



**HEYÓKHA  
BROTHERS**



***We ain't zombie***

“Successful investing takes time, discipline and patience. No matter how great the talent or effort, some things just take time: You can't produce a baby in one month by getting nine women pregnant.”

-Warren Buffett-

“Wait for that wisest of all counsellors, Time.”

-Pericles-

**IQ 2017**



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## Heyokha's operating system

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## What we have learned this quarter

### We ain't Zombie

#### A new infection spreads

Just when you think the zombie genre is heading for the grave, it gets back up and lurks at us. A few weeks ago, some of us could not resist visiting the cinema and watching the latest sequel of Resident Evil. It was amusing to see how zombies have evolved from a slow lazy bunch to the agile, high-stamina hunters with a can-do attitude.

We were thinking that if we could get these zombies to pay for blood it would make a pretty good business. We then realised such businesses already exist. Indeed, zombies have been money makers for a long time, not only by selling movies starring them, but also by selling the products that “zombies” desperately need so much.

Zombies are desperate addicts, and serving people with an addiction has been a highly profitable business for the longest time. It's not for nothing that most governments try to control or regulate these businesses, often under the flag of preventing us from harm, yet sharing in the proceeds.

While we are entertained to see the zombie virus do its work in the movies, we hardly realise that real life corporations are succeeding in turning us into “zombies” as well. Not at the hand of some virus, but at the hand of technology that is designed to activate the pleasure centers in our brains.

Sure, we don't see hordes of people chasing other humans to eat them. Yet we did see hordes of humans running towards a spot where there was a special Pokémon. Tragedies do happen occasionally as well, when a parent is brave enough to take away a smartphone from their kids, or when a gamer forgot to drink and sleep for a week. We don't need to think long to realise that technology has got a hold on us.

The moment we lost our smartphones (or thought we did), we lunged for it, scrambled for it; eyes frantically looking all over, desperate to have it back, safe in our hand. The smartphone's existence is like a pacifier. It “calms our nerves” or purports to do so while distracting us at the same time. We only feel complete when the smartphone is right in our hand. Sounds familiar?

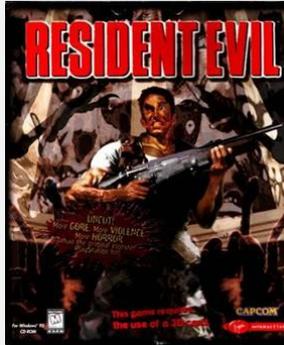


#### **Hangzhou China, Patient and her smartphone “pacifier” during surgery**

Mrs Zhu, a 69 year old, was having surgery on her legs after suffering from varicose veins and spent most of the 18minute long procedure scrolling through WeChat moments and took photos of hospital staff cutting into her legs.

Doctors saw she was anxious before the operation and wanted her to be more relaxed, deciding to let her bring in her phone, but of course not before sterilising it.

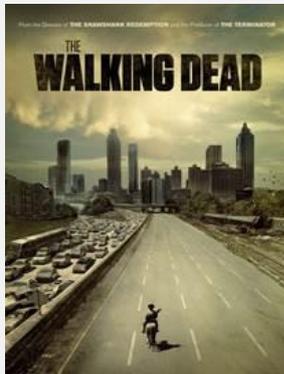
## From Zombie Blockbusters...



*Resident Evil 1996, most iconic modern zombie franchise Capcom's best-selling debut game, with sales of over 8.5 million copies worldwide.*

*Resident Evil sequel is based on the Japanese video game. The fictional Umbrella Corporation creates bioweapons which later cause the zombie apocalypse.*

*This movie is the highest grossing film series to be based on video games of all time. All the six film released generates US\$ 1.2 bn worldwide.*



*Eleven mn viewers per episode and now commencing season eight*

*TV series The Walking Dead was based on the comic book by Robert Kirkman. The lead character is a sheriff's deputy who awakens from a coma to discover a world overrun by zombies (or the "walkers"). The deputy becomes the leader of a group consisting of other survivors.*

*Together they struggle to survive and adapt in a post-apocalyptic world filled with walkers and, ironically, opposing groups of survivors, who are often more dangerous than the walkers!*



*Mutated zombie? Zombie innovation in the form of more athletic and agile un-dead in World War Z movie (2013)*

*Just as we thought no new idea could pop up about the undead, and that World War Z would die at the box office, the movie raked in a cool US\$540mn in 2013. The recipe for success? More mobile, more agile, and faster-moving zombies.*

*In fact, the zombies in World War Z are more athletic than their human targets. Faster zombies are definitely scarier, thus triggering more stress hormones on the audience, which perversely produced more excitement, thus better box office numbers.*



*Finally, zombie came to Asia in 2016. A Korean zombie apocalypse film (non-stop Asian action thriller style) hit audience record of over 10 million viewer. The movie sent a message of a healthy distrust of authority. The second installment of this movie is coming soon.*



*.....TO MUTATING TO REAL LIFE ZOMBIES*

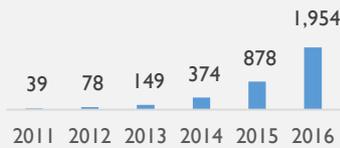
**Cyberspace cadets: the patients at the Daxing Internet Addiction Treatment Centre receive their instructions.** China is the first country to declare internet addiction a clinical disorder. There are more than four hundred internet addiction treatment centers in China.



**Jababeka develops Tanjung Lesung resort that is located 110 miles away from Jakarta, with peaceful surrounding.**

In Indonesia, about four years ago we had a meeting with the founder of a listed property developer Jababeka. Interestingly, we found out this developer was considering a JV with a Japanese company to build an Internet addiction treatment center in Tanjung Lesung targeting the Japanese youth.

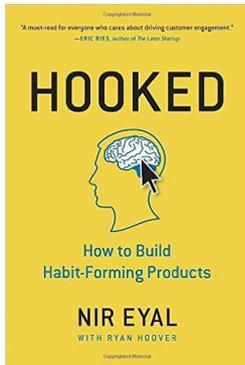
Indonesian data volume of telco incumbents, in petabyte



At that time, we thought the idea was ridiculous. Fast forward to 2017, it turns out the developer is a visionary. As the digital zombie virus has already spread in Indonesia the center probably no longer needs to rely on the Japanese clients alone.

This phenomenon is catching on and is unstoppable across Indonesia.

**We got hooked and lose focus**



Nir Eyal, the author of the book *Hooked: How to Build Habit-Forming Products* noted that “zombie virus” is akin to the technology’s unstoppable progress – ever more pervasive and persuasive.

This book explains how successful tech companies create products that people can’t put down. The author discusses how the ability to create habit-forming products is like a superpower (definition of superpower: if it can’t be used for evil, it’s not a superpower).

If used irresponsibly, bad habits can quickly degenerate into mindless, zombie-like addictions.

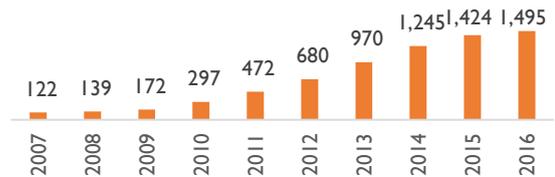
Tech companies have risen to power and prominence, in part by designing experiences that have masterfully activated and conditioned the pleasure centres deep within our brains.

The rise and usage of these persuasive technologies in the form of apps in our smartphones have manipulated our minds in ways that we don’t really see. These technologies have become the zombie virus or the modern day “digital drugs”.

In fact, the business of selling such “digital drugs” has created some of the biggest companies in the world. Three of the biggest examples (Alphabet, Facebook and Tencent) make the top ten biggest in global market cap.

**No. of smartphone sold to the end users**

Globally, in million unit



Source: Statista.org



Top spot is taken by the “digital drugs” equipment supplier, Apple. Ironically, the list only contains are company that sells real drugs, Johnson and Johnson.

No	Company name	Market Cap, US\$ bn
1	Apple	758
2	Alphabet	608
3	Microsoft	525
4	Amazon	434
5	Facebook	424
6	Berkshire Hathaway	413
7	Exxon Mobil	347
8	Johnson and Johnson	335
9	JP Morgan	314
10	Tencent	294

Note: Apple is the pioneer of smartphones. Nowadays, iPhone makes up 2/3 of Apple’s sales

**“An ever-accelerating race between tech companies to get inside our heads and addict us to their products, and, at the same time, the growing risk that too much information sharing is creating the potential for the greatest era of group think in human history”**

-Adam Alter’s new book, Irresistible: The Rise of Addictive Technology and the Business of Keeping us Hooked-

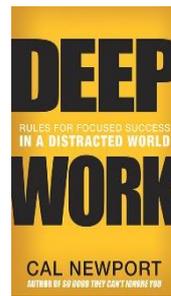
The goal of persuasive technology is to get our attention, to influence our attitude and behavior so we get hooked. It’s all about engagement and retention. The side effects, however, are hazardous.



Zombies typically are in herds.

A zombie like state renders us unaware of our own surroundings, pulling us into a tech-induced trance, stuck and unable to fully control ourselves.

According to the thought provoking book “Deep work: Rules for Focused Success in a distracted World”, we are increasingly being distracted by technology, preventing us to focus.



The author, Cal Newport defines Deep Work as professional activities performed in a state of distraction free concentration that push your cognitive capabilities to their limit.

These efforts create new value, improve our skill, and are hard to replicate.

He pointed out a 2012 McKinsey study which found that the average knowledge worker now spends a staggering amount of time on network tools: more than 60% of the work-week engaged in electronic communication and internet, with close to 30% of a worker's time dedicated to reading and answering email alone.

The irony is that many knowledge workers too have turned into digital zombies and the result is diminished creativity.

In the next section we discuss how you can obtain the antidote for this.

**“Once it was that a man could think of the machine as serving him. Then a time of paradox comes. The machine itself demands to be served, for unless it is served according to its own laws it will be unable to perform its miracle. Does it then enslave the man who serves it? Henry Ford said no. The only slave left on earth was man minus the machine.”**

-Garet Garret, An American journalist and author (1878-1954)-



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*If sugar is the new tobacco...*

### Are smartphones the new sugar?

We remember just thirty years ago, most people thought drinking sugar water was good for us. In fact, when we visited a sick friend in hospital back then, it was common practice to bring a bottle of this yellow sugary bubbly drink call Lucozade.



One 380 ml bottle has 33g of sugar, just a little less than a can of Coca-Cola.

Lucozade was first manufactured in 1927, an invention of a UK chemist. He experimented for several years, trying to come up with an energising drink for those who were sick with common illnesses like the common cold or influenza.

It became available throughout Britain for use in hospitals under the name Glucozade.



*John Pemberton, the original inventor of Coca-Cola. It was initially sold as a patented medicine at the time, due to the belief that carbonated water was good for health.*

Source: Wikipedia

It took probably another two decades for people to realise that excessive sugar intake is bad for us. It is in fact the leading cause of many major sicknesses such as heart disease. Nowadays we would be surprised see visitors bring a bottle of Lucozade to hospital visits.

Speaking of zombies and intrepid 20th century scientists, we see a parallel between sugar water and digital connectivity. Just like it did with sugary soda, the masses will one day realise the side effects of digital drugs.

Those who have the foresight to see this and have the strength and discipline to train themselves will have a chance to be a disciple of depth in an increasingly shallow world.

### The antidote: calm and patience

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**“A world of ceaseless change means that useful education involves not merely the mastery of facts, as it might at but also the training of a vigilant instinct.”**

-The 3,500 year old Chinese text I-Ching, the book of changes -

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So, in this world of connectivity, smartphones and instant gratification, how do we tackle the increasingly difficult challenge to perform deep and independent thinking?

The answer, it appears from our findings below, is by being calm and patient.

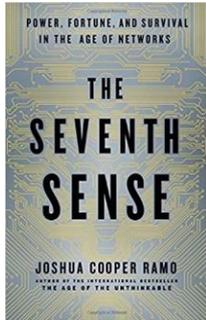
In his book, Carl Newport offers a practical set of rules to transform our mind and habit to perform deep work. They can be summarised in the following four rules:

1. **Work deeply** by adding routines and rituals, while allowing for free time to recharge and gain insights;
2. **Embrace boredom** to enable yourself to resist distracting stimuli;
3. **Quit social media** to resist its distraction;
4. **Minimise shallow activities** that do not add value.

Paradoxically, one of the keys to getting more significant things done, is to step back and take it easy from time to time.



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This view is also conveyed in the book *“The Seventh Sense”*, written by Joshua Cooper Ramo. In this book he discusses lessons from Master Nan, a spiritual teacher of contemporary China.

According to the author, people are now constantly connected to computers and machines, and this is changing the way they think. People just cannot make sense of what is happening. There is no respite. The world is going to go faster and faster in this regard.

The pillar needed to survive this turbulence of technology-induced zombiefication is “instinct,” which he calls the Seventh Sense.

Seventh sense is the ability to look at any object and see the way in which it is changed by connection. Not to the internet, but everything in the world.

In order to develop such instincts, one needs to train to be calm in a world of increasing speed. This is the chance to cultivate one’s deep ways of feeling and sensing the world.

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**“Genius”, Ramo quoted Master Nan, “rises above the rules.”**

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We at Heyokha are certainly no genius but at least we have the awareness of the distractive nature of technology. We will try to tune into our instincts in the age of digital zombies, to rise above the currents.

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**“The training of an instinct, of a truly fresh way of looking at the world, demands a kind of calm...In this early moment of a revolution, we should seek those stilled, freeze-framed moments when we can pause amid light speed-fast networks to think about why they work and just what they are doing to us”**

-Master Nan-

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**Technology slowing down evolution?**

## The Patient Investor

**“Value investing requires deep reservoirs of patience and discipline.”**

-Seth Klarman, founder and CEO of Baupost-

Zombies are certainly not associated with patience or discipline. And we are sure that they don't understand the power of compounding.

The thing is that in investing, patience is a virtue.

Yet, in our industry we see investors who have to benchmark their fund performance daily.

As a result, their focus is on short term performance and thus the avoidance of investments that may be volatile in the short term, but promising in the longer run.

We think this investment approach does not allow for deep work or the development of a “seventh sense” and leaves a lot of overlooked opportunities.

As a big believer of the virtue of patience and in investing in businesses with passionate managers, we have structured ourselves to accommodate that.



In 4Q 2016, we wrote about investing in passion, please click [here](#) for the full report.

In order to prevent “short-termism”, we trust that a more practical approach is to focus on long term performance.

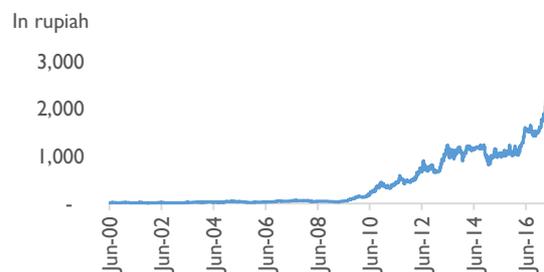
Another way to prevent the danger of distraction and short-termism (or zombie style investing) is to define investment risk as the probability and the potential amount of loss, rather than the temporary share price volatility.

Only by freeing ourselves from the fear of short term drawdowns, can we stop looking at our screens compulsively and find the time to carry out rigorous on-the-ground, bottom-up style research.

To illustrate, we picked two companies that created a lot of value for their patient investors in the long run.

### Example I: Indonesian biscuit maker Mayora

#### Mayora stock price went up 146x since 2000



Source: Bloomberg

From the post Asian crisis price level of 15 rupiah in year 2000, the stock has gone up 146 times.

#### Zoom in: Mayora stock experienced many drawdown before it took off



Source: Bloomberg

However, without patience and reasonable portfolio diversification, an investor would likely have sold the stock during many drawdowns experienced, as shown above.

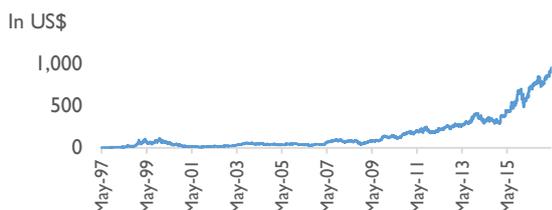
That would have proven a wrong approach, as the biggest Mayora stock price surge occurred in 2008-2016 where the stock went up 55x. This means a healthy dose of patience is needed as the stock only doubled from 2000-2008, underperforming JCI Index by a massive 40%.



### Example 2: Amazon

Perhaps the ultimate example is the world second biggest company based on market cap at the moment, Amazon.

#### Amazon stock price went up 484x since IPO

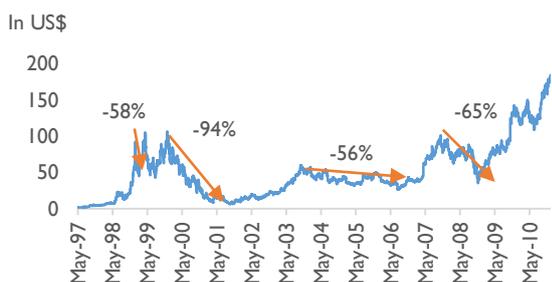


Source: Bloomberg

Before the stock price went up almost 500 times, the stock price experienced some major draw-downs. Interesting to note, a third of the cumulative wealth generated by entire US stock market from 1926-2015 was made up only by 30 companies. And, Amazon who just went public in 1998 is one of the them.

In the past 20 years since its listing, the Amazon share price has fallen by more than 10% and an average of 36% from their intrayear peak every single year.

#### Zoom in: Amazon stock price 1997-2010



Source: Bloomberg

**“All big winners have big drawdowns. Accepting this fact can go a long way toward controlling your emotions during periods of adversity and becoming a better investor.”**

-Marc Faber-

### The four endurance stocks

**The two most powerful warriors are patience and time.**

-Leo Tolstoy-

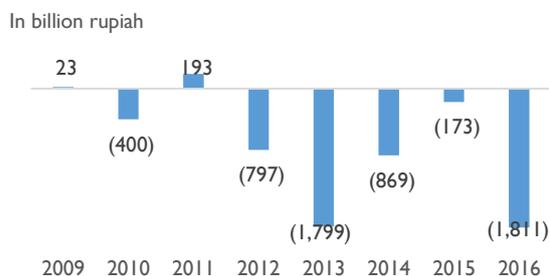
Below, we discuss four companies that we think are easily shunned by many investors since these companies demand a huge degree of patience.

#### I. Indonesian minimart chain

One company that could be the ultimate test for investors' patience is an Indonesian minimart chain operator.

Although very well run, this company has been consuming a lot of capital on the back of an aggressive expansion strategy.

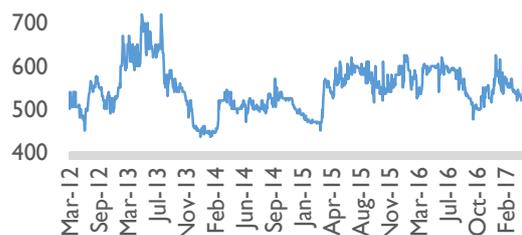
#### Negative free cash flow



Source: Company data

Post its IPO in 2009, they have made three capital calls (2012, 2014, and 2015) to fund their expansion. Even in 2016, the free cash flow remained negative.

#### The stock price has been trading sideways in the past five years



Source: Bloomberg



It is thus no wonder that the stock price has gone nowhere in the past five years, a non-tolerable situation for investors with a relative performance benchmark.

In turn, this frustration among investors led to a bargain price, which helps patient investor to obtain enough margin of safety in case things do not go too smoothly.

In terms of EV/sales and EV/EBITDA, this strong franchise was trading at 70% and 40% discounts compared to its peers when we bought the stock.

In our forecast, we expect the company to double its earnings by 2020 (or 22% p.a). This means that the stock is now trading at an undemanding 3.5x 2020 EV/EBITDA.

In addition, we believe that the negative free cash flow situation is about to reverse. We believe that the company is very close to reach a level where they can self-fund the expansion.

To put things in perspective, in 2017 this minimart chain has 13,600 cash flow generating stores to fund an annual expansion of 1,500 stores, as opposed to just five years ago when they only had 6,000 stores to fund the same.

In the coming ten years, the company is expected to more than double their footprint to 30,000 stores. The math is thought provoking, to say the least.

We forecast that the company can continue to expand at the same rate while maintaining leverage at the current level.

**Minimart format continues to grab market share both traditional and large format retail**

In percentage



At the moment, there are 3 million traditional stores vs. 30,000 minimart stores across the country, meaning massive upside for minimart formats.

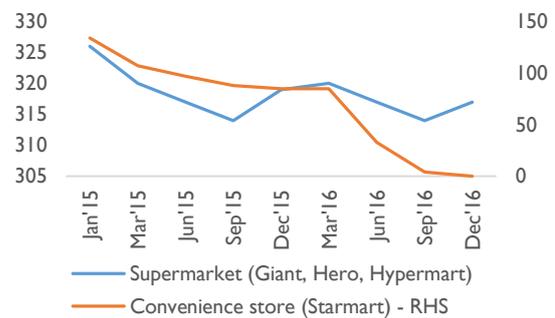
Source: Company data

With net debt to EBITDA level of 1.8x, and free cash flow positive by 2019, we think there won't be a need to tap equity market further.

In terms of store format, we are of the view that the minimart format is winning in the modern retail market space.

**Supermarket and convenience stores are closing down**

No. of stores



Source: AC Nielsen

This is evident in the closure of many supermarkets and convenience stores. In addition, many listed supermarket operators are losing money or barely breaking even at EBIT level.

In addition, we expect the barrier to entry has increased significantly in favour of incumbents, along with the colossal property price increase during 2010-2013.

Property company Ciputra Development noted that 2010-2013 property price increase represents the biggest jump in the modern Indonesian history. As a result, property rental rate has skyrocketed too. For Minimart operator, payback period has expanded from 3-4 years to more than 7 years.

This minimart is in a much better position as it has established a very strong base and franchise. They have become a tenant of choice for many property owners who want to think more long term since this minimart chain offers more stability.

As its market share rises and store network expands, this minimart company has been able to monetise incoming traffic.

Assuming there is a thousand visits per store per month, they have 13 million visitors per month. This



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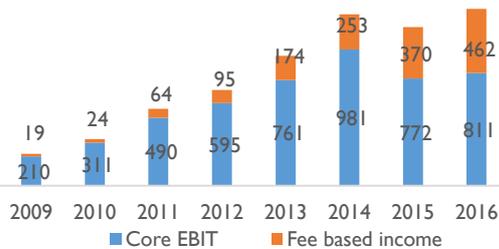
is a staggering audience for in-store promotions by FMCG companies.

Moreover, the minimart company has quickly become a pay & collect point for e-commerce companies, banks, tickets, phone voucher and cash in & out points for the many e-wallet players.

We expect that as the scale of the business increases, the fee-based income stream from store network monetisation starts to give significant contribution to the bottom line.

**Fee based income started to give significant contribution to net income**

In billion rupiah



Source: Company data

**2. Indonesian LPG refiner and ammonia producer**

This company started as a refiner of liquid petroleum gas (LPG). Then in 2014, the company started to build an ammonia plant in Sulawesi, Indonesia, which was going to take 3 years.

It is important to note that building huge projects in Indonesia is not an easy job due to regulations and potential social issues.

Although potential upside from the ammonia plant is massive, many investors prefer to walk away when the payoff is too far off.

As a result, the valuation did not reflect any potential upside of the ammonia plant. For us, the margin of safety was just too attractive to ignore.

In our opinion this opportunity offers an attractive risk-reward. The company's management is experienced in dealing with the government and has

proven to be able to get all necessary permits quickly.



Progress of Ammonia plant construction

They also have a proven track record in managing one of the world's leading petrochemical producers, Indorama Ventures PCL.

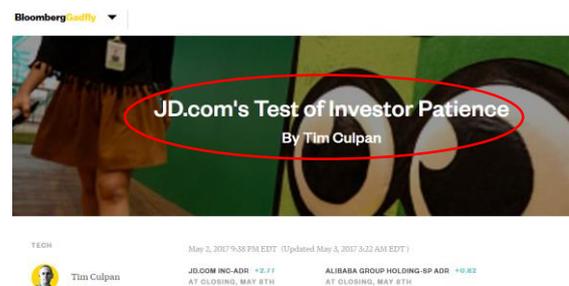
For instance, it only took a year for them to build a LPG refinery plant in 2006.

Our thesis turns out to be true as management has assured us earlier this year that the construction of ammonia plant has been progressing well.

Not only is construction on schedule, but the plant also turns out to have a bigger capacity than expected while capex spending is lower than the budget.

This has lowered the production cash cost per ton by 15-20%. This is the first time we see such project delivering results on time and under budget. According to our DCF model, at the current ammonia price of US\$ 415/ton, the estimated equity value is 3.5x the current market cap.

**3. The Amazon (+ FedEx) of China?**



JD.com is the largest retailer in China based on sales and the second largest e-commerce platform based on GMV. Given the size of Chinese retail

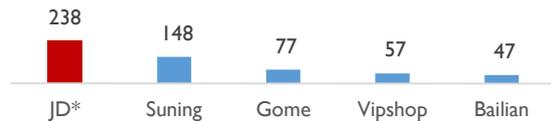


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addressable market, we can imagine JD becoming one of the biggest companies in the world in a decade.

### JD is the biggest Chinese retailer

In billion RMB



\* only JD direct sales

JD sales is even bigger than Suning and Gome (Chinese electronic retailer) combined

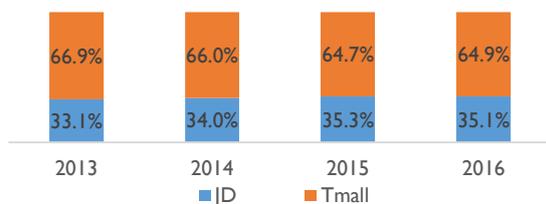
Source: Company data

Post-IPO, JD stock price was de-rated because the market underestimated JD's ability to compete against Tmall, Alibaba B2C e-commerce. The stock traded as low as 0.6x Price/Sales.

The market was proven to be too pessimistic as JD has since been grabbing market share consistently from Tmall in the past four years.

### JD is taking market share away from Tmall

JD GMV vs. Tmall GMV



Source: Company data

Part of the reason we believe, is that consumer preference has started to shift from just price to convenience and quality as their purchasing power improves. A story that we saw played out in the US in Amazon Vs Ebay.

**“Real entrepreneurs build value by creating real products, not by financial engineering.”**

-Richard Liu, founder and CEO of JD-

The JD model is proven to be working nicely as they continue to grab market share. Owning end-to-end logistics is key, interesting to see even Amazon is trying to replicate this model.

Also, JD's partnership with Tencent has brought more monthly active users. Last year, 32% of JD's monthly active users came from WeChat.

This partnership will also allow JD to leverage Tencent's existing offline-to-online (O2O) business.

In addition to overall low penetration in Chinese B2C e-commerce market, JD still has lots of upside from penetrating the smaller cities where Alibaba still dominates. Biggest upside surprise would be from the grocery segment where penetration is still very low. Thus, we foresee JD growing by 25-30% per annum in the next 10 years.

### JD was valued less than offline retailers

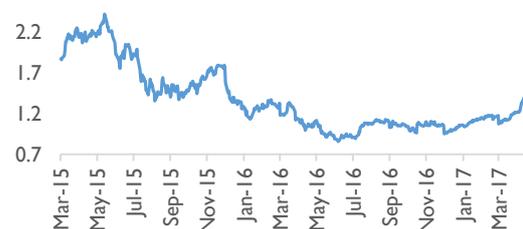
In times, price to sales 2017



\*when we bought the stock

Source: Bloomberg

### JD price to sales trailing 12month



Source: Bloomberg

With this compounded growth, JD sales will be 10 times from what it is today. Just imagine how much operating leverage JD could get. In fact, it has already started to kick in.

Without re-rating in price/sales, JD could potentially be 10x the current market cap. With



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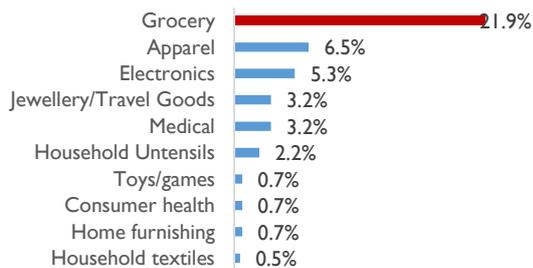
enormous upside and strong free cash flow generation, the margin of safety of JD is very compelling.

*WSJ: You're only 41. Founders of some U.S. internet companies may consider doing some other things. Have you considered it?*

**Richard Liu: No, I haven't. I will only do one thing in my lifetime, and that's JD.**

### Grocery is the biggest contribution to Chinese retail market

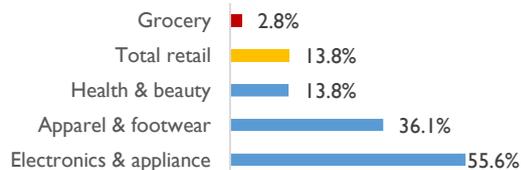
As % of total retail



Source: National bureau statistics of China

### Yet online grocery is still very under-penetrated

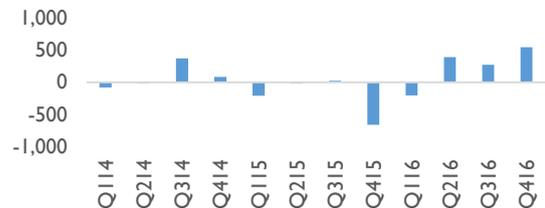
% online penetration in 2015



Source: CLSA

### Operating leverage starts to kick in

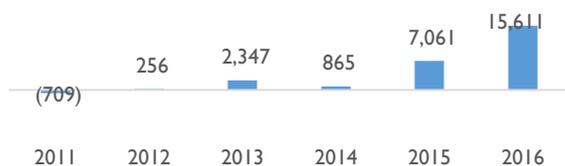
JD non-GAAP net income, in million RMB



Source: Company data

### JD free cash flow

In million RMB



*This has tackled the doubt saying that JD will keep splurging cash in building logistics.*

Source: Company data

### 4. Indonesian mass market retailer: daughter keeps pushing for sweeping changes

A turnaround always takes time to play out, and the good news is that for this retailer, it has started to yield progress.

Of course, monthly sales would be volatile given the initial phase of transformation. We believe the better guide is to focus more on tracking the revamped store performance.

In our previous reports, we discussed this mass market retailer, which was once a darling to investors, and then became a fallen angel after many years of complacency and a loss of connection with their customers.



Click [here](#) for our 2Q 2016 report

Last year saw a greater involvement of the owner's daughter and we soon noticed signs of fresh energy in the business.

We discussed how she successfully engaged the big celebrities like Raffi Ahmad and Prilly Latuconsina and how she effectively started leveraging social media to reconnect the company with its customers.

Given these turnaround efforts, as well as tailwinds from various government programs that benefit the target market of our retailer, we figured the company represents an ideal Heyokha opportunity.

Eager to learn more about the company, we joined a recent event hosted by the company. Said event later validated a number of developments that we had observed on the ground. We describe our findings below.



*Our mass market retailer recently held a conference at the cool Djakarta Theatre*  
Source: Heyokha

### **Event discloses daughter getting more influence, accelerating store revamps**

The event was hosted by the company where they gave awards to its best consignment product

supplier. Known as being super thrifty with spending, the quality of the event surprised us.

Not exactly extravagant, but way above our expectations. A good way to rebuild relationships.

A notable moment was when the chairman openly acknowledged the positive contribution made by his daughter, as well as the need for transformation.



*The New Generation of our mass market retailer*  
Source: Heyokha

He indicated that his daughter would take over management in the firm and that he would take a step back to give her room.

This is a big positive signal as many had concerns about the father holding back the turnaround story.

The event also gave us a better impression of the daughter. In a way similar to Steve Jobs, she passionately presented plans for store layout transformations and changes in product mix.

We could sense her energy and attention to detail. The whole conference emanated her influence and it was remarkable to see how their staff was captivated by her vision.

During the event, the company indicated that it has started revamping selected stores in Q3 2016 and showed how these 12 stores achieved about 20-30% YoY sales growth, as compared to the 6% total sales growth realised by the company over the same period.

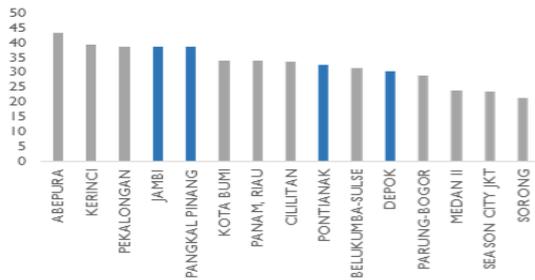
As such, they expressed their commitment to continue revamping all other stores, to be completed by 2020.



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### Our retailers' top store consignment sales

December 2016, Growth YoY



Blue-colored bar are the stores transformed in 2016. They posted 30-40% growth YoY.

Source: Company data

### Turnaround Process Already Seeping Into Local Stores

We would not be Heyokha if we didn't go and check out the store refurbishments ourselves after hearing about it at the company's event.

Visiting two revamped stores located in Yogyakarta and Depok, we observed that the look and feel of the stores is considerably better as compared to the older store format.

Previously, the company would stack merchandise in the rack like "forever on sale" items, looking completely disorganised. They made no use of mannequins, posters, or any other attractive decorations.

In addition, the aisles used to be very narrow, owing to the belief that the more merchandise on the floor, the merrier.

### SPOT THE DIFFERENCES!

Store that has NOT been remodelled, Blok M, Jakarta



Store that has been remodelled, Depok



Source: Heyokha



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As seen in the comparison pictures, the changes signal the company's growing understanding of the customer experience.

The revamped stores have a sleeker design, with products presented in a more organised way, along wider aisles that invite shoppers further into the store.

Employees like the changes too. A chat with their employees gave us the impression that they are generally very upbeat, signalling high employee morale.

They spoke positively about the daughter - which they met during the revamping process - and the changes she initiates. Our conversations indicate that the employees feel the daughter gives new energy to the business.

In conclusion, looking at how the daughter manages to breathe in fresh air into the organisation has really impressed us. We can see, and feel ourselves,

that the passion of the daughter is contagious. Exactly what this retailer needs.

### **Ex growth back to growth**

This is a company that managed a dismal 10% net profit growth in the past 10 years.

We now comfortably forecast same store sales to grow by 30% until 2020, assuming the company can get all the stores transformed. That will create an additional sales/gross profit of Rp2.5tn/Rp650bn (US\$188mn/US\$49mn) most of which will go straight to the bottom line since a large share of the operating expense are fixed.

Thus, our mass market retailer net income would more than double in just three years translating to a PE of 7x (excluding cash). Patience will certainly be rewarded.



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## The Pursuit of Happiness, the Story of Titian\* Foundation in Bayat Village, Central Java

\*Titian means pathway in Indonesian

### “Poverty is a choice”

Lily Kasoem, CEO and the founder of Titian Foundation, successful female entrepreneur, recipient of the Sammy Humanitarian Award from the Pinch Reunion, USA.

What is implied by “poverty is a choice”? We think it means that we all choose our lives. Who and what we are today is the result of our past choices. Some of them may not have felt like choices at the time, but they were.

We learned from many years of our stock broking experience that every decision we make in life does make us either (at least) little bit better, or little bit worse.

On learning about this, we set out to explore pathways that we hope and we think will lead us to feel better and eventually to happiness.

Getting to know Lily Kasoem and Titian Foundation is a practical move to facilitate and promote our own (admittedly selfish) happiness, and also a happier and more caring society at the same time.

Lily’s involvement with charity started in December 2004, when a violent earthquake of 9.3 on the Richter scale hit the island of Sumatra, causing one of the deadliest tsunamis in history. Lily flew to Sumatra to help the victims of the earthquake.

Later on, when a strong earthquake hit Central Java in May 2006, Lily founded the Titian Foundation to help local communities to rebuild.

One of the Titian’s first projects was to rebuild a school complex (elementary and junior high school) in Bayat village, Klaten, Central Java.



Heyokha team members visiting Titian Center in Bayat. Tri Widodo on the right hand side happens to be a graduate of the Titian program (Top left) Titian Foundation students and their activities (Top right),

Source: Heyokha

During the rebuilding of the school, Lily came to realise that half of the school kids at the junior high school would drop out every year, simply because their families couldn't afford to finance their children education beyond junior high school.

This had obviously led to continuous cycle of poverty.



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Titian has chosen to focus on the “software” as well as the “hardware” of education. Believing that education is the answer to fight poverty, Lily raised more funds from Titian donors to set up a three-year scholarship program for high-schoolers.

Since 2008, about 750 of Titian scholarship students have received support from Titian Foundation to complete their High School education.

Furthermore, about half of these students managed to do the previously unthinkable: going to university. Some have since graduated and started their professional careers.

A big part of being a Titian student is a holistic approach in education. Talking to some of the Titian graduates, we come to understand that they have benefitted a great deal from their regular Sunday gathering activities in Titian centre in Bayat village.

They learn to dream big, to listen to almost anything without losing one’s temper or self-confidence; they practice leadership, bouncing back from failures, and empathy.

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**“The highest result of education is tolerance”**

-Helen Keller-

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Learning about empathy in particular is crucial in the era of digital zombies, video games, AI, and social media. Not only is social media changing political landscape and public discourse, it is also eroding empathy.

In the absence of real world interaction (which the kids at Titian are fortunate not to lack), children are not developing empathy.

The virtual world allows the kids to quickly “un-friend” and “virtual block” others for any reason.

Video gaming has also impacted empathy, as exposure to violent video games numbs people to the pain of others. The long-term consequences of this shift are frightening.

We need to connect more. Not online, but rather with the real humans.

*If you are interested to help, get involved and be a part of this wonderful Titian story, please let us know.*

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**“I know no safe depository of the ultimate powers of the society but the people themselves; and if we think them not enlightened enough to exercise their control with a wholesome discretion, the remedy is not to take it from them, but to inform their discretion by education.”**

-Thomas Jefferson-

## On the ground titbit: China

Two of our team members chose China as year-end holiday destination. One visited Shenzhen, Beijing, Xi'an, Kunming, and Li Jiang, the other went to Shanghai, Hangzhou, and Suzhou.

China never fails to surprise us.



*It seems like the Chinese just never rest. The stores are open for business on New Year's Eve and even the morning of 1st January. With this kind of working ethic, we believe Chinese GDP per capita will be catching up with other developed countries' GDP in no time.*

Source: Heyokha



*(Left) Impressive high speed train terminal in the third tier city of Hangzhou. (Right) Another third tier city, Kunming, boasting first class airport. Kunming is the capital of Yunnan province that shares border with Laos, Vietnam, and Myanmar.*

Source: Heyokha

Much has been written about China's magnificent infrastructure but visiting China's smaller cities is an eye-opener. The scale of infrastructure build-up is simply staggering.

The pictures below tell us the story better than words can do.



*Brand new gate is well-utilised as toll gate in Xi'an (left); perfectly paved road in Li Jiang, border area next to Myanmar (right). Contrary to many reports we read, we learned from the locals that they are happy to be relocated to other places if their land is needed for infrastructure projects.*

*Not only are they well compensated, each of them is also given a decent new house to live in.*

Source: Heyokha



*The store owners' Alipay QR code (left), WeChat Pay – green color and AliPay – blue color side by side (right)*

Source: Heyokha

Another interesting observation is how fast the Chinese have adopted the latest technology. We felt like we were the only ones paying cash when making purchases.

What surprised us even more: the use of an Alipay QR code by a traditional tea shop located in one of the villages in Yunnan province. Tech savviness abound, even in the suburb area. We wonder if China is already the world leader in fintech.



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*The art of calligraphy writing with water in a park in Shanghai is widely practiced by the city's senior citizens, a practice that is good for motoric training (left); Tai chi in a park in Shanghai (right)*

Source: Heyokha



*We are pleasantly surprised by how clean and serene Hangzhou is*

Source: Heyokha



*The Culture of Learning. Whether in the park (left) or train station (right), we saw senior citizens immersing themselves in books.*

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**-The End-**