Danareksa Snapshot

Equity Research
Monday, November 28, 2016

MORNING HIGHLIGHT

FROM EQUITY RESEARCH

Property Sector: Recovery in sight

We initiate coverage on the property sector with an OVERWEIGHT call, noting: (1) the bottoming out of marketing sales since 2014 which may provide room for recovery ahead, (2) supportive regulations including LTV relaxation as well as lower mortgage rates., and (3) improvement on the purchasing power Going into 2017, greater clarity post tax amnesty might lead to higher property demand. In turn, this may serve as a catalyst for the share prices of property companies, which currently trade at 40.1%- 70.8% discounts to NAV. Also on a positive note, most property companies still have healthy balance sheets with manageable gearing and increasing recurring incomes, which may cushion earnings during a cyclical downturn. Our top pick is CTRA (BUY, TP of Rp1,850), which is the most resilient property stock, in our view, buoyed by widely-diversified projects to sustain sales going forward.

MARKET NEWS

***Analysts' comment inside**

- Bank Mandiri targets 15% micro lending growth (Kontan)
- KINO targets 8% yoy revenue growth in 2017 (Kontan)
- WSKT is targeting Rp2.6-2.8tn net profit in 2017F (Kontan)
- MDLN achieved the marketing sales target this year (Kontan)
- LPKR aims for 20% revenue growth in 2017 (investor Daily)
- ADHI will expand to water purification project (Kontan)

Previous Reports:

- **LPPF: Issues on the corporate governance Snapshot20161125**
- **UNTR: Better Komatsu sales volume in October 2016 Snapshot20161124**
- **Coal Sector: Better earnings visibility amid coal price consolidation- Snapshot20161122**
- **Mandom Indonesia: Remaining Competitive- Snapshot20161121**
- **AUTO: Flat car sales in October 2016- Snapshot20161118**
- **RALS: In-line 10M16 revenues, LPPF: Confirms plans to increase its stake in MatahariMall.com- Snapshot20161116**
- **Strategy: Unmapped Roads (NEUTRAL)- Snapshot20161115**
- **ITMG 3Q16 earnings: Better ASP to boost quarterly profit- Snapshot20161111**
- **Cement: Weak October Performance-Snapshot20161110**

IDX ANNOUNCEMENT

Cash Announcement

Code	Ex-Date	Date Payable	Amount (Rp)
LAMI	EGM	30-Nov-16	--.--
SKBM	EGM	30-Nov-16	--.--

Source: KSEI

Key Index

	Close	Chg (%)	Ytd (%)	Vol (US$ m)
Asean - 5				
Indonesia	5,122	0.3	11.5	326
Thailand	1,500	0.7	16.5	1,039
Philippines	6,890	0.2	(0.9)	93
Malaysia	1,627	0.2	(3.9)	285
Singapore	2,859	0.5	(0.8)	825
Regional				
China	3,262	0.6	(7.8)	53,464
Hong Kong	22,723	0.5	3.7	7,263
Japan	18,332	(0.3)	(3.7)	1,637
Korea	1,972	(0.1)	0.5	2,486
Taiwan	9,159	0.1	9.8	1,831
India	26,316	1.8	0.8	381
NASDAQ	5,399	0.3	7.8	28,455
Dow Jones	19,152	0.4	9.9	3,870

Currency and Interest Rate

		Rate	w-w (%)	m-m (%)	ytd (%)
Rupiah	Rp/1US$	13,525	(0.7)	(4.0)	1.9
SBI rate	%	5.90	-	(0.3)	(1.3)
10y Gov	Indo bond	8.32	0.5	1.3	(0.4)

Hard Commodities

	Unit	Price	d-d (%)	m-m (%)	ytd (%)
Coal	US$/ton	93	(0.5)	(0.8)	82.8
Gold	US$/toz	1,191	0.6	(6.7)	12.2
Nickel	US$/mt.ton	11,514	(0.2)	13.0	31.1
Tin	US$/mt.ton	21,115	(2.2)	2.8	44.7

Soft Commodities

	Unit	Price	d-d (%)	m-m (%)	ytd (%)
Cocoa	US$/mt.ton	2,470	(0.1)	(7.9)	(24.4)
Corn	US$/mt.ton	130	(0.2)	2.2	(2.9)
Crude Oil	US$/barrel	45	(1.4)	(6.8)	22.6
Palm oil	MYR/mt.ton	47	(1.5)	(6.4)	24.8
Rubber	USd/kg	3,032	1.3	8.7	37.8
Pulp	US$/tonne	172	(2.6)	17.1	45.7
Coffee	US$/60kgbag	809	N/A	(0.0)	0.6
Sugar	US$/MT	135	(0.1)	(11.4)	24.8
Wheat	US$/ton	528	1.0	(11.6)	24.9

Source: Bloomberg

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PROPERTY/INITIATION

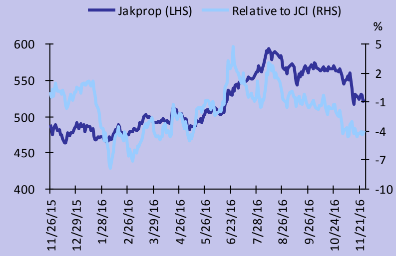
Property Sector

Recovery in sight

OVERWEIGHT

	Price	Target	Rec
CTRA	1,440	1,850	BUY
BSDE	1,725	2,500	BUY
SMRA	1,370	1,600	BUY
PWON	695	700	HOLD
ASRI	366	380	HOLD

Jakprop Index relative to JCI Index



We initiate coverage on the property sector with an OVERWEIGHT call, noting: (1) the bottoming out of marketing sales since 2014 which may provide room for recovery ahead, (2) supportive regulations including LTV relaxation as well as lower mortgage rates, and (3) improvement on the purchasing power. Going into 2017, greater clarity post tax amnesty might lead to higher property demand. In turn, this may serve as a catalyst for the share prices of property companies, which currently trade at 40.1%-70.8% discounts to NAV. Also on a positive note, most property companies still have healthy balance sheets with manageable gearing and increasing recurring incomes, which may cushion earnings during a cyclical downturn. Our top pick is CTRA (BUY, TP of Rp1,850), which is the most resilient property stock, in our view, buoyed by widely-diversified projects to sustain sales going forward.

More upbeat in 4Q16

Property companies appear more upbeat in 4Q16, as indicated by the increase in project launches following encouraging take-up rates. Positive sentiment has been created by greater clarity post tax amnesty and the intention of banks to more aggressively channel mortgages. Despite improvement on 4Q16, we believe the marketing sales in 2016 only to reach Rp22.7tn, down by 10.0% yoy following sluggish performance in 9M16. By the end of September 2016, five property companies under our coverage booked FY16 marketing sales of Rp13.5 tn, or 47.2% of the initial FY16 target, yet down 20.7% yoy given soft demand in 9M16. As a result, SMRA and PWON have trimmed their full year marketing sales targets by 22.2% and 26.7%, respectively.

FY17 marketing sales expected to increase 12.2% yoy

The 2016 marketing sales will be boosted by two large one-off transactions: (1) ASRI's land sales to CFLD worth between Rp800bn to Rp1tn (30.1%-37.7% of its FY16 figure) and (2) BSDE's land sales to its JV with Mitsubishi. If these one-time transactions are stripped out, then we forecast the FY17 marketing sales to grow by 12.2% yoy to an estimated Rp22.3tn. We expect property sales to be supported by loosening of several macro prudential policies, i.e.: (i) LTV loosening, (ii) lower mortgage rates, (iii) lower final tax, (iv) lower BPHTB and recovery in purchasing power. Furthermore, property companies also plan to launch more affordable properties (below Rp2bn), tapping the strong demand from the country's burgeoning middle class.

BUYs on CTRA, BSDE, and SMRA

Most property companies under our coverage have healthy balance sheets with manageable gearing (FY17F: 63.6%). To manage volatility in the property market, most property companies also seek to boost their recurring incomes in a bid to cushion their revenues in the coming years. Our top pick is **CTRA (BUY; TP of Rp1,850)**, which is the most resilient given its project diversification. Combined with low gearing, we view that CTRA has better earnings visibility going forward. We also like **BSDE (BUY; TP Rp2,500)** – its 5,100ha of land will give it the flexibility to tap potential demand from the growing middle class population. For **SMRA (BUY; TP of Rp1,600)**, we foresee improved marketing sales (+9.0% yoy versus the sector's 3.0% yoy) and higher earnings growth (FY17: +26.5% yoy) – a major beneficiary of lower final tax.

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		Current	Target	Net income, Rp bn		P/E, x		Net gearing, %	
	Recom.	price	Price	2016F	2017F	2016F	2017F	2016F	2017F
CTRA	BUY	1,440	1,850	661	998	33.6	26.7	27.6	28.7
BSDE	BUY	1,725	2,500	1,859	2,009	17.9	16.5	9.9	9.8
SMRA	BUY	1,370	1,600	75	95	262.7	207.6	73.8	80.5
PWON	HOLD	695	700	1,757	2,019	19.1	16.6	23.6	21.1
ASRI	HOLD	366	380	820	924	8.8	7.8	92.5	81.2

Danareksa research reports are also available at Reuters Multex and First Call Direct and Bloomberg.

Investment thesis

Why should we see recovery in 2017?

- **Lower mortgage rates are on the way, supported by higher LTV.** Based on our latest survey, major banks have offered 25-210bps lower mortgage rates in the past two quarters. We also found that many banks offered attractive rates for a fixed period of up to 5 years and a longer mortgage period of 20 years. Combined with a higher LTV, property should thus become more affordable, we believe.
- **Greater clarity post tax amnesty.** Post tax amnesty, potential buyers will have greater clarity on tax, which may lead to higher demand for property. It is also worth noting that many developers reported an uptick in sales post the first term of tax amnesty (at the end of September 2016) as well as more purchases using hard cash.
- **Tapping the right segments which have the highest demand.** Going into 2017, most developers will continue to focus on selling affordable properties (below Rp2bn). We believe that demand is highest in this segment, in which developers can tap Indonesia's young and productive population which is currently about 60.8% of the total population.
- **Bottoming out of marketing sales.** Since 2015, property companies have faced headwinds to grow their marketing sales. We believe the sluggish marketing sales in 2015-16 have bottomed out and that supportive regulations should pave the way for recovery in 2017.

On a fundamental basis, property companies look strong:

- **Huge land bank means greater flexibility.** In total, the five property companies under our coverage have total land bank of 15,617ha in Indonesia. This will sustain their business going forward as well as providing the flexibility to offer a wide range of products from landed residential to commercial properties.
- **Proven management track record.** The managements of the property companies under our coverage have more than 10 years of experience in the property market. This will enable them to weather the fluctuations/changes/volatility in the property market, we believe.
- **Gearing to trend down going forward.** We forecast that the sector's debt-to-equity ratio will trend down to 63.6% in 2017F from 64.4% in 2015 following stronger mortgage financing.
- **Geographically diversified projects.** While most of the companies' land bank is located in Jakarta and Greater Jakarta, property companies also have total land bank of 11,927ha in Java and 3,690ha in areas outside Java. As each region has its own property cycle, geographically diversified projects help property companies to overcome volatility in the property market.

Summary

CTRA: Merger benefits (BUY TP of Rp1,850)
Our top pick in the sector is CTRA. We like CTRA's strategy to diversify through JO schemes with local partners which will lead to more stable aggregate marketing sales ahead, as we believe each region has a different property cycle. In addition, we also expect a positive impact from the planned merger, given: (i) 8.8% higher EPS (compared to before the merger), (ii) 20.2% higher market cap, creating the third-largest listed property developer in Indonesia, and (iii) 9.2% higher NAV per share.

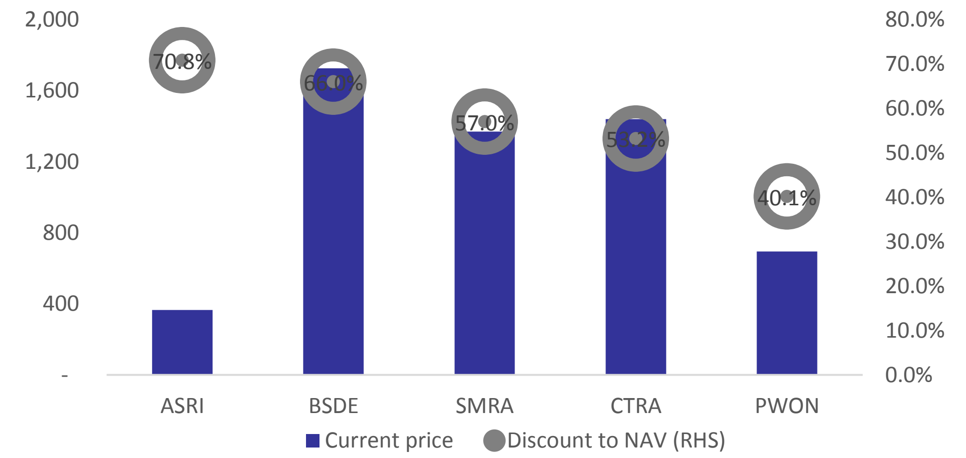
BSDE: Good prospects for growth (BUY TP of Rp2,500)
We like BSDE given its large land bank (Serpong – 2,923ha and others – 2,237ha) that will provide greater flexibility for property launches. Furthermore, BSDE as the lowest geared property company compared to its peers (BSDE: 32.1%, peers: 32.1-100.6% in 9M16) will be less negatively impacted by longer revenues recognition.

SMRA: Set to bounce back (BUY TP of Rp1,600)
We believe SMRA will see a turnaround next year. The company is a reputable property developer with a proven track record in delivering preferred townships/products, leading to higher capital gains for its property buyers. Having reported low marketing sales in 2015-16 as a result of soft demand, we believe that the FY17 marketing sales will see an uptick in growth (+9.0% yoy versus the sector's 3.0% yoy).

PWON: Fully valued (HOLD TP of Rp700)
Having the highest portion of recurring income of property developers under our coverage, we believe that PWON will have greater earnings visibility. Coupled with additional retail space of 73,379sqm from SPI Phase 2 and 3, we believe that PWON will be able to increase its revenues by 11.3% yoy in 2017. Nevertheless, we also think the market has fully priced in PWON's potentially higher earnings.

ASRI: Still a momentum play (HOLD TP of Rp380)
In the short to medium term, upcoming deals will support ASRI's marketing sales. Thus, in the absence of these deals, we view that ASRI will only obtained Rp1.8tn marketing sales (-32.7% yoy to achievement in 2016 after CFLD). It is also worth noting that ASRI has high leverage (9M16: 100.6% gearing) compared to its peers. Combined with a high inventory level, this will negatively impact cash flow.

Exhibit 1. Current share price



Source: Danareksa Sekuritas, Bloomberg

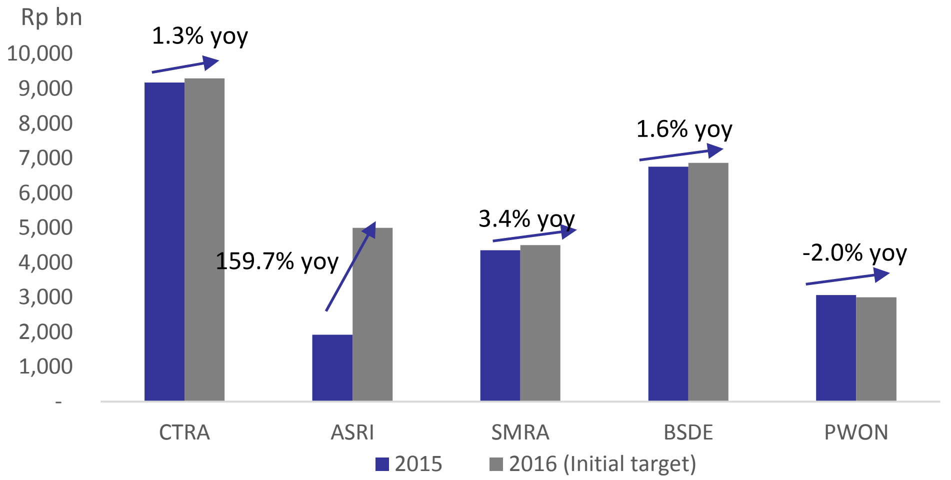
2016: More upbeat in 4Q16

Since Bank Indonesia implemented the LTV regulation that required a higher down payment for the purchase of a second property (and onwards) in late 2013, property sales have slowed. Coupled with uncertainty on the taxation side following prosecutions by the taxman, property marketing sales further declined in 2015.

Starting 2016 with high expectations

After recording sluggish performance in 2015, many developers expected better performance in 2016 given hopes of stronger macro-economic conditions, lower mortgage rates, the lower LTV, as well as the impact from tax amnesty. Initially, companies expected to record 13.4% yoy growth in marketing sales.

Exhibit 2. 2016 began with high expectations



Source: Companies

But realization in 9M16 was soft

Nevertheless, poor purchasing power and multiple administrative issues in the tax amnesty program meant that property companies recorded soft marketing sales in 9M16. In total, the companies under our coverage recorded negative 20.7% yoy growth in their 9M16 marketing sales.

Given this poor performance, several companies, including SMRA and PWON, are revising their marketing sales targets down by 22.2% and 26.7% to Rp3.5tn and Rp2.2tn, respectively.

More upbeat in 4Q16

Property companies were more upbeat in 4Q16. An increase in project launches has been followed by encouraging presales performance, supported by greater clarity post tax amnesty and more aggressive mortgage lending.

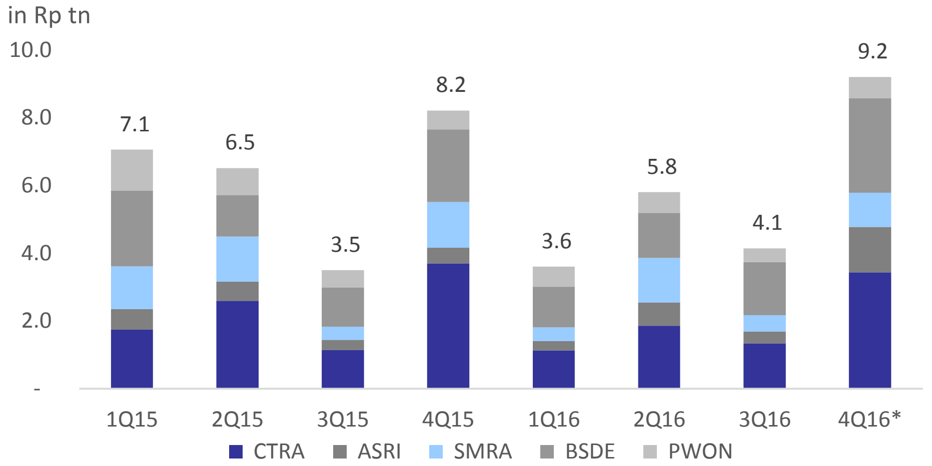
Exhibit 3. List of projects to be launched in 4Q16

Date	Company	Project	Area	Available for sale (units)	Remarks
Oct-16	PWON	Apartment	Surabaya	1,000	500 units have been sold
Nov-16	BSDE	Landed Residential	Jakarta	83	60 units have been sold
Nov-16	BSDE	Apartment	Jakarta	140*	NUP has reached 80
Nov-16	SMRA	Apartment	Serpong	96	65 units have been sold
Nov-16	SMRA	Landed Residential	Bandung	99*	
Nov-16	CTRA	Landed Residential	Tangerang		NUP has reached 1,200
Dec-16	PWON	Apartment	Surabaya	1,000	NUP has reached 400
Dec-16	SMRA	Landed Residential	Karawang	200	
Dec-16	CTRA	Apartment	Jakarta	450	NUP has reached 550

**units to be sold on the first phase*

Source: Companies

Exhibit 4. We expect improvements in 4Q16

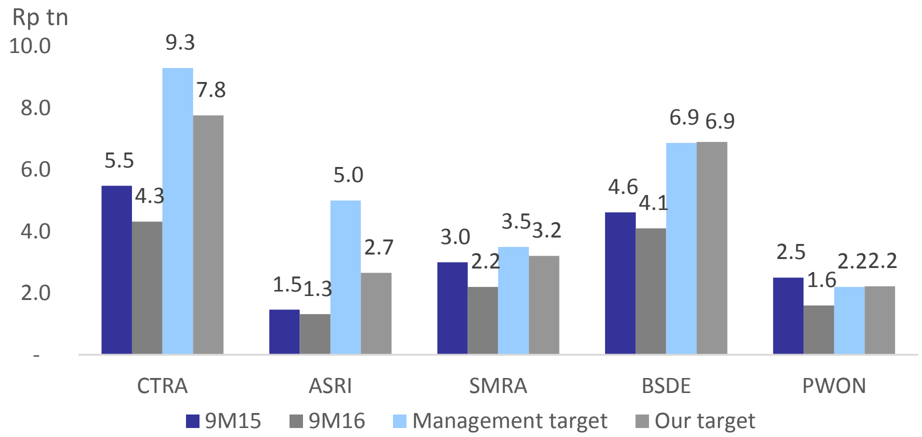


*Danareksa Sekuritas' estimates

Source: Companies, Danareksa Sekuritas

Despite hopes of improvements in 4Q16, the sluggish performance in 9M16 will drag down the overall performance for the full year. As such, we conservatively estimate FY16 marketing sales of Rp 22.7tn, still down 10.0% yoy.

Exhibit 5. We take a more conservative view



Source: Companies, Danareksa Sekuritas

Tax amnesty: we can only expect tax clarity

Tax Amnesty: initially expected to be a game changer for the property sector

To reduce the tax collection shortfall and bring offshore assets back into the country, the government implemented the tax amnesty program starting in July 2016. Through this program, taxpayers can voluntarily disclose incomplete or unreported income in their previous tax periods without having to face prosecution by the tax courts. As the exchange of pardon discharges taxpayers from previous tax liability, these taxpayers need to pay tax at certain redemption rates, ranging from 2-10% (see the table below).

Exhibit 6. Redemption Rate in the tax amnesty program

	Jul'16 – Sep'16	Oct'16 – Dec'16	Jan'17 – Mar'17
Repatriated	2.0%	3.0%	5.0%
Domestic declaration	2.0%	3.0%	5.0%
Foreign declaration	4.0%	6.0%	10.0%
SME			
< Rp10bn asset	0.5%	0.5%	0.5%
> Rp10bn asset	2.0%	2.0%	2.0%

Source: Ministry of Finance

When this program was introduced, most developers expected the program to be a game changer for the property sector considering the ambitious target set by the government for the amount of repatriated assets (Rp1,000tn) with uncertainty on the taxation side reduced.

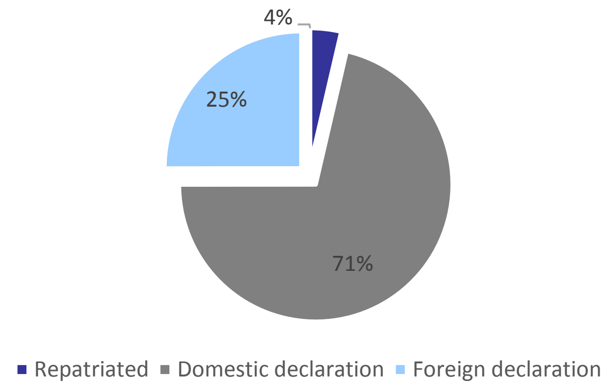
We can't expect much from repatriated assets

Nevertheless, instead of offshore assets, tax officers are looking more at domestic assets. As of third week of November 2016, domestic assets declaration was 71.4% of the total assets reported in the tax amnesty program. Meanwhile, repatriated assets only reached Rp143tn, or just 14.3% of the government's target of Rp1,000tn. Looking at this achievement in the first tax amnesty period, we don't think the government's target will be achieved. Instead, Bank Indonesia's target of Rp180tn looks more reasonable in our view.

As a result, we don't think the repatriated assets will have much impact on property sales. Should we optimistically estimate that 10-20% of the repatriated assets are invested in the property sector, this would only result in an additional Rp18-36tn of marketing sales. With the highly fragmented market, the impact on the companies under our coverage will be minimal.

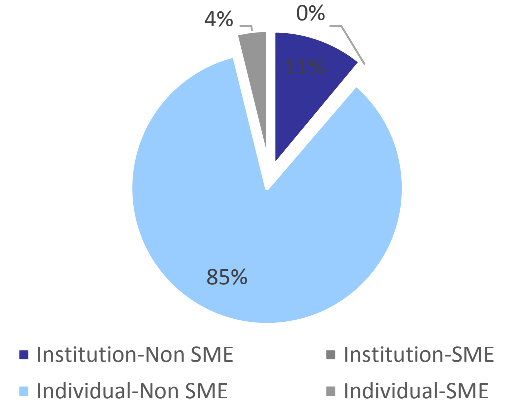
In addition, based on our channel checks with several property agents, taxpayers who repatriated assets are more likely to acquire land bank and develop it themselves, rather than purchase property from existing developers.

Exhibit 7. Proportion of the assets disclosed in tax amnesty



Source: Ministry of Finance

Exhibit 8. Proportion of tax amnesty participation (by value)



Source: Ministry of Finance

We can only expect greater tax clarity

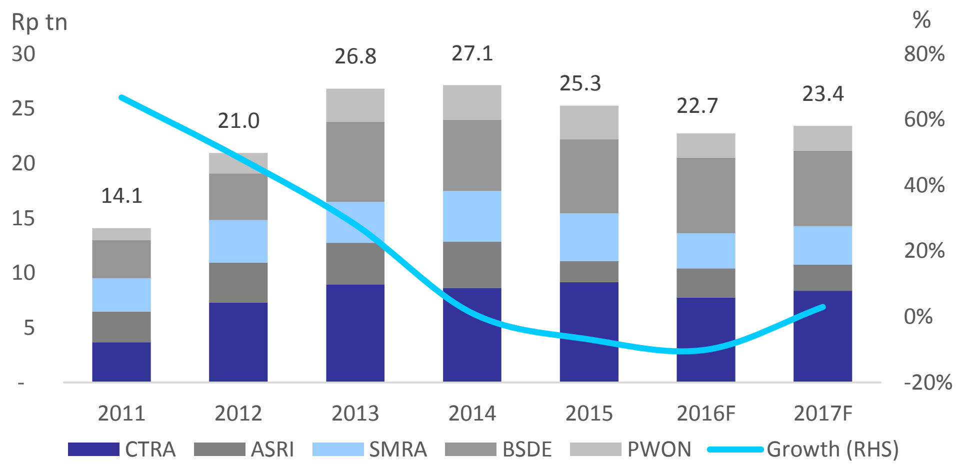
Although the amount of declared assets is below expectation, we can still expect a positive impact from tax clarity. Should individuals participate in the tax amnesty program, tax officers will not conduct tax audits whilst also discontinuing ongoing tax audits for all tax obligations up to fiscal year 2015. While scrutiny from tax officers hampered marketing sales in 2015, we can expect an improvement in marketing sales due to greater tax clarity resulting from the tax amnesty program.

We expect an improvement in marketing sales in 2017

We expect marketing sales to improve in 2017

We expect marketing sales to grow by 3.0% yoy in 2017. Nevertheless, should we exclude the one-off transactions of ASRI and BSDE in 2016, we estimate that the overall marketing sales will grow by 12.2% yoy in 2017F. We believe the loosening of several macro prudential policies, i.e.: (i) LTV loosening, (ii) lower mortgage rates, (iii) lower final tax, (iv) lower BPHTB and recovery in purchasing power should help foster recovery.

Exhibit 9. Total marketing sales to grow by 3.0% yoy in 2017F



Source: Companies, Danareksa Sekuritas

<u>Macro prudential loosening</u>

1. LTV loosening

After announcing its intention to loosen the LTV regulation in the monthly Board of Governors meeting in June 2016, Bank Indonesia issued Bank Indonesia regulation No. 18/16/PBI/2016 in the beginning of September 2016 to reduce the minimum LTV requirement for the first mortgage from 20% to 15%. Under this new regulation, consumers can use mortgages to finance the purchase of uncompleted property for first and second mortgages. This regulation became effective as of 31st August 2016.

Exhibit 10. Loosening the LTV regulation to boost demand for mortgages

	Surat Edaran No. 15/40/DKMP			PBI No. 17/10/PBI/2015			PBI No. 18/16/PBI/2016		
	First mortgage	Second mortgage	Third mortgage	First mortgage	Second mortgage	Third mortgage	First mortgage	Second mortgage	Third mortgage
Landed residential									
>70 m2	70%	60%	50%	80%	70%	60%	85%	80%	75%
21-70m2		70%	60%		80%	70%		85%	80%
<21 m2									
High rise building									
>70 m2	70%	60%	50%	80%	70%	60%	85%	80%	75%
21-70m2	80%	70%	60%	90%	80%	70%	90%	85%	80%
<21 m2		70%	60%		80%	70%		85%	80%
Shop house		70%	60%		80%	70%		85%	80%

Source: Bank Indonesia

Based on our channel checks, several banks, most notably the market leaders in mortgages (including Bank Tabungan Negara, Bank Central Asia, Bank Mandiri, Bank Negara Indonesia, and Bank CIMB Niaga, which have taken a 78.4% share of the total mortgages market) still require a 20% down payment for new mortgage applications. However, it is possible that in the future these banks allow lower down payments if their liquidity improves.

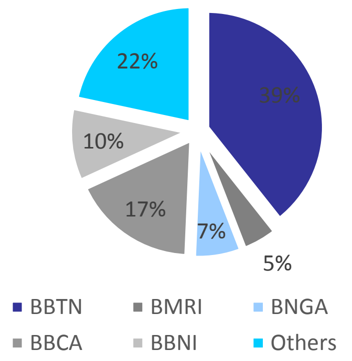
2. The mortgage rate to trend down

As part of its mission to push down the average lending rate into single digits, Bank Indonesia has lowered its benchmark rate by 150 bps (100 bps reduction in the BI rate and

50bps reduction in the 7 days repo rate) since the beginning of 2016. In response, commercial banks have reduced their prime mortgage rates.

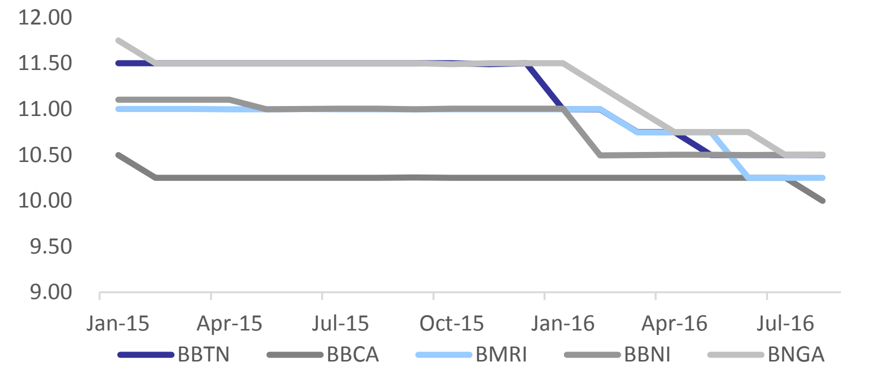
Based on the data provided by Bank Indonesia, we note that the market leaders in mortgages have reduced mortgage rates by 25-210 bps. We believe this will have a positive impact on the property sector overall, particularly on property companies which have a higher portion of mortgages in their payment profiles.

Exhibit 11. Market share of mortgages (9M16)



Source: Companies

Exhibit 12. The prime mortgage rate has trended down



Source: Bank Indonesia

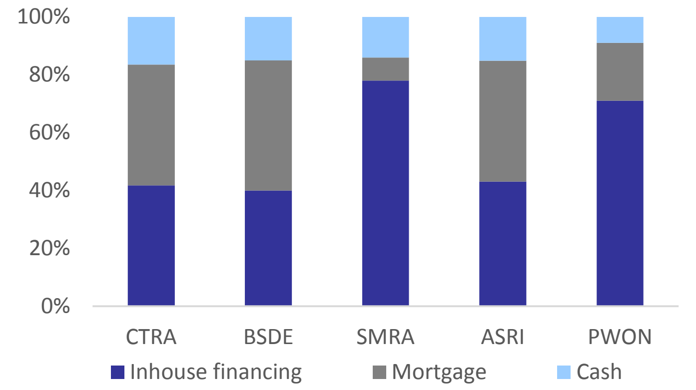
Exhibit 13. Current mortgage rates

Banks	Rate per Oct '15	Remarks	Rate per Nov '16	Remarks	Changes in rates
BMRI		**Developer**		**Developer**	
	9.50%	Fixed 1y	8.75%	Fixed 3y	-0.75%
	10.00%	Fixed 2y	8.50%	Fixed 5y	-1.50%
		Non Developer		**Non Developer**	
	9.75%	Fixed 1y	9.50%	Fixed 1y	-0.25%
	10.75%	Fixed 2y	10.75%	Fixed 2y	0.00%
BBCA		**Promotion** - up to 31/10/15		**Promotion** - up to 30/12/16	
	8.88%	Fixed 3y/4y	7.99%	Fixed 3y	-0.89%
	9.99%	Cap 2y	8.99%	Cap 3y	-1.00%
		Normal rate		**Normal rate**	
	9.25%	Fixed 1,2 y	8.75%	Fixed 1,2 y	-0.50%
	9.50%	Fixed 3y	8.50%	Fixed 3y	-1.00%
	10.00%	Fixed 5y	9.00%	Fixed 5y	-1.00%
	9.25%	Fixed 3y +	8.25%	Fixed 3y +	-1.00%
	11.00%	Cap 2y	10.00%	Cap 2y	-1.00%
BBNI				**Promotion** - up to 31/12/16	
			7.95%	Fixed 2y +	
			8.95%	Fixed 3-5 years	
		Normal rate		**Normal rate**	
	9.50%	Fixed 1y	10.50%	For 1y	0.25%
	10.00%	Fixed 2y	11.00%	For 2y	0.75%
	10.50%	Fixed 3y	11.50%	For 3y	
			12.00%	For 4y	
			12.50%	For 5y	
BBTN		**Subsidized**		**Subsidized**	
	5.00%	Fixed to 20 years	5.00%	Fixed to 20 years	0.00%
		Promotion - Developer - up to 31/12/15			
	7.50%	Fixed 2y		**Promotion** - up to 31/12/16	
		Promotion - up to 31/12/15	8.75%	fixed 1y	
	9.75%	Fixed 2y	9.00%	fixed 2y	-0.75%
	10.50%	Fixed 3y	9.50%	fixed 3y	-1.00%
			10.25%	fixed 5y	
		Normal rate		**Normal rate**	
			9.75%	Fixed 1y <200mn	
	12.00%	<350 mn	9.90%	Fixed 1y >200mn - 350mn	-2.10%
	11.50%	>350mn	9.90%	Fixed 1y >350mn	-1.60%

Banks	Rate per Oct '15	Remarks	Rate per Nov '16	Remarks	Changes in rates
CIMB Niaga		**Top Developer**		**Top Developer**	
	8.50%	Fixed 1y			
	8.88%	Fixed 2y			
	9.00%	Fixed 3y	7.75%	Fixed 3y	-1.25%
	9.50%	Fixed 5y	8.25%	Fixed 5y	-1.25%
		Non Developer		**Non Developer**	
	8.80%	Fixed 1y	8.00%	Fixed 1y	-0.80%
	9.00%	Fixed 2y			
	9.25%	Fixed 3y	8.25%	Fixed 3y	-1.00%
	9.50%	Fixed 5y	8.50%	Fixed 5y	-1.00%

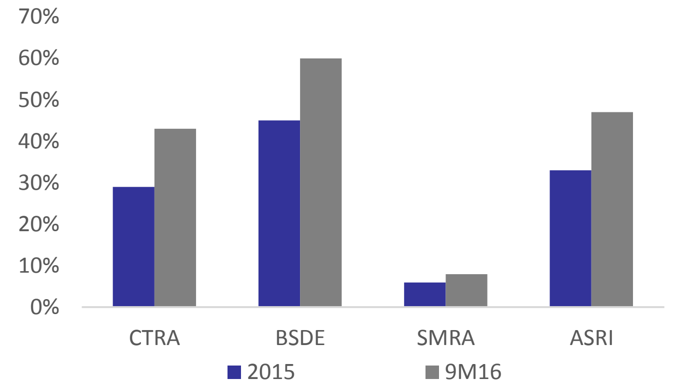
Source: Danareksa Sekuritas

Exhibit 14. Consumer financing profile (9M16)



Source: Companies

Exhibit 15. Increasing mortgage portion



Source: Companies

Positive impact from lower mortgage rates

Lower mortgage rates should boost demand for mortgage financing, particularly from first home buyers, especially considering that BI's regulation which allows the purchase of an uncompleted second property using a mortgage had not been effectively applied in 9M16. Among the companies under our coverage, the proportion of mortgage financing in 9M16 increased by 2-15%.

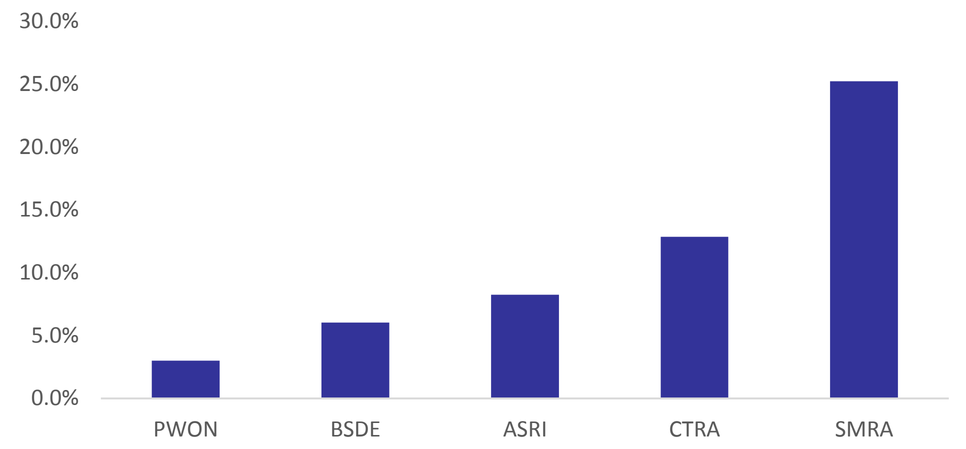
While the Financial Services Authority has encouraged banks to push the lending rate down to single digits whilst also seeking decentralization in the banking sector, we believe that the mortgage rate will continue to trend down in 2017. Coupled with loosening of the LTV regulation, we believe property will be more affordable going forward - thus leading to stronger demand.

3. Lower final tax

In early September 2016, President Joko Widodo issued Presidential Decree No. 34/2016 to reduce the final tax for property transfers from 5% to 2.5%. In addition, the government also exempted value added tax (VAT) on low income houses. This regulation is expected to accelerate the realization of the government's "one million housing program".

Considering that developers will not lower selling prices, the final tax will result in higher net profit margins given that this tax is charged to developers. Among the companies under our coverage, we believe that SMRA will benefit the most from a lower tax rate.

Exhibit 16.Increase in 2017's net income from a lower final tax rate



Source: Danareksa Sekuritas

4. More regions to lower BPHTB will positively impact consumers

As part of the government's Economic Package XI announced in March 2016, President Joko Widodo issued Presidential Instruction No. 5/2016 to urge the Jakarta Governor and Mayor from other regions to lower the Land and Buildings Acquisition Tax (BPHTB) to further accelerate realization of the government's one million houses program.

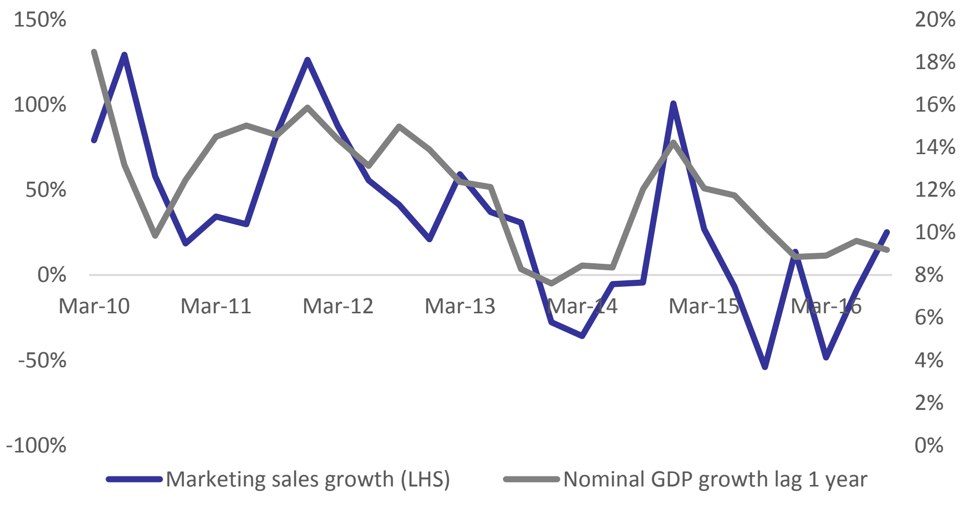
BPHTB is considered a regional tax. As such, to lower the rate, each regional government needs to amend its taxation decree. In response to the Presidential Instruction, the Governor of DKI Jakarta issued regulation No. 193/2016 to exempt property transfers with asset value less than Rp2bn for first time home buyers.

Should more regional governments respond to this Presidential Instruction to lower BPHTB, the purchasing power of consumers will be positively impacted.

Recovery of purchasing power

We also believe that the outlook for the property sector will hinge on developments in overall purchasing power, as represented by nominal GDP growth. Based on our analysis of the historical data, we notice that marketing sales growth exhibits a similar trend to nominal GDP growth with a 1-year lag.

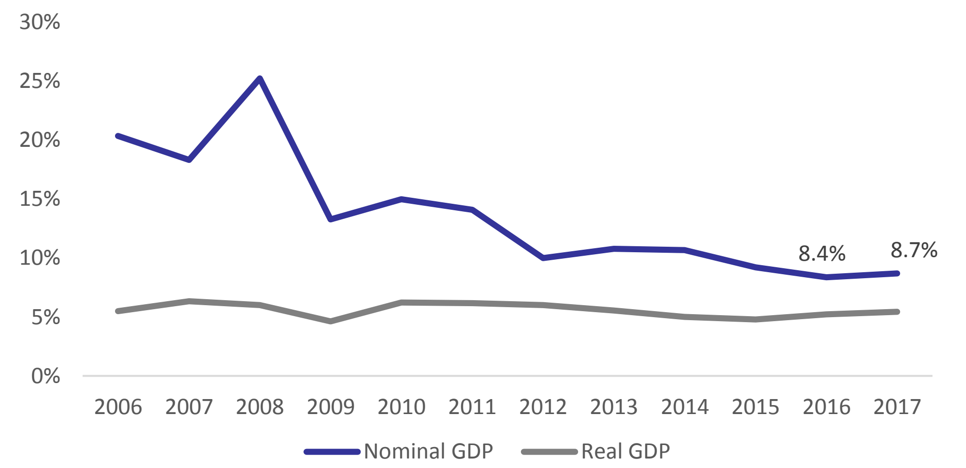
Exhibit 17. Marketing sales growth and GDP growth



Source: BPS, Companies

While Danareksa Research Institute estimates that nominal GDP growth will improve to 8.7% in 2017 (from 8.4% in 2016), we believe that the recovery of purchasing power will also drive property demand.

Exhibit 18. Nominal and real GDP growth



Source: BPS, Danareksa Research Institute

REIT – unlikely to have much impact

To boost the REIT market in Indonesia, the government recently issued Government Regulation No. 40/2016 to impose a transfer asset tax of 0.5%, whereas it previously imposed a capital gains tax of 25% (Minister of Finance Regulation No.20/2015). In addition, the government also plans to reduce the Land and Building Rights Acquisition Tax (BPHTB) from 5% to a maximum 1%. This is part of Economic Package XI.

Despite this move, we do not expect it to have a significant impact. For the developer, with the existing transfer asset tax of 5.5% (considering not all regional governments have lowered the BPHTB rate), REIT will be costlier in Indonesia than in Singapore (which only imposes 3% stamp duty).

From the investor side, we don’t think REIT are attractive for investors given the current level of interest rates. At the moment, the Indonesian government bonds yield stands at 7.7-8.0%. To invest in REIT, a 1-2% premium would be warranted to compensate for the higher risk. This would translate into a minimum yield of 9-10%. Nonetheless, based on our discussions with the developers, the average income yield of the market value of matured retail space only stands at 7-9%.

Exhibit 19. REIT comparison

	Indonesia	**Singapore**	**Malaysia**
Transfer asset	Transfer asset tax 0.5% BPHTB 5%[1]	Stamp duty of 3%	Exempted
Income tax	10% of the rental revenue	Taxable income which is not distributed is taxed at 17%	Exempted if at least 90% of total income is distributed
Withholding tax	No tax	10% withholding tax for foreign-non individual investors	10% final withholding tax on dividends paid for non-corporate and foreign institutional investors
Minimum fund size	Rp 50bn	SGD 1mn	RM 100mn
Ownership rules	Minimum 100 shareholders	25% of the units must be held by 500 public shareholders	Maximum foreign ownership 70%
Asset rules	50% of asset must be invested in real estate	75% of assets must be invested in income producing real estate (inside or outside Singapore)	50% of the assets must be invested in real estate or a single purpose company whose principal assets are real estate

Source: Various sources

[1] Depending on the region

Foreign Property Ownership – will not have much impact

In an attempt to boost the performance of the sluggish property sector and increase foreign investment, the Ministry of Agrarian and Spatial Planning issued regulation No. 29/2016 to enable foreigners with any type of residence permit (diplomatic, service, visitor, limited, and permanent) to acquire property, either landed or high rise with the "right of use" title and a certain price floor applicable.

Exhibit 20. Price floor for foreign property ownership

in Rp bn	Jakarta	Banten	West Java	Central Java	Yogyakarta	East Java
Landed house	10.0	5.0	5.0	3.0	5.0	5.0
High rise	3.0	2.0	1.0	1.0	1.0	1.5

in Rp bn	Bali	West Nusa Tenggara	North Sumatera	East Kalimantan	South Sulawesi	Others
Landed house	5.0	3.0	3.0	2.0	2.0	1.0
High rise	2.0	1.0	1.0	1.0	1.0	0.8

Source: Ministry of Agrarian and Spatial Planning Regulation No. 29/2016.

Furthermore, foreigners can change the property title from "right of ownership" or "right to build" title to "right to use" by submitting a registration to the local land office. Subsequently, should the foreigner want to sell the property to an Indonesian citizen, they can reconvert the title to "right of ownership" or "right to build".

In this regulation, the government equates the holding period for "right to use" and "right of ownership" and "right to build" to 30 years extendible for an additional 20 and 30 years (previously, the holding period for right to use was only 25 years extendible for an additional 20 and 25 years).

Nevertheless, we don't think this regulation will have much impact on the property sector, considering:

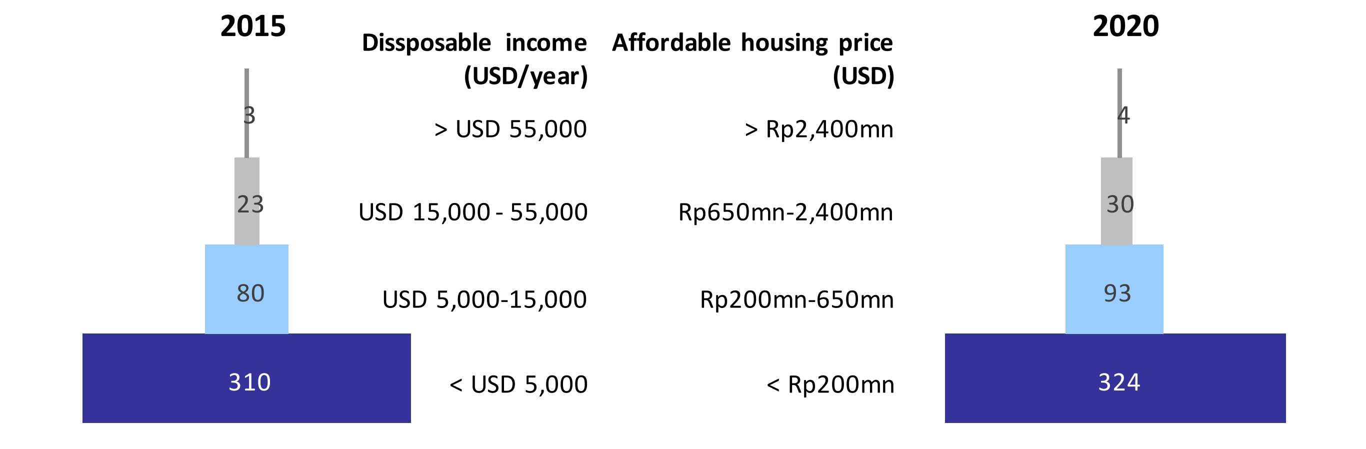
1. **Developers are reluctant to change the title of property to "right to use"**
   This is due to the high political risk in the country. Should the government amend the regulation that allows for reconversion of the "right to use" title to "right of ownership" and "right to build", developers will be stuck with "right to use" title on property which lacks demand from Indonesian buyers.
2. **"right to use" title needs to be extended after 30 years**
   Although the total period for "right to use" title is 80 years, investors need to extend the ownership after 30 years and 20 years. From the point of view of foreign investors, this will create uncertainty. Should political issues arise which prevent title from being extended, then foreign investors may potentially lose their property. By comparison, foreign property investors in Singapore and Malaysia get an ownership period of 99 years without the need to extend the license during that period.
3. **The need to visit Indonesia at least once a year to maintain property ownership**
   Although the government expects foreign investors who acquire property to conduct regular visits to Indonesia, this may inconvenience foreign investors. Should investors fail to comply with this requirement, they stand to lose their property ownership.
4. **Banks still reluctant to use "right to use" property title as collateral**
   Should the foreign investor default on their loan, the bank may not be able to recover the value of the collateral considering property with "right to use" title is less liked by Indonesian investors. Although the asset title can be reconverted to "right of ownership" or "right to build", the process may be cumbersome and lengthy.

Landed residential: still prospective

Middle income will structurally drive demand

According to data from Euromonitor, the Indonesian population is more skewed to the low income segment. In 2015, 74.5% of the Indonesian population had disposable incomes of less than USD5,000/year. By 2020, however, Euromonitor estimates that the low income segment will account for less than 70.1% of the total population, while the middle class (defined as those with annual disposable income in the range of USD15,000 to USD55,000) will increase to 7.3% of the total population (from 5.5% in 2015).

Exhibit 21. The rise of the middle class in Indonesia



Source: Euromonitor, Danareksa Sekuritas

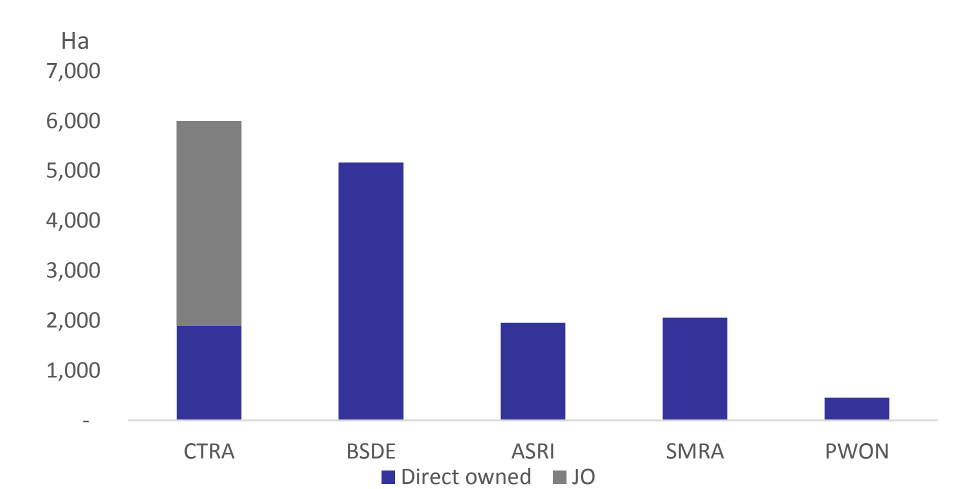
As the middle class grows, demand for residential property should strengthen going forward. Assuming a 9% mortgage rate, tenor of 15 years, and 20% down-payment, we estimate that the middle class will be able to afford to purchase property with prices in the range of Rp650mn-2,400mn.

Based on our channel checks with several developers, we note that most buyers are real home buyers as opposed to investors. This is unlike the composition of buyers during a property boom when the ratio between real home buyers and investors is expected to reach 40:60. Given the current conditions, we believe the middle segment for residential property will still be the sweet spot for developers in future years.

Land bank is the key for product flexibility

To have product flexibility, ample land bank is key for developers, we believe. As such, BSDE which has the largest land bank will have more flexibility than its peers.

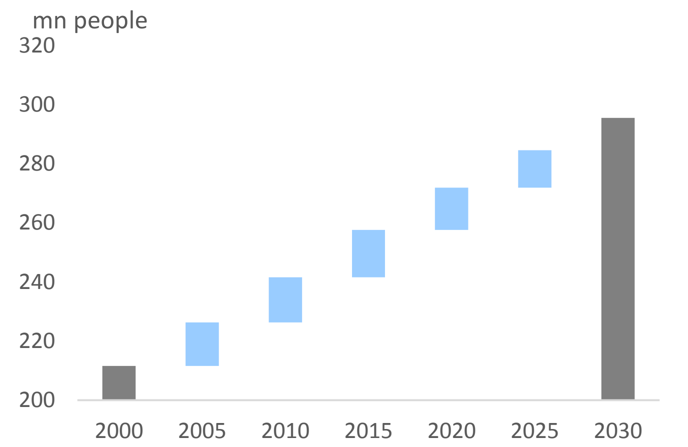
Exhibit 22. Land bank of the property companies under our coverage



Source: Companies

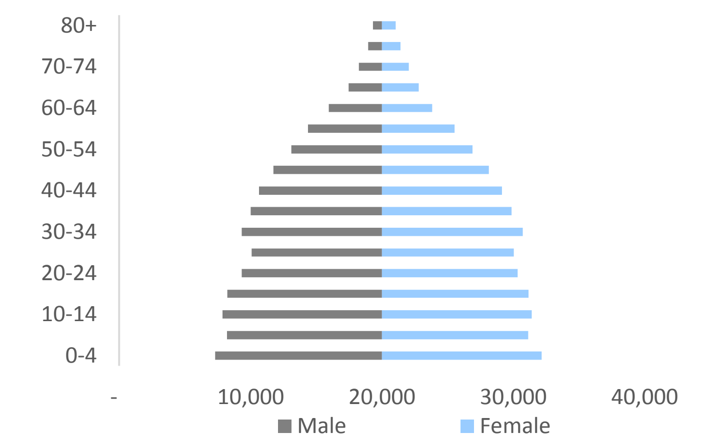
Geographic bonus to ensure landed residential property is less vulnerable
Based on the data from Euromonitor, Indonesia's population is expected to reach 257mn people in 2015, and is then expected to grow to 295mn people in 2030. Of the total population, 60.8% is of productive age (below 35 years old). A large productive age population will support demand for residential property going forward.

Exhibit 23. Indonesia's population growth



Source: Euromonitor

Exhibit 24. Indonesia's population pyramid (2015)



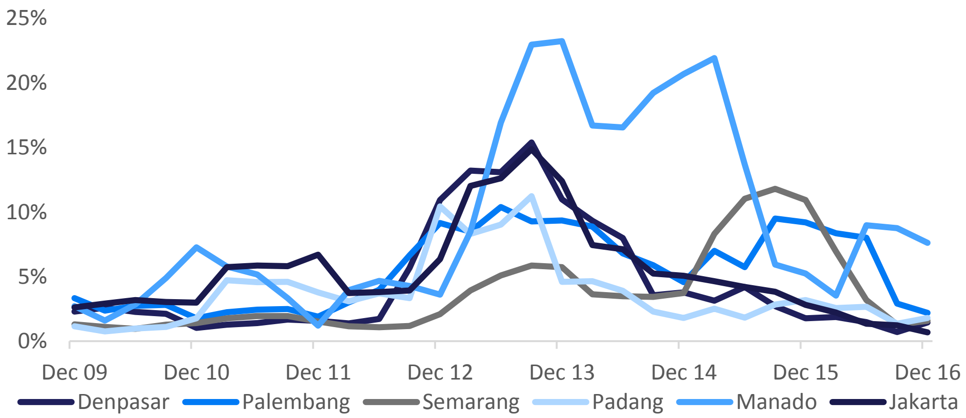
Source: Euromonitor

While marketing sales in 2016 were not that encouraging, the take-up rate for residential property, particularly landed residential property with prices below Rp2bn per unit, has an encouraging take-up rate of 70%. This should be sustained over the near term, we believe.

Each region has its own cycle
From the macro perspective, national demand for residential property should trend higher. Nevertheless, we note that each region has a different property cycle.

1# Different price cycle for each region
Based on Bank Indonesia data, residential property prices only edged up by 2.3% yoy nationally in 4Q16. Regionally, residential prices in Jakarta were relatively flat (0.7% yoy), while prices in Manado jumped 7.6% yoy, lifted by: (i) increasing demand from Chinese investors following development of Special Economic Zones in addition to smelters and the area's tourism potential, (ii) better purchasing power following higher economic growth in the area (nominal economic growth in 2015 in North Sulawesi reached 13.2% vs. national of 9.2%), and (iii) the development of multiple infrastructure projects in the area, including the Manado-Bitung toll road and inner ring road.

Exhibit 25. Each region has its own cycle

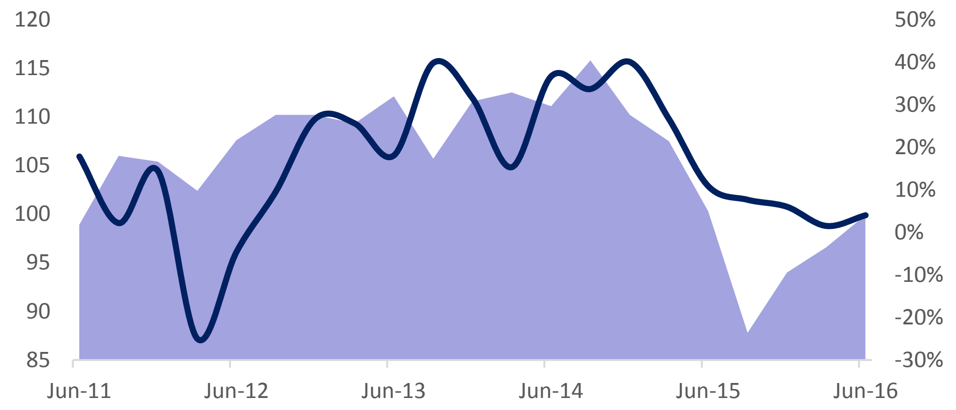


Source: CEIC

2# Different property demand characteristics in each region
Based on our analysis, we also notice that property sales volume is correlated to consumer confidence (present situations). As such, while we don't have property data

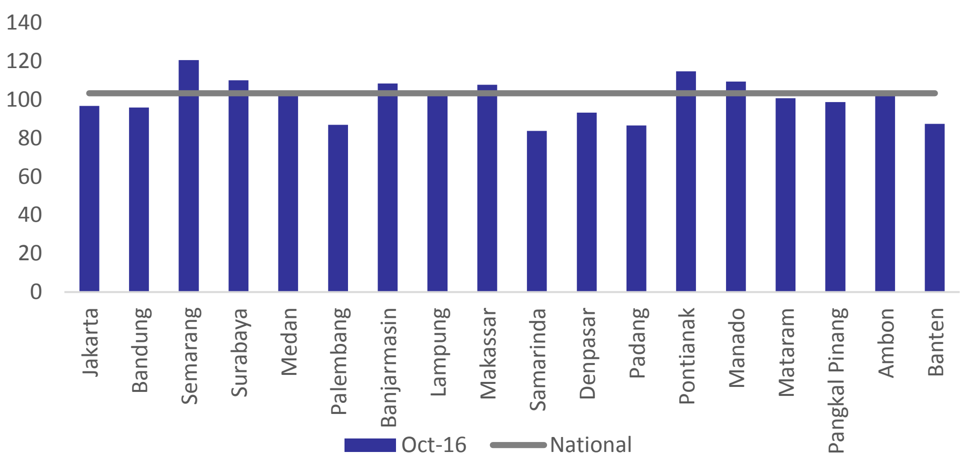
sales on a regional basis, we can estimate the trend of property sales volume based on the trend of the consumer confidence index. As consumer confidence varies in each region, property sales growth will also differ, we believe.

Exhibit 26. Property sales and CCI (present situations)



Source: Bank Indonesia

Exhibit 27. CCI (present situations)

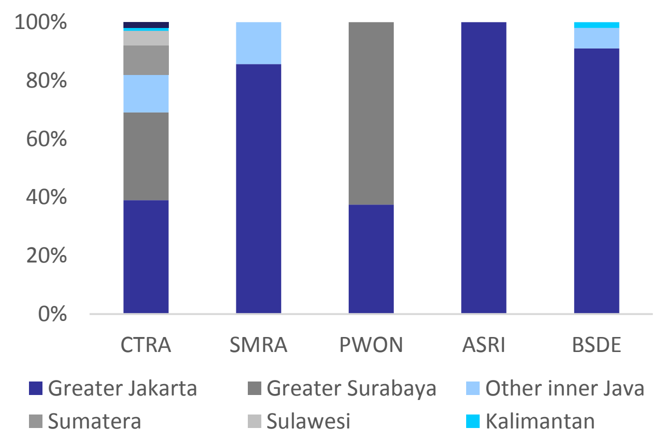


Source: Bank Indonesia

Diversified developers to benefit the most

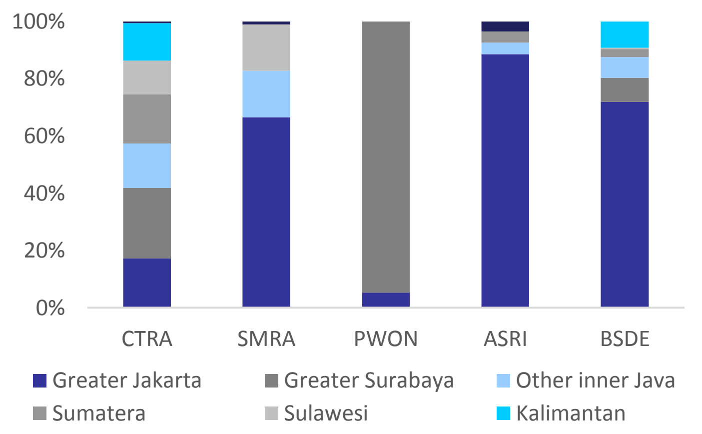
Although we expect the property market to improve overall, we believe that developers which have more diversified projects in terms of their regional locations will perform better than developers which have more concentrated projects. As such, we believe that CTRA should record better marketing sales growth (+8.1% yoy) than its peers.

Exhibit 28. Regional exposure based on marketing sales



Source: Companies, Danareksa Sekuritas

Exhibit 29. Regional exposure based on land bank



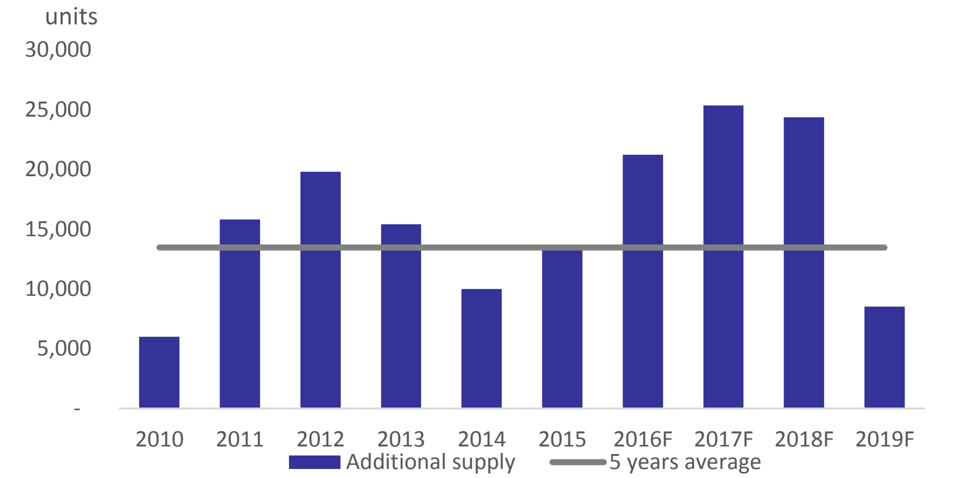
Source: Companies, Danareksa Sekuritas

Apartments: Threat of oversupply

Overall, we are cautious on the prospects of the apartment market, considering: (i) the threat of oversupply, particularly in the non-CBD area which has led to poor take-up rates in such areas, (ii) the abundant supply in the secondary market, (iii) the tied-up capital in high rise buildings.

Based on research conducted by Colliers, the total new supply of apartments in Jakarta will reach 25,347 units in 2017, almost double the 5-year historical average of 13,475 units. Nevertheless, the take-up rate looks less encouraging at only 86.9% in 3Q16.

Exhibit 30. Additional supply in Jakarta's apartment market



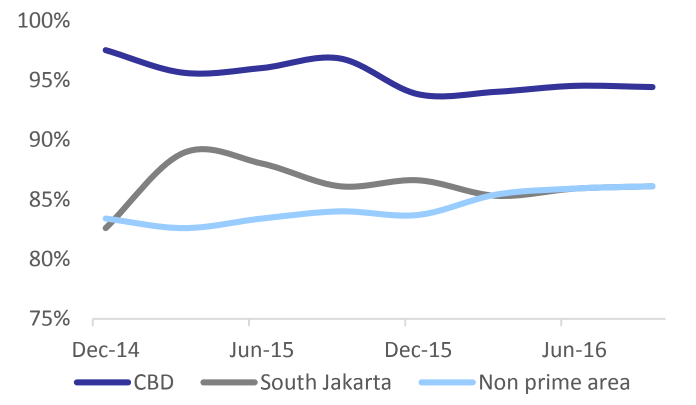
Source: Colliers

The take-up rate in the CBD area is still encouraging

By location, we still prefer developers with projects in the CBD area compared to non-CBD areas. Because of limited land bank in the CBD area, there are limited apartment projects being developed which result in a high take-up rate of 94.40%. From an additional 25,347 apartment units in Jakarta, only 4.9% are located in the CBD area.

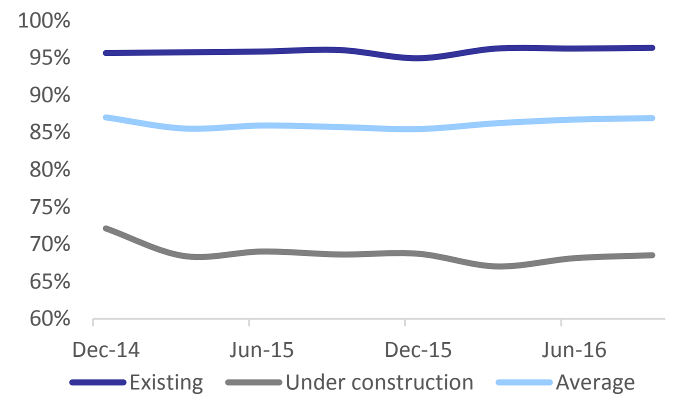
Among the companies under our coverage, CTRA, through its subsidiary, CTRP, is currently constructing two apartment towers in the Dr. Satrio area (Orchard and The Residence) with the total number of units to be offered reaching 491 units. These projects were launched in 2011 and 2012. As of September 2016, the average take-up rate from these apartments has reached 87.9% - 91.0%. In November 2016, CTRP also launched one tower apartment with 450 units sold with prices of Rp1-2bn/unit. In the pre-launching, reservations reached 550 units. Considering this encouraging performance, CTRP also plans a similar apartment in Ciputra World 2.

Exhibit 31. Jakarta's apartment take-up rate (based on area)



Source: Colliers

Exhibit 32. Jakarta's apartment take-up rate (based on progress)



Source: Colliers

… not the case with Apartments in Non CBD areas

The threat of oversupply appears in non-CBD areas. Back in 2013 and 2014, developers launched apartments in non-CBD areas that were more affordable for the middle segment. Currently, the take-up rate for these apartments stands at only 86.1%.

The threat of oversupply is more severe in the Tangerang area. We estimate that there will be an additional 21,476 apartment units in 2016 to 2019. Meanwhile, the average take-up rate for apartments in the area has only reached 70%.

For the companies under our coverage, we believe ASRI will be most affected by the risk of oversupply. We estimate there will be an additional 4,034 apartment units up to 2019 constructed by other developers. Prices offered are in the range of Rp16mn-30mn/sqm, translating into Rp500mn-3,600mn/unit.

Increasing supply from its competitors has resulted in a low take-up rate for ASRI's apartment project in Alam Sutera. As of September 2016, the take-up rate for the Paddington apartment only reached 65%. As we expect the property market to improve only slightly in 2017, oversupply will continue to hamper ASRI's apartment sales next year.

Exhibit 33. Apartment projects in the Alam Sutera area

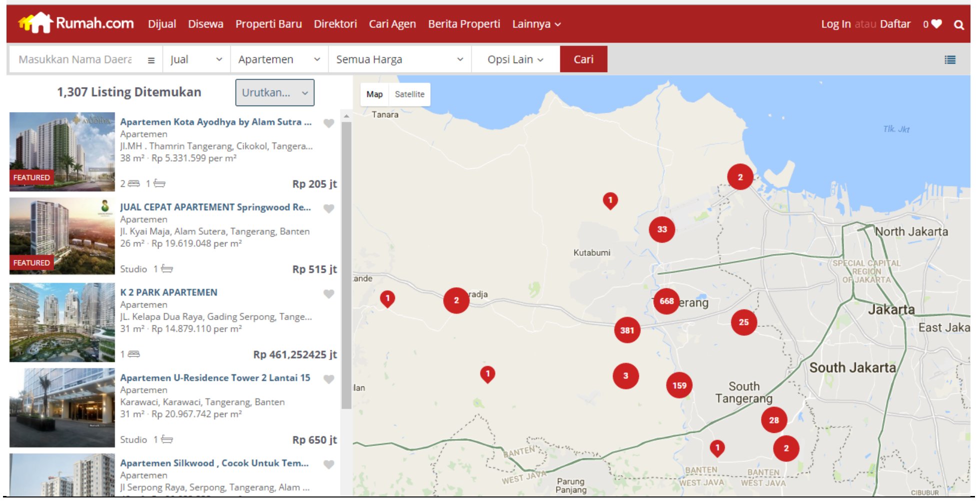
Projects	Developer	Launching date	Total units offered	Completion date
Saumata Apartment	Sutera Agung Property	May-14	203	2016
Springwood	Trinity	Jun-14	1,300	2016
Yukata	Trinity	Sep-15	363	2016
Saumata	Pakubumi Semesta	May-14	203	2016
Brooklyn Soho and Apartment	Trinity	May-14	722	2016
Paddington Heights	ASRI	Jul-14	437	2016
One Velvet	Forza Land	2015	390	2018
Saumata Suites	Sutera Agung Property	Apr-15	132	2018
The Smith	Trinity	Aug-16	280	2019
The Lana	Brewn Mesa	Nov-16	540	2019
Cambio Loft	ACT Singapore	Oct-16	257	2019
The Noble	Datzo Investama Group	Feb-16	507	2019

Source: Various news

Threat from the secondary market

Besides facing competition in the primary market, the secondary market also poses a threat to the apartment market. Based on data from rumah.com, around 1,307 apartment units are currently being offered in the secondary market in the Tangerang area alone.

Exhibit 34. Competition from the secondary market for apartments

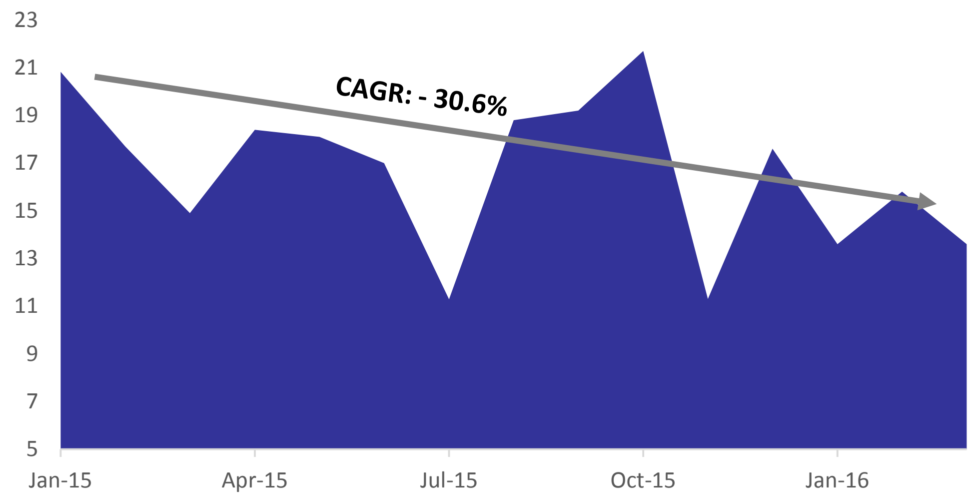


Source: Rumah.com

In terms of pricing, we note that apartment prices in the secondary market are trending down (see the graph below). Although pricing on a monthly basis is volatile, pricing has trended down since 2015.

As a result, prices in the secondary market are often lower than in the primary market. This is the case at Springwood Residence, for example, an apartment developed by the Trinity Group. Currently, the take-up rate has reached 80%. In the primary market, developers offer units at a price of Rp18mn/sqm. In the secondary market, however, prices only stand at Rp16mn/sqm.

Exhibit 35. Median prices (in Rp/sqm) for apartments in Tangerang



Source: Brickz.com

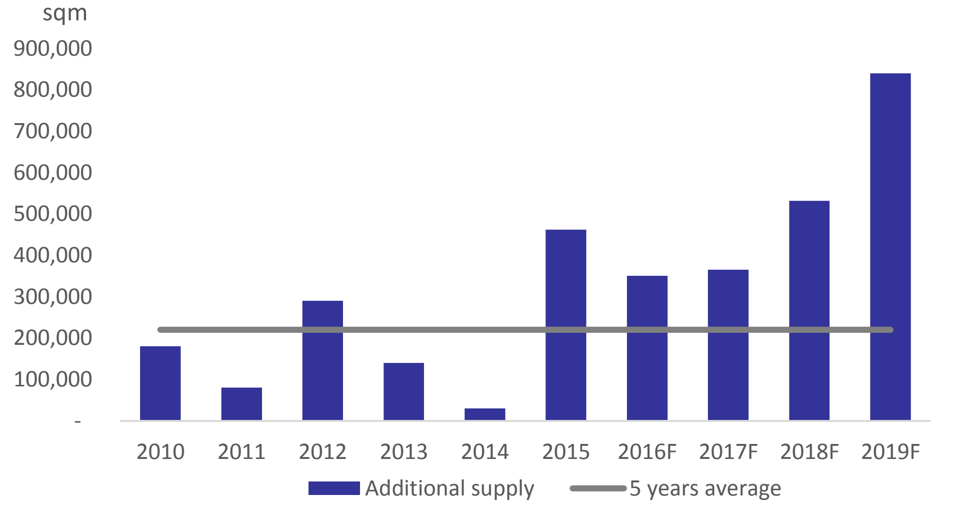
Offices: Best to avoid

Overall, we are not sanguine on the outlook for strata title offices in Jakarta, noting the large additional supply in the primary market which has not been accompanied by increasing demand. As a result, the occupancy rate has trended down, both in CBD and Non CBD areas. In addition, increasing bargaining power of the lessee will enable them to get lower rental prices which are unfavorable for the landlord.

Leased offices

Increasing supply not matched by higher demand in the CBD area; hence, falling prices
Colliers expects 31 new office buildings to operate in the period from 2016 to 2019, increasing the total supply of office space to 7.6mn sqm, a 46.1% increase over the office supply in 2015 of 5.18mn sqm. This is equivalent to the addition of 597,000sqm/pa, or almost triple the average 5-year increase of 220,000sqm/pa.

Exhibit 36. Office supply (for lease) in the CBD area



Source: Colliers

However, the increase in supply has not been matched by higher demand. Even though demand from e-commerce businesses is increasing, this is not sufficient to offset the weak demand from the oil and gas and mining sectors. As such, the average occupancy rate of office towers only stood at 84.6% in 3Q16, down by 1.0% qoq and 8.1% yoy.

Against this backdrop, tenants have requested sizable discounts. To secure tenants and boost occupancy rates, landlords have agreed to offer lower prices. Jones Lang Lassale (JLL) noted that prices of Grade A offices had fallen by 2.5% qoq in 3Q16. In 2017, we expect pricing pressures to mount given the 365,000sqm of additional space in this year.

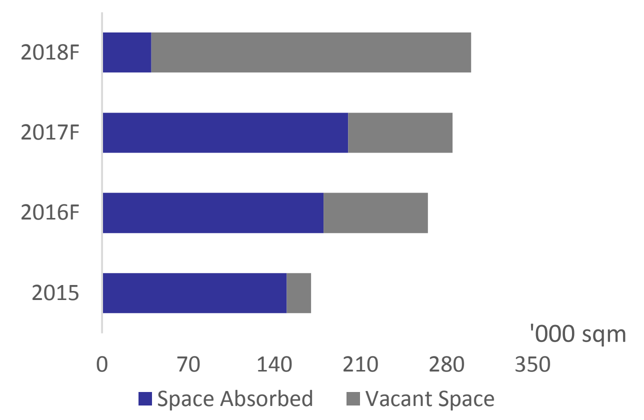
Further reduction in demand in the non-CBD area
Considering the falling rents in the CBD market, the tenants of office buildings in non-CBD areas see CBD offices as a viable alternative. This does not bode well for the occupancy rate in non-CBD areas. Furthermore, the addition of 834,000 sqm of office area in the period 2016-2019 (equivalent to 22% of existing office space) will further lower the occupancy rate, reducing rental rates.

While we believe that more conducive business conditions will have a positive impact on demand for offices, the large increase in supply will continue to put pressure on the occupancy rate and rental rates.

Strata title office

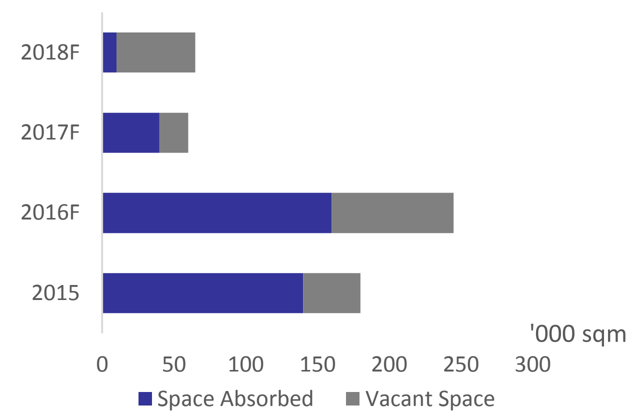
While oversupply in the strata title office market is not as much as in the leased office market, we are not that upbeat on its prospects. In the strata title office market, buyers prefer completed offices. Based on data from Colliers, the average take-up rate for office towers completed in 2015 was above 75%. Meanwhile, the average take-up rate for office towers completed in 2016-2017 is only around 60-70%. For office towers that will be completed by 2018, the take-up rate is only 10-20%. This implies that the construction of offices burdens the working capital of developers.

Exhibit 37. Supply of Strata title office in the CBD area



Source: Colliers

Exhibit 38. Supply of Strata title office in non-CBD areas



Source: Colliers

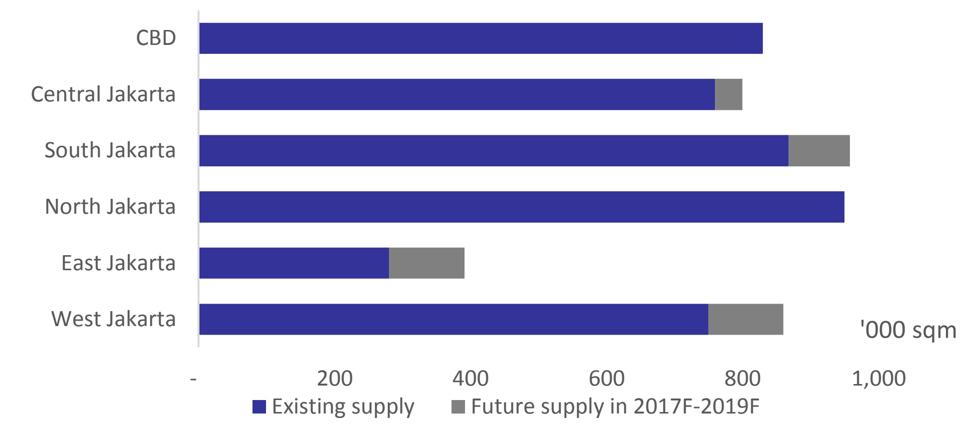
PWON plans to launch a Unity Square office tower with gross salable area of 49,000sqm. The offering price ranges between Rp36-40mn/sqm, about the same as the selling price of Office 88 in the secondary market of Rp38mn/sqm. Considering the buying patterns in the office market, we don't think this launch will have much impact on PWON's marketing sales in 2017 considering construction of this tower will be completed in 2018.

Retail: safe and sound

Jakarta area: still prospective

Although mall development has not been banned outright, Jakarta's current governor is more selective in granting licenses for mall development in several prime areas in the city. According to JLL, projects in East Jakarta are more likely to gain approval than elsewhere. As such, additional retail space in East Jakarta in 2017-2019 is expected to reach 111,000sqm, the highest in Jakarta.

Exhibit 39. Retail space in Jakarta



Source: Colliers

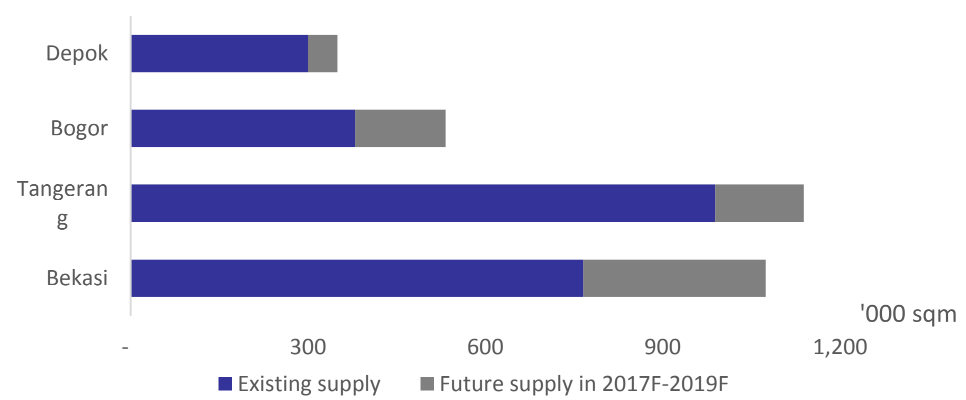
Although the supply of additional retail space was limited in the last 3 years, Colliers expects Jakarta to have 349,000sqm of additional supply in the next 3 years. Nonetheless, we still expect retail space to maintain an occupancy rate of 84.9% considering the large appetite of foreign retailers such as Lulu (Dubai-based department store), Courts (Singapore), Lotte (South Korea), Jysk (Denmark), Uniqlo (Japan), and IKEA & H&M (Sweden). Colliers claims these retailers have aggressive plans to expand their businesses in Jakarta. This high occupancy rate will also sustain the rental rate going forward.

Greater Jakarta area: massive supply going forward

Colliers estimates that there will be an additional 662,000 sqm of additional retail space in the Greater Jakarta area in 2017-2019. This is equivalent to 27.2% of the existing retail space in the area. Looking at specific regions, 46.7% of the additional space will be in Bekasi.

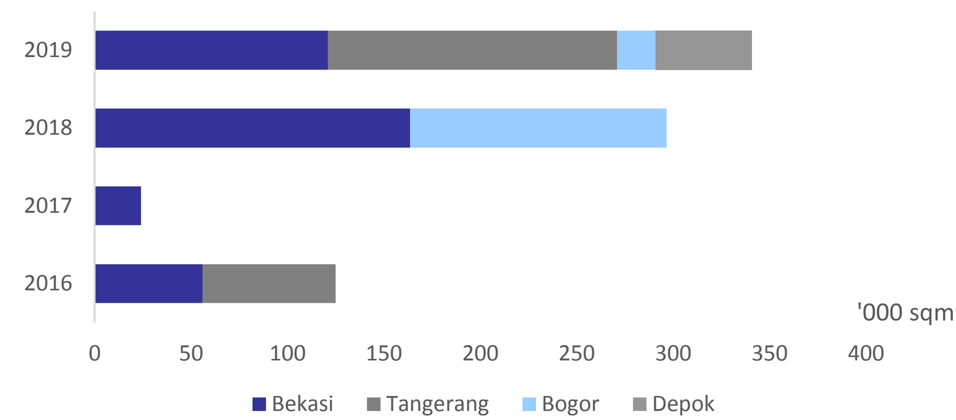
Despite the massive additional supply, we don't expect the occupancy rate to be dragged down significantly (it currently stands at 84.0%). Colliers estimates that the projected occupancy rate will stand at 80%, supported by: (i) committed anchor tenants for the new retail space, and (ii) the limited vacant space in Jakarta that encourages foreign retailers to shift their expansion toward Greater Jakarta areas.

Exhibit 40. Retail space in Greater Jakarta



Source: Colliers

Exhibit 41. Most of addition will be on 2018 and 2019



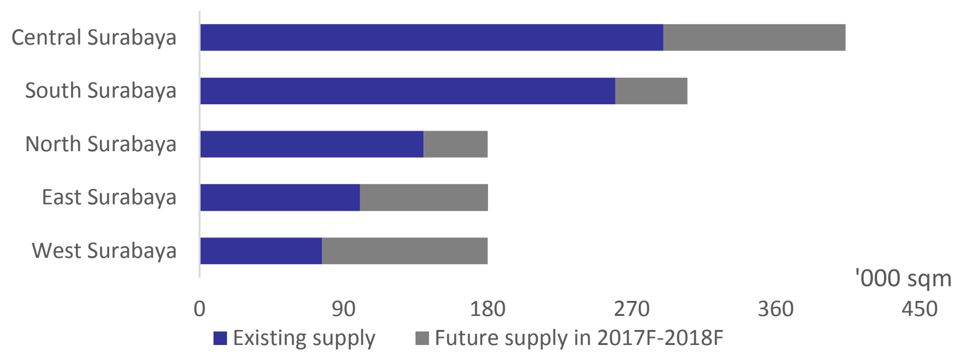
Source: Colliers

Surabaya: additional supply on the way

After flat supply of retail space during the last 4 years, Surabaya will welcome additional retail space from Supermall Pakuwon Extension this year with net leasable area of 73,379sqm. This will result in additional supply of 1.0mn sqm by the end of 2016.

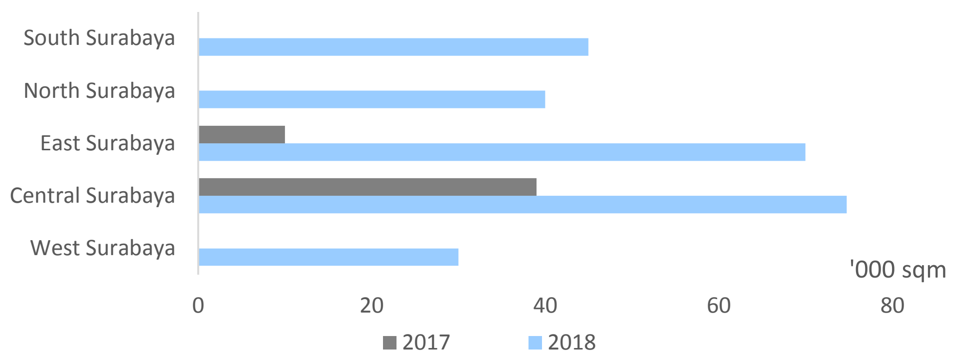
Going forward, Colliers estimates there will be an additional 300,000sqm of retail space in 2017 and 2018. Nevertheless, we don't believe that this will have a significantly adverse impact on the average occupancy rate considering the growing demand from foreign retailers (H&M, Uniqlo, Cotton On, CGV Blitz) and domestic retailers (Trans Retail Indonesia) which currently stands at 82.4%.

Exhibit 42. Retail space in Surabaya



Source: Colliers

Exhibit 43. More even distribution of retail space in Surabaya



Source: Colliers

Implication for companies under our coverage

Of the companies under our coverage, there are 30 retail spaces with total gross leasable area of 1.2mn sqm. The average occupancy rate stands at 93% with CTRA's Lotte Shopping Avenue having the highest occupancy rate of 100%.

Exhibit 44. Retail space for companies under our coverage

BSDE	PWON	ASRI	SMRA	CTRA
Jakarta				
Epicentrum Walk	Kota Kasablanka		Mall Kelapa Gading	Ciputra Jakarta
Mega ITC Cempaka Mas	Gandaria City		La Piazza	Lotte Shopping Avenue
ITC Kuningan	Blok M Plaza		Gading Food City	
			Summarecon Digital Centre	
Greater Jakarta				
ITC Depok		Mall Alam Sutera	Summarecon Mall Serpong	
Courts		Flavor Blizz	Summarecon Mall Bekasi	
ITC BSD				
The Breeze				
Aeon				
Surabaya				
	Tunjungan Plaza			
	Fashion Avenue Mall			
	Pakuwon Town Square			
	Supermall Pakuwon Indah			
	Royal Plaza			
	Pakuwon Trade Centre			
Others				
DP Malls				Ciputra Semarang
Mall Fantasi				

Source: Companies and Danareksa Sekuritas

We expect a stable occupancy rate going forward

#1 Jakarta

For retail space in Jakarta, we expect the occupancy rate to be stable going forward. This view takes into account the limited additional supply going forward as well as the large expansion undertaken by foreign retailers in the area. Nevertheless, we assume that the occupancy rate of Blok M Plaza trends down until 2018 given the ongoing renovation in the area.

#2 Greater Jakarta

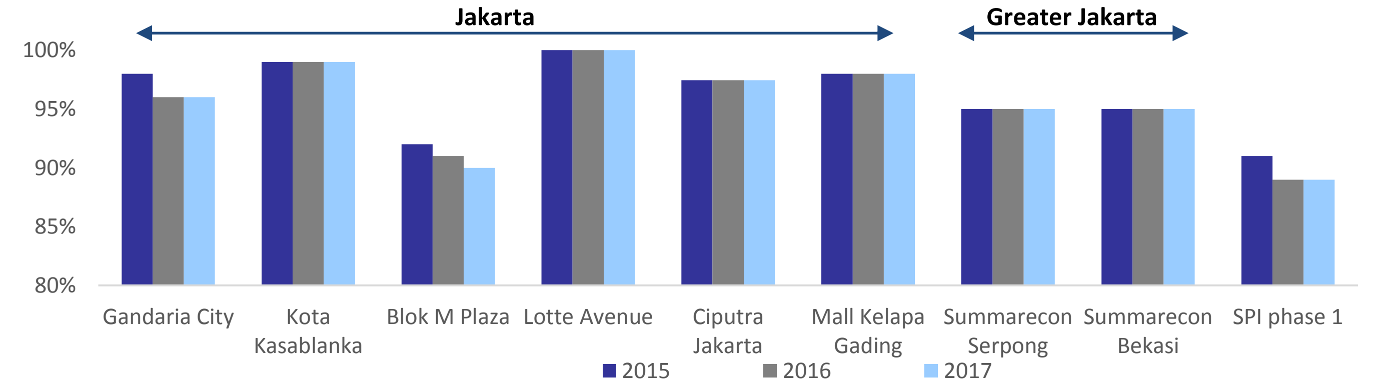
We also estimate the occupancy rate for the greater Jakarta area. Despite massive additional supply in 2018 and 2019, with an average rental period of three to five years, we don't think this will have a significant impact on the occupancy rate of the retail space of the companies under our coverage in the short term.

#3 Surabaya

On the back of massive expansion by both domestic and foreign retailers, we expect that the occupancy rate of the retail space under our coverage in the area will be stable going forward.

Furthermore, given strong demand for space in Supermall Pakuwon Extension, from retailers such as H&M, Zara, Stradivarius, and Mango, we estimate that the initial occupancy shall reach 60% in the first year.

Exhibit 45. The occupancy rate of major retail space of companies under our coverage

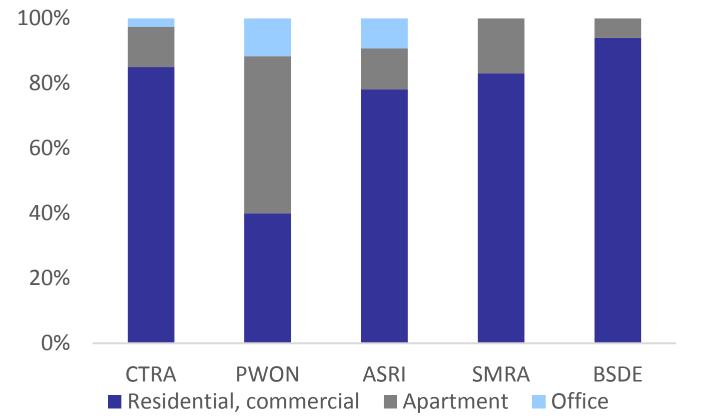


Source: Companies and Danareksa Sekuritas

Choose the right mix

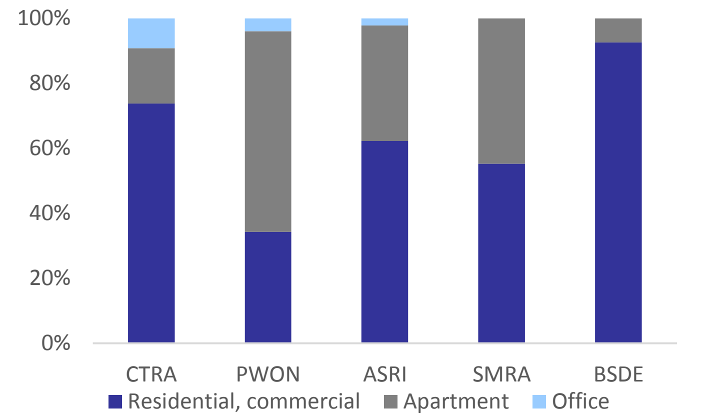
While we are positive on the residential and retail property segments, we prefer to avoid the office and apartment segments due to oversupply. Considering this, we believe that BSDE should be less vulnerable to adverse developments in the property market given its high exposure to the residential segment.

Exhibit 46. Marketing sales proportion



Source: Companies and Danareksa Sekuritas

Exhibit 47. Contribution of Development revenues



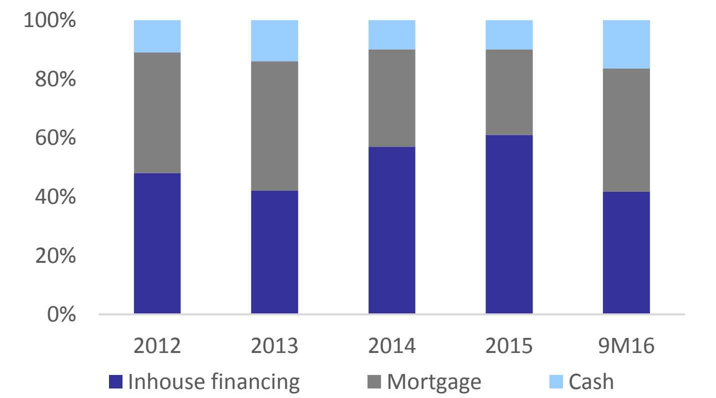
Source: Companies and Danareksa Sekuritas

The proportion of mortgage financing is declining …

After Bank Indonesia introduced its tighter LTV regulation which forbid the purchase of uncompleted property using mortgages (for the second mortgage onwards) in 2013, coupled with a tightening in mortgage approval, the use of mortgages to finance property purchases declined.

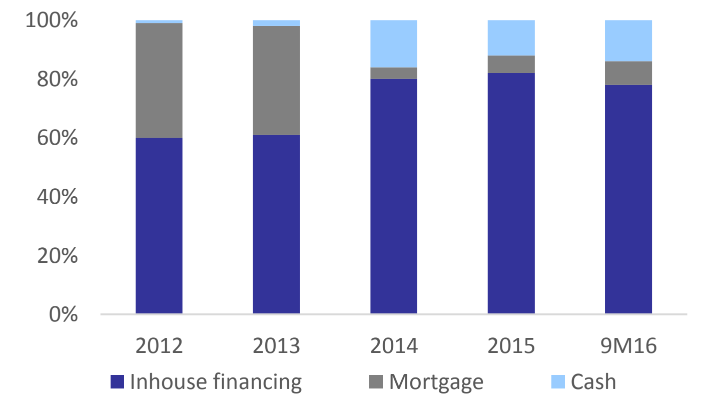
Under this regulation, once a buyer taking on a mortgage enters into a purchasing agreement with a developer, the developer will need to complete construction before the bank provides all the financing for the purchase of the property. As such, developers will require substantial working capital to finance the construction. To take into account the cost of financing, the price of the asset financed by the mortgage is typically 15-20% higher than the hard cash price.

Exhibit 48. Proportion of mortgage financing for CTRA



Source: Company

Exhibit 49. Proportion of mortgage financing for SMRA



Source: Company

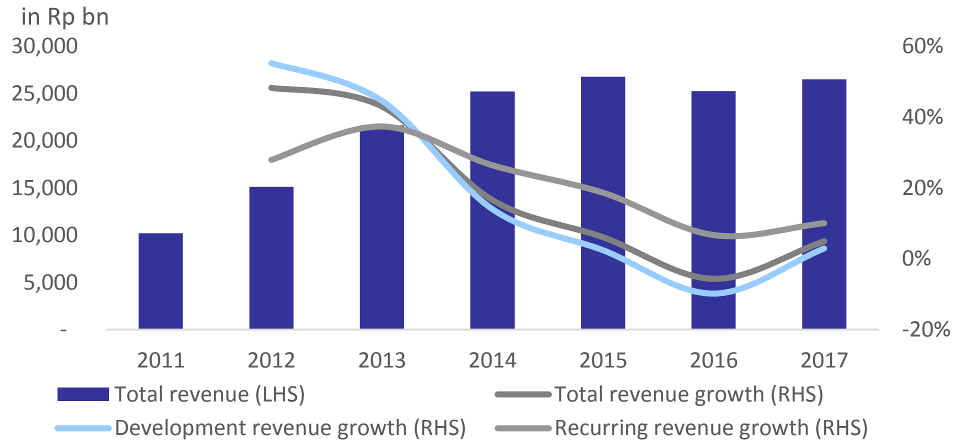
… but in-house installments are increasing

Due to the tight mortgage market, developers provide in-house financing as an alternative. In the past three years, developers have introduced longer in-house installments (5 year tenor, vs. 3 year tenor before 2013) as well as balloon payments (20-40% down payment available for 24x installments). With weaker purchasing power, these more affordable in-house installments have become more popular among consumers. As such, the portion of in-house financing increased in 2015.

Longer revenues recognition to hamper financial performance
To further reduce the risk faced by developers, the period of construction has been lengthened. Previously, it would often take 2-3 years to undertake a landed residential development. Now it typically takes 3-4 years to complete construction.

Nevertheless, the longer construction period will also impact revenues recognition. This is because Indonesian Accounting Standards only allow revenues recognition for landed residential property when the sales process has been completed. As a result, we estimate that total development revenues will be relatively flat (2.9% yoy) in 2017. Nevertheless, we expect the total recurring revenues to grow by 10.0% yoy. As such, the FY17 revenues should increase by 5.0% yoy.

Exhibit 50. Aggregate total revenues growth



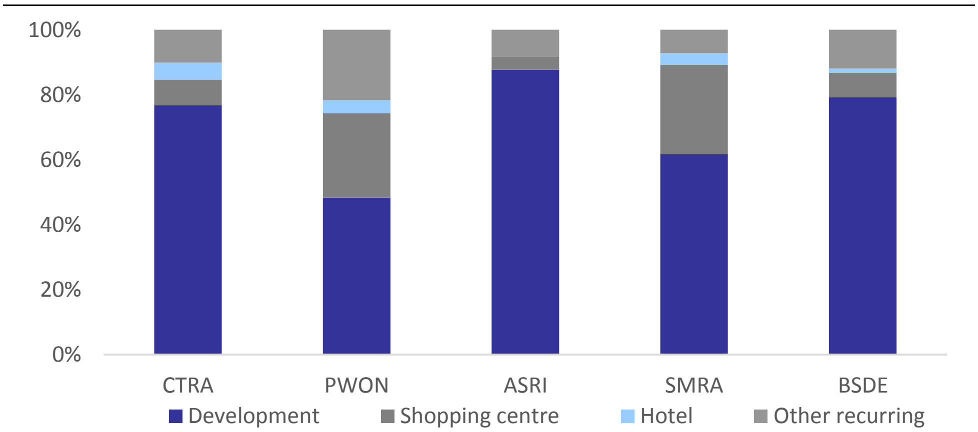
Source: Companies, Danareksa Sekuritas

Worth noting is that the proportion of mortgage financing increased in 9M16. As such, concerns over longer revenues recognition should ease going forward in 2018 onwards, assuming a construction period of 2 years. Considering that banks will only provide financing once the construction of the property is completed, developers will have an incentive to shorten the construction period.

Larger portion of recurring income to provide cushion on flattish development revenue
Given the flat financial performance in 2017 as a result of longer revenues recognition, we have a preference for developers with a high portion of recurring revenues.

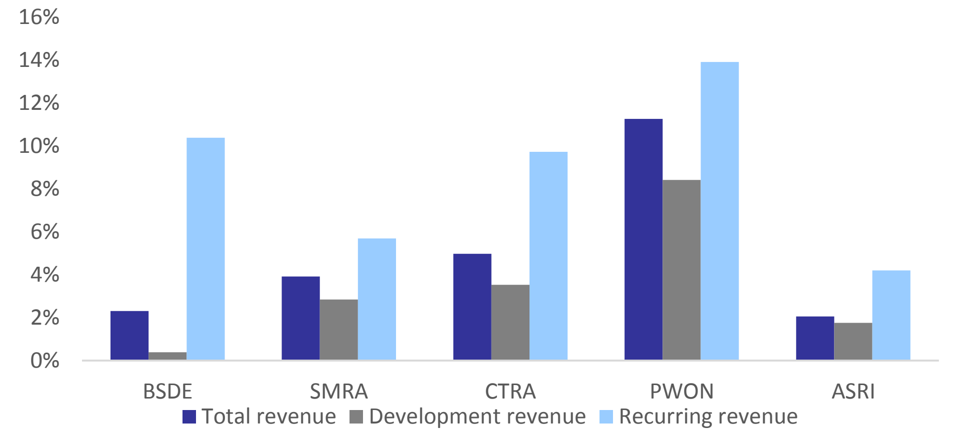
Under our coverage, PWON has the greatest contribution of recurring revenues (51.7% of its total FY17F revenues). As such, we believe that PWON has higher revenues visibility than its peers. In 2017, we estimate that PWON's revenues will grow by 11.3% yoy, or more than its peers, supported by the commencement of the Supermall Pakuwon Indah extension.

Exhibit 51. Development and recurring revenues proportion



Source: Companies, Danareksa Sekuritas

Exhibit 52. Revenues growth in 2017F

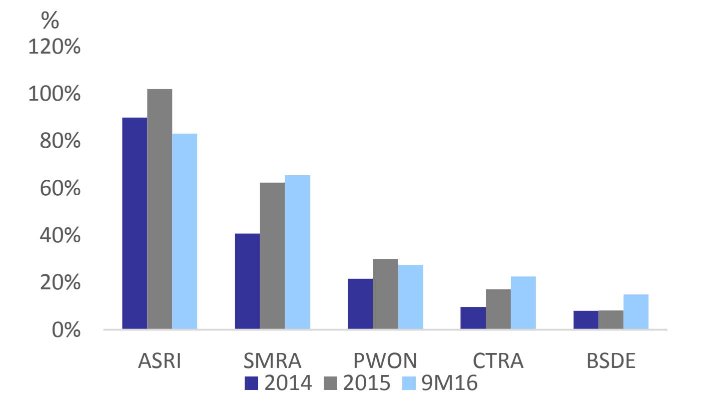


Source: Danareksa Sekuritas

Managing debt is key

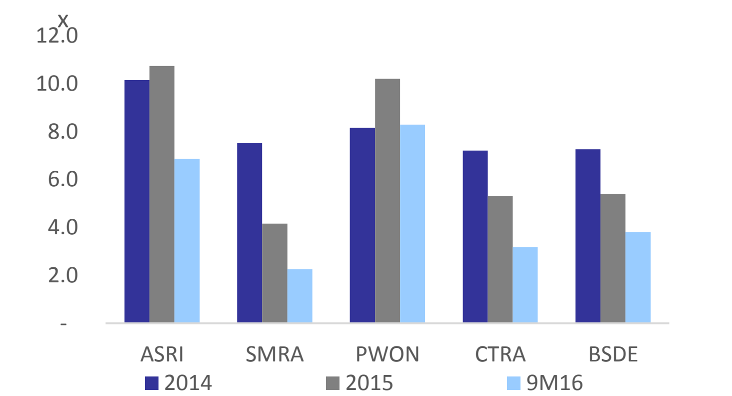
Since BI forbid the purchase of uncompleted property using mortgages in 2013, the gearing of developers has increased. Given the increasing portion of mortgage financing and slower revenues recognition, *ceteris paribus*, we believe that companies with lower gearing will outperform. Among the companies under our coverage, BSDE has the lowest net gearing ratio of 15.0% in 9M16.

Exhibit 53. Net gearing ratio comparison



Source: Companies

Exhibit 54. EBITDA coverage ratio

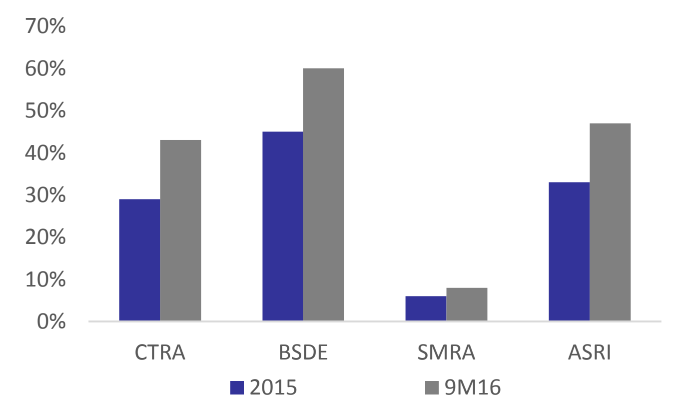


Source: Companies

Gearing to trend down going forward

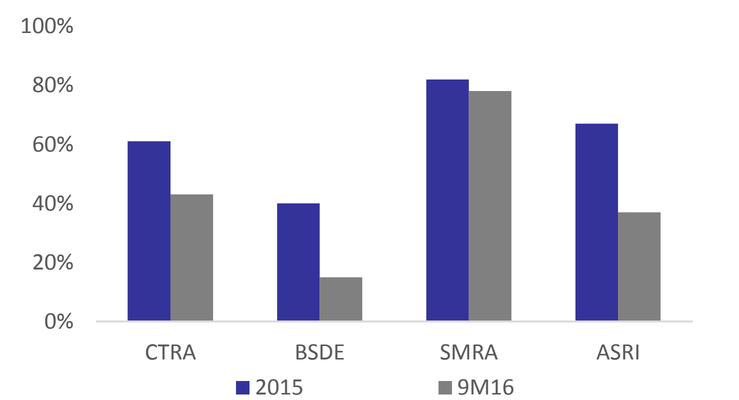
Given the expected increasing portion of mortgage financing and the declining in-house financing, we estimate that the sector's debt-to-equity ratio will trend down to 63.6% in 2017F from 64.4% in 2015. While longer revenues recognition will continue to impact the financial performance of property companies up to 2017, declining gearing shall help to cushion financial performance.

Exhibit 55. Mortgage financing contribution to increase …



Source: Companies

Exhibit 56. .. while the in-house financing portion is decreasing



Source: Companies

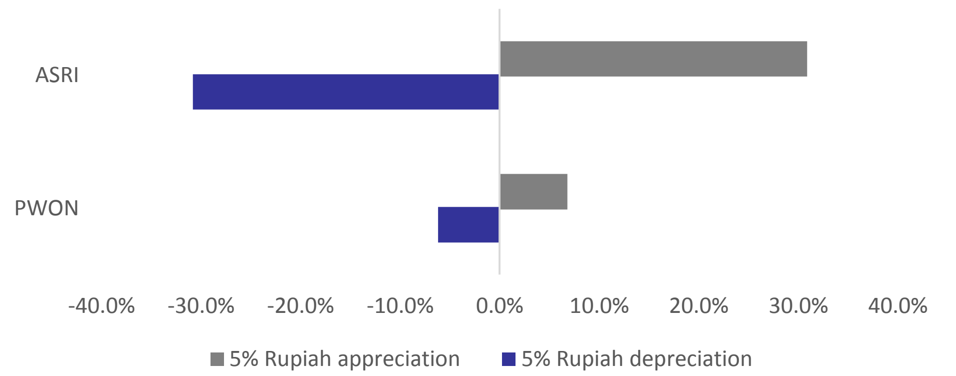
Key Risks

Slowing purchasing power recovery
With a high correlation between overall marketing sales and purchasing power, we believe that the slower recovery in purchasing power, as represented by nominal GDP growth, will result in lower marketing sales growth.

Increasing mortgage rates
Mortgage financing currently accounts for 8-60% of the consumer financing of the property companies under our coverage. Thus, the level of mortgage rates will have a considerable impact on marketing sales. Should mortgage rates increase, we believe that the marketing sales of the companies under our coverage will be negatively impacted.

Exchange rate depreciation
Of the companies under our coverage, PWON and ASRI, in particular, have a substantial portion of USD denominated bonds in their total debts (48.4% for PWON and 76.0% for ASRI). As such, we estimate that 5% IDR/USD exchange rate depreciation will result in 6.2% and 30.8% lower net profits.

Exhibit 57. Impact of 5% change in the exchange rate on net profits

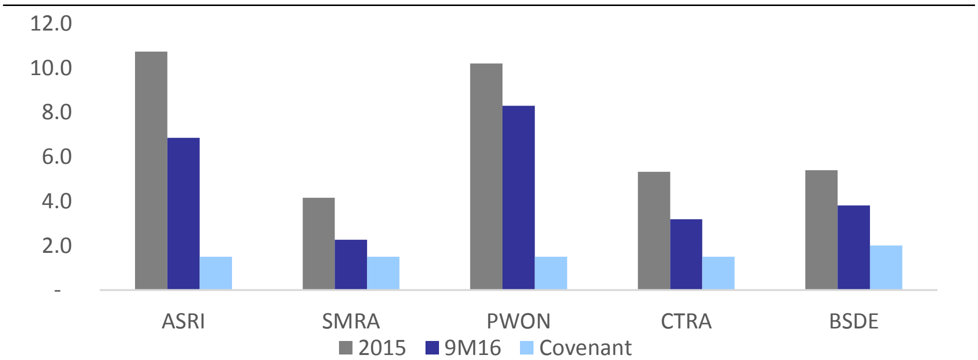


Source: Danareksa Sekuritas

Tougher competition in the affordable property segment
In 2017, most property developers will continue to offer properties with prices below Rp2bn. This will result in tighter competition in this segment. Nevertheless, we believe that the impact on the companies under our coverage will be minimal considering their proven track records and strong brand equity.

Financial risk
Increasing in-house financing by developers pushed up the gearing ratio for developers from 50.6% in 2013 to 63.5% in 9M16. This, in turn, translates into lower EBITDA coverage ratios (4.9x in 9M16 compared to 12.1x in 2013). Nevertheless, we estimate that the developers under our coverage can still maintain EBITDA coverage ratios above the minimum level stipulated by the covenants.

Exhibit 58. EBITDA coverage ratio



Source: Companies

PROPERTY/INITIATION

Ciputra Development

Merger benefits

We initiate coverage on CTRA with a BUY call and target price of Rp1,850 (SOTP based valuation with WACC of 12.6% and Terminal Value of 4%) and a 40% discount to NAV. CTRA's strategy to diversify through JO schemes with local partners will lead to more stable demand ahead, as we believe each region has a different property cycle. In addition, we also expect a positive impact from the planned merger, given: (i) 8.8% higher EPS (compared to before the merger), (ii) lower gearing ratio (falling to 42.5% in 2017 from 44.0% in 9M16), (iii) 20.2% higher market cap, creating the third-largest listed property developer in Indonesia, and (iv) 9.2% higher NAV per share.

Presence in 33 cities to help the company seize opportunities …

CTRA and its subsidiaries own 76 projects in 33 cities across Indonesia. While directly owned projects only number 12, CTRA's successful joint operations scheme (both revenues sharing and profit sharing) have given it a significant presence in many areas in Indonesia. Since we believe that each region has a different property cycle, CTRA should enjoy more stable demand from diversified projects. As such, we estimate that CTRA will record Rp8.4tn of marketing sales in 2017 (+8.1% yoy), outperforming its peers (+3.0% yoy).

.. will help CTRA to book FY17 top line growth of 5% yoy

Facing tightening of the LTV regulation introduced in late 2013, CTRA introduced in-house installments of 5 years in 2014. This, in turn, resulted in longer revenues recognition. In addition, several new projects faced challenges – for example, land reclamation at Citraland City Losari Makassar. This will also result in delays in revenues recognition. As such, we expect CTRA's 2017 revenues to record only a slight improvement (+5.0% yoy).

Merger brings benefits

CTRA plans to conduct a merger with its subsidiaries, Ciputra Surya (CTRS) and Ciputra Residence (CTRS), with share swap conversion ratios of 2.13:1 and 0.54:1, respectively. To carry out the merger, CTRA will need to issue 3.1bn new shares that will result in 16.8% dilution. Post-merger, we expect CTRA to (i) increase its EPS by 8.8% (compared to before the merger), (ii) increase its market cap by 20.2% to create the third-largest listed property developer in Indonesia, and (iii) increase its NAV per share by 9.2%.

Top picks in the sector, initiate coverage with a BUY call

We initiate coverage on CTRA with a BUY call and target price of Rp1,850, implying 28.5% upside to the current share price (SOTP based valuation with WACC of 12.6%, Terminal Value of 4% and 40% discount to NAV). This implies 34.4x 2017 P/E. In determining our target price, we also take into account the impact of the merger.

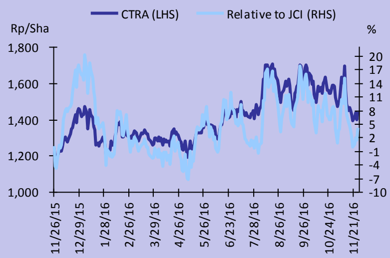
	2014*	2015*	2016F*	2017F	2018F
Revenue, IDRbn	6,340	7,514	6,381	6,698	7,713
EBITDA, IDRbn	2,403	2,577	1,902	1,992	2,179
EBITDA growth, %	41.5%	7.2%	-26.2%	4.7%	9.4%
Net profit, IDRbn	1,325	1,284	661	998	1,122
Core profit, IDRbn	1,517	1,441	700	835	937
EPS, IDR	71.5	69.2	42.8	53.8	60.5
EPS growth, %	35.7%	-3.1%	-32.7%	15.5%	12.4%
Core EPS, IDR	82	78	38	45	51
Core EPS growth, %	33.1%	-5.0%	-51.4%	19.2%	12.2%
Net gearing, %	9.7%	17.2%	27.6%	28.7%	28.9%
PER, x	20.2	20.8	33.6	26.7	23.8
Core PER, x	17.6	18.5	38.1	32.0	28.5
Yield, %	1.6%	0.8%	0.8%	0.4%	0.6%
EV/EBITDA, x	11.6	11.2	16.0	15.5	14.3

pre-merger

BUY

Target Price, Rp	1,850
Upside	28.5%
CTRA IJ/CTRA.JK	
Last Price, Rp	1,440
No. of shares (bn)	15.4
Market Cap, Rp bn	**22,212**
(US$ mn)	1,670
3M T/O, US$mn	2.7

CTRA relative to JCI Index



Market Recommendation

Consensus

	Our	Cons	% Diff
Target Price, IDR	1,850	1,695	9.1
EPS 2017F, IDR	53.8	90	-40.2
PE 2017F, x	30.3	16.0	89

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Danareksa research reports are also available at Reuters Multex and First Call Direct and Bloomberg.

2016 marketing sales likely to fall short of the target

As of September 2016, CTRA had booked marketing sales of Rp4.3tn, or equivalent to 46.5% of the 2016 marketing sales target of Rp9.3tn. Taking into account the additional marketing sales from CTRS in October 2016 (from Surabaya, Medan and Makassar) amounting to Rp1.4tn, CTRP (apartment – CWJ 2) amounting to Rp675bn as well as additional marketing sales from five new projects which will be launched by the end of this year by CTRA, we estimate that CTRA will book FY16 marketing sales of Rp7.8tn (still down 15.5% yoy). This is 16.5% lower than the company's FY16 target of Rp9.3tn. However, we believe the company's diversified projects will pave the way for CTRA to book resilient marketing sales in the coming years.

Benefitting from the burgeoning middle class

From the 76 projects that are currently owned by CTRA, only 6 projects currently target the high end. The bulk of the projects target the middle class. With the expectation of a growing middle class in Indonesia, we believe that the demand for CTRA's property will be sustained going forward.

Exhibit 1. CTRA's NAV calculation

CTRA

	Location	Stakes	Area (ha)	Plot ratio	Price per sqm (Rp mn/sqm)	Method	RNAV (Rp bn) - after merger	Stakes	RNAV (Rp bn) - before merger
Land bank									
Direct owned									
Citra Garden City									
Citra 6	Jakarta	100.0%	2.6	65%	16.4	NAV	278		278
Other areas	Jakarta	100.0%	57.1	65%	13.5	NAV	5,025		5,025
Citra Raya Tangerang	Tangerang	100.0%	717.8	65%	3.1	NAV	14,584		14,584
Citra Indah Jonggol	Bogor, West Java	100.0%	245.2	65%	1.0	NAV	1,644		1,644
Citraland Pekanbaru	Riau	100.0%	8.7	65%	3.1	NAV	177		177
Citraland NGK Jambi	Jambi	100.0%	1.6	65%	2.2	NAV	22		22
Total land bank			**1,033.0**						
Joint operation projects							**10,070**		**10,070.4**
CTRS		100.0%					**21,507**	63%	**13,476.3**
CTRP		100.0%					**13,257**	58%	**7,707.7**
Total asset (Rp bn)							**66,564**		**52,983.9**
Net debts (Rp bn)							4,161		4,161.0
Advance from customer (Rp bn)							5,384		5,384.4
Net asset value (Rp bn)							57,019		43,439
Discount to NAV (%)							40%		40%
Number of shares outstanding (bn shares)							18.5		15.4
Target price (Rp/share)							**1,850**		**1,700**

Source: Danareksa Sekuritas

Exhibit 2. CTRS' NAV calculation

CTRS

	Location	Stakes	Area (ha)	Plot ratio	Price per sqm (Rp mn/sqm)	Method	RNAV (Rp bn)
Land bank							
Direct owned							
Citraland Surabaya	East Java	100.0%	772.2	60%	3.0	NAV	13,870
CitraHarmoni Sidoarjo	East Java	98.1%	54.9	60%	1.3	NAV	438
Citraland Lampung	Lampung	99.9%	31.1	60%	2.1	NAV	396
Citragarden Sidoarjo	East Java	60.0%	4.5	60%	1.5	NAV	25
Citragarden Lampung	Lampung	99.9%	3.5	60%	2.1	NAV	43
Total land bank			**1,693.3**				
Joint Operation						DCF	5,418
Investment Property						DCF	1,317
Total asset (Rp bn)							**21,507.1**

Source: Danareksa Sekuritas

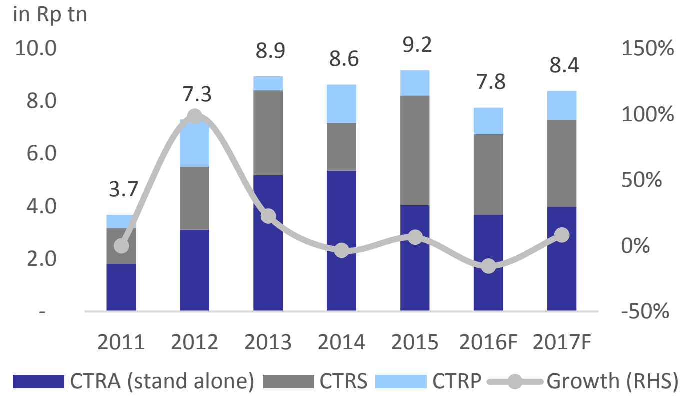
Exhibit 3. CTRP' NAV calculation

CTRP

	Location	Stakes	Area (ha)	Plot ratio	Price per sqm (Rp mn/sqm)	Method	RNAV (Rp bn)
Land bank							
Direct owned							
Karet Sawah (CW 2)	Jakarta	99.8%	2.0	75%	35.7	NAV	528
Dr. Satrio (CW 3)	Jakarta	100.0%	1.5	75%	63.3	NAV	699
CW1 Complex	Jakarta	98.3%	0.6	75%	44.9	NAV	199
Ciputra International	Jakarta	54.6%	5.0	75%	12.7	NAV	260
Bali	Bali	59.6%	60.0	65%	3.5	NAV	824
Total land bank			**69.1**				
Projects under development							**1,355**
Investment Property							**9,392**
Total asset (Rp bn)							**13,257**

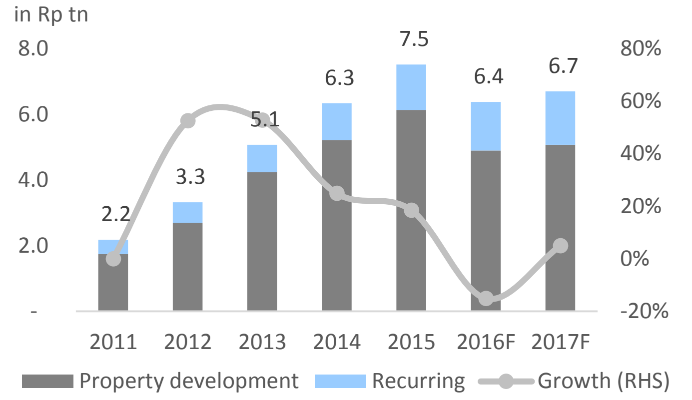
Source: Danareksa Sekuritas

Exhibit 4. Marketing sales



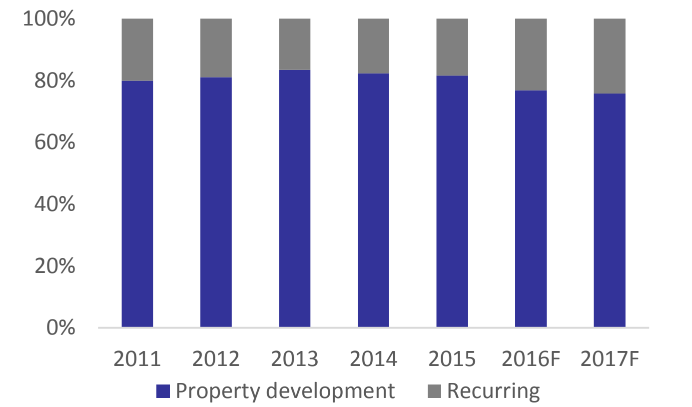
Source: Company, Danareksa Sekuritas

Exhibit 5. Revenues



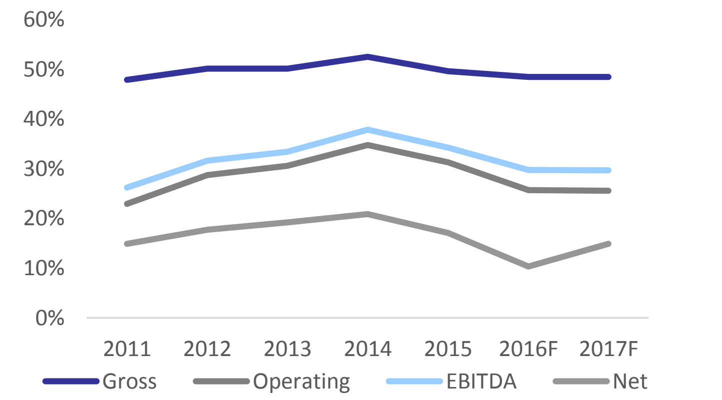
Source: Company, Danareksa Sekuritas

Exhibit 6. Contribution of development and recurring revenue



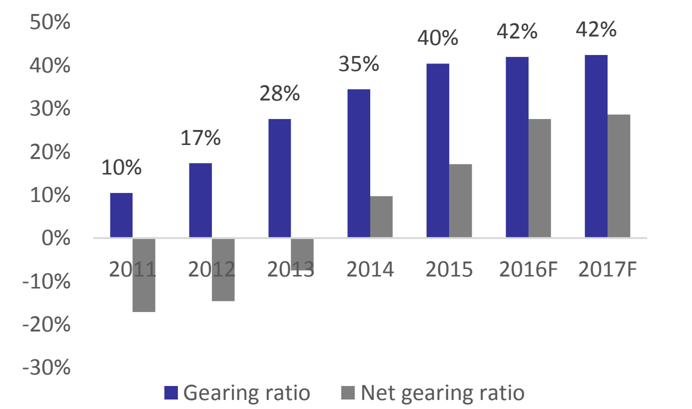
Source: Company, Danareksa Sekuritas

Exhibit 7. Profitability margin



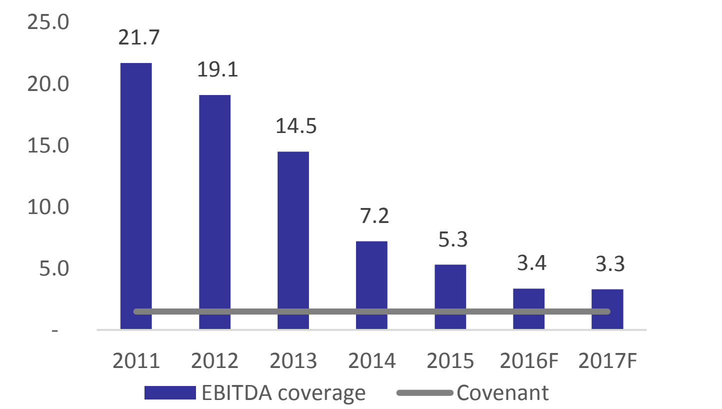
Source: Company, Danareksa Sekuritas

Exhibit 8. Net gearing ratio



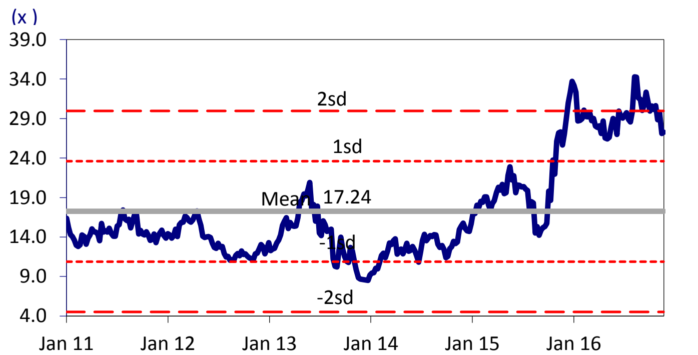
Source: Company, Danareksa Sekuritas

Exhibit 9. EBITDA coverage



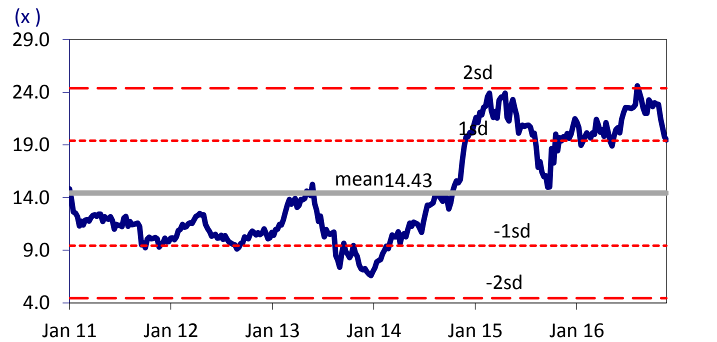
Source: Company, Danareksa Sekuritas

Exhibit 10. PE band Company



Source: Company, Danareksa Sekuritas, Bloomberg

Exhibit 11. PE band Sector



Source: Company, Danareksa Sekuritas, Bloomberg

Exhibit 12. Income Statement (in Rp bn)

	2014	2015	2016F	2017F	2018F
Sales	6,340	7,514	6,381	6,698	7,713
COGS	(3,011)	(3,786)	(3,285)	(3,452)	(4,072)
Gross profit	3,330	3,729	3,096	3,246	3,641
Operating expenses	(1,126)	(1,376)	(1,453)	(1,532)	(1,759)
Operating profit	**2,204**	**2,353**	**1,643**	**1,714**	**1,882**
Other income/expenses	(60)	(194)	(352)	(379)	(382)
Pre-tax profit	2,148	2,166	1,297	1,341	1,507
Taxes	(353)	(425)	(376)	(277)	(310)
Net profit	**1,325**	**1,284**	**661**	**998**	**1,122**
Core profit	1,517	1,441	700	835	937

Source: Company, Danareksa Sekuritas

Exhibit 13. Balance Sheet (in Rp bn)

	2014	2015	2016F	2017F	2018F
Cash	2,889	3,034	1,955	1,999	1,941
Receivables	1,071	1,323	1,124	1,180	1,358
Inventories	6,429	7,010	7,300	7,562	7,797
Other current asset	706	656	573	595	673
Current asset	**11,095**	**12,023**	**10,952**	**11,336**	**11,769**
Land for development	2,352	2,962	3,446	3,914	4,368
Property & plant - net	4,204	4,521	4,758	4,991	5,220
Investment properties	-	18	18	18	18
Other assets	5,889	6,735	7,221	7,783	8,382
Non current asset	12,444	14,236	15,442	16,706	17,988
Total asset	**23,539**	**26,259**	**26,394**	**28,042**	**29,757**
Advance from customer	5,222	4,688	4,330	4,454	4,495
Bank Loan	804	1,375	1,631	1,931	2,335
Other current liabitilies	1,750	1,951	1,692	1,735	2,037
Current liabilties	**7,776**	**8,014**	**7,654**	**8,120**	**8,867**
Bank loan	2,728	2,794	2,955	3,324	3,790
Other non current liabilities	1,382	2,401	2,233	2,088	1,631
Non current liabilties	**4,111**	**5,195**	**5,189**	**5,412**	**5,421**
Total liabilities	**11,886**	**13,208**	**12,842**	**13,532**	**14,288**
Minority	4,004	4,646	4,695	1,548	1,548
Capital stock and share premium	4,069	3,857	3,857	7,071	7,071
Retained Earning and Others	3,580	4,547	4,999	5,890	6,850
Total equity	**7,648**	**8,404**	**8,857**	**12,962**	**13,922**
Total liabilities and equity	**23,539**	**26,259**	**26,394**	**28,042**	**29,757**

Source: Company, Danareksa Sekuritas

Exhibit 14. Statement of cash flow (in Rp bn)

	2014	2015	2016F	2017F	2018F
Net Income	1,325	1,284	661	998	1,122
+ Depreciation	199	223	259	278	297
Adjustment to working capital	(1,696)	(694)	(734)	(142)	(50)
Cash flow from operation	**(172)**	**813**	**185**	**1,134**	**1,368**
Acquisition of fixed asset	(644)	(723)	(628)	(628)	(628)
Acquisition of investment properties	(754)	(428)	(352)	(352)	(352)
Increase/decrease in other asset	(773)	(896)	(546)	(546)	(546)
Cash flow from investment	**(2,171)**	**(2,047)**	**(1,525)**	**(1,525)**	**(1,525)**
+/- in bank loan	804	637	417	669	869
Dividend payment	(432)	(215)	(208)	(107)	(162)
Others	1,394	958	51	(126)	(609)
Cash flow from financing	**1,767**	**1,379**	**260**	**436**	**98**
Net increase/decrease in cash flow	(577)	146	(1,079)	44	(58)
Beginning balance	3,465	2,889	3,034	1,955	1,999
Ending balance	**2,889**	**3,034**	**1,955**	**1,999**	**1,941**

Source: Company, Danareksa Sekuritas

Exhibit 15. Ratios (in %)

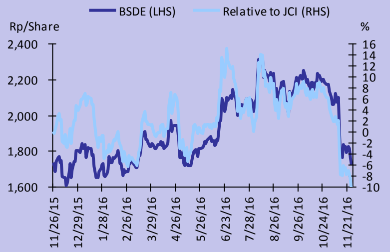
	2014	2015	2016F	2017F	2018F
Gross margin	52.5	49.6	48.5	48.5	47.2
Operating margin	34.8	31.3	25.7	25.6	24.4
Pre-tax margin	33.9	28.8	20.3	20.0	19.5
Net margin	20.9	17.1	10.4	14.9	14.5
ROA	5.6	4.9	2.5	3.6	3.8
ROE	17.3	15.3	7.5	7.7	8.1
Debt to Equity	34.5	40.4	42.0	42.5	41.5
Net gearing	9.7	17.2	27.6	28.7	28.9

Source: Company, Danareksa Sekuritas

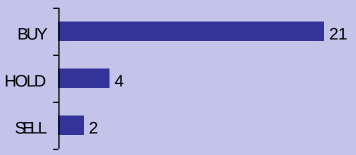
BUY

Target Price, Rp	2,500
Upside	44.9%
BSDE IJ/BSDE.JK	
Last Price, Rp	1,725
No. of shares (bn)	19.2
Market Cap, Rp bn	**33,200**
(US$ mn)	2,496
3M T/O, US$mn	2.0

BSDE relative to JCI Index



Market Recommendation



Consensus

	Our	Cons	% Diff
Target Price, IDR	2,500	2,453	19.1
EPS 2017F, IDR	104.4	134	-22.1
PE 2017F, x	17.4	12.9	34.8

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PROPERTY/INITIATION

Bumi Serpong Damai

Good prospects for growth

We initiate coverage on BSDE with a BUY call and TP of Rp2,500 based on SOTP valuation (WACC of 13.2% and 4% terminal growth) and a 50% discount to NAV. Going into 2017, the company's strong balance sheet (low gearing with a strong cash position) supported by large land bank (Serpong – 2,923ha and others – 2,237ha) will provide greater flexibility for property launches and underpin the company's earnings. Despite increasing recurring income, we expect the company to book flat revenues in 2017 (+2.3% yoy). As margins should be maintained, 2017 earnings should consequently grow by 8.0% yoy, thanks to lower final tax for property.

2017 marketing sales to grow by 29.0% yoy – after stripping out one-time event
We believe that BSDE will achieve its targeted marketing sales this year (Rp6.9tn, +2.1% yoy) supported by both the expected sale of bulk land to the JV of BSDE and Mitsubishi and the Price Amnesty program. In 2017, we foresee flat marketing sales. Nonetheless, after stripping out the one-time impact of potential bulk land sales in 2016-17, we forecast solid growth in FY17 marketing sales of 29.0% yoy. By project, we believe that Serpong will remain the main contributor (70-75% of FY17 marketing sales versus 82% before 2013). Furthermore, we also anticipate more promising growth from projects out of Serpong given the company's plans to launch new projects including mixed use, residential and high-rise projects in Indonesia's major cities. In 2017, the company plans to offer property with prices ranging from Rp1-2bn per unit, anticipating stronger sales volume, since demand is highest in this segment.

Supported by solid recurring revenues, BSDE will book a flat 2017 top line
To offset the sluggish demand for property sold through mortgage financing, the company started to offer 4-year in-house installments in 2014 (previously 3 year installments before 2013). As a result, the revenues recognition from marketing sales in 2014-15 will take longer, leading to flat 2016-17 development revenues. Thanks to solid growth in recurring income, however, we estimate BSDE's 2017 top line to grow by 2.3% yoy to Rp6.5tn. In 2017, the commencement of Qbig and Green Office Park 9 as well as inflation-based rental adjustments will help the recurring income to grow by 10.4% yoy.

Lowest gearing in the sector
Following tightening of the LTV regulation introduced in 2013, the gearing level of property developers has been increasing, including BSDE. Nevertheless, BSDE has the lowest gearing among its peers (BSDE: 32.1%, peers: 32.1-100.6% in 9M16). While sluggish financial performance looks inevitable for all property developers, we believe that BSDE will be less negatively impacted.

Initiate coverage with a BUY recommendation and target price of Rp2,500
We initiate coverage on BSDE with a BUY call and target price of Rp2,500 based on the SOTP method (WACC of 13.2% and 4% terminal growth) and 50% discount to NAV. Our target price implies 13.6% upside to the current share price and 24.0x 2017F P/E.

	2014	2015	2016F	2017F	2018F
Revenue, IDRbn	5,614	6,210	6,326	6,472	6,685
EBITDA, IDRbn	2,792	3,103	3,045	3,113	3,270
EBITDA growth, %	-7.0%	11.1%	-1.9%	2.2%	5.1%
Net profit, IDRbn	3,818	2,139	1,859	2,009	2,178
Core profit, IDRbn	2,688	2,740	2,675	2,809	2,880
EPS, IDR	207.8	111.2	96.6	104.4	113.2
EPS growth, %	35.1%	-46.5%	-13.1%	8.0%	8.4%
Core EPS, IDR	146	142	139	146	150
Core EPS growth, %	-11.4%	-2.7%	-2.4%	5.0%	2.5%
Net gearing, %	8.1%	8.2%	9.9%	9.8%	8.6%
PER, x	8.3	15.5	17.9	16.5	15.2
Core PER, x	11.8	12.1	12.4	11.8	11.5
Yield, %	1.0%	1.2%	0.6%	0.6%	0.6%
EV/EBITDA, x	11.9	11.3	11.7	11.5	10.9

Still expected to achieve this year's targeted marketing sales

In 9M16, BSDE only recorded Rp4.1tn of marketing sales, equivalent to 59.5% of its 2016 marketing sales target of Rp6.9tn. Despite this, we still believe the company's targeted marketing sales for this year will be reached given:

1. 19 ha land sale to the JV of BSDE and Mitsubishi

BSDE will establish a joint venture with Mitsubishi Corporation to develop mixed-use projects in Tangerang. As part of the joint venture, BSDE will sell 19ha of land to the JV with the expectation of realizing this transaction by November or December 2016. The deal will potentially boost marketing sales by Rp1.9tn this year based on the company's guidance of a maximum land selling price of Rp10mn/sqm.

2. Price Amnesty program to push down inventory

In early October 2016, BSDE introduced a marketing program called Price Amnesty to provide incentives, both in terms of price discounts and promotional vouchers, depending on the type of property sold in the sales period from October to December 2016. Even though all of BSDE's property products are included in this program, only property products from previous launches will receive a 10-20% discount.

This program is intended to reduce BSDE's slow-moving inventory (as of September 2016, BSDE had Rp2.4tn inventory of land and buildings available for sale). In the first period (10 October-15 November 2016), BSDE had already made an additional Rp1.1tn of marketing sales from this program.

Exhibit 1. Direct discounts in the price amnesty program

	10 Oct-15 Nov 2016	16 Nov-31 Dec 2016
Land plots	20%	15%
Apartment and landed houses	15%	10%

Source: Priceamnesty.com

Maintaining prices of Rp1-2bn

Upcoming launches

Initially, BSDE planned to launch two apartment projects in 4Q16: South Gate (Tanjung Barat) and Aerium (Taman Permata Buana) with prices in the range of Rp26-30mn/sqm. The soft launch for the South Gate apartment has already begun. Bookings have reached 80 units. If sales from this project are good, they may provide additional marketing sales of approximately Rp200bn. Meanwhile, for the Aerium apartment, the company plans to delay its launch to early next year while waiting for the market to recover.

Serpong Balaraja toll road to improve accessibility to BSD City

After completing the land acquisition process, BSDE plans to conduct the ground breaking for the construction of the 30km Serpong Balaraja toll road in 4Q16. The investment cost is expected to reach Rp5.1tn. BSDE plans to complete construction of the first toll road section (5km) that connects Phase 1 and Phase 2 of BSD City (the exit will be near to AEON Mall) in 2019.

From the total 30km stretch needed to be acquired to develop this toll road, BSDE already owns 10km. As such, the consortium of BSDE, Transindo Karya Investama, Sinar Usaha Mahitala and Astratel Nusantara will acquire the land from BSDE for Rp800-900bn. In the first 5km stage which will connect Serpong to AEON mall, BSDE will recognize marketing sales/revenues from land of Rp400-450bn in 2017.

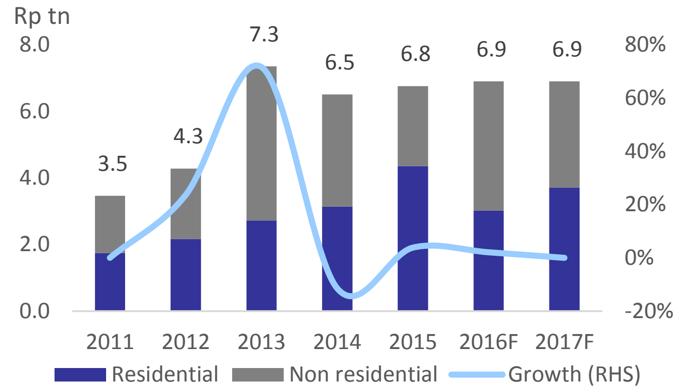
Exhibit 2. NAV calculation

Land bank

	Location	Stakes	Area (ha)	Plot ratio	Price per sqm (Rp mn/sqm)	Method	RNAV (Rp bn)
BSD City	Tangerang						
Developed	Tangerang	100.0%	611.1	60%	8.6	NAV	31,519
Undeveloped	Tangerang	100.0%	2,311.7	60%	2.1	NAV	29,218
Kota Wisata	Cibubur, West Java	88.6%	154.3	60%	3.8	NAV	3,086
Grand Wisata	Bekasi	88.6%	680.8	60%	4.3	NAV	15,383
Grand City	Samarinda, East Kalimantan	100.0%	260.6	60%	4.5	NAV	6,978
Balikpapan	Balikpapan	55.0%	215.9	60%	2.6	NAV	1,835
Kota Bunga	Cipanas, West Java	88.6%	35.8	60%	0.1	NAV	24
Mangga Dua Centre	Surabaya, East Java	88.6%	0.4	60%	0.5	NAV	1
Rasuna	South Jakarta	100.0%	2.5	60%	28.2	NAV	423
Legenda Wisata	Cibubur, West Java	88.6%	21.8	60%	0.9	NAV	107
Manado	North Sulawesi	100.0%	14.0	60%	0.7	NAV	60
MT Haryono	Central Jakarta	100.0%	0.8		14.7	At cost	117
Jatiasih	Bekasi	88.6%	84.4		0.1	At cost	101
Tanjung Sari	Surabaya, East Java	88.6%	1.7		6.1	At cost	90
Tanjung Barat - Lenteng Agung	Jakarta	88.6%	5.7		2.7	At cost	134
Roxy II	Central Jakarta	100.0%	15.7		4.2	At cost	662
Benowo	Surabaya, East Java	88.6%	428.4		0.3	At cost	1,061
Makassar	South Sulawesi	100.0%	5.4		7.7	At cost	414
Cibubur	West Java	88.6%	162.8		0.2	At cost	251
Dukuh Pakis	Surabaya, East Java	100.0%	3.1		8.8	At cost	272
Palembang	South Sumatera	100.0%	143.5		0.1	At cost	206
Total land bank			**5,160.2**				
Investment property							
Mall and office under BSDE						DCF	9,950
Mall and office under PLIN		36%				DCF	2,258
Total asset (Rp bn)							**104,148.0**
Net debts (Rp bn)							2,497.6
Sales advance (Rp bn)							4,118.7
Net asset value (Rp bn)							97,532
Discount to NAV (%)							50%
Number of shares outstanding (bn shares)							19.2
Target price (Rp/share)							**2,500**

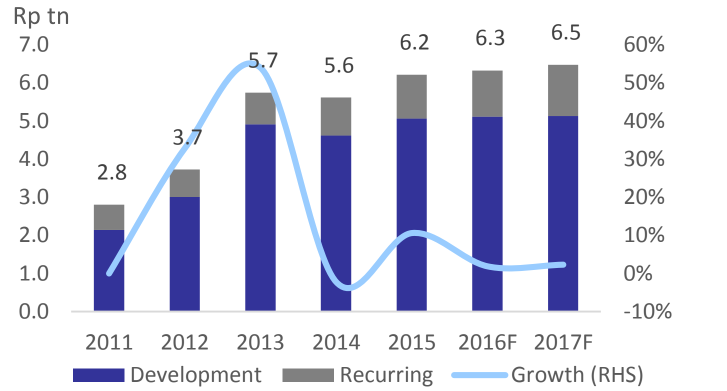
Source: Danareksa Sekuritas

Exhibit 3. Marketing sales



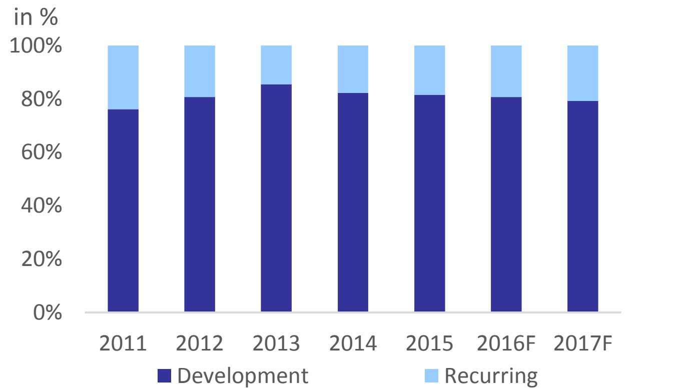
Source: Company, Danareksa Sekuritas

Exhibit 4. Revenues



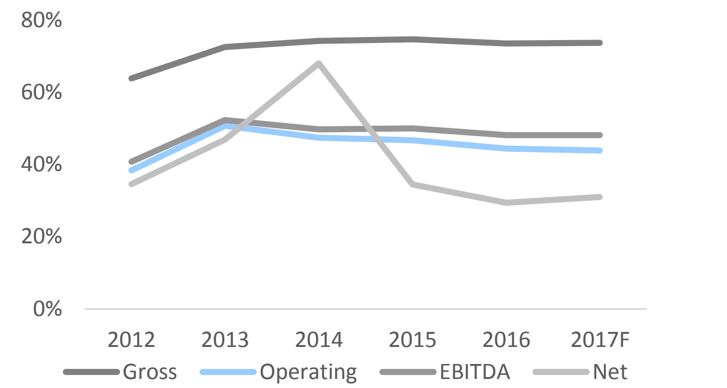
Source: Company, Danareksa Sekuritas

Exhibit 5. Contribution of development and recurring revenue



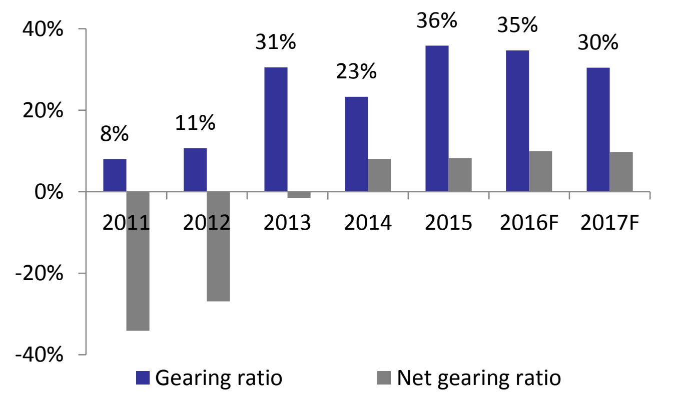
Source: Company, Danareksa Sekuritas

Exhibit 6. Profitability margin



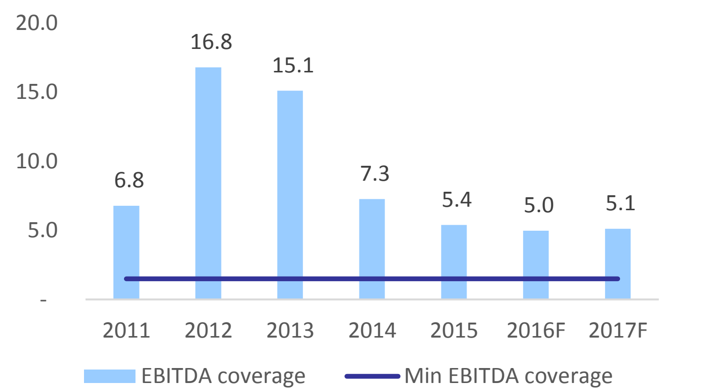
Source: Company, Danareksa Sekuritas

Exhibit 7. Net gearing ratio



Source: Company, Danareksa Sekuritas

Exhibit 8. EBITDA coverage

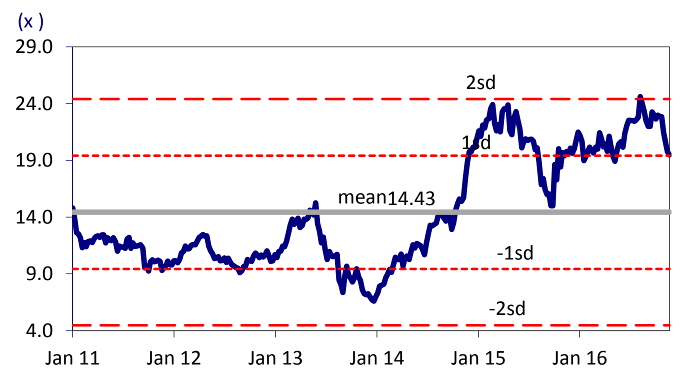


Source: Company, Danareksa Sekuritas

Exhibit 9. PE band Company

Source: Company, Danareksa Sekuritas, Bloomberg

Exhibit 10. PE band Sector



Source: Company, Danareksa Sekuritas, Bloomberg

Exhibit 11. Income Statement (in Rp bn)

	2014	2015	2016F	2017F	2018F
Sales	5,614	6,210	6,326	6,472	6,685
COGS	(1,447)	(1,572)	(1,676)	(1,704)	(1,744)
Gross profit	4,167	4,638	4,650	4,769	4,941
Operating expenses	(1,503)	(1,737)	(1,843)	(1,932)	(2,038)
Operating profit	**2,664**	**2,901**	**2,807**	**2,837**	**2,903**
Other income/expenses	(21)	(233)	(402)	(397)	(326)
Pre-tax profit	4,304	2,715	2,467	2,520	2,682
Taxes	(310)	(364)	(377)	(263)	(274)
Net profit	**3,818**	**2,139**	**1,859**	**2,009**	**2,142**
Core profit	2,688	2,740	2,675	2,809	2,840

Source: Company, Danareksa Sekuritas

Exhibit 12. Balance sheet (in Rp bn)

	2014	2015	2016F	2017F	2018F
Cash	2,820	6,109	5,872	5,286	4,016
Receivables	134	166	238	243	251
Inventories	5,016	6,548	6,620	6,926	7,217
Other current asset	3,198	3,967	4,601	4,692	4,824
Total current asset	**11,168**	**16,790**	**17,331**	**17,148**	16,308
Land for development	8,038	8,594	9,483	10,328	11,128
Fixed asset	607	803	815	855	911
Investment properties	2,715	3,278	3,831	4,357	4,857
Other assets	5,678	6,558	6,824	7,016	7,203
Total non current asset	**17,039**	**19,233**	**20,952**	**22,556**	24,099
Total asset	**28,207**	**36,022**	**38,283**	**39,704**	40,407
Short term bank loan	1,420	1,897	400	400	400
Sales advance	3,128	3,069	3,386	3,376	3,395
Other current liabilities	885	1,181	1,977	3,023	1,811
Total current liabilities	**5,433**	**6,146**	**5,764**	**6,799**	5,607
Sales advance	725	764	726	743	767
Bank Loan	102	68	320	720	1,000
Bonds	2,650	5,693	6,519	4,667	4,231
Other non-current liabilities	857	1,254	1,213	1,211	1,261
Total non current liabilities	**4,334**	**7,779**	**8,778**	**7,341**	7,259
Total liabilities	**9,767**	**13,925**	**14,542**	**14,140**	12,866
Minority	3,092	3,247	3,247	3,247	3,247
Shareholder equity	15,349	18,850	20,495	22,317	24,294
Total liabilities and equity	**28,207**	**36,022**	**38,283**	**39,704**	40,407

Source: Company, Danareksa Sekuritas

Exhibit 13. Statement of cash flow (in Rp bn)

	2014	2015	2016F	2017F	2018F
Net Income	3,818	2,139	1,859	2,009	2,178
+ Depreciation and amortization	132	196	238	276	327
Adjustment to working capital	(1,570)	(2,753)	(595)	(402)	(351)
Cash flow from operation	**2,380**	**(417)**	**1,502**	**1,883**	**2,154**
Acquisition of fixed asset	(225)	(307)	(138)	(178)	(218)
Acquisition of investment properties	(288)	(648)	(665)	(665)	(665)
+/-in other asset	(4,852)	(616)	(1,058)	(1,020)	(979)
Cash flow from investment	**(5,365)**	**(1,570)**	**(1,860)**	**(1,863)**	**(1,862)**
+/- in bank loan	160	534	(1,189)	452	400
+/- in bonds payable	4	2,959	1,305	(581)	(1,750)
Dividend payment	(317)	(383)	(214)	(186)	(201)
Others	1,660	2,166	219	(291)	(12)
Cash flow from financing	**1,507**	**5,276**	**121**	**(606)**	(1,563)
Net changes in cash flow	(1,477)	3,289	(237)	(586)	(1,271)
Beginning balance of cash and cash equivalent	4,297	2,820	6,109	5,872	5,286
Ending balance	**2,820**	**6,109**	**5,872**	**5,286**	**4,016**

Source: Company, Danareksa Sekuritas

Exhibit 14. Ratios (%)

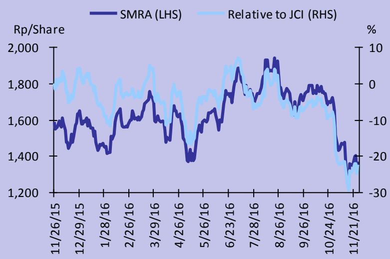
	2014	2015	2016F	2017F	2018F
Gross margin	74.2	74.7	73.5	73.7	73.9
Operating margin	47.5	46.7	44.4	43.8	44.0
Pre-tax margin	76.7	43.7	39.0	38.9	40.7
Net margin	68.0	34.5	29.4	31.0	32.6
ROA	13.5	5.9	4.9	5.1	5.4
ROE	24.9	11.4	9.1	9.0	9.0
Gearing ratio	23.4	35.9	34.7	30.4	23.2
Net gearing	8.1	8.2	9.9	9.8	8.6

Source: Company, Danareksa Sekuritas

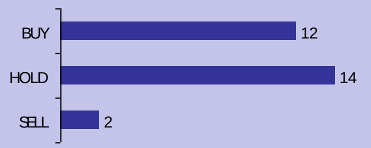
BUY

Target Price, Rp	1,600
Downside	16.8%
SMRA IJ/SMRA.JK	
Last Price, Rp	1,370
No. of shares (bn)	14.4
Market Cap, Rp bn	**19,765**
(US$ mn)	1,486
3M T/O, US$mn	2.2

SMRA relative to JCI Index



Market Recommendation



Consensus

	Our	Cons	% Diff
Target Price, IDR	1,600	1,785	-10.3
EPS 2017F, IDR	6.6	44	N/A
PE 2017F, x	207.6	31.1	N/A

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PROPERTY/INITIATION

Summarecon Agung

Set to bounce back

SMRA is a reputable property developer with a proven track record in delivering preferred townships/products, leading to higher capital gains for its property buyers. Having reported low marketing sales in 2015-16 as a result of soft demand, we believe that the FY17 marketing sales will see an uptick in growth (+9.0% yoy), underpinned by lower mortgage rates and higher LTV that will stimulate higher demand for property. Supported by solid recurring income, we foresee flat revenues growth of 3.9% yoy in 2017. We initiate coverage on SMRA with a BUY recommendation and target price of Rp1,600, using a 50% discount to NAV, 11.5% WACC, and 4% terminal growth.

Solid FY17 marketing sales off a low base in 2016

With the sluggish demand for property, we believe that SMRA's marketing sales will reach a bottom in 2016 (-26.1% yoy). Going into 2017, we foresee an uptick in FY17 marketing sales, underpinned by lower mortgage rates and higher LTV which pave the way for solid FY17 marketing sales growth of 9.0% yoy, or three times the industry growth. The largest contribution to the FY17 marketing sales will come from Summarecon Serpong (around 50%) followed by Bandung (20%) with the rest coming from Bekasi and Karawang.

Higher growth in recurring revenues to support overall revenues in FY17

In 2014, SMRA introduced 4-5 year in-house installments for its products. To minimize the financial burden, SMRA lengthened the construction period. This made the development revenues recognition longer. In 2017, we estimate that SMRA will record flat development revenues (+2.9% yoy). However, overall revenues will be boosted by higher recurring revenues growth following annual rental rate adjustments and commencement of Movenpicks Resort and Spa (Jimbaran, Bali). As such, we estimate that SMRA's revenues will grow by 3.9% yoy in 2017.

2017: 26.5% yoy earnings growth with maintained margins and lower final tax

Back in 2014 and 2015, SMRA launched 10 apartment projects with total accumulative marketing sales of Rp5.2tn, equivalent to 58.6% of the total FY14-15 marketing sales. As a result, SMRA will record sizable revenues from apartment sales in 2016- 17 following the revenues recognition based on a completion period of three to four years. Thanks to a balanced contribution between apartments and landed residential property, we estimate that SMRA will maintain its FY16-17 gross margin at 46.2-46.4%. Combined with a lower final tax for property development next year, we forecast FY17 net profits of Rp106bn, +26.5% yoy.

Initiate coverage with a BUY recommendation and target price of Rp1,600

We initiate coverage on SMRA with a BUY call and target price of Rp1,600 based on the SOTP method, 50% discount to NAV, 11.5% WACC, and 4% terminal growth. Our target price implies 16.8% upside to the current share price and 242.5x 2017F P/E.

	2014	2015	2016F	2017F	2018F
Revenue, IDRbn	5,757	5,624	4,588	4,768	4,990
EBITDA, IDRbn	2,286	2,009	1,338	1,436	1,608
EBITDA growth, %	51.4%	-12.1%	-33.4%	7.3%	11.9%
Net profit, IDRbn	1,385	855	75	95	288
Core profit, IDRbn	1,481	995	206	276	365
EPS, IDR	96.0	59.3	5.2	6.6	19.9
EPS growth, %	25.7%	-38.3%	-91.2%	26.5%	202.2%
Core EPS, IDR	103	69	14	19	25
Core EPS growth, %	54.1%	-32.8%	-79.3%	34.3%	32.3%
Net gearing, %	40.7%	62.3%	73.8%	80.5%	82.1%
PER, x	14.3	23.1	262.7	207.6	68.7
Core PER, x	13.3	19.9	96.1	71.5	54.1
Yield, %	1.7%	1.5%	0.9%	0.1%	0.1%
EV/EBITDA, x	9.8	12.2	18.9	18.0	16.3

Upcoming launches to support the FY16 marketing sales

Up to October 2016, SMRA had recorded 10M16 marketing sales of Rp2.4tn. The marketing sales were driven by Summarecon Serpong (52.9%), Summarecon Bekasi (14.9%), and Summarecon Karawang (13.5%). Listed below are the project launches by SMRA in November and December 2016:

i. Midtown Apartment with 96 units available for sale (66 units from Carmel Tower and 30 units from Jefferson Tower). The prices offered for Carmel Tower are in the range of Rp433mn-1.1bn/unit (translating to Rp19mn-23mn/sqm). Meanwhile, the prices offered for Jefferson Tower are in the range of Rp983mn-2.2bn/unit (translating to Rp24mn-29mn/sqm).
On the day of the launch, SMRA managed to sell 65 apartments: 41 units in Carmel Tower and 22 units in Jefferson Tower. The remaining two units were in Avery and Bryant. We estimate that this will generate Rp60-70bn of additional marketing sales for SMRA.

ii. Landed residential in Summarecon Bandung with 220 units available for sale. The price is Rp2bn/unit. Considering previous successful launches in the area (Btari in November 2015 and Btari Extension in April 2016), we believe the take-up rate for these projects will be encouraging.

iii. Landed residential property in Summarecon Karawang with 200 units available for sale with prices of Rp800-900mn/unit.

Assuming the projects in the pipeline are launched successfully, we estimate that SMRA will record marketing sales of Rp3.2tn (-26.1% yoy) in 2016. Our marketing sales target is 8.2% lower than the management's target of Rp3.5tn.

Temporarily higher opex to sales is inevitable

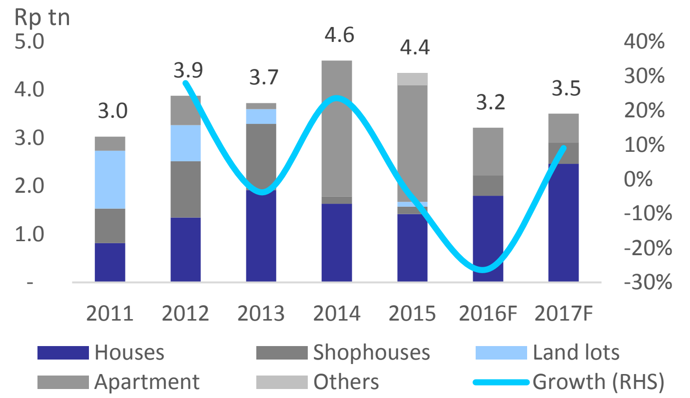
To increase its project diversification, SMRA launched the Summarecon Bandung (in mid-2015) and Summarecon Karawang (mid-2016) township projects. With revenues recognition in two to three years, SMRA will only start to record revenues from these projects in 2018, at the earliest. Thus, we expect SMRA to have higher opex to sales until 2018.

Exhibit 1. NAV calculation

Land bank

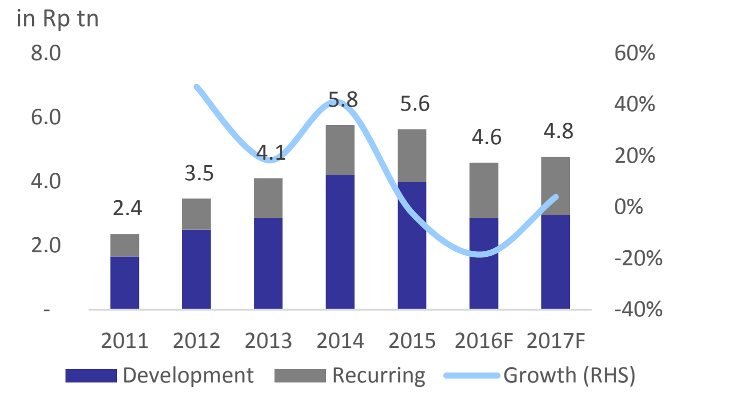
	Location	Stakes	Area (ha)	Plot ratio	Price per sqm (Rp mn/sqm)	Method	RNAV (Rp bn)
Summarecon Kelapa Gading	North Jakarta	100%	8.0	65%	54.1	NAV	2,812
Summarecon Serpong	Tangerang						
Own Land	Tangerang	100%	311.0	65%	7.2	NAV	14,593
JO with JBC	Tangerang	70%	150.0	65%	6.3	NAV	4,300
JO with The Spring	Tangerang	55%	80.0	65%	6.3	NAV	1,802
Summarecon Bekasi							
Own Land	Bekasi	100%	137.0	65%	7.2	NAV	6,428
JO with DSA	Bekasi	51%	267.0		0.2	At cost	315
Summarecon Bandung	West Java	100%	334.0	65%	4.5	NAV	9,688
Summarecon Bali	Bali	100%	20.0		2.4	At cost	477
Summarecon Bogor	West Java	100%	415.0		0.2	At cost	741
Summarecon Makassar	South Sulawesi						
Own Land	South Sulawesi	100%	146.0		0.4	At cost	629
JO with SMC	South Sulawesi	51%	187.0		0.4	At cost	411
Others		100%	222.0		0.4	At cost	956
Investment property							
Mall and retail						DCF	7,661
Hotels						DCF	2,842
Other properties						DCF	1,197
Total asset (Rp bn)							**54,850**
Net debts (Rp bn)							6,045
Advance to customer (Rp bn)							2,884
Net asset value (Rp bn)							**45,921**
Discount to NAV (%)							50%
Number of shares outstanding (bn shares)							14.4
Target price (Rp/share)							**1,600**

Exhibit 2. Marketing sales



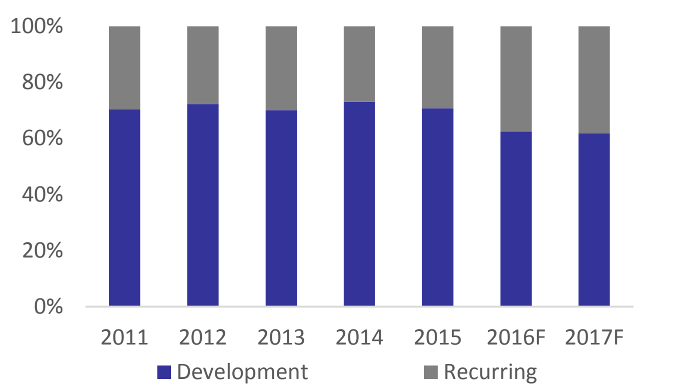
Source: Company, Danareksa Sekuritas

Exhibit 3. Revenues



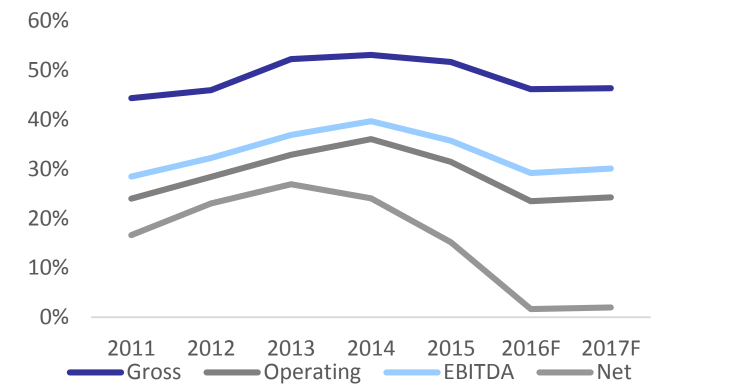
Source: Company, Danareksa Sekuritas

Exhibit 4. Contribution of development and recurring revenue



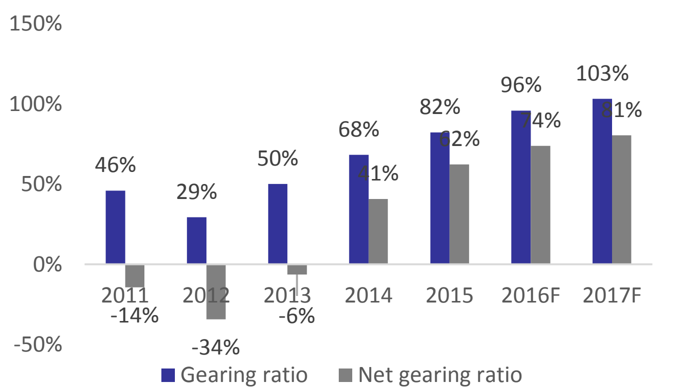
Source: Company, Danareksa Sekuritas

Exhibit 5. Profitability margin



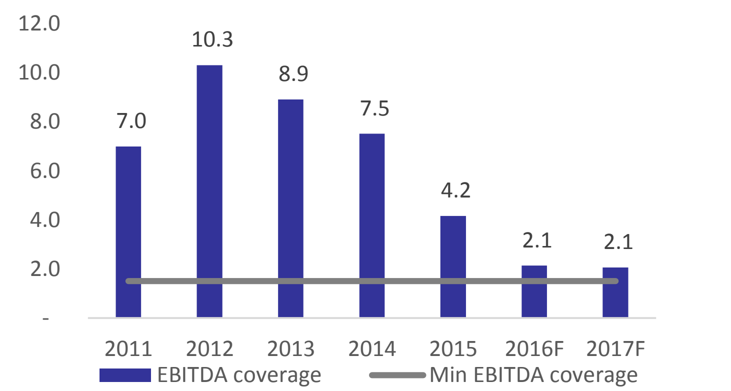
Source: Company, Danareksa Sekuritas

Exhibit 6. Net gearing ratio



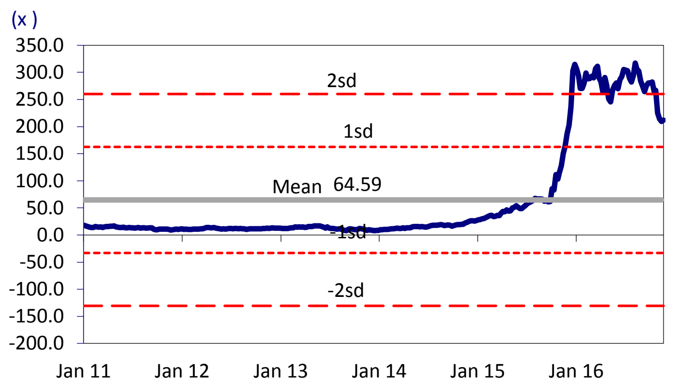
Source: Company, Danareksa Sekuritas

Exhibit 7. EBITDA coverage



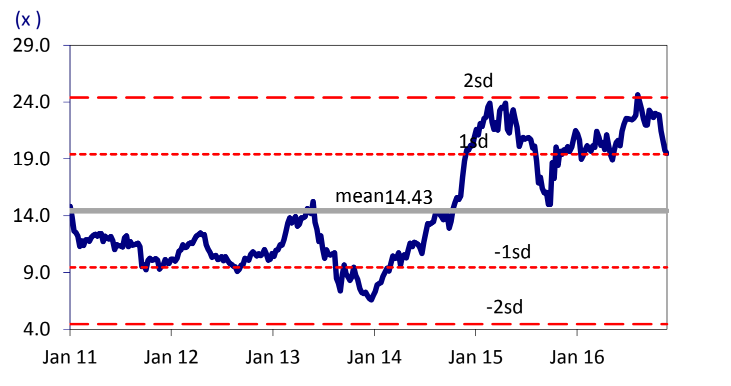
Source: Company, Danareksa Sekuritas

Exhibit 8. PE band Company



Source: Company, Danareksa Sekuritas, Bloomberg

Exhibit 9. PE band Sector



Source: Company, Danareksa Sekuritas, Bloomberg

Exhibit 10. Income Statement (in Rp bn)

	2014	2015	2016F	2017F	2018F
Sales	5,757	5,624	4,588	4,768	4,990
COGS	(2,700)	(2,717)	(2,470)	(2,556)	(2,597)
Gross profit	3,057	2,907	2,118	2,212	2,393
Operating expenses	(980)	(1,139)	(1,040)	(1,056)	(1,086)
Operating profit	**2,077**	**1,768**	**1,077**	**1,156**	**1,307**
Other income/expenses	(140)	(385)	(508)	(570)	(618)
Pre-tax profit	1,936	1,382	569	586	689
Taxes	(319)	(318)	(273)	(212)	(221)
Net profit	**1,385**	**855**	**75**	**95**	**288**
Core profit	1,481	995	206	276	365

Source: Company, Danareksa Sekuritas

Exhibit 11. Balance Sheet (in Rp bn)

	2014	2015	2016F	2017F	2018F
Cash	1,771	1,504	1,635	1,704	1,308
Receivables	87	152	375	390	408
Inventories	3,341	4,925	5,083	5,226	5,354
Other current asset	656	709	607	573	600
Total current asset	**5,855**	**7,290**	**7,700**	**7,894**	**7,671**
Advance from customers	928	660	539	560	586
Land for development	4,322	5,737	6,145	6,553	6,961
Property & plant - net	368	420	439	442	429
Investment properties	4,019	4,312	4,393	4,469	4,541
Other non current assets	380	339	339	339	339
Total non-current asset	**10,018**	**11,469**	**11,854**	**12,363**	**12,856**
Total asset	**15,873**	**18,758**	**19,555**	**20,257**	**20,527**
Bank loan	506	983	1,275	1,565	1,907
Deposits	2,162	1,078	833	818	806
Other current liabilties	1,027	2,349	1,909	2,727	2,894
Total current liabilities	**3,694**	**4,410**	**4,018**	**5,111**	**5,607**
Bank Loan	2,193	2,738	3,363	3,698	4,191
Bonds	1,653	1,389	2,050	2,131	2,230
Deposits	151	265	207	214	217
Other liabilities	1,765	2,428	2,490	1,597	506
Total non current liabilities	**5,762**	**6,819**	**8,110**	**7,639**	**7,145**
Total liabilities	**9,456**	**11,229**	**12,127**	**12,750**	**12,752**
Minority	993	1,517	1,517	1,517	1,517
Capital stock	1,443	1,443	1,443	1,443	1,443
Share premium	23	23	23	23	23
Retained Earning and Others	3,958	4,547	4,445	4,524	4,792
Total equity	**5,424**	**6,013**	**5,910**	**5,990**	**6,258**
Total liabilities and equity	**15,873**	**18,758**	**19,555**	**20,257**	**20,527**

Source: Company, Danareksa Sekuritas

Exhibit 12. Statement of Cash Flow (in Rp bn)

	2014	2015	2016F	2017F	2018F
Net Income	1,385	855	75	95	288
+ Depreciation	204	222	261	281	300
Adjustment to working capital	(2,241)	(1,408)	(186)	(159)	(144)
Cash flow from operation	**(651)**	**(331)**	**150**	**217**	**444**
Acquisition of fixed asset	(78)	(136)	(122)	(122)	(122)
Acquisition of investment properties	(1,027)	(432)	(238)	(238)	(238)
Other asset	(1,297)	(1,421)	(408)	(408)	(408)
Cash flow from investment	**(2,403)**	**(1,988)**	**(768)**	**(768)**	**(768)**
Increase/decrease in bank loan	788	1,023	917	625	835
Increase/decrease in bonds payable	1,094	793	5	5	(895)
Dividend payment	(353)	(266)	(178)	(16)	(20)
Others	478	502	6	6	7
Cash flow from financing	**2,006**	**2,052**	**750**	**621**	**(73)**
Net increase/decrease in cash flow	(1,048)	(267)	132	69	(396)
Beginning balance	2,819	1,771	1,504	1,635	1,704
Ending balance	**1,771**	**1,504**	**1,635**	**1,704**	**1,308**

Source: Company, Danareksa Sekuritas

Exhibit 13. Ratios (in %)

	2014	2015	2016F	2017F	2018F
Gross margin	53.1	51.7	46.2	46.4	48.0
Operating margin	36.1	31.4	23.5	24.2	26.2
Pre-tax margin	33.6	24.6	12.4	12.3	13.8
Net margin	24.1	15.2	1.6	2.0	5.8
ROA	8.7	4.6	0.4	0.5	1.4
ROE	25.5	14.2	1.3	1.6	4.6
Debt to Equity	68.3	82.3	95.9	103.2	98.9
Net gearing	40.7	62.3	73.8	80.5	82.1

Source: Company, Danareksa Sekuritas

PROPERTY/INITIATION

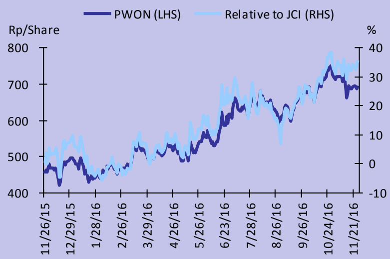
Pakuwon Jati

Fully valued

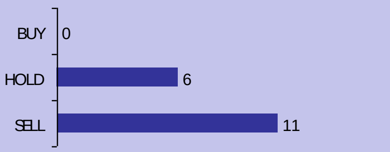
HOLD

Target Price, Rp	700
Upside	0.7%
PWON IJ/PWON.JK	
Last Price, Rp	695
No. of shares (bn)	48.2
Market Cap, Rp bn	**33,470**
(US$ mn)	2,516
3M T/O, US$mn	2.2

PWON relative to JCI Index



Market Recommendation



Consensus

	Our	Cons	% Diff
Target Price, IDR	700	760	-7.8
EPS 2017F, IDR	42.2	46	-8.3
PE 2017F, x	16.0	15.1	5.9

We initiate coverage on PWON with a HOLD call and target price of Rp700, implying 0.7% upside to the current share price (SOTP based valuation with WACC of 12.7% and Terminal Value of 4%). While we recognize the company's strong recurring revenues and the additional retail space of 73,379sqm from Supermall Pakuwon Indah (SPI) Phase 2 and 3 which, we believe, will boost PWON's revenues by 11.3% in 2017, we also think the market has fully priced in PWON's potential additional earnings. PWON is currently trading at a 40.1% discount to NAV.

Taking a more conservative view, flat marketing sales in 2017

We estimate that PWON will record flattish marketing sales growth in 2017 (+1.4% yoy), after an expected 27.5% drop in 2016 to Rp2.2tn from Rp3.1tn in 2015. In 2017, PWON has several flagship projects in the pipeline including an office tower in Tunjungan Plaza 6 and a mixed use project in TB Simatupang. Nonetheless, PWON is still waiting for signs of recovery in the market before launching these projects. Its focus is on relatively affordable properties in the price range of Rp1-2bn for apartments and Rp2-3bn for houses in Surabaya.

More retail space to be offered …

In December 2016, PWON plans to offer retail space in its SPI development (Phase 2 and 3) with total leasable area of 73,379 sqm. Thanks to its proven track record in developing new malls, PWON has already secured a solid tenancy list with an expected occupancy rate of 60% in the first year (Grand Opening in March 2017). Upon commissioning, SPI will become the largest mall in Indonesia with total leasable area of 120,638sqm. We estimate this will help lead to the generation of Rp72bn of additional revenues in 2017.

… to lift overall revenues growth

We believe that additional retail space coupled with retail rental fee adjustments will result in 13.9% yoy growth in recurring revenues in 2017. This will help to lift overall revenues growth given the lower revenues growth from development (+8.4% yoy). All in all, we estimate that PWON will record 11.3% revenues growth in 2017. Ultimately, we expect the net margin to improve by 1.2ppt to 37.4% in 2015 due to a lower final tax rate for property development, despite the flat gross and operating margins.

Fairly valued by the market, initiate coverage with a HOLD call

We initiate coverage on PWON with a HOLD recommendation and target price of Rp700, implying 0.7% upside to the current share price (SOTP based valuation with WACC of 12.7% and Terminal Value of 4%) and 16.7x 2017 P/E. While we recognize the company's strong recurring revenues, we believe that the market has fully priced in PWON's potential additional earnings. PWON is currently trading at a 40.1% discount to NAV.

	2014	2015	2016F	2017F	2018F
Revenue, IDRbn	3,872	4,625	4,856	5,403	6,159
EBITDA, IDRbn	2,472	2,558	2,595	2,861	3,164
EBITDA growth, %	45.0%	3.5%	1.4%	10.2%	10.6%
Net profit, IDRbn	2,515	1,262	1,757	2,019	2,166
Core profit, IDRbn	1,326	1,673	1,628	1,891	2,126
EPS, IDR	52.2	26.2	36.5	41.9	45.0
EPS growth, %	122.0%	-49.8%	39.2%	14.9%	7.3%
Core EPS, IDR	28	35	34	39	44
Core EPS growth, %	17.5%	26.2%	-2.7%	16.1%	12.4%
Net gearing, %	21.6%	30.0%	23.6%	21.1%	17.3%
PER, x	13.3	26.5	19.1	16.6	15.5
Core PER, x	25.2	20.0	20.6	17.7	15.7
Yield, %	0.7%	0.7%	0.3%	0.5%	0.6%
EV/EBITDA, x	14.3	14.2	13.9	12.7	11.4

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Proven track record to face stiff competition

Despite stiff competition in the mid-class apartment market in Surabaya, PWON still managed to record encouraging performance for its newly launched apartment projects, thanks to its proven track record in property development. We believe PWON will book FY16 marketing sales of Rp2.2tn, still down 27.5% yoy. Kindly be noted that PWON has recorded Rp1.6tn marketing sales in 9M16.

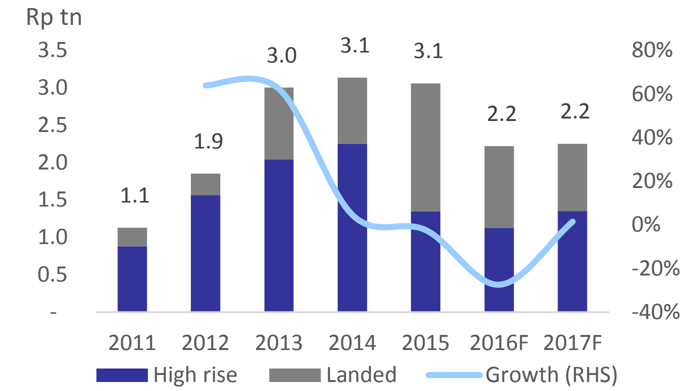
In mid-October 2016, PWON launched an apartment project in Pakuwon City with an average price of Rp600mn/unit. So far, PWON has sold 500 units from 1,000 units available for sale. Thus, we can expect an additional Rp300bn of marketing sales from this project in 2016.

Furthermore, PWON will launch one additional mid-class apartment project in West Surabaya with 1,000 units for sale at a price of Rp700mn/unit in December 2016. In the first phase, PWON will offer 300 units for sale. So far, PWON has already collected 400 units of reservation numbers. In consideration of PWON's policy to record a marketing sale after the customer has made a 10% down payment, we expect the marketing sales from this project to be recognized in 2017.

Exhibit 1. NAV calculation

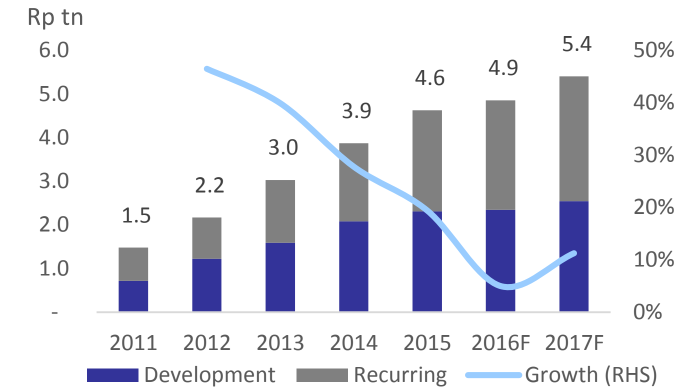
Land bank	Location	Stakes	Area (ha)	Plot ratio	Price per sqm (Rp mn/sqm)	Method	RNAV (Rp bn)
Kota Kasablanka	South Jakarta	100.0%	3.4	75%	32.1	NAV	818
Gandaria City	South Jakarta	83.3%	1.9	75%	12.8	NAV	152
TB Simatupang	South Jakarta	70.0%	4.5	75%	26.6	NAV	628
Pakuwon City	East Surabaya, East Java	100.0%	234.5	65%	15.5	NAV	23,683
Outside Pakuwon City	East Surabaya, East Java	100.0%	21.5	65%	10.6	NAV	1,478
Tunjungan City	Central Surabaya, East Java	100.0%	3.2	75%	32.1	NAV	770
Supermall Pakuwon Indah	West Surabaya, East Java	67.1%	3.9	65%	13.7	NAV	233
Grand Pakuwon Township	West Surabaya, East Java	100.0%	158.2	65%	9.1	NAV	9,364
Outside Grand Pakuwon	West Surabaya, East Java	100.0%	6.9	65%	6.1	NAV	272
Royal Plaza	South Surabaya, East Java	75.0%	1.8	75%	22.0	NAV	222
Bekasi	West Java	83.9%	3.2		0.5	Cost	14
Daan Mogot	West Jakarta	100.0%	11.0		9.0	Cost	990
Total land bank			**454.0**				
Investment Property							
Kota Kasablanka	South Jakarta	100%				DCF	4,044.9
Gandaria City	South Jakarta	83%				DCF	3,827.8
Tunjungan City	Central Surabaya, East Java	100%				DCF	5,501.5
Supermall Pakuwon Indah	West Surabaya, East Java	67%				DCF	3,298.9
Royal Plaza	South Surabaya, East Java	75%				DCF	491.3
Pakuwon Town Square	East Surabaya, East Java	100%				DCF	101.1
Blok M Plaza	South Jakarta	100%				DCF	459.0
Hotels						DCF	1,515.4
Future - mixed used development							
Kota Kasablanka	South Jakarta	100%				DCF	1,942.8
Tunjungan Plaza	Central Surabaya, East Java	100%				DCF	524.3
Pakuwon City	East Surabaya, East Java	100%				DCF	230.0
Supermall Pakuwon Indah	West Surabaya, East Java	67%				DCF	567.9
Total asset (Rp bn)							**61,129**
Net debts (Rp bn)							2,735
Advance from customer (Rp bn)							2,539
Net asset value (Rp bn)							55,855
Discount to NAV (%)							40%
Number of shares outstanding (bn shares)							48.2
Target price (Rp/share)							**700**

Exhibit 2. Marketing sales



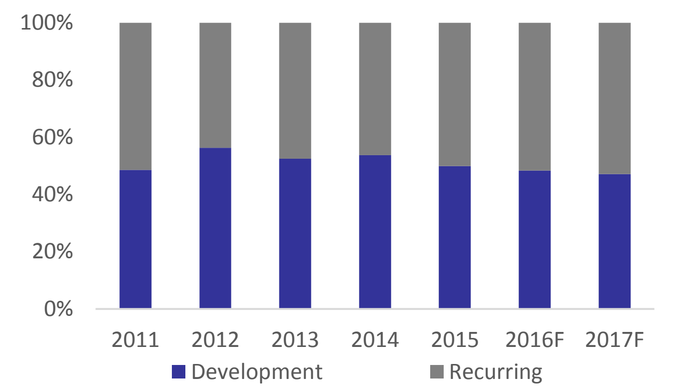
Source: Company, Danareksa Sekuritas

Exhibit 3. Revenues



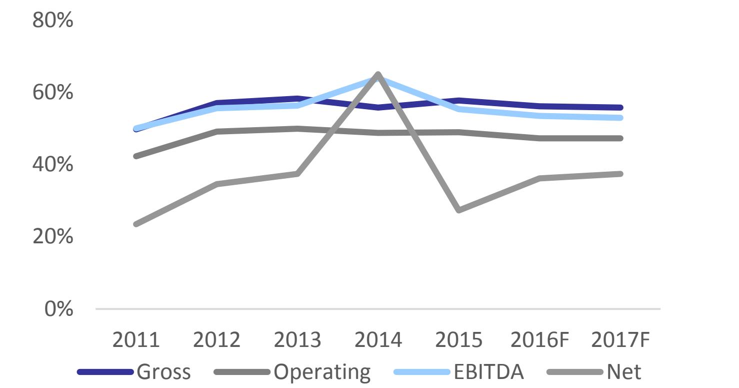
Source: Company, Danareksa Sekuritas

Exhibit 4. Contribution of development and recurring revenue



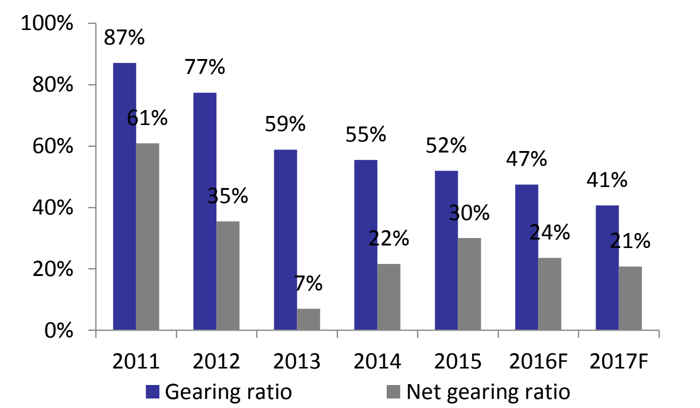
Source: Company, Danareksa Sekuritas

Exhibit 5. Profitability margin



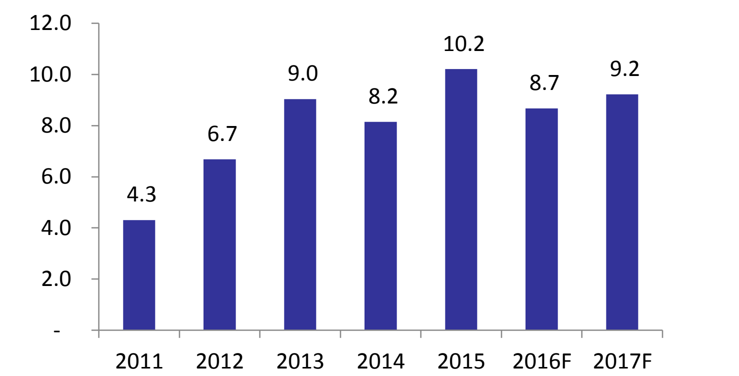
Source: Company, Danareksa Sekuritas

Exhibit 6. Net gearing ratio



Source: Company, Danareksa Sekuritas

Exhibit 7. EBITDA coverage

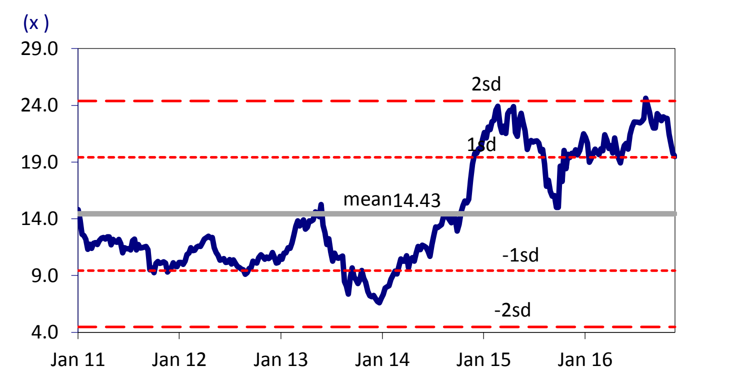


Source: Company, Danareksa Sekuritas

Exhibit 8. PE band Company

Source: Company, Danareksa Sekuritas, Bloomberg

Exhibit 9. PE band Sector



Source: Company, Danareksa Sekuritas, Bloomberg

Exhibit 10. Income Statement (in Rp bn)

	2014	2015	2016F	2017F	2018F
Sales	3,872	4,625	4,856	5,403	6,159
COGS	(1,714)	(1,957)	(2,132)	(2,389)	(2,817)
Gross profit	2,158	2,669	2,724	3,014	3,341
Operating expenses	(269)	(404)	(428)	(464)	(498)
Operating profit	**1,889**	**2,265**	**2,296**	**2,550**	**2,843**
Other income/expenses	976	(520)	(48)	(41)	(123)
Pre-tax profit	2,859	1,741	2,248	2,509	2,720
Taxes	(260)	(341)	(368)	(349)	(403)
Net profit	**2,515**	**1,262**	**1,757**	**2,019**	**2,166**
Core profit	1,326	1,673	1,628	1,891	2,126

Source: Company, Danareksa Sekuritas

Exhibit 11. Balance Sheet (in Rp bn)

	2014	2015	2016F	2017F	2018F
Cash	2,809	2,071	2,650	2,547	2,787
Receivables	303	302	263	293	334
Inventories	1,672	2,254	2,662	3,029	3,360
Other current asset	723	782	742	793	878
Total current asset	**5,507**	**5,409**	**6,318**	**6,662**	**7,359**
Real estate asset	1,461	1,592	2,018	2,445	2,871
Property & plant - net	964	1,457	1,779	2,099	2,418
Investment properties	8,156	8,887	9,806	10,720	11,628
Other non-current asset	682	1,434	787	787	787
Total non-current asset	**11,264**	**13,370**	**14,390**	**16,051**	**17,704**
Total asset	**16,771**	**18,778**	**20,707**	**22,714**	**25,063**
Account payable	134	198	193	216	255
Short term debt	514	536	933	670	3,781
Other current liabilities	973	1,073	957	1,059	1,245
Total current liabilities	**1,621**	**1,808**	**2,083**	**1,945**	**5,281**
Long term debt	4,082	4,396	4,362	4,636	1,618
Advance	2,292	2,616	2,574	2,539	2,525
Other non-current liabilities	492	503	592	638	703
Total non-current liabilities	**6,866**	**7,515**	**7,528**	**7,813**	**4,845**
Total liabilities	**8,488**	**9,323**	**9,610**	**9,758**	**10,126**
Minority	2,110	2,236	2,236	2,236	2,236
Shareholder equity	6,173	7,219	8,861	10,719	12,701
Total liabilities and equity	**16,771**	**18,778**	**20,707**	**22,714**	**25,063**

Source: Company, Danareksa Sekuritas

Exhibit 12. Statement of Cash Flow (in Rp bn)

	2014	2015	2016F	2017F	2018F
Net Income	2,515	1,262	1,757	2,019	2,166
+ Depreciation and amortization	581	271	299	310	321
Adjustment to working capital	224	(246)	(427)	(332)	(206)
Cash flow from operation	**3,321**	**1,287**	**1,629**	**1,997**	**2,282**
Acquisition of fixed asset	(357)	(541)	(368)	(370)	(370)
Acquisition of investment properties	(4,969)	(954)	(1,171)	(1,176)	(1,178)
+/- in other asset	(1,226)	(766)	223	(427)	(427)
Cash flow from investment	**(6,552)**	**(2,260)**	**(1,316)**	**(1,972)**	**(1,974)**
+/- in bank loan	(294)	717	466	74	82
+/- in bonds payable	2,440	280	(103)	(63)	10
Dividend payment	(236)	(229)	(115)	(160)	(184)
Others	2,004	(532)	19	21	25
Cash flow from financing	**3,914**	**236**	**266**	**(128)**	**(67)**
Net changes in cash flow	683	(738)	579	(103)	240
Beginning balance of cash and cash equivalent	2,126	2,809	2,071	2,650	2,547
Ending balance	**2,809**	**2,071**	**2,650**	**2,547**	**2,787**

Source: Company, Danareksa Sekuritas

Exhibit 13. Ratios (in %)

	2014	2015	2016F	2017F	2018F
Gross margin	55.7	57.7	56.1	55.8	54.3
Operating margin	48.8	49.0	47.3	47.2	46.2
Pre-tax margin	73.8	37.6	46.3	46.4	44.2
Net margin	65.0	27.3	36.2	37.4	35.2
ROA	15.0	6.7	8.5	8.9	8.6
ROE	40.7	17.5	19.8	18.8	17.1
Gearing	55.5	51.9	47.5	40.8	36.0
Net gearing	21.6	30.0	23.6	21.1	17.3

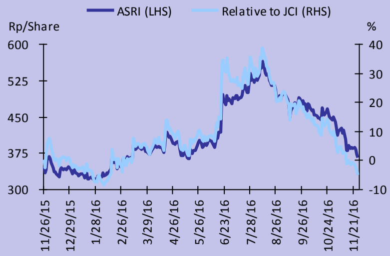
Source: Company, Danareksa Sekuritas

PROPERTY/INITIATION

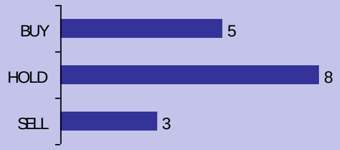
HOLD

Target Price, Rp	380
Upside	3.8%
ASRI IJ/ASRI.JK	
Last Price, Rp	366
No. of shares (bn)	19.6
Market Cap, Rp bn	**7,192**
(US$ mn)	541
3M T/O, US$mn	0.5

ASRI relative to JCI Index



Market Recommendation



Consensus

	Our	Cons	% Diff
Target Price, IDR	380	469	-18.9
EPS 2017F, IDR	47.0	45.0	4.4
PE 2017F, x	8.2	8.1	1.2

Alam Sutera

Still a momentum play

We initiate coverage on the stock with a HOLD call and target price of Rp380, based on the SOTP method (WACC of 12.6%, terminal value of 4%, and 70% discount to NAV). The stock may outperform its peers, subject to the realization of its upcoming deals (selling land and office tower sales). In the short to medium term, these land/office sales will support its marketing sales. However, in the absence of these deals, we view that ASRI will only obtained Rp1.8tn marketing sales (-32.7% yoy to achievement in 2016 after CFLD). It is also worth noting that ASRI has high leverage (9M16: 100.6% gearing) compared to its peers. Combined with a high inventory level, this will negatively impact cash flow.

2016 marketing sales growth: not from higher ASP or volume

By the end of September 2016, ASRI had booked only Rp1.3tn of marketing sales or only 26.3% of its internal FY16 target. In the coming months, the company hopes to book additional marketing sales ranging from Rp800bn to Rp1tn from selling 60ha of land in Pasar Kemis to China Fortune Land Development (CFLD). Bear in mind, however, that this is the first phase in which a total of 500ha of land will be sold to CFLD. Before the end of the year, the company also hopes to close its long-awaited deal by selling office space at The Tower amounting to Rp2.2tn. To be conservative, we exclude the office sales but include the land sales to CFLD and estimate FY16 marketing sales of Rp2.6tn (+37.8% yoy). Without these transactions, ASRI would only book FY16 marketing sales of Rp1.8tn (down 8.9% yoy), we believe.

2017: Still backed by CFLD deal

In 2017, we expect ASRI to record flat marketing sales (+1.8%yoy), excluding sales from the CFLD deal. We are less optimistic given: (1) the already too-expensive land price in Serpong (Alam Sutera), (2) the abundant number of second hand available units offered in Suvarna Sutera – Pasar Kemis, offered at discounted prices compared to the primary market and (3) the stiff competition in the apartments market in Serpong which might affect ASRI's projects (Paddington and Kota Ayodhya). Including 40ha sales from CFLD deal in 2017, we estimate ASRI to record marketing sales of Rp2.4tn (-10.1% yoy).

Cheap for a reason, we initiate coverage with a HOLD call

Among the property stocks under our coverage, ASRI has the highest leverage (100.6% vs. 32.1%-100.6% for its peers in 9M16), with 75-80% of its total debts in US Dollars. Combined with a high inventory level, this will negatively impact cash flow. Nonetheless, ASRI is trading at a deep discount of 70.8% to its NAV (higher than 40.1-70.8% for its peers). We initiate coverage on ASRI with a HOLD recommendation and target price of Rp380, based on the SOTP method (WACC of 12.6%, terminal value of 4%, and 70% discount to NAV). Risks to our recommendation are delays in land delivery to CFLD or early termination of the cooperation agreement.

	2014	2015	2016F	2017F	2018F
Revenue, IDRbn	3,630.9	2,783.7	3,102.8	3,166.6	3,823.4
EBITDA, IDRbn	1,977.7	1,705.6	1,447.4	1,373.1	1,823.5
EBITDA growth, %	24.2	(13.8)	(15.1)	(5.1)	32.8
Net profit, IDRbn	1,097.4	596.5	820.3	923.8	1,327.3
Core profit, IDRbn	1,448.2	1,143.5	1,038.7	1,012.5	1,643.5
EPS, IDR	55.8	30.4	41.7	47.0	67.6
EPS growth, %	25.2	(45.6)	37.5	12.6	43.7
Core EPS, IDR	73.7	58.2	52.9	51.5	83.6
Core EPS growth, %	21.9	(21.0)	(9.2)	(2.5)	62.3
Net gearing, %	89.9	101.9	92.5	81.2	63.1
PER, x	6.6	12.1	8.8	7.8	5.4
Core PER, x	5.0	6.3	6.9	7.1	4.4
EV/EBITDA, x	6.5	8.2	9.6	10.0	7.1
Yield, %	1.67	1.67	2.07	2.85	3.2

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Alam Sutera Township: too expensive?

In the past six years, the residential land price in the Alam Sutera Township has soared (+37.9% CAGR 2009-2014). This compares to 7.1% CAGR 2009-2014 for its peers in the Greater Jakarta area. Nevertheless, we suspect that customers are now starting to deem the Alam Sutera area as slightly overpriced. In 2015, the average land price in the area stood at Rp13.1mn/sqm (-19.7% yoy). In 9M16, the residential land price was relatively stable at Rp13.8mn/sqm. Coupled with stiff competition in the area, we believe that the upside potential for land prices in the Alam Sutera Township is quite limited.

Suvarna Sutera: competition from the secondary market

We visited Survarna Sutera, a township being developed by ASRI in the Pasar Kemis area. Based on our channel check, we found that the housing products currently offered by ASRI (Daru Cluster – launched in 2015) face stiff competition from the secondary market in which houses are offered at cheaper prices. For a similar size of property, units in the Suvarna Padi (cluster developed in 2011), were offered at a 15-20% discount compared to units in Daru. Since these housing products in the secondary market will compete directly with the products offered by ASRI, the potential for price appreciation in the future looks limited.

Exhibit 1. Suvarna Sutera area

Source: Danareksa Sekuritas

High rise inventory risk

At the moment, ASRI is undertaking two apartment projects: Paddington (Alam Sutera Township) and Kota Ayodhya (Tangerang) with expected completion in 4Q16. Nevertheless, the oversupply of mid-class apartments in the area has resulted in poor take-up rates for these projects. Indeed, the take up rate currently only stands at 50-60%. Besides these apartment projects, ASRI also has 2 office projects that are expected to be completed by the end of 2016 with a take up rate of only 15-30% due to oversupply. In our view, ASRI's high inventory of apartments and offices will negatively impact the company's cash flow going forward.

CFLD to support marketing sales in 2016

To develop the Pasar Kemis area, ASRI has signed a cooperation agreement with China Fortune Land Development (CFLD). In the cooperation scheme, ASRI will provide the land bank and assist in the licensing, while CFLD will assist in the construction and infrastructure.

As stipulated in the agreement, ASRI will deliver 100ha of land/year to CFLD over the next five years, resulting in total land sales of 500ha by the end of 2019. As such, ASRI expects to deliver 60ha of land in 2016. This will translate into additional marketing sales of Rp800-1,000bn, based on our estimates. With the support of this deal, we believe that ASRI will record Rp2.6tn of marketing sales in 2016, up by 37.8% yoy.

Looking at bulk office sales to reduce inventory

ASRI is currently exploring the opportunity of selling The Tower in bulk to several potential buyers, including local conglomerates and foreign buyers. As of 9M16, ASRI had sold 15% of the total area. Should such a transaction be executed, ASRI has to either: (i) re-allocate the existing tenants and sell the whole area to new buyers, or (ii) sell only 85% of the remaining area. Under either option, ASRI would record an additional Rp2.1tn of marketing sales from this transaction.

We have not included this transaction in our forecast considering the uncertainty surrounding its execution. Nevertheless, we conducted sensitivity analysis to assess the impact of the transaction on our earnings. Should the company execute the transaction in 2016 or 2017, we assume that the hand-over would be in 2017. As such, the transaction would impact ASRI's financial performance in 2017.

Exhibit 2. Sensitivity of the impact of bulk sales of The Tower in our earnings

in Rp bn	**Scenario 1 no bulk sales**	**Scenario 2 bulk sales, exercised in 2016**	**Scenario 3 bulk sales, exercised in 2017**
2016			
Marketing sales	2,654	4,742	2,629
2017			
Marketing sales	2,386	2,287	4,400
Revenue	3,167	5,652	5,652
Net profit	840	1,924	1,924
Impact on net profit (%)		129.0%	129.0%

Source: Danareksa Sekuritas

More leveraged than its peers

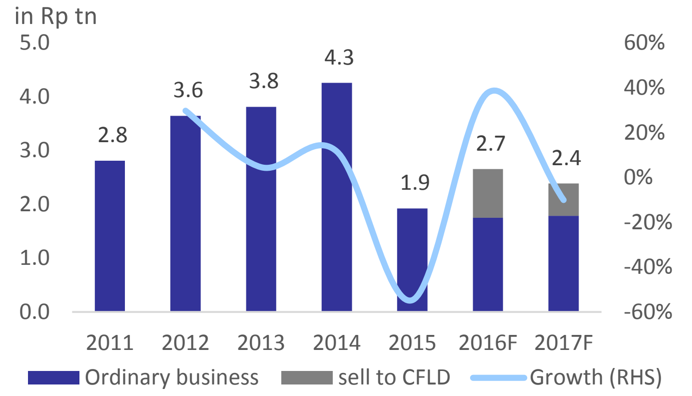
Among its peers, ASRI has the highest net gearing ratio (100.6% vs. 32.1%-100.6% for its peers in 9M16). Furthermore, around 75-80% of its total debt (FY 16: Rp7.9tn) is denominated in USD. Despite historically the interest expenses recorded in the profit and loss only account for 30-40% of the actual interest expense recorded by company, we estimate that the percentage to increase in 2017 following completion of four high rise projects (The Tower, Prominence, Kota Ayodya, and Paddington). Coupled with increasing gross debt, we estimate that the interest expense of ASRI to increase by 21.6% yoy in 2017 to Rp221bn.

Exhibit 3. NAV calculation

Land bank	Location	Stakes	Area (ha)	Plot ratio	Price per sqm (Rp mn/sqm)	Method	RNAV (Rp bn)
Alam Sutera	Tangerang		154.0			NAV	-
Residential	Tangerang	100.0%	107.8	65%	11.2	NAV	7,828
Commerical	Tangerang	100.0%	46.2	65%	20.7	NAV	6,205
Pasar Kemis	Tangerang	100.0%	1,561.0			NAV	
Residential	Tangerang	100.0%	1,248.8	65%	1.9	NAV	15,090
Commerical	Tangerang	100.0%	312.2	65%	0.7	NAV	1,347
Cianjur	West Java	100.0%	80.0		0.1	At cost	80
Riau	Riau	100.0%	75.0		0.1	At cost	41
Sanur	Bali	100.0%	6.0		3.1	At cost	187
GWK, Badung	Bali	100.0%	63.0		0.0	At cost	31
Cikokol	Tangerang	100.0%	15.0		1.9	At cost	279
Others		100.0%	2.7		0.5	At cost	14
Investment property							
Mall and retail						DCF	818.0
Office for lease						DCF	207.0
Other						DCF	270.9
Office and Apartment							
Office (Prominence and The Tower)						DCF	1,109.5
Apartment (Kota Ayodya, Peddington)						DCF	284.2
Total net asset value							33,790.4
Net debts (Rp bn)							6,486.4
Advance from customer (Rp bn)							2,705.8
Net asset value (Rp bn)							24,598
Discount to NAV (%)							70%
Number of shares outstanding (bn shares)							19.6
Target price (Rp/share)							**380**

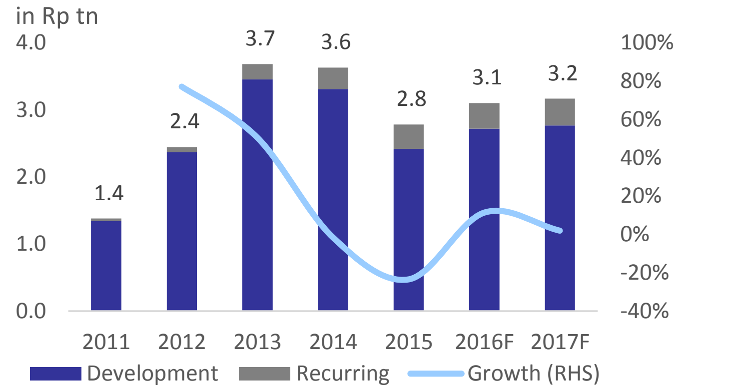
Source: Danareksa Sekuritas

Exhibit 4. Marketing sales



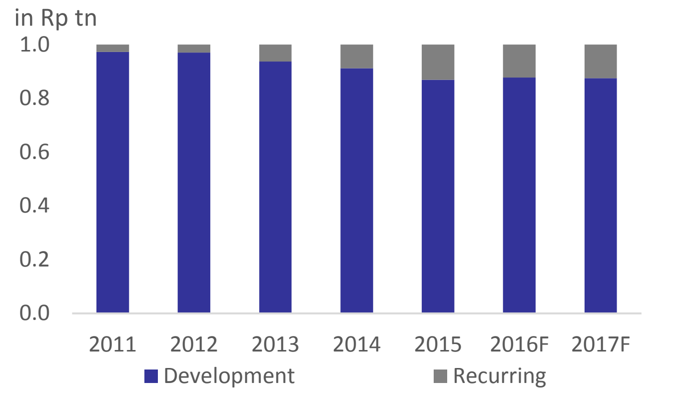
Source: Company, Danareksa Sekuritas

Exhibit 5. Revenues



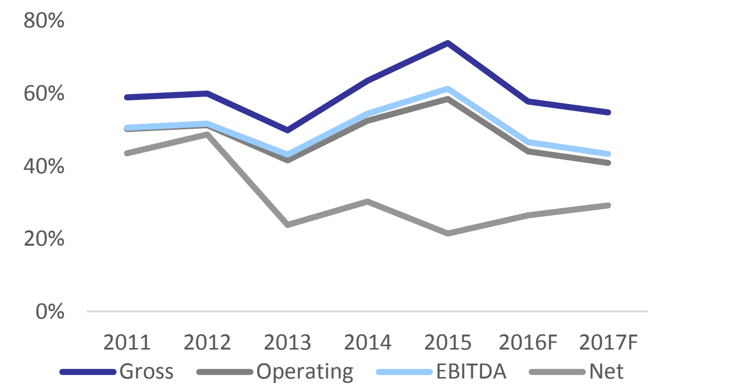
Source: Company, Danareksa Sekuritas

Exhibit 6. Contribution of development and recurring revenue



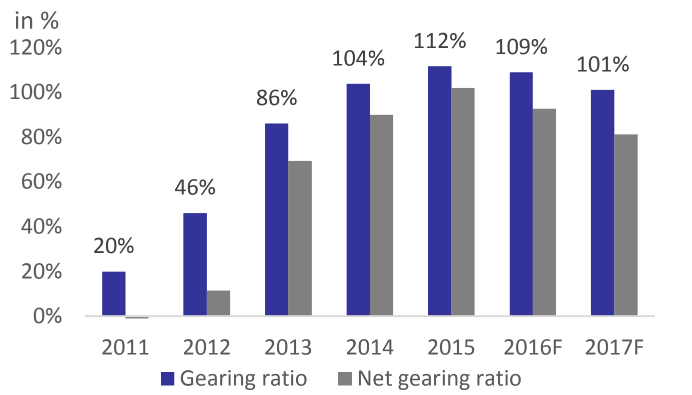
Source: Company, Danareksa Sekuritas

Exhibit 7. Profitability margin



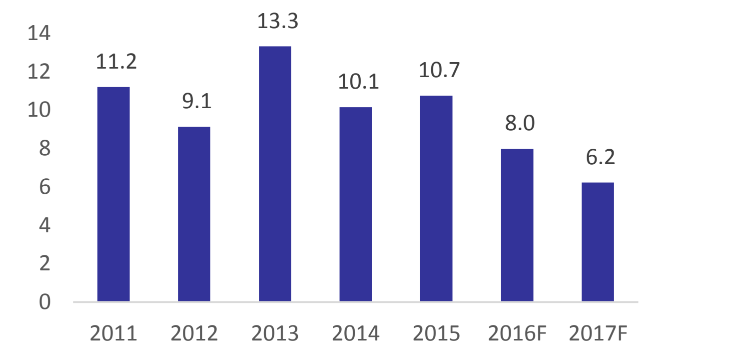
Source: Company, Danareksa Sekuritas

Exhibit 8. Net gearing ratio



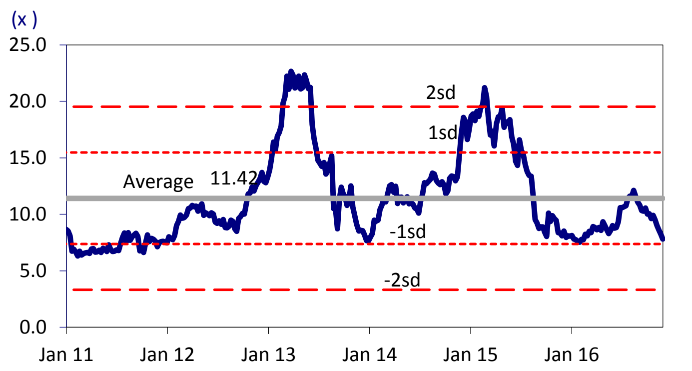
Source: Company, Danareksa Sekuritas

Exhibit 9. EBITDA coverage



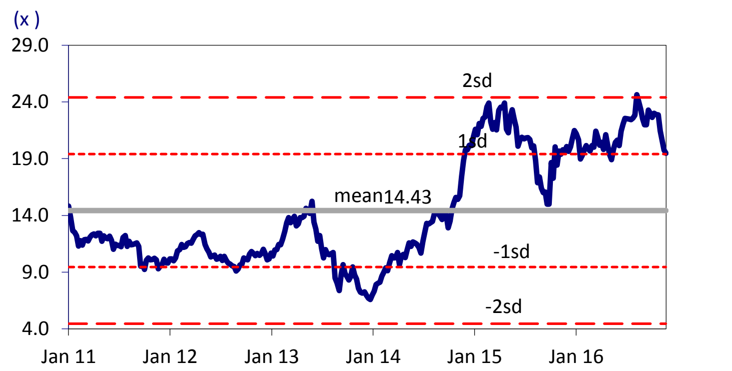
Source: Company, Danareksa Sekuritas

Exhibit 10. PE band Company



Source: Company, Danareksa Sekuritas, Bloomberg

Exhibit 11. PE band Sector



Source: Company, Danareksa Sekuritas, Bloomberg

Exhibit 12. Income Statement (in Rp bn)

	2014	2015	2016F	2017F	2018F
Revenues	3,631	2,784	3,103	3,167	3,823
Cost of good sold	(1,324)	(728)	(1,310)	(1,432)	(1,597)
Gross profit	2,307	2,056	1,793	1,734	2,226
Operating expense	(399)	(428)	(425)	(439)	(477)
Operating profit	**1,908**	**1,628**	**1,368**	**1,295**	**1,749**
Other income (charges)	(476)	(726)	(224)	(108)	(79)
Profit before tax	1,431	902	1,144	1,187	1,670
Tax	(254)	(217)	(203)	(127)	(148)
Minority	(80)	(88)	(121)	(136)	(195)
Net profit	**1,097**	**597**	**820**	**924**	**1,327**
Core profit	1,448	1,144	1,039	1,012	1,643

Source: Company, Danareksa Sekuritas

Exhibit 13. Balance Sheet (in Rp bn)

	2014	2015	2016F	2017F	2018F
Cash and equivalent	881	638	1,192	1,584	2,559
Account Receivables	191	151	202	241	291
Inventories	931	1,156	1,179	1,201	1,224
Other current asset	1,186	754	625	499	511
Total current asset	**3,188**	**2,699**	**3,198**	**3,525**	**4,584**
Land for development	7,367	8,481	8,698	8,947	9,121
Fixed assets-net	958	1,097	1,244	1,393	1,547
Investment properties	1,079	1,042	1,016	989	961
Others	4,333	5,391	6,143	6,387	6,634
Total non-current asset	**13,736**	**16,011**	**17,101**	**17,716**	**18,263**
Total Assets	**16,924**	**18,710**	**20,299**	**21,241**	**22,847**
Trade payable	161	1,033	603	621	692
Sales advances	1,850	1,847	1,904	1,943	1,964
Other current liabilities	792	872	885	989	1,415
Total current liabilities	**2,803**	**3,752**	**3,392**	**3,553**	**4,071**
Sales advances	185	181	181	181	181
Bank loans	230	1,072	1,436	1,641	1,496
Bonds payable	6,376	6,218	6,293	6,135	6,151
Others	959	884	1,724	1,739	1,859
Total non-current liabilities	**7,750**	**8,355**	**9,634**	**9,696**	**9,687**
Minority interest	253	148	148	148	148
Shareholders equity	6,118	6,454	7,126	7,844	8,941
Total Liabilities & Equity	**16,924**	**18,710**	**20,299**	**21,241**	**22,847**

Source: Company, Danareksa Sekuritas

Exhibit 14. Statement of cash flow (in Rp bn)

	2014	2015	2016F	2017F	2018F
Net Income	1,097	597	820	924	1,327
Depreciation	70	78	79	78	74
Minority interest	80	(105)	-	-	-
Net working capital	(1,620)	(512)	(122)	(103)	(42)
Net operating cash flow	**(373)**	**57**	**778**	**899**	**1,359**
Short term investments	67	80	60	-	-
Investment property	(27)	1	(10)	(10)	(10)
Fixed assets	(191)	(182)	(190)	(190)	(190)
Others	(1,407)	(590)	(491)	(249)	(174)
Net investment cash flow	**(1,558)**	**(691)**	**(631)**	**(449)**	**(374)**
+/- in Bank loan	185	919	481	305	205
+/- in Bonds	1,890	(107)	165	(115)	69
+/- in Equity	-	(125)	-	-	-
Dividend paid	(138)	(135)	(149)	(205)	(231)
Others	(16)	(161)	(90)	(44)	(53)
Net financing cash flow	**1,921**	**391**	**407**	**(58)**	**(10)**
Changes in cash	(9)	(242)	554	392	975
Beginning balance	**890**	**881**	**638**	**1,192**	**1,584**
Ending balance	**881**	**638**	**1,192**	**1,584**	**2,559**

Source: Company, Danareksa Sekuritas

Exhibit 15. Ratios (in %)

	2014	2015	2016F	2017F	2018F
Gross margin	63.5	73.9	57.8	54.8	58.2
Operating margin	52.5	58.5	44.1	40.9	45.8
Pre-tax margin	39.4	32.4	36.9	37.5	43.7
Net margin	30.2	21.4	26.4	29.2	34.7
ROA	6.5	3.3	4.2	4.4	6.0
ROE	17.9	9.5	12.1	12.3	15.8
Net gearing	89.9	101.9	92.5	81.2	63.1

Source: Company, Danareksa Sekuritas

MARKET NEWS

Bank Mandiri targets 15% micro lending growth in 2017

Bank Mandiri (BMRI) has set a target of 15% growth for micro lending in 2017 from expansion of KUR. BMRI's retail banking director said that KUR accounted for 21% or Rp10tn of the total micro loans in 3Q16 which reached Rp47tn (+13.5% yoy). The bank said that it would also focus on salary loans and expects to increase to 40% from 30% currently of its total micro loans. (Kontan)

KINO targets 8% yoy revenues growth in 2017

Kino Indonesia (KINO) targets flat FY16 revenues of Rp3.6tn. Going into 2017, the company targets FY17 revenues growth of 8% yoy, stemming from a greater variety of products and increased exports. This year, the company has allocated higher advertising and promotional expenses of 16-17% (from only 14% in the previous year) with Rp250bn of capex. (Kontan)

WSKT targets net profits of Rp2.6-2.8tn in 2017

Waskita Karya (WSKT) is targeting a 53%-64.7% yoy increase in net profits in 2017F of Rp 2.6-2.8tn (2016F: 1.7tn). Based on the management's guidance, new contracts in 2017F will increase by 5.2% to Rp 80tn (2016F: Rp 76tn) and the carry over in 2017F will be around Rp 84tn. As a result, the management is targeting Rp164tn of total contracts next year. 80% of the new contracts will be toll road projects. (Kontan)

MDLN has achieved its 2016 marketing sales target

Modernland Realty (MDLN) has already managed to generate Rp4.3tn of marketing sales this year, beating its marketing sales target of Rp4.2tn, thanks to land sales of Rp3.4tn to a JV of Astra Modern Land (comprising Astra International, Hongkong Land, and Mitra Sindo Makmur, a subsidiary of MDLN). The JV will develop the land as mixed use projects. The company plans to launch the projects next year. (Kontan)

LPKR aims for 20% revenues growth in 2017

Lippo Karawaci (LPKR) is optimistic that it can record 20% revenues growth in 2017, higher than the expected revenues growth in 2016 of 13%. Including mall sales in Yogyakarta, the company hopes to book higher growth of 24% in 2017. At the moment, LPKR is mulling the idea of selling a mall in Bali worth Rp760bn. If this transaction is executed, the company would record 22% revenues growth this year. For its development revenues, LPKR will launch a mid-low project named Urban Homes with 5,000-10,000 units available for sale. The price per unit will be around Rp500mn. The company will launch Urban Homes in Lippo Karawaci, Lippo Cikarang, and other existing land bank. (Investor Daily)

ADHI will develop a water purification project in 2017

Adhi Karya (ADHI) will expand its activities and develop a water purification project next year. The project requires initial equity of Rp4tn. (Kontan)

Equity Valuation	Rating	Price (Rp)	Price Target	Mkt Cap	Net profit, Rp bn		EPS (Rp)		Core EPS (Rp)		EPS Growth		PER (x)		EV / EBITDA (x)		PBV (x)		Net Gearing	RO
				Rp Bn	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2016
Danareksa Universe				**2,855,125**	**146,561**	**170,605**	**293.1**	**341.2**			**5%**	**16%**	**19.5**	**16.7**	**23.3**	**20.8**	**2.8**	**2.5**		**15.5**
Auto				**308,687**	**15,508**	**18,375**	**311.9**	**369.5**			**7%**	**18%**	**19.9**	**16.8**	**14.5**	**12.4**	**2.2**	**2.0**		**11.7**
Astra International	HOLD	7,625	8,400	308,687	15,508	18,375	383	454	360	435	7%	18%	19.9	16.8	14.5	12.4	2.2	2.0	27.1	11.7
Banks				**975,482**	**74,614**	**91,514**	**732.3**	**898.1**			**0%**	**23%**	**13.1**	**10.7**			**1.9**	**1.7**		**16.2**
BCA	HOLD	14,525	16,300	358,114	18,931	20,806	768	844	768	844	5%	10%	18.9	17.2	N/A	N/A	3.5	3.0	N/A	19.6
BNI	HOLD	5,025	6,100	93,710	10,494	13,698	563	735	563	735	16%	31%	8.9	6.8	N/A	N/A	1.1	0.9	N/A	12.7
BRI	BUY	10,925	14,500	269,511	26,092	31,100	1,058	1,261	1,058	1,261	3%	19%	10.3	8.7	N/A	N/A	1.8	1.6	N/A	20.1
Bank Tabungan Negara	BUY	1,635	2,300	17,315	2,200	2,572	208	243	208	243	19%	17%	7.9	6.7	N/A	N/A	0.9	0.7	N/A	13.6
Bank Mandiri	HOLD	10,150	11,250	236,833	16,898	23,339	724	1,000	724	1,000	-17%	38%	14.0	10.1	N/A	N/A	1.5	1.4	N/A	12.4
Cement				**127,071**	**8,046**	**6,008**	**414**	**309**			**-13%**	**-25%**	**15.8**	**21.2**	**9.9**	**10.5**	**2.2**	**2.1**		**14.6**
Indocement	SELL	14,625	15,900	53,838	3,960	2,873	1,076	780	1,069	774	-9%	-27%	13.6	18.7	9.3	9.8	2.1	2.1	net cash	16.1
Semen Indonesia	SELL	8,200	8,900	48,638	3,850	3,031	649	511	643	504	-15%	-21%	12.6	16.0	7.4	8.1	1.7	1.6	3.4	14.0
Semen Baturaja	SELL	2,500	400	24,594	236	103	24	11	24	11	-33%	-56%	104.0	237.7	60.1	47.2	7.9	7.7	net cash	7.8
Cigarettes				**574,915**	**18,145**	**19,608**	**153**	**166**			**8%**	**8%**	**31.7**	**29.3**	**21.4**	**19.7**	**7.9**	**7.3**		**25.4**
Gudang Garam	HOLD	62,425	70,400	120,111	6,342	6,860	3,296	3,565	3,296	3,565	-1%	8%	18.9	17.5	11.8	11.0	3.1	2.7	46.6	16.4
HM Sampoerna	HOLD	3,910	3,850	454,804	11,803	12,749	101	110	101	109	14%	8%	38.5	35.7	28.6	26.1	13.6	13.2	net cash	36.1
Construction				**128,489**	**6,602**	**8,166**	**91**	**113**			**36%**	**24%**	**19.5**	**15.7**	**10.7**	**9.2**	**2.6**	**2.3**		**15.3**
Wijaya Karya	BUY	2,440	4,300	21,085	758	900	123	146	123	146	21%	19%	19.8	16.7	10.4	8.6	4.2	3.7	24.6	16.2
Pembangunan Perumahan	BUY	3,960	5,700	19,176	967	1,295	200	267	211	298	31%	34%	19.8	14.8	9.4	7.2	3.7	3.0	net cash	20.2
Adhi Karya	BUY	1,920	3,500	6,837	703	986	208	292	216	303	52%	40%	9.2	6.6	5.0	3.9	1.1	0.8	net cash	12.2
Waskita Karya	BUY	2,350	3,700	31,898	1,688	2,344	124	173	124	173	61%	39%	18.9	13.6	13.7	9.7	2.9	2.4	20.2	16.4
Waskita Beton	BUY	565	770	14,894	547	788	21	30	21	30	64%	44%	27.2	18.9	16.1	12.3	2.1	1.9	net cash	13.1
Wika Beton	BUY	810	1,300	7,060	268	362	31	42	31	42	54%	35%	26.3	19.5	14.2	10.3	2.9	2.6	net cash	11.5
Jasa Marga	BUY	4,050	5,700	27,540	1,671	1,492	246	219	249	223	14%	-11%	16.5	18.5	10.2	11.3	2.3	2.1	143.1	15.0
Consumer				**407,428**	**10,506**	**12,110**	**507**	**584**			**15%**	**15%**	**38.8**	**33.6**	**27.4**	**23.8**	**17.2**	**16.5**		**45.0**
Indofood CBP	BUY	8,275	10,850	96,502	3,714	4,293	319	368	319	368	24%	16%	26.0	22.5	18.2	15.8	5.8	5.7	net cash	22.5
Unilever	HOLD	40,200	46,650	306,726	6,563	7,555	860	990	860	990	12%	15%	46.7	40.6	33.2	28.8	58.7	53.1	28.9	130.6
Kino Indonesia	BUY	2,940	4,500	4,200	229	262	160	183	160	183	-32%	14%	18.4	16.0	10.6	9.7	2.2	1.9	3.9	12.3
Healthcare				**80,479**	**2,490**	**2,743**	**97**	**106**			**11%**	**9%**	**32.3**	**29.3**	**20.8**	**18.5**	**5.8**	**5.1**		**19.0**
Kalbe Farma	SELL	1,410	1,400	66,094	2,210	2,441	47	52	47	52	10%	10%	29.9	27.1	19.0	17.1	5.6	5.0	net cash	19.9
Kimia Farma	SELL	2,590	1,510	14,385	279	302	50	54	48	52	12%	8%	51.5	47.6	34.8	29.0	7.0	6.2	33.7	14.3
Heavy Equipment				**81,690**	**4,481**	**5,676**	**1,201**	**1,522**			**16%**	**27%**	**18.2**	**14.4**	**6.5**	**5.1**	**2.1**	**1.9**		**12.0**
United Tractors	HOLD	21,900	23,500	81,690	4,481	5,676	1,201	1,522	1,231	1,556	16%	27%	18.2	14.4	6.5	5.1	2.1	1.9	net cash	12.0
Mining				**170,433**	**4,311**	**5,355**	**54**	**67**			**1%**	**24%**	**39.5**	**31.8**	**10.3**	**9.4**	**1.5**	**1.5**		**3.9**
Adaro Energy	HOLD	1,640	800	52,457	1,781	1,980	56	62	56	62	-13%	11%	29.4	26.5	7.3	6.7	1.3	1.3	18.9	4.6
Timah	HOLD	1,235	590	9,198	180	196	24	26	24	26	78%	9%	51.1	46.8	12.3	11.3	1.7	1.6	26.0	3.3
Vale Indonesia	HOLD	3,370	2,800	33,485	222	480	22	48	22	48	-67%	116%	150.7	69.7	14.1	12.1	1.4	1.4	net cash	0.9
Aneka Tambang	HOLD	965	650	23,190	(307)	(147)	(13)	(6)	(13)	(6)	-79%	-52%	(75.6)	(157.4)	29.9	26.2	1.3	1.3	18.0	(1.7)
Bukit Asam	BUY	11,800	8,800	27,189	1,610	1,834	741	844	741	844	-21%	14%	15.9	14.0	11.4	9.7	2.7	2.4	net cash	16.7
Indo Tambangraya Megah	HOLD	16,450	8,400	18,587	947	1,106	838	979	838	979	14%	17%	19.6	16.8	6.2	5.5	1.6	1.6	net cash	8.4
Harum Energy	HOLD	2,340	790	6,326	(123)	(95)	(45)	(35)	(45)	(35)	-540%	-22%	(51.6)	(66.5) -	54.0 -	66.2	1.7	1.8	net cash	(3.2)
Retail				**80,930**	**4,347**	**3,794**	**127**	**111**			**48%**	**-13%**	**18.6**	**21.3**	**13.6**	**12.2**	**5.6**	**5.2**		**31.9**
Mitra Adi Perkasa	HOLD	4,790	4,200	7,951	97	221	72	126	58	103	212%	75%	66.8	38.1	9.4	8.5	2.6	2.5	99.8	3.2
Ramayana	BUY	1,180	1,350	8,373	396	468	56	66	54	64	18%	18%	21.0	17.8	15.5	13.7	2.4	2.3	net cash	11.6
Matahari Department Store	BUY	14,100	21,500	41,143	3,152	2,362	1,071	803	704	803	75%	-25%	13.2	17.6	13.7	12.1	20.1	16.9	net cash	199.6
Matahari Putra Prima	HOLD	1,700	1,700	9,143	129	185	24	34	29	40	-30%	44%	71.2	49.4	16.2	13.9	3.1	3.0	net cash	4.5
Ace Hardware	SELL	835	750	14,320	573	558	34	33	31	30	-3%	-3%	24.9	25.5	16.7	16.8	4.9	4.5	net cash	20.7

Danareksa Snapshot

COVERAGE PERFORMANCE

LEADERS

	Code	Price as on 25-Nov-2016	24-Nov-2016	Chg, %	w-w, %	m-m, %	YTD, %	Rating
Wijaya Karya	WIKA	2,440	2,360	3.4	3.4	(0.2)	(0.2)	BUY
Bukit Asam	PTBA	11,800	11,425	3.3	6.1	(1.9)	160.8	BUY
Waskita Karya	WSKT	2,350	2,290	2.6	1.3	(10.3)	40.7	BUY
Timah	TINS	1,235	1,205	2.5	17.6	39.5	144.6	HOLD
Indocement	INTP	14,625	14,300	2.3	(1.8)	(11.2)	(34.5)	SELL
United Tractors	UNTR	21,900	21,475	2.0	2.8	3.8	29.2	HOLD
Semen Indonesia	SMGR	8,200	8,050	1.9	(2.7)	(17.8)	(28.1)	HOLD
HM Sampoerna	HMSP	3,910	3,840	1.8	2.9	(2.0)	4.0	HOLD
Indo Tambangraya Megah	ITMG	16,450	16,200	1.5	11.7	13.4	187.3	HOLD
Astra International	ASII	7,625	7,525	1.3	(2.9)	(6.7)	27.1	HOLD

Sources: Bloomberg

LAGGARDS

	Code	Price as on 25-Nov-2016	25-Nov-2016	Chg, %	w-w, %	m-m, %	YTD, %	Rating
Kimia Farma	KAEF	2,590	2,690	(3.7)	18.8	21.0	197.7	SELL
Bank Rakyat Indonesia	BBRI	10,925	11,300	(3.3)	(5.0)	(10.5)	(4.4)	BUY
Indofood CBP	ICBP	8,275	8,550	(3.2)	(9.1)	(13.1)	22.8	BUY
Kalbe Farma	KLBF	1,410	1,445	(2.4)	(3.8)	(18.5)	6.8	SELL
Matahari Department Store	LPPF	14,100	14,400	(2.1)	(7.2)	(22.1)	(19.9)	BUY
Adhi Karya	ADHI	1,920	1,950	(1.5)	(3.5)	(12.7)	(10.3)	BUY
Mitra Adi Perkasa	MAPI	4,790	4,850	(1.2)	(0.2)	(12.9)	26.2	HOLD
Bank Tabungan Negara	BBTN	1,635	1,650	(0.9)	(1.5)	(14.8)	26.3	BUY
Vale Indonesia	INCO	3,370	3,400	(0.9)	8.4	28.1	106.1	BUY
Pembangunan Perumahan	PTPP	3,960	3,990	(0.8)	(2.5)	(3.4)	2.2	BUY

Sources: Bloomberg

Disclaimer