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***Groundhog Day, No More***

“Facts do not cease to exist because they are ignored”

-Aldous Huxley-

**2Q 2016**



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## What we have learned this quarter

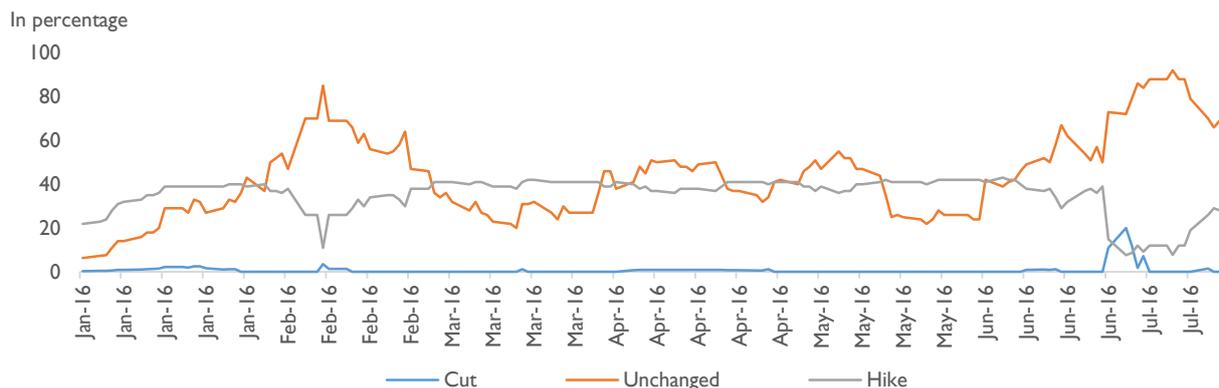
### Groundhog Day, No More

Investing is a lifelong learning experience. After having worked as sell side stock brokers for more than ten years we “switched gear” and started to be full time investors in the 3Q2014. Meaning we have now officially added two full years of experience being a full time investor.

We pride ourselves building our culture and processes by getting our feet dirty going deep on the ground to see what’s happening in the real economy. However, we have to confess that Fed watching demanded significant allocation of our energy, taking away valuable time from bottom up research.

Fed watching is exhausting. In 2016 alone, the probability of Fed hiking rates swung widely 4-5 times as predicted by the market and guided by the Fed. Markets swung wildly in tandem with rates hike expectations.

#### Probability of Fed funds rate movement by end of this year



*Forget rate hike probability, in June there was even a probability of rate cut*

Source: Bloomberg

While common sense tells us that current central bank policies are unsustainable and will ultimately lead to a loss of trust in these institutions (refer to our [3Q15 report](#)), we were uncertain about the timing of such event. This meant that the flip flopping behaviour of central banks made navigating markets a challenge.

One simple example, you won’t want to invest in companies with a leveraged balance sheet in case you expect deflation whereas the opposite is true if you expect inflation.

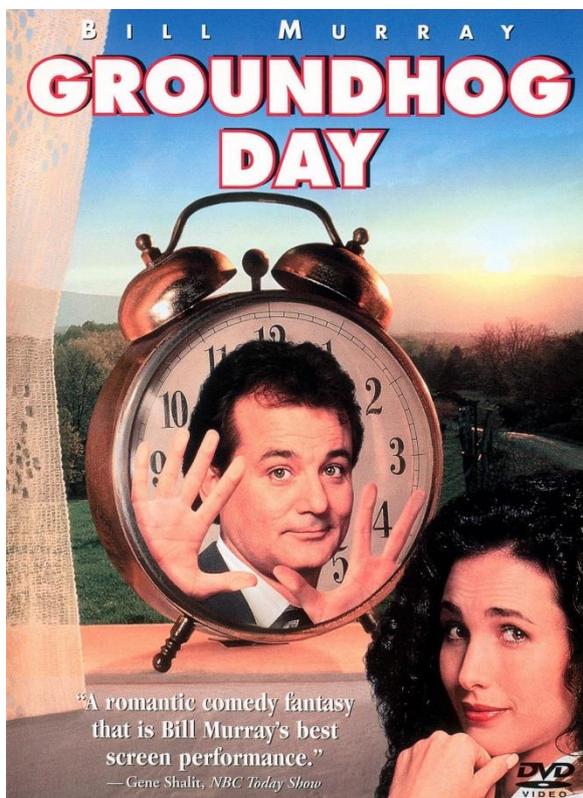
**“Instead of studying the supply and demand of goods and services, investors these days find themselves focusing on central bank policy and the supply of money. It is becoming apparent that watching the Fed (and BOJ, PBOC, ECB, the list goes on and on) has become the most essential part of the investment process.”**

-Heyokha Brothers 3Q 2015-

Only as recently as December, Fed officials indicated that four rate hikes in 2016 alone would be appropriate. In the end, rates remained unchanged. This hike and no hike drama is becoming so repetitive that it makes us feel like we live in a time loop, just like in the movie Groundhog Day.

While many probably know the movie (if not, see box below), less people know that Groundhog Day is a traditional holiday celebrated on February 2, which began as a Pennsylvania German custom in southeastern and central Pennsylvania in the 18th and 19th centuries. At this day, the behaviour of the Groundhog is used to predict when the season of spring will start.

Well, if people still believe in Groundhog watching, the Groundhogs are probably more accurate in predicting spring than the Central Banks are in predicting inflation and interest rate hikes.



Source: Internet

Two years of living through Groundhog days is enough for us. Just like Phil Connors, we at Heyokha have finally waken up from the spell of Central Bankers. We no longer believe that The Fed will be able to “normalise” rates... until it’s too late, meaning inflation already entrenched.

In fact, signals in the market have us convinced that central banks are already starting to lose credibility. The feeling of being freed is exhilarating and we are comfortably positioning our portfolio for reflation.

In this quarterly report we will expand more on how we think deflation will turn into inflation and on a more positive side we will tell a tale about the imminent resurrection of a fallen angel in the Indonesian retail space. We cannot wait to see how things will play out.

### Groundhog Day

This is one of our most favourite movies of all time. It’s about a self-centered TV weatherman Phil Connors (interesting to note that this profession still exists today), who finds himself in a time loop, repeating the same time over and over again during the Groundhog Day. The title of the movie has become commonly used as a reference to an unpleasant situation that continually repeats.

### Interesting fact

There are plenty of speculations with regard to the duration that the weatherman remains trapped in the loop. Screenplay writer Harold Ramis estimated a real-time duration of 10 years. In 2014, the website WhatCulture estimated that he spent a total of 12,395 days or almost 34 years reliving Groundhog Day!

### One of the most spiritual films of our time

For Buddhists, the movie represents selflessness and rebirth as a reflection of their own spiritual messages. In the Catholic tradition, the movie has also been seen as a representation of Purgatory. Some religious leaders even call it “the most spiritual film of our time”.

## It's a thin line between deflation and inflation

When talking to various friends from the industry, we see that there are still some people who are unconvinced of the coming inflation. They refer to metrics such as yield curves that imply inflation rates close to zero. We believe the opposite is true.

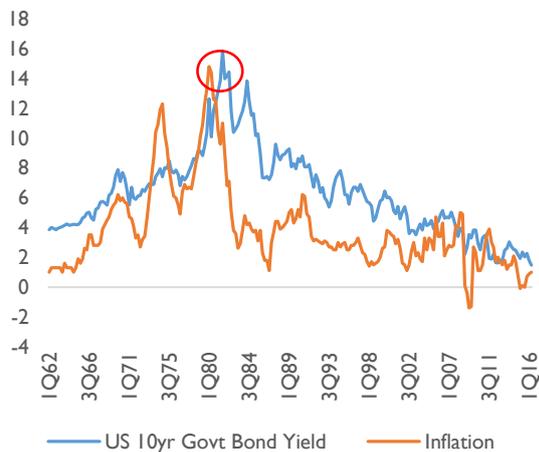
### Bond market blind to inflection points

Government policies take time to work through the economy and historically financial markets have not been very good at forecasting the changes in inflationary conditions in either direction at long cycle inflection points.

For example, the US Treasury bond yield peaked almost one year after inflation peaked in 1980. In fact, the bond market even seemed oblivious to the subsequent collapse of inflation in the following years.

### US 10-year gov't bond yield vs. inflation

In percentage, quarterly



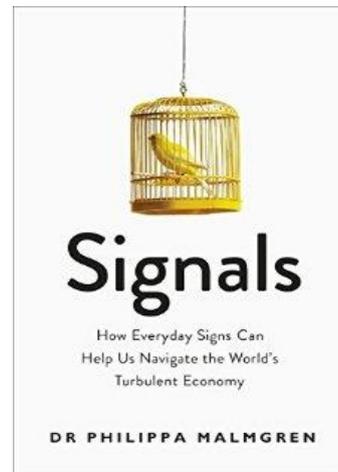
Source: Bloomberg

### Bond market yields are manipulated by Central Banks

To better understand the signals of emerging inflation, Heyokha team recently read an awe-inspiring book: "Signals: How Everyday Signs Can

Help Us Navigate the World's Turbulent Economy" by Dr. Pippa Malmgren.

The author argues that every time the economy changes, it emits new signals that allow us to navigate our way forward, if only we catch and interpret those signals.



While the author identifies a lot of useful signals (on which we will write more later on), she also debunks well accepted signals. One of them is the traditional use of the bond market as an early warning mechanism for a rising risk of inflation.

She argues that because of all the central bank purchases of government bonds, the bond market is prevented to fulfil this traditional role.

For example, she mentioned that in the US, the central bank bought approximately three-quarters of all sovereign bonds issued in the market in 2013 and 2014.

As such, she reasons, it does not make sense when people insist that bond market is not signalling inflation when the central bank is ensuring (through its asset-buying activities) that the bond market cannot perform its job.

In an even more extreme case, we note that the BoJ is now buying over 90% of new Japanese government bond issues essentially monetising their debt.



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## Guaranteed to lose money

Some historical perspective: the previous secular bull market in the US bond market ended in 1946 after a 26 year run. And now the ongoing secular bull market in US Treasuries that began in 1981, is running for a staggering 34 years.

### Developed countries 10-year govt bond yield



*Bond yields are at unprecedented low levels, even turned negative. Historically such extreme is a leading indicator of inflection points i.e. inflation not deflation*

Source: Bloomberg

It is clear that the bull run is getting exhausted. Why? Simply because there is no further upside anymore. One thing for sure, is that deflationary forces have already been fully discounted when your yield is negative.

Sovereign bonds carrying negative are now reaching epic proportions with nearly US\$13tn worth in negative yielding territory (30% of the global total).

On top of that insanity, some of the most economically and fiscally challenged sovereigns have yields that are below 10-year US government bond yields.

It simply makes no sense to invest in something where your upside is basically zero. You can be sure that when rate cycle turns, it will anything but “normalise”.

## Inflation is already happening in hidden forms

We feel that inflation is already in motion without being captured in CPI indexes.

Referring back to the book about Signals, the author revealed a conversation that she had with one of the longest-serving board members of the Federal Reserve. In this conversation the board member admitted that:

**“Something is very wrong with our models: I live in Washington DC and I feel the rising cost of living, but our numbers don’t show this.”**

Infamous exchange between the President of the Federal Reserve Bank of New York, William Dudley, and an audience in Queens, New York on 11 March 2011:

Mr. Dudley was at pains to stress that, on average, prices were falling.

**“When was the last time, sir, that you went to grocery shopping?” challenged a member of the audience.**

**Having conceded that, OK, some prices maybe rising, Mr. Dudley urged them to look on the bright side: an Apple iPad now cost less.**

**“Yes, but I can’t eat an iPad!” came a voice from the crowd.**

We summarise a few early or hidden inflation signals that the author sees in Western Europe and the U.S.:

- 1. Shrinkflation** - the size of many goods is shrinking while the price and packaging remains the same;
- 2. Zigzagging** - fast-changing prices, raise it then offer it at “half price”;
- 3. Aperture inflation** - the package opening on bottles of powder and tubes of gel are getting bigger, the contents less easy to control;



**4. Property shrinkflation** - median size of apartment in the US was 1,043 square feet or smallest since 2002.

Worth noting that the US homeownership rate fell to the lowest (62.9% in 2Q16) in more than 50 years as rising prices exclude many potential home buyers;

**5. Bi-flation** – the occurrence of both inflation and deflation in an economy at the same time. Prices of everything that is mandatory in life are rising while prices for some non-essential items are falling.

At the moment, most people in the Western world feel they are in the grip of some kind of inflation, while CPI does not show this.

In addition, she argues that from China's and emerging markets point of view, America's efforts to create inflation are succeeding.

These markets are forced to debase their currency in order for their exporters to remain competitive in US dollar terms.



Source: Jantoo

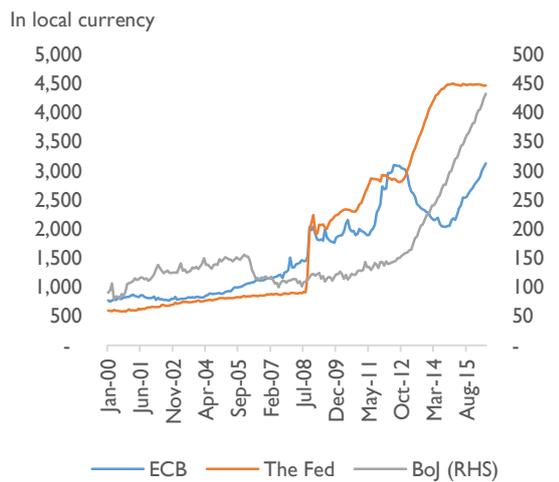
Money printing has not translated to inflation.... for now

**“At the beginning of an inflationary cycle, velocity declines while money quantity increases, thereby offsetting one another and masking the true inflation potential”.**

- Jen Parson, Lesson of the Great German and American inflations –

Central Bankers continue to print money trying to prevent the boom and bust cycle to run its natural course.

**Central Bank Total Assets**

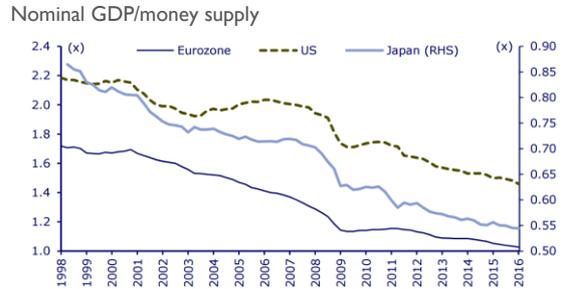


The major central banks' total assets now is 4 times the size of 2008 level while it took them 8 years (2000-2008) to grow total assets by only 40%.

Source: Bloomberg

But instead of inflation, major economies saw a declining money velocity on the back of unprecedented new money supply.

**US, Japan, and Eurozone money velocity**



Not only QE did not work, it produced the exact opposite intended result

Source: CLSA, Chris Wood

In fact, this phenomenon of increasing supply of money resulting in declining velocity accompanied by strengthening currency (like in Japan now) was observed throughout history before inflation takes off.

For example, during the wars in Germany and America, and more recently during Germany's prosperous expansion of 1920. However, high inflation and hyperinflation followed soon after.

## It's all about trust and expectations

While a fresh dose of money supply does not immediately result in inflation, it does have a very strong relation with inflation in the longer term.

Conventional wisdom stipulates that with the scale of money created in recent years, we should already have high inflation. But it hasn't.

Some attribute this to the deflationary nature of globalisation and the overcapacity in many industries. Others refer to the deflationary nature of advancements in automation.

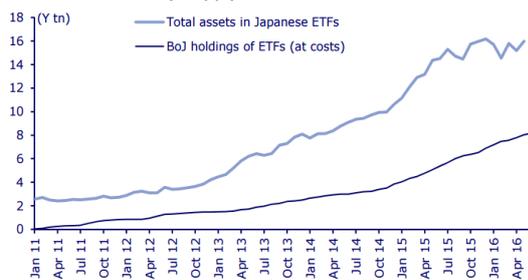
We are not going to dig into why but rather focus on when.

It is no accident that many of the worst periods of inflation were preceded by deflation. It's simple: deflation and busts are simply no acceptable outcomes in democracies.

Central banks will just run the printing press (note this is vicious circle since immediate impact is more deflation) until the people start to question of the credibility of the central banks.

### BoJ holdings of ETFs and total ETF assets

Nominal GDP/money supply



*Bank of Japan now owns a staggering 55% of the entire ETF market in Japan*

Source: CLSA, Chris Wood

The loss of confidence then causes the flow of money to speed up as individuals want to exchange cash for goods, igniting an inflationary cycle.

We believe we are getting close to the point where faith in Central Bankers is going to be in question.

Regardless, one thing is clear, the risk reward is now hugely in favour for the reflation trade.

## Precious metal price movements signal nervousness

In our last quarterly, we talked about how QE has stirred asset price inflation and the unintended impact on our social fabric. As indicated earlier, inflation is already showing up disguised in different forms.



Click [here](#) for our IQ16 report

Another signal is the recent rise in precious metals, which could indicate that market participants are already getting nervous.

We see that uptrends in silver price had a historical propensity to lead other inflation indicators.

### Silver Price vs. CPI YoY 6-months lag

In US\$, percentage (RHS)

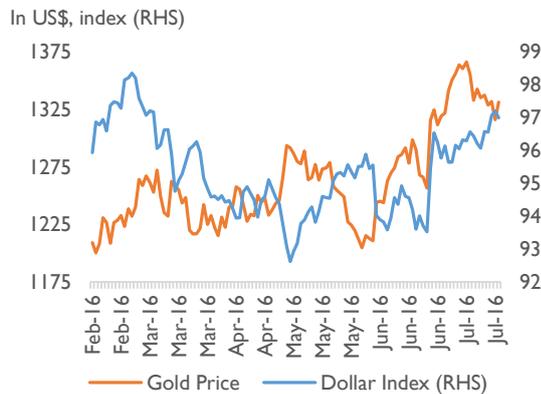


Source: Bloomberg

The chart above (silver price and US CPI with 6-month lag) shows that in the 1970s, six months after the silver price spiked, inflation went through the roof. We wonder if the recent silver's bottoming price action is signaling that inflation is coming.

Also interesting to note is that 2016 has begun with gold and the USD rising simultaneously.

### Gold Price vs. Dollar Index

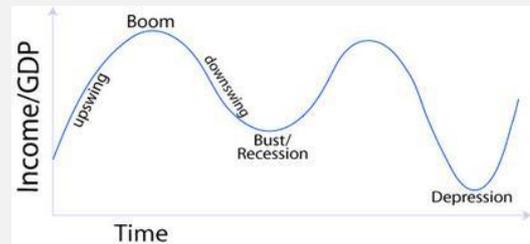


Source: Bloomberg

The rise of both together may signal that we have just entered a new era when this non-yielding yellow metal is preferred to those assets that promise a yield but where the scale of future payments is subject to considerable doubt.

Interesting fact: negative yield means bondholders are not acquiring an asset but in substance a liability. Guaranteed to lose money!

### Economics 101



Source: Internet

### What Wikipedia has to say about 'Boom and Bust Cycle'

We bet that everybody who went to high school has learned about the most basic principle of economics.

“A boom and bust cycle is a process of economic expansion and contraction that occurs repeatedly.

The boom and bust cycle is a key characteristic of today’s capitalist economies. During the boom the economy grows, jobs are plentiful and the market brings high returns to investors.

In the subsequent bust the economy shrinks, people lose their jobs and investors lose money.”

### The heroes of “stopping” the inevitable



Source: businessinsider.com, time.com

“We do not expect significant spillovers from the subprime market to the rest of the economy or to the financial system.”

- Ben Bernanke (May,2007) -

## Hedging against inflation: The case of an Indonesian mass market retailer

### Coping with inflation: a good business with a protective moat

**“The might of their brand names, the attributes of their products and the strength of their distribution systems gives them an enormous competitive advantage, setting up a protective moat around their economic activities. The average company, in contrast, does battle daily without any means of protection.”**

- Warren Buffet -

#### ***What defines a good company to own?***

Heyokha team prefers to see scalable businesses with good management in place that enjoys top down macro tailwinds.

This combo will build up the “protective moats” that help the company to cope with competition and inflation, i.e. by having ability to raise prices.

In our 4Q2015 report we discussed the policies of Indonesia’s government and our view that investors should not underestimate the positive impact that these policies are having on mass market retailers.



Click [here](#) for our 4Q15 report

It seems that the social contract in Indonesia is that the President Jokowi administration is seeking growth, but inclusive of the grassroots. As such, mass market retailers (and low-end consumers in

general) are enjoying a strong macro tailwind. We think this trend will persist in the coming years.

We identified one particular retailer of interest. Our retailer has the widest mass market footprint throughout Indonesia.

It was a darling for investors in the early 2000s when Indonesia was just recovering from the Asian crisis. Sadly, the last 10 years proved to be a lost decade for them, as the owner did not change the way of doing business over time. The result was that their customers started to shop at other more modern/cool retailers.

Before we discuss our findings, we would like to talk a little about the power of celebrity in Indonesia, please see the next page.



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## Celebrity Power in Indonesia . . . ignore at your own risk

During his pre-election campaigns, President Jokowi promised political will to support Indonesian creative industry.

We believe that Jokowi's relationship with the creative industry has a good history. During the Presidential election campaign in 2014, the iconic Indonesian rock group Slank supported Presidential candidate Jokowi in the most critical time.

Together with volunteers and fans, Slank organised a rock concert dubbed Salam Dua Jari (two-finger salute). It was mentioned as a turning point that defined Jokowi's victory.



Salam Dua Jari concert was the turning point for Jokowi Presidency (Above). Jokowi with Indonesian iconic rock band, Slank (Below)  
Source: Merdeka.com, Kompasiana

One simply should not underestimate the central role that the celebrities are playing in this country.

Fast forward to today, the relationship is still going strong. And President Jokowi is fulfilling his promise to support the creative industry.

One fine example is the political will to support the movie industry, which is clearly showing signs of a revival.

For instance, government regulation requires cinemas to screen a ratio of 60:40 in favour of Indonesian films.

The result is interesting to observe: Indonesians responded to the policy with enthusiasm.

There has been seven Indonesian movies this year with viewership of at least one million people. This is in contrast to last year when only three movies reached that amount.

Cinema screen owners also welcome this development too, since local movies cost a great deal less to procure.



What's up with love part 2 (left) in 2016 is credited as a catalyst for the phase one of the Indonesian movie industry revival. Rudy Habibie in 2016 (right), a movie about the third Indonesian President attracted 1 million viewers in less than two weeks.  
Source: Internet

Even with all the early signs of revival, we believe the industry still has long way to go. To begin with, there are only 5 cinema screens per 1 million people, compared to the world average of 60.

Help is coming. Jokowi has removed the movie industry from the nation's negative investment list.

With the backdrop above, we can expect that local celebrities are going to play an ever greater role in contemporary Indonesia. They will serve more and more as referees of taste and style.

Their creative inputs and endorsement matter. Those who can ride on this trend will have a bigger chance of beating the competition.

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*"I believe through small movement, and you can see it apparent in my generation, more and more made in Indonesia is such a desirable product. and made in Indonesia is such a desirable movement from again, making films, music, fashion, art and that attracts, starting to attract different types of tourism in Bali particularly."*

- Ronald Akili, founder of lifestyle Potato Head group, CNN's Talk Asia Indonesian young innovators -

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### Age of Renaissance

Since the greater involvement of our retailer owner's daughter in the business late last year, we are seeing signs of fresh energy in the business after years of complacency.

### MUST READ OUR OWN EXCLUSIVE CELEBRITY INTERVIEW Page 14



The opening of the retailer's stores always brings joy and attracted good crowd. However, the inability to effectively connect to their target market has cost this retailer dearly. Crowd stopped coming after the strong opening, sort of anti-climax.

Source: Company annual report 2010

### “The hardest part was reconnecting to our customers but now we know how”

-Chief Merchandiser/Owners' daughter-

For example, this mass market retailer has now cleverly engaged the right celebrities that – along with the soap operas they play in – have a big fan base among the target market.

In addition, the company has started to energetically use social media. Some of the collaborating celebrities have even more social media followers than the leaders of the country.

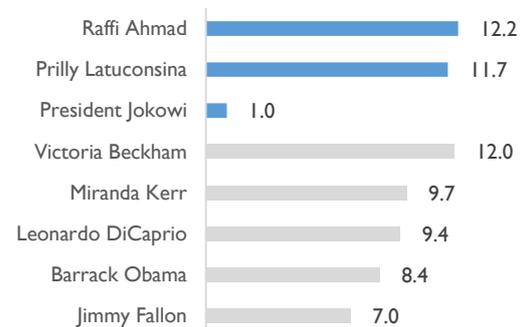
These celebrities either sell their own brand (exclusively) in our retailers' stores or actively endorse the retailer's brands.

The celebrities have also proven to drive massive traffic to the retailer's stores when they meet and greet their fans at those stores around the country.

An example of collaborating celebrities are Raffi Ahmad and Prilly Latuconsina, who both rank amongst the world's most famous in terms of social media followers.

### No. of Instagram followers of celebrities

In million



Source: Instagram, Heyokha

In fact, the number of their Instagram followers alone equals to some 16% of Indonesia's middle class population.

Interesting to note that Raffi initially was not such a heavy social media user, but he was pragmatic enough to jump on the bandwagon.

Trusting no one else, Raffi manages his social media account directly and can now boast about 12.2mn Instagram followers (in comparison Jimmy Fallon has 7m).



Meet & Greet with Raffi at one of our retailer store

Source: Instagram



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While the celebrity strategy has certainly led to a significant increase in traffic (see the pictures below), the new leadership of the company stressed that their celebrity strategy is not just about traffic alone.



*Meet & greet celebrities is proven to be very successful in reinventing the cool factor*  
Source: Instagram

It's formulated to re-connect the company with its target market by way of creating a unique shopping experience. The old model of just stashing the cheapest merchandise is thrown out of the window.

**“No matter who you are or where you are from, you can be cool”**

-Chief Merchandiser/Owners' daughter-

Interestingly, our own experience with celebrity t-shirt hunting (during which we had to search in multiple stores to find our desired t-shirt) teaches us that this retailer is employing scarcity strategies. A good way to hype up the products.



#BEINGCOOLISEVERYONE'SRIGHT & IAMRAMAYANA  
campaign to reconnect with their target market  
Source: Instagram

The company itself has around 191k Instagram followers vs. 58.5k for their competitor Matahari Dept Store and has even surpassed the 153k followers of online retailer Mataharimall.com.

Besides using social media, the company has recently been actively promoting the brand on YouTube as well.



Click [here](#) for our retailers' ads

The ads were considered to be “The best ads ever made by Indonesians” by Joko Anwar, a legendary Indonesian film director and producer.

This is a huge improvement for a company who used to advertise through newspapers only.

Interestingly, when presented internally, none of their employees understood the new ads. Certainly, no one laughed. However, when showed to the audience outside of the company, everyone loved it. Thus, this indicated how disconnected the company was with its target market.



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*The trillion dollar question* (in the era of helicopter money and NIRP, billions won't make the kick anymore) for the management turnaround is whether it is easy to replicate the company's celebrity strategy.

To get the answer, Heyokha team decided to go straight to the source. We interviewed two of the top celebrities who work exclusively with our retailer.

The entire interview process was obviously fun, but not without challenges. Attempt to meet up with these celebrities was not always easy and straight-forward.



*Straight to the source with mega celebrity (left), Heyokha team proudly wear his RA t-shirt (right)*  
Source: Heyokha

Some celebrities are very professional and punctual but others require a huge degree of patience having needed to go through an entourage of "managers".

We learned that, unfortunately, the majority of the celebrities belong to the latter. The combo of young age, fame, quick money and tabloid meltdowns are simply too much for the young soul.

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**"Hollywood is a place where they'll pay you a thousand dollars for a kiss and fifty cents for your soul"**

-Marilyn Monroe-

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After going through the whole process ourselves, we take our hats off to the daughter of the company's founder.

She has been very hands on in engaging the celebrities, even making the first contact and

personally maintaining day to day communications with the celebrities.

Anyone who wants to copy this program successfully, would need not only a retailer with nationwide footprint, but also a big dose of humility and persistence. This is a serious moat.

In the next section we feature an interview that our team conducted with the two Indonesian celebrities mentioned earlier.

Both celebrities are very business savvy and professional with their business and career. The first one that we cover is the mega celebrity Raffi Ahmad and the second one is the talented 19-year old Prilly Latuconsina.

## Raffi Ahmad, the super star celebrity

Raffi is the country's undisputed king of celebrities. Obviously famous and wealthy, the list of awards and nominations received by Raffi is long and expanding.



Raffi and his Lambo  
Source: Internet

His schedule is so tight that our conversation had to be carried out in his car, in between business meetings.

That's probably better compared to meeting him in the public places where his legions (yes, legion with an s) of fans will follow him everywhere.

After meeting him, we understand why Raffi is what he is today. Despite his huge success, he does not lock himself away in his own world. He is still down to earth.

One good example is his good understanding that his audience is more B and C segment (although we saw people still follow him in the upscale Grand Indonesia mall) and his product positioning follows accordingly.

He talked about the importance of being yourself and says he is always evaluating his past successes and (more importantly) failures such as in restaurant

and club business - like a keen business student. Ego has no place in his way of running his career and business.

After trying his hands in various ventures, Raffi feels that the apparel business is his calling. He started his own brand called RA jeans which, obviously, stands for his name, Raffi Ahmad.

He makes sure that the brand concept is very clear: family oriented. The RA brand has a RA junior clothing line and will soon be extended with shoes and other apparels.

With respect to the exclusive collaboration with our mass market retailer, Raffi says he is very happy with his choice.

He thinks the target market of the company matches very well with his clothing line brand, and values its extensive branch network outside of Jakarta (83% outside Jakarta). The reality is that most Indonesians who live outside Jakarta are in the B and C segment.

More importantly, Raffi believes that our mass retailer shares the same philosophy i.e. helping everyone to look cool but affordable. Compare this mission to our retailer's tagline "cool is everyone's right" and you see the synergy.

The result of this partnership is a big success. The RA brand is now the top selling product in our mass market retailer stores.



Interviewing super-star Raffi Ahmad in his car, in between business meeting.

Source: Heyokha

Raffi touring with our retailers branches with his wife Nagita and their 11-month old baby.



Event with our retailer. Not sure if even Jimmy Fallon can command a crowd like this

Source: Instagram

No less than 1 million pieces of RA jeans were sold this year and we understand that Raffi Ahmad's garment company has the capacity up to 5 million pieces to cater the demand.



Shoppers were swarming RA jeans' product, one of the new brands brought by the new management. The t-shirt stacks (above) was literally all the inventory left.

Source: Heyokha

Given that Raffi is super happy with our mass market retailer, he intends to continue and expand the exclusive relationship.

After the initial success, many are approaching Raffi to switch side, with a sweeter deal of course. So far, Raffi has showed no interest in jumping ship. We asked him why.

He said that a big part of it is related to the daughter of the family, who leads the turnaround efforts. He respects her for the following reasons:

- She is very efficient, working at very fast pace;
- She is ambitious;
- She is young, spirited and fun to work with;
- She helps her company to connect with the target market;
- She always has high positive energy.

Raffi's answer left us wondering: who would not be interested to work with this daughter of the family?

## Prilly Latuconsina, the 19-year old super star, Musician, chef, and business woman

Meeting with Prilly is very uplifting. She is a big celebrity in Indonesia with some 11.6mn followers in Instagram.

Always aiming to improve herself, Prilly is now taking acting classes and tries to make her mark in the country's movie industry (we have seen the renaissance of local movie industry. See page 9)

her answer is a very honest "my own brand".



Up close and personal with Prilly  
Source: Heyokha

We had to do the meeting in a quiet office as mobs follow her everywhere. She is often mentioned as the female version of Raffi in term of business savviness, and that's for a good reason.

Prilly made her debut in the entertainment industry when she was 13 as a host of a young chef program.



Source: Internet

Later, she transitioned to soap opera and gained popularity in the hugely popular Ganteng Ganteng Serigala (which is pretty much like an Indonesian version of the Twilight Saga).

Oh and by the way, Prilly also sings and even writes her own songs.

**"Behind every successful woman is herself"**

-Prilly Latuconsina-

Despite her long list of achievements, Prilly has a very ambitious target. She wants to make her family proud. Her drive to become a very successful business woman and an independent person is striking.

She has started her own cosmetic company (lly brand) and wants to study business. When we asked her about which cosmetic brand that she admires,



Picture of Prilly and her cosmetic brand, lly  
Source: Heyokha

Prilly described her working relationship with our mass market retailer as a very happy one. She mentioned that the daughter of this retailer family is very humble and approachable.

The daughter contacted Prilly herself to ask if Prilly would be interested to be the brand ambassador of their PINK brand. Since then, the daughter has maintained a very close relationship with Prilly. A relationship that is built on trust.



Prilly signing her own brand T-shirt  
Source: Heyokha



At our retailer's event. Not sure if even Kristen Stewart can pull a crowd like this  
Source: Instagram

Prilly herself feels very honoured to be a brand ambassador for this retailer. She likes that she is able to provide creative input in the clothing design (together they want to be ahead of the competition).

The roadshow to the retailer stores across the country also makes her very happy, as it is very well organised and well-advertised.

When we talked about how she experienced the road show at the retailer outlets and the crowds swarming her at her appearance she said:

"I never imagined I would be this happy in my life. So many people want to see me."

Thus, it is no surprise that Prilly pledged her allegiance to our mass market retailer. After all, it is not just about money. Speaking of a good business and the power of empathy in the digital era.



**HEYOKHA  
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## Sign of the Time: Celebrities and Market

Earlier we talked about the power of celebrities. We also discussed creative ways of identifying patterns in economy/market by observing daily signs in life. Funny enough, the two seemingly independent topics can also be correlated.

Understanding that celebrities play a big role in our social fabric, we figure that the news around major celebrities is sending us a signal that can help us to comprehend cycles in the economy or market.

We agree with the author of the book "Signal", Dr. Pippa Malmgren, that often it is artists and creative people who feel and project the Zeitgeist without realising they are doing so, which is one reason we should pay attention to them. When they send the signs, we try to catch it.



*In the digital era, celebrity gossip tabloids are still widely available at the street (and offices) of Jakarta*  
Source: Heyokha

TV Station	Celebrity gossip TV show	TV Station	Celebrity gossip TV show
Global TV	Obsesi	SCTV	Was Was
	Fokus Selebriti		Halo Selebriti
Indosiar	Kiss Pagi		Hot Shot
	Hot Kiss	Trans 7	Selebrita Pagi
MNC TV	Seleb On News		Selebrita Siang
Net TV	Entertainment News	Trans TV	Insert Pagi
RCTI	Go Spot		Insert Update
	Intens		Insert
	Silet		
	Kabar Kabari		
	Cek dan Ricek		

*Major Indonesian TV channels run multiple domestic celebrity gossip channels. This little fact seems to speak volumes about the important role of celebrities in the country's social fabric.*

Source: Internet, Heyokha

The hottest celebrity news lately is that Snapchat billionaire founder Evan Spiegel is celebrating his engagement to supermodel Miranda Kerr.



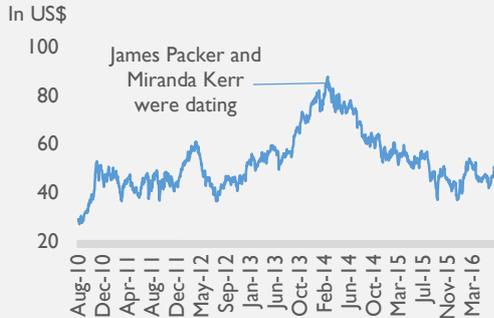
*Set to wed: Snapchat founder Evan Spiegel is celebrating his engagement to Miranda Kerr*  
Source: Reuters

Interesting to note that Miranda Kerr was dating casino magnate James Packer at the peak of the casino hype in early 2014. A period when analysts extrapolated the trend, implying that half of mainland Chinese will be going to casinos.



Of course we know what happened to the gaming sector after early 2014....

### Las Vegas Sands Corp stock price



Source: Bloomberg



Miranda Kerr and James Packer were dating back in 2014, marking the peak of gaming stocks  
Source: Internet

Closer to home, in mid-2012 we observe a similar sign of market top when famous Indonesian celebrity Julia Perez (model, singer, actress – crossing multiple disciplines is common in Indonesia) was widely reported dating a coal businessman from Kalimantan.

Of course, we also know what happened next to coal boom story...

### Coal price



Source: Bloomberg



Celebrity Julia Perez in her red BMW, next to a coal businessman from Kalimantan  
Source: Internet

We can't help but wonder:

With the latest news of Miranda Kerr is not just dating but about to wed tech titan Evan Spiegel, is this the sign that the tech sector is peaking?

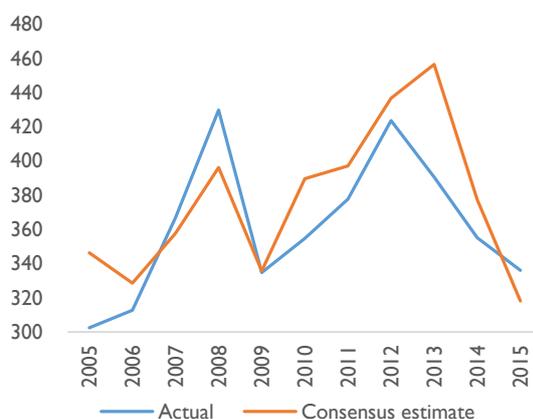
## Groundhog Retailer

Our retailer has so many false starts in the past decade that you can't help but think it is another Groundhog Day. After all, this company only managed to grow by 10% since 2005. By comparison, Indonesian inflation amounted to 17% in just 2005 alone!

Following our contrarian spirit together with our top down and on the ground work, we see this Groundhog retailer as a perfect Heyokha opportunity.

### Our mass market retailer's net income

In Rp bn



*Our mass market retailer consistently missed the analyst estimate in the last 5 years which obviously does not inspire confidence.*

Source: Bloomberg

### Almost everyone hates it:

1. Our retailer no longer commanded a strong brand equity, which is perceived as outdated. This has led to loss in market shares;
2. This retailers' customers are highly exposed to commodity prices, which means they have seen their customers' purchasing power weaken along with it;
3. Supermarket businesses kept posting operating losses in the past five years;
4. The worldwide trend in developed markets is that the percentage of disposable income spent on

clothing (clothing is 75% of this retailer's sales) is getting smaller and smaller (now a single digit);

5. Brick and mortar retailers are being disrupted by tech companies.

### Heyokha beg to differ

1. This is a turnaround story with a low base to begin with. The owner's daughter understands this brand equity challenge and wants to reconnect with their target market.

2. On top of the fact that the income of farmers is rising with the government's focus on agriculture, we expect that a rising inflation will support commodity prices and translate into a higher purchasing power for people in the commodity area.

3. In fact, it was the supermarket turnaround that inspired the firm-wide turnaround efforts. The company historically built the business on the foundation of frugality.

With the makeover of the supermarket (tying up with a Dutch based retail chain), management attitude began to change, which also trickled down into the attached department store.

4. Our retailer's target market in Indonesia still spends a larger part of their disposable income on clothing (low base effect).

5. Low end mass market consumers are still not comfortable buying online yet. Thus our retailer will be amongst the last to be disrupted, which gives them time to react and embrace technology, and time to learn from the fate of other retailers.

Already, this mass market retailer is cleverly tying up with online market place tech company Tokopedia. We will watch the development very closely.

We expect the groundhog spell to be broken.

We forecast company earnings to double in the next three to four years, thanks to the grassroots tailwind and management reinvention.

[Enjoy reading our reports? Check out our website for more!](#)

**-The End-**



## ----- Appendix I -----

### Groundhog Day

In 2006, Groundhog Day was added to the United States National Film Registry as being deemed “culturally, historically, or aesthetically significant”.

Phil Connors (played by actor Bill Murray) is an arrogant TV weatherman who, during an assignment covering the annual Groundhog Day event in Pennsylvania, finds himself in a time loop, repeating the same day again and again.



Source: Internet

The following is the imaginary point of view of Phil Connors, written by our 13-year old writer, who believes that she learns a great deal from this movie.

I rubbed my eyes in disbelief. The clock flashed a disappointing 6:00. As the radio blasted “I got you Babe” by Sony and Cher, I leaped out of my bed like it was on fire and scurried towards the window.

The same blue car that swerves on the road across my motel. In the background, the song ends and two men begin talking about the anticipated Groundhog Day. I experienced the same thing yesterday. February 2nd on repeat.

After answering the same round of questions an old lady asked me and a fairly pleasant breakfast, I walked outside, asking people what day it was today. I wanted to make sure my brain wasn't playing tricks on me.

Ned Ryerson, a prick I apparently knew in high school, pushed me into buying insurance from a company he worked for. Unable to tolerate his attitude, I punched him square in the face. I mean, nothing I do today will affect what happens the next day, right? That night, I went to hang out in a bowling alley where I met some guys.

Having nobody to talk to about my bizarre experience, I asked the drunk guys what they would do if the world ended tomorrow.

The answered something about doing whatever they want, which was exactly what I did. Yes, I crashed a car after being in a car chase from the police. Flash forward to my sixth day of February 2nd. I finally got the guts to talk to Rita, my partner at work, about what was happening to me.

As expected, she laughed, unable to comprehend my experience. Over the next few repeated days, I asked people questions about themselves and on the next day pretend to know them, scare them, and I even tried killing myself. I was getting bored.

Laying down on my bed, I sighed, tired because I have been played by God knows what that has been putting Groundhog Day on a terrifying loop.

Then I began to reflect on myself and how I have been treating people. I know deep deep down in my heart that I am not the most generous person, unlike Rita, who treats everybody nicely.

Maybe, if I can change the way I am and my fixed mindset on things, and instead of being the self-centered weatherman and television reporter, and instead think about other people, I can be released from this spell.

The next day, I talked to the old lady without sarcasm, greeted the motel owner respectfully, gave the homeless man money, bought insurance from Ned Ryerson, reported the Groundhog Day event cheerfully, and treated Rita and Larry like how I should. The sound of the alarm woke me up. I was almost afraid to open my eyes, because if the moment I open the curtains and see the same blue car, I think I am going to give up.

But behind the curtains, the blue car was nowhere to be found. I hurried down the stairwell, and when I arrived downstairs, the old lady was not present.

Realising that I have been released out of the spell, I whooped gladly, turning a few heads after making a funny sound. But I did not care, for all I care about is changing my mindset and being more open minded and caring towards other people instead of being ego centered.

## ----- Appendix II -----

### The temptation, sneaky-ness and impact of orchestrated inflation

Creating inflation is just too tempting for governments. Time and time again they have destroyed their own fiat currency by letting the money presses solve their debt problems.

Even if governments and central banks have good intentions, the norm bias is likely to tempt them into action to save the economy, even if that might not lead to the optimal result.



Goalkeeper dilemma  
Source: Internet

For example, in a study by Schein et al (2007), published in the *Journal of Economic Psychology*, it was found that goal keepers almost always jump right or left in soccer penalty kicks, while statistics show that the optimal strategy would be to stay in the goal's centre.

The authors explain this behaviour using norm theory (Kahneman and Miller, 1986) that implies that because the norm for goalkeepers is to jump, a goal scored yields worse feelings for the goalkeeper following inaction (staying in the centre) than following action, leading to a tendency to jump.

In the article a reference is made to another study (Zeelenberg et al, 2002) in which it was found that following a bad outcome, subjects consider action more normal than inaction, but following a good outcome, inaction is considered more normal.

Along the same lines, the authors conjecture that if the economy has been doing poorly lately, the central bank or the government might be tempted to "do something" and change certain economic variables, even if the risks associated with the

changes not necessarily outweigh the possible benefits.

If things turn bad, at least they will be able to say that they tried to do something, whereas if they choose not to change anything and the situation continues to be poor (or becomes worse), it may be hard to avoid criticism that despite the warning signs they "didn't do anything".

Except for this norm bias, inflation is the most invisible and immediately painless (the pain comes later) way in which governments default on their creditors (other form of default: Argentine/Russian style default, haircuts, austerity and devaluation).

With inflation, all the government has to do is 'print' more currency and/or more bonds, and reduce interest rates to practically nothing so that the cost of money is free - at least for the banks.

### Injustice

Unfortunately for governments, inflation will come at a price as it is seen as unfair by other stakeholders. Again referring to the book *Signals*, we summarise various forms of injustice that result from inflation:

1. Eminent Swedish economist Knut Wicksell repeatedly pointed out that the interest rate is a kind of democratic instrument that balances interest between the borrowers and the lenders in a society.

That balance should be "just". Injustice is done when interest rates are artificially suppressed because it assists the borrowers at the expense of the lenders, who are the savers.

2. Most of us can cope with a stock market that goes up and down, even one that moves violently.

What most of us cannot tolerate is a world in which our faith and belief in the market mechanism is broken, and where prices no longer reflect normal market forces.



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3. China, America's largest creditor, takes the view that the USA has a long history of defaulting through inflation (one example is during the Civil War when the country defaulted on foreign investors when over-issuance of debt led to 9,000% inflation). Other examples are during the American Revolution and post-Vietnam war).

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**“The dollar is our currency but your problem”**

-John Connally, US Treasury Secretary, 1997

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The government prints more money to cover the decline in purchasing power and by that act opens itself to a classic hyperinflation cycle.