

We initiate coverage on PT Total Bangun Persada Tbk (TOTL) with a BUY recommendation and end-of-FY19 target price of IDR 790 derived via DCF valuation. Our TP reflects 25.4% upside, which implies FY19F PE of 10.31x (-0.9 SD from its 5 years average PE). We believe TOTL is in the best position compared to its peers in capitalizing the rising economy and recovery in the property sector down the road as the company possesses a strong balance sheet and is trusted in the industry as a premium contractor with plenty of successful projects and ongoing relationships with major groups and corporations. We believe TOTL is attractive due to: 1) ongoing economic recovery and growing population, 2) ample cash reserves and debt-free by FY19F, 3) solid track record and better profitability versus its peers.

Risks to our call: 1) Rising financing costs for developers, 2) Slower property industry recovery, 3) Emerging alternative of Transit Oriented Development (TOD) residential for consumers.

Abundant capability for growth. TOTL will have zero debt by FY19F and cash ratio is estimated to hover above 0.3 as the company will no longer be funding any projects and working capital through loans. This is an extremely advantageous position that TOTL holds as it is insulated from rising interest rate while its peers are burdened. We also view the company's balance sheet as a full tank ready for ignition and going the extra mile as it illustrates capability to achieve new highs in terms of new contract achievement without a hitch. This capacity will lead to higher tender winning rates going forward and new contract achievement when the property sector starts its recuperation on the back of hyper growth startups; population growth especially in major cities such as Jakarta where people relocate to pursue their career, which will increase demand for high rise residential due to increasingly scarce land bank; further economic recovery resulting in demand shift to middle-up condominiums and apartments.

Returns and margin do not get any better than this. Due to its specialty as a premium contractor, TOTL is able to perform and provide investors with double the net margin and ROE – of 8.5% and 23.7%, which are 5 year averages respectively – versus its peers. This stems to an attractive valuation as we assign a BUY recommendation with an end-of-FY19 TP of IDR 790, which reflects FY19F PE of 10.31x (-0.9 SD from its 5 year average)

Highlights (IDR Mn)	2016	2017	2018E	2019F	2020F
Revenue	2,379	2,936	3,384	3,217	3,360
% growth	5.0%	23.4%	15.2%	-4.9%	4.4%
Gross Profit	420	440	510	483	505
Net Profit	223	245	254	262	269
% growth	16.5%	9.6%	4.1%	2.8%	2.7%
Gross Margin (%)	17.7%	15.0%	15.1%	15.0%	15.0%
Net Margin (%)	9.4%	8.3%	7.5%	8.1%	8.0%
Return on Equity (%)	24.1%	24.3%	23.6%	22.8%	21.9%
Return on Assets (%)	7.6%	7.5%	7.4%	7.3%	6.6%
EPS (IDR)	65	72	75	77	79

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Stock Information

Sector	Construction
Bloomberg Ticker	TOTL IJ
Market Cap. (IDR tn)	2,148
Share Out./Float (mn)	3,410
Current Price	630
End-of-FY19 TP	790
Upside (%)	25.4%

Share Price Performance

52W High (03/08/18)	780
52W Low (12/08/17)	605
52W Beta	0.4
YTD Change (%)	(30%)

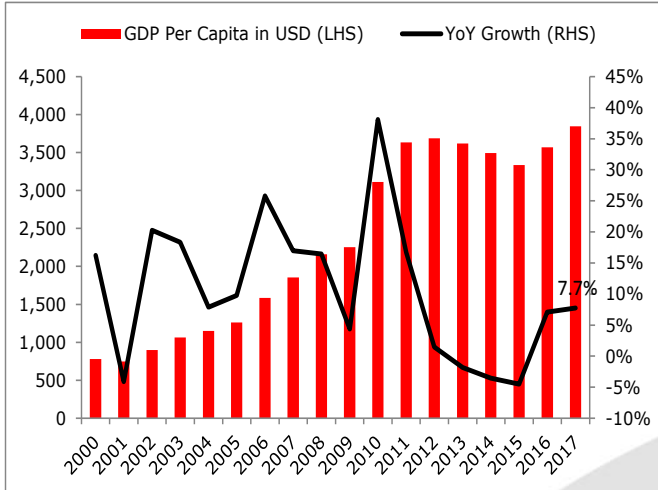
Relative Valuations

Trailing P/E	8.9
Forward P/E	8.2
P/BV	2.2
EV/EBITDA	4.9

Investment Thesis

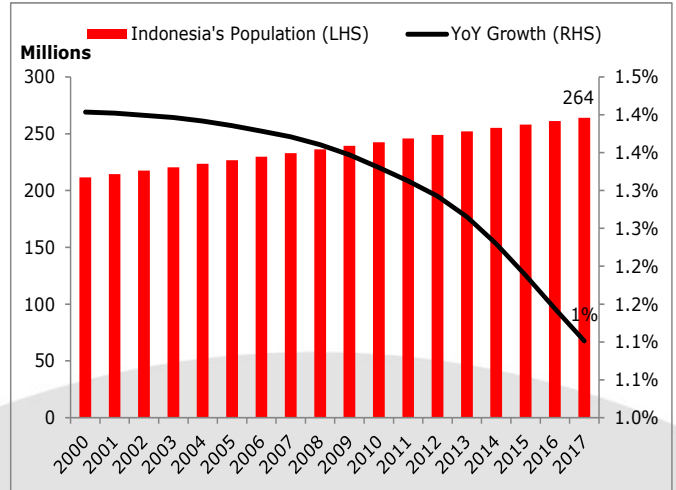
Riding the GDP and population growth train. The evergrowing population and GDP of Indonesia will promote property development as people relocate to major urban cities, especially Jakarta, for better job opportunities. In 2017, Indonesia's population was recorded at 264 million people and GDP per capita stood at USD 3,847; growing on average 1.3% and 10.7% YoY respectively over the past 16 years, which we predict will grow steadily even further. In addition, we forecast demand for office space to rise as more and more startups develop and new unicorns are in the making.

Indonesia's GDP Per Capita



Source: World Bank, Sinarmas Investment Research

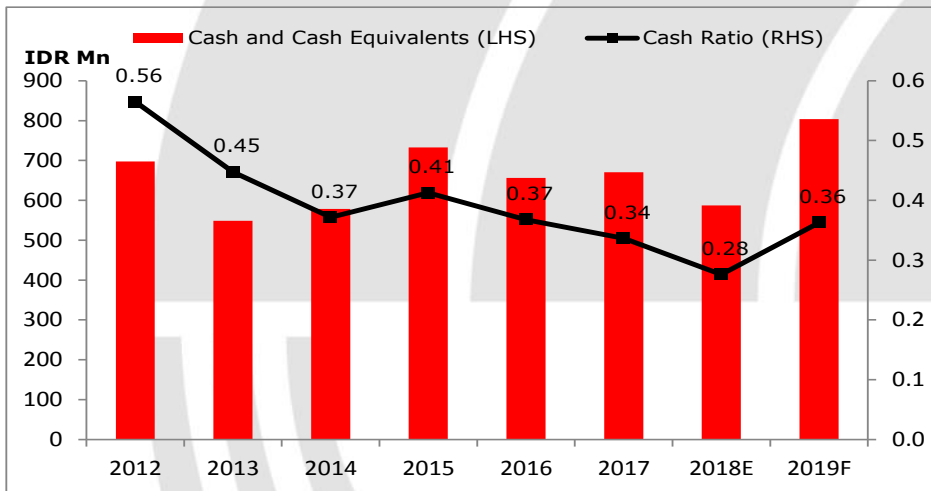
Indonesia's Population



Source: World Bank, Sinarmas Investment Research

Ample cash reserves. Contractors are known to have relatively high working capital and cash flow is often times stretched as project payments are occasionally not delivered in accordance to contract agreements. However, TOTL's cash balance and operating cash flow is robust. Cash ratio stood at 0.34 as of FY17. Even though it has been declining slightly since 2012 due to an increase in order book, a signal that cash is used productively, we estimate cash ratio to stabilize at levels above 0.3 in years to come. We believe this level of cash is more than sufficient as the company will have zero debt as of FY19F, indicating spacious room for financing if it ends up being necessary.

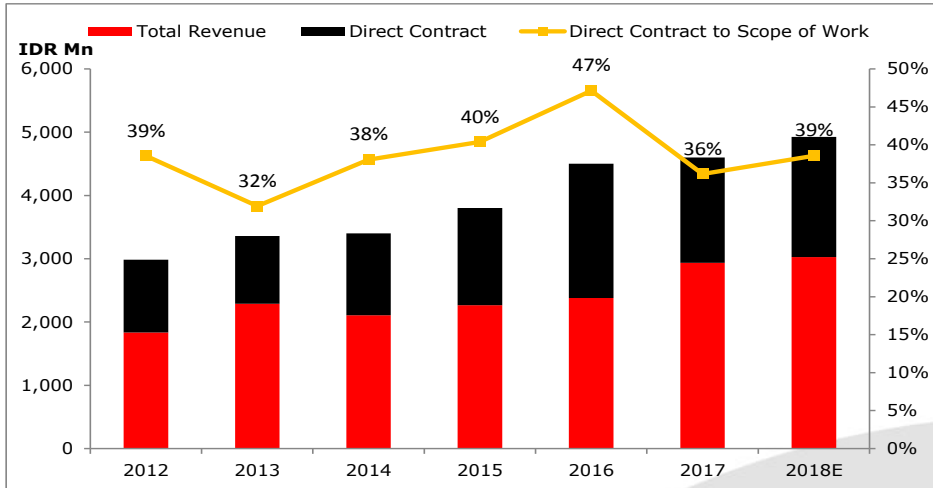
Cash Balance and Cash Ratio



Source: Company data, Sinarmas Investment Research

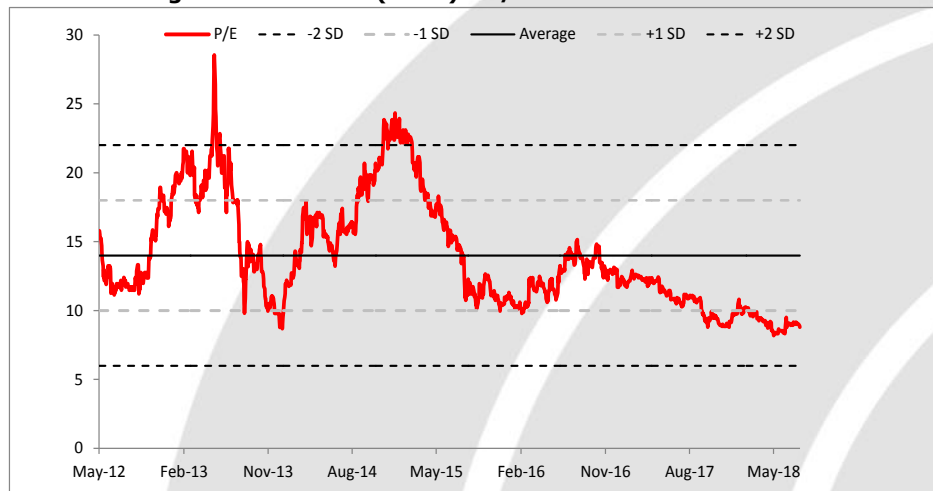
Premium margin and returns, double its peers. Furthermore, TOTL's net profit margin and return on equity stands at 9% and 23.7% respectively, almost double its peers. This is partly due to the premium quality of work that TOTL produces, paired with relatively significant direct contract size as proportion to scope of work. Direct contract results in higher margin as project owners undergo a contract with subcontractors, while appointing TOTL as project managers, thus paying a fee to TOTL. Thus, we believe that TOTL's valuation is currently undemanding as the shares are trading at -1.25 SD despite its premium margins and returns.

Direct Contract to Scope of Work



Source: Company data, Sinarmas Investment Research

PT Total Bangun Persada Tbk (TOTL) - P/E Band

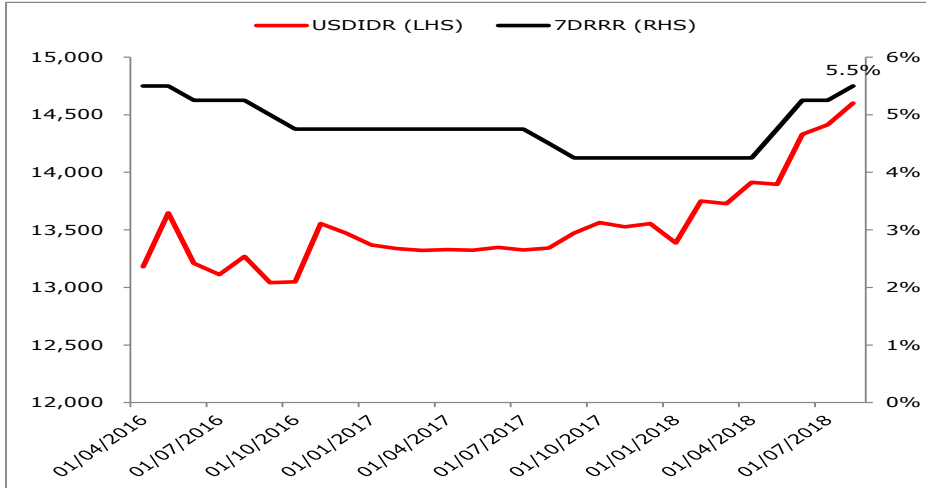


Source: Bloomberg, Sinarmas Investment Research

Investment Risk

Rising financing costs for developers as 7DRRR rises. Assuming the FED raises FFR with 2 more rate hikes in 2H18, we expect BI to raise 7DRRR by the same magnitude in order to strengthen currency stability. This will elevate financing cost for developers and major groups while discouraging aggressive expansion of apartments and office towers. Note that in past years over 50% and 30% of TOTL's projects in that year stems from high rise residential and office towers respectively.

USDIDR and BI 7DRRR



Source: Bloomberg, Sinarmas Investment Research

Slower property industry recovery. Property sector's recovery is progressing towards the tail end of its slump as economic growth and proliferating population especially in urban areas will boost demand for high-rise residential and office towers. However a slowdown in progress towards reaching that milestone will result in a drag for TOTL's new contract achievement growth, which is the company's growth driver. This may be partly affected as certain investors prefer to lie low amidst the forthcoming election in 2019.

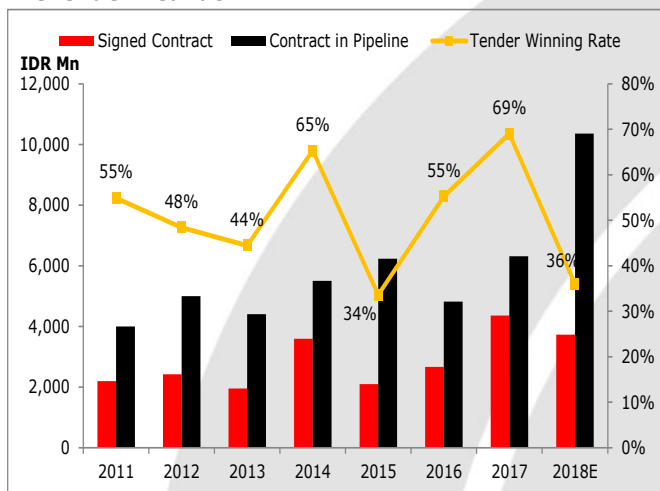
Emerging alternative of Transit Oriented Development (TOD) residential for consumers. With construction and infrastructure development booming throughout the country, major railway ventures namely light rail transit (LRT), mass rapid transportation (MRT), and high speed railway (HSR) are being undertaken. The extensive scale and length of the projects — 42.1 km, 15.7 km, 150 km in the first phase respectively — result in extensive TOD development. TOTL's at a disadvantage as the contractors constructing the project has the edge in securing land bank along the train stations ahead of private developers. Moreover, as the urban population and traffic in major cities expands, people might prefer apartments and condominiums which are strategically located. Note that 100% of TOTL's contract source is from the private sector and the company specializes in the premium segment.

Financial Outlook

1H18 results overview. TOTL booked moderate results in 1H18 as revenue and net profit were recorded at IDR 1.4 tn (-2.3 % YoY) and IDR 123 bn (-3.2% YoY) respectively. Despite the slight decline, this shows resilience amidst a tough business environment as TOTL's growth is quite correlated to the property sector, which is experiencing a slowdown. Moreover, FY17 was a high base as revenue jumped 23% YoY due to a similar rise in FY16's order book of 16% YoY, which was paired with a relatively high burn rate of 35% in FY17 (vs. 29% in FY16). Despite rising interest rates and recent IDR weakness to USD, 1H18 gross profit margin and net profit margin remained healthy at 17.5 % and 9% respectively (vs. 15% and 8.3% in FY17) as the company's DER is extremely low, at 0.01.

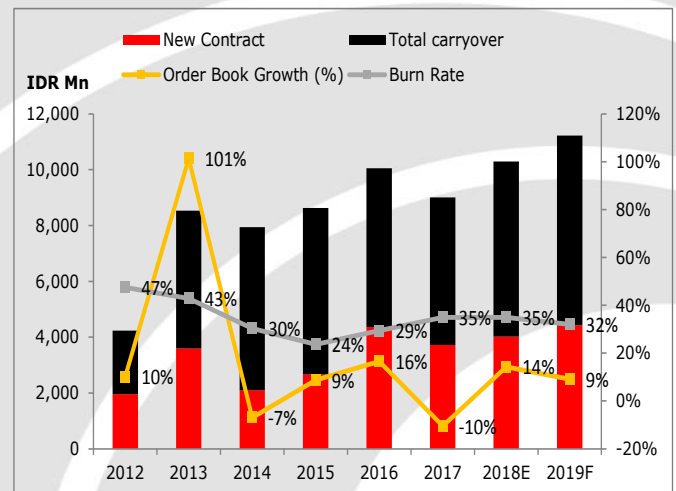
Stable and consistent growth. Since FY12-FY17, TOTL's revenue and order book recorded a 5 year CAGR of 9.9% and 21.2% respectively. As of 5M18, TOTL has achieved new contract of IDR 866 bn (23.2%/21.7% of our/management estimate), which is historically slightly low, but as is the case with all contractors, most of them book the majority of their new contracts and revenue in the second half of the year. Historically, revenue growth slows down during and after the election year as some developers and property buyers stands on the sideline to observe the market situation. We believe this trend might provide some headwind in upcoming years, but overall growth will most likely pick up near the end of FY19. Furthermore, burn rate has been stabilizing at a higher level of 35% in FY17 ever since its low of 24% in FY15. We expect TOTL will maintain burn rate at levels above 30% going forward as we forecast stable order book growth in FY18 and FY19.

Revenue Breakdown



Source: Company data, Sinarmas Investment Research

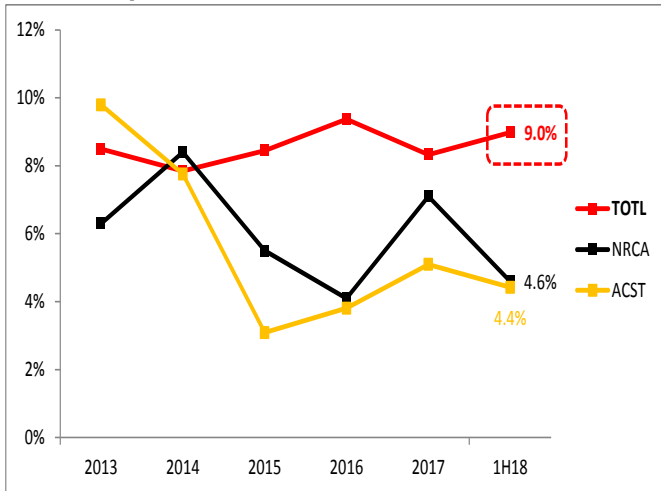
Order Book Breakdown



Source: Company data, Sinarmas Investment Research

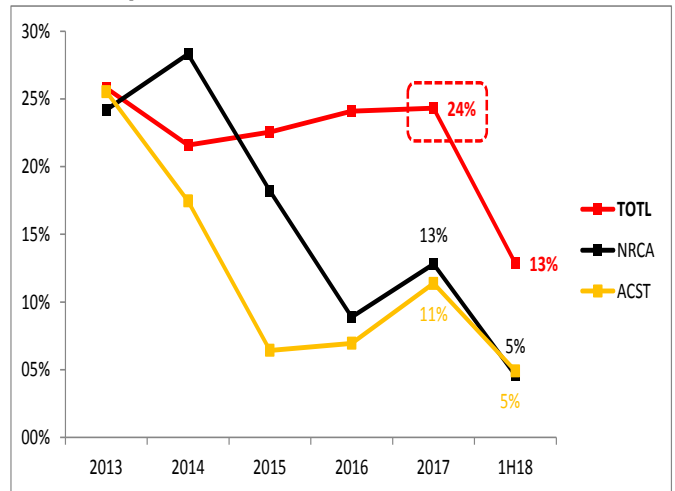
Providing twice the return vs. its peers. TOTL's quality and excellence is reflected in their premium five year average ROE and NPM of 23.7% and 8.5% respectively (vs. 23.7% and 8.3% in FY17). As of 1H18, ROE and NPM was recorded at 12.9% and 9% respectively. We are confident that TOTL will maintain their NPM at levels around 8% and achieve ROE above 21% going forward on the back of no finance expenses as of FY19 as the company has no need and no plans to take loans due to its high cash balance. Important to note, TOTL is outperforming other private contractors as it provides double its peers' returns and margins as highlighted in the next couple of charts (TOTL in red and bold).

NPM Compared to Other Private Contractors



Source: Company data, Sinarmas Investment Research

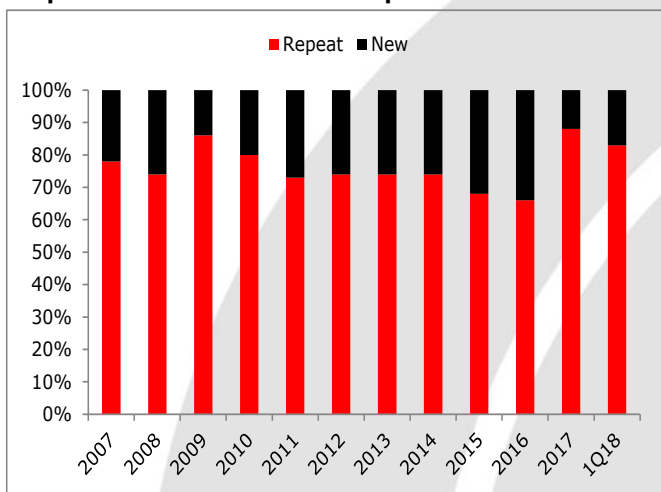
ROE Compared to Other Private Contractors



Source: Company data, Sinarmas Investment Research

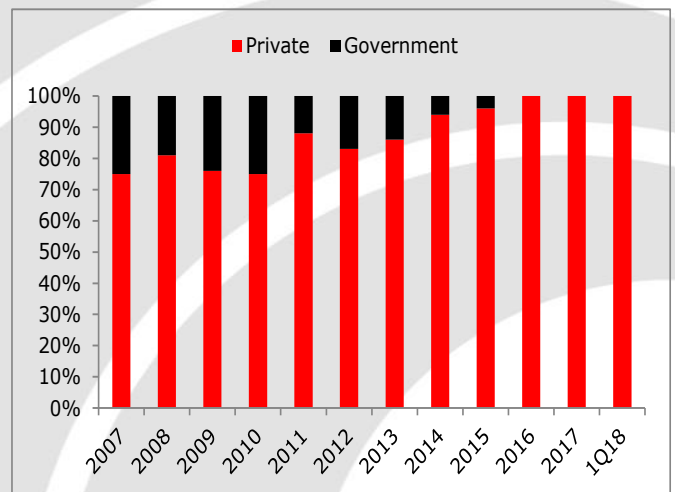
Client profile and tender winning rate. In the past couple of years TOTL's new contracts mostly originate from repeat customers with a 10 year average of 76% repeat and 24% new customers; concurrently, their source of contracts shifted to 100% from the private sector. However, in FY17 repeat customers accounted for 88% of new contracts, which is partly due to the slowdown in property development resulting in less new projects from new clients. This is reflected in TOTL's tender winning rate of 69% in FY17 vs. six year average of 53%. Nonetheless, management guides FY18 new contract achievement at IDR 4 tn (-8% YoY) versus our estimate of IDR 3.7 tn, which actually is a high number considering FY17 new contract achieved was IDR 4.4 tn, the highest level ever.

Repeat vs. New Customer Composition



Source: Company data, Sinarmas Investment Research

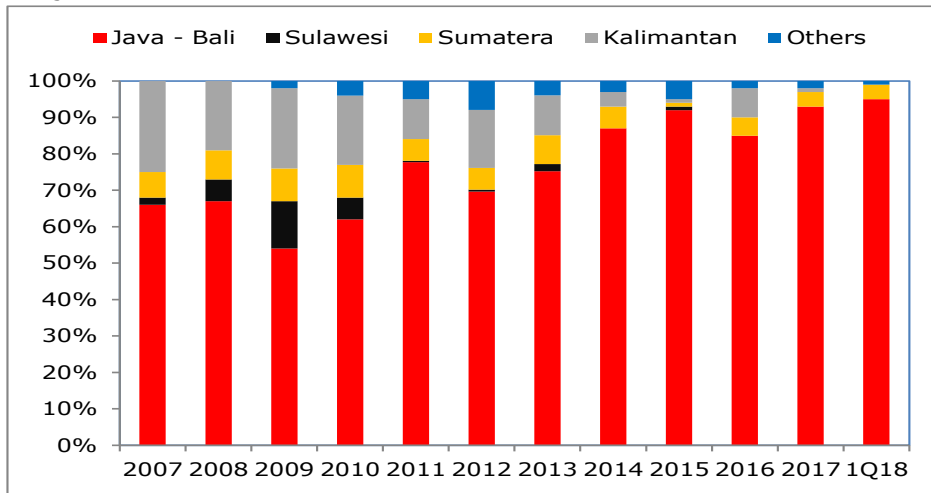
Contract Source



Source: Company data, Sinarmas Investment Research

Project demographics. TOTL's projects have always been focused in Java and Bali, accounting for mostly over 75% of projects under construction in that year since 2007. However, Java and Bali has increased to 93% and 95% in terms of project location as of FY17 and 1Q18 respectively. We see this as an opportunity for TOTL to penetrate ex-Java and Bali market, which will drive order book growth as the nation's economy grows.

Project Locations

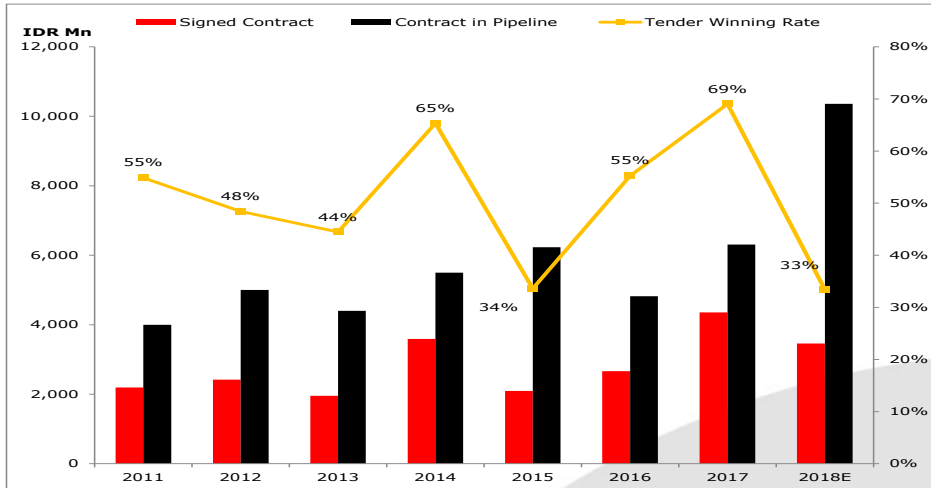


Source: Company data, Sinarmas Investment Research

Company Background

Prominent private contractor. Total Bangun Persada is one of the nation's leading private contractor that upholds a high standard ever since its inception in 1970. The company went public in July 25th, 2006 with an IPO price of IDR 345. TOTL has a diversified portfolio of over 800 buildings that are eye-catching due to its intricate structure and beauty. The company is distinguished for its quality in the industry, which it executes in all projects as the company grows to become one of the biggest private contractor in the country. This results in a stellar tender-winning rate ranging from 34% - 69% in the past 7 years.

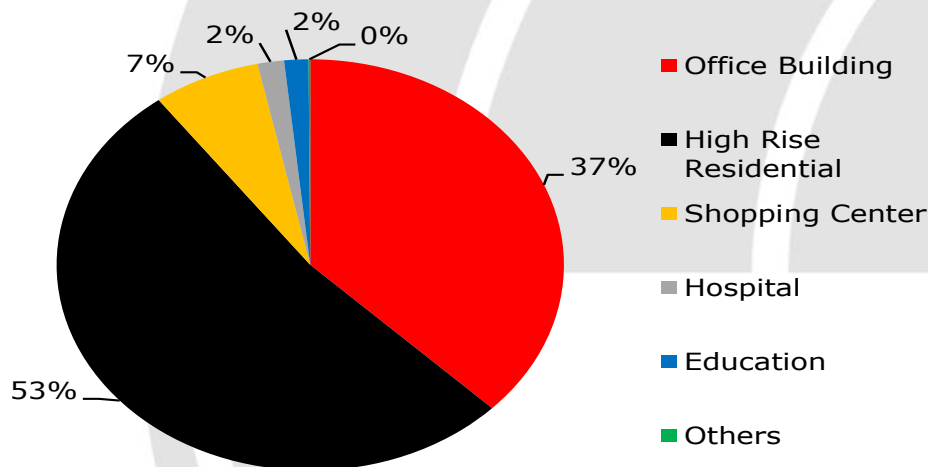
TOTL's Tender Winning Rate



Source: Company data, Sinarmas Investment Research

Diverse project portfolio. TOTL's diverse portfolio ranges from offices, apartments and condominiums, shopping centers, hospitals, universities, and others. The company specializes in constructing high quality apartments and condominiums, which is illustrated by its project portfolio in 2017, in which high rise residential represented 53% of its projects under progress in terms of nominal value in 2017. Highlights of TOTL's projects can be seen on the next page, it includes: Astra Tower, Taman Permata Buana Apartment, Central Park shopping center, Potato Head Hotel Bali, Binus Alam Sutera Main Campus, JI Expo Convention Center, Gading Pluit Hospital, SKM Building Gudang Garam.

TOTL's Project Portfolio in 2017



Source: Company data, Sinarmas Investment Research

Snapshot of TOTL's project portfolio

Office Building: Astra Tower



Source: Company data, Sinarmas Investment Research

High-Rise Residential: Taman Permata Buana



Source: Company data, Sinarmas Investment Research

Shopping Center: Central Park



Source: Company data, Sinarmas Investment Research

Hotel: Potato Head Bali



Source: Company data, Sinarmas Investment Research

Education: Binus Alam Sutera Main Campus



Source: Company data, Sinarmas Investment Research

Convention Center: JI Expo Convention and Theater



Source: Company data, Sinarmas Investment Research

Hospital: Gading Pluit Hospital



Source: Company data, Sinarmas Investment Research

Industrial Estate: SKM Building Gudang Garam



Source: Company data, Sinarmas Investment Research

Income Statement (IDR Bn)	2016	2017	2018E	2019F	2020F
Revenue	2,379	2,936	3,384	3,217	3,360
% growth	5.0%	23.4%	15.2%	-4.9%	4.4%
Cost of Revenue	-1,959	-2,496	-2,874	-2,734	-2,855
% growth	1.8%	27.4%	15.1%	-4.9%	4.4%
Gross Profit	420	440	510	483	505
Operating Expense	-197	-207	-248	-241	-253
Other Income (Expense)	-58	-61	-81	-54	-49
EBIT	262	290	321	308	313
EBITDA	298	327	354	342	362
Net Financing	34	31	32	51	66
Profit from JV	60	62	72	76	77
EBT	226	234	252	265	280
Tax	-74	-90	-103	-97	-102
Non Controlling Interest	-2	-13	-5	0	8
Net Profit for the Year	223	245	254	262	269
% growth	16.5%	9.6%	4.1%	2.8%	2.7%

Balance Sheet (IDR Bn)	2016	2017	2018E	2019F	2020F
Cash and Cash Equivalent	656	671	587	804	1,017
Receivables	1,263	1,448	1,624	1,574	1,693
Other Current Assets	366	395	458	453	442
Total Current Assets	2,285	2,514	2,668	2,831	3,151
Fixed Assets	186	231	214	187	275
Investment in Shares of Stocks	102	129	129	129	129
Other Non Current Assets	377	370	418	447	497
Total Assets	2,951	3,243	3,430	3,594	4,052
Total Payables	1,078	1,100	1,211	1,319	1,621
Short-Term Loans	9	10	7	0	0
Other Current Liabilities	725	917	943	927	992
Total Current Liabilities	1,784	1,994	2,129	2,216	2,581
Long-Term Loans	17	7	0	0	0
Other Non Current Liabilities	207	232	224	231	237
Total Liabilities	2,008	2,233	2,352	2,446	2,818
Share & APIC	346	346	346	346	346
Retained Earnings	591	682	755	825	904
Non Controlling Interest	17	4	-1	-1	7
Other Components of Equity	-12	-22	-22	-22	-22
Total Equity	943	1,010	1,077	1,147	1,235
Total Equity & Liabilities	2,951	3,243	3,430	3,594	4,052

Cash Flow (IDR Bn)	2016	2017	2018E	2019F	2020F
Net Income	223	245	254	262	269
Depreciation & Amortization	27	27	34	34	49
Change in Working Capital	111	6	100	-148	-258
Cash Flow from Operating	138	266	188	444	575
Change in Fixed Assets	19	71	17	7	137
Change in Long Term Assets	63	19	49	29	50
Change in Long Term Liabilities	28	25	-8	7	6
Cash Flow from Investing	-55	-66	-74	-29	-180
Change in Share & APIC	1	0	0	0	0
Change in Short Term Loans/Bonds	-7	1	-3	-7	0
Change in Long Term Loans/Bonds	-7	-10	-7	0	0
Dividends Paid	136	153	182	192	190
Others	-11	-24	-5	0	8
Cash Flow from Financing	-161	-186	-197	-199	-181
Change in Cash	-77	15	-83	216	213
Beginning Cash	733	656	671	587	804
Ending Cash	656	671	587	804	1,017

Financial Ratio	2016	2017	2018E	2019F	2020F
Profitability					
ROE	24.1%	24.3%	23.6%	22.8%	21.9%
ROA	7.6%	7.5%	7.4%	7.3%	6.6%
Gross Margin	17.7%	15.0%	15.1%	15.0%	15.0%
Operating Margin	11.9%	10.1%	9.8%	9.9%	9.8%
EBITDA Margin	12.5%	11.1%	10.5%	10.6%	10.8%
Net Profit Margin	9.4%	8.3%	7.5%	8.1%	8.0%
Liquidity & Solvency					
Debt to Equity	0.0	0.0	0.0	0.0	0.0
Cash Ratio	0.4	0.3	0.3	0.4	0.4
Current Ratio	1.3	1.3	1.3	1.3	1.2
Valuation					
Price to Earnings (PE)	12.1	11.0	10.6	10.3	10.0
Price to Book (PBV)	2.5	2.3	2.2	2.1	1.9

Key Assumptions (In IDR Bn)	2016	2017	2018E	2019F	2020F
Burn Rate	29.4%	34.9%	34.9%	32.0%	30.9%
New Contract	2,664	4,356	3,726	4,024	4,426
Contract Carryover	5,696	5,279	6,270	6,797	7,480
Order Book	8,360	9,635	9,995	10,821	11,906

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