

# Indonesia Developers: Stronger Sales Won't Fix Everything

May 2021

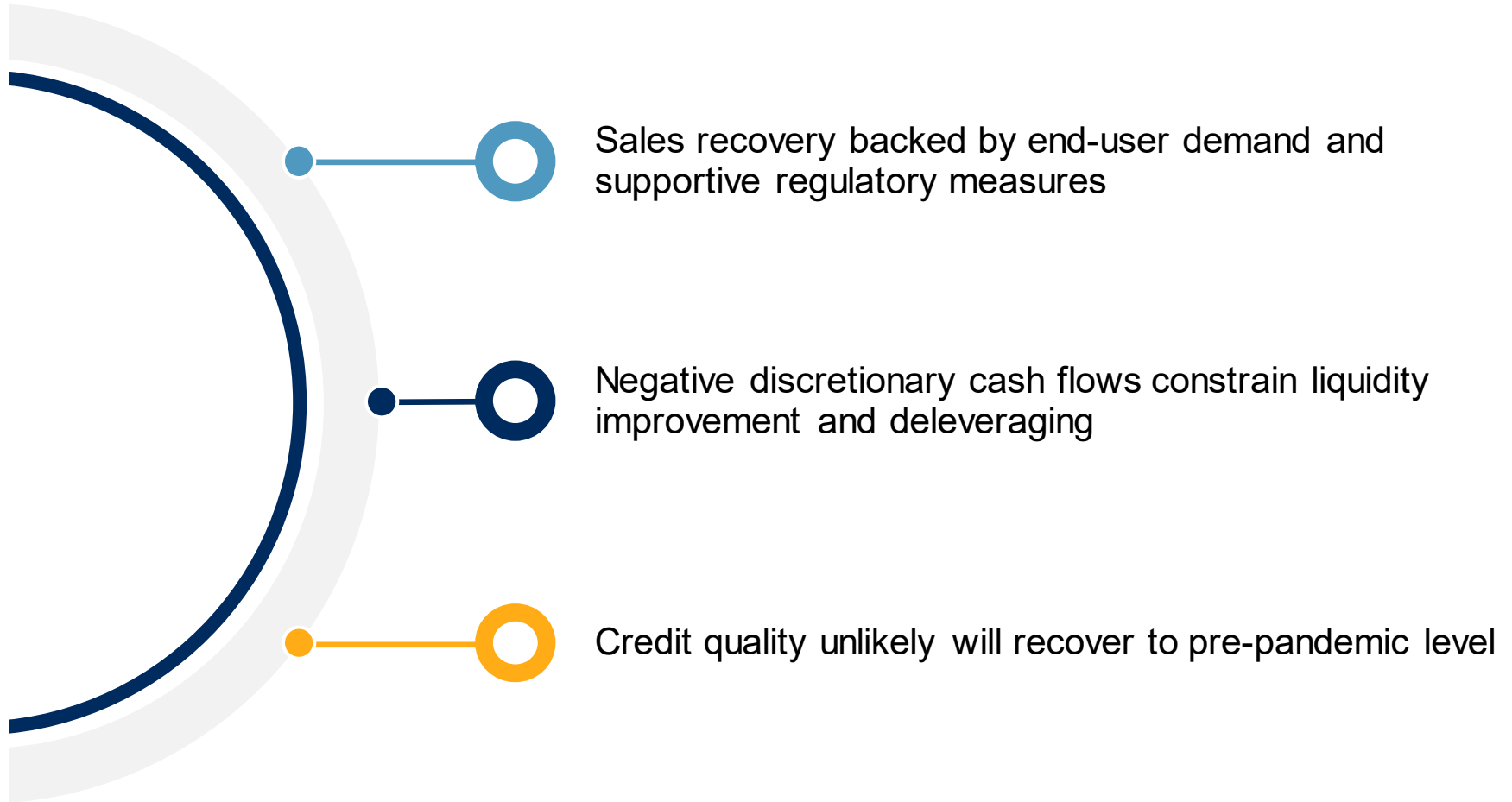
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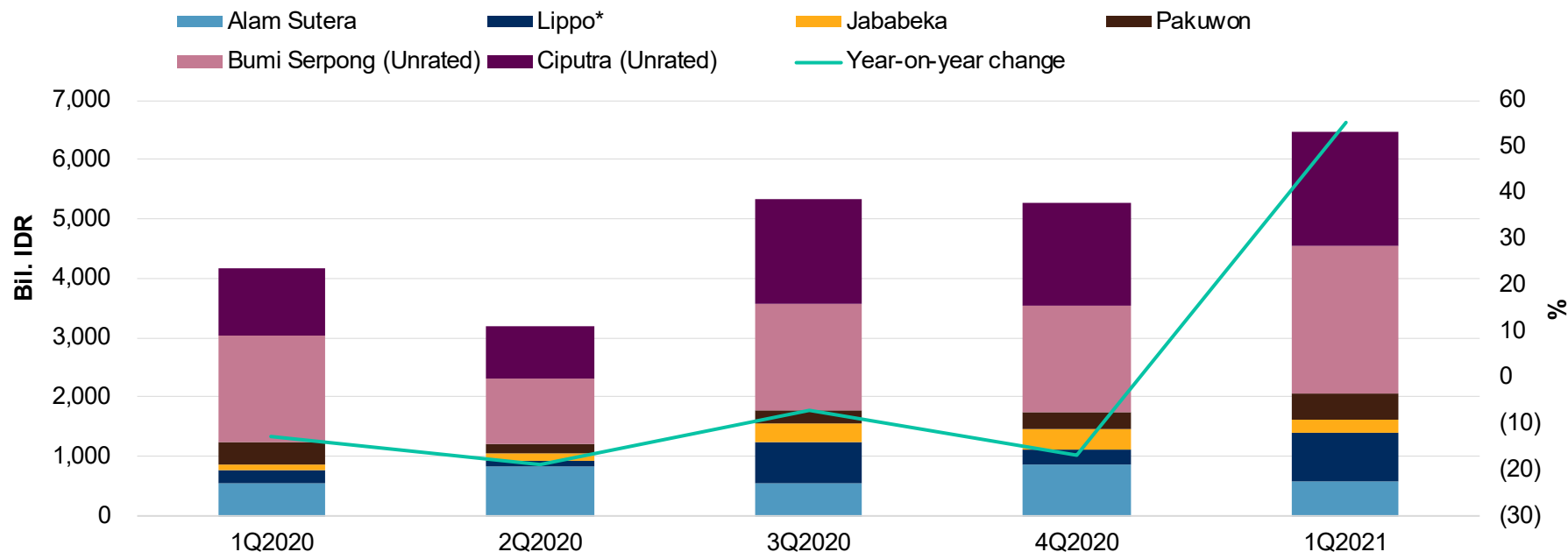
# Key Takeaways



# Sustained Sales Momentum Through 1Q2021

- Recovery since 2H2020 driven by pent-up demand and promotional activities
- Developers are shifting strategy to focus on affordable, landed residential projects to target end-users
- Demand for 2021 fueled by supportive regulatory measures

## Sales Picked Up For Most Developers Since 2H2020



\*Lippo's marketing sales represent sales generated at the holding company level. Bil.--Billion. IDR--Indonesian rupiah. Source: Company's sales result.

# Rated Developers' Sales Recovering Above 2019 Level

- Consolidated marketing sales to grow 24%-32% in 2021
- Varying sales performance depending on developers' residential product offering and reliance on land sales

## Rated Developers' Sales Forecast For 2021

Marketing Sales, IDR billion	Developer's 2021 target	Our 2021 estimates	2021f vs 2020a	2020a	2020a vs 2019a	2019a
Alam Sutera	3,200	2,800-3,000	0% to 7%	2,794	-10%	3,112
Lippo Karawaci*	2,200	2,100-2,200	66% to 74%	1,263	143%	519
Jababeka	1,400	1,200-1,300	34% to 45%	898	-46%	1,663
Pakuwon	1,400	1,300-1,400	27% to 36%	1,026	-32%	1,503
<b>Aggregate</b>	<b>8,200</b>	<b>7,400-7,900</b>	<b>24% to 32%</b>	<b>5,981</b>	<b>-12%</b>	<b>6,797</b>

\*Lippo's marketing sales represent sales generated at the holding company level. Bil.--Billion. IDR--Indonesian rupiah. a--Actual. f--Forecast. Source: S&P's estimate and company's sales result.

# Easing Regulatory Measures Support 2021 Sales

Supportive regulatory measures include:

- VAT reduction (March to August)
- Record low mortgage rate
- Accelerated mortgage disbursement to developers
- Reduced down-payment for mortgage loan (higher loan-to-value ratio)

## Temporary VAT Reductions To Boost Sales Of Existing Inventory

Housing categories	VAT reductions
Below IDR2 billion per unit	100%
Between IDR2 billion-IDR5 billion per unit	50%

IDR--Indonesian rupiah. VAT--Value-added tax. Source: S&P Global Ratings' estimates.

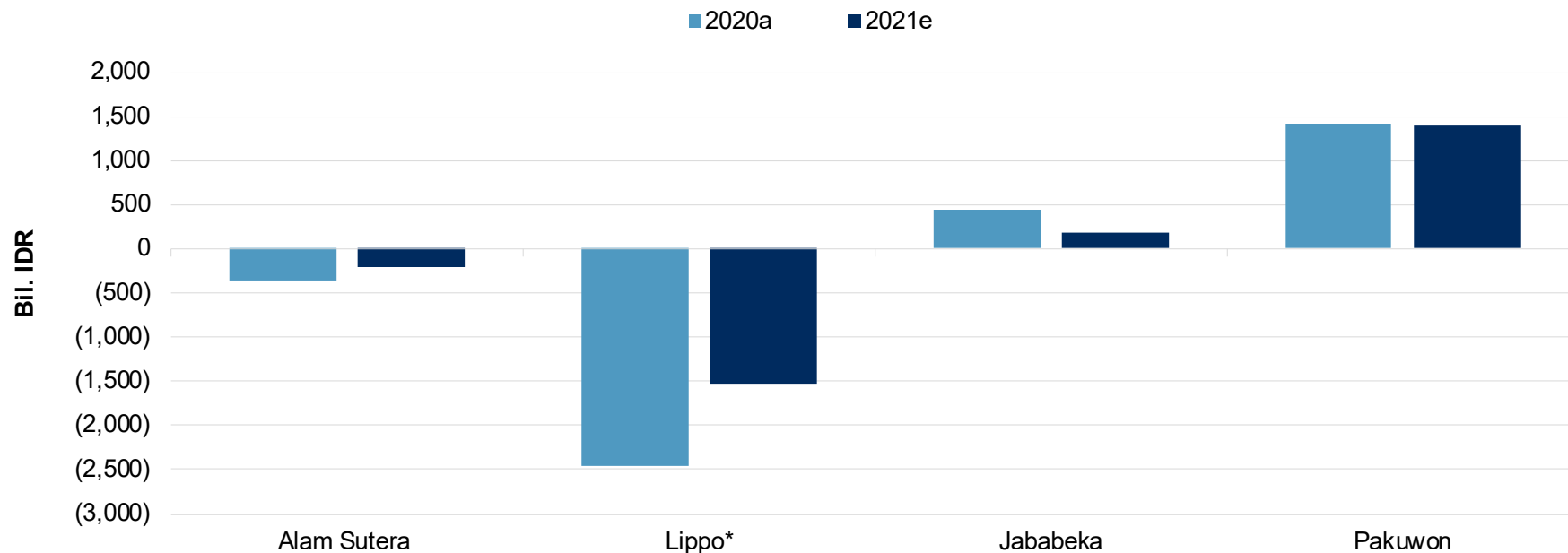
## Lippo And Pakuwon To Benefit The Most

Rated developers	Value of ready-for-sale inventories priced below IDR5 billion
Pakuwon	Over IDR2 trillion
Lippo	Over IDR1.5 trillion
Alam Sutera	Over IDR700 billion
Jababeka	Not material

Source: S&P Global Ratings' estimates.

# Higher Construction Costs Constrain Operating Cash Flow Generation

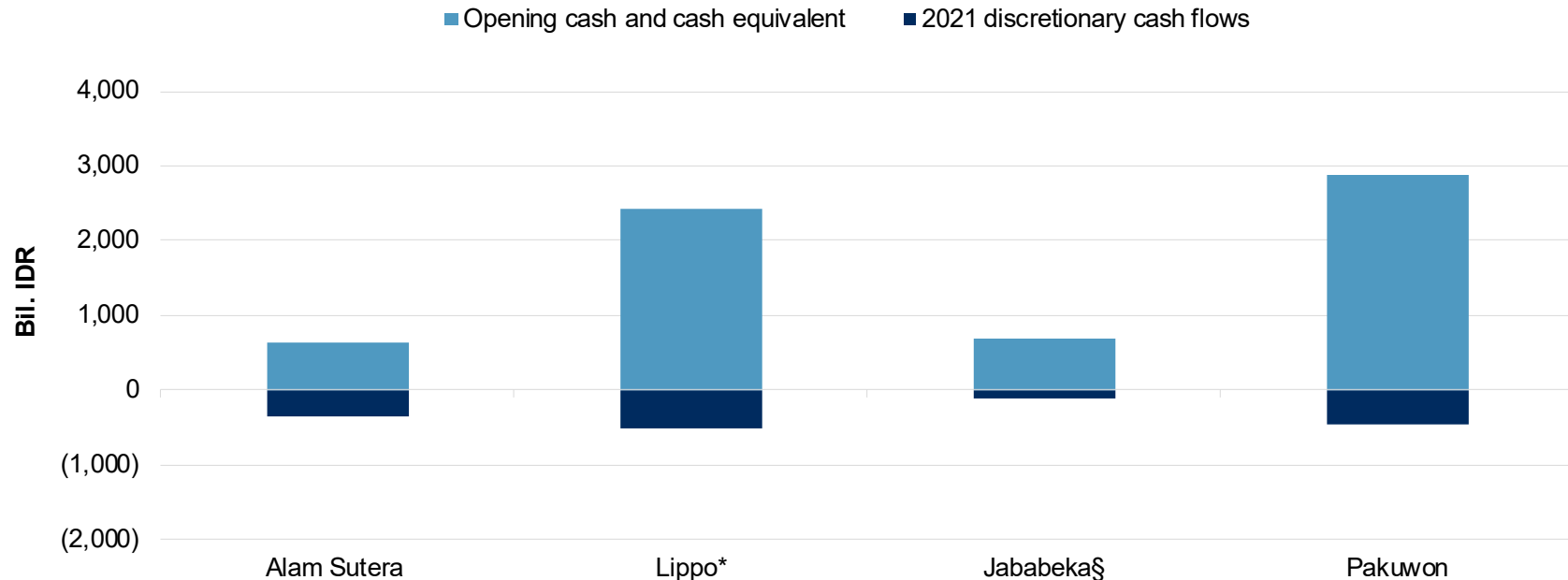
## Cash Flow From Operations Across Developers To Stay Muted Despite Higher Sales



Cash flow from operations include interests paid. \* Lippo's cash flow from operations exclude one-off Puri mall sale. Bil.--Billion. IDR--Indonesian rupiah. a--Actual. e--Estimate. Source: S&P Global Ratings.

# Liquidity Remains Tight, Pressure Reduced From 2020

## Discretionary Cash Flow To Stay Negative Across All Developers, Eroding Cash on Hand

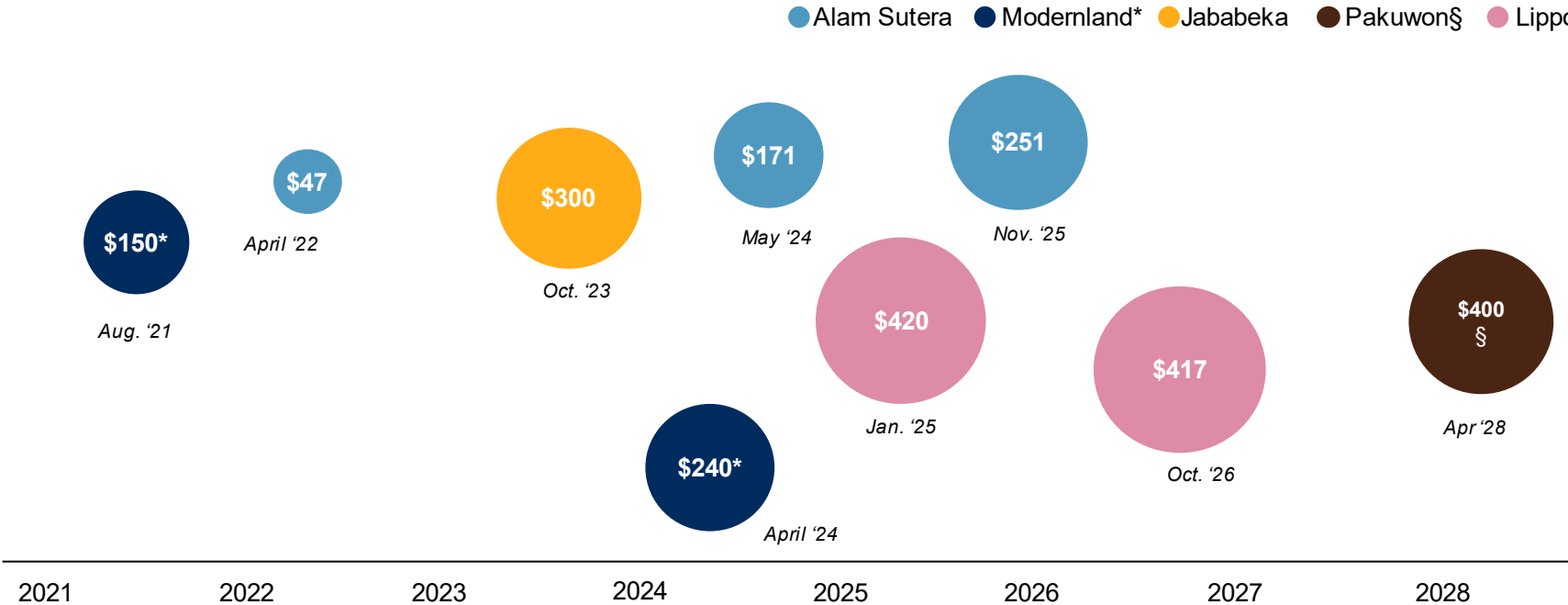


\*Reflect Lippo's holding company performance. Lippo's discretionary cash flow include one-off Puri mall sale, assuming net proceeds of IDR 1 trillion. §Jababeka's cash balance excludes JV's. Bil.--Billion. IDR--Indonesian rupiah. Source: S&P Global Ratings.

# Refinancing Risks Are Limited For Next 12-18 Months

## Funding Environment Remains Selective And Challenging

Outstanding US\$ bond maturities (mil. US\$)



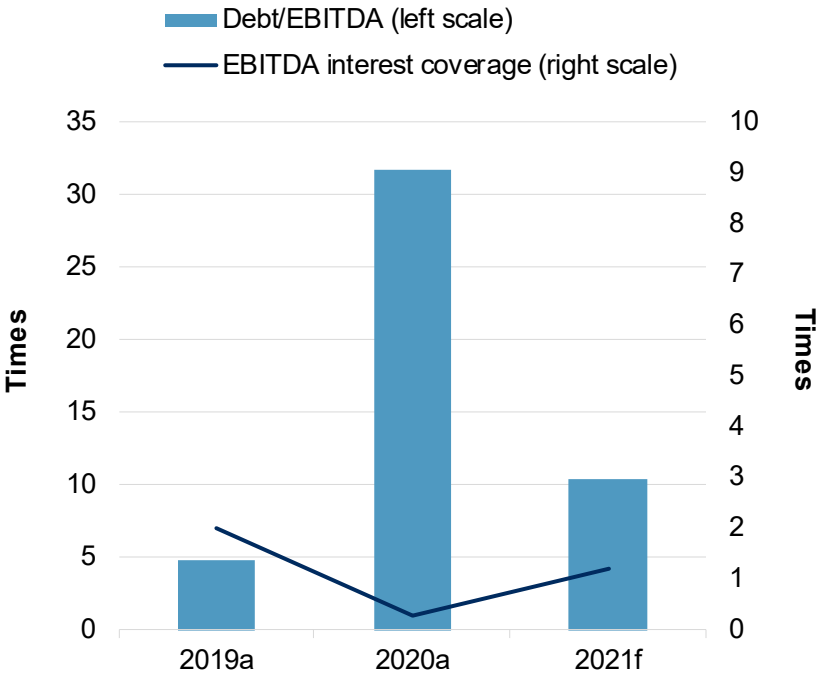
\*Modernland is in the midst of discussion with bondholders on potential restructuring terms. §Pakuwon refinanced its 2024 note with US\$400 million bond due in April 2028. Data as of May 17, 2021. Mil.--Million. Source: Bloomberg.



# Recovery Of Credit Ratios To Lag Behind Sales

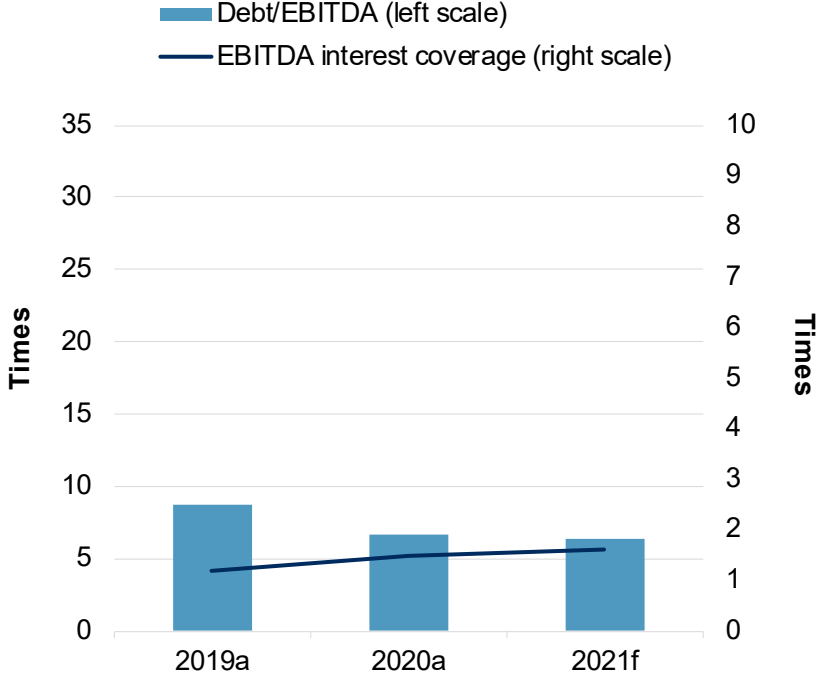
- EBITDA in 2021 constrained by slow sales in 2020, construction delays, and change in accounting standard
- Leverage to remain high across most developers while interest servicing remains thin

## Alam Sutera's Credit Ratios



a--Actual. f--Forecast. Source: S&P Global Ratings.

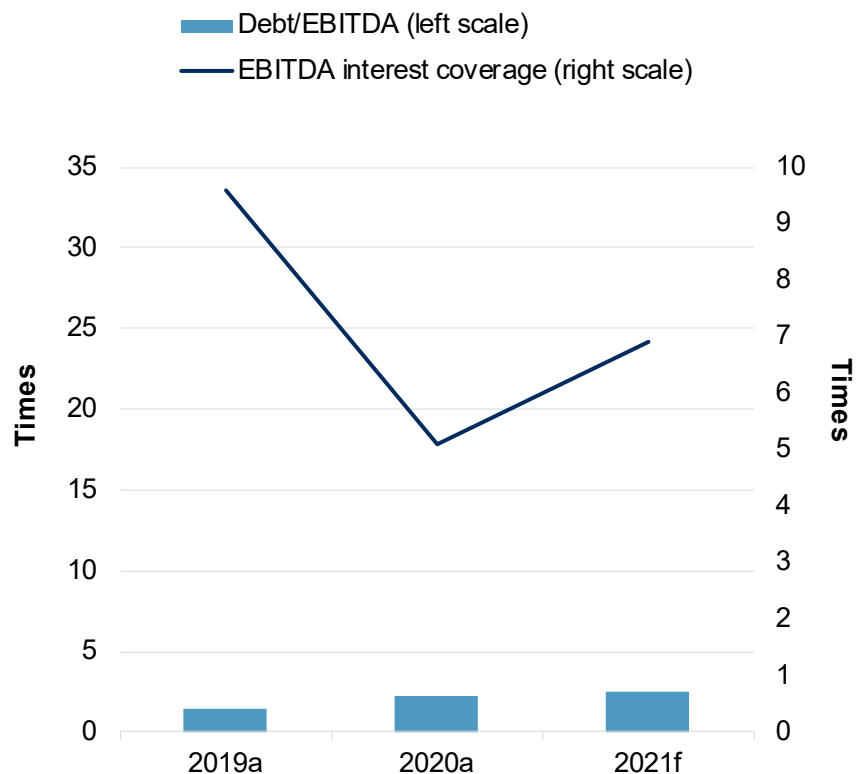
## Jababeka's Credit Ratios



a--Actual. f--Forecast. Source: S&P Global Ratings.

# Recovery Of Credit Ratios To Lag Behind Sales (Cont'd)

## Pakuwon's Credit Ratios

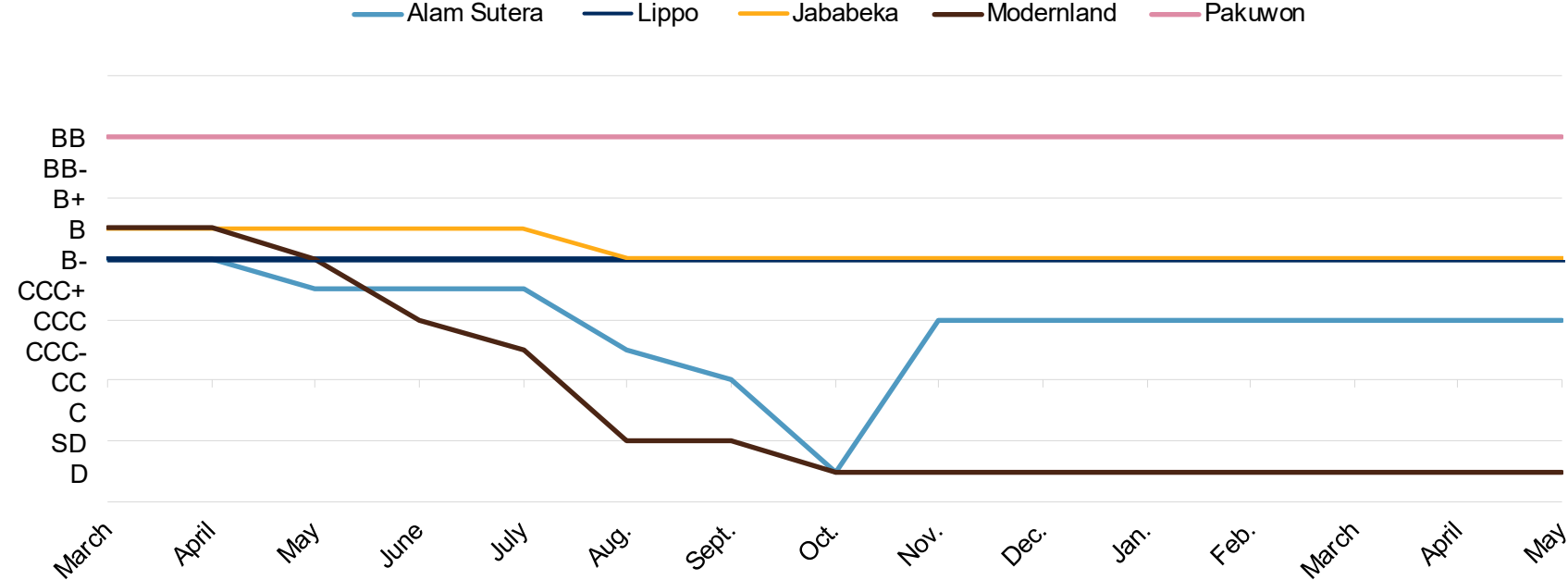


a--Actual. f--Forecast. Source: S&P Global Ratings.

# Rating Volatility Has Declined From A Year Ago

- Ratings have stabilized for 'B' rated developers
- Modernland's debt restructuring ongoing

## Rating History of Indonesia Property Developers



Source: S&P Global Ratings.

# PT Alam Sutera Realty Tbk. (CCC/Negative/--)

## Key Rating Drivers

- Previously launched an exchange offer to address 2021 and 2022 notes, which we viewed as a distressed exchange
- Continued weak liquidity over the next 12-18 months
- Negative discretionary cash flow will reduce cash available for debt repayment

## Key S&P Assumptions

	<u>2021 (IDR billion)</u>
Marketing & land sales	2,800 to 3,000 (2020: 2,800)
Discretionary cash flow	Negative 300 to negative 400
Cash and cash equiv.	625 (end Dec 2020)

## Key Monitoring Events

- Resolution of the outstanding US\$47 million 2022 notes

## Downside Scenario

- If company does not fully address the maturities of the residual 2022 notes by third quarter of 2021.
- If company undertakes capital market transactions related to its 2022 notes that we assess as constituting a distressed exchange, such as capital market purchases below par.

Rating as of May. 17, 2021. IDR--Indonesian rupiah. Source: S&P Global Ratings.

# PT Lippo Karawaci Tbk. (B-/Stable/--)

## Key Rating Drivers

- Cash burn to substantially ease in 2021
  - Improving sales visibility
  - Reduced rental support to First REIT and LMIRT
  - Increase in dividends backed by higher stake in LMIRT and distribution from Siloam
  - Lower construction costs from 2022 as legacy high-rise projects to complete by 2Q 2021
- No major debt maturity before 2025

## Key Monitoring Events

- Progress of marketing sales and take-up of new launches for the rest of the year
- Execution of further non-core asset sales

## Key S&P Assumptions

Holdco level	<u>2021 (IDR billion)</u>
Marketing & land sales	2,100 to 2,200 (2020: 1,260)
Discretionary cash flow	Negative 500 to negative 600
Puri Mall sales proceed	1 trillion
Cash on hand	~2,400 (end Dec 2020)

## Downside Scenario

- Unsustainable cash flow that requires continued asset sales to sustain cash balance
- Inadequate liquidity cushion to service more than a year of fixed interest and rental charges
- Cash on hand (Hold Co.) plus annual operating cash flow below IDR2 trillion

Rating as of May. 17, 2021. IDR--Indonesian rupiah. Source: S&P Global Ratings.

# PT Kawasan Industri Jababeka Tbk. (B-/Stable/--)

## Key Rating Drivers

- COVID-19 reduced land sales visibility
- Thin interest servicing capability and negative free operating cash flow
- Recurring EBITDA covers 60%-70% annual interest obligation
- Limited liquidity headroom at the consolidated (excluding joint ventures) level

## Key Monitoring Events

- Pace of resumption in land sales to domestic and international buyers
- Outcome of next AGM

## Key S&P Assumptions

	<u>2021 (IDR billion)</u>
Marketing & land sales	1,200 to 1,300 (2020: 899)
Discretionary cash flow	Negative 100 to negative 200
Cash and cash equiv.	680§ (end Dec 2020)

## Downside Scenario

- Cash balance insufficient to cover annual interest costs
- Liquidity sources decline materially below 1.0X of uses
- Ongoing lawsuit and shareholder tussle affects company's liquidity or repayment schedule

\* Marketing sales include that of Joint Ventures. §Cash balance at wholly owned consolidated level, excluding JVs. Rating as of May. 17, 2021. IDR--Indonesian rupiah. Source: S&P Global Ratings.

# PT Pakuwon Jati Tbk. (BB/Stable/--)

## Key Rating Drivers

- Adequate financial and liquidity buffer to ride out the pandemic
- No refinancing risks for the next five years
- High recurring EBITDA-to-interest ratio of over 3x provides downside resilience
- Established brand in Jakarta and Surabaya but limited scale constrains rating
- Risks in geographical and sector concentration

## Key Monitoring Events

- Recovery of marketing sales
- Retail mall traffic footfall and potential rental waivers
- Potential acquisitions

## Key Assumptions

	<u>2021 (IDR billion)</u>
Marketing & land sales	1,300 to 1,400 (2020: 1,026)
Discretionary cash flow	Negative 300 to negative 500
Cash and cash equiv.	2,886 (end Dec 2020)

## Downside Scenario

- Debt-to-EBITDA ratio consistently above 2.5x
- Departs from its cautious financial policies, resulting from a steep rise in capital spending or sizable land acquisitions
- Credit profile of Pakuwon's parent company deteriorates due to rising debt

Rating as of May. 17, 2021. IDR--Indonesian rupiah. Source: S&P Global Ratings.

# PT Modernland Realty Tbk. (D)

## What Happened

- Inability to convert land sales receivables to cash
- Weak marketing sales in 1H 2020
- Depleted cash balance by June 2020
- Failed to repay domestic notes of IDR150 billion, matured on July 7, 2020
- Failed to pay US\$8 million coupon due on Aug. 30, 2020
- Failed to pay US\$8.3 million due on Oct. 13, 2020
- Applied and extended the moratorium on the 2021 and 2024 notes

## Key Monitoring Events

- Company in discussion with bondholders on restructuring terms such as security coverage, for both US\$ notes
- Possible extension of moratorium beyond May

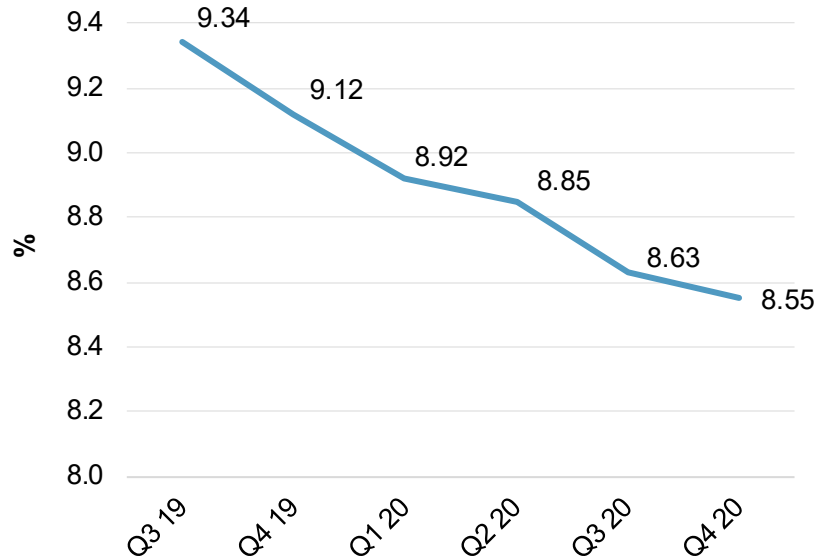
*Rating as of May. 17, 2021. ICR--issuer credit rating. IDR--Indonesian rupiah. Source: S&P Global Ratings.*



# Appendix – Indonesia Property Sector Indicators

## Multi-Year Low Mortgage Rate To Stimulate Property Purchase

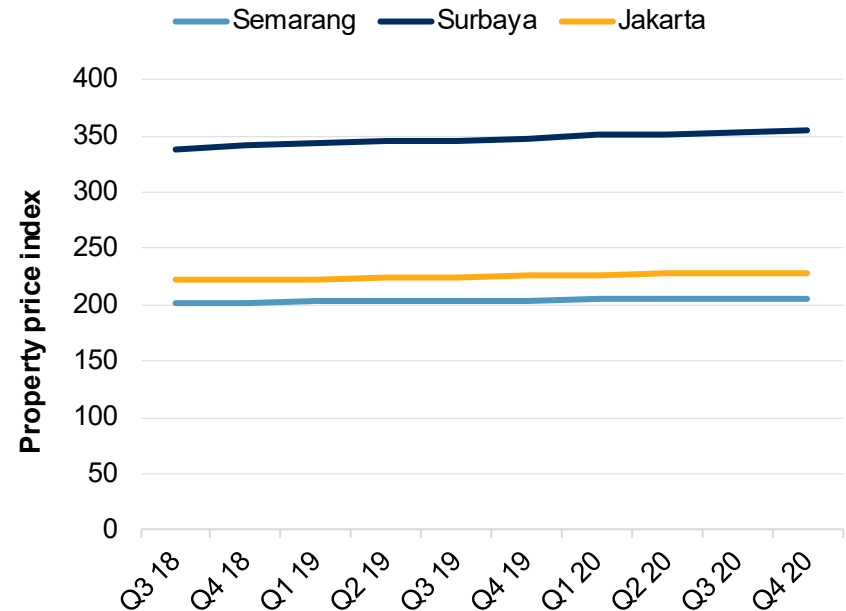
Mortgage rate



Q1--First quarter. Q2--Second quarter. Q3--Third quarter. Q4--Fourth quarter.  
Source: Bank of Indonesia: Residential property survey.

## Property Price Index Remains Stable In Key Cities

Indonesia residential property price index (quarterly)



Q1--First quarter. Q2--Second quarter. Q3--Third quarter. Q4--Fourth quarter.  
Source: Bank of Indonesia: Residential property survey.

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