

# PP Properti

Sector: Property (Underweight)

**BUY**

(Initial Coverage)

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**Small but swift**

**Long historical track record of 25 years with sufficient land bank**

Owned by Pembangunan Perumahan (PTPP) and established in 1990 as a business unit, PP Properti (PPRO) has come a long way from just building commissioned housing units, to developing apartments, commercial buildings and hotels. Its total land bank of 55ha; the largest is in Bekasi (25ha) and is sufficient for development up to 2035. Its main property portfolio includes 3 superblocks: 1 in Bekasi (Grand Kamala Lagoon) and 2 in Surabaya (Dharma Husada and Grand Sungkono Lagoon). PPRO should benefit from its main Bekasi location due to the area's strong middle-income growth, supported by 3mn inhabitants (Indonesia's 4th most densely populated city) with IDR3mn/month minimum wage, presently the highest in the country.

**Concept-driven development with high plot ratios**

A concept-driven developer, PPRO focuses on ensuring a higher quality of life for its residents by providing plenty of green space with water features. The company's strong take-up rates across its projects are also backed by well-designed common grounds for social interaction and environmentally-friendly facilities. Hence, PPRO's projects comprise of a relatively large proportion of end-users, which should in turn bode well for the company's future launches. Additionally, the management's track record shows their uncanny ability to develop less prime land banks into highly successful projects with high building area coefficients (KLB) of more than 10 usually.

**Beneficiary of SOE status and synergies from PTPP**

PPRO benefits from parent-company synergies as it commissions PTPP as the builder for most of its projects, ensuring not only timely completion but also cost-efficiency advantages. Looking ahead, with PTPP's growing toll-road construction portfolio, the company should also benefit from PTPP's discretion to locate toll exits and entrances close to PPRO's project locations. In addition, the company's SOE status paves the way for JVs, and more recently JOs with other SOEs owning under-utilized land banks such as Pertamina, the state-owned oil company, and BPJS, the Healthcare and Social Security Agency. We note that PPRO has an edge over other SOE developers, helped by its strong historical track record and innovative development concepts.

**Fastest growing developer; Safe from luxury tax; BUY on 60% upside**

Given its innovation and concept-based developments focusing on providing an improved quality of life for its middle-class buyers, we expect PPRO to enjoy the fastest 2015F earnings growth of 181% y-y within our Property universe. Additionally, PPRO is free from the government's upcoming luxury property tax given its low unit pricing of between IDR700mn-1.5bn, targeted at IDR7-30mn/month income earners, a group forecast to grow from 42mn in 2012 to 68mn by 2020. To fund its 2015-16 expansion plans, PPRO has obtained IDR909bn from its recent IPO, of which 75% would be utilized for land bank purchases across various projects (exhibit 39). On valuation, our target price of IDR250 is based on a 50% discount to NAV (exhibit 3). BUY on 60% upside to our TP. Risk: Slower-than-expected project completion.

**Exhibit 1. Company and shareholders info**

Bloomberg code	:	PPRO IJ
Pembangunan Perumahan (%)	:	65.0
Pembangunan Perumahan	:	0.1
Employee Welfare Found.(%)	:	
Free float (%)	:	34.9

Source: Bloomberg

**Exhibit 2. Key forecasts and valuations**

Year to 31 Dec	2013	2014	2015F	2016F
Revenue (IDRbn)	192	555	1,545	1,887
EBIT (IDRbn)	46	128	419	526
Net profit (IDRbn)	49	106	298	361
EPS (IDR)	5	12	21	26
EV/EBITDA (x)	25.2	12.1	7.3	6.6
PER (x)	28.9	13.4	7.4	6.1
FCFPS (IDR)	23	(19)	(66)	(45)
FCF yield (%)	0.2	(0.2)	(0.5)	(0.3)
BVPS (IDR)	101	113	157	176
PBV (x)	1.5	1.4	1.0	0.9
DPS (IDR)	-	-	2	6
Yield (%)	-	-	1.2	3.4
ROAA (%)	3.2	5.1	8.2	6.9
ROAE (%)	5.3	10.8	18.4	15.4
EBIT margin (%)	24.1	23.1	27.1	27.9
Net gearing (%)	nc	7.5	39.1	52.9

Source: Bloomberg, Bahana estimates  
Note: Pricing as of close on 15 June 2015

**Exhibit 3. NAV calculation**

Portfolio	Value (IDRbn)
Land bank	669
High rise	7,143
Recurring income	733
<b>Total</b>	<b>8,545</b>
Add: Cash (2015F)	196
Less: Debt	(1,058)
Less: Customer deposit	(751)
<b>Adjusted NAV</b>	<b>6,932</b>
No. of shares outstanding (m shares)	14,044
<b>Discounted value</b>	<b>3,466</b>
<b>Discount to NAV</b>	<b>50%</b>
<b>Target price</b>	<b>250</b>

Source: Bahana estimates

**PP Properti**

**Year to 31 December**

	2013	2014	2015F	2016F	2017F
<b>PROFIT &amp; LOSS (IDRbn)</b>					
<b>Sales</b>	<b>192</b>	<b>555</b>	<b>1,545</b>	<b>1,887</b>	<b>2,219</b>
<b>Gross profit</b>	<b>49</b>	<b>143</b>	<b>459</b>	<b>575</b>	<b>706</b>
<b>EBITDA</b>	<b>60</b>	<b>135</b>	<b>448</b>	<b>559</b>	<b>689</b>
Depreciation	14	7	29	33	40
<b>EBIT</b>	<b>46</b>	<b>128</b>	<b>419</b>	<b>526</b>	<b>649</b>
Net interest inc./expense	-	1	(46)	(73)	(84)
Forex gain/(losses)	-	-	-	-	-
Other income/(expense)	4	2	2	2	2
<b>Pre-tax profit</b>	<b>51</b>	<b>131</b>	<b>375</b>	<b>455</b>	<b>566</b>
Taxes	(2)	(25)	(77)	(94)	(111)
Minority interest	-	-	-	-	-
Extraordinary gain/(losses)	-	-	-	-	-
<b>Net profit</b>	<b>49</b>	<b>106</b>	<b>298</b>	<b>361</b>	<b>455</b>

**Robust 84% revenue CAGR in 2013-17F on rapid development projects**

**BALANCE SHEET (IDRbn)**

Cash and equivalents	32	229	196	167	220
S-T investments	-	-	-	-	-
Trade receivables	199	439	1,270	1,551	1,824
Inventories	817	1,529	1,866	2,190	2,589
Fixed assets	207	218	441	737	984
Other assets	181	315	803	1,254	1,535
<b>Total assets</b>	<b>1,437</b>	<b>2,731</b>	<b>4,577</b>	<b>5,899</b>	<b>7,151</b>
Interest bearing liabilities	-	307	1,058	1,478	1,478
Trade payables	21	752	892	1,079	829
Other liabilities	491	640	420	865	2,019
<b>Total liabilities</b>	<b>512</b>	<b>1,699</b>	<b>2,371</b>	<b>3,421</b>	<b>4,326</b>
<b>Minority interest</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Shareholders' equity</b>	<b>925</b>	<b>1,031</b>	<b>2,206</b>	<b>2,478</b>	<b>2,825</b>

**Cash levels to fall in 2016F ...**

**CASH FLOW (IDRbn)**

EBIT	46	128	419	526	649
Depreciation	14	7	29	33	40
Working capital	(5)	536	(186)	71	734
Other operating items	(8)	(22)	(121)	(165)	(194)
<b>Operating cash flow</b>	<b>47</b>	<b>649</b>	<b>141</b>	<b>465</b>	<b>1,229</b>
Net capital expenditure	161	(821)	(1,067)	(1,095)	(957)
<b>Free cash flow</b>	<b>207</b>	<b>(172)</b>	<b>(926)</b>	<b>(630)</b>	<b>272</b>
Equity raised/(bought)	913	-	909	-	-
Net borrowings	-	296	168	690	(110)
Other financing	(1,104)	72	(183)	(89)	(109)
<b>Net cash flow</b>	<b>16</b>	<b>196</b>	<b>(32)</b>	<b>(30)</b>	<b>53</b>
Cash flow at beginning	16	32	229	196	167
<b>Ending cash flow</b>	<b>32</b>	<b>228</b>	<b>196</b>	<b>167</b>	<b>220</b>

**... to support elevated capex levels, although ...**

**RATIOS**

ROAE (%)	5.3	10.8	18.4	15.4	17.2
ROAA (%)	3.2	5.1	8.2	6.9	7.0
Gross margin (%)	25.3	25.7	29.7	30.5	31.8
EBITDA margin (%)	31.4	24.3	29.0	29.6	31.0
EBIT margin (%)	24.1	23.1	27.1	27.9	29.2
Net margin (%)	25.6	19.1	19.3	19.1	20.5
Payout ratio (%)	-	-	30.0	30.0	30.0
Current ratio (x)	8.0	2.1	2.1	2.0	1.6
Interest coverage (x)	na	na	9.1	7.3	7.7
Net gearing (%)	nc	7.5	39.1	52.9	44.5
Debts to assets (%)	0.0	11.2	23.1	25.1	20.7
Debtor turnover (days)	335	210	300	300	300
Creditor turnover (days)	38	343	300	300	200
Inventory turnover (days)	2,691	1,039	571	564	577

**... net gearing is expected to remain healthy at around 53% at its peak in 2016**

**MAJOR ASSUMPTIONS**

Marketing sales (IDRb)	407	1,203	2,233	2,902	3,272
Marketing sales growth (%)	-	195.9	85.6	30.0	12.8

**Marketing sales growth to fall to more manageable levels in 2016-17F**

Source: Company, Bahana estimates

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## BUSINESS OUTLOOK

### Developments since 1991; Middle-income as a more recent target market

PPRO was founded as a development-focused branch office of a well-established SOE construction company PTPP in 1990. Its first projects, completed in 1991, included housing units for the Jatiluhur Housing Authority (JHA), Bandung's Kopo Kencana 1 and 2 shop houses, and the Permata Puri residential cluster in Bogor.

**PPRO's developments date back to 1991 ...**

### Exhibit 4. PPRO's first residential projects, 1991-94

Jatiluhur Housing Authority  
employee residential complex,  
Purwakarta



Permata Puri, Cibubur



Bumi Kopo Kencana 1 shop  
houses



Bumi Kopo Kencana 2 shop  
houses

**... with small housing clusters and low-rise buildings in Purwakarta, Bandung and Bogor**

Source: Company

In 1995, the company was formally recognized as a business unit within PTPP, following the groundbreaking of housing clusters Taman Griya Permata in Bali and Perumahan Permata Puri Laguna in Cibubur. The company then followed up with Bukit Permata Puri Semarang, another housing cluster development, in 1996; this is still continuing with expected completion in 2016.

**After being formally recognized as a business unit ...**

### Exhibit 5. PPRO's projects as a business unit, 1995



Taman Griya Permata, Bali



Permata Puri Laguna, Cibubur

**... PPRO's project sizes grew steadily**

Source: Company

**Exhibit 6. Bukit Permata Puri, Semarang, 1996**



Source: Company

*Its next project, located in Semarang, is still ongoing this year*

**High-rise projects**

PPRO began its first forays into high-rise developments with Paladian Park, an apartment complex located in Kelapa Gading, Jakarta, with a total gross floor area (GFA) of 155,030sqm. Paladian Park's groundbreaking was in 1997 and through various phases of development, saw completion in 2009. Its next high-rise project was Patria Park in Cawang, Jakarta, commencing in 2004 and completed in 2007. The late-2000s also saw PPRO extending into commercial properties with Mall Serang, Banten, in 2009, and Grand Slipi Tower, an office building, in 2010. In addition, PPRO ventured into hotels in 2010 with the opening of Park Hotel Jakarta, a 3 star, 162-room hotel in Cawang, marking the first of its Park Hotel line. A second 3 star hotel under its Park brand was opened in Bandung in 2013, comprising 12,727sqm in GFA across 127 rooms. We note that since 2012, PPRO's high-rise projects have been growing steadily, having dominated total marketing sales by 2014.

*In 2009, the company branched out to building high-rise buildings ...*

**Exhibit 7. PPRO's first high-rise residential projects, 1997-2004**



Paladian Park, Kelapa Gading, Jakarta



Patria Park, Cawang, Jakarta

*... beginning with apartment towers in Jakarta ...*

Source: Company

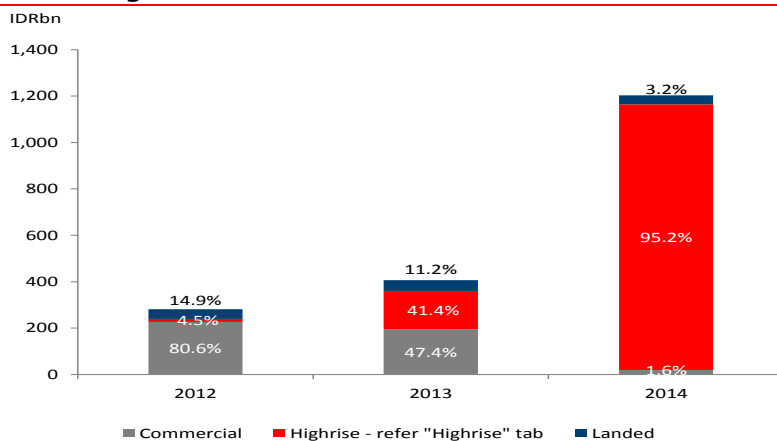
**Exhibit 8. PPRO's first commercial projects, 2009-11**



*... followed by commercial buildings*

Source: Company

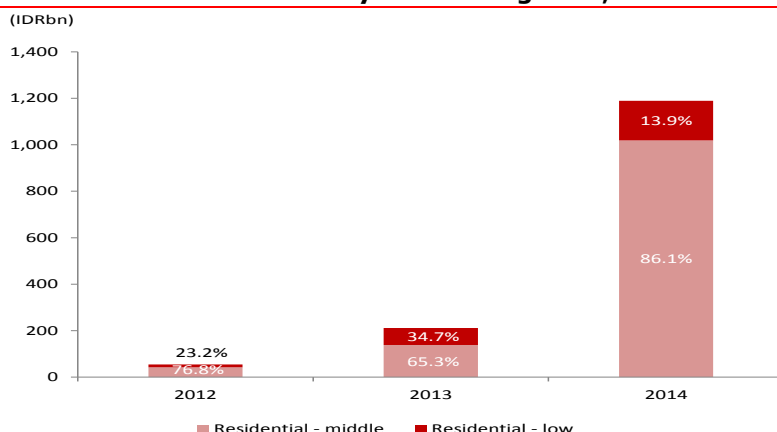
**Exhibit 9. Marketing sales breakdown 2012-14**



*High-rise portfolio has been growing to dominate marketing sales mix*

Source: Company

**Exhibit 10. Residential breakdown by market segment, 2012-14**



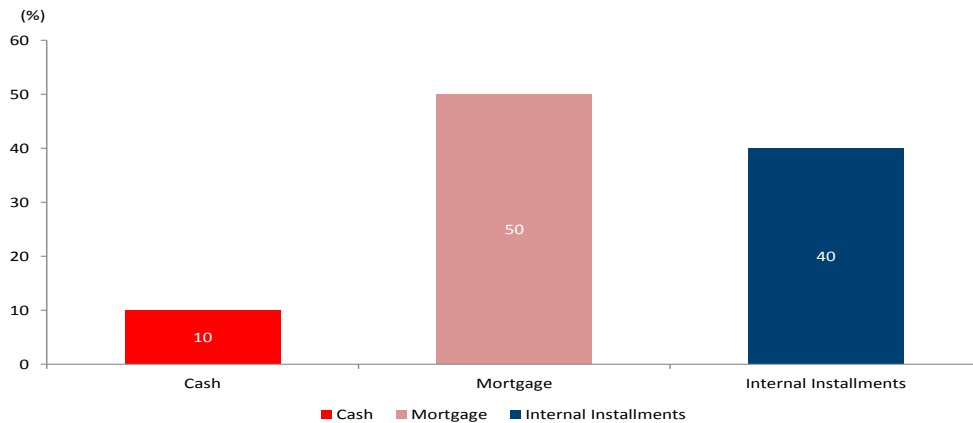
*More recently, we note that PPRO has targeted the middle-income class for the majority of its residential projects*

Source: Company

On payment terms, mortgages make up the largest proportion at 50%, followed by in-house installments at 40% and cash at 10%. This is due to PPRO's marketing sales mix having been dominated by its Surabaya projects, at which mortgages formed the most popular payment method.

*Due to contribution from its Surabaya projects ...*

**Exhibit 11. Payment terms across PPRO's projects**



Source: Company

**... PPRO has seen mortgages being the most popular form of payment**

**2013: Spin-off & start of aggressive expansion phase**

In 2013, with plans to launch superblocs in the works, PPRO was spun off into its own legal entity, separate from its parent PTPP, marking the start of the company's aggressive expansion phase with the superblocs Grand Sungkono Lagoon (GSL), Grand Kamala Lagoon (GKL) and North East Square (NES) within its pipeline.

**Spin-off in 2013 given aggressive expansion stage**

**Grand Sungkono Lagoon**

GSL was launched in September 2013. Located on a 3.6ha land bank next to Golden City Mall and purchased for IDR382bn (IDR8.3mn/sqm), GLS has a KLB of 10.48 and would be PPRO's first high-density development. Displaying its "beyond space" development approach, PPRO designed GSL with plenty of amenities to cater for the well-being of its residents. Surrounding a water lagoon, the facilities which would be offered include 5 thematic gardens, a river walk, splash pads, fountains and health tracks for exercise on top of the standard condominium facilities. It was designed in collaboration with Green Building Council Indonesia for the optimum window-wall ratio. Upon completion, PPRO expects GSL to total 240,000sqm in residential GFA. It would also include a 22,000sqm (NLA) commercial area to cater for residents' daily and entertainment needs, and further ahead, PPRO plans to include an office tower and a hotel within GSL.

**PPRO's first superbloc, kicked off in 2013**

**Exhibit 12. Location of Grand Sungkono Lagoon**



Source: Company

**Located along Jl. Mayjend Sungkono, GSL is located close to Surabaya's outer ring road**

**Exhibit 13. Rendering of Grand Sungkono Lagoon**



Source: Company

**GSL is expected to be one of Surabaya's tallest residential buildings**

Venetian, the first tower launched at GSL, was offered at an ASP of IDR14mn/sqm in September 2013. It was sold out within a year with the final ASP at IDR21mn/sqm, translating to a 50% increase. Totalling 34 storeys, Venetian is expected to have 34,703sqm in total GFA. Groundbreaking took place in mid-2014. As of February 2015, PPRO was in the process of constructing Venetian's basement.

**Venetian, GSL's first tower, was first launched in 3Q13 with ...**

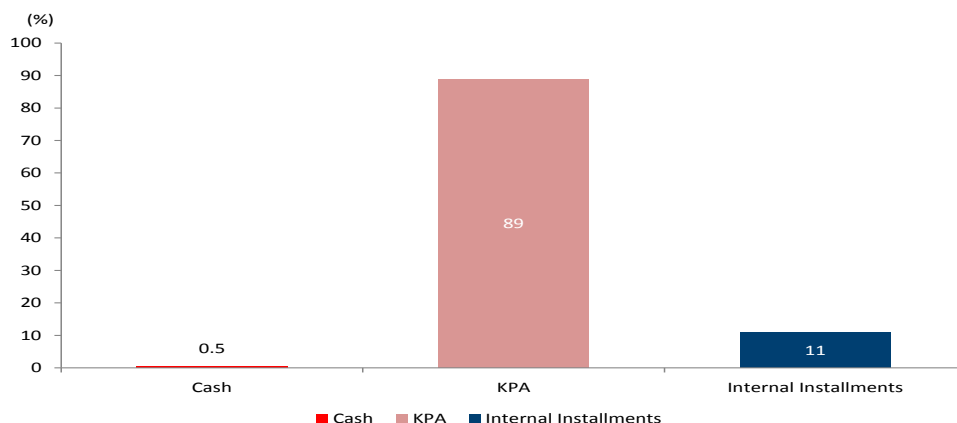
**Exhibit 14. Venetian, construction progress, February 2015**



Source: Company

**... groundbreaking in mid-2014, and its construction is currently at the basement stage**

**Exhibit 15. Venetian's payment terms**



Source: Company

**Huge majority of buyers chose mortgage payments over the typically more popular internal installments**

A second tower, Caspian, was launched on 21 January 2015, at an ASP of IDR22.5mn/sqm. Caspian would be 48 storeys high with a total GFA of 46,750sqm. Groundbreaking is expected to be held in August 2015.

**Caspian, GSL's second tower, was launched on 21 January 2015 ...**

**Exhibit 16. Caspian, launched January 2015**



Source: Company

**... with groundbreaking planned for August**

**Grand Kamala Lagoon**

Following GSL, PPRO commenced monetization of its 27ha Kalimalang, Bekasi, land bank with the launch of Grand Kamala Lagoon's (GKL) in May 2014. GKL's development would encompass 7 phases up to 2035, and is expected to generate IDR46tn in total marketing sales. PPRO expects GKL to be its main foothold within the Indonesian property universe, eventually developing it to be its flagship township. PPRO accumulated ownership of the land bank from 1983-2003 for a total of IDR121bn (IDR485k/sqm).

**Launched in May 2014, GKL, where PPRO expects to establish its main presence, ...**

**Exhibit 17. Location of Grand Kamala Lagoon**



Source: Company

**... is located in Kalimalang, complete with various alternative access ways**

**Exhibit 18. Architect's model of Grand Kamala Lagoon**



Source: Company

**High 10.6 KLB obtained for GKL**



PPRO has obtained a KLB of 10.6 for GKL's first phase, and expects to build 3 pairs of conjoined condominium towers and an additional standalone tower, each building being 45 storeys high, translating to a total residential GFA of 418,340sqm across the 4 towers. Following GSL's concept, GKL would also include various water-based attractions and amenities, including a lagoon, several koi ponds, water gardens, a tropical terrace, a greenway belt, water taxis, and health tracks. In line with GSL, GKL would also have a commercial area catering to residents' daily and entertainment needs. It would span 26,000sqm in NLA, and has garnered interest from Lotte as well as Aeon.

**Located in Kalimalang, GKL boasts various alternative access ways**

**Exhibit 19. Bird's eye view of PPRO's Kalimalang land bank**



Source: Company

**PPRO's Kalimalang land bank, marked by the green area circled, is expected to last the company 20 years**

For improved access, GKL would also include a IDR90bn, 26x300m bridge connecting GKL with the Jakarta-Cikampek toll road and the planned Bekasi-Cawang-Kampung Melayu (Becakayu) toll road. A monorail stop, part of the Jakarta Monorail project, is also planned to be stationed at the foot of the bridge. Furthermore, a Shinkansen line is currently being planned to pass along GKL's entrance, according to PPRO's management.

**A bridge would be established to vastly improve GKL's access with ...**

**Exhibit 20. Rendering of Grand Kamala Lagoon's access bridge**



Source: Company

**... Jakarta-Cikampek and Becakayu toll roads, as well as monorail stops**

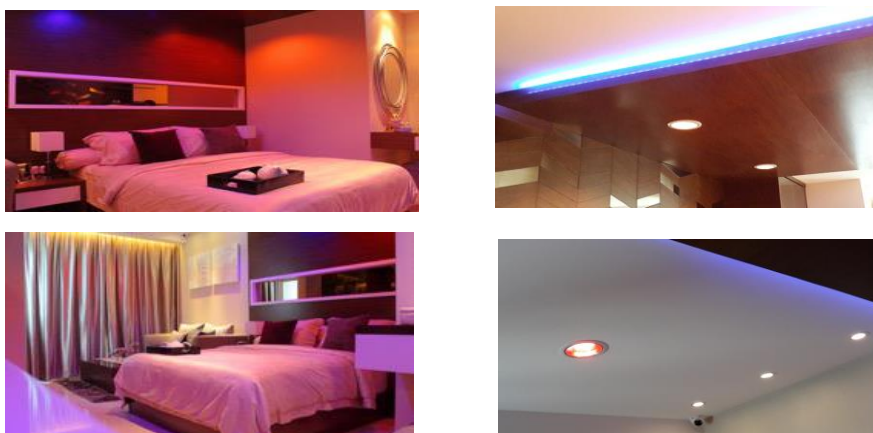
**Exhibit 21. Grand Kamala Lagoon's access bridge, currently 95% completed**



Source: Bahana

**Construction progress of GKL's access bridge, currently at 95%**

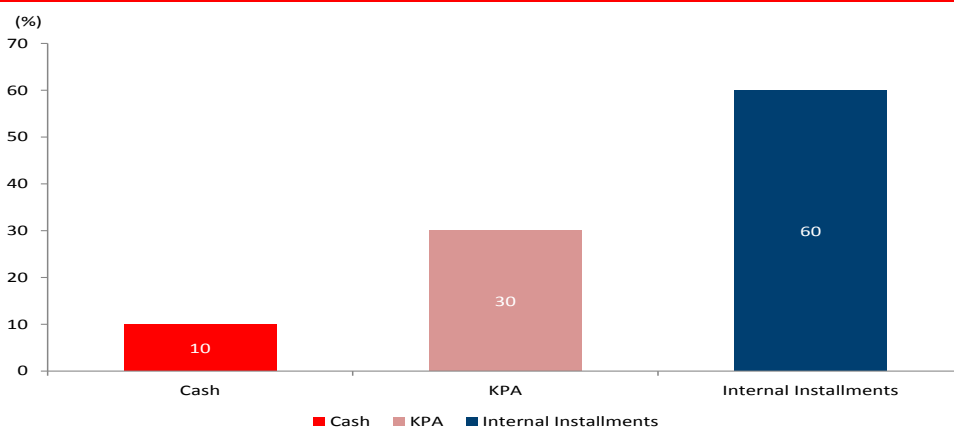
**Exhibit 22. Phase-mood lighting at Grand Kamala Lagoon**



Source: Company

**An example of a comfort-enhancing feature at PPRO's unit at GKL, also available at its other projects**

**Exhibit 23. Grand Kamala Lagoon – buyers' payment terms**



Source: Company, Bahana

**Unlike GSL, majority of GKL's buyers prefer internal installments**

PPRO launched GKL's first tower, Emerald, on 20 May 2014 at an ASP of IDR14 mn/sqm and currently only has a few penthouses remaining unsold. Totalling 45 storeys, Emerald's planned total GFA is expected to reach 70,000sqm. Groundbreaking took place in August 2014 and construction progress is currently underway at the foundation level.

**Solid sales performance at Emerald, GKL's first tower, with all but the highest-end penthouses sold**

**Exhibit 24. Emerald, construction progress, February 2015**



Source: Company

**With groundbreaking in mid-2014, construction of Emerald is currently at the basement stage**

GKL's second offering, Barclay, was formally launched on 23 March 2015, with 1,000 units at its North tower offered at IDR16mn/sqm. 700 units were sold during the launch, translating to a 70% launch-day take-up rate. PPRO expects to launch Barclay South in July and break ground for Barclay North and South in August 2015.

**Decent take-up at GKL's second offering**

**North East Square**

PPRO plans to launch its third superblock, North East Square (NES), on a 4.2ha land bank in East Surabaya by Jln. Dharma Husada, which PPRO purchased in 2014 at IDR15/sqm. The location is within walking distance to the Al Azhar educational institution, Institut Teknologi Sepuluh Nopember (ITS) and Universitas Airlangga, the latter 2 being among Surabaya's largest universities. Other educational facilities in the vicinity include Universitas Surabaya and Universitas Muhammadiyah. This would be NES' main attraction and selling point, with reliance on the surrounding student population. For this project, PPRO has obtained a KLB of 10.

**North East Square, PPRO's third upcoming superblock, is ...**

PPRO plans to launch 8 residential towers at NES, 2 of which would be higher-end. The first tower is planned for launch in August-September 2015 at an ASP of IDR15mn/sqm. IDR9.2tn in total marketing sales is expected from NES. It would also include a 5,000sqm (NLA) commercial area which would include a thematic indoor area simulating the outdoors, a karaoke area and a theater catering for students' lifestyle needs, to complement nearby shopping malls rather than being a head-to-head competitor.

**... expected to generate IDR9.2tn in total marketing sales**

**Exhibit 25. NES location**



Source: Company

**Located within close proximity of several educational institutions, NES is targeted towards students**

**Exhibit 26. Dharma Husada land bank, February 2015**



Source: Company

**Present stage of PPRO's Dharma Husada land bank**

**Pavilion Permata**

Apart from its superblocks, PPRO's 2015 pipeline also includes the second tower at Pavilion Permata (PP), Pavilion Permata 2, which is planned for groundbreaking in 2H15. It is a follow-up to Pavilion Permata 1, which was launched in 2013 and planned for handover later this year. Along with GSL, PP also sits next to Golden City Mall, albeit on the opposite side of the mall from GSL. Upon completion, PP2 would feature a connecting bridge to Golden City Mall to enhance access for residents. Although targeted at the middle class, PP would offer housekeeping and laundry services, as well as plenty of common areas for relaxation and exercise, features not commonly found in middle-class apartments, highlighting PPRO's advanced development concept with its residents' well-being in mind.

**Pavilion Permata, PPRO's middle-class apartment project close to GSL, has advanced development concept**

**Exhibit 27. Pavilion Permata 1 apartment tower, February 2015**



Source: Company

**Present stage of PP1, planned for handover in 2H15**

**Exhibit 28. Facilities at Pavilion Permata, February 2015**



Source: Company

**Examples of common area and exercise space at PP**

## Exhibit 29. Site for Pavilion Permata 2, February 2015



Source: Company

**Spot planned for PP2, viewed from PP1's partly-completed building**

### Other projects in 2015 pipeline

On top of the superblocks, PPRO's project pipeline over 2015-16 also includes 3 high-rise projects: 1. Ayoma Residence, a middle-upper class project in Serpong, and 2. Gunung Putri Square, Bogor, targeted at the low-income population. Its pipeline also includes landed housing projects under way: 1. Payon Amarta in Semarang, a mid-high end residential cluster, and 2. Bukit Permata Puri, also in Semarang, a continuation of PPRO's project which dates back to 1996, catering to the middle class. However, high-rise residences would be PPRO's main focus going forward.

**Other projects in 2015 pipeline include high-rise and landed housing projects, which are ...**

On aggregate, these projects are expected to generate over IDR5tn in marketing sales over the next few years. For the high-rise projects, PPRO has also obtained KLBs of over 10, with the exception of Ayoma Residence for which KLB stands at 7.2.

**... expected to generate IDR5tn over the next few years**

PPRO also expects to build a hotel located next to Kaza, scheduled to be operational by 2017. This is on top of 2 Park hotels, 1 in Lombok and another in Bengkulu, which should be operational by 2017 and 2018 respectively. PPRO estimates IDR50bn in capex for each hotel. The company also plans to acquire an existing hotel in Kalimantan by 2015.

**Additional hotel construction and acquisition in the pipeline**

Notably, Ayoma Residence was met with strong demand as it was put up for offers at PPRO's exhibition booth at a property expo held in Jakarta Convention Center, prior to the rendering of the project being completed. PPRO sold a remarkable 79% of Ayoma's units at the event. In addition, Gunung Putri Square (Bogor) is a government-supported project offered at the low-income population working in the nearby industrial areas, representing a healthy source of buyers, along with increased affordability due to lower down payment requirements.

**Robust performance at Ayoma Residence, suggesting high public trust in PPRO**

### Future plans

Going forward, PPRO would continue offering high-density mixed use and high-rise projects targeted at the middle to upper income segments, priced between IDR700mn-1.5bn per unit, a range which it has identified as its "sweet spot". In particular, the company's target market includes households with monthly income of IDR7-30mn, which is forecast to grow from 42mn in 2012 to 68mn by 2020.

**Going forward, PPRO to offer housing units to middle to upper income earners, a segment forecast to grow from 42mn in 2012 to 68mn by 2020**

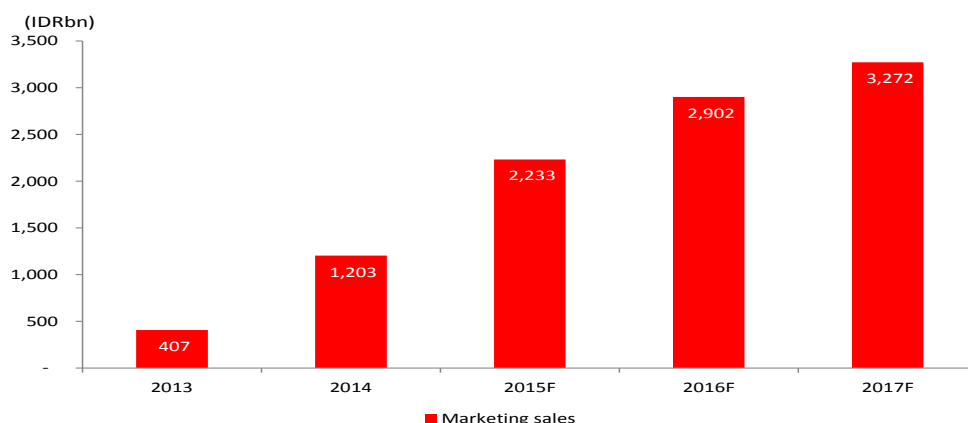
## FINANCIAL OUTLOOK

### 84% 2013-17F top line CAGR from robust marketing sales since 2014

With the launch of its superblock projects, PPRO's marketing sales increased 123% y-y from 2013 to 2014. We expect strong take-up at PPRO's projects to continue given the company's commitment to innovative high-density developments, which should translate to continued strong marketing sales momentum with additional pre-sales progress across its projects, most notably at GKL, GSL and NES (which together we expect would contribute 79-85% to total marketing sales in 2015-17F) as PPRO launches additional towers and phases. Assuming 5-10% annual ASP growth, in line with typical market conditions, we expect PPRO's marketing sales to grow at a CAGR of 68% from 2013-17F.

**Robust 2014 marketing sales performance ...**

### Exhibit 30. Marketing sales growth, 2013-17F



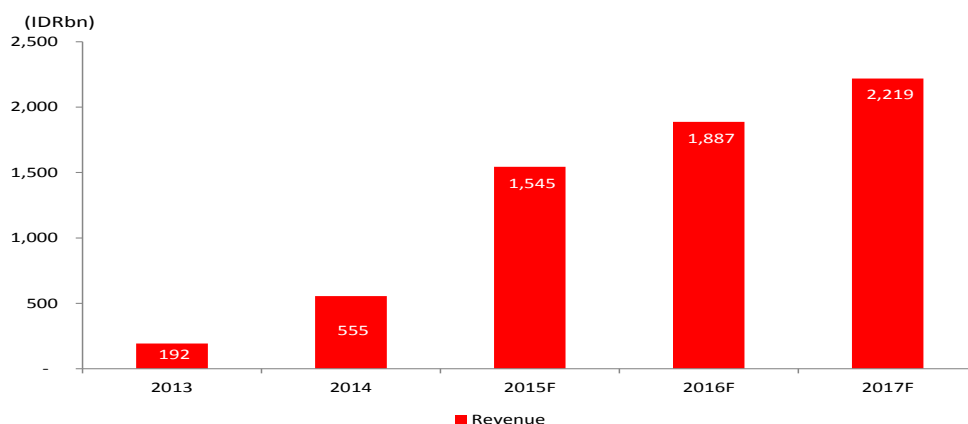
**... which we expect to continue with the company's additional launches ...**

Source: Company, Bahana estimates

2014's strong marketing sales growth is expected to strongly drive revenue growth going forward as physical construction progresses across PPRO's superblock projects (including GKL and GSL). In this aspect, PPRO's forte lies in its parent being commissioned to build its projects, thereby providing PPRO with a reliable contractor with few project delays. Marketing sales growth should therefore translate to accelerated revenues with minimal hiccups. On the back of this, we expect top line growth to strongly come in at 84% CAGR in 2013-17F.

**... should result in a significant boost to 2015-17 revenue ...**

### Exhibit 31. Revenue growth, 2013-17F



**... translating to 84% 2013-17F revenue CAGR**

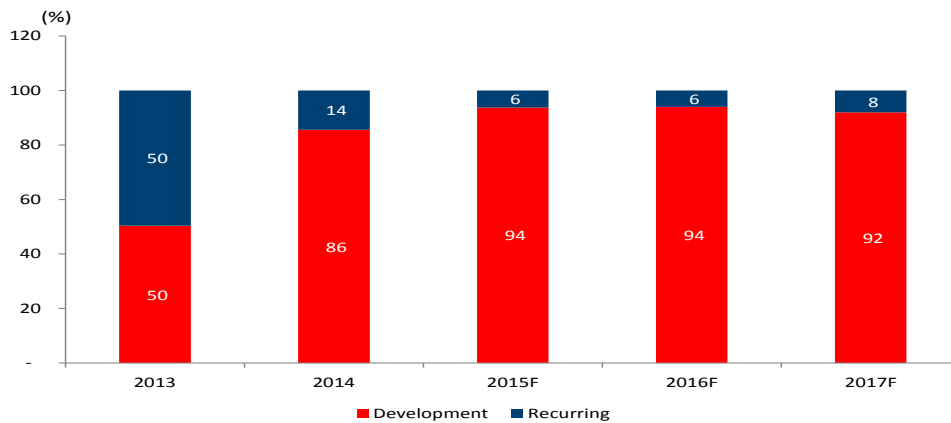
Source: Company, Bahana estimates

**Slight recurring base comeback in 2017**

On the back of faster development activities, we expect recurring income to drop to 6% in 2015-16F from 50% in 2013 and 14% in 2014. In 2017, with PPRO expecting the completion of the commercial areas in GKL and GSL, as well as Park Hotel Lombok and Kaza Hotel, recurring income should get a boost with an additional IDR51bn in recurring income, bringing recurring income up slightly to 8% of total 2017F revenue. In the longer term, with the addition of malls, hotels and commercial areas in its pipeline, PPRO aims for its recurring income base to reach 25-30% of total revenue.

**While 2015-16F recurring income should fall on the back of increase in development revenue, ...**

**Exhibit 32. Revenue breakdown, recurring VS development, 2013-17F**



**... we expect slight rebound in recurring income contribution in 2017**

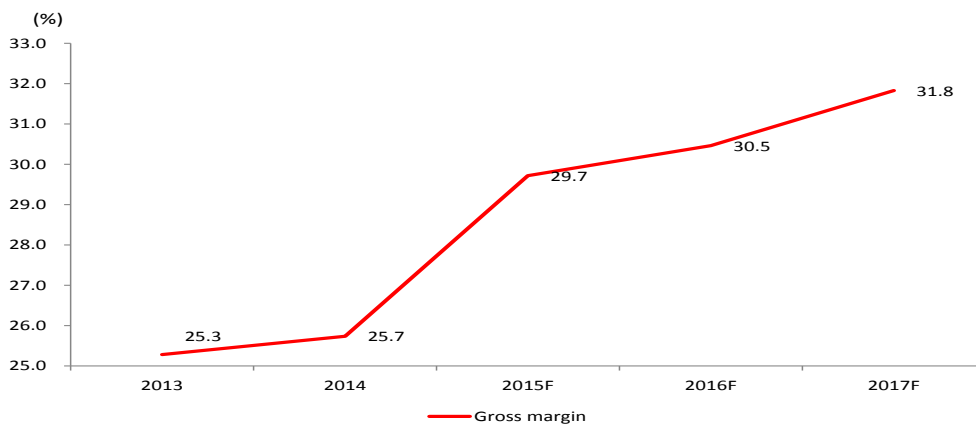
Source: Company, Bahana estimates

**Improving margins from higher yielding high-rise projects**

On the back of increased revenue contribution from its high-rise projects as well as its hotels turning profitable as they mature, we expect PPRO's gross margin to move up to 30-32% in 2015-17F from 25-26% in 2013-14, which should translate into expansion in both operating and net margins. In addition, we note that PPRO's gross margin had taken a hit from having engaged in a price game by charging lower ASPs than comparable projects of its competitors in nearby areas, a move through which the company hopes to gain market share in an industry that ascribes premiums for market stature. Going forward, as its market share improves, PPRO's bargaining power should increase, and it aims to see gross margins rise to industry-average levels of 40-45% for its high-rise projects, which we think is achievable driven by the company's ability to come up with creative concepts for its developments.

**While gross margin has been depressed ...**

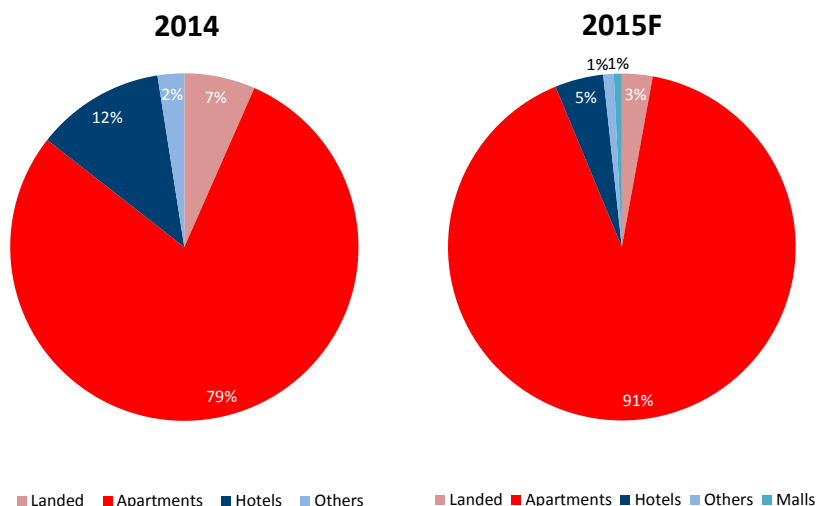
**Exhibit 33. PPRO's gross margins, 2013-17F**



**... we expect improvements ahead on market share gains and higher yielding projects**

Source: Company, Bahana estimates

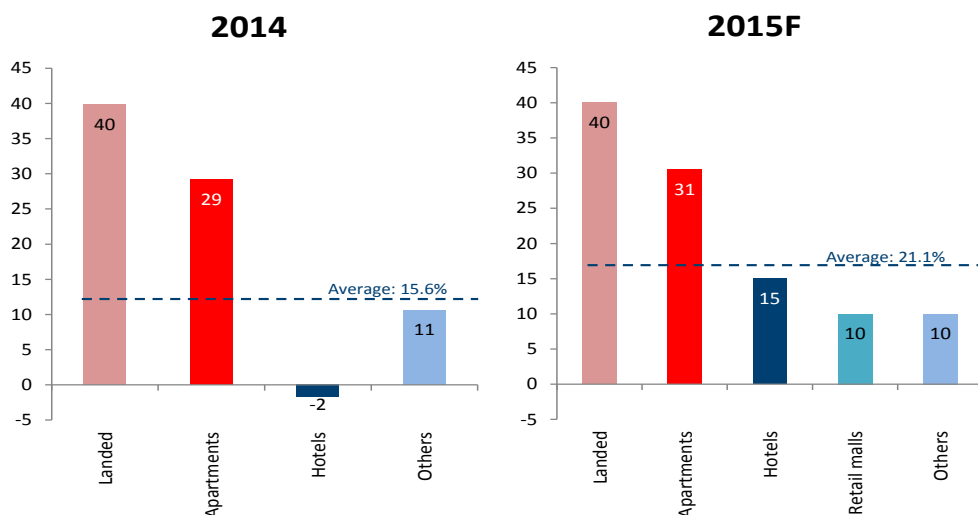
**Exhibit 34. PPRO's revenue breakdown by product type, 2014-15F**



*Greater top line contribution from apartments to 91% this year, while hotels should come down from 12% to 5%*

Source: Company, Bahana estimates

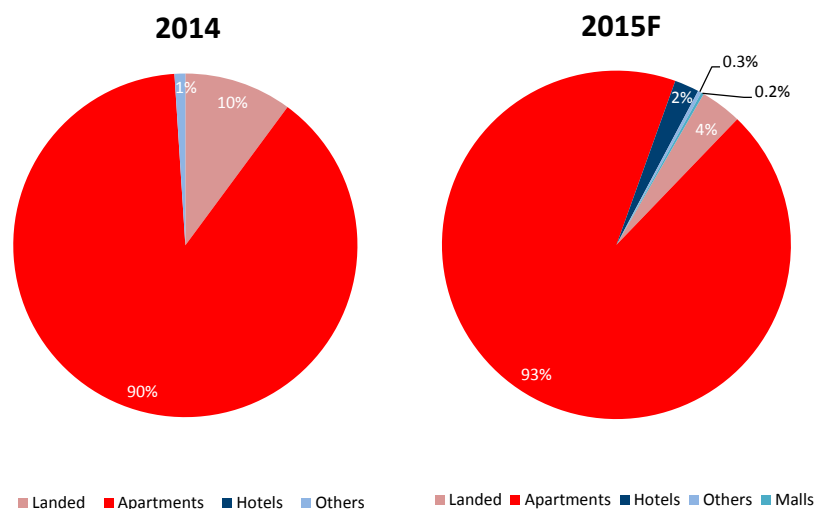
**Exhibit 35. PPRO's gross margin breakdown by product type, 2014-15F**



*Apartments should see higher margin this year due to high yielding projects while hotels are expected to become profitable as they mature, paving the way ...*

Source: Company, Bahana estimates

**Exhibit 36. PPRO's gross profit breakdown by product type, 2014-15F**



*... for greater gross profit contribution for apartments from 90% in 2014 to 93% in 2015F*

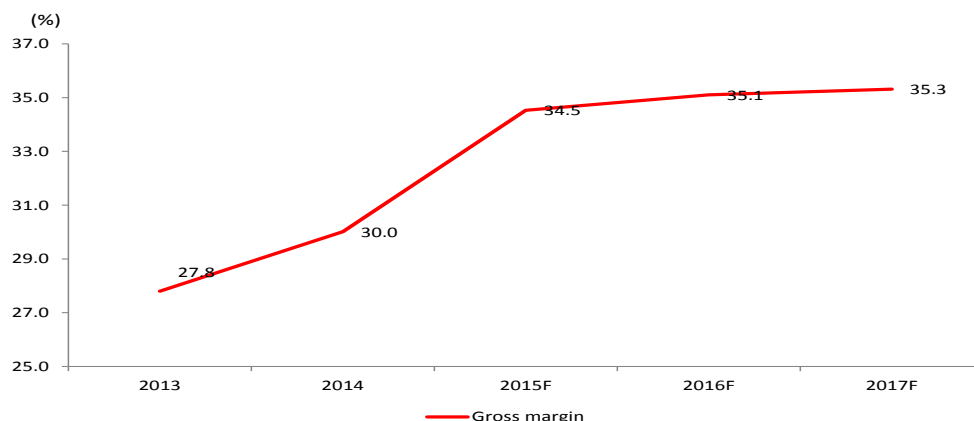
Source: Company, Bahana estimates



In addition, we note that PPRO's COGS includes marketing expenses, which has accounted for some 5% to total revenue in 2013-14, and is expected to remain at that level in 2015-17F. Should this be reclassified as operating expenses, PPRO's gross margins would improve to 34-35% in 2015-17F.

**COGS includes around 5% marketing expenses ...**

**Exhibit 37. Gross margins with marketing costs reclassified, 2013-17F**



**... which, if re-classified as opex, would boost 2015-17F gross margins to 34-35% levels**

Source: Company, Bahana estimates

**Net debt to increase, albeit maintaining manageable gearing levels**

PP Properti expects additional borrowings to support its heightened capex during its expansion phase going forward. On the back of this, we expect net gearing to rise to a peak of 52.9% in 2016F, which should remain manageable for the company, before dropping slightly to 44.5% in 2017F.

**To support its expansion plans, we expect PPRO to obtain additional funding ...**

**Exhibit 38. Financial highlights**

(IDRb)	2013	2014	2015F	2016F	2017F
Sales	192	555	1,545	1,887	2,219
Gross profit	49	143	459	575	706
Operating profit	46	128	419	526	649
Net profit	49	106	298	361	455
Cash	32	229	196	167	220
Assets	1,437	2,731	4,577	5,899	7,151
Net debt	(32)	78	862	1,311	1,258
Net gearing (%)	nc	7.5	39.1	52.9	44.5

Source: Company, Bahana estimates

**... while maintaining healthy gearing levels at around 50% in 2016**

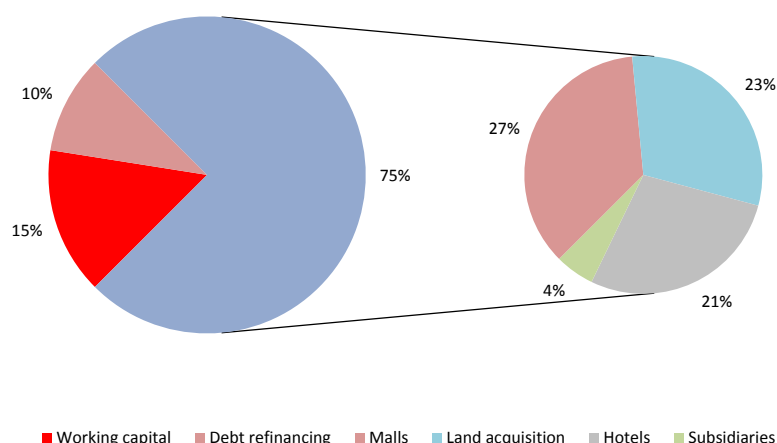
## 2015 expansion plans

In 2015, PPRO's funds raised through its IPO are planned to be used as follows:

1. 15% would be utilized towards working capital requirements for funding ongoing construction at its existing projects;
2. 10% for partial repayment of PPRO's IDR244bn loan from PTPP, which was provided to facilitate construction of Park Hotel Jakarta and Park Hotel Bandung as well as for working capital requirements; and
3. 75% for investments with breakdown as below:
  - a. 27% for construction of new malls and commercial areas on its Bekasi and Surabaya land banks, as well as acquisition of an existing mall in Kalimantan;
  - b. 23% for acquiring land parcels for its future projects, most of which would be in Greater Jakarta, but could also include land in developing areas in Central Java, East Java, West Java and Bali;
  - c. 21% for construction of new hotels across existing land banks, as well as acquisition of an existing hotel in Kalimantan; and
  - d. 4% for supporting its subsidiaries' development activities.

**We expect IDR1.3tn capital injection this year to fund PPRO's expansion activities**

## Exhibit 39. Utilization of capital injection



**... of which investments would account for 75%, most of which would be evenly distributed for land acquisition, construction of new hotels and malls as well as acquisition of a hotel and mall in Kalimantan**

Source: Company

## Valuation: Equity fair value of IDR3,466bn

Our estimated fair value for PPRO (exhibit 3) is based on 50% discount to PPRO's 2015F NAV, which we arrived at using market value-based RNAV for PPRO's land banks and DCF-based valuation for its high-rise and recurring projects applying 12.6% WACC. This is lower than the average sector discount to NAV of 60%, due to PPRO's relatively lower exposure to taxation risks. This translates to an equity value of IDR3,466bn or IDR250 per share. Currently, PPRO is trading at an attractive 7.4x 2015F earnings, a 45.2% discount to sector P/E of 13.5x (exhibit 40).

**Based on 50% discount to 2015 NAV, we arrive at our equity fair value per share of IDR250**

**Exhibit 40. P/E peers comparison**





Company	Share price (IDR)	M. cap (IDRb)	Net profit growth (%)	2015F P/E (x)	Target Price (IDR)	Discount to NAV at TP(%)
BSDE	1,615	31,083	(31.2)	11.8	2,020	60
LPKR	1,115	25,732	(39.6)	16.5	1,000	60
PWON	389	18,734	(13.1)	8.6	425	60
SMRA	1,620	23,371	(19.3)	20.8	1,600	60
CTRA	1,205	18,275	0.6	13.7	1,400	60
ASRI	505	9,923	17.9	7.7	720	60
APLN	336	6,888	(13.8)	9.3	380	60
CTRP	570	3,506	(16.9)	10.7	790	55
PPRO	156	2,191	180.7	7.4	250	50
<b>Avg. (market-cap weighted)</b>			<b>(16.1)</b>	<b>13.5</b>		
<b>Discount (%)</b>				<b>45.2</b>		

**7.4x 2015F P/E, around 45.2% discount to sector's average P/E**

Source: Bahana estimates, share prices as of 15 June 2015

## MANAGEMENT PROFILE

Name & current position	Industry experience (current & previous)	Relevant work exp. (years)
<b>Board of Commissioners</b>		
1. Betty Ariana <i>President Commissioner</i>	 Joined PTPP in 1980 in one of its branch offices and held various posts before becoming Assistant to the President Director in 2004 and Corporate Secretary in 2006. She was appointed as PPRO's President Commissioner in 2013. Betty graduated from ITS with a Civil Engineering degree and a Master of Engineering from Universitas Indonesia.	33
2. Mohammad Farela <i>Independent Commissioner</i>	 Prior to being appointed as PPRO's Independent Commissioner in 2013, Mohammad has been part of the Attorney General's office since 1973. He currently also serves as a Functional Prosecutor for the Attorney General's office. He obtained his Bachelor Law from Universitas Islam Indonesia and Master of Law from Universitas Indonesia.	32
<b>Total relevant work experience (years)</b>		<b>65</b>
<b>Average relevant work experience (years)</b>		<b>33</b>

Name & current position	Industry experience (current & previous)	Relevant work exp. (years)
<b>Board of Directors</b>		
1. Galih Praharanto , <i>President Director</i>	 Joined PTPP as site engineer in 1988 before rising the ranks to become the head of PTPP's property Division in 2012. He was appointed as PPRO's President Director in 2013. Galih majored in Civil Engineering, from Institut Teknologi Bandung and Master of Construction Management from the University of New South Wales.	27
2. Indaryanto, <i>Director</i>	 Joined PTPP as Finance Manager in 1984. He was PTPP's Head of Accounting before being appointed as one of PPRO's directors in 2013. Indaryanto graduated from Universitas Gajah Mada in 1983 with a Bachelor of Accounting degree and pursued his further education at ADL Management Education Institute in Boston, Massachusetts.	30
3. Galih Saksono <i>Director</i>	 Joined PTPP as a site engineer in 1991 before being appointed as General Manager of PTPP's property division in 2013. He was appointed as PPRO's Director in 2013. Galih majored in Civil Engineering from Universitas Diponegoro and MBA from Universitas Gajah Mada.	21
4. Giyoko Surahmat <i>Independent Director</i>	 Joined PTPP in 1980 as Project Manager before being a part of PTPP's Engineering and Risk Management Division in 2011. He was appointed as PPRO's Independent Director in 2015. Giyoko majored in Civil Engineering from Universitas Gajah Mada and Master of Civil Engineering from Institut Teknologi Bandung.	35
<b>Total relevant work experience (years)</b>		<b>113</b>
<b>Average relevant work experience (years)</b>		<b>28</b>

## INVESTMENT RISKS

### Policy risks - tax revisions

On 30 April 2015, the Finance Minister issued Minister of Finance No. 90/PMK.03/2015 which reduced threshold for 5% income tax on sales of super luxury goods (PPH22) to: IDR5bn or 400sqm in building area for landed houses, and IDR5bn or 150sqm in space for apartments. We think the impact from these taxes should be minimal, given it is deductible from annual income tax payments, and its only 5% of each unit's sale price. However, this renders property threshold under the luxury goods VAT (PPNBM) to be under IDR5bn as well as under 400sqm in building area for houses and 150sqm for apartments. Our channel checks suggest that the Finance Ministry is considering to lower PPNBM's thresholds to IDR3-5bn. Although these would be more conducive for the property sector than the IDR1.5bn (apartments) and IDR1.2bn (houses) we were told of previously, these thresholds remain uncertain, and the policy overhang for the property sector as a whole remains.

**Despite the recent developments, uncertainty on policy risks remain for the sector**

### Licensing hurdles

Indonesian property developers face regulatory hurdles when it comes to obtaining development licenses, which could be arduous and extremely time consuming. Furthermore, the current Jakarta's governor, Ahok, has been known to be less-than-generous in handing KLB coefficients. Although PPRO has managed to secure higher-than-average KLBs across its projects, it may face insufficient KLBs as it expands inwards into Jakarta's metropolitan area going forward. Despite its status as an SOE, PPRO's management stated that they do not expect this to provide the company an edge over other industry players in terms of securing the necessary licenses for its development requirements.

**Obtaining development licenses is a well-known issue for developers**

### Competition from other developers

Branding has been known to be crucial in the property sector as it determines developers' integrity, building quality, regular maintenance of facilities, ease of obtaining mortgage loans as well as potential secondary market competition from developers' new launches. Being a relatively new full-fledged developer, PPRO faces risk of buyers preferring property offerings from other more popular and well-established developers.

**Other more well-known developers could prevent PPRO from gaining market share**

### Slower demand from higher interest rates

Being an interest-rate sensitive sector, property developers face risk of demand slowing amid a high interest-rate operating environment. The US Federal Reserve has plans to raise its benchmark interest rate sometime this year, and it is possible that Bank Indonesia (BI) would also react by raising its benchmark BI rate in order to counteract likely fund outflows from local markets.

**Higher interest rates would normally erode demand for real estate**

### Executions risks

While its forward development concepts are innovative, PPRO lacks the track record to prove its ability to deliver such concepts, as to-date none of its futuristic developments has been completed. In addition, many of its ambitious projects would be the first of its kinds in Indonesia, creating uncertainties not only for buyers but will also the ability of the company to complete these unprecedented projects. In this regard, PPRO faces risks that its projects may not meet customers' standards, causing disappointments among customers, which could in turn pose additional challenges in selling company's future portfolio launches.

**PPRO's ambitious projects could pose risks for its development in not meeting standards**



### **Margin erosion from fluctuations in prices of building materials**

With its project portfolio consisting mostly of high-rise buildings, with building materials accounting for a larger proportion of COGS (around 60%), PPRO runs risks of contracting margins with increases in prices of building materials. This is especially more prominent for PPRO as it is already earning a lower-than-industry average gross margins on the back of its low price strategy.

***Rising costs could pressurize earnings, particularly given a low pricing strategy***

### **Foreign exchange volatility**

Amid a volatile currency environment, PPRO faces foreign exchange risks as it does not earn USD-based revenues, while some 25% of its COGS are USD-linked. Nevertheless, such risks are mitigated by PPRO's contracts with its builders which stipulate fluctuations in building costs within 10% of initial agreed amount to be borne by the contractors. We note, however, that in the event that the IDR depreciates by more than 10%, we estimate that gross profit would be eroded by 7.2% and net profit by 10.1%, and for every additional 1% depreciation, PPRO's gross profit and net profit would dip by additional 0.66% and 0.93% respectively.

***Once the built-in protection threshold within the contracts are broken, every 1% IDR weakness against the USD could mean 0.93% erosion in bottom line***

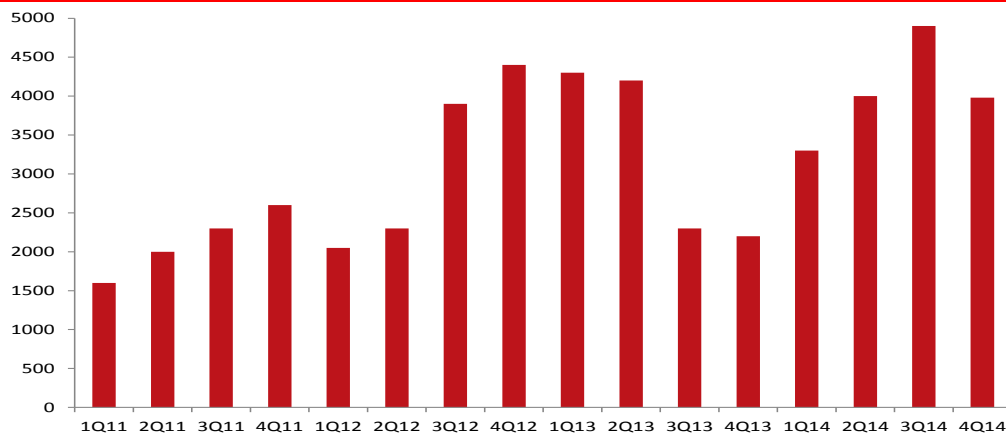
## INDUSTRY ANALYSIS

### Marketing sales rebound post elections

Post the presidential and legislative elections and political tension in 2014, recent trends have shown improving take-up rates across developers, evidenced by significant oversubscriptions at several launches. Apartment sales data compiled by Jones Lang Lasalle (JLL) supports this trend, indicating 3Q14 and 4Q14 apartment sales matching euphoric 2H12 and 1H13 levels. JLL also found that 2014 apartment take-up was at a record 16,961 units, significantly higher than the next highest period in 2013.

**Marketing sales recovering across sector post political tensions in 2014...**

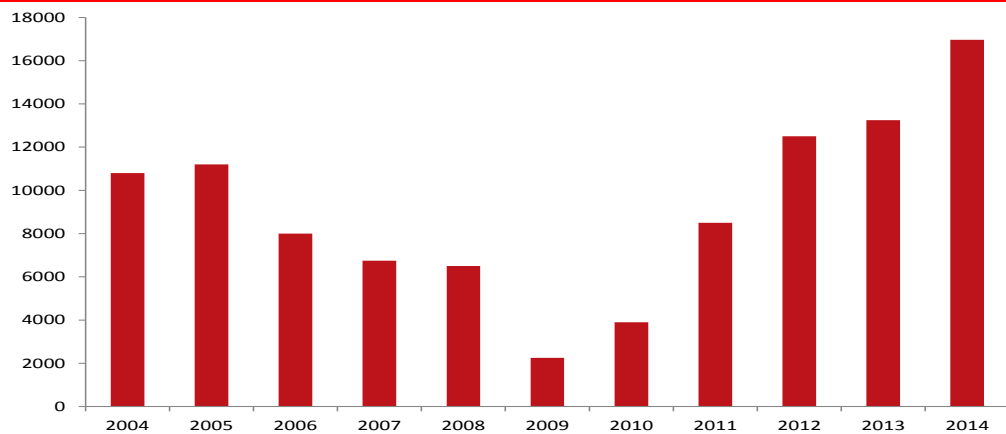
**Exhibit 41. Quarterly apartment sales, 1Q11-4Q14**



Source: Jones Lang Lasalle

**... with apartment sales in 2H14 having exceeded 2H12-1H13's highs, ...**

**Exhibit 42. Apartment take-up, 2004-14**



Source: Jones Lang Lasalle

**... translating into a record year for apartment sales in 2014**

### Housing deficit: Currently at 13.6mn homes

According to the World Bank, Indonesia currently faces an estimated housing backlog of 15mn homes, with the shortage increasing by 300-400k homes annually. This number is set to grow with Indonesia's rising middle class, increasing urbanization and strong GDP growth. In light of this, the government is planning to implement its "one million housing program" (program satu juta rumah) through which it aims to build a million houses over 2 years in order to bolster housing construction, in particular to help the low-income population. The program is expected to commence in April 2015. It would involve state-owned developer Perumnas, regional governments, the national government, BPJS as well as private sector developers.

**Large housing backlog presents upside for property developers ...**

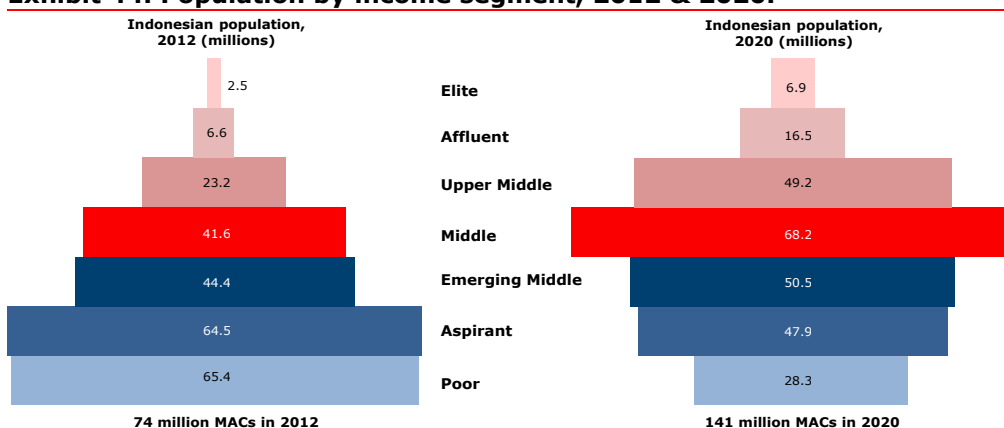
**Exhibit 43. Housing affordability**

(IDR)	Middle-low	Middle	Middle-up
Annual income/household	50,400,000	100,800,000	181,440,000
Monthly income/household	4,200,000	8,400,000	15,120,000
Housing price	210,000,000	550,000,000	1,250,000,000
Mortgage	147,000,000	385,000,000	875,000,000
Monthly installment	1,275,700	3,341,119	7,593,453
Debt-to-income ratio (%)	30%	40%	50%
Initial teaser rate pa (%)	8.50%	8.50%	8.50%
<b>Floating rate of 13.50%</b>			
Monthly installment	1,774,841	4,648,393	10,564,528
Debt-to-income ratio (%)	42%	55%	70%
Change in installment (%)	39%	39%	39%

Source: Bahana estimates

*... which is supported by a growing middle class ...*

**Exhibit 44. Population by income segment, 2012 & 2020F**



Source: Statistics Indonesia

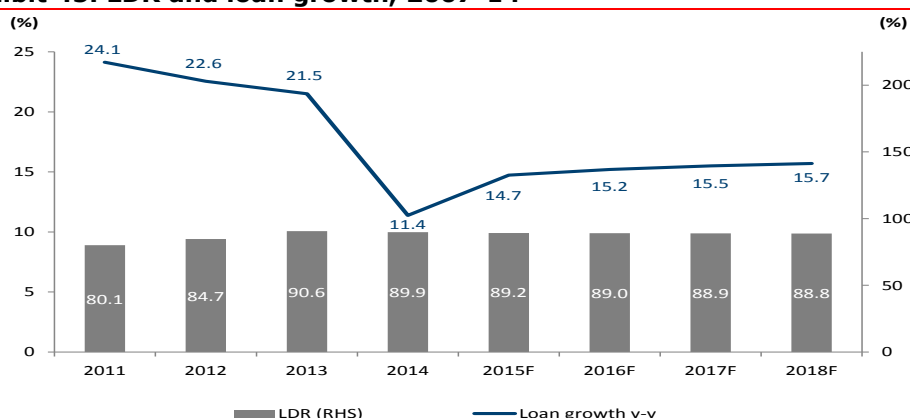
*... forecast to reach 68mn by 2020 from 42mn in 2012*

**Greater mortgage availability**

Due to major mortgage run-offs in 2014 (15% on average; highest being 25% at market leader Bank Central Asia (BBCA)), greater mortgage availability lies ahead as banks seek to replenish paid off mortgages. In February 2015, BBCA, the largest private sector mortgage lender with 15% share, cut its mortgage rate to 8.8% for the first 3 years, before rising to 9.9% for years 4 and 5 (average annual: 9.24%), from previously 9.75% flat rate. Following BBCA's cut, other banks are likely to follow to remain competitive. Furthermore, sector-wide loan-to-deposit ratio (LDR) stood at 89.9%, lower than the 92% cap by OJK, allowing banks room to maneuver loan disbursements. Lastly, despite higher mortgages, Indonesia's low 2014 mortgage-to-GDP ratio of 3.2% shows potential for robust mortgage growth ahead.

*Major mortgage run-offs in 2014 have caused aggressive mortgage seeking among banks ...*

**Exhibit 45. LDR and loan growth, 2007-14**

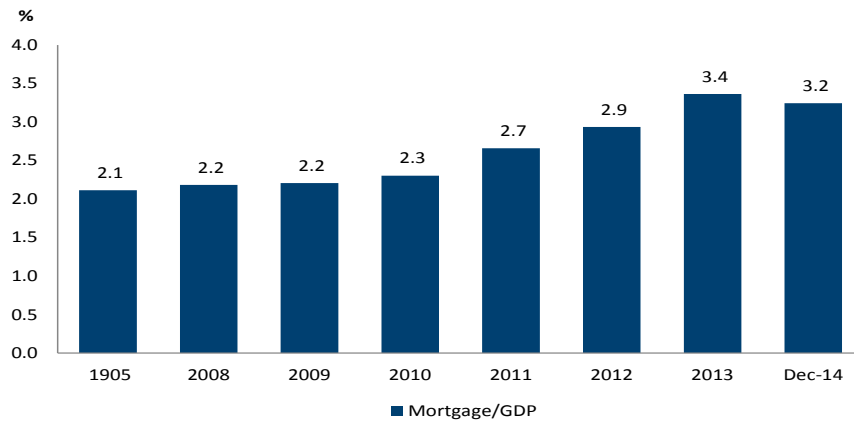


Source: Bank Indonesia, Bahana estimates

*... facilitated by LDR levels which are below the 92% cap level ...*



**Exhibit 46. Mortgage to GDP, 2007-14**



Source: Bahana, IMF

... as well as low mortgage penetration of 3.2% to GDP in 2014

**Revisions to Property tax regulations**

As mentioned above, while the impact of the Finance Minister's decision to lower thresholds for property under PPh22 should, in our view, be minimal, this means that the thresholds under the upcoming PPNBM revision would be under the aforementioned IDR5bn in price as well as 400sqm for houses and 150sqm for apartments, as PPh22 is for "super luxury goods" while PPNBM taxes "luxury goods". Our channel checks suggest that the Minister is considering IDR3-4bn for PPNBM threshold, and they are also considering implementing a progressive rates system rather than charging a 20% flat rate on all properties exceeding the thresholds. While these measures would not impact the property sector as severely as the proposed thresholds we were told of previously (IDR1.2bn for houses and IDR1.5bn for apartments), the thresholds are still uncertain and the overhang remains on the property sector.

On 30 April 2015, the Finance Minister issued Minister of Finance Regulation No. 90/PMK.03/2015, ...

**Exhibit 47. Current tax threshold – Income Tax Law Article 22 (PPh22)**

Former	Current
Houses	Houses
-IDR10bn and 500sqm in building area	-IDR5bn or 400sqm in building area
Apartments, shophouses	Apartments, shophouses
-IDR10bn and/or 400sqm in building area	-IDR5bn or 150sqm in building area

Source: Ministry of Finance

... lowering property thresholds under PPh22

**Exhibit 48. Proposed tax threshold – Luxury Goods Tax (PPNBM)**

Current	Proposed
Houses	Houses
-350sqm in building area	-TBA; but under IDR5bn or 400sqm in building area
Apartments, shophouses	Apartments, shophouses
-150sqm in space	-TBA; but IDR5bn or 150sqm in building area

Source: Ministry of Finance

Property thresholds under PPNBM should not exceed those under PPh22

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