

11 April 2017

BUY

TP: IDR 807

▲ 34.6%

Mega Manunggal Property Tbk

MMLP IJ

Upcoming rights issue to shore up balance sheet

MMLP's upcoming rights issue may be EPS-dilutive initially (-38% in FY17E), but would bring in long-term benefits as it shores up the JV's balance sheet while MKP's enigmatic ownership structure clears. With a stronger-than-expected order book and the potential to save on interest expenses, we maintain BUY on MMLP but lower our TP to IDR807 to factor in the dilution.

- ➔ **Upcoming rights issue:** MMLP recently announced that it will raise IDR1.5trn via a rights issue. Our meeting with management revealed that the entire proceeds are intended to be injected into the JV subsidiary (MKP) with GIC. Concurrently, GIC will raise its stake to 45% (from 33.4%) by injecting: (1) IDR220bn for the additional stake and (2) IDR1.23trn to match MMLP's IDR1.5trn capital injection into the JV, bringing the total paid up capital in MKP to IDR3.93trn. Though dilutive to EPS in the near term, we believe removal of the overhang of a mysterious third strategic partner at the MKP level and the concurrent shoring up of MKP's balance sheet in preparation for upcoming projects will be beneficial to MMLP in the long run.
- ➔ **Growing faster than expected:** During the meeting, MMLP's management guided that c.270k sqm of projects have been locked in for FY17 – this surpasses our previous estimate of 180k sqm. These assets are expected to contribute to earnings in 2018.
- ➔ **Potential room to sell land to repay debt:** MMLP owns 7.9ha of land in MM 2100 Bekasi Fajar Industrial Estate. Given the prime location, we believe it will be more profitable for the company to sell the land rather than to develop it into a warehouse. At an estimated land price of c.IDR6m/sqm, MMLP could potentially raise c.IDR400bn of cash through this sale; which could then be used to pay off existing debt (c.IDR485bn) and save c.IDR50bn p.a. of interest cost.
- ➔ **Maintain BUY:** If the rights issue is priced between IDR500 and IDR550, it could potentially dilute EPS by 37-40%. Factoring in faster growth in FY18 and pricing of the rights issue at IDR525/sh, our FY17 earnings forecast would reduce by 38% – we correspondingly lower our TP from IDR1,034 to IDR807/sh. Maintain BUY as we deemed this counter has been oversold while the fundamentals remain strong.

Financial Highlights

Y/E 31 Dec	FY15A	FY16A	FY17F	FY18F	FY19F
Revenue (IDR bln)	163	175	249	468	746
Underlying profit (IDR bln)	114	342	98	213	291
Recurrent EPS (IDR)	13.75	2.73	10.27	25.20	33.61
Adjusted EPS Growth (%)	39.2	(80.2)	276.5	145.5	33.3
Net debt to equity (%)	10.2	17.8	(24.5)	(8.8)	(4.4)
Underlying net margin (%)	70.0	195.2	39.5	45.5	39.0
Underlying ROE (%)	6.3	15.0	3.0	4.9	6.4
P/E (x)	43.6	220.0	58.4	23.8	17.9
P/B (x)	1.5	1.5	1.3	1.3	1.2
Dividend yield (%)	0.0	0.0	0.4	1.1	1.7

Source: Company, Bloomberg, RCML Research



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PRICE CLOSE (10 Apr 17)

IDR 600.00

MARKET CAP

IDR 3,428.6 bln

USD 258.1 mln

SHARES O/S

5714.3 mln

FREE FLOAT

33.8%

3M AVG DAILY VOLUME/VALUE

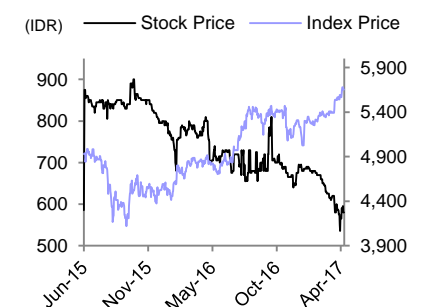
3.5 mln / USD 0.2 mln

52 WK HIGH

IDR 810.00

52 WK LOW

IDR 535.00





Long-term growth projections remain on track

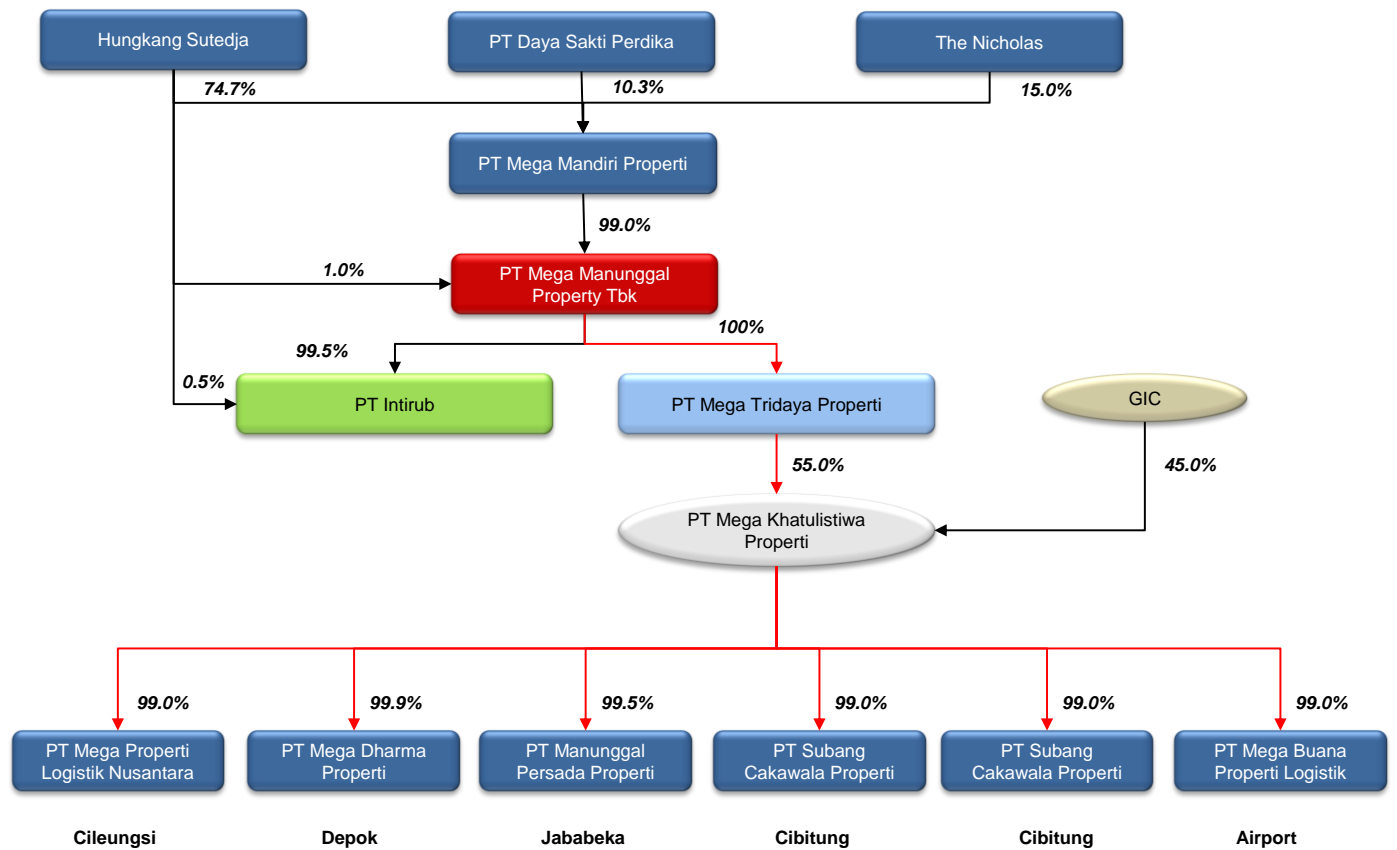
MKP restructuring to unlock value

Due to differences of opinion, MMLP ended its partnership with Daiwa for the MKP joint venture in 2H16. Instead of seeking a new strategic partner, management guided that GIC would raise its stake from 33.4% to 45%, while MMLP would lower its stake from 66.6% to 55%.

We believe this shift does not affect MMLP’s outlook materially – indeed the change in partnership could potentially benefit the company as it will revalue the existing portfolio before injecting it into the JV (the Lazada land was revalued up by 5% when GIC came onboard as a strategic partner). For the additional 11.6% stake, GIC will inject IDR220bn into the MKP JV while contributing a further IDR1.23trn to match MMLP’s planned capital infusion of IDR1.5trn (from the upcoming rights issue) – this will bring the total paid up capital at MKP to IDR3.93trn (from IDR1trn previously).

After this fresh round of capital infusion, MKP’s balance sheet will be well placed to engage in any upcoming projects over the next two years without taking on additional debt (based on MMLP’s long-term target of reaching ~500,000sqm of project completion by 2019 with a minimum 10% average yield).

Fig 1 - New corporate structure



Source: RCML Research, Company



Completion forecasts higher than expected in FY17

MMLP is currently developing 167,400sqm of warehouse space. These projects are expected to be largely completed in 2017, with the exception of Lazada Phase II which is scheduled for 4Q18. Completion of these projects will be the main driver of EPS growth (+280% YoY) in FY18E.

Fig 2 - Projects under construction

Project name	NLA (sq m)	Completion
Lazada I	30,000	2017
Project Cileungsi warehouse	31,400	2017
Project Cibatu warehouse	36,000	4Q2017
Multi-tenanted property (BLK AE)	40,000	4Q2017
Lazada II	30,000	4Q2018
Total NLA	167,400	-

Source: RCML Research; Company

Aside from the current projects under construction, MMLP has locked in four more projects with a total estimated NLA of 240,000sqm. These projects (inclusive of Lazada Phase II), scheduled for completion in 2018, are expected to bring total completion in 2018 to 270,000sqm (vs. our previous estimate of 180,000sqm). Cumulatively, MMLP's 2019 target of c.500,000 sqm (inclusive of the existing portfolio of 164,000sqm) could be reached by end-2018. Capital expenditure required for these projects including those under construction is estimated at IDR2.3trn.

Fig 3 - Projected NLA completion – we raised 2018 forecasts

(sq m)	Old forecast	New forecast
2017	130,000	137,400
2018	180,000	270,000
2019	180,000	180,000
Total NLA	490,000	587,400

Source: Company, RCML Research

Balance sheet adequately funded to reach long-term targets

Though we expect NLA to grow 4.6x (751,300sqm) by 2019, the rights issue would keep MMLP's balance sheet adequately funded, with the company being in a net cash position through this period.

Fig 4 - Gearing assumptions before and after factoring in upcoming rights issue

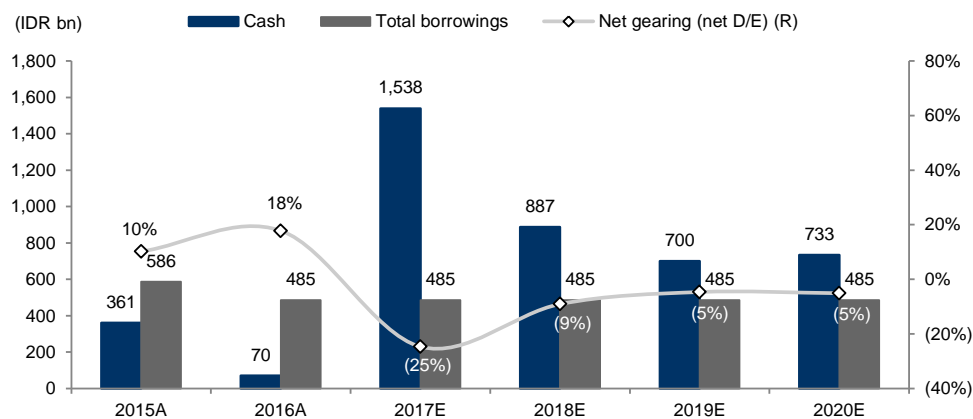
(%)	Pre-rights issue	Post-rights issue
2017	23.3	(24.7)
2018	37.7	(9.1)
2019	44.0	(4.7)

Source: RCML Research, Company

As at end-2016, MMLP had IDR69.8bn of cash on the balance sheet and net gearing of 18%. Post the rights-issue (but prior to the sale of 7.9ha of land at MM 2100 Bekasi Fajar Industrial Estate), we expect MMLP will have more than sufficient capacity to support its growth targets through to 2019. Due to the high investment return of logistic properties (c.10-13% yield on cost), MMLP is expected to become self-fundable, assuming a long-term growth target of 100,000sqm NLA per year post 2019.



Fig 5 - Balance sheet well placed to support growth

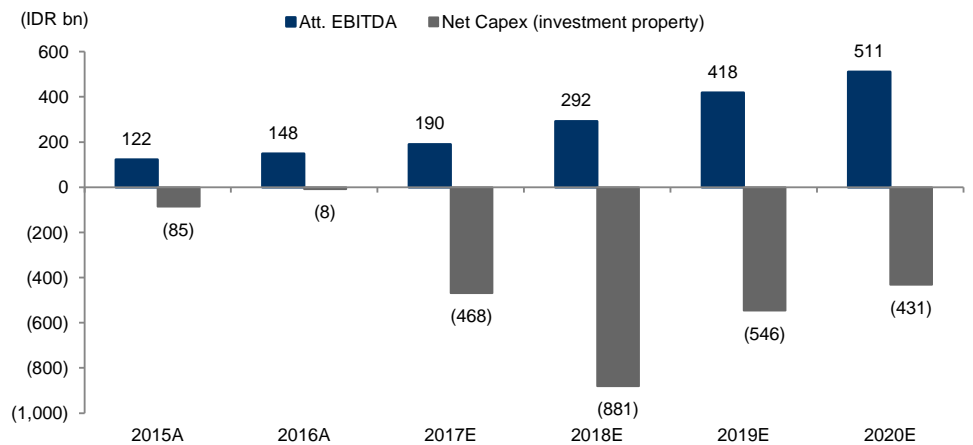


Source: RCML Research, Company

Self-fundable by 2020E

We expect MMLP’s EBITDA to catch up with our projected annual capex by 2020, implying no funding deficit from that year onwards. Up to 2020, proceeds raised from the upcoming rights issue should be able to fund the entire capex, with no requirement for further equity funding.

Fig 6 - EBITDA and Capex forecast



Source: RCML Research, Company

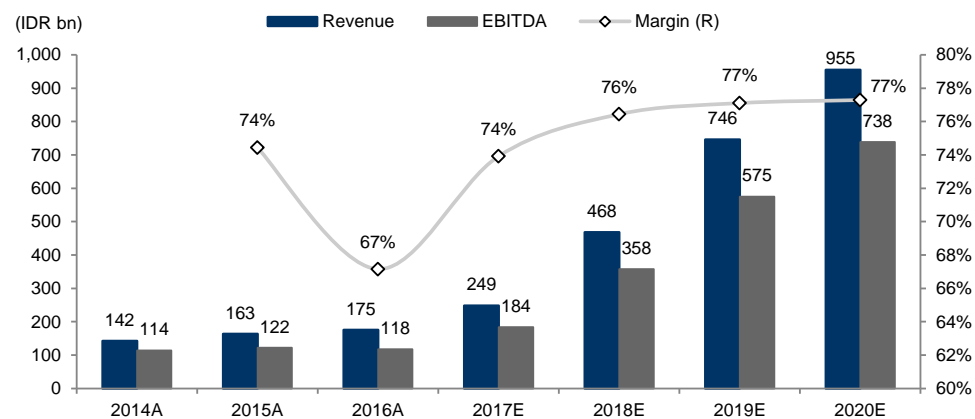
Reiterate BUY – MMLP remains our top pick

Strong growth backed by rising operating margins

We expect MMLP’s operating revenue to grow at a 62% CAGR over 2016-20E, estimating c.3-5% rental growth p.a. for each property. Operating margins of 80-90% for built-to-suit (BTS) and 75-77% for standard warehouses support our consolidated EBITDA margin forecast of 74-77% from 2017 onwards.



Fig 7 - Steady growth in operating metrics

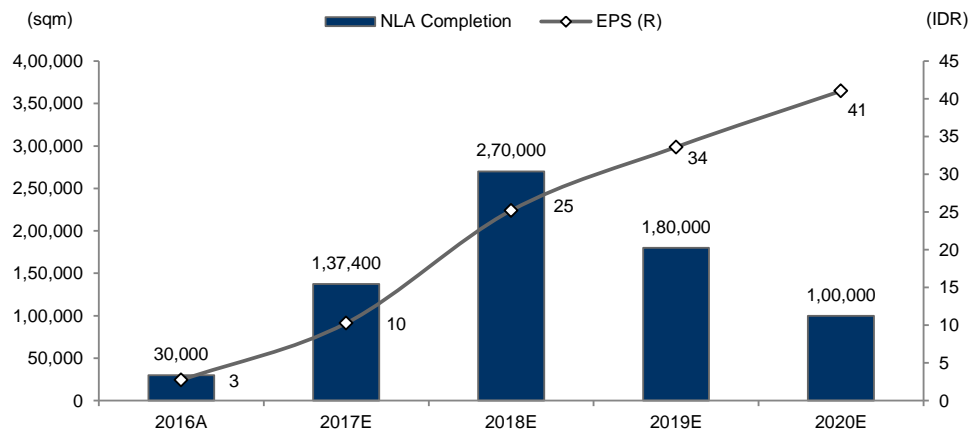


Source: RCML Research, Company

EPS growth to be boosted by project completion

We expect an EPS CAGR of 87% for 2016-20E, in line with the company’s revenue growth over this period. From a pipeline perspective, we estimate that each new project will need 18 months of construction before being occupied by tenants. New project completion will be the main driver of EPS growth.

Fig 8 - EPS growth vs. NLA completion



Source: RCML Research, Company

Target price reduced to factor in EPS dilution – maintain BUY

We remain positive on MMLP given the JV restructuring, the upcoming rights issue and the soon-to-be completed NLA of 137,400sqm in 2017, coupled with Indonesia’s booming e-commerce and warehousing industries. While we have factored in a strong completion pipeline of 270,000sqm in 2018 vs. 180,000sqm previously, EPS dilution from the rights issue (estimated to be priced at IDR525/sh) leads to a lower TP of IDR807 (from IDR1,034) – reiterate BUY.

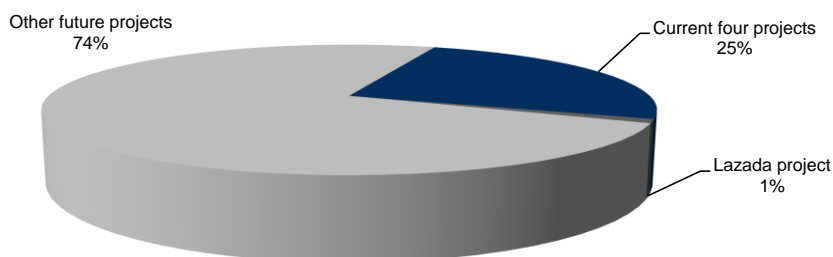


Fig 9 - RNAV model still implies substantial upside

	End-FY17E
Total asset excl. investment properties	2,565
Re-valued investment property	6,215
Current four projects	1,557
Lazada project	61
Other future projects	4,597
Less: total debt	(485)
Less: funding deficit	-
Total RNAV	8,294
After 10% discount	7,465
# of shares	9,244,285,000
Implied share price	807

Source: Company, RCML Research

Fig 10 - Breakdown of project valuation



Source: RCML Research, Company

PEG at lower end of band for global logistic players

At the current price, MMLP's 2017E PEG ratio of 0.4x is at the lower end among global logistic property players. As compared with other Indonesia developers, this PEG ratio is also below the average level of 1.1x.



Fig 11 - Peer comparison

Name	Bloomberg Tickers	P/B (x)		Mkt Cap	Total assets	Share price (LCY)	P/E (x)		EPS CAGR (%)	PEG (x)	ROE (%)		ROA (%)	
		FY17	FY18				FY17	FY18			16-18	FY17	FY17	FY18
MEGA MANUNGGAL P	MMLP IJ	1.3	1.3	258	293	600	58.4	23.8	204.0	0.4	2.3	4.8	2.0	4.2
BUMI SERPONG	BSDE IJ	1.5	1.4	2,648	2,828	1,825	14.7	13.5	20.3	1.7	10.6	10.3	6.2	6.2
LIPPO KARAWACI	LPKR IJ	0.8	0.8	1,270	3,368	730	15.0	13.6	17.5	1.5	6.1	6.3	2.5	2.5
SUMMARECON AGUNG	SMRA IJ	2.9	2.7	1,468	1,537	1,350	42.0	28.5	48.1	0.9	7.2	9.4	2.7	3.3
ALAM SUTERA REAL	ASRI IJ	0.9	0.8	515	1,491	348	8.1	6.0	50.2	0.2	11.3	11.8	4.1	4.8
CIPUTRA DEVELOPM	CTRA IJ	1.5	1.4	1,546	2,147	1,105	14.6	12.4	26.1	0.8	11.7	12.1	4.6	5.1
PAKUWON JATI TBK	PWON IJ	2.4	2.1	1,961	1,527	540	12.9	11.0	19.1	0.7	19.8	19.6	9.4	9.9
SENTUL CITY TBK	BKSL IJ	0.5	0.5	238	804	91	21.2	11.8	(31.3)	0.3	3.3	nm	1.2	1.9
BEKASI FAJAR IND	BEST IJ	0.8	0.7	221	334	304	8.5	6.7	13.7	0.3	9.9	11.1	6.6	7.5
Simple avg.		1.4	1.3	1,233	-	-	17.1	12.9	20.5	0.8	10.0	11.5	4.7	5.1
Mkt cap weighted average		1.7	1.6	-	-	-	18.1	14.5	-	1.1	-	-	-	-
MEGA MANUNGGAL P	MMLP IJ	1.3	1.3	258	293	600	58.4	23.8	204.0	0.4	2.3	4.8	2.0	4.2
SURYA SEMESTA IN	SSIA IJ	1.0	0.9	261	467	735	8.1	11.2	122.0	nm	13.4	9.0	6.4	4.2
KAWASAN INDUS JA	KIJA IJ	1.2	1.1	514	793	330	11.3	7.9	41.0	0.3	10.5	14.5	5.4	7.6
BEKASI FAJAR IND	BEST IJ	0.8	0.7	221	334	304	8.5	6.7	13.7	0.3	9.9	11.1	6.6	7.5
PURADELTA LESTAR	DMAS IJ	1.4	1.2	836	578	230	12.9	10.7	17.1	0.6	11.7	13.1	9.8	10.6
Simple avg.		1.1	1.0	458	-	-	10.2	9.1	48.4	0.4	11.4	11.9	7.0	7.5
Mkt cap weighted average		1.2	1.1	-	-	-	11.2	9.5	-	0.4	-	-	-	-
MEGA MANUNGGAL P	MMLP IJ	1.3	1.3	258	293	600	58.4	23.8	204.0	0.4	2.3	4.8	2.0	4.2
MITSUB LOGISTICS	9301 JP	1.0	1.0	2,310	3,673	1,462	25.9	25.3	4.1	10.8	3.7	3.7	nm	nm
GLOBAL LOGISTIC	GLP SP	1.1	1.0	9,369	23,129	2.81	41.6	37.0	3.5	3.3	4.1	4.6	2.0	2.1
KERRY LOGISTICS	636 HK	1.1	1.0	2,392	4,122	10.96	13.7	12.9	14.2	2.2	8.8	8.8	4.7	4.6
GOODMAN GROUP	GMG AU	1.7	1.6	10,887	9,225	8.13	18.9	17.8	6.8	3.0	9.1	9.2	6.2	6.3
Simple avg.		1.2	1.2	6,240	-	-	25.0	23.2	7.1	4.9	6.5	6.6	4.3	4.3
Mkt cap weighted average		1.3	1.3	-	-	-	27.6	25.2	-	3.8	-	-	-	-

Source: RCML Research, Bloomberg



Per Share Data

Y/E 31 Dec (IDR)	FY15A	FY16A	FY17F	FY18F	FY19F
Reported EPS	0.00	0.00	0.00	0.00	0.00
Adjusted EPS	13.75	2.73	10.27	25.20	33.61
DPS	0.00	0.00	2.68	6.73	10.26
BVPS	387.53	408.89	461.17	477.48	498.66

Valuation Ratios

Y/E 31 Dec (x)	FY15A	FY16A	FY17F	FY18F	FY19F
P/E	43.6	220.0	58.4	23.8	17.9
P/B	1.5	1.5	1.3	1.3	1.2

Financial Ratios

Y/E 31 Dec	FY15A	FY16A	FY17F	FY18F	FY19F
Profitability & Return Ratios (%)					
EBITDA margin	74.4	67.2	73.9	76.4	77.1
EBIT margin	74.4	67.2	73.5	76.2	76.9
Underlying net profit margin	70.0	195.2	39.5	45.5	39.0
ROE	6.3	15.0	3.0	4.9	6.4
ROCE	6.2	4.8	4.9	8.5	11.7
Working Capital & Liquidity Ratios					
Receivables (days)	24	10	2	2	2
Payables (days)	35	9	6	3	3
Current ratio (x)	4.0	2.2	15.9	9.7	7.8
Quick ratio (x)	4.0	2.2	15.9	9.7	7.8
Turnover & Leverage Ratios (x)					
Total asset turnover	0.07	0.06	0.06	0.09	0.14
Net debt to equity	0.10	0.18	(0.25)	(0.09)	(0.04)

DuPont Analysis

Y/E 31 Dec (%)	FY15A	FY16A	FY17F	FY18F	FY19F
Underlying net profit margin	70.0	195.2	39.5	45.5	39.0
Asset turnover	6.6	6.2	6.5	9.5	14.2
Leverage	135.9	124.9	115.9	113.6	116.3
Recurring ROE	6.3	15.0	3.0	4.9	6.4



Income Statement

Y/E 31 Dec (IDR bln)	FY15A	FY16A	FY17F	FY18F	FY19F
Total revenue	163	175	249	468	746
EBITDA	122	118	184	358	575
EBIT	122	118	183	357	574
Net interest income / (expense)	(24)	(29)	(36)	23	(3)
Other income	62	325	(1)	(1)	(1)
Exceptional / Extraordinary (pre-tax)	0	0	0	0	0
EBT	131	417	149	358	549
Taxations	(16)	(18)	(25)	(47)	(75)
Min int. / Inc. from associates	0	(57)	(26)	(98)	(184)
Reported net profit	114	342	98	213	291
Adjustments / Non recurring	0	0	0	0	0
Recurring net profit	114	342	98	213	291

Balance Sheet

Y/E 31 Dec (IDR bln)	FY15A	FY16A	FY17F	FY18F	FY19F
Cash & cash equivalents	361	70	1,538	887	700
Investment securities	0	0	0	0	0
Accounts receivable	8	1	2	3	5
Inventory	0	0	0	0	0
Other current assets	236	165	165	165	165
Total current assets	605	236	1,704	1,055	870
Net property, plant and equipment	0	0	0	0	0
Investment in associates and joint ventures	0	0	0	0	0
Goodwill	0	0	0	0	0
Intangibles	0	0	0	0	0
Other assets	2,230	2,612	3,098	4,000	4,571
Total non current assets	2,230	2,612	3,098	4,000	4,571
Total assets	2,835	2,848	4,803	5,055	5,442
Short term debt	125	87	87	87	87
Accounts payable	5	4	4	4	7
Other current liabilities	23	16	16	17	18
Total current liabilities	153	107	107	108	112
Long term debt and capital lease	461	398	398	398	398
Other long term liabilities	7	6	8	11	14
Total non current liabilities	468	404	407	409	412
Total liabilities	621	512	514	518	525
Capital stock - Common	571	571	924	924	924
Retained earnings incl. reserves	1,643	1,765	3,339	3,490	3,685
Total shareholders' equity	2,214	2,336	4,263	4,414	4,610
Minority interest	0	0	26	124	307
Total equity and minority interest	2,214	2,336	4,289	4,538	4,917
Total liabilities and equity	2,835	2,848	4,803	5,055	5,442

Cash Flow Statement

Y/E 31 Dec (IDR bln)	FY15A	FY16A	FY17F	FY18F	FY19F
EBIT	122	118	183	357	574
Depreciation & amortization	0	0	1	1	1
Changes in net working capital	0	0	0	0	2
Income tax	(11)	(11)	(25)	(47)	(75)
Other items	0	0	1	1	1
Cash flow from operations	143	435	162	291	482
Capex	(95)	(10)	(471)	(884)	(549)
Acquisitions & disposals	(10)	(2)	(2)	(2)	(3)
Other items	0	0	0	0	0
Cash flow from investing	(105)	(12)	(473)	(886)	(552)
Debt raised / repaid	(41)	(101)	0	0	0
Share issues / repurchases	988	0	1,853	0	0
Dividends paid	0	0	(25)	(62)	(95)
Cash interest income / expense - net	0	0	0	0	0
Other items	(205)	63	(14)	(17)	(21)
Cash flow from financing	742	(38)	1,814	(80)	(115)
Change in cash	780	385	1,503	(675)	(185)

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