

**Gema Grahasarana, Tbk**

**Primary Report**

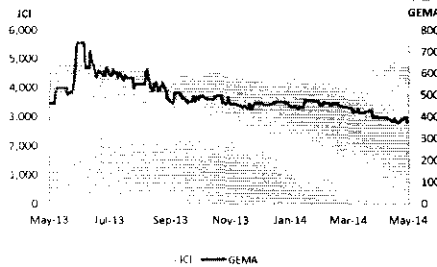
May 8, 2014

**Target Price**

<b>Low</b>	<b>High</b>
<b>490</b>	<b>560</b>

**Interior and Furniture**

**Historical Chart**

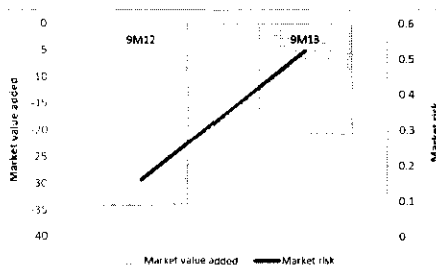


Source : Bloomberg, PEFINDO Equity & Index Valuation Division

**Stock Information**

	<b>IDR</b>
Ticker code	GEMA
Market price as of May 7, 2014	376
Market price – 52 week high	740
Market price – 52 week low	371
Market cap – 52 week high (IDR bn)	237
Market cap – 52 week low (IDR bn)	119

**Market Value Added & Market Risk**



Source : Bloomberg, PEFINDO Equity & Index Valuation Division

**Shareholders**

	<b>(%)</b>
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 March 31, 2014

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**Facing Temporary Headwind**



Established in 1984, PT Gema Grahasarana Tbk (GEMA) has emerged to be a one-stop solution company working on interior contracting including furniture manufacturing. Known as VIVERE group, the Company has three subsidiaries namely PT Prasetya Gemamulia (PGM) engages in mechanical electrical, PT Laminattech Kreasi Sarana (LKS) in panel component production which also as sole distributor of HPL (High Pressure Laminate) Wilsonart & Arborite USA and PT Vivere Multi Kreasi (VMK) in furniture retail with the brand of "VIVERE". Besides, GEMA is equipped by four plants to manufacture the furniture which are located in Tangerang, Cikande and two factories in Cikarang. Also, thanks to its consistency in serving its customers, GEMA was awarded by Forbes as A-list Top 40 Emerging Companies in Indonesia in 2011 as well as Safety Reward from Pertamina, Exxon Mobil, Conoco Phillip and Shell Oil.

**INVESTMENT PARAMETERS**

**Office Space Supply will Likely to Rise**

We believe the country's economic will remain solid amid national election this year, or above 5%. This in turn will affect the office supply, as it is expected to enter new 500k sqm of office supply. Albeit the slower growth of property industry in overall, the construction value of office is estimated to up by at least 20% YoY. In line with the increasing foreign confidence on Indonesian property, we believe office supply will remain high in the years ahead.

**Growing Topline but Lower Earning**

GEMA recorded 10% YoY of revenue growth to IDR657 billion in 2013 as a result of increasing projects. Interior construction service, as the main revenue contributor for GEMA, grew by 4% YoY or IDR495 billion, while laminate products for furniture up by 39% YoY. On the contrary, its operating profit experienced a decrease due to higher wages in Jakarta as well as depreciation of IDR, further dragging the operating and net margin down to 6.8% and 2.8% compared to 9.8% and 4.8% in 2012. We believe last year performance would be a temporary headwind since unfavorable economic indicators. This year, we estimate GEMA's performance will rebound with 10% YoY increase of revenue to IDR724 billion.

**Sound Leverage**

GEMA succeeded to record CAGR 14% of revenue growth during 2010-2013 periods accompanied by decreasing leverage. The Company's interest bearing debt to equity ratio plunged twofold to 1.51x in 2013 compared to 3.01x in 2010. We are of the view that GEMA is not going to take significant corporate action, further making the leverage level remain stable.

**Business Prospects**

PEFINDO is of the view that GEMA has shimmering outlook in the future, citing Jakarta's office rental growth is one of the highest in Asia Pacific, mainly due to the city still seen as a potential investment. The office supply is expected to reach 500k sqm this year compared to 370k sqm in 2013. Moreover, Jakarta and its surrounding has high occupancy rate to more than 90%. Taking above aforementioned statement into consideration, we estimate that GEMA is able to book revenue growth by 10% YoY this year with 26% YoY of bottom line growth.

**Table 1: Performance Summary**

	2011	2012	2013	2014P	2015P
Revenue (IDR bn)	518	598	658	724	802
Pre-tax Profit (IDR bn)	40	44	33	39	48
Net Profit (IDR bn)	28	29	19	23	29
EPS (IDR)	86	90	58	73	91
EPS Growth (%)	6	4	(35)	26	25
P/E (x)	3.5	4.4	8.1	5.2*	4.1*
PBV (x)	0.8	0.9	1.0	0.7*	0.6*

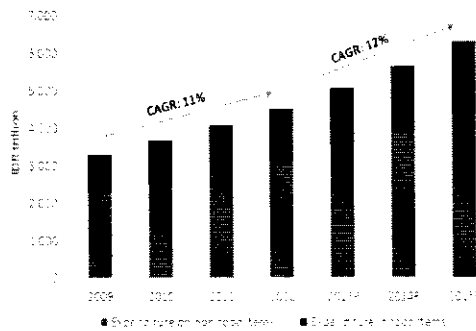
Source: PT Gema Grahasarana Tbk., PEFINDO Equity & Index Valuation Division Estimates  
\*Based on the GEMA's share price as of May 7, 2014 - IDR376 / share

**BUSINESS INFORMATION**

**Indonesia's Economy will Remain Strong**

After the unfavorable circumstances in the previous year, we are positive that pressures driving inflation and the rupiah depreciation are going to ease. We also believe that the BI rate will unlikely rise by more than 25bps, but we prefer the rate to stay at the current level. We expect economic growth to remain strong, despite short-term challenges. Indonesia's economic prospects remain bright on account of the Country's large and relatively young population (about 70% below age 45), large working population (>50% between age 20-55), and fast-growing middle class population. Based on Nielsen research, Indonesia's middle class population is estimated to grow by 174% between 2012-2020, and will be the largest contributor to the South East Asia region. Indonesia's consumer spending will also continue to increase; it grew 11% CAGR from 2009-2012, and is expected to grow at a faster rate of 12% CAGR for 2012-2015.

**Figure 1: Indonesia's Consumer Spending**



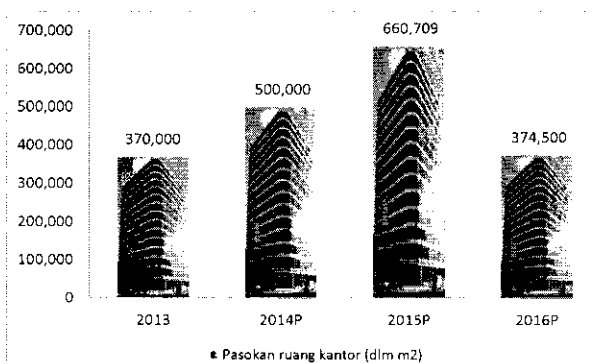
Source: Frost & Sullivan, IFT, PEFINDO Equity & Index Valuation Division

**Optimism on Office Market**

We believe the absorption of office space will remain high considering many of foreign countries open the branches in Indonesia. It is expected that there will be new office supply around of 1.5 million sqm up to 2016 where supply from outside Jakarta CBD will continue to dominate.

Last year, the office space absorption was only 200 thousand sqm from the target of 350 thousand sqm. And this year, however, we estimate around 260 thousand sqm of office space will be absorbed. Leading up the national election, we believe the sector will not be significantly affected as happened at prior event in 2004 and 2009.

**Figure 2: Office Supply in Jakarta**



Source: PT Colliers International Indonesia, PEFINDO Equity & Index Valuation Division

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Despite overshadowed by slower growth on property sector this year to 10% compared to 15% last year, the construction value on office is expected to rise by at least 20% this year.

**Table 2: Construction Value of Property Projects (in IDR trillion)**

No.	Sector	2013	2014P	Growth (%)
1)	Residential	65.7	77.2	17.4
2)	Industrial Estate	75.8	56.7	-25.3
3)	Hotel	25.9	43.9	69.5
4)	Office	34.8	41.9	20.5
5)	Retail	21.1	22.8	8.1
6)	Hospital	4.8	6.6	36.4
7)	Education	6.9	5.4	-21.8
8)	Recreation	2.6	3.3	27.1
9)	Community	1.7	1.9	11.6
<b>Total</b>		<b>239.3</b>	<b>259.6</b>	<b>8.5</b>

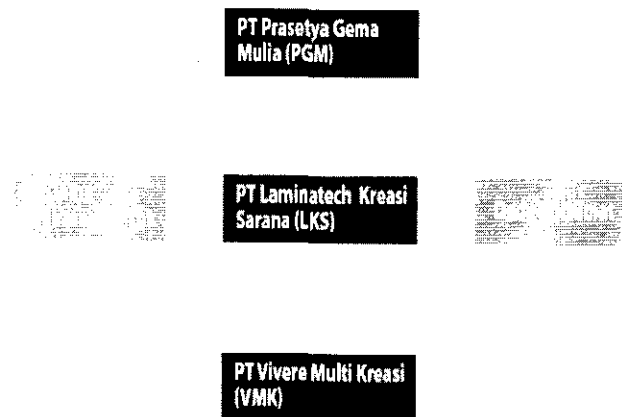
Source: BCI Asia, Investor Daily, PEFINDO Equity & Index Valuation Division

**GEMA's Subsidiaries**

The Company and its 3 subsidiaries were unified in 2005 under the VIVERE Brand with the different specialties, they are:

- PT Prasetya Gema Mulia (PGM), started its business in 1994 and became GEMA's subsidiary since 2002. GEMA owns 99% share in PGM which focuses on electrical mechanical sector from installation to maintenance services. PGM has market share around 11%. Since September 2013, GGS has been controlling the project management of mechanical electrical installation and maintenance business in PGM.
- PT Laminattech Kreasi Sarana (LKS). Established in 1997, it focus on selling laminate products for interior and furniture and edging collection, flexible power outlet, and PLC (Panel Laminated Component) manufacturer for office furniture and residential furniture. In Indonesia, LKS is the sole distributor for American laminate product – HPL (High Pressure Laminates) under the brand of Wilsonart and Arborite. To support selling activities, LKS is equipped by 6 distributors which scattered across Indonesia.
- PT Vivere Multi Kreasi (VMK), engage in retail sales of residential furniture and manufacturer of office furniture under the brand of "VIVERE". VMK has 11 shops at the town's renowned shopping districts in Jakarta, Surabaya, Bali and Medan. VMK has 10% of market share.

**Figure 3: GEMA and Its Subsidiaries**



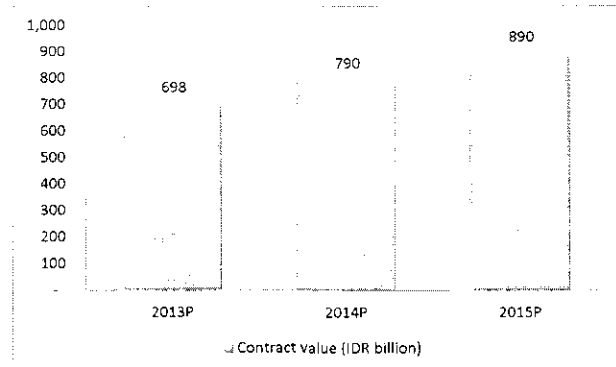
Source: PT Gema Grahasarana Tbk, PEFINDO Equity & Index Valuation Division

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**High Revenue Realization**

Unlike construction sector, GEMA has high revenue realization measured by its total project value or above 80%. It was due to the Company only need 2-3 months to accomplish a project while construction sector needs longer time. Last year, GEMA had a total contract value of IDR698 billion which around IDR657 billion (94%) was recognized as revenue. Later this year, we believe the Company's targets total contract of IDR790 billion will be achieved.

**Figure 4: GEMA's Projected Contract Value**



Source: Survey Emerging Trends in Real Estate Asia Pacific 2013, pwc-ULI, PEFINDO Equity & Index Valuation Division

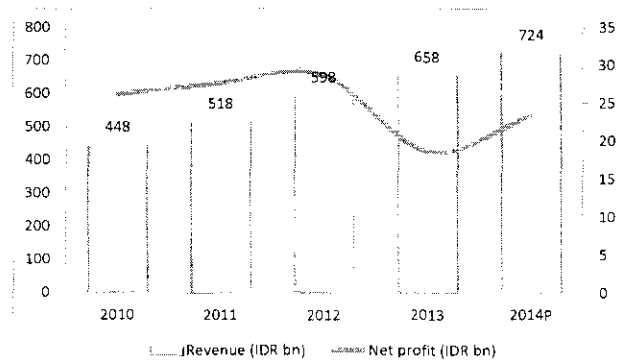
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**FINANCE**

**Growing Topline but Lower Earning**

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**Figure 5: GEMA's Revenue and Net Profit**

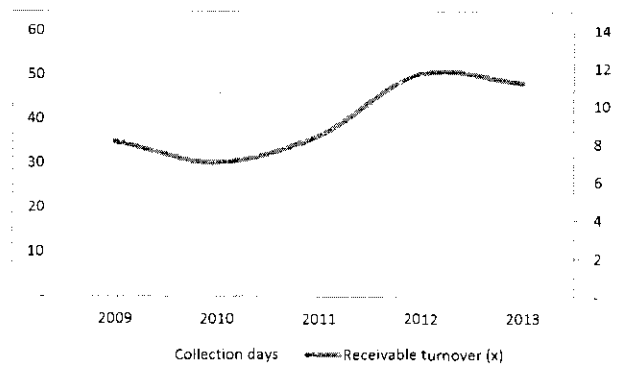


Source: PT Gema Grahasarana Tbk., PEFINDO Equity & Index Valuation Division

**Better Receivable Performance**

GEMA's receivable during 2013 was IDR57 billion, implying 32 days of collection if compared to sales. Albeit higher than 2012 period, we view this as better achievement by looking at 2010 result which was 52 days of collection. Hence, it will support the Company to obtain faster cash to fund its working capital. We believe smart receivable management will secure the Company's collection in the future.

**Figure 6: GEMA's Receivable**

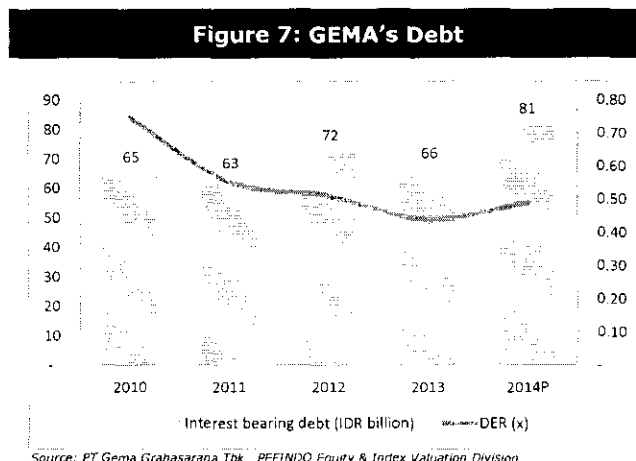


Source: PT Gema Grahasarana Tbk., PEFINDO Equity & Index Valuation Division

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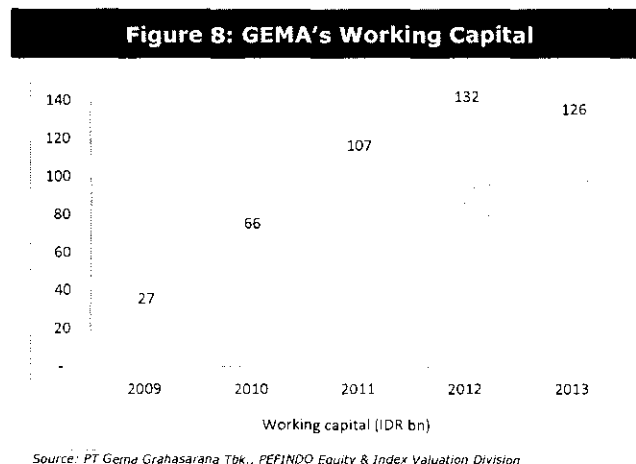
**Manageable Debt Position**

Based on 2013 result, we are of the view that GEMA's debt remains stable compared to 2010. In few years to come, we view that the Company is not going to take significant expansion. The Company prefer to focus on paying the existing debt, as seen its declining on interest bearing debt to equity ratio to 1.51x in 2013 compared to 3.01x in 2010.



**Better Working Capital Management**

GEMA's working capital jumped to IDR126 billion as of 2013 compared to IDR27 billion in 2009. We view this as a positive trend since current liabilities was getting lower amid increasing current asset. The number of day's collection of receivable also showed encouraging result, from 52 days in 2010 to 32 days in 2012. Going forward, we believe the Company is able to maintain this sound performance, citing we expect manageable debt.



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**SWOT ANALYSIS**

**Table 3: SWOT Analysis**

<b>Strength</b>	<b>Weakness</b>
<ul style="list-style-type: none"><li>• Almost 30 years of experience engaging in this industry, GEMA has strong client-based which cover multinational companies</li><li>• Integrated interior and furniture manufacturing put GEMA one step ahead compared to its competitor</li><li>• Sole distributor of HPL (High Pressure Laminate) Wilsonart &amp; Arborite USA</li><li>• VIVERE has strong brand for middle to high end customers</li></ul>	<ul style="list-style-type: none"><li>• GEMA's penetration is still limited in Jakarta and its surrounding</li></ul>
<b>Opportunity</b>	<b>Threat</b>
<ul style="list-style-type: none"><li>• Growing property industry especially for office and residential sector will boost interior projects and furniture demand</li><li>• Large supply of office space in few years to come</li></ul>	<ul style="list-style-type: none"><li>• Economic slowdown could hamper domestic investment which further affects the decrease development of office</li><li>• High competition</li></ul>



**TARGET PRICE**

**VALUATION**

• **Methodology**

We apply *Discounted Cash Flow* (DCF) method as the main valuation approach considering the income growth is the value driver for GEMA instead of the asset growth.

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

This valuation is based on 100% GEMA's shares price as of May 7, 2014, using GEMA's financial report as of December 31, 2013 for our fundamental analysis.

• **Value Estimation**

We use Cost of Capital of 9.3% and Cost of Equity of 9.6% based on the following assumptions:

**Table 4: Assumption**

Risk free rate [%]*	8.1
Risk premium [%]*	3.4
Beta [x]*	0.5
Cost of Equity [%]	9.6
Marginal tax rate [%]	25.0
Interest Bearing Debt to Equity Ratio [x]	0.6
<b>WACC [%]</b>	<b>9.3</b>

Source: Bloomberg, PEFINDO Equity & Index Valuation Division  
Notes: \*As of May 7, 2014  
\*\*PEFINDO Beta Saham, as of May 7, 2014

The target price for 12 months based on Valuation as of May 7, 2014 using DCF method with an assumption of 9.3% discount rate is ranging between **IDR490 to IDR560** per share.

**Table 5: DCF Method**

	<b>Conservative</b>	<b>Moderate</b>	<b>Aggressive</b>
PV of Free Cash Flows – IDR bn	80	84	88
PV Terminal Value – IDR bn	132	139	146
Cash and Cash Equivalent	10	10	10
Interest Bearing Debt – IDR bn	(66)	(66)	(66)
Total Equity Value – IDR bn	156	168	179
Number of Share, mn shares	320	320	320
Fair Value per Share, IDR	<b>490</b>	<b>525</b>	<b>560</b>

Source: PEFINDO Equity & Index Valuation Division Estimates

**Table 6: Consolidated Statements of Comprehensive Income (IDR bn)**

	2011	2012	2013	2014P	2015P
Sales	518	598	657	724	802
COGS	(389)	(444)	(502)	(553)	(608)
<b>Gross Profit</b>	<b>129</b>	<b>154</b>	<b>156</b>	<b>171</b>	<b>193</b>
Operating Expense	(76)	(95)	(111)	(120)	(132)
<b>Operating Profit</b>	<b>53</b>	<b>59</b>	<b>45</b>	<b>52</b>	<b>61</b>
Other Income (Charges)	(13)	(15)	(11)	(12)	(13)
<b>Pre-tax Profit</b>	<b>40</b>	<b>44</b>	<b>33</b>	<b>39</b>	<b>48</b>
Tax	(12)	(16)	(15)	(16)	(19)
<b>Net Profit</b>	<b>28</b>	<b>29</b>	<b>19</b>	<b>23</b>	<b>29</b>

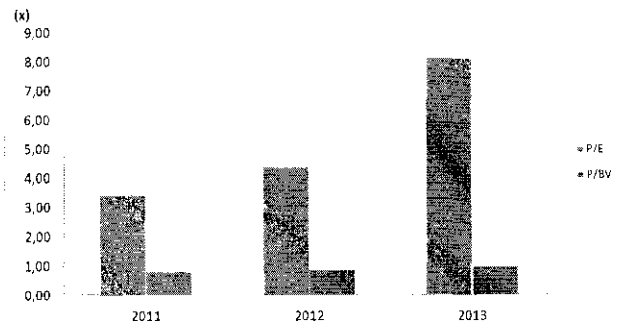
Source: PT Gema Grahasarana Tbk., PEFINDO Equity & Index Valuation Division Estimates

**Table 7: Consolidated Statements of Financial Position (IDR bn)**

	2011	2012	2013	2014P	2015P
<b>Assets</b>					
<b>Current Assets</b>					
Cash and cash equivalents	12	19	10	13	10
Receivables	43	63	63	75	83
Progress Billing	159	146	112	125	141
Inventory	38	41	51	68	75
Other Assets	46	80	51	79	99
<b>Total Current Assets</b>	<b>298</b>	<b>349</b>	<b>287</b>	<b>360</b>	<b>407</b>
Fixed Assets	70	71	75	77	85
Other Assets	7	10	16	18	13
<b>Total Fixed Assets</b>	<b>77</b>	<b>80</b>	<b>91</b>	<b>95</b>	<b>98</b>
<b>Total Assets</b>	<b>375</b>	<b>429</b>	<b>378</b>	<b>456</b>	<b>505</b>
<b>Liabilities</b>					
Trade payables	69	82	69	80	89
Short-term liabilities	11	15	21	25	27
Other liabilities	111	119	72	109	121
<b>Total short-term liabilities</b>	<b>191</b>	<b>216</b>	<b>161</b>	<b>214</b>	<b>236</b>
Long-term liabilities	60	55	46	53	58
Other Long-term liabilities	10	16	20	23	25
<b>Total Liabilities</b>	<b>261</b>	<b>287</b>	<b>227</b>	<b>290</b>	<b>319</b>
<b>Total Equity</b>	<b>114</b>	<b>142</b>	<b>151</b>	<b>166</b>	<b>186</b>

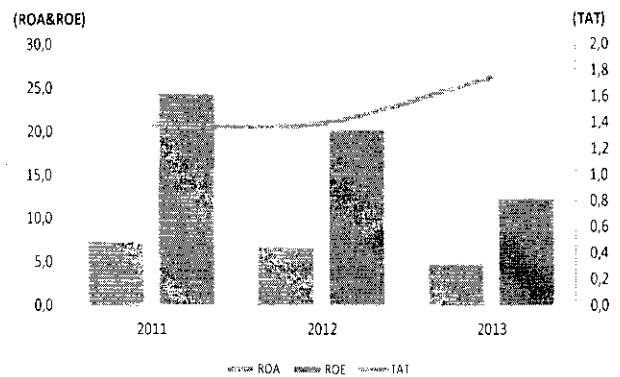
Source: PT Gema Grahasarana Tbk., PEFINDO Equity & Index Valuation Division Estimates

**Figure 9: Historical P/E and P/BV**



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

**Figure 10: Historical ROA, ROE and Total Asset Turnover**



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

**Table 8: Key Ratio**

Ratio	2011	2012	2013	2014P	2015P
<b>Growth [%]</b>					
Sales	15.6	15.4	9.9	10.2	10.7
Operating Profit	(1.6)	11.1	(23.9)	15.6	18.2
Net Profit	5.8	3.9	(35.5)	25.6	25.3
<b>Profitability [%]</b>					
Gross Margin	24.9	25.7	23.7	23.7	24.1
Operating Margin	10.2	9.8	6.8	7.2	7.6
Net Margin	5.3	4.8	2.8	3.2	3.6
ROA	7.4	6.7	4.9	5.1	5.8
ROE	24.4	20.2	12.3	14.0	15.7
<b>Solvability [X]</b>					
Debt to Equity	2.3	2.0	1.5	1.7	1.7
Debt to Asset	0.7	0.7	0.6	0.6	0.6
<b>Liquidity [X]</b>					
Current Ratio	1.6	1.6	1.8	1.7	1.7
Quick Ratio	0.3	0.4	0.5	0.4	0.4

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

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