Equity Valuation

June 30, 2015

Lautan Luas, Tbk

Primary Report

Target Price	
Low	**High**
1,095	**1,300**

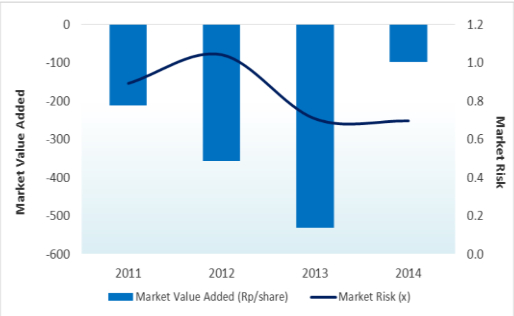
Chemical Distribution & Manufacturing

Stock Performance

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

Stock Information	**IDR**
Ticker code	LTLS
Market price as of June 29, 2015	775
Market price – 52 week high	935
Market price – 52 week low	423
Market cap – 52 week high (bn)	1,459
Market cap – 52 week low (bn)	659

Market Value Added & Market Risk



Shareholders*	**(%)**
PT Caturkarsa Megatunggal	56.05
Others and Public (less than 5%)	43.95

**as of March, 31, 2015*

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PT LAUTAN LUAS Tbk

Strong Foothold, Shaping the Future

PT Lautan Luas Tbk (LTLS) is a leading distributor and manufacturer of basic and specialty chemicals with a very rich variety within its products portfolio. The business has benefited from its extensive experience of more than 60 years. It has been transformed to be an integrated and modern company, which consists of distribution, manufacturing, as well as support & services segments. Through its distribution business, LTLS has developed a network of international principals of more than 100 principals, most of them has long term relationship of more than 15 years and has been the sole distributor. It also distributes around 1,000 types of products both basic and emphasizing in its specialty chemicals. On the manufacturing side, LTLS continues to expand its production capacity and its operational efficiency as well as the variety of its own produced chemicals. It has also formed several joint ventures with its principals to secure supply and take benefit from its established distribution network. In entirety, LTLS distributes the products to more than 2,000 industrial end-user customers across Indonesia and the Asia-Pacific region.

INVESTMENT PARAMETER

Better Infrastructure, More Exposure to Profitable Industries
Despite slowing down in recent years, Indonesia's growth trajectory remains impressive. The country's gross national income per capita has steadily risen from USD2,200 in 2000 to USD3,524 in 2014 (source: World Bank). Today, Indonesia is the world's 10th largest economy in the world and member of G-20. It has made enormous gains in poverty reduction, more than halving the poverty rate since 1999, tp 11.3% in 2014.

The current administration is pushing infrastructure development in the country. Following the cutback on fuel subsidies, the state budget creates a greater fiscal space to finance the acceleration of infrastructure development in the next five years. This year alone, the government has allocated some IDR 290 trillion to finance basic infrastructure projects through various ministries, on top of the budgeted capital injection into several state-owned enterprises, which proceeds will mainly be used to finance major infrastructure projects such as seaports, railways and toll roads. All this will in turn benefit LTLS's distribution and logistics business and at some point will save LTLS's transportation and distribution costs.

In recent years, LTLS has enlarged its exposure to F&B, water treatment, and personal & homecare industries. Besides the bright prospects represented by those industries, LTLS has now a more room to expand its profitability margins. The growing middle class population, increasing purchasing power, and rapid development of modern retail outlets has boosted demand for F&B and personal & homecare products.

Integrated Business Operation, Strong Foothold from Manufacturing
LTLS runs its business in a well-integrated fashion with three segments, i.e. distribution, manufacturing, and support & services supporting each other. Besides having a rich products portfolio as well as regional network of distribution and manufacturing facilities, LTLS has a qualified capacity to develop long-term partnership with international principals. LTLS has proven that the business model and synergies have worked well, whereby around half of its distribution revenues comes from own manufacturing or affiliated principals' facilities. One of its new flagship product is non-dairy creamer (NDC), manufactured by its newly operated manufacturing facility. LTLS is going to operate another NDC production capacity at end of 2016, making its capacity tripled. This new facility will enable LTLS to produce more variants of NDC.

Solid Revenue Growth, Increasing Profitability
Last year, despite the slight revenue growth of 3% YoY, it was an encouraging result, nonetheless, compared to a 8% YoY drop in 2013. Moreover, if we took out high speed diesel (HSD) from the revenue calculation, then LTLS would have recorded a strong growth of 12.7% YoY in 2014. Entering this year, the revenue soared by 25% YoY for the first quarter, driven by its distribution business that grew 45% YoY. LTLS has demonstrated solid evidence that its reorganization measures as well as refreshed strategies is putting the Company on a faster growth trajectory. Both manufacturing business and support & services business hit more than 20% YoY growth, while distribution revenue remained in a solid state. Increasing contribution from high margin products has lifted up its profitability. Its gross margin rose to 17.3% in 2014 from 16.3% in 2013, which then drove recurring operating margin significantly up to 5.3% from only 2.0% in 2013.

Lower Gearing, Stronger EBITDA
For the last three years LTLS consistently saw an improving financial condition, particularly indicated by lower gearing ratio and stronger EBITDA. In 2014, its net-debt to equity ratio was only 1.0x, much lower than that of 1.9x in 2011. Meanwhile LTLS was able to generate EBITDA of IDR526 billion in 2014, which brought the net-debt to EBITDA ratio down to 3.0x, from 6.0x in 2011.

Business Prospects

We are of the view that LTLS represents a bright prospect ahead. The results from its reorganization measures and refreshed strategy are quite convincing for us. Its integrated business, stronger manufacturing capacity, and more exposure to profitable industries are some key characteristics that will bring the Company to a bright future. We believe that LTLS will benefit from a better outlook of the Country's economy, a strong growth of middle class population, and industries' down streaming measures.

Table 1: Performance Summary

	2012	2013	2014	2015P	2016P
Revenue [IDR bn]	6,214	5,735	5,888	6,791	7,815
Pre-tax profit [IDR bn]	142	174	275	214	260
Net profit [IDR bn]	81	85	163	128	156
EPS [IDR]	52	55	104	82	100
EPS growth [%]	6.9	4.9	90.7	(21.2)	21.4
P/E [x]	7.1	6.6	8.7	9.4*	7.8*
PBV [x]	0.5	0.4	0.9	0.7*	0.6*

Source: PT Lautan Luas Tbk, PEFINDO Research & Consulting - Equity & Index Valuation Division
**Based on LTLS' share price as of June 29, 2015 – Rp 775/share*

BUSINESS INFORMATION

Improving Domestic Economy

In medium-term, Indonesia's economy is expected to grow faster after a period of decelerating growth (4 years). Policy reform to improve investment climate, reform of fuel subsidies and oil import as well as strong push for acceleration of social and physical infrastructure development by the government will spur economic recovery in the medium term, despite near-term challenges. The short-term challenges center on maintaining reform momentum, bolstering government revenue, and propelling export-oriented manufacturing amidst economic downturn in China and slow recovery in Euro zone. Recent developments however show encouraging results; trade balance for the first months of this year recorded a surplus, faster budget absorption by 18.5% vs. 15.6% in first quarter of last year.

Table 2: ASEAN Countries Global Competitiveness Index

Country	2011	2012	2013	2014
Singapore	2	2	2	2
Malaysia	21	25	24	20
Thailand	39	38	37	31
Indonesia	46	50	38	34
Vietnam	64	75	70	68
Philippines	75	65	59	52
Laos	-	-	81	93
Cambodia	97	85	88	95
Myanmar	-	-	139	134

Source: World Economic Forum, PEFINDO Research & Consulting - Equity & Index Valuation Division

LTLS in a Brief

PT Lautan Luas Tbk (LTLS) has primary activity that is engaged in distributing and manufacturing basic and specialty chemicals. The Company distributes a wide range of chemical products from various well-known international principals as well as its own manufactured chemicals. The international principals among others are Honeywell, Dow Corning, DuPont, Stahl Asia, Uyemura, Lubrizol (BF Goodrich), Otsuka Chemical, Ansac, and Dow (Morton) with whom LTLS has a long-term partnership, more than 15 years. In total, LTLS is in cooperation and supported by more than 100 international principals. With its long experience in the field, LTLS has established a strong position in the chemical distribution market. Some of its products has market coverage of 40%-60% domestically i.e. soda ash, sulfuric acid, poly aluminum chloride (PAC), and aluminum sulfate, with the last three chemicals being own manufactured products.

To support the distribution business, it manages a number of branches and representative offices in major cities across Indonesia and overseas (China, Singapore, Vietnam, and Thailand). In the manufacturing business, LTLS has a stake in 17 manufacturing facilities in Indonesia, two in China, and a water treatment chemical manufacturing plant in Vietnam. Overall, LTLS's product portfolio comprises of 1,000 products and serving more than 2,000 industrial end-user customers from diverse industries located across Indonesia and Asia Pacific region. The Company also operates support & services business that comprises four entities providing laboratory services, supply chain management, water treatment solutions, and information technology. This business is aimed at strengthening the overall business integration in the group.

Figure 1: LTLS Integrated Business Operation

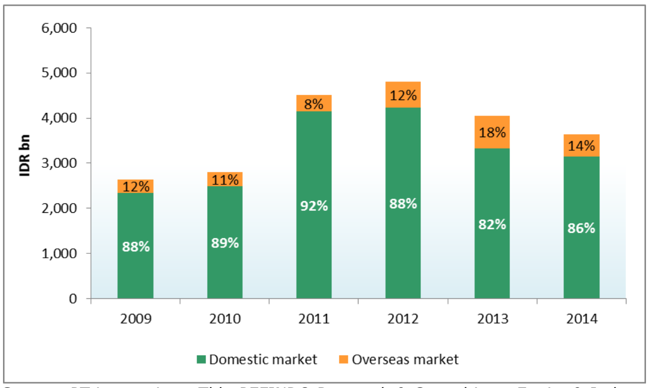
Source: PT Lautan Luas Tbk, PEFINDO Research & Consulting - Equity & Index Valuation Division

Distribution Business: the Soul of the Company

Distribution business contributes around 52% of total revenue and remains as the core of the Company's businesses. The ability to build long-term partnership with its international principals has been the key success factor for LTLS to maintain strong foothold in the market. It also has successfully developed the manufacturing business and been able to generate half of its distribution revenue from its own manufacturing or affiliated principals' facilities. A rich products portfolio as well as an integrated business model within the group, is another key strength point. LTLS enjoys advantages from its wide variety of specialty chemical products as well as commodity type products that have a strong position in the market.

In line with the broad application of its distributed products, LTLS has been able to distribute the products to diverse industrial segments. This has underpinned LTLS to stay robust amidst tough economic environment. The domestic market still holds the largest stake accounting for about 86% of LTLS's revenue. Along with expected faster economic growth, LTLS's sales in domestic market will continue to grow. Meanwhile, its overseas market particularly the ASEAN region and Australia with major contributions from Vietnam, Malaysia, Singapore and Thailand will continue to grow as well.

Figure 2: Domestic and Overseas Distribution Revenue



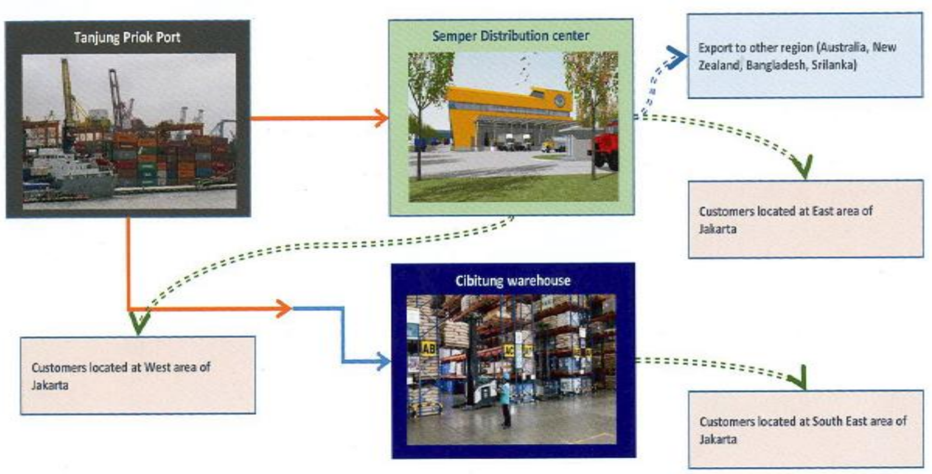
Source: PT Lautan Luas Tbk, PEFINDO Research & Consulting - Equity & Index Valuation Division

Aiming at strengthening the business, it has made a strategic business decision to cease the distribution of high speed diesel (HSD) by the end of 2013, and then to focus on high-margin products. Although this business was among significant revenue contributors, where it has been accounting for around 15% of LTLS's distribution business, the business model and proftability margins are considered unfavorable for long-term considerations. We think this is a very good decision. We also see that distribution business will be boosted by the operation of its new distribution center, located in Semper.

Developing a New Distribution Center in Semper, North Jakarta

LTLS is currently building an integrated warehouse, which will become a distribution center, in Semper, Tanjung Priok, North Jakarta. This facility is being built on an area of 42,000 sqm with total capacity of 80,000 tons and budgeted investment cost for the warehouse building and its infrastructure of USD11 million. It is intended to replace the existing rental warehouses scattered in many locations and also to serve as a hub for export destinations (Australia, New Zealand, Bangladesh, Srilanka) as well as for local market on the east and western part of Jakarta. Situated close to the seaport, this facility will not only improve LTLS's distribution capacity but will also yield better efficiency in the distribution business due to its integrated warehouses concept and less warehousing costs. The facility is expected to be completed at end of 2015.

Figure 3: Jakarta New Distribution Center



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

Infrastructure Development to Favor Distribution Business

LTLS distribution business will be a beneficiary of the acceleration of infrastructure development in the Country, including the sea and land transportation infrastructure. In maritime sector, the government plans to develop 24 seaports across archipelago in a bid for bringing down the Country's logistic costs. For example, the government has operated two shipping routes as part of the development of maritime line across the country, i.e. Sorong-Waisai and Surabaya-Makassar, and expanded the capacity of the Java-Sumatera crossing port together with the launch of the biggest vessels ever serving passengers and motor vehicles crossing Sunda straits. The government also plans to accelerate toll road development with a target of constructing 1,562 km for the next five years. Currently, the country runs a combined length of 820 km national toll road, mainly in Java island.

Table 3: ASEAN Countries Global Logistics Competitiveness

Country	2012	2014
Singapore	1	5
Malaysia	29	25
Thailand	38	35
Vietnam	53	48
Indonesia	**59**	**53**
Philippines	52	57

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

Strengthening Manufacturing Capacity

LTLS's manufacturing capability originated in 1969. Since then it has expanded its manufacturing capacity as well as the variety of chemicals produced. Its ability to tap opportunities in chemical market in Indonesia has made its own manufactured products well accepted by the market and the market leaders, ie. sulfuric acid, PAC, and aluminum sulfate. Now LTLS also has non-dairy creamer (NDC) as its new flagship product manufactured by its newly operated manufacturing facility. LTLS plans to operate another NDC production line at end of 2016 making the NDC capacity to triple the current capacity. This new facility will enable LTLS to produce more variant of NDC.

LTLS also sees a strong prospect in water treatment industry. It plans to double its aluminum chloro hydrate production capacity at its subsidiary level, PT Pacinesia Chemical Industry (PCI), in 2016. Through the same subsidiary, LTLS also plans to operate a new production facility producing high pure liquid and high pure powder, by mid of the year. In total, LTLS currently manages 13 subsidiaries and 7 affiliates that manufacture specialty chemicals. Recently, LTLS is planning to penetrate F&B industry further by establishing a new subsidiary engaged in the production of glucose, PT Lautan Sweetener Indonesia.

Table 4: Manufacturing Facilities

No.	Company Name	Est.	Product	Own.
Subsidiaries				
1.	PT Lautan Natural Krimerindo	2010	Non-dairy creamer	99.99%
2.	Lautan Luas Vietnam Co. Ltd.	2008	Poly aluminum chloride - liquid and powder	100.00%
3.	PT Metabisulphite Nusantara	2000	Sodium metabisulphite, sulfuric acid, gypsum	99.99%
4.	PT White Oil Nusantara	2000	White oil	99.99%
5.	PT Lautan Sulfamat Lestari	2000	Sulfamic acid	99.00%
6.	PT Advance Stabilindo Industry	1994	Methyltin stabilizer, plastic additives, compound	99.00%
7.	PT Pacinesia Chemical Industry	1984	Poly aluminum chloride - liquid and powder, sulfur-powder, pentazol, white-spirit	99.98%
8.	PT Liku Telaga	1979	Sulfuric acid, aluminum sulfate, sodium silicate (liquid and solid), potash alum	53.38%
9.	PT Dunia Kimia Utama	1978	Sulfuric acid, aluminum sulfate	53.38%
10.	PT Dunia Kimia Jaya	1977	Textile auxiliaris, band ply lubricant (BPL), chemical for paper, footwear, rubber/plastic, agriculture application, water treatment chemical	99.90%
11.	PT Indonesian Acids Industry	1969	Sulfuric acid, aluminum sulfate,potash alum	53.38%
12.	PT Mahkota Indonesia	1969	Sulfuric acid, aluminum sulfate, sodium silicate (water glass), ferro sulfate, potash alum	53.38%
Affiliates				
1.	PT Lautan Ajinomoto Fine Ingredients	2012	Personal care	33.33%
2.	PT Indonesian Ethanol Industry	2007	Pure ethanol	30.44%
3.	Huaian Diamond Chemical Industry Ltd.	2005	Nitric acid, ammonia	30.00%
4.	Lautan Hongze Chemical Industry Ltd.	2003	Sodium sulfate, MPD (meta phenylene diamine), DMA (N,N-dimethylaniline)	47.54%
5.	PT Roha Lautan Pewarna	1991	Dyes & pigment colours for all purpose application	30.00%
6.	PT Lautan Otsuka Chemical	1989	Azodicarbonamide (blowing agent)	30.00%
7.	PT Findeco Jaya	1975	Branched alkyl benzene sulfonic acid, linear alkyl benzene sulfonic acid	32.87%

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

Solid Growth of Food & Beverage Industry

F&B industry is expected to generate IDR1,000 trillion in value, sustained by the growing middle class population, increasing purchasing power, and rapid development of modern trade. The study from AC Nielsen shows that 48% of total middle class' spend in Indonesia is for fast moving consumer goods (FMCG) especially F&B. This study is in line with BPS data which reveals, for the last ten years, half of average per capita spend is for F&B. On the other hand, F&B is the largest contributor (about 30%) to GDP's non-oil and gas manufacturing sector. GDP for this industry is also among the highest of other manufacturing industries. Therefore, we positively view LTLS' expansion into food ingredients for the bright prospect of F&B industry.

Table 5: Investment in F&B Industry

	2011	2012	2013	2014
Domestic investment (IDR tn)	7.94	11.16	15.08	19.59
Foreign investment (USD bn)	1.10	1.78	2.11	3.13

Source: Ministry of Industry, PEFINDO Research & Consulting - Equity & Index Valuation Division

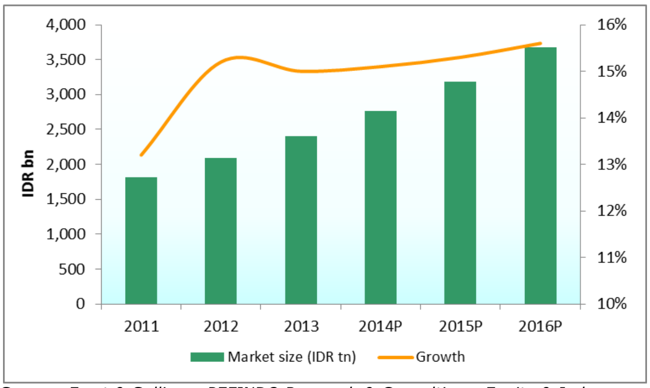
Positive Development of Chemical and Property Industries

The dynamic of chemical industry is closely related to the economic development for its wide application to almost all industries. As we expect an improvement in the country's economic growth, chemical industry is expected also to pose better growth prospect. We see this industry to have benefits from the industries' down streaming program encouraged by the government. It is expected there will be seven smelters to be operating this year, one aluminum smelter and six nickel smelters. New investment in chemical industry is expected to total USD50 billion throughout this year, reflecting opportunities in the industry that remains great. On the other hand, the demand on water treatment continues to expand strongly in line with a solid growth of property industry either for housing, apartments, offices, and industrial estates. We believe such positive development of the industries will provide more opportunities for LTLS to support its business.

Support and Services Segment, a Key Link for Integrated Business
The last segment in LTLS' integrated business operation is support & services. This segment only accounts for around 10% of LTLS's total revenue, however we are in the view that it plays a significant role in the overall business operations. LTLS puts particularly the integrated supply chain functions to this segment which provide benefits in terms of cost and control. Despite so, this segment has already been an independent business operation as the segment major revenue stream comes from third parties.

About 80%-90% of the support & services segment's revenue comes from the integrated supply chain business. This segment of services includes warehousing, transportation, freight and forwarding, fleet rental, IT solution for supply chain, and liquid bulk terminal. Warehousing and transportation services are the largest revenue producer accounting for about 70% of the segment's revenue, followed by freight & forwarding service (18%) and tank farm service (6%). With regard to the government policy to lift fuel subsidy, LTLS sees a more promising demand prospect for its storage tank business. Last year, the revenue growth of support & services segment jumped 21% YoY to record IDR572 billion.

Figure 4: Domestic Transportation Logistics Market



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

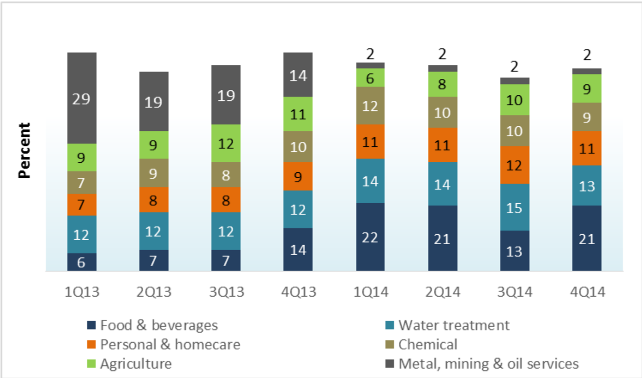
Table 6: LTLS Expansion Plan

Company	Product/Service	Existing Capacity	Additional Capacity	Investment	Estimated Completion
PT Lautan Natural Krimerindo	Non-dairy creamer	21.6k MT/year	40.0k MT/year	USD 30 mn	End 2016
PT Pacinesia Chemical Industry	Aluminum chloro hydrate	12.0k MT/year	12.0k MT/year	USD 3 mn	Start. from 2016
	High pure liquid	-	184.0k MT/year	USD 7 mn	Jun 2015
	High pure powder	-	20.0k MT/year		
PT Bahana Prestasi	Truck	688 units	345 units*	IDR 175 bn	2018
PT Kujang Tirta Sarana	Clean water	270 m^3/hour	90 m^3/hour		
PT Liku Telaga Expansion	Aluminum sulfate solid	100.8k MT/year	36.0k MT/year	USD 3 mn	End 2015
	Aluminum sulfate liquid	59.4k MT/year	-		

** not all pure additional, some of the numbers also included for rejuvenation*
Source: PT Lautan Luas Tbk, PEFINDO Research & Consulting - Equity & Index Valuation Division

Pursuing to Serve Industries with Better Margin
About 60%-65% of LTLS' products are marketed to cater to five main industries, namely food & beverages (F&B), water treatment, personal & homecare, chemical, and agriculture. Revenue from F&B and water treatment industries have been growing rapidly for the last two years in line with LTLS' focus on the development of its manufacturing facilities to serve the industries. Its strategy has worked quite successfully, whereby the revenue generated by the five industries has surpassed the revenue contribution from mining industry which was a significant revenue contributor once. In addition, in our view, by enlarging its exposure to F&B, water treatment, and personal & homecare industries, LTLS has a more room to increase its margin, besides bright prospects offered by those industries. Those three industries have been growing robustly in the last few years.

Figure 5: Distribution Market Segmentation

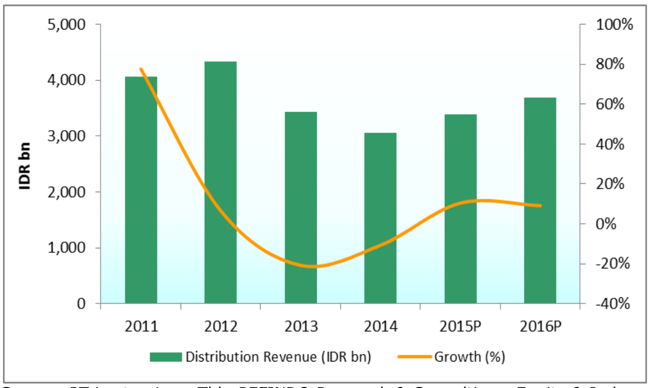


Source: PT Lautan Luas Tbk, PEFINDO Research & Consulting - Equity & Index Valuation Division

FINANCE

Distribution Revenue to Improve Definitely
The revenue declining in distribution segment has been decelerating since the second quarter of 2014. Full year 2014, the distribution revenue was down by 11% YoY compared to a 21% YoY drop in 2013. 1Q2015 turned it around, when distribution revenue surged by 45% YoY. This reflects the Company's success to raise revenue from the segment that has been able to replace the contribution of high speed diesel (HSD) business. We believe this positive trend will continue going forward; moreover, a distribution center is now under development, and expected to boost distribution segment performance immediately since early 2016.

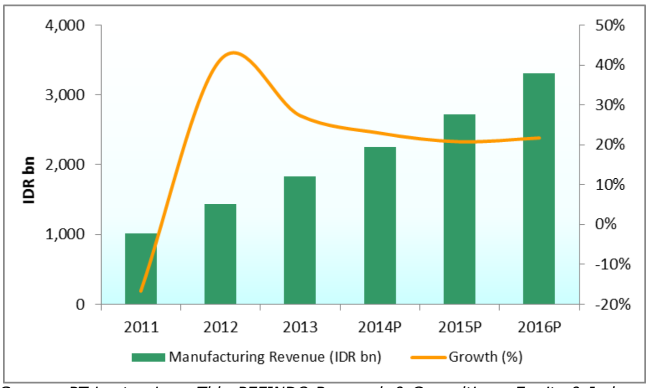
Figure 6: Distribution Revenue



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

Consistent Strong Growth in Manufacturing Revenue
The revenue from manufacturing segment consistently demonstrated a strong growth for the period 2011-2014 (30% CAGR), as a result of refocusing the strategy on specialty chemicals. It was also fueled by the successful expansion of the production facilities that produce non-dairy creamer, as well as poly aluminum chloride. LTLS has shifted its focus toward the manufacturing of specialty chemicals for their higher and stable margin. Its plan to triple non-dairy creamer capacity from 21.6k ton per year of current capacity, stays on track. Non-dairy creamer is expected to become a flagship product soon, where as in 2014 it already contributed 6% to the total revenue. Its wide application in the F&B industry such as for instant coffee, ice cream, bubble drink, candy, and many others brings with it the demand prospect. The revenue from manufacturing segment will also be boosted from an additional production capacity of poly aluminum chloride, effectively operational in 2H15. Furthermore, there will be another drive from the production of aluminum chloro hydrate, which expansion will commence in 2016.

Figure 7: Manufacturing Revenue

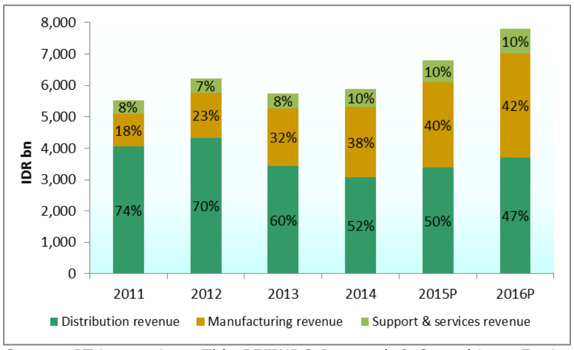


Source: PT Lautan Luas Tbk, PEFINDO Research & Consulting - Equity & Index Valuation Division

Soaring Profitability

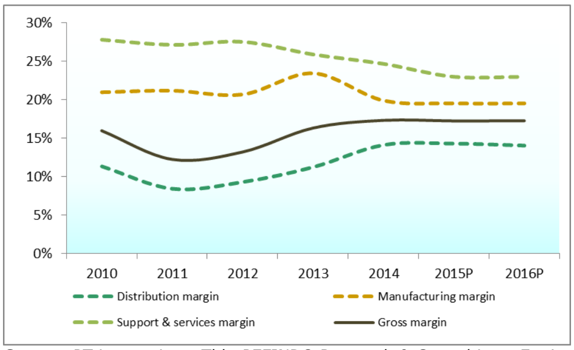
For full year 2014, LTLS recorded good results as its revenue was up 3% YoY compared to an 8% YoY slide in 2013. Last year LTLS gave us a solid evidence that its reorganization measures as well as its refreshed strategy has put the Company on the right path to enjoy faster growth in the medium run. Both manufacturing as well as support & services segments came in robust with more than 20% YoY growth, while the distribution segment's revenue remained solid. All the measures taken and strategy implemented by the management seem also to have improved LTLS' profitability. Its gross margin rose to 17.3% in 2014 from 16.3% in 2013, particularly resulting from the increase in the distribution segment's gross margin. The gross margin jumped to 14.1% vs. 11.2% in 2013. This brought its recurring operating margin up to 5.3% from only 2.0% in 2013.

Figure 8: Total Revenue



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

Figure 9: Margins

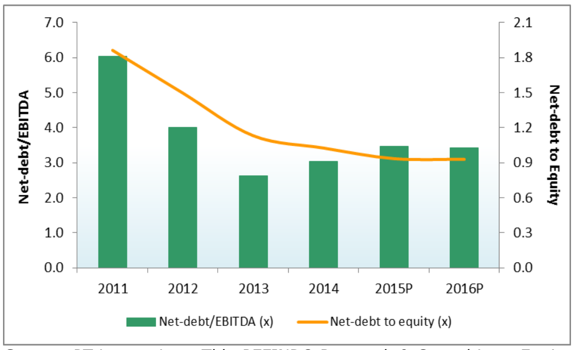


Source: PT Lautan Luas Tbk, PEFINDO Research & Consulting - Equity & Index Valuation Division

Stronger Financial Condition

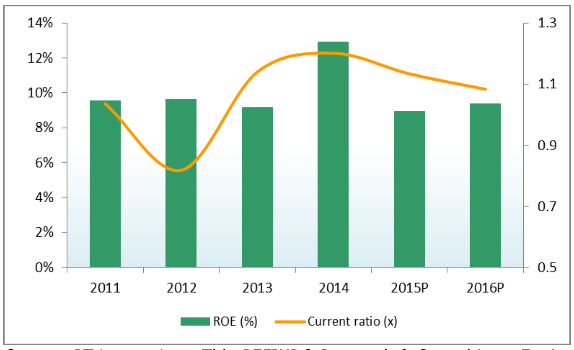
For the last three years, LTLS has seen an improving financial condition particularly indicated by its lower gearing ratio and stronger EBITDA. In 2014, its net-debt to equity was only 1.0x much lower than the ratio of 1.9x in 2011. Meanwhile, LTLS generated significant EBITDA of IDR526 billion in 2014, which brought the net-debt to EBITDA ratio down to 3.0x, from 6.0x in 2011. The interest coverage ratio, measured by EBITDA to net-interest ratio, improved to 4.3x, an increase by more than 150% from 2011's ratio of 2.6x. On the other hand, its liquidity measure, represented by current ratio, was also on an increasing trend, up to 1.2x vs. 1.04x in 2011. We expect such positive trend to continue in the years ahead, while the Company's expansion will remain on its track.

Figure 10: Gearing



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

Figure 11: ROE and Current Ratio



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

SWOT ANALYSIS

Table 7: SWOT Analysis

Strength	Weakness
• Integrated business operation trough mutually supportive business segments (distribution, manufacturing, and support & services). • Supported by wide distribution network, covering major cities in Indonesia, and in the region, as well as the affiliates' and own manufacturing facilities. • Its products portfolio covers an extensive range with a large customer base. • Some of its products are the market leaders in niche markets.	• Sensitive to exchange rate volatility to some degree although LTLS can eventually pass it to the customers. • Dependence on Indonesian economy, as about 80% source of LTLS's revenue still comes from domestic revenue.
Opportunity	**Threat**
• In medium-term, better economic conditions and potentially faster economic growth which will lead to stronger demand from various industries. • Large market of specialty chemicals that remains undeveloped. • There is a large backlog between demand and domestic manufacturing activities for basic and specialty chemicals. • Lowering regional market barrier to entry along with ASEAN free trade regime starting this year.	• Profitability may vary significantly due to GDP and exchange rate volatility. • New multinational competitor engage with the same integrated chemical business with more competitive value added.

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

INDUSTRY COMPARISON

Table 8: LTLS and Its Peers Performance Summary as of December 31, 2014

	LTLS	AKRA	BUDI	TPIA*
Revenue [IDR bn]	5,888	22,468	2,284	2,460
Gross profit [IDR bn]	1,019	1,732	277	117
Pre-tax profit [IDR bn]	275	993	43	25
Net profit [IDR bn]	163	810	28	18
Total asset [IDR bn]	4,669	14,792	2,479	1,924
Total liabilities [IDR bn]	3,111	8,831	1,564	1,054
Total equity [IDR bn]	1,558	5,961	915	869
Growth [YoY]				
Revenue [%]	2.7	0.6	(11.1)	(1.8)
Gross profit [%]	9.0	26.6	(9.9)	19.8
Pre-tax profit [%]	58.3	35.5	12.8	45.9
Net profit [%]	90.7	25.0	158.7	86.4
Profitability				
Gross margin [%]	17.3	7.7	12.1	4.8
Pre-tax margin [%]	4.7	4.4	1.9	1.0
Net margin [%]	2.8	3.6	1.2	0.7
ROA [%]	8.6	7.6	6.2	3.0
ROE [%]	12.9	13.3	3.1	2.1
Leverage				
Liabilities to assets [x]	0.7	0.6	0.6	0.5
Liabilities to equity [x]	2.0	1.5	1.7	1.2
Market multiple				
P/E [x]	8.7	19.9	15.7	43.9**
P/BV [x]	0.9	2.7	0.5	0.9**

Source: Companies, Bloomberg, PEFINDO Research & Consulting - Equity & Index Valuation Division
** in USD million*
*** exchange rate assumption of IDR12,440/USD*

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 June 29, 2015, using LTLS' financial report as of March 31, 2015, for our fundamental analysis.

- **Value Estimation**

We used a Cost of Capital of 9.2% and Cost of Equity of 10.6% based on the following assumptions:

Table 9: Assumption

Risk free rate [%]*	8.3
Risk premium [%]*	5.2
Beta [x]**	0.4
Cost of Equity [%]	10.6
Marginal Tax Rate [%]	25.0
WACC [%]	**9.2**

Source: Bloomberg, PEFINDO Research & Consulting - Equity & Index Valuation Division
** as of June 29, 2015*
*** PEFINDO Beta as of June 25, 2015*

Target price for 12 months based on the valuation as of June 29, 2015, is as follows:

- ❖ Using the DCF method with a discount rate assumption of 9.2% is IDR1,132 – IDR1,359 per share.
- ❖ Using the GCM method (P/EBITDA 3.2x and P/BV 1.0x) is IDR1,002-IDR1,161 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 **IDR1,095-IDR1,300** per share.

Table 10: Summary of DCF Method Valuation

	Conservative	**Moderate**	**Optimistic**
PV of Free Cash Flows – [IDR, bn]	389	409	429
PV Terminal Value – [IDR, bn]	2,973	3,129	3,286
Non-Operating Assets – [IDR, bn]	234	234	234
Net Debt – [IDR, bn]	(1,830)	(1,830)	(1,830)
Number of Share, [mn shares]	1,560	1,560	1,560
Fair Value per Share, [IDR]	**1,132**	**1,245**	**1,359**

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

Table 11: GCM

	LTLS	ETWA	BUDI	OKAS	TPIA	Avg.
P/EBITDA [x]	3.0	N.A.	1.5	1.0	7.4	**3.2**
P/BV [x]	0.8	0.6	0.4	2.3	1.0	**1.0**

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

Table 12: Summary of GCM Method Valuation

	Multiple [x]	Est. EBITDA/share [IDR]	Est. BV/share [IDR]	Value [IDR]
P/EBITDA	3.2	311	-	**1,002**
P/BV	1.0	-	1,152	**1,161**

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

Table 13: Fair Value Reconciliation

	Fair Value per Share [IDR]		
	DCF	GCM	Average
Upper limit	1,359	1,161	**1,300**
Bottom limit	1,132	1,002	**1,095**
Weight	70%	30%	

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

Table 14: Consolidated Statements of Comprehensive Income

IDR bn	2012	2013	2014	2015P	2016P
Revenue	6,214	5,735	5,888	6,791	7,815
COGS	(5,394)	(4,800)	(4,869)	(5,621)	(6,467)
Gross profit	**820**	**935**	**1,019**	**1,170**	**1,348**
Operating expense	(551)	(657)	(602)	(817)	(936)
EBITDA	422	601	526	485	564
Pre-tax profit	**142**	**174**	**275**	**214**	**260**
Tax	(33)	(46)	(74)	(53)	(65)
Net profit	**81**	**85**	**163**	**128**	**156**

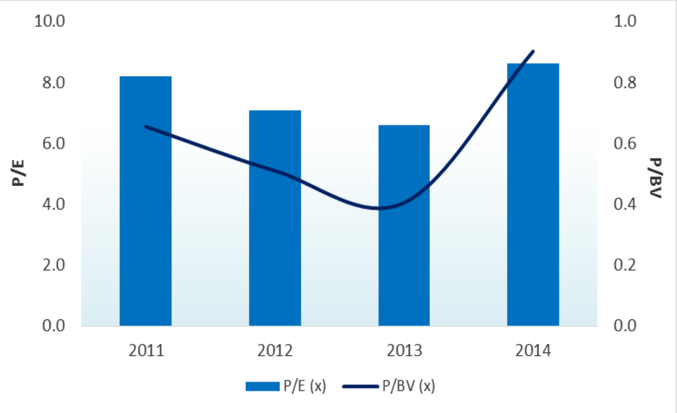
Source: PT Lautan Luas Tbk, PEFINDO Research & Consulting - Equity & Index Valuation Division

Table 15: Consolidated Statements of Financial Position

IDR bn	2012	2013	2014	2015P	2016P
Assets					
Cash and cash equivalents	118	148	236	184	161
Short-term investments	10	12	13	15	17
Trade receivables	942	1,143	1,127	1,226	1,411
Non-trade receivables	128	57	50	57	66
Inventories	818	891	897	943	1,085
Other current assets	88	148	181	209	241
Total current assets	**2,104**	**2,400**	**2,504**	**2,635**	**2,982**
Investments	529	736	684	789	908
Fixed assets	1,072	1,107	1,147	1,386	1,611
Intangible assets	10	12	12	14	16
Other non-current assets	340	277	322	348	399
Total assets	**4,055**	**4,532**	**4,669**	**5,171**	**5,916**
Liabilities and equity					
Short-term debts	1,552	789	929	949	1,170
Trade payables	892	1,133	1,027	1,226	1,411
Other short-term liabilities	126	184	129	149	172
Total current liabilities	**2,571**	**2,106**	**2,085**	**2,325**	**2,753**
Long-term debts	261	932	904	915	926
Other long-term liabilities	89	104	122	135	155
Total liabilities	**2,921**	**3,142**	**3,111**	**3,375**	**3,834**
Total equity	**1,134**	**1,390**	**1,558**	**1,797**	**2,082**

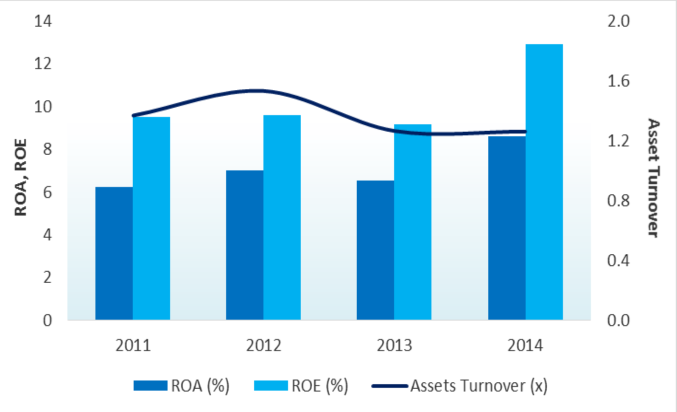
Source: PT Lautan Luas Tbk, PEFINDO Research & Consulting - Equity & Index Valuation Division

Figure 12: P/E and P/BV



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

Figure 13: ROA, ROE and Total Assets Turnover



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

Table 16: Key Ratios

	2012	2013	2014	2015P	2016P
Growth [%]					
Revenue	12.4	(7.7)	2.7	15.3	15.1
Pre-tax profit	18.4	22.0	58.3	(22.2)	21.4
EBITDA	43.4	42.3	(12.5)	(7.7)	16.2
Net profit	6.9	4.9	90.7	(21.2)	21.4
Profitability [%]					
Gross margin	13.2	16.3	17.3	17.2	17.3
Pre-tax margin	2.3	3.0	4.7	3.1	3.3
EBITDA margin	6.8	10.5	8.9	7.1	7.2
Net margin	1.3	1.5	2.8	1.9	2.0
ROA	7.0	6.5	8.6	6.8	7.0
ROE	9.6	9.2	12.9	8.9	9.4
Liquidity [x]					
Current Ratio	0.8	1.1	1.2	1.1	1.1
Quick Ratio	0.5	0.7	0.8	0.7	0.7
Solvability [x]					
Liabilities to equity	2.6	2.3	2.0	1.9	1.8
Liabilities to asset	0.7	0.7	0.7	0.7	0.6

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

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