OCBC Sekuritas

Indonesia | Travel & Tourism

PANORAMA SENTRAWISATA | BUY

7 Oct 2015
Initiating Coverage

THE ROOM FOR VALUE

- **Vertically-integrated, tapping into multiple businesses**
- **Hospitality business to take flight and support margin**
- **Still cheap compared to its regional peers**

Initiate BUY, FV Rp680

Initiating **BUY** on PANR for: 1) Tapping into Indonesia's booming hotel industry by expanding its hospitality and e-commerce; 2) Hospitality business to be consolidated this year, with the second highest margin out of all its businesses (excluding airplane tickets and hotel vouchers); and 3) Additional VOA access may increase inbound volume.

Expect Higher Hotel Voucher Sales

We favor the company's move to consolidate its e-commerce hotel voucher business, PT Rajakamar Internasional ("Rajakamar.com"), which will double hotel voucher sales contribution to total revenue from 2% in FY14 to 4% of FY15F. The contribution to gross profit of this segment is more stellar as it has 100% gross margin. We anticipate hotel voucher segment to contribute 16% of total gross profit in FY15F, compared to 8% in FY14. In accordance, company's FY15F EBIT margin is expected to reach 8% from 6% in the previous year. In all, we project a 12% EPS growth in FY15F, and a 3Y-CAGR of 22% over FY14-17F.

The Final Chess Piece

The company has spread its wings to hospitality business by acquiring 101 Hotel Yogyakarta Tugu this year. With the addition of one hotel in FY15F, we expect the company's hospitality business to contribute 1% to revenue, and further reach 4% in FY17F as we expect the company to acquire at least two hotels in the next two years. With a stable 40% gross margin, we expect hospitality segment to contribute 7% to total gross profit by FY17F.

Valuation

We initiate PANR with a **BUY** and FV of Rp680 based on a P/E valuation. We prefer to use P/E valuation as the stock holds a liquidity risk at an average daily turnover of merely Rp2 bn (US$0.12 mn). Our DCF derived value for the stock is Rp750 (WACC of 9.1% and a terminal growth of 4% p.a). This translates to 11.0x FY17F P/E, which implies a 18% premium to its 1 SD above mean P/E. Therefore we expect the stock to re-rate at most to Rp680, or to 1 SD above mean P/E of 9.3x.

Key financial highlights

Year Ended Dec 31 (Rp bn)	FY12	FY13	FY14	FY15F	FY16F	FY17F
Net Sales	1,547	1,694	1,956	2,170	2,450	2,729
EBITDA	134	179	207	294	297	333
Net Profit	33	48	59	65	89	107
EBIT margin	5%	6%	6%	8%	9%	9%
Net profit margin	2%	3%	3%	3%	4%	4%
EV/EBITDA (x)	6.8	5.8	5.8	6.6	6.4	6.0
EPS (Rp)	21	33	38	42	57	68
Dividend yield (%)	0.9%	1.5%	1.9%	1.8%	2.5%	3.0%

Source: Bloomberg, Company, OCBC Sekuritas Research

BUY

Fair value	Rp	680
Current price	Rp	421
12m total return forecast		**62%**

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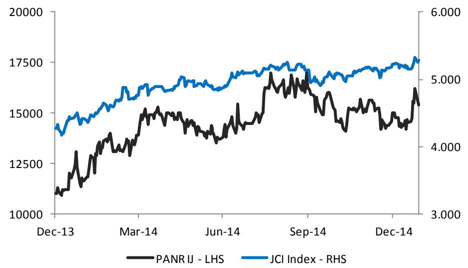
Key information

Market cap. (Rp bn)	Rp	514
Avg daily turnover (Rp bn)	Rp	2
52-wk range (Rp)		414-555
Free float (%)		17.2
Shares o/s. (bn)		1.2
BBRG ticker		PANR IJ
Reuters ticker		PANR.JK
GICS Sector		Consumer Discretionary
GICS Industry		Consumer Services
Top shareholder		Panorama Tirta – 64.25%

Relative total return	**3m**	**6m**	**12m**
Company (%)	-22	-16	-13
JCI-adjusted (%)	-10	3	-2

Price performance chart



Source: Bloomberg

Industry overview

Travel and tourism ("T&T") in Indonesia is a significant component to the economy as a large contributor of foreign exchange revenue. The industry acts as a balancing force when local currency weakens.

Revenue is recognized in foreign currencies depending on the country of domicile of the foreign tourist. In the case of a T&T operator (Panorama, Bayu Buana, Alfa Prima Tours, etc), revenue is only recognized when the tourist (departure or arrival), have physically stepped into the designated country. We utilize an average revenue/inbound or outbound visitor to determine the revenue contribution for any increments in tour volume.

To date, the industry contributes an average of ~3.15% of total GDP in FY13-15F (vs Singapore at ~5.3%, Malaysia at ~7.2%, Thailand at ~9.0%). This low GDP penetration can be caused by: 1) lack of investment in T&T sector, 2) lack of attractive business and leisure tourist destinations.

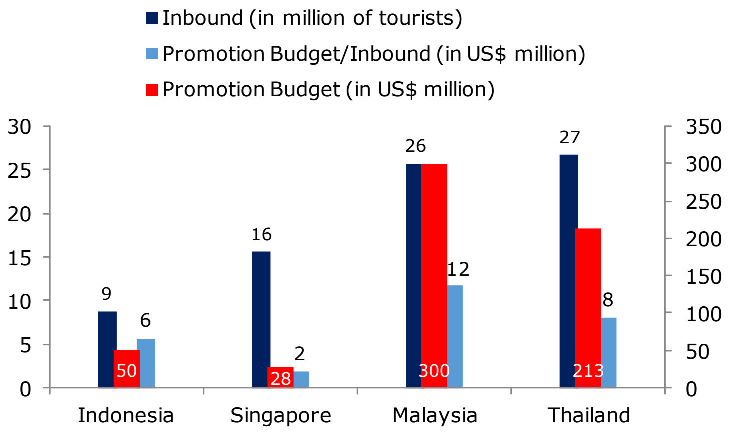
The attractiveness of a country determines the volume of foreign arrivals (partly as an inbound tour), and likewise, the attractiveness of another country determines the volume of domestic departure (partly as an outbound tour).

Based on the Tourism Competitive Index ("TCI"), Indonesia is ranked 50th out of 141 countries, currently branded under "Wonderful Indonesia" (e.g, Malaysia's "Truly Asia"). These tourists arrivals and departures are also the primary metrics to indicate how much inbound and outbound tours can be expected, as it reflects a country's attractiveness.

The Indonesian government is aiming to quadruple the budget allocated to T&T sector, amounting to Rp1.3tn (US$98.4mn) for FY15F (vs US$50mn in FY13), and Rp5.0tn in FY16F. This is essential for the growth of tourism sector as the promotion budget in Indonesia is significantly lower than Malaysia and Thailand which has spent more than US$200mn in FY13.

In addition, the number of inbound tourists in Indonesia is significantly lower than Malaysia and Thailand, despite Indonesia has similar variety of tourist destinations. Hence, we expect the increase in promotion budget to bring material impact on Indonesia's inbound tourist in the coming years.

Exhibit 1: Inbound vs Promotion Budget in FY13



Source: World Economic Forum, Ministry of Tourism, OCBC Sekuritas Research

Malaysia and Thailand is only a 3-4 hours away!

On average, the distance from Bali (Denpasar) to Malaysia (Kuala Lumpur) is 1,234 miles and takes only 2 hours and 55 minutes. In addition, the distance from Bali (Denpasar) to Thailand (Bangkok) is 4,526 miles, and takes 4 hours and 20 minutes. Despite these short distances and a difference of 3-4 hours, Malaysia and Thailand international tourists inbound are three times more than that of Indonesia. Based on the World Travel & Tourism Council ("WTTC"), Thailand has 26.5 million tourists, Malaysia has 25.7 million tourists, while Indonesia only had 8.8 million tourists inbound in FY13. What we perceive as an upside is when these inbound tourists, heading for Malaysia, and Thailand, instead head off to

Indonesia. In terms of what is being offered, we believe there is little to no difference.

Exhibit 2: Kao Kao Island, Thailand

Source: lagunaphuket.com

Exhibit 3: Gunung Mulu, Malaysia

Source: worldheritage.routes.travel

Exhibit 4: Raja Ampat Islands, Papua

Source: indonesiad.com

Exhibit 5: Mount Kelimutu, Flores

Source: allindonesiatravel.com

Out of all types of travel: ecotourism, culinary tourism, or cultural exploration, we believe there are vivid similarities between all three countries: Malaysia, Thailand, and Indonesia. Even the cuisine is similar to an extent, in terms of its ingredients and taste. Based on the 1H15 Tourist Competitiveness Index, there is only a small difference between the three countries in terms of its infrastructure, natural and cultural resources, and T&T policy supports. All three countries are graded at ~90% of its peers' average, which means there is only a small difference between the three countries in terms of tourism competitiveness.

Exhibit 6: Indonesia remains the most affordable destination by 1H15.

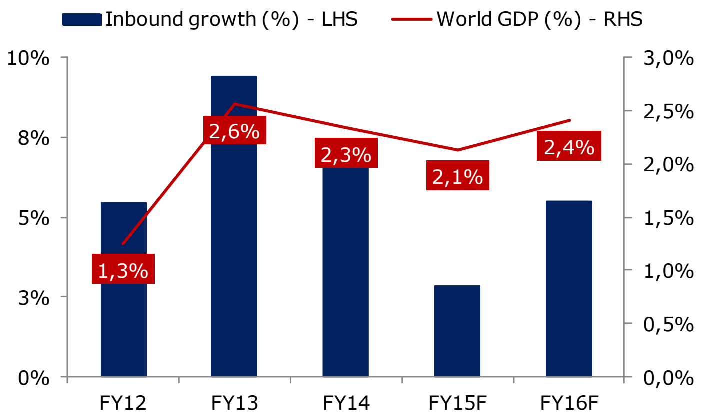
Country	T&T Policy and Enabling Conditions Pillars				Infrastructure Pillars			Natural and Cultural Resources Pillars	
	Prioritization of T&T	International Openness	Price Competitiveness	Environmental Sustainability	Air Transport Infrastructure	Ground and Port Infrastructure	Tourist Service Infrastructure	Natural Resources	Cultural Resources & Business Travel
Indonesia	5,6	3,6	6,1	3,1	3,8	3,3	3,1	4,4	3,1
Malaysia	4,7	3,9	5,8	3,4	4,5	4,5	4,4	4,1	3,0
Thailand	5,0	3,7	5,1	3,5	4,6	3,4	5,7	4,5	2,8
Average	**5,1**	**3,7**	**5,6**	**3,3**	**4,3**	**3,7**	**4,4**	**4,3**	**3,0**

Source: World Travel & Tourism Competitiveness Index 2015

Economy as a metrics for inbound and outbound demand

The industry's two main core businesses are Inbound (tour packages from country of domicile to Indonesia), and Outbound (tour packages from Indonesia to a designated country). Both inbound and outbound is treated as an imported and exported service. To date, ~5.6% of Indonesia's total export comes from the expenditure of foreign visitors. Under this assumption, the demand for both inbound and outbound will strongly reflect each country's economic condition. We found that GDP growth and currency fluctuations are relatable catalysts to determine inbound and outbound demand or volume. GDP growth signifies a country's purchasing power to pay for holidays and tours. However, specifically for Indonesia, we feel currency fluctuation would not be a strong catalyst to inbound demand. Historically, IDR have been weaker against other major currencies, which makes its fluctuations relatively irrelevant (since it is already cheap to begin with). Various other correlations exist such as infrastructure growth (for tourism accessibility via land, water, and air), government's allocated tourism budget and expenditure, governmental regulations, and fuel price (determinant for ticket prices which translates into higher or lower tour price).

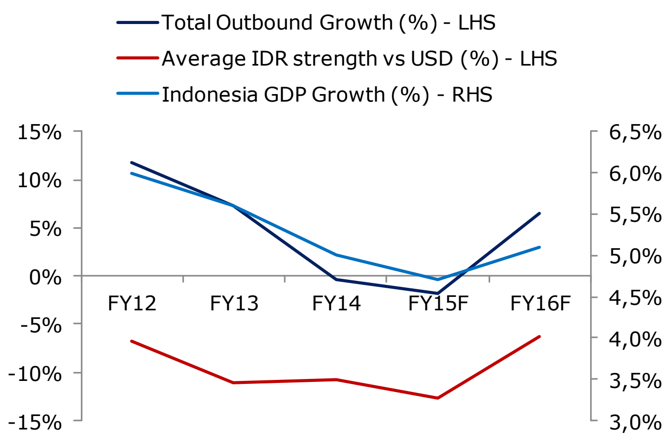
Exhibit 7: Indonesia's inbound growth vs world GDP



Source: World Bank, BPS, OCBC Sekuritas Research

For outbound, we measure Indonesia's purchasing power through GDP growth (reflecting increased domestic investment in infrastructure, entertainment, tourism accomodations, etc), and currency fluctuations (the affordability of an Indonesian's international outbound trip). We derived that Indonesia's outbound is 42% and 58% sensitive to a 1% change in GDP growth and currency fluctuation, respectively. We assume a GDP growth of 5.1% for FY16F and currency at Rp14,500/USD. However, we disregard currency fluctuation for inbound estimates due to the weak basis of IDR compared to other countries, we feel there isn't much demand-driving force even if IDR were to plummet further.

Exhibit 8: Indonesia metrics vs Outbound growth



Source: World Bank, BPS, OCBC Sekuritas Research

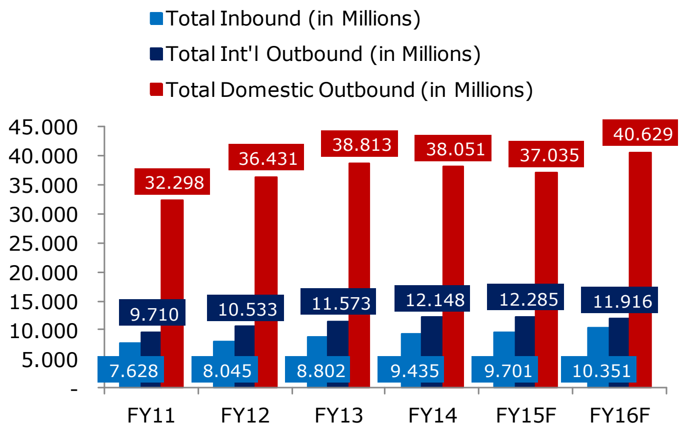
New visa-exemption law will boost inbound volume, but growth is hampered by global economical slowdown

Currently, there are a total of 36 countries that can pay for an extendable Visa-on-Arrival ("VOA"), and a total of 43 countries with a visa-free entry. There should be more VOAs and visa-free entry handed out in the future to comply with the government's plan to boost tourism. However, the old reciprocal law limits countries to be granted a visa-free or VOA entry unless they too, grant Indonesians a visa-free or VOA entry.

In June 2015, the Minister of Tourism granted an non-extendable VOA eligibility for a total of 45 countries available at Indonesia's five international airports in Bali, Jakarta, Medan, Surabaya, Batam, and four harbours in Bintan, Riau, and Batam (two ports located in Batam). While this new act violates the old reciprocal law, plans to amend the newer law is on track. But note - this VOA-granting act cannot be reciprocated by other countries such as France (binded by Schengen agreement for Visas), thus we expect to see only increments in inbound volume.

The government targets an additional 12 mn foreign tourists which would spend at least $1 bn with this new law. We will keep monitoring the inbound volume to capture the weight of this new law. In total, we forecast a 2.9% YoY increase in total inbound tourists at 9.7mn (vs 9.4mn in FY14) in FY15F, and a slowdown of 2.7% YoY in total outbound tourists at 49.321mn (vs 50.200mn in FY14) tourists in FY15F.

Exhibit 9: Total Inbound and Outbound Tourists FY11-16F



Source: World Bank, World Travel & Tourism Council, BPS, OCBC Sekuritas Research

While the prospects of T&T are very high (low GDP penetration, weak currency), we see this year's growth might be hampered by a global economical slowdown this year. This would reduce the purchasing power of foreign countries, limiting growth of foreign tourists inflow.

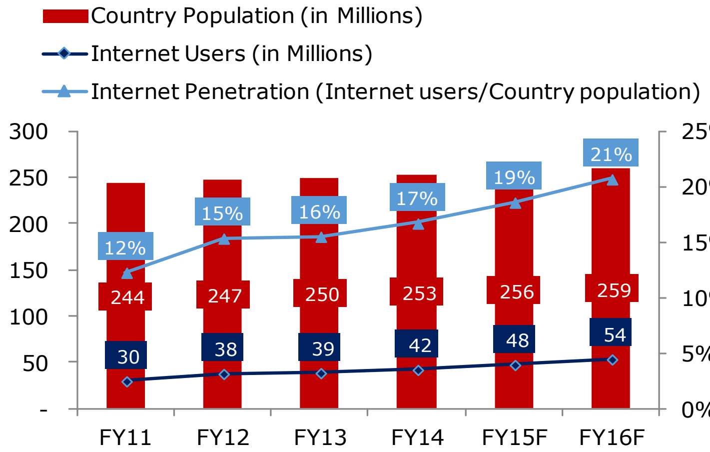
E-commerce will only disrupt traveling agencies, but not tour operators

E-commerce has been able to penetrate into the T&T industry through its online sales. While traditional booking agents still dominate total ticketing sales, market share for agent ticketing is slowly being eroded by the entry of an integrated "one-stop-shop" ("OSS") e-commerce websites which offer a complete package, including hotel booking, and airline ticket sales with price-cutting discounts.

This e-commerce OSS uses a similar approach to travel agencies, but is less dependent on an agent. It basically made the user as its own operator, via the OSS's platform. Several examples include Traveloka and Agoda, among others.

We see internet penetration to keep growing atop of population growth. This would indicate that e-commerce, which includes e-commerce OSS, has the potential to absorb the market for packaged tour, hotel, and airline bookings. Furthermore, the Ministry of Transportation have already banned airline ticket sales in airport by mid-August.

Exhibit 10: More Penetration, More Market Share for E-Tourism



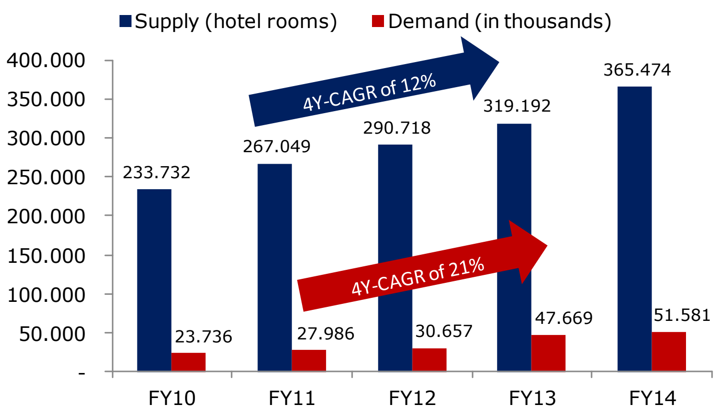
Source: BPS, World Bank, OCBC Sekuritas Research

However, we view that Panorama is not exposed to this risk as it is a tour operator. Most tours usually incorporate a large size of ticketing and booking volume for a single group, which is not feasible to plan in an online B2C platform. While individual travelers can arrange the traveling experience to his/her needs, a group tour cannot. Thus, we view the exposure of a loss in market share to the invasive e-commerce OSS to not affect tour operators, but travelling agencies.

Indonesia's hotel industry still need more rooms

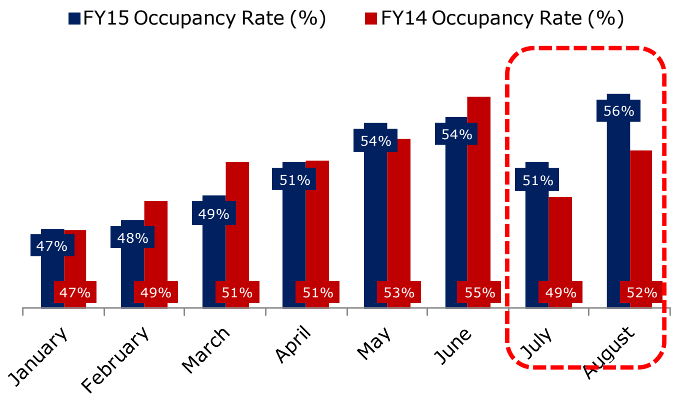
We find that there may be a slight shortage in the hospitality industry. By looking at demand as both domestic and international guests who stayed at a starred-hotel, we regard supply as the number of hotel rooms in Indonesia. While supply have surged at a 4Y-CAGR of 12% over FY10-14, demand's pace has outgrown supply at a 4Y-CAGR of 21% over FY10-14. We note that average occupancy rate for starred hotels in Indonesia is climbing out of its seasonal slump in July. However, August's results came higher than last year at an average of 56% occupancy rate (+40bps YoY vs 52% in Aug FY14). We view this higher occupancy rate from August and onwards is sustainable. Thus, we expect FY15F average occupancy rate to stay stable at 51.7% on the back of weaker July data.

Exhibit 11: Demand and supply FY10-14



Source: BPS, OCBC Sekuritas Research

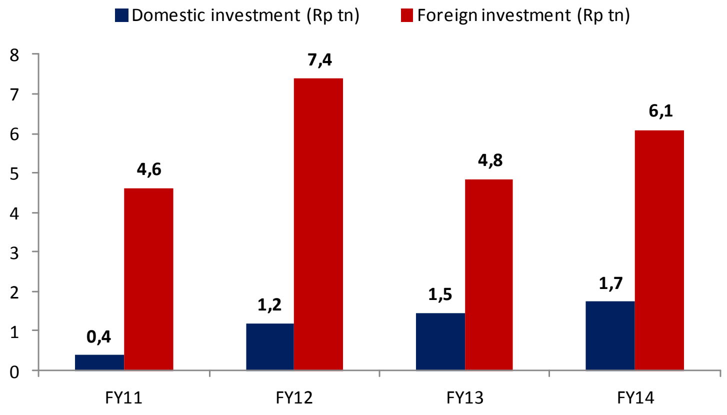
Exhibit 11: Average occupancy rate FY14-15



Source: BPS, OCBC Sekuritas Research

Based on the statistics from Indonesian Hotel and Restaurant Association ("PHRI"), and Indonesia Premium Database ("CEIC"), we find that the sector is heavily supported by foreign investment. However, growth from domestic investment is rapidly growing albeit lagging behind foreign investment. In FY12 alone, domestic investment in the hotel and restaurant sector went up to Rp1.2tn (+159% vs. Rp0.4tn in FY11). By FY14, it reached Rp1.7tn. As the majority of the investments are in the middle-segment market (2-,3-, and 4-star hotels), we expect new entrants will benefit more by tapping into the middle-income market.

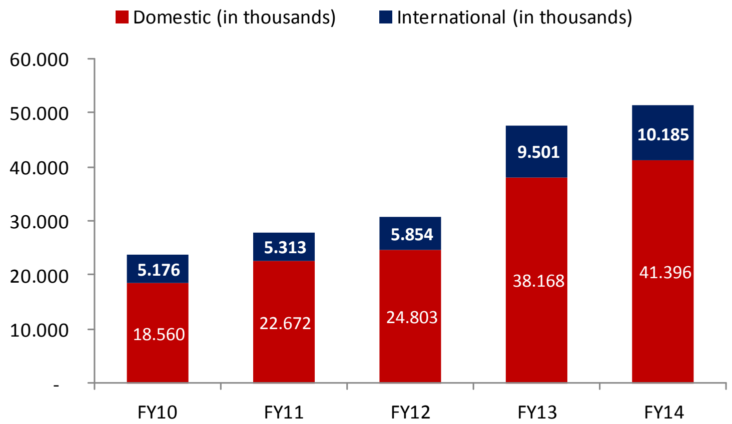
Exhibit 12: Total investment in Indonesia's hospitality sector FY11-14



Source: PHRI, CEIC, OCBC Sekuritas Research

To date, domestic guests makes up a 4Y-average of 80% of total demand for stays at starred-hotels. The remaining 20% are international guests. We believe that industry's demand boom provides room for new entrants to tap into the hospitality business, given that they are operating as a non 5-star hotel. With the continuing development in the middle-segment of the market by both foreign and domestic investment, we expect to see new brands of 4-star hotels (the most premium quality before the high-segment of the market) to enter the fray.

Exhibit 13: Number of guests that stayed at starred-hotels FY10-14



Source: BPS, OCBC Sekuritas Research

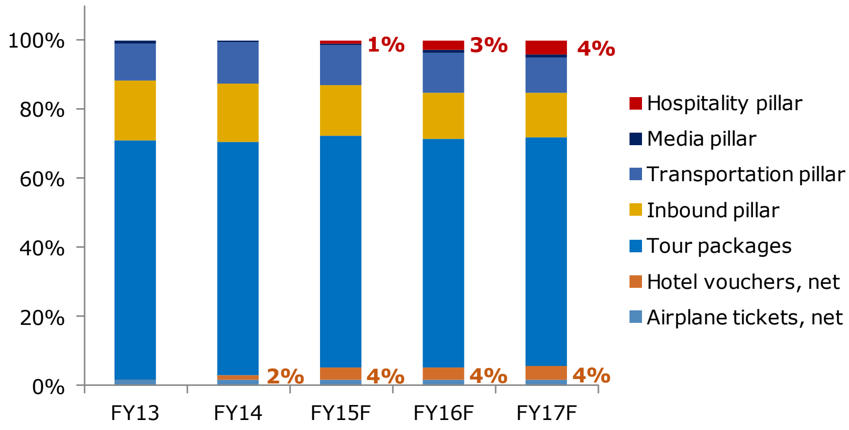
Business Analysis

Vertical Integration as the End Game

We favor Panorama's move in expanding its lines of business, which is also in-line with its end-game strategy: vertical integration. This is proven by the company's recent acquisition of Hotel 101 Yogyakarta Tugu and additional acquisition of PT Rajakamar Internasional from 25% ownership to 51% ownership. The company has succeeded in expanding its business to various lines:

- PT Panorama Sentrawisata Tbk as the ultimate parent,
- PT Destinasi Tirta Nusantara Tbk ("PDES IJ") holding its travel & leisure businesses (Inbound packaged tours),
- PT Panorama Tours Indonesia holding both its outbound travel & leisure businesses (Outbound tours, hotel voucher, and airline ticket booking),
- PT Panorama Transportasi Tbk (WEHA IJ) as its transportation businesses (tour bus charters, limousine services, and taxi fleets),
- PT Panorama Media holding its media businesses (MICE and magazines),
- PT Panorama Properti (hospitality business)

Exhibit 14: Revenue structure FY12-16F



Source: Company, OCBC Sekuritas Research

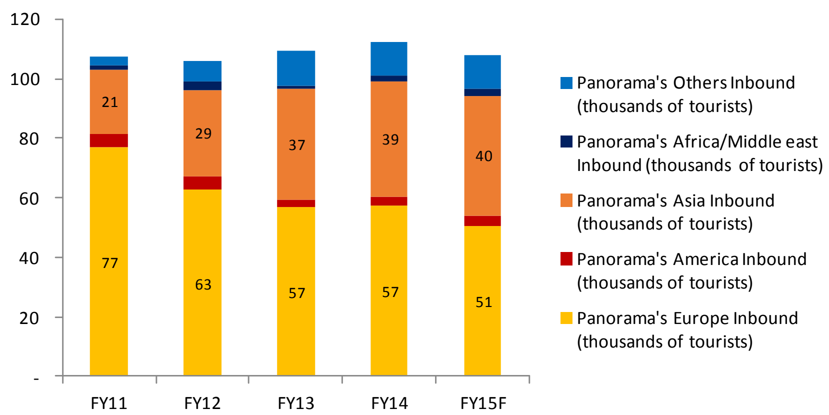
The company's inbound and outbound business involves both B2B and B2C in the form of packaged tours and foreign independent travelers ("FIT"). Further segregation depends on whether the customer utilizes Panorama's online B2C platform ("panoramatours.com"), or its booking agency (for both B2C and B2B). Panorama's outbound business is mainly B2B in the form of corporate packaged tour. Its media business focuses on its operations in MICE (meetings, incentives, conferencing, and exhibitions), and publications ("Get Lost travel magazine", "Panorama Wedding Guide", "Bali Leisure Guide", "Indonesia MICE Guide"). Currently, its exhibition business lines are not consolidated.

We view that the company's synergy will be beneficial as the company simultaneously diversifies its economical risks while tapping into different income sources from a tourist's arrival until its departure. Originating from a tourist's initial arrival, the company taps into its airplane and hotel booking (outbound), its packaged fee, visa and documentation services (tour packages). Afterwards, the company would offer transportation services from the airport to its hotel (hospitality), by either a taxi or bus (transportation). In the case of a tour package, or a corporate traveling experience, the corporate tourists could use the company's convention halls as designated meeting venues (media), and expect the corporate tourists to extend their stay for either a nature, cultural or culinary tourism.

More Asians in The Cabin

Panorama's inbound revenue is further separated into five major segregation, based on an inbound tourist's country of domicile: Europe, Asia, America, Middle East/Africa, Others. In FY11, the majority of Panorama's revenue came from its Europe market. However, the amount of Panorama's Europe inbound tourists has been declining at a 3Y-CAGR of -8.9%, while its Asia inbound tourists grew at a 3Y-CAGR of 15.2%.

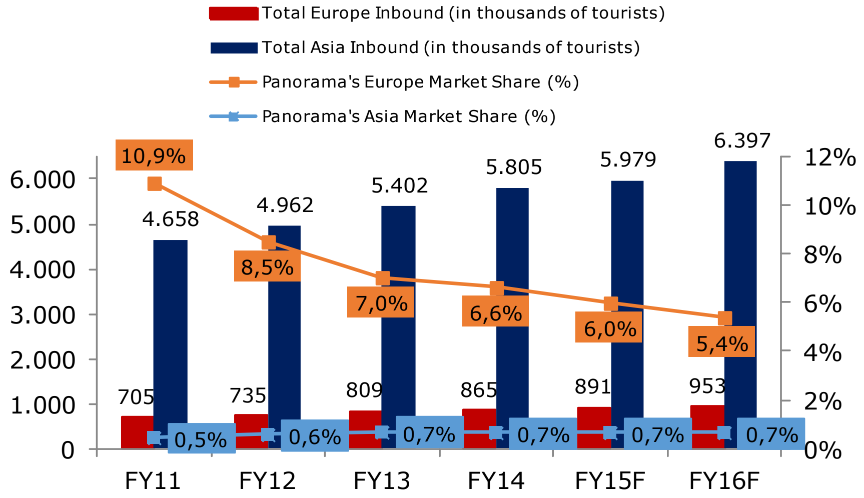
Exhibit 15: Panorama's inbound market undergoes a trend shift



Source: Company, Skift, BPS, World Bank, OCBC Sekuritas Research

Panorama's market share averages at around 2.0% by 1H15 (-10 bps vs 2.1% in 1H14), with Europe as its largest inbound market. However, Panorama's market share in the Europe inbound market have been decreasing over time despite the Europe inbound market growing at a 3Y-CAGR FY11-14 of 7.1%. This may potentially be caused by a shift in consumers' habits, or intense competition. Asia, on the other hand, mirrored Europe, growing at a 3Y-CAGR FY11-14 of 7.6%.

Exhibit 16: Panorama's market share out of total inbound market



Source: Company, BPS, World Bank, OCBC Sekuritas Research

Panorama's market share in Asia's inbound market has always been stable at a 3Y-average of 0.65%, while America's 3Y-average market share stands at 1.7%. We expect to see lower market share for Europe's inbound market at 6.0% (-60bps vs 6.6% in FY14), and a stable market share for the other inbound markets; America at 1.2%, Asia at 0.7%, Middle East/Africa at 1.3%, and Others at 0.5%. This amounts to a lower overall FY15F average market share at 1.9% (-20 bps vs 2.1% in FY14). To date, Panorama's portion of inbound revenue averages ~17% of total revenue with an average revenue/inbound tourist at Rp2.9mn to Rp3.0mn per inbound tourist. We expect to see a modest increase in inbound revenue at Rp35bn (+9.5% YoY vs Rp32bn in FY14) on the back of higher volume of Asia-based inbound tourists, consisting of India, Kuala Lumpur, Singapore, and Middle East.

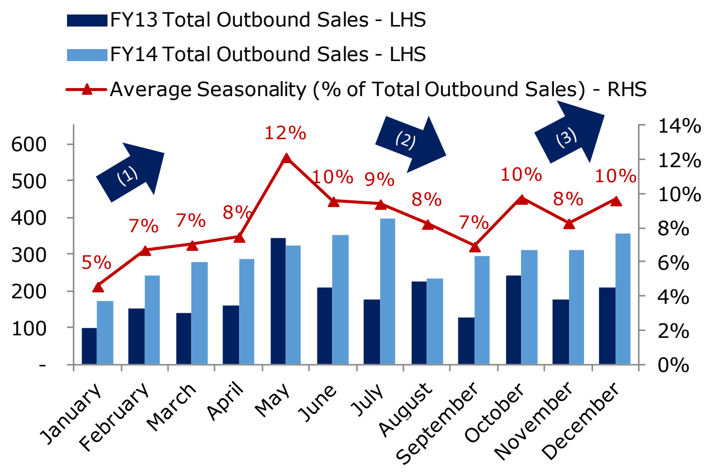
Seasonality: Expect higher outbound sales in 4Q

Outbound consists of its wholesale and packaged outbound tours, airplane tickets bookings and hotel vouchers. Both of Panorama's airplane and hotel bookings have an aggregator business model, similar to other tour operators. Panorama will first purchase hotel rooms and tickets from the respective hotel brand or airline in a bundling mechanism at a lower rate. This is usually done via a deposit, or an upfront cash with a contracted target quota (*x* rooms/tickets sold under *z* year). The aggregate spread between the bundled purchase and Panorama's selling price is accounted as the revenue, while the rest will be paid towards the principal. However, both aggregate booking businesses (hotels and airplane tickets) only contribute <5% of total outbound revenue.

Despite the Rupiah's freefalling to Rp14,333/USD by mid September (–20.8% YoY vs Rp11,870 in September FY14), other countries' currency also fell. Thus, we still expect to see a stagnant international outbound growth to 12.3mn outbound volume in FY15F (vs +1.1% YoY, 12.1mn outbound volume by FY14). To date, we are conservative and assume a GDP growth of 5.1% and currency at Rp13,589/USD for FY15F, and Rp14,500/USD for FY16F.

Despite the stagnant yearly figure, we expect Panorama's outbound revenue to grow at a +13.7% YoY to Rp1.6tn on the back of strong 1H15 numbers, and a strong 4Q results. Management also reiterates their growth target for this year at +10-15% YoY, in-line with our calculations. We also remain conservative on margin at 11% gross margin (-228bps, vs 13.1% gross margin) due to lower locked-in spread from aggregate spreads. However, there are seasonal upticks on a QoQ basis on the back of strong 4Q outbound seasonality. Thus, we expect demand to pick up from October to December.

Exhibit 17: Outbound-Tour seasonality, expect stronger 4Q results



Source: Company, OCBC Sekuritas Research

Despite the lower volume, FY15F outbound revenue should still go up at a double-digit rate. This is due to its increments of Panorama's ownership of PT Rajakamar Internasional (MG Group's e-tourism hotel booking in B2B) from 25% to 51% in 4Q14. It is also the reason why its revenue from hotel vouchers jumped to Rp30bn (+11,984% YoY vs Rp0.25bn in FY13) in FY14. This year, Panorama plans to consolidate PT Rajakamar Internasional, hence we expect higher hotel voucher revenue at Rp76bn (+156% YoY vs Rp30bn in FY14) in FY15F.

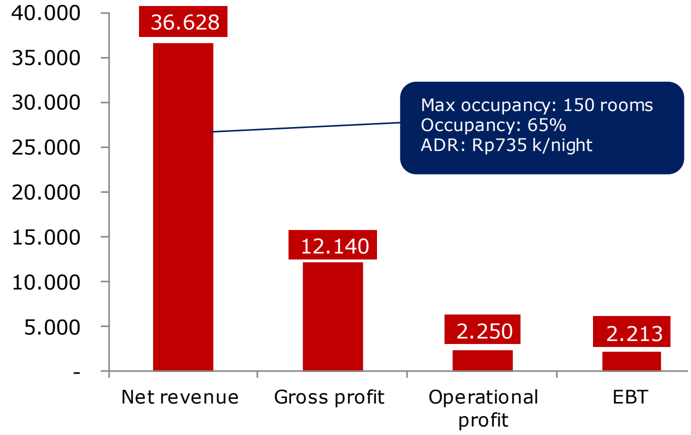
We do not see any threats coming from e-tourism such as Traveloka, Agoda, and others. These online operators also offers ancillaries such as hotel bookings in addition of ticketing, similar to Panorama's master plan. However, do note that they are purely B2C, as opposed to Panorama's B2B outbound tours, which forms the majority of its revenue; although Panorama has a presence in the B2C market. In addition, Panorama has also participated in the e-tourism hype through its "panorama-tours.com" booking website. Management has hinted of the possible expansion, but it may not be any time soon as they are still focused on fulfilling any added value-ancillaries in its B2B packaged tour operations.

The Final Chess Piece

Management also reiterated that its hospitality business, which consists of its hotel business (The 1O1 Yogyakarta Tugu), which have been operational since 1H15 and is expecting to see an additional revenue line for the upcoming quarters. They also hint of expansion plans for the years ahead. The 1O1 Yogyakarta Tugu is a 4-star hotel with a maximum occupancy of 150 rooms, with seven meeting rooms, spa and healthclub, bars, lounges, restaurants, and a swimming pool.

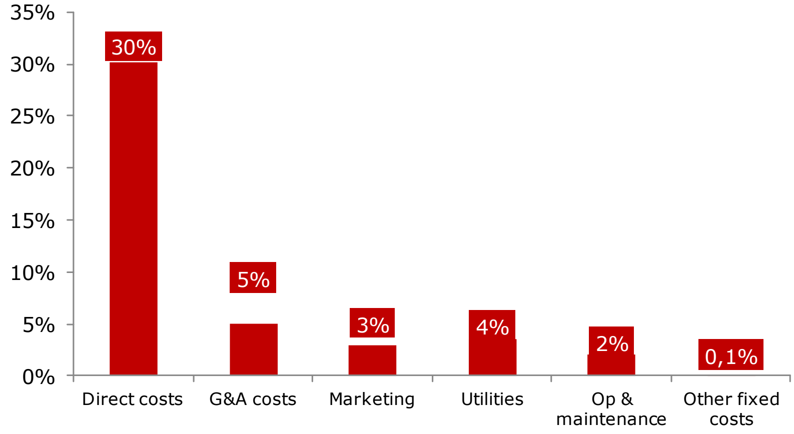
We assume a 0.5-year period of operation for FY15F, and a full-year operations for the years ahead. Based on field survey and peers comparison (of the same 4-star hotels in nearby vicinity), we assume a stable 65% occupancy rate which is considered normal in Jetis, Daerah Istimewa Yogyakarta. For room rate, we acquired an average published rate Gross ADR ("Average Daily Rate") of Rp1.37 mn/night. Eliminating the inclusion of a 11% government tax, 10% service charge tax, assumed Rp100,000 breakfast, and a premium placement for OTAs of 25%, we came up to an Net ADR of Rp735k/night.

Exhibit 18: 1Y-Profitability Illustration (in mn)



Source: Howarth HTL, Company, OCBC Sekuritas Research

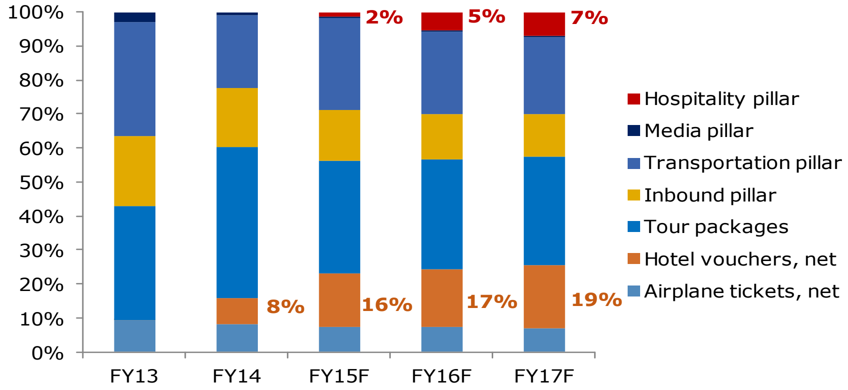
Exhibit 19: 1Y-Cost Illustration (as % of revenue)



Source: Howarth HTL, OCBC Sekuritas Research

We also came up with other revenues (meeting rooms, telephone, F&B, and spa or healthclub memberships and pay-per-visit) amounting to ~40% of total room revenue. This amounts to a net revenue of Rp18.3bn accounting only for a half-year period, with a 40% gross margin. Operational expenses include administrative & general, marketing, utilities, property operations and maintenance. Other fixed costs cover incentives, management fees (base and incentive), property taxes, insurances, replacement reserves, leased equipments, and other fixed costs. We assume the total expansion for this business to amount to three hotels at a rate of one hotel/year, with a capital expenditure of Rp150bn/hotel.

Exhibit 20: Gross Profit breakdown per pillar FY13-17F



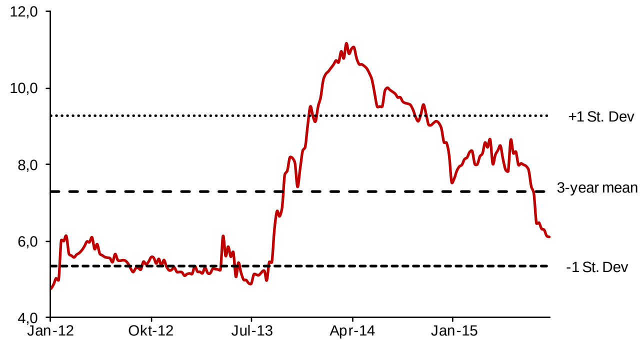
Source: Company, OCBC Sekuritas Research

Despite the hospitality pillar contributing only ~4% of total revenue in the upcoming three years, we like the prospects of its hospitality business; given the high 40% gross margin. If Panorama receives access to a non-interest funding, it could expand its hospitality business and benefits from the 1) synergy of being vertically integrated: locked-in demand through discounted ADR if booked through Panorama's website, or 2) its profitability retaining second highest in gross margin term after both hotel voucher business and airplane ticket.

Valuation

We initiate PANR with a **BUY** and FV of Rp680 based on a P/E valuation. We prefer to use P/E valuation as the stock holds a liquidity risk at an average daily turnover of merely Rp2 bn (US$0.12 mn). Our DCF derived value for the stock is Rp750 (WACC of 9.1% and a terminal growth of 4% p.a). This translates to 11.0x FY17F P/E, which implies a 18% premium to its 1 SD above mean P/E. Therefore we expect the stock to re-rate at most to Rp680, or to 1 SD above mean P/E of 9.3x.

Exhibit 21: P/E Band



Source: Bloomberg, OCBC Sekuritas Research

We find its peers to be relatively more expensive compared to PANR, with an industry average of 17.6-19.0x FY15F P/E. We also see additional upside in the industry as Korea's tourism sector averages at 20.8x-24.2x P/E. As of now, Korea's T&T sector contributes 5.8% of total GDP, compared to Indonesia's 3.2%.

Exhibit 22: Industry P/E

No	Company Name	Company Ticker	Country of Domicile	P/E FY11	FY12	FY13	FY14	FY15F
1	Panorama Sentrawisata	PANR IJ	Indonesia	33,0	20,0	12,9	11,1	10,1
2	Bayu Buana Travel Services	BAYU IJ	Indonesia	7,1	7,1	5,8	8,8	7,9
3	Hana Tour Service	039130 KS	South Korea	16,9	20,6	22,5	24,7	36,6
4	Modetour Network	080160 KS	South Korea	13,7	22,0	17,8	18,2	24,3
5	H.I.S	9603 JP	Japan	8,2	8,3	18,4	18,9	24,2
6	Hoi An Tourist Service	HOT VN	Vietnam	5,2	6,2	9,2	11,0	10,9
	Average (excluding PANR)			10,2	12,9	14,7	16,3	20,8
	Median (excluding PANR)			8,2	8,3	17,8	18,2	24,2
	Selected range of multiples (excluding PANR)						**P/E**	**20,8-24,2**

Source: Bloomberg, OCBC Sekuritas Research

Statement of risk

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.

Company financial highlights

Income statement

Year Ended Dec 31 (Rp bn)	FY12	FY13	FY14	FY15F	FY16F	FY17F
Net sales	1,547	1,694	1,956	2,170	2,450	2,729
Gross profit	267	324	389	480	544	618
Operating profit	74	102	121	181	210	247
Net interest	-118	-126	-142	-122	-118	-131
Others	12	20	30	30	30	30
Income tax expense	-16	-22	-21	-24	-32	-39
Net profit	35	48	59	65	89	107
EBITDA	134	179	207	294	297	333

Balance sheet

Year Ended Dec 31 (Rp bn)	FY12	FY13	FY14	FY15F	FY16F	FY17F
Cash balances	116	166	140	87	98	114
Other current assets	332	325	598	558	625	691
Total current assets	449	491	739	645	723	804
Property, plant, and equipment, net	448	573	531	957	1,140	1,323
Total assets	1,022	1,282	1,670	2,002	2,262	2,527
Total debt	432	555	650	995	1,145	1,290
Current liabilities excluding debt	233	288	483	429	485	538
Total liabilities	731	915	1,223	1,514	1,719	1,918
Total equity	290	367	447	487	543	609

Cash Flow

Year Ended Dec 31 (Rp bn)	FY12	FY13	FY14	FY15F	FY16F	FY17F
Operating profit	74	102	121	181	210	247
Depreciation & amortization	61	77	86	113	87	87
Working cap, taxes, and interest	-69	2	-129	-144	-153	-178
Net cash from operations	65	181	78	149	144	156
Purchase of PP&E	-179	-202	-44	-538	-270	-270
Other investing flows	-61	-94	-162	0	0	0
Investing cash flow	-240	-296	-206	-538	-270	-270
Financing cash flow	162	164	103	336	137	130
Net cash flow	-14	50	-26	-53	-11	-15
Cash at beginning of year	130	116	166	140	87	98
Cash at end of year	116	166	140	87	98	114

Key Ratios

Year Ended Dec 31 (Rp bn)	FY12	FY13	FY14	FY15F	FY16F	FY17F
EBIT margin	5%	6%	6%	8%	9%	9%
Net profit margin	2%	3%	3%	3%	4%	4%
EPS growth	0%	55%	16%	10%	37%	20%
EV/EBITDA (x)	6.9	5.8	5.8	6.6	6.4	6.0
Dividend yield	1%	1%	2%	2%	3%	3%
Interest coverage (x)	1.9	1.9	1.7	1.4	1.7	1.8

Sources: Company, OCBC Sekuritas Estimates

SHAREHOLDING DECLARATION:

The analyst/analysts who wrote this report holds/hold **NIL** shares in the above security.

DISCLAIMER FOR RESEARCH REPORT

RATINGS AND RECOMMENDATIONS:

- OCBC Sekuritas Research’s technical comments and recommendations are short-term and trading oriented.
- OCBC Sekuritas Research’s fundamental views and ratings (Buy, Hold, Sell) are medium-term calls within a 12-month investment horizon.
- As a guide, OCBC Sekuritas Research’s BUY rating indicates a total return in excess of 10% based on the current price; a HOLD rating indicates total returns within +10% and -5%; a SELL rating indicates total returns less than -5%.

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