

Initiating Coverage
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Research Analyst

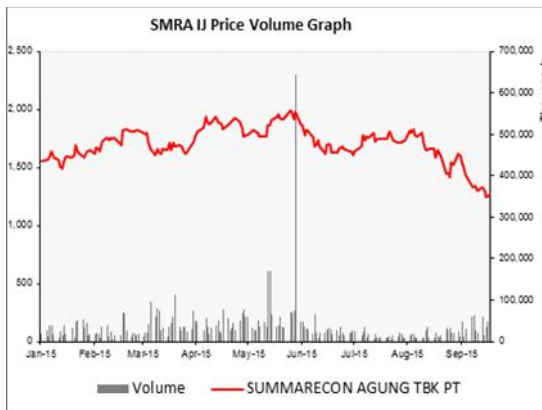
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PT Summarecon Agung Tbk and its subsidiaries develop and invest in real estate. The Company develops and operates residential houses, apartments, shopping centers, recreational centers and office buildings.

SMRA IJ

Current Price: IDR 1,085

52-Week Target Price: IDR 1,430


Source: Bloomberg, Sinarmas Investment Research

Share Price Performance

Price (IDR)	1,085
52-Week High (20/05/15)	2,000
52-Week Low (06/10/14)	1,040
YTD Change /%	-435/-28.6%

Stock Information

Market Cap. (IDR bn)	15,653.1
Shares Out./Float. (mn)	14,426.8/9,765
IPO Date	05/07/1990

Source: Bloomberg, Sinarmas Investment Research

PT Summarecon Agung Tbk
Slower Marketing Sales
BUY
BUY TP IDR 1,430 (32% Potential Upside)

We initiate SMRA, the second biggest property company by market cap, with BUY rating. Its 52-week target price of IDR 1,430 per share, which it still have potential upside of 32% from its current price. The target price reflects 60% discount to NAV and implies 10.7x PER FY16F.

1,847 Ha Gross Landbank Area

The company has a total gross landbank area of 1,847 ha as of 31 Dec 2014. In 2015 and 2016, the company plans to acquire 260 ha and 220 ha land areas in respectively to increase its landbank. 150 ha out of 260 ha 2015 target was already acquired in Makassar in April 2015.

Summarecon Serpong: Mid-Term Growth Engine

In the last few years, Summarecon Serpong has becoming the biggest contributor to total marketing sales replaces Summarecon Kelapa Gading. It is predicted that Serpong will still be the company's revenue growth engine in mid-term ahead as it has the biggest landbank (537 ha or 29% of total landbank) among other development areas. Moreover, marketing sales target set for Summarecon Serpong is the biggest for this year (62% contribution to total).

8M15 Marketing Sales Achieved 62% of Target

The initial marketing sales target for this year to reach IDR 5.5tn, but then the company revised downward its target to IDR 4.5tn due to economy slow down. Compare the new 2015 target to the 2014 realization of IDR 4.6tn, there will be a slightly decrease in total marketing sales by 2.2% YoY. The company confident they will achieve this 2015 new target as in 8M15 marketing sales was booked IDR 2.8tn, equal to 62% of the new target.

Minimal Impact from Luxury Tax on Property

The regulation in luxury tax on property (PPnBM) imposed on property purchases value of more than IDR 10 bn. This regulation has minimal impact to company as its sales contribution from development property of >IDR 10 bn is projected only by 2% of total sales.

Downside Risks

The slow down of Indonesia economy, slower property demand, IDR depreciation, delays in project pipeline, higher inflation and any further changes in government regulations could be the downside risks for SMRA.

Company at A Glance

The company was founded in 1975 by Mr. Soetjipto Nagaria and his associates to undertake real estate construction and development. Starting with 10 hectare (ha) of marsh land in the then back waters of Jakarta, the founders managed to transform Kelapa Gading into one of the most affluent residential and commercial areas in Jakarta.

Over the years, the company has built a reputation as one of the leading property players in Indonesia, especially in the development of townships which integrates residential developments with commercial developments that are supported with a wide and complete range of amenities for the residents of the townships. Company's business units are now grouped into three distinct activities which are (a) property development, (b) property investment and management, and (c) leisure, hospitality and others.



The above are the main & active operating companies

The company is listed in Indonesia Stock Exchange with its stock code of SMRA. As of 22 September 2015, its market capitalization IDR 18.03tn, the second biggest market capitalization in the sector.

Board of Commissioners

1. Ir. Soetjipto Nagaria - President Commissioner
2. Harto Djojo Nagaria - Commissioner
3. Edi Darnadi - Independent Commissioner
4. Esther Melyani Homan - Independent Commissioner

Board of Directors

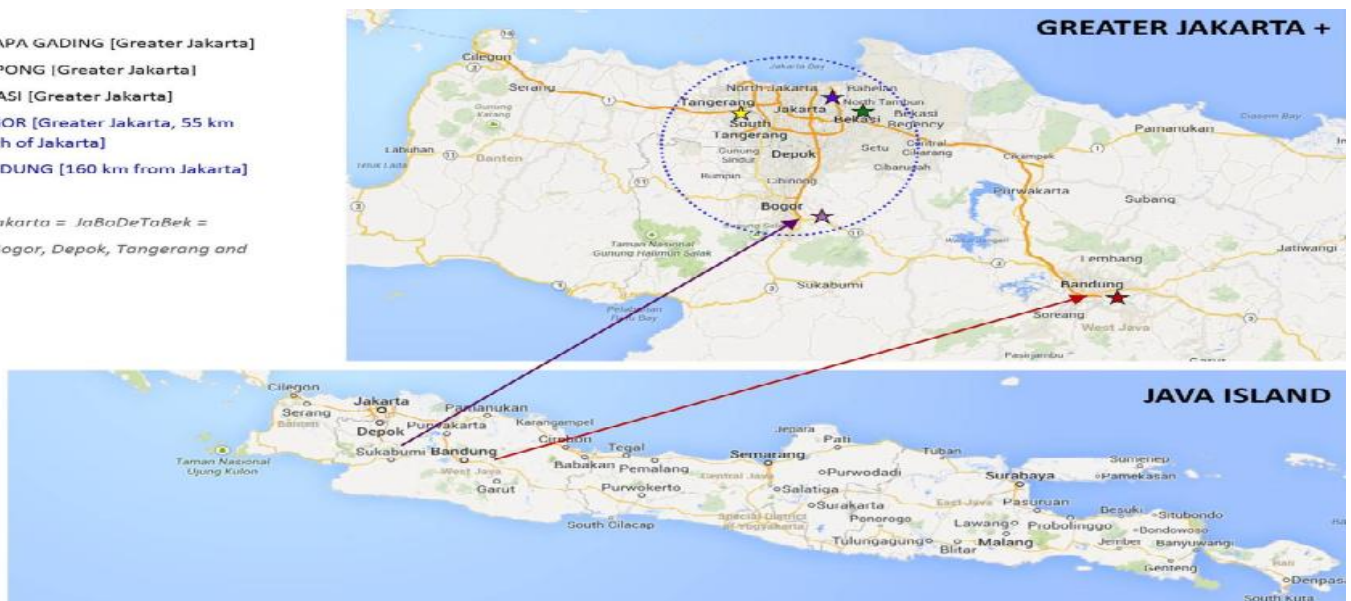
1. Adrianto Pitoyo Adhi - President Director
2. Liliawati Rahardjo - Managing Director
3. Soegianto Nagaria - Director
4. Herman Nagaria - Director
5. Lilies Yamin - Director
6. Lexy Arie Tumiwa - Director
7. Sharif Benyamin - Director
8. Yong King Ching - Director & Corporate Secretary

Strategic Project Locations

The company's project locations are most in the greater Jakarta area such as Kelapa Gading, Serpong, Bekasi and Bogor. Moreover, the company also has a project location area in Bandung, the capital city of West Java province. We believe these locations have potential land value increase in the future on the back of the customers' demand, the readiness of infrastructure and the locations' distances to Jakarta.

- ★ KELAPA GADING [Greater Jakarta]
- ★ SERPONG [Greater Jakarta]
- ★ BEKASI [Greater Jakarta]
- ★ BOGOR [Greater Jakarta, 55 km south of Jakarta]
- ★ BANDUNG [160 km from Jakarta]

Greater Jakarta = JaBoDeTaBek =
Jakarta, Bogor, Depok, Tangerang and Bekasi



Source: Company

1,847 Ha Gross Landbank Area

The company has a total gross landbank area of 1,847 ha as of 31 Dec 2014. In 2015 and 2016, the company plans to acquire 260 ha and 220 ha land areas in respectively to increase its landbank. 150 ha out of 260 ha 2015 target was already acquired in Makassar in April 2015.

No.	Location	Gross Landbank Area	% Total
1	Summarecon Kelapa Gading	8 ha	0.44%
2	Summarecon Serpong	537 ha	29.08%
3	Summarecon Bekasi	408 ha	22.10%
4	Summarecon Bandung	331 ha	17.93%
5	Summarecon Bali	20 ha	1.09%
6	Summarecon Bogor	401 ha	21.72%
7	Others	141 ha	7.64%
TOTAL		1,847 ha	100.00%

Resilient Business Model

The company develops a wide range variety of residential and commercial properties. Residential is divided into landed houses and apartments, while commercial is consist of shophouses, malls, hospitals, hotels, office buildings, and markets. As the company has resilient business model, they can easily swift its development/contruction focuses from 1 segment to another based on customers' demand interest amid the challenging industry outlook.

Minimal Impact from Luxury Tax on Property

The regulation in luxury tax on property (PPnBM) imposed on property purchases value of more than IDR 10 bn. This regulation has minimal impact to company as its sales contribution from development property of >IDR 10 bn is projected only by 2% of total sales.

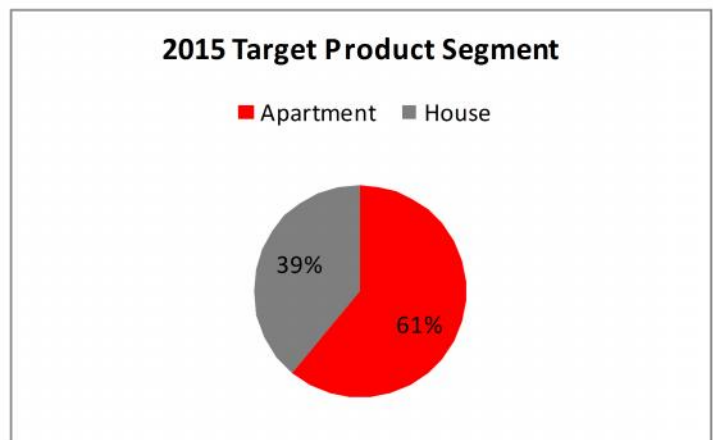
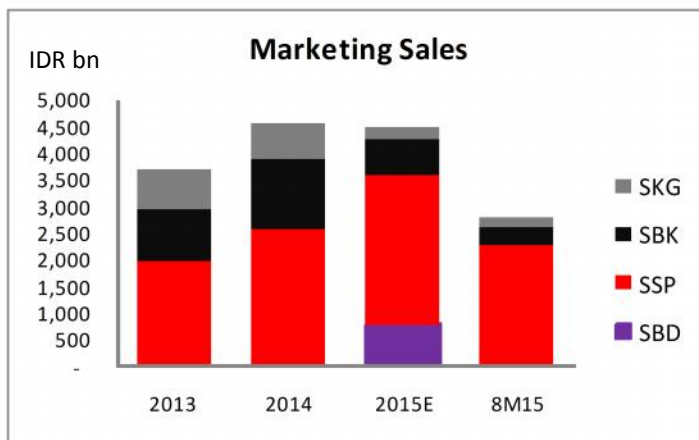
No.	SMRA's Sales Revenue from Property Development (SRPD)	1H15 (IDR bn)	% Total SRPD	% Total Revenue
1	Shops	939.6	51.84%	36.18%
2	Houses	581.6	32.09%	22.40%
3	Apartments	290.9	16.05%	11.20%
4	Landplots	0.4	0.02%	0.02%
Total SRPD		1,812.5	100.00%	69.80%
Total Revenue		2,596.7	-	100.00%

Slightly Decrease in 2015 Marketing Sales Target

The initial marketing sales target for this year to reach IDR 5.5tn, but then the company revised downward its target to IDR 4.5tn due to economy slow down. Compare the new 2015 target to the 2014 realization of IDR 4.6tn, there will be a slightly decrease in total marketing sales by 2.2% YoY. The company confident they will achieve this 2015 new target.

2015 Marketing Sales Target	Initial	New	Difference	
<i>(in billion of IDR)</i>				
Bandung	800	800	-	-
Serpong	3,350	2,800	-550	-16.4%
Bekasi	1,000	700	-300	-30.0%
Kelapa Gading	350	200	-150	-42.9%
TOTAL	5,500	4,500	-1,000	-18.2%

The biggest contributor to total marketing sales in 2015 is predicted from Summarecon Serpong by 62%, followed by Summarecon Bekasi 18% and Summarecon Bandung by 16%. While Summarecon Kelapa Gading as the oldest development area with 8 ha landbank area left, is predicted to contribute only by 4% this year.



In 8M15, marketing sales was booked IDR 2.8tn, equal to 62% of this year target. Summarecon Serpong was dominantly contributed to total marketing sales by 82% or IDR 2.3tn, followed by Bekasi and Kelapa Gading with each contributed by 11% and 7% in respectively.

In 4Q15, in order to achieve its 2015 total marketing sales target, the company will launch 1 Project in The Springs, Serpong which is estimated worth IDR 990bn, 1 cluster of residential in Bekasi estimated worth IDR 500bn and 1 project in Bandung estimated worth IDR 800bn.

Summarecon Kelapa Gading: The Successful Pioneer Area

Summarecon Kelapa Gading, an integrated township in North Jakarta, was the company's first development area which it was started in 1976. Up until now, the company already built and developed >30,000 residential houses, >2,100 shoplots, and >2,200 apartment units in the area. 97% out of 550 ha of total development area was already developed.



In the future, we see the limited upside growth from Kelapa Gading as the landbank is already limited. The company plans to develop the 3% landbank area left (8 ha) in the period of 5 years ahead. In the pipeline, the company plans to launch 1 office building (Kensington Office) and 2 apartment buildings with 3 towers (Summit Apartment 2 & Summerville Apartment Towers 1 & 2) next year. Furthermore, Summerville Apartment Towers 3 & 4 are scheduled to be launched by 2017.

The company has also investment properties in Kelapa Gading for recurring income such as Sentra Kelapa Gading, Harris Hotel Kelapa Gading, Klub Kelapa Gading, Summerville Apartments, Plaza Summarecon (company's head office), and Menara Satu office building.

Summarecon Serpong: Mid-Term Growth Engine

In the last few years, Summarecon Serpong has becoming the biggest contributor to total marketing sales replaces Summarecon Kelapa Gading. It is predicted that Serpong will still be the company's revenue growth engine in mid-term ahead as it has the biggest landbank (537 ha or 29% of total landbank) among other development areas. Moreover, marketing sales target set for Summarecon Serpong is the biggest for this year (62% contribution to total).

Since started in 1993, the company already developed or under constructing now by total of >11,000 residential houses, >2,000 neighbourhood shoplots, >1,800 residential landplots, and >1,100 apartment units. In total, 250 ha land area (32%) was already developed in 22 years, or by a simple average of 11 ha/annum. Going forward, the company targets the 537 ha landbank area to be developed in 10-15 years, or by approximately 35-55 ha/annum in simple average calculation. If this executed well, we believe the company's revenue will surge in mid-term period.

Likewise that in Kelapa Gading, the company also have investment properties here in Serpong for its recurring income. Summarecon Mal Serpong, Summarecon Digital Centre @ Serpong, and St Carolus Hospital Serpong are available in the area.



Summarecon Bekasi: The Next Big Thing?

The company targets to reach marketing sales from Bekasi by 16% out of a total IDR 4.5tn or by IDR 700bn for this year, the third biggest contribution to 2015 total marketing sales after Summarecon Serpong and Bandung, if the company achieve marketing sales target in Bandung by IDR 800bn (18% of total target). In 8M15, marketing sales has reached 11% of total or by IDR 321bn.

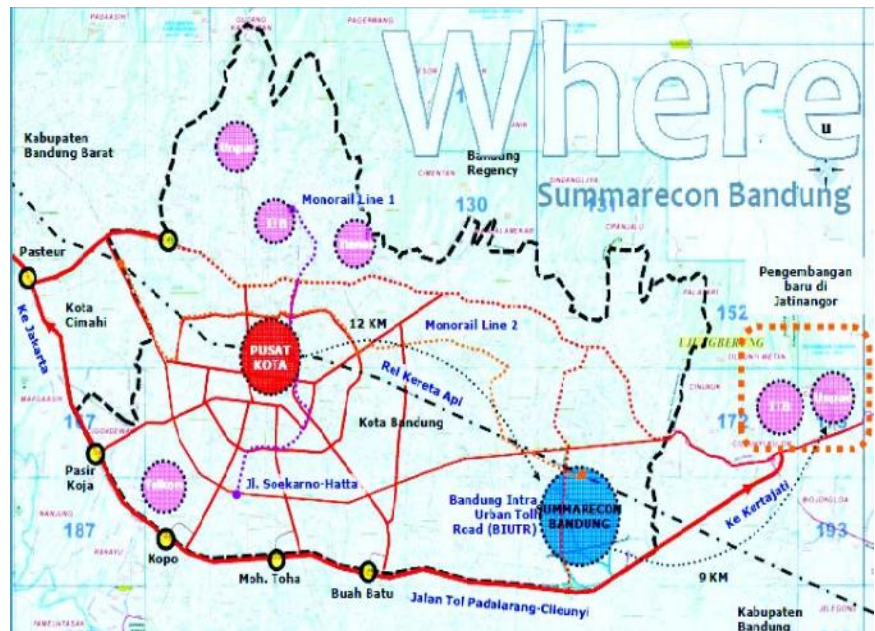
The development in Summarecon Bekasi started in March 2010. The company develops the first phase of 260 ha development area. >1,700 residential houses, >300 neighbourhood shoplots, and >3,000 apartment units were already developed or still under construction. The company claims they still have 400 landbank in Bekasi to be developed in more than 10 years.

In Summarecon Bekasi, they also have Summarecon Mal Bekasi and Plaza Summarecon Bekasi (office building).



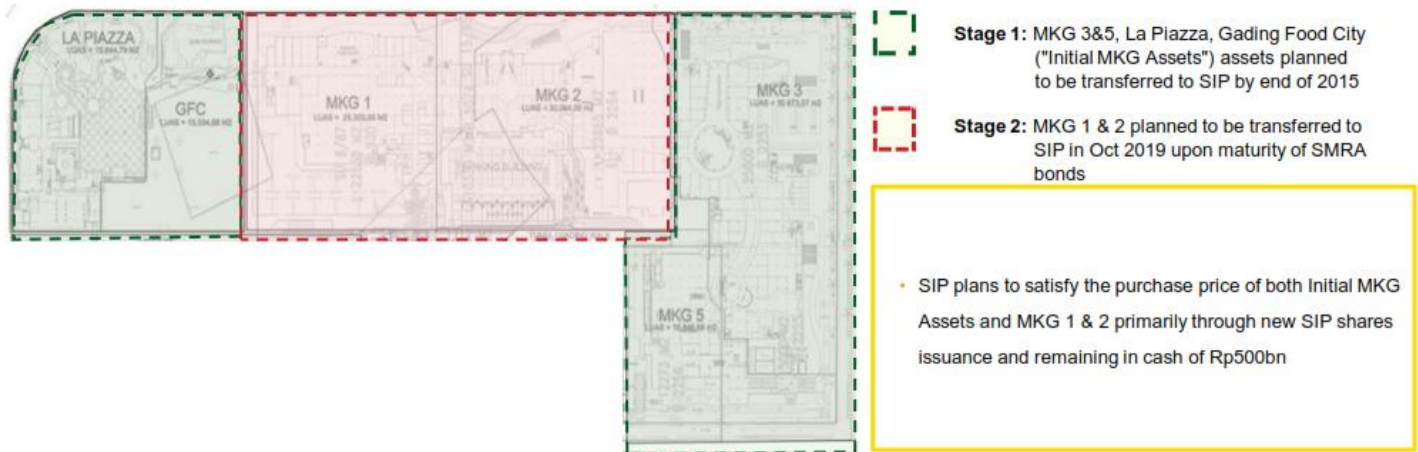
Summarecon Bandung: The New Township

Summarecon Bandung will open in the last quarter this year for the first time. It is located at Gedebage area, Bandung, West Java with approximately 12km distance from Bandung's City Center. The available landbank in this strategic area of Bandung is 300 ha sufficient for more than of 10 years estimated development.



Summarecon Investment Property (SIP)

The company plans to transfer its investment property assets to SIP. The first stage of assets to be transferred from SMRA to SIP are Mal Kelapa Gading (MKG) 3 & 5, La Piazza (LP), Gading Food City (GFC) assets by end of 2015. Then, for the second stage, MKG 1 & 2 will be transferred to SIP upon maturity of SMRA bonds which will mature in October 2019.



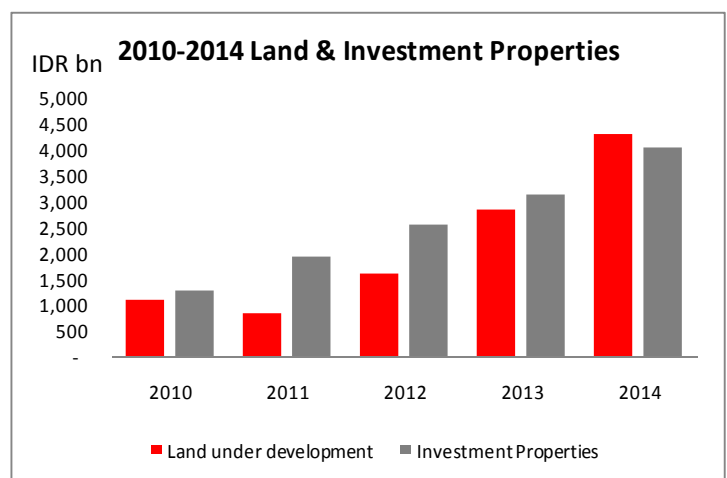
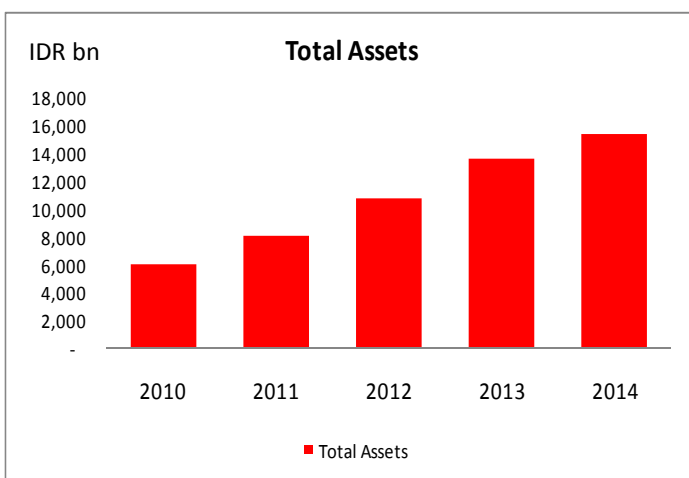
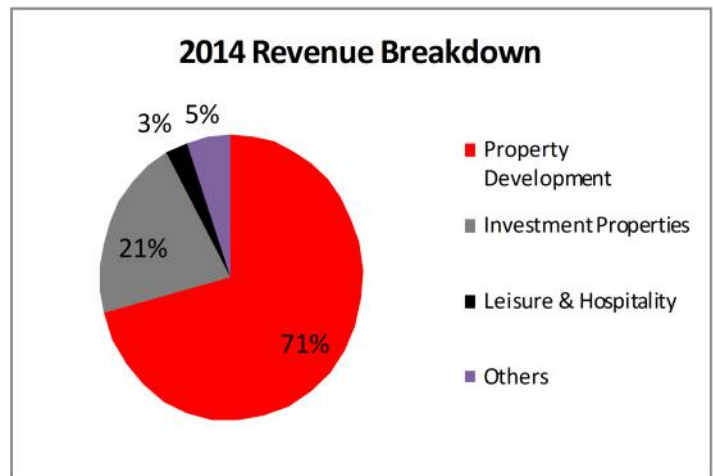
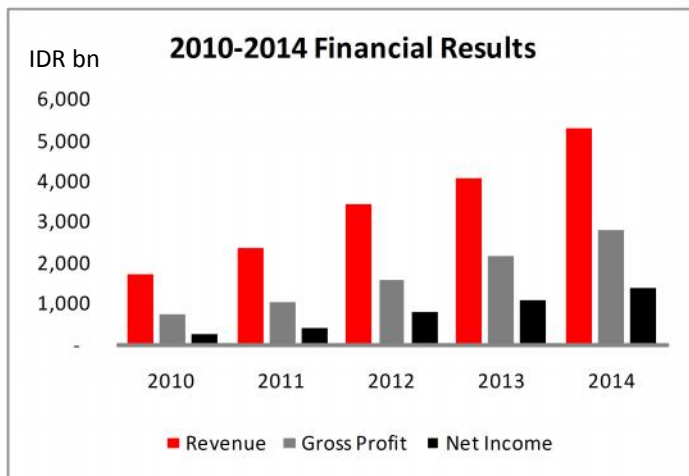
After the acquisition, SIP will consolidate all related revenue and costs of MKG, LP, and GFC to SIP's income statements. Moreover, the fixed assets of MKG, LP and GFC will be consolidated to to SIP's balance sheet upon acquisition.

We see this as a positive sentiment where SMRA can focus on development properties and SIP can focus on investment properties. SIP, which is a 100% subsidiary owned by SMRA, already have 4 retail malls, 3 hotels, 3 office towers and business park.

2010-2014 Bottom Line Grew by 56% CAGR

During the last 5 years, consolidated revenue was robustly grew 33% CAGR on the back of its strong marketing sales in Serpong, Bekasi and Kelapa Gading and also cost efficiency. As results, gross profit and net income were also robustly surged by 39% CAGR and 56% CAGR in respectively.

Amid the challenging situation in the sector last year, the company successfully booked positive growth in all across the board. FY14 total marketing sales booked increase by 23% YoY to IDR 4.6tn, consolidated revenue was booked by IDR 5.33tn, grew by 30% YoY. EBITDA and EBIT were also robustly increased by 51% YoY to IDR 2.28tn and 38% YoY to IDR 1.86tn in respectively. Thus, net profit was booked increase by 27% YoY to IDR 1.39tn.



1H15 Revenue +24% YoY, Net Profit -15% YoY

Although 1H15 consolidated revenue was increased by 24.1% YoY to IDR 2.6tn and gross profit was increased by 29.8% YoY to IDR 1.4tn, consolidated net income was booked decrease by 14.8% YoY from IDR 616.3bn in 1H14 to IDR 525.1bn in 1H15 with 20.2% net profit margin, due to 108% YoY higher in interest expenses mainly from bank loans IDR 129.4bn (+96.9% YoY) and bonds IDR 68bn (+147.1% YoY).

The biggest contributor to total revenue was coming from property development segment which contributed by IDR 1.8tn (69.8%). Then it was followed by investment properties segment which contributed by IDR 596.7bn (23%) and leisure and hospitality segment which contributed by IDR 187.5bn (7.2%).

I/S (in billion of IDR)	1H14	1H15	% Change
Revenue	2,092	2,596	+24.1%
Gross Profit	1,073	1,393	+29.8%
<i>Margin</i>	<i>51.3%</i>	<i>53.7%</i>	
Operating Income	657	691	+5.2%
<i>Margin</i>	<i>31.4%</i>	<i>26.6%</i>	
Finance Costs	101	210	+107.9%
Net Income	616	525	-14.8%
<i>Margin</i>	<i>29.4%</i>	<i>20.2%</i>	
EPS (full amount)	36.94	36.69	

NAV Calculation

We value company's assets by using NAV method and arrive to its target price of IDR 1,430 per share with 60% discount to NAV which implies 10.7x PER FY16F.

<i>as of 31 Dec 2014</i>	Acreage	Utilization Ratio	Price/sqm	Net Value
	(ha)	(%)	(IDR '000)	(IDR bn)
<u>Landbank</u>				
Summarecon Kelapa Gading	7	60%	25,000	863
Summarecon Serpong				
Own Land	307	60%	12,000	19,512
JO with PT JBC	150	60%	12,000	6,634
JO for The Springs	80	60%	12,000	2,780
Summarecon Bekasi				
Own Land	145	60%	11,000	8,339
JV with PT DSA	263	60%	1,860	1,188
Summarecon Bandung	331	60%	2,520	3,718
Summarecon Bali	20	60%	8,400	612
Summarecon Bogor	401	60%	1,820	1,822
Other Properties & Inventories	141	60%	840	602
SUBTOTAL	1,846			46,070
<u>Investment Properties</u>				
Sentral Kelapa Gading	15			4,243
Sentral Gading Serpong	17			1,784
Summarecon Mal Bekasi	15			1,078
Hotels	3			603
Other Operating Properties	17			504
SUBTOTAL	67			8,212
TOTAL				54,282
Add Cash				1,695
Less Debt				(4,382)
RNAV				51,595
No. of Shares (bn shares)				14.43
RNAV per Share (IDR)				3,576
Discount to RNAV				60%
Target Price (IDR/share)				1,430

<i>in billion of IDR</i>	FY13	FY14	FY15E	FY16F	FY17F
<u>I/S</u>					
Revenues	4,093	5,333	5,050	5,554	5,065
Cost of Revenues	1,943	2,545	2,335	2,209	1,826
Gross Profit	2,150	2,788	2,715	3,344	3,239
Operating Expenses	809	948	947	1,014	937
Operating Income	1,341	1,840	1,767	2,329	2,301
Other Income (Expenses)	(22)	(156)	12	2	13
Income Before Tax Expense	1,319	1,684	1,755	2,331	2,314
Tax Expense	223	296	303	406	401
Net Income	1,095	1,387	1,452	1,924	1,913
Total Comprehensive Income	1,102	1,398	1,461	1,935	1,922
Basic EPS (Full Amount)	76.40	96.92	101.26	134.15	133.23
<u>B/S</u>					
Cash and cash equivalents	2,544	1,695	2,258	1,300	1,053
Trade receivables	178	76	145	120	128
Inventories	3,058	3,103	3,355	3,461	3,260
Prepaid taxes	369	233	370	408	446
Advances payments	255	322	301	282	234
Undeveloped land	2,858	4,322	5,022	6,022	7,022
Fixed assets	351	366	597	901	975
Investment properties	3,149	4,043	4,386	4,711	5,020
Other assets	897	1,219	1,130	1,256	1,140
TOTAL ASSETS	13,659	15,379	17,564	18,461	19,278
Trade payables	63	64	67	60	51
Sales advances	5,025	3,251	4,639	4,244	4,261
Bank loans	1,911	2,698	2,481	2,318	1,992
Bonds payable	590	1,683	1,700	1,700	1,700
Other liabilities	1,412	1,690	1,643	1,608	1,401
TOTAL LIABILITIES	9,001	9,386	10,530	9,930	9,405
Share capital	1,442	1,442	1,442	1,442	1,442
Additional paid-in-capital	23	23	23	23	23
Retained earnings	2,963	4,029	5,071	6,568	7,910
Minority Interest	226	496	496	496	496
Other equity	2	2	2	2	2
TOTAL EQUITY	4,656	5,992	7,034	8,531	9,873

Source: Company, Sinarmas Investment Research

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