

Lippo Karawaci

(LPKR IJ)

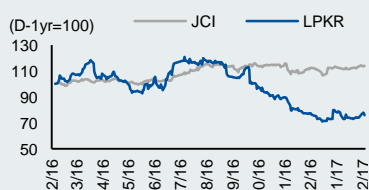
Let's catch the falling knife

Property

Company Report
February 13, 2017

(Upgrade)	Buy
Target Price (12M, IDR)	900
Share Price (2/10/17, IDR)	750
Expected Return	20%

Consensus OP (16F, IDRbn)	2,005.0		
EPS Growth (16F, %)	65.1		
P/E (16F, x)	19.3		
Industry P/E (16F, x)	18.2		
Benchmark P/E (16F, x)	24.1		
Market Cap (IDRbn)	17,308.3		
Shares Outstanding (mn)	23,077.7		
Free Float (mn)	21,865.4		
Institutional Ownership (%)	31.1		
Beta (Adjusted, 24M)	1.1		
52-Week Low (IDR)	690		
52-Week High (IDR)	1,215		
(%)	1M	6M	12M
Absolute	-3.8	-35.9	-24.2
Relative	-5.0	-34.9	-37.7



PT. Mirae Asset Sekuritas Indonesia

Franky Rivan
+62-21-515-1140
franky@miraeasset.co.id

Attractive entry point

The year 2016 was rough for Lippo Karawaci (LPKR), as its share price underperformed the JCI by 45.8%—making it the worst-performing developer in its peer group (see Figure 1). From a peak of IDR1,215 in July 2016, the stock has deteriorated by 38.3% to date, which we view as excessive considering the depths to which its valuation has sunk following a massive sell-off in 4Q16.

On a P/E basis, LPKR is cheaper than the other three developers under our coverage, namely Pakuwon Jati (PWON IJ; Buy; TP: IDR865/share), Bumi Serpong Damai (BSDE IJ; Hold; TP: IDR2,090/share), and Summarecon Agung (SMRA IJ; Sell; TP: IDR1,520/share). As of February 10th market close, LPKR stands at 13.0x 17F P/E, implying a discount of 11.6% to the property index, which is currently at 14.7x 17F P/E. For reference, PWON, BSDE, and SMRA are trading at 13.2x, 14.8x, and 56.9x 17F P/E, respectively. We note that LPKR is currently trading near -1 standard deviation (SD) from its five-year average multiple of 12.5x. This valuation is equivalent to the level recorded in 3Q13, at the beginning of the Indonesian property meltdown era (see Figure 3 and 4).

Given that Indonesia's current macro and property market conditions are better than the 3Q13 environment, we see no reason for developers to trade at valuations below -1 SD. Notably, LPKR is the only builder in our coverage universe approaching that level. (By contrast, BSDE and PWON are trading above their respective five-year averages; See Figures 5 and 6.) Given the sheer vastness of the current valuation gap between LPKR and the rest of its peer group, any significant narrowing will likely require a leveling up of LPKR shares.

Aggressive property-selling on the horizon

In 2016, LPKR's marketing sales performance was a huge disappointment. Property marketing sales came in at only IDR1.2tr (76% short of the FY16 target of IDR5tr), and asset sales to REITs reached only IDR938bn (41.9% short of the FY16 target of IDR1.6tr). We ascribe the soft performance to weak property demand and the company's inability to launch products in 2016. By project, the biggest culprits behind the weakness were Kemang Village and Lippo Cikarang, which fell well short of their respective targets of IDR800bn and IDR2,400bn, delivering just IDR26bn and IDR749bn.

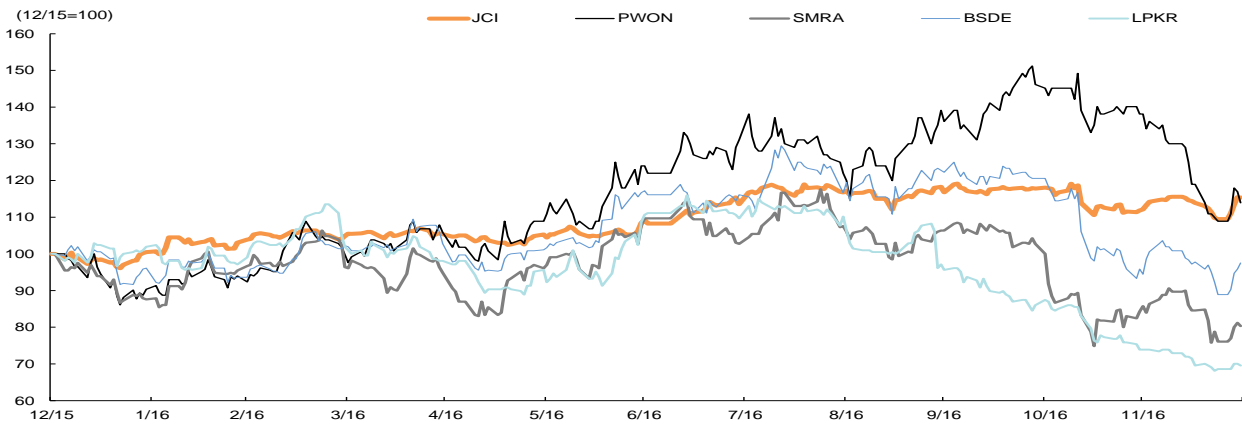
With 2016 performance presenting a low base, LPKR released what we believe to be aggressive targets for 2017. Specifically, the company guided property marketing sales at IDR3.1tr and asset sales to REITs at IDR6.8tr (see Table 1). We assume achievement rates stay steady YoY, and LPKR will only book IDR1.1tr in property marketing sales and IDR3.7tr in sales to REITs. Given our view of more sizable LPKR marketing sales this year, we are optimistic on the prospects for improved earnings delivery in 2017.

FY (Dec)	12/14	12/15	12/16F	12/17F	12/18F
Revenue (IDRbn)	11,655.0	8,910.2	10,291.4	11,960.8	10,996.4
OP (IDRbn)	3,278.2	1,727.4	2,146.2	2,289.1	2,423.5
OP Margin (%)	28.1	19.4	20.9	19.1	22.0
NP (IDRbn)	2,556.2	535.4	884.4	1,315.5	1,644.0
EPS (IDR)	112.3	23.5	38.8	57.8	72.2
BPS (IDR)	773.8	830.7	931.6	1,025.2	1,045.1
P/E (x)	6.7	31.9	19.3	13.0	10.4
ROE (%)	14.5	2.8	4.2	5.6	6.9

Note: All figures are based on consolidated data; OP refers to operating profit
Source: Bloomberg, Mirae Asset Sekuritas Indonesia Research

Analysts who prepared this report are registered as research analysts in Indonesia but not in any other jurisdiction, including the U.S.
PLEASE SEE ANALYST CERTIFICATIONS AND IMPORTANT DISCLOSURES & DISCLAIMERS IN APPENDIX 1 AT THE END OF REPORT.

Figure 1. Developers' share price performance relative to the JCI in 2016



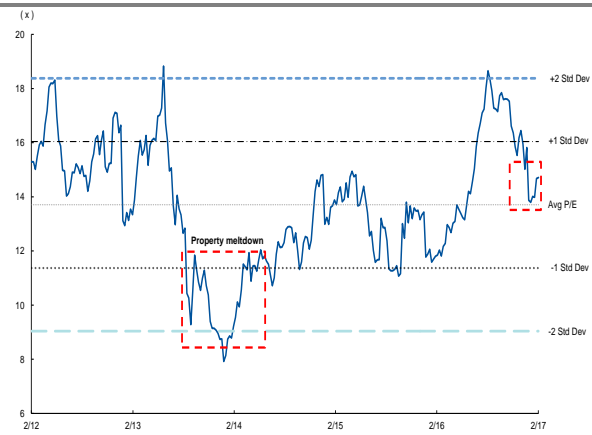
Source: Bloomberg, Mirae Asset Sekuritas Indonesia Research

Figure 2. LPKR's 17F P/E band



Source: Mirae Asset Sekuritas Indonesia Research

Figure 3. JAKPROP's 17F P/E band



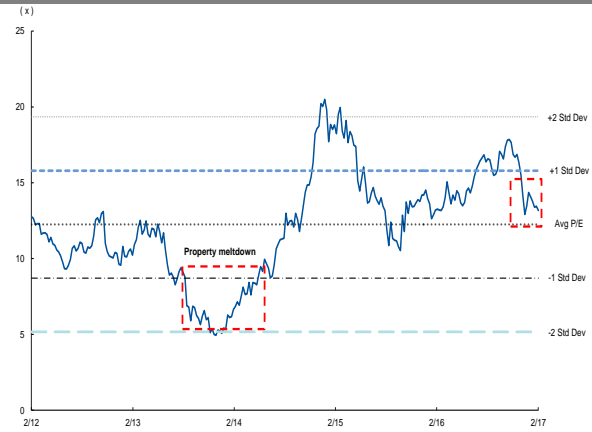
Source: Mirae Asset Sekuritas Indonesia Research

Figure 4. BSDE's 17F P/E band



Source: Mirae Asset Sekuritas Indonesia Research

Figure 5. PWON's 17F P/E band



Source: Mirae Asset Sekuritas Indonesia Research

Upgrade to Buy; Retain TP of IDR900/share

We upgrade our recommendation on LPKR from Hold to Buy while retaining our target price of IDR900/share, as: 1) it is the only developer trading near -1 SD (17F P/E), strongly implying that the sell-off has been excessive; 2) we see no reason for developers to trade below -1 SD valuation given that macro conditions and the Indonesian property market have improved over 3Q13; and 3) the FY17 earnings outlook appears to be decent given the low base of comparison in 2016 and aggressive marketing sales efforts in the pipeline. Our DCF-based target price reflects a 5% perpetual growth rate, a 5.5% market risk premium, a 7.5% risk-free rate, a 1.07 beta, and a 9.8% WACC.

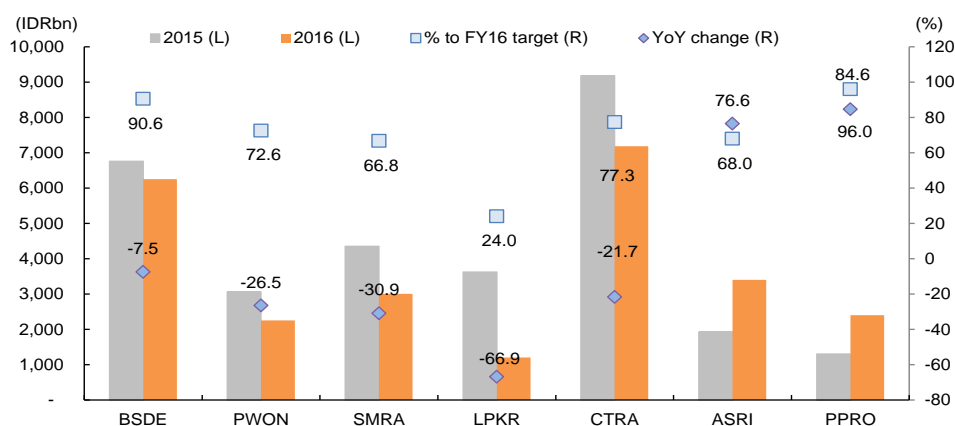
Table 1. LPKR's marketing sales achievement and targets

(IDRbn)

Project's name	FY16 achievement	FY16 target	FY17 target
Townships:			
Lippo Village (LV)	74	100	100
Lippo Cikarang (LC)	438	1,500	701
Holland Village Manado	46	50	42
Tanjung Bunga	90	250	130
San Diego Hills Memorial Park	154	200	216
Subtotal	802	2,100	1,189
Condominiums:			
Kemang Village	26	800	25
Millennium Village (LV)	10	500	80
Orange County (LC)	311	900	438
Other	52	150	257
New projects	-	200	871
Subtotal	399	2,550	1,671
Offices:			
Lippo Office Thamrin	-	350	205
Holland Village Office	-	-	42
St. Moritz Jakarta	-	-	42
Subtotal	-	350	289
Total property sales	1,201	5,000	3,149
Assets sold to REITs	938	1,700	6,849
Total marketing sales	2,139	6,700	9,998

Source: Mirae Asset Sekuritas Indonesia Research

Figure 6. Developers' marketing sales performance as of FY16



Source: Company data, Mirae Asset Sekuritas Indonesia Research

Note: Based on unrevised target at start of 2016

Lippo Karawaci (Ticker LPKR IJ/ Buy/TP: IDR900)

Income Statement (Summarized)

(IDRbn)	12/15	12/16F	12/17F	12/18F
Revenue	8,910	10,291	11,961	10,996
Cost of revenue	-4,792	-5,500	-6,462	-5,921
Gross profit	4,119	4,791	5,499	5,075
Operating expenses	-2,391	-2,645	-3,210	-2,652
Operating profit	1,727	2,146	2,289	2,423
Interest expense	-261	-342	-342	-312
Interest income	84	29	33	105
Net non-operating losses (gains)	-59	-59	159	146
Pre-tax profit	1,491	1,774	2,138	2,363
Tax expense	-467	-594	-479	-403
Net profit	1,024	1,180	1,659	1,960
Minority interest	-489	-296	-344	-316
Attributable net profit	535	884	1,315	1,644

Growth (%)	12/15	12/16F	12/17F	12/18F
Revenue	-23.6	15.5	16.2	-8.1
Cost of revenue	-23.4	14.8	17.5	-8.4
Gross profit	-23.7	16.3	14.8	-7.7
Operating expenses	12.8	10.6	21.4	-17.4
Operating profit	-47.3	24.2	6.7	5.9
Interest expense	39.5	31.3	0.0	-9.0
Net non-operating losses (gains)	NM	0.0	NM	-8.1
Pre-tax profit	-59.7	18.9	20.6	10.5
Tax expense	-16.0	27.0	-19.3	-15.9
Net profit	-67.4	15.2	40.6	18.1
Minority interest	-16.3	-39.5	16.2	-8.1
Attributable net profit	-79.1	65.2	48.7	25.0

Key performance indicators

	12/15	12/16F	12/17F	12/18F
Per share data				
EPS (IDR)	23.5	38.8	57.8	72.2
EPS growth (%)	-79.1	65.2	48.7	25.0
BVPS (IDR)	830.7	931.6	1025.2	1045.1
BVPS growth (%)	7.4	12.1	10.0	1.9
DPS (IDR)	16.7	16.7	17.3	21.6
Key ratio				
ROE (%)	2.8	4.2	5.6	6.9
ROA (%)	1.3	2.0	2.6	3.4
Gross profit margin (%)	46.2	46.6	46.0	46.2
Operating margin (%)	19.4	20.9	19.1	22.0
Net profit margin (%)	6.0	8.6	11.0	15.0
Net debt/equity (x)	0.6	0.5	0.5	0.5
Debt/equity (x)	0.7	0.6	0.6	0.7
Assets/equity (x)	2.2	2.1	2.2	2.0
Current ratio (x)	6.9	5.1	6.0	6.2
Quick ratio (x)	0.7	0.4	0.8	1.1

Source: Mirae Asset Sekuritas Indonesia Research

Balance Sheet (Summarized)

(IDRbn)	12/15	12/16F	12/17F	12/18F
Cash and equivalents	1,839	1,166	3,751	5,398
Account receivables	1,434	1,980	1,559	1,433
Available for sale financial assets	5,869	7,002	8,138	7,482
Inventories	20,459	22,457	23,078	21,147
Other current assets	3,975	3,488	4,054	3,727
Fixed assets	2,732	2,767	2,769	2,731
Investment properties	417	436	446	452
Other long-term assets	4,601	5,511	6,405	5,888
Total assets	41,327	44,807	50,199	48,258
Account payables	783	1,027	1,206	1,105
Short-term debt	1,010	1,846	621	633
Other short-term liabilities	3,064	4,248	4,938	4,539
Long-term debt	11,355	10,891	13,674	16,021
Other long-term liabilities	6,198	5,581	6,416	2,160
Total liabilities	22,410	23,594	26,854	24,459
Paid in capital	5,230	7,022	7,821	7,359
Additional paid in capital	4,063	4,063	4,063	4,063
Retained earnings	7,101	7,606	8,528	9,681
Total equity attributable to majority	16,394	18,690	20,413	21,103
Non-controlling interest	2,523	2,523	2,932	2,695
Total shareholders' equity	18,917	21,213	23,344	23,799

Cash Flow Statement (Summarized)

(IDRbn)	12/15	12/16F	12/17F	12/18F
Net profit	535	884	1,315	1,644
Depreciation	492	351	487	532
Changes in net working capital	-6,230	-925	-2,257	2,553
Operating cash flow	-5,203	310	-454	4,728
PP&E investing activities	8	-360	-443	-443
I.P investing activities	-130	-45	-57	-57
Others investing activities	-306	-910	-894	516
Investing cash flow	-427	-1,315	-1,394	16
Non-current financing activities	3,126	-1,081	3,617	-1,908
Changes in equity	663	1,792	800	-462
Changes in minority interest	489	0	409	-236
Dividend paid	-380	-380	-393	-491
Financing cash flow	3,899	331	4,433	-3,098
Net worth adjustment	-12	0	0	0
Net cash	-1,743	-673	2,585	1,647
Beginning balance	3,583	1,839	1,166	3,751
Ending balance	1,839	1,166	3,751	5,398

APPENDIX 1

Important Disclosures & Disclaimers

Disclosures

As of the publication date, PT Mirae Asset Sekuritas Indonesia, and/or its affiliates do not have any special interest with the subject company and do not own 1% or more of the subject company's shares outstanding.

Stock Ratings		Industry Ratings	
Buy	Relative performance of 20% or greater	Overweight	Fundamentals are favorable or improving
Trading Buy	Relative performance of 10% or greater, but with volatility	Neutral	Fundamentals are steady without any material changes
Hold	Relative performance of -10% and 10%	Underweight	Fundamentals are unfavorable or worsening
Sell	Relative performance of -10%		

* Ratings and Target Price History (Share price (----), Target price (----), Not covered (□), Buy (▲), Trading Buy (■), Hold (●), Sell (◆)

* Our investment rating is a guide to the relative return of the stock versus the market over the next 12 months.

* Although it is not part of the official ratings at Mirae Asset Securities, we may call a trading opportunity in case there is a technical or short-term material development.

* The target price was determined by the research analyst through valuation methods discussed in this report, in part based on the analyst's estimate of future earnings.

The achievement of the target price may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

Analyst Certification

The research analysts who prepared this report (the "Analysts") are registered with the Indonesian jurisdiction and are subject to Indonesian securities regulations. They are neither registered as research analysts in any other jurisdiction nor subject to the laws and regulations thereof. Opinions expressed in this publication about the subject securities and companies accurately reflect the personal views of the Analysts primarily responsible for this report. Except as otherwise specified herein, the Analysts have not received any compensation or any other benefits from the subject companies in the past 12 months and have not been promised the same in connection with this report. No part of the compensation of the Analysts was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report but, like all employees of PT Mirae Asset Sekuritas Indonesia, the Analysts receive compensation that is impacted by overall firm profitability, which includes revenues from, among other business units, the institutional equities, investment banking, proprietary trading and private client division. At the time of publication of this report, the Analysts do not know or have reason to know of any actual, material conflict of interest of the Analyst or PT Mirae Asset Sekuritas Indonesia except as otherwise stated herein.

Disclaimers

This report is published by PT Mirae Asset Sekuritas Indonesia ("Mirae"), a broker-dealer registered in the Republic of Indonesia and a member of the Indonesia Exchange. Information and opinions contained herein have been compiled from sources believed to be reliable and in good faith, but such information has not been independently verified and Mirae makes no guarantee, representation or warranty, express or implied, as to the fairness, accuracy, completeness or correctness of the information and opinions contained herein or of any translation into English from the Bahasa Indonesia. If this report is an English translation of a report prepared in the Indonesian language, the original Indonesian language report may have been made available to investors in advance of this report. Mirae, its affiliates and their directors, officers, employees and agents do not accept any liability for any loss arising from the use hereof. This report is for general information purposes only and it is not and should not be construed as an offer or a solicitation of an offer to effect transactions in any securities or other financial instruments. The intended recipients of this report are sophisticated institutional investors who have substantial knowledge of the local business environment, its common practices, laws and accounting principles and no person whose receipt or use of this report would violate any laws and regulations or subject Mirae and its affiliates to registration or licensing requirements in any jurisdiction should receive or make any use hereof. Information and opinions contained herein are subject to change without notice and no part of this document may be copied or reproduced in any manner or form or redistributed or published, in whole or in part, without the prior written consent of Mirae. Mirae, its affiliates and their directors, officers, employees and agents may have long or short positions in any of the subject securities at any time and may make a purchase or sale, or offer to make a purchase or sale, of any such securities or other financial instruments from time to time in the open market or otherwise, in each case either as principals or agents. Mirae and its affiliates may have had, or may be expecting to enter into, business relationships with the subject companies to provide investment banking, market-making or other financial services as are permitted under applicable laws and regulations. The price and value of the investments referred to in this report and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide to future performance. Future returns are not guaranteed, and a loss of original capital may occur.

Distribution

United Kingdom: This report is being distributed by Mirae Asset Securities (Europe) Ltd. in the United Kingdom only to (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order"), and (ii) high net worth companies and other persons to whom it may lawfully be communicated, falling within Article 49(2)(A) to (E) of the Order (all such persons together being referred to as "Relevant Persons"). This report is directed only at Relevant Persons. Any person who is not a Relevant Person should not act or rely on this report or any of its contents.

United States: This report is distributed in the U.S. by Mirae Asset Securities (America) Inc., a member of FINRA/SIPC, and is only intended for major institutional investors as defined in Rule 15a-6(b)(4) under the U.S. Securities Exchange Act of 1934. All U.S. persons that receive this document by their acceptance thereof represent and warrant that they are a major institutional investor and have not received this report under any express or implied understanding that they will direct commission income to Mirae or its affiliates. Any U.S. recipient of this document wishing to effect a transaction in any securities discussed herein should contact and place orders with Mirae Asset Securities (America) Inc., which accepts responsibility for the contents of this report in the U.S. The securities described in this report may not have been registered under the U.S. Securities Act of 1933, as amended, and, in such case, may not be offered or sold in the U.S. or to U.S. persons absent registration or an applicable exemption from the registration requirements.

Hong Kong: This document has been approved for distribution in Hong Kong by Mirae Asset Securities (Hong Kong) Ltd., which is regulated by the Hong Kong Securities and Futures Commission. The contents of this report have not been reviewed by any regulatory authority in Hong Kong. This report is for distribution only to professional investors within the meaning of Part I of Schedule 1 to the Securities and Futures Ordinance of Hong Kong (Cap. 571, Laws of Hong Kong) and any rules made thereunder and may not be redistributed in whole or in part in Hong Kong to any person.

All Other Jurisdictions: Customers in all other countries who wish to effect a transaction in any securities referenced in this report should contact Mirae or its affiliates only if distribution to or use by such customer of this report would not violate applicable laws and regulations and not subject Mirae and its affiliates to any registration or licensing requirement within such jurisdiction.

Mirae Asset Sekuritas Indonesia International Network

PT. Mirae Asset Sekuritas Indonesia Equity Tower 50th Floor Jl.Jend Sudirman, SCBD Lot 9 Jakarta 12190 Tel: 62-21-515-1140	Mirae Asset Securities Co. Ltd. (Seoul) Head Office 14, Eunhaeng-ro, Yeongdeungpo-gu Seoul 150-973 Korea Tel: 82-2-768-3026	Mirae Asset Securities (Hong Kong) Ltd. Suites 2005-2012 Two International Finance Centre 8 Finance Street, Central Hong Kong Tel: 85-2-2514-1304
Mirae Asset Securities (America) Inc. 320 Park Avenue, 31st Floor. New York, NY 10022 United States Tel: 1-212-407-1000	Mirae Asset Securities (Europe) Ltd. 41st Floor, Tower 42 25 Old Broad Street London EC2N 1HQ United Kingdom Tel: 44-20-7982-8000	Mirae Asset Securities (Singapore) Pte. Ltd. Six Battery Road #11-01 Singapore, 049909 Tel: 65-6671-9845
Tokyo Representative Office 7F, Yusen Building, 2-3-2 Marunouchi, Chiyoda-ku Tokyo 100-0005 Japan Tel: 81-3- 3211-5511	Beijing Representative Office 2401A, 24th Floor. East Tower Twin Tower, B-12 Jianguomenwai Avenue Chaoyang District, Beijing 100022 China Tel: 86-10-6567-9699	Shanghai Representative Office Room 38T31, 38F SWFC 100 Century Avenue, Pudong New Area, Shanghai, 200120 China Tel: 86-21-5013-6392
Ho Chi Minh Representative Office Suites 901B. Centec Tower 72-74 Nguyen Thi Minh Khai St, Ward 6 District 3, HCMC Tel: 84-8-3910-6000	Mirae Asset Investment Advisory (Beijing) Co., Ltd 2401B, 24th Floor. East Tower Twin Tower, B-12 Jianguomenwai Avenue Chaoyang District, Beijing 100022 China Tel: 86-10-6567-9699	Mirae Asset Securities (Mongolia) LLC #406, Blue Sky Tower, Peace Avenue 17 1 Khoroo, Sukhbaatar District Ulaanbaatar 14240 Mongolia Tel: 976-7011-0807