

30 October 2019

Property | Industrial Estates

Surya Semesta Internusa (SSIA IJ)

Buy

Subang City To Spur Growth; BUY

| | |
|------------------------------|-----------------|
| Target Price (Return) | IDR1,085 (+37%) |
| Price: | IDR795 |
| Market Cap: | USD266m |
| Avg Daily Turnover (IDR/USD) | 20,909m/1.5m |

- **We initiate coverage on SSIA with a BUY and IDR1,085 TP, 37% upside** on optimism of its soon-to-be opened Subang Industrial City with 2,000ha of land to be launched by end-2019. Management is optimistic in reaching 50-80ha in FY20 (c.IDR700bn-1.1trn), which should drive future earnings. SSIA also has a bigger recurring revenue contribution (30%) vs peers. The stock is currently trading at an undemanding 72% discount to NAV – we believe share price will rally further on Subang’s opening.
- **Exceeded FY19 marketing sales target of 15ha as at 9M19.** The company has sold 15.6ha of land, which translates into c.IDR260bn in marketing sales with an ASP of USD120/sqm. This was driven by increased enquiries from both foreign and domestic companies, especially after the election overhang. The translation into marketing sales is also supported by Surya Semesta Internusa’s lower ASP compared to its peers, which set a competitive price.
- **Subang City of Industry, next growth driver.** SSIA’s next big project is the Subang City of Industry, just a 1.5-hour drive away from Patimban Port. We believe, when opened, Patimban Port will be the go-to port of access for exporting goods as it has an easier access than Tanjung Priok Port – which is overwhelmed by traffic jams in Jakarta. The company has received a land use permit for 2,000ha. We believe Subang will be the source of growth for SSIA, as the company is targeting 50-80ha of marketing sales in FY20.
- **Well diversified business, significant recurring portion.** Unlike BEST’s and DMAS’ industrial land sale-dominated revenue stream, SSIA’s revenue is more diversified. In FY18, construction contributed 71%, hotels 22%, and industrial estates 12% (comprising 35% from land sales and maintenance & service at 65%). This translated to a 30% recurring revenue portion. Although this meant much lower net profit margin – at only 1% compared to BEST’s 44% and 48% for DMAS – the recurring portion provided a more stable business model.
- **Valuation rationale.** We derive our TP of IDR1,085 based on SOP, and applying a 62% discount to NAV at +2SD from its 5-year mean. We use RNAV to value its remaining landbank, market value using the market cap of Nusa Raya Cipta (NRCA IJ, NR) for its construction business, and DCF (11.4% WACC) to value its hotel and recurring service & maintenance businesses.
- **Risks** include intensifying competition from other players, slower FDI inflow due to unfavourable regulations, and decelerating global economic growth. We expect FDI to continue to remain strong in the coming years and benefit all industrial estate players in Indonesia. Other risks include execution risks for Patimban Port and the toll road connecting it to Subang.

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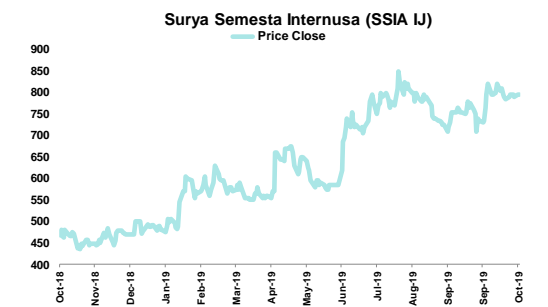


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Share Performance (%)

| | YTD | 1m | 3m | 6m | 12m |
|----------------------------|-----------|-----|-----|------|------|
| Absolute | 59.0 | 8.2 | 0.0 | 18.7 | 69.9 |
| Relative | 57.6 | 6.8 | 0.3 | 20.9 | 60.7 |
| 52-wk Price low/high (IDR) | 430 – 855 | | | | |



Source: Bloomberg

| Forecasts and Valuation | Dec-17 | Dec-18 | Dec-19F | Dec-20F | Dec-21F |
|---------------------------------|--------|--------|---------|---------|---------|
| Total turnover (IDRb) | 3,274 | 3,682 | 4,010 | 4,489 | 5,284 |
| Net profit | 1,178 | 38 | 54 | 175 | 383 |
| Recurring net profit (IDRb) | (645) | 38 | 54 | 175 | 383 |
| Recurring net profit growth (%) | N/A | N/A | 43.9 | 222.6 | 118.8 |
| Recurring EPS (IDR) | 252 | 8 | 12 | 37 | 82 |
| DPS (IDR) | 11.0 | 19.9 | 9.6 | 11.6 | 25.2 |
| Recurring P/E (x) | N/A | 98.5 | 68.5 | 21.2 | 9.7 |
| P/B (x) | 0.9 | 0.9 | 0.9 | 0.9 | 0.8 |
| Dividend Yield (%) | 1.4 | 2.5 | 1.2 | 1.5 | 3.2 |
| EV/EBITDA (x) | 2.3 | 12.4 | 11.0 | 7.7 | 5.0 |
| Return on average equity (%) | 30.1 | 0.9 | 1.2 | 3.9 | 8.0 |

Source: Company data, RHB

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Financial Exhibits

| Asia | | Financial Summary | 2017 | 2018 | 2019F | 2020F | 2021F |
|--|------|-------------------------------------|-------------|-------------|--------------|--------------|--------------|
| Indonesia | | Recurring EPS (IDR) | (0) | 8 | 12 | 37 | 82 |
| Property – Industrial Estate | | EPS (IDR) | 252 | 8 | 12 | 37 | 82 |
| Surya Semesta Internusa | | DPS (IDR) | 11 | 20 | 10 | 12 | 25 |
| | | BVPS (IDR) | 858 | 845 | 858 | 897 | 969 |
| | | Weighted Avg Adjusted Shares (m) | 4,670 | 4,670 | 4,670 | 4,670 | 4,670 |
| Major shareholders (%) | | Valuation Metrics | 2017 | 2018 | 2019F | 2020F | 2021F |
| Armand Investment Utama | 8.66 | Recurring P/E (x) | N/A | 98.5 | 68.5 | 21.2 | 9.7 |
| Persada Capital Investama | 7.85 | P/E (x) | 3.2 | 98.5 | 68.5 | 21.2 | 9.7 |
| HPAM Ultima Ekuitas | 5.47 | P/B (x) | 0.9 | 0.9 | 0.9 | 0.9 | 0.8 |
| Union Sampoerna | 5.40 | Dividend Yield (%) | 1.4 | 2.5 | 1.2 | 1.5 | 3.2 |
| | | EV/EBITDA (x) | 2.3 | 12.4 | 11.0 | 7.7 | 5.0 |
| | | EV/EBIT (x) | 2.3 | 13.2 | 11.5 | 7.9 | 5.1 |
| Valuation basis | | Income Statement (IDRb) | 2017 | 2018 | 2019F | 2020F | 2021F |
| We derive our TP of IDR1,085 based on SOP, and applying a 62% discount to NAV. We used RNAV to value its remaining landbank, market value using the market cap of Nusa Raya Cipta (NRCA IJ, NR) for its construction business, and DCF (11.4% WACC) to value its hotel and recurring service & maintenance business. | | Total Turnover | 3,274 | 3,682 | 4,010 | 4,489 | 5,284 |
| | | Gross Profit | 864 | 981 | 1,085 | 1,349 | 1,796 |
| | | EBITDA | 2,050 | 375 | 425 | 608 | 925 |
| | | Depreciation and Amortisation | (21) | (21) | (21) | (21) | (21) |
| | | Operating Profit | 2,029 | 354 | 404 | 586 | 904 |
| | | Net Interest | (187) | (98) | (98) | (86) | (69) |
| | | Other Income | 1,824 | 106 | 120 | 134 | 158 |
| | | Pre-Tax Profit | 2,050 | 375 | 425 | 608 | 925 |
| | | Taxation | (457) | (35) | (41) | (90) | (173) |
| | | Minority Interests | 63 | 52 | 54 | 61 | 71 |
| | | Net Profit | 1,178 | 38 | 54 | 175 | 383 |
| | | Recurring Net Profit | (645) | 38 | 54 | 175 | 383 |
| Key drivers | | Cash Flow (IDRb) | 2017 | 2018 | 2019F | 2020F | 2021F |
| Our forecasts are driven by: | | Change in Working Capital | (1,259) | 1,258 | (100) | (114) | (189) |
| i. Marketing sales exceeding target; | | Cash Flow from Operations | 141 | 1,507 | 237 | 361 | 516 |
| ii. Significant recurring portion; | | Capex | (389) | (126) | (212) | (210) | (210) |
| iii. Patimban Port as a catalyst for Subang Industrial Park. | | Cash Flow from Investing Activities | (212) | (334) | (291) | (292) | (296) |
| | | Cash Flow from Financing Activities | (304) | (946) | 190 | (138) | (85) |
| | | Cash at Beginning of Period | 1,520 | 1,145 | 1,372 | 1,508 | 1,439 |
| | | Net Change in Cash | (375) | 227 | 136 | (69) | 135 |
| | | Ending Balance Cash | 1,145 | 1,372 | 1,508 | 1,439 | 1,574 |
| Key risks | | Balance Sheet (IDRb) | 2017 | 2018 | 2019F | 2020F | 2021F |
| The downside risks include: | | Total Cash and Equivalents | 1,145 | 1,372 | 1,508 | 1,439 | 1,574 |
| i. Macroeconomic uncertainty; | | Tangible Fixed Assets | 3,766 | 3,946 | 4,009 | 4,066 | 4,117 |
| ii. Regulatory risk; | | Advance for Land Acquisitions | 120 | 119 | 178 | 200 | 235 |
| iii. Political risk; | | Investment in Associates | 410 | 319 | 319 | 319 | 319 |
| | | Total Other Assets | 3,411 | 1,649 | 1,796 | 2,027 | 2,408 |
| | | Total Assets | 8,851 | 7,404 | 7,810 | 8,050 | 8,653 |
| | | Total Long-Term Debt | 1,735 | 986 | 1,314 | 1,758 | 1,439 |
| | | Other Liabilities | 2,640 | 2,033 | 2,048 | 1,662 | 2,247 |
| | | Total Liabilities | 4,375 | 3,019 | 3,362 | 3,420 | 3,686 |
| | | Shareholders' Equity | 4,009 | 3,944 | 4,007 | 4,189 | 4,525 |
| | | Minority Interests | 468 | 441 | 441 | 441 | 441 |
| | | Total Equity | 4,477 | 4,385 | 4,448 | 4,630 | 4,966 |
| | | Net Debt | 589 | (386) | (194) | 319 | (135) |
| | | Total Liabilities & Equity | 8,851 | 7,404 | 7,810 | 8,050 | 8,653 |
| Company Profile | | Key Metrics | 2017 | 2018 | 2019F | 2020F | 2021F |
| Surya Semesta Internusa (SSIA) owns and manages industrial estates in the Karawang and Subang area, as well as manages residential estates, provides construction services through its listed subsidiary Nusa Raya Cipta (NRCA IJ), and operates hotels with Mulia Group, Banyan Tree and its own brand Batiqa. | | Revenue Growth (%) | -14% | 12% | 9% | 12% | 18% |
| | | Recurrent EPS Growth (%) | N/A | N/A | 44% | 223% | 119% |
| | | Gross Margin (%) | 26% | 27% | 27% | 30% | 34% |
| | | EBITDA Margin (%) | 63% | 10% | 11% | 14% | 18% |
| | | Net Profit Margin (%) | 36% | 1% | 1% | 4% | 7% |
| | | Dividend Payout Ratio (%) | 51% | 7% | 50% | 50% | 50% |
| | | Capex / Sales (%) | 12% | 3% | 5% | 5% | 4% |
| | | Interest Cover (x) | 10.8 | 3.6 | 4.1 | 6.8 | 13.0 |

Source: Company data, RHB

Investment Summary

We initiate coverage on SSIA with a BUY and IDR1,085 TP, 37% upside. SSIA is a well-established property and industrial land developer founded in 1971 with property development in the Kuningan area. The company entered into the industrial estate business with the development of Suryacipta City of Industry in Karawang.

SSIA has a diversified investment portfolio, including construction and hotel businesses, on top of its industrial land business providing a bigger recurring revenue portion. Its market cap is USD271m and it has a trading liquidity of USD203.7 per day.

SSIA is owned by Arman Investments Utama (8.7%), Persada Capital (7.9%), Intrepid Investments (6.3%), Union Sampoerna (5.4%) and 70.7% publicly owned (remaining 1.2% treasury shares).

We have a 12-month TP of IDR1,085, offering 37% upside from the current level for three main reasons:

- i. Its turnaround in marketing sales, has already exceeding its FY19 target, which would translate to a better-performing FY20F;
- ii. Subang City of Industry as the next growth catalyst, supported by Patimban Port opening;
- iii. Well-diversified business with significant recurring revenue portion of c.30%.

Strong marketing sales pick-up in 2019, after a slowdown in 2016-2018. As at 9M19, the company has exceeded its FY19 marketing sales target of 15ha. It has sold 15.6ha of land, translating to c.IDR260bn in marketing sales with an ASP of USD120 per sqm. This was driven by increased enquiries from both foreign and domestic companies, especially after the election overhang. The translation into marketing sales is also supported by SSIA's lower ASP compared to its peers. We believe a turnaround is happening in the industrial land sale business, and should be boosted even further once supportive reforms – such as labour law reform – are carried out by the Government.

Growth coming from Subang City of Industry, supported by Patimban Port. SSIA plans to launch its second industrial estate, after its Surya Cipta Karawang estate, located in Subang. SSIA already has a 2,000ha of land use permit with c.1,000ha already owned, 70% of which will be sold as industrial land, and the remaining 30% as higher-priced commercial land. Management targets marketing sales in 2H20 will achieve 50-80ha, considering its pursuit of an anchor tenant that usually requires >50ha plot of land for initial factory opening. At a price of USD90-105 per sqm, the marketing sales target from Subang alone is equivalent to IDR630bn-1.18trn.

Well diversified business. SSIA has a more diverse investment portfolio compared to peers, DMAS & BEST, with construction contributing to 71% to its revenue stream, hotels (22%), and industrial estates (12% – comprising land sales of 35%, and maintenance & service at 65%). This translates to 30% recurring revenue portion. Although this means lower net profit margin of only 1% compared to BEST (45%) and DMAS (49%), the recurring portion provides a more stable business model.

Valuation rationale. We derive our TP of IDR1,085 based on SOP, and applying a 62% discount to NAV at +2SD of its 5-year mean. We use RNAV to value its remaining landbank, market value using the market cap of NCRA for its construction business, and DCF (11.4% WACC) to value its hotel and recurring service & maintenance businesses.

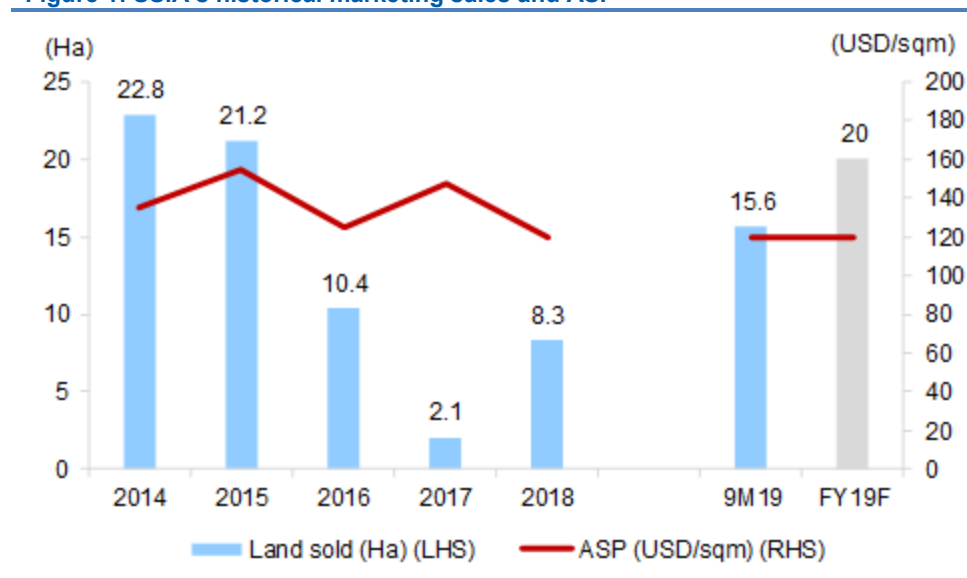
Strong FY19 Marketing Sales

Industrial estate stocks have been enjoying a good run this year, gaining as much as 23%, 75% and 124% YTD (BEST, SSIA and DMAS) due to expectations of higher marketing sales as the election is over and on an exodus of global manufacturers to Indonesia. This is in line with the company's marketing sales achievement exceeding its initial 15ha target, with 15.6ha sold by 9M19. This is a good sign for the company and the overall industrial estate sector, as a turning point from a rather slow 2016-2018. With a better FDI outlook driven by supportive reform and regulations from President Jokowi's administration in his second term, we believe SSIA will benefit from an overall higher marketing sales achievement.

Strong marketing sales pick-up in 2019, after a slowdown in 2016-2018.

As at 9M19, the company has exceeded its FY19 marketing sales target of 15ha. The company has sold 15.6ha of land. This translates to c.IDR260bn in marketing sales, with an ASP of USD120/sqm. Marketing sales this year consisted of 13.2ha for a data centre from a US company, and the remaining 2.4ha for an existing tenant expanding its facility. The company is still optimistic that it will book another sale this year. We expect it may book 20ha by the end of FY19 – back to 2014-2015 levels, before the slowdown. Combined with new bookings expected next year from Subang, marketing sales may jump in 2020.

Figure 1: SSIA's historical marketing sales and ASP



Source: Company, RHB

- ◆ SSIA's marketing sales have picked up from its lowest in 2017
- ◆ As of 9M19 the company has exceeded its initial target of 15ha in land sales

Subang As a Source Of Growth

SSIA currently has one operating industrial estate, Suryacipta City of Industry located in Karawang. The company is preparing for an opening of another industrial estate located in Subang – Subang City of Industry – which is targeted to open by the end of 2019. In the coming years, we believe the Subang City of Industry will be the source of growth for SSIA. Although it is located farther away from Jakarta – at the KM 88 exit compared to its Karawang development at the KM 50 exit – we believe the Subang location will be a prime location for companies to invest in for its proximity to Patimban Port and for the lower minimum wage compared to the elevated minimum wage in the Bekasi and Karawang area. With the opening of the Jakarta-Cikampek elevated toll road by the end of the year, travel time to Subang will also be cut down and therefore, reduce costs.

Strategic location, near to Patimban Port

The location in Subang is very strategic, as it is near the Patimban Port, a massive port project in construction (valued at USD3.2bn, or c.IDR45trn), located in the north point of Subang, West Java.

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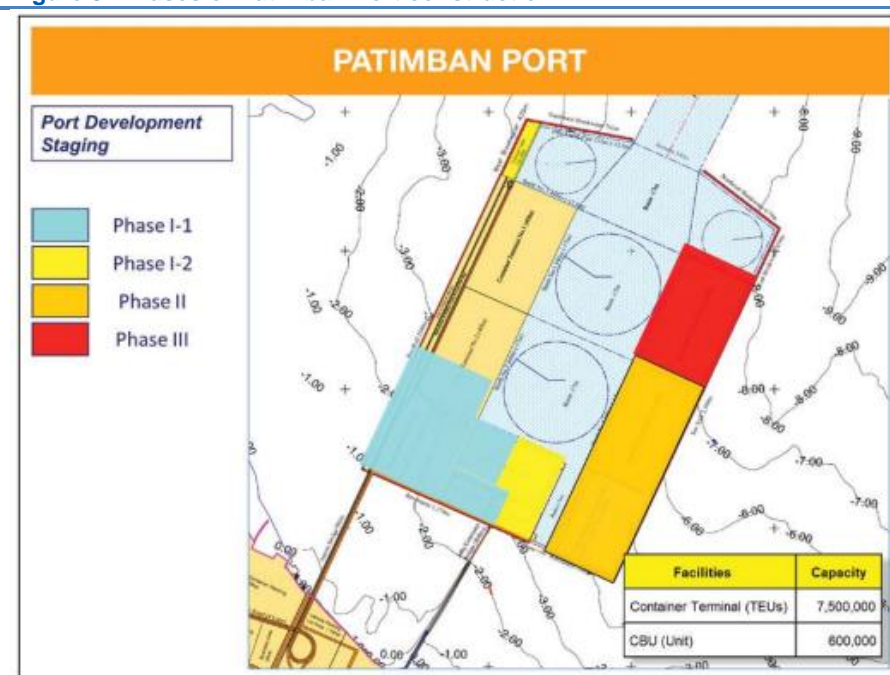
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Construction will be done in three stages, with the planned capacity for its final stage at 7.5m containers (TEUs), on par with Tanjung Priok's current capacity of 8m TEUs. At the first stage of construction, which is planned to be opened mid-2020, the port will have a capacity of 250,000 TEUs and 217,000 motor vehicles CBU. As at 1H19, construction of the container terminal reached 29%, while the car terminal reached 35% completion. We believe the port will also be the go-to port of access for exporting goods as it has an easier access than the Tanjung Priok port – which is overwhelmed by traffic jams in Jakarta.

Figure 2: Master plan of Patimban Port

| Phase | Facility | Capacity | Investment value (USDm) | Target Operation | Funding source |
|-----------|--------------------|-----------|-------------------------|------------------|----------------|
| Phase 1-1 | Container terminal | 250,000 | 1,306 | Mid-2020 | JICA |
| | Car terminal | 217,000 | | | |
| Phase 1-2 | Container terminal | 3,500,000 | 1,049 | 2022 | |
| | Car terminal | 383,000 | | | |
| Phase 2 | Container terminal | 1,460,000 | 562 | 2027 | |
| | Car terminal | - | | | |
| Phase 3 | Container terminal | 2,290,000 | 286 | 2037 | |
| | Car terminal | - | | | |
| Total | Container terminal | 7,500,000 | 3,203 | | |
| | Car terminal | 600,000 | | | |

Source: Ministry of Transportation, RHB

Figure 3: Phases of Patimban Port construction

Source: Ministry of Transportation, RHB

- ◆ The Phase 1-1 development is targeted to be completed by mid-2020, with a total capacity of 250,000 TEUs in the container terminal and 217,000 CBU in the car terminal
- ◆ As of 1H19, construction of the container terminal reached 29%, while the car terminal reached 35% completion

To be connected with Patimban access toll road

SSIA's Industrial City will have direct access via toll road to the Patimban Port. The toll road will span c.40km, with 8km of access road, which will cut down the travel time between the two points to 45-50 mins from the current 1.5-hour drive. Currently, the toll road project has received the recommendation from the regency, and is currently awaiting the decision from the Ministry of Public Works and Housing. Additionally, the company will join in the construction with subsidiary, NRCA, and operate the toll road in a JV with Jasa Marga (JSMR IJ, BUY, TP: 7,000). The total toll road project is valued at IDR5trn, and will take approximately two years to construct.

Figure 4: Subang City of Industry location – c.48km away from Patimban Port



Source: Company

Figure 5: Patimban access toll road plan



Source: Ministry of Public Works and Housing

To be the go-to industrial area

Subang will be the go-to industrial area for companies to invest in, in our view. On top of the direct access to the planned-to-be second largest port in Indonesia, Subang area is also turning into an attractive location, as Bekasi and Karawang are getting more crowded, coupled with the already-high minimum wage.

For big corporations that are planning to open shop in Indonesia, finding a large plot of land in industrial estates in Bekasi and Karawang are quite difficult, as most industrial estates now have scattered land available for sale in smaller sizes, such as SSIA's Suryacipta City of Industry in Karawang – with the largest plot at 38ha. Moreover, the minimum wage in Subang is significantly lower currently at c.IDR2.7m, 35% lower than Karawang and Bekasi's c.IDR4.2m.

Figure 6: West Java minimum wage per regency

| Province | Regency | Minimum Wage (IDR) | Regency | Minimum Wage (IDR) |
|-----------|---------------------|--------------------|----------------------|--------------------|
| West Java | Banjar City | 1,688,217 | Pangandaran Regency | 1,714,673 |
| | Cianjur Regency | 2,336,004 | Indramayu Regency | 2,117,713 |
| | Ciebon Regency | 2,024,160 | Bandung Regency | 2,893,074 |
| | Cirebon City | 2,045,422 | West Bandung Regency | 2,898,744 |
| | Sukabumi City | 2,331,752 | Sumedang Regency | 2,893,074 |
| | Tasikmalaya City | 2,086,529 | Cimahi City | 2,893,074 |
| | Bekasi Regency | 4,146,126 | Depok City | 3,872,551 |
| | Kuningan Regency | 1,734,994 | Bogor City | 3,842,785 |
| | Garut Regency | 1,807,285 | Sukabumi Regency | 2,791,016 |
| | Majalengka Regency | 1,791,693 | Bekasi City | 4,229,756 |
| | Bandung City | 3,339,580 | Karawang Regency | 4,234,010 |
| | Bogor Regency | 3,763,405 | Purwakarta Regency | 3,722,299 |
| | Tasikmalaya Regency | 2,075,189 | Subang Regency | 2,732,899 |
| | Ciamis Regency | 1,733,162 | | |

Source: West Java Regional Government

Optimistic on marketing sales for 2H20

Management has set an optimistic marketing sales target for the Subang City of Industry of 50-80ha booked by 2H20. It is in the pursuit of an anchor tenant that usually requires a more than 50ha plot of land for its initial factory opening. At a price of USD90-105 per sqm, the marketing sales target from Subang alone is equivalent to IDR630bn-1.18trn. Combined with strong marketing sales from its Karawang development, we believe this will drive its FY20F-21F performance.

Diversified Business Profile

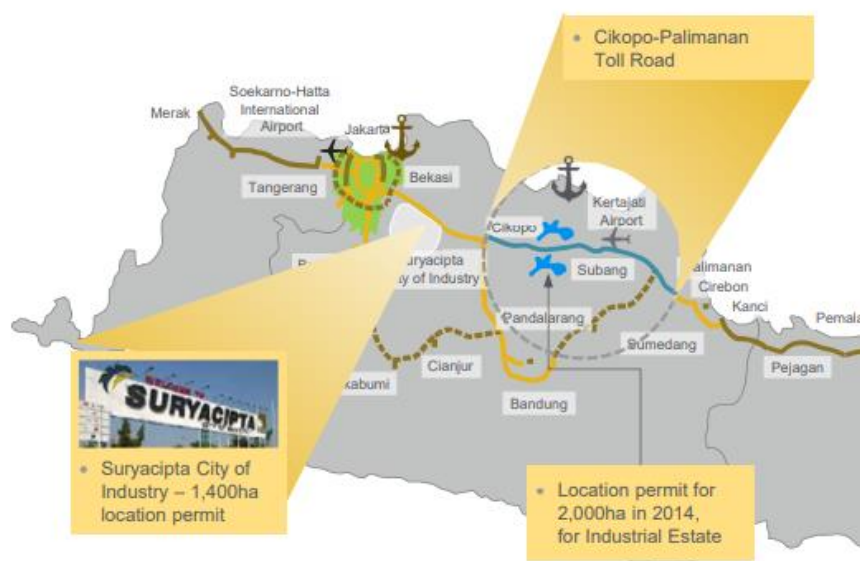
SSIA has a more diverse investment portfolio compared to peers, DMAS & BEST. Its construction segment contributes 71% of its revenue stream, hotels provides 22%, and industrial estates 12% (land sales 35%, maintenance & service 65%). This translates to a 30% recurring revenue portion. Though this means a low net profit margin of only 1% vs BEST and DMAS' above 40%, the recurring portion is a more stable business model.

Flagship industrial estate providing the fattest margins

SSIA currently has two industrial estates, with Suryacipta City of Industry in Karawang already in operation with a total area of 1,400ha and Subang City of Industry to be opened by end-2019, with a total land permit of 2,000ha. Its revenue stream from industrial estates comes from two sources, mainly industrial land sales, and the recurring maintenance & utilities fee, with both segments contributing 35% and 65% respectively to the industrial estate business revenue, and making up 12.3% of total revenue in FY18.

Although the industrial estate segment only accounted for 12% of revenue in FY18, (4.2% from industrial land sales and 7.8% from recurring maintenance & utilities), its high gross margin of 79% from industrial land sale (compared to construction segment's 10% and hotel's 65%) translated to a bigger chunk of gross profit contribution of 22.8%. Following the pick-up in marketing sales and the opening of Subang industrial estate, we expect FY19F-20F revenue contribution to increase to 13.6% and 18.1%, and for gross profit, to rise 26.4% and 36.2%.

Figure 7: Location of SSIA's industrial estates



- ◆ Both of SSIA's industrial estates are located along the Trans Java Toll road, with the Karawang estate located 50km from Jakarta, and Subang located 88km from Jakarta

Source: Ministry of Transportation, RHB

Karawang still has 162ha of landbank left, with the largest plot at 38ha in size. Assuming there is 20ha of marketing sales pa, the development may sustain its revenue stream from land sales for that area for eight years, and only collecting maintenance fees there on out. With the planned opening of its new industrial estate by the end of 2019, Subang should then sustain the company's land sales revenue stream.

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Figure 8: Suryacipta Karawang's layout



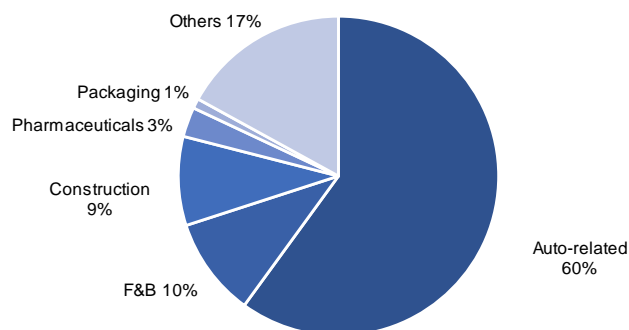
Source: Company

Figure 9: Suryacipta Karawang's landbank

| | | |
|------------------------------------|-------|------------|
| License – gross (ha) | 1,400 | |
| Phase 1 and 2 gross (ha) | 1,000 | |
| Industrial & Commercial land - net | | 793 |
| Sold up to 30 June 2019 - net | | 759 |
| Landbank – net (ha) | | 34 |
| Phase 3 – gross (ha) | 400 | |
| Industrial & Commercial land - net | | 293 |
| Sold up to 30 June 2019 - net | | 165 |
| Landbank – net (ha) | | 127 |
| Total landbank – net (ha) | | 162 |

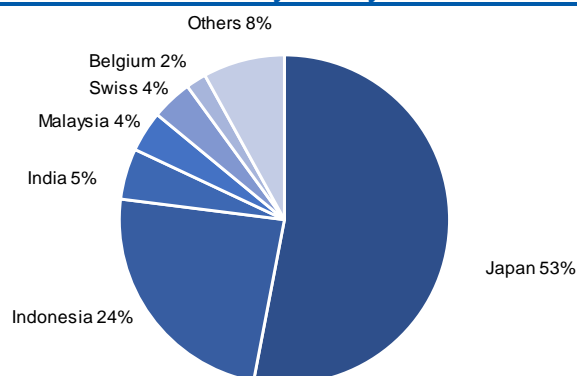
Source: Company data

Figure 10: SSIA's tenant mix by industry



Source: Company data

Figure 11: SSIA's tenant mix by country



Source: Company data

Current tenants in the Karawang estate comprise auto (60%), construction (10%), packaging (9%), and others. While by country of origin, Japanese companies make up to 53% of total tenants, followed by Indonesian companies at 24% of total.

Construction, run by its listed subsidiary Nusa Raya Cipta

NRCA has more than 50 years of experience in high-rise building construction. Its projects are mainly hotels, apartments, hospitals, office towers, shopping centres, and structure engineering with a good track record. NRCA has achieved IDR1.73trn of new contracts, or 49.43% of its FY19 target of IDR3.5trn. NRCA is unique compared to other construction companies, because its operations do not depend on debt. NRCA's debt-to-equity ratio is 0.16%, as at 1H19.

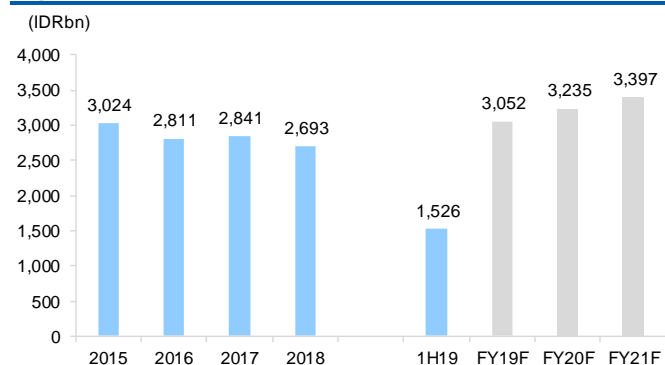
The company has good management of trade receivables from suppliers and advance payment from customers. This is reflected in its lower days of receivables of 40 days, compared to Acset Indonusa's (ACST IJ, BUY, TP: IDR2,250) 48 days. Most of the project terms of payment are by monthly progress, resulting in it being a cash-rich company and being able to regularly pay cash dividends to shareholders. Its focus on customer satisfaction has paid-off as new contracts were mostly acquired from repeat customers.

NRCA is also participating in the Patimban toll road project, which will be operated by its parent in a JV with Jasa Marga. This is supported by its experience in the construction of the Cikopo-Palimanan toll road, which was then sold to Astratel Nusantara for IDR189.5bn. As at FY18, NRCA contributed 66% of revenue and 25% of gross profit (due to its 10% GPM). With the growing number of new contracts acquired, we believe NRCA will still contribute a huge chunk of revenue for SSIA.

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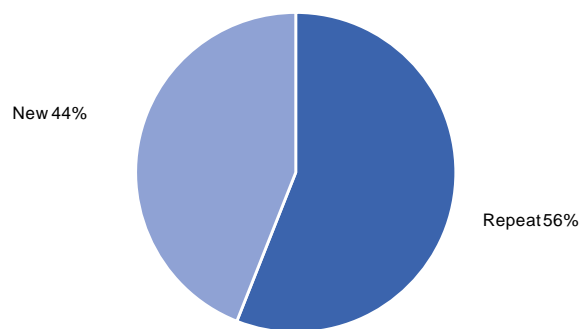
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Figure 12: NRCA's historical revenue



Source: Company data, RHB

Figure 13: NRCA's customer composition – 2018



Source: Company data, RHB

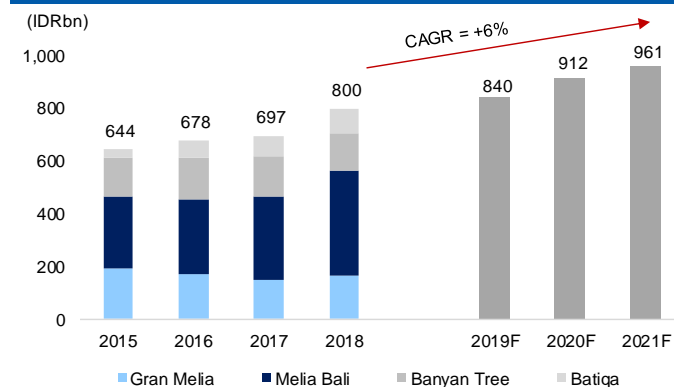
NRCA has been getting contracts from well-known property players such as Sinarmas Group, Ciputra Group, Intiland Group, Agung Podomoro Group, Tokyu Land, etc. Not only that, its strong customer profile is also loyal, we believe from NRCA's good execution, translating to 56% of its new contracts coming from repeat customers.

Well-known hotels providing recurring revenue, expanding own brand going forward

SSIA currently owns two hotels which are being operated by Melia Hotels International, namely; Gran Melia Jakarta Hotel & Melia Bali Hotel, and owns one hotel being operated by Banyan Tree Holdings – Banyan Tree Unggasan Resort Bali. As at 2014, SSIA embarked on creating its own hotel brand, self-owned and self-operated under the name Batiqa hotels. There are currently eight Batiqa hotels in operation. According to management, expansion of Batiqa hotels is its priority in the hospitality segment going forward.

The hospitality segment (hotels) currently accounts for 22% of revenue. With the steady growth that should come from its Batiqa franchise, we believe the hospitality segment will continue to contribute a steady revenue stream.

Figure 14: SSIA's hospitality segment revenue



Source: Company data, RHB

Figure 15: SSIA's hotel RevPar

| | 2015 | 2016 | 2017 | 2018 | 1H19 |
|--------------------|------|------|------|------|------|
| Gran Melia (USD) | 103 | 92 | 86 | 90 | 75 |
| Melia Bali (USD) | 107 | 119 | 130 | 153 | 142 |
| Banyan Tree (USD) | 466 | 448 | 435 | 388 | 387 |
| Batiqa (IDR '000)* | 357 | 250 | 277 | 309 | 279 |

Note: * Batiqa's 2015 RevPar only accounts for Batiqa Karawang
Source: Company data, RHB

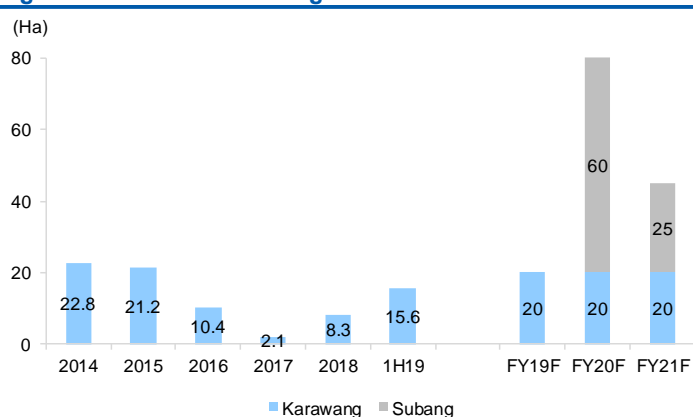
Financial Forecasts And Key Earnings Drivers

Revenue to ramp up post Subang opening

A combination of a pick-up in marketing sales in Karawang and the launch of Subang next year should drive up revenue for SSIA in the coming years. After exceeding its FY19 marketing sales target of 15ha, we believe SSIA may still be able to book a total of 20ha in 2019. Following that, the company is targeting 50-60ha of marketing sales in Subang by mid-2020.

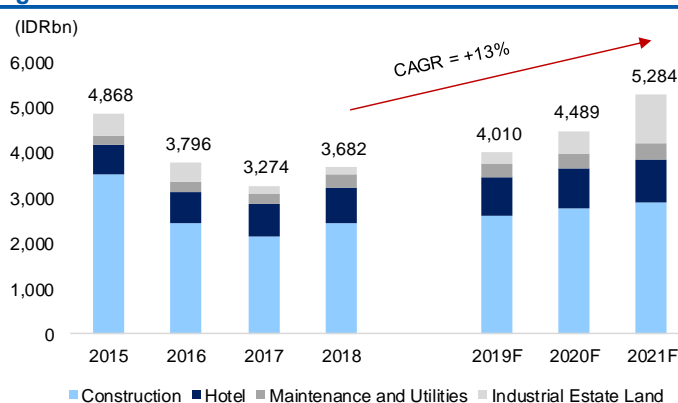
We forecast the company's revenue to grow by a CAGR of 13% throughout 2018-2021. This is largely driven by the industrial segment, forecasted to grow by a CAGR of 91% following substantial growth after opening of Subang. The construction segment should also grow steadily, with strong growth in new contracts. We project a conservative growth of 6% CAGR for the segment. The same goes for its steady recurring portion in its hospitality and maintenance & services segments, with a CAGR of 7%, and maintaining a 25% recurring portion.

Figure 16: SSIA's marketing sales



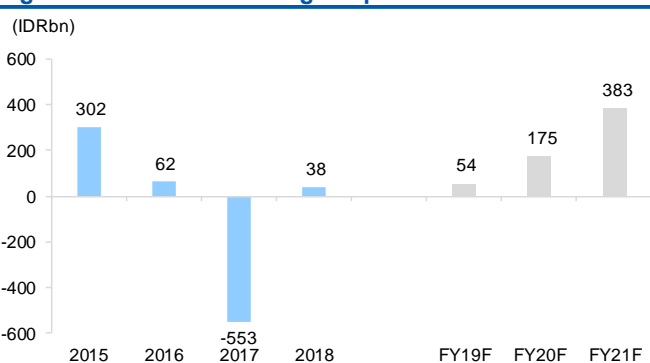
Source: Company data, RHB

Figure 17: SSIA's revenue



Source: Company data, RHB

Figure 18: SSIA's recurring net profit



Source: Company data, RHB

Figure 19: SSIA's debt



Source: Company data, RHB

We forecast SSIA's net profit to ramp up in the next three years, driven by net margin expansion from 1% in 2018 to 1.4%, 3.9%, and 7.2% in 2019F-2021F. We believe margin expansion would cover GPM, EBIT margin and net profit margin, due to the huge growth capabilities of the industrial segment, which has the highest margin compared to other segments. The segment's net profit margin was the highest at 26% in 2018, compared to construction's 5% and hotels' 2%.

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Where we are vs consensus

Our 2019F earnings are 10% above consensus, while our 2020F-2021F earnings are 10%, 41%, and 114% above consensus. This is because we think Street has not priced in management's marketing sales target of 50-80ha that should be recognised in 2020F-2021F.

Management's marketing sales target in Subang is 3-4x higher than our 2019 estimate of 20ha (achievement in 9M18: 15.6 ha) in Karawang, assuming the company is able to book sales from an anchor tenant, which usually needs above 50ha in initial investment.

Figure 20: RHB vs consensus

| | RHB | | | Consensus | | | RHB/Cons | | |
|----------------------------------|-------|-------|-------|-----------|-------|-------|----------|-------|-------|
| | 2019F | 2020F | 2021F | 2019F | 2020F | 2021F | 2019F | 2020F | 2021F |
| Revenue (IDRbn) | 4,010 | 4,489 | 5,284 | 3,944 | 4,351 | 4,765 | 2% | 3% | 11% |
| Gross Profit (IDRbn) | 1,085 | 1,349 | 1,796 | 1,074 | 1,221 | 1,350 | 1% | 10% | 33% |
| Operating Profit (IDRbn) | 313 | 481 | 775 | 291 | 416 | 528 | 8% | 16% | 47% |
| Net Profit (IDRbn) | 54 | 175 | 383 | 49 | 124 | 179 | 10% | 41% | 114% |
| GPM (Δ bps) | 27.1% | 30.0% | 34.0% | 27.2% | 28.1% | 28.3% | -0.67 | 7.09 | 20.02 |
| Operating Margin (Δ bps) | 7.8% | 10.7% | 14.7% | 7.4% | 9.6% | 11.1% | 5.95 | 12.14 | 32.55 |
| Net Margin (Δ bps) | 1.4% | 3.9% | 7.2% | 1.2% | 2.9% | 3.8% | 8.66 | 36.34 | 92.80 |

Source: Bloomberg, RHB

Valuation Rationale

We derive our TP of IDR1,085 based on SOP, and applying a 62% discount to NAV set at +3SD from its 5-year mean. We used RNAV to value its remaining landbank, market value using the market cap of NRCA for its construction business, and DCF (WACC: 11.4%) to value its hotel and recurring service & maintenance businesses.

Figure 21: SSIA's NAV calculation

| Business | Company Market Cap (IDRbn) | Effective Ownership (%) | SSIA's Value (IDRbn) | Contribution to total value (%) |
|--|----------------------------|-------------------------|----------------------|---------------------------------|
| Industrial (NAV) | 9,985 | 100% | 9,985 | 72.1% |
| Construction (Based on NRCA Market Cap) | 953 | 65% | 623 | 4.5% |
| Hotel (Melia) (DCF, WACC 11.4%, TG 5%) | 1,706 | 87% | 1,481 | 10.7% |
| Hotel (Banyan) (DCF, WACC 11.4%, TG 5%) | 439 | 100% | 439 | 3.2% |
| Hotel (Batiqa) (DCF, WACC 11.4%, TG 5%) | 319 | 100% | 319 | 2.3% |
| Service & Maintenance (DCF, WACC 11.4%, TG 5%) | 999 | 100% | 999 | 7.2% |
| Total NAV | | | | 13,847 |
| + Cash FY19F | | | | 1,508 |
| - Debt | | | | 1,742 |
| - Cash Advances | | | | 205 |
| SOTP (IDRbn) | | | | 13,408 |
| # of shares (bn) | = | | | 4.705 |
| RNAV per share | | | | 2,850 |
| Share Price | | | | 795 |
| Discount to Fair Value | | | | 72% |
| TP (at 65% Discount) | | | | 1,083 |
| Rounded | | | | 1,085 |
| Upside | | | | 36% |

Source: RHB, Company data

Currently SSIA is trading at a 72% discount to NAV, just slightly above its 5-year mean. We believe there is a justifiable upside to this, considering the ramp-up of marketing sales back to 2014-2015 levels, during which the counter is trading at +1-2SD from its mean.

Figure 22: SSIA's 5-year P/BV band



Source: Bloomberg, RHB

Figure 23: SSIA's 5-year discount to NAV band







Source: Bloomberg, RHB

Downside Risks

- i. **Macroeconomic uncertainty.** Macroeconomic volatility, leading to slower global GDP growth – as well as for Indonesia – which could lead to slower FDI inflow for Indonesia and affect the marketing sales of industrial estates;
- ii. **Regulatory risk.** Unexpected implementation of government regulations such as delay in tax holiday for new investments, or any additional legislative regulation that can hamper investment in Indonesia;
- iii. **Political risk.** An unstable political environment during President Jokowi's second term could dampen Indonesia's FDI attractiveness, as we have seen before during the election year.






Management Team

Figure 24: Board of directors

| Name | Position | Description |
|--|-------------------------|---|
| <p>Johannes Suriadjaja</p>  | President director | Johannes Suriadjaja has been the president director of the company since 2001. He previously served as vice president director of the company in 1996-2001. He began his career as executive management trainee at Toyota Motor Sales, USA, in 1986-1987, assistant manager – Corporate Banking at the Chase Manhattan Bank, N.A. in Jakarta in 1990-1991, and as director of Multi Investment in 1993-1996. Currently he is also serving as president director of Suryalaya Anindita International, President Director of Enercon Praradhya, president director of TCP Internusa, president director of Sitiagung Makmur, and president director of Suryacipta Swadaya, among others. He graduated with a Bachelor's degree in Marketing Management from The American College for the Applied Arts, Los Angeles, in 1989. |
| <p>Eddy P Wikanta</p>  | Vice president director | Eddy Wikanta has been the president director of the company since 2006. He joined the company in 1974 as Head of the Glodok Plaza Shopping Complex Project in Jakarta, Head of the Sumber Waras Hospital VIP Room Construction Project in Jakarta in 1974-1975, and Head of Plaza Theatre Construction Project and the Glodok Plaza Development Project in Jakarta in 1977-1978. In 1986, he joined Nusa Raya Cipta as Project Head Coordinator, and then appointed as director in 1988, managing director in 1991, and president director from 1996 to 2012. He served as director of the company from 1996 to 2005. He served as vice president director of SCS in 2006-2013. He is also present on the board of several subsidiaries of the company. He graduated with a Bachelor's degree in Civil Engineering from Diponegoro University in 1974. |
| <p>The Jok Tung</p>  | Finance director | The Jok Tung has been serving as a director of the company since 2005. He began working at the Corporate Banking division of The Chase Manhattan Bank N.A. Jakarta, with final position as vice president in 1985-1993. Previously he served as director of Argha Karya Prima Industry in 1993-2003. He is also present on the board of several subsidiaries of the company. He obtained his Bachelor of Science degree in Finance & Business Administration from the University of Southern California, Los Angeles, in 1984. |
| <p>Wilson Effendy</p>  | Director | Wilson Effendy has been a director of the company since 2019. He previously held several key positions in Nirvana Development as CEO (2014-2015); Bekasi Fajar Industrial Estate as finance director (2011-2014); and Ucoal Sumberdaya as CFO (2010-2011). He began his career at Arthur Anderson Indonesia as senior auditor (1996-1997), continued at Pacific Gas and Electric in USA as a financial and budget analyst (1999-2000), and as a senior business financial analyst with Barclays Global Investor, USA (2000-2003). He was also at Asia Pulp & Paper, Sinar Mas Group as Head of Banking, Investor Relations and Risk Management (2003-2010). Currently, he is also serving as director of Suryacipta Swadaya, director of Surya Internusa Hotels, director of Surya Internusa Properti, and director of Surya Siti Pratama. president director of Semesta Industri Pratama and president director of Surya Centra Industri. He obtained his Bachelor's degree in Accounting from Universitas Tarumanagara in 1996 and his Master's in Business Administration from California State Hayward in 1999. |

Source: Company

Figure 25: Board of commissioners

| Name | Position | Description |
|---|-----------------------------|--|
| <p>Hagianto Kumala</p>  | President commissioner | Hagianto Kumala has been the president commissioner of the company since his appointment in 2008. Prior to his appointment, he served as president director of Delta Dunia Makmur since 2009 and as president director of Bukit Makmur Mandiri Utama from 2012 to 2014. Before serving as president director of BUMA, he served as president commissioner of BUMA from 2011 to 2012, and as vice president commissioner from 2009 to 2010, among other important roles. He obtained his Bachelor of Industrial Engineering degree from Bandung Institute of Technology, Indonesia, in 1974. |
| <p>Emil Salim</p>  | Vice president commissioner | Emil Salim has been the vice president commissioner of the company since his appointment in 2016. He obtained his PhD degree in economics from the University of California, Berkeley, USA. He started his career as deputy chairman of the National Development Planning Board (Bappenas) from 1968 to 1971. He was subsequently appointed as Minister of State for State Apparatus Empowerment and deputy chairman of Bappenas in 1971-1973, Minister of Transport, Telecommunication and Tourism in 1973-1978, Minister for Population and Environment in 1978-1983, Member of the Presidential Advisory Council in 2007-2009, and Chairman of the Presidential Advisory Council doubling as Environment and Economic member in 2010-Oct 2014. He also served as Professor of the Environmental Science Postgraduate Program at the University of Indonesia since 1995, and as a Member of the Indonesian Science Academy since 2005. He also serves as chairman of the Environmental Science Postgraduate Program's Lecturers Peer Group at the University of Indonesia; and as a lecturer at the University of Indonesia's Economic Faculty; as well as other important roles |
| <p>Royanto Rizal</p>  | Commissioner | Royanto Rizal has been a commissioner of the company since 2011. He previously also served as a commissioner in 2001-2004. He began his career as manager at Kusumanegara in 1962-1965, director of Silga in 1965-1970, director of National Roadbuilders & Construction in 1970-1977, director of Town & City Properties (TCP) in 1977-1993, as a director of Suryalaya Anindita International (SAI) in 1983-1998, president director of Multi Investments in 1993-1996, vice president commissioner in 1996-2001, and commissioner of Suryalaya Anindita International in 1998-2013. He is currently serving as commissioner of Siti Swadaya Permai and Jasa Semesta Utama, vice president commissioner of Nusa Raya Cipta, president commissioner of Suryalaya Anindita International, TCP Internusa, Suryacipta Swadaya, Sitiagung Makmur, Ungasan Semesta Resort, Surya Internusa Hotels, Surya Internusa Properi, Karsa Sedaya Sejahtera, BATIQA Hotel Manajemen, Surya Citra Propertindo, Karsa Semesta Prima and Enercon Paradhya International. He graduated with a Bachelor of Civil Engineering degree from Bandung Institute of Technology in 1962. |
| <p>William Jusman</p>  | Commissioner | William Jusman has been a commissioner of the company since 2008. He began his career working as a civil engineer at Wilhelm & Barelli Structural Engineering, Los Angeles, in 1980-1982; was a structural engineer at Califa Pratama, a subsidiary of the Duta Anggada Group in 1982-1986; a director of Sinar Putra Perdana Raya, a consulting & contracting firm in 1987-2003, director of TCP Internusa and Sitiagung Makmur (SAM) in 2004-2009, and director of Ungasan Semesta Resort (USR) in 2006-2009. Currently he also serves as a director of Union Sampoerna and president director of Union Sampoerna Triputra Persada since 2009. He graduated with a Bachelor of Science degree in Civil Engineering from California State Polytechnic University, Pomona, California, USA, in 1979, and a Master of Science degree in Civil Engineering from the University of Southern California, Los Angeles, California, USA, in 1981. |
| <p>Crescento Hermawan</p>  | Commissioner | Crescento Hermawan has been a commissioner of the company since 2019. He holds a Bachelor's degree in Finance from the University of Toledo, Ohio. He began his career at Dianlia Setyamukti, a mining contractor company in 1996 as financial analyst. In 1997, he continued his career at Bank Universal and continued to serve at this company until 2003, with the last position as senior manager for Corporate Marketing. He is the founder of Persada Capital (2003), an investment holding company with focus on hospital, contractor, real estate and investment businesses. |
| | Commissioner | |

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Steen Dahl Poulsen



Steen Dahl Poulsen has been a commissioner of the company since his appointment in 2007. He previously worked at IBM as a Computer sales executive in 1975-1980. In 1980, he established Primotex, a company with subsidiaries spread across Sweden, Finland, Poland, Lithuania, China, and Hong Kong. He obtained his Bachelor's degree in Accounting in 1971 and MBA from the Aarhus School of Business, Aarhus University, in 1972.

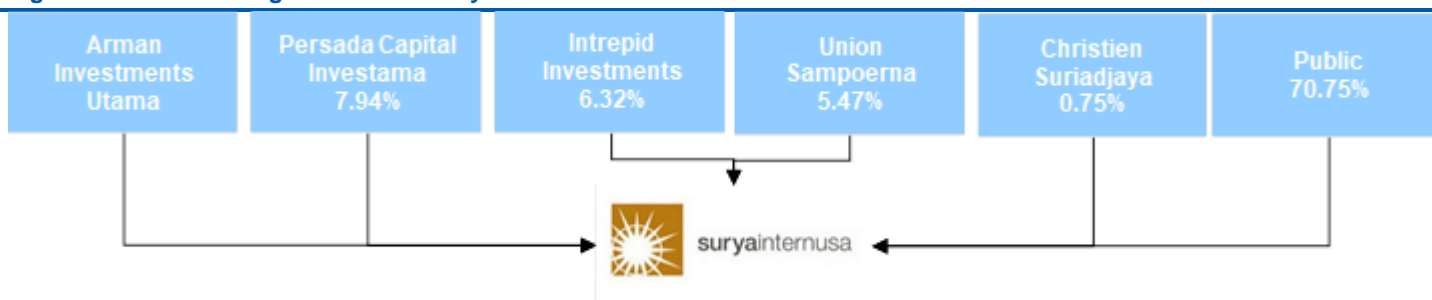
Source: Company

Figure 26: Company milestones

| Year | Description |
|------|--|
| 1971 | Was established as a property development company to develop the Golden Triangle area in Kuningan |
| 1976 | Glodok Plaza inauguration, Indonesia's first modern shopping centre in Chinatown, Jakarta |
| 1983 | Developed Melia Bali Hotel, a 494-room, 5-star hotel in Nusa Dua, Bali |
| 1991 | Developed 1,400 hectares of industrial estate in Karawang, West Java |
| 1994 | Acquired a construction business, Nusa Raya Cipta |
| 1996 | Developed the 5-star Gran Meliá Hotel and the Graha Surya Internusa office building |
| 1997 | Listed on the Indonesia Stock Exchange |
| 2006 | Development of the ultra-high-end Banyan Tree Resort in Ungasan, Bali |
| 2008 | Consolidated its hospitality business, Suryalaya Anindita International |
| 2010 | Launched the Banyan Tree Ungasan Resort, Bali |
| 2011 | Conducted stock split in a ratio of 1 : 4 |
| 2012 | - Issued IDR700bn bond - Distributed first dividend since IPO in 1997 - Invested in the Cikopo-Palimanan Toll Road |
| 2013 | IPO of Nusa Raya Cipta (NRCA IJ) at IDR850 per share |
| 2014 | - Acquired location permit of 2,000 ha in Subang, West Java - Launched first Batiqa hotel in Karawang |
| 2015 | - Joint venture with Mitsui & Co and TICON in warehousing/ factory business - Opening of Cikopo-Palimanan toll road |
| 2017 | Divestment of Cikopo-Palimanan Toll road at 3x book value |

Source: Company, RHB

Figure 27: Shareholding structure of Surya Semesta Internusa



Source: Company, RHB

RHB Guide to Investment Ratings

| | |
|---------------------|--|
| Buy: | Share price may exceed 10% over the next 12 months |
| Trading Buy: | Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain |
| Neutral: | Share price may fall within the range of +/- 10% over the next 12 months |
| Take Profit: | Target price has been attained. Look to accumulate at lower levels |
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| Not Rated: | Stock is not within regular research coverage |

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