

January 27, 2014

Lautan Luas, Tbk
Primary Report

Target Price

Low	High
1,635	2,000

Chemical Distribution & Manufacturing

Historical Chart



Source: Bloomberg, PEFINDO Equity & Index Valuation Division



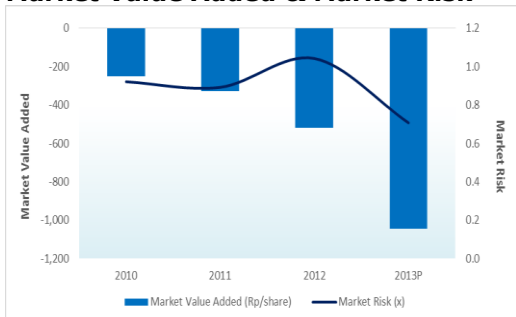
Integrated Business, A Leading Regional Player



Stock Information

	IDR
Ticker code	LTLS
Market price as of January 24, 2014	675
Market price – 52 week high	980
Market price – 52 week low	655
Market cap – 52 week high (bn)	764
Market cap – 52 week low (bn)	511

Market Value Added & Market Risk



Source: PT Lautan Luas Tbk, PEFINDO Equity & Index Valuation Division

Shareholders*

	(%)
PT Caturkarsa Megatunggal	55.03
Others and Public (less than 5%)	44.97

*up to December, 2013

Contact:

Equity & Index Valuation Division
Phone: (6221) 7278 2380
info-equityindexvaluation@pefindo.co.id

"Disclaimer statement in the last page is an integral part of this report"
www.pefindo.com

The establishment of NV Lim Teck Lee Co. Ltd in 1951 marked the beginning of PT Lautan Luas Tbk's history (LTLS). The Company started out as an importer and distributor of basic chemicals in Indonesia, particularly for the batik and food industries. Its expansion to manufacturing by developing the first privately-owned sulfuric acid plant in 1969 became one of the foundations of the Company's business development. During the 1970s, LTLS built its capabilities in the manufacturing and distribution of specialty chemicals. The specialty chemicals business is advantageous because of its resilience to economic volatility as well as its more stable profitability. To strengthen its capital, LTLS conducted an Initial Public Offering in 1997. To strengthen its presence in the regional market, it established a subsidiary in Singapore in 1999. It further expanded its distribution networks and manufacturing facilities to Thailand, Vietnam, and China. Its integrated business model that covers distribution, manufacturing, and support & services has made the Company a leading regional player in the distribution and manufacture of basic and specialty chemicals. Its portfolio now covers more than 1,000 chemical products and it has developed partnerships with more than 100 international principals, serving more than 2,000 industrial end-user customers across Indonesia and the Asia-Pacific region.

INVESTMENT PARAMETER

Integrated Regional Player

Through its integrated business model, LTLS has emerged as a leading regional player in the distribution and manufacture of basic and specialty chemicals. Its portfolio now covers an extensive range of chemical products, and the Company has proven able to develop long-term partnerships with its international principals, most of which have been with them more than 30 years. Further, many of its products have dominant positions in the market. The ability to provide a one-stop and complete solution to its customers has become an advantage over its competitors. Serving a variety of industrial segments in line with the broad applications of its chemicals also protects LTLS from volatilities in particular industries.

Expanding Manufacturing Capacity and the Growing Logistic Business

Since its first involvement in the chemical manufacturing business in 1969, LTLS has consistently developed its production facilities. In the last 10 years, the Company established five production facilities in Indonesia and overseas. The most recent one is the production facility of PT Lautan Natural Krimerindo (LNK), which produces non-dairy creamer. In line with aggressive expansion plans on its manufacturing segment, we eye positive outlook on the segment revenues in the future. We account the Company's investments activities on the manufacturing segment and the leverage effect to the segment revenues. We estimate manufacturing revenue should climb up with faster pace of 18% for 2013-2016 compared to only 7% during 2009-2012. On the other hand, LTLS has also successfully transforms its logistic division to an independent business subsidiary after restructured the division in 2001, and the business has been growing rapidly. The business currently has resulted revenue of more than IDR400 billion and growing.

Optimist on Brighter Performances

LTLS' revenue has seen an 18% CAGR over the last four years. The Company's decision to cease the sale of high-speed diesel at the end of 2012 has led to an 18% decline in 9M13 distribution revenue, but thanks to the manufacturing segment's performance that climbed 24% in 9M13, LTLS' revenue only slip by 11%. However, we are optimist LTLS can maintain its favorable revenue growth of 13% CAGR in 2013-2016, based on our estimation. Further, the elimination of high-speed diesel from LTLS' product portfolio benefitted the Company's gross margin, which rose to 15.3% as of 9M13 from only 13.2% in 2012. We expect the margin to reach 15.5% at the end of 2013. In addition, we estimate that the Company's EBITDA would become stronger in the years ahead, such that LTLS is expected to have increasing EBITDA to net-interest coverage ratio to reach more than 5.0x in 2015.

Business Prospects

Indonesia's economic growth this year is expected to be lower than last year's. However, we are of the view that although growth is decelerating, the country still has the potential to grow stronger in the future. Strong domestic consumption, vigorous infrastructure development, increasing investment, and a wider middle class population will be the drivers of growth. Robust growth of foreign direct investment in manufacturing and mining, the industries in which LTLS has wide exposures, convince us that demand for LTLS' products will soar. Looking ahead, we believe than LTLS will be a beneficiary of the increasing demand for basic and specialty chemicals in line with the growth of industries in Indonesia and in the region.

Table 1: Performance Summary

	2011	2012	2013P	2014P	2015P
Revenue [IDR bn]	5,529	6,214	5,846	6,538	7,332
Pre-tax profit [IDR bn]	120	142	180	225	335
Net profit [IDR bn]	76	81	88	110	163
EPS [IDR]	98	104	113	141	209
EPS growth [%]	(12.4)	6.9	7.9	25.0	48.7
P/E [x]	8.2	7.1	6.0*	4.8*	3.2*
PBV [x]	0.7	0.5	0.4*	0.3*	0.3*

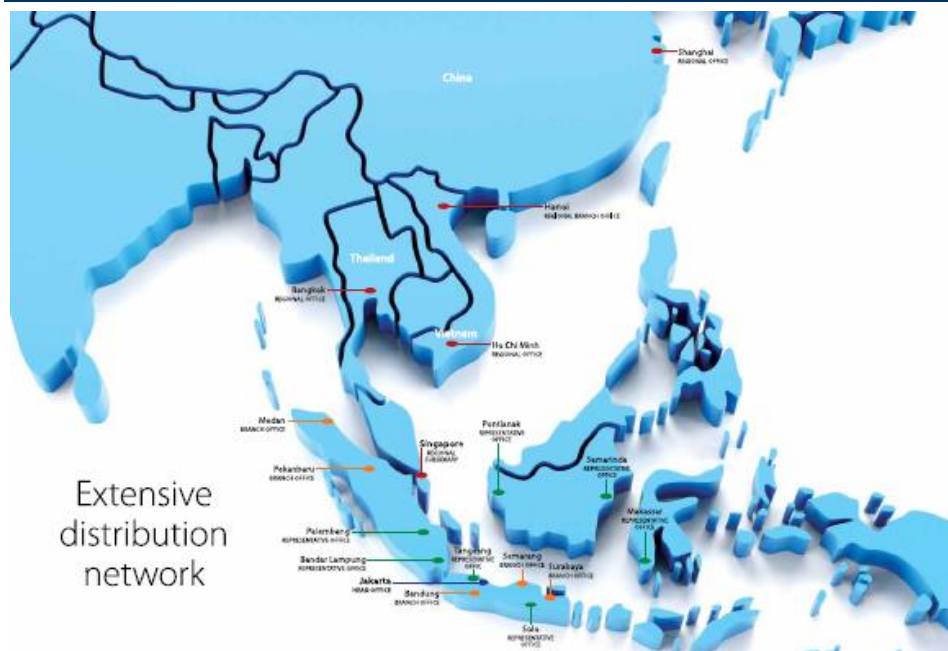
Source: PT Lautan Luas Tbk, PEFINDO Equity & Index Valuation Division Estimates
*Based on LTLS' share price as of January 24, 2014 - Rp 675/share

BUSINESS INFORMATION

A Brief Profile

The history of PT Lautan Luas Tbk (LTLS) started from the establishment of NV Lim Teck Lee Co. Ltd in 1951, an importer and distributor of basic chemicals and basic industrial chemicals in Indonesia, particularly for the batik and food industries. In 1969, LTLS began operating its first sulfuric acid plant. In the 1970s, the Company expanded its manufacturing capacity and distribution networks, focusing particularly on specialty chemicals that can provide the Company resiliency to economic volatilities as well as better profitability. Two years after conducting its IPO in 1997, LTLS established a subsidiary in Singapore to strengthen its presence in the regional market. Afterward, LTLS expanded its distribution network and manufacturing facilities to Thailand, Vietnam and China. Through its integrated business model, LTLS has emerged as a leading regional player in the distribution and manufacture of basic and specialty chemicals. Its product portfolio now covers more than 1,000 chemical products and it has partnerships with more than 100 international principals serving more than 2,000 industrial end-user customers spread across Indonesia and the Asia Pacific region.

Figure 1: LTLS Distribution Network



Source: PT Lautan Luas Tbk, PEFINDO Equity & Index Valuation Division

The Company’s businesses are categorized into three main segments:

- **Distribution**
LTLS has domestic and regional distribution networks. Its domestic distribution network consists of a headquarter in Jakarta, five branches and seven representative offices in major cities across Indonesia. Its regional distribution network consists of offices in China, Thailand, and Vietnam, with its Singapore regional office serving as the anchor.
- **Manufacturing**
The Company has a stake in 16 manufacturing facilities in Indonesia, two in China, and a water treatment chemical manufacturing plant in Vietnam.
- **Support & services**
LTLS’ support & services business is comprised of five entities providing laboratory services, supply chain management, information technology, water treatment solutions, and industrial estate – to provide value-added services to customers.

Capability in Building Long-term Partnerships with International Principals

LTLS has been able to develop long-term partnerships with its international principals, some of whom have been with them for more than 30 years. This capability is believed to be one of its key competitive advantages. Its success as a basic and specialty chemicals distributor has attracted more principals to develop strategic partnerships with it. At the same time, we believe LTLS has discretion in managing the supply availability of its products, as about half of its distribution revenue is contributed by its affiliated principals’ products.

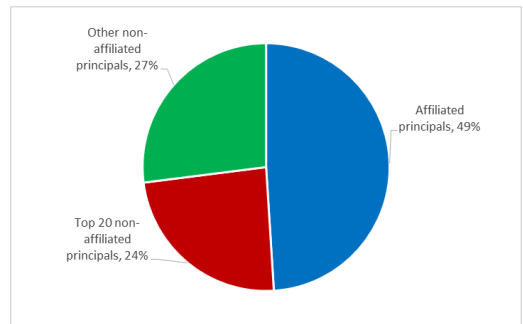
“Disclaimer statement in the last page is an integral part of this report”
www.pefindo.com

Table 2: Long-term Principals

Principal	Primary industry served	Years
Honeywell	Personal care, plastic, adhesive	>30
Dow Corning	Coating, rubber, plastic, food, paper	>30
DuPont	Coating, plastic, synthetic leather	>30
Stahl Asia	Leather	>30
Uyemura	Electroplating	>30
Lubrizol (BF Goodrich)	Personal care, pharmaceutical, textile	>25
Otsuka Chemical	Footwear, synthetic leather	>20
Ansac	Glass, detergent, textile, chemicals	>15
Dow (Morton)	PVC-based	>15

Source: PT Lautan Luas Tbk, PEFINDO Equity & Index Valuation Division

Figure 2: Revenue based on Principals' Products (2013)



Source: PT Lautan Luas Tbk, PEFINDO Equity & Index Valuation Division

Proven Distribution Capabilities

The Company's distribution capabilities have been proven by the extensive number of products in its portfolio, and many of the products have dominant positions in the market. The ability to provide a one-stop and total solution to its customers has become one of its advantages over its competitors.

Table 3: LTLS' Products Market Leadership

Product	Industry served	Competitors	Market share
Soda Ash	Ansac	AKR, Perdoni, Interchem	45%
Sulfuric Acid	Own manufactured	GCS, Satona, MIM, Timuraya, Budi Acid, Utaki, All, AKR	60%
Poly aluminum chloride	Own manufactured	Kemira, Bratachem, Siskem	60%
Azodicarbonamide	Own manufactured	Mumi Kusuma	70%

Source: PT Lautan Luas Tbk, PEFINDO Equity & Index Valuation Division

Diverse Distribution

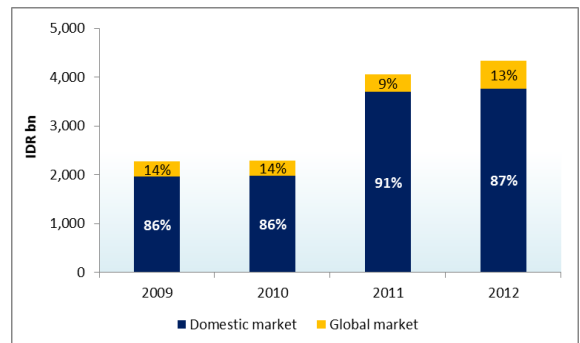
LTLS serves diverse industrial segments given the broad application of its distributed chemicals. This makes LTLS resilient to the volatilities of a particular industry. The domestic market continues to be the major destination of the Company's products, which is understandable since the market continues to grow stronger. The surge in revenue from the domestic market in 2011 gives an indication of the enthusiasm of industries in Indonesia, along with increasing investment realization.

Table 4: Market Distribution Diversification

Industry	1Q13
Metal, mining and oil services	29%
Water treatment	12%
Agriculture	9%
Chemical	7%
Personal and homecare	7%
Plastic and rubber	6%
Textile and leather	6%
Food and beverages	6%
Construction	5%
Automotive	3%
Feedmill	3%
Pulp and paper	2%
Home appliances	1%
Coating and adhesive	1%
Others	3%

Source: PT Lautan Luas Tbk, PEFINDO Equity & Index Valuation Division

Figure 3: Distribution Revenue - Domestic and Global Market



Source: PT Lautan Luas Tbk, PEFINDO Equity & Index Valuation Division

Positive Development of the Industries

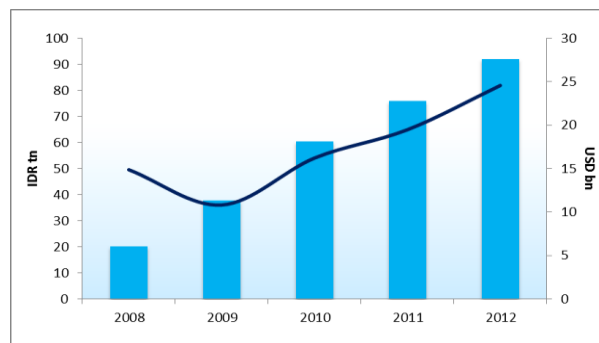
We are in the optimistic view about LTLs’ prospects. Below are some of industries developments that we view that may describe LTLs’ positive outlook:

- Chemical Industry: Should Grow Stronger**
Asian chemical market experiencing the most rapid growth compared to any other regions. As in Indonesia chemical consumption is still low, much lower compared to developed markets, we expect chemical consumption should grow about 6%-7% annually and could be stronger due to its important nature for value added to other industries.
- Food & Beverage: Growing Strongly**
The food & beverage (F&B) industry is has been growing of about 9% CAGR for the last five years and estimated to record IDR770 trillion sales in the past year. F&B sector contribution to GDP from the non-oil and gas and manufacturing industry has increased significantly from 29% in 2005 to 36% in 2012. The strong F&B demand is supported by large population and increasing per capita income in the country.
- Agriculture: Strategic Role for the Economic Development**
Agriculture sector has a strategic role to the economic development in the country. It contributes significantly to GDP (14% in 2012), absorbs large number of labors (35% of labor market), and supply raw materials to industries. Investments in this sectors is increasing, as in primary sector (food crops, horticulture, plantation and livestock) investment reaching IDR32 trillion of domestic investment and USD3.6 billion of foreign investment during the period of 2008-2012.
- Clean Water: Demand is Huge**
Water treatment facilities are still concentrated in big cities, and clean water supply both for household and industries in Indonesia is relatively small compared to the needs. The demand is continue to climb up along with the growing of population number and industries rapid development. For the last ten years Indonesia’s water treatment industry has been growing for about 5% on yearly average that we believe it could be more regarding to the huge of unserved demand.

Beneficiary of Increasing Foreign Direct Investment

Indonesia’s economic growth is expected to decelerate. However, we are of the view that the country still has potential to grow stronger in the future. Strong domestic consumption, vigorous infrastructure development, increasing investment, and a wider middle class population will be the drivers of the country’s growth.

Figure 4: Investment Realization Development



Source: PT Lautan Luas Tbk, PEFINDO Equity & Index Valuation Division

During 9M13, foreign direct investment to Indonesia was still growing strongly by 16%, although weaker compared to its 30% CAGR in the last three years. We believe international investors still see that Indonesia offers fascinating opportunities. Robust growth of foreign direct investment in manufacturing and mining, the industries in which LTLs has wide exposures, convince us that demand for LTLs’ products will soar in line with the industries’ development.

Table 5: Foreign Direct Investment in Selected Industries (USD million)

Industry	9M12	9M13	Growth (YoY)
Mining	3,157	4,061	28.6%
Non-metallic mineral	123	707	472.6%
Food	1,149	1,487	29.4%
Textile	378	657	73.7%
Metal, machinery & electronic	1,284	2,633	105.0%
Automotive & other transport equipment	1,308	2,791	113.4%

Source: PT Lautan Luas Tbk, PEFINDO Equity & Index Valuation Division

Strengthening Manufacturing Capacity

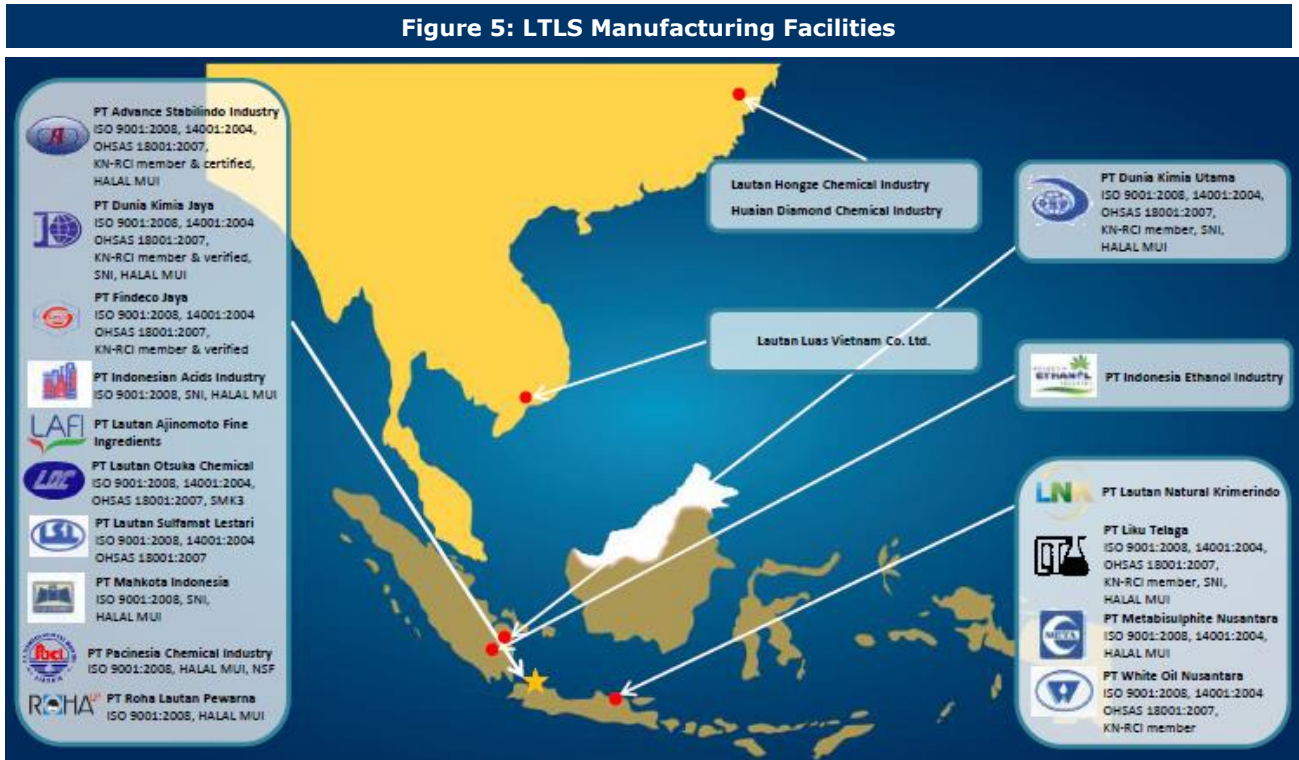
Since its first involvement in the chemical manufacturing business in 1969, LTLS has consistently developed its production facilities, which means manufacturing revenue has been growing as well. In the last 10 years, the Company developed five production facilities in Indonesia and abroad. The most recent one is the production facility of PT Lautan Natural Krimerindo that produces non-dairy creamer, which is expected to boost manufacturing revenue in the future.

Table 6: Main Manufacturing Products

Product	Industry served
Aluminum sulfate	Municipal & industrial water treatment, paper
Blowing agent	Footwear, synthetic leather
Methyltin stabilizer	PVC, plastic
NB 1/47	Agriculture
Poly aluminum chloride	Municipal & industrial water treatment, paper
LABS/BABS	Soap, detergent
Sulfuric acid	Chemical, fertilizer, fiber
White oil	Cosmetic, pharmaceutical
Sodium sulfate	Detergent, textiles, pulp & paper
Sodium metabisulphite	Food, gold mining, leather, paper, textile
Sulfamic acid	Cleaning agent, food, pharmaceutical, water treatment
Color-Dyes, Pigment	Food, beverage, paper, soap, detergent, wood polish

Source: PT Lautan Luas Tbk, PEFINDO Equity & Index Valuation Division

Figure 5: LTLS Manufacturing Facilities



Source: PT Lautan Luas Tbk, PEFINDO Equity & Index Valuation Division

Non-dairy Creamer Expected to Boost Manufacturing Revenue

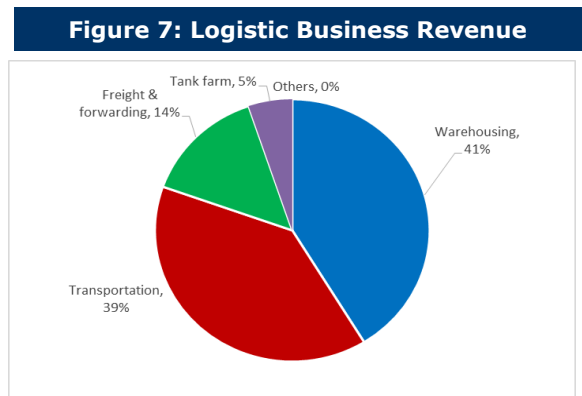
PT Lautan Natural Krimerindo (LNK), a non-dairy creamer producer, started its commercial production in September 2013, however LNK’s factory has reached its full capacity of 21.6k MT per annum. The creamer wide application in the food & beverage industry such as for ice cream, bubble drink, candy, and many others has been boost the demand. LTLS plans to triple LNK’s production capacity and estimated the new production facilities will start the production in early 2016. The Company supplies non-dairy creamer to well-known F&B producers. It also exports the products to several countries in Asia. LNK’s business prospect is very promising not only the demand is huge but also its product main raw materials used are derivative products from CPO and sugar cane, in which Indonesia has abundant resources.

Successfully Transforming Logistic Division to the Rapid Growth Business

About 80%-90% revenue from support & services is coming from the logistic business under the LINC Group. LINC Group’s covers various services including warehousing, transportation, freight and forwarding, fleet rental, IT solution, and liquid bulk terminal. Warehousing and transportation services are the largest revenue producer under LINC Group accounted about 80% then followed by freight and forwarding service (14%) and tank farm service (5%). LTLS has successfully transforms its logistic division to an independent business subsidiary after restructured the division in 2001, and the business has been growing rapidly. The business currently has resulted revenue of more than IDR400 billion and growing.



Source: PT Lautan Luas Tbk, PEFINDO Equity & Index Valuation Division



Source: PT Lautan Luas Tbk, PEFINDO Equity & Index Valuation Division

Reorganization to Focus on Core Business

The Company reorganized its subsidiaries as part of a strategy to focus more on its core business and increase efficiencies. Further, it also intensified partnerships with its international principals, particularly those related to the development of production facilities in Indonesia. For instance, LTLS sold its 51% stake in PT Hydro Hitech Optima to Organo Corporation of Japan to form a new joint venture company. This corporate action is expected to benefit LTLS in terms of transfer of knowledge and technology to support its business in water treatment. The Company has also signed an agreement with Ajinomoto Co., Inc to establish new joint venture company to produce chemicals for the cosmetic industry, particularly using amino acids as its main raw material. We expect those strategic actions to have a positive impact on its business in the future.

“Disclaimer statement in the last page is an integral part of this report”
www.pefindo.com

Figure 8: LTLS Competitive Advantage



Source: PT Lautan Luas Tbk, PEFINDO Equity & Index Valuation Division

Strengthening the Existing Businesses

Beside reorganized its business structure and developing new potential business, LTLS is actively expanding its existing business in line with the growing demand. Below are some of LTLS near-term expansion plans.

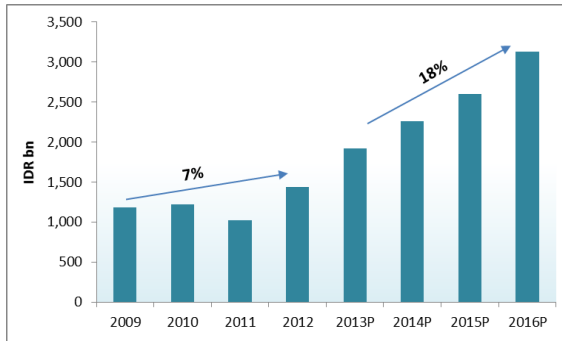
- PT Pacinesia Chemical Industry (PCI)**
 PCI is a subsidiary that produces poly aluminum chloride (PAC - liquid and powder), and gypsum plaster. In 2H12, PCI just started the commercial production of its aluminum chloro hydrate production facility with capacity of 12k MT per annum. As the demand is growing, LTLS plans to double PCI's aluminum chloro hydrate production capacity and the development will start from 2014.
- PT Bahana Prestasi (BP)**
 LTLS plans to continue strengthening number of truck of BP, a transportation solutions company under LINC Group, from 986 units in 2012 to 1,114 units in 2013 and further to reach 1,626 units in 2017.
- PT Kujang Tirta Sarana (KTS)**
 KTS is an affiliate with LTLS ownership of 40%. Water treatment facilities of KTS is planned to enlarge up to 360 m³/hour from 270 m³/hour before. The development will start from 2014.
- PT Metabisulphite Nusantara (MN)**
 LTLS plans to extend MN's production capacity up to six times of current capacity at 6,000 MT per annum. With estimated investment of USD9.5 million, the new production facility expected to complete in 3Q14.

FINANCE

Manufacturing Revenue to Soar

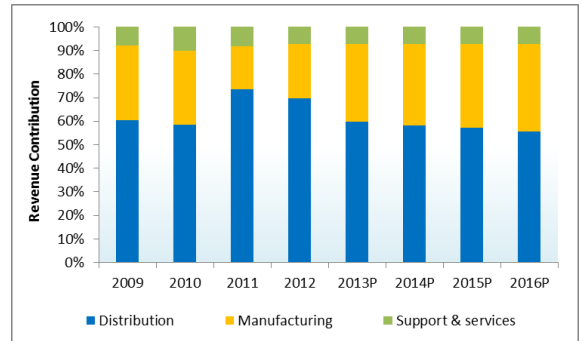
In line with aggressive expansion plans on its manufacturing segment, we eye positive outlook on the segment revenues in the future. We account the Company investments activities on the manufacturing segment and the leverage effect to the segment revenues. The drivers are among others coming from LNK astonishing performance with the non-dairy creamer products, the increase of PCI's aluminum chloro hydrate production capacity as well as the expansion of MN's sodium metabisulphite production facility. Therefore we estimate manufacturing revenue should climb up with faster pace of 18% for 2013-2016 compared to only 7% during 2009-2012.

Figure 9: Manufacturing Revenue



Source: PT Lautan Luas Tbk, PEFINDO Equity & Index Valuation Division Estimates

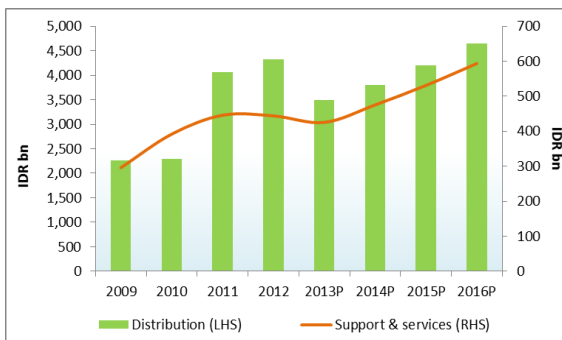
Figure 10: Manufacturing Segment Contribution Estimated to Pick Up



Investment Activities to Boost Growth

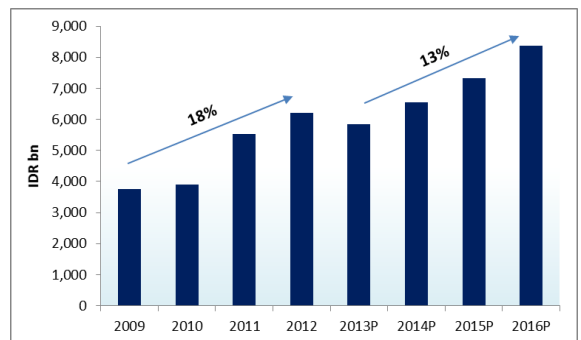
Through its integrated business model, LTLS' revenue has seen an 18% CAGR over the last four years. As of 9M13, the distribution segment contributed 61% to total revenue, followed by the manufacturing segment at 31%. The rest comes from the support & services segment. The Company's decision to cease the sale of high-speed diesel at the end of 2012 as part of its long-term strategy to focus distributing high-margin products has led to an 18% decline in 9M13 distribution revenue. Meanwhile, the support & services segment revenue also descend 6% particularly affected by fuel prices increase in the past year. However, thanks to the manufacturing segment's performance that climbed 24% in 9M13, LTLS' revenue only slip by 11% during 9M13. Looking ahead, by taking advantage of the increasing demand for basic and specialty chemicals in line with the growth of industries in Indonesia and in the region as well as vigorous LTLS' investment activities to the each business segments, we expect LTLS can maintain its favorable revenue growth of 13% CAGR in 2013-2016, based on our estimation.

Figure 11: Distribution and Support & Services Segment Revenues



Source: PT Lautan Luas Tbk, PEFINDO Equity & Index Valuation Division Estimates

Figure 12: Total Revenue



Higher Income from Affiliate Companies

Income from affiliate in 9M13 turned to be positive IDR2.2 billion compared to loss of IDR2.2 billion in 9M12 particularly contributed from its affiliates in China: Lautan Hongze Chemical industry Ltd. and Huai An Diamond Chemical Industry Ltd. In the future, income from affiliates is expected to be stronger in line with recent investment activities. Below are some of affiliates that we expect to provide significant contribution in the future:

- **PT Indonesia Ethanol Industry (IEI)**
The Company made additional capital to IEI, a producer of ethanol. We believe ethanol business will have bright prospects regarding the government obligation to mix ethanol up to 20% for the fuel used by transportation and industries, and commercial.
- **PT Lautan Organo Water (LOW)**
LTLS also made another additional capital to LOW, a joint venture company with Organo Corporation (Japan) engaged in water treatment, and expected to become another potential source of income from affiliate. Increasing demand in clean water augmented with Organo Corporation advance technology capacity

"Disclaimer statement in the last page is an integral part of this report"
www.pefindo.com

and LTLS' strong background in water treatment chemical production, makes us believe that the affiliate have a solid business potential.

• **PT Lautan Ajinomoto Fine Ingredients (LAFI)**

LAFI, a joint venture with Ajinomoto Co., Inc., is planned to start its production of in beginning of 2014. LAFI will produce amino acids based raw materials used for cosmetic industry particularly for premium class. The growing demand for cosmetic ingredients using amino acid as raw materials expected to boost the demand of LAFI's products.

Better Gross Margin

The elimination of high-speed diesel from LTLS' product portfolio that accounted for about 140 million KL in sales volume or about 18% of 2012 total revenue has impacted the Company's gross margin, which rose to 15.3% in 9M13 from only 13.2% in 2012. We expect the margin to reach 15.5% at the end of 2013 and gross profit to rise 10% in spite of the decline in revenue. Meanwhile, operating profit will be oppressed by forex loss in line with the depreciation of the Indonesian rupiah, despite Bank Indonesia's efforts to prop up the currency by increasing its benchmark rate to 7.5%. However, we estimate that the Company's full-year operating profit will increase 4% from 2012. We remain optimistic for LTLS' performance, as we expect its gross profit to have a 15% CAGR in 2011-2016, as well as a 20% CAGR for operating profit in the same period along with increasing operating efficiencies.

Figure 13: Gross and Operating Profit

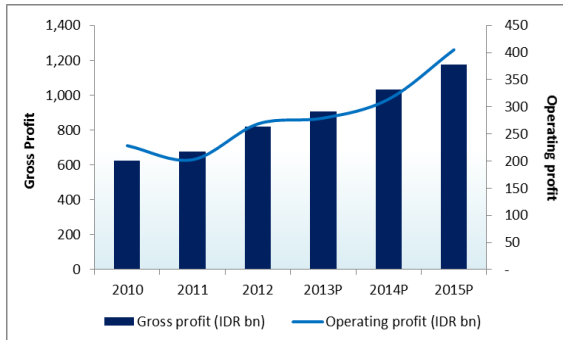
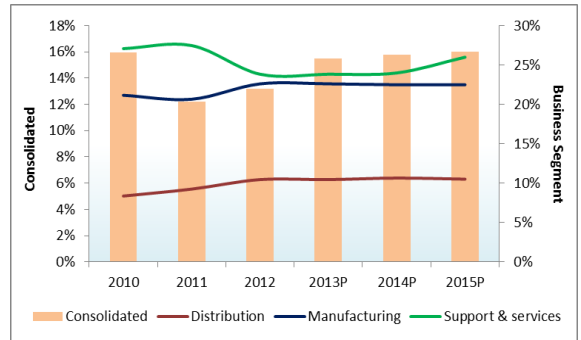


Figure 14: Stable Gross Margin of Each Business Segment

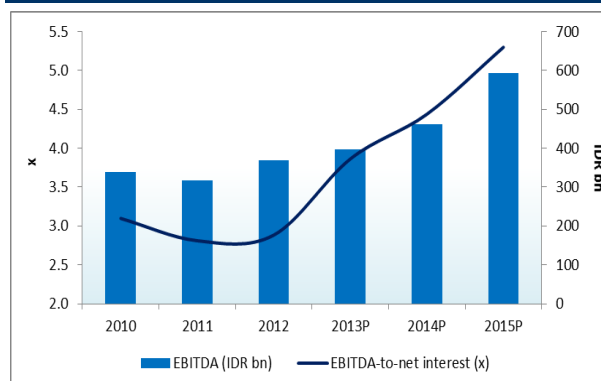


Source: PT Lautan Luas Tbk, PEFINDO Equity & Index Valuation Division Estimates

Stronger Financial Condition

After its the 2008-issued IDR500 billion bond matured in March 2013, LTLS issued a IDR700 billion bond in June 2013 with an interest rate of 9.75%, lower than the 11.65% rate in the previous bond, thus easing its interest costs. The Company also has an option to issue another IDR500 billion bond within the next two years, providing flexibility for LTLS in financing its expansion plans. However, in spite of the new bond issuance, LTLS' net-debt to equity ratio improved to 1.42x on 9M13 compared to 1.50x in 2012. We expect LTLS will have a modest capex and stable payout ratio of 30% for the next several years. In addition, we estimate that the Company's EBITDA would become stronger in the years ahead, such that LTLS is expected to have increasing EBITDA to net-interest coverage ratio to reach more than 5.0x in 2015.

Figure 15: Stronger EBITDA



Source: PT Lautan Luas Tbk, PEFINDO Equity & Index Valuation Division Estimates

SWOT ANALYSIS

Table 7: SWOT Analysis

Strength	Weakness
<ul style="list-style-type: none"> • Enriched by its long history in the distribution and manufacturing businesses for basic and specialty chemicals. • Manages a wide distribution network, covering major cities in Indonesia, and in the region. • Has manufacturing facilities in Indonesia, China and Vietnam. • Equipped with support & services segment that can reinforce the group’s businesses. • Able to develop a long-term healthy relationship with its principals. • Covers an extensive range of chemical products needed by a wide variety of industrial customers. • Strong presence in niche markets, particularly in specialty chemicals. 	<ul style="list-style-type: none"> • Reliance on imported materials. • Sensitive to exchange rate volatility.
Opportunity	Threat
<ul style="list-style-type: none"> • Government intensifying infrastructure developments that will accelerate domestic economic growth. • Improvements in purchasing power and welfare will drive demand. • Low volatility of specialty chemicals’ prices. • Partnership with its international principals to manufacture chemicals in Indonesia. • ASEAN free market in 2015 may provides wide opportunity to penetrate the regional market. 	<ul style="list-style-type: none"> • The ongoing global crisis will remain, which means global growth will remain slow. • Exchange rate volatility and rupiah depreciation threaten profitability. • Major principals may no longer extend their partnership with the Company. • The entrance of new competitors with more competitive value added. • Supply availability of distributed chemicals, particularly for specialty chemicals. • Declining performance of its subsidiaries could impact consolidated performance.

Source: PEFINDO Equity & Index Valuation Division

INDUSTRY COMPARISON

Table 8: LTLS and Its Peers Performance Summary as of 9M13

	LTLS	ETWA	AKRA	BUDI	TPIA
Revenue [IDR bn]	4,217	905	16,171	1,724	1,813
Gross profit [IDR bn]	645	133	968	181	59
Pre-tax profit [IDR bn]	109	11	596	(47)	(11)
Net profit [IDR bn]	52	3	525	(38)	(12)
Total asset [IDR bn]	4,648	1,213	14,022	2,434	1,711
Total liabilities [IDR bn]	3,329	773	8,644	1,628	1,001
Total equity [IDR bn]	1,318	440	5,378	806	709
Growth [YoY]					
Revenue [%]	(11.1)	33.4	(0.8)	(2.1)	6.2
Gross profit [%]	0.9	50.4	6.5	24.2	376.9
Pre-tax profit [%]	15.2	(68.1)	1.2	(665.6)	(85.4)
Net profit [%]	(3.9)	(87.4)	9.0	(1.340.4)	(79.7)
Profitability					
Gross margin [%]	15.3	14.7	6.0	10.5	3.2
Pre-tax margin [%]	2.6	1.2	3.7	(2.7)	(0.6)
Net margin [%]	1.2	0.3	3.2	(2.2)	(0.7)
ROA [%]*	5.7	4.0	6.1	1.0	0.4
ROE [%]*	8.3	0.8	12.4	(7.4)	(2.1)
Leverage					
Liabilities to assets [x]	0.7	0.6	0.6	0.7	0.6
Liabilities to equity [x]	2.5	1.8	1.6	2.0	1.4

Source: IDX, PEFINDO Equity & Index Valuation Division
* annualized

TARGET PRICE

VALUATION

- Methodology**

We applied the Discounted Cash Flow (DCF) method as the main valuation approach considering that income growth is the value driver in LTLS instead of asset growth.

Furthermore, we applied the Guideline Company Method (GCM) as a comparison method.

This valuation is based on 100% share price as of January 24, 2014, using LTLS' financial report as of September 30, 2013, for our fundamental analysis.

- Value Estimation**

We used a Cost of Capital of 9.4% and Cost of Equity of 11.7% based on the following assumptions:

Table 9: Assumption

Risk free rate [%]*	9.1
Risk premium [%]*	2.6
Beta [x]**	1.0
Cost of Equity [%]	11.7
Marginal Tax Rate [%]	25.0
WACC [%]	9.4

Source: Bloomberg, PEFINDO Equity & Index Valuation Division Estimates

* as of January 24, 2014

** PEFINDO Beta as of January 23, 2014

Target price for 12 months based on the valuation as of January 24, 2014, is as follows:

- ❖ Using the DCF method with a discount rate assumption of 9.4% is IDR1,634 – IDR2,058 per share.
- ❖ Using the GCM method (P/E 11.6x and P/BV 1.0x) is IDR1,631 – IDR1,871 per share.

In order to obtain a value that represents both value indications, we have weighted both DCF and GCM methods by 70%:30%.

Based on the above calculation, target price of LTLS for 12 months is **IDR1,635 - IDR2,000** per share.

Table 10: Summary of DCF Method Valuation

	Conservative	Moderate	Optimistic
PV of Free Cash Flows – [IDR, bn]	145	152	160
PV Terminal Value – [IDR, bn]	2,994	3,151	3,309
Non-Operating Assets – [IDR, bn]	134	134	134
Net Debt – [IDR, bn]	(1,998)	(1,998)	(1,998)
Number of Share, [mn shares]	780	780	780
Fair Value per Share, [IDR]	1,634	1,846	2,058

Source: PEFINDO Equity & Index Valuation Division Estimates

Table 11: GCM

	LTLS	ETWA	BUDI	TPIA	OKAS	Avg.
P/E [x]	6.8	16.4	N.A.	N.A.	N.A.	11.6
P/BV [x]	0.5	0.8	1.0	1.0	1.6	1.0

Source: Bloomberg, PEFINDO Equity & Index Valuation Division

Table 12: Summary of GCM Method Valuation

	Multiple [x]	Est. EPS [IDR]	Est. BV/share [IDR]	Value [IDR]
P/E	11.6	141	-	1,631
P/BV	1.0	-	1,941	1,871

Source: Bloomberg, PEFINDO Equity & Index Valuation Division Estimates

Table 13: Fair Value Reconciliation

	Fair Value per Share [IDR]		
	DCF	GCM	Average
Upper limit	2,058	1,871	2,000
Bottom limit	1,634	1,631	1,635
Weight	70%	30%	

Source: PEFINDO Equity & Index Valuation Division Estimates

Note: average price is rounded according to the fractional price prevailing on the IDX

Table 14: Consolidated Statements of Comprehensive Income

IDR bn	2011	2012	2013P	2014P	2015P
Revenue	5,529	6,214	5,846	6,538	7,332
COGS	(4,853)	(5,394)	(4,939)	(5,507)	(6,158)
Gross profit	676	820	907	1,031	1,174
Operating expense	(474)	(551)	(628)	(717)	(769)
EBITDA	317	369	397	461	594
Pre-tax profit	120	142	180	225	335
Tax	(29)	(33)	(45)	(56)	(84)
Net profit	76	81	88	110	163

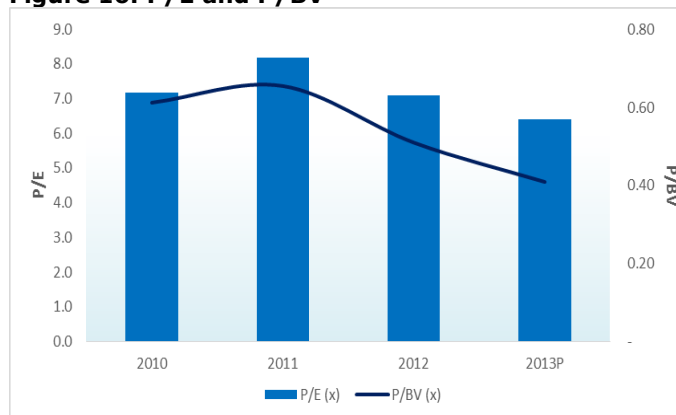
Source: PT Lautan Luas Tbk, PEFINDO Equity & Index Valuation Division Estimates

Table 15: Consolidated Statements of Financial Position

IDR bn	2011	2012	2013P	2014P	2015P
Assets					
Cash and cash equivalents	102	118	119	121	127
Short-term investments	57	10	13	15	16
Trade receivables	1,049	942	1,333	1,491	1,672
Non-trade receivables	139	188	203	227	255
Inventories	1,009	818	836	935	1,049
Other current assets	139	88	198	222	248
Total current assets	2,494	2,163	2,702	3,011	3,367
Investments	454	529	682	763	855
Fixed assets	813	1,072	1,171	1,269	1,357
Intangible assets	8	10	13	15	16
Other non-current assets	271	281	318	349	385
Total assets	4,040	4,055	4,886	5,406	5,981
Liabilities and equity					
Short-term debts	1,304	1,552	1,173	1,386	1,562
Trade payables	995	892	1,056	1,181	1,324
Other short-term liabilities	108	126	192	214	240
Total current liabilities	2,408	2,571	2,421	2,781	3,126
Long-term debts	573	261	973	980	1,007
Other long-term liabilities	105	89	118	132	148
Total liabilities	3,086	2,921	3,511	3,892	4,281
Total equity	954	1,134	1,375	1,514	1,700

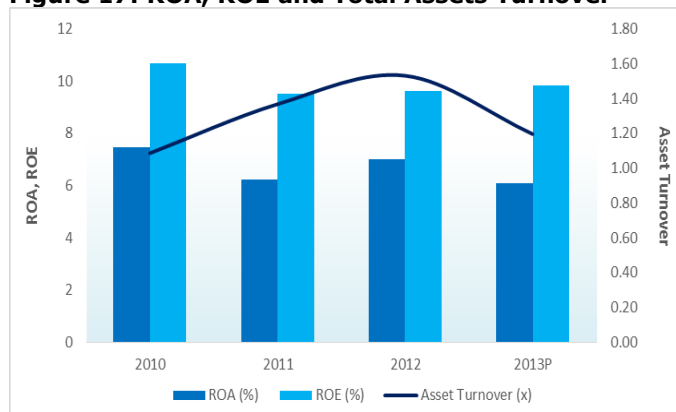
Source: PT Lautan Luas Tbk, PEFINDO Equity & Index Valuation Division Estimates

Figure 16: P/E and P/BV



Source: PT Lautan Luas Tbk, PEFINDO Equity & Index Valuation Division

Figure 17: ROA, ROE and Total Assets Turnover



Source: PT Lautan Luas Tbk, PEFINDO Equity & Index Valuation Division

Table 16: Key Ratios

	2011	2012	2013P	2014P	2015P
Growth [%]					
Revenue	41.7	12.4	(5.9)	11.8	12.1
Pre-tax profit	(17.5)	18.4	26.7	25.0	48.7
EBITDA	(6.4)	16.3	7.6	16.2	28.8
Net profit	(12.4)	6.9	7.9	25.0	48.7
Profitability [%]					
Gross margin	12.2	13.2	15.5	15.8	16.0
Pre-tax margin	2.2	2.3	3.1	3.4	4.6
EBITDA margin	5.7	5.9	6.8	7.1	8.1
Net margin	1.4	1.3	1.5	1.7	2.2
ROA	6.2	7.0	6.1	6.5	7.8
ROE	9.5	9.6	9.8	11.2	14.8
Liquidity [x]					
Current Ratio	1.0	0.8	1.1	1.1	1.1
Quick Ratio	0.6	0.5	0.8	0.7	0.7
Solvability [x]					
Liabilities to equity	3.2	2.6	2.6	2.6	2.5
Liabilities to asset	0.8	0.7	0.7	0.7	0.7

Source: PT Lautan Luas Tbk, PEFINDO Equity & Index Valuation Division Estimates

DISCLAIMER

This report was prepared based on trusted and reliable sources. Nevertheless, we do not guarantee its completeness, accuracy and adequacy. Therefore, we are not responsible for any investment decisions made based on this report. All assumptions, opinions and predictions were solely our internal judgments as of the reporting date, and those judgments are subject to change without further notice.

We are not responsible for any mistakes or negligence that occurs by using this report. Recent performance cannot always be used as a reference for future outcome. This report does not offer a recommendation to purchase or hold particular shares. This report might not be suitable for some investors. All opinions in this report have been presented fairly as of the issuing date with good intentions; however, they could change at any time without further notice. The price, value or income of each share of the Company stated in this report might be lower than investor expectations, and investors may obtain returns lower than the invested amount. Investment is defined as the probable income that will be received in the future; nonetheless such returns may fluctuate. As for companies whose shares are denominated in a currency other than Rupiah, foreign exchange fluctuation may reduce their share value, price or the returns for investors. This report does not contain any information for tax considerations in investment decision-making.

The share price target in this report is a fundamental value, not a fair market value or a transaction price reference required by regulations.

The share price target issued by the PEFINDO Equity & Index Valuation Division is not a recommendation to buy, sell or hold particular shares. It should not be considered as investment advice from the PEFINDO Equity & Index Valuation Division and its scope of service to some parties, including listed companies, financial advisors, brokers, investment banks, financial institutions and intermediaries, does not correlate with receiving rewards or any other benefits from such parties.

This report is not intended for any particular investor and cannot be used as part of an objective investment analysis of particular shares, an investment recommendation, or an investment strategy. We strongly recommend investors to consider the suitability of the situation and conditions before making a decision in relation with the figures in this report. If necessary, consult with your financial advisor.

PEFINDO keeps the activities of the Equity Valuation Division separate from its Ratings Division to preserve the independence and objectivity of its analytical processes and products. PEFINDO has established policies and procedures to maintain the confidentiality of non-public information received in connection with each analytical process. The entire process, methodology and the database used in the preparation of the Reference Share Price Target Report as a whole are different from the processes, methodologies and databases used by PEFINDO in issuing ratings.

This report was prepared and composed by the PEFINDO Equity & Index Valuation Division with the objective of enhancing the transparency of share prices of listed companies in the Indonesia Stock Exchange (IDX). This report is also free of influence from any other party, including pressure or force either from IDX or the listed company reviewed. PEFINDO Equity & Index Valuation Division earns a reward amounting to IDR20 million from IDX and the reviewed company for issuing this report twice a year. For further information, please visit our website at <http://www.pefindo.com>

This report was prepared and composed by the PEFINDO Equity & Index Valuation Division. In Indonesia, this report is published in our website and in the IDX website.