

We initiate coverage on PT Surya Semesta Internusa Tbk (SSIA) with NEUTRAL recommendation and FY19 target price of IDR 550.

Our TP implies 0.7x FY19F P/BV (-1SD of its 5-year mean) and potential upside of 10%. As SSIA's quest to monetize Subang estate comes closer to completion, SSIA is faced with challenging matters that lie ahead. The delay of infrastructure projects in East Jakarta corridor and weaker than expected macroeconomic condition are the main downside risks to our call. However, going forward, we believe Subang estate and the Patimban Port access toll road project could be the next growth engines for the company, while improving occupancy rate in its hospitality service business could lead to better profitability.

Subang area to be SSIA next growth engine which is backed by major infrastructure projects.

SSIA aims big in two projects located in Subang area, which the Subang Industrial City and Patimban Port access toll road. SSIA is already well prepared by holding 2,000 Ha location permit in Subang and acquired up to 1,000 Ha of land in 1H18. Company also joined a consortium led by PT Jasa Marga (Persero) Tbk (JSMR) with 25% portion to take part in the following Patimban Port access toll road auction. Therefore, we are positive that those projects are going to be the catalysts for SSIA as they could boost revenue from higher industrial land sales and new construction contract booked. However, we believe the future success of those projects highly depend on the progress of major infrastructures that supports the area.

Improving occupancy rate in hospitality business. Going forward, we are expecting several catalysts to improve hotels' occupancy rate that will lead to better profitability. Asian games in Jakarta and Palembang, along with better atmosphere of Bali tourism after situation of Mt. Agung normalized, should translate to hotel earnings improvement.

Shadowed by weak profitability. SSIA currently experiences a weak profitability issue. Bottom-line earnings came in negative during 1H18 and is expected to linger until end of this year. This was due to soft performance from property and construction business, added by negative bottom-line from hospitality business due to low occupancy rate in newly opened BATIQA hotels. Worth to note that all catalysts discussed above has yet to occur and translate to SSIA's book. Going forward, further review of the progress of Subang Industrial City and the auction of Patimban port access toll are crucial, since they are the main catalyst for a turnaround story of SSIA.

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Stock Information

Sector	Industrial Estate
Bloomberg Ticker	SSIA IJ
Market Cap. (IDR tn)	2.4
Share Out./Float (mn)	4,705/3,607
Current Price	500
End-of-FY19 Target Price	550
Upside (%)	10%

Share Price Performance

52W High (16/08/17)	700
52W Low (14/12/17)	460
52W Beta	1.0
YTD Change (%)	1.0%

Relative Valuations

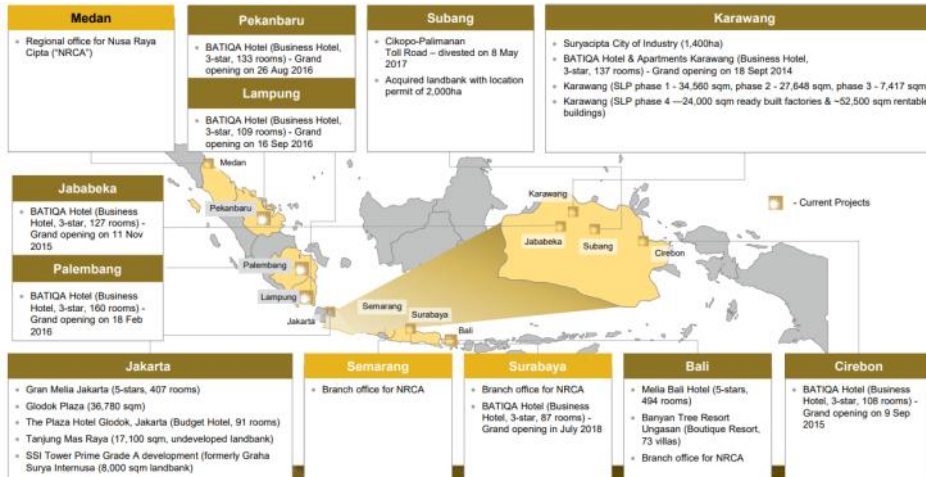
Forward P/E	32.2x
P/BV	0.6x
EV/EBITDA	7.5x

Highlights (IDR Bn)	2016	2017	2018E	2019F	2020F
Revenue	3,797	3,274	3,599	4,092	4,673
growth (%)	-22.0%	-13.8%	9.9%	13.7%	14.2%
Gross profit	1,069	864	832	1,025	1,197
EBITDA	570	393	306	444	487
Net profit	62	1,178	(35)	73	65
growth (%)	-79.3%	1786.4%	-103.0%	307.7%	-11.1%
EPS (IDR)	13.3	250.4	(7.5)	15.5	13.8
Gross margin	28.2%	26.4%	23.1%	25.1%	25.6%
Operating margin	11.4%	7.2%	3.9%	6.7%	6.6%
Net margin	1.6%	36.0%	-1.0%	1.8%	1.4%

Company Background

Integrated three business. PT Surya Semesta Internusa Tbk (SSIA) has three businesses unit which are vertically and horizontally integrated. The business includes property, construction, and hospitality. Starting their journey as a humble developer who developed Kuningan Raya area in South Jakarta more than 40 years ago, nowadays, they are one of the major industrial estate developer located in East Jakarta corridor.

SSIA business presence in Indonesia



Source: Company

Property. SSIA main property business is industrial estate development and management. Through PT Suryacipta Swadaya (SCS), they develop 1,400 hectare (Ha) Suryacipta City of Industry located in Karawang, West Java. Suryacipta City is home to some of the most well-known national and international companies including Daihatsu, Isuzu, Bridgestone, TVS, JVC, GS Battery, Nestle, Kopi Kapal Api, Miwon, Beta Pharmacon and many others. The estate's equipped with complete infrastructures and facilities while is also supported by the government's Direct Construction Investment Incentive (KLIK) program since last year, where investors can directly build their plants immediately after obtaining principal investment permit from the Investment Coordinating Board (BKPM). Currently, after 27 years of development, Suryacipta City has 170 Ha of land left as of June 2018. Currently, they are focusing to develop 2,000 Ha of new industrial estate located at Subang.

Photo of Suryacipta City of Industry



Source: Company

Construction. PT Nusa Raya Cipta Tbk (NRCA) is SSIA's subsidiary that operates construction services business with more than 40 years of experience. They possess an advantage in the construction of high-rise buildings and has been entrusted with large-scale infrastructure projects, one of them recently was 116 km long Cikampek-Palimanan toll road project. NRCA's presence in 5 big cities (Jakarta, Surabaya, Medan, Semarang, and Denpasar) allows them to compete and capture the local demand for contractor services. Lately, NRCA has joined a consortium led by PT Jasa Marga (Persero) Tbk (JSMR) to take part in following Patimban Port access toll road auction in 2H18.

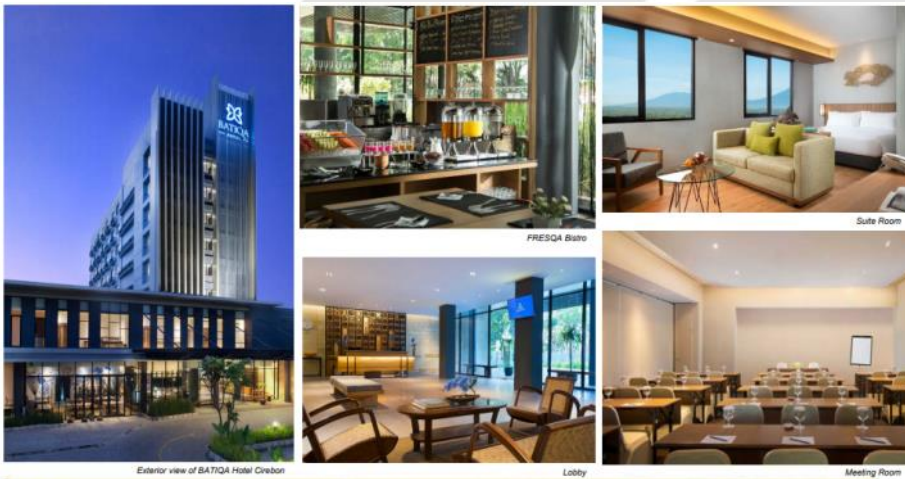
Cikopo-Palimanan Toll Road & Dragon Resort at Labuan Bajo Project



Source: Company

Hospitality. SSIA has three subsidiaries that operate hospitality business; (1) PT Suryalaya Anindita International (SAI), has two five-star hotels in its portfolio which are Meliá Bali Hotel with 494 rooms located in Nusa Dua, Bali, and Gran Meliá Jakarta with 407 rooms. (2) PT Ungasan Semesta Resort (USR), manages Banyan Tree Ungasan Resort - Bali alongside Banyan Tree Hotels and Resorts Ltd, Singapore. (3) PT Surya Internusa Hotels (BHM), owns 7 BATIQA Hotels since its debut in 2014. BATIQA brand is a new three-star hotel chain that is managed by PT Batiqa Hotel Management. Going forward, BATIQA Hotels aims to expand its business hotel chains to all over Indonesia.

Photos BATIQA Hotel

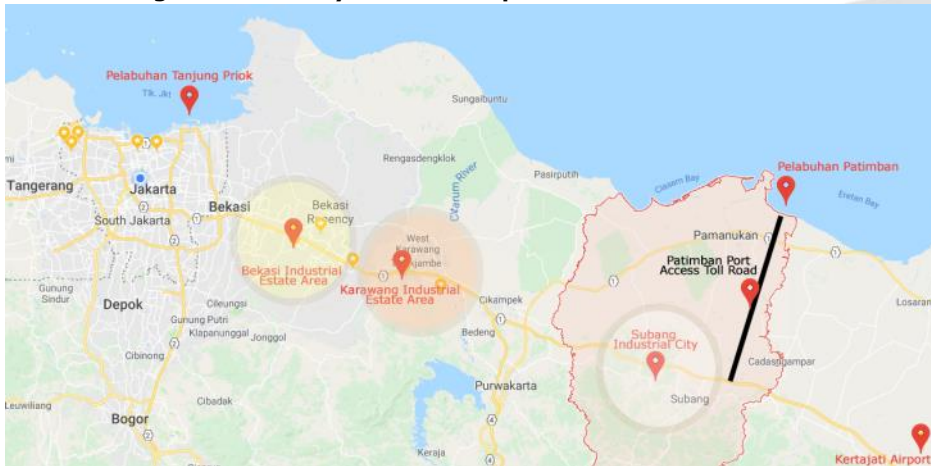


Source: Company

Investment Thesis

Subang Industrial City to be the next growth engine. Suryacipta Industrial Estate in Karawang has 170 Ha of saleable land left as of June 2018. Considering its soft marketing sales persisting from the past few years, SSIA has been focusing to prepare Subang Industrial City to be their next growth engine. With 2,000 Ha location permit already on hand, as of 1H18, SSIA has already acquired up to 1,000 Ha land in Subang. Worth knowing, the Subang estate area is divided by Cikopo-Palimanan toll road to two sides; the north and the south side. Based on our conversation with management, the 1st phase of the estate will have up to 300 Ha of land located on the south side of the Cipali toll road. Currently, SSIA is in progress to complete the land acquisition of phase I area while acquiring more land at the north side. Going forward, monetization of the estate is expected to start in 2019 or early 2020 with initial selling price at IDR 1-1.2 mn/sqm. Worth to know, the new Subang estate will have a green concept which is backed by \$100 million loan package from International Finance Corporation (IFC). Moreover, the Subang estate aims to be the first smart and sustainable industrial estate in Indonesia which features green technologies such as solar panel and water and power efficient technologies.

SSIA Subang Industrial City & Patimban port



Source: Google Maps, Sinarmas Investment Research

NRCA is ready to bid Patimban Port access toll project. Construction service business has been acting as the backbone for company's revenue for years. As contract growth seems soft in the past few years due to slowing growth of property industry, NRCA was aiming to bid Patimban Port access toll project in the near future. Lately, NRCA has joined a consortium led by PT Jasa Marga (Persero) Tbk (JSMR) to take part in the following Patimban Port access toll road auction. In the consortium, NRCA holds 25% portion while JSMR holds 55% and the two others hold 10% portion each. The Patimban Port access toll road project is estimated to cost IDR 5.3tn and expected to be auctioned in 2nd semester of this year. Not to mention, the winning of Patimban Port access toll project auction will boost its contract growth, while compensating soft demand from property sector.

Infrastructure as the key to area success. Government focus on infrastructure sector is a blessing for both SSIA and NRCA. At present, the East Corridor of Jakarta where many of industrial estates are located including SSIA's, has many infrastructure and facility projects under construction progress. The projects include; Light Rail Transit (LRT) Jabodebek, Jakarta-Cikampek Elevated Toll Road, Patimban Port, Kertajati International Airport (completed), and Jakarta-Bandung High Speed Rail (HSR). We believe the completion of all those projects will eventually have a positive impact as accessibility in the area improves, and major facilities like airport and seaport could support the economy to be more efficient.

Progress and estimation year of completion on major infra projects

Project Name	Progress as of July 2018	Estimation Year of Comple-
Jakarta - Cikampek II Elevated Toll road	40% construction progress	March 2019
LRT Jabodebek	41% construction progress	June 2019
Jakarta - Bandung High-speed Railway (HSR)	± 60% land acquisition process, 3 years construction process after 100% land acquisition	2021 - 2022
Patimban Port	± 60% land acquisition process, 1st phase construction start in August	Soft opening in 2019, fully completed in 2027
Kertajati International Airport	Completed and fully operational on 1 July 2018	-

Source: Sinarmas Investment Research

BATIQA hotel chain expansion and improving occupancy rate. Since 2014, BATIQA has started their first hotel in Karawang and has opened five more hotels by 2016. On 8th of August this year, BATIQA has opened a new BATIQA hotel at Surabaya, making it the 7th BATIQA hotel that SSIA owns. Introduced firstly as three-star hotel chain with high quality of services, now they are aiming to expand not just as a hotel owner, but also as the hotel operator. Going forward, there will be two hotels which owned by investor that will be operated under BATIQA brand. Despite occupancy rate has been in low levels during the starting year and causing a negative earning, as of 1H18, overall occupancy rate of BATIQA hotels were improving to 59.3% with ARR of IDR 304.990 from 51.6% and ARR of IDR 293.491 in 1H17. Going forward, with the improving occupancy rate expected to continue, we believe bottom line should turn to be positive sooner or later.

BATIQA Hotel Cirebon & BATIQA Hotel Palembang



Source: BATIQA Hotel Website

Investment Risk

Weak marketing sales and longer monetization process of Subang estate. SSIA marketing sales has been declining since its peak in 2011 and has not been improving since then. Prolonged weak marketing sales of the Karawang estate and the longer time needed to monetize of Subang estate could result in another weak earning results of SSIA in the near future.

Delay of infrastructure projects in East Jakarta corridor. Realizing both SSIA and NRCA new business opportunities located in East Jakarta corridor, the ongoing development of major infrastructure projects (LRT Jabodebek, Jakarta-Cikampek Elevated Toll Road, Patimban Port, and Jakarta-Bandung High Speed Rail) are key to its new Subang estate. Any delay of the mentioned infrastructure projects could hold back investor appetite to invest in Subang estate.

Weaker than expected macroeconomic condition could harm investor appetite to invest in Indonesia. Macroeconomic indicators like GDP, inflation, currency rates and others are some of the most crucial factors for both local and foreign investors to decide its execution of their investment plan. As industrial estate business is highly correlated to and FDI and DDI, the unsupportive macroeconomic condition will refrain business expansion and lead to weak industrial land demand.

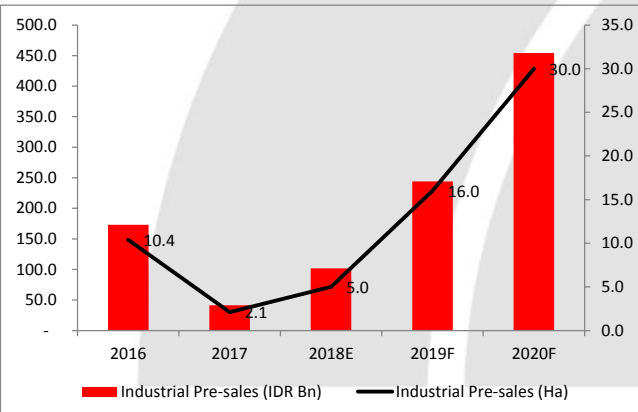
Financial Outlook

Overshadowed by weak profitability performance in 1H18. As of 1H18, SSIA posted a weak result especially on its bottom-line side. Revenues recorded at IDR 1.52tn (-2.3% YoY), and a net loss of IDR 56bn (-104.5% YoY) was booked in this period. If we breakdown the revenue by its three business segments, property (industrial estate, maintenance fees, and commercial rental) experienced a 30.5% decrease, while construction and hospitality grew by 0.8% and 5.6% YoY respectively. Profitability wise, gross margin was change to 23.8% (vs 26.6% in 1H17) and operating margin also decreased to 2.9% from 6.6% in 1H17.

Looking into SSIA business segments performance in 1H18, property and contractor business remained soft, while improvement could be seen in the hospitality business. Industrial land sales only recorded 0.3 Ha sales (vs 6Ha in 1H17), and NRCA's new contract growth decreased by 7.9% YoY to IDR 1.18tn. However, from hospitality business, Gran Melia Jakarta hotel and 6 BATIQA hotels have improved both in their occupancy rate (OR) and average room rate (ARR). Nonetheless, both Melia Bali and Banyan Tree Ungasan Resort experienced a decrease in OR and ARR due to unstable situation of Mt. Agung lately.

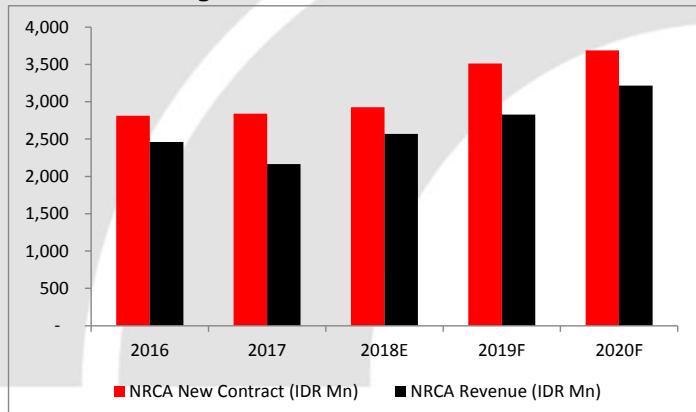
Subang to the rescue. Going forward, we are taking a conservative step to translate the impact of the new Subang Industrial City and a new contract from Patimban Port access toll road to the SSIA earnings. We forecast new Subang Industrial City to contribute 10 Ha of land sales in 2019 with ASP starts at US\$ 70-80/sqm. Worth knowing, the company had already went to Japan to introduce new Subang Industrial City to some investors and was responded with a positive interest. On construction business side, we expect NRCA new contract to grow by 20% as we assume they won the Patimban access toll road project. To remind, NRCA has joined a consortium led by PT Jasa Marga (Persero) Tbk (JSMR) with 25% portion to take part in the following Patimban Port access toll road auction. The Patimban Port access toll road project is estimated to cost IDR 5.3tn and expected to be auctioned in 2nd semester of this year.

SSIA industrial land sales



Source: Company, Sinarmas Investment Research

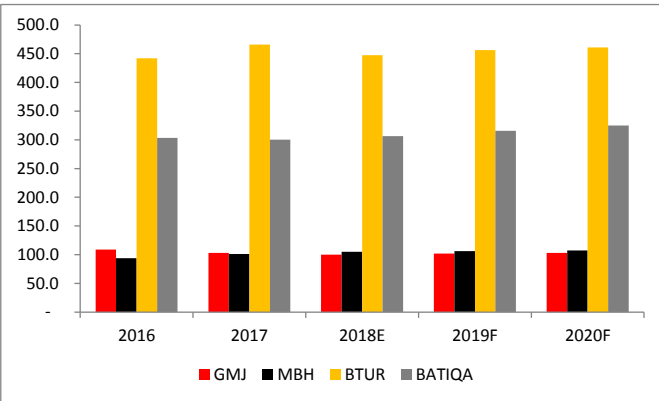
NRCA contract growth and revenue



Source: Company, Sinarmas Investment Research

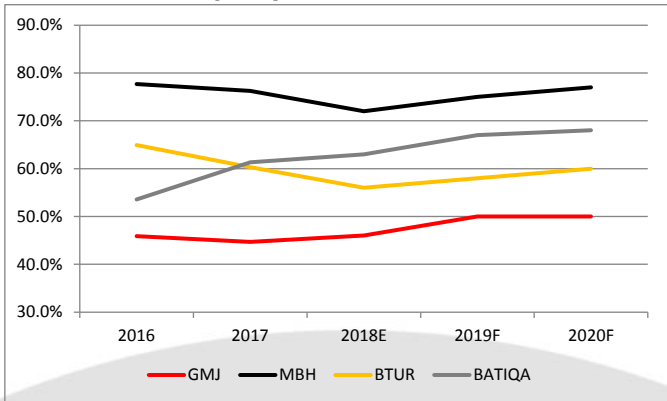
A clearer sky for hotel business. Moving forward, we are expecting a better atmosphere for SSIA hotel business to improve in both OR and ARR. There are Asian Games in Jakarta and Palembang, which BATIQA Palembang is the official hotel for the 18th Asian Games. Moreover, improving occupancy rate (OR) in overall 7 BATIQA hotels will improve profitability which currently experience losses. Nonetheless, we believe performance will improve for Banyan Tree Ungasan Resort (BTUR) and Melia Bali Hotel (MBH) as Mt. Agung situation has become more stable. Going further, Colliers Indonesia expected in year 2020, there will be a limited amount of new hotel which will help occupancy rate to remain stable.

SSIA hotels revenue



Source: Company, Sinarmas Investment Research

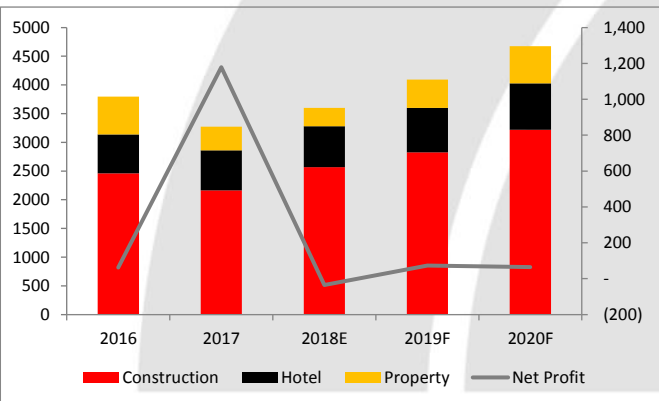
SSIA hotels occupancy rate



Source: Company, Sinarmas Investment Research

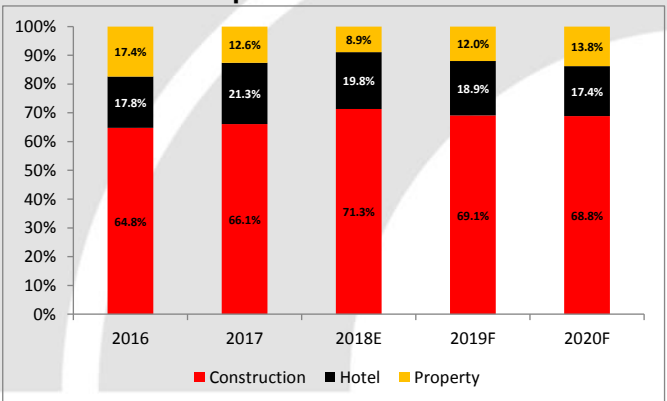
Better profitability ahead. This year, soft performance from property, construction, and hospitality businesses have pushed SSIA’s bottom-line to negative level. However, we are expecting profitability to improve in the future starting next year. We forecast top-line to grow by 13.7%, and net profit could already be booked. On the catalyst, we believe Subang estate and toll project will contribute more revenue to the company. Nonetheless, improving occupancy rate on newly opened BATIQA hotels should turn its net profit to positive sooner or later.

SSIA revenue and bottom line



Source: Company, Sinarmas Investment Research

SSIA revenue composition



Source: Company, Sinarmas Investment Research

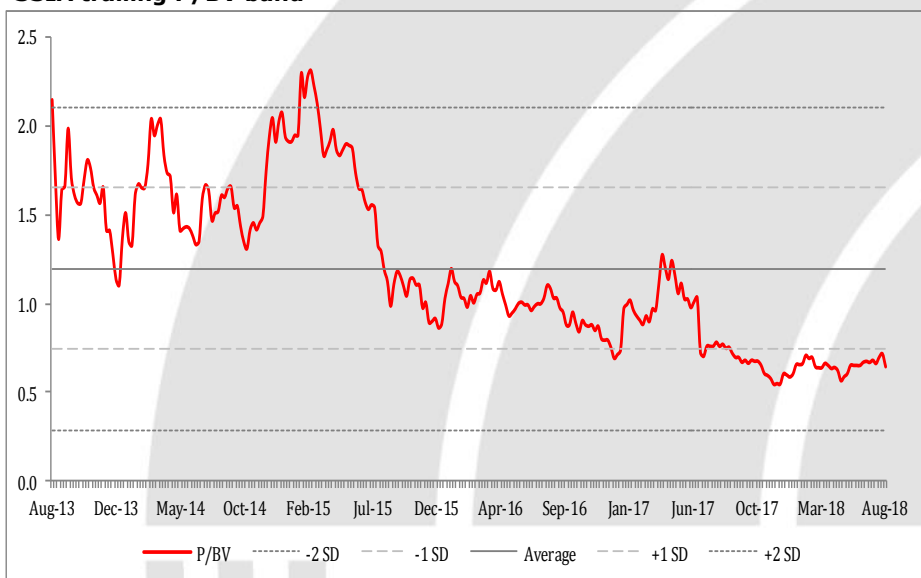
Valuation

Fairly valued. We use sum of the parts (SOTP) method to value SSIA which comprises of property business (industrial estate development and management), hospitality business, and construction business under PT Nusa Raya Cipta Tbk (NRCA). The valuation came out with **NEUTRAL** recommendation and TP of IDR 550, which provides 10% upside potential and implies 0.7x FY19F P/BV, -1SD of its 5-year mean.

SSIA Development Properties RNAV	Net Saleable Area (Ha)	Price/sqm (IDR)	Value (IDR Bn)
Suryacipta City of Industry - Phase I & II	34	2,035,950	692
Suryacipta City of Industry - Phase III	135	2,035,950	2,749
Subang Industrial City - Phase I	210	1,017,975	2,138
Subang Industrial City - Others	503	245,000	1,231
Subtotal			6,810
Hospitality Business			1,700
Tax and working capital			(1,295)
Cash			194
Debt			1,546
Total NAV			5,862
Discount applied			70%
RNAV			1,759

Operating Segments	Valuation Method	Value (IDR bn)	Ownership	Fair value (IDR bn)
Construction	DCF	1,419	60.2%	853
Property and Hospitality	Disc. to RNAV	1,759	99.0%	1,741
Total fair value				2,594
Shares outstanding (IDR bn)				4.7
Fair value per share (IDR)				550

SSIA trailing P/BV band



Source: Bloomberg, Sinarmas Investment Research

Income Statement (IDR Bn)	2016	2017	2018E	2019F	2020F
Revenue	3,797	3,274	3,599	4,092	4,673
Cost of revenues	(2,728)	(2,410)	(2,767)	(3,067)	(3,476)
Gross profit	1,069	864	832	1,025	1,197
Operating expenses	(636)	(630)	(692)	(751)	(887)
Operating profit	433	234	140	274	310
EBITDA	570	393	306	444	487
Interest expense	(181)	(243)	(169)	(155)	(187)
Other income (expense)	(159)	1,706	(9)	(40)	(53)
Profit before tax	93	1,698	(38)	79	70
Tax	8	(457)	1	(2)	(2)
Net profit	101	1,241	(37)	77	68
Minority interest	38	63	(2)	4	3
Attributable net profit	62	1,178	(35)	73	65
Earnings per share (Rp.)	13.3	250.4	(7.5)	15.5	13.8

Balance Sheet (IDR Bn)	2016	2017	2018E	2019F	2020F
Cash & equivalents	1,520	1,145	1,279	1,192	1,365
Trade receivables	284	320	352	369	445
Inventories	392	415	456	486	579
Advances	246	120	175	142	139
Others	939	3,086	1,075	1,177	1,358
Current assets	3,381	5,085	3,336	3,365	3,886
Fixed assets	1,182	1,250	1,150	1,076	1,021
Real estate assets	607	1,297	1,567	1,747	1,927
Investment properties	605	768	760	771	797
Other long-term assets	1,421	451	434	453	461
Total assets	7,195	8,851	7,247	7,413	8,092
Payables	538	456	523	588	660
Short-term debt	752	776	748	226	464
Project advances	484	286	325	371	422
Others short-term liabilities	123	1,123	429	499	582
Total current liabilities	1,896	2,640	2,025	1,684	2,128
Long-term debt	1,704	1,494	946	1,320	1,406
Other liabilities	242	240	219	270	312
Total Liabilities	3,843	4,375	3,190	3,274	3,846
Capital stock	588	588	588	588	588
Additional paid in capital	290	290	290	290	290
Retained earnings	1,918	3,023	2,753	2,826	2,876
Equity attributable to owners	2,912	4,009	3,738	3,811	3,861
Minority interest	441	468	319	327	385
Shareholder's equity	3,353	4,477	4,057	4,138	4,246

Cash Flow (IDR Bn)	2016	2017	2018E	2019F	2020F
Net profit	62	1,178	(35)	73	65
Depreciation	137	159	165	170	177
Changes in net working capital	267	1,360	(1,296)	(65)	142
Operating cash flow	(85)	15	1,425	308	100
Changes in fixed asset	161	196	34	65	88
Changes in long-term assets	209	(49)	275	242	247
Changes in long-term liabilities	20	(2)	(21)	51	42
Investing cash flow	(350)	(150)	(331)	(256)	(293)
Changes in equity	3	-	-	-	-
Changes in short-term loans	422	24	(28)	(522)	238
Changes in long-term loans	657	(210)	(548)	374	86
Dividend	64	73	236	-	15
Financing cash flow	1,032	(240)	(961)	(140)	366
Net Cashflow	596	(375)	133	(87)	173
Beginning of Cash	924	1,520	1,145	1,279	1,192
Ending Cash	1,520	1,145	1,279	1,192	1,365

Ratio Analysis (IDR Bn)	2016	2017	2018E	2019F	2020F
Gross profit margin	28.2%	26.4%	23.1%	25.1%	25.6%
Operating margin	11.4%	7.2%	3.9%	6.7%	6.6%
EBITDA margin	15.0%	12.0%	8.5%	10.9%	10.4%
Net margin	1.6%	36.0%	-1.0%	1.8%	1.4%
ROA	0.9%	13.3%	-0.5%	1.0%	0.8%
ROE	1.9%	26.3%	-0.9%	1.8%	1.5%
Interest cover (x)	3.2	1.6	1.8	2.9	2.6
Debt to equity (x)	0.7	0.5	0.4	0.4	0.4
Net debt to equity (x)	0.3	0.3	0.1	0.1	0.1
Current ratio (x)	1.8	1.9	1.6	2.0	1.8
PER (x)	41.4	2.2	(73.5)	35.4	39.8
PBV (x)	0.9	0.6	0.7	0.7	0.7

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