Property sector throughout the pandemic

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PEFINDO is of the view that the property sector is severely impacted by the economic downturn. Indonesia's GDP contracted by 5.32% in 2Q2020 year-on-year (YoY) and 3.49% in 3Q2020, respectively. The adverse impact was reflected in the companies' financial report in 3Q2020, when the revenue of most of those companies decreased, which was in line with Bank Indonesia's (BI) survey of property sales in 3Q2020, dropping by 30.93% YoY. Therefore, we view the pandemic has a substantial impact on the property sector.

Property companies have revised their sales and marketing sales targets in 2020 to adjust to the weakening demand. With regard to the marketing sales, we noted that five major publicly-listed property companies PT Bumi Serpong Damai Tbk. (BSDE), PT Summarecon Agung Tbk. (SMRA), PT Ciputra Development Tbk. (CTRA), PT Pakuwon Jati Tbk. (PWON) and PT Intiland Development Tbk. (DILD) as of September 30, 2020 managed to book an average of 65-84% of the 2020 target, but in terms of value, it was well below the 2019 the target. The pandemic also caused delays in product launches for several quarters or even until 2021. The implementation of social distancing has prompted property companies to switch to online launching, which is an extra challenge in marketing their products. Property companies have also changed their strategies to survive the pandemic, such as: offering discounts or bulk sales; strengthening efficiency in capital spending and operating costs; relying on access and synergies with groups or banks to maintain liquidity; debt restructuring including extending the bank loans' principal repayment until the end of 2020. From a financial standpoint, we view that maintaining liquidity and cash flow is very important to keep its operation running and pay its financial obligations to suppliers and creditors; otherwise, those companies encounter tight liquidity which will impede its day-to-day operation, leading to project delays and consumers' dissatisfaction. We view that project delays in 2020 will adversely affect the company's future sales recognition. Accordingly, companies must organize project management effectively to prevent from lengthy delays despite the pandemic.

Table 1: 2020 marketing sales (in IDR billion)

	BSDE		SMRA		DILD		CTRA		PWON	
	2020	2019	2020	2019	2020	2019	2020	2019	*9M20	2019
Marketing Sales	6,500.0	6,490.0	3,300.0	4,132.0	937.0	1,558.0	5,493.0	6,131.0	726.0	1,500.0
Target Marketing Sales	7,200.0	6,200.0	2,500.0	4,000.0	1,000.0	2,500.0	4,500.0	6,000.0	1,060.0	2,200.0
% YTD marketing sales target	90.3%		132.0%		93.7%		122.1%		68.5%	

Source: company's website, news portals and processed by PEFINDO

Bank Indonesia has cut the benchmark interest rate six times since January 2020 from 5.00% to the lowest level of 3.5% on February 18, 2021. The interest rate cut was aimed at accelerating economic recovery, including the property sector. A cut in the benchmark rate will be transmitted to the property sector through lower interest rates for construction loan and mortgage loan, both for landed residentials (KPR) and apartments (KPA). However, the impact will take effect with a lag. The uncertainty as to when the pandemic will abate leads to delays in deciding the purchase of property, which is considered by prospective buyers a large sum of purchase; instead, they prefer to keep their funds in bank deposit. We expect the impact of the interest rate cut will take effect starting in 2021. From the banking side, we view that banks will be more selective in extending loans and require longer processing time to determine credit quality so as to prevent non-performing loans (NPLs) from rising.

We view that the property industry in 2021 will remain quite challenging. Based on the Draft State Budget (RAPBN) 2021, the government targets GDP to grow 4.5%-5.5%, while Bank Indonesia's projection is between 4.8% and 5.8%. The abatement of the pandemic through vaccination program will not instantaneously lead to a hike in the demand for property. We view other factors such as people's purchasing power will likely start to rise in 2021, which will raise the public's motivation to buy or invest in the property sector. Accordingly, we expect sales and marketing sales performance of the property companies will be better in 2021 than in 2020, although the increase will remain limited. We project that the property sector will fully recover to the pre-COVID-19 level in 2023 at the soonest. From the financial perspective, we assess that the rising debt in 2020 due to the pandemic will also impact property sector companies' financial ratios in 2021. The high leverage will limit these companies' capacity to get further funding from their creditors. Accordingly, throughout 2020, we have lowered the rating of six companies in the property sector and assigned a negative outlook to four companies.

Table 2: Property companies' financial highlight

	BSDE		SMRA		DILD		CTRA		PWON	
[Unit] Account	**9M20**	**2019**	**9M20**	**2019**	**9M20**	**2019**	**9M20**	**2019**	**9M20**	**2019**
Total Adjusted Assets [IDR Bn]	58,851.2	52,783.3	24,926.8	24,441.7	15,863.4	14,771.3	38,784.3	36,196.0	26,046.4	26,095.2
Total Adjusted Debt [IDR Bn]	17,966.4	13,407.1	9,700.6	8,969.0	5,020.5	4,959.5	9,654.7	9,175.9	4,285.4	4,799.9
Total Adjusted Equity [IDR Bn]	32,239.1	31,886.0	9,289.0	9,451.4	5,967.2	7,228.7	16,863.7	17,761.6	17,237.8	18,095.6
Total Sales [IDR Bn]	4,279.6	7,084.9	3,260.2	5,941.6	2,064.5	2,736.4	4,240.1	7,608.2	3,046.7	7,202.0
EBITDA [IDR Bn]	469.6	2,791.4	(12.3)	515.0	39.5	251.4	250.9	1,158.0	600.7	2,719.5
Net Income after MI [IDR Bn]	1,825.8	3,156.2	839.7	1,858.0	602.0	718.4	1,024.9	2,455.8	1,603.4	3,831.7
EBITDA Margin [%]	7.4	4.2	8.7	4.8	6.3	6.9	7.1	3.7	2.0	1.3
Adjusted Debt/EBITDA [X]	*0.6	0.4	*1.0	0.9	*0.8	0.7	*0.6	0.5	*0.2	0.3
Adjusted Debt/Adjusted Equity [X]	5.5	16.6	2.2	9.1	4.7	0.1	6.2	17.0	41.0	69.5
FFO/Adjusted Debt [%]	*1.4	2.9	*1.3	2.1	*1.5	1.3	*1.7	2.7	*6.0	10.7
PEFINDO Rating	idAA-/Stable		idA/Stable		idBBB/Stable		*Not rated by PEFINDO*		*Not rated by PEFINDO*	

Source: company's financial statements, processed by PEFINDO
Note: *annualized