



PROPERTY SECTOR UPDATE

Expected Trajectory, Still Down!

9M18 Results: Mixed Earnings, BSDE and ASRI Affected by FX Losses

We note developers under our coverage have reported varied performance through 9M18. Revenues were observed to increase an average of -1.68% YoY (vs. 13.84% YoY in 9M17), reflecting 67.91%/64.88% of MNCS'/Consensus' estimate. PWON posted the highest 3Q18 revenue at 19.00% YoY, to IDR5.23 tn, followed by CTRA (7.89% YoY), ASRI (1.05% YoY) and SMRA (0.71% YoY). Meanwhile, BSDE and DMAS reported revenue decreased by -18.94%/-19.77% YoY, victims of poorer land & building sales. On the other hand, average presales in 9M18 reached 73.91%/70.23% of MNCS'/Companies' target. Although 9M18 revenue did reveal a positive turn, bottom line was hit by FX losses. SMRA recorded the highest net profit of 70.24% YoY, followed by PWON (25.23% YoY) and CTRA (2.40% YoY) while DMAS, ASRI and BSDE saw net income drain away, as the USD/IDR went sliding to a level of IDR14,929 (-10.24% YTD).

Key Catalyst FY19F: Relaxing LTV and Sustainable FDI in Property Sector

We observed how LTV relaxation in 8M18 is expected to benefit the mid-low segment, as the preferred KPR scheme for most buyers, as BI loosened the LTV provision for all types of first-home purchases. We believe that a loosening of LTV ratio will be the path to increase the percentage of home ownership, even though it will only be reflected in the next 6-12 months. Furthermore, we are certain FDI opportunities in our property sector continue to grow, as it already holds a major portion of FDI. In our view, affordable labor and availability of land & infrastructure also serve as national competitive advantages: investment in housing & industrial area segments rose significantly by 73.42% YoY, valued at USD3,528.88 mn in 9M18.

Potential Risk coming from Higher Interest Rates and a Weakening Rupiah

BI unexpectedly hiked its 7DRRR six times by 11M18, popping 175bps to 6%. We see it potentially cranking up KPR/KPA interest rates, even to a 9M18 interest rate of 9.40%/9.37% (vs. 10.15%/10.59% in 9M17). Furthermore, a weakening Rupiah hurts sentiment in property sector as it slid to IDR14,929 in 9M18 (-10.24% YTD), potentially impairing the net profit margin of companies with steep USD exposure.

NEUTRAL Recommendation with Selected Stocks: CTRA, DMAS and SMRA

We maintain a **NEUTRAL** outlook for the property sector in FY19E, expecting presales to stagnate, in FY18E/FY19F at 3.91%/2.34%, YoY due to: 1) Loosening LTV, with the potential to attract more first-time buyers; 2) Prospective residential segment for lower and middle-market; 3) Sustained FDI in property sector. Potential risks: 1) Interest rate; 2) higher NJOP; 3) Rupiah exchange rate. Our preferred stocks are **CTRA (HOLD; TP: IDR1,100)**, **DMAS (BUY; TP: IDR202)**, and **SMRA (BUY; TP: IDR875)**.



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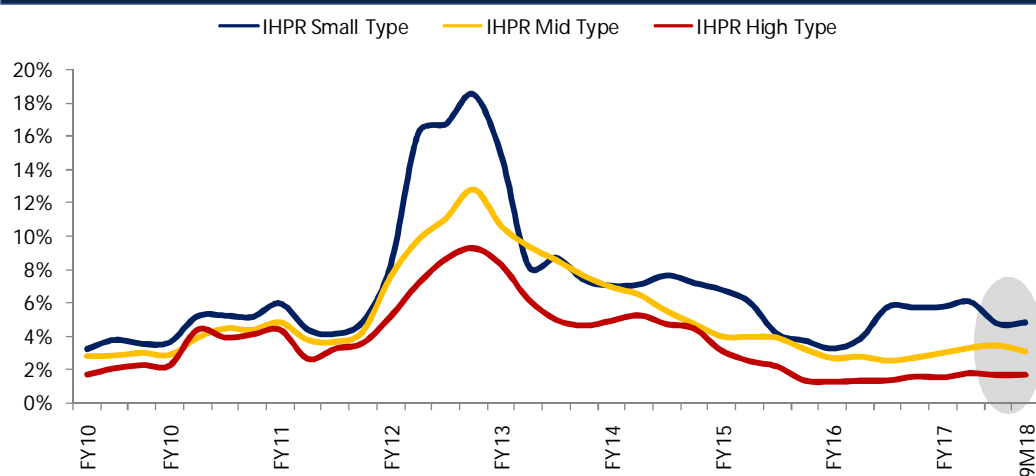
Ticker	Market Cap (IDR bn)	P/E (x)		PBV (x)		Rec.	Target Price (IDR)
		FY18E	FY19F	FY18E	FY19F		
ASRI	6,091.32	4.45	3.86	0.60	0.52	HOLD	350
BSDE	23,384.74	7.69	6.64	0.72	0.65	BUY	1,560
CTRA	17,539.48	14.79	13.66	0.97	0.88	HOLD	1,100
DMAS	6,362.15	18.08	19.87	1.31	1.29	BUY	202
PWON	29,618.15	12.53	10.05	2.38	1.96	HOLD	650
SMRA	9,738.07	22.94	20.90	1.37	1.30	BUY	875

Sources: Bloomberg, MNCS (as of November 21, 2018)

Mid-low Segment Growing Better

BI research shows 9M18 sales increased up to 20.15% YoY (vs -34.53% YoY in 9M17) supported by the lower and middle-type property segments, which rose 29.32%/9.76% YoY, respectively, in 9M18. We pinpoint LTV relaxation and affordable housing as catalysts. Meanwhile, high-end types continue to stagnate at a level of 2.34% YoY. On QoQ basis, property sales volume weakened to -14.14% QoQ in 3Q18 (vs. -0.08% QoQ in 2Q18) due to higher prices in strategic locations. Overall, the property price index (IHPR) was observed to rise slightly, by just 0.42% QoQ in 3Q18. Small-type IHPR was up 4.84% YoY in 9M18 (vs 5.74% YoY in 9M17), while medium and high IHPR only increased 3.06%/1.66% YoY, respectively.

Exhibit 01. Residential Property Price Index (IHPR) based on Type



Sources : BI, MNCS

9M18 Results: Mixed Earnings, BSDE and ASRI Shot Down by FX Losses

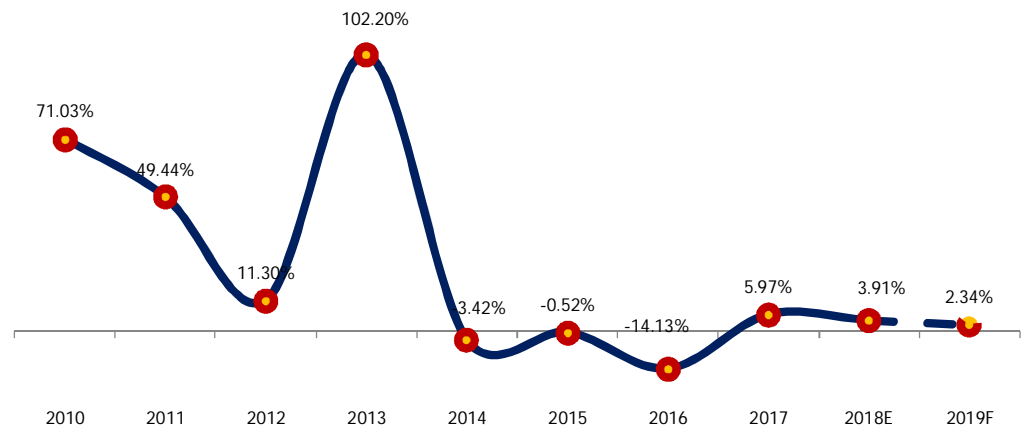
We note how developers have reported varied performance along 9M18. Revenues were observed to increase an average of -1.68% YoY (vs 13.84% YoY in 9M17), reflecting 67.91%/64.88% of MNCS/Consensus estimate. PWON led with the highest 3Q18 revenue at 19.00% YoY, to IDR5.23 tn, followed by CTRA (7.89% YoY), ASRI (1.05% YoY) and SMRA (0.71% YoY). Meanwhile, BSDE and DMAS reported revenue off -18.94%/-19.77% YoY, due to poorer land & building sales. Average marketing sales in 9M18 reached 73.91%/70.23% of MNCS/Companies target. We estimate marketing sales of our coverage will stagnant in FY18E/FY19F, marking just 3.91% YoY/2.34% YoY. On the other hand, we believe that Rupiah weakening also led to investors holding off on purchases. Although 9M18 revenue show a positive turn, bottom line was hit by FX losses. SMRA recorded the highest net profit of 70.24% YoY, followed by PWON (25.23% YoY), and CTRA (2.40% YoY). DMAS, ASRI and BSDE saw a -31.37% YoY/-42.90% YoY/-73.97% YoY decrease in net income, respectively, as the Rupiah went sliding to a level of IDR14,929/USD (-10.24% YTD). In our view, the weakening Rupiah also affects developer's leverage as most developers have substantial portion of debts denominated in foreign currency. BSDE USD bond reached IDR9.68 tn (+105.06% YoY) in 9M18, which caused a higher interest expense to IDR651.01 bn (+60.16% YoY). ASRI has also affected by the weakening currency as seen from the higher interest expense by 9M18 to 37.95% YoY level.

Exhibit 02. MNCS Forecast vs Consensus

Ticker	Market Caps		Revenue (IDR Bn)				Net Profit (IDR Bn)					Marketing Sales (IDR Bn)				
	IDR Bn	9M18	9M17	% YoY	% MNCS	% Cons	9M18	9M17	% YoY	% MNCS	% Cons	9M18	9M17	% YoY	% MNCS	% Company
ASRI	5,894	3,203.11	3,169.89	1.05%	78.33%	81.98%	644.41	1,128.53	-42.90%	53.79%	61.96%	3,626	1,261	187.55%	109.23%	90.65%
BSDE	22,903	4,787.18	5,905.50	-18.94%	62.46%	62.39%	599.17	2,302.20	-73.97%	29.47%	26.82%	5,400	4,800	12.50%	74.54%	74.74%
CTRA	17,168	4,691.00	4,348.00	7.89%	59.87%	62.29%	579.81	566.25	2.40%	49.93%	56.40%	5,147	5,251	-1.98%	69.54%	66.65%
DMAS	6,217	396.09	493.69	-19.77%	40.19%	33.51%	174.62	254.42	-31.37%	33.59%	29.45%	651	811	-19.73%	57.79%	52.08%
PWON	29,618	5,228.72	4,393.80	19.00%	87.10%	80.16%	1,780.38	1,421.70	25.23%	75.31%	80.31%	1,700	1,800	-5.56%	71.44%	82.24%
SMRA	9,449	4,023.09	3,994.61	0.71%	79.51%	68.96%	203.35	119.44	70.24%	49.36%	53.80%	2,200	1,400	57.14%	60.92%	88.00%

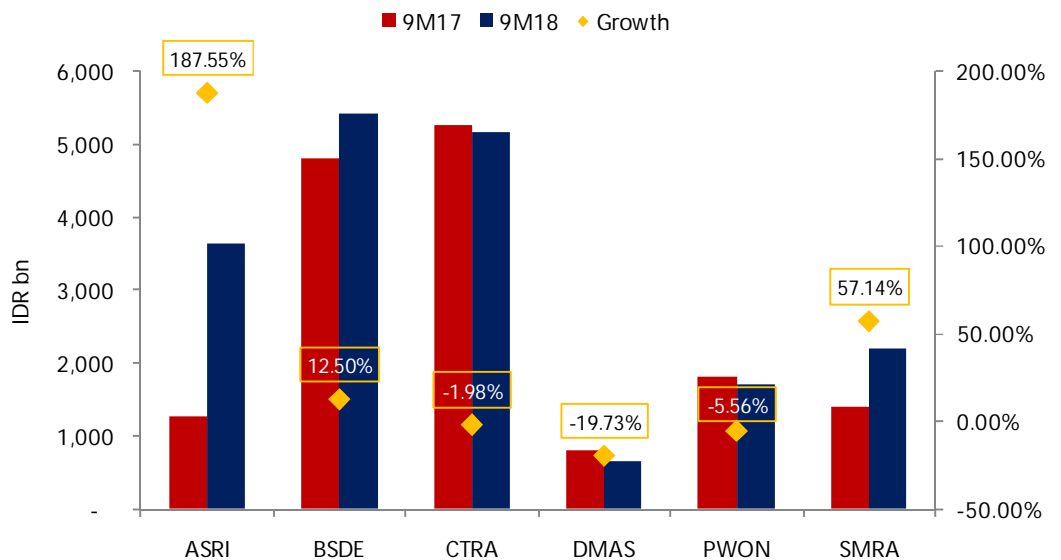
Sources : Company, MNCS

Exhibit 03. Trend of Marketing Sales Property Sector



Sources : Companies (ASRI, BSDE, CTRA, DMAS, PWON, SMRA), MNCS

Exhibit 04. Presales Trend FY10-FY19F



Sources : Companies, MNCS

Mid-low Residential as a Backbone

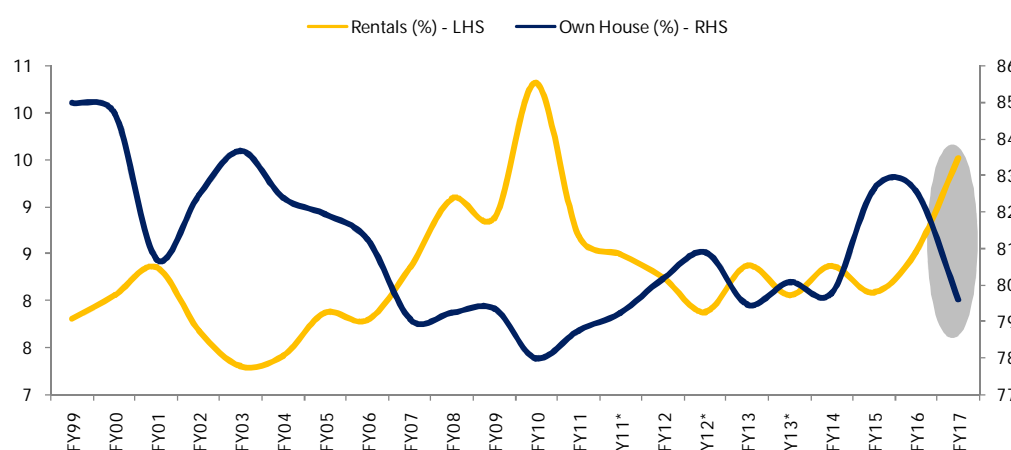
We observed LTV relaxation in 8M18 will benefit the mid-low segment as most buyers preference for a KPR scheme. BI loosening the provision of LTV for first home purchases for all types, while the LTV ratio for second homes and so on ranges from 80%-90%, except for type 21 houses. Banks with a net NPL of <5% and gross NPL <5% can take advantage from this easing. We believe that the loosening of LTV ratio is a solution to increase the percentage of home ownership, even though it will be reflected in the next 6-12 months. BPS data shows a decrease in the percentage of private home ownership in FY17 to 79.61% (vs 82.58% in FY16), the lowest in the last 5 (five) years.

Exhibit 05. New Regulation of LTV

Property Type	2018				
	Current Rules			New Rules	
	KP & PP			KP & PP	
	I	II	III onw	I	III onw
Landed House					
Type 70 m ²	85%	80%	75%	-	80%
Type 22-70 m ²	-	85%	80%	-	85%
Type <21 m ²	-	-	-	-	-
Apartment					
Type 70 m ²	85%	80%	75%	-	80%
Type 22-70 m ²	90%	85%	80%	-	85%
Type <21 m ²	-	-	-	-	85%
Ruko/Rukan	-	85%	80%	80%	85%

Sources : BI, MNCS

Exhibit 06. Own Houses vs Rentals



Sources : BPS, MNCS

We consider that developers need to be more aggressive in launching the affordable housing projects to meet mid-low market demand. Several developers have started to seize the opportunities, such as CTRA and SMRA. CTRA launch an integrated new town namely Citra Maja with a range IDR130 mn-IDR300 mn in Tangerang, Banten. SMRA developed Srimaya Residence in the East Bekasi area with a price range of IDR348 mn.

Exhibit 07. Launch of Citra Maja & Srimaya Residence Products



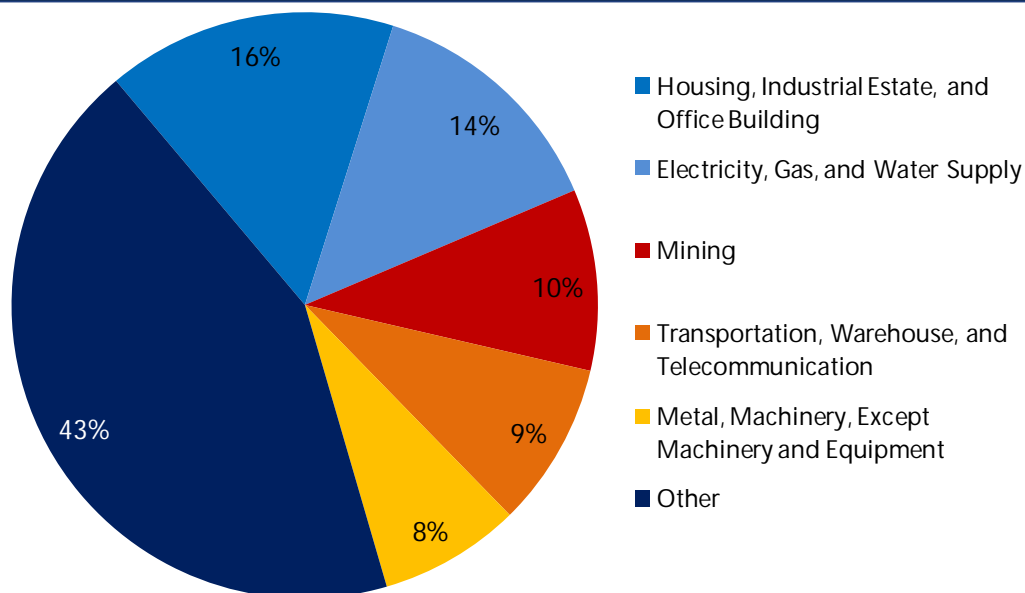
Source : Google

On the other hand, Indonesia becomes the second “Best Country to Invest in”, which US News said is one of the most promising recipients of FDI's in Southeast Asia. This can be seen from the CAGR growth of FDI FY13-FY17 of 16.77%. Based on Investment Coordinating Board (BKPM), FDI was stagnant at 4.32% YoY. However, housing and industrial estates ranked the top in the distribution of FDI in 9M18. Noted, the investment increased significantly to 73.42% YoY, valued at USD3,528.88 mn in 9M18, as West Java becomes the main destination. Infrastructure development that supports the logistics in Subang and Cikarang areas has potential to meet the needs of industrial land, especially in West Java such as: 1) Port of Patimban; 2) Cipali toll road; 3) Jakarta Cikampek toll road; and 4) Kertajati Airport. We believe affordable labor wages and availability of land and infrastructure becomes the competitive advantages. Based on NWPC data (the National Wages and Production Country) Indonesian laborers' wages range from USD92.84-232.90/month, lower than other Asean countries that have industrial land such as Thailand, USD278.38-298.26 and the Philippines USD268.69-289.62.

Opportunity in Industrial Land

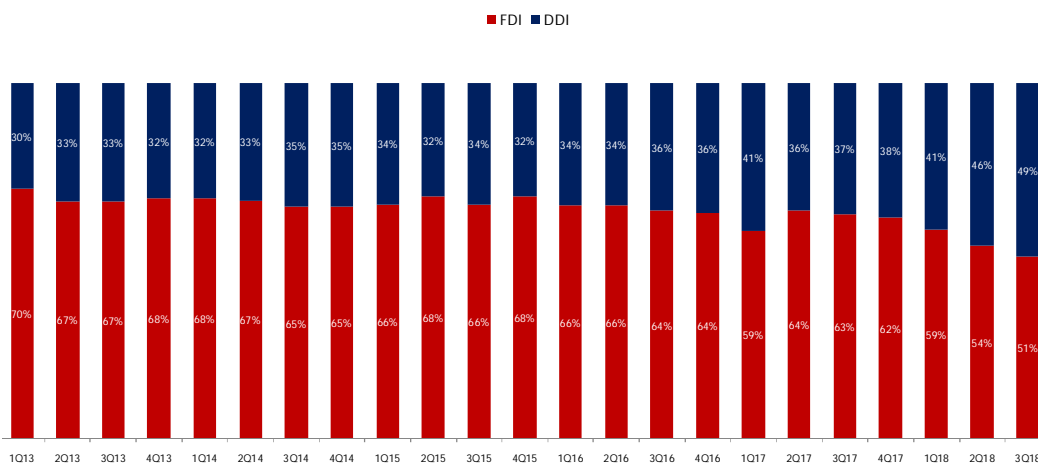
We estimate this potential becomes an opportunity for DMAS considering that the Company still has a land reserve of approximately ±1,000 ha, located in Cikarang, West Java, which is the largest industrial area in Southeast Asia. In addition, Cikarang is located roughly 46km to Jakarta comes fully equipped with a level of infrastructure and security capable of satisfying any foreign investor.

Exhibit 08. Investment Realization in January – September 2018: Based on Sector



Source : BKPM, MNCS

Exhibit 09. Trend of Investment Realization



Source : BKPM, MNCS

Interest Rate and NJOP Increase will Potentially Hit the Property Businesses

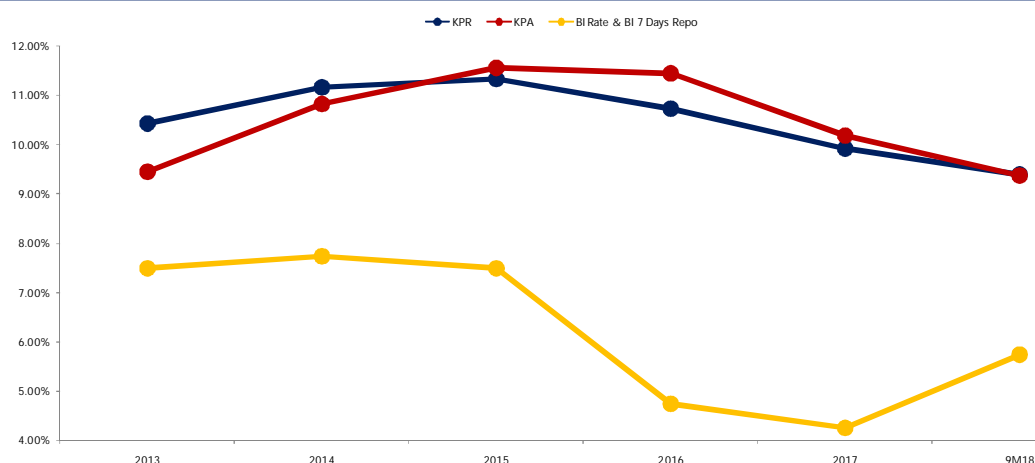
We consider the increase in the 7DRR interest rate to pose an ongoing challenge for the property sector. Up until 11M18, BI has increased interest rates six times, in 175bps steps to 6%, and this will potentially bump up KPR/KPA interest rates. Even though the 9M18 interest rate was at a level of 9.40%/9.37% (vs. 10.15%/10.59% in 9M17), we predict the era of low interest rates is now concluded.

On the other hand, the taxable value of property (NJOP) in DKI Jakarta rose by 19.54%, where adjustment of the new NJOP was regulated by Pergub No 24/2018. The announcement of the NJOP increase should affect property business in the capital, afflicted by “unreasonable” prices. Based on Knightfrank data, Indonesia sits in second place for increased property prices (+1.1% YoY in 9M18). We assess this risk as potentially cutting into marketing sales, as property prices have the potential to increase gradually as long as interest rates and NJOP go up.

Concerned about Weakening Rupiah

A weakening Rupiah continues to damage sentiment in our property sector. The Rupiah fell to IDR14,929 in 9M18 (-10.24% YTD), potentially hampering the net profit margins of companies with higher USD exposure. We forecast the USD/IDR to sit at ~IDR14,800 in FY19F.

Exhibit 10. Trend of Credit Interest Rate and 7 Days Rate Repo



Source : OJK, MNCS

Exhibit 11. USD/IDR Exchange Rate



Source : Bloomberg, MNCS

NEUTRAL Recommendations with Selected Stocks: CTRA, DMAS and SMRA

We maintain a **NEUTRAL** outlook for the property sector in FY19E, expecting presales to stagnate, in FY18E/FY19F at 3.91%/2.34%, YoY due to: 1) Loosening LTV, with the potential to attract more first-time buyers; 2) Prospective residential segment for lower and middle-market; 3) Sustained FDI in property sector. Potential risks: 1) Interest rate; 2) higher NJOP; 3) Rupiah exchange rate. Our preferred stocks are **CTRA (HOLD; TP: IDR1,100)**, **DMAS (BUY; TP: IDR202)**, and **SMRA (BUY; TP: IDR875)**.

Exhibit 12. PBV Band ASRI

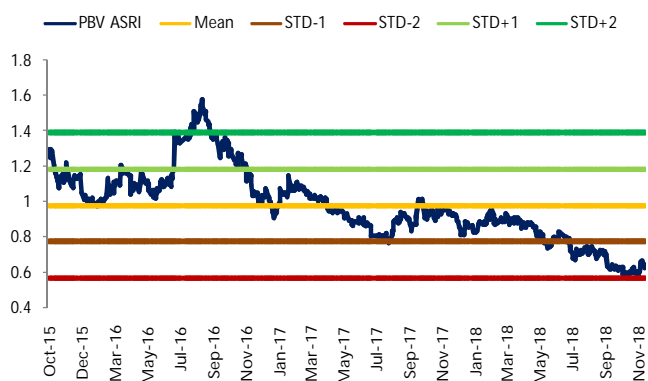


Exhibit 13. PBV Band BSDE

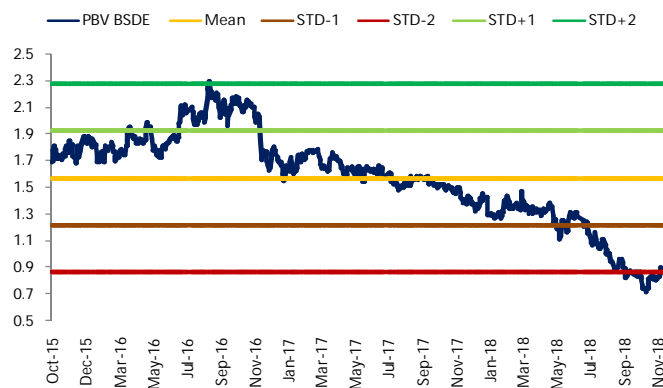


Exhibit 14. PBV Band CTRA

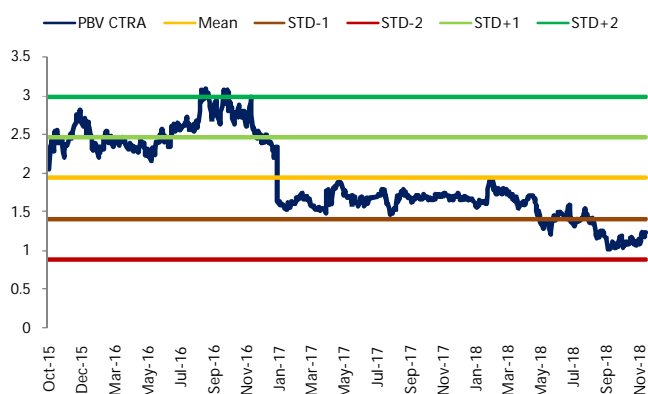


Exhibit 15. PBV Band DMAS

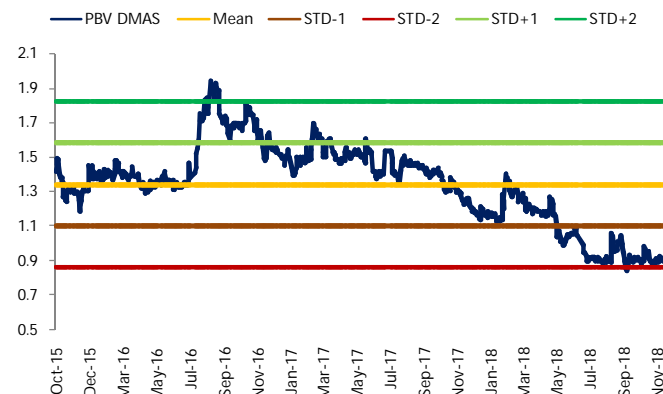


Exhibit 16. PBV Band PWON

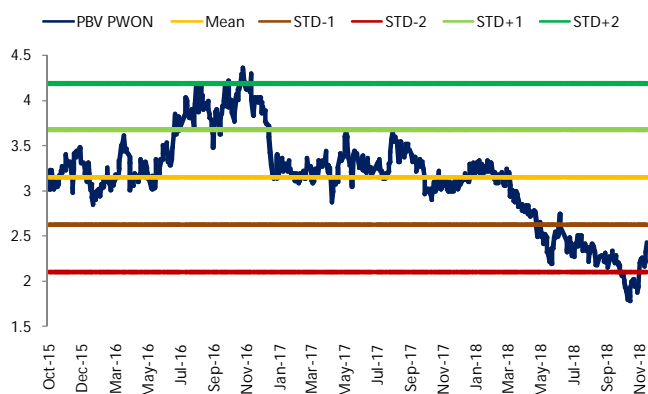
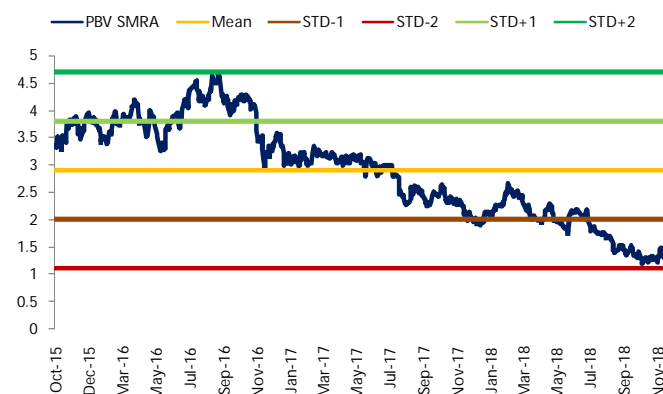


Exhibit 17. PBV Band SMRA



Source : Bloomberg, MNCS

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HOLD : Share price may fall within the range of +/- 10% of the next 12 months

SELL : Share price may fall by more than 10% over the next 12 months

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