PPRO - INITIATE COVERAGE

May 2019

PROPERTI

PT PP PROPERTI, Tbk.

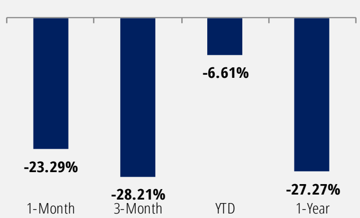
Ticker:	**PPRO**
Last Price (17/05/19):	**112**
# Shares (billion):	**62**
Market Cap (billion rupiah):	**6,908**

RECOMMENDATION	**HOLD**
12-Month Target Price:	**120**
Upside Potential:	**7.14%**

SHAREHOLDERS	
PT PP (Persero) Tbk	**64.96%**
PT Asuransi Jiwasraya (Persero)	**8.51%**
PT Asabri (Persero) - Dapen Polri	**5.33%**
Public	**21.20%**

PRICE PERFORMANCE

PPRO vs. JCI (LAST ONE YEAR)



HIGH-RISE SPECIALIST

PT PP Properti Tbk (PPRO) was established by its parent company, PTPP, as a business diversification effort back in 1991. Initially, PPRO was a non-construction business branch that was divided into two divisions: developer unit and property unit. Operating for almost 20 years, this branch was separated from business development division and made as a stand-alone property division that focused on three main business segments: commercial, residential, and hospitality. On December 12th, 2013, property division was formally spun-off and renamed as PP Properti. Then, it became a public-listed company though initial public offering (IPO) in May 2015. Since its inception, the Company has developed 10 commercial projects, 33 residential projects, and 6 hospitality projects, including joint venture projects.

FOCUSING ON LOW TO MEDIUM INCOME CLASS

PPRO focuses on developing high-rise building, with low to middle income class segmentation. The Company has developed several high-rise projects, including: Grand Sungkono Lagoon, Grand Kamala Lagoon, Grand Dhamahusada Lagoon, and Payon Amartha. Recently, PPRO has just launched Grand Shamaya in Surabaya, targeting high-class income segment. What we like about PPRO is that although it was known a cheaper high-rise building developer, the brand image in front of buyers' perspective is rosy, backed by its parent company name, PTPP, as one of the largest state-owned enterprises in Indonesia. With that in mind, limited experience in developing higher-income segment building would not hamper the Company's ability to market its products.

SLUGGISH 1Q19 RESULT, BUT MORE IN THE PIPELINE

As of 1Q19, PPRO's revenues plunged from Rp642B to Rp429B (-33% Y/Y) on the back of drop in realty sales (-35% Y/Y), although its recurring income source gained +9% (Y/Y). Good news, the Company succeeded in improving its GPM/EBITDA margins from 25%/22% to 26.5%/22.5%. Bottom line, PPRO posted net profit of Rp53B vs. Rp95B (-44% Y/Y) in the same period last year. This year, we expect numerous projects could be finished, including: Evenciio Tower 1 & extension, Amartha View, and Ayoma West - Tower Caspian, which in our view, would boost the Company's top line. Going forward, we expect PPRO net profit to hit Rp449B (-4.6%) in 2019 as the projects accrued are low-cost apartments.

VALUATION

We initiate coverage on PPRO with HOLD recommendation (TP Rp120/share, 1-year +0.5 SD discount to RNAV at 40%, +7.1% upside potential). We use SOTP method in valuing PPRO, as we believe it would be appropriate in valuing its land banks and ongoing projects. For ongoing projects, we use DCF method (WACC: 11.62%, LTG: 3.5%). The target price reflects 12-month forward P/E of 16.5x and P/B of 1.2x.

in Billions Rp	2017A	2018A	2019F	2020F	2021F
Revenues	2,709	2,556	2,443	2,287	2,910
EBITDA	588	587	610	574	753
Net Profit	445	471	449	436	620
EPS	7.2	7.6	7.3	7.1	10.1
P/E (x)	15.5	14.7	15.4	15.9	11.1
BVPS	81	94	100	106	114
PBV (x)	1.4	1.2	1.1	1.1	1.0
EV/EBITDA	16.1	20.1	17.9	16.7	12.4

Source: PPRO, MPIS Research

ANALYST
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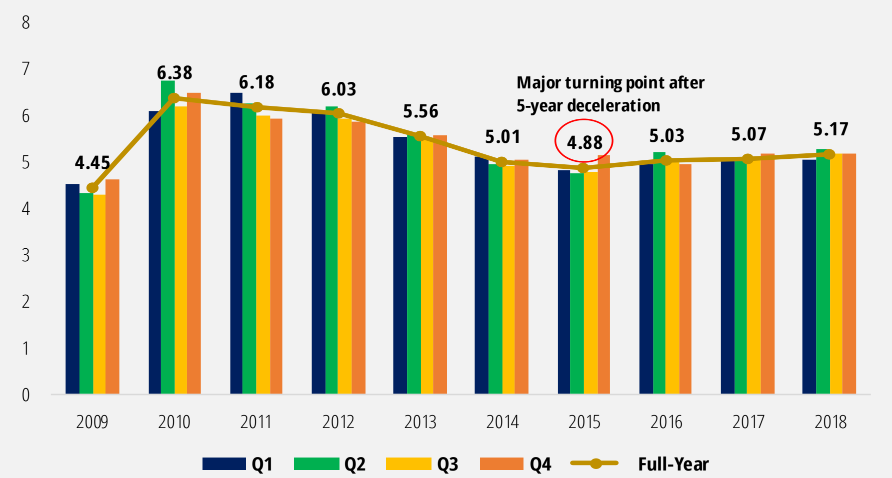
MACROECONOMIC & INDUSTRIAL ANALYSIS

SOLID RESULT AMID GLOBAL ECONOMIC INSTABILITY

Indonesia economy has been proved to be quite resilient in the midst of many would call “global slowdown”, by posting GDP growth of 5.17% (Y/Y) in 2018 – the highest in 4 years. According to Figure 1, 2015 was the year where our economic growth saw its turning point, after 5-year of deceleration. Going forward, Central Bank of Indonesia expects our GDP growth will fall between 5% – 5.4%, with its mid-point at 5.2%, from previous 5.1% - 5.5%. While the newly revised forecast is less rosy, it is worth considering that other developed countries recently slashed its GDP growth projection amid fears of global instability this year, such as: ECB cut its GDP projection from 1.7% to 1.1%, while China expected its economic growth hovering between 6 - 6.5%, following its GDP growth of 6.6% in 2018 – slowest since 1990. On the verge of a slowdown, Indonesia may have what it takes to continue its solid performance this year, based on the GDP forecast outlook, and ample room for growth remains.

Figure 1

Indonesia GDP Growth 2009 - 2018 (in %)



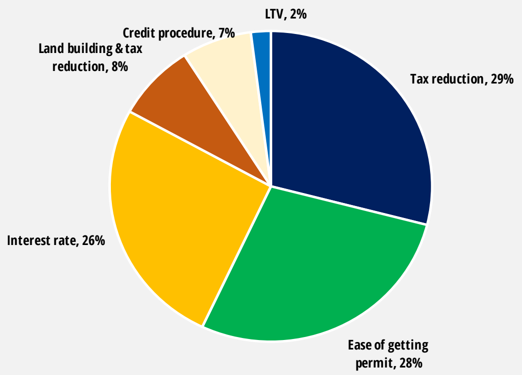
Source: BPS

BUT WHAT ABOUT PROPERTY INDUSTRY?

2Q18 Survey initiated by Colliers International Indonesia indicates that tax reduction (29%), ease of getting permit (28%), and interest rate (26%) were among those factors affecting the growth of real estate. It seems that the majority of participants perceived the property market in 2018 to be similar to last year (2017), while the other 34% expressed their opinions that it was better than last year. We will discuss about the impact of interest rate to the loan disbursement, coupled with tax cut plan and LTV ratio policy issued by the Government.

Figure 2

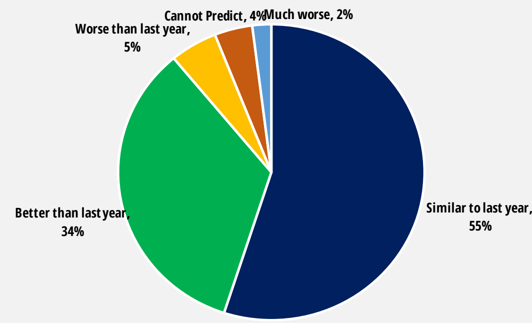
Interest rates hikes were done mostly after Q218...



Source: Colliers International Indonesia

Figure 3

...which was in line with markets perception on real estate



Source: Colliers International Indonesia

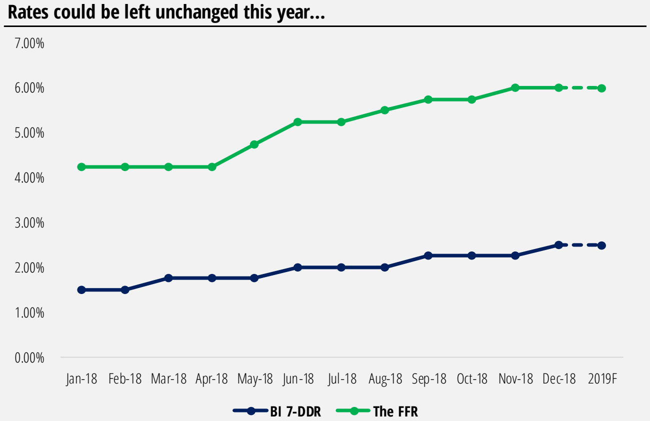
INTEREST RATE HIKES AS EFFORT FOR CURRENCY STABILIZATION

Last year, Central Bank Indonesia hiked its 7-day Repo Rate by 175bps, from 4.25% - 6.00%, keeping up with the Fed's monetary tightening policy. We believe such actions were unavoidable, due to local currency depreciation relative to the Greenback, which results widening CAD and import-export deficit. The Fed could leave its interest rate unchanged and possibly a cut before the end of the year, suggesting that the U.S. economy may not have the ability to withstand another tightening policy, in addition to the muted inflation rate.

But what about BI rate change this year? In our view, the alternatives are between an unchanged rate or a cut following 75bps hikes ahead of the FFR, while we see that the former scenario is more likely. Our thought is based on import – export surplus result in February on the back of stable local currency relative to the Greenback would overweight the unchanged rate policy. Moreover, a cut would induce another currency depreciation as a result of investment outflow, while Indonesian export activities – that could benefit from depreciation - are currently hampered due to CPO import restrictions in the EU and tighten competitions from Malaysia.

Figure 4

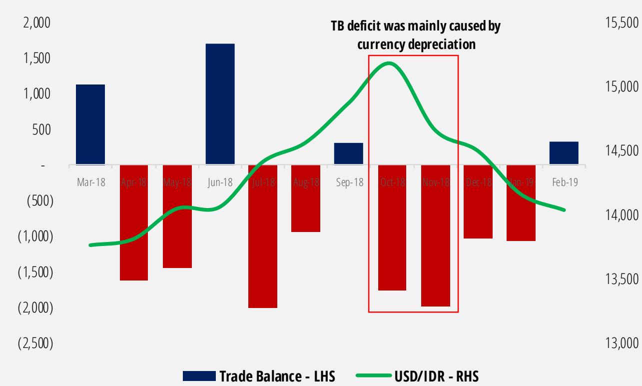
Rates could be left unchanged this year...



Source: Bank Indonesia, Trading Economics, MPIS Research

Figure 5

...anticipating another trade balance deficit impacted by currency depreciation



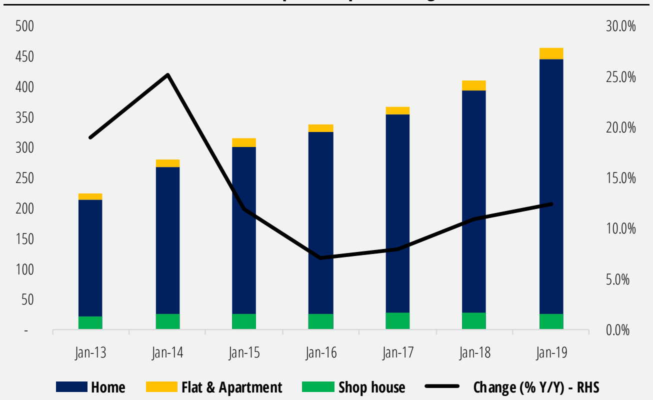
Source: BPS, Bloomberg

PROPERTY MARKET MAY BE RECOVERING

We now turn our attentions to credit disbursements for property. According to Indonesia Banking Statistics issued by Financial Services Authority, loans' growth decelerated rapidly from 25.2% to 11.8% and subsequently to 7.0% in 2014, 2015, and 2016, respectively, following property bubble several years back. The growth direction however, changed in 2017 by an acceleration of 7.9% from 7.0%.

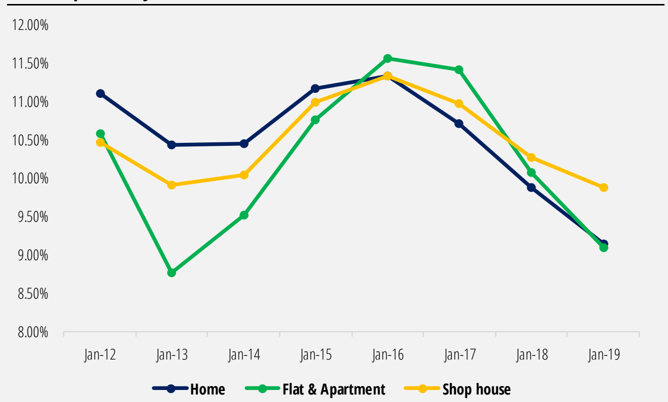
From data raked from the same source, it seems that average credit rate also significantly declined to underpin the rising demand. Figure 7 suggests that the rate was completely changed from bullish to bearish in 2017, thus we can conclude that the higher credit disbursements were mainly supported by declining credit rate. The big question is why do banks want to lower its credit rate, while in fact, BI rate was significantly hiked? In our view, financial institutions would prefer to keep its non-performing loan (NPL) low as a part of their risk management, instead of improving its net interest margin (NIM). As a result, banks' NIMs were likely eroded – in this case we took BBTN as our sample as the Company held 39.35% of Indonesian mortgage as of FY18 - while keeping NPL stable.

Figure 6
Credit disbursement seems to have picked up the rising demand



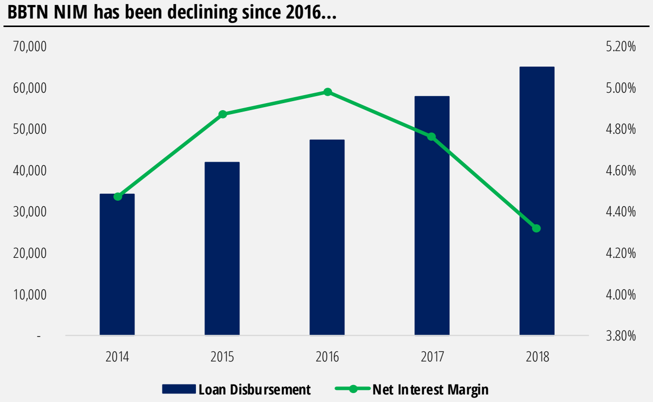
Source: Financial Services Authority

Figure 7
...underpinned by lower credit rates



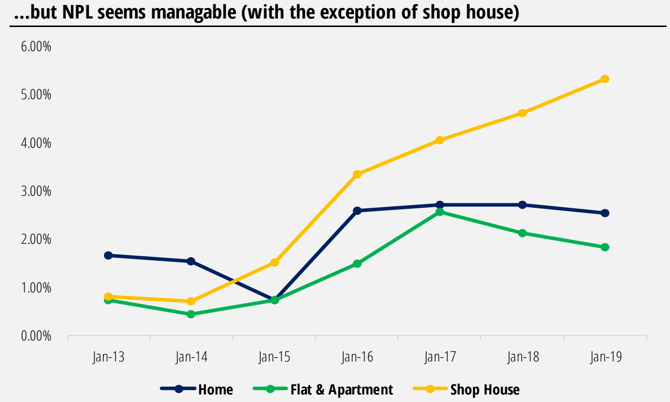
Source: Financial Services Authority

Figure 8
BBTN NIM has been declining since 2016...



Source: BBTN

Figure 9
...but NPL seems managable (with the exception of shop house)



Source: Financial Services Authority

LTV RATIO RELAXATION TO SPUR CREDIT LOANS...

Through Central Bank of Indonesia (BI) regulation number 20/8/PBI/2018 that governs Loan to Value (LTV) and Financing to Value ratios for properties, BI hopes to boost economic activities by offering a more "accommodative" terms to buyers as described below:

1. 100% LTV ratio relaxation is available for first house buyers that could offer 0% down payment, while the second house buyers onwards will follow the 2016 policy. However, the decision is left for banks to decide, according to each risk tolerances.
2. Banks that are eligible to follow the policy must have NPL ratio for less than 5%. On the contrary, those having NPL more than 5% must follow the previous policy. Furthermore, borrowers are also allowed to buy indent houses using up to 5 mortgage loans vs. current 2 mortgage loans.
3. 30% of credit disbursement can be received by borrowers after property financing/credit signing, 50% after foundation, 90% following topping off phase, 100% after being handed-over. This implies an easier disbursement terms compared with previous policy.

Figure 10

LTV ratio policy in 2016...

MURABAHAH & ISTISHNA AGREEMENT				MMQ & IMBT AGREEMENT			
Property Type (m2)	1st Mortgage	2nd Mortgage	3rd Mortgage	Property Type (m2)	1st Mortgage	2nd Mortgage	3rd Mortgage
House				**House**			
Type > 70	85%	80%	75%	Type > 70	90%	85%	80%
Type 22 -70	-	85%	80%	Type 22 -70	-	90%	85%
Type up to 21	-	-	-	Type up to 21	-	-	-
Apartment				**Apartment**			
Type >70	85%	80%	75%	Type >70	90%	85%	80%
Type 22 - 70	90%	85%	80%	Type 22 - 70	90%	85%	80%
Type up to 21	-	85%	80%	Type up to 21	-	85%	80%
Shop Houses	-	85%	80%	**Shop Houses**	-	85%	80%

Source: Bank Indonesia, MPIS Research

Figure 11

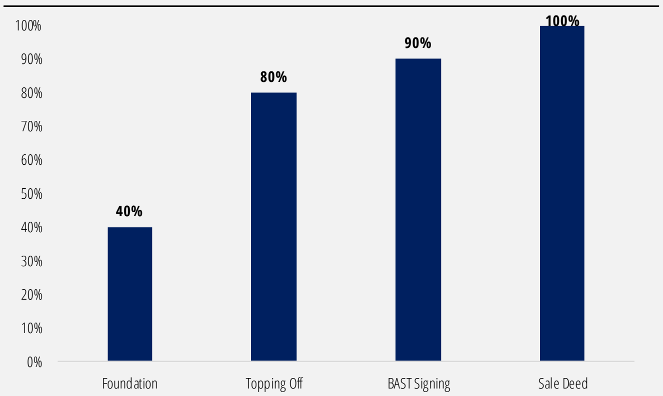
...has been modified to a more accomodative policy in 2018

MURABAHAH & ISTISHNA AGREEMENT			MMQ & IMBT AGREEMENT		
Property Type (m2)	1st Mortgage	2nd Mortgage onwards	Property Type (m2)	1st Mortgage	2nd Mortgage onwards
House			**House**		
Type > 70	-	80%	Type > 70	-	85%
Type 22 -70	-	85%	Type 22 -70	-	90%
Type up to 21	-	-	Type up to 21	-	-
Apartment			**Apartment**		
Type >70	-	80%	Type >70	-	85%
Type 22 - 70	-	85%	Type 22 - 70	-	85%
Type up to 21	-	85%	Type up to 21	-	85%
Shop Houses	-	85%	**Shop Houses**	-	85%

Source: Bank Indonesia, MPIS Research

Figure 12

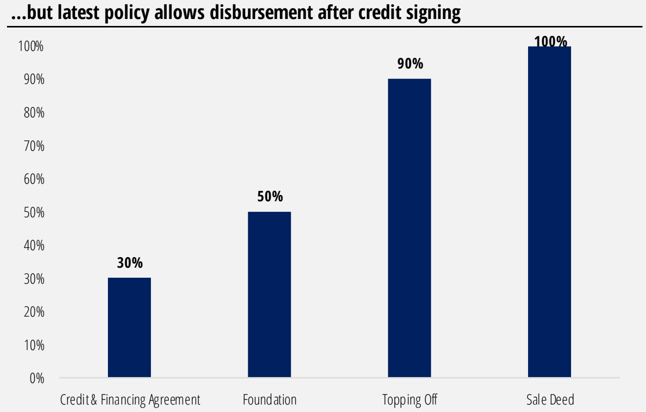
Credit disbursement is available after foundations have been finished...



Source: Bank Indonesia

Figure 13

...but latest policy allows disbursement after credit signing

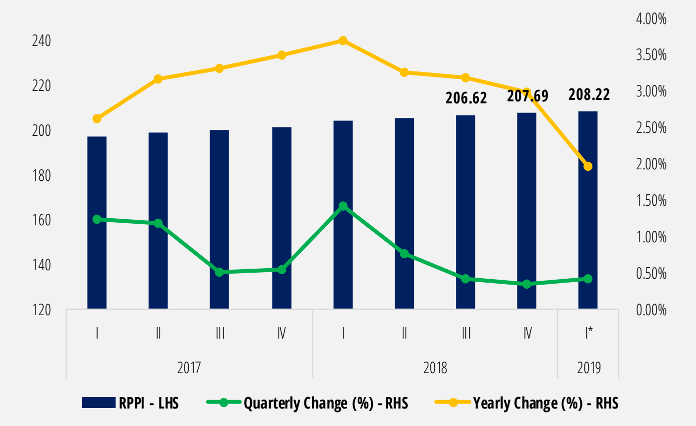


Source: Bank Indonesia

...BUT IT SEEMS THAT PRICE IS GROWING SLOWER...

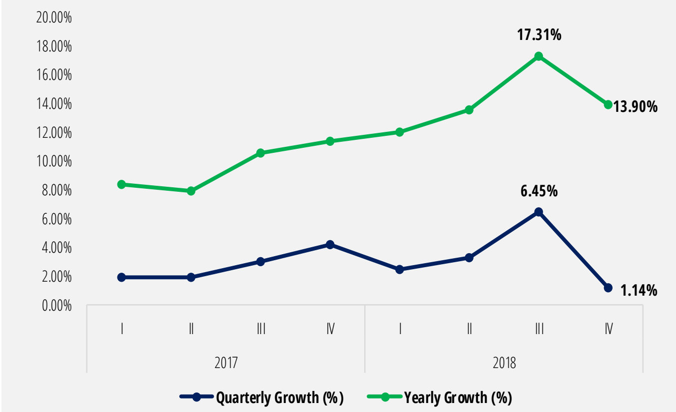
Although we see LTV relaxation policy is a good breakthrough from the Government, it seems that the full benefit is yet to be realized. Our assumption is based on the residential property price index survey conducted by Bank Indonesia, indicating that price is growing slower especially since last year. Figure 14 shows that yearly growth was rising before starting to change direction in 2Q18. In contrast however, we noticed housing and apartment credit loan growth was actually in uptrend throughout 2018, with the exception 4Q18. We also note that the LTV relaxation issuance back in August 2018 might have taken part in credit loan acceleration in 3Q18.

Figure 14
Residential Property Price Index (RPPI) grew slower...



Source: Bank Indonesia

Figure 15
...but housing and apartment credit loan growth continues to accelerate

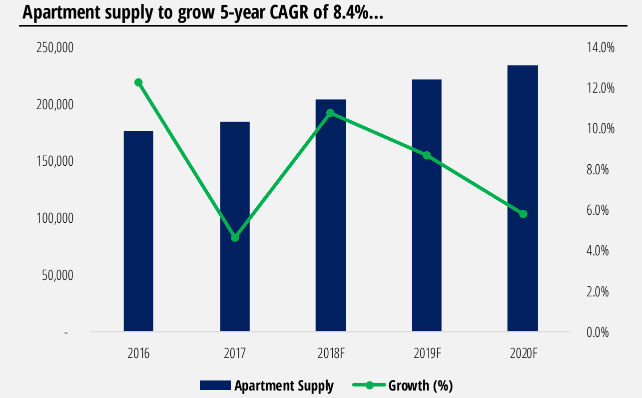


Source: Bank Indonesia

...AMID POSSIBLE OVERSUPPLY CONDITION IN THE MARKET

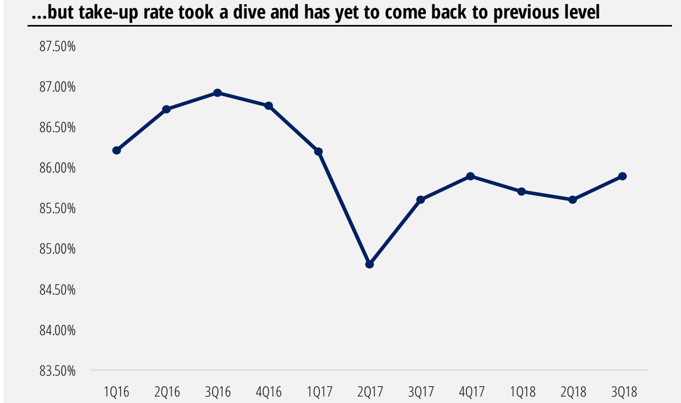
As cited from Colliers Indonesia research report for Jakarta Apartment market, apartment supply in Jakarta could be on its way past 230,000 units mark in 2020F. But if we see figure 17, take-up rate plunged to 84.8% in 2Q17 and since then has yet to register ±86% of occupancy. Based on deceleration of price, in addition to tepid take-up rate, we might assume that property market – at least for apartment – is and may be in the oversupply condition in the foreseeable future.

Figure 16
Apartment supply to grow 5-year CAGR of 8.4%...



Source: Colliers Indonesia

Figure 17
...but take-up rate took a dive and has yet to come back to previous level

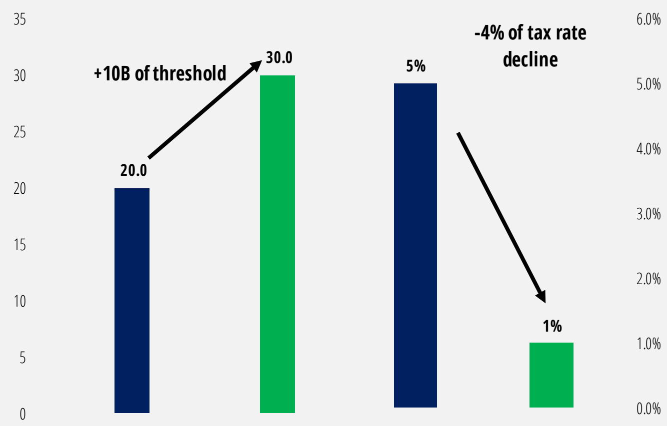


Source: Colliers Indonesia

CATALYST FROM TAX RELIEF. CAN WE ANTICIPATE IT NOW?

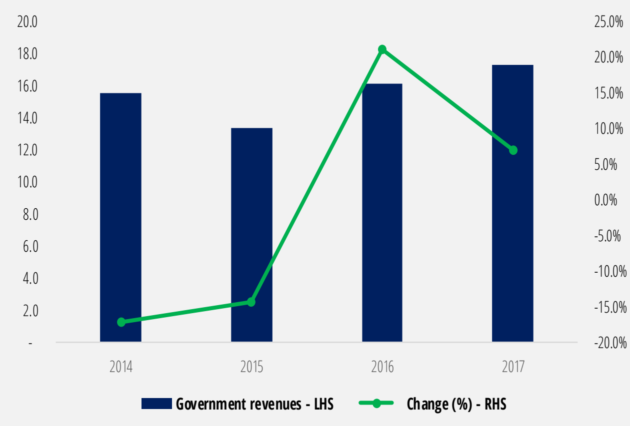
Ministry of Finance is planning to increase luxury sales tax (LST) threshold from Rp20B to Rp30B of selling price for both houses and apartments. In addition, income tax section 22 for luxury houses was also lowered from 5% to 1%, which includes: houses and apartment with selling price more than Rp5B or >400 m2 and 150 m2 of building area, respectively.

Figure 18
Proposed tax relief policy



Source: Various sources

Figure 19
Government income from luxury taxes (in Billions Rp)



Source: Kemenkeu

The downside of this strategy is that the Government income from luxury taxation will surely be eroded. But we think that the policy could be issued, bearing into mind that the Government is now focusing on consumer spending boost in the midst of tightening monetary policy. It is important to note that not many residentials or apartment units that sell more than Rp5B, let alone Rp20B. Therefore, if it is commenced, it might deliver benefit for some, indeed, but what we should anticipate is the positive sentiment that could boost property markets.

INVESTMENT RISKS TO CONSIDER

- **Slower-than-expected infrastructure project completion**

In our view, infrastructure projects such as toll roads and transportation-based project completion could bring domino effect, as accessibility will be improved and subsequently open opportunities for property developers to grow its business. This however, could be hampered if the Government decides to tighten import activities, slowing down infrastructure development progress as well.

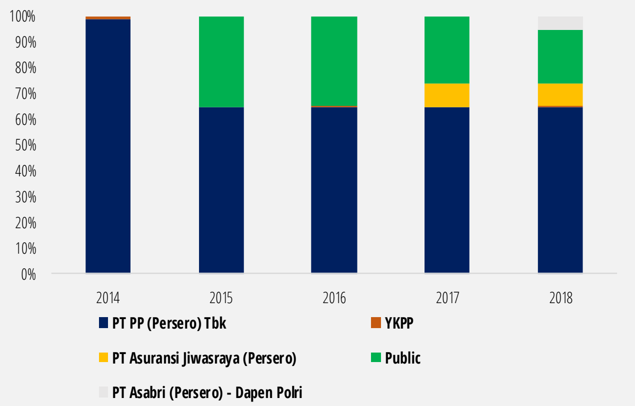
- **Interest rate risk**

According to our thesis above, credit disbursements are still robust despite a series of interest rate hikes last year. But we think that banks would have to slowly rise their lending rates in the light of avoiding further NIM deterioration. A possibility of interest rate cut is still opened. Otherwise, if banks decide to increase its lending rate, we think that deceleration in credit demand could happen anytime soon, bringing negative impact for the markets in terms of marketing sales and inventories pile-up.

ESTABLISHED TO BE A DIVERSIFYING BUSINESS

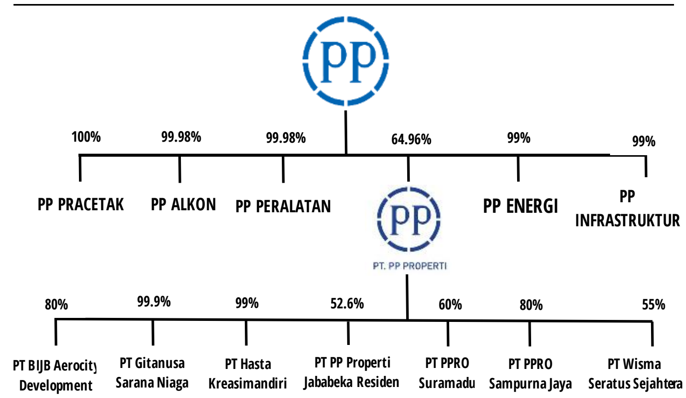
PT PP (Persero) Tbk initially established non-construction business units as a part of diversification back in 1991. The units, comprised of developer & property units, were focusing on the development of Jatiluhur Authority Residential and Cibubur Residential Area. After undergoing an organization restructuration, the unit was finally developed as a specialized property division that focused on residential, commercial, and hospitality developments.

Figure 20
PPRO Ownership (%)



Source: PPRO

Figure 21
PTPP Subsidiaries



Source: PPRO

Through shareholders general meeting held in October 2013, property division was established under new name of "PT PP Properti" and became a public listed company two years later. Since then, PPRO has been developing and operating a number of projects, including but not limited to: Grand Sungkono Lagoon, Grand Kamala Lagoon, Amartha View, and Park Hotel Bandung.

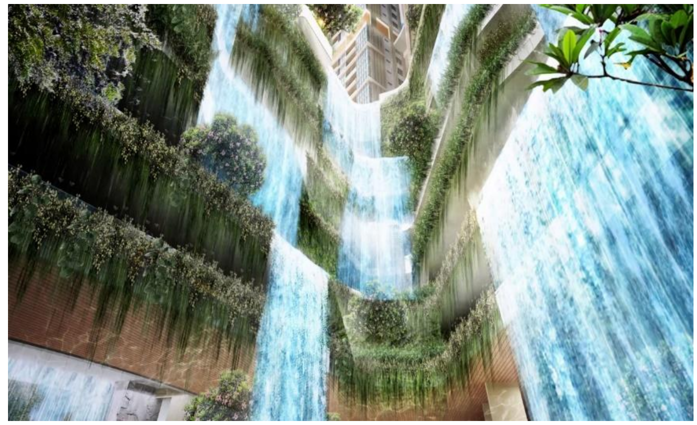
BUSINESS STRATEGY: HIGH-RISE BUILDING AND STABLE RECURRING INCOME

PPRO core business can be divided into three aspects: residential, hospitality, and commercial (mall & office). Unlike other property developers in Indonesia, PPRO solely focuses on low to medium class high-rise building and maximizing its limited land bank availability. To compete with other competitors, PPRO provides breakthrough and innovations within its products. For example: Grand Shamaya, the first apartment with Exotic Waterfall in Surabaya, was developed as a green-based concept residential and is supported by numerous facilities, in addition to smart home system that aims to support modern lifestyle of the residents. The management has admitted that such innovation is prone to be copied – with slight modification - by competitors. In that case, the Company emphasizes the importance of continuing innovation as added values.

Figure 22
Grand Shamaya's 5 towers...

Source: PPRO

Figure 23
...were presented by beautiful thematic garden view



Source: various sources

Figure 24
Grand Kamala Lagoon

Source: PPRO

Figure 25
Grand Dhamahusada Lagoon

Source: PPRO

Grand Kamala Lagoon – Bekasi, Grand Dharmahusada Lagoon – Surabaya, and Grand Sungkono Lagoon – Surabaya were first built in 2015, and have been contributing the biggest revenues for the Company. GKL has net saleable area of 1,516,804 m^2, while GSL and GDL contributed NSA of 198,045 m^2 and 314,552 m^2, respectively. Initially, PPRO's segmentation is low to middle class market but have since started to look for other opportunities in upper-class market. The Company also focuses on developing its business in East Jakarta and Surabaya, which we think is a good strategy, considering that the market has already been too crowded in bigger cities like Jakarta and Tangerang.

Figure 26
Grand Sungkono Lagoon

Source: PPRO

Figure 27
The Ayoma Apartment

Source: PPRO

TINY SUPPORT FROM RECURRING INCOME SOURCES

PPRO invested in hotels, shopping malls, and offices as well. As of 2018 however, hotel, service charge, and rent incomes only contribute 7% of total revenues at Rp179B. Therefore, we assume that PPRO recurring income sources may need strengthening in order to upgrade the sustainability of the Company's business. Recurring income sources include:

- **Hotels:** Park Hotel Jakarta, Prime Park Bandung, Swiss-Bellhotel Balikpapan, Palm Park Hotel Surabaya, and Prime Park Hotel Pekanbaru
- **Shopping malls:** Mall Kaza City Surabaya, Lagoon Avenue Bekasi, Mall Serang Banten, and Mall Balikpapan Ocean Square
- **Offices:** Maritim Tower and Grand Slipi Tower Jakarta

Figure 28
Park Hotel Jakarta

Source: various sources

Figure 29
Swiss-Belhotel Balikpapan

Source: various sources

Figure 30

Mall Kaza City Surabaya

Source: various sources

Figure 31

Grand Slipi Tower Jakarta

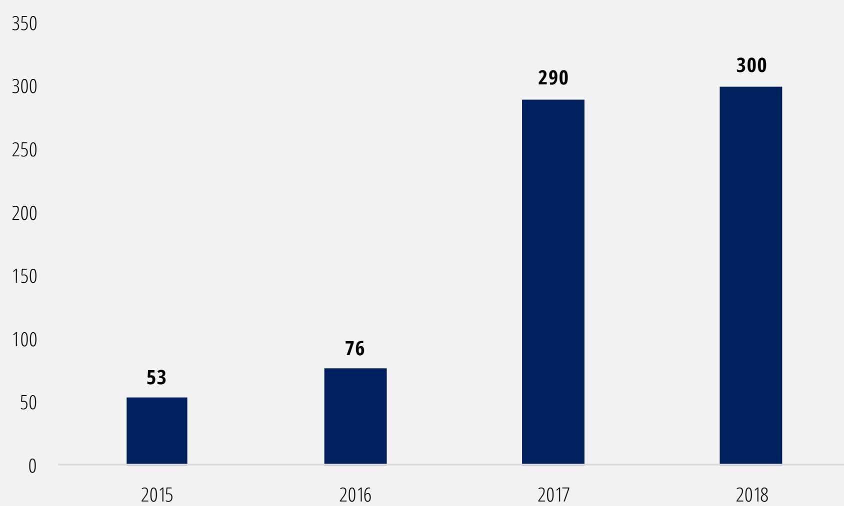
Source: various sources

LIMITED LAND BANKS AVAILABILITY

PPRO successfully acquired 214 ha of land banks back in 2017, resulting huge jump from a mere 76 ha to 290 ha, as the investing expenditures stemmed from rights issue action worth Rp1.06T (70% of total proceeds). Going forward, we expect there will be no significant land bank acquisition by the Company, as the management has stated that they would prefer to maximize existing landbank and inventories over aggressively acquire land bank.

Figure 32

PPRO Land Banks (ha)



Source: PPRO

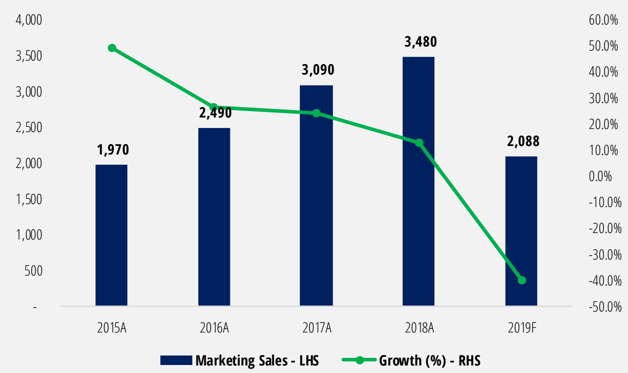
FINANCIAL HIGHLIGHTS

SLUGGISH MARKETING SALES ACHIEVEMENTS

PPRO recorded +12.6% (Y/Y) of marketing sales growth in 2018, rising from Rp3.1T to Rp3.5T. Such rosy result was underpinned by Grand Shamaya (30%), Grand Dharmahusada Lagoon (18%), Westown View (15%), Grand Sungkono Lagoon (13%), Grand Kamala Lagoon (6%), and others (18%). 1Q19 marketing sales however, were only recorded at Rp412B (-41.4% Y/Y, 9.6% of this year's target at Rp4.3T) vs. 1Q18 result at Rp703B in the wake of buyers' wait and see stance approaching the presidential election. The management believes that property industry will start to improve in the 2H19, while in our view, the Company may post underperforming marketing sales result at Rp2.1T (-40% Y/Y, 50% of target) in 2019F.

Figure 33

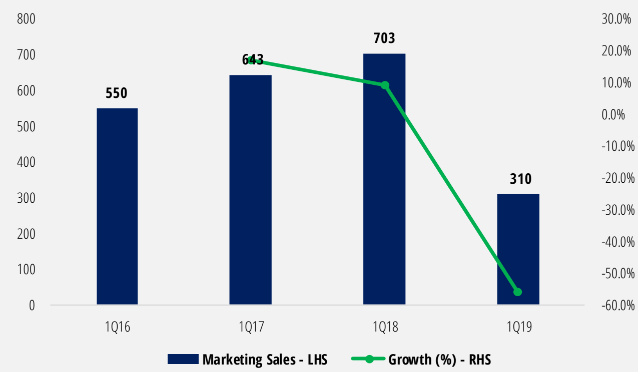
We expect 2019F marketing sales growth to decelerate...



Source: PPRO, MPIS Research

Figure 34

...as 1Q19 result is quite unsatisfying



Source: PPRO

MORE IN THE PIPELINE TO BE ACCRUED...

According to PSAK 72, property developers can only accrue its revenues after the product has been handed over, starting since the beginning of 2019. To forecast PPRO revenues, we raked the pipeline PPRO has and assumed that completion year is the year when the products are being handed over to buyers. With that in mind, below is the schedule of completion in the next 3 years:

Figure 35

PPRO Pipeline 2019F - 2021F (more to be announced)

2019F	2020F	2021F
Evenciio Tower 1 and Extension	Grand Kamala Lagoon - Victoria	Louvin Tower 1
Amartha View	Grand Kamala Lagoon - Isabella	
Ayoma West - Tower Caspian	Alton Tower 1	
	Begawan Tower 1	

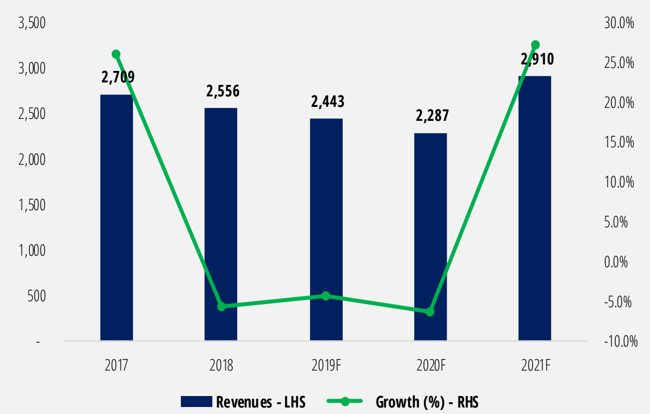
Source: PPRO

...THAT MAY TRANSLATE INTO (STILL) SOLID REVENUES

As of 1Q19, PPRO recorded -33.2% (Y/Y) of revenues growth, as its realty sales dropped -35.4% (Y/Y). Gross profit margin (GPM) however, improved from 25% to 26.5%, as we think that the Company has started selling products with better margins; while its recurring revenues grew by a healthy +8.8% (Y/Y) growth. Considering the projects to be accrued in 2019, we see that PPRO revenues might slightly decline by -4.4% (Y/Y) and -6.4% (Y/Y) in 2019F/20F, respectively, as a result of lower-cost type of property to be accrued in these two years that would translate to lower top line as well.

Figure 36

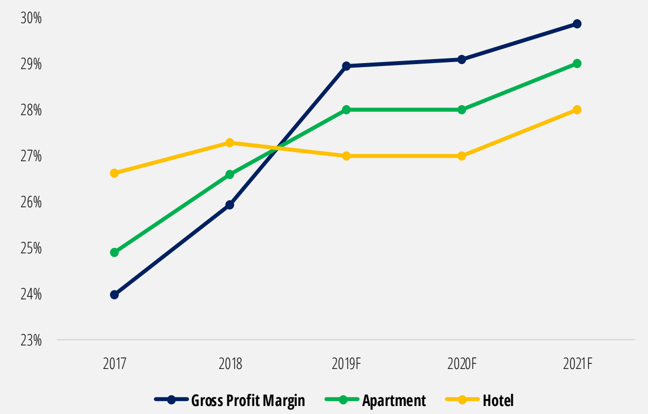
Revenues to slightly decline...



Source: PPRO, MPIS Research

Figure 37

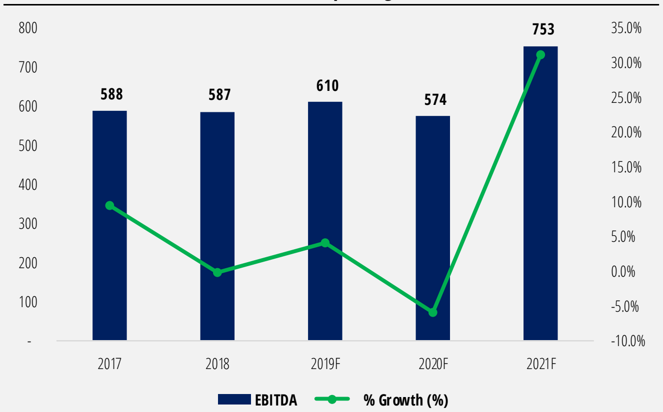
...underpinned by GPM improvement



Source: PPRO, MPIS Research

Figure 38

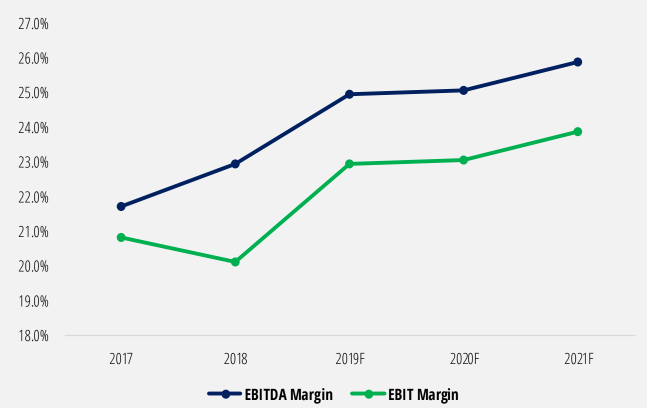
EBITDA to rise in 2019F on the back of improving GPM...



Source: PPRO, MPIS Research

Figure 39

...along with EBITDA and EBIT margin improvement as well



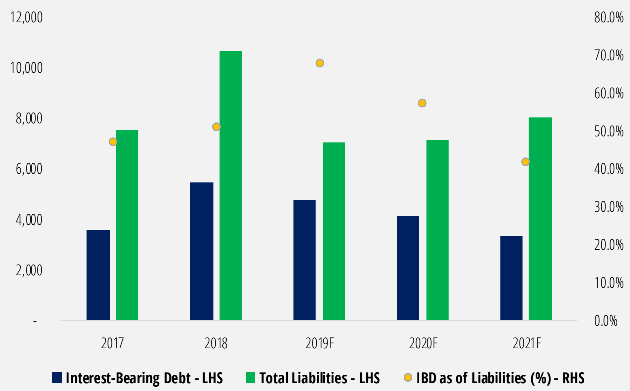
Source: PPRO, MPIS Research

PPRO could post higher EBITDA result at Rp610B (+4.0%) in 2019F thanks to improvement in gross profit margin, but may decline to Rp574B (-5.9% Y/Y), as the revenues accrued would stem from lower-cost projects. EBITDA and EBIT margins however, might remain stable at 25%/23% in 2019F/20F, respectively.

DELEVERAGING COULD BE ON ITS WAY...

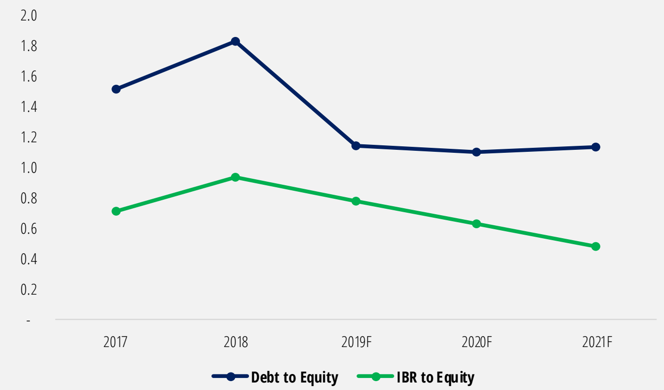
As of 2018, PPRO's interest-bearing debt stood at Rp5.4T, which mostly consisted of long-term bank loans (24%) and bonds (20%), translating to DER of 1.8x and interest-bearing debt (IBD) to equity of 0.9x. Since the management has expressed their conservative strategies by not aggressively acquiring land banks and maximizing existing inventories, we assume that the Company would not increase its leverage level, or even deleveraging by retiring its debts.

Figure 40
Leverage level could be lowered after debt retirements...



Source: PPRO, MPIS Research

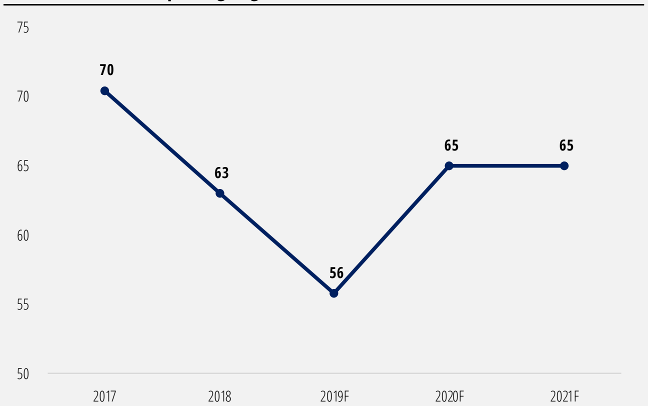
Figure 41
...thus, declining leverage ratio might as well be anticipated



Source: PPRO, MPIS Research

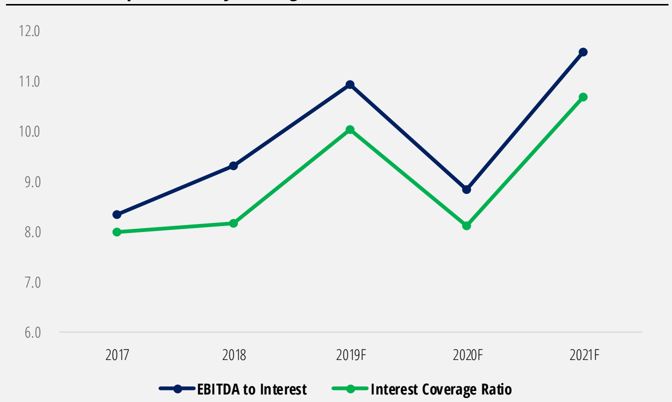
Going forward, we expect PPRO interest-bearing to equity ratio to decline to 0.8x/0.6x in 2019F/20F. As a result, interest expense may be moderately lower as a result of healthier leverage level. The Company however, divides the interest expenses into two: the capitalized interest expense – that is charged to its fixed assets cost basis and regular interest expense that is recorded on the income statement, thus the expense is seen to be lower than it should be.

Figure 42
Moderate interest expense going forward...



Source: PPRO, MPIS Research

Figure 43
...which underpines heatlhy coverage ratios



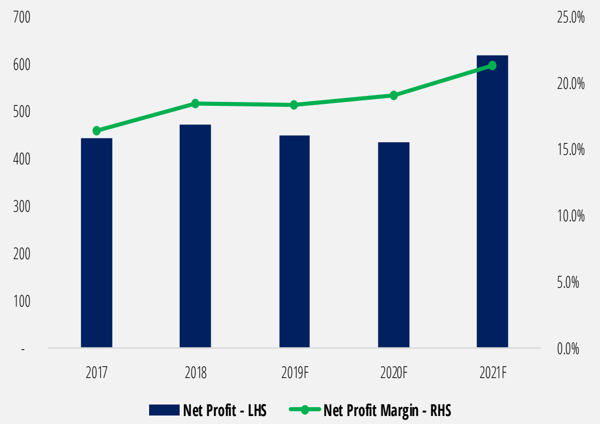
Source: PPRO, MPIS Research

...RESULTING IMPROVEMENT IN NPM, ALTHOUGH PROFIT COULD DECLINE

PPRO 2018 net profit was recorded at Rp471B (+6% Y/Y) vs. Rp445B in 2017 and NPM was registered at 18.4%. Going forward, we expect net profit to slightly decline by -4.6% and -3.1% in 2019F and 2020F, respectively, as a result of lower revenues. We see however, that NPM could remain at 18.4% and subsequently 19% in 2019F/20F thanks to improving GPM margin, coupled with lower interest expense.

Figure 44

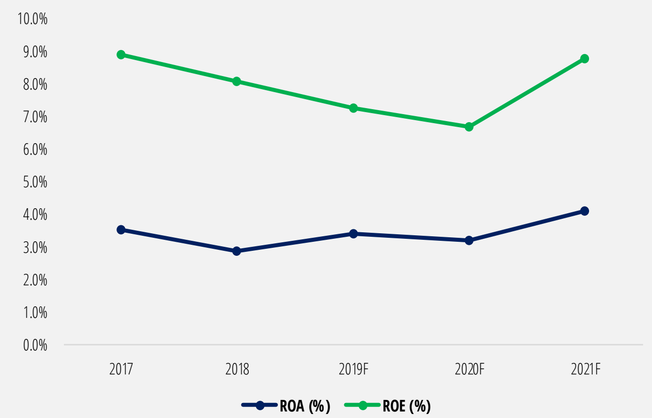
Net profit margin to improve...



Source: PPRO, MPIS Research

Figure 45

...resulting slight improvements in ROA



Source: PPRO, MPIS Research

It is important to note that ROA and ROE had a slight drop from 3.5% to 3% and 9% to 8%, respectively, as seen from 2018 result. In order to examine the source that contributed to the drop, we present DuPont analysis in figure 39:

Figure 46

PPRO DuPont Analysis

Components	2017	2018	2019F	2020F	2021F
Net Profit Margin (%)	16.4%	18.4%	18.4%	19.0%	21.3%
Asset Turnover	21.6%	15.5%	18.5%	16.7%	19.3%
Financial Leverage	2.5	2.8	2.1	2.1	2.1
ROE (%)	**8.9%**	**8.1%**	**7.3%**	**6.7%**	**8.8%**

Source: PPRO, MPIS Research

It seems that plummeting in asset turnover largely contributed to the ROE decline. Lower revenues, coupled with soaring account receivables that boosted total assets value, gave us hint that residentials have yet to be accrued as revenues, hence no significant concerns linger. But we think after the accrual, asset turnover would improve but in turn, would reduce financial leverage as well, suppressing ROE to 7.3% in 2019F.

SWOT ANALYSIS

To gain more understanding about the Company, we present our SWOT analysis below:

STRENGTHS

- Experienced management team
- Strong backup from PTPP, one of the largest state-owned construction enterprises in Indonesia
- Good brand positioning
- Low leverage level that translates to lower credit risk
- By focusing on high-rise building, PPRO needs smaller amount of capital expenditures compared with other property developers that extensively acquire land banks
- Emphasizing in product innovations

WEAKNESSES

- Limited land banks would reduce future opportunities as well as be harder to compete with other developers
- Low contribution from recurring income
- Relatively smaller scale compared with other listed property developers

OPPORTUNITIES

- Rising middle-income family, in addition to millennials that would need cheaper residentials, could open whole new opportunities for PPRO to be anticipated
- As the availability of land banks is declining, demand for high-rise building is no longer avoidable. In that case, it would be advantageous for PPRO as a specialized high-rise developer

THREATS

- Tight market competition within the industry
- PPRO innovations are prone to be plagiarized. Therefore, a greater degree of innovation is urgently needed
- Potentially eroded selling price as a result of oversupply condition

VALUATION

For valuing PPRO, we use sum-of-the-parts (SOTP) method by using Net Asset Value (NAV) method on PPRO's land banks and Discounted Cash Flow (DCF) method on its current development projects and recurring income.

1. Net Asset Value (NAV) method

We value land banks with clear development plan by using its average selling price of that project, discounted by 50% (development cost) and 20% (marketing, tax, and others), assuming 30% of market value. While for land with unclear development plan, we value by using its book value. Then, we determine its land bank utilization rate of 60%, which is the standard of property developers.

2. Discounted Cash Flow (DCF) method

For ongoing development projects as well as recurring income source, we use DCF valuation method by assuming cost of equity of 14.78% (Beta: 1.49, RP: 12.45%) and after-tax cost of debt of 7.5%, translating to Weighted Average Cost of Capital (WACC) of 11.62% and long-term growth (LTG) of 3.5% perpetuity.

Figure 47

WACC Assumptions

Risk Free Rate	7.7%
Beta	1.49
Risk Premium	12.45%
Cost of Equity	14.78%
Cost of Debt	10.06%
Tax	25%
After tax Cost of Debt	7.5%
Weight Equity	56.3%
Weight Debt	43.7%
Long-term Growth	3.5%
WACC	**11.62%**

Source: MPIS Research

Figure 48

PPRO Valuation Table

Land bank	Ownership (%)	Land banks (ha)	Utilization Rate (%)	RNAV
Verdura	49%	1	60%	23
Evenciio	55%	1	60%	56
Green Park Cilegon	70%	1	60%	27
Westown View	80%	2	60%	109
Tana Babarsari	99%	1	60%	90
Grand Sungkono Lagoon	100%	4	60%	224
Grand Kamala Lagoon	100%	28	60%	1,707
Grand Dharmahusada Lagoon	100%	4	60%	350
Gunung Putri Square	100%	2	60%	91
The Ayoma	100%	1	60%	50
Grand Shamaya	100%	2	60%	246
Pavilion Permata	100%	0	60%	29
Grand Sagara	100%	6	60%	305
Payon Amartha	100%	23	60%	765
The Alton	100%	1	60%	110
Begawan	100%	3	60%	129
The Louvin	100%	1	60%	89
Total Developed Land		**81**		**4,400**
Jababeka	49%	7	60%	76
Kertajati	80%	130	60%	148
Pekayon Jaya	100%	8	60%	264
Tanjung Barat	100%	1	60%	30
Anai Pariaman	100%	0	60%	0
Malang	100%	1	60%	13
Petra	100%	2	60%	98
Transyogi	100%	23	60%	395
Others	100%	47	60%	910
Total Undeveloped Land		**219**		**1,935**
Total		**300**		**6,335**
Marketing, Tax, and others				(1,267)
Total RNAV Land Bank				**5,068**
DCF-based Valuation				**7,333**
Total				**12,401**
RNAV per Share				**201**
Discount (40%)				**4,960**
Shares Outstanding				62
Target Price				121
Target Price (Rounded)				**120**

Source: PPRO, MPIS Research

We arrive at PPRO target price of Rp120/share (+7.1% upside potential) with HOLD recommendation, implying 12-month forward P/E of 16.5x and P/B of 1.2x. We apply 1-year +0.5 SD discount to RNAV at 40%, considering the possibility of slower-than-expected demand pick-up within the industry. We also use sensitivity analysis to determine the target price as well:

Figure 49

Sensitvity Analysis for WACC and LTG

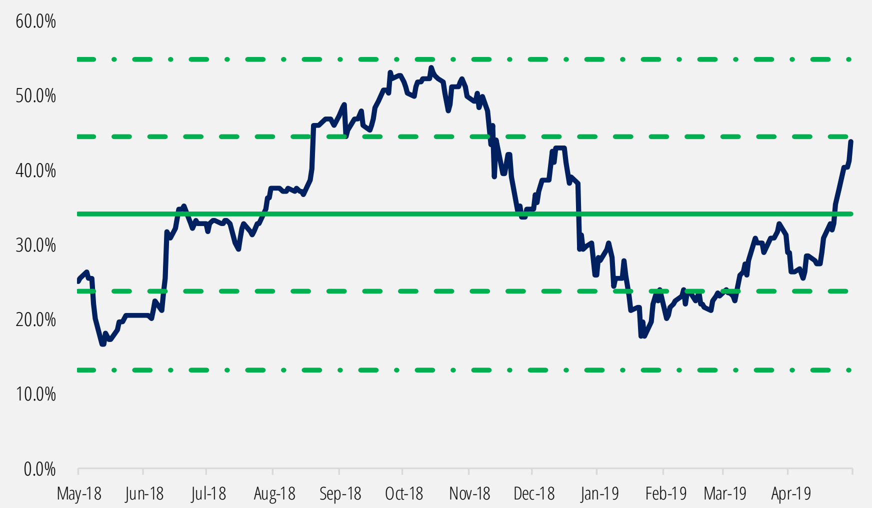
		WACC (%)				
		10.6%	11.1%	11.6%	12.1%	12.6%
LTG (%)	2.5%	128	119	112	105	99
	3.0%	134	124	116	108	102
	3.5%	141	130	121	113	105
	4.0%	148	136	126	117	109
	4.5%	158	144	132	122	114

Source: MPIS Research

According to our sensitivity analysis, every 0.5% of WACC change will lead to approximately ±10% of target price change. While every 0.5% of long-term growth change will lead to ±6% change of target price.

Figure 50

We apply 1-year +0.5 SD discount to RNAV, standing at 40%



Source: PPRO, yahoo finance, MPIS Research

APPENDIX

Figure A-1
INCOME STATEMENT

in Billions Rp	2017A	2018A	2019F	2020F	2021F
Revenues	2,709	2,556	2,443	2,287	2,910
Cost of Revenues	2,059	1,894	1,736	1,622	2,041
Gross Profit	**650**	**663**	**707**	**665**	**869**
Operating Expense	86	148	147	137	175
Operating Profit	**564**	**515**	**561**	**528**	**695**
Interest Income	47	103	55	80	143
Interest Expense	(70)	(63)	(56)	(65)	(65)
Other Income (Expense)	(2)	11	(4)	(3)	(4)
Profit Before Tax	**539**	**566**	**557**	**539**	**768**
Income Taxes	(79)	(69)	(83)	(81)	(115)
Minority Interest	15	26	24	23	33
Net Profit	**445**	**471**	**449**	**436**	**620**

Source: PPRO, MPIS Research

Figure A-2
BALANCE SHEET

in Billions Rp	2017A	2018A	2019F	2020F	2021F
Cash and Cash Equivalents	996	554	804	1,432	947
Account Receivables	4,231	6,015	3,681	3,446	4,385
Inventories	1,575	3,513	2,140	2,000	2,516
Other Current Assets	304	332	318	297	436
Total Current Assets	**7,106**	**10,413**	**6,943**	**7,175**	**8,284**
Land for Development	3,154	3,439	3,504	3,576	3,654
Investment in JV & Associates	348	405	405	405	405
Property and Equipment	1,940	2,170	2,310	2,465	2,636
Other Non-Current Assets	11	48	49	46	87
Total Non-Current Assets	**5,454**	**6,062**	**6,268**	**6,491**	**6,783**
Total Assets	**12,560**	**16,476**	**13,211**	**13,667**	**15,066**
Account Payables	1,667	3,181	298	1,218	2,101
Short-term Bank Loans	200	200	200	200	300
Non Bank Loans	-	-	-	-	-
Current Maturities of LT Loans	322	1,154	1,785	1,348	514
Other Current Liabilities	1,206	1,150	1,099	1,029	1,397
Total Current Liabilities	**3,395**	**5,685**	**3,383**	**3,795**	**4,312**
Long-term Loans	3,044	4,084	2,800	2,552	2,538
Other Non-Current Liabilities	1,121	888	855	800	1,164
Other Non-Current Liabilities	**4,165**	**4,972**	**3,655**	**3,352**	**3,702**
Total Liabilities	**7,560**	**10,657**	**7,037**	**7,147**	**8,014**
Shareholders' Equity	4,782	5,272	5,627	5,973	6,506
Minority Interest	218	546	546	546	546
Total Equity	**5,000**	**5,819**	**6,174**	**6,519**	**7,052**
Total Liabilities and Equity	**12,560**	**16,476**	**13,211**	**13,667**	**15,066**

Source: PPRO, MPIS Research

Figure A-3
CASH FLOW STATAMENTS

in Billions Rp	2017	2018	2019F	2020F	2021F
Net Income	445	471	449	436	620
Depreciation	1	20	55	60	65
Working Capital Changes	(516)	(2,292)	787	1,245	(343)
Others	(465)	(270)	(33)	(51)	322
Operating Cash Flow	**(536)**	**(2,070)**	**1,258**	**1,689**	**664**
Investments	(2,140)	(592)	(260)	(286)	(315)
Investing Cash Flow	**(2,140)**	**(592)**	**(260)**	**(286)**	**(315)**
Changes in Debt	1,484	1,872	(654)	(685)	(748)
Changes in Equity	1,637	436	(0)	-	-
Dividends	(73)	(89)	(94)	(90)	(87)
Others	0	0	-	-	-
Financing Cash Flow	**3,048**	**2,219**	**(748)**	**(775)**	**(835)**
Changes in Cash	**372**	**(443)**	**250**	**628**	**(485)**

Source: PPRO, MPIS Research

Our Locations

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