

26 December 2018

Property | Real Estate

Pakuwon Jati

Buy

King Of Superblocks With Superior ROE; Initiate BUY

Target Price:	IDR780
Price:	IDR600
Market Cap (USDbn):	USD1.99 bn
Bloomberg Ticker:	PWON IJ

Initiating coverage with BUY and SOTP-based IDR780 TP, 30% upside. Our bullish thesis is premised on PWON's defensive business with a high recurring income profile (retail malls), strategic landbank located in Indonesia's two biggest cities (Jakarta and Surabaya), and strong balance sheet (lowest net gearing of 14%) with superior ROEs (18%) among peers. PWON is 70%-owned by Pakuwon Arthaniaga, which is controlled by founder Alexander Tedja & family (36-year track record), with the remaining 30% in free float. The stock is trading at an undemanding FY19F P/E of 12x, and 39% discount to NAV.

Share Data

Avg Daily Turnover (IDR/USD)	18518.05m/1.27m
52-wk Price low/high (IDR)	432 - 725
Free Float (%)	30
Shares outstanding (m)	48,160
Estimated Return	30%

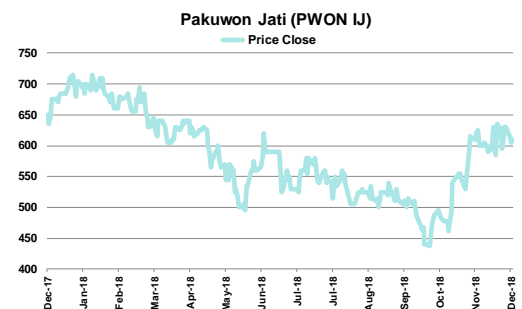
Shareholders (%)

PT Pakuwon Arthaniaga	69.7%
Public	30.3%

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(12.4)	(3.2)	17.6	14.3	(7.0)
Relative	(9.4)	(6.8)	14.2	8.4	(6.7)

Source: Bloomberg



Source: Bloomberg, Pricing as per 20 Dec 2018

Initiate coverage with TP of IDR780. Pakuwon Jati is one of Indonesia's leading property developers. It is owned by Alexander Tedja & family, and has a USD2bn market cap and trading liquidity of USD1.2m/day (average daily trading volume: 3m). We have a BUY rating on the company with a 12-month SOTP-based TP of IDR780, offering 30% upside. We are projecting a net profit CAGR of 13% over FY17-20F.

Highest recurring income profile among peers at 49% of revenue. PWON stands out from its listed peers with the highest portion of recurring income at 49% of revenue vs SMRA's (SMRA IJ, BUY, TP: IDR1,080) 29%, CTRA's (CTRA IJ, BUY, TP: IDR1,340) 27%, BSDE's (BSDE IJ, NEUTRAL, TP: IDR1,390) 24%, ASRI's (ASRI IJ, NEUTRAL, TP: IDR350) 9%, and MYRX's (MYRX IJ, BUY, TP: IDR180) 0%. This is thanks to its strong franchise in the retail mall business, backed by hotels, serviced apartments, and office leasing – which when combined are known as superblocks. This is a unique defensive strategy that provides good earnings support, especially during a soft property cycle when presales demand is weak, eg election years/high interest rates.

Superblocks king: Tunjungan Plaza, Gandaria City, and Kota Kasablanka. PWON has a strong execution track record in building successful superblock developments (shopping malls + office buildings + apartments/hotels): eg the 9ha Tunjungan Plaza in Surabaya (TP Mall, Sheraton Hotel, Four Point Hotel, TP condominiums & residences, and TP office), 9ha Gandaria City in South Jakarta (Gandaria City Mall, Gandaria Heights apartments, Gandaria 8 office tower, and Grand Sheraton Hotel), and 13ha Kota Kasablanka in Jakarta's central business district (CBD) (Kota Kasablanka Mall, Casa Grande Condominium, 88 Kasablanka office tower, and Pakuwon Tower).

439ha prime landbank spread across Surabaya and Jakarta. PWON's current 439ha landbank is sufficient to last >10 years of future developments. The bulk of its landbank is located in Surabaya (90%), where most of its landed housing residential projects are located (Central Surabaya 3.2ha, East Surabaya 231ha, and West Surabaya 176ha). Total Jakarta landbank is c.28ha, mostly superblock and high rise projects – 13ha is located in South Jakarta (Kasablanka, Gandaria, and Simatupang), 11ha in West Jakarta (Daan Mogot), and the remaining 4ha in Greater Jakarta (Bekasi).

Valuation. We derive our IDR780 TP based on SOTP, and applying a 30% discount to NAV. We used DCF (13% WACC) to value its recurring income portion and RNAV for the remaining property assets.

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Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (IDRb)	4,841	5,718	6,575	6,970	7,458
Reported net profit (IDRb)	1,669	1,873	2,201	2,475	2,668
Recurring net profit growth (%)	32	12	17	12	8
Recurring EPS (IDR)	35	39	46	51	55
DPS (IDR)	4.5	4.5	5.8	6.9	7.7
Recurring P/E (x)	17.3	15.4	13.1	11.7	10.8
P/B (x)	3.3	2.8	2.4	2.0	1.7
Dividend Yield (%)	0.8	0.8	1.0	1.1	1.3
EV/EBITDA (x)	11.6	9.8	8.5	8.0	7.6
Return on average equity (%)	21.0	19.7	18.0	18.6	17.2
Net debt to equity (%)	30.0	16.2	7.8	1.4	(1.7)

Source: Company data, RHB

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Financial model updated on : 21 December 2018

Asia
Indonesia
Property
Pakuwon Jati
Bloomberg PWON IJ
BUY

Valuation basis

SOTP.

Key drivers

- i. Land ASP;
- ii. Landbank size.

Key risks

- i. Interest rates;
- ii. Execution;
- iii. Macroeconomic downturn.

Company Profile

PWON is a diversified real estate developer focused in Jakarta and Surabaya that was established in 1989. The company's portfolio includes retail, residential, commercial and hospitality developments. It is the pioneer of the Superblock concept in Indonesia – a large-scale integrated mixed-use development of retail shopping malls, offices, condominiums, and hotels.

Financial Summary	2016	2017	2018F	2019F	2020F
Recurring EPS (IDR)	34.6	38.9	45.7	51.4	55.4
EPS (IDR)	34.6	38.9	45.7	51.4	55.4
DPS (IDR)	4.5	4.5	5.8	6.9	7.7
BVPS (IDR)	180.3	214.3	253.8	298.4	346.1
FCFPS (IDR)	1.8	20.2	28.0	21.9	16.7
Weighted Avg Adjusted Shares (m)	48	48	48	48	48

Valuation Metrics	2016	2017	2018F	2019F	2020F
Recurring P/E (x)	17.3	15.4	13.1	11.7	10.8
P/E (x)	17.3	15.4	13.1	11.7	10.8
P/B (x)	3.3	2.8	2.4	2.0	1.7
FCF Yield (%)	0.3	3.4	4.7	3.6	2.8
Dividend Yield (%)	0.8	0.8	1.0	1.1	1.3
EV/EBITDA (x)	11.6	9.8	8.5	8.0	7.6
EV/EBIT (x)	14.7	11.9	10.5	10.0	9.3

Income Statement (IDRb)	2016	2017	2018F	2019F	2020F
Total Turnover	4,841	5,718	6,575	6,970	7,458
Gross Profit	2,754	3,364	3,863	4,077	4,363
EBITDA	2,876	3,413	3,925	4,160	4,410
Depreciation and Amortisation	609	616	618	620	622
Operating Profit	2,260	2,795	3,180	3,326	3,574
Net Interest	(229)	(197)	(99)	(72)	(116)
Other Income	(32)	(166)	(183)	(183)	(150)
Pre-Tax Profit	2,057	2,406	2,748	3,071	3,308
Taxation	(276)	(381)	(405)	(445)	(478)
Minority Interests	109	152	142	151	161
Recurring Net Profit	1,669	1,873	2,201	2,475	2,668

Cash Flow (IDRb)	2016	2017	2018F	2019F	2020F
Change in Working Capital	1,358	195	340	210	247
Cash Flow from Operations	3,360	2,434	2,667	2,817	3,055
Capex	(3,147)	(1,522)	(1,319)	(1,765)	(2,249)
Cash Flow from Investing Activities	(3,274)	(1,463)	(1,318)	(1,765)	(2,249)
Proceeds from Issue of Shares	11	(20)	9	-	-
Dividends Paid	(217)	(217)	(281)	(330)	(371)
Cash Flow from Financing Activities	266	149	(588)	(1,078)	(986)
Cash at Beginning of Period	2,283	2,635	3,756	4,517	4,492
Net Change in Cash	352	1,121	761	(25)	(180)
Ending Balance Cash	2,635	3,756	4,517	4,492	4,312

Balance Sheet (IDRb)	2016	2017	2018F	2019F	2020F
Total Cash and Equivalents	2,635	3,756	4,517	4,492	4,312
Tangible Fixed Assets	14,144	14,420	15,239	16,665	18,343
Advance for Land Acquisitions	131	299	329	346	363
Investment in Associates	55	53	58	58	58
Total Other Assets	3,895	5,183	5,626	5,901	6,410
Total Assets	20,674	23,359	25,381	27,058	29,065
Short-Term Debt	769	402	442	486	535
Total Long-Term Debt	4,471	5,026	5,026	4,200	3,500
Other Liabilities	4,414	5,140	5,581	5,893	6,252
Total Liabilities	9,654	10,567	11,049	10,579	10,287
Shareholders' Equity	8,684	10,320	12,223	14,369	16,668
Minority Interests	2,336	2,472	2,110	2,110	2,110
Total Equity	11,020	12,791	14,333	16,479	18,778
Net Debt	2,605	1,672	951	194	(277)
Total Liabilities & Equity	20,674	23,359	25,381	27,058	29,065

Key Metrics	2016	2017	2018F	2019F	2020F
Revenue Growth (%)	5%	18%	15%	6%	7%
Recurrent EPS Growth (%)	32%	12%	17%	12%	8%
Gross Margin (%)	57%	59%	59%	59%	59%
EBITDA Margin (%)	59%	60%	60%	60%	59%
Net Profit Margin (%)	34%	33%	33%	36%	36%
Dividend Payout Ratio (%)	17%	13%	15%	15%	15%
Capex / Sales (%)	65%	27%	20%	25%	30%
Interest Cover (x)	9.9	14.2	32.2	46.0	30.8

Source: Company data, RHB

Investment Summary

BUY PWON with IDR780 TP. We initiate coverage on PWON with BUY. The company is one of Indonesia's leading property developers, with a market cap of USD2bn and trading liquidity of USD1.2m per day (average daily trading volume: 3m).

We have a 12-month TP of IDR780, offering 30% upside from the current level. PWON is 70%-owned by Pakuwon Arthaniaga, which is controlled by founder Alexander Tedja & family (36-year track record). The remaining 30% is in free float.

Three key bull theses. Our bullish thesis is premised on:

- i. Defensive business from high recurring income profile (retail malls);
- ii. Strategic landbank located in Indonesia's two biggest cities: Jakarta and Surabaya;
- iii. Strong balance sheet with the lowest net gearing of 14% and superior ROE of 18% among peers.

The stock is trading at an undemanding 12x FY19F P/E and 39% discount to NAV.

Most defensive profile, thanks to strong recurring income base. What makes PWON stand out from its listed property peers is its high portion of recurring income at 49% of revenue (highest among peers) vs SMRA's 29%, CTRA's 27%, BSDE's 24%, ASRI's 9%, and MYRX's 0%.

This is thanks to PWON's strong franchise in the retail mall business, backed by hotels, serviced apartments, and office leasing, which when combined together are known as superblocks. This is a unique defensive strategy that provides good earnings support, especially during a soft property cycle when pre-sales demand is weak: eg during an election year and/or high interest rate environment.

Strong execution in superblock development: Tunjungan Plaza, Gandaria City Mall, and Kota Kasablanka Mall. PWON has a strong execution track record in building successful superblock developments (shopping malls + office buildings + apartments/hotels):

- i. Tunjungan Plaza (9ha) in Surabaya: TP Mall, Sheraton Hotel, Four Point Hotel, TP condominiums and residences, and TP Office;
- ii. Gandaria City (9ha) in South Jakarta: Gandaria City Mall, Gandaria Heights Apartments, Gandaria 8 Office Tower, and Grand Sheraton Hotel;
- iii. Kota Kasablanka (13ha) in Jakarta CBD: Kota Kasablanka Mall, Casa Grande Condominium, 88 Kasablanka Office Tower, and Pakuwon Tower.

Landbank focused in Indonesia's two largest cities: Jakarta and Surabaya. PWON's current landbank of 439ha is sufficient to sustain over 10 years of future developments. The bulk of its landbank is located in Surabaya (90%), where most of the landed housing residential projects are located: Central Surabaya (3.2ha), East Surabaya (231ha), and West Surabaya (176ha).

Total landbank in Jakarta amounts to c.28ha, where 13ha is located in South Jakarta (Kasablanka, Gandaria, and Simatupang), 11ha in West Jakarta (Daan Mogot), and the remaining 4ha in Greater Jakarta (Bekasi).

Valuation rationale. We derive our IDR780 TP based on SOTP methodology and applying a 30% discount to NAV. We used DCF (13% WACC) for the recurring income portion and RNAV for the remaining property assets.

Strong Buffer From Recurring Income

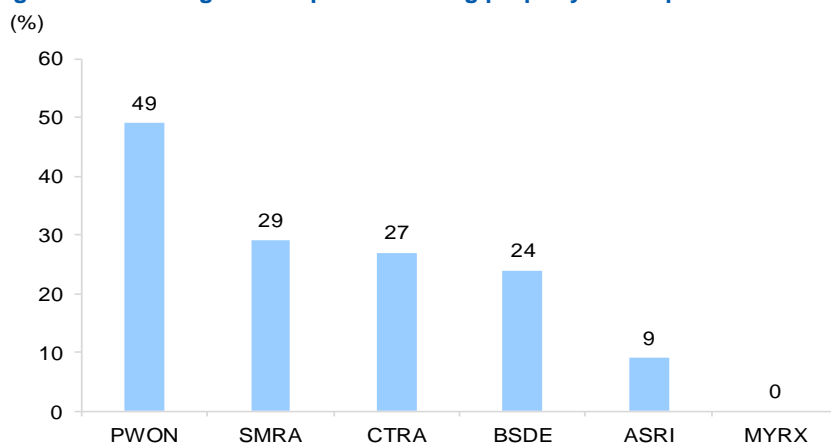
PWON has the largest recurring income portion of 49%, translating into IDR2,562bn (+19.1% YoY) during 9M18. The contribution is higher than other property developers, which average 0-29%.

The biggest recurring income portion came from retail leasing, with a 38% contribution. Contributions from hotels & serviced apartments and office leasing stand at 7.5% and 4%. The company's recurring income base is largely supported by its retail mall portfolio, being the largest retail mall owner amongst Indonesian developers. The company aims to keep the mix of recurring/development income at a balanced 50/50 in the long term.

Most of PWON's retail shopping malls are paired with office towers, condominiums, and hotels within a superblock concept, namely Kota Kasablanka, Gandaria City, Tunjungan City, and Pakuwon Mall.

This provides a sort of mutual symbiosis, in a sense that office tower tenants, condominium residents, and hotel guests become captive markets for the retail shopping malls. This ensures attractive rent levels and high occupancy rates (historically more than 90% occupancy, excluding Blok M Plaza during 9M18 to make room for possible renovations to connect with a mass rapid transit station). On the other hand, the availability of shopping areas, coupled with strategic locations, also increases rent for offices and serviced apartments, as well as hotel rates.

Figure 1: Recurring income portion among property developers



Source: Company data, RHB

◆ PWON has the largest portion of recurring income vs total income, at 49% compared to the 0-29% range for the other developers.

Figure 2: PWON's historical occupancy (retail)

	2014	2015	2016	2017	9M18
Tunjungan Plaza	99%	98%	94%	98%	94%
Kota Kasablanka Mall	99%	99%	99%	98%	97%
Gandaria City Mall	98%	98%	96%	96%	93%
Pakuwon Mall	91%	91%	89%	94%	95%
Pakuwon Trade Center	91%	92%	92%	94%	93%
Royal Plaza	96%	97%	97%	97%	96%
Blok M Plaza	93%	92%	93%	91%	85%

Source: Company data, RHB

Figure 3: PWON's hotel RevPAR*

(IDR'000/room/day)	2014	2015	2016	2017	9M18
Sheraton Surabaya	784	717	515	486	572
Somerset Berlian	887	824	666	705	669
Ascott Waterplace	0	0	530	728	745
Sheraton Grand Jakarta	0	0	510	767	916
Four Points	0	0	414	503	551

Note: *Revenue per available room
Source: Company data, RHB

Strategically-Located Landbank

PWON was established in 1982 with the development of Tunjungan Plaza in Surabaya. The company entered the Jakarta market in 2007 with the acquisition of land for the Gandaria City superblock. Its landbank and property projects are mostly located in Jakarta and Surabaya, two cities with the largest populations in Indonesia (with 4ha of landbank outside of Jakarta in Bekasi, which is still included within the Greater Jakarta area).

According to the world population view, Jakarta has a population of 8.5m people. Surabaya has 2.3m people and Bekasi has 1.5m people (ranked No. 5 in terms of cities with the largest populations).

Figure 4: Kota Kasablanka superblock



Source: Company

Figure 5: Gandaria City superblock



Source: Company

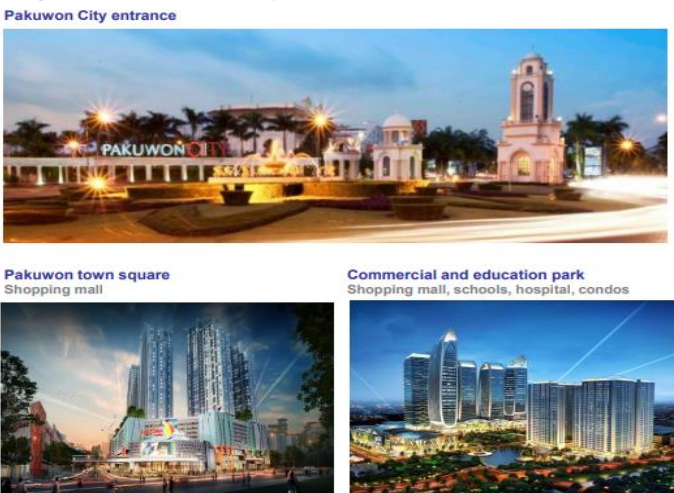
The company's two big superblocks in Jakarta are strategically placed in areas with high traffic. Its biggest superblock, Kota Kasablanka, is located in Jakarta's fringe CBD. As for Gandaria City – the third-largest superblock in South Jakarta – it is located next to the main road connecting South and West Jakarta. PWON also has landbank in Simatupang, near an up-and-coming business area.

Figure 6: Tunjungan Plaza superblock



Source: Company

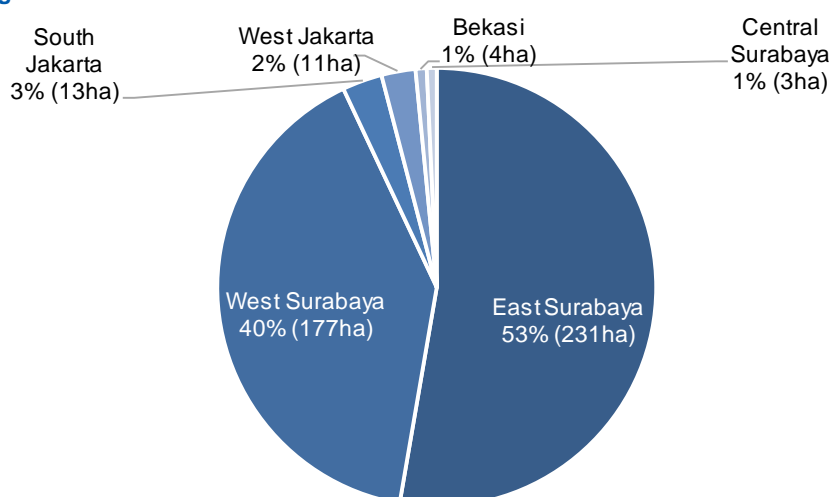
Figure 7: Pakuwon City township development



Source: Company

Locations in Surabaya – including Tunjungan City – are in the heart of Surabaya and Pakuwon City in an up-and-coming affluent residential neighbourhood. PWON's two township developments and remaining landbank are located less than 30 minutes from Surabaya's city centre.

Figure 8: Breakdown of landbank



- ◆ PWON has 439ha of landbank as at 9M18, where the majority (53%) is located in the East Surabaya and West Surabaya (40%) areas, as both has township areas
- ◆ PWON has the largest landbank in Surabaya city. The company also has landbank in South Jakarta (3%), West Jakarta (2%), Bekasi (1%), and Central Surabaya (1%)

Source: Company data, RHB

East and West Surabaya township developments. PWON has two township developments located in East Surabaya and West Surabaya. Both areas are located less than 30 minutes from Surabaya's city centre.

The majority of landbank currently owned by the company are located around these townships, with c.408ha combined. In the medium-to-long term, we believe PWON will continue to develop these landbank areas.

The Pakuwon City township currently encompasses 27ha of residential land and commercial centre with 19 condominium towers, a 19,000 sqm retail mall, a university, international and Chinese schools, and a hospital.

Limited Retail Supply In Jakarta And Surabaya

According to Colliers, the supply of retail space during 2018-2020 will be limited, as there are only a few shopping centre openings. Throughout 9M18, there were no new shopping centre openings in Jakarta – consequently, supply remained at 4.65m sqm over 129 shopping centres.

During 2018-2020, it is believed that five future shopping centre openings are on the cards, providing c.380,000 sqm of retail space. The development trend has been shifting to an integrated development concept, which is mainly triggered by a higher plot ratio and land scarcity, particularly in Jakarta. Some of the retail projects in the supply pipeline are part of an integrated development, namely Daan Mogot City, Prajawangsa, Holland Village Mall, and Shopping Mall at South Gate.

Surabaya is also anticipating a limited supply of new retail space. The current total retail supply is at 1.1m sqm and, going forward, there will be five shopping centres to be completed during 2019-2021. This includes PWON's East Coast Centre 2, which provides 20,000 sqm. This shopping centre is slated for opening in 2021.

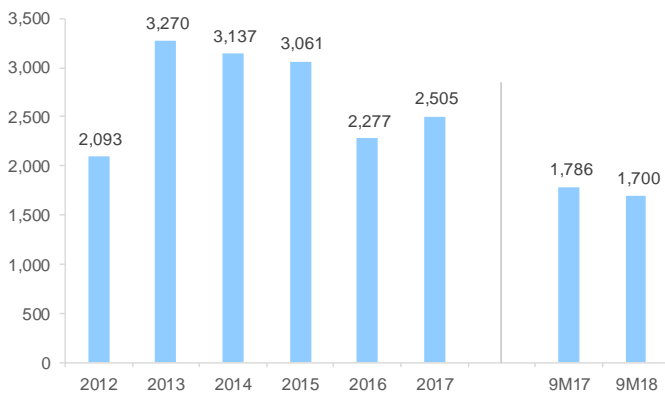
Presales And Revenue Breakdown

Figure 9: Presales as at 9M18

Superblock/Township	Project name	Segment	GSA ('000 sqm)	% Sold	Progress update
Kota Kasablanka	88 Kasablank	Office	36.3	100%	Completed
	Casa Grande	Condo	96.2	100%	Completed
	Angelo	Condo	36.9	80%	Finishing Stage
	Bella	Condo	36.8	78%	Finishing Stage
	Chianti	Condo	47.3	57%	Topping Off
	Pakuwon Tower	Office	32.1	5%	Topping Off
Tunjungan City	Pakuwon Center	Office	10.1	88%	Completed
	The Peak	Condo	30	100%	Completed
	One Icon	Condo	48.8	73%	Finishing Stage
	Pakuwon Tower	Office	15.7	43%	Topping Off
Pakuwon City	Harvard	Condo	26	100%	Completed
	Stanford	Condo	25.5	100%	Completed
	Yale	Condo	25.4	100%	Completed
	Princeton	Condo	25.7	100%	Completed
	Amor	Condo	47.4	69%	Foundation Stage
Pakuwon Mall	Orchard	Condo	27.6	100%	Completed
	Tanglin	Condo	32.3	100%	Completed
	La Riz	Condo	41.4	98%	Completed
	Anderson	Condo	57.1	80%	Topping Off
	Benson	Condo	53.4	59%	At Level 20
	La Viz	Condo	26.7	11%	Foundation Stage

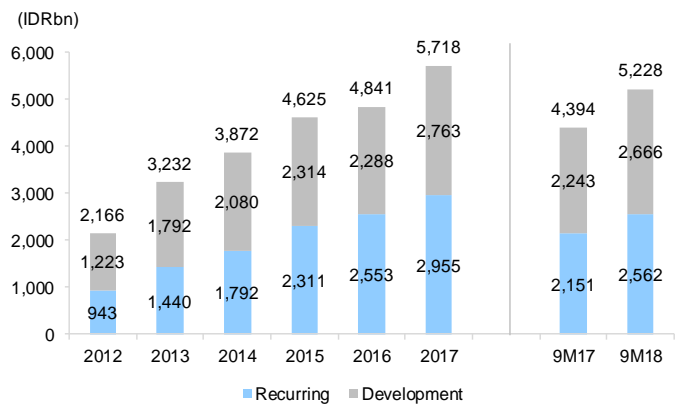
Source: Company data, RHB

Figure 10: PWON's historical presales



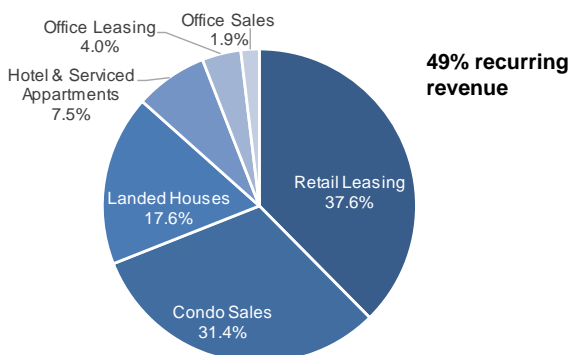
Source: Company data, RHB

Figure 11: PWON's revenue breakdown



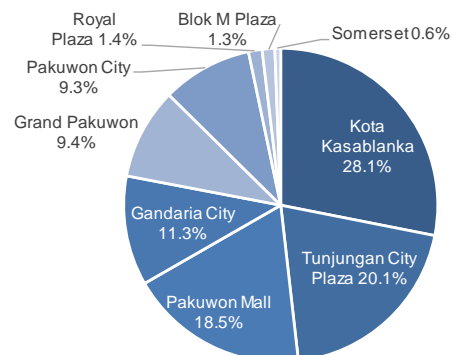
Source: Company data, RHB

Figure 12: PWON's revenue by segment (9M18)



Source: Company data, RHB

Figure 13: PWON's revenue by project (9M18)



Source: Company data, RHB

Existing Property Development Projects

PWON has several existing projects: Kota Kasablanka, Gandaria City, Tunjungan City, Pakuwon City, Grand Pakuwon, and Pakuwon Mall:

- i. **Kota Kasablanka** is a superblock with four condominiums (plus three more under development), office towers for lease and for sale, and the largest retail shopping mall in South Jakarta. The project is undertaken by Elite Prima Utama, which is fully-owned by the company, with an area of 12.9ha. The superblock was initially launched in 2012:
 - a. Kota Kasablanka has four condominiums with 1,077 units and a gross saleable area (GSA) of 96 sqm, one tower for sale with an area of 34,000 sqm, retail shopping mall with an NLA of 111,000 sqm, and two office towers for lease;
 - b. The development has three additional condominiums with a GSA of 121,000 sqm, one office tower for sale with GSA of 32,000 sqm, and one tower for lease with an NLA of 48,000 sqm under construction.
- ii. **Gandaria City** is another superblock, the third largest in South Jakarta. It is built on a strategically-located area of 9.3ha. The project is undertaken by Artisan Wahyu, 83%-owned by PWON:
 - a. Gandaria City has two condominiums with 715 units, an office tower with GSA of 37,000 sqm and NLA of 21ksqm, a retail shopping mall with NLA of 96,000 sqm, and a 5-star hotel (Sheraton Grand Jakarta Gandaria) with 293 rooms;
 - b. One more condominium with GSA of 83,000 sqm is under construction.
- iii. **Tunjungan City**, PWON's first project – which was initially launched in 1986 – is located in Surabaya's CBD area. The company is undertaking Phases 5 & 6 of the development:
 - a. Phase 5 development includes a residential area with GSA of 30,000 sqm, an office tower with 10,000 sqm saleable area and 10,000 sqm leasable area, a retail shopping mall with 20,000 sqm (in addition to an existing 103,000 sqm), and a 4-star hotel with 293 rooms (also in addition to an existing 5-star hotel with 359 rooms);
 - b. Phase 6 development includes a residential area called One Icon with GSA of 49,000 sqm, an office tower with GSA of 16,000 sqm and NLA of 24,000 sqm, and a retail shopping mall with NLA of 25,000 sqm.
- iv. **Pakuwon City**, PWON's township development located in East Surabaya consists of residential and commercial areas, and an education park. It has an area of 209.8ha within 30 minutes of the city centre:
 - a. Pakuwon City currently has landed houses and land lots, four condominiums with GSA of 103,000 sqm, shophouses, university, schools, a hospital, and a shopping centre with NLA of 21,000 sqm;
 - b. Under construction: three condominiums with GSA of 120,000 sqm, and a retail shopping mall called East Coast Centre, as well as two food & entertainment centres with NLAs of 20,000 sqm.
- v. **Grand Pakuwon** is another township development. Located in West Surabaya, it consists of a residential area with landed houses and land lots, and a future commercial area. It has an area of 161.9ha, located within 10 minutes of downtown Surabaya and 30 minutes from the city centre.
- vi. **Pakuwon Mall**, located in West Surabaya, is undergoing Phases 3 & 4 developments – retail, residential condominiums, hotels, and a retail shopping mall:
 - a. Phase 2 development includes two condominium towers with GSA of 60,000 sqm, a retail shopping mall with 37,000 sqm NLA, and 182 units of serviced apartments under Ascott;
 - b. Phase 3 development includes one condominium tower with GSA of 41,000 sqm and a retail shopping mall with NLA of 36,000 sqm;

- c. Phase 4, currently under construction, includes three condominium towers with GSA of 137,000 sqm, retail shopping mall with 12,000 sqm, and two hotels with 4- and 5-stars and 316 and 204 rooms respectively.





Figure 14: PWON’s projects portfolio I

	Kota Kasablanka	Gandaria City	Tunjungan City	Pakuwon City	Grand Pakuwon
Location	Jakarta Fringe CBD	South Jakarta	Surabaya CBD	East Surabaya	West Surabaya
Description	12.9ha located right next to Jakarta’s Golden Triangle. Contains the largest mall in South Jakarta, opened on July 28, 2012	3 rd largest superblock in South Jakarta, sitting on a 9.3ha lot along a main thoroughfare linking South Jakarta to West Jakarta	PWON’s first development in 1986, expanded in phases. Developing Phase 5 and 6 with premium retail, office, and residential towers	Self-contained city in East Surabaya, consisting of a residential area, commercial area, and an education park	Self contained city in West Surabaya, consisting of residential area and a future commercial area
Residential	4 condos, 1,077 units, GSA: 96k sqm 3 additional condos, GSA: 121k sqm	2 condos, 715 units 1 condo GSA: 83k sqm	TP5: TP Residence GSA: 30k sqm TP6: One Icon GSA: 49k sqm	House and land lot community 4 Educuity condos GSA:103k sqm ¹ 3 ECM condos GSA: 120k sqm	House and land lot community
Office (for sale)	Tower A GSA: 34k sqm Tower C GSA: 32k sqm	Tower A GSA: 37k sqm	TP5: Pakuwon Center GSA:10k sqm TP6: Pakuwon Tower GSA: 16k sqm	Shophouses, university, schools, and a hospital	
Retail	Middle to upmarket NLA: 111k sqm	Middle to upper middle NLA: 98k sqm	NLA: 103k sqm TP5: NLA: 20k sqm TP6 NLA: 25k sqm	Family shopping centre NLA: 21k sqm East Coast Center 2 Food & Entertainment Center NLA: 20k sqm	
Office (for lease)	Tower A NLA: 24k sqm Tower B NLA: 32k sqm Tower C NLA: 48k sqm	Tower A NLA: 21k sqm	TP5: Pakuwon Center NLA: 10k sqm TP6: Pakuwon Tower NLA: 24k sqm		
Hotel		293 rooms, 5-star hotel	359 rooms, 5-star hotel 293 rooms, 4-star hotel		

Projects in red are currently under construction or targeted to start construction within the next 2 years. GSA/NLA and number of units/rooms are estimates.
Note 1 : Remaining 15 planned condo developments

Source: Company data, RHB

Figure 15: PWON's projects portfolio II

	Pakuwon Mall	Royal Plaza	Blok M Plaza	Somerset Berlian
				
Location	West Surabaya	South Surabaya	South Jakarta	South Jakarta
Description	14.6ha Superblock located in West Surabaya's affluent residential neighborhood. Has a mid-market retail mall, Pakuwon Mall ("PM") and a strata retail mall 89% owned and managed by PP, Pakuwon Trade Centre ("PTC"). Developing Phase 3 & 4 with premium leased retail, residential condos and hotels. Phase 2 & 3 mall are over 80% leased.	Mid-market strata retail mall 78% owned and managed by a subsidiary of PP. Situated along one of Surabaya's main thoroughfares connecting North, Central and Greater Surabaya and easily accessible from nearby toll roads, bus terminals and train stations.	Mid-market retail mall in South Jakarta's commercial district. Situated along the main thoroughfare connecting South Jakarta and the central business district. Planned MRT terminal connects directly into the mall (estimated to complete by approx. 2018).	Serviced apartment situated in the exclusive residential area of South Jakarta and a short drive from the financial center. Managed by The Ascott Limited under the "Somerset" brand
Opening date	PM Phase 1: 2003, PTC: 2004, PM Phase2&3: 2017	2006	1991	2007
Residential	Phase 2: "Orchard" & "Tanglin" towers GSA: 60k sqm Phase 3: "LaRiz" tower GSA: 41k sqm Phase 4: Three condo towers GSA: 137k sqm			
Retail	PM NLA: 47k sqm, PTC NLA: 46k ¹ sqm Phase 2 NLA: 37k sqm Phase 3 NLA: 36k sqm Phase 4 NLA: 12k sqm	NLA: 53k ² sqm	NLA: 31k sqm	
Hospitality	316 rooms, 4-star hotel 204 rooms, 5-star hotel 182 serviced apartment units (Ascott brand)			123 serviced apartment units ³ (Somerset brand)

Projects in red are currently under construction or targeted to start construction within the next 2 years. GSA/NLA and number of units/rooms are estimates.
NLA : Net Leasable Area, GSA: Gross Saleable Area

Source: Company data. RHB

Valuation

We derive our IDR780 TP based on SOTP methodology and applying a 30% discount to NAV – we believe this is justified given the industry average discount to NAV of 40%, and PWON's strong recurring income profile and sector-high ROE of 18%. We used RNAV for the bulk of its property development assets, and DCF (13% WACC) for the recurring income portion.

Figure 16: SOTP valuation for PWON

Property Assets	Area (ha)	Utilization Ratio (%)	Price/sqm (RpM)	Market Value (Rp bn)	Ownership (%)	NAV (Rp bn)	NAV/Share
Landbanks							
Pakuwon City	210	90%	15,000	28,350	100%	28,350	589
Central Surabaya - Tunjungan City	3.2	100%	20,000	640	100%	640	13
Undeveloped East Surabaya	21	100%	5,000	1,050	100%	1,050	22
West Surabaya	176	100%	5,000	8,800	100%	8,800	183
Others	15	100%	5,000	730	100%	730	15
TB Simatupang	4.5	70%	20,000	630	100%	630	13
TOTAL Land Value	429					40,200	835
NAV after tax 5%						38,190	793
Development Revenue					100%	4,913	102
Recurring Revenue					100%	12,099	251
Total						55,202	1,146
Total Shares (in mn)	48,160						
				Net Cash		(1,744)	(36)
				Net Asset Value		53,458	1,110
				NAV Discount			30%
				Target Price			777
				Market Price (IDR)			600
				Upside Potential			30%

Source: Company data, RHB

PWON is trading at FY19F P/E of 12x, cheaper than the average Indonesian property sector average of 15x. Furthermore, the company has a superior ROE profile of 18%, notably higher vs the sector average of 10%. The high ROE profile is largely thanks to the high portion of recurring income from its shopping mall retail business.

Figure 17: Property valuation table

Name	BBG Ticker	Rating	Price	Market Cap	EPS Growth	P/E	P/BV	PEG	2019F				EV/EBITDA
			(IDR)	(USDm)					(%)	(x)	(x)	(x)	
Pakuwon Jati	PWON IJ	BUY	600	1,980	12.6	11.6	2.0	0.9	1.0	9.7	17.9	8.8	
Bumi Serpong Damai	BSDE IJ	NEUTRAL	1,230	1,622	18.6	9.8	0.8	0.5	1.5	5.3	8.2	8.6	
Ciputra Development	CTRA IJ	BUY	995	1,265	7.1	16.6	1.1	2.3	0.8	3.6	7.1	11.9	
Summarecon Agung	SMRA IJ	BUY	820	810	15.2	28.1	1.6	1.8	0.7	2.5	6.0	11.9	
Hanson International	MYRX IJ	BUY	109	647	465.0	28.7	1.3	0.1	-	3.1	4.6	21.5	
Alam Sutera	ASRI IJ	NEUTRAL	318	428	15.7	4.8	0.6	0.3	2.4	5.8	13.8	6.3	
Lippo Karawaci	LPKR IJ	NR	248	392	(16.1)	6.3	0.3	(0.4)	2.3	1.5	4.6	8.4	
Sector Weighted Average					52.9	14.8	1.3	1.0	1.1	5.5	10.2	7.3	

Note: Prices as at 21 Dec 2018

Source: Bloomberg, RHB

Financial Summary & Forecasts

Figure 17: Financial exhibits

Income Statement (IDRb)	2016	2017	2018F	2019F	2020F
Total Turnover	4,841	5,718	6,575	6,970	7,458
Gross Profit	2,754	3,364	3,863	4,077	4,363
EBITDA	2,876	3,413	3,925	4,160	4,410
Depreciation and Amortisation	609	616	618	620	622
Operating Profit	2,260	2,795	3,180	3,326	3,574
Net Interest	(229)	(197)	(99)	(72)	(116)
Other Income	(32)	(166)	(183)	(183)	(150)
Pre-Tax Profit	2,057	2,406	2,748	3,071	3,308
Taxation	(276)	(381)	(405)	(445)	(478)
Minority Interests	109	152	142	151	161
Recurring Net Profit	1,669	1,873	2,201	2,475	2,668
Cash Flow (IDRb)	2016	2017	2018F	2019F	2020F
Change in Working Capital	1,358	195	340	210	247
Cash Flow from Operations	3,360	2,434	2,667	2,817	3,055
Capex	(3,147)	(1,522)	(1,319)	(1,765)	(2,249)
Cash Flow from Investing Activities	(3,274)	(1,463)	(1,318)	(1,765)	(2,249)
Proceeds from Issue of Shares	11	(20)	9	-	-
Dividends Paid	(217)	(217)	(281)	(330)	(371)
Cash Flow from Financing Activities	266	149	(588)	(1,078)	(986)
Cash at Beginning of Period	2,283	2,635	3,756	4,517	4,492
Net Change in Cash	352	1,121	761	(25)	(180)
Ending Balance Cash	2,635	3,756	4,517	4,492	4,312
Balance Sheet (IDRb)	2016	2017	2018F	2019F	2020F
Total Cash and Equivalents	2,635	3,756	4,517	4,492	4,312
Tangible Fixed Assets	14,144	14,420	15,239	16,665	18,343
Advance for Land Acquisitions	131	299	329	346	363
Investment in Associates	55	53	58	58	58
Total Other Assets	3,895	5,183	5,626	5,901	6,410
Total Assets	20,674	23,359	25,381	27,058	29,065
Short-Term Debt	769	402	442	486	535
Total Long-Term Debt	4,471	5,026	5,026	4,200	3,500
Other Liabilities	4,414	5,140	5,581	5,893	6,252
Total Liabilities	9,654	10,567	11,049	10,579	10,287
Shareholders' Equity	8,684	10,320	12,223	14,369	16,668
Minority Interests	2,336	2,472	2,110	2,110	2,110
Total Equity	11,020	12,791	14,333	16,479	18,778
Net Debt	2,605	1,672	951	194	(277)
Total Liabilities & Equity	20,674	23,359	25,381	27,058	29,065
Key Metrics	2016	2017	2018F	2019F	2020F
Revenue Growth (%)	5%	18%	15%	6%	7%
Recurrent EPS Growth (%)	32%	12%	17%	12%	8%
Gross Margin (%)	57%	59%	59%	59%	59%
EBITDA Margin (%)	59%	60%	60%	60%	59%
Net Profit Margin (%)	34%	33%	33%	36%	36%
Dividend Payout Ratio (%)	17%	13%	15%	15%	15%
Capex / Sales (%)	65%	27%	20%	25%	30%
Interest Cover (x)	9.9	14.2	32.2	46.0	30.8

◆ We expect PWON to generate IDR2.5trn of net profit in 2019F, an increase of 12% YoY

Source: Company data, RHB

Latest 9M18 results: Net profit grew 25%

Based on the latest 9M18 earnings, it booked 9M18 net profit of IDR1.78trn, up 25% YoY from IDR1.42trn in 9M17. The 9M18 run-rate stood at 82% of consensus full-year 2018F at the time of release, which indicates a strong earnings beat, especially given that the 9M17 run-rate vs 2017 full-year was only at 50%.

If we only look at the 3Q18 numbers, net profit reached IDR823bn, down 3% QoQ from IDR849bn in 2Q18, but up strongly 58% YoY from IDR521bn in 3Q17.

Revenue in 3Q18 reached IDR1.85trn, up 7% QoQ and 28% YoY. This brought blended 9M18 revenue to IDR5.22trn, up 19% YoY and accounting for 82% of consensus full-year 2018F.

Operating profit in 3Q18 reached IDR1.13trn, down 3% QoQ and up 61% YoY. This brought blended 9M18 operating profit to IDR2.66trn, up 25% YoY and accounting for 88% of consensus full-year 2018F – implying a very strong performance that was well above Street expectations.

As per 9M18, the breakdown of revenue per segment was retail leasing (38%), landed houses (18%), condominium sales (31%), hotels and serviced apartments (8%), office leasing (4%), and office sales (2%).

Meanwhile, if we look at it on a per project basis, the revenue breakdown was as follows: Kota Kasablanka (28%), Tunjungan City (20%), Pakuwon Mall (19%), Gandaria City (11%), Grand Pakuwon (9%), Pakuwon City (9%), Royal Plaza (1%), and Somerset (1%).

Figure 18: PWON's 9M18 results

Results (IDRbn)	1Q18	2Q18	3Q17	3Q18	QoQ	YoY	9M17	9M18	FY18		9M17/		
									YoY	Cons	%	FY17	FY17
Sales	1,647	1,730	1,443	1,852	7%	28%	4,394	5,229	19%	6,346	82%	5,718	77%
Gross profit	485	1,300	836	1,281	-2%	53%	2,507	3,067	22%	3,690	83%	3,634	69%
Operating profit	361	1,166	705	1,134	-3%	61%	2,136	2,661	25%	3,029	88%	3,065	70%
Pre-tax profit	282	1,023	659	717	-30%	9%	1,817	2,022	11%	2,727	74%	3,373	54%
Net profit	109	849	521	823	-3%	58%	1,422	1,780	25%	2,179	82%	2,840	50%
Gross margin	29%	75%	58%	69%				59%					
Operating margin	22%	67%	49%	61%				51%					
Net margin	7%	49%	36%	44%				34%					







Source: Bloomberg, RHB Research

Downside Risks

- i. **Macro uncertainty** – macro volatility leading to slowing GDP growth could lead to weakening demand from consumers for property purchases;
- ii. **Global geopolitical risk** – global geopolitical risks such as the US-China trade war, Brexit, and oil supply & demand could potentially create negative sentiment towards equity investment and potentially leading to fund outflows from the Indonesian stock market;
- iii. **Rising interest rates** – more aggressive and higher-than-expected interest rate hikes could lead to higher mortgage rates, which could potentially slow demand for property purchases, as c.50% of property purchases in Indonesia are still financed through mortgages;
- iv. **Regulatory risk** – unexpected implementation of government regulations such as changes in the loan-to-value and property taxes could potentially have a negative impact on property presales. Nonetheless, this is usually more towards the mid-high end properties;
- v. **Execution risk** – delay in execution of property developments could negatively impact pre-sales and eventually revenue and earnings;
- vi. **Domestic political risk during election year** – Indonesia will have its next presidential election in Apr 2019. Unwanted negative surprise from the election, such as demonstrations and riots, could severely impact demand for property purchases and create fund outflows from the stock market.




Management Team

Figure 19: Board of directors

Name	Position	Description
A. Stefanus Ridwan S.	President Director	Mr Ridwan has been appointed as President Director since 2016. He had served as Director for PT Pakuwon Sentosa Abadi since 2000 and was trusted to serve as Director for PT Permata Berlian Realty since 2003. In addition, he served as Head of Indonesian Association of Shopping Center Management. Prior to his appointment as President Director, he was the a Director to the company (2007 – 2016).
		
Minarto	Director	Mr Minarto had served as Director since 2005 and was reappointed in 2016. He had served as Finance and Administration Manager for Dwi Satya Utama Group (1991-1995) and as Finance Director for PT Keramik Diamond (2000-2004). Mr Minarto graduated with Bachelor's of Economics degree from Merdeka University, Malang and continued with MBA degree from University of Wales (2013).
		
Wong Boon Siew Ivy	Director	Ms Ivy had been appointed as Director since 2010 and is reappointed in 2016. She has work experience as Marketing Director for Jakarta Land Management for 5 years and an overall 21 year experience in the property sector. Ms Ivy graduated with Bachelor of Arts degree from University of London.
		
Eiffel Tedja	Director	Mr Tedja had been reappointed as Director since 2016. He had served as an analyst for Platinum Securities Hongkong and served in Mahanusa Capital Jakarta at Corporate Finance sector. He joined the company in 2001 and became a Director of the company since 2012. Mr Tedja receives his Bachelor of Science degree from University of Pennsylvania, USA.
		
Sutandi Purnomosidi	Director	Mr Purnomosidi had served as Director of the Company since 2013, and was reappointed as Director in 2016. His experience include; Financial Consultant for PT South East Asia Bank (1993-1995), Deputy Center Manager for Procon Indah (1995-1996), Deputy Center Manager for PT Summarecon Agung Tbk (1996 - 1998), and Center Manager for Kelapa Gading Mall (1998-2001). Mr Purnomosidi receives his Bachelor's degree in Career Bussiness College, Darlinghurst, Sydney, Australia (1992).
		
Lauw, Syane Wahyuni Lukito	Director	Ms Lauw has been appointed as Director of the company since 2016. She had served as Commissioner for PT Pakuwon Darma (2008 – 2013), Director for PT Pakuwon Darma since 2013 and Director for PT Artisan Surya Kreasi since 2013. In addition, she was also a Commissioner for PT Bumi Pranata Laksana since 2010. Ms Lauw graduated with Bachelor's of Economics degree from University of Surabaya.
		

Source: Company

Figure 20: Board of commissioners

Name	Position	Description
 Alexander Tedja	President Commissioner	Mr Tedja had already served as President Commissioner in 1998 and is reappointed for the same position in 2016. He had a career in film and movie division at PT ISAE Film since 1972, PT Pan Asiatic Film since 1991 and PT Menara Mitra Cinema Corp since 1977. Prior to serving as President Commissioner, he was the Company's President Director (1989-1998).
 Dr. Dyah Pradnyaparamita Duarsa	Independent Commissioner	Ms Duarsa had served as an Independent Commissioner since 2009 and was reappointed in 2016. She had served as Vice Dean Lecturer at the Faculty of Medicine, Udayana University, Denpasar since 1985. Ms Duarsa graduated with Doctoral degree in medical study program at Udayana University.
 IR. Richard Adisastra	Commissioner	Mr Adisastra has been appointed as Commissioner in 2016. Previously, he was the Company's President Director (2005 – 2016). He served at PT Cremona Mulia (1975-1977) before starting his career at Pakuwon in 1984. He graduated with Bachelor of Civil Engineering degree from North Sumatra University, Medan.

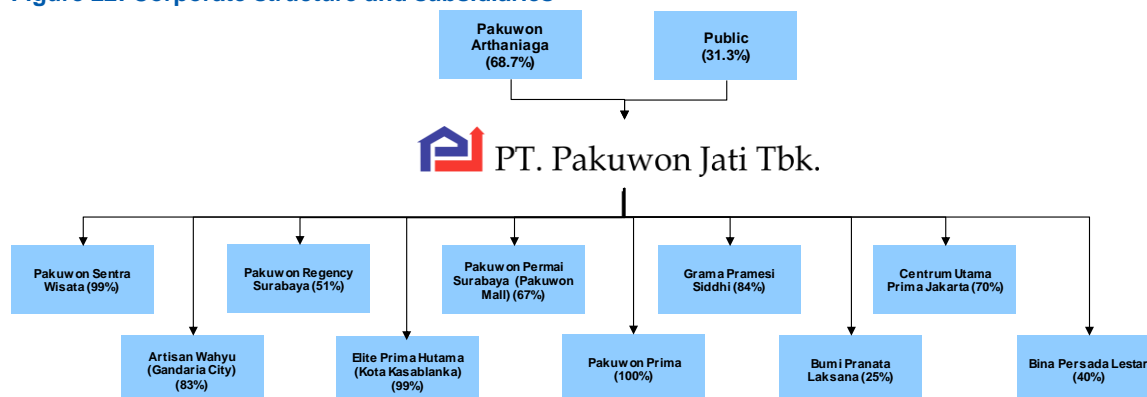
Source: Company

Figure 21: Company milestones

Year	Description
1982	Pakuwon Jati was established to develop Tunjungan Plaza I, the first modern shopping center in Surabaya
1989	Became the first property company to be listed on the Jakarta Stock Exchange
1991	Completed construction of Tunjungan Plaza II Shopping Center and Mandiri Office Tower
2002	Completed Tunjungan Plaza III and IV, Surabaya Sheraton Hotel, and Regensi Condominium. Tunjungan City becomes the 1st Superblock in Indonesia
2007	Entered the Jakarta market with the acquisition of land for Gandaria City Superblock in South Jakarta
2008	Rebranding of Pakuwon City into a self-contained city, complete with retail/commercial areas, schools, and a hospital
2010	Completed 2 condos, 1 office tower, and a mall in Gandaria City, as well as 1 mall in Pakuwon City
2011	Acquired Kota Kasablanka Superblock in Jakarta's fringe CBD
2012	Completed 4 condos, 2 offices, and opened Kota Kasablanka mall with 94% pre-leasing rate
2013	Acquired 33% stake in Usada Insani Hospital, as well as 45% stake in 4.2 ha land bank in Simatupang, South Jakarta
2014	Acquired 67% of share of PT Pakuwon Permai. Issued Senior Unsecured Notes amounting to USD200m with 7.125% interest rate due in 2019. Increased shareholding of 4.2 ha Simatupang land bank from 45% to 70%
2015	Opening of Ascott Waterplace Surabaya in May 2015, Tunjungan Plaza retail mall phase V Surabaya and Sheraton Grand Jakarta Gandaria City Hotel in October 2015
2016	Acquired 11 ha land in Daan Mogot, West Jakarta and the opening of Four Points by Sheraton Surabaya Hotel in June 2016.

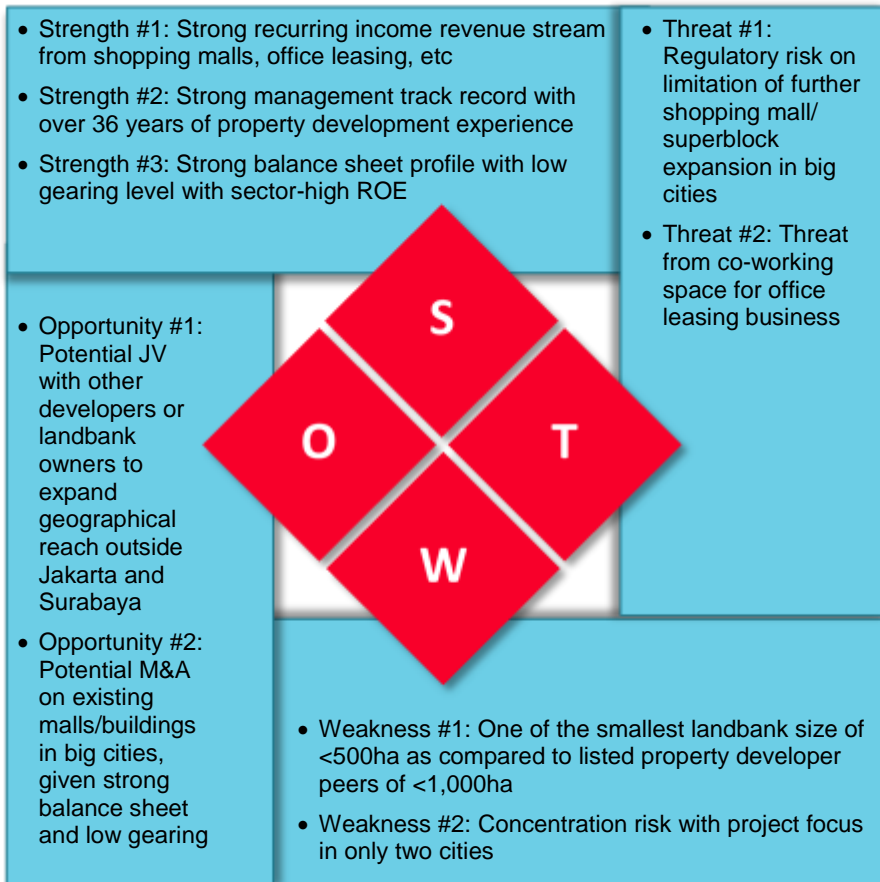
Source: Company, RHB

Figure 22: Corporate structure and subsidiaries



Source: Company

SWOT Analysis



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