



ALAM SUTERA REALTY

The Right Time for New Projects

BUY

Maintain

Share Price : Rp425
 12M Target Price : Rp550 (+29.4%)
 Previous Target Price : Rp360

Stock Data

Reuters code	ASRI.JK
Bloomberg code	ASRI IJ
Issued shares (m shares)	17,863
Market cap (Rpbn)	7,592
52 week low / high (Rp)	240 / 475
Avg. daily T/O (Rpbn)	25.5

Major Shareholders

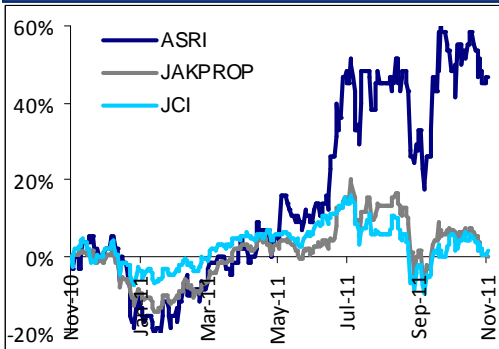
Tangerang Fajar Industrial Estate	16.7%
Manunggal Prima Development	11.7%
Others	21.8%
Publics	49.9%

Consensus	11E	12F
Revenue (Rpbn)	1,414	2,006
KS vs Cons (%)	99.1	105.7
EBITDA (Rpbn)	658	986
KS vs Cons (%)	95.2	98.1
Net profit (Rpbn)	545	800
KS vs Cons (%)	99.0	105.4

Company Description

Alam Sutera Realty (ASRI) is a complete property company, developing residential, commercial, apartment, hotel, and mall. The company has a total land bank area of 1,572ha in diversify spot, located in Serpong, Pasar Kemis, Cikarang, Cianjur, and also in Riau. At the time being, the counter focuses on developing Alam Sutera land spot in Serpong, while also start expanding in Tangerang in 2H11.

Share Price



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Investment Thesis

We maintain our **BUY** rating on ASRI with NAV TP of Rp550. Our positive view is underpinned by: 1) Superior profitability (margin and ROE) among others in the industry, 2) Upbeat marketing sales this year (+63.4% YoY), which will lead to robust revenue growth of 39.2% CAGR11-13, and 3) new revenue contribution from the opening of Mall @ Alam Sutera in 2Q12. Currently, the company is trading at FY12 PBV of 2.2x, the second highest in the sector after SMRA (2.6x). We believe such a multiple is justifiable given ASRI's high asset quality as well as superior growth profile projected for 2012. This can be seen from ASRI's FY12 PEG which only stood at 0.16x - the lowest amongst its peers in the sector. Worth to note: should rights issue plan materialize next year, our FY12 EPS forecast may decline by 9.1% to Rp43.0 while our NAV TP by 3.6% to Rp530.

Key Catalysts

- **Solid marketing sales growth in 10M11.** The company recorded Rp198.5bn in marketing sales in Oct11. Hence, total marketing sales as of 10M11 have reached Rp2.5tr, up by 75.5% YoY. This has led the company to revise its sales target by 8.0% from Rp2.5tr to Rp2.7tr.
- **The premiere of Suvarna Padi.** ASRI is now developing its 1,062ha undeveloped land bank in Pasar Kemis, by working on its second project: a residential complex with a golf view – named Suvarna Padi (85ha). The company has launched two initial clusters in late Oct11: Cempaka and Akasia (both of them cover 28ha area). It is reported that sales within the first week of premiere launch reached Rp89.9bn, or 45% of company's FY11 target. With offering selling prices between Rp1.6m-Rp2.5m/sqm, gross margin may rise as high as 60.0%.
- **The inauguration of Mall @ Alam Sutera.** The mall, which will entail a Rp500.0bn investment, has 78,000sqm gross floor area (GFA) with 68,000sqm net leasable area (NLA) and will commence operation in mid-2012. Revenue from this mall is projected to reach Rp56.4bn in 2012 and Rp126.7bn by 2013.
- **Rights issue: cushion amid economic uncertainty.** During EGM on 25 Nov11, the company has acquired approval to carry out a non-preemptive rights issue for a maximum of 1.78bn shares, to be implemented within a 2-year period following the approval. Assuming minimum price of Rp399/share, the company may raise around Rp712.7bn in capital. However, management admitted that this is more of a precautionary measure and the least preferred alternative to initial debt financing.

Earnings Outlook

- **Robust marketing sales lead to strong revenue growth.** We forecast revenue in 2012/13 to grow by 51.3%/27.2% YoY to Rp2.1tr/Rp2.7tr, supported by strong marketing sales this year (+63.4% YoY to Rp2.6tr) and new revenue contribution from its first mall, estimated to reach Rp56.4bn/Rp126.7bn in 2012/13.
- **Margin to slide in 2013 – net income will continue growing rapidly.** We expect company's gross margin in 2012 to stabilize around 52.4%, then declining slightly, by 0.7% to 51.7% in 2013, due to higher revenue recognition from Pasar Kemis projects, which has a relatively lower margin than Serpong. However, net income is still expected to grow robustly, by 56.5% YoY to Rp844.1bn in 2012 and 27.2% YoY to Rp1.0tr in 2013.
- **Rights issue scenario analysis:** 1) our FY12 EPS forecast may decline by 9.1% to Rp43.0, 2) FY12 ROE will move downwards, from 24.9% to 20.9% (still the highest in the industry) and 3) our NAV TP is cut by 3.6% to Rp530, from a current Rp550.

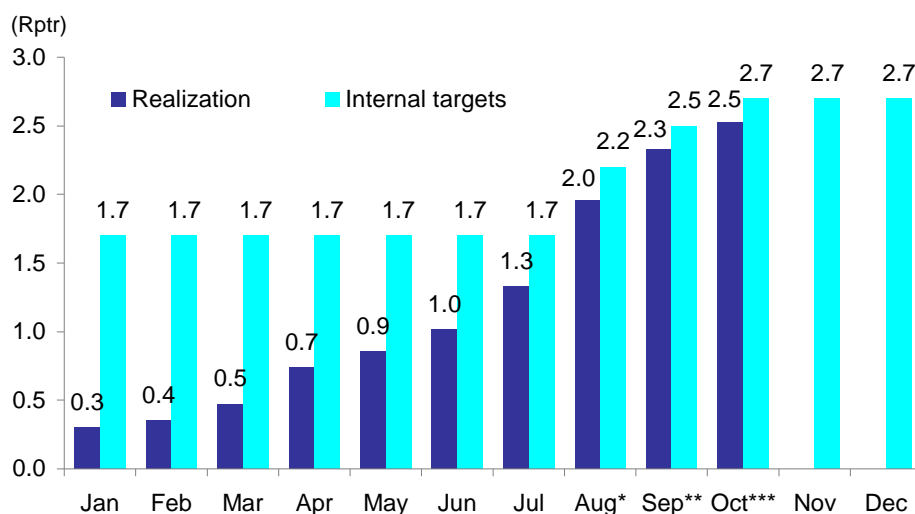
Financial Highlights

Year to 31 Dec	2009	2010	2011E	2012F	2013F
Revenue (Rpbn)	404	765	1,402	2,121	2,698
EBITDA (Rpbn)	113	346	627	967	1,218
Net Profit (Rpbn)	94	290	539	844	1,038
EPS (Rp)	5.3	16.3	30.2	47.3	58.1
EPS Growth (%)	59.9	209.0	85.6	56.5	23.0
ROAE (%)	5.1	14.0	22.1	27.8	27.5
DPS (Rp)	0.1	0.5	4.0	7.5	14.2
Div. Yield (%)	0.1	0.1	0.9	1.8	3.3
P/E (x)	18.4	12.2	14.1	9.0	7.3
P/BV (x)	0.9	1.6	2.8	2.2	1.8
EV/EBITDA (x)	17.7	9.6	10.9	7.0	4.9

10M11 marketing sales grew by 75.5% YoY, management upgraded FY11 target to Rp2.7tr

The company recorded Rp198.5bn marketing sales in Oct11, mainly derived from Serpong project (Rp108.6bn) with the second contributor being the new project at Pasar Kemis (Rp89.9bn), which was premiered in late Oct11. Broken down by type, the largest sales still came from residential (74.0%), followed by commercial (18.1%) and apartments (7.9%). With those figures, total marketing sales as of 10M11 has reached Rp2.5tr, or up by 75.5% YoY compared to the same period last year of Rp1.4tr. This has led the company to revise its sales target by 8.0% from Rp2.5tr to Rp2.7tr. Interestingly, this is the 3rd revision that the company has made so far this year with first scenario only was Rp1.7tr. In our model, we assume FY11 marketing sales to reach Rp2.6tr.

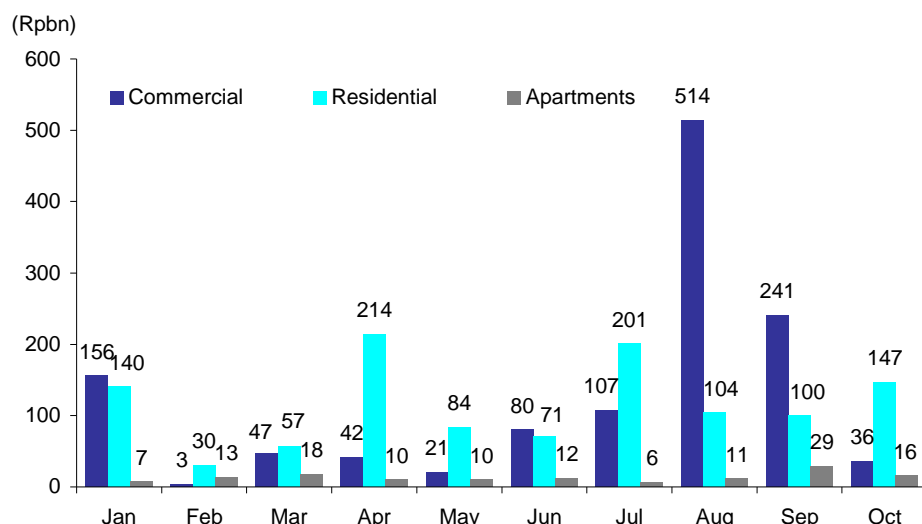
Marketing sales realization vs. Internal target



Source: Company

Note: Aug* : 1st revision; Sep** : 2nd revision; Oct*** : 3rd revision

Marketing sales breakdown (2011)



Source: Company

The premiere of Suvarna Padi

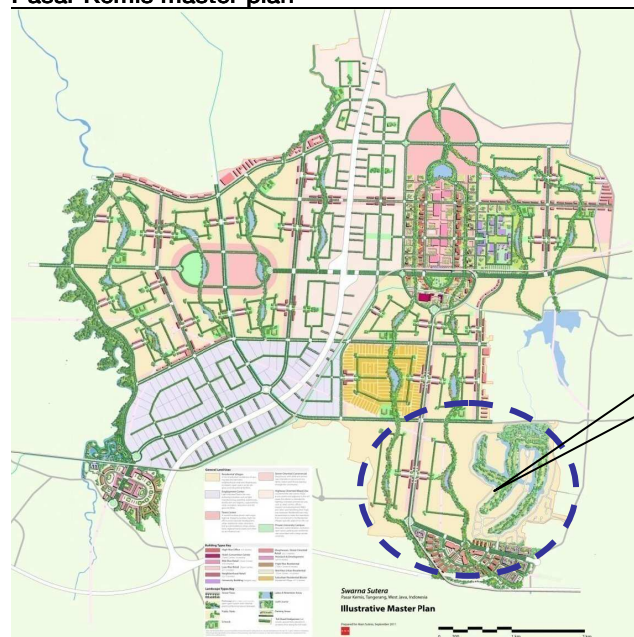
With only 280ha left in Serpong, it is understandable that ASRI is now aggressively developing its 1,062ha undeveloped land bank in Pasar Kemis. Through Duta Realtindo Jaya, its subsidiary company (65% ownership), ASRI is now working on its second project: a residential complex with a golf view - named Suvarna Padi (85ha). From this project, the company has launched two initial clusters: Cempaka and Akasia, with total area of 28ha by late Oct11. Selling prices offered for the first phase are set between Rp1.6m-Rp2.5m/sqm. Assuming acquisition cost of Rp250,000/sqm and development cost of Rp350,000/sqm, these 2 projects (Cempaka and Akasia) may offer gross margin as high as 60.0%. Nevertheless, despite great response by the consumers to this projects (first-week sales managed to reach Rp89.9bn), the company set a conservative marketing sales target of only Rp200.0bn this year. This good beginning should cast doubt about the prospect of success for the Pasar Kemis project. Worth noting is that Pasar Kemis sales will start to be accounted in ASRI's earning performance in 2012, with the largest chunk to be in 2013 (we assume time lag between marketing sales to accounting sales for residential is 12-18months).

The location of Suvarna Padi (black circle)



Source: Company

Pasar Kemis master plan

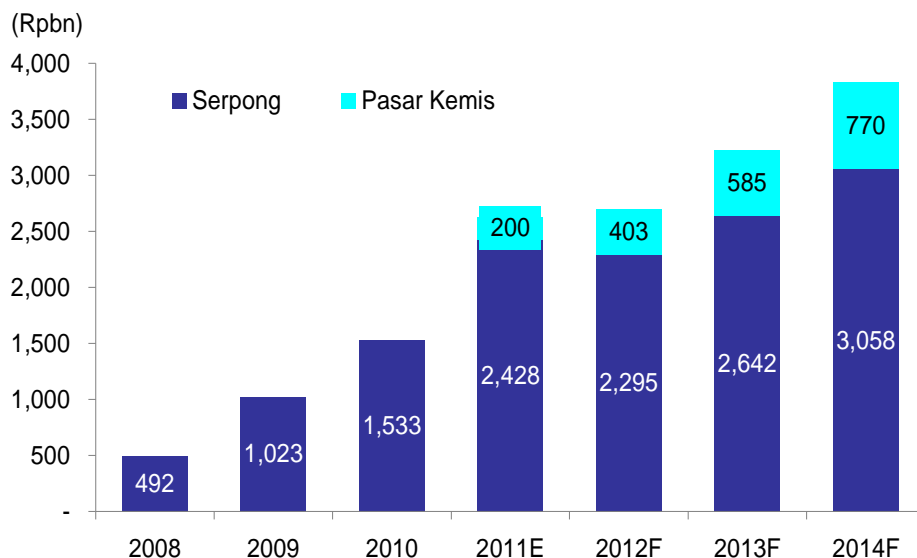


Source: Company

More diversified source of revenue

Growing presence of Pasar Kemis project will add cushion to company's revenue mix: this is positive in a way as it will gradually reduce dependency to Serpong area which currently only has 280ha of land in reserve. We forecast marketing sales from Pasar Kemis to double next year to Rp402.0bn from an estimated Rp200.0bn in 2011, and will reach Rp770.0bn in 2014 (+56.7% CAGR3Y), signifying a significant increase in marketing sales contribution, from 7.6% in 2011 to 20.1% in 2014.

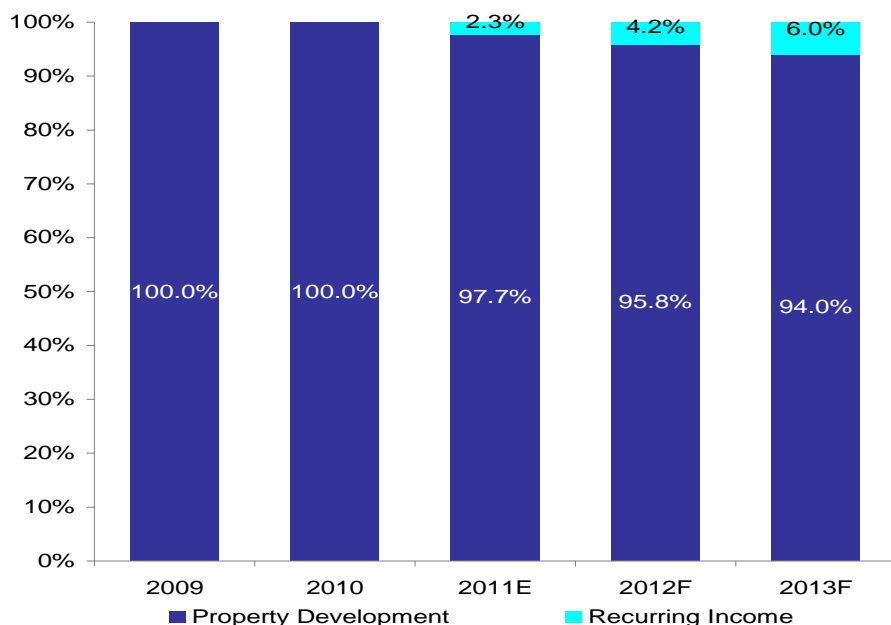
More marketing sales contribution from Pasar Kemis projects



Source: Company, Kresna Research

Another source of revenue next year will derive from ASRI'S first shopping center: Mall @ Alam Sutera (to be completed in mid-2012). The mall, which will entail a Rp500.0bn investment, has 78,000sqm gross floor area (GFA) with 68,000sqm net leasable area (NLA). We estimate recurring revenue that can be harvested from this mall to reach Rp56.4bn in 2012 and Rp126.7bn in 2013 (assuming occupancy rate of 85%-90% and rental fee of around Rp150,000/sqm). Several big names that will become tenants are: Sogo Department Store, The Food Hall, Gramedia, Cinema XXI, Electronic Solution, and Home Solution.

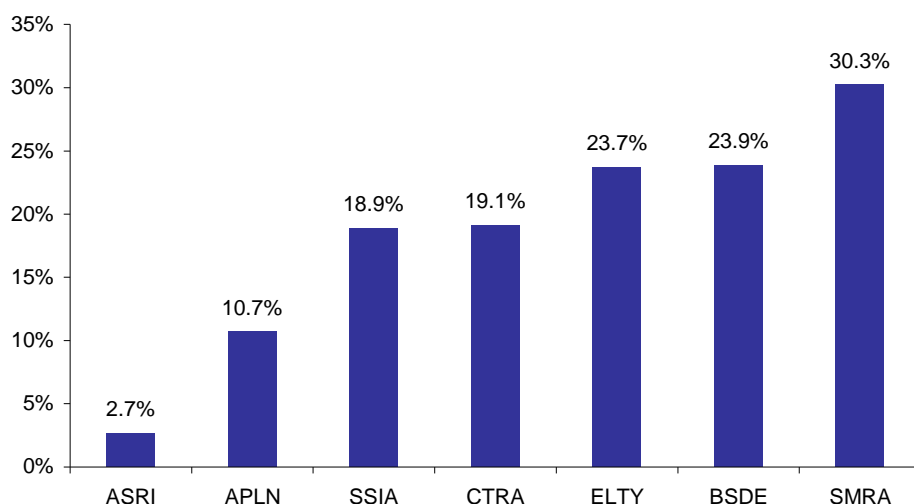
Revenue break down



Source: Company, Kresna Research

It is also important to highlight that the commencement of Mall @ Alam Sutera will augment the portion of company's recurring income to total revenue, which is considered small compared to that of other property companies. For instance, company's recurring income contribution to total revenue in 9M11 only stood at 2.7%, while APLN, BSDE and SMRA marked 10.7%, 23.9% and 30.3%, respectively. We estimate income from investment properties will contribute around 4.2% of total revenue in 2012, increasing to 6.0% in 2013. Based on our recent discussion with management, the company is targeting its recurring income to contribute at least 10% of total revenue in its long-term plan. To support this, it plans to develop a theme park and convention center, possibly to start development in 2012-2013. Higher portion of recurring income will provide more stable cash flow for the company, easing concern over earning fluctuations during any downturn cycle.

ASRI's contribution of recurring income to total revenue is considered small



Source: Various companies

Rights issue: cushion amid economic uncertainty

During EGM last week (25 Nov11), the company has secured approval from the shareholders to do a non-preemptive rights issue for a maximum of 10% of outstanding total shares, equal to 1.78bn shares. This action will be carried out within a 2-year period, following approval from shareholders. With minimum price of Rp399/share, the company may raise around Rp712.7bn in funds through this proceeds. We understand that this action could temporarily cast a shadow over the share price, given the dilution impact – as well as an unfavorable offering price discounted by some 5.9% compared to last closing price of Rp425 (as of 29 Nov11). However, management explained that equity financing is the least preferred alternative compared to any other form of initial debt financing (bank loan and/or bonds). It is more of a precautionary measure, should liquidity in the financial markets (especially banks) suddenly dry up in 2012 (as happened back in 2008/09).

Assuming all of the options are executed next year (timeline of rights issue is still unclear), the impact on company's financials will be as follows:

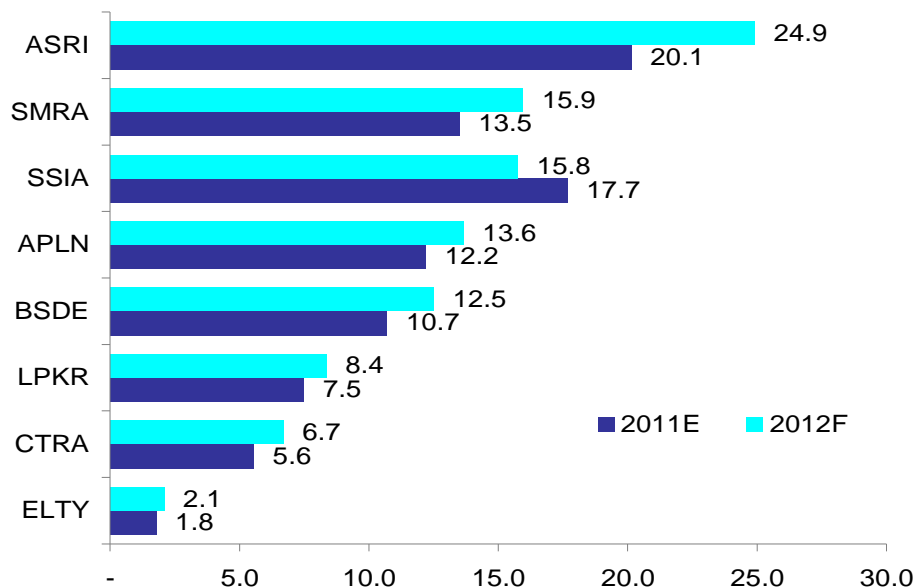
- Total shares outstanding will increase from 1.78bn shares to 19.65bn shares.
- FY12 EPS will decrease by 9.1% from Rp47.3 to Rp43.0.
- FY12 ROE will down from 24.9% to 20.9%, on the assumption that the company will use the proceeds to acquire a land bank, which could not be monetized over the near term. Yet, company's ROE is still the highest among listed property companies in Indonesia.
- There our NAV TP is diluted by 3.6%, from currently Rp550 to Rp530, but still warrants a BUY rating.

At the moment, we have not incorporated this rights issue scenario into our model, given minimum details of the plan. We will review our projections if there is greater clarity regarding the plan.

Valuation

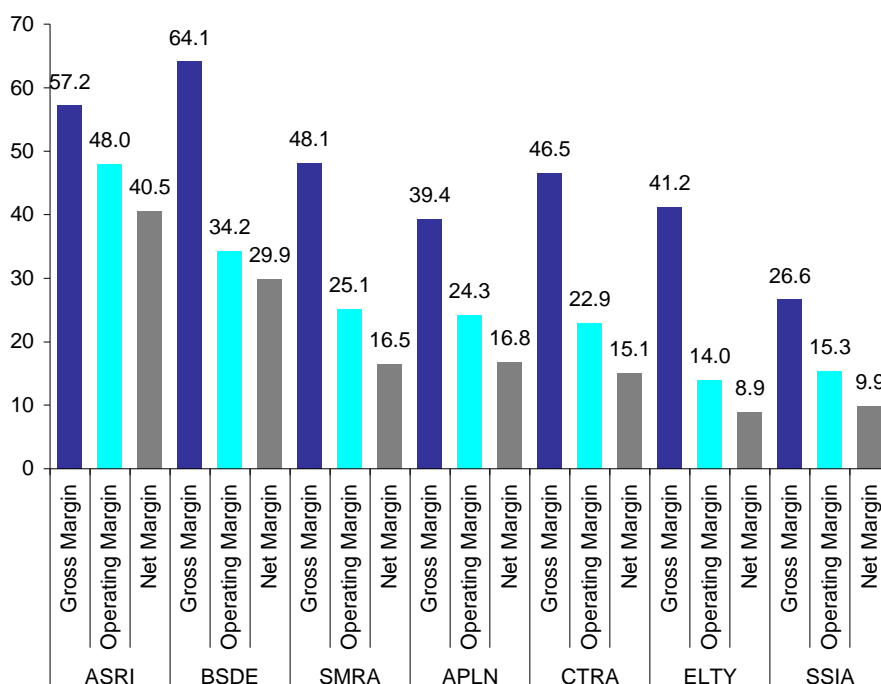
We maintain our BUY recommendation with NAV TP of Rp550. Our positive view on the company is underpinned by: 1) Superior ROE compared to other property companies, 2) the highest profitability among property companies, 3) Robust marketing sales this year (+63.4% YoY) which will lead to robust 39.2% CAGR revenue growth within the next two years, and 4) new revenue contribution from the opening of Mall @ Alam Sutera in 2Q12 (Rp56.4bn in 2012 and Rp126.7bn in 2013). At the moment, the company is trading at 2.2x FY12 PBV, the second highest in the sector after SMRA (2.6x). However, we believe such multiple is justifiable given ASRI's high asset quality as well as superior growth profile in 2012. This can be seen from ASRI's FY12 PEG, which only stood at 0.16x - the lowest amongst its peers in the sector.

ASRI has superior ROE compared to other property companies



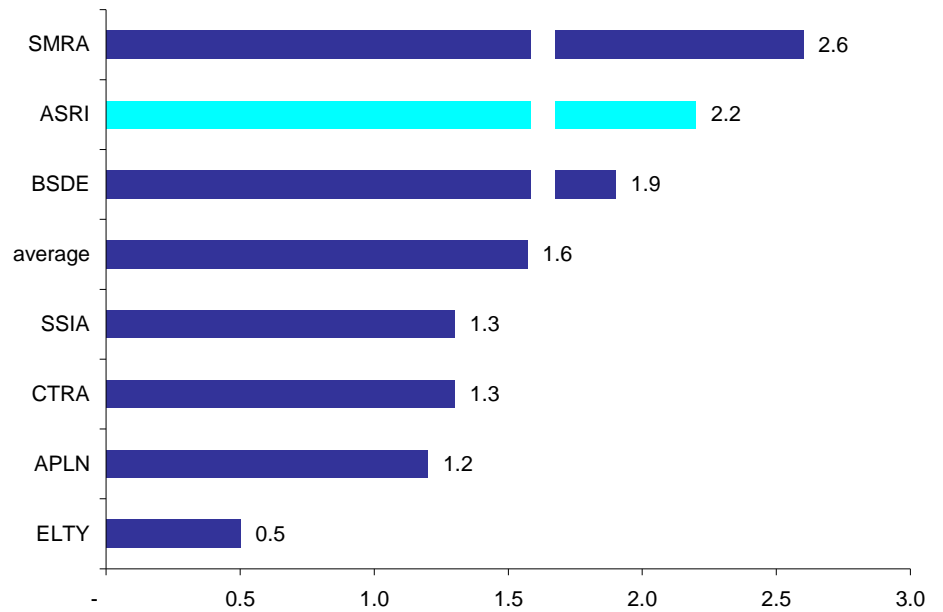
Source: Bloomberg, Kresna Research

Profitability comparison among property companies (9M11)



Source: Company, Kresna Research

Industry multiple comparison (FY12 PBV)



Source: Bloomberg, Kresna Research

Valuation comparison (FY12)

	P/E (x)	EPS gr (%)	PEG (X)
ASRI	9.0	56.5	0.16
BSDE	15.1	34.5	0.44
SMRA	16.4	35.0	0.47
APLN	9.3	24.5	0.38
CTRA	18.9	32.7	0.58
ELTY	26.3	45.5	0.58
SSIA	8.5	4.5	1.89
Simple Average	14.8	33.3	0.44

Source: Bloomberg, Kresna Research

Income Statement (Rpbn)

Year to 31 Dec	2009	2010	2011E	2012F	2013F
Revenue	404	765	1,402	2,121	2,698
Growth (%)	(7)	90	83	51	27
Gross profit	162	416	733	1,111	1,394
Operating profit	111	343	624	964	1,171
Depr / amort	2	3	3	3	47
EBITDA	113	346	627	967	1,218
Growth (%)	97	207	81	54	26
Net intr. inc (exp)	1	(4)	(17)	(12)	5
Forex gain (loss)	2	(0)	-	-	-
Inc from subsidiar	-	-	-	-	-
Other inc (exp)	5	(9)	4	(1)	(1)
Pre-tax profit	118	330	610	951	1,175
Tax expense	24	39	70	106	135
Minority interest	(0)	(0)	(1)	(1)	(1)
Extraordinary item	-	-	-	-	-
Net profit (loss)	94	290	539	844	1,038
Growth (%)	60	209	86	57	23

Balance Sheet (Rpbn)

Year to 31 Dec	2009	2010	2011E	2012F	2013F
Cash & its equivalents	546	904	1,459	1,670	2,513
Trade receivables	25	15	15	15	15
Inventories	1,842	2,186	2,241	2,219	2,306
Other current asset	20	60	60	60	60
Fixed assets - net	1,055	1,100	1,674	2,379	2,591
Other LT assets	72	322	387	426	468
Total Assets	3,560	4,588	5,836	6,769	7,953
ST debt	-	-	-	-	-
Trade payables	19	26	54	81	104
CPLTD	-	-	-	-	-
Other current liab.	618	1,485	2,202	2,289	2,616
LT debt - net	804	669	705	815	865
Other LT liabilities	184	191	191	191	191
Minority interest	8	8	8	7	5
Total Liabilities	1,625	2,372	3,152	3,376	3,776
Total Equity	1,927	2,208	2,677	3,386	4,171
Net cash (debt)	(258)	235	754	855	1,648

Cash Flow (Rpbn)

Year to 31 Dec	2009	2010	2011E	2012F	2013F
Net profit (loss)	94	290	539	844	1,038
Depr / amort	2	3	3	3	47
Chg in working ca	162	795	665	108	305
Others	29	28	46	61	83
Operating CF	287	1,117	1,253	1,017	1,473
Capex - net	7	(298)	(641)	(747)	(302)
Others	(309)	(344)	(55)	22	(87)
Investing CF	(302)	(643)	(697)	(725)	(389)
Net chg in debt	80	(135)	36	110	50
Net chg in equity	79	0	-	-	-
Dividend	(2)	(10)	(71)	(135)	(253)
Others	2	0	(1)	(1)	(1)
Financing CF	159	(144)	(35)	(26)	(204)
Net CF	143	330	521	267	880
Free CF	294	818	612	270	1,172

Financial Ratios

Year to 31 Dec	2009	2010	2011E	2012F	2013F
Profitability					
Gross margin (%)	40.1	54.4	52.3	52.4	51.7
Opr margin (%)	27.4	44.8	44.5	45.4	43.4
EBITDA margin (%)	27.9	45.2	44.7	45.6	45.1
Net margin (%)	23.3	38.0	38.5	39.8	38.5
ROAE (%)	5.1	14.0	22.1	27.8	27.5
ROAA (%)	2.8	7.1	10.3	13.4	14.1
Leverage					
Current ratio (x)	0.9	0.6	0.7	0.7	0.9
Net Debt-to-equity (x)	0.1	n.c	n.c	n.c	n.c
Intr. coverage (x)	4.5	10.2	9.6	13.0	15.1
Activity					
Receivable TO (days)	22.4	6.9	3.8	2.5	2.0
Payable TO (days)	28.4	27.0	28.8	28.8	28.8

Interim Results (Rpbn)

	3Q10	4Q10	1Q11	2Q11	3Q11
Sales	200	168	405	301	318
Gross Profit	140	104	209	181	195
Operating Profit	106	104	183	154	154
Net profit	108	59	158	131	125
Gross Margins (%)	69.7	62.0	51.6	60.0	61.5
Opr Margins (%)	53.1	61.5	45.2	51.2	48.6
Net Margins (%)	53.9	34.8	39.1	43.5	39.3

Key Assumptions

Year to 31 Dec	2009	2010	2011E	2012F	2013F
Marketing Sales	1,023	1,608	2,628	2,697	3,227
Gross Margin %	40.1	54.4	52.3	52.4	51.7

Price and Valuation History

	2006	2007	2008	2009	2010
Price					
High	N/A	205	235	130	320
Avg	N/A	180	124	97	198
Low	N/A	105	50	50	105
P/E					
High	N/A	180.5	71.4	24.7	19.7
Avg	N/A	158.5	37.7	18.4	12.2
Low	N/A	92.4	15.2	9.5	6.5
EV/ EBITDA					
High	N/A	121.7	79.7	22.9	15.9
Average	N/A	108.0	45.0	17.7	9.6
Low	N/A	67.0	21.9	10.2	4.7

Capital History

Date	Description
Dec-07	IPO @ Rp105

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Definition of ratings :

- BUY = stock return > 10% over the next 12 months (excluding dividend)
HOLD = stock return -10% to 10% over the next 12 months (excluding dividend)
SELL = stock return <10% over the next 12 months (excluding dividend)

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