Maybank Kim Eng

Real Estate

Indonesia

Alam Sutera Realty (ASRI IJ)

One final push

BUY *[Prior:HOLD]*

Share Price	IDR 121
12m Price Target	IDR 200 (+65%)
Previous Price Target	*IDR 150*

Bond restructuring almost complete; U/G to BUY

Upgrade ASRI to BUY from HOLD as the bond exchange offer to refinance its two senior notes is close to completion. This removes the credit risk overhang that has pressured valuation. We adjusted our presales, interest expense, and FX loss which lead to a change in our FY20-22 EPS by -83%/+1293%/+43%. Our new TP of IDR200 is now based on 81% discount to RNAV (-1SD below 5Y mean). Main downside risk is cancellation of refinancing.

Extension of its two senior notes exchange offer

We believe ASRI's exchange offer for its two senior notes with maturity in 2021 and 2022 will soon be completed. As of the deadline of the offer on 20 Oct 2020, 78.26% of the 2021 notes tendered for exchange whilst 87.52% tendered the 2022 note. ASRI targets an 85% tender exchange for both senior notes by the extended deadline of 26 Oct.

Better earnings outlook from lower borrowing cost

The two new senior notes with maturity of 2024 and 2025 will have lower coupon rates than the two existing notes. The new notes will have step up coupon rates starting from 6.00% and 6.25%. With its high leverage (vs. peers), earnings is highly sensitive to borrowing costs and as such our earnings are adjusted by -83%/+1293%/+43% for FY20-22E. ASRI will also have much better liquidity position with the maturities of both notes being pushed by 3.5 years.

Improving fundamentals yet to be reflected

ASRI is trading at a distressed valuation at a 90% discount to RNAV and 0.2x P/B FY20E. With the impending credit risk allayed, we expect its credit rating to improve. This will help ASRI to focus on its operations and ramping up presales. Higher presales and monetisation of its landbank will allow ASRI to continue to deleverage.

Company Description

Property developer with township projects at Serpong and Pasar Kemis. ASRI also has assets in CBD Jakarta and cultural park in Bali.

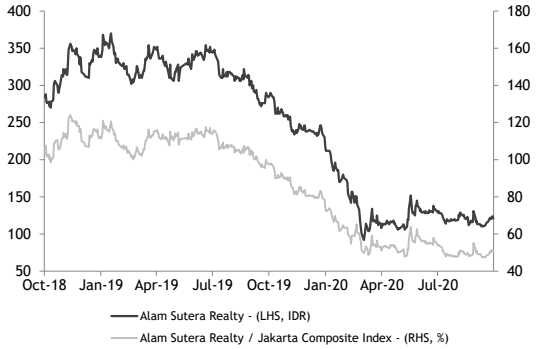
Statistics

52w high/low (IDR)	290/92
3m avg turnover (USDm)	0.8
Free float (%)	46.1
Issued shares (m)	19,649
Market capitalisation	IDR2.4T
	USD162M

Major shareholders:

PT Manunggal Prime Development	12.9%
PT Tangerang Fajar Industrial Estate	25.7%
na	na

Price Performance



	-1M	-3M	-12M
Absolute (%)	(8)	(8)	(58)
Relative to index (%)	(8)	(9)	(49)

Source: FactSet

FYE Dec (IDR b)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	3,975	3,476	2,696	4,062	3,242
EBITDA	2,026	1,755	1,188	1,610	1,358
Core net profit	970	1,012	52	780	485
Core EPS (IDR)	49	52	3	40	25
Core EPS growth (%)	(29.7)	4.3	(94.9)	1,409.9	(37.8)
Net DPS (IDR)	0	0	0	0	0
Core P/E (x)	6.3	4.6	46.0	3.0	4.9
P/BV (x)	0.6	0.4	0.2	0.2	0.2
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAE (%)	10.8	10.2	0.5	7.2	4.2
ROAA (%)	4.7	4.7	0.2	3.5	2.1
EV/EBITDA (x)	3.7	3.9	5.7	3.9	4.3
Net gearing (%) (incl perps)	76.9	63.0	62.2	54.4	47.7
Consensus net profit	-	-	150	521	503
MKE vs. Consensus (%)	-	-	(65.6)	49.6	(3.6)

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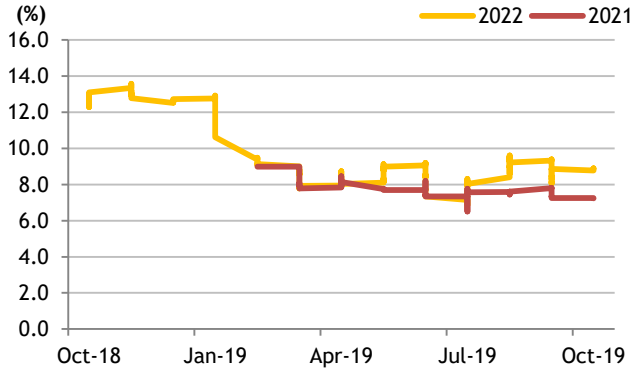
Value Proposition

- Developer with main assets in suburban West Jakarta. Owns c.2,225ha of land, mainly in Pasar Kemis (1,595ha).
- With maturing township in Serpong (previously more than 80% of presales), ASRI entered SPA with CFLD to expedite the development of its second township in Pasar Kemis.
- Increase in demand for ASRI's assets due to superior location and competitive pricing. Expect leverage to peak from significantly lower capex, resulting in better FCF.
- Stronger operating performance to generate higher returns. However, volatile and weakening IDR/USD have raised cost of capital.

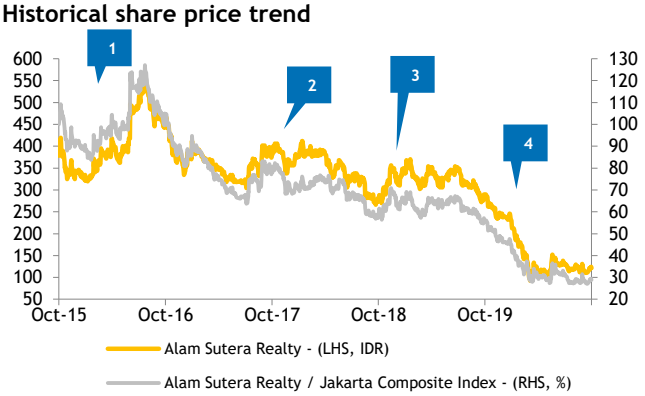
YTM of ASRI's USD debt securities



Source: Company

Price Drivers

Historical share price trend



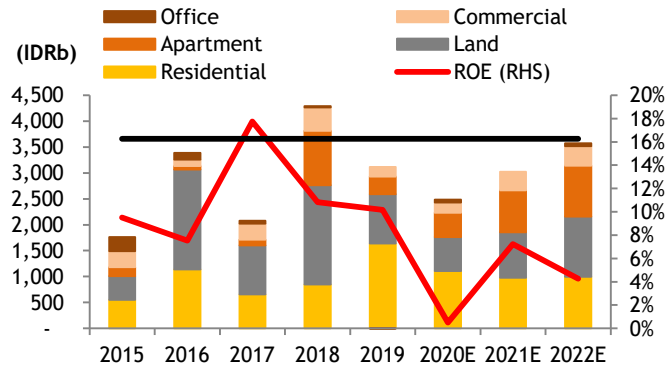
Source: Company, FactSet, Maybank Kim Eng

1. Announcement of sales agreement with CFLD.
2. Expectations of strong presales in 4Q17.Announcement of sales agreement with CFLD.
3. Appreciation of IDR/USD in 4Q18.
4. High volatility of IDR/USD from the pandemic.

Financial Metrics

- Change in the property mix to more apartments and commercial properties also increases volatility of presales.
- Demand for commercial properties is less resilient than residential properties. We expect improved mix when ASRI launches the new development in North Serpong.
- ROE will improve again in FY21E from higher turnover.
- Currency sensitivity is high: a 5% decrease in the IDR would reduce earnings by c.3% in FY21E.

Presales breakdown, ROE and cost of equity



Source: Company data, Maybank Kim Eng

Swing Factors

Upside

- Strong presales of commercial properties, which are slow-moving inventory.
- Faster new launches in North Serpong.
- Strengthening IDR/USD.
- JVs formed for Pasar Kemis and Serpong to expedite developments.

Downside

- Delayed presales recovery, which could affect cash flow.
- Delays in launch of new development in North Serpong.
- Weak IDR leading to higher translation losses.
- Regulatory risks for property sector.

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1. Refinancing is almost complete

As of 6M20, ASRI's total debt was USD553m; 88% of which are two senior USD notes with relatively short maturities in 2021 and 2022. The outstanding principal for the 2021 and 2022 notes is USD115m and USD370m, respectively. The significant USD debt has created constant investor concerns on its refinancing risk. Moreover, since a majority of its debt is USD denominated, investors have also been wary of FX risk given that the IDR has weakened 6% vs the USD YTD.

On 29 September 2020, Alam Sutera announced that it commenced an exchange offer for its two senior notes which will be exchanged into two new notes with maturities in 2024 and 2025. These two new notes will be collateralised by its shopping mall and 11.7 hectares of land in the Serpong Township. It targets to exchange 85% for both existing notes.

As of the expiration of the first deadline on 20 Oct 2020, ASRI received 78.25% of the 2021 notes and 87.52% of the 2022 notes. The expiration date of the exchange has been extended to 26 Oct 2020.

Every USD1,000 of the 2021 notes will be exchanged into USD1,000 of the new 2024 notes and every USD1,000 of the 2022 notes will be exchanged into USD250 of 2024 notes and USD750 of 2025 notes.

Management is proposing for step up coupons for the two new notes. The 2024 notes will offer a 6% coupon in the first year, 8% in the second and 11% in the third till maturity. The 2025 notes will offer a 6.25% coupon in the first year, 8.25% in the second year, and 11% in the third year, and 12% in the fourth year until maturity. Overall the net funding cost of the two new notes in will be lower at 7.14% in the first two years, saving IDR83b in FY21E (11% of FY21E earnings).

Fig 1: ASRI debt maturity post exchange offer

(USD m)	2020	2021	2022	2024	2025
Bank loans	18	9	4		
Bond (Coupon 11.500% p.a.)		17.5			
Bond (Coupon 6.625% p.a.)			37		
Bond (Coupon 6.625% p.a.)			19		
Bond (Coupon 6.000% p.a.)*				176.4	
Bond (Coupon 6.250% p.a.)*					235.9
Total	**18**	**26.5**	**60**	**176.4**	**235.9**

Source: Company data
**) Step up coupons*

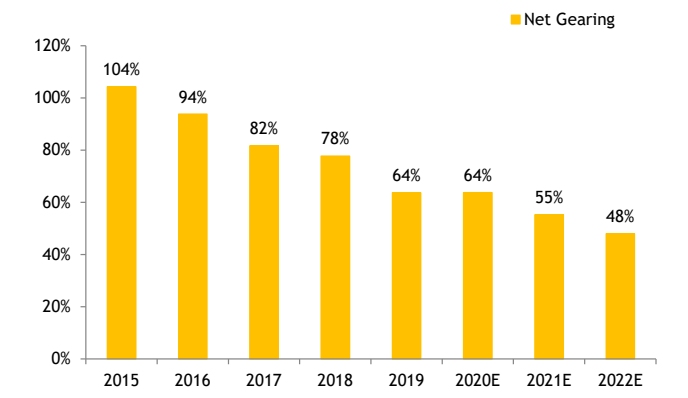
Upon the completion of the exchange offer, we expect ASRI's credit rating to be upgraded given the longer maturity of the new notes. ASRI will also continue to deleverage through the redemption of the remaining 15% of both notes in 2021 and 2022.

Fig 2: ASRI's bond credit rating

Credit rating agency	Rating	Outlook	Rating date	Previous rating
Moody's	Caa1	Negative	1-Oct-20	B3
S&P	CC	Negative	29-Sep-20	CCC-
Fitch	C	Negative	30-Sep-20	CCC-

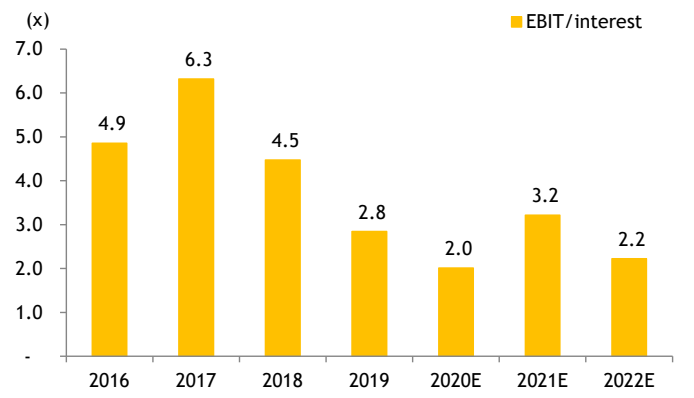
Source: Companies

Fig 3: Net gearing



Source: Company data, Maybank Kim Eng

Fig 4: Interest coverage ratio



Source: Company data, Maybank Kim Eng

2. Changes in our assumptions

With the 9M20 presales of IDR1,920b (+6% YoY) and its launching pipeline for 4Q20, we lowered our presales estimates for FY20-22E by -15%/-3%/-2% where we mostly lower the presales of the commercial land plot and properties.

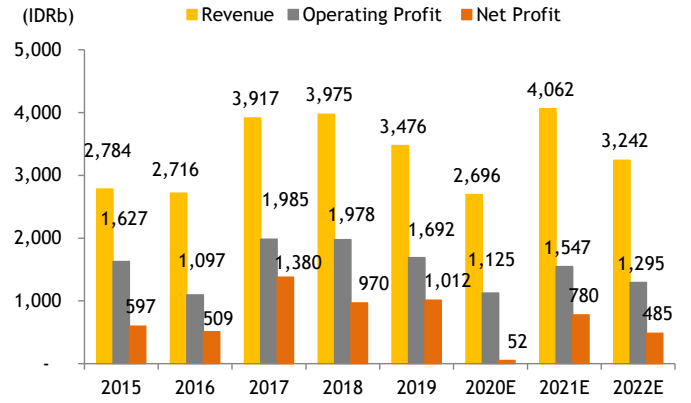
We have taken into account the refinancing of its two existing bonds with two new bonds with longer maturity in 2024 and 2025 which also lowers the annual interest expense for ASRI. Our FY20E EPS is lowered significantly as we accounted for the FX loss incurred in 6M20 amounting to IDR300b. All in, our EPS for FY20E-22E has been adjusted by -83%/+1293%/+43%. ASRI is highly leveraged which makes its earnings highly sensitive to the cost of borrowing.

Fig 5: Changes in our assumptions

	2020F			2021F			2022F		
	Old	New	+/- %	Old	New	+/- %	Old	New	+/- %
PRE-SALES									
Location (IDRb)									
Serpong	1,586	1,157	-27%	1,721	1,546	-10%	2,238	2,058	-8%
Pasar Kemis	825	825	0%	580	901	55%	621	942	52%
CBD	-	-	N/A	-	-	N/A	-	-	N/A
CFLD - Pasar Kemis	506	506	0%	805	575	-29%	805	575	-29%
Other assets	-	-	0%	-	-	0%	-	-	0%
Total	**2,916**	**2,488**	**-15%**	**3,106**	**3,022**	**-3%**	**3,664**	**3,575**	**-2%**
REVENUE (IDRb)									
Property sales	2,312	2,312	0%	3,626	3,580	-1%	3,115	2,729	-12%
Recurring income	383	383	0%	481	481	0%	513	513	0%
Total Revenues	**2,696**	**2,696**	**0%**	**4,108**	**4,062**	**-1%**	**3,629**	**3,242**	**-11%**
EBIT	1,091	1,125	3%	1,461	1,547	6%	1,493	1,295	-13%
Net Profit	310	52	-83%	56	780	1293%	340	485	43%
EPS	16	3	-83%	3	40	1293%	17	25	43%
	Old	New	+/- ppt	Old	New	+/- ppt	Old	New	+/- ppt
Gross margin	58%	58%	(0.4)	48%	50%	2.4	57%	57%	(0.5)
EBIT margin	40%	42%	1.7	36%	38%	2.1	41%	40%	(1.1)
Net margin	12%	2%	(10.1)	1%	19%	18.2	9%	15%	6.0

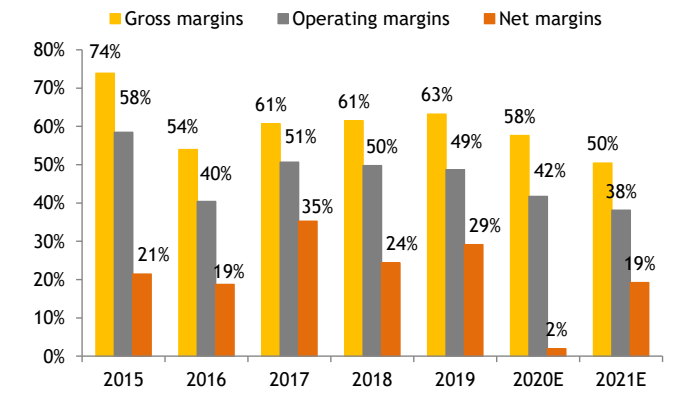
Source: Maybank Kim Eng

Fig 6: ASRI revenue, operating profit and net profit



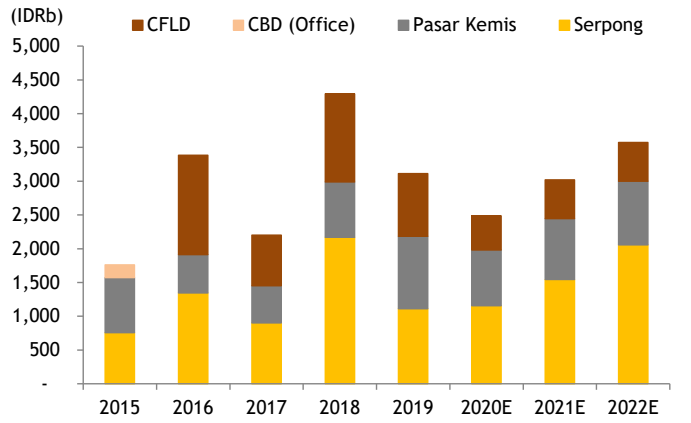
Source: Company data, Maybank Kim Eng

Fig 7: Margins



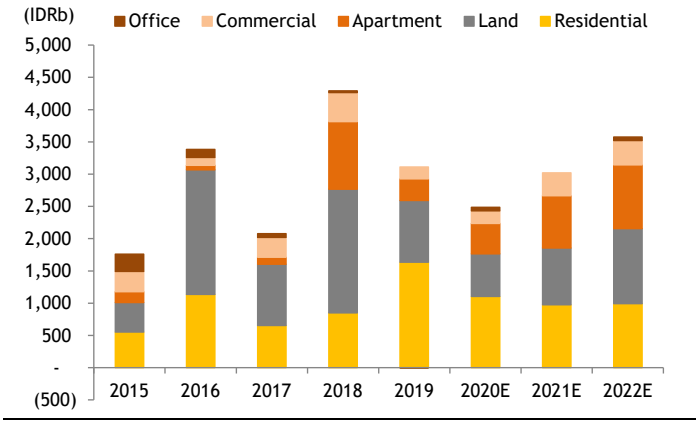
Source: Company data, Maybank Kim Eng

Fig 8: Annual presales by location…



Source: Company data, Maybank Kim Eng

Fig 9: …and by property type



Source: Company data, Maybank Kim Eng

3. Valuation and risks

With lower presales in FY20E, our RNAV is slightly lowered by 2% to IDR1,075 per share (from IDR1,100). However, with the lower credit risk from the completion of the bond refinancing, we upgrade ASRI to BUY with a new TP of IDR200 (from IDR150) which is now set at an 81% discount to RNAV (-1SD of its 5-year mean) and implies 0.4x P/B FY20E (-1SD of its 5Y mean). We still set the target price at -1SD of the 5-year mean as ASRI's USD debt proportion is still high at 88% which creates exposure to FX risk. Our sensitivity analysis suggests that if the IDR weakens vs USD by 5% from our base assumption of IDR14,800/USD, earnings will decline by 3% in FY21E.

Downside risks include persistently weak commercial property presales, diminishing homebuyers' affordability, and prolonged and weak economic recovery.

Fig 10: RNAV

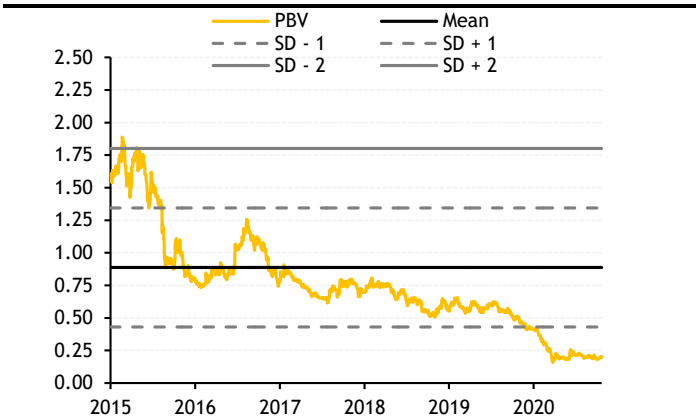
	Land Bank (2024F) ha	BV of Land Bank (2024F) IDR b	MV of Land Bank (2024F) IDR b	Net Value of Land (2024F) IDR b	NPV (2020-2024) IDR b	Value of Land + NPV IDR b	% of Ownership	Net Value IDR b
PROPERTY DEVELOPMENT								
Serpong	359	5,459	17,940	12,481	3,300	15,781	100%	15,781
Pasar Kemis	1,261	3,661	12,610	8,948	2,525	11,473	100%	11,473
Others	260	1,391	4,265	2,874	0	2,874	100%	2,874
Total	**1,880**	**10,512**	**34,814**	**24,303**	**5,825**	**30,128**		**30,128**

	Annual CF IDR b	Cap Rate %	BV IDR b	NPV IDR b	Net Value IDR b	% of Ownership	Net Value IDR b
INVESTMENT PROPERTIES	103	9%	1,063	1,142	78	100%	78

TOTAL	**30,206**
Customer Advance (FY20)	(2,488)
Net Debt (FY20)	(6,603)
RNAV	21,116
# of Shares	19,649
RNAV per share	1,075
Target discount to RNAV	-81%
Target price	**200**

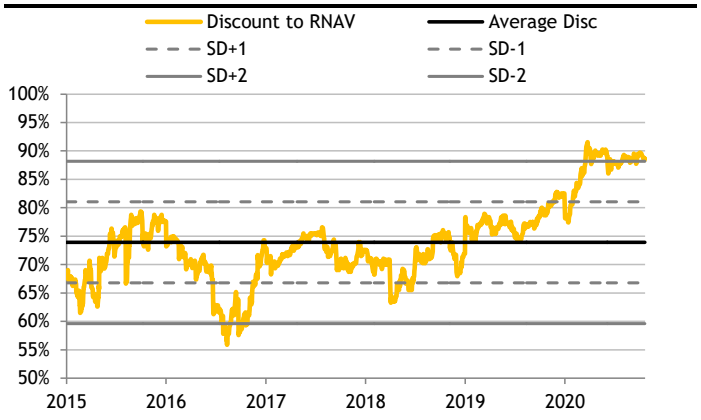
Source: Maybank Kim Eng

Fig 11: P/B band (1-year forward)



Source: FactSet, Maybank Kim Eng

Fig 12: Discount to RNAV band (1-year forward)



Source: FactSet, Maybank Kim Eng

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Metrics					
P/E (reported) (x)	6.9	6.0	46.0	3.0	4.9
Core P/E (x)	6.3	4.6	46.0	3.0	4.9
P/BV (x)	0.6	0.4	0.2	0.2	0.2
P/NTA (x)	0.6	0.4	0.2	0.2	0.2
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
FCF yield (%)	nm	12.0	1.0	16.2	20.9
EV/EBITDA (x)	3.7	3.9	5.7	3.9	4.3
EV/EBIT (x)	3.8	4.0	6.0	4.1	4.5
INCOME STATEMENT (IDR b)					
Revenue	3,975	3,476	2,696	4,062	3,242
Gross profit	2,444	2,197	1,553	2,047	1,832
EBITDA	2,026	1,755	1,188	1,610	1,358
Depreciation	(48)	(63)	(63)	(63)	(63)
Amortisation	0	0	0	0	0
EBIT	1,978	1,692	1,125	1,547	1,295
Net interest income /(exp)	(423)	(566)	(530)	(449)	(536)
Associates & JV	0	0	0	0	0
Exceptionals	0	0	0	0	0
Other pretax income	(400)	77	(396)	(96)	(96)
Pretax profit	1,155	1,203	199	1,002	662
Income tax	(185)	(190)	(147)	(222)	(177)
Minorities	0	(1)	0	0	0
Discontinued operations	0	0	0	0	0
Reported net profit	970	1,012	52	780	485
Core net profit	970	1,012	52	780	485
BALANCE SHEET (IDR b)					
Cash & Short Term Investments	459	1,209	1,564	1,719	1,421
Accounts receivable	233	105	111	167	201
Inventory	17,339	17,626	17,721	17,820	18,141
Reinsurance assets	0	0	0	0	0
Property, Plant & Equip (net)	1,329	1,298	1,235	1,172	1,109
Intangible assets	0	0	0	0	0
Investment in Associates & JVs	0	0	0	0	0
Other assets	1,531	1,656	1,721	1,788	1,866
Total assets	**20,891**	**21,894**	**22,352**	**22,666**	**22,738**
ST interest bearing debt	851	426	989	989	989
Accounts payable	657	671	469	552	579
Insurance contract liabilities	0	0	0	0	0
LT interest bearing debt	6,951	7,435	7,178	6,923	6,101
Other liabilities	2,881	2,800	3,102	2,809	3,190
Total Liabilities	**11,340**	**11,332**	**11,738**	**11,273**	**10,860**
Shareholders Equity	9,443	10,453	10,505	11,285	11,770
Minority Interest	108	109	109	109	109
Total shareholder equity	**9,551**	**10,562**	**10,614**	**11,394**	**11,879**
Total liabilities and equity	**20,891**	**21,894**	**22,352**	**22,666**	**22,738**
CASH FLOW (IDR b)					
Pretax profit	1,155	1,203	199	1,002	662
Depreciation & amortisation	48	63	63	63	63
Adj net interest (income)/exp	0	0	0	0	0
Change in working capital	(839)	(196)	6	(359)	270
Cash taxes paid	(185)	(190)	(147)	(222)	(177)
Other operating cash flow	0	(1)	0	0	0
Cash flow from operations	179	879	120	484	818
Capex	(536)	(319)	(95)	(99)	(321)
Free cash flow	(357)	560	25	385	497
Dividends paid	0	0	0	0	0
Equity raised / (purchased)	0	0	0	0	0
Change in Debt	173	59	306	(255)	(821)
Other invest/financing cash flow	(75)	131	24	25	27
Effect of exch rate changes	0	0	0	0	0
Net cash flow	(259)	750	355	155	(298)

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Ratios					
Growth ratios (%)					
Revenue growth	1.5	(12.6)	(22.5)	50.7	(20.2)
EBITDA growth	(0.3)	(13.4)	(32.3)	35.6	(15.7)
EBIT growth	(0.4)	(14.5)	(33.5)	37.5	(16.3)
Pretax growth	(26.7)	4.2	(83.5)	403.5	(33.9)
Reported net profit growth	(29.7)	4.3	(94.9)	1,409.9	(37.8)
Core net profit growth	(29.7)	4.3	(94.9)	1,409.9	(37.8)
Profitability ratios (%)					
EBITDA margin	51.0	50.5	44.1	39.6	41.9
EBIT margin	49.8	48.7	41.7	38.1	39.9
Pretax profit margin	29.1	34.6	7.4	24.7	20.4
Payout ratio	0.0	0.0	0.0	0.0	0.0
DuPont analysis					
Net profit margin (%)	24.4	29.1	1.9	19.2	15.0
Revenue/Assets (x)	0.2	0.2	0.1	0.2	0.1
Assets/Equity (x)	2.2	2.1	2.1	2.0	1.9
ROAE (%)	10.8	10.2	0.5	7.2	4.2
ROAA (%)	4.7	4.7	0.2	3.5	2.1
Leverage & Expense Analysis					
Asset/Liability (x)	1.8	1.9	1.9	2.0	2.1
Net gearing (%) (incl perps)	76.9	63.0	62.2	54.4	47.7
Net gearing (%) (excl. perps)	76.9	63.0	62.2	54.4	47.7
Net interest cover (x)	4.7	3.0	2.1	3.4	2.4
Debt/EBITDA (x)	3.9	4.5	6.9	4.9	5.2
Capex/revenue (%)	13.5	9.2	3.5	2.4	9.9
Net debt/ (net cash)	7,343.0	6,652.0	6,603.1	6,192.7	5,669.4

Source: Company; Maybank

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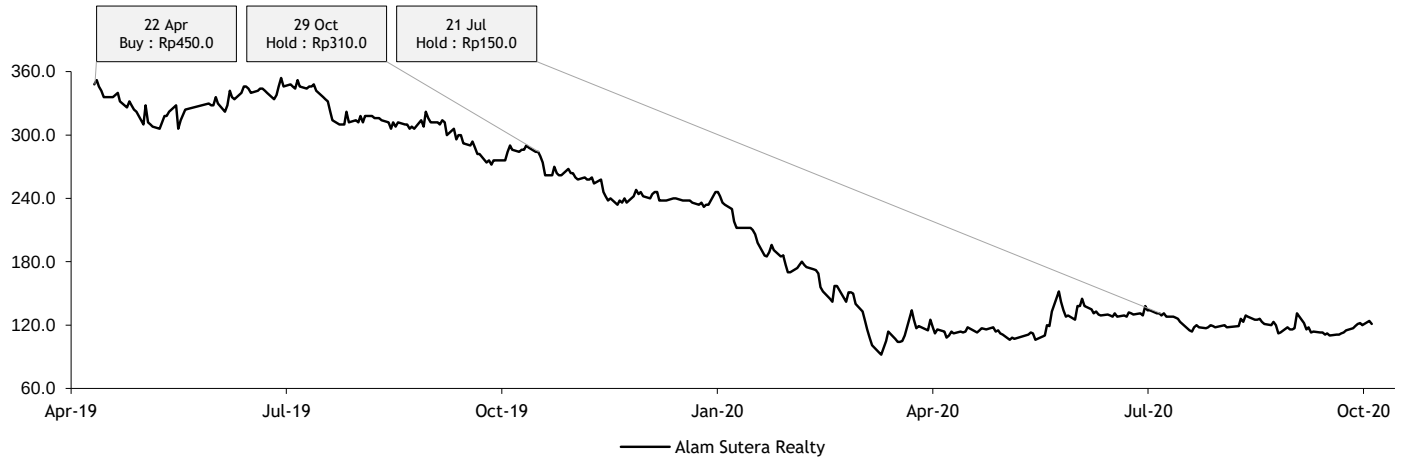

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