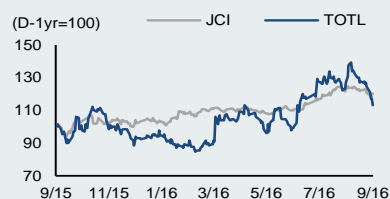


Construction

Company visit note
September 19, 2016

Recommendation	N/A
Target Price (12M, IDR)	N/A
Share Price (9/16/16, IDR)	735
Expected Return	N/A

Consensus OP (16F, IDRbn)		291.2	
<hr/>			
EPS Growth (16F, %)			
P/E (16F, x)		11.2	
Industry P/E (16F, x)		17.0	
Benchmark P/E (16F, x)		17.3	
Market Cap (IDRbn)		2,506.4	
<hr/>			
Shares Outstanding (mn)		3,410.0	
Free Float (mn)		1,148.3	
Institutional Ownership (%)		3.0	
Beta (Adjusted, 24M)		1.0	
52-Week Low (IDR)		545	
52-Week High (IDR)		920	
<hr/>			
(%)	1M	6M	12M
Absolute	-10.9	23.5	14.8
Relative	-9.0	15.2	-6.7



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Total Bangun Persada (TOTL IJ)

Prudent management strategy

Established in 1970, Total Bangun Persada (TOTL IJ; Not-rated) is a privately-owned construction company listed in IDX. Despite its smaller size, TOTL's share price has outperformed the JCI and its competitors (see Figure 1), which we ascribe to the company's strong margins, new contracts, and dividend payout policy.

Resilient margin trend to continue

TOTL demonstrated resilient margin trends compared to its peers (TOTL's 2015 net profit margin 8.4% vs. NRCA 5.5% vs. JKON 5% vs. ACST 3.1%; see Figure 2). We ascribe the company's strong margin to its implementation of direct contract strategy. According to our latest conversation with the company, TOTL offers two types (direct type and indirect type) of services to customers. Under the direct contract, most of the work is settled directly between the customer and subcontractors. Under the indirect contract, TOTL acts as the intermediary. TOTL claimed that the direct contract bears higher margins compared to the indirect one due to lower tax imposed on customers which leads to direct gross profit recognition to TOTL's revenue. Although the direct contract portion contribution to its revenue remains below 50%, we expect increased contribution, going forward. Considering higher direct contract's growth compared to an indirect one, we believe the company's strong margin would continue its resiliency (see Figure 3).

Strong new contracts despite weak market backdrop

Almost all of TOTL's projects are related to property developments (apartments, condominiums, offices, etc.; see Figure 4), comparable to SOE construction company's sizable exposure to the infrastructure developments (roads, bridges, power plants, etc.). Having said that, we believe the twitch in property sector will affect TOTL's new contract signings. We would like to reiterate our bearish stance on the property sector, as we already highlighted in our recent report "[2016 preview: Risk to the downside](#)". However, TOTL's new contracts achievement in 1H16 was resilient at IDR2,127bn (up 32.1% YoY vs. IDR1,325bn in 1H15; see Figure 5) despite weak marketing sales of developers and oversupply conditions. We ascribe this to the company's strong position in the market, as c.70% of TOTL's new contract originated from non-tender process (direct appointment). TOTL has IDR6.8tr contract value in the pipeline to be signed. According to our latest discussions with the management, TOTL guided that they expect to sign 40% of the IDR6.8tr by this year. Factoring in our conservative assumption of signing 30%, 25% of contract value to be recognized next year as revenue, and 5-year average net profit margin of 8.5%, we estimate TOTL would deliver additional net profit of IDR43.2bn in 2017 (representing c.15.9% of market consensus net profit estimates of IDR272.7bn in 2017, which we consider to be quite sizable).

FY (Dec)	12/10	12/11	12/12	12/13	12/14	12/15
Revenue (IDRbn)	1,541.1	1,569.5	1,833.9	2,287.3	2,106.3	2,266.2
OP (IDRbn)	100.9	129.8	187.6	256.2	115.7	72.3
OP Margin (%)	6.5	8.3	10.2	11.2	5.5	3.2
NP (IDRbn)	80.8	124.8	175.7	194.3	165.3	191.4
EPS (IDR)	25.4	36.6	51.5	57.0	48.5	56.1
BPS (IDR)	163.8	185.7	193.2	220.9	224.7	248.9
P/E (x)	10.1	7.8	17.5	8.8	23.1	11.0
ROE (%)	15.4	21.0	27.2	27.5	21.8	23.7

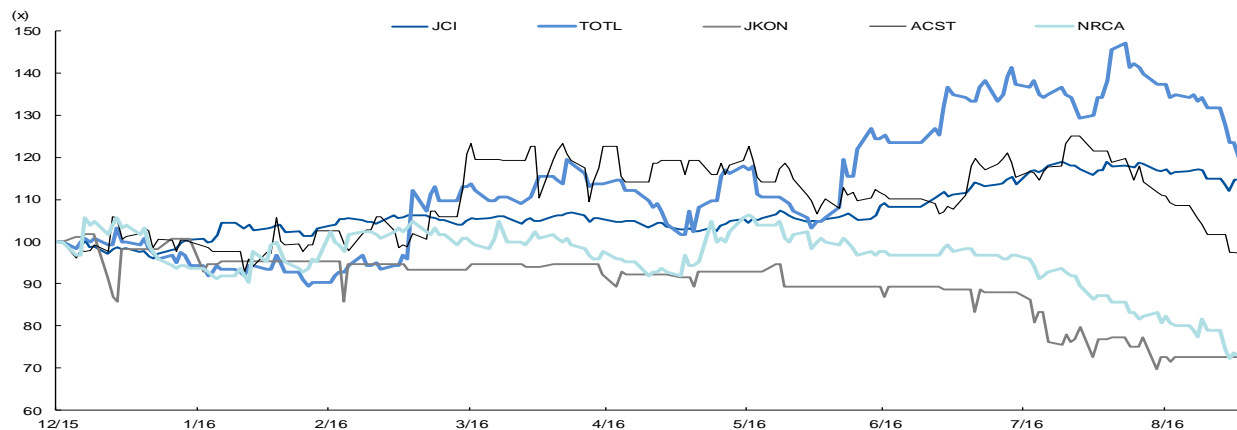
Note: All figures are based on consolidated data; OP refers to operating profit
Source: Bloomberg, Daewoo Securities Indonesia Research

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Attractive dividend play

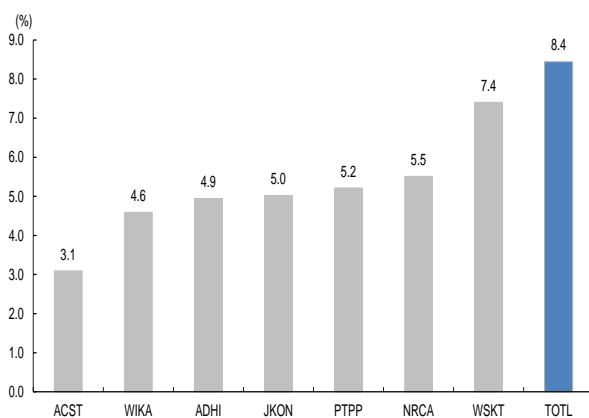
We also would like to highlight the company's unique utilization of leverage compared to its peers. As of 2Q16, TOTL's net debt stood at -0.6x (vs. NRCA -0.27x vs. JKON 5.4x vs. ACST -0.2x; see Figure 6). Over the last decade, the company maintained net cash position, which we judge to be a conservative strategy implemented by the management (see Figure 7). Although such position would cap TOTL's growth rate during the bull cycle, we believe it would also act as a safety net during unfavorable macro backdrop. Combining the company's margin resilience, strong new contract achievement, and low financing cost, we believe TOTL's rich dividend payout will gain investor attention (see Figure 8). In the last five years, TOTL's dividend yield averaged 4.8%, which we think to be sizable compared to its competitors listed in the JCI (see Figure 9).

Figure 1. Private construction companies' YTD price performance



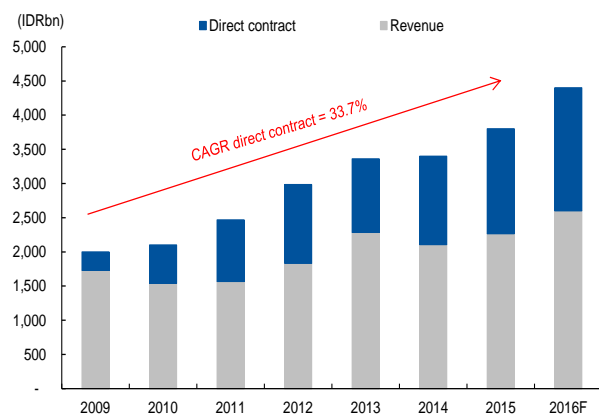
Source: Bloomberg, Daewoo Securities Research

Figure 2. Builders' net profit margin as of 2015



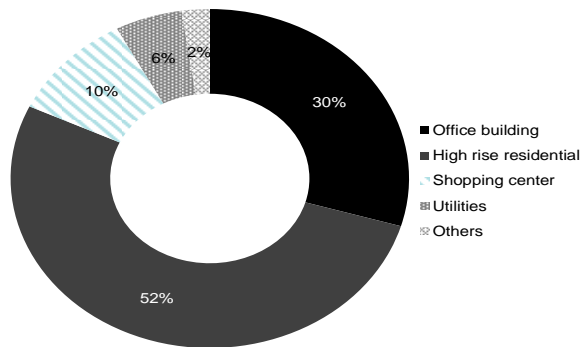
Source: Company data, Bloomberg, Daewoo Securities Research

Figure 3. TOTL's strong direct contract growth



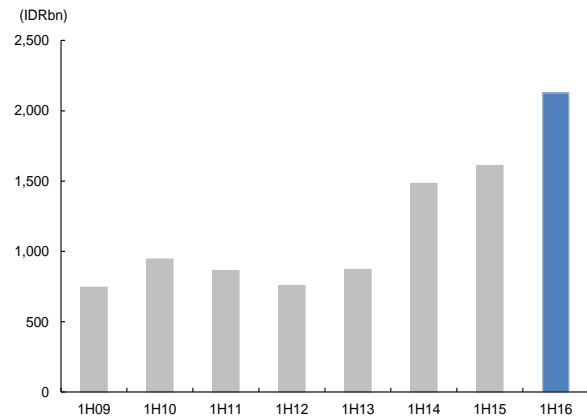
Source: Company data, Daewoo Securities Research

Figure 4. TOTL's 2Q16 revenue breakdown



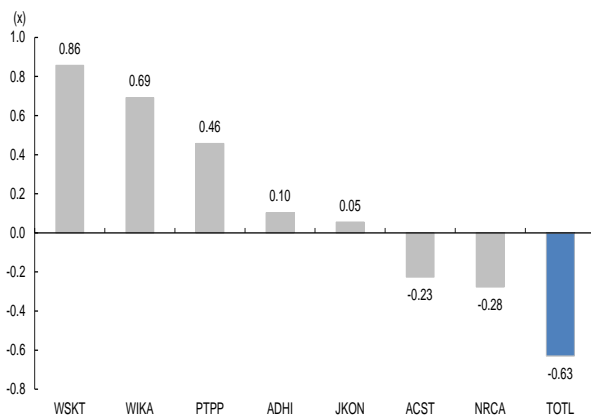
Source: Company data, Daewoo Securities Research

Figure 5. TOTL's 1H new contract development



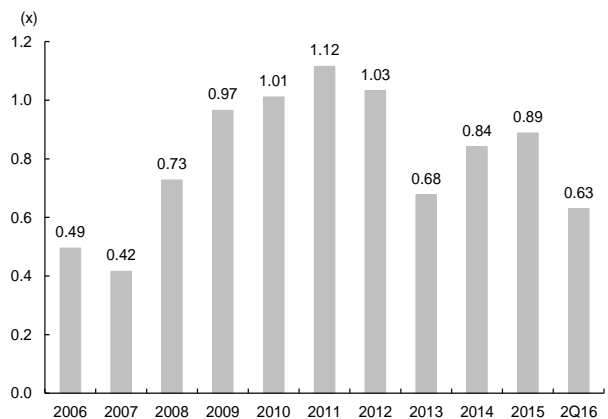
Source: Company data, Daewoo Securities Research

Figure 6. Builders' net debt position as of 2Q16



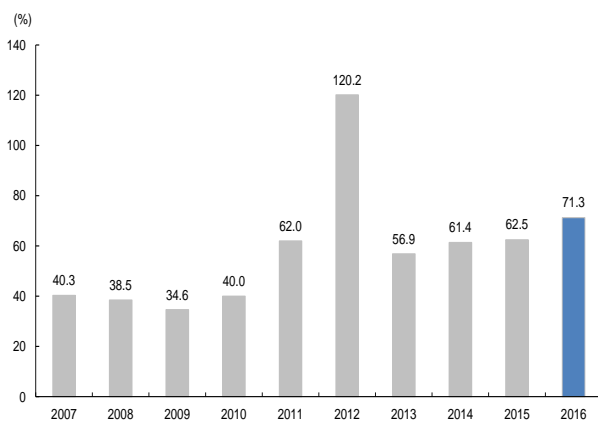
Source: Company data, Daewoo Securities Research

Figure 7. TOTL's net cash position in the last 10 years



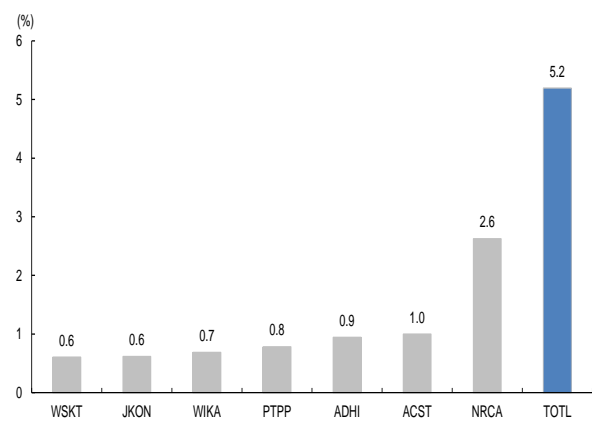
Source: Company data, Bloomberg, Daewoo Securities Research

Figure 8. TOTL's dividend payout ratio in the last 10 years



Source: Company data, Daewoo Securities Research

Figure 9. Builders' dividend yield as of 2Q16



Source: Company data, Bloomberg, Daewoo Securities Research

APPENDIX 1

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

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