Indonesia Industrial Estates

Sector: Industrial estates (Neutral)

NEUTRAL
(Unchanged)

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Silver lining ahead

Concern on FDI inflows dampening land sales, leading to downgrades: With the current economic slowdown and likely further IDR depreciation, our channel checks suggest that many investors are currently adopting a wait-and-see attitude, hampering FDI inflows and sales of industrial estates. We note that in USD terms, FDI experienced a slight decrease of 2% in 1H15 (exhibit 16), reflecting the weaker investment condition. The strong past performance of the automotive industry has died down gradually with pockets of growth stemming from more resilient industries such as telecommunications, transportation and warehousing, which in aggregate account for 14.3% of 1H15 realized investment (exhibit 19). With companies under our coverage reporting substantially lower-than-expected industrial-related marketing sales, we have revised down our earnings (exhibits 4, 6, 8 and 10).Accordingly, we also reduce our valuations across the sector as we now assume higher NAV discounts (exhibit 1).

Government support should cushion current downturn: Going forward, however, we believe that FDI inflow should be somewhat cushioned by the government's plan to boost infrastructure development and the recent regulation on tax holidays (exhibit 22). Additionally, the government is also offering a tax reduction of up to 100% for 15 years to companies that invest at least IDR1tn in pioneering industries, including oil refining and basic petrochemicals, renewable energy, base metals, machinery and telecommunications equipment. Indonesia's minimum wage is relatively low compared to other Asian countries (exhibit 17), which could be an investment support. Note that investment realization in Indonesia, which is essential for industrial estates, has remained sizeable with FDI accounting for 67% of total investment of IDR260tn (exhibits 13-15).

Beneficiary of economic stimulus package I: On 9 September, the government announced a new regulation on the development of bonded logistic zones by the end of September. This is expected to enhance efficiencies by reducing logistics costs and accelerating domestic distribution. In our view, this move would be beneficial for industrial estate players, as the government would pass the mega projects to private companies, providing other business expansion opportunities. Nevertheless, as developing logistics hubs may take time, this government move will only be beneficial for the sector over the medium term.

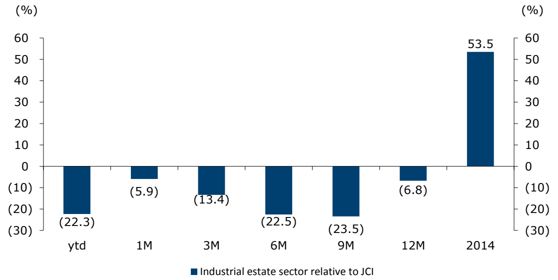
Potential ASP growth on enhanced infrastructure: To boost the local economy, the government plans to issue economic stimulus package II next month, focusing on the infrastructure-related sector, including land-clearing regulation. This is expected to benefit companies with operations close to infrastructure-development project areas, which are likely to see price escalation from improved access. Point in case, the average industrial land price has reached USD200/sqm based on infrastructure projects around West Java (exhibit 20). Thus, new economic stimulus packages should lead to higher industrial land demand and ASPs, providing higher margins.

Exhibit 1. Rating & target price summary

Code	CP	New			Old		
	(IDR)	Rating	TP	NAV disc. (%)	Rating	TP	NAV disc. (%)
LPCK	6,800	BUY	8,200	60	BUY	14,000	40
KIJA	185	BUY	270	70	BUY	450	60
SSIA	715	BUY	795	70	BUY	795	70
BEST	296	HOLD	300	75	BUY	520	60
Sector		NEUTRAL			NEUTRAL		

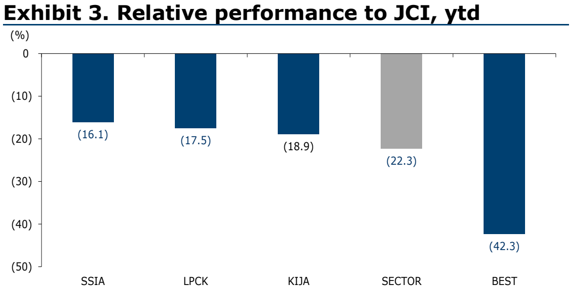
Source: Bloomberg, Bahana; pricing as of 16 September 2015
Note: on SSIA we recently cut our TP as we raised our NAV discount from 40%

Exhibit 2. Industrial Estates sector relative to JCI



Source: Bloomberg, Bahana

Exhibit 3. Relative performance to JCI, ytd



Source: Bloomberg, Bahana

Outlook: Some marketing sales downward revisions; BEST worst hit

The current economic slowdown, along with IDR depreciation, has adversely affected most of the industrial estates' marketing sales. Based on the potential for soft industrial-land demand, BEST and SSIA have revised down their 2015 marketing sales targets by at least half (BEST: 15-20ha from 35-40ha; SSIA: 20ha from 60ha). Our more conservative view on the sector has led us to revise down our earnings forecasts for LPCK, KIJA and BEST (exhibits 4, 6 & 10); for SSIA, we recently revised down our earnings and target price (see *A fall too far*, 25 August 2015). Nevertheless, the above-mentioned planned infrastructure boost by the government still offers a positive catalyst for the sector, in our view, providing more room for industrial land expansions in the years ahead.

Recommendation: Increasing 2016F discount to NAV to 70%; Cutting BEST to HOLD; Raising LPCK as top pick

Given our concerns about the economy and currently higher investment risk, we are raising our NAV discount for the industrial estates companies in our coverage, to an average of nearly 70% (50% previously). This leads us to cut our 12-month TPs for all the stocks in our covered universe. Nevertheless, we retain our NEUTRAL sector rating as we believe the many tax incentives by the government and its plan to boost infrastructure are likely to have a positive impact on the sector over the medium term. Therefore, we maintain our BUY ratings for LPCK, KIJA and SSIA, but downgrade BEST from BUY to HOLD due to the company's lack of recurring income. LPCK replaces BEST as our top sector pick as it boasts a strong balance sheet and the sector's highest ROAE in 2016F.

LPCK: Maintain BUY with lower TP of IDR8,200

LPCK remains resilient, as the company has reached 76% of its 2015 marketing sales target of IDR2.5tn, mainly backed by the Orange County mega project, which achieved marketing sales of IDR1.2tn. The company's strategy to shift its focus to residential from industrial estate has been beneficial in this current climate, as marketing sales of industrial estates have been hit harder by the economic slowdown. Nonetheless, we still expect to see softer revenue recognition, and revise down our 2016F earnings by 22%. We raise our 2016F discount to NAV to 60% from 40%, lowering our 12-month TP to IDR8,200 from IDR14,000, taking into account the current economic slowdown. BUY. Risk to our call include lower-than-expected marketing sales.

Exhibit 4. LPCK IJ earnings forecast revisions

Year-end 31 Dec	Old			New			*Change (%)*		
	2015F	2016F	2017F	2015F	2016F	2017F	2015F	2016F	2017F
Sales (IDRb)	**1,736**	**2,374**	**-**	**1,739**	**1,816**	**2,265**	*0.15*	*(23.50)*	*n.a.*
Gross profit (IDRb)	**998**	**1,335**	**-**	**997**	**1,035**	**1,266**	*(0.12)*	*(22.46)*	*n.a.*
Gross margin (%)	*57.5*	*56.2*		*57.3*	*57.0*	*55.9*			
Operating profit (IDRb)	**860**	**1,152**	**-**	**859**	**891**	**1,090**	*(0.16)*	*(22.69)*	*n.a.*
Operating margin (%)	*49.5*	*48.5*		*49.4*	*49.0*	*48.1*			
Net profit (IDRb)	**928**	**1,236**	**-**	**933**	**971**	**1,112**	*0.50*	*(21.47)*	*n.a.*
Net margin (%)	*53.5*	*52.1*		*53.6*	*53.4*	*49.1*			
EPS (IDR)	**1,333**	**1,776**	**-**	**1,340**	**1,395**	**1,597**	*0.52*	*(21.48)*	*n.a.*

Source: Bahana estimates

Exhibit 5. LPCK NAV calculation, 2016F

Portfolio	Value (IDRbn)
Land bank	**16,750**
Total	**16,750**
Add: Cash (2016F)	**253**
Less: Debt	**-**
Less: Customer deposits	**(2,583)**
Total Value	**14,419**
No. of shares outstanding (m shares)	**696**
Adjusted NAV per share (IDR)	**20,717**
Discount to NAV	**60%**
Target price (IDR)	**8,200**

Source: Bahana estimates

KIJA: Retain BUY with lower TP of IDR270

As KIJA has large forex exposure, we cut our 2015-16F earnings by 8-27%, mainly due to weaker IDR assumptions. We adopt a slightly more conservative stance on the company, as we expect marketing sales to remain soft. As KIJA also has sizeable recurring income (1H15: 65% of revenue) mainly from its power plant, we expect the 2015 gross margin to be depressed, reaching 39% (2014: 45%). We also note that in 2H15 the company plans to launch its industrial estate in Kendal Central Java, which could support margins. We apply a 70% discount to NAV (60% discount previously), leading to our new 12-month TP of IDR270 (IDR450 previously), as we are concerned that the current domestic economic downturn and further IDR depreciation could be unfavorable for KIJA. We maintain our BUY rating as we expect the stock price to gradually reverse on margin support. Risks are lower-than-expected marketing sales, a delay of the Kendal industrial estate launch, further IDR depreciation and lower-than-expected FDI into Indonesia.

Exhibit 6. KIJA IJ Earnings forecast revisions

Year-end 31 Dec	Old			New			*Change (%)*		
	2015F	2016F	2017F	2015F	2016F	2017F	2015F	2016F	2017F
Sales (IDRb)	**2,968**	**3,235**	**-**	**2,956**	**3,188**	**3,497**	*(0.4)*	*(1.5)*	*n.a.*
Gross profit (IDRb)	**1,160**	**1,268**	**-**	**1,161**	**1,194**	**1,351**	*0.1*	*(5.8)*	*n.a.*
Gross margin (%)	*39.1*	*39.2*	-	*39.3*	*37.5*	*38.6*			
Operating profit (IDRb)	**779**	**859**	**-**	**780**	**785**	**912**	*0.1*	*(8.6)*	*n.a.*
Operating margin (%)	*26.2*	*26.6*	-	*26.4*	*24.6*	*26.1*			
Net profit (IDRb)	**365**	**523**	**-**	**335**	**385**	**525**	*(8.4)*	*(26.4)*	*n.a.*
Net margin (%)	*12.3*	*16.2*	-	*11.3*	*12.1*	*15.0*			
EPS (IDR)	**18**	**26**	**-**	**17**	**19**	**26**	*(8.2)*	*(26.9)*	*n.a.*

Source: Bahana estimates

Exhibit 7. KIJA NAV calculation, 2016F

Portfolio	Value (IDRbn)
Land bank	20,663
Recurring income (DCF)	2,084
Total	**22,746**
Add: Cash (2016F)	1,109
Less: Debt	(3,846)
Less: Customer deposits	(1,261)
Adjusted NAV	**18,749**
No. of shares outstanding (m shares)	20,662
Adjusted NAV per share (IDR)	**907**
Discount to NAV	**70%**
Target price (IDR)	**270**

Source: Bahana estimates

SSIA: Reiterate BUY and TP of IDR795

SSIA booked dissapointing 1H15 marketing sales of 6.9ha, down 56% y-y and accounting for less than 12% of its previous target of 60ha on a USD157.7/m² ASP. At this stage, management has revised down its 2015 marketing sales target to 20ha, which led us to recently cut our 2015 marketing sales target to 15ha (from 45ha previously) as we expect marketing sales to remain soft in 2H15. Therefore, we increased our discount to SSIA's NAV from 40% to 70% and NRCA's (SSIA's subsidiary-NR) discount to the sector from 20% to 30%, due to the current economic downturn and IDR depreciation that is likely to be a drag on demand. At this stage, we retain our earnings forecasts and SOTP-based 12-month target price of IDR795, and thus retain our BUY rating. Risks to our call include worse-than-expected FDI into the country as well as lower-than-expected marketing sales and new construction contracts.

Exhibit 8. SSIA IJ Recent earnings forecast revisions

Year-end 31 Dec	Old			New			*Change (%)*		
	2015F	2016F	2017F	2015F	2016F	2017F	2015F	2016F	2017F
Sales (IDRb)	**5,219**	**5,900**	**-**	**4,940**	**5,535**	**6,452**	*(5.4)*	*(6.2)*	*n.a.*
Gross profit (IDRb)	**1,444**	**1,652**	**-**	**1,334**	**1,478**	**1,749**	*(7.6)*	*(10.5)*	*n.a.*
Gross margin (%)	*27.7*	*28.0*		*27.0*	*26.7*	*27.1*			
Operating profit (IDRb)	**847**	**976**	**-**	**768**	**844**	**1,010**	*(9.3)*	*(13.5)*	*n.a.*
Operating margin (%)	*16.2*	*16.5*		*15.6*	*15.3*	*15.7*			
Net profit (IDRb)	**527**	**584**	**-**	**476**	**507**	**607**	*(9.7)*	*(13.2)*	*n.a.*
Net margin (%)	*10.1*	*9.9*		*9.6*	*9.2*	*9.4*			
EPS (IDR)	**112.1**	**124.0**	**-**	**101.1**	**107.7**	**129.1**	*(9.8)*	*(13.1)*	*n.a.*

Source: Bahana estimates

Exhibit 9. SSIA NAV calculation, 2016F

Portfolio		Value (IDRbn)
Land bank	Based on 70% discount to NAV	775
Property value	Based on DCF	1,280
Construction business*	Based on 14x 2016F PER & DCF	2,853
Total		**4,908**
Add: Cash (2016F)		780
Less: Debt		(1,504)
Less: Advances		(447)
Total value		**3,738**
No. of shares outstanding (bn shares)		4.71
Adjusted NAV per share (IDR)		**795**
Target price (IDR)		**795**

Source: Bahana estimates
*Note: *construction business is NRCA (not rated), which is 61% owned by SSIA; our target PER is set at a 30% discount to domestic peers*

BEST: Downgrade to HOLD, TP cut to IDR300

In 1H15, BEST booked flat marketing sales of 7.9ha, which led to the company having revised down its 2015 marketing sales target from 35-40ha to 15-20ha on slower demand resulting from the current economic slowdown. At this stage, we lower our 2015-16F earnings by 6-11% as the company has a low portion of recurring income (1H15: 12% of total revenue) and relies heavily on industrial land sales. Currently, BEST is developing commercial, standard factory building (SFB) and warehouse rentals; we expect these changes to eventually contribute a recurring income portion of around 30% of total revenue. All said, as we increase our discount to NAV to 75% from 60%, we downgrade our rating to HOLD and reduce our 12-month target price to IDR300 from IDR520. Risks to our call include worse-than-expected FDI into the country and lower-than-expected marketing sales.

Exhibit 10. BEST IJ Earnings forecast revisions

Year-end 31 Dec	Old			New			*Change (%)*		
	2015F	2016F	2017F	2015F	2016F	2017F	2015F	2016F	2017F
Sales (IDRb)	**839**	**810**	**-**	**842**	**765**	**1,024**	*0.4*	*(5.6)*	*n.a.*
Gross profit (IDRb)	**609**	**591**	**-**	**612**	**557**	**750**	*0.4*	*(5.7)*	*n.a.*
Gross margin (%)	*72.6*	*73.0*	*-*	*72.6*	*72.9*	*73.2*			
Operating profit (IDRb)	**526**	**500**	**-**	**528**	**467**	**649**	*0.3*	*(6.7)*	*n.a.*
Operating margin (%)	*62.7*	*61.7*	*-*	*62.7*	*61.0*	*63.3*			
Net profit (IDRb)	**364**	**338**	**-**	**344**	**301**	**491**	*(5.5)*	*(10.9)*	*n.a.*
Net margin (%)	*43.4*	*41.7*	*-*	*40.8*	*39.4*	*47.9*			
EPS (IDR)	**38**	**35**	**-**	**36**	**31**	**51**	*(6.2)*	*(10.8)*	*n.a.*

Source: Bahana estimates

Exhibit 11. BEST NAV calculation, 2016F

Portfolio	Value (IDRbn)
Land bank	13,171
Total	**13,171**
Add: Cash (2016F)	398
Less: Debt	(1,547)
Less: Customer deposit	(144)
Total value	**11,878**
No. of shares outstanding (m shares)	9,647
Adjusted NAV per share (IDR)	**1,231**
Discount to NAV	**75%**
Target price (IDR)	**300**

Source: Bahana estimates

Lippo Cikarang

Year to 31 December	2013	2014	2015F	2016F	2017F
PROFIT & LOSS (IDRbn)					
Sales	**1,328**	**1,792**	**1,739**	**1,816**	**2,265**
Gross profit	**743**	**1,057**	**997**	**1,035**	**1,266**
EBITDA	**641**	**925**	**867**	**900**	**1,100**
Depreciation	7	11	8	9	10
EBIT	**634**	**914**	**859**	**891**	**1,090**
Net interest inc./(expense)	22	12	19	17	16
Forex gain/(losses)	6	(2)	11	3	-
Other income/(expense)	4	19	148	169	142
Pre-tax profit	**666**	**942**	**1,037**	**1,080**	**1,247**
Taxes	(75)	(98)	(104)	(109)	(136)
Minority interest	-	-	-	-	-
Extraordinary gain/(loss)	-	-	-	-	-
Net profit	**591**	**844**	**933**	**971**	**1,112**
BALANCE SHEET (IDRbn)					
Cash and equivalents	308	246	310	253	267
Trade receivables	60	66	95	100	124
Inventories	2,510	2,882	3,257	3,680	4,048
Fixed assets	53	54	61	67	73
Other assets	923	1,062	2,241	3,268	4,315
Total assets	**3,854**	**4,310**	**5,964**	**7,367**	**8,827**
Interest bearing liabilities	-	-	-	-	-
Trade payables	-	40	-	-	-
Other liabilities	2,035	1,598	2,367	2,799	3,146
Total liabilities	**2,035**	**1,638**	**2,367**	**2,799**	**3,146**
Minority interest	-	-	-	-	-
Shareholders' equity	**1,819**	**2,671**	**3,597**	**4,569**	**5,681**
CASH FLOW (IDRbn)					
EBIT	634	914	859	891	1,090
Depreciation	7	11	8	9	10
Working capital	(556)	(377)	(442)	(425)	(389)
Other operating items	98	(663)	787	439	276
Operating cash flow	**183**	**(115)**	**1,212**	**914**	**986**
Net capital expenditure	(770)	(314)	(1,514)	(1,395)	(1,340)
Free cash flow	**(587)**	**(429)**	**(302)**	**(481)**	**(354)**
Equity raised/(bought)	-	8	(8)	-	-
Net borrowings	-	-	-	-	-
Other financing	585	358	375	423	368
Net cash flow	**(2)**	**(63)**	**64**	**(58)**	**14**
Cash flow at beginning	310	308	246	310	253
Cash flow at end	**308**	**246**	**310**	**253**	**267**
RATIOS					
ROAE (%)	38.8	37.6	29.8	23.8	21.7
ROAA (%)	17.7	20.7	18.2	14.6	13.7
Gross margin (%)	55.9	59.0	57.3	57.0	55.9
EBITDA margin (%)	48.3	51.6	49.8	49.5	48.5
EBIT margin (%)	47.7	51.0	49.4	49.0	48.1
Net margin (%)	44.5	47.1	53.6	53.4	49.1
Payout ratio (%)	-	-	-	-	-
Current ratio (x)	36.0	25.0	38.2	38.6	39.0
Interest coverage (x)	na	na	na	na	na
Net gearing (%)	nc	nc	nc	nc	nc
Debts to assets (%)	-	-	-	-	-
Debtor turnover (days)	16	20	20	20	20
Creditor turnover (days)	0	-	-	-	-
Inventory turnover (days)	na	na	na	na	na
MAJOR ASSUMPTIONS					
Gross margin–ind/com (%)	59.9	65.5	65.5	65.5	65.5
Gross margin–residential(%)	46.7	56.5	56.5	56.5	56.5
Revenue growth	31.1	35.0	(3.0)	4.5	24.7
Marketing sales (IDRb)	1,698	1,891	2,515	2,767	3,292

Source: Company, Bahana estimates

More conservative stance on softer revenue growth expectation

Raising customer deposits to support …

… higher capex in 2015F

Margins expected to decline due to shifting focus to residential

Marketing sales expected to soften

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Kawasan Industri Jababeka

Year to 31 December	2013	2014	2015F	2016F	2017F
PROFIT & LOSS (IDRbn)					
Sales	**2,740**	**2,799**	**2,956**	**3,188**	**3,497**
Gross profit	**1,171**	**1,252**	**1,161**	**1,194**	**1,351**
EBITDA	**951**	**1,001**	**919**	**934**	**1,070**
Depreciation	96	113	140	148	158
EBIT	**855**	**887**	**780**	**785**	**912**
Net interest inc./(expense)	(261)	(316)	(261)	(268)	(266)
Forex gain/(losses)	(420)	(58)	(338)	(96)	-
Other income/(expense)	30	46	254	72	-
Pre-tax profit	**204**	**560**	**434**	**493**	**646**
Taxes	(100)	(166)	(106)	(116)	(128)
Minority interest	(4)	7	7	7	7
Extraordinary gain/(loss)	-	-	-	-	-
Net profit	**101**	**401**	**335**	**385**	**525**
BALANCE SHEET (IDRbn)					
Cash and equivalents	595	595	1,050	1,109	1,164
Trade receivables	231	292	276	298	326
Inventories	703	660	726	799	879
Land for development	3,409	3,763	4,383	5,033	5,713
Fixed assets	2,168	2,228	2,236	2,244	2,252
Other assets	1,149	967	1,080	1,203	1,345
Total assets	**8,255**	**8,505**	**9,750**	**10,685**	**11,679**
Interest bearing liabilities	2,572	2,705	3,732	3,846	3,856
Trade payables	187	164	112	125	134
Other liabilities	1,310	975	1,214	1,731	2,286
Total liabilities	**4,069**	**3,843**	**5,059**	**5,702**	**6,277**
Minority interest	-	-	-	-	-
Shareholders' equity	**4,186**	**4,662**	**4,692**	**4,983**	**5,402**
CASH FLOW (IDRbn)					
EBIT	855	887	780	785	912
Depreciation	96	113	140	148	158
Working capital	(56)	(35)	(78)	(56)	(71)
Other operating items	(392)	(725)	(269)	47	85
Operating cash flow	**503**	**241**	**573**	**925**	**1,084**
Net capital expenditure	(637)	(527)	(767)	(806)	(846)
Free cash flow	**(133)**	**(286)**	**(195)**	**118**	**238**
Equity raised/(bought)	107	28	-	-	-
Net borrowings	526	132	1,027	115	10
Other financing	(145)	125	(378)	(173)	(193)
Net cash flow	**354**	**(1)**	**455**	**60**	**55**
Cash flow at beginning	242	595	595	1,050	1,109
Cash flow at end	**595**	**595**	**1,050**	**1,109**	**1,164**
RATIOS					
ROAE (%)	2.5	9.1	7.2	8.0	10.1
ROAA (%)	1.3	4.8	3.7	3.8	4.7
Gross margin (%)	42.8	44.7	39.3	37.5	38.6
EBITDA margin (%)	34.7	35.7	31.1	29.3	30.6
EBIT margin (%)	31.2	31.7	26.4	24.6	26.1
Net margin (%)	3.7	14.3	11.3	12.1	15.0
Payout ratio (%)	-	30.0	30.0	30.0	30.0
Current ratio (x)	4.9	5.1	7.7	7.5	7.4
Interest coverage (x)	3.3	2.8	3.0	2.9	3.4
Net gearing (%)	47.2	45.3	57.2	54.9	49.8
Debts to assets (%)	31.2	31.8	38.3	36.0	33.0
Debtor turnover (days)	23	34	34	34	34
Creditor turnover (days)	24	23	23	23	23
Inventory turnover (days)	na	na	na	na	na
MAJOR ASSUMPTIONS					
Opex to revenue (%)	11.5	13.0	12.9	12.8	12.6
Revenue growth (%)	95.6	2.2	5.6	7.8	9.7
Marketing sales	1,617	1,021	1,000	1,200	1,440
Marketing sales growth (%)	9.1	(36.8)	(2.0)	20.0	20.0
Recurring income proportion	51	59	63	67	67

Source: Company, Bahana estimates

Higher forex losses on weakening IDR

Increasing interest-bearing liabilities due to global bond issuance

Higher capex to support project development

Strong recurring income but slowing industrial sales should lead to lower gross margins

Conservative 2015 assumption of IDR1tn in marketing sales

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Surya Semesta Internusa

Year to 31 December	2013	2014	2015F	2016F	2017F
PROFIT & LOSS (IDRbn)					
Sales	**4,583**	**4,464**	**4,940**	**5,535**	**6,452**
Gross profit	**1,320**	**1,054**	**1,334**	**1,478**	**1,749**
EBITDA	**988**	**668**	**906**	**986**	**1,156**
Depreciation	116	133	138	142	146
EBIT	**872**	**535**	**768**	**844**	**1,010**
Net interest inc./(expense)	(61)	(64)	(98)	(111)	(119)
Forex gain/(losses)	26	6	5	2	-
Other income/(expense)	3	(34)	-	-	-
Pre-tax profit	**907**	**671**	**760**	**820**	**976**
Taxes	(160)	(158)	(173)	(194)	(226)
Minority interest	(55)	(98)	(112)	(119)	(142)
Extraordinary gain/(loss)	-	-	-	-	-
Net profit	**691**	**415**	**476**	**507**	**607**
BALANCE SHEET (IDRbn)					
Cash and equivalents	1,692	1,173	780	739	688
Trade receivables	699	470	404	354	354
Inventories	459	351	421	463	509
Fixed assets	1,483	1,688	1,850	2,008	2,163
Other assets	1,482	2,312	3,535	4,073	4,754
Total assets	**5,814**	**5,993**	**6,990**	**7,638**	**8,468**
Interest bearing liabilities	1,279	1,279	1,504	1,424	1,425
Trade payables	346	356	446	574	657
Other liabilities	1,578	1,319	1,569	1,714	1,908
Total liabilities	**3,203**	**2,954**	**3,520**	**3,712**	**3,990**
Minority interest	**291**	**390**	**429**	**472**	**519**
Shareholders' equity	**2,320**	**2,649**	**3,041**	**3,453**	**3,959**
CASH FLOW (IDRbn)					
EBIT	872	535	768	844	1,010
Depreciation	116	133	138	142	146
Working capital	(801)	279	307	233	167
Other operating items	(541)	(864)	(309)	(387)	(480)
Operating cash flow	**(353)**	**83**	**904**	**832**	**843**
Net capital expenditure	(231)	(311)	(1,740)	(740)	(840)
Free cash flow	**(584)**	**(228)**	**(836)**	**92**	**3**
Equity raised/(bought)	172	53	-	-	-
Net borrowings	(39)	1	225	(80)	0
Other financing	254	(346)	219	(53)	(55)
Net cash flow	**(198)**	**(520)**	**(392)**	**(41)**	**(51)**
Cash flow at beginning	1,890	1,692	1,173	780	739
Cash flow at end	**1,692**	**1,173**	**780**	**739**	**688**
RATIOS					
ROAE (%)	35.3	16.7	16.7	15.6	16.4
ROAA (%)	13.0	7.0	7.3	6.9	7.5
Gross margin (%)	28.8	23.6	27.0	26.7	27.1
EBITDA margin (%)	21.6	15.0	18.3	17.8	17.9
EBIT margin (%)	19.0	12.0	15.6	15.3	15.7
Net margin (%)	15.1	9.3	9.6	9.2	9.4
Payout ratio (%)	20.0	20.3	20.0	20.0	20.0
Current ratio (x)	1.8	1.5	1.2	1.2	1.2
Interest coverage (x)	14.3	8.4	7.8	7.6	8.5
Net gearing (%)	nc	4.0	23.8	19.8	18.6
Debts to assets (%)	22.0	21.3	21.5	18.6	16.8
Debtor turnover (days)	39	48	25	20	20
Creditor turnover (days)	28	38	40	40	40
Inventory turnover (days)	na	na	na	na	na
MAJOR ASSUMPTIONS					
New contracts (IDRb)	4,610	3,180	3,816	4,388	5,266
Total order books (IDRb)	6,907	7,081	7,586	8,561	9,974
Industrial land sold (Ha)	42	23	15	18	20
ASP ind. land (USD/sqm)	130.1	135.0	160.0	164.8	173.0

Source: Company, Bahana estimates

Top line still mainly supported by construction business

Rising borrowings to support …

… sizeable 2015F capex to be used for land expansions

2016F margin downtrend on low expectations for land sales

We revise down our 2015 marketing sales target to 15ha from 45ha

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Bekasi Fajar Industrial Estate

Year to 31 December	2013	2014	2015F	2016F	2017F
PROFIT & LOSS (IDRbn)					
Sales	**1,324**	**840**	**842**	**765**	**1,024**
Gross profit	**946**	**580**	**612**	**557**	**750**
EBITDA	**888**	**478**	**536**	**477**	**659**
Depreciation	5	6	8	11	11
EBIT	**883**	**472**	**528**	**467**	**649**
Net interest inc./(expense)	(30)	(33)	(51)	(88)	(107)
Forex gain/(losses)	(38)	(6)	(91)	(40)	0
Other income/(expense)	(3)	0	0	0	1
Pre-tax profit	**812**	**433**	**387**	**340**	**542**
Taxes	(67)	(42)	(42)	(38)	(51)
Minority interest	(1)	(0)	(0)	(0)	(0)
Extraordinary gain/(loss)	-	-	-	-	-
Net profit	**744**	**391**	**344**	**301**	**491**
BALANCE SHEET (IDRbn)					
Cash and equivalents	548	318	476	398	341
Trade receivables	80	36	58	52	70
Inventories	2,400	2,493	3,144	3,771	4,271
Fixed assets	77	77	95	120	146
Other assets	256	729	838	977	1,140
Total assets	**3,360**	**3,653**	**4,610**	**5,318**	**5,968**
Interest bearing liabilities	542	466	1,147	1,547	1,672
Trade payables	71	47	16	14	19
Other liabilities	271	290	277	302	346
Total liabilities	**883**	**803**	**1,439**	**1,862**	**2,037**
Minority interest	**1**	**2**	**2**	**2**	**2**
Shareholders' equity	**2,475**	**2,848**	**3,170**	**3,454**	**3,929**
CASH FLOW (IDRbn)					
EBIT	883	472	528	467	649
Depreciation	5	6	8	11	11
Working capital	13	(2)	(50)	8	(9)
Other operating items	(353)	(310)	(299)	(273)	(270)
Operating cash flow	**548**	**166**	**187**	**212**	**381**
Net capital expenditure	(860)	(302)	(687)	(673)	(548)
Free cash flow	**(312)**	**(136)**	**(500)**	**(461)**	**(166)**
Equity raised/(bought)	53	3	-	-	-
Net borrowings	314	(75)	680	400	125
Other financing	(91)	(22)	(22)	(17)	(15)
Net cash flow	**(35)**	**(230)**	**158**	**(79)**	**(56)**
Cash flow at beginning	583	548	318	476	398
Cash flow at end	**548**	**318**	**476**	**398**	**341**
RATIOS					
ROAE (%)	35.0	14.7	11.4	9.1	13.3
ROAA (%)	26.3	11.1	8.3	6.1	8.7
Gross margin (%)	71.4	69.1	72.6	72.9	73.2
EBITDA margin (%)	67.0	56.9	63.6	62.4	64.4
EBIT margin (%)	66.7	56.2	62.7	61.0	63.3
Net margin (%)	56.2	46.6	40.8	39.4	47.9
Payout ratio (%)	3.0	5.6	5.0	5.0	5.0
Current ratio (x)	3.4	2.7	4.4	3.6	3.0
Interest coverage (x)	29.3	14.3	10.4	5.3	6.1
Net gearing (%)	nc	5.2	21.1	33.3	33.9
Debts to assets (%)	16.1	12.8	24.9	29.1	28.0
Debtor turnover (days)	12	25	25	25	25
Creditor turnover (days)	71	47	16	14	19
Inventory turnover (days)	na	na	na	na	na
MAJOR ASSUMPTIONS					
Marketing sales (ha)	60	36	20	25	30
ASP (USD/sqm)	172	190	203	218	233
USD/IDR - end	12,173	12,385	14,000	14,500	14,500
USD/IDR - average	10,926	12,279	13,193	14,250	14,500

Source: Company, Bahana estimates

Lower 2016F sales on challenging economic outlook

Increasing debt to fund …

… new projects to bolster recurring income

Higher 2016-17 gross margin assumptions on ASP increases

Conservative 2015 assumption of 20ha of marketing sales

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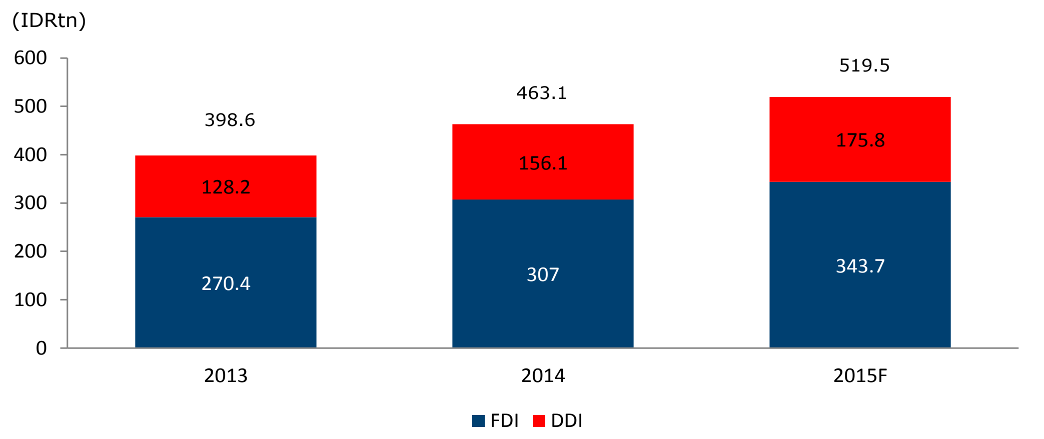
Exhibit 12. Peer comparison, 2016F

	Mkt. Cap (IDRbn)	EPS GWT (%)	PER (x)	PEG (x)	PBV (x)	EV/EBITDA (x)	ROAE (%)
LPCK IJ	4,732.8	4.1	4.9	1.2	1.0	5.0	23.8
KIJA IJ	3,822.5	15.0	9.9	0.7	0.8	6.9	8.0
SSIA IJ	3,364.3	6.6	6.6	1.0	1.0	4.1	15.6
BEST IJ	2,855.6	(12.5)	9.5	(0.8)	0.8	8.4	9.1
Sector	**14,775.2**	**4.3**	**7.5**	**0.6**	**0.9**	**5.9**	**15.0**

Source: Bahana estimates; based on pricing as of 16 September 2015

LPCK has lowest sector PE of 4.9x

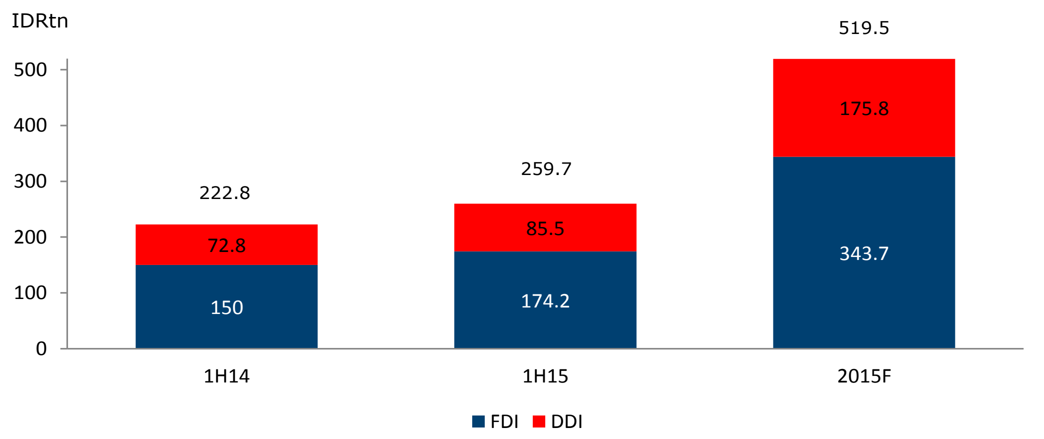
Exhibit 13. Investment realization, 2013-2015F



Source: Investment Coordinating Board

Sizeable FDI inflow, targeting IDR519.5tn in 2015F

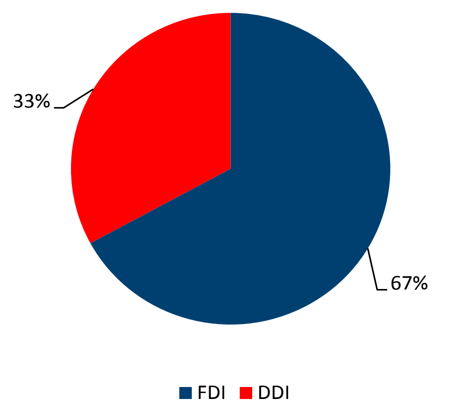
Exhibit 14. Investment realization, 1H14-2015F



Source: Investment Coordinating Board

1H15 investment realization grew 16% y-y

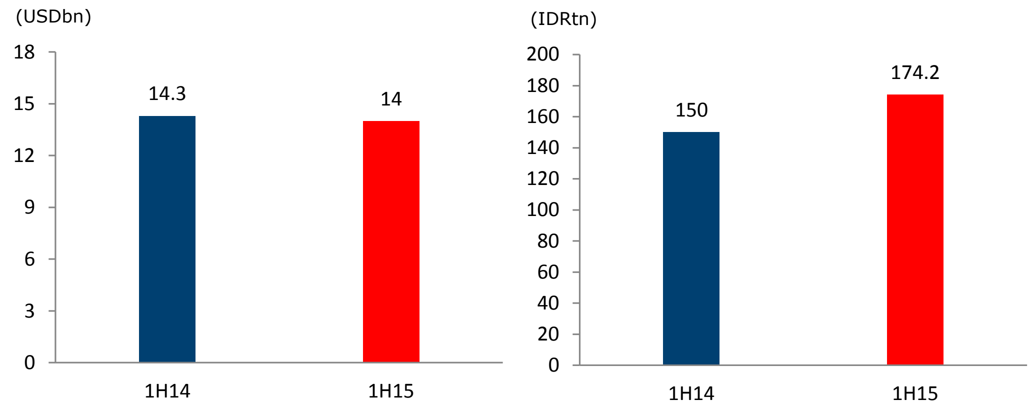
Exhibit 15. FDI & DDI composition, 1H15



Source: Investment Coordinating Board

FDI continued to provide huge contribution to total investment in 1H15

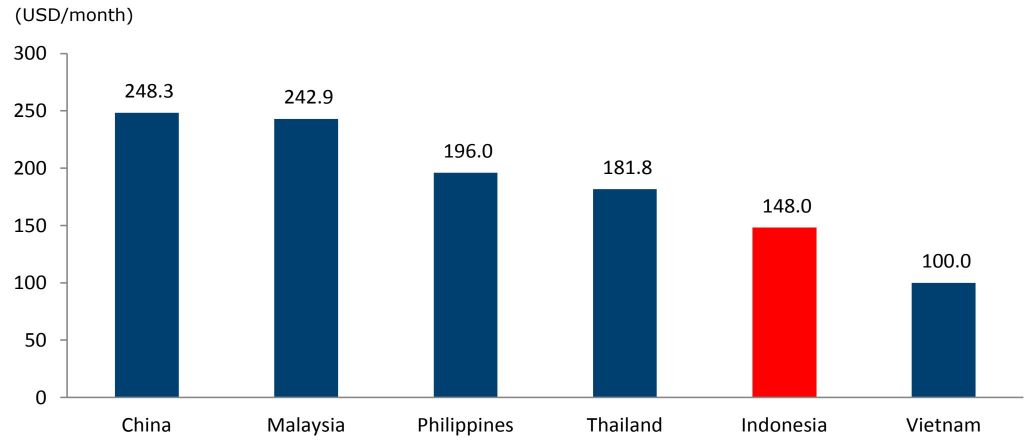
Exhibit 16. 1H15 FDI currency comparison*



*Source: Investment Coordinating Board *exchange rate 1H15: IDR12,500/USD; exchange rate 1H14: IDR10,500/USD based on revised state budget 2015*

1H15 FDI fell 2% y-y in US dollar terms

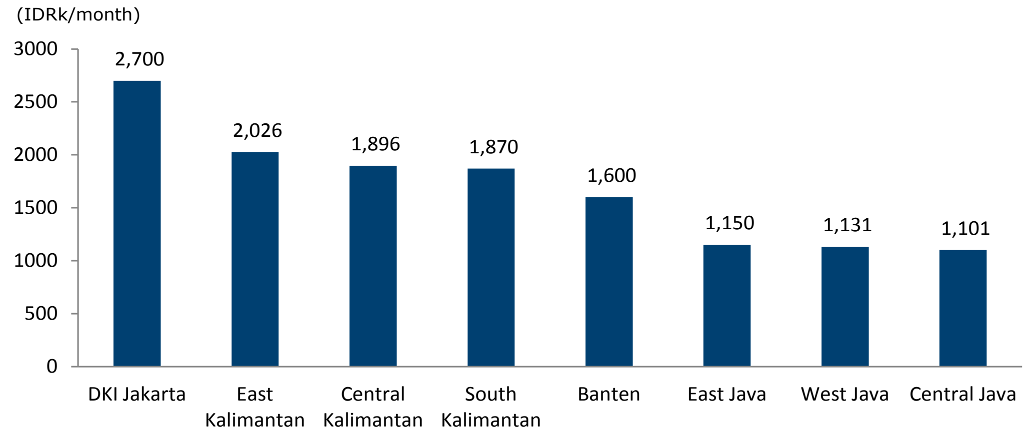
Exhibit 17. Average minimum wage in selected economies, 2015



Source: CEIC; various sources

Indonesia's average minimum wage still remains relatively low compared to other Asian countries …

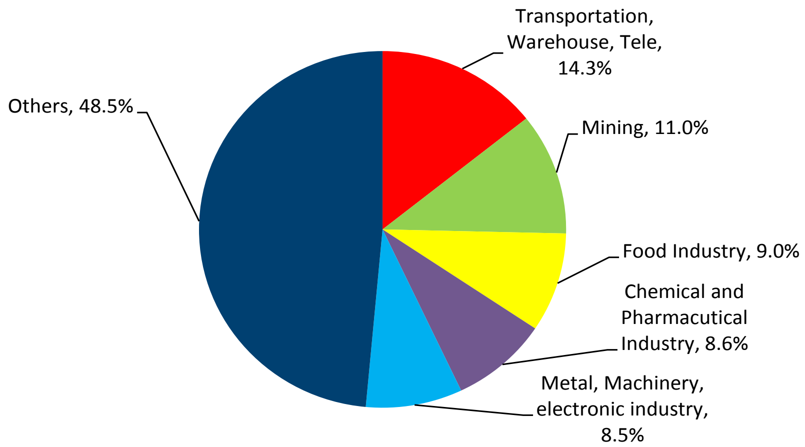
Exhibit 18. Indonesia minimum wage for 2015



Source: CEIC; various sources

… with the lowest minimum wage in Central Java

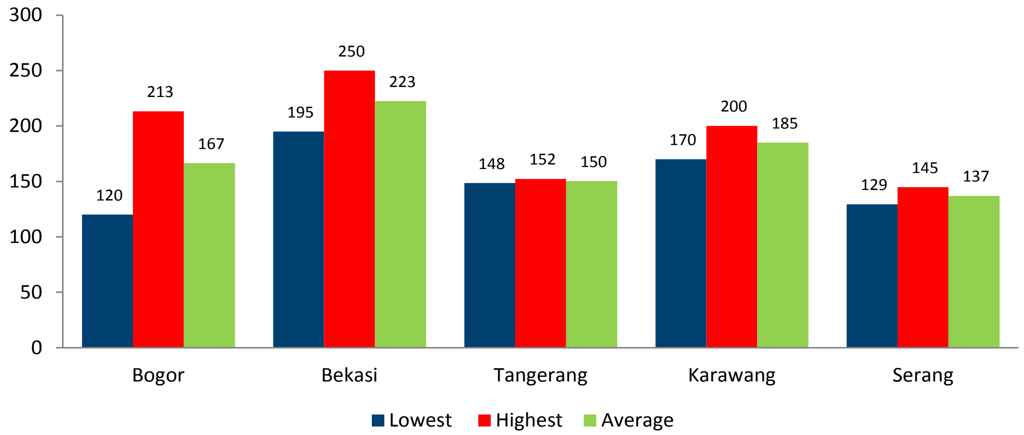
Exhibit 19. Investment realization based on sector, 1H15



Source: Investment Coordinating Board

The transportation, warehouse and telecommunications sector contributed the most in 1H15

Exhibit 20. Industrial land prices, 1H15



Source: Colliers International

Bekasi, the eastern corridor of Jakarta, had the highest ASP as of 1H15

Exhibit 21. Summary of government and BI economic programs

No.	Economic Affairs Minister	BI Governor	President Jokowi
1	Advance export financing activities through national interest account.	Enhance inflation management and real sector (ie, agricultural and industrial sectors) development through supply side incentives: a. Strengthen inflation-control teams both on national and regional levels. b. Enhance coordination between regional and central BI offices.	Support national industry competitiveness through deregulation, bureaucratic reform, and law supremacy.
2	Determine specific gas prices for certain industries.	Maintain IDR stability: a. Maintain market confidence through IDR stabilization. b. Increase BI position in government bonds in order to maintain market confidence and ensure availability of liquidity.	Accelerate development of national strategic projects.
3	Continue development of special industrial zone.	Enhance IDR liquidity management: a. Change SBN reverse repurchase agreement (reverse repo) auction mechanism from variable rate to fixed rate and extend SBN's RR term to 3 months. b. Change BI certificate of deposit auction mechanism from variable rate to fixed rate and issue product in 6-month term. c. Reissue 9-month and 12-month Bi certificates of deposit.	Enhance investment in property sector.
4	Extend role of SMEs in national economy.	Enhance supply-demand dynamics of forex market: a. Adjust FX swap auction schedule from 2 times a week to 1 time a week. b. Change term deposit auction mechanism from variable to fixed rate and extend the term to 3 months. c. Reduce minimum number of transactions without underlying limit to USD25k from USD100k. d. Accelerate foreign loan approvals while continuing to control credit risk.	
5	Ease regulations in trade sector.	Continue financial deepening measures: a. Provide swap facilities for hedging of infrastructure-related projects. b. Enhance money market regulations.	
6	Ease restrictions on foreign visas.		
7	Enhance maritime industry by converting fisherman fuel demand from diesel to gas.		
8	Cattle market stabilization.		
9	Advance village fund realization.		
10	Provide 2 additional months of subsidized rice (raskin) to the poor.		

Source: Various, Bahana

Exhibit 22. Eligible industries for tax holiday

No	192/PMK.011/2014	159/PMK.010/2015
1	Basic metals	Upstream metals
2	Oil refineries and or basic chemicals rooted in oil and natural gas	Oil refineries
3	Machinery	Organic basic chemicals rooted in oil and natural gas
		Machinery for industrial machine production
4	Renewable energy	Manufacturing based on agriculture, forestry and fisheries
5	Communication equipment	Telecommunications, information and communications
		Marine transportation
		Manufacturing that is part of main industry in Special Economic Zone
		Economic infrastructure not under government-to-business scheme

Source: Various, Bahana

Recent tax holiday regulation regarding special economic zone is expected to be beneficial for industrial estates players

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