

20 February 2017

On Tuesday (14/2), one of PTPP's subsidiaries, PPRO, has performed the 1:4 stock splits, bringing its share price moved to IDR 320/share. Another agenda for PPRO in 1H17 is the right issue plan with target proceeds of IDR 1.5tn. PPRO will issue new shares up to 7.33bn on top of the existing 56.2bn shares (post-stock split) that will dilute the existing shareholder by ~12%. Assuming current PPRO share price of IDR 346/share post-stock split with the initial target proceeds and maximum new shares, PPRO rights price will stand at ~ IDR 205/share or 38% discount to TERP. Moving forward, PPRO has appointed three underwriters who may also act as standby buyers. PTPP as a parent company owned 65% of PPRO stake, thus PTPP needs to inject at least IDR 1tn of cash to maintain its majority ownership. On the other hand, PTPP will get additional IDR 500bn cash from public. Furthermore, PTPP itself has reported a good number to start the year of 2017 with new contracts progress already reached IDR 4.3tn in January (11% of full-year target). Besides, it also reported FY16 NPAT (excl. minority) of IDR 1.15tn (+36% yoy). We do not see the FY16 figures as a surprise since PTPP is consistently meeting target guidance since IPO. After receiving the rights issue proceeds of IDR 4.4tn last year, PTPP has doubled its equity base to IDR 10tn by FY16 which in our view could give more room to leverage and become more aggressive in getting new contracts for this year.

**Our view: We view the right issue overhang will put pressure on PPRO stock price where the TERP will stand at around IDR 330/share according to our calculation. Besides, the stock trades at a premium in which T12M P/E stands at 34.1x. We view the stock is quite expensive considering the company only has ±65ha of land bank. We still prefer its parent company, PTPP with BUY recommendation (TP 4.500). However, PPRO's right issue plan most probably will give pressure on PTPP's share price since PTPP has to inject about IDR 1tn of cash to maintain its ownership. Regardless, we believe PTPP is still able to deliver a good performance supported by a stronger order book, higher contribution from EPC projects, and lower interest expense on the back of a stronger balance sheet post-right issue last year.**

<u>Assumptions</u>	
Outstanding shares (bn)	56.18
PTPP injection (IDR bn)	1,000
Total proceeds (IDR bn)	1,500
Current price (16/02/2017) (IDR)	346
	<b>Scce. 1</b>
New shares (bn)	7.33
Theoretical ex-rights price (TERP) (IDR)	330
Exercise price (IDR)	205
<b>Discount to current price</b>	<b>-95.13%</b>
<b>Discount to TERP</b>	<b>-37.93%</b>
Outstanding shares post rights (bn)	63.51

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Sector	Construction
Bloomberg Ticker	PTPP IJ
Market Cap (IDR Tn)	IDR 22.26
Share Out/ Float (M)	6,200/3,704
Current Price	IDR 3,590
52 - Week Target Price	IDR 4,500
Upside (%)	25.3%

**Share Price Performance**

52 W High (08/05/16)	4,610
52 W Low (05/20/16)	3,137
52 W Beta	0.792
YTD Change (%)	-5.77%

**Relative Valuations**

Trailing P/E	19.7x
Forward P/E	15.6x
P/BV	3.7x
EV/EBITDA	13.8x

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