

# Lippo Cikarang

Sector: Industrial estate (Neutral)

**BUY**

(Unchanged)

Rating momentum\*: ↑

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PX: IDR7,625 - TP: IDR8,700 (From: IDR6,000)

TP/consensus: 105%

TP momentum\*: ↑

JCI: 4,840

### 1Q14 performance: Performing above our and consensus' estimates

- **1Q14 bottom line +36% q-q and +73% y-y:** LPCK booked 1Q14 bottom line of IDR228bn (+36% q-q and +73% y-y), 30% above our 1Q14F estimate. This result accounts for 32% of our estimate and 29% of consensus' forecast for 2014.
- **Large contribution from industrial estate:** LPCK posted 1Q14 revenue of IDR473bn (+1% q-q; +80% y-y) with strong contribution stemming from industrial land (78% of sales) with growth of 108% y-y. On another note, sales from residential projects were more slower +11% y-y.
- **High margin stemming from more industrial projects:** Higher recognition from industrial estate (1Q14 gross margin: 61%) in 1Q14 compared to 4Q13, where residential contributed around 32% of 4Q13 sales, resulted in a higher 1Q14 gross margin of 60% (vs 48% in 4Q13).

### Outlook: Focus shifting into residential projects going forward

Despite large contribution from industrial land sales in 1Q14, we expect increasing contribution from residential projects in the following quarters as residential accounted around 40% and 68% of LPCK's 2012 and 2013 pre-sales, resulting in lower margin ahead. This is in line with LPCK's target to be more landbank efficient by focusing more on residential vertical projects. Especially with the opening of new Jakarta-Cikampek 34.7ha toll gate should support LPCK's upcoming 300ha non-industrial CBD project.

### Rating & valuation: Earnings upgrades on better margins

Based on the 1Q14 result, we raise our 2014-15F earnings by 7-10%. We also raise our TP to IDR8,700 (from IDR6,000) based on a 50% discount to our NAV calculation (which also implied 2014F PE of 8.0x). BUY. Risks would be slower recognition and weak pre-sales from its residential projects.

### Exhibit 1. Company information

Market cap (IDRb/USDm)	: 5,307/459
3M avg.daily t.o.(IDRb/USDm)	: 14.6/1.3
Bloomberg code	: LPCK IJ

### Exhibit 2. Shareholders information

Kemuning Satiatama (%)	: 42.2
Est. free float (%)	: 57.8

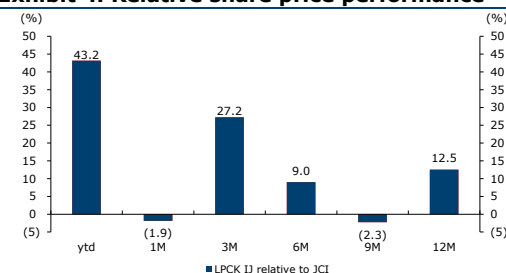
Source: Company

### Exhibit 3. Key forecasts and valuations

	2012	2013	2014F	2015F
Sales (IDRb)	1,013	1,328	1,707	1,924
Net profit (IDRb)	407	591	746	828
EPS (IDR)	585	849	1,072	1,189
EPS growth (%)	58.4	45.1	26.4	10.9
EPS momentum*	-	-	↑	↑
EV/EBITDA (x)	11.3	7.8	5.7	4.9
P/E (x)	13.0	9.0	7.1	6.4
BVPS (IDR)	1,765	2,613	3,686	4,876
PBV (x)	4.3	2.9	2.1	1.6
DPS (IDR)	-	-	-	-
Yield (%)	na	na	na	na

Source: Company, Bahana estimates

### Exhibit 4. Relative share price performance



Source: Bloomberg, Bahana

### Exhibit 5. Result summary

(IDRb)	1Q13	4Q13	1Q14	q-q (%)	y-y (%)	1Q14/1Q14	1Q14/2014F	1Q14/Cons.	1Q13/2013	1Q12/2012
<b>Sales</b>	<b>262</b>	<b>469</b>	<b>473</b>	<b>0.7</b>	<b>80.3</b>	<b>114.5</b>	<b>28.6</b>	<b>26.8</b>	<b>19.7</b>	<b>25.1</b>
<b>Gross profit</b>	<b>160</b>	<b>224</b>	<b>281</b>	<b>25.7</b>	<b>76.2</b>		<b>30.9</b>			
Operating expense	19	30	28	(6.9)	45.8					
<b>Operating profit</b>	<b>140</b>	<b>193</b>	<b>253</b>	<b>30.8</b>	<b>80.4</b>	<b>130.2</b>	<b>32.6</b>	<b>32.4</b>	<b>22.1</b>	<b>23.4</b>
Net interest income/(expenses)	3	8	3	(59.3)	(3.2)					
Other income/(expenses)	2	(1)	(5)	253.4	na					
<b>Pretax profit</b>	<b>146</b>	<b>200</b>	<b>252</b>	<b>25.9</b>	<b>72.6</b>		<b>31.6</b>	<b>27.1</b>	<b>21.9</b>	<b>22.4</b>
Taxation	(14)	(31)	(24)	(23.6)	70.8		24.3			
Minority interest	0	0	0	-	-					
<b>Net profit</b>	<b>132</b>	<b>167</b>	<b>228</b>	<b>35.9</b>	<b>72.8</b>	<b>130.3</b>	<b>32.6</b>	<b>28.8</b>	<b>22.3</b>	<b>22.1</b>
<b>Balance sheet &amp; ratio analysis</b>	<b>1Q13</b>	<b>4Q13</b>	<b>1Q14</b>				<b>2013</b>	<b>2014F</b>	<b>2015F</b>	
Gross margin (%)	60.9	47.7	59.5				55.9	55.2	53.9	
Operating margin (%)	53.5	41.2	53.5				47.7	47.0	45.8	
Pretax margin (%)	55.6	42.6	53.2				50.1	48.3	47.4	
Net margin (%)	50.2	35.7	48.1				44.4	42.3	41.4	
Receivable Days	25	11	12				15	18	20	
Payable Days	49	4	1				0	1	1	
Total cash (IDRb)	365	308	223				308	519	674	
Total debt (IDRb)	-	-	-				-	-	-	
Net gearing (%)	nc	nc	nc				nc	nc	nc	

Source: Company, Bloomberg, Bahana estimates

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**Exhibit 6. Earnings revisions**

	Old		New		Change	
	2014F	2015F	2014F	2015F	2014F	2015F
Sales (IDRb)	1,652	1,810	1,707	1,924	3.4%	6.3%
Gross margin (%)	52.5	51.9	55.8	54.1		
Opr. profit (IDRb)	777	829	814	886	4.7%	6.9%
Operating margin (%)	47.0	45.8	47.7	46.0		
Net profit (IDRb)	698	750	746	828	6.9%	10.3%
Net margin (%)	42.3	41.4	43.7	43.0		
EPS (IDR)	1,003	1,078	1,072	1,189	6.9%	10.3%

Source: Company, Bahana estimates

**Lippo Cikarang**

Year to 31 December	2011	2012	2013	2014F	2015F
<b>PROFIT &amp; LOSS (IDRb)</b>					
<b>Sales</b>	<b>902</b>	<b>1,013</b>	<b>1,328</b>	<b>1,707</b>	<b>1,924</b>
<b>Gross profit</b>	<b>388</b>	<b>520</b>	<b>743</b>	<b>953</b>	<b>1,041</b>
<b>EBITDA</b>	<b>311</b>	<b>441</b>	<b>641</b>	<b>821</b>	<b>894</b>
Depreciation	7	4	7	8	8
<b>EBIT</b>	<b>304</b>	<b>437</b>	<b>634</b>	<b>814</b>	<b>886</b>
Net interest inc./(expense)	(13)	4	22	32	55
Forex gain/(losses)	(0)	2	6	-	-
Other income/(expense)	11	15	4	3	2
<b>Pre-tax profit</b>	<b>301</b>	<b>458</b>	<b>666</b>	<b>849</b>	<b>943</b>
Taxes	(44)	(51)	(75)	(102)	(115)
Minority interest	-	-	-	-	-
Extraordinary gain/(losses)	-	-	-	-	-
<b>Net profit</b>	<b>257</b>	<b>407</b>	<b>591</b>	<b>746</b>	<b>828</b>

**2013-15F top to increase by CAGR of 20% backed by improving contribution from residential projects**

**BALANCE SHEET (IDRb)**

Cash and equivalents	37	310	308	608	959
S-T investments	-	-	-	-	-
Trade receivables	73	54	60	94	105
Inventories	1,359	1,940	2,510	2,886	3,261
Fixed assets	51	48	53	65	72
Other assets	522	480	923	1,143	1,340
<b>Total assets</b>	<b>2,042</b>	<b>2,832</b>	<b>3,854</b>	<b>4,795</b>	<b>5,737</b>
Interest bearing liabilities	140	-	-	-	-
Trade payables	204	0	-	2	2
Other liabilities	877	1,604	2,035	2,228	2,341
<b>Total liabilities</b>	<b>1,221</b>	<b>1,604</b>	<b>2,035</b>	<b>2,230</b>	<b>2,344</b>
<b>Minority interest</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Shareholders' equity</b>	<b>821</b>	<b>1,228</b>	<b>1,819</b>	<b>2,565</b>	<b>3,394</b>

**Increasing cash level ...**

**CASH FLOW (IDRb)**

EBIT	304	437	634	814	886
Depreciation	7	4	7	8	8
Working capital	(366)	(772)	(556)	(401)	(379)
Other operating items	256	632	98	32	(22)
<b>Operating cash flow</b>	<b>200</b>	<b>301</b>	<b>183</b>	<b>452</b>	<b>493</b>
Net capital expenditure	(321)	(469)	(770)	(529)	(517)
<b>Free cash flow</b>	<b>(121)</b>	<b>(167)</b>	<b>(587)</b>	<b>(77)</b>	<b>(24)</b>
Equity raised/(bought)	0	-	-	-	-
Net borrowings	140	(140)	-	-	-
Other financing	(18)	580	585	376	375
<b>Net cash flow</b>	<b>1</b>	<b>273</b>	<b>(2)</b>	<b>300</b>	<b>351</b>
Cash flow at beginning	35	37	310	308	608
<b>Ending cash flow</b>	<b>37</b>	<b>310</b>	<b>308</b>	<b>608</b>	<b>959</b>

**... supported by solid operating cash flow**

**RATIOS**

ROAE (%)	37.1	39.7	38.8	34.0	27.8
ROAA (%)	13.8	16.7	17.7	17.3	15.7
EBITDA margin (%)	34.4	43.6	48.3	48.1	46.5
EBIT margin (%)	33.7	43.1	47.7	47.7	46.0
Net margin (%)	28.5	40.2	44.5	43.7	43.0
Payout ratio (%)	-	-	-	-	-
Current ratio (x)	5.5	39.1	36.0	40.4	44.7
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	16	20	20
Creditor turnover (days)	78	75	0	1	1
Inventory turnover (days)	na	na	na	na	na

**Lower margin trend on the back of more contribution from residential sales**

**MAJOR ASSUMPTIONS**

Revenue growth (%)	123.0	12.3	31.1	28.6	12.7
Pre-sales (IDRb)	1,301	2,061	1,698	1,800	2,000
Pre-sales growth (%)	128.8	58.4	(17.6)	6.0	11.1

**Pre-sales to be more supported by residential projects going forward**

Source: Company, Bahana estimates

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