sekuritas sinarmas

September 30, 2015

Initiating Coverage

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PT Pembangunan Perumahan (Persero) Tbk (PTPP)

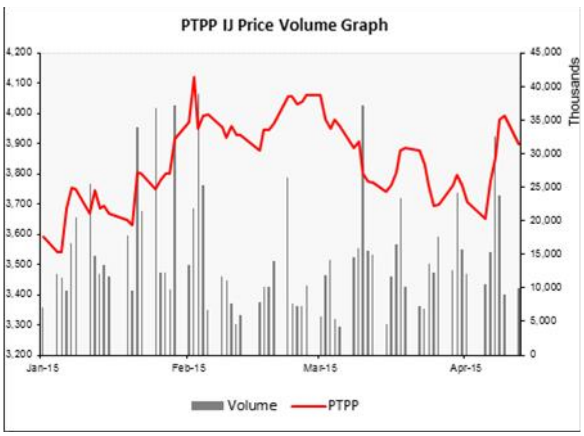
Realizing New Growth Drivers

BUY

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 3,475

52-Week Target Price: IDR 4,250



Share Price Performance

Price (IDR)	3,475
52-Week High (02/04/15)	4,245
52-Week Low (09/29/15)	2,100
52-Week Beta	1.20
YTD Change/%	(105) / (2.8%)

Stock Information

Market Cap (IDR)	16,561.1B
Shares Out/Float (M)	4,842.4 / 2,372.8

Source: Bloomberg, Sinarmas Investment Research

We initiate coverage on PT Pembangunan Perumahan (PTPP) as a BUY, with a 52-week target price of IDR 4,250/share, implying a 22.3% upside from the current market price of IDR 3,475/share. Our 52-week target price was determined by the DCF method with a WACC of 10.6%. The target price implies a FY16E PER of 22.7x, a 20.5% premium to its 5-year historical average PER. This valuation premium is more than justified as the nation focuses more resources on infrastructure and construction than ever before. Furthermore. the company's expertise in building ports will couple the robust growth in its property management segment to boost the company's margins and therefore bottom line in the foreseeable future. Looking forward, previous concerns over the feasibility of private projects look overdone and may even help balance out the company's portfolio.

The company's major growth engines are still moving on with full steam. The company has ventured into ports and power plants construction at the expense of its traditional buildings construction, as ports & energy made up 36% of total 8M15 portfolio, up from 2% in FY14. PTPP's property management company, PT PP Properti Tbk (PPRO) has also posted robust growth amid a nationwide property market slowdown, with EPS expected to grow 131%/14% in FY15F/FY16E, to make up 8.5% of total revenues. Both the property management and ports & power plant construction posts higher gross margins than traditional buildings construction. As a result, we forecast company GPM to be 12.9% in FY15F, up from 12.3% in FY14, and net income to grow 52% YoY.

Private projects—a blessing in disguise? Of the company's 8M15 project portfolio, 52% is allocated to privately owned projects. There are major worries that an economic slowdown might impact cash flows of private project owners. However, we also raise our concerns on government-funded projects which are often considered to be "safer" than their private counterparts. Capital spending YTD has only reached 14% of FY15 target At the same time we raise concerns over the government's onshore revenue stream, which, as of 8M15, has only reached 44% of its FY15 target. Under these circumstances we believe that having the right mix of both government and private projects would help mitigate lack of execution risks.

Financial Highlights	12/14	12/15F	12/16E	12/17E	12/18E
Revenue (IDR Bn)	12,427	18,076	21,897	24,946	28,504
% growth		*45%*	*21%*	*14%*	*14%*
Gross Profit (IDR bn)	1,533	2,330	2,817	3,278	3,702
Net Profit (IDR bn)	532	810	1,099	1,352	1,488
% growth		*52%*	*36%*	*23%*	*10%*
EV/EBITDA (x)	13.8	10.7	9.7	8.2	7.3
Gross Margin (%)	12.3%	12.9%	12.9%	13.1%	13.0%
Net Margin (%)	4.3%	4.5%	5.0%	5.4%	5.2%
Return on Equity (%)	24.3%	29.8%	27.6%	24.8%	22.6%
Return on Assets (%)	3.9%	4.7%	5.0%	5.3%	5.0%

Source: Company Data, Sinarmas Investment Research

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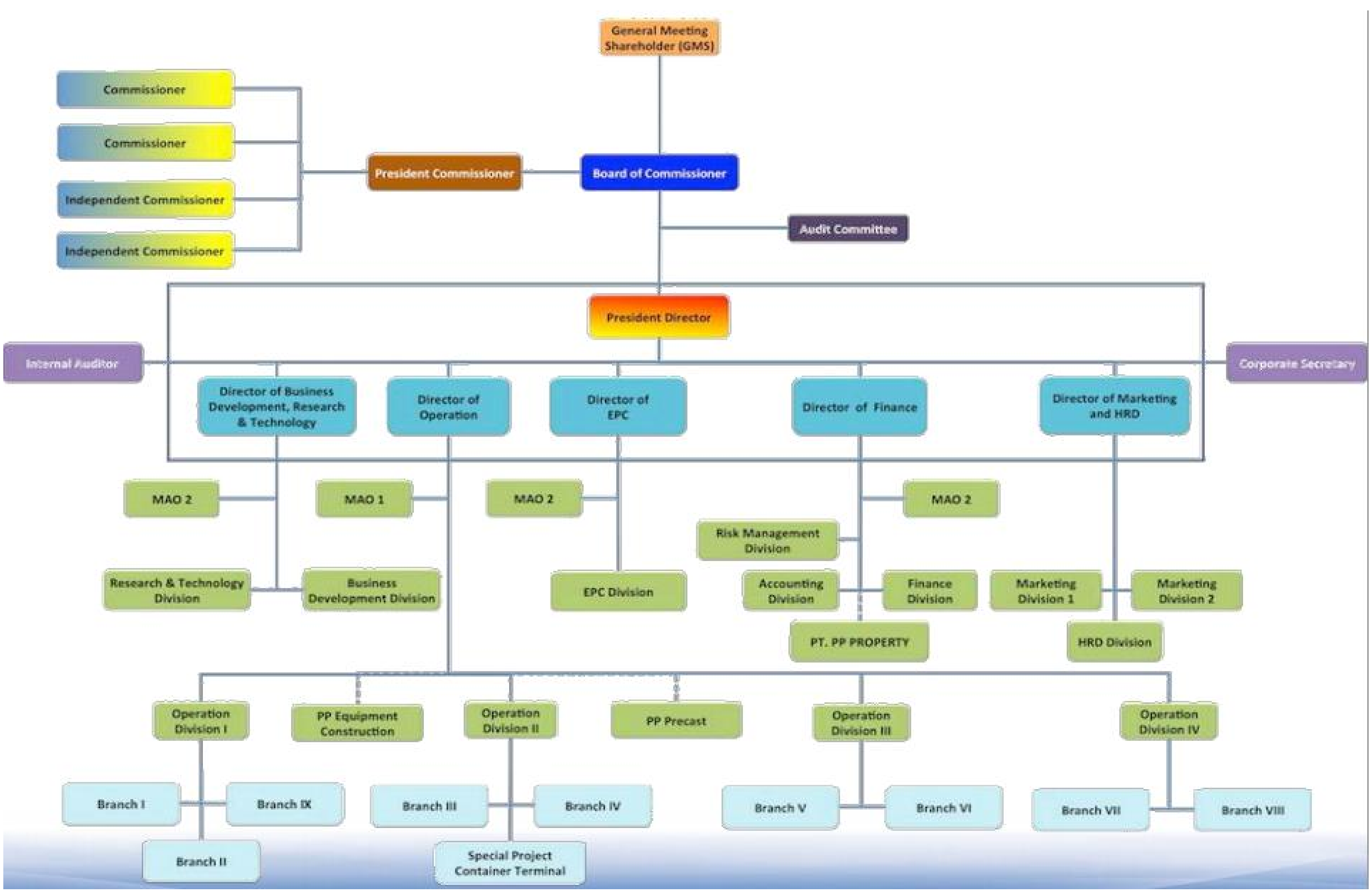
Company Background

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.

Over the past four years the company has diversified its then-property and construction business into EPC, investment, precast and equipment leasing. The EPC division was mainly opened to fulfill the Indonesian government's ambitions of increasing the electrification capability of power plants nationwide. The company also opened up its precast division to self-sustain its precast needs for construction. This was a move that mirrored very similar moves by other state-owned contractors who also individually opened up their own precast businesses for the same reason. Realizing that there was also a need for a source of recurring income, the company has spent more than IDR 400Bn in construction equipments to lease.

The company currently has a controlling stake in its listed property development company, PT PP Properti Tbk (PPRO). After raising slightly more than IDR 900 Bn through its IPO earlier this year in May, the company has gone on to enhance its working capital by building sellable apartment units and also investing in additional land banks for future developments.

Company Organization Structure

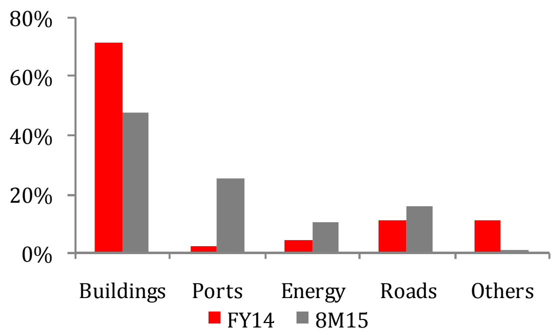


Source: Company data

Investment Theses

Catalysts:

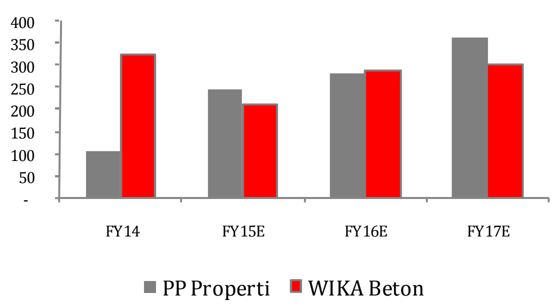
Company Projects Portfolio



Increasing ports & energy contribution and decreasing buildings contribution to total portfolio will help with margin expansion and mitigate the risk of land acquisition slowdowns.

Source: Company data

PPRO v.s. WTON Income Projections, IDR Bn



Increasing ports & energy contribution and decreasing buildings contribution to total portfolio will help with margin expansion and mitigate the risk of land acquisition slowdowns.

Source: Sinarmas Investment Research, Company data

- **PTPP's business portfolio and expertise gives it competitive advantage—**The company's projects portfolio is constantly changing, and that's a good thing. Buildings made up 72%/48% of total projects in FY14/8M15, while ports & energy made up a combined 2%/36% in the same periods. This shift in projects nature is mostly due to PTPP's expertise in ports construction & its continued strong relationship with state-owned port operator, PT Pelindo. We view this change as largely positive for the company due to two main reasons: i) energy construction projects & ports generally have higher margins than buildings, contributing to margin expansion as we forecast PTPP gross margins to be 12.3%/12.9%/13% in FY14/FY15F/FY16E, and ii) seaports and power plants construction, which made up 25% of total 8M15 projects value, requires less land acquisitions, a major concern in the sector. By taking all this into consideration, we forecast company revenues to grow 46%/21% in FY15F/FY16E on the back of stronger government budget absorption in 2H15.

- **The company's property business remains the only non-core, significant business segment rapidly growing among its major competitors—**PP Properti (PPRO) has the most promising outlook in the foreseeable future compared to WIKA Beton (WTON) and Waskita Toll Road. PPRO's earnings is currently forecasted to grow at 51% 3-year CAGR from FY14 to FY17E, albeit from a low FY14 base. PPRO's earnings are expected to contribute to 30% of PTPP's earnings in FY15F. This is due to strong marketing sales in 8M15 despite a systemic slowdown in the property market. WIKA Beton (WTON)'s earnings, expected to make up 33% of WIKA's FY15F earnings, are expected to decline 2.2% a year from FY14 to FY17E. This, we forecast, is due to a loss of up to 12% market share as other contractors self-sustain themselves in the precast business. Likewise, Waskita Toll Road will also have a rough time in the shorter term as the toll road operator will encounter short-term negative IRR on several of its new tolls and land acquisition concerns persist. Therefore, among the top three SOE contractors, only PTPP has a non-core business significant enough to impact the parent companies' respective performances, that has largely positive prospects.

- **Under normal growth, the company a strong balance sheet with no need of raising funds—**The company is currently applying for a Rp 2Tn funding from the government in 2016. If granted, this will improve the company's debt-to-equity ratio to 0.34x in FY16E. However, we view that company does not actually need additional funding—even without it, we expect the company's DER to remain at 1.03x in FY16E, which is way below the 2.5x limit set by most lenders. The company's strong balance sheet will allow PTPP to grow its order book at a faster pace than its competitors who need funding, thus giving PTPP room to expand at a much faster pace than its peers.

On-point company guidance points to good corporate governance.

- **New contracts per 8M15 on track of its FY target—**As of 8M15, the company has achieved IDR 16.1Tn in new contracts, representing 59.6% of its FY15 target of IDR 27Tn, up from IDR 11Tn in FY14. Given the relatively slow start to 2015, this achievement should lead the company to be able to fulfill its full year new contracts forecast. Going forward, we believe that we can continue to rely on the company's guidance, especially as construction projects are expected to pick up due to better infrastructure budget absorption in 2H15.

Key Risks

Underestimation of the portion of private projects may put the company at more risk amid an economic slowdown.

- **Private projects look more vulnerable than government projects during economic slowdowns—**As the economy slows down on a YoY basis, payments from private project owners look the more vulnerable to also slow down compared to SOE or government funded projects. As of 8M15, over 51% of the company's total order book is derived from private project owners; the company had only predicted a 45% portion for private projects at 1M15, while also predicting that by year end private projects will only make up 43% of the total project portfolio. We raise our concern that the underestimation, thus far, of private projects as a composition of total portfolio might put the company at more risk than what has already been priced-in.

- **Government budget absorption remains lackluster—**As of 7M15, total government spending was IDR 524 Tn, or 39.7% of the APMNP 2015 target. More worryingly, capital spending, the state budget for infrastructure projects, only reached IDR 39.6 Tn or 14.4% of the government's FY15 target. This lack of government budget absorption will therefore impact the company's revenues going forward as the company will be unable to translate its contracts into revenue. As a reference, from FY13 to FY14, total order book grew 20% to IDR 42.5Tn. Assuming a 6-month burn rate, total revenue only grew 13% YoY in 1H15, owing to the disappointingly slow government budget absorption in 1H15.

Contractors Valuation Table

Company	Ticker	P/E Ratio	
		T12M	FY15E
PT Pembangunan Perumahan	**PTPP IJ**	**30.9**	**28.5**
PT Wijaya Karya	WIKA IJ	29.6	24.8
PT Adhi Karya	ADHI IJ	12.1	12.2
PT Waskita Karya	WSKT IJ	25.9	26.6
PT Total Bangun Persada	TOTL IJ	10.7	10.8
PT Acset Indonusa	ACST IJ	34.1	19.4
Median		**27.8**	**22.1**
Company Premium (Discount)		*11%*	*29%*

Although PTPP is currently trading at a premium to its peers, we believe that there are reasons to justify this premium.

Source: Sinarmas Investment Research, Company data

- **Currently trading at a premium to its peers—**The company's share price is currently trading at a 11%/29% premium to its comparables median in terms of T12M/FY15E P/E ratio. As investors tend to pay more attention to valuations within the construction space, we reiterate the risk of there being an value-based investment rotation from the more expensive names to the relatively cheaper ones. However, we also feel that the current premium the company is trading at is justified. Our reasons include: i) the company has special expertise in seaports and building construction, two project types that are least exposed to land acquisition delay risks, ii) its property segment has shown resilience thus far amid a nationwide slowdown, and iii) funding is not as much of a concern to PTPP as it is to many of its peers.

Drawing Comparisons to 2005

It would be unfair to compare the government's performance on a YoY basis.

- **There has been a lot of criticism regarding the current government's lack of action.** On paper, realization of the state budget with respect to the FY15 target, from both the revenue and expenditure sides, have been disappointing. As of 7M15, total government revenue was IDR 771Tn, or 44% of the FY15 target; total expenditure only reached 46% of the target. For contractors and infrastructure players, total capital spending on infrastructure was only 14% of the full year target.

- **Comparing the current budget realization to both 2005 and 2014.** In our view, comparing the government's performance this year to that of FY14 would not be fair; the current government has been in office for less than a year while in FY14, the government then had been in office for nearly five years. That being said, we compared our government's budget realization in FY15 to that in FY05, the first full year a new government was in office. In FY05, total capital spending realization was 60.1%, with absorption in Q4 05 almost triple that of 3Q05.

Several positive catalysts raise hopes that budget absorption in 4Q15 will pick up significantly...

- **Betting on an upbeat Q4 15.** Assuming similar absorption rates in capital spending this year to FY05, we could see a significant jump in capital spending absorption in Q4 15. Historically, contractors record the highest portion of revenue during this period of the year. Also, there have been several on-field reports that construction works and previously worrisome execution schemes are slowly improving. Therefore we also assume our target price in betting for a better 4Q15 than the rest of this year had been.

Perpres no. 30/2015—can it soothe land acquisition concerns?

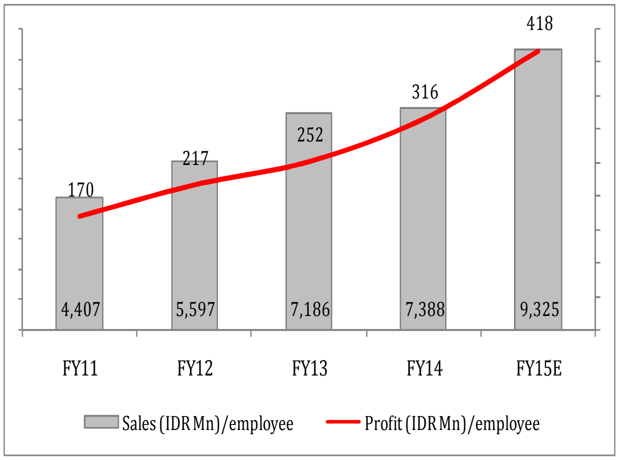
Land acquisition remains challenging despite new presidential orders.

- **Land acquisition remains a major concern.** Building of power plants in Batang and various toll roads have had to be stalled due to disagreements between the contractors and landlords in the land acquisition process. To smoothen the process, a new presidential order (no. 30/2015) issued that any land to be used for the construction works of national importance should be acquired by the related government parties under a fair, independent valuation of the land. As simple as that sounds, ease of execution remains a concern and we believe that only time will tell, despite success stories of the implementation of this new bill in sections of the Pemalang-Batang and Solo-Kertosono toll roads.

We favor construction works that deal less with land acquisitions.

- **We favor works less dependent on successful land acquisition.** Based on our macro view of the sector, we believe that seaports will be more feasible than toll roads and power plants as seaports require less land acquisitions. As PTPP continues its strong relationship with PT Pelindo, the state-owned port operator, PTPP will be benefited with more seaport construction projects.

PTPP Employee Productivity



Sales per employee/profit per employee has a 5-year CAGR of 16.2%/19.7%. Going forward, this will help PTPP reduce employee costs and help mitigate higher minimum wage pressures caused by rising nationwide inflation.

Source: Sinarmas Investment Research, Company Data

Debt-to-Equity Ratio Sensitivity

Funding, IDR	FY15E	FY16E	FY17E	FY18E
None	1.13	1.03	0.82	0.77
1 Tn	1.13	0.62	0.52	0.52
2 Tn	1.13	0.34	0.30	0.33
Total Debt & Equity, IDR Bn	7,487	8,907	10,030	11,799

After taking out PPRO equity and non-controlling portion of PPRO debt, PTPP's gearing ratio still looks incredibly healthy even without extra government funding.

Source: Sinarmas Investment Research, Company data

Business Operations

In this section we discuss the highlights of the company's operations—the methods that the company will use to potentially become the leading contractor in Indonesia:

Employee Productivity

- **Improving employee productivity.** Over the past years, the company's employees have only gotten more productive. Since FY11, the company has seen sales and profits per employee more than double. Going forward, this will help the company save on costs amid rising wage pressures, pressures arising from persistent nationwide inflation.

- **Although salaries represent a relatively insignificant portion of total COGS, increasing productivity represents a sign of a healthy company.** We forecast salaries to make up 1.8%/1.6% of total COGS in FY15F/FY16E, down from 1.9% in FY14. We attribute this to increasing productivity in the company's performance. Although we forecast that the company's financial results will not be significantly improved, increasing productivity does indicate signs of solid management and company culture.

Government Funding

- **The company has submitted a proposal for an IDR2Tn funding through the 2016 PMN (Penyertaan Modal Negara) scheme.** We conducted a sensitivity analysis to see how different values of government funding would impact PTPP's balance sheet. In our worst case scenario where PTPP will receive no funding, its DER will remain healthy at 1.03x in FY16E. We attribute this to strong retained earnings as we forecast income to grow to IDR1.1Tn in FY16E from IDR 532Bn in FY14, primarily driven by exuberant growths in the company's construction and property divisions.

- **It is therefore in our view that the company does not require the 2016 PMN unless a major project comes along.** Previously, the IDR 2Tn the company requested was to be used for the development of the Jakarta-Bandung high speed rail (HSR) train. Despite stalled developments of this project, the company is still adamant that it can receive government funding. However, we reiterate our view that unless a huge project such as the HSR comes along, PTPP's balance sheet will still look incredibly healthy.

Low USD sensitivity

- **The company has implemented various steps to minimize its exposure to currency fluctuations.** In most cases, PTPP purchases raw materials locally. The company also sets currency exchange rates in advance, per project, to limit foreign exchange gains/losses. As a result, we forecast that USD sensitivity will remain a subdued portion of total performance; from FY11 to FY14, foreign exchange gains/losses only contributed to 0.3% of total costs.

Appendix I: Major New Contracts

Business Line	Size, IDR Bn	Location	Owner
Buildings			
St Moritz	524	Makassar	Private
Automall	358	Makassar	Private
Springwood, BSD	298	Tangerang	Private
Port			
Kalibaru	8,209	West Java	Government
Kuala Tanjung	898	North Sumatera	Government
Makassar New Port	327	Makassar	Government
Power Plant			
PLTMG 120 MW	1,600	Gorontalo	Government
PLTGU 100-120 MW	1,106	Batam	Government
PLTU PAMA 2x15 MW	174	Central Java	Private
Roads/Bridges			
Solo-Kertosono Toll	431	Central Java	Government
Bawen-Solo Toll Road	339	Central Java	Government
Holtekam Bridge	246	Jayapura	Government
Energy			
LPG Terminal	500	Banyuwangi	Private
Servo Lintas Raya Haul	358	West Sumatera	Private
Others			
Mandala City Reclamation	2,500	Makassar	
Property	1,135		
Grand Kamala Lagoon		Bekasi	
Grand Sungkono Lagoon		Surabaya	
Pavilion Permata		Surabaya	
Precast	1,004		
Plant capacity: 150,000 Mt/yr		Sadang	
Plant capacity: 150,000 Mt/yr		Cilegon	
Total 8M15 New Contracts	**16,011**		

Source: Sinarmas Investment Research, Company data

Appendix II: Valuations

DCF Assumptions

Risk-free	9.52%
Market Risk Premium	6.50%
Equity	**2,390,270**
Cost	15.6%
Debt	**3,031,899**
After-tax Cost	6.60%
Terminal growth rate	8.1%
WACC	**10.6%**
Target Price	**4,250**

PT PP Properti Tbk (PPRO) NAV Calculation

Assets	Area, sqm	Utilization ratio	Price/ sqm, IDR Mn	Value, IDR Mn
Landbank				
Grand Kamala Lagoon	215,350	60%	13.50	1,744,335
Payon Amartha	44,573	60%	5.50	147,091
Anai Resort	3,555	60%	6.00	12,798
Total	**263,478**			**1,904,224**
Malls & Hotels				**1,549,526**
Kaza City Mall				
GKL Mall 1				
GSL Mall				
Park Hotel Jakarta				
Park Hotel Bandung				
Realty				
Dharmahusada	41,630		18.00	749,340
Grand Sungkono Lagoon	40,982		17.00	696,694
Grand Kamala Lagoon	36,784		22.50	827,640
Payon Amartha	35,790		13.00	465,270
Gunung Putri Square	21,000		8.60	180,600
Permata Puri	11,423		18.00	205,614
Ayoma	6,260		20.00	125,200
Pavilion Permata	3,250		17.00	55,250
Total	**155,489**			**3,305,608**
Asset Value				**6,759,358**
Adjustments				(842,073)
Net Asset Value as of FY15				**5,917,285**
NAV per share at FY15				**410.78**

Source: Sinarmas Investment Research, Company data

Appendix III: Financial Statements

Balance Sheet, IDR Mn	FY13	FY14	FY15F	FY16E	FY17E
Assets					
Cash And Cash Equivalents	2,396,802	2,408,126	3,105,639	4,401,335	3,752,668
Total Receivables	6,417,671	7,272,007	9,754,481	12,036,063	13,808,554
Inventories	1,777,419	2,570,346	3,573,207	4,206,209	4,861,659
Total Current Assets	**11,901,586**	**13,545,180**	**18,065,269**	**22,445,211**	**24,913,451**
Investment Property	235,053	219,896	309,210	398,115	523,816
Fixed Assets	141,882	493,576	977,596	1,029,621	958,432
Total Assets	**12,415,669**	**14,611,865**	**19,751,694**	**24,318,710**	**26,890,382**
Current Liabilities					
Short Term Bank Loans	836,766	891,868	891,868	891,868	891,868
Trade Payables	6,300,346	7,021,633	9,490,708	11,500,524	12,466,794
Advances From Consumers	546,638	622,849	671,071	872,987	1,085,242
Total Current Liabilities	**8,776,013**	**9,838,497**	**12,647,193**	**14,606,303**	**16,328,197**
Non Current Liabilities					
Long Term Liabilities	114,704	426,665	1,010,411	1,252,528	1,956,071
Bonds Payable	697,801	698,318	998,356	998,356	298,356
Total Liabilities	**10,430,922**	**12,221,595**	**16,033,347**	**18,721,040**	**20,211,326**
Equity					
Share Capital & APIC	946,600	946,262	946,262	1,946,262	1,946,262
Retained Earnings	1,037,220	1,442,959	2,090,743	2,970,065	4,051,451
Minority Interest	926	1,050	681,343	681,343	681,343
Total Liabilities & Equity	**12,415,669**	**14,611,865**	**19,751,694**	**24,318,710**	**26,890,382**

Income Statement, IDR Mn	FY13	FY14	FY15F	FY16E	FY17E
Revenues	**11,655,844**	**12,427,371**	**18,076,353**	**21,897,145**	**24,946,783**
Growth (%)	45.6%	6.6%	45.5%	21.1%	13.9%
Cost Of Goods Sold	(10,382,923)	(10,894,711)	(15,745,948)	(19,080,415)	(21,668,475)
Gross Profit	**1,272,922**	**1,532,660**	**2,330,405**	**2,816,730**	**3,278,308**
Gross margin (%)	10.9%	12.3%	12.9%	12.9%	13.1%
Operating Expenses	(199,537)	(275,958)	(369,592)	(401,896)	(440,299)
Operating Income	**1,073,385**	**1,256,702**	**1,960,813**	**2,414,834**	**2,838,009**
Operating margin (%)	9.2%	10.1%	10.8%	11.0%	11.4%
Others Income (Expenses)	(28,094)	5,245	6,940	788	(7,061)
Impairment of A/R	(106,934)	(81,255)	(204,844)	(264,793)	(303,788)
Interest Expenses	(267,192)	(333,647)	(472,129)	(474,392)	(517,959)
Profit From Joint Venture	94,252	71,024	59,790	77,727	89,386
Income From Associated Companies	1,473	1,375	1,451	1,904	1,551
EBT	**766,890**	**919,445**	**1,352,021**	**1,756,067**	**2,100,136**
Total Income (Expenses) Tax	(346,170)	(387,380)	(542,291)	(656,914)	(748,403)
Tax Rate (% of revenue)	3.0%	3.1%	3.0%	3.0%	3.0%
Net income	**420,720**	**532,065**	**809,730**	**1,099,153**	**1,351,733**
Net margin (%)	3.6%	4.3%	4.5%	5.0%	5.4%
Growth (%)	35.9%	26.5%	52.2%	35.7%	23.0%

Source: Sinarmas Investment Research

Appendix IV: Financial Ratios Forecasts

Ratios	FY15F	FY16E	FY17E	FY18E	FY19E
Profitability					
ROE	29.8%	27.6%	24.8%	22.6%	21.9%
ROA	4.7%	5.0%	5.3%	5.0%	5.0%
Gross margin	12.9%	12.9%	13.1%	13.0%	12.9%
Operating margin	10.8%	11.0%	11.4%	11.3%	11.3%
Net margin	4.5%	5.0%	5.4%	5.2%	5.3%
Net income growth	52.2%	35.7%	23.0%	10.1%	15.7%
Liquidity					
Current Ratio (x)	1.43	1.54	1.53	1.66	1.73
Quick Ratio (x)	1.15	1.25	1.23	1.37	1.42
Cash Ratio (x)	0.25	0.30	0.23	0.35	0.34
Solvency					
D/E (x)	1.01	0.59	0.50	0.50	0.45
Debt/Assets (x)	0.19	0.14	0.12	0.12	0.11
Valuations					
P/E (x)	24.17	19.68	16.00	14.54	12.56
P/BV (x)	6.79	4.62	3.67	3.37	2.83
EV/EBITDA (x)	10.68	9.67	8.24	7.26	6.31

Source: Company Data, Sinarmas Investment Research

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