

Press release

Last week PT Mega Manunggal Property Tbk. (MMP) releases its 1H16 financial statements, with revenues increasing 12.3% y/y to Rp87.8bn despite no additional capacity thanks to higher rental and occupancy rate. EBITDA decline 0.8% y/y to Rp59.9bn, with margin declining to 13.2% on higher operating expense, as the company continues to invest in human capital and some of one time expense. Net profit however increase by 400% y/y to Rp42bn on forex gain and interest income since MMLP still has cash in deposit account. Excluding non-core items, our core profit grew by 28.6% y/y in 1H15.

Key highlight of 1H16 results are as follows:

- Despite having no increase in NLA in year 2016, MMLP managed to increase its revenues by 12% to Rp87.8bn, with our average rental rate increase 0.1% y/y and 4%bps higher occupancy rate.

	1H15	1H16
Occupancy Rate	96%	100%
Total NLA (m2)	163,757	163,911
Total Occupied (m2)	156,464	163,921
Average Rental Rate/month	82,699	82,768

- The higher revenues took into account additional rental income coming from additional investment in racking and sprinkler provided to one of largest tenants. As of 1H16, we have 111,900m2 of net leasable area [NLA] dedicated for built-to-suit and 52,011m2 for multi-tenant.

	1H15 (Rp bn)	1H16	%YoY
Revenue	78,202	87,804	12.3%
Cost of Revenue	7,817	8,912	14.0%
Gross Profit	70,385	78,892	12.1%
Gross Margin	90%	90%	-0.2%
Operating Expense	10,402	20,434	96.4%
EBIT	59,983	58,458	-2.5%
EBIT Margin	77%	67%	-13.2%
EBITDA	60,376	59,897	-0.8%
Finance Cost	26,016	24,732	-4.9%
Net Profit	8,396	42,043	400.8%
Core Net Profit	27,768	35,707	28.6%

- MMLP's gross margin stayed at a robust 90%, with most of our repair and maintenance passed to our client. EBITDA however decline 0.8% to Rp59.9bn, with margin declining to 67% as MMLP continued to invest in human capital in a bid to reduce construction cost and increase our sales volume. This is aside from additional property tax that the company started to pay for its multi-tenant warehouse. MMLP established marketing team and is currently strengthening its engineering team. Salary accounted for around 47% of our operating expense.

	1H15	1H16	%YoY
Salaries and Allowance	6.68	9.51	42%
Professional Fees	0.24	2.31	868%
Land and Building Tax	1.23	2.38	94%
Permit and Retribution	0.64	1.29	102%
Representation	0.15	0.87	495%
Depreciation	0.39	0.73	85%

Rent	-	0.59	-
Employee Benefits	0.29	0.54	84%
Business Travel	-	0.51	-
Marketing	-	0.33	-
Insurance	0.21	0.30	42%
Office Supplies and Printing	0.16	0.23	45%
Repair and Maintenance	0.21	0.21	-
Others	0.19	0.63	228%

- Our professional fees increased Rp.1.1bn from Rp1.2bn to Rp2.4bn. The increase occurred because we have to pay professional legal service fee regarding their engagement for GIC investment in MMLP.
- There was increase in land and building tax by Rp.2.38bn due to the increase of tax value following the significant increase in property value. Representation expense also increase by 495% y/y to Rp568bn, mostly spent for progress meeting with potential tenants. The meetings were needed because we have so many pipelines to follow up and discuss.
- With increase in forex gain and interest income, MMLP posted a increase in net profit by 400% y/y to Rp42bn. Stripping these non-core items, the company's core profit however, grew by 28.6% y/y to Rp35.7bn.
- BKPM has officially approved partnership GIC with PT Mega Khatulistiwa Properti (subsidiary of MMLP) on June 13th 2016.

Company's strategy and plan

- Completion of MDP's 29,248m2 warehouse is predicted to be delayed to end of November 2016. MDP will hand it over to PT Lastana Express Indonesia, for which MDP shall recognize its first revenue starting December 2016 in the amount of Rp2.7bn. Year-to-June, construction has faced several challenges – i.e. delay in obtaining relevant licenses, shipment delay of steels from ATAD Steel Structure Corporation in Vietnam, and weather condition on site, which have led to almost 20% delay in the overall construction schedule.. As further action to respond such situation project team will force some of the delayed works to be done simultaneously with the remaining tasks – such as the start of mechanical and electrical works, we also have prepared to start the second phase.
- Our focus has been shifted to five segments, namely MM-2100, block H and AE, pharmaceutical industries, new investment in Indonesia, segmented 3PL and Ecommerce players. Our rationales for such focus are depicted as follows:

Target market	Rationales
MM2100 block H and AE	<ul style="list-style-type: none"> ▪ Availability of landbank ▪ Closest distance to consumers and manufacturing base ▪ Ready infrastructure with good accessibility - at the junction of JORR
Pharmaceutical	<ul style="list-style-type: none"> ▪ Segmented requirement with greater yield ▪ Require modern warehouse to comply with GWP ▪ To accommodate greater production due to government program
New investments	<ul style="list-style-type: none"> ▪ High probability of sourcing for new warehouse space ▪ Typically has global standard and high expectation on warehouse specification
Segmented 3PL	<ul style="list-style-type: none"> ▪ Focus on 3PLs which have already had engagement with MMP ▪ 3PLs located or operated warehouse in MM2100 has high possibility to expand in the same area ▪ Segmented 3PLs (Japanese/Korea) has bigger opportunities winning the projects
Spare parts	<ul style="list-style-type: none"> ▪ Replacement market, which requires modern warehouse that provide high yield

Ecommerce	<ul style="list-style-type: none">▪ Nature of the products require close to be with the manufacturing facilities▪ Still present the highest growth in the industry▪ High requirement for advance process and infrastructure▪ Highly aggressive in market penetration
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Even though the certainty level of the economic situation is currently low, but still, there are opportunities for MMP to aggressively expand the business by acquiring occupied warehouses. We may only acquire warehouse on selective basis – those that meet our criteria of good location and accessibility, reasonable price, good tenants, specification of modern logistic warehouse specifications. These acquisitions will bring us ahead of our competitors, with the aim to have greater scale with the consequence of having pricing power in the future. However, such acquisition of occupied warehouse may not meet our minimum target yield at 10%.