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Initiating Coverage

PT Surya Semesta Internusa Tbk

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PT Surya Semesta Internusa Tbk.

Expectation reigns Supreme

HOLD

We initiate coverage on PT Surya Semesta Internusa with HOLD Rating. The record sales of industrial estate at unprecedented price point coupled with passing of land acquisition bills and low interest rate environment will be the primary catalysts for SSIA. Downside risks include shift in political power which would potentially change the investment landscape in Indonesia, withdrawal of tax incentives for foreign corporations and rise in interest rates. We place a HOLD rating despite its bright short-term prospect but its long-term prospect is highly uncertain and we feel that market has already priced in the rise in ASP and land sold in industrial estate division.

Record Sales of Industrial Estate at an unprecedented price point
SSIA managed to sell 208 Ha (471% increase *yoy*) while 2006-2010 average land sold was only around 14.5 Ha. This record was supported by government incentives to attract multinationals to invest in Indonesia, Thailand flood resulting in diversification of automotives and automotives component manufacturer to Indonesia and rising JPY which makes Japan-made products highly uncompetitive in the global markets. The sudden high demand for industrial estate which was not met with supply growth in prime industrial estate (such as those in Bekasi and Karawang) resulted in significant price increase. ASP of industrial estate in Karawang rose from USD39.5/m^2 in 2010 to USD43.4/m^2 and SSIA is currently pricing it at a whopping USD110/m^2.

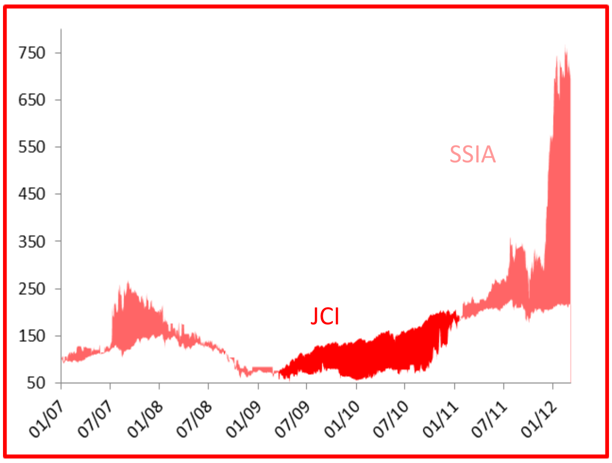
Prospects of securing 1,000 Ha to maintain supply
SSIA is currently facing a declining land banks and it is paramount that SSIA secured sufficient land to ensure its adequate supply for future sale. Currently, SSIA has entered into the last stage of negotiation and our discussion with the management team revealed that they are 70% confident that the deal will pass through. SSIA has entered into a land-swap negotiation with PT Inhutani I that SSIA agreed to swap 2,000 Ha of pre-specified land (valued at around IDR35,000/m^2) with 1,000 Ha of land located next to SSIA complex in Karawang, valuing the industrial land at around IDR700bn (while the market value is significantly higher considering the fact that SSIA is now selling its remaining industrial estate at USD110/m^2).

Risks include shift of political landscape that disfavor foreign direct investment. Currently, political stability is the main reason why foreign multinationals are investing in Indonesia and it is one of the prerequisites for Indonesia's Investment grade status by Moody's and Fitch's Rating Services. Frequent labor strikes and demonstrations arising from public discontentment, political instability which might arise from 2014 election and highly-bureaucratic system will be very negatives on the investment by foreign multinationals. Highly uncertain global macroeconomic conditions will be the key exogenous factor affecting investment by manufacturing firms which will indirectly affect the demand of industrial land for expansion.

Stock Data

Sector	Real Estate Operation
Price	IDR 860
Target Price 2012	IDR 970
12-month rating	HOLD
Prior	Not Rated
Ticker	SSIA.IJ (BBG); SSIA.JK (RIC)
Market Cap	IDR 4.14 tn
Shares O/S (mn)	4,705
Free Float (mn)	167.3
Avg. Daily Vol.	24 mn

Share Price Comparison: SSIA vs JCI



Source: Bloomberg; 01/02/2007 = 100

Summary (IDR bn)	2009	2010	2011E	2012E	2013F	2014F
Revenues	1,484	1,690	2,850	3,234	3,683	3,748
EBIT	86	161	413	729	887	842
Net Income	17	116	202	351	432	429
EPS (IDR)	15	98	43	75	92	91
Net DPS (IDR)	-	-	20	35	43	43

Profitabiity	5-year Average	2010	2011E	2012E	2013F	2014F
Gross Margin%	18%	28%	25%	34%	37%	35%
EBIT Margin%	6%	10%	14%	23%	24%	22%
EBITDA Margin%	8%	13%	18%	18%	18%	17%
EV/EBITDA x				11.48	10.11	10.49
P/E x				13.01	10.56	10.63
Net Dividend Yield				3.62%	4.46%	4.43%

Source: Company data, Sinarmas Sekuritas Research

*: EPS values have been adjusted for stock-split for comparison

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Valuation with Target Price IDR 970

We derived out target price from sum-of-the-parts analysis due to its diverse divisions. Our initial SOTP indicates a 12-month target of IDR1,140. However, due to its large size with diverse divisions, we assign an arbitrary 15% cut resulting in an adjusted TP of IDR 970, implying a 10% upside potential, 13.0 and 11.5 P/E12 and EV/EBITDA12, respectively.

Key Catalysts

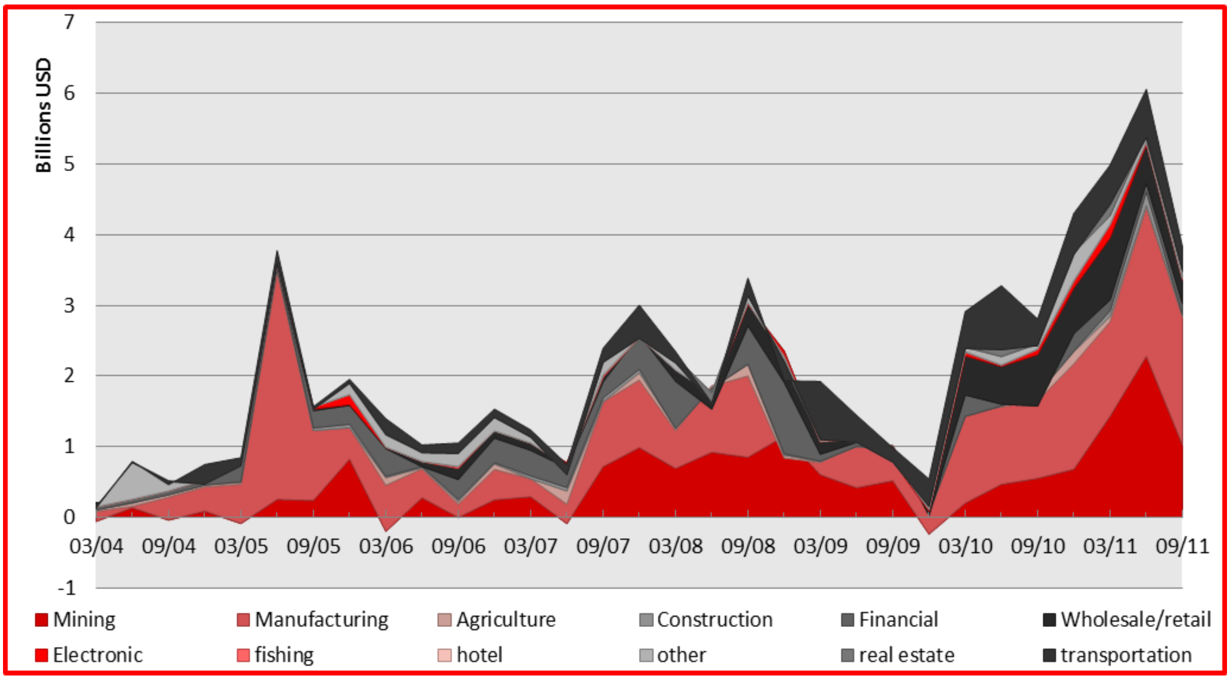
Foreign Direct Investment and Domestic Direct Investment drive up demand for land

The sale of industrial estate and construction services are highly dependent on the inflow of investment by foreign multinationals or domestic companies. Record sales of industrial estate at unprecedented price can be attributed to the record foreign direct investment (FDI) and domestic direct investment (DDI). The industrial land sales market observed increased activity, in particular, for land parcels with size greater than 10 Ha. This was supported by resilient domestic consumption and exceptional growth of the automotive industry. According to Colliers International, the first 9 months of 2011 witnessed spectacular land sales of 897 Ha, exceeding the total land sales in the whole 2010. The robust demand is not met by adequate supply driving the ASP of industrial land in Karawang and Bekasi up by 45% during the six months between April and September 2011 while ASP only increased by 15% within the same period in 2010. Landmark transaction include the purchase of a 28-Ha plot at Bekasi Fajar by Denso Indonesia and the purchase of a 31-Ha land plot at KIIC by undisclosed purchaser.

The robust growth and resilient domestic consumption, solid investment inflows and improving performance of exports will be the key supports for demand of industrial estate and economic growth in Indonesia. Indonesia is expected to record 6% to 6.5% growth in 2012 and this is expected to buoy investors' and developers' confidence on Indonesia which will translate to higher industrial estate sales at higher ASP. Furthermore, land values in Bekasi and Karawang are still relatively cheap as compared to its peers reflecting potential price increase in the near future.

Major tenants of SSIA include Bridgestone Tire (Japan), TVS (India), Bekaert (Belgium), JVC Electronic (Japan), Santos Jaya Abadi (Indonesia), KIA Indonesia, Pakoakuina (Indonesia) and Wijaya Karya Beton (Indonesia). SSIA is expecting new and prominent tenants such as Astra International and its related companies, Nestlé, Sumatera Hakarindo and Sanko Gosei Indonesia to occupy its industrial estate in 2011. Around 120 Ha (89% of 2012 target) has been committed and thus we expect SSIA to increase its target when they revise their performance in 1Q2012.

Chart 1: Breakdown of Foreign Direct Investment in Indonesia by Sectors (Quarterly data)

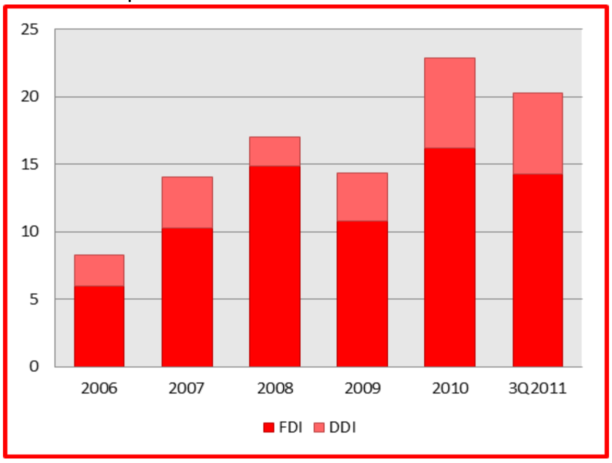


Source: Bloomberg

Table 1: Major Transactions in Jakarta (as of September 2011)			
Building/Land Plot	Property Type	Tenant/Purchaser	Land Area (Ha)
Modern Cikande	Land	Indochem	6
Bekasi Fajar	Land	Undisclosed - Food Industry	10
Jababeka	Land	Undisclosed - Plastics & Metal Manufacturing	14
Suryacipta	Land	Undisclosed - Automotive Component	15
Jababeka	Land	Undisclosed - Consumer Goods	17
Jababeka	Land	Pharmacy	20
KI Mitrakarawang	Land	Undisclosed - Automotive	20
Jababeka	Land	Undisclosed - Automotive	23
Bekasi Fajar	Land	Denso Indonesia	28
KIIC	Land	Undisclosed	31

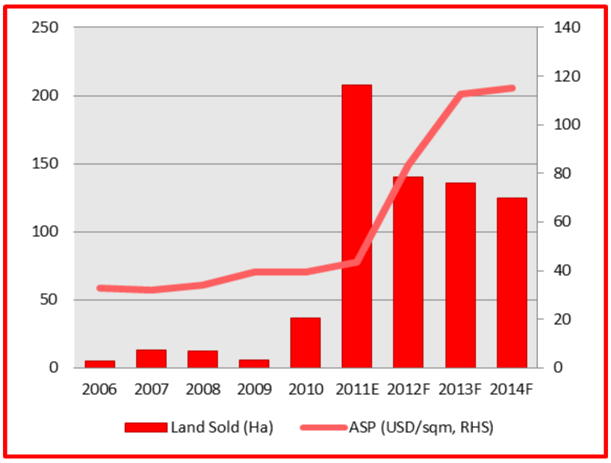
Source: Colliers International

Chart 2: Capital Investment in Indonesia in USD bn



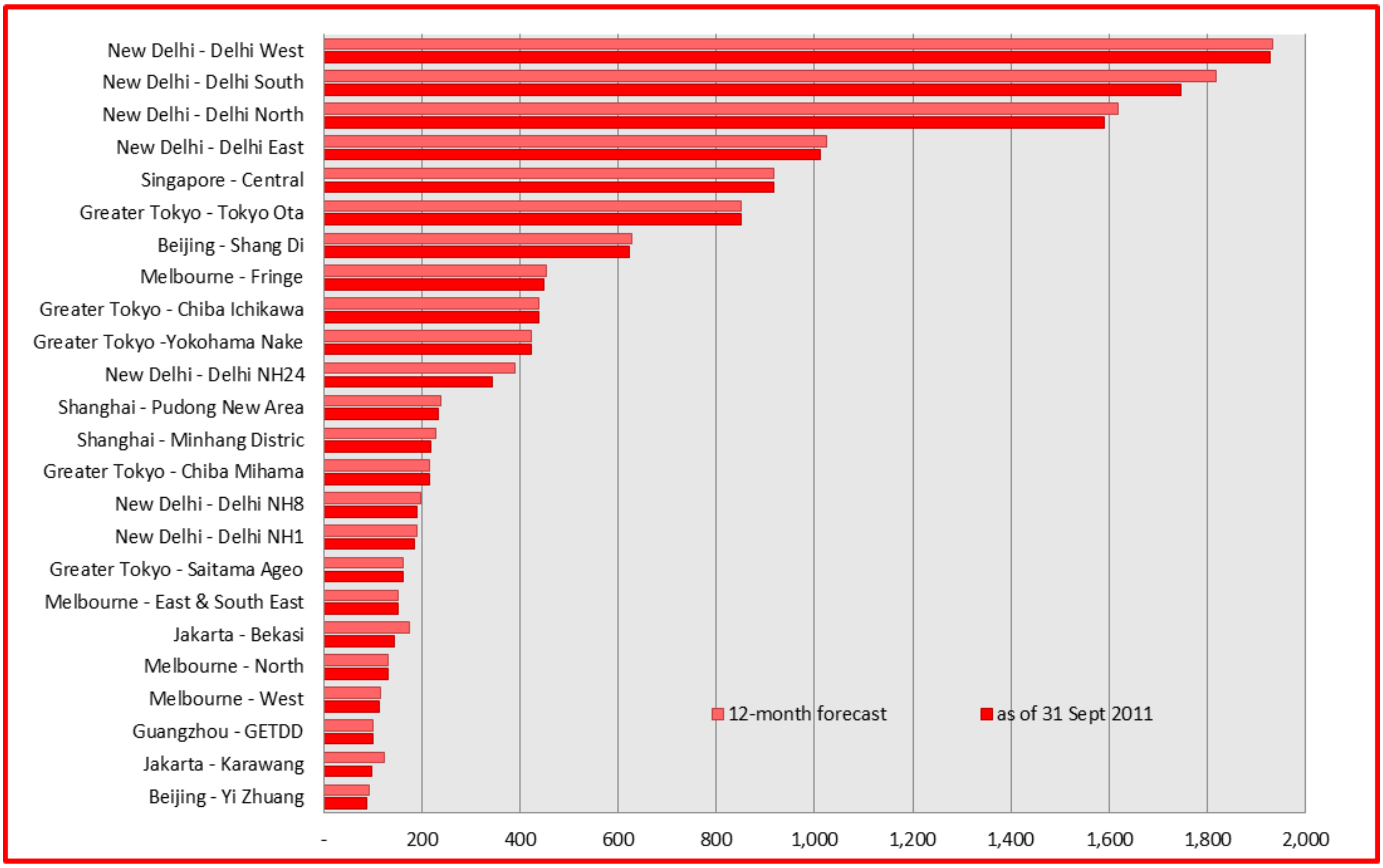
Source: BKPM (Indonesia Investment Committee)

Chart 3: SSIA's rising Land Sales and ASP



Source: Company Data, Sinarmas Sekuritas Estimate

Chart 4: International Comparison of Single-User Factory Land Values (USD/sqm). Indonesia is still cheap as compared to its peers.

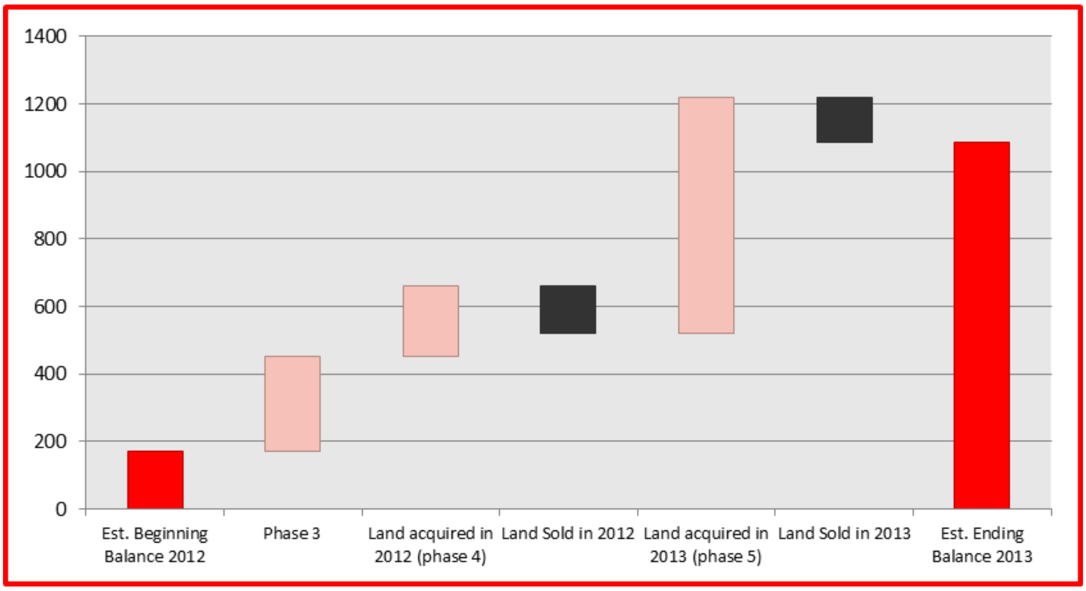


Source: Colliers International, Sinarmas Sekuritas

Expectation remains high

SSIA's future hinges on its ability to secure 1,000 Ha Land via a land-swap agreement with PT Inhutani I. Our discussion with the management team indicates that the success rate is 70% and the management team is fairly sanguine that they will be able to secure the land next to its current complex. The deal is valued at around IDR 500-700 bn and considering the land is being sold at USD 110/m^2, the deal is highly NAV accretive to SSIA's industrial estate division. However, expectation by the market is fairly high and we have reasons to believe that the success of the deal has been priced in relatively well by the market (SSIA share prices has appreciated around IDR300 bringing a total value of IDR 1.2tn when the news of acquisition was released to the public on 19th of December 2011). Failure to secure this deal will be exceptionally detrimental to SSIA's share price and future performance, bringing us to recommend HOLD despite its bright potentials.

Chart 5: SSIA's Landbanks and estimated acquisitions in the next 2 years

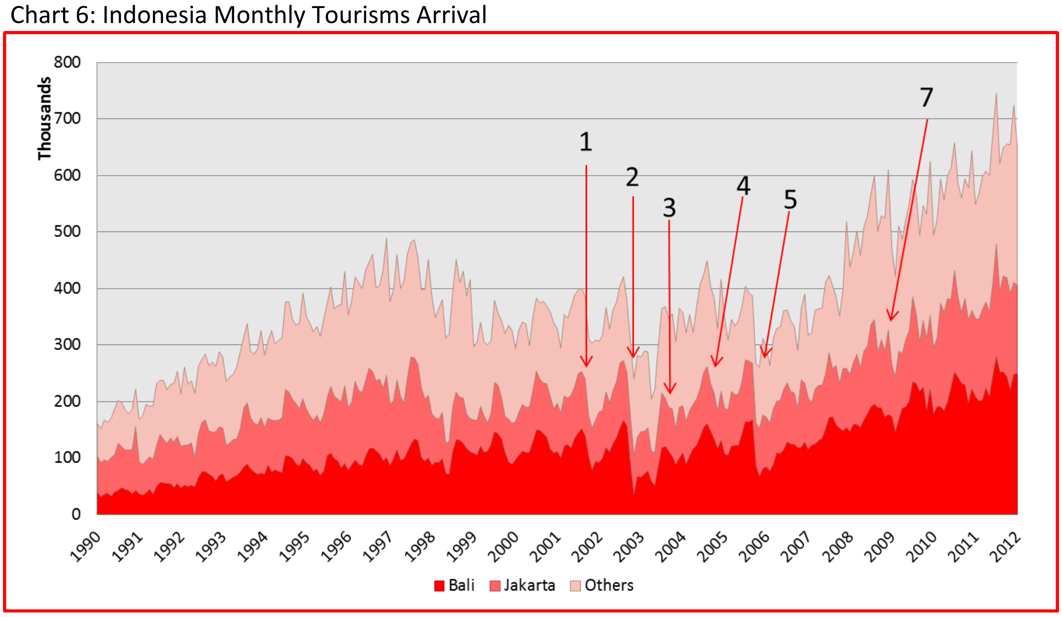


Source: Company Data; Sinarmas Sekuritas Estimate (capacity utilization = 70%)

Hospitality Division

Hospitality division is sensitive to the stability and security of Indonesia. Frequent labor strikes, demonstrations and terrorists attack and bombing are highly damaging to the reputation of Indonesia. Past 2 years had been relatively peaceful with no serious terrorists attacks reported in Bali or Jakarta. We estimate hotel occupancy and average daily room rate to remain relatively flat or depressed in the near term due to the uncertainty in the global markets which decrease the purchasing power and ability of tourists to enjoy luxury treats in Bali and Jakarta.

Chart 6: Indonesia Monthly Tourisms Arrival



1:World Trade Center/911 Incidents;

2: Bali Bombing I;

3: JW Marriott Bombing;

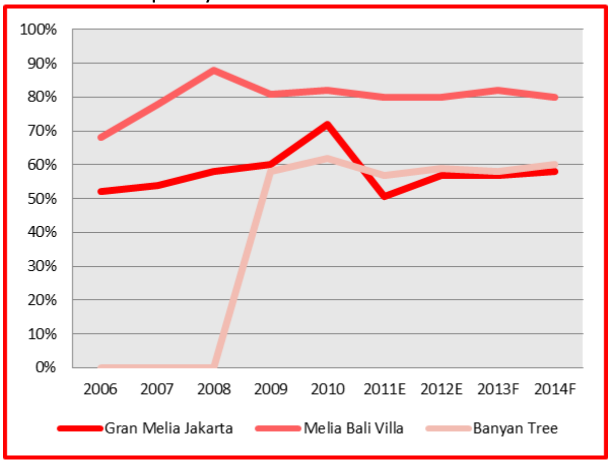
4: Aceh Tsunami;

5: Bali Bombing II;

7: Global Financial Crisis

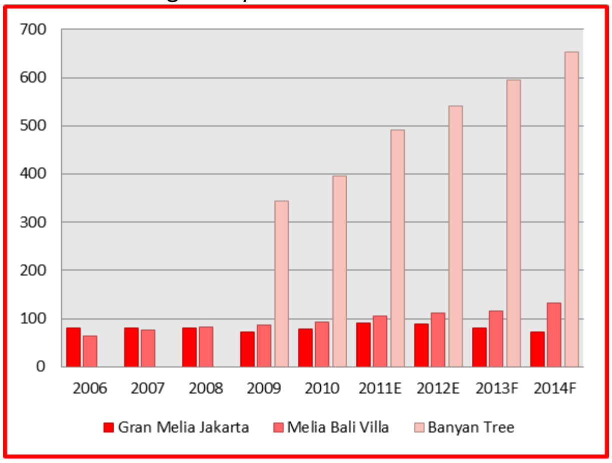
Source: Bloomberg

Chart 7: Occupancy Rate



Source: Company Data; Sinarmas Sekuritas Estimate

Chart 8: Average Daily Room Rate



Source: Company Data; Sinarmas Sekuritas Estimate

Core Assumptions

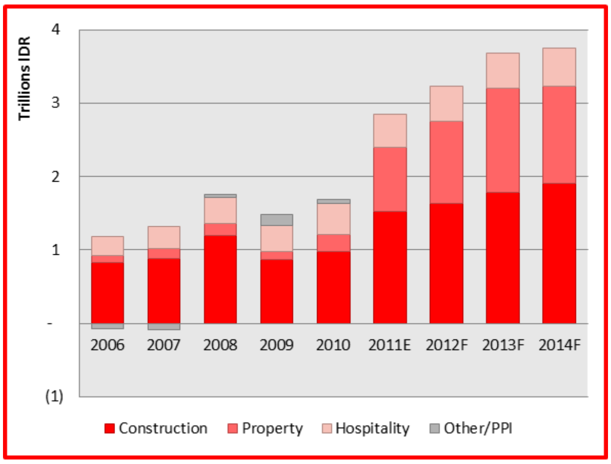
We expect Revenue to grow at 2012-14 CAGR of 5% and we do not foresee a repeat of 2011 spectacular 2011 growth rate of 68.7% yoy as ASP of industrial land has re-adjusted to higher value and construction work. We expect revenue to remain stagnant after 2014 unless the management team is able to come out with new idea to generate growth. Margin is expected to expand in 2011 and 2012 but we foresee it to remain stagnant or decline slightly if costs (such as building materials, salary and wages and expenses) are to increase with inflation.

Table 2: Core Assumptions

	2009	2010	2011	2012E	2013F	2014F
Construction						
Contract on-hand (beg. Bal.)	789	729	1,390	1,545	1,665	1,734
Contracts obtained	832	1,669	1,700	1,785	1,874	1,968
Revenue progress	892	1,008	1,545	1,665	1,805	1,925
Contract on-hand (ending bal.)	729	1,390	1,545	1,665	1,734	1,777
Industrial Estate						
Total Land Sold (Ha)	5.4	36.4	208	140	136	125
ASP (USD/sqm)	39.6	39.5	43.4	83.4	112.5	115
Rental Property						
Occupancy Rate						
Graha Surya Internusa	85%	89%	90%	90%	90%	88%
Glodok Plaza	72%	72%	82%	82%	78%	78%
Rental Rate (IDR/sqm p.a.)						
Graha Surya Internusa	1,621,947	1,602,466	1,637,483	1,727,544	1,813,921	1,891,920
Glodok Plaza	868,528	944,052	994,708	1,049,417	1,101,888	1,149,269
Hospitality						
Occupancy Rate						
Gran Melia Jakarta	60%	72%	51%	57%	57%	58%
Melia Bali Villa	81%	82%	80%	80%	82%	80%
Banyan Tree	58%	62%	57%	59%	58%	60%
Room RevPAR (USD)						
Gran Melia Jakarta	43	56	46	50	46	42
Melia Bali Villa	70	76	85	89	95	107
Banyan Tree	199	246	280	319	345	392
Total RevPAR (USD)						
Gran Melia Jakarta	98	121	115	123	111	96
Melia Bali Villa	109	114	130	139	150	175
Banyan Tree	356	371	390	444	480	546

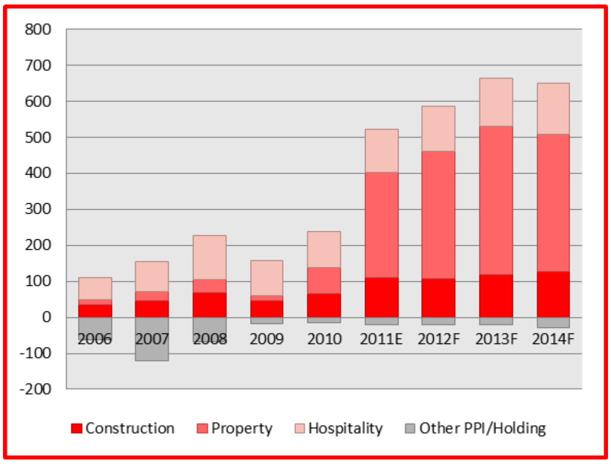
Source: Company Data; Sinarmas Sekuritas Estimate

Chart 9: Revenue Breakdown



Source: Company Data; Sinarmas Sekuritas Estimate

Chart 10: EBITDA Breakdown



Source: Company Data; Sinarmas Sekuritas Estimate

Chart 11: Margin Expansion

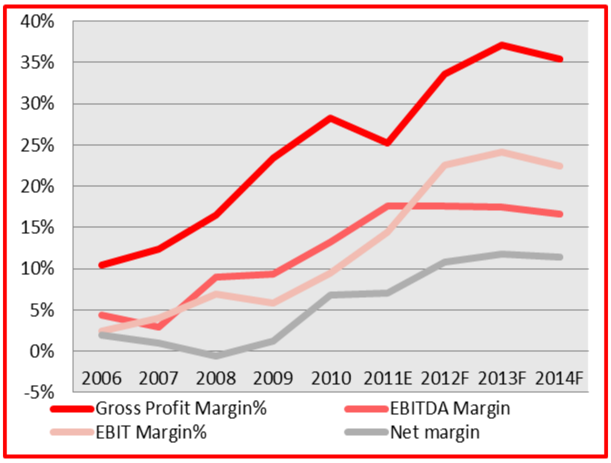
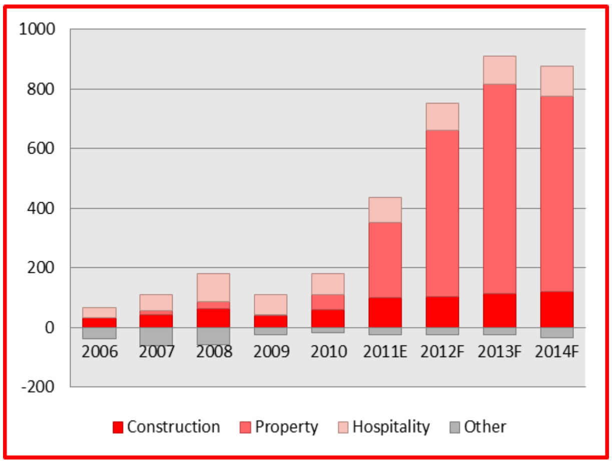


Chart 12: EBIT Breakdown



Valuation

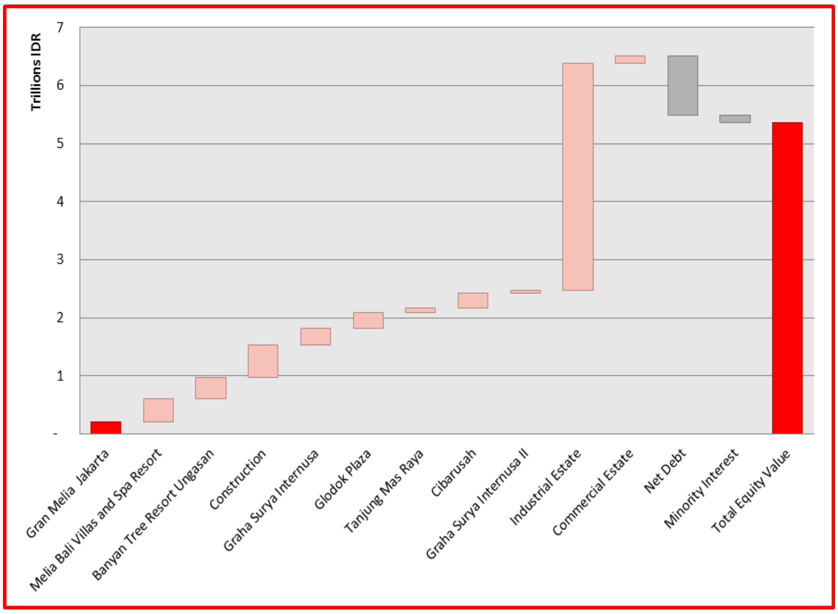
We derived out target price via sum-of-the-parts analysis. Discounted Cash Flow valuation, in our opinion, is not really suitable due to its distinct divisions and lack of clarity of free cash flows attributed to its respective divisions. An arbitrary 15% cut is to adjust for its diverse and distinct divisions that can potentially results in dis-synergies if the management team is not able to manage the firm well. Furthermore, market tends to underprice conglomerates and as such we assign a 15% cut to account for this underpricing phenomenon.

Table 3: Summary of Sum-of-the Parts Valuation

	Valuation method	Multiples/discount	Ownership	Valuation
Hotel				
Gran Melia Jakarta	2.3x EV/Sales 12	2.34	53.75%	199
Melia Bali Villas and Spa Resort	3.5x EV/Sales 12	3.49	53.75%	408
Banyan Tree Resort Ungasan	3.5x EV/Sales 12	3.49	100%	358
Construction	6.7x EV/EBITDA12	6.69	83.33%	566
Rental Property	Discount to NAV	35%	100%	
Graha Surya Internusa				280
Glodok Plaza				285
Tanjung Mas Raya				80
Cibarusah				250
Graha Surya Internusa II				40
Industrial Estate	Discount to NAV	35%	100%	3,919
Commercial Estate	Discount to NAV	35%	100%	134
		Total Enterprise Value		6,520
		Net Debt		(1,034)
		Minority Interest		(119)
		Total Equity value		5,367
		Shares O/S		4.705
		Target Price		1,140.73
		Cut		15%
		Adjusted TP		969.62

Source: Company Data; Bloomberg; Sinarmas Sekuritas Estimate (capacity utilization = 70%)

Chart 13: Summary of SOTP analysis



Source: Company Data; Bloomberg; Sinarmas Sekuritas Estimate (capacity utilization = 70%)

Appendix I

List of Comparables

Comparables for relative valuation are selected based on availability of estimate from Bloomberg and suitability of data. For Hotel and resorts division, international companies are selected as we feel that 5-star hotels are comparable globally due to stringent international standard and requirements.

Table 4: List of Comparables

Construction Comparables			
		EV/EBITDA 11	EV/EBITDA 12
PTPP IJ E	PP (Persero) Tbk	9.06	7.71
CMNP IJ Equity	Citra Marga Nusaphala (Persero) Tbk.	7.46	6.70
WIKA IJ Equity	Wijaya Karya (Persero) Tbk	7.14	5.68
	Average	7.89	6.70
Hotel Comparables			
		EV/ TTM Sales	
HOT US Equity	Starwood Hotel & Resorts	2.29	
MAR US Equity	Marriott International	1.10	
WYN US Equity	Wyndham Worldwide Corporation	2.41	
CHH US Equity	Choice Hotel International	3.65	
H US Equity	Hyatt Hotel Groups	1.90	
IHG LN Equity	Intercontinental Hotel Group	3.93	
AC FP Equity	Accorr SA	1.11	
	Average	2.34	
Resorts Comparables			
CZR US Equity	Caesar Entertainment	2.27	
GENT MK Equity	Genting Bhd	2.89	
GENM MK Equity	Genting Malaysia Bhd	2.78	
GENS SP Equity	Genting Singapore Plc	6.03	
	Average	3.50	

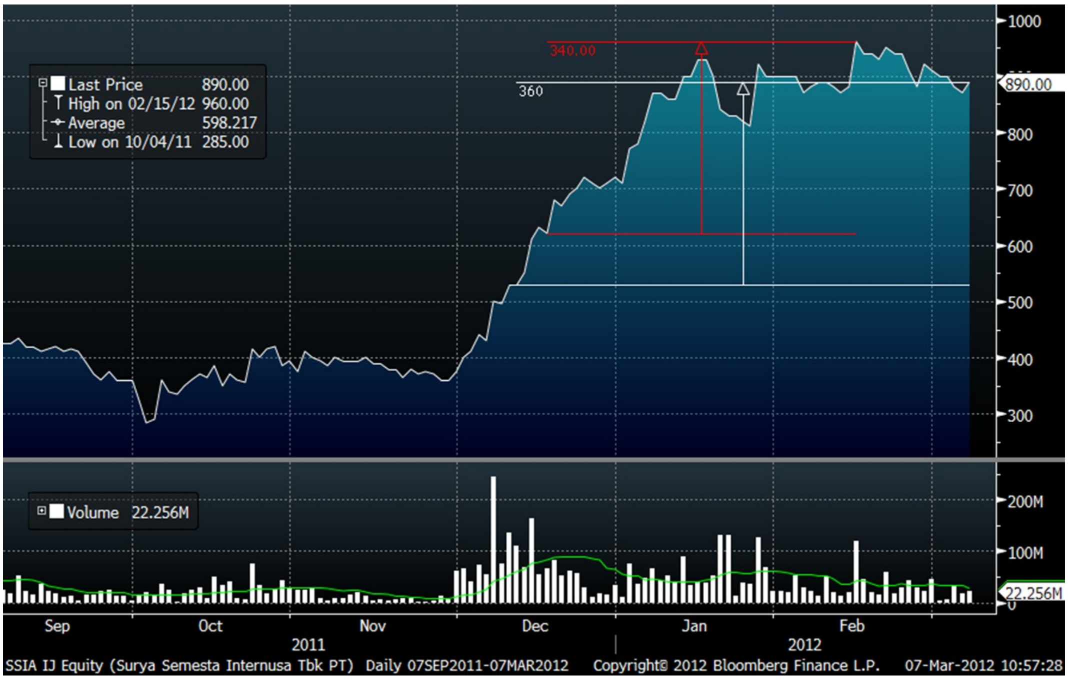
Source: Bloomberg, Sinarmas Sekuritas Estimate

Appendix II

Assuming successful acquisition of 1,000 Ha (announced on 19 Feb 2012) with 70% utilization ratio, that only 700 Ha will be sellable, we assume:

ASP = USD 110/m^2
Cost of development = USD 25/m^2
Property Tax = 5% of USD 110/m^2 = USD 5.5/m^2
Selling fees and other expenses = 10% of 110/m2 = USD 11/m^2
Income Tax = 25%
Net Value = USD 51.38/m2 valuing the 700 Ha at around IDR 3.16 tn.

The market has priced in (from the beginning of rumors to the announcement of acquisition till the highest price and price as of publication) around IDR 1.6 tn to IDR 1.7 tn implying around 50% discount to NAV. We feel that the market has priced the success of acquisition relatively well and should SSIA fail to acquire the 1,000 Ha of land parcel, we expect sharp correction in the magnitude of IDR 320 per share or even more.



Source: Bloomberg

(in IDR bn except per share basis)	2010	2011E	2012F	2013F	2014F
Revenue	1,690	2,850	3,234	3,683	3,748
Gross Profit	478	720	1,088	1,365	1,326
EBITDA	223	501	568	645	621
Depreciation & Amortization	58	84	87	101	103
EBIT	161	413	729	887	842
Interest Income (expense)	(38)	(77)	(145)	(168)	(128)
Other non-operating income	72	-	-	-	-
Equity in net income of jointly controlled associates	1	1	1	1	1
Profit before tax	196	337	585	720	715
Income tax expense	(56)	(84)	(146)	(180)	(179)
Profit after tax	140	252	438	540	536
Minorty Interest	25	50	88	108	107
Net Income	116	202	351	432	429
EPS (IDR)	98	43	75	92	91
Balance Sheets					
Cash & cash Equivalents	255	50	159	135	192
Account Receivables	453	911	637	1,126	667
Inventories	6	15	7	17	8
Other Current Assets	50	97	121	122	123
Total Current Assets	765	1,072	923	1,400	990
PPE, net	657	922	2,335	2,884	2,885
Property under development	747	1,411	1,788	2,277	2,129
other non-current assets	214	225	234	239	236
Total non-current assets	1,617	2,557	4,356	5,400	5,251
Total Assets	2,383	3,630	5,279	6,799	6,241
Liabilities					
Current liabilities	751	1,081	995	1,464	947
Non-Current Liabilities	678	1,375	2,747	3,347	2,836
Shareholders' Equity	869	1,055	1,371	1,760	2,146
Minority Interest	85	119	166	229	312
Total Liabilities & Equities	2,383	3,630	5,279	6,799	6,241
Cash Flows					
Operating Cash Flows	231	230	843	777	716
Capex	12	350	1,500	650	105
Increase in debts	113	595	1,175	378	(662)
Dividends payout	-	20	35	43	43
Free Cash Flow	219	(120)	(657)	127	611
Revenue Growth	13.88%	68.67%	13.44%	13.90%	1.76%
EPS Growth	564%	74%	74%	23%	-1%
EBITDA Margin	13%	18%	18%	18%	17%
Payout Ratio	0%	10%	10%	10%	10%
ROE	13%	19%	26%	25%	20%
Quick Ratio	0.94	0.89	0.80	0.86	0.91
Debt/Equity	0.83	1.25	1.82	1.63	1.03
Net Cash (Debt)	(295)	(1,034)	(1,975)	(2,333)	(1,719)
EV/EBITDA			11.48	10.11	10.49
P/E			13.01	10.56	10.63

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