

Lippo Cikarang Tbk PT (LPCKIJ)

Property - Real Estate

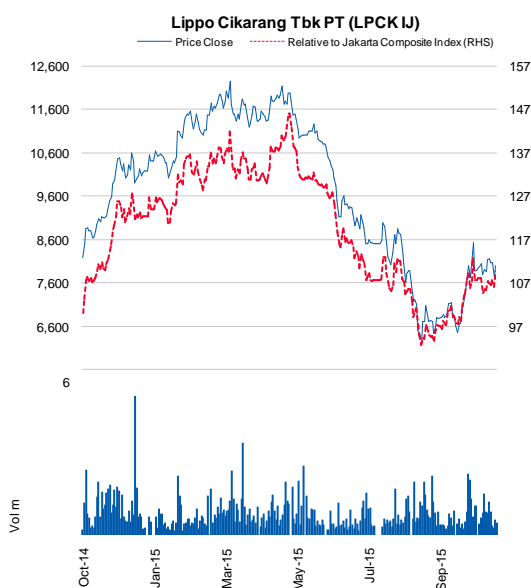
Market Cap: USD407m

Buy (Maintained)

 Target Price: **IDR14,300**

 Price: **IDR8,000**

Lightening The Load

 Macro ◆◆
 Risks ◆◆
 Growth ◆◆◆
 Value ◆◆◆


Source: Bloomberg

Avg Turnover (IDR/USD)	6,094m/0.44m
Cons. Upside (%)	-4.4
Upside (%)	78.8
52-wk Price low/high (IDR)	6,250 - 12,250
Free float (%)	58
Share outstanding (m)	696
Shareholders (%)	
Kemuning Satiatama	42.2

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(23.1)	19.9	(0.3)	(33.2)	(2.2)
Relative	(8.3)	14.4	5.2	(20.8)	9.7

Shariah compliant

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3Q15 results were slightly above our/consensus estimates with net margin rising on gross margin expansion and lower operational cost. Maintain BUY and RNAV-derived IDR14,300 TP (79% upside) as we roll over our valuations to FY16. Revenue is now dominated by residential sales and this is set to continue as the focus has shifted away from industrial projects along the East Jakarta corridor. We have yet to take into account new mixed-use projects in the pipeline.

- ◆ **9M15 results highlights.** Lippo Cikarang's 3Q15 net profit reached IDR253bn (+25% QoQ, -9% YoY), bringing total 9M15 earnings to IDR730bn, ie slightly above our and consensus' estimates. Net margin expanded to 48.9% in 3Q15 (2Q15: 46.5%) thanks to better GPM and lower operational costs. Revenue is now dominated by residential sales, which contributed ~53% of total revenue, with GPM expanded to 64% (2Q15: 62%). Meanwhile, 19% of its revenue now comes from industrial developments, with gross margin expanded significantly over the past three years to 79% (3Q11: 34%). Note that industrial sales used to account for 50-70% of total revenue.
- ◆ **Zero debt position.** Lippo Cikarang has been able to maintain its zero debt position since 2H12. Its cash balance, as at 9M15, has grown significantly, by 72% YoY, to IDR441bn (9M14: IDR256bn) due to better cash collection from customers.
- ◆ **Diversifying landbank.** We expect a big chunk of revenue bookings from residential sales to continue, given that Lippo Cikarang has now shifted its focus to developing integrated mixed-use projects to cover the high density sites in the East Jakarta Corridor. In addition to projects in the Lippo Cikarang Township, the company said there were four new mixed-use projects in the pipeline slated for Bekasi Barat, Martadinata, Kalimalang and Jababeka.
- ◆ **Asset-light strategy.** Lippo Cikarang is to continue its strategy to keep capex financing low by partnering with local or foreign players. Note that the company just recently signed a joint-venture (JV) agreement with Japan's Mitsubishi Corp (8058 JP, NR) to develop two new luxury apartments at Orange County. Nonetheless, we believe Lippo Cikarang is to gear up its capital once other new projects in the eastern corridor start. The company said, assuming a net gearing ratio of 40%, that it should be able to leverage up to IDR1.4trn. The other alternative would be to apply an asset-light strategy by recycling its capital via the injection of completed assets into REITs.

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (IDRbn)	1,328	1,792	1,986	2,192	2,411
Reported net profit (IDRbn)	591	844	932	994	1,135
Recurring net profit (IDRbn)	591	844	932	994	1,135
Recurring net profit growth (%)	45.1	42.9	10.4	6.7	14.3
Recurring EPS (IDR)	849	1,213	1,338	1,428	1,631
Recurring P/E (x)	9.43	6.60	5.98	5.60	4.90
P/B (x)	3.06	2.09	1.55	1.21	0.97
Return on average equity (%)	38.8	37.7	29.8	24.3	22.0
Return on average assets (%)	17.7	20.7	19.5	17.3	17.1
Net debt to equity (%)	(16.9)	(9.2)	(3.8)	(2.2)	(2.4)
Our vs consensus EPS (adjusted) (%)			16.9	25.6	43.5

Source: Company data, RHB

Figure 1: Lippo Cikarang's 9M15 results highlights

	3Q14	2Q15	3Q15	QoQ	YoY	9M14	9M15	YoY	Comments
Revenue	470	436	517	18	10	1,320	1,471	11	Revenue accounted for 74%/73% of our/consensus estimates respectively
EBIT	284	203	271	33	(5)	732	737	1	3Q15 EBIT margin expanded thanks to better gross margin from an increase in ASPs and lower salary expenses. This was because most of the bonuses and holiday allowances were paid in 2Q15.
<i>EBIT Margin (%)</i>	28.8	46.6	52.4			55.4	50.1		
Interest expense	(0)	(0)	(0)	(1)	(44)	(0)	(0)	6	
Interest income	3	6	5	(10)	71	9	14	49	
EI/Others	11	22	7	(69)	(39)	9	66	602	Including additional income of IDR29.4bn from managing infrastructure works for JV (Delta Silicon 8)
Pretax profit	298	231	283	23	(5)	750	816	9	
<i>Pretax Margin (%)</i>	25.7	52.9	54.7			56.8	55.5		
Tax	(21)	(25)	(29)	19	37	(70)	(82)	17	
<i>Effective tax rate (%)</i>	(21.85)	(10.70)	(10.36)			(9.35)	(10.05)		
Minority Interest	-	3.1	0.8			-	4.0		
Net Profit	277	203	253	25	(9)	680	730	7	Net profit accounted for 78%/77% of our/consensus estimates respectively
Core Profit	266	181	246	36	(7)	671	665	(1)	
<i>Net Margin (%)</i>	20.46	41.46	47.56			51.52	49.64		

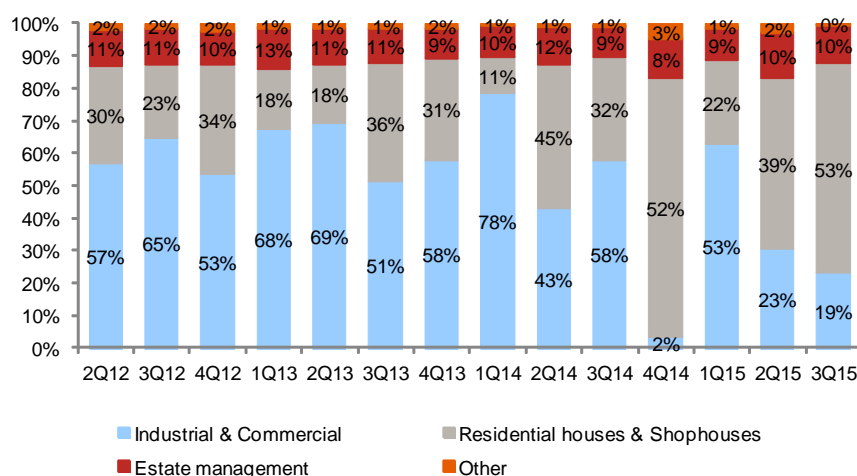
Source: RHB, Company data

9M15 results review

Lippo Cikarang's 9M15 topline and bottomline results come in slightly above our and consensus' estimates. 3Q15 net profit reached IDR253bn (+25% QoQ, -9% YoY), which brought total 9M15 earnings to IDR730bn. This was backed by a 10% YoY revenue growth in 3Q15 to IDR517bn, which brought total 9M15 topline to IDR1.47trn.

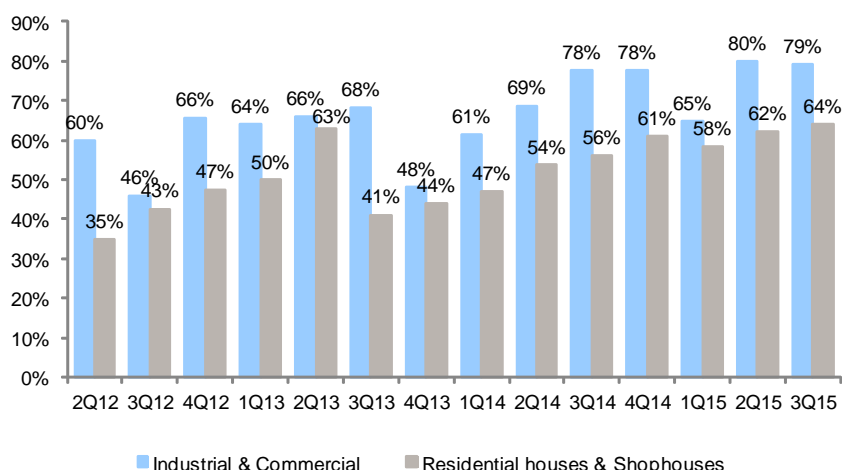
Gross margin expanded by 330bps to 62%. This was contributed by an increase in ASP for Lippo Cikarang's overall product lines (industrial and residential). 3Q15 revenue mainly came from booking revenue from residential sales, which contributed about 53% of total revenue with GPM expanded to 64% (2Q15: 62%). Meanwhile 19% of revenue came from industrial developments with gross margins expanded significantly over the past three years to 79% from 3Q11's 34%. Note that industrial sales used to encompass 50-70% of Lippo Cikarang's total revenue.

Figure 2: Lippo Cikarang's revenue breakdown



Source: RHB, Company data

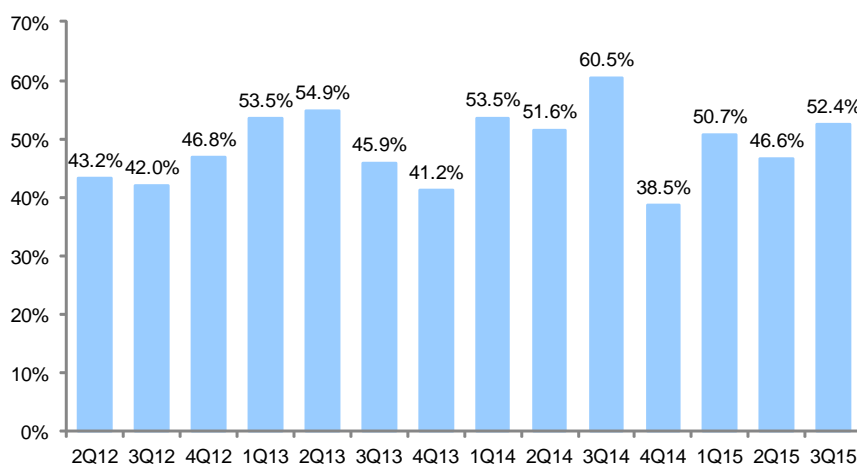
Figure 3: Lippo Cikarang's gross margins breakdown



Source: RHB

Lippo Cikarang's operating margins also improved significantly to 52.4% in 3Q15 (2Q15: 46.6%). This was helped by lower opex by 7% QoQ to IDR48bn due to most of its employees' bonuses and holiday allowances having been paid in 2Q15.

Figure 4: Lippo Cikarang's blended operating margins



Source: RHB, Company data

New JV agreement at Orange County

Lippo Cikarang recently signed a JV agreement with Mitsubishi Corp to develop two luxury residential towers in Orange County with a total investment of USD100m. The JV is to be 51%-owned by the company and 49% by Diamond Realty Investment Indonesia, a subsidiary of the Japanese multinational corporation. The first tower is tentative slated for launch in November. Called Glendale Park, there are to be 556 units with four size-types to cater demand for residences in East Jakarta. Lippo Cikarang is targeting a presales value of IDR450bn. We are positive on this as the JV scheme is aligned with the company's strategy to finance Orange County's development through JVs. By doing so, it can keep its capex low as well as bring in value-add to Orange County as the project is likely to attract more buyers or investors into the development.

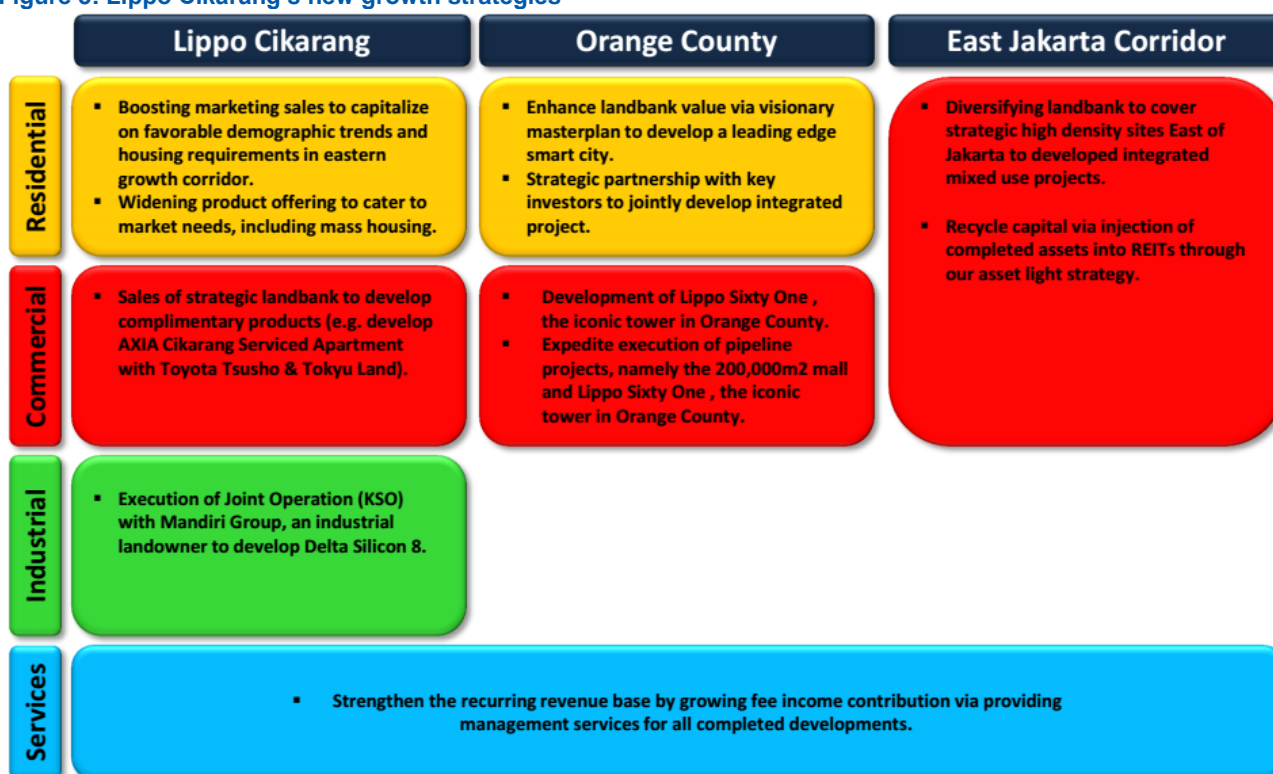
Four new integrated mixed-use developments in the pipeline

In addition to the Lippo Cikarang Township, the company is to add four new integrated mixed-use developments into its portfolio. The new projects are at Bekasi Barat, Martadinata, Kalimalang and Jababeka. As such, Lippo Cikarang would have a diversified landbank and an intact strategy to cover the demand for residential and commercial needs in high-density areas along the East Jakarta Corridor.

The company has shared two out of the four new mixed-use developments in Cikarang Martadinata and Kalimalang. Each project would comprise not just apartments only but also retail outlets, hospitals, hotels and even banks. These projects are slated to start development in 2-3 years from now. By then, we might expect Lippo Cikarang to gear up its capital from its current zero debt position. Based on the company's presentation, assuming a net gearing ratio of 40%, it still has room to leverage up to IDR1.4trn.

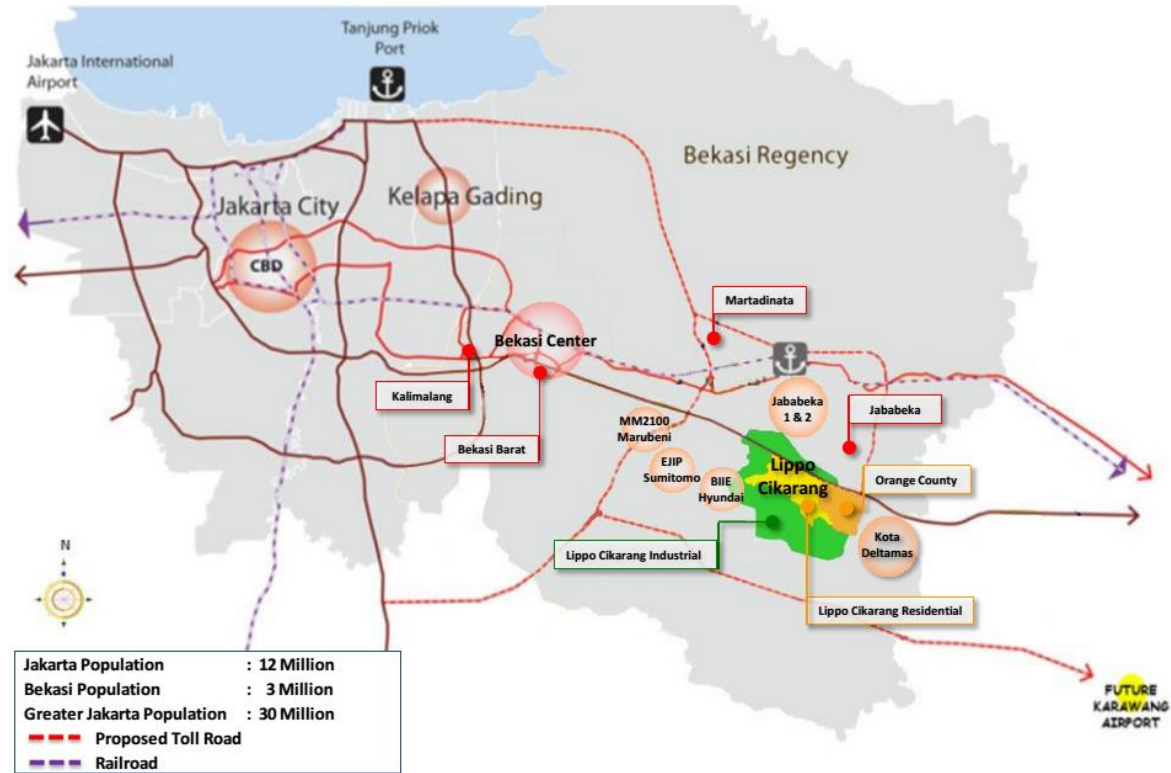
The other alternative form of financing that Lippo Cikarang might consider is following the model adopted by parent company Lippo Karawaci (LPKR IJ, NEUTRAL, TP: IDR1,460). This would involve applying an asset-light strategy by recycling its capital via the injection of completed assets into REITs.

Figure 5: Lippo Cikarang's new growth strategies



Source: Company

Figure 6: Location of four new projects



Source: Company

Figure 7: Artists' impressions of the Martadinata and Kalimalang projects



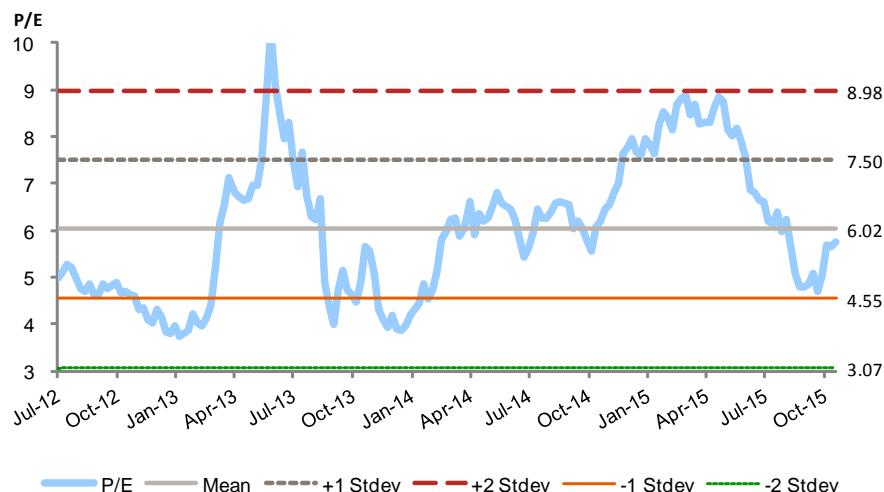
Source: Company

Valuation

We roll over our valuation to FY16 with our RNAV-based TP unchanged at IDR14,300 (79% upside). We have yet to take into account Lippo Cikarang's new projects in the pipeline. Nonetheless, the counter is still trading at a huge 72% discount to its RNAV of IDR28,691 per share. Lippo Cikarang is also currently trading at 5.8x rolling P/E, slightly below its average 3-years rolling P/E of 6.02x.

Given the fact that the company: i) is still in a zero debt position, ii) has a ROAE of 24% for FY16F with the potential to grow further from a diversified landbank through four new projects, iii) intends to continue keep to capex low through strategic partnerships or JV, and iv) has the option of recycling its capital through the use of REITs, all these should be potential catalysts for re-rating. Our TP implies P/E's of 10.7x/10x for FY15F/FY16F respectively. Maintain BUY.

Figure 8: Lippo Cikarang's P/E band



Source: RHB, Bloomberg

Figure 9: Lippo Cikarang's NAV calculation

Assets	Saleable Area (Sq m)	Utilization Ratio	Price/sqm (IDR '000)	Market value IDRbn	Ownerships %	Market value IDRbn
Commercial	794,100		7,650	6,075	100%	6,075
Residential	1,588,200		6,163	9,787	100%	9,787
Industrial	2,073,900		2,185	4,531	100%	4,531
Delta Silicon 8 (JV)	112,000		1,008	113	45%	51
2 tower apartment				807	100%	807
Asset Value						21,252
+ Cash'16						103
- Debt'16						-
- Advances'16						(1,397)
RNAV						19,958
# Shares						696
RNAV/Share						28,675
Disc.						50%
TP						14,337

Source: RHB

Financial Exhibits

Profit & Loss (IDRbn)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover	1,328	1,792	1,986	2,192	2,411
Cost of sales	(585)	(735)	(818)	(935)	(988)
Gross profit	743	1,057	1,168	1,257	1,424
Other operating costs	(109)	(143)	(149)	(164)	(181)
Operating profit	634	914	1,019	1,092	1,243
Operating EBITDA	641	925	1,067	1,153	1,304
Depreciation of fixed assets	(7)	(11)	(48)	(61)	(61)
Operating EBIT	634	914	1,019	1,092	1,243
Net income from investments	5	5	6	7	7
Other recurring income	(1)	11	-	-	-
Interest income	23	12	7	5	7
Interest expense	(1)	(1)	(1)	(1)	(1)
Exchange gains	6	-	-	-	-
Pre-tax profit	666	942	1,031	1,103	1,256
Taxation	(75)	(98)	(99)	(110)	(121)
Profit after tax & minorities	591	844	932	994	1,135
Reported net profit	591	844	932	994	1,135
Recurring net profit	591	844	932	994	1,135

Source: Company data, RHB

Cash flow (IDRbn)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Operating profit	634	914	1,019	1,092	1,243
Depreciation & amortisation	7	11	48	61	61
Change in working capital	(385)	(631)	(655)	(840)	(1,168)
Other operating cash flow	(43)	(70)	(87)	(99)	(107)
Operating cash flow	213	224	325	215	28
Cash flow from operations	213	224	325	215	28
Capex	(201)	59	(770)	(248)	6
Other investing cash flow	(15)	(19)	-	-	-
Cash flow from investing activities	(215)	40	(770)	(248)	6
Cash at beginning of period	310	308	246	136	103
Total cash generated	(2)	264	(445)	(33)	35
Implied cash at end of period	308	572	(199)	103	137

Source: Company data, RHB

Financial Exhibits

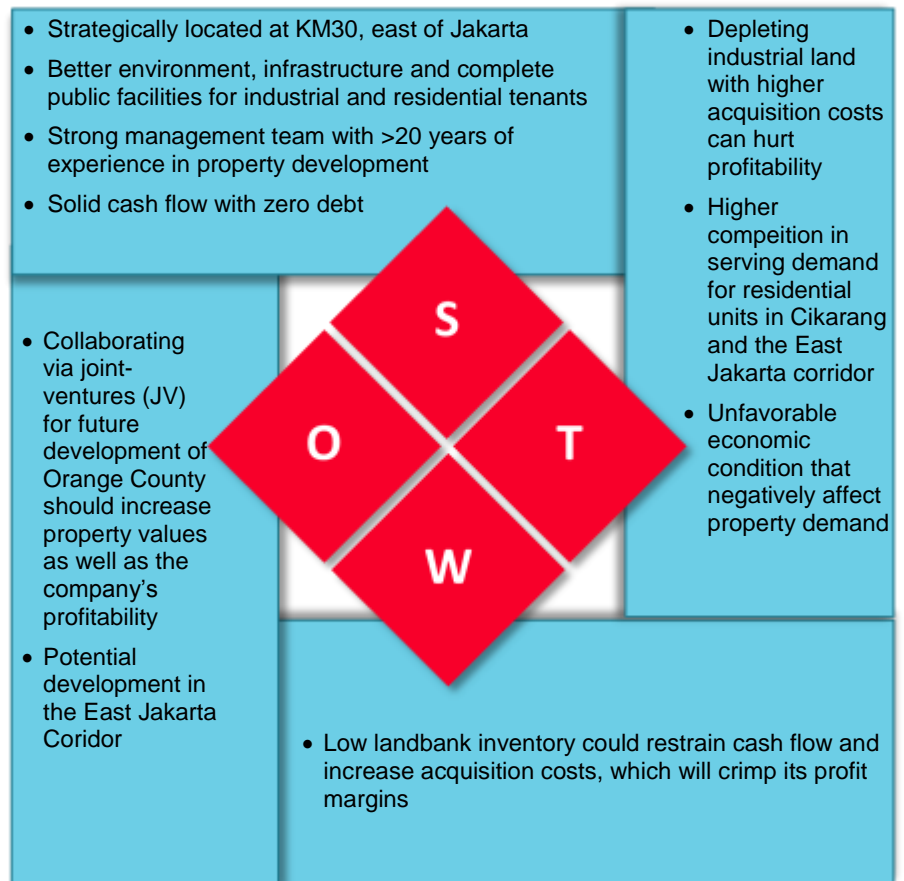
Balance Sheet (IDRbn)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total cash and equivalents	308	246	136	103	137
Inventories	2,510	2,882	3,207	4,010	4,871
Accounts receivable	62	66	73	80	88
Other current assets	385	244	578	578	578
Total current assets	3,265	3,437	3,993	4,771	5,674
Total investments	45	64	64	64	64
Tangible fixed assets	544	809	1,196	1,383	1,316
Total non-current assets	589	872	1,259	1,447	1,380
Total assets	3,854	4,310	5,253	6,218	7,054
Accounts payable	-	40	-	-	-
Other current liabilities	2,035	1,598	1,650	1,621	1,322
Total current liabilities	2,035	1,638	1,650	1,621	1,322
Total liabilities	2,035	1,638	1,650	1,621	1,322
Share capital	387	387	387	387	387
Retained earnings reserve	1,432	2,276	3,207	4,201	5,336
Shareholders' equity	1,819	2,663	3,595	4,588	5,724
Minority interests	-	8	8	8	8
Other equity	-	(0)	0	0	0
Total equity	1,819	2,671	3,603	4,597	5,732
Total liabilities & equity	3,854	4,310	5,253	6,218	7,054

Source: Company data, RHB

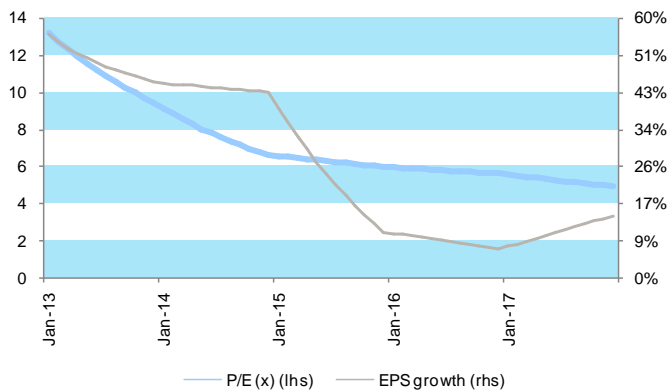
Key Ratios (IDR)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Revenue growth (%)	31.1	35.0	10.8	10.4	10.0
Operating profit growth (%)	45.1	44.2	11.5	7.2	13.8
Net profit growth (%)	45.1	42.9	10.4	6.7	14.3
EPS growth (%)	45.1	42.9	10.4	6.7	14.3
BVPS growth (%)	48.1	46.4	35.0	27.6	24.7
Operating margin (%)	47.7	51.0	51.3	49.8	51.5
Net profit margin (%)	44.5	47.1	46.9	45.3	47.1
Return on average assets (%)	17.7	20.7	19.5	17.3	17.1
Return on average equity (%)	38.8	37.7	29.8	24.3	22.0
Net debt to equity (%)	(16.9)	(9.2)	(3.8)	(2.2)	(2.4)
Recurrent cash flow per share	306	321	467	309	40

Source: Company data, RHB

SWOT Analysis

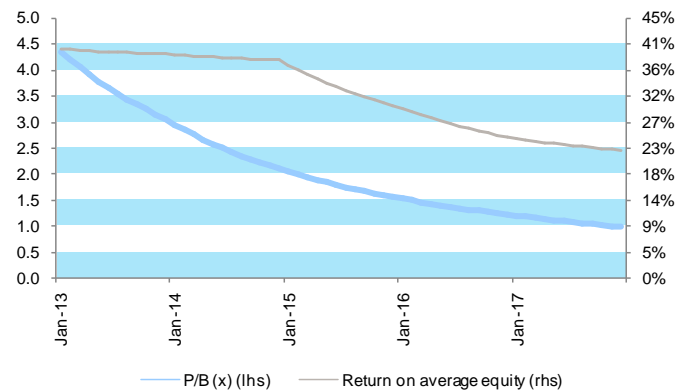


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

Lippo Cikarang is an independent township with a solid industrial sector as its economic pillar. Its unrivalled quality infrastructure and diverse facilities should supports its strategy in aiming for sustainable growth.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-05-05	Buy	14,300	11,475
2014-12-08	Buy	14,300	10,025
2014-05-05	Buy	13,400	7,825
2013-05-28	Buy	13,400	10,700
2013-05-23	Buy	10,600	8,150
2013-05-20	Buy	8,750	7,650

Source: RHB, Bloomberg

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Neutral: Share price may fall within the range of +/- 10% over the next 12 months

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