



## HIDDEN ASSET PLAYGROUND!

We initiate coverage on MNC Land (KPIG) ahead of its wide range corporate action expected to take place in the next 2-3 years. At this juncture, we think KPIG stock is relatively undervalued. Trading at ~1x book value, the market has not put any premium toward KPIG's existing and new projects potential in our view. The completion of Ciawi – Lido toll road and the development of projects in Lido and Bali should serve as keys to unlock its value. KPIG's rising cash flow from new projects roll-out and relatively low level of leverage will help finance development in its two signature projects in Lido and Bali. We believe, backed by management with strong talent pool in real estate and entertainment industry, KPIG has the ability to manifest this and transform itself into one-of-a-kind property company in Indonesia.

**Unfolding Stories in 2015.** In FY14, KPIG's main driver of revenue was contributed from tourism (hotel & golf) which accounted for Rp663bn or 65.4% of total revenue. Apartment and other properties gave Rp187bn (18.4%) while office and others added Rp128bn (12.6%) and Rp35bn (3.5%) respectively. KPIG have a new office slated to top-off this year (MNC Tower), and another two which KPIG will benefited from management's fee (MNC News Center, 3TV office). We also note that apartment sales only contributed slightly in FY14, thus we expect bigger bulk of it to account in FY15 and FY16. Our model estimates that apartment and lease office to increase by 36% and 8.3% in FY15. In the pipeline, KPIG has a mixed-use development in Surabaya and Park Hyatt hotel in Central Jakarta to add additional cash in KPIG's coffers for ensuing years.

**Long-Term is the Key.** Currently, KPIG owns 1800ha land banks in Lido and 100ha in Bali under development. Over the longer-term horizon, the management expects 70-80% of KPIG's revenue to stem from Lido and Bali Nirwana Resort. Their vision is to build one-stop destination for entertainment in Lido and Bali which are not expected to start soft-opening until 2018. To achieve this, the management will work together with outside foreign operator to develop the two projects.

**Method of Valuation.** We value KPIG's stock using mix of discounted cash flow and capitalization of income approach for each of its project using 13.8% WACC for development and 11% discount rate for recurring. For land banks, we valued it using RNAV with 50% discount to value. Consequently, we arrive at a price target of Rp1810/share or 35% increase to the upside.

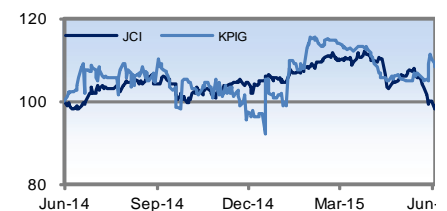
### Forecast and Valuation (at closing price Rp1,340 per share)

Y/E Dec (Rpbn)	14A	15E	16E	17E
Revenue	1,013	1,114	1,235	1,370
EBITDA	361	413	468	532
Net Profit	385	498	296	353
EPS (Rp)	62	72	43	51
DPS (Rp)	10	13	17	10
Dividend Yield (%)	0.8	1.0	1.2	0.7
BV per Share (Rp)	1,260	1,186	1,213	1,254
EV/EBITDA (x)	26.1	24.5	21.3	18.5
P/E Ratio (x)	21.5	18.5	31.2	26.1
P/BV Ratio (x)	1.06	1.13	1.10	1.07

## BUY (Initiate)

Target Price	Rp 1,810
Last Price	Rp 1,340
Potential Upside	35.1%
JCI Index	4,872
Share issued (mn)	6,887
Market Cap. (Rp bn)	9,228
52-Weeks High/Low	1435/1100
Avg Daily Vol (mn)	7.97
Free Float	60.8%
Nominal Value	Rp500
Book value/share '15	Rp1,186

### Relative to JCI Chart



### Company Background

MNC Land owns and operates a full range of commercial properties in Jakarta, Surabaya and Bali. It engages in the development, construction and acquisition of properties and integrated resorts as well as property services. MNC Land focuses in the development of lifestyle and entertainment property and integrated tourist resorts in Lido (Bogor, Sukabumi), Tanah Lot (Bali) and Mandalika (Lombok).

### Shareholder Structure

PT MNC Investama Tbk	19.1%
HT Investment Development Ltd	11.2%
Bhakti Investama International Ltd	8.9%
Oxley Capital	5.8%
Argyle Street Management	5.0%
Public	50.0%



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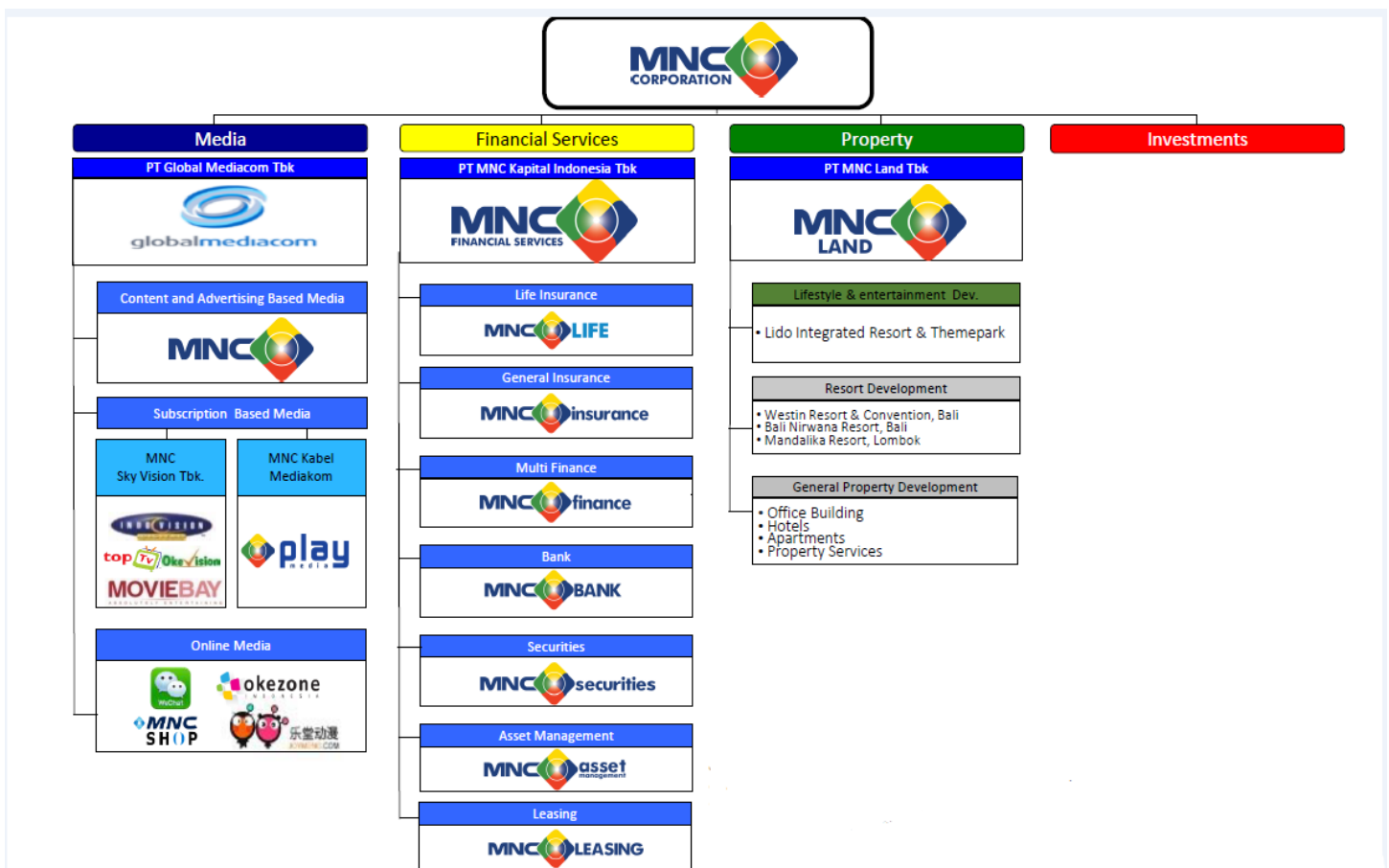


## Company Profile

MNC Land which operates full range commercial properties in Jakarta, Surabaya and Bali was established back in 1990 as PT Kridaperdana Indahgraha. It conducted its Initial Public Offering in 2001. During the period of 2007 to 2011, the company experienced a period of consolidation. It rebranded its office buildings from Menara Kebon Sirih and Plaza Kebon Sirih to MNC Tower and MNC Plaza in 2009, and changed its corporate name to PT MNC Land Tbk in 2012. MNC Land focuses going forward is centered on lifestyle and entertainment property in Lido, Bogor-Sukabumi and in Bali as their future key revenue driver.

MNC Land is part of the conglomerate group MNC Corporation owned by Harry Tanoesoedibjo. The holding company, MNC Investama (BHIT), has three main core business activities with investments in the integrated media, financial services, and property development. In 2014, MNC Group was the bellwether among Indonesian conglomeration with 196.7% increase in net income to Rp1.16tn and followed by Lippo group with 62.7% increase in net income to Rp5.47tn. The group's main revenue driver stems from media business which contributes 82% of the total revenue while multi finance and others accounted for 8%, 10% respectively.

Figure 1. MNC Corporate Structure



Source: Company

## Unfolding Stories in 2015

For the past three years, hotel resort and golf contributed the bulk of KPIG's main revenue. In 2015, KPIG have a new office slated to top-off this year (MNC Tower), and another two which KPIG will benefited from management's fee (MNC News Center, 3TV office). KPIG's One East Residences, Oakwood service apartment and premium office building are expected to complete in 2016 and 2017. Our model estimates the launch of these projects to increase KPIG apartment and lease office segment by 36% and 8.3% in FY15.

**Figure 2. Existing portfolio**

Building	Location	Building Area (sqm)	Net Leasable Area (NLA)	Floor	Occupancy Rate
MNC Tower (MNC Plaza)	Central Jakarta	80,200	39,672	29,2	100
MNC Financial Center	Central Jakarta	24,450	15,075	22	100
High End Building	Central Jakarta	5,937	5,408	5	99
Sindo Building	Central Jakarta	5,127	4,229	8	100
Wisma Indovision II	West Jakarta	10,669	7,748	10	100
Indovision Bali Building	Bali	5,057	3,070	4	83

Source: Company

**Figure 3. Projects under pipeline**

Project	Location	Building area (sqm)	Cost of Development	Floor	Completion
MNC News Center	Central Jakarta	58,507	IDR658bn	16	3Q15
3 TV Stations and studio	West Jakarta	113,062	IDR1.29tn	18,14,18	3Q15
MNC Tower	Surabaya	12,039	IDR154bn	12	2Q15
One East Residences	Surabaya	76,415	IDR660bn	33	2Q16
MNC Media Tower & Park Hyatt Hotel	Central Jakarta	102,165	Rp2.35tn	39	4Q17

Source: Company

## Long-Term is the Key

Going forward, we expect key projects in Lido (Bogor, Sukabumi) and Bali (Tanah Lot) to be KPIG's main revenue drivers. According to the management, 70-80% revenue will be stemmed from these two projects.

**One stop entertainment and integrated resort in Lido:** At this juncture, Lido's existing properties only consist of a four star resort and golf course. The management intends to develop these areas to build an integrated property development along with entertainment center. The masterplan includes total 2,000ha land area of which KPIG already owns 1,800ha. The development will be carried out in stages. First phase development will consist of (i) entertainment city (theme park), and (ii) premium resort and luxury hotel. In 4Q16, the management cited a more direct toll road, Ciawi – Cigombong, connecting Jagorawi toll road to Lido, to start operating.

- Based on KPIG's masterplan, the size of Entertainment City covers approximately 425ha or 21% of the total land bank. Roughly 75Ha will be allocated to theme park and its supporting facilities. The first phase development will include theme park, retail and dining entertainment and hotel. On our last meeting with the management, the theme park is slated to soft-open in 2018.
- Other projects under Lido's first phase development include high-end residential, golf course, and luxury hotel with a total area of 120.8ha. KPIG intent to build 200 units of luxury villas with an average land size of 750m<sup>2</sup> expected to start construction in 2Q16. Along these housing projects, they are also renovating their 18-hole golf course set to complete in 2016, and plan to build an adjacent country club expected to start construction in 2Q16. Last project under the list include development of 6 stars luxury hotel planned to start construction in 2Q16. For each of these projects, KPIG will work together with outside foreign operator.

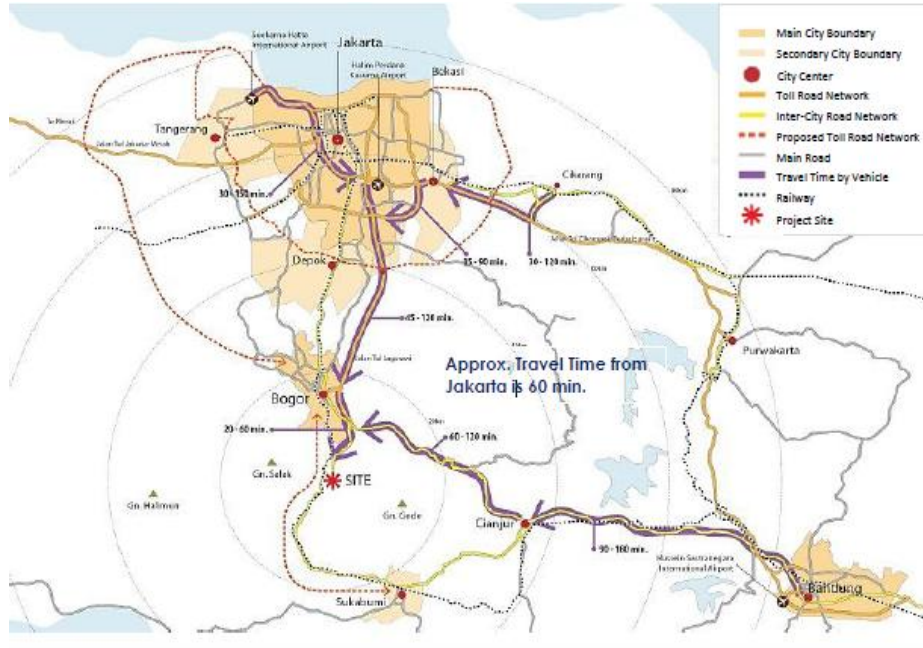
Figure 4. Lido's 1st Phase Development



	Project	Land Area	Description	Construction Start
Luxurious Resort	18-Hole Golf Course	92 Ha	18-hole world class signature golf course designed to be suitable for a PGA tournament	3Q 2014
	Country Club	8.7 Ha	An exclusive country club with round-the-clock concierge services and the facilities to host exclusive events	2Q 2016
	High-end Villas	22.3 Ha	200 units of villas with an average land size of 750 sqm	2Q 2016
	6-Star Hotel	6.5 Ha	200 luxurious guest rooms, meeting & banquet facility, restaurants and bar, fitness center, family recreational center	2Q 2016

Source: Company

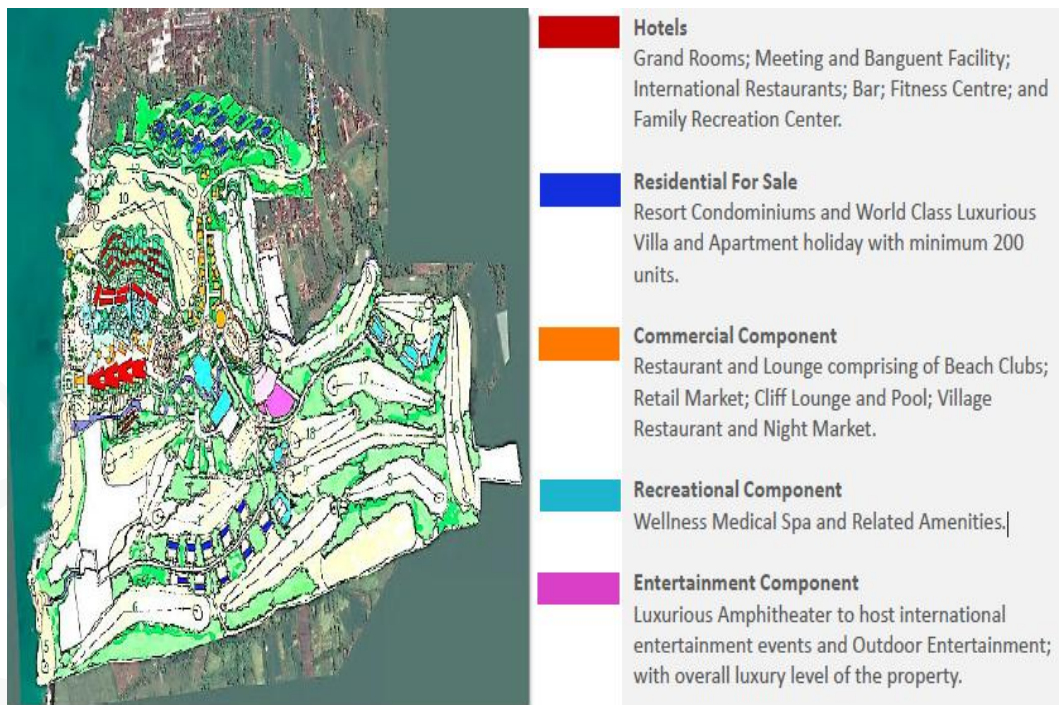
**Figure 5. Location Map of Lido**



Source: Company

**Bali Nirwana Resort.** BNR possess a total area of 103 Ha with location in Tanah Lot. Currently, BNR existing portfolio includes a five star resort, managed by Pan Pacific and 18-hole signature golf course. KPIG is in the process of redesigning the whole master plan to include hotel, villa, apartment, recreational and commercial component and entertainment center. Similar with development in Lido, KPIG will work together with outside foreign operator to build this project.

**Figure 6. BNR Masterplan**



Source: Company

## Valuation Assessment and Methodology

At this juncture, KPIG's shares is trading at low-end of valuation, or a paltry above its book value at Rp1,260. In the future, we expect its value to be unlocked following the completion of Ciawi – Lido toll road, and Bali and Lido ventures. In arriving to our calculation, we use discounted cash flow for KPIG's development with 13.8% WACC and 11% discount rate for its recurring. For landbanks, we use RNAV approach with 50% discount. Consequently, we arrive at 12M FY15 price target of Rp1810/share or 35% increase to the upside.

Figure 7. KPIG's RNAV

RNAV						
MNC LAND (KPIG IJ)						
LAND BANKS	Stake (%)	Area (ha)	Price/sqm (Rp '000)	Method	RNAV (Rpbn)	
Bali Nirwana Resort - Bali	100	100	2,500	NAV	2,500.81	
Lido Lakes Resort - Jakarta	100	1800	950	NAV	17,100.00	
<b>SUBTOTAL</b>					<b>19,601</b>	
Discount to RNAV					50%	
<b>RNAV After Discount</b>					RNAV	<b>9,800</b>
<b>RECURRING DEVELOPMENT</b>					DCF, CAP RATE	<b>3,045</b>
					DCF	<b>525</b>
<b>TOTAL ESTIMATED VALUE (Rpbn)</b>					<b>13370</b>	
Add: Cash and Cash Equivalent 1Q16					498	
Less: Debt and advance from customer 1Q16					(1,514)	
<b>NET ASSET VALUE PER-SHARE</b>					<b>12354</b>	
# Shares Outstanding (bn)					6.82	
<b>Target price (Rp)</b>					<b>1,813</b>	

Source: Samuel Research, Company

## Risks And Concerns

- 1) **Liquidity and Price Volatility.** KPIG is a small cap stock with a market capitalization of Rp9,228 billion. Thus, the stock is subject to price volatility and shallow investor base.
- 2) **Project Delays.** KPIG Lido project may hinge upon Ciawi – Lido toll road completion. The construction is expected to finish in 4Q16. The theme park in Lido is not expected to soft open in 2018, while the revamp in Bali Nirwana Resort won't take place until 2016. Any holdup, in particular for toll road construction may spillover to project delay in Lido.



### Profit and Loss

Yr-end Dec (Rp bn)	14A	15E	16E	17E
<b>Revenue</b>	<b>1,013</b>	<b>1,114</b>	<b>1,235</b>	<b>1,370</b>
COGS	530	553	588	624
Gross profit	483	561	647	745
Gross margin (%)	47.7	50.3	52.4	54.4
<b>Operating profit</b>	<b>207</b>	<b>257</b>	<b>310</b>	<b>372</b>
Operating margin (%)	20.4	23.1	25.1	27.1
<b>EBITDA</b>	<b>361</b>	<b>413</b>	<b>468</b>	<b>532</b>
EBITDA margin (%)	35.6	37.1	37.9	38.8
Other income (expenses)	236	305	60	67
Pre-tax profit	442	562	370	438
Income tax - net	(23)	(28)	(34)	(41)
<b>Net profit</b>	<b>385</b>	<b>498</b>	<b>296</b>	<b>353</b>
Net profit margin (%)	38.0	44.7	23.9	25.8

### Balance Sheet

Yr-end Dec (Rp bn)	14A	15E	16E	17E
Cash & ST Investment	271	407	528	558
Receivables	94	103	115	127
Inventories	943	932	921	910
Others	194	273	303	336
<b>Total current assets</b>	<b>1,502</b>	<b>1,715</b>	<b>1,866</b>	<b>1,931</b>
Net investment properties	1,479	1,548	1,615	1,682
Net fixed assets	3,126	3,022	2,917	2,811
Other assets	33	55	60	66
<b>Total assets</b>	<b>9,965</b>	<b>10,273</b>	<b>10,536</b>	<b>10,691</b>
Payables	77	85	105	108
ST. debt and curr. maturity	156	9	111	84
Advance from customers	151	230	274	237
Other current liabilities	155	171	189	210
LT. debt	1,293	1,275	1,156	1,063
Other long term liabilities	113	76	93	94
<b>Total liabilities</b>	<b>1,946</b>	<b>1,846</b>	<b>1,928</b>	<b>1,797</b>
<b>Total equity</b>	<b>7,763</b>	<b>8,171</b>	<b>8,353</b>	<b>8,639</b>

### Cash Flow

Yr-end Dec (Rp bn)	14A	15E	16E	17E
Net income	385	498	296	353
Depreciation & amort.	154	156	158	160
Others	761	0	0	0
Working capital	(1,179)	(2)	(28)	(131)
<b>Operating cash flow</b>	<b>121</b>	<b>652</b>	<b>426</b>	<b>382</b>
Net - Capital expenditure	(2,555)	(202)	(185)	(160)
<b>Investing cash flow</b>	<b>(2,050)</b>	<b>(224)</b>	<b>(190)</b>	<b>(166)</b>
Net - Borrowings	616	(164)	(18)	(119)
Other financing	1,491	(128)	(96)	(67)
<b>Financing cash flow</b>	<b>2,107</b>	<b>(292)</b>	<b>(114)</b>	<b>(186)</b>
<b>Net - Cash flow</b>	<b>178</b>	<b>136</b>	<b>121</b>	<b>30</b>
Cash at beginning	92	271	407	528
<b>Cash at ending</b>	<b>271</b>	<b>407</b>	<b>528</b>	<b>558</b>

### Key Ratios

Yr-end Dec	14A	15E	16E	17E
ROE (%)	5.0	6.1	3.5	4.1
ROA (%)	3.9	4.8	2.8	3.3
Revenue Growth (%)	72.3	10.0	10.8	10.9
EBITDA Growth (%)	35.6	37.1	37.9	38.8
<b>EPS Growth (%)</b>	<b>54.7</b>	<b>15.8</b>	<b>-40.6</b>	<b>19.6</b>
Interest Coverage (x)	4.3	5.0	6.1	8.1
Debt to Equity (%)	18.7	15.7	15.2	13.3
<b>Net gearing (%)</b>	<b>0.15</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>

### Major Assumption

Yr-end Dec	14A	15E	16E	17E
GDP growth (%)	5.0	5.1	5.5	6.0
CPI (%)	6.3	5.5	5.3	5.4
USDIDR	11,900	12,900	12,500	12,200

