

PANORAMA SENTRAWISATA | BUY

 23 Aug 2017
 Company Update

GOING INTO THE RIGHT BUSINESS

- Towards asset light travel company
- More capital to spur growth of bedbank
- Raise PT to Rp1,000

Transforming into an asset light travel company - We like the company's vision to be an asset light travel company, evident by the recent 30% stake sale in PTI to JTB. Going forward we believe earnings growth will be highly supported by its bedbank unit (Rajakamar/MG Group) that has just entered into a rapid profit growth stage.

Divestment of 30% stake in Panorama Tours: A brilliant deal - Earlier this year, PANR announced the divestment of its 30% stake in Panorama Tours (PTI) to JTB Corporation for Rp370 bn. We see this is a good deal given the following reasons: 1) PANR sold its stake in PTI at premium valuation circa 59x P/E T12M (using implied equity market value of Rp1.2 tn and net profit of Rp20bn), which is significantly higher compared to any other tour operators in the world (global tour operators now valued at average of 30x PE T12M), 2) Higher asset profitability given additional sales from JTB and cost synergies post the deal, 3) cash flow savings as the deal will enable the company to share capex.

More capital towards the fast-growing bedbank unit - Going forward we believe earnings growth will be highly supported by PANR's bedbank unit (Rajakamar/MG Group), which has reached a scale that allows it to be a net profit contributor for the parent. In 2016, hotel voucher contributed to 26% gross profit for PANR. We expect the contribution to gradually increase to 37% in 2020, as management guided the volume to triple in five years (24% CAGR). In addition, we see almost no threat from both local and global bedbank players. Compared to local competitors like KAHA Group, we believe MG Group has more advantage in term of financial access, global knowledge and technology. Global competitors, like Hotelbeds Group, on the other hand, lack a local network to cement their presence in the country.

Bigger than it seems; PANR valuation above Rp1 tn - We raise our target price to **Rp1,000** as we change our valuation methodology to SOTP. We believe this method will provide a more accurate value of the company's subsidiaries. Our target price implies 19x and 11x PE for 2017E and 2018E, respectively. Key downside risks to our target price and projection include: 1) Significant strengthening of IDR, 2) Regulations on specific country bans or restrictions on visa-access, 3) Diseases, outbreaks, large-scale political riots, natural disasters, terrorism.

BUY

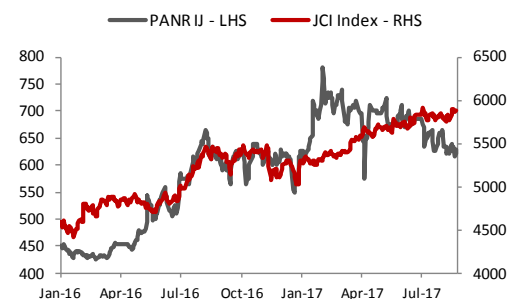
Current price	Rp 620
Target price	Rp 1,000

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Key information

Market Cap. (IDR bn)	756
Free Float (%)	32.3
Shares Outstanding (mn)	1,200
Ticker	PANR IJ
Top shareholder	Panorama Tirta Anugrah 64.2%



Financial Summary

Rp	2016	2017E	2018E
Net Revenue (bn)	2,133	2,247	2,572
Gross profit (bn)	441	492	571
EBIT (bn)	103	199	237
EBITDA (bn)	160	248	301
Net profit (bn)	(17)	63	110
EPS	(14)	52	92

Source: Company, PTOS



Transforming into asset light travel company

We like the company's vision to be an asset light travel company, evident by the recent 30% stake sale in PTI to JTB. In the future we believe earnings growth will be highly supported by its bedbank unit (Rajakamar/MG Group) that has entered into a rapid profit growth stage.

30% divestment in Panorama Tours: A tough sell but brilliant deal

Earlier this year, PANR announced the divestment of its 30% stake in Panorama Tours (PTI) to JTB for Rp370 bn. As part of the deal, Panorama has integrated with JTB's Jakarta branch, changed its name to Panorama JTB Tours Indonesia and displayed the JTB logo on its offices. Post the deal PANR still controls 60% of PTI.

We believe this is a good deal given the following reasons:

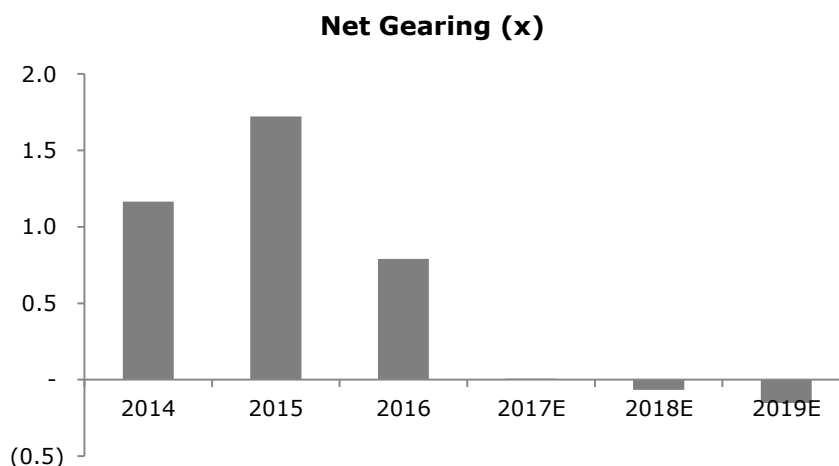
1) PANR sold its stakes in PTI at premium valuation circa 59x P/E T12M (using implied equity market value of Rp1.2 tn and net profit of Rp20bn), which is significantly higher compared to any other tour operators in the world (global tour operators now valued at average of 30x P/E). The vast amount of proceeds (Rp 370 bn) should help the company to grow its **bedbank business** in addition to **reducing its gearing level**.

Exhibit 1: PANR sold 30% stake in PTI at premium valuation

		Transaction P/E Multiple
Panorama Tours Indonesia*		59.0
Regional Peers	Ticker	Average P/E (Last Five years)
Hana Tour Services	039130 KS	26.8
Modetour Network	080160 KS	20.7
Interpark	108790 KS	47.5
CITS	60188 CH	35.5
China CYTS Tour	600138 CH	33.3
HIS	9603 JP	18.8
Average		30.4

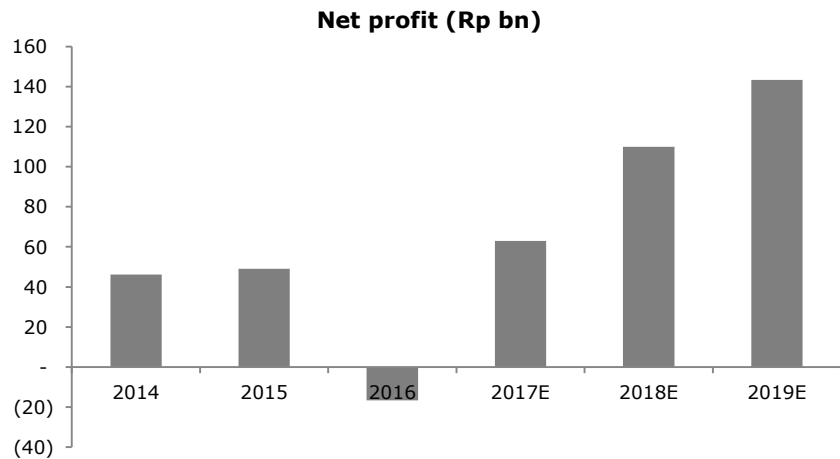
Source: * Company data, Bloomberg, PTOS

Exhibit 2: The deal will help PANR to reduce its gearing level



Source: PTOS

Exhibit 3: Net profit is expected to surpass Rp100 bn in 2018



Source: PTOS

2) JTB now holds the largest share of inbound market to Japan, however, the Japan outbound market (from Indonesia to Japan) is currently dominated by HIS Tours. We expect the deal to help PANR to increase penetration in Japan outbound market. The partnership with PANR will help JTB grow traffic from Indonesia by taking advantage of PANR customer base and wide distribution channels. In return, PANR will get additional sales from JTB and may get cost synergies to compete with the current market leader in Japan outbound Market (HIS Tours). This year, management estimates the partnership will contribute to c.10% of the company’s outbound revenue. The contribution should increase further due to market share gain.

3) It will also enable the company to share capex for expansion, which in turn should save up some cash in the future.

Exhibit 4: PTI is now increasing penetration in Japan outbound market

Wonderful Holiday Destination

Package	Duration	Price (Rp)
SOUTH EAST ASIA	4-7 Days	3890
JAPAN, KOREA, CHINA	5-11 Days	4890
EUROPE, AUSSIE, USA	5-15 Days	8890
MAYBANK BALI MARATHON	03/04 Days	2500
BANGKOK PATTAYA	04 Days	4550
BEST OF SOUTHEAST ASIA CRUISE	04/05/06 Days	2085
Disneyland Ticket	-	620
Disneyland Ticket	-	950
Disneyland Ticket	-	985

Panorama JTB
2556 5151

Source: Panorama Group

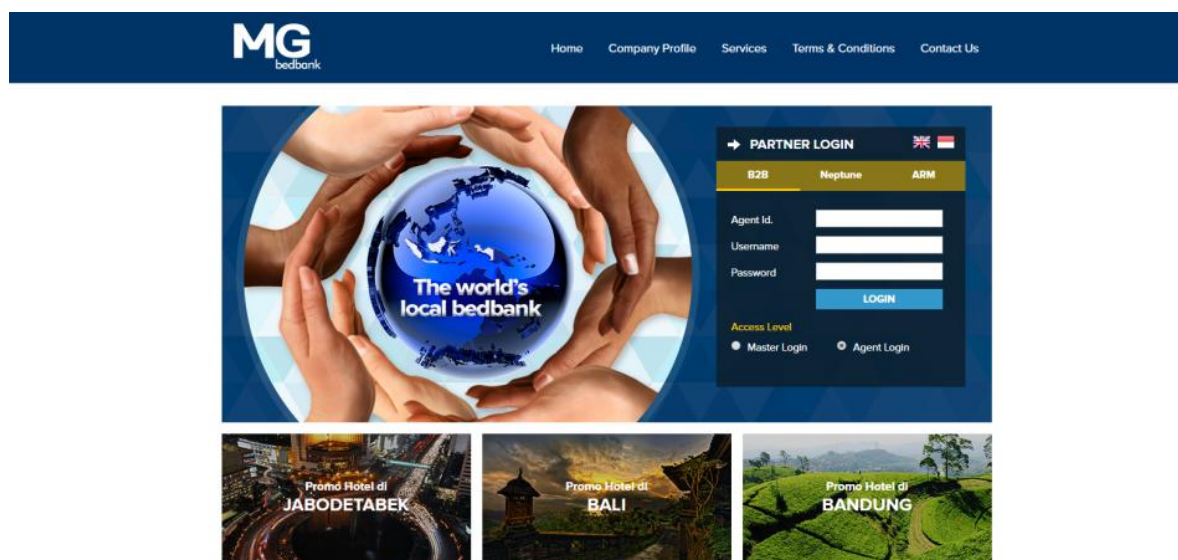
More capital towards the fast-growing bedbank unit

In the future we believe earnings growth will be highly supported by PANR's bedbank unit (Rajakamar International), which has reached a scale that allows it to be a net profit contributor for the parent. In 2016, hotel voucher contributed to 26% gross profit for the company. We expect the contribution to gradually increase to 37% in 2020, as management guide the volume to triple in five years (24% CAGR).

Introducing Rajakamar International – The local bedbank champion

RKIT (PT. Rajakamar International) is one of PANR's subsidiaries that engages in the hotel distribution business (bedbank). With full support from Panorama's network and financial access, MG Group now has transformed into the country's largest bedbank, while its booking platform, MG Bedbank, is now being used by thousands travel agents in the country.

Exhibit 8: MG bedbank is gaining popularity from travel agents



Source: MG bedbank

Led by management team with global experience

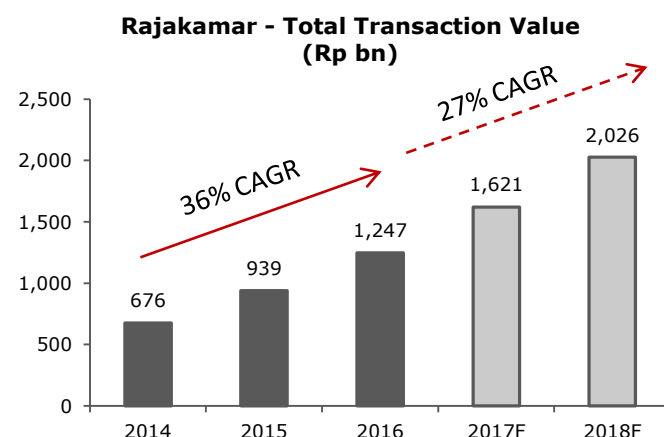
In 2013, the company appointed William Newley as CEO in order to help the company to increase its regional presence. William has spent 25 years of his career within the travel industry. Prior to joining the company, he held a number of significant positions within Kuoni Group. His last position was Head of Sales in Southeast Asia for Gullivers Travel Associates (GTA); one of Kuoni's subsidiary which is now considered as the world's second largest bedbank. Equipped with global experience, William has brought some significant influence to the company. One of his biggest successes was making MG Group as the supplier to global wholesalers, aggregators, and tour operators (such as GTA and Sabre). This has allowed the company to post Rp1.2 tn transaction value in 2016 from only Rp646 bn in 2014.

Exhibit 9: MG Group



Source: Various sources

Exhibit 10: Transaction value to surpass Rp 2 tn in 2018



Source: Company, PTOS

Equity injection from Northstar marks the start of rapid expansion in Southeast Asia

In December 2016, Northstar Group announced equity injection amounting to USD10 mn (Rp130 bn) for 11.2% minority stake in Rajakamar International. The second stage equity injection is likely to come in Q2/Q3. After the deal, PANR would still control the majority with 34.2% stake, in our estimate. The proceeds will be allocated to increasing penetration in Southeast Asia.

Take note: Opportunity in local market is still good

Though the company has gained popularity amongst local travel agents, we believe it still offers growth prospects in the next five years. We note that RajaKamar has only registered 1.2 mn room nights sold (3.4k rooms/night) in 2016, which only represents 2.5 % of total room nights sold in the country. Bedbank penetration should increase further as we believe its presence is become increasingly important for travel agents in order to compete with OTAs. Wholesalers allow tour operators to offer best price for customers and preserve margin by taking the advantage of their scale.

Exhibit 11 : Rajakamar still only represents 2.5% total room nights sold in the country

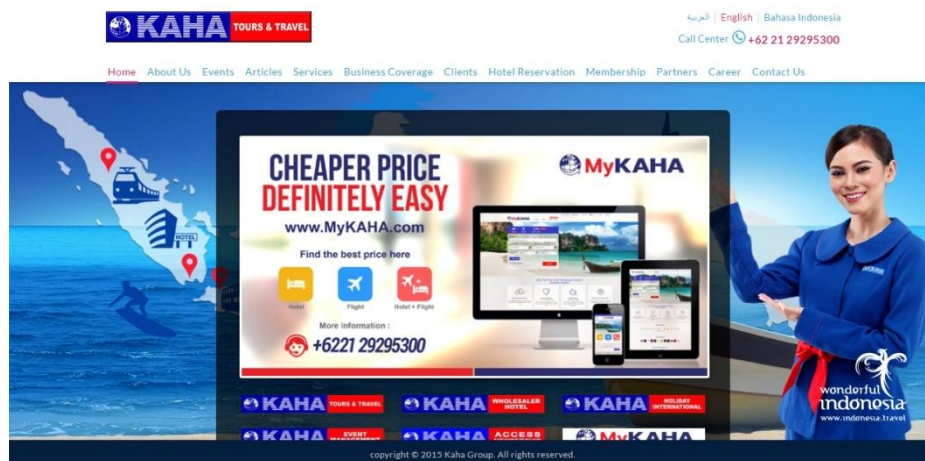
Rajakamar - total rooms sold - 2016	1,226,306
Implied rooms night sold/day	3,360
Indonesia star hotel rooms supply (BPS)	240,350
Occupancy rate (BPS)	56%
Implied rooms demand/day	134,596
Rajakamar's share	2.5%

Source: BPS, company, PTOS estimate

Best-positioned to dominate the bedbank game

We believe that the game in bedbank industry is like a race for monopoly; whoever reaches the optimal scale first will win the game. Increasing contracts with hoteliers and extending network with travel agents / tour operators will be the key to scale-up the business. In this sense, hotel wholesalers need investment in technology and more working capital to spur growth.

Exhibit 12: We do not see local competitors as a threat



Source: Kaha Group

Fortunately, we see almost no threat from both local and global wholesalers. Compared to local competitors like KAHA Group, we believe MG Group has more advantage in term of financial access, global knowledge and technology. Global competitors, like Hotelbeds Group, on the other hand, lack a local network to cement their presence in the country; this condition would make strategic partnership with domestic wholesalers as the win-win strategy for global wholesalers.

Bigger than it seems; PANR's valuation above Rp1 tn

We raise our target price to Rp1,000 as we change our valuation methodology to SOTP. We believe this method will provide a more accurate value of the company's subsidiaries.

Exhibit 13: SOTP valuation

Subsidiaries	Numerator	Unit	Multiple	Valuation Method	100% Valuation (Rp bn)	Effective ownership	Value to PANR (Rp bn)
Raja Kamar International (bedbank)	1,621	TTV - 2017E (Rp bn)	1.0	EV/TTV	1,621	34.22%	555
Panorama Tours Indonesia (outbound)	78	EBITDA - 2017E (Rp bn)	5.0	EV/EBITDA	388	60.00%	233
Panorama Destinasi (inbound)	122	EBITDA - 2017E (Rp bn)	5.0	EV/EBITDA	610	62.94%	384
Gajah Mas Perkasa (hospitality)	180	Asset value (Rp bn)			180	72.73%	131
Panorama media	198	Asset value (Rp bn)			198	99.99%	198
				Total EV			1500
				Less: Total Debt			-617
				Add: Cash			606
				Add: Equity investment			53
				Market value of equity			1542
				Holding discount	20%		-308
				Fair Equity Value (Rp bn)			1234
				Shares outstanding (bn)			1.20
				Target Price (Rp/share)			1000

Source: PTOS

- We estimate Raja Kamar standalone valuation to reach Rp1.6 tn in 2017 (we apply 1xEV/TTV on our transaction value estimate of Rp1.6 tn in 2017E).
- For PTI, do note that we did not use the valuation from the recent transaction with JTB as it may overestimate its fair value. We only use a conservative 5x EV/EBITDA multiple on our estimated EBITDA of Rp 78 bn in 2017E, which results in a standalone valuation of Rp388 bn.
- For Panorama destinasi, we valued the subsidiary at Rp610 bn, applying 5X EV/EBITDA on our estimated EBITDA of Rp122 bn in 2017E.
- For another subsidiary, we used asset value as disclosed in the latest financial statement.
- Lastly, we apply a 20% holding company discount.

Exhibit 14: Equity transactions in bedbank companies

Bedbank company	Owner	Acquirer / Buyer	Transaction	Date	Estimated EV (USD)	TTV @ year of shares acquisition (USD)	Implied EV/TTV
RajaKamar International	Panorama Sentrawisata	Northstar Group	Equity Injection	2016	88,809,947	93,755,489	0.95
Hotelbeds Group	TUI Group	Cinven and CCPIB	Acquisition	2015	1,300,000,000	1,060,000,000	1.23
GTA	Travelport	Kuoni	Acquisition	2011	705,000,000	1,433,893,800	0.49
Tourico Holiday	Tourico Group	Hotelbeds	Acquisition	2016	undisclosed sum	undisclosed sum	N/A

Source: Various Sources

Income Statement

<i>Year Ended Dec 31 (Rp b)</i>	2014	2015	2016	2017E	2018E	2019E
Net Revenue	1,956	1,923	2,133	2,247	2,572	2,930
Gross Profit	389	400	441	492	571	665
Operating profit	121	108	103	199	237	284
Net interest income (expense)	(70)	(68)	(103)	(67)	(25)	(8)
Income tax benefit (expense)	(21)	(17)	(17)	(33)	(53)	(69)
Minority Interest	14	2	20	37	49	64
Net profit	46	49	(17)	63	110	143

Balance Sheet

<i>Year Ended Dec 31 (Rp b)</i>	2014	2015	2016	2017E	2018E	2019E
Cash balances	140	101	289	606	257	400
Other current asset	598	518	580	645	738	841
Total current asset	739	619	869	1,251	995	1,241
Property, plant, and equipment, net	531	811	1,075	1,076	1,051	1,019
Total assets	1,670	1,746	2,279	2,681	2,451	2,720
Total debt	650	813	884	617	146	118
Current liabilities excluding debt	492	429	533	460	526	597
Total liabilities	1,233	1,333	1,525	1,191	802	864
Total equity	437	413	754	1,490	1,649	1,856

Cash Flow Statement

<i>Year Ended Dec 31 (Rp b)</i>	2014	2015	2016	2017E	2018E	2019E
Operating profit	121	108	103	199	237	284
Depreciation and ammortization	98	50	57	49	65	65
Working cap, tax, interest , and other	(164)	(165)	(39)	(238)	(106)	(108)
Net cash from operation	55	(6)	120	10	196	240
Purchase of PP&E	(146)	(250)	(62)	(50)	(40)	(32)
Investing cash flow	(112)	(219)	107	562	(91)	(88)
Financing cash flow	31	186	(33)	(262)	(454)	(9)
Net cash flow	(26)	(39)	194	311	(349)	143
Cash at beginning of the year	166	140	101	295	606	257
Cash at end of the year	140	101	295	606	257	400

Key Ratios

Gross margin	19.9%	20.8%	20.7%	21.9%	22.2%	22.7%
Operating margin	6.2%	5.6%	4.8%	8.9%	9.2%	9.7%
Net profit margin	2.4%	2.5%	-0.8%	2.8%	4.3%	4.9%
ROE	17.7%	25.8%	-3.5%	6.2%	9.8%	11.3%
ROA	3.1%	2.9%	-0.8%	2.5%	4.3%	5.5%
Dividend yield	1.3%	0.9%	0.0%	0.0%	0.0%	0.0%
P/E (x)	12.6	11.0	(45.0)	12.6	7.2	5.5
P/BV (x)	2.2	2.8	1.6	0.8	0.7	0.6
EV/EBITDA (x)	5.6	9.0	9.8	4.4	3.8	3.0
Net gearing (x)	1.2	1.7	0.8	0.0	(0.1)	(0.2)

Sources: Company, OCBC Sekuritas Estimates

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