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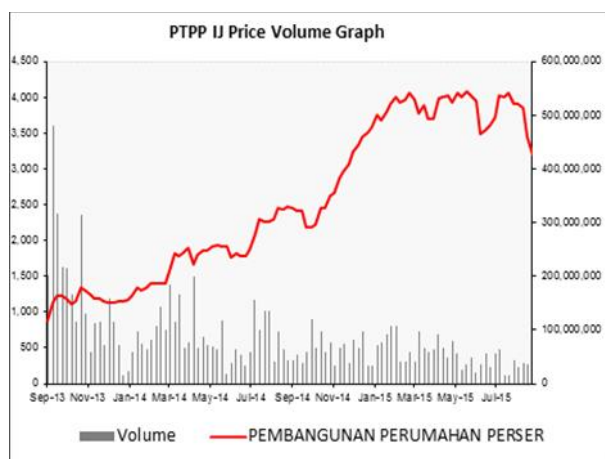


**PT Pembangunan Perumahan (Persero) Tbk is a full service construction company. Its business lines include construction, EPC, precast and property development. It also leases construction equipments.**

**Current Price: IDR 3,900**

**52-Week Target Price: IDR 4,775**

*Previous Target Price: IDR 4,555*



### Share Price Performance

Price (IDR)	3,875
52-Week High (05/26/15)	4,215
52-Week Low (08/29/15)	2,960
52-Week Beta	0.81
YTD Change/%	0.00%

### Stock Information

Market Cap (IDR)	18,764.4B
Shares Out/Float (M)	4,842.4M / 2,213 M

## Company Update

### PT PP (Persero) Tbk (PTPP)

## Offering Downside Protection

**BUY**

**We upgrade our 52-week target price on PTPP to IDR 4,775 while maintaining a BUY;** we turn more bullish on the company's prospects amidst core profits that came in 7% above our estimates. This would imply 24x FY16PE, one standard deviation above its historical median. We believe these valuations are warranted as we regard PTPP as a more defensive choice to play out Indonesia's construction story.

### **New contracts in 2M16 up 46% YoY, though still a far cry from YE target.**

So far this year, PTPP has raked in IDR 1.7tn in new contracts, 5% of its full year target. While the bulk majority of these projects have been small scale power plants, PTPP's experience in a major port construction projects could be a major catalyst as ports execution could escalate, as the appointment of the new Pelindo II CEO seems imminent.

### **Expect a normalization in margins as we forecast a different revenue mix, going forward.**

We expect PTPP's margins to normalize after a higher-than-expected contribution from the property division in FY15. Going forward, we expect lower contribution from the higher margin property business as PTPP takes on larger, lower margin government projects. As such, we revise down our FY16E/17E construction burn rates by 1%/3% but upgrade our net income assumptions by 10%/9% on stronger contract wins, primarily from government projects.

**Private projects can turn out to be the company's saving grace.** Last year, many cited PTPP's huge proportion of private project contracts (43% of total in FY15) as a key risk as the economy slowed. This year, we see decent downside protection from these private projects as risks over the government budget looms. With the potential of tax revenue shortfalls, we highlight the possibility of a cut in the infrastructure budget. Going further, there is also the (ever so slight) possibility that the contractors' profitability could be tampered with to ensure that the related project is completed.

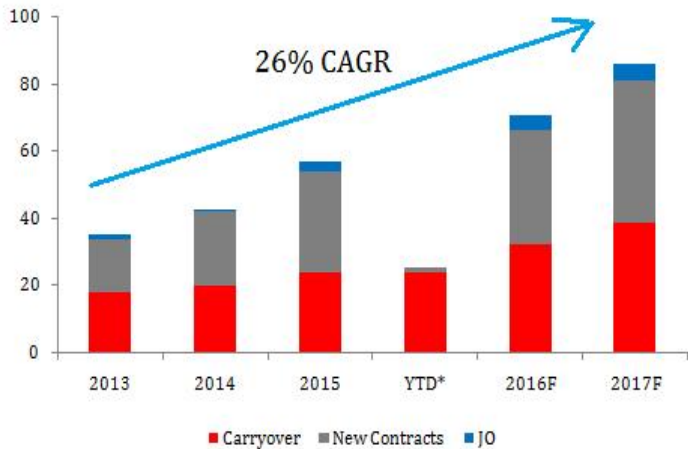
**The risks to our call include:** 1) PTPP not being able to leverage on its Kalibaru port construction experience as well as we expect, 2) Continued overhang from Pelindo II CEO appointment & state capital budget injection, and 3) possible de-rating if property business remains dominant.

Financial Highlights	2014	2015	2016E	2017E	2018E
Revenue (IDR Bn)	12,427	14,217	19,512	22,107	26,744
% growth		14%	37%	13%	21%
Gross Profit (IDR bn)	1,533	2,007	2,412	2,694	3,328
Net Profit (IDR bn)	532	846	963	1,108	1,373
% growth		59%	14%	15%	24%
EV/EBITDA (x)	15.1	12.7	11.1	9.0	7.5
Gross Margin (%)	12.3%	14.1%	12.4%	12.2%	12.4%
Net Margin (%)	4.3%	5.9%	4.9%	5.0%	5.1%
Return on Equity (%)	24.3%	26.0%	24.5%	26.5%	26.5%
Return on Assets (%)	3.9%	5.0%	4.7%	4.9%	5.1%

Source: Company Data, Sinarmas Investment Research

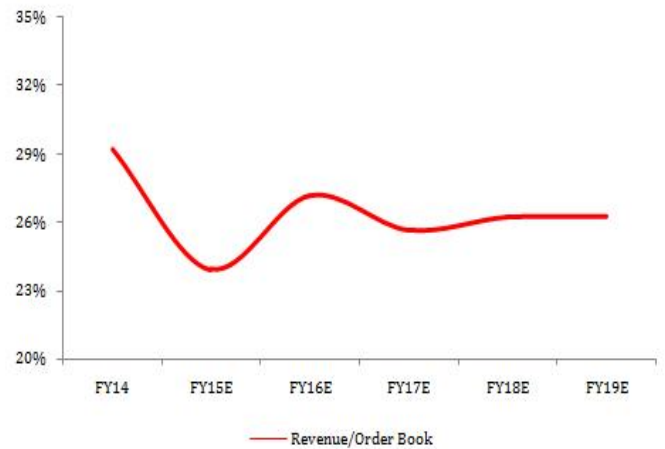
**New contracts still far from FY target, but we turn more bullish on potential projects, especially ports**

**PTPP Total Contracts Breakdown (IDR tn)**



Source: Company, Sinarmas Investment Research

**PTPP Revenue / Order Book**

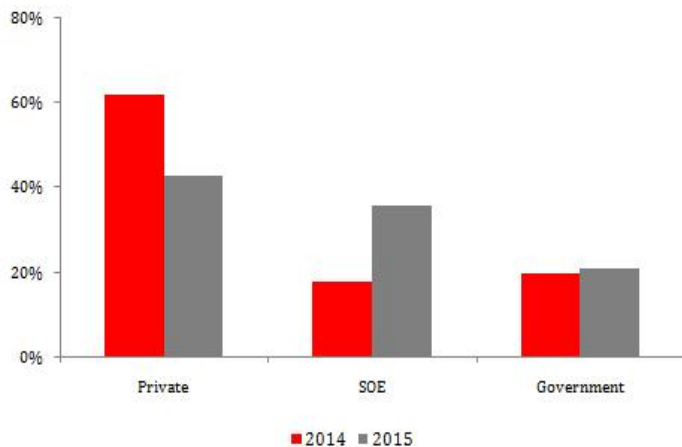


Source: Company, Sinarmas Investment Research

- 26% CAGR in contracts from FY13-17E is due to PTPP’s ever-improving business lines. Going forward the main drivers of this growth in new contracts will come from government funded projects, in our view. Ports and power plants remain the likeliest sources of contracts growth.
- Relatively slow realization in FY15 contributed to the low burn rate. For FY16E onwards, we forecast a mild increase as projects execution looks to have improved
- We expect lower-than-before burn rates as PTPP should take on longer horizon government projects in their portfolio.

**Can private projects provide downside support?**

**PTPP Contracts Composition**



**Historical Valuations**



- 43% of total FY15 contracts were from the private sector; given the extremely low expectations of private projects last year, as the economy recovers these should provide some downside support. This, bearing in mind that the risks associated with government projects are now higher than before.

Source: Bloomberg, Sinarmas Investment Research

**Appendix : Financial Statements**

Income Statement (in IDR Mn)	2014	2015	2016E	2017E	2018E
<b>Revenues</b>	<b>12,427,371</b>	<b>14,217,373</b>	<b>19,511,643</b>	<b>22,106,905</b>	<b>26,743,883</b>
Cost Of Sales	(10,894,711)	(12,210,412)	(17,099,273)	(19,413,291)	(23,415,524)
<b>Gross Profit</b>	<b>1,532,660</b>	<b>2,006,961</b>	<b>2,412,370</b>	<b>2,693,613</b>	<b>3,328,359</b>
Operating Costs	(275,958)	(409,797)	(391,054)	(376,076)	(450,811)
<b>Operating Income</b>	<b>1,256,702</b>	<b>1,597,164</b>	<b>2,021,316</b>	<b>2,317,537</b>	<b>2,877,547</b>
Other Expenses	(337,258)	(309,630)	(472,718)	(545,834)	(702,699)
Tax Expenses	(387,380)	(441,971)	(585,349)	(663,207)	(802,316)
<b>Net Income - Attributable</b>	<b>532,065</b>	<b>845,563</b>	<b>963,248</b>	<b>1,108,496</b>	<b>1,372,531</b>
EPS (Rp.)	109.9	174.6	198.9	228.9	283.4

Balance Sheet (in IDR Mn)	2014	2015	2016E	2017E	2018E
<b>Current Assets</b>					
Cash & Near Cash Items	2,408,126	3,025,394	1,466,343	150,980	2,416,561
Accounts & Notes Receivable	7,244,392	8,829,169	10,670,998	12,178,525	15,178,581
Inventories	2,570,346	2,498,625	3,747,980	4,308,220	5,128,964
<b>Total Current Assets</b>	<b>13,545,180</b>	<b>15,430,535</b>	<b>17,869,648</b>	<b>19,329,425</b>	<b>25,511,513</b>
Fixed Assets - net	493,576	2,989,066	1,012,822	953,005	888,386
Investments	147,393	272,134	2,132,215	2,792,131	2,961,934
<b>Total Assets</b>	<b>14,611,865</b>	<b>19,128,812</b>	<b>21,610,887</b>	<b>23,803,444</b>	<b>30,231,084</b>
<b>Current Liabilities</b>					
Total Payables	7,056,355	7,944,362	10,379,223	11,253,722	13,565,191
Customer Advances	622,849	697,645	777,883	961,701	1,140,715
Short Term Debt	1,566,698	1,657,938	1,344,262	1,224,295	1,814,107
<b>Total Current Liabilities</b>	<b>9,838,497</b>	<b>11,114,414</b>	<b>13,238,068</b>	<b>14,814,095</b>	<b>17,558,865</b>
Total Loans - net	1,454,984	1,913,085	2,780,884	2,254,427	4,604,183
<b>Total Liabilities</b>	<b>12,221,595</b>	<b>14,009,740</b>	<b>17,195,701</b>	<b>18,501,462</b>	<b>23,831,076</b>
<b>Equity</b>					
Share Capital & APIC	946,262	916,089	916,089	916,089	916,089
Retained Earnings	1,442,959	2,047,155	2,817,754	3,704,550	4,802,575
<b>Total Liabilities &amp; Equity</b>	<b>14,611,865</b>	<b>19,128,812</b>	<b>21,610,887</b>	<b>23,803,444</b>	<b>30,231,084</b>

Financial Ratios	2015	2016E	2017E	2018E	2019E
P/E	26.34	23.13	20.09	16.23	13.17
Yield (%)	0.8%	0.9%	1.0%	1.2%	1.5%
P/B	5.40	5.97	4.82	3.90	3.15
EV/EBITDA	15.11	12.68	11.09	8.97	7.53
ROE	26.0%	24.5%	26.5%	26.5%	26.4%
ROA	5.0%	4.7%	4.9%	5.1%	5.2%
Current Ratio	1.39	1.35	1.30	1.45	1.53
D/E	0.19	0.81	0.69	0.74	0.65
Debt/Assets	0.05	0.17	0.15	0.16	0.15

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