

| BY DESMOND WONG |

Eugene Park, CEO of Gallant Venture, was in an ebullient mood as he mingled with analysts, investors and reporters at the Nirwana Resort Hotel near the company's Lagoi Bay development on the Indonesian island of Bintan. The guests at the event just over a week ago had mostly arrived from Singapore, taking the 60-minute catamaran ride from the Tanah Merah Ferry Terminal to Bintan. From there, it was just a 15-minute drive to Lagoi Bay, a 1,300ha swathe of land fronted by beaches that has been carefully zoned for resort hotels as well as retail and residential property projects.

For most of the guests from Singapore, Lagoi Bay represents an alternative to Sentosa, which is in the midst of a massive redevelopment programme that includes the addition of hotels, luxury residential property and an integrated resort that will include a casino. Gallant Venture is hoping that land prices of \$50 psf, versus as much as \$1,900 psf on Sentosa Island, will attract investment from property developers and luxury homebuyers looking for a bargain.

To make investors and property buyers from Singapore feel at home in Lagoi Bay, Gallant Venture plans to spend some \$500 million over the next five years to develop infrastructure across Bintan. Says Park: "We want to optimise Bintan for investment, but we need to have Singapore standard infrastructure and safety record."

Gallant Venture is, in fact, in a strong position to do this. Lagoi Bay is only a small portion of the land it owns on Bintan. All in, the company has about 18,200ha of property holdings, equivalent to about one-third the land area of Singapore.

Gallant intends to build a \$100 million airport, situated half an hour to the south of Lagoi Bay by car, in an area called Lobam. Park says: "The objective is not to compete with Changi on long-haul flights, but to cater to visitors from Indonesia and other short-haul flights from the region." The airport will have a 2.3km runway, suitable for smaller, short-haul commercial aircraft like the Boeing 737 or Airbus A320. Park says the intention is to create a "resort-style airport" fringed by palm trees instead of an imposing structure of glass and steel. "You will immediately feel like you are in a holiday environment," he says.

Other improvements planned for the next five years include a new 90mw power plant costing \$150 million, a \$35 million investment in new high-speed ferries, which will reduce the travelling time from Singapore to 40 minutes, from one hour. In addition, \$5 million will be pumped into expanding the ferry terminal on Bintan, tripling its capaci-



Park (left), with Chin: We want to optimise Bintan for investment, but we need to have Singapore standard infrastructure and safety record.

## Gallant Venture models Bintan development on Singapore

Luxury homes, swish amenities and a casino on Indonesia's Bintan island could soon rival Sentosa's. Meanwhile, Gallant Venture is adding a new airport and other infrastructure to keep attracting investors and boost the value of its massive land holdings.

ty to six ferry berths. A further \$150 million will be invested in general infrastructure improvements on the property Gallant Venture owns in the area.

### Master plan for growth

Where is Gallant Venture getting the funds for these projects? The company's main cash flow

comes from the sale of property to developers. The company announced on May 9 that it had chalked up \$45 million in land sales at Lagoi Bay for 1Q2008, in which buyers included Alila Hotels and Resorts group, a boutique hotel developer.

Gallant Venture is also developing residential property at Lagoi Bay in a project called Aranya Lagoi. Some 246 plots measuring 700 to 1,200 sq m each are being sold to homebuyers. The project is near sites earmarked for shopping malls due to open in 2½ years, and a marina the company says will be developed by a Dutch company. Gallant Venture also says it is in talks with Waterbom, an Indonesian company that has developed water parks in Jakarta and Bali, to develop a recreation property project nearby.

All this comes under Gallant Venture's master plan for the area. "Everybody who buys land from us has to sign a land development agreement so that they know what they can and cannot build there," Park says. The aim is to provide developers and investors with sufficient leeway to come up with creative and unique projects that fit in with the overall plan for the area. "[The master plan] will set the tone," says Chin Chow Yoon, vice-president at PT Bintan Resort Cakrawala, a subsidiary of Gallant Venture developing the area. "Investors have to seek our approval for what they want to build or sell. In that sense, we have a greater form of control."

Gallant Venture had initially planned to sell much larger pieces of land to developers, and its master plan provided a much looser development framework. But progress was slow because there weren't many developers with enough financial muscle to take on big projects, Park says. "Now, we have broken it down into bite-sized pieces, like with Lagoi Bay. That allows smaller players to enter as well, and the pieces of land are more easy to digest," he explains.

Still, some of the land sold under the previous development plan is now creating a buzz of excitement about Gallant Venture's property projects on Bintan. Kuala Lumpur-listed Landmarks plans to build a \$4.2 billion integrated resort complete with a casino on a site called Treasure Bay. Gallant Venture sold the land two years ago to a company that was later acquired by Landmarks, says Park. Officials at Gallant Venture say they don't have details of Landmarks' plans. Landmarks itself is now controlled by Malaysia's Genting group, which is also developing an integrated resort on Sentosa Island.

It is unclear whether Landmarks has secured all the necessary approvals to operate a casino on the island (gambling is officially illegal in Indonesia). If it goes ahead, it could prove to be a strong tourist draw and boost land values in the area. However, Park plays down the potential impact of the casino on Gallant Venture. He says investors should fo-



Slated to open its doors in 2½ years, the Lagoi Bay mall area will have retail and dining outlets, as well as boutique hotels





ings in Bintan, how quickly it can realise its value through its development projects. Officials at Gallant Venture say it will all take time, and warn that there will be hiccups along the way.

Analysts at DBS Vickers Securities seem to share that view. "We acknowledge that Gallant Venture will take time to sell its massive land bank of 18,200ha, which represents great execution risk for the company. In addition, slow land sales coming onstream in 2H2007 also exacerbated this risk moving forward," they say in a report this month. But the enor-

mous potential upside of the value of its property makes the risks worthwhile. "We remain positive on the long-term prospects for Gallant Venture based on recent continued land parcel sales signalling investors' interest in Bintan," the report adds.

A major catalyst could be the Landmarks project on Bintan. "We believe that Bintan may see land prices grow in excess of 100% as in Singapore's Sentosa Island, post the Resorts World announcement, given a heightened investor sentiment in the area," says the DBS Vickers report. DBS Vickers current-

ly has a "buy" call on the company, with a 12-month target price of 92 cents, which values the stock at 16.6 times forecast earnings for 2008 and 11.2 times forecast earnings for 2009. That suggests a potential upside of 33% from its current levels.

Park thinks the value of the land his company is sitting on will rise simply because it is currently so low. "Investment costs are almost 1% of what you have in Singapore," he says, with a bemused shrug. "It's higher risk. But, for some people who can make almost 10 times more on their land here, why not?"

cus on the longer-term potential of Bintan in the light of its development plans, instead of betting on the casino getting off the ground. "People should look at [Gallant Venture] as an asset play that takes three to five years to recognise," he says. "The investors who have remained with us have taken their time to understand what we really do, and have stayed the entire time."

#### Capacity to borrow

Gallant Venture's recent earnings performance hasn't been exciting, though. Last year, the company reported a 9.5% decline in revenue to \$234.3 million and a 25.9% drop in earnings to \$15.8 million. Park attributes this to the time it takes for land sales to be completed and insists it will not delay plans to improve the infrastructure on its property.

For one thing, Gallant Venture has a lot of capacity to borrow money, Park says. "What we are hearing from investors is that we are way underleveraged, and that we should have more debt on our balance sheet to move more quickly," he says. Gallant Venture had net debt of \$19.9 million as at end-2007, versus shareholders' funds of \$1.2 billion. With its shares trading at 69 cents, the company has a market value of \$1.7 billion.

The company is hoping to tie up with joint-venture partners by 3Q to develop the proposed airport. But if a suitable partner can't be found, officials at Gallant Venture say it will just build the airport on its own, with technical help from consultants. "We will gear up to fund the project with a mix of bank borrowings and internal cash," says chief financial officer Alvin Choo. "We currently have a \$50 million loan facility and about 1% debt, so we are more than happy to take on another \$200 million."

Gallant Venture plans to have the airport up and running by 2010. Park says several South-east Asian carriers have expressed interest in flying to Bintan and he is exploring the possibility of parking private jets there.

#### Worth the risk?

Gallant Venture is 50.7%-owned by investment vehicles linked to Indonesia's Salim Group. SembCorp Industries holds a 23.9% stake in the company. It came to market in June 2006, running three lines of business. The first is the management of industrial parks on Bintan and Batam, which for FY2007, contributed 24%, or \$56.7 million, to the group's total revenue. Its industrial parks count companies like Ciba Vision, Sanyo, Epson and Panasonic as clients.

The company is also in property development and resorts operations, which include the ferry service it runs to the Bintan area as well as ancillary services like medical care and firefighting. This business raked in \$40.4 million, or 17.24%, of revenue last year. Finally, Gallant Venture also has a utilities arm, which provides potable water, electricity and telecommunications to its resorts and industrial parks across Bintan and Batam. It is by far the biggest money spinner, churning out \$137.2 million, or 58.5%, of its revenue in FY2007.

However, the main focus of analysts and investors is the potential value of its land hold-