

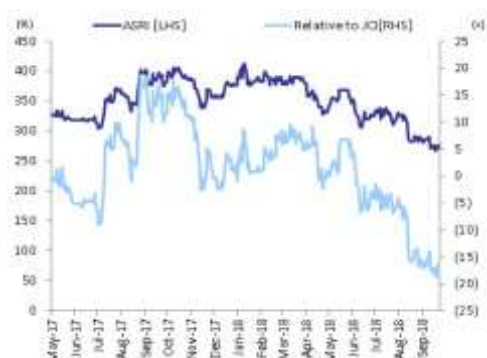
Friday, 07 December 2018

**NEUTRAL**

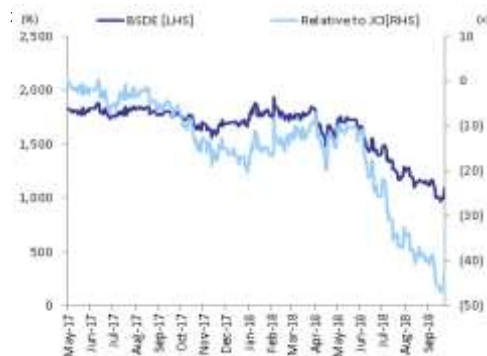
## Property

### BCA Standpoint - Assessment of Property Demand

ASRI relative to JCI Index



BSDE relative to JCI Index



Source : Bloomberg

We met with BCA's consumer credit department (BBCA IJ; HOLD; TP Rp28,000) and discussed several matters concerning the Indonesian property market including the impact of the LTV relaxation rule and the reduction of property-related taxes on demand. In general, they think the national property demand is still soft pressured by political uncertainty, weak IDR and rising interest rates. Nevertheless, BCA still expects good mortgage growth in FY19 and thinks that the mid-low segment is still lucrative. Maintain Neutral.

**Has the government stimulus helped to boost property demand?** According to BCA's consumer credit department, national property demand is still rather soft, despite government efforts to provide a stimulus to the sector through LTV relaxation and the reduction of some property taxes (i.e. the reduction of the super luxury tax (PPH22) from 5% to 1% and the increase in the threshold for sales tax on luxury goods (PPnBM) from Rp20bn/unit to Rp30bn/unit). The trend of rising interest rates, the weakening USD/IDR and political uncertainty related to next year's presidential election have discouraged property purchases by both end-users and investors.

**BBCA foresees its mortgages growth of 10-12% in FY19.** Despite the rather soft appetite for property, BCA still expects its mortgages to grow by between 10-12% to Rp87tn of mortgages outstanding in FY18 with another 10-12% growth in FY19. Mortgages extended for property purchases in the secondary market will contribute most of the growth. For BCA, political issues related to the presidential elections are not expected to have much impact on mortgages growth as BCA's mortgages have always been supported by promotional events organized throughout the year. In addition, BCA's focus is mainly the middle to middle-up segments (mostly existing BCA customers) with an average ticket size of around Rp1.2bn. These customers are less sensitive to changes in interest rates and have stronger purchasing power.

**The middle-low segment is still lucrative.** Nonetheless, BCA indicates that the middle-low mortgage market (ticket size of below Rp1.0bn) is still lucrative as these markets are still relatively underserved, as evident in the housing backlog despite higher default risk. BBKA's NPLs are low at 1.3%, mostly comprising mortgages of below Rp600mn. BBKA requires a minimum down payment of 5% for first time buyers (relaxed from 15% previously) with a max tenor of 10-12 years, provided that the purchase is from a top-tier developer ranked by BBKA. Otherwise, the minimum down payment is 10-15%.

**Maintain Neutral.** At this juncture, we maintain our neutral recommendation on the property sector, with PWON as our top pick due to its high portion of recurring income and low net gearing. Despite the recent rally in property stocks driven by strengthening of the USD/IDR and the reduction in property-related taxes, we believe the fundamentals remain challenging given uncertainty related to the upcoming presidential elections, which may dampen demand, and volatility caused by global uncertainty.



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Company	Ticker	Rec	Target	Market	P/E (x)		P/BV (x)		ROE (%)
			Price (Rp)	Cap. (RpBn)	2018F	2019F	2018F	2019F	2019F
Alam Sutra	ASRI IJ	HOLD	260	7,427.5	4.6	4.7	0.8	0.7	15.0
Bumi Serpong Damai	BSDE IJ	BUY	1,450	31,275.9	12.7	17.2	1.1	1.1	6.4
Ciputra Development	CTRA IJ	BUY	990	22,550.8	19.3	18.5	1.6	1.4	8.1
Pakuwon Jati	PWON IJ	BUY	640	29,618.2	12.7	11.2	2.4	2.0	19.5
Summarecon Agung	SMRA IJ	HOLD	660	12,912.0	33.7	37.7	1.9	1.8	4.9

## Exhibit 1. LTV Rule Changes Summary

Summary of Revision in LTV Rule		
	Current	New Revision
<b>LTV Ratio</b>	1st Mortgage Facility - 85 to 90% 2nd Mortgage Facility - 80 to 90% 3rd Mortgage Facility and so on - 75 to 85%	1st Mortgage Facility - No Downpayment Requirement 2nd Mortgage Facility - 80 to 90% 3rd Mortgage Facility and so on - 80 to 90%
<b>Indent Mechanism</b>	Max of 2 Mortgage Facilities	Max of 5 Mortgage Facilities
<b>Mortgage Disbursement From Bank to Developer (Indent)</b>	<b>Landed Residential/Shophouses:</b> Max disbursement up to 40% upon completion of building foundation Max disbursement up to 80% upon topping-off Max disbursement up to 90% upon handover Max disbursement up to 100% upon handover, accompanied by sales and purchase deeds (AJB) and Deed of Right to Lend (APHT)/Power of Attorney for Right to Lend (SKMHT) <b>High-Rise Apartment:</b> Max disbursement up to 40% upon completion of building foundation Max disbursement up to 70% upon topping-off Max disbursement up to 90% upon handover Max disbursement up to 100% upon handover, accompanied by sales and purchase deeds (AJB) and Deed of Right to Lend (APHT)/Power of Attorney for Right to Lend (SKMHT)	<b>Landed Residential/Shophouses/High-Rise Apartment:</b> Max disbursement up to 30% upon credit agreement Max disbursement up to 50% upon completion of building foundation Max disbursement up to 90% upon topping-off Max disbursement up to 100% upon signature of Deed of Right to Lend (APHT), accompanied by sales and purchase deeds (AJB) and covernote

Source: Central Bank Minutes of Meeting

## Exhibit 2. LTV Changes

### Conventional and Syariah with Akad Murabahah, Istishna

	PBI No. 18/16/PBI/2016			2018		
	First mortgage	Second mortgage	Third mortgage	First mortgage	Second mortgage	Third mortgage
<b>Landed residential</b>						
>70 m2	85%	80%	75%		80%	80%
21-70m2		85%	80%		85%	85%
<21 m2						
<b>High rise building</b>						
>70 m2	85%	80%	75%		80%	80%
21-70m2	90%	85%	80%		85%	85%
<21 m2		85%	80%		85%	85%
<b>Shop house</b>		85%	80%		85%	85%

\*only for bank with NPL below 5% and property NPL below 5%.

### Syariah with akad MMQ or IMBT

	PBI No. 18/16/PBI/2016*			2018		
	First mortgage	Second mortgage	Third mortgage	First mortgage	Second mortgage	Third mortgage
<b>Landed residential</b>						
>70 m2	90%	85%	80%		85%	85%
21-70m2		90%	85%		90%	90%
<21 m2						
<b>High rise building</b>						
>70 m2	90%	85%	80%		85%	85%
21-70m2	90%	85%	80%		85%	85%
<21 m2		85%	80%		85%	85%
<b>Shop house</b>		85%	80%		85%	85%

Source: Central Bank Minutes of Meeting

### Exhibit 3. Summary of Proposed Changes in Property Taxes

Summary of Proposed Changes in Property Taxes		
	Current	Proposed Revision
<b>Transfer Tax (BPHTB)</b>	5%	5%
<b>Value-Added Tax (PPN)</b>	10%	10%
<b>Sales Tax on Luxury Goods (PPnBM)</b>	20% - Applicable to non-strata title landed residential and townhouse above Rp20bn/unit as well as strata-title apartment and condominium above Rp10bn/unit.	20% - Applicable to non-strata title landed residential and townhouse above Rp30bn/unit as well as strata-title apartment and condominium above Rp10bn/unit.
<b>Super Luxury Tax (PPH22)</b>	5% - Applicable to landed residential valued above Rp5bn/unit or building size larger than 400sqm as well as apartments valued above Rp5bn/unit or building size larger than 150sqm.	1% - Applicable to landed residential valued above Rp5bn/unit or building size larger than 400sqm as well as apartments valued above Rp5bn/unit or building size larger than 150sqm.

Source: Ministry of Finance, Various Sources

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