6 May 2016 │ 23 pages

Engineering & Construction
Asia │ Indonesia

Indopora (IDPR.JK)

Initiate at Buy: Strong Foundation

■ Initiation of Coverage

- **Target price of Rp2,135 implies 36% total return** — We initiate with a Buy on Indopora, the leading foundation specialist in Indonesia and the biggest as well as most liquid private contractor. More than 75% of its customers are repeat clients, ranging from SOEs to private developers. Trading at just 13x 16E PE vs. close comp ACST's 15x and SOE contractors' ~22x, Indopora deserves higher valuations, in our view, for its superior margins, strong balance sheet and leadership in the foundation sector. Our DCF-based target price of Rp2,135 implies 15x June 17E PE, with a 2016-18E earnings CAGR of 23%.

- **Superior to peers** — Indopora has a GP margin of ~25% vs. other contractors' ~10-15%, and a net margin of ~15% vs. peers' ~5%. We attribute the difference to Indopora's leadership in foundation services – a sweet spot in construction. Margins on foundation work are higher due to the technical expertise involved and developers' openness to accepting higher pricing because such works form just a small part of the overall construction cost. Cash flow risk is also lower as the work duration is short and comes at the start of the project. Competition is relatively limited, with specialized machinery and human capital acting as entry barriers.

- **Beneficiary of tax amnesty, low rates, infrastructure push** — Our Indonesia strategist and property analyst are bullish on the real-estate sector, encouraged by interest-rate cuts and an expected tax amnesty issuance in 2Q16. We expect 2016E high-rise presales growth of 13% for developers in our coverage vs. a 24% drop in 2015. Pick-up in property sales will be the main catalyst for Indopora, in our view, supporting 20/30% new-contracts growth in 2016/17E. Back-tests suggest that high-rise property presales in our coverage on average have a ~2x multiplier effect on Indopora's new contracts. Risks to our call: fewer new contracts and lower margins.

Buy	1
Price (04 May 16)	Rp1,595
Target price	Rp2,135
Expected share price return	33.9%
Expected dividend yield	2.1%
Expected total return	36.0%
Market Cap	Rp3,194,785M
	US$241M

Price Performance
(RIC: IDPR.JK, BB: IDPR IJ)

Statistical Abstract

Year to 31 Dec	Net Profit (RpB)	Diluted EPS (Rp)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2014A	188	15,962,041	25.3	0.0	0.0	49.7	0.0
2015A	228	253	-100.0	6.3	3.2	31.2	2.3
2016E	255	128	-49.6	12.5	2.7	23.5	2.1
2017E	315	157	23.1	10.2	2.3	24.2	2.4
2018E	385	192	22.4	8.3	1.9	24.7	3.0

Source: Powered by dataCentral

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IDPR.JK: Fiscal year end 31-Dec

Price: Rp1,595; TP: Rp2,135; Market Cap: Rp3,194,785m; Recomm: Buy

Profit & Loss (Rpb)	2014	2015	2016E	2017E	2018E
Sales revenue	1,267	1,154	1,455	1,833	2,206
Cost of sales	-957	-815	-1,062	-1,356	-1,632
Gross profit	309	338	393	477	573
Gross Margin (%)	24.4	29.3	27.0	26.0	26.0
EBITDA (Adj)	340	363	445	539	647
EBITDA Margin (Adj) (%)	26.9	31.5	30.6	29.4	29.3
Depreciation	-98	-104	-147	-177	-207
Amortisation	0	0	0	0	0
EBIT (Adj)	242	259	298	363	439
EBIT Margin (Adj) (%)	19.1	22.5	20.5	19.8	19.9
Net interest	-14	-12	1	7	12
Associates	0	0	0	0	0
Non-op/Except	1	12	0	0	0
Pre-tax profit	229	259	299	370	452
Tax	-41	-32	-44	-55	-66
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net profit	188	228	255	315	385
Net Margin (%)	14.8	19.7	17.6	17.2	17.5
Core NPAT	188	228	255	315	385
Per share data	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Reported EPS (Rp)	15,962,041	253	128	157	192
Core EPS (Rp)	15,962,041	253	128	157	192
DPS (Rp)	0	37	34	38	47
CFPS (Rp)	12,577,276	129	213	198	257
FCFPS (Rp)	1,380,690	-95	114	98	152
BVPS (Rp)	39,801,121	495	589	707	852
Wtd avg ord shares (m)	0	899	2,003	2,003	2,003
Wtd avg diluted shares (m)	0	899	2,003	2,003	2,003
Growth rates	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Sales revenue (%)	54.8	-8.9	26.1	26.0	20.3
EBIT (Adj) (%)	28.8	7.2	15.0	21.7	21.2
Core NPAT (%)	25.3	21.1	12.2	23.1	22.4
Core EPS (%)	25.3	-100.0	-49.6	23.1	22.4
Balance Sheet (Rpb)	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Cash & cash equiv.	83	288	418	507	718
Accounts receivables	196	96	121	152	183
Inventory	87	69	90	115	139
Net fixed & other tangibles	350	467	521	544	547
Goodwill & intangibles	0	0	0	0	0
Financial & other assets	206	460	455	571	667
Total assets	922	1,381	1,605	1,890	2,254
Accounts payable	163	130	175	223	268
Short-term debt	50	40	20	0	0
Long-term debt	43	28	18	8	8
Provisions & other liab	197	190	213	241	269
Total liabilities	453	389	426	472	545
Shareholders' equity	469	992	1,179	1,417	1,707
Minority interests	0	1	1	1	2
Total equity	469	992	1,180	1,418	1,709
Net debt (Adj)	10	-220	-380	-499	-710
Net debt to equity (Adj) (%)	2.1	-22.2	-32.2	-35.2	-41.5

Valuation ratios	2014	2015	2016E	2017E	2018E
PE (x)	0.0	6.3	12.5	10.2	8.3
PB (x)	0.0	3.2	2.7	2.3	1.9
EV/EBITDA (x)	9.4	8.5	6.5	5.1	4.0
FCF yield (%)	nm	-5.9	7.1	6.1	9.5
Dividend yield (%)	0	2.3	2.1	2.4	3.0
Payout ratio (%)	0	15	27	24	25
ROE (%)	49.7	31.2	23.5	24.2	24.7
Cashflow (Rpb)	**2014**	**2015**	**2016E**	**2017E**	**2018E**
EBITDA	340	363	445	539	647
Working capital	-137	-217	25	-95	-78
Other	-55	-30	-42	-48	-54
Operating cashflow	148	116	427	396	515
Capex	-132	-201	-200	-200	-210
Net acq/disposals	0	0	0	0	0
Other	0	0	0	0	0
Investing cashflow	-132	-201	-200	-200	-210
Dividends paid	0	-74	-68	-77	-94
Financing cashflow	38	292	-98	-107	-94
Net change in cash	56	205	129	90	211
Free cashflow to s/holders	16	-85	227	196	305

For definitions of the items in this table, please click here.

Powered by: dataCentral

Foundation – Sweet Spot in Construction

High margins due to specialized work

Indo's biggest foundation company – foundation services (90-95% of rev) and precast (5-10%)

Indopora is Indonesia's largest foundation company, which provides one-stop, integrated foundation services. It was established in 1977 and is widely regarded for its quality work and providing the most comprehensive foundation services in Indonesia. Indopora's business lines consist of foundation work (piles, retaining walls, ground improvement, pile-testing and others), which contributed 90-95% of its revenues; as well as pre-cast, which contributes 5-10% of revenues.

IDPR has 25%/15% GP/net margin vs ~10-15%/~5% of other contractors

Indopora has much higher margins than other private contractors, with its average gross margin at 25% vs. 10-15% for other big SOEs and private contractors, as foundation work yields higher margins than structure construction. IDPR's avg net margin is ~15% vs. other contractors' ~5%. We think the ability to charge higher margins for foundation work is mainly due to:

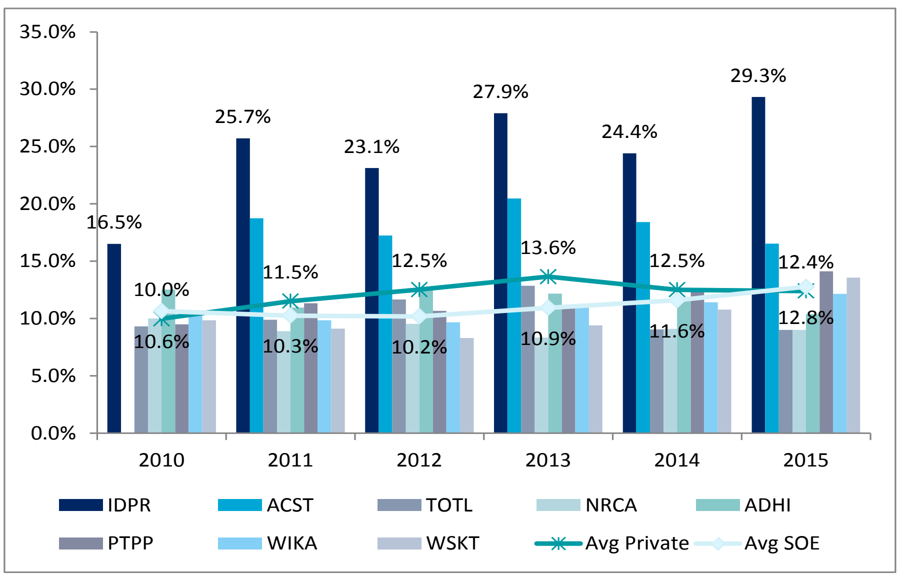
- **Highly technical work** – Foundation work needs more precision and engineering work than structure construction, especially in high-rise and superblock developments. Indonesia is earthquake-prone and has softer soil conditions, and therefore the quality of foundation is critical.
- **Foundation's smaller share vs. overall construction cost gives more room for higher prices** – In general, foundation contract sizes range from 5-20% of total building costs. The small percentage means less tight price negotiations. For example, if a foundation contract is 10% of the total building cost, a 5% increase in foundation prices would lead to only a 0.5% overall increase in total building cost. By contrast, for structure construction works, a 5% rise in prices would translate to 4% higher cost and thus lower developers' margins.

Figure 1. Indopora's core services

1) Foundation Piling	4) Pile Testing
- Driven Piling	- compressive, tension test
- Bored Piling	- lateral test, integrity test
- Barette Piling, etc	5) Others
2) Retaining walls	- ground anchor
- Diaphragm Wall	- soil nailing
- Secant piling	- kingpost installation
- Contiguous Bored Piling, Soldier piling etc	- Mechanical joint/bars coupler
3) Ground Improvement	6) Precast
- Vertical drain	- pilings production
- Soil Cement	- structure precast (upcoming)

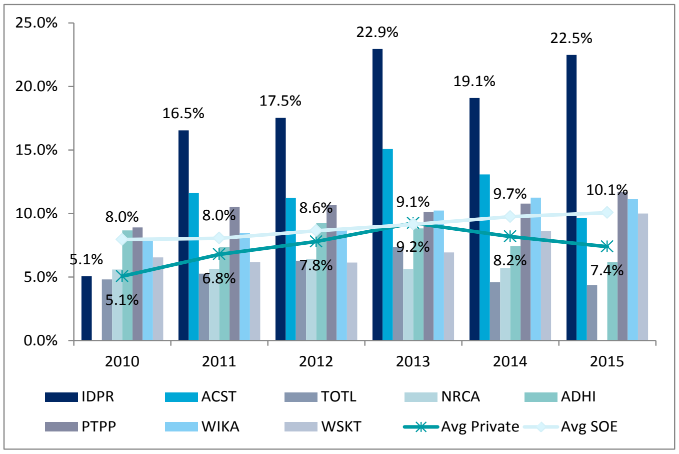
Source: Company, Citi Research

Figure 2. Indo Contractors: GP Margin Comparison



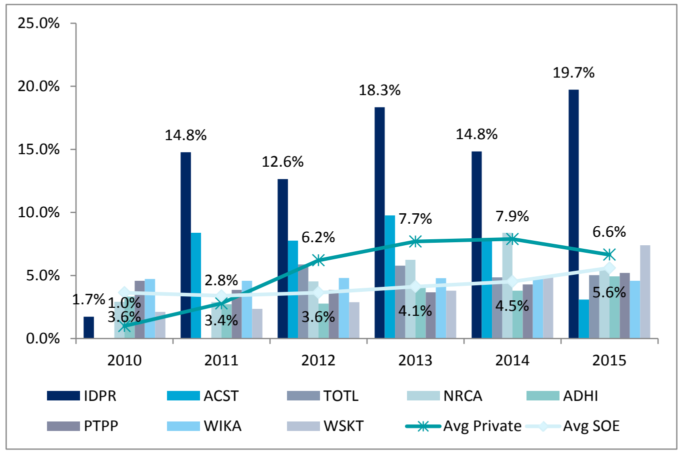
*TOTL margins are calculated from total scope of work revenue for better comparison
Source: Company, Bloomberg, Citi Research

Figure 3. IDPR: EBIT (ex-JO) Margin Comparison



*TOTL margins are calculated from total scope of work revenue for better comparison
Source: Company, Bloomberg, Citi Research

Figure 4. IDPR: NP Margin Comparison



*TOTL margins are calculated from total scope of work revenue for better comparison
Source: Company, Bloomberg, Citi Research

Less cash flow risk

A major risk in construction projects is related to cash flow, especially for high-rise projects because they are more capital-intensive and take longer to build. Some property developers might not have enough financing to construct the whole project, and expect pre-sales to come to the rescue. Although developers usually start construction only after they have pre-sold a certain proportion of the building (usually ~60%), they could still delay or slow payment to contractors due to working-capital problems.

Most property buyers now use cash installments or developers' financing

Because of tightening of mortgages in 2012-13, property buyers' payment profile changed in 2014. The majority of buyers (~59%) now pay through installments or developer financing (vs. 38% in FY13), and only 27% use mortgages (vs. 47% in FY13). Down-payments are usually 20-30% of the property value, to be paid in 3-6 months, and the balance is to be paid in 36-60x installments. As construction typically takes ~3 years (~36 months), depending on the installment period selected by the majority of buyers, the cancellation rate and punctuality of buyers' payments, there could be a cash flow mismatch at the later stages of construction.

Mortgage disbursements are now tighter

Previously, almost 100% of the mortgage amount could be disbursed to the property developer within three months of the property purchase. However, in 2013, the central bank (BI) tightened mortgage disbursements, allowing 50% of the mortgage to be disbursed when the foundation is completed, 30% after the topping off, 10-15% on unit delivery, and 5-10% when the property title is ready. Second mortgages can only be disbursed after the construction is completed. Thus, developers have to finance their own working capital until construction is completed for second-mortgage buyers.

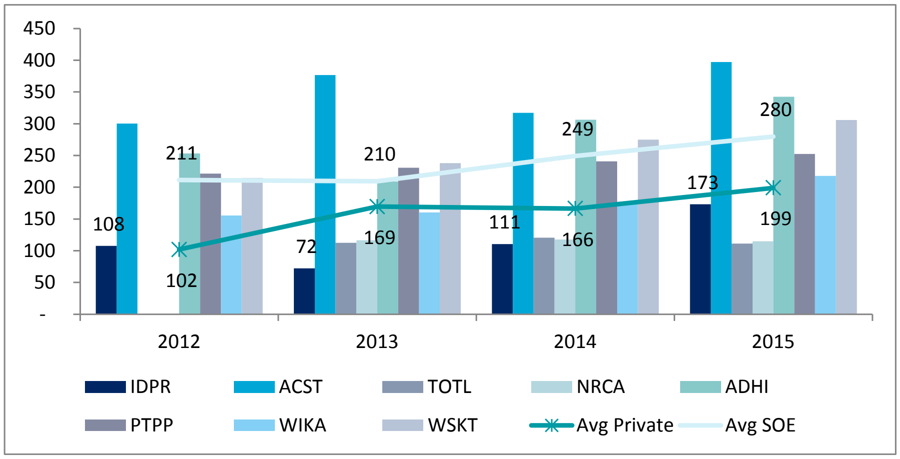
Late payments are costly for contractors due to low margins and tax structure

Due to contractors' relatively low GP margin of 10-15% and final tax structure (tax is based on revenue, thus no tax-shield from interest costs), delays in payments could increase financing cost and thus significantly impact profitability. Moreover, it is standard practice for clients to retain 5% of the contract value for a year after a project is completed. IDPR has lower collection risk as it collects its retention payment earlier due to its shorter project life cycle.

IDPR has less cash flow risk as it is paid early in the construction process

Although receivable days of private contractors are relatively similar at ~30 due to monthly progress billings, much lower than for the SOE contractors, we think Indopora still has a lower cash-flow risk. It is paid early in the construction process and has shorter project lifecycles of <1 year, lowering the risk of delayed payments arising from clients' fund shortfall. In addition, the changes in mortgage disbursement in 2013 give developers an incentive to start foundation work early, as they could receive 50% of the mortgage fund disbursed when the foundation is finished. Developers also usually enjoy better selling prices when buyers see the start of construction.

Figure 5. Receivables & Due-from-Customer Days



*includes trade receivables, due from customers, advances, and projects in construction
Source: Citi Research

Attractive valuation with superior margins

Indopora is trading at 12.5x 16E PE vs. 14.4x for ACST

Indopora is currently trading attractively at 12.5x 2016E PE vs 14.4x for ACST. Other private contractors are trading at 10x 2016E PE. We believe Indopora deserves to trade at a premium due to its superior margins, size & liquidity, strong balance sheet, and leadership in the foundation sector. SOE contractors are trading at 22-23x 2016E PE.

Indopora position is unique. Closest comp is ACST, but majority of ACST work is now structure construction.

Our DCF-based TP of Rp2,135/sh translates to 15x mid-2017E PE. EBITDA CAGR for 2015-25E is 11%. We use a WACC of 14.4% assuming a risk-free rate of 7.5%, market risk premium of 6% and beta of 1.2x (average of other private contractors such as NRCA, ACST, and TOTL, as Indopora does not have a long trading history).

Indopora is unique in that it is the only listed foundation specialist in Indonesia. Indopora also has the biggest market cap (US$250mn) and is the most liquid (~US$400k ADV) of the private contractors. Close-comp ACST is now more a structure contractor and only ~20/30% of its new contracts/revenues come from foundation works (vs. 100% for Indopora). ACST also had lower GP/EBIT/Net margins of 17/10/3% vs. Indopora's 29/22/20% in FY15. Other private contractors are NRCA and TOTL, which also have lower GP/EBIT margins of ~10%/5%.

Figure 6. IDPR – WACC Assumptions

Risk-free rate	7.5%
Market risk premium	6.0%
Final Beta	1.2
Cost of equity	14.7%
Cost of debt	12.0%
Weighted cost of equity	90%
Weighted cost of debt	10%
WACC	14.4%

Source: Citi Research

Figure 7. IDPR: DCF Valuation

DCF (Rpbn)	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	TV
EBITDA	445	539	647	697	747	783	832	883	934	986	11%
Growth %	22%	21%	20%	8%	7%	5%	6%	6%	6%	6%	
EBITDA margin %	31%	29%	29%	29%	30%	30%	30%	30%	30%	31%	
Change in working capital	25	(95)	(78)	(44)	(34)	(26)	(33)	(34)	(36)	(38)	
(As % of revenue)	2%	-5%	-4%	-2%	-1%	-1%	-1%	-1%	-1%	-1%	
Capex	(200)	(200)	(210)	(221)	(232)	(243)	(255)	(268)	(281)	(295)	
(as % of revenue)	-14%	-11%	-10%	-9%	-9%	-9%	-9%	-9%	-9%	-9%	
Tax	(44)	(55)	(66)	(72)	(76)	(80)	(84)	(88)	(92)	(97)	
(as % of revenue)	-3.0%	-3.0%	-3.0%	-3.0%	-3.0%	-3.0%	-3.0%	-3.0%	-3.0%	-3.0%	
FCF	226	189	293	361	406	435	461	493	525	557	6,197
Growth %	-360%	-16%	55%	23%	13%	7%	6%	7%	6%	6%	
Discounted FCFF	226	165	223	241	237	222	205	192	178	165	1,842
Terminal growth rate (%)	5%										
PV of unlev FCFF	3,897										
Net (Debt)/Cash	380										
NPV of Equity	4,277										
No of Share (current)	2.003										
NPV /sh	2,135										

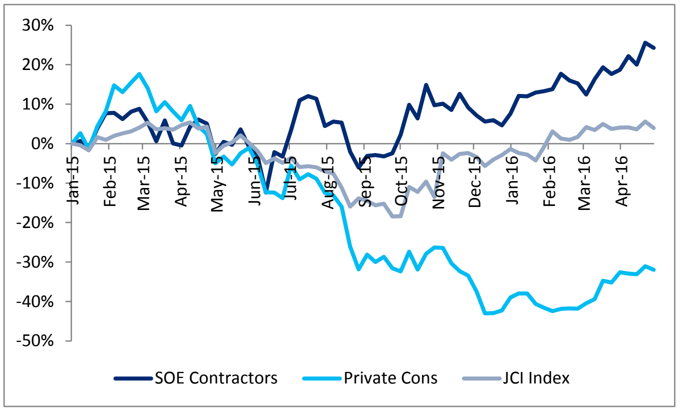
Source: Citi Research estimates

Figure 8. Regional Comps

Company Name	Reuters	Price	Mkt Cap	Risk/	TP	ETR	EPS GROWTH		P/E		P/B		DIV	ROE	ADT3M
5/3/2016	Ticker	(LCY)	US$'M	Rating	(LCY)	%	16E	17E	16E	17E	16E	17E	16E	16E	($mn)
Indo private contractors															
Indonesia Pondasi Raya Tbk PT	IDPR.JK	1,615	245	1	2,135	34.3%	-50%	23%	12.7	10.3	2.7	2.3	2.1%	24%	0.4
Acset Indonusa Tbk PT	ACST.JK	3,450	131	NR	NA	NA	184%	43%	14.4	10.1	2.3	1.9	0.5%	17%	0.1
Nusa Raya Cipta Tbk PT	NRCA.JK	600	114	NR	NA	NA	-23%	19%	10.1	8.5	1.2	1.1	3.2%	13%	0.1
Total Bangun Persada Tbk PT	TOTL.JK	705	182	NR	NA	NA	23%	18%	10.2	8.7	2.3	2.1	5.0%	25%	0.4
Weighted Average			672				20%	25%	11.9	9.5	2.3	1.9	3%	21%	0.3
Infra-related names															
Adhi Karya (Persero) Tbk PT	ADHI.JK	2,620	708	1	3,050	17.2%	76%	36%	14.9	10.9	1.8	1.6	0.8%	13%	4.9
Pembangunan Perumahan (Persero) Tbk PT	PTPP.JK	3,660	1,345	1	4,825	32.5%	46%	26%	18.8	14.9	4.8	3.8	0.7%	29%	1.9
Wijaya Karya (Persero) Tbk PT	WIKA.JK	2,610	1,218	1	3,375	30.1%	30%	46%	20.4	14.0	3.2	2.7	0.8%	17%	3.1
Waskita Karya (Persero) Tbk PT	WSKT.JK	2,390	2,461	2	1,825	-23.2%	39%	30%	33.8	25.9	3.4	3.0	0.4%	11%	5.0
Jasa Marga (Persero) Tbk PT	JSMR.JK	5,475	2,825	1	6,500	19.6%	17%	-6%	21.8	23.2	3.1	2.8	0.8%	15%	2.7
Wijaya Karya Beton Tbk PT	WTON.JK	950	628	NR	NA	NA	76%	15%	24.5	21.4	3.4	3.0	0.8%	13%	1.6
Weighted Average			9,184				37%	20%	24.0	20.4	3.4	2.9	1%	16%	3.3
Regional Peers															
IJM Corporation Bhd	IJMS.KL	3.45	3,169	1	4	21.9%	-37%	3%	15.8	15.4	1.1	1.1	2.2%	10%	4.8
Gamuda Bhd	GAMU.KL	4.75	2,934	1	6	25.7%	-6%	7%	18.6	17.5	1.7	1.6	2.5%	11%	5.4
Sino Thai Engineering and Construction	STEC.BK	22.90	1,002	NR	NA	NA	8%	18%	27.9	23.6	3.5	3.2	1.7%	13%	6.7
Italian Thai Development PCL	ITD.BK	7.10	1,076	NR	NA	NA	6%	122%	142.0	64.0	2.7	2.7	0.3%	4%	13.2
CH Karnchang PCL	CK.BK	25.25	1,227	NR	NA	NA	-36%	18%	30.8	26.1	2.0	1.9	1.5%	7%	10.6
GMR Infrastructure Ltd	GMRI.BO	12.65	1,151	2	NA	NA	81%	58%	(14.8)	(35.7)	1.2	1.2	0.0%	-8%	0.3
Kinhbac City Development Holding Corp	KBC.HM	13,800	291	NR	NA	NA	19%	66%	8.5	5.1	0.9	1.0	0.0%	12%	0.6
Weighted Average			10,850				-6%	26%	28.4	17.0	1.7	1.7	2%	8%	6.0

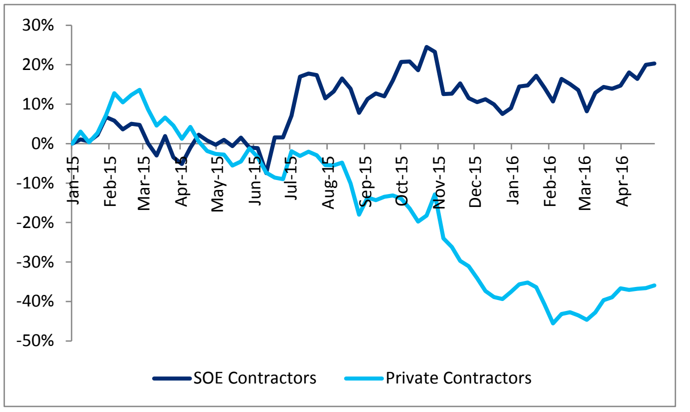
Source: Citi Research estimates, IBES estimates

Figure 9. Absolute Performance of Contractors



Source: Bloomberg, Citi Research

Figure 10. Private Contractors' Relative Performance to JCI



Source: Bloomberg, Citi Research

Robust growth potential

New-contracts growth is main catalyst for Indopora

With an already-high margin and dominance in the foundation sector, the main catalyst for Indopora is more new contracts. Although Indopora has done foundation work for infrastructure projects, the main driver of new contracts is a pick-up in the property segment, especially in high-rises. Back-tests on data from 2011 to 2015 show a close correlation between high-rise presales of developers and Indopora's new contracts (0.9x), with a 2x multiplier effect.

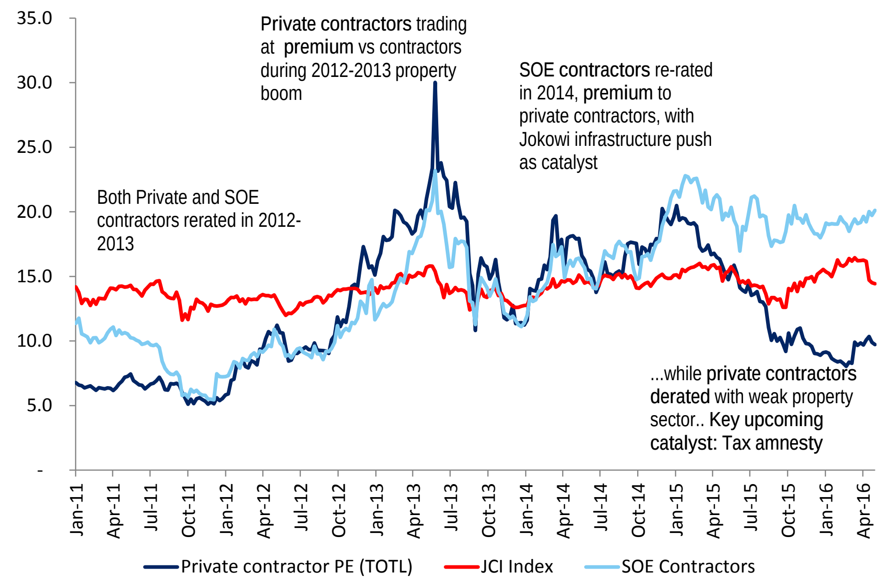
Expect property market to pick up in 2H due to low interest rate and tax amnesty

As discussed in our report, we expect the property market to pick up this year as it benefits from low interest rates and likely passing of the tax amnesty bill. The central bank has cut the BI rate by 75bps YTD and banks have started to offer attractive single-digit mortgage rates. We continue to expect tax amnesty in 2Q16 (IWhat Factors to Look for? Tax Amnesty Is the Most Important), which is expected to give a boost to the property market in 2H16. One of the main reasons for the slowdown in the property market in 2015 was tax issues. With the tax amnesty, although the government is planning to lock the reported asset for the first 2-3 years in a specific investment instrument, buyers will now be able to declare their previous under-reported assets to increase their asset buying power, and thus could buy properties without the scrutiny of the tax office, leading to a positive boost to new property launches and pre-sales from 2H16 onward (Tax Amnesty – Government is Pushing Hard for Action).

Indopora's contract growth is less sensitive during weak markets

The average multiplier of developers' high-rise presales growth to Indopora's new-contracts growth has been ~2x in the past four years. During boom times in 2012-13, the multiplier effect was stronger at 2.6-5.0x; and during weak property markets, as in 2015, IDPR's new contracts are much less sensitive and decline at a more modest pace. Supporting attributes include IDPR's dominant positioning in the foundation market and repeat customers. We have assumed 20/30/28% growth in IDPR's new contracts in 2016/17/18E, which implies a relatively modest multiplier of ~1.5-1.7x of contracts to presales growth.

Figure 11. Tax Amnesty to Be Key Upside Catalyst for Indopora and Private Contractors



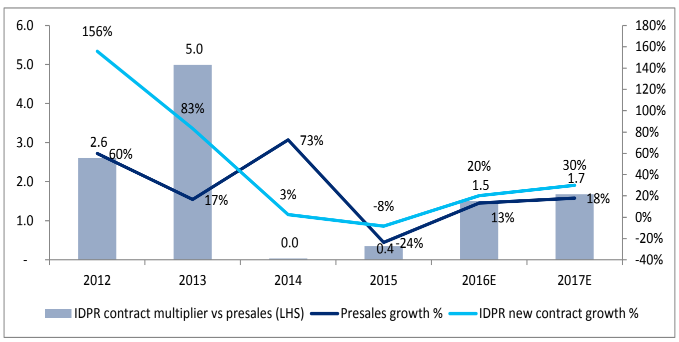
Source: IBES, Citi Research

Figure 12. IDPR Contracts Highly Correlated to Property Sector

Presales - high-rise only (Rpbn)	2011	2012	2013	2014	2015	2016E	2017E
BSDE	19	254	339	317	655	1,674	2,029
DILD	477	753	1,314	1,614	899	979	1,867
LPKR	1,286	1,601	1,777	3,065	1,910	2,148	2,418
PWON*	1,078	1,826	2,323	2,346	1,608	2,135	2,472
SMRA	296	610	132	2,817	2,680	1,854	1,577
Total Covered	3,156	5,043	5,886	10,159	7,752	8,790	10,362
% growth	na	60%	17%	73%	-24%	13%	18%
IDPR new contracts	265	677	1,241	1,272	1,165	1,400	1,820
% growth	na	156%	83%	3%	-8%	20%	30%
Multiplier - IDPR contract vs Presales growth(x)		2.6	5.0	0.0	0.4	1.5	1.7

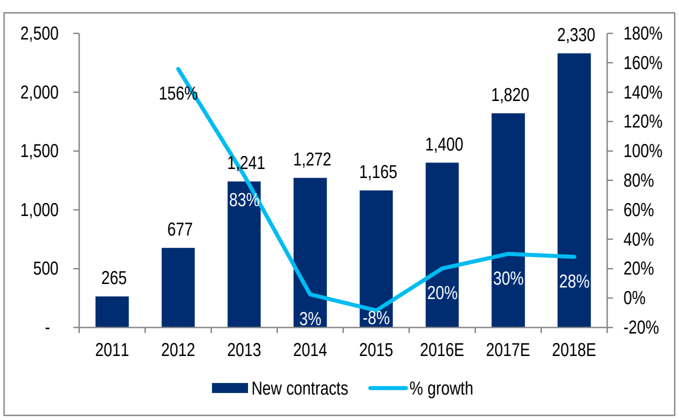
*CTRA excluded from presales analysis due to distortion in 2013 high-rise presales
Source: Citi Research estimates

Figure 13. Correlation of High-rise Presales Growth vs IDPR's Contracts



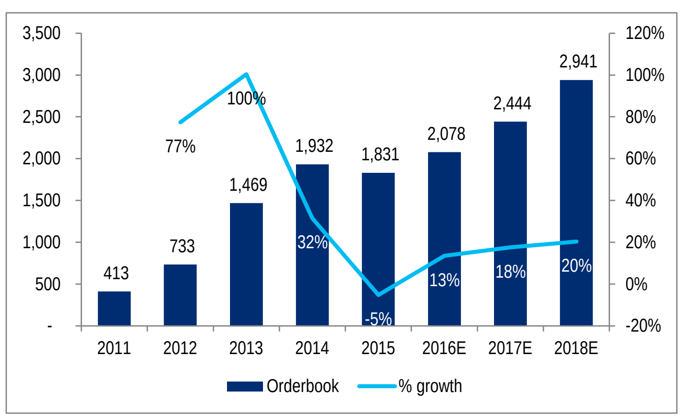
Source: Citi Research estimates

Figure 14. New Contracts Estimates & Growth



Source: Company, Citi Research estimates

Figure 15. Orderbook Estimates & Growth



Source: Company, Citi Research estimates

Limited competition – machineries and human capital act as entry barriers

Most structure contractors do not undertake foundation works

Most upper-structure builders prefer to contract-out foundation work to specialist such as Indopora. Indonesia has few high-rise foundation players. We think the limited competition has got to do with barriers of entry such as human capital, equipment and smaller contract size, and the importance of track record and quality.

Figure 16. Indopora: Foundation Specialist

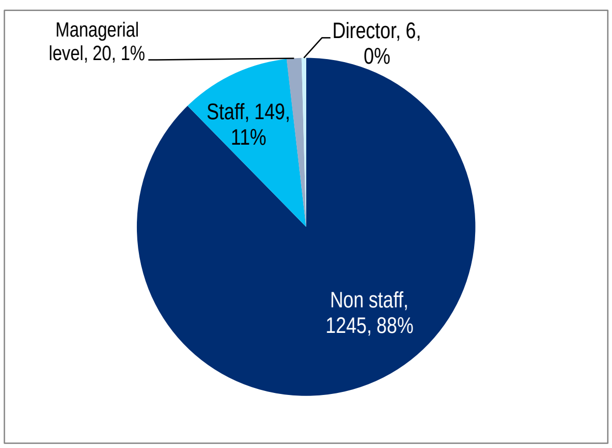
Foundation contractors	Year est.
Indopora	1977
Acset	1995
Bauer Indonesia (part of Germany's Bauer Group)	Bauer group founded in 1790
Pratama Widya	1980
Berdikasi Pondasi Perkasa	1984
Trocon Indah Perkasa	1992
Samudra Persada Perdana	1995

Source: Citi Research

Foundation works have a heavier focus on equipment, as machineries needed for foundation usually vary and are more project-specific. This, combined with the small size of foundation contracts relative to the overall construction, means leasing options are limited. Contractors thus usually buy their own machines to have more flexibility. Structure contractors find it better off to sub-contract foundation works to a specialist and reallocate capital elsewhere. Specialists have a steadier stream of foundation projects, ensuring higher utilization and efficiency of the wide variety of machines. Indopora owns the most complete and sophisticated machineries and has its own workshop, giving it quicker maintenance and repair service.

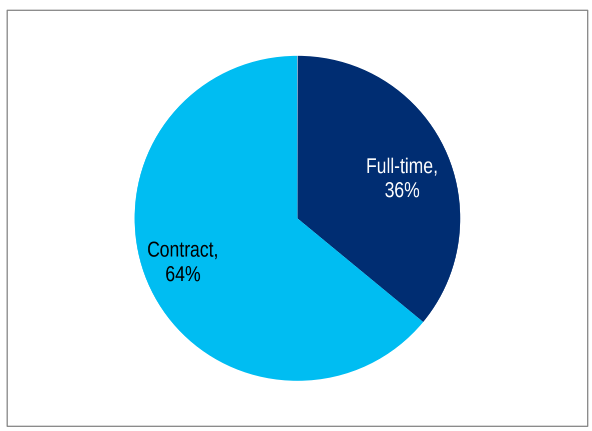
Human capital is another crucial entry barrier to the foundation segment, particularly the machine operators. Foundation works are dependent on machineries, and the productivity and timeliness of work done are heavily dependent on machine operators. As foundation machineries are usually more specialized than excavators/trucks, it needs more time (~5years) and experience to train a new machine operator. Indopora's machine operators are full-time permanent staff, rather than contract workers, and the company has stated that the operators are one of its most important human resources. Indopora has low staff turnover, with 36% of its employees full-time staff and 64% on contract. IDPR management has extensive experience in foundation, with almost all its members having ~20 years of experience in Indopora and the foundation industry.

Figure 17. Indopora's Employees



Source: Company

Figure 18. Machine Operators are Hired as Full-time Permanent Stuff



Source: Company

Quality reflected in >75% repeat customers

Around 75% of projects are from repeat customers. Clients include well-known developers, SOEs and MNCs

Indopora's clients are unlikely to compromise on quality and track record. Indopora is the biggest foundation specialist in Indonesia, founded in 1977, and has been in the business for over 38 years. We believe its reputation for quality is reflected by the company's track record of past and repeat customers, which include many well-known developers and contractors – SOEs, foreign and private-sector clients. Around 75% of Indopora's projects are from repeat customers.

Figure 19. Indopora's Client Portfolio – Leading property developers...

Source: Company

Figure 20. ...including local SOEs and multinational companies

Source: Company

Financials

Strong balance sheet, declining gearing

Indopora has 7% gross gearing and is in a net cash position post IPO

Gearing expected to be on a declining trend as no significant capex needs

Indopora has a strong balance sheet and is in a net-cash position after raising Rp388bn from an IPO at end-2015. Its gearing ratio has been declining in the past few years and its gross/net gearing is 7%/-22% as of FY15. We expect gearing to continue to decline in the absence of significant capex or cash flow needs going forward. Its normal capex need is around Rp150bn/year, mainly to buy new equipment, which could be financed by internal cash flow. For expansion of its pre-cast segment, Indopora has allocated 11% (Rp42bn) of its IPO proceeds. With the pre-cast expansion, we have assumed capex of Rp200bn/yr in 2016 and 2017. Dividend payout is assumed at 30%, slightly lower than last year's 40%.

Figure 21. IDPR – IPO Proceeds Allocation

IPO Proceeds usage	% allocation	Rpbn
Capital expenditure (machineries)	41%	157
Increase investment in precast subsidiary	11%	42
Acquisition of land already being used by company located in Pegangsaan Dua, Kelapa Gading	24%	92
Additional working capital	25%	97
Total	100%	388

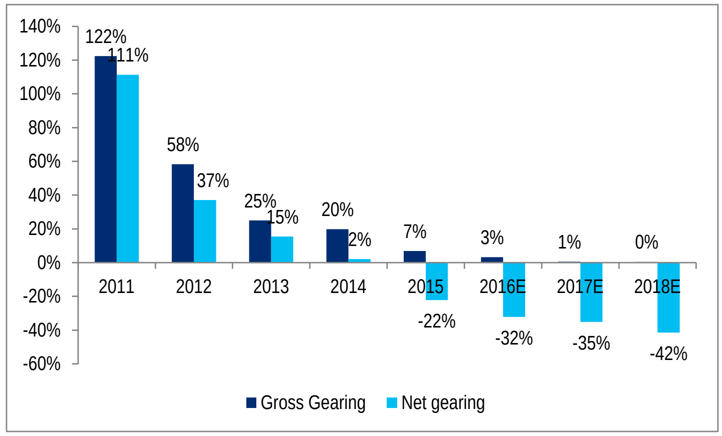
Source: Company

Figure 22. IDPR – Contract & Orderbook Assumptions

Rpbn	2011	2012	2013	2014	2015	2016E	2017E	2018E
Carryover	149	56	228	660	666	678	623	593
% growth		-62%	306%	190%	1%	2%	-8%	-5%
New contracts	265	677	1,241	1,272	1,165	1,400	1,820	2,330
% growth		156%	83%	3%	-8%	20%	30%	28%
Orderbook	413	733	1,469	1,932	1,831	2,078	2,444	2,941
% growth		77%	100%	32%	-5%	13%	18%	20%

Source: Company, Citi Research

Figure 23. IDPR – Net Cash Position, Declining Net Gearing



Source: Company, Citi Research estimates

Precast expansion

Precast focuses on smaller residential pilings

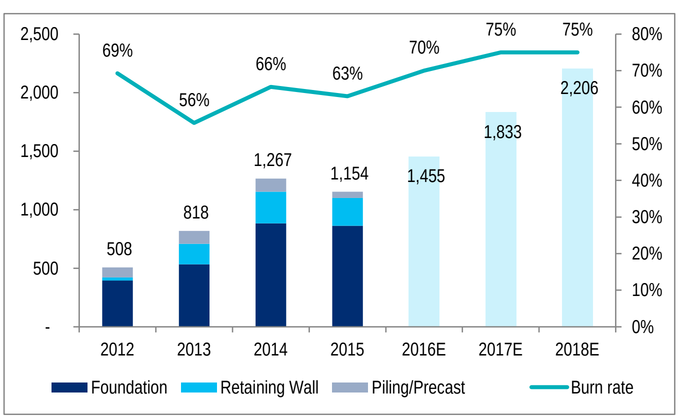
Indopora's precast subsidiary, Rekagunatek, mainly produces precast piling. It approximately contributes 5-10% of IDPR revenues, and has almost similar external sales and internal usage. However, its external piling sales are mainly smaller pilings used for residential houses.

Precast expansion will focus on more high-tech and custom precast products for structural building components

Going forward, Indopora plans to expand its precast subsidiary by venturing into more high-tech and custom pre-cast products, such as precast components used for upper-structure building construction (e.g., walls, floors, façade walls). Construction using pre-cast building components require much less labour and time than conventional methods, which makes it popular in more developed countries such as Singapore. Indopora will be one of the first contractors to produce such pre-cast products in Indonesia. Management sees the market as promising due to rising labour costs and the government's push to reduce massive housing backlog in Indonesia. Summarecon will be one of Indopora's first customers to use the pre-cast to construct its Midtown apartment in Bekasi. Indopora has allocated Rp80-100bn capex to set up the new precast expansion, partly financed by its IPO proceeds, and is currently awaiting delivery of the machine.

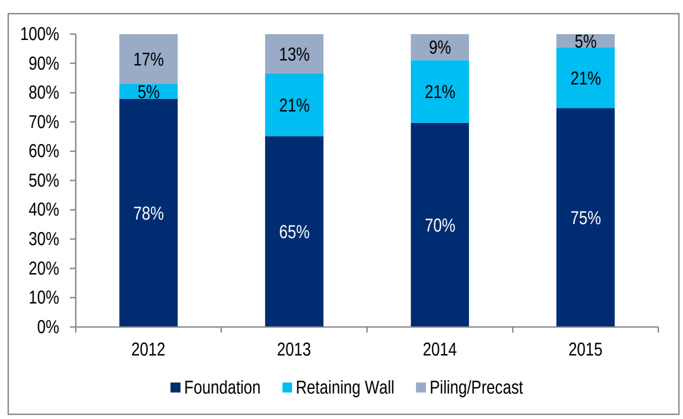
Revenue & cost drivers

Figure 24. Revenue & Burn Rate Assumptions



Source: Company, Citi Research estimates

Figure 25. Cost Breakdown



Source: Company, Citi Research

- ~90% of Indopora's revenues are contributed by foundation & retaining wall services and ~10% by pre-cast subsidiary Rekagunatek. As Rekagunatek's external sales mainly consist of piling sales for residential homes, the division revenue/new contract contribution declined -54%/-38%yoy respectively in 2015. Going forward, foundation & retaining wall services are expected to continue making up the majority of revenues. Revenue burn rate is also expected to return to 70/75% in 2016/17E as Indopora has more capacity to clear backlog and accelerate its revenue burn rate.

- Raw materials make up the majority of IDPR's costs, comprising ~60% of COGS. Despite the significant material cost, margins volatility due to raw material prices is likely to be limited as raw materials for some contracts are provided by clients. Indopora's project cycle is also shorter, at <1 year, compared to structure construction projects. The next major cost item is machine depreciation, at ~10% of COGS. Sub-contractors and direct labour each account for 8-10% of COGS. The significant increase in the IDPR margin in 2015 was mainly due to the contract mix, more service component and less raw materials. However, management has guided that the jump is unsustainable and will likely revert to around 25%, which is the minimum margin IDPR charges on all its contracts. We expect IDPR's GPM to revert to 27%/26% in 2016/17E and 25% in the long-term, which has been IDPR's average margin in the past few years.

Figure 26. IDPR – Income Statement

Rpbn	2011	2012	2013	2014	2015	2016E	2017E	2018E
Sales revenue	357	508	818	1,267	1,154	1,455	1,833	2,206
Growth %	71%	42%	61%	55%	-9%	26%	26%	20%
Cost of goods sold	(265)	(390)	(590)	(957)	(815)	(1,062)	(1,356)	(1,632)
Gross profit	92	117	228	309	338	393	477	573
Growth %	166%	28%	95%	35%	9%	16%	21%	20%
Gross margin %	26%	23%	28%	24%	29%	27%	26%	26%
Operating expenses	(33)	(28)	(41)	(67)	(79)	(95)	(114)	(134)
EBIT	59	89	188	242	259	298	363	439
Growth %	460%	51%	111%	29%	7%	15%	22%	21%
EBIT margin %	17%	18%	23%	19%	22%	20%	20%	20%
EBITDA	59	130	244	340	363	445	539	647
Growth %	0%	0%	88%	40%	7%	22%	21%	20%
EBITDA margin %	0%	26%	30%	27%	31%	31%	29%	29%
Other income (expenses)	1	0	(0)	1	12	-	-	-
Finance income	0	0	0	1	4	8	10	13
Finance expenses	(7)	(10)	(9)	(15)	(16)	(6)	(3)	(1)
Income before tax	53	80	179	229	259	299	370	452
Tax expenses	(1)	(15)	(29)	(41)	(32)	(44)	(55)	(66)
As a % of revenue	-0.1%	-3.0%	-3.5%	-3.2%	-2.7%	-3.0%	-3.0%	-3.0%
Minority interest	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
NPAT	53	64	150	188	228	255	315	385
Growth %	1351%	22%	134%	25%	21%	12%	23%	22%
Margin %	15%	13%	18%	15%	19.7%	17.6%	17.2%	17.5%

Source: Company, Citi Research estimates

Figure 27. IDPR – Balance sheet

Rpbn	2011	2012	2013	2014	2015	2016E	2017E	2018E
Cash and cash equivalents	9	29	27	83	288	418	507	718
Trade receivables	42	41	56	196	96	121	152	183
Retention receivables	4	9	6	32	104	131	165	181
Due from customers	46	81	58	138	334	299	377	453
Inventories	15	24	26	87	69	90	115	139
Other current assets	37	17	33	16	23	26	29	33
Total current assets	152	201	205	552	914	1,085	1,346	1,708
Fixed assets (net)	93	140	316	350	467	521	544	547
Investment property (net)	1	21	21	21	-	0	0	0
Investment in associates	2	2	-	-	-	-	-	-
Total non-current assets	96	162	337	370	467	521	544	547
Total assets	249	363	542	922	1,381	1,605	1,890	2,254
Trade payables	45	72	133	163	130	175	223	268
Advance from customers	3	36	7	102	86	108	136	164
Other current liabilities	14	17	18	46	35	35	35	35
Current maturities of bank loans	72	67	41	50	40	20	-	-
Total current liabilities	134	192	198	362	291	337	394	467
Consumer finance payables (LT portion)	-	-	0	13	27	27	27	27
Bank loans (LT portion)	23	12	31	43	28	18	8	8
Employees' benefit liabilities	14	24	24	36	43	43	43	43
Total non-current liabilities	37	36	55	91	98	88	78	78
Total liabilities	171	228	254	453	389	426	472	545
Share capital	1	1	1	1	200	200	200	200
Share premium	-	-	-	-	340	340	340	340
Appropriated retained earnings	-	-	-	-	10	10	10	10
Unappropriated retained earnings	80	144	294	482	457	644	882	1,173
Loss on employee benefit liabilities	(4)	(11)	(7)	(15)	(16)	(16)	(16)	(16)
Total equity	77	135	288	469	992	1,179	1,417	1,707
Minority interest	0	0	0	0	1	1	1	2
Total equity + MI	77	135	289	469	992	1,180	1,418	1,709

Source: Company, Citi Research estimates

Figure 28. IDPR – Cashflow Statement

Cashflow statement (in RpBn)	2011	2012	2013	2014	2015	2016E	2017E	2018E
EBITDA	59	130	244	340	363	445	539	647
(Incr.)/Decr. in Current Assets	(58)	(29)	(6)	(291)	(157)	(41)	(172)	(151)
Incr./(Decr.) in Current Liabilities	(7)	63	32	154	(61)	67	77	73
Incr./(Decr.) in Working Capital	(65)	34	27	(137)	(217)	25	(95)	(78)
Operating Cash Flow	(6)	164	270	204	146	470	444	569
Net Interest	(6)	(10)	(9)	(14)	(12)	1	7	12
Tax	(1)	(15)	(29)	(41)	(32)	(44)	(55)	(66)
Other Income and Cash Adjustment	-	0	0	(0)	13	-	-	-
Operating Free Cash Flow	(13)	139	233	148	116	427	396	515
(Incr.)/Decr. in Fixed Assets	(19)	(107)	(232)	(132)	(201)	(200)	(200)	(210)
(Incr.)/Decr. in Other Assets	1	1	2	-	-	-	-	-
Cash Flow from Investing	(19)	(106)	(231)	(132)	(201)	(200)	(200)	(210)
Net Free Cash Flow	(31)	33	2	16	(85)	227	196	305
Dividends	-	-	-	-	(74)	(68)	(77)	(94)
Incr./(Decr.) in Debts	26	(16)	(7)	21	(25)	(30)	(30)	-
Incr./(Decr.) in Other Financing	11	9	0	24	22	(0)	(0)	(0)
Incr./(Decr.) in Share Capital	(4)	(7)	4	(8)	370	-	-	-
Incr./(Decr.) in Minority interest	0	0	0	0	0	0	0	0
Adjustment in Foreign Exchange	-	(0)	(0)	2	(1)	-	-	-
Cash Flow from Financing	34	(13)	(3)	39	291	(98)	(107)	(94)
Change in Cash Position	2	20	(1)	56	205	129	90	211
Cash Position B/F	6	9	29	27	83	288	418	507
Cash Position C/F	9	29	27	83	288	418	507	718

Source: Company, Citi Research estimates

Key risks

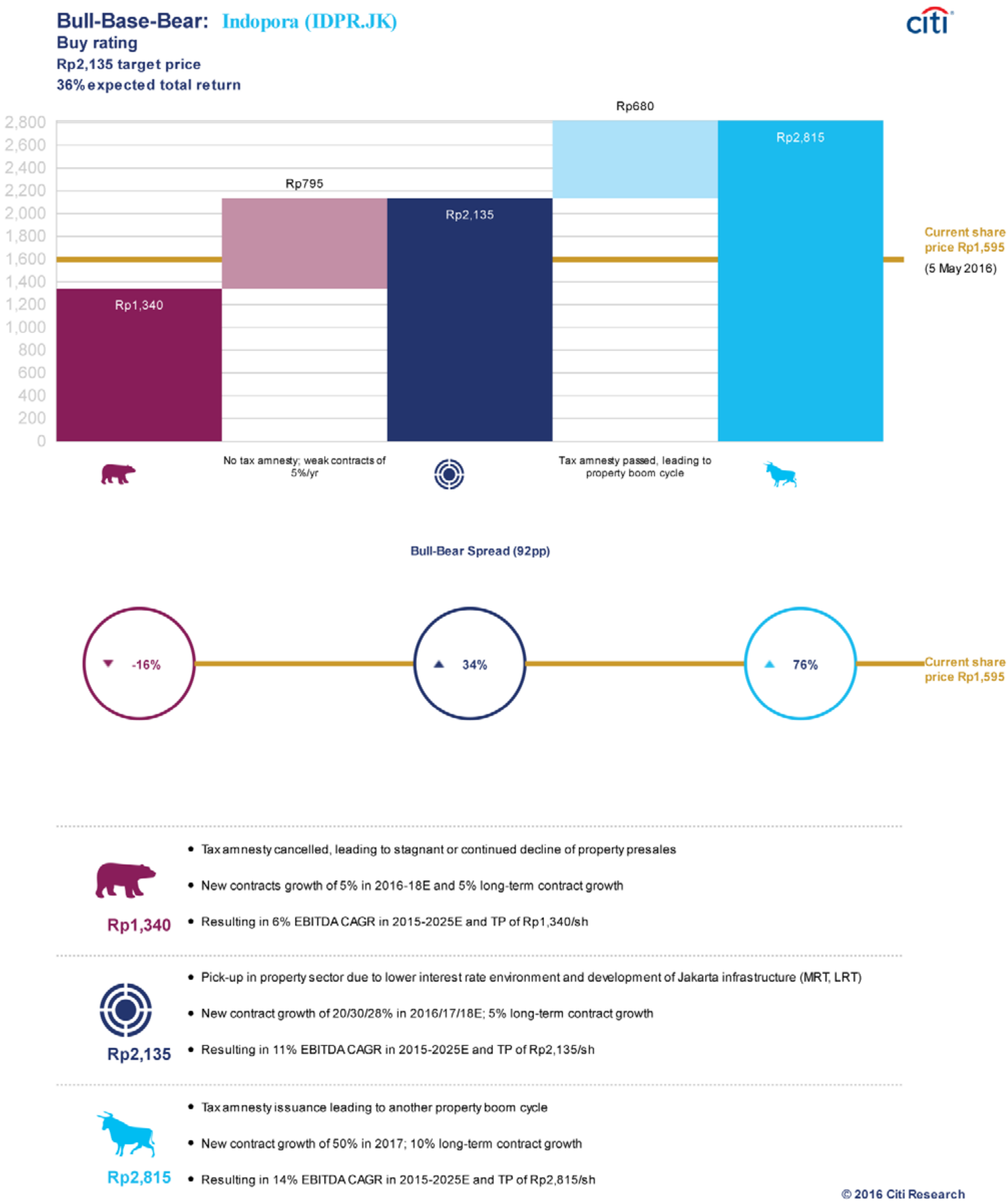
- **Weaker than expected new contracts** – New contracts are one of Indopora's main earnings catalysts. If tax amnesty is not issued and the property market does not pick up, IDPR may not achieve 20/30% new-contracts growth in 2016/17E. Based on our sensitivity analysis, a 5% change in 2016E new-contracts growth could impact 2016/17E earnings by 3/4%.

- **Weaker margins** – In the past five years, Indopora's GPM has ranged between 23% and 29%. Based on our sensitivity analysis, every 100bp change in Indopora's GPM in 2016/17E would impact earnings 6%.

- **High turnover of machine operators and other key staff** – This will impact Indopora's capacity to take on new projects as well as its efficiency.

Bull-base-bear analysis

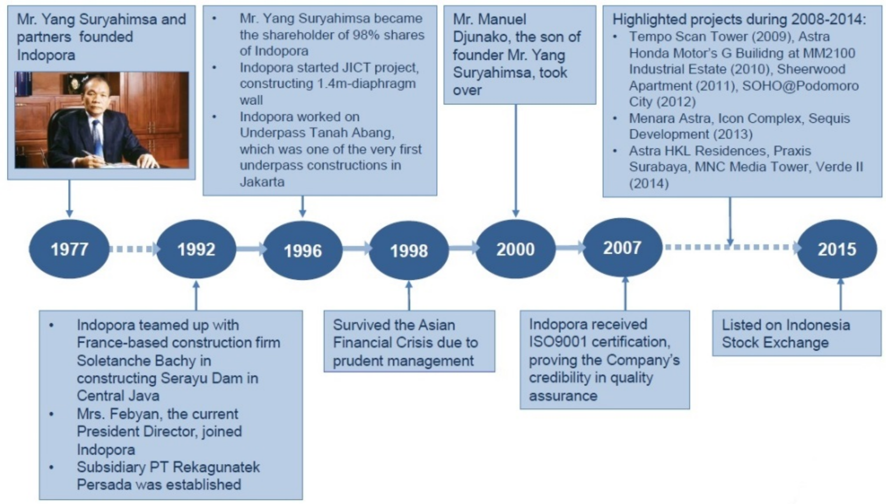
Figure 29. IDPR: Bull-Base-Bear Analysis



Source: Citi Research

Key milestones

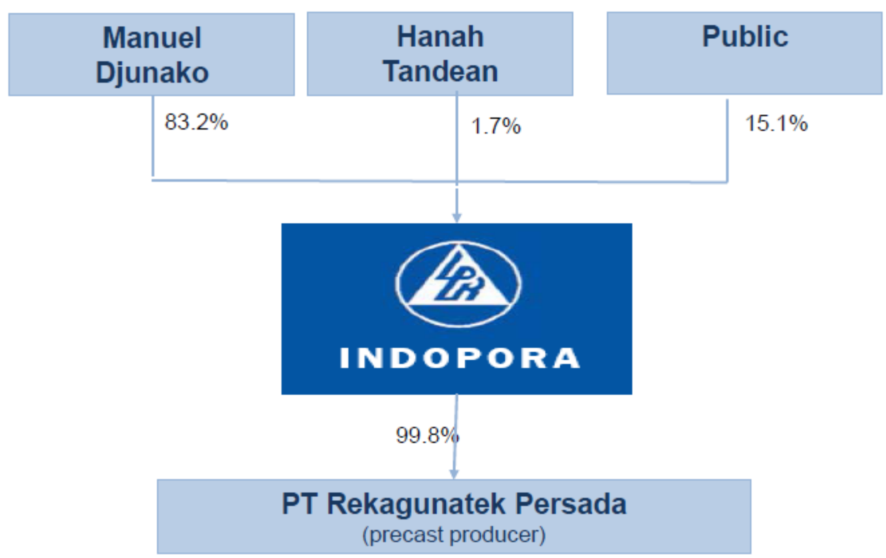
Figure 30. IDPR – Key milestones, >38 years in foundation sector



Source: Company

Company structure

Figure 31. IDPR Shareholding Structure



Source: Company

Management team

Figure 32. Indopora Management Team

Name	Position	Details
Board of Commissioners		
Manuel Djunako	President Commissioner	Joined Indopora since 2000. Previous position at Indopora: Director (2000-2015)
		Currently serves as President Commissioner at PT Rekagunatek Persada, PT Indonesia Travel Raya, and Commissioner at PT Indonesia Bhakti Utama
		Earned Bachelor of Science and Bachelor of Engineering from University of Auckland
Wiro Atmojo Wijaya	Independent Commissioner	Joined Indopora since August 2015
		Currently serves as Director PT Djasa Ubersakti, Director at PT Wanajaya Nusantar Prima Agro and Senior Advisor at PT Bina Nusantara Anugrah Utama
		Obtained Bachelor Degree of Civil Engineering from SSTN Cikini Jakarta
Board of Directors		
Febyan	President Director	Joined Indopora since 1992. Previous position at Indopora: Operational Manager (1992-2000), General Manager (2000-2015)
		Currently serves as President Commissioner at PT Indonesia Bhakti Utama and Commissioner at PT Rekagunatek Persada
		Obtained Bachelor Degree and Master Degree of Civil Engineering from Trisakti University
Albertus Gunawan	Marketing Director	Joined Indopora since 1992.
		Previous position at Indopora: Site Engineer (1992-1994), Site Manager (1995-1997), Project Manager (1998-2000), Operational Manager (2003-2005), Marketing Manager (2005-2015)
		Obtained Bachelor of Civil Engineering from Trisakti University
Heribertus Herry Putranto	Operational Director	Joined Indopora since 1995
		Previous position at Indopora: Site Engineer (1996-1997), Site Manager (1997-1998), Project Manager (2000-2005), Operational Manager (2005-2015)
		Obtained Bachelor of civil Engineering from Atmajaya University
Dwijanto	Finance Director	Joined Indopora since August 2015
		Previous position: Head of Corporate Division, Corporate Secretary and Investor Relations at PT Ramayana Lestari Sentosa (1999-2004, 2013-2015), EVP Corporate Planning, Corporate Secretary and Investor Relations at PT Clipan Finance Indonesia (2004-2013)
		Obtained Bachelor of Civil Engineering from Trisakti University and MBA from Central Oklahoma University

Source: Company

Indopora

Company description

Founded in 1977, Indopora is Indonesia's largest foundation specialist predominantly serving a large number of repeat clients that range from SOEs to private developers and international MNCs. Services include foundation construction, retaining walls, ground improvement, pre-cast, pile testing and others. The company was listed on the IDX at end-2015.

Investment strategy

We rate Indopora a Buy, expecting it to benefit from its leading position in the foundation services, which command higher margins and carry less cash flow risk than building of structures. Indopora's GPM of ~25% is higher than peers' 10-15%, and average net margin of 15% beats competitors' ~5%. The company will also be a key beneficiary of the expected pick-up in property sales on low interest rates and passing of the tax amnesty bill.

Valuation

Our DCF-based target price of Rp2,135/share for Indopora implies 15.1x Jun 2017E PE, with an earnings CAGR of 23% in 2016-18E. We use a WACC of 14.4% assuming a risk-free rate of 7.5%, market risk premium of 6% and beta of 1.2x (average of other private contractors such as NRCA, ACST, and TOTL, as Indopora does not have a long trading history).

Risks

Although our quant model assigns a default High Risk for stocks with trading histories of less than a year, we think it is unwarranted for Indopora in light of its dominant position in the sector and strong margins. The key downside risks that could prevent the Indopora stock from reaching our target price include: 1) weaker than expected new-contracts growth; 2) a significant slowdown in the property sector; 3) lower than expected margins; and 4) the Tax Amnesty Bill falls through.

Appendix A-1

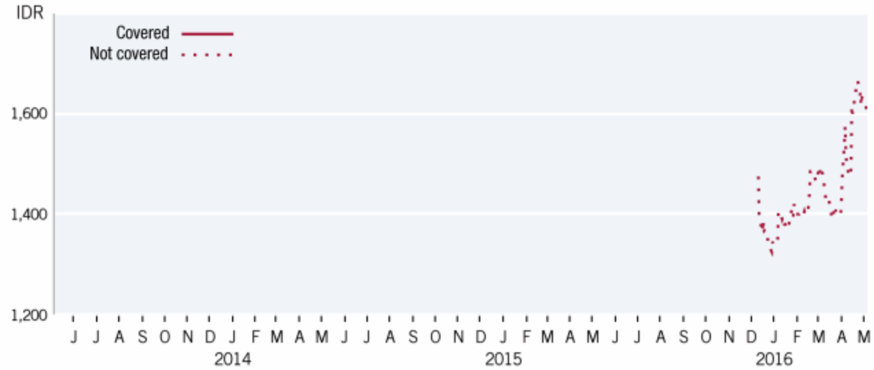
Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

Indopora (IDPR.JK)

Ratings and Target Price History
Fundamental Research



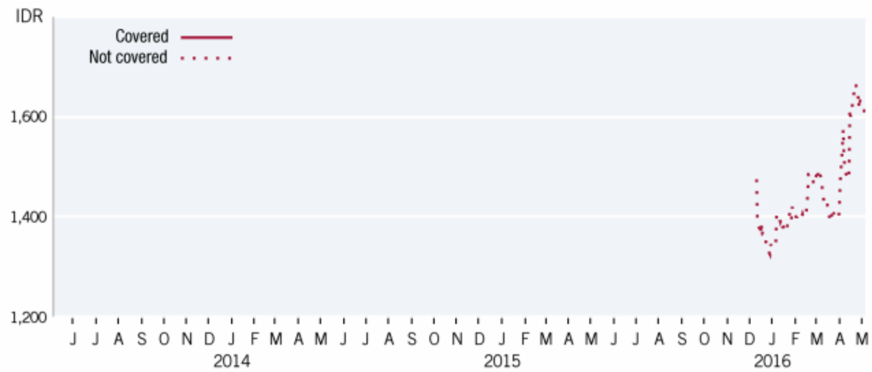
	Date	Rating	Target Price	Closing Price
1	08-Oct-11	Stock rating system changed		

*Indicates Change

Rating/target price changes above reflect Eastern Standard Time

Indopora (IDPR.JK)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)



*Indicates Change

Rating/target price changes above reflect Eastern Standard Time

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	12 Month Rating		
Data current as of 31 Mar 2016	Buy	Hold	Sell
Citi Research Global Fundamental Coverage	48%	39%	13%
% of companies in each rating category that are investment banking clients	65%	62%	62%

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