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NON-RATED

Surya Semesta Internusa (SSIA IJ)

Better times lie ahead

Last price **Rp 620**

Stock Statistics

Sector **Property**
 Bloomberg Ticker **SSIA IJ**
 No of Shares (mn) **4,705**
 Mkt. Cap (Rpbn/USDmn) **2,917/219**
 Avg. daily T/O (Rpbn/USDmn) **7.2/0.5**

Major shareholders

Founder **30.6%**
 Credit Suisse AG, Singapore **7.9%**
 Estimated free float (%) **45.0**

We have just met SSIA's management. While realized industrial land sales in 2016 were not encouraging, the outlook is more promising, with the company expecting to record land sales of 20ha in 2017 (+92.3% yoy). Currently, negotiations are underway with several potential buyers for 28ha of land. In the construction services business, meanwhile, SSIA is eyeing a higher contribution from the infrastructure segment. One potential project is the Serpong-Balaraja toll road with an estimated new contract of Rp300bn. In our desktop valuation for SSIA's NAV, we arrive at NAV per share of Rp1,706. Using this NAV, SSIA currently trades at a 63.4% discount.

Property business: eyeing a 92.3% yoy increase in land sales

Although SSIA only recorded industrial land sales of 1.1ha in 9M16, the company did manage to record total land sales of 10.4ha by the end of 2016 thanks to sizable land sales to an automotive company (6ha) and a Chinese building materials company (3.3ha). For 2017, the company targets land sales of 20ha, 92.3% higher yoy. Note that in January 2017, the company managed to sell 1.5ha. In addition, negotiations are currently underway with several potential buyers for 28ha of land.

Construction: seeking a 17.8% increase in new contracts

After recording flattish new contracts of Rp2.8tn in 2016 (+3.7% yoy), the company aims to record Rp3.3tn of new contracts this year. Since demand for high-rise buildings remains weak, SSIA expects to increase the contribution from the infrastructure segment. As such, the company will participate in the tender for the construction of the Serpong-Balaraja toll road. From this project, the company hopes to record a new contract worth Rp300bn.

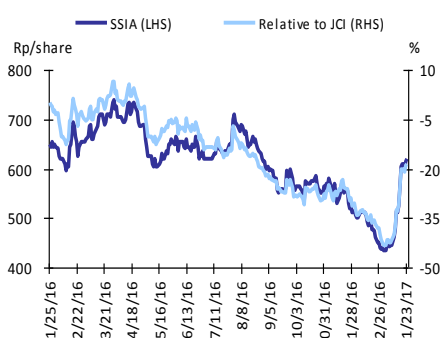
Still exploring opportunities to divest its stake in LMS

Through its joint venture company Baskhara Utama Sedaya (BUS) and its subsidiary Nusa Raya Cipta (NRCA), the company has effective ownership of 22.7% in Lintas Marga Sedaya (LMS), the concession holder of the Cikopo-Palimanan toll road. Currently, the company is exploring opportunities to divest its stake in LMS. Although SSIA has not entered into any negotiations with potential buyers, if the company manages to sell its stake at par to Saratoga (2-3x PBV), we calculate that the company will record gains from the sale of assets worth Rp900-1,500bn.

Valuation

Using a back-of-the-envelope calculation of SSIA's NAV, we arrive at NAV of Rp1,706/share (based on the SOTP based valuation and assuming a WACC of 11.7% and terminal growth of 4.0%). Based on this indicative NAV, SSIA currently trades at a 63.4% discount.

SSIA relative to JCI Index



Source : Bloomberg

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Key Financials

Year to 31 Dec	2012A	2013A	2014A	2015A	9M16
Revenue, (Rpbn)	3,565	4,583	4,464	4,868	3,015
EBITDA, (Rpbn)	1,016	993	671	710	510
EBITDA Growth, (%)	87.8%	-2.3%	-32.5%	5.9%	-26.1%
Net profit (Rpbn)	709	693	417	302	118
EPS (Rp)	150.6	147.3	88.6	64.3	25.1
EPS growth (%)	175.2%	-2.2%	-39.8%	-27.5%	-75.2%
BVPS, (Rp)	335.4	489.1	557.7	618.1	631.7
DPS, (Rp)	6.5	30.0	29.8	17.9	9.6
PER (x)	4.2	4.2	7.1	9.7	24.9
PBV (x)	1.9	1.3	1.1	1.0	1.0
Dividend yield (%)	1.0%	4.8%	4.8%	2.9%	1.5%
EV/EBITDA (x)	(0.6)	(0.4)	0.2	0.6	1.9

Source : SSIA, Danareksa Estimates

Suryacipta City industrial estate plans to enter into a JV

From the total gross licensed area of 1,400ha (net area of 1,083ha), the company has developed 903ha. Hence, only 180ha of net land bank remains in the Suryacipta City industrial estate. Thus, to extend the development area, the company is holding negotiations in a bid to establish a joint venture with a local partner for an additional 300 ha. The company seeks 51% ownership in the JV.

Subang industrial estate: the future flagship project

Considering that limited land bank remains in Suryacipta City in Karawang, SSIA is looking to acquire land bank in the Subang area (specifically, near to the Cipali toll road). By December 2016, the company had managed to acquire 530ha of land (from the total licensed area of 2,000ha) with an average acquisition cost of Rp90,000/sqm. This year, the company also hopes to acquire additional land bank in the area. The allocated capex is Rp750bn.

The company plans to launch the first phase of the project in 2019. The company expects that after the Transjava toll road is fully connected in 2018, logistics and infrastructure access to the Subang industrial estate will be improved. In turn, this will positively impact demand for industrial estate in the area.

Targeting revenues of Rp4tn this year

For 2017, SSIA is targeting consolidated revenues of Rp4tn, or 11.1% higher than 2016's revenues target of Rp3.6tn. From the 2017 target, construction services are expected to contribute Rp2.9tn of revenues. With revenues from industrial estates expected to reach Rp400bn and with increasing hospitality revenues due to the opening of three new Batiqa hotels in 2H16, we believe the revenues target is achievable.

Desktop valuation of NAV per share of Rp1,706

Using a back-of-the-envelope calculation of SSIA's NAV, we arrive at NAV of Rp1,706/share (based on the SOTP based valuation with a WACC of 11.7% and terminal growth of 4.0%). To value the land bank, we use both NAV and costs calculation. Meanwhile, to value the construction business, we use the average 3-year PE of the construction sector multiplied by NRCA's annualized net income added to the corresponding net debt during the period. Meanwhile, for the hospitality business, we use the Gordon Growth model with WACC of 11.7% and terminal growth of 4.0%. Using this NAV of Rp1,706/share, SSIA is currently trading at a 63.4% discount to its NAV.

Exhibit 1. Our NAV per share calculation

	Location	Stakes	Area (ha)	Plot ratio	Price per sqm (Rp mn/sqm)	Method	RNAV (Rp bn)	
Land bank								
	Karawang	West Java	100.0%	246.4	73%	1.4	NAV	2,537
	Kuningan	South Jakarta	100.0%	2.3	75%	136.8	NAV	2,360
	Subang	South Jakarta	100.0%	530.0		0.1	Cost	477
							PE added with net debt of NRCA	1,640
Construction service			62.1%					
Hotel			100.0%				Gordon growth	1,985
Total asset (Rp bn)								8,999
Net debts (Rp bn)								961
Advance from customer (Rp bn)								9
Net asset value (Rp bn)								8,029
Number of shares outstanding (bn shares)								4.7
NAV per share								1,706

Source: Company, Danareksa Sekuritas

Exhibit 2. Income Statement

Year to 31 Dec (Rpbn)	2012A	2013A	2014A	2015A	9M16
Sales	3,565	4,583	4,464	4,868	3,015
COGS	(2,269)	(3,263)	(3,410)	(3,689)	(2,157)
Gross profit	1,296	1,320	1,054	1,179	858
Operating expenses	(376)	(445)	(517)	(621)	(466)
Operating profit	920	875	537	558	392
Other income/expenses	(45)	(30)	(89)	(50)	(122)
Pre-tax profit	880	910	674	549	216
Taxes	(140)	(161)	(158)	(166)	(75)
Net profit	709	693	417	302	118
Core profit	714	582	249	252	200

Exhibit 3. Balance Sheet

Year to 31 Dec (Rpbn)	2012A	2013A	2014A	2015A	9M16
Cash	1,890	1,692	1,173	924	1,535
Receivables	277	699	470	421	464
Inventories	164	459	351	476	368
Other current asset	744	868	908	1,079	1,261
Total current asset	3,075	3,719	2,901	2,900	3,629
Real estate asset	192	49	336	370	481
Investment properties	529	540	758	625	604
Fixed asset	608	942	930	1,130	1,179
Other non-current asset	451	565	1,068	1,440	1,391
Total non-current asset	1,780	2,096	3,092	3,564	3,655
Total asset	4,855	5,815	5,993	6,464	7,284
Account payable	156	346	356	417	566
Short term debt	116	119	248	330	189
Other current liabilities	1,511	1,388	1,123	1,110	620
Total current liabilities	1,783	1,854	1,727	1,857	1,375
Long term debt	1,261	1,199	1,031	1,047	2,308
Other non-current liabilities	167	173	226	222	202
Total non-current liabilities	1,428	1,372	1,257	1,269	2,510
Total liabilities	3,211	3,226	2,985	3,126	3,885
Minority	66	287	385	430	426
Shareholder equity	1,578	2,301	2,624	2,908	2,972
Total liabilities and equity	4,855	5,815	5,993	6,464	7,284

Exhibit 4. Cash Flow

Year to 31 Dec (Rpbn)	2012A	2013A	2014A	2015A	9M16
Net income	709	693	417	302	118
Depreciation and Amort.	137	188	581	271	311
Change in Working Capital	412	(390)	(910)	(352)	(789)
Operating Cash Flow	1,258	490	89	221	(360)
Capex	(397)	(397)	(317)	(339)	(143)
Others Inv. Cash Flow	(407)	(40)	(113)	(143)	32
Investing Cash Flow	(804)	(437)	(429)	(482)	(111)
Net change in debt	858	(84)	(39)	96	1,128
New Capital	0	0	0	0	0
Dividend payment	(31)	(141)	(140)	(84)	(45)
Other Fin. Cash Flow	26	(26)	-	0	0
Financing Cash Flow	853	(251)	(179)	12	1,083
Net Change in Cash	1,306	(198)	(520)	(249)	612
Cash - begin of the year	584	1,890	1,692	1,173	924
Cash - end of the year	1,890	1,692	1,173	924	1,535

Exhibit 5. Key Ratios

Year to 31 Dec	2012A	2013A	2014A	2015A	9M16
Growth (%)					
Sales	23.8	28.6	(2.6)	9.0	(21.8)
EBITDA	87.8	(2.3)	(32.5)	5.9	(26.1)
Operating profit	103.1	(4.9)	(38.6)	3.8	(32.3)
Net profit	175.2	(2.2)	(39.8)	(27.5)	(75.2)
Profitability (%)					
Gross margin	36.3	28.8	23.6	24.2	28.5
EBITDA margin	28.5	21.7	15.0	14.6	16.9
Operating margin	25.8	19.1	12.0	11.5	13.0
Net margin	19.9	15.1	9.3	6.2	3.9
ROAA	14.6	11.9	7.0	4.7	1.6
ROAE	44.9	30.1	15.9	10.4	4.0
Leverage					
Net Gearing (%)	(34.9)	(16.0)	3.5	13.6	28.3
Interest Coverage (%)	10.1	15.3	7.5	5.2	6.7

Source : SSIA

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