

May 11, 2016

Gema Grahasarana, Tbk

Secondary Report

Target Price

Low	High
545	627

Interior and Furniture

Stock Performance

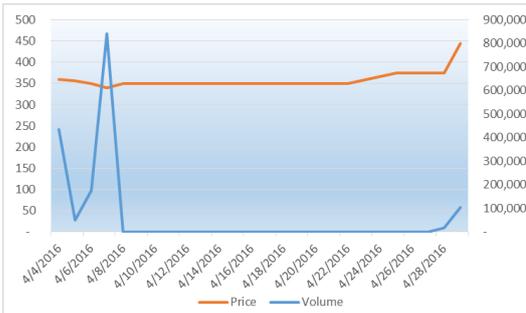


Source: Bloomberg, PEFINDO Reseach & Consulting - Equity & Index Valuation Division

Stock Information

	IDR
Ticker code	GEMA
Market price as of May 10, 2016	372
Market price - 52 week high	450
Market price - 52 week low	290
Market cap - 52 week high (bn)	144
Market cap - 52 week low (bn)	93

Last 4 Weeks Price and Volume



Source: Bloomberg, PT Gema Grahasarana, PEFINDO Reseach & Consulting - Equity & Index Valuation Division

Stock Valuation	Last	Current
High	620	627
Low	541	545

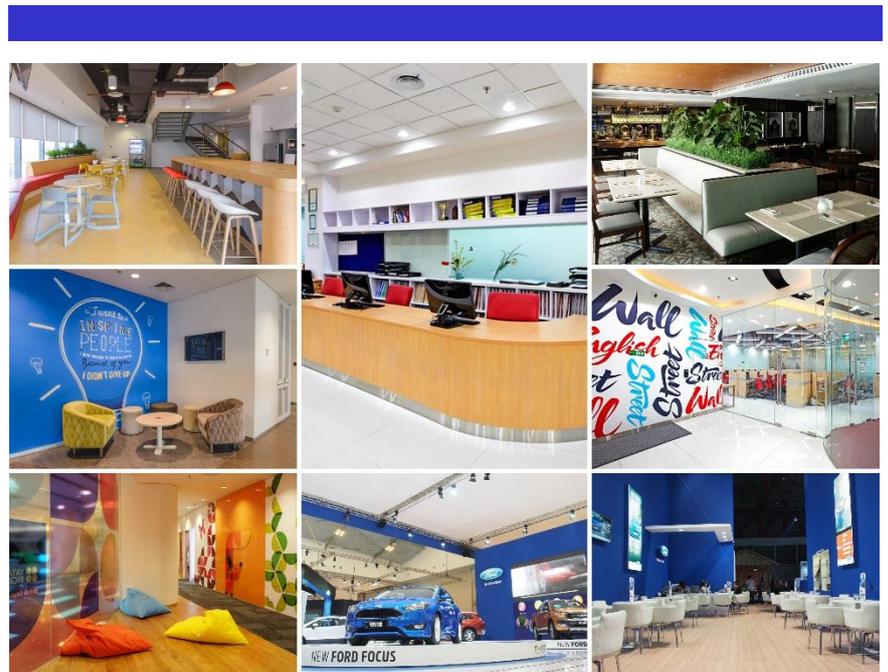
Shareholders	(%)
PT Virucci Indogriya Sarana	74.74
Tommy Diary Tan	7.50
Dedy Rochimat	0.26
Public (each below 5% ownership)	17.50

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The Future Certainty



PT Gema Grahasarana Tbk ("GEMA" or the "Company") is engaged in interior contracting and furniture manufacturing, as well as providing a total solution in furnishing office and residential spaces. The Company's businesses comprise 3 (three) lines of businesses, namely (i) Project, offers interior contracting service, mechanical and electrical installation and maintenance service as well as selling furniture, (ii) Trading and distribution of furniture components, (iii) Retail furniture and accessories for residential. It has evolved into a group of companies, called "VIVERE" Group, to include 3 consolidated subsidiaries. To support its 3 (three) line of business, the Company owns 4 (four) factories in Tangerang, Cikarang, and Cikande. The Company owns 10 stores to distribute its products, i.e. Jakarta (8 stores), Surabaya (1 store) and Bali Province (1 store). GEMA has a diversified client base from cross-industry sectors, namely banking and financial institution, oil and gas, mining, hospitality, consumer goods, telecommunication, etc. To name a few, GEMA has been providing services and selling its products to prime customers such as Four Point Hotel, Danamon Bank, General Electric, Tokyuland, Supreme, Dentsu, ID Marco, AIA Financial, ACE Life, Shangri-La Hotel, etc.

INVESTMENT PARAMETER

Target Price Adjustment

We have made several adjustments to our previous forecast and adjusted our Target Price upward to the range of **IDR545 – IDR627** per share, based on the following considerations:

- Improvement in the economy. After slowdown in 2015, we expect that the economy will grow faster in 2016. We believe that faster and significant increase in government spending, relatively stable inflation rate, implementation of economic reforms will be the catalyst for better economic outlook in medium term.
- Property sector, especially office segment, will remain soft in 2016. We expect some delays in the launch of new office buildings due to oversupply condition.
- Despite the annual labor cost hikes in Indonesia and fiercer competition in the furniture industry, we believe the industry prospect is still appealing. Unlike small-to-medium scaled furniture makers which have been facing intense competition against low-cost imported products, especially from China, "VIVERE" with its economies of scale and brand equity is well positioned in the market.
- GEMA booked a significant revenue growth 32.6% YoY in 2015 vs -4% YoY in 2014, mainly contributed by the sales in Jabodetabek area which rose 35.1% YoY vs that of outside Jabodetabek at only 13.2%. It is worth noting that such growth rate is the highest in the past 5 years.
- Penetrating export market. GEMA sees export as the next promising market especially for high-end hand-crafted rattan products under "VIVERE" brand. Indonesian furnitures have been well known in export markets. In 2014, the export value reached USD 2.2 billion. GEMA will target America, Asia and Europe as its main export markets to start with in 2016.

Business Prospects

GEMA's performance in 2015 demonstrated its stronger market position with strong brand equity. The prospective Jabodetabek's property market, on the back of brighter economic outlook in 2016 and the growing number of middle income class in the metropolitan area, provides growth catalyst for GEMA's customer base, which in turn, will spur the demand for the Company's products and services. In addition, the diversification into export market will provide the Company with source of growth.

Table 1: Performance Summary

	2013	2014	2015	2016P	2017P
Revenue [IDR bn]	657	631	837	950	1,093
Pre-tax profit [IDR bn]	23	24	30	38	48
Net profit [IDR bn]	18	18	25	30	37
EPS [IDR]	58	57	78	93	116
EPS growth [%]	(35.5)	(1.5)	36.5	20.4	23.3
P/E [x]	8.1	6.9	4.2	4.0*	3.2*
PBV [x]	1.0	0.8	0.6	0.6*	0.5*

Source: PT Gema Grahasarana Tbk, PEFINDO Research & Consulting - Equity & Index Valuation Division Estimates
* based on share price as of May 10, 2016 - IDR372/share

MACROECONOMY AND INDUSTRY

Improving Economic Outlook

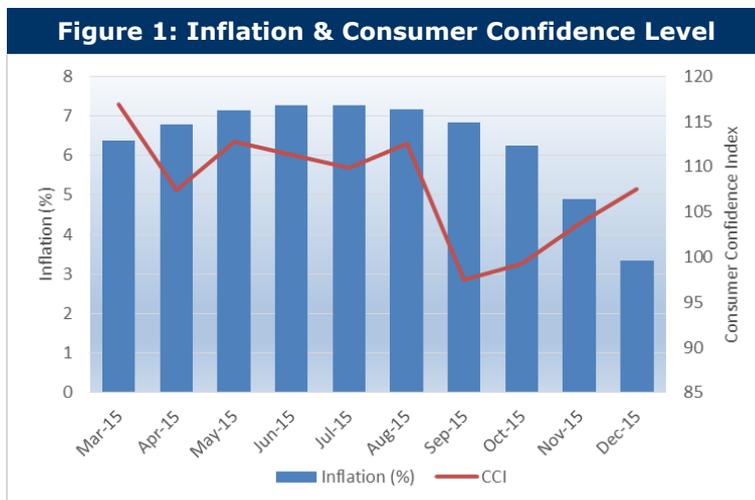
We believe there will be an improvement in the economy this year as the latest data such as exports and government spent was showing encouraging results. Furthermore, with the inflation rate and Rupiah moving in an acceptable band, this will open up space for BI rate come down further. Combined with the implementation of the series of stimulus packages introduced by the government last year, the monetary easing will work to favor faster economic growth.

Table 2: Indonesia Economic Indicators

	2012	2013	2014	2015
Inflation (% YoY)	3.65	8.08	8.38	3.35
Inflation (% avg.)	3.98	6.40	6.42	6.38
Exchange rate (IDR/USD avg.)	9,419	10,564	11,885	13,392
BI rate (%)	5.75	7.50	7.75	7.50
Credit growth (%)	23.08	21.6	11.58	11.06
Current account (% GDP)	-2.78	-3.19	-3.09	-1.9

Source: Various sources, PEFINDO Research & Consulting - Equity & Index Valuation Division

Good news also comes from the Indonesia’s consumers’ confident index that rose in December 2015 to 107.5, following an improvement in the consumers’ expectation index and current economic condition index. The better customers’ confident index was supported by the favorable inflation rate and lower energy prices in 2015.



Source: Trading Economics PEFINDO Research & Consulting - Equity & Index Valuation Division

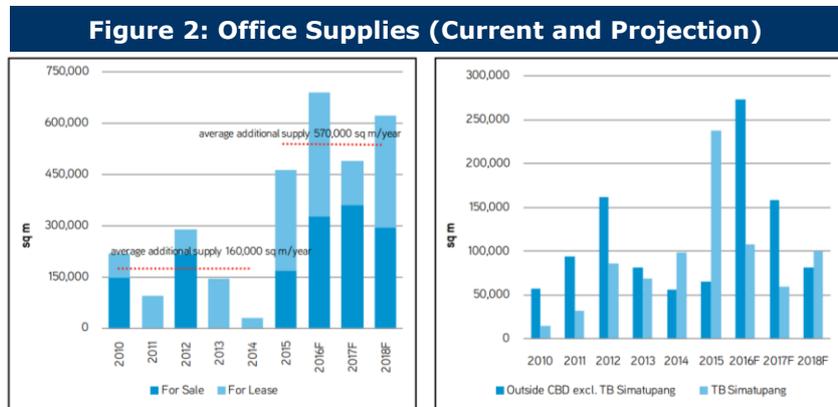
Industry Prospects Lured More Players

As the fourth most populous nation, Indonesia is experiencing the rising middle class population which is believed to propel Indonesia’s consumer market. This growing consumer market, coupled with the long-term prospect of property sector, rises demand for furniture products. The industry is dominated by small-to-middle scaled businesses, most of which is home industry. However, the number of mass-produced furniture makers with known local brands include Olympic, Ace Hardware, Informa supported by their network of retail shops, is also rising. Despite their dominant position, local furnitures and brands have been facing an increasing competition from Chinese products, as a result of the China-ASEAN Free Trade Agreement. International brands for upper-end market have increased their presence such as Da Vinci from Singapore, competing directly against local hi-end furniture brands such as “Hadiprana”, “Vinoti Living” and “VIVERE”. However, according to Indonesia Furniture Association (AMKRI), minimum wages in Indonesia that have risen sharply in recent years will limit industry growth since foreign furniture producers have started to relocate their manufacturing plants to Vietnam, Laos, or Myanmar for its cheaper labor cost.

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Office Market: Over Supply is Still Overshadowing

Office market, which take significant portion of GEMA’s customer base, is still experiencing over supply. Four office buildings entered the market during Q415 which brought the total cumulative supply to 5.23 million sqm (11.8% YoY). 2015 saw the highest annual supply ever recorded in Jakarta CBD office market of 563,000 sqm. Two office buildings on Jalan Sudirman and Jalan Gatot Subroto in Jakarta CBD area have confirmed delay of their operations until early of 2016. The abundance of supplies has brought occupancy rate dropped from 95.7% in 2014 to 89.4% in CBD area and 93.2% to 87.9% outside CBD area. The average asking rental rate also dropped by 4.4% in the CBD area while outside CBD area it increased by 6.7%.



Source: Colliers, PEFINDO Research & Consulting - Equity & Index Valuation Division

BUSINESS INFORMATION

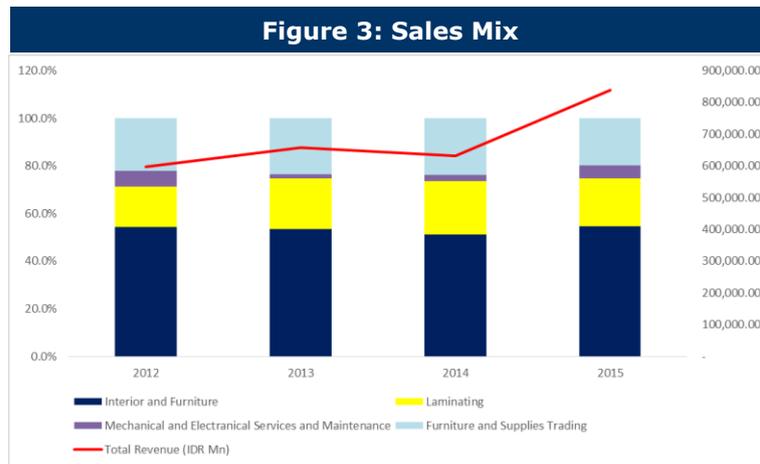
Penetrating Export Market

“VIVERE”, with its strong brand and quality, is aiming to penetrate overseas market with its selected products, including hi-end, hand-crafted rattan furnitures. It is expected that export sales will start 2016. This is in line with the government’s policy to push local products overseas. To start with, GEMA will explore America, Asia and Europe. Rattan products are expected to be competitive in the international furniture markets for 80% of global rattan production is from Indonesia. GEMA’s export products will not only be produced out of homegrown materials, but be also designed by reknown Indonesian designers. The Company expects that export market will contribute 10% of the total revenue in the first year, and continue to grow for the coming years.

Interior and Furniture Largest Sales Contributor

During the last four years, GEMA maintained its sales mix as follows: 53.4% were from Interior and Furniture, followed by Furniture and Supplies trading (22.3%), Laminating segment (20.3%), and Mechanical and Electrical Services and Maintenance (4.0%). However, as the economy decelerated in 2015, the demand for furniture products also softened and players started competing on tight prices. As a result, the gross margins of overall segments fell compared to previous year of 2014; Interior and Furniture (14.0% vs 16.3%), Furniture and Supplies Trading (37.4% vs 38.8%), and Mechanical and Electrical Services and Maintenance, being the lowest revenue contributor, experienced the hardest hit (24.8% vs 42.8%).

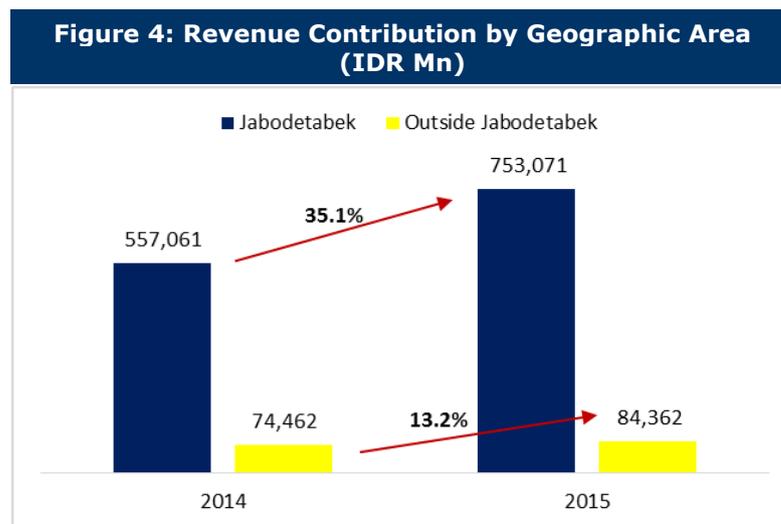
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Source: PT Gema Grahasarana, Tbk, PEFINDO Research & Consulting - Equity & Index Valuation Division

Jabodetabek Remained Key Market

GEMA's overall revenue was up significantly by 32,6% YoY in 2015, thanks to the office and apartment market in Jabodetabek, that contributed most to the Company's revenue. Jabodetabek market, which has been the major revenue contributor over the years, shows its significant growth in 2015 by 35,1% YoY vs outside Jabodetabek market's 13,2% YoY. Even though Jabodetabek market's contribution to overall sales slowed down in 2014 (92.0% vs 2013's 88.2%), it regained its share to nearly 90% in 2015. Jabodetabek's revenue stood at IDR753.0 bn in 2015, while it was IDR557.0 bn in 2014. Its customers profile are highly fragmented this year, for its 5-largest customer only registered 13.9% of the total revenue. Central Retail Indonesia, a leading & global awarded department store from Thailand was the highest revenue contributor with IDR29.3 bn, followed by Shangri-La Hotel by IDR26.2 bn. In the coming years, we expect the Jabodetabek market to stay dominant in the Company's revenue mix. The buying power in this particular area will regain strength in medium term, which will be the target market for "VIVERE" brand.



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

Table 3: GEMA's ongoing Projects 2016

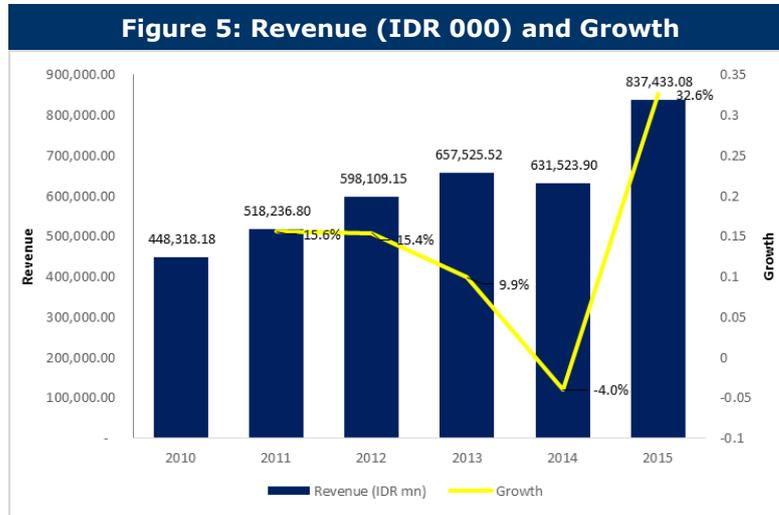
Project Name	Starting Date	Target Completion Date
PT Unilever Indonesia Tbk	March 13, 2016	October 12, 2016
Intercontinental Bali	January 29, 2016	January 31, 2016
Shangri-La Hotel	May 25, 2015	May 25, 2016
PT Multi Bintang Tbk	March 01, 2016	August 31, 2016
Anandamaya Residence	January 02, 2016	December 30, 2017
Hotel Aston	January 15, 2016	May 30, 2016

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

FINANCE

Strength of "VIVERE" Brand

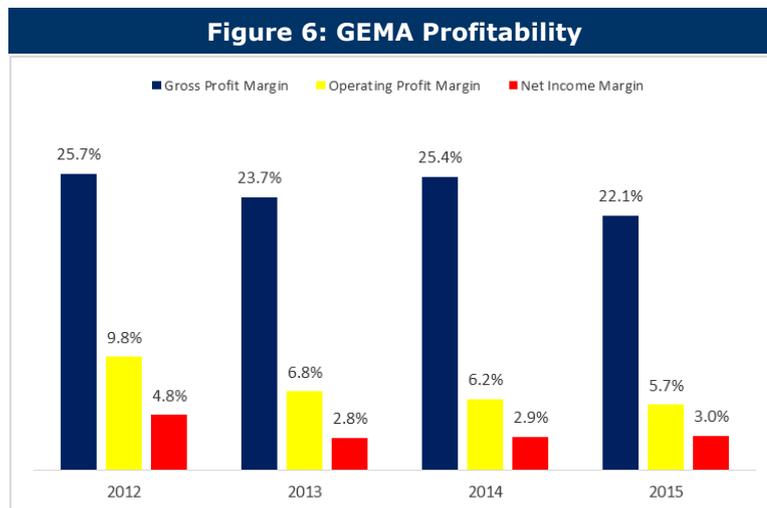
We like GEMA for its length of product lines, some of which poses strong brand equity in the market, that can sustain its revenue growth. GEMA book a total revenue of IDR837.4 bn in 2015, an increase by 32.6% YoY from 2014 (IDR631.5 bn), which surpassed our forecast of 10%. The growth was mainly driven by the growth of Jabodetabek market at 35.1% YoY.



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

Competitive Price Pressure Exists

Competitive price pressure in the furniture industry during 2015 has put GEMA's average price per square meter rose from IDR2.2 mn to IDR2.4 mn (8.0% YoY). This has brought the gross profit margin of GEMA's major revenue contributor: Interior and Furniture, contributing 54.7% to the total revenue, down to 14.0% in 2015 vs 16.3% in 2014 and the 3-year average's 16.0%. The drop in the profitability of the highest revenue contributor resulted in the lowest gross profit margin over the past 3 years, 22.1% in 2015 vs the 3-year average's 23.7%. The Company's operating costs such as salary and allowance, reserve for employee benefit, rent and final taxes were the major hike that triggered operating margin to fall from 6.2% in 2014 to 5.7% in 2015. Despite there was an increase in interest expense by 32.5% after GEMA increased its borrowings of approximately IDR2.5 bn, the net income rose significantly 36% from IDR18.2 bn in 2014 to IDR24.9 bn in 2015 (with margins remained at around 3.0%).

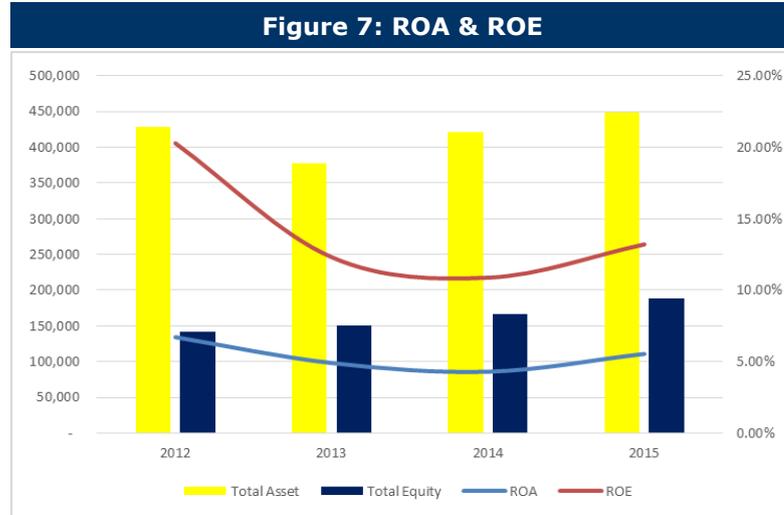


Source: PT Gema Grahasarana, Tbk, PEFINDO Reseach & Consulting - Equity & Index Valuation Division

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Asset and Equity's Return Rebounded

After its declines during 2012-2014, the Company's return on assets and shareholders' equity rebounded at moderate pace. While the asset and equity grew 6.5% and 13.1%, respectively, in 2015, its ROA rebounded from 4.3% in 2014 to 5.5% and ROE was up from 10.8% in 2014 to 13.1%. The increase in the ROE and ROA is mainly due to the significant growth of net income by 37.3% from IDR18.0 bn in 2014 to IDR24.5 bn in 2015.



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

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 May 11, 2016 using GEMA's financial report as of December 31, 2015 for our fundamental analysis.

- Value Estimation**

We use Cost of Capital of 11.2 % and Cost of Equity of 12.2% based on the following assumption:

Table 4: Assumption

Risk free rate [%]*	7.8
Risk premium [%]*	9.5
Beta [x]**	0.4
Cost of Equity [%]	12.2
Marginal tax rate [%]	25
Interest Bearing Debt to Equity Ratio [x]	0.4
WACC [%]	11.2

Source: Bloomberg, PEFINDO Reseach & Consulting - Equity & Index Valuation Division Estimate
Notes: *As of May 10, 2016 **As of April 28,2016

The target price for 12 months based on the valuation as of May 11, 2016 using the DCF method with an 11.0% discount rate assumption ranges between **IDR545 – IDR627** per share.

Table 5: Summary of DCF Method Valuation

	Conservative	Moderate	Aggressive
PV of Free Cash Flows [IDR bn]	56	59	62
PV Terminal Value [IDR bn]	192	202	212
Non-Operating Assets- [IDR bn]	16	16	16
Net Debt [IDR bn]	(89)	(89)	(89)
Total Equity Value [IDR bn]	175	188	201
Number of Share [mn shares]	320	320	320
Fair Value per Share [IDR]	545	586	627

Source: PEFINDO Reseach & Consulting - Equity & Index Valuation Division Estimate

Table 6: Consolidated statement of comprehensive income

	(IDR bn)				
	2013	2014	2015	2016P	2017P
Sales	657	632	837	950	1,093
Cost of sales	(502)	(471)	(652)	(741)	(853)
Gross profit	156	161	185	209	240
Operating expenses	(121)	(122)	(138)	(152)	(169)
Operating Profit	34	39	48	57	70
Other income (changes)	(11)	(15)	(17)	(19)	(22)
Earning Before Tax	23	24	31	38	48
Tax	(4)	(6)	(5)	(9)	(11)
Minority interest	-	0	(0)	0	0
Net Profit	18	18	25	30	37

Source: PT Gema Grahasarana Tbk, PEFINDO Reseach & Consulting - Equity & Index Valuation Division Estimate

Table 7: Consolidated statement of financial position

	(IDR bn)				
	2013	2014	2015	2016P	2017P
Assets					
Current Assets					
Cash & cash equivalents	10	19	16	38	41
Receivables	63	45	84	100	115
Progress Billing	112	155	128	146	168
Inventory	51	59	65	57	66
Other Assets	51	48	57	68	77
Total Current Asset	287	326	350	409	467
Fixed Asset	75	75	67	70	75
Other Asset	16	18	31	36	40
Total Asset	378	419	448	515	581
Liabilities					
Trade payables	69	78	97	101	117
Short-term liabilities	21	84	88	106	119
Other liabilities	72	60	45	49	54
Total short-term liabilities	161	223	230	256	290
Long-term liabilities	1	2	1	2	3
Other long-term liabilities	70	30	29	48	53
Total Liabilities	232	255	260	306	346
Total Equity	146	164	188	209	235

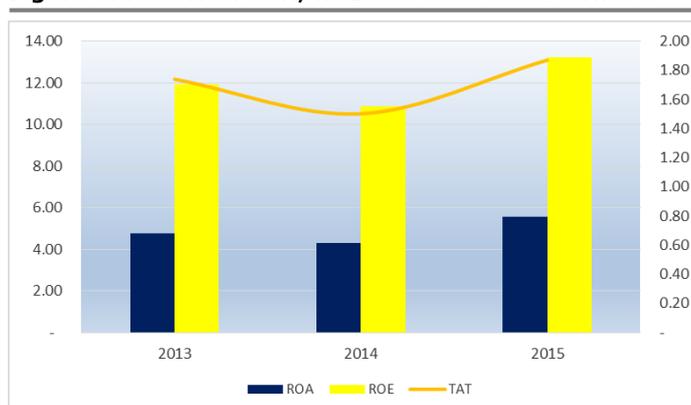
Source: PT Gema Grahasarana Tbk, PEFINDO Reseach & Consulting - Equity & Index Valuation Division Estimate

Figure 8: Market Value Added & Market Risk



Source: Bloomberg, PEFINDO Reseach & Consulting - Equity & Index Valuation Division

Figure 9: Historical ROA, ROE and total asset turnover



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

Table 8: Key Ratios

	2013	2014	2015	2016P	2017P
Growth [%]					
Sales	9.9	(4.0)	32.6	13.4	15.1
Operating profit	(27.9)	(13.1)	22.3	19.9	22.8
EBITDA	(19.1)	(0.9)	32.2	17.8	21.7
Net profit	(35.5)	(1.5)	36.5	20.4	23.3
Profitability [%]					
Gross margin	23.7	25.4	22.1	22.0	22.0
Operating margin	5.2	6.2	5.7	6.0	6.4
EBITDA margin	7.9	8.1	8.1	8.4	8.9
Net margin	2.8	2.9	3.0	3.2	3.4
ROA	4.9	4.4	5.6	5.8	6.4
ROE	12.7	11.1	13.2	14.2	15.7
Solvability [x]					
Debt to equity	1.6	1.6	1.4	1.5	1.5
Debt to asset	0.6	0.6	0.6	0.6	0.6
Liquidity [x]					
Current ratio	1.8	1.5	1.5	1.6	1.6
Quick ratio	0.5	0.3	0.4	0.5	0.5

Source: PT Gema Grahasarana Tbk, PEFINDO Reseach & Consulting - Equity & Index Valuation Division Estimate

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