

VALUE & VOLUME 12 MONTH		LOW - HIGH 12 MONTH		LAST PRICE: Rp720
Rp 27.4 M/Day	65,502 Lot/Day	Rp 500	Rp 1,140	

PT Modernland Realty Tbk (MDLN) - Reiterate Buy, Lower TP

Wednesday, 2 October 2013

BUY

TARGET PRICE: Rp 960

Property

Franky Kumendong
(62-21) 515 0203
fkumendong@buanacapital.com



MARKET CAPITALIZATION	Rp4,511,904,235,920
NUMBER OF SHARES	6,266,533,661
DAILY VOLATILITY	2.8%
AVG TRANSACTION VALUE	Rp 27,422,027,218/Day
AVG TRANSACTION VOLUME	65,602 Lot / Day

Stockholders (30 June 2013)

AA Land Pte Ltd., Singapore	: 29.75 %
PT Potensi Sukses Bersama	: 6.64 %
Public (<5%)	: 63.61 %

Source: Buana Research

Rating History

Date	Closing price	Target	Rating
1 Oct 2012	560	690	BUY
7 Jan 2013	640	760	BUY
25 Mar 2013	920	1,200	BUY
8 July 2013	880	1,200	BUY

Source: Buana Research

We reiterate our Buy rating on MDLN with lower TP at Rp960 (-20%), following weak macro conditions, slower growth in FDI and industrial sector. We upgrade our FY13F earning estimate by 22% to better reflect strong 1H13 results. Acquisition of JGC is a positive catalyst for MDLN. MDLN is trading at 63% discount to our RNAV, at 4.9x FY14F P/E. We believe MDLN is attractive as most negative sentiments are priced in, hence limiting downside risk and offers a buying opportunity.

Acquisition of Jakarta Garden City (JGC) is a positive catalyst. The recent EGMS approved the plan acquisition of JGC from Le-Vision and Castlehigh (Keppel Land). JGC acquisition will contribute to MDLN 2014 revenue which is targeted to increase by 30% to Rp2.6tn from Rp2tn in 2013. We believe the acquisition is a positive catalyst for MDLN with a significant contribution to the topline (~21% of our FY14F revenue). MDLN plans to issue global bond (US\$300mn) to fund the acquisition.

Strong 1H13 results, above expectations. 1H13 earnings came in strongly above expectation at Rp549bn, +281% YoY, which formed 61% and 75% of FY13 consensus and our estimates. 1H13 revenue grew strongly by 103% YoY to Rp1.04tn, within our FY13 and consensus forecasts. Net margin expanded to 53% from 28% in 1H12, much higher than FY13 consensus estimate (43%) and ours (34%). The strong results were largely due to 35ha Modern Gateway land sales to ASRI (revenue of ~Rp700bn).

Weak macro conditions, slower growth in FDI and industrial sector. We expect weak macro conditions to slow down the property sector. According to BKPM, Indonesian FDI reached US\$6.5bn in 2Q13, a sixth straight quarterly record, however the growth rate was the slowest in almost 2 years, at 18.9% YoY. Colliers projected that the industrial sector would continue to slow down. We lowered our revenue forecast from industrial and apply higher discount to RNAV.

Valuation—attractive. We recalculated our RNAV (Rp1,924) and derived our new TP Rp960 (50% discount to RNAV), which implies 6.6x FY14F P/E. The stock has dropped ~37% from its peak in early June 2013. In our view, the current valuation has been driven by negative sentiments on macro conditions and property/industrial sector.

Exhibit 1. Financial Summary

(In Rp bn)	2011	2012	1H13	2013F	2014F	2015F
Revenue	505	1,058	1,037	2,068	2,587	2,933
EBITDA	160	366	666	1,192	1,342	1,372
Net profit	74	261	549	893	924	957
Basic EPS (Rp)	24.3	41.6	87.6	142.5	147.5	152.7
Diluted EPS (Rp)	23.8	41.2	86.8	141.1	146.0	151.3
EPS growth (%)	92%	71%		243%	3%	4%
P/E(x)		17.5		5.1	4.9	4.8
P/B(x)		2.0		1.4	1.1	0.9
ROAE		15%		33%	26%	21%
Gross margin	53%	47%	78%	71%	66%	61%
EBITDA margin	32%	35%	64%	58%	52%	47%
Net margin	15%	25%	53%	43%	36%	33%

Source: Company Reports, Buana Research

Recent Major Developments**Acquisition of Jakarta Garden City (JGC) is a positive catalyst**

The Extraordinary General Meeting of Shareholders (EGMS) PT Modernland Realty Tbk held on 27 September 2013 approved the following:

- Acquisition plan on 51.0% shares of PT Mitra Sindo Sukses (MSS) from Le-Vision Pte Ltd and 51.0% shares of PT Mitra Sindo Makmur (MSM) from Castlehigh Pte Ltd.
- Approval to conduct 2:1 stock split. The purpose is to increase shares' liquidity and company's competitiveness. Based on company's statement, MDLN shares should start trading at a new nominal on 13 November 2013.

MSS and MSM own JGC located in Cakung, East Jakarta. Through the acquisition, MDLN will own 100% of JGC. JGC project has developed around 30ha of land, out of total area of 275 ha. In near future, MDLN is launching new residential cluster with a total of 236 units. The average selling price per house unit is around Rp2.7bn to Rp2.8bn. This implies the marketing sales of Rp673bn to Rp661bn. According to MDLN management, the acquisition will affect 2014 sales which is targeted to increase by 30%. MDLN is guiding for 2013F revenue of Rp2.0tn. Hence, MDLN is targeting to increase 2014 revenue of Rp2.6 tn.

MDLN plans to issue global bonds of US\$300mn, or equivalent to Rp3.36tn or through loan to fund the acquisition and other capex.

Weak Macro Conditions

In the past few months, Indonesia macro conditions have been weak with inflation reached 8.4% YoY by September 2013 and BI reference rate has increased from 5.75% to 7.25% (150 bps). The property sector is sensitive to the change in interest rate. On demand side, we expect weak macro conditions to slow down the property sector. The mortgage rate may reach 11 to 13%, a significant increase from 8 to 10% previously. Moreover, new BI regulations on LTV and indent property mortgage will curb the demand for those who consider to purchase 2nd and 3rd house due to higher down payment requirement (40% and 50% respectively) and stricter criteria on physical building progress prior to mortgage approval.

Slower growth of FDI and Industrial sector to slow down

According to Indonesia's Investment Board (BKPM), FDI reached US\$6.5bn in 2Q13, a sixth straight quarterly record. However the growth rate was the slowest in almost two years, at 18.9% YoY, due to the falling commodities prices. Colliers projected that the industrial sector would continue to slow down due to the limited availability of new land. Moreover, companies starts to recalculate their business development plan, taking into account the effect of subsidized fuel price hike occurred in June 2013. The expenditures of companies will only increase and might result in delays on business expansion. According to Indonesia's Industrial Estate Association, there are 2 main factors that caused the slowdown in industrial estate sales. First, the booming of sales already occurred in 2010-2011. The volume of sales in 2011 reached 1,247.84ha, whereas in 2012 it dropped by 49% to 636.4ha. The declining trend is projected to continue this year. The demand for land continues but not as high as that in 2010-2011. Secondly, the investors who already own the land will now focus on building the infrastructure.

1H13 Results Review

1H13 earnings came in strongly above expectation at Rp549bn, +281% YoY, which formed 61% and 75% of FY13 consensus and our estimates. 1H13 revenue grew strongly by 103% YoY to Rp1.04tn, within FY13 consensus and ours. EBIT grew by 255% YoY (Exhibit 2).

Gross margin expanded to 78% from 48% in 1H12, higher than our previous FY13 estimate of 63%. Net margin expanded to 53% from 28% in 1H12, much higher than FY13 consensus estimate (43%) and ours (34%).

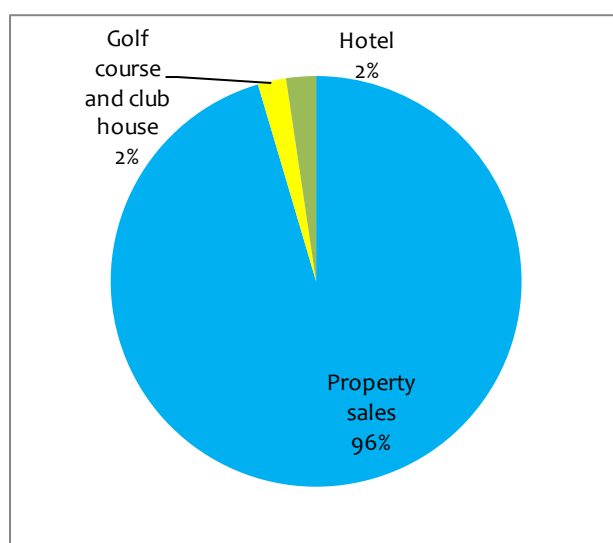
The strong 1H13 results were largely due to 35ha Modern Gateway land sales to ASRI (revenue of ~Rp700bn). Property sales and recurring income accounted for 96% and 4% of 1H13 revenue (Exhibit 3) and 97% and 3% of gross profit (Exhibit 4).

Exhibit 2. 1H13 Financial results

(In Rp bn)	1H13	1H12	%YoY	2Q13	1Q13	%QoQ	FY13F	%A/F	% Cons
Revenue	1,036.6	510.3	103%	446.1	590.5	-24%	2,137.7	48%	49%
Cost of sales and direct costs	(229.4)	(265.4)		(92.4)	(136.9)		(784.3)		
Gross profit	807.2	244.9	230%	353.6	453.6	-22%	1,353.3	60%	59%
Gross margin	77.9%	48.0%		79.3%	76.8%		63.3%		
Operating expenses	(154.7)	(60.9)	154%	(73.6)	(81.1)	-9%	(281.5)	55%	53%
EBITDA	665.6	190.6	249%	286.6	379.0	-24%	1,098.0	61%	61%
EBITDA margin	64.2%	37.3%		64.2%	64.2%		51.4%		
Depreciation	(13.1)	(6.6)		(6.5)	(6.5)		(26.1)		
EBIT	652.5	184.0	255%	280.0	372.5	-25%	1,071.8	61%	68%
EBIT margin	62.9%	36.1%		62.8%	63.1%		50.1%		
Other income (expense)	(54.6)	(17.8)		(32.6)	(22.0)		(202.0)		
Profit before Income tax	597.9	166.2	260%	247.5	350.5	-29%	869.8	69%	58%
Income tax expense	(48.8)	(22.0)		(21.0)	(27.8)		(139.2)		
Net profit	549.2	144.2	281%	226.5	322.7	-30%	730.9	75%	61%
Net profit margin	53.0%	28.3%		50.8%	54.6%		34.2%		
EPS (Rp)	87.6	23.0	281%	36.2	51.5	-30%	116.6	75%	61%

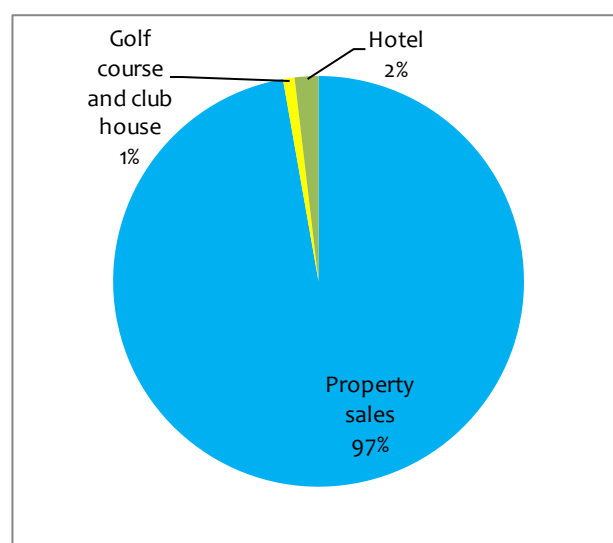
Source: Company Reports, Buana Research

Exhibit 3. 1H13 Revenue breakdown



Source: Company Reports, Buana Research

Exhibit 4. 1H13 Gross Profit breakdown



Source: Company Reports, Buana Research

Forecasts Changes

To better reflect the gross margin realized in 1H13, we adjusted our gross margin estimate for property sales from 63% to 71% for 2013F and adjusted it to 66% and 61% for 2014-15F. Our 2013-15F gross margin estimates for Golf course and Hotel are in line with the actual gross margins realized in 1H13 (32% and 62% respectively).

2013 Forecast

We upgrade our FY13F earnings estimate by 22%, or about 98.7% of consensus estimates. We tweaked our revenues forecast by -3.3%, about 98.1% of consensus. Note that our FY13F numbers are in line with consensus (Exhibit 5).

2014/15F Forecast

Given weak macro conditions and slower growth in FDI and industrial sector, we forecast lower revenue contribution from Modern Cikande Industrial Park of Rp600bn and 750bn in 2014/15F, lower than management guidance of Rp950bn and Rp1.15tn respectively.

Due to the acquisition of Jakarta Garden City by end of 2013, we forecast additional revenue contribution from the project by Rp550bn in 2014F and Rp700bn in 2015F.

Our FY14/15F revenue forecasts increased by ~7%, or around 108% of consensus. FY14/15F earnings estimates increased by 7.4%/1.9%. We expect higher interest cost due to capital raising (assuming the global bond issuance of US\$300mn, with cost of fund of 8.5%, including the hedging cost). Note that our FY14/15F earnings estimates are 12.4%/13.1% lower than consensus.

Exhibit 5. Forecast changes (2013-15F)

(In Rp bn)	New			Previous			% Changes			% Consensus		
	2013F	2014F	2015F	2013F	2014F	2015F	2013F	2014F	2015F	2013F	2014F	2015F
Revenue	2,068	2,587	2,933	2,138	2,424	2,736	-3.3%	6.7%	7.2%	98.1%	108.3%	108.5%
Gross Profit	1,475	1,703	1,785	1,353	1,548	1,674	9.0%	10.0%	6.6%			
Gross profit margin	71.3%	65.8%	60.8%	63.3%	63.9%	61.2%	8.0%	2.0%	-0.3%			
Net Profit	893	924	957	731	860	939	22.2%	7.4%	1.9%	98.7%	87.6%	85.3%
Net profit margin	43.2%	35.7%	32.6%	34.2%	35.5%	34.3%	9.0%	0.2%	-1.7%			
EPS (Rp)	141	146	151	115	136	148	22.2%	7.4%	1.9%	97.6%	86.9%	84.5%

Source: Company Reports, Buana Research

Valuation & Recommendation

We recalculated our RNAV valuation to account for the latest additions/reductions to the landbank as well as valuation price increases. We arrive at new RNAV per share of Rp1,924, or -11.4% lower than previous RNAV (Rp2,172). The lower NAV was due to lower acquired area in Modern Bekasi (489ha), vs. initial plan of 750ha and higher forecasted debt in 2013F of Rp3.7tn, vs. Rp2.2tn previously.

Given our expectation that the property sector to slow down and slower growth of FDI and industrial sector in 2014, we increased the discount to our RNAV from 45% to 50% as it will take longer time to monetize the land assets. We arrive at lower target price Rp960 (Exhibit 6), which implies 6.6x FY14F P/E. MDLN is currently trading at 62.6% discount to our RNAV per share and at 4.9x FY14F P/E. MDLN share price has dropped around -37% from its peak in early June 2013. We believe the current valuation has been driven by negative sentiments on macro conditions and property/industrial sector. Moreover, we believe the acquisition is a positive catalyst for MDLN's NAV with a significant contribution to topline (~21% of our FY14F revenue). We believe MDLN is attractive as most negative sentiments are priced in, hence limiting downside risk and offers a buying opportunity. We reiterate our BUY rating on MDLN with lower target price Rp960 (from Rp1,200).

Exhibit 6. RNAV Calculation

Landbank (2013F)	For Development (ha)	Developed (ha)	Ownership	Saleable Land (sqm)	ASP (Rp mn/sqm)	Market Value (Rp bn)
Kota Modern, Tangerang	-	11.3	100%	113,000	9.0	1,017
Modern Gateway, Tangerang	165.3	-	100%	1,653,000	2.0	3,306
Modern Hill, Pondok Cabe	-	7.2	100%	72,000	3.5	252
Modern Park	0.5	1.3	100%	16,500	3.0	50
Puri Teratai, Cikande	-	0.2	100%	2,000	0.7	1
Puri Mas, Cikande	-	4.5	100%	45,000	0.7	32
Bukit Cibadak Indah	7.2	-	100%	50,400	0.7	35
Modern Green Residences, Cakung	98.8	-	100%	691,600	4.5	3,112
Modern Cikande - Industrial estate	404.9	31.7	100%	3,151,300	0.8	2,521
Modern Bekasi (acquisition cost)	489.1	-	100%	4,891,000	0.2	978
Novotel Gajah Mada Jakarta Garden City (DCF)	132.1	51.9	100%	1,443,700	5.5	7,940
Total	1,297.9	108.1		10,685,800		19,638
					Selling, Development costs, Tax (20%)	(3,928)
					Total Market Value	15,711
					Cash and equivalent (2013F)	457
					Debt (2013F)	(3,684)
					Customer deposit (2013F)	(429)
					Total RNAV	12,055
					Outstanding shares (billion)	6.267
					RNAV per share (Rp)	1,924
					50% Discount to NAV	(962)
					Target Price (Rp)	962

Source: Company data, Buana Research

Financial Summary

Profit & Loss (Rp bn)	2011	2012	1H13	2013F	2014F	2015F
Revenue	505	1,058	1,037	2,068	2,587	2,933
Cost of revenue	(238)	(556)	(229)	(593)	(884)	(1,149)
Gross Profit	267	502	807	1,475	1,703	1,785
Operating expenses	(117)	(155)	(155)	(309)	(387)	(439)
EBITDA	160	366	666	1,192	1,342	1,372
EBIT	150	347	653	1,166	1,316	1,346
Other income (expenses)	(52)	(35)	(55)	(140)	(254)	(246)
Profit before Tax	98	312	598	1,026	1,062	1,100
Income Tax expense	(24)	(51)	(49)	(133)	(138)	(143)
Net Profit	74.1	260.5	549.2	892.9	924.0	957.2
Balance Sheet (Rp bn)	2011	2012	1H13	2013F	2014F	2015F
Cash & cash equivalents	94	1,066	578	457	660	1,058
Receivables	266	434	360	433	505	497
Inventories	463	438	484	484	532	586
Other current assets	3	2	4	2	2	2
Total Current assets	826	1,940	1,427	1,377	1,699	2,143
Fixed asset - net	125	421	491	491	465	439
Land for development	774	1,216	1,462	4,255	4,633	5,205
Investments in associates	447	477	483	483	483	483
Other non-current assets	354	538	942	1,220	1,220	1,220
Total Non-current Assets	1,700	2,652	3,378	6,449	6,800	7,347
Total Assets	2,526	4,592	4,805	7,825	8,500	9,490
Bank loan - current	161	326	294	294	-	-
Non-bank loan		28	28	28	28	28
Trade payables	99	110	99	94	149	157
Deposit from customers	468	681	429	429	429	429
Bonds payable - current	-	29	31	31	-	-
Other current liabilities	266	352	397	419	437	462
Total current liabilities	994	1,526	1,277	1,294	1,043	1,076
Bank loans	181	316	228	0	0	0
Bonds payable - non current	49	494	495	3,360	3,360	3,360
Other non-current liabilities	113	29	30	36	38	39
Total Non-current liabilities	343	840	753	3,396	3,398	3,399
Total Liabilities	1,338	2,366	2,030	4,690	4,441	4,475
Share capital	1,532	2,327	2,311	2,327	2,327	2,327
Retained earnings (deficit)	(358)	(93)	456	799	1,723	2,680
Total Equity	1,188	2,226	2,775	3,135	4,059	5,015
Total Liabilities and Equity	2,526	4,592	4,805	7,825	8,500	9,490
Cash Flow statement (Rp bn)	2011	2012	1H13	2013F	2014F	2015F
Cash flows from Operating	167	132	392	618	803	898
Cash flows from Investing	(91)	(750)	(744)	(3,700)	(600)	(500)
Cash flows from Financing	(55)	1,580	(136)	2,474	-	-
Net increase (decrease) of cash	20	972	(488)	(608)	203	398
Cash & equivalents at beginning of year	74	94	1,066	1,066	457	660
Cash & cash equivalents at end of year	94	1,066	578	457	660	1,058

Source: Company Reports, Buana Research



Ratio Analysis

	2011	2012	1H13	2013F	2014F	2015F
Profitability						
Gross margin	53%	47%	78%	71%	66%	61%
EBITDA margin	32%	35%	64%	58%	52%	47%
EBIT margin	30%	33%	63%	56%	51%	46%
Net profit margin	15%	25%	53%	43%	36%	33%
Basic EPS (Rp)	24.3	41.6	87.6	142.5	147.5	152.7
Diluted EPS (Rp)	23.8	41.2	86.8	141.1	146.0	151.3
EPS growth	92%	71%		243%	3%	4%
Valuation						
P/E(x)		17.5		5.1	4.9	4.8
P/B(x)		2.0		1.4	1.1	0.9
ROAE (%)		15%		33%	26%	21%
EV/EBITDA		12.6		6.5	5.4	5.0
Liquidity						
Current ratio	0.8	1.3	1.1	1.1	1.6	2.0
Quick ratio	0.4	1.0	0.7	0.7	1.1	1.4
Cash ratio	0.1	0.7	0.5	0.4	0.6	1.0
Activity (days)						
Account receivables days	139	82		50	43	36
Inventory days	526	222		284	210	178
Account payables days	52	54		58	48	47
Cash cycle	613	250		276	206	167
Solvency						
Debt to equity (DER)	0.3	0.5	0.4	1.2	0.8	0.7
Financial leverage	2.1	2.1	1.7	2.5	2.1	1.9

Source: Buana Research

**PT. BUANA CAPITAL
INDONESIA STOCK EXCHANGE BUILDING
TOWER II, 26th FLOOR
JL. JEND. SUDIRMAN KAV.52-53
JAKARTA 12190, INDONESIA**

DISCLAIMER

ANALISA DAN LAPORAN INI DITULIS, DIPRODUKSI DAN DIDISTRIBUSIKAN OLEH PT BUANA CAPITAL RESEARCH DEPARTMENT. SEMUA INFORMASI DIDAPAT DARI DATA-DATA YANG TERSEDIA UNTUK PUBLIK DAN DARI BERBAGAI SUMBER. PT BUANA CAPITAL RESEARCH DEPARTMENT TIDAK BERTANGGUNG JAWAB ATAS KELENGKAPAN DATA-DATA DARI INFORMASI TERSEBUT. INFORMASI ATAU OPINI YANG TERMUAT DISINI BUKAN MERUPAKAN SARAN UNTUK MENJUAL ATAU MEMBELI EFEK YANG BERSANGKUTAN

ANALYSIS AND REPORTS OF THIS WRITTEN, PRODUCED AND DISTRIBUTED BY PT BUANA CAPITAL RESEARCH DEPARTMENT. ALL CONTENTS ARE BASED ON INFORMATION OBTAINED FROM THE DATAS AVAILABLE FOR THE PUBLIC AND VARIOUS SOURCES BELIEVED TO BE RELIABLE BUT PT BUANA CAPITAL RESEARCH DEPARTMENT MAKES NO REPRESENTATION AND ACCEPTS NO RESPONSIBILITY OR LIABILITY AS TO ITS COMPLETENESS OR ACCURACY. OPINION OR INFORMATION IS NEITHER AN OFFER NOR THE SOLICITATION OF AN OFFER TO SELL OR PURCHASE ANY INVESTMENT.