# PT Nusa Raya Cipta Tbk (NRCA)

**19 November 2019**

**Recommendation : Buy**
**Target Price : Rp 590**

- Solid track record in construction business
- Commitment to pay out dividends for shareholders
- Strong support from parent company (SSIA) leads to potential infrastructure projects
- Robust balance sheet highlighted by low interest bearing debts

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## Solid track record in Construction business

Established in 1968, NRCA has more than 50 years of experience as a contractor in Indonesia. Some of the company's biggest clients are major conglomerate groups including: Agung Podomoro, Intiland Group, Mayapada, and Astra. The company have built several well known projects, such as: Soho@Podomoro City, Ciputra World 2, Branz BSD, Hotel Tentrem Yogya, BICC Bandung, among others. NRCA is also experienced in building infrastructures. The company built the Cipali Toll Road (116 Km) which was opened in 2015. Furthermore, NRCA has also proved to be successful in maintaining relationship with existing clients, with more than half its project coming from returning customers.

NUSA RAYA CIPTA

| NRCA Key Figures (As of 18 Nov 2019) | |
|---|---|
| **Current Price** | 386 |
| **Market Cap (Rp):** | 963.6 B |
| **Shares O/S:** | 2.50 B |
| **EPS (Annualized):** | 57 |
| **P/E Ratio (Annualized):** | 6.77 x |
| **P/BV Ratio:** | 0.78 x |
| **Debt to Equity Ratio:** | 1.01 x |

## Commitment to pay out Dividends for Shareholders

Since its IPO in 2013, the company have been consistent in paying out dividends to investors every year. For the last 3 years, the dividend yield from NRCA have been relatively attractive (6.6% in 2016, 8.8% in 2017, and 7.2% in 2018). The management have stated the company is committed to pay annual dividends to shareholders at least 20% of its net profit. While the sustainability of this dividend policy is subjected to NRCA's cash flow, we are confident that the company can keep its commitment due to its policy to maintain low level of interest bearing debts.

## Strong Support From Shareholders lead to Potential Infrastructure Projects

The company's biggest shareholder is PT Surya Semesta Internusa Tbk (SSIA) is one of the biggest private-owned property developers in Indonesia. As a parent company, SSIA has in the past awarded NRCA with construction projects. Currently, SSIA has established a consortium with Jasa Marga to enter a bidding process for Patimban Toll Road with a potential contract value of IDR 6,35 Trillion. If this group is successful in winning this project, NRCA is expected to be awarded with a portion of the project's construction work. Moreover, NRCA second largest shareholder is PT Saratoga Investama Sedaya (SRTG), a reputable investment company with proven investment record in companies such as: Adaro, MPM Rent, Merdeka Copper, and Tower Bersama Group. In the past, Saratoga Group has also showed its support in appointing NRCA with Cipali Toll Road project.

## Robust balance sheet highlighted by low interest bearing debts

Unlike state-owned construction companies like Waskita Karya (WSKT), Wijaya Karya (WIKA), Adhi Karya (ADHI), and Pembangunan Perumahan (PTPP) which use high amount of leverage to fund their turnkey projects, NRCA uses low debt to operate its business. This is mainly due to NRCA's conservative management, NRCA is not willing to take turnkey projects and will only undertake projects that has advance payment from customers. Consequently, NRCA has low levels of debt, highlighted by interest bearing debt/ equity ratio of only 6,3%.

## Valuation

We based our valuation of NRCA share price using Dividend Discount Model (DDM). This approach is considered to be the most appropriate because NRCA has consistently paid out dividend every year since becoming a public company in 2013. The company's Dividend Policy further states that management is committed to distribute at least 20% of annual net profit as dividends to shareholders. Assuming NRCA continues to maintain its debt level to a minimum, we are confident that the company can keep its dividend policy commitment. Using the Dividend Discount Model (see calculation below), we calculated the fair value of NRCA share price at **Rp 599/share.**

***NRCA Valuation using Dividend Discount Model***

| | |
|---|---|
| Market rate of return | 14.37% |
| Indonesia 30-year Bond | 7.92% |
| Risk Premium | 2.15% |
| Risk Free Rate | 5.77% |
| Beta (Levered) | 0.68 |
| Cost of Equity | 11.64% |
| Projected Dividend | 30 |
| Dividend Growth Rate | 6.32% |
| | |
| **Valuation (DDM Based)** | **590** |

## Appendix 1: NRCA Key Financial Figures

| Balance Sheet (in billions IDR) | 3Q19 | 3Q18 | YoY | FY18 | FY17 | YoY |
|---|---|---|---|---|---|---|
| Current Assets | 2,227 | 1,857 | 19.92% | 1,983 | 1,974 | 0.46% |
| Non-Current Assets | 270 | 291 | -7.22% | 272 | 368 | -26.09% |
| **Total Assets** | **2,497** | **2,148** | **16.25%** | **2,255** | **2,342** | **-3.71%** |
| | | | | | | |
| Short-Term Liabilities | 1,175 | 908 | 29.41% | 958 | 1,014 | -5.52% |
| Long-Term Liabilities | 81 | 81 | 0.00% | 89 | 125 | -28.80% |
| **Total Liabilities** | **1,256** | **989** | **27.00%** | **1,047** | **1,139** | **-8.08%** |
| | | | | | | |
| **Equity** | **1,241** | **1,159** | **7.08%** | **1,208** | **1,203** | **0.42%** |

| Profit & Loss (in Millions IDR) | 3Q19 | 3Q18 | YoY | FY18 | FY17 | YoY |
|---|---|---|---|---|---|---|
| Sales | 1,915 | 1,859 | 3.01% | 2,457 | 2,163 | 13.59% |
| Gross Profit | 202 | 175 | 15.43% | 251 | 215 | 16.74% |
| Operating Profit | 149 | 126 | 18.25% | 164 | 218 | -24.77% |
| Net Income | 106 | 80 | 32.50% | 118 | 153 | -22.88% |

| Key Ratios | 3Q19 | 3Q18 | FY18 | FY17 |
|---|---|---|---|---|
| Gross Profit Margin | 10.55% | 9.41% | 10.22% | 9.93% |
| Net Profit Margin | 5.54% | 4.30% | 4.80% | 7.09% |
| Return on Assets | 5.68% | 4.73% | 5.23% | 6.55% |
| Return on Equity | 11.42% | 8.83% | 9.76% | 12.76% |
| Debt to Equity Ratio | 101.14% | 86.61% | 86.67% | 94.68% |

## Appendix 2: Dividend History

| Year | Net profit (Rp) | EPS | Dividend (Rp) | DPR | DPS | Dividend Yield |
|---|---|---|---|---|---|---|
| 2018 | 117,968,952,089 | 48 | 73,257,445,320 | 62.10% | 29.8 | 7.20% |
| 2017 | 153,443,549,172 | 63 | 97,676,593,760 | 63.70% | 40.1 | 8.80% |
| 2016 | 101,091,268,143 | 41 | 73,257,445,320 | 72.50% | 29.7 | 6.60% |
| 2015 | 198,307,256,874 | 80 | 39,998,558,416 | 20.20% | 16.1 | 2.50% |
| 2014 | 278,481,745,776 | 112 | 74,987,567,670 | 26.90% | 30.2 | 2.90% |
| 2013 | 188,577,748,558 | 211 | 69,440,003,808 | 36.80% | 28 | 3.27% |

## Appendix 3: Contract Turnover

| | FY17 | FY18 | 1H18 | 1H19 | FY19 Forecast |
|---|---|---|---|---|---|
| **Contract on Hand - Beginning** | 3,527 | 4,204 | 4,204 | 4,443 | 4,443 |
| **New Contracts** | 2,841 | 2,693 | 1,177 | 1,526 | 3,500 |
| **Revenue** | -2,164 | -2,454 | -1,155 | -1,310 | -2,700 |
| **Contract on Hand - Ending** | 4,204 | 4,443 | 4,226 | 4,659 | 5,243 |

## Appendix 4: Summary of Project List

| No | Project Name | Contract Value | Progress of Completion |
|---|---|---|---|
| 1 | Carstensz Apartemen Paramount S | 593,937,500,000 | 0.19% |
| 2 | Hotel & Apartemen Tentrem - Semarang | 591,004,832,727 | 45.11% |
| 3 | Regatta Phase II - Jakarta | 436,270,520,205 | 98.00% |
| 4 | Praxis - Surabaya | 390,654,004,165 | 96.52% |
| 5 | Pacific Garden Apartment Alam Sutra | 361,818,181,818 | 19.88% |
| 6 | Mayapada Banua Center - Banjarmasin | 355,087,392,455 | 24.44% |
| 7 | Renaissance Nusa Dua - Bali | 330,364,555,214 | 56.24% |
| 8 | Springhill Royale Suites - Jakarta | 329,184,059,091 | 74.81% |
| 9 | Synthesis Residence Kemang - Jakarta | 326,750,609,551 | 30.28% |
| 10 | The Park Mall Sawangan | 287,617,122,000 | 57.23% |
| 11 | Indigo Hotel - Seminyak | 270,103,643,720 | 99.84% |
| 12 | JHL Gallery Gading Serpong | 249,000,000,000 | 3.80% |
| 13 | Capital Square - Surabaya | 222,507,318,986 | 47.38% |
| 14 | Pullman - Ciawi | 220,628,069,963 | 97.71% |
| 15 | Arntz-Geise Universitas Parahyangan | 214,454,545,455 | 39.44% |

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