Pakuwon Jati Tbk (PWON IJ)

Counting on the Success of Strategies during Pandemic

In 1Q20, PWON posted revenue of IDR1.65 trillion (-3.5% YoY). Due to the exchange rate loss of up to IDR557.62 billion, net profit plunged to IDR67 billion (-90.7% YoY). Meanwhile, recurring income still grew 1.3% YoY supported by a 4% YoY increase in the rental and service charges segments. Two business locations, namely Jakarta and Surabaya, which are the highest ranks in the Covid-19 cases, are a challenge for PWON in developing strategies to maintain business stability during the pandemic.

Profit Depressed by Foreign Exchange Losses

PWON recorded 1Q20 revenue of IDR1.65 trillion contracted by 3.5% YoY (vs IDR1.71 trillion 1Q19). Gross and EBIT margins rose to 59.2% and 45.9% YoY (vs 57.7% and 45.1% 1Q19 respectively). While EBT margin fell to 8.1% (vs 50.6% 1Q19) followed by NPM to 4.0% (vs 42.1% 1Q19). The decrease was caused by a loss in the exchange rate of IDR557.62 billion which then brought PWON's profit down drastically by 90.7% to IDR67 billion (vs. IDR721 billion 1Q19). We also revised the estimated FY20 profit to IDR1.85 trillion (-36.8% vs IDR2.92 trillion). Aside from the significant decrease in profit achievement in 1Q20, we estimate that the weakening of purchasing power during the pandemic can reduce PWON revenues to around 7% -10%.

Recurring Income Rise Slightly in Q1

Despite declining revenue, 1Q20 recurring income rose slightly by 1.3% YoY to IDR898 billion (vs IDR887 billion 1Q19). With 54.4% share of the total revenue, recurring income grew with support from 4% YoY increase in rental and service charges. Revenue from development income was recorded at IDR752 billion, down 8.7% YoY driven by a 47.5% YoY decline in the condominium and office sales segment, while land and building sales actually rose by 145.1% YoY to IDR407 billion. The increasing recurring income segment in 1Q20 indicates that the Covid-19 outbreak since the end of March 2020 has not had a significant impact on PWON's performance. In addition, during 1Q20 PWON succeeded in realizing marketing sales of IDR365 billion (+2.5% YoY vs IDR356 billion 1Q19) or achieved 21% of the 2020 target of IDR1.7 trillion.

Business Location Becomes a Weighting Factor for 2020 Performance

Around 60.8% of PWON revenue in 1Q20 came from the Surabaya area, while the remaining 39.2% came from Jakarta. During the Covid-19 pandemic, DKI Jakarta and East Java are the two provinces with the highest positive cases totaling at more than 11,000 cases, where currently Surabaya is still a red zone. Even though the two regions have eased large scale social restrictions (PSBB) and are undergoing a new normal period since early June, coupled with the reopening of the shopping centers, in our opinion the easing will not immediately make PWON's performance back to normal. As the case rate remains high, the public and investors are likely to wait until the cases slow down.

BUY Recommendation with TP of IDR545

Despite the weakening 1Q20 performance, we maintain the recommendation to BUY with target price of IDR545 using discount to NAV estimation 72% (+1SD above the past three year average) as the basis of valuation method, taking into account that PWON will implement operational load efficiencies and postpone capital expenditure (Capex) to maintain business continuity amid the pandemic. The sloping of Covid-19 cases can be a bright prospect to improve PWON's long-term performance.

Pakuwon Jati Tbk | Summary

	2019A	2020F	2021F	2022F
Revenue	7,202	6,536	6,763	7,350
Growth (%)	1.7%	-9.2%	3.5%	8.7%
EBITDA	3,791	3,462	3,450	3,788
Net Profit	2,720	1,852	2,008	2,182
EPS (IDR)	56	38	42	45
Growth (%)	45.2%	-31.9%	8.4%	8.7%
P/E	10.1x	14.2x	13.1x	12.0x
P/BV	1.5x	1.4x	1.4x	1.2x
EV/EBITDA	7.4x	7.8x	7.6x	6.6x
ROE (%)	16.3%	10.2%	10.7%	10.7%
DER (%)	26.5%	24.0%	23.0%	12.0%
Dividend Yield	1.1%	1.3%	1.3%	1.0%

Unit: IDR bn, %, x
Source: Company Data, Bloomberg, NHKS Research
Please consider the rating criteria & important disclaimer

NH KORINDO SEKURITAS

Company Update | July 1, 2020

BUY

Target Price (IDR)	**545**
Consensus Price (IDR)	546
TP to Consensus Price	-0.2%
vs. Last Price	31.0%

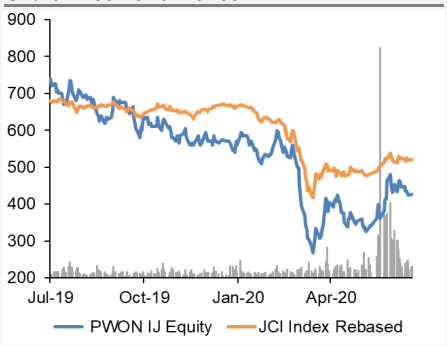
Shares data

Last Price (IDR)	416
Price Date as of	June 30, 2020
52 wk Range (Hi/Lo)	740/268
Free Float (%)	31.3
Outstanding sh.(mn)	48,160
Market Cap (IDR bn)	20,034
Market Cap (USD mn)	1,385
Avg. Trd Vol - 3M (mn)	157
Avg. Trd Val - 3M (bn)	63.26
Foreign Ownership	14.2%

Property
Real Estate Owner & Developer

Bloomberg	**PWON IJ**
Reuters	**PWON.JK**

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-25,3%	17,7%	36,5%	-41,6%
Rel. Ret.	-3,3%	14,6%	25,5%	-18,7%

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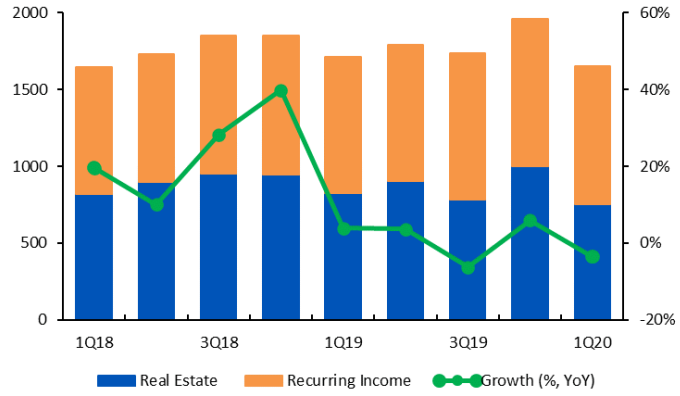
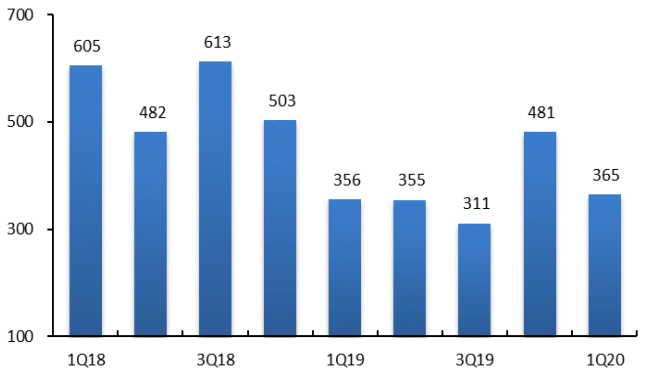
Performance Highlights in Charts

PWON Quarterly Revenue (IDR bn) | 1Q18 - 1Q20



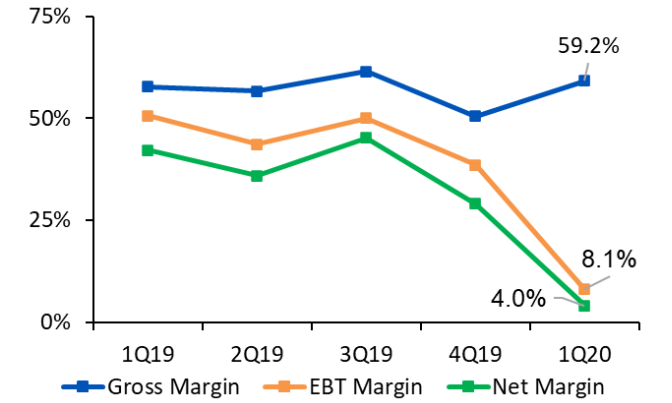
Source: Company Data, NHKS Research

PWON Quarterly Marketing Sales (IDR bn) | 1Q18 - 1Q20



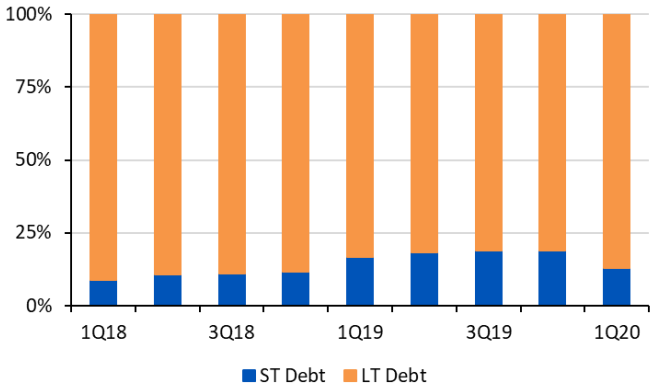
Source: Company Data, NHKS Research

Margin Ratios | 1Q19 - 1Q20



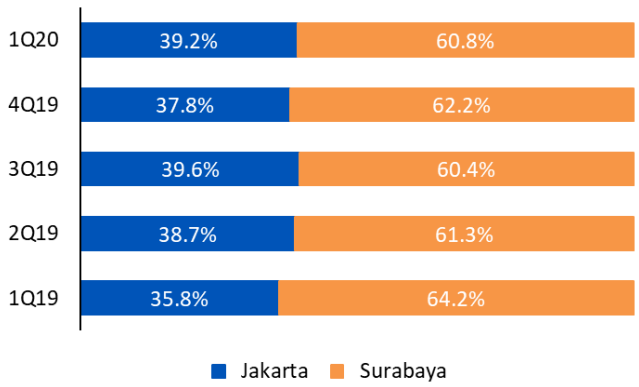
Source: Company Data, NHKS Research

PWON Debt Portion | 1Q18 - 1Q20



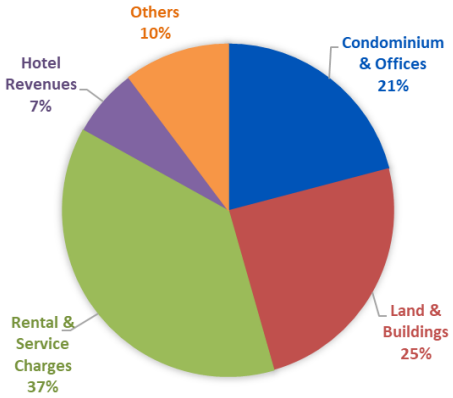
Source: Company Data, NHKS Research

PWON Revenue by Geography | 1Q19 - 1Q20



Source: Company Data, NHKS Research

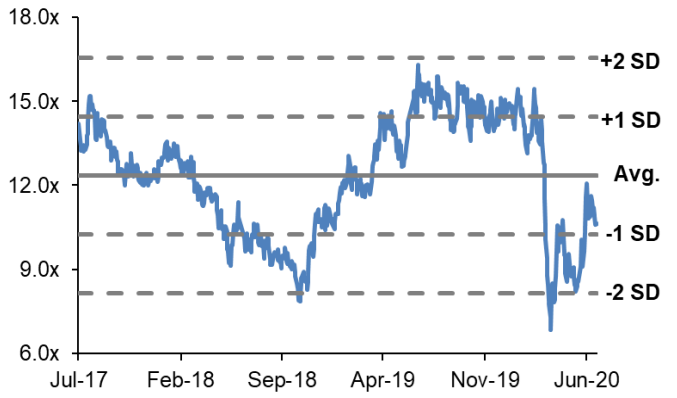
PWON Revenue Breakdown | 1Q20



Source: Company Data, NHKS Research

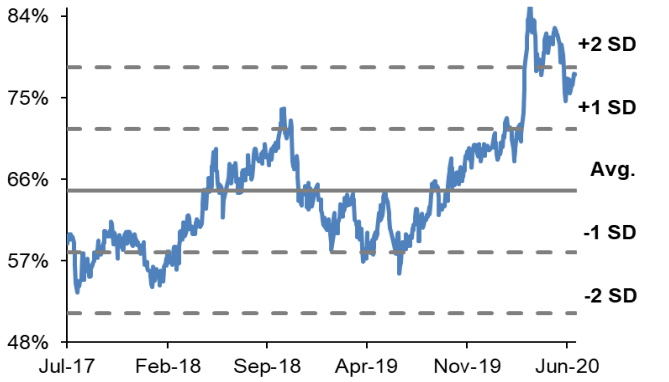
Valuation Highlights in Charts

3-Year Forward P/E Band



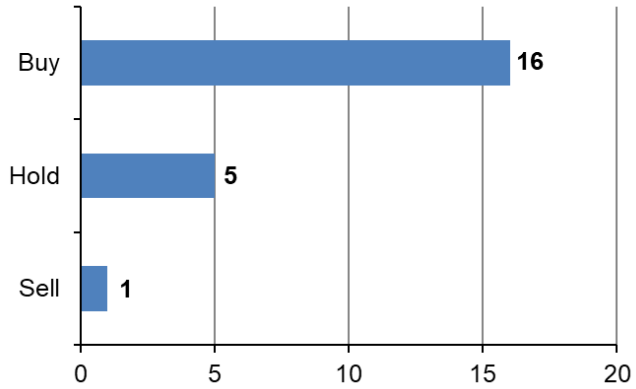
Source: Bloomberg, NHKS Research

3-Year Discount to NAV Band



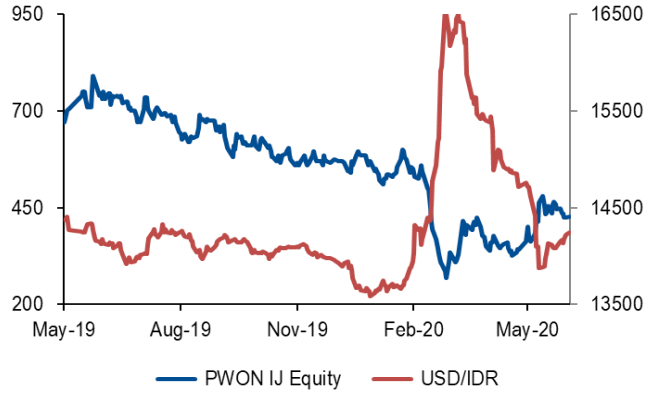
Source: Bloomberg, NHKS Research

Recommendations by Analysts



Source: Bloomberg, NHKS Research

Stock and USDIDR Correlated



Source: Bloomberg, NHKS Research

Quarterly Review

	1Q19	2Q19	3Q19	4Q19	1Q20					2Q20E
					Actual	Estimate	Y-Y	Q-Q	Surprise	
Income statement										
Revenue	1,711	1,794	1,735	1,962	1,651		*-3.5%*	*-15.9%*		1,404
Gross Profit	987	1,015	1,066	990	977		*-1.0%*	*-1.3%*		805
EBIT	771	771	824	694	758		*-1.7%*	*9.2%*		669
EBITDA	881	983	1,017	911	970		*10.1%*	*6.5%*		783
Net Profit	**721**	**644**	**785**	**569**	**67**		***-90.7%***	***-88.3%***		**507**
Margin										
Gross Margin	*57.7%*	*56.6%*	*61.4%*	*50.5%*	*59.2%*		*1.5%*	8.7%		*57.3%*
EBIT Margin	*45.1%*	*43.0%*	*47.5%*	*35.4%*	*45.9%*		*0.9%*	10.5%		*47.6%*
EBITDA Margin	*51.5%*	*54.8%*	*58.6%*	*46.4%*	*58.8%*		*7.3%*	12.3%		*55.7%*
Net Profit Margin	*42.1%*	*35.9%*	*45.2%*	*29.0%*	*4.0%*		*-38.1%*	-25.0%		*36.1%*

Unit: IDR bn, %

Source: Company Data, NHKS Research

Earnings Revision

		2020F	2021F	2022F
Income Statement				
Revenue	-Revised	6,536	6,763	7,350
	-Previous	6,268	6,268	
	-Change	4.3%	7.9%	
Gross Profit	-Revised	3,714	3,825	4,194
	-Previous	4,414	4,551	
	-Change	-15.9%	-16.0%	
EBIT	-Revised	2,880	2,925	3,237
	-Previous	3,436	3,559	
	-Change	-16.2%	-17.8%	
EBITDA	-Revised	3,462	3,450	3,788
	-Previous	3,889	4,088	
	-Change	-11.0%	-15.6%	
Net Profit	-Revised	**1,852**	**2,008**	**2,182**
	-Previous	**2,928**	3,076	
	-Change	-36.8%	-34.7%	
Margin				
Gross Margin	-Revised	*56.8%*	*56.5%*	*57.1%*
	-Previous	*70.4%*	*72.6%*	
EBIT Margin	-Revised	*44.1%*	*43.2%*	*44.0%*
	-Previous	*54.8%*	*56.8%*	
EBITDA Margin	-Revised	*53.0%*	*51.0%*	*51.5%*
	-Previous	*62.0%*	*65.2%*	
Net Profit Margin	-Revised	*28.3%*	*29.7%*	*29.7%*
	-Previous	*46.7%*	*49.1%*	

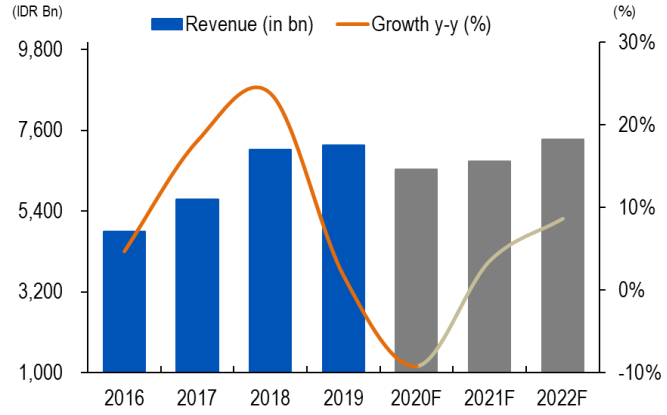
Unit: IDR bn, %

Source: Company Data, NHKS Research

Company Overview

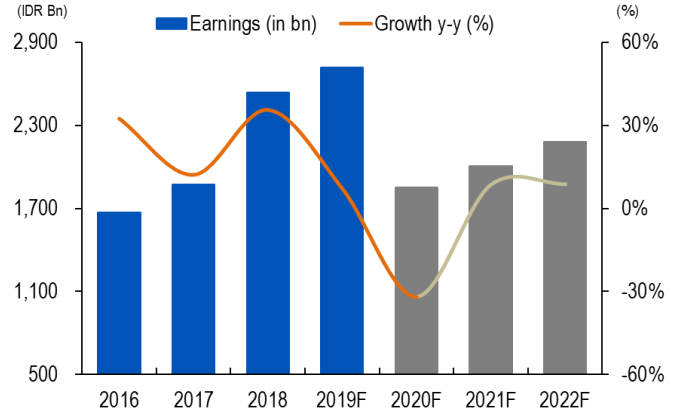
- PWON is one of the property developers to focus on developing shopping centers, condominiums, office spaces, or superblocks. Its developed projects are mainly situated in strategic areas in Jakarta (39.6%), Surabaya (60.4%) and marketed to the upper-to-middle income group.
- It has varied superblocks (i.e. Kota Kasablanka, Blok M Plaza, and Gandaria City located in Jakarta; and Tunjangan City and Pakuwon Mall situated in Surabaya), and its superblocks have vacant land for further expansion plans.
- PWON banks on mixed-use condominiums built in its superblocks.
- It succeeds to balance recurring income ration deriving from hotel & apartment rental and developmental revenues contributed by land & property sales.
- PWON is currently developing The Westin project in Surabaya and a superblock project in Bekasi.

Revenue and Growth Movements



Source: Company Data, NHKS Research

Earnings and Growth Movements



Source: Company Data, NHKS Research

Asia Pacific Companies Peers Analysis

		Market Cap (USD mn)	Asset (USD mn)	Sales LTM (USD mn)	Net Profit LTM (USD mn)	Net Profit Growth LTM	Net Profit Margin	ROE LTM	P/E LTM	P/BV
Indonesia										
BSDE	BSDE IJ EQUITY	1,084	3,932	491	172	61.66%	35.00%	8.91%	5.8x	0.5x
CTRA	CTRA IJ EQUITY	783	2,614	528	74	-21.66%	14.09%	7.16%	10.7x	0.8x
PWON	PWON IJ EQUITY	1,386	1,885	504	146	-23.53%	28.92%	15.23%	9.7x	1.5x
SMRA	SMRA IJ EQUITY	584	1,765	418	36	13.51%	8.61%	7.21%	16.6x	1.2x
Singapore										
Capitaland Ltd	CAPL SP EQUITY	10,561	61,242	4,571	1,566	21.19%	34.26%	10.10%	6.3x	0.6x
Malaysia										
SP Setia Bhd	SPSB MK EQUITY	797	7,345	905	83	-49.66%	9.19%	2.32%	23.0x	0.3x
IOI Properties Group Bhd	IOIPG MK EQUITY	1,259	7,908	481	131	-29.48%	27.33%	2.92%	9.8x	0.3x
Thailand										
Land & Houses PUB Co Ltd	LH TB EQUITY	2,937	3,802	930	308	-2.97%	33.16%	18.29%	9.5x	1.8x
WHA Corp PCL	WHA TB EQUITY	1,605	2,765	264	94	15.33%	35.74%	10.71%	16.6x	1.8x
Philippines										
Megaworld Corp	MEG PM EQUITY	1,962	6,896	1,214	342	11.79%	28.22%	10.12%	5.5x	0.5x

Unit: USD mn, %, X

Source: Bloomberg, NHKS Research

Summary of Financials

INCOME STATEMENT

(IDR bn)	2019/12A	2020/12E	2021/12E	2022/12E
Revenues	**7,202**	**6,536**	**6,763**	**7,350**
Growth (% y/y)	*1.7%*	*-9.2%*	*3.5%*	*8.7%*
Cost of Revenues	(3,144)	(2,822)	(2,939)	(3,156)
Gross Profit	**4,058**	**3,714**	**3,825**	**4,194**
Gross Margin	*56.3%*	*56.8%*	*56.5%*	*57.1%*
Operating Expenses	(997)	(834)	(900)	(958)
EBIT	**3,061**	**2,880**	**2,925**	**3,237**
EBIT Margin	*42.5%*	*44.1%*	*43.2%*	*44.0%*
Depreciation	731	582	525	552
EBITDA	**3,791**	**3,462**	**3,450**	**3,788**
EBITDA Margin	*52.6%*	*53.0%*	*51.0%*	*51.5%*
Interest Expenses	(220)	(208)	(201)	(195)
EBT	**3,271**	**2,205**	**2,403**	**2,604**
Income Tax	(31)	(30)	(28)	(32)
Minority Interest	(520)	(323)	(367)	(390)
Net Profit	**2,720**	**1,852**	**2,008**	**2,182**
Growth (% y/y)	*7.1%*	*-31.9%*	*8.4%*	*8.7%*
Net Profit Margin	*37.8%*	*28.3%*	*29.7%*	*29.7%*

PROFITABILITY & STABILITY

	2019/12A	2020/12E	2021/12E	2022/12E
ROE	16.3%	10.2%	10.7%	10.7%
ROA	10.6%	7.0%	7.2%	7.4%
ROIC	13.2%	12.6%	12.1%	12.4%
Cash Dividend (IDR bn)	289	337	337	254
Dividend Yield	1.1%	1.3%	1.3%	1.0%
Payout Ratio	10.6%	18.2%	16.8%	11.6%
DER	26.5%	24.0%	23.0%	20.0%
Net Gearing	306.3%	279.7%	285.3%	274.2%
LT Debt to Equity	21.5%	20.2%	20.2%	16.9%
Capitalization Ratio	21.0%	19.4%	18.7%	16.7%
Equity Ratio	69.3%	67.4%	68.1%	69.8%
Debt Ratio	18.4%	16.2%	15.7%	14.0%
Financial Leverage	153.0%	146.3%	147.7%	145.0%
Current Ratio	285.9%	244.9%	267.8%	282.4%
Par Value (IDR)	25	25	25	25
Total Shares (mn)	48,160	48,160	48,160	48,160
Share Price (IDR)	570	545	545	545
Market Cap (IDR tn)	27.5	26.2	26.2	26.2

BALANCE SHEET

(IDR bn)	2019/12A	2020/12E	2021/12E	2022/12E
Cash	4,313	3,769	4,431	5,520
Receivables	808	664	840	871
Inventories	3,531	4,613	4,772	5,395
Total Current Assets	**9,643**	**10,097**	**11,142**	**12,925**
Net Fixed Assets	13,262	13,664	13,988	14,405
Other Non Current Assets	3,191	3,335	3,407	3,443
Total Assets	**26,095**	**27,096**	**28,538**	**30,773**
Payables	334	300	237	403
ST Debt	912	696	549	672
LT Debt	3,885	3,685	3,919	3,622
Total Liabilities	**8,000**	**8,844**	**9,112**	**9,304**
Capital Stock + APIC	1,566	1,566	1,566	1,566
Retained Earnings	13,401	13,685	15,257	17,175
Shareholders' Equity	**18,096**	**18,253**	**19,426**	**21,469**

VALUATION INDEX

	2019/12A	2020/12E	2021/12E	2022/12E
Price /Earnings	10.1x	14.2x	13.1x	12.0x
Price /Book Value	1.5x	1.4x	1.4x	1.2x
Price/Revenue	3.8x	4.0x	3.9x	3.6x
PE/EPS Growth	0.2x	-0.4x	1.6x	1.4x
EV/EBITDA	7.4x	7.8x	7.6x	6.6x
EV/EBIT	9.1x	9.3x	9.0x	7.7x
EV (IDR bn)	27,934	26,859	26,284	25,021
Revenues CAGR (3-Yr)	15.9%	10.5%	5.8%	1.3%
EPS CAGR (3-Yr)	29.2%	3.5%	2.3%	-4.9%
Basic EPS (IDR)	56	38	42	45
Diluted EPS (IDR)	56	38	42	45
BVPS (IDR)	376	379	403	446
Revenue PS (IDR)	150	136	140	153
DPS (IDR)	6.0	7.0	7.0	5.3

CASH FLOW STATEMENT

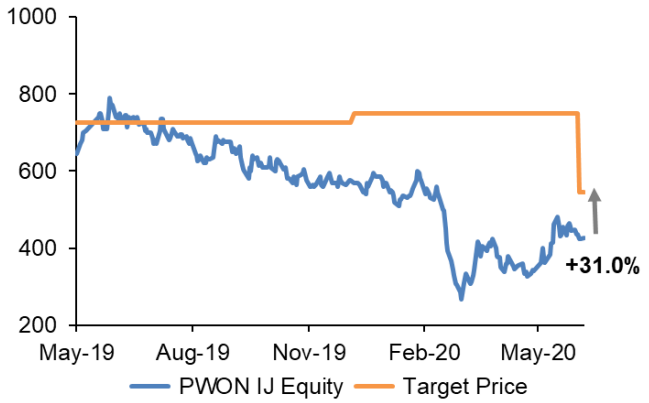
(IDR bn)	2019/12A	2020/12E	2021/12E	2022/12E
Operating Cash Flow	1,770	2,016	2,333	2,334
Investing Cash Flow	(886)	(1,256)	(923)	(932)
Financing Cash Flow	(1,046)	(1,371)	(748)	(313)
Net Changes in Cash	**(161)**	**(611)**	**662**	**1,089**

OWNERSHIP

By Geography	%	Shareholders	%
Indonesia	85.8	PT Pakuwon A	68.7
United States	6.5	Vanguard Group Inc	1.9
Luxembourg	3.9	Fil Ltd	1.2
Others	3.8	Others	28.2

Source: Company Data, NHKS Research

Closing and Target Price Update



Source: Bloomberg, NHKS Research

Rating and Target Price Update

Date	Rating	Target price	Consensus
28/03/2018	Buy	735	734
23/05/2018	Buy	625	725
03/08/2018	Buy	625	705
31/10/2018	Buy	600	663
10/12/2018	Buy	725	675
30/12/2019	Buy	750	709
01/07/2020	Buy	545	546

Source: NHKS Research

NHKS stock ratings

- Based on a stock's forecasted absolute return over a period of 12 months from the date of publication.
- Buy: greater than +15%, Hold: -15% to +15%, Sell: less than -15%.
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