Indonesia

NON RATED

Current price:	Rp268.0
Consensus Tgt Price:	N/A
Up/downside:	N/A
Reuters:	MMLP.JK
Bloomberg:	MMLP IJ
Market cap:	US$131.1m
	Rp1,848,117m
Average daily turnover:	US$0.01m
	Rp192.2m
Current shares o/s:	22,601m
Free float:	59.3%

Source: Bloomberg

Price performance	*1M*	*3M*	*12M*
Absolute (%)	-18.8	-23.9	-49.4
Relative (%)	-16.4	-21.4	-51

Major shareholders	% held
UOB Kay Hian PTE Ltd	32.7
PT Mega Mandiri Properti	21.5
West Bridges Development	16.9

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Mega Manunggal Property

A leading modern warehouse provider

- As per company, MMLP is Indonesia's largest independent modern warehouse provider with 34% market share of modern warehouse
- It has maintained a high and stable occupancy rate as of 9M19 c.99% with yield to cost ranging from 12.7% to 17.6% since FY14.
- A recent milestone, as per the company, is the spin-off of its mature assets into a REIT vehicle, freeing capital to boost growth and repay debt

First mover in independent modern warehousing in Indonesia

Established in 2010, Mega Manunggal Property (MMLP) is an independent and modern warehouse landlord. In 2016, it entered into a partnership with Government of Singapore Investment Corporation (GIC, unlisted) to develop some 500k sqm NLA. It currently owns 303k sqm net leaseable area (NLA), of which c.138k sqm is owned by Mega Khatulistiwa Properti (MKP) (unlisted), the 55%/45% JV subsidiary with GIC. It also has 70k sqm NLA under development. As per company, it has a leading market share of c.34%, based on NLA, among independent warehouse operators. Its warehouses are mostly built-to-suit (BTS), and its tenants comprise mostly reputable domestic and multinational companies, either in FMCG, manufacturing or logistics. Therefore, its facilities are high spec, meet international standards and are strategically located, mostly around Greater Jakarta. It has first mover advantage and is a beneficiary of the seismic change in logistics in part triggered by the rapid rise of e-commerce. Indonesia's e-commerce may hit a >3-4% in FY20-21F penetration rate of retail transactions, from the current c.2% according to eMarketer

High and stable occupancy rates with decent asset yields

It has been successful in maintaining an average of 99% occupancy rate in 2016-9M19. This is in part due to its BTS model, prudent expansion and good tenant support. Long-term lease agreements, averaging six years, lead to stable cash flow streams. Effective land banking and improving development cost have ensured that it has met the c.9-10% yield to cost target for future development (EBITDA/investment cost) despite rising competition. Its track record has been good with yields ranging from 12.7% to 17.6% in FY14-YTD.

Hitting a new milestone: freeing asset for future expansion

On 13 Nov 2019, the company announced that it has entered into an agreement to sell four mature assets under MMLP (fully owned) to a private REIT vehicle (called Indo Log One) to be based in Singapore. The transaction is valued at 0.9x FY18 P/BV or 2.1x FY14 P/BV based on acquisition cost with gross proceeds of c.Rp2tr. Most of the proceeds will be used for future expansion; Rp381bn for debt payment and c.Rp200bn for share buyback according to the company. The expansion will be solely via MKP and proceeds from asset divestment would be sufficient to add some 400k sqm NLA to its portfolio according to the company.

Share price is at 0.4x to P/BV trailing 12M

Peaking at Rp898 in Oct 2015, MMLP's share price has since declined by approx. 53% since IPO. It currently trades at 0.4x to P/BV trailing 12M and 6.8x to P/E trailing 12M. It is at c.40% P/BV and 40% P/E discounts to its regional peers as of YTD

Financial Summary	Dec-14A	Dec-15A	Dec-16A	Dec-17A	Dec-18A
Revenue (Rpb)	142	163	175	209	299
EBITDA (Rpb)	115	123	119	145	219
Net Profit (Rpb)	289	114	342	252	230
Core EPS (Rp)	-	20	60	37	33
Core EPS Growth	0	36%	-65%	59%	122%
Core P/E (x)	N/A	15.0	5.0	8.2	9.0
EV/EBITDA		38.9	39.1	35.5	24.1
Debt to Equity Ratio	0.4	0.2	0.2	0.1	0.1
P/BV	NA	0.7	0.6	0.5	0.4
ROE	20%	4%	12%	7%	6%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

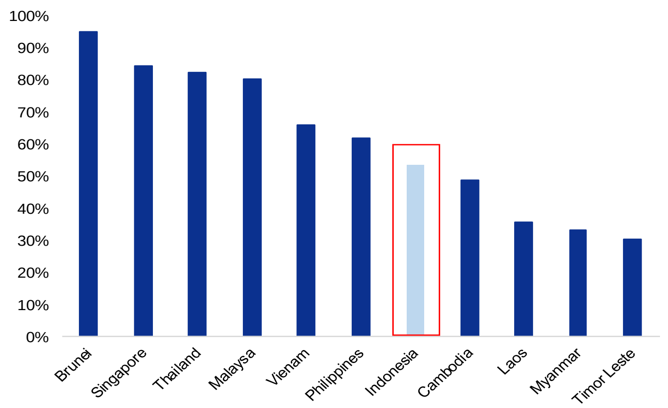
A leading modern warehouse provider

INDUSTRY OVERVIEW AND OUTLOOK

Ample room for internet penetration growth

Indonesia's Internet penetration remained at 53% as of Jun 2019 (Statista), still lagging other emerging Asian peers and developed countries. According to Jamalul Izza, General Chairman of the Indonesia Internet Providers Association, there are still many among the nations who are not online means that there remains ample room for further growth.

Figure 1: Indonesia's Internet penetration is still below other ASEAN countries (2019)



SOURCES: STATISTA

Figure 2: Asia Pacific's Internet users in m of people (2019)

Country	Users
China	802
India	560
Indonesia	150
Japan	119
Bangladesh	92
Philppines	76
Vietnam	64
Thailand	57
South Korea	49
Pakistan	45
Malaysia	26
Australia	22
Myanmar	21
Taiwan	21
Nepal	16
Sri Lanka	7
Hong Kong	7
Singapore	5
New Zealand	4
Mongolia	2
Papua New Guniea	0.9
Timor-Leste	0.6
Fiji	0.6
Maldives	0.4

SOURCES:STATISTA

Government's plan for digital economy

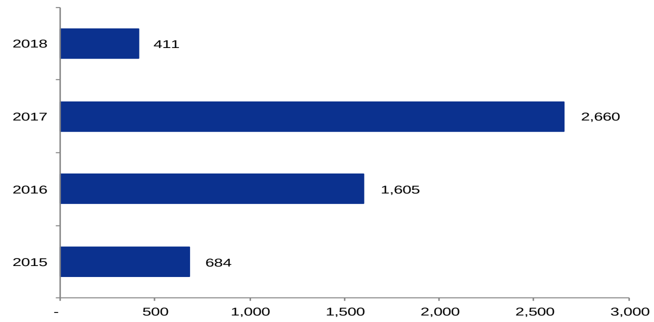
In Oct 2019, the completion of construction of the Palapa Ring East Packages marked the government's achievement of one of targets in the medium-term national development plan (RJPMN) 2014-19F. The government expected that the backbone for the national telecommunication system is to connect 514 districts across Indonesia and increase connectivity via accessibility to the Internet. During the media brief, Sri Mulyani, Minister of Finance said all part of Indonesia must be connected through the internet so that the country could reap the benefit of the digital economy.

Figure 3: Palapa Ring network development progress as of 9M19

	Progress	Network length (km)
West package	100%	2,275 km
Central package	100%	2,995 km
East package	100%	6,878 km

SOURCES: BAPPENAS

Figure 4: 4,111 locations were covered with internet access using universal service obligation fund at end-2018

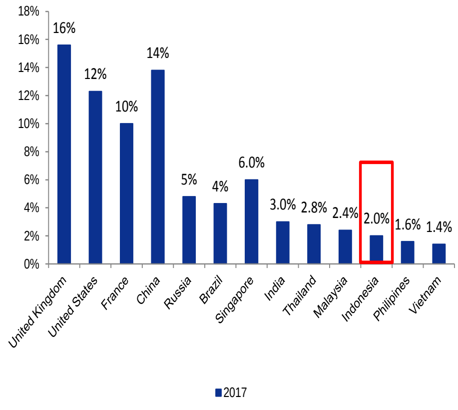


SOURCES: BAPPENAS

Plenty of room for retail e-commerce growth…

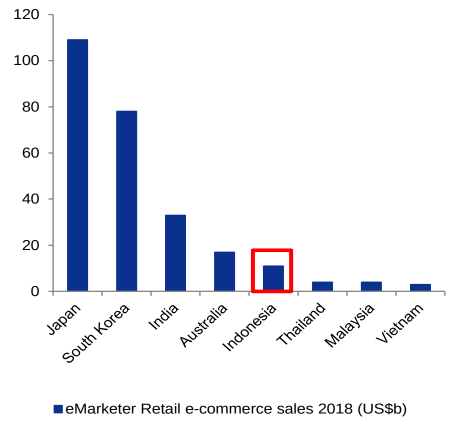
In 2018, eMarketer, a data and research for digital business, reported Indonesia e-commerce to retail sales remain low at 2% compare to its regional peers and expects to grow to 3-4% in FY20-21F. Given the smaller base, eMarketer estimates, Indonesia retail to ecommerce sales to grow by double digit in FY20-21F (fig 6-7)

Figure 5: Indonesia e-commerce to retail penetration still low at 2% at 2017



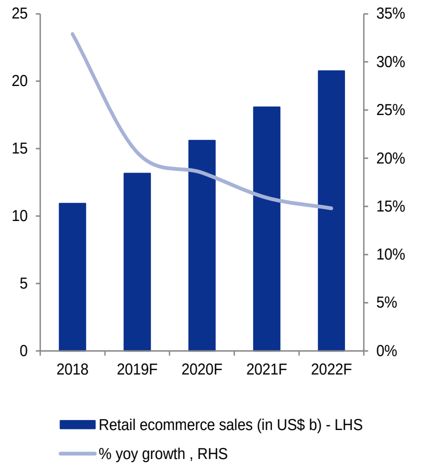
SOURCES: STATISTA

Figure 6: Indonesia retail e-commerce sales in 2018



SOURCES: eMarketer

Figure 7: Indonesia retail e-commerce sales is expected to growth double digit



SOURCES: eMarketer

… leads to higher logistics demand…

Jalur Nugraha Eka Kurir (JNE, not listed), one of Indonesia's leading courier companies, reported an increase in sales in FY18, whereby e-commerce accounts for 60-70% of its deliveries, from 30-40% in FY15. In Redseer report of Decoding Elogistic landscape in Indonesia, it estimates that online retail shipments in Indonesia will grow at a 28% CAGR in 2019-25F due to increase in e-commerce sales (see Fig 8).

Figure 8: Indonesia's retail shipments expected to grow at 28% CAGR in FY19-25F

SOURCES: Redseer

… and higher modern warehouse demand

According to MMLP research, at the moment, there is 870,000 sqm net leasable area (NLA) of modern warehouse supply and expected to increase to 2.1m sqm by 2021F, although this is still lower compared to other neighbouring countries and territories in 2018 such as Singapore (10.7m sqm NLA), Hong Kong (3.8m sqm NLA), Vietnam (0.4m sqm NLA), Thailand (3.8m sqm NLA), and Malaysia (3.7m sqm NLA)

In Jones Lang Lasalle (JLL) report of Southeast Asia industrial: an emerging destination for manufactures and capital stated third party logistics (3PL) and fast moving consumer goods (FMCG) companies occupy some 70% of total modern warehouse NLA in Indonesia. E-commerce companies only occupy some 10% of the NLA. They believes B2C e-commerce companies, such as Lazada, Jingdong Indonesia (JD.ID), Zalora, and Blibli, are expanding rapidly and would lead to strong demand in modern warehousing in the future.

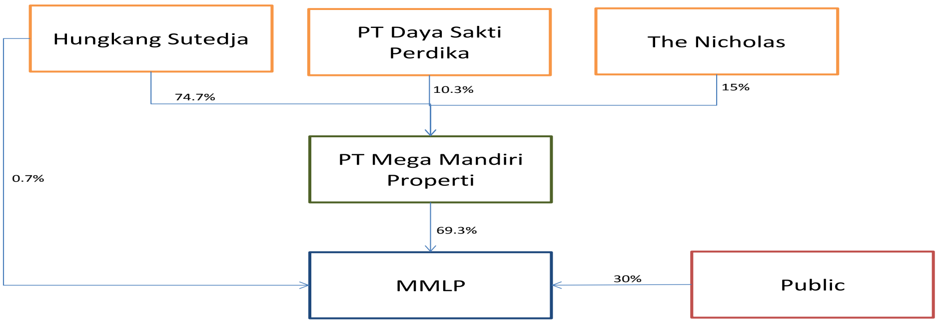
BACKGROUND

Shareholding structure as of 9M19 »

Mega Manunggal Property (ticker: MMLP IJ) was founded in 2010 by brothers Hungkang Sutedja (then holding a c.95% stake) and The Nicholas (c.5%). They are the sons of Indonesian tycoon The Ning King who founded the Argo Manunggal group (unlisted). The biggest piece of The Ning King's wealth is his shareholding in Alam Sutera (ticker: ASRI IJ, Not Rated, CP Rp260).

MMLP went public in June 2015, offering 1.7m shares (30% stake), and generated total proceeds of Rp1tr. The IPO price of Rp585/share implied 11.7x CY14 P/E. The proceeds went to land acquisition (91.25%) and working capital (8.75%).

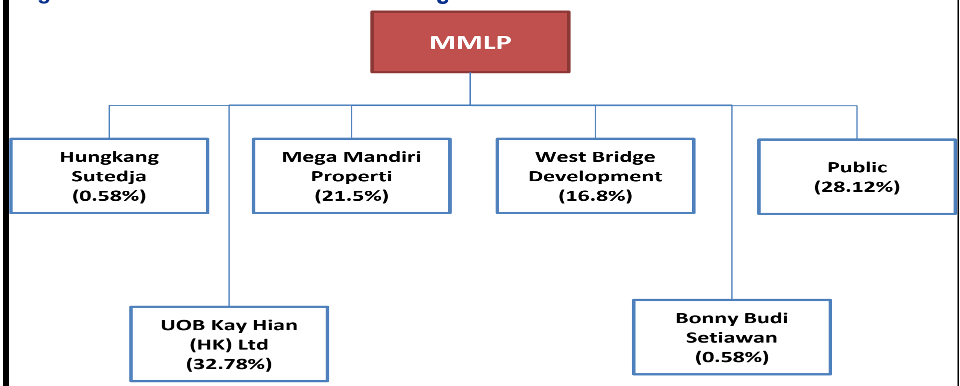
Figure 9: MMLP's shareholder post IPO



SOURCES: COMPANY REPORTS

In Oct 2017, MMLP conducted a limited public offering with pre-emptive rights with 1.17m new shares. The rights issue was priced at Rp580/share, implying 10.0x 2016 P/E. The proceeds of Rp681bn from this exercise went to the construction of logistic properties in Bekasi, Bogor, and Tangerang; and acquisition of land in Bekasi, Tangerang, and Gresik.

Figure 10: MMLP's current shareholding structure



SOURCES: COMPANY REPORTS

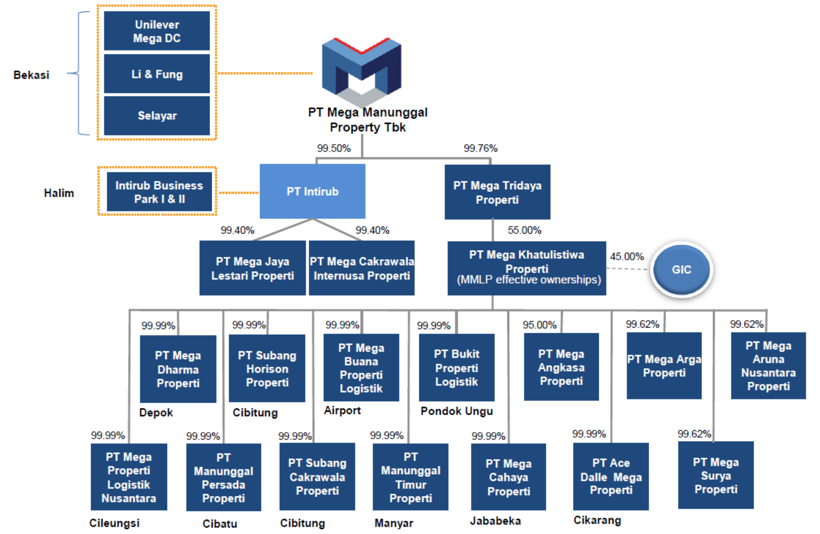
Enters into partnership with GIC ›

On 15 Apr 2016, Government of Singapore Investment Corporation (GIC) entered into a JV with MMLP to acquire 500k sq m of NLA in five years by 2021F purchasing a 33.4% stake in Mega Khatulistiwa Properti (MKP) for Rp330bn. Furthermore, in April 2017, GIC bought an additional 11.6% stake in MKP for Rp210.9bn, increasing its stake of 45%. MKP was then a 100%-owned subsidiary of Mega Tridaya Properti (MTP) (unlisted), a 99.8% subsidiary of MMLP. GIC's participation in MKP was in lieu of Daiwa House Group (1925 JP, NR, CP JP¥3.37), the initial partner for the JV.

Pursuant to the MKP partnership with GIC, MKP held all the group's new property developments, with a company set up for each project to enable easy performance monitoring and future monetisation through asset recycling.

Currently, MKP owns 14 subsidiaries. Properties developed prior to the partnership with GIC are placed directly under MMLP (three properties) and under Intirub (one property) (Fig 11).

Figure 11: MMLP's assets structure (post-partnerships with GIC)



SOURCES: COMPANY REPORTS

BUSINESS OVERVIEW

Modern warehouse facilities with international standards ›

MMLP vision is to become a company that focuses on being a pure modern warehouse landlord (develop, own, and operate). It does not intend to become a third-party logistics (3PLs) company which offers integrated services of warehouse space and logistics management to clients

It develops its warehouse facilities to meet international standards; its units are 5k-100k sq m in size. Its facilities are far different from the typical conventional “gudang” style warehouses in Indonesia.

According to JLL Indonesia logistic – Fast Track or Derail report, a “gudang” is often an old building structure, has low ceiling (5-6 metres), without or limited loading docks, and the floor load capacity is not well designed (Fig 12). This may result in floor depression if goods are stored beyond the loading limit. Overall, a “gudang” usually functions only as a simple storage solution and does not support logistics efficiency.

MMLP currently has eight operating warehouse facilities meeting high specifications and international standards, including super flat floors, double-decker warehouses, minimum 9-metre-high ceilings (to provide space for cargo lifting using worklifts), minimum floor capacity of 1.5 tonne per sq m (to accommodate use of forklifts), minimum 8-meter distance between pillars (to increase efficiency).

Figure 12: MMLP’s warehouse specifications

	Standard warehouse	Unilever Mega DC	Li & Fung	Intirub Business Park	Selayar	Lazada	Cibatu	Cileungsi	Block AE
Floor capacity	≤ 1,5 ton/m²	s/d 6 ton/m²	s/d 6 ton/m²	s/d 4/4,5 ton/m²	s/d 4 ton/m²	s/d 4 ton/m²	s/d 5 ton/m²	s/d 5 ton/m²	s/d 4 ton/m² (1st Floor) s/d 4 ton/m² (2nd Floor)
Ceiling height	≤ 5,0 m	12 m (center 17 m)	11 m (center 12,5 m)	10 m (Phase I) 9 m (Phase II)	9 m (center 13m)	12 m (center 16 m)	12 m	12 m	8 m (Upper Floor) 9 m (Ground Floor)
Distance between pillar	≤ 8,0m	Main area: 18 x 36 m Area aerosol: 9 x 28,5 m	27 x 18 m; 30 x 18 m	Phase 1: *Basement*: 8 x 8 m *Ground Floor* 8 x 30 m Phase 2: *Basement*: 6 x 15 m *Ground Floor* 12 x 30m	30 x 12m	24 x 18 and 32 x 18	18x30m	18x24m	6x12m (1st Floor) No Pillar (2nd Floor)
Level	*single*	*Single (multi racking)*	*Single (multi racking)*	*Multi*	*Single*	*Single (multi racking*	*Single*	*Single*	*Multi*
Flooring	standar	*Super flat*	*Super flat*	*Flat*	*Flat*	*Flat*	*Super Flat*	*Reinforce concrete Slab*	*Reinforce concrete*

SOURCES: COMPANY REPORTS

Built-to-suit and standard warehouse building ›

MMLP's facilities are divided into two types: built-to-suit (BTS) warehouse and standard warehouse building (SWB) or multi-tenants warehouse. Its current NLA mix is 60% BTS warehouse and 40% SWB warehouse.

BTS warehouses are developed upon request from specific prospective tenants. According to MMLP’s management, the company will enter into a lease agreement with the tenants before developing the assets. Meanwhile, SWB warehouses are usually developed with standard specifications, and can cater for multiple tenants in need of smaller spaces. SWB facilities are usually developed after the company receives occupancy inquiries for at least 50% of the NLA of a given facility.

Typically, BTS tenants sign longer lease agreements of 10 years with an option to extend for another 5-10 years. The lease agreement for SWB warehouses is typically 5 years with an option to extend for another three years.

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Figure 13: MMLP's warehouse portfolio

Builto-to-suit

Project	Land area	NLA	Tenant	Start lease period	Lease period (year)	Option to extend (year)
Unilever Mega DC	197,690	90,288	Unilever	Apr-12	10	10
Li & Fung	34,637	21,612	Li & Fung	Apr-18	5	5
Lazada Warehouse	90,041	61,500	Lazada	Apr-17	10	10
Cibatu	50,000	36,355	ARK Logistic	Feb-18	10	10
Delta Silicon 3	103,808	67,475	DHL	end of FY19F	10	

Standard Warehouse Building

Project	Land area	NLA	Tenant	Start lease period	Lease period (year)	Option to extend (year)
Intirub Business Park	60,570	33,622 (warehouse) + 3,893 (office)	DHL	Jan-12	10	
			Grundfos Pompa	Apr-19	5	
			Birotika Semesta	Jun-19	10	
			Tri Adi bersama	Oct-18	2	
			Matahari Department Store	Jul-19	3	
			MHE Demag Indonesia	Apr-14	10	
Selayar	9,164	5,620	Windu Persada Cargo	Apr-18	5	5
Block AE	35,740	38,854	CJ Logistic	May-18	3	
			Yusen	Mar-17	3	2
			Best Logistic Services	Oct-18	2	
			Kamigumi Logistic Indonesia	Jan-19	3	
Cileungsi	50,004	31,456	Syngenta Indonesia	Nov-18	3	

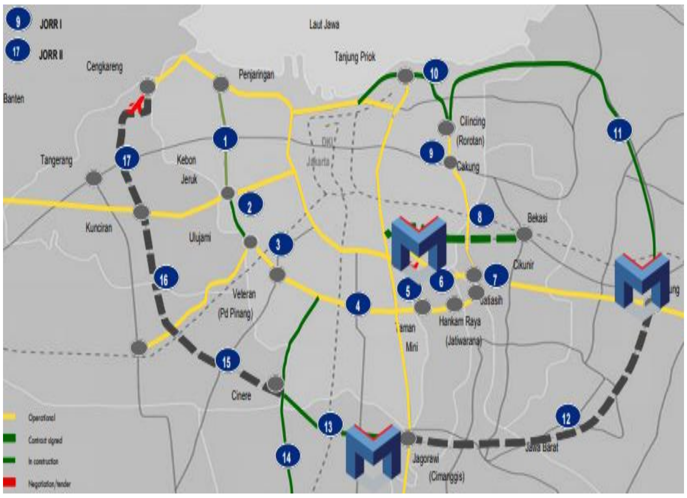
SOURCES: COMPANY REPORTS

Strategically positioned

Its operating facilities are strategically positioned on Java island, and mostly within or close to the Greater Jakarta area, where 70-80% of manufacturers are located in Indonesia. Additionally, its facilities are well connected to Jakarta, airports, and seaports through existing and future new toll roads.

According to the company, it plans to mainly concentrate the expansion of its facilities in Java. However, it will consider building some new facilities in ex-Java areas, including Sumatra, which has the second-largest population after Java.

Figure 14: MMLP's warehouses in the Greater Jakarta area



SOURCES: COMPANY REPORTS

Figure 15: Strategically located near key facilities

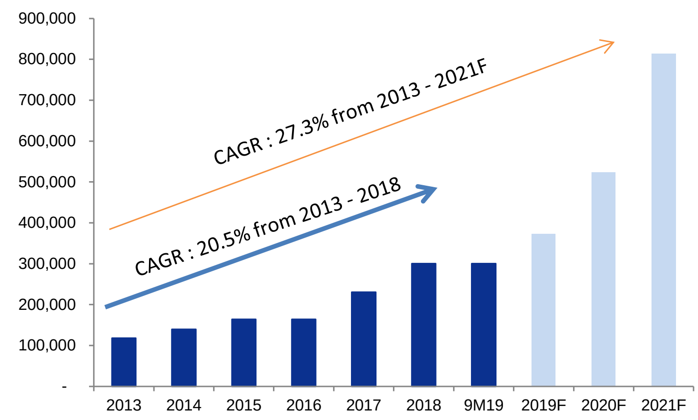
(in km)	Jakarta	Tanjung Priok Port	International Airport
Intirub Business Park	0	22	39
Unilever Mega DC	32	44	66
LI & Fung	31	43	65
Selayar	32	44	66
Lazada	22	43	60
Block AE	32	44	66
Cileungsi	26	41	59
Cibatu	35	51	73

SOURCES: COMPANY REPORTS

Dominant presence in Indonesia ›

MMLP started construction on its first warehouse in Oct 2010 for Unilever Mega DC with NLA of ~90,288 sqm, which was completed in 2012. From end-2018 until 9M19, total NLA remained unchanged at 300,680 sqm. Its NLA increased by a 20.5% CAGR over 2013-2018. As at 9M19, the company has leading NLA market share of 34% among modern warehouse providers in Indonesia, according to the company. By 2021F, it plans to add total NLA of 500,000 sqm, 57% of which the company expects to be contributed from BTS and 43% from SWB. Currently, three new facilities for Lazada (in Tapos, Depok), DHL (in Delta Silicon III, Cikarang), and Manyar (in Surabaya) are under development with total NLA area of~70,000 sqm (see Fig 17).

Figure 16: MMLP's NLA increased by 20.5% in 2013-2019F as per company reports



SOURCES: COMPANY REPORTS

Figure 17: Two BTS facilities under construction

SOURCES: COMPANY REPORTS

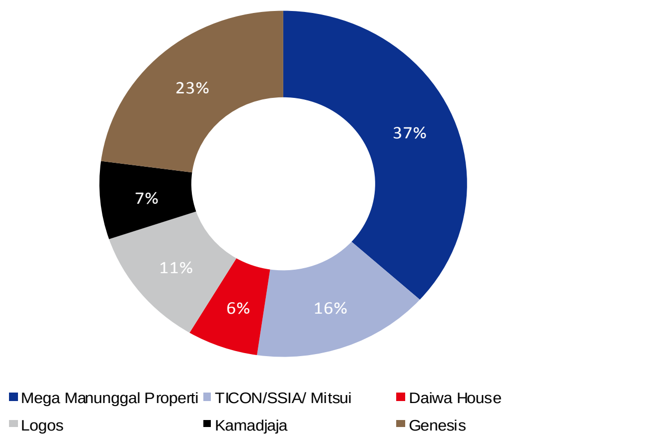
Currently, MMLP's largest competitor is Genesis, a private-equity backed warehouse provider from the United States, according to the company. Genesis was established in 2016, and currently operates 260,000 NLA sqm of warehouses in Cikarang, Karawang, Tangerang, and Manado. By 2021F, Genesis aims to increase its portfolio to c.500,000 NLA sqm through acquisitions and development according to the company website.

Figure 18: Modern warehouse supply still largely concentrated in Java as per company reports

Developer	Completed	FY21F	Market share FY21F	Location
Mega Manunggal Properti	300,680	800,680	37%	Karawang, Bekasi, Cikarang, Surabaya
TICON/SSIA/ Mitsui	62,000	341,000	16%	Karawang
Daiwa House	76,000	136,000	6%	Bekasi
Logos	0	247,000	11%	Pondok Ungu, Cileungsi
Kamadjaja	159,000	159,000	7%	Java and Sumatra
Genesis	274,422	500,000	23%	Cikarang, Karawang
	872,102	2,183,680		

SOURCES: COMPANY REPORTS

Figure 19: Potential market share for modern warehouse in term of NLA in FY21F, as per the company



SOURCES: COMPANY REPORTS

Figure 20: The competitor design is not suitable for Indonesian trucks

SOURCES: COMPANY REPORTS

Figure 21: MMLP's competitive advantages

MMLP	Competitor
In-house engineering consultation, to meet tenant design specifications and cost optimisation	Design not suitable with most Indonesia truck
All facilities meet international standards	Mostly older warehouse, renovated for new occupants
Proven track record, with famed multinational company on it tenant lease	
High occupancy rate, reaching 99%	

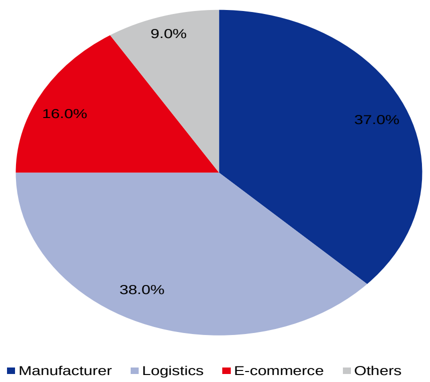
SOURCES: MMLP

Reputable tenant profiles

The company said that in order to ensure good long-term lease agreements with its tenants, it always conducts a proper due diligence (know your customer or KYC) process with its prospective tenants.

Its tenants come from reputable domestic and multi-national companies. In terms of industry type, its tenants are mainly dominated by manufacturers (37%) and logistics players (38%), while e-commerce contributed 16% of its tenancy.

Figure 22: Tenants by industry type, as at end-1H19



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 23: MMLP's clients as at 1H19

SOURCES: COMPANY REPORTS

High and stable occupancy rates

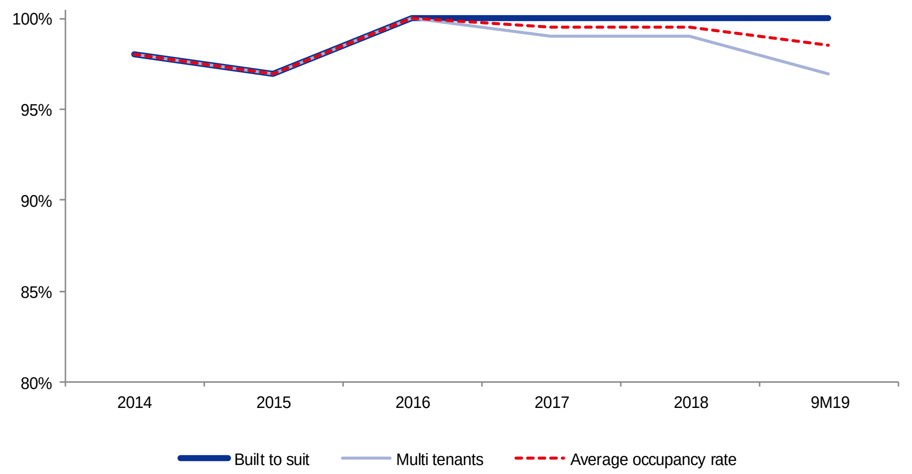
Since 2016, the company has successfully maintained a high and stable occupancy rate of~99%. The company attributes this to prudent expansion planning, supported by its strong research team and marketing personnel, and excellent tenant supports.

The company believes it will be able to secure lease extensions with its tenants as long as they continue their business operations. The key reasons are: 1) high moving cost, 2) limited options available, 3) strategic location and 4) high quality and service.

Two of its lease agreements will expire soon: Unilever in 2022F and Li & Fung in 2020F. Based on the company disclosure , both Unilever and Li & Fung have the option to extend their leases for an additional 10 years and 5 years, respectively

The company believes it would be costly for Unilever and Li & Fung to move out of existing facilities as both companies currently occupy a total of 90,288 sqm and 21,612 sqm NLA, respectively. Additionally, both warehouses are strategically located in the MM2100 industrial area (West Cikarang, Bekasi), which are close and well-connected to Jakarta and the largest seaport in Indonesia, Tanjung Priok.

Figure 24: Occupancy rate of 99% over the past 5 years



SOURCES: COMPANY REPORTS

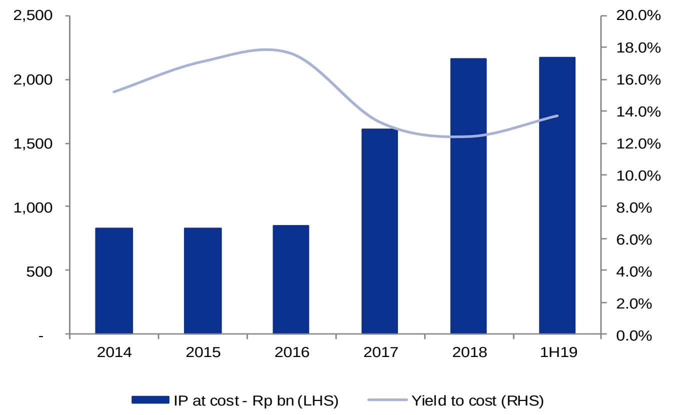
Maintaining decent and stable asset yields

MMLP sets a minimum 9-10% yield to cost for all of its facilities. By far, its operating assets have clinched higher yields of 12.7-17.6% in FY14-YTD.

As per company stated, it calculate asset yield based on EBITDA (including facilities' depreciation) vs. its initial investment cost. To maintain asset yield, it factors in 1/3 land and 2/3 building (construction) investment costs for each facility

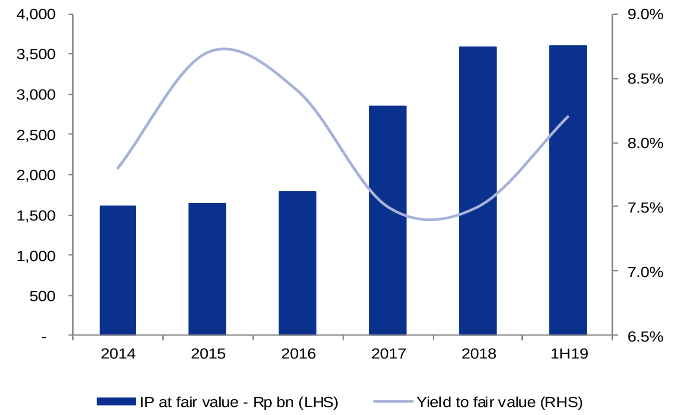
Management's strong track record in land banking allows the company to manage reasonable land acquisition cost. Going forward, the company said it will further increase construction cost efficiency to compensate for increasing land acquisition cost.

Figure 17: MMLP retained yield to cost above 12%



SOURCES: COMPANY REPORTS

Figure 18: MMLP retained yield to IP fair value above 7%



SOURCES: COMPANY REPORTS

FINANCIALS

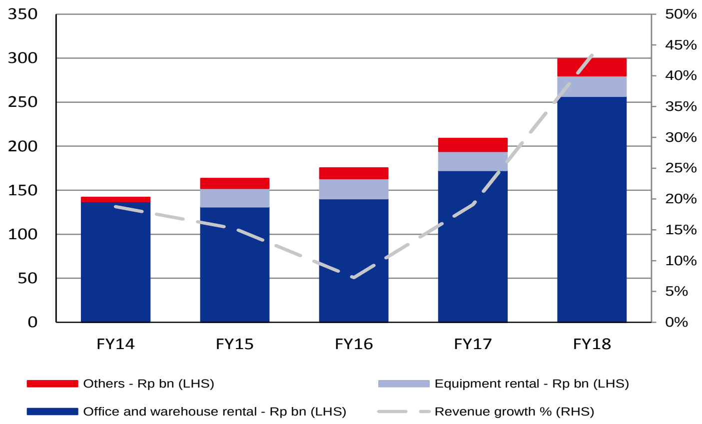
Higher BTS revenue contribution

In FY14-18, MMLP's revenue grew by a 21% CAGR. 100% of revenue was contributed from rental revenue and rental-related business. This includes 80-86% revenue from office and warehouse rental, 9-14% revenue from equipment rental, and 6-7% revenue from other business (e.g. maintenance).

BTS warehouse rental and other revenues have been the key contributor to revenue, with an increasing trend of 63-70% in FY14-18. BTS tenants typically have longer lease agreements compared to SWB warehouse tenants which have secure cash flow streams.

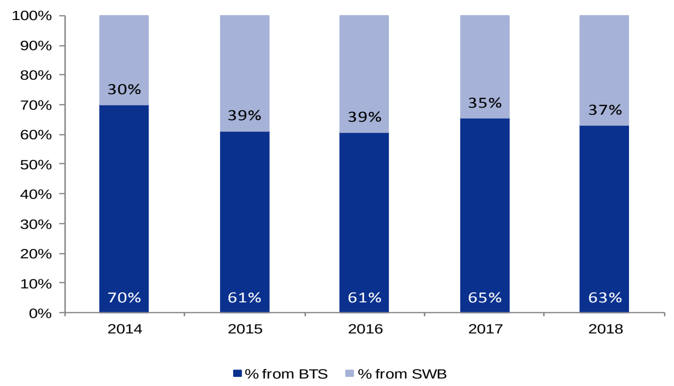
Revenue growth in FY14-18 was driven by additional NLA and/or periodic rental adjustments of some 5% every two years for both BTS and SWB.

Figure 19: Revenue grew by a 21% CAGR in FY14-18



SOURCES: COMPANY REPORTS

Figure 20: BTS contributed 63-70% of revenue in FY14-18



SOURCES: COMPANY REPORTS

Securing advance payments

MMLP requires advance lease and maintenance payments from its tenants. It records the advance payments as unearned revenue on its book. Revenue recognition happens once services are rendered.

The advance payment period varies among customers depending on the term for each contract, i.e. up front, annually, quarterly, and semi-annually. For example, Unilever (UNVR IJ, HOLD, CP Rp42,075), which has a 10-year lease agreement, agrees to pay annual rental in advance. While, Yusen(9101 JP,NR,CP ¥1,866), which holds a 3-year lease agreement, agrees to pay all rental revenue in advance.

Figure 29: Lease commitment as of 9M19

Tenants	Contract periods	Payment terms
Unilever Indonesia	April 2012 - April 2022	Annually
Li & Fung	May 2018 - May 2023	Quarterly
Li & Fung	January 2018 - December 2020	Quarterly
Windu Persada Cargo	April 2018 - March 2023	Triannually
DHL Supply Chain Indonesia	January 2012 - January 2022	Quarterly
Grundfos Pompa	May 2019 - April 2024	Semi-annually
Birotika Semesta	June 2019 - June 2029	Semi-annually
Tri Adi Bersama	October 2018 - October 2020	Annually
Matahari Department Store	July 2019 - June 2022	Annually
MHE-Demag Indonesia	April 2014 - April 2024	Semi-annually
Lazada	April 2017 - March 2027	Annually
Lazada	July 2019 - July 2029	Annually
ARK Logistic and Transport	February 2018 - January 2028	Semi-annually
ARK Logistic and Transport	December 2017 - November 2027	Semi-annually
CJ Logistic Nusantara	May 2018 - April 2021	Annually
Yusel Logistic	February 2018 - January 2021	All rental revenue paid in advance
Orindo Alam Ayu	June 2018 - May 2022	2 Years
Syngenta Indonesia	November 2018 - November 2021	Quarterly
Best Logistic Service	January 2019 - December 2020	Semi-annually
Kamigumi Logistic Indonesia	January 2019 - December 2021	Annually
DHL Supply Chain Indonesia	September 2019 - April 2030	Annually

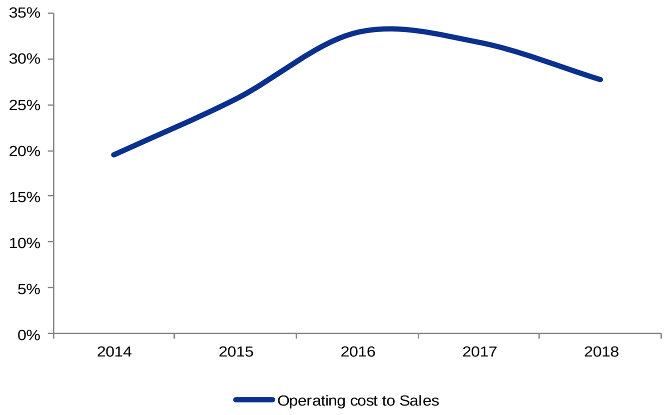
SOURCES: COMPANY REPORTS

Cost structure

In FY14-18, its cost of revenue-to-sales ratio was in the range of 20-33%. Its operational costs were mostly derived from facilities and services, i.e. security, permits, taxes, structural maintenance. Total cost of revenue and operating expenses accounted for 14-22% of sales in FY14-18. Salaries and allowances expense was the highest incurring operating costs, totalling 6-11% of revenue in FY14-18.

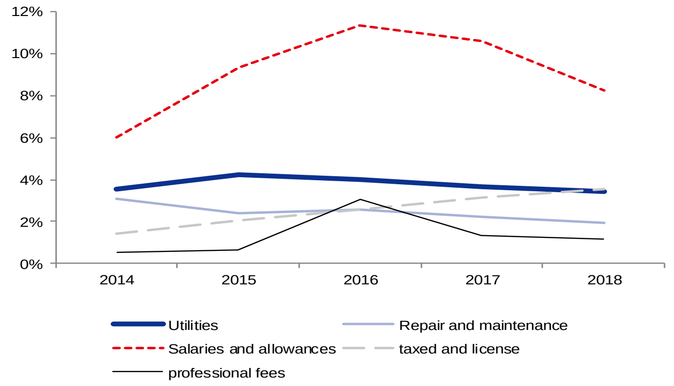
Opex peaked at 33% to sales in FY16, which was due to the addition of a one-time professional fee for partnership agreement between GIC and MMLP amounting to Rp5.4bn (+388% yoy). At the same time, in 2016, it had a significant increase in salaries and allowances expenses, amounting to Rp19.9bn (+30% yoy), due to new hires in the engineering and marketing team to boost sales.

Figure 30: Operating cost to sales peaked in FY16 as it entered into partnership with GIC



SOURCES: COMPANY REPORTS

Figure 31: The highest cost to sales is salaries and allowances

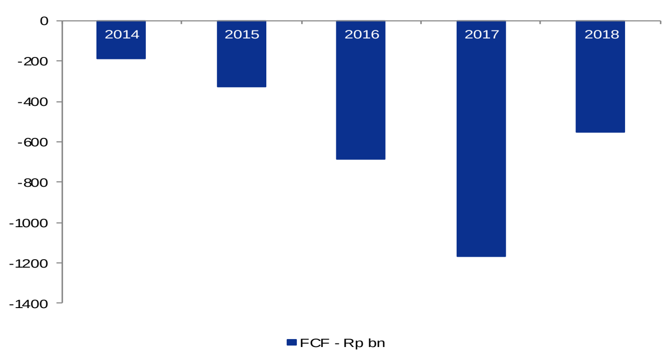


SOURCES: COMPANY REPORTS

Cashflow is still in expansion mode, as per the company

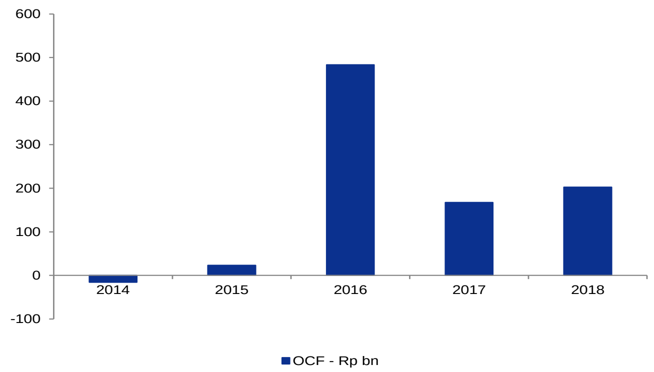
In 2014, MMLP had a negative operating cashflow (OCF) balance due to scheduled payments of trade payables to a vendor of Rp300bn. While its free cashflow (FCF) was negative in FY14-18 due to high capex. Since its IPO in FY15, it has not distributed a cash dividend.

Figure 32: FCF still negative as company still in expansion mode



SOURCES: COMPANY REPORTS

Figure 33: OCF has turned positive in the past 3 years



SOURCES: COMPANY REPORTS

Adopting PSAK 13

MMLP adopted Indonesia financial accounting standards (PSAK) 13 for investment properties to better measure the maturity of its facilities. Due to the adoption of PSAK 13: 1) it needs to recognise changes in fair value of investment properties in its profit and loss statement; and 2) it can only account for depreciation of fixed assets but not for its warehouse facilities.

Its facilities' EBITDA margin (including depreciation) should be in the range of 92-93% for SWB warehouses and 95% for BTS warehouses, according to the company. BTS warehouses could attain a higher EBITDA margin as the company can pass on security, utility and repair costs to its tenants. However, it has to bear these costs for SWB warehouses, according to the company. While its EBITDA margin at group level was lower at 71-82% in FY14-18 due to higher opex from group level.

Figure 34: Historical EBITDA and EBITDA margin

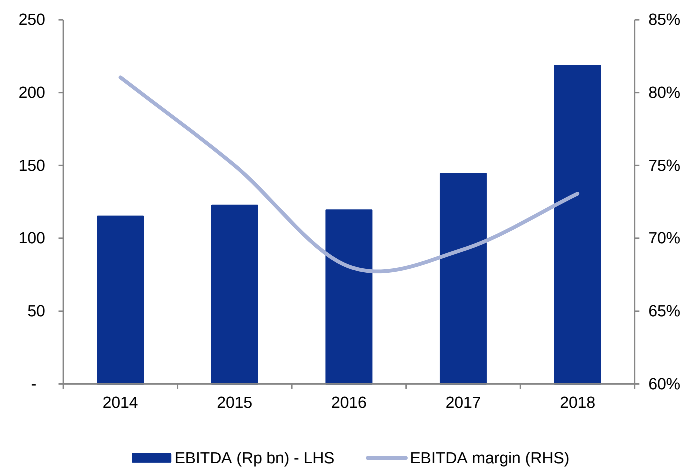


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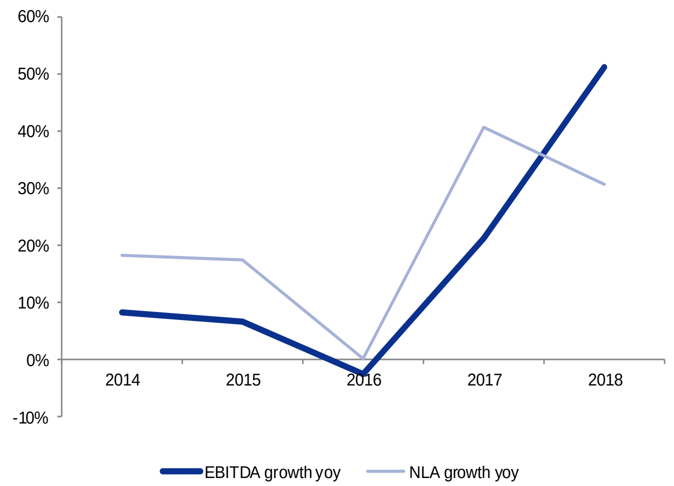
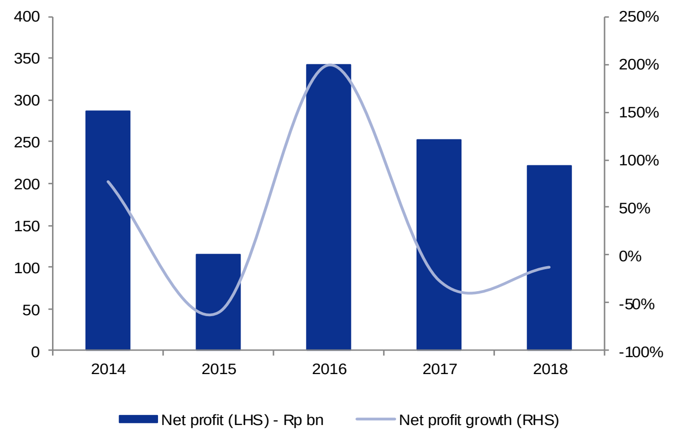
Figure 35: Historical NLA growth vs. EBITDA growth



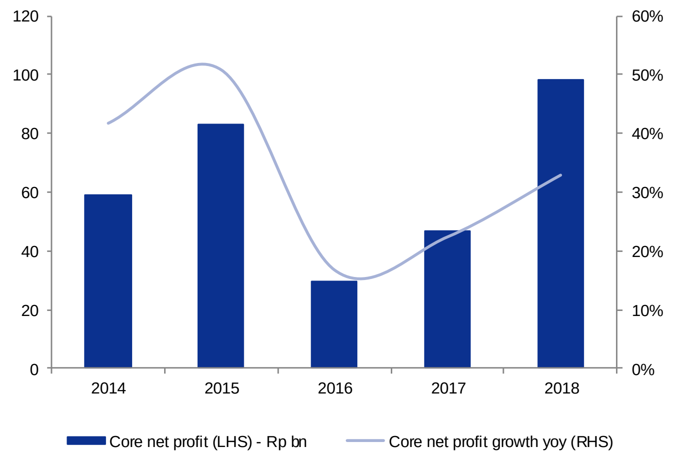
SOURCES: COMPANY REPORTS

Figure 36: Historical NP including fair value in FY14-18



SOURCES:, COMPANY REPORTS

Figure 37: Historical core NP and core NP yoy growth in FY14-18



SOURCES: COMPANY REPORTS

Securing funding for future expansion

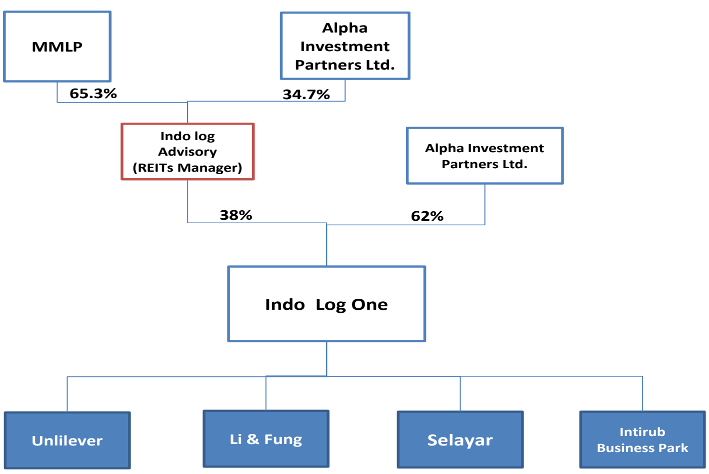
According to public disclosure by MMLP to the Indonesia Stock Exchange (IDX), MMLP plans to sell its four matured assets (i.e. Unilever, Li & Fung, Selayar and Intirub Business Center) in Jan FY20F to Indo Log One, a private real estate investment trust (REIT) in Singapore, for Rp2tr. This implies 0.95x FY18 P/BV or 2.1x FY14 P/BV based on acquisition cost.

According to the company, Alpha Investment Partner Ltd. will have a 62% stake in the REIT. The remaining 38% stake will be held by PT Indo Log Advisory (ILA), who is the REIT's investment manager. MMLP will have a 65.3% stake in ILA with a total value of Rp596bn. Hence, post-transaction, MMLP will have a 25% indirect stake in the REIT.

Based on the company, it will receive net proceeds of Rp1.3tr (after deducting the 65.3% stake purchase in ILA and debt repayment to Bangkok Bank worth Rp381bn). The company plans to use the proceeds to buy back shares (Rp200bn) and inject the rest into MKP, a JV with GIC. This will be sufficient to fund MMLP's equity portion to expand NLA by 400,000 sqm until 2021F.

Based on the company's estimation, total funds needed for the 400,000 sqm expansion are Rp3.2tr, i.e. 1tr for land acquisition and Rp2.2tr for construction costs. In Indonesia, firms are not allowed to use bank loan proceeds to acquire land. As per company, they must put up their own equity for land acquisition, while construction would be based on a capital structure of 30% equity and 70% debt. Hence, Rp1.6tr equity and Rp1.5tr debt is required to fund this expansion. This forms a blended capital structure of 50% equity and 50% debt. Overall, MMLP would need to inject Rp913bn cash equity into MKP (Fig 39).

Figure 38: REIT plan structure



SOURCES: COMPANY REPORTS

Figure 39: REIT cash proceeds based on the company

	Amount	Remarks
Total cash proceeds	2,013	
Repay debt	(381)	To Bangkok Bank
Buying 65.3% stakes at ILA [1]	(332)	
Net cash proceed	1,300	Inject to MKP for future development
Property management	3% p.a	of NPI
Investment management fee	0.33% p.a	of AUM / 65.3% out of 0.5%
Carried interest		
[1]		
Total capital required to buy 65.3% stakes at ILA		
Total capital	595	
70% Debt	332	
30% Equity	263	

SOURCES: COMPANY REPORTS

Figure 40: Future expansion capital structure FY20-22F (company estimates) (as of 9M19)

Account	in Rp		Total cost	in Rp bn	Remarks
Land acquisition cost	2,500,000	/sqm	Total land acquisition cost	1,000	Land acquisition need 100% equity
Construction cost	5,500,000	/sqm	Total construction cost	2,200	
Land bank required	650,000	sqm	Debt 70%	1,540	
Land bank owned	250,000	sqm	Equity 30%	660	
Land bank needed	400,000	sqm	Total		
Construction	400,000	sqm	Equity	1,660	
			MMLP (55%)	913	
			GIC (45%)	747	
			Debt	1,540	

SOURCES: COMPANY REPORTS

Potential impact from first REIT issuance

Post transaction, in FY20F, the company expects its EBITDA to come down by Rp160bn due to sale of the four assets to the REIT. Meanwhile, it will book a loss of Rp93bn from the sale of investment properties according to the company; note that it sold the four assets at 0.95x FY18 P/BV.

As it owns a 25% indirect stake in the REIT, the company estimates to receive a dividend payment of Rp12.4bn p.a. from the REIT (after tax) (fig 39)

As stated in public disclosure, ILA as the REIT's fund manager is set to receive management fee of 0.5% of total assets under management (AUM) annually. Hence, MMLP will receive 65.3% of the management fee annually. (fig 39)

Additionally, post-transaction, MMLP will continue to manage the properties. As compensation, it will receive 3% property management fee of the net property income (NPI) annually, per public disclosure. (fig 39)

On a long-term basis, if the fund achieves higher-than-expected hurdle rate over the next 10 years, the fund manager or ILA will receive 15% of the excess return according to the public disclosure.

Figure 41: Estimated impact of REIT issuance in FY20F, as per the company

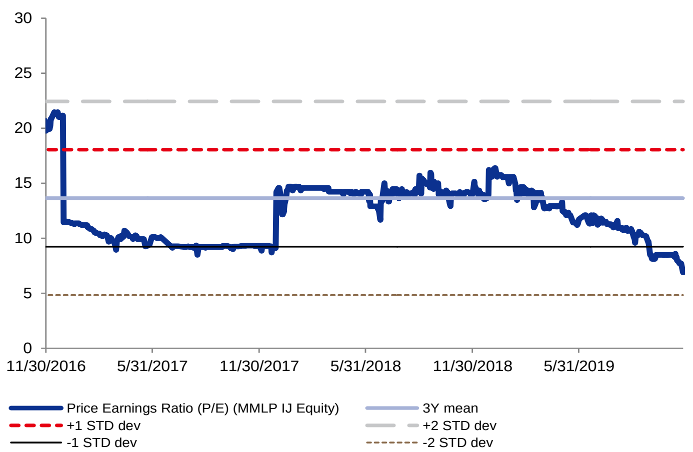
In Rp bn		
EBITDA (-)	(159.7)	From 4 assets
EBITDA (+)	25.7	From new asset operation in 4Q (addition 100,000 sqm of NLA with ASP Rp100k/sqm of NLA) and EBITDA margin 94%
Other income		
Dividend	12.4	Assume other expenses 5% from EBITDA
Fee	4.79	3% out of NPI
Investment management	6.53	65.3% out of 0.5% from AUM (Rp 2tr)
Loss on sales on IP		
Total other income	24	
Net	(110.32)	

SOURCES: COMPANY REPORTS

Valuation

Peaking at Rp898 in Oct 2015, MMLP's share price has since declined by approx. 53% since IPO. It currently trades at 0.4x to P/BV trailing 12M and 6.8x to P/E trailing 12M. It is at c.40% P/BV and 40% P/E discounts to its regional peers as of YTD as of 25 November to its regional peers, based on Bloomberg.

Figure 42: It currently trades at 6.8x FY19 P/E or 1.5 s.d. below it 3-year mean, based on Bloomberg 12M Trailing EPS



SOURCES: BLOOMBERG

Figure 43: It currently trades at 0.4x FY19 P/BV or 2 s.d. below it 3-year mean, based on Bloomberg 12M Trailing BVPS

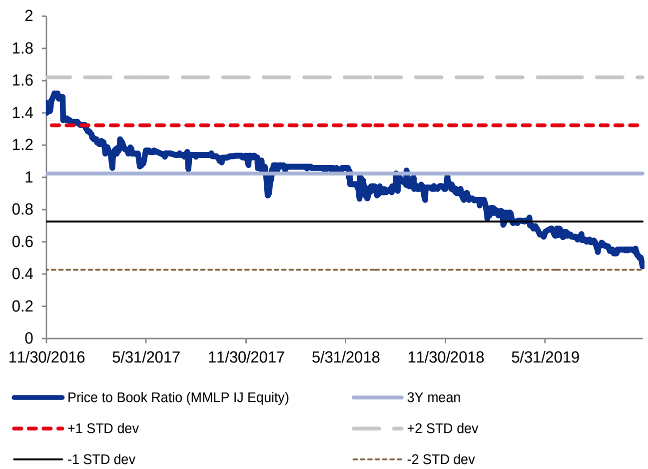


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Figure 44: Peer comparison

Company Name	Bbg ticker	Last price (in LCY)	Market cap in USD mn	Rec.	Price to earnings FY17	FY18	Price to book FY17	FY18	Return on equity FY17	FY18
Mega Manunggal Property Tbk PT	MMLP IJ	268	131	Non-Rated	13.3	16.3	1.0	0.9	7.6	5.7
Hospitality										
Ascott Residence Trust	ART SP	1.35	2,156	Hold	16.5	18.2	1.0	0.9	6.2	5.8
Ascendas Hospitality Trust	ASCHT SP	1.12	935	Non-Rated	19.4	20.3	0.9	0.9	4.9	4.8
CDL Hospitality Trusts	CDREIT SP	1.60	1,422	Add	14.5	15.9	1.1	1.0	7.6	6.0
Far East Hospitality Trust	FEHT SP	0.75	1,051	Hold	92.3	12.4	0.8	0.7	0.9	5.5
Frasers Hospitality Trust	FHT SP	0.71	987	Non-Rated	9.0	21.1	0.9	0.9	11.8	4.5
Simple average					30.4	17.6	0.9	0.9	6.3	5.3
Industrial										
AIMS APAC REIT	AAREIT SP	1.43	730	Non-Rated	65.3	14.5	1.0	1.0	1.5	6.7
Ascendas Real Estate Investmen	AREIT SP	2.92	6,770	Hold	17.0	16.0	1.2	1.2	7.4	8.1
Cache Logistics Trust	CACHE SP	0.71	563	Hold	34.8	30.2	1.2	1.1	3.3	3.3
Frasers Logistics & Industrial	FLT SP	1.23	2,036	Add	14.9	10.2	1.1	1.1	7.6	10.9
Keppel DC REIT	KDREIT SP	1.99	2,376	Hold	24.8	12.2	1.5	1.3	6.0	11.2
Mapletree Industrial Trust	MINT SP	2.53	4,080	Hold	11.9	12.4	1.3	1.4	10.8	11.3
Mapletree Logistics Trust	MLT SP	1.67	4,647	Hold	14.8	7.6	1.1	1.1	7.2	15.1
Sabana Shari'ah Compliant Indu	SSREIT SP	0.47	363	Non-Rated	NA	6.1	0.7	0.7	NA	11.5
Soilbuild Business Space REIT	SBREIT SP	0.52	475	Non-Rated	NA	11.9	1.1	0.9	NA	7.7
Simple average					**26.2**	**13.5**	**1.1**	**1.1**	**6.3**	**9.5**
Office										
CapitaLand Commercial Trust	CCT SP	1.98	5,597	Add	10.4	12.4	1.1	1.0	9.9	7.8
Frasers Commercial Trust	FCOT SP	1.63	1,090	Add	9.9	8.8	0.9	0.9	8.9	10.4
Keppel REIT	KREIT SP	1.21	2,999	Add	24.4	26.5	0.9	0.8	3.6	3.1
OUE Commercial Real Estate Inv	OUECT SP	0.56	2,190	Hold	8.2	8.0	0.8	0.6	10.4	6.8
Suntec Real Estate Investment	SUN SP	1.83	3,756	Add	25.5	15.4	1.0	0.8	4.0	5.4
Simple average					**15.7**	**14.2**	**0.9**	**0.8**	**7.4**	**6.7**
Retail										
CapitaLand Mall Trust	CT SP	2.46	6,650	Hold	11.5	11.9	1.1	1.1	9.7	9.4
Frasers Centrepoint Trust	FCT SP	2.71	2,219	Add	10.0	12.6	1.0	1.1	10.6	8.8
Mapletree Commercial Trust	MCT SP	2.40	5,454	Hold	11.5	8.0	1.1	1.1	10.3	13.8
SPH REIT	SPHREIT SP	1.08	2,057	Hold	16.3	18.7	1.1	1.1	6.5	5.7
Starhill Global REIT	SGREIT SP	0.72	1,144	Hold	17.0	16.7	0.8	0.7	5.5	5.2
Simple average					**13.2**	**13.6**	**1.0**	**1.0**	**8.5**	**8.6**
Overseas-centric										
CapitaLand Retail China Trust	CRCT SP	1.56	1,382	Non-Rated	10.0	10.3	1.0	0.9	9.7	8.3
Lippo Malls Indonesia Retail T	LMRT SP	0.25	520	Hold	23.1	12.0	1.2	0.6	6.3	7.1
Mapletree North Asia Commercia	MAGIC SP	1.16	2,715	Add	7.6	5.6	0.8	0.8	10.6	15.3
Manulife US Real Estate Invest	MUST SP	0.95	1,479	Add	11.5	14.0	1.1	0.9	8.3	6.7
Simple average					13.1	10.5	1.0	0.8	8.7	9.3
Healthcare										
First Real Estate Investment T	FIRT SP	1.02	596	Add	15.4	10.7	1.4	1.0	8.9	9.1
Parkway Life Real Estate Inves	PREIT SP	3.21	1,423	Hold	17.8	10.5	1.7	1.4	9.6	13.8
Simple average					**16.6**	**10.6**	**1.5**	**1.2**	**9.3**	**11.4**
Average					**20.2**	**13.7**	**1.1**	**1.0**	**7.4**	**8.3**

Note: Closing prices are as at Nov 25, 2019
SOURCES: BLOOMBERG

Appendix

Management team as of 9M19

Figure 45: Management

Board of Director		
President Director	Bonny Budi Setiawan	He appointed as President Director since 2015. He is in charge of finance and operation division. He has more than 15 years experience in finance industry
Independent Director	Loa Siong Lie	He appointed as the Independent Director since 2017. He has more than 20 years experience as project manager
Board of commissioners		
President Commissioner	Hungkang Sutedja	He appointed as President Commissioner since 2015. He also serve as commissioner of Bekasi Fajar Estate
Commissioner	Andreyanto Toemali	He appointed as commissioner in 2019. He has held various prominent position as Director of Alam Lahan Harapan (2010-Present)
Independent Commissioner	Ho Kee Sin	He appointed as independent commissioner in 2017. He also serves as senior management professional with extensive experience in the Asia Pacific region, in the key industries of logistic and telecommunication.
Independent Commissioner	Zainul Abidin Rasheed	He appointed as independent commissioner in 2017. He also serve as Director of Temasek Cares Foundation.

SOURCES: COMPANY REPORTS

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Indonesia	PT CGS-CIMB Sekuritas Indonesia	Financial Services Authority of Indonesia
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Add	58.8%	0.9%
Hold	26.3%	0.0%
Reduce	14.9%	0.1%

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2018, Anti-Corruption 2018

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Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

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Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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