

Friday, 30 October 2009

**BUY**

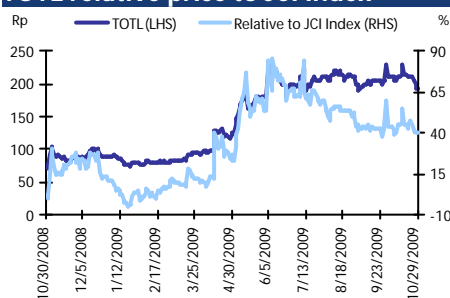
Bloomberg Code	TOTL IJ
Price, Rp	193
Mkt Cap Rp bn	530.7
Target Price, Rp	256

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**Last Recommendation**

	Rec.	Target Price
30-Oct-09	BUY	Rp 256
04-May-09	SELL	Rp 129

**TOTL relative price to JCI Index**

## CONSTRUCTION/ COMPANY UPDATE

# Total Bangun Persada

## Business as usual

**New TP of Rp 256, BUY**

TOTL topped our earning estimate, significantly. As such we change our recommendation from SELL to BUY and upgrade our FY09-10 EPS by 156.2-193.8%, backed by 1) TOTL's ability to post a net margin of 2.9% in 9M09 despite the unfavorable new tax for construction companies; 2) the company's strength shown by repeat customers business; and 3) the company's prudent cash management. We derived our new TP of Rp 256 based on DCF, assuming WACC of 13.3% and long term growth of 5%. Our TP implies 14.5-12.9x PE09-10F, 1.4-1.3x PBV09-10F and 33% potential upside for the share price.

**New practice improves margin**

Despite 9M09 revenue declining by 6% yoy to Rp 1.35Trn due to a contract amendment from "Central Park Projects" valued around Rp 343bn, the company's margin is improving. According to management, the purpose of the amendment is to prevent double taxation from subcontracting. As a consequence, the agreement for the subcontractor is now directly between the subcontractor and the project owner, TOTL as the main contractor is only responsible for supervising the subcontractor's work. We believe the amendment gives a win-win solution for both parties; the contractors (main and subcontractor) secure their margins while the project owner ensures a competitive price. This combined with the company's strategy to pass on the 3% final tax to their customers (project's owners) has resulted in a margin improvement in 9M09 of 2.9% from 1.6% in 9M08.

**Construction outlook bright**

Approximately 79% of TOTL's 9M09 revenue was contributed by private projects. Since interest rates have decline to an all time low of 6.5%, we believe this should be followed soon by further cuts in lending rates. We notice that demand for high rise buildings and specifically CBD office buildings are negatively correlated with declining interest rates. In addition, the building permit index for Jul-09 shows an increasing trend. According to management, there are Rp 3.5Trn worth projects still in the pipeline and next year TOTL targets to achieve Rp 2trn of additional contracts. We remain conservative in term of booking of revenue based on project completion, thus we expect FY10F revenue will grow by 0.7% while a better net margin is expected from their new tax practices (see above).

**Strength shown by repeat customer business**

TOTL has a strong base of loyal customers; around 77% of the company's revenue is contributed by repeat customers namely: commercial and residential developers, finance, media, shopping malls, retailers, insurance companies, etc. They are well known for quality and excellent after sales service. This also helps them to continuously attract new customers. We believe the company's strong repeat customer business supports a positive long term outlook.

Year to Dec	2007	2008	2009F	2010F	2011F
Revenue, Rp bn	1,321.6	1,893.5	1,681.2	1,692.5	1,743.8
EBITDA, Rp bn	52.3	68.9	96.4	104.0	108.2
Net profit, Rp bn	53.8	17.9	47.9	54.1	55.7
DPS, Rp	15.0	7.5	2.1	5.6	6.3
PER, x	9.8	29.2	10.9	9.6	9.4
PBV, x	1.2	1.2	1.1	1.0	0.9
Yield, %	7.8	3.9	1.1	2.9	3.3
EV/EBITDA, x	8.2	3.9	2.2	1.6	1.2

Danareksa research reports are also available at Reuters Multex and First Call Direct and Bloomberg.

**Net cash position for future expansion**

TOTL is the only listed construction company with no bank loan. The company's working capital is financed through internally generated cash backed by prudent cash management. As a result of an improvement in receivables collection, the company has become cash rich with a total cash position of Rp 348bn as of 9M09. The cash can be used to support the company's future growth – TOTL plans to improve their expertise in other fields besides high rise buildings, such as: building roads, airport runways, and power plants – or this cash can be used for larger dividend payments.

**Exhibit 1. Change of forecast**

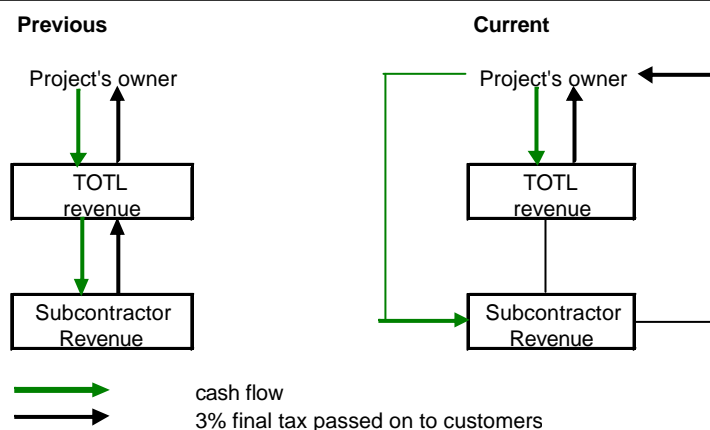
	previous	FY09F new	%	previous	FY10F new	%
Revenue	1,967	1,681	-14.5	2,054	1,693	-17.6
EBITDA	79	96	22.0	84	104	24.4
Net profit	19	48	156.2	18	54	193.8
EBITDA margin,%	4.0	5.7		4.1	6.1	
Net Margin,%	0.9	2.8		0.9	3.2	

Source: Danareksa Sekuritas

**Exhibit 2. 9M09 results highlights**

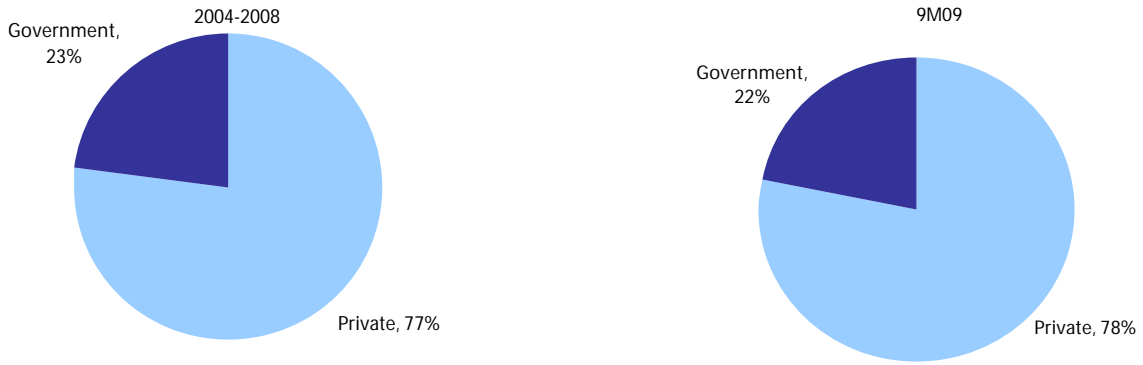
Results (Rp bn)	9M08	yoy chg %	1Q09	2Q09	3Q09	qoq chg %	FY09F	% forecast
Sales	1,429	-6	460	836	512	-39	1,694	80
COGS	(1,348)	-10	(425)	(765)	(454)	-41	(1,555)	78
Gross profit	81	59	36	71	58	-18	139	93
Operating expenses	(44)	23	(13.4)	(29.6)	(25.0)	-16	(54)	101
Operating profit	37	102	22	41	33	-19	85	89
Other income/(expenses)	(3)	-191	4.7	8.3	(5.1)	-162	14	23
Pre-tax profit	40	99	27.2	49.8	29.3	-41	99	80
Net profit	23	68	13.4	24.8	13.9	-44	48	81
Gross margin, %	5.7		7.8	8.5	11.4		8.2	
Operating margin, %	2.6		4.9	5.0	6.5		5.0	
Net margin, %	1.6		2.9	3.0	2.7		2.8	

Source: company, Danareksa Sekuritas

**Exhibit 3. New practice improves margin**

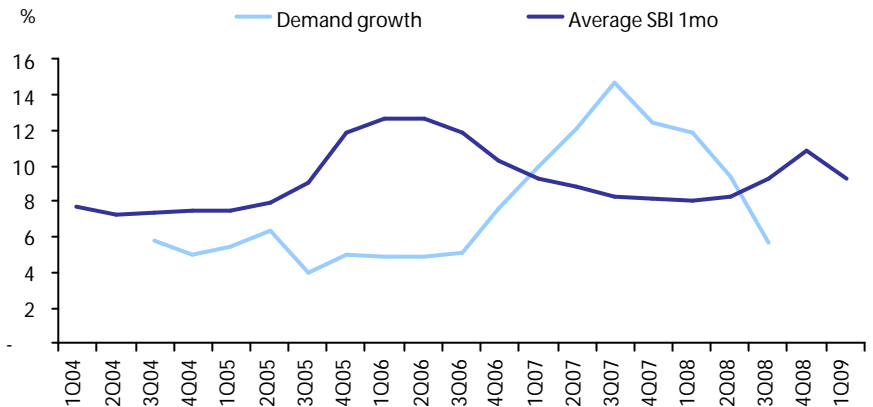
Source: Danareksa sekuritas

**Exhibit 4. Big chunk of revenue from private projects**



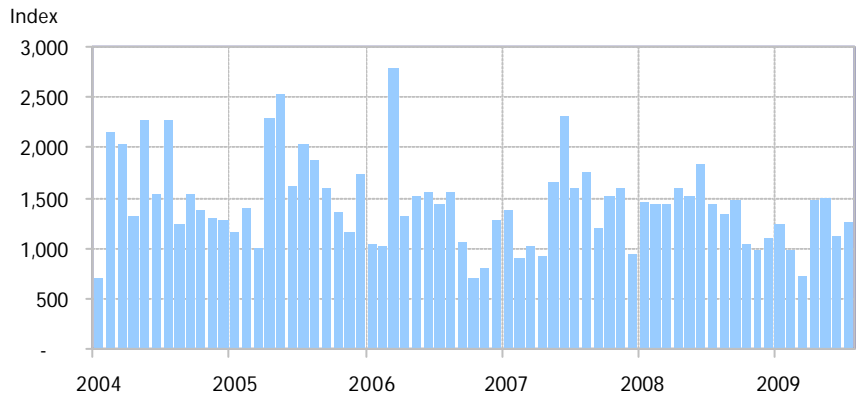
Source: Company

**Exhibit 5. Demand for CBD office lagging by 6 months time**



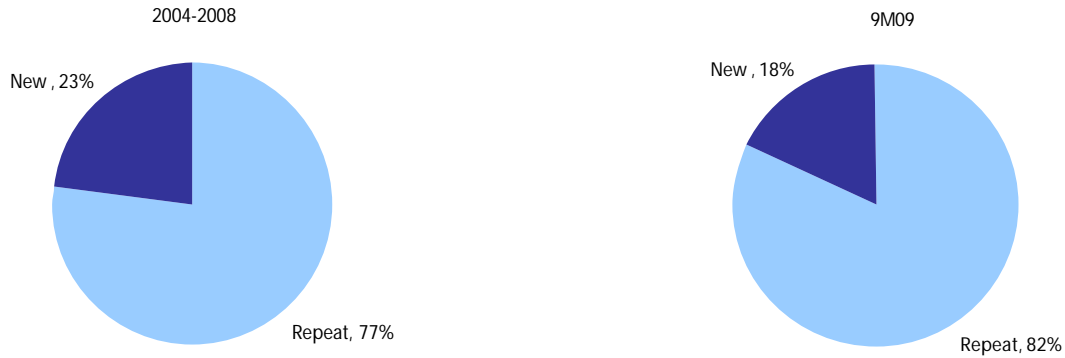
Source: Procon, CEIC, Danareksa Sekuritas

**Exhibit 6. Building permit index for residential and commercial from Jan'04 to Jul'09**



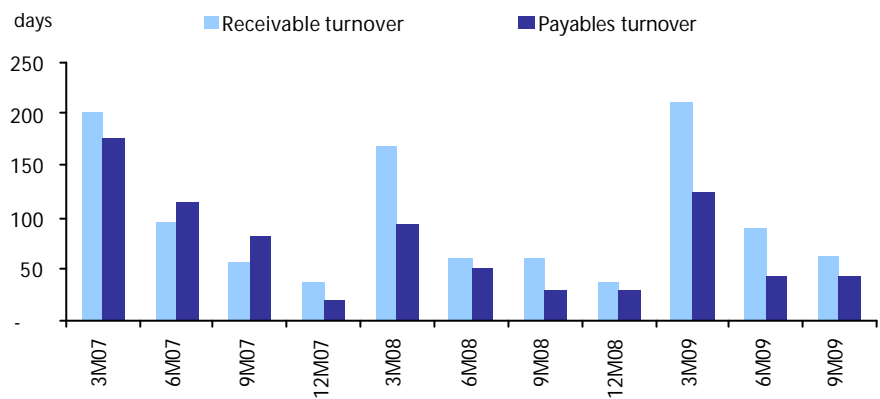
Source: Danareksa Research Institute

**Exhibit 7. Strong based of repeat customers**



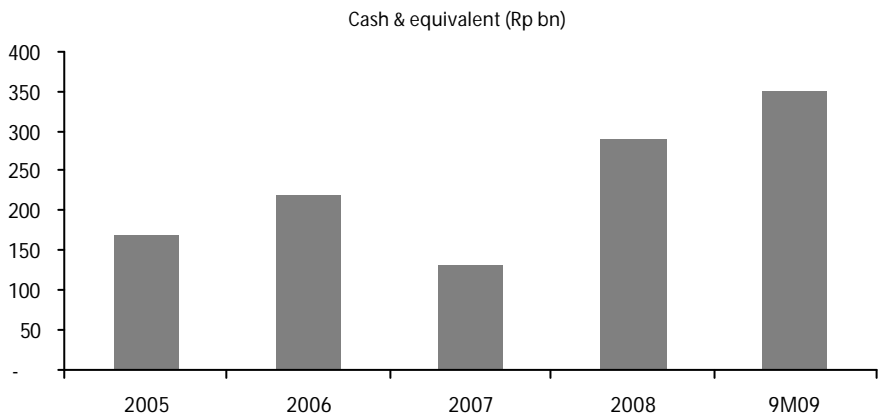
Source: Company

**Exhibit 8. TOTL's prudent cash management strategy – improves the collection period**



Source: Company

**Exhibit 9. ....as a results company's cash rich**



Source: Company

**PROFIT & LOSS ACCOUNT**

Y/e Dec, Rp bn	2006A	2007A	2008A	2009F	2010F
Sales	1,144.9	1,344.2	1,910.6	1,693.8	1,705.7
COGS	(967.0)	(1,241.6)	(1,792.1)	(1,555.1)	(1,560.5)
Gross profit	178.0	102.6	118.5	138.7	145.2
Gross margin	15.5%	7.6%	6.2%	8.2%	8.5%
Operating expenses	(58.9)	(56.4)	(59.4)	(54.1)	(55.5)
Operating profit	119.0	46.2	59.1	84.6	89.7
Operating margin	10.4%	3.4%	3.1%	5.0%	5.3%
Other income/expenses	9.7	22.0	(6.5)	14.1	15.5
Net interest	7.9	8.9	7.8	12.1	13.5
Pre-tax profit	128.6	68.4	53.1	98.7	105.2
Taxes	(36.4)	(14.6)	(35.2)	(50.8)	(51.2)
Net profit	92.3	53.8	17.9	47.9	54.1
Net margin	8.1%	4.0%	0.9%	2.8%	3.2%

**CASHFLOW**

Y/e Dec, Rp bn	2006A	2007A	2008A	2009F	2010F
Net income	92.3	53.8	17.9	47.9	54.1
non cash adjustment	323.1	(150.7)	(36.8)	11.8	14.3
Changes in current assets	(411.2)	(33.0)	109.3	80.2	(4.3)
Changes in current liabilities	33.3	170.1	83.3	(69.1)	1.6
Cash from operating	37.5	40.2	173.6	70.7	65.6
Capex	(1.4)	(10.2)	(11.4)	(9.1)	(9.1)
Others	(32.9)	(74.6)	20.5	-	-
Cash from investing	(34.3)	(84.8)	9.1	(9.1)	(9.1)
Bank loan receipt/pmts	-	-	-	-	-
Proceeds from new shares	96.6	-	(3.2)	-	-
Dividend	(50.0)	(41.3)	(20.6)	(5.7)	(15.1)
Cash from financing	46.6	(41.3)	(23.9)	(5.7)	(15.1)
Change in cash	49.9	(86.1)	158.3	56.0	41.4
Forex G/L	-	-	-	-	-
Cash in the beg of the year	167.6	217.4	131.4	289.6	345.6
Cash at end of year	217.4	131.4	289.6	345.6	387.0

**BALANCE SHEET**

Y/e Dec, Rp bn	2006A	2007A	2008A	2009F	2010F
Cash	217.4	131.4	289.6	345.6	387.0
Investment	0.0	56.2	34.4	34.4	34.4
Receivables	554.4	721.5	591.6	525.3	528.9
Others	320.9	193.8	231.7	217.9	218.6
Total current assets	1,092.7	1,102.9	1,147.3	1,123.1	1,168.8
Property & plant - net	102.6	108.1	111.3	108.6	103.3
Other assets	83.7	94.9	79.0	79.0	79.0
Total Asset	1,279.0	1,305.9	1,337.6	1,310.7	1,351.2
Account payable	59.1	64.3	139.1	120.7	121.1
Tax liabilities	44.5	23.6	46.6	46.6	46.6
other current liabilities	413.8	698.9	639.9	589.1	590.3
Non-current liabilities	47.9	67.6	66.9	66.9	66.9
Total liabilities	565.4	854.3	892.5	823.3	824.9
Capital stock	275.0	275.0	275.0	275.0	275.0
shareholder reserve	66.6	66.6	66.6	66.6	66.6
treasury stock	0.0	0.0	(3.2)	(3.2)	(3.2)
retained earnings	97.7	110.0	106.8	149.0	187.9
Total Equity	439.3	451.7	445.2	487.4	526.3
Net debt	(217.4)	(131.4)	(289.6)	(345.6)	(387.0)
Net gearing, %	(49.5)	(29.1)	(65.1)	(70.9)	(73.5)

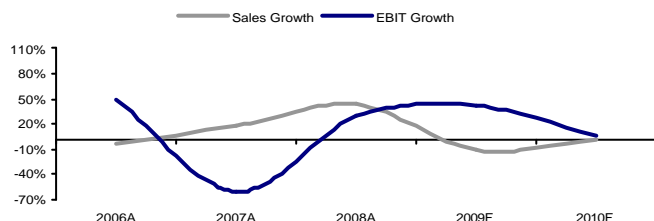
**QUARTERLY BREAKDOWN**

Y/e Dec, Rp bn	4Q07	1Q08	2Q08	3Q08	4Q08
Revenue	396.8	(897.2)	511.6	473.1	468.7
Gross profit	34.1	(60.7)	15.0	24.3	38.2
Operating profit	7.9	(14.5)	2.8	4.6	20.9
Pre-tax profit	13.7	(38.9)	2.7	7.7	12.8
Tax	(1.8)	5.4	(0.4)	(7.1)	(18.5)
Net profit	12.0	(33.5)	2.3	0.6	(5.6)

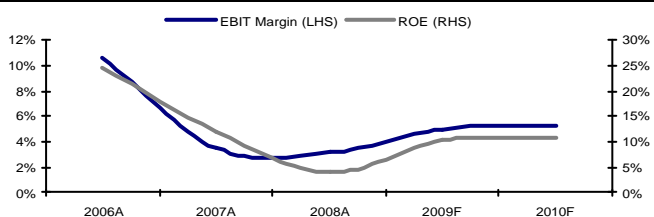
**COMPANY BACKGROUND**

TOTL is one of the largest building-construction companies in Indonesia with over 35-year construction track record. TOTL is specializing in Commercial, High Rise Building and Industrial Construction. About more than 500 buildings has been constructed by TOTL in Indonesia

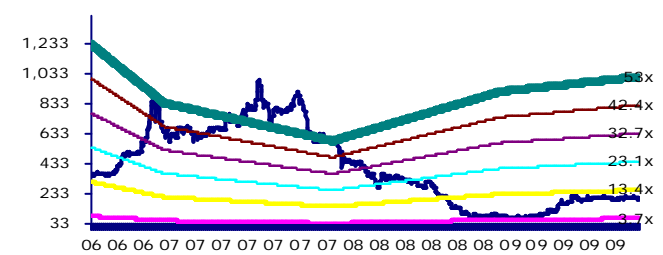
**GROWTH**



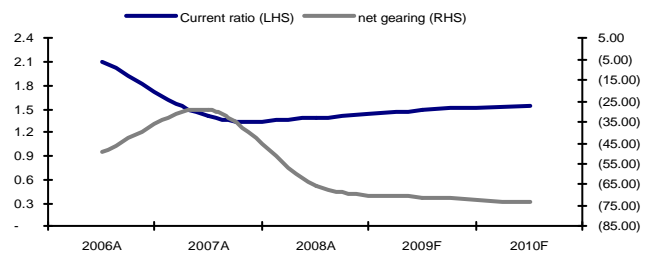
**PROFITABILITY**



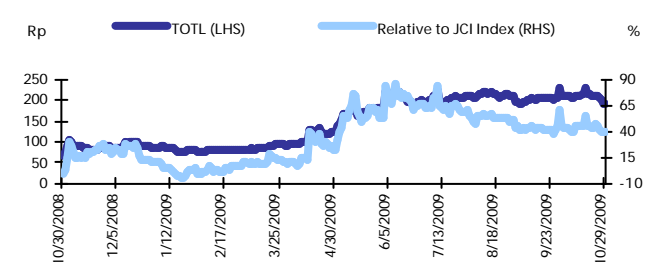
**PER band chart**



**LEVERAGE**



**SHARE PRICE RELATIVE TO JCI**



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