

Shadowed by weak results. Following its seasonality, SMRA had again booked weak results in 1Q18. Revenue was posted at IDR 1.2tn (-2.5% YoY, -27.2% QoQ) while bottom-line was recorded at IDR 41.8bn (-41.8% YoY, -82.8% QoQ). The bottom-line number itself has reached 13.1% / 10.3% of our / consensus FY18 estimates. In this period, the 8% YoY increase in finance costs coupled with higher minority interest (51% from profit vs 32% in 1Q17) have pulled down SMRA's net income, leading to lower net margin of 3.5% (vs 5.8% in 1Q17). All in all, we expect SMRA's FY18 revenue and net income to reach IDR 5.5tn and IDR 291bn, both decreased by 2.4% and 9.0% respectively.

Eyes on pre-sales. Until April 2018, SMRA has recorded pre-sales of IDR 641bn (+6.5% YoY), reaching 16% from its full year target. This achievement was supported by two newly launched projects in March and April, namely Burgundy at Bekasi and Rossini at Serpong. At the mean time, SMRA collaborates with several banks to offer attractive mortgage rate, which is intended to sell its existing inventories. Going forward, SMRA plans to launch new landed house at Bekasi in August, followed by another one at Bandung in September. Noting fewer project launches compared to last year (1 in 2Q18 vs 5 in 2Q17), 2Q18 pre-sales are likely to experience negative YoY growth. Thus, it could lead to a challenging 2H18 for SMRA in order to pursue its year-end target. Considering all the factors added with current weak industry outlook, we believe SMRA could potentially miss their pre-sales target this year. Hence, we expect SMRA to book IDR 3.2tn FY18 pre-sales (-10% YoY), accounted for 80% of its initial target.

Fundamental remains challenging. The decreasing margin and increasing debts have always been an issue for SMRA. Worth to note, SMRA owns the highest debt-to equity ratio compared to its peers within our coverage, although company has the lowest proportion of foreign currencies denominated loans. Another concern is that SMRA will see some of its debts mature in the next couple of years. Considering its tight cash balance, we believe SMRA will have to refinance its debts, which could lead to higher leverage as well as interest cost. This ultimately could again harm its margins. On that account, we believe SMRA will not experience any significant margin expansion in the near future unless they choose to raise more capital.

We downgrade our recommendation on SMRA to NEUTRAL with 52-weeks target price at IDR 1,050, reflecting 70% discount to its RNAV. SMRA is going to face one of the toughest period ahead considering their debts maturity schedules while having a tight cash position in current challenging property industry. Moreover, with expectation on soft pre-sales achievement recorded in 1H18, the next semester could be a rocky-road to pursue their IDR 4tn pre-sales target. All in all, despite the undemanding valuation, we believe current discount are fair concerning all the points discussed above.

Highlights (IDR Bn)	2016	2017	2018F	2019F	2020F
Pre-sales	3,005	3,561	3,200	3,600	4,275
growth (%)	-30.9%	18.5%	-10.1%	12.5%	18.8%
Revenue	5,398	5,641	5,506	5,423	6,324
Revenue growth (%)	-4.0%	4.5%	-2.4%	-1.5%	16.6%
Gross profit	2,601	2,567	2,600	2,553	2,985
EBITDA	1,676	1,664	1,767	1,728	2,012
Net Profit	312	362	319	281	375
EPS (IDR)	21.6	25.1	22.1	19.5	26.0
Gross margin	48.2%	45.5%	47.2%	47.1%	47.2%
Net margin	5.8%	6.4%	5.8%	5.2%	5.9%

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Stock Information

Sector	Property
Bloomberg Ticker	SMRA IJ
Market Cap. (IDR tn)	13.8
Share Out./Float (mn)	14,427/8,551
Current Price	IDR 960
52-week Target Price	IDR 1,050
Upside (%)	9.4%

Share Price Performance

52W High (07/03/17)	1,350
52W Low (05/22/18)	800
52W Beta	1.63
YTD Change (%)	1.6%

Relative Valuations

Trailing P/E	41.5x
Forward P/E	47.4x
P/BV	2.1x
EV/EBITDA	13.2x

Income Statement (IDR Bn)	2016	2017	2018F	2019F	2020F
Revenue	5,398	5,641	5,506	5,423	6,324
Cost of revenues	2,797	3,074	2,906	2,869	3,339
Gross profit	2,601	2,567	2,600	2,553	2,985
Operating expenses	1,191	1,226	1,169	1,170	1,358
Operating profit	1,410	1,341	1,431	1,383	1,627
EBITDA	1,676	1,664	1,767	1,728	2,012
Finance cost	(634)	(632)	(651)	(743)	(806)
Finance income	101	91	83	81	95
Profit before tax	878	799	863	722	915
Tax	(272)	(267)	(268)	(224)	(284)
Net profit	605	532	595	498	631
Minority interest	293	170	276	216	256
Attributable net profit	312	362	319	281	375
Earnings per share (Rp.)	21.60	25.10	22.13	19.51	26.01

Balance Sheet (IDR Bn)	2016	2017	2018F	2019F	2020F
Cash & equivalents	2,076	1,482	1,104	1,243	866
Trade receivables	539	645	533	477	631
Inventories	5,531	6,498	6,066	6,136	7,008
Others	552	532	527	528	602
Current assets	8,699	9,158	8,230	8,384	9,107
Fixed assets	451	422	399	396	369
Investment properties	4,487	4,461	4,415	4,621	4,821
Land for developments	6,158	6,296	6,626	7,076	7,316
Other long-term assets	1,016	1,325	1,220	1,901	2,525
Total Assets	20,810	21,663	20,891	22,378	24,139
Payables	289	297	169	155	190
Short-term debt	1,402	2,395	2,795	3,182	1,469
Advance received	553	1,820	1,136	1,187	1,492
Others short-term liabilities	1,973	1,765	1,617	1,732	1,935
Total current liabilities	4,217	6,276	5,717	6,256	5,087
Long-term debt	6,024	5,589	5,606	6,101	8,305
Advance received	2,209	1,211	630	694	877
Other liabilities	194	233	224	213	255
Total Liabilities	12,645	13,309	12,177	13,265	14,524
Capital stock	1,443	1,443	1,443	1,443	1,443
Additional paid in capital	23	23	23	23	23
Retained earnings	4,776	5,043	5,298	5,523	5,823
Equity attributable to owners	6,243	6,510	6,765	6,990	7,291
Minority interest	1,923	1,844	1,948	2,122	2,324
Shareholder's equity	8,166	8,354	8,714	9,113	9,614

Cash Flow (IDR Bn)	2016	2017	2018F	2019F	2020F
Net profit	312	362	319	281	375
Depreciation	266	323	336	345	385
Changes in net working capital	1,448	(13)	409	(136)	556
Operating cash flow	(865)	697	246	763	206
Changes in fixed asset	126	58	75	104	88
Changes in long-term assets	788	657	417	1,574	1,336
Changes in long-term liabilities	2,403	1,444	854	908	1,132
Investing cash flow	(116)	(1,674)	(1,082)	(1,625)	(1,200)
Changes in equity	405	(79)	104	174	201
Changes in short-term loans	419	992	400	387	(1,713)
Changes in long-term loans	810	(435)	16	496	2,204
Dividend	81	95	64	56	75
Financing cash flow	1,553	383	457	1,001	618
Net Cashflow	573	(594)	(379)	139	(377)
Beginning of Cash	1,504	2,076	1,482	1,104	1,243
Ending Cash	2,076	1,482	1,104	1,243	866

Ratio Analysys (IDR Bn)	2016	2017	2018F	2019F	2020F
Pre-sales growth	-30.9%	18.5%	-10.1%	12.5%	18.8%
Revenue growth	-4.0%	4.5%	-2.4%	-1.5%	16.6%
Net profit growth	-63.6%	16.2%	-11.8%	-11.9%	33.3%
Gross profit margin	48.2%	45.5%	47.2%	47.1%	47.2%
Operating margin	26.1%	23.8%	26.0%	25.5%	25.7%
EBITDA margin	31.0%	29.5%	32.1%	31.9%	31.8%
Net margin	5.8%	6.4%	5.8%	5.2%	5.9%
ROA	2.9%	2.5%	2.9%	2.2%	2.6%
ROE	5.0%	5.6%	4.7%	4.0%	5.1%
Interest cover (x)	2.6	2.6	2.7	2.3	2.5
Debt to equity (x)	0.9	1.0	1.0	1.0	1.0
Net debt to equity (x)	0.7	0.8	0.8	0.9	0.9
Current ratio (x)	2.1	1.5	1.4	1.3	1.8
PER (x)	48.6	41.8	47.4	53.8	40.4
PBV (x)	1.9	1.8	1.7	1.7	1.6

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