Update On Southeast Asia Property

External Conditions Squeeze Developers

S&P Global Ratings

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This report does not constitute a rating action

Key Takeaways

- Indonesia developers have limited capacity to deleverage owing to slower sales, higher construction costs, and capex.
- Indonesia developers will continue to rely on domestic funding as offshore funding environment remains challenging and funding cost remains high.
- Vietnam developers' liquidity risk remains high due to the constrained access to funding and a sales slowdown.
- Prime commercial real estate in Singapore remains resilient, despite higher-than-average office supply and macroeconomic headwinds.

Indonesia

S&P Global
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Main Assumptions: Indonesia Developers

	2022	Looking into 2023
GDP growth	5.3%	4.9%
Inflation	4.2%	4.1%
Consumer sentiment	Recovered from COVID lows	Turning cautious on macro headwinds
Marketing sales growth	5%	Negative 5%
Capital spending	Has picked up slightly from 2021 but still conservative	Polarizing capex trend. Companies with higher recurring income may conduct selective expansionary capex or opportunistic acquisitions
Funding conditions	Improved domestic funding sentiment compared to during COVID; cautious sentiments in offshore markets	Similar to 2022

Source: S&P Global Ratings.

Negative Factors Slightly Outweigh Supporting Factors

Drivers of sales:

Mortgage rates remain low compared with pre-pandemic

Down payment relaxations extended to end-2023

Demand for landed residential projects

Factors constraining sales growth:

Lack of further policy support

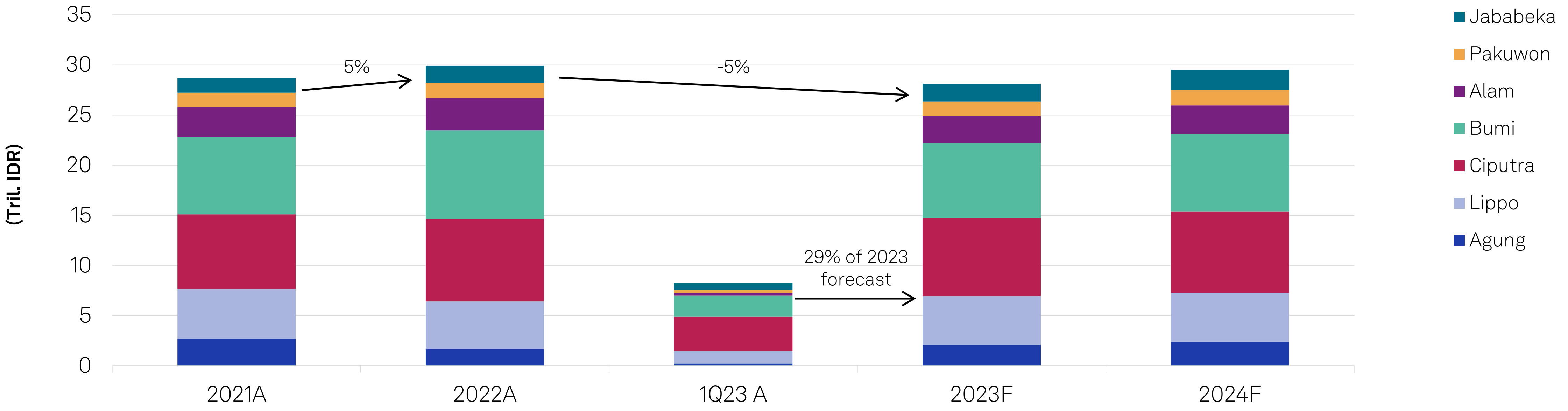
Inflation impact on consumers' purchasing power

Further mortgage rate hikes

Muted Property Sales In The Absence Of Fresh Catalysts

- Absent new policy incentives, heightened inflation will weigh on consumer sentiment in 2023.
- Increase in foreign investment from North Asia may support further recovery in land sales (e.g. for Jababeka)

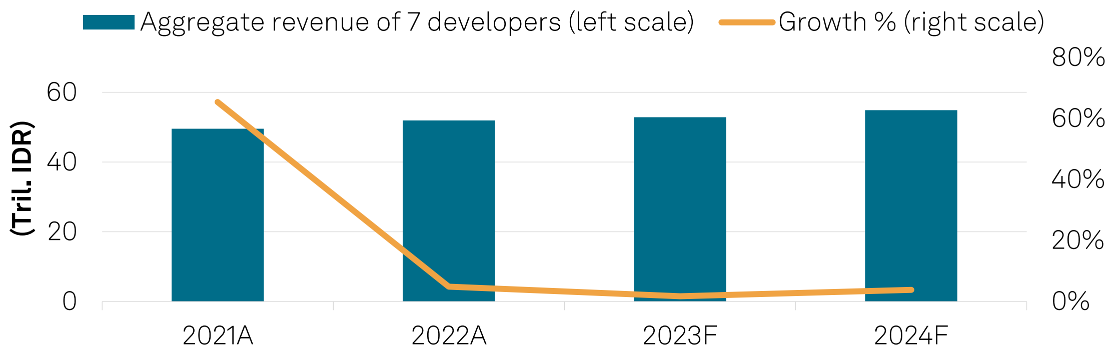
Marketing sales momentum for most Indonesia developers to slow



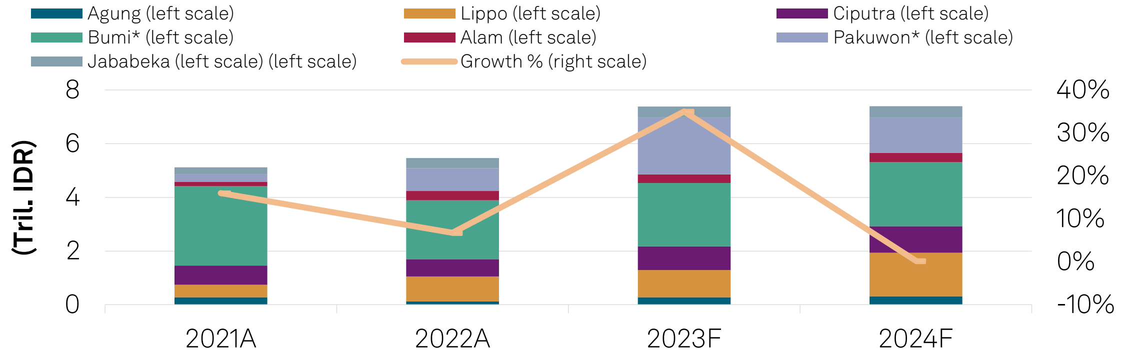
Forecasts represents S&P estimates for rated developers (Pakuwon--PT Pakuwon Jati Tbk., Jababeka--PT Kawasan Industri Jababeka Tbk.) and for unrated developers (including Lippo--PT Lippo Karawaci Tbk., Ciputra --PT Ciputra Development Tbk., Bumi--PT Bumi Serpong Damai Tbk., Alam--PT Alam Sutera Realty Tbk., Agung--PT Agung Podomoro Tbk.) Tril.--Trillion. IDR--Indonesian rupiah. F--Forecast.
Sources: Company's disclosure, S&P Global Ratings.

Limited Capacity To Deleverage Due To Slower Sales And Higher Capex

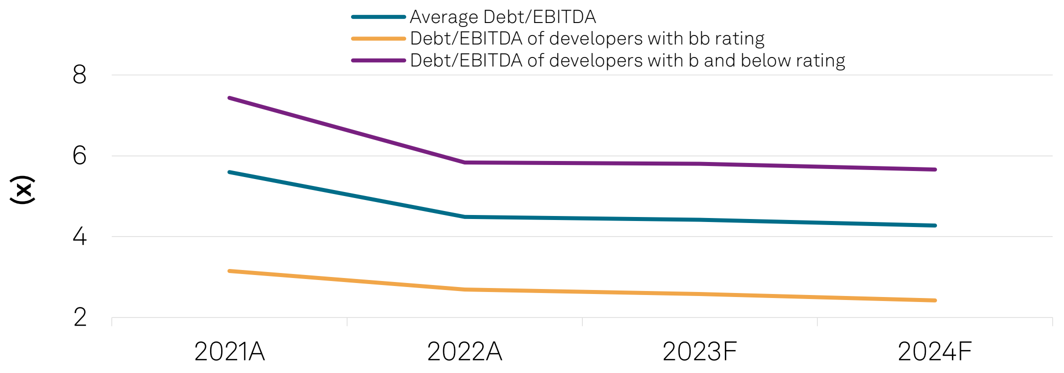
Soft revenue growth in 2023 due to muted sales



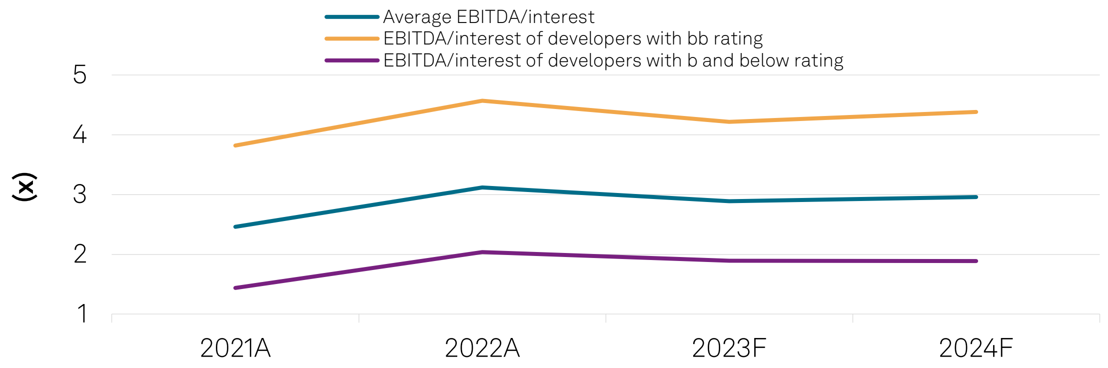
Developers with higher recurring income to drive capex growth



Debt leverage to stabilize



Interest coverage ratio to weaken in 2023

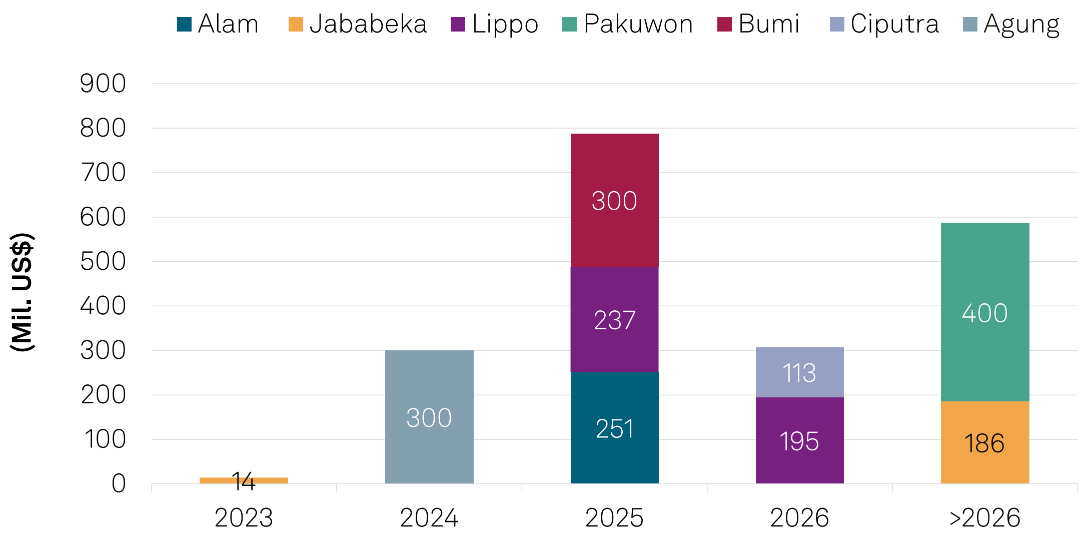


*Companies with large recurring income. Forecasts represents S&P estimates for rated developers (Pakuwon--PT Pakuwon Jati Tbk., Jababeka--PT Kawasan Industri Jababeka Tbk.) and for unrated developers (including Lippo--PT Lippo Karawaci Tbk., Ciputra--PT Ciputra Development Tbk., Bumi--PT Bumi Serpong Damai Tbk., Alam--PT Alam Sutera Realty Tbk.,Agung--PT Agung Podomoro Tbk.) Tril.--Trillion. IDR--Indonesian rupiah. F--Forecast. Sources: Company's disclosure, S&P Global Ratings.

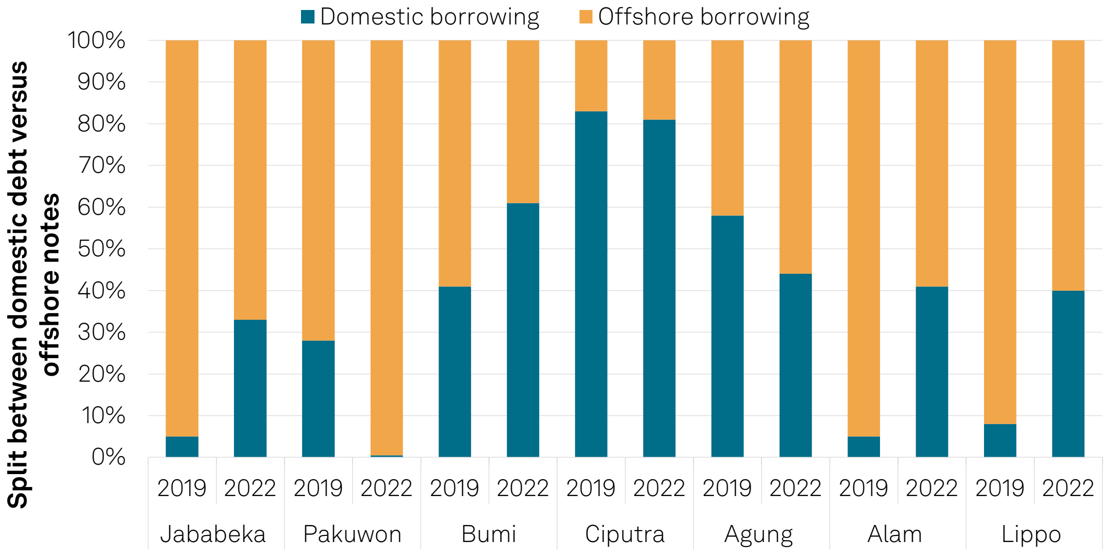
Developers Will Continue To Rely On Onshore Bank Loans

- Developers have turned to domestic bank loans to partially meet refinancing needs over the past 12 months
- This trend will likely continue due to the constrained offshore funding environment and higher borrowing costs.
- Domestic markets may not fully satisfy refinancing needs to address the offshore maturity wall in 2025.

Modest offshore notes maturities till 2025



Domestic borrowing forming a larger part of capital structure



Lippo--PT Lippo Karawaci Tbk. Ciputra--PT Ciputra Development Tbk. Bumi--PT Bumi Serpong Damai Tbk. Alam--PT Alam Sutera Realty Tbk. Agung--PT Agung Podomoro Tbk. Pakuwon--PT Pakuwon Jati Tbk. Jababeka--PT Kawasan Industri Jababeka Tbk. Mil.--Million. US$--United States Dollar. Sources: Bloomberg, Company's disclosure, S&P Global Ratings.

Key Credit Themes And Metrics For Indonesian Developers

PT Kawasan Industri Jababeka Tbk. (CCC+/Stable/--)

ESG Credit Indicator (E-3, S-2, G-4)

Key Rating Drivers

- Sustainability of cash flow and capital structure will depend on favorable market conditions in the context of the continuous erosion of its cash position at the consolidated level, excluding joint ventures.
- High reliance on lumpy industrial land sales.

Key S&P Assumptions

- Contracted & land sales* (Bil. IDR)
  - Fiscal 2023: 1,800 to 1,900
- % of land sales: About 75% in 2023
- EBITDA margin: ~35%

Key Monitoring Events

- Jababeka's cash position in the next 12-18 months.
- Sales performance especially at the company level excluding joint ventures.

Downside Scenario

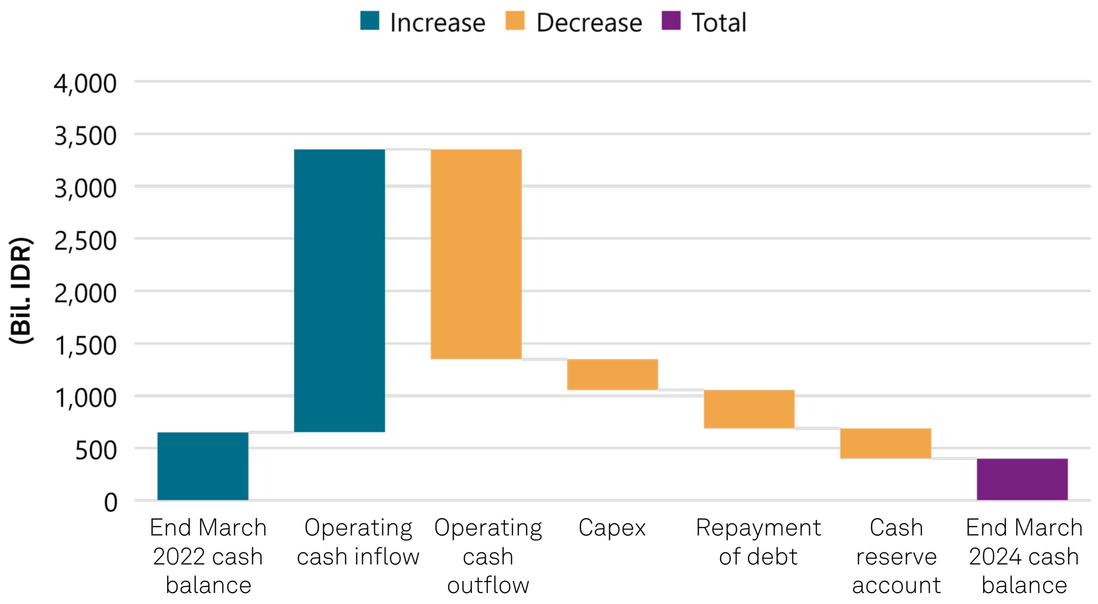
- Cash flow deficit deepens such that a default scenario becomes more likely.
- Cash proceeds from marketing sales are 15%-20% lower than our base case.

* Contracted sales include those from joint ventures. IDR--Indonesian rupiah. Bil.--Billion. Source: S&P Global Ratings.

Jababeka To Have Thin Cash Buffer Despite Improving Credit Ratios

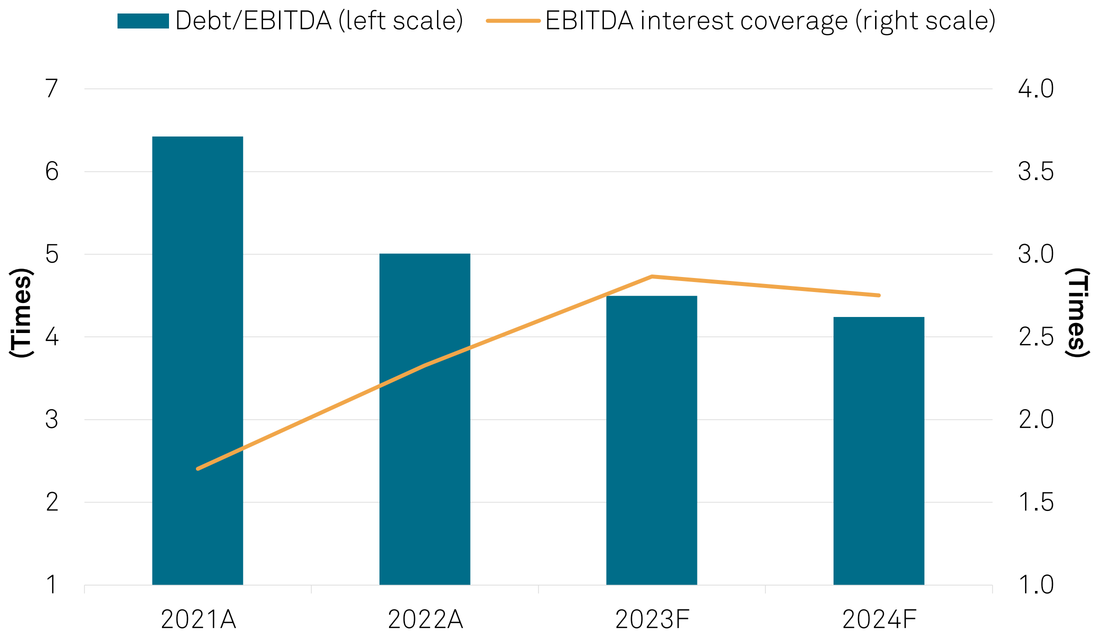
- Cash balance to gradually erode in the next 12-18 months due to loan amortization and to meet cash reserve account requirement.

Jababeka's liquidity remains tight



Jababeka's liquidity represent company's company level cash flow excluding JVs. Bil.--Billion. IDR--Indonesian rupiah. Capex--Capital expenditure. Source: Company's disclosure, S&P Global Ratings.

Jababeka's credit ratios improve from a weak level



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

ESG Credit Indicator (E-2, S-2, G-3)

Key Rating Drivers

- High recurring EBITDA interest coverage ratio of over 6x provides downside resilience. Relatively stable debt/EBITDA through the pandemic.
- Minimal refinancing needs until 2028.
- Established brand in Jakarta and Surabaya.
- Limited scale of operation.

Key S&P Assumptions

- Contracted & land sales (Bil. IDR)
  - Fiscal 2023: 1,435 to 1,500
- % of recurring EBITDA: 55%-60% in 2023
- EBITDA margin: 49%-50%

Key Monitoring Events

- Potential acquisitions and development of new townships/superblock.
- Retail mall traffic footfall and rental reversion trend.
- Revenue mix between development and recurring income.

Upside Scenario

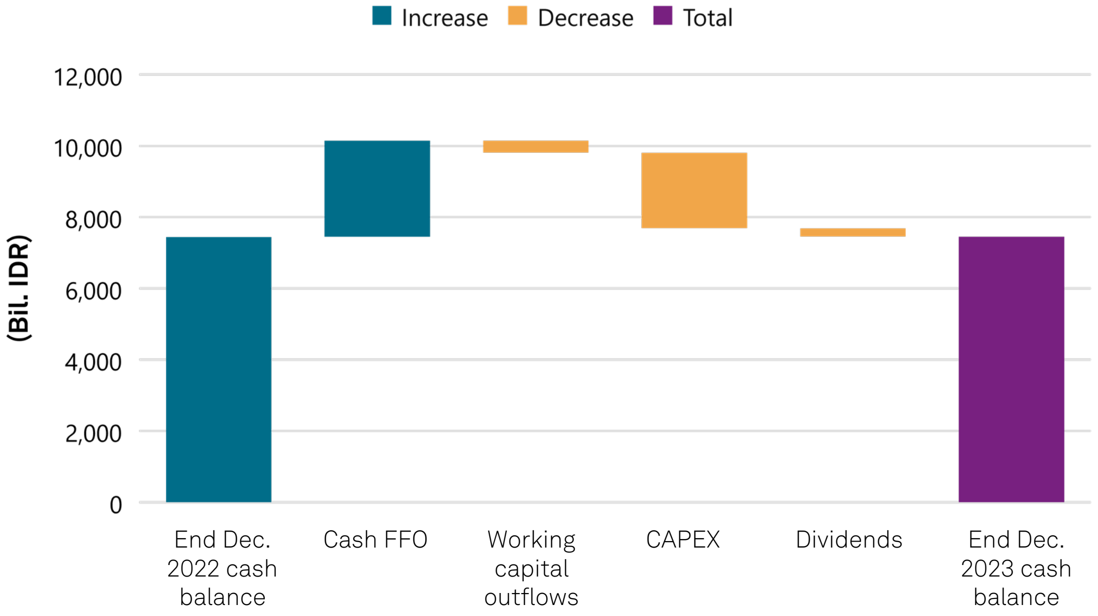
- Significantly expands operations and improves scale by diversifying projects.
- Maintains a substantial proportion of recurring revenue and Debt/EBITDA < ~2x sustainably.

IDR--Indonesian rupiah. Bil--Billion. Source: S&P Global Ratings.

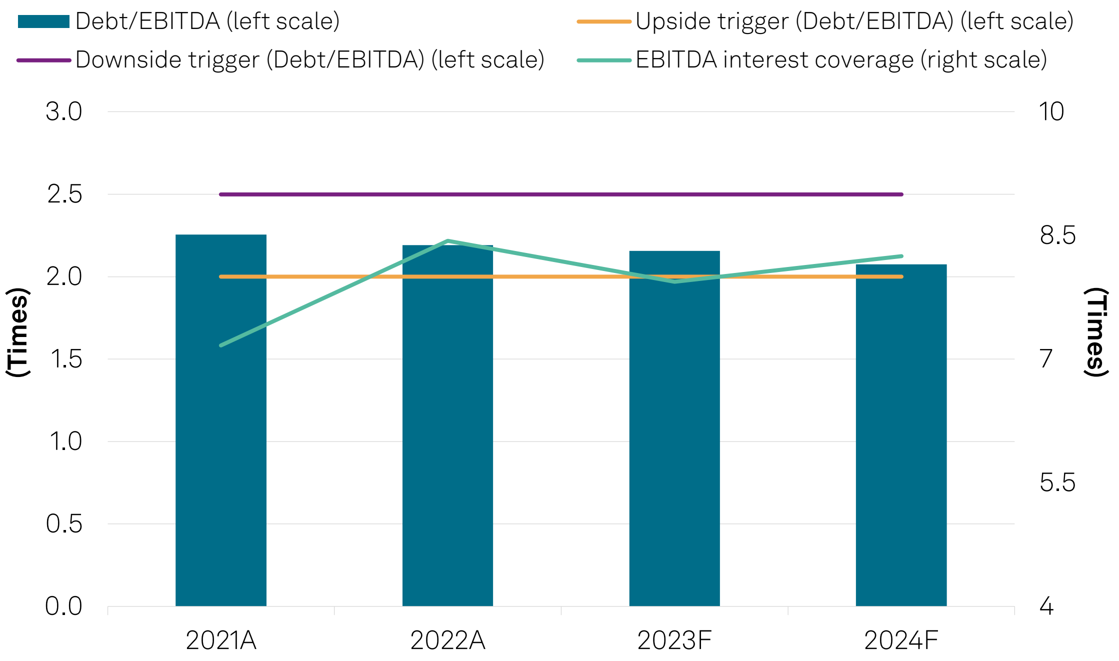
Pakuwon Has Strong Credit Ratios And Recurring Income

- Sizable cash balance provides sufficient buffer for capital spending in 2023.
- Steady leverage due to limited debt-funded expansion.

Pakuwon has sufficient internal resources to fund capex



Pakuwon has steady credit ratios



Bil.--Billion. IDR--Indonesian rupiah. Capex--Capital expenditure. Source: Company's disclosure, S&P Global Ratings.

Vietnam

Main Assumptions: Vietnam Developers

	2022	Looking into 2023
GDP growth	8.0%	6.0%
Inflation	3.2%	3.2%
Consumer sentiment	A strong economy and rising property prices backstop sentiment, which nevertheless took a hit in the second half	Weak sentiment due to delays in project handover, a fall-off in interest-rate support from developers, and less access to mortgages
Marketing sales growth	25%-30%	Negative 20%-15%
Capital spending	Grew significantly to support aggressive growth ambition	Conservative spending to preserve cash flows
Funding conditions	Credit tightening since the second half of 2022	Conditions to remain challenging

Source: S&P Global Ratings.

Vietnam Regulatory Policies Skewed To The Negative

Negative | Positive

2022

June 2022
Vietnam central bank tightened credit for real estate

September 2022
Decree 65: Tightened rules for the private placement of corporate bonds, including disclosure requirements

October 2022
Vietnam central bank increase discounts rates by 200 basis points within two months

2023

January 2023
Vietnam justice ministry propose raising tax rates on property transactions that are short-term in nature

February 2023
Four Vietnam state banks agree to allocate US$5 billion for social housing credit

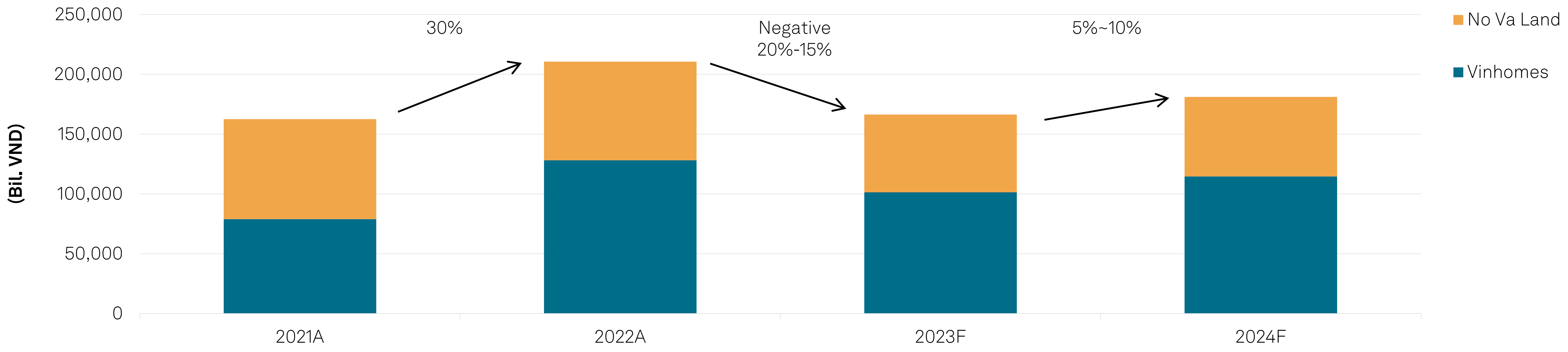
March 2023
1. Decree 08: Lets issuers extend bond maturities by up to two years and pay principal and interest with assets other than cash
2. Vietnam cuts policy rates by 100 basis points

Source: S&P Global Ratings.

Cautious Consumer Sentiment Due To Project Delays

- Rising liquidity risk of developers due to tighter access to funding since the second half of 2022.
- This has led to refinancing risks and increased pressure on working capital management in handing over projects timely, weighing on customer sentiment.
- Reduced interest support from developers and access to mortgage loans further hit consumer sentiment.

Sales to contract significantly in 2023

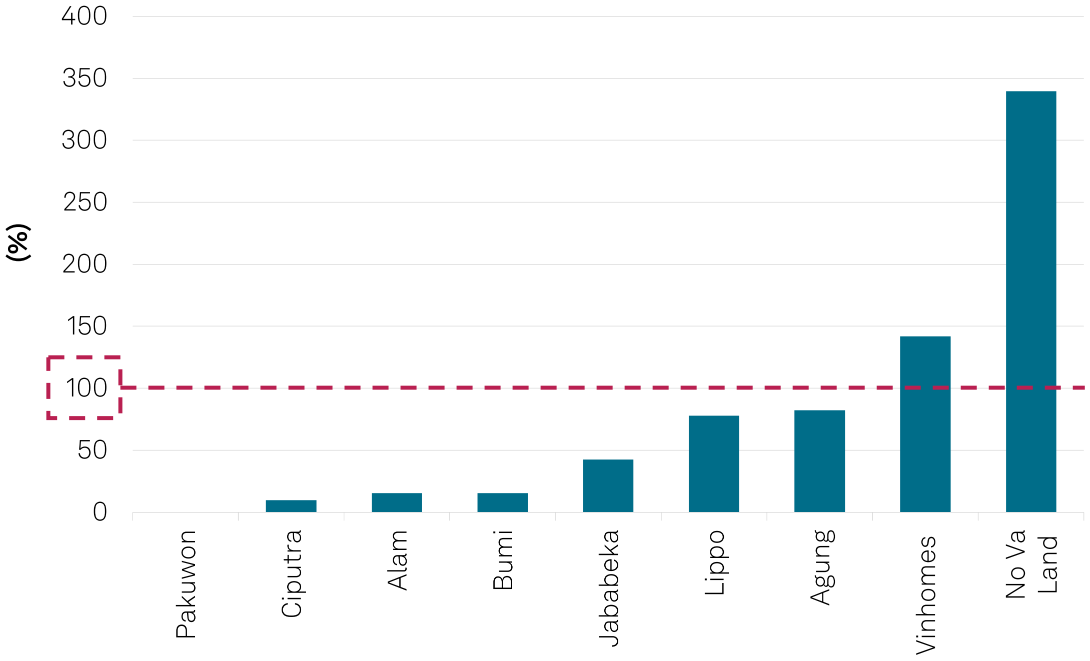


Forecasts represents S&P estimates for unrated developers (including Vinhomes--Vinhomes Joint Stock Company and No Va Land--No Va Land Investment Group). --Billion. VND--Vietnamese Dong. F--Forecast.
Sources: Company's disclosure, S&P Global Ratings.

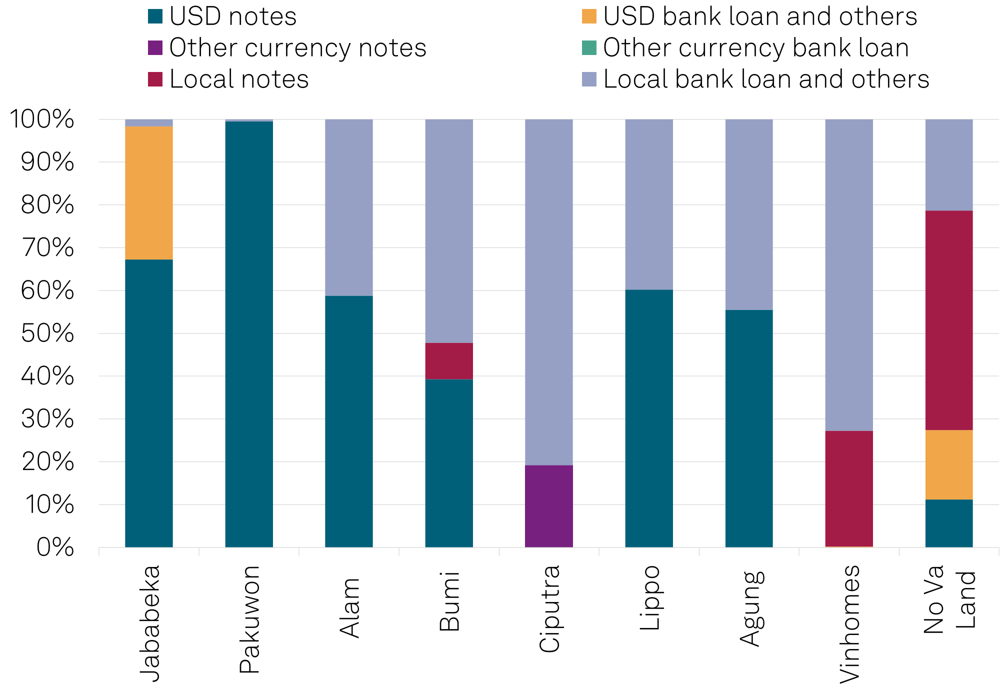
Vietnam Developers Face Heightened Liquidity Risk

- Vietnam developers rely more on short-term funding than their Indonesia counterparts.
- This has exposed Vietnam developers to liquidity risks; these risks have been apparent over the past 12 months.

Ratio of short-term debt over cash



Funding diversity



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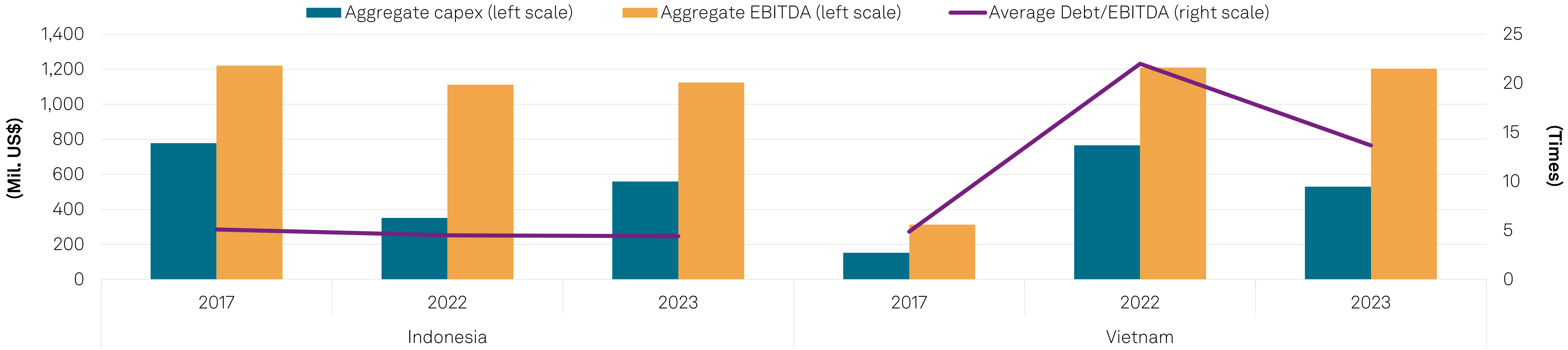
Vietnam Developers In Survival Mode

- Vietnam developers may shift the focus from expansion to clearing existing inventories and completing ongoing projects to preserve cash flows.
- Developers may conduct debt restructuring for upcoming maturities in light of tightened funding access and weakened operating cash flow.
- Potential debt structure could alleviate cash flow stress and may reduce leverage.

Vietnam developers may incur less debt-funded expansion

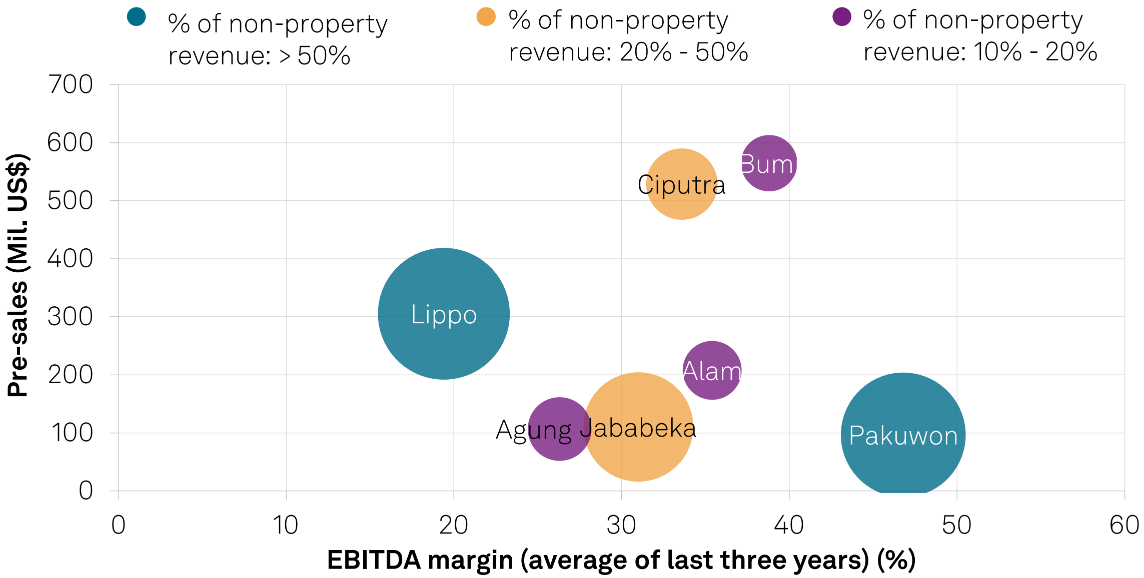


2017, 2022 and 2023 aggregate capex, aggregate EBITDA and average Debt/EBITDA cover 7 Indonesia developers, including PT Lippo Karawaci Tbk., PT Ciputra Development Tbk., PT Bumi Serpong Damai Tbk., PT Alam Sutera Realty Tbk., PT Agung Podomoro Tbk., PT Pakuwon Jati Tbk. and PT Kawasan Industri Jababeka Tbk, and 2 Vietnam developers, including Vinhomes Joint Stock Company and No Va Land Investment Group Corporation. Mil.--Million. US$-- United States Dollar.
Sources: Company's disclosure, S&P Global Ratings.

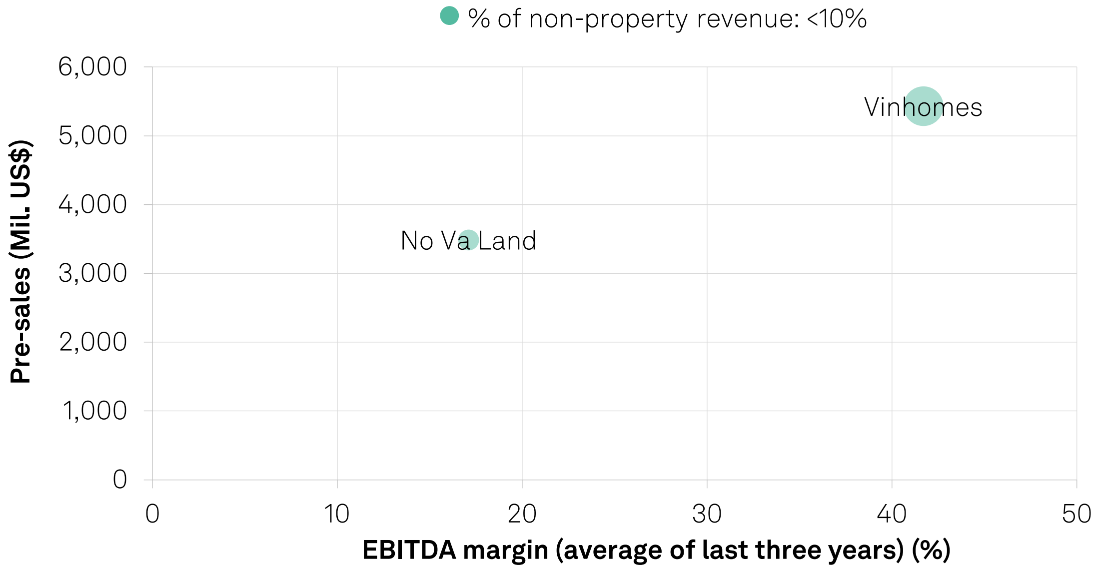
Indonesia Vs. Vietnam Developers: Divergent Business Profile Traits

- Both countries' developers have high geographic concentration in one or two cities.
- Vietnam developers are significantly larger than Indonesia counterparts.
- Indonesia developers have a higher proportion of recurring income.

Indonesia developers' business position



Vietnam developers' business position



Size and color of the bubbles represent companies' percentage on non-property revenue. Lippo's average EBITDA is an average of historical 2 years' numbers. Lippo--PT Lippo Karawaci Tbk. Ciputra--PT Ciputra Development Tbk. Bumi--PT Bumi Serpong Damai Tbk. Alam--PT Alam Sutera Realty Tbk. Agung--PT Agung Podomoro Tbk. Pakuwon--PT Pakuwon Jati Tbk. Jababeka--PT Kawasan Industri Jababeka Tbk. Vinhomes--Vinhomes Joint Stock Company. No Va Land--No Va Land Investment Group Corporation. Source: Company's disclosure, S&P Global Ratings.

S&P Global Ratings

Singapore

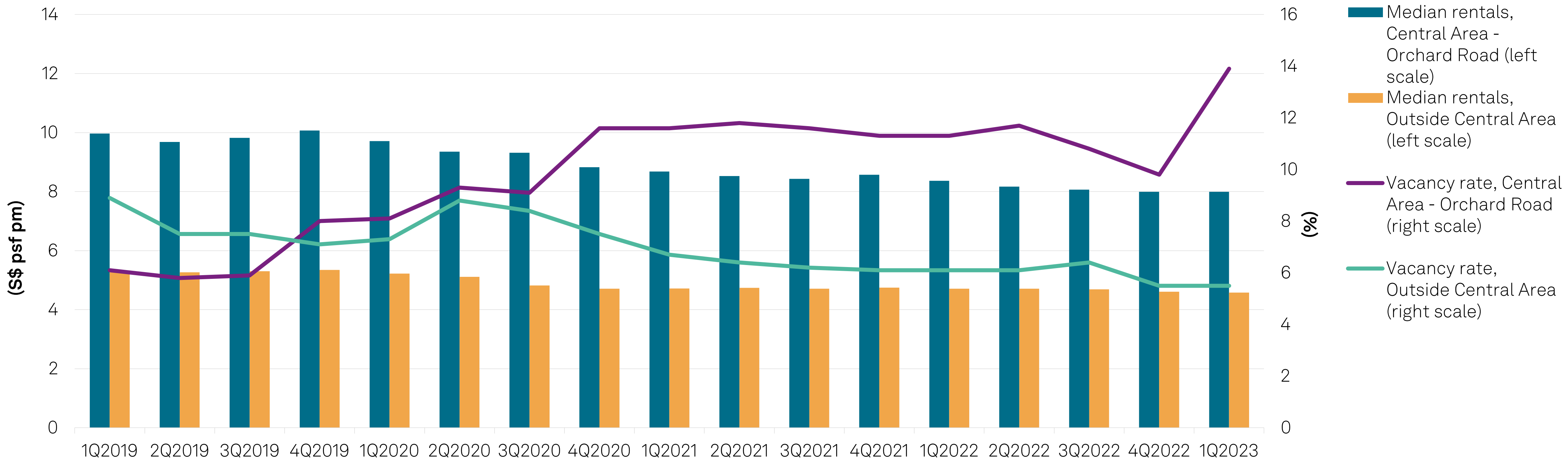
Main Assumptions: Rated Singapore REITs

	2022	Looking into 2023
GDP growth	3.6%	2.0%
Inflation	6.1%	5.0%
Consumer sentiment	Recovery from easing of COVID-19 restrictions; geopolitical conflicts temper these gains	Macroeconomic uncertainties and heightened inflation could weigh on consumer sentiment
Revenue growth	-4% to 11% growth in fiscal 2022	Up to 9% growth in fiscal 2023
Margins	Lower rental waivers granted to tenants in 2022	Some cost pressure but this typically can be passed to tenants
Capital spending	Pickup in acquisitions from 2021	More selective on acquisitions
Funding conditions	Steep hike in interest rates to tame inflation	Risk of further interest rate hikes

Source: S&P Global Ratings.

Downtown Malls More Exposed To Macroeconomic Weakness

- Continued inbound tourism should support downtown malls, particularly for the higher-quality ones.
- Suburban malls will continue to benefit from stable rent and vacancy levels, underpinning their resiliency.
- Active tenant mix positioning will play a key role in landlords' strategy.

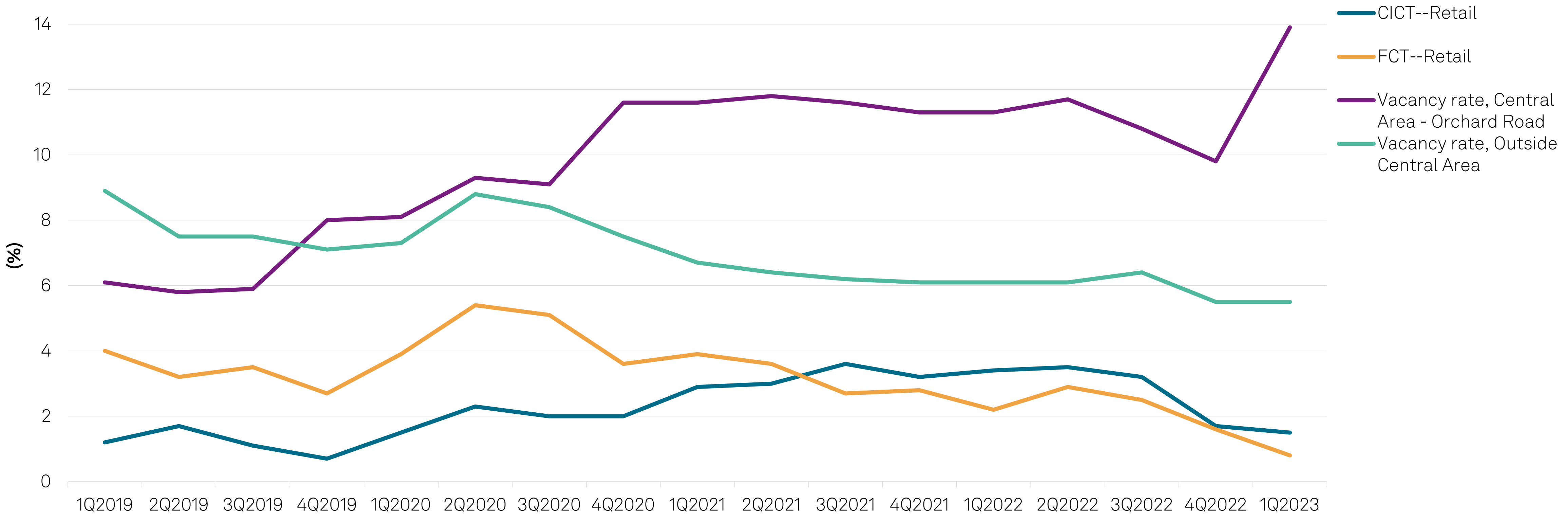


S$--Singapore dollar. psf--Per square foot. pm--Per month. Sources: Urban Redevelopment Agency, S&P Global Ratings.

S&P Global Ratings

Rated REITs Tend To Outperform The Broader Market

Vacancy rate

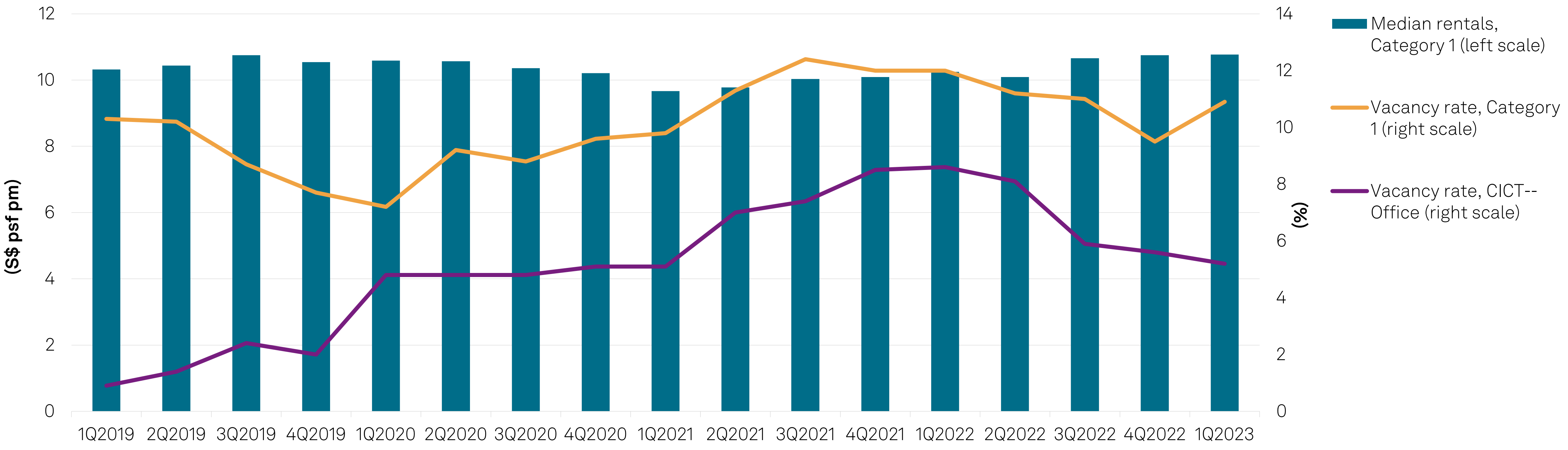


CICT--CapitaLand Integrated Commercial Trust. FCT--Frasers Centrepoint Trust. Sources: Company data, Urban Redevelopment Authority, S&P Global Ratings.

S&P Global Ratings

Demand For Prime Offices Remains Resilient

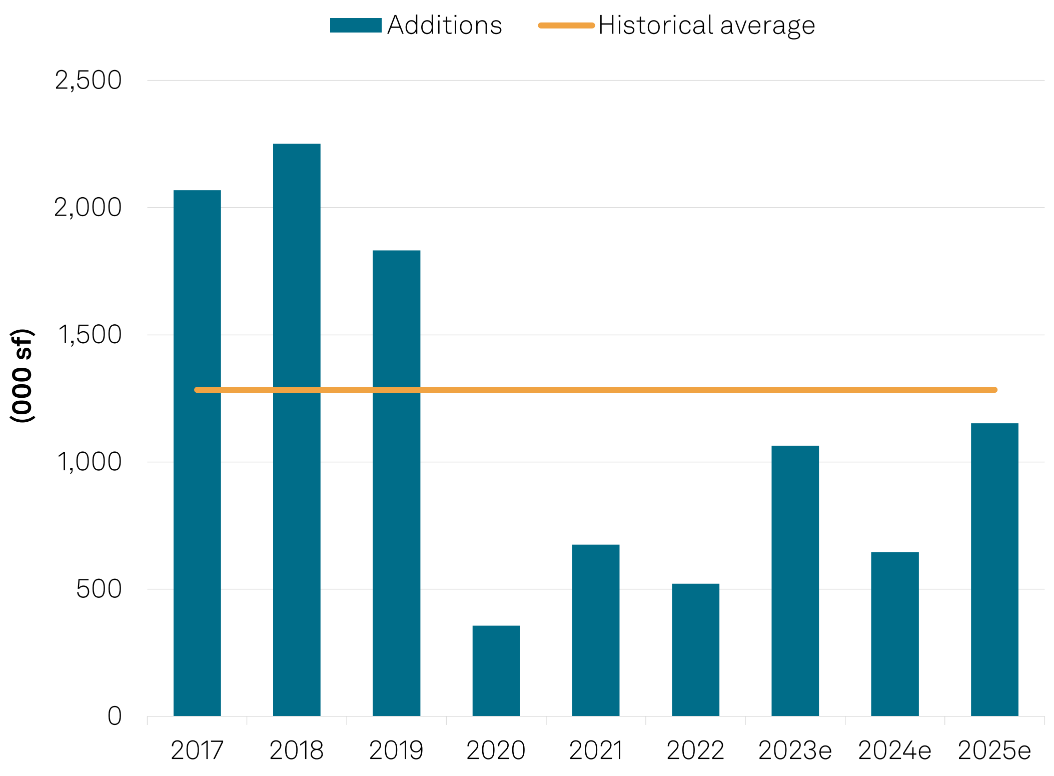
- 'Flight-to-quality' trend continues to benefit prime offices.
- Moderating office demand amid hybrid working adoption and economic uncertainties.
- Tenants have multiple leasing options with the elevated office supply in 2023.



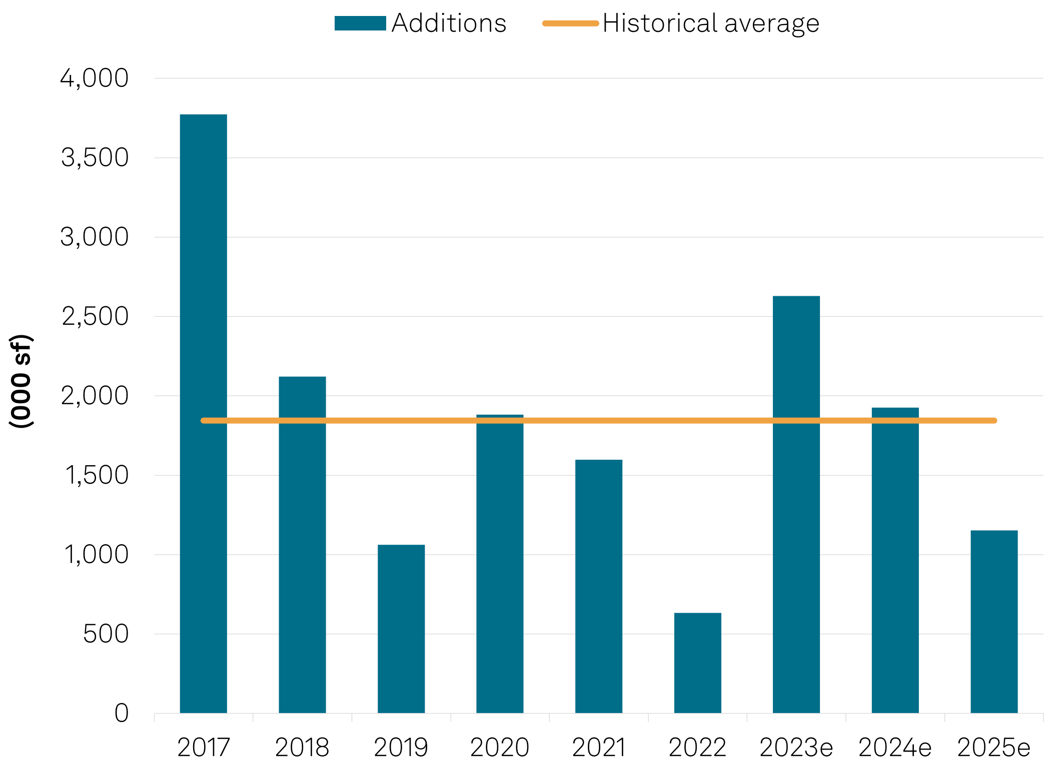
Category 1 refers to office space in buildings located in core business areas in Downtown Core and Orchard Planning Area which are relatively modern or recently refurbished, command relatively high rentals and have large floor plate size and gross floor area. S$--Singapore dollar. psf--Per square foot. pm--Per month. CICT--CapitaLand Integrated Commercial Trust. Sources: Company data, Urban Redevelopment Agency, S&P Global Ratings.

Supply Pipeline Manageable For Retail, Less So For Office

Retail: limited supply comes mostly from mixed development



Office: elevated additions over the next two years

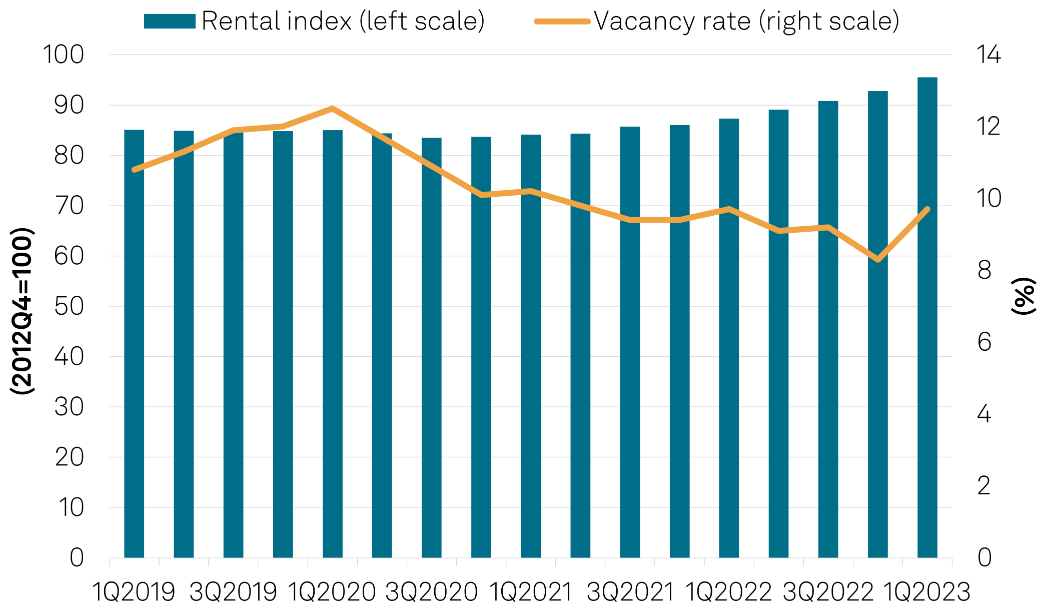


Forecast data is based on statistics as at first quarter of 2023. sf--Square feet. E--Estimate. Sources: Urban Redevelopment Agency, S&P Global Ratings.

Healthy Demand For Warehouse Sector

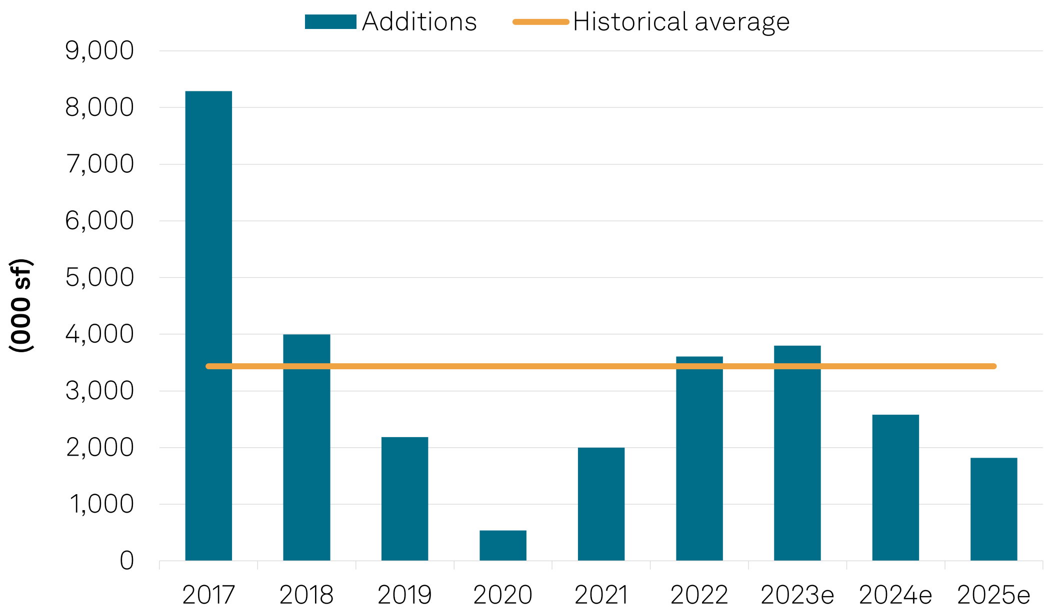
- E-commerce remains a structural driver.
- Shifting supply requirements from “just in time” to “just in case” inventory strategies.
- Economic uncertainties could weigh on vacancy rates and rents.

Rents in an upcycle



Sources: JTC Corporation, S&P Global Ratings.

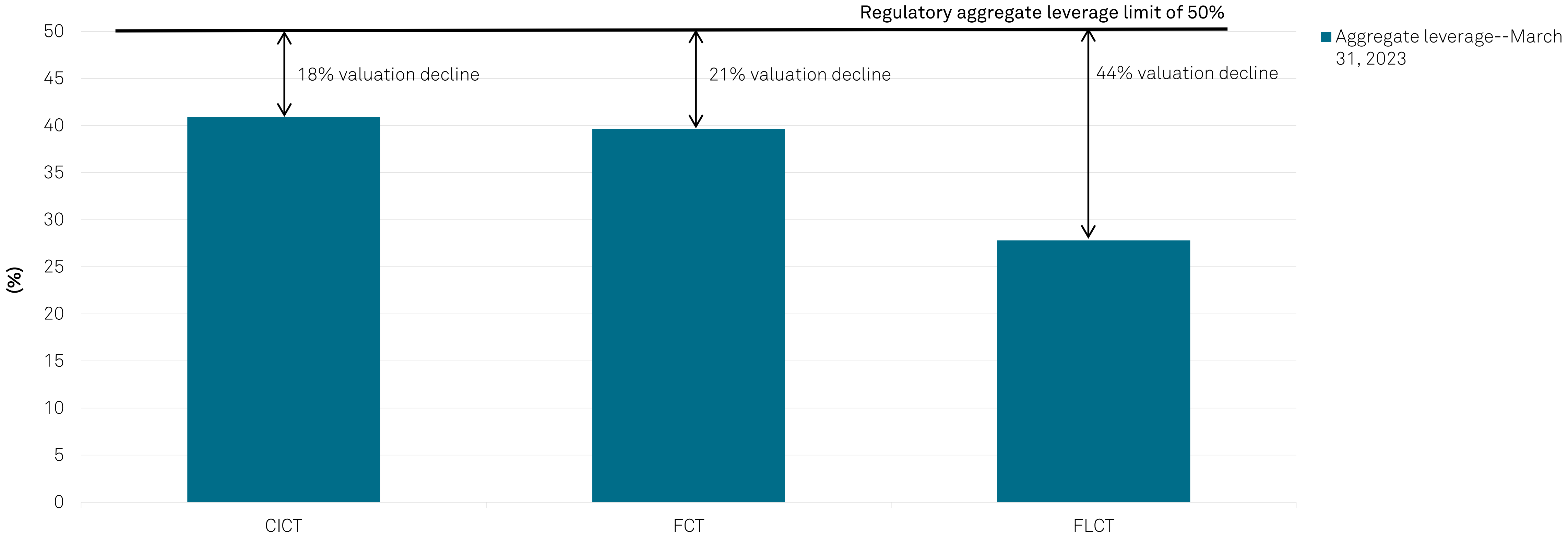
Sizable additions due to earlier construction delays



Forecast data is based on statistics as at first quarter of 2023 and refers to gross floor area. sf--Square feet.
E--Estimate. Sources: JTC Corporation, S&P Global Ratings.

Rated REITs Can Withstand At Least 15% Decline In Asset Valuation

Ample buffer to regulatory limit of 50%



CICT--CapitaLand Integrated Commercial Trust. FCT--Frasers Centrepoint Trust. FLCT--Frasers Logistics & Commercial Trust. Sources: Company data, S&P Global Ratings.

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Key Credit Themes And Metrics For Singapore REITs

CapitaLand Integrated Commercial Trust (A-/Stable/--)

ESG Credit Indicator (E-2, S-2, G-2)

Key Rating Drivers

- Leading market position in Singapore's retail and grade-A office space.
- Earnings diversification across retail, office and integrated development supports stability.

Key S&P Assumptions

- Rental reversions largely positive, with average rent growth ranging from:
  - Retail: 0%-6%
  - Office: -1%-6%
- Occupancy: Around 95%

Key Monitoring Events

- Leasing conditions for office assets amid hybrid work arrangements.
- Leasing progress for ongoing asset enhancement initiatives.
- Business and consumer sentiment in an uncertain economic environment.
- Debt-funded acquisitions.

Downside Scenario

- If prolonged economic downtown results in lower tenant occupancy or declining rentals.
- If headwinds dent CICT's earnings more than we expect.
- If the REIT embarks on aggressive debt-funded growth.
- This can be evidenced by FFO/debt below 7% sustainably, or aggregate leverage above 40%.

FFO--Funds from operations. Source: S&P Global Ratings.

Frasers Centrepoint Trust (BBB/Stable/--)

ESG Credit Indicator (E-2, S-2, G-2)

Key Rating Drivers

- Among the leading suburban retail landlords in Singapore.
- Earnings stability underpinned by resilient suburban asset base.

Key S&P Assumptions

- Rental reversion: fiscal 2023 (ending September 2023) → positive, with average rents improving 1%-10% year on year.
- Occupancy: around 98%.

Key Monitoring Events

- M&A activities, especially debt-funded acquisitions of sponsor-owned assets.
- Business and consumer sentiment in an uncertain economic environment.
- Ability to extend debt maturity profile.

Downside Scenario

- If the REIT undertakes sizable acquisitions or asset enhancement initiatives materially funded by debt.
- If performance of its portfolio is significantly worse than our base case.
- This can be evidenced by FFO/debt below 7% on a sustained basis.
- If the debt maturity profile deteriorates such that it weighs on the REIT's ability to manage upcoming maturities.

FFO--Funds from operations. Source: S&P Global Ratings.

Frasers Logistics & Commercial Trust (BBB+/Stable/--)

ESG Credit Indicator (E-2, S-2, G-2)

Key Rating Drivers

- Geographic diversification across three continents.
- Exposure to multiple asset classes supports earnings resilience.

Key S&P Assumptions

- Average annual rental escalations:
  - L&I → 3%-6% as leases have fixed escalation or pegged to CPI
  - Commercial → minimal escalations except for Australia at around 3%
- Occupancy:
  - L&I → 98%-100%
  - Commercial → Around 90%

Key Monitoring Events

- Debt-funded acquisitions.
- Leasing conditions for commercial portfolio amid hybrid work arrangements.

Downside Scenario

- Highly debt-funded acquisitions or developments, or a moderate deterioration in performance of portfolio assets.
- If quality of FLCT's portfolio weakens.
- This can be evidenced by FFO/debt below 9% with no prospect of recovery.

FFO--Funds from operations. L&I--Logistics & Industrial. CPI—Consumer Price Index. Source: S&P Global Ratings.

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Related Research

- Rated Singapore REITs: The Best Assets Will Withstand Demand Softening, Jan. 27, 2023
- Industry Top Trends 2023: Real Estate, Jan. 23, 2023

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