

In-line 1Q18 results. PWON successfully booked net profit of IDR 562.9bn (+62.1% YoY, +24.8% QoQ), achieving 24.3%/25.0% of our/consensus FY18 estimates. Revenue increased robustly to IDR 1.6tn (19.5% YoY, +24.4% QoQ), stronger than 1Q17's growth (+10.6% YoY, +14.2% QoQ). Margin wise, gross margin was stable at 57.0%, while operating margin expanded to 49.5% (vs 48.4% in 1Q17) due to operating efficiency. Moreover, the absence of one-off expense in 1Q18 had resulted in net margin normalization which stood at 34.2% (vs 32.8% in 1Q17).

Two well-balanced revenue engines. As a developer with 50:50 portion of recurring and development revenue, both PWON's revenue streams were doing well in 1Q18. Recurring income was maintained strong in 1Q18, posted IDR 828bn of revenue (+17% YoY) and contributed 50% to total revenue. It was supported by Tunjungan Plaza 6 which added 25k sqm of NLA in 3Q17. Moreover, Pakuwon Mall phase 4 is expected to operate at the end of this year adding 12k more of NLA. Therefore, we are optimistic for its recurring income to grow by 12.2% YoY this year. On the other hand, development revenue grew by 16.7% YoY in 1Q18 backed by strong recognition of sales backlog. To add, PWON's pre-sales were recorded at IDR 605bn (-7.5% YoY, 23.2% of FY18 target) in 1Q18, and we expect to reach IDR 2.47tn by the end of 2018 (95% of FY18 target, -1.4% YoY).

Conservative way to preserve sustainability. We do like PWON's current strategy to expand their superblocks rather than to launch new projects in new location. PWON believes that this strategy has less risk, while waiting the market to improve just before launching new significant projects. Consequently, we expect no development will be seen in Daan Mogot and Simatupang land bank this year. However, we are less worried as 1Q18 pre-sales was quite in-line with FY18 target. Despite having smaller land bank compared to other developers, we believe it will be sufficient for more than 10 years of development. Though Pakuwon's Jakarta land bank is only 23.9ha (5.4% from its total land bank), it could contribute 40.4% to its total revenue in 1Q18.

Reiterate BUY call on PWON with FY18 target price at IDR 700, reflecting 50% discount to NAV. PWON is one of our top picks for developer in current market situation. First, it owns undemanding valuation. At current, PWON is trading at 59% discount to NAV and 11.8x forward PE, -0.8SD from its 5 years average PE. Second, it still possess strong recurring income growth which could offset flat pre-sales growth this year. Third, it also owns solid fundamental, reflected by positive operating cash flow and consistency in deleveraging.

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Stock Information

Sector	Property
Bloomberg Ticker	PWON IJ
Market Cap. (IDR tn)	27.5
Share Out./Float (mn)	48,160/14,561
Current Price	IDR 570
52-week Target Price	IDR 700
Upside (%)	22.8%

Share Price Performance

52W High (07/31/17)	725
52W Low (05/09/18)	520
52W Beta	1.08
YTD Change (%)	-16.8%

Relative Valuations

Trailing P/E	13.1x
Forward P/E	14.5x
P/BV	2.5x
EV/EBITDA	9.5x

Highlights (IDR Bn)	2016	2017	2018F	2019F	2020F
Pre-sales	2,277	2,505	2,470	2,511	2,660
growth (%)	-25.6%	10.0%	-1.4%	1.7%	5.9%
Revenue	4,841	5,718	6,403	6,861	7,541
Revenue growth (%)	4.7%	18.1%	12.0%	7.1%	9.9%
Gross profit	2,754	3,364	3,719	3,916	4,378
EBITDA	2,593	3,393	3,489	3,659	4,079
Net profit	1,671	2,106	2,319	2,469	2,858
EPS (IDR)	34.7	43.7	48.2	51.3	59.3
Gross margin	56.9%	58.8%	58.1%	57.1%	58.1%
Net margin	34.5%	36.8%	36.2%	36.0%	37.9%

Income Statement (IDR Bn)	2016	2017	2018F	2019F	2020F
Revenue	4,841	5,718	6,403	6,861	7,541
Cost of revenues	2,088	2,353	2,684	2,944	3,163
Gross profit	2,754	3,364	3,719	3,916	4,378
Operating expenses	(493)	(336)	(628)	(677)	(745)
Operating profit	2,260	3,028	3,091	3,239	3,633
EBITDA	2,593	3,393	3,489	3,659	4,079
Interest expense	(342)	(336)	(309)	(283)	(239)
Interest & investment income	112	139	154	165	181
Other income (expense)	(299)	(525)	(414)	(435)	(469)
Profit before tax	1,732	2,305	2,523	2,686	3,106
Tax	48	(47)	(51)	(55)	(60)
Net profit	1,780	2,258	2,471	2,631	3,045
Minority interest	109	152	152	162	187
Attributable net profit	1,671	2,106	2,319	2,469	2,858
Earnings per share (Rp.)	34.7	43.7	48.2	51.3	59.3

Balance Sheet (IDR Bn)	2016	2017	2018F	2019F	2020F
Cash & equivalents	2,432	3,406	4,085	5,205	5,817
Trade receivables	186	448	512	450	563
Inventories	2,860	3,741	3,698	4,001	4,246
Advances	384	408	597	603	685
Others	265	424	502	474	557
Current assets	6,127	8,428	9,393	10,733	11,868
Fixed assets	1,700	1,682	1,673	1,675	1,685
Investment properties	10,465	10,779	11,198	11,711	12,294
Inventories	1,980	1,959	2,339	2,554	2,715
Other long-term assets	403	511	335	370	431
Total assets	20,674	23,359	24,939	27,044	28,992
Payables	312	505	537	554	635
Short-term debt	769	402	408	695	250
Advances received	2,502	2,809	2,881	3,335	3,588
Others short-term liabilities	1,034	1,197	1,273	1,422	1,547
Total current liabilities	4,618	4,913	5,099	6,006	6,021
Long-term debt	4,471	5,026	4,735	4,015	3,740
Other liabilities	566	628	699	765	830
Total Liabilities	9,654	10,567	10,532	10,785	10,590
Capital stock	1,204	1,204	1,204	1,204	1,204
Additional paid in capital	362	362	362	362	362
Retained earnings	7,109	8,765	10,504	12,356	14,500
Equity attributable to owners	8,684	10,320	12,070	13,922	16,066
Minority interest	2,336	2,472	2,336	2,336	2,336
Shareholder's equity	11,020	12,791	14,406	16,258	18,402

Cash Flow (IDR Bn)	2016	2017	2018F	2019F	2020F
Net profit	1,671	2,106	2,319	2,469	2,858
Depreciation	333	365	398	421	446
Changes in net working capital	395	665	107	(400)	63
Operating cash flow	1,547	1,809	2,669	3,290	3,241
Changes in fixed asset	313	82	95	110	123
Changes in long-term assets	1,136	670	976	1,076	1,136
Changes in long-term liabilities	38	63	70	66	65
Investing cash flow	(1,411)	(689)	(1,001)	(1,120)	(1,194)
Changes in equity	111	116	(125)	-	-
Changes in short-term loans	233	(368)	6	287	(445)
Changes in long-term loans	99	555	(291)	(720)	(275)
Dividend	217	450	580	617	714
Financing cash flow	226	(146)	(990)	(1,050)	(1,435)
Net Cashflow	361	974	678	1,120	613
Beginning of Cash	2,071	2,432	3,406	4,085	5,205
Ending Cash	2,432	3,406	4,085	5,205	5,817

Ratio Analysis (IDR Bn)	2016	2017	2018F	2019F	2020F
Pre-sales growth	-25.6%	10.0%	-1.4%	1.7%	5.9%
Revenue growth	4.7%	18.1%	12.0%	7.1%	9.9%
Net profit growth	32%	26%	10%	6%	16%
Gross profit margin	56.9%	58.8%	58.1%	57.1%	58.1%
Operating margin	46.7%	53.0%	48.3%	47.2%	48.2%
EBITDA margin	53.6%	59.3%	54.5%	53.3%	54.1%
Net margin	34.5%	36.8%	36.2%	36.0%	37.9%
ROA	8.6%	9.7%	9.9%	9.7%	10.5%
ROE	19.2%	20.4%	19.2%	17.7%	17.8%
Interest cover (x)	7.6	10.1	11.3	12.9	17.0
Debt to equity (x)	0.5	0.4	0.4	0.3	0.2
Net debt to equity (x)	0.3	0.2	0.1	(0.0)	(0.1)
Current ratio (x)	1.3	1.7	1.8	1.8	2.0
PER (x)	20.2	16.0	14.5	13.7	11.8
PBV (x)	3.1	2.6	2.3	2.1	1.8

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