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Steady expansion in an environment of stalled industry growth

PPRO's profile

PT PP Properti Tbk. (PPRO), a firm engaged in property business development, is a subsidiary of PT PP (Persero) Tbk. (PTPP). Company strategy is to concentrate on a high-density concept, given its limited landbank, as demonstrated by a high contribution of condominiums sales: more than 90% of total revenues. PPRO also feeds off a recurring income stream from hotels and rental businesses, with contributions expected to surge, along with new hotels and malls in years ahead. The Company landbank is spread across Sumatra, Java and Kalimantan, with a major concentration in Java, as the highest-density island in the country. In order to secure its performance, PPRO's long-term projects include 'Grand Kamala Lagoon' and 'Grand Sungkono Lagoon'.

The latest company update

Spike in 1H18 marketing sales

PPRO succeeded in achieving marketing sales of Rp 2.5 trillion in 1H18, up by 66% YoY. The largest contributors were Surabaya-based Shamaya Apartment with 33.91% (Rp 846.1 billion), followed by Grand Dharmahusada Lagoon (GDL) at 24.22% (Rp 604.3 billion) and Grand Sungkono Lagoon (GSL) with 14.91% (Rp 372.0 billion) (also in Surabaya). The great marketing sales achievement of those East Java projects is also supported by a Company bulk sales strategy. Another major PPRO project, Grand Kamala Lagoon (GKL) in Bekasi, only recorded marketing sales of Rp 83.6 billion (contribution of 3.35%). PPRO did not book bulk sales on that project.

Its 1H18 sales achievement represented 65.7% of FY18 marketing sales target of Rp 3.8 trillion. We are confident that the company has a good possibility of achieving this target, supported by ongoing launches in 2H18 along with steady demand for PPRO products, for buyers targeting middle-class apartments.



BUY

TP: IDR 246

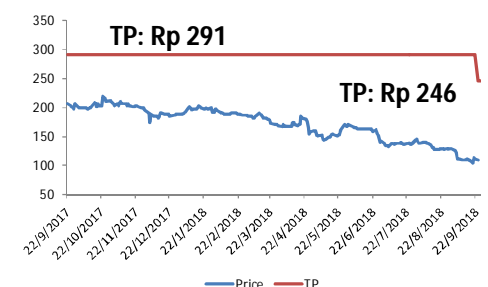
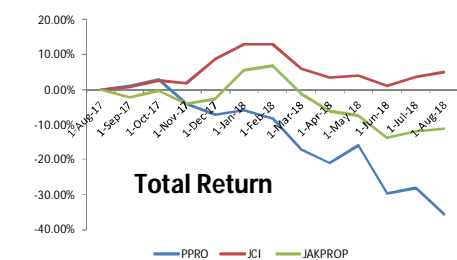
Volatility Risk : HIGH

Stock Data

Current Price	Rp 109
52wk Range	Rp 104-224
YTD % Change	-42.33%
Share Outstanding	61,675.7 Mn
Market Capitalization	Rp 6,806.3 bn
Floating Rate	35.04%
1 Year Total Return	-46.63%
Beta	1.16

Major Shareholders

PT PP (Persero) Tbk.	64.96%
Public	35.04%



Growth Potential

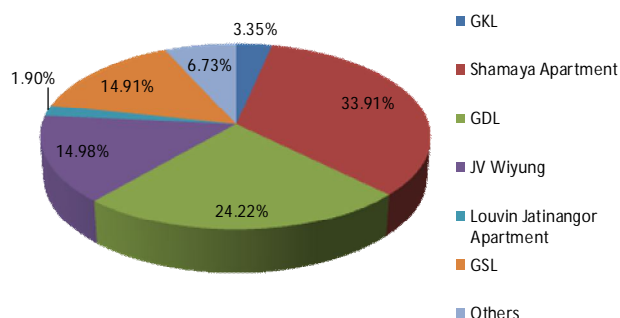
Several launches in Indonesia

In order to support performance growth over the long-term, PPRO rolls onward with new product launches across Indonesia. YTD, the company has launched Grand Shamaya, Evencio (Depok), Westtown View (Surabaya) Tower 2 and Louvin (Jatinangor), among others. Looking to 4Q18, PPRO plans to launch GSL Tower in October and Grand Sagara in November.

The Company PPRO also plans groundbreaking on Grand Sagara and GSL Tower 3A, both in December 2018; this followed groundbreaking of Westtown View Tower 1 in July of this year.

We can conclude that while PPRO distributes its projects mainly in Java it has projects across Indonesia, looking to build a strong portfolio in well-selected locations.

Exhibit 1. 1H18 marketing sales contribution



Source: PPRO

Recommendation

Recommendation: BUY with new TP of Rp 246 per share

We predict positive results for PPRO in years ahead, strongly supported by company strategy to focus more on middle-segment apartments, along with selected premium-class units. We lower our FY18 estimate from revenues and net profit of Rp 3.8 trillion and Rp 556.3 billion to Rp 3.2 trillion and Rp 499.1 billion, respectively, based on lower-than-estimated performance in 1H18. Likewise, we revise down our target price (TP) from Rp 291 to Rp 246. PPRO stock is traded with 2018E PER and PBV of 13.8x and 1.2x correspondingly. The new TP provides 125.7% upside potential from closing price of Rp 109 on September 24, 2018. We maintain our BUY recommendation for the stock.

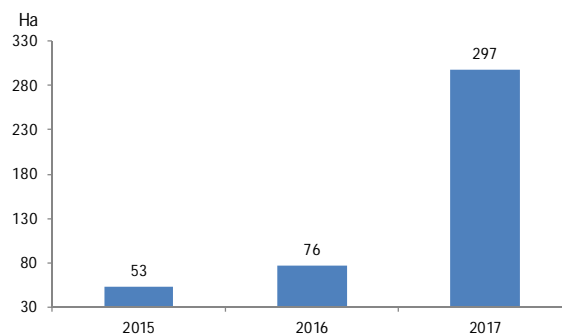
KEY POINTS

Significant landbank expansion

In 2015 PPRO only held a total landbank of 53 ha. The company gradually increased this to 76 ha in 2016 and jumped very significantly to 297 ha in 2017. It expanded through cooperation with third parties (compensation by delivering units) while also selecting locations.

By adding further landbank in FY17, it will create much more room for PPRO to develop new areas, over time. The middle-class segment demand for strategic locations is still stable, in our view.

Exhibit 2. Landbank



Source: PPRO

Marketing sales strategy: Bulk sales support achievements

As mentioned earlier, the high marketing sales achievement of GSL, GDL and Shamaya Apartments was also supported by bulk sales strategy, which may allow the company to achieve its marketing sales target sooner.

Bulk sales benefit both the company and its buyers. For the Company, PPRO gains the opportunity to secure high marketing sales in less time. For buyers', the price can be lower since there is no marketing fee. Bulk sales are conducted by corporate; buyers pay no marketing fee.

KEY POINTS

Entering selected premium market: Grand Shamaya

Although PPRO focuses on middle-class segment, the Company also serves premium-class apartment segment with Grand Shamaya Apartments. PPRO cooperates with third parties by swapping units to pay off the land. The company just launched Grand Shamaya Apartments Tower 2, while Tower 1 is 80% sold.

PPRO launched its Shamaya premium product, supported by exclusive design and strategic location in Surabaya's golden triangle; demand is well-sustained, as indicated by high sales absorption.

Exhibit 3. Grand Shamaya Apartments



Source: PPRO

New area: Aerocity development

The West Java government has already commenced construction on Kertajati International Airport in Majalengka. PPRO perceives the surrounding area as potentially benefitting the Company over the long term. It responded with a development named 'Aerocity', collaborating with PPRO BIJB Aerocity Development, (Bandara Internasional Jawa Barat Aerocity Development), a JV with BIJB AD in which PPRO holds 80%. The company expects to start up construction on the area in 4Q18.

We project strong demand for Aerocity units, supported by the strategic location in the area surrounding the airport, where we foresee a

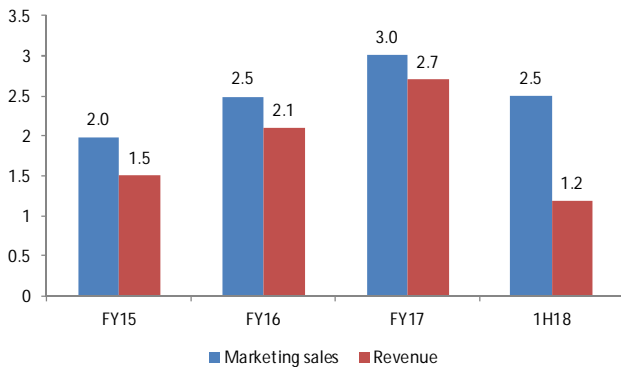
Valuation and recommendation

Focusing on the middle-class segment, which still displays a strong demand for housing, PPRO has a good opportunity to grow further. PPRO relies on high-density apartment sales to optimize land usage.

We expect the Company to book revenues and net profit of Rp 3.2 trillion and Rp 499.1 billion, respectively, in FY18F, with a new target price (TP) of Rp 246. PPRO stock is traded at 2018E PER and PBV of 13.8x and 1.2x, correspondingly. The new TP provides 125,7% upside potential from closing price of Rp 109 on September 24, 2018. Hence, we maintain a BUY recommendation for the stock.

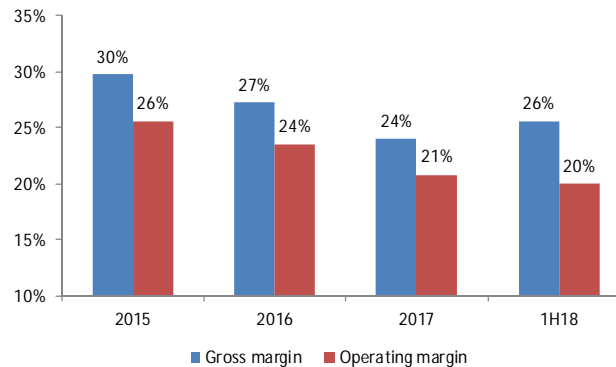
Key Figures

Figure 1. Marketing sales vs revenue FY15-1H18



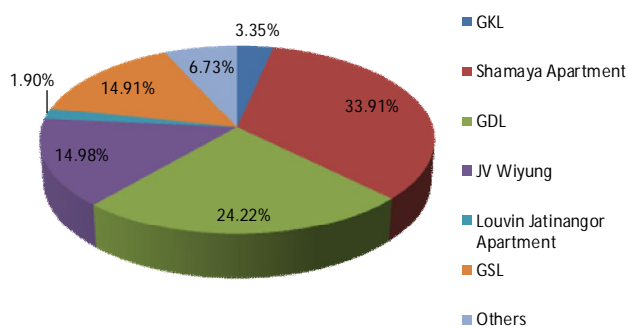
Source: PPRO

Figure 2. Gross and operating margins



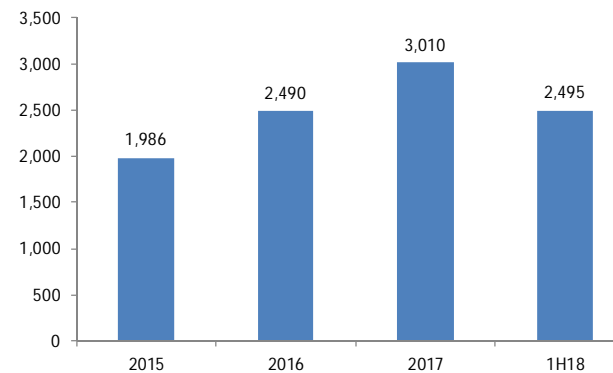
Source: PPRO, processed by BNIS Research

Figure 3. Marketing sales contribution 1H18



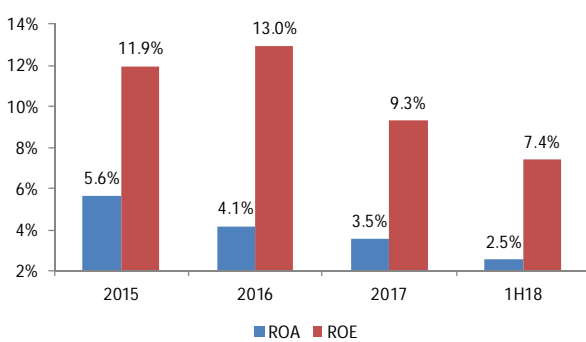
Source: PPRO

Figure 4. Marketing sales 2015-1H18



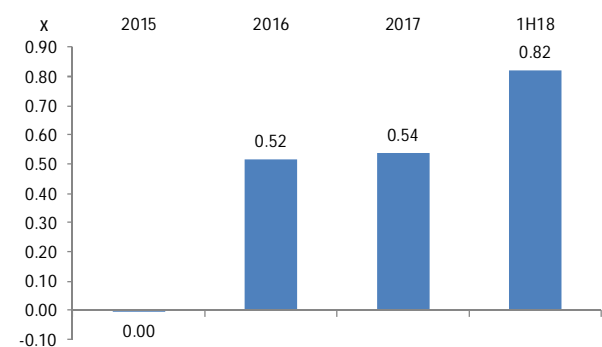
Source: PPRO

Figure 5. ROA and ROE 2015- 1H18



Source: PPRO, processed by BNIS Research

Figure 6. Net debt to equity 2015 - 1H18



Source: PPRO, processed by BNIS Research

Summary of Financials

Income statement (Rp billion)

	2015A	2016A	2017A	2018E	2019E
Revenue	1,505.17	2,150.06	1,182.39	3,196.82	3,847.02
Operating profit	385.50	507.27	236.45	696.06	919.59
Interest expense	(33.84)	(56.97)	(64.98)	(92.32)	(148.39)
Pretax income	301.07	461.34	538.59	518.81	632.59
Minority interest	0.00	0.00	14.96	14.96	14.96
Net income	300.33	160.59	180.07	499.06	611.86
Basic EPS	6.26	7.61	7.21	8.09	9.92
EBITDA	406.27	526.66	578.64	721.06	944.59

Cash flow (Rp billion)

	2015A	2016A	2017A	2018E	2019E
Cash flow from operating activities					
Net income	300.33	160.59	180.07	499.06	611.86
Depreciation & amortization	20.77	19.39	14.95	25.00	25.00
Others	(321.26)	(113.78)	(989.68)	1,159.13	(129.85)
Cash flow from operations	(0.16)	(829.72)	(2,335.42)	1,210.07	(37.08)
Cash flow from investing activities					
Capital expenditure	(1,433.16)	(342.82)	42.65	(316.02)	(359.67)
Cash flow from investing activities	(1,433.16)	(342.82)	42.65	(316.02)	(359.67)
Cash flow from financing activities					
Dividends paid	0.00	(54.81)	(66.70)	(74.86)	(91.78)
Change in equity	806	160	1,615	(18)	0
Change in long-term liabilities	538.92	1,504.85	1,084.89	(1,420.09)	383.54
Cash flow from financing activities	1,560.73	1,439.60	2,664.79	(1,386.58)	291.76
Net changes in cash	127.40	267.05	372.02	(492.52)	(104.99)
Cash at beginning of the year	230.03	357.42	624.47	996.49	503.97
Cash at the end of the year	357.42	624.47	996.49	503.97	398.98

Interim result (Rp billion)

	1H17	1H18	yoy	2Q18	1Q18
Revenue					
Operating profit	1,049.10	1,182.39	12.71%	540.17	642.23
Net income	213.36	236.45	10.82%	108.71	127.74
EPS (Rp)	160.59	180.07	12.13%	84.79	95.28
	2.72	3.06			
Operating margin					
Net margin	20.34%	20.00%		20.13%	19.89%
	15.3%	15.2%		15.7%	14.8%

Balance sheet (Rp billion)

	2015A	2016A	2017A	2018E	2019E
Cash	357.42	624.47	996.49	503.97	398.98
Short-term investment	0.00	0.00	0.00	0.00	0.00
Accounts receivable	1,199.50	2,810.29	4,239.35	2,983.70	2,949.38
Other current assets	131.69	123.47	295.38	319.75	384.77
Inventories	1,498.07	1,606.42	1,575.01	2,396.31	2,751.95
Total current assets	3,186.69	5,164.65	7,106.23	6,203.73	6,485.08
Land for development	247.99	1,348.70	3,154.07	3,627.18	4,171.26
Total Assets	5,318.96	8,826.28	12,559.93	12,240.36	13,400.45
Liabilities and Shareholders' Equity					
Accounts payable	772.98	1,777.43	2,005.26	2,611.78	2,731.73
Short-term borrowings	156.95	584.65	522.20	850.00	850.00
Other short-term liabilities	296.42	416.43	867.61	690.74	827.28
Total Current Liabilities	1,226.35	2,778.51	3,395.08	4,152.52	4,409.01
Long-term borrowings	192.48	899.36	2,445.01	950.00	1,250.00
Other long-term liabilities	1,382.54	2,180.50	1,719.74	1,794.66	1,878.20
Total Long-Term Liabilities	1,575.02	3,079.86	4,164.75	2,744.66	3,128.20
Total Liabilities	2,801.37	5,858.37	7,559.82	6,897.18	7,537.20
Minority interest	1.71	146.73	218.18	218.18	218.18
Total Equity	2,515.88	2,821.18	4,781.93	5,124.99	5,645.07

Key Ratio Analysis

	2015A	2016A	2017A	2018E	2019E
Revenue (Rp billion)	1,505.17	2,150.06	1,182.39	3,196.82	3,847.02
Revenue growth (YoY)	153.6%	42.8%	-45.0%	170.4%	20.3%
Operating expense/revenue	4.1%	3.7%	3.2%	3.3%	4.6%
Net income (Rp billion)	300.33	160.59	180.07	499.06	611.86
EPS (Rp/share)	6.26	7.61	7.21	8.09	9.92
EPS growth	127.3%	21.7%	-5.3%	12.2%	22.6%
Dividend per share (Rp)	4.27	1.14	1.08	1.21	1.49
Dividend yield	3.8%	1.0%	1.0%	1.1%	1.3%
Total Equity (Rp billion)	2,515.88	2,821.18	4,781.93	5,124.99	5,645.07
Total Assets (Rp billion)	5,318.96	8,826.28	12,559.93	12,240.36	13,400.45
EBITDA margin	27.0%	24.5%	48.9%	22.6%	24.6%
Operating margin	25.6%	23.6%	20.0%	21.8%	23.9%
Net income margin	20.0%	7.5%	15.2%	15.6%	15.9%
Current ratio (x)	2.60	1.86	2.09	1.49	1.47
Debt to assets (x)	0.53	0.66	0.60	0.56	0.56
Net debt to equity (x)	net cash	0.30	0.37	0.25	0.30
DER (x)	1.11	2.08	1.58	1.35	1.34
PER (x)	17.90	14.71	15.53	13.84	11.29
PBV (x)	0.63	0.56	1.32	1.23	1.11
PEG (x)	0.14	0.68	-2.94	1.13	0.50
Price					
BV	179	201	85	91	100

Capital history

Date	
19-May-15	IPO @ Rp 185
16-Feb-17	Stock split 4 for 1
11-Apr-17	Rights offering of 1,000,000 for 97,869

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