

Lippo Cikarang

Sector: Industrial Estates (Neutral)

BUY

(Unchanged)

Rating momentum*: na

Price: IDR7,300

TP: IDR9,300 (Unchanged)

TP/consensus: na

TP momentum*: na

JCI: 4,604

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Shifting paradigm

Marketing sales to be dominated by residential projects

LPCCK has confirmed a planned shift in its marketing sales focus, moving from industrial land to residential sales, including sales from apartments and landed house projects. This is to increase landbank efficiency, which is below all industrial peers under our coverage (Exhibit 8). Based on LPCCK's 1Q13 marketing sales, residential projects dominate its portfolio, with 66:34 split between residential and industrial/commercial (2012: 39:61).

2013 residential sales to jump 75% y-y on successful launches

In late 4Q12, LPCCK launched "Trivium Terrace", its first major apartment complex, which was well-received by the market as the North Tower was 90% sold (total 354 units) at ASP of IDR11.5m (USD1,150)/sqm. Due to this success, LPCCK, in 1Q13, launched the South Tower with 422 units at ASP of IDR13m (USD1,300)/sqm. LPCCK has also been aggressively promoting its landed house undertakings, launching 2 new projects in 2Q13 with potential combined sold-out sales value of IDR285b. Given these project launches, we expect 2013 residential sales to jump 75% y-y to account for 60% of LPCCK's total 2013 marketing sales of IDR2.4t (USD240m), up 15% y-y.

Lippo Cikarang City Center masterplan ready by 2020

In line with its target to become more residential, LPCCK has a master plan for Lippo Cikarang City Center (LCCC), a non-industrial 300ha CBD area, with expected completion target by 2020 (exhibit 18). LCCC will feature landed houses, apartments and other supporting facilities, such as schools and entertainment centers, along with rental office and commercial infrastructure, meant to raise LPCCK's recurring income ahead. Current major recurring incomes stem from recently-established 5.3ha Japanese SME center (1Q13), mostly rented out to component-related Japanese companies with ARR of IDR90k/sqm/month. Although LCCC will not be completed until 2020, LPCCK sales from the project will begin contributing in 2014. More details will emerge, when LPCCK officially unveils its masterplan to the public in 2H13.

More land efficient; Re-iterate BUY with IDR9,300 TP

While we expect margins to erode from 2014 on the shift of focus from industrial to residential (Exhibit 12), we view this efficiency in utilizing current low landbank access as positive, rather being fully focused on just industrial sales. However, this alters LPCCK's revenue recognition profile. On average, industrial land sales would only require 9-12 months for marketing sales to be fully recognized as revenue, whereas landed houses and apartments would require 1-1.5 years and 3 years respectively. The change in margins and revenue profile has prompted us to revise down our 2013-14 bottom lines by 16% and 14% (Exhibit 19) respectively. Upside to our numbers lies in new access to LPCCK area at KM34.7 of Jakarta-Cikampek toll road (Exhibit 15 & 16) expected to come on stream by 4Q13. This could act as a positive catalyst for LPCCK's ASP. On valuation, we apply 40% discount to our NAV (exhibit 20) to arrive at our IDR9,300 TP, which reflects 27% upside. BUY.

Exhibit 1. Key forecasts and valuations

Year to 31 Dec	2012	2013F	2014F	2015F
Revenue (IDRb)	1,013	1,207	1,515	1,829
EBIT (IDRb)	437	547	673	804
Net profit (IDRb)	407	520	641	769
Bahana/cns. (%)	-	-	-	-
EPS (IDR)	585	747	920	1,104
EPS growth (%)	58.4	27.7	23.2	20.0
EPS momentum*	-	-	-	-
EV/EBITDA (x)	10.8	8.1	6.3	4.8
PER (x)	12.5	9.8	7.9	6.6
FCFPS (IDR)	na	na	na	23
FCF yield (%)	na	na	na	0.3
BVPS (IDR)	1,765	2,512	3,432	4,538
PBV (x)	4.1	2.9	2.1	1.6
DPS (IDR)	-	-	-	-
Yield (%)	na	na	na	na
ROAA (%)	16.7	16.0	15.8	15.6
ROAE (%)	39.7	34.9	31.0	27.7
EBIT margin (%)	43.1	45.3	44.4	44.0
Net gearing (%)	nc	nc	nc	nc

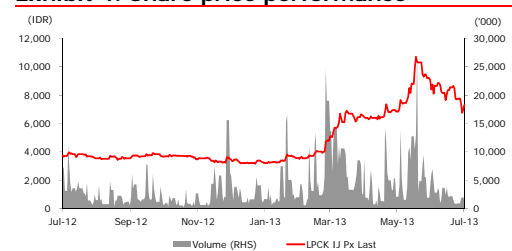
Exhibit 2. Company information

Share price (7/11/13)	:	7,300
Share outstanding (m)	:	696
Mkt cap. (IDRt/USDb)	:	5.2/0.5
3-M avg.daily t.o. (IDRb/USDm)	:	40.4/4.2
Bloomberg code	:	LPCCK IJ

Exhibit 3. Shareholders information

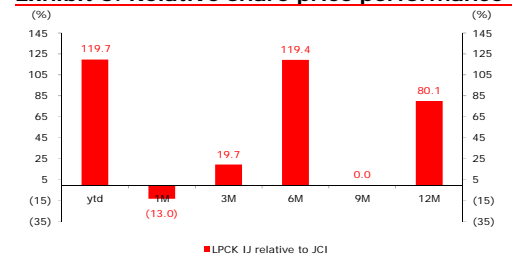
Kemuning Saitatama (%)	:	42.2
Free Float (%)	:	57.8

Exhibit 4. Share price performance



Source: Bloomberg

Exhibit 5. Relative share price performance



Source: Bloomberg

Lippo Cikarang

Year to 31 December	2011	2012	2013F	2014F	2015F
PROFIT & LOSS (IDRb)					
Sales	902	1,013	1,207	1,515	1,829
Gross profit	388	520	644	795	950
EBITDA	311	441	554	681	813
Depreciation	7	4	7	8	9
EBIT	304	437	547	673	804
Net interest inc./(expense)	(13)	4	16	24	34
Forex gain/(losses)	(0)	2	-	-	-
Other income/(expense)	11	15	17	19	22
Pre-tax profit	301	458	580	716	860
Taxes	(44)	(51)	(60)	(76)	(91)
Minority interest	-	-	-	-	-
Extraordinary gain/(losses)	-	-	-	-	-
Net profit	257	407	520	641	769
BALANCE SHEET (IDRb)					
Cash and equivalents	37	310	581	783	1,153
S-T investments	-	-	-	-	-
Trade receivables	73	54	83	106	122
Inventories	1,359	1,940	2,367	2,721	3,075
Fixed assets	51	48	57	69	75
Other assets	522	480	586	775	947
Total assets	2,042	2,832	3,672	4,454	5,372
Interest bearing liabilities	140	-	-	-	-
Trade payables	204	0	2	2	2
Other liabilities	877	1,604	1,922	2,064	2,212
Total liabilities	1,221	1,604	1,924	2,066	2,214
Minority interest	-	-	-	-	-
Shareholders' equity	821	1,228	1,748	2,389	3,158
CASH FLOW (IDRb)					
EBIT	304	437	547	673	804
Depreciation	7	4	7	8	9
Working capital	(366)	(772)	(443)	(372)	(363)
Other operating items	256	632	223	35	56
Operating cash flow	200	301	334	343	506
Net capital expenditure	(321)	(469)	(490)	(496)	(490)
Free cash flow	(121)	(167)	(157)	(153)	16
Equity raised/(bought)	-	-	-	-	-
Net borrowings	140	(140)	-	-	-
Other financing	(18)	580	427	355	354
Net cash flow	1	273	270	202	370
Cash flow at beginning	35	37	310	581	783
Ending cash flow	37	310	581	783	1,153
RATIOS					
ROAE (%)	37.1	39.7	34.9	31.0	27.7
ROAA (%)	13.8	16.7	16.0	15.8	15.6
EPS growth (%)	293.3	58.4	27.7	23.2	20.0
Gross margin (%)	43.0	51.4	53.4	52.5	51.9
EBIT margin (%)	33.7	43.1	45.3	44.4	44.0
Net margin (%)	28.5	40.2	43.1	42.3	42.0
Payout ratio (%)	-	-	-	-	-
Interest coverage (x)	22.5	na	na	na	na
Net gearing (%)	12.5	nc	nc	nc	nc
Debts to assets (%)	6.9	-	-	-	-
Debtor turnover (days)	27	23	25	25	25
Creditor turnover (days)	78	75	1	1	1
Inventory turnover (days)	na	na	na	na	na
MAJOR ASSUMPTIONS					
Grs. mrgn-ind/com (%)	42.9	54.3	56.0	56.0	56.0
Grs. mrgn-residential(%)	37.4	41.8	44.0	44.0	44.0
Revenue growth (%)	123.0	12.3	19.2	25.5	20.7
Marketing sales (IDRb)	1,301	2,061	2,370	2,654	2,973

Earnings not tied to interest expense as LPCK ...

... remains free from interest bearing liabilities post loan repayment in 2012

Stable and positive operating cashflow

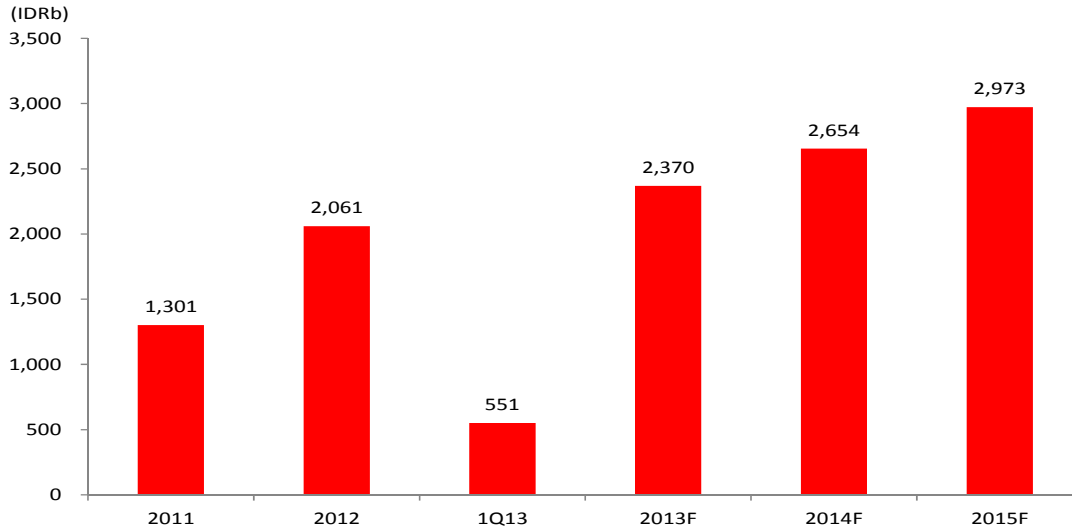
Slight margin contractions from 2014 on shifting focus to residential sales

Higher ASP to enhance margins of industrial and residential sales

Source: Company, Bahana estimates

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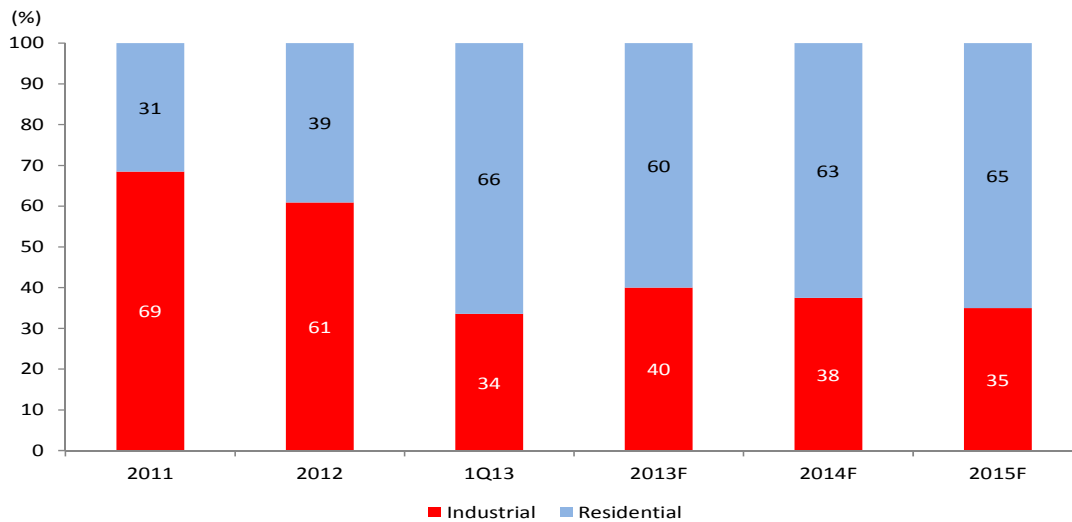
Exhibit 6. Marketing sales, 2011-2015F



Marketing sales to increase in 2013-15F CAGR of 13% with ...

Source: Company, Bahana estimates

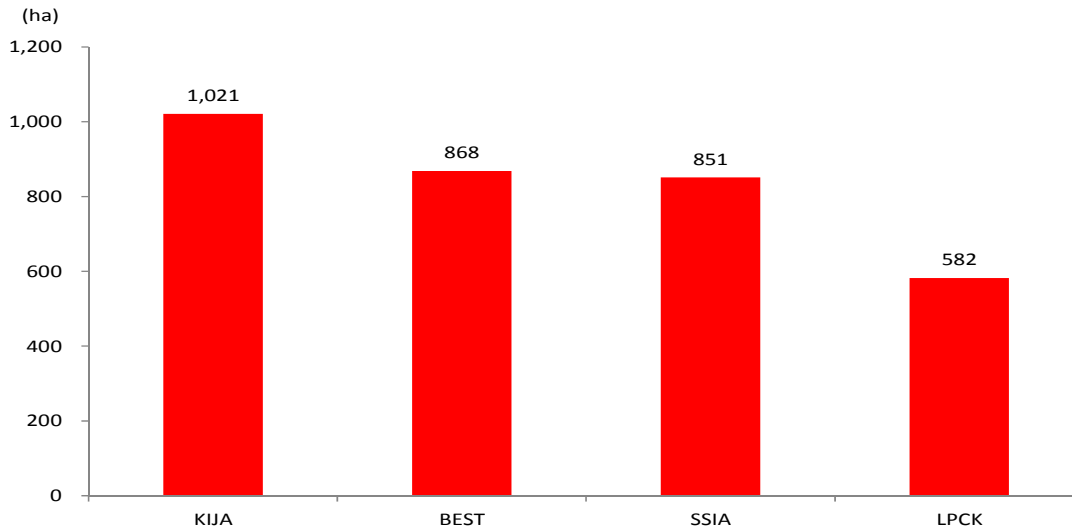
Exhibit 7. Marketing sales proportion, 2011-2015F



... residential sales to dominate portfolio, as ...

Source: Company, Bahana estimates

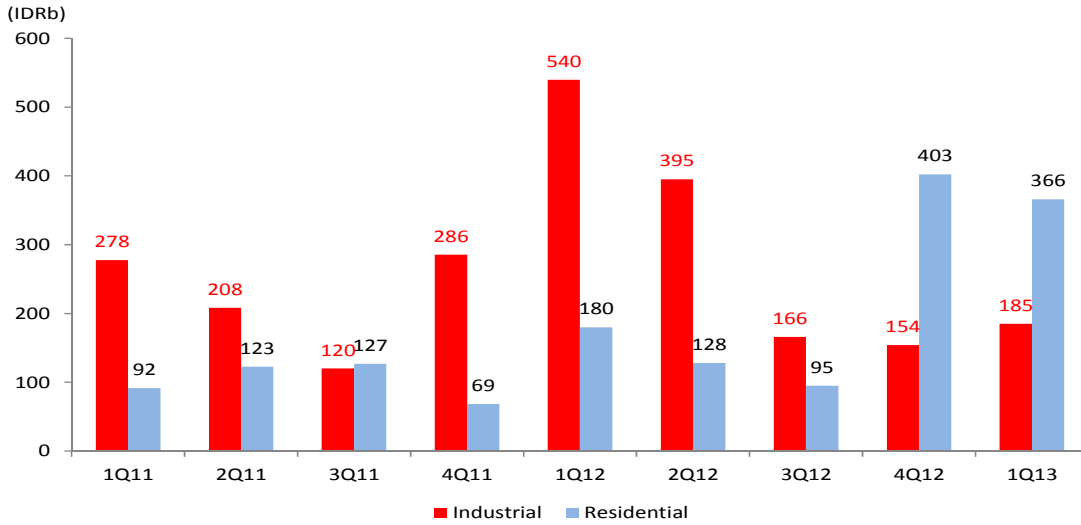
Exhibit 8. Industrial players - remaining gross landbank



... LPCK aims to be more land-efficient, having possessed the smallest left-over landbank vs. its industrial peers

Source: Company, Bahana estimates

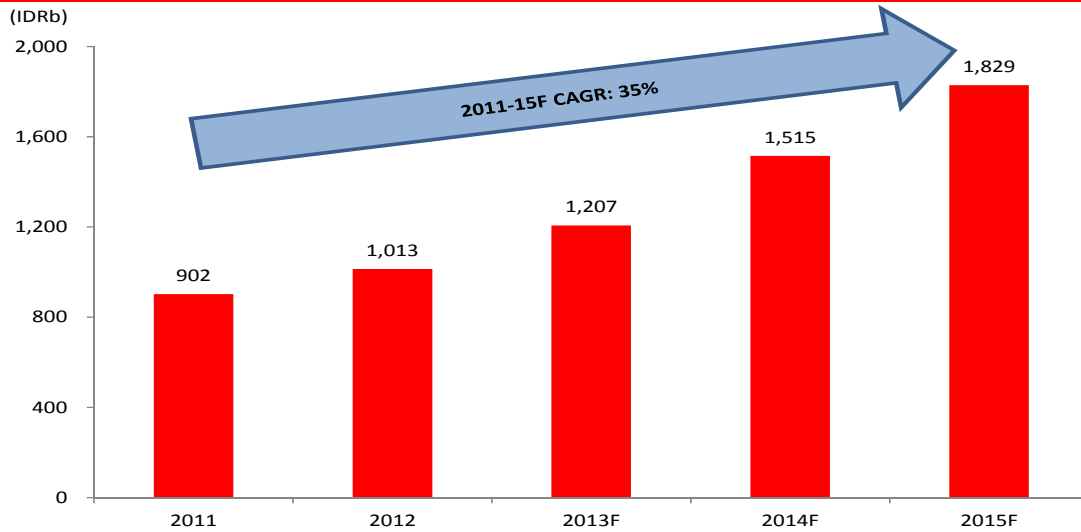
Exhibit 9. Quarterly Marketing sales, 1Q11-1Q13



Trivium Terrace Apartment launch in 4Q12 has boosted LPCK's residential sales

Source: Company, Bahana estimates

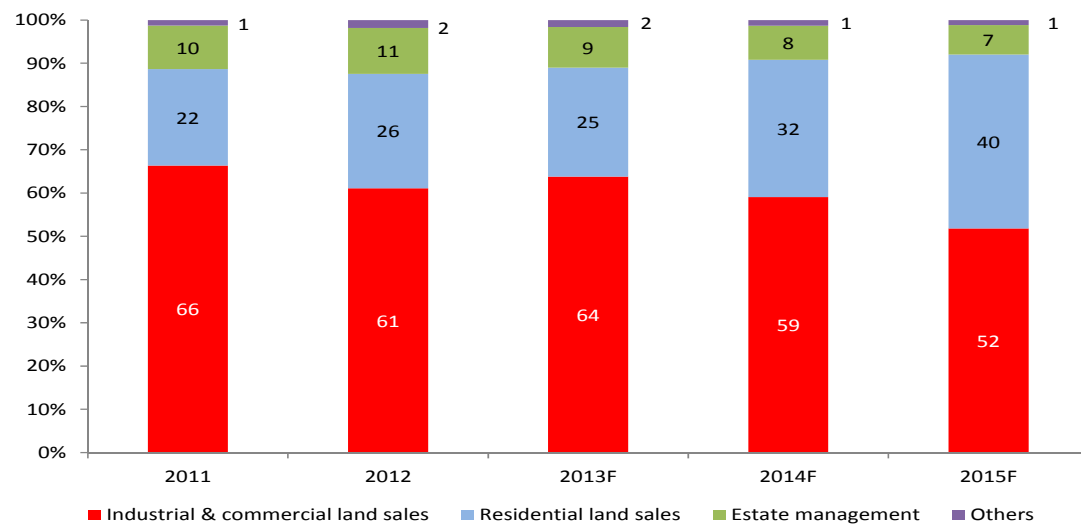
Exhibit 10. Revenue, 2011-2015F



Solid marketing sales to support 2013-15F revenue CAGR of 22% ...

Source: Company, Bahana estimates

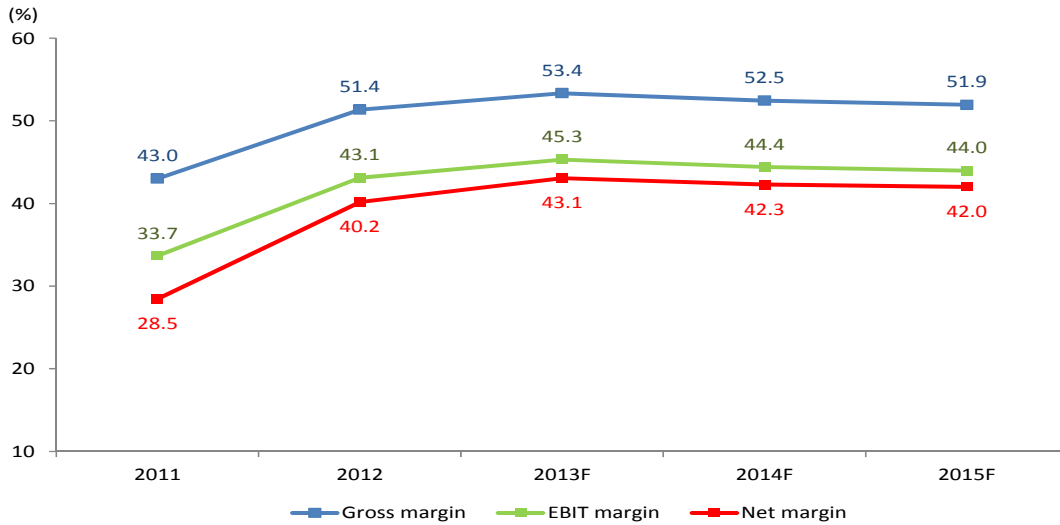
Exhibit 11. Revenue breakdown, 2011-2015F



... with increasing contribution from residential projects

Source: Company, Bahana estimates

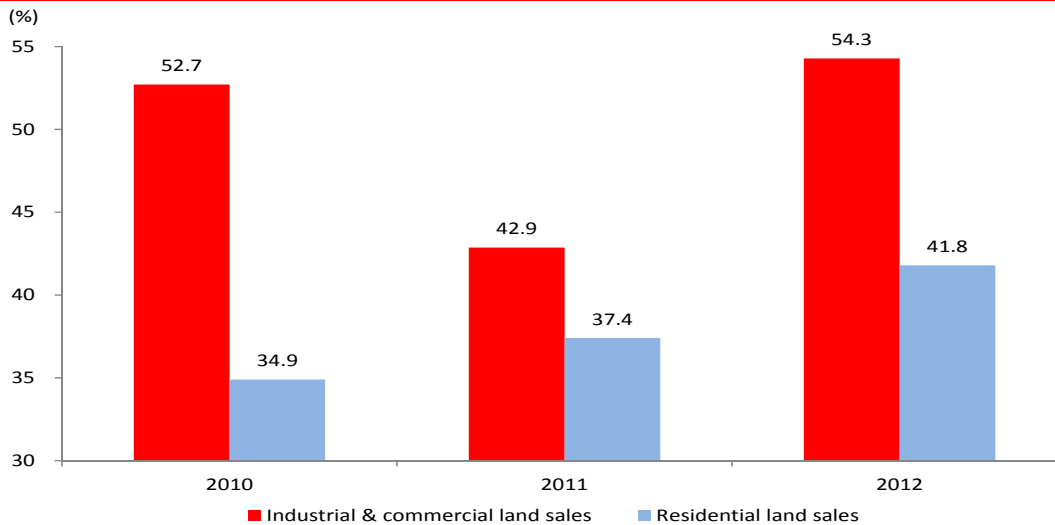
Exhibit 12. LPCK margins, 2011-2015F



We expect LPCK to experience margin contractions from 2014 on the back of ...

Source: Bahana estimates

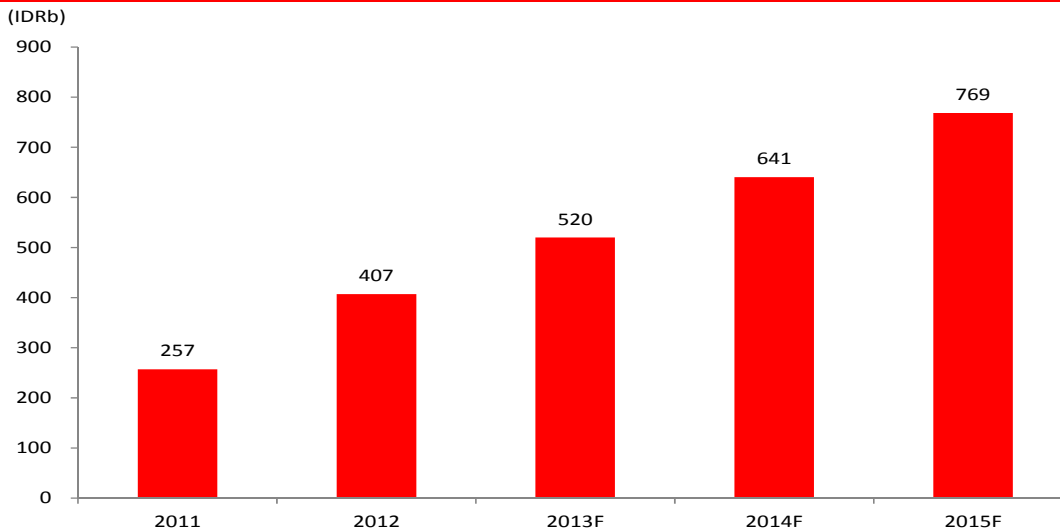
Exhibit 13. Gross margin by type of land sales, 2010-2012



... residential sales being lower-margin compared to industrial sales; however, ...

Source: Company, Bahana estimates

Exhibit 14. Net profit, 2011-2015F



... net profit would still reach 24% CAGR in 2013-15F

Source: Company, Bahana estimates

Exhibit 15. New toll road access (1)



Source: Company

Nearly completed new toll road access at 34.7km Jakarta-Cikampek with ...

Exhibit 16. New toll road access (2)



Source: Company

... direct exit access near LPCK's area

Exhibit 17. Japanese SMEs Center



Source: Company

Recurring incomes from 5.3ha Japanese SMEs Center, which was established in 1Q13

Exhibit 18. Lippo Cikarang City Center master plan

- LEGEND**
- 1 Commercial Core with Waterboom on Podium
 - 2 Mixed-Use (Residential and Offices)
 - 3 Office Park
 - 4 Garden Apartment
 - 5 Commercial Strip
 - 6 Neighborhood Core with Retail
 - 7 School
 - 8 Community Centre
- **Project Name :**
Lippo Cikarang City Center (LCCC)
 - **Business Strategy :**
Develop premier Landmarks and commercial needed as a city Region
 - **Total Site Area :**
~ 298 Ha
 - **Concepts :**
Mix-Used Concepts; Offices Commercial, High-End Residential
 - **Expected Completion :**
2020



LCCC masterplan targeted for completion by 2020

Source: Company

Exhibit 19. Earnings revisions

(IDRb)	Old			New			% changes		
	2013F	2014F	2015F	2013F	2014F	2015F	2013F	2014F	2015F
EBIT	721	818	-	547	673	-	(24.1)	(17.7)	-
EBIT margin (%)	45.6	45.0	-	45.3	44.4	-			
Net profit	623	745	-	520	641	-	(16.4)	(14.0)	-
Net margin (%)	41.1	41.0	-	43.1	42.3	-			

Source: Bahana estimates

Revised 2013-14F bottom lines by 16% and 14% respectively

Exhibit 20. NAV Calculation

	Residential	Industrial	Total
Undeveloped (ha)	43	257	300
Developed (ha)	155	127	282
Land value (IDRb)	7,237	4,604	11,836
Net debt (IDRb)			783
Customer deposit (IDRb)			(1,911)
Total value (IDRb)			10,707
No of shares (b)			0.7
NAV/share (IDRb)			15,384
Discount to NAV			40%
Adjusted NAV (IDR/share)			9,300

Source: Company, Bahana estimates

Based on 40% discount to our NAV, we arrive at our target price of IDR9,300/sh

Exhibit 21. Peer comparison, 2013F

	BEST	KIJA	SSIA	LPCK	Sector
NAV/share (IDR)	1,494	1,059	2,167	15,384	
Target price (IDR)	1,190	445	1,800	9,300	
Discount TP (%)	20	58	17	40	
Current price (IDR)	660	315	1,120	7,300	
Disc to NAV (%)	55.8	70.3	48.3	52.5	57.4
Upside (%)	80.3	41.3	60.7	27.4	53.4
Shares outstanding (b)	9.6	20.1	4.7	0.7	
Market cap (IDRb)	6,367	6,340	5,270	5,081	23,058
3m avg daily turnover (IDRb)	22.9	32.9	38.7	40.4	
Market cap (USDm)	642	639	670	512	2,462
3m avg daily turnover (USDm)	2.5	3.4	4.0	4.4	
Land bank (Ha) – gross	868	2,700	851	582	5,001
Revenue (IDRb)	1,405	2,833	4,635	1,207	
Gross profit (IDRb)	967	1,277	1,641	644	
Operating profit (IDRb)	910	978	1,224	547	
EBITDA (IDRb)	914	1,084	1,315	554	
Pre-tax profit (IDRb)	874	783	1,153	580	
Net profit (IDRb)	804	642	928	520	
% recurring to total revenue	3.2	48.7	14.2	0.1	18.0
% development to total revenue	96.8	51.3	85.8	99.9	82.0
Margin (%)					
Gross margin (%)	68.8	45.1	35.4	53.4	51.2
Operating margin (%)	64.7	34.5	26.4	45.3	43.3
EBITDA margin (%)	65.1	38.3	28.4	45.9	45.0
Pre-tax margin (%)	62.2	27.7	24.9	48.1	40.9
Net margin (%)	57.2	22.7	20.0	43.1	36.0
Growth (%)					
Revenue	45.6	102.2	30.0	19.2	52.6
Gross profit	68.3	48.5	26.6	23.8	43.7
Operating profit	72.6	56.4	33.4	25.3	49.0
EBITDA	72.6	58.9	30.2	25.5	49.0
Pre-tax profit	68.9	71.1	31.3	26.8	52.0
Net profit	70.9	68.8	31.3	27.7	52.1
EPS growth	49.4	68.4	31.3	27.7	46.1
PE (x)	7.9	9.8	5.7	9.8	8.3
PBV (x)	2.3	1.4	2.2	2.9	2.2
PEG (x)	0.2	0.1	0.2	0.4	0.2
Debt to equity (%)	21.3	44.4	82.3	-	36.9
Net gearing (%)	8.0	33.7	9.0	nc	
EBIT/net int. exp. (x)	28.6	4.3	16.3	na	
BVPS (IDR/share)	281	228	519	2,512	
EPS (IDR/share)	83	32	197	747	
DPS (IDR/share)	17	11	18	-	
Dividend yield (%)	2.5	3.5	1.6	-	2.0
ROAA (%)	28.3	8.5	18.0	16.0	17.8
ROAE (%)	37.8	15.0	45.9	34.9	32.8

Posting margin above its peers' average

Source: Company, Bloomberg, Bahana estimates

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