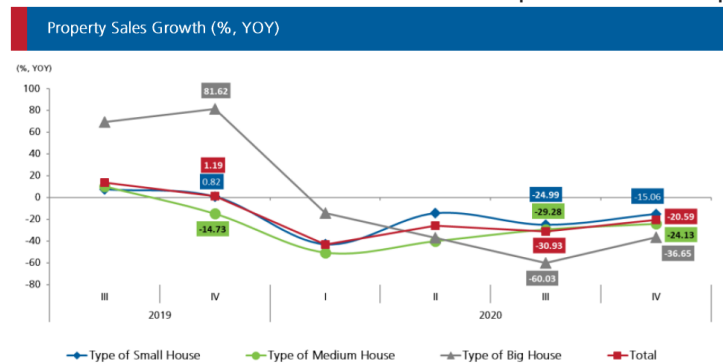


## Government Incentives in Property Sector during Pandemic

Analyst: Aryo Perbongso

The property sector is expected to perform better in 2021 compared to 2020. It is based on several positive catalysts such as the Covid-19 vaccination program and government incentives to help the property sector. In 2020, the property sector in Indonesia was in a declined position compared to previous year, due to the Covid-19 pandemic resulting in an economic downturn following the Large-Scale Social Restrictions (PSBB) policy implemented by the government to contain the spread of the pandemic. The PSBB impeded movements of goods and services, thereby undermining economic growth as people held back their spending for investment, leading to lower demand for the property sector. It was reflected in the total value of marketing sales/pre-sales performance in 2020 of five major property companies in Indonesia (PT Bumi Serpong Damai Tbk, PT Ciputra Development Tbk, PT Intiland Development Tbk, PT Summarecon Agung Tbk and PT Pakuwon Jati Tbk), decreasing by 15.3% compared to that in 2019. This condition is consistent with a survey report from Bank Indonesia indicating the growth in sales of various types of houses in Q42020 decreased by 20.59% on year on year (YoY) basis compared to the previous period. House sales of various types contracted, such as large houses (-35.65%, YoY), medium residences (-24.13%, YoY), and small houses (-15.06%, YoY). The decline in sales of houses in 2020 were due to the Covid-19 pandemic and implementation of PSBB.



Source: residential property survey Bank Indonesia Quarter IV 2020

To accelerate the recovery of the property sector in Indonesia, the Ministry of Finance, as the armlength of Government of Indonesia and Bank Indonesia as the Central Bank of Indonesia, have extended incentives for the property industry. In March 2021, the Ministry of Finance issued Ministry of Finance Regulation No.21/PMK.010/21 dated March 1, 2021, concerning the Value Added Tax on the Delivery of landed houses and high-rise residential units borne by the government for the Fiscal Year 2021. This incentive is aimed at supporting the property industry impacted by the Covid-19 pandemic. Under this regulation, the government bears the Value Added Tax (VAT) on the sales of the landed house or high-rise residential units that meet certain terms and conditions. To be eligible for the incentive, the highest selling price of a house/high-rise residential unit is IDR5 billion and the new landed house/apartment submitted is in ready-to-occupy condition. If the required conditions are met, the government will bear the value added tax (VAT) as follows: 100% of the VAT payable for delivery of a landed house or apartment unit with a maximum selling price of IDR2 billion and 50% of the VAT payable for delivery of a landed house or apartment unit with a selling price above IDR2 billion up to IDR5 billion. This government incentive is valid for the period between March 2021 and August 2021.

PEFINDO is of the view that the implementation of the PMK regulation No.21/PMK/010/21 will reduce property unit prices by around 5-10%. The property price "discount" is expected to boost property unit sales between March–August 2021. Through the issuance of the PMK regulation, the government expects the economy to recover, as the property sector has a high multiplier effect on the economy. The property industry is related to 170 other sectors. However, the PMK stipulates the incentive is only

for ready handover house/apartment units between March-August 2021. This regulation provides benefits for developers that have the inventory of ready-handover property units, whereas those that do not own any ready-handover units will not be eligible for any benefit from the regulation.

On February 26, 2021, Bank Indonesia (BI) issued BI Regulation (PBI) No. 23/2/PBI/2021 which was the third amendment to PBI No. 20/8/PBI/2018 regarding loan to value ratios for property loans, financing to value ratios for property financing and advance payment for motorcycle financing. The PBI stipulates that banks are allowed to provide residential or high-rise mortgage loans with a minimum down payment of 0% based on the assessment results from the bank. The regulation is undoubtedly very beneficial for developers as the previous regulation stipulates the loan will be extended by the bank at 30% after sales and purchase deed (Akta Jual Beli (AJB)) is carried out, while the remainder will be disbursed based on the completion of construction. Under the new PBI, property sales are expected to increase, thereby improving operating cash flow. In addition, it is also beneficial from the customer's point of view, as it facilitated access to bank loans the purchase of a house or an apartment unit.

Based on those regulations, it is stated that bank can provide mortgage loans with a minimum down payment of 0% based on the assessment results from the bank. However, we expect that banks will remain prudent in its loan underwriting practices including for mortgage and property sectors given the ongoing asset quality pressure particularly from debtors impacted by the Covid-19 pandemic.

PEFINDO expects those two regulations will contribute in boosting sales for landed houses and apartments, further improving capital structure and cash flow protection measures, and financial flexibility for companies in the property sector. In the future, the property developers can take advantage of better financial flexibility to diversify its business by investing or expanding new businesses.

The expectation of the improved performance of the property sector in 2021 was in line with survey on residential property sales at the first quarter of 2021 (1Q2021) from Bank Indonesia. It revealed an increase in sales volume by 13.95% (YoY) in 1Q2021 from a contraction of -20.59% in the previous year. The increase in sales was recorded in all property sizes in 1Q2021, especially medium-category residences that accelerated significantly by 25.85% (YoY) compared with (24.13%) (YoY) in the fourth quarter of 2020. It was also reflected in an increase of the total value of target marketing sales of 17.8% in 2021 compared to 2020 from five major publicly listed developers in Indonesia (PT Bumi Serpong Damai Tbk, PT Ciputra Development Tbk, PT Intiland Development Tbk, PT Summarecon Agung Tbk, and PT Pakuwon Jati Tbk). These developments promote optimism among developers to market property in Indonesia.

Remarks	BSDE	SMRA	DILD
Revenue in 2020 (IDR Bn)	6,180.59	5,029.98	2,891.39
EBITDA in 2020 (IDR bn)	2,589.15	1,545.90	897.01
Debt to EBITDA (x)	6.61	6.12	5.61
DER (x)	0.54	1.04	0.83
FFO to Debt (%)	6.57%	5.36%	6.44%
EBITDA to IFCCI (x)	1.45	1.50	1.67
Marketing Sales in 2020 (IDR tn)	6.5	3.3	0.9
Marketing Sales target in 2021 (IDR tn)	7	3.5	2
Rating	idAA-	idA	idBBB

Source: various financial statements and sources

#### DISCLAIMER

*The rating contained in this report or publication is the opinion of PT Pemeringkat Efek Indonesia (PEFINDO) given based on the rating result on the date the rating was made. The rating is a forward-looking opinion regarding the rated party's capability to meet its financial obligations fully and on time, based on assumptions made at the time of rating. The rating is not a recommendation for investors to make investment decisions (whether the decision is to buy, sell, or hold any debt securities based on or related to the rating or other investment decisions) and/or an opinion on the fairness value of debt securities and/or the value of the entity assigned a rating by PEFINDO. All the data and information needed in the rating process are obtained from the party requesting the rating, which are considered reliable in conveying the accuracy and correctness of the data and information, as well as from other sources deemed reliable. PEFINDO does not conduct audits, due diligence, or independent verifications of every information and data received and used as basis in the rating process. PEFINDO does not take any responsibility for the truth, completeness, timeliness, and accuracy of the information and data referred to. The accuracy and correctness of the information and data are fully the responsibility of the parties providing them. PEFINDO and every of its member of the Board of Directors, Commissioners, Shareholders and Employees are not responsible to any party for losses, costs and expenses suffered or that arise as a result of the use of the contents and/or information in this rating report or publication, either directly or indirectly. PEFINDO generally receives fees for its rating services from parties who request the ratings, and PEFINDO discloses its rating fees prior to the rating assignment. PEFINDO has a commitment in the form of policies and procedures to maintain objectivity, integrity, and independence in the rating process. PEFINDO also has a "Code of Conduct" to avoid conflicts of interest in the rating process. Ratings may change in the future due to events that were not anticipated at the time they were first assigned. PEFINDO has the right to withdraw ratings if the data and information received are determined to be inadequate and/or the rated company does not fulfil its obligations to PEFINDO. For ratings that received approval for publication from the rated party, PEFINDO has the right to publish the ratings and analysis in its reports or publication, and publish the results of the review of the published ratings, both periodically and specifically in case there are material facts or important events that could affect the previous ratings. Reproduction of the contents of this publication, in full or in part, requires written approval from PEFINDO. PEFINDO is not responsible for publications by other parties of contents related to the ratings given by PEFINDO.*