

Undemanding valuation despite a weak marketing sales

15 December 2023



SMRA IJ	BUY
Sector	Property.
Price at 14 Dec 2023 (IDR)	570
Price target (IDR)	700
Upside/Downside (%)	22.8

Stock Information

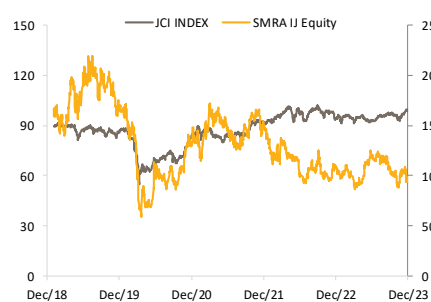
PT Summarecon Agung Tbk and its subsidiaries develop and invest in real estate. The Company develops and operates residential houses, apartments, shopping centres, recreational centres and office buildings.

Market cap (IDR bn)	9,410
Shares outstanding (mn)	16,508
52-week range (IDR)	498 – 740
3M average daily vol. ('000)	47,156
3M average daily val. (IDR mn)	27,031

Shareholders (%)

Semarop Agung	33.8
Public	66.2

Stock Performance



Source: Bloomberg

	1M	3M	12M
Performance	(5.7)	(4.2)	(7.2)

Analyst

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We anticipate a 9% decline in FY23F marketing sales to IDR4.5 tn, which falls short of the company's guidance of IDR 5.0 tn for FY23F. SMRA's marketing sales could rebound by 10% in 2024F due to low-base effect in 2023F as well as benefit from the VAT exemption program. Several catalysts in 2024 is potential rebound in marketing sales, continuation in earnings growth, as well as the commencement of Summarecon Mall Bandung in 2024, we expected it to make a IDR50 bn contribution to recurring income for 2024F. Reiterate BUY on SMRA with target price of IDR700 using DCF-based TP (WACC: 11.2%; LTG: 5%), which implied to 1.1x '24F PB and 82.8 % discount to '24F RNAV.

Weak marketing sales in FY2023F

SMRA booked IDR3.7 tn of marketing sales (-10.9% yoy) in 11M23. We view the decline in marketing sales is primarily attributed to a subdued market appetite in certain regions, notably Serpong and Bandung, where achievements reached only 49% and 48% of the FY23 targets, respectively. Additionally, the latest product launch in Serpong, specifically the Strozzi residential project, has a weak take-up rate with only 50% of uptake. In Dec' 23, there are indications of potential upside in marketing sales, particularly with the successful launch of the Viola (residential) in Summarecon Crown Gading and Maple (residential) in Summarecon Bogor with total proceeds around IDR320 bn. Consequently, we anticipate a 9% decline in FY23F marketing sales to IDR4.5 tn, which falls short of the company's guidance of IDR 5.0 tn for FY23F.

Expect marketing sales to reach IDR 4.95 tn tn in 2024F (+10%)

We expect SMRA's marketing sales could rebound by 10% in 2024F due to low-base effect in 2023F as well as benefit from the VAT exemption program. SMRA has IDR1.9 tn eligible inventory for the VAT exemption program with IDR1.1 tn of residential, IDR389 bn of shophouse, and apartment of IDR364 bn. On the earnings side, we expect in 2023F SMRA could book IDR845 bn (+35.2%), the highest in last 8-year. This uptick can be attributed to the commencement of the first hand-over of Summarecon Bogor in 2Q23 and a reduction in interest expenses. Looking ahead to 2024, we anticipate a continued earnings growth of 19.3%, driven by margin expansion in the residential segment. Additionally, we project a 7.8% increase in revenue from higher recognition in development revenue and a substantial 9% growth in recurring income. This optimistic outlook is further supported by robust short-term contract liabilities recorded in 9M23 of IDR6.15 tn (+28% ytd).

Several catalysts in 2024

Several catalysts in 2024 is potential rebound in marketing sales, continuation in earnings growth, as well as the commencement of Summarecon Mall Bandung in 2024, we expected it to make a IDR50 bn contribution to recurring income for 2024F. Additionally, a potential reduction in BI rate could also become positive catalyst for next year. Nevertheless, our assessment indicates limited catalysts for the mid-term, as there is currently no concrete plan for the launch of a new township.

Undemanding valuation; Reiterate BUY with TP IDR700

We reiterate BUY on SMRA with target price of IDR700 using DCF-based TP (WACC: 11.2%; LTG: 5%), which implied to 1.1x '24F PB and 82.8% discount to '24F RNAV. We like SMRA due to 1) undemanding valuation, and 2) strong brand equity, enabling secure project acquisition with minimal capital risk, 3) lower net gearing level. Yet, risks to our call included 1) weak property demand; 2) higher building material cost; 3) stiff competition from the nearby competitor.

Exhibit 1 : Key Statistics

Year end Dec (IDR bn)	2021	2022	2023F	2024F	2025F
Revenue	5,568	5,719	6,371	6,869	6,950
EBITDA	1,556	1,712	1,886	2,140	2,089
Net income	324	625	846	1,009	1,002
EPS growth (%)	80.0	93.2	35.2	19.3	(0.6)
PER (x)	29.1	15.0	11.1	9.3	9.4
PBV (x)	1.1	1.0	0.9	0.9	0.8
EV/EBITDA (x)	9.7	7.9	7.8	6.3	6.2
Dividend yield (%)	0.0	1.1	1.2	1.5	1.4
Gearing (x)	0.5	0.3	0.4	0.2	0.1

Source: Company, KBVS Research

Exhibit 3: SMRA's Valuation Summary

DCF Valuation	2024	2025	2026	2027	2028
Net Profit	1,009	1,002	1,057	1,197	1,334
Depreciation	246	250	254	259	264
Interest expense (1-tax)	318	290	279	260	242
NWC	(221)	(202)	(210)	(218)	(217)
Capex	(285)	(298)	(311)	(324)	(339)
FCFF	1,067	1,043	1,069	1,174	1,283
Discount factor	1.1	1.2	1.4	1.5	1.7
Discounted Free Cash Flow	959	844	777	767	755
Terminal Value	21,724				
Discounted Terminal Value	12,775				
Enterprise Value	16,878				
Net debt	2,295				
Equity value	14,583				
Minority interest	(3,025)				
12 months forward valuation per share (IDR)	700				

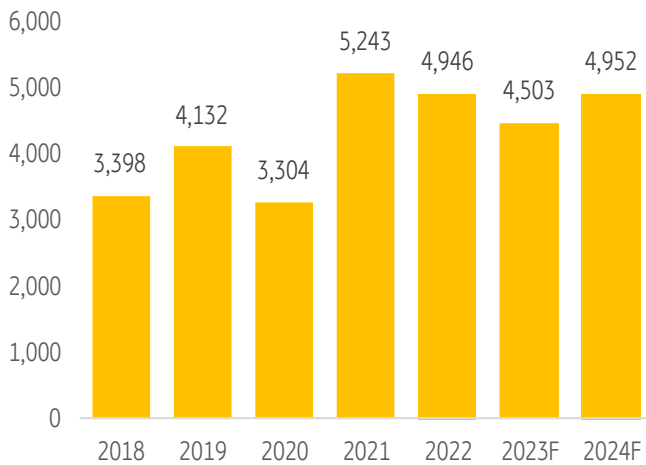
Source: KBVS Research

Exhibit 4: SMRA's Launching Recap

2023						
Months	Cluster	Location	Unit Sold	Avg Price (bn)	Proceeds	Notes
Mar	Grha Boulevard (Shophouse)	Bogor	54	2.7	150	Sold Out
April	Downtown Drive (Shophouse)	Serpong	76	3.3	250	Sold Out
June	Strozzi (Residential)	Serpong	78	2.2 - 2.5	100	50% take-up rate
July	Genova (Residential)	Bandung	26	Start 2.3	65	59% take-up rate
Aug	Alderwood (Residential)	Bogor	241	Start 1.7	600	Sold Out
Sep	Ruko Gading Boulevard (Shophouse)	Crown Gading	66	Start 3.1	200	87% take-up rate
Oct	Crystal (Shophouse)	Bekasi	48	start 3.4	230	Sold Out
Nov	Sapphire (Shophouse)	Bandung	9	3.8 - 5.4	35	41% take up rate
Dec	Viola (Residential)	Crown Gading	100	start 1.0	150	95% take up rate
	Maple (Residential)	Bogor	40	start 3.9	170	Sold Out

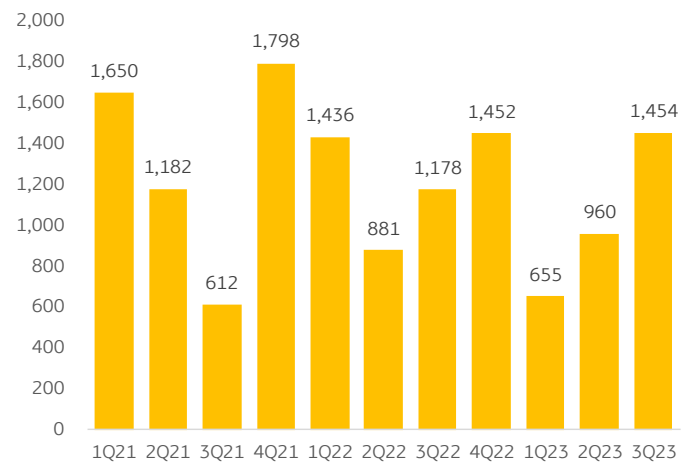
Source: Company, KBVS Research

Exhibit 5: SMRA's Marketing Sales Forecast (IDR bn)



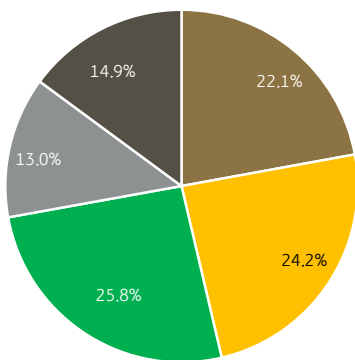
Source: Company, KBVS Research

Exhibit 6: SMRA's 9M23 Marketing Sales (IDR bn)



Source: Company, KBVS Research

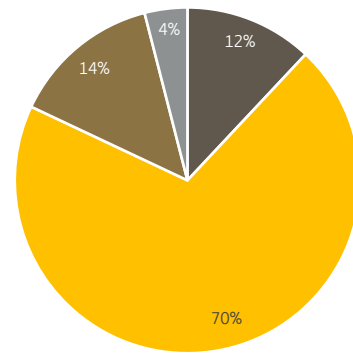
Exhibit 7: SMRA's marketing sales based on geography (%)



■ Bekasi ■ Bogor ■ Serpong ■ Crown Gading ■ Others

Source: Company, KBVS Research

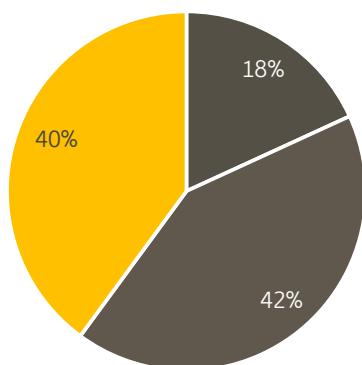
Exhibit 8: SMRA's marketing sales based on product (%)



■ >5 bn ■ 2-5 bn ■ 1-2 bn ■ <1 bn

Source: Company, KBVS Research

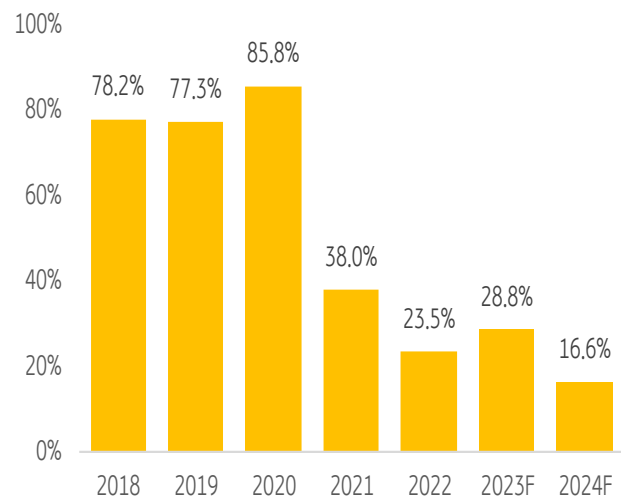
Exhibit 9: SMRA's payment profile (%)



■ Cash ■ Cash Installment ■ Mortgage

Source: Company, KBVS Research

Exhibit 10: SMRA's net gearing



Source: Company, KBVS Research

FINANCIAL TABLES

Exhibit 11: Profit & Loss summary

Profit & Loss (IDR bn)	2021	2022	2023F	2024F	2025F
Revenue	5,568	5,719	6,371	6,869	6,950
Cost of revenue	(2,974)	(2,720)	(3,039)	(3,184)	(3,258)
Gross profit	2,594	3,000	3,333	3,685	3,693
Selling expenses	(515)	(565)	(640)	(690)	(699)
G&A expenses	(733)	(952)	(1,048)	(1,100)	(1,155)
Operating profit	1,345	1,483	1,645	1,894	1,839
EBITDA	1,556	1,712	1,886	2,140	2,089
Other op. income/exp	3	(17)	(19)	(21)	(23)
Finance income	192	157	168	120	145
Finance expense	(1,002)	(857)	(704)	(691)	(668)
Inc/loss from assoc.	8	9	11	11	12
Pre-tax profit	547	775	1,101	1,313	1,305
Tax expense	3	(3)	(17)	(20)	(20)
Minority interest	(226)	(146)	(238)	(285)	(283)
Net profit	324	625	846	1,009	1,002
EPS (IDR)	20	38	51	61	61

Source: Company, KBVS Research

Exhibit 12: Balance sheet

Balance Sheet (IDR bn)	2021	2022	2023F	2024F	2025F
Cash and equivalents	2,774	3,143	2,241	2,713	3,406
Trade receivables	344	376	419	452	457
Inventories	9,254	9,960	10,160	10,360	10,560
Net- Fixed assets	318	370	348	326	301
Other assets	13,360	14,585	15,674	15,937	16,127
Total Assets	26,050	28,434	28,842	29,788	30,851
Trade payables	405	303	338	355	363
Short-term debt + CMLTD	2,919	2,625	2,625	1,925	1,725
Long-term debt	4,120	3,284	3,284	3,083	3,083
Other liabilities	7,376	10,472	9,882	10,596	10,738
Total Liabilities	14,819	16,684	16,129	15,959	15,909
Minority interest	2,569	2,553	2,781	3,025	3,268
Paid capital	1,651	1,651	1,651	1,651	1,651
Retained earnings	7,010	7,547	8,281	9,153	10,022
Other equities	0	0	0	0	0
Total Equity	11,230	11,750	12,713	13,829	14,942

Source: Company, KBVS Research

FINANCIAL TABLES

Exhibit 13: Profit & Loss summary

Cash Flow (IDR bn)	2021	2022	2023F	2024F	2025F
Net income	324	625	846	1,009	1,002
Depreciation & amortization	211	229	241	246	250
Change in working capital	958	1,825	(1,164)	82	(383)
Cash flow from operations	1,493	2,679	(77)	1,336	870
Capex	(16)	(1,197)	(545)	(295)	(308)
Others	(1)	(50)	61	(60)	(63)
Cash flow from investments	(17)	(1,247)	(484)	(355)	(370)
Changes in debt	(2,413)	(1,130)	-	(901)	(200)
Changes in equity	1,492	-	-	-	-
Dividends paid	-	(99)	(115)	(137)	(136)
Others	98	(7)	233	244	247
Cash flow from financing	(822)	(1,236)	118	(794)	(90)
Net Cash Flow	654	196	(443)	187	410

Source: Company, KBVS Research

Exhibit 14: Cash flow

Key Ratios (%)	2021	2022	2023F	2024F	2025F
Revenue growth	10.7	13.7	11.4	7.8	1.2
EBIT growth	25.3	10.2	10.9	15.2	(2.9)
EBITDA growth	108.8	129.6	10.2	13.4	(2.4)
Net profit growth	80.0	93.2	35.2	19.3	-0.6
Gross margin	46.6	52.4	52.3	53.6	53.1
EBIT margin	24.2	25.9	25.8	27.6	26.5
EBITDA margin	28.0	29.9	29.6	31.1	30.1
Net margin	5.8	10.9	13.3	14.7	14.4
ROA	1.3	2.3	3.0	3.4	3.3
ROE	4.2	7.8	8.8	9.7	8.9
Net gearing (x)	0.5	0.3	0.4	0.2	0.1
Net debt/EBITDA (x)	2.4	1.6	1.9	0.0	0.0
Interest coverage ratio (x)	1.9	2.4	3.5	3.7	4.0

Source: Company, KBVS Research

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