

Strong 1H19 result. As of 1H19, PWON revenue stood at IDR 3.5tn (+4% YoY) and net income of IDR 1.4tn (+21% YoY). Revenue formed 51%/50% of our/consensus estimate, while bottom line constructed 50%/52% of our/consensus estimate. Pakuwon's revenue was supported by strong growth in recurring income which grew by 7% YoY, while development revenue merely grew by 1% YoY. Margin wise, GPM was relatively stable as there were no significant changes in revenue mix. Recurring and development revenue construct 51%/49% of total revenue respectively. Below the company's EBIT, positive changes came from lower finance cost (-12% YoY), higher interest income of IDR 145bn (+55% YoY), and gain from forex of IDR 76bn (vs IDR 172bn loss in 1H18) which lead to better NPM (39% in 1H19 vs 33% in 1H18).

Soft 1H19 pre-sales performance. In the opposite of its strong earnings, as of 1H19, Pakuwon Jati only managed to record IDR 711bn pre-sales (-35% YoY) which construct only 32% of PWON's FY19 target of IDR 2.2tn (-12% YoY). This soft pre-sales figure was caused by lack of new project launching as company focuses on selling inventories on its maturing existing project. We remain to see a slow pick up on offices space demand as oversupply condition intact, reflected in take-up ratio of Pakuwon Tower Jakarta and Surabaya that formed 11% and 46% respectively in 1H19. Moving forward to 2H19, PWON plans to launch 3 projects that consist of 2 condominiums in Surabaya and the superblock project located in Bekasi in order to boost its pre-sales performance. However, the exact timing of the launch is bound to market demand itself. If the market demand remains weak, this project launching could be postponed to early 2020, which will expose PWON to fall below its FY19 pre-sales target.

We downgrade our recommendation on PWON to NEUTRAL while lowering our 52-week TP to IDR 700, implying a 50% discount to NAV and 1.8x FY20F P/BV. Despite the strong earnings and healthy balance sheet that Pakuwon Jati posted, we remains cautious on the soft pre-sales achievement in 1H19 and the overall property outlook in 2H19. Be that as it may, upside risk to our call includes successful project launching in 2H19 and stronger than expected property demand recovery.

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Sector	Property
Bloomberg Ticker	PWON IJ
Market Cap. (IDR tn)	34.2
Share Out./Float (mn)	48,160/15,071
Current Price	710
52-week Target Price	700
Upside (%)	-1.4%

Share Price Performance

52W High (06/20/19)	815
52W Low (10/15/18)	432
52W Beta	1.4
YTD Change (%)	14.5%

Relative Valuations

Trailing P/E	12.5x
Forward P/E	11.7x
P/BV	2.0x

Highlights (IDR Bn)	2017	2018	2019E	2020F	2021F
Pre-sales	2,505	2,203	1,980	2,500	2,700
growth (%)	10.0%	-12.1%	-10.1%	26.3%	8.0%
Revenue	5,718	7,081	6,907	7,137	7,248
Revenue growth (%)	18.1%	23.8%	-2.5%	3.3%	1.5%
EBITDA	3,393	3,903	3,790	3,976	4,154
Net Profit	2,106	2,543	2,704	2,882	3,046
EPS (IDR)	44	53	56	60	63
EPS growth (%)	26.0%	20.8%	6.3%	6.6%	5.7%
P/E (x)	16.0	13.3	12.5	11.7	11.1
P/BV (x)	2.6	2.2	2.0	1.8	1.6

Revising up our forecast, while lowering down our NAV estimate.

We adjusted our forecast on PWON's top line and bottom line which up by 9% and 11% respectively from our previous figures as we bake in higher revenue recognition from development. On recurring income, we continue to believe that company will maintain its healthy growth of 7%-8% on the back of high occupancy ratio on its retail space and improving RevPAR on its hotel business. We adjusted our NAV post 1H19 results to IDR 1,406 from IDR 1,670 as we put in our new assumptions on our DCF calculation.

PWON Earnings Forecast Revision

IDR bn	Old		New		Change	
	2019E	2020F	2019E	2020F	2019E	2020F
Revenue	6,348	6,970	6,907	7,137	9%	2%
Gross profit	3,789	4,211	3,969	4,171	5%	-1%
GPM	59.7%	60.4%	57.5%	58.4%		
Operating profit	3,226	3,565	3,371	3,531	4%	-1%
OPM	50.8%	51.1%	48.8%	49.5%		
Profit before tax	2,656	3,021	2,937	3,128	11%	4%
Net profit	2,445	2,783	2,704	2,882	11%	4%
NPM	38.5%	39.9%	39.2%	40.4%		

Source: Company data, Sinarmas Investment Research

PWON 2Q19 Earnings Summary

IDR bn	2Q18	1Q19	2Q19	QoQ	YoY	6M18	6M19	YoY	% DH	% Cons
Revenue	1,730	1,711	1,794	4.8%	3.7%	3,377	3,505	3.8%	51%	50%
Gross profit	1,018	987	1,015	2.9%	-0.3%	1,958	2,002	2.3%		
Operating profit	884	864	865	0.1%	-2.1%	1,699	1,728	1.7%		
Profit before tax	647	866	782	-9.7%	20.9%	1,293	1,648	27.4%		
Net profit	566	721	644	-10.6%	13.7%	1,129	1,365	20.9%	50%	52.4%
Gross margin	58.9%	57.7%	56.6%			58.0%	57.1%			
Operating margin	51.1%	50.5%	48.2%			50.3%	49.3%			
Net profit margin	32.7%	42.1%	35.9%			33.4%	38.9%			

Source: Company data, Sinarmas Investment Research

Income Statement (IDR Bn)	2017	2018	2019E	2020F	2021F
Revenue	5,718	7,081	6,208	7,784	8,222
% growth	18.1%	23.8%	-12.3%	25.4%	5.6%
Cost of revenues	(2,353)	(3,030)	(2,445)	(3,267)	(3,452)
% growth	12.7%	28.8%	-19.3%	33.6%	5.7%
Gross profit	3,364	4,050	3,763	4,517	4,770
% growth	22.2%	20.4%	-7.1%	20.1%	5.6%
Operating expenses	(569)	(591)	(538)	(697)	(709)
% growth	-31.9%	75.9%	-9.1%	29.7%	1.7%
Operating profit	3,028	3,459	3,225	3,820	4,061
% growth	34.0%	14.2%	-6.8%	18.4%	6.3%
EBITDA	3,393	3,903	3,644	4,262	4,530
% growth	30.8%	15.0%	-6.6%	17.0%	6.3%
Net interest	(198)	(36)	(110)	(46)	(16)
Earnings before tax	2,305	2,854	2,722	3,290	3,524
% growth	33.1%	23.8%	-4.6%	20.9%	7.1%
Tax	(47)	(27)	(50)	(62)	(66)
Net income	2,106	2,543	2,508	3,029	3,245
% growth	26.0%	20.8%	-1.4%	20.8%	7.1%
EPS (IDR)	44	53	52	63	67

Balance Sheet (IDR Bn)	2017	2018	2019E	2020F	2021F
Cash & equivalents	3,406	4,460	5,524	6,127	7,333
Trade receivables	448	414	407	581	604
Inventories	3,723	3,555	3,600	4,359	4,522
Others	850	1,044	994	1,306	1,377
Total Current Assets	8,428	9,473	10,526	12,373	13,836
LT Investment	10,907	11,355	11,843	12,330	12,925
Net fixed assets	1,682	1,733	1,777	1,801	1,842
Other LT assets	2,343	2,457	2,562	3,149	3,352
Total Assets	23,359	25,018	26,708	29,653	31,955
Short-term loans	402	647	511	250	250
Payables	603	548	559	781	806
Others	3,908	2,902	3,670	4,693	4,737
Total Current Liabilities	4,913	4,096	4,740	5,724	5,793
Long-term debt	5,026	4,934	4,474	3,999	3,749
Other liabilities	628	676	692	857	906
Total Liabilities	10,567	9,706	9,907	10,580	10,447
Total Equity	12,791	15,312	16,801	19,073	21,507

Source: Company data, Sinarmas Investment Research

Cash Flow (IDR Bn)	2017	2018E	2019F	2020F	2021F
Net Income	2,106	2,543	2,508	3,029	3,245
Depreciation	365	444	419	442	469
Chg in working cap.	665	1,053	(791)	(0)	188
CF from operating	1,809	1,935	3,775	3,471	3,526
Chg in fixed asset	82	149	148	134	157
Chg in LT assets	670	910	966	1,407	1,150
Chg in LT liabilities	63	48	16	164	49
CF from investing	(689)	(1,011)	(1,098)	(1,376)	(1,258)
Chg in equity	450	289	627	757	811
Chg in ST loans	(368)	245	(136)	(261)	0
Chg in LT loans	555	(92)	(460)	(475)	(250)
Dividend	450	289	627	757	811
CF from financing	(146)	130	(1,614)	(1,493)	(1,061)
Net Cashflow	974	1,054	1,064	602	1,206
Beginning of Cash	2,432	3,406	4,460	5,524	6,127
Ending Cash	3,406	4,460	5,524	6,127	7,333

Financial Ratios	2017	2018E	2019F	2020F	2021F
Profitability					
ROA	9.0%	10.2%	9.4%	10.2%	10.2%
ROE	20.4%	20.2%	17.3%	18.1%	16.9%
Gross profit margin	58.8%	57.2%	60.6%	58.0%	58.0%
Operating margin	53.0%	48.9%	51.9%	49.1%	49.4%
Net margin	36.8%	35.9%	40.4%	38.9%	39.5%
Solvency & Liquidity					
Interest cover (x)	10.1	14.3	14.1	18.3	21.3
Debt to equity (x)	0.4	0.4	0.3	0.2	0.2
Net debt to equity (x)	0.2	0.1	(0.0)	(0.1)	(0.2)
Current ratio	1.7	2.3	2.2	2.2	2.4
Quick ratio	1.0	1.4	1.5	1.4	1.6
Valuations					
P/E (x)	16.5	13.6	13.8	11.4	10.7
P/BV (x)	2.7	2.3	2.1	1.8	1.6
Key Assumption					
Pre-sales growth	10.0%	-12.1%	-18.3%	52.8%	-1.8%

Source: Company data, Sinarmas Investment Research

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