Indonesia | Emerging Companies

26 January 2012

Indonesian emerging companies

Visit note highlights – moving down the market cap curve

- Corporate optimism is running very high throughout the Emerging companies space in Indonesia. We recently visited 16 companies in Jakarta and have produced non-rated notes on Tiga Pilar, Fastfood Indonesia, Modern International, Selamat Sempurna, Arwana Citramulia, Surya Semesta, Adhi Karya, Mandom Indonesia, Gajah Tunggal Kawasan Industri Jababeka, and Citra Marga.
- The most talked about issue was the Land Procurement Law – this is seen by all as a major growth catalyst for infrastructure, construction, banks, industrial land and manufacturing.
- Other themes were large investment from corporate Japan as the auto supply chain is re-balanced and lower funding costs.

The Indonesian bull market remains in good health going to 2012. Many of the better-known mid caps have performed very well and while for the most part they have compelling growth stories, short-term valuations have become somewhat challenging.

Hence, we venture down the market cap curve, looking for companies that that fit our preferred investment themes and are interesting either on their own merits or for read-throughs to our coverage stocks or the wider macro. Our initial screening process produced a list of some 35 companies worth investigating. Recently we met 16 of them and this report contains non-rated visit notes on 11.

Meeting highlights

The bottom-up view from these small and mid-cap's was, not surprisingly, very optimistic and mirrors the conclusions of SCB's inaugural Asian Corporate Sentiment Survey, published on 9 January. In short, Indonesia is a beacon for corporate optimism on all counts.

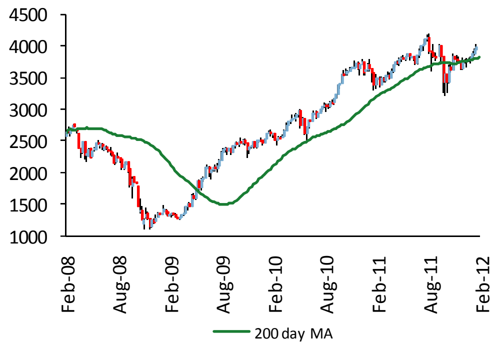
The most talked about issue was the Land Procurement Law. This is a big deal. An infrastructure spending boom is coming, bringing with it a raft of opportunities for the infrastructure, cement, construction and equipment companies, as well as the banks.

There was much optimism surrounding the auto-parts industry as the Japanese manufacturers are making substantial investments to re-balance their supply chain away from Thailand and to cater for Indonesia's robust domestic growth.

In the consumer space, competition in mid-to-high end F&B and convenience retailing appears to be intensifying. Companies report increasing interest from global and regional players looking to acquire brands, form alliances or enter the market.

Finally, lower financing costs, helped by Indonesia's recent upgrade to investment grade by both Moody's and Fitch, is another positive theme for this market especially for many of the smaller companies.

JCI – back above its 200-day moving average



Note: Note: Priced as of 20 January 2012; Source: Bloomberg

Non-Rated company visit notes

Name	Ticker	Rating	Sector
ADHI KARYA	ADHI IJ	NR	Construction
ARWANA CITRAMULIA	ARNA IJ	NR	Household
CITRA MARGA	CMNP IJ	NR	Transportation
FASTFOOD INDONESIA	FAST IJ	NR	Consumer
GAJAH TUNGGAL	GJTL IJ	NR	Automobiles
MODERN INTL	MDRN IJ	NR	Consumer
KAWASAN INDUSTRI	KIJA IJ	NR	Real Estate
MANDOM INDONESIA	TCID IJ	NR	Household
SELAMAT SEMPURNA	SMSM IJ	NR	Automobiles
SURYA SEMESTA	SSIA IJ	NR	Real Estate
TIGA PILAR	AISA IJ	NR	Food & Beverage

Source: Standard Chartered Research

SCB's Indonesian coverage ex miners & banks

Name	Ticker	Rating	Price	PT
AKR CORPORINDO	AKRA IJ	OP	3,450	3,050
ASTRA AGRO	AALI IJ	OP	22,100	26,211
CHAROEN POKPHAND	CPIN IJ	IL	2,450	2,710
GLOBAL MEDIACOM	BMTR IJ	OP	1,000	1,078
INDOFOOD CBP SUK	ICBP IJ	OP	5,150	6,381
INDOFOOD SUKSES	INDF IJ	OP	4,775	7,132
JAPFA COMFEED	JPFA IJ	OP	4,025	5,800
MAYORA INDAH	MYOR IJ	OP	14,500	17,500
MEDIA NUSANTARA	MNCN IJ	OP	1,310	1,694
MITRA ADIPERKASA	MAPI IJ	OP	5,700	5,600
NIPPON INDOSARI	ROTI IJ	IL	3,375	3,332
LONDON SUMATRA	LSIP IJ	OP	2,400	3,068
SURYA CITRA MEDIA	SCMA IJ	OP	8,900	8,977

Note: Priced as of 20 January 2012; Source: Standard Chartered Research estimates

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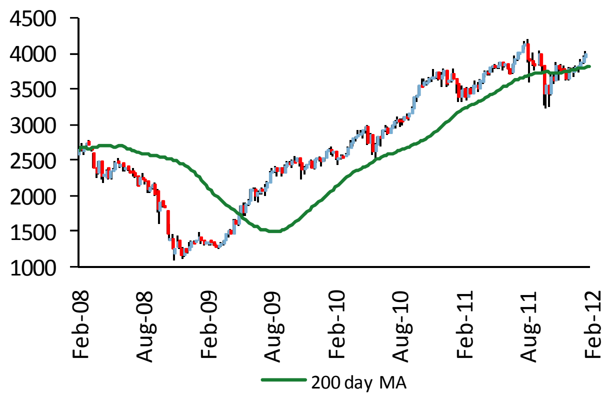
Indonesia's secular bull story….

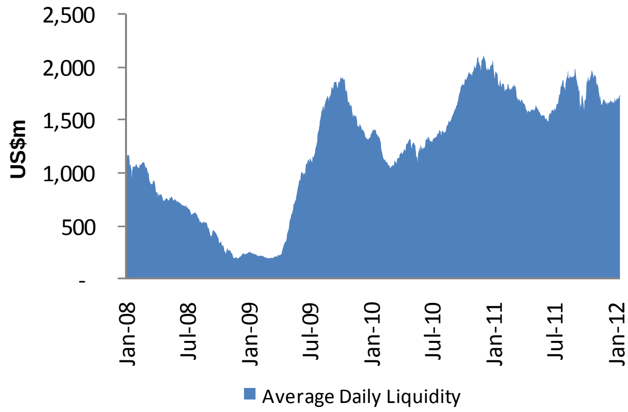
The Indonesian bull market remains in good health. This market has been a consistent leader among global markets since coming off its 2008 lows and during the various corrective phases in global markets has demonstrated its relative strength, characterised by shallow reversions and fast recoveries. The JCI has now re-traced almost all of the ground lost from its August 2012 highs and has broken back above its 200 DMA and is pushing higher.

Fig 1: The JCI Index – back above its 200-day MA



Note: Priced as of 20 January 2012; Source: Bloomberg

Fig 2: Average daily liquidity of the JCI (US$m)



Note: Priced as of 20 January 2012; Source: Bloomberg

2011 a great year for the better known mid-caps….

At this stage of the bull market many of the mid-caps have now performed well and have attracted ever more analyst coverage. There has been some very bullish price action as international investors climbed on board the likes of **AKR Corporindo (**AKRA IJ, OP, IDR3,450, PT: IDR3,050)**, Media Nusantara** (MNCN IJ, OP, IDR1,310, PT: IDR1,694), **Mitra Adiperkasa** (MAPI IJ, OP, IDR5,700, PT: IDR5,600 and **Nippon Indosari** (ROTI IJ, IL, IDR3,375, PT: IDR3,332) to name but a few. While many of these are good companies with compelling growth stories, valuations in much of the mid-cap space have become somewhat challenging.

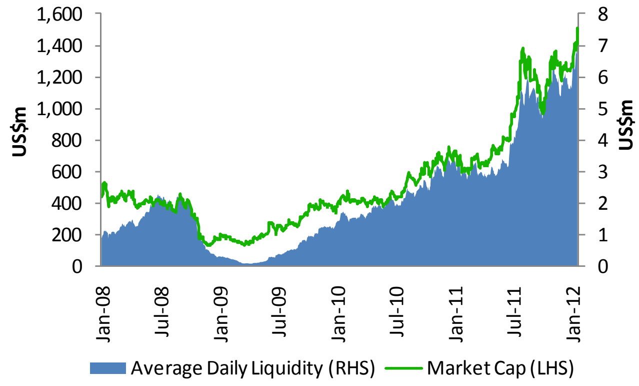
Venturing down the market cap curve

So we have ventured further down the market cap curve to look for interesting companies that that fit the investment themes we favour (consumer, infrastructure, agriculture, healthcare, media and industrial land) and have not yet received much in the way of analyst attention, especially from foreign brokers. This is a small and narrow market with only about 440 listed stocks and with the top 20 accounting for 56% of the Index weight and the bulk of liquidity and broker attention. Unlike some other Asian markets, small/mid-cap Indonesia is not yet a crowded space.

The screening

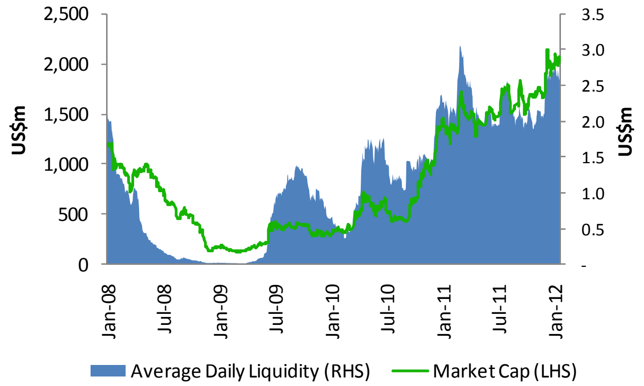
We started by looking outside our coverage universe, for stocks with more than a US$50m market cap, but below US$1.25bn and eliminated those with less than 15% free float and any known corporate governance red flags. As we are foremost looking for interesting companies, we were not too concerned about current liquidity. Once a good growth story gets uncovered and internationally profiled, liquidity can be transformed (see figure 3 & 4) as we have seen in many of the mid cap names in 2011.

Fig 3: AKR Corporindo



Note: Priced as of 20 January 2012; Source: Bloomberg

Fig 4: Media Nusantara Citra



Note: Priced as of 20 January 2012; Source: Bloomberg

20 hours of Jakarta traffic

Overall, we identified about 35 stocks that we consider interesting to investors on their own merits or provide a valuable read across to our coverage names or the wider macro, and in most cases under-researched by brokers. We visited 16 of these companies – which was about 20 hours of Jakarta traffic to endure. Some of these we have met before, others we met for the first time and some we shall not see again. In this note we have produced non-rated company visit notes on 11 of them.

Land Procurement Law – a very significant catalyst….

In our meetings the most talked about event was the Land Procurement Law. This is a big deal and has major implications. In short, the background is that in December, parliament ratified into Law the *Land Procurement Bill* which gives the government a much stronger legal basis to purchase land for public projects at fairer prices, and imposes strict time limits on the appeal process. Land acquisition will be processed by provincial governments rather than lower-level municipal governments which will streamline the acquisition process.

This law is expected to rapidly accelerate infrastructure development. The lack of infrastructure has been a chronic damper on development with so many projects, especially toll roads, stalled by land disputes. The passage of this law should lead to an infrastructure spending boom offering a huge range of opportunities for the infrastructure companies and funds, the banks that finance them, the cement companies, construction contractors and equipment suppliers. This will flow through to expansion opportunities for the manufacturers, accelerated rural development and so forth.

Auto parts- Japanese rebalancing supply chain away from Thailand….

Another bullish theme was Japanese investment, especially by the auto-manufacturers re-balancing their supply chains away from Thailand, as well as from the consumer appliance companies. Toyota and Nissan are planning on doubling capacity, Daihatsu is building a new plant in Karawang and Suzuki Motor is to triple its capacity. Component manufacturers such as Nifco are following and plan a new factory to supply the manufacturers. The Japanese-affiliated automakers now control 90% of the local market. Overall, Japanese direct investment spiked in 2011 with investment to September up 60% on the whole of 2010.

In the consumer space competition in mid-to-high end F&B appears to be intensifying. Companies report increasing interest from global and regional F&B players looking to acquire brands, form alliances or enter the market. Recent events include FamilyMart, Japan's largest convenience store operator announcing plans to open 300 stores by 2015 and Mitsubishi acquiring a10% stake in Sumber Alfaria (AMRT IJ, NR), the operator of the Alfamart retail chain.

Indonesia stands out in inaugural corporate sentiment survey

Management at almost all the companies we met were very bullish. Looking into 2012 all the companies see an easing of inflationary pressures and lower funding costs, which is meaningful given the level of gearing at many of the companies. All expect strong domestic growth, and for the exporters generally limited weakness as most are positioned at the mid-to-low end and hence more resilient in times of global slowdown. Most of the companies see 2012 as a moment of boundless investment opportunities and believe material fund-raising is on the cards.

95% of respondents expect a 10% rise in new orders

This bottom-up bullishness is repeated in our coverage names and mirrored in the inaugural **Standard Chartered Corporate Sentiment Survey**, in which of 500 Asian corporates, the Indonesians achieved the top aggregate score. Specifically, on the outlook for new orders: 95% indicated a 10% rise; on capex, 76% indicated a 10% rise; and 67% indicated an improvement in margins.

Company highlights

Below we summarise the key points.

Fig 5: Profile of non-rated companies visited

Name	Sector	Mkt cap (US$m)	Price (IDR)	Liq. (US$m)	ANR	Dvd Yield	PE (FY10)	PE (FY11E)	PB (FY10)	ROE (FY10)
ADHI KARYA	Capital Goods	134	670	0.52	5	4.8	6.2	6.6	1.4	24
ARWANA CITRAMULIA	Capital Goods	79	385	0.13	2	3.9	9.0	5.2	1.6	21
CITRA MARGA	Transportation	365	1,640	3.88	4	0.5	10.8	10.3	1.6	18
FASTFOOD INDONESIA	Consumer	616	12,000	0.01	0	3.6	26.8	Na	7.1	28
GAJAH TUNGGAL	Automobiles	1,155	2,975	1.91	6	0.4	12.5	13.2	2.4	27
MODERN INTL	Consumer	235	3,300	0.07	2	0.3	50.3	52.1	5.2	12
KAWASAN INDUSTRI	Real Estate	402	182	3.09	5	0.0	40.3	18.0	1.4	4
MANDOM INDONESIA	Household	179	8,000	0.00	0	4.3	12.2	Na	1.6	14
SELAMAT SEMPURNA	Automobiles	250	1,560	0.23	2	5.1	14.9	11.4	3.6	30
SURYA SEMESTA	Capital Goods	435	830	4.02	3	0.5	8.4	8.2	3.7	13
TIGA PILAR	Food & Beverage	160	490	0.66	1	0.0	10.9	6.9	1.4	12

Note: Priced as at 20 January 2012; Source: Bloomberg consensus estimates

Tiga Pilar (ASIA IJ)

Emerging rice play

- Food company with divisions in basic foods (noodles & vermicelli), rice and palm oil.
- Owns two of the largest and most advanced rice mills in Indonesia and has aggressive plans to take a 5% share of the rice market by 2017.
- Largest domestic market share of dried noodles. Recently acquired the Taro brand from Unilever and plans to move into mid-end products.
- Key shareholder – PT. Permata Handrawina Sakt (founding family) own 11.25%.

Arwana Citramulia (ARNA IJ)

Dominant tile producer

- Market leader of own-brand ceramic floor and wall tiles in Indonesia. It is an efficient low-cost producer targeting the mid-low segment.
- Key growth driver is rural housing - Indonesia has 1.2m^2 of floor tiling person compared to 4m^2 for Thailand, and approximately only 1 in 50 households have a mortgage.
- Key shareholder – CEO & Founder, owns 35%

Selamat Sempurna (SMSM IJ)

Leading auto component manufacturer

- Largest manufacturer of auto filters in SE Asia.
- Grown revenues every year since 1992. Very resilient business given positioning in the replacement market.
- ROE of 29% in 2010 on low leverage and one of the highest dividend yield stocks in the market.
- Key shareholder – Adrindo Intiperk Group, owns 58%.

Kawasan Industri Jababeka (KIJA IJ)

Leading industrial player

- Leading industrial, infrastructure, and leisure property developer.
- Prime asset is Kota Jababeka, a fully integrated industrial township.
- Developing the Cikarang Dry Port, Indonesia's only Integrated Customs and Services Estate.
- Key shareholder – Founders own 28%

Fastfood Indonesia (FAST IJ)

KFC in Indonesia

- Sole operator of KFC restaurants in Indonesia.
- Indonesia has a population of 233m, but only 402 KFC restaurants, whereas Malaysia has a population of 23m and over 500.
- Revenues compounded at 23% and net profit at 37% between 2005 and 2010.

Modern International (MDRN IJ)

7-Eleven in Indonesia

- Master franchisee of 7-Eleven in Indonesia.
- Modern currently has 57 stores in Indonesia while its main competitors Alfamart (NR) and Indomart (NR) have over 5,000 stores each.
- Management aims to open 60 stores in 2012 and to have 285 own stores and 156 franchise Key shareholder – Asialink Electronics Pte. Ltd owns 39%.

Gajah Tunggal (GJTL IJ)

Market leader in tyres

- Indonesia's leading player for bike tyres and motorcycle tyres in the domestic replacement market.
- Indonesian auto sales grew 14% YoY in 2011 and GT expects this market to be its main sales driver in 2012.
- GT is seeing no weakness in demand as consumers trade down to cheaper tyres.
- Key shareholder – Denham Pte Ltd, controlled by Sjamsul Nursalim's children own 49.7%.

Mandom Indonesia (TCID IJ)

Expanding cosmetic manufacturer

- Leading manufacturer of hair products with 75% market share in Indonesia.
- Fast-growing export exposure to the developing world, especially India.
- No debt and highly cash-generative.
- Key shareholder – Mandom Japan, owns 60%.

Adhi Karya (ADHI IJ)

Second-largest construction company in Indonesia

- Indonesia's single largest engineering, procurement and construction (EPC) operator and the second largest construction company with a 7% market share.
- Expects to record revenues and net income in 2012, driven by an estimated IDR13.5tn worth of contracts expected in 2012 (from an expected IDR13.3tn in 2011).
- Key shareholder – Government owns 51%.

Surya Semesta (SMSM IJ)

Market leader in industrial estate development

- Primary businesses are construction, property and hospitality.
- Develops and operates the Karawang Industrial park in West Java.
- Aims to be Indonesia's leading budget hotel operator.
- Key shareholder – Suriadjaya family & parties (Founders of Astra Group), own 16%

Citra Marga (CNMP IJ)

Leading toll road developer

- Is a pioneer in the development of toll roads in Indonesia.
- 24 toll roads which were previously shelved have been re-introduced
- Together with Jasa Marga, it operates the busiest toll road in Indonesia.
- No controlling shareholder.
- Key shareholder - Gelael Family, owns 44% and the Salim Family (of Indofood group) owns 36%

Tiga Pilar

NOT RATED

NON-COVERED COMPANY VISIT NOTE

Standard Chartered Equity Research does not cover this company and nothing herein should be interpreted to be a recommendation or price target with respect to the company.

PRICE as at 20/01/2012

IDR490

Main themes discussed/Key points

- Market leadership: Management believes it is a market leader for dried noodles and rice in Indonesia.
- Penetrating the rice market – the company aims to increase its market share to 5% by 2017.
- Building a brand: Tiga Pilar acquired Taro, Indonesia's leading savoury snack brand, from Unilever (UNVR IJ, NR, IDR21,000) to build its own mid-market brand.
- Expanding palm oil: Bunge Ltd's (BG US, NR, USD58.12) 35% investment in Tiga Pilar's palm business provides funding and lends credibility.

- **What Tiga Pilar does**
  Tiga Pilar has three main business segments: 1) food manufacturing; 2) rice processing and distribution; and 3) palm oil plantations. 9M2011 revenue was split 58% from food, 36% from rice and 6% from palm oil.

- **Why we visited Tiga Pilar**
  Tiga Pilar aims to get 5% market share of the Indonesian rice market in the next five years. The company has 2 of the most advanced mills in Indonesia, branded rice products and aggressive expansion plans. Rice is a commodity with very little plays available to equity investors. Tiga Pilar's food businesses are positioned at the low end of the market but a recent acquisition from Unilever shows its ambition to move to mid-end products. Lastly, Bunge acquiring a 35% stake in Tiga Pilar's palm oil plantation business is a stamp of confidence on its agribusiness.

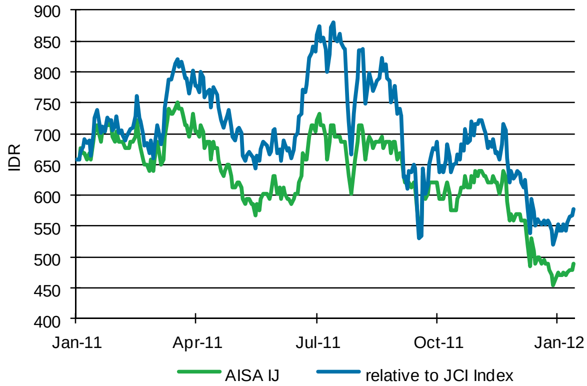
- **Valuations and share price performance**
  One broker covers the stock with a buy recommendation. Tiga Pilar shares trade at 10.9x historical FY10 earnings.

- **Read-across to other companies**
  Competition in the mid-to-high branded F&B space appears to be intensifying. As per management, domestic branded confectionary snack maker Mayora (MYOR IJ, OP, IDR14,600,) has a strong head start and leads significantly in terms of branding, volumes, market positioning and exports. Similarly, Tiga Pilar is expanding capacity and has no constraints about this due to excess space available in its factories. Management states global F&B players are increasing seeking alliances with domestic players to expand into the Indonesian F&B market.

Bloomberg code:	AISA IJ	**PER historical (x)**	10.9
Mkt cap (IDRbn)	1,434	**Yield historical (%)**	n.a
12m range (IDR)	455-750	**P/B historical (x)**	1.4
		ROE (%)	12
3m value traded (IDRbn)	7.9	**Net gearing (%)**	171
No. of shares (bn)	2.9	**Net debt (cash) (IDRbn)**	1,009.9
Established	1959	**Historical EPS (IDR)**	45.0
Listed	2003	**EPS 3-yr CAGR (%)**	19
Secondary placement	n.a.	**EPS 7-yr CAGR (%)**	n.a
Auditors, since	RSM, 2004	**Historical DPS (IDR)**	-
Year-end	Dec	**DPS 3-yr CAGR (%)**	n.a.
Major shareholder	PT. Permata Handrawina Sakt — 11.25%		

Source: Bloomberg, Company, Reuters

Share price performance (IDR)



Source: Bloomberg

Related research notes		
14/12/2011	Japfa Comfeed	OUTPERFORM
04/11/2011	Nippon Indosari Corporindo	IN-LINE
04/11/2011	Super Group	OUTPERFORM
13/10/2011	Indofood CBP	OUTPERFORM
15/09/2011	Mayora Indah	OUTPERFORM

Source: Standard Chartered Research

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Analyst visit note

Company background
Tiga Pilar is established in 1959 by the family of Tan Pia Sioe, and listed in 2003 via backdoor listing through PT Asia Inti Selera (AISA) (delisted). It has three main businesses: 1) basic & consumer foods, 2) rice processing & distribution, and 3) palm oil plantations.

Revenue, net profits and margins
Revenue grew annually during the past 5 years at a CAGR of 25% over 2005-10. Net profit grew at a faster pace over 2005-10 due to a transformation of the earnings profile on rapid contributions from acquired rice mills. Contributions from rice mills rose from 5% in 2010 to 36% in 9M2011. Gross margins improved from 18% in 2010 to 24% in 9M2011 due to improving utilisation from newly-acquired rice mills, downsizing of product packaging and raising ASP.

Food business – This has four sub-segments: i) dried noodles & vermicelli, ii) snack & snack noodles, iii) biscuits, and iv) candies. According to management, dried noodles have a big market at around IDR1.7tn and the segment is growing at about 6% p.a., with yellow noodles accounting for about two-thirds of the market and vermicelli one-third. Tiga Pilar has the largest market share in the dried noodles segment at about 23%, followed by Indofood CMP Sukses(ICBP IJ, OP, IDR5050, PTIDR6380) at 10%.

In 1H2011, this division's revenue was split as follows: 34% dried noodles & vermicelli, 33% instant noodles & snacks, 30% biscuits and 3% candy. Gross margins in 2010 were 39% for dried noodles, 26% for dried vermicelli, 37% for instant noodles, 16% for biscuits and 12% for candy.

Tiga Pilar has over 50 years of experience in the basic food segment and good brand recognition. The company has been an official food supplier to various humanitarian food programmes (International Relief and Development since 2002, United Nation's World Food Program and Ministry of Health since 2005), which provides strong recurring income.

Tiga Pilar acquired the well-known Taro snack brand along with its production facilities from Unilever in Dec 2011 for IDR250bn. This will enable the company's entry into the mid-higher end market at >IDR1,000/pack, with leverage to launch complementary product lines under the Taro brand and access to Taro's 400 distributors. Management targets increasing Taro's sales by 40% in 2012. A biscuit factory was also acquired from Balaraja (Not Listed) in mid-2011 to meet rising demand for humanitarian projects and targeting new markets in West Java and Sumatera.

Palm oil division – Tiga Pilar has total concession area of about 79,000ha (15% planted) with relatively young plantations. Key news for this segment is the recent JV with Bunge Agribusiness Singapore Pte Ltd (wholly-owned subsidiary of Bunge), which acquires 35% stake in Tiga Pilar's plantation business for about USD43m.

Rice processing – Management's target is to control 5% of the national rice market (~40m tonnes of rice is consumed annually in Indonesia) in the next 5 years. Revenue and profit are growing very fast off a small base and management anticipates a strong uptrend in profitability as utilisations at Tiga Pilar's mills improve.

Tiga Pilar ventured into rice in 2010 and now has two mills in Cikarang and Cikampek. These are among the largest and most modern mills in Indonesia with each having a processing capacity of 500 tonnes of dry paddy rice/day. Management claims the rice business has relatively low competition with no major national rice trading company beside Bulog (the government agency mandated to stabilise rice supply and price). Tiga Pilar currently has over 40 brands of rice, of which 18 are premium rice brands. The latter brands account for about 40% of the total quality rice brands available in the market. Tiga Pilar also produces rice under private label brands for Indomaret (Not Listed), Carrefour (CRRFY US, NR, USD4.44) and Giant (Not Listed).

Management sees the company's competitive edge coming from its first-mover advantage into high-tech mills with substantial storage capacity and strong brands helping it penetrate the modern trade, good relationships with paddy producers and upstream integration (Tiga Pilar recently acquired 2,500ha for paddy planting in E. Kalimantan).

Capex – Management targets IDR404bn in 2012 and IDR485bn in 2013 with investment largely on new plantations buildings and acquiring rice mills.

Right issue
The group completed an IDR700bn rights issue in Dec 2011, whose proceeds were used mainly for working capital purposes. Post rights issue, the founding family still owns the majority stake~11% and institutional investors collectively held 40% stake.

Possible alliances with globally renowned F&B brands in the near term. Management reported potential talks with global F&B brands from Japan and Australia to form alliances to develop new products to tap the mid-to-upper F&B segment in Indonesia.

Target net debt to equity: Net debt to equity post the rights issue is around 1x.

Corporate governance
In 2010, the company was awarded the Most Improved IICD Good Corporate Governance Award 2010 by the Indonesian Institute for Corporate Directorships. Tiga Pilar's CEO, Joko Mogoginta, was awarded "Indonesia's Top 10 Best CEO 2010" by the SWA Magazine.

Competition

Fig 6: Competition

Business segment	Competitor	Listed / private
Food and beverages	Mayora Indah	Listed (MYOR IJ)
Food and beverages	Indofood CBP Sukses Makmar	Listed (ICBP IJ)
Food and beverages	Petra Food	Listed (PETRA SP)

Source: Bloomberg, Standard Chartered Research

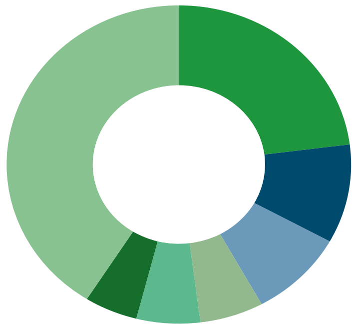
Key charts

Fig 7: Product divisions

Basic food and consumer food	Rice processing and distribution	Palm oil production
Basic food dried noodle, vermicelli	Two rice mills	Total concession area 79k ha
Consumer food instant noodles, snack, biscuit and candy	Dry paddy processing capacity 500 tons/day	Planted area 12k ha (15%)
Over 50 years experience	Wet paddy processing capacity 1,000 tonnes/day	Average age of trees 7-8 years
Network of c.60 distributors in Java, Sumatra, Kalimantan, Sulawesi, and Bali	Silo and Warehouse capacity 44,000 tonnes	JV with Bunge on 1 Nov 2011
Recently acquired renowned brand Taro from Unilever	Dry technology allows paddy storage for up to 12 months	Bunge to acquire a 35% stake in subsidiary BRI for c.USD43m.
Taro: 2 factories at 7,500 tonnes p.a.	Sourcing - paddy from local co-operatives and farmers in Java	

Source: Company

Fig 8: Market leader in dried noodles



Source: Company

Company background

Fig 9: Company background

Main shareholders

- PT. Permata Handrawina Sakt (founding family) – 11.25%
- Primanex Pte Ltd. – 10.62%
- Free float – 64.38%

Management and directors

- President Commissioner – Priyo Hadi Sutanto
- President Director – Joko Mogoginta
- Operational Director – Hengky Koestanto
- Finance Director – Edi Susanto

Significant outside business interests

- Priyo Hadi Sutanto (President Commissioner) – Commissioner, Permata Handrawina Sakti
- Budhi Istanto (Commissioner) – President Director, Sriwijaya
- Panganindo Prima Lestari; Commissioner, Borneo Panganindo Prima Lestari
- Bondan Haryo Winaro (Independent Commissioner) – Communications consultant for several companies; Editorial Board, Suara Pembaruan; Commissioner Detik.com, freelance columnist; presenter of culinary TV show

Head office and key assets

- Alun Graha Suite 110, Jl. Prof. Dr. Soepomo, SH No. 233, Jakarta Selatan 12870, Indonesia; Telephone: 62 271 821 899; www.tigapilar.com
- Two rice mills, six palm oil plantations and strong brands that include Taro.

Recent M&A/disposals/failed business

- Announced the proposed acquisition of subsidiary PT. Bumiraya Investindo by Bunge Ltd., which is seeking a 35% stake in the company in Dec 2011.
- Acquisition of the Taro brand and facilities' from Unilever for IDR250bn in Dec 2011.
- Acquisition of a biscuit factory from Balaraja for IDR23.5bn in 2011.
- Acquired rice companies, PT. Jatisari Sri Rejeki and PT Dunia Pangan, in 2010.
- Acquired five oil palm plantation companies in 2010.
- Disposed non-active subsidiaries, PT. Nagamas Sakti Perkasa and PT. Asianiaga Prakarsatama, in 2010.

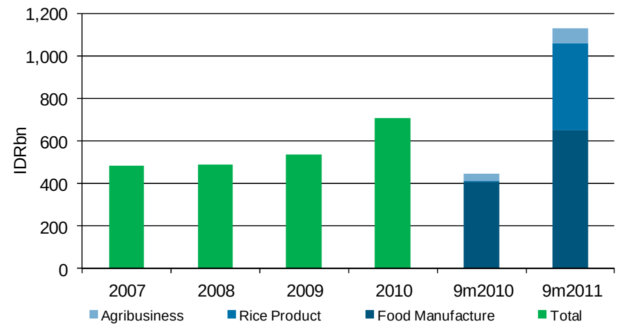
Latest results highlights

- Revenue grew 153% YoY to IDR1,131bn for 9M2011, primarily due to contribution from the rice business acquired in 2010, which contributed IDR411bn in 9M2011 from IDR6bn in 9M2010.
- EBIT margins fell marginally to 17% in 9M2011 from 19% in 9M2010, primarily due to higher cost of sales.

Source: Bloomberg, Company

Four key operational charts

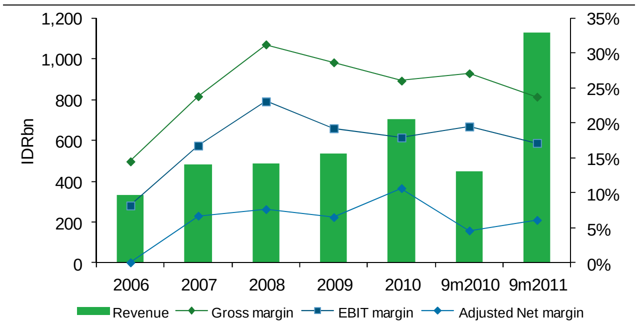
Fig 10: Revenue growth driven by rice products



Source: Company

- Revenue grew at a 125% CAGR over 2005-10 to reach IDR705bn, and improved to IDR1,131bn in 9M2011 from IDR447bn for 9M2010. The YoY improvement in 9M2011 is primarily due to rice products, which grew 66x to IDR411bn in 9M2011. Tiga Pilar entered into the rice business in 2010 by acquiring a rice company and a rice milling company. According to management, Tiga Pilar is looking to capture 5% of the rice market over a 5-year period.
- Food manufacture revenue grew 60% YoY to IDR650bn in 9M2011, while agribusiness revenue grew 104% YoY to IDR70bn in 9M2011.

Fig 11: Expanding segment EBIT margins



Source: Company

- Though overall EBIT margins contracted in 9M2011 to 17.2% from 19.5% in 9M2010, segment EBIT margins expanded to 22% in 9M2011 from 20% in 9M2010 for food manufacturing, 10% from 3% for rice products and 20% from 18% for agribusiness over the corresponding period.

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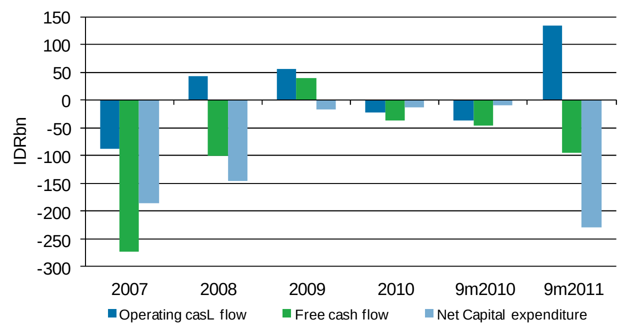
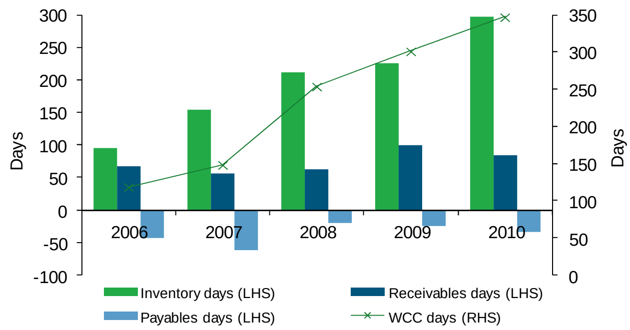
Fig 12: Improvement in operating cash flow for 9M2011



Source: Company

- Operating cash flows improved to IDR134bn for 9M2011, from negative IDR36bn for 9M2010, and negative IDR23bn for the full year 2010. Cash flow improvement in 9M2011 was primarily due to improved profitability.
- Free cash flow deteriorated to negative IDR95bn in 9M2011 from negative IDR45bn for 9M2010 due to higher capital expenditures of IDR229bn in 9M2011, up from IDR9bn in 9M2010.

Fig 13: Deteriorating working capital cycle

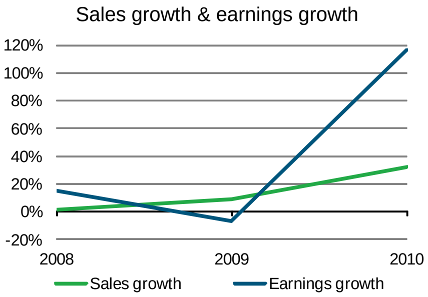


Source: Company

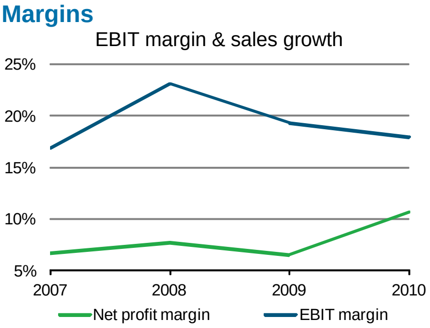
- The working capital cycle grew to 347 days in 2010 compared to119 days in 2006 and 301 days in 2009. This is attributed to a higher number of inventory days at 297 days in 2010 from 226 days in 2009.
- Payables days increased by 10 days to 34 days in 2010, while receivable days decreased by 16 days to 84 days in 2010. Management attributes improved collection period to improved financial management and creditworthy clients.

Trend analysis and six-year financial data

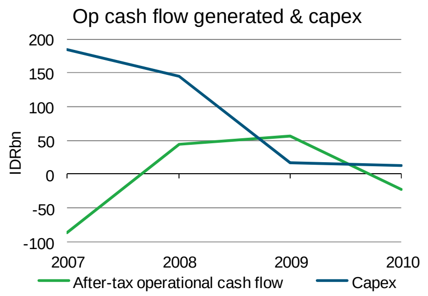
Growth



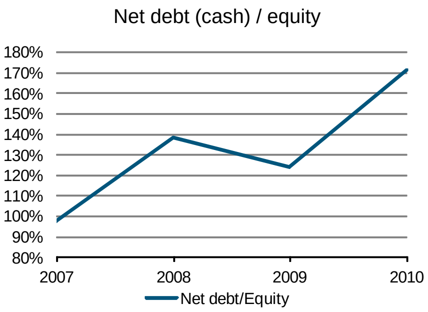
Margins



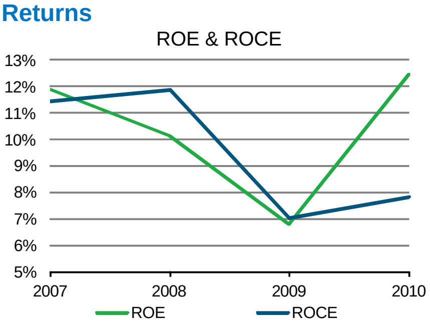
Cash flow



Balance sheet



Returns



Source: Company

Income statement (IDRbn)

Year end: Dec	2005	2006	2007	2008	2009	2010
Sales revenue	**230**	**333**	**484**	**489**	**533**	**705**
Gross profit	**40**	**48**	**115**	**153**	**153**	**184**
EBITDA	6	6	56	74	47	35
Depreciation & amortisation	21	21	25	39	55	92
EBIT	**27**	**27**	**81**	**113**	**103**	**126**
Net interest (expense) / income	(23)	(32)	(39)	(54)	(60)	(87)
Associates	0	0	0	0	0	0
Others	(4)	6	(4)	(6)	6	55
Income tax	0	(1)	(5)	(15)	(15)	(15)
PAT	**0**	**0**	**33**	**37**	**35**	**79**
Minorities	(0)	(0)	(0)	(0)	(0)	(4)
Net income	**0**	**0**	**33**	**37**	**35**	**75**

Cash flow (IDRbn)

Year end: Dec	2005	2006	2007	2008	2009	2010
Operating profit	**27**	**27**	**81**	**113**	**103**	**126**
Depreciation & amortisation	21	21	25	39	55	92
Working capital	(142)	(27)	(123)	(6)	(109)	(229)
Others	82	(22)	(49)	(93)	22	(8)
Operational cash flow	**(12)**	**(1)**	**(66)**	**52**	**71**	**(19)**
Tax paid	(4)	(1)	(21)	(8)	(15)	(4)
After-tax operational cash flow	**(16)**	**(2)**	**(87)**	**44**	**57**	**(23)**
Capex	(1)	(1)	(185)	(145)	(17)	(13)
Net interest	1	(8)	1	6	(13)	(2)
Debt	21	5	79	159	237	146
Dividends	0	0	0	0	0	0
Others	(4)	6	194	(58)	(264)	(119)
Net flow	**2**	**0**	**1**	**5**	**0**	**(10)**

Balance sheet (IDRbn)

Year end: Dec	2005	2006	2007	2008	2009	2010
Tangible assets	198	177	407	560	549	620
Intangible assets	0	0	0	0	0	77
Associates/investments/others	38	37	140	158	617	637
Stocks	51	75	155	195	235	424
Debtors	57	61	75	84	146	163
Cash and liquid assets	13.9	14.0	16.0	20.3	21.5	15.4
Total Assets	**358**	**364**	**793**	**1,017**	**1,569**	**1,937**
Current creditors	34	34	62	18	23	45
Current borrowings	136	119	222	307	281	424
Long-term borrowings	85	107	136	254	537	601
Others	8	10	22	47	84	277
Total liabilities	263	269	442	626	926	1,347
Shareholders' funds	95	95	350	391	633	576
Minority interests	0	0	0	0	10	14
Equity	**95**	**95**	**351**	**391**	**643**	**590**
Total capital employed	**358**	**364**	**793**	**1,017**	**1,569**	**1,937**

Key data & ratio

Year end: Dec	2005	2006	2007	2008	2009	2010
EPS (IDR)	0.0	0.1	26.8	23.3	18.9	45.0
Chg %	n.a.	267%	24282%	-13%	-19%	138%
DPS (IDR)	-	-	-	-	-	-
CFPS (IDR)	-14.3	-1.7	-79.8	26.3	33.8	-13.8
BVPS (IDR)	86.6	86.8	319.2	233.6	378.7	344.4
Wtd avg shares (bn)	1.2	1.2	1.2	1.6	1.8	1.7
ROE (%)	0%	0%	12%	10%	7%	12%
Post-tax ROCE (%)	n.m.	n.m.	8%	8%	5%	7%
Capex/sales (%)	0%	0%	-38%	-30%	-3%	-2%
Capex/depreciation (%)	-3%	-3%	-749%	-371%	-31%	-14%
Net debt/equity (%)	217%	221%	98%	138%	124%	171%
Total debt/Total capital (%)	62%	62%	45%	55%	52%	53%
Net interest cover (%)	1.2	0.9	2.1	2.1	1.7	1.5

Source: Company

Arwana Citramulia

NOT RATED

NON-COVERED COMPANY VISIT NOTE

Standard Chartered Equity Research does not cover this company and nothing herein should be interpreted to be a recommendation or price target with respect to the company.

PRICE as at 20/01/2012

IDR385

Main themes discussed/Key points

- Market leadership: Arwana Citramulia (ARNA) is the market leader of own-brand ceramic floor and wall tiles in Indonesia. It is an efficient low-cost producer targeting the mid-range to low-end segment.
- Market opportunity: Market growth has been very strong with Indonesia having only 1.2/sqm of ceramic floor tiles per person, compared to 4/sqm per in Thailand and 5/sqm in China.
- Superior profitability: Margins and working capital cycle are superior to peers.
- The group aims to achieve EPS growth of 20% in FY12.

- **What ARNA does**
  ARNA is a leading producer of own-brand ceramic floor and wall tiles in Indonesia. The company was founded in 1993 by the current CEO, Tandean Rustandy, and opened its first plant in 1995.

- **Why we visited ARNA**
  Revenue and net profit grew every year in the last 5 years, at CAGRs of 22% and 17%, respectively. ARNA is the market leader in own-brand ceramic floor tiles and has the second largest production capacity in Indonesia. The business model has a strong focus on productivity enhancement and focused marketing. The growth opportunity for new and upgraded affordable housing in Indonesia is robust – Indonesia has 1.2/sqm of floor tiling per person compared to 4/sqm for Thailand. Rising rural incomes, the Land Procurement Law and more accessible mortgage finance create a favourable macro backdrop according to management.

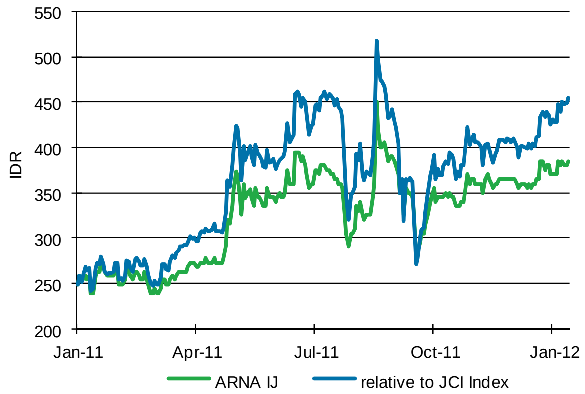
- **Valuations and share price performance**
  Based on consensus numbers, ARNA is trading at 6.2x 2012E earnings. Two brokers cover the stock, one Buy and one Hold recommendation.

- **Read-across to other companies**
  Recent M&A in this space saw Siam Cement acquiring a majority stake in Indonesian ceramic companies: PT Keramika Indonesia Asosiasi Tbk (KIAS IJ, NR) and PT Kokoh Inti Arebama Tbk (KOIN IJ, NR) at historical PERs of above 40x. Facing headwinds from the Thai floods, Siam Cement is diversifying into ceramic production in Indonesia, which is cost competitive versus Thailand.

Bloomberg code:	ARNA IJ	**PER historical (x)**	9.0
Mkt cap (IDRbn)	707	**Yield historical (%)**	4
12m range (IDR)	239-450	**P/B historical (x)**	1.7
3m value traded (IDRbn)	0.3	**ROE (%)**	21
No. of shares (bn)	1.8	**Net gearing (%)**	56
Established	1993	**Net debt (cash) (IDRbn)**	233.1
Listed	2001	**Historical EPS (IDR)**	43.0
Secondary placement	2009	**EPS 3-yr CAGR (%)**	22
Auditors, since	E&Y, 2000	**EPS 7-yr CAGR (%)**	21
Year-end	Dec.	**Historical DPS (IDR)**	15.0
		DPS 3-yr CAGR (%)	82
Major shareholder			**CEO & Founder – 35%**

Source: Bloomberg, Company, Reuters

Share price performance (IDR)



Source: Bloomberg

Related research notes		
26/01/2012	Adhi Karya	Not rated
26/01/2012	Citra Marga	Not rated
26/01/2012	Kawasan Industri	Not rated
26/01/2012	Selamat Sempurna	Not rated
26/01/2012	Surya Semesta	Not rated
26/01/2012	Gajah Tunggal	Not rated
16/12/2011	Yuanda China Holdings	OUTPERFORM

Source: Standard Chartered Research

Pauline Lee
Pauline-hwee-chen.lee@sc.com
+65 6596 8505

Analyst visit note

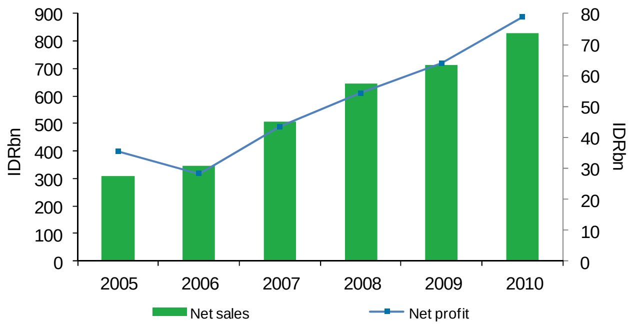
Company background

Incorporated in 1993, ARNA is engaged in the production and distribution of ceramic floor and wall tiles catering to the residential and commercial market in Indonesia. Under the leadership of CEO and founder Tandean Rustandy, ARNA has grown from one plant in 1995 with a capacity of 2.8m sqm p.a. to three plants with a capacity of 38.87m sqm p.a. The company's vision is to be the best in the ceramic industry in Indonesia through creativity and innovation.

Revenue and profit grew every year in the last 5 years

Since 2005, revenue has grown every year with a CAGR of 22% up to 2010. In 9m2011, revenue grew 11% YoY to IDR690bn. On a geographic basis, Java accounted for 65% of total revenue in 2010 at IDR541bn.

Fig 14: Net sales and net profit



Source: Company

Gross margins expanded to 32% in 2010 from 30% in 2009, while EBIT margins remained stable at 18% in 2010 due to rising selling expenses. However, net margins improved to 10% in 2010 from 9% in 2009 as a result of lower interest costs. According to management, overall margin improvement was more the result of efficiency improvements than growth in ASP. In 9m2011, EBIT margins declined to 16% (from 19% in 9m2010), due to a slight decline in the gross margin to 31% in 9m2011 (from 32% in 9m2010), and higher selling expenses.

Fig 15: Revenue and net margin improvement

IDRbn	2007	2008	2009	2010
Revenue	507	647	714	830
EBIT	96	115	126	147
EBIT margins (%)	19%	18%	18%	18%
Net Profit	43	54	64	79
Net margins (%)	9%	8%	9%	10%

Source: Company

Competitive advantages

Low cost leader. According to Globe Asia, ARNA is a low-cost leader with a gross margin of 32% in 2010, vs. 20% for MLIA and 18% for IKAI. It invests in the latest technology to boost production cost savings, with a focus on LNG and electric power costs. This strategy is complemented by focused marketing that keeps inventory low (30 days as at end 2010). Market share is estimated at 17% by revenue. On volume, the group is the second-largest ceramic producer in Indonesia after Mulia, which produces own-brand and OEM products, whereas ARNA produces only own-brand products.

Widespread captive distribution network. ARNA uses independent distributor PT. Primagraha Keramindo, which has a network across 25 major cities.

Proximity to market lowers lead time. With three factories in different parts of Indonesia, ARNA is able to deliver products quickly. Two plants in Pasar Kamis and Cikande Tangerang cater to Western Indonesia while the third plant in Gresik, East Java, serves the Eastern region. ARNA is the only ceramics manufacturer in the country with this advantage, stated management. It reports limited direct competition from Chinese products.

Growth drivers

Scope in affordable housing. There is considerable scope from long-term growth in affordable housing in Indonesia. This is the primary driver of market growth for ARNA and a clear secular trend. Improving infrastructure, rising rural incomes, regulatory changes that facilitate access to mortgage finance for mid-income and first-time buyers, are all supportive according to management.

Capacity expansion to meet growing demand. The company has expanded capacity at a c.18% CAGR over a 10-year period. In 2010, ARNA's factory utilisation was 95%. Management is looking to establish a new factory by mid-2012, which may help to boost capacity by 20%.

Management targets 20% net profit growth in 2012. According to management, growth drivers are volume growth, efficiency gains and lower financing costs.

Gearing and debt structure

Total debt was IDR180bn at end 9m2011, down from IDR273bn at end 2010. Net gearing improved to 35% in 9m2011 from 56% in 9m2010, due to debt repayment. Management expects to be debt-free by 2013.

Corporate social responsibility (CSR)

In 2010, ARNA spent IDR2.547bn in CSR activities as part of its commitment to the community, including providing free medical, school and home renovations, and the construction of sanitation, drainage and waste management facilities.

Competition

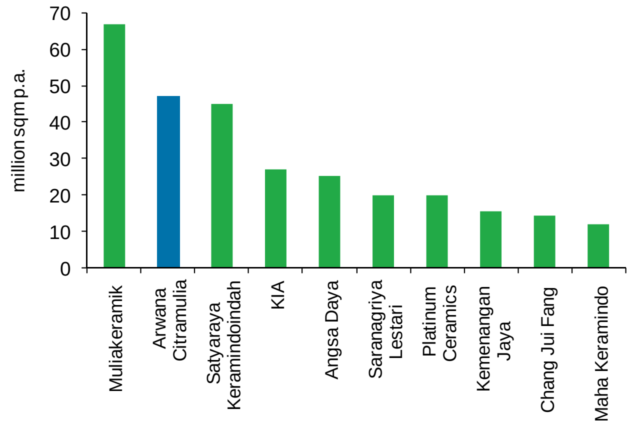
Fig 16: Competition

Business segment	Competitor	Listed / private
Manufacturing	Keramika Indonesia Assosiasi Tbk PT	Listed (KIAS IJ)
Manufacturing	Intikeramik Alamasri Industri Tbk PT	Listed (IKAI IJ)
Manufacturing	Mulia Industrindo Tbk PT	Listed (MLIA IJ)
Manufacturing	Satyaraya Keramindoindah PT	Private
Manufacturing	Saranagriya Lestari Keramik	Private
Manufacturing	Kemenangan Jaya Group	Private
Manufacturing	Chang Jui Fang Indonesia	Private
Manufacturing	Maha Keramindo Perkasa	Private
Distribution	Kokoh Inti Arebama Tbk PT	Listed (KOIN IJ)

Source: Bloomberg, Ceramic World Review

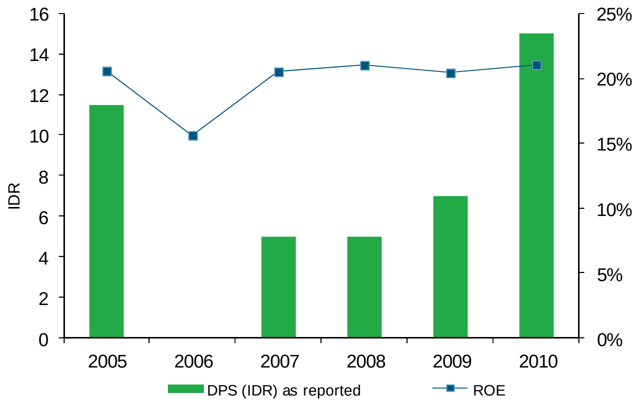
Market share

Fig 17: ARNA rated 2nd-largest ceramic tile manufacturer in Indonesia by capacity*



*Ceramic World Review 2010, No.88/2010. Source: Company

Fig 18: ROE and dividend per share chart



Source: Company

Company background

Fig 19: Company background

Main shareholders

- CEO & founder – 35%
- Free float – 65%

Management and directors

- Theresia Yustina Ariany – Independent President Commissioner since 2007
- Tandean Rustandy – CEO and Founder
- Edy Suyanto – COO since 2007

Significant outside business interests

- Heru Subiyanto – Independent Commissioner – Secretary of Directorate General of Fiscal Balance, Finance Ministry
- Donisius Illiadi – Independent Commissioner – Director, PT Papan Jaya Sentosa, Taman Kopo Indah
- Edy Suyanto – Director – Vice Chairman, Indonesian Ceramic Industry Association (2009–12)

Head office and key assets

- Sentra Niaga Puri Indah, Blok T2 No.24, Kembangan Selatan, Jakarta 11610; telephone: +62-21-58302363; www.arwanacitra.com
- Production facilities in Indonesia; two in Banten, and one in East Java

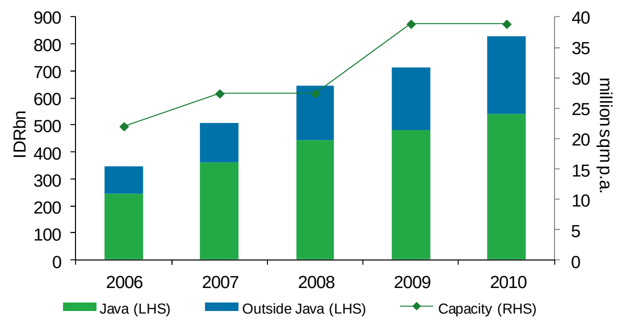
Latest results highlights

- ARNA reported revenue growth of 11% YoY to IDR690bn for 9m2011 from IDR620bn for 9m2010.
- EBIT margins contracted to 16% in 9m2011 from 19% in 9m2010 due to 13% YoY growth in cost of sales to IDR475bn and 32% YoY growth in selling expenses to IDR83bn.
- Free cash flow grew 67% YoY to IDR105bn in 9m2011 due to improved cash flow from operations, which grew 62% YoY to IDR123bn over the corresponding period. Net capital expenditure grew 38% YoY to IDR18bn in 9m2011 from IDR13bn in 9m2010.

Source: Bloomberg, Company

Four key operational charts

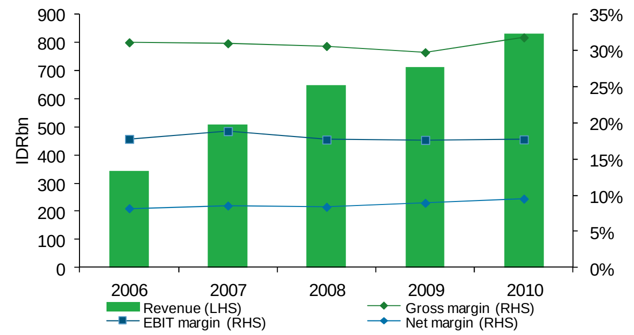
Fig 20: Revenue and Capacity Expansion



Source: Company

- Revenue grew 16.3% YoY to IDR830bn in 2010 from IDR714bn in 2009, driven by growing demand, which in turn was spurred by economic growth and rising per-capita income.
- ARNA is continually expanding factory capacity with the latest expansion to its third factory in 2009 adding 11m sqm pa, enabling the group to take advantage of excess demand. According to *FloorDaily*, a website catering to the flooring industry, local property developers have resorted to imports to meet demand for products unavailable locally.

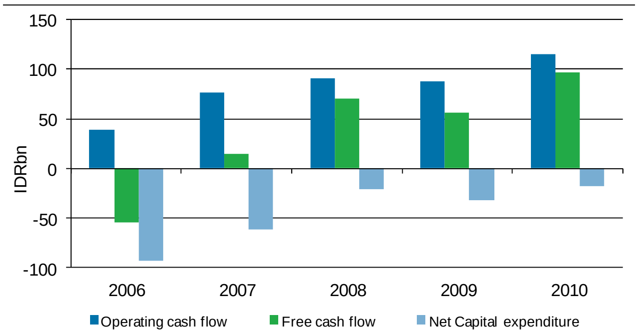
Fig 21: Margins



Source: Company

- On average, margins have remained fairly stable over 2006–10, with EBIT margins at 18% and net margins at 9% over the corresponding period.
- Gross margins improved to 32% in 2010 from 30% in 2009, due to the economies of scale. ARNA recorded production volume growth of 20% YoY in 2010 and capacity utilisation of 95%.
- EBIT margins remained stable at 18% in 2010, despite gross margin improvement, due to higher selling costs. Transport accounted for 67% of operating costs in 2010.

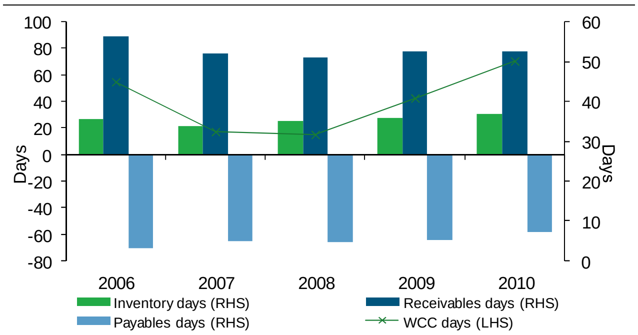
Fig 22: Rising free cash flow



Source: Company

- Operating cash flow grew 31% YoY to IDR115bn in 2010, due to growing profitability with PBT increasing 19% YoY to IDR108bn in 2010.
- Free cash flow grew 74% YoY to IDR97bn in 2010, in line with improved operating cash flows and lower capital expenditure of IDR18bn in 2010 vs. IDR32bn in 2009.

Fig 23: Deteriorating working capital cycle



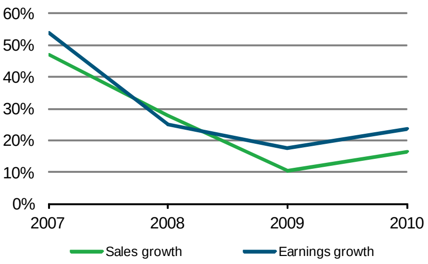
Source: Company

- Average working capital stood at 40 days over 2006 to 2010. Inventory days averaged 26 days, receivable days averaged 79 days, and payable days averaged 65 days over the corresponding period.
- On a YoY basis, the working capital cycle increased 9 days to 50 days in 2010 due to a 2-day increase in average inventory days and a decline of 7 days in average payable days. Receivable days were constant at 78 days.

Trend analysis and six-year financial data

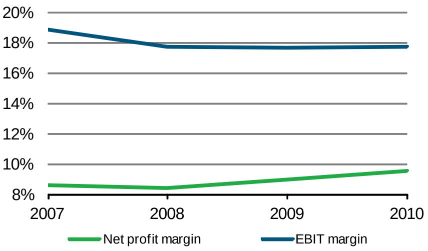
Growth

Sales growth & earnings growth



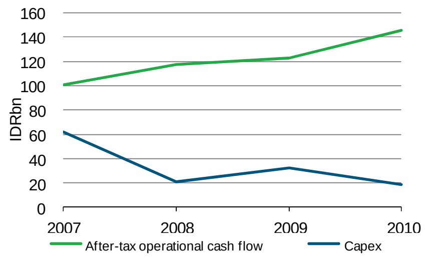
Margins

EBIT margin & sales growth



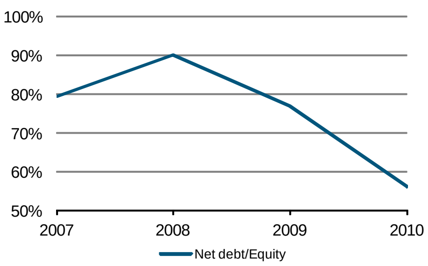
Cash flow

Op cash flow generated & capex



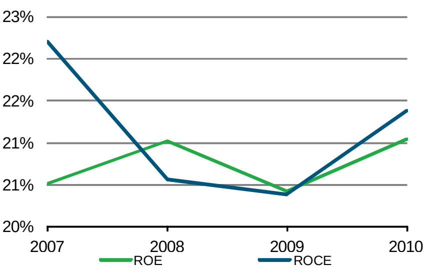
Balance sheet

Net debt (cash) / equity



Returns

ROE & ROCE



Source: Company

Income statement (IDRbn)

Year end: Dec	2005	2006	2007	2008	2009	2010
Sales revenue	**309**	**345**	**507**	**647**	**714**	**830**
Gross profit	**109**	**107**	**157**	**198**	**213**	**264**
EBITDA	90	85	125	154	169	197
Depreciation & amortisation	(21)	(24)	(30)	(39)	(43)	(50)
EBIT	**69**	**61**	**96**	**115**	**126**	**147**
Net interest (expense) / income	(16)	(19)	(24)	(26)	(35)	(31)
Associates	0	0	0	0	0	0
Others	(0)	(1)	(9)	(9)	(0)	(8)
Income tax	(17)	(13)	(19)	(24)	(26)	(28)
PAT	**36**	**29**	**44**	**55**	**65**	**80**
Minorities	(1)	(1)	(1)	(1)	(1)	(1)
Net income	**35**	**28**	**43**	**54**	**64**	**79**

Cash flow (IDRbn)

Year end: Dec	2005	2006	2007	2008	2009	2010
Operating profit	**69**	**61**	**96**	**115**	**126**	**147**
Depreciation & amortisation	21	24	30	39	43	50
Working capital	0	(12)	(5)	(24)	(24)	(41)
Others	(2)	8	(3)	10	8	20
Operational cash flow	**87**	**82**	**117**	**139**	**153**	**176**
Tax paid	(13)	(22)	(16)	(21)	(30)	(30)
After-tax operational cash flow	**74**	**60**	**101**	**118**	**123**	**146**
Capex	(64)	(93)	(62)	(21)	(32)	(18)
Net interest	(16)	(21)	(24)	(26)	(35)	(30)
Debt	38	67	5	76	1	4
Dividends	(9)	(10)	0	(5)	(5)	(13)
Others	(26)	(1)	(15)	(137)	(60)	(50)
Net flow	**(2)**	**1**	**4**	**5**	**(8)**	**38**

Balance sheet (IDRbn)

Year end: Dec	2005	2006	2007	2008	2009	2010
Tangible assets	263	348	466	487	602	569
Intangible assets	0	0	0	0	0	0
Associates/investments/others	16	11	25	54	20	11
Stocks	16	19	22	39	38	57
Debtors	69	99	112	146	161	197
Cash and liquid assets	1	2	5	10	2	40
Total Assets	**365**	**479**	**631**	**736**	**823**	**873**
Current creditors	37	57	69	95	84	107
Current borrowings	53	74	85	113	125	136
Long-term borrowings	68	116	109	156	145	137
Others	32	39	131	84	120	78
Total liabilities	190	285	393	448	474	458
Shareholders' funds	172	190	234	283	343	409
Minority interests	3	3	4	5	6	6
Equity	**175**	**193**	**237**	**288**	**348**	**415**
Total capital employed	**365**	**479**	**631**	**736**	**823**	**873**

Key data & ratio

Year end: Dec	2005	2006	2007	2008	2009	2010
Adjusted EPS (IDR)	19.3	15.4	23.7	30.0	35.0	43.0
Chg %	n.a.	-20%	54%	27%	17%	23%
Adjusted DPS (IDR)	5.8	-	2.5	2.5	7.0	15.0
Adjusted CFPS (IDR)	(3.0)	(29.7)	8.1	38.4	30.4	52.9
Adjusted BVPS (IDR)	95.1	103.6	127.2	154.3	186.6	222.7
Adjusted Wtd avg shares (bn)	1.8	1.8	1.8	1.8	1.8	1.8
ROE (%)	21%	16%	21%	21%	20%	21%
Post-tax ROCE (%)	16%	11%	16%	14%	15%	16%
Capex/sales (%)	-21%	-27%	-12%	-3%	-4%	-2%
Capex/depreciation (%)	310%	391%	209%	53%	74%	37%
Net debt/equity (%)	69%	97%	79%	90%	77%	56%
Total debt/Total capital (%)	33%	40%	31%	37%	33%	31%
Net interest cover (%)	4.4	3.3	4.0	4.3	3.6	4.7

Note EPS, DPS, CFPS, BVPS and shares adjusted for 2 for 1 stock split in 2009
Source: Company

Selamat Sempurna

NOT RATED

NON-COVERED COMPANY VISIT NOTE

Standard Chartered Equity Research does not cover this company and nothing herein should be interpreted to be a recommendation or price target with respect to the company.

PRICE as at 20/01/2012

IDR1,560

Main themes discussed/Key points

- Growth: Selamat Sempurna (SMSM) has grown its revenue every year since 1992.
- Profitable: SMSM generated an ROE of 30% in 2010 on low leverage. A consistently high payout ratio makes this one of the highest-yielding stocks in the market.
- Steady: SMSM focuses on the resilient replacement market for automotive filters and radiators and positions its products as good quality at a reasonable price.
- Opportunity: Japanese auto manufacturers are reportedly looking to significantly increase their supply chain in Indonesia.

Bloomberg code:	SMSM IJ	**PER historical (x)**	14.9
Mkt cap (IDRbn)	2,246	**Yield historical (%)**	4
12m range (IDR)	940-1,560	**P/B historical (x)**	4.0
3m value traded (IDRbn)	1.4	**ROE (%)**	30
No. of shares (bn)	1.4	**Net gearing (%)**	47
Established	1976	**Net debt (cash) (IDRbn)**	265.0
Listed	1996	**Historical EPS (IDR)**	104.5
Secondary placement	n.a.	**EPS 3-yr CAGR (%)**	23
Auditors, since	TP&T, 2009	**EPS 7-yr CAGR (%)**	16
Year-end	Dec	**Historical DPS (IDR)**	65.0
		DPS 3-yr CAGR (%)	18
Major shareholder			Adrindo Intiperk – 58.0%

Source: Bloomberg, Company, Reuters

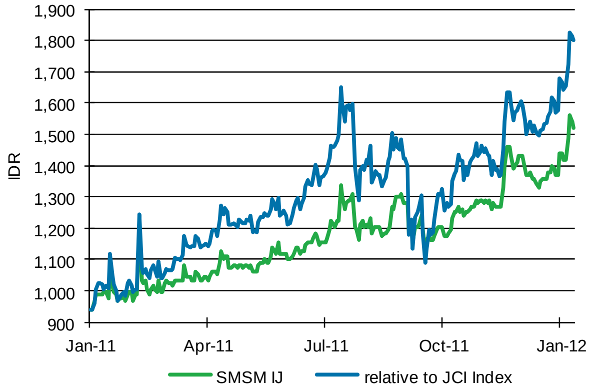
- **What SMSM does**
  SMSM produces a range of automotive and equipment components catering to the replacement, original equipment spare part (OES) and original equipment manufacturing (OEM) sectors. Filters and radiators are SMSM's key products, accounting for 76% and 20% of gross profit in 2010, respectively.

- **Why we visited SMSM**
  SMSM has grown revenue every year since 1992. Since 2005, revenue has compounded at 13% and EPS at 18%. ROE was 27% in 2009 and 29% in 2010. Gross margins have been steady at 22–24% as the company has navigated volatile raw material prices. The dividend payout is consistently high, making SMSM one of the highest-yielding stocks in the market and its gearing is relatively low. Over 90% of sales are to the replacement market, which has proved resilient during downturns.

- **Valuations and share price performance**
  The share outperformed the Jakarta Composite index over the past six months by 30%, trading at 9.7x 2012E PER, with a dividend yield of 8.4%, according to Bloomberg statistics. Two brokers cover the stock, both with Buy ratings.

- **Read-across to other companies**
  Nissan (NSANF US, NR, USD9.25) plans to double its manufacturing capacity in Indonesia to reduce dependence on Thailand after recent events. Other Japanese auto manufacturers are apparently considering similar moves that, combined with the prospect of improving infrastructure following the recent Land Procurement Law, point to a bullish outlook for the Indonesian auto supply chain and industrial land developers.

Share price performance (IDR)



Source: Bloomberg

Related research notes		
29/08/2011	Goodpack	OUTPERFORM
26/01/2012	Adhi Karya	Not rated
26/01/2012	Kawasan Industri	Not rated
26/01/2012	Surya Semesta	Not rated
26/01/2012	Selamat Sempurna	Not rated
26/01/2012	Gajah Tunggal	Not rated

Source: Standard Chartered Research

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Analyst visit note

Company background
Established in 1976 to manufacture automotive filters, the ADR Group (a private Indonesian conglomerate) acquired SMSM in 1980, and it listed in 1996. After merger with Andhi Chandra Automotive Products (a part of ADR group) in 2006, SMSM has built an extensive portfolio of products >5,000 SKUs to become a leading regional automotive filter and radiator manufacturer.

Revenue breakdown
In 2010, filters accounted for 76% of SMSM's gross profit, radiators made up 20%. More than 90% of sales are to the replacement market, with OEM and OES accounting for only c.5%. In 2010, export sales accounted for 73% of revenue, 29% of which were destined for Asia, 23% to America, 7% to Australia and 14% to Europe and other countries.

Strong market position
SMSM is the largest manufacturer of filters for automotive, commercial and heavy equipment sectors in Southeast Asia. SMSM's own brand, SAKURA, is the market leader in Indonesia for filters, with 55% market share. Union Filter(Not Listed) is a close competitor with a smaller distribution reach.

Resilient business
SMSM positions its products as high quality but lower-priced than competitors. Filters are small and low cost products, but they are vital for the engine's efficient running. Quality is important. This positions SMSM well against low-cost, low-quality producers. Management is confident about its business due to resilient demand in the replacement market and given its good quality automotive filters and radiators.

Steady growth
Since 2005, revenue CAGR has been 13% while net profit CAGR has been 18%. For 9m2011, revenue grew 17% YoY to IDR1,306bn and net profit grew 44% YoY. SMSM is confident about sustaining net profit growth of 10–15% p.a.

Stable margins
SMSM's margins are stable with gross margins of 22–24% over 2005–10. During the period, SMSM's gross margins averaged 23%, compared to 18% for Astro Otoparts (AUTO IJ, NR, IDR3,600). Raw materials (steel, copper, brass, aluminium and rubber) make up 70% of COGS. Tight inventory management, constant focus and investment in manufacturing efficiency and ability to pass on costs has helped keep gross profit margins relatively stable.

Fig 24: **Revenue and margin improvement**

IDRbn	2007	2008	2009	2010
Revenue	1,064	1,354	1,375	1,562
EBIT	150	213	190	228
EBIT mgns (%)	14%	16%	14%	15%
Net profit	80	91	133	150
Net margins	8%	7%	10%	10%

Source: Company

Established client base
SMSM's OEM customers include many big auto names such as Toyota (7203 JP, NR, JPY2843), Honda (7267 JP, NR, JPY2712), Komatsu (6301 JP, NR, JPY2120). The company's products are exported to over 100 countries, with radiator exports primarily to the aftermarket customers.

Technological know-how
SMM has invested heavily in technical assistance and licence agreements to stay at the forefront. There are technical assistance agreements with Japan's Tennex Corp. (private), Tokyo Radiators Mfg. Co. Ltd. (7235 JP, NR, JPY435), Usui Kokusai Sangyo Kaisha Ltd. (private), and Donaldson Company Inc. USA (DCI US, NR, USD70.27), allowing SMSM to leverage off the technical expertise of its partners.

Large opportunity for domestic market
Domestic demand for cars is very robust**.** Indonesia is the largest market in South-east Asia (c.610,100 new car registrations in 2011) and has a relatively low penetration rate of 32.8 per 1,000 people, compared to 265 for Malaysia, 114.2 for Singapore, and 49.2 for Thailand, according to the Economist Intelligence Unit (EIU). With low penetration and a rapidly expanding economy, Indonesia's passenger car sales are expected to grow at 10.5% p.a. over 2012–16, according to the EIU and management.

Capacity expansion
Recently expanded capacity will enable SMSM to leverage on growing demand. Filter production capacity was raised to 96m units/year in 2011, from 72m in 2010. As a result, present utilisation of filter production capacity is 50% cf. 67% in 2010, whilst radiator production capacity utilisation is 48%. This positions SMSM ideally to ramp up production without further medium-term capital expenditure.

Gearing and debt structure
Net gearing is low, ranging 28% to 47% over the last few years. At 9m2011, net gearing was 35%, with net debt at IDR240bn. Management intends to keep gearing low.

Dividends and ROE
ROE grew over 2007–10, and reached 29% in 2010, which is at the higher end of the peer group. The company has consistently maintained a high payout to shareholders with the payout ratio above 90% of earnings in the last three years, well above the stated dividend payout policy of 45% for net income above IDR30bn.

Shareholding
Adrindo Intiperkasa (pvt), founding family of the ADR group, is the largest shareholder with 58% stake. Eddy Hartono is the company's President Director and the founder of the ADR group, and Surja Hartono, a Director, acts as President Director and Director of Adrindo, respectively.

Competition

Fig 25: Competition

Business segment	Competitor	Listed / private
Auto parts	Pt. Gajah Tunggal Tbk	Listed (GJTL IJ)
Auto parts	Pt. Asahimas Flat Glass Tbk	Listed (AMFG IJ)
Auto parts	Pt. Prima Alloy Steel Universal Tbk	Listed (PRAS IJ)
Auto parts	Pt. Multi Prima Sejahtera Tbk	Listed (LPIN IJ)
Auto parts	Pt. Astra Otoparts Tbk.	Listed (AUTO IJ)
Auto parts	Pt. Indospring Tbk	Listed (INDS IJ)
Auto parts	Somboon Advance Technology Pcl	Listed (SAT TB)
Auto parts	Pt. Gajah Tunggal Tbk	Listed (GJTL IJ)

Source: Bloomberg

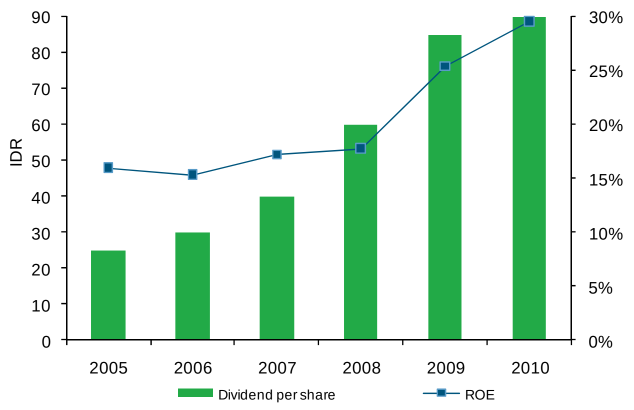
Market share

Fig 26: Product metrics

	Filters		Radiators	
	2009	2010	2009	2010
Capacity (units)	72,000,000	72,000,000	1,200,000	1,950,000
Production (units)	39,596,000	48,256,300	737,000	827,200
Sales (units)	43,889,000	53,777,500	734,600	832,800
Utilisation (%)	55	67	61	42

Source: Company

Fig 27: Growing ROE and dividends



Source: Company

Company background

Fig 28: Company background

Main shareholders
- Adrindo Intiperkasa – 58%
- Free float – 42%

Management and directors
- Mr. Suryadi – President Commissioner since 2008
- Mr. Eddy Hartono – Founder of ADR Group, President Director since 1983

Significant outside business interests
- Mr. Suryadi (President Commissioner) – President Director, Mangatur Dharma, Commissioner, Panata Jaya Madiri.
- Eddy Hartono (President Director) – President Director, Adrindo Intiperkasa, Adrindo Intisarana, Panata Jaya Mandiri, Hydraxle Perkasa.
- Surja Hartono (Director) – Director Adrindo Intiperkasa, Adrindo Intisarana.

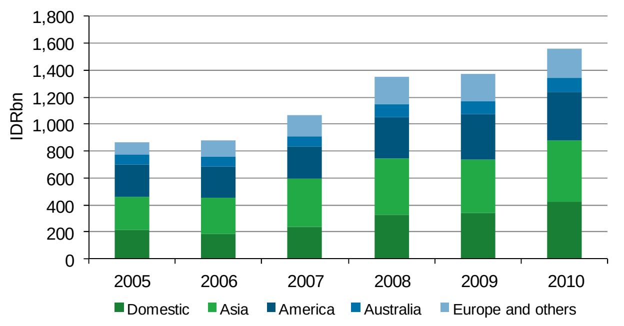
Head office and key assets
- Wisma ADR, Jl. Pluit Raya I No. 1, Jakarta 14440, Indonesia; Telephone: (62-21) 661 0033 – 669 0244; www.adr-group.com
- Production centres in North Jakarta and Tangerang.
- Technical assistance and licence agreements with Tennex Corp, Japan, Tokyo Radiators Mfg. Co. Ltd. Japan, Usui Kokusai Sangyo Kaisha Ltd. Japan, Donaldson Company Inc. USA.

Latest results highlights
- Revenue grew 17% YoY to IDR1,306bn in 9m2011, while EBIT margins expanded to 17% in 9m2011 from 14% in 9m2010, primarily due to gross margin expansion.
- Free cash flows fell 47% YoY to IDR7bn in 9m2011 due to declining cash flow from operations. Cash flows from operations declined 13% YoY to IDR65bn in 9m2011, and net capital expenditure declined to IDR58bn in 9m2011 from IDR62bn in 9m2010.

Source: Bloomberg, Company

Four key operational charts

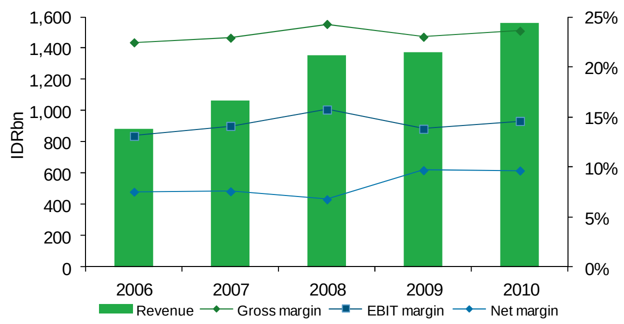
Fig 29: Revenue growth across all segments



Source: Company; Note: 2010 revenue includes an eliminations component.

- Revenue grew at a 13% CAGR over 2005–10 to IDR1,562bn. Filter segment, the largest contributor to revenue, recorded 32% YoY growth to IDR1,319bn in 2010 due to a c.23% YoY growth in volume to c.53.8m units and a c.8% YoY growth in ASP to IDR24.52 per unit.
- Radiator revenue grew 6% YoY to IDR366bn in 2010, due to a 13% YoY increase in volume to 832,800 units despite c.7% decline in ASP to IDR439.27 per unit.
- Other segment revenue up 66% YoY to IDR48bn in 2010.

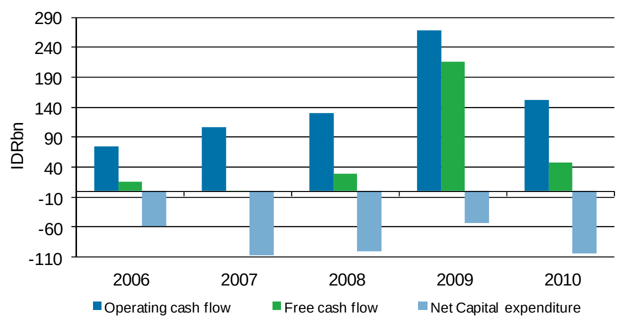
Fig 30: Costs contained by reduction, efficiency drive



Source: Company

- Gross margins averaged 23% over 2007–10, improving slightly to 23.6% in 2010 from 23.0% in 2009, owing to cost reduction and efficiency programmes mitigating the impact of cost inflation, according to management. Filter factory utilisation improved to 67% in 2010 from 55% in 2009, while radiator utilisation fell to 42% in 2010 from 61% in 2009, due to expanded capacity.
- EBIT margins averaged 15% in 2007–10, rising to 14.6% in 2010 from 13.8% in 2009, on higher gross margins and lower selling costs as a percentage of revenue.

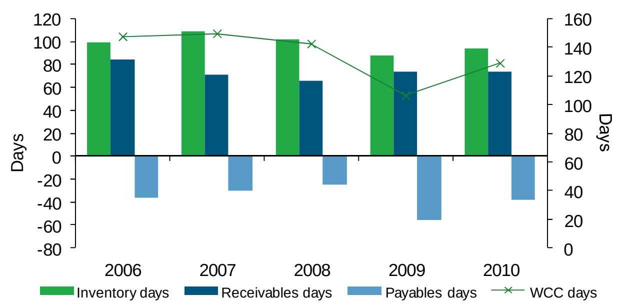
Fig 31: Cash flows declined in 2010



Source: Company

- Operating cash flow fell 44% YoY to IDR151bn in 2010 due to net divestment of working capital, despite higher profit levels.
- Free cash flow declined 78% YoY to IDR48bn in 2010 due to lower operating cash flows and higher capital expenditure of IDR103bn in 2010 compared to IDR53bn in 2009. In 2010, SMSM purchased equipment and machinery to expand its radiator facility capacity to meet growing demand.

Fig 32: Improving working capital cycle

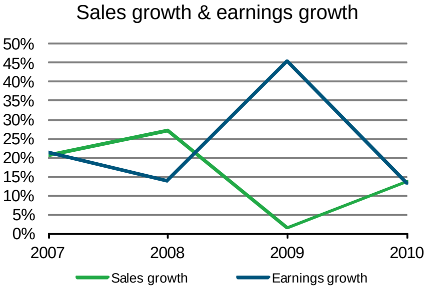


Source: Company

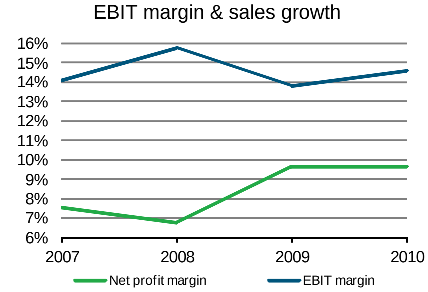
- The company had an average working capital cycle of 132 days over 2007–10, with inventory days at 98, receivables days at 71 and payables days at 37.
- The working capital cycle deteriorated to 129 days in 2010 from 107 days in 2009, primarily due to lower payable days of 38 in 2010 compared to 55 days in 2009, and higher inventory days. Inventory days increased 6 days to 94 days in 2010.
- Receivable days declined 1 day to 73 days in 2010.

Trend analysis and six-year financial data

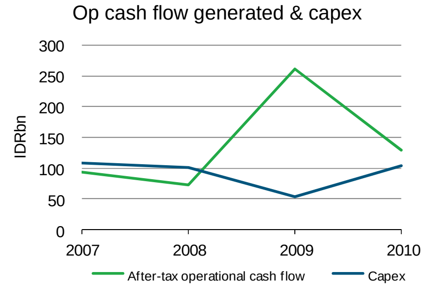
Growth



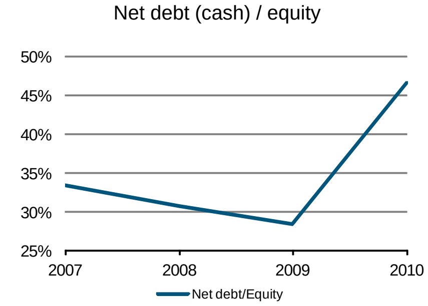
Margins



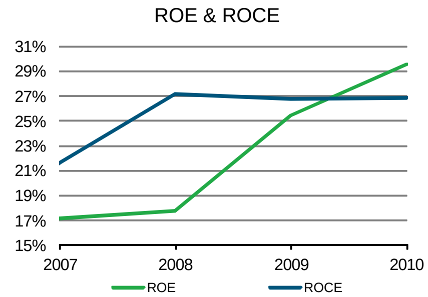
Cash flow



Balance sheet



Returns



Source: Company

Income statement (IDRbn)

Year end: Dec	2005	2006	2007	2008	2009	2010
Sales revenue	**862**	**881**	**1,064**	**1,354**	**1,375**	**1,562**
Gross profit	**198**	**198**	**244**	**329**	**316**	**369**
EBITDA	167	170	205	282	266	305
Depreciation & amortisation	(47)	(54)	(55)	(69)	(76)	(77)
EBIT	**120**	**115**	**150**	**213**	**190**	**228**
Net interest (expense) / income	(14)	(10)	(13)	(58)	(7)	(22)
Associates	0	0	(9)	(21)	7	0
Others	(4)	(0)	2	9	(4)	(1)
Income tax	(31)	(32)	(42)	(42)	(43)	(40)
PAT	**71**	**73**	**89**	**102**	**143**	**165**
Minorities	(6)	(7)	(8)	(10)	(10)	(14)
Net income	**66**	**66**	**80**	**91**	**133**	**150**

Cash flow (IDRbn)

Year end: Dec	2005	2006	2007	2008	2009	2010
Operating profit	**120**	**115**	**150**	**213**	**190**	**228**
Depreciation & amortisation	47	54	55	69	76	77
Working capital	0	(40)	(64)	(75)	87	(123)
Others	(8)	(27)	(15)	(88)	(30)	(19)
Operational cash flow	**160**	**103**	**126**	**119**	**323**	**163**
Tax paid	(20)	(39)	(33)	(46)	(62)	(34)
After-tax operational cash flow	**139**	**64**	**93**	**73**	**261**	**129**
Capex	(46)	(62)	(108)	(101)	(53)	(104)
Net interest	14	10	13	58	7	22
Debt	(20)	5	64	10	(26)	115
Dividends	(41)	(30)	(53)	(29)	(180)	(130)
Others	(16)	(16)	(6)	(6)	(14)	(27)
Net flow	**30**	**(29)**	**2**	**5**	**(5)**	**6**

Balance sheet (IDRbn)

Year end: Dec	2005	2006	2007	2008	2009	2010
Tangible assets	246	259	319	358	341	377
Intangible assets	0	0	0	0	0	0
Associates/investments/others	48	63	50	28	58	55
Stocks	165	186	245	286	255	307
Debtors	167	202	207	243	278	314
Cash and liquid assets	36	7	9	14	9	14
Total Assets	**663**	**717**	**830**	**930**	**942**	**1,067**
Current creditors	52	68	69	71	161	125
Current borrowings	111	116	181	195	164	121
Long-term borrowings	0	0	0	0	0	159
Others	63	55	66	76	73	94
Total liabilities	226	239	316	341	397	499
Shareholders' funds	412	452	483	547	499	520
Minority interests	25	26	31	41	46	48
Equity	**437**	**478**	**514**	**588**	**544**	**568**
Total capital employed	**663**	**717**	**830**	**930**	**942**	**1,067**

Key data & ratio

Year end: Dec	2005	2006	2007	2008	2009	2010
EPS (IDR)	45.7	46.0	55.8	63.5	92.3	104.5
Chg %	n.a.	1%	21%	14%	45%	13%
DPS (IDR)	25.0	30.0	40.0	60.0	90.0	65.0
CFPS (IDR)	118.4	51.6	73.6	90.8	186.2	105.1
BVPS (IDR)	336.5	332.1	357.4	408.7	378.0	394.9
Wtd avg shares	1.4	1.4	1.4	1.4	1.4	1.4
ROE (%)	16%	15%	17%	18%	25%	30%
Post-tax ROCE (%)	15%	13%	15%	19%	21%	22%
Capex/sales (%)	-5%	-7%	-10%	-7%	-4%	-7%
Capex/depreciation (%)	98%	115%	197%	148%	70%	135%
Net debt/equity (%)	17%	23%	34%	31%	28%	47%
Total debt/Total capital (%)	17%	16%	22%	21%	17%	26%
Net interest cover (%)	8.3	11.8	11.8	3.7	26.1	10.3

Source: Company

Kawasan Industri Jababeka

NOT RATED

NON-COVERED COMPANY VISIT NOTE

Standard Chartered Equity Research does not cover this company and nothing herein should be interpreted to be a recommendation or price target with respect to the company.

PRICE as at 20/01/2012

IDR182

Main themes discussed/Key points

- Kawasan Industri Jababeka (KIJA) operates and manages the most accessible and integrated industrial real estate in Indonesia.
- Management aims to grow recurring revenue (mainly from its power plant and dry port infrastructure assets) from its current 30–50% of total revenue, to 70% by 2017.
- In the short term, its strategically located industrial real estate benefits from strong demand and rising selling prices (+30% YoY).

Bloomberg code:	KIJA IJ	**PER historical (x)**	40.3
Mkt cap (IDRbn)	3,607	**Yield historical (%)**	n.a.
12m range (IDR)	101-210	**P/B historical (x)**	1.5
3m value traded (IDRm)	14,666.7	**ROE (%)**	4
No. of shares (bn)	19.8	**Net gearing (%)**	71
Established	1989	**Net debt (cash) (IDRbn)**	1,178
Listed	1994	**Historical EPS (IDR)**	4.5
Secondary placement	2011	**EPS 3-yr CAGR (%)**	26
Auditors, since	BDLL,09	**EPS 6-yr CAGR (%)**	0
Year-end	Dec	**Historical DPS (IDR)**	n.a.
		DPS 3-yr CAGR (%)	n.a.
Major shareholder			Founding shareholders – 28%

Source: Company, Bloomberg

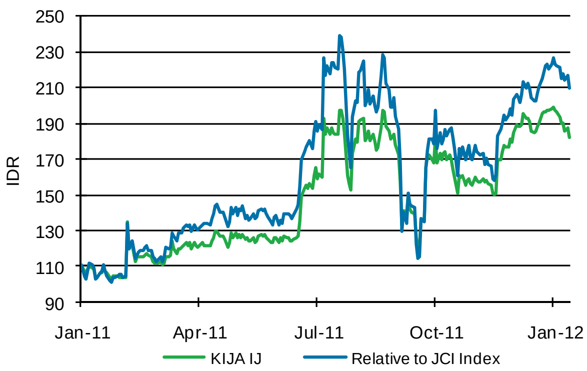
- **What KIJA does**
  KIJA is a holding company involved in real estate, infrastructure and services, and supporting and leisure facilities sectors. It has evolved from being an industrial estate developer into an integrated enterprise offering a range of real estate and infrastructure products, logistics facilities and power generation.

- **Why we visited KIJA**
  KIJA is the only integrated industrial real estate developer in Indonesia. Demand and selling prices for industrial real estate in Indonesia are growing, underpinned by rising infrastructure spending and foreign direct investment (FDI). The Land Procurement Law should spur FDI, domestic infrastructure spending and in turn benefit the industrial real estate sector in Indonesia. KIJA targets revenue of IDR2tn in 2012, which would be an increase of 66% YoY.

- **Valuations and share price performance**
  Based on consensus figures, KIJA is trading at 11.9x 2012E PER, 0.9x 2012E price-to-book value and 9.5x 2012E EV/EBITDA.

- **Read-across to other companies**
  KIJA believes demand and selling prices for industrial real estate are accelerating since 2010, led by rising capacity expansion by domestic and overseas manufacturers, in particular the automotive industry. Management believes the Land Procurement Law will support inflow of foreign direct investment and benefit industrial real estate players in Indonesia.

Share price performance (IDR)



Source: Bloomberg

Related research notes

26/01/2012	Adhi Karya	Not rated
26/01/2012	Citra Marga	Not rated
26/01/2012	Surya Semesta	Not rated
26/01/2012	Selamat Sempurna	Not rated
26/01/2012	Gajah Tunggal	Not rated

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Analyst visit note

Company background

KIJA was established in 1989 as an industrial estate developer, and listed on the Indonesian Stock Exchange in 1994. The company began operations with the flagship development of Kota Jababeka, a fully integrated township. KIJA has since expanded into other areas: residential property, education parks, the central business district, golf courses, power plants, waste water treatment and dry ports. It hopes to provide an integrated industrial township. The company has diversified through the Medical City and Indonesia Movieland projects. According to management, the founders own an approximate 28% stake in the company.

Prime asset

The industrial real estate asset in Kota Jababeka (5,600ha) is strategically located 40 minutes from Jakarta within the biggest manufacturing zone of West Java. It is the only industrial park with access to rail transport. Kota Jababeka has created a critical mass and now comprises more than 1,500 companies, both multinationals and SMEs. Key tenants include Unilever, Mattel and Samsung. With relevant licences and capabilities from subsidiaries, KIJA can integrate and add value to its real estate projects power plant and dry port facilities, thus maximising cost savings.

Competitive advantages

KIJA operates Indonesia's first and only integrated customs and services estate. KIJA's strength lies in its strategically located real estate projects and infrastructure capabilities in power plants and dry ports, which allow it to maximise cost savings and attract blue-chip tenants. The government is funding and developing railway and toll access projects to connect the Cikarang dry port with Tanjung Priok (the largest port in Indonesia), thus enhancing access to its property.

Industry outlook

Management believes the strong demand for industrial real estate will continue in the next 3–5 years, underpinned by strong FDIs. A strategically located industrial real estate close to Jakarta can fetch prices more than twice those further away. KIJA believes Lippo and Surya Semesta are not direct competitors, as they do not have the infrastructural expertise to establish an integrated industrial real estate. Lippo focuses on residential development while Surya's assets are further away in the north of the country.

Beneficiary of rising demand for industrial real estate

Management reports that demand has surged 4–5x since 2010. Selling prices of their industrial land has risen 30% YoY in 2011 to peak levels of c.USD150 sqm the Asian financial crisis. KIJA has remaining land bank of 850ha in Cilegon industrial Park and 1,000ha in Kota Jababeka.

Building a sustainable model

Management targets to grow recurring income (mainly from infrastructure assets in power plants and dry ports) from the current 30–50% to 70% of total revenue by 2017.

Growth drivers:

Expanding land bank: The group plans to acquire 250ha of industrial land per year.

Cikarang Dry Port (CDP) began operations in mid-2010 and serves as an extension of Tanjung Priok International seaport. CDP is part of several programmes by the government, including Customs Advance Trade System and Indonesia Logistics Blue Print, which are intended to streamline and increase Indonesia's competitiveness in the supply chain and distribution of goods. In addition, the Presidential Unit for Development, Supervision and Oversight (UKP4) plans to extend the railway from the dry port to Tanjung Priok by end 2012. Currently, the distance from the dry port to Tanjung Priok is 55.4km, with 28km of track using rail and the last 16km using trucks. According to management, KIJA will be among the beneficiaries of the railway extension as costs will fall further. Management expects the throughput at Tanjung Priok to reach 10m TEUs p.a. in 2020, from the current 4m TEU pa.

Power plant: In addition, its 130MW combined cycle power plant – PT Bekasi Power – has secured a 100% off-take contract with PLN on a 20-year tenure, which could potentially contribute US$85m revenue pa by 2012 with a 32% EBITDA margin. The agreement will allow KIJA to buy back from PLN at the same price and sell direct to its tenants at the market price. This would ensure KIJA's tenants receive priority supply.

Tanjung Lesung Beach Resort: The newly acquired resort should enable KIJA to capitalize on the rising tourism industry, supported by government infrastructural spending. Tanjung Lesung has total 1,500 hectares of land in the form of natural peninsula with extensive ocean frontage and beaches. As the location is within a 3-hour drive from Jakarta, it was planned from the outset as a completely new integrated research as a destination for both domestic and international tourists.

Fund raising

KIJA recently completed an IDR1.5tn rights issue for the acquisition of the 1,500ha Tanjung Lesung to expand into the tourism industry. In addition, KIJA plans to issue US$110m of Mandatory Exchangeable Notes and US$40m Senior Debt Notes. The proceeds will go to: US$40m debt retirement, US$70m project development – Bekasi Power and Cikarang Dry Port – and US$40m for land acquisition.

Competition

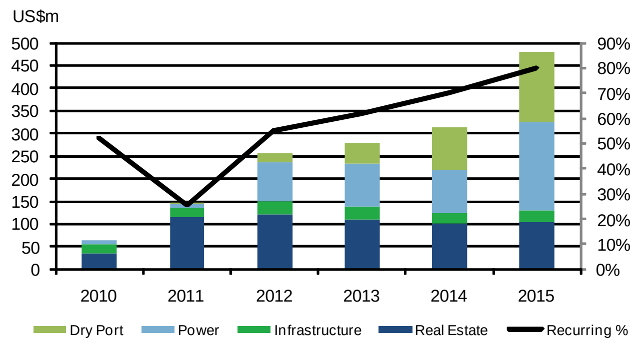
Fig 33: Competition

Business segment	Competitor	Listed / private
Real estate operator/developer	Summarecon Agung Tbk	Listed (SMRA IJ)
Real estate operator/developer	Bakrieland Development Tbk	Listed (ELTY IJ)
Real estate operator/developer	Ciputra Surya Tbk	Listed (CTRS IJ)
Real estate operator/developer	Ciputra Development Tbk	Listed (CTRA IJ)
Real Estate Operator/Developer	Sentul City Tbk	Listed (BKSL IJ)

Source: Bloomberg

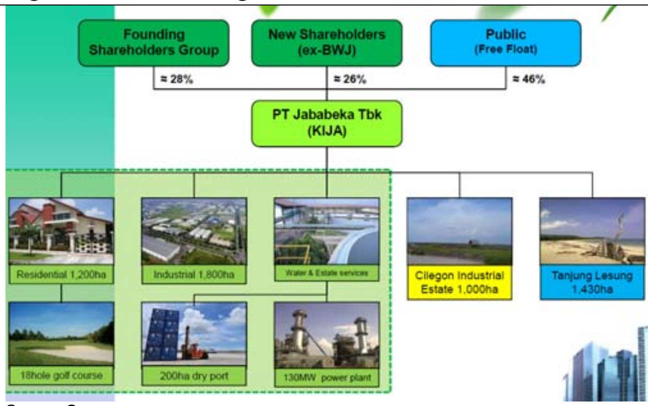
Key charts

Fig 34: Growing recurring income



Source: Company

Fig 35: Shareholding structure



Source: Company

Company background

Fig 36: Company background

Main shareholders

- Founding shareholders. – 28%
- Free float – 46%

Recent M&A

- KIJA IJ entered into a conditional sale and purchase agreement to acquire Banten West Java TDC and PT Tanjung Lesung Leisure Industry for a combined value of US$177m. The acquisitions are to be funded by a rights issue.

Management and directors

- Setyono Djuandi Darmono – President Director (Founder)
- Hadi Rahardja – Vice President Director (Founder)
- T. Budianto Liman – Vice President Director
- Setiasa Kusuma – Director
- Hyanto Wihadhi – Director

Significant Events

- KIJA obtained the electricity supply business permit for Public Benefit in July 2010.
- KIJA signed a Power Sale and Purchase Agreement with PLN in February 2011, based on which, KIJA will provide 118.8 MW of power to PLN from the Full Combined Cycle Power Plant for a period of 20 years from the date of commencement.

Head office and key assets

- Address: Jababeka Center, Hollywood Plaza No. 10-12, Jl. H. Usmar Ismail – Indonesia Movieland, Kota Jababeka, Cikarang, Bekasi 17550, West Java, Indonesia.
- 1,200ha of residential property, 1,800ha of industrial land, water and estate services, an 18-hole golf course, a 200ha dry port, a 130MW power plant, Cilegon Industrial Estate (1,000ha) and Tanjung Lesung (1,430ha).
- KIJA had 484 permanent employees as at December 2010.

Latest results highlights

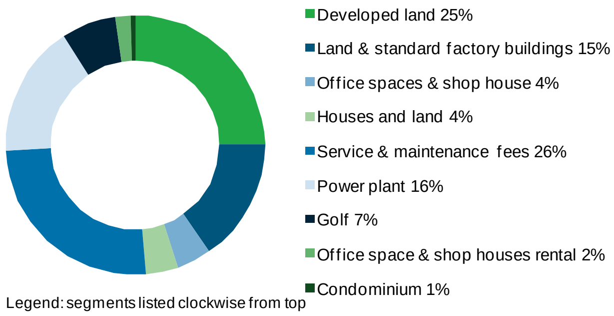
- Sales revenue increased 64% YoY in 3Q2011 to IDR603.2bn.
- Developed land sales was the primary contributor to revenue in 3Q2011, consisting of 35% of revenue. Land and standard factory buildings contributed to 27% of total revenue. Service and maintenance fees accounted for 20% of total revenue, while office spaces and shophouse revenue accounted for 9%, and golf revenue contributed 5% to total revenue in 3Q2011.
- Gross profit increased 80% YoY to IDR354.9bn in 3Q2011, Gross margins increased 5ppt YoY to 59% in the same period.

  Net profit increased 142% YoY to IDR124bn in 3Q2011. Net profit margins increased 7ppt YoY in 3Q2011 to 21%.

Source: Company

Four key operational charts

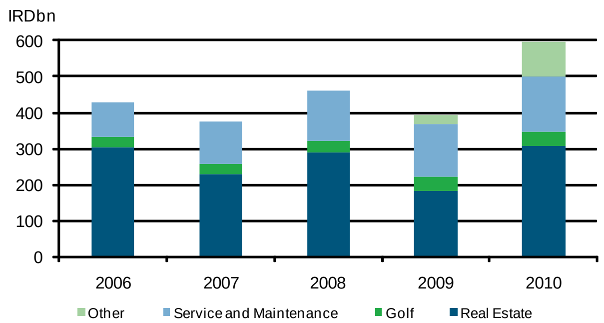
Fig 37: Real estate is the main revenue contributor



Source: Company

- In 2010 the real estate segment contributed 51% to total revenue. Out of this, developed land made up 25%, land and factory buildings 15%, office space and shophouses contributed 4%, and houses and land 4%.
- In its first full year of operations, the power plant segment contributed 16% to total revenue, while services and maintenance contributed 26% to total revenue in 2010.

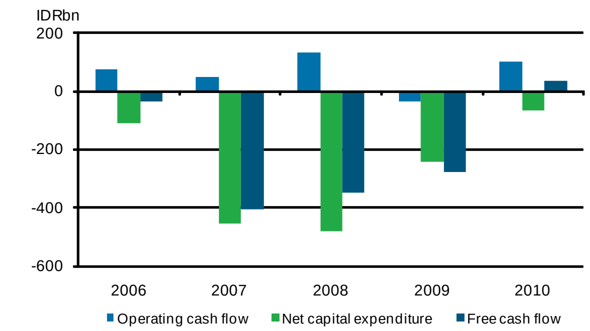
Fig 38: In 2010, revenue grew 52% YoY



Source: Company

- In 2010, total revenue increased 52% YoY to IDR597bn. The total real estate segment revenue increased 66%. This was driven by a 163% YoY revenue increase in the developed land segment due to high demand for developed property, driven by high FDI and economic development.
- Revenue from the power plant segment increased 325% YoY as 2010 was the first full year of operations.

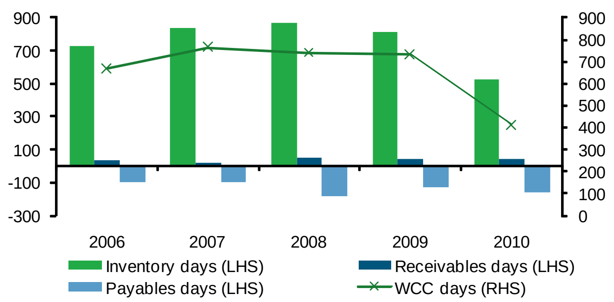
Fig 39: Free cash flow at 5-year high



Source: Company

- Free cash flow increased IDR311bn YoY to IDR36bn in 2010 cf. negative IDR275bn in 2009. This was due to an increase in operating cash flow and lower capital expenditure.
- Operating cash flow increased IDR135bn YoY to IDR101bn in 2010 cf. negative IDR33bn in 2009 due predominantly to higher profitability and higher working.
- Net capital expenditures decreased 73% YoY to IDR65bn in 2010 from IDR242bn in 2009.

Fig 40: 36% decline in working capital days in 2010



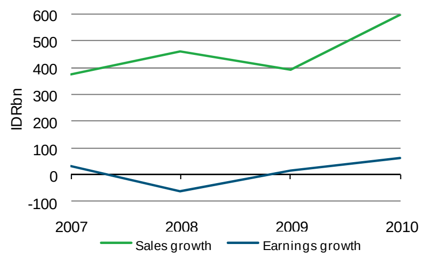
Source: Company

- KIJA's working capital cycle declined to 409 days in 2010 cf. 731 days in 2009.
- This was caused by a 286-day decrease in inventory days from 2009 to 528 days, a 3-day decrease in receivable days from 2009 to 43 days and a 33-day increase in payable days from 2009 to 162 days in 2010.

Trend analysis and six-year financial data

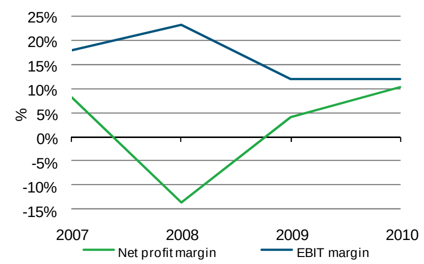
Growth

Sales & earnings



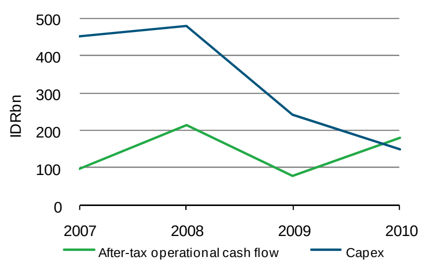
Margins

EBIT margin & net margin



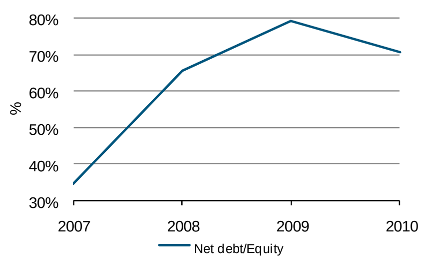
Cash flow

Op cash flow generated & capex



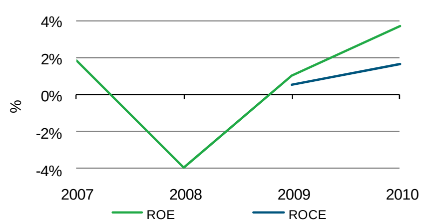
Balance sheet

Net debt (cash) / equity



Returns

ROE & ROCE



Source: Company

Income statement (IDRbn)

Year end: Dec	2005	2006	2007	2008	2009	2010
Sales revenue	567	430	375	461	393	597
Gross profit	261	188	178	235	164	249
EBITDA	121	31	45	82	16	25
Depreciation & amortisation	(22)	(21)	(23)	(25)	(31)	(46)
EBIT	143	52	68	107	47	71
Net interest (expense) / income	(14)	(10)	(51)	(87)	(108)	(78)
Associates	0	0	0	0	0	0
Others	20	1	16	(43)	109	99
Income tax	(14)	(6)	(2)	(40)	(31)	(31)
PAT	134	37	31	(62)	16	62
Minorities	(1)	0	0	0	0	0
Net income	134	37	31	(62)	16	62

Cash flow (IDRbn)

Year end: Dec	2005	2006	2007	2008	2009	2010
Operating profit	143	52	68	107	47	71
Depreciation & amortisation	(22)	(21)	(23)	(25)	(31)	(46)
Working capital	(550)	71	37	(58)	(19)	21
Others	669	8	28	234	128	196
Operational cash flow	239	110	111	258	125	241
Tax paid	(28)	(25)	(13)	(43)	(48)	(62)
After-tax operational cash flow	211	86	97	215	77	179
Capex	(45)	(108)	(453)	(480)	(242)	(148)
Net interest	(15)	(11)	(50)	(82)	(110)	(78)
Debt	(157)	(13)	535	306	320	(35)
Dividends	0	(14)	0	0	0	0
Others	5	(1)	(126)	14	(61)	119
Net flow	(0)	(61)	5	(26)	(16)	37

Balance sheet (IDRbn)

Year end: Dec	2005	2006	2007	2008	2009	2010
Tangible assets	214	262	305	315	647	1,470
Intangible assets	0	0	0	0	0	0
Associates/investments/others	1,021	1,040	1,643	1,983	1,944	1,211
Stocks	531	483	452	539	510	504
Debtors	68	41	21	63	49	71
Cash and liquid assets	142.1	81.4	86.1	60.3	43.9	80.5
Total Assets	1,977	1,907	2,506	2,961	3,194	3,336
Current creditors	86	65	50	112	81	154
Current borrowings	0	0	0	0	0	0
Long-term borrowings	120	104	655	1,105	1,320	1,259
Others	162	109	142	148	181	249
Total liabilities	369	278	847	1,365	1,582	1,663
Shareholders' funds	1,598	1,622	1,653	1,590	1,606	1,669
Minority interests	1	0	0	0	0	0
Equity	1,599	1,622	1,653	1,590	1,606	1,669
Total capital employed	1,977	1,907	2,506	2,961	3,194	3,336

Key data & ratio

Year end: Dec	2005	2006	2007	2008	2009	2010
EPS (IDR)	9.7	2.7	2.2	(4.5)	1.2	4.5
Chg %	n.a.	-72%	-17%	n.m.	n.m	280%
DPS (IDR)	-	-	-	-	-	-
CFPS (IDR)	14.3	5.4	3.5	9.7	-2.4	7.4
BVPS (IDR)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Wtd avg shares (bn)	13.8	13.8	13.8	13.8	13.8	13.8
ROE (%)	8%	2%	2%	-4%	1%	4%
Post-tax ROCE (%)	8%	3%	3%	n.m.	1%	2%
Capex/sales (%)	-8%	-25%	-121%	-104%	-62%	-25%
Capex/depreciation (%)	-205%	-515%	-2009%	-1938%	-789%	-321%
Net debt/equity (%)	-1%	1%	34%	66%	79%	71%
Total debt/Total capital (%)	6%	5%	26%	37%	41%	38%
Net interest cover (x)	10.3	5.3	1.2	1.1	0.4	0.9

Source: Company

Fastfood Indonesia

NOT RATED

NON-COVERED COMPANY VISIT NOTE

Standard Chartered Equity Research does not cover this company and nothing herein should be interpreted to be a recommendation or price target with respect to the company.

PRICE as at 20 January 2012

IDR12,000

Main themes discussed/Key points

- Market leadership: Fastfood Indonesia (FAST) is the sole operator of KFC restaurants in Indonesia which have over a 50% share of the visits for quick service restaurants in Indonesia.
- Market opportunity: Indonesia has a population of 233 million, but only 402 KFC restaurants as at Sept 2011. In comparison, Malaysia has a population of 28 million, but has over 500 KFC restaurants.
- Structural growth: From 2005-10, FAST grew its restaurant network from 237 in 2005, to 402 as at 9Sept 2011. Management plan to open 20-30 restaurants per year going forward.

- **What FAST does**
  FAST is the sole franchise operator for KFC restaurants in Indonesia with 402 restaurants (Sept 2011) across 93 cities and covering 32 of the country's 33 provinces.

- **Why we visited FAST**
  FAST believes it is a beneficiary of robust Indonesian domestic demand as it can leverage off a leading global brand that is well positioned and underpenetrated in Indonesia. Over 2005-10, FAST compounded its revenues at 23% p.a. and net profit at 37% p.a.

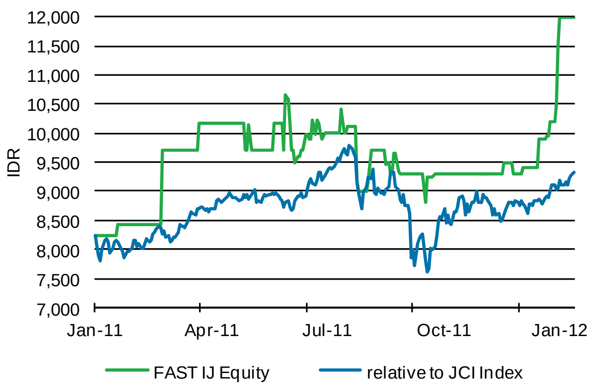
- **Valuations and share price performance**
  Based on annualised published 9M2011 numbers, FAST is trading on 24x FY2011 PER. According to Bloomberg, no broker covers this stock.

- **Read-across to other companies**
  FAST reflects the trends that other Indonesian consumer companies are benefitting from: rising disposable incomes, robust domestic consumption and increasing urbanisation. Standard Chartered Research is also positive on the food retailing sector due to its pricing power, margin management and scalability.

Bloomberg code:	FAST IJ	**PER historical (x)**	26.8
Mkt cap (IDRbn)	5,525	**Yield historical (%)**	3.7
12m range (IDR)	8,239-12,000	**P/B historical (x)**	6.7
3m value traded (USDm)	0.005	**ROE (%)**	27.7
No. of shares (m)	460	**Net gearing (%)**	46.1
Established	1978	**Net debt (cash) (IDRbn)**	(370)
Listed	1993	**Historical EPS (IDR)**	447
Secondary placement	2004	**EPS 3-yr CAGR (%)**	24.9
Auditors, since	EY, 1998	**EPS 7-yr CAGR (%)**	28.2
Year-end	Dec	**Historical DPS (IDR)**	448
		DPS 3-yr CAGR (%)	115.2
Major shareholder			PT Gelael Pratama – 43.84%

Source: Company, Bloomberg

Share price performance (IDR)



Source: Bloomberg

Related research notes		
19/09/2011	Charoen Pokphand Indonesia	IN-LINE
14/10/2011	Farm to Fork	N.A.
17/10/2011	Café de Coral	OUTPERFORM
29/11/2011	KFC Holdings	OUTPERFORM
19/12/2011	Japfa Comfeed	OUTPERFORM
15/12/2011	QSR Brands	OUTPERFORM
11/01/2012	Charoen Pokphand Foods	UNDERPERFORM

Source: Standard Chartered Research

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Analyst visit note

Company background
FAST was founded in 1978 by the Gelael family and opened its first KFC restaurant in Jakarta in 1979. In 1990, the Salim family (of Indofood Group) became a major shareholder and FAST was listed on the Jakarta Stock exchange in 1993.

Leading market position
Management stated it periodically conducts brand image tracking studies (BITS) and for 4Q2011, it received a 53% share of visits to fast food restaurants. In comparison, management believes McDonalds received about 30% of visits.

Strong network
As at Sept 2011, FAST had 402 restaurants in Indonesia compared with McDonald's network of c.110 restaurants. FAST's network covers 32 of Indonesia's 33 provinces and spans 93 cities. FAST believes its geographic network is even wider than the minimart operators which have over 5,000 stores as the latter only focus on greater Jakarta. Management states that 37% of FAST's current network is located in Greater Jakarta, with c.80% of it in metropolitan areas (eg. Jakarta, Surabaya, Medan.) Management advised that 60-70% of its outlets are standalone stores, as this gives it more flexibility in terms of operating hours.

KFC under-penetrated in Indonesia
Indonesia had 402 KFC restaurants at end September 2011 with a population of 233m – this translates to a KFC restaurant for every 580,000 people. Malaysia had over 500 restaurants with a population of only 28m (one KFC restaurant for every 56,000 people). This compares with the US where there are 5,055 KFC restaurants or one KFC restaurant for every 61,000 people. Management believes Indonesians share the Malaysians' love of fried chicken and that over time, its store network should grow to be significantly larger than Malaysia's.

Per store performance
In 2010, FAST generated average revenue per store of IDR7.6bn / USD840,000. This compares with KFC Malaysia's 2010 performance of MYR3m / USD942,000 per store.

Structural growth
From 2005-10, FAST compounded its revenues at 23% p.a. and net profit at 37% p.a. Over the same period, FAST expanded its restaurant network from 237 restaurants to 398, on average opening of 32 restaurants per year. Going forward, management plans to open 20-30 restaurants annually.

Cost breakdown and suppliers
Management advised that chicken accounts for over 40% of its COGS. It has about 15 chicken suppliers and signs fixed-price supply contracts for 3-6 months. About 75% of its chicken is purchased via supply contracts and the remainder on spot markets.

Margins
FAST's margins have been relatively stable with gross margins ranging from 56-61% from 2005-9m2011. FAST's EBIT margin of 9% for 9M2011 compares with 12.9% for KFC Malaysia. FAST's last ASP increase was 4% in July 2010 and management advised that it has increased ASPs by 2-3% in January 2012.

Franchise agreement
Similar to other franchise operators globally, FAST pays a one-time fee of USD45,000 to YUM brands for each restaurant for a period of 10 years with an option to renew for another 10. The annual franchise fee is 6% of sales. In addition, FAST has a development agreement with YUM brands where it must hit certain new restaurant opening targets. If FAST fails to achieve this target, Yum brands has the right to prevent new restaurant openings by the group.

Positive macro drivers
FAST should benefit from Indonesia's growing middle class, robust growth in GDP per capita, and continued urbanisation. Standard Chartered Global Research estimates that Indonesia's middle class will grow from 131m in 2010 (57% of the population) to 171m by 2020 (63% of the population). Standard Chartered forecasts that Indonesia's nominal GDP per capita will grow from USD2,977 in 2010, to USD16,652 in 2025, a CAGR of 12%, while consultancy Global Demographics expects Indonesia's urbanisation rate to increase from 46% in 2010 to 51% by 2025.

Strong balance sheet and robust cash flows
As at Sept 2011, FAST had net cash of IDR289bn, equivalent to 5.2% of its market cap. The company had debt of IDR203bn, representing 26% gearing. FAST produces strong cash flow and has generated free cash flows every year since 1992. Management advises that its capex budget for 2012 is IDR300bn.

Shareholding
FAST is 44% owned by the Gelael family and 36% owned by PT Megeah Eraraharja, a company ultimately owned by the Salim Group. The remaining 20% is free float.

Dividend
FAST has a dividend payout policy of 20%. In 2010, the company paid out 100% of its earnings as a reward to its shareholders.

Competition

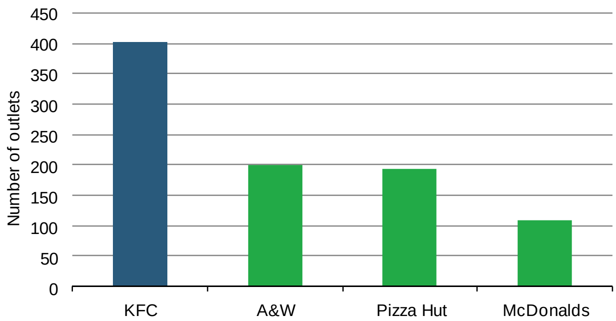
Fig 41: Competition

Business segment	Competitor	Listed / private
Fast food	A&W Indonesia	Private
Fast food	PT. Rekso Nasional Food (McDonald's)	Private
Fast food	PT. Sarimelati Kencana (Pizza Hut)	Private

Source: Company websites

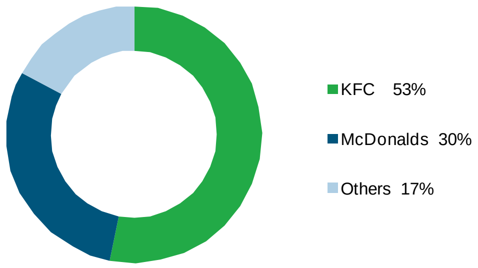
Market share

Fig 42: The leading fast-food operator in Indonesia



Pizza Hut and McDonalds as at 12 January 2012, KFC as at end 30 September 2011, A&W as at end 2010
Source: Company websites, Yum! Brands

Fig 43: Highest share of visits to fast-food restaurants



Source: Company

Company background

Fig 44: Company background

Main shareholders
- PT Gelael Pratama – 43.84%
- PT Megah Eraraharja – 35.84%

Management and directors
- Anthoni Salim – President Commissioner
- Elizabeth Gelael – Vice President Commissioner
- Benny S. Santoso – Commissioner
- Rudy Tanudjaja Saputra – Commissioner
- Ken Leksono – Independent Commissioner
- P. L. Gunawan Solaiman – Independent Commissioner
- Dick Gelael – President Director
- Ferry Noviar Yosaputra – Vice President Director
- Ricardo Gelael – Director
- Adhi Indrawan – Director
- Leonny Elimin – Director
- Justinus D. Juwono – Director

Significant outside business interests
- Anthoni Salim – Indofood Sukses Makmur
- Benny S. Santoso – First Pacific Co. Ltd, Bumi Serpong Damai, Indocement Tunggal Prakarsa, Indofood CBP Sukses Makmur, Indofood Sukses Makmur Tbk, and Nippon Indosari Corpindo

Head office and key assets
- Address: Jl Let Jend Haryono MT Kav 7, Jakarta, 12810, Indonesia. www.kfcindonesia.com
- 402 KFC restaurants across 32 of the 33 provinces
- 15,349 employees as at end September 2011

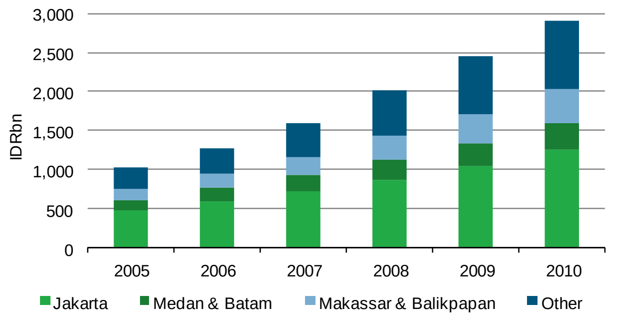
Latest results highlights
- Sales revenue grew by 13% YoY in 9M2011 to IDR2,442bn.
- Sales from Greater Jakarta grew at 11% YoY while for other regions it increased by 15% YoY.
- Gross profit margin increased by 50 bps YoY to 56.4% in 9M2011. However, EBIT margin fell marginally by 40 bps YoY to 9% in 9M2011.

Others
- In October 2011, FAST issued an IDR200bn 5-yr non-convertible bond at a fixed rate of 9.5% p.a. payable quarterly. This doubled its gearing from 26% to 52% based on a 9M2011 balance sheet, but FAST still retained a net cash position of IDR89bn.

Source: Company, Bloomberg, Thomson One

Four key operational charts

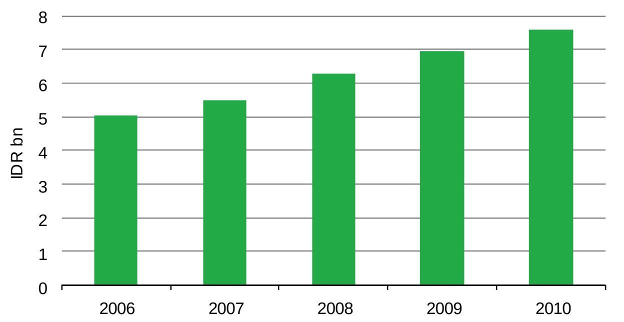
Fig 45: Revenue grew at 23% p.a. over 2005-10



Source: Company

- FAST's revenue grew steadily at 23% p.a. over 2005-10 across all the regions given the rise in disposable incomes and increasing urbanisation within Indonesia.
- Predominantly based in Greater Jakarta, which accounted for 43% of revenues in 2010 compared to 47% in 2005, the company is rapidly expanding into the other regions.
- Revenue from other regions grew at 25% p.a. over 2005-10, while revenue from Jakarta grew at 21% p.a. during the same period.

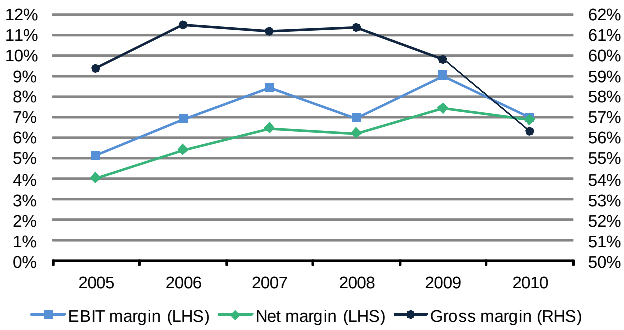
Fig 46: Revenue per average store is rising steadily



Source: Company

- FAST's restaurant network grew from 237 stores in 2005 to 398 in 2010 - on average opening 32 stores annually.
- Despite the significant growth in the restaurant network, revenue per store has continued to grow at 11% p.a. to IDR7.6bn in 2010 from IDR5.0bn in 2006, reflecting the acceptance of KFC's products throughout the archipelago.
- Restaurants in Greater Jakarta are still generating the highest revenue per store given favourable demographics. In 2010, revenue per store in Greater Jakarta was IDR8.9bn compared with IDR6.9bn elsewhere.

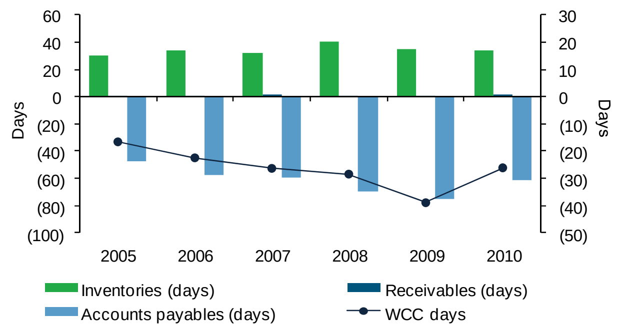
Fig 47: Margins hurt due to raw material cost inflation



Source: Company

- Gross margin contracted to 56% in 2010 from 60% in 2009 due to raw material cost inflation, despite management increasing ASPs by 4% in July 2010.
- Hence, EBIT and net margins contracted accordingly to 7% and 6.9%, respectively, in 2010.
- Noticeably, new regulations on higher minimum wages in 2008 hurt its EBIT margin, which fell to 7% from 8.4% in 2007 despite its gross margin remaining stable.

Fig 48: WCC fell back to average levels in 2010

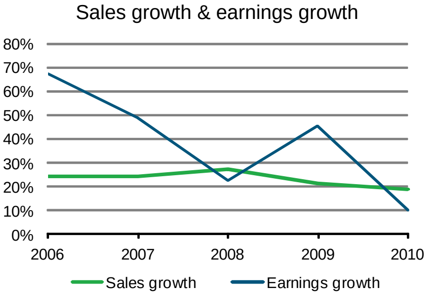


Source: Company

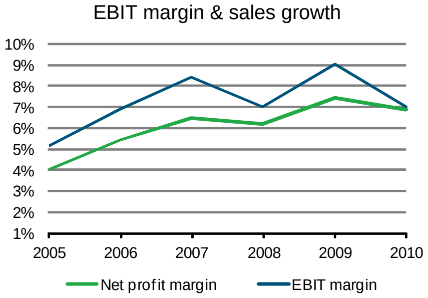
- FAST's working capital management has strengthened since 2005 from a working capital cycle (WCC) of negative 17 days to negative 39 days in 2009. However, in 2010, supplier credit fell by two weeks to 62 days from 75 days resulting in the WCC falling to negative 26 days.
- This compares with a WCC of negative 29 days for KFC Malaysia
- This has enabled FAST to remain cash rich reporting a net cash position since 2005, despite opening an average 32 restaurants annually.

Trend analysis and six-year financial data

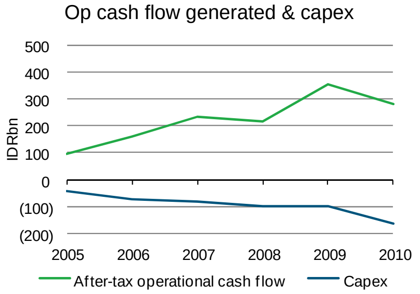
Growth



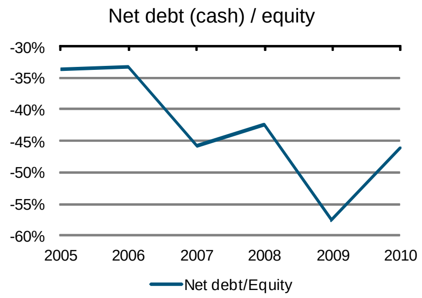
Margins



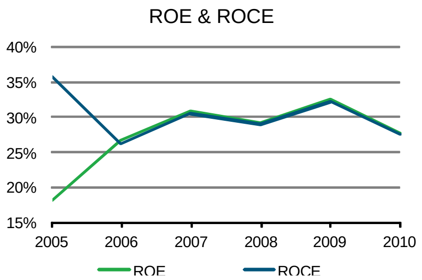
Cash flow



Balance sheet



Returns



Source: Company

Income statement (IDRbn)

Year end: Dec	2005	2006	2007	2008	2009	2010
Sales revenue	**1,028**	**1,276**	**1,590**	**2,023**	**2,454**	**2,914**
Gross profit	**610**	**785**	**973**	**1,241**	**1,468**	**1,640**
EBITDA	66	104	152	163	247	234
Depreciation & amortisation	(13)	(16)	(18)	(22)	(26)	(30)
EBIT	**53**	**88**	**134**	**141**	**221**	**204**
Net interest (expense) / income	3	6	5	8	12	14
Associates	-	-	-	-	-	-
Others	2	2	5	19	13	44
Income tax	(17)	(27)	(42)	(43)	(65)	(62)
PAT	**41**	**69**	**103**	**125**	**182**	**200**
Minorities	-	-	-	-	-	-
Net income	**41**	**69**	**103**	**125**	**182**	**200**

Cash flow (IDRbn)

Year end: Dec	2005	2006	2007	2008	2009	2010
Operating profit	**53**	**88**	**134**	**141**	**221**	**204**
Depreciation & amortisation	13	16	18	22	26	30
Working capital	-	11	13	16	44	(17)
Others	48	61	101	85	114	133
Operational cash flow	**114**	**176**	**265**	**264**	**405**	**349**
Tax paid	(16)	(16)	(31)	(46)	(49)	(69)
After-tax operational cash flow	**97**	**160**	**234**	**218**	**356**	**281**
Capex	(41)	(72)	(82)	(100)	(101)	(166)
Net interest	(1)	6	5	8	12	13
Debt	(3)	(3)	(3)	2	(3)	(5)
Dividends	(8)	(9)	(13)	(20)	(25)	(37)
Others	(53)	(61)	(65)	(70)	(74)	(85)
Net flow	**(8)**	**22**	**76**	**37**	**165**	**0**

Balance sheet (IDRbn)

Year end: Dec	2005	2006	2007	2008	2009	2010
Tangible assets	145	193	241	293	354	459
Prepaid rent	47	60	71	84	91	96
Associates/investments/others	66	76	82	104	119	175
Stocks	34	46	54	86	95	118
Debtors	3	4	6	6	8	14
Cash and liquid assets	83	104	175	211	374	374
Total Assets	**378**	**484**	**629**	**785**	**1,041**	**1,236**
Current creditors	55	78	101	149	204	215
Current borrowings	6	7	1	6	5	3
Long-term borrowings	0	1	0	1	1	2
Others	89	110	149	147	193	215
Total liabilities	**150**	**195**	**252**	**302**	**402**	**434**
Shareholders' funds	228	288	377	483	639	802
Minority interests	-	-	-	-	-	-
Equity	**228**	**288**	**377**	**483**	**639**	**802**
Total capital employed	**378**	**484**	**629**	**785**	**1,041**	**1,236**

Key data & ratio

Year end: Dec	2005	2006	2007	2008	2009	2010
EPS (IDR)	93	154	230	281	408	447
Chg %	n.a.	67%	49%	22%	45%	10%
DPS (IDR)	20	30	45	57	83	448
CFPS (IDR)	125	211	352	281	597	285
BVPS (IDR)	511	646	846	1,081	1,432	1,796
Wtd avg shares	0.45	0.45	0.45	0.45	0.45	0.45
ROE (%)	18%	27%	31%	29%	32%	28%
Post-tax ROCE (%)	16%	21%	25%	21%	25%	19%
Capex/sales (%)	-4%	-6%	-5%	-5%	-4%	-6%
Capex/depreciation (%)	307%	458%	449%	452%	387%	548%
Net debt/equity (%)	-34%	-33%	-46%	-42%	-58%	-46%
Total debt/Total capital (%)	2%	2%	0%	1%	1%	0%
Interest cover (%)	83	156	291	318	366	809

Source: Company

PT Modern Internasional Tbk.

NOT RATED

NON-COVERED COMPANY VISIT NOTE

Standard Chartered Equity Research does not cover this company and nothing herein should be interpreted to be a recommendation or price target with respect to the company.

PRICE as at 20 January 2012

IDR 3,300

Main themes discussed/Key points

- Market opportunity: PT Modern Internasional Tbk (Modern) is the master franchisee of 7-Eleven in Indonesia, which it believes embodies the future trend in Indonesia as the population shifts from buying basic goods in minimarts to lifestyle products in convenience stores.
- Under-penetrated: Modern currently has 57 stores in Indonesia while its main competitors Alfamart (NR) and Indomart (NR) have over 5,000 stores each.
- Highly scaleable: Management aims to open 60 stores in 2012 and to have 285 own stores and 156 franchise stores by end-2015.

What Modern (MDRN IJ) does
Modern is the sole distributor of Fujifilm products in Indonesia, but since 2009, has refocused its business as the master franchisee of 7-Eleven in Indonesia.

Why we visited Modern
Management believe that Modern addresses a future trend in Indonesia: that of people shifting from needs to desires. Indonesia's retail landscape is currently dominated by minimarts which sell basic goods, while 7-Eleven's convenience stores offer lifestyle products such as hotdogs and slurpees. As the first mover in convenience stores, Modern believes it has a significant opportunity to penetrate the market.

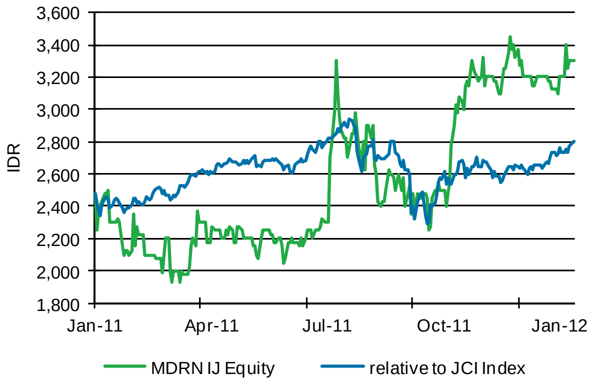
Valuations and share price performance
Based on consensus, Modern is trading at 36x 2012E PER and 4.5x 2012E price-to-book. The company is covered by two brokers with Buy recommendations.

Read-across to other companies
With continued urbanisation and a rapidly growing middle class in Indonesia, Modern reflects the robust domestic demand dynamics of the country. Modern also reflects the future trend of convenience stores as the entrance of Alfamart's subsidiary, PT Midi (MIDI IJ, NR, IDR415), into the convenience store market in Indonesia in 2011 via its franchised Lawson brand, attests.

Bloomberg code:	MDRN IJ	**PER historical (x)**	50.3
Mkt cap (IDRbn)	2,111	**Yield historical (%)**	0.3
12m range (IDR)	1,900-3,500	**P/B historical (x)**	5.7
		ROE (%)	12.0
3m value traded (USDm)	0.045	**Net gearing (%)**	67.5
No. of shares (m)	640	**Net debt (cash) (IDRbn)**	339
Established	1971	**Historical EPS (IDR)**	66
Listed	1991	**EPS 3-yr CAGR (%)**	186
Secondary placement	-	**EPS 7-yr CAGR (%)**	24
Auditors, since	EY 2002	**Historical DPS (IDR)**	10
Year-end	Dec	**DPS 3-yr CAGR (%)**	na
Major shareholder	Asialink Electronics Pte. Ltd – 38.92%		

Source: Company, Bloomberg, Thomson One

Share price performance (IDR)



Source: Bloomberg

Related research notes		
23/08/2011	Convenience Retail Asia	OUTPERFORM
27/10/2011	CP All	OUTPERFORM
22/11/2011	Convenience Retail Asia	OUTPERFORM

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Analyst visit note

Company background
The group was founded in 1971 as PT Modern Photo Film Company and became the sole distributor of Fujifilm products in Indonesia. The company was listed on the Jakarta Stock Exchange in 1991. With the film business steadily declining due to the rise of digital medium, in 2009, the group became the master franchisee for 7-Eleven in Indonesia and opened its first 7-Eleven store.

Beat strong competition for franchise
Modern secured the 7-Eleven master franchise against stiff competition from CP All (CPALL TB, O/P, PT THB53.67, last price THB55.75) of Thailand and Dairy Farm (DFI SP, NR, SGD9.82). The CP Group operates over 6,200 7-Eleven stores in Thailand. Dairy Farm is one of the leading retailers in Asia, operating Cold Storage and Guardian in Singapore and Mannings in Hong Kong. Modern's management believes it was selected because Seven & I Holdings (3382 JP, NR, JPY2108), the owner of the 7-Eleven brand, wanted a different store concept from other markets. Modern also has over 30 years of retail experience in Indonesia as at one point it operated over 3,000 Fujifilm photo shops across Indonesia.

Blend of QSR and mini-mart
The concept of Modern's 7-Eleven convenience stores is a blend of a quick-service restaurant and mini-mart. 60% of sales at its 7-Eleven stores are fresh food and proprietary beverages (eg. Slurpees) and its stores have dedicated dining areas. At the same time, the stores sell over 1,000 SKUs including cigarettes and packaged foods.

Competition and market opportunity
Indomart and Alfamart dominate the Indonesian mini-mart market, having started in 1988 and 1999, respectively. Indomart (not listed) has 5,600 stores (August 2011) and Alfamart (AMRT IJ, NR, IDR3975) over 5,700 stores (end 2011) across Indonesia. However, 7-Eleven is the first mover for convenience stores in Indonesia with 57 stores as at January 2012. Modern plans to initially focus solely on the greater Jakarta region (population of 20m) and aims to have 285 own stores and 156 franchise stores (for a total of 441 stores) by end-2015. As testimony to its strategy, Alfamart's subsidiary, PT Midi, started operating convenience stores via Lawsons of Japan in 2011. Bloomberg also reported recently that FamilyMart (8028 JP, NR, JPY3,025) plans to have 300 convenience stores in Indonesia by 2015.

Infrastructure is barrier to entry
Management believes infrastructure is key to being able to operate a large network of convenience stores as they offer fresh in-house food products. In May 2011, Modern opened phase 1 of its central kitchen facility that can support up to 60 stores. Management has planned four phases by the end of which it could support up to 750 stores in 2014. Such a central kitchen facility allows Modern to standardise and ensure the quality of its food products. In contrast, the Lawsons stores in Jakarta prepare their food on-site.

Store performance
For 2010, Modern's 7-Eleven generated an average revenue per store of IDR6.5bn / USD742,000 compared with USD783,000 for CP All (which operates 7-Eleven in Thailand), USD917,000 for Convenience Retail (832 HK, OP, PT HKD4.5, last price HKD3.25) (which operates Circle K in Hong Kong) and USD822,000 for President Chain Store (2912 TT, NR, TWD162) (which operates 7-Eleven in Taiwan).

Film business will decline, but 7-Eleven should rise
For 2010, only 10% of Modern's revenue came from 7-Eleven, with the rest predominantly from its film business and sales of pre-paid phone cards. The film business is steadily declining with a 26% fall in revenue from 2007-2010. Management expects the 7-Eleven business to lose c.IDR2bn in 2011, but to make a profit of about IDR40bn in 2012 (69% of consensus 2012 earnings). Based on the company's aggressive store roll-out plans, management expect to make IDR332bn from the 7-Eleven business by 2015.

Balance sheet
As at September 2011, Modern had net debt of IDR339bn, or 84% net gearing, up from 68% at end-2010 as it raised loans to fund the expansion of its 7-Eleven network. Its cash balance at end September 2011 was IDR16bn.

Capex intensive business
Management state that the capex per store is about USD300,000 and that the payback period is about three years. But rental expenses hurt its cash flow as management claim that it needs to pay five years' rental upfront.

Competition

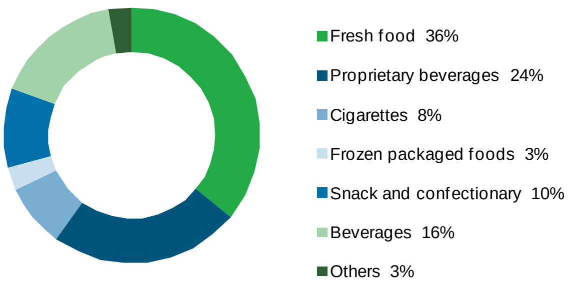
Fig 49: Competition

Business segment	Competitor	Listed / private
Minimarts	PT Sumber Alfaria Trijaya Tbk. (Alfamart)	Listed (AMRT IJ)
Convenience stores/Minimarts/Supermarkets	PT Midi Utama Indonesia	Listed (MIDI IJ)
Minimarts	PT Indomarco Prismatama (Indomaret)	Private
Minimarts	Circle K Indonesia	Private

Source: Bloomberg, Companies

Market share

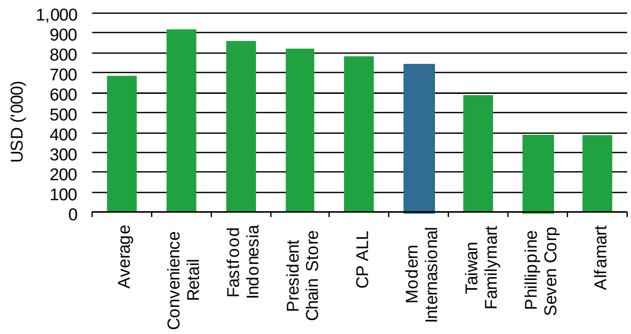
Fig 50: 7-Eleven sales breakdown - 2010



Legend: segments listed clockwise

Source: Company

Fig 51: Revenue per average store – FY2010



* Store number is the average of FY2009 and FY2010

Source: Companies, Bloomberg

Company background

Fig 52: Company background

Main shareholders
- Asialink Electronics Pte. Ltd – 38.92%
- PT Inti Putra Modern – 17.17 %
- Free float – 43.91%

Management and directors
- Achmad Fauzi Hasan– President Commissioner, Independent Commissioner
- Shern Yuan Chao – Commissioner
- Cuncun Mulyadi Wijaya Wibowo – Commissioner
- Sungkono Honoris – President Director
- Donny Sutanto – Finance Director
- Henri Honoris – Director
- Djwe Khian Lim – Director

Significant outside business interests
- None

Corporate/management dealing in company shares
- None

Head office and key assets
- Jalan Matraman Raya No 12, Jakarta, 13150, Indonesia www.moderninternasional.co.id
- 1,200 photography outlets as at end-2010
- 1,702 employees as at end-2010
- 57 7-Eleven stores as at 18 January 2012

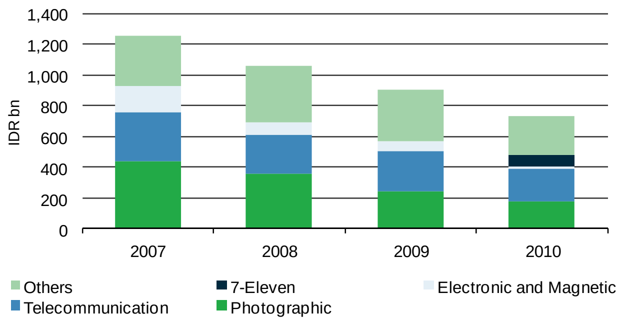
Recent M&A/disposals/failed business
- None

Latest results highlights
- Revenue grew 26% YoY in 9M11 to IDR658bn and net profit grew by 20% YoY to IDR37bn driven by the rapid growth of 7-Eleven outlets.
- Gross margins improved 28% in 9M11 from 26% in 9M10.
- However, net margin dropped marginally to 5.6% in 9M11 from 5.9% in 9M10 mainly due to one-offs in 9M10 (higher gains on sale of fixed assets and gain on forex).

Source: Company, Thomson One

Four key operational charts

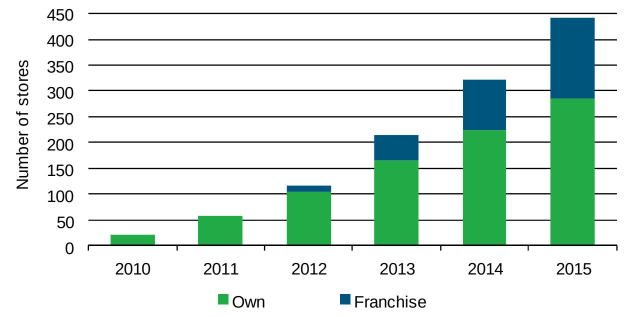
Fig 53: 7-Eleven is the new business driver



Source: Company

- Modern's business has been significantly affected by digital technology developments and group sales declined by 14% p.a. over 2005-10. The core photography business declined by 26% p.a. over 2007-10 and accounted for only 24% in 2010, from 34% in 2007.
- With the opening of the first 7-Eleven store in end-2009, the convenience store has been growing rapidly and accounted for 10% of group revenue in 2010.
- Hence, management plans to convert loss-making photography stores to 7-Eleven stores to drive revenue.

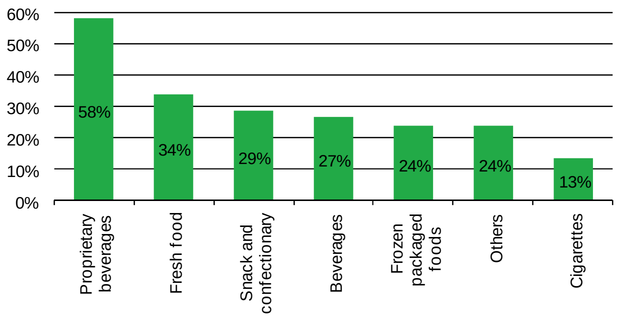
Fig 54: 7-Eleven expansion plans



Source: Company

- During the first 12 months of its operation, Modern grew its 7-Eleven network to 21 stores by end-2010.
- As at 18 January 2012, the network stood at 57 stores, in line with its plans to open 57 stores by end of 2011.
- Modern plans to expand the network to 441 stores by end-2015, of which 156 would be franchised.

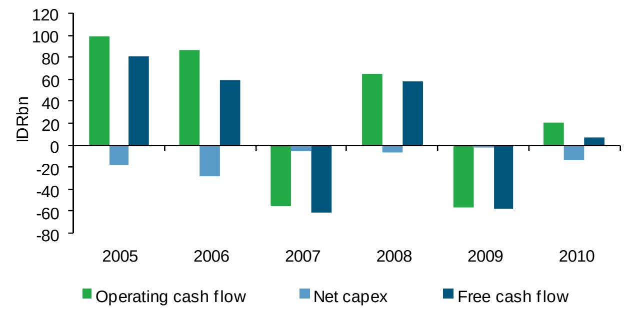
Fig 55: 7-Eleven's products have higher gross



Source: Company "2010 data"

- Modern's gross margin improved significantly in 2010 to 31% compared with an average of 22% over 2005-09 (range 20-22%), primarily due to 7-Eleven's higher contribution of 36%.
- 7-Eleven's proprietary beverages, which account for 24% of sales in 2010, generated a gross margin of 58% while fresh food's (36% of sales) gross margin was 34%.
- Excluding cigarettes, which accounted for only 8% of sales in 2010, all other segments generated a gross margin of more than 24% in 2010.

Fig 56: Free cash flow recovers despite higher capex

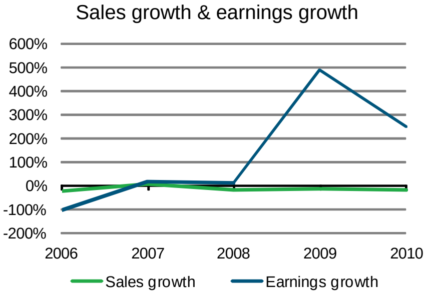


Source: Company

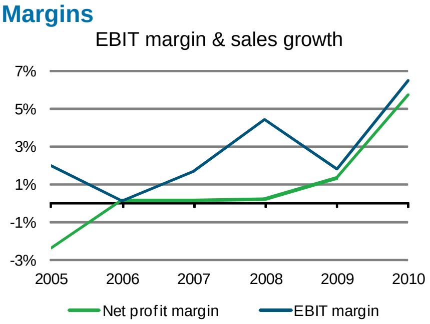
- Modern returned to positive free cash flow in 2010 despite its net capex-to-sales ratio increasing to 1.8% from 0.2% in 2009 versus an average of 1% over 2005-09.
- The capex of IDR57bn in 2010 was mainly driven by the expansion of the 7-Eleven network with 20 new outlets, while disposal proceeds of IDR43bn were mainly due to the sale of land and buildings.

Trend analysis and six-year financial data

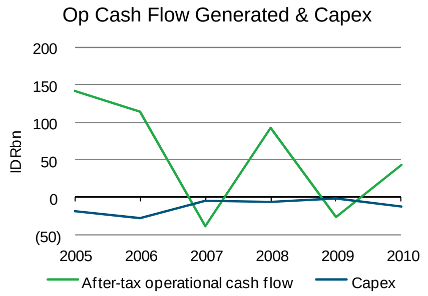
Growth



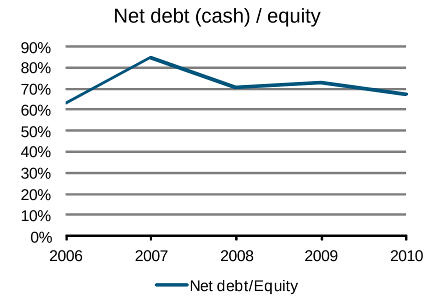
Margins



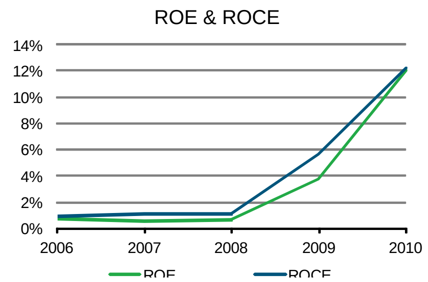
Cash flow



Balance sheet



Returns



Source: Company

Income statement (IDRbn)

Year end: Dec	2005	2006	2007	2008	2009	2010
Sales revenue	**1,533**	**1,191**	**1,256**	**1,057**	**899**	**733**
Gross profit	**344**	**259**	**249**	**237**	**197**	**230**
EBITDA	52	35	44	68	37	73
Depreciation & amortisation	(22)	(34)	(23)	(22)	(21)	(26)
EBIT	**30**	**1**	**21**	**46**	**16**	**47**
Net interest (expense) / income	(42)	(27)	(17)	(29)	(37)	(34)
Associates	-	-	-	-	-	-
Others	(21)	36	3	(2)	43	31
Income tax	(4)	(9)	(5)	(12)	(10)	(3)
PAT	**(37)**	**2**	**2**	**2**	**12**	**42**
Minorities	-	-	-	-	-	-
Net income	**(37)**	**2**	**2**	**2**	**12**	**42**

Cash flow (IDRbn)

Year end: Dec	2005	2006	2007	2008	2009	2010
Operating profit	**30**	**1**	**21**	**46**	**16**	**47**
Depreciation & amortisation	22	34	23	22	21	26
Working capital	(258)	94	(31)	(71)	22	29
Others	362	(13)	(49)	104	(78)	(56)
Operational cash flow	**157**	**116**	**(35)**	**101**	**(19)**	**47**
Tax paid	(15)	(2)	(4)	(9)	(7)	(3)
After-tax operational cash flow	**142**	**114**	**(39)**	**92**	**(26)**	**43**
Capex	(18)	(28)	(6)	(6)	(2)	(13)
Net interest	(43)	(27)	(17)	(27)	(30)	(23)
Debt	(99)	(51)	54	(70)	38	1
Dividends	-	-	-	-	-	-
Others	0	3	(2)	(0)	37	-
Net flow	**(18)**	**11**	**(9)**	**(11)**	**17**	**8**

Balance sheet (IDRbn)

Year end: Dec	2005	2006	2007	2008	2009	2010
Tangible assets	264	237	210	188	142	178
Initial franchise cost	-	-	-	-	25	22
Associates/investments/others	146	183	251	157	213	262
Stocks	324	298	254	261	170	120
Debtors	119	141	170	170	214	195
Cash and liquid assets	24	35	25	14	10	18
Total Assets	**877**	**894**	**910**	**791**	**773**	**794**
Current creditors	185	275	229	165	140	100
Current borrowings	443	205	208	183	218	154
Long-term borrowings	48	26	85	56	32	113
Others	74	74	72	70	53	59
Total liabilities	**751**	**580**	**595**	**473**	**444**	**425**
Shareholders' funds	126	314	315	317	329	368
Minority interests	-	-	-	-	-	-
Equity	**126**	**314**	**315**	**317**	**329**	**368**
Total capital employed	**877**	**894**	**910**	**791**	**773**	**794**

Key data & ratio

Year end: Dec	2005	2006	2007	2008	2009	2010
EPS (IDR)	(139)	4	3	3	19	66
Chg %	n.a.	-103%	-24%	14%	484%	249%
DPS (IDR)	-	-	-	-	-	10
CFPS (IDR)	246	135	(112)	86	(121)	(57)
BVPS (IDR)	471	490	493	496	515	576
Wtd avg shares	0.27	0.42	0.64	0.64	0.64	0.64
ROE (%)	-29%	1%	1%	1%	4%	12%
Post-tax ROCE (%)	5%	0%	1%	1%	1%	7%
Capex/sales (%)	-1%	-2%	0%	-1%	0%	-2%
Capex/depreciation (%)	80%	83%	24%	29%	9%	52%
Net debt/equity (%)	373%	63%	85%	71%	73%	68%
Total debt/Total capital (%)	56%	26%	32%	30%	32%	34%
Net interest cover (%)	0.7	0.0	1.2	1.6	0.4	1.4

Source: Company

Gajah Tunggal Tbk

NOT RATED

NON-COVERED COMPANY VISIT NOTE

Standard Chartered Equity Research does not cover this company and nothing herein should be interpreted to be a recommendation or price target with respect to the company.

PRICE as at 20 January 2012

IDR2,975

Main themes discussed/Key points

- Market leadership: In 2010, Gajah Tunggal Tbk (GT) was Indonesia's leading player for bias tyres and motorcycle tyres in the domestic replacement market.
- Robust domestic demand: Indonesian auto sales grew 14% YoY in 2011 and GT expects this market to be its main sales driver in 2012.
- Resilient export market: GT is seeing no weakness in demand as consumers trade down to cheaper tyres.
- GT forecasts a rebound in natural rubber prices from the current USD3.5/kg to USD4-4.5/kg in 2012.

- **What GT does**
  GT is Southeast Asia's largest tyre manufacturer and had the leading market share for bias tyres and motorcycle tyres in Indonesia at 52% and 56%, respectively, in 2010, for domestic replacement tyres.

- **Why we visited GT**
  GT believes it is a beneficiary of Indonesia's robust auto demand and thinks it should also benefit from the Land Acquisition Reform Act as new roads should lead to stronger auto sales.

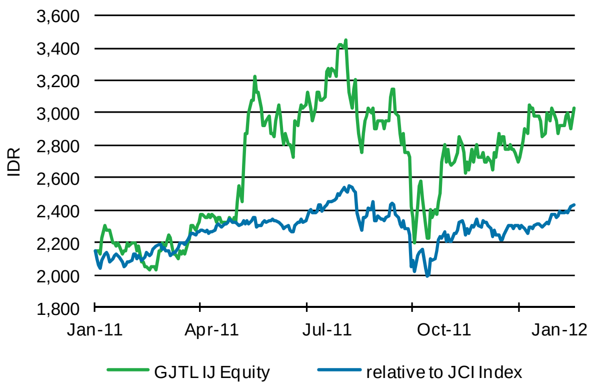
- **Valuations and share price performance**
  Based on consensus, GJTL is trading at 10.1x 2012E PER and 1.9x 2012E price-to-book. The company is covered by six brokers, with 4 Buy, 1 Sell and 1 Hold recommendations.

- **Read-across to other companies**
  As the tyre industry makes up about 80% of global end demand for natural rubber, GT provides a good gauge on its end demand. GT is experiencing robust end-demand for tyres in Indonesia and its export markets. It expects global rubber prices to trend higher. Its internal estimate for natural rubber is USD4-4.5/kg in 2012 compared with the current price of USD3.5/kg.

Bloomberg code:	GJTL IJ	**PER historical (x)**	12.5
Mkt cap (IDRbn)	10,367	**Yield historical (%)**	0.4
12m range (IDR)	2,017-3,450	**P/B historical (x)**	2.9
3m value traded (USDm)	0.907	**ROE (%)**	26.8
No. of shares (m)	3,489	**Net gearing (%)**	85.4
Established	1951	**Net debt (cash) (IDRbn)**	3.010
Listed	1990	**Historical EPS (IDR)**	238
Secondary placement	2004	**EPS 3-yr CAGR (%)**	101.7
Auditors, since	D&T, 1997	**EPS 6-yr CAGR (%)**	7.9
Year-end	Dec	**Historical DPS (IDR)**	12
		DPS 3-yr CAGR (%)	33.9
Major shareholder			Denham Pte Ltd – 50%

Source: Company, Bloomberg, Thomson One

Share price performance (IDR)



Source: Bloomberg

Related research notes		
14/04/2011	Sri Trang Agro	OUTPERFORM
15/07/2011	GMG Global	OUTPERFORM
25/10/2011	GMG Global	OUTPERFORM
16/11/2011	Sri Trang Agro	OUTPERFORM
24/11/2011	Apollo Tyres	OUTPERFORM
10/01/2012	India auto sector	N.A.

Source: Standard Chartered Research

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Analyst visit note

Company background

GT was founded in 1951 by Sjamsul Nursalim as a bicycle tyre manufacturer, but since then the group has grown to become SE Asia's largest tyre producer. Management state that during the Asian Financial Crisis, GT went into receivership and was transferred to the Indonesian Restructuring Bank. In 2004, Michelin acquired a 10% stake and in 2006, Denham Pte Ltd, controlled by Sjamsul Nursalim's children, acquired a stake to enter the business.

Revenue breakdown and margins by product

Tyres: For 9M11, GT's sales were 39% radial tyres (passenger cars), 31% bias tyres (trucks and bus), 20% motorcycle tyres, 5% synthetic rubber and 5% tyre cord. Management advised a gross margin for radial tyres of 12-16%; bias tyres at 15-20% and motorcycle tyres of 10-12%.

Exports: trading down benefits tier-two brands

For 9M2011, 42% of GT's sales were export-driven; the remainder was 44% from replacements and 14% from OEM. GT's export sales were split 45% to America, 23% to Europe, 14% to the Middle East, 12% to Asia (remaining 6% to others). GT's export sales actually rose in 2011 despite the global economic uncertainty as it is positioned for the mid-to-low end. GT sees a clear trend of consumers trading down from tier-one to tier-two brands, and expects its export sales will remain stable in 2012.

Leading market position

GT estimates it is the number one player in Indonesia for bias tyres (replacement tyre market) with a 52% share (2010). GT also estimates it is the number one player for motorcycle replacement tyres in Indonesia with a 56% market share. For radial replacement tyres, GT estimates it is number three with a 22% market share in Indonesia after Bridgestone (37%) and Dunlop (28%).

Cost breakdown

GT production costs are predominantly raw materials (80%), followed by labour (6%), energy (7%), depreciation (3%) and overheads (4%). Within raw materials, natural rubber is the largest component at 44%, followed by synthetic rubber at 22%. The rest is mainly tyre cords (11%) and a petroleum product called carbon black (10%).

Natural rubber price outlook and margins

GT claims gross margins of 20% in FY2010, but gross margins declined to 14% for 9M2011 due to the 49% rise in natural rubber prices (average 9M2011 compared to 9M2010). GT's 2012 internal forecast for natural rubber's price is USD4-4.5/kg compared with a spot price of USD3.5/kg. GT reviews its pricing structure quarterly and for its own brands, it takes GT about 3-6 months to pass on the increase in raw material prices to end customers.

Growth

From 2005-10, GT compounded its sales at 15% p.a. and its net profit at 19% p.a. Management expect 2011 sales to grow by 20-25%, of which 10-15ppt was accounted for by volume increases and the remainder largely due to ASP rises. GT expects 2012 sales to grow by 20%, driven largely by volume increases in the domestic replacement market.

Capacity expansion

At end-2011, GT's manufacturing capacity was 45k/day for radial tyres and 90k/day for motorcycle tyres. GT plans to increase its motorcycle tyre capacity to 105k/day (+17% increase). Given global economic uncertainty, management is still reviewing whether to expand GT's radial tyre capacity further. As at 9M2011, GT's radial tyre capacity was running at 78% utilisation, bias tyre's was 85%, and motorcycle's at 72%.

Positive macro drivers

GT believes it is a beneficiary of Indonesia's robust auto sales. In 2011, Indonesian auto sales reached 870,000 units (14% increase YoY) and management expect auto sales to reach 1m units in 2012 (15% increase YoY). It also believes the auto industry should benefit from the new Land Acquisition Reform Act as new roads should allow for larger car volumes.

Debt due in 2014

As at Sept 2011, GT had total debt of IDR3,713bn, or 73% net gearing. GT's net gearing peaked in 1Q09 at 321%. GT has debt maturities totaling IDR3,619bn in 2014 and management advised it is considering raising equity to service the debt.

Capex and cash flow

From 2005-11, GT had a capex programme of USD180m to expand capacity. Based on its current capacity plan, it expects it will only need to spend maintenance capex of about USD30m in 2012. GT has been generating positive free cash flow since 2006. In addition, GT owns 26% of Polychem Indonesia (ADMG IJ, NR, IDR600), and GT plans to sell its stake as it is not a core part of its operations. The book value of Polychem Indonesia was IDR2,532bn as at end 9M2011, while the market value was IDR2,334bn as at 20 January 2012.

Shareholding

Denham Pte Ltd, a private company controlled by the children of Gajah Tunggal's founders, holds 49.7% of GT. Michelin of France owns 10% and the remaining free float is 40%.

Competition

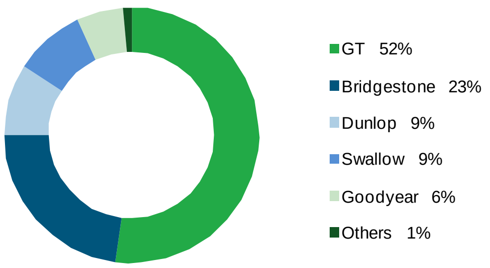
Fig 57: Competition

Business segment	Competitor	Listed / private
Rubber - tyres	Multistrada Arah Sarana Tbk PT	Listed (MASA IJ)
Rubber - tyres	Goodyear Indonesia Tbk PT	Listed (GDYR IJ)

Source: Bloomberg

Market share

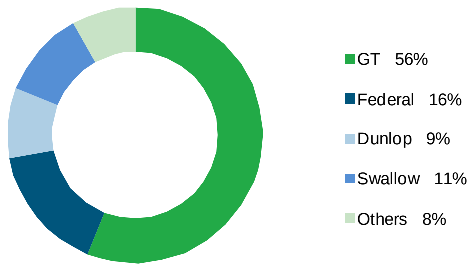
Fig 58: Market leader in bias tyres in Indonesia



Legend: segments listed clockwise from top

Source: Company, APBI (Indonesia Tire Manufacturer Association) – 2010 data

Fig 59: Market leader in motorcycle tyres in Indonesia



Legend: segments listed clockwise from top

Source: Company, APBI (Indonesia Tire Manufacturer Association) – 2010 data

Company background

Fig 60: Company background

Main shareholders
- Denham Pte Ltd – 49.70%
- Michelin Cie – 10.00%

Management and directors
- Dibyo Widodo – President Commissioner
- Mulyati Gozali – Vice President Commissioner
- Benny Gozali – Commissioner
- Sean Gustav Standish Hughes – Commissioner
- Howell Rembrandt Pickett Keezell - Independent Commissioner
- Gautama Hartarto – Commissioner
- Sang Nyoman Suwisma – Independent Commissioner
- Sunaria Tadjuddin – Independent Commissioners
- Christopher Chan Siew Choong – President Director
- Budhi Santoso Tanasaleh – Vice President Director
- Irene Chan – Director
- Lin Jong Jeng – Director
- Tan Enk Ee – Director
- Hendra Soerijadi – Director
- Catharina Widjaja – Director
- Kisyuwono – Director
- Daniel Johannes Langner - Unaffiliated Director

Significant outside business interests
- Dibyo Widodo – Plaza Indonesia Realty
- Hendra Soerijadi – Polychem Indonesia
- Tan Enk Ee – Gul Technologies Singapore Ltd
- Howell Rembrandt Pickett Keezell - Polychem Indonesia

Head office and key assets
- Address: Wisma Hayam Wuruk, 10th floor, J, Hayam Wuruk No. 8, Jakarta 10120, Indonesia.
- 5 modernised tyre and inner tubes manufacturing plants.
- 2 tyre-related production facilities and a synthetic rubber plant.
- 11,725 employees as at December 2010.

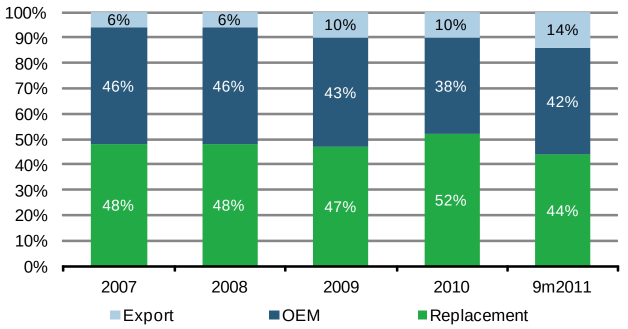
Latest results highlights
- Revenue grew 23% YoY in 9M2011 to IDR8,722bn while net profit declined by 11% YoY to IDR592bn.
- Gross margins contracted 13.7% in 9M2011 from 20.4% in 9M2010 due to rising material prices namely, natural and synthetic rubber, and energy.

Others
- GT is planning to sell a 26.25% stake in PT Polychem Indonesia Inc, according to the Corporate Communications Director (Businessweek, 9 August, 2011)

Source: Company, Bloomberg, Thomson One

Four key operational charts

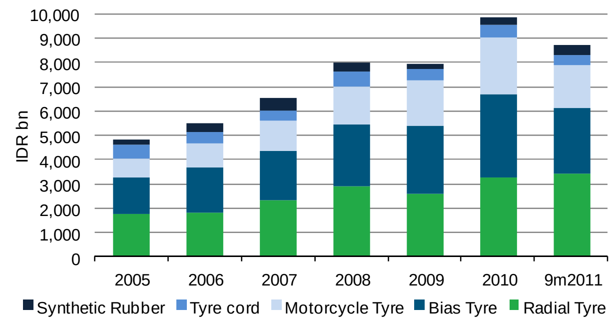
Fig 61: GT's tyre exports to the West are picking up



Source: Company

- GT's has been producing own-brand tyres predominantly for domestic consumption and for the OEM market. In 9M2011, these two markets accounted for 86% of total tyres sales compared with 94% in 2007.
- The Michelin contract is the highest contributor to the OEM segment. Starting from 2004, GT now produces 5m tyres p.a. for Michelin in its export markets.
- GT's tyre exports, which are mainly for replacement, rose to 14% of sales in 9M2011 from 6% in 2007.

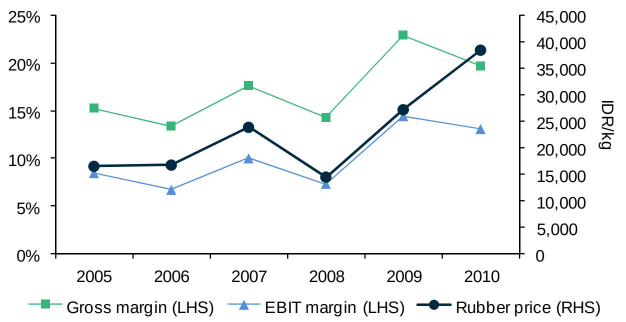
Fig 62: Radial tyres regain #1 position in 9m2011



Source: Company

- Radial tyres grew at 13% p.a. over 2005-10, accounting for 39% of 9M 11total sales.
- Bias tyre sales grew at 18% p.a. over 2005-10 and contributed 31% of 9M11 total revenue. This was mainly driven by the rise in middle class and the demand for cheaper and easy-to-use tyres.
- Motor cycle tyres are the fastest-growing segment and reflect the emergence of the new Indonesian middle class and higher rural consumption. Sales grew at 24% p.a. over 2005-10, accounting for 20% of 9M11 total sales.

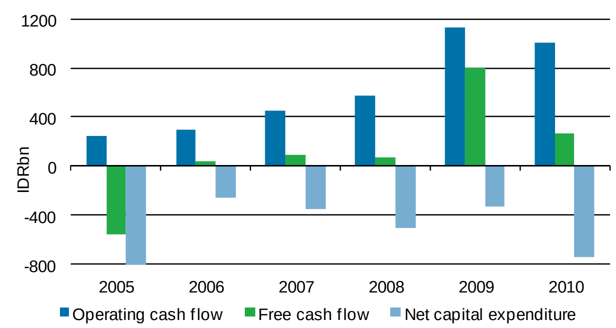
Fig 63: Margins followed rubber prices except in 2010



Source: Company, Bloomberg "IPHRPL1 Index"

- GT's margins display a positive correlation with rubber price except in 2010.
- In 2010, despite natural and synthetic rubber reaching record highs, GT was unable to pass on all the cost increases to customers.
- Further, rising energy costs due to the government's implementation of a strict limit on electricity supply to manufacturers and the imposition of high surcharge rates on natural gas usage above certain quotas saw the gross margin contract to 20% in 2010, from 23% in 2009.

Fig 64: Significant capex but free cash flow strong



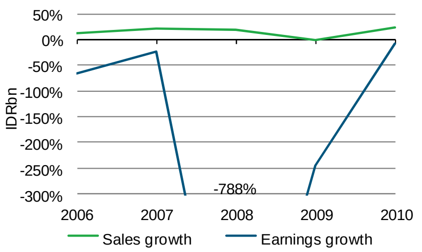
Source: Company

- Free cash flow (FCF) fell by 67% YoY to IDR263bn in 2010 as GT continued its expansion programme, which commenced in 2005.
- Capex fell to 2.2% of sales in 2009 (vs 2005-08 average of 5.6%) due to a drop in utilisation which resulted in a delay in the radial and the motorcycle tyre's capacity expansion. Capex-to-sales rose to 3.8% in 2010.
- The drop in 2010 operating cash flow (OCF) by 11% YoY was mainly due to rising net tax payments (33% of OCF in 2010 vs 2% in 2009) also contributed to the lower FCF.

Trend analysis and six-year financial data

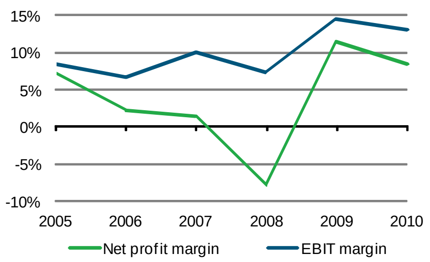
Growth

Sales growth & earnings growth



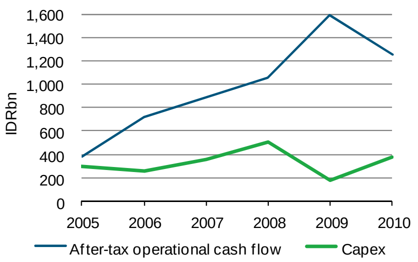
Margins

EBIT margin & sales growth



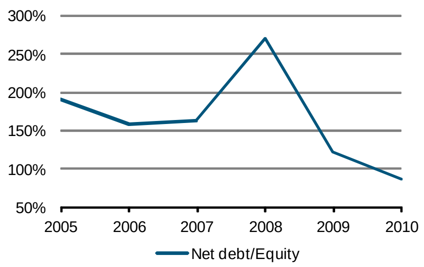
Cash flow

Op cash flow generated & capex



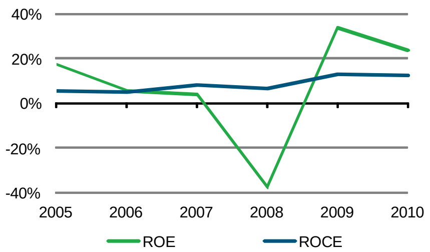
Balance sheet

Net debt (cash) / equity



Returns

ROE & ROCE



Source: Company

Income statement (IDRbn)

Year end: Dec	2005	2006	2007	2008	2009	2010
Sales revenue	**4,834**	**5,471**	**6,660**	**7,963**	**7,936**	**9,854**
Gross profit	**738**	**731**	**1,175**	**1,135**	**1,822**	**1,939**
EBITDA	664	646	962	902	1,500	1,661
Depreciation & amortisation	(257)	(281)	(297)	(320)	(355)	(373)
EBIT	**407**	**365**	**665**	**581**	**1,145**	**1,287**
Net interest (expense) / income	(170)	(371)	(395)	(451)	(400)	(310)
Associates	12	(77)	17	(76)	16	49
Others	(56)	317	(146)	(829)	513	94
Income tax	(21)	(115)	(49)	149	(368)	(290)
PAT	**172**	**118**	**91**	**(625)**	**905**	**831**
Minorities	-	-	-	-	-	-
Net income	**347**	**118**	**91**	**(625)**	**905**	**831**

Cash flow (IDRbn)

Year end: Dec	2005	2006	2007	2008	2009	2010
Operating profit	**407**	**365**	**665**	**581**	**1,145**	**1,287**
Depreciation & amortisation	(257)	(281)	(297)	(320)	(355)	(373)
Working capital	(958)	81	(100)	427	(58)	(663)
Others	1,250	598	720	489	962	1,484
Operational cash flow	**443**	**763**	**988**	**1,177**	**1,694**	**1,735**
Tax paid	(58)	(46)	(99)	(126)	(107)	(478)
After-tax operational cash flow	**386**	**717**	**888**	**1,051**	**1,587**	**1,257**
Capex	(297)	(260)	(356)	(507)	(177)	(378)
Net interest	(138)	(418)	(439)	(480)	(450)	(246)
Debt	4,156	3,639	4,463	4,626	4,044	3,876
Dividends	-	(16)	(13)	(17)	-	(59)
Others	(3,927)	(3,702)	(4,213)	(5,110)	(4,311)	(4,358)
Net flow	**179**	**(40)**	**330**	**(437)**	**693**	**93**

Balance sheet (IDRbn)

Year end: Dec	2005	2006	2007	2008	2009	2010
Tangible assets	3,179	3,185	3,270	3,619	3,609	4,076
Intangible assets	-	-	-	-	-	-
Associates/investments/others	2,950	2,876	3,508	4,087	3,485	3,760
Stocks	440	366	396	296	323	372
Debtors	634	608	708	542	645	1,298
Cash and liquid assets	276	240	573	170	815	866
Total Assets	**7,479**	**7,276**	**8,455**	**8,714**	**8,877**	**10,372**
Current creditors	494	636	547	1,280	718	1,062
Current borrowings	211	241	524	45	-	-
Long-term borrowings	3,944	3,398	3,939	4,581	4,044	3,876
Others	800	866	1,059	1,158	1,445	1,906
Total liabilities	5,449	5,141	6,069	7,064	6,206	6,845
Shareholders' funds	2,030	2,135	2,386	1,649	2,671	3,527
Minority interests	-	-	-	-	-	-
Equity	**2,030**	**2,135**	**2,386**	**1,649**	**2,671**	**3,527**
Total capital employed	**7,479**	**7,276**	**8,455**	**8,714**	**8,877**	**10,372**

Key data & ratio

Year end: Dec	2005	2006	2007	2008	2009	2010
EPS (IDR)	54	37	29	(179)	260	238
Chg %	n.a.	-31%	-22%	-717%	-245%	-8%
DPS (IDR)	5	5	5	0	17	12
CFPS (IDR)	78	94	129	164	326	290
BVPS (IDR)	641	674	685	473	766	1012
Wtd avg shares	3.17	3.17	3.18	3.48	3.48	3.48
ROE (%)	17%	6%	4%	-38%	34%	24%
Post-tax ROCE (%)	7%	9%	13%	11%	22%	22%
Capex/sales (%)	-6%	-5%	-5%	-6%	-2%	-4%
Capex/depreciation (%)	-116%	-93%	-120%	-158%	-50%	-101%
Net debt/equity (%)	191%	159%	163%	270%	121%	85%
Total debt/Total capital (%)	56%	50%	53%	53%	46%	37%
Interest cover (%)	2.3	1.0	1.6	1.3	2.7	3.5

Source: Company

Mandom Indonesia

NOT RATED

NON-COVERED COMPANY VISIT NOTE

PRICE as at 20/01/2012

IDR8,000

Main themes discussed/Key points

- Mandom Indonesia Tbk PT (TCID), 60% owned by Mandom Corporation Japan (4917 JP, NR, ¥2388), is a market leader in hair care products with 75% market share in Indonesia, according to management.
- The group's focus over the next 3 years is to grow womens' products, move into the mid-to-high end product segment and expand further in new export markets such as India.
- TCID is planning the next stage of its capacity expansion, which could involve utilising its second land parcel of 14.6 hectares, 4x larger than its existing facility.

- **What TCID does**
  TCID manufactures and sells cosmetics, perfumery, household health products, toiletries and plastic packaging to domestic and international markets. TCID's key segments include hair care; skin care and make-up; and fragrance. India and the UAE are TCID's main export markets.

- **Why we visited TCID**
  TCID is the market leader for hair care products in Indonesia, with 75% market share. Leveraging on the branding and technical expertise of its parent – Mandom Japan, the group has been actively launching new products across all its segments. The company has no debt and is highly cash generative with positive free cash flows during the past 5 years. The company is curbing costs, streamlining operations and strengthening infrastructure and expanding its production capacity to meet high export demand.

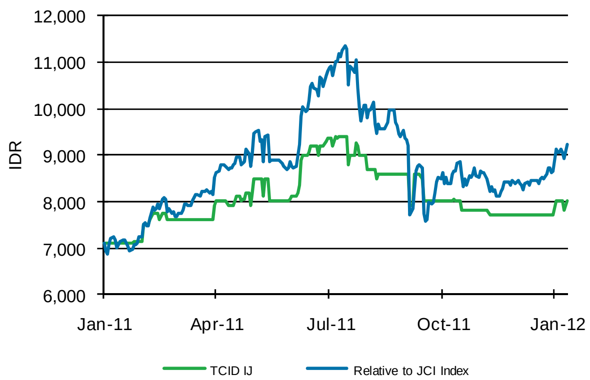
- **Valuations and share price performance**
  There is no analyst coverage of this company. TCID traded at a historical PER of 12.2x and a PBV of 1.7x in 2010.

- **Read-across to other companies**
  Management expects the local cosmetics market to sustain at least 10% growth p.a. in the next 3-5 years. It reported that domestic consumption was undeterred by the global economic slowdown but that the export business faced forex fluctuations. Competition with multinationals is limited due to different market positioning (TCID's strength is in mid-to-low product ranges). Unilever (UNVR IJ, NR, IDR21,000) is not a direct competitor as it only competes in the fragrance segment among TCID's diversified product range.

Bloomberg code:	TCID IJ	**PER historical (x)**	12.2
Mkt cap (IDRbn)	1,609	**Yield historical (%)**	4
12m range (IDR)	7,000-9,400	**P/B historical (x)**	1.7
3m value traded (IDRm)	78.8	**ROE (%)**	14
No. of shares (bn)	0.2	**Net gearing (%)**	-14
Established	1969	**Net debt (cash) (IDRbn)**	-129
Listed	1993	**Historical EPS (IDR)**	653.7
Secondary placement	n.a.	**EPS 3-yr CAGR (%)**	3
Auditors, since	OBSR,2010	**EPS 7-yr CAGR (%)**	5
Year-end	Dec	**Historical DPS (IDR)**	340.0
		DPS 3-yr CAGR (%)	7
Major shareholder		Mandom Corporation Japan – 60%	

Source: Company, Bloomberg

Share price performance (IDR)



Source: Bloomberg

Related research notes

28/11/11	L'Occitane International	OUTPERFORM
14/10/11	Mitra Adiperkasa	OUTPERFORM
24/08/11	Natural Beauty	OUTPERFORM
28/11/11	Sa Sa International	IN-LINE

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Analyst visit note

Company background

TCID was formed as a joint venture between Mandom Corporation Japan and PT The City Factory in 1971, as a hair care manufacturer. The company subsequently expanded production to include cosmetics, fragrances, skin care and personal hygiene products. TCID listed on the Indonesia Stock Exchange in 1993. The company's main products fall under the main sub brands Gatsby, Pixy and Pucelle. The company also has other brands in its product portfolio, including Tancho, Mandom, Spalding, Lovillea and Miratone.

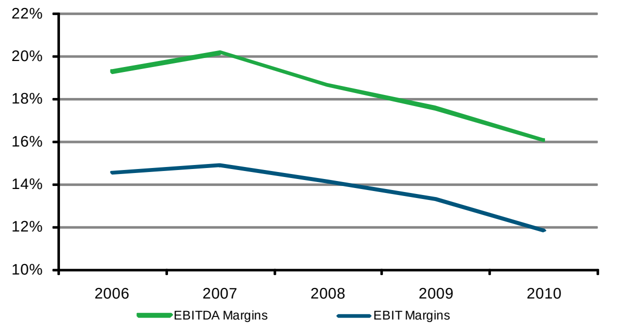
Revenue breakdown

Hair care is TCID's primary segment, contributing 36% to total revenue in 2010, although the segment revenue declined 2% YoY in 2010. Skin care products grew 11% YoY to account for 34% of revenue. The fragrance segment grew 10% YoY and accounted for 30% of 2010 revenue. According to management, revenue is equally split between men's and women's products. Approximately 75% of sales are domestic and 25% from exports. The company's main export destinations include the United Arab Emirates (UAE), Japan, India, Malaysia and Thailand. Exports to India and the UAE grew by 59% and 34%, while overall exports grew 6% YoY in 2010.

Short term margin pressure due to A&P spending to target the mid to high-end customers

EBIT and EBITDA margins contracted 1ppt and 2ppts, respectively, to 12% and 16% in 2010 mainly due to A&P spending. The group expects A&P spending to remain at 10-13% of sales as it plans to move towards the mid-to-high end segment (from mid-to-low) by introducing more high-end products. Going forward, management expects a net profit margin of 8-9%.

Fig 65: EBIT margins weighed by A&P spending



Source: Company

Competitive advantage

TCID occupies a niche position in the mid-to-low-end market and has leading market share of 75% in hair products. TCID offers 138 products to the domestic market and 77 products internationally.

Growth drivers

Management believes demand from international markets such as India and the UAE will grow. To accommodate the increase in this demand, the group is planning to utilise its second plot of land measuring 14.6 hectares, which is approximately 4x larger than its existing premises. In addition, the group is working with Mandom Japan to introduce new products to move towards the mid-to-high end segment to achieve higher margins in the long run.

Competition

According to management, its competitors are mainly multinationals such as Unilever and P&G (PG US, NR, USD64.64,), and local players such as Martina (MBTO IJ, NR, IDR415) and Mustika (MRAT IJ, NR, IDR530) Competitive pressure varies across product categories. The group faces direct competition from Unilever on fragrances but not much in other categories. Competition with local players is mainly in the fragrances and cosmetics space. Management believes TCID is leading significantly in terms of hair products.

No debt, positive free cash flows

The company has no debt and has contributed positive free cash flows every year in the last 2 years. According to its historical track record, the group opts for rights issues when it requires major capex, usually for capacity expansion.

Steady profitability

Revenue increased 9% YoY in 9M11 but net profit fell by 2% YoY during the same period due to an 11% increase in operating expenses and an IDR1.8bn increase in the loss on foreign exchange. EBIT margins fell slightly by 1%pt to 12% in 9MFY11. The group reported revenue CAGR of 10% and net profit CAGR of 7.2% over FY05-FY10. ROE remained stable at 14.4% in 2010 Net profit margin and sales to assets remained stable at 9% and 1.4x.

Rising dividends

Dividends grew every year over the past 5 years in tandem with consecutive revenue growth during the period. Dividend per share grew at a CAGR of 6% over FY05-10 on an increasingly higher dividend payout ratio (from 40% in 2005 to 52% in 2010).

Capex plan

CAPEX-to-sales fluctuated between 4-5% in the past two years. Going forward, the group targets an annual capex of IDR80bn, excluding development of the second land parcel.

Corporate governance

TCID's Board of Commissioners (BOC) comprises 5 members including 2 independent commissioners. The BOD comprises 10 members in total, including 4 'not affiliated' directors.

Competition

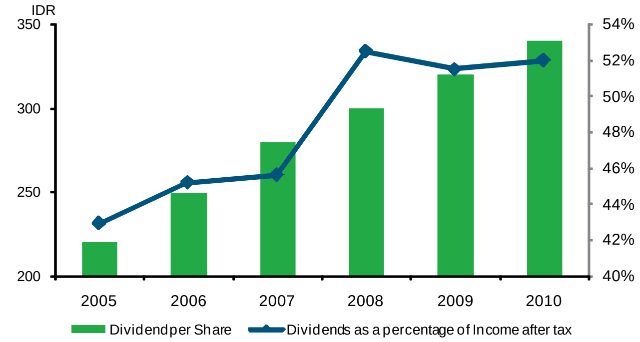
Fig 66: Competition

Business segment	Competitor	Listed / private
Cosmetics and Toiletries	Unilever	Listed (UL US)
Cosmetics and Toiletries	P&G	Listed (PG US)
Cosmetics and Toiletries	Martina	Listed (MBTO IJ)
Cosmetics and Toiletries	Mustika	Listed (MRAT IJ)

Source: Bloomberg

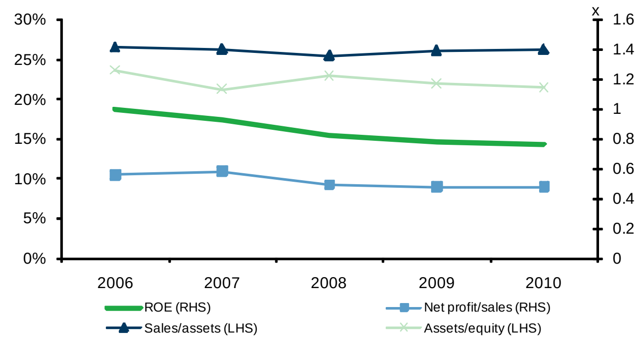
Key charts

Fig 67: Rising dividends



Source: Company

Fig 68: Stable ROE



Source: Company

Company background

Fig 69: Company background

Main shareholders

- Mandom Corporation Japan – 60%
- PT Asia Jaya Paramita – 11%
- Free float – 29%

Management and directors

- Masayoshi Momota – President Commissioner
- Motonobu Nishimura – Commissioner
- Lie Harjono – Commissioner
- Tatsuyoshi Kitamura – President Director/ CEO
- Yoshihiro Tsuchitani – Vice President Director
- Takeshi Hibi – Senior Director
- Koichi Watanabe – Director
- Yoshitaka Nishihira – Director
- Katsutoshi Shigemura – Director

Head office and key assets

- Address: Jl. Yos Sudarso, By Pass, PO BOX 1072, Jakarta 14010, Indonesia.
- Cosmetic factory and head-office in Sunter, plastic packaging factory in West Java, logistic centre and factory in Cibitung.
- TCID had 4,172 employees as at December 2010.

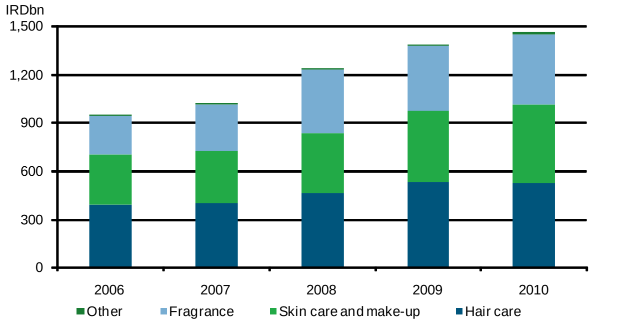
Latest results highlights

- Sales revenue increased 9% YoY in 9m2011 to IDR1,209.8bn.
- Gross profit increased 7% YoY to IDR438.3bn in 9m2011. Gross margins declined 1 ppt YoY to 36% in the same period.
- Net profit declined 2% YoY to IDR108.9bn in 9m2011 due to an IDR1.8bn increase in loss in foreign exchange and an 11% increase in operational expenditure. Net profit margins declined 1 ppt YoY to 9% in the same period.

Source: Company

Four key operational charts

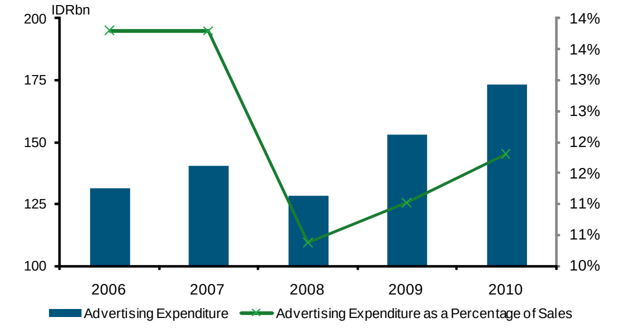
Fig 70: Uninterrupted revenue growth



Source: Company

- Although the hair care segment is the primary contributor to revenue, its importance has been declining. The hair care segment contributed a 41% share to total revenue in 2006, but declined to 36% by 2010.
- Revenue from skincare and make up increased from 32% in 2009 to 34% in 2010, while revenue from the fragrance segment also grew from 29% in 2009 to 30% in 2010.
- TCID reported 10% revenue CAGR between 2005 and 2010.

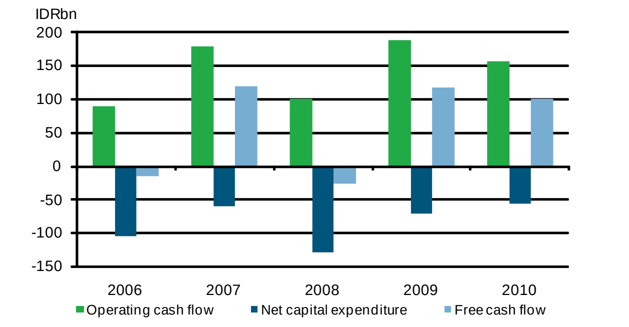
Fig 71: Rising advertising expenditure



Source: Company

- In 2010, advertising expenditure increased 13% YoY to IDR173bn, and advertising expense as a percentage of sales increased 1 ppt to 12%. This corresponded with a 6% YoY increase in revenue.
- Despite advertising expense as a percentage of sales increasing only 1 ppt since 2008, advertising expenditure in absolute terms has grown 35% and total revenue has increased 18% from 2008 to 2010.

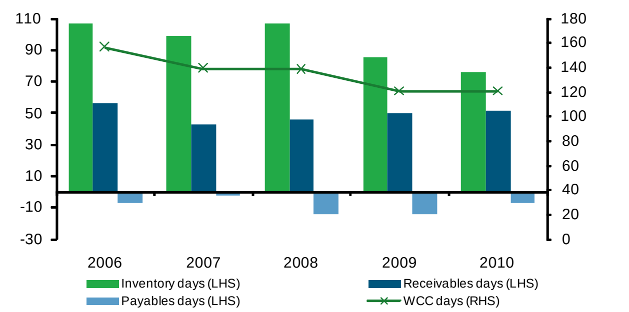
Fig 72: Free cash flow declined 14% YoY in 2010



Source: Company

- Despite a reduction in net capital expenditure, free cash flow decreased 14% YoY to IDR102bn in 2010, because of a decline in operating cash flow.
- Operating cash flow declined 16% YoY to IDR157bn in 2010 due an IDR15bn YoY increase in working capital expenditure. Inventories declined by IDR13bn, receivables increased by IDR19 and payables declined by IDR22bn.
- Net capital expenditure declined 21% YoY to IDR55bn in 2010.

Fig 73: Decline in working capital days in 2010

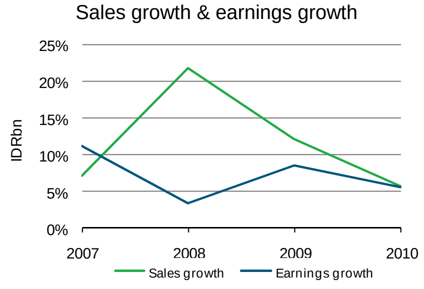


Source: Company

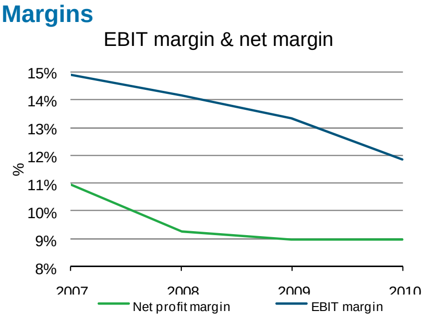
- TCID's working capital cycle decreased to 120 days in 2010 compared to 156 days in 2006.
- This was caused by a 31-day decrease in inventory and a 5-day increase in receivable days. Payable days remained constant at 7 days between 2006 and 2010.
- In 2010, inventory days stood at 76 and receivable days at 51 days.

Trend analysis and six-year financial data

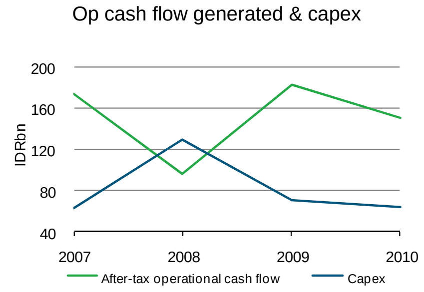
Growth



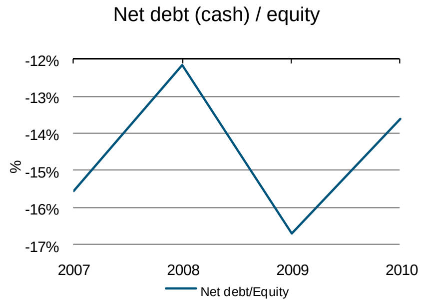
Margins



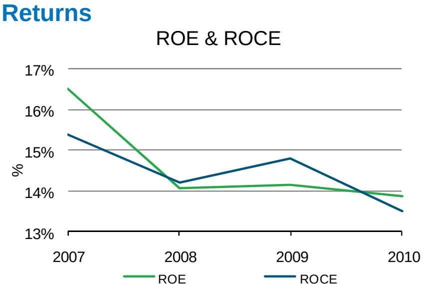
Cash flow



Balance sheet



Returns



Source: Company

Income statement (IDRbn)

Year end: Dec	2005	2006	2007	2008	2009	2010
Sales revenue	905	952	1,018	1,240	1,389	1,467
Gross profit	336	372	403	454	509	544
EBITDA	168	184	205	231	244	236
Depreciation & amortisation	(39)	(45)	(54)	(56)	(59)	(62)
EBIT	129	139	152	175	185	174
Net interest (expense) / income	1	6	5	5	5	6
Associates	0	0	0	0	0	0
Others	4	(2)	4	(12)	(14)	(7)
Income tax	(42)	(43)	(50)	(54)	(52)	(42)
PAT	93	100	111	115	125	131
Minorities	0	0	0	0	0	0
Net income	93	100	111	115	125	131

Cash flow (IDRbn)

Year end: Dec	2005	2006	2007	2008	2009	2010
Operating profit	129	139	152	175	185	174
Depreciation & amortisation	(39)	(45)	(54)	(56)	(59)	(62)
Working capital	(34)	(60)	24	(74)	(5)	(20)
Others	81	96	102	106	128	116
Operational cash flow	137	130	224	151	249	208
Tax paid	(46)	(46)	(51)	(55)	(66)	(57)
After-tax operational cash flow	91	84	174	96	183	151
Capex	(67)	(105)	(62)	(129)	(71)	(64)
Net interest	1	6	5	5	5	6
Debt	0	0	0	0	0	0
Dividends	(31)	(40)	(45)	(51)	(60)	(64)
Others	5	87	(0)	72	(6)	(47)
Net flow	(1)	32	71	(6)	52	(18)

Balance sheet (IDRbn)

Year end: Dec	2005	2006	2007	2008	2009	2010
Tangible assets	241	303	313	387	400	397
Intangible assets	0	0	0	0	0	0
Associates/investments/others	18	19	22	38	52	123
Stocks	157	170	166	230	205	193
Debtors	129	147	119	156	190	205
Cash and liquid assets	2	34	105	99	147	129
Total Assets	546	672	725	911	995	1,047
Current creditors	40	11	4	31	35	18
Current borrowings	0	0	0	0	0	0
Long-term borrowings	0	0	0	0	0	0
Others	46	53	48	64	79	81
Total liabilities	86	65	52	95	114	99
Shareholders' funds	459	608	674	816	881	948
Minority interests	0	0	0	0	0	0
Equity	459	608	674	816	881	948
Total capital employed	546	672	725	911	995	1,047

Key data & ratio

Year end: Dec	2005	2006	2007	2008	2009	2010
EPS (IDR)	586.2	562.3	591.0	590.1	619.8	653.7
Chg %	n.a.	-4%	5%	0%	5%	5%
DPS (IDR)	255.2	250.0	280.0	300.0	320.0	340.0
CFPS (IDR)	592.0	497.9	986.6	504.1	936.1	781.9
BVPS (IDR)	2,944.8	3,357.9	3,722.6	4,059.2	4,380.6	4,717.2
Wtd avg shares	0.2	0.2	0.2	0.2	0.2	0.2
ROE (%)	20%	16%	17%	14%	14%	14%
Post-tax ROCE (%)	19%	16%	15%	14%	15%	13%
Capex/sales (%)	-7%	-11%	-6%	-10%	-5%	-4%
Capex/depreciation (%)	-172%	-236%	-116%	-232%	-119%	-103%
Net debt/equity (%)	0%	-6%	-16%	-12%	-17%	-14%
Total debt/Total capital (%)	0%	0%	0%	0%	0%	0%
Net interest cover (%)	n.m.	n.m.	n.a.	n.a.	n.a.	n.a.

Source: Company

Pt. Adhi Karya Tbk

NOT RATED

NON-COVERED COMPANY VISIT NOTE

Standard Chartered Equity Research does not cover this company and nothing herein should be interpreted to be a recommendation or price target with respect to the company.

PRICE as at 20/01/2012

IDR670

Main themes discussed/Key points

- Market leadership: Pt. Adhi Karya Tbk (ADHI) is Indonesia's single largest engineering, procurement and construction (EPC) operator and the second largest construction company with 7% market share.
- Expected record earnings in 2012: ADHI expects record revenues and net income in 2012, driven by an estimated IDR13.5tn worth of contracts in 2012 (from IDR13.3tn in 2011.
- Government linked: The Indonesian government owns 51% stake in ADHI and accounted for 86% of its revenues in 2010.

- **What ADHI does**

  ADHI is a leading Indonesian firm engaged in (EPC) and real estate. It is the first listed construction related state-owned enterprise (SOE) in Indonesia.

- **Why we visited ADHI**

  Indonesia's construction sector is expected to grow, on average, at 7.3% p.a. over 2012-15 according to *Business Monitor International*. The Land Procurement Law is likely to spur foreign direct investment, domestic infrastructure spending and construction.

- **Valuations and share price performance**

  Based on consensus numbers, ADHI is trading at 5.6x 2012E earnings and 1.1x 2012E NAV with a dividend yield of 3.5%. Among 5 brokers covering it, 4 recommend a buy, while 1 has a neutral rating.

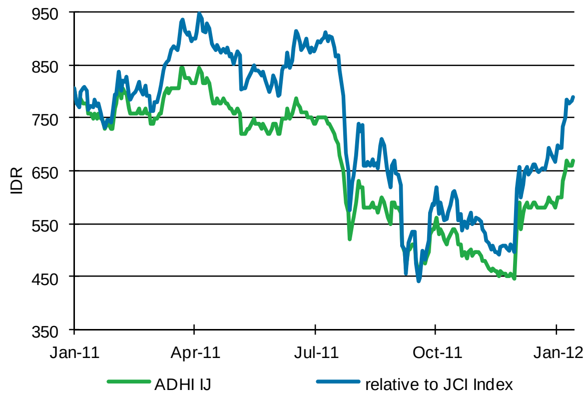
- **Read-across to other companies**

  The Indonesian construction sector is fragmented with 58,000 registered contractors – 80% small and 12% mid-sized – according to the *Global Business Guide*. According to management, dominant players are primarily SOEs that collectively control 25% market share. Of the 8 SOEs, 3 are listed. Net profit margins for EPC contracts are typically higher at ~6%, compared to 3-4% for pure construction projects. The Land Procurement Law will likely be a major catalyst for the sector.

Bloomberg code:	ADHI IJ	**PER historical (x)**	8.0
Mkt cap (IDRbn)	1,207	**Yield historical (%)**	4
12m range (IDR)	445 - 845	**P/B historical (x)**	1.4
3m value traded (IDRbn)	5.2	**ROE (%)**	24
No. of shares (bn)	1.8	**Net gearing (%)**	82
Established	1960	**Net debt (cash) (IDRbn**	712.9
Listed	2004	**Historical EPS (IDR)**	107.8
Secondary placement	2004	**EPS 3-yr CAGR (%)**	20
Auditors, since	RSM AAJ, 2009	**EPS 7-yr CAGR (%)**	22
Year-end	Dec	**Historical DPS (IDR)**	28.3
		DPS 3-yr CAGR (%)	39
Major shareholder		**Republic of Indonesia – 51.0%**	

Source: Bloomberg, Company, Reuters

Share price performance (IDR)



Source: Bloomberg

Related research notes

26/01/2012	Citra Marga	Not rated
26/01/2012	Kawasan Industri	Not rated
26/01/2012	Selamat Sempurna	Not rated
26/01/2012	Surya Semesta	Not rated
26/01/2012	Gajah Tunggal	Not rated

Source: Standard Chartered Research

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Analyst visit note

Company background
Established in 1960, by nationalising Dutch-owned company, Associate N.V., ADHI became the first SOE in construction to list on the Indonesian Stock Exchange in 2004.

Revenue breakdown
Government and related parties accounted for 86% of revenues in 2010, of which government building, infrastructure, and EPC works, accounted for 34%, 31% and 21% of total revenue, respectively. Geographically, Java accounted for 64% of revenue in 2010. According to management, the company does not presently intend to undertake new overseas projects, other than those in Oman undertaken by its affiliate, Adhi Oman L.L.C.

Earnings track record
Revenue grew at a 13% CAGR over 2005-2010 to IDR5,675bn in 2010 while EPS grew at a 20% CAGR over 2005-2010 to IDR107.80.

Improving margins
While EBIT margins are improving due to efficiency programmes - the new Asphalt Mixing Plant (APM) established to enhance paving work productivity, overall net profit margins were half those of its peers. The reason was mainly due to provisioning on a project dispute in Qatar three years ago. The group has written off IDR300bn on this project in the past two years and has a balance of IDR150bn to write off by 2013. Following the complete write off on this project, management expects net profit margin to recover and double by 2013, to be in line with industry peers.

Fig 74: Revenue and margins

IDRbn	2007	2008	2009	2010
Revenue	4,974	6,640	7,715	5,675
EBIT	291	368	537	551
EBIT margins (%)	5.9%	5.5%	7.0%	9.7%
Net profit	112	81	166	189
Net margins (%)	2.2%	1.2%	2.1%	3.3%

Source: Company

Profitability target in 2012
ADHI expects to record revenues of IDR9,417bn (+34% YoY) and net income of IDR205bn (+11% YoY) in 2012, driven by an estimated IDR13.5tn worth of contracts expected in 2012.

Market leader in EPC. According to management, ADHI is the second largest player in the Indonesian construction industry by revenue and has the largest share of the EPC market. All construction is conducted in-house with minimal subcontracting. In 2010, ADHI received a Patent for Monorail Design and the Adhi Concrete Pavement System (ACPS), a precast concrete technology, which pioneers toll road construction technology in Indonesia.

Growing domestic construction demand. Construction is expected to grow at 7.3%p.a. over 2012-2015 according to the BMI. In 2011, the government showcased 16 expected Public Private Partnership (PPP) projects, valued at USD30bn, at the Indonesia International Infrastructure 2011 Conference and Exhibition. SOEs such as ADHI have a competitive advantage in securing government projects. Management expects infrastructure demand of USD76bn over 2010-2015 and USD857bn over 2016-2030.

Growing order book ADHI expects to carry forward IDR11.5tn worth of unfinished projects through to 2012. By Nov. 2011, it had secured IDR11.0tn worth of projects, 54% from construction, 29% from EPC, 10% from construction joint operations (JO), 5% from EPC JO and 1% each from real estate and property contracts, respectively, according to management. The group targets new contracts worth IRR13.3bn in 2011 and IDR13.5bn in 2012, the bulk in construction. Management indicates these new contracts are estimated based on a hit rate of 28% of its tender book.

New asphalt mixing plant (AMP) division to yield cost efficiencies. The AMP division, established to consolidate assets run by different operating units, should increase productivity in paving works and reduce downtime. Management intends to spin off the AMP division into an independent subsidiary to unlock value.

Planning rights issue
ADHI is primarily debt financed with net gearing at 82% in 2010. The company's Bond series IV year 2007 (IDR375bn) and Sukuk Mudharabah series I year (IDR125bn) are due in 2012 and the group plans to roll over the bond issue. According to Bloomberg, ADHI is looking to an IDR800bn rights issue in 2H2012 to fund expansion. According to management, the government would likely maintain its current stake post the rights issue.

Cash flow and working capital cycle
The group recorded negative operating cash flow and free cash flow in 2008-2010. Working capital cycle ranged from 22 to 59 days in the last three years, characterised by long receivable and payable days >150. Management reckons this is typical for government projects in Indonesia.

Stock ownership
The government of Indonesia is the single largest shareholder with 51.0% stake in ADHI.

Corporate governance
ADHI has a 5 member Board of Commissioners, of whom 2 are independent, and a 5 member executive Board of Directors. It was awarded the third place for the Best Good Corporate Governance Implementation among all existing SOEs at the 2010 BUMN Awards.

Competition

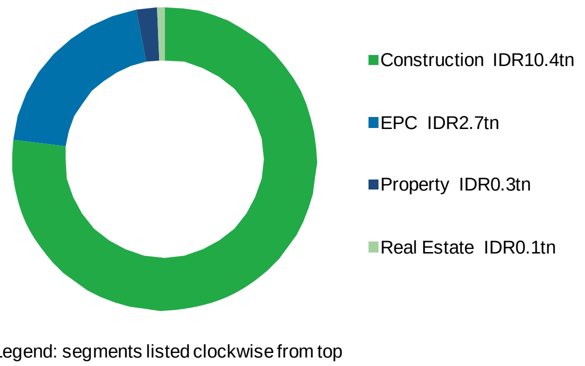
Fig 75: Competition

Business segment	Competitor	Listed / private
Non residential construction	PT. Wijaya Karya (Persero) Tbk.	Listed (WIKA IJ)
Non residential construction	PT. Jasa Marga Tbk.	Listed (JSMR IJ)
Non residential construction	Total Bangun Persada	Listed (TOTL IJ)
Non residential construction	PT. Danayasa Arthatama Tbk	Listed (SCBD IJ)
Non residential construction, eng. services	PT. Truba Alam Manunggal Engineering Tbk.	Listed (TRUB IJ)
Non residential construction, eng. services	Pt. Duta Graha Indah Tbk	Listed (DGIK IJ)
Engineering services (eng. services)	PT. Petrosea Tbk.	Listed (PTRO IJ)
Property development	PT. Lippo Karawaci Tbk	Listed (LPKR IJ)
Property development	PT. Summarecon Agung Tbk	Listed (SMRA IJ)

Source: Bloomberg

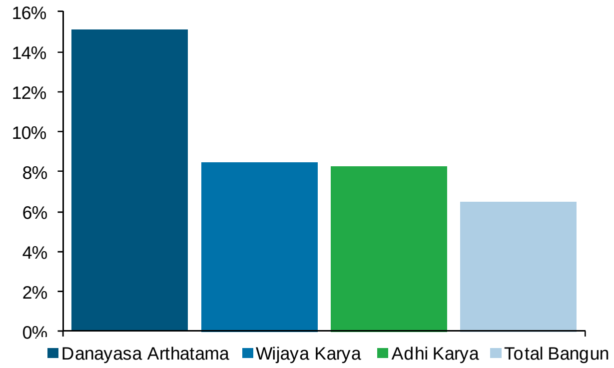
Key charts

Fig 76: Contract target 2012



Source: Company

Fig 77: Construction EBIT margins cf. peers



Source: Company

Company background

Fig 78: Company background

Main shareholders
- Republic of Indonesia – 51%
- Free float – 49%

Management and directors
- Imam Ernawi – President Commissioner since 2007
- Bambang Triwibowo – President Director since 2008
- Bambang Pramusinto – Director since 2010 (Operation II)
- Indradjaja Manopol – Director since 2006 (Operation I)
- M. Fauzan – Director since 2001 (Business Development)
- Supardi – Director since 2006 (Financial & Human Resources)

Significant outside business interests
- Imam Ernawi (President Commissioner) – Directorate General of Space Layout, Ministry of Public Works
- Gatot Trihargo (Commissioner) – Deputy assistant in Strategic Industrial Business and Manufacture II
- Harry Nugroho (Commissioner) – Expert Staff, Ministry of State-Owned Enterprise on Corporate Administration

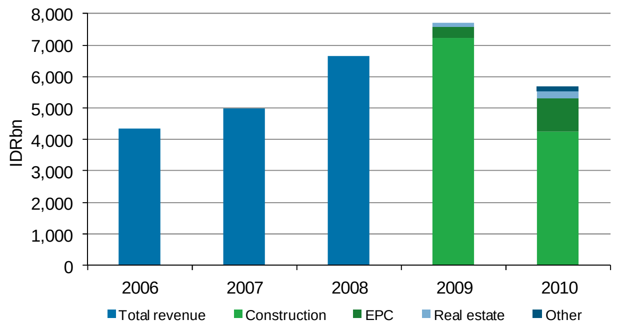
Head office and key assets
- Jl. Raya Pasar Minggu km. 18, Jakarta 12510, Indonesia; Telephone: +62 21 797 5312; www.adhi.co.id
- Subsidiaries: Adhi Realty, Duri Indah Raya (property); Adhi Multipower (trade); Adhicon Persada (maintenance works); Adhi Oman, Indonesia transit central, Jakarta Monoral (construction)
- Patent on Monorail Design and Adhi Concrete Pavement System (ACPS)
- Realized contracts valued at IDR13.3tn, 2011/12/19 (MenaFN.com, The Jakarta Post)

Latest results highlights
- Revenue grew 2% YoY for 9M2011, and gross margins (after profit from joint operations) remained constant at 10.8% in 9M2011.
- EBIT margins contracted marginally to 5.8% for 9M2011 from 6.1% for 9M2010 due to higher general and administrative expenses relative to sales, which grew 9% YoY to IDR141bn in 9M2011.
- Free cash flow improved to negative IDR277bn in 9M2011 due to lower net operating cash outflows of negative IDR276bn for 9M2011 from IDR437bn for 9M2010. Net capital expenditure decreased to IDR0.4bn in 9M2011 from IDR3.7bn in 9M2010.

Source: Bloomberg, Company

Four key operational charts

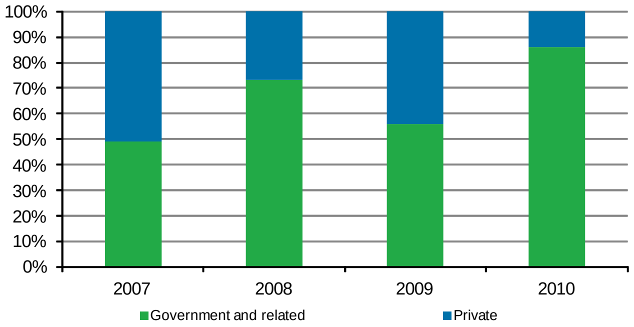
Fig 79: Construction remains the key contributor



Source: Company

- Revenue declined 26% YoY to IDR5,675bn in 2010. Management attributes the decline to lower realisation of contracts in 2010, on account of government budgetary constraints. In 9M2011, revenue grew 2% YoY to IDR3,134bn.
- Construction revenue, which accounted for 75% of revenue in 2010 cf. 94% in 2009, declined 41% YoY to IDR4,252bn in 2010. EPC revenue, which accounted for 19% of revenue in 2010 cf. 15% in 2009, grew 195% YoY to IDR1,058bn in 2010. Real estate, 2% of revenue in 2010 cf. 4% in 2009, grew 62% YoY to IDR225bn in 2010.

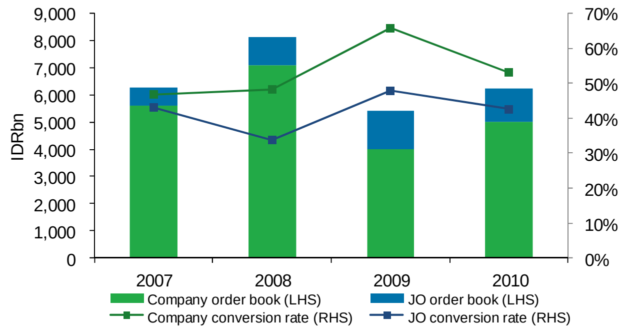
Fig 80: Govt & rel. accounted for 86% of 2010 revenue



Source: Company

- Government and related parties accounted for 86% of revenue in 2010 compared to just 49% in 2007 and 56% in 2009. Of this, government and related building; infrastructure; and EPC accounted for 34%, 31% and 21%, respectively, in 2010, compared to 19%, 30% and 7% in 2009.
- Government and related projects are expected to account for 67% of contracts and 80% of revenue in 2011.

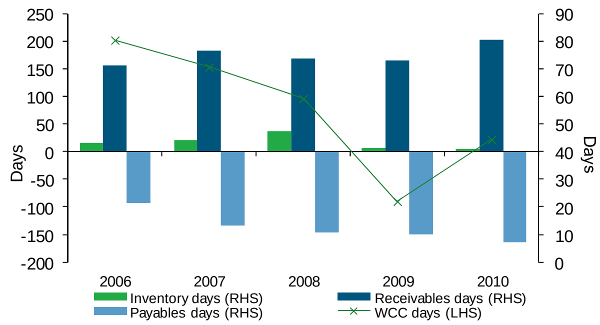
Fig 81: Recovery in order book



Source: Company

- ADHI's order book recovered to IDR6,242bn in 2010, from IDR5,421bn in 2009 compared to a high of IDR8,134bn in 2008. Company contracts accounted for 80% of the order book in 2010 cf. 74% in 2009, while joint operation (JO) contracts constituted the remaining 20% in 2010, up from 26% in 2009.
- Total order conversion, which averaged 52% over 2007-10, fell to 51% in 2010 from 62% in 2009, due to declines in company and JO conversion rates.
- Company contracts had a higher conversion rate of 53% compared with 43% for JOs in 2010.

Fig 82: Deteriorating working capital cycle

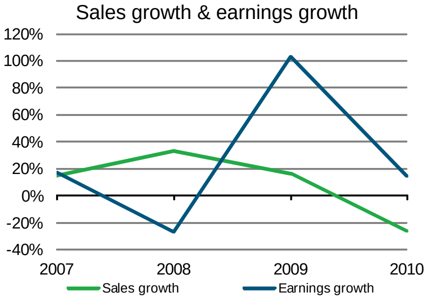


Source: Company

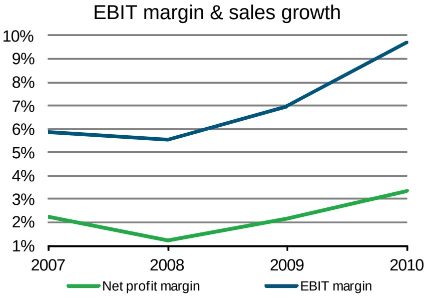
- Over 2006-10, the working capital cycle averaged 49 days, while inventory days averaged 17 days, receivables days averaged 176 days and payables days averaged 137 days~~.~~
- On a YoY basis, the working capital cycle lengthened by 22 days to 44 days in 2010 due to longer receivable days at 203 days in 2010 (from 165 days in 2009). Inventory days improved slightly to 5 days in 2010 from 6 days in 2009, while payable days increased to 163 days from 159 days over the corresponding period.

Trend analysis and six-year financial data

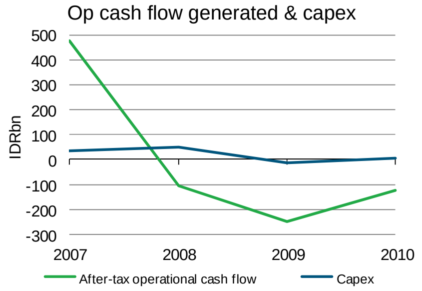
Growth



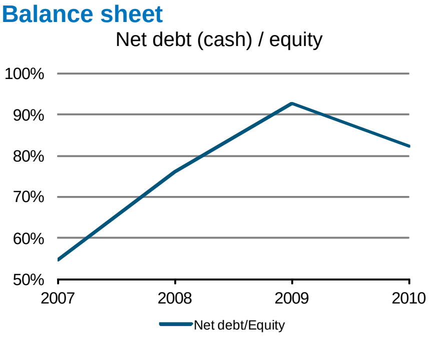
Margins



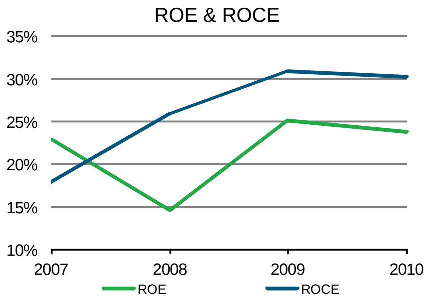
Cash flow



Balance sheet



Returns



Source: Company

Income statement (IDRbn)

Year end: Dec	2005	2006	2007	2008	2009	2010
Sales revenue	**3,027**	**4,329**	**4,974**	**6,640**	**7,715**	**5,675**
Gross profit	**350**	**437**	**495**	**573**	**752**	**769**
EBITDA	189	269	312	399	569	564
Depreciation & amortisation	(15)	(17)	(21)	(31)	(32)	(13)
EBIT	**174**	**252**	**291**	**368**	**537**	**551**
Net interest (expense) / income	(88)	(141)	(139)	(125)	(131)	(119)
Associates	0	0	0	0	0	0
Others	30	19	2	(120)	(74)	(111)
Income tax	(38)	(33)	(41)	(40)	(169)	(131)
PAT	**78**	**96**	**113**	**83**	**163**	**190**
Minorities	(0)	(0)	(1)	(2)	3	(1)
Net income	**78**	**96**	**112**	**81**	**166**	**189**

Cash flow (IDRbn)

Year end: Dec	2005	2006	2007	2008	2009	2010
Operating profit	**174**	**252**	**291**	**368**	**537**	**551**
Depreciation & amortisation	15	17	21	31	32	13
Working capital	0	(183)	(67)	(136)	519	(277)
Others	(179)	(368)	307	(319)	(1,169)	(281)
Operational cash flow	**10**	**(283)**	**552**	**(57)**	**(81)**	**6**
Tax paid	(42)	(10)	(76)	(48)	(169)	(131)
After-tax operational cash flow	**(32)**	**(292)**	**476**	**(105)**	**(250)**	**(125)**
Capex	(47)	7	(36)	(51)	14	(6)
Net interest	86	136	130	102	105	94
Debt	121	173	77	(293)	137	60
Dividends	(38)	(26)	(25)	(28)	(20)	(50)
Others	(69)	(28)	(15)	(31)	(54)	(38)
Net flow	**21**	**(30)**	**606**	**(407)**	**(68)**	**(65)**

Balance sheet (IDRbn)

Year end: Dec	2005	2006	2007	2008	2009	2010
Tangible assets	132	126	147	167	246	186
Intangible assets	0	0	0	0	0	0
Associates/investments/others	1,348	1,590	2,091	2,564	3,246	2,889
Stocks	155	179	264	607	123	62
Debtors	575	800	1,047	1,423	1,707	1,548
Cash and liquid assets	204	174	784	365	307	242
Total Assets	**2,414**	**2,870**	**4,333**	**5,125**	**5,629**	**4,928**
Current creditors	740	973	1,628	2,356	2,850	2,214
Current borrowings	399	766	584	322	494	416
Long-term borrowings	398	222	498	498	499	539
Others	502	464	1,078	1,349	1,047	891
Total liabilities	2,039	2,426	3,788	4,525	4,889	4,060
Shareholders' funds	371	441	531	584	731	861
Minority interests	4	4	14	16	10	7
Equity	**375**	**444**	**545**	**600**	**741**	**868**
Total capital employed	**2,414**	**2,870**	**4,333**	**5,125**	**5,629**	**4,928**

Key data & ratio

Year end: Dec	2005	2006	2007	2008	2009	2010
EPS (IDR)	43.3	53.1	62.0	46.0	94.2	107.8
Chg %	n.a.	23%	17%	-26%	105%	14%
DPS (IDR)	26.0	13.0	10.6	14.8	11.6	28.3
CFPS (IDR)	3.7	(82.9)	316.2	(30.7)	(74.1)	(21.2)
BVPS (IDR)	205.9	244.6	294.9	330.1	416.1	490.0
Wtd avg shares (bn)	1.8	1.8	1.8	1.8	1.8	1.8
ROE (%)	21%	24%	23%	15%	25%	24%
Post-tax ROCE (%)	10%	13%	13%	18%	15%	18%
Capex/sales (%)	-2%	0%	-1%	-1%	0%	0%
Capex/depreciation (%)	-308%	n.m.	-176%	-166%	43%	-49%
Net debt/equity (%)	158%	183%	55%	76%	93%	82%
Total debt/Total capital (%)	33%	34%	25%	16%	18%	19%
Net interest cover (%)	1.8	1.8	2.2	3.5	5.0	5.1

Source: Company

Surya Semesta

NOT RATED

NON-COVERED COMPANY VISIT NOTE

Standard Chartered Equity Research does not cover this company and nothing herein should be interpreted to be a recommendation or price target with respect to the company.

PRICE as at 20/01/2012

IDR830

Main themes discussed/Key points

- Surya Semesta Internusa (Surya) is one of Indonesia's leading private construction companies, a leader in industrial property and aims to be a leading budget hotel operator.
- Robust growth: Management expects net profit to double in FY12 (from FY11) led by its real estate arm.
- Significant opportunity: Management state it is bidding for the construction contract of the longest toll road in Indonesia worth IDR7.6tn, which could potentially double its current order book.

- **What Surya does**
  Surya is involved in construction, hotels and industrial estate land, which generated 58%, 24% and 8% of 2010 revenue, respectively.

- **Why we visited Surya**
  Surya believes its three primary businesses are well positioned to benefit from Indonesia's buoyant economy and infrastructure spending. The Land Procurement Law should continue to spur foreign direct investment (FDI), domestic infrastructure spending and in turn benefit the industrial real estate sector in Indonesia. The group plans to diversify into budget hotels, targeting to expand to 30 hotels by 2017 from 5 currently.

- **Valuations and share price performance**
  Based on consensus numbers Surya is trading at 8.3x 2012E earnings, and 2.5x 2012E NAV. Three brokers cover the stock, all have Buy recommendations.

- **Read-across to other companies**
  Surya is upbeat on the Indonesian construction sector over the next 3-5 years, underpinned by ongoing government investment in Infrastructure, in particular airports, seaports and toll roads. Surya thinks prices of industrial land could increase by another 40% in 2012. Management says competition is high among 5-star hotels and it plans to expand into budget hotels throughout Indonesia. Management believes the company stands to benefit from the Land Procurement Law.

Bloomberg code:	SSIA IJ	**PER historical (x)**	8.4
Mkt cap (IDRbn)	3,905	**Yield historical (%)**	n.a.
12m range (IDRm)	218-900	**P/B historical (x)**	1.1
		ROE (%)	13
3m value traded (IDRm)	26,930	**Net gearing (%)**	40
No. of shares (bn)	4,7	**Net debt (cash) (IDRbn)**	380
Established	1970	**Historical EPS (IDR)**	98.3
Listed	1997	**EPS 3-yr CAGR (%)**	100
Secondary placement	2007	**EPS 6-yr CAGR (%)**	n.m.
Auditors, since	OSBR, 2009	**Historical DPS (IDR)**	-
Year-end	Dec	**DPS 3-yr CAGR (%)**	n.a.
Major shareholder		Pt. Union Sampoerna— 12%	

Source: Company, Bloomberg

Share price performance (IDR)

Source: Bloomberg

Related research notes		
26/01/2012	Adhi Karya	Not rated
26/01/2012	Kawasan Industri	Not rated
26/01/2012	Selamat Sempurna	Not rated
26/01/2012	Gajah Tunggal	Not rated
26/01/2012	Citra Marga	Not rated

Source: Standard Chartered Research

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Analyst visit note

Company background
SSIA was established in June 1971 as a property development company and listed in 1997. Its flagship projects were Kuningan Raya, a residential and business centre in South Jakarta, and Glodok Plaza, one of the first modern shopping centres in West Jakarta. Since then it has diversified into property, construction, and hospitality. SSIA's largest shareholder is the Soeryadjaya family, the founders of Astra (ASII IJ, NR, IDR79,000) – one of Indonesia's largest automotive companies.

Construction: 3Q2011 – 51% of revenues, 59% YoY growth, 7% EBITDA margins, 21% of EBITDA
Through 83% owned PT Nusa Raya Cipta (NRC), SSIA is one of Indonesia's leading private construction companies. As at 3Q11, NRC had a net orderbook of IDR1.3trn (vs. IDR1.4trn at end-2010) and it expects its orderbook to reach IDR1.7trn by end-2012. Cikampek Palimanan is the most important project NRC is currently bidding for – it is worth IDR7.3tn. Management expects the project to be handled by a consortium of government (55% stake) and 2 private constructors (45% stake) and claim it has been bidding on it for over 5 years. This is potentially the longest toll road (approximately 116km) in Indonesia, and is expected to be completed by 2014 (Jakarta Post).

Property: 3Q2011 – 33% of revenues, 6x 3Q 2010, 30% EBITDA margins, 57% of EBITDA
Through three companies, SSIA 1) develops and manages an industrial estate, 2) owns and develops prime property, and 3) owns the Banyan Tree Resort in Ungasan.

Industrial real estate to spearhead growth: Surya thinks industrial real estate is on the uptrend due to higher foreign direct investment inflow and domestic manufacturing expansion. Through its subsidiary, PT Suryacitpta, the group develops and manages a 1,400 ha industrial estate in Karawang, West Java (55km from Jakarta, 65km from the Tanjung Priok Seaport and 80 Km from the International Airport). In 3Q11, SSIA sold 186 ha of land compared with 36 ha sold in 2010. Management expects revenue from real estate to double in 2012. Industrial real estate accounted for 93% of property segment revenues in 3Q2011.

Currently, the group has an industrial landbank of 171 ha in phase 1&2, of which 90 ha is secured for sale in 2012. It also has an industrial landbank of 280 ha in phase 3, of which 30 ha is committed for sale. Management believes its existing landbank is sufficient to meet demand for the next two years. Prices transacted for recent sales were c.USD83/sqm more than double levels of a year ago. Management thinks prices of industrial estate could potential surge by another 40% this year. Surya thinks development and land costs should remain stable, at USD10/sqm and USD20/sqm respectively in the next 3 to 5 years.

Hospitality: 3Q2011 – 15% of revenues, 13% YoY growth, 28% EBITDA margins, 25% of EBITDA
Expanding into budget hotels: Surya, through its subsidiaries, owns two five-star hotel properties – Gran Melia Jakarta and Melia Bali Villas & Spa Resort. Another subsidiary, PT Ungasan Semesta Resort, together with Banyan Tree Hotels and Resorts Ltd started operating the Banyan Tree Ungasan Resort in mid-December 2009. Management expects steady growth from the hospitality segment, underpinned by rising room rates and occupancy levels at the newly refurbished Gran Melia and Banyan Tree Ungasan Resorts. By 2017, the group also plans to operate 30 budget hotels, from five currently. Management believes the budget hotel space offers flexibility to expand throughout Indonesia, enabling it to tap rising consumer and rural spending.

Strategy: Management aims to extract growth from all three business divisions, with a focus on the property segment in the medium term.

Capex plan: The group plans capex of IDR900bn in 2012 (excluding new land acquisitions), of which IDR500bn is earmarked for phase 2 and 3 of its industrial land development, IDR150bn for commercial and hotels, IDR150bn for expanding its budget hotel operations and IDR50bn for its construction division. SSIA is currently seeking an IDR500bn bank loan, and is considering issuing corporate bonds to finance 2012 capex.

Improving gearing and cash flow
Net gearing improved to 40% in 2010 from 79% in 2009, due to net loan repayments and higher equity. Free cash flows remained negative between 2007-10, however, it improved to negative IDR7bn in 2010 vs. negative IDR140bn in 2009. Operating cash flows improved to IDR94bn in 2010, vs. negative IDR68bn in 2009 due to an 8% YoY decline in cash paid to suppliers in 2010. Capex increased 41% YoY in 2010.

Profitability and dividends
ROE improved 11 ppts YoY in 2010 to c.13% vs. 2% in 2009. This was due to a 557% YoY growth in net profit in 2010 stemming from an IDR26bn gain on the sale of investments and an IDR 21bn YoY increase in other income. Surya has not declared a dividend since 1995.

Ownership
Surya is controlled by the family of Benjamin Suriadjaya, the younger brother of William Suriadjaya (former Chairman of listed PT Astra International).

Competition

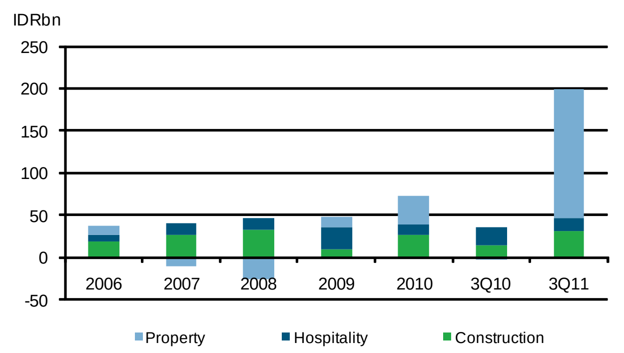
Fig 83: Competition

Business segment	Competitor	Listed / private
Construction	Wijaya Karya	Listed (WIKA IJ)
Construction	Adhi Karya	Listed (ADHI IJ)
Construction	Total Bangun Prasada	Listed (TOTL IJ)
Construction	Duta Graha Indah	Listed (DGIK IJ)
Hotel and Related Business	Pt. Pakuwon Jati Tbk	Listed (PWON IJ)
Hotel and Related Business	Pt. Ciputra Development Tbk	Listed (CTRA IJ)
Hotel and Related Business	Pt. Summarecon Agung TBK	Listed (SMRA IJ)
Hotel and Related Business	Pt. Lippo Karawaci Tbk	Listed (LPKR IJ)
Industrial Estate Development	Kawasan Industri Jababeka Tb	Listed (KIJA IJ)

Source: Bloomberg, Company

Key charts

Fig 84: Consolidated net profit by main business



Source: Company

Fig 85: Investment portfolio as at 31 September 2011

Construction		
PT Nusa Raya Cipta	Construction services	Top 3 privately-owned (revenue)
Property		
PT Suryacipta Swadaya	Suryacipta City of Industry	saleable industrial phase 1 & 2 -1.4m sqm gross commercial – 280,000sqm gross industrial phase 3 – 3.1m sqm
PT TCP Internusa	Graha Surya Internusa Glodok Plaza Tanjung Mas Raya Cibarusah Graha Surya Internusa II	21,035 sqm 36,780 sqm 17,100 sqm (undeveloped) 110,000 sqm 4,195 sqm
PT Sitiagung Makmur	Banyan Tree Resort Ungasan	53 villas
Hospitality		
PT Suryalaya Anindita	Gran Meliã Meliã Bali Villas and Spa Resort	five-star, 404 rooms five-star, 494 rooms
PT Ungasan Semesta	Banyan Tree Resort Ungasan	Boutique Resort, 73 villas
PT Surya Internusa	The Plaza Hotel Glodok	Budget Hotel, 91 rooms

Source: Company

Company background

Fig 86: Company background

Main shareholders

- PT Union Sampoerna (founding family) (12.12%)
- PT Arman Investments Utama (founding family) (8.84%)
- PT Persada Capital Investama (8.06%)
- Free Float (80.00%)

Management and directors

- Hagianto Kumala – President Commissioner
- Marseno Wirjosaputro – Vice President Commissioner
- Johannes Surjadjaja – President Director
- Eddy P. Wikanta – Vice President Director
- The Jok Tung – Director

Significant outside business interests

- Hagianto Kumala (President Commissioner) – President Commissioner, Pt. Buki Makmur Mandiri
- Hamadi Widjaja (Commissioner) – President Director, Pt. Combiphar
- Johannes Suriadjaja (President Director) – Director, Pt Enercon Pradhya International, Vice President Director, Pt Arman Investment Utama.

Head office and key assets

- Graha Surya Internusa, 11th Floor, Jl H.R. Rasuna Said Kav. X-O, Kuningan, Jakarta 12950, Indonesia; Telephone: 62 21 526 21 21; www.suryainternusa.com
- Land real estate assets as at end 2010 of IDR547bn, Contracts valued at IDR1,309bn as of Sept 2011 ; Hotel properties such as Gran Melia Jakarta and Banyan Tree Resort Ungasan.

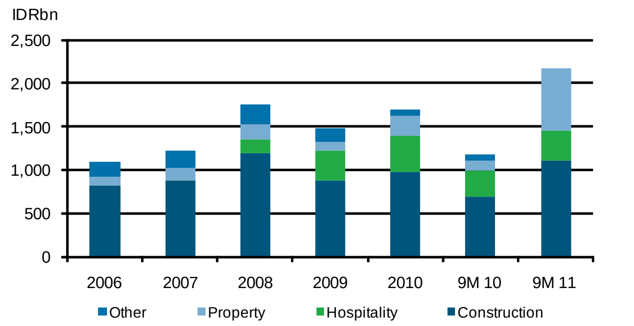
Latest results highlights

- Revenue grew 84% YoY to IDR2,172bn for 9M2011, with Construction revenue growing to IDR1,110bn in 9M2011 from IDR697bn in 9M2010. Property sales growing to IDR722bn from IDR117bn, and relatively strong performance from Hospitality of IDR340bn from IDR299bn, despite renovation at Gran Melia Jakarta since June 2011, over the corresponding period.
- Gross margins remained fairly stable at 27% in 9M2011 and 9M2010, while EBIT margins rose to 14% in 9M2011 from 9% in 9M2010, primarily due to lower admin and selling costs.
- Contracts grew 26% YoY to IDR1,309bn as at 9M2011 from IDR1,041bn in 9M2010.

Source: Company

Four key operational charts

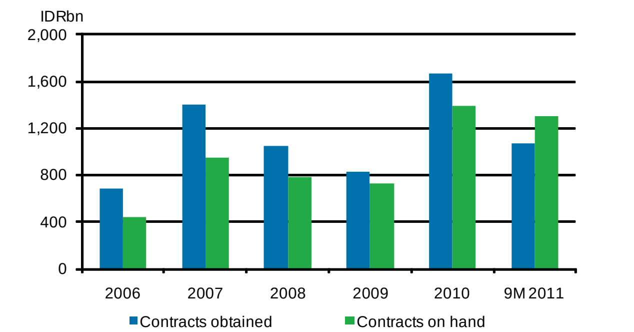
Fig 87: Revenue by segment



Source: Company

- Sales have grown at a 2006-10 CAGR of 11.4%.
- Construction division generated 58% of 2010 revenue, hospitality contributed 24% and property 14%.
- For 9M11, the company recorded revenue of IDR2,172bn, up 84% from the same period in 2010 and 29% higher than the full-year revenue in 2010.

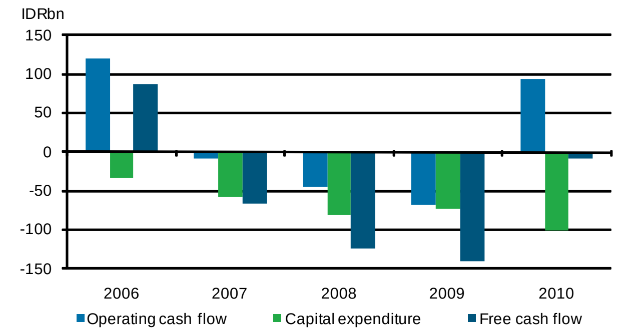
Fig 88: Construction contracts



Source: Company

- The construction business recorded a five-year high in terms of contract wins in 2010, which amounted to IDR1,669bn, up c.101% compared with 2009.
- Contracts on hand amounted to IDR1,391 as the end of 2010, also the highest balance recorded over the last five years, showing clear signs of recovery from the trough in 2008-09.
- For the 9M11, the division won IDR1,068bn in contracts and the contracts in hand stood at IDR1,309bn

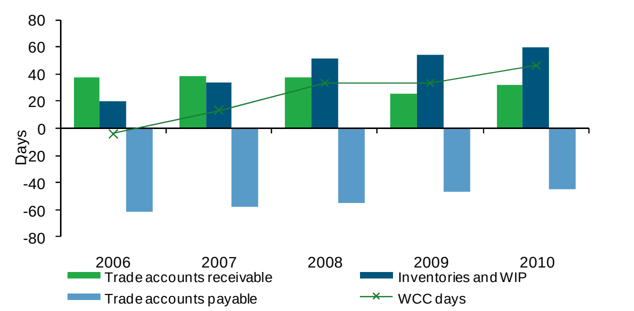
Fig 89: Free cash flow



Source: Company

- FCF was negative from 2007-10. This was due to negative operating cash flows during 2007-09, and capex exceeding operating cash flows in 2010.
- Nevertheless, negative FCF sharply contracted in 2010 to IDR7bn, vs IDR140bn in 2009, due to the company generating positive operating cash flows in 2010, amounting to IDR94bn.

Fig 90: Working capital cycle (WCC)

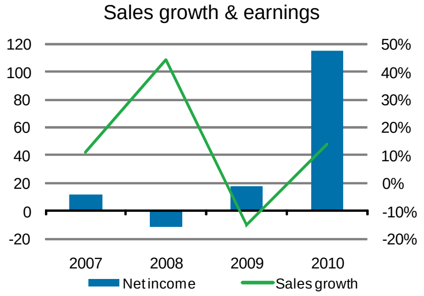


Source: Company

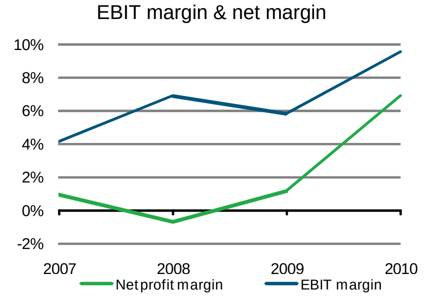
- Over the last three years its WCC has hovered between 33-46 days.
- In 2006, it had a negative WCC balance of 4 days. The increase in the WCC to 46 days in 2010 is attributed to longer inventory days.

Trend analysis and six-year financial data

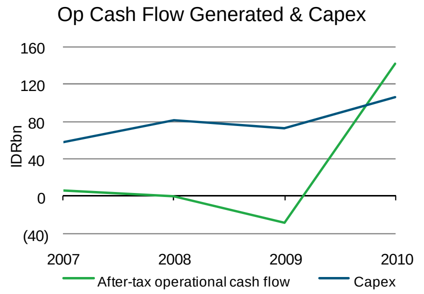
Growth



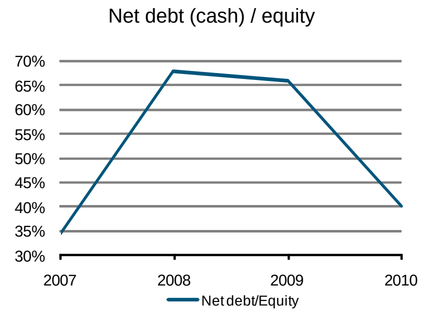
Margins



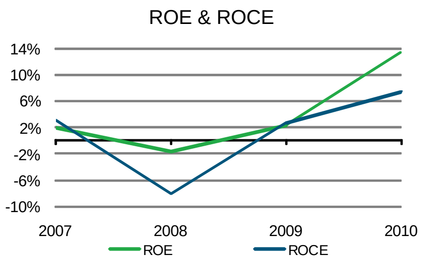
Cash flow



Balance sheet



Returns



Source: Company

Income statement (IDRbn)

Year end: Dec	2005	2006	2007	2008	2009	2010
Sales revenue	**1,073**	**1,097**	**1,218**	**1,753**	**1,484**	**1,690**
Gross profit	**147**	**115**	**151**	**289**	**348**	**478**
EBITDA	69	34	58	141	128	212
Depreciation & amortisation	(7)	(8)	(8)	(20)	(42)	(52)
EBIT	**62**	**27**	**49**	**121**	**86**	**161**
Net interest (expense) / income	(26)	(17)	(10)	(23)	(37)	(38)
Associates	(10)	6	13	20	1	1
Others	(5)	23	(22)	(104)	62	72
Income tax	(15)	(13)	(11)	(27)	(59)	(56)
PAT	**6**	**25**	**18**	**(14)**	**54**	**140**
Minorities	(3)	(4)	(6)	2	(37)	(25)
Net income	**3**	**22**	**12**	**(12)**	**18**	**116**

Cash flow (IDRbn)

Year end: Dec	2005	2006	2007	2008	2009	2010
Operating profit	**62**	**27**	**49**	**121**	**86**	**161**
Depreciation & amortisation	(7)	(8)	(8)	(20)	(42)	(52)
Working capital	(78)	124	(56)	(114)	25	(78)
Others	75	14	40	44	(42)	185
Operational cash flow	**51**	**156**	**24**	**31**	**27**	**216**
Tax paid	(14)	(14)	(18)	(32)	(56)	(74)
After-tax operational cash flow	**37**	**142**	**6**	**(1)**	**(29)**	**141**
Capex	(25)	(33)	(58)	(82)	(72)	(106)
Net interest	26	17	10	23	37	38
Debt	448	259	350	734	749	625
Dividends	0	0	0	0	1	1
Others	(446)	(354)	(300)	(660)	(708)	(671)
Net flow	**41**	**31**	**9**	**15**	**(23)**	**30**

Balance sheet (IDRbn)

Year end: Dec	2005	2006	2007	2008	2009	2010
Tangible assets	890	888	1,000	1,464	1,514	1,512
Intangible assets	17	12	8	4	1	0
Associates/investments/others	120	114	148	120	175	166
Stocks	0	0	0	5	5	6
Debtors	275	208	249	441	331	453
Cash and liquid assets	96	127	136	218	210	245
Total Assets	**1,397**	**1,349**	**1,541**	**2,251**	**2,235**	**2,383**
Current creditors	158	211	237	409	268	413
Current borrowings	240	56	130	205	187	181
Long-term borrowings	208	203	220	528	562	444
Others	206	270	332	348	401	390
Total liabilities	**812**	**740**	**919**	**1,491**	**1,417**	**1,429**
Shareholders' funds	573	594	606	737	758	869
Minority interests	13	16	16	24	60	85
Equity	**585**	**610**	**622**	**760**	**818**	**954**
Total capital employed	**1,397**	**1,349**	**1,541**	**2,251**	**2,235**	**2,383**

Key data & ratio

Year end: Dec	2005	2006	2007	2008	2009	2010
EPS (IDR)	93.1	22.7	12.4	(11.1)	15.0	98.3
Chg %	n.a.	(0.8)	(0.5)	(1.9)	(2.3)	5.6
DPS (IDR)	-	-	-	-	-	-
CFPS (IDR)	9.8	127.0	(8.7)	(37.4)	(57.6)	79.7
BVPS (IDR)	603.6	626.3	639.3	626.2	644.5	738.8
Wtd avg shares	0.8	0.9	0.9	1.1	1.2	1.2
ROE (%)	1%	4%	2%	-2%	2%	13%
Post-tax ROCE (%)	2%	2%	3%	-8%	3%	7%
Capex/sales (%)	-2%	-3%	-5%	-5%	-5%	-6%
Capex/depreciation (%)	-350%	-427%	-705%	-407%	-172%	-205%
Net debt/equity (%)	60%	22%	34%	68%	66%	40%
Total debt/Total capital (%)	32%	19%	23%	33%	34%	26%
Net interest cover (x)	2.1	1.1	2.8	3.9	2.1	3.8

Source: Company

Citra Marga

NOT RATED

NON-COVERED COMPANY VISIT NOTE

Standard Chartered Equity Research does not cover this company and nothing herein should be interpreted to be a recommendation or price target with respect to the company.

PRICE as at 20 January 2012

IDR1604.00

Main themes discussed/Key points

- Strong market positioning: PT Citra Marga (CMNP) is a pioneer in the development of toll roads in Indonesia with an established track record.
- Positive industry trends: The industry is poised to benefit from the Land Procurement Law. Recently, 24 previously halted toll road projects were re-initiated for bidding in Indonesia.
- Cash cow: CMNP operates the Jakarta Intra-Urban Tollway (JIUT) with the highest traffic volumes in Jakarta. JIUT provides high operating leverage and steady cash flows.

- **What CMNP does**
  CMNP operates two toll roads in Indonesia – the JIUT, which spans over 50km in and around the most commercialised region of Jakarta, and the PT Citra Margatama Surabaya (CMS), a 12.8km toll road from Waru Interchange to the Juanda International Airport in Surabaya.

- **Why we visited CMNP**
  CMNP has been pioneering toll road investments since 1987 and it operates the highest-traffic toll road in Jakarta (by vehicle volumes). EBITDA grew every year in the last 5 years. CMNP is a direct proxy to Indonesia's buoyant economy and rising infrastructure spending.

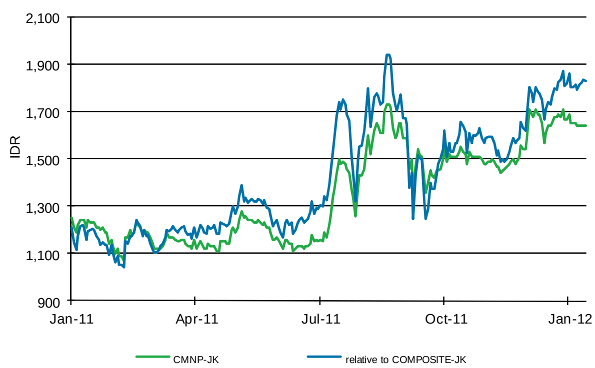
- **Valuations and share price performance**
  Based on consensus numbers, CMNP is trading at 8.4x 2012E earnings, and 1.4x 2012E book value. Four brokers cover the stock, all with buy recommendations.

- **Read-across to other companies**
  Jasa Maga (JSMR IJ) (state-owned enterprise) is the largest toll road operator in Indonesia. Several toll road operators have recently conducted or are preparing to raise funds, in the form of rights and bond issues to fund their future toll road expansions. 24 toll road projects (previously halted) are again up for bidding. The Indonesian government is increasingly introducing positive measures to spur the toll road and infrastructure industry in Indonesia. Management believes toll road operators are prime beneficiaries of the country's Land Procurement Law.

Bloomberg code:	CMNP IJ	**PER historical (x)**	10.8
Mkt cap (IDRbn)	3,280	**Yield historical (%)**	na
12m range (IDR)	1,060-1,760	**P/B historical (x)**	1.8
		ROE (%)	18
3m value traded (IDRm)	11,300	**Net gearing (%)**	28
No. of shares (bn)	2.0	**Net debt (cash) (IDRbn)**	504.3
Established	1987	**Historical EPS (IDR)**	149.1
Listed	1995	**EPS 3-yr CAGR (%)**	35
Secondary placement	na	**EPS 6-yr CAGR (%)**	23
Auditors, since	OBSR, 10	**Historical DPS (IDR)**	10.0
Year-end	Dec	**DPS 3-yr CAGR (%)**	na
Major shareholder	Morgan Stanley & Co Intl PLC – 13.3%		

Source: Annual report

Share price performance (IDR)



Source: Bloomberg

Related research notes

26/01/12	Adhi Karya	Not rated
26/01/12	Kawasan Industri	Not rated
26/01/12	Surya Semesta	Not rated
26/01/12	Selamat Sempurna	Not rated
26/01/12	Gajah Tunggal	Not rated

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Analyst visit note

A pioneer in toll road investment since 1987
CMNP was established in 1987 to construct, operate and maintain the first privately owned toll road in Indonesia. The company was listed on the Jakarta Stock Exchange and the Surabaya Stock Exchange in 1995. EPS has grown at a 35% CAGR for the period 2000-10.

Ownership
Management believes CMNP is a truly public company (free float 70.5%). Tutut, the eldest daughter of former Indonesian President Suharto, has been a passive shareholder with less than 5% stake in the company. Jasa Marga, a partner of CMNP and market leader of Indonesia's toll road industry, also has a stake (<5%) in the company.

JIUT is a cash cow, high operating leverage
The JIUT is operated on an integrated, open system with a revenue sharing agreement between CMNP and Jasa Marga. Sections are managed separately, with CMNP receiving 55% of total revenues of the three sections and Jasa Marga receiving 45%. JIUT is a toll-road network spanning some 50km of Jakarta's most commercialised regions. The JIUT concession ends in March 2025. With over 20 year of operations, JIUT is now a steady income contributor for the group, accounting for 93% of its total revenues in 2010. According to management, JIUT enjoys the highest volume of 530,000 vehicles per day in Jakarta, with traffic volumes having grown at the rate of 3-4% every year in 2009-10.

CMS recovering after loan restructuring in 2009
The second asset is PT Citra Margatama Surabaya (CMS), a 12.8km toll road from Waru Interchange to the Juanda International Airport. This is a 35-year concession that started in 2008 and is to run until 21 May 2040, jointly developed by CMNP (94.7%) and Jasa Maga (5.3%). CMS is a relatively new asset, and has not been profitable due to its high cost of investments (CMNP's cost of investment is IDR360bn). However, its profitability is improving after a loan restructuring and adjustment of tariffs following renegotiation with the government in 2010. CMNP incurred one-off restructuring expenses of IDR31bn in 2009.

Margins improved significantly
Net profit margins improved to a record high of 40% in 2010, from 11% in 2009. According to management, the significant jump in net profit reflects high operating leverage from JIUT, improving profitability from CMS and significantly lower finance costs after the settlement of all outstanding loans at the corporate level.

The toll road industry in Indonesia
Management has a buoyant outlook on the toll road industry due to supportive government regulations and a strong infrastructure pipeline. Restrictions on 24 toll road projects in Indonesia, previously halted, were recently lifted and CMNP is trying to secure 3-4 of them. Management estimates the payback period for toll roads at 10-12 years on an average IRR of 16-17%. Management reckons toll roads in the Jakarta area are the most lucrative.

Beneficiary of the Land Procurement Law
According to management, the key challenge to CMNP's business is land acquisitions. The Land Procurement Law – aiming to reduce land acquisition risks and speed the land acquisition process could be a significant catalyst for toll road operators in Indonesia. Key points of the planned legislation include: 1) the government has a right of way over land and land rights over land designated for public projects; 2) it gives a clear timeframe for land acquisition that includes decision over a location, appeal phase and compensation, to be decided within 30 days and; and 3) execution of land acquisition will be limited to a maximum of 2 years, compared to no time limit previously.

Competitive edge
Management believes the key strength of CMNP lies in its experience in operating toll roads and expertise in dealing with regulators over the last 20 years.

Expansion plan
CMNP recently secured another toll road project – Depok Antasari – a 22.82km toll road from Antasari Jakarta to Depok West Java – where it owns a 68% stake and Persero owns the remaining 32%. This is a 40-year concession (April 2013-March2053). The group is currently at the land acquisition stage and aims to start operating this toll road in 2014. Investment cost is estimated at IDR4.767tn (stage 1: IDR3.07tn and stage 2: IDR1.694tn). Stage 1 construction cost is estimated to be IDR1.456tn.

CAPEX plan
Going forward, the group estimates a capex of IDR500bn for investments in Depok Antasari (to be funded internally) and IDR50-60bn p.a. as maintenance capex.

Debt
In 2010, all the bonds issued by CMNP were settled in full. As a result, net gearing dropped to 28% in 2010, cf. 74% on average over 2007-09. The company is planning a bond issue (estimated IDR1.1-1.5tn) for its future toll road acquisitions.

Cash flows and dividends
CMNP generated strong positive FCF's during 2009-10, cf. weak or negative FCF's during 2006-08, on the back of lower capex and higher operating profits from its 2 roads. The group is committed to a 40% dividend payout on net profit up to IDR20bn and a 41-45% payout on net profit >IDR20bn.

Competition

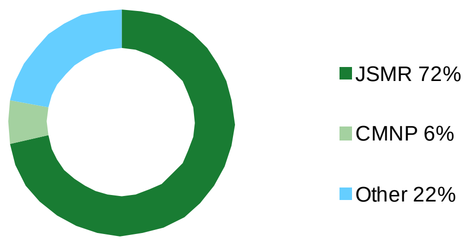
Fig 91: Competition

Business segment	Competitor	Listed / private
Toll road operator	PT Jasa Marga Tbk	Listed (JSMR IJ)
Toll road operator	PT Marga Mandala Sakti	Private
Toll road operator	PT Bintaro Serpong Damai	Private

Source: Bloomberg

Key charts

Fig 92: CMNP had a 6% share in terms of road length, 2010



Legend: segments listed clockwise from top

Source: CMNP, JSMR

Fig 93: New tariff as of 7 October, 2011

		Tariff	
Class	Vehicles	28-Sep-09	10-Jul-11
1	Car, bus, jeep, small truck	6,500	7,000
2	Truck with 2 axles	8,000	8,500
3	Trailer (3 axles)	10,500	11,500
4	Trailer (4 axles)	13,000	14,000
5	Trailer (5+ axles)	15,500	17,000

Source: Ministry Decree (Kepmen PU) No: 277/KPTS/M/2011

Company background

Fig 94: Company background

Shareholders

- Mr. Ievan Daniar Sumampow – 5.1%
- Free float – 70.5%

Recent M&A

- None

Management and directors

- Reza Herman Surjaningrat– President Commissioner
- Ievan Daniar Sumampow– Commissioner
- Candra Hermanto– Commissioner
- Danty Indriastuty Purnamasari– Ind. Commissioner
- Michael Rusli– Ind. Commissioner
- Shadik Wahono– President Director
- Indrawan Sumantri– Finance Director
- Alex M. Sumampow– General and HR Director
- Daniel Goenawan Reso– Business Development Director
- Hudaya Arryanto– Operations Director

Head office and key assets

- Address: Jl Yos Sudarso Kav 28, Jakarta 14350, Indonesia
- Jakarta Intra-Urban Tollway (JIUT), a 50km toll road in and around Jakarta.
- PT Citra Margatama Surabaya (CMS), a 12.8km toll road from Waru Interchange to Juanda International Airport in Surabaya.

Latest results highlights

- For 3Q2011, revenue was up 4.3% to IDR.194bn compared to IDR186bn in 3Q2010 higher traffic volumes from both roads and the tariff hike in July 2011.
- Reported operating income amounted to IDR112bn in 3Q2011, up 13.3% compared to 3Q2010 due to higher revenues and higher operating margins, which expanded to 57.6% in 3Q2011 cf. 53.1% in 3Q2010, mainly due to higher volumes and operating leverage.

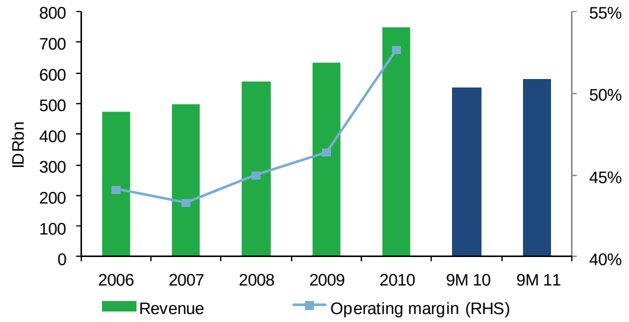
Significant Events

- In Jan 2012, a venture between San Miguel Corp and Citra Group acquired 80% of South Luzon Tollway Corp and 60% of Manila Toll Expressway Systems.

Source: Company, Bloomberg

Four key operational charts

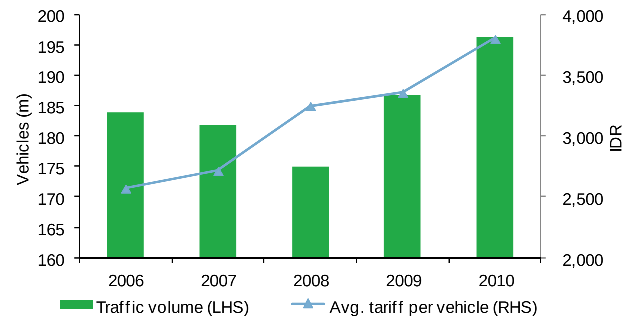
Fig 95: Consecutive revenue growth in the last 5 years



Source: Company

- CMNP's revenue grew at a 12% CAGR over 2006-10. In 2010, the company reported revenues of IDR750bn, up 19% compared to 2009.
- Revenue for 9M 2011 amounted to IDR580bn, up 5% YoY.
- Operating margins have expanded to 53% in 2010, cf. 44% in 2006. This is due to higher volumes for JIUT and high operational leverage.

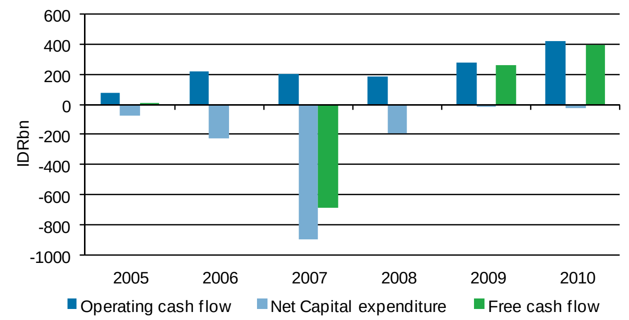
Fig 96: Average traffic volumes and tariffs



Source: Company

- In 2010, traffic volumes amounted to 196mn, of which 188mn is from JIUT and 8mn from the Wara-Juanda tollway.
- Volumes have grown at a 2% CAGR over the last 5 years. In 2010, the company recorded an above-average growth of 5% in traffic volumes.
- Blended average tariff per vehicle has grown at a CAGR of 10% over 2006-10.

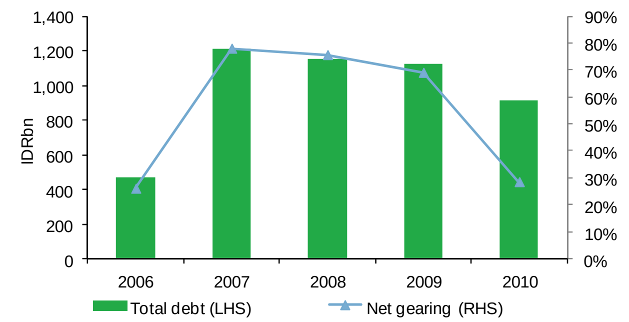
Fig 97: Free cash flow increased IDR139bn YoY in 2010



Source: Company

- Free cash flow increased 54% YoY to IDR398bn in 2010 cf. IDR259bn in 2009, stemming from higher operating cash flow, despite a marginal increase in capital expenditure.
- Operating cash flow increased 52% YoY to IDR420bn in 2010 cf. IDR276bn in 2009 due to higher operating profits on the back of increased traffic volumes and expanding margins.

Fig 98: Net gearing drops after settlement of bonds

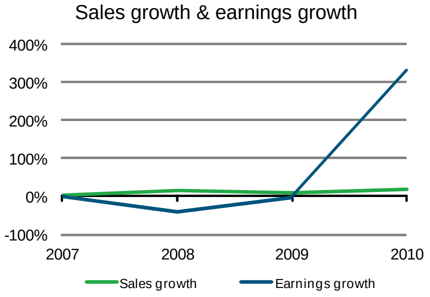


Source: Company

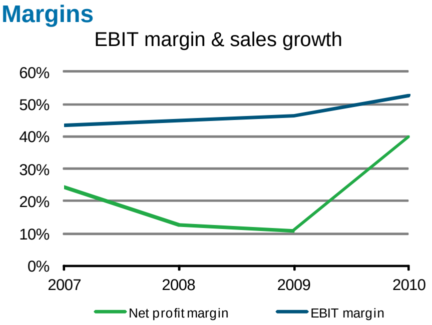
- By the end of 2010, all outstanding bonds of the company were settled. Total debt reduced by IDR213bn during the year 2010.
- As a result, the net gearing ratio reduced to 28% in 2010, cf. 67% in the previous year, giving the company a much stronger balance sheet.

Trend analysis and six-year financial data

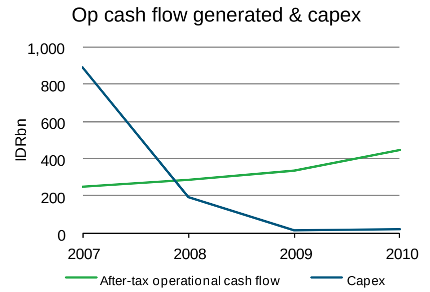
Growth



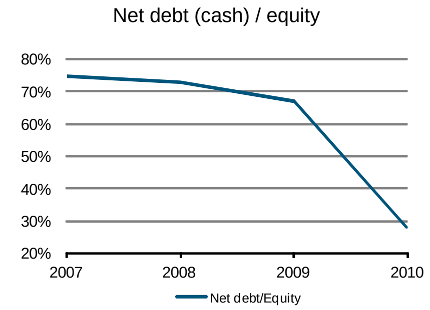
Margins



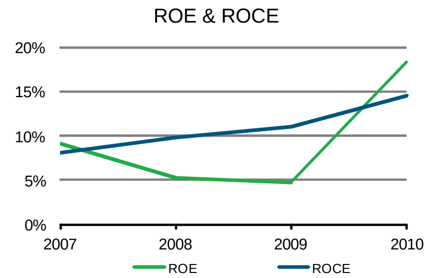
Cash flow



Balance sheet



Returns



Source: Company

Income statement (IDRbn)

Year end: December	2005	2006	2007	2008	2009	2010
Sales revenue	**438**	**475**	**496**	**572**	**632**	**750**
EBITDA	254	287	291	358	410	510
Depreciation & amortisation	(77)	(77)	(76)	(101)	(117)	(115)
EBIT	**177**	**210**	**215**	**257**	**293**	**395**
Net interest (expense) / income	(47)	(43)	(44)	(122)	(127)	(44)
Associates	0	(1)	0	(0)	(4)	0
Others	(3)	6	5	1	(42)	29
Income tax expense	(47)	(49)	(55)	(71)	(60)	(86)
PAT	**80**	**122**	**120**	**65**	**61**	**294**
Minorities	2	(0)	0	7	8	4
Net income	**81**	**122**	**121**	**72**	**69**	**298**

Cash flow (IDRbn)

Year end: December	2005	2006	2007	2008	2009	2010
Operating profit	**177**	**210**	**215**	**257**	**293**	**395**
Depreciation & amortisation	77	77	76	101	117	115
Working capital	(3)	0	(0)	(11)	40	(34)
Others	(44)	31	7	(1)	(47)	46
Operational cash flow	**207**	**318**	**297**	**346**	**403**	**522**
Tax paid	(87)	(56)	(50)	(58)	(69)	(72)
After-tax operational cash flow	**120**	**262**	**248**	**288**	**334**	**450**
Capex	(71)	(224)	(894)	(195)	(17)	(21)
Net interest	(43)	(44)	(42)	(100)	(58)	(30)
Debt	(183)	66	750	(66)	(109)	(165)
Dividends	(20)	(25)	(36)	0	(18)	(20)
Others	255	(15)	(7)	0	(114)	96
Net flow	**58**	**20**	**18**	**(73)**	**18**	**309**

Balance sheet (IDRbn)

Year end: December	2005	2006	2007	2008	2009	2010
Tangible assets	1,454	1,721	2,435	2,531	2,434	2,359
Intangible assets	0	0	0	0	0	0
Associates/investments/others	110	110	127	167	259	103
Stocks	0	0	0	0	0	0
Debtors	5	3	3	14	4	8
Cash and liquid assets	114	133	152	78	97	405
Total assets	**1,682**	**1,967**	**2,716**	**2,791**	**2,794**	**2,876**
Current creditors	9	107	33	70	27	61
Current borrowings	55	41	100	1,051	133	25
Long-term borrowings	359	427	1,114	99	990	884
Others	53	68	44	99	110	93
Total liabilities	**477**	**642**	**1,291**	**1,319**	**1,260**	**1,063**
Shareholders' funds	1,190	1,283	1,361	1,415	1,485	1,768
Minority interests	15	41	64	57	49	45
Equity	**1,205**	**1,325**	**1,425**	**1,473**	**1,534**	**1,813**
Total capital employed	**1,682**	**1,967**	**2,716**	**2,791**	**2,794**	**2,876**

Key data & ratio

Year end: December	2005	2006	2007	2008	2009	2010
EPS (IDR)	40.5	60.8	60.3	36.2	34.5	149.1
Chg %	n.a.	50%	-1%	-40%	-5%	332%
DPS (IDR)	25.0	36.0	18.0	-	20.0	-
CFPS (IDR)	24.7	18.8	(323.3)	46.4	158.5	214.4
BVPS (IDR)	595.0	641.7	680.5	707.7	742.3	883.8
W.avg shares	2.0	2.0	2.0	2.0	2.0	2.0
ROE (%)	7%	10%	9%	5%	4.8%	18.3%
Post-tax ROCE (%)	7%	8%	6%	5%	6%	11%
Capex/Sales (%)	16%	47%	180%	34%	3%	3%
Capex/Depreciation (%)	-92%	-291%	-1180%	-194%	-14%	-19%
Net debt/equity (%)	25%	25%	75%	73%	67%	28%
Total debt/Total capital (%)	25%	24%	45%	41%	40%	32%
Net interest cover (x)	3.2	3.7	4.3	2.0	2.2	6.0

Source: Company

Disclosures appendix

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Recommendation Distribution and Investment Banking Relationships

	% of covered companies currently assigned this rating	% of companies assigned this rating with which SCB has provided investment banking services over the past 12 months
OUTPERFORM	57.0%	9.6%
IN-LINE	31.1%	9.7%
UNDERPERFORM	11.9%	12.7%

As of 31 December 2011

Research Recommendation

Terminology	Definitions
OUTPERFORM (OP)	The total return on the security is expected to outperform the relevant market index by 5% or more over the next 12 months
IN-LINE (IL)	The total return on the security is not expected to outperform or underperform the relevant market index by 5% or more over the next 12 months
UNDERPERFORM (UP)	The total return on the security is expected to underperform the relevant market index by 5% or more over the next 12 months

SCB uses an investment horizon of 12 months for its price targets.

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