

Pakuwon Jati Tbk (PWON IJ)

Banks on Mixed-Use Projects

PWON's recurring income gained by 5.8% (y-y), supported by mixed-use projects. PWON heavily banks on recurring income to make up 55% of PWON's overall revenues. We are optimistic about PWON's stellar performance to secure a greater amount of long-term revenues, for it is still developing mega projects.

Recurring Income Dominating Largest Portion of Revenues

PWON secured 3Q19's revenues of IDR1.7 trillion slightly sliding by 6.3% from IDR1.8 trillion in 3Q18 as recurring income contributed IDR955 billion to PWON's 3Q19 revenues. That contribution accounted for 55% of 3Q19's total revenues and showed a 5.8% gain from IDR902 billion in 3Q18. The development income, unlike recurring income, posted a 17.8% decrease from 3Q18 and contributed only 45% of 3Q19's revenues, whereas recurring income derived from space rental, service charges, and service apartment dominated the largest portion of revenues. PWON in long-term timeframe targets both recurring income and development income to share equal contribution proportion (i.e. 50:50) to revenues.

Sales Target Nudges Up

PWON targeted 2019's marketing sales of IDR2.2 trillion or nudging up 0.77% from 2018's marketing sales. Its 3Q19 marketing sales performance was mediocre, achieving only 46% of the 2019's target. Based on the revenue breakdown, Jakarta's projects accounted for 39.6% of 9M19's total revenues, while Surabaya's projects contributed larger by 60.4% to 9M19's total revenues. In fact, recurring income generated by mixed-used condominium projects built in PWON's shopping centers were strong footing for 2019's revenues.

Bekasi-Located Superblock Project

PWON at the end of 2019 developed a Bekasi-located superblock consisting of one mall, two hotels, and four apartment towers. The superblock worth of IDR2 trillion investment targets middle-income consumers. Another to developing a superblock, it officially runs Four Points hotel in Surabaya as of late December, 2019, while The Westin, 5-star hotel run by PWON, is still under construction.

Buy Recommendation with Price Target of IDR750

We maintain BUY recommendation with the price target of IDR750 based on a 58.37% discount to NAV (0.45 SD higher than a last 3-year average) as the basis of our valuation method and estimate its developed projects to give 7%-10% boosts to revenues.

Pakuwon Jati Tbk | Summary

	2018A	2019F	2020F	2021F
Revenue	7,081	6,882	7,341	7,373
Growth (%)	23.8%	-2.8%	6.7%	0.4%
EBITDA	3,687	3,620	3,849	3,957
Net Profit	2,538	2,673	2,897	3,062
EPS (IDR)	53	56	60	64
Growth (%)	35.5%	5.3%	8.4%	5.7%
P/E	13.3x	10.3x	9.5x	9.0x
P/BV	2.2x	1.5x	1.3x	1.2x
EV/EBITDA	9.3x	7.6x	6.5x	5.8x
ROE (%)	18.1%	16.1%	15.0%	13.8%
DER (%)	36.4%	32.0%	20.0%	12.0%
Net Debt	1,120	-91	-1,810	-3,590

Unit: IDR bn, %, x

Source: Company Data, Bloomberg, NHKS Research

Please consider the rating criteria & important disclaimer

Buy

Dec 2020 PT (IDR)	750
Consensus Price (IDR)	709
PT to Consensus Price	5.7%
vs. Last Price	31.6%

Shares data

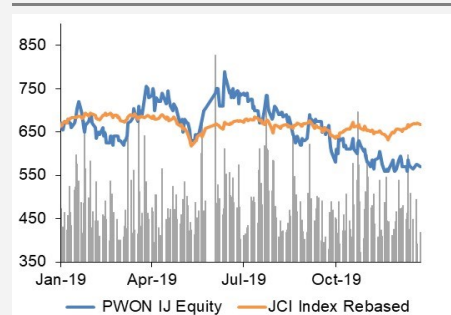
Last Price (IDR)	570
Price Date as of	Dec 30, 2019
52 wk Range (Hi/Lo)	790/560
Free Float (%)	33.9
Outstanding sh.(mn)	48.160
Market Cap (IDR bn)	26.006
Market Cap (USD mn)	1.867
Avg. Trd Vol - 3M (mn)	35.54
Avg. Trd Val - 3M (bn)	20.86
Foreign Ownership	14.7%

Property

Real Estate Owner & Developer

Bloomberg	PWON IJ
Reuters	PWON.JK

Share Price Performance



	YTD	1M	3M	12M
Abs. Ret.	-8.1%	0.9%	-14.3%	-8.1%
Rel. Ret.	-9.8%	-3.9%	-16.4%	-9.8%

Ajeng Kartika Hapsari

(021) 5088 9130

ajeng@nhsec.co.id

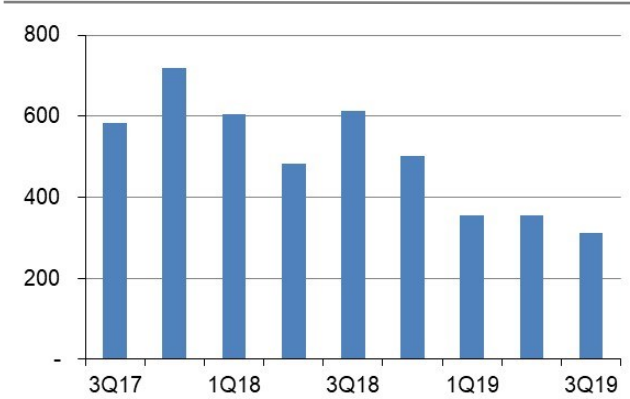
Performance Highlights in Charts

PWON Quarterly Revenue (IDR bn) | 3Q17 - 3Q19



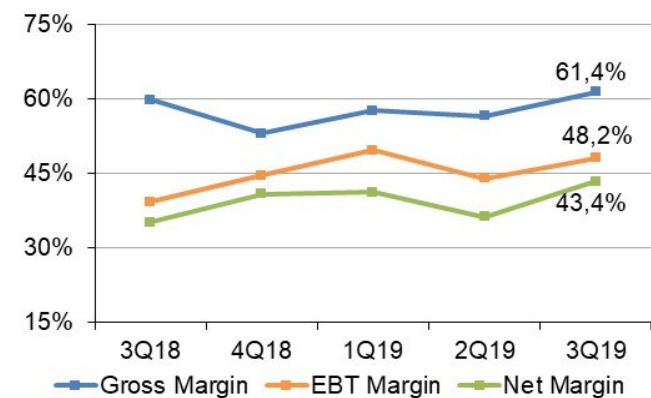
Source: Company Data, NHKS Research

PWON Quarterly Marketing Sales (IDR bn) | 3Q17 - 3Q19



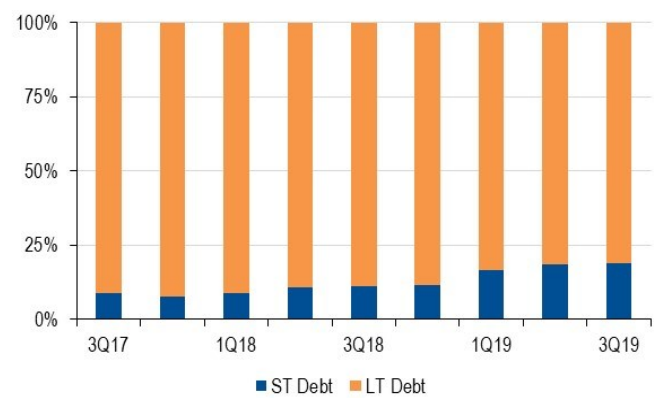
Source: Company Data, NHKS Research

Margin Ratios | 3Q18 - 3Q19



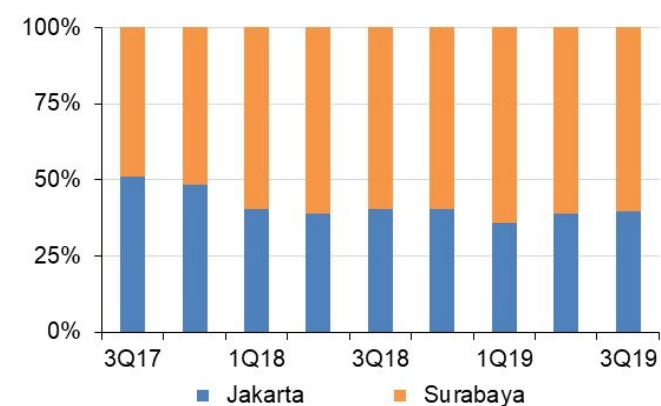
Source: Company Data, NHKS Research

PWON Debt Portion | 3Q17 - 3Q19



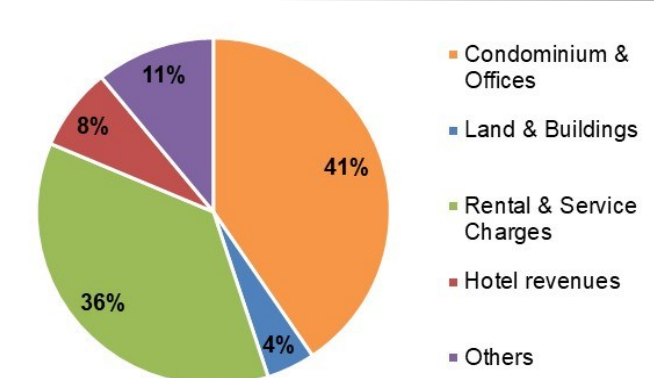
Source: Company Data, NHKS Research

PWON Revenue by Geography | 3Q17 - 3Q19



Source: Company Data, NHKS Research

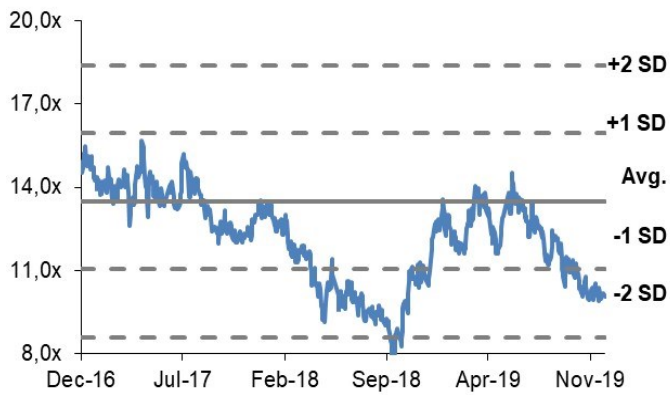
PWON Revenue Breakdown | 3Q19



Source: Company Data, NHKS Research

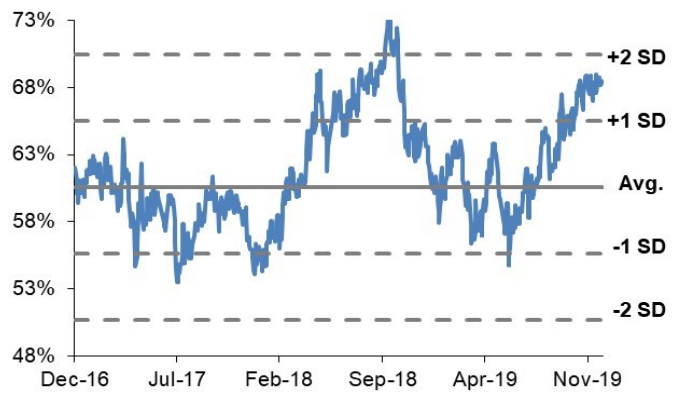
Valuation Highlights in Charts

3-Year Forward P/E Band



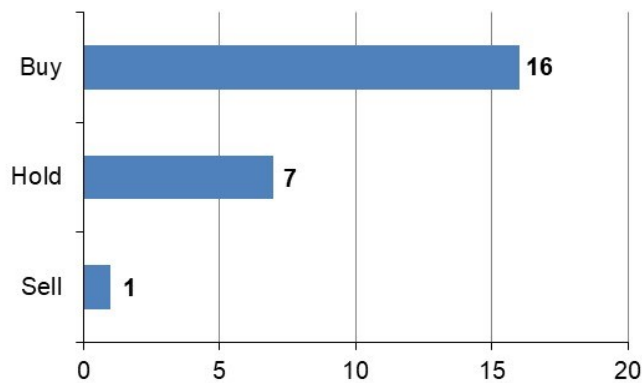
Source: Bloomberg, NHKS Research

3-Year Discount to NAV Band



Source: Bloomberg, NHKS Research

Recommendations by Analysts



Source: Bloomberg, NHKS Research

Stock and USDIDR Correlated Positively



Source: Bloomberg, NHKS Research

Quarterly Review

	3Q18	4Q18	1Q19	2Q19	3Q19				4Q19E
					Actual	Estimate	Y-Y	Q-Q	
Income statement									
Revenue	1.852	1.852	1.711	1.794	1.735		-6,3%	-3,3%	1.642
Gross Profit	1.109	984	987	1.015	1.066		-3,9%	5,0%	985
EBIT	680	697	771	771	824		21,3%	6,9%	738
EBITDA	787	830	881	888	966		22,7%	8,8%	849
Net Profit	651	762	721	644	785		20,6%	21,9%	563
Margin									
Gross Margin	59,9%	53,1%	57,7%	56,6%	61,4%		1,5%	4,8%	60,0%
EBIT Margin	36,7%	37,6%	45,1%	43,0%	47,5%		10,8%	4,5%	45,0%
EBITDA Margin	42,5%	44,8%	51,5%	49,5%	55,6%		13,2%	6,2%	51,7%
Net Profit Margin	35,2%	41,2%	42,1%	35,9%	45,2%		10,1%	9,3%	34,3%

Unit: IDR bn, %

Source: Company Data, NHKS Research

Earnings Revision

		2019F	2020F	2021F
Income Statement				
Revenue	-Revised		6.882	7.341
	-Previous			7.373
	-Change			
Gross Profit	-Revised		4.053	4.371
	-Previous			4.464
	-Change			
EBIT	-Revised		3.105	3.404
	-Previous			3.493
	-Change			
EBITDA	-Revised		3.620	3.849
	-Previous			3.957
	-Change			
Net Profit	-Revised		2.673	2.897
	-Previous			3.062
	-Change			
Margin				
Gross Margin	-Revised		58,9%	59,5%
	-Previous			60,5%
EBIT Margin	-Revised		45,1%	46,4%
	-Previous			47,4%
EBITDA Margin	-Revised		52,6%	52,4%
	-Previous			53,7%
Net Profit Margin	-Revised		38,8%	39,5%
	-Previous			41,5%

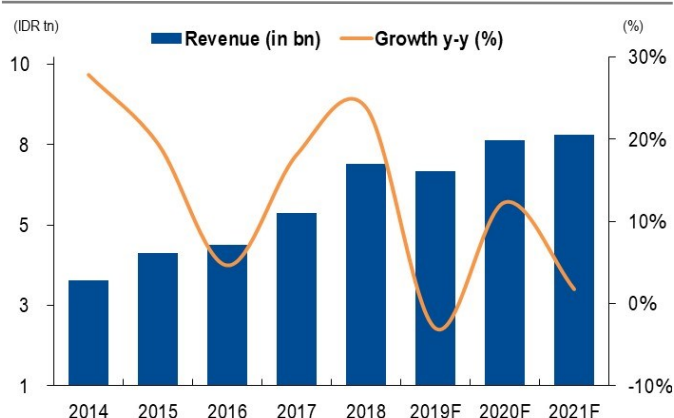
Unit: IDR bn, %

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	1.702	3.611	494	210	-6,60%	42,49%	11,03%	7,8x	0,8x
CTRA	CTRA IJ EQUITY	1.341	2.377	533	71	11,78%	13,29%	7,16%	18,4x	1,3x
PWON	PWON IJ EQUITY	1.887	1.734	495	203	30,53%	41,07%	22,21%	9,0x	1,8x
SMRA	SMRA IJ EQUITY	985	1.615	422	39	25,56%	9,26%	8,11%	24,4x	1,9x
Singapore										
Capitaland Ltd	CAPL SP EQUITY	14.269	47.430	4.011	1.232	7,69%	30,73%	8,16%	9,8x	0,9x
Malaysia										
SP Setia Bhd	SPSB MK EQUITY	1.507	7.096	1.002	99	-53,08%	9,86%	3,40%	30,2x	0,5x
IOI Properties Group Bhd	IOIPG MK EQUITY	1.637	7.908	529	166	10,55%	31,29%	3,71%	9,8x	0,4x
Thailand										
Land & Houses PUB Co Ltd	LH TB EQUITY	3.947	3.448	984	257	-19,77%	26,16%	16,76%	14,7x	2,4x
WHA Corp PCL	WHA TB EQUITY	1.827	2.423	321	110	10,64%	34,34%	12,53%	15,2x	1,8x
Philippines										
Megaworld Corp	MEG PM EQUITY	2.628	6.154	1.202	320	16,12%	26,59%	10,10%	7,9x	0,8x

Unit: USD mn, %, X

Source: Bloomberg, NHKS Research

Summary of Financials

INCOME STATEMENT

(IDR bn)	2018/12A	2019/12E	2020/12E	2021/12E
Revenues	7.081	6.882	7.420	7.527
<i>Growth</i>	23,8%	-2,8%	7,8%	1,4%
Cost of Revenues	(3.030)	(2.829)	(3.005)	(2.976)
Gross Profit	4.050	4.053	4.414	4.551
<i>Gross Margin</i>	57,2%	58,9%	59,5%	60,5%
Operating Expenses	(569)	(948)	(978)	(992)
EBIT	3.259	3.105	3.436	3.559
<i>EBIT Margin</i>	46,0%	45,1%	46,3%	47,3%
Depreciation	428	515	452	529
EBITDA	3.687	3.620	3.889	4.088
<i>EBITDA Margin</i>	52,1%	52,6%	52,4%	54,3%
Interest Expenses	(243)	(266)	(309)	(279)
EBT	2.849	3.102	3.404	3.565
Income Tax	(27)	(28)	(51)	(66)
Minority Interest	(284)	(401)	(426)	(423)
Net Profit	2.538	2.673	2.928	3.076
<i>Growth</i>	51,9%	5,3%	9,5%	5,1%
<i>Net Profit Margin</i>	35,8%	38,8%	39,5%	40,9%

PROFITABILITY & STABILITY

	2018/12A	2019/12E	2020/12E	2021/12E
ROE	18,1%	16,1%	15,1%	13,8%
ROA	13,0%	16,8%	17,5%	17,3%
ROIC	15,5%	13,0%	13,0%	12,1%
Cash Dividend (IDR bn)	337	337	337	457
Dividend Yield	1,0%	1,2%	1,2%	1,7%
Payout Ratio	13,3%	12,6%	11,5%	14,9%
DER	36,4%	32,0%	25,0%	22,0%
Net Gearing	356,3%	367,3%	331,3%	332,8%
LT Debt to Equity	32,2%	27,2%	21,8%	18,9%
Capitalization Ratio	26,7%	24,2%	20,0%	18,0%
Equity Ratio	98,5%	110,9%	120,9%	129,1%
Debt Ratio	35,9%	35,5%	30,2%	28,4%
Financial Leverage	138,4%	95,4%	86,2%	79,9%
Current Ratio	231,2%	291,2%	372,0%	435,5%
Par Value (IDR)	25	25	25	25
Total Shares (mn)	48.160	48.160	48.160	48.160
Share Price (IDR)	685	570	570	570
Market Cap (IDR tn)	33,0	27,5	27,5	27,5

BALANCE SHEET

(IDR bn)	2018/12A	2019/12E	2020/12E	2021/12E
Cash	4.460	5.771	7.000	8.802
Receivables	414	529	447	502
Inventories	3.576	4.020	3.760	3.658
Total Current Assets	9.473	11.283	12.274	14.114
Net Fixed Assets	12.922	13.308	13.999	14.900
Other Non Current Asset	2.623	2.897	3.170	3.443
Total Assets	15.545	16.205	17.169	18.343
Payables	296	381	306	374
ST Bank Loan	647	863	675	730
LT Debt	4.934	4.890	4.515	4.482
Total Liabilities	9.706	9.510	8.684	8.766
Capital Stock + APIC	1.566	1.566	1.566	1.566
Retained Earnings	11.019	13.394	15.985	18.723
Shareholders' Equity	15.312	17.976	20.758	23.689

VALUATION INDEX

	2018/12A	2019/12E	2020/12E	2021/12E
Price /Earnings	13,0x	10,3x	9,4x	8,9x
Price /Book Value	2,2x	1,5x	1,3x	1,2x
Price/Revenue	4,7x	4,0x	3,7x	3,6x
PE/EPS Growth	0,4x	1,9x	1,0x	1,8x
EV/EBITDA	9,3x	7,6x	6,6x	5,8x
EV/EBIT	10,5x	8,8x	7,5x	6,7x
EV (IDR bn)	34.109	27.432	25.641	23.860
Revenues CAGR (3-Yr)	22,3%	14,2%	15,3%	9,6%
EPS CAGR (3-Yr)	0,3%	28,4%	20,6%	18,0%
Basic EPS (IDR)	53	56	61	64
Diluted EPS (IDR)	53	56	61	64
BVPS (IDR)	318	373	431	492
Revenue PS (IDR)	147	143	154	156
DPS (IDR)	7,0	7,0	7,0	9,5

CASH FLOW STATEMENT

(IDR bn)	2018/12A	2019/12E	2020/12E	2021/12E
Operating Cash Flow	2.993	3.082	3.230	3.455
Investing Cash Flow	(788)	(722)	(1.293)	(1.530)
Financing Cash Flow	(489)	(154)	(709)	(123)
Net Changes in Cash	1.717	2.205	1.228	1.802

OWNERSHIP

By Geography	% Shareholders	%
Indonesia	85,3	PT Pakuwon A 68,7
United States	7,3	Vanguard Group Inc 1,9
Luxembourg	3,1	BlackRock Inc 1,1
Others	4,3	Others 28,4

Source: Company Data, NHKS Research

Closing and Price Target Update



Source: Bloomberg, NHKS Research

Rating and Price Target 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

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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