

Electricity generation and distribution with solid and stable operational performance.

Cikarang Listrindo (POWR) is one of the longest running private power plant company which engages in electricity generation and distribution. The company generates its electricity through gas fired power plant (GFPP) and coal fired power plant (CFPP) with total installed capacity of 1,144MW. As one of the IUKU holder, POWR distributes electricity to PLN and five industrial estates (IE). As of 2018, POWR serves 2,411 customers, growing steadily each year with low churn rate level (0.4% in FY18). Overall, as a power plant company, POWR also benefitted from rising government focus towards FDI as incentives given by the government could encourage investors and business players to invest in the country with the possibility of operating under five IE area supplied by POWR.

Margin expansion. Going forward, we expect POWR's gross margin to expand, driven by the latest coal fired power plant units addition which was established in 2017 and have been running since then. Although CFPP requires higher capex, it provides cheaper electricity generation cost due to better efficiency. With tariff remains similar, it will be margin lucrative for the company. We estimate POWR's gross margin to further expand in 2019 to 37.9%(vs 37.5% in FY18 vs 36.7% in FY17).

Attractive dividend yield. The company promised to distribute regular and interim dividend with total payout ratio of above 60% as communicated during IPO. For 2019, assuming 82% dividend payout ratio from FY18 net income, we estimate total dividend per share (DPS) of IDR 58/share (6.2% yield from current price).

We initiate coverage on PT Cikarang Listrindo Tbk (POWR) with a BUY rating and end-of-FY19 TP of IDR 1,350, derived from EV/EBITDA of 7.9x. We give a buy recommendation on the back of POWR's excellence operational performance paired with healthy balance sheet and cashflow. Moreover, we believe undemanding valuation at current price and high dividend yield should provide an attractive entry point as investors could reap profit from both capital gain (45.2% potential upside) and dividend.

Highlights (USD Mn)	2017	2018	2019F	2020F	2021F
Revenue	566	574	585	596	605
% growth	2.8%	1.4%	1.9%	1.8%	1.5%
Gross Profit	208	215	222	226	231
EBITDA	196	217	226	230	234
Net Profit	107	79	107	110	114
% growth	3.4%	-26.5%	35.8%	2.8%	3.4%
Gross Margin (%)	36.7%	37.5%	37.9%	38.0%	38.2%
Net Margin (%)	19.0%	13.7%	18.3%	18.5%	18.8%
Return on Equity (%)	16.8%	12.3%	15.7%	15.2%	14.8%
Return on Assets (%)	8.1%	6.0%	7.9%	7.9%	7.9%
EPS (USD)	0.0067	0.0049	0.0067	0.0068	0.0071

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Stock Information

Sector	Energy
Bloomberg Ticker	POWR IJ
Market Cap. (IDR tn)	14.9
Share Out./Float (mn)	16,087/2,388
Current Price	IDR 930
52-week Target Price	IDR 1,350
Upside (%)	45.2%

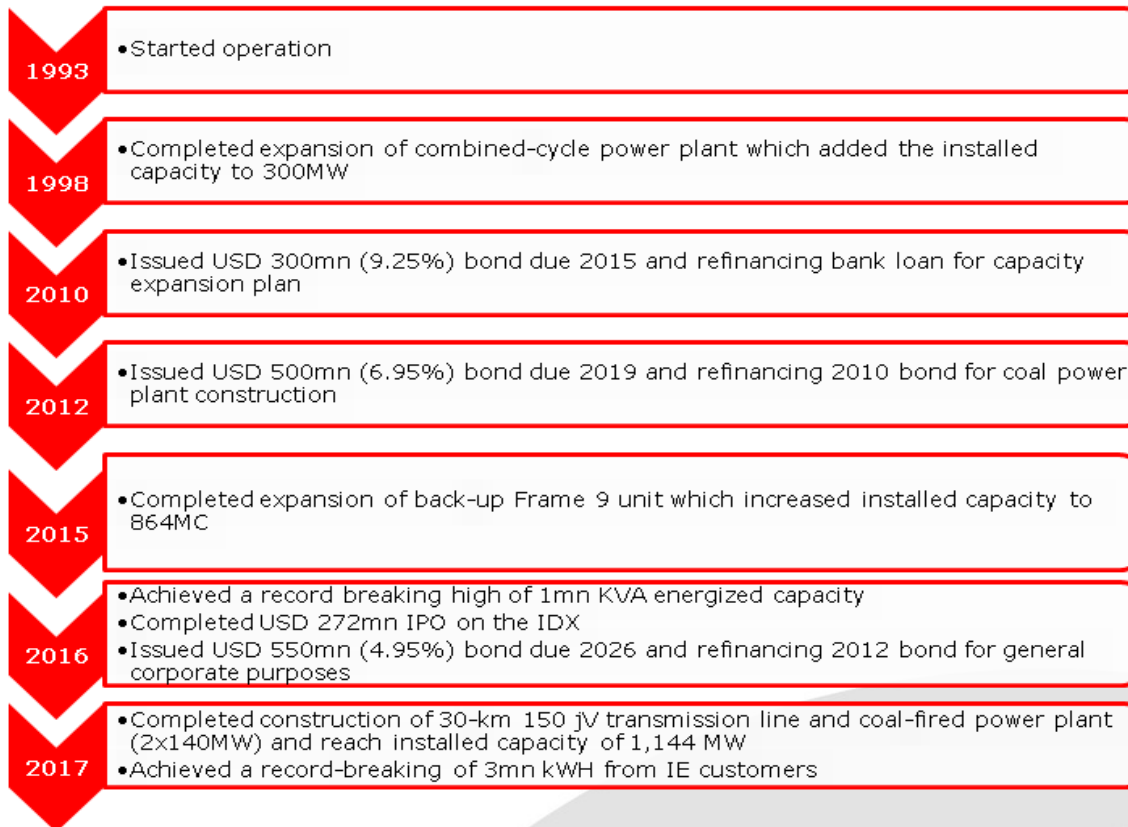
Share Price Performance

52W High (04/17/18)	1,200
52W Low (01/28/19)	825
52W Beta	0.1
YTD Change (%)	4.5%

Relative Valuations

Trailing P/E	13.5x
Forward P/E	9.6x
P/BV	1.7x
EV/EBITDA	6.4x

Company Background



A glimpse of the oldest private power plant company in Indonesia. Cikarang Listrindo (POWR) is one among the 36 companies which was given Electricity Undertaking Licenses to Supply to the Public (IUKU) from the Government that is considered as the longest-running independent power producer engaged in electricity generation and distribution in Indonesia, which started the operation back in 1993. As the main business is to generate and distribute electricity, POWR independently builds and operates its own power plant and distribution line. The electricity produced by the company is then being sold to Industrial Estate (IE) customers in five neighboring estates in Cikarang area.

Electricity generation. To generate its electricity, the company owns and operates two gas-fired power plants (GFPP) with total capacity of 864MW, which located in Jababeka region and MM-2100 Industrial Town with total area of 16ha and 12ha respectively. To further extend its capacity, in 2017, the company established two units of coal-fired power plants (CFPP) with capacity of 140MW each, hence bringing POWR's total installed capacity to 1,144MW. POWR also operates a 20kV distribution system spanning 1,442km and more than 30km of 150kV transmission system that connects the GFPP Jababeka, GFPP MM-2100 and CFPP Babelan. The company is also able to maintain low energy losses in transmission and distribution networks at below 1%. The company managed to record energy losses in distribution of 0.7%, stable for the past few years.

POWR's Power Plants



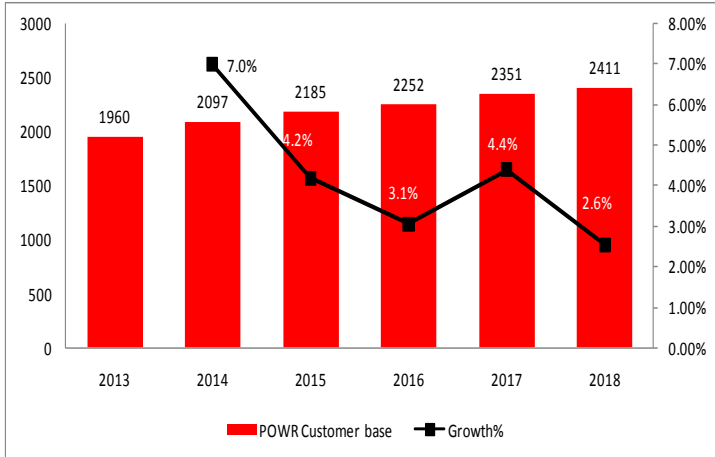
Source: Company data, Sinarmas Investment Research

POWR uses natural gas and coal as the main source of fuel for the power plant in order to generate electricity. POWR obtains natural gas from two suppliers which are PT Pertamina and PGN with long term sale-and-purchases agreement. Meanwhile, POWR purchases 4,200-4,400 kcal/kg calorific value coal from PT Antang Gunung Meratus (AGM), a subsidiary of PT Baramulti Suksesarana (BSSR) that is located in South Kalimantan and also 4,100 kcal/kg from Adaro (ADRO).

Cikarang Listrindo's business segment. As a holder of IUKU Licenses, the company is given a dedicated area of supply in five industrial estates with total area of 4,740ha, including Jababeka Phase 1-IV, MM-2100 Industrial Town, East Jakarta Industrial Park (EJIP), Hyundai Inti Development, and Lippo Cikarang (Delta Silicon I,III, and IV) as well as its expansion. The company currently serves and supplies electricity to 2,411 customers in the industrial estates with total electricity consumption of 3196Gwh as of FY18. Among those customers, 72% are multi-national companies engage in various sectors such as automobiles, electronics, plastics, food, chemicals, etc. Infrastructure developments that shall be generating positive impacts on the industrial estates in Cikarang are, among others: Patimban Port in Subang and Kertajati Airport in Majalengka, Light Rail Transport (LRT) Cawang-East Bekasi-Cikarang, Jakarta-Bandung Rapid Train, monorail, addition of lanes on the Jakarta-Cikampek Toll Road and Jakarta-Cikampek II Elevated Toll Road. POWR's sales growth is mainly driven from higher usage of existing customer and additional electricity demand from new customers.

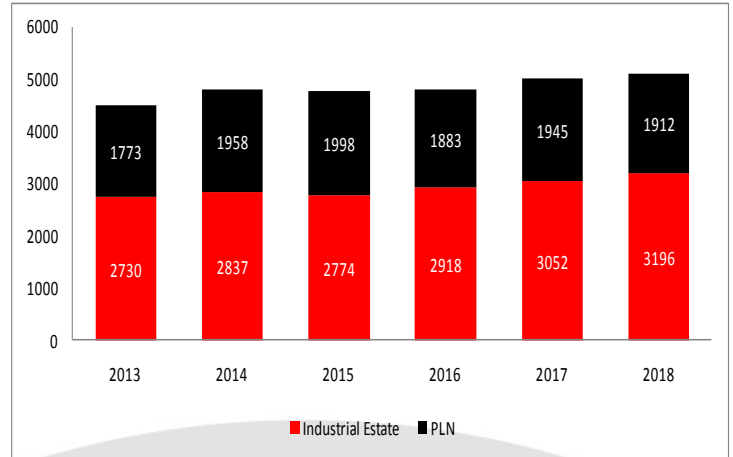
Furthermore, POWR also supplies electricity to Perusahaan Listrik Negara (PLN), the state-owned electricity company, under an Electrical Power Supply and Purchase Agreement ("EPSPA") with total electricity consumption of 1,912Gwh as of FY18. The revenue contribution from Industrial Estates customers and PLN are 75% and 25% respectively. Based on the tariff formulation, tariffs for POWR's customers are linked to USD and fuel price fluctuation could be fully passed on to the

Industrial Estate Customer Base



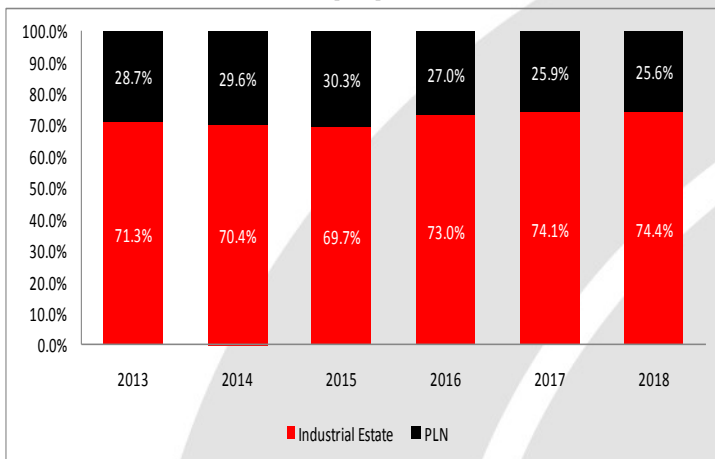
Source: Company data, Sinarmas Investment Research

Electricity Consumption by segment (GWh)



Source: Company data, Sinarmas Investment Research

Revenue Contribution (%)



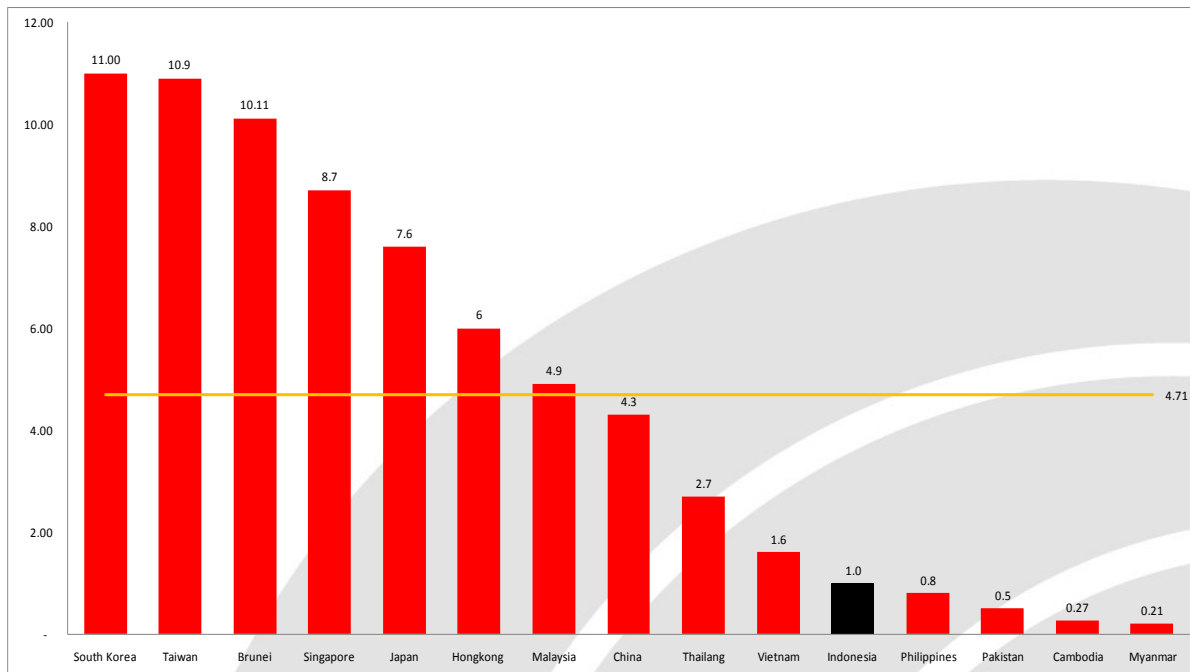
Source: Company data, Sinarmas Investment Research

customers.

Industry Overview

Based on PwC report "Power in Indonesia", electricity consumption in 2016 was 957 kilowatt hours (KWh) per capita on national basis, relatively lower than the average of neighboring countries of 4.71 megawatt hours (MWh) per capita. In terms of the national power industry, total installed capacity by end of 2018 was 62,589.7MW, with an average electrification ratio of 98.3%. Based on Indonesian Energy and Mineral Resources Minister Ignasius Jonan, for 2019 electrification ratio among the population is targeted to achieve 99.9% with additional installed capacity of 3,976, totaling to 66,565.7 (+6.4% YoY). Moreover, Indonesia's electricity consumption increase from 1,012 kWh per capita in 2017 to 1,064 kWh per capita in 2018 (+5.1% YoY), showing a decent growth of electricity consumption in Indonesia.

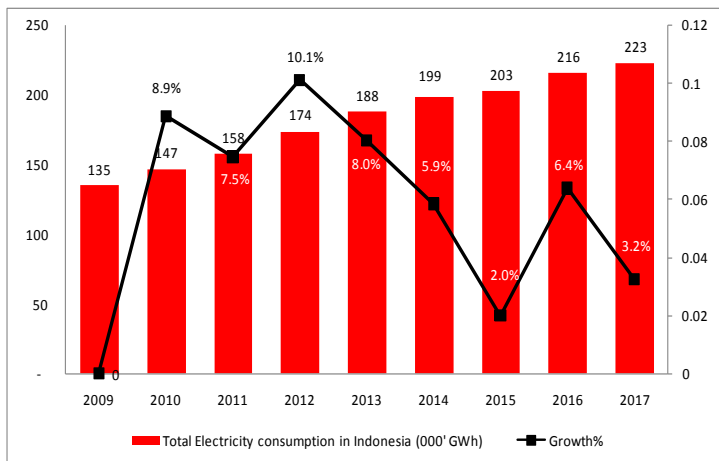
Electricity consumption per capita in 2016 (MWh)



Source: PwC, Sinarmas Investment Research

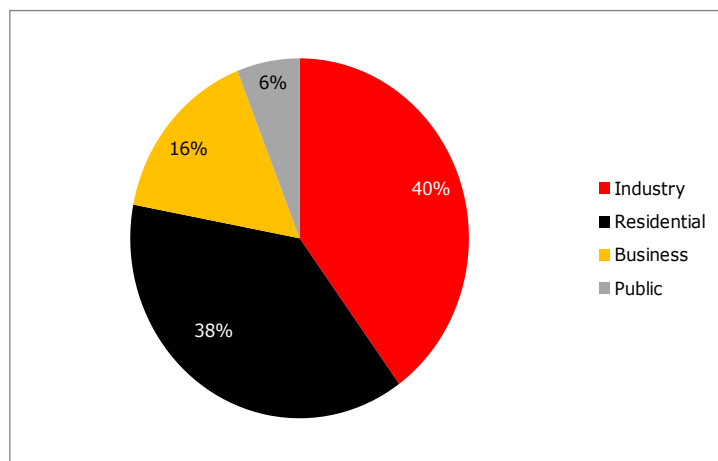
Growing Electricity consumption trend. Electricity consumption increases at faster pace than other energy vectors due to electrification of energy uses. The electricity consumption globally grew by 2.6% YoY, mainly driven by Asia as the electricity growth was supported by its economic and population growth. As for Indonesia, the electricity consumption has been growing rapidly for the last decade. In 2016 and 2017, the consumption grew by 6.4% and 3.2% respectively. Industry and business accounted for majority of the total electricity usage (56%) while the rest came from residential (36%) and public (6%). Although Indonesia is still experiencing uneven electricity distribution in which electricity consumption is mostly concentrated in highly industrialized areas such as the western part of Java, we believe Indonesia's rising population (the middle class population in particular), rising income per capita and structurally lower electrification ratio should imply significant growth in electricity demand going forward.

Electricity consumption in Indonesia (TWh)



Source: CEIC, Sinarmas Investment Research

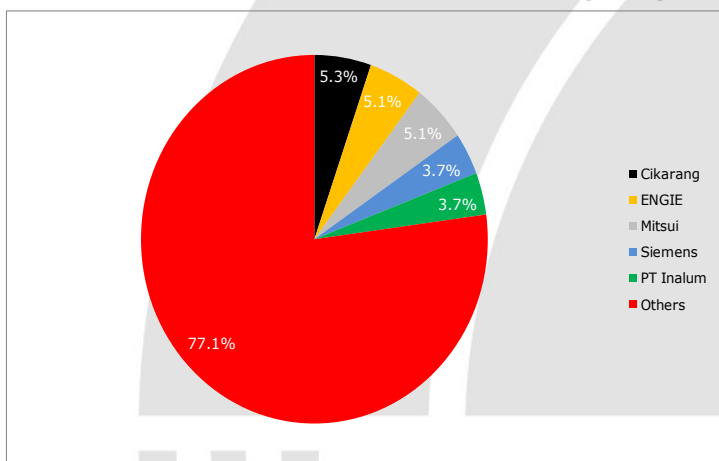
Electricity consumption by segment (%)



Source: CEIC, Sinarmas Investment Research

Power plant competition landscape. National installed capacity was 59,6 Gigawatt by the end of 2016. PLN and its subsidiaries accounted for 41GW (69%), Independent Power Producer (IPP) accounted for 23%, Private Power Utility (PPU) accounted for 2,4GW (4%), and the other 4% from Non Oil operating license. The majority of power-generating assets in Indonesia are controlled by state-owned company, PLN. On the other hand, private sector participation is allowed through IPP arrangements through competitive tenders or can be directly appointed under certain circumstances by the Government. Currently, the government had issued around 42 IUKU licenses (including POWER) which can enable IPPs to supply electricity to the given areas/industrial estate. Given that the IPPs have certain area of electricity distribution, hence there is no competition between IPPs. Based on the total installed capacity, between the IPPs, PPU, and company with non oil operating licenses, POWER has the largest market share with 5.3% as of 2016 with 864MW total installed capacity.

Market share based on total installed capacity as of March 2016

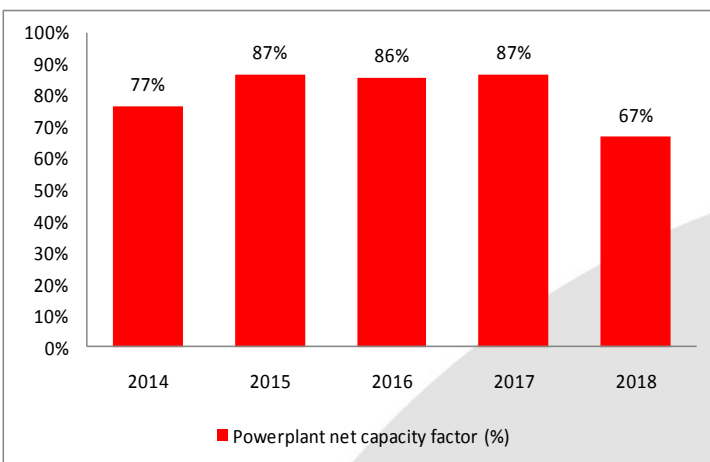


Source: Company data, Sinarmas Investment Research

Investment Thesis

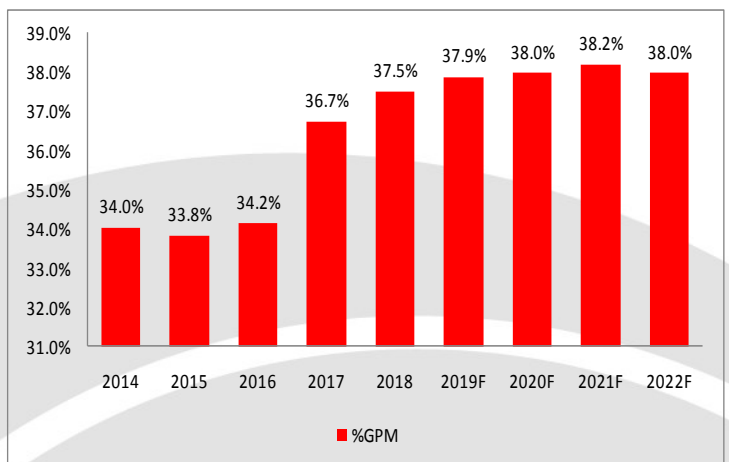
Margin expansion from coal power plant. Power plant units in Babelan have been running since 2017. The CFPP consist of two turbines, each with installed capacity of approximately 140MW, representing total capacity of 280MW. The company established new power plant as strategies to anticipate future growth in electricity demand as net capacity factor in 2016 has reached 86% and up to FY18, POWR's net capacity factor stood at 67%. We expect GPM to further expand in FY19 as a result of higher capacity factor from CFPP. Despite CFPP establishment requires more capex (approximately at USD 475mn), it is more efficient and has lower generation cost, therefore will provide higher margin compared to GFPP, as tariff remains similar. We expect POWR's GPM to further expand in 2019 to 37.9% (vs 37.5% in FY18 vs 36.7% in FY17).

Net capacity factor (%)



Source: Company data, Sinarmas Investment Research

Margin expansion (%)



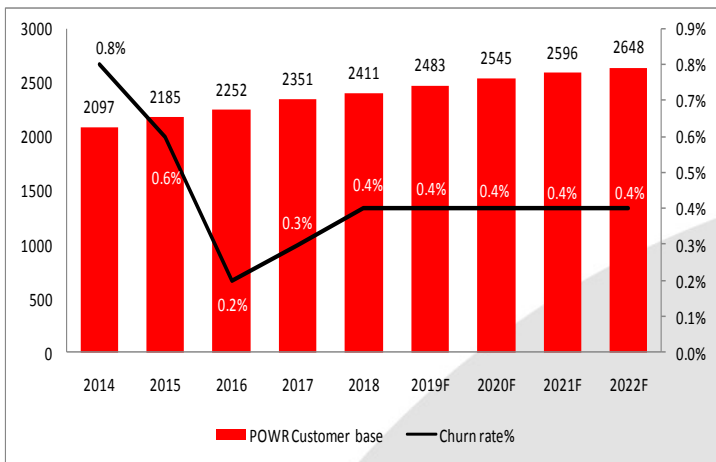
Source: Company data, Sinarmas Investment Research

Benefitted from rising government focus towards FDI. We believe POWR as a power plant company which mainly distributes its electricity to IE area will be benefitted by improvement in foreign direct investment (FDI), in which could bolster POWR's customers addition. Incentives given by the government could encourage investors and business players to invest in the country with the possibility of operating under five IE area supplied by POWR. Note that, the government has already provided fiscal incentives such as tax holiday and tax allowances for the selected sectors and also government's focus towards maintaining stability to safeguard CAD and currency would bring positive sentiments for FDI in the upcoming years.

Attractive dividend yield. The company is committed to deliver value to its shareholder by distributing regular and interim dividend with total payout ratio of 64% in 2017 and 2018. Dividend/share (DPS) in 2017 and 2018 were IDR55/share and IDR59/share respectively. As for 2019, the management is comfortable in paying higher dividend payout to compensate the FY18 low base net income. Hence, using the payout ratio of 82% and FY18 net income, we estimated total DPS will be at IDR58/share, reflecting 6.2% dividend yield from current price. We believe undemanding valuation paired with high dividend yield should provides an attractive entry point.

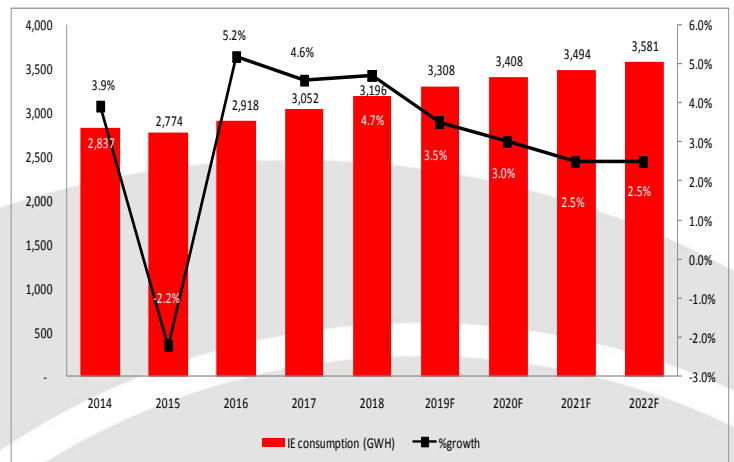
Solid customer base. As the longest operating private supplier of electricity with proven track records in power plant business, the company served 2,411 customers in FY18, a 2.6% increase from FY17 and covering an area of approximately 4,740 ha. As the sole player, the company is able to capitalize any growing electricity consumption from existing customers and new electricity supply for new customers as the estates expand. POWR also has a low churn rate level of 0.4% as of FY18, in which the majority of the customers own the land, thus ensuring long term relationships with POWR. In addition, 66% of the company's customers has been POWR's customers for more than ten years. Most of the customers engage in light to medium manufacturing and are willing to pay for reliable power supply where electricity represents small proportion of their cost but play a vital role to ensure the operational activity and avoid manufacturing disruption, hence providing stable recurring income for POWR.

Growing customer base with low churn rate



Source: Company data, Sinarmas Investment Research

IE Consumption (GWH)



Source: Company data, Sinarmas Investment Research

Minimal competition. As the sole electricity distributor for the dedicated area of five industrial estates, POWR has the obligation to fulfill the entire electricity demand coming from every tenant within the IE area. Every independent power-plant player which has IUKU license, has been granted their own dedicated area of supply by the Indonesian Energy and Mineral Resources Minister (ESDM), hence there will be no competition among power-plant players in their own areas as regulation was also tightly administered by ESDM.

Tapping into renewable energy generation. Currently POWR is doing research of renewable energy generation as the company is considering possibility of implementing solar rooftop of 5MWp in 2019. The company implement a pilot project in Cikarang by gathering solar irradiation data for 12 months starting from April 2018 and waiting for irradiation level during the rainy season over the next six months.

Investment Risk

Natural Disaster. Risk coming from natural disaster which could impact the company's infrastructures and disrupt the electricity distribution activity.

Sudden change in regulation. The industry is tightly regulated by the government as formula for tariff and area of coverage is monitored by Energy and Mineral Resources Minister (ESDM)

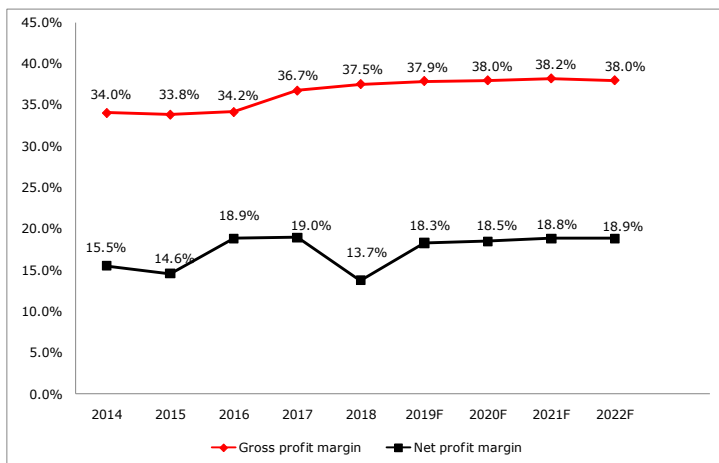
Financial Highlight

FY18 financial performance. In FY18, the company recorded revenue of USD 574.1mn (+1.4% YoY) with gross profit and net profit of USD 215.4mn (+3.6% YoY) and USD 78.9mn (-26.5% YoY) respectively. Gross margin increased to 37.5% (vs 36.7% in FY17) as a result of CFPP higher utilization which is more efficient than GFPP. Revenue from IE grew by 1.9% YoY while revenue from PLNs slightly increased by 0.1% YoY. Bottom-line was hampered due to higher finance costs (interest expense) from the capitalized interest and forex translation of USD 8mn and USD 22mn respectively.

Stable growth ahead. For 2019, we estimate revenue to grow by 2.3% YoY, mainly driven by higher contribution from IE customers. Growing revenue from IE segment in 2019 (+3.0% YoY) will be supported by customers addition and higher electricity usage from existing customers (consumption/tenants) which we expect to grow by 3.0% YoY and 0.5% YoY respectively. Furthermore, we expect gross margin to improve to 37.9% (vs 37.5% in FY18), inline with higher utilization of coal-fueled power plant (CFPP). As for bottom-line, we expect 35.8% increase in FY19 to USD 107.1mn with net margin of 18.3%, considering 2018 is a low base. We believe POWR's future performances will be stable, given that all of its revenue is a recurring income from customers in industrial estate and long term agreement with PLN. Customers or tenants within the area of POWR's coverage are mostly manufacturing companies which need a stable electricity supply and majority have been POWR's customers for about 10 years, hence providing stable recurring income for POWR. Overall, with low exposure to volatility in operational performances, we believe the company could grow steadily, in line with increasing number of tenants each year and higher electricity consumption as electricity will become more crucial in modern life.

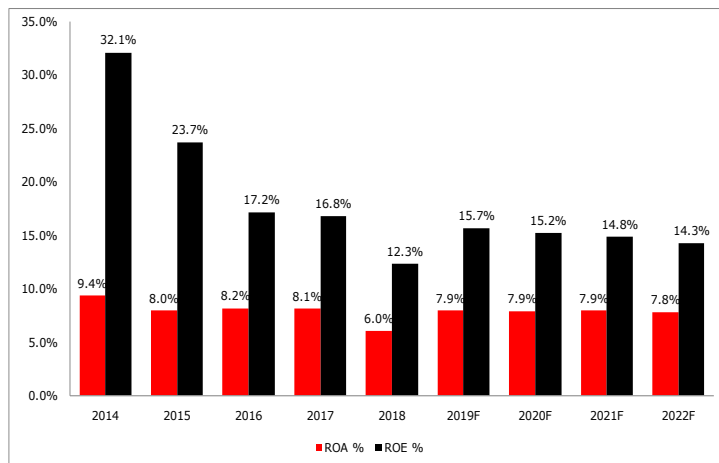
Healthy balance sheet and cashflow. POWR receivable days was 44 days on average and was stable for the past 5 years, indicating that POWR's customers were able to pay on schedule without any hindrance, providing healthy cash movement for the company. Moreover, we are also optimistic that debt level will improve, in-line with continuous growth from both top-line and bottom-line.

Profitability ratio (%)



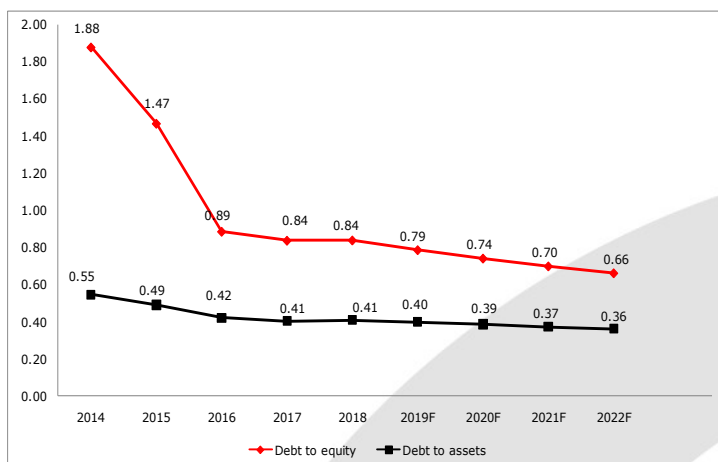
Source: Company data, Sinarmas Investment Research

Profitability ratio (%)



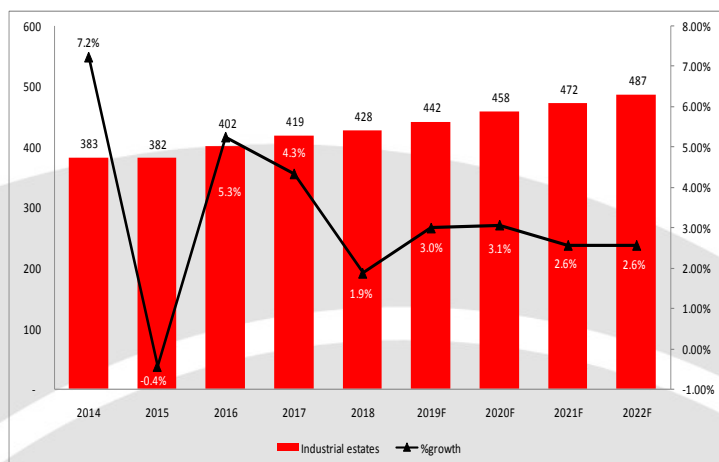
Source: Company data, Sinarmas Investment Research

Solvency ratio (%)



Source: Company data, Sinarmas Investment Research

Revenue from Industrial Estate (USD mn)



Source: Company data, Sinarmas Investment Research

Valuation

We initiate our coverage on PT Cikarang Listrindo Tbk (POWR) with BUY recommendation and FY19 target price of IDR 1,350, derived from EV/ETBIDA multiples of 7.9x. We are bullish on the stocks as the company is considered as longest operating private power plant in Indonesia combined with excellence operational performance (low churn rate, growing customer base, and higher electricity consumption), healthy balance sheet, and cashflow. Moreover, the company is currently traded at undemanding valuation of 6.4 EV/EBITDA multiples compared to its global peers with weighted average EV/EBITDA of 9.52x (21% higher than POWR's valuation), hence providing an attractive entry point with our FY19 TP represents a 45.2% potential upside.

Income Statement (USD Mn)	2017	2018	2019F	2020F	2021F
Revenue	566	574	585	596	605
% growth	2.8%	1.4%	1.9%	1.8%	1.5%
COGS	358	359	363	370	374
Gross Profit	208	215	222	226	231
% growth	10.5%	3.6%	2.9%	2.0%	2.1%
Selling expenses	(5)	(4)	(5)	(5)	(5)
G&A	(47)	(53)	(50)	(51)	(51)
Operating Profit	156	158	167	171	174
Other income/exp	4	(10)	1	1	1
EBIT	160	149	168	171	175
EBITDA	196	217	226	230	234
Finance income(exp)	(14)	(22)	(23)	(22)	(21)
EBT	147	127	145	149	154
Tax	(39)	(48)	(38)	(39)	(40)
Net profit	107	79	107	110	114
% growth	3.4%	-26.5%	35.8%	2.8%	3.4%
EPS (USD)	0.0067	0.0049	0.0067	0.0068	0.0071

Balance Sheet (USD Mn)	2017	2018	2019F	2020F	2021F
Cash & equivalents	198	156	248	326	412
Trade receivables	70	70	71	73	74
Other CA	40	122	118	122	121
Total Current Assets	308	348	437	521	606
PPE	928	901	859	818	777
Other LT assets	88	59	53	54	55
Total Assets	1,323	1,309	1,349	1,393	1,438
Payables	54	48	46	47	47
Other current liabilities	22	15	15	15	16
Total Current Liabilities	77	63	61	62	63
Long term loans	538	539	539	539	539
Other long term liabilities	69	67	66	68	69
Total Liabilities	683	669	666	668	670
Share & APIC	430	430	430	430	430
Other equity	0	(1)	(1)	(1)	(1)
Retained earnings	210	212	254	296	339
Total Equity	640	640	683	724	768
Total Equity & Liabilities	1,323	1,309	1,349	1,393	1,438

Cash Flow (IDR Bn)	2017	2018	2019F	2020F	2021F
Net Income	107	79	107	110	114
Depreciation & amortization	39	58	52	53	53
Chg. in NWC	7	(96)	1	(5)	2
CF from Operating	154	41	160	158	169
Capital Expenditure	(146)	(31)	(10)	(12)	(12)
Chg. in LT Assets	35	28	6	(1)	(1)
Chg in LT Liabilities	3	(2)	(0)	1	1
CF from Investing	(107)	(5)	(4)	(12)	(12)
Chg. in Share & APIC	-	-	-	-	-
Chg. In other equity	0	(1)	-	-	-
Chg. in Bank Loans	1	1	-	-	-
Dividends Paid	(71)	(77)	(65)	(69)	(71)
CF from Financing	(70)	(77)	(65)	(69)	(71)
Change in Cash	(24)	(42)	91	78	86
Beginning Cash	222	198	156	248	326
Ending Cash	198	156	248	326	412

Financial Ratio	2017	2018	2019F	2020F	2021F
Profitability					
ROE	16.8%	12.3%	15.7%	15.2%	14.8%
ROA	8.1%	6.0%	7.9%	7.9%	7.9%
Gross margin	36.7%	37.5%	37.9%	38.0%	38.2%
Net profit margin	19.0%	13.7%	18.3%	18.5%	18.8%
Liquidity & Solvency					
Current Ratio	4.0	5.5	7.2	8.4	9.6
Debt to Equity	0.8	0.8	0.8	0.7	0.7
Debt to Assets	0.4	0.4	0.4	0.4	0.4
Valuation					
Price to Earning (PE)	13.9	18.9	14.0	13.6	13.1
Price to Book (PBV)	2.3	2.3	2.2	2.1	1.9
EV/EBITDA	9.4	8.7	7.9	7.4	6.9

Key Assumptions	2017	2018	2019F	2020F	2021F
IE's Customer base	2,351	2,411	2,483	2,545	2,596
Total Consumption (GWH)	4,997	5,108	5,220	5,320	5,406
Consumption/tenants	1.30	1.33	1.33	1.34	1.35

SINARMAS SEKURITAS INVESTMENT RATINGS GUIDE

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ADD: Share price may range between 10% to 15% over the next 12 months.

NEUTRAL: Share price may range between -10% to +10% over the next 12 months.

REDUCE: Share price may range between -10% to -15% over the next 12 months.

SELL: Share price may fall by more than 15% over the next 12 months.

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