

PP PROPERTI | BUY

 9 June 2016
 Company Initiation

Sizable Developments

- **High operating efficiency with 3-5% of opex/revenue**
- **Recurring revenue to grow at 35% CAGR in 2016-2019E**
- **Continuing focus in Java area**

Limited land bank; change in business focus – As a young property developer, the company has a very limited land bank of 50.6 ha for current non-joint venture project developments. Hence, the company has changed its business focus to mixed use/CBD area developments and high-rise residential (medium to low price range) from landed residential developments. As of 1Q16, estimated nett saleable area from the company's high rise residential projects until 2036 is around 1.8 m sqm in the Java area. In 2016E, we estimate that the company will acquire more land bank in the Java area with a total value of IDR 600 b.

Marketing sales continue to grow rapidly – As a medium sized developer, the company has survived the tough property market climate, as seen by its +56% marketing sales in 2015 versus tepid growth experienced by most of its peers. In 2016/17E, we continue to expect marketing sales to see double digit growth of 35%/42% to IDR 2.5 t/IDR 3.6 t. We estimate ASP of all projects to grow by 10%.

New launches to take place in 2H16- In 4M16, property development marketing sales reached IDR 483.1 b. This was supported only by grand launches continuing from its December 2015 soft launches, as the company has no new launches YTD. We are confident that our target marketing sales estimate is achievable as the company plans to have three new project launches in 2H16 with total expected marketing sales of IDR 4.0 t.

Joining hands for rapid business expansion – Business growth is expected to be boosted by several joint ventures (JV). We expect the company's net profit from joint operations to reach IDR118 b by 2019E, or increase by more than five fold from the 2017E target of IDR22 b. The company currently has two on-going JVs with Sentul City and Kawasan Industri Jababeka, while it is also looking at more JVs with an Australian based property developer (Crown Holding International Group). Additionally, the company has signed two JV memorandum of understandings for two projects in Bandung, West Java (~20 ha) and Depok area, West Java.

Healthy financials – We expect PP Properti to continue to deliver strong net profit/EBIT growth of 27%/38%. We expect the company's net gearing to reach the highest level in the past three years at 0.2x in 2016E, as the company plans to issue IDR1.2 t debt this year. As a result, interest coverage ratio is also expected to drop to 6.0x in 2016E from 11.4x in 2015. We deem this as still healthy compared to other Indo property developers that have a range of 2-13x.

Valuation– We value PP Properti based on the SOTP method with a combination of Discount to RNAV for projects that are not expected to start until 2019E and the DCF method for ongoing property project developments and recurring businesses. We initiate PPRO with a **BUY** recommendation and fair value estimate of IDR 500/share.

BUY

| | |
|---------------------|---------|
| Current price | IDR 380 |
| Fair value estimate | IDR 500 |

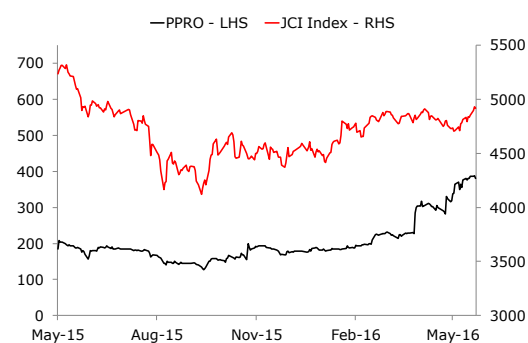
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Key information

| | |
|-------------------------|------------------------------|
| Market Cap. (IDR bn) | 5,337 |
| Daily Turnover (IDR bn) | 25.64 |
| Free Float (%) | 34.98 |
| Shares Outstanding (mn) | 14,044.4 |
| Ticker | PPRO IJ |
| Top shareholder | Pembangunan Perumahan-64.96% |

Price Performance Chart



Source: Company, PTOS

Financial Summary

| IDR bn | 2015 | 2016E | 2017E |
|-------------------|-------|-------|-------|
| Revenue (bn) | 1,505 | 2,017 | 2,831 |
| Gross Profit (bn) | 448 | 610 | 802 |
| Op. Profit (bn) | 385 | 534 | 702 |
| Net Profit (bn) | 300 | 383 | 498 |
| Diluted EPS | 28 | 36 | 46 |
| Div/Share | - | 4 | 5 |

Financial Ratios

| | 2015 | 2016E | 2017E |
|-------------------|------|-------|-------|
| Revenue Growth | 171% | 34% | 40% |
| Net Profit Growth | 183% | 27% | 30% |
| Gross Margin | 30% | 30% | 28% |
| Operating Margin | 26% | 26% | 25% |
| Net Margin | 20% | 19% | 18% |
| Net Gearing | 0% | 23% | 23% |

Source: Company, PTOS

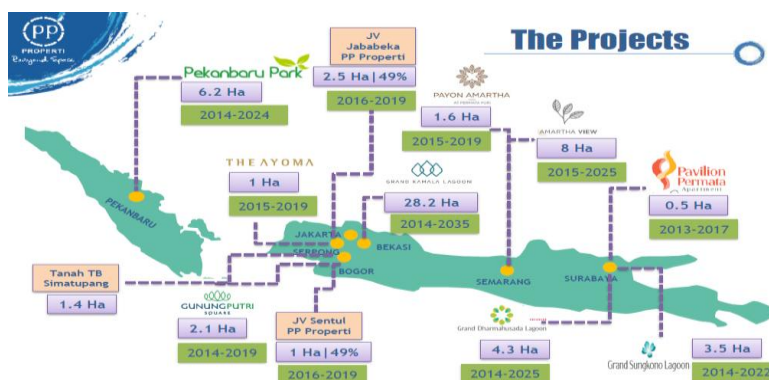


Limited Land Bank; Change in Business Focus

The company has been in the property business since 1991. However during that period, it was only functioning as a business division to one of the largest state owned contractors in Indonesia – PT Pembangunan Perumahan, Tbk (PTPP IJ). Hence, the company’s business was limited to developing idle land bank owned by its holding company. In October 2013, the company was restructured and launched its IPO in 2015.

As a young property developer, PP Properti has a very limited land bank amounting of 50.6 ha for its current non-joint venture project developments. As such, the company has changed its business focus to mixed use/CBD area developments and high-rise residential (medium to low price range) from landed residential developments. Currently, the company is undertaking multiple high-rise residential projects in the Java area, including Surabaya, Semarang, Jakarta, Bogor, and Tangerang. As of 1Q16, estimated nett saleable area from the company’s high rise residential projects until 2036 is around 1.8 m sqm (see Figure 3).

Figure 1. PPRO Projects Mainly Focusing In Java Areas

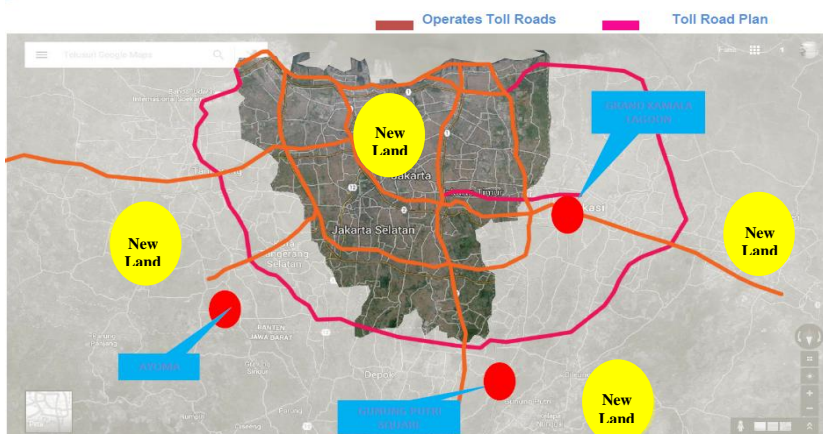


Source: Company

Continue to focus on areas in Java

Going forward, PP Properti will continue to focus on high-rise developments in the Java area. In 2016E, the company is earmarking IDR 800-1,000 b to acquire more land bank in several locations in Java. We included a IDR 600 b land acquisition in our forecast in 2016E. One of the landbank acquisitions is located in the TB Simatupang area, South Jakarta, with total area of 3.5 ha with total expected acquisition price of IDR 85 b. Acquisition has been going on since 2015, with 1 ha area left to be acquired in 2016E. Other land acquisitions are expected to be in the Jabodetabek (Jakarta, Bogor, Depok, Bekasi) area.

Figure 2. PPRO Land Bank Acquisitions Map



Source: Company, PTOS

Figure 3. PPRO High Rise Residential Projects

| | Construction | | Land Area (SQM) | Nett Saleable Area (SQM) | Number of Units | Marketing Sales Status |
|-------------------------------------|--------------|-------------|-----------------|--------------------------|-----------------|---|
| | Start | Finish | | | | |
| Grand Sungkono Lagoon | 2014 | 2023 | 26,593 | 209,034 | 2,369 | |
| Apartment Tower 1 (Venetian) | 2014 | 2016 | 5,700 | 31,455 | 516 | SOLD OUT |
| Apartment Tower 2 (Caspian) | 2015 | 2018 | 3,619 | 40,820 | 527 | 56% SOLD in 1Q16, launching in Dec 2015 |
| Apartment Tower 3 | 2017 | 2020 | 7,312 | 64,866 | 846 | Exp. to be launched in 3Q16 |
| Apartment Tower 4 | 2019 | 2022 | 9,962 | 40,645 | 480 | Exp. to be launched in 2018 |
| Office dan Hotel Tower 5 | 2020 | 2023 | | 31,248 | | Not included in PTOS forecasts yet |
| Grand Kamala Lagoon | 2014 | 2036 | 265,867 | 1,326,068 | 33,758 | |
| Phase 1-Apartment Tower 1 (Emerald) | 2014 | 2016 | 8,274 | 71,589 | 1,530 | SOLD OUT |
| Phase 1-Apartment Tower 2 (Barclay) | 2015 | 2017 | 1,283 | 63,687 | 2,028 | 57% SOLD in 1Q16, launching in Dec 2015 |
| Phase 2-Apartment Tower 1 | 2017 | 2018 | 16,272 | 75,600 | 1,800 | Exp. to be launched in 3Q16 |
| Phase 2-Apartment Tower 2 | 2018 | 2019 | 14,471 | 67,230 | 1,800 | Exp. to be launched in 2017 |
| Phase 2-Apartment Tower 3 | 2019 | 2020 | 12,824 | 59,580 | 1,800 | Exp. to be launched in 2018 |
| Phase 2-Apartment Tower 4 | 2020 | 2021 | 12,611 | 58,590 | 1,800 | Exp. to be launched in 2019 |
| Phase 5-Apartment Tower 1 | 2021 | 2022 | 15,354 | 71,334 | 1,800 | Not included in PTOS forecasts yet |
| Phase 5-Apartment Tower 2 | 2022 | 2023 | 15,354 | 71,334 | 1,800 | Not included in PTOS forecasts yet |
| Phase 5-Apartment Tower 3 | 2023 | 2024 | 15,354 | 71,334 | 1,800 | Not included in PTOS forecasts yet |
| Phase 5-Apartment Tower 4 | 2024 | 2025 | 17,498 | 81,294 | 1,800 | Not included in PTOS forecasts yet |
| Phase 6-Apartment Tower 1 | 2025 | 2026 | 11,752 | 54,600 | 1,300 | Not included in PTOS forecasts yet |
| Phase 6-Apartment Tower 2 | 2026 | 2027 | 11,874 | 55,164 | 1,300 | Not included in PTOS forecasts yet |
| Phase 6-Apartment Tower 3 | 2027 | 2028 | 12,831 | 59,612 | 1,400 | Not included in PTOS forecasts yet |
| Phase 6-Apartment Tower 4 | 2028 | 2029 | 12,831 | 59,612 | 1,400 | Not included in PTOS forecasts yet |
| Phase 7-Apartment Tower 1 | 2029 | 2030 | 14,814 | 68,825 | 1,700 | Not included in PTOS forecasts yet |
| Phase 7-Apartment Tower 2 | 2030 | 2031 | 14,112 | 65,561 | 1,700 | Not included in PTOS forecasts yet |
| Phase 7-Apartment Tower 3 | 2031 | 2032 | 14,112 | 65,561 | 1,700 | Not included in PTOS forecasts yet |
| Phase 7-Apartment Tower 4 | 2032 | 2033 | 14,112 | 65,561 | 1,700 | Not included in PTOS forecasts yet |
| Phase 1-Apartment Tower 3 | 2034 | 2035 | 15,067 | 70,000 | 1,800 | Not included in PTOS forecasts yet |
| Phase 1-Apartment Tower 4 | 2035 | 2036 | 15,067 | 70,000 | 1,800 | Not included in PTOS forecasts yet |
| Grand Dharmahusada Lagoon | 2015 | 2024 | 32,964 | 243,648 | 5,478 | |
| Apartment Tower 1 | 2015 | 2018 | 4,572 | 32,967 | 942 | 38% SOLD in 1Q16, launching in Dec 2015 |
| Apartment Tower 2 | 2016 | 2019 | 4,832 | 31,650 | 942 | Exp. to be launched in 2017 |
| Apartment Tower 3 | 2017 | 2020 | 4,752 | 34,890 | 942 | Exp. to be launched in 2018 |
| Apartment Tower 4 | 2018 | 2021 | 4,832 | 33,093 | 942 | Exp. to be launched in 2019 |
| Apartment Tower 5 | 2019 | 2022 | 4,572 | 33,122 | 942 | Not included in PTOS forecasts yet |
| Apartment Tower 6 | 2020 | 2023 | 4,832 | 38,805 | 384 | Not included in PTOS forecasts yet |
| Apartment Tower 7 | 2021 | 2024 | 4,572 | 39,121 | 384 | Not included in PTOS forecasts yet |
| Gunung Putri Square | 2015 | 2019 | 3,022 | 36,686 | 1,792 | |
| Tower Pinus | 2015 | 2017 | 1,208 | 18,135 | 927 | SOLD OUT |
| Tower Palembang | 2016 | 2018 | 1,814 | 18,551 | 865 | 32.8% SOLD in 1Q16, launching Dec 2015 |
| The Ayoma Apartment | | | 21,100 | 75,508 | 1,446 | |
| Apartment Tower 1 | 2015 | 2020 | 10,550 | 37,754 | 723 | 46% SOLD in 1Q16, launching in Dec 2015 |
| Apartment Tower 2 | | | 10,550 | 37,754 | 723 | Exp. to be launched in 2017 |
| Payon Amarta | 2015 | 2019 | 30,947 | 152,229 | 5,600 | |
| Amartha View 1 | 2016 | 2019 | 4,421 | 21,495 | 800 | 32.8% SOLD in 1Q16, launching Dec 2015 |
| Amartha View 2 | 2017 | 2020 | 4,421 | 21,789 | 800 | Exp. to be launched in 3Q16 |
| Amartha View 3 | | | 4,421 | 21,789 | 800 | Not included in PTOS forecasts yet |
| Amartha View 4 | | | 4,421 | 21,789 | 800 | Not included in PTOS forecasts yet |
| Amartha View 5 | | | 4,421 | 21,789 | 800 | Not included in PTOS forecasts yet |
| Amartha View 6 | | | 4,421 | 21,789 | 800 | Not included in PTOS forecasts yet |
| Amartha View 7 | | | 4,421 | 21,789 | 800 | Not included in PTOS forecasts yet |

Source: Company, PTOS

Marketing Sales Grow Rapidly

As the company focuses on the medium-low market segments, it has been done well despite a tough property market climate, as seen by its 56% property development marketing sales growth in 2015 versus other developers' decreasing or single digit marketing sales growth. In December 2015, the company had two project soft launches and sold 45% of the Barclay Apartments in Grand Kamala Lagoon (GKL) and 49% of the Caspian Apartments in Grand Sungkono Lagoon (GSL) within the same month. In 2016E/2017E, we continue to expect the company's marketing sales to grow by double digits – by 35%/42% to IDR 2.5 t/IDR 3.6 t. We estimated ASP of all projects to grow by 10%.

Figure 4. PPRO Marketing Sales Breakdown

| | 2013 | 2014 | 2015 | 2016F | 2017F |
|---|---------------|-----------------|-----------------|-----------------|-----------------|
| Marketing Sales by Product Types | | | | | |
| Apartments | 165.18 | 1,146.52 | 1,839.93 | 2,533.74 | 3,617.11 |
| Residential | 46.05 | 18.49 | 38.56 | 9.90 | - |
| Commercial Areas/Others | 32.70 | 44.04 | 3.00 | - | - |
| Total Marketing Sales | 243.93 | 1,209.05 | 1,881.49 | 2,543.64 | 3,617.11 |
| <i>growth, %</i> | | 396% | 56% | 35% | 42% |
| Marketing Sales by | | | | | |
| Grand Kamala Lagoon | 0% | 44% | 37% | 46% | 36% |
| Grand Sungkono Lagoon | 56% | 42% | 22% | 30% | 24% |
| Grand Dharmahusada Lagoon | 0% | 0% | 13% | 8% | 15% |
| The Ayoma Apartment | 0% | 0% | 7% | 6% | 18% |
| Amartha View | 0% | 0% | 6% | 7% | 5% |
| Gunung Putri Square | 0% | 6% | 10% | 3% | 2% |

Source: Company, PTOS

Figure 5. PPRO Focuses on Mid-Low Market Segments

| | ASP (IDR m/SQM) | Average Price per Unit (IDR b) |
|---------------------------|-----------------|--------------------------------|
| Grand Sungkono Lagoon | 27.4 | 2.3 |
| Grand Kamala Lagoon | 20.8 | 1.0 |
| Grand Dharmahusada Lagoon | 20.6 | 0.8 |
| Ayoma Serpong | 19.7 | 1.1 |
| Amartha View | 13.3 | 0.4 |
| Gunung Putri Square | 10.5 | 0.2 |

Source: Company, PTOS

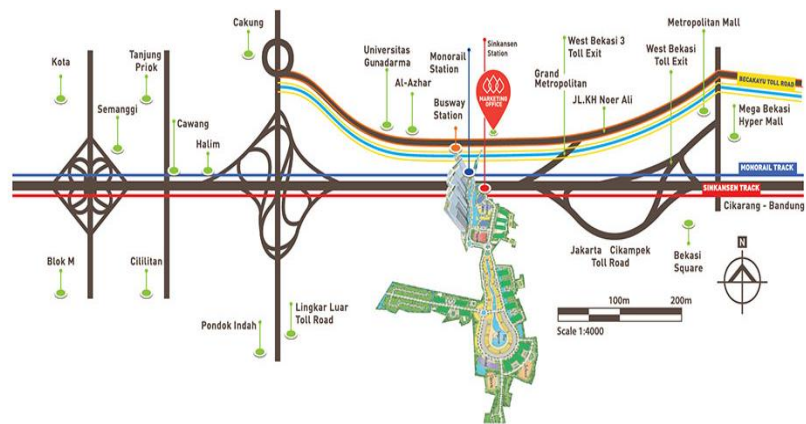
In 4M16, property development marketing sales reached IDR 483.1 b, or 19% of our 2016E marketing sales. In 4M16, the company did not have any new launches. It only had grand launches of the Caspian and Barclay apartment projects continuing from the soft launches in December 2015. New project launches without prior soft launches are expected to take place in 2H16 with total expected marketing sales of IDR 4.0 t, including tower 3 apartments in GKL, tower 3 apartments in GSL, and Amarthu View tower 2 apartments.

Going forward, marketing sales continue to be mainly attributed to its three major mixed use area projects in GKL, GSL, and Grand Dharmahusada Lagoon (GDL). Other high-rise residential projects to be marketed include Amarthu View Apartments, The Ayoma Apartments, and Gunung Putri Square.

Grand Kamala Lagoon

Grand Kamala Lagoon is located in Kalimalang, East Jakarta with total land area of 28.2 ha. The company plans to develop 40 towers divided in seven phases for this mixed use development. As of now, the company plans to develop 20 apartment towers, and the other 20 towers may be allocated for commercial developments for both recurring incomes and property sales. Currently, GKL has direct access with the West Bekasi toll exit. Easier access is expected in the future as the company is developing the Kamala bridge to give direct access to GKL from Kalimalang area. The company is also proposing to have an LRT station in GKL and currently discussing to have an exit to GKL area from Becakayu toll road (Bekasi-Cawang-Kampung Melayu). GKL is also close to the future Jakarta-Bandung High Speed Railway station in Halim (10 minutes drive). We believe multiple addition of infrastructure to GKL will bring faster ASP growth for the project in the future.

Figure 5. GKL Location & Infrastructure Map



Source: Company

Apartment Tower 1-Emerald

This project is located in the phase 1 area. It has fully sold out within a year from its launch. ASP is at IDR 18.8 m/sqm. Total nett saleable area is 71,589 sqm with 1,530 units. The project is expected to be delivered in 2016.

Apartment Tower 2-Barclay

This project is located in the phase 1 area. ASP is expected at IDR 20.8 m/sqm. The average unit size for this project is expected at 31 sqm. Total nett saleable area is 63,687 sqm with 2,028 units. Total marketing sales for this project is expected to reach IDR 1.2b and contribute to 2015-2017E marketing sales. The project is expected to be delivered in 2017.

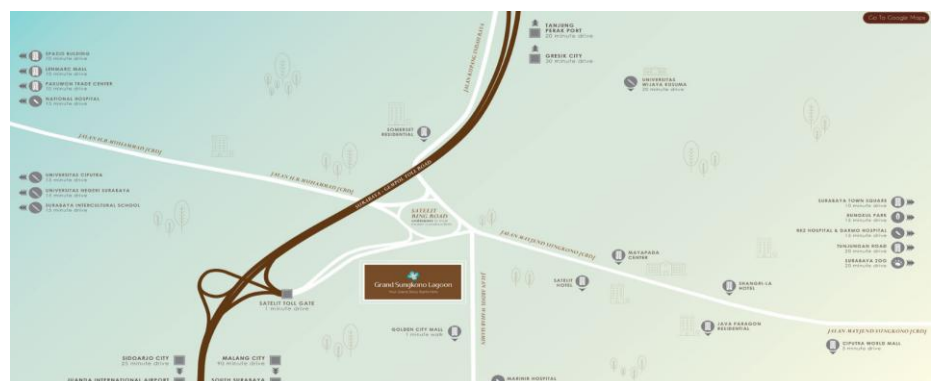
Apartment Tower 3-New Launching in 2016E

This project is expected to be located in the phase 2 area. The project launch is expected to take place in 3Q16. We expect the ASP will be at IDR 22.9 m/sqm (assuming 10% growth from Barclay Tower ASP). Total nett saleable area is 75,600 sqm with 1,800 units. Total marketing sales is expected to reach IDR 1.7 t and to contribute to 2016-2018E marketing sales.

Grand Sungkono Lagoon

Grand Sungkono Lagoon is located in Surabaya with a total land area of 3.5 ha. The company plans to develop five apartment towers and one mall in the area. GSL is located in a strategic location, with easy access to satellite toll gate (1 minute drive), and close to two shopping malls, Juanda International Airport (20 minutes drive), Tanjung Perak Port (20 minutes drive), and easy access to nearby cities (Malang~90 minutes drive and Sidoarjo~25 minutes drive).

Figure 6. Grand Sungkono Lagoon Location Map



Source: Company

Apartment Tower 1-Venetian

This project was fully sold out within a year from its launch. ASP for this project is at IDR 24.6 m/sqm. Average size per unit was at 61 sqm. Total nett saleable area was 31,455 sqm with 516 units. The project is expected to be delivered in 2016.

Apartment Tower 2-Caspian

ASP for this project is expected at IDR 27.4 m/ sqm. Average unit size for this project is expected at 77 sqm. Total nett saleable area is 51,455 SQM with 527 units. Total marketing sales for this project is expected to reach IDR 968 b and to contribute to 2015-2017E marketing sales. The project is expected to be delivered in 2018.

Apartment Tower 3

Project launch is expected to take place in 3Q16. We expect the ASP will be at IDR 30.2 m/ sqm (assuming 10% growth from Caspian Tower ASP). Total nett saleable area is 64,866 sqm with 846 units. Total marketing sales is expected to reach IDR 1.9 t and to contribute to 2016-2018E marketing sales.

Grand Dharmahusada Lagoon

Grand Dharmahusada Lagoon is located in West Surabaya (total land area 4.3 ha). The company plans to develop seven apartment towers and one mall for this project. GDL is located close to four universities in the West Surabaya area, and 15 minutes away from Surabaya center.

Apartment Tower 1

ASP for this project is expected at IDR 20.6 m/ sqm. Average unit size for this project is expected at 35 sqm. Total nett saleable area was 32,967 sqm with 942 units. Total marketing sales for this project is expected to reach IDR 710 b and to contribute to 2015-2017E marketing sales. The project is expected to be delivered in 2018.

Amartha View Apartments

The Amartha View project is located in the same area as the company's previous landed residential project, Payon Amartha, in Ngaliyan, Semarang. Total land area for this project is 8 ha. The company plans to develop up to seven apartment towers in its masterplan.

Apartment Tower 1

The project was launched in 2015, and the company has sold 38% as of 2015. ASP is estimated at IDR 13.3 m/sqm. Average size per unit is 27 sqm. Total nett saleable area is 21,495 sqm with 800 units. We expect total marketing sales to reach IDR 280.1 b, and to contribute to 2015-2017E marketing sales.

The Ayoma Apartment

The Ayoma Apartment is located in Serpong, Tangerang with total land area of one ha. The company plans to develop two apartment towers for this project.

Apartment Tower 1

First apartment tower was launched in 2015, and the company has sold 38% units as of 2015. In 1Q16, accumulated units sold was at 49%. We expect total marketing sales to reach IDR 586.5 b, and to contribute to 2015-2017E marketing sales.

Gunung Putri Square

Gunung Putri Square is located in Bogor, West Java. This project consists of two towers of high rise residential apartments.

Tower 1

First tower is allocated as subsidized flats, and already sold out. The project was first launched in 2014. Estimated ASP is IDR 7.3 m/ sqm.

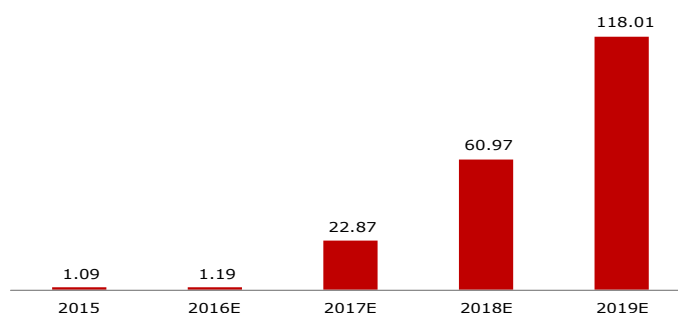
Tower 2

Tower 2 was launched in 2015, and currently remains on sale. Take up rate in 2015 was at 23%. Units in the first three floors are priced as subsidized flats, and the rest of the units in this tower is priced as non-subsidized flats. We expect higher ASP of IDR 10.5 m/sqm for this project. Tower 2 sales is expected to contribute IDR 77.6b/71.8 b to 2016E/2017E marketing sales.

Joining Hands for Rapid Business Expansions

To boost business growth, the company is expanding its property development business through several joint ventures (JV). In 2016-2019E we expect the company's net profit from joint operations will grow by 362% CAGR. Our forecast only includes on-going JV projects from JV Sentul-PPRO and JV Jababeka-PPRO.

Figure 7. PPRO JO Incomes to Grow by 362% CAGR 2016-19E



Source: Company, PTOS

On-going Joint Ventures

JV Sentul-PPRO

PPRO owns a 49% stake in this joint venture, and the remaining 51% is owned by Sentul City (BKSL IJ). This JV will develop two apartment projects located in the Sentul area.

- **Verdura Apartments**

The project is located in high-rise developments area in Sentul City. The projects will have three towers with 479 units in each of Tower A and Tower B and 470 units in Tower C. We expect ASP to be in the range of IDR 16.0-18.7 m/sqm. The project is expected to be launched by end of June 2016. Total marketing sales from this project is expected to reach IDR 920.3 b and will contribute to marketing sales in 2016-2019.

- **Verdena Apartments**

The project is located in Sentul Nirwana. Total development area is expected to reach 7 ha. This project is expected to have two towers with 500 units in total. The project is targeted at the middle segment market and to be launched in 2H16. The company has not disclosed any data on project pricings, but the company expects the ASP will be lower compared to Verdura. Hence, we expect ASP for this project to be IDR 12-13 m/sqm. Total marketing sales from this project is expected to reach IDR 464.5 b, and will contribute to marketing sales in 2016-2018.

JV Sentul-Jababeka

PPRO owns a 49% stake in this joint venture, and the remaining 51% is owned by Jababeka (KIJA IJ). This JV will develop four flats and one commercial area under the brand of Riverview in Jababeka Industrial Estates, Cikarang, West Java.

• **Riverview Residence Phase 1**

This project was launched in December 2015, and has fully sold out. Selling price per unit started from IDR 194 m. This project is considered as subsidized flats.

• **Riverview Residence Phase 2**

This project was launched in February 2016. Selling price per unit started from IDR 200 m. This project is considered as subsidized flats.

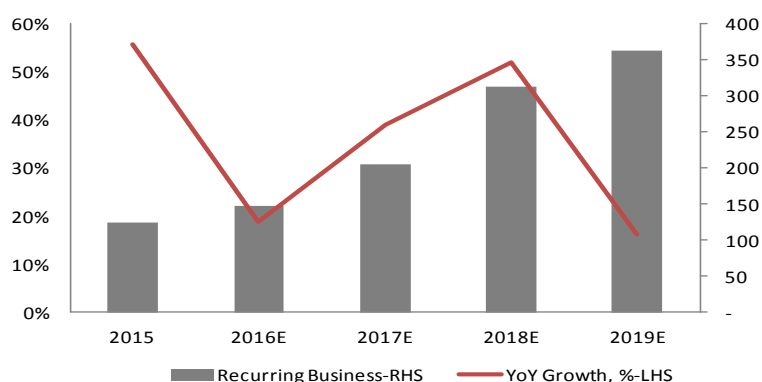
Future Joint Ventures

- The company is in negotiation with an Australian property developer, Crown Holding International Group, to develop a phase in its Grand Kamala Lagoon (GKL) mixed use area. This project aims for high-end market segmentation.
- The company has signed an MoU to develop a joint venture mixed use area project in Bandung, West Java with total land area of 20 ha. (PPRO ownership: 51%)
- The company has signed an MoU with a land owner in the Depok area, and to form a JV together.

Recurring Income to Gradually Grow

The company aims to keep increasing its recurring business contribution to its total revenue to 15% in 2019E. In our forecast, we expect recurring revenue to contribute 8.4% to the company's total revenue in 2019E. Our forecast is lower compared to the company's target as we have not included Park Lombok Hotel and new office tower in our forecasts as the projects still lack certainty. Based on our current forecast, we expect recurring revenue to grow by 35% CAGR in 2016-2019E.

Figure 8. Recurring Revenue to Grow by 32% in 2016-2019E



Source: Company, PTOS

In 2016E, we expect recurring business to contribute 7.3% to the company's total revenue, with value of IDR 148.0 b (+19% YoY). Recurring revenue growth in 2016E is purely expected to come from higher ASP. In 2017E, additional contribution of recurring revenue will take place with the operations of Grand Sungkono Lagoon Mall and Grand Kamala Lagoon Mall. The company is also in the process of renovating its Balcony Mall, and expecting new rental rates (increases of 10% for speciality stores and 4x times for anchor tenants) and higher occupancy rates in 2017E. In 2018E, additional recurring revenue will be contributed from the operation of Grand Dharmahusada Lagoon Mall.

Figure 9. Additional Contributors to PPRO Recurring Business

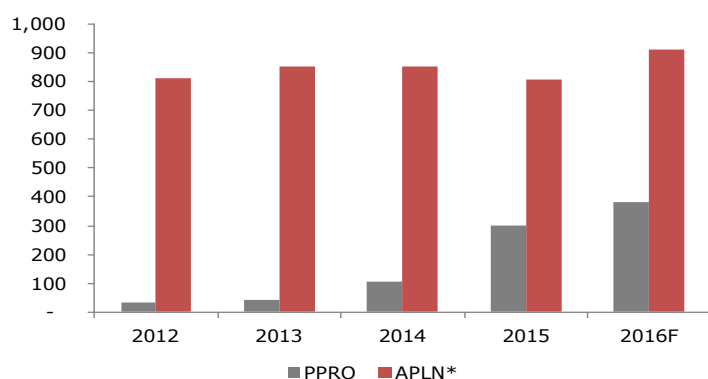
| | Nett Leaseable in SQM | Exp. Occupancy Rate, % | Status | Anchor Tenants |
|---------------------------|-----------------------|------------------------|------------------------------------|---|
| New Malls | | | | |
| Grand Sungkono Lagoon | 20,000 | 80% | Operating in 2017 | Kidzania, CGV Blitz, HERO, and Fun World |
| Grand Kamala Lagoon | 12,000 | 80% | Operating in 2017 | CGV Blitz and HERO |
| Grand Dharmahusada Lagoon | 11,700 | 80% | Operating in 2018 | Not available yet |
| Mall Renovation | | | | |
| Balcony Mall | 29,001 | 80% | Operating after renovation in 2017 | Changing Cahaya Dept. Store into Matahari Dept. Store |

Source: Company, PTOS

The Newbie with Rapid Earnings Growth

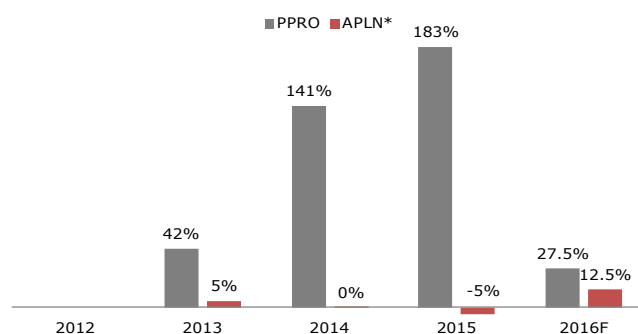
Compared to its head-to-head competitor, Agung Podomoro Land (APLN IJ), the company has been offering more “appealing growth”. In 2015, the company’s net profit grew by 183% amidst the tough property business climate, while APLN’s net profit decreased by 5%. In 2016E, we expect the company to offer a stronger net profit/EBIT growth of 27%/38%, versus APLN’s net profit/EBIT growth of 12.5%/16.9% by Bloomberg consensus.

Figure 10. PPRO & APLN Net Profit 2012-2016E



*Bloomberg consensus
Source: Company, PTOS, Bloomberg

Figure 11. PPRO Offers Higher NP Growth Vs. APLN

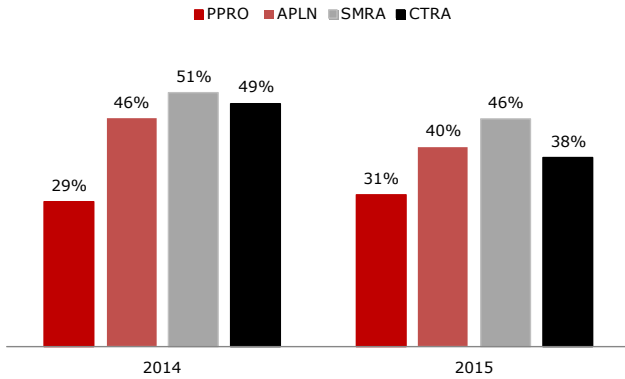


*Bloomberg consensus
Source: Company, PTOS

Lower GPM, But Lower Other Operating Expenses

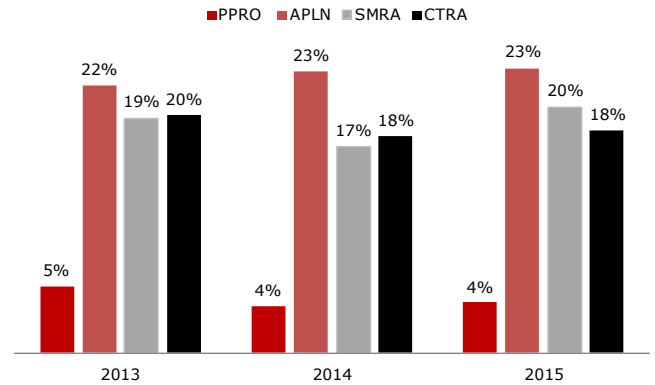
As the company focuses on the medium-low market segments, its high rise residential projects' gross margin of about 30% is lower compared to other developers' gross margin of about 40-50%. However, the company has been successfully maintaining much lower operational expenses in proportion to its total revenue at a range of 3-5% compared to other developers' range of 15-25%. Hence, the company expects to continue to report 18-22% NPM in 2016-2019E, or higher compared to its competitor, APLN, that has a higher GPM.

Figure 12. Indo Developers High-Rise Residential GPM



Source: Company, PTOS

Figure 13. Indo Developers Opex/Revenue Ratio

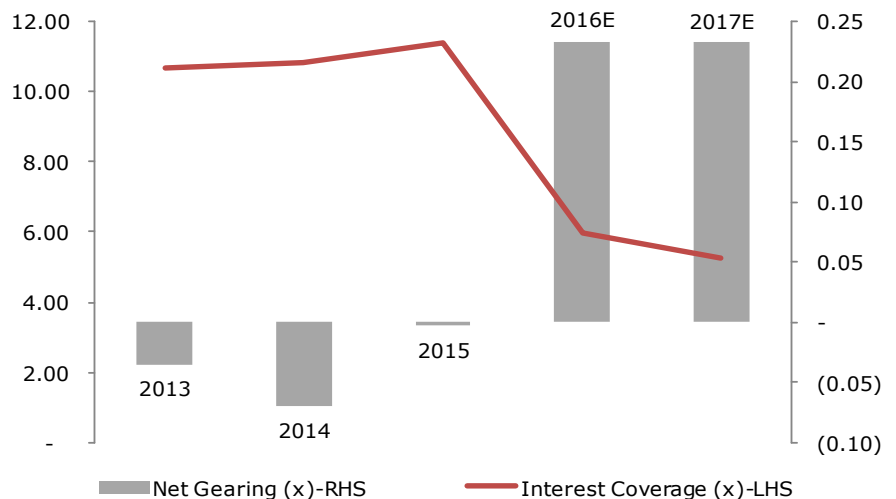


Source: Company, PTOS

Taking On More Leverage for Business Expansion

In 2016E, the company plans to increase its debt to a total value of IDR 1.2 t. Additional loans in 2016E are expected to be allocated for business expansions including land acquisitions, working capital, and loan repayment. Up to May 2016, the company has issued IDR 500 b of MTN. By the end of June, the company is expected to add IDR 600 b bonds to its debt. Last debt addition in 2016E is expected to take place in 3Q16/4Q16. With these debt additions, we expect the company's net gearing to stand at 0.2x, or highest in the past three years; but this remains healthy for the company. Interest coverage ratio is expected to decrease to 6.0x in 2016E from 11.4x in 2015, but this remains moderate compared to the range of Indo property developers' interest coverage ratio range of 2-13x EBIT.

Figure 14. Gear Up for Business Expansions



Source: Company, PTOS

Valuation

We value Pembangunan Perumahan Properti (PPRO IJ) based on the SOTP method with a combination of Discount to RNAV for projects that are not expected to start until 2019E and the DCF method for ongoing property project developments and recurring businesses. As the company has a very limited land bank with plans for high-rise developments, we calculate our assets based valuation at market value based on the expected nett saleable areas with nett ASP based on current project ASP. We input land bank with no certain development plans at their book value. We also assign a 50% discount to our total assets base. We think this is fair as we input a moderate discount on its huge high-rise property developments plan and the nett ASPs are also already at a discount because we only use current ASP as our base in determining nett ASP/sqm. We initiate PPRO with a **BUY** recommendation and fair value estimate of IDR 500/share with a 32% potential upside.

Figure 15. PPRO Valuation Table

| PROJECT NAME | Land Bank in SQM | Total Nett Saleable Area (SQM) | Utilization, % | Nett ASP/SQM (IDR) | Appraised Value (IDR b) |
|---|------------------|--------------------------------|----------------|--------------------|-------------------------|
| Assets Based (for projects that are not launched until 2019) | | | | | |
| at Market Value | | | | | |
| Grand Kamala Lagoon | 246,750 | 929,792 | | 4,643,542 | 4,317.53 |
| Grand Dharmahusada Lagoon | 26,875 | 111,048 | | 4,381,988 | 486.61 |
| Amartha View | 3,429 | 108,945 | | 3,109,847 | 338.80 |
| Total Market Value | | | | | 5,142.94 |
| at Book Value | | | | | |
| Anai Resort | | | | | 0.11 |
| TB Simatupang | 35,000 | | 60% | 2,884,615 | 60.58 |
| Total Book Value | | | | | 60.68 |
| Total Assets Based | | | | | 5,203.63 |
| Discount | | | | | 50% |
| Discounted Total Assets | | | | | 2,601.81 |
| -Debt at end of 2016 | | | | | (1,549.43) |
| +Cash at end of 2016 | | | | | 872.79 |
| RNAV | | | | | 1,925.17 |
| DCF Based | | | | | |
| Property Sales | | | | | |
| Apartments | | | | | 2,420.44 |
| Residentials | | | | | 2.73 |
| Joint operations project | | | | | 59.51 |
| Total Property Sales | | | | | 2,482.68 |
| Recurring Income | | | | | |
| Grand Sungkono Lagoon Mall | | | | | 381.92 |
| Grand Kamala Lagoon Mall | | | | | 244.25 |
| Dharmahusada Lagoon Mall | | | | | 266.30 |
| Balcony Mall-Balikpapan | | | | | 462.11 |
| Kaza City-Mall | | | | | 176.90 |
| Park Hotel-Jakarta | | | | | 150.26 |
| Park Hotel-Bandung | | | | | 131.22 |
| Balcony Swiss-Bel Hotel | | | | | 133.68 |
| Total | | | | | 1,946.64 |
| Total DCF | | | | | 4,429.32 |
| Total | | | | | 7,031.13 |
| Target Price/share in IDR | | | | | 500.00 |
| Number of shares | | | | | 14.044406 |
| Current share price in IDR | | | | | 380 |
| Potential upside % | | | | | 32% |

| | Rate, % | GKL | GDL | Amartha View |
|---------------------------------|---------|------------------|------------------|------------------|
| Average selling price (IDR/SQM) | | 21,875,000 | 20,642,857 | 14,650,000 |
| Development cost (IDR/SQM) | -70% | (15,312,500) | (14,450,000) | (10,255,000) |
| Opex (IDR/SQM) | -4% | (825,208) | (778,727) | (552,653) |
| Tax | -5% | (1,093,750) | (1,032,143) | (732,500) |
| Nett ASP/SQM (IDR) | | 4,643,542 | 4,381,988 | 3,109,847 |

Source: Company

Company financial highlights

Income statement

| <i>As at Dec 31 (IDR b)</i> | FY13 | FY14 | FY15 | FY16E | FY17E |
|-----------------------------|-------------|-------------|-------------|--------------|--------------|
| Net sales | 192 | 555 | 1,505 | 2,017 | 2,831 |
| Gross profit | 57 | 160 | 448 | 610 | 802 |
| Operating profit | 47 | 138 | 385 | 534 | 702 |
| Net interest | (4) | (9) | (9) | (61) | (99) |
| Income tax expense | (7) | (25) | (72) | (91) | (127) |
| Net profit | 44 | 106 | 300 | 383 | 498 |
| EBITDA | 48 | 145 | 406 | 572 | 742 |

Balance sheet

| <i>Year Ended Dec 31 (IDR b)</i> | FY13 | FY14 | FY15 | FY16E | FY17E |
|-------------------------------------|-------------|-------------|-------------|--------------|--------------|
| Cash balances | 32 | 229 | 357 | 873 | 461 |
| Other current assets | 1,088 | 1,966 | 2,829 | 3,166 | 4,096 |
| Total current assets | 1,121 | 2,195 | 3,187 | 4,039 | 4,557 |
| Property, plant, and equipment, net | 207 | 217 | 1,674 | 2,022 | 2,176 |
| Total assets | 1,437 | 2,731 | 5,319 | 6,808 | 7,079 |
| Total debt | 0 | 157 | 349 | 1,549 | 1,249 |
| Current liabilities excluding debt | 140 | 949 | 1,472 | 1,382 | 1,461 |
| Total liabilities | 512 | 1,699 | 2,801 | 3,912 | 3,690 |
| Total equity | 925 | 1,031 | 2,518 | 2,896 | 3,389 |

Cash Flow

| <i>Year Ended Dec 31 (IDR b)</i> | FY13 | FY14 | FY15 | FY16E | FY17E |
|----------------------------------|-------------|-------------|-------------|--------------|--------------|
| Operating profit | 47 | 138 | 385 | 534 | 702 |
| Depreciation & amortization | 1 | 7 | 21 | 38 | 40 |
| Working cap, taxes, and interest | (41) | (142) | (423) | (578) | (1,054) |
| Net cash from operations | 7 | 3 | (17) | (6) | (312) |
| Purchase of PP&E | (1) | (13) | - | (386) | (194) |
| Other investing flows | (92) | (101) | (435) | (289) | 400 |
| Investing cash flow | (93) | (114) | (435) | (675) | 206 |
| Financing cash flow | 118 | 307 | 580 | 1,196 | (305) |
| Net cash flow | 32 | 196 | 127 | 515 | (412) |
| Cash at beginning of year | 0 | 32 | 230 | 357 | 873 |
| Cash at end of year | 32 | 229 | 357 | 873 | 461 |

Key Ratios

| <i>Year Ended Dec 31 (IDR b)</i> | FY13 | FY14 | FY15 | FY16E | FY17E |
|----------------------------------|-------------|-------------|-------------|--------------|--------------|
| EBIT margin | 24% | 25% | 26% | 26% | 25% |
| Net profit margin | 23% | 19% | 20% | 19% | 18% |
| Diluted EPS growth | | | 140% | 27% | 30% |
| EV/EBITDA (x) | 19 | 7 | 6 | 11 | 8 |
| Dividend yield | 0% | 0% | 0% | 0% | 0% |
| Interest Coverage (x) | 10.7 | 10.9 | 11.4 | 6.0 | 5.3 |

Source: Company

SHAREHOLDING DECLARATION:

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