

Tuesday, 25 June 2019

## OVERWEIGHT

### <Maintain>

## Property

### Easing of the super luxury tax creates a mismatch

ASRI relative to JCI Index



BSDE relative to JCI Index



Source: Bloomberg

Aside from reducing the tax rate from 5% to 1% for property categorized as super luxury as promised, the government also eased the criteria for super luxury property (by raising the threshold to IDR30bn from IDR5bn previously). High rise residential property with selling prices of IDR5-9bn should benefit as they will enjoy the full 5% reduction whereas high rise property with selling prices of above IDR9bn will only enjoy the reduction in super luxury tax from 5% to 1% (since their building area would exceed the threshold of 150sqm). For landed residential property, by comparison, the high threshold for the size of the property's land (2,000sqm) means more properties should benefit.

**Relaxation of super luxury tax.** The government has fulfilled its promise to ease super luxury tax for property, as first circulated in October last year. This was done through the issuance of Minister of Finance Regulation No. 92/PMK.03/2019 on 19 June 2019. Aside from reducing the tax rate from 5% to 1% for property categorized as super luxury as promised, the government also eased the criteria for super luxury property (by raising the threshold to IDR30bn from IDR5bn previously).

**The threshold value does not match the maximum size criteria.** Although the threshold value was raised to IDR30bn, the government did not change the maximum size criteria (400sqm building size for landed residential property and 150sqm building size for high rise residential property). Based on our calculations, the new threshold value implies that developers could theoretically sell landed residential property with a land ASP of IDR65mn/sqm or high rise residential property with ASP of IDR200mn/sqm and still avoid the super luxury classification (although both scenarios are not applicable in the primary market). As such, the maximum size criteria will limit the maximum property value to IDR9bn for high rise residential. For landed residential property, by comparison, the calculation is more complicated as it depends on several variables like the Building Coverage Ratio (BCR) and Floor Average Ratio (FAR).

**Implication on property prices.** High rise residential property with selling prices of IDR5-9bn should benefit as they will enjoy the full 5% reduction whereas high rise property with selling prices of above IDR9bn will only enjoy the reduction in super luxury tax from 5% to 1% (since their building area would exceed the threshold of 150sqm). For landed residential property, by comparison, the high threshold for the size of the property's land (2,000sqm) means more properties should benefit.

**Lower income tax, higher demand: who benefits?** Instead of being an overall game changer for the property sector, the tax relaxation policy may provide a positive catalyst for selected property players such as BSDE and PWON as both have several projects whose properties might benefit. To some extent, SMRA might seek to benefit from the policy relaxation to develop luxury condominiums in the Kelapa Gading area. However, SMRA's land bank in that area is quite limited.



**Victor Stefano**

(62-21) 2955 5888 ext. 3503

victor.stefano@danareksa.co.id

Company	Ticker	Rec	Target Price (Rp)	Market Cap. (RpBn)	P/E (x)		P/BV (x)		ROE (%) 2020F
					2019F	2020F	2019F	2020F	
Alam Sutra	ASRI IJ	BUY	400	6,445.0	5.4	4.7	0.6	0.5	12.1
Bumi Serpong Damai	BSDE IJ	BUY	1,700	27,330.3	13.4	13.3	1.0	0.9	7.1
Ciputra Development	CTRA IJ	BUY	1,350	22,550.8	23.7	20.2	1.5	1.4	7.2
Pakuwon Jati	PWON IJ	HOLD	690	29,618.2	11.1	10.7	2.0	1.7	17.3
Summarecon Agung	SMRA IJ	HOLD	1,100	13,849.9	31.3	25.5	1.9	1.8	7.2

**Exhibit 1: Changes in the super luxury tax policy**

	Reference	Remarks
Old	Income Tax article 22 - Ministry of Finance Decree No. 90/PMK.03/2015	5% tax applied for: - Landed residential units (value > Rp5bn OR building area >400sqm) - High-rise residential units (value > Rp5bn OR building area >150sqm)
New	Minister of Finance Regulation No. 92/PMK.03/2019	1% tax applied for: - Landed residential units (value > Rp30bn OR building area >400sqm) - High-rise residential units (value > Rp30bn OR building area >150sqm)