

July 30, 2013

## Gema Grahasarana, Tbk

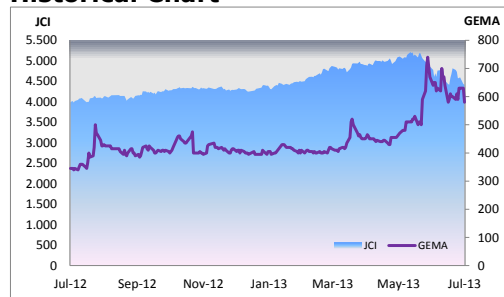
### Secondary Report

Target Price

|            |             |
|------------|-------------|
| <b>Low</b> | <b>High</b> |
| <b>680</b> | <b>770</b>  |

Interior and Furniture

#### Historical Chart



Source: Bloomberg

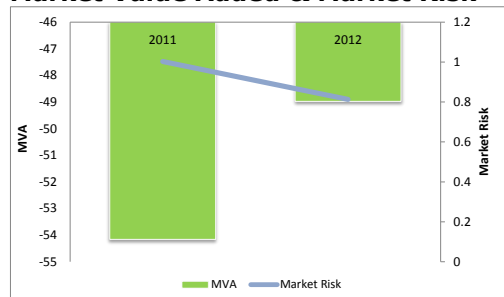
#### Stock Information

|                                  | IDR  |
|----------------------------------|------|
| Ticker code                      | GEMA |
| Market price as of July 29, 2013 | 550  |
| Market price – 52 week high      | 740  |
| Market price – 52 week low       | 340  |
| Market cap – 52 week high (bn)   | 237  |
| Market cap – 52 week low (bn)    | 109  |

#### Stock Valuation

|      | Last | Current |
|------|------|---------|
| High | 580  | 770     |
| Low  | 500  | 680     |

#### Market Value Added & Market Risk



Source: Bloomberg, Pefindo Equity & Index Valuation Division

#### Shareholders

|                                  | (%)   |
|----------------------------------|-------|
| PT Virucci Indogriya Sarana      | 74.74 |
| Tommy Diary Tan                  | 7.50  |
| Dedy Rochimat                    | 0.26  |
| Public (each below 5% ownership) | 17.50 |

\*Note: as of June 30, 2013

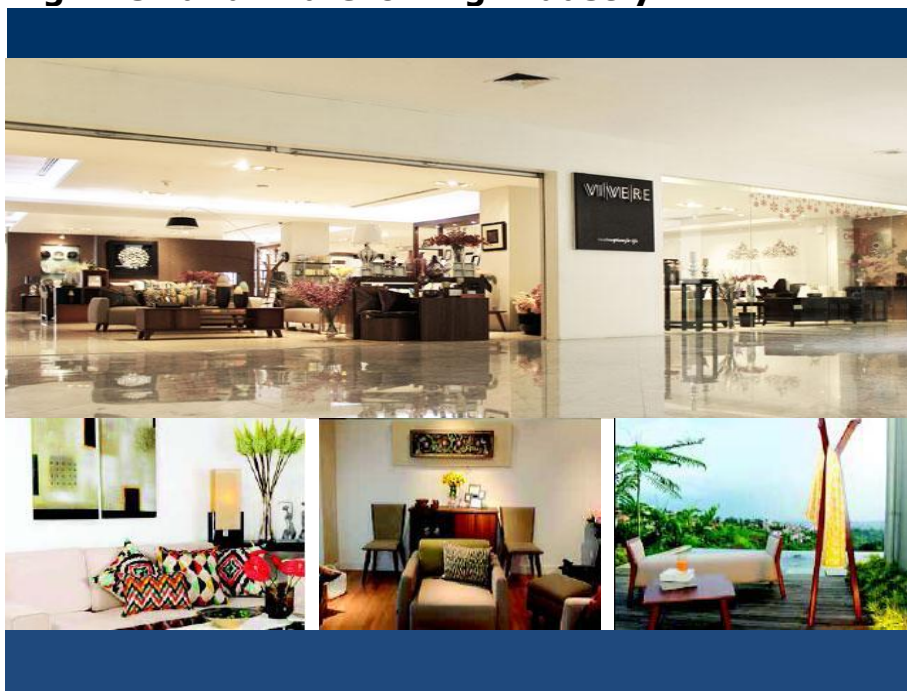
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### High Demand in a Growing Industry



Established in 1984, PT Gema Grahasarana Tbk (GEMA) is engaged in contract interior work and furniture manufacturing. The Company has three subsidiaries, namely PT Laminattech Kreasi Sarana, PT Prasetya Gemamulia and PT Vivere Multi Kreasi, also known as VIVERE Group. The Company and its subsidiaries are supported by three manufacturing plants located in Tangerang, Cikande and Cikarang. The Company also rents out another plant in Cikarang to an affiliated company. In 2012, GEMA carried out several actions, including opening VIVERE's 12<sup>th</sup> and 13<sup>th</sup> store, located in Bali and Lippo Mall Kemang Jakarta, and launching the Vassa Collection (eco-friendly furniture series for residential areas) and the Ikkat Collection as well as appointed as distributor of Steelcase, USA products for office furniture. Through its 29-year experience, GEMA has gained the trust of major companies from different sectors, including the PT Pertamina Hulu Energi, World Bank, PT Eni Muara Bakau, PT Schlumberger Geophysics Nusantara, Fitness First, Harum Energy, Bank Mega Syariah, Blackberry Jakarta, and more.

## INVESTMENT PARAMETERS

### Target Price Adjustment

We have made several adjustments to our previous forecast and adjust our Target Price upward to the range of **IDR680 – IDR770** per share, based on the following considerations:

- Upbeat outlook on the property sector. We have a positive outlook on the property sector, backed by the country's attractive demographics and strong economic condition. GEMA is poised to benefit by robust demand in the office supply and residential sector in Jakarta, as a result of the aggressive expansion of national and multinational companies in the city. In 2012, the Company has worked interior project of 277,751 sqm, an increase of 26% from 2011. In line with the property boom which is expected to continue plus GEMA's new projects, we believe around 325,000 sqm will be finished by the end of this year.
- GEMA's financial performance. In 2012, GEMA managed to post a 15% YoY revenue growth to IDR598 billion, thanks to an increasing number of projects. This achievement is slightly below our projection in the previous report of IDR625 billion. Taking into consideration several new projects, we believe the Company will be able to record a 24% year-on-year (YoY) revenue growth in 2013.
- Better leverage. We note that the Company's debt to equity ratio (DER) declined from 4.3x in 2009 to 1.7x in 1Q13. In addition, GEMA's ability to pay its short-term debt has improved, as depicted by its interest coverage ratio of 9.6x in 1Q13, up from 2.6x in 2010.
- Assumption of risk free rate, equity premium and beta reach 8.0%, 3.6% and 0.4x, respectively.

### Business Prospects

With Indonesia's sound economic indicators, as seen in its higher per capita income and spending power as well as large productive-age population, we believe that the property industry will still continue to grow. This favorable condition attracts national and multinational companies to open the branches in Jakarta. Jakarta, as the main contributor city to GEMA's revenue, recorded the highest office rental growth in Asia Pacific of around 7.4% YoY in 1Q13, amid weakening office space demand in the region. This, in turn, would further boost the GEMA's projects. Given all these opportunities plus GEMA's new projects both within and outside Jakarta, along with the strength of the well-known brand VIVERE, we believe GEMA will be able to post a compound annual growth rate (CAGR) of 19% in 2012 – 2015.

**Table 1: Performance Summary**

|                         | 2010 | 2011 | 2012 | 2013P | 2014P |
|-------------------------|------|------|------|-------|-------|
| Revenue (IDR bn)        | 448  | 518  | 598  | 741   | 878   |
| Pre-tax Profit (IDR bn) | 39   | 40   | 44   | 58    | 65    |
| Net Profit (IDR bn)     | 26   | 28   | 29   | 37    | 42    |
| EPS (IDR)               | 82   | 86   | 90   | 115   | 131   |
| EPS Growth (%)          | 350  | 6    | 4    | 28    | 14    |
| P/E (x)                 | 3.4  | 3.5  | 4.4  | 4.8*  | 4.2*  |
| PBV (x)                 | 1.0  | 0.8  | 0.9  | 1.0*  | 0.8*  |

Source: PT Gema Grahasarana Tbk., Pefindo Equity & Index Valuation Division Estimates  
Notes: \* Based on Share Price as of July 29, 2013 – IDR550/share

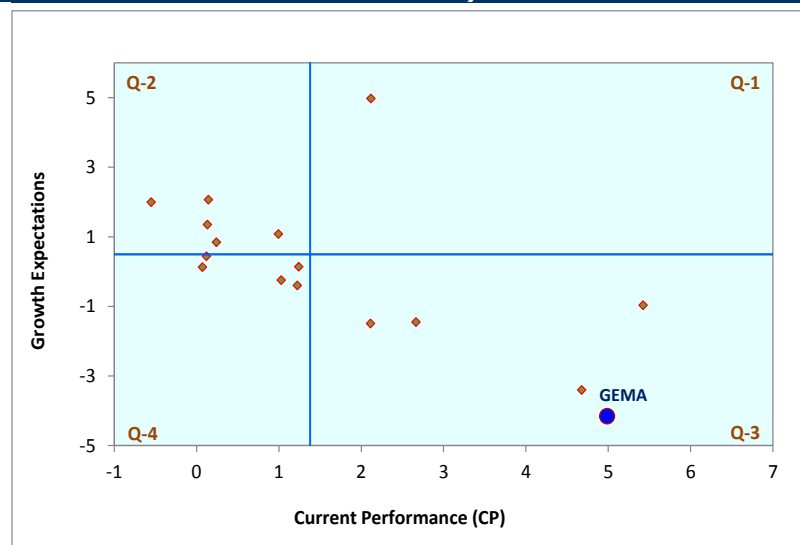
**GROWTH VALUE MAP**

The Growth-Value Map below provides an overview of the market expectations for the companies listed on the IDX. The Current Performance (CP) metric, running along the horizontal axis, is a portion of current stock market value that can be linked to the perpetuity of a company’s current performance in profitability. The Growth Expectations (GE) metric, plotted on the vertical axis, is the difference between the current stock market value and the value of current performance. Both metrics are normalized by the company’s book value.

Growth-Value Map divides companies into four clusters:

- **Excellent Value Managers (“Q-1”)**  
Market expects companies in Q-1 to surpass their benchmark in profitability and growth.
- **Expectation Builders (“Q-2”)**  
Market has relatively low expectations of profitability from companies in Q-2 in the short term, but has growth expectations exceed the benchmark.
- **Traditionalists (“Q-3”)**  
Market has low growth expectations of companies in the Q-3, although they showed a good profitability in the short term.
- **Asset-loaded Value Managers (“Q-4”)**  
Market has low expectations in terms of profitability and growth for companies in Q-4.

**Figure 1: Growth-Value Map of GEMA (Interior and Furniture)**



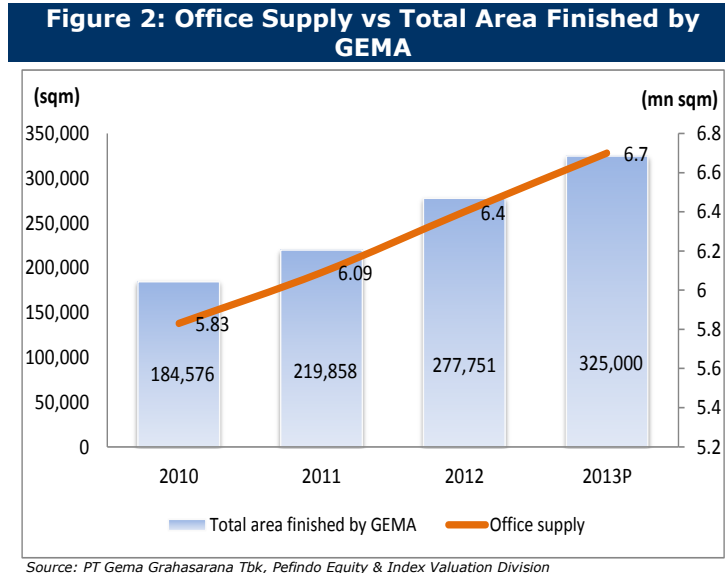
Source: Bloomberg, Pefindo Equity & Index Valuation Division

We classified GEMA in the **Traditionalist** (Q-3) cluster; this means the Company surpassed the benchmark on profitability expectation in the short term, but there is low expectation of growth in the long term. By taking advantage of the prospects available to the property industry, we believe GEMA can gradually move to the **Excellent Value Managers** (Q-1) cluster. It also needs to strengthen its internal systems and regularly update the public about its economic success.

**BUSINESS INFORMATION**

**Property Industry Growth Boosts Interior and Furniture Demand**

In recent years, the property industry in Indonesia has shown encouraging results, mainly buoyed by low interest rates, steady economic growth and improving incomes. As a result, the office and residential sector, which the Company is focused on, has a wide opportunity ahead. Jakarta recorded the highest office rental growth in Asia Pacific of around 7.4% YoY in 1Q13, amid weakening office space demand in the region. This year, office space supply in Jakarta is estimated to be 311,908 sqm. Looking forward, we predict Jakarta will be flooded by around 1.2 million sqm of office supply in 2014-2015, given the aggressive development of office buildings. This favorable condition will affect GEMA's projects, which are predicted to total more than 320,000 sqm this year compared to 277,751 sqm in 2012.



Source: PT Gema Grahasarana Tbk, Pefindo Equity & Index Valuation Division

**Obtaining Plenty of New Projects Within and Outside Jakarta**

Generally, most of GEMA's projects are in Jakarta and its surrounding areas. However, given its consistently high-value service, GEMA is now trusted by new clients in a larger geographic area. Some of the new projects outside Jakarta are Blackberry Bali, Shangri-la Hotel and JW Marriot Hotel in Bali, as well as Intiland Office and National Hospital in Surabaya. Aside from these, the Company is preparing to open a new line for sofa and worksteel in its plant in Cikande, Tangerang. Meanwhile its subsidiary, PT Vivere Multi Kreasi, will offer a new premium furniture line named VIVERE Couture.

**Table 2: GEMA's New Projects**

|                        | Contract Value (IDR bn) | Estimated Completion |
|------------------------|-------------------------|----------------------|
| Sierad Produce         | 11.8                    | July 2013            |
| Ciputra World Office   | 4.1                     | July 2013            |
| Swiber                 | 2.9                     | June 2013            |
| VICO                   | 4.5                     | June 2013            |
| Fitness First          | 5.8                     | August 2013          |
| IPMI Business School   | 12.0                    | August 2013          |
| Harum Energy           | 10.0                    | September 2013       |
| Lotte Duty Free        | 9.0                     | June 2013            |
| Lotte Department Store | 31.9                    | June 2013            |
| Saipem                 | 6.7                     | March 2013           |
| Bank Mega Syariah      | 6.3                     | June 2013            |
| Blackberry Jakarta     | 2.3                     | September 2013       |

Source: Various source processed by Pefindo Equity & Index Valuation Division

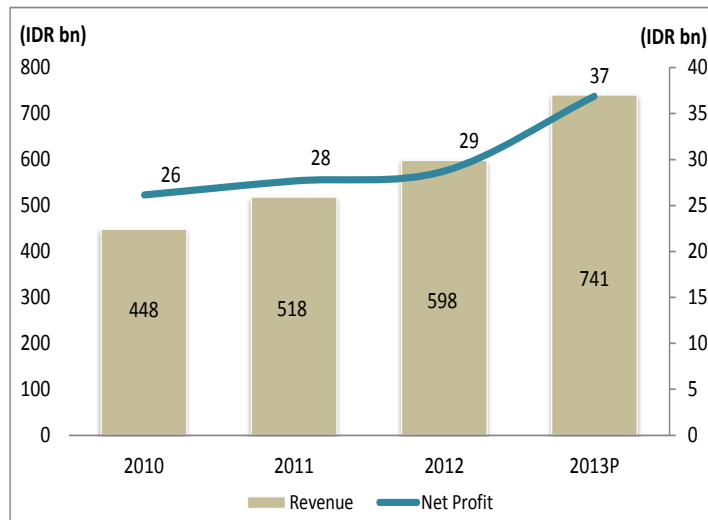
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**In line FY12 Result with Our Full Year Projection, Remains Convincing in 1Q13**

GEMA posted a revenue of IDR598 billion in 2012, an increase of 15% YoY from IDR 518 billion in 2011. The figure is in line with our full year 2012 revenue projection of IDR625 billion. In 1Q13, GEMA continued to post encouraging results with a 13% YoY increase in sales to IDR181 billion, mainly driven by an increase in projects in the interior and furniture division. The Company's bottom line also looks solid, with a margin of 6.7% during the period, stronger than the 6.0% recorded in 1Q12. For 2013, we are optimistic that GEMA would be able to record 24% YoY of revenue growth.

**Figure 3: GEMA's Revenue and Net Profit**

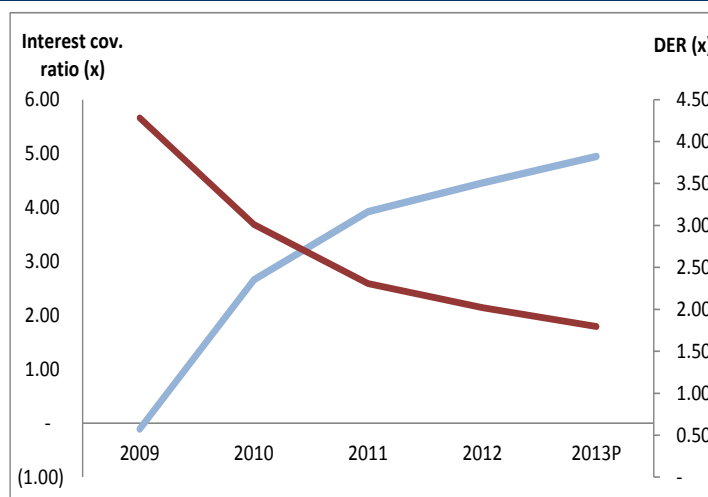


Source: PT Gema Grahasarana Tbk, Pefindo Equity & Index Valuation Division

**Better Financial Position**

It is worthwhile to note GEMA's efforts to better manage its financial condition, as seen in its increasing ability to pay short-term debt and its decreasing leverage. We noted that GEMA's interest coverage ratio improved from 2.6x in 2010 to 9.6x in 1Q13, while its leverage (DER) fell from 3.0x to 1.7x in the same period. To boost future sales performance, the Company is planning to increase the capacity of its plants in Tangerang, Cikande and Cikarang, and buy office equipment this year. As of to May 2013, GEMA and its subsidiaries have received sales orders of IDR340 billion, and we believe by the end of the year GEMA would be able to post IDR741 billion in revenue.

**Figure 4: GEMA's DER and Interest Coverage Ratio**



Source: PT Gema Grahasarana Tbk, Pefindo Equity & Index Valuation Division

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**TARGET PRICE**

**VALUATION**

• **Methodology**

We applied the *Discounted Cash Flow* (DCF) method as the main valuation approach, considering that income growth is a value driver in GEMA instead of asset growth.

We did not combine the DCF method with the Guideline Company Method (GCM) as there are no similar companies eligible to be compared with GEMA in the IDX.

This valuation is based 100% on GEMA's share price as of July 29, 2013, using GEMA's financial report as of March 31, 2013, for our fundamental analysis.

• **Value Estimation**

We use Cost of Capital of 9.0% and Cost of Equity of 9.4% based on the following assumption:

**Table 3: Assumption**

|   |            |
|---|------------|
| Risk free rate [%]*                       | 8.0        |
| Risk premium [%]*                         | 3.6        |
| Beta [x]**                                | 0.4        |
| Cost of Equity [%]                        | 9.4        |
| Marginal tax rate [%]                     | 25.0       |
| Interest Bearing Debt to Equity Ratio [x] | 0.5        |
| <b>WACC [%]</b>                           | <b>9.0</b> |

Source: Bloomberg, Pefindo Equity & Index Valuation Division Estimates

Notes: \*As of July 29, 2013

\*\* PEFINDO Beta Saham, as of July 25, 2013

The target price for 12 months based on the valuation as of July 29, 2013 using the DCF method with a 9.0% discount rate assumption ranges between **IDR680 – IDR770** per share.

**Table 4: Summary of DCF Method Valuation**

|                                | <b>Conservative</b> | <b>Moderate</b> | <b>Aggressive</b> |
|--------------------------------|---------------------|-----------------|-------------------|
| PV of Free Cash Flows [IDR bn] | 18                  | 19              | 20                |
| PV Terminal Value [IDR bn]     | 261                 | 275             | 289               |
| Non-Operating Assets- [IDR bn] | 11                  | 11              | 11                |
| Net Debt [IDR bn]              | (74)                | (74)            | (74)              |
| Total Equity Value [IDR bn]    | 217                 | 232             | 246               |
| Number of Share [mn shares]    | 320                 | 320             | 320               |
| Fair Value per Share [IDR]     | <b>680</b>          | <b>720</b>      | <b>770</b>        |

Source: Pefindo Equity & Index Valuation Division Estimates

**Table 5: Consolidated Statements of Comprehensive Income**

| (IDR bn)                | 2010       | 2011       | 2012       | 2013P      | 2014P      |
|-------------------------|------------|------------|------------|------------|------------|
| Sales                   | 448        | 518        | 598        | 741        | 878        |
| COGS                    | (332)      | (389)      | (444)      | (551)      | (652)      |
| <b>Gross Profit</b>     | <b>116</b> | <b>129</b> | <b>154</b> | <b>190</b> | <b>226</b> |
| Operating Expense       | (62)       | (76)       | (95)       | (118)      | (139)      |
| <b>Operating Profit</b> | <b>54</b>  | <b>53</b>  | <b>59</b>  | <b>72</b>  | <b>87</b>  |
| Other Income (Charges)  | (15)       | (13)       | (15)       | (15)       | (21)       |
| <b>Pre-tax Profit</b>   | <b>39</b>  | <b>40</b>  | <b>44</b>  | <b>58</b>  | <b>65</b>  |
| Tax                     | (13)       | (12)       | (15)       | (21)       | (23)       |
| <b>Net Profit</b>       | <b>26</b>  | <b>28</b>  | <b>29</b>  | <b>37</b>  | <b>42</b>  |

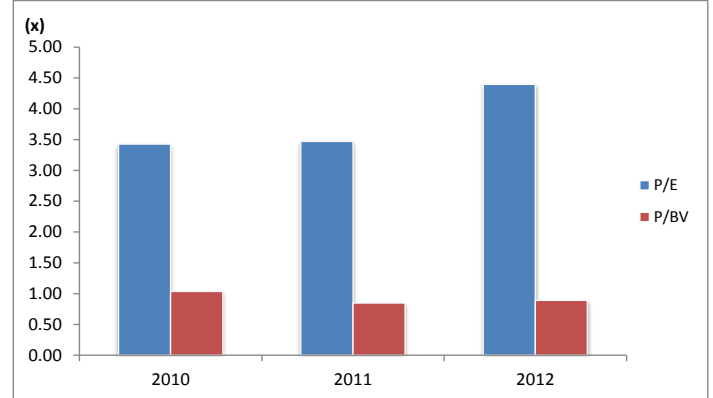
Source: PT Gema Grahasarana Tbk., Pefindo Equity & Index Valuation Division Estimates

**Table 6: Consolidated Statements of Financial Position**

| (IDR bn)                            | 2010       | 2011       | 2012       | 2013P      | 2014P      |
|-------------------------------------|------------|------------|------------|------------|------------|
| <b>Assets</b>                       |            |            |            |            |            |
| <b>Current Assets</b>               |            |            |            |            |            |
| Cash & cash equivalents             | 13         | 12         | 19         | 14         | 19         |
| Receivables                         | 82         | 43         | 63         | 79         | 94         |
| Progress Billing                    | 92         | 159        | 146        | 150        | 168        |
| Inventory                           | 54         | 38         | 41         | 60         | 71         |
| Other Assets                        | 30         | 46         | 80         | 112        | 135        |
| <b>Total Current Asset</b>          | <b>271</b> | <b>298</b> | <b>349</b> | <b>416</b> | <b>488</b> |
| Fixed Asset                         | 70         | 70         | 71         | 72         | 74         |
| Other Asset                         | 7          | 7          | 9          | 12         | 13         |
| <b>Total Asset</b>                  | <b>348</b> | <b>375</b> | <b>429</b> | <b>500</b> | <b>575</b> |
| <b>Liabilities</b>                  |            |            |            |            |            |
| Trade payables                      | 53         | 69         | 82         | 91         | 104        |
| Short-term liabilities              | 28         | 11         | 15         | 20         | 25         |
| Other liabilities                   | 114        | 111        | 119        | 132        | 154        |
| <b>Total short-term liabilities</b> | <b>195</b> | <b>191</b> | <b>216</b> | <b>243</b> | <b>283</b> |
| Long-term liabilities               | 59         | 60         | 55         | 60         | 62         |
| Other long-term liabilities         | 7          | 10         | 15         | 19         | 21         |
| <b>Total Liabilities</b>            | <b>261</b> | <b>261</b> | <b>286</b> | <b>321</b> | <b>366</b> |
| <b>Total Equity</b>                 | <b>87</b>  | <b>114</b> | <b>143</b> | <b>179</b> | <b>209</b> |

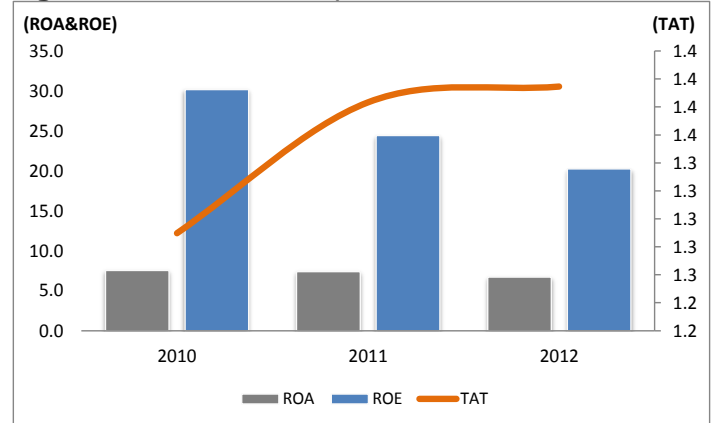
Source: PT Gema Grahasarana Tbk., Pefindo Equity & Index Valuation Division Estimates.

**Figure 5: Historical P/E and P/BV**



Source: PT Gema Grahasarana Tbk., Pefindo Equity & Index Valuation Division

**Figure 6: Historical ROA, ROE and TAT**



Source: PT Gema Grahasarana Tbk., Pefindo Equity & Index Valuation Division

**Table 7: Key Ratio**

| Ratio                    | 2010  | 2011  | 2012 | 2013P | 2014P |
|--------------------------|-------|-------|------|-------|-------|
| <b>Growth (%)</b>        |       |       |      |       |       |
| Sales                    | 17.5  | 15.6  | 15.4 | 23,8  | 18,5  |
| Operating Profit         | 48.2  | (1.6) | 11.1 | 22,8  | 19,7  |
| Net Profit               | 349.8 | 5.8   | 3.9  | 28,3  | 13,9  |
| <b>Profitability (%)</b> |       |       |      |       |       |
| Gross Margin             | 25.8  | 24.9  | 25.7 | 25,7  | 25,7  |
| Operating Margin         | 12.0  | 10.2  | 9.8  | 9,8   | 9,9   |
| Net Margin               | 5.8   | 5.3   | 4.8  | 4,9   | 4,8   |
| ROA                      | 7.5   | 7.4   | 6.7  | 7,4   | 7,3   |
| ROE                      | 30.2  | 24.4  | 20.2 | 20,6  | 20,2  |
| <b>Solvability (X)</b>   |       |       |      |       |       |
| Debt to Equity           | 3.0   | 2.3   | 2.0  | 1.8   | 1.8   |
| Debt to Asset            | 0.8   | 0.7   | 0.7  | 0.6   | 0.6   |
| <b>Liquidity (X)</b>     |       |       |      |       |       |
| Current Ratio            | 1.4   | 1.6   | 1.6  | 1.7   | 1.7   |
| Quick Ratio              | 0.5   | 0.3   | 0.4  | 0.4   | 0.4   |

Source: PT Gema Grahasarana Tbk., Pefindo Equity & Index Valuation Division Estimates

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