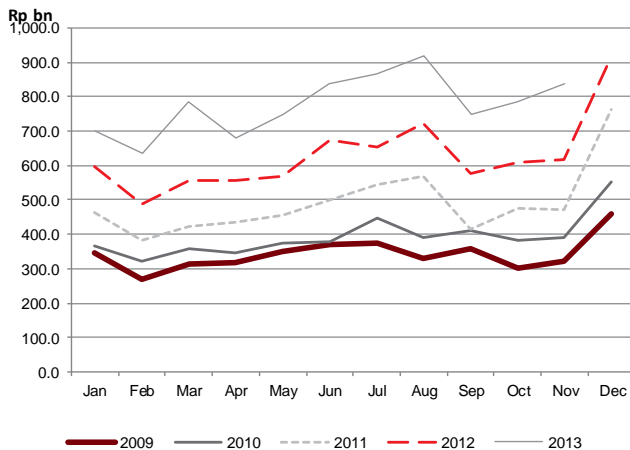


SOURCES: CIMB, COMPANY REPORTS

**MAPI – going strong in spite of fierce competition**

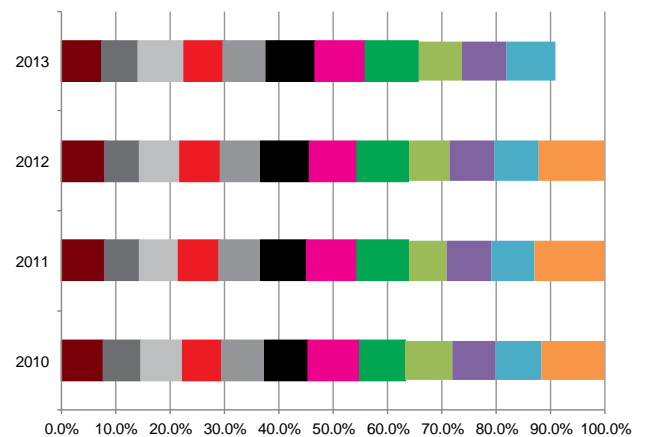
MAPI recorded the strongest 11M13 yoy net sales growth of 29.1% to Rp8.5tr or 91% of our FY13 forecast, ahead of its 3-year average of 87.7%. Gross sales are back to the Rp1tr level after slipping below in the month of October. This is on the back of YTD SSSG of 10%. Its November SSSG reached a YTD high of 15% (Oct: 12%). This is unsurprising as year-end festivities usually spur spending by MAP's target market.

**Figure 6: MAPI recorded the strongest 11M13 yoy net sales growth of 29.1% to Rp8.5tr**



SOURCES: CIMB, COMPANY REPORTS

**Figure 7: ... or 91% of our FY13 forecast, ahead of its 3-year average of 87.7%.**



SOURCES: CIMB, COMPANY REPORTS

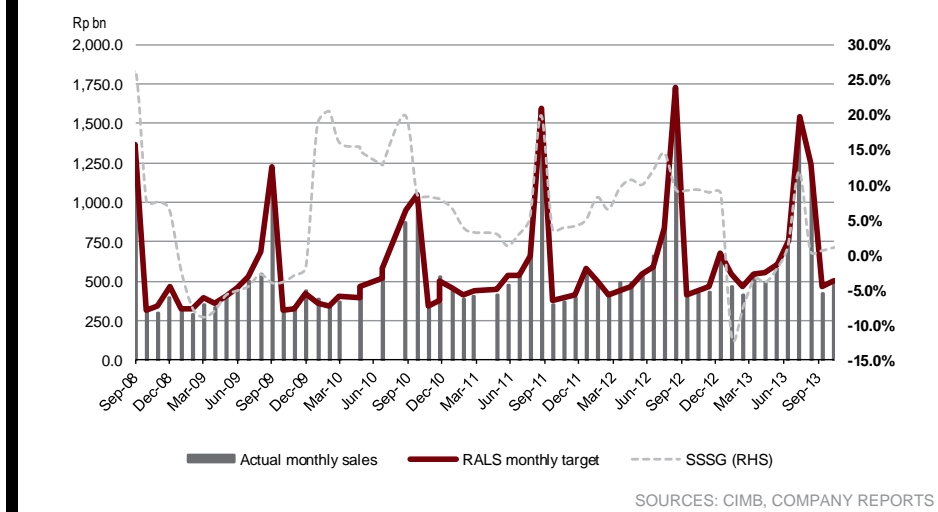
The company's planned retail space expansion of 75k sq m by end-FY13 seems to be on track as it has already added around 71.2k sq m so far this year. Additional retail space added comes mainly from its specialty store expansion. This is sensible given the recent entrance of Uniqlo and H&M into Indonesia's retail market.

## RALS – patience is virtue ▶

November sales came in at Rp485bn on the back of 8.4% SSSG, broadly in line with its internal target of Rp511bn. The past two months can be considered among the better months for Ramayana as both months' actual sales were largely in line with management's expectation. YTD, the company has achieved sales of Rp7.2tr, 89.4% of our FY13 estimate. This is in line with its 3-year historical average of 91% achieved by the eleventh month of the year.

Indicative gross margin for 11M13 is 25.9%, similar to the previous month's 6.0%. The weakest link is still its ex-Java stores which recorded single-digit SSSG in November, in contrast to double-digit SSSG in Greater Jakarta and Java (ex-Jakarta) area.

**Figure 8: November sales came in at Rp485bn on the back of 8.4% SSSG, broadly in line with its internal target of Rp511bn**



## Valuation and Recommendation ▶

**Share price performance.** ACES outperformed its peers in Nov due to its better-than-expected 9M13 results. We think that its share price will continue to do well given its strong monthly sales data.

**Maintain Overweight recommendation.** Macro concerns aside, the headwinds for the retailers may become tailwinds as the cost pressures from labour and rent ease as we head into FY14. Mass market retailers like MDS and Ramayana stand to benefit from the rising disposable incomes resulting from the lingering effects of the sharp wage hike in 2013 and election spending. With a liquidity crunch being the backdrop for Indonesia's economy at least until 1H14, we also like retailers with strong balance sheets and excellent track records. In this category is ACES which boasts a cash pile, debt-free status and lack of a serious competitor in its home improvement segment.

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CIMBS does not confirm nor certify the accuracy of such survey result.

<b>Score Range:</b>	90 – 100	80 – 89	70 – 79	Below 70 or	No Survey Result
<b>Description:</b>		Excellent	Very Good	Good	N/A

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Distribution of stock ratings and investment banking clients for quarter ended on 30 November 2013 1277 companies under coverage for quarter ended on 30 November 2013		
	Rating Distribution (%)	Investment Banking clients (%)
Outperform/Buy/Trading Buy/Add	50.1%	6.9%
Neutral/Hold	33.7%	6.1%
Underperform/Sell/Trading Sell/Reduce	16.2%	4.7%

As at the time of publishing this report CIMB is phasing in an absolute recommendation structure for stocks (Framework #1). Please refer to all frameworks for a definition of any recommendations stated in this report.

### CIMB Recommendation Framework #1

Stock Ratings	Definition
<b>Add</b>	The stock's total return is expected to exceed 10% over the next 12 months.
<b>Hold</b>	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
<b>Reduce</b>	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock.

Stock price targets have an investment horizon of 12 months.

Sector Ratings	Definition
<b>Overweight</b>	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
<b>Neutral</b>	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
<b>Underweight</b>	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings	Definition
<b>Overweight</b>	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
<b>Neutral</b>	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
<b>Underweight</b>	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

### CIMB Stock Recommendation Framework #2 \*

<b>Outperform</b>	The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.
<b>Neutral</b>	The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.
<b>Underperform</b>	The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.
<b>Trading Buy</b>	The stock's total return is expected to exceed a relevant benchmark's total return by 3% or more over the next 3 months.
<b>Trading Sell</b>	The stock's total return is expected to be below a relevant benchmark's total return by 3% or more over the next 3 months.

\* This framework only applies to stocks listed on the Singapore Stock Exchange, Bursa Malaysia, Stock Exchange of Thailand, Jakarta Stock Exchange, Australian Securities Exchange, Taiwan Stock Exchange and National Stock Exchange of India/Bombay Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.

CIMB Research Pte Ltd (Co. Reg. No. 198701620M)

### CIMB Stock Recommendation Framework #3 \*\*

<b>Outperform</b>	Expected positive total returns of 10% or more over the next 12 months.
<b>Neutral</b>	Expected total returns of between -10% and +10% over the next 12 months.
<b>Underperform</b>	Expected negative total returns of 10% or more over the next 12 months.
<b>Trading Buy</b>	Expected positive total returns of 10% or more over the next 3 months.
<b>Trading Sell</b>	Expected negative total returns of 10% or more over the next 3 months.

\*\* This framework only applies to stocks listed on the Korea Exchange, Hong Kong Stock Exchange and China listings on the Singapore Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.



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**Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (IOD) in 2012.**

**AAV** – not available, **ADVANC** - Excellent, **AEONTS** – Good, **AMATA** - Very Good, **ANAN** – not available, **AOT** - Excellent, **AP** - Very Good, **BANPU** - Excellent, **BAY** - Excellent, **BBL** - Excellent, **BCH** – not available, **BCP** - Excellent, **BEC** - Very Good, **BGH** - not available, **BJC** – Very Good, **BH** - Very Good, **BIGC** - Very Good, **BTS** - Excellent, **CCET** - Good, **CENTEL** – Very Good, **CK** - Very Good, **CPALL** - Very Good, **CPF** - Very Good, **CPN** - Excellent, **DELTA** - Very Good, **DTAC** - Very Good, **EGCO** – Excellent, **ERW** – Excellent, **GLOBAL** - Good, **GLOW** - Very Good, **GRAMMY** – Excellent, **HANA** - Very Good, **HEMRAJ** - Excellent, **HMPRO** - Very Good, **INTUCH** – Very Good, **ITD** – Very Good, **IVL** - Very Good, **JAS** – Very Good, **KAMART** – not available, **KBANK** - Excellent, **KK** – Excellent, **KTB** - Excellent, **LH** - Very Good, **LPN** - Excellent, **MAJOR** - Good, **MAKRO** – Very Good, **MCOT** - Excellent, **MINT** - Very Good, **PS** - Excellent, **PSL** - Excellent, **PTT** - Excellent, **PTTGC** - Excellent, **PTTEP** - Excellent, **QH** - Excellent, **RATCH** - Excellent, **ROBINS** - Excellent, **RS** – Excellent, **SAMART** – Excellent, **SC** – Excellent, **SCB** - Excellent, **SCC** - Excellent, **SCCC** - Very Good, **SIRI** - Good, **SPALI** - Very Good, **SRICHA** – not available, **SSI** – not available, **STA** - Good, **STEC** - Very Good, **TCAP** - Very Good, **THAI** - Excellent, **THCOM** – Very Good, **TICON** – Very Good, **TISCO** - Excellent, **TMB** - Excellent, **TOP** - Excellent, **TRUE** - Very Good, **TTW** – Very Good, **TUF** - Very Good, **VGI** – not available, **WORK** – Good.