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Industry Update

A REIT milestone: debut of Indonesia's most investable REIT yet

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Indonesia's most investable REIT yet

Lippo Group is launching the first sizeable REIT in Indonesia, Bowsprit, with a size of US\$185m. The REIT (or DIRE in Indonesian) consists of 4 office towers and 1 distribution center, which are among the group's most mature assets. In our view, this REIT is important not only because it is the first sizeable one, but also because of the strong backing and tax incentives it received from the regulator to make it competitive with regional REITs. This allows Bowsprit REIT to offer an attractive net tax dividend yield of 8.75%. The success of this REIT would pave the way not only for Lippo Group, but also for other property developers to monetize their assets.

Initial offering is just a start

Although the REIT's US\$185m size is much larger than the only other existing Indonesian REIT's US\$40m (Ciptadana's single asset REIT), Bowsprit REIT already has plans to acquire other group and potentially non-group-related assets, focusing on offices and infrastructure assets. These include water treatment facilities in Lippo Group's established property developments in Karawaci, Cikarang, and Kemang. The REIT aspires to expand to US\$300m by end-2018 and US\$450m by end-2019. As Lippo Group is still looking to monetize its hospital, mall, and hotels assets through its Singapore REITs, Bowsprit REIT will be focusing on office and infra for now.

Full backing and tax incentives from regulators and government

Indonesian REITs are operating under a very different regulatory environment from the past. Since 2015, the previous regulatory and tax hurdles have been eliminated through the Finance Ministry and government regulations. The most important is the reduction of the seller's sales tax for a property asset to the REIT from 5% to 0.5%, the elimination of the transfer tax between SPV and REIT, and the reduction of the REIT dividend tax from 15% to 0%. This has made the Indonesian REIT tax structure competitive with Singapore's, which is the basis of the regulators' study (please refer to Figure 12 for details). We see room for further REIT incentives through a reduction of the buyer's 5% sales tax (BPHTB) and 10% rental tax.

The first of its kind, for better and worse

The negative side of the REIT being the first of its kind is the lack of familiarity of Indonesian investors with REIT products. However, this presents an opportunity to attract more retail and mutual fund investors in the future. In the meantime, Bowsprit is targeting an ownership structure of 80% external investors and 20% Lippo Group and related. The external investors are dominated by pension funds, which have expressed strong interests. At the time of this writing, the REIT had secured interests amounting to more than 60% of the offering size.

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Figure 1: Details and timeline

Key details	
IPO value	Rp2.45tr (US\$181m) - 24.5bn units of REIT/DIRE, Rp100/unit
Investment main scope	Office, warehouse, distribution center, and infrastructure
Total asset semi gross area	156,747 sqm
REIT/DIRE credit rating	A (single A, stable outlook by Pefindo Rating Agency)
Dividend yield net of tax	8.75% p.a.
Dividend distribution	Quarterly
Target dividend payout	100% (90% minimum, no regulated maximum)
Investment manager	Bowsprit Asset Management (wholly owned by Lippo Karawaci)
Property manager	Lippo Malls

Source: Deutsche Bank and company

Figure 2: Pictures of Bowsprit DIRE's asset – mostly Greater Jakarta offices



Source: Company report

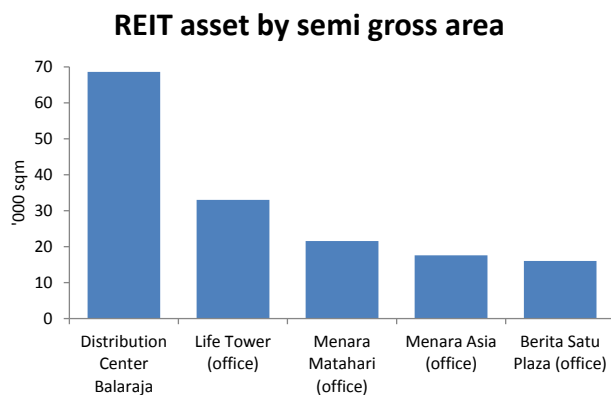
Figure 3: Asset location, tenants and rights – mainly Greater Jakarta offices with group-related tenants

Investment breakdown	% of NAV	Location	Rights	Key tenants
Life Tower	28%	Kuningan, South Jakarta	Build, Operate and Transfer (can potentially be renewed after 22 years)	MPM Finance, Grab, Lippo Group and related: Mitra Wijaya Wisesa, Matahari Mall, Siloam Express
Menara Matahari	21%	Tangerang, Greater Jakarta	Strata title	Lippo Group and related: Matahari Dept Store, Multipolar, Mathari Putra Prima, Lippo Karawaci
Distribution Center Balaraja	18%	Tangerang, Greater Jakarta	Right to Build	Lippo Group and related: Matahari Dept Store, Hypermart
Menara Asia	16%	Tangerang, Greater Jakarta	Right to Build	CIMB Niaga, Lippo Group and related: Cinemaxx, Star Pacific
Berita Satu Plaza	16%	Gatot Subroto, South Jakarta	Strata Title	Lippo Group and related: First Media, Metropolis Propertindo Utama, Lippo General Insurance, Star Pacific, Multipolar

Source: Deutsche Bank, company report

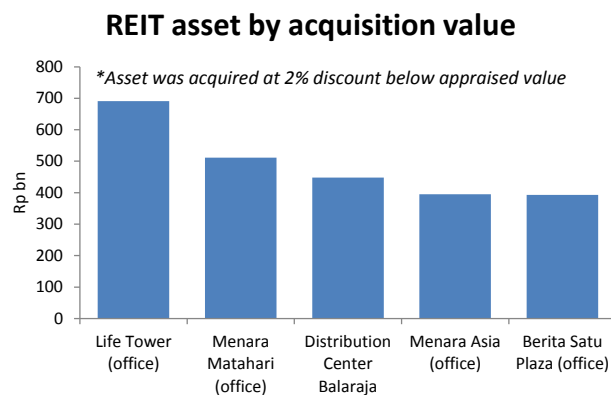


Figure 4: REIT asset by area...



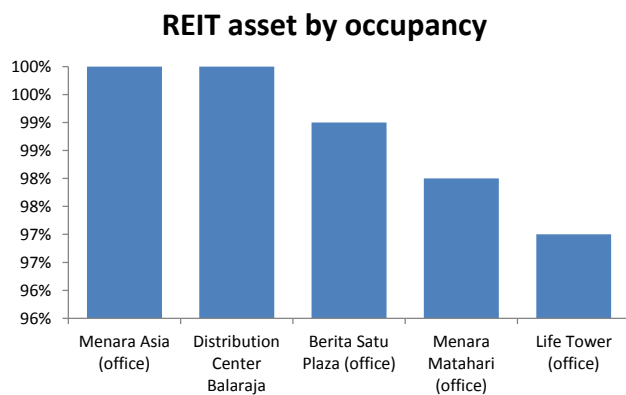
Source: Company report

Figure 5: ...and by acquisition value



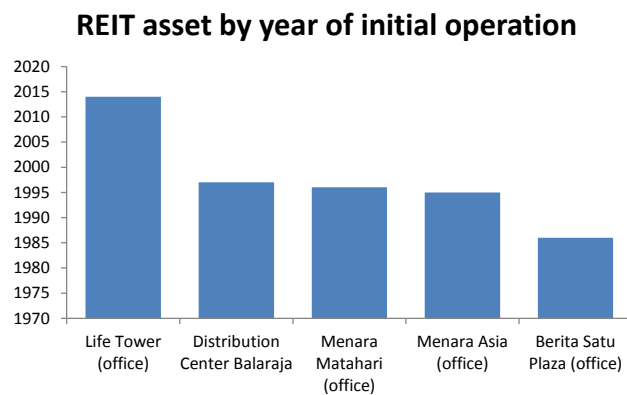
Source: Company report

Figure 6: Above 97% occupancy rate



Source: Company report

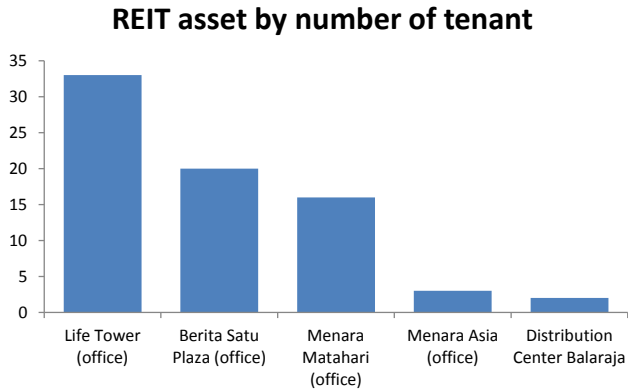
Figure 7: REIT asset's initial year of operation ranges from 1986 to 2014



Source: Company report



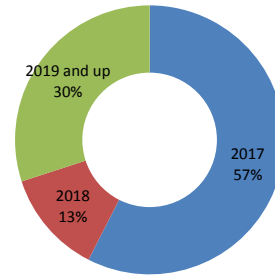
Figure 8: Breakdown by number of tenants



Source: Company report

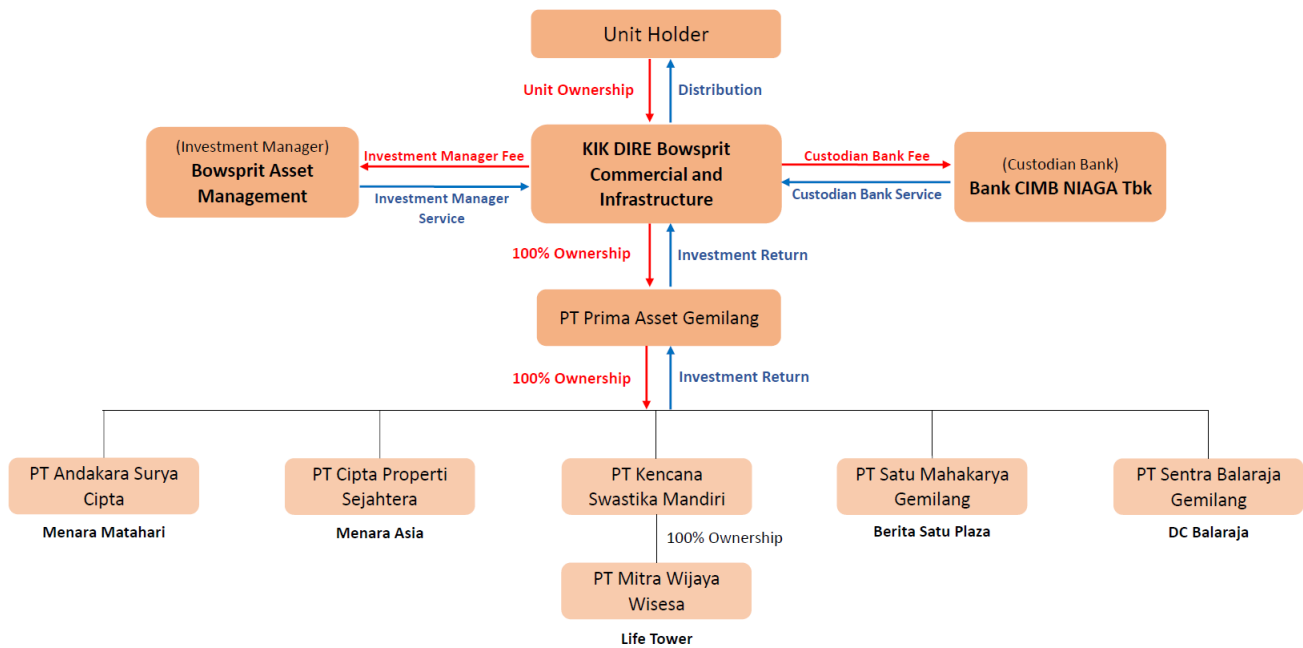
Figure 9: Expiring soon, but group exposure and soft commitments to renew contracts provide stability

Lease Expiry Profile



Source: Company report

Figure 10: DIRE structure



Source: Deutsche Bank and company



Figure 11: REIT projected financials

Forecast	Year 1	Year 2	Year 3
(in thousand of Rupiah)			
Real Estate Asset			
Revenue	321,234,242	332,736,952	344,277,819
Cost of goods sold	(37,989,495)	(40,710,866)	(43,515,230)
BOT ammortization (for Life Tower over 22 years)	(21,100,000)	(21,100,000)	(21,100,000)
Property manager fee*	(7,675,728)	(8,549,335)	(9,080,398)
Operating profit from real estate assets	254,469,019	262,376,751	270,582,191
Real estate related assets			
Yield	1,119,645	1,153,234	1,187,831
Yield of real estate related asset	1,119,645	1,153,234	1,187,831
Expenses			
Investment manager**	(6,418,939)	(6,535,002)	(6,661,630)
Custodian bank	(2,156,000)	(2,156,000)	(2,156,000)
Tax	(31,905,892)	(33,014,091)	(34,168,177)
Total expense	(40,480,831)	(41,705,093)	(42,985,807)
Estimated distribution to unit holder	215,107,833	221,824,891	228,784,216
Total number of units	24,500,000,000	24,500,000,000	24,500,000,000
Estimated distribution per unit (Rp)	8.78	9.05	9.34
Estimated effective yield	8.8%	9.1%	9.3%

Other things to note:

Asset to be revalued at least once every year, it will be free of tax and booked as gain

Net gearing is limited up to 45% (currently 0%). By regulation, DIRE can't issue bond butis allowed to borrow from banks


*If Net property income < 0, 2% of revenue . If Net property income > 0, 2% x (Revenue + (2% x (Net property income - (2% x Revenue))) + (0.5% x Net property income)

**Fixed fee maximum 0.2% of NAV. Performance fee maximum 2.0% of Net property income net of tax

Source :Company Report

Figure 12: Full backing of regulators; government has introduced incentives

	Singapore	Malaysia	Indonesia	
Stamp duty (BPHTPB)	2005-2015: free of stamp duty Since 31 March 2015: 3%	Free of stamp duty	5% (potentially reduced to 1% in the future)	
Property sales value added tax	7%, tax refund 6 months max	6%	10% (1 month tax refund)	Underlying regulations
Property sales income tax	Tax free	Tax free	0.5% (reduced from 5%)	Finance Minister Decree, PMK No 200/PMK.03/2015
Rental income tax	Tax free	Tax free	Final income tax 10%	
SPC dividend income tax	Tax free	Tax free	Tax free	Finance Minister Decree, PMK No 200/PMK.03/2015
DIRE dividend income tax	Resident & Non resident individual: tax free Resident corporate: 17% Non resident corporate: 10%	Resident & Non resident individual: 10% Resident corporate: 24% Non resident corporate: 25%	Tax free (reduced from 15%)	Government regulation, PP No 40 / 2016

 denotes recently revised regulation

Source: Deutsche Bank, OJK



Figure 13: Regional comparison

	Bloomberg ticker	Market cap (m SGD)	Price to Book	Asset type	Current dividend yield	Net gearing
Bowsprit DIRE	N/A	260	1.0	Office, infra	8.8%	0%
Existing Lippo Group REITs						
Lippo Mall Indonesian Retail (LMIR) Trust	LMRT SP	1,108	1.0	Mall	8.4%	38%
FIRST REIT	FIRT SP	989	1.3	Hospital and hotel	6.6%	45%
Commercial REITs in Singapore						
Frasers Commercial Trust	FCOT SP	1,026	0.8	Office	7.6%	54%
OUE Commercial REIT	OUECT SP	905	0.8	Office, mixed use	7.5%	65%
Starhill Global REIT	SGREIT SP	1,647	0.8	Office, retail	6.8%	52%
Keppel REIT	KREIT SP	3,360	0.7	Office, mixed use	6.3%	45%
CapitaLand Commercial Trust	CCT SP	4,593	0.9	Office, mixed use	5.9%	47%
Suntec REIT	SUN SP	4,402	0.8	Office, retail	5.8%	56%
SPH REIT	SPHREIT SP	2,477	1.0	Retail	5.7%	33%
Mapletree Commercial Trust	MCT SP	4,307	1.1	Office, retail	5.4%	59%

Source: Deutsche Bank, Bloomberg



Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Lippo Karawaci	LPKR.JK	765.00 (IDR) 17 Feb 17	7,14,SD11
Bumi Serpong Damai	BSDE.JK	1,890.00 (IDR) 17 Feb 17	SD11

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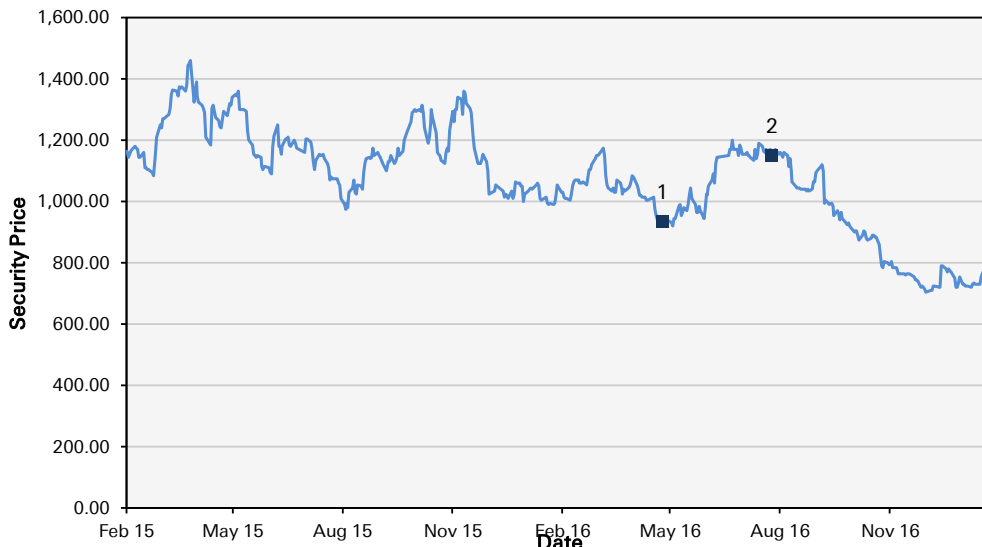
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Historical recommendations and target price: Lippo Karawaci (LPKR.JK)

(as of 2/17/2017)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

*New Recommendation Structure as of September 9,2002

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1. 16/05/2016: Buy, Target Price Change IDR1,100.00 Hadi Soegiarto 2. 16/08/2016: Buy, Target Price Change IDR1,300.00 Hadi Soegiarto

Historical recommendations and target price: Bumi Serpong Damai (BSDE.JK)

(as of 2/17/2017)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

*New Recommendation Structure as of September 9,2002

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 2. 16/08/2016: Buy, Target Price Change IDR2,560.00 Hadi Soegiarto



Equity rating key

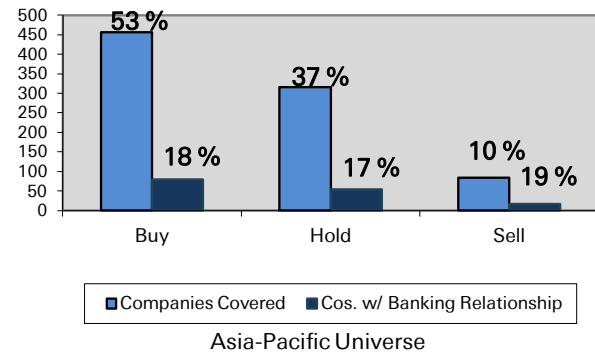
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