

25 November 2020

Property | Real Estate

Pakuwon Jati (PWON IJ)

Buy (Maintained)

Returning Traffic = Smaller Discounts; BUY

Target Price (Return): IDR630 (+19%)
 Price: IDR530
 Market Cap: USD1,804m
 Avg Daily Turnover (IDR/USD) 44,473m/3.06m

- **BUY with new IDR630 TP from IDR520, 19% upside and c.4% yield.** We recently had a call with management to discuss its outlook towards end-2020, and going into 2021. Rental rates have already been lowered – albeit still at 50% and 25% discounts in Jakarta and Surabaya – and will continue to be lowered in December and January. Pakuwon Jati plans to impose a 12-20% rental rate increase in 2022, in line with returning traffic.
- **Further declining discounts in Dec 2020 and Jan 2021.** After recovering from 75-80% discounts in mid-2020, rental discounts have gradually reduced to 50% for malls in Jakarta and 25% in Surabaya, given better foot traffic. Service charges have also been fully paid (70:30 rental and service charge composition). Surabaya has shown better foot traffic with longer visits to malls, with the average parking duration at 3-4 hours, compared to 1-2 hours in Jakarta. This implies customers are more likely to impulse buy.
- **Higher mall rentals in 2022F.** As rentals could not be raised this year, PWON plans to bundle the mall rental rate increase to 2022, totalling a 12-20% growth from 2019 levels. Despite 9M20's occupancy drop (93% average from 95% in 2019), lease extensions have already been signed by major clients, with new enquiries still coming in. For office rental, however, the company is unlikely to aggressively raise rates.
- **Pent up demand for meetings, incentives, conferences & exhibitions (MICE) in 2021.** We see a gradual recovery in its hotel business in 2021F, driven by MICE, as a majority of bookings in 2020 have been rescheduled. This should help offset the still-lacking tourism revenue for its hotels.
- **Bekasi superblock postponed to mid-next year.** Construction of its Bekasi superblock project has been postponed due to the pandemic, except for the hotels. The facilities include 43,000sqm of retail mall; Four Points by Sheraton and Moxy hotels with 324 rooms in total; and four condominium towers. Bekasi apartment units are 30% sold for its first tower. Total marketing sales were at IDR725bn (+200% QoQ), of its IDR1trn FY20 target, and the remaining sales should be booked in 2021F-2022F. Sales improved in Jakarta and Surabaya, with the latter contributing 60% of total revenue. Other than the Bekasi project, development sales were primarily driven by the Surabaya landed house project, while luxury apartment demand remained lukewarm.
- **BUY with higher TP, set at 40% discount to NAV, or +1SD from its mean.** This is on sales and rental fees that are set to rise from the 2019 base, as well as pent up demand from MICE. We believe recovery will come early next year as the large-scale social restrictions (PSBB) should be over. We adjust our FY20F numbers down due to the prolonged PSBB, with revenue and earnings down 16% and 32%. However, we maintain our bullish FY21F-22F on the normalisation of rental rates, with a potential hike in 2022F. Downside risk: Increased COVID-19 cases that could result in another PSBB and delay full foot traffic.

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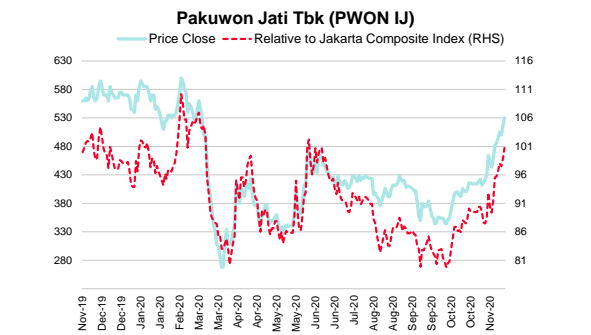


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(7.0)	27.4	27.4	55.9	(7.8)
Relative	2.5	15.9	19.4	30.5	(1.2)
52-wk Price low/high (IDR)	268 – 600				



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (IDRb)	7,081	7,202	4,632	6,584	7,045
Recurring net profit (IDRb)	3,107	2,951	1,669	3,062	3,461
Recurring net profit growth (%)	30.2	(5.0)	(43.4)	83.5	13.0
Recurring EPS (IDR)	64.50	61.27	34.66	63.59	71.87
DPS (IDR)	10.89	9.66	19.11	6.00	7.92
Recurring P/E (x)	8.22	8.65	15.29	8.33	7.37
P/B (x)	2.03	1.70	1.60	1.39	1.22
Dividend Yield (%)	2.1	1.8	3.6	1.1	1.5
Return on average equity (%)	22.2	19.7	8.9	15.3	15.3
Net debt to equity (%)	3.1	net cash	net cash	net cash	net cash

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (IDR)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Indonesia	Recurring EPS	64.50	61.27	34.66	63.59	71.87
Property	EPS	52.80	56.47	28.45	54.54	62.54
Pakuwon Jati	DPS	10.89	9.66	19.11	6.00	7.92
PWON IJ	BVPS	261.55	310.87	331.80	381.96	436.08
Buy	Return on average equity (%)	22.2	19.7	8.9	15.3	15.3
	Return on average assets (%)	10.5	10.6	5.2	9.4	9.7
Valuation basis						
In our SOP valuation, we use DCF to value its recurring income, and RNAV to value its property projects. Our IDR630 TP reflects a 40% discount to NAV (IDR1,082/share).						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Recurring P/E (x)	8.22	8.65	15.29	8.33	7.37
	P/B (x)	2.0	1.7	1.6	1.4	1.2
	Dividend Yield (%)	2.1	1.8	3.6	1.1	1.5
	EV/EBITDA (x)	4.93	4.65	6.20	3.80	2.81
Key drivers						
<ul style="list-style-type: none"> i. New opening of retail malls and other development properties; ii. Launching of products to drive marketing sales; iii. Favourable tax incentives and policy rates. 						
Key risks						
<ul style="list-style-type: none"> i. Weakening of the IDR; ii. Unfavourable policy rates; iii. Delay in construction progress leading to lower revenue recognition. 						
Company Profile						
Established in 1989, Pakuwon Jati is a diversified real estate developer focused in Jakarta and Surabaya. The company's portfolio includes retail, residential, commercial and hospitality projects. 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.						
	Income statement (IDRb)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total turnover	7,081	7,202	4,632	6,584	7,045
	Gross profit	4,050	4,058	2,270	3,910	4,351
	EBITDA	3,539	3,639	2,465	3,631	4,096
	Depreciation and amortisation	(80)	(188)	(581)	(271)	(333)
	Operating profit	3,459	3,451	1,884	3,360	3,762
	Net interest	(36)	53	9	34	58
	Pre-tax profit	2,854	3,271	1,588	2,950	3,362
	Taxation	(27)	(31)	(32)	(59)	(67)
	Reported net profit	2,543	2,720	1,370	2,627	3,012
	Recurring net profit	3,107	2,951	1,669	3,062	3,461
	Cash flow (IDRb)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	(798)	(1,030)	432	(459)	(20)
	Cash flow from operations	2,071	1,868	3,318	3,065	3,813
	Capex	(905)	(811)	(1,071)	(1,071)	(1,071)
	Cash flow from investing activities	(905)	(811)	(1,071)	(1,071)	(1,071)
	Dividends paid	(290)	(289)	(420)	(211)	(405)
	Cash flow from financing activities	(112)	(1,204)	(778)	(60)	(357)
	Cash at beginning of period	3,406	4,460	4,313	5,782	7,716
	Net change in cash	1,054	(147)	1,469	1,934	2,385
	Ending balance cash	4,460	4,313	5,782	7,716	10,101
	Balance sheet (IDRb)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	4,460	4,313	5,782	7,716	10,101
	Tangible fixed assets	4,111	4,911	4,519	5,138	5,457
	Total investments	11,263	11,303	11,534	11,858	12,063
	Total other assets	172	238	154	218	233
	Total assets	25,018	26,095	26,108	29,579	32,638
	Total long-term debt	4,934	3,885	3,777	4,194	4,194
	Total liabilities	9,706	8,000	6,821	7,531	7,700
	Shareholders' equity	12,596	14,971	15,979	18,395	21,002
	Minority interests	2,716	3,124	3,307	3,653	3,936
	Total equity	15,312	18,096	19,287	22,047	24,938
	Total liabilities & equity	25,018	26,095	26,108	29,579	32,638
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	23.2	1.7	(35.7)	42.1	7.0
	Recurring net profit growth (%)	30.2	(5.0)	(43.4)	83.5	13.0
	Recurrent EPS growth (%)	30.2	(5.0)	(43.4)	83.5	13.0
	Gross margin (%)	57.2	56.3	49.0	59.4	61.8
	Recurring net profit margin (%)	43.9	41.0	36.0	46.5	49.1
	Dividend payout ratio (%)	20.6	17.1	67.2	11.0	12.7

Source: Company data, RHB

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Figure 1: Our vs consensus estimates

	RHB New		Consensus		RHB/CONS	
	2020F	2021F	2020F	2021F	2020F	2021F
Revenue (IDRbn)	4,632	6,584	4,523	5,336	2%	23%
Gross profit (IDRbn)	2,270	3,910	2,303	2,854	-1%	37%
Operating profit (IDRbn)	1,884	3,360	1,777	2,329	6%	44%
Net profit (IDRbn)	1,370	2,627	1,332	1,811	3%	45%
EPS	28	55	27	37	6%	47%
GPM (Δ bps)	49.0%	59.4%	50.9%	53.5%	-3.73	11.03
Operating margin (Δ bps)	40.7%	51.0%	39.3%	43.6%	3.49	16.94
Net margin (Δ bps)	29.6%	39.9%	29.4%	33.9%	0.44	17.56

Source: RHB, Bloomberg

Figure 2: Changes to our estimates

	RHB Old		RHB New		Old vs New	
	2020F	2021F	2020F	2021F	2020F	2021F
Revenue (IDRbn)	5,515	6,587	4,632	6,584	-16%	0%
Gross Profit (IDRbn)	3,097	3,913	2,270	3,910	-27%	0%
Operating Profit (IDRbn)	2,636	3,363	1,884	3,360	-29%	0%
Net Profit (IDRbn)	2,009	2,630	1,370	2,627	-32%	0%
EPS	42	55	28	55	-32%	0%
GPM (Δ bps)	56.2%	59.4%	49.0%	59.4%	-12.71	-0.03
Operating Margin (Δ bps)	47.8%	51.1%	40.7%	51.0%	-14.93	-0.03
Net Margin (Δ bps)	36.4%	39.9%	29.6%	39.9%	-18.79	-0.06

Source: RHB

Figure 3: NAV calculation

Property Assets	Area (ha)	Utilisation Ratio (%)	Price/sqm (RpM)	Market Value (IDRbn)	Ownership (%)	NAV (IDRbn)	NAV/Share
Landbank							
Pakuwon City	205	85%	15,000	26,138	100%	26,138	543
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	424					37,988	789
NAV after tax 5%						36,088	749
Development Revenue					100%	4,731	98
Recurring Revenue					100%	11,299	235
Total						52,118	1,082
Total Shares (in m)	48,160						
				Net Cash		(1,744)	(36)
				Net Asset Value		50,374	1,046
				NAV Discount			40%
				Target Price			628
				Market Price (IDR)			505
				Upside Potential			24%

Source: RHB

Figure 4: PWON's discount to NAV band



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-11-10	Buy	520	464
2020-04-28	Buy	460	360
2019-11-25	Buy	780	560
2019-07-04	Neutral	780	740
2018-12-26	Buy	780	590

Source: RHB, Bloomberg

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