



LIPPO MALLS INDO RETAIL TRUST | BUY

MARKET CAP: USD 799M

AVG DAILY TURNOVER: USD 0.7M

4 Apr 2017
Company Update

POSITIVE ON INDO RETAIL

- **Retail sales expected to grow 12% in 2017**
- **FY17F yield of 8.6%**
- **Re-iterate BUY**

Indicators look positive for Indonesia's retail sector

With the World Bank projecting Indonesia's GDP to grow 5.3% in 2017 and 5.5% in 2018 (Global Economic Prospects report - Jan 2017), the macroeconomic indicators underlying Indonesia's retail sector continue to look healthy. We note that Indonesia was ranked fourth globally in Nielsen's 4Q16 Consumer Confidence Report with an index score of 136, behind India, the Philippines, and the United States. With regard to Indonesia's retail sales, the Chairman of Aprindo, the Indonesian Retailers Association, expects to see a 12% growth to IDR 220tn in 2017, after retail sales expanded 10% to IDR 200tn in 2016.

Rental rates expected to remain stable in 2017

In 2017, we expect occupancy rates and rental rates to remain stable in Greater Jakarta, given the relatively muted supply pipeline this year (see appendix) as well as indicators of a healthy retail sector. On top of this, we expect Lippo Malls Indonesia Retail Trust (LMIRT) to enjoy strong rental reversions when 23% of their leases by NLA expire closer to the end of 2017. Beyond 2017, we see a risk of occupancy and rental reversion headwinds in 2019 as the annual retail supply is projected to increase by ~5% in Jakarta and by ~11% in Greater Jakarta according to Colliers. Nonetheless, we do note LMIRT's efforts to rejuvenate their malls, with asset enhancement initiatives at Gajah Mada Plaza (weighted average occupancy of 75.1% in 2016) and Plaza Semanggi (85.6% occupancy).

Trading at FY17F yield of 8.6%

In terms of corporate updates, Chan Lie Leng has been appointed the new CEO of LMIRT as of 16 March 2017, bringing with her more than 25 years of banking and corporate finance experience. As of yesterday's closing price of S\$0.395, LMIRT is currently trading at an attractive FY17F yield of 8.6% and a FY18F yield of 8.7%. We are positive on LMIRT given that Indonesia presents a healthy retail outlook and given the opportunity to attain further DPU growth this year through the upcoming lease expiries. We re-iterate our **BUY** rating with a fair value of S\$0.43.

Key financial highlights

Year Ended 31 Dec (S\$ m)	FY15	FY16	FY17F	FY18F
Total gross revenue	173.0	188.1	203.6	211.1
Total property expenses	-14.4	-16.2	-15.7	-16.5
Net property income	158.6	171.9	187.9	194.6
Amount avail. for distribution	85.6	95.5	95.6	97.3
DPU (S cents)	3.1	3.4	3.4	3.4
Cons. DPU (S cents)	na	na	3.4	3.5
DPU yield (%)	7.8	8.6	8.6	8.7
P/NAV (x)	1.0	1.0	1.0	1.0
ROE (%)	2.4	2.7	7.7	8.0
Gross gearing (%)	34.6	31.0	31.2	31.5

BUY (maintain)

Fair value	S\$0.43
add: 12m dividend forecast	S\$0.034
versus: Current price	S\$0.395
12m total return forecast	17%

Analysts

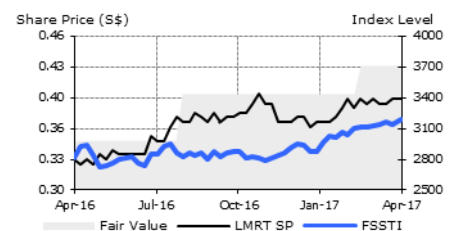
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Key information

Market cap. (m)	S\$1,115 / USD798.9
Avg daily turnover (m)	S\$1.0 / USD0.7
Avg daily vol. (m)	2.7
52-wk range (S\$)	0.32 - 0.4
Free float (%)	62.2
Shares o/s. (m)	2,824.0
Exchange	SGX
BBRG ticker	LMRT SP
Reuters ticker	LMRT.SI
SGX code	D5IU
GICS Sector	Real Estate
GICS Industry	REITs
Top shareholder	L. Karawaci - 25.0%

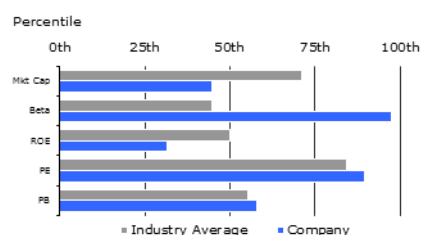
Relative total return	1m	3m	12m
Company (%)	5	21	19
STI-adjusted (%)	1	3	11

Price performance chart



Sources: Bloomberg, OIR estimates

Industry-relative metrics



Note: Industry universe defined as companies under identical GICS classification listed on the same exchange.
Sources: Bloomberg, OIR estimates



Exhibit 1: Indonesia's shopping centre rents still low amongst that of other Asia Pac cities

		Average Rent 4Q16 (USD per sqm per annum)	Quarterly Change 4Q16 vs 3Q16 (Local Currency)	Yearly Change 4Q16 vs 4Q15 (Local Currency)
Hong Kong	Central	15,294	0.0%	-2.3%
Sydney	CBD	5,756	0.2%	1.0%
Guangzhou	Tianhe CBD	5,325	0.2%	-0.3%
Melbourne	CBD	4,559	0.2%	0.8%
Brisbane	CBD	4,338	0.0%	0.0%
Shanghai	West Nanjing Road	4,303	-3.8%	-8.4%
Singapore	Orchard Area/District 9	3,990	-0.1%	-1.4%
Beijing	Wangfujing Road	3,459	0.3%	1.4%
Perth	CBD	2,350	0.0%	0.0%
Adelaide	CBD	2,166	0.0%	0.0%
Auckland	New Market	1,618	1.1%	5.7%
Mumbai	Prime South	1,316	0.0%	0.7%
Delhi	Prime South	1,249	0.0%	0.0%
Bengaluru	Prime City	886	0.0%	0.0%
Jakarta	CBD	680	0.0%	5.4%
Chennai	Prime City	662	0.0%	0.0%
Bangkok	Central Bangkok	640	-0.1%	0.8%
Manila	Makati CBD	568	2.0%	8.1%

Source: JLL (The Retail Index, Asia Pacific, 4Q16)

Exhibit 2: Geographical distribution of LMIRT's assets

▪ **Portfolio across Indonesia:**

- 10 malls across Greater Jakarta
- 2 malls in Bandung
- 3 malls in Medan
- 3 malls in Palembang
- 1 mall in Batu
- 1 mall in Bali
- 7 retail spaces

▪ **Assets Under Management:**

\$S1,949.4 million

Total NLA:

849,694 sqm

▪ **Portfolio Occupancy:**

94.3%

▪ **WALE (by NLA)**

4.51 years



Source: REIT Manager

Exhibit 3: LMIRT weighted average occupancy rates by asset

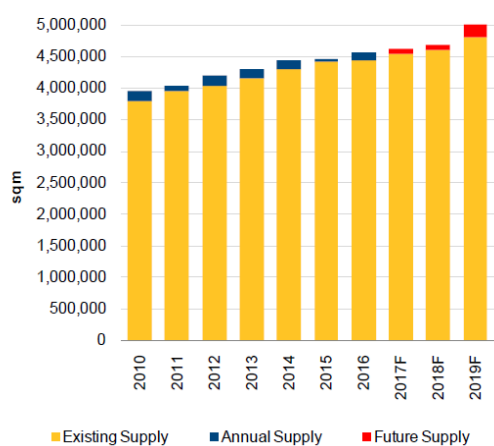
As of 31 December 2016, LMIRT's portfolio occupancy is 94.3%. We have highlighted the two assets undergoing asset enhancement initiatives.

No.	Property	FY2016* (%)	FY2015* (%)
1	Bandung Indah Plaza	99.9	99.8
2	Cibubur Junction	98.7	99.0
3	Ekalokasari Plaza	71.3	92.3
4	Gajah Mada Plaza	75.1	75.9
5	Istana Plaza	97.6	100.0
6	Mal Lippo Cikarang	96.9	99.1
7	The Plaza Semanggi	85.6	80.2
8	Sun Plaza	99.1	98.3
9	Plaza Medan Fair	99.8	97.8
10	Pluit Village	90.4	87.7
11	Lippo Plaza Kramat Jati	92.5	91.9
12	Palembang Square Extension	98.8	94.4
13	Tamini Square	100.0	100.0
14	Palembang Square	93.3	92.6
15	Pejaten Village	100.0	99.0
16	Binjai Supermall	94.0	93.2
17	Lippo Mall Kemang	95.0	93.2
18	Lippo Plaza Batu	95.3	98.3
19	Palembang Icon	99.4	99.3
20	Lippo Mall Kuta**	96.2	-
A	Mall Portfolio	93.6	93.2
B	Retail Spaces	100.0	100.0
A+B	TOTAL PORTFOLIO	94.3	94.0

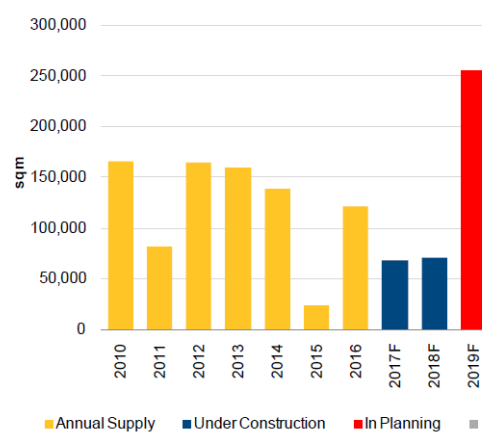
**Newly acquired mall in FY2016
Source: REIT Manager

Exhibit 4: Jakarta Cumulative Supply and Annual Retail Supply

Cumulative Supply of Retail Space in Jakarta

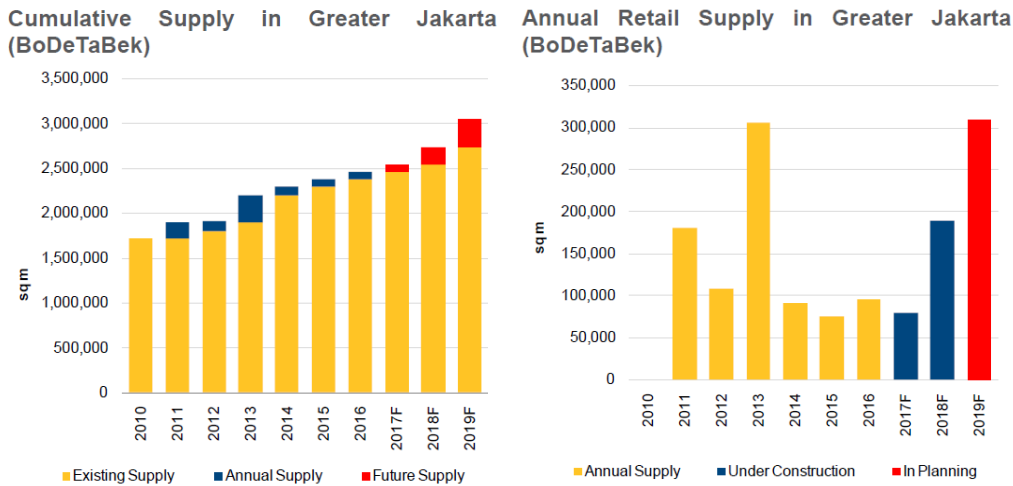


Annual Retail Supply in Jakarta



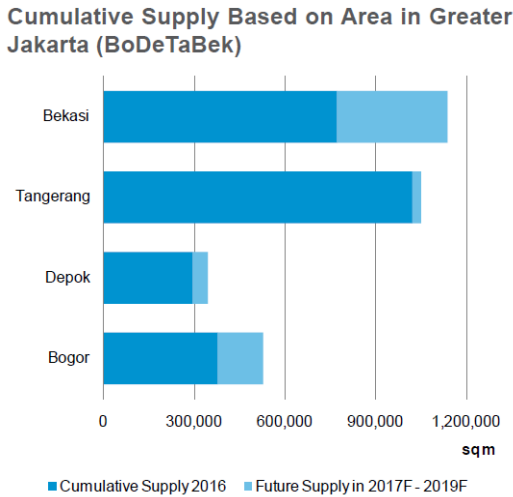
Source: Colliers International Indonesia – Research (4Q16)

Exhibit 5: Greater Jakarta (BoDeTaBek) Cumulative Supply and Annual Retail Supply



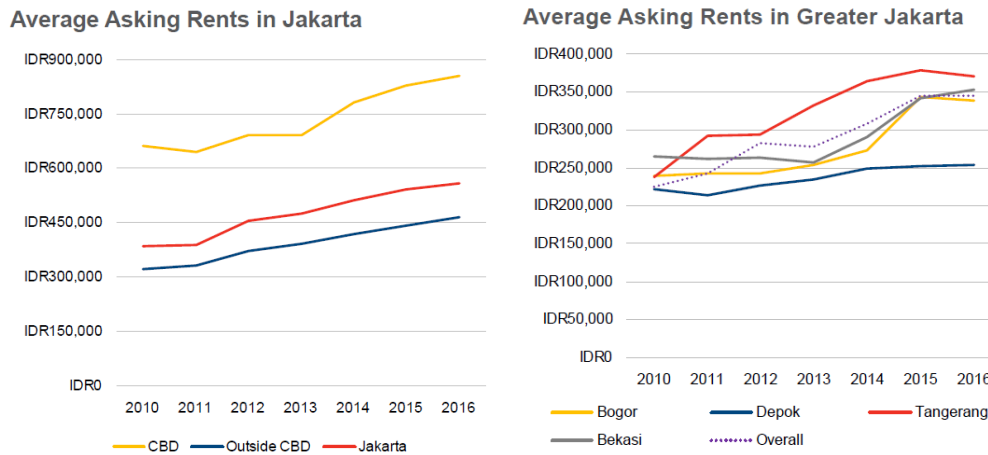
Source: Colliers International Indonesia – Research (4Q16)

Exhibit 6: Greater Jakarta (BoDeTaBek) Cumulative Supply Based on Area



Source: Colliers International Indonesia – Research (4Q16)

Exhibit 7: Trend of average asking rents in Jakarta and Greater Jakarta

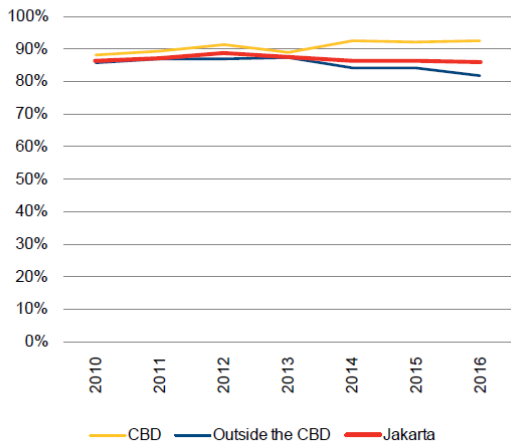


Source: Colliers International Indonesia – Research (4Q16)

Exhibit 8: Trend of occupancy rates in Jakarta and Greater Jakarta

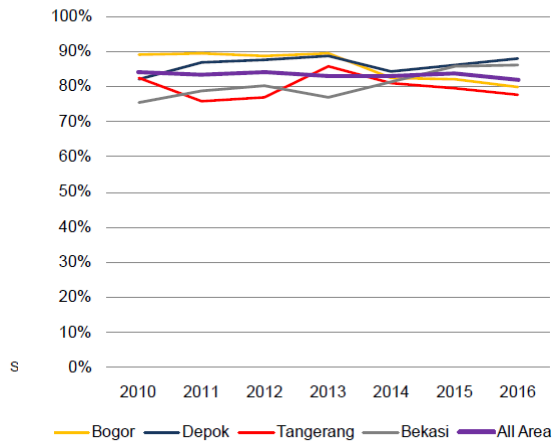
Jakarta

Occupancy Rates



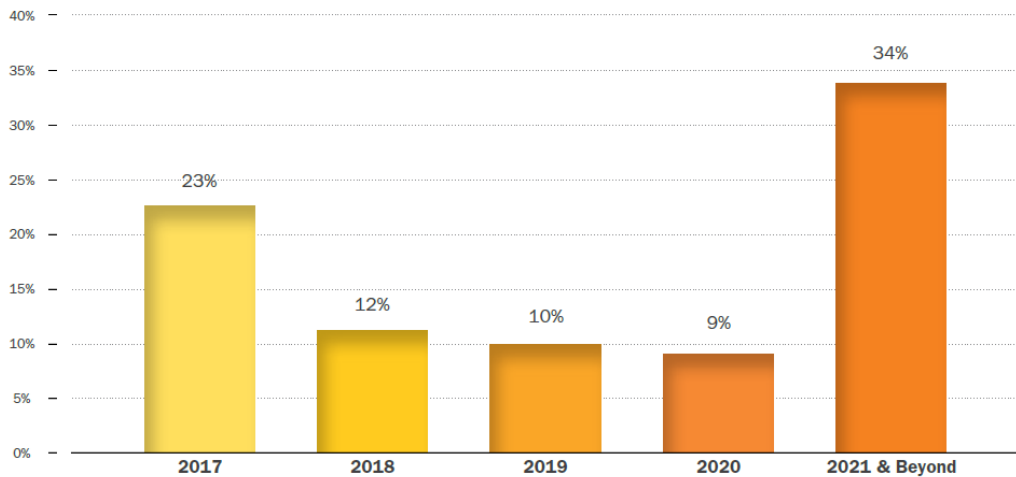
Greater Jakarta

Occupancy Rates



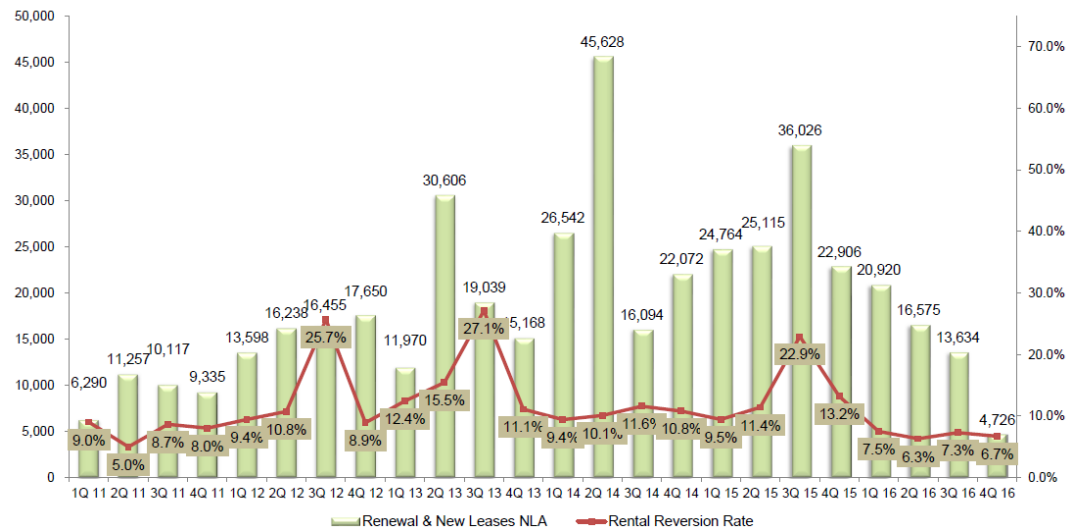
Source: Colliers International Indonesia – Research (4Q16)

Exhibit 9: Lease expiry profile (as at 31 Dec 2016) with WALE by NLA of 4.51 years



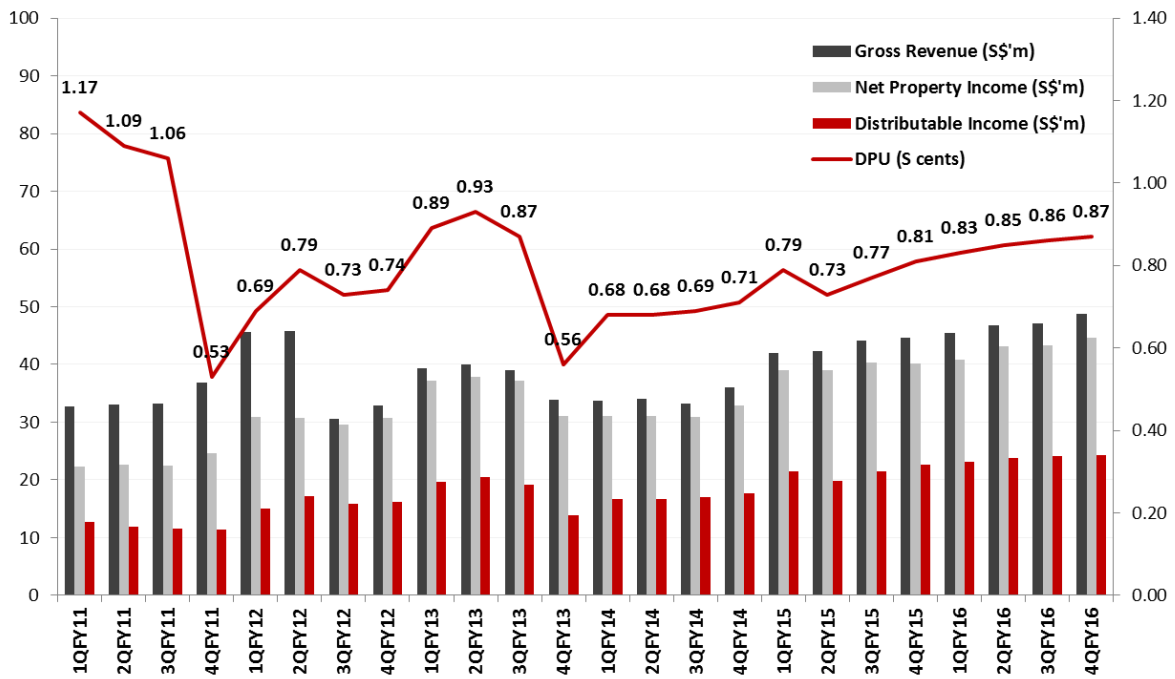
Source: REIT Manager

Exhibit 10: Rental reversion trend (6.7% in 4Q16)



Source: REIT Manager

Exhibit 11: Gross Revenue, Net Property Income and Distributable Income (LHS – S\$m) and DPU (RHS – S cents)



Source: REIT Manager

Company financial highlights

Income statement

Year Ended 31 Dec (\$\$ m)	FY15	FY16	FY17F	FY18F
Total gross revenue	173.0	188.1	203.6	211.1
Total property expenses	-14.4	-16.2	-15.7	-16.5
Net property income	158.6	171.9	187.9	194.6
Borrowing costs	-44.4	-44.5	-38.2	-39.6
Manager's management fees	-11.2	-11.9	-13.3	-13.6
Other expenses	-5.4	-14.0	-10.6	-11.7
Total return bef. Reval. & tax	97.6	101.4	122.0	127.4
Total return for the period	26.4	28.8	83.4	87.1
Adjustments	59.1	66.6	12.2	10.2
Amount avail. for distribution	85.6	95.5	95.6	97.3

Balance sheet

As at 31 Dec (\$\$ m)	FY15	FY16	FY17F	FY18F
Investment properties	1,804.9	1,922.6	1,932.6	1,942.6
Properties under development	0.0	0.0	0.0	0.0
Cash	80.6	77.8	74.6	74.8
Total current assets	150.5	115.9	115.3	117.5
Total assets	1,987.7	2,065.2	2,068.5	2,074.5
Current liabilities ex debt	100.4	70.3	72.9	74.2
Debt	687.0	640.9	646.1	653.2
Total liabilities	912.6	832.7	840.5	848.9
Unitholders' funds	1,075.1	1,091.7	1,087.1	1,084.7
Total equity and liabilities	1,987.7	2,065.2	2,068.5	2,074.5

Cash flow statement

Year Ended 31 Dec (\$\$ m)	FY15	FY16	FY17F	FY18F
Total return	44.3	53.4	122.0	127.4
Adjustments	114.7	121.0	60.0	59.3
Operating income before working cap chgs	159.0	174.4	182.0	186.7
Change in working capital	-30.5	-30.7	-39.2	-40.6
Cash generated from operating activities	128.5	143.7	142.8	146.1
Cashflow from investing activities	-90.2	-102.9	-5.0	-6.9
Cashflow from financing activities	-60.1	-48.5	-141.0	-139.1
Change in cash	-21.8	-7.7	-3.1	0.1
Cash at beginning of period	103.9	80.6	77.8	74.6
Cash at end of period (including restricted cash)	80.6	77.8	74.6	74.8

Key rates & ratios

	FY15	FY16	FY17F	FY18F
DPU (S cents)	3.1	3.4	3.4	3.4
NAV per unit (S cents)	39.6	38.9	38.5	38.2
PER (x)	41.1	38.3	13.3	12.8
P/NAV (x)	1.0	1.0	1.0	1.0
NPI margin (%)	91.7	91.4	92.3	92.2
Net income margin (%)	56.4	53.9	59.9	60.3
Gross gearing (%)	34.6	31.0	31.2	31.5
DPU yield (%)	7.8	8.6	8.6	8.7
ROE (%)	2.4	2.7	7.7	8.0
ROA (%)	1.3	1.4	4.0	4.2

Source: REIT Manager, OIR forecasts

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