

We maintain our BUY recommendation on PT Pembangunan Perumahan (Persero) Tbk (PTPP) with 52-week target price of IDR 4,620 (39.6% upside), deriving via DCF with 11.5% WACC and 5.0% terminal growth. Our valuation implies a FY17E P/E of 21.4x. Currently, PTPP trades at around its exercise price on last year right issue of IDR 3,250/share, where its YTD share price performance has experienced a decline by 12.2%, the highest correction among its peers. The valuation looks attractive, amidst its strong balance sheet post right issue. PTPP forward P/E stands at 15.32x.

**In-line FY16 earnings result.** PTPP recorded lower-than-expected FY16 revenue of IDR 16.5tn (+15.8% yoy) due to the delayed execution on multi-year toll road projects (Manado-Bitung and Pandaan-Malang), as land acquisition issues had hampered its execution in 4Q16, while the NPAT at IDR 1tn was in line with our and consensus estimates, boosted by a strong gross margin in 4Q16 which stood at 16.8% (vs. average gross margin of 14.0% in 1Q-3Q16), bringing the overall FY16 gross margin increased to 14.9% (vs. 14.1% in FY15). Besides, NPAT was also sustained by a higher FY16 JO income of IDR 155bn (+131.7% yoy) which was about two-fold hike and flattish net interest charges.

**EPC as a new revenue driver, amidst flat construction revenue.** Flattish FY16 revenue of core construction business which stood at IDR 11.8tn, has dragged down the overall PTPP's revenue, given its soft performance (+1.8% yoy), bringing PTPP's contract burning rate in FY16 was only 22.34% (vs. 24.97% in FY15). Meanwhile, the revenue from EPC was picking up the slack at IDR 2.4tn (+154.8% yoy). On top of that, EPC has become the second largest contributor to total revenue at 14.4% in FY16 (vs. 6.5% in FY15), then PPRO followed the suit.

**Capital injection to its property arm (PPRO).** On April 2017, PPRO will perform the right issue with target proceeds of IDR 1.54tn. The rights price will stand at IDR 280/share along with 5.5bn new shares issued. Using current price of IDR 282/share, the TERP will be at IDR 282/share, only 0.65% discount to TERP. Currently, PPRO trades at a premium in which T12M P/E stands at 36.5x, bringing it as one of the most expensive listed property developers among its peers.

**The risks to our call:** 1) government budget cuts, 2) delay in land clearing process on toll road projects, 3) project ownership

Financial Highlights	2015	2016	2017E	2018F	2019F
Revenue (IDR bn)	14,217	16,459	22,414	26,820	31,916
% growth	14.4%	15.8%	36.2%	19.7%	19.0%
Gross Profit (IDR bn)	2,007	2,456	3,388	4,104	5,034
Net Profit (IDR bn)	740	1,023	1,340	1,624	1,863
% growth	39.1%	38.3%	30.9%	21.2%	14.7%
Gross Margin (%)	14.1%	14.9%	15.1%	15.3%	15.8%
Net Margin (%)	5.2%	6.2%	6.0%	6.1%	5.8%
Return on Equity (%)	19.8%	12.8%	11.8%	12.8%	13.2%
Return on Assets (%)	4.4%	4.1%	4.0%	4.1%	4.1%
EPS (IDR)	153	165	216	262	301

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Sector	Construction
Bloomberg Ticker	PTPP IJ
Market Cap. (IDR tn)	21.02
Share Out./Float (mn)	6,200/3,704
Current Price	IDR 3,310
52-week Target Price	IDR 4,620
Upside (%)	39.6%

**Share Price Performance**

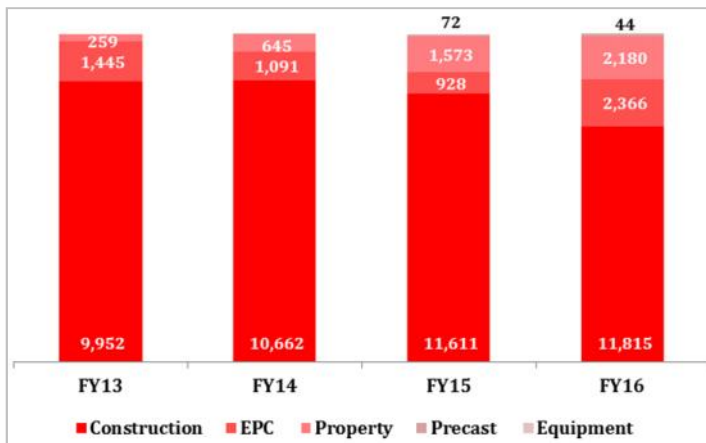
52W High (08/05/16)	4,610
52W Low (05/20/16)	3,137
52W Beta	1.397
YTD Change (%)	-13.12%

**Relative Valuations**

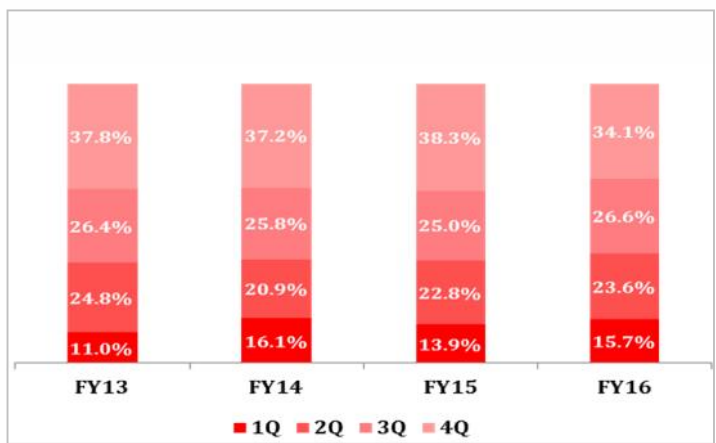
Trailing P/E	20.06x
Forward P/E	15.32x
P/BV	2.09x
EV/EBITDA	8.94x

Income Statement (IDR bn)	4Q15	3Q16	4Q16	QoQ	YoY	FY15	FY16	YoY
<b>Revenue</b>	<b>5,443</b>	<b>4,373</b>	<b>5,613</b>	<b>28%</b>	<b>3%</b>	<b>14,217</b>	<b>16,459</b>	<b>16%</b>
Construction	4,337	2,923	4,536	55%	5%	11,611	11,815	2%
EPC	551	838	459	-45%	-17%	928	2,366	155%
Property	516	594	594	0%	15%	1,573	2,180	39%
Precast	22	1	31	2988%	40%	33	54	61%
Equipment	17	17	-7	-139%	-139%	72	44	-39%
<b>COGS</b>	<b>(4,614)</b>	<b>(3,765)</b>	<b>(4,672)</b>	<b>24%</b>	<b>1%</b>	<b>(12,210)</b>	<b>(14,003)</b>	<b>15%</b>
Construction	(3,860)	(2,533)	(3,943)	56%	2%	(10,367)	(10,393)	0%
EPC	(419)	(725)	(353)	-51%	-16%	(722)	(1,989)	175%
Property	(248)	(321)	(215)	-33%	-13%	(892)	(1,006)	13%
Precast	(37)	(103)	(71)	-31%	91%	(78)	(338)	336%
Equipment	(49)	(83)	(90)	8%	84%	(152)	(278)	83%
<b>Gross Profit</b>	<b>829</b>	<b>608</b>	<b>941</b>	<b>55%</b>	<b>14%</b>	<b>2,007</b>	<b>2,456</b>	<b>22%</b>
SG&A	(123)	(124)	(139)	12%	13%	(410)	(487)	19%
<b>Operating Profit</b>	<b>705</b>	<b>484</b>	<b>802</b>	<b>66%</b>	<b>14%</b>	<b>1,597</b>	<b>1,968</b>	<b>23%</b>
<b>EBITDA</b>	<b>736</b>	<b>508</b>	<b>839</b>	<b>65%</b>	<b>14%</b>	<b>1,678</b>	<b>2,071</b>	<b>23%</b>
<b>Net Income</b>	<b>362</b>	<b>211</b>	<b>457</b>	<b>116%</b>	<b>26%</b>	<b>740</b>	<b>1,023</b>	<b>38%</b>
<b>Gross Profit Margin</b>	<b>15%</b>	<b>14%</b>	<b>17%</b>			<b>14%</b>	<b>15%</b>	
Construction	11%	13%	13%			11%	12%	
EPC	24%	13%	23%			22%	16%	
Property	52%	46%	64%			43%	54%	
Precast	-66%	-10082%	-127%			-132%	-529%	
Equipment	-189%	-386%	1454%			-110%	-529%	
<b>Operating Profit Margin</b>	<b>13%</b>	<b>11%</b>	<b>14%</b>			<b>11%</b>	<b>12%</b>	
<b>EBITDA Margin</b>	<b>14%</b>	<b>12%</b>	<b>15%</b>			<b>12%</b>	<b>13%</b>	
<b>Net Income Margin</b>	<b>7%</b>	<b>5%</b>	<b>8%</b>			<b>5%</b>	<b>6%</b>	

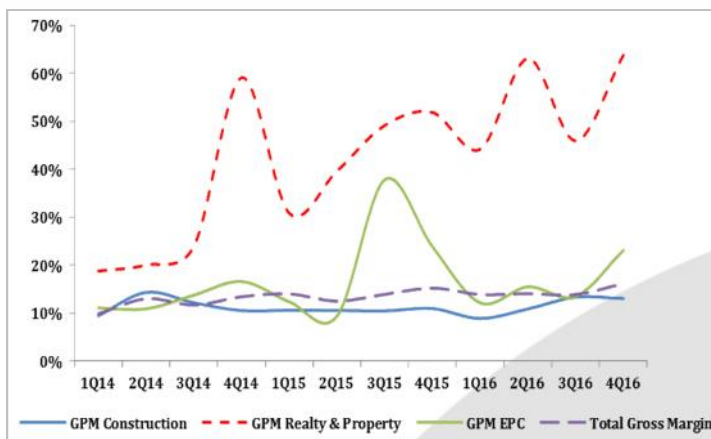
### Revenue Breakdown by Each Business Segment



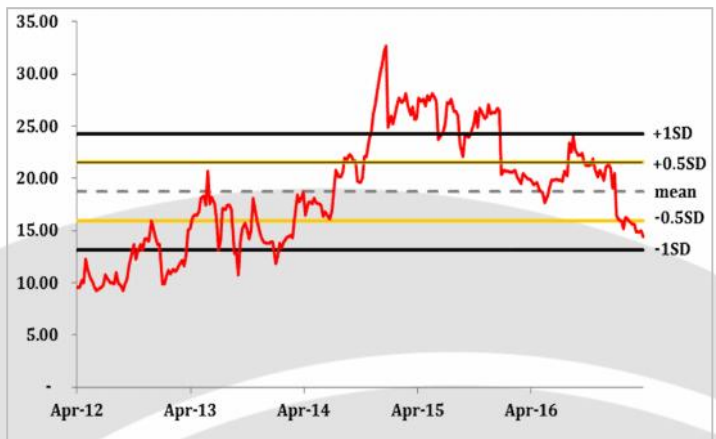
### Revenue Seasonality



### Quarterly Gross Margin



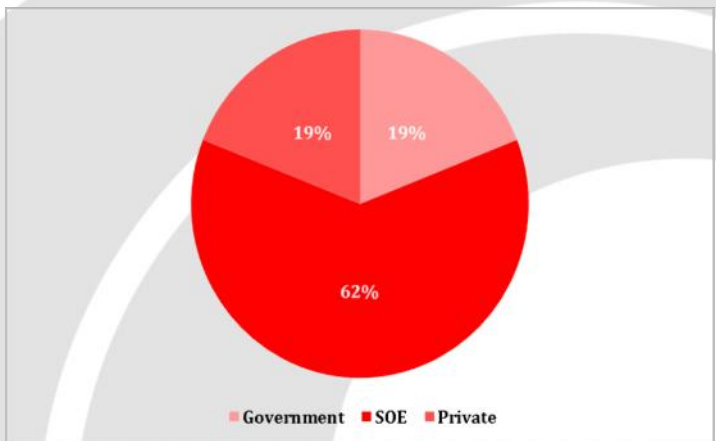
### Forward P/E Band



### PPRO Right Issue Plan

Outstanding shares (bn)	56.18
PTPP injection (IDR bn)	1,000
Total proceeds (IDR bn)	1,540
Current Price (29/03/2017) (IDR)	282
<b>Scenario</b>	
New shares (bn)	5.50
Theoretical ex-rights price (TERP) (IDR)	282
Exercise price (IDR)	280
<b>Discount to current price</b>	<b>-0.71%</b>
<b>Discount to TERP</b>	<b>-0.65%</b>
Outstanding shares post rights (bn)	61.68
Use of proceeds	70% for investment 20% for capex 10% for debt payment

### FY16 New Contract Breakdown by Project Owner



Income Statement (IDR bn)	2015	2016	2017E	2018F	2019F
Revenue	14,217	16,459	22,414	26,820	31,916
Cost of Revenue	(12,210)	(14,003)	(19,026)	(22,716)	(26,882)
<b>Gross Profit</b>	<b>2,007</b>	<b>2,456</b>	<b>3,388</b>	<b>4,104</b>	<b>5,034</b>
SG&A Expenses	(410)	(487)	(841)	(1,006)	(1,372)
<b>Operating Income</b>	<b>1,597</b>	<b>1,968</b>	<b>2,547</b>	<b>3,098</b>	<b>3,661</b>
Other Operating Income/Expenses	63	144	186	165	108
Finance Costs - Net	(373)	(409)	(579)	(660)	(746)
<b>Profit Before Income Tax</b>	<b>1,287</b>	<b>1,704</b>	<b>2,154</b>	<b>2,602</b>	<b>3,023</b>
Income Tax Expenses	(442)	(552)	(672)	(805)	(957)
Minority Interest	(105)	(128)	(142)	(173)	(203)
<b>Net Profit For the Year</b>	<b>740</b>	<b>1,023</b>	<b>1,340</b>	<b>1,624</b>	<b>1,863</b>

Balance Sheet (IDR bn)	2015	2016	2017E	2018F	2019F
Cash and Short Term Investments	3,302	9,424	8,036	6,034	4,040
Total Receivables	8,833	11,154	13,475	16,135	19,058
Inventories	2,499	2,656	3,957	4,560	5,362
Other Current Assets	797	1,110	1,463	1,653	2,097
<b>Total Current Assets</b>	<b>15,431</b>	<b>24,344</b>	<b>26,932</b>	<b>28,383</b>	<b>30,557</b>
Fixed Assets	2,989	4,178	8,108	12,398	16,660
Other Non-Current Assets	739	2,711	1,296	1,296	1,296
<b>Total Assets</b>	<b>19,159</b>	<b>31,233</b>	<b>36,336</b>	<b>42,076</b>	<b>48,513</b>
Short Term Loans	1,824	3,698	3,698	3,698	3,698
Total Payables	7,525	10,465	12,367	14,948	17,947
Other Current Liabilities	1,422	1,715	2,295	2,743	3,239
<b>Total Current Liabilities</b>	<b>10,770</b>	<b>15,879</b>	<b>18,360</b>	<b>21,389</b>	<b>24,884</b>
Long Term Loans	1,854	3,048	4,023	5,093	6,172
Other Non-Current Liabilities	1,387	1,510	1,982	2,227	2,511
<b>Total Liabilities</b>	<b>14,012</b>	<b>20,437</b>	<b>24,365</b>	<b>28,709</b>	<b>33,568</b>
Share Capital	484	620	620	620	620
Additional Paid in Capital	462	4,710	4,710	4,710	4,710
Other Components of Equity	1,419	1,544	1,544	1,544	1,544
Retained Earnings	2,045	2,922	3,954	5,177	6,553
Minority Interest	737	1,000	1,142	1,316	1,518
<b>Total Equity</b>	<b>5,147</b>	<b>10,796</b>	<b>11,971</b>	<b>13,367</b>	<b>14,946</b>
<b>Total Liabilities &amp; Equity</b>	<b>19,159</b>	<b>31,233</b>	<b>36,336</b>	<b>42,076</b>	<b>48,513</b>

Cash Flow (IDR bn)	2015	2016	2017E	2018F	2019F
Net Income	740	1,023	1,340	1,624	1,863
Depreciation	101	526	132	170	236
Change in NWC	(156)	442	(1,495)	(423)	(673)
Change in Minority Interest	736	263	142	173	203
Others	(74)	(22)	0	0	0
<b>Cash Flow From Operating</b>	<b>1,347</b>	<b>2,232</b>	<b>119</b>	<b>1,544</b>	<b>1,628</b>
Capex	(2,596)	(1,715)	(4,062)	(4,459)	(4,498)
Change in NCA	(347)	(1,971)	1,415	0	0
Change in NCL	14	123	472	245	284
<b>Cash Flow From Investing</b>	<b>(2,930)</b>	<b>(3,563)</b>	<b>(2,175)</b>	<b>(4,215)</b>	<b>(4,215)</b>
Changes in share capital and APIC	0	4,384	0	0	0
Change in short term loans	247	1,874	0	0	0
Change in long term loans	399	1,193	975	1,070	1,079
Others Equity	1,448	126	0	0	0
Dividend	(110)	(147)	(307)	(402)	(487)
<b>Cash Flow From Financing</b>	<b>1,984</b>	<b>7,430</b>	<b>668</b>	<b>668</b>	<b>592</b>
<b>Beginning Cash</b>	<b>2,408</b>	<b>3,025</b>	<b>9,125</b>	<b>7,737</b>	<b>5,735</b>
<b>Additional Cash</b>	<b>401</b>	<b>6,100</b>	<b>(1,388)</b>	<b>(2,002)</b>	<b>(1,994)</b>
<b>Ending Cash</b>	<b>2,809</b>	<b>9,125</b>	<b>7,737</b>	<b>5,735</b>	<b>3,741</b>

Financial Ratio	2015	2016	2017E	2018F	2019F
P/E	25.33	23.09	15.32	12.63	11.01
P/B	4.25	2.41	1.80	1.62	1.45
EV/EBITDA	12.05	10.50	8.08	7.62	7.23
ROE	19.8%	12.8%	11.8%	12.8%	13.2%
ROA	4.4%	4.1%	4.0%	4.1%	4.1%
DER	0.71	0.62	0.64	0.66	0.66

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