

RATING ACTION COMMENTARY

Fitch Upgrades Ciputra Development to 'BB-'; Outlook Stable

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Fitch Ratings - Jakarta - 20 Jan 2023: Fitch Ratings has upgraded Indonesia-based property developer PT Ciputra Development Tbk's (CTRA) Long-Term Issuer Default Rating (IDR) to 'BB-' from 'B+'. The Outlook is Stable. Fitch has also upgraded the senior unsecured rating on CTRA's SGD150 million unsecured notes due 2 February 2026 to 'BB-' from 'B+'.

The 'BB-' Long Term IDR and Stable Outlook reflects our view that CTRA will maintain its annual attributable contracted sales, excluding minorities' share, above IDR5 trillion over the medium term. This is supported by CTRA's well-diversified contracted sales mix and land bank across several key cities, projects and price points, allowing CTRA to nimbly cater to changing consumer preferences. Consequently, we expect the company can navigate softer housing-demand this year amid rising inflation and interest rates.

The rating is also supported by CTRA's exceptionally strong balance sheet, which provides the company with significant financial flexibility.

KEY RATING DRIVERS

Steady Contracted Sales: Fitch forecasts CTRA to achieve attributable annual contracted sales of around IDR5.3 trillion-5.5 trillion in 2023-2024, despite a moderating outlook for housing demand amid rising interest rates and higher inflation in the next 12 months. Domestic banks have so far remained supportive of mortgage loans with mortgage interest-rates rising by around 25bp in 2022, against a 200bp hike in

Bank Indonesia's reference rates. The majority of contracted sales in 2022 were paid through mortgages (62%), with cash (21%) and instalments (18%) making up the rest.

We think CTRA's exceptionally low leverage (net debt/net property assets) in the low single digits, positions it well to mitigate a slowdown in mortgage-funded contracted sales if domestic banks' appetites wane in the near term. The company can offer customers in-house instalment schemes instead to finance home sales, which will raise leverage somewhat but should allow CTRA to remain well within the sensitivities for its 'BB-' rating.

VAT Rebate Expiry Neutral: We think CTRA's contracted sales will be resilient after the expiry of the Indonesian government's VAT rebate on home sales in September 2022. The majority of CTRA's strong contracted sales performance in 3Q22 did not use the incentive, which supports our view that increases in underlying housing demand are less reliant on government incentives.

Diversified Sales Mix: We believe that CTRA's geographic and product diversification increase the stability of its contracted sales. Geographic diversification benefited contracted sales in 2022, with declining contracted sales in Greater Jakarta offset by increased sales in Sulawesi and Greater Surabaya. CTRA's exposure to low, mid and high-end products also provides flexibility to tailor its housing supply to market demand. Mid to high-end products greater than IDR2 billion were responsible for the majority of sales growth in 2022.

Leverage Remains Low: Fitch forecasts CTRA's leverage to rise but remain below 10% in 2023 (end-September 2022: 3%). The consolidated cash balance was significant at around IDR8.4 trillion at end-September 2022, and we estimate it was about IDR8 trillion excluding the share of minorities. However, we expect the company to remain disciplined when deploying this cash. Uses of cash will include a measured development of new shopping malls and hospitals in its existing townships, a moderate increase in dividends and a gradual repayment of gross debt.

Negative Free Cash Flow: We expect CTRA will generate negative free cash flow (FCF) in 2023 and 2024. This is based on Fitch's estimates of a moderation in contracted sales, higher capex and slower cash collections, assuming that some customers switch from mortgage funding to cash instalments.

Increasing Non-Development Revenue: Fitch forecasts non-development revenue will increase to 21% of total revenue in 2024 from 17% in 2021. We forecast shopping mall and hotel revenue will continue to improve in 2023. Shopping mall revenue rose by 38% yoy to end-September 2022 as Covid-19-related rental discounts were removed, and

hotel revenue rose by 84% yoy on the return of domestic business travel, the main driver of demand for CTRA's hotels. We expect hospital-related revenue will normalise to a lower level as result of the reduction in Covid-related healthcare services.

Large Land Bank, Joint-Operations: CTRA owns a land bank of over 2,200 hectares, with a larger presence in the main urban areas of Greater Jakarta and Greater Surabaya. The large land bank provides CTRA with the flexibility and assurance that it can continue to develop projects in the long term. The company also develops projects with other land owners on a profit- or revenue-sharing basis. It reports joint operations on a proportionally consolidated basis, while Fitch proportionally consolidates its key joint ventures (JV) - reported using the equity method - when calculating credit metrics.

DERIVATION SUMMARY

CTRA's rating compares well with that of Indonesia-based PT Pakuwon Jati Tbk (PWON, BB/Stable) and PT Bumi Serpong Damai Tbk (BSD, BB-/Stable), as well as Vietnam-based BIM Land Joint Stock Company (B/Stable).

PWON is one of Indonesia's leading shopping-mall owners and is also a mixed-use property developer. The majority of its operating cash flow is derived from its portfolio of shopping malls, hotels and offices. PWON is rated one notch higher than CTRA because of its substantial non-development cash flow, which supports its credit metrics during periods of weak property demand. This recurring income offsets risks stemming from PWON's smaller property development business, which is also prudently managed, with most of the construction funded by contracted sales rather than debt.

CTRA and BSD are rated at the same level. We forecast CTRA's attributable contracted sales of between IDR5.3 trillion-5.5 trillion in 2023 and 2024 will remain below BSD's attributable contracted sales of around IDR6 trillion. CTRA's somewhat smaller scale is offset by its greater geographic diversification, as the majority of BSD's contracted sales are generated from the Tangerang region in Greater Jakarta. Both BSD and CTRA maintain low leverage and have strong liquidity.

CTRA is rated two notches higher than BIM Land which reflects CTRA's exposure to residential development cash flow and its greater diversification. Around 30%-40% of BIM Land's sales are derived from tourism-led properties, such a condotels and rental villas, where the demand is more cyclical than residential units. In addition, BIM Land's geographic diversification is weaker with contracted sales mostly concentrated in northern Vietnam in the next few years.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within Our Rating Case for the Issuer:

- Attributable contracted sales (excluding minority interests' share) of IDR5.3 trillion in 2023 and IDR5.4 trillion in 2024;
- Attributable land acquisition spending of around IDR400 billion in 2023 and 2024;
- Capex of around IDR600 billion in 2023 and IDR1 trillion in 2024;
- Dividends increasing to between IDR400 billion-450 billion in 2023 and 2024.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- We do not expect positive rating action in the next 24 months, as CTRA's attributable contracted sales should remain steady. Over the longer term, a significant and sustained increase in attributable contracted sales while maintaining a conservative financial profile could lead to a rating upgrade.

Factors that could, individually, or collectively, lead to negative rating action/downgrade:

- Annual attributable contracted sales sustained below IDR5.0 trillion;
- Net debt/net property assets above 40% for a sustained period.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

LIQUIDITY AND DEBT STRUCTURE

Strong Liquidity, Diversified Funding: CTRA reported IDR8.4 trillion of consolidated cash and cash equivalents as of end-September 2022 and a Fitch-estimated IDR8 trillion excluding minorities' share, as well as significant committed undrawn

construction lines. This is more than sufficient to cover the IDR1.2 trillion of short-term debt maturities. The short-term maturities include working capital funding of IDR620 billion, which we expect will be rolled over by lenders in the normal course of business.

CTRA has good access to its domestic bank market and its funding sources are well diversified. Only 17% of its outstanding debt is foreign currency denominated, consisting of its SGD150 million of medium-term notes maturing in February 2026. The foreign currency debt is partially hedged using call spread options with strike rates between IDR/SGD 10,720 and 12,350 (end-2022: SGD1=IDR11,608).

ISSUER PROFILE

CTRA is a leading Indonesian homebuilder with a land bank of over 2,200 hectares well-spread across several areas in the country. It is also one of the most diversified Indonesian homebuilders with over 80 projects in 34 cities, and contracted sales spread across low, mid and upper-income customer segments.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT	RATING		PRIOR
PT Ciputra Development Tbk	LT IDR	BB- Rating Outlook Stable	B+ Rating Outlook Positive
	Upgrade		
senior unsecured	LT	BB- Upgrade	B+

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Country-Specific Treatment of Recovery Ratings Criteria \(pub. 06 Jan 2021\)](#)

[Corporates Recovery Ratings and Instrument Ratings Criteria \(pub. 09 Apr 2021\)](#)
(including rating assumption sensitivity)

[Sector Navigators: Addendum to the Corporate Rating Criteria \(pub. 29 Oct 2022\)](#)

[Corporate Rating Criteria \(pub. 29 Oct 2022\)](#) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

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