



# Property Sector

# UNDERWEIGHT (New)

## Arriving at the landing of the stairs

- Initiate at Underweight. Forecast aggregate pre-sales in 2014 to plateau due to tighter mortgage regulations and macroeconomic uncertainty. Will turn more positive when pre-sales data start to pick up, which we expect in 2H14.
- Remain positive on the sector's structural long-term growth, supported by Indonesia's large young population and low mortgage-to-loan ratio.
- In this challenging time, we prefer developers with strong balance sheets and conservative projects in low-middle segment as demand for premium properties weaken. Top BUYs: BSDE, CTRA and LPCK. Top SELL: ASRI.

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### Short-term hiccup before resuming growth

We expect more negative news in 1H14 from weak pre-sales take-up rates and macroeconomic uncertainty before the presidential election. We also expect the government to implement tighter regulations should property prices continue to rise sharply.

### Stay with the conservative developers

During periods when earnings visibility is not high, we prefer companies with strong balance sheets that have the capability to fund their projects. We also prefer companies with high revenue contribution from investment properties for earnings stability.

### Top picks: BSDE, CTRA and LPCK

Bumi Serpong Damai (TP IDR2,000), Ciputra Development (TP1,330) and Lippo Cikarang (TP IDR8,000) are our top picks in the property sector for their strong balance sheets and conservative projects.

We calculate RNAV by using DCF valuation of companies' five-year operating cash flows and we assigned residual value for their land bank. We also use one-year forward P/E and P/B multiples as sanity checks.

Stock	Ticker	Rating	Mkt Cap (USD m)	RNAV/ share (local)	Price (local)	TP (local)	U/D Side (%)	Disc. to RNAV (%)	PER CY14F (x)	PER CY15F (x)	P/B CY14F (x)	ROE CY14F (%)	Div yield CY14F (%)
Bumi Serpong Damai	BSDE IJ	Buy	2,337	2,857	1,575	2,000	27%	45%	10.8	9.6	2.3	23%	1.7%
Ciputra Development	CTRA IJ	Buy	1,338	2,627	1,025	1,330	30%	61%	11.2	10.4	2.1	20%	2.4%
Lippo Cikarang	LPCK IJ	Buy	411	12,865	6,975	8,000	15%	46%	6.5	6.0	1.8	32%	0.0%
Sentul City	BKSL IJ	Buy	474	1,022	178	200	13%	83%	12.4	7.2	0.9	8%	0.0%
Alam Sutera Realty	ASRI IJ	Sell	983	1,352	590	500	-15%	56%	8.2	7.2	1.7	23%	3.6%
Bekasi Fajar	BEST IJ	Hold	502	1,058	615	590	-4%	42%	8.5	7.4	2.0	25%	2.7%
Lippo Karawaci	LPKR IJ	Hold	1,869	1,436	955	900	-6%	34%	13.0	11.4	1.7	12%	1.5%
Summarecon Agung	SMRA IJ	Hold	1,254	2,809	1,025	1,050	2%	64%	12.1	11.0	2.8	25%	3.0%

Source: Bloomberg, Maybank KE. Prices are as of 17 Feb 2014

## Arriving at the landing of the stairs

After the extraordinary growth of the Indonesian property market over the past five years, we expect both prices and volumes to plateau this year as the central bank tightens and economic growth slows down.

We initiate coverage of the Indonesian property sector at Underweight, although we expect performances to diverge between companies that have higher low-rise or high-rise property mix and also between companies that have strong balance sheets and leveraged balance sheets.

### Expect more bad news in 1H14

We expect more negative news to exert pressure on the sector from weak pre-sales in 1H14. Tight mortgage lending from major banks due to high loan-to-debt ratios will reduce demand from homebuyers who require funding. We anticipate pre-sales will pick up in 2H14 when we expect macroeconomic conditions to improve.

### Short-term hiccup before resuming growth

We think the sector's short-term fundamentals face challenges on both the supply and demand side. We note the supply of prime land is diminishing due to strong property sales since 2009. Developers are now forced to replenish their land banks at significantly higher costs. This separates companies that still have ample prime land bank to create more value. On the other hand, we also note demand for high-end properties has softened as affordability diminishes with inflation outpacing real income growth.

We remain positive on the sector's structural long-term growth on the back of Indonesia's large young population and low mortgage to total loan ratio. We also expect a sustainable increase of income and modernized lifestyle whereby the number of people per household declines, therefore driving demand for more housing.

### Stick to those with strong balance sheets

In times when earnings visibility is not high, we prefer companies with strong balance sheets and conservative projects. We also like companies with high revenue contribution from investment properties. We think when demand is uncertain, exposure to high-risk projects such as high-rise condominiums may hurt developers' financial stability.

### 3 Numbers that Matter

#### ■ Slow pre-sales in 2013 (11%)

On aggregate, pre-sales of property companies in our universe grew 11% YoY boosted by bulk sales of Bumi Serpong Damai. Stripping the bulk sales, organic pre-sales only grew 5% YoY.

#### ■ Cautious pre-sales target

On aggregate, property companies in our universe guided for pre-sales target growth of 12% YoY in 2014F with few companies still guided for flat growth in 2014F. We target for 5% growth YoY in 2014F, on aggregate.

#### ■ Weakening IDR against USD (-25%)

The Indonesian Rupiah weakens by 25% YoY in 2013 (end of period). This has raised the risks for property developers which have high portfolio of high-rise buildings as it increases the development costs.

## Has all the negative news been priced in?

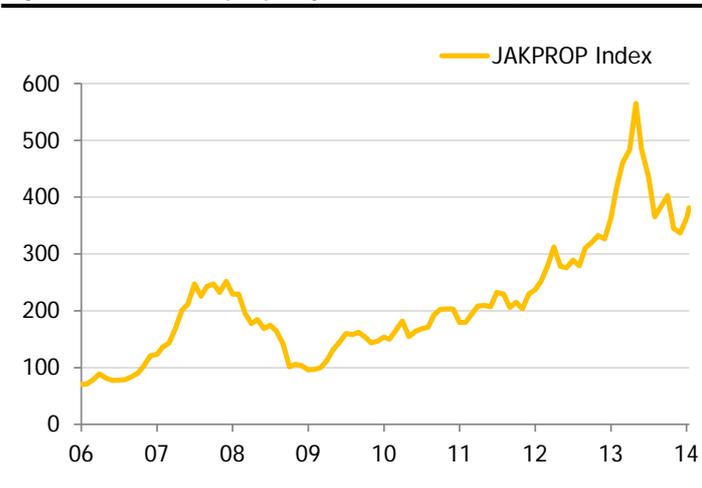
We expect more negative news in 1H14 from weak pre-sales numbers and macroeconomic uncertainty (pre-election) to exert further pressure on the sector. Although the 40% steep fall from its peak in May 2013 has created value in some companies, we will turn more positive when pre-sales recover, which we expect in 2H14.

### Indonesia property index down by 40% from its peak in 2013

The Indonesian property sector has dropped 40% from its peak in May 2013 since the sector rallied in 2009. This correction is the second largest in the sector after it fell 62% during the 2008 global financial crisis.

The property sector's steep drop also widens the discount towards its RNAV. As we remain positive towards the long-term growth of Indonesia's property sector, we expect companies' RNAV to continue to grow in the future. On average, Indonesian property companies under our coverage are trading at 51% discount to 2014 RNAV.

Figure 1: Indonesia property index (JAKPROP)



Source: Bloomberg

Figure 2: RNAV table

Company	RNAV/ share (IDR)	Share price (IDR)	Discount implied	Land bank (ha)	Land bank/ 2013 sales
Alam Sutera Realty	1,352	590	56%	2,002	18 years
Bumi Serpong Damai	2,857	1,575	45%	4,068	19 years
Ciputra Development	2,672	1,025	61%	1,387	7 years
Lippo Karawaci	1,436	955	34%	1,333	25 years
Sentul City	1,022	178	83%	13,400	191 years
Summarecon Agung	2,809	1,025	64%	1,502	30 years
Industrial Estates					
Bekasi Fajar	1,033	615	40%	681	11 years
Lippo Cikarang	12,865	6,975	46%	572	19 years

Source: Bloomberg, Maybank KE. Prices are as of 17 Feb 2014.

Note: Detail calculation of RNAV please see company section. Land bank as of 9M2013.

### Expect weak pre-sales in 1H14

With mortgage lending still tight and very few property projects being launched by developers at the beginning of this year, we expect pre-sales in 1H14 to remain weak. We expect pre-sales to start to pick up in 3Q14 on the back of an improving macro outlook. We also note developers are targeting to launch their projects in 2H14 to secure higher take-up rates.

We also expect developers to increase ASPs conservatively this year to boost pre-sales and also to not attract further attention of the regulators which are monitoring the high growth of property prices.

With weak pre-sales expected in 1H14 and conservative ASP increases, we assume flat pre-sales growth in 2014F on aggregate, in line with guidance from companies. We sense many developers are becoming more cautious (first time since 2009) in terms of launching projects and many of them have set flat pre-sales targets for this year.

Although we believe Indonesia's economy will resume growth in 2015, we forecast conservative pre-sales growth for 2015. We only included projects that the developers have announced in their pipelines in our assumptions. We have not assumed any new projects or bulk sales to increase sales volume. We forecast Bumi Serpong Damai (BSDE IJ), Ciputra Development (CTRA IJ), Sentul City (BKSL IJ) and Summarecon Agung (SMRA IJ) to have double-digit pre-sales growth in 2015.

We forecast flat pre-sales growth industrial estate land segment as we expect investors to wait and see for the upcoming parliamentary and presidential election to complete in July14. This applies for Bekasi Fajar while Lippo Cikarang's sales growth will be from non-industrial segment.

Figure 3: Pre-sales overview

Company Name	Marketing Sales		Growth (y-y)	2013G	% to target	Last Target
	2012A	2013A				
<b>Township Developer</b>						
Alam Sutera Realty	3,648	4,810	32%	5,600	86%	Jul'13
Bumi Serpong Damai	4,280	7,348	72%	7,000	105%	Jan'13
Ciputra Development	7,298	8,941	23%	9,070	99%	Oct'13
Lippo Karawaci	6,760	4,104	-39%	4,708	87%	Sep'13
Sentul City	1,196	2,085	74%	2,000	104%	Aug'13
Summarecon Agung	3,873	3,725	-4%	3,700	101%	Oct'13
<b>Industrial Estates</b>						
Bekasi Fajar	1,123	1,090	-3%	1,204	91%	Oct'13
Lippo Cikarang	2,052	1,698	-17%	2,320	73%	Sep'13
<b>Aggregate</b>	<b>30,230</b>	<b>33,801</b>	<b>12%</b>	<b>35,602</b>	<b>95%</b>	

Source: Company, Maybank KE

Note: G=Company Guidance

Figure 4: Pre-sales forecasts

Company Name	Marketing Sales				2014/2013	2015/2014
	2012A	2013A	2014F	2015F		
<b>Township Developer</b>						
Alam Sutera Realty	3,648	4,810	5,112	5,149	6%	1%
Bumi Serpong Damai	4,280	7,348	5,568	6,879	-24%	24%
Ciputra Development	7,298	8,941	9,840	11,970	10%	22%
Lippo Karawaci	6,760	4,104	5,057	5,447	23%	8%
Sentul City	1,196	2,100	2,043	2,374	-3%	16%
Summarecon Agung	3,873	3,725	3,891	4,891	4%	26%
<b>Industrial Estates</b>						
Bekasi Fajar	1,123	1,090	1,266	1,498	16%	18%
Lippo Cikarang	2,052	1,698	2,407	2,791	42%	16%
<b>Aggregate</b>	<b>30,230</b>	<b>33,816</b>	<b>35,184</b>	<b>41,000</b>	<b>4%</b>	<b>17%</b>

Source: Company, Maybank KE

Note: F= Maybank KE Forecast

## Fundamentals of the property market

### Diminishing land bank, rising replacement costs

From the six township developers that we cover, we estimate property sales net area of c.981 ha for landed residential from 2009 to 2013. Although developers' land banks increased from 2009 to 2013, we believe their prime land banks are being depleted.

Figure 5: Land bank of township developers (as of 9M2013)

Company Name	Ticker	Landbank (ha)
Alam Sutera Realty	ASRI IJ	2,002
Bumi Serpong Damai	BSDE IJ	4,068
Ciputra Development	CTRA IJ	1,387
Lippo Karawaci	LPKR IJ	1,333
Sentul City	BKSL IJ	13,400
Summarecon Agung	SMRA IJ	1,502

Source: Company, Maybank KE

This is apparent for Alam Sutera where its land bank in the Serpong area (14km from Jakarta) is running thin with only 206 ha (total development area is 800 ha) in 2013 and the company is currently looking to accumulate land in the North Serpong area. The developer purchased additional land north of its site in Serpong from Modernland Realty at IDR2mn/sqm. This is eight times higher than Alam Sutera's historic land bank average book value of only IDR250k/sqm back in 2008.

With rising replacement costs and shortage of available land, we expect developers that have higher land bank costs to develop projects in the middle-high tier segment where they can command higher prices to cover the rising replacement costs. Alternatively, they will build high-rise buildings to increase the effectiveness of their land banks.

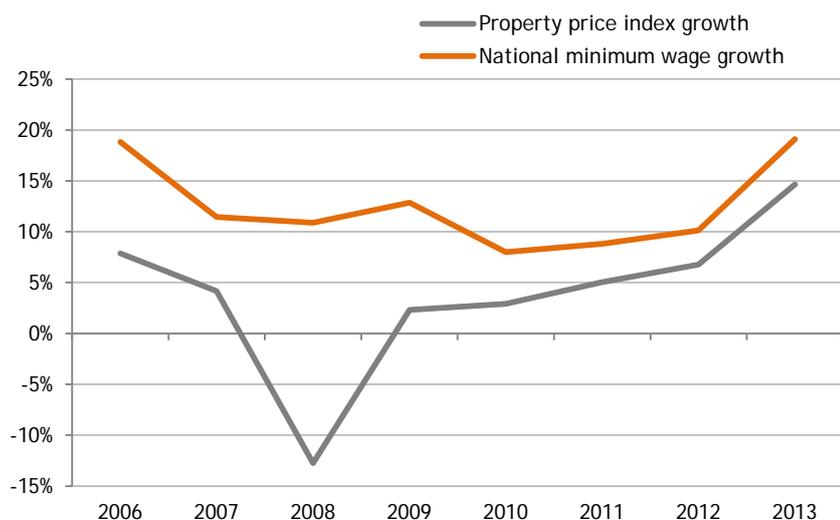
### Diminishing affordability

On the demand side, rapidly rising property prices, especially in the Greater Jakarta area, has reduced the affordability of middle-income consumers as property prices have risen faster than income growth. For example, property prices in the Serpong area (suburban area in the West of Jakarta) have seen a strong 33% CAGR from 2009-2013, according to Alam Sutera. For the same period, minimum wages in Jakarta grew at only 16% CAGR.

Property prices in 14 Indonesian cities have continued to rise strongly to close the gap with the national minimum wage growth (figure 6), according to Bank Indonesia. We see the affordability of consumers will remain low when the gap between property price growth and national minimum wage growth is narrow.

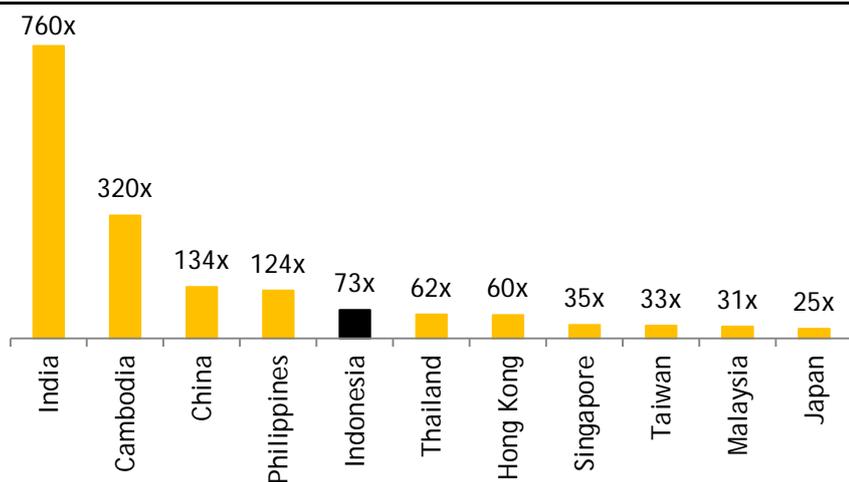
Our view of the diminishing affordability is in line with our economist at Maybank BII, Josua Pardede, who believes domestic consumption will slow in 2014. His team forecasts domestic consumption on discretionary products to slow down 6% in 2014F-2015F. This is due to the higher interest rate and macroeconomic uncertainty and that people tend to save more than spend.

Figure 6: Property price index growth vs. national minimum wage growth



Source: Bank Indonesia, Statistics Indonesia, Maybank KE  
 Note: Property price index of 14 major cities in Indonesia

Figure 7: House price to income ratio



Source: Global Property Guide 2012

The lack of infrastructure, especially public transport, has also forced many Indonesians to commute by private cars or motorcycles, forcing them to allocate an increasing portion of their budget for transportation costs. It's worth noting that subsidized fuel prices and parking costs increased by 44% and 100% YoY in 2013. This is one of the many rising living expenses in Indonesia where inflation reached 8.38% in 2013 (figure 7).

Electricity tariffs increased by 15% YoY in 2013, the government is in the process of removing subsidies for large houses (>6,600 watt) and the tariffs may increase by a minimum 34% this year. We believe this will have a significant impact on homeowners and we expect it will hinder large-size house purchases.

As the purchasing power of Indonesia's middle-income population declines, we believe they will be forced to relocate to suburban areas with smaller spaces and/or to properties of a lower value.

Figure 8: Inflation in Indonesia

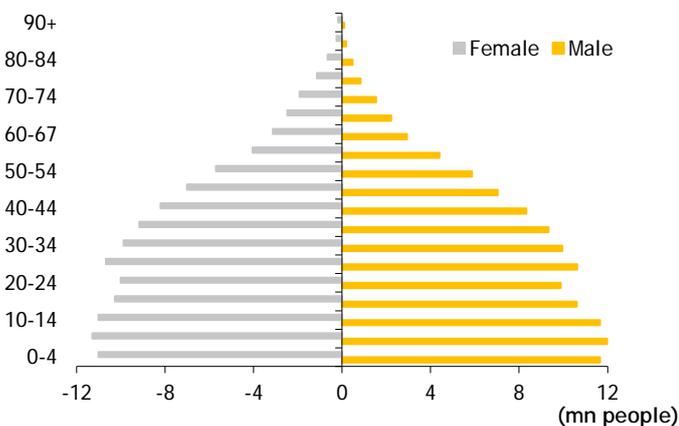


Source: Bank Indonesia, Maybank KE

**Structural underlying demand remains strong**

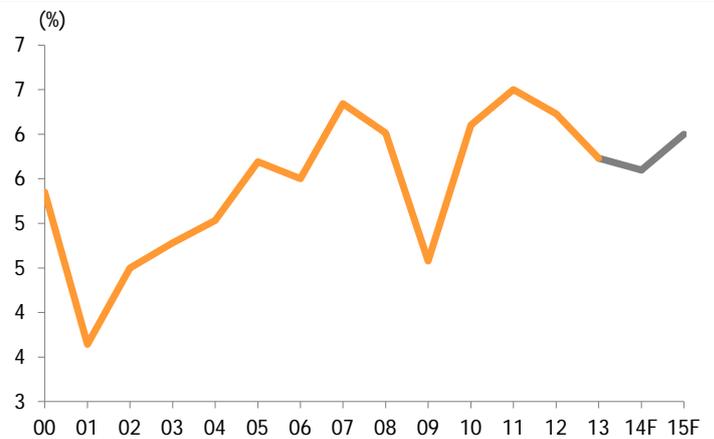
Indonesia’s young and propertyive population provides strong underlying demand to the property sector. Nearly 55% of the Indonesian population is in the 20-54 age category. The country also has a healthy birth rate (2.15%-2.25%), as per census 2010. Moreover, we believe the country’s economic growth is sustainable at above 5%, which will support the growth of income per capita. Our economics team forecasts the Indonesian economy will grow at 5.6% and 6.0 % in 2014 and 2015.

Figure 9: Indonesia’s population  
As per census 2010



Source: Statistics Indonesia, Maybank KE

Figure 10: Indonesia’s GDP growth



Source: Statistics Indonesia, Maybank KE

According to Statistics Indonesia, the number of people per household decreased to an average of four per household in the Jakarta area as of 2010. We believe this is due to a shift in lifestyle of the young Indonesian population where people want to live in modern clustered houses and are no longer keen to live with an enlarged family.

The Indonesian government estimates a housing backlog of 15m as of 2013. Even with a house ownership rate of 80.2% as of 2012, according to data from Statistics Indonesia, we think the large young population will continue to support the property market in the long run.

## Influence from the banking sector

### Liquidity tightening

Monetary measures implemented by the central bank were aimed at slowing down lending as the loan-to-deposit ratio (LDR) of the banking system reached 90% as of end-2013. The LDR limit permissible by the central bank is 92% based on the new regulations on 1 Sep 2013 (down from 100%).

Moreover, as most banks reached their full-year loan growth target in 1H13, new mortgage disbursements slowed down in 2H13. We note several banks put a complete halt to new mortgage disbursements by Sep 2013 and raised their mortgage rates by 2%-3% in 2H13. Mortgage loan growth for Jan-Nov 2013 was 18%.

According to our banks analyst, Rahmi Marina, large mortgage lenders such as Bank Central Asia (BCA), Bank Negara Indonesia (BNI) and Bank Tabungan Negara (BTN) are targeting slower mortgage loan growth of 17% in 2014 (vs. 23% in 2013). Our economist at Maybank BII also targets a lower property credit growth of 20% in 2014F; lower than the historical growth of 24%-25% in 2011-2012.

Figure 11: Loan-to-deposit ratio in Indonesian banking system



Source: Bank Indonesia, Maybank KE

Figure 12: Mortgages-to-total loans in Indonesia



Source: Bank Indonesia, Maybank KE

### The end of low interest rates

The 175bps increase in the reference rate in six months from 5.75% to 7.5% in Nov 2013 has led to a 2-3% mortgage interest rate hike. According to Bumi Serpong Damai and Ciputra Development, this has led to the postponement of property purchases, especially of properties acquired for investment purposes.

However, we also think the fundamentals of individuals who invest in the property sector might also be affected by the slowing domestic economy, low exports and volatility of the Indonesian Rupiah towards other major currencies.

Finally, we think first homebuyers who need mortgages will also be affected and will be forced to purchase cheaper properties.

### Rupiah depreciation raises construction cost

The weakening of the Indonesian Rupiah against the US Dollar has had a negative impact on the property sector, especially high-rise developments. Approximately 40% of the cost (such as steel, mechanical and electrical) for building high-rise properties are US-dollar related. However, developing landed residential properties are less sensitive to currency volatility because only around 10% of costs are US-dollar related.

Figure 13: Bank Indonesia reference interest rate



Source: Bank Indonesia, Maybank KE

Figure 14: IDR/USD rate



Source: Bank Indonesia, Maybank KE

### Hedging the forex

The volatility of the Rupiah has also led to higher hedging costs for some developers. Alam Sutera's hedging premium increased from 1.00% to 2.25% for the latest hedge agreement it entered into in Sep 2013. Although we expect the company to incur less forex losses through hedging, we expect the hedging premium expenses to increase.

Besides monetary hedging, contractors are increasingly less willing to enter into construction contracts that lock in the prices of raw materials. Direct contracting has been increasingly used between contractors and the developers. Direct contracting refers to only rendering construction services by the contractors and that all the raw materials will be sourced directly by the developers. With direct contracting, we see a higher risk of development costs escalating.

## Regulatory environment

*With tighter regulations on the property sector imposed by the central bank in late 2013, we believe authorities aim to curb the rapid growth of property prices in Indonesia.*

### Revision to the LTV regulation

On 24 Sep 2013, Bank Indonesia (BI) revised the loan-to-value (LTV) regulations for mortgages and automobile loans. Under the new regulations, first-time home buyers are required to make 30% down payment while second home buyers 40% down payment for homes with an area of more than 70sqm. Previously, all home owners needed to pay 30% down payment only.

This move is aimed at reducing speculation and to encourage more first home buyers to use mortgages. On the other hand, we also fear investors will hold off in investing in properties, which can slow pre-sales, as they switch to other investment asset classes such as bonds, which offer higher yields with lower risks.

We think if the government believes property prices are still not under control, it may impose other tightening measures such as increasing the tax for the change of ownership in property or the annual tax rate on land and buildings.

### Restriction on full payment of mortgages to property developers

Generally, banks do not give loans to Indonesian property developers for the construction of landed residential projects. Therefore, developers source working capital from the full payment of pre-sales from mortgages or from customers who pay in full up front. A mortgage will be fully disbursed by the bank at the signing of the loan agreement. But in Oct'13, BI issued new regulations for banks to only disburse customers' mortgages upon completing certain milestones of a property development.

Mortgage-disbursement schemes for each developer will differ with each of the banks. Ciputra Development announced starting Jan'14 it will deposit the full mortgage loan into the company's escrow account which will earn deposit interest rate and be disbursed by the following schedule:

Figure 15: Ciputra Development timeline of mortgage-loan disbursement

Stages	Old	New
Signing of mortgage contract	100%	0%
Completion of foundation		50%
Topping off		30%
Hand-over		10%
Change of title		10%

Source: Company data, Maybank KE

We do not expect the new regulations to have much impact on the cashflow of the big developers, which generally have sufficient working capital. Out of the eight developers we cover, four have a net cash position. We think the new regulations will have a more substantial effect on the smaller developers as they generally rely on full cash received on pre-sales for their working capital.

Most developers believe the minimum 30% down payment is sufficient to cover the full construction costs of a project. For big developers such as Ciputra with their joint operation business model and Bumi Serpong Damai, which accumulated its land bank 10 to 20 years ago, the cost of land is relatively low and they can command a GPM of 50-60% for landed residential properties.

## Limited upside, prefer low-mid segments

### Limited upside for premium properties

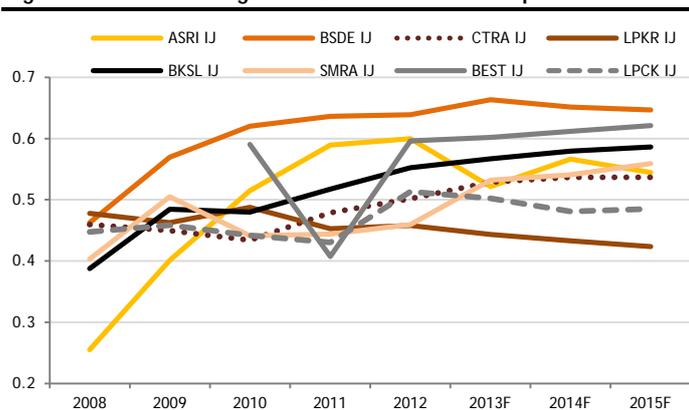
Indonesian property developers have been enjoying margin expansion as property prices continue to increase while costs remain under control. However, we believe this trend will seize and we estimate margins will normalize over the next two years (due to lag in recognition).

As discussed earlier, lower affordability will drive middle-income Indonesians towards properties of a smaller size or less value. This implies the market for low-middle segment properties instead will be greater than for premium properties.

Moreover, as regulators continue to curb the rise in property prices and as development and replacement costs rise with inflation and a weakening rupiah, we forecast developers will be forced to focus on the low-middle segment and increase sales volume to maintain pre-sales growth.

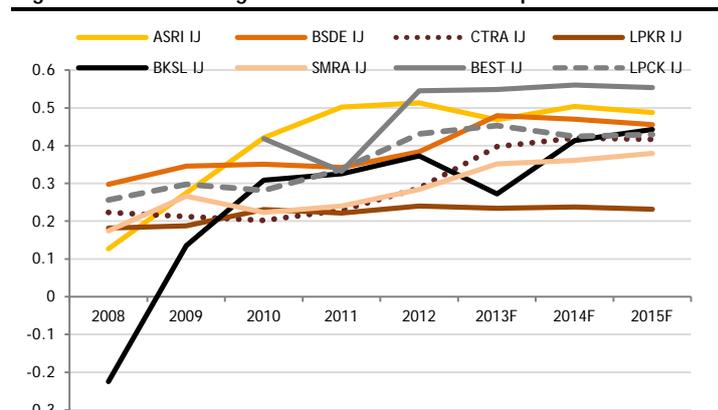
Finally, with rising development costs, it is not feasible for developers to lower selling prices to boost sales in prime areas. We believe most developers will be unwilling to launch premium developments at lower prices as it will hurt their brand equity. The upside for high-segment developments is capped as we expect slow demand in this segment means developers are unable to increase prices excessively.

Figure 16: Gross margins of Indonesian developers



Source: Company data, Maybank KE

Figure 17: EBIT margins of Indonesian developers



Source: Company data, Maybank KE

### Prefer companies offering low-mid segment developments

We prefer developers that offer more affordable properties as affordability declines in Indonesia with rising cost of funds and a higher cost of living.

We note several developers under our coverage have shifted their marketing and development strategy more towards the low-middle segment of landed and high-rise residential properties.

Summarecon Agung plans to launch high-rise residential developments in the Serpong and Bekasi areas in 2014 that target the low-middle segment. Alam Sutera also implemented a similar strategy by ramping up its project in the Pasar Kemis area (low-middle segment).

Ciputra Development plans to launch a one-tower apartment in West Jakarta in 2014 at an indicative price of IDR19mn/sqm, down from its initial IDR30mn/sqm due to concerns over the low take-up rate for premium developments.

We are more cautious on projects in the middle-upper segment as we think this market is more sensitive to an economic slowdown, which reduces investment appetite in the property sector. Our view is supported by the softening take-up rates in several middle-upper property projects in 4Q13, which we expect to continue to 1H14.

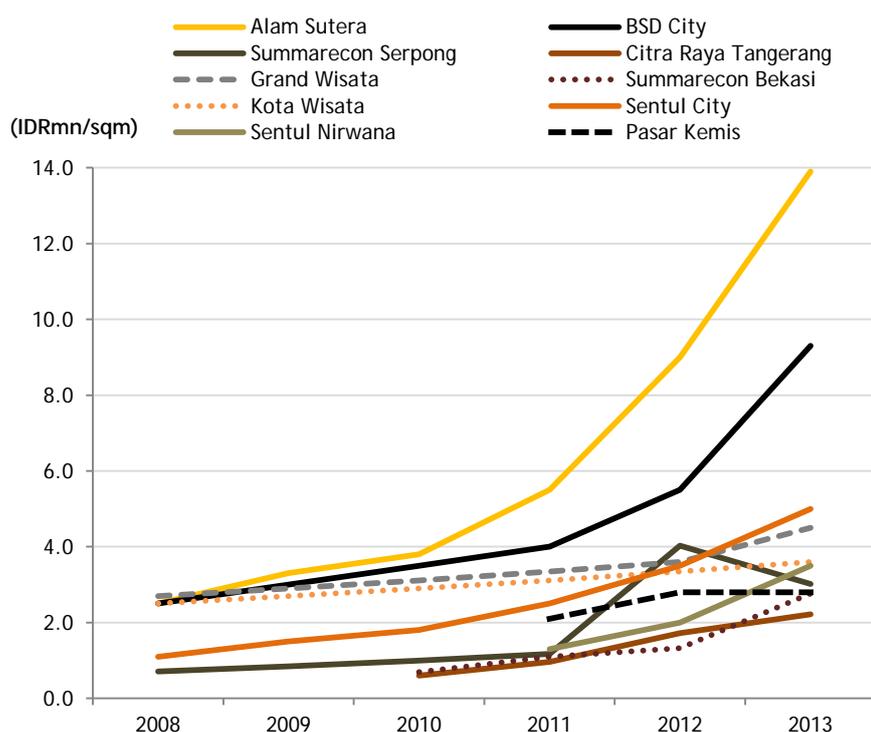
### Second tier cities prices to catch up

We forecast in 2014, property prices in 2<sup>nd</sup>-tier cities in Greater Jakarta will grow at a faster rate, catching up with the 1<sup>st</sup>-tier cities. We categorize Jakarta and Serpong as 1<sup>st</sup>-tier cities, and Bekasi, Tangerang and Bogor as 2<sup>nd</sup>-tier cities in the Greater Jakarta area.

While Jakarta remains the centre of Indonesia's economy, we expect urbanization to continue, which will boost property demand in the Greater Jakarta area.

We believe there is greater upside for 2<sup>nd</sup>-tier cities compared to 1<sup>st</sup>-tier cities as prices in 2<sup>nd</sup>-tier cities have been lagging the 1<sup>st</sup>-tier cities. We expect land prices in 2<sup>nd</sup>-tier cities to close the huge gap with land prices in 1<sup>st</sup>-tier cities (Jakarta and Serpong).

Figure 18: ASP of townships in Greater Jakarta



Source: Company data, Maybank KE

Sentul City, Bumi Serpong Damai, Summarecon Agung and Ciputra Development are well positioned to tap the growing demand for properties in the 2<sup>nd</sup>-tier cities. We believe the 2<sup>nd</sup>-tier cities will provide support to the 2014 pre-sales of these developers.

## Stick to developers with strong balance sheets

*We prefer the developers with strong balance sheets, conservative projects and solid recurring income properties in times of uncertainty.*

### Strong balance sheet is king and conservative projects important

We have more confidence in the developers that are in a net cash position to finance their working capital. We also note developers are slowing down their capex by choosing conservative projects for this year.

Figure 19: Cash level of Indonesian developers (as of 9M13)

Company Name	Cash	Total Debt	Net cash	% of USD debt	Net DER
<b>Township Developer</b>					
Alam Sutera Realty	840	4,838	-3,998	90%	75%
Bumi Serpong Damai	3,817	3,129	688	0%	-5%
Ciputra Development	3,828	2,165	1,663	0%	-18%
Lippo Karawaci	3,276	7,435	-4,159	99%	30%
Sentul City	877	1,847	-970	31%	14%
Summarecon Agung	2,618	1,848	770	1%	-18%
<b>Industrial Estates</b>					
Bekasi Fajar Industrial Estate	420	559	-139	0%	6%
Lippo Cikarang	658	-	658	0%	-40%

Source: Company data, Maybank KE

Both Lippo Karawaci and Alam Sutera have USD bonds in their books amounting to USD380m and USD526m. At the time of writing, Alam Sutera had hedged the principal of the bond it issued in 2012 and 2013 up to IDR12500/USD and that they have not hedged their 2014 USD225m bond. We have concerns regarding Alam Sutera's bond due to a currency mismatch as they earn all their sales in Indonesian Rupiah. As of 9M13, Alam Sutera suffered forex losses of IDR121b or 9% of its EBIT.

Lippo Karawaci has natural hedging through its income from management fees in SGD from the Singapore-based REITS of around SGD11.3m annually, which covers half of the annual bond coupon payments of about USD25m (assuming SGD1.274/USD). As of 9M13, Lippo Karawaci booked a forex gain of IDR141b or 12% of its EBIT.

We prefer developers with conservative projects such as low-middle segment landed residential properties rather than high-rise projects which carry more risk. A landed/low-rise residential project can generally be postponed when take-up rates are low.

However, it is more problematic to postpone high-rise projects due to a low take-up rate. This is because companies normally appoint and sign a development contract with the contractor prior to property launching to boost customers' confidence in the project.

High-rise projects in the Jakarta area have been experiencing difficulty in obtaining building permits from the local government. This has hit high-rise projects significantly and delayed a number of project launches in 2013.

We like Bumi Serpong Damai and Ciputra Development for the high portion of low-residential projects sales. Lippo Karawaci and Summarecon Agung have property mix which weighs more towards high-rise projects.

### Investment properties add value

Most of the developers under our coverage continue to ramp up their investment properties to secure stable recurring income from retail space, offices, hotels, golf courses, theme parks and even hospitals. These investment properties provide stability in earnings and help to maintain high margins. Investment properties add value to property companies in light of a slowing property market in 2014.

Lippo Karawaci and Summarecon Agung have the most revenue contribution from investment properties in terms of value. Bumi Serpong Damai, Ciputra Development and Sentul City also continue to ramp up their recurring income by adding investment properties such as hotels, hospitals, office buildings and theme parks. On average, Investment properties contributed 16% to total revenue 2013F of the eight property companies we cover.

We think the government's decision to remove the electricity subsidy on shopping malls, hotels and offices will have minimal impact on property companies. They have historically passed on any tariff adjustments to the tenants and we think it is less likely occupancy rates will fall, especially in offices where the tenants are inelastic.

Figure 20: Composition of recurring income of Indonesian developers (2013F)

Company	Ticker	Property sales	Recurring income
<b>Property Developer</b>			
Alam Sutera Realty	ASRI IJ	95%	5%
Bumi Serpong Damai	BSDE IJ	87%	13%
Ciputra Development	CTRA IJ	89%	11%
Lippo Karawaci	LPKR IJ	56%	44%
Sentul City	BKSL IJ	80%	20%
Summarecon Agung	SMRA IJ	81%	19%
<b>Industrial Estates</b>			
Bekasi Fajar Industrial Estate	BEST IJ	97%	3%
Lippo Cikarang	LPCK IJ	93%	7%

Source: Company data, Maybank KE

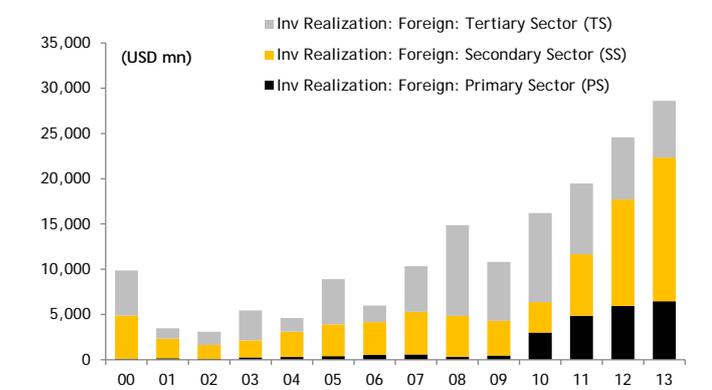
## Industrial estates

We believe FDI inflows will continue in the foreseeable future, driving the demand for industrial estates, although we expect a potential temporary slowdown in the next 12 months due to the upcoming parliamentary and presidential elections in 2014. We like Lippo Cikarang as the company is versatile and can face a slowdown in the industrial land segment by selling residential properties.

### Prefer industrial estates with ample land bank and strategic locations

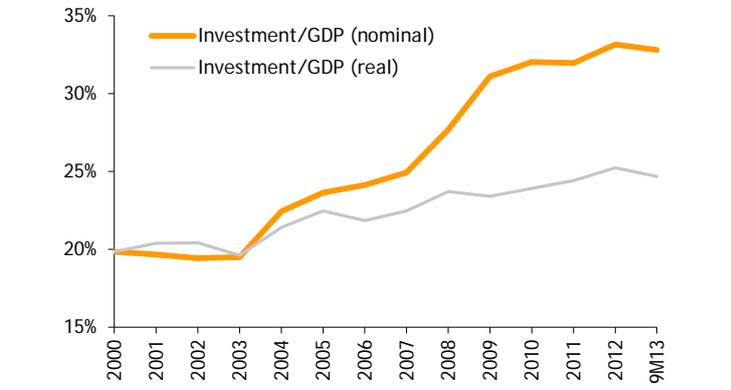
We have a conservative outlook for 2014 and prefer industrial estates with ample land bank and strategic locations as these will be the first choice for companies looking to set up propertyion facilities in Indonesia when the economy recovers. For the longer term, we believe FDI inflow to Indonesia will be sustainable as the country is blessed with rich natural resources and a rising middle class that fuels domestic consumption.

Figure 21: Foreign Direct Investment (FDI)



Source: BKPM, Maybank KE

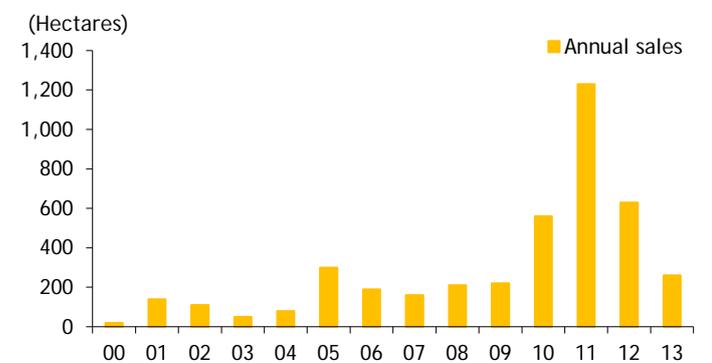
Figure 22: Investment to GDP



Source: Statistics Indonesia, Maybank KE

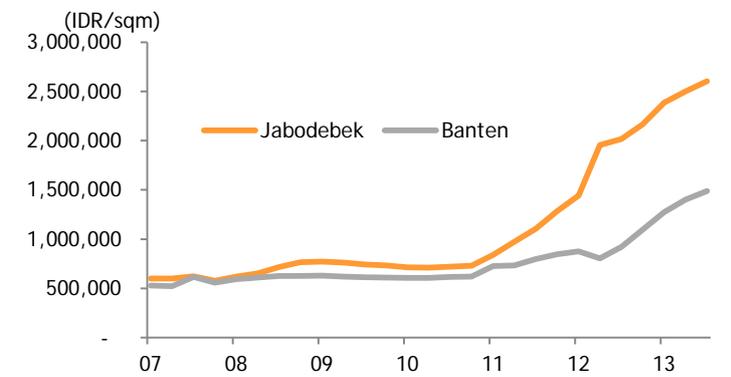
Historically, industrial estate land prices have seen strong appreciation due to the limited supply of ready-to-use land, driven by strong demand since 2010 when annual land sales reached 560ha, up 216% from 2009. We think industrial land sales will remain soft in 2014 due to the upcoming parliamentary and presidential elections as companies would like to gain assurance on the next government, which they hope will promote economic growth.

Figure 23: Annual sales of industrial estates



Source: Colliers International, Maybank KE

Figure 24: ASP of industrial estates



Source: Bank Indonesia, Maybank KE

The Jakarta-Cikampek toll road belt is the industrial hub in Indonesia with over 8,300ha of developed land. It is dominated by the automotive sector, according to companies' reports. Its proximity to the international seaport and airport has made it the prime industrial estate area in Indonesia.

Currently there are seven major industrial estates along the Jakarta-Cikampek toll road. As we can see in the figure below, the anchor tenants of each industrial estate are mainly from the automotive sector. We believe the automotive sector will continue to invest in this area despite the big increase in minimum wage, as the sector is not labour-intensive.

**Figure 25: Industrial estates in the Jakarta - Cikampek toll road**

Company name	Industrial estate	Concession area (ha)	Developed area (ha)	Land bank (ha)	Major tenants
Puradelta Lestari	Greenland International Industrial Center (Greenland Industrial)	2,989	1,059	1,930	Suzuki, Astra Otoparts, Takata
Lippo Cikarang	Delta Silicon	3,000	2,169	596	Hankook Tire
Jababeka	Kota Jababeka	5,600	1,820	1,168	Samsung Electronics, KAO, Unilever
Mitra Karawang Raya	Kawasan Industri Mitra Karawang	500	500	-	Honda Prospect Motor
Bekasi Fajar Industrial Estate	MM 2100	1,350	825	681	Astra Honda Motor, LG
Surya Semesta Internusa	Surya Cipta Industrial Estate	1,400	893	272	Astra International, Nestle
Sinarmas Land & Itochu Group	Karawang International Industrial City	1,400	1,080	-	Toyota Motor, Yamaha Motor

Source: Company data, Maybank KE

## Risks to our view

### Interest-rate hikes

An increase in interest rates in Indonesia may negatively impact the demand for property developments. High interest rates can lead to reduced consumer spending, which can negatively affect the customers' ability to make payments and could reduce demand for the proposed developments.

Also, high interest rates may make it more difficult for customers to be qualified to secure financing, which could negatively affect demand for residential developments. Our economist expects the interest rate to remain unchanged at 7.50% in 2014F and another 25bps hike to 7.75% in 2015F.

### Liquidity crunch

As of YE 2013, the loan-to-deposit (LDR) ratio in Indonesia's banking system is 90%. This is close to the limit of 92% set by the central bank. If this situation persists, we might see less mortgage loan disbursement, which will decrease the demand for properties from customers that require funding.

### Economic downturn

We believe Indonesia is currently facing a few macroeconomic challenges. Prices of its main commodities (coal, CPO, rubber, metals) remain weak whilst oil prices continue to stand at around USD100/barrel. Indonesia's trade balance relies on commodities and currently contributes 32% to the country's total export.

We fear that if demand for Indonesia's commodities remains light, it could pose a risk to the country's GDP growth. Moreover, although government expenditure is not slowing down in this election year, we expect this expenditure alone will not be enough to sustain GDP growth.

The 8.38% inflation in 2013 is above BI's 3.5-5.5% inflation target on the back of rising food and subsidized fuel prices. Indonesia's economy grew 5.72% in 2013. Previously, it grew by more than 6.0% since 2010. For this year, our economist forecasts an inflation of 5.12%.

### Currency volatility

Currency volatility will increase the risk of high-rise projects, as 40% of their building costs are related to the USD/IDR rate. If the currency stabilizes, we think property companies will prioritize high-rise projects because they generally have higher margins than low-rise projects.

### Land acquisition

With limited available land for future developments, there is a risk that companies will not be able to expand their land banks, which can impede their future growth. Failure to acquire suitable land in good locations may adversely affect future business expansion plans.

## Valuation and top picks

Our valuation method for the property sector uses a combination of discount to RNAV and one-year forward P/E valuation. We assigned discount to RNAV according to earnings visibility and balance sheet health. Our top picks for the township developers are Bumi Serpong Damai (BSDE IJ) and Ciputra Development (CTRA IJ), and Lippo Cikarang (LPCK IJ) for industrial estates.

We like Bumi Serpong Damai (BSDE) for its strong balance sheet, ample prime land bank and conservative projects. Its balance sheet also supports strategic acquisitions of land and investment properties for an additional source of growth.

We also like Ciputra Development for its diversified property mix and strong balance sheet. Its Joint Operation business model allows for savings in capex, which can be allocated to investment properties to secure stable earnings in the future.

Lippo Cikarang (LPCK) is our top pick for industrial estates for its strong balance sheet and versatility in selling either industrial or residential properties. Although its land bank is not huge, we think the company can tap the growing demand for residential properties in the Cikarang area. Lippo Cikarang has the highest ROE in our universe with the lowest P/E.

### Asset play vs. earnings play

We value the property companies using a combination of earnings and assets as we would like to see earnings supported with sufficient land bank (asset) to ensure it can be sustained.

### Discount to RNAV

We estimate the 2014 RNAV by calculating the five-year net present value of the sale proceeds. We do this by using a WACC assigned to each company, based on the land bank's excess market value in the past five years. We value the investment properties using the net cash flows less direct costs using the WACC as the assumed cap rate.

Figure 26: 2014 RNAV

Company Name	Ticker	Rating	RNAV / share	Share price	Discount implied
<b>Property Developer</b>					
Alam Sutera Realty	ASRI IJ	Sell	1,352	590	56%
Bumi Serpong Damai	BSDE IJ	Buy	2,857	1,575	45%
Ciputra Development	CTRA IJ	Buy	2,627	1,025	61%
Lippo Karawaci	LPKR IJ	Hold	1,436	955	34%
Sentul City	BKSL IJ	Buy	1,022	178	83%
Summarecon Agung	SMRA IJ	Hold	2,809	1,025	64%
<b>Industrial Estates</b>					
Bekasi Fajar	BEST IJ	Hold	1,058	615	42%
Lippo Cikarang	LPCK IJ	Buy	12,865	6,975	46%

Source: Company, Bloomberg, Maybank KE. Share prices are as of 17 February 2014.

### P/E and P/B multiples

We use a one-year forward P/E valuation to value companies. We use one-year forward earnings as most revenue and therefore earnings of property sales are recorded in 12-18 months due to a lag in recognition. We also use a one-year forward P/B valuation to maintain the valuation consistency where earnings visibility is not high.

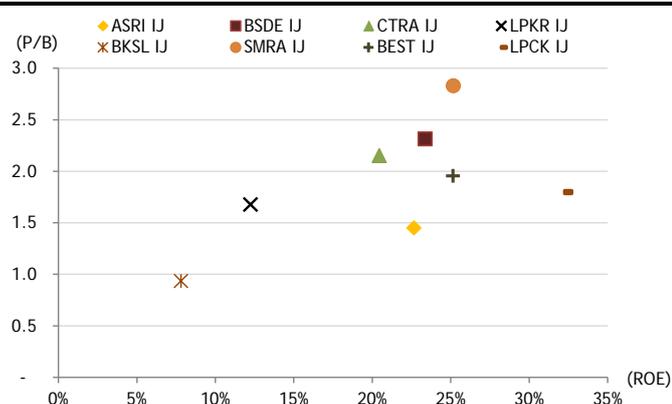
Figure 27: Valuation matrix

Stock	Ticker	Rating	Mkt Cap (USD mn)	RNAV/share (local)	Price (local)	TP (local)	U/D Side (%)	Disc. to RNAV (%)	PER CY14F	PER CY15F	P/B (x) CY14F	ROE CY14F	Div yield CY14F
Alam Sutera Realty	ASRI IJ	Sell	983	1,352	590	500	-15%	56%	8.2	7.2	1.7	23%	3.6%
Bumi Serpong Damai	BSDE IJ	Buy	2,337	2,857	1,575	2,000	27%	45%	10.8	9.6	2.3	23%	1.7%
Ciputra Development	CTRA IJ	Buy	1,338	2,627	1,025	1,330	30%	61%	11.2	10.4	2.1	20%	2.4%
Lippo Karawaci	LPKR IJ	Hold	1,869	1,436	955	900	-6%	34%	13.0	11.4	1.7	12%	1.5%
Sentul City	BKSL IJ	Buy	474	1,022	178	200	13%	83%	12.4	7.2	0.9	8%	0.0%
Summarecon Agung	SMRA IJ	Hold	1,254	2,809	1,025	1,050	2%	64%	12.1	11.0	2.8	25%	3.0%
Bekasi Fajar	BEST IJ	Hold	502	1,058	615	590	-4%	42%	8.5	7.4	2.0	25%	2.7%
Lippo Cikarang	LPCK IJ	Buy	411	12,865	6,975	8,000	15%	46%	6.5	6.0	1.8	32%	0.0%

Source: Company, Bloomberg, Maybank KE. Share prices are as of 17 February 2014.

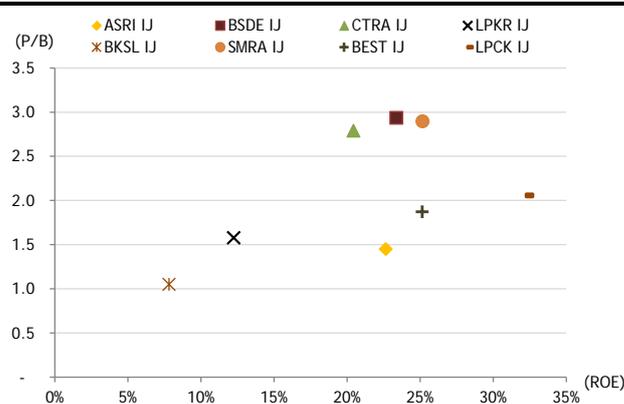
As seen in the figures below, Lippo Cikarang has the highest ROE at 32%, followed by Ciputra Development, Bumi Serpong Damai, Summarecon Agung and Alam Sutera. However, we think that Summarecon Agung is already fairly priced at almost 3.0x P/B 2014F, limiting the potential upside. We also think that Alam Sutera carries higher risk of currency volatility which might hurt its financial stability.

Figure 28: P/B and ROE (2014F) at current price



Source: Company data, Bloomberg, Maybank KE

Figure 29: P/B and ROE (2014F) at our target price



Source: Company data, Bloomberg, Maybank KE

### Alam Sutera Realty

We expect ASRI's pre-sales to be flat in 2014F with 6% growth YoY. We expect the new township, Pasar Kemis, to contribute more sales than its mature Alam Sutera township. Its hefty investment in Bali is still yet to be proven successful and we expect it to start making a material contribution in 2016F when the project is completed.

ASRI's earnings are under pressure to cover the cost of funds from its USD bonds amounting to USD526m. We estimate that interest expenses will dilute 21% of its 2014F EBIT.

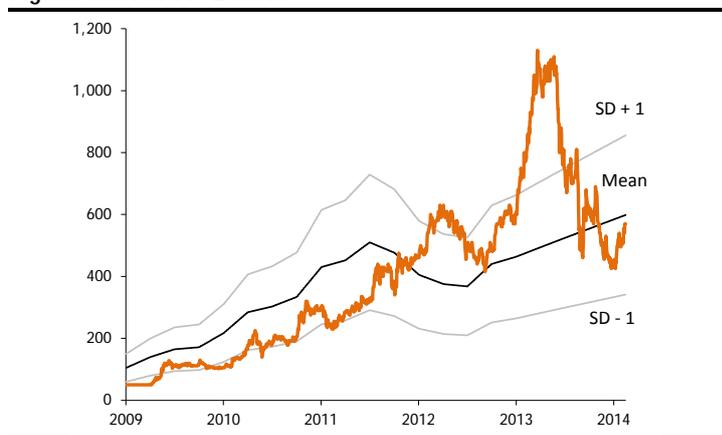
We set our TP at IDR500, a 63% discount to its RNAV of IDR1,352. Our TP translates to 6.9x P/E and 1.4x P/B 2014F. We assigned a WACC of 12.2% for ASRI to derive the DCF valuation. Our TP is in line with its historical five-year mean of one-year forward P/E mean of 7.1x. This is slightly below its one-year forward P/B mean of 1.7x.

Figure 30: ASRI historical forward P/E



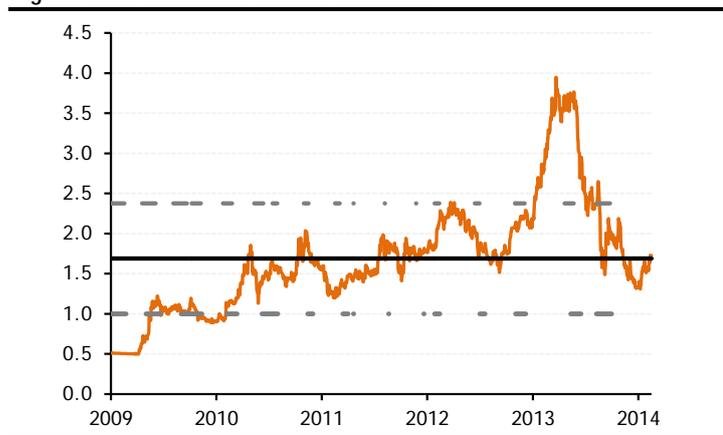
Source: Company data, Maybank KE  
 Note: Company's historical forward PE compared to five-year historical mean as well as one standard deviation above and below mean.

Figure 31: ASRI P/E band



Source: Company data, Maybank KE  
 Note: Company's historical forward PE compared to five-year historical mean as well as one standard deviation above and below mean.

Figure 32: ASRI historical forward P/B



Source: Company data, Maybank KE  
 Note: Company's historical forward PB compared to five-year historical mean as well as one standard deviation above and below mean.

Figure 33: ASRI P/B band



Source: Company data, Maybank KE  
 Note: Company's historical forward PB compared to five-year historical mean as well as one standard deviation above and below mean.

## Bumi Serpong Damai

With an ample 4,800ha of prime land bank, we estimate its current land bank is sufficient for more than 10 years of development. Its properties target the middle segment in several locations, which we think will be more resilient facing the headwinds in the sector. We believe BSDE's land bank will increasingly become more valuable in the future.

We forecast it will have IDR5.4t in pre-sales, a flat growth from its organic pre-sales in 2013 (total 2013 pre-sales IDR7.3t). However, its determination to add more investment properties will also provide earnings stability in the future.

We set our TP at IDR2,000, a 30% discount to its RNAV of IDR2,857. Our TP translates to 13.7x P/E and 2.9x P/B 2014F. We assigned a WACC of 12.0% for BSDE to derive the DCF valuation. Our TP is close to 1SD above the historical five-year mean of one-year forward P/E mean of 10.8x and one-year forward P/B mean of 2.1x.

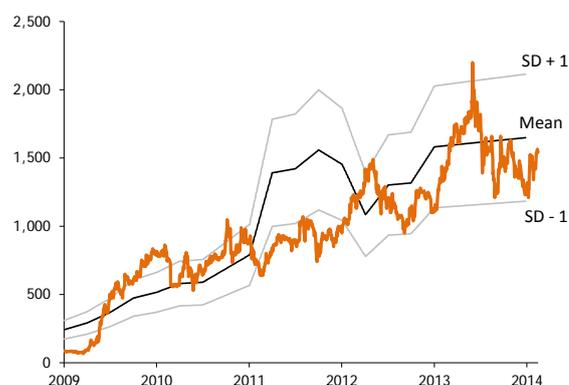
Figure 34: BSDE historical forward P/E



Source: Company data, Maybank KE

Note: Company's historical forward PB compared to five-year historical mean as well as one standard deviation above and below mean.

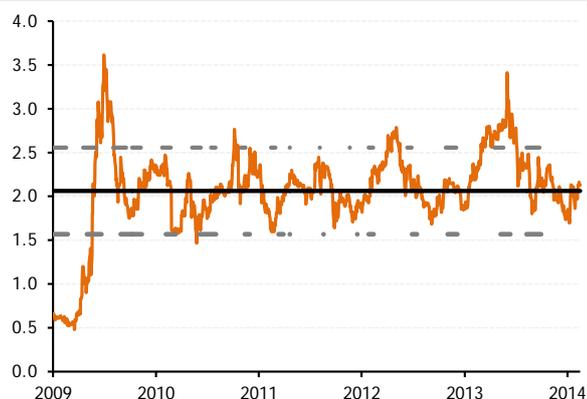
Figure 35: BSDE P/E band



Source: Company data, Maybank KE

Note: Company's historical forward PB compared to five-year historical mean as well as one standard deviation above and below mean.

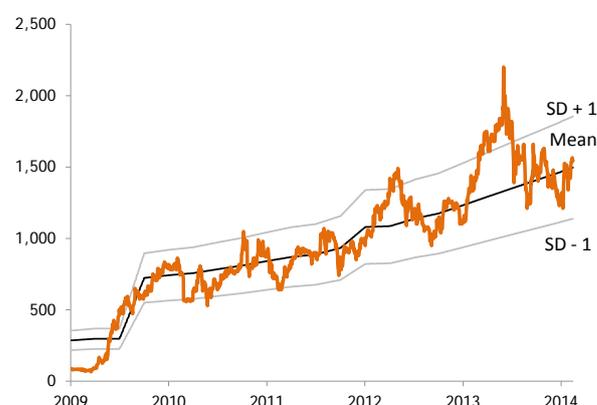
Figure 36: BSDE historical forward P/B



Source: Company data, Maybank KE

Note: Company's historical forward PB compared to five-year historical mean as well as one standard deviation above and below mean.

Figure 37: BSDE P/B band



Source: Company data, Maybank KE

Note: Company's historical forward PB compared to five-year historical mean as well as one standard deviation above and below mean.

## Ciputra Development

Ciputra Development is the largest developer in terms of pre-sales and geographical coverage. Together with its two main subsidiaries, Ciputra booked pre-sales of IDR8.7t in 2013. The company capitalizes on its strong brand equity as the leading property developer in Indonesia. Through its Joint Operation business model, the company does not have to acquire land bank to expand its property business.

Ciputra has a diversified property mix (low to high segments) of mostly low-rise properties across the country. We project its pre-sales to reach IDR9.8t in 2014F for its diversified property mix (+13% YoY).

We set our TP at IDR1,330, a 49% discount to its RNAV of IDR2,627. Our TP translates to 14.6x P/E and 2.8x P/B 2014F. We assigned a WACC of 15.9% for CTRA to derive the DCF valuation. Our TP is slightly in line with +1SD of its historical five-year mean of one-year forward P/E mean of 14.8x and its +2SD one-year forward P/B mean of 2.8x.

Figure 38: CTRA historical forward P/E



Source: Company data, Maybank KE

Note: Company's historical forward PB compared to five-year historical mean as well as one standard deviation above and below mean.

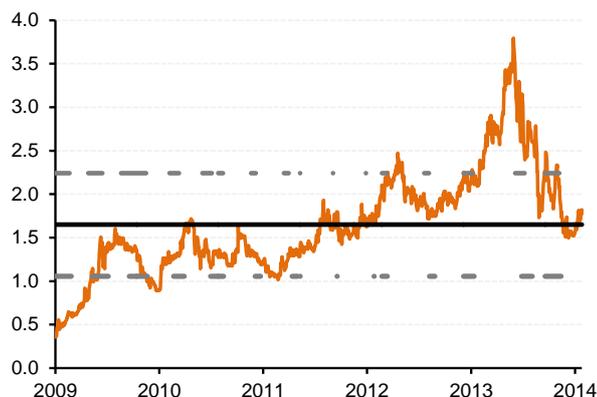
Figure 39: CTRA P/E band



Source: Company data, Maybank KE

Note: Company's historical forward PB compared to five-year historical mean as well as one standard deviation above and below mean.

Figure 40: CTRA historical forward P/B



Source: Company data, Maybank KE

Note: Company's historical forward PB compared to five-year historical mean as well as one standard deviation above and below mean.

Figure 41: CTRA P/B band



Source: Company data, Maybank KE

Note: Company's historical forward PB compared to five-year historical mean as well as one standard deviation above and below mean.

## Lippo Karawaci

Lippo Karawaci has the most diversified business portfolio with holdings in the property, hospital and asset management segments. Currently, it has the largest recurring income revenue contribution. Our view is that the recurring income business will be company's source of growth in light of a slowdown in property demand, especially in the high-rise projects. We forecast the recurring income to contribute 54% of its total revenue in 2014F.

We also note there is an increasing risk in executing superblock projects in Jakarta as it is becoming more difficult to obtain the necessary license to build them as well as the currency volatility.

We set our TP at IDR900, a 37% discount to its RNAV of IDR1,436. Our TP translates to 12.2x P/E and 1.6x P/B 2014F. We assigned a WACC of 13.8% for LPKR to derive the DCF valuation. Our TP is slightly above its historical five-year mean of one-year forward P/E mean of 11.6x and its one-year forward P/B mean of 1.4x.

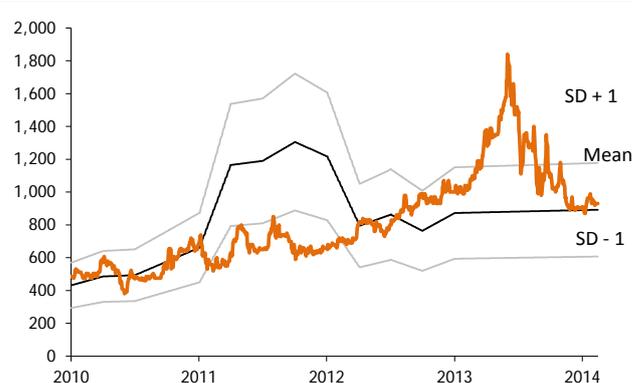
Figure 42: LPKR historical forward P/E



Source: Company data, Maybank KE

Note: Company's historical forward PB compared to five-year historical mean as well as one standard deviation above and below mean.

Figure 43: LPKR P/E band



Source: Company data, Maybank KE

Note: Company's historical forward PB compared to five-year historical mean as well as one standard deviation above and below mean.

Figure 44: LPKR historical forward P/B



Source: Company data, Maybank KE

Note: Company's historical forward PB compared to five-year historical mean as well as one standard deviation above and below mean.

Figure 45: LPKR P/B band



Source: Company data, Maybank KE

Note: Company's historical forward PB compared to five-year historical mean as well as one standard deviation above and below mean.

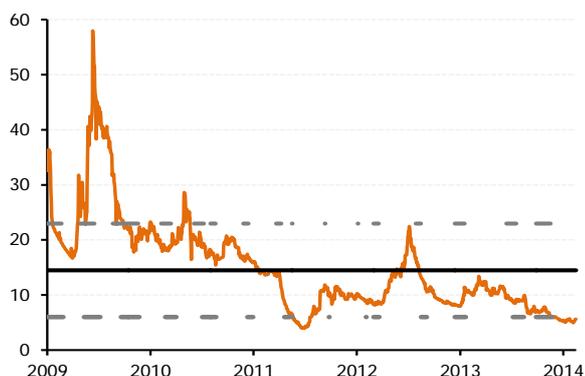
## Sentul City

Sentul City is on track to show significant progress in the development of its township located south of Jakarta. The company plans to build a CBD area that aims to attract traffic in the township. Sentul City is one of the few developers that managed to exceed its pre-sales target in 2013 as consumers are gaining confidence in the township.

The company intends to acquire the remaining 15% stake of its main subsidiary, which owns a 12,000ha land bank. We think this is positive as fully owning the subsidiary will smooth out the monetization of the subsidiary.

We set our TP at IDR200, an 80% discount to its RNAV of IDR1,022. Our TP translates to 14.0x P/E 2014F and 1.1x P/B 2014F. We assigned a WACC of 14.1% for BKSJ to derive the DCF valuation. Our TP is below its historical five-year mean of one-year forward P/E mean of 14.5x and in line with its one-year forward P/B mean of 1.1x.

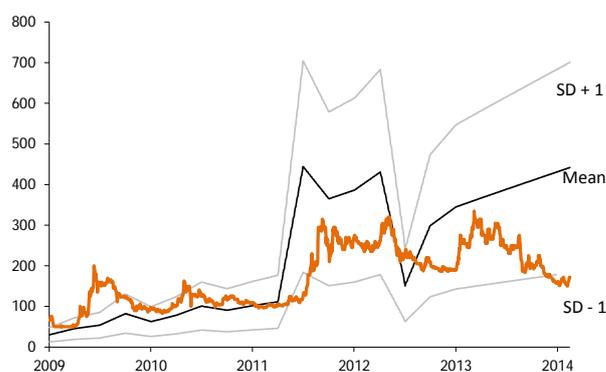
Figure 46: BKSJ historical forward P/E



Source: Company data, Maybank KE

Note: Company's historical forward PB compared to five-year historical mean as well as one standard deviation above and below mean.

Figure 47: BKSJ P/E band



Source: Company data, Maybank KE

Note: Company's historical forward PB compared to five-year historical mean as well as one standard deviation above and below mean.

Figure 48: BKSJ historical forward P/B



Source: Company data, Maybank KE

Note: Company's historical forward PB compared to five-year historical mean as well as one standard deviation above and below mean.

Figure 49: BKSJ P/B band



Source: Company data, Maybank KE

Note: Company's historical forward PB compared to five-year historical mean as well as one standard deviation above and below mean.

## Summarecon Agung

Summarecon had delayed some projects due to the land acquisition process, which made it fail to achieve its FY13 pre-sales target. We expect slower sales volume in 2014F, which will lead to a flat pre-sales growth in 2014F, in our view. We note the rising risk from its high-rise projects this year may impede its growth.

We still like Summarecon for its strong brand equity as one of the leading township developers in Indonesia. Its strong recurring income base also provides earnings stability in the face of the current headwinds. The company has announced that it will expand to Bandung and Bogor to replicate its business model.

We set our TP at IDR1,050, a 63% discount to its RNAV of IDR2,809. Our TP translates to 12.4x P/E and 2.9x P/B 2014F. We assigned a WACC of 13.3% for SMRA to derive the DCF valuation. Our TP is slightly above its historical +1SD of its five-year mean of one-year forward P/E mean of 10.2x and its one-year forward P/B mean of 2.8x.

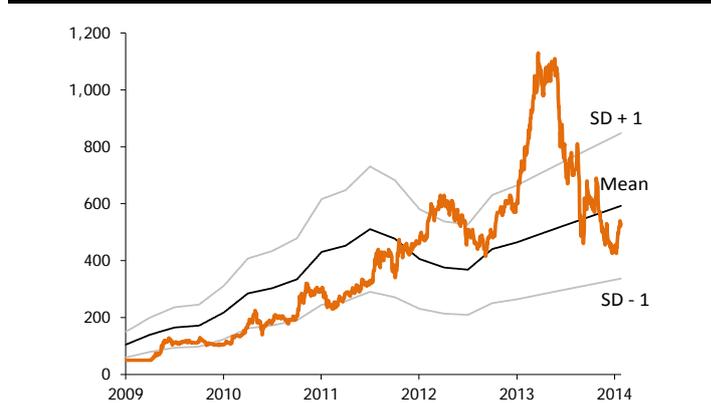
Figure 50: SMRA historical forward P/E



Source: Company data, Maybank KE

Note: Company's historical forward PB compared to five-year historical mean as well as one standard deviation above and below mean.

Figure 51: SMRA P/E band



Source: Company data, Maybank KE

Note: Company's historical forward PB compared to five-year historical mean as well as one standard deviation above and below mean.

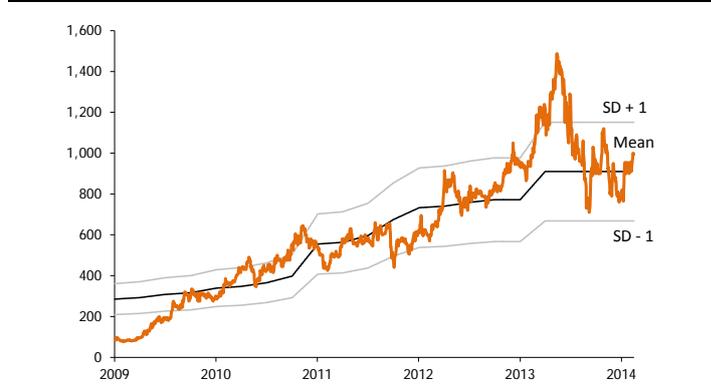
Figure 52: SMRA historical forward P/B



Source: Company data, Maybank KE

Note: Company's historical forward PB compared to five-year historical mean as well as one standard deviation above and below mean.

Figure 53: SMRA P/B band



Source: Company data, Maybank KE

Note: Company's historical forward PB compared to five-year historical mean as well as one standard deviation above and below mean.

## Bekasi Fajar Industrial Estate

Bekasi Fajar has the most prime industrial estate land in the Bekasi area. The estate is close to the international seaport and airport. Its ample 681ha of land bank in the Bekasi area will become more valuable as neighboring industrial estates' land banks start to deplete.

Our view is that even if the company does not book high sales volume, the prime land bank itself stores great value and we believe that the industrialization in Indonesia will be sustainable in the future with FDI inflows.

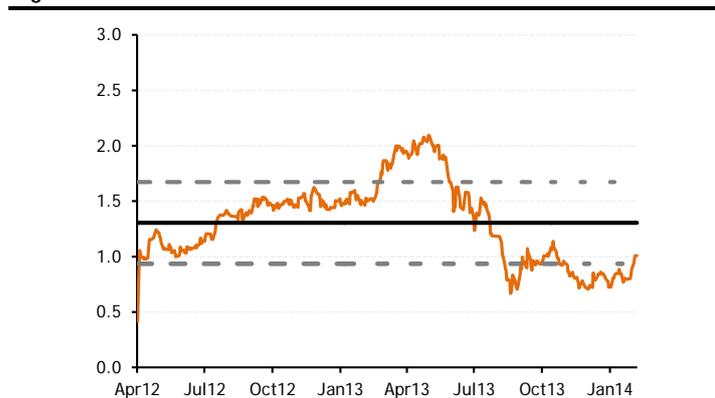
We set our TP at IDR590, a 44% discount to its RNAV of IDR1,058. Our TP translates to 8.2x P/E and 1.9x P/B 2014F. We assigned a WACC of 16.3% for BEST to derive the DCF valuation. Our TP is slightly lower than its historical five-year mean of one-year forward P/E mean of 8.4x and is slightly above its +1SD one-year forward P/B mean of 1.7x.

Figure 54: BEST historical forward P/E



Source: Company data, Maybank KE  
 Note: Company's historical forward PB compared to five-year historical mean as well as one standard deviation above and below mean.

Figure 56: BEST historical forward P/B



Source: Company data, Maybank KE  
 Note: Company's historical forward PB compared to five-year historical mean as well as one standard deviation above and below mean.

Figure 55: BEST P/E band



Source: Company data, Maybank KE  
 Note: Company's historical forward PB compared to five-year historical mean as well as one standard deviation above and below mean.

Figure 57: BEST P/B band



Source: Company data, Maybank KE  
 Note: Company's historical forward PB compared to five-year historical mean as well as one standard deviation above and below mean.

## Lippo Cikarang

Lippo Cikarang’s industrial estate is located in the Bekasi area, the prime industrial estate area in Indonesia. It is a mixed-use estate where the company sells industrial, commercial and residential properties, which makes it more resilient in generating sales.

Lippo Cikarang has successfully developed its residential property segment in the estate, which was dedicated for the industrial segment. We believe the management’s expertise will continue to add value to the company especially when demand in the industrial segment slows.

We set our TP at IDR8,000, a 38% discount to its RNAV of IDR12,865. Our TP translates to 7.4x P/E and 2.1x P/B 2014F. We assigned a WACC of 17.6% for LPCK to derive the DCF valuation. Our TP is above its historical two-year +1SD mean of one-year forward P/E mean of 5.7x and slightly above its one-year forward +1SD P/B mean of 1.8x.

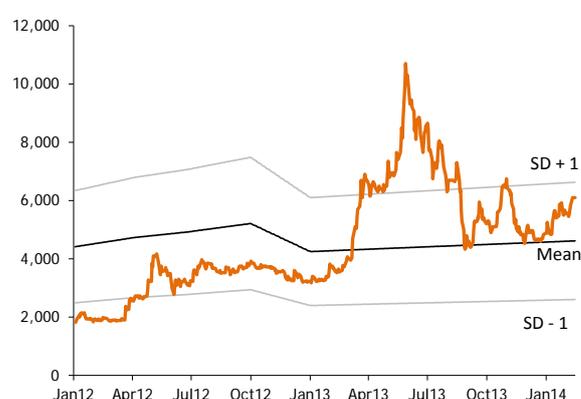
Figure 58: BEST historical forward P/E



Source: Company data, Maybank KE

Note: Company’s historical forward PB compared to two-year historical mean as well as one standard deviation above and below mean. We use two years since the stock was not actively traded prior to 2012.

Figure 59: BEST P/E band



Source: Company data, Maybank KE

Note: Company’s historical forward PB compared to two-year historical mean as well as one standard deviation above and below mean. We use two years since the stock was not actively traded prior to 2012.

Figure 60: BEST historical forward P/B



Source: Company data, Maybank KE

Note: Company’s historical forward PB compared to two-year historical mean as well as one standard deviation above and below mean. We use two years since the stock was not actively traded prior to 2012.

Figure 61: BEST P/B band



Source: Company data, Maybank KE

Note: Company’s historical forward PB compared to two-year historical mean as well as one standard deviation above and below mean. We use two years since the stock was not actively traded prior to 2012.



## Bumi Serpong Damai (BSDE IJ)

Share Price: IDR1,550

MCap (USD): 2.3B

Indonesia

Target Price: IDR2,000(+29%)

ADTV (USD): 2M

Real Estate

# BUY

(New)

### Leading township developer

- Initiate with BUY and TP of IDR2,000 for the leading township developer in Indonesia. BSDE is our top pick in the sector.
- One of the largest property developers in Indonesia with 4,800 ha of land bank located in prime areas which is sufficient for more than 10 years of development with promising monetization.
- Its strong balance sheet with net cash position provides comfort towards the current headwinds in the sector.

### Large prime land bank

We think Bumi Serpong Damai (BSDE) will be the beneficiary of Indonesia's long-term growing demand for housing as it has 4,800 ha of prime land bank. We estimate its land bank is sufficient for more than 10 years of developments.

### Strategic assets to spur growth

Most of BSDE's land bank is in the Greater Jakarta areas, which we believe will drive the growth of the company as the availability of land in prime areas is becoming scarce. Its vast land bank at BSD City, Serpong will continue to drive the growth of the company, with additional support coming from its other smaller township projects.

### Valuation and risks

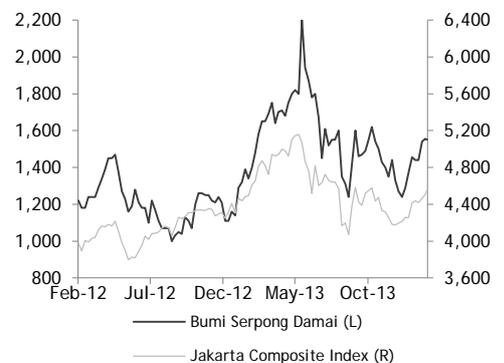
Our target price of IDR2,000 is a 30% discount to its RNAV of IDR2,857/share. Our target price translates to 13.7x P/E and 2.9x P/B for 2014F, which is +1SD above its historic average. The risks to our views include: interest rate hikes, economic slowdown and tighter regulations on the property sector.

FYE Dec (IDR bn)	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue	2,806.3	3,727.8	5,715.5	6,411.6	6,750.5
EBITDA	0.0	0.0	2,836.4	3,135.6	3,323.3
Core net profit	840.8	1,286.0	2,335.0	2,533.2	2,848.8
Core EPS (IDR)	48	74	133	145	163
Core EPS growth (%)	113.2	53.0	81.6	8.5	12.5
Net DPS (IDR)	10	15	0	0	0
Core P/E (x)	32.3	21.1	11.6	10.7	9.5
P/BV (x)	3.9	3.4	2.7	2.3	1.9
Net dividend yield (%)	0.6	1.0	0.0	0.0	0.0
ROAE (%)	10.7	13.7	19.7	17.7	17.1
ROAA (%)	6.9	8.7	13.0	12.3	12.2
EV/EBITDA (x)	nm	nm	0.3	nm	nm
Net debt/equity (%)	net cash				

### Key Data

52w high/low (IDR)	2,200/1,210
Free float (%)	36.9
Issued shares (m)	17,497
Market capitalization	IDR27.1T
Major shareholders:	
-Sinarmas Land Ltd.	25%
-PT Ekacentra Usahamaju	25%
-PT Serasi Niaga Sakti	3%

### Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute(%)	6.5	9.2	8.4
Relative to country (%)	3.2	5.3	9.7

### Maybank vs Market

	Positive	Neutral	Negative
Market Recs	9	3	1
<b>Maybank Consensus</b>			
Target Price (IDR)	2,000	1,680	19.0
2013 PATMI (IDRbn)	2,335	2,436	(4.1)
2014 PATMI (IDRbn)	2,533	2,025	25.1

Source: FactSet; Maybank

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## Company background

### Leading township developer in Indonesia

BSDE is one of the largest township developers in Indonesia focusing its development in the Greater Jakarta area. BSDE's main development area is at Serpong (West of Jakarta) with its flagship township called BSD City. Through its subsidiary Duta Pertiwi (DUTI), BSDE also develops other townships in Grand Wisata at Bekasi (East of Jakarta) and Kota Wisata (figure 1).

Besides townships development, BSDE also owns and manages office buildings, shopping centres and hotels located in Jakarta, Surabaya, Medan, Balikpapan and Samarinda.

Figure 62: BSDE townships and investment properties

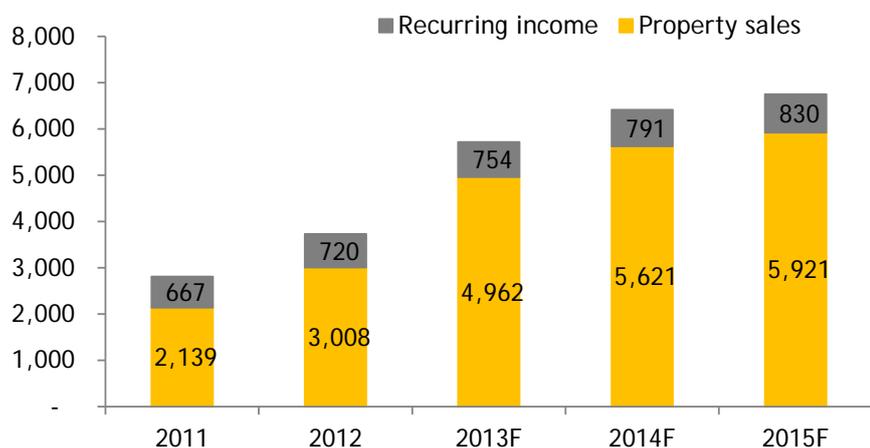
Township	Location	Development area	Land bank
BSD City	Serpong	5,950 ha	2,337 ha
Grand Wisata	Bekasi	1,100 ha	528 ha
Kota Wisata	Cibubur	543 ha	105 ha

Other smaller townships

Investment property	Type	Location	Status
Sinarmas Plaza Thamrin	Office Building	Jakarta	Lease
Wisma BII Surabaya	Office Building	Surabaya	Lease
Wisma BII Medan	Office Building	Medan	Lease
Le Grandeur	Hotel	Jakarta	N/A
Le Grandeur	Hotel	Baliikpapan	N/A
ITC Superblock	Commercial	Jakarta	Strata title
ITC Superblock	Commercial	Surabaya	Strata title
The Breeze	Retail	Serpong	Lease
Epicentrum Walk Mall	Retail	Jakarta	Lease

Source: Company data, Maybank KE

Figure 63: Revenue contribution (IDR bn)



Source: Company data, Maybank KE



### Strong balance sheet to support strategic land acquisitions

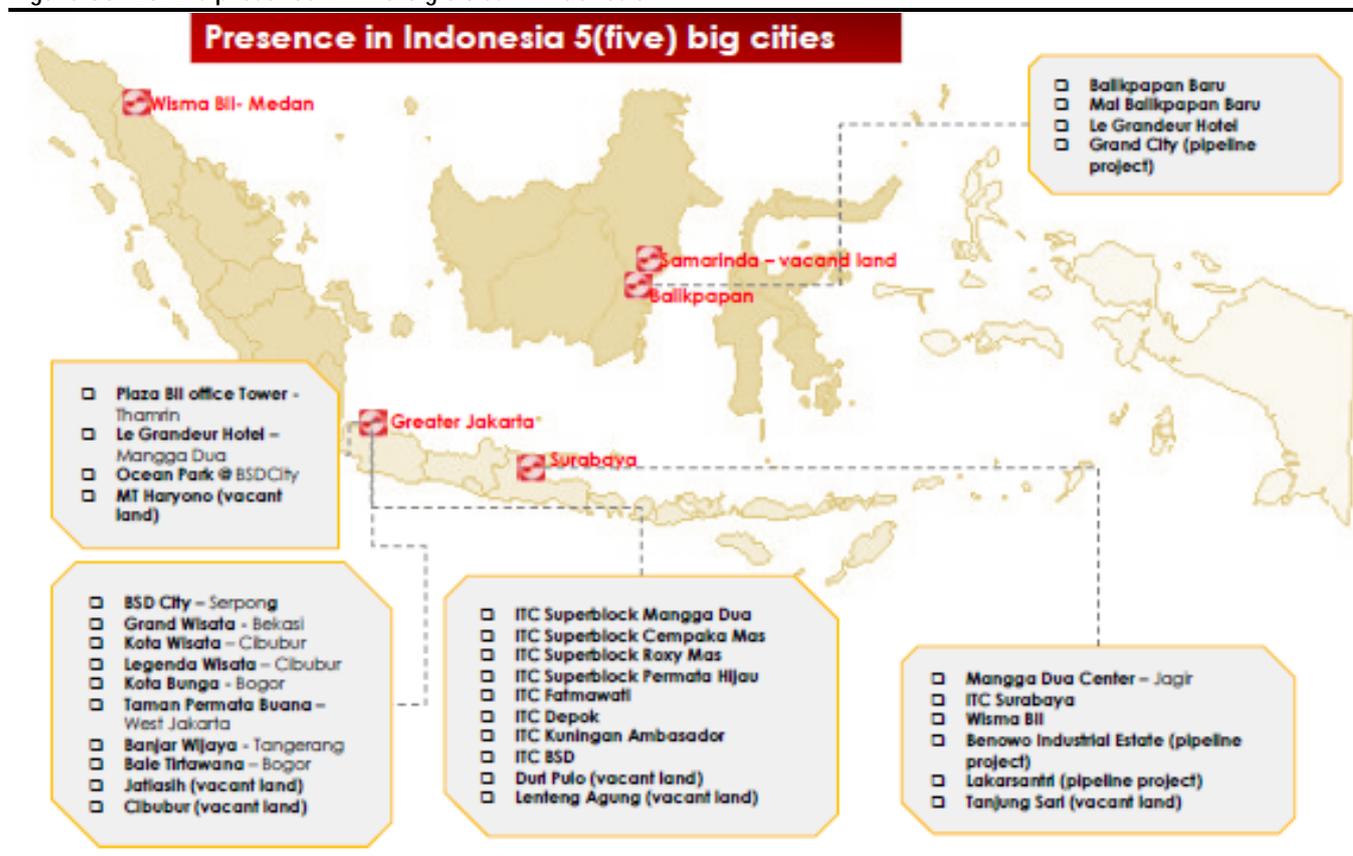
BSDE's cash position of IDR3.8 trn as of 9M13 provides strong support for strategic acquisition of land in prime locations. The latest land acquisition is at the Rasuna Said area in Jakarta. BSDE acquired 5.4 ha and a shopping mall in the same area from another developer. BSDE plans to develop a high-rise residential complex here, which is set to be launched this year.

Local bank regulations do not permit loans for developers to acquire land. As such, liquidity is paramount for developers. BSDE's high cash level gives it greater flexible to acquire more land in strategic locations in future.

### Expanding outside of Java Island

BSDE is also expanding its property development portfolio outside of the Java Island in areas such as Sumatra, Kalimantan and Sulawesi to tap the growing demand for homes in these areas. We think the relatively lower land prices and competition outside of Java Island will deliver positive contributions to BSDE in future.

Figure 66: BSDE's presence in five big cities in Indonesia



Source: Company data

### Adding more investment properties to its portfolio

As of 9M13, the company owns and manages five office buildings, 10 commercial superblocks and two hotels, which contributed 13% of FY13F revenue. The latest additions to BSDE's investment property portfolio are the "The Breeze" lifestyle mall in BSD City, and the acquisition of the Epicentrum Walk Shopping Mall in Rasuna Said, Jakarta.

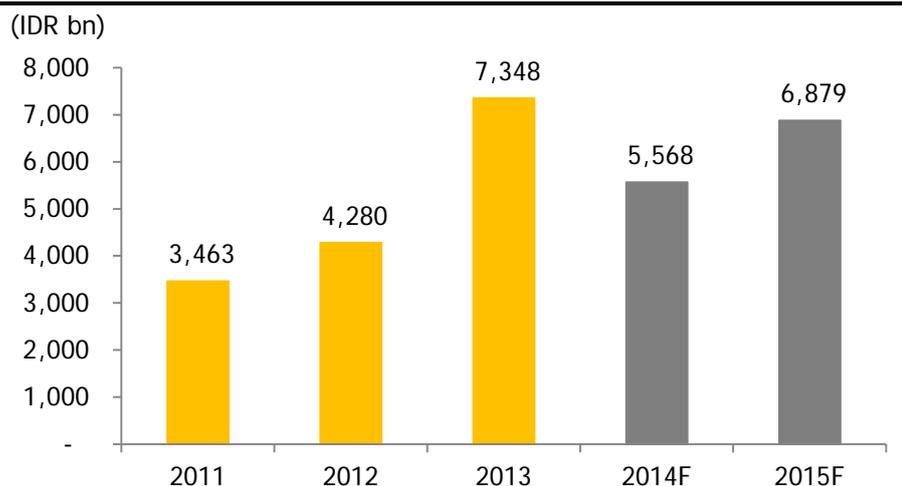
Going forward, BSDE plans to add to its investment properties to achieve its target of 20% recurring income contribution to provide more stability to earnings.

## Financials

### Expect flat pre-sales in 2014F and growth in 2015F

BSDE's pre-sales have grown rapidly over the past five years (by 41% CAGR 2009-2013). Due to inorganic sales of 78 ha of land to two JV companies, pre-sales for 2013 jumped to IDR7.3 trn, a 72% YoY growth. Excluding the bulk sales, BSDE booked pre-sales of IDR5.4 trn (up 27% YoY). For this year, management guided that there will be no bulk sales hence we forecast BSDE's organic pre-sales to be flat at IDR5.6 trn and to grow 23% YoY to IDR6.9 trn in 2015F.

Figure 67: BSDE's pre-sales

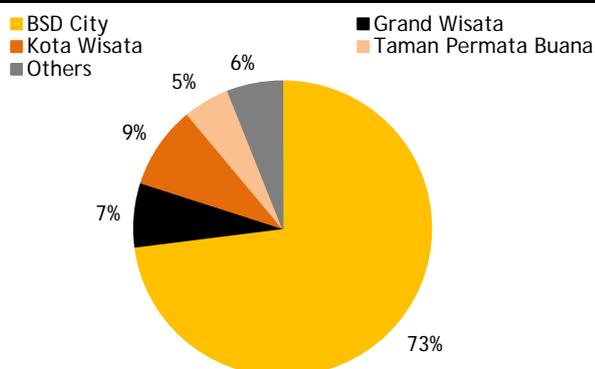


Source: Company data, Maybank KE

Note: high 2013 pre-sales due to bulk sales amounting IDR1.9tn to 2 JV companies

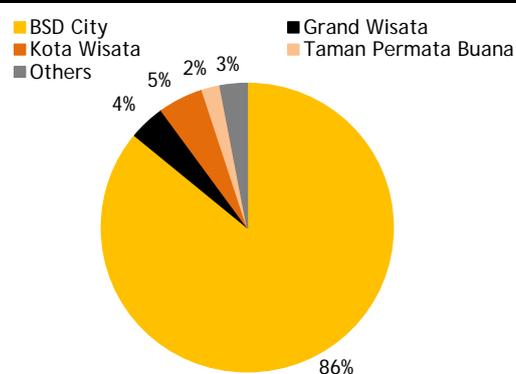
BSD City continues to be the main driver of BSDE's overall pre-sales with contributions of 86% in 2013, up from 73% in 2012, on the back of the bulk sales in 2013. For this year, we are confident on BSD City's sales to remain solid and to contribute 68% to overall pre-sales. We also take into account additional contributions from a tower apartment project in Taman Permata Buana, West Jakarta, which we expect will contribute 14% of pre-sales, with the remaining 18% coming from the other smaller township projects.

Figure 68: Pre-sales composition (2012)



Source: Company data, Maybank KE

Figure 69: Pre-sales composition (2013)



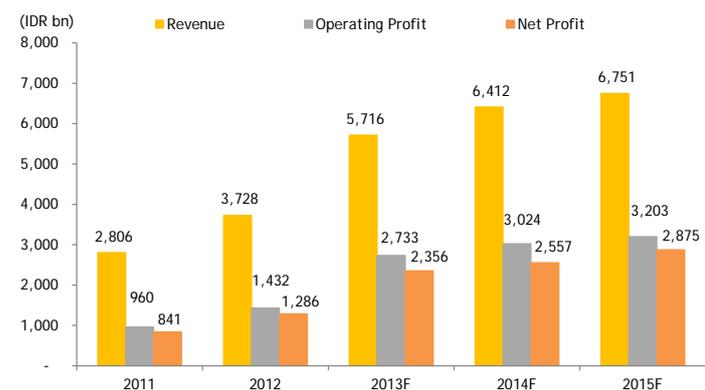
Source: Company data, Maybank KE

### Strong balance sheet leads to increasing profitability

The strong pre-sales in 2013 will support BSDE's earnings in 2014F. We forecast BSDE's earnings to grow by 9% YoY in 2014F and 2015F to IDR2.6 trn and IDR2.9 trn. BSDE's profitability has been increasing due to the strong growth in land prices while costs remain under control.

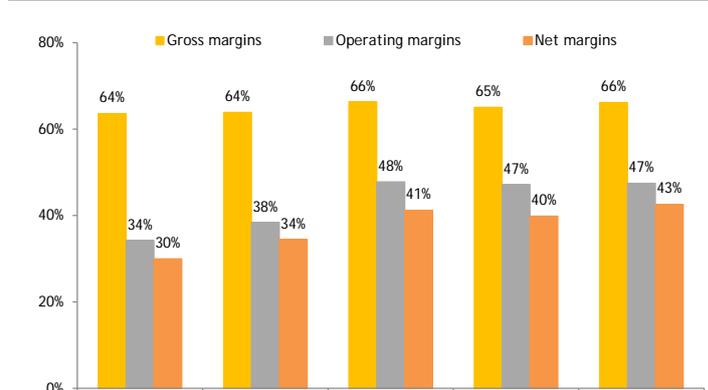
We forecast BSDE's gross margin to stabilize at 65% in 2014F and expand to 66% in 2015F. With the selling expense and G&A expense to be maintained at 15% of pre-sales, we project EBIT margin to be around 47% in 2014F-2015F. BSDE's single-digit 2012 bond interest rate supports its high net margin of 34% in 2012 and we forecast it to expand to 40% in 2014F and to 43% in 2015F.

Figure 70: BSDE revenue, operating profit and net profit



Source: Company data, Maybank KE

Figure 71: BSDE margins

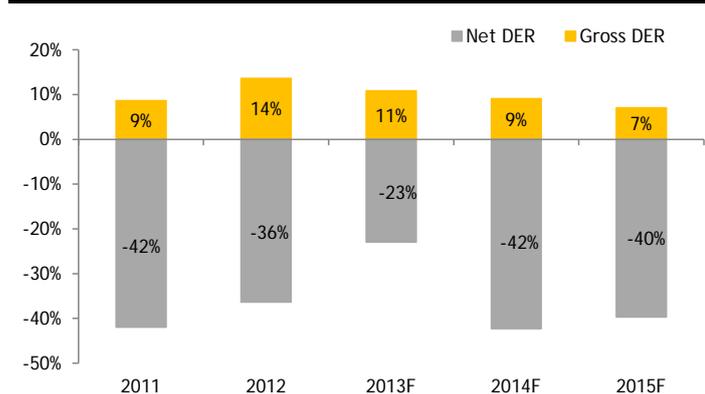


Source: Company data, Maybank KE

### Net cash of IDR6.1 trn and 22% ROE

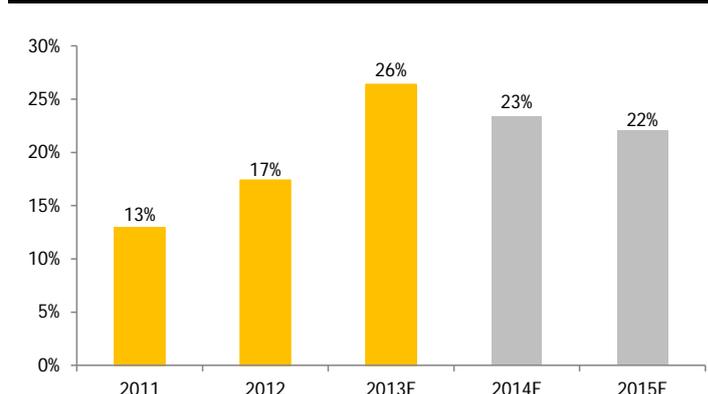
We expect BSDE's balance sheet to remain strong at net cash position with total cash of IDR6.1trn in 2014F. We expect its ROE to stabilize at around 22-23% due to slowing earnings growth relative to history.

Figure 72: BSDE gearing



Source: Company data, Maybank KE

Figure 73: BSDE's ROE



Source: Company data, Maybank KE

## Risks to our views

### **Interest rate hikes**

In general, developers will suffer when the central bank increases the reference rate as the cost of funding to purchase property will increase and we expect investors to delay investing in properties as a result.

### **Economic downturn**

In the event of a slowdown in the economy, we expect property demand to weaken, especially in the middle-upper segment and for high-rise projects. The slowing economy could also increase the risk of bad debts from customers with cash-installment plans.

### **Regulatory environment**

The government has been monitoring the property market closely over the past five years due to the rapid rise in real-estate prices. ASRI may need more time to secure licenses to construct high-rise buildings, which may hinder its overall pre-sales growth. Other regulatory risks include stricter regulations for property buyers and higher related taxes.

## Valuation

Initiate BSDE at BUY and TP of IDR2,000, which implies 30% discount to its RNAV of IDR2,857/share. We calculate its RNAV by using DCF valuation of its five-year operating cashflows and we assigned residual value of its remaining land bank. To derive the DCF valuation, we assigned WACC of 12.0% based on 13.2% cost of equity, beta of 1.3 and 9.3% cost of debt assuming 30% long-term debt-to-equity ratio.

We applied only a 30% discount to BSDE due to its strong balance sheet, conservative projects and valuable land bank. We believe BSDE's combination of prime assets and strong balance sheet will continue to uphold the company's position as the leading township developer.

Our target price translates to 13.7x P/E and 2.9x P/B for 2014F. Our TP is +1SD above the historic five-year mean of one-year forward P/E of 10.8x and one-year forward P/B of 2.1x.

Figure 74: RNAV calculation

		Land Balance	BV	MV	Excess MV	NPV	Gross Value	Ownership	Net Value
		ha	IDR b	IDR b	IDR b	IDR b	IDR b	%	IDR b
<b>PROPERTY SALES</b>									
Bumi Serpong Damai	IDR b	2,441	3,452	36,376	32,924	10,015	42,939	100.0%	42,939
Duta Pertiwi	IDR b	915	1,401	11,077	9,676	1,275	10,951	85.0%	9,309
Others	IDR b	209	168	2,089	1,920	706	2,627	60.0%	1,576
<b>Total</b>	<b>IDR b</b>	<b>3,565</b>	<b>5,021</b>	<b>49,542</b>	<b>44,520</b>	<b>11,996</b>	<b>56,517</b>		<b>53,823</b>
<b>INVESTMENT PROPERTY</b>									
		Annual CF	Cap Rate	BV	NPV	Excess MV	Gross Value	Ownership	Net Value
		IDR b	%	IDR b	IDR b	IDR b	IDR b	%	IDR b
Duta Pertiwi	IDR b	867	12.0%	144	7,203	7,059	7,059	85.0%	6,000
Others	IDR b	96	12.0%	464	797	333	333	60.0%	200
<b>Total</b>	<b>IDR b</b>	<b>962</b>			<b>8,000</b>	<b>8,000</b>	<b>7,392</b>		<b>6,200</b>
<b>TOTAL</b>	<b>IDR b</b>				<b>19,997</b>				<b>60,024</b>
Rp bn							(10,528)		
Shareholders Fund	IDR b								5,044
RNAV	IDR b	discounts	30%						34,990
# of Shares	# mn								17,497
<b>Value per share</b>	<b>IDR</b>								<b>2,000</b>

Source: Maybank KE

FYE 31 Dec (IDR bn)	FY11A	FY12A	FY13E	FY14E	FY15E
<b>Key Metrics</b>					
P/E (reported) (x)	32.3	21.1	11.6	10.7	9.5
Core P/E (x)	32.3	21.1	11.6	10.7	9.5
P/BV (x)	3.9	3.4	2.7	2.3	1.9
P/NTA (x)	4.0	3.4	na	na	na
Net dividend yield (%)	0.6	1.0	0.0	0.0	0.0
FCF yield (%)	2.4	0.3	4.1	5.7	3.3
EV/EBITDA (x)	nm	nm	0.3	nm	nm
EV/EBIT (x)	18.6	14.3	0.4	nm	nm
<b>Income Statement</b>					
Revenue	2,806.3	3,727.8	5,715.5	6,411.6	6,750.5
Gross profit	1,744.1	2,325.6	3,791.6	4,170.9	4,467.1
EBITDA	0.0	0.0	2,836.4	3,135.6	3,323.3
Depreciation	0.0	0.0	(103.9)	(111.8)	(120.7)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	807.2	1,337.7	2,732.5	3,023.8	3,202.6
Net interest income /(exp)	(153.4)	(90.4)	134.3	98.9	278.0
Associates & JV	53.9	0.0	45.2	47.4	49.8
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	(20.0)	(20.0)	(20.0)
Pretax profit	1,170.2	1,653.5	2,892.0	3,150.2	3,510.4
Income tax	(158.2)	(217.7)	(323.5)	(360.1)	(379.0)
Minorities	(171.3)	(192.8)	(233.5)	(256.9)	(282.6)
Reported net profit	840.8	1,286.0	2,335.0	2,533.2	2,848.8
Core net profit	840.8	1,286.0	2,335.0	2,533.2	2,848.8
<b>Balance Sheet</b>					
Cash & Short Term Investments	4,165.8	4,052.5	3,363.5	6,124.8	6,613.6
Property, Plant & Equip (net)	4,973.5	7,616.4	440.3	424.8	415.5
Intangible assets	11.8	9.3	0.0	0.0	0.0
Investment in Associates & JVs	0.0	668.9	714.2	761.6	811.3
Other assets	10,902.3	12,497.0	13,931.4	13,759.4	15,952.1
Total assets	12,787.4	16,756.7	19,164.8	21,869.3	24,677.9
ST interest bearing debt	0.0	91.0	91.0	91.0	91.0
LT interest bearing debt	663.4	1,034.4	990.0	990.0	905.0
Other liabilities	3,866.8	5,190.6	4,898.5	5,380.8	5,758.7
Total Liabilities	4,530.2	6,225.0	5,979.5	6,461.8	6,754.7
Shareholders Equity	6,872.5	7,916.5	9,951.7	11,919.2	14,154.6
Minority Interest	1,384.7	2,615.2	3,233.6	3,488.4	3,768.6
Total shareholders equity	8,257.2	10,531.7	13,185.3	15,407.6	17,923.2
<b>Cash Flow</b>					
Pretax profit	1,170.2	1,653.5	2,892.0	3,150.2	3,510.4
Depreciation & amortisation	0.0	0.0	103.9	111.8	120.7
Adj net interest (income)/exp	(166.5)	(79.5)	na	na	na
Change in working capital	0.0	0.0	(1,260.8)	(1,015.8)	(1,995.8)
Cash taxes paid	0.0	222.3	(323.5)	(360.1)	(379.0)
Other operating cash flow	0.0	0.0	(212.3)	(233.5)	(256.9)
Cash flow from operations	1,073.2	361.2	1,199.3	1,652.6	999.4
Capex	(329.9)	(106.5)	(83.2)	(96.3)	(111.4)
Free cash flow	640.7	79.7	1,116.1	1,556.3	887.9
Dividends paid	(105.0)	(175.0)	(321.5)	(589.1)	(639.1)
Equity raised / (purchased)	0.0	126.9	0.0	0.0	0.0
Change in Debt	(646.5)	470.8	0.0	0.0	(85.0)
OTH investing/financing cash flow	102.8	(128.6)	(1,392.1)	1,794.1	325.1
Effect of exch rate changes	3.2	13.0	0.0	0.0	0.0
Net cash flow	(66.3)	482.4	(597.5)	2,761.3	488.9

FYE 31 Dec (IDR bn)	FY11A	FY12A	FY13E	FY14E	FY15E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	13.3	32.8	53.3	12.2	5.3
EBITDA growth	na	na	nm	10.5	6.0
EBIT growth	nm	65.7	104.3	10.7	5.9
Pretax growth	30.9	41.3	74.9	8.9	11.4
Reported net profit growth	113.2	53.0	81.6	8.5	12.5
Core net profit growth	113.2	53.0	81.6	8.5	12.5
<b>Profitability ratios (%)</b>					
EBITDA margin	0.0	0.0	49.6	48.9	49.2
EBIT margin	28.8	35.9	47.8	47.2	47.4
Pretax profit margin	41.7	44.4	50.6	49.1	52.0
Payout ratio	20.8	20.4	0.0	0.0	0.0
<b>DuPont analysis</b>					
Net profit margin (%)	30.0	34.5	40.9	39.5	42.2
Revenue/Assets (x)	0.2	0.2	0.3	0.3	0.3
Assets/Equity (x)	1.9	2.1	1.9	1.8	1.7
ROAE (%)	10.7	13.7	19.7	17.7	17.1
ROAA (%)	6.9	8.7	13.0	12.3	12.2
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	12.2	8.2	5.2	4.8	4.8
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	2.6	nm	23.6	42.3	44.2
Dividend cover (x)	4.8	4.9	nm	nm	nm
Current ratio (x)	nm	nm	6.3	8.9	nm
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.8	2.7	3.2	3.4	3.7
Net debt/equity (%)	net cash				
Net interest cover (x)	5.3	14.8	na	na	na
Debt/EBITDA (x)	nm	nm	0.4	0.3	0.3
Capex/revenue (%)	11.8	2.9	1.5	1.5	1.7
Net debt/ (net cash)	(3,502.4)	(2,927.1)	(2,282.5)	(5,043.8)	(5,617.6)



## Ciputra Development (CTRA IJ)

Share Price: IDR1,025

MCap (USD): 1.3B

Indonesia

Target Price: IDR1,330(+30%)

ADTV (USD): 2M

Real Estate

# BUY

(New)

### On the sweet spot

- Initiate coverage at BUY with TP of IDR1,330, which implies 49% discount to its RNAV of IDR2,627/shr. Our target price is at the high end of the Street.
- Ciputra's broad geographical coverage in Indonesia will continue to position it ahead of competitors. Most of its projects are low-rises, cushioning it against the downturn in demand for high-rises amid the economic slowdown.
- All told, Ciputra has high earnings visibility through its conservative projects (i.e. low-rises) and low-leverage balance sheets to support earnings growth momentum.

### Strategically positioned to tap growth outside Jakarta

Ciputra has a broad geographic coverage as it has property projects spread throughout Indonesia. As at end-2013, the developer generated 61% of its sales from outside of the Greater Jakarta area. In short, we see Ciputra as the proxy to the long-term structural growth in Indonesia's property sector.

### Capitalizing on its strong brand equity

Ciputra's strong brand equity enables it to expand its business through JVs and joint operation business models. This allows Ciputra to focus on delivering high-quality residential projects without having to spend excessive capex to accumulate land.

### Valuation and risks

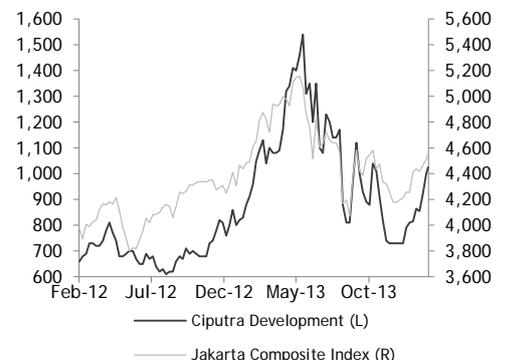
Our target price of IDR1,330 (49% discount to its RNAV of IDR2,627) translates to 14.6x P/E and 2.8x P/B for 2014F, slightly below +1SD to its historic average P/E and in line with +2SD historic P/B. The risks to our views include: interest-rate hikes, execution risk, currency volatility, economic slowdown and tighter regulations.

FYE Dec (IDR bn)	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue	2,178.3	3,322.7	6,465.4	8,279.8	8,903.2
EBITDA	0.0	0.0	1,894.9	2,456.1	2,675.2
Core net profit	324.8	589.1	1,094.9	1,385.0	1,497.1
Core EPS (IDR)	21	39	72	91	99
Core EPS growth (%)	23.5	85.7	85.1	26.5	8.1
Net DPS (IDR)	7	12	0	0	0
Core P/E (x)	48.8	26.3	14.2	11.2	10.4
P/BV (x)	3.0	2.8	2.5	2.1	1.9
Net dividend yield (%)	0.7	1.2	0.0	0.0	0.0
ROAE (%)	4.4	7.3	12.1	13.8	13.6
ROAA (%)	3.1	4.4	6.5	7.1	6.9
EV/EBITDA (x)	nm	nm	0.7	1.0	1.1
Net debt/equity (%)	net cash				

### Key Data

52w high/low (IDR)	1,590/710
Free float (%)	69.2
Issued shares (m)	15,166
Market capitalization	IDR15.5T
Major shareholders:	
-PT Sang Pelopor	31%
-PT Schroder Investment	2%
-JPMorgan Asset Management	2%

### Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute(%)	25.8	31.4	5.7
Relative to country (%)	21.8	26.7	7.0

### Maybank vs Market

	Positive	Neutral	Negative
Market Recs	11	3	1
	Maybank Consensus		% +/-
Target Price (IDR)	1,330	975	36.4
2013 PATMI(IDRbn)	1,095	929	17.8
2014 PATMI(IDRbn)	1,385	1,200	15.4

Source: FactSet; Maybank

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## Synergies in its corporate structure

Together with its two main subsidiaries, Ciputra Property and Ciputra Surya, the company is growing into a larger property portfolio with diverse target markets. These two subsidiaries are also listed on the Indonesia Stock Exchange.

Ciputra's properties include township developments, landed residential properties, condominiums and offices. The company also operates several investment properties such as shopping malls, hotels, serviced apartments, office space and a golf course.

Ciputra Development, the parent company, develops numerous townships and real-estate projects across Indonesia. Notable projects include CitraRaya Tangerang, Citra Garden City Jakarta and Citra Indah Jonggol.

Ciputra Property (63% owned subsidiary) is the company's arm for high-rise developments and investment properties with the main operations in the Jakarta area. Its main projects are the large-scale Ciputra World Jakarta 1 and 2 mixed-use developments in the CBD of Jakarta.

Ciputra Surya's (58% owned subsidiary) main operations are in Surabaya, Indonesia's second largest city. Ciputra Surya also develops several smaller townships in Central Java, East Java, Bali and Sumatra.

We believe Ciputra Development's clear business structure in terms of geographical coverage and business lines will help to maintain its focus to promote overall growth to the company.

## Main property projects

### Township development

#### ■ Citra Garden City Jakarta

This was Ciputra's first township development in Jakarta, which was launched in 1984. It has a development area of 444 ha with 15 ha of land left. The company plans to utilize the remaining land to build high-end residential properties.

#### ■ Citra Indah Jonggol

This township, located in South of Jakarta, has been developed since 1997. Citra Indah Jonggol targets the middle-low segment and it has a development area of 550 ha with 125 ha of land left for development.

#### ■ CitraRaya Tangerang

This is Ciputra's largest township with a development area of 2,760 ha and 517 ha of land remaining. Ciputra started developing this township in 1994, which targets the middle-low to middle-high segments.

#### ■ CitraLand Surabaya

This township is developed by Ciputra Surya and it's the largest township in Surabaya with a development area of 1,700ha and 672 ha of land remaining. The township targets the middle-upper segment.

## Large-scale developments

### ■ Ciputra World Jakarta

Ciputra Property is developing three mixed-use developments in the CBD of Jakarta. The Ciputra World Jakarta will be the landmark project for Ciputra Property.

#### ■ Ciputra World Jakarta 1

This mixed-use development began construction in 2008. Ciputra World Jakarta 1 (CWJ 1) consists of the Lotte Shopping mall, two office towers, one apartment tower and a tower for a hotel and serviced apartments.

CWJ 1 is close to completing construction with only the second office tower remaining. The total development cost of CWJ 1 is IDR4 trn with a GFA of 575,000 sqm on 5.5 ha of land.

Figure 76: Ciputra World Jakarta 1



Source: Company data

Figure 77: Ciputra World Jakarta 1



Source: Company data

Lotte Shopping Mall was opened in June 2013 and is 100% leased to Lotte Retail Group for 20 years. The rental rate is locked in at IDR185k/sqm for three years and capped at a 3%-7% rate increase from the 4th year to 20th year. The mall has a NLA of 77,351 sqm.

The first office tower in CWJ 1 has DBS Bank as its anchor tenant, which leased 30% of the space. Ciputra sold 30% of the office space and the remaining 40% is for lease with an occupancy rate of 90%.

#### ■ Ciputra World Jakarta 2

The company commenced development of Ciputra World 2 (CWJ 2) in 2012 and expects the project to be completed by 2016. CWJ 2 is also a mixed-use development with two apartment towers, one hotel and serviced apartments, one office tower and small retail space.

The total development cost of CWJ 2 is IDR4trn with a GFA of 217,000 sqm. This is more than double the development cost for CWJ 1 (GFA 575,000 sqm).

Figure 78: Ciputra World Jakarta 2



Source: Company data

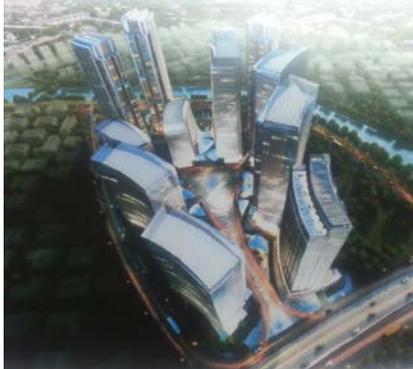
### ■ Ciputra World Jakarta 3

Due to the high development cost of CWJ 2, the company has postponed launching Ciputra World 3 (CWJ 3) and it's waiting for favourable market conditions. CWJ 3 is also expected to have apartments and office space.

### ■ Puri mixed-use development

The company plans to build a mixed-use development in the Puri area, West Jakarta over 7.2 ha of land area. The project will be under Ciputra Property and it plans to launch one apartment tower this year at an indicative price of IDR19mn/sqm.

Figure 79: Puri mixed-use development



Source: Company data

### ■ Ciputra World Surabaya

Ciputra World Surabaya (CWS) is developed by Ciputra Surya and it's the first mixed-use development project for the company. CWS is a joint venture project with local businessmen where Ciputra Surya owns a 53% stake. It is developed on 8.5 ha of land in West Surabaya. CWS consists of one shopping mall with a NLA of 55,021 sqm, and four apartment towers. CWS is targeted to be completed this year.

Figure 80: Ciputra World Surabaya



Source: Company data

### Investment properties

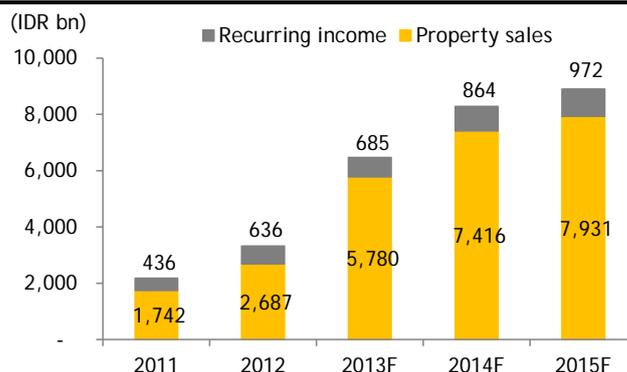
The company has several investment properties such as shopping malls, hotels, office buildings, serviced apartments, a golf course and a hospital. Most of its investment properties are booked under Ciputra Property. The contribution of revenue from investment properties is still relatively small at 6% as of 2013F. Going forward, Ciputra plans to strengthen its investment properties by investing in budget hotels and resort villas in 2014. We project revenue contribution from investment properties to be low at 11% in 2014F due to the high base of property sales value in recent years.

Figure 81: CTRA revenue composition



Source: Company data, Maybank KE

Figure 82: CTRA revenue contribution



Source: Company data, Maybank KE

## Financials

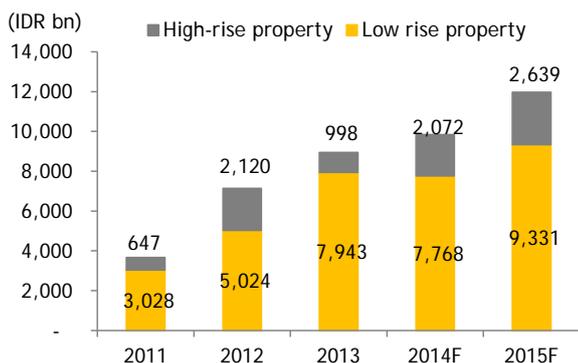
### Pre-sales still dominated by low-rise projects

With its wide geographical coverage, Ciputra’s product mix has historically been mainly dominated by low-rise properties. Only recently, since the launch of Ciputra World Jakarta and Surabaya, has the company started selling more high-rise projects in 1<sup>st</sup> tier cities.

We project Ciputra will still mainly sell low-rise properties in 2014F as it has only announced a few new high-rise project launches in Jakarta. This year, Ciputra plans to launch a mixed-use development in Kemayoran, Jakarta and Puri, Jakarta.

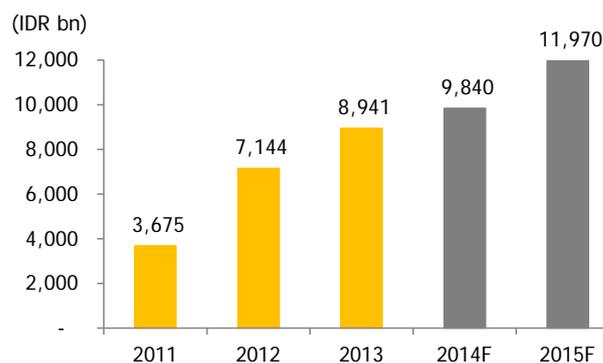
For 2014F, we forecast IDR9,840b in pre-sales, with 79% from low-rise projects. With its conservative low-rise residential projects that target the middle segment, we project its pre-sales to grow 22% to IDR11,970b in 2015F as we expect the economy to recover next year.

Figure 83: CTRA pre-sales composition



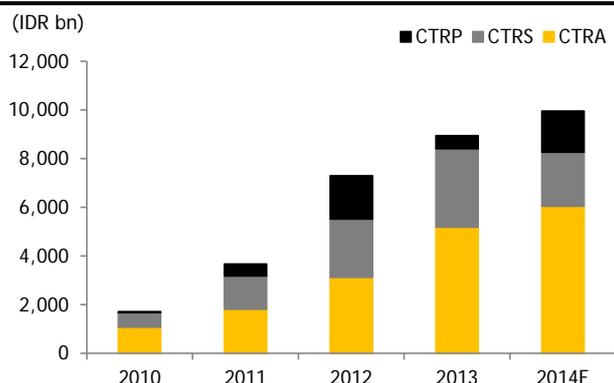
Source: Company data, Maybank KE

Figure 84: CTRA pre-sales



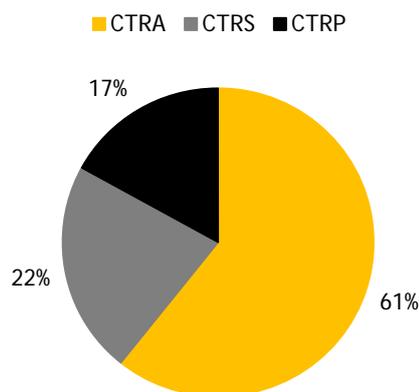
Source: Company data, Maybank KE

Figure 85: CTRA pre-sales contribution



Source: Company data, Maybank KE

Figure 86: CTRA pre-sales contribution (2014F)

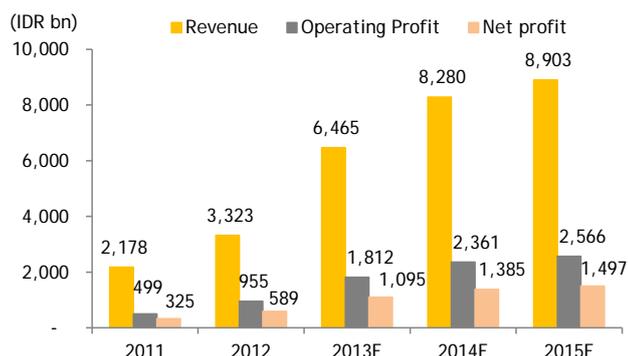


Source: Company data, Maybank KE

### Earnings growth momentum maintained

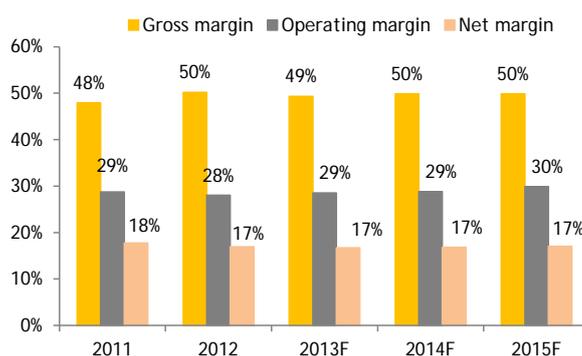
As we expect Ciputra's pre-sales and recurring income to grow, we forecast its revenue to reach IDR8,280b in 2014F (28% YoY growth). We expect the company's margins to remain stable at 17% net margin, which brings a net profit of IDR1,385b in 2014F (26% YoY growth).

Figure 87: CTRA revenue, operating profit and net profit



Source: Company data, Maybank KE

Figure 88: CTRA margins

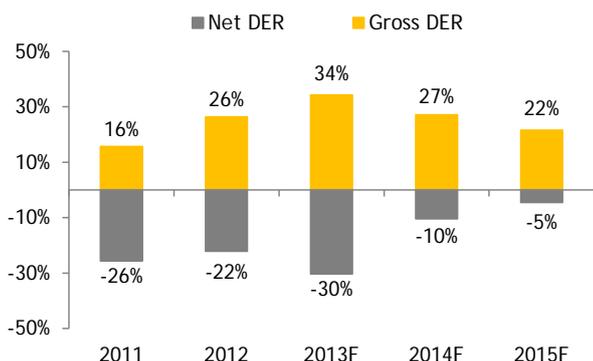


Source: Company data, Maybank KE

### Strong balance sheet and high ROE maintained

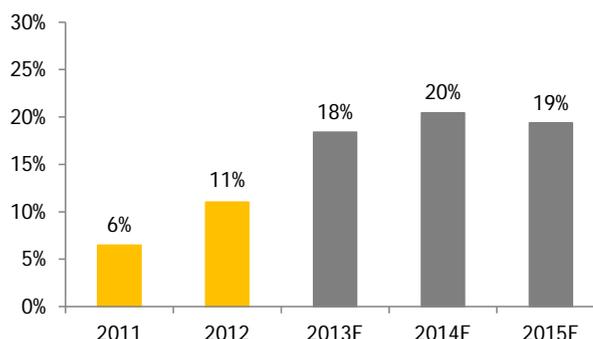
We forecast Ciputra to remain operating at a net cash position through 2015F with rising ROE as earnings growth momentum is sustained. We think the company can continue to finance its working capital and expansion plans.

Figure 89: CTRA gearing



Source: Company data, Maybank KE

Figure 90: CTRA Return on Equity



Source: Company data, Maybank KE

## Risks to our view

### Interest-rate hikes

In general, property companies will suffer when the central bank increases the reference rate as the cost of funds to purchase property will increase. If this happens, we expect investors to hold off investing in the property market.

### Execution risk

We note the execution risk for Ciputra Development for its JV and JO business models. With these business models, the company does not fully own the projects and disputes may arise.

### Currency volatility

The weakening of the rupiah may increase the development costs of Ciputra's mixed-use development projects and make the projects less profitable.

### Economic downturn

In the event of an economic slowdown, we expect the demand in the property market to slow, especially in the middle to upper segments and high-rise projects. A slowing economy could also increase the risk of bad debts from customers paying in cash installments.

### Regulatory environment

The property market has been under a close watch by the government with its high growth in the last five years. The company may need a longer time to secure licenses to build high-rise buildings, which may hinder the overall pre-sales growth. Other regulatory risks include stricter regulations for consumers to buy property and higher property taxes.

## Valuation

We have a BUY on Ciputra Development with a TP of IDR1,330, which implies a 49% discount to its RNAV of IDR2,627/sh. We calculated its RNAV by using the DCF valuation of its five-year operating cash flows and we assigned a residual value to its remaining land bank. To derive the DCF valuation, we assigned a WACC of 15.9% based on a 19.8% cost of equity, beta of 1.6 and 10.0% cost of debt, assuming a 40% LT debt-equity ratio.

We apply a 49% discount to Ciputra Development for its ability to expand its business without having to acquire land bank, which can be a complex process. We also like its strong balance sheet and high earnings visibility. However, we note the execution risk to its business model as Ciputra does not fully own the projects.

Our target price translates to 14.6x P/E and 2.8x P/B 2014F. Our TP is slightly below its historical five-year mean of +1SD one-year forward P/E of 14.81x. It is in line with its +2SD one-year forward P/B of 2.8x.

Figure 91: RNAV calculation

	Land balance	BV	MV	Excess MV	NPV	Gross value	Ownership	Net value
	ha	IDR b	IDR b	IDR b	IDR b	IDR b	%	IDR b
<b>PROPERTY SALES</b>								
Ciputra Development	817	1,531	3,822	2,291	21,367	23,658	100%	23,658
Ciputra Surya	648	690	34,171	33,482	9,982	43,464	63%	27,234
Ciputra Property	6	735	1,479	744	4,286	5,030	58%	2,919
<b>Total</b>	<b>1,471</b>	<b>2,956</b>	<b>39,472</b>	<b>36,517</b>	<b>35,635</b>	<b>72,152</b>		<b>53,812</b>
	Annual CF	Cap Rate	BV	NPV	Excess MV	Gross Value	Ownership	Net Value
	IDR b	%	IDR b	IDR b	IDR b	IDR b	%	IDR b
<b>INVESTMENT PROPERTIES</b>								
Ciputra Property	1,064	15.9%	3,180	6,702	3,522	3,522	58%	2,044
Ciputra Surya	148	15.9%	510	934	424	424	63%	266
<b>Total</b>	<b>1,213</b>		<b>3,690</b>	<b>7,636</b>	<b>3,946</b>	<b>3,946</b>		<b>2,310</b>
<b>TOTAL</b>								<b>56,121</b>
Adjustments & Development Costs								(9,530)
Customer Advance								(4,832)
Net Cash								(1,912)
<b>RNAV</b>	discounts	49%						20,175
# of Shares	# mn							15,166
<b>Value per share</b>								<b>1,330</b>

Source: Maybank

FYE 31 Dec (IDR bn)	FY11A	FY12A	FY13E	FY14E	FY15E
<b>Key Metrics</b>					
P/E (reported) (x)	48.8	26.3	14.2	11.2	10.4
Core P/E (x)	48.8	26.3	14.2	11.2	10.4
P/BV (x)	3.0	2.8	2.5	2.1	1.9
P/NTA (x)	3.0	2.8	2.5	2.1	1.9
Net dividend yield (%)	0.7	1.2	0.0	0.0	0.0
FCF yield (%)	nm	0.1	8.9	2.2	9.6
EV/EBITDA (x)	nm	nm	0.7	1.0	1.1
EV/EBIT (x)	19.1	14.7	0.8	1.1	1.1
<b>Income Statement</b>					
Revenue	2,178.3	3,322.7	6,465.4	8,279.8	8,903.2
Gross profit	1,006.5	1,617.6	3,189.0	4,126.1	4,441.3
EBITDA	0.0	0.0	1,894.9	2,456.1	2,675.2
Depreciation	0.0	0.0	(82.8)	(95.2)	(109.5)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	493.8	933.9	1,812.1	2,360.9	2,565.6
Net interest income /(exp)	(26.4)	(55.0)	73.4	29.6	16.2
Associates & JV	0.0	0.0	2.0	2.0	2.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	615.6	1,027.1	1,887.5	2,392.5	2,583.8
Income tax	(124.8)	(180.0)	(323.3)	(414.0)	(445.2)
Minorities	(169.2)	(260.3)	(469.3)	(593.6)	(641.6)
Reported net profit	324.8	589.1	1,094.9	1,385.0	1,497.1
Core net profit	324.8	589.1	1,094.9	1,385.0	1,497.1
<b>Balance Sheet</b>					
Cash & Short Term Investments	2,119.8	2,746.5	4,076.5	2,713.0	2,146.3
Property, Plant & Equip (net)	4,618.2	3,981.2	1,412.4	1,610.6	1,838.5
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	247.7	360.7	0.0	0.0	0.0
Other assets	4,539.2	7,935.0	7,032.4	8,973.1	10,267.2
Total assets	11,524.9	15,023.4	18,715.2	20,478.2	22,636.5
ST interest bearing debt	0.0	134.2	0.0	0.0	0.0
LT interest bearing debt	801.9	1,336.6	2,165.0	1,960.0	1,771.0
Other liabilities	3,075.5	5,071.8	6,951.5	8,004.3	9,363.5
Total Liabilities	3,877.4	6,542.6	9,116.5	9,964.3	11,134.5
Shareholders Equity	5,106.7	5,589.6	6,315.7	7,230.9	8,219.0
Minority Interest	2,540.7	2,891.1	3,283.0	3,283.0	3,283.0
Total shareholders equity	7,647.4	8,480.7	9,598.7	10,513.9	11,502.0
<b>Cash Flow</b>					
Pretax profit	615.6	1,027.1	1,887.5	2,392.5	2,583.8
Depreciation & amortisation	0.0	0.0	82.8	95.2	109.5
Adj net interest (income)/exp	(51.9)	(35.3)	0.0	0.0	0.0
Change in working capital	0.0	0.0	772.1	(396.2)	801.4
Cash taxes paid	210.5	244.7	(323.3)	(414.0)	(445.2)
Other operating cash flow	0.0	1,142.2	(469.3)	(593.6)	(641.6)
Cash flow from operations	886.9	1,731.3	1,949.8	1,084.0	2,407.9
Capex	(1,378.7)	(1,608.8)	(563.0)	(742.8)	(921.4)
Free cash flow	(582.7)	16.5	1,386.9	341.1	1,486.6
Dividends paid	(90.9)	(105.9)	(383.2)	(484.7)	(524.0)
Equity raised / (purchased)	8.4	155.8	15.0	15.0	15.0
Change in Debt	519.8	628.2	694.0	(205.0)	(189.0)
OTH investing/financing cash flow	(21.1)	(176.9)	(344.1)	(1,030.0)	(1,355.2)
Effect of exch rate changes	0.7	10.6	0.0	0.0	0.0
Net cash flow	(126.8)	599.0	1,368.5	(1,363.6)	(566.6)

FYE 31 Dec (IDR bn)	FY11A	FY12A	FY13E	FY14E	FY15E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	28.7	52.5	94.6	28.1	7.5
EBITDA growth	na	na	nm	29.6	8.9
EBIT growth	45.3	89.1	94.0	30.3	8.7
Pretax growth	28.4	66.9	83.8	26.8	8.0
Reported net profit growth	25.9	81.4	85.9	26.5	8.1
Core net profit growth	25.9	81.4	85.9	26.5	8.1
<b>Profitability ratios (%)</b>					
EBITDA margin	0.0	0.0	29.3	29.7	30.0
EBIT margin	22.7	28.1	28.0	28.5	28.8
Pretax profit margin	28.3	30.9	29.2	28.9	29.0
Payout ratio	33.3	30.8	0.0	0.0	0.0
<b>DuPont analysis</b>					
Net profit margin (%)	14.9	17.7	16.9	16.7	16.8
Revenue/Assets (x)	0.2	0.2	0.3	0.4	0.4
Assets/Equity (x)	2.3	2.7	3.0	2.8	2.8
ROAE (%)	4.4	7.3	12.1	13.8	13.6
ROAA (%)	3.1	4.4	6.5	7.1	6.9
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	54.1	51.7	35.0	32.1	34.7
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	8.5	4.1	61.8	109.5	118.2
Dividend cover (x)	3.0	3.3	nm	nm	nm
Current ratio (x)	2.0	1.6	4.3	3.4	3.1
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	3.0	2.3	2.1	2.1	2.0
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	18.7	17.0	na	na	na
Debt/EBITDA (x)	nm	nm	1.1	0.8	0.7
Capex/revenue (%)	63.3	48.4	8.7	9.0	10.3
Net debt/ (net cash)	(1,317.8)	(1,275.7)	(1,911.5)	(753.0)	(375.3)



## Lippo Cikarang (LPCK IJ)

Share Price: IDR6,975

MCap (USD): 410M

Indonesia

Target Price: IDR8,000(+15%)

ADTV (USD): 0.7M

Real Estate

# BUY

(New)

### Versatile industrial estate player

- Initiate at BUY on under-researched stock with TP of IDR8,000 for the versatile mixed use industrial estate.
- We forecast pre-sales to grow 35% supported by its large-scale development project while industrial land sales will remain soft in 2014F.
- Expect the company to continue to deliver the highest ROE among property companies in our universe, albeit slowing due to slower earnings growth.

#### Developing new city center to drive growth

The company is currently working on its new long-term landmark project, Lippo Cikarang City Center (LCCC), an integrated business center with area of 298ha. This will be a landmark development in the industrial area of Bekasi, Cikarang and Karawang.

#### Pre-sales supported by non-industrial land

The company plans to mitigate the slowdown in the industrial land demand in 2013-2014F by launching the first phase of a large scale development project in Lippo Cikarang. We forecast pre-sales of IDR2.4tn in 2014F (35% y-y growth).

#### Valuation and risks

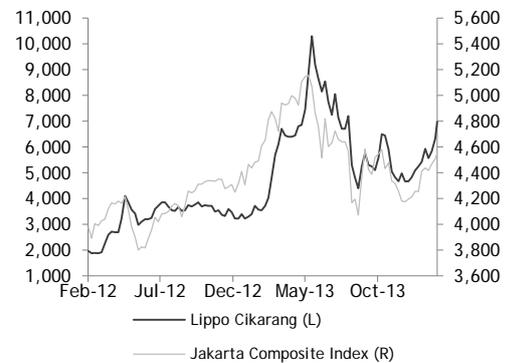
Our target price of IDR8,000 is a 38% discount to its RNAV of IDR12,865. Our target price translates to 7.4x P/E and 2.1x P/B 2014F; slightly above +1SD its historical two years average. The risks to our view include: interest rate hikes, currency volatility, economic slowdown and tighter regulations.

FYE Dec (IDR bn)	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue	905.6	1,021.9	1,660.6	1,821.9	1,998.1
EBITDA	0.0	0.0	789.6	821.1	869.9
Core net profit	257.7	407.0	724.1	751.0	809.0
Core EPS (IDR)	370	585	1,040	1,079	1,162
Core EPS growth (%)	294.6	58.0	77.9	3.7	7.7
Net DPS (IDR)	0	0	0	0	0
Core P/E (x)	18.8	11.9	6.7	6.5	6.0
P/BV (x)	5.9	4.0	2.5	1.8	1.4
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAE (%)	37.2	39.7	45.5	32.3	26.0
ROAA (%)	13.9	16.7	23.6	19.4	16.2
EV/EBITDA (x)	nm	nm	nm	nm	nm
Net debt/equity (%)	14.3	net cash	net cash	net cash	net cash

#### Key Data

52w high/low (IDR)	10,700/3,600
Free float (%)	57.8
Issued shares (m)	696
Market capitalization	IDR4.9T
Major shareholders:	
-PT Kemuning Setiatama	42%
-Grandeur Peak Global Advisors LLC	1%
-Dimensional Fund Advisors LP	1%

#### Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute(%)	28.6	41.6	93.8
Relative to country (%)	24.5	36.6	96.1

#### Maybank vs Market

	Positive	Neutral	Negative
Market Recs	2	0	0
	Maybank Consensus		% +/-
Target Price (IDR)	8,000	6,850	16.8
2013 PATMI(IDRbn)	724	579	25.2
2014 PATMI(IDRbn)	751	731	2.8

Source: FactSet; Maybank

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## Company background

### A versatile industrial estate

Lippo Cikarang is a mixed use industrial estate located in Bekasi, 31km east of Jakarta. The company owns development rights of 3,251ha with land bank of 572ha as of 9M2013. The company is a subsidiary of Lippo Group under direct ownership of Lippo Karawaci which owns a 54.4% stake in the company.

Through its management expertise and support from shareholders, the company managed to develop an industrial estate which is also strong in its residential and commercial segments.

Figure 92: Location map Lippo Cikarang



Source: Company data

## Property projects

### Residential segment

Lippo Cikarang is active in both industrial land and residential sales. Its industrial land is reserved for non-pollutant industries enabling it to increase landbank efficiency by also also develop residential projects.

The company has built more than 12,000 houses with capacity for 50,000 residents. We think that Lippo Cikarang is the leading residential developer in the Bekasi-Cikarang area as the company benefits from the management's expertise from its shareholder. As of 9M2013, Lippo Cikarang owns 194ha land bank for residential projects.

## Lippo Cikarang City Center

Besides building landed residential properties, the company also plans to develop a large scale development called Lippo Cikarang City Center (LCCC). The 298ha project area is located adjacent to the Jakarta-Cikampek toll road. The project is planned for completion in 2020 and will launch the first phase in 1H2014.

We think that this landmark project will be its new source of growth in light of tight competition in the industrial estate segment. We believe that the concept of LCCC, which will incorporate a business center, will attract companies which have production facilities in the surrounding area to set up offices.

Figure 93: Lippo Cikarang City Center master plan



Source: Company data

## Delta Silicone industrial estate

Lippo Cikarang's industrial estate is one of the first modern industrial estates in Indonesia. It is well equipped with excellent infrastructure to support the propertyion processes of its 820 tenants. Going forward, with its 378ha land bank (as of 9M2013) for industrial estate, besides selling land plots, the company also plans to lease the land as source of recurring income.

## Financials

### Pre-sales set to grow 35% in 2014F

We expect the non-industrial segment to drive the pre-sales to reach IDR2.4tn in 2014F (35% y-y growth) and IDR2.79tn in 2015F (16% YoY growth). We project the first phase of LCCC to contribute IDR1tn in 2014F and IDR1.1tn in 2015F. Our 2014F pre-sales target is lower than the company's guidance of IDR3tn.

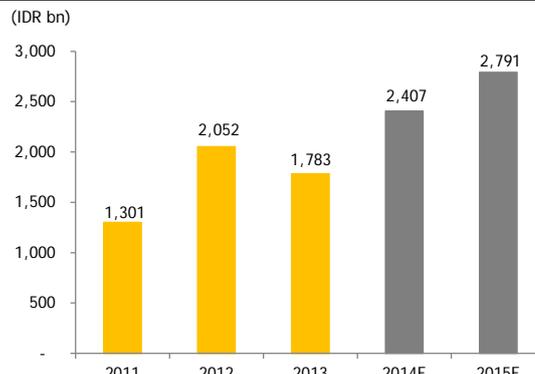
Figure 94: LPCK Pre-sales breakdown



Source: Company data, Maybank KE

Note: Apartment sales are included into large scale developments

Figure 95: LPCK Pre-sales

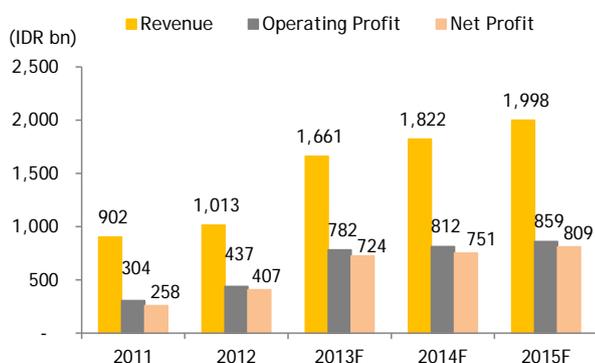


Source: Company data, Maybank KE

With sustained pre-sales growth momentum, we project its revenue to grow by 10% to IDR1,822bn and 1,998bn in 2014F-2015F. Although we project stronger pre-sales growth in these periods, we expect that there will be a longer recognition time due to the shift in property mix. Industrial estate land requires a shorter recognition period of 9-12 months, landed residential usually takes 12-18 months and high rise buildings takes the longest recognition period of 24-36 months.

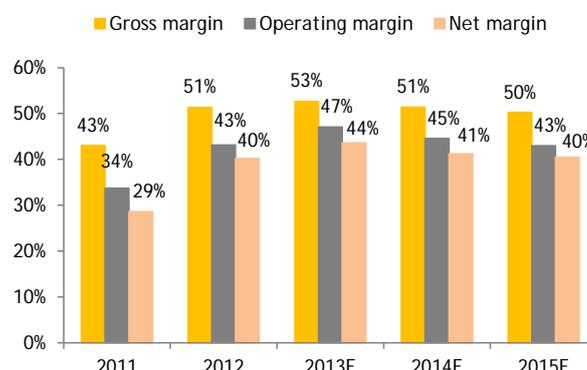
We expect gross margin to be slightly diluted to 51% and 50% in 2014F-2015F due to the property mix shift. We expect Lippo Cikarang to maintain its high margin through efficiency of its selling and G&A expenses which we expect to be 5% of its pre-sales. We expect earnings to grow 4% and 8% in 2014F-2015F.

Figure 96: LPCK Revenue, Operating profit, Net profit



Source: Company data, Maybank KE

Figure 97: LPCK Margins

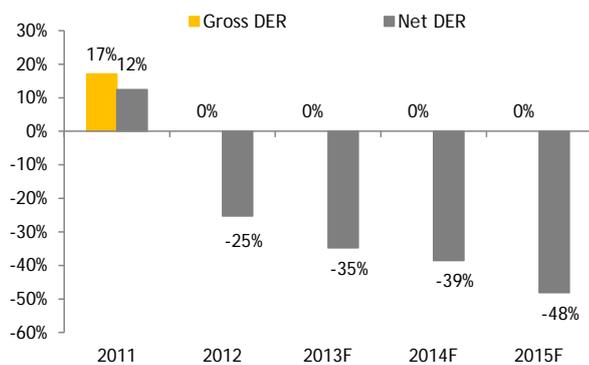


Source: Company data, Maybank KE

## Maintain unleveraged with high ROE

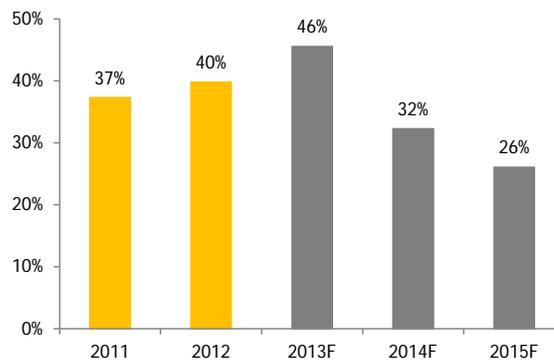
Although we think that it is possible for the company to source capital from bank loans to start the first phase development of LCCC, we assume that it will not do so and maintain to be unleveraged. We continue to forecast high ROE, albeit slowing due to slower earnings growth in 2014F-2015F. Lippo Cikarang remains to have the highest ROE amongst property companies in our universe.

Figure 98: LPCK Gearing



Source: Company data, Maybank KE

Figure 99: LPCK Return on Equity



Source: Company data, Maybank KE

## Risks to our views

### Interest rate hikes

In general, property companies will suffer when the central bank increases the reference rate as the cost of funds to purchase property will increase and we expect investors to hold their investment in property market.

### Currency volatility

The volatility of the currency may risk the company's profitability especially in the large scale development business segments as the cost of development relates to the USD.

### Economic downturn

In the event of an economic slowdown, we expect demand in the property market to slow, especially in the middle-up segment and high rise projects. The slowing economy could also increase the risk of bad debts from customers with who pay in cash installments.

### Regulatory environment

The government has kept a close eye on the Indonesian property market and has introduced measures aimed at curbing the unsustainable increase in property prices. Other regulatory risks include stricter regulations for homebuyers and higher property taxes.

## Valuation

Initiate BUY with TP of IDR8,000, which implies a 38% discount to its RNAV of IDR12,865/share. We calculate its RNAV by using DCF valuation of its five year operating cash flows and we assigned residual value of its remaining land bank. To derive the DCF valuation, we assigned WACC of 17.6% based on 19.2% cost of equity, beta of 1.6 and 11.0% cost of debt assuming 20% LT debt-equity ratio.

Our discount rate of 38% is applied to Lippo Cikarang due to its prime land bank in the main industrial area in Indonesia with its abilities to offer other properties besides industrial segment.

Our target price translates to 7.4x P/E and 2.1x P/B 2014F. Our TP is slightly above its +1SD one year forward P/E of 5.7x and in line with its +1SD one year forward P/B of 1.8x.

Figure 100: RNAV calculation

	Land balance	BV	MV	Excess MV	NPV	Gross value	Ownership	Net value
	ha	IDR b	IDR b	IDR b	IDR b	IDR b	%	IDR b
PROPERTY SALES	182	273	2,675	2,402	9,307	11,709	100%	11,709
Adjustments & Development Costs								(273)
Customer Advance								(1,444)
Net Cash								(1,038)
RNAV								5,568
# of Shares								696
Value per share		IDR						8,000

Source: Maybank KE

FYE 31 Dec (IDR bn)	FY11A	FY12A	FY13E	FY14E	FY15E
<b>Key Metrics</b>					
P/E (reported) (x)	18.8	11.9	6.7	6.5	6.0
Core P/E (x)	18.8	11.9	6.7	6.5	6.0
P/BV (x)	5.9	4.0	2.5	1.8	1.4
P/NTA (x)	5.9	4.0	2.5	1.8	1.4
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
FCF yield (%)	9.6	8.8	7.5	8.1	14.4
EV/EBITDA (x)	nm	nm	nm	nm	nm
EV/EBIT (x)	nm	nm	nm	nm	nm
<b>Income Statement</b>					
Revenue	905.6	1,021.9	1,660.6	1,821.9	1,998.1
Gross profit	383.8	521.4	874.3	936.7	1,003.6
EBITDA	0.0	0.0	789.6	821.1	869.9
Depreciation	0.0	0.0	(7.8)	(9.4)	(11.3)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	0.0	0.0	781.7	811.7	858.6
Net interest income /(exp)	(15.5)	(3.9)	20.0	25.0	45.0
Associates & JV	2.6	6.2	6.0	6.0	6.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	301.6	457.6	807.7	842.7	909.6
Income tax	(43.9)	(50.6)	(83.6)	(91.7)	(100.6)
Minorities	0.0	0.0	0.0	0.0	0.0
Reported net profit	257.7	407.0	724.1	751.0	809.0
Core net profit	257.7	407.0	724.1	751.0	809.0
<b>Balance Sheet</b>					
Cash & Short Term Investments	37.4	310.5	677.8	1,038.1	1,682.9
Property, Plant & Equip (net)	491.0	381.2	59.0	72.1	87.9
Intangible assets	0.5	9.1	0.0	0.0	0.0
Investment in Associates & JVs	19.3	14.6	15.0	15.0	15.0
Other assets	2,813.9	4,006.2	2,179.4	2,831.1	3,165.0
Total assets	2,042.0	2,832.0	3,297.1	4,457.3	5,534.9
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	154.8	0.0	0.0	0.0	0.0
Other liabilities	1,065.7	1,603.5	1,344.9	1,754.2	2,022.7
Total Liabilities	1,220.5	1,603.5	1,344.9	1,754.2	2,022.7
Shareholders Equity	821.4	1,228.5	1,952.1	2,703.1	3,512.1
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholders equity	821.4	1,228.5	1,952.1	2,703.1	3,512.1
<b>Cash Flow</b>					
Pretax profit	301.6	457.6	807.7	842.7	909.6
Depreciation & amortisation	0.0	0.0	7.8	9.4	11.3
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	0.0	0.0	(313.1)	(204.3)	(4.3)
Cash taxes paid	135.2	175.8	(83.6)	(91.7)	(100.6)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	483.5	437.4	418.8	556.1	816.0
Capex	(19.7)	(11.5)	(54.6)	(161.7)	(115.2)
Free cash flow	463.8	425.9	364.2	394.4	700.8
Dividends paid	0.0	0.0	0.0	0.0	0.0
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(454.1)	(140.0)	0.0	0.0	0.0
OTH investing/financing cash flow	(7.8)	(12.9)	3.6	(34.1)	(56.1)
Effect of exch rate changes	0.0	0.1	0.0	0.0	0.0
Net cash flow	1.9	273.1	367.8	360.3	644.8

FYE 31 Dec (IDR bn)	FY11A	FY12A	FY13E	FY14E	FY15E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	123.8	12.8	62.5	9.7	9.7
EBITDA growth	na	na	nm	4.0	5.9
EBIT growth	na	na	nm	3.8	5.8
Pretax growth	253.8	51.7	76.5	4.3	7.9
Reported net profit growth	294.6	58.0	77.9	3.7	7.7
Core net profit growth	294.6	58.0	77.9	3.7	7.7
<b>Profitability ratios (%)</b>					
EBITDA margin	0.0	0.0	47.5	45.1	43.5
EBIT margin	0.0	0.0	47.1	44.6	43.0
Pretax profit margin	33.3	44.8	48.6	46.3	45.5
Payout ratio	0.0	0.0	0.0	0.0	0.0
<b>DuPont analysis</b>					
Net profit margin (%)	28.5	39.8	43.6	41.2	40.5
Revenue/Assets (x)	0.4	0.4	0.5	0.4	0.4
Assets/Equity (x)	2.5	2.3	1.7	1.6	1.6
ROAE (%)	37.2	39.7	45.5	32.3	26.0
ROAA (%)	13.9	16.7	23.6	19.4	16.2
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	27.8	23.6	16.5	19.4	19.4
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	nm	nm	45.0	85.0	85.1
Dividend cover (x)	nm	nm	nm	nm	nm
Current ratio (x)	nm	nm	2.2	2.2	2.4
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.7	1.8	2.5	2.5	2.7
Net debt/equity (%)	14.3	net cash	net cash	net cash	net cash
Net interest cover (x)	0.0	0.0	na	na	na
Debt/EBITDA (x)	nm	nm	0.0	0.0	0.0
Capex/revenue (%)	2.2	1.1	3.3	8.9	5.8
Net debt/ (net cash)	117.4	(310.5)	(677.8)	(1,038.1)	(1,682.9)



## Sentul City (BKSL IJ)

Share Price: IDR175

MCap (USD): 464M

Indonesia

Target Price: IDR200(+14%)

ADTV (USD): 1.0M

Real Estate

# BUY

(New)

### A buzzing bee

- Initiate at BUY on under-researched stock with IDR200 TP, which implies 80% discount to RNAV of IDR1,022.
- On track to show real significant progress in the development of its township.
- Full ownership of its subsidiary; Sentul Nirwana will unlock value and boost monetization process of its massive 12,000ha land bank.

### Township developer located south of Jakarta

Sentul City is a township developer with the largest land bank in Indonesia. It has a 13,400ha land bank located 37km south of Jakarta and will regain market confidence with the full ownership of its subsidiary Sentul Nirwana.

### Growing commercial areas to drive growth

The opening of several commercial areas due to businesses' positive outlook on Sentul City has driven population growth, and more businesses to expand their operations there. We expect pre-sales to be flat at IDR2.0t in 2014F and to grow 16% to IDR2.4t in 2015F.

### Valuation and risks

We initiate coverage on BKSL with TP of IDR200, an 80% discount to its RNAV of IDR1,022. Our TP translates to 14.0x P/E and 1.1x P/B 2014F, which are in line with its historical average. Risks to our view include interest-rate hikes, execution risk, tighter regulations, economic slowdown, and currency volatility.

FYE Dec (IDR bn)	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue	461.9	632.7	984.3	1,764.0	2,526.3
EBITDA	0.0	0.0	241.8	604.1	956.8
Core net profit	135.6	221.1	768.7	450.3	773.2
Core EPS (IDR)	5	7	24	14	25
Core EPS growth (%)	75.5	53.7	247.8	(41.4)	71.7
Net DPS (IDR)	0	0	0	0	0
Core P/E (x)	38.2	24.9	7.1	12.2	7.1
P/BV (x)	1.2	1.1	1.0	0.9	0.8
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAE (%)	3.1	4.7	13.0	6.2	9.9
ROAA (%)	2.7	3.9	9.7	4.5	7.3
EV/EBITDA (x)	nm	nm	2.6	2.1	1.6
Net debt/equity (%)	5.4	10.2	net cash	net cash	0.2

### Key Data

52w high/low (IDR)	335/150
Free float (%)	65.6
Issued shares (m)	31,397
Market capitalization	IDR5.5T
Major shareholders:	
-PT Citra Kharisma Komunika	34%
-Mackenzie Financial Corp.	6%
-Dimensional Fund Advisors LP	2%

### Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute(%)	6.7	(1.7)	(28.6)
Relative to country (%)	3.3	(5.2)	(27.7)

### Maybank vs Market

	Positive	Neutral	Negative
Market Recs	1	0	0
<b>Maybank Consensus</b>			
Target Price (IDR)	200	340	(41.2)
2013 PATMI (IDRbn)	769	na	na
2014 PATMI (IDRbn)	450	na	na

Source: FactSet; Maybank

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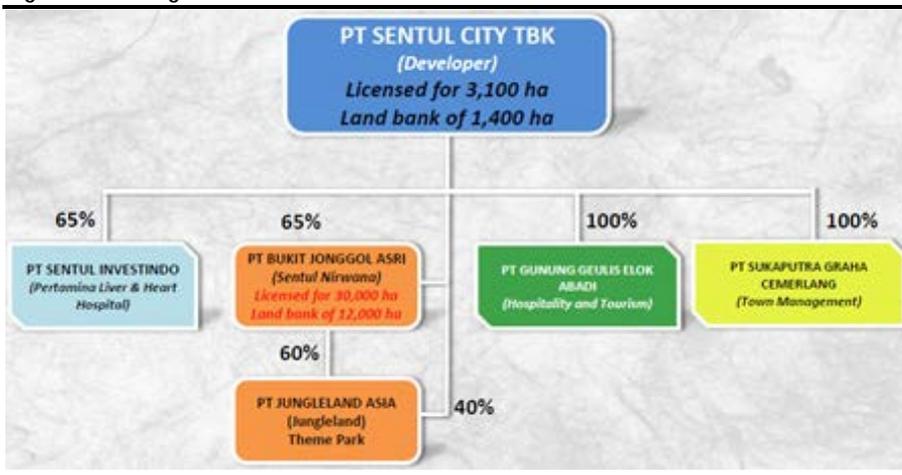
## Company Background

### Property developer with largest land bank

Sentul City is a property developer in the Bogor area (37km south of Jakarta) and has the largest land bank in the country. It has a development area of 33,100ha and a land bank of 12,400ha at a single location. Its massive land bank is equivalent to 17% of Jakarta's area.

Its main asset is its subsidiary Bukit Jonggol Asri that owns the development license for 30,000ha and a land bank of 12,000ha, which is located next to the Sentul City township called Sentul Nirwana. Sentul City currently owns a 65% stake in Bukit Jonggol Asri. At the parent company level, it owns the development license for 3,100ha and a land bank of 1,400ha. Besides property development, Sentul City also owns and operates several investment properties such as a theme park, hospital and hotels.

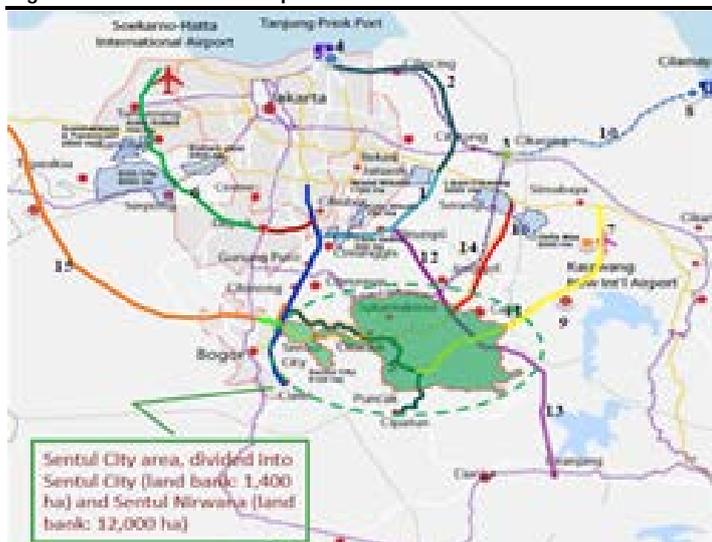
Figure 101: Organizational chart



Source: Company data

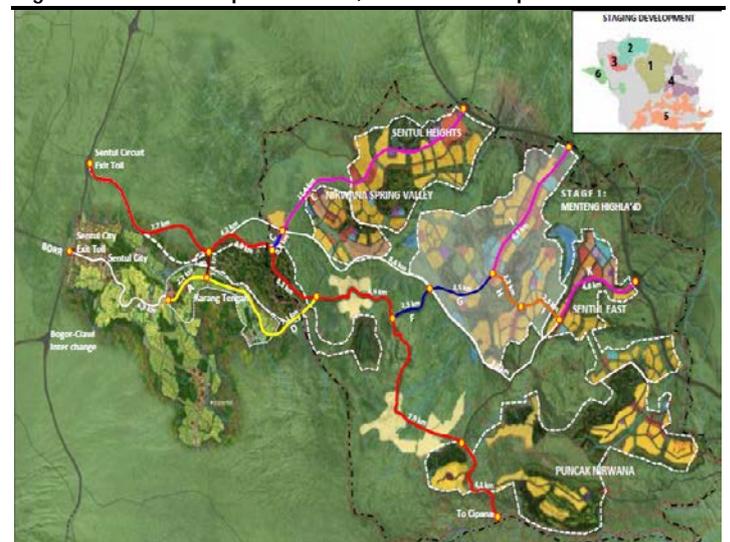
Currently, Sentul City has one direct connection to Jakarta via the Jagorawi toll-road. Additional access to Sentul City is underway with the government building a route connecting it with Cipanas (recreational mountain site) that passes through the Sentul Nirwana township (dark green line in Fig.2). The road is expected to be completed by 2H14.

Figure 102: Location map



Source: Company data

Figure 103: Master plan for 33,100ha development area



Source: Company data

## Earnings drivers

### Vibrant commercial segment to boost residential sales

Since its inception in 1992, Sentul City has been selling mainly residential properties with minimal development in the commercial areas. This has made some customers view the township as somewhat quiet and less attractive than its competitors. However in 2013, Sentul City successfully developed its commercial areas with the opening of a food center, hypermarket, hospital, hotels, theme park and the construction of office buildings and schools is set to commence in 2014.

This year, Sentul City will focus on the development of its CBD with a 50ha area. The CBD is located near the toll-road to Jakarta. The company aims to attract traffic to the township, which will eventually drive pre-sales of its residential properties.

Figure 104: List of Sentul City projects in its CBD

Project Name	Project Type	Status
AEON Mall	Shopping Mall	Planning
AEON Apartment	Apartment	Planning
IKEA	Retail Store	Planning
Decathlon	Retail Store	Planning
Trisakti Campus	Education building	Construction
BCA Training Centre	Office building	Construction
Hyatt Regency	Mixed-use building	Planning

Source: Company data, Maybank KE

### Full ownership of Bukit Jonggol Asri (Sentul Nirwana)

In 2010, the company entered into a strategic partnership with Bakrieland Development (ELTY IJ) to develop Sentul Nirwana. This was to be done through Bukit Jonggol Asri (BJA) and each would have an equal stake in BJA. Sentul City initially invested IDR1.6t for a 50% stake and in April 2013, bought an additional 15% stake for IDR300b.

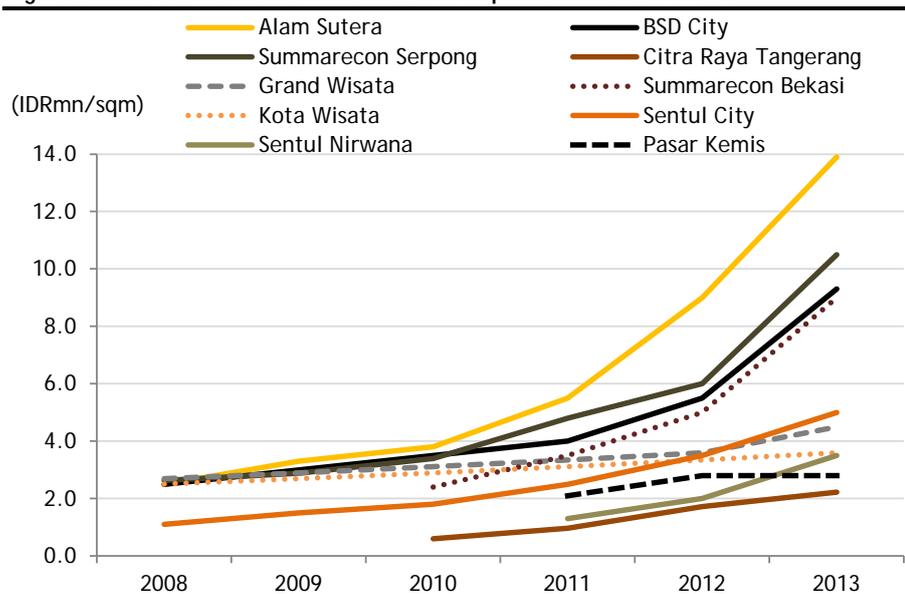
BJA's ample land bank has attracted Sentul City to fully own the company. Sentul City is in the process of acquiring the remaining 35% of BJA from Bakrieland. Management has guided that the transaction should close by March 2014.

### Growing township creates room for ASP increase

The land price in Sentul City has always been traded at a discount to other parts of Greater Jakarta (Serpong, Tangerang, Bekasi and Depok). We think this is due to the lack of commercial development in the Sentul area, which has led to soft demand and a relatively low occupancy rate compared to other townships in the Greater Jakarta area.

As seen in the figure below, Sentul City's prices used to be in the bottom range until in 2010 when it managed to position itself in the middle range. We think the development in the Sentul City township will drive up the ASP, closing the current high price gap to Alam Sutera and BSD City.

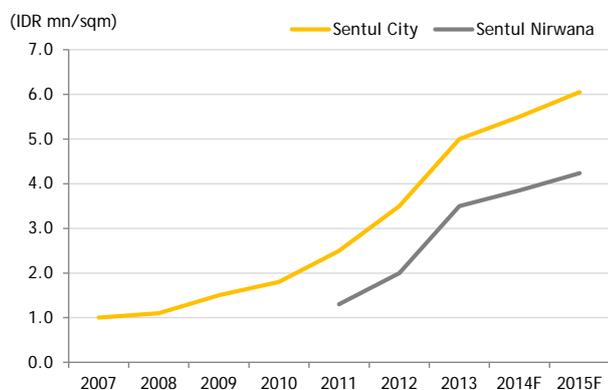
Figure 105: ASP between different townships in Greater Jakarta



Source: Company data, Maybank KE

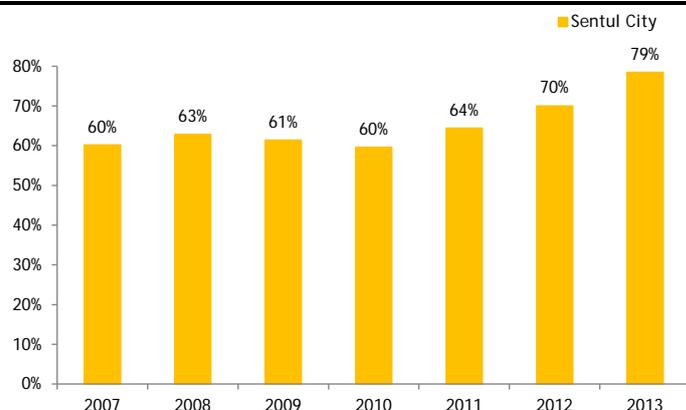
With many CBD development projects in the pipeline for this year, we are positive the occupancy will continue to increase and eventually develop Sentul City into a mature township. We project Sentul City's ASP to be IDR5.5m/sqm and IDR6.0m/sqm in 2014F-2015F (+10% YoY).

Figure 106: ASP of Sentul City and Sentul Nirwana



Source: Company data, Maybank KE

Figure 107: Occupancy rate of Sentul City



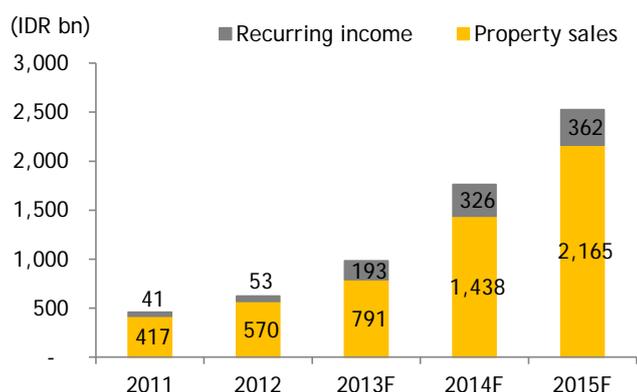
Source: Company data, Maybank KE

### Ramping up investment properties

Sentul City has been adding investment properties to its portfolio to increase revenue contribution from recurring income. In 2013, the company soft launched its theme park called Jungle Land, which is in Sentul Nirwana. Other investment properties include a food center, hotel and hospital.

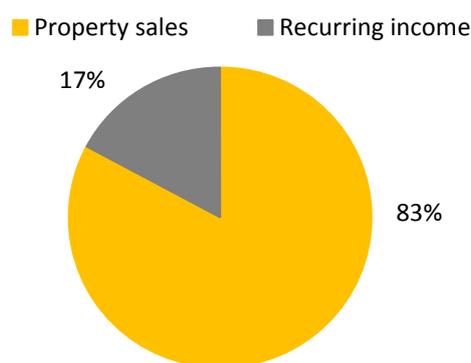
We expect recurring income to contribute 16% to total revenue in 2014F, creating a decent revenue contribution mix. The company plans to add to its investment properties with a shopping mall leased to AEON Mall, and by extending the hospital and food center.

Figure 108: Revenue composition



Source: Company data, Maybank KE

Figure 109: Revenue contribution (2013F)



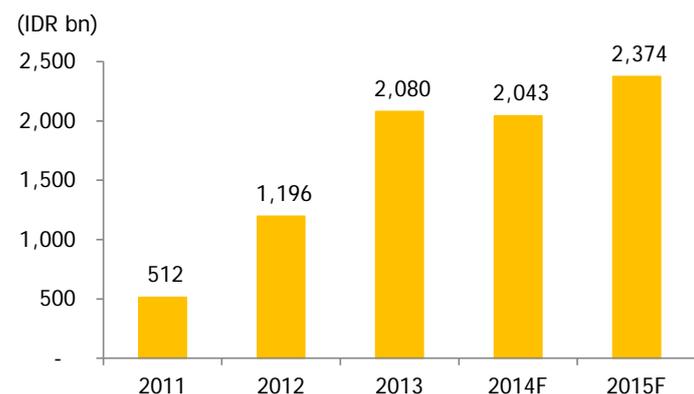
Source: Company data, Maybank KE

## Financials

### Pre-sales to grow 16% in 2015F

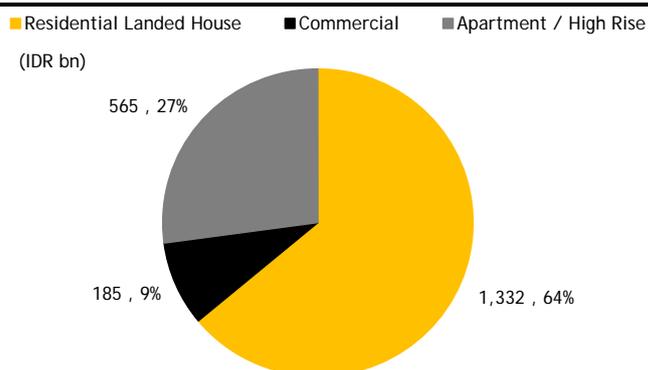
Sentul City booked IDR2.1t in presales in 2013, up from IDR1.2t in 2012. The 74% YoY sales growth in 2013 was supported by sales from Condotel amounting to IDR565b. We expect flat pre-sales for 2014F, in line with the company's guidance. We forecast pre-sales to grow 16% in 2015F, which will still be supported by a mix of landed residential, apartment and commercial sales.

Figure 110: Pre-sales



Source: Company data, Maybank KE

Figure 111: Pre-sales breakdown (2013)



Source: Company data, Maybank KE

### Slower revenue recognition due to slower delivery

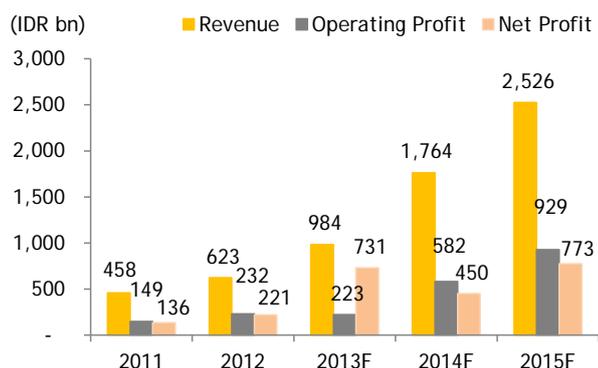
Due to high precipitation in the Bogor area, the time required to complete construction of a property is longer than in other parts of the Greater Jakarta area. On average, it rains more than 200 days a year in the Bogor area and it takes three years to construct a landed residential property. In other areas where it does not rain so much, it takes only 18 months to build a landed residential.

### High revenue growth with stabilizing margins

We expect BKSL's revenue to grow by 79% and 43% in 2014F-2015F on the back of the high pre-sales growth since 2012. We forecast operating margins to stabilize at 53% in 2014F-2015F, lower than the 55% operating margin in 2012 due to higher operating costs and selling expenses. Finally, we forecast net margins to come in at 26-31% at IDR450b and IDR773b in 2014F-2015F, which implies 72% earnings growth in 2015F.

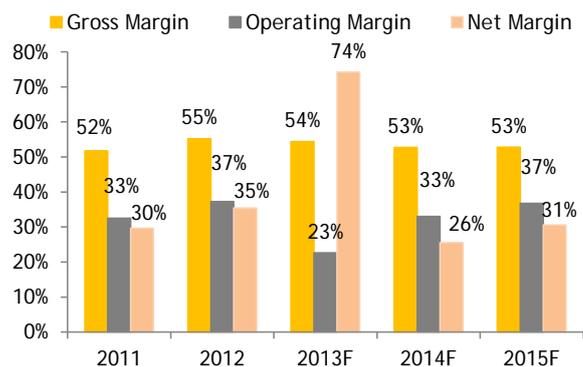
The high IDR731b net profit in 2013F was due to BJA's negative goodwill write-off amounting to IDR349b and its earnings before the consolidation of the company to Sentul City amounting to IDR377b as the company's stake in BJA increased to 65% in April 2013. The company also incurred a forex loss of IDR60b as of 9M13.

Figure 112: BKSL revenue, operating profit and net profit



Source: Company data, Maybank KE

Figure 113: BKSL margins

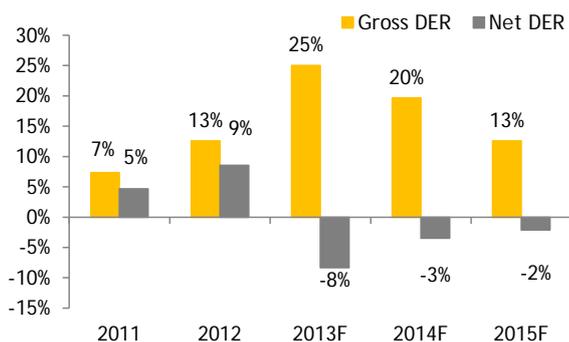


Source: Company data, Maybank KE

### Turn net cash in 2013F and double digit ROE in 2014F

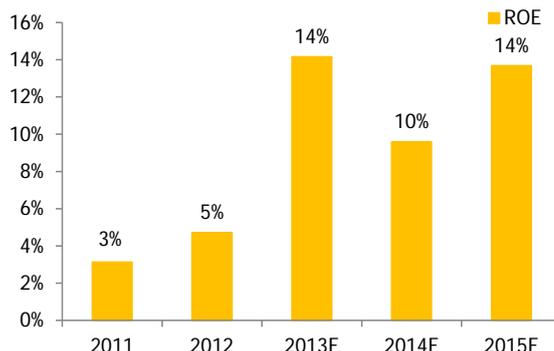
With higher pre-sales in 2013, we forecast that going forward the company can operate at net cash assuming it does not use any leverage to acquire the remaining 35% stake in BJA. With higher pre-sales and revenue contribution from recurring income, we forecast ROE to be 10% and 14% in 2014F-2015F.

Figure 114: BKSL gearing



Source: Company data, Maybank KE

Figure 115: BKSL Return on Equity



Source: Company data, Maybank KE

## Risks to our view

### Interest-rate hikes

In general, property companies will suffer when the central bank raises the reference rate as the cost of funds to purchase property will increase. If this happens, we expect investors to hold off investing in the property market.

### Execution risks

We note the execution risk for the company's extensive high-rise developments as the contour and land texture in the Sentul City area are more challenging than in other townships in the Greater Jakarta area.

We also note the execution risk from the current composition of shareholders at its main subsidiary BJA, where the other shareholders may hinder the development of Sentul Nirwana due to corporate governance issues.

### Economic downturn

In the event of an economic slowdown, we expect the demand in the property market to slow, especially in the middle to upper segments and high-rise projects. A slowing economy could also increase the risk of bad debts from customers paying in cash installments.

### Regulatory environment

The property market has been under a close watch by the government with its high growth in the last five years. The company may need a longer time to secure licenses to build high-rise buildings, which may hinder the overall pre-sales growth. Other regulatory risks include stricter regulations for consumers to buy property and higher property taxes.

## Valuation

We initiate coverage on Sentul City with a BUY and TP of IDR200, which implies an 80% discount to its RNAV of IDR1,022/sh. We calculated its RNAV using the DCF valuation of its five-year operating cash flows and we assigned a residual value to its remaining land bank. To derive the DCF valuation, we assigned a WACC of 14.1% based on 17.1% cost of equity, beta of 1.3 and 11% cost of debt assuming a 50% LT debt-equity ratio.

We assigned an 80% discount to its RNAV due to its massive land bank, which requires a significant amount of time to be monetized. We also note the execution risk from the company's strategic partner in the ownership of the subsidiary.

Our TP translates to 14.0x P/E and 1.1x P/B 2014F. Our TP is below its historical five-year mean of one-year forward P/E mean of 14.5x. This is in line with its one-year forward P/B mean of 1.1x.

Figure 116: RNAV calculation

	Land Balance	BV	MV	Excess MV	NPV	Gross Value	Ownership	Net Value
PROPERTY SALES	ha	IDR b	IDR b	IDR b	IDR b	IDR b	%	IDR b
Sentul City	1,210	1,210	18,150	16,940	4,695	21,635	100%	21,635
Sentul Nirwana	11,550	5,775	29,453	23,678	3,952	27,630	65%	17,959
<b>Total</b>	<b>12,760</b>	<b>6,985</b>	<b>47,603</b>	<b>40,618</b>	<b>8,647</b>	<b>49,265</b>		<b>39,594</b>

	Annual CF	Cap Rate	BV	NPV	Excess MV	Gross Value	Ownership	Net Value
INVESTMENT PROPERTIES	IDR b	%	IDR b	IDR b	IDR b	IDR b	%	IDR b
Hospital	73	14.1%	229	516	287	287	65%	187
Theme Park	352	14.1%	1,000	2,508	1,508	1,508	79%	1,191
Hotel	31	14.1%	126	223	97	97	100%	97
<b>Total</b>	<b>456</b>		<b>1,355</b>	<b>3,247</b>	<b>1,892</b>	<b>1,892</b>		<b>1,475</b>

<b>TOTAL</b>								<b>41,069</b>
Adjustments & Development Costs								(9,192)
Customer Advance								1,043
Net Cash								(820)
<b>RNAV</b>	discounts	80%						<b>6,292</b>
# of Shares								31,397
<b>Value per share</b>								<b>200</b>

Source: Maybank

FYE 31 Dec (IDR bn)	FY11A	FY12A	FY13E	FY14E	FY15E
<b>Key Metrics</b>					
P/E (reported) (x)	38.2	24.9	7.1	12.2	7.1
Core P/E (x)	38.2	24.9	7.1	12.2	7.1
P/BV (x)	1.2	1.1	1.0	0.9	0.8
P/NTA (x)	1.2	1.1	na	na	na
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
FCF yield (%)	nm	6.3	nm	nm	nm
EV/EBITDA (x)	nm	nm	2.6	2.1	1.6
EV/EBIT (x)	nm	nm	2.8	2.2	1.6
<b>Income Statement</b>					
Revenue	461.9	632.7	984.3	1,764.0	2,526.3
Gross profit	246.0	345.2	535.8	929.6	1,333.0
EBITDA	0.0	0.0	241.8	604.1	956.8
Depreciation	0.0	0.0	(18.8)	(21.7)	(27.4)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	0.0	0.0	223.0	582.3	929.4
Net interest income /(exp)	(1.0)	(15.3)	(49.1)	(43.9)	(29.9)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	674.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	131.4	222.6	847.9	538.5	899.5
Income tax	(20.4)	(27.4)	(49.2)	(88.2)	(126.3)
Minorities	(0.9)	0.2	(30.0)	0.0	0.0
Reported net profit	135.6	221.1	768.7	450.3	773.2
Core net profit	135.6	221.1	768.7	450.3	773.2
<b>Balance Sheet</b>					
Cash & Short Term Investments	88.8	113.2	2,201.9	1,425.9	861.3
Property, Plant & Equip (net)	2,057.0	2,069.0	136.6	171.3	209.1
Intangible assets	0.8	0.9	0.0	0.0	0.0
Investment in Associates & JVs	1,559.6	1,787.8	0.0	0.0	0.0
Other assets	2,682.2	3,229.0	7,390.5	8,591.6	9,915.6
Total assets	5,290.4	6,154.2	9,729.0	10,188.8	10,986.1
ST interest bearing debt	0.0	354.9	0.0	0.0	0.0
LT interest bearing debt	336.7	248.0	1,382.0	1,197.0	877.0
Other liabilities	359.1	735.0	1,365.3	1,529.8	1,873.8
Total Liabilities	695.8	1,337.8	2,747.3	2,726.8	2,750.8
Shareholders Equity	4,576.3	4,797.4	5,535.7	5,986.0	6,759.2
Minority Interest	18.2	19.0	1,446.0	1,476.0	1,476.0
Total shareholders equity	4,594.5	4,816.4	6,981.7	7,462.0	8,235.2
<b>Cash Flow</b>					
Pretax profit	131.4	222.6	847.9	538.5	899.5
Depreciation & amortisation	0.0	0.0	18.8	21.7	27.4
Adj net interest (income)/exp	(58.7)	(73.2)	0.0	0.0	0.0
Change in working capital	0.0	0.0	(819.4)	(1,047.8)	(992.3)
Cash taxes paid	0.0	26.5	(49.2)	(88.2)	(126.3)
Other operating cash flow	0.0	0.0	(60.0)	0.0	0.0
Cash flow from operations	(452.9)	437.5	(61.9)	(575.8)	(191.7)
Capex	(25.1)	(89.5)	(29.4)	(56.4)	(65.2)
Free cash flow	(478.1)	347.9	(91.3)	(632.2)	(256.9)
Dividends paid	0.0	0.0	0.0	0.0	0.0
Equity raised / (purchased)	333.9	0.0	0.0	0.0	0.0
Change in Debt	47.8	266.1	779.0	(185.0)	(320.0)
OTH investing/financing cash flow	52.9	(552.8)	1,437.2	41.2	12.3
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(102.2)	(11.9)	2,124.9	(776.0)	(564.6)

FYE 31 Dec (IDR bn)	FY11A	FY12A	FY13E	FY14E	FY15E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	4.1	37.0	55.6	79.2	43.2
EBITDA growth	na	na	nm	149.8	58.4
EBIT growth	na	na	nm	161.1	59.6
Pretax growth	24.4	69.5	280.9	(36.5)	67.0
Reported net profit growth	107.0	63.1	247.6	(41.4)	71.7
Core net profit growth	107.0	63.1	247.6	(41.4)	71.7
<b>Profitability ratios (%)</b>					
EBITDA margin	0.0	0.0	24.6	34.2	37.9
EBIT margin	0.0	0.0	22.7	33.0	36.8
Pretax profit margin	28.4	35.2	86.1	30.5	35.6
Payout ratio	0.0	0.0	0.0	0.0	0.0
<b>DuPont analysis</b>					
Net profit margin (%)	29.3	34.9	78.1	25.5	30.6
Revenue/Assets (x)	0.1	0.1	0.1	0.2	0.2
Assets/Equity (x)	1.2	1.3	1.8	1.7	1.6
ROAE (%)	3.1	4.7	13.0	6.2	9.9
ROAA (%)	2.7	3.9	9.7	4.5	7.3
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	187.4	230.7	226.6	210.3	229.3
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	nm	nm	45.0	69.2	76.5
Dividend cover (x)	nm	nm	nm	nm	nm
Current ratio (x)	nm	nm	nm	nm	nm
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	7.6	4.6	3.5	3.7	4.0
Net debt/equity (%)	5.4	10.2	net cash	net cash	0.2
Net interest cover (x)	0.0	0.0	4.5	13.3	31.1
Debt/EBITDA (x)	nm	nm	5.7	2.0	0.9
Capex/revenue (%)	5.4	14.1	3.0	3.2	2.6
Net debt/ (net cash)	247.9	489.6	(819.9)	(228.9)	15.7



## Alam Sutera Realty (ASRI IJ)

Share Price: IDR580

MCap (USD): 962M

Indonesia

Target Price: IDR500(-14%)

ADTV (USD): 4M

Real Estate

# SELL

(New)

### Challenges ahead: initiate at SELL

- Initiate with contrarian SELL and Street-low TP of IDR500, which implies 63% discount to its RNAV of IDR1,352. Transferring coverage of ASRI to Aurellia Setiabudi.
- Pasar Kemis project set to be the back bone of ASRI's pre-sales with support of CBD office building projects. We expect pre-sales to be flat in FY14F and FY15F at IDR5.1trn.
- Expect margins to be diluted by the high cost of funding and forecast FY14 earnings to be flat and FY15 to grow 6% YoY.

### Investment in Bali has yet to prove successful

Alam Sutera Realty (ASRI)'s significant investment in the Garuda Wisnu Kencana Cultural Park in Bali will need more time before it can contribute to the company's earnings. While we support ASRI's strategy to strengthen its investment property portfolio, we think the cultural park is an expensive investment as it requires considerable capex of IDR450b.

### Earnings diluted by cost of funding

With the slowdown in property sales in 2013 and 2014F, ASRI's earnings are pressured to cover the cost of funding from its USD bond issue. We estimate the interest expense to dilute 25% of its FY14 EBIT.

### Valuation and risks

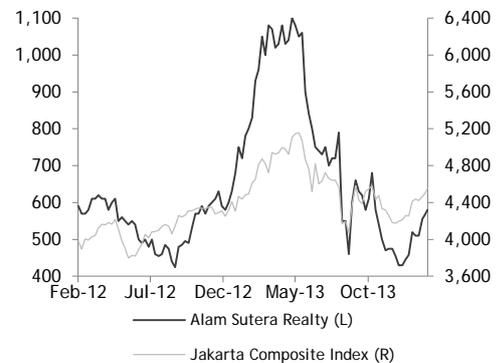
Our target price of IDR500 represents a 63% discount to its RNAV of IDR1,352. Our target price translates to 6.9x P/E and 1.4x P/B for FY14F, in line with its historic average. The risks to our view include: interest rate hikes, execution risk, land acquisition risk, currency volatility, economic slowdown and tighter regulations.

FYE Dec (IDR bn)	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue	1,381	2,446	4,175	4,365	4,637
EBITDA	0	0	2,135	2,239	2,309
Core net profit	602	1,193	1,534	1,417	1,618
Core EPS (IDR)	34	61	78	72	82
Core EPS growth (%)	107.1	81.7	27.6	(7.7)	14.2
Net DPS (IDR)	6	15	0	0	0
Core P/E (x)	17.2	9.5	7.4	8.0	7.0
P/BV (x)	3.8	2.5	2.0	1.7	1.4
Net dividend yield (%)	1.1	2.5	0.0	0.0	0.0
ROAE (%)	24.1	31.7	28.8	22.0	21.4
ROAA (%)	11.4	14.1	11.8	8.5	8.8
EV/EBITDA (x)	nm	nm	1.2	1.1	1.1
Net debt/equity (%)	net cash	2.0	39.9	34.2	30.0

### Key Data

52w high/low (IDR)	1,130/425
Free float (%)	48.0
Issued shares (m)	19,649
Market capitalization	IDR11.4T
Major shareholders:	
-PT Manunggal Prime Development	27%
-PT Tangerang Fajar Industrial Estate	25%
-PT Schroder Investment Management (Ind	4%

### Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute(%)	11.5	13.7	(34.1)
Relative to country (%)	8.0	9.7	(33.3)

### Maybank vs Market

	Positive	Neutral	Negative
Market Recs	8	2	1
	Maybank Consensus		% +/-
Target Price (IDR)	500	640	(21.9)
2013 PATMI (IDRbn)	1,534	1,310	17.2
2014 PATMI (IDRbn)	1,417	1,659	(14.6)

Source: FactSet; Maybank

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## Company background

### A leading developer in Indonesia

Established in 1993, Alam Sutera Realty (ASRI) has become one of the leading property developers in Indonesia with a land bank of 2,000 ha, mainly in the Greater Jakarta area. ASRI is a subsidiary of Argo Manunggal Group, which was founded by The Ning King, an Indonesian conglomerate which operates textile, property, metals, poultry and insurance businesses. Argo Manunggal Group owns 50% of ASRI. Another listed property company of Argo Manunggal Group is Bekasi Fajar Industrial Estate (BEST IJ), an industrial estate company located in Bekasi, East of Jakarta.

## Property projects

ASRI has strong brand equity among the property developers in Indonesia due to its high-quality developments. It has become the price leader for property projects in the Serpong area. ASRI's main township projects are Alam Sutera and Pasar Kemis in West Jakarta.

Figure 117: Location of ASRI's Alam Sutera and Pasar Kemis's township projects



Source: Company data

### Alam Sutera township Serpong

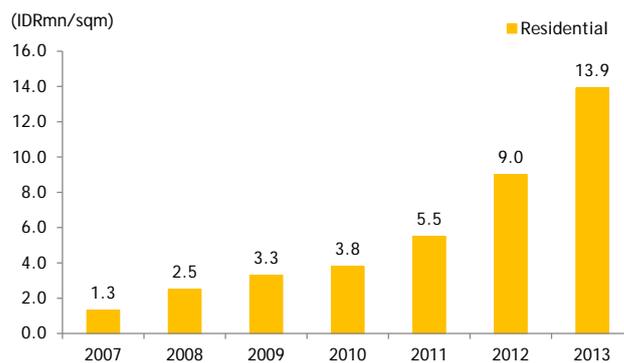
ASRI's flagship project, Alam Sutera township in North Serpong 14 km West of Jakarta with a development area of 800 ha, is divided into three phases. The township targets the middle-upper segment and is currently the most premium property project in the Serpong area. Residential land price in Alam Sutera has increased by 321% in four years as access to the Jakarta-Merak toll road has opened to the Alam Sutera township.

Figure 118: Alam Sutera township



Source: Company data

Figure 119: ASP of Alam Sutera township



Source: Company data

ASRI is developing the second phase of Alam Sutera and is looking to expand the township further to North Alam Sutera by acquiring 150 ha of land from Modern Land Realty (MDLN IJ). ASRI signed an agreement with Modern Land in April 2013 to acquire land at IDR2mn/sqm in 30 months' time. Up until end-2013, ASRI had acquired 30 ha from Modern Land. Aside from the 150 ha of land to be purchased from Modern Land, ASRI will also acquire 150 ha of land from other parties in the surrounding area, taking the total size of ASRI's North Alam Sutera project to 300 ha.

ASRI is quick to monetize its investment in the new land bank at North Alam Sutera. It recently launched four towers of apartments as the first phase of an 18-tower apartment complex called Kota Ayodhya located at North Serpong. ASRI looks to maximize its land bank in Serpong by building high-rise projects.

ASRI aims to maintain the premium brand of Alam Sutera township and will position the properties at the new land bank at North Serpong at the middle-upper segment. Management has also guided that it will not sell their new properties at lower prices than their previous launches to protect its brand equity.

We think high-rise projects in the Serpong area is less ideal as the location itself is in the suburban areas and we believe homebuyers still prefer landed residential properties in these areas. Moreover, the price of this project is relatively expensive at around IDR13mn/sqm, whereas competitors around the area are still offering similar properties at lower prices. High-rise projects also carry greater risk as the developer needs to sign an agreement with the contractors before the project is fully absorbed by the customers, leaving potential unsold apartment units.

We think ASRI's commitment to maintain the brand equity of its Alam Sutera township will slow down the company's overall sales for 2014 as there is less demand for middle-upper segment properties this year.

That said, we still prefer ASRI to continue to develop and expand the Alam Sutera township as we think it will be difficult for the Pasar Kemis township project to match the high selling price of the former. The selling price of the Pasar Kemis township is currently only 15% of the selling price of Alam Sutera. This implies that the company needs to sell six times more units to be able to grow its pre-sales in the future.

**Pasar Kemis township**

ASRI was a single-project developer with the Alam Sutera Serpong township project until 2011 when it developed its second township project at Pasar Kemis, Tangerang 31 km West of Jakarta. Pasar Kemis has a development area of 2,600 ha with 1,515 ha of land bank as of 2013.

Pasar Kemis township has a high take-up rate despite the location, which is further from Jakarta than Alam Sutera Serpong. ASRI plans to build a toll-road with direct access to Pasar Kemis, which is targeted to be completed by 2015. We believe this additional access to the location will boost land prices, similar to what happened when the Alam Sutera township was linked up to the Jakarta-Merak toll road in 2009.

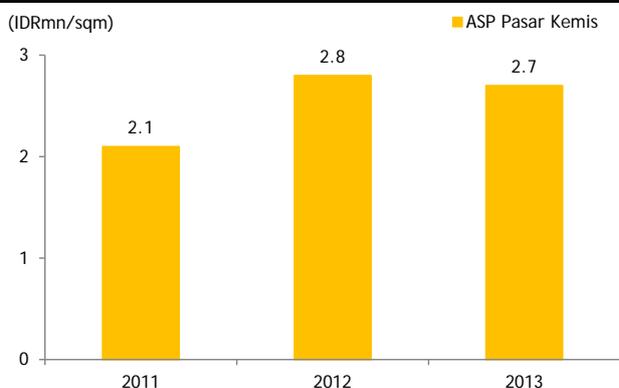
**Figure 120: ASRI's Pasar Kemis township project near West Jakarta**



Source: Company data

Pasar Kemis township will be ASRI's growth driver with its vast land bank. However, Pasar Kemis township targets the low-middle income segment, which will contribute less sales value per unit to ASRI. Therefore, ASRI is looking to boost the sales volume of Pasar Kemis to increase or at least maintain the overall sales value of the company for the next few years.

**Figure 121: ASP of Pasar Kemis township**



Source: Company data

### GWK Cultural Park

In 2012, ASRI invested IDR813bn for a 90.3% stake in the Garuda Wisnu Kencana (GWK) Cultural Park with a site area of 60 ha in Uluwatu, Bali. The masterplan of the project is to build a cultural park with a massive 125-metre tall statue of Wisnu (Hindu God), which will be taller than the Statue of Liberty in the US. The Wisnu statue will require an investment of IDR250b and is projected to be completed by 2016. The overall investment the cultural park needs will be IDR450b.

The cultural park will charge a ticket price of IDR40,000 (USD3.3) for domestic tourists and IDR80,000 (USD6.6) for international tourists. The cultural park will be divided into two parts, one being the cultural park itself and the other property projects where Alam Sutera will build resorts and villas as well as exhibition centres. ASRI is currently focusing on completing the giant statue before developing the properties on site.

Figure 122: GWK Cultural Park



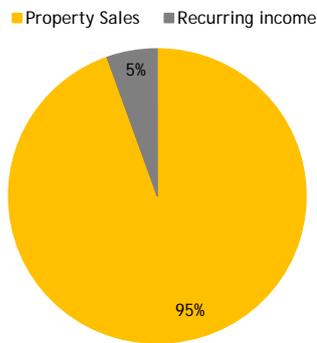
Source: Company data

Our view on the investment is that while the purchase of the land for IDR813b itself is fair at IDR1.35mn/sqm, the additional investment of IDR450b needed for the construction of the cultural park has made it expensive at IDR2.1mn/sqm. We also note execution risk in the construction of the statue given its scale and complexity. ASRI has yet to prove its investment in the cultural park will add to the company's value.

### Investment properties

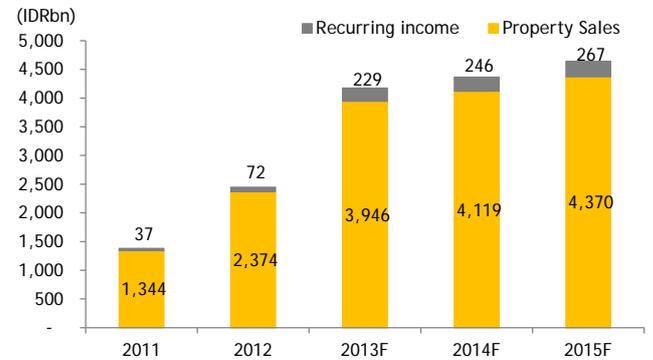
ASRI has several investment properties such as shopping malls and office buildings at Alam Sutera Serpong. The revenue contribution from investment properties is still relatively small at 6% as of 2013F. ASRI has guided that it will not add investment properties in the near future.

Figure 123: ASRI's revenue composition (2013F)



Source: Maybank KE

Figure 124: ASRI's revenue split



Source: Company data, Maybank KE

## Financials

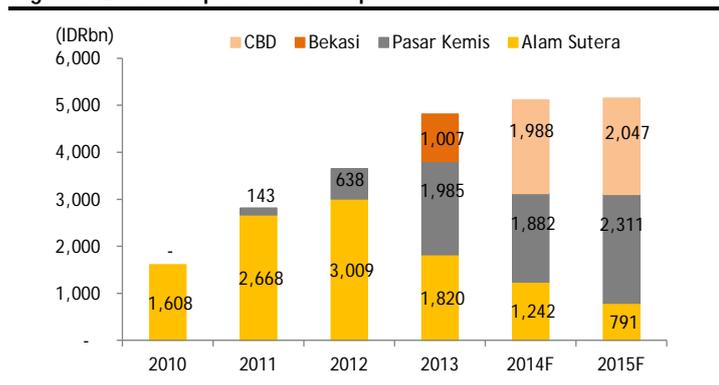
### Pre-sales supported by two CBD office projects

As a single-project developer previously, ASRI's pre-sales had been driven solely by the Alam Sutera township. In fact up until 2011, when the Pasar Kemis township launched its first cluster, the Alam Sutera township project had been supporting ASRI's overall pre-sales. But in 2013, the Pasar Kemis township contributed more sales than the Alam Sutera township and we expect this trend to continue.

ASRI has two CBD office projects in the pipeline that are set to be launched in 2014 and 2015. The company expects to sell the entire office building of one of the projects to an anchor tenant in 2014 for IDR2trn. These projects will help to sustain Alam Sutera's pre-sales in the next two years in light of the slowdown in the residential property market.

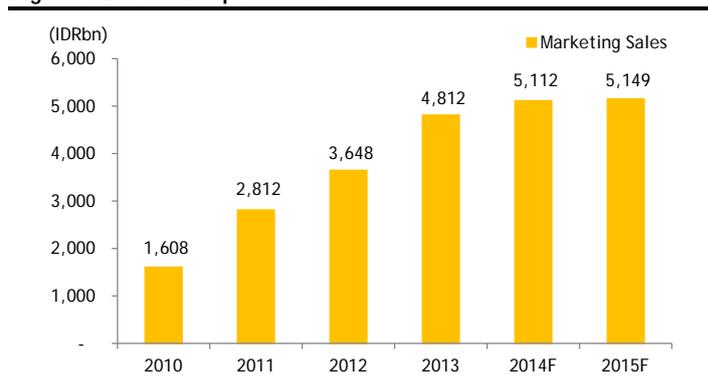
We expect flat pre-sales for this year and next year of around IDR5 trn on the back of slowing demand for premium residential properties, which will slow the sales of the Alam Sutera township. We also expect the company to not aggressively sell its assets in the Alam Sutera township and Pasar Kemis township as there will be support from the two CBD office building projects in the next two years.

Figure 125: ASRI pre-sales composition



Source: Company data, Maybank KE

Figure 126: ASRI's pre-sales



Source: Company data, Maybank KE

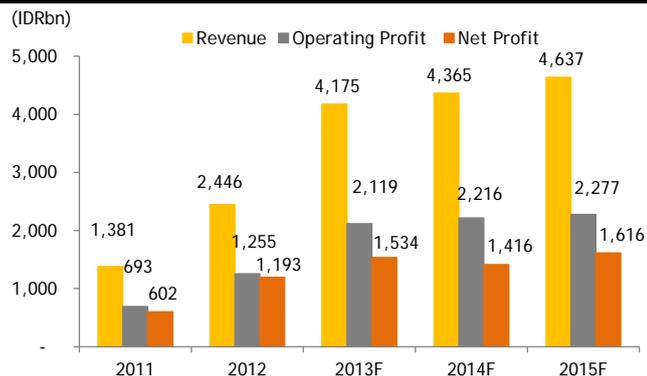
### Earnings diluted by cost of funding

We forecast ASRI's revenue to be largely flat in 2014 and 2015 at IDR4.4 trn and IDR4.6 trn as we expect flat pre-sales growth in the next two years. We assume ASRI to maintain its efficiency and to sustain operating margin at 51% for the next two years.

ASRI has refinanced 56% of its USD bonds (USD83.42m), which carry 10.75% interest rate, by issuing USD225mn in new bonds in Jan 2014 with an interest rate of 9.0% and five-year maturity. We think the company's earnings will be diluted by the weak IDR against USD, which will increase the real interest paid in Rupiah. We estimate ASRI's interest expense to be IDR552b in 2014F and IDR430b in 2015F. We assume the IDR/USD rate to stabilize at IDR12,000/USD for 2014F.

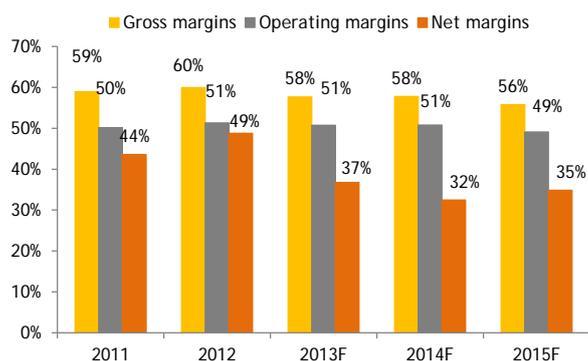
With the increasing cost of funding, we estimate ASRI's net margin to be diluted from 49% in 2012 to 32% and 35% in 2014F and 2015F, bringing the net income to IDR1.4 trn in 2014F and growing 14% YoY to IDR1.6 trn in 2015F.

Figure 127: ASRI revenue, operating profit and net profit



Source: Company data, Maybank KE

Figure 128: ASRI margins

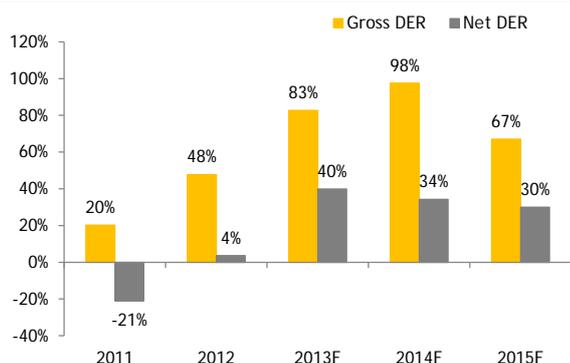


Source: Company data, Maybank KE

### Turn net debt with diluted ROE in 2014F

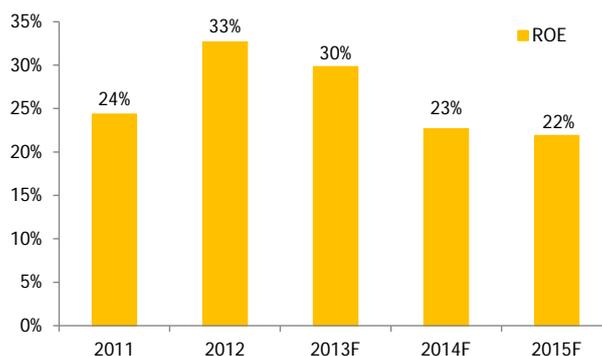
With the issuance of the new USD225m bonds, we forecast the company will turn net debt of 34% in 2014F and 30% in 2015F. With the dilution of earnings, we estimate the ROE will decline from 30% in 2013F to 23% in 2014F and to 22% in 2015F (figure 13).

Figure 129: ASRI's gearing



Source: Company data, Maybank KE

Figure 130: ASRI's ROE



Source: Company data, Maybank KE

## Risks to our views

### Interest rate hikes

In general, developers will suffer when the central bank increases the reference rate as the cost of funding to purchase property will increase and we expect investors to delay investing in properties as a result.

### Execution risk

We note execution risk for ASRI on its cultural park project in Bali. We think the construction of the giant statue is complicated and technically challenging.

### Land acquisition

ASRI's land bank in the Serpong area is being depleted and it needs to be replenished. With rising replacement cost and scarcity of land, ASRI's growth may be hindered if it fails to continue to replenish its land bank.

### Currency volatility

ASRI's USD bonds pose currency mismatch and with the volatility of the IDR/USD rate, it may increase the company's cost of funding, which could put further pressure on earnings.

### Economic downturn

In the event of a slowdown in the economy, we expect property demand to be affected, especially for the middle-upper segment and for high-rise projects. Economic slowdown could also increase the risk of bad debts from customers making cash installments.

### Regulatory environment

The government has been monitoring the property market closely over the past five years due to the rapid rise in real-estate prices. ASRI may need more time to secure licenses to construct high-rise buildings, which may hinder its overall pre-sales growth. Other regulatory risks include stricter regulations for property buyers and higher related taxes.

## Valuation

Initiate with contrarian SELL and Street-low TP of IDR500, which implies a 63% discount to its RNAV of IDR1,352/share. We calculate its RNAV by using DCF valuation of its five-year operating cashflows and we assigned the residual value of its remaining land bank. To derive the DCF valuation, we assigned WACC of 12.2% based on 14.0% cost of equity, beta of 1.5 and 11.0% cost of debt assuming 60% long-term debt-to-equity ratio.

We applied a 63% discount to ASRI's RNAV due to the high risk in its leveraged balance sheet and investments. We think ASRI's investment period is not yet over and we expect it to require more capital in the near future as its prime land bank is being depleted.

Our target price translates to 6.9x P/E and 1.4x P/B for 2014F. Our TP is in line with the historic five-year mean of one-year forward P/E of 7.1x and one-year forward P/B of 1.7x.

Figure 131: RNAV calculation

	Land balance	BV	MV	Excess MV	NPV	Gross value	Ownership	Net value
	ha	IDR b	IDR b	IDR b	IDR b	IDR b	%	IDR b
<b>PROPERTY SALES</b>	1,729	5,167	21,223	16,056	16,464	32,521	100%	32,521
	Annual CF	Cap Rate	BV	NPV	Excess MV	Gross Value	Ownership	Net Value
	IDR b	%	IDR b	IDR b	IDR b	IDR b	%	IDR b
<b>INVESTMENT PROPERTIES</b>	345	12.2%	651	2,831	2,180	2,180	100%	2,180
<b>TOTAL</b>								<b>34,701</b>
Adjustments & Development Costs								(4,457)
Customer Advance								(3,834)
Net Cash								159
<b>RNAV</b>		discounts	63%					<b>9,831</b>
# of Shares		# mn						19,649
<b>Value per share</b>								<b>500</b>

Source: Maybank

FYE 31 Dec (IDR bn)	FY11A	FY12A	FY13E	FY14E	FY15E
<b>Key Metrics</b>					
P/E (reported) (x)	17.2	9.5	7.4	8.0	7.0
Core P/E (x)	17.2	9.5	7.4	8.0	7.0
P/BV (x)	3.8	2.5	2.0	1.7	1.4
P/NTA (x)	3.8	2.5	na	na	na
Net dividend yield (%)	1.1	2.5	0.0	0.0	0.0
FCF yield (%)	2.7	nm	nm	2.6	2.7
EV/EBITDA (x)	nm	nm	1.2	1.1	1.1
EV/EBIT (x)	nm	nm	1.2	1.1	1.1
<b>Income Statement</b>					
Revenue	1,381	2,446	4,175	4,365	4,637
Gross profit	811	1,458	2,409	2,523	2,586
EBITDA	0	0	2,135	2,239	2,309
Depreciation	0	0	(16)	(25)	(34)
Amortisation	0	0	0	1	2
EBIT	0	0	2,119	2,216	2,277
Net interest income /(exp)	(62)	(139)	(262)	(497)	(377)
Associates & JV	0	0	0	0	0
Exceptionals	0	0	0	1	2
Other pretax income	0	0	(89)	(57)	(21)
Pretax profit	671	1,344	1,768	1,663	1,881
Income tax	(68)	(128)	(209)	(218)	(232)
Minorities	(1)	(23)	(25)	(28)	(31)
Reported net profit	602	1,193	1,534	1,417	1,618
Core net profit	602	1,193	1,534	1,417	1,618
<b>Balance Sheet</b>					
Cash & Short Term Investments	1,130	2,090	2,443	4,293	2,964
Property, Plant & Equip (net)	2,218	5,694	1,528	2,381	3,269
Intangible assets	0	0	0	0	0
Investment in Associates & JVs	97	0	0	0	0
Other assets	4,958	4,796	11,129	11,630	12,132
Total assets	6,008	10,946	15,100	18,305	18,365
ST interest bearing debt	0	231	30	300	300
LT interest bearing debt	554	1,949	4,697	6,312	5,060
Other liabilities	2,666	4,034	4,465	4,720	4,818
Total Liabilities	3,221	6,215	9,192	11,332	10,178
Shareholders Equity	2,738	4,568	5,719	6,780	7,993
Minority Interest	49	164	189	192	195
Total shareholders equity	2,787	4,732	5,908	6,972	8,187
<b>Cash Flow</b>					
Pretax profit	671	1,344	1,768	1,663	1,881
Depreciation & amortisation	0	0	16	24	32
Adj net interest (income)/exp	(68)	(146)	0	0	0
Change in working capital	0	0	(2,490)	(264)	(424)
Cash taxes paid	113	171	(209)	(218)	(232)
Other operating cash flow	0	0	(25)	(28)	(31)
Cash flow from operations	1,351	1,885	(940)	1,176	1,226
Capex	(1,000)	(2,586)	(836)	(878)	(921)
Free cash flow	278	(821)	(1,776)	299	305
Dividends paid	(72)	(120)	(384)	(354)	(404)
Equity raised / (purchased)	0	758	0	0	0
Change in Debt	(85)	1,547	2,547	1,885	(1,252)
OTH investing/financing cash flow	(13)	(546)	44	22	23
Effect of exch rate changes	0	0	0	0	0
Net cash flow	113	791	431	1,852	(1,328)

FYE 31 Dec (IDR bn)	FY11A	FY12A	FY13E	FY14E	FY15E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	80.5	77.1	70.7	4.5	6.2
EBITDA growth	na	na	nm	4.9	3.1
EBIT growth	na	na	nm	4.6	2.8
Pretax growth	103.3	100.3	31.5	(6.0)	13.1
Reported net profit growth	107.1	98.2	28.6	(7.7)	14.2
Core net profit growth	107.1	98.2	28.6	(7.7)	14.2
<b>Profitability ratios (%)</b>					
EBITDA margin	0.0	0.0	51.1	51.3	49.8
EBIT margin	0.0	0.0	50.8	50.8	49.1
Pretax profit margin	48.6	54.9	42.4	38.1	40.6
Payout ratio	18.2	23.9	0.0	0.0	0.0
<b>DuPont analysis</b>					
Net profit margin (%)	43.6	48.8	36.7	32.5	34.9
Revenue/Assets (x)	0.2	0.2	0.3	0.2	0.3
Assets/Equity (x)	2.2	2.4	2.6	2.7	2.3
ROAE (%)	24.1	31.7	28.8	22.0	21.4
ROAA (%)	11.4	14.1	11.8	8.5	8.8
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	5.8	4.4	2.8	3.1	3.1
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	nm	nm	36.0	70.5	68.3
Dividend cover (x)	5.5	4.2	nm	nm	nm
Current ratio (x)	nm	nm	nm	nm	nm
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.9	1.8	1.6	1.6	1.8
Net debt/equity (%)	net cash	2.0	39.9	34.2	30.0
Net interest cover (x)	0.0	0.0	8.1	4.5	6.0
Debt/EBITDA (x)	nm	nm	2.2	3.0	2.3
Capex/revenue (%)	72.4	105.7	20.0	20.1	19.9
Net debt/ (net cash)	(575.8)	89.9	2,284.4	2,318.7	2,395.9



## Bekasi Fajar (BEST IJ)

Share Price: IDR615

MCap (USD): 500M

Indonesia

Target Price: IDR590(-4%)

ADTV (USD): 0.8M

Real Estate

# HOLD

 (From BUY)

### Normalizing growth

- Transfer coverage at HOLD with TP of IDR590 for the pure play industrial estate.
- Most prime industrial estate the Bekasi area with closest proximity to international airport and seaport.
- We expect flat pre-sales growth in 2014F as investors wait and see on the outcome of the general election.

### Short term hiccup from macroeconomic uncertainty

Pre-sales for 2013 were the lowest since 2009. With the election process expected to complete by 1H2014, we believe investors will wait and see whether the outcome of the elections are peaceful and the transition of the new government is successful. However, since major tenants completed their investment cycle in 2011-2012, we expect slower annual industrial land sales growth going forward.

### The best place for industrial estates

We reiterate our view that FDI inflows will continue in the foreseeable future on the back of Indonesia's strong domestic consumption and rich natural resources. We prefer industrial estates with ample land bank and strategic locations as they will be investor's first choices should the politic environment become more favorable and the economy starts to recover.

### Valuation and risks

Our target price of IDR590 is a 44% discount to its RNAV of IDR1,058. Our target price translates to 8.2x P/E and 1.9x P/B for 2014F, which is slightly lower than its historic average P/E and is slightly higher than its historic +1SD P/B mean. The risks to our view include interest rate hikes and economic slowdown.

FYE Dec (IDR bn)	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue	476.0	965.1	1,397.7	1,278.9	1,483.2
EBITDA	0.0	0.0	830.7	752.0	861.9
Core net profit	119.6	470.3	759.5	693.9	805.3
Core EPS (IDR)	14	56	79	72	84
Core EPS growth (%)	9.7	313.3	39.9	(8.6)	16.1
Net DPS (IDR)	0	10	0	0	0
Core P/E (x)	45.1	10.9	7.8	8.5	7.4
P/BV (x)	6.0	3.3	2.3	1.8	1.5
Net dividend yield (%)	0.0	1.5	0.0	0.0	0.0
ROAE (%)	13.8	35.3	34.9	23.7	21.9
ROAA (%)	8.4	23.9	26.2	17.9	17.2
EV/EBITDA (x)	na	nm	nm	nm	nm
Net debt/equity (%)	23.2	net cash	net cash	net cash	net cash

### Key Data

52w high/low (IDR)	1,030/340
Free float (%)	38.6
Issued shares (m)	9,629
Market capitalization	IDR5.9T
Major shareholders:	
-PT Argo Manunggal Land Development	51%
-Daiwa House Industry	10%
-FIL Investment Management	2%

### Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute(%)	34.3	41.4	(15.8)
Relative to country (%)	30.0	36.3	(14.7)

### Maybank vs Market

	Positive	Neutral	Negative
Market Recs	5	2	2
<b>Maybank Consensus</b>			
Target Price (IDR)	590	470	25.5
2013 PATMI (IDRbn)	760	759	0.1
2014 PATMI (IDRbn)	694	716	(3.1)

Source: FactSet; Maybank

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## Company background

### The most prime industrial estate

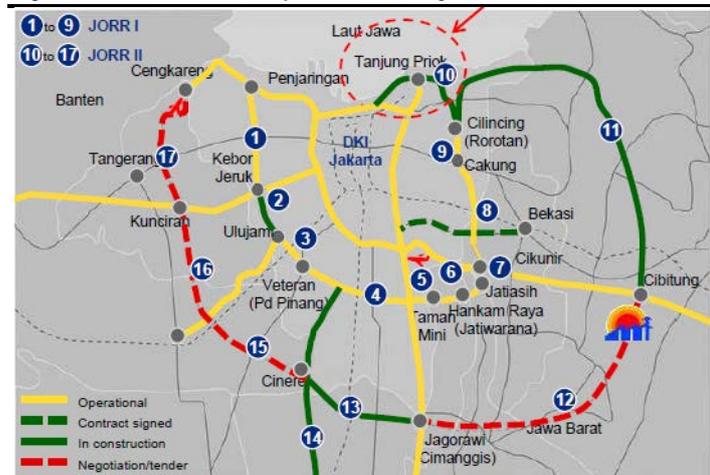
Bekasi Fajar is strategically located in the Bekasi area where it has become the industrial hub for the automotive sector. It initially developed a 2,500ha industrial estate called MMID in partnership with Marubeni in 1990 which was fully developed and subsequently sold. BEST then expanded the industrial estate operations. Its current development is called MM2100. As of FY2013, BEST owns net land bank of 681ha.

BEST expanded its industrial estate through its fully-owned subsidiaries Bekasi Mitra Industrial Estate (BMIE) and Bekasi Surya Pratama (BSP).

BEST is located in the Bekasi area in West Jakarta, 35km from the international seaport. The industrial estate has direct toll-road access to Jakarta-Cikampek. It will also potentially benefit from the new proposed Cilincing-Cibitung toll-road connecting directly to Tanjung Priok Seaport (section 10 and 11 in figure below) which is targeted to be completed by 2015.

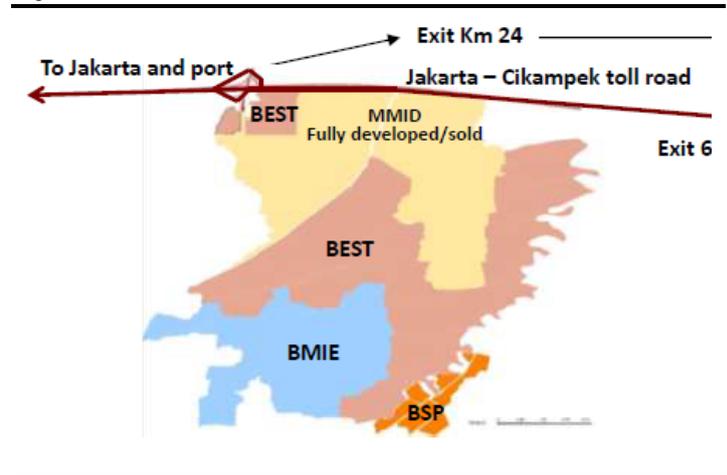
BEST is a subsidiary of Argo Manunggal Group founded by The Ning King, an Indonesian conglomerate which operates textile, property, metals, poultry and insurance businesses. Argo Manunggal Group currently holds a 51.3% stake in BEST. Another listed property company of Argo Manunggal group is Alam Sutera Realty (ASRI IJ), a township developer in West Jakarta.

Figure 132: Location map of Bekasi Fajar Industrial Estate



Source: Company data

Figure 133: BEST industrial estate



Source: Company data

## Earnings drivers

### Short-term hiccup before resuming normalized growth

The company only sold 60ha of land in 2013 due to delays in several transactions with foreign tenants. However, as we believe that this year's elections will be successful and peaceful, we expect foreign investors to quickly regain confidence to invest in Indonesia. We believe BEST may benefit from overseas companies looking to expand in Indonesia due to its superior location and infrastructure.

However, we think that since most of the major automotive manufacturing companies completed their investment cycles in 2011-2012, going forward, the sales volume of industrial estate land in the Bekasi area will not see the extraordinary high growth since 2010 and the sales volume growth will normalize.

### Japanese strategic partner to bring more tenants

Its partnership with Marubeni Japan has helped bring in several Japanese multinational companies who have set up propertyion facilities in Indonesia. 70% of BEST's tenants are Japanese related companies. BEST pays a 1% marketing fee to Marubeni for each client it brings to Bekasi Surya Pratama (BSP).

In late 2012, Daiwa House Industry acquired a 10% strategic stake to help bring more Japanese tenants to MM2100. We believe that BEST has a competitive advantage in terms of marketing its industrial estate to foreign investors.

### Expanding to Central Java

Since the company is proven to have expertise in developing and managing industrial estates, it plans to expand its business to Central Java at Semarang City. Semarang industrial estate is perfectly located close to the seaport. The company currently holds the rights to gain ownership of an industrial estate company with a gross land bank of 184ha. As of the time of writing, the company has not exercised the rights which expire in April 2014 and we have not included any assets from this industrial estate in our valuation.

We think that the company is well positioned to tap the growing industry in Central Java, especially the labor-intensive industries such as textile, food and beverage and furniture industries. This is partly because the minimum wage in Central Java is still 50% lower than in Bekasi. If the company exercises its rights by April 2014, we expect this industrial estate to start contributing revenue in 2015F.

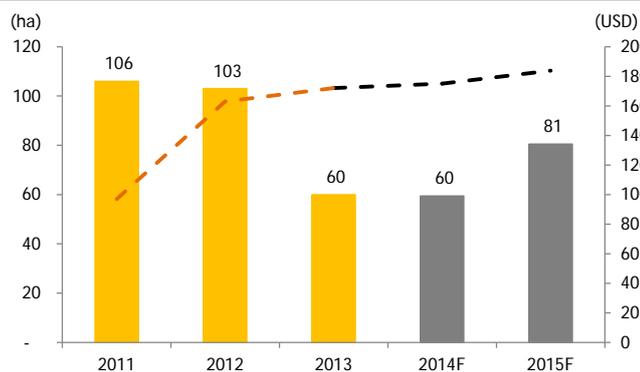
## Financials

### Pre-sales flat in 2014F

Since we expect the sales of industrial estates to remain soft in 1H2014 due to the upcoming election, we expect BEST's pre-sales to be reach 60ha in 2014F and 81ha in 2015F.

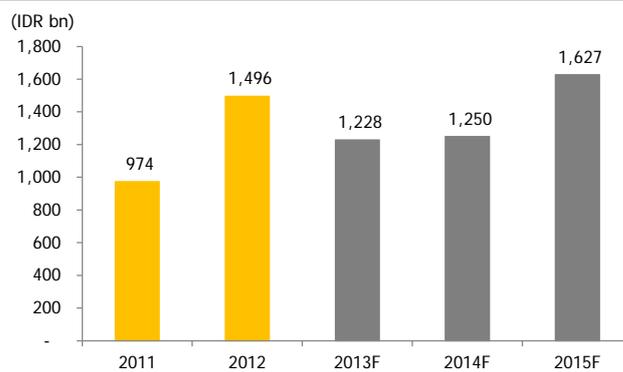
Our conservative sales volume forecast is based on our assumption that the sales volume for the industrial estate segment will normalize as many of the major automakers, which drive the sales volume, have completed their investment cycle. We expect sales will be more from tenants with smaller land sizes of 1ha-5ha and that the growth of revenue is from ASP growth which we forecast to reach USD175 and USD184 in 2014F and 2015F.

Figure 134: BEST Marketing sales in volume and ASP



Source: Company data, Maybank KE

Figure 135: BEST Marketing sales in value



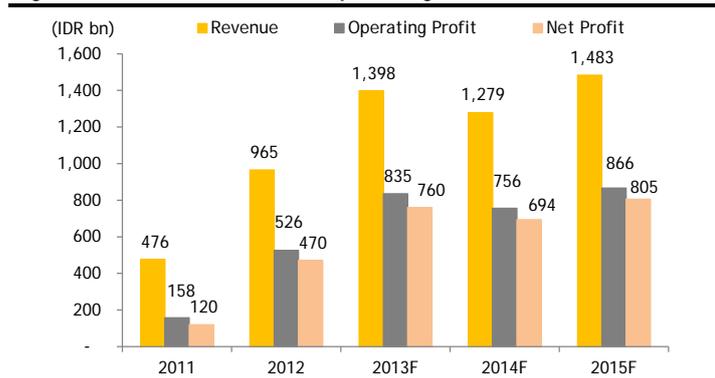
Source: Company data, Maybank KE

### Stabilizing margins

We expect BEST's revenue to decline slightly to IDR1.28tn in 2014F due to slowing sales volume in 2013F and 2014F compared to previous years. As we assume sales volume will pick up in 2015F we forecast revenue to grow 16% YoY to IDR 1.48tn.

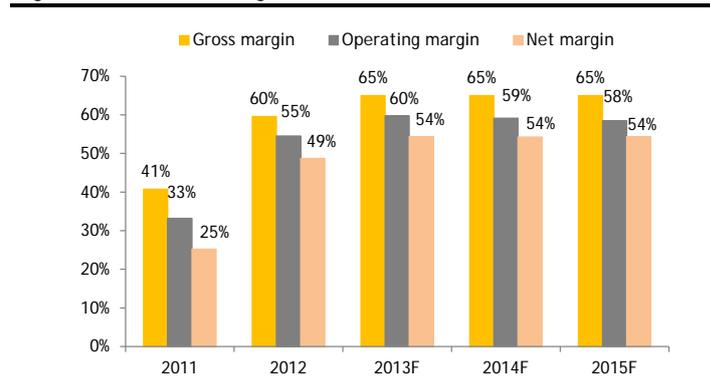
We expect gross margins to stabilize due to conservative ASP growth and expect operating margins to remain high at 59% due to high efficiency in operating expenses. We project net margins to slightly decrease to 54% in 2014F. We forecast earnings to slightly contract to IDR694bn in 2014F and grow 16% YoY to IDR805bn in 2015F.

Figure 136: BEST Revenue, Operating Profit and Net Profit



Source: Company data, Maybank KE

Figure 137: BEST margins

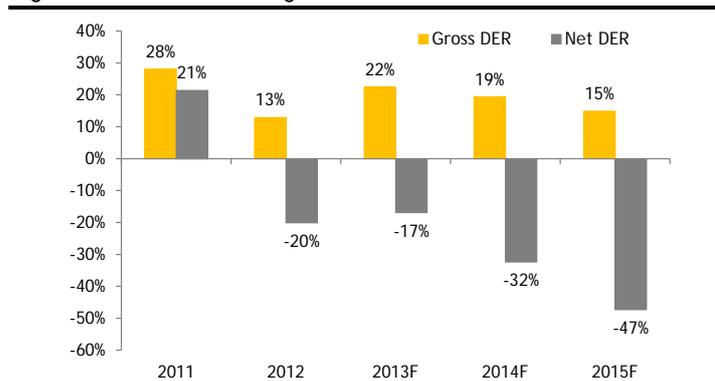


Source: Company data, Maybank KE

### Maintain net cash position, normalizing ROE

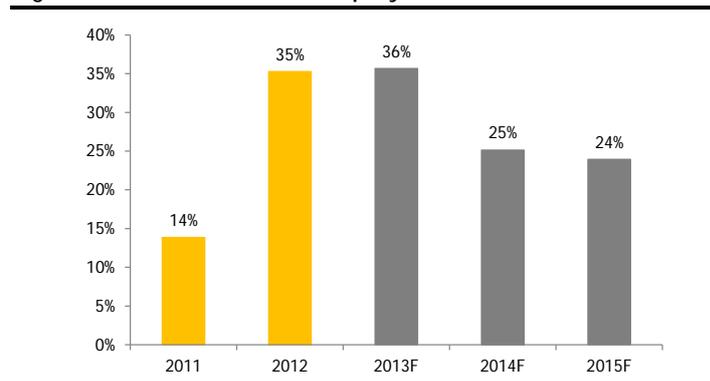
We forecast BEST to maintain its net cash position through 2015F assuming the company does not need additional capital through bank loans. With earnings growth slowing down, we project BEST's ROE to decline to 25% and 24% in 2014F-2015F.

Figure 138: BEST Gearing



Source: Company data, Maybank KE

Figure 139: BEST Return on Equity



Source: Company data, Maybank KE

## Risks to our views

### Interest rate hikes

In general, property companies will suffer when the central bank increases the reference rate as the cost of funds to purchase property will increase and we expect investors to hold their investment in the property market.

### Economic downturn

In the event of an economic slowdown, we expect the demand in the property market to weaken, especially in the middle-up segment and high rise projects. An economic slowdown could also increase the risk of bad debts from customers paying in cash installments.

### Regulatory environment

The government has kept a close eye on the Indonesian property market and has introduced measures aimed at curbing the unsustainable increase in property prices. It may now take longer for BEST to secure the licenses to build high-rise buildings which impact its pre-sales growth. Other regulatory risks include stricter regulations for homebuyers and higher property taxes.

## Valuation

Transfer coverage with HOLD and TP of IDR590 which implies 44% discount to its RNAV of IDR1,058/share. We calculate its RNAV by using DCF valuation of its five year operating cash flows and we assign residual value of its remaining land bank. To derive the DCF valuation, we assigned WACC of 16.3% based on 18.5% cost of equity, beta of 1.5 and 11.0% cost of debt assuming 30% LT debt-equity ratio.

Our discount rate of 44% is applied due to the slowing industrial estate demand for 2014F. We also view that the industrial estate sector will grow at a normalized rate, going forward.

Our target price translates to 8.2x P/E and 1.7x P/B 2014F. Our TP is in line with the historical five year mean of one year forward P/E of 8.3x but slightly higher than its one year forward P/B of 1.3x.

Figure 140: RNAV calculation

	Land balance	BV	MV	Excess MV	NPV	Gross value	Ownership	Net value
PROPERTY SALES	ha	IDR b	%	IDR b				
MM2100 Bekasi	570	1,425	8,550	7,125	5,236	12,361	100%	12,361
<b>TOTAL</b>	<b>570</b>	<b>1,425</b>	<b>8,550</b>	<b>7,125</b>	<b>5,236</b>	<b>12,361</b>		<b>12,361</b>
Adjustments & Development Costs								(941)
Customer Advance								(250)
Net Cash								(979)
<b>RNAV</b>								<b>5,677</b>
# of Shares								<b>9,629</b>
		discounts	44%					
		# mn						
Value per share								590

Source: Maybank

FYE 31 Dec (IDR bn)	FY11A	FY12A	FY13E	FY14E	FY15E
<b>Key Metrics</b>					
P/E (reported) (x)	45.1	10.9	7.8	8.5	7.4
Core P/E (x)	45.1	10.9	7.8	8.5	7.4
P/BV (x)	6.0	3.3	2.3	1.8	1.5
P/NTA (x)	6.0	3.3	2.3	1.8	1.5
Net dividend yield (%)	0.0	1.5	0.0	0.0	0.0
FCF yield (%)	nm	2.6	1.9	11.9	15.4
EV/EBITDA (x)	na	nm	nm	nm	nm
EV/EBIT (x)	na	nm	nm	nm	nm
<b>Income Statement</b>					
Revenue	476.0	965.1	1,397.7	1,278.9	1,483.2
Gross profit	190.4	571.1	908.5	831.3	964.1
EBITDA	0.0	0.0	830.7	752.0	861.9
Depreciation	0.0	0.0	4.1	4.3	4.5
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	0.0	0.0	834.8	756.3	866.5
Net interest income /(exp)	(30.0)	(23.3)	17.8	(0.2)	11.0
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	(25.0)	0.0	0.0
Pretax profit	142.5	517.5	827.6	756.1	877.5
Income tax	(23.0)	(47.2)	(68.1)	(62.3)	(72.2)
Minorities	(0.0)	(0.1)	0.0	0.0	0.0
Reported net profit	119.6	470.3	759.5	693.9	805.3
Core net profit	119.6	470.3	759.5	693.9	805.3
<b>Balance Sheet</b>					
Cash & Short Term Investments	60.1	582.7	1,073.1	1,810.9	2,682.6
Property, Plant & Equip (net)	74.0	1,349.3	76.8	77.6	78.5
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	2,979.6	625.3	2,370.3	2,355.8	2,344.9
Total assets	1,643.9	2,285.8	3,520.1	4,244.3	5,106.0
ST interest bearing debt	0.0	67.5	0.0	0.0	0.0
LT interest bearing debt	267.7	159.7	559.0	586.0	549.5
Other liabilities	481.4	288.4	378.6	381.9	474.9
Total Liabilities	749.1	515.6	937.6	967.9	1,024.4
Shareholders Equity	894.8	1,770.0	2,582.5	3,276.4	4,081.7
Minority Interest	0.1	0.1	0.0	0.0	0.0
Total shareholders equity	894.9	1,770.1	2,582.5	3,276.4	4,081.7
<b>Cash Flow</b>					
Pretax profit	142.5	517.5	827.6	756.1	877.5
Depreciation & amortisation	0.0	0.0	(4.1)	(4.3)	(4.5)
Adj net interest (income)/exp	(29.7)	(23.3)	0.0	0.0	0.0
Change in working capital	0.0	0.0	(644.2)	12.6	105.2
Cash taxes paid	40.3	38.8	(68.1)	(62.3)	(72.2)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	549.1	590.5	119.4	710.8	915.0
Capex	(560.0)	(456.2)	(4.9)	(5.1)	(5.4)
Free cash flow	(10.9)	134.3	114.5	705.7	909.6
Dividends paid	0.0	0.0	0.0	0.0	0.0
Equity raised / (purchased)	162.7	409.9	53.0	0.0	0.0
Change in Debt	27.0	(22.2)	331.0	27.0	(36.5)
OTH investing/financing cash flow	(113.0)	23.9	(8.5)	5.2	(1.4)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	36.1	522.6	490.1	737.8	871.7

FYE 31 Dec (IDR bn)	FY11A	FY12A	FY13E	FY14E	FY15E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	105.0	102.8	44.8	(8.5)	16.0
EBITDA growth	na	na	nm	(9.5)	14.6
EBIT growth	na	na	nm	(9.4)	14.6
Pretax growth	25.7	263.1	59.9	(8.6)	16.0
Reported net profit growth	9.7	293.3	61.5	(8.6)	16.1
Core net profit growth	9.7	293.3	61.5	(8.6)	16.1
<b>Profitability ratios (%)</b>					
EBITDA margin	0.0	0.0	59.4	58.8	58.1
EBIT margin	0.0	0.0	59.7	59.1	58.4
Pretax profit margin	29.9	53.6	59.2	59.1	59.2
Payout ratio	0.0	16.9	0.0	0.0	0.0
<b>DuPont analysis</b>					
Net profit margin (%)	25.1	48.7	54.3	54.3	54.3
Revenue/Assets (x)	0.3	0.4	0.4	0.3	0.3
Assets/Equity (x)	1.8	1.3	1.4	1.3	1.3
ROAE (%)	13.8	35.3	34.9	23.7	21.9
ROAA (%)	8.4	23.9	26.2	17.9	17.2
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	79.4	4.6	4.8	7.5	6.7
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	nm	nm	18.0	37.7	33.5
Dividend cover (x)	nm	5.9	nm	nm	nm
Current ratio (x)	nm	nm	nm	nm	nm
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.2	4.4	3.8	4.4	5.0
Net debt/equity (%)	23.2	net cash	net cash	net cash	net cash
Net interest cover (x)	0.0	0.0	na	nm	na
Debt/EBITDA (x)	nm	nm	0.7	0.8	0.6
Capex/revenue (%)	117.7	47.3	0.4	0.4	0.4
Net debt/ (net cash)	207.6	(355.4)	(514.1)	(1,224.9)	(2,133.1)

# Lippo Karawaci (LPKR IJ)

Share Price: IDR940

MCap (USD): 1.8B

Indonesia

Target Price: IDR900(-4%)

ADTV (USD): 8M

Real Estate

**HOLD**

(New)

## Resilience through diversification

- Transfer coverage with HOLD and TP of IDR900 for the most diversified property developer in Indonesia.
- We expect its recurring income business segments to be LPKR's new source of growth.
- Pre-sales to be supported by large scale developments albeit with rising execution risks.

### Growing recurring income business segments

We project the recurring income of its hospitals, retail malls, hotels and asset management businesses to contribute 54% of the company's total revenue in 2014F. This is mainly supported by the growing capacity of the healthcare business.

### Higher execution risk for high-rise projects

It is becoming increasingly difficult to obtain licenses to build high-rise buildings, especially superblocks which also have retail malls, in Jakarta. This creates execution risk for LPKR which has superblock projects in the Jakarta area.

### Valuation and risks

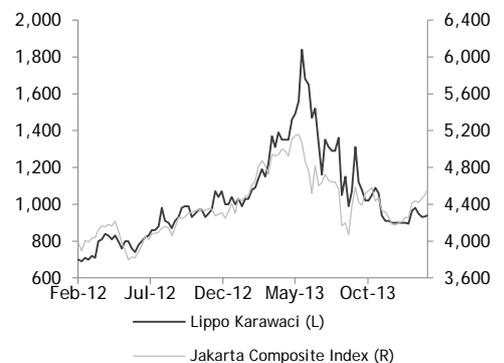
Our target price of IDR900 is a 37% discount to its RNAV of IDR1,335. Our target price translates to 12.2x P/E and 1.4x P/B 2014F; slightly above its historical average. Risks to our view include: interest rate hikes, execution risks, currency volatility, economic slowdown and tighter regulations.

FYE Dec (IDR bn)	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue	4,365.6	6,290.0	7,954.1	8,980.4	9,802.2
EBITDA	0.0	0.0	2,335.1	2,670.6	3,051.1
Core net profit	708.3	1,060.2	1,581.3	1,695.6	1,926.8
Core EPS (IDR)	32	46	69	73	83
Core EPS growth (%)	4.2	47.3	47.4	7.2	13.6
Net DPS (IDR)	8	12	0	0	0
Core P/E (x)	29.8	20.2	13.7	12.8	11.3
P/BV (x)	2.4	2.0	1.6	1.5	1.3
Net dividend yield (%)	0.8	1.3	0.0	0.0	0.0
ROAE (%)	8.1	10.2	12.3	11.3	11.4
ROAA (%)	4.1	4.9	5.6	5.1	5.3
EV/EBITDA (x)	nm	nm	1.7	0.8	0.0
Net debt/equity (%)	17.9	net cash	21.5	5.5	net cash

### Key Data

52w high/low (IDR)	1,840/870
Free float (%)	80.8
Issued shares (m)	23,078
Market capitalization	IDR21.7T
Major shareholders:	
-Pacific Asia Holding Ltd.	18%
-Dimensional Fund Advisors LP	2%
-PT Lippo Karawaci Tbk	1%

### Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute(%)	(2.6)	2.2	(12.1)
Relative to country (%)	(5.7)	(1.5)	(11.1)

### Maybank vs Market

	Positive	Neutral	Negative
Market Recs	5	2	2
Maybank Consensus			
Target Price (IDR)	900	950	(5.3)
2013 PATMI(IDRbn)	1,581	1,211	30.6
2014 PATMI(IDRbn)	1,696	1,394	21.6

Source: FactSet; Maybank

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## Company Background

### The most diversified property developer

Lippo Karawaci is one of the largest property developers in terms of geographical coverage and property portfolio. It is the property arm business of Lippo Group, a notable Indonesian conglomerate. Lippo Group businesses include retail, media, technology, education, and financial sectors.

Currently, Lippo Karawaci's extensive property portfolio covers township developments, large scale developments (superblocks), memorial parks, industrial estates, healthcare, retail malls, hospitality and asset management.

## Property projects

### Township development

#### Lippo Village

Located in West Jakarta, Lippo Village is its flagship township and one of its first property developments. The company is still developing this township and owns 287ha of land bank, as of 9M2013. The company plans to build a large scale development in Lippo Village to maximize the efficiency of its land bank.

#### Lippo Cikarang

Located in East Jakarta in the industrial hub area of Jakarta-Cikampek toll-road, Lippo Cikarang is a mixed use township of industrial estate, residential and commercial with land bank of 572ha, as of 9M2013. The company owns a 54% stake in Indonesia stock exchange listed Lippo Cikarang.

#### Tanjung Bunga

Located in Makassar, South Sulawesi, Tanjung Bunga is a township with a development area of 1,500ha and land bank of 314ha, as of 9M2013. Tanjung Bunga is one of the first successful townships in Makassar where Lippo Karawaci has also reclaimed land from the sea to enlarge its development area. Lippo Karawaci currently owns a 50% stake in Tanjung Bunga, which is also listed on the Indonesia Stock Exchange.

### Large scale development

Since 2007, Lippo Karawaci has also focused on large scale developments which maximize its strategic land bank mainly within the Jakarta area. Most of its large scale development projects were well received by the market due to its excellent concept and location.

The loss of revenue resulting from the completion of many of its residential and office tower projects will be offset by revenue generated from retail rental fees and the leasing of offices.

Kemang Village in south Jakarta was the first large scale development project the company launched. It is currently developing phase two of the three phase project.

The company's other flagship large scale development is St. Moritz, an 11.4ha project located in west Jakarta. It has also been well received by the market.

Figure 141: Kemang Village



Source: Company data

Figure 142: St. Moritz



Source: Company data

Other large scale developments launched in 2013 include Holland Village in East Jakarta and Lippo Thamrin, a one tower CBD office which are both 100% sold. This year, the company plans to launch two apartment blocks in Lippo Village, two apartment blocks in St. Moritz and the second phase of Holland Village, Embarcadero apartment in South Jakarta and St. Moritz Makassar superblock.

## Healthcare

Through Siloam International Hospitals, the company operates one of the biggest international standard hospital chains in Indonesia with 16 hospitals as of 2013. The company targets to operate 40 hospitals with 10,000 beds capacity by 2017. Lippo Karawaci currently owns an 86% stake in Siloam International Hospitals, which is also listed on the Indonesia Stock Exchange.

The ambitious target to more than double the current capacity of its hospital business is supported by its ability to recycle capital by selling hospital properties to its affiliated REITs. This allows the company to concentrate on improving the operational performance of the hospital to strengthen its brand equity in Indonesia. The company plans to open 6-8 hospitals in 2014.

## Commercial

### Retail Malls

Lippo Karawaci is one of the largest mall operators in Indonesia with 31 malls (NLA of c.1mn sqm) under its management. Its large scale development projects incorporate retail malls and residential properties. The residents of the projects create a strong customer base for the mall's tenants, allowing the company to achieve a high occupancy rates.

### Hospitality

Through Aryaduta International Management, Lippo Karawaci manages eight hotels as of 2013. Although the contribution of its hospitality unit is not significant, the company continues to manage its hotels through its in-house Aryaduta brand. Lippo Karawaci plans to add four new hotels in 2014F in St. Moritz Jakarta, Kemang Village, Embarcadero Jakarta, and St. Moritz Makassar.

### Asset management

Lippo Karawaci manages two REITS which are listed on the Singapore Stock Exchange. The total assets under management is approximately USD2.2bn and growing as the company continues to expand its property business; especially the healthcare business.

As of 2013, FIRST REIT assets in Indonesia include nine hospital buildings, one retail mall and two hotels while LMIR Trust assets in Indonesia include 15 retail malls.

## Earnings drivers

We think the company's earnings drivers will come from its non-property business; especially the healthcare business where the sector is profitable and competition is still low. This offsets the cautious outlook for its property segment sales in 2014F-2015F. We also note that there is higher execution risk from the large scale development projects in terms of licensing in the Jakarta area.

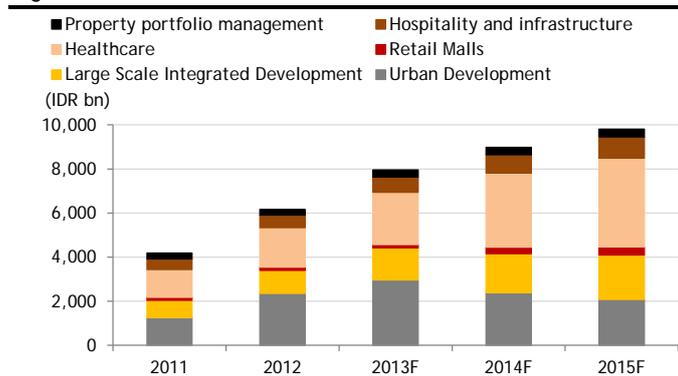
### Growing healthcare business to support earnings

We think that Lippo Karawaci's determination to grow its healthcare business from 16 hospitals in 2013 to 40 in 2017 will significantly increase revenue contribution. We project that the healthcare business will contribute 37% of revenue in 2014F and grow to 41% in 2015F.

This leads to higher overall recurring income over the next two years. We project Lippo Karawaci's recurring income to contribute 54% to revenue in 2014F and grow to 58% in 2015F, driven by the strong revenue growth of its healthcare business.

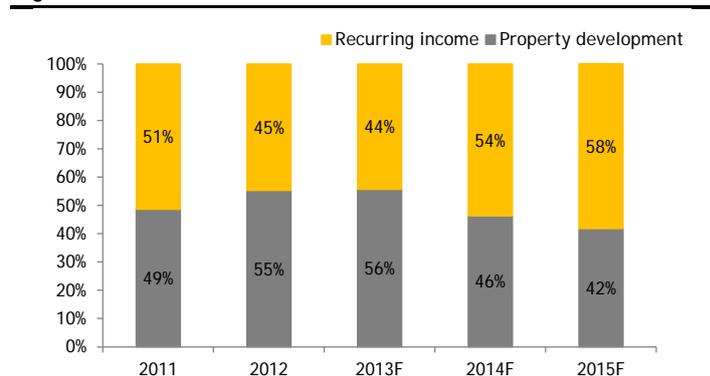
There is a risk of higher capex for the proposed expansion of its healthcare business. Medical equipment for the hospitals is subject to higher prices due to a weakening Rupiah against the USD since all the medical equipment costs are USD denominated.

Figure 143: LPKR Revenue breakdown



Source: Company data, Maybank KE

Figure 144: LPKR Revenue contribution



Source: Company data, Maybank KE

### Property sales to be driven by large scale development

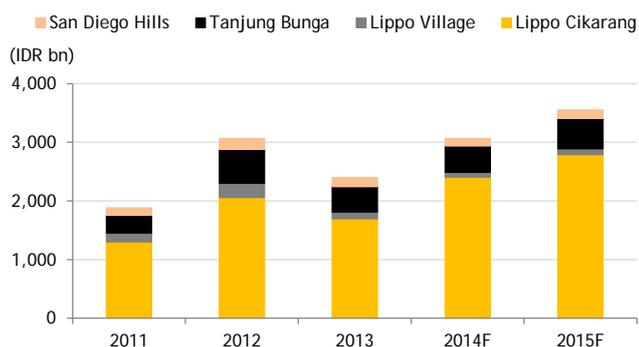
We project that demand for LPKR's urban development will slow in 2014F and 2015F. This may mean the company will push more of its large scale development projects. Lippo Cikarang will launch its large scale development project this year which we think will boost its pre-sales in 2014F and 2015F. Besides Lippo Cikarang, we expect the other urban development sales growth to remain soft in 2014F and 2015F. We forecast that the urban development segment will contribute pre-sales of IDR3,065bn and IDR3,553bn in 2014F and 2015F.

For the large scale urban development sales in 2014F and 2015F, we only assume existing projects and new projects that the company has announced such as the Embarcadero apartment, Phase 2 of Holland Village and St. Moritz Makassar project. We forecast that the large scale development to contribute pre-sales of IDR1,991bn and IDR1,894bn in 2014F-2015F.

We note execution risk for the large scale development property projects from the licensing issuance by the local government. This has been the cause of delays in some projects in Kemang Village which has forced the company to postpone the launching of these projects.

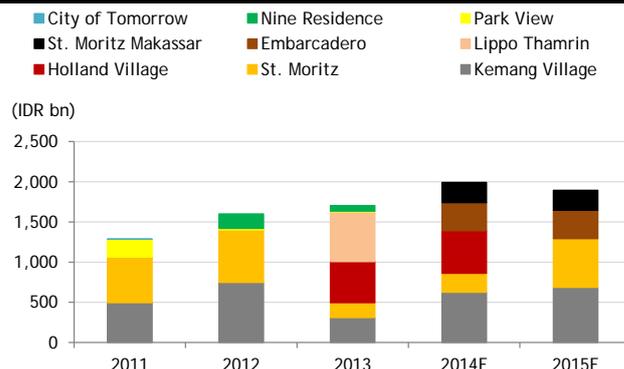
Currency volatility may also impact profitability at the company's large scale development projects as 40% of the costs of developing high-rise buildings relates to the USD. Contractors might not prefer the direct contracting method and force the company to source its own raw materials.

Figure 145: LPKR Urban Development Property marketing sales



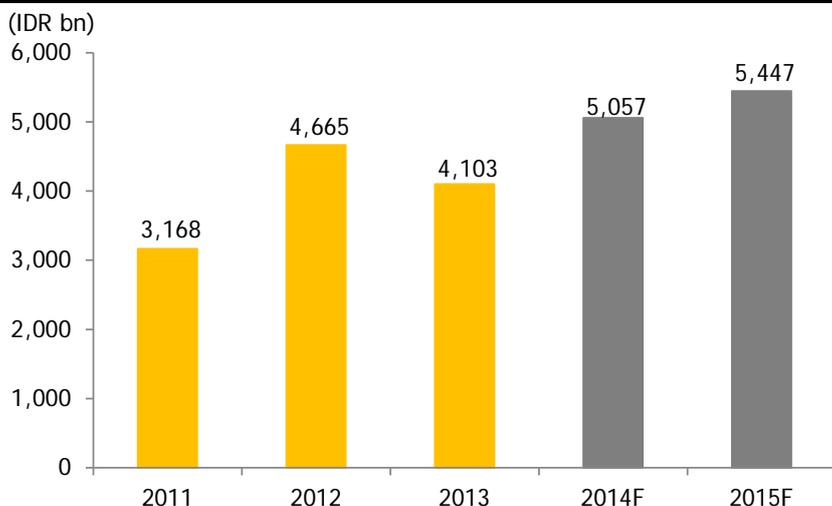
Source: Company data, Maybank KE

Figure 146: LPKR Large scale development marketing sales



Source: Company data, Maybank KE

Figure 147: LPKR Marketing sales



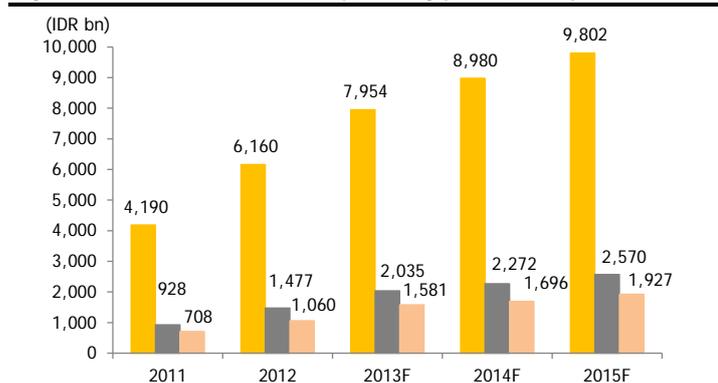
Source: Company data, Maybank KE

## Financials

### Stabilizing margins to support earnings growth

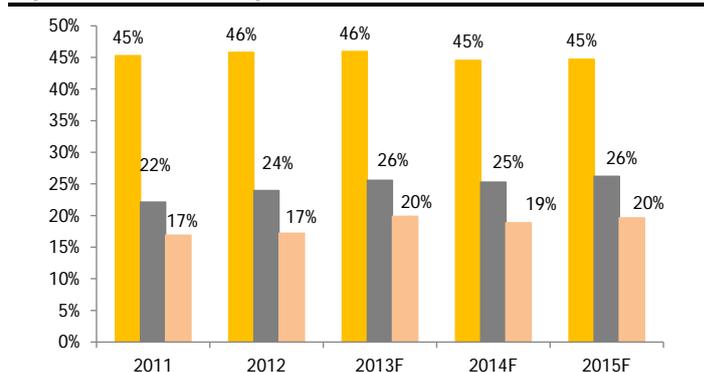
We project Lippo Karawaci's revenue to grow by 13% and 9% in 2014F and 2015F on the back of growing healthcare business. We expect net margins to remain stable at 19% as we expect the high pre-operating hospital expenses be offset by the high margin in the large scale urban development. We forecast earnings to grow of 7% and 14% in 2014F and 2015F.

Figure 148: LPKR Revenue, Operating profit, Net profit



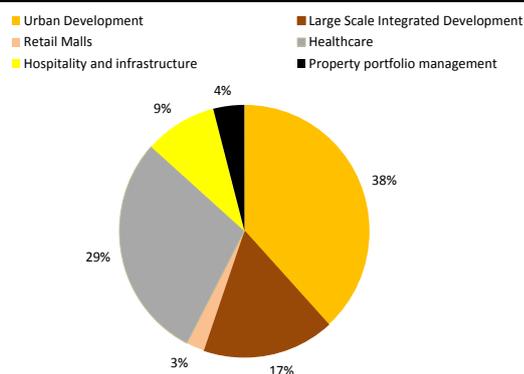
Source: Company data, Maybank KE

Figure 149: LPKR Margins



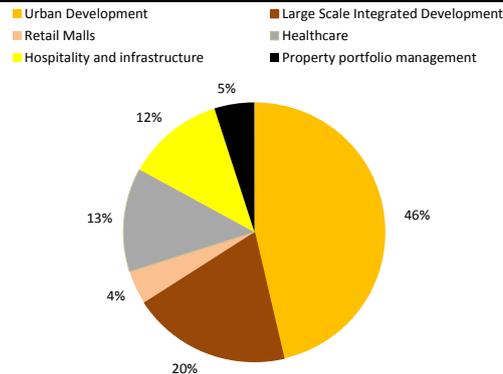
Source: Company data, Maybank KE

Figure 150: LPKR Revenue breakdown (2012)



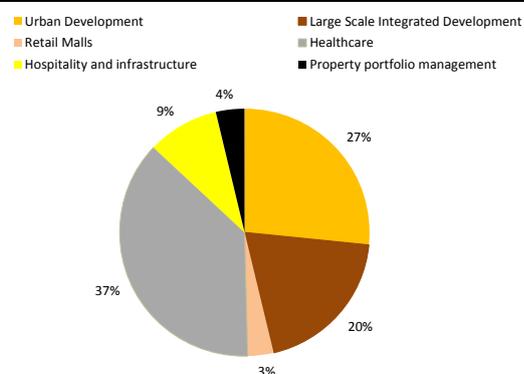
Source: Company data, Maybank KE

Figure 151: LPKR Operating profit breakdown (2012)



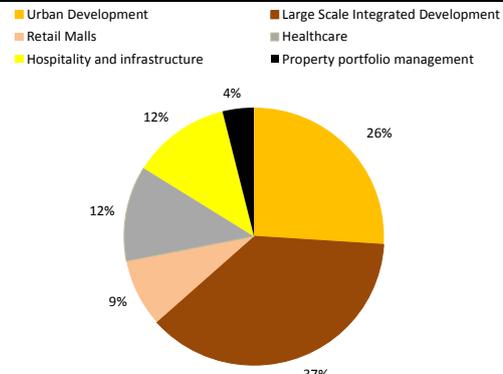
Source: Company data, Maybank KE

Figure 152: LPKR Revenue breakdown (2014F)



Source: Company data, Maybank KE

Figure 153: LPKR Operating profit breakdown (2014F)

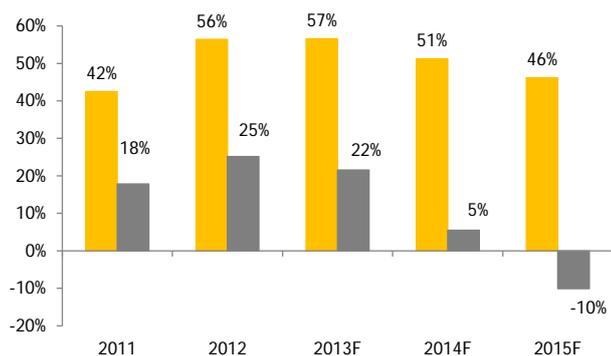


Source: Company data, Maybank KE

## Turn net cash in 2015F with stabilizing ROE

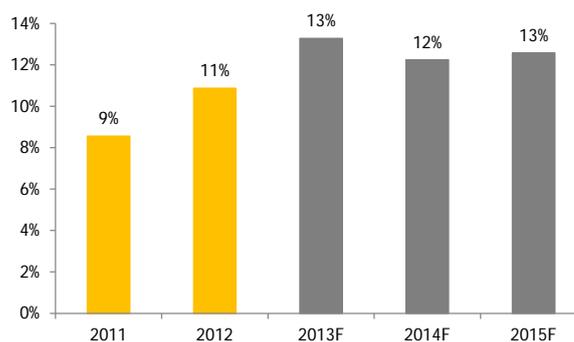
We forecast the company to maintain its low leverage as it can recycle capital through selling the property of its recurring income assets to the REITS and we expect the company to turn net cash in 2015F. We think that the company's USD bonds carry less risk to its balance sheet and profitability since the company also earns SGD from management fees from the Singapore based REITS which limits the forex losses for its interest expense. With sustained earnings growth, we forecast the company's ROE to stabilize at 12% in 2014F-2015F.

Figure 154: LPKR Gearing



Source: Company data, Maybank KE

Figure 155: LPKR Return on Equity



Source: Company data, Maybank KE

## Risks to our view

### Interest rate hikes

In general, property companies will suffer when the central bank increases the reference rate as the cost of funds to purchase property will increase and we expect investors to hold their investment in property market.

### Execution risk

We note execution risk for Lippo Karawaci on its large scale development projects. We think that the company might have to delay the launching of its large scale development projects due to an inability of obtaining the license on time.

### Currency volatility

Currency volatility may risk the company's profitability, especially in the healthcare and large scale development business segments. These two business segments have costs related to the USD.

### Economic downturn

In the event of an economic slowdown, we expect demand in the property market to slow, especially in the middle-up segment and high rise projects. The slowing economy could also increase the risk of bad debts from customers with who pay in cash installments.

### Regulatory environment

The government has kept a close eye on the Indonesian property market and has introduced measures aimed at curbing the unsustainable increase in property prices. The company may need longer to secure the licenses to build high-rise buildings which may hinder the overall pre-sales growth. Other regulatory risks include stricter regulations for homebuyers and higher property taxes.

## Valuation

Initiate HOLD with TP of IDR900, which implies a 37% discount to its RNAV of IDR1,436/share. We calculate its RNAV by using the DCF valuation of its five year operating cash flows and we assigned residual value of its remaining land bank. To derive the DCF valuation, we assigned WACC of 11.7% based on 14.3% cost of equity, beta of 1.5 and 10.0% cost of debt assuming 60% LT debt-equity ratio.

Our discount rate of 37% is applied to Lippo Karawaci due to its high revenue contribution from recurring income business segments to continue to support its earnings. However, we are cautious on the execution of its high-rise projects which might be delayed due to difficulties in obtaining the license from the local government and its currency volatility risk.

Our target price translates to 12.2x P/E and 1.4x P/B 2014F. Our TP is slightly above the historical five year mean of one year forward P/E of 11.6x and in line with its one year forward P/B of 1.4x.

Figure 156: RNAV calculation

	Land balance	BV	MV	Excess MV	NPV	Gross value	Ownership	Net value
	ha	IDR bn	IDR bn	IDR bn	IDR bn	IDR bn	%	IDR bn
<b>Urban Development</b>	<b>1,258</b>	<b>2,261</b>	<b>39,185</b>	<b>36,924</b>	<b>4,799</b>	<b>41,723</b>		<b>29,507</b>
Lippo Karawaci	287	718	14,748	14,030	210	14,240	100%	14,240
Lippo Cikarang	573	1,145	15,377	14,231	3,558	17,789	54%	9,677
Tanjung Bunga	304	304	8,217	7,912	794	8,706	50%	4,379
San Diego Hills	94	94	844	750	237	987	100%	987
Other property asset	20	20	243	223	-	223	100%	223
<b>Large Scale Development</b>	<b>21</b>	<b>180</b>	<b>2,533</b>	<b>2,353</b>	<b>3,271</b>	<b>5,624</b>		<b>5,362</b>
Kemang Village	6	72	1,320	1,248	1,368	2,616	90%	2,355
ST Moritz	3	34	513	479	1,117	1,596	100%	1,596
Other Large Scale Developments	12	74	700	626	786	1,412	100%	1,412

	Annual CF	Cap Rate	BV	NPV	Excess MV	Ownership	Net Value
	IDR bn	%	IDR bn	IDR bn	IDR bn	%	IDR bn
Retail Malls	188	11.7%	606	1,610	1,004	100%	1,004
Hospitals	997	11.7%	1,160	5,620	4,460	86%	3,836
Hotels	218	11.7%	-	3,304	3,304	100%	3,304
Portfolio Mgt and Others	245	11.7%	-	2,098	2,313	100%	2,313

<b>TOTAL</b>							<b>45,325</b>
Adjustments (taxes and development costs)							(3,132)
Customer Advance	IDR bn						(6,217)
Net Cash	IDR bn						(2,834)
<b>RNAV</b>	IDR bn	discounts	37%				<b>20,771</b>
# of Shares	# mn						23,078
<b>Value per share</b>	<b>IDR bn</b>						<b>900</b>

Source: Maybank KE

FYE 31 Dec (IDR bn)	FY11A	FY12A	FY13E	FY14E	FY15E
<b>Key Metrics</b>					
P/E (reported) (x)	29.8	20.2	13.7	12.8	11.3
Core P/E (x)	29.8	20.2	13.7	12.8	11.3
P/BV (x)	2.4	2.0	1.6	1.5	1.3
P/NTA (x)	2.5	2.1	nm	nm	nm
Net dividend yield (%)	0.8	1.3	0.0	0.0	0.0
FCF yield (%)	nm	2.0	nm	8.5	10.5
EV/EBITDA (x)	nm	nm	1.7	0.8	0.0
EV/EBIT (x)	nm	nm	1.9	1.0	0.0
<b>Income Statement</b>					
Revenue	4,365.6	6,290.0	7,954.1	8,980.4	9,802.2
Gross profit	1,911.1	2,833.1	3,653.8	3,999.9	4,382.9
EBITDA	0.0	0.0	2,335.1	2,670.6	3,051.1
Depreciation	0.0	0.0	(299.6)	(398.2)	(481.5)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	0.0	0.0	2,035.5	2,272.5	2,569.5
Net interest income /(exp)	(105.3)	(199.4)	(7.1)	(20.0)	10.6
Associates & JV	2.4	0.0	26.0	33.9	44.1
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	82.5	72.7	84.5
Pretax profit	984.8	1,550.8	2,136.9	2,359.1	2,708.7
Income tax	(170.7)	(254.2)	(323.6)	(365.3)	(398.8)
Minorities	(105.8)	(262.6)	(232.0)	(298.1)	(383.1)
Reported net profit	708.3	1,060.2	1,581.3	1,695.6	1,926.8
Core net profit	708.3	1,060.2	1,581.3	1,695.6	1,926.8
<b>Balance Sheet</b>					
Cash & Short Term Investments	2,174.6	7,495.9	4,610.3	6,646.4	9,072.6
Property, Plant & Equip (net)	3,382.7	3,969.7	3,255.6	4,266.1	5,252.5
Intangible assets	210.3	214.6	0.0	0.0	0.0
Investment in Associates & JVs	64.0	646.5	3,431.0	3,464.9	3,509.0
Other assets	17,416.3	22,601.3	19,235.8	19,456.0	19,025.2
Total assets	18,259.2	24,869.3	31,753.3	35,029.8	38,031.9
ST interest bearing debt	0.0	16.1	0.0	0.0	0.0
LT interest bearing debt	3,757.5	5,998.3	7,444.0	7,444.0	7,444.0
Other liabilities	5,092.6	7,384.8	10,108.0	11,707.0	12,738.3
Total Liabilities	8,850.2	13,399.2	17,552.0	19,151.0	20,182.3
Shareholders Equity	8,833.7	10,656.1	13,155.3	14,534.7	16,122.4
Minority Interest	575.3	814.0	1,046.0	1,344.1	1,727.2
Total shareholders equity	9,409.0	11,470.1	14,201.3	15,878.8	17,849.6
<b>Cash Flow</b>					
Pretax profit	984.8	1,550.8	2,136.9	2,359.1	2,708.7
Depreciation & amortisation	0.0	0.0	299.6	398.2	481.5
Adj net interest (income)/exp	(316.1)	(452.6)	0.0	0.0	0.0
Change in working capital	0.0	0.0	(3,233.3)	1,106.4	1,300.0
Cash taxes paid	471.2	440.5	(323.6)	(365.3)	(398.8)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	409.9	1,559.7	(1,352.4)	3,200.2	3,708.4
Capex	(424.5)	(951.7)	(1,304.3)	(1,365.6)	(1,425.0)
Free cash flow	(114.5)	422.3	(2,656.7)	1,834.6	2,283.4
Dividends paid	(99.9)	(185.8)	(212.0)	(316.3)	(339.1)
Equity raised / (purchased)	894.7	(154.8)	1,130.0	0.0	0.0
Change in Debt	243.0	1,880.0	1,429.0	0.0	0.0
OTH investing/financing cash flow	(2,200.2)	(573.7)	1,583.0	517.8	481.9
Effect of exch rate changes	7.5	41.6	0.0	0.0	0.0
Net cash flow	(1,485.5)	1,162.8	1,273.3	2,036.1	2,426.2

FYE 31 Dec (IDR bn)	FY11A	FY12A	FY13E	FY14E	FY15E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	39.7	44.1	26.5	12.9	9.2
EBITDA growth	na	na	nm	14.4	14.2
EBIT growth	na	na	nm	11.6	13.1
Pretax growth	36.9	57.5	37.8	10.4	14.8
Reported net profit growth	34.8	49.7	49.1	7.2	13.6
Core net profit growth	34.8	49.7	49.1	7.2	13.6
<b>Profitability ratios (%)</b>					
EBITDA margin	0.0	0.0	29.4	29.7	31.1
EBIT margin	0.0	0.0	25.6	25.3	26.2
Pretax profit margin	22.6	24.7	26.9	26.3	27.6
Payout ratio	24.7	25.5	0.0	0.0	0.0
<b>DuPont analysis</b>					
Net profit margin (%)	16.2	16.9	19.9	18.9	19.7
Revenue/Assets (x)	0.2	0.3	0.3	0.3	0.3
Assets/Equity (x)	2.1	2.3	2.4	2.4	2.4
ROAE (%)	8.1	10.2	12.3	11.3	11.4
ROAA (%)	4.1	4.9	5.6	5.1	5.3
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	71.6	53.9	48.7	52.6	54.7
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	nm	nm	72.9	135.8	139.9
Dividend cover (x)	4.1	3.9	nm	nm	nm
Current ratio (x)	nm	nm	2.9	2.7	2.7
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.1	1.9	1.8	1.8	1.9
Net debt/equity (%)	17.9	net cash	21.5	5.5	net cash
Net interest cover (x)	0.0	0.0	nm	nm	na
Debt/EBITDA (x)	nm	nm	3.2	2.8	2.4
Capex/revenue (%)	9.7	15.1	16.4	15.2	14.5
Net debt/ (net cash)	1,583.0	(1,481.6)	2,833.7	797.6	(1,628.6)



## Summarecon Agung (SMRA IJ)

Share Price: IDR1,045

MCap (USD): 1.3B

Indonesia

Target Price: IDR1,050(+0%)

ADTV (USD): 2M

Real Estate

# HOLD

(New)

### Increasing risk profile

- Initiate at HOLD with TP of IDR1,050 for the township developer specialist.
- We project pre-sales will remain flat in 2014F due to lower sales volume.
- We are cautious on its property mix in 2014F which weighs more to high-rise projects.

### Short term hiccup due to licensing in 2013

Summarecon delayed several projects in 2013 due to setbacks in the land acquisition process. This resulted in it failing to meet its FY13 pre-sales target. We expect slower sales volume in 2014F leading to flat pre-sales growth in 2014F, in our view. Rising risks from its high-rise projects may impede its growth this year.

### Still one of the best township developers

We still like Summarecon for its strong brand equity as one of the leading township developers in Indonesia. Its strong recurring income base also provides earnings stability in the current uncertain economic climate. The company has announced plans to expand to Bandung and Bogor to replicate its business model.

### Valuation and risks

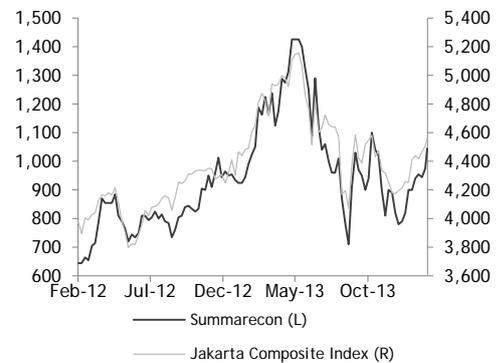
Our target price of IDR1,050 is a 63% discount to its RNAV of IDR2,697. It translates to 12.4x P/E and 2.9x P/B 2014F; slightly above its historical average of +1SD P/E and +1SD P/B. The risks to our view include: interest rate hikes, execution risk, land acquisition risk, currency volatility, economic slowdown, tighter regulations.

FYE Dec (IDR bn)	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue	2,385.5	3,496.9	4,602.3	4,708.4	5,295.5
EBITDA	0.0	0.0	1,494.0	1,618.1	1,782.6
Core net profit	392.0	797.8	1,147.5	1,220.8	1,342.2
Core EPS (IDR)	29	57	159	85	93
Core EPS growth (%)	64.1	101.4	176.9	(46.8)	9.9
Net DPS (IDR)	12	22	0	0	0
Core P/E (x)	36.6	18.2	6.6	12.3	11.2
P/BV (x)	5.8	4.1	1.7	2.9	2.5
Net dividend yield (%)	1.1	2.1	0.0	0.0	0.0
ROAE (%)	16.9	25.4	27.1	24.2	22.8
ROAA (%)	5.5	8.4	10.3	9.9	9.4
EV/EBITDA (x)	nm	nm	0.4	0.9	0.7
Net debt/equity (%)	net cash	net cash	9.2	22.2	17.1

### Key Data

52w high/low (IDR)	1,488/710
Free float (%)	67.7
Issued shares (m)	14,427
Market capitalization	IDR15.1T
Major shareholders:	
-PT Semarop Agung	25%
-PT Sinarmegah Jayasentosa	7%
-APG Asset Management NV	6%

### Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute(%)	16.1	21.5	4.5
Relative to country (%)	12.4	17.2	5.8

### Maybank vs Market

	Positive	Neutral	Negative
Market Recs	10	0	0
<b>Maybank Consensus</b>			
Target Price (IDR)	1,050	1,160	(9.5)
2013 PATMI (IDRbn)	1,148	1,168	(1.8)
2014 PATMI (IDRbn)	1,221	1,202	1.6

Source: FactSet; Maybank

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## Company Background

### The township specialist

Established in 1975, Summarecon Agung has proven itself to be one of the best township developers with a disciplined style of developing sizable townships of less than 1,000ha. Its three current developments are Summarecon Kelapa Gading, Summarecon Serpong and Summarecon Bekasi.

As well as expertise in developing townships, the company is also known for its successful shopping malls located in the center of each township. Summarecon's shopping malls target the mid-to-upper segment. One of its malls in Kelapa Gading, North Jakarta is one of the busiest shopping malls in Jakarta.

Summarecon is also expanding its investment properties portfolio to strengthen its recurring income sources. In the past few years, the company has invested in developing hotels, offices, retail spaces and hospitals.

Figure 157: Location map of Summarecon Agung's townships



Source: Company data

## Property projects

### Summarecon Kelapa Gading

Launched in 1976, this was the first township developed by Summarecon. It is now a mature township with only 10ha landbank remaining with development area of 550ha. The development currently comprises 30,000 houses, 2,100 apartment units and 1,350 shop houses.

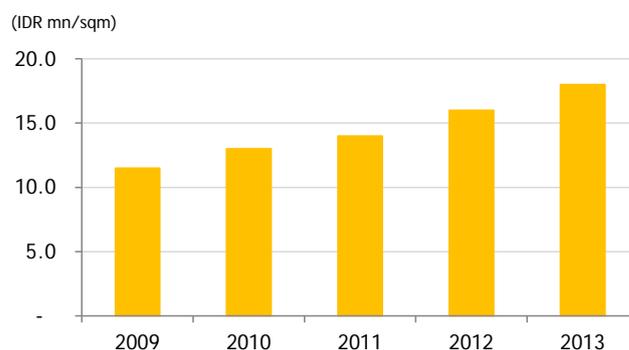
The company plans to fully maximize the remaining 10ha of land bank in this township by developing serviced apartments and shop houses targeting the high-end segment. Completion of the Kelapa Gading project is expected by 2020.

Figure 158: Location map of Summarecon Kelapa Gading



Source: Company data

Figure 159: Historical ASP of Summarecon Kelapa Gading



Source: Company data, Maybank KE

### Summarecon Serpong

Developed in 1993, this is the company's second township with a development area of 750ha. The company projects that its 580ha land bank will be sufficient for 10 years of development. The township currently comprises 11,000 houses and 1,300 shop houses.

Summarecon plans to develop a 10 tower apartment complex which it will launch in stages starting this year to 2015F. This is its first high-rise launch in Summarecon Serpong. It's aiming to provide housing for college students and also target buy-to-lease investors.

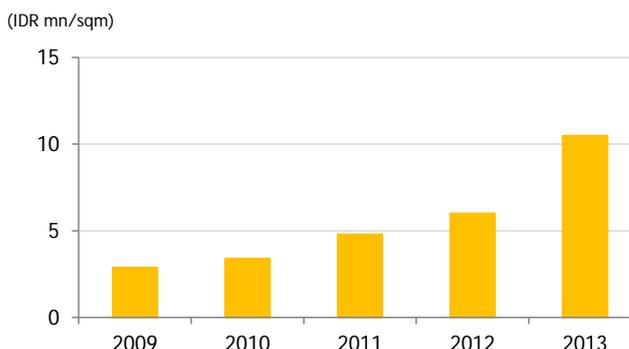
The company will launch eight clusters of landed residential properties totaling and five blocks of commercial properties this year in stages. It has indicated that its landed residential property will be priced in the mid-to-upper bracket.

Figure 160: Location map of Summarecon Serpong



Source: Company data

Figure 161: Historical ASP of Summarecon Serpong



Source: Company data, Maybank KE

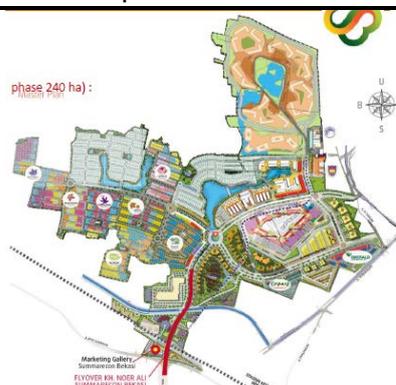
### Summarecon Bekasi

Commencing in 2010, this is the company's latest township with a development area of 480ha. It is expected to complete in 10 years' time. Bekasi is a growing suburban area in Greater Jakarta where land prices have been catching up to the prices in Serpong.

We estimate Summarecon Bekasi's contribution towards the company's overall pre-sales will increase in the future. The company plans to launch several apartment complexes and landed residential properties starting from 2014. This will be the first apartment properties launched by Summarecon Bekasi.

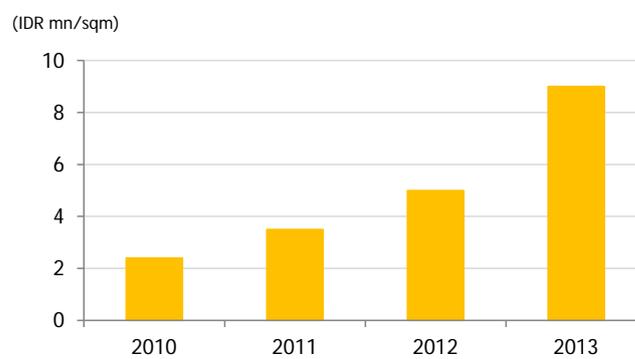
The pricing Summarecon Bekasi is the lowest among the three townships. The population of Bekasi is mainly middle class who work at industrial estates along the Jakarta-Cikampek toll-road belt.

Figure 162: Location map of Summarecon Bekasi



Source: Company data

Figure 163: Historical ASP of Summarecon Bekasi



Source: Company data, Maybank KE

### Summarecon Bandung

The company has accumulated a land bank amounting to 226ha at Bandung, West Java at IDR0.3mn/sqm as of 9M2013, implying a total value of IDR700bn. We expect Summarecon to launch a township in Bandung in 2016F.

### Summarecon Bogor

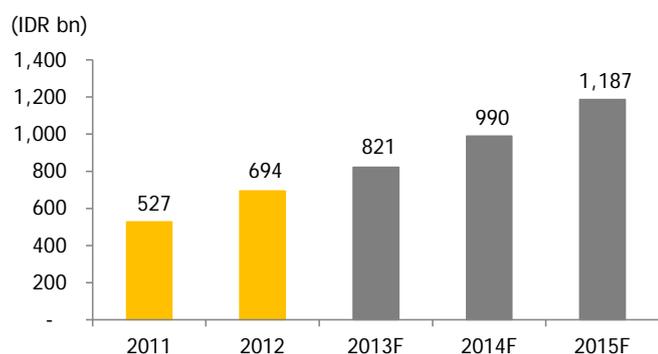
The company acquired stakes in two subsidiaries of Coliman Limited which owns 250ha land in Bogor, West Java. As of FY 2013, Summarecon owns 41% in these two companies valued IDR285bn. It has the option to increase this to 51% by May 2014. This township will be a Joint Venture business with the companies which own the land bank. As of 9M2013, the investment in Bogor is still booked as advance for land.

## Investment Properties

The company has several investment properties such as shopping malls, hotels, office buildings, and convention centers. The contribution of revenue from investment properties is solid with contribution of 23% in 2014F. This is down from 2009 when the revenue contribution was 36%. The diminishing revenue contribution from investment properties in terms of percentage is that in recent years is due to the high base of its property sales revenue value.

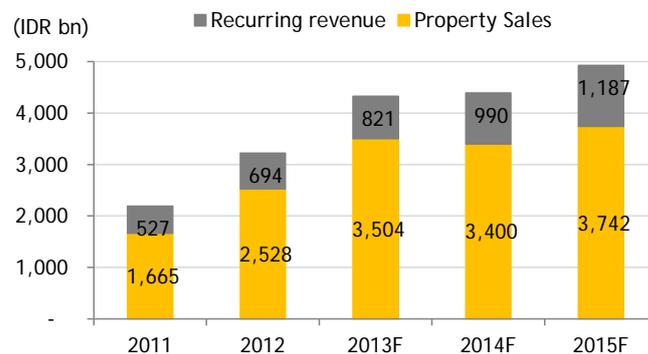
Going forward, the company plans to continue investing in investment properties such as hotels and shopping malls in Serpong and Kelapa Gading and resort villas in Bali.

Figure 164: SMRA Recurring revenue



Source: Company data, Maybank KE

Figure 165: SMRA Revenue breakdown



Source: Company data, Maybank KE

Summarecon Kelapa Gading is an independent township in North Jakarta where the company's shopping mall, Mall Kelapa Gading, is one of the busiest shopping malls in Jakarta attracting 33 million visitors in 2012. Its area is also one of the largest malls in Jakarta with NLA of 105,000sqm with a high 98% occupancy rate.

Due to its success with Mall Kelapa Gading, Summarecon has replicated the concept of this mall into the other two townships with the latest addition to its mall in Bekasi which opened in 2013.

Figure 166: List of Summarecon's investment properties

Investment Property	Type	Location
Mall Kelapa Gading	Retail	Kelapa Gading
Harris Hotel	Hotel	Kelapa Gading
Klub Kelapa Gading	Sports Club	Kelapa Gading
Summerville Apartment	Service apartments	Kelapa Gading
Menara Satu	Office space	Kelapa Gading
Summarecon Mall Serpong	Retail	Serpong
Plaza Summarecon Serpong	Office space	Serpong
St Carolus Hospital Serpong	Hospital	Serpong
Summarecon Mall Bekasi	Retail	Bekasi

Source: Company data

## Financials

### Pre-sales flat in 2014F

Summarecon's three townships have different pricing points in order to tap the property demand from different segments. However, its property mix which the company plans to launch in the three townships is similar and weighs heavily towards the high-rise projects.

We believe that high-rise projects carry higher execution risk as 40% of costs relate to USD and that the company will be required to have a higher commitment in developing the project even when take up rates are low.

As we can see in the tables below, Summarecon's project pipeline is relatively extensive for this year even though the company has only set a pre-sales target of IDR4tn for 2014F. As such, we adjust Summarecon's project pipeline assumptions which we think can be absorbed well by the market for this year.

Figure 167: SMRA 2014 Project pipeline guidance

Project	Units	Location
Kensington Apartments	740	Kelapa Gading
Kensington Office	54	Kelapa Gading
Nias Townhouse	44	Kelapa Gading
Scientia Apartments	1686	Serpong
Serpong Residential Cluster	488*	Serpong
Serpong Commercial Cluster	30*	Serpong
Bekasi Apartment	1,251*	Bekasi
Bekasi Residential Cluster	365*	Bekasi
Bekasi Commercial Cluster	34*	Bekasi

Source: Company data, Maybank KE.

Note: (\*) denotes Maybank KE estimates by dividing the total project units to five years development.

Figure 168: SMRA 2014 Maybank KE project assumption

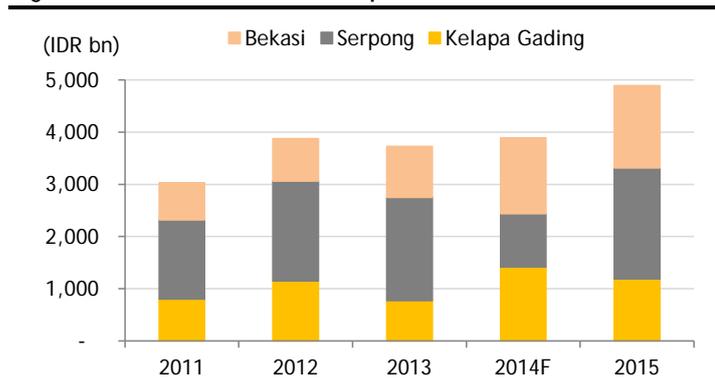
Project	Units	Location
Kensington Apartments	370	Kelapa Gading
Kensington Office	54	Kelapa Gading
Nias Townhouse	44	Kelapa Gading
Scientia Apartments	1124	Serpong
Serpong Residential Cluster	384	Serpong
Serpong Commercial Cluster	40	Serpong
Bekasi Apartment	700	Bekasi
Bekasi Residential Cluster	100	Bekasi
Bekasi Commercial Cluster	20	Bekasi

Source: Company data, Maybank KE

Summarecon's projects have historically always sold out prior commencement of construction. We think that the company will try to maintain this trend to avoid property inventory on hand should the take up rates be low and prefer to delay project launches.

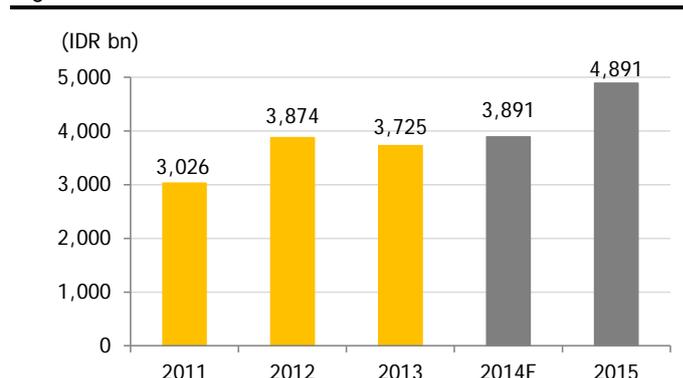
We project Summarecon's pre-sales to be flat in 2014F at IDR3,891bn due to slower sales volume and expect it to accelerate by 26% in 2015F to IDR4,891 on the back of an economic recovery which allows higher sales volume. As we can see in the tables below, the property mix of Summarecon in 2014F is mostly from the sales of apartment properties which is a shift in its historical property mix.

Figure 169: SMRA Pre-sales composition



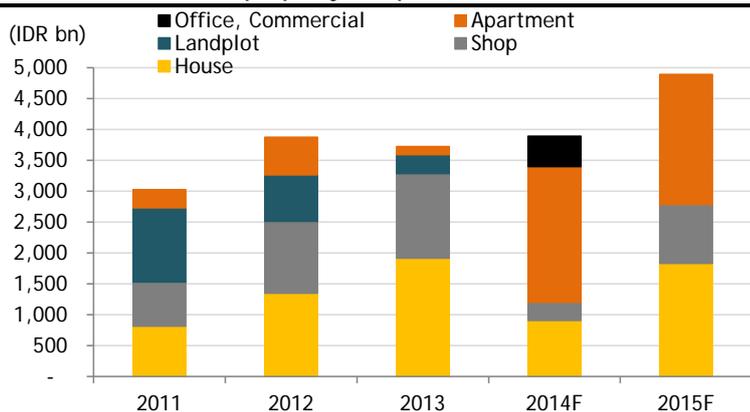
Source: Company data, Maybank KE

Figure 170: SMRA Pre-sales



Source: Company data, Maybank KE

Figure 171: SMRA Pre-sales property composition

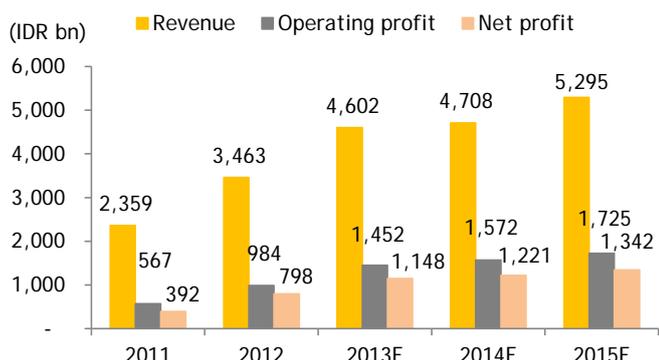


Source: Company data, Maybank KE

### Earnings supported by strong recurring income

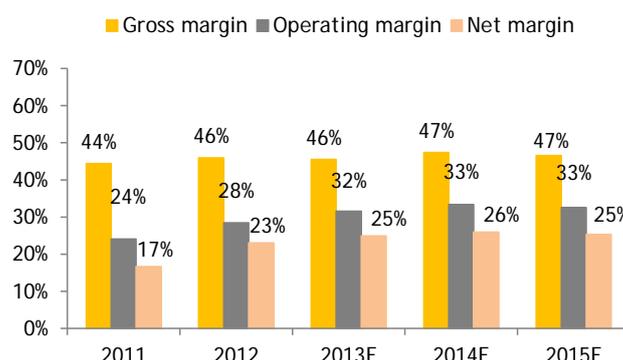
We project Summarecon’s revenue to be IDR4,708bn in 2014F with support from its strong recurring income base. We expect gross margins to stabilize at 47% 2014F-2015F due to limited ASP upside. We have assumed stable opex to pre-sales ratio which brings operating margin at 33% in 2014F-2015F. We project earnings growth to remain flat at 6% in 2014F and 10% in 2015F.

Figure 172: SMRA Revenue, Operating Profit and Net Profit



Source: Company data, Maybank KE

Figure 173: SMRA margins

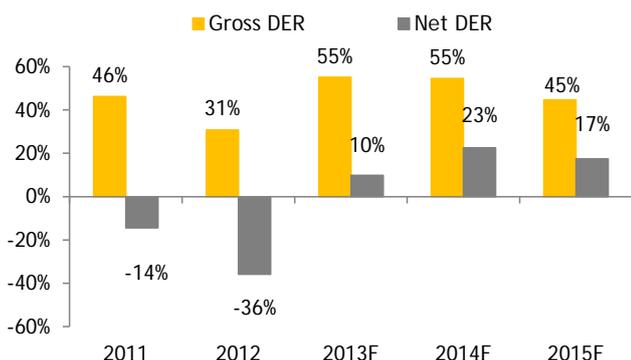


Source: Company data, Maybank KE

### Turn net debt in 2013F and stabilizing ROE

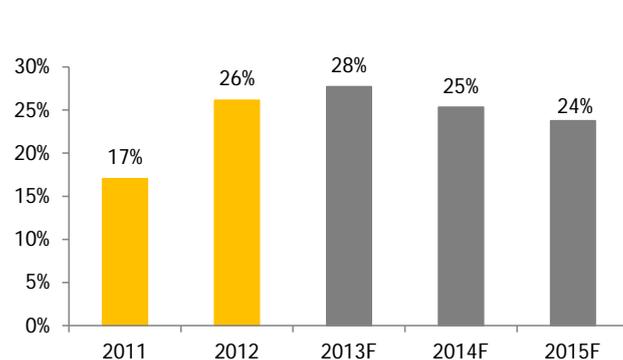
As the company repaid its bond in 2013, and its bank loans remain on its books, we expect the company to turn net debt in 2013F. With the slowing earnings growth, we expect the ROE to decline to 25% and 24% in 2014F-2015F.

Figure 174: SMRA Gearing



Source: Company data, Maybank KE

Figure 175: SMRA Return on Equity



Source: Company data, Maybank KE

## Risks to our view

### Interest rate hikes

In general, property companies will suffer when the central bank increases the reference rate as the cost of funds to purchase property will increase and we expect investors to hold their investment in property market.

### Execution risk

We note execution risk for Summarecon on its many high rise projects. We think that these projects require strong financial position in order to fund their development.

### Currency volatility

The high-rise projects costs relate to USD rate which may pose risk to the development costs of the projects. The higher development costs will dilute the company's earnings.

### Economic downturn

In the event of slowing down of economy, we expect the demand in the property market to slow, especially in the mid-to-upper segment and high rise projects. The economic slowdown could also increase the risk of bad debts from customers with cash installment plans.

### Regulatory environment

The government has been monitoring the property market closely over the past five years due to the rapid rise in real-estate prices. The company may need longer time to secure the license to build high-rise buildings which may hinder the overall pre-sales growth. Other regulatory risks include stricter regulations for property buyers and higher related taxes.

## Valuation

Initiate HOLD with TP of IDR1,050, which implies a 63% discount to its RNAV of IDR2,809/share. We calculate its RNAV by using DCF valuation of its five year operating cash flows and we assigned residual value of its remaining land bank. To derive the DCF valuation, we assigned WACC of 14.0% based on 18.5% cost of equity, beta of 1.5 and 11.0% cost of debt assuming 60% LT debt-equity ratio.

We applied a discount rate of 63% due to the high risk on its projects which are mostly high-rise developments. We think the company's balance sheet position may be hurt when take up rates of these projects are not high.

Our target price translates to 12.4x P/E and 2.9x P/B 2014F. Our TP is slightly above its historical average of +1SD P/E of 10.2x and historical average P/B of 2.8x

Figure 176: RNAV calculation

	Land balance	BV	MV	Excess MV	NPV	Gross value	Ownership	Net value
PROPERTY SALES	ha	IDR b	IDR b	IDR b	IDR b	IDR b	%	IDR b
Own Land	544	1,883	17,450	15,567	16,310	31,877	100%	31,877
Serpong JO with JBC	220	660	9,827	9,167	-	9,167	70%	6,417
Serpong JV The Springs	57	200	727	528	2,357	2,885	55%	1,587
Bekasi JV with DSA	250	675	1,595	920	-	920	51%	469
Bandung	214	642	2,731	2,089	78	2,167	100%	2,167
<b>Total</b>	<b>1,285</b>	<b>4,060</b>	<b>32,331</b>	<b>28,272</b>	<b>18,745</b>	<b>47,017</b>		<b>42,518</b>

	Annual CF	Cap Rate	BV	NPV	Excess MV	Gross Value	Ownership	Net Value
INVESTMENT PROPERTIES	IDR b	%	IDR b	IDR b	IDR b	IDR b	%	IDR b
INVESTMENT PROPERTIES	1,665	14.0%	2,934	11,893	8,959	8,959	100%	8,959
<b>TOTAL</b>								<b>51,477</b>
Adjustments & Development Costs								(7,039)
Customer Advance								(3,507)
Net Cash	2013F							(410)
<b>RNAV</b>	Discount	63%						<b>15,147</b>
# of Shares	# mn							14,427
<b>Value per share</b>								<b>1,050</b>

Source: Maybank KE

FYE 31 Dec (IDR bn)	FY11A	FY12A	FY13E	FY14E	FY15E
<b>Key Metrics</b>					
P/E (reported) (x)	36.6	18.2	6.6	12.3	11.2
Core P/E (x)	36.6	18.2	6.6	12.3	11.2
P/BV (x)	5.8	4.1	1.7	2.9	2.5
P/NTA (x)	5.8	4.1	1.7	2.9	2.5
Net dividend yield (%)	1.1	2.1	0.0	0.0	0.0
FCF yield (%)	nm	3.4	nm	nm	4.9
EV/EBITDA (x)	nm	nm	0.4	0.9	0.7
EV/EBIT (x)	nm	nm	0.4	0.9	0.7
<b>Income Statement</b>					
Revenue	2,385.5	3,496.9	4,602.3	4,708.4	5,295.5
Gross profit	1,039.4	1,583.1	2,096.0	2,231.1	2,466.2
EBITDA	0.0	0.0	1,494.0	1,618.1	1,782.6
Depreciation	0.0	0.0	(42.3)	(46.2)	(57.7)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	0.0	0.0	1,451.7	1,571.9	1,724.9
Net interest income /(exp)	(93.8)	(106.1)	(50.8)	(92.6)	(90.9)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	530.9	986.4	1,400.9	1,479.3	1,634.0
Income tax	(142.2)	(194.3)	(257.8)	(263.8)	(296.7)
Minorities	3.3	5.7	4.5	5.3	4.9
Reported net profit	392.0	797.8	1,147.5	1,220.8	1,342.2
Core net profit	392.0	797.8	1,147.5	1,220.8	1,342.2
<b>Balance Sheet</b>					
Cash & Short Term Investments	1,495.9	2,534.4	1,437.3	1,079.6	1,075.9
Property, Plant & Equip (net)	2,229.9	4,578.0	289.7	293.5	385.8
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	3.7	0.0	0.0	0.0
Other assets	7,062.6	6,705.9	6,748.2	8,551.6	10,253.1
Total assets	8,099.2	10,876.4	11,408.8	13,258.4	15,448.5
ST interest bearing debt	248.5	443.8	0.0	0.0	0.0
LT interest bearing debt	891.8	678.3	1,847.0	2,243.0	2,115.0
Other liabilities	4,481.8	5,938.8	4,899.8	5,572.3	7,015.2
Total Liabilities	5,622.1	7,061.0	6,746.8	7,815.3	9,130.2
Shareholders Equity	2,464.2	3,638.9	4,468.3	5,230.1	6,084.0
Minority Interest	12.9	176.5	193.6	213.0	234.3
Total shareholders equity	2,477.1	3,815.4	4,661.9	5,443.1	6,318.3
<b>Cash Flow</b>					
Pretax profit	530.9	986.4	1,400.9	1,479.3	1,634.0
Depreciation & amortisation	0.0	0.0	42.3	46.2	57.7
Adj net interest (income)/exp	(87.1)	(107.0)	0.0	0.0	0.0
Change in working capital	0.0	0.0	(2,446.6)	(1,352.3)	(513.1)
Cash taxes paid	222.2	308.3	(257.8)	(263.8)	(296.7)
Other operating cash flow	0.0	0.0	4.5	5.3	4.9
Cash flow from operations	749.3	1,309.5	(1,256.8)	(85.4)	886.7
Capex	(754.1)	(657.7)	(50.0)	(50.0)	(150.0)
Free cash flow	(73.4)	494.0	(1,306.8)	(135.4)	736.7
Dividends paid	(68.6)	(157.8)	(319.2)	(459.0)	(488.3)
Equity raised / (purchased)	0.0	527.4	3.0	0.0	0.0
Change in Debt	346.2	(13.2)	726.0	396.0	(128.0)
OTH investing/financing cash flow	180.6	45.3	(93.7)	(159.3)	(124.2)
Effect of exch rate changes	(1.0)	(0.6)	0.0	0.0	0.0
Net cash flow	365.3	945.8	(990.7)	(357.7)	(3.8)

FYE 31 Dec (IDR bn)	FY11A	FY12A	FY13E	FY14E	FY15E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	40.7	46.6	31.6	2.3	12.5
EBITDA growth	na	na	nm	8.3	10.2
EBIT growth	na	na	nm	8.3	9.7
Pretax growth	54.5	85.8	42.0	5.6	10.5
Reported net profit growth	67.9	103.5	43.8	6.4	9.9
Core net profit growth	67.9	103.5	43.8	6.4	9.9
<b>Profitability ratios (%)</b>					
EBITDA margin	0.0	0.0	32.5	34.4	33.7
EBIT margin	0.0	0.0	31.5	33.4	32.6
Pretax profit margin	22.3	28.2	30.4	31.4	30.9
Payout ratio	40.3	37.4	0.0	0.0	0.0
<b>DuPont analysis</b>					
Net profit margin (%)	16.4	22.8	24.9	25.9	25.3
Revenue/Assets (x)	0.3	0.3	0.4	0.4	0.3
Assets/Equity (x)	3.3	3.0	2.6	2.5	2.5
ROAE (%)	16.9	25.4	27.1	24.2	22.8
ROAA (%)	5.5	8.4	10.3	9.9	9.4
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	22.2	10.7	14.1	17.8	17.0
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	24.3	nm	26.7	53.8	50.2
Dividend cover (x)	2.5	2.7	nm	nm	nm
Current ratio (x)	nm	nm	2.0	2.1	2.0
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.4	1.5	1.7	1.7	1.7
Net debt/equity (%)	net cash	net cash	9.2	22.2	17.1
Net interest cover (x)	0.0	0.0	28.6	17.0	19.0
Debt/EBITDA (x)	nm	nm	1.2	1.4	1.2
Capex/revenue (%)	31.6	18.8	1.1	1.1	2.8
Net debt/ (net cash)	(355.6)	(1,412.3)	409.7	1,163.4	1,039.1

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