

Continuous mid-term growth

16 February 2024



PWON IJ	BUY
Sector	Property.
Price at 16 Feb 2024 (IDR)	428
Price target (IDR)	605
Upside/Downside (%)	41.3

Stock Information

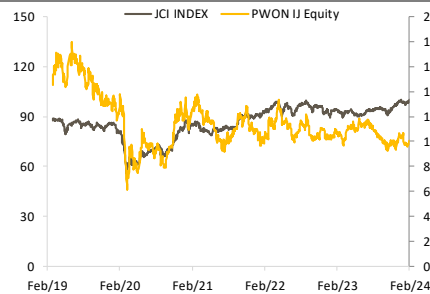
PT Pakuwon Jati Tbk owns, develops, and manages shopping centers, business complexes, real estate, and hotels.

Market cap (IDR bn)	20,612
Shares outstanding (mn)	48,160
52-week range (IDR)	392 - 525
3M average daily vol. ('000)	27,777
3M average daily val. (IDR mn)	11,842

Shareholders (%)

Pakuwon Arthaniaga	68.7
Public	31.3

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance	(6.2)	1.4	(7.4)

Analyst

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We anticipate PWON's robust recurring income growth from the expansion of retail space NLA and a substantial increase in hotel room capacity until 2030. Over the next 2 years, key projects such as the Batam and IKN projects rollout in 2024, Kota Kasablanka extension in 2024, various product launches in the 2H24, as well as project rollouts in Semarang and Gandaria extensions in 2025 are expected to fuel its mid-term growth story. PWON is poised for at least a 7.2% CAGR earnings growth from 2023-28F, assuming a conservative 5.3% CAGR in marketing sales, coupled with the incorporation of a few recurring income streams. Reiterate BUY on PWON with higher target price of IDR605 using DCF-based TP (WACC: 11.2%; LTG: 3%).

Robust recurring income growth outlook

As of the beginning of 2024, PWON's mall occupancy has reached an 95%, a level reminiscent of the pre-COVID era. Since 2020, PWON has strategically expanded its portfolio with three additional recurring assets: Pakuwon Mall Surabaya, Pakuwon Mall Solo Baru, and Four Points by Sheraton Bali (Kuta). Anticipating robust growth, the company projects a 34% increase in retail mall Net Leasable Area (NLA) from 2023 to 2029, a 7% growth in office space from 2023 to 2027, and a substantial 75% increase in hotel room capacity from 2023 to 2030. This growth trajectory is attributed to the ongoing development in Surabaya, Bekasi, Gandaria, Kota Kasablanka, along with new ventures in Batam and Semarang. Remarkably, the projection doesn't account for the imminent potential acquisition of 2 hotels in 2024 and the upcoming IKN projects.

Key projects in the next 2 years

In 2024, PWON plan to roll-out IDR2.2 tn of capex, with approximately 50% allocated to construction and the remaining designated for potentially acquiring land plot Semarang and 2 hotels. The inaugural phase 1 of the Batam project is scheduled for rollout in 2024, encompassing a mixed-use development featuring a mall spanning approximately 80k sqm of NLA, 2 hotels, and condominiums. Furthermore, the company has product launching plans for 2H24, including introducing a new tower in Pakuwon City and Bekasi as well as phase 1 of Kota Kasablanka extension (masterplan: 40k sqm mall, 2 hotel, and 2 condotel blocks). Thus, PWON targeting IDR1.5 tn of marketing sales target for 2024 (+11.8% yoy). In addition, PWON has IDR1.15tn of inventory (~40% landed and ~60% condominium) eligible for VAT exemption. The initial phase of the IKN project will start in 2024, PWON plans to construct a 4-star hotel and a mall spanning ~20k sqm of NLA. PWON also aims to launch its Semarang project and Gandaria extension by 2025.

Expect earnings to grow by at least 7.2% CAGR from 2023-28

Based on a conservative assumption of a 5.3% CAGR in marketing sales from 2023 to 2028, coupled with the incorporation of a few recurring income streams such as Pakuwon Mall Surabaya, Four Points Bekasi, Fairfield Bekasi, and Aloft hotel (Surabaya) our projection indicates that PWON has the potential to achieve a moderate earnings growth of at least 7.2% over the period from 2023-28. With a robust current cash position of IDR7.5 tn as of Sep 2023, PWON is well-positioned to pursue further acquisitions and finance its upcoming projects. This financial strength will open up significant potential for upside in earnings growth.

Undemanding valuation. Reinitiate BUY with TP of IDR605

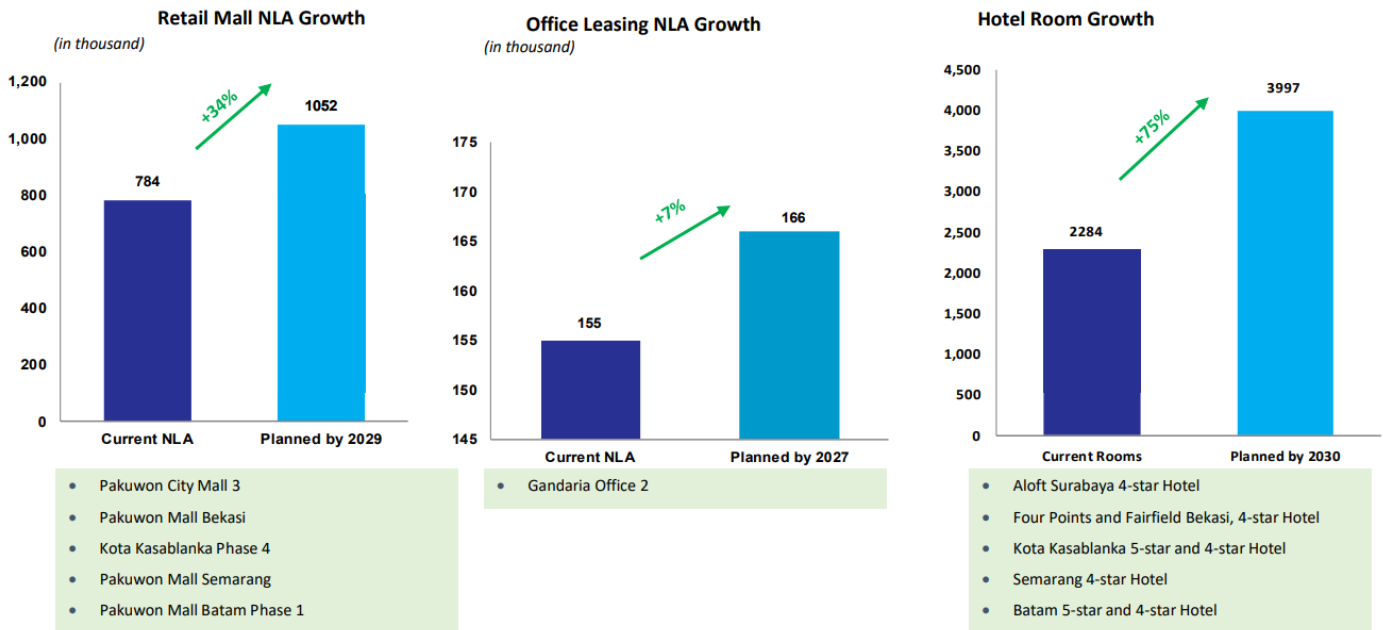
We reinitiate BUY on PWON with a target price of IDR605 using DCF-based TP (WACC: 11.2%; LTG: 3%), which implies to 1.2x '24F PBV and 47.6% discount to '24F RNAV (-0.58 SD of its 5 years historical mean). We like PWON due to 1) our expectation on a robust recurring income outlook until 2030; 2) undemanding valuation, and 3) strong cash position. Yet, risks to our call included 1) weak property demand; 2) weak retail space, office, and hotel demand; 3) stiff competition from the nearby competitor.

Exhibit 1 : Key Statistics

Year end Dec (IDR bn)	2022	2023F	2024F	2025F
Revenue	5,987	6,223	6,684	7,079
EBITDA	3,251	3,486	3,735	3,938
Net Income	1,539	2,021	2,142	2,276
EPS	32.0	42.0	44.5	47.3
PER (x)	12.8	9.7	9.2	8.6
PBV (x)	0.9	0.9	0.8	0.7
EV/EBITDA (x)	5.7	5.0	4.3	3.6
Dividend yield (%)	1.0	1.6	2.1	2.2
Net Gearing (%)	(5.8)	(9.4)	(15.2)	(20.7)

Source: Company, KBVS Research

Exhibit 2: Strong recurring income outlook until 2030



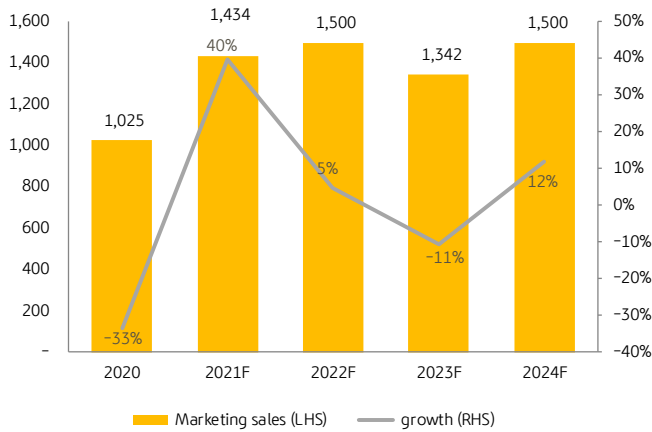
Source: Company, KBVS Research

Exhibit 3: PWON's Valuation Summary

DCF Valuation	2024	2025	2026	2027	2028
Cash flow multiple	1	2	3	4	5
Net Profit	2,142	2,276	2,386	2,555	2,864
Interest expense (1-tax)	364	357	362	361	150
Depreciation	703	730	757	785	814
NWC	(209)	(175)	(227)	(255)	(256)
Capex	(756)	(716)	(764)	(802)	(819)
FCFF	2,243	2,472	2,513	2,644	2,753
Discount factor	1.2	1.3	1.6	1.8	2.1
Discounted Free Cash Flow	2,016	1,998	1,825	1,726	1,616
Terminal Value	34,380				
Discounted Terminal Value	20,178				
Enterprise Value	29,359				
Net debt	(3,745)				
Equity value	33,104				
Minority interest	(3,968)				
Fair value per share 2024F	605				

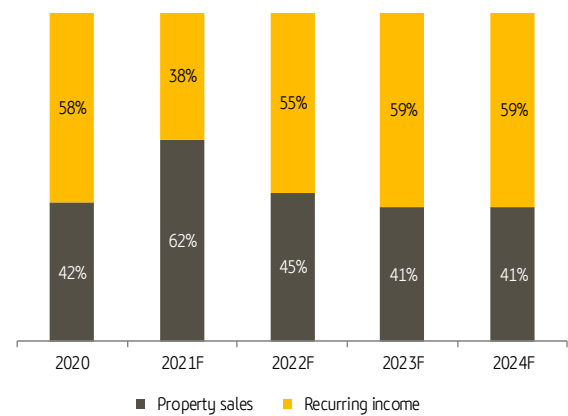
Source: KBVS Research

Exhibit 4: PWON's Marketing Sales Forecast (IDR bn)



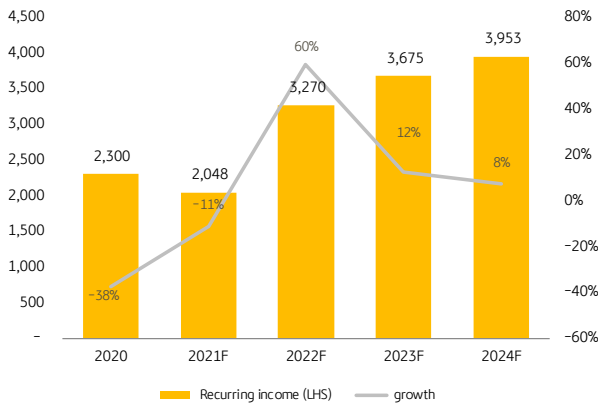
Source: Company, KBVS Research

Exhibit 5: PWON's Revenue Breakdown



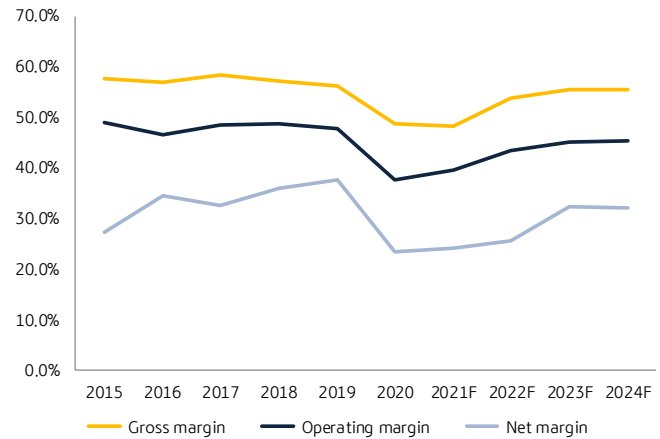
Source: Company, KBVS Research

Exhibit 6: PWON's Recurring Income Growth (IDR bn)



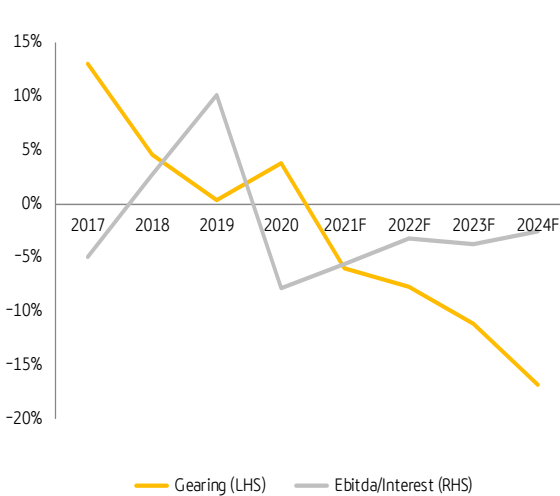
Source: Company, KBVS Research

Exhibit 7: PWON's Profitability Level



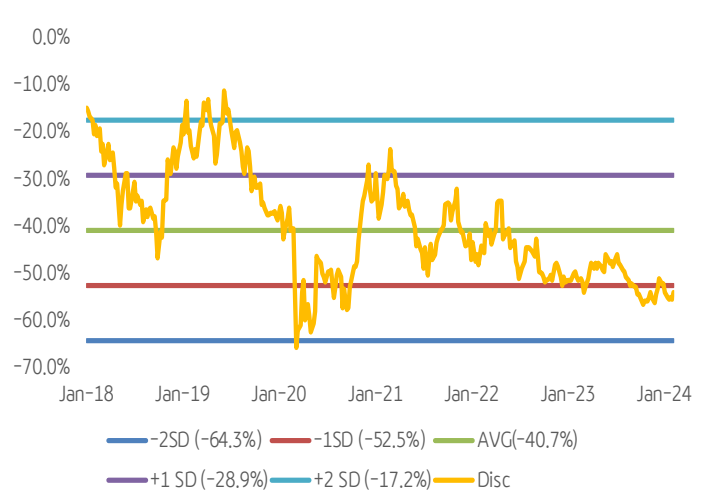
Source: Company, KBVS Research

Exhibit 8: PWON's Net Gearing



Source: Company, KBVS Research

Exhibit 9: PWON's Disc to RNAV band



Source: Company, KBVS Research

FINANCIAL TABLES

Exhibit 10: Profit & Loss summary

Profit & Loss (IDR bn)	2021	2022	2023F	2024F	2025F
Revenue	5,713	5,987	6,223	6,684	7,079
Cost of revenue	(2,949)	(2,769)	(2,766)	(2,968)	(3,152)
Gross profit	2,764	3,219	3,457	3,716	3,927
Selling expenses	(187)	(197)	(206)	(219)	(231)
G&A expenses	(307)	(420)	(439)	(465)	(488)
Operating profit	2,270	2,602	2,813	3,032	3,208
EBITDA	2,909	3,251	3,486	3,735	3,938
Other op. income/exp	(110)	(272)	173	123	123
Finance income	137	187	192	190	191
Finance expense	(352)	(339)	(375)	(375)	(368)
Inc/loss from assoc.	8	-	-	-	-
Pre-tax profit	1,953	2,178	2,803	2,970	3,154
Tax expense	(303)	(347)	(398)	(424)	(452)
Minority interest	(168)	(292)	(384)	(404)	(426)
Net profit	1,482	1,539	2,021	2,142	2,276
EPS (IDR)	31	32	42	44	47

Source: Company, KBVS Research

Exhibit 11: Balance sheet

Balance Sheet (IDR bn)	2021	2022	2023F	2024F	2025F
Cash and equivalents	6,444	7,444	8,339	9,955	11,771
Trade receivables	252	229	295	289	304
Inventories	3,981	3,779	4,079	4,246	4,446
Net- Fixed assets	2,318	2,327	2,427	2,476	2,473
Other assets	15,872	16,823	17,672	18,035	18,385
Total Assets	28,866	30,602	32,812	35,001	37,379
Trade payables	215	213	296	253	281
Short-term debt + CMLTD	50	-	-	-	-
Long-term debt	5,657	6,249	6,210	6,210	6,210
Other liabilities	3,766	3,423	3,602	3,824	4,052
Total Liabilities	9,688	9,884	10,108	10,287	10,543
Minority interest	3,132	3,411	3,690	3,968	4,247
Paid capital	1,566	1,566	1,566	1,566	1,566
Retained earnings	14,432	15,778	17,485	19,216	21,059
Other equities	49	(37)	(37)	(37)	(37)
Total Equity	19,178	20,718	22,705	24,714	26,836

Source: Company, KBVS Research

FINANCIAL TABLES

Exhibit 12: Profit & Loss summary

Cash Flow (IDR bn)	2021	2022	2023F	2024F	2025F
Net income	1,482	1,539	2,021	2,142	2,276
Depreciation & amortization	640	649	674	703	730
Change in working capital	(375)	(135)	(165)	(93)	(81)
Cash flow from operations	1,746	2,052	2,530	2,752	2,925
Capex	(259)	(534)	(793)	(756)	(716)
Others	75	(1,051)	(826)	(326)	(331)
Cash flow from investments	(184)	(1,585)	(1,619)	(1,082)	(1,048)
Changes in debt	1,760	542	(39)	-	-
Changes in equity	197	194	279	279	279
Dividends paid	-	(192)	(313)	(411)	(432)
Others	38	(11)	55	79	91
Cash flow from financing	1,994	532	(17)	(53)	(62)
Net Cash Flow	3,557	1,000	894	1,617	1,816

Source: Company, KBVS Research

Exhibit 13: Cash flow

Key Ratios (%)	2021	2022	2023F	2024F	2025F
Revenue growth	43.7	4.8	3.9	7.4	5.9
EBIT growth	51.3	14.6	8.1	7.8	5.8
EBITDA growth	42.2	11.7	7.2	7.1	5.4
Net profit growth	48.7	11.3	31.3	6.0	6.3
Gross margin	48.4	53.8	55.6	55.6	55.5
EBIT margin	39.7	43.5	45.2	45.4	45.3
EBITDA margin	50.9	54.3	56.0	55.9	55.6
Net margin	25.9	25.7	32.5	32.1	32.2
ROA	5.1	5.0	6.2	6.1	6.1
ROE	7.7	7.4	8.9	8.7	8.5
Net gearing (x)	(0.0)	(0.1)	(0.1)	(0.2)	(0.2)
Net debt/EBITDA (x)	(0.3)	(0.4)	(0.6)	(1.0)	(1.4)
Interest coverage ratio (x)	8.3	9.6	9.3	10.0	10.7

Source: Company, KBVS Research

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