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Research Center

Morning KISI/

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Residential & Commercial

Rising rate environment to squeeze valuation

Signs of fatigue in marketing sales

Property developers' marketing sales are on track to match or surpass the high levels seen in 2021. However, the **FY22F aggregate marketing sales level is still going to be 5-6% lower than the peak seen in 2013 and 2014, despite all-time low mortgage rates.** We see a risk of marketing sales reverting back to lower levels after property transaction incentives are not extended beyond 30Sep2022 as BSDE, SMRA, and CTRA managed to sell off ~12-29% of their respective inventories and propped up their marketing sales by 8-27% in both FY21 and 9M22. **Low affordability by end buyers** (as indicated by high property-to-income ratio), **expectations of higher mortgage rates, and currently declining consumer confidence index (CCI)** amid global recession fears **put a dampener on next year's marketing sales.**

Refinancing risks looming large again despite better fundamentals

Back in 2020, most property developers managed to push their debt maturities (especially global bonds) back several years to 2024 & 2025 to alleviate concerns on their cashflows commitment during covid-19 pandemic. **Considering the tightening global liquidity and negative perception, particularly on real estate companies, we foresee another challenging time for those who require to do liability management (i.e. refinancing) next year.** **Strong USD also adds a burden to property developers with high FX debt exposure.**

Negative implications from rising rate environment

Historically, rising rate environment has negatively impacted property stocks' performance, despite a not-so-significant direct impact on property developers' revenue and earnings. As market expects Fed to raise rate aggressively for the next few quarters, Bank Indonesia (BI) may have to follow suit considering the narrowing yield gap and strong USD. **This would put downward pressure on property stocks' performance despite having been the top 2 laggards since the beginning of 2020.**

Downgrade sector call to NEUTRAL

We rolled forward our DCF valuations to FY23, resulting in 2-10% higher NAV for BSDE, CTRA, and SMRA respective NAVs. However, the **lack of catalysts and external pressures from macro environment negated the improving fundamentals** and better solvency on property stocks. From this backdrop, **we believe that property stocks under our coverage are currently trading at their fair discount to NAV (at -1 std dev of their respective 5-year mean).** CTRA's asset-light business model in this current market for its flexibility nationwide.

Residential & commercials property valuation

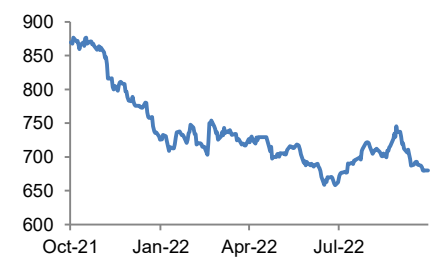
Ticker	Mkt. cap (IDR bn)	PB		PE		Earnings growth (%)		ROE (%)
		2022F	2023F	2022F	2023F	2022F	2023F	2022F
BSDE	19,266	0.6	0.6	15.1	10.3	(6.3)	45.5	4.4
CTRA	17,632	0.9	0.9	9.5	8.4	6.8	12.5	9.2
SMRA	9,327	1.0	0.9	25.9	11.0	11.1	135.3	4.1

Source: Bloomberg, KISI

Neutral (Downgrade)

Company	Rating	TP (IDR)
BSDE	HOLD	975 (+7%)
CTRA	HOLD	1,060 (+12%)
SMRA	HOLD	600 (+6%)

IDXPROP Index



Source: Bloomberg

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Market Commentary

Market Commentary

- JCI ended near flat after choppy day, swinging rapidly during the day due to lack of domestic catalyst amid weakening IDR. Global peers extended rebound as investor angst eased on UK govt. fiscal u-turn.
- The index opened higher, before erasing 50 pts early gain to close slightly lower to -10 pts. Hefty rebound in digital banks and gains in consumer shares were largely offset by the steep losses in commodity and tech shares.
- Coal miners plunged with PTBA IJ slumped as much as 7% on slowing exports and after Co. signed agreement to acquire PLN power plant as this may negatively affect dividend. ADRO IJ -2.52%, ITMG IJ -1.29%.
- Oversold digital banks clawed back after recent heavy selling, BBHI IJ gained 25% after hitting rock bottom in early trading, BBYB IJ +13.01%, ARTO IJ +5.34%.
- Top Gainers : AMRT (+8.00%), BBCA (+0.61%), BBHI (+25.00%)
- Top Losers: TLKM (-1.85%), GOTO (-0.96%), ASII (-1.17%)

News

Macroeconomic, Sector and Corporate News

- BBTN – Secured shareholders' approval for pre-emptive rights issue (planned to be executed on mid-Dec2022) of up to 4.6bn shares (~43% of capital). (Investor daily)
- BACA – Recorded 9M22 net profit of IDR18.8bn, down 8.3% YoY. (Kontan)
- WSKT – Secured 9M22 new contracts of IDR11.6tn, 46.4% of its FY22 target. (Kontan)
- BEBS – Plans for a 1:5 stock split. AGM: 24Nov2022. (Bisnis)
- IATA – Targets to raise IDR2.67tn from pre-emptive rights issue of up to 14.84bn shares (~130% of capital) @IDR180/sh. (Bisnis)
- AMRT – Operate a total of 11 solar power plants (PLTS) w/ total capacity of 784.92kWp at its various distribution centers, targets to add 10 more by end of 2023. (Bisnis)
- RAJA – Established a new subsidiary PT Banggai Ammonia Indonesia (with 40% stakes) to engage in basic organic chemical industry sourced from petroleum, nat. gas & coal. (Bisnis)
- ABDA – Mandatory tender offer by Aseana Insurance for 79.6mn ABDA shares (~12.8% stakes) @IDR6,803/sh. Period: 19Oct-17Nov2022. (Kontan)

Outliers

Outlier Stocks

- Sharp Movers (Up) : BBHI (+25%), FORU (+20%), APLN (+19.5%)
- Sharp Movers (Down) : AMMS (-9%), KIOS (-6.9%), PTBA (-6.8%)

Macro Calendar

October 19, 2022

Mon	Tue	Wed	Thu	Fri
3	4	5	6	7
Korea> Market closed (National Foundation Day) September exports and imports (announced October 1) US> September ISM manufacturing PMI China> Market closed (National Day)	US> August durable goods (F) China> Market closed (National Day)	OPEC+ ministerial meeting Korea> September CPI US> September ISM services PMI MBA mortgage applications China> Market closed (National Day)	US> New jobless claims China> Market closed (National Day)	US> September non-farm payrolls September jobless rate China> Market closed (National Day) September FX reserves
10	11	12	13	14
Korea> Market closed (substitute holiday for Hangul Day) US> Market closed (Columbus Day) China> September Caixin services PMI (announced October 8) Japan> Market closed (Sports Day)	OECD leading economic index	The OPEC Monthly Oil Market Report Korea> MPC meeting US> FOMC minutes release MBA mortgage applications September PPI	Korea> Stock options expiry US> September CPI Initial jobless claims	Korea> September jobless rate US> September retail sales October Michigan Consumer Confidence (P) China> September PPI September CPI September exports and imports September trade balance
17	18	19	20	21
US> October manufacturing index (New York) China> September mining and manufacturing production September retail sales September fixed asset investment 3Q22 GDP Japan> August mining and manufacturing production (F)	US> September industrial production	US> Fed Beige Book release MBA mortgage applications September housing starts Europe> September CPI (F)	US> Initial jobless claims September existing home sales China> PBOC LPR release	Japan> September CPI
24	25	26	27	28
	US> October Conference Board Consumer Expectations Index	US> September new home sales	Korea> 3Q22 GDP (A) US> Initial jobless claims September durable goods orders (P) 3Q22 GDP (A) Europe> ECB MPC meeting	US> September PCE October Michigan Consumer Confidence (F) Japan> BoJ MPC meeting
31				
Korea> September mining and manufacturing production China> October manufacturing PMI October services PMI Europe> October CPI (P) Japan> September manufacturing production (P)				

Note: 1) Figures in parentheses represent the latest reported figures, Bloomberg estimates and previous reported figures in that order. For example: Data (actual reported figures, Bloomberg estimate, previous reported figures). Bloomberg estimates are subject to change. 2) Earnings release date is from Bloomberg or company announcement