

5 October 2016

**BUY**

TP: IDR 1,034

▲ 27.7%

## Mega Manunggal Property Tbk

MMLP IJ

### Project completions to drive earnings growth

The end of the Daiwa partnership and Lazada project delays may seem alarming at first glance. But further analysis reveals that these will have minimal impact on MMLP's outlook. As project completions begin from 1Q17 and long-term NLA growth targets stay intact (to grow 4.2x by 2019), MMLP is expected to deliver a respectable 2016-20 EPS CAGR of 30%. We lower our TP slightly to IDR1,034 (from IDR1,142) and reiterate BUY.

- ➔ **End of partnership with Daiwa could benefit MMLP:** Due to differences of opinion, MMLP recently ended its partnership with Daiwa. Management is now in advanced negotiations with another strategic partner for a 33% stake sale in MMLP. The new JV, made up of the new strategic investor, GIC and MMLP (each with one-third stake), is expected to be formed before the end of 2016. We believe this does not affect MMLP's outlook materially – indeed the change in partnership could potentially benefit the company as it revalues the existing portfolio before injecting it into the JV (the Lazada land was revalued by 5% when GIC came onboard as a strategic partner).
- ➔ **Completion forecast cut in view of delays:** The Lazada project has been delayed as a result of bad weather and tardy supplies from steel retailers. An understanding has been reached with Lazada that there will be no penalties for this delay. Phase 1 of the project is scheduled for completion in 1Q17 while Phase 2 will be completed by 1Q18. We cut our NLA completion forecasts for 2016-19 by 26%.
- ➔ **Targets remain on track:** Though we have lowered our NLA completion forecast to 520,000sqm (from 700,000sqm), it is worthy to note that this is still in line with management's initial NLA growth target of 500,000sqm by 2019. Looking ahead, as completions begin to come through from 1Q17, we project a strong 2016-20 EPS CAGR of 30% for MMLP (supported by NLA completion and annual rental growth of 3-5% p.a.). Furthermore, with the latest JV progressing well, coupled with Indonesia's booming e-commerce and warehousing industries, we remain positive on MMLP's outlook. We lower our TP slightly to IDR1,034 (from IDR1,142) and reiterate BUY.



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PRICE CLOSE (04 Oct 16)

IDR 810.00

MARKET CAP

IDR 4,628.6 bln

USD 356.6 mln

SHARES O/S

5,714.3 mln

FREE FLOAT

24.9%

3M AVG DAILY VOLUME/VALUE

1.3 mln / USD 0.1 mln

52 WK HIGH

IDR 945.00

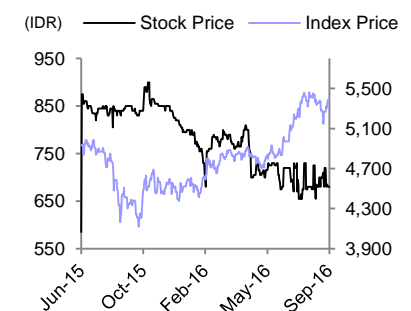
52 WK LOW

IDR 615.00

#### Financial Highlights

Y/E 31 Dec	FY14A	FY15A	FY16F	FY17F	FY18F
Revenue (IDR bln)	142	163	168	245	429
Underlying profit (IDR bln)	294	114	48	61	81
Recurrent EPS (IDR)	9.88	13.75	12.74	14.97	17.74
Adjusted EPS Growth (%)	(152.3)	39.2	(7.4)	17.5	18.5
Net debt to equity (%)	40.5	8.0	7.3	23.0	35.5
Underlying net margin (%)	207.5	70.0	28.5	24.7	19.0
Underlying ROE (%)	25.5	5.7	1.9	2.3	3.1
P/E (x)	82.0	58.9	63.6	54.1	45.7
P/B (x)	2.2	1.8	1.8	1.8	1.7
Dividend yield (%)	0.0	0.0	0.2	0.4	0.9

Source: Company, Bloomberg, RCML Research



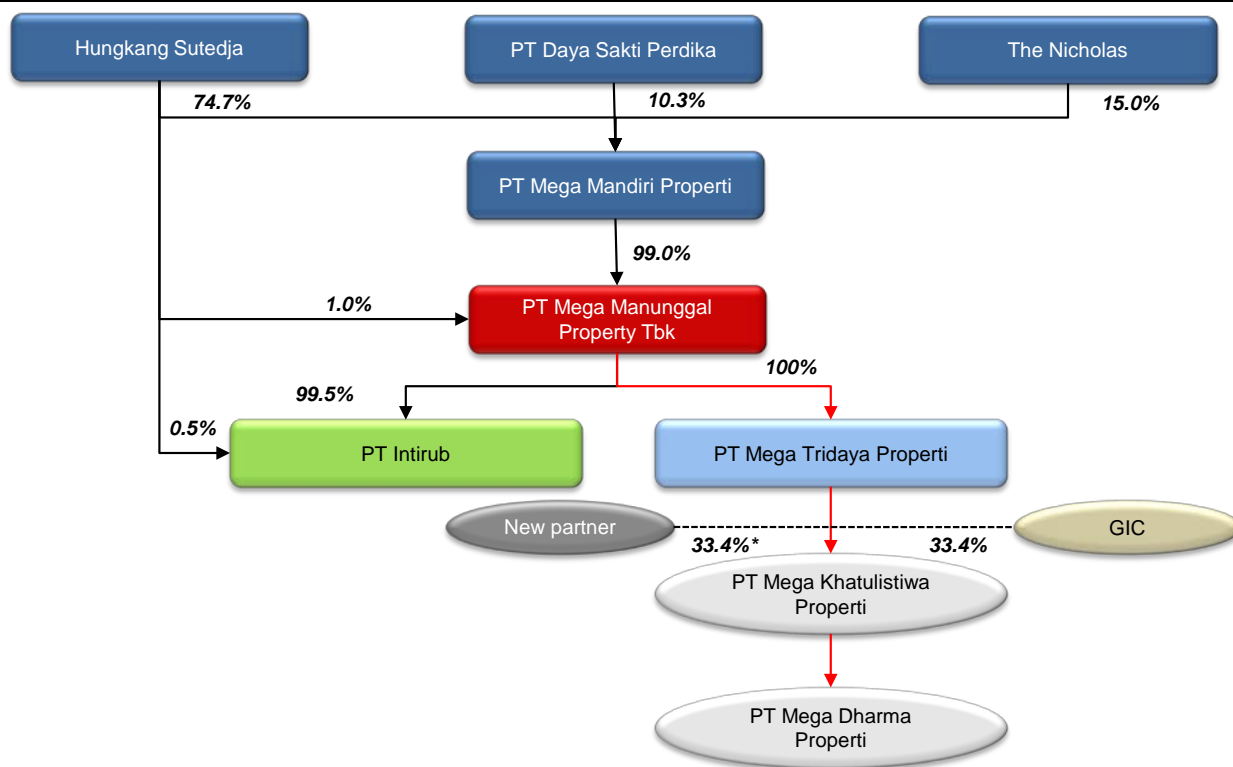


**Long-term growth projections remain on track**

Due to differences of opinion, MMLP recently ended its partnership with Daiwa. Management is now in advanced negotiations with another strategic partner for a 33% stake sale in MMLP. The new JV, made up of the new strategic investor, GIC and MMLP (each with one-third stake), is expected to be formed before the end of 2016.

We believe this does not affect MMLP’s outlook materially – indeed the change in partnership could potentially benefit the company as it revalues 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). Moreover, the new partner could potentially drive faster expansion and bring in more tenants, in line with MMLP’s long-term target to reach ~500,000sqm of project completions by 2019.

**Fig 1 - Corporate structure with the new JV**



Source: Company | \*Shareholder agreement yet to be signed

For future projects (capex of US\$310m or IDR4.0bn for 2016-19E), we estimate the JV partners’ IRR to be at 16% – a level which looks reasonable given the execution risk for uncompleted projects. Our IRR estimate is based on conservative assumptions of 12% yield on cost, a 10% exit cap rate and 3% terminal growth. We also assume that these new projects would be funded by a 30% debt-to-equity leverage ratio. Including leverage, the total NPV return on invested capital could touch 17%.

**Fig 2 - Key assumptions**

Parameters	(%)
NPI yield on cost	12
Growth p.a.	3
Exit yield	10
WACC	12

Source: RCML Research



Fig 3 - Return analysis

(IDR bn)	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Terminal
Capex	(895)	(1,343)	(1,343)	(448)	-	-	-	-	-	-	-
NPI income		107	272	441	508	523	539	555	572	589	6,065
Net cash flow	(1,343)	(1,235)	(1,071)	441	508	523	539	555	572	6,654	-

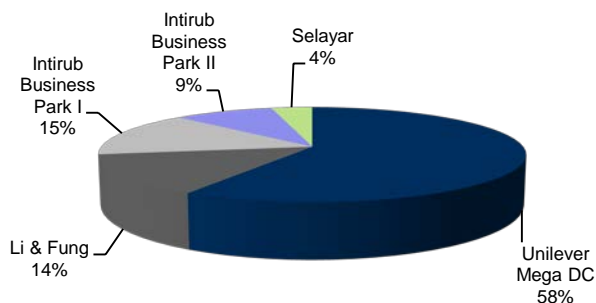
IRR = 16%; NPV return = 17%

Source: RCML Research

### Well-balanced portfolio and strong pipeline

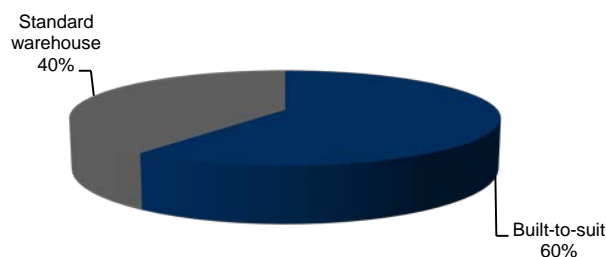
MMLP owns a portfolio of four warehouses spanning over 16.4ha of land offering 248,362sqm and 163,757sqm of GFA and NLA respectively. This portfolio, as at 1H16, was c.100% occupied with a weighted average remaining lease term of c.5 years. As of 1H16, 60% of MMLP's revenue came from built-to-suit warehouse and 40% from standard warehouses. This well-balanced income composition enables MMLP to achieve long-term stability and also capture growth opportunities.

Fig 4 - Breakdown of portfolio in terms of GFA (1H16)



Source: Company

Fig 5 - Breakdown of portfolio revenue (1H16)



Source: Company

MMLP is currently developing 160,000sqm of warehouse space. These projects are expected to be largely completed in 2017. After this, construction will commence on Lazada phase 2 (30,000sqm) in 2H16, which is targeted to be completed by 2Q18. The completion of these projects will form the main driver of EPS growth (+34% YoY) in FY18E.

Fig 6 - Projects under construction

Project name	NLA (sq m)
Lazada 1	30,000
Project Cibatu & Cileungsi	55,000
Multi-tenanted property	38,000
Built to suit	30,000
3 PLs	7,000
<b>Total NLA</b>	<b>160,000</b>

Source: RCML Research; Company

### Completion forecasts lowered but no cause for alarm

In view of recent delays, we have reduced our NLA completion forecast for 2016-19 by 26%. Despite the downwards revision, it is worthy to note that our latest forecast of 520,000sqm of NLA completion by 2019 remains in line with management's previous guidance. With a new international partner expected to come on board, growth may receive an impetus and hence our previous forecast of 700,000sqm may not be too far-fetched either.



Fig 7 - Projected NLA completion before and after we revised forecasts

(sq m)	Before revision of forecast	Latest forecast
2016	100,000	30,000
2017	200,000	130,000
2018	200,000	180,000
2019	200,000	180,000
<b>Total NLA</b>	<b>700,000</b>	<b>520,000</b>

Source: Company, RCML Research

### Balance sheet adequately funded to reach long-term targets

Though we expect NLA to grow 4.2x (683,000sqm) by 2019, MMLP's balance sheet would remain adequately funded, with the long-term gearing ratio capped below 45%. Also, as we await further details of the new JV (including the new partner), we are yet to factor in the potential revision of land value currently held by MMLP. When GIC came onboard as a strategic partner, the Lazada land was revalued upward by 5%.

Having said that, while any such revaluation will be positive for MMLP, given the size of Lazada's land (60,000sqm), the impact on RNAV is expected to be minimal (<0.5%). Nonetheless, we look forward to more details of the new JV and whether any cash is being injected into it (GIC previously injected US\$50m into the JV).

Fig 8 - Gearing assumptions before and after we revised forecasts

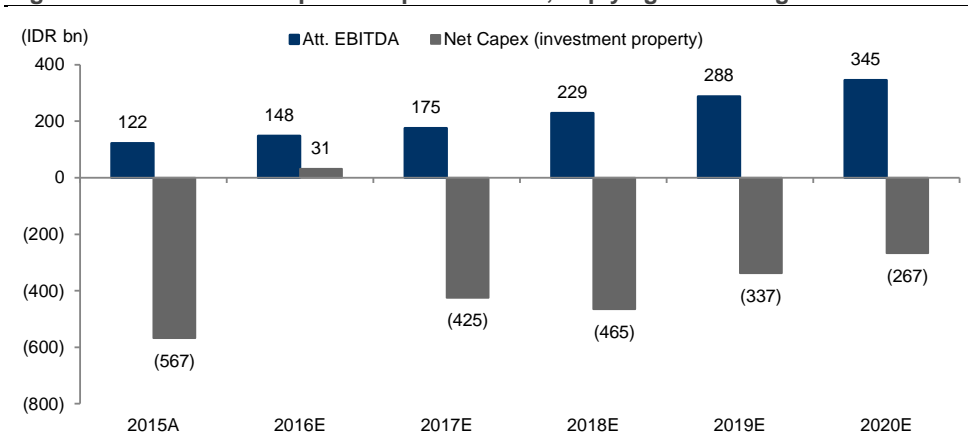
(%)	Before revision of forecast	Latest forecast
2016	Net Cash	7.3
2017	9.2	23.3
2018	23.2	37.7
2019	27.2	44.0

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 IPO could fund the entire capex, with no requirement for equity funding. Therefore, we do not expect EPS dilution.

Fig 9 - EBITDA to catch up with capex in 2020E, implying no funding deficit



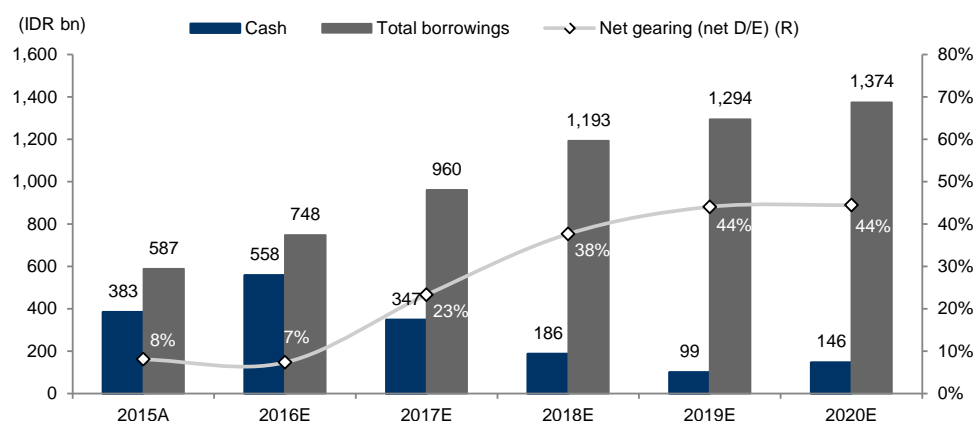
Source: RCML Research



### Gearing to be capped below 45%

As at end-2015, MMLP had IDR383bn of cash on the balance sheet and minimal net gearing. We expect further project development to be funded through a combination of new debt and internal accruals. Due to the high investment return of logistic properties (c.10-13% yield on cost), MMLP's net gearing would not exceed 45% before the company becomes self-fundable.

**Fig 10 - Net gearing unlikely to exceed 45% before MMLP becomes self-fundable**



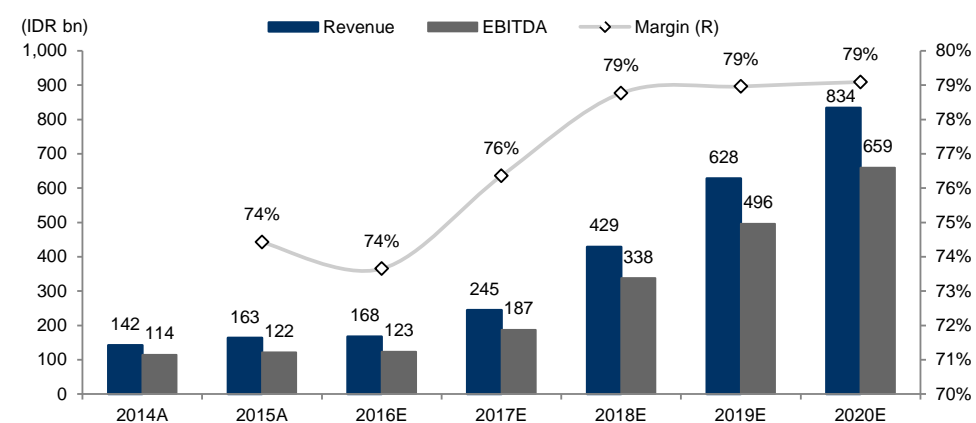
Source: RCML Research

### Reiterate BUY – MMLP remains our top pick

#### Stable rental growth with decent operating margins

We expect MMLP's operating revenue to grow at a 49% CAGR over 2016-20, 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 75-80% from 2016 onwards.

**Fig 11 - Steady growth in operational metrics**



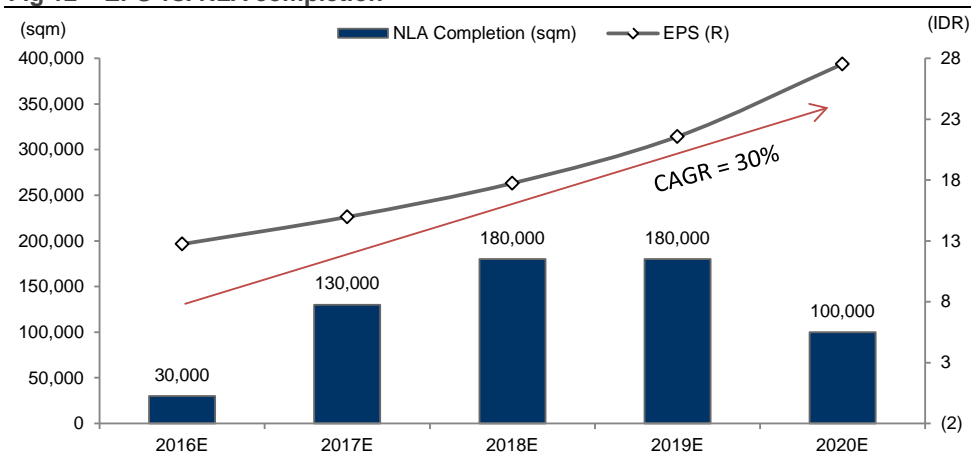
Source: RCML Research

#### EPS growth boosted by project completion

We expect an EPS CAGR of 30% for 2016-20, in line with the company's revenue growth over this period. From the pipeline perspective, we estimate that each new project will need 18 months of construction before being occupied by tenants. New project completion is the main driver of the EPS growth.



**Fig 12 - EPS vs. NLA completion**



Source: Company, RCML Research

**RNAV valuation implies substantial upside**

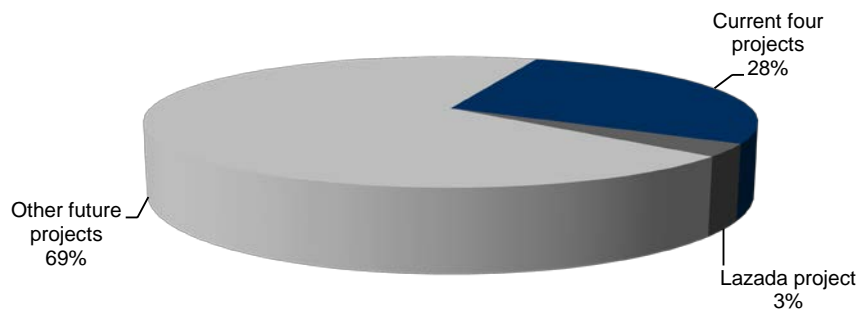
With the latest JV progressing well, coupled with Indonesia’s booming e-commerce and warehousing industries, we remain positive on MMLP’s outlook. Due to reduced NLA forecasts, we lower our TP slightly to IDR1,034 (from IDR1,142) – reiterate BUY.

**Fig 13 - RNAV model**

(IDR bn)	End-2016E
Total asset excl. investment properties	3,896
Revalued investment property	5,297
<i>Current four projects</i>	1,427
<i>Lazada project</i>	163
<i>Other future projects</i>	3,655
Less: Investment properties on book (excl. land bank)	(1,877)
Less: Total debt	(748)
Less: Funding deficit	-
Total RNAV	6,568
After 10% discount	5,911
# of shares	5,714,285,000
Far value per share	1,034

Source: RCML Research, Company

**Fig 14 - Breakdown of project valuation**



Source: RCML Research



## PEG at lower-end of global logistic players

At the current price, MMLP's 2017E PEG ratio of 2.8x is at the lower-end among global logistic property players. As compared with other Indonesia developers, this PEG ratio is slightly above the average level of 2.2x.

Fig 15 - Peer comparison

Name	Bloomberg Tickers	P/B (x)		Mkt Cap	Total assets	Share price (LCY)	P/E (x)		EPS CAGR (%)	PEG (x)	ROE (%)		ROA (%)	
		2016	2017				2016	2017			2016	2017	2016	2017
<b>Mega Manunggal P</b>	<b>MMLP IJ</b>	<b>1.8</b>	<b>1.8</b>	<b>356</b>	<b>231</b>	<b>810</b>	<b>63.6</b>	<b>54.1</b>	<b>19.2</b>	<b>2.81</b>	<b>1.8</b>	<b>2.3</b>	<b>1.4</b>	<b>1.6</b>
Bumi Serpong	BSDE IJ	2.0	1.8	3,270	2,600	2210	18.5	16.1	5.8	3.2	11.1	11.9	6.1	6.5
Lippo Karawaci	LPKR IJ	1.3	1.2	1,766	2,983	995	18.2	16.0	3.8	4.8	8.1	8.7	3.1	3.2
Summarecon Agung	SMRA IJ	3.8	3.4	1,986	1,354	1790	36.9	30.0	(5.2)	nm	11.1	13.0	4.2	4.6
Alam Sutera Real	ASRI IJ	1.3	1.2	716	1,350	474	10.7	9.4	5.8	1.8	12.6	12.0	4.6	5.2
Ciputra Developm	CTRA IJ	2.7	2.4	1,945	1,895	1640	20.3	17.4	10.9	1.9	14.7	15.6	4.7	5.3
Sentul City Tbk	BKSL IJ	0.5	0.5	252	804	95	29.7	36.5	53.0	0.6	3.0	nm	0.9	0.7
Agung Podomoro I	APLN IJ	0.8	0.7	470	1,772	298	7.5	7.1	1.8	4.1	10.8	10.7	3.3	3.3
Intiland Develop	DILD IJ	1.2	1.1	458	743	575	14.9	13.4	10.5	1.4	10.5	11.8	3.4	3.6
Modernland Realt	MDLN IJ	0.7	0.7	366	927	380	6.9	6.4	3.3	2.1	10.6	7.9	5.3	4.1
<b>Simple avg.</b>		<b>1.7</b>	<b>1.5</b>	<b>1,203</b>	<b>1,385</b>		<b>16.9</b>	<b>15.4</b>		<b>2.2</b>	<b>11.6</b>	<b>12.8</b>	<b>4.8</b>	<b>5.1</b>
<b>Mkt cap weighted average</b>		<b>2.4</b>	<b>2.1</b>				<b>19.8</b>	<b>17.0</b>						
<b>Mega Manunggal P</b>	<b>MMLP IJ</b>	<b>1.8</b>	<b>1.8</b>	<b>356</b>	<b>231</b>	<b>810</b>	<b>63.6</b>	<b>54.1</b>	<b>19.2</b>	<b>2.81</b>	<b>1.8</b>	<b>2.3</b>	<b>1.4</b>	<b>1.6</b>
Surya Semesta In	SSIA IJ	0.8	0.8	193	482	565	5.4	5.5	37.5	0.7	16.9	15.4	7.3	6.7
Kawasan Indus Ja	KIJA IJ	0.9	0.8	335	684	300	5.8	6.1	(2.2)	nm	16.1	13.1	10.9	9.6
Bekasi Fajar Ind	BEST IJ	1.1	1.0	251	294	306	11.3	10.3	(13.5)	nm	9.9	11.0	7.2	6.5
Puradelta Lestar	DMAS IJ	1.3	1.1	717	612	248	8.7	8.2	15.6	0.7	16.1	15.1	15.7	14.2
<b>Simple avg.</b>		<b>1.0</b>	<b>0.9</b>	<b>374</b>	<b>518</b>		<b>7.8</b>	<b>7.5</b>		<b>0.7</b>	<b>14.7</b>	<b>13.7</b>	<b>10.3</b>	<b>9.2</b>
<b>Mkt cap weighted average</b>		<b>1.1</b>	<b>1.0</b>				<b>8.1</b>	<b>7.8</b>						
<b>Mega Manunggal P</b>	<b>MMLP IJ</b>	<b>1.8</b>	<b>1.8</b>	<b>356</b>	<b>231</b>	<b>810</b>	<b>63.6</b>	<b>54.1</b>	<b>19.2</b>	<b>2.81</b>	<b>1.8</b>	<b>2.3</b>	<b>1.4</b>	<b>1.6</b>
Mitsub Logistics	9301 JP	1.3	1.1	2,466	3,610	1464	37.1	32.1	6.4	4.4	3.6	3.6	3.2	3.4
Global Logistic	GLP SP	0.8	0.8	6,627	17,462	2	27.4	21.9	7.3	3.5	4.5	5.0	2.7	3.0
Kerry Logistics	636 HK	1.3	1.2	2,593	3,432	10	17.7	16.2	4.8	3.2	8.0	8.0	5.1	5.2
Goodman Group	GMG AU	1.7	1.5	7,791	8,681	7	16.5	15.5	6.6	2.7	9.8	10.1	6.2	6.4
<b>Simple avg.</b>		<b>1.3</b>	<b>1.1</b>	<b>4,869</b>	<b>8,296</b>		<b>24.7</b>	<b>21.4</b>		<b>3.5</b>	<b>6.5</b>	<b>6.7</b>	<b>4.3</b>	<b>4.5</b>
<b>Mkt cap weighted average</b>		<b>1.3</b>	<b>1.2</b>				<b>23.0</b>	<b>19.8</b>						

Source: RCML Research, Bloomberg



**BUY**

TP: IDR 1,034

▲ 27.7%

**Mega Manunggal  
Property Tbk**

MMLP IJ



Company Update

INDONESIA

REAL ESTATE

**Per Share Data**

Y/E 31 Dec (IDR)	FY14A	FY15A	FY16F	FY17F	FY18F
Reported EPS	0.00	0.00	0.00	0.00	0.00
Adjusted EPS	9.88	13.75	12.74	14.97	17.74
DPS	0.00	0.00	1.67	3.37	7.22
BVPS	361.30	445.92	453.50	460.73	467.74

**Valuation Ratios**

Y/E 31 Dec (x)	FY14A	FY15A	FY16F	FY17F	FY18F
P/E	82.0	58.9	63.6	54.1	45.7
P/B	2.2	1.8	1.8	1.8	1.7

**Financial Ratios**

Y/E 31 Dec	FY14A	FY15A	FY16F	FY17F	FY18F
<b>Profitability &amp; Return Ratios (%)</b>					
EBITDA margin	80.5	74.4	73.7	76.4	78.8
EBIT margin	80.5	74.4	73.0	75.6	78.1
Underlying net profit margin	207.5	70.0	28.5	24.7	19.0
ROE	24.8	5.7	1.9	2.3	3.1
ROCE	6.6	5.8	4.2	5.9	9.1
<b>Working Capital &amp; Liquidity Ratios</b>					
Receivables (days)	31	25	19	17	15
Payables (days)	66	44	28	20	14
Current ratio (x)	0.6	3.0	3.1	1.8	1.0
Quick ratio (x)	0.6	3.0	3.1	1.8	1.0
<b>Turnover &amp; Leverage Ratios (x)</b>					
Total asset turnover	0.07	0.06	0.05	0.07	0.11
Net debt to equity	0.40	0.08	0.07	0.23	0.35

**DuPont Analysis**

Y/E 31 Dec (%)	FY14A	FY15A	FY16F	FY17F	FY18F
Underlying net profit margin	207.5	70.0	28.5	24.7	19.0
Asset turnover	7.1	6.1	5.1	6.9	10.9
Leverage	172.0	133.8	128.8	136.5	147.7
Recurring ROE	25.5	5.7	1.9	2.3	3.1





## Income Statement

Y/E 31 Dec (IDR bln)	FY14A	FY15A	FY16F	FY17F	FY18F
Total revenue	142	163	168	245	429
EBITDA	114	122	123	187	338
EBIT	114	122	122	185	335
Net interest income / (expense)	(43)	(24)	(32)	(37)	(63)
Other income	253	62	(1)	(2)	(3)
Exceptional / Extraordinary (pre-tax)	(8)	0	0	0	0
EBT	301	131	65	121	249
Taxations	(14)	(16)	(17)	(24)	(43)
Min int. / Inc. from associates	0	0	0	(36)	(125)
<b>Reported net profit</b>	<b>286</b>	<b>114</b>	<b>48</b>	<b>61</b>	<b>81</b>
Adjustments / Non recurring	0	0	0	0	0
Recurring net profit	294	114	48	61	81

## Balance Sheet

Y/E 31 Dec (IDR bln)	FY14A	FY15A	FY16F	FY17F	FY18F
Cash & cash equivalents	11	383	558	347	186
Investment securities	0	0	0	0	0
Accounts receivable	14	9	9	13	23
Inventory	0	0	0	0	0
Other current assets	57	127	127	127	127
<b>Total current assets</b>	<b>82</b>	<b>519</b>	<b>694</b>	<b>487</b>	<b>336</b>
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	2,056	2,685	2,722	3,227	3,788
<b>Total non current assets</b>	<b>2,056</b>	<b>2,685</b>	<b>2,722</b>	<b>3,227</b>	<b>3,788</b>
<b>Total assets</b>	<b>2,139</b>	<b>3,204</b>	<b>3,416</b>	<b>3,714</b>	<b>4,124</b>
Short term debt	56	125	176	227	281
Accounts payable	27	13	13	14	18
Other current liabilities	54	37	37	38	39
Total current liabilities	137	175	227	278	339
Long term debt and capital lease	542	462	571	734	911
Other long term liabilities	12	16	24	31	38
<b>Total non current liabilities</b>	<b>554</b>	<b>478</b>	<b>595</b>	<b>764</b>	<b>949</b>
<b>Total liabilities</b>	<b>691</b>	<b>653</b>	<b>821</b>	<b>1,043</b>	<b>1,288</b>
Capital stock - Common	400	571	571	571	571
Retained earnings incl. reserves	1,045	1,977	2,020	2,061	2,101
<b>Total shareholders' equity</b>	<b>1,445</b>	<b>2,548</b>	<b>2,591</b>	<b>2,633</b>	<b>2,673</b>
Minority interest	3	3	3	39	164
Total equity and minority interest	1,448	2,551	2,594	2,671	2,836
<b>Total liabilities and equity</b>	<b>2,139</b>	<b>3,204</b>	<b>3,416</b>	<b>3,714</b>	<b>4,124</b>

## Cash Flow Statement

Y/E 31 Dec (IDR bln)	FY14A	FY15A	FY16F	FY17F	FY18F
EBIT	114	122	122	185	335
Depreciation & amortization	0	0	1	2	3
Changes in net working capital	0	0	0	(3)	(4)
Income tax	(13)	(16)	(17)	(24)	(43)
Other items	0	0	1	2	3
<b>Cash flow from operations</b>	<b>330</b>	<b>139</b>	<b>82</b>	<b>135</b>	<b>271</b>
Capex	(109)	(634)	19	(439)	(482)
Acquisitions & disposals	57	(10)	(12)	(14)	(17)
Other items	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(52)</b>	<b>(644)</b>	<b>8</b>	<b>(454)</b>	<b>(499)</b>
Debt raised / repaid	31	(42)	160	213	233
Share issues / repurchases	55	988	0	0	0
Dividends paid	0	0	(10)	(19)	(41)
Cash interest income / expense - net	0	0	0	0	0
Other items	(57)	(16)	(44)	(61)	(75)
<b>Cash flow from financing</b>	<b>30</b>	<b>930</b>	<b>107</b>	<b>133</b>	<b>117</b>
Change in cash	308	425	196	(186)	(112)

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