



# LIPPO MALLS INDO RETAIL TRUST | BUY

MARKET CAP: USD 867M

AVG DAILY TURNOVER: USD 0.8M

12 Jun 2017  
Company Update

## CONDITIONAL KENDARI ACQUISITION

- **9.0% acquisition cap rate**
- **Five-year Master Leases**
- **Re-iterate BUY**

### Mall still under stabilization

Lippo Malls Indonesia Retail Trust (LMIRT) recently entered into conditional share purchase agreements to acquire the entire issued share capital of PT MASB for ~S\$33.2m which is to be financed from debt and/or perpetual securities. PT MASB in turn owns a Kendari property under a Build-Operate-Transfer (BOT) agreement with the Government of Southeast Sulawesi. The BOT period is 30 years from 2 Nov 2012, after which the property has to be handed over to the government. The asset is a four-storey shopping mall, 21.0k sqm in NLA, and has yet to reach stabilized occupancy or full market rental levels. With a FY16 NPI of S\$3.0m, the acquisition cap rate is ~9.0%. Upon completion of the acquisition, LMIRT's portfolio is estimated to increase by ~1.6%.

### Master Leases to be signed

Immediately prior to completion of the Kendari Acquisition, vendor PT MPU will enter into five-year Master Leases occupying 4.7k spm in NLA for Rp. 15.1b in annual rent. In FY16, the underlying tenants of these would-be Master Leases contributed only 36.4% of Rp. 15.1b rent (see Exhibit). Nonetheless, we note that the two independent valuers expect this total underlying revenue to be sustainable from the sixth year onwards (see Exhibit). PT MPU has also committed at its own cost, to provide an asset enhancement initiative to the mall mainly to convert part of the existing major tenants area into specialty tenants area and casual leasing area to improve rentals. The areas that will undergo asset enhancement will form part of the Master Leases.

### In line with management strategy

On a pro forma basis, FY16 DPU would increase from 3.41 S cents to 3.42 S cents or 0.3%. While the acquisition is relatively small, we see the acquisition of an asset outside Jakarta as being in line with LMIRT's strategy for tapping on Indonesia's continued urbanization. Pending the fulfillment of the conditions precedent to the acquisition's completion, we keep our forecasts for now. LMIRT is currently trading at 8.2% FY17F yield. Re-iterate **BUY** on LMIRT with a fair value of S\$0.435.

### Key financial highlights

| Year Ended 31 Dec (S\$ m)      | FY15  | FY16  | FY17F | FY18F |
|--------------------------------|-------|-------|-------|-------|
| Total gross revenue            | 173.0 | 188.1 | 204.9 | 208.9 |
| Total property expenses        | -14.4 | -16.2 | -17.2 | -17.6 |
| Net property income            | 158.6 | 171.9 | 187.8 | 191.3 |
| Amount avail. for distribution | 85.6  | 95.5  | 98.1  | 96.7  |
| DPU (S cents)                  | 3.1   | 3.4   | 3.5   | 3.4   |
| Cons. DPU (S cents)            | na    | na    | 3.4   | 3.5   |
| DPU yield (%)                  | 7.3   | 8.0   | 8.2   | 8.0   |
| P/NAV (x)                      | 1.1   | 1.1   | 1.1   | 1.1   |
| ROE (%)                        | 2.4   | 2.7   | 7.9   | 8.0   |
| Gross gearing (%)              | 34.6  | 31.0  | 31.2  | 31.5  |

## BUY (maintain)

|                                  |            |
|----------------------------------|------------|
| Fair value                       | S\$0.435   |
| add: 12m dividend forecast       | S\$0.035   |
| versus: Current price            | S\$0.425   |
| <b>12m total return forecast</b> | <b>11%</b> |

### Analysts

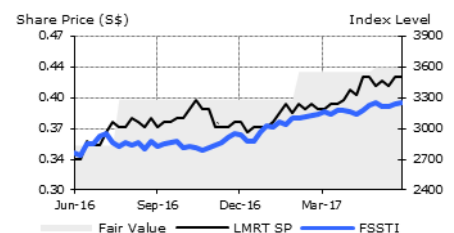
Deborah Ong (Lead) • +65 6531 9810  
deborahong@ocbc.com  
Andy Wong Teck Ching, CFA • +65 6531 9817  
andywong@ocbc.com

### Key information

|                        |                     |
|------------------------|---------------------|
| Market cap. (m)        | S\$1,200 / USD867.1 |
| Avg daily turnover (m) | S\$1 / USD0.8       |
| Avg daily vol. (m)     | 2.9                 |
| 52-wk range (S\$)      | 0.33 - 0.43         |
| 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 - 24.8% |

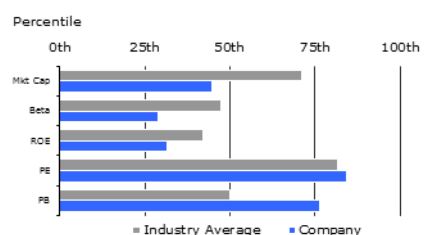
| Relative total return | 1m | 3m | 12m |
|-----------------------|----|----|-----|
| Company (%)           | 8  | 26 | 29  |
| STI-adjusted (%)      | 10 | 20 | 20  |

### 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: Revenue from Master Leases and corresponding projections for the underlying revenue from areas under the Master Leases, according to the two independent valuers**

| Year | Revenue from Master Leases (Rp. Billion) | As per Valuation Reports - Underlying Revenue from areas under Master Leases (Rp. Billion) |           |
|------|--|--|-----------|
|      |  | W&R  | Rengganis |
| 1    | 15.1                                     | 5.8  | 5.9       |
| 2    | 15.1                                     | 8.1  | 9.7       |
| 3    | 15.1                                     | 10.0   | 12.3      |
| 4    | 15.1                                     | 12.0   | 13.1      |
| 5    | 15.1                                     | 13.9   | 14.5      |
| 6    | -  | 15.1   | 15.4      |

Source: REIT Manager

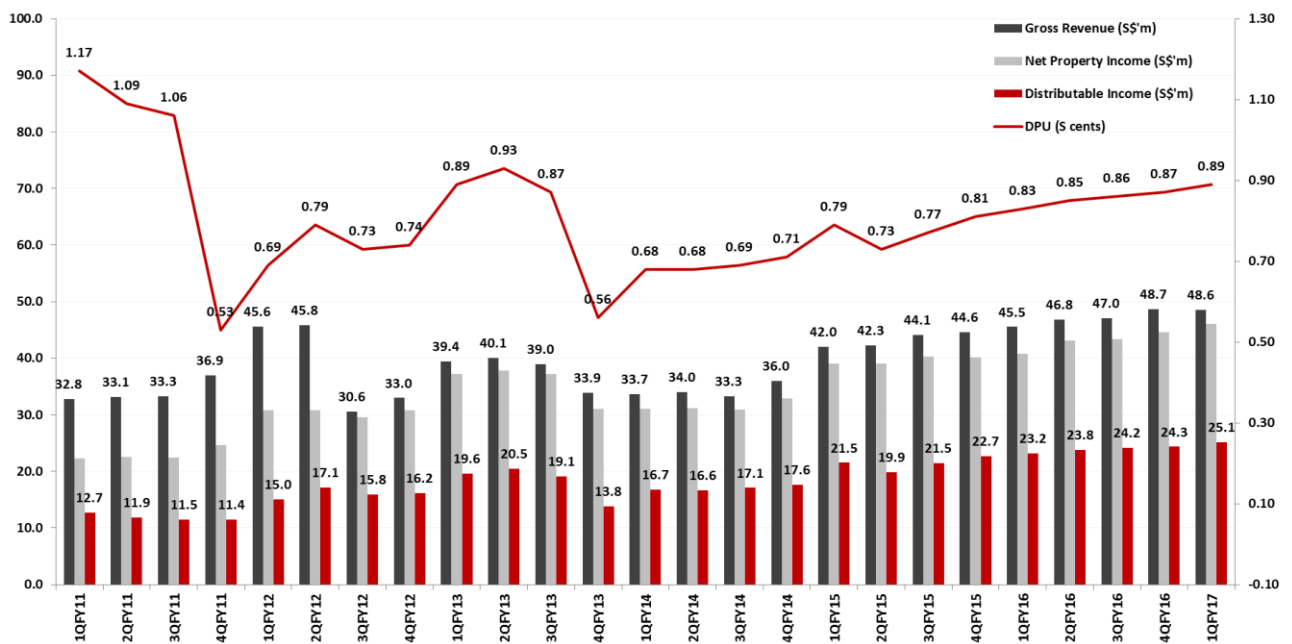
**Exhibit 2: Additional details of the Master Leases by area**

| Areas          | Area (sqm) | Annual Rental Income |                        | Monthly Rental Rate         |                                       | Occupancy Rate |            |
|----------------|------------|----------------------|------------------------|-----------------------------|---------------------------------------|----------------|------------|
|                |            | Master Lease         | Underlying Performance | Master Lease                | Underlying Performance <sup>(1)</sup> | Master         | Underlying |
| Casual Leasing | 761        | Rp. 4.6 billion      | Rp. 1.9 billion        | Rp. 16,728 (per sqm/day)    | Rp. 15,000 (per sqm/day)              | 100%           | 47%        |
| Specialty      | 3,911      | Rp. 10.5 billion     | Rp. 3.6 billion        | Rp. 224,086 (per sqm/month) | Rp. 71,198 (per sqm/month)            | 100%           | 90%        |
| Total          | -          | Rp. 15.1 billion     | Rp. 5.5 billion        | -                           | -                                     | -              | -          |

<sup>1</sup> PT MPU has committed, at its own cost, to provide an asset enhancement initiative to the mall mainly to convert part of the existing major tenants area into specialty tenants area and casual leasing area to improve rentals. The areas that will undergo asset enhancement will form part of the Master Leases.

Source: REIT Manager

**Exhibit 3: LMIRT's quarterly revenue, net property income, and distributable income (\$m – LHS) and DPU (S cents – RHS) trend**



Source: REIT Manager

**Company financial highlights**

Income statement

| Year Ended 31 Dec (\$\$ m)     | FY15  | FY16  | FY17F | FY18F |
|--------------------------------|-------|-------|-------|-------|
| Total gross revenue            | 173.0 | 188.1 | 204.9 | 208.9 |
| Total property expenses        | -14.4 | -16.2 | -17.2 | -17.6 |
| Net property income            | 158.6 | 171.9 | 187.8 | 191.3 |
| Borrowing costs                | -44.4 | -44.5 | -38.2 | -39.6 |
| Manager's management fees      | -11.2 | -11.9 | -13.3 | -13.5 |
| Other expenses                 | -5.4  | -14.0 | -10.6 | -11.7 |
| Total return bef. Reval. & tax | 97.6  | 101.4 | 125.7 | 126.6 |
| Total return for the period    | 26.4  | 28.8  | 85.9  | 86.5  |
| Adjustments                    | 59.1  | 66.6  | 12.2  | 10.1  |
| Amount avail. for distribution | 85.6  | 95.5  | 98.1  | 96.7  |

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    | 75.2    | 74.7    |
| Total current assets         | 150.5   | 115.9   | 115.5   | 117.0   |
| Total assets                 | 1,987.7 | 2,065.2 | 2,068.7 | 2,074.1 |
| Current liabilities ex debt  | 100.4   | 70.3    | 73.1    | 73.8    |
| Debt                         | 687.0   | 640.9   | 646.1   | 653.2   |
| Total liabilities            | 912.6   | 832.7   | 840.7   | 848.5   |
| Unitholders' funds           | 1,075.1 | 1,091.7 | 1,087.1 | 1,084.7 |
| Total equity and liabilities | 1,987.7 | 2,065.2 | 2,068.7 | 2,074.1 |

Cash flow statement

| Year Ended 31 Dec (\$\$ m)                        | FY15  | FY16   | FY17F  | FY18F  |
|---|-------|--------|--------|--------|
| Total return                                      | 44.3  | 53.4   | 125.7  | 126.6  |
| Adjustments                                       | 114.7 | 121.0  | 60.0   | 59.3   |
| Operating income before working cap chgs          | 159.0 | 174.4  | 185.7  | 185.9  |
| Change in working capital                         | -30.5 | -30.7  | -40.4  | -40.2  |
| Cash generated from operating activities          | 128.5 | 143.7  | 145.3  | 145.6  |
| Cashflow from investing activities                | -90.2 | -102.9 | -5.0   | -6.9   |
| Cashflow from financing activities                | -60.1 | -48.5  | -142.9 | -139.3 |
| Change in cash                                    | -21.8 | -7.7   | -2.6   | -0.5   |
| Cash at beginning of period                       | 103.9 | 80.6   | 77.8   | 75.2   |
| Cash at end of period (including restricted cash) | 80.6  | 77.8   | 75.2   | 74.7   |

Key rates & ratios

|                        | FY15 | FY16 | FY17F | FY18F |
|------------------------|------|------|-------|-------|
| DPU (S cents)          | 3.1  | 3.4  | 3.5   | 3.4   |
| NAV per unit (S cents) | 39.6 | 38.9 | 38.5  | 38.2  |
| PER (x)                | 44.3 | 41.3 | 13.9  | 13.9  |
| P/NAV (x)              | 1.1  | 1.1  | 1.1   | 1.1   |
| NPI margin (%)         | 91.7 | 91.4 | 91.6  | 91.6  |
| Net income margin (%)  | 56.4 | 53.9 | 61.3  | 60.6  |
| Gross gearing (%)      | 34.6 | 31.0 | 31.2  | 31.5  |
| DPU yield (%)          | 7.3  | 8.0  | 8.2   | 8.0   |
| ROE (%)                | 2.4  | 2.7  | 7.9   | 8.0   |
| ROA (%)                | 1.3  | 1.4  | 4.2   | 4.2   |

Source: REIT Manager, OIR forecasts

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Co.Reg.no.: 198301152E

Carmen Lee  
Head of Research  
For OCBC Investment Research Pte Ltd

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