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Flash Notes

TOTAL BANGUN PERSADA

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Less risk than previously expected

Focus on quality allows TOTL to pick good projects with better margins

We had a meeting with TOTL's management and have some up-date on the company. TOTL is eyeing the premium high-rise building project which will generate at least 10% gross margin and 5% net margins to the company, higher than SOEs' average gross margin of 8% and net margin of 2%. It has a reputation for high quality, as indicated by the company's long-term relationships with most of its clients: 76% of 9m2013 revenue is from repeat customers (RALS, APLN, DILD, ASRI, Kompas Group). TOTL estimates it has around 50%-70% of market shares in private building project.

Project owners share the risk of raw material cost

Since 2009, project owners (clients) buy approximately 50% of raw material directly from suppliers. In addition, TOTL also has umbrella contract with their suppliers to avoid raw material cost hike risk which will be reviewed every 6 months and subjected to USD appreciation. Under the agreement with their supplier TOTL needs to pay only 70% of the increasing of raw material price. Hence, a 20% increase in raw material cost (~30% of total construction scope of work) would theoretically only reduce TOTL's gross margin from 10% to 8.5% versus 4% if TOTL did not share the risk of higher cost. The combination of some project delays and rising raw material price only reduce earnings guidance from Rp210bn to Rp195bn in 2013. We believe this is a smaller impact than previously thought by the market.

Entering 2014, the new segment of TOTL will focus on the construction of skyscrapers, whereas TOTL will form a JO with the third party to construct buildings over 100-storey tall.

Currently, there are 2 skyscraper projects on the pipeline, PCPD (Pacific Century Premium Development; project value: Rp2.0tr) project in SCBD Lot. X - Jakarta and MNC Tower project (project value: Rp1.6tr). In both projects TOTL has formed a JO with Japan's company with TOTL's shares are 40% and 45%, respectively. However, the skyscrapers project will result in lower revenues in the first year of construction due to the need of deeper and stronger foundation for taller buildings. Revenues recognition rate is expected to reach only 5%-10% lower than 35% in regular buildings and will accelerate to 75-80% in second year (regular: 50%), and the remaining 15% will be booked in the third year. Hence, TOTL is targeting flat earnings growth in 2014 and will accelerate in 2015. Despite its higher project values, skyscrapers project has lower gross margins at 9% (regular: 10%).

Low risk on 2014 earnings.

TOTL targets 2014 new contract amounted to Rp2.4tr (+22.7% YoY) with backlog of Rp2.4tr resulting in Rp4.8tr of order book. To achieve the target, TOTL will take part in tender of construction of Rp5.0tr worth of office buildings, an Rp300bn worth of shopping center, and a hotel amounted to Rp200bn whereas all the projects are private's. 2014 revenues is targeted to reach Rp2.4tr (+17.0% YoY) which around 80% will be generated from backlog contract, while earnings is targeted to reach Rp200bn (+2.6% YoY) and become Rp230bn (+15.0% YoY) in 2015. Hence, TOTL is traded at 14PE of 12.4x and 15PE of 10.7x, based on company's guidance.



NOT RATED

STOCK DATA

Reuters Code	TOTL.JK
Bloomberg Code	TOTL.IJ
Issued Shares (m)	3,410
Mkt Cap (Rpbn)	2,472
Average Daily T/O (m)	10.8
52-Wk range	Rp1,700 / Rp490

COMPANIES DATA

	2010	2011	2012	9M12	9M13
Revenue (Rpbn)	1,541	1,569	1,834	1,369	1,736
Gross Profit (Rpbn) - before JO	196	244	349	257	326
Operating Profit (Rpbn)	101	139	188	146	198
Net Profit (Rpbn)	81	124	182	140	166
Gross Profit Margin (%)	12.7	15.6	19.0	18.8	18.8
Operating Profit Margin (%)	6.6	8.8	10.3	10.6	11.4
Net Profit Margin (%)	5.2	7.9	9.9	10.2	9.6

STOCK PRICE

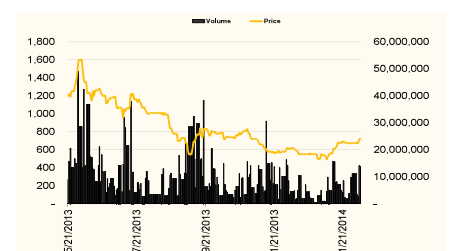


FIGURE 1. THEORETICAL GROSS MARGIN ASSUMING A 20% RAW MATERIAL COST INCREASE

Hypothetical total scope of work	100.000
Private projects	70.000
Raw material cost	21.000
Raw material cost increase	4.200
Raw material increase for 50% that TOTL is responsible for	2.100
What TOTL needs to pay (70% of the raw material increase TOTL is responsible for)	1.470
Gross profit at 10% margin	10.000
After 20% raw material cost increase	8.530
Gross profit margin	8.5%

Source: Company, TRIM Research

FIGURE 2. TOTL IS NET CASH

	Sep-13	Sep-12
Bank loans - ST	5.3	1.6
Bank loans - LT	68.7	20.1
Total debt	74.0	21.7
Total Asset	2,201.8	2,064.1
Total Equity	772.2	705.8
Cash	549.2	697.7
Net debt or (net cash)	(475.2)	(676.0)
Debt Ratio (TD/TA)	0.03	0.01
TD/TE	0.10	0.03

Source: Company

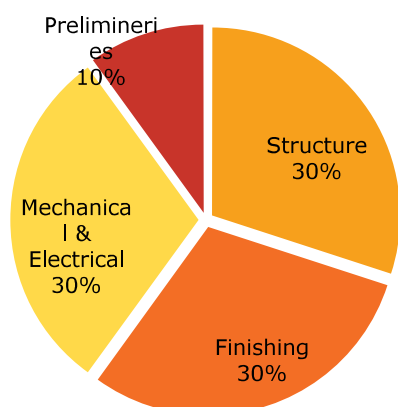
TOTL's dividend policy is: 40% of dividend payout ratio (DPR) for earnings within range of Rp50bn to Rp200bn, and 50% DPR for earnings above Rp200bn.

FIGURE 3. FINAL DIVIDEND DISTRIBUTION

	2007	2008	2009	2010	2011	2012	2013
Dividend payout ratio (%)	40.3	38.5	31.6	40.0	62.0	120.2	56.9
Dividend distribution (Rpbn)	41.3	20.6	5.5	20.6	50.0	150.0	100.0
Dividend per shares (Rp/sh)	15.0	7.5	2.0	7.5	14.7	44.0	29.3
Number of shares (bn of shares)	2.8	2.8	2.8	2.8	3.4	3.4	3.4

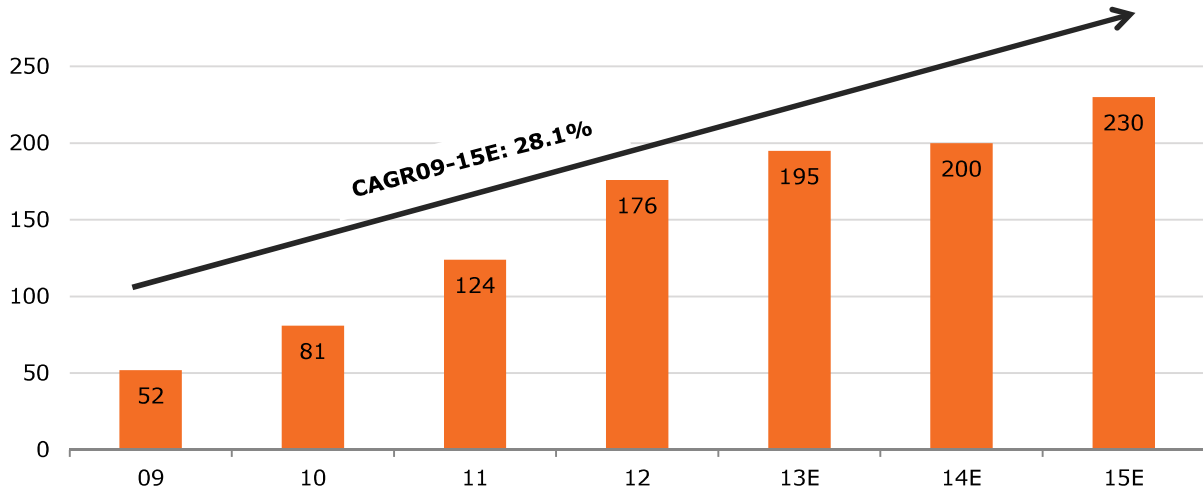
Source: Company

FIGURE 4. BUILDING COST BREAKDOWN



Source: Company

FIGURE 5. EARNINGS ESTIMATE



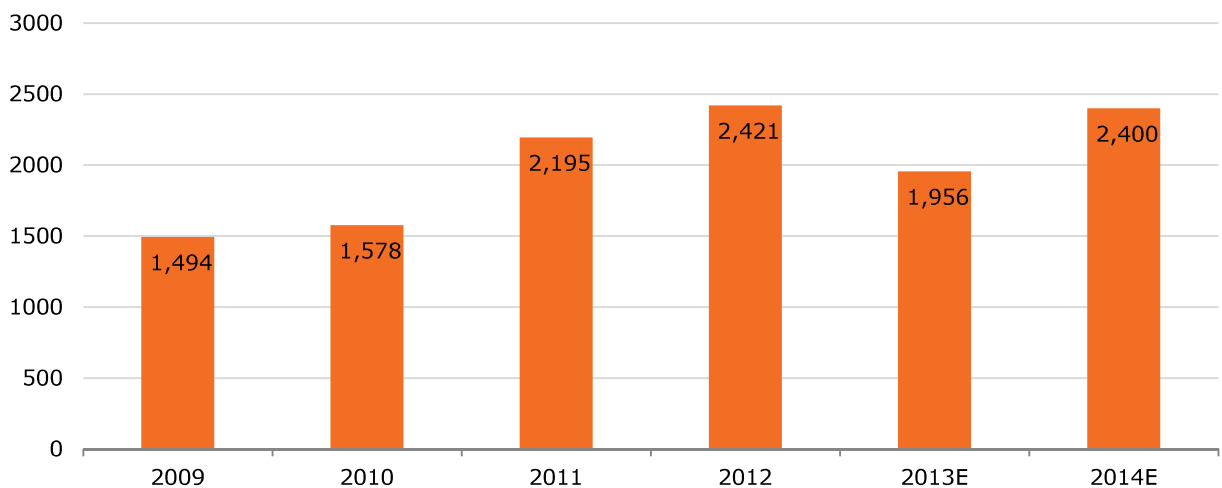
Source: Company

FIGURE 6. ROE AND ROA

	2008	2009	2010	2011	2012	2013E	2014E
ROE	3.9%	10.6%	14.5%	19.7%	26.7%	26.4%	25.9%
ROA	1.3%	4.0%	5.1%	6.5%	8.5%	8.8%	9.2%

Source: Company

FIGURE 7. NEW CONTRACT SIGNED (RPBN)



Source: Company

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