Property Sector

Long Term Recovery

NEUTRAL

11 September 2017

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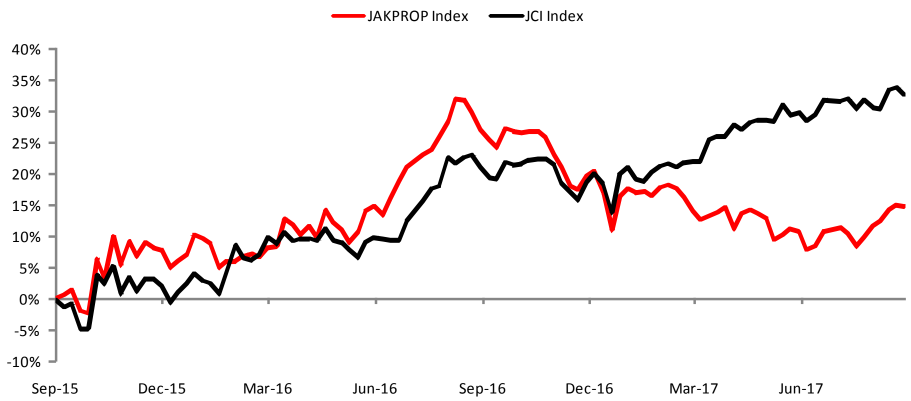
Outlook. Indonesia property sector has underperformed JCI index by 13.5% YTD. Despite this condition, we remain NEUTRAL on the sector as current valuations had already priced-in the weaker than expected demand recovery in 1H17. However, we are optimistic on better 2H17-FY18F result, although we believe recovery will happen in a slow pace. We set our eyes on several key aspects such as steady economic growth, interest rate cut opportunity, stable political situation, supportive regulation environtment, and developers strategies to thrive in current market condition. Nevertheless, in a longer future, we expect government main infrastructure projects to be a significant catalyst for the property sector. Last but not least, Indonesia huge population (4th largest in the world) with the growing middle class economy and rising urbanization trend will naturally create future demand for the sector. And for that reasons, we can see foreign and SOE developers coming in and crowding Indonesia property market.



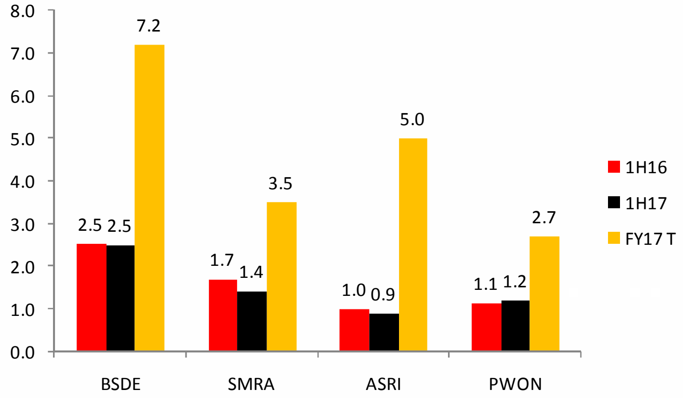
Source: Bloomberg, Sinarmas Investment Research

End users' time. Indonesia Property Expo (IPEX), which held by Bank Tabungan Negara in August, successfully recorded new credit potential totaled to IDR 8.36tn, exceeding the initial target of IDR 5tn. From the sales result, properties below IDR 1.5bn are still the favorite. Hence, we believe that the current market conditions are more suitable for mid-to-low segment. Our market observations see that middle-low segment (landed residential priced less than IDR 1.5bn and high-rise residential prices less than IDR 700bn) is performing better in current condition as it generates higher take-up rate. Overall, we see that BSDE and SMRA have more advantages compared to ASRI and PWON as a result of their exposure to mid-to-low segment. Nevertheless, PWON still manage to record high achievement of pre-sales, with relying on Surabaya projects, while ASRI is a laggard between all.

Investors: the power is still there but tends to hold. There are still certain project launches that ended successfully even in current weak property market. We believe that indicates that buying power are still there, but investors tend to hold. Investors are pickier these days as they are more risk averse amidst the slowing down of the economy. From investors' perspective, we see that current market condition gives less benefit to invest in property, since the price is already high and upside capital gain becomes limited. However, we believe a boom in property sector requires the role of both investors and end users. While current property market is more driven by end users, we are expecting investors to eventually follow as risks are lessen and there are more rooms for capital gain.

1H17 Review. At a glance, the first semester of 2017 was not going as well for Indonesia property sector. Weaker than expected demand recovery, lack of catalysts, issues on property-related regulation, and unstable political condition due to Jakarta governor election had affected consumers' appetite on buying property. As of June 2017, the average pre-sales achievement by developers under our coverage is at 35% of FY17 target. Compared to its peers, PWON has the highest achievement at 44% of FY17 target, followed by SMRA, BSDE, and ASRI with 40%, 35%, and 18% of FY17 targets respectively. Moving forward, with more than double of current pre-sales achievement to catch in the next semester, we expect more property launch in 2H17.

Developer's pre-sales achievement in 1H17



Source: Company, Sinarmas Investment Research

Less effective stimulus. Since 2016, regulations aimed to push property sector have been created but their impacts on the market remained limited . Loan-to-value (LTV) relaxation, lower final tax to property sellers (PPh tariff cut from 5% to 2.5%), and relaxation of foreign property ownership are not significantly enough to boost property sector up. We see that LTV relaxation, which is the most expected one to boost property demand, are seen muted. This is due to several factors: (1) banks still require higher down-payment to minimize risks, which goes against the original intention of LTV relaxation, (2) even if higher LTV is realized eventually, it will lead to higher monthly mortgage payment, which will affect people affordability issue. All in all, we believe LTV relaxation in current low interest environment will benefit secondary market more than the primary market (which also has installment type payment as a preference). The increased demand in secondary market will drive the price up, narrowing price gap between the two markets. Hence, the demand for the primary market will also increase.

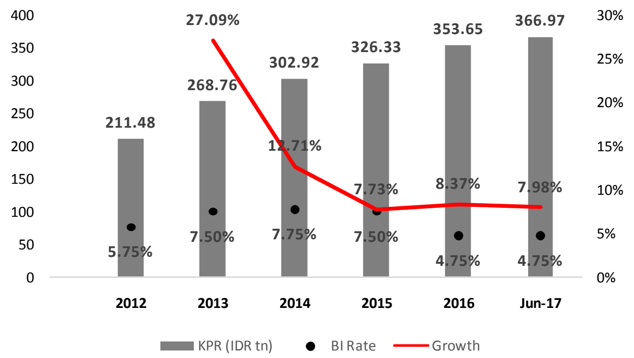
Changes in LTV Regulation

Type	1st Mortgage		2nd Mortgage		3rd Mortgage	
	Previous	Current	Previous	Current	Previous	Current
Landed House						
>70 sqm	80%	85%	70%	85%	60%	75%
22-70 sqm	0%	0%	80%	85%	70%	80%
< 22 sqm	0%	0%	0%	0%	0%	0%
Apartment						
>70 sqm	80%	85%	70%	85%	60%	75%
22-70 sqm	90%	90%	80%	85%	70%	80%
< 22 sqm	0%	0%	0%	0%	0%	0%
Shophouse	0%	0%	80%	85%	70%	80%

Source: Bank Indonesia, Sinarmas Investment Research

Expecting another rate cut in September. With low inflation reading in August (3.82% headline; 2.98% core), we expect Bank Indonesia to cut 7-DRRR by another 25bps to 4.25% in September. Further easing may be needed in order to boost the sluggish economy condition, following last month's 25bps cut to 4.50%. In fact, from January 2016 to July 2017, deposit interest rate decreased by 145bps and credit interest rate decreased by 110bps. Hence, we believe further decrease on credit interest rate will benefit the developers as the cost of debt becomes cheaper, while the decrease in deposit interest rate will push investment in property as deposits are less attractive.

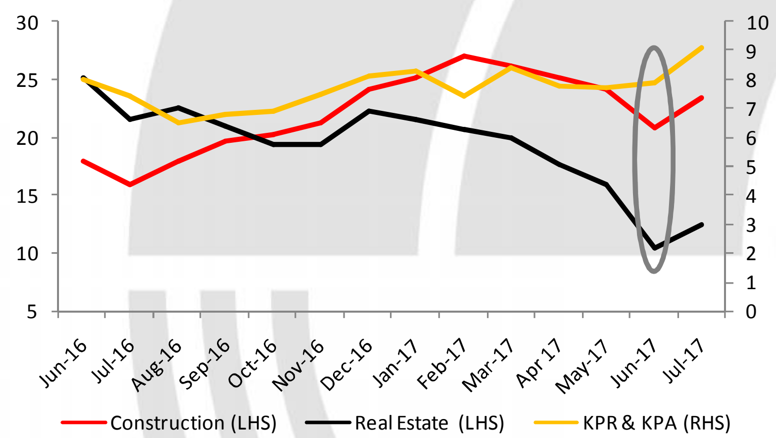
Bank Mortgage Growth



Source: Bank Indonesia, OJK, Sinarmas Investment Research

Low mortgage rate environment and spatial LTV prospect. Since 2016, interest rate was cut seven times from 7.25% to 4.50%. This is then followed by the decrease in mortgage interest rate until current low interest environment. However in 2016, the amount of mortgage only grew by 8.37% YoY (vs. 7.73% in 2015) which showed insignificant increase and weak property market for middle and middle-high segment. Despite low current interest rate environment which supports property sector, we believe that interest rate are neither the main problem nor the main driver for a strong recovery in property sector. This supports our findings where the growth of mortgage in the big banks is dominated by refinancing mortgage and home-equity loans contribution instead of from new property purchase. Lately there are news that the central bank are planning to issue "LTV spatial" regulation, which will determine different LTV ratio per region by it's economic growth and purchasing power. Nonetheless, we believe the regulation will take longer time to apply and will not give as much impact to the real sector since the prior LTV relaxation did not give any significant impact.

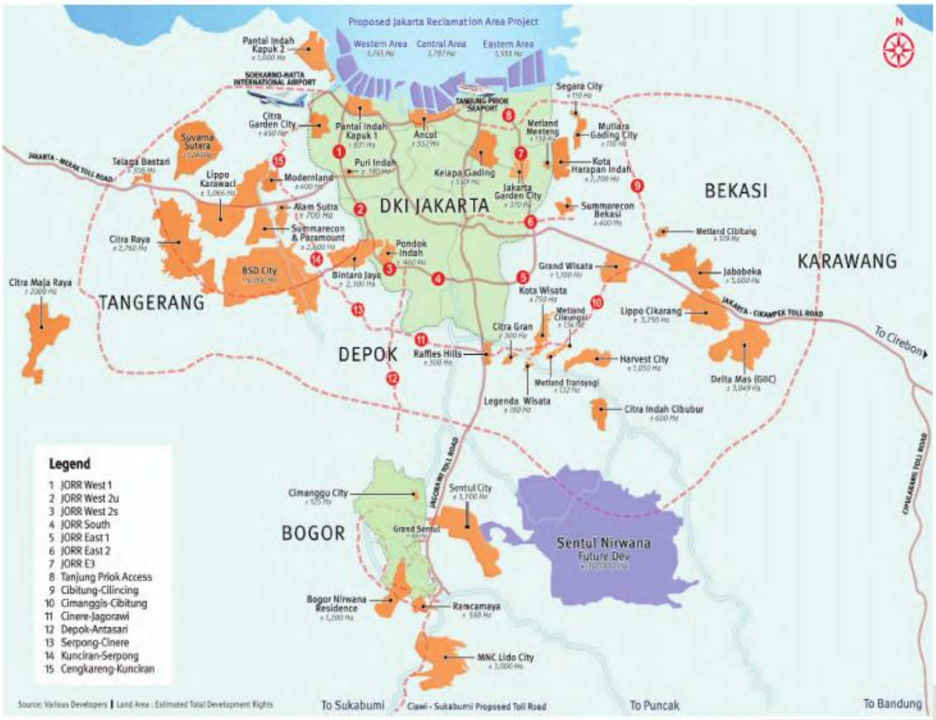
Property Loan Growth (% YoY)



Source: Bank Indonesia, Sinarmas Investment Research

Major Townships in Greater Jakarta with Future Plan of Toll Roads

Major Townships in Greater Jakarta



Source: Knight Frank

What really drives property sector? In our opinion, strong economic growth combined with strong purchasing power are the main catalyst for a booming property market. This is followed by conducive low interest rate, stable political condition, and good property product with its supporting facilities and infrastructure to fuel the future growth of the property value itself. Reflecting to the current condition, Indonesia still managed to maintain it's GDP growth in 2Q17 at 5.1% and is forecasted to grow to 5.3% in 2018 by the World Bank. From infrastructure aspect, the construction progress of the major infrastructure projects are estimated to complete during 2018-2020 which will be the catalyst for property sector and boost market demand during the projects completion, followed by the value appreciation of the property. With low interest rate condition supporting current property market, the only uncertainties come from the unstable political condition. The upcoming 2019 presidential election could cause political tension which is a possible downside risk for the sector that as people tend to choose a "wait and see" attitude. However, we believe there is still room for recovery derived from better economic growth, supporting regulation, rising purchasing power and completion of major infra projects.

Major Infrastructure Project Pipeline

Project	Location	Estimated Completion Year
MRT Jakarta Line 1	Jakarta	2019
MRT Jakarta Line 2	Jakarta	2027
LRT Jakarta	Jakarta	2018
Jakarta-Bandung HSR	Jakarta-Bandung	2020
Part of JORR 2 Toll Road	Greater Jakarta	2019

Source: Kontan, Sinarmas Investment Research

The outskirts of Jakarta has tight competition. With limited land left in Jakarta causing the price to be unaffordable for average people, many of developers are focusing to build its townships in the outer of Jakarta (Bogor, Depok, Tangerang, and Bekasi) to support the housing needs for Jakarta and Greater Jakarta residence. From all directions, Jakarta is surrounded by many major townships and the competition among them are tough. Refused to be left behind by the West side (BSD, Summarecon Serpong, Paramount, Alam Sutera, Suvarna Sutera, Citra Raya) that started to develop first, the North side is coming with PIK 2 development by Agung Sedayu Group while the East side has a brand new megaproject, Meikarta, by Lippo Group. The supplies are abundant, but the demand is limited as majority of developers targeting middle and middle-low segment. To add, Chinese and SOE developers has come to get their share of cake with their development projects. Nevertheless, each of new development area is relying on the infrastructure to support future development of it's facilities and access. Hence, the progress and completion of infrastructure projects are one of the main factor for each developer's success. Yet everything still depends on each buyers perspective and sentiment on the future of the project.

Chinese Developers Project

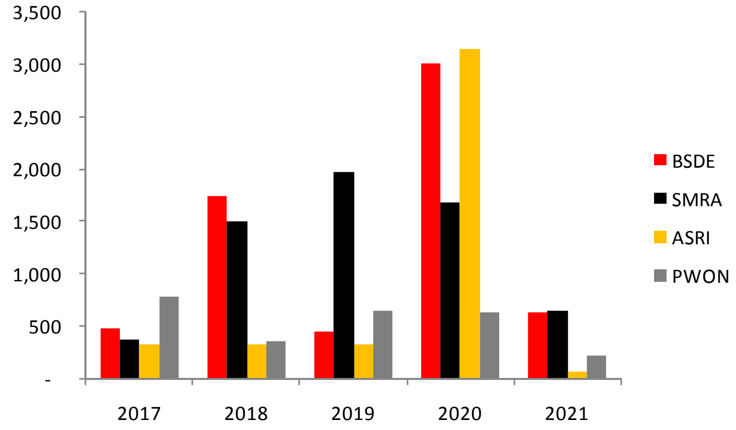
Chinese Developers	Project Name	Location
China Communications Construction Group (CCCG)	Daan Mogot City	Daan Mogot, Jakarta
Country Garden Holdings Co.	Indonesia-Shenzhen Industrial Estate	Cikarang, Bekasi
China Fortune Land Development (CFLD)	Lavon by Swan City	Cikupa, Tangerang
CNQC International Holdings	Polux Technopolis	Karawang, Bekasi
China Trimph International Engineering Co. Ltd	Lumina City	Tangerang
Beijing Wuzhou Investment Group	JKT Living Star	Pasar Rebo, Jakarta
Hong Kong Land	Nava Park	BSD City, Tangerang
Kingland Group	Kingland Avenue	Alam Sutera, Tangerang

Source: Company, Sinarmas Investment Research

Today's help could become a future risk. Lately, we see that China developers are entering Indonesia property sector with two ways to come; (1) buying land from local developers to build fully owned development project, (2) partnering local developers with shared revenue option. For now, we see that both ways are benefiting local developers as it improves their balance sheet and boost their sales performance. However, we believe that this occurrence may lead to a downside risk in the future as the new projects will increase the supply of properties and tighten the competition with local developers' nearby projects. Other than that, higher minority interest from JV company could lower developers' future revenue potential.

Developers debt schedule. With weak property market trend impacting the developers' cash flow management, weak balance sheet are the internal risk to developers in our opinion. Usually, there are two actions taken by developers to generate cash flow faster: raising more external financing (loans, bonds, etc) and selling assets like land bank. As a result, some developers have high debt to equity ratio, ranging from 31% to 109% in FY16. The average finance cost to revenue is standing at 9.1%. Looking further into their debt, SMRA, then followed by BSDE, has high debt that will mature very soon. Still, we are more concerned on SMRA as they have tight cash level on 5-years average at IDR 1.97tn and are facing three consecutive debt maturity, amounting to more than IDR 5tn, from 2018 to 2020 . We are less concerned with other developers since they have stronger balance sheet, higher margin, and longer debt maturity profile. However, we are expecting for further decrease in interest expense after 25bps rate cut by Bank Indonesia which will give a positive impact to developers income.

Developers' Debt Maturity Profile (IDR Bn)

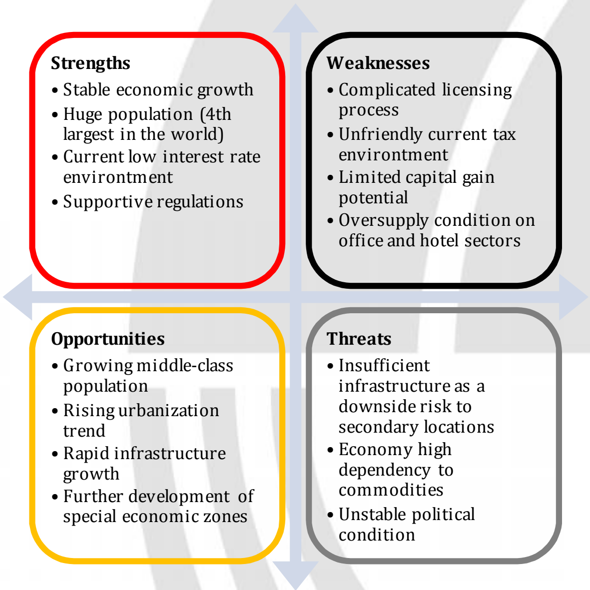


Source: Company, Sinarmas Investment Research

Summary. Despite the weak property market that has yet to show a strong recovery signal, we are optimistic on better 2H17-FY18F result, although recovery will happen in a slow pace. We believe the property market will still be driven by the end-users while investors are more cautious with their investment. We are looking forward to further 25bps rate cut to 4.25% by Bank Indonesia in September that could give positive impact in the future, but LTV-Spatial regulation could take longer time to apply and will not give as much impact to the real sector. Moreover, tight competition between developers is one of the main downside risks to the sector, while growing infrastructure give opportunities for land price to grow. Hence, we are taking NEUTRAL stance to the sector with BSDE (BUY, TP: IDR 2,400) as our top pick, followed by ASRI (ADD, TP: IDR 390), PWON (ADD, TP: 730), and SMRA (TP: IDR 1,070). However, we reiterate our NEUTRAL call on SMRA due to its high leverage effect and low margin.

Ticker	Current Price	Rating	Target Price (IDR)	Upside	Discount to NAV
BSDE	1,840	BUY	2,400	30.4%	50%
ASRI	346	ADD	390	12.7%	63%
PWON	650	ADD	730	12.3%	40%
SMRA	975	NEUTRAL	1,070	9.7%	70%

SWOT Analysis of Property Sector



Source: Sinarmas Investment Research

PT Bumi Serpong Damai Tbk.

The Robust

BUY (TP: 2,400)

11 September 2017

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We reiterate our BUY recommendation on PT Bumi Serpong Damai Tbk (BSDE) with 52-week target price of IDR 2,400. The target price reflects 50% discount to NAV and implies 14.4x P/E in FY18F. BSD still manages to thrive in current weak property market with unexpected result in first half of 2017. While the company's upside risks include huge land bank, diversified product segmentation, growing investment properties, and the prospect of infra projects, the downside risks can be caused by capital intensive projects and delayed sector recovery.

Strong 1H17 results. BSD revenue jumped by 47% YoY to IDR 4,2tn and net income increased by 145% YoY to IDR 2tn with 48% net margin. For 2Q17 only, BSD top line is booked at IDR 2,460bn (+40% QoQ, +39% YoY) followed by net income recorded at IDR 1,277bn (+74% QoQ, +127% YoY). Breaking the revenue down, it was mainly driven by residential (+39% YoY) and land sales (+128% YoY) with equal contribution of 36% to total revenue. Residential sales main contributor remains as BSD City, followed by Grand Wisata Bekasi, Kota Wisata Cibubur, Taman Banjar Wijaya, Legenda Wisata and Grand City Balikpapan. This year, a significant jump on land sales is caused by 15ha part of 19ha sales to PT BSD Diamond Development (JV company with Mistusbishi) with total transactions of IDR 1,4tn. BSD who have 40% ownership in JV company booked IDR 683bn of revenue in 2Q17. Moreover, BSD also showed improvement in operating margin recorded at 46% (vs 39% in 1H16) due to efficiencies and increasing land sales contribution.

Steady financial position. In 1H17, BSD's cash position increased by 51% YoY to 5.4tn mainly due to incremental in cash collection from customers. As a result, it brings better net gearing of 12% (vs 17% at FY16). However, total liabilities increased by 13% from FY16 position, raising debt to equity to 32% (vs. 30% at FY16). Hence, we believe BSD's balance sheet is still strong despite high bond maturity next year, amounting to IDR 1.75tn. Strong cash position and future land sales potentials could bring more room for BSD to expand.

What's next in 2H17. With 6M17 marketing sales reaching 35% of FY17 target at IDR 2.5tn, BSD still needs to achieve another 65% of their FY17 pre-sales target (IDR 4.8tn) by the end of this year. To achieve the target, the company plans to book commercial land sales worth of IDR 1.5tn in 2H17 (21% of FY17 presales target). The management remains strongly optimistic to obtain the rest of IDR 3.3tn from new project launches. Amarine Phase 2 @ The Mozia will be the next project launch by BSD, then followed by Southgate Condominium and other projects. Amarine Phase 2 is scheduled to launch in September with IDR 180bn potential marketing sales.

Financial Highlights	2015	2016	2017E	2018E	2019E
Net Revenue (IDR Bn)	6,210	6,522	7,776	8,235	8,564
% of growth		5%	19%	6%	4%
Gross Profit	4,638	4,681	5,671	6,006	6,238
Net Profit (IDR Bn)	2,139	1,796	3,071	3,209	3,249
% of growth		-16%	71%	4%	1%
Gross Margin (%)	75%	72%	73%	73%	73%
Net Margin (%)	34%	28%	39%	39%	38%
Return on Equity (%)	11%	9%	13%	12%	11%
Return on Assets (%)	6%	5%	7%	7%	6%
Earnings per share (Rp.)	112	93	160	167	169

Source: Sinarmas Investment Research

Stock Information	
Sector	Property
Bloomberg Ticker	BSDE IJ
Market Cap. (IDR tn)	35.41
Share Out./Float (mn)	19,247/7,495
Current Price	IDR 1,840
52-week Target Price	IDR 2,400
Upside (%)	30.4%

Share Price Performance	
52W High (10/04/16)	2,260
52W Low (12/23/16)	1,550
52W Beta	1.73
YTD Change (%)	4.8%

Relative Valuations	
Trailing P/E	11.9x
Forward P/E	13.3x
P/BV	1.57x
EV/EBITDA	11.7x

Biggest land bank. Then what? Keeping in mind, BSD has the biggest land bank among all developers with 4.800 ha where half of it located at BSD City, Tangerang and the rest spread across Indonesia. As BSD City Phase II is at near completion stage, we believe that BSD will stay focus in developing their massive land banks for BSD City Phase III (2450ha). Considering Jakarta's almost-unaffordable landed house prices, the outskirts area such as Tangerang will be consumer's next choice in purchasing a residence. In that case, we believe that BSD City, the biggest township development in the area, will naturally be demanded in the future. Notably, BSD low acquisition cost of land in BSD area (±IDR 350.000) will maintain high gross profit margin in landed residential development which is recorded at 71,5% average for the past 4 years. Furthermore, although it may take up to 20 years to fully develop BSD City, the company had already planned and prepared its long-term development after its completion. For that reason, BSD has already started to acquire more land banks in several cities such as Surabaya, Manado, Samarinda and Palembang where the economic activity are growing rapidly.

Recurring revenue target. BSD revenue was mainly driven by development sales (81%) and recurring income (19%) in FY2016. BSD City alone is still a major contributor, amounting to 70%, of BSD total pre-sales annualy; and this number should not be changing too much in the forseable future. In recurring revenue wise, BSD is targeting to achieve 25% reccuring income to total revenue for the sake of future stability. New investment properties added in 1H17 are Q-Big Mall and GOP 9 in BSD City, as well as GS Retail in Legenda Wisata. Recently, Room Inc. Hotel in Semarang has been added to BSD investment properties list while GOP 1 office is still under construction and will be added to maintain recurring income portion. Moreover, we notice that BSD keeps on adding their investment to Plaza Indonesia Realty (PLIN); their latest ownership position of 38.27% makes BSD the biggest shareholder of Plaza Indonesia. Although we are still unclear about the company's purpose in acquiring big portion of PLIN's stocks, this investment is still in line with corporate target to increase reccurring income portion to total revenue.

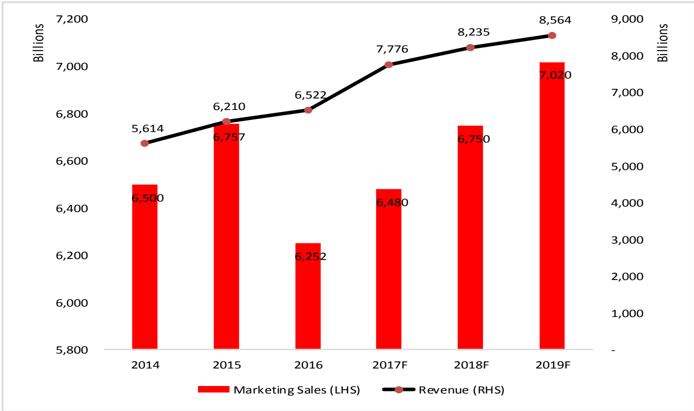
Future development prospect. As accessbility is one of key catalyst to an area development, on-going toll road projects in Banten province will give future advantage to the area. Some of these projects (Serpong-Balaraja tollroad, Kunciran-Serpong tollroad and Serpong-Cinere tollroad) had even begun their land acquisition and construction progress. We expect the operation of these toll road in the future will benefit BSD area with more traffic volume coming from Greater Jakarta. Moreover, the first 10km of the Serpong-Balaraja tollroad project are passing through BSD land, so there is a potential land sales to PT Trans Bumi Serbaraja (Bumi Serpong Damai, Kompas Gramedia, and Astratel Nusantara consortium) which will contribute revenue back to BSD.

Thriving in current market condition. We do like BSD with it's diversified product segmentation from high to mid segment product as we believe that mid to low segment are performing better than high segment in current market condition. Most of BSD's products, priced at less than IDR 2bn, reflect the company's strategy to adapt to the current market condition with high mortgage user customers who are benefited from a low interest environtment. However, BSD exposure in capital intensive project such as toll road concessions and investment properties could be a burden to BSD's cash flow in the future. Nonetheless, these investments could improve future recurring income portion of BSD's total revenue. Most importantly, an increase accessibility to its area would also make a jump in BSD land value in the future. Going forward, we expect collaboration strategy through joint venture that will become a solution to a faster development in the area and decrease capital needs for future development. We also believe that there will be more plotted land sales in upcoming years, this is mainly to establish facilities and accessibility that will attract more investors to the developed area.

P/E Band

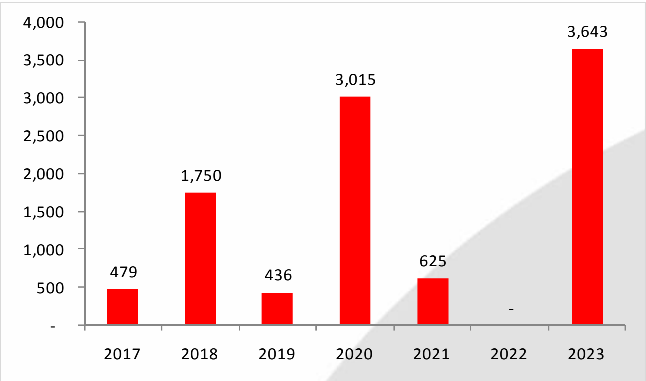
Source: Bloomberg, Sinarmas Investment Research

Marketing Sales and Revenue (IDR Bn)



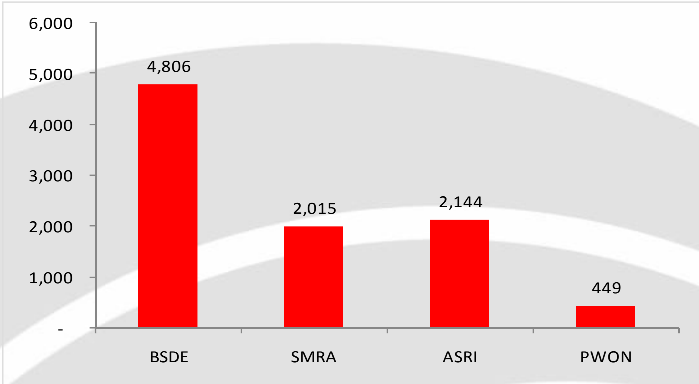
Source: Company, Sinarmas Investment Research

Maturity Profile (IDR Bn)



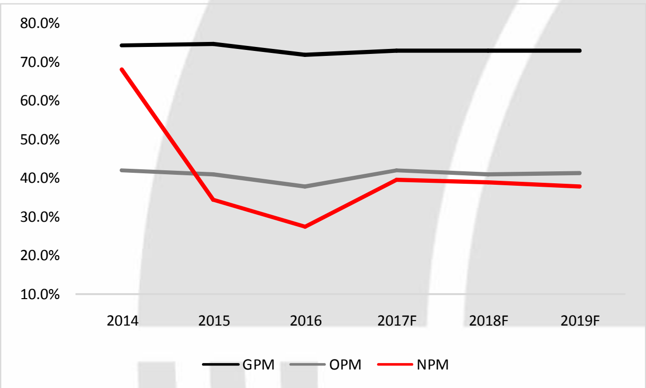
Source: Company, Sinarmas Investment Research

Developer's Land Bank (ha)



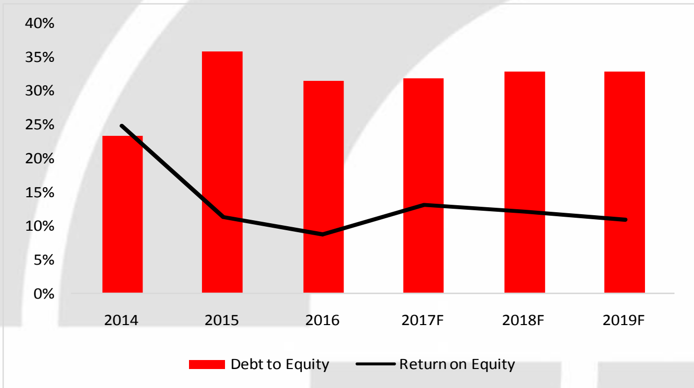
Source: Company, Sinarmas Investment Research

Margin



Source: Company, Sinarmas Investment Research

Leverage and ROE



Source: Company, Sinarmas Investment Research

Income Statement (in IDR Bn)	2015	2016	2017E	2018E	2019E
Revenue	**6,210**	**6,522**	**7,776**	**8,235**	**8,564**
Cost of Goods Sold	(1,572)	(1,840)	(2,105)	(2,229)	(2,327)
Gross Profit	**4,638**	**4,681**	**5,671**	**6,006**	**6,238**
Operating Expenses	(2,091)	(2,205)	(2,412)	(2,621)	(2,695)
Operating Profit	**2,547**	**2,476**	**3,259**	**3,386**	**3,542**
Interest & Investment Income	251	222	389	412	428
Interest and other financial charges	(575)	(613)	(631)	(669)	(724)
Other Income (Expenses)	91	(262)	140	110	58
Share in net income of Assctd Co and JV	48	241	174	244	223
Profit Before Tax	**2,362**	**2,065**	**3,330**	**3,483**	**3,528**
Tax Expenses	(11)	(28)	(28)	(33)	(35)
Non Controlling Interest	(212)	(241)	(231)	(242)	(245)
Net income	**2,139**	**1,796**	**3,071**	**3,209**	**3,249**
Earnings per share (Rp.)	**112**	**93**	**160**	**167**	**169**

Balance Sheet (in IDR Bn)	2015	2016	2017E	2018E	2019E
Assets					
Current Assets					
Cash And Cash Equivalents	6,109	3,569	3,997	4,583	5,213
Trade Receivables	142	401	323	371	400
Inventories	6,548	7,441	8,327	8,988	9,359
Other Current Assets	3,991	4,931	6,145	7,769	9,798
Total Current Assets	16,790	16,341	18,792	21,712	24,770
Investment in Shares	5,414	5,863	6,039	6,220	6,407
Fixed Assets - net	803	823	1,107	1,163	1,204
Investment Properties - net	3,278	4,001	4,563	5,262	5,530
Land for Development	8,594	10,076	10,580	11,109	11,664
Other Non-current Assets	1,143	1,187	1,224	1,264	1,306
Total Assets	**36,022**	**38,292**	**42,305**	**46,730**	**50,881**
Liabilities					
Current Liabilities					
Trade Payables	317	261	329	354	361
Short Term Loans	2,183	1,262	1,233	1,233	1,233
Sales Advance	3,285	3,663	3,549	3,760	3,938
Other Current Liabilities	363	381	513	514	529
Total Current Liabilities	6,146	5,566	5,624	5,861	6,061
Long-term Loans	6,316	6,855	7,879	9,144	10,185
Sales Advance	1,255	1,298	1,534	1,643	1,701
Other Non-current Liabilities	208	220	220	220	220
Total Liabilities	**13,925**	**13,939**	**15,257**	**16,867**	**18,168**
Equity					
Shareholder's Equity	8,122	8,168	8,169	8,169	8,169
Retained Earnings	10,728	12,412	15,338	18,394	21,489
Minority Interest	3,247	3,772	3,541	3,300	3,055
Total Liabilities & Equity	**36,022**	**38,292**	**42,305**	**46,730**	**50,881**

Cash Flow (IDR Bn)	2015	2016	2017E	2018E	2019E
Net Income	2,139	1,796	3,071	3,209	3,249
Depreciation	196	225	68	171	80
Change in Net Working Capital	(2,149)	(1,751)	(1,936)	(2,097)	(2,227)
Cash from Operating	**186**	**270**	**1,203**	**1,282**	**1,102**
Change in Fixed Asset	(307)	(142)	(200)	(105)	(75)
Change in Long Term Assets	(2,083)	(2,801)	(1,429)	(1,571)	(1,099)
Change in Long Term Liabilities	190	55	236	108	58
Cash from Investing	**(2,200)**	**(2,888)**	**(1,394)**	**(1,567)**	**(1,116)**
Change in Share Capital and APIC	1,653	12	-	-	-
Change in Short Term Loans/Bonds	530	(921)	(29)	-	-
Change in Long Term Loans/Bonds	3,256	539	1,024	1,265	1,042
Change in difference from NCI	158	563	(231)	(242)	(245)
Dividend	293	111	145	152	154
Change in Others Equity	(1)	(3)	1	-	-
Cash from Financing	**5,303**	**78**	**619**	**871**	**643**
Beginning of Cash	**2,820**	**6,109**	**3,569**	**3,997**	**4,583**
Additional Cash	**3,289**	**(2,540)**	**428**	**586**	**629**
Ending Cash	**6,109**	**3,569**	**3,997**	**4,583**	**5,213**

Ratios	2015	2016	2017E	2018E	2019E
Growth					
Revenue (%)	11%	5%	19%	6%	4%
Operating profit (%)	8%	-3%	32%	4%	5%
Net profit (%)	-41%	-13%	62%	4%	1%
Valuation					
P/E (x)	16.0	18.8	15.0	14.4	14.2
P/BV (x)	1.6	1.4	1.3	1.2	1.1
Profitability					
ROE	11%	9%	13%	12%	11%
ROA	6%	5%	7%	7%	6%
Gross margin	75%	72%	73%	73%	73%
Operating margin	41%	38%	42%	41%	41%
Net margin	34%	28%	39%	39%	38%
Liquidity					
Current Ratio (x)	2.73	2.94	3.34	3.70	4.09
Quick Ratio (x)	1.67	1.60	1.86	2.17	2.54
Cash Ratio (x)	0.99	0.64	0.71	0.78	0.86
Solvency					
D/E (x)	0.4	0.3	0.3	0.3	0.3
Interest cover (x)	4.4	4.0	5.2	5.1	4.9

PT Summarecon Agung Tbk.

Keep Holding On

NEUTRAL (TP: IDR 1,070)

11 September 2017

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We reiterate our NEUTRAL recommendation on PT Summarecon Agung Tbk (SMRA) with 52-week target price of IDR 1,070. The target price represents 70% discount to NAV and implies 23.4x P/E ratio in FY18F. Although company's top line and bottom line improved compared to last year result, Summarecon is still shadowed by weak pre-sales performance, resulting in their pre-sales target cut. Company's high exposure to debt with high interest cost plus high minority interest are the main reasons of company's low net margin. Besides, a successful launch in Bandung and Karawang gave a glimpse of hope on a better 2H17 market; yet, it is limited on a few property products that have strategic location and high value for customer.

The up and down of 1H17 Results. In first semester of 1H17, there was up and down in SMRA results. In 1Q17, SMRA reported a net profit of IDR 72bn (+154% YoY, -72% QoQ) with revenue recorded at IDR 1.230bn (+17% YoY, -31% QoQ). But in 2Q17, the company booked a net loss of IDR 23bn (-132% QoQ) with revenue of IDR 1.455bn (+14.5% YoY, +18.3% QoQ). Following last year pattern, second quarter is weak due to product-mix that consist of higher high-rise residential sales which generate a lower margin, added with a high interest cost from high leverage and high minority interest. All in all, SMRA did improve in 1H17 compared to last year, revenues gained 15,8% YoY with profit increased by 99% YoY to IDR 48,8bn. However, we are concerned on the company's net margin which only recorded at 1.8%.

High exposure to debt and interest cost. Summarecon total debt has been increasing for more than 5x since 2011 to IDR 7,4tn in FY16, representing 91% gearing ratio with 8,5% finance cost to total debt. Moving to 1H17, it's total debt increased 5% to IDR 7,8tn which represented 95% gearing. With all company's bonds maturing during 2018-2020 respectively with total amount up to IDR 2.5tn, we expect company to add their debt in the near future since they have unused credit facility up to IDR 700bn. However, after talking with the management, we found out that Summarecon planned to maintain their gearing ratio at 90% in the near future.

What's next for 2H17. The company had achieved 8M17 marketing sales of IDR 1.84tn, this target completed 53% of revised FY17 pre-sales target at IDR 3.5tn. In order to achieve another IDR 2tn of pre-sales shortage, for the next four months, Summarecon plans to hold five more project launching, with the first being the Burgundy Residence at Orchard 2 Residential, Bekasi. It offers 391 units (66 sqm-104 sqm) cluster house, costing from IDR 1,1bn-1,9bn. For other development area, Summarecon plans to launch residential cluster at Serpong and Karawang. In Bandung, the company plans to launch both commercial and residential projects.

Financial Highlights	2015	2016	2017E	2018E	2019E
Net Revenue (IDR Bn)	5,624	5,398	5,237	5,515	5,990
% of growth		-4%	-3%	5%	9%
Gross Profit	2,907	2,598	2,470	2,625	2,827
Net Profit (IDR Bn)	855	312	278	330	381
% of growth		-64%	-11%	19%	15%
Gross Margin (%)	52%	48%	47%	48%	47%
Net Margin (%)	15%	6%	5%	6%	6%
Return on Equity (%)	14%	5%	4%	5%	5%
Return on Assets (%)	5%	1%	1%	2%	2%
Earnings per share (Rp.)	**59**	**22**	**39**	**46**	**52**

Source: Sinarmas Investment Research

Stock Information

Sector	Property
Bloomberg Ticker	SMRA IJ
Market Cap. (IDR tn)	14.07
Share Out./Float (mn)	14,427/9,786
Current Price	IDR 975
52-week Target Price	IDR 1,070
Upside (%)	9.7%

Share Price Performance

52W High (10/04/16)	1,795
52W Low (09/06/17)	970
52W Beta	2.12
YTD Change (%)	-26.4%

Relative Valuations

Trailing P/E	41.8x
Forward P/E	41.7x
P/BV	2.3x
EV/EBITDA	12.7x

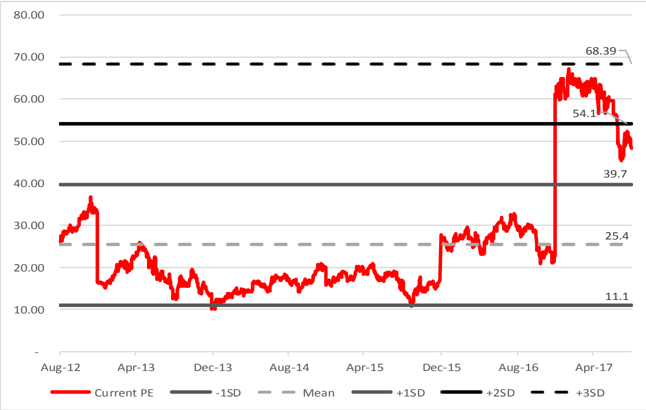
Lowered expectation on market. At the beginning of this year, Summarecon targeted their FY17 pre-sales target at IDR 4.5tn, a 50% increase from FY16 pre-sales achievement. As management felt that this number is slightly far-fetched, Summarecon revised their FY17 pre-sales target to IDR 3,5tn (-22%). Looking at their revised pre-sales breakdown, Kelapa Gading, Serpong, and Bandung were given a cut in by -40%, -39%, and -25%. Bekasi is the only location that experiences an increase in pre-sales target by +27% whereas Karawang's target remains unchanged. After these revisions, management is optimistic to achieve the revised target this year.

Good take-up rate from latest project launch. Summarecon latest project launch was another success story after Magna Commercial shophouse in Bandung was completely sold in May. In mid August, a new shophouse in Karawang named Sapphire Commercial is 90% sold, adding IDR 150bn to their marketing sales achievement. Looking at this, we see that the buying power of Summarecon's customer is still strong, yet it is limited to certain property in prime area with good location advantage and high value. We believe a strong pre -sales achievement would be the key to gain advantage for future development as it become Summarecon's revenue.

Recovery in progress. Tracing to a few years back, Summarecon has been experiencing a significant decrease in net margin since 2015. NIM was recorded at 15,2% (-37% YoY) for FY15 and 5,8% for FY16 (-62% YoY). We also notice that the reasons behind the downfall on their net margin are: first, a significant jump on high-rise contribution to pre-sales in 2014 and 2015 (61% and 62% respectively vs. 4% in 2013); second, a 108% jump on finance cost from 2014 to 2016; third, non-controlling interest gain a 237% increase from 14,4% in 2014 to 48,5% in 2016. However, we are positive on Summarecon's decision to change their product mix strategy, i.e. to build more landed residential than high -rise, that we believe will result in margin recovery and faster revenue recognition. Thus, although it will take time until margin are normalized, we expect that a higher margin could give extra strength for company's growth.

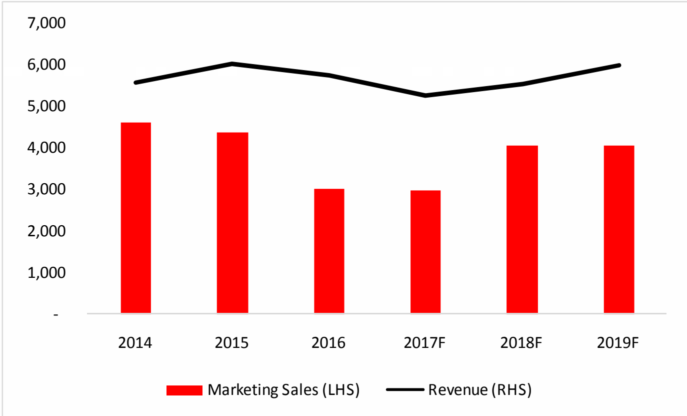
2018 Investment Pipeline. Based on Summarecon non-land capital investment breakdown, there are three hotel projects and one commercial project that were planned to begin construction next year. The hotel projects consist of Harris Hotel Serpong, Harris Hotel Bandung and Holiday Inn Yogyakarta. The one commercial project, that we believe will have a good impact for the development area, is the construction of Summarecon Mal Bandung, approximately completed in 2020. As we view that Summarecon strategy in developing commercial (retail mall and shophouses) before the hotels are the key to succeed in developing the area, we are expecting Summarecon Bandung to grow rapidly, thus giving more contribution to company's revenue stream in the future.

P/E Band



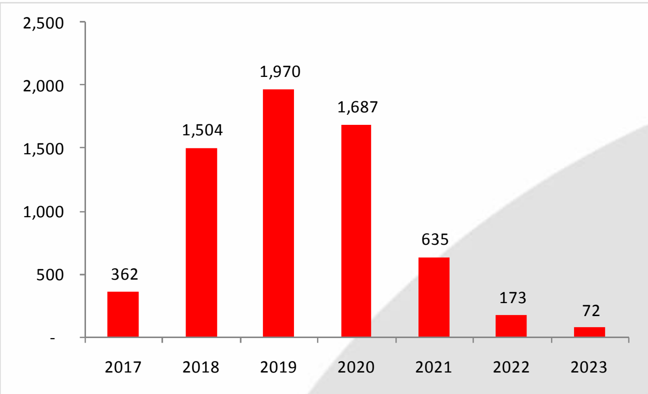
Source: Bloomberg, Sinarmas Investment Research

Marketing Sales (IDR Bn)



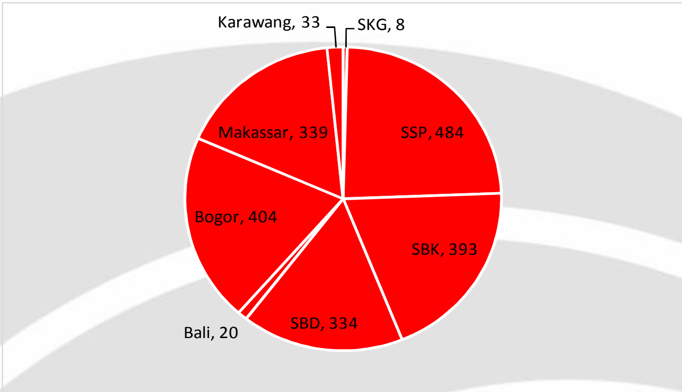
Source: Company, Sinarmas Investment Research

Debt Maturity Profile (IDR Bn)



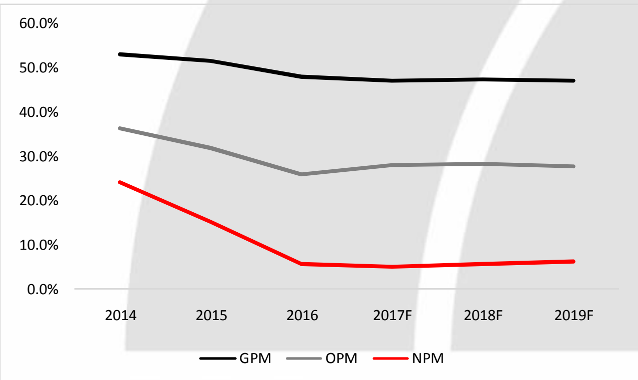
Source: Company, Sinarmas Investment Research

Land Bank Location (ha)



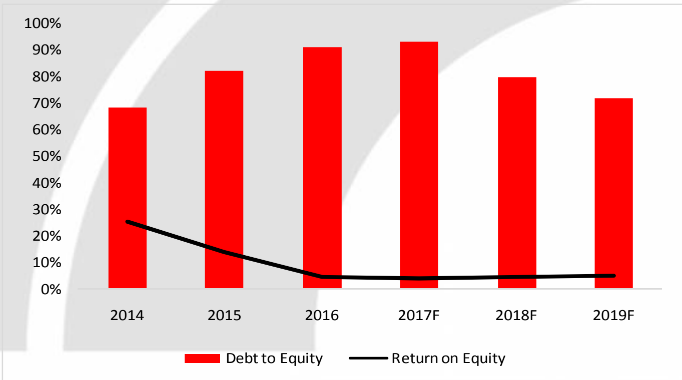
Source: Company, Sinarmas Investment Research

Margin



Source: Company, Sinarmas Investment Research

Leverage and ROE



Source: Company, Sinarmas Investment Research

Income Statement (in IDR Bn)	2015	2016	2017E	2018E	2019E
Revenue	**5,624**	**5,398**	**5,237**	**5,515**	**5,990**
Cost of Goods Sold	(2,717)	(2,800)	(2,767)	(2,890)	(3,163)
Gross Profit	**2,907**	**2,598**	**2,470**	**2,625**	**2,827**
Operating Expenses	(1,115)	(1,188)	(997)	(1,062)	(1,151)
Operating Profit	**1,791**	**1,410**	**1,473**	**1,563**	**1,676**
Finance Income (Expenses)	(409)	(532)	(616)	(601)	(606)
Profit Before Tax	1,382	878	857	963	1,070
Tax Expenses	(318)	(272)	(290)	(302)	(322)
Non Controling Interest	209	293	289	330	366
Net income	**855**	**312**	**278**	**330**	**381**
Earnings per share (Rp.)	**59**	**22**	**39**	**46**	**52**

Balance Sheet (in IDR Bn)	2015	2016	2017E	2018E	2019E
Assets					
Current Assets					
Cash And Cash Equivalents	1,504	2,076	2,860	1,885	1,321
Trade Receivables	146	539	319	375	425
Inventories	4,925	5,531	4,718	5,173	5,631
Other Current Assets	715	552	456	474	502
Total Current Assets	**7,290**	**8,699**	**8,352**	**7,908**	**7,879**
Fixed Assets - net	420	451	512	587	645
Investment Properties - net	4,312	4,487	4,711	4,947	5,194
Land for Development	5,737	6,158	6,724	7,343	8,018
Other Non-current Assets	999	1,016	960	988	1,034
Total Assets	**18,758**	**20,810**	**21,260**	**21,772**	**22,770**
Liabilities					
Current Liabilities					
Trade Payables	63	58	65	65	70
Short Term Loans	983	1,402	1,793	2,000	2,167
Accrued Expense	1,697	1,515	1,219	1,548	1,600
DP Received & Security Deposits	1,078	553	537	565	614
Other Current Liabilities	588	689	615	673	727
Total Current Liabilities	4,410	4,217	4,228	4,850	5,178
Long-term Loans	5,214	6,024	6,163	5,309	4,989
DP Received & Security Deposits	1,389	2,209	2,143	2,257	2,452
Other Non-current Liabilities	216	194	182	181	183
Total Liabilities	**11,229**	**12,645**	**12,717**	**12,597**	**12,801**
Equity					
Shareholder's Equity	1,467	1,467	1,467	1,467	1,467
Retained Earnings	4,545	4,776	4,981	5,225	5,507
Minority Interest	1,517	1,923	2,095	2,482	2,995
Total Liabilities & Equity	**18,758**	**20,810**	**21,260**	**21,772**	**22,770**

Cash Flow (IDR Bn)	2015	2016	2017E	2018E	2019E
Net Income	855	312	278	330	381
Depreciation	222	266	115	110	146
Deferred Tax Assets	1	(6)	2	0	0
Change in Net Working Capital	1,464	1,448	(751)	115	375
Cash from Operating	**(388)**	**(865)**	**1,142**	**324**	**152**
Change in Fixed Asset	(136)	(126)	(124)	(129)	(146)
Change in Long Term Assets	(1,536)	(788)	(785)	(937)	(1,027)
Change in Long Term Liabilities	(281)	799	(78)	113	196
Cash from Investing	**(1,953)**	**(116)**	**(987)**	**(953)**	**(976)**
Change in Share Capital and APIC	-	-	-	-	-
Change in Short Term Loans/Bonds	477	419	391	207	167
Change in Long Term Loans/Bonds	1,338	810	138	(854)	(320)
Change in difference from NCI	524	405	172	387	513
Dividend	(266)	(81)	(73)	(86)	(99)
Cash from Financing	**2,073**	**1,553**	**629**	**(346)**	**260**
Beginning of Cash	**1,771**	**1,504**	**2,076**	**2,860**	**1,885**
Additional Cash	**(267)**	**573**	**784**	**(974)**	**(565)**
Ending Cash	**1,504**	**2,076**	**2,860**	**1,885**	**1,321**

Ratios	2015	2016	2017E	2018E	2019E
Growth					
Revenue (%)	-2.3%	-4.0%	-3.0%	5.3%	8.6%
Operating profit (%)	-14.5%	-21.3%	4.5%	6.1%	7.2%
Net profit (%)	-34.2%	-43.1%	-6.2%	16.3%	13.2%
Profitability					
ROE	14.2%	5.0%	4.3%	4.9%	5.5%
ROA	4.6%	1.5%	1.3%	1.5%	1.7%
Gross margin	51.7%	48.1%	47.2%	47.6%	47.2%
Operating margin	31.9%	26.1%	28.1%	28.3%	28.0%
Net margin	15.2%	5.8%	5.3%	6.0%	6.4%
Liquidity					
Current Ratio (x)	1.65	2.06	1.98	1.63	1.52
Quick Ratio (x)	0.54	0.75	0.86	0.56	0.43
Cash Ratio (x)	0.34	0.49	0.68	0.39	0.26
Solvency					
D/E (x)	0.82	0.91	0.93	0.80	0.72
Interest cover (x)	3.71	2.23	2.06	2.25	2.34

PT Alam Sutera Realty Tbk.

Right in Time

ADD (TP: IDR 390)

11 September 2017

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We re-initiate our ADD rating on PT Alam Sutera Realty Tbk (ASRI) with 52-week target price of IDR 390. The price target reflects 63% discount to NAV and implies 8.1x P/E ratio in FY18F. With Alam Sutera holding up CFLD five years investment commitment for Pasar Kemis land that will contribute up to IDR 800bn yearly, we are positive for the company's prospect in the near future despite the current slow take-up rate on company's project. While unexpected large sales of its inventory and future prospect of its strategic land bank could be the upside risk to our call, the downside risk could come from missed pre-sales target, limited development area, longer development of new project and its debt that depends on USD/IDR rate.

1H17 results that glowed in the dark. For the first semester of 2017, Alam Sutera Realty's top and bottom line rose by 31% YoY to IDR 1,7tn and IDR 710bn respectively. Breaking it down, only revenue from land lots jumped +56% YoY to IDR 931bn, contributing to more than half of total revenue in 1H17. Revenue from apartment that comes out at IDR 120bn in 1Q17 also adding to the company's revenue. However, revenue streams from housing, hospitality, and tourism decreased by 10%, 2% and 10% respectively. In 2Q17 alone, Alam Sutera's revenue grew 40% QoQ, aided by the revenue recognition of CFLD land sales last year. As a result, land lots sales rocketed 6,75x from 1Q17 to IDR 825bn, but housing sales decreased 82% QoQ. Looking at this situation, we saw that the company are not performing as well, if we exclude the CFLD land sales.

Decreasing debt. In 1H17, ASRI had decreased its debt to equity to 97% from previously 109% in FY16. Net gearing also improved to 83% from 92% in FY16. Furthermore, in the next three years, management is targeting to achieve 80% gearing ratio. We believe that with secured revenue stream from CFLD sales, ASRI's gearing will be able to improve in the future.

What to expect in 2H17. ASRI has reported 7M17 pre-sales achievement amounted at IDR 1tn or 20% of their FY17 pre-sales target amounted to IDR 5tn. With only five months left to the end of 2017, management is still optimisic with current 2017 pre-sales plans to catch up another IDR 4tn shortfall. This includes: (1) IDR 1tn land lot sales with CFLD as part of yearly commitment, (2) IDR 2,2tn from sale of The Tower office, (3) IDR 300bn from sale of The Prominence office tower, (4) IDR 700bn residential sales from Alam Sutera township, (5) IDR 500bn residential sales from Pasar Kemis, (6) IDR 300bn from sale of Paddington and Kota Ayodhya apartments. Besides that, ASRI is also planning to launch two new project to add 2H17 project pipeline.

Financial Highlights	2015	2016	2017E	2018E	2019E
Net Revenue (IDR Mn)	2,784	2,716	3,052	3,138	3,406
% of growth		-2%	12%	3%	9%
Gross Profit	2,056	1,465	1,760	1,854	2,014
Net Profit (IDR Mn)	597	509	901	939	1,037
% of growth		-15%	77%	4%	10%
Gross Margin (%)	74%	54%	58%	59%	59%
Net Margin (%)	21%	19%	30%	30%	30%
Return on Equity (%)	9%	7%	11%	11%	10%
Return on Assets (%)	3%	3%	4%	4%	4%
Earnings per share (Rp.)	30	26	46	48	53

Source: Sinarmas Investment Research

Stock Information	
Sector	Property
Bloomberg Ticker	ASRI IJ
Market Cap. (IDR tn)	6.8
Share Out./Float (mn)	19,650/11,025
Current Price	IDR 346
52-week Target Price	IDR 390
Upside (%)	12.7%

Share Price Performance	
52W High (09/08/16)	498
52W Low (07/25/17)	302
52W Beta	1.47
YTD Change (%)	-1.7%

Relative Valuations	
Trailing P/E	10.3x
Forward P/E	8.1x
P/BV	0.9x
EV/EBITDA	8.4x

Vitamin boost that helps. Last year, China Fortune Land Development (CFLD), one of the largest property developer in China who is expertise in developing industrial cities, had bought its first land bank in Pasar Kemis to develop their very first development project in Indonesia. The transaction with Alam Sutera, amounting to IDR 1.471bn in Dec 2016, was partly recognized in 2Q17. Most importantly, CFLD has committed up to USD 300mn worth of investment for 500ha land located at Pasar Kemis. The expected duration for the investment is 5 years, with 50-70ha execution per years. In rough estimate, Alam Sutera will receive around USD 30mn or IDR 800bn per annum from this CFLD commitment. In short, we believe ASRI has secured their new source of revenue stream for the next couple of years, which will help the company to thrive in current weak property market. However, it has become heavily dependable on CFLD investment commitment and their performance in Pasar Kemis, which is competing with Alam Sutera itself.

Next strategy for development. Currently, ASRI has two major townships in development. The first is Alam Sutera township with 154ha land bank left for commercial purpose (Phase 2) and 262ha land bank in north Serpong for township expansion (Phase 3). The second one is Suvarna Sutra township which is located at Pasar Kemis with total 2.600ha of developer license. Until 1H16, 1.562ha of land in Pasar Kemis had already been acquired. What is left to acquire now is the remaining 1.000ha. As township business model needs a vast land bank and a lot of capital to acquire, we expect ASRI to form JVs for Pasar Kemis and Serpong township projects. This is done to lessen the capital needed and thus guarantees a faster growth to the development area.

Toll road effects. Two toll roads projects are passing through ASRI land bank, i.e. the Kunciran-Serpong toll road in Serpong and the Semanan-Balaraja toll road in Pasar Kemis. As a result, we expect ASRI to sell their land to Jasa Marga (JSMR) and gain revenue from Serpong land sales. Back in 2016, ASRI had announced their interest on Semanan-Balaraja which split the Suvarna Sutera township in half. To keep up, the company comes up with two plan: first, to take part in the consortium with land contribution; second, to just sell the land to a third party. However, the company preference remains as the first over the latter. Beside the opportunity of gaining revenue from both land sales or making it part of the toll road project, the operation of these future toll road will benefit both of ASRI townships as they will gain more traffic and give more accessibility to the area.

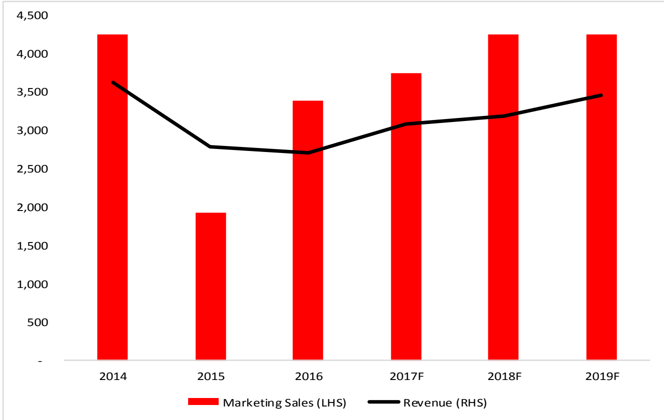
Plans for recurring income. In line with the management plan to keep increasing recurring income portion to total revenue, they still expect that there will be a significant increase in 2018. The increase will be supported by tenant restructuring in Mall @ Alam Sutera and the completion of Garuda Wisnu Kencana statue which will attract more visitor to GWK cultural park in Bali. Furthermore, Wisma Argo Manunggal has a potential for redevelopment to a 40-60 storey grade A office although the redevelopment will likely not happen in the near future. Also, Decathlon will be opening their first 8.000 sqm store in Indonesia on 2H17. Currently, ASRI has 14% recurring income contribution to total revenue which increased more than 4x since 2011.

The big estimation. Based on our conversation with the management, they expect sales from CFLD will occur in third quarter of 2017. It is continued with sales from The Tower office that may be closed in 4Q17 which currently have two potential buyers in negotiation stage. If the expectation is true, with total of IDR 3,2tn realization or 64% of FY17 pre-sales target, ASRI will gain more power to improve their financial position and income statements in the near future.

P/E Band

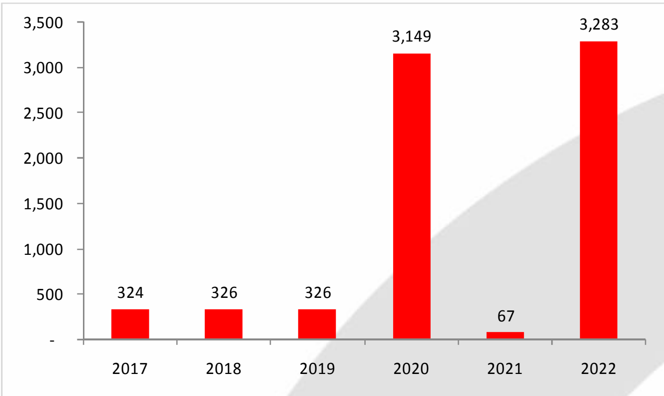
Source: Bloomberg, Sinarmas Investment Research

Marketing Sales and Revenue



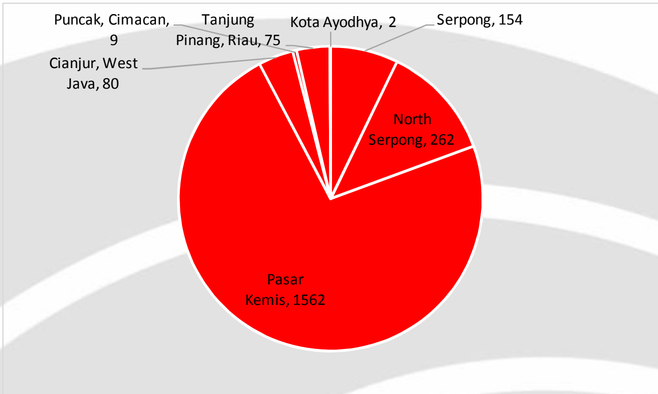
Source: Company, Sinarmas Investment Research

Debt Maturity Profile (IDR Bn)



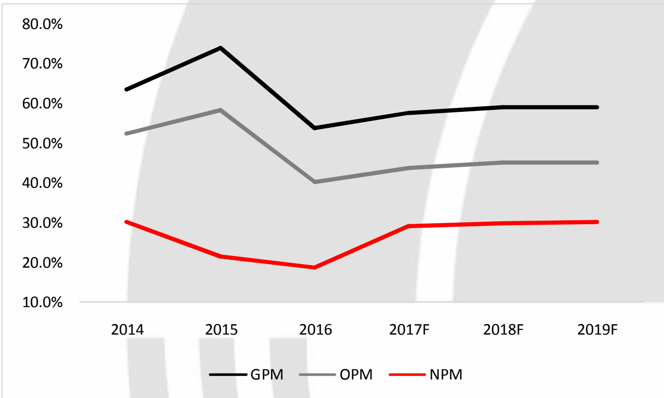
Source: Company, Sinarmas Investment Research

Land Bank Location (ha)



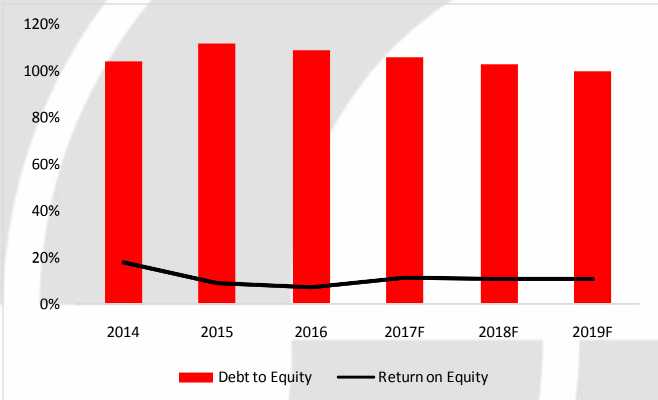
Source: Company, Sinarmas Investment Research

Margin



Source: Company, Sinarmas Investment Research

Leverage and ROE



Source: Company, Sinarmas Investment Research

Income Statement (in IDR Mn)	2015	2016	2017E	2018E	2019E
Revenue	**2,784**	**2,716**	**3,087**	**3,180**	**3,455**
Cost of Goods Sold	(728)	(1,251)	(1,310)	(1,305)	(1,415)
Gross Profit	**2,056**	**1,465**	**1,777**	**1,875**	**2,040**
Operating Expenses	(428)	(368)	(424)	(444)	(477)
Operating Profit	**1,628**	**1,096**	**1,353**	**1,431**	**1,562**
Other Income (Expenses)	(869)	(505)	(284)	(315)	(328)
Profit Before Tax	**759**	**591**	**1,068**	**1,117**	**1,234**
Tax Expenses	(75)	(81)	(160)	(167)	(185)
Non Controlling Interest	88	1	3	3	3
Net income	**597**	**509**	**906**	**946**	**1,046**
Earnings per share (Rp.)	30	26	46	48	53

Balance Sheet (in IDR Mn)	2015	2016	2017E	2018E	2019E
Assets					
Current Assets					
Cash And Cash Equivalents	938	1,436	2,539	3,084	3,656
Trade Receivables	120	178	163	176	194
Inventories	1,156	1,208	1,246	1,334	1,445
Other Current Assets	485	260	426	419	434
Total Current Assets	2,699	3,082	4,374	5,012	5,730
Inventories	4,394	4,782	4,741	5,146	5,577
Fixed Assets - net	1,097	1,149	1,194	1,399	1,559
Investment Properties - net	1,042	1,008	1,060	1,102	1,181
Land for Development	8,481	9,170	9,628	10,110	10,615
Other Non-current Assets	996	996	1,088	1,156	1,234
Total Assets	**18,710**	**20,186**	**22,086**	**23,925**	**25,896**
Liabilities					
Current Liabilities					
Trade Payables	1,033	348	364	363	393
Short Term Loans	77	323	147	213	272
Sales Advance	1,847	2,012	1,970	2,166	2,372
Other Current Liabilities	795	752	976	1,066	1,080
Total Current Liabilities	3,752	3,434	3,457	3,808	4,116
Long-term Loans	7,291	7,511	8,580	9,319	10,090
Sales Advance	949	670	898	931	956
Other Non-current Liabilities	116	1,383	1,056	820	644
Total Liabilities	**12,107**	**12,998**	**13,991**	**14,878**	**15,806**
Equity					
Shareholder's Equity	2,393	2,502	2,491	2,481	2,480
Retained Earnings	4,061	4,580	5,486	6,432	7,478
Minority Interest	148	105	117	134	132
Total Liabilities & Equity	**18,710**	**20,186**	**22,086**	**23,925**	**25,896**

Cash Flow (IDR Bn)	2015	2016	2017E	2018E	2019E
Net Income	597	509	906	946	1,046
Depreciation	78	81	69	75	69
Change in Net Working Capital	(1,119)	396	55	(185)	(88)
Cash from Operating	**1,793**	**194**	**919**	**1,207**	**1,203**
Change in Fixed Asset	182	96	74	252	194
Change in Long Term Assets	2,171	1,077	602	1,025	1,128
Change in Long Term Liabilities	(79)	988	(99)	(203)	(151)
Cash from Investing	**(2,432)**	**(186)**	**(775)**	**(1,480)**	**(1,473)**
Change in Share Capital and APIC	(39)	84	-	-	-
Change in Short Term Loans/Bonds	77	245	(175)	66	58
Change in Long Term Loans/Bonds	684	221	1,069	739	771
Change in difference from NCI	(191)	(18)	1	7	(4)
Dividend	135	(10)	-	-	-
Cash from Financing	**396**	**543**	**894**	**812**	**825**
Beginning of Cash	**881**	**638**	**1,189**	**2,228**	**2,766**
Additional Cash	**(242)**	**551**	**1,038**	**539**	**555**
Ending Cash	**638**	**1,189**	**2,228**	**2,766**	**3,321**

Ratios	2015	2016	2017E	2018E	2019E
Growth					
Revenue (%)	-23.3%	-2.4%	13.7%	3.0%	8.6%
Operating profit (%)	-14.7%	-32.6%	23.4%	5.8%	9.1%
Net profit (%)	-41.9%	-25.4%	78.0%	4.5%	10.5%
Profitability					
ROE	9.2%	7.2%	11.4%	10.6%	10.5%
ROA	3.2%	2.5%	4.1%	4.0%	4.0%
Gross margin	73.9%	53.9%	57.6%	59.0%	59.0%
Operating margin	58.5%	40.4%	43.8%	45.0%	45.2%
Net margin	21.4%	18.7%	29.3%	29.8%	30.3%
Liquidity					
Current Ratio (x)	0.72	0.90	1.27	1.32	1.39
Quick Ratio (x)	0.41	0.55	0.90	0.97	1.04
Cash Ratio (x)	0.17	0.35	0.64	0.73	0.81
Solvency					
D/E (x)	1.12	1.09	1.06	1.03	1.00
Interest cover (x)	10.24	4.86	5.67	5.67	5.96

PT Pakuwon Jati Tbk.

Against the Odds

ADD (TP: IDR 730)

11 September 2017

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We reiterate our ADD recommendation on PT Pakuwon Jati Tbk (PWON) with 52-week target price of IDR 730. The price target reflects 40% discount to NAV and implies 16x P/E ratio in FY18F. Despite the current weak property market condition, Pakuwon with half of its revenue secured from recurring income surprisingly achieved high pre-sales achievement. The management strategy is to focus on expanding retail mall NLA, high-rise residential and offices project in existing superblock location at Surabaya and Jakarta. In contrarian, the downside risk might be caused by limited land bank and new pipeline project in new location.

Stable 1H result. PWON successfully booked a revenue of IDR 2,95tn (+21% YoY) and recorded +1% YoY growth for it's bottom line to IDR 901bn. Analyzing the income further, we can see that rental and service grew only 11% YoY while sale of condominium and offices jumped 81% YoY, followed by hotel revenues that gained 49% YoY, sale of land and building that decreased by 44% YoY and other operating revenues that grew 21% YoY. This result depicts that, since a few years back, the company has been focusing on their condo and office developments rather than their landed residential. During 2Q17 alone, PWON booked IDR 1,57tn of revenue (32% YoY, 14% QoQ), boosted by increasing sale of condo and offices by 36% QoQ. Gross margin remains stable at 57% despite the low margin of high high-rise residential sales. However, there are one-off expenses of bond payable redemption and loss on derivative financial instrument amounted to IDR 198bn.

Biggest recurring with highest pre-sales achievement. Surprisingly, Pakuwon, who has the biggest recurring income compared to other developers in our coverage, is the highest achiever of marketing sales target in terms of percentage to FY17 target. Until July 2017, Pakuwon has achieved IDR 1.37tn or 50,7% of its FY17 target, which is better than its peers. Majority of the marketing sales is contributed by the condominium sales (77.6%), followed by residential (21.7%) and offices contributed the rest. Geographical wise, almost four fifths of the marketing sales is contributed from Surabaya while the rest is from Jakarta. Against the odds, Pakuwon did well in Surabaya and Jakarta by maintaining its segmentation that target mid to high segment when the others try to target the mid to low segment.

Prefer the safe way. Although Pakuwon had acquired two land banks in Jakarta, located at TB Simatupang and Daan Mogot, the management preferred to focus on it's existing superblocks that are only located in two major cities in Indonesia which are Jakarta and Surabaya. The reasoning behind the company's strategy is to create more value from existing development pipeline that has less risk than to build a completely new project pipeline. Furthermore, we expect Pakuwon to develop TB Simatupang by building 2 office towers, 2 condotels and 3 apartments.

Financial Highlights	2015	2016	2017E	2018E	2019E
Net Revenue (IDR Mn)	4,625	4,841	6,014	6,501	6,972
% of growth		5%	24%	8%	7%
Gross Profit	2,669	2,754	3,422	3,671	3,971
Net Profit (IDR Mn)	1,262	1,671	2,197	2,336	2,556
% of growth		32%	32%	6%	9%
Gross Margin (%)	58%	57%	57%	56%	57%
Net Margin (%)	27%	35%	37%	36%	37%
Return on Equity (%)	17%	19%	21%	18%	17%
Return on Assets (%)	7%	8%	9%	9%	9%
Earnings per share (Rp.)	26	35	46	49	53

Source: Sinarmas Investment Research

Stock Information	
Sector	Property
Bloomberg Ticker	PWON IJ
Market Cap. (IDR tn)	31.3
Share Out./Float (mn)	48,160/14,561
Current Price	IDR 650
52-week Target Price	IDR 730
Upside (%)	12.3%

Share Price Performance	
52W High (10/24/16)	765
52W Low (12/23/16)	535
52W Beta	1.54
YTD Change (%)	15%

Relative Valuations	
Trailing P/E	18.7x
Forward P/E	16.4x
P/BV	3.3x
EV/EBITDA	12.8x

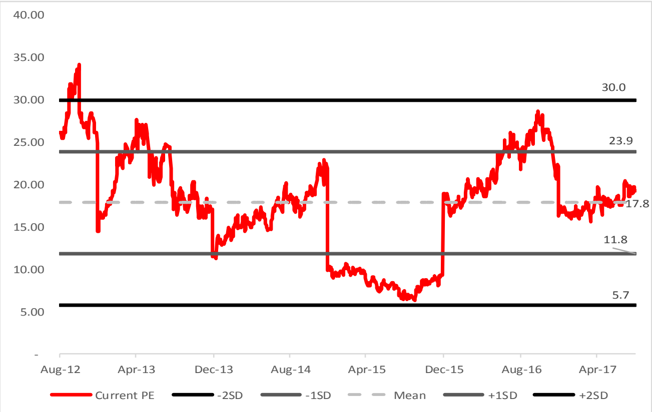
Growing recurring income. As a developer with largest retail space in portfolio, Pakuwon had enjoyed stable revenue from it's recurring income that mostly is contributed by retail malls with average occupancy rate of more than 90%. We expect a 7.6% CAGR in recurring income between 2017-2020 from investment properties, amounting to IDR 3,84bn. The expansion of Pakuwon existing mall (Tunjungan Plaza Phase 6 and Pakuwon Mall Phase 4), offices (Kota Kasablanka Tower C, Gandaria Tower B, Tunjungan City Phase 6) and Pakuwon Mall Hotel are the drivers for company's recurring income growth. Nevertheless, an additional of 74,000 sqm retail mall NLA by the end of 2017 are in-line with management projection of retail mall net leaseable area growth by 9% CAGR in 2020.

Less woried balance sheet and cash flow. In 1H17 position, Pakuwon had 46.2% debt to equity ratio with total debt position at IDR 4,93 tn. At a glance, the company had reduced their debt to equity ratio as 45% during 2011-2017 period and we believe the trend will continue unless there is a big capex in sight. Recently, company had refinanced their USD 200mn of 7.125% senior unsecured note due in 2019 with USD 250mn of 5% due to 2024 that giving lower interest benefit. Nevertheless, Pakuwon also having rating upgrade from Moody's to Ba2 stable outlook in July this year that could give future lower interest cost of future debt. In highlight, Pakuwon has succesfully maintained their operating cash flow with positive result since the past 5 years. This shows a stable and strong income that has been able to cover up their operating expense, which is also better than the inconsistent patterns of its peers.

Why another city? Pakuwon had 449ha of land bank distributed in three locations: Jakarta, Bekasi and Surabaya. However, Jakarta and Bekasi only contribute 6% from total company's land bank. On the other hand, Grand Pakuwon Towship and Pakuwon City township contribute 86% while the rest comes from other land bank near existing project. Although Pakuwon believe that the current land bank size is enough for another 10 years, the company is not planning to acquire land bank outside the two big cities: Jakarta and Surabaya. All in all, we are a bit concerned about company's limited land bank that is located in only two big cities as it gives both advantage and disadvantege in it's own way. Finally, we believe company's limited land bank and new project pipeline at new area are the downside risk for company because the uncertainty given due to higher risk.

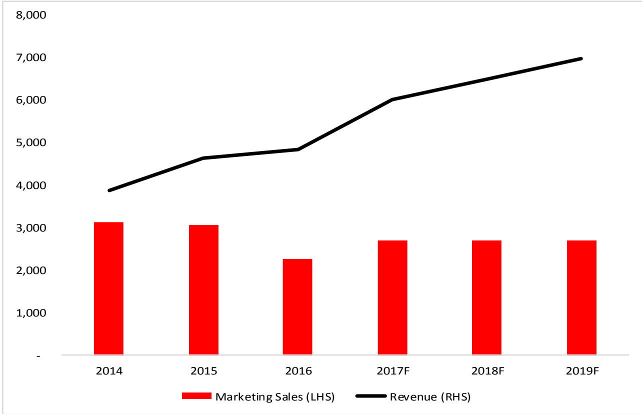
Less exposed landed residential projects. While Pakuwon earned their reputation from its thriving superblock, their township development with landed residentials are less exposed. Currently, the company has two townships located in west and east of Surabaya, named Pakuwon City (233ha) and Grand Pakuwon (152ha). With both townships still focusing on residential and commercial development, the management current strategy for landed-residential is to launch it cluster by cluster. This is done to minimize the risk of having big inventories in hand. According to 2Q17 BI survey, residential property prices growth in Surabaya showed that small houses are growing better (11.9% YoY) than middle houses (6.2% YoY) and big houses (5.3% YoY). However, we do not see Pakuwon targeting the middle-low class segment as the company is still aiming middle to middle-high class segment with medium to big type house. From our point of view, we believe that Pakuwon township will be the second revenue generator for the company after high-rise residentials and office sales, as it will contribute up to one third of total company's development revenue.

P/E Band



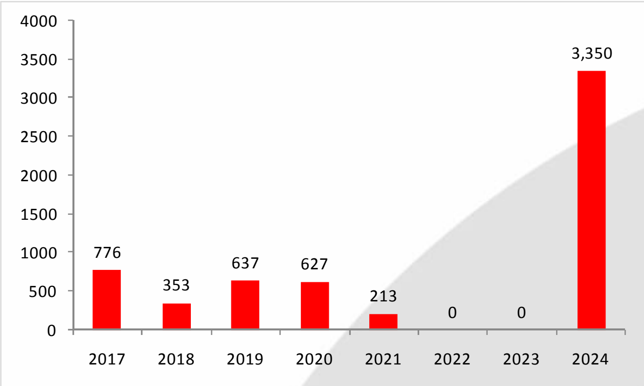
Source: Bloomberg, Sinarmas Investment Research

Marketing Sales and Revenue



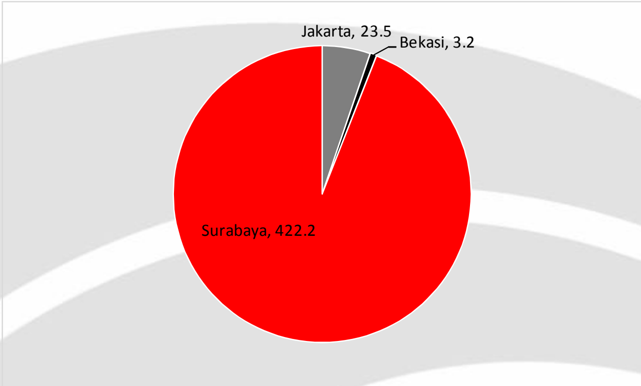
Source: Company, Sinarmas Investment Research

Debt Maturity Profile (IDR Bn)



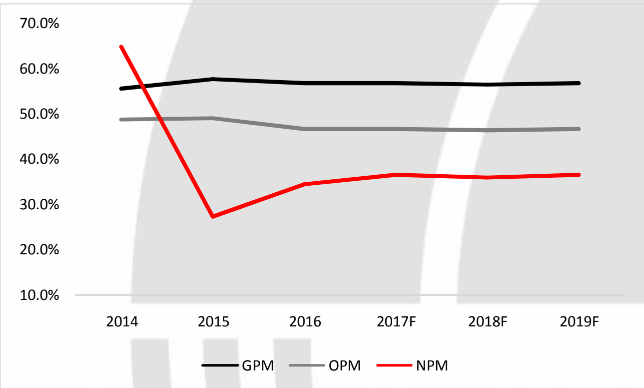
Source: Company, Sinarmas Investment Research

Land Bank Location (ha)



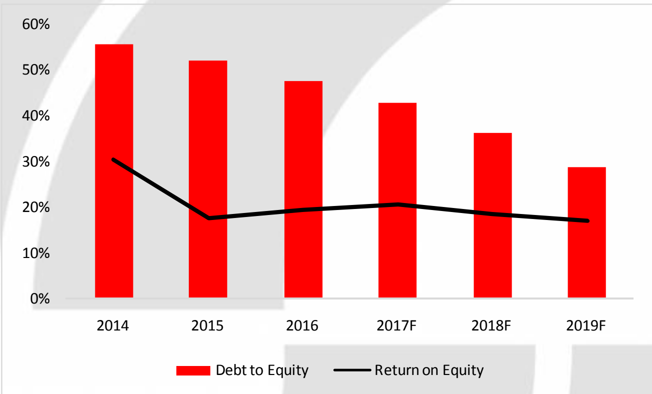
Source: Company, Sinarmas Investment Research

Margin



Source: Company, Sinarmas Investment Research

Leverage and ROE



Source: Company, Sinarmas Investment Research

Income Statement (in IDR Mn)	2015	2016	2017E	2018E	2019E
Revenue	**4,625**	**4,841**	**6,014**	**6,501**	**6,972**
Cost of Goods Sold	(1,957)	(2,088)	(2,592)	(2,830)	(3,001)
Gross Profit	**2,669**	**2,754**	**3,422**	**3,671**	**3,971**
Operating Expenses	(404)	(493)	(615)	(645)	(705)
Operating Profit	**2,265**	**2,260**	**2,807**	**3,026**	**3,266**
Other Income (Expenses)	(839)	(528)	(405)	(471)	(473)
Profit Before Tax	**1,425**	**1,732**	**2,401**	**2,555**	**2,794**
Tax Expenses	(25)	48	(60)	(65)	(70)
Non Controlling Interest	139	109	144	153	168
Net income	**1,262**	**1,671**	**2,197**	**2,336**	**2,556**
Earnings per share (Rp.)	26	35	46	49	53

Balance Sheet (in IDR Mn)	2015	2016	2017E	2018E	2019E
Assets					
Current Assets					
Cash And Cash Equivalents	2,071	2,432	2,944	3,647	4,152
Trade Receivables	268	186	168	182	195
Inventories	2,254	2,860	3,027	3,427	3,768
Prepaid Taxes	64	11	30	33	35
Advances and prepaid expenses	506	384	549	606	613
Other Current Assets	246	254	331	358	383
Total Current Assets	5,409	6,127	7,049	8,252	9,147
Inventories	1,592	1,980	2,266	2,449	2,702
Advance for purchase of fixed asset	1,288	131	120	130	139
Fixed Assets - net	1,457	1,700	2,057	2,223	2,385
Investment Properties - net	8,887	10,465	12,392	13,341	14,255
Other Non-current Assets	145	272	77	86	101
Total Assets	**18,778**	**20,674**	**23,961**	**26,482**	**28,728**
Liabilities					
Current Liabilities					
Bank Loans	536	769	444	386	269
Trade Payables	198	212	263	287	304
Sales Advance	2,616	2,502	3,108	3,466	3,642
Unearned Income	657	729	909	962	1,045
Other Current Liabilities	416	406	506	536	573
Total Current Liabilities	4,424	4,618	5,231	5,636	5,833
Long-term Loans	1,651	1,812	1,035	982	648
Bonds Payable	2,721	2,659	4,050	4,080	4,080
Tenant's Deposits	226	245	301	324	350
Other Non-current Liabilities	301	320	376	396	438
Total Liabilities	**9,323**	**9,654**	**10,994**	**11,419**	**11,349**
Equity					
Shareholder's Equity	1,564	1,575	1,566	1,566	1,566
Retained Earnings	5,655	7,109	9,065	11,161	13,476
Minority Interest	2,236	2,336	2,336	2,336	2,336
Total Liabilities & Equity	**18,778**	**20,674**	**23,961**	**26,482**	**28,728**

Cash Flow (IDR Bn)	2015	2016	2017E	2018E	2019E
Net Income	1,262	1,671	2,197	2,336	2,556
Depreciation	271	333	343	194	187
Change in Deffered Tax Assets	(0)	62	(62)	-	-
Change in Net Working Capital	151	395	(528)	37	75
Cash from Operating	**1,381**	**1,547**	**3,130**	**2,494**	**2,668**
Change in Fixed Asset	541	313	462	219	212
Change in Intangible Assets	-	-	-	-	-
Change in Long Term Assets	1,836	1,136	2,309	1,292	1,327
Change in Long Term Liabilities	29	38	112	43	67
Cash from Investing	**(2,348)**	**(1,411)**	**(2,658)**	**(1,468)**	**(1,472)**
Change in Share Capital and APIC	-	-	-	-	-
Change in Short Term Loans/Bonds	22	233	(325)	(58)	(117)
Change in Long Term Loans/Bonds	289	99	615	(23)	(334)
Change in difference from NCI	2,245	113	(14)	-	-
Dividend	2,324	217	241	241	241
Change in OCI	(5)	(3)	5	-	-
Cash from Financing	**228**	**226**	**40**	**(323)**	**(692)**
Beginning of Cash	**2,809**	**2,071**	**2,432**	**2,944**	**3,647**
Additional Cash	**(738)**	**361**	**512**	**703**	**505**
Ending Cash	**2,071**	**2,432**	**2,944**	**3,647**	**4,152**

Ratios	2015	2016	2017E	2018E	2019E
Growth					
Revenue (%)	19%	5%	24%	8%	7%
Operating profit (%)	20%	0%	24%	8%	8%
Net profit (%)	-50%	32%	32%	6%	9%
Profitability					
ROE	17%	19%	21%	18%	17%
ROA	7%	8%	9%	9%	9%
Gross margin	58%	57%	57%	56%	57%
Operating margin	49%	47%	47%	47%	47%
Net margin	27%	35%	37%	36%	37%
Liquidity					
Current Ratio (x)	1.22	1.33	1.35	1.46	1.57
Quick Ratio (x)	0.71	0.71	0.77	0.86	0.92
Cash Ratio (x)	0.47	0.53	0.56	0.65	0.71
Solvency					
D/E (x)	0.52	0.48	0.43	0.36	0.29
Interest cover (x)	9.03	6.61	11.72	12.06	14.36

SINARMAS SEKURITAS INVESTMENT RATINGS GUIDE

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