



# 3<sup>rd</sup> Quarter 2012 Results & Company Update

Analyst Presentation  
19 October 2012

# Agenda

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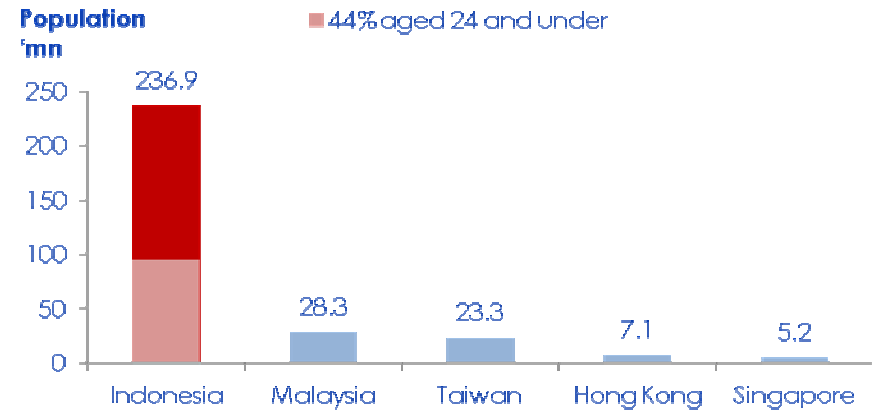
# **The Indonesian Retail Market**

# Robust Market Fundamentals . . .

## Indonesia – Attractive Market Fundamentals

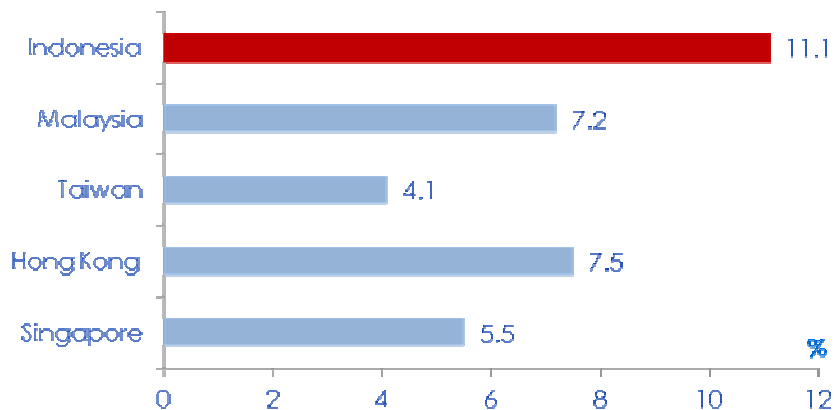
- Indonesia is the world's fourth most populous country with favourable demographics of a young population.
- Income growth is accelerating while the population is rapidly urbanising.

## Population (2011)



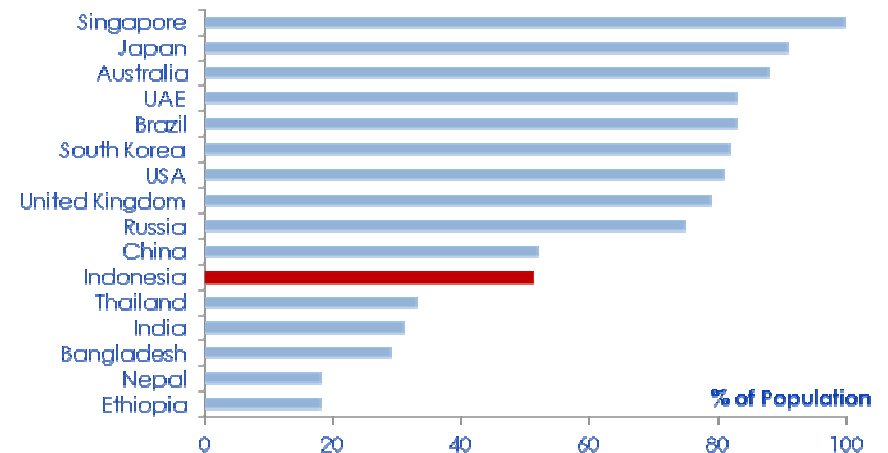
Source: IMF, Euromonitor, CIMB, CLSA Asia Pacific Markets

## Growth in Disposable Income (2012-16E)



Source: Euromonitor, CLSA Asia Pacific Markets

## Urbanisation Rate Comparison (2011)



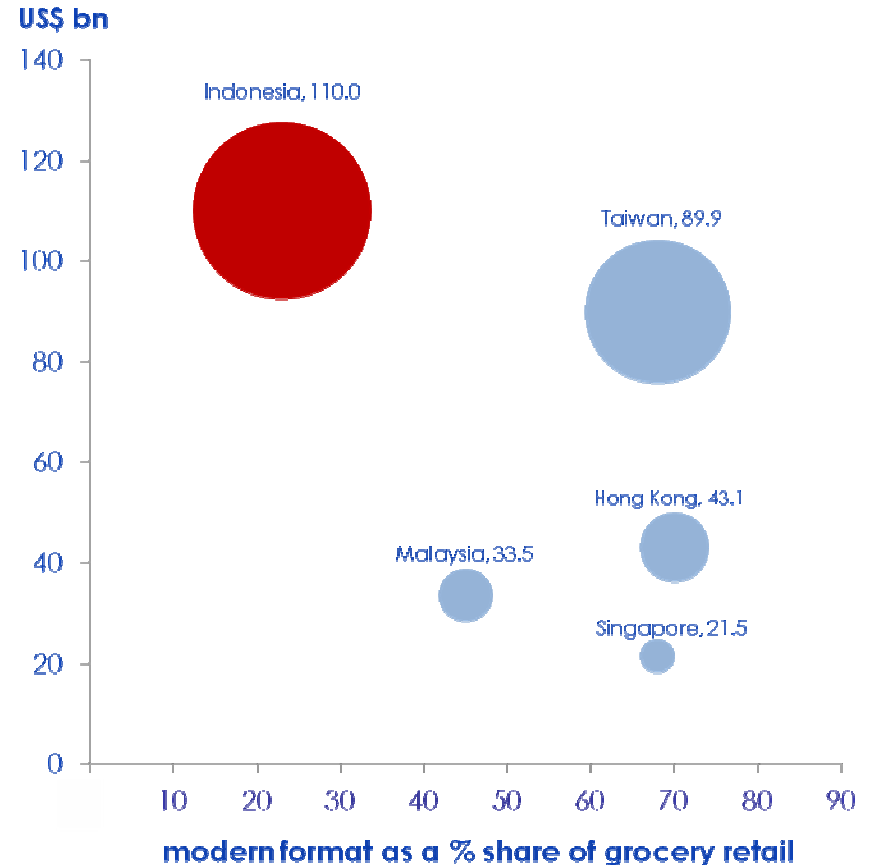
Source: Population Reference Bureau, ILO, CLSA Asia Pacific Markets

# . . . Translate into an Appealing Retail Growth Story

## Traditional Format Dominated Market

- Indonesia's retail market is one of the largest among ASEAN countries with a market size estimated at US\$ 110bn as of 2011.
- Today, the modern retail format represents only 20% of grocery sales compared to 65%+ for developed regions.

## Promising Growth Trajectory



Source: CIMB, Company Reports

**HERO Group**

# Overview

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## Company Introduction

- Hero has served the Indonesian community for more than 40 years.
- We employ a multi-format strategy and provide comprehensive geographical coverage in order to cater for consumer needs in all segments.
- Top 4 largest grocery retailer in Indonesia and No.1 in supermarket segment in terms of both sales and number of stores.

## Key Market Statistics

Stock Code (Bloomberg):	HERO:IJ
Last Close (IDR, 18/10/2012)	4,025.0
52-Week (High/Low)	7,500.0/940.0
Market Capitalisation	US\$'mn 1,396 IDR'bn 13,259.2
Share outstanding (mn)	3,294.2
Earnings per Share (IDR) (YTD Q3 2012)	67.4

### Implied Valuations

P/2011E	48.4x
P/2011B	9.3x
P/2011S	1.5x

Source: Bloomberg, Company data

# Vision and Missions

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## Vision

- To be a leading retailer in Indonesia in terms of sales and long-term stakeholder value creation







## Missions

- We have 5 BRANDS (Giant Hypermarket, Giant Supermarket, Hero Supermarket, Guardian and Starmart) that can satisfy all customer segments and we will grow them profitably across Indonesia by strengthening each brand's offer.
- We nurture and motivate the best local talents within the Company.
- We strive to be the best for customers, simpler for employees and cheaper for the Company.
- We, the retail PIONEER in Indonesia, will continue to work together to grow along with the development of our country, to advance our Company and improve the welfare of our stakeholders.



# Operation Profile



Hypermarket	Supermarket	Health & Beauty Store	Convenience Store	Home Furniture
 <ul style="list-style-type: none"> <li>• Low price image leader in Indonesia.</li> <li>• Leader in event promotions.</li> <li>• Develop and train our friendly people from within.</li> <li>• One store one school</li> </ul>	 <ul style="list-style-type: none"> <li>• To offer fast shopping and daily fresh commodities with fair price in a standardised store.</li> <li>• Ensure we have friendly staff.</li> <li>• One store one school</li> </ul>  <ul style="list-style-type: none"> <li>• Leader in fresh and innovation at great value.</li> <li>• Leader in customer service and professionalism.</li> <li>• Support the community in nutritional and environmental advancement and education.</li> </ul>	 <ul style="list-style-type: none"> <li>• To be a leading H&amp;B brand in Indonesia, maintaining a value for money offer with unique and exclusive products.</li> <li>• Excellent service through professional staff.</li> <li>• Support the community in nutritional and environmental advancement and education.</li> </ul>	 <ul style="list-style-type: none"> <li>• Destination for convenience shopping.</li> <li>• Convenience choice for services and quick meals.</li> <li>• Friendly and helpful staff.</li> <li>• Close to the community by focusing on education of the under-privileged.</li> </ul>	 <ul style="list-style-type: none"> <li>• New revenue stream (from 2014).</li> </ul>

- Multi-format strategy: To penetrate all segments of the Indonesian retail market and capture its strong growth
- Continue to grow in all formats and strive to improve market share

# Store Formats

## Format Criteria



### Hypermarket / Superstore

- Store trading area between 3,000-7,000sqm
- No of SKUs between 20,000 to 40,000
- Strong in promotion
- Monthly shopping
- Shopping mall with amenities



### Supermarket

- Store trading area between 800-1,200sqm
- No of SKUs between 10,000 to 13,000
- Quick shopping for basic needs
- Weekly/top up shopping



- Store trading area between 800-1,200sqm
- No of SKUs between 10,000 to 13,000
- Focused on Quality Fresh and imported products
- Weekly/top up shopping



### Health, Beauty & Convenience Store

- Store trading area between 50-300sqm
- No of SKUs between 4,500-5,500
- Affordable luxury and exclusivity
- Focused on Health and Beauty
- Pharmacy as a service

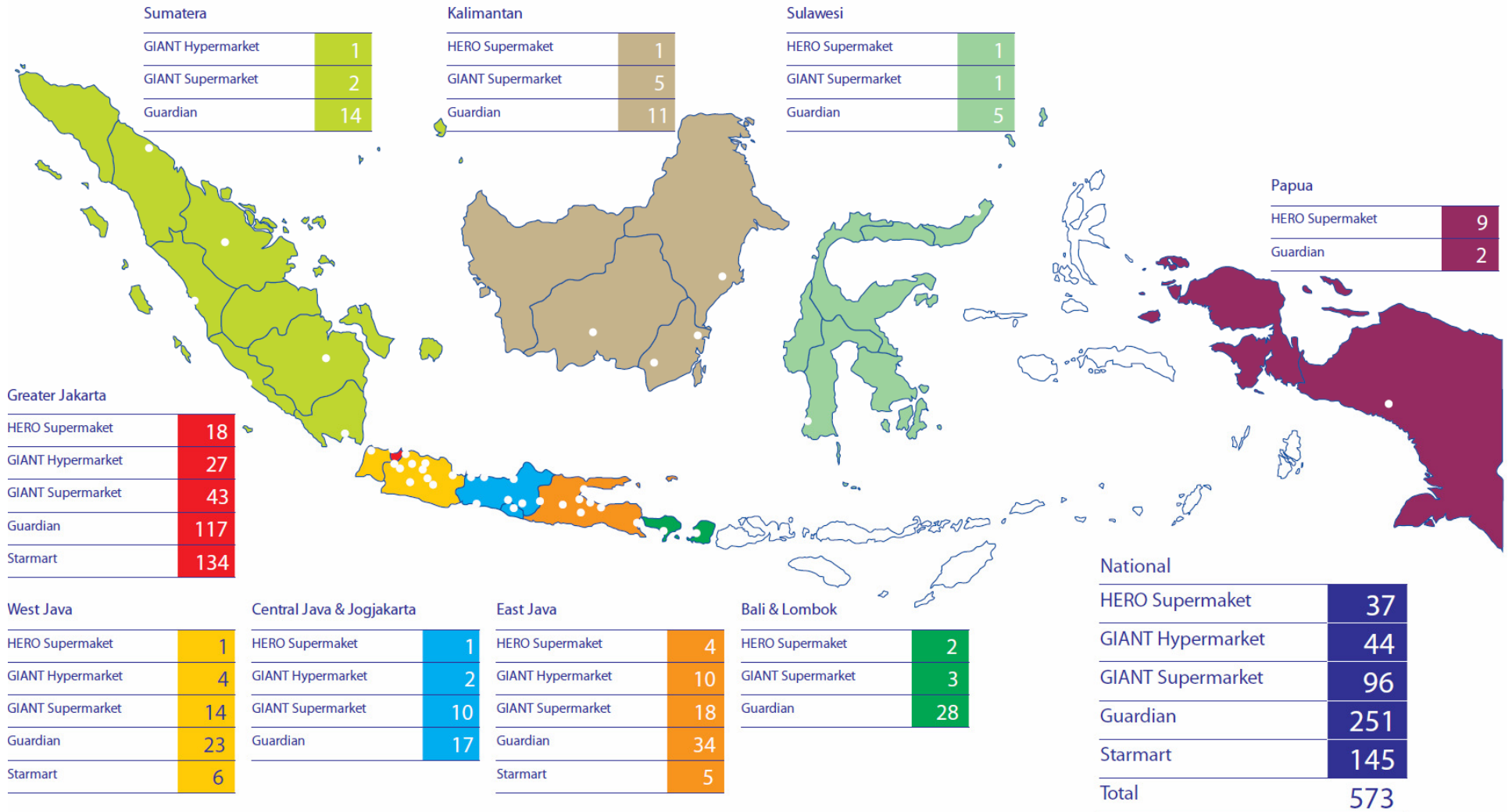


- Store trading area between 30-200sqm
- No of SKUs between 900 to 3,000
- Captive market
- Focused on service, ready-to-eat and occasional top up

## Store Portfolio



# Store Network Coverage



# Financial Performance

## Highlights

- Both sales and profit have exhibited double digit CAGR for the past five years.
- Margins have experienced significant improvement despite strong competition.

## Overall Financial Summary

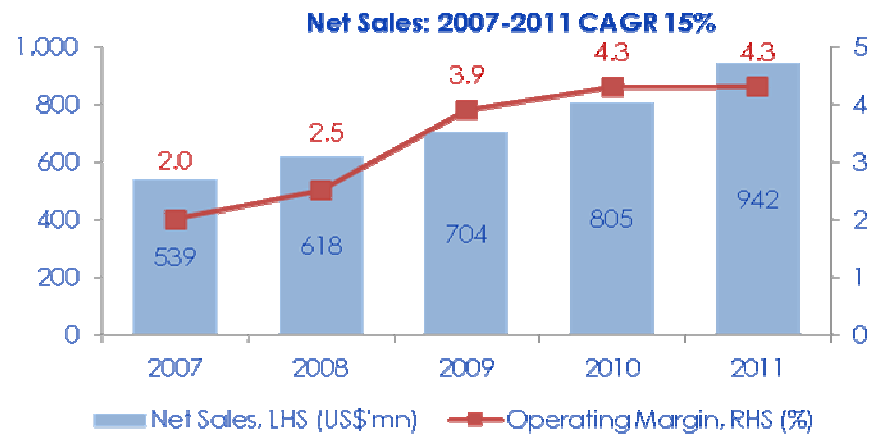
US\$ mn	Net Sales: 2007-2011 CAGR 15% Profit: 2007-2011 CAGR 40%				
	2007*	2008*	2009*	2010*	2011
Net Sales	538.9	617.8	703.5	805.3	942.3
Operating Margin (%)	2.0	2.5	3.9	4.3	4.3
Profit for the Year	7.4	10.2	18.1	23.4	28.8
Basic Earnings per Share (IDR)**	20.6	28.4	50.9	65.6	81.3

IDR9,500/US\$1

\* As reclassified

\*\* The prior year's basic earnings per share have been restated to reflect a ten-for-one share split as resolved in the Extraordinary General Meeting of Shareholders on 6 January 2012

## Revenue & Operating Margin



## Earnings per Share (IDR)



# Key Developments and Objectives

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- Continue to focus on the positioning and strategy of our brands
- Store expansion outside Java for all formats
- Continue to dominate in existing locations
- Major productivity drive (process improvement/simplification, central ordering, master file control, etc)
- Re-align supply chain to support growth
- Continue to develop our human capital to support growth and expansion
- New format development - Expansion into IKEA (2014)

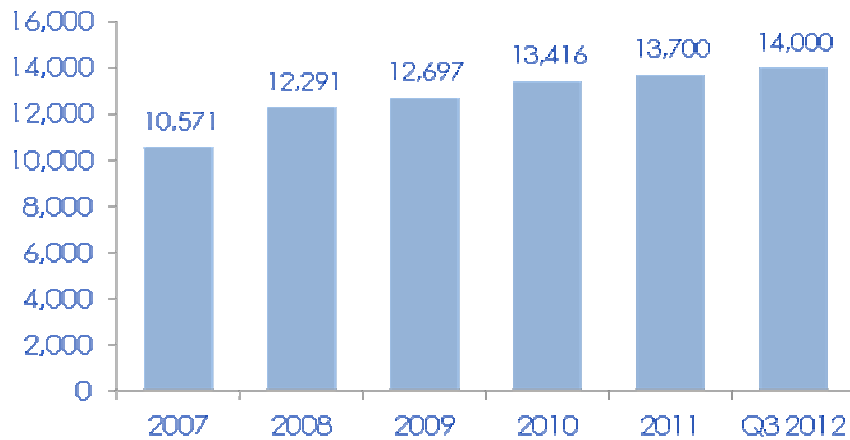
# Head Winds – Challenges

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- Inadequate infrastructures presents supply chain challenges
- Rising costs of operation
- Regulations and licensing
- Potential new entrants
- Evolution of consumer shopping behavior with the rise of living standard

# Human Capital Development

## Number of Employees



- Started with 16 employees in 1970 and now has 14,000 employees.

## Platform to Nurture Future Leaders

- Recruitment programme – MIT (annual intake of 30 graduates)
- Promote Indonesian culture and local talent
- Professional standards
- Equal opportunity for all



**HREP 1<sup>st</sup> Batch – 46 future leaders**

# Giving Back to the Communities



## Promote Indonesian Grown Products

We work closely with local farmers to encourage them as regular suppliers of fresh produce



## Working with Customers to Help Indonesian

Small Money, Big Hopes – Collects donations from customers for charitable foundations, selected by our stakeholders (IDR 1.8bn was donated in 2011)



## One Store One School

“Adopt a School” programme

Improve the welfare of school and its students in the vicinity of our stores



## Getting Our Customers Safely Home for Festive

Muslim New Year – free trip home



## Encourage Healthy Lifestyle of Indonesian

“Pasar pagi” - Early morning exercise programme instructed by professionals, free blood tests and health related activities for local mothers



## Small Way towards More Environmental Friendly

Eco-friendly bags – Introduced new types of “green” bags which are biodegradable within 2 years



# **3<sup>rd</sup> Quarter 2012 Results**

# 3<sup>rd</sup> Quarter 2012 Results

## Highlights

- Sales grew by 19.3% Y-o-Y to US\$824.3mn, whilst net income grew by 18.0% Y-o-Y to US\$23.4mn. Excluding pre-opening costs of IKEA, net income grew by 21.6%.
- Development of IKEA project in 2012.
- Opened 60 new stores including 5 hypermarkets YTD.
- Store expansion according to plan with more stores, particularly supermarkets, expected to open in Q4 2012.

## Financials

US\$ mn	Net Sales: 2007-2011 CAGR 15%					Profit: 2007-2011 CAGR 40%	
	2007*	2008*	2009*	2010*	2011	Q3 2011	Q3 2012
Net Sales	538.9	617.8	703.5	805.3	942.3	691.1	<b>824.3</b>
Operating Margin (%)	2.0	2.5	3.9	4.3	4.3	4.1	<b>4.1</b>
Profit	7.4	10.2	18.1	23.4	28.8	19.8	<b>23.4</b>
Basic Earnings per Share (IDR)**	20.6	28.4	50.9	65.6	81.3	57.1	<b>67.4</b>
Total Assets	183.9	224.0	297.9	329.0	391.5	358.4	<b>477.3</b>
Total Equity	69.3	79.5	97.5	120.9	149.7	140.7	<b>173.1</b>
Total Debt	-	-	41.8	39.5	40.3	25.1	<b>91.2</b>
Net (Debt) / Cash to Equity (%)	22.6	19.7	(37.2)	(17.1)	(19.7)	(12.8)	<b>(44.3)</b>
Return on Average Equity (%)***	11.4	13.3	19.9	21.7	21.4	20.2	<b>19.3</b>
Current Ratio (%)	93.9	86.4	76.4	79.2	81.7	86.5	<b>89.2</b>

IDR9,500/US\$1

\* As reclassified

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\*\*\* Annualised

# 3<sup>rd</sup> Quarter 2012 Results

## Highlights

- Sales grew by 19.3% Y-o-Y to IDR 7,830bn, whilst net income grew by 18.0% Y-o-Y to IDR 222bn. Excluding pre-opening costs of IKEA, net income grew by 21.6%.
- Development of IKEA project in 2012.
- Opened 60 new stores including 5 hyper-markets YTD.
- Store expansion according to plan with more stores, particularly supermarkets, expected to open in Q4 2012.

## Financials

IDR bn	Net Sales: 2007-2011 CAGR 15%					Profit: 2007-2011 CAGR 40%	
	2007*	2008*	2009*	2010*	2011	Q3 2011	Q3 2012
Net Sales	5,120	5,869	6,684	7,650	8,952	6,565	<b>7,831</b>
Operating Margin (%)	2.0	2.5	3.9	4.3	4.3	4.1	<b>4.1</b>
Profit	70	97	172	222	274	188	<b>222</b>
Basic Earnings per Share**	20.6	28.4	50.9	65.6	81.3	57.1	<b>67.4</b>
Total Assets	1,747	2,128	2,830	3,125	3,720	3,405	<b>4,534</b>
Total Equity	658	755	927	1,149	1,422	1,337	<b>1,644</b>
Total Debt	-	-	397	375	383	239	<b>866</b>
Net (Debt) / Cash to Equity (%)	22.6	19.7	(37.2)	(17.1)	(19.7)	(12.8)	<b>(44.3)</b>
Return on Average Equity (%)***	11.4	13.3	19.9	21.7	21.4	20.2	<b>19.3</b>
Current Ratio (%)	93.9	86.4	76.4	79.2	81.7	86.5	<b>89.2</b>

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