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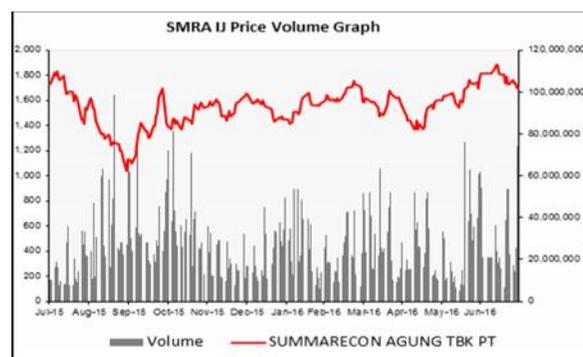


PT Summarecon Agung Tbk and its subsidiaries develop and invest in real estate. The Company develops and operates residential houses, apartments, shopping centers, recreational centers and office buildings.

Current Price: IDR 1,710

52-Week Target Price: IDR 1,800

Previous Target Price: IDR 2,000



Share Price Performance

Price (IDR)	1,710
52-Week High (07/11/16)	1,900
52-Week Low (09/29/15)	950
52-Week Beta	1.85
YTD Change/%	60 / 3.64%

Stock Information

Market Cap (IDR)	24,669.8B
Shares Out/Float (M)	14,426.8/9,765

Company Update

PT Summarecon Agung Tbk (SMRA)

1H16 Earnings Review

NEUTRAL

NEUTRAL with TP IDR 1,800/Share

We downgrade our recommendation from BUY to NEUTRAL, and also downgrade its 52-week target price to IDR 1,800/share, which represents 55% discount to NAV, as the company recorded weak 1H16 results due to slower revenue booking and also higher leverage which we believe this will burden to company's bottom line this year. Upside risk could be coming from the repatriation of fund into property sector in general, as the result of tax amnesty implementation.

Weak 1H16 Results

The result was very disappointing as it showed weak figures and margins compression across the board. The company experienced net loss of IDR 3.8 bn in the 2Q16 vs. net profit of IDR 28.3 bn in 1Q16, which made 1H16 net profit tumbled down by 95.4% YoY to IDR 24.5 bn. Although the 2Q16 revenue increased by 21% QoQ to IDR 1.3 tn, but the overall 1H16 revenue decreased by 11% YoY to IDR 2.32 tn. Gross profit margin decreased to 46% in 1H16 from 54% in 1H15 and net profit margin also decreased to 6% in 1H16 from 20% in 1H15.

Higher Leverage Burdens Net Profit

The weak result was also suffered from the significant increase in finance expense by 19% QoQ in 2Q16 and 46% YoY in 1H16 albeit the operational cost saving that went down by 11% YoY in 1H16. We noted that debt to equity ratio (DER) has increased to 0.92x in 1H16 from 0.84x in 1Q16, while net gearing ratio increased to 0.66x in 1H16 from 0.54x in 1H15.

6M16 Presales Reached 38% FY16E Target

The company booked marketing sales of IDR 1.3 tn in 2Q16 (+225% QoQ) which made the total of 6M16 presales realization to reach IDR 1.7 tn (-35% YoY) or equal to 38% of its FY16E target of IDR 4.5 tn. We view the company's presales in the first six months this year was the highest among developers in our coverage.

Financial Highlights	2014	2015	2016E	2017F	2018F
Revenue (IDR bn)	5,757	5,624	5,426	6,104	5,960
% growth	41%	-2%	-4%	12%	-2%
Gross Profit (IDR bn)	3,057	2,907	2,706	3,033	2,973
Net Profit (IDR bn)	1,617	1,064	883	1,040	1,074
% growth	48%	-34%	-17%	18%	3%
Net Margin (%)	28.0%	19.0%	16.0%	17.0%	18.0%
Return on Equity (%)	25.2%	14.1%	10.9%	11.8%	11.3%
Return on Assets (%)	10.2%	5.7%	4.6%	5.2%	5.7%

Source: Company Data, Sinarmas Investment Research

Income Statement (in IDR bn)	1Q16	2Q16	QoQ	1H15	1H16	YoY
Revenue	1,046.80	1,270.74	21%	2,596.66	2,317.54	-11%
Cost of Revenue	570.28	686.85	20%	1,203.25	1,257.13	4%
Gross Profit	476.52	583.89	23%	1,393.42	1,060.41	-24%
<i>margin</i>	<i>46%</i>	<i>46%</i>		<i>54%</i>	<i>46%</i>	
Selling Expense	42.99	99.46	131%	121.78	142.46	17%
General and Administrative Expense	174.08	219.49	26%	442.57	393.56	-11%
Other Operating Income	1.02	1.82	79%	5.65	2.85	-50%
Other Operating Expense	0.56	0.29	-48%	1.31	0.85	-35%
Operating Income	259.91	266.48	3%	833.41	526.38	-37%
<i>margin</i>	<i>25%</i>	<i>21%</i>		<i>32%</i>	<i>23%</i>	
Finance Income	23.57	21.56	-9%	44.79	45.13	1%
Finance Expense	140.21	167.27	19%	210.33	307.48	46%
Profit Before Final Tax and Income Tax Expense	143.27	120.77	-16%	667.86	264.04	-60%
<i>margin</i>	<i>14%</i>	<i>10%</i>		<i>26%</i>	<i>11%</i>	
Final Tax	60.65	72.53	20%	141.79	133.18	-6%
Profit Before Income Tax Expense	82.62	48.23	-42%	526.08	130.86	-75%
Income Tax Expense	-	0.01		0.95	0.01	
Net Profit	82.62	48.22	-42%	525.13	130.85	-75%
<i>margin</i>	<i>8%</i>	<i>4%</i>		<i>20%</i>	<i>6%</i>	
Profit/(loss) for the period attributable to:						
Owners of the Company	28.30	(3.78)		529.25	24.52	
Non-controlling Interests	54.32	52.00		(4.12)	106.33	
Total	82.62	48.22		525.13	130.85	
EPS (full amount)	1.96	(0.26)		36.68	1.70	

Appendix I: Financial Statements

Balance Sheet (in billion of IDR)	2014	2015	2016E	2017F	2018F
Cash and cash equivalents	1,771	1,504	2,262	1,519	488
Inventories	3,341	4,925	3,950	4,895	4,559
Advances payments	370	423	379	443	424
Total Current Assets	5,855	7,290	6,978	7,312	5,907
Undeveloped land	4,322	5,737	6,237	6,837	7,137
Advance payments	928	660	756	783	798
Fixed assets	368	420	379	336	290
Investment properties	4,019	4,312	4,349	4,377	4,395
Total Non-Current Assets	10,018	11,469	12,065	12,710	12,991
Short-term bank loans	289	809	405	405	405
Current maturities of long-term debts:					
Loans from banks and financing institutions	217	175	587	782	837
Bonds payable and sukuk ijarah	-	-	-	900	1,100
Total Current Liabilities	3,694	4,410	4,148	5,721	5,849
Long-term debts - net of current maturities:					
Loans from banks and financing institutions	2,193	2,738	2,627	2,095	1,258
Bonds payable and sukuk ijarah	1,684	2,476	2,500	1,600	500
Total Non-Current Liabilities	5,762	6,819	6,789	5,501	3,553
Capital stock	1,443	1,443	1,443	1,443	1,443
Additional paid-in capital	23	23	23	23	23
Retained earnings					
Appropriated - general reserve	69	83	90	103	115
Unappropriated	3,888	4,463	5,032	5,712	6,396
Equity attributable to owners of the parent entity	5,424	6,013	6,589	7,283	7,979
Non-controlling interests	993	1,517	1,517	1,517	1,517
TOTAL EQUITY	6,416	7,530	8,106	8,800	9,496

Income Statement (in billion of IDR)	2014	2015	2016E	2017F	2018F
Net Revenues	5,757	5,624	5,426	6,104	5,960
Cost of Sales and Direct Costs	(2,700)	(2,717)	(2,720)	(3,071)	(2,987)
Gross Profit	3,057	2,907	2,706	3,033	2,973
Selling Expenses	(266)	(258)	(250)	(281)	(275)
General and Administrative Expenses	(713)	(881)	(761)	(906)	(860)
Other Operating Income	27	29	27	31	30
Other Operating Expenses	(8)	(5)	(6)	(6)	(7)
Income from Operations	2,096	1,791	1,715	1,870	1,861
Finance Income	146	74	82	113	79
Finance Costs	(304)	(483)	(611)	(600)	(532)
Income Before Final Tax and Income Tax	1,936	1,382	1,186	1,384	1,408
Final Tax	(318)	(316)	(302)	(342)	(333)
Income Before Income Tax	1,618	1,066	884	1,042	1,075
Income Tax Benefit (Expense) - net	(1)	(2)	(1)	(2)	(1)
Profit for the Period	1,617	1,064	883	1,040	1,074

Source: Company data, SinarMas Investment Research

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