

## CONSTRUCTION SECTOR/COMPANY UPDATE

**BUY**

Target Price, Rp 3,400

Upside 12.6%

PTPPJ/PTPPJK

Last Price, Rp 3,020

No. of shares (bn) 4,842

Market Cap, Rp bn 14,623

(US\$ mn) 1,202

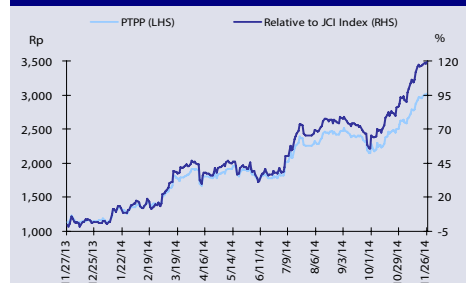
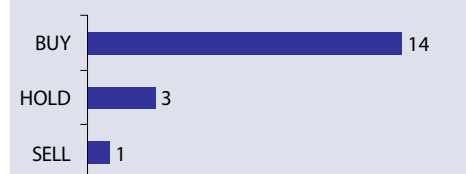
3M T/O, US\$mn 2.3

**Last Recommendation**

28-Aug-14 BUY Rp 2,950

18-Jul-14 BUY Rp 2,600

23-Jun-14 BUY Rp 2,100

**PTPP relative to JCI Index****Market Recommendation****Danareksa vs Consensus**

	Our	Cons	% Diff
Target price, IDR	3,400	2,874	18.3
EPS 2014F, IDR bn	116	110	5.5
PE 2014F, x	26.1	27.5	-5.0

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Danareksaresearch reports are also available at Reuters Multex and First Call Direct and Bloomberg.

# Pembangunan Perumahan

## Management bullish on the outlook

**In PTPP's analyst meeting yesterday, we learnt that the management is confident its FY14F targets will be achieved. And for FY15F, the company remains upbeat, targeting net profits growth of 38%y-y to Rp730bn, underpinned by a growing order book and higher contribution from the property segment. In our view, this target is achievable as PTPP will begin 2015 with Rp29tn of carry-over projects, whilst the new government will want to accelerate much-needed infrastructure projects. Of note, the government's infrastructure development will have a particular focus on water-based projects such as irrigation, dams and seaports – areas where PTPP has been the market leader in the past. Encouraged by these developments, we revise up our earnings estimates by 13%/16% in FY14F/15F. As a result, we raise our TP to Rp3,400, derived from 21.5x 2015 P/E – at par with 1sd above the sector mean. Maintain BUY.**

**To achieve the FY14F targets**

The management expressed optimism it would beat its Rp530bn FY14F net profit target (+26%y-y), despite a lower new contracts target of Rp21.6tn (+10%y-y) with revenues of Rp14.3tn (+22%y-y). Huge carry-over projects from 2013 have been the driver for growth this year since new contracts have been hard to come by following the government's spending cuts. Moreover, better-than-expected profitability from the high margin project in New Priok port and higher contribution from property segment also help to meet the target. Up to October 2014, PTPP had won Rp14.5tn of new contracts, predominately from private projects (51%), with high-rise buildings dominating (77% of projects). Taking into account the 9M14 results and the company's seasonality, we believe the management's targets are at least achievable.

**Solid 38% earnings growth expected in FY15F**

With potential carry-over projects to 2015 of Rp29tn, PTPP looks set to record strong earnings growth in 2015. The management expressed its optimism in this regard, targeting net profits growth of 38%y-y to Rp730bn, backed by the new government's plans to accelerate infrastructure development. New contracts are estimated to increase 23%y-y to Rp27tn, providing the company with Rp56tn of projects in its FY15F order book. The property segment is also expected to deliver with earnings forecast to almost triple to Rp300bn in FY15F from Rp114bn in FY14F, mostly coming from recognition of Grand Kamala Lagoon and Grand Sungkono Lagoon pre-sales.

**Huge capex for property development**

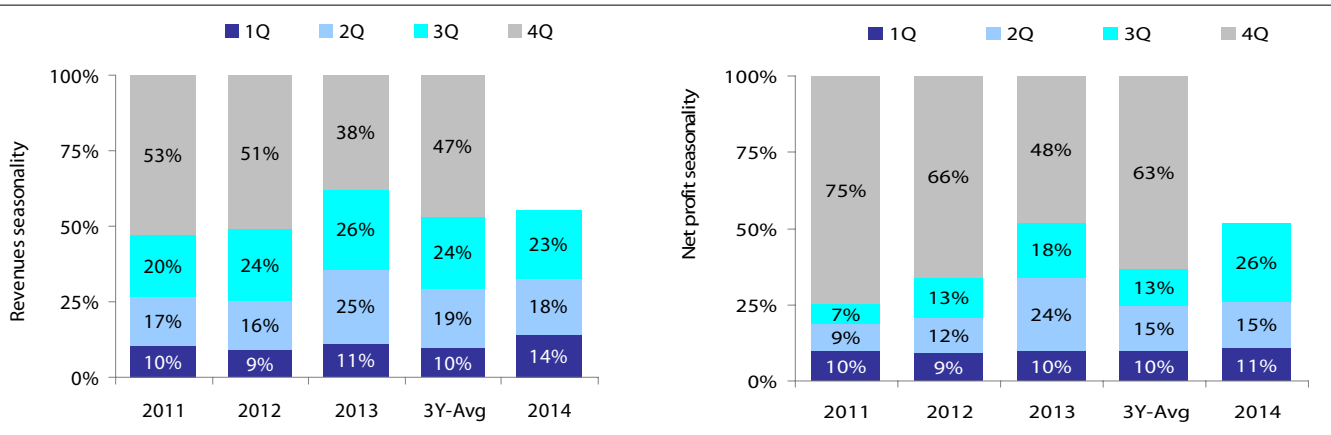
PTPP has set aside Rp1.8tn for capex in FY15F, up significantly from just Rp447bn budgeted for FY14F. The property segment will absorb half of the capex with the remainder to be used for investment in infrastructure and precast factories. Consequently, PTPP plans to raise Rp1.5tn in equity from a 35% stake in PP Properti through an IPO in 2Q15F. Such would bring down PTPP's consolidated net gearing to 0.9-1.0x during the peak cycle from the current 1.4-1.5x, giving the company more room to get projects during the infrastructure up-cycle, we believe.

Year end to Dec	2012	2013	2014F	2015F	2016F
Revenue, Rp bn	8,004	11,656	14,138	17,353	20,246
EBITDA, Rp bn	860	1,188	1,608	1,809	2,057
EBITDA Growth, %	29.6	38.2	35.3	12.5	13.7
Net Profit, Rp bn	310	421	559	759	854
Core Profit, Rp bn	358	486	628	824	930
Core EPS, Rp	74	100	130	170	192
Core EPS Growth, %	28.8	35.6	29.4	31.2	12.8
Net Gearing, %	29.7	(5.5)	28.2	23.7	17.3
PER, x	47.2	34.8	26.1	19.3	17.1
Core PER, x	40.8	30.1	23.3	17.7	15.7
PBV, x	8.8	7.4	6.0	4.9	4.0
EV/EBITDA, x	17.6	12.2	9.5	8.5	7.4
Yield, %	0.6	0.9	1.1	1.6	1.8

**Maintain BUY**

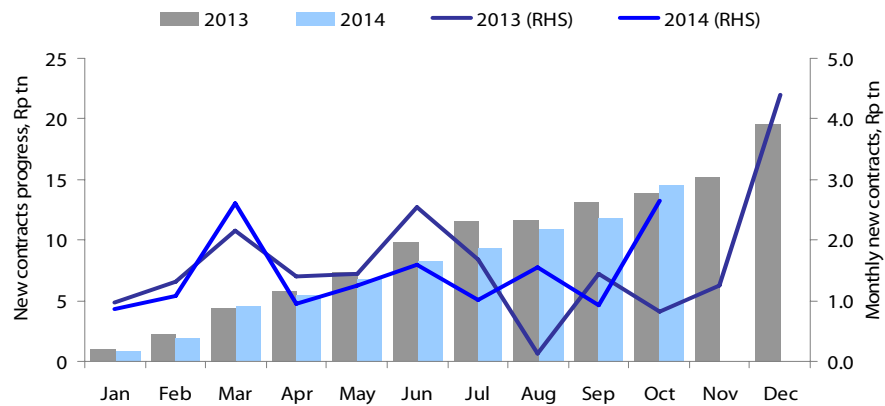
Among the state-owned contractors, PTPP stands out with its huge order book which will nurture its growth story going forward. Encouraged by these developments, we revise up our earnings estimates by 13%/16% in FY14F/15F and now expecting 34% FY13-15F CAGR. Utilizing targeted FY15 P/E of 21.5x – 1sd above the sector mean, we raise our TP to Rp3,400. BUY.

**Exhibit 1. Strong result in the last quarter of the year**

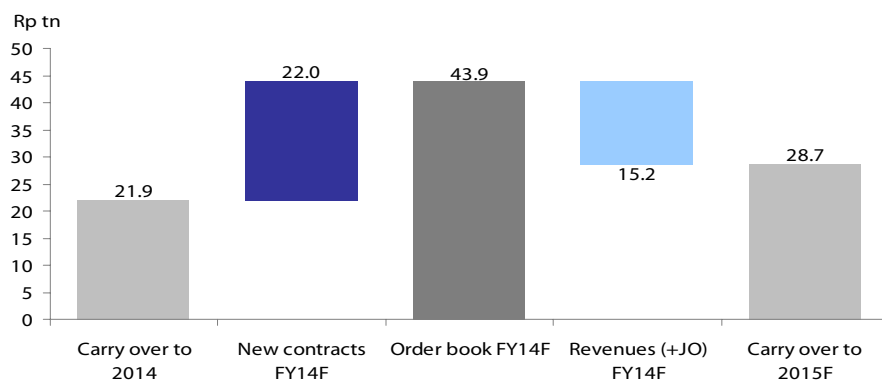


Source: Company, Danareksa Sekuritas

**Exhibit 2. New contracts progress surge in October 2014**



Source: Company

**Exhibit 3. PTPP will start 2015 with huge carry-over projects**

Source: Company

**Exhibit 4. Changes in our forecasts**

(Rp bn)	2013	Current			Previous			Changes, %		
		2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F
New contracts	19,584	21,128	25,369	27,808	21,128	24,369	27,808	-	4.1	-
Order book	35,453	43,061	52,813	61,493	43,061	51,329	59,984	(0.0)	2.9	2.5
Revenues	11,656	14,138	17,353	20,246	14,517	17,325	20,264	(2.6)	0.2	(0.1)
Gross profit - excl. JO	1,273	1,633	1,994	2,273	1,561	1,885	2,227	4.6	5.7	2.1
Operating profit	1,168	1,425	1,742	1,972	1,355	1,643	1,941	5.2	6.0	1.6
Net interest	(283)	(320)	(353)	(381)	(307)	(327)	(347)	4.3	7.9	10.0
Net profit	421	559	759	854	494	655	821	13.3	15.8	4.1

Source: Company, Danareksa Sekuritas

**Exhibit 5. Profit & Loss, Rp bn**

	2012	2013	2014F	2015F	2016F
Revenue	8,004	11,656	14,138	17,353	20,246
COGS	7,149	10,383	12,505	15,359	17,973
Gross profit	855	1,273	1,633	1,994	2,273
Income from JO	142	94	74	89	97
Gross profit incl. JO	996	1,367	1,706	2,082	2,370
Operating expenses	144	200	281	340	399
Operating profit	853	1,168	1,425	1,742	1,972
Net interest	(222)	(283)	(320)	(353)	(381)
Other income (expenses)	(85)	(118)	(121)	(109)	(129)
Pre-tax income	545	767	984	1,280	1,462
Income tax	(236)	(346)	(424)	(521)	(607)
Minority interest	(0)	(0)	(0)	(0)	(0)
Net profit	310	421	559	759	854
Core profit	358	486	628	824	930

Source: Company, Danareksa Sekuritas

**Exhibit 6. Balance Sheet, Rp bn**

	2012	2013	2014F	2015F	2016F
Cash & equivalent	1,303	2,397	1,537	1,318	1,402
Trade receivables	1,339	1,710	2,491	3,057	3,566
Project receivables	2,957	4,679	5,209	6,393	7,459
Inventories	1,566	1,777	2,243	2,755	3,224
Other current assets	1,023	1,339	1,709	2,057	2,370
<b>Total Current Assets</b>	<b>8,189</b>	<b>11,902</b>	<b>13,188</b>	<b>15,580</b>	<b>18,022</b>
LT investments	282	349	444	514	571
Fixed assets	73	142	433	500	576
Other assets	7	24	24	24	24
<b>Total Non-current Assets</b>	<b>362</b>	<b>514</b>	<b>901</b>	<b>1,038</b>	<b>1,171</b>
<b>TOTAL ASSETS</b>	<b>8,551</b>	<b>12,416</b>	<b>14,089</b>	<b>16,618</b>	<b>19,193</b>
ST loans	1,116	945	1,000	1,000	1,000
Trade payables	4,244	6,300	7,592	9,325	10,912
Current portion of LT loans	150	530	190	-	330
Other current liabilities	523	1,001	1,022	1,250	1,459
<b>Total Current Liabilities</b>	<b>6,032</b>	<b>8,776</b>	<b>9,815</b>	<b>11,587</b>	<b>13,713</b>
LT loans	530	813	1,030	1,030	700
Other liabilities	333	842	775	941	1,094
<b>Total Non-current Liabilities</b>	<b>863</b>	<b>1,655</b>	<b>1,856</b>	<b>2,022</b>	<b>1,845</b>
Minority interest	(0)	1	1	1	1
Capital stock	946	947	947	947	947
Retained earnings	709	1,037	1,470	2,062	2,688
<b>Total Equity</b>	<b>1,656</b>	<b>1,985</b>	<b>2,418</b>	<b>3,009</b>	<b>3,636</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>8,551</b>	<b>12,416</b>	<b>14,089</b>	<b>16,618</b>	<b>19,193</b>

Source: Company and Danareksa Sekuritas

**Exhibit 7. Cash Flow, Rp bn**

	2012	2013	2014F	2015F	2016F
Pretax profit	545	767	984	1,280	1,462
Minority interest	(0)	(0)	(0)	(0)	(0)
Tax	(407)	(489)	(467)	(613)	(690)
Depreciation	4	7	163	33	38
Changes in W/C	(399)	(256)	(761)	(668)	(581)
Change in other assets	111	843	(70)	277	254
<b>Cash Flow from Operation</b>	<b>(146)</b>	<b>872</b>	<b>(152)</b>	<b>309</b>	<b>483</b>
Capex	(1)	(76)	(454)	(100)	(115)
Investments	(179)	(102)	(60)	(70)	(57)
<b>Cash Flow from Investing</b>	<b>(180)</b>	<b>(178)</b>	<b>(514)</b>	<b>(170)</b>	<b>(171)</b>
ST loans	204	(171)	55	-	-
Current portion of LT loans	(181)	380	(340)	(190)	330
LT loans	380	283	217	-	(330)
Equity	(0)	1	-	-	-
Dividend & CSR	(79)	(93)	(126)	(168)	(228)
<b>Cash Flow from Financing</b>	<b>323</b>	<b>400</b>	<b>(194)</b>	<b>(358)</b>	<b>(228)</b>
<b>Change in Cash</b>	<b>(3)</b>	<b>1,094</b>	<b>(860)</b>	<b>(219)</b>	<b>84</b>

Source: Company, Danareksa Sekuritas

**Exhibit 8. Key Ratios**

	2012	2013	2014F	2015F	2016F
<b>Profitability, %</b>					
Gross margin - excl. JO	10.7	10.9	11.5	11.5	11.2
Gross margin - incl. JO	12.4	11.7	12.1	12.0	11.7
Operating margin	10.7	10.0	10.1	10.0	9.7
EBITDA margin	10.7	10.2	11.4	10.4	10.2
Net margin	3.9	3.6	4.0	4.4	4.2
Core margin	4.5	4.2	4.4	4.7	4.6
ROAE	20.1	23.1	25.4	28.0	25.7
ROAA	4.0	4.0	4.2	4.9	4.8
<b>Leverage</b>					
Debt to equity, %	108.4	115.2	91.8	67.5	55.8
Net debt to equity, %	29.7	Net cash	28.2	23.7	17.3
Interest coverage, x	3.5	4.0	4.2	4.6	4.9
<b>Turnover, days</b>					
Trade receivables	60	53	63	63	63
Inventories	79	62	65	65	65
Trade payables	214	218	219	219	219
<b>Growth, %</b>					
Revenue	28.4	45.6	21.3	22.7	16.7
Operating profit	30.2	37.0	22.0	22.3	13.2
EBITDA	29.6	38.2	35.3	12.5	13.7
Net profit	28.9	35.9	33.0	35.7	12.5
Core profit	28.8	35.6	29.4	31.2	12.8

Source: Company, Danareksa Sekuritas

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