Maybank Kim Eng

Real Estate

Indonesia

Lippo Cikarang (LPCK IJ)

Waiting for next big bang

HOLD *[Prior:BUY]*

Share Price	IDR 1,520
12m Price Target	IDR 1,600 (+5%)
Previous Price Target	*IDR 6,529*

Different focus; D/G to HOLD with TP of IDR1,600

Downgrade to HOLD from BUY in view of a lack of near-term catalysts. Asset monetisation is slower than expected as LPCK sells more selling residential properties and not industrial land. Our new TP of IDR1,600 is 76% lower due to a changing presales mix, overhang in Meikarta project as well as rights adjustments. This is still based on a 49% discount to RNAV, near -1SD of its 5-year mean. While we model double-digit presales growth for its peers, we model +8% YoY for LPCK for FY19E and +16%/+4% YoY for FY20-21E. Switch to Puradelta (DMAS IJ, IDR304, BUY, IDR360) in the sector for its stronger presales growth and higher profitability.

Positive on new mass-market project

Since 2015, LPCK has been developing apartments to maximise the value of its 434ha land bank. But as the apartment market appears saturated, it will soon supply landed homes for the mass market, in 2H19. We are upbeat as demand for landed homes at IDR600m each is expected to be well absorbed by the market. We believe its presales target of IDR1,000b, down 4% YoY, for this year can be achieved on the back of its new focus.

Meikarta project carries a high risk

LPCK's main purpose of its recent USD213m rights issue was to raise funds for its MSU Meikarta project. About USD200m is needed for the completion of Phase 1A construction (60 towers). We see the apartment market in Lippo CIkarang to be saturated with additional 34 apartment towers totalling 10,000 units supplied in the past four years while Meikarta aspires to build 200,000 apartment units.

Changes in estimates

With changing property projects in its pipeline, our FY19-21E presales estimates have been adjusted by -8%/+2%/-16%. This, along with rights adjustments, changes our EPS by -44%/-13%/-10%.

FYE Dec (IDR b)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	1,501	2,210	1,026	1,308	1,473
EBITDA	426	1,063	351	469	486
Core net profit	367	2,155	364	432	458
Core EPS (IDR)	527	3,096	136	161	171
Core EPS growth (%)	(32.0)	487.2	(95.6)	18.8	5.9
Net DPS (IDR)	0	0	0	0	0
Core P/E (x)	5.7	nm	11.2	9.4	8.9
P/BV (x)	0.3	0.1	0.4	0.4	0.4
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAE (%)	6.2	30.1	4.4	4.3	4.3
ROAA (%)	4.1	20.6	3.5	3.5	3.4
EV/EBITDA (x)	4.2	0.6	7.1	4.9	4.1
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	na	na	na
MKE vs. Consensus (%)	-	-	na	na	na

Company Description

Lippo Cikarang is an industrial estate company which expanded its business to develop integrated mega project called Orange County with area of 300ha.

Statistics

52w high/low (IDR)	2,727/1,152
3m avg turnover (USDm)	0.6
Free float (%)	19.0
Issued shares (m)	2,680
Market capitalisation	IDR4.1T
	USD286M

Major shareholders:

Kemuning Setiatama	81.0%

Price Performance

	-1M	-3M	-12M
Absolute (%)	(13)	(8)	(24)
Relative to index (%)	(11)	(7)	(25)

Source: FactSet

Link to sector note:

Indonesia Property - Industrial estates: front, forward and centre | POSITIVE

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Successful USD213m rights issue

LPCK has completed issuing rights which were fully underwritten by its major shareholder, Lippo Karawaci (LPKR IJ, IDR280, BUY, TP IDR400). It raised IDR2,965b (USD213m) and LPKR now holds 81% of LPCK, up from 54%. The rights were priced at IDR1,495, with 1.9836b units issued, 285 for every 100 shares.

A major part of the proceeds will be used as a shareholders' loan to PT MSU (Non-listed), its 49.72% subsidiary which is developing the Meikarta project. The loan will mature in five years and is extendable by another five. Interest rate is 10.0% pa.

Fig 1: Shareholding structure

	Pre-rights issue		Post rights issue	
Shareholder	**No. of shares**	**%**	**No. of shares**	**%**
Kemuning Setiatama	293,706,000	42%	2,085,811,178	78%
Other Lippo related companies	166,041,797	24%	80,388,000	3%
Public	236,252,203	34%	513,400,822	19%
Total	696,000,000	100%	2,679,600,000	100%

Source: Company data

Update on Meikarta

During our recent visit to Meikarta, we saw progress since its launch in mid-2017. District 1 – Phase 1A has 28 apartment towers with about 8,000 units under construction. Handover to buyers is expected by Feb 2020. About more than 90% has been sold. Using proceeds from the rights issue, Meikarta plans to launch another 30 towers dubbed the University District.

Despite its low average pricing of IDR7m/sqm, management claims that Meikarta is profitable with gross margins of 15-20% for District 1. This is made possible by sourcing from China and buying raw materials in bulk. Management plans to increase prices in future launches. Our checks on neighbouring apartments indicate pricing of above IDR15m/sqm, more than double Meikarta's pricing.

Fig 2: Apartment towers in Meikarta set to complete building construction in Aug 2019

Source: Maybank Kim Eng

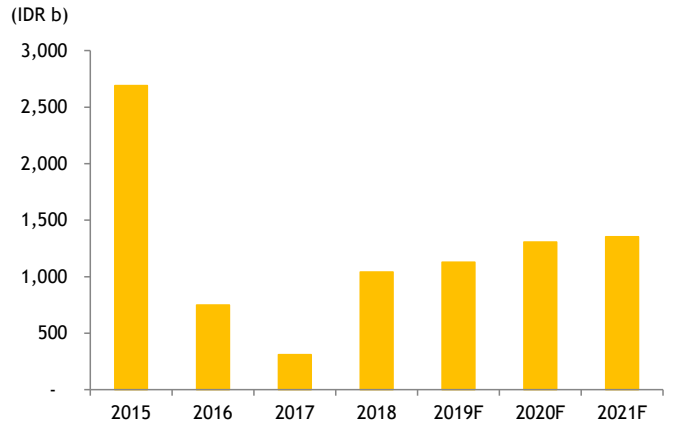
Fig 3: District 1 - Phase 1A apartment towers

Source: Maybank Kim Eng

After selling nearly 8,000 apartment units in just two years, management will shift its focus to selling landed housing in Lippo Cikarang. It plans to launch a new mass-market landed residential project with a total area of 70 ha which can supply about 3,000 units. Pricing will be around IDR600m/unit or USD43k, which is affordable to low-middle-income groups.

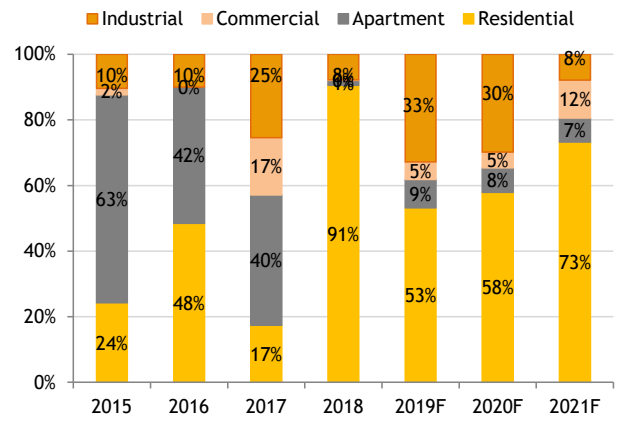
We expect LPCK's presales to be increasingly dominated by landed residential properties. This will be positive for its working capital as the construction of landed housing requires less time and typically yields higher margins than apartments.

Fig 4: Annual presales…



Source: Company data, Maybank Kim Eng

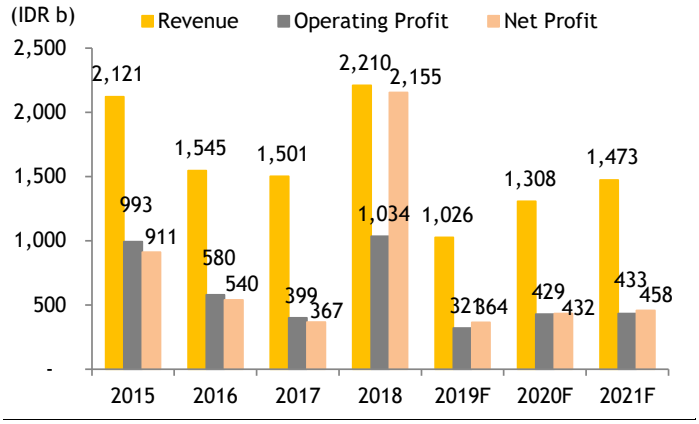
Fig 5: …and contributions of each property type



Source: Company data, Maybank Kim Eng

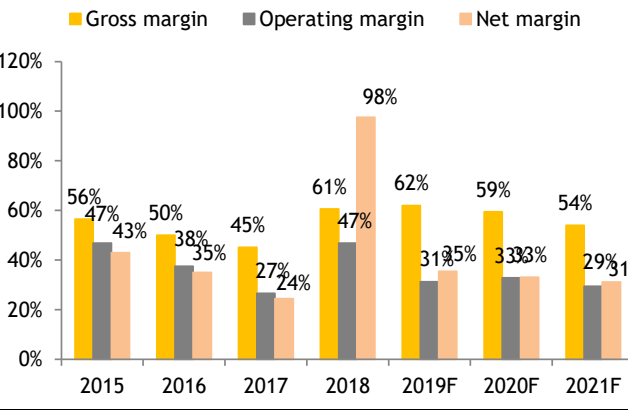
Following extraordinary revenue bookings in FY18 from land-block sales to MSU, we expect revenue to normalise from FY19E. As LPCK operates with minimal leverage, we expect the bulk of its operating profits to trickle down to net profits. Net-profit growth will be mild, in our estimation, in line with presales growth of +8% in FY19E.

Fig 6: Revenue, operating profits, net profits



Source: Company data, Maybank Kim Eng

Fig 7: Margins [pls make numbers smaller so they don't overlap]



Source: Company data, Maybank Kim Eng

Changes in forecasts

Our presales numbers for FY19E-21E have been changed by -8%/+2%/-16% to account for its current property projects. Subsequently, we assume lower revenue. Particularly for FY19E, our revenue is down by 43% from high recognition in FY18 of its large land-plot sales. We expect gross-margin expansion as a result of lower apartment sales in the next three years. With minimal costs below the EBIT line, these changes lead to similar-magnitude cuts of -44%/-13%/-10% in our net-profit estimates.

Fig 8: Changes in forecasts

(IDR b)	2019F			2020F			2021F		
	Old	New	+/- %	Old	New	+/- %	Old	New	+/- %
PRE-SALES									
Residential	565	600	6%	593	756	27%	623	992	59%
Apartments (excl. Meikarta)	478	98	-79%	502	98	-80%	528	98	-81%
Commercial	49	60	22%	51	63	22%	161	157	-3%
Industrial	131	370	183%	137	389	183%	308	107	-65%
Total	**1,223**	**1,128**	-8%	**1,284**	**1,306**	2%	**1,620**	**1,354**	-16%
REVENUE									
Industrial and commercial land	170	401	136%	179	450	152%	187	216	15%
Houses and shophouses	1,265	179	-86%	983	382	-61%	1,033	748	-28%
Property sales	**1,435**	**580**	-60%	**1,162**	**832**	-28%	**1,220**	**964**	-21%
Town management	334	301	-10%	384	332	-14%	442	365	-17%
Others	46	144	213%	46	144	213%	46	144	213%
Total Revenues	**1,815**	**1,026**	-43%	**1,592**	**1,308**	-18%	**1,708**	**1,473**	-14%
EBIT	699	321	-54%	562	429	-24%	572	433	-24%
Net Profit	646	364	-44%	499	432	-13%	511	458	-10%
(%)	**Old**	**New**	**+/- ppt**	**Old**	**New**	**+/- ppt**	**Old**	**New**	**+/- ppt**
Gross margin	51%	62%	10.9	51%	59%	8.5	51%	54%	3.3
EBIT margin	38%	31%	(7.2)	35%	33%	(2.5)	33%	29%	(4.1)
Net margin	36%	35%	(0.1)	31%	33%	1.7	30%	31%	1.2

Source: Maybank Kim Eng

Post its rights issue, its book value is enlarged by nearly 50% to IDR9,872b in FY19E. Even with larger equity, LPCK will still not tap into debt financing anytime soon as its parent company, LPKR plans to de-leverage on the consolidated level. We expect its investment to MSU to increase by nearly IDR3.0t to IDR4.0t from the USD200m shareholder loan. We estimate LPCK's total investment to MSU will total to IDR5,140b with accumulated share in net loss of around IDR1,100b by YE-2019.

Valuation and risks

We downgrade LPCK to HOLD from BUY in view of limited near-term catalysts. Asset monetisation will be slower as LPCK focuses on selling more residential properties rather than industrial land. Moreover, its huge investment in Meikarta project will still likely to be an overhang for a longer period.

Our new TP of IDR1,600 is 76% lower due to a changing presales mix as well as rights adjustments. This is still based on a 49% discount to RNAV, near -1SD of its 5-year mean. While we model double-digit of more than 15% YoY in FY19E growth for its peers, we model +8% YoY for LPCK for FY19E and +16%/+4% YoY for FY20E-21E. Switch to Puradelta (DMAS IJ, IDR304, BUY, TP IDR360) in the sector for its high earnings visibility and dividend yield.

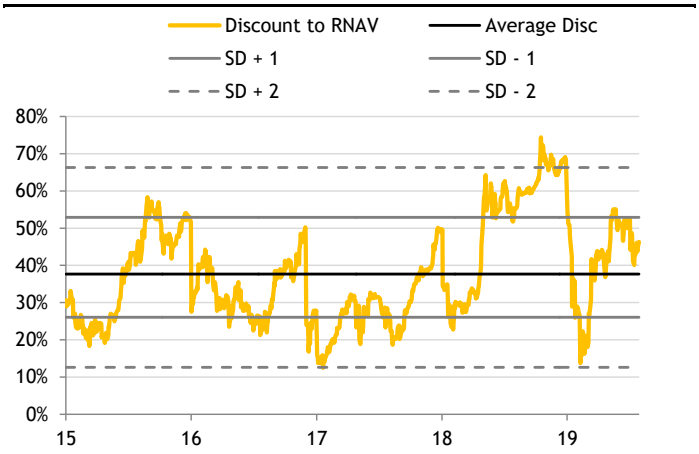
Upside risks to our view include earlier-than-expected Meikarta contributions and stronger-than-expected presales for new projects. Downside risks include delays in construction and weak property demand for its projects.

Fig 9: RNAV

	Gross Landbank (hectares)	Estimated Value (IDRb)	Ownership (%)	Value of Ownership (IDRb)
PROPERTY DEVELOPMENT				
Industrial	262	2,960	100%	2,960
Residential	142	2,302	100%	2,302
Commercial	35	1,254	100%	1,254
TOTAL				6,516
MEIKARTA		2,305	47.2%	1,088
Customer Advance (2019F)				(924)
Net Cash (2019F)				1,796
RNAV				8,477
# of Shares (m)				2,680
RNAV per share				3,163
Target price				**1,600**
Discount to RNAV				-49%

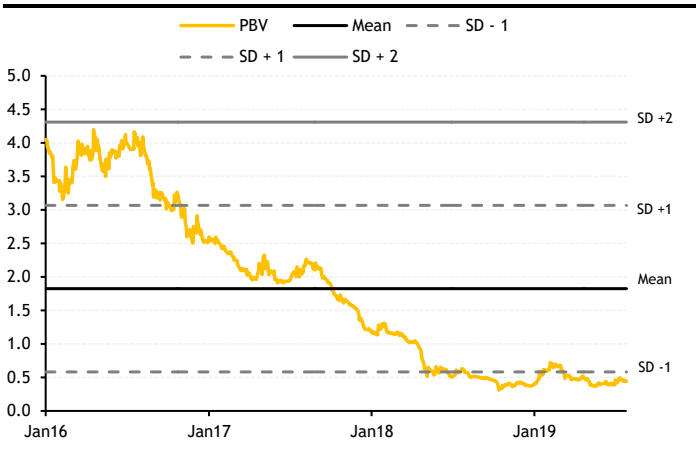
Source: Maybank Kim Eng

Fig 10: Discount to RNAV band (1-year forward)



Source: Bloomberg, Maybank Kim Eng

Fig 11: P/BV band (1-year forward)

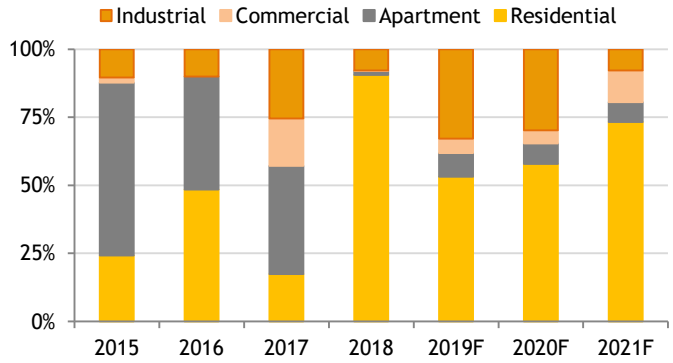


Source: Bloomberg, Maybank Kim Eng

Value Proposition

- Leading mixed-use and industrial estate developer, Lippo Cikarang, sits on 434 ha of low cost, strategic land bank in the most prime industrial area in Cikarang, West Java.
- Tapping on parent company's strong expertise in township development, LPCK offers apartment for expatriates in the industrial estate, a successful and unique product.
- Selling residential, commercial and industrial properties spreads the revenue risk over a larger product base, achieving a steadier and sturdier business model.

Annual presales contribution by property type



Source: Company data, Maybank Kim Eng

Price Drivers

Historical share price trend

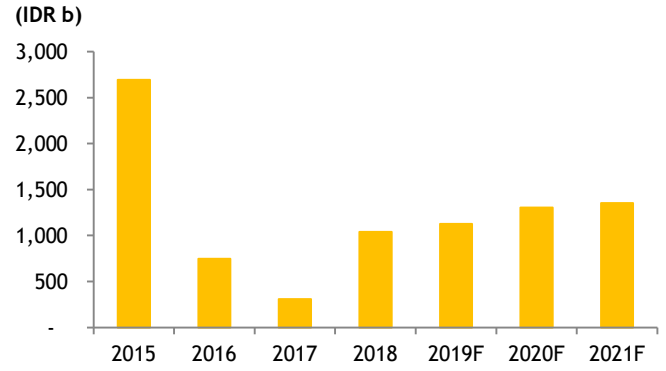
Source: Company, Maybank Kim Eng, Factset

1. Slowing down of GDP growth to below 5.0%.
2. Weak expectations of presales in 2016.
3. Launching of Meikarta in May 2017.
4. Announcement of the USD213m fully underwritten rights issue.

Financial Metrics

- Annual presales bookings will be crucial for Lippo Cikarang as it will set the pace of its earnings momentum in the forward years.
- We forecast presales growth to decline by 59% in FY19E with slower growth ahead from oversold apartment segment and less competitive industrial estate.
- Due to changing presales outlook in FY19E onwards, earnings growth in FY19E-21E will be lower than historical years.

Annual presales of Lippo Cikarang



Source: Company data, Maybank Kim Eng

Swing Factors

Upside

- Strong future presales take up for its properties
- Strong investment inflow triggering purchase of industrial land.
- Promotion of industrialisation and simplification for doing business by foreign enterprise in the country

Downside

- Restriction on size of industrial estates by the Government which will limit expansions.
- Restriction of foreign investments in Indonesia.
- Heightening competition of industrial estates land prices and minimum wage in the region.

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FYE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Key Metrics					
P/E (reported) (x)	7.9	nm	11.2	9.4	8.9
Core P/E (x)	5.7	nm	11.2	9.4	8.9
P/BV (x)	0.3	0.1	0.4	0.4	0.4
P/NTA (x)	0.3	0.1	0.4	0.4	0.4
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
FCF yield (%)	nm	341.8	33.0	7.4	11.0
EV/EBITDA (x)	4.2	0.6	7.1	4.9	4.1
EV/EBIT (x)	4.5	0.6	7.8	5.4	4.6
INCOME STATEMENT (IDR b)					
Revenue	1,501.0	2,210.0	1,025.7	1,307.6	1,473.0
Gross profit	677.0	1,340.0	635.1	776.8	795.7
EBITDA	426.0	1,063.0	351.4	468.5	485.7
Depreciation	(27.0)	(29.0)	(30.4)	(39.7)	(52.8)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	399.0	1,034.0	321.0	428.8	432.8
Net interest income /(exp)	7.0	(10.0)	95.0	70.0	100.0
Associates & JV	20.0	(1,137.0)	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	(1.0)	2,446.0	0.0	0.0	0.0
Pretax profit	425.0	2,333.0	416.0	498.8	532.8
Income tax	(56.0)	(112.0)	(52.0)	(66.3)	(74.6)
Minorities	(2.0)	(66.0)	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	367.0	2,155.0	364.0	432.5	458.2
Core net profit	367.0	2,155.0	364.0	432.5	458.2
BALANCE SHEET (IDR b)					
Cash & Short Term Investments	579.0	623.0	1,996.0	2,199.0	2,513.9
Accounts receivable	248.0	706.0	168.6	214.9	242.1
Inventory	7,969.0	3,967.0	4,165.4	4,373.6	4,592.3
Property, Plant & Equip (net)	100.0	94.0	158.2	248.1	803.2
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	990.0	1,103.0	4,046.0	4,046.0	4,046.0
Other assets	2,492.0	2,097.0	1,473.5	1,741.2	2,068.2
Total assets	**12,378.0**	**8,590.0**	**12,007.7**	**12,822.8**	**14,265.7**
ST interest bearing debt	200.0	0.0	200.0	200.0	200.0
Accounts payable	783.0	533.0	390.6	530.8	1,354.6
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	3,674.0	1,163.0	1,312.0	1,555.0	1,716.0
Total Liabilities	**4,657.0**	**1,696.0**	**1,902.9**	**2,285.5**	**3,270.3**
Shareholders Equity	7,646.0	6,661.0	9,871.8	10,304.3	10,762.5
Minority Interest	75.0	233.0	233.0	233.0	233.0
Total shareholder equity	**7,721.0**	**6,894.0**	**10,104.8**	**10,537.3**	**10,995.5**
Total liabilities and equity	**12,378.0**	**8,590.0**	**12,007.7**	**12,822.8**	**14,265.7**
CASH FLOW (IDR b)					
Pretax profit	425.0	2,333.0	416.0	498.8	532.8
Depreciation & amortisation	27.0	29.0	30.4	39.7	52.8
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(3,416.0)	1,208.0	1,044.9	(39.2)	544.1
Cash taxes paid	(56.0)	(112.0)	(52.0)	(66.3)	(74.6)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	(3,022.0)	3,392.0	1,439.3	433.0	1,055.1
Capex	(39.0)	(23.0)	(94.6)	(129.6)	(607.9)
Free cash flow	(3,061.0)	3,369.0	1,344.7	303.4	447.2
Dividends paid	0.0	0.0	0.0	0.0	0.0
Equity raised / (purchased)	0.0	(30.0)	2,846.8	0.0	0.0
Change in Debt	200.0	(200.0)	200.0	0.0	0.0
Other invest/financing cash flow	2,760.0	(3,095.0)	(3,018.4)	(100.4)	(132.2)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(101.0)	44.0	1,373.0	202.9	315.0

FYE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Key Ratios					
Growth ratios (%)					
Revenue growth	(2.8)	47.2	(53.6)	27.5	12.7
EBITDA growth	(31.3)	149.5	(66.9)	33.3	3.7
EBIT growth	(31.2)	159.1	(69.0)	33.6	0.9
Pretax growth	(30.3)	448.9	(82.2)	19.9	6.8
Reported net profit growth	(32.0)	487.2	(83.1)	18.8	5.9
Core net profit growth	(32.0)	487.2	(83.1)	18.8	5.9
Profitability ratios (%)					
EBITDA margin	28.4	48.1	34.3	35.8	33.0
EBIT margin	26.6	46.8	31.3	32.8	29.4
Pretax profit margin	28.3	nm	40.6	38.1	36.2
Payout ratio	0.0	0.0	0.0	0.0	0.0
DuPont analysis					
Net profit margin (%)	24.5	97.5	35.5	33.1	31.1
Revenue/Assets (x)	0.1	0.3	0.1	0.1	0.1
Assets/Equity (x)	1.6	1.3	1.2	1.2	1.3
ROAE (%)	6.2	30.1	4.4	4.3	4.3
ROAA (%)	4.1	20.6	3.5	3.5	3.4
Leverage & Expense Analysis					
Asset/Liability (x)	2.7	5.1	6.3	5.6	4.4
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	103.4	na	na	na
Debt/EBITDA (x)	0.5	0.0	0.6	0.4	0.4
Capex/revenue (%)	2.6	1.0	9.2	9.9	41.3
Net debt/ (net cash)	(379.0)	(623.0)	(1,796.0)	(1,999.0)	(2,313.9)

Source: Company; Maybank

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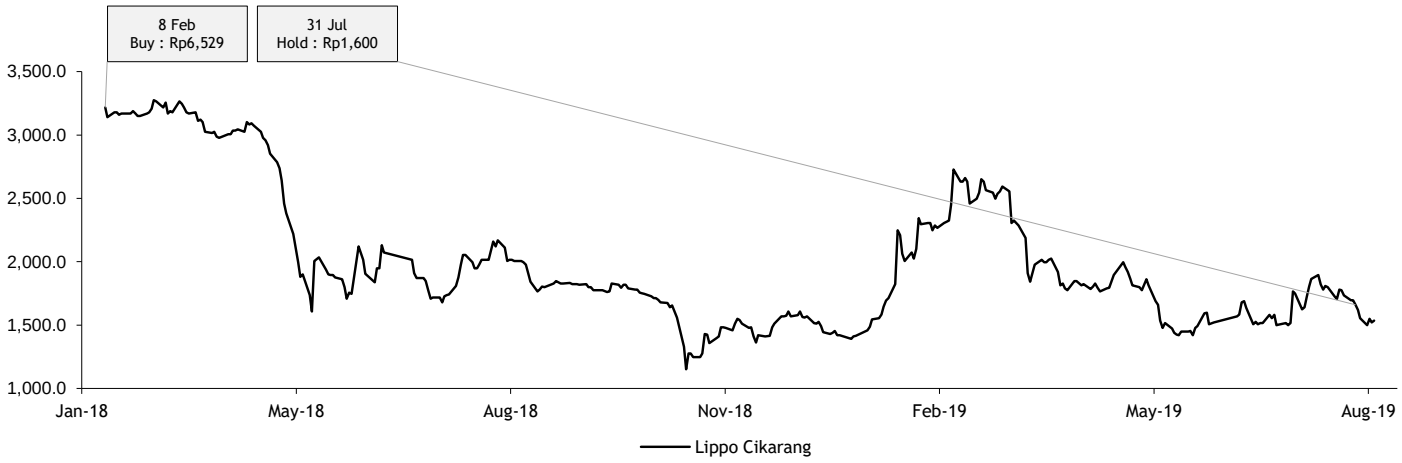

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