

Not Rated

TP: N/A

PP Properti

Rapid growth through innovative strategy

Increasing sales from residential market

Established in 2013 as a property division of PT PP (Persero) Tbk, PP Properti (PPRO)'s revenues grew 66% CAGR from 2014-17 backed by strong sales in residential market. The company generated marketing sales from landed and high rise residential projects in several thriving cities including Jakarta (Paldian Park), Bogor (Verdura Sentul and Gunung Putri Square), Cikarang (Little Tokyo and Riverview Residence), Surabaya (Westown View, Grand Shamaya, Grand Dharmahusada Lagoon, Grand Sungkono Lagoon, Grand Sagara, Pavilion Permata I and II), Semarang (Payon Amarta, Amarta View, Permata Prima, and the Alton), Bekasi (Grand Kamala Lagoon), Yogyakarta (Tana Babarsari), Jatinangor (Louvin), Malang (Begawan Apartment), Margonda Depok (Evencio Apartment), and Serpong (the Ayoma Apartment). As of Dec 18, PPRO land bank amounted to 300 ha.

Innovative and creative business strategy

PPRO flourishes in middle to low segment with most of its products offer price per unit of Rp400 mn to Rp600 mn. Specifically, the company has many products that cater student need of premium mixed use residential, such as Louvin Apartment in Jatinangor (targeted catchment area of Padjajaran University and ITB), Evencio Apartment in Margonda Depok (near University of Indonesia and Gunadharma University), and Begawan Apartment in Malang (close to Malang Muhammadiyah University). Declared as drug free zone apartment and equipped with innovative IT facilities, PPRO booked more than 60% take up rate of each of the project.

Fast growing property developer

The company targeted marketing sales of Rp4.59 tn in 2019 after booked Rp3.48 tn (+16% YoY) in 2018. Last year's marketing sales realization was 8% below than PPRO's initial target. However, it was relatively higher than other companies which mostly notched a single digit growth due to tough property market. With marketing sales growth of 27% CAGR in 2014-18, PPRO is one of the fastest growing property developers in Indonesia. This year launchings include seven new projects located in Surabaya, Yogyakarta, and Jakarta with several projects are extension to existing high rise residential. The company is confident in affordable apartment segment whilst sustaining other segments including commercial and hospitality. Currently, PPRO owns three hotels which are PP Hospitality in Bandung, Prime Park in Pekanbaru, and Swiss-Belhotel in Balikpapan. The two latter are under assessment to be transformed into Real Estate Investment Trust (REIT).

Risk arises from high expansion

PP Properti is relatively highly leveraged with current net gearing of 0.8x (compared to average peers 0.4x) and has PBV of 2.0x while others only on average 1.2x. However we believe it is justifiable judging from high revenue recognition growth of 66% CAGR during 2014-17. In the future, PPRO could potentially lower its leverage and in turn maintain healthier cash flow.

Exhibit 1 : Financial Highlights

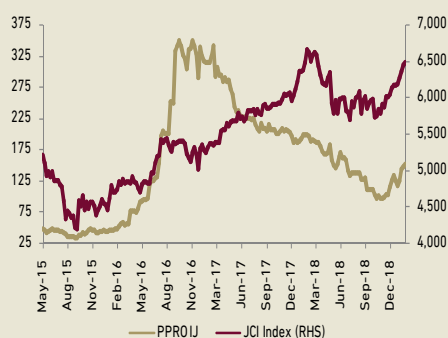
Year to 31 Dec	2015A	2016A	2017A	9M17	9M18
Revenue (Rpmm)	1,505	2,150	2,709	1,792	1,822
Operating profit (Rpmm)	385	508	564	361	371
Net profit (Rpmm)	300	366	445	275	306
EPS (Rp)	25.0	6.9	8.1	4.7	5.2
EPS growth (%)	127.3	-72.4	17.1	-42.3	11.1
EV/EBITDA (x)	5.3	5.6	19.4	29.0	33.7
PER (x)	6.1	22.1	18.9	32.8	29.5
PBV (x)	0.9	0.7	1.9	2.0	1.7
Dividend yield (%)	0.0	2.8	0.7	0.0	0.9
ROE (%)	11.9	12.2	9.2	5.7	5.6

Source : PPRO, Ciptadana Estimates

Sector	Property
Bloomberg Ticker	PPRO

Share Price Performance

Last price (Rp)	159		
Avg. daily T/O (Rpbn/USDmn)	06/00		
	3m	6m	12m
Absolute (%)	64.6	9.0	35.0
Relative to JCI (%)	52.6	-1.1	29.6
52w High/Low price xxx	202/95		



Outstanding shrs (mn)	62
Mkt. Cap (Rpbn/USDmn)	9,806/676
Estimated free float (%)	20.9

Major shareholders

PP (Persero) Tbk PT	65.0%
Blackrock Inc	0.5%
Dimensional Fund Advisory	0.4%

EPS Consensus

	Ciptadana	Cons.	% Diff
2018F	n/a	n/a	n/a
2019F	n/a	n/a	n/a
2020F	n/a	n/a	n/a

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PPRO at a Glance

Strong Player in Middle Segment Residential Market

PPRO was established in 2013 as a property division of PT PP (Persero) Tbk that has been existed since 1991. PPRO integrates property development including following projects: Perum Otorita Jatiluhur (1991), Cibubur Area Project (1991-2004), Paladian Park Apartment in Kelapa Gading, Juanda Business Center in Surabaya, Park Hotel Jakarta (2010) and Park Hotel Bandung (2012). Currently the company business is heavily dependent on high rise residential segment which contributes more than 90% of total marketing sales, while other business units such as commercial and hospitality give less than 5% each.

Exhibit 2 : PPRO Business Strategy



Source: PPRO

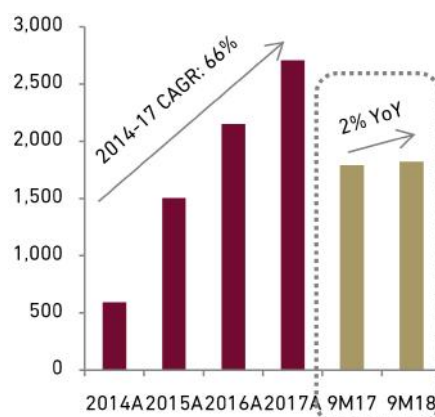
PPRO has several strategic expansion plans for 2019, such as development of the Cibubur area to generate more revenues from property development. Meanwhile, the Grand Kamalaa Lagoon in Bekasi will be facilitated with top education provider, High Scope Indonesia, to increase recurring income contribution. The company is also going to develop IT Roadmap on its property for added value. This year, PPRO plans to raise financing through Real Estate Investment Trust (REIT) issuance with its hospitality product as underlying asset.

Financial Performance

Fast Growing Property Developer

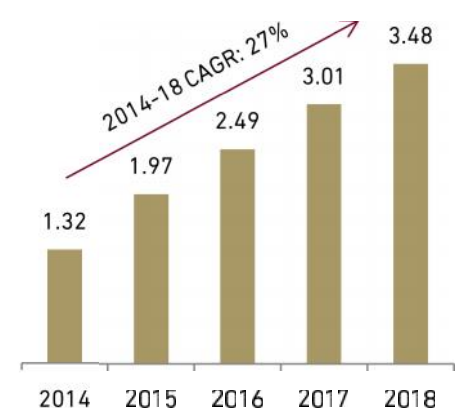
Company's revenues grew by 66% CAGR from 2014-17 backed by strong sales in residential market especially high rise residential segment. Marketing sales climbed to Rp3.48 tn in 2018, a 16% higher compared to 2017 realization, mostly supported by company's flagship projects in Surabaya, i.e. Grand Shamaya, Grand Dharmahusada Lagoon, Westown View, and Grand Sungkono Lagoon.

Exhibit 3 : PPRO Revenues Growth (Rpbn)



Source: PPRO, Ciptadana Estimates

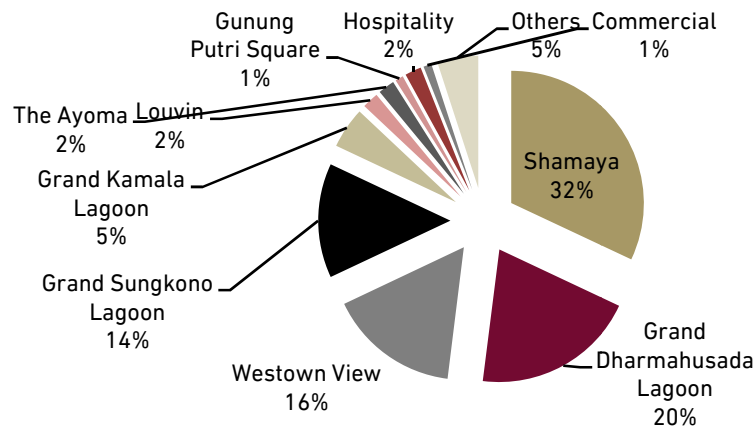
Exhibit 4 : Marketing Sales (Rpbn)



Source: PPRO, Ciptadana Estimates

Concentrating on premium student apartment, the company continues to be optimistic this year and targeted 30% increase in marketing sales through new launchings in Surabaya, Yogyakarta and Jakarta. PPRO plays on affordable residential segment at ASP per unit of Rp400 mn to Rp600 mn which benefited from LTV relaxation. Marketing sales recorded five-year CAGR of 27%, making it one of the fastest growing property developers in Indonesia.

Exhibit 5 : PPRO 9M18 Marketing Sales Breakdown



Source: PPRO, Ciptadana Estimates

Sustainable Expansion

PPRO maintained healthy asset growth of 65% CAGR during 2014-17 which is in line with both revenue and net profit growth. The company applied sustainable asset acquisitions during the period. Last year, PPRO spent Rp1.4 tn for capex whilst launched three new projects, i.e. TOD Stasiun Juanda Jakarta (low segment apartment with ASP Rp7 mn/sqm), Apartemen Petra Surabaya, and Entrance Suromadu (mixed use connected to Suromadu cable car). This year the company allocates capex of Rp1.6 tn and plans to launch seven new projects, mostly an extended tower from existing product.

Exhibit 6 : PPRO Asset Growth (Rpbn)

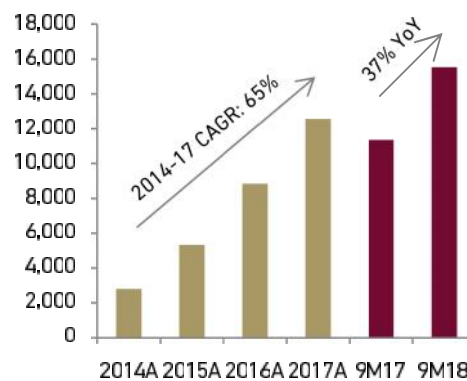
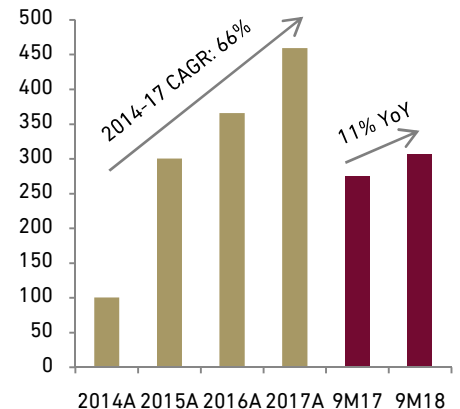


Exhibit 7 : PPRO Net Profit (Rpbn)



Source: PPRO, Ciptadana Estimates

High Take Up Rate of Existing Projects

As of now, one of PP Properti’s flagship projects in Bekasi, the Grand Kamala Lagoon, has sold 94% of its four towers. Other residential projects such as the Alton Semarang, Evencio Apartment Depok, and Begawan Apartment Malang booked more than 60% take up rate. The company plans to continue its current business strategy of developing smart affordable apartment, especially within high education catchment area (e.g. near Padjajaran University in Jatinangor and Universitas Muhammadiyah Malang) which has proven to be successful.

Risks from Rapid Expansion

Compared to other property developers, PPRO net gearing of 0.8x is higher than the average peers of 0.4x. However, we believe it is justifiable judging from double digit growth of its top and bottom line for the last five years.

Exhibit 8 : PPRO Residential Products



Paladian Park Jakarta



Payon Amarta Semarang



Permata Prima Semarang



Pavilion Permata II Surabaya



Pavilion Permata I Surabaya



Verdura Sentul

Exhibit 9 : PPRO Commercial Products



Pekanbaru Park



Grand Slipi Tower Jakarta



Kaza City Surabaya

Exhibit 10 : PPRO Hospitality Products



Prime Park Pekanbaru



PP Hospitality Bandung



Swiss-Belhotel Balikpapan

Source: PPRO

Exhibit 11 : Income Statement

Year to 31 Dec (Rpbn)	2015A	2016A	2017A	9M17	9M18
Revenue	1,505	2,150	2,709	1,792	1,822
COGS	-1,057	-1,564	-2,059	-1,357	-1,351
Gross profit	448	586	650	434	471
Oper. expenses	-62	-78	-86	-73	-100
Oper. profit	385	508	564	361	371
EBITDA	406	537	588	390	414
Interest income	20	13	34	14	36
Interest expense	-34	-57	-65	-49	-42
Other income (exp.)	1	-2	6	6	3
Pre-tax profit	373	461	539	332	368
Income tax	-72	-95	-79	-49	-48
Minority interest	0	0	0	-8	-14
Net profit	300	366	460	275	306

Exhibit 12 : Balance Sheet

Year to 31 Dec (Rpbn)	2015A	2016A	2017A	9M17	9M18
Cash & cash equivalent	357	624	996	891	709
Acct. receivables	1,199	2,810	4,239	4,201	5,754
Inventory	1,498	1,981	1,575	1,886	2,807
Other curr. asset	132	123	295	200	283
Total current asset	3,187	5,539	7,106	7,178	9,553
Fixed assets - net	1,674	1,647	1,940	2,194	1,849
Other non-curr. asset	458	1,664	3,514	1,979	4,119
Total asset	5,319	8,850	12,560	11,351	15,521
ST debt + curr. maturity	157	585	522	478	533
Acct. payable	659	1,777	2,005	1,827	2,746
Advances received	109	147	496	254	322
Other curr. liab	302	270	372	422	605
Long term debt	192	899	2,445	2,280	4,716
Other non-curr. liab	1,383	2,180	1,720	1,301	1,130
Total liabilities	2,801	5,858	7,560	6,562	10,051
Shareholder equity	2,518	2,991	5,000	4,789	5,470
Minority interest	2	147	218	240	470
Total liab + SHE	5,319	8,850	12,560	11,351	15,521

Exhibit 13 : Per Share Data

(Rp)	2015A	2016A	2017A	9M17	9M18
EPS	25.0	6.9	8.1	4.7	5.2
BVPS	179.3	213.0	81.1	77.6	88.7
DPS	0.0	4.3	1.1	0.0	1.4
FCF per share	-2.2	-97.2	-38.1	-20.8	-32.7

Source : PPRO, Ciptadana Estimates

Exhibit 14 : Cash Flow

Year to 31 Dec (Rpbn)	2015A	2016A	2017A	9M17	9M18
Net income	300	366	460	275	306
Depreciation	21	29	24	29	43
Chg in working cap.	-2,038	-975	-796	-451	-1,555
Other	1,677	395	379	-540	736
CF-Oper activities	-41	-185	68	-687	-470
Capital expenditures	-336	-958	-2,207	-592	-1,470
Others	-76	-220	-202	-196	-149
CF-Investing activities	-411	-1,178	-2,409	-788	-1,619
Net change in debt	192	707	1,546	-165	2,435
Net change in equity	0	598	1,184	1,539	0
Dividend payment	0	-60	-70	0	-89
Other financing	387	385	54	368	-545
CF-Financing activities	580	1,630	2,713	1,742	1,801
Net cash flow	127	267	372	267	-287
Cash - begin of the year	230	357	624	996	1,263
Cash - end of the year	357	624	996	1,263	976

Exhibit 15 : Key Ratios

Year to 31 Dec (Rpbn)	2015A	2016A	2017A	9M17	9M18
Growth					
Revenue (%)	153.6	42.8	26.0	-33.9	1.7
Operating profit (%)	189.5	31.8	11.0	-35.9	2.7
Net profit (%)	198.8	21.9	25.5	-40.2	11.2
Profitability Ratios					
Gross margin (%)	29.8	27.3	24.0	24.2	25.9
Operating margin (%)	25.6	23.6	20.8	20.2	20.4
EBITDA margin (%)	27.0	25.0	21.7	21.8	22.7
Net margin (%)	20.0	17.0	17.0	15.3	16.8
ROA (%)	5.6	4.1	3.7	2.4	2.0
ROE (%)	11.9	12.2	9.2	5.7	5.6
Liquidity Ratios					
Current ratio (x)	3.4	2.2	2.4	2.8	2.7
Quick ratio (x)	1.4	1.3	1.6	1.8	1.6
Cash conversion cycle (days)	582.6	539.4	535.2	934.7	1,173.2
Activity Ratio					
Inventory turnover (days)	517.1	405.9	315.1	465.3	634.1
Receivable turnover (days)	145.3	340.3	474.9	859.7	997.1
Payable turnover (days)	79.8	206.8	254.8	390.3	458.1
Solvency Ratio					
Interest cover (x)	12.0	9.4	9.1	7.9	9.9
Debt to equity ratio (x)	0.1	0.5	0.6	0.6	1.0
Net debt to equity (x)	0.0	0.3	0.4	0.4	0.8

Source : PPRO, Ciptadana Estimates

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