



# Update On Southeast Asia Property

Glimmers Of Gains Amid The Strains

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Ratings

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*This report does not constitute a rating action*

## Key Takeaways

-  Indonesia and Vietnam property sales sentiment will improve in 2024 underpinned by supportive regulatory policies.
-  Refinancing pressure on Vietnam and Indonesia developers remains elevated owing to sizable maturity walls looming in 2024 and 2025.
-  Prime commercial real estate in Singapore remains resilient. Downtown malls and hospitality assets benefit from increasing tourist inflows.

# Indonesia

# Main Assumptions: Indonesia Developers

	2023	Looking into 2024
GDP growth	5.0%	4.9%
Inflation	3.6%	2.8%
Consumer sentiment	Largely cautious due to macro headwinds	Slightly positive supported by VAT exemption between November 2023–December 2024
Aggregate marketing sales growth	Largely flat	5%-10%
Capital spending	Polarizing capital expenditure (capex) trend. Companies with higher recurring income may conduct selective expansionary capex or opportunistic acquisitions	Similar to 2023
Funding conditions	Onshore: Sentiment better than in pandemic era. Offshore: Cautious sentiment in offshore markets	Onshore: Cautious sentiment until at least after the general election; Offshore: Similar to 2023

Source: S&P Global Ratings.

# Supporting Factors Slightly Outweigh Negative Factors

## Drivers of sales:



VAT exemptions and housing subsidies



End-user demand for landed residential projects



Mortgage rates remain low compared with pre-pandemic era

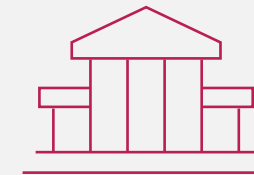
## Factors constraining sales growth:



Inflation impact on consumers' purchasing power



Reduced wealth effect due to tempering commodity price

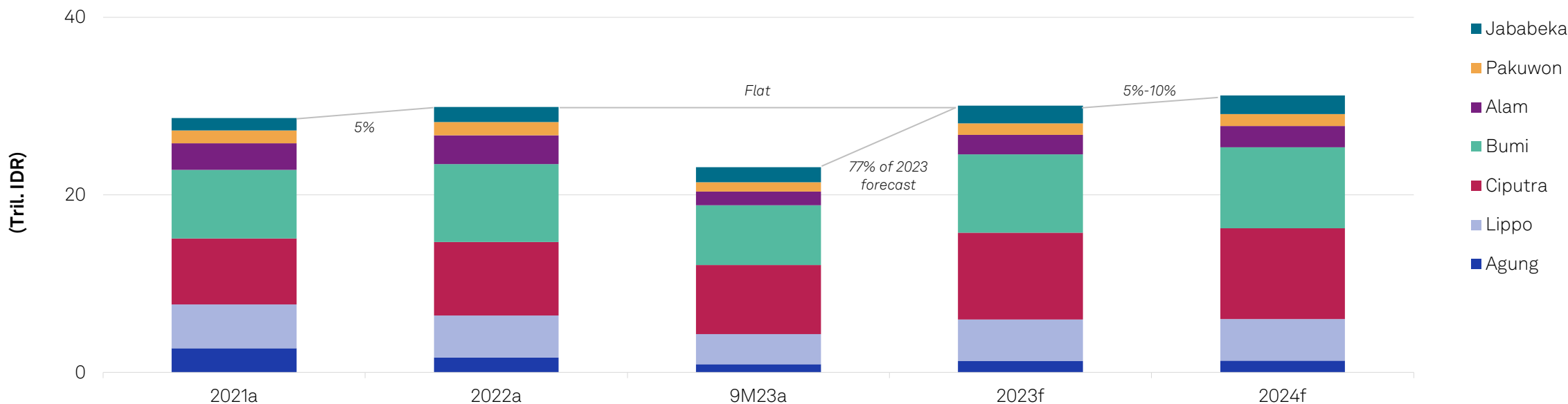


Cautious sentiment prior to the general election

# Supportive Policies And End-User Demand Underpin Residential Sales In 2024

- Aggregate marketing sales in 2023 to remain largely flat. Developers with higher exposure to landed houses and industrial land sales registered higher sales growth.
- New round of VAT exemption between November 2023 and December 2024 and end-user demand of landed houses will underpin 5%-10% of sales growth in 2024.

## Marketing sales momentum for most Indonesia developers to improve in 2024



Forecasts represent our estimates for rated developers (including Jababeka and Pakuwon) and for unrated developers (including Alam, Bumi, Ciputra, Lippo and Agung).  
Sources: Company's disclosures. S&P Global Ratings.

# New Round Of VAT Exemption To Have A Modest Effect On Sales Growth

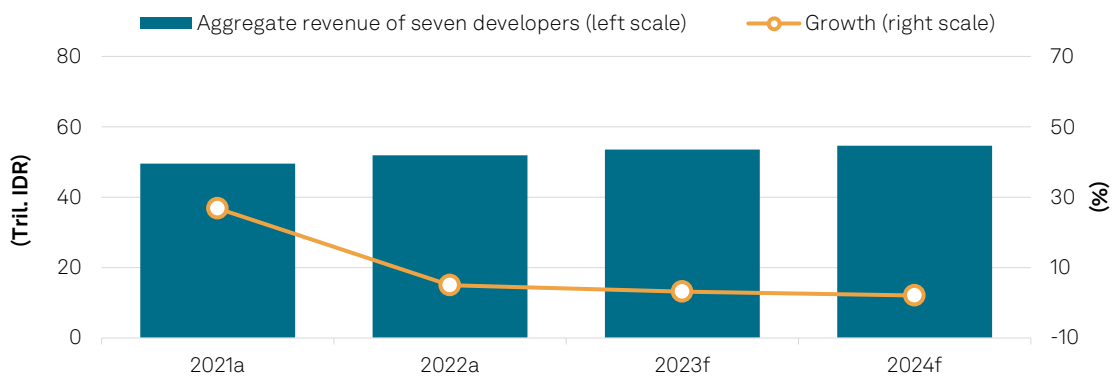
- The latest VAT exemption will help clear developers’ inventory. Homebuyers will save up to 11% VAT.
- However, new round of the VAT exemption to have mild uplift on sales growth in 2024 at 5%-10%, compared with a 32% gain in 2021.
- The latest VAT exemption imposes a lower incentive cap on the value of residential property and has a shorter valid period than 2021 VAT exemption program.
- The strong sales growth in 2021 also benefited from pent-up demand and a low base in 2020.

VAT exemption scheme comparison	2024	2021
Housing categories	Below IDR2 billion per unit	(a) Below IDR2 billion per unit (b) Between IDR2 billion and IDR5 billion per unit
VAT exemptions	Between November 2023 and June 2024: <ul style="list-style-type: none"><li>• 100%</li></ul> Between July 2024 and December 2024: <ul style="list-style-type: none"><li>• 50%</li></ul>	Between March 2021 and December 2021: <ul style="list-style-type: none"><li>• 100% for (a)</li><li>• 50% for (b)</li></ul> Between January 2022 and September 2022: <ul style="list-style-type: none"><li>• 50% for (a)</li><li>• Nil for (b)</li></ul>
Duration	14 months	19 months

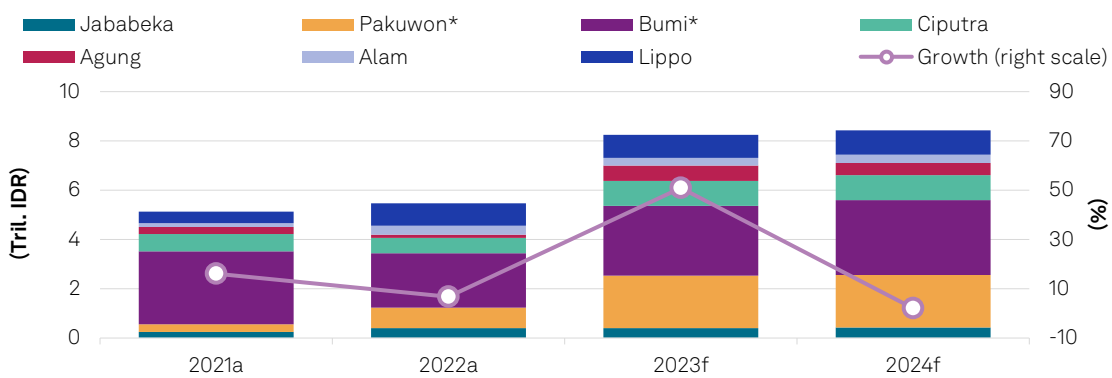
Source: S&P Global Ratings.

# Credit Ratios Trends Among Higher- And Lower-Rated Developers Diverge

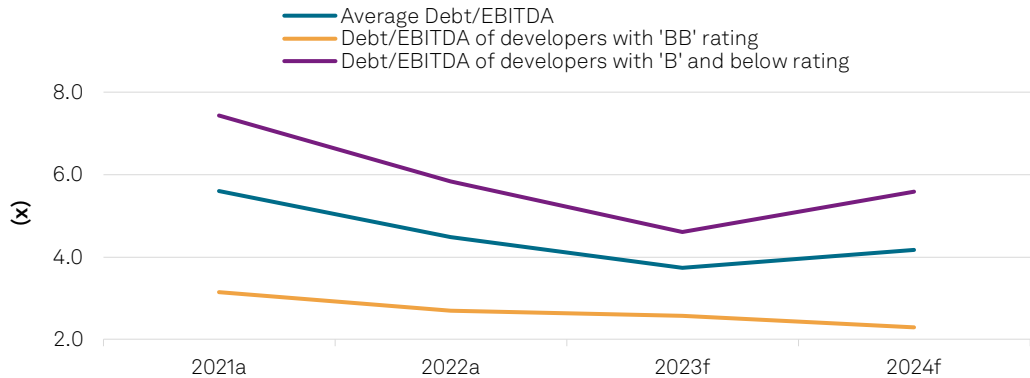
Stable revenue underpinned by steady sales



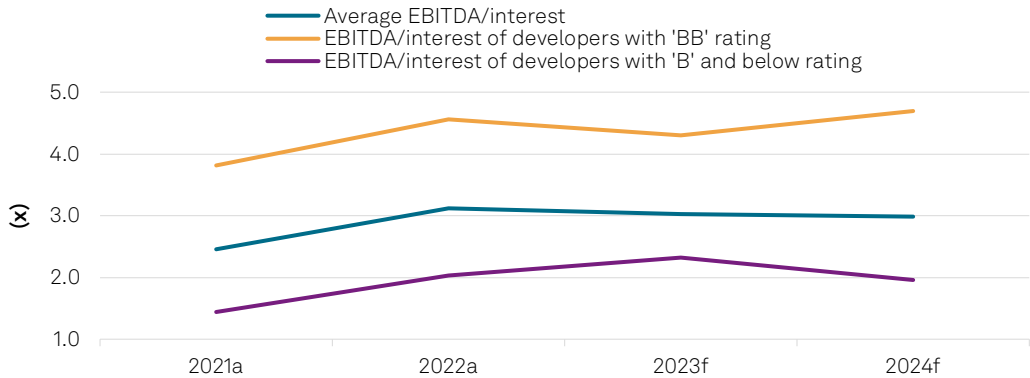
Developers with higher recurring income drive capex growth



Rising sales drive deleveraging of higher-rated developers



Debt restructuring to raise interest cover of lower-rated developers



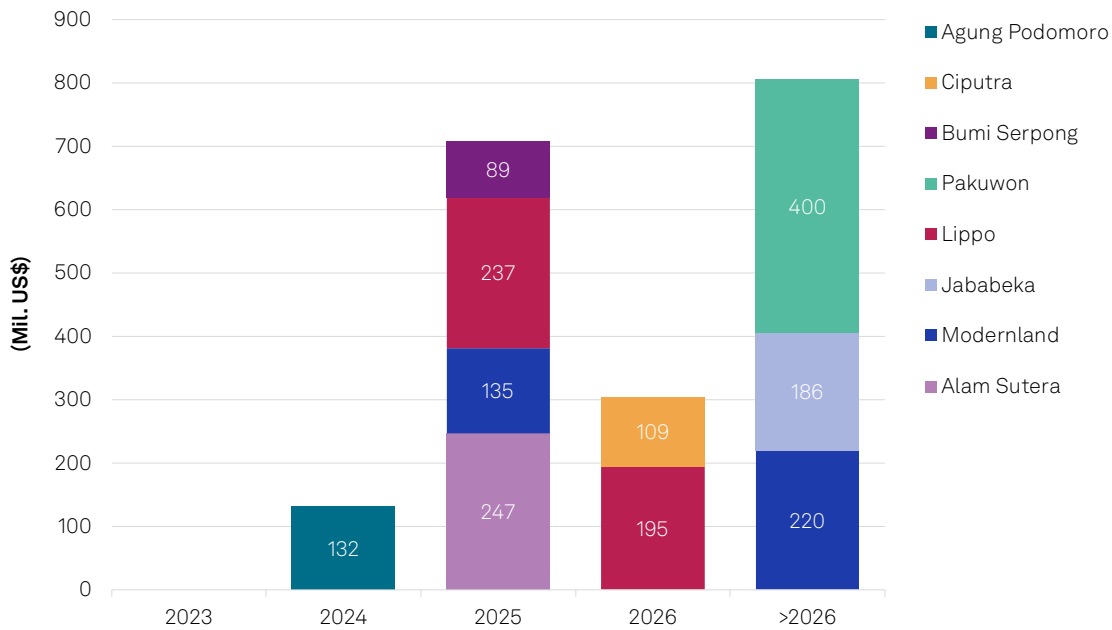
\*Companies with large recurring income. Forecasts represents our estimates for rated developers (including Jababeka and Pakuwon) and for unrated developers (including Alam, Bumi, Ciputra, Lippo and Agung).  
Sources: Company disclosures. S&P Global Ratings.



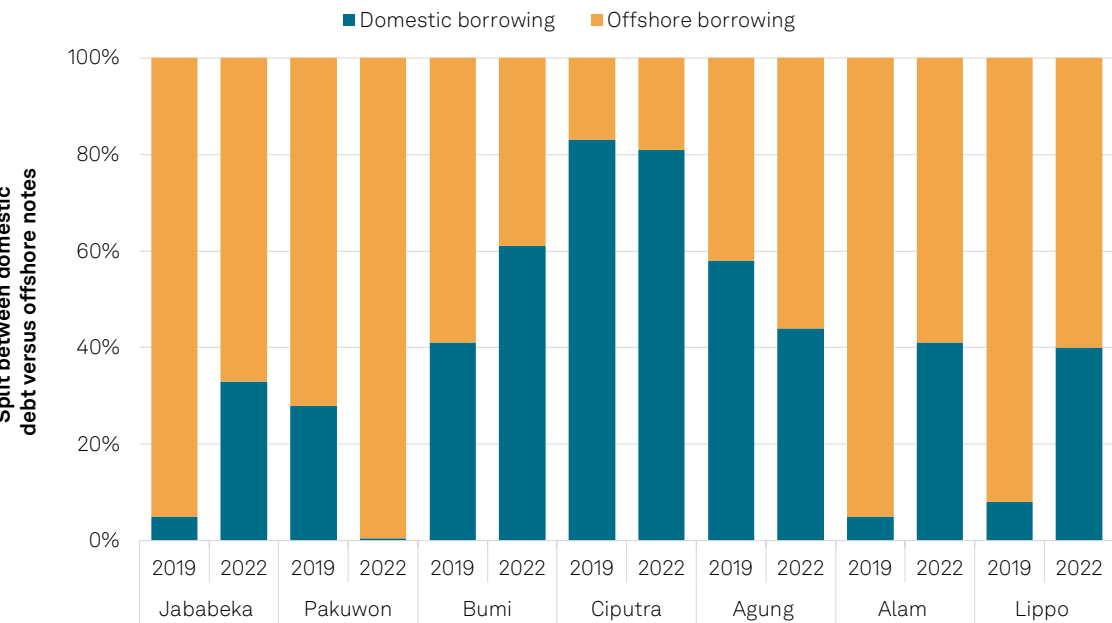
# Developers Will Continue To Rely On Onshore Bank Loans

- Developers have turned to domestic bank loans to partially meet refinancing needs over the past 12-18 months.
- This trend will likely continue due to the constrained offshore funding environment and heightened borrowing costs.
- Domestic markets may not fully satisfy refinancing needs, especially to address the offshore maturity wall in 2025.

Steep maturity wall in 2025



Domestic borrowing to form a larger part of capital structure



Sources: Bloomberg. Company disclosures. S&P Global Ratings.

# Key Credit Themes And Metrics For Indonesian Developers

# Kawasan Industri Jababeka Tbk. PT (CCC+/Stable/--)



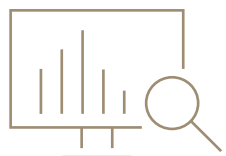
## Key rating drivers

- Sustainability of cash flow and capital structure will highly depend on favorable market conditions due to continuous erosion of cash balance at the company level, excluding joint ventures.
- High reliance on lumpy industrial land sales.



## Key S&P assumptions

- Contracted & land sales\* (bil. IDR)
  - Fiscal 2023: 1,900 to 2,000
  - Fiscal 2024: further improve by 5%-8%
- % of land sales: About 80% in fiscals 2023 and 2024.
- EBITDA margin: 35%~37% in fiscals 2023 and 2024.



## Key monitoring events

- Jababeka's cash position in the next 12-18 months.
- Sales performance especially at the company level excluding joint ventures.



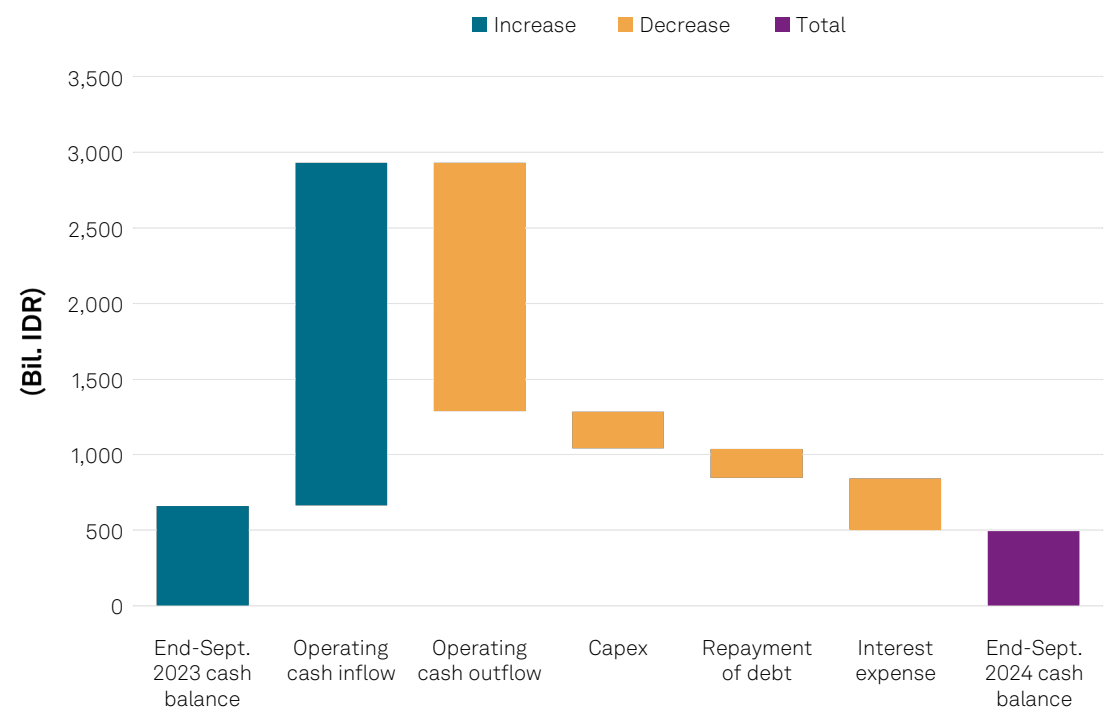
## Downside scenario

- Cash flow deficit deepens such that a default scenario becomes more likely.
- Cash proceeds from marketing sales are 15%-20% lower than our base case.

# Jababeka To Have Thin Cash Buffer Despite Improving Credit Ratios

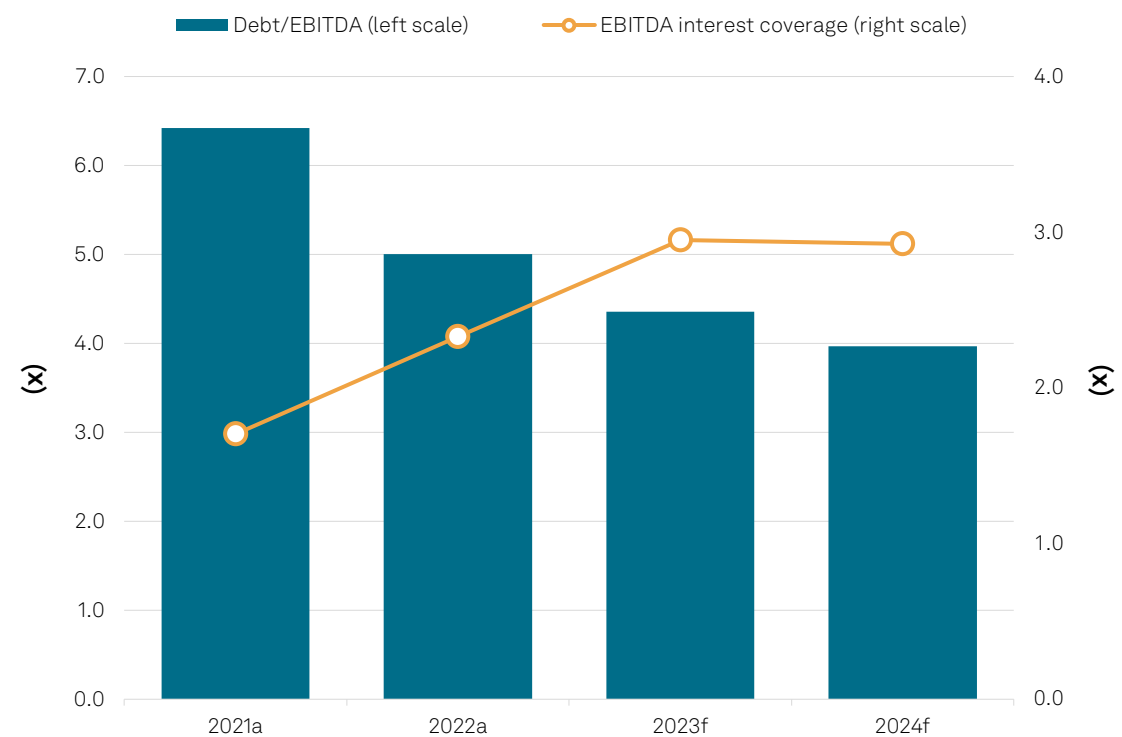
- Cash balance to gradually erode in the next 12-18 months due to loan amortization and to meet cash reserve account requirement.

## Jababeka’s liquidity remains tight



Jababeka's liquidity represents company's company-level cash flow excluding joint ventures. Capex--Capital expenditure.  
Sources: Company disclosures, S&P Global Ratings.

## Joint ventures drive improvement in Jababeka’s credit ratios



Source: S&P Global Ratings.

# Pakuwon Jati Tbk. PT (BB+/Stable/--)



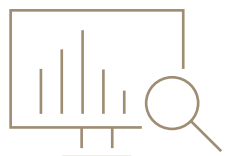
## Key rating drivers

- High recurring EBITDA interest coverage ratio of 6.5x-7.0x provides downside resilience.
- Prudent financial management and large cash holdings temper development risk.
- Minimal refinancing needs until 2028.
- Limited scale of operation.



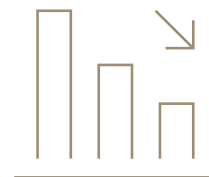
## Key S&P assumptions

- Consolidated revenue:
  - Fiscal 2023: flat
  - Fiscal 2024: increase by 2%-5%
- Recurring revenue: increase by ~15% in fiscal 2023 and 5%-8% in fiscal 2024.
- % of recurring EBITDA: 80%-85% in 2023 and 2024.
- EBITDA margin: 48%-50% in fiscal 2023 and 2024.



## Key monitoring events

- Potential acquisitions and development of new townships and superblock.
- Retail mall traffic footfall and rental reversion trend.
- Revenue mix between development and recurring income.



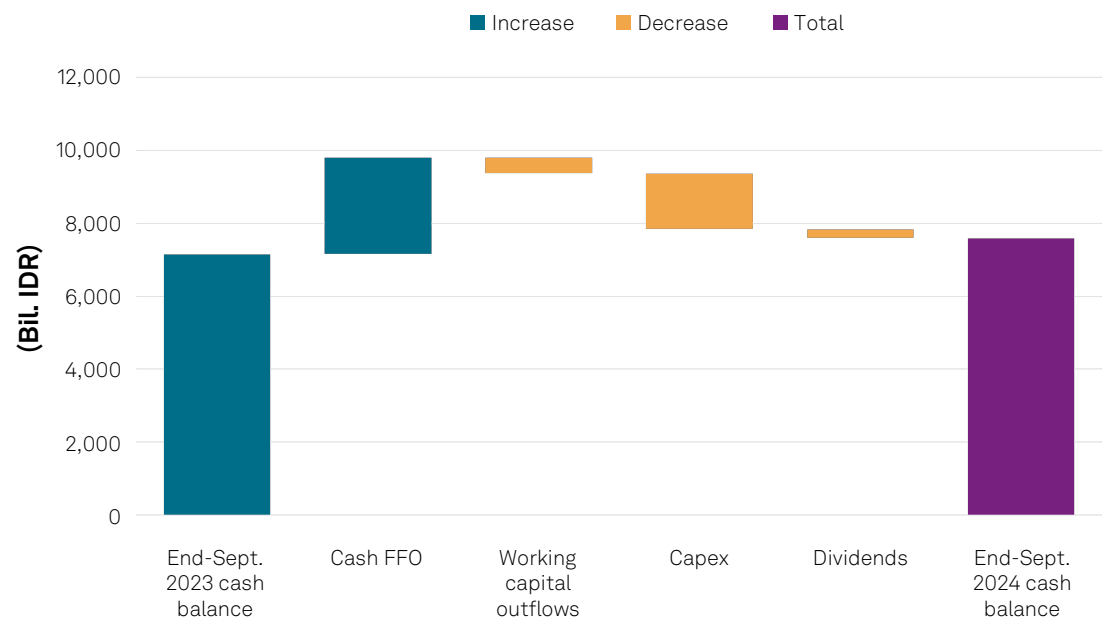
## Downside scenario

- Debt/EBITDA exceeds 3x.
- Departs from its prudent financial policies by substantially upsizing debt-funded capital spending and land acquisitions.

# Pakuwon Has Strong Credit Ratios And Recurring Income

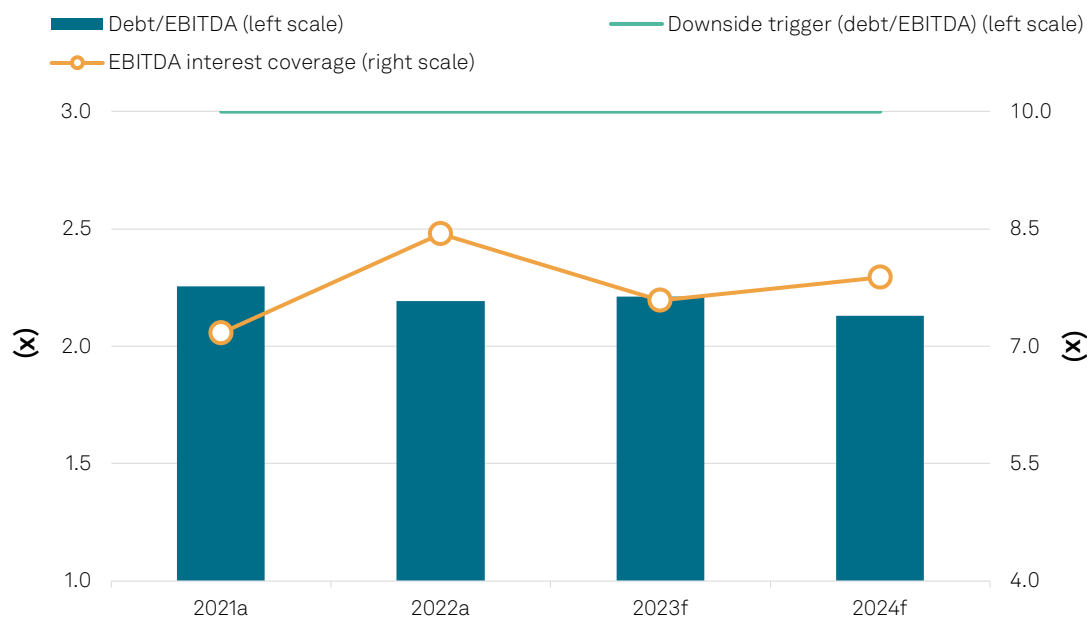
- Sizable cash balance provides sufficient buffer for capital spending in 2023 and 2024.
- Steady leverage due to limited debt-funded expansion.

## Pakuwon has sufficient internal resources to fund capex



Capex--Capital expenditure. Sources: Company disclosures. S&P Global Ratings.

## Pakuwon’s credit ratios have ample rating buffer



Source: S&P Global Ratings.

# Vietnam

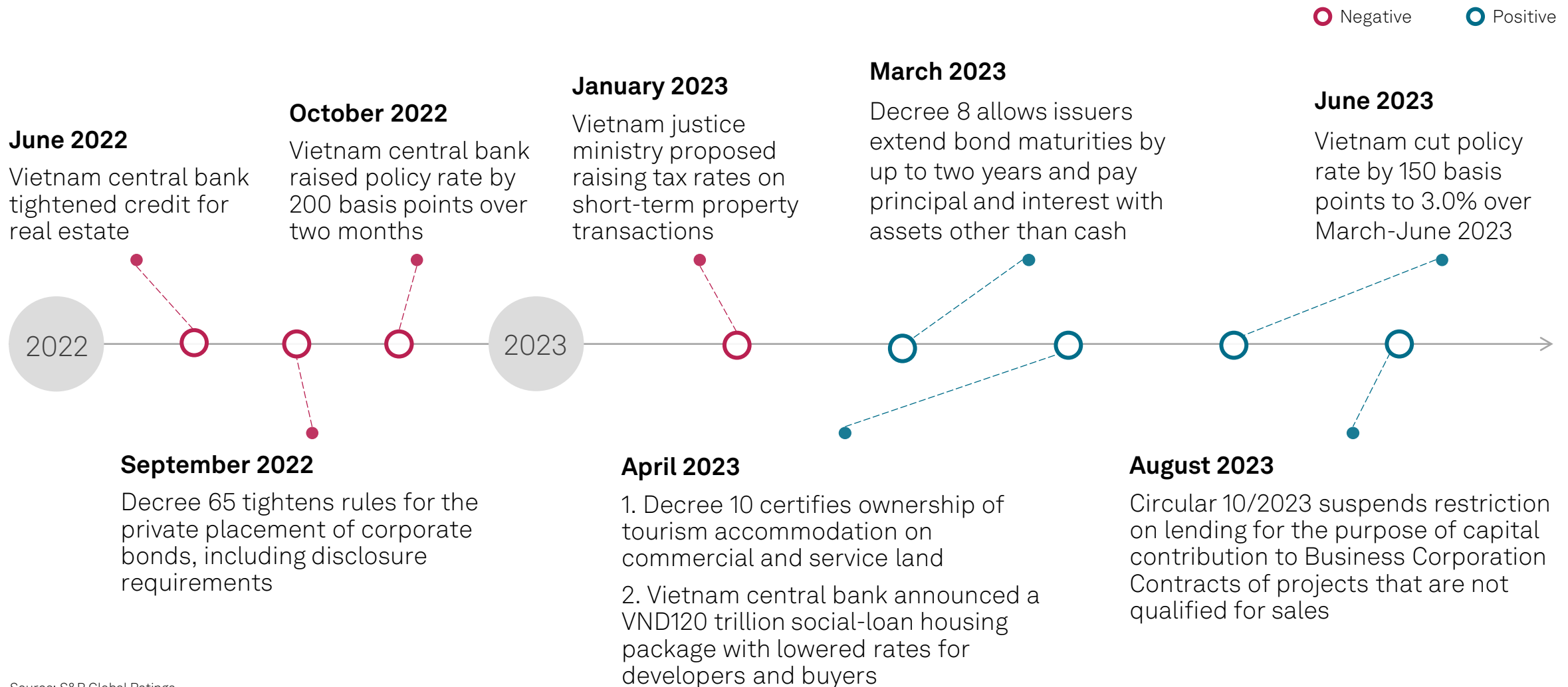
# Main Assumptions: Vietnam Developers

	2023	Looking into 2024
GDP growth	4.9%	6.3%
Inflation	3.3%	3.5%
Consumer sentiment	Sustained weak sentiment during the first half, improving sentiment since the third quarter, supported by eased regulatory policies	Improving sentiment driven by supportive polices
Marketing sales growth	Negative 20%-25%	Positive 5%-10%
Funding conditions	Challenging conditions during the first half of 2023, easing funding sentiment in the second half of 2023	Easing funding conditions compared to 2023

Source: S&P Global Ratings.



# Regulatory Policies Have Been On An Easing Path Since Early 2023

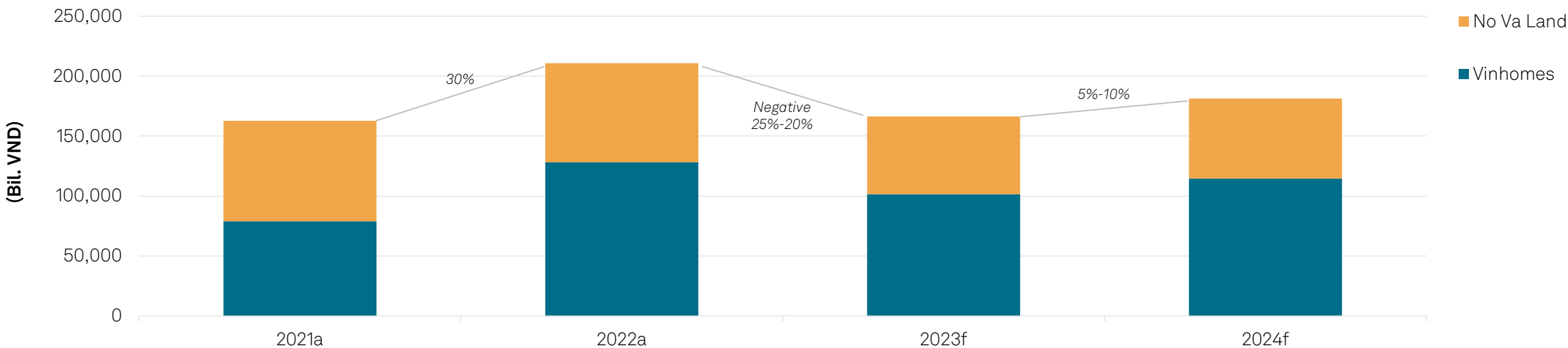


Source: S&P Global Ratings.

# Property Sales To Improve After A Tumble In 2023

- Improving customer sentiment driven by eased regulatory policies since the third quarter of 2023.
- The extent of sales recovery in 2024 depends on the developers' ability to hand over projects in a timely manner amid high refinancing needs, and government effort to resolve legal bottlenecks to speed up project launches.
- Flight-to-quality sentiment is likely to benefit developers with a record of timely project handover.

## Sales to improve in 2024 after a significant contraction in 2023

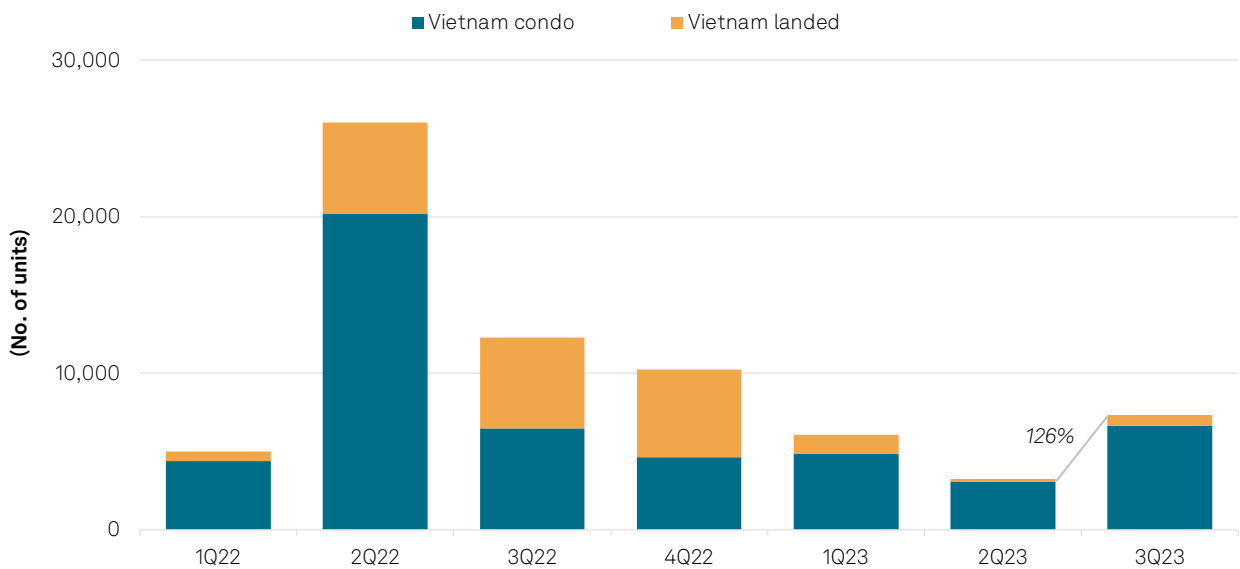


S&PGR--S&P Global Ratings. Forecasts represent S&PGR estimates for unrated developers (including Vinhomes and No Va Land).  
Sources: Company disclosures. S&P Global Ratings.

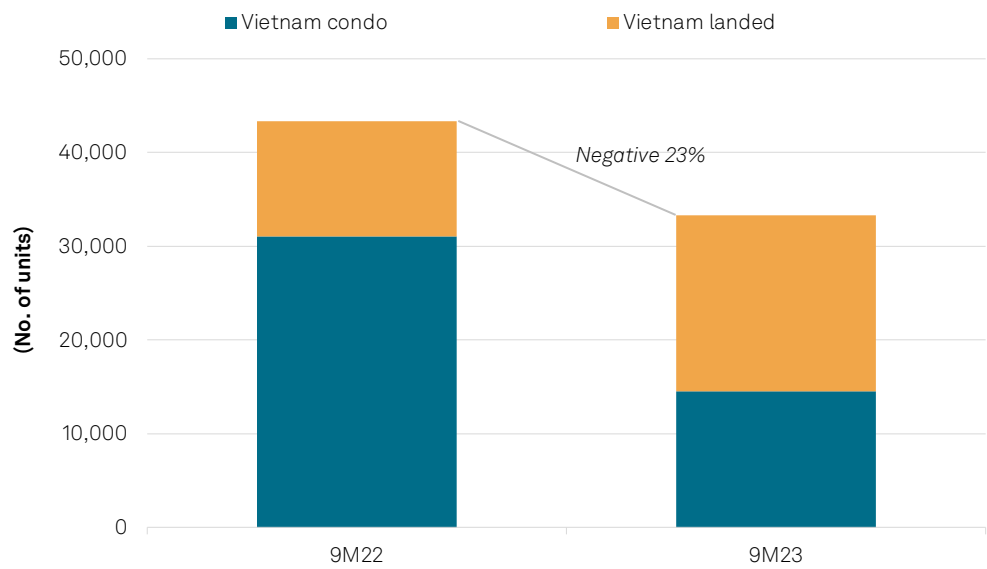
# Improving Sales Sentiment Supported By Eased Policies

- New launches in Vietnam resumed growth in the third quarter of 2023, after four consecutive quarters of decline.
- However, launches remained soft during the first nine months of 2023, falling 23% year on year.
- Developers are launching projects cautiously and awaiting a more pronounced market recovery.

Vietnam property launches grew in the third quarter 2023



New launches during first nine months of 2023 remain soft

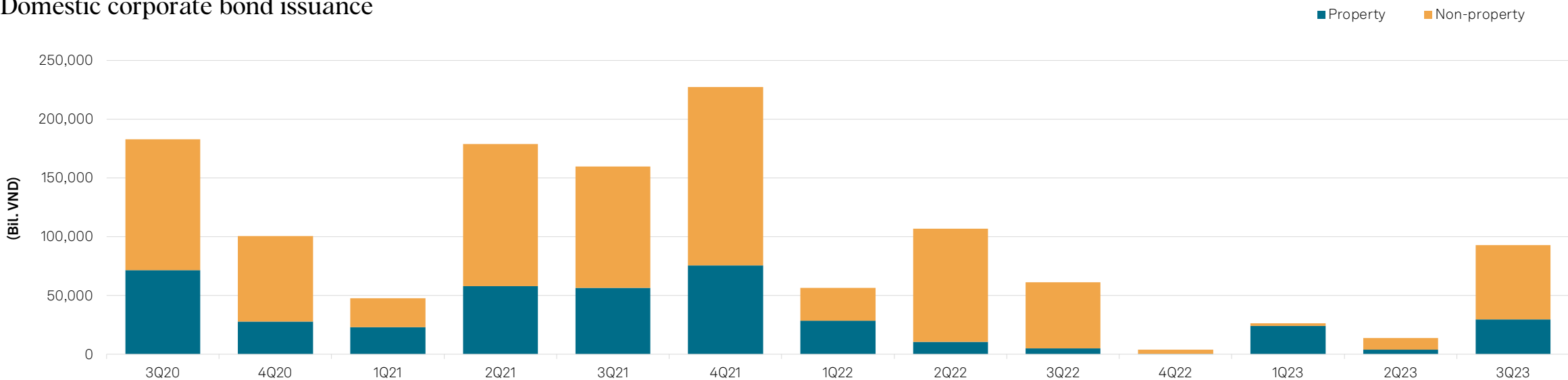


Vietnam condo and Vietnam landed--Launches of condominiums and landed properties in Hanoi and Ho Chi Minh City in Vietnam. Q--Quarter. 9M--First none months.  
Sources: CBRE. S&P Global Ratings.

# Domestic Funding Access Is Improving Due To Supportive Policies

- Total corporate bond issuance increased by 51% year on year in the third quarter of 2023, first such rise since the second quarter of 2022. Issuance from the sector is mainly for debt restructuring and repayment extension\*.
- The average issuing coupon rates in 3Q23 fell from 10% to 9% year on year, while the real estate sector faced high rates at 12%-15%.
- The State Bank of Vietnam set a 2023 credit growth target of 14% in July 2023, compared with about 5% growth during the first half, indicating higher credit growth in the second half.

Domestic corporate bond issuance

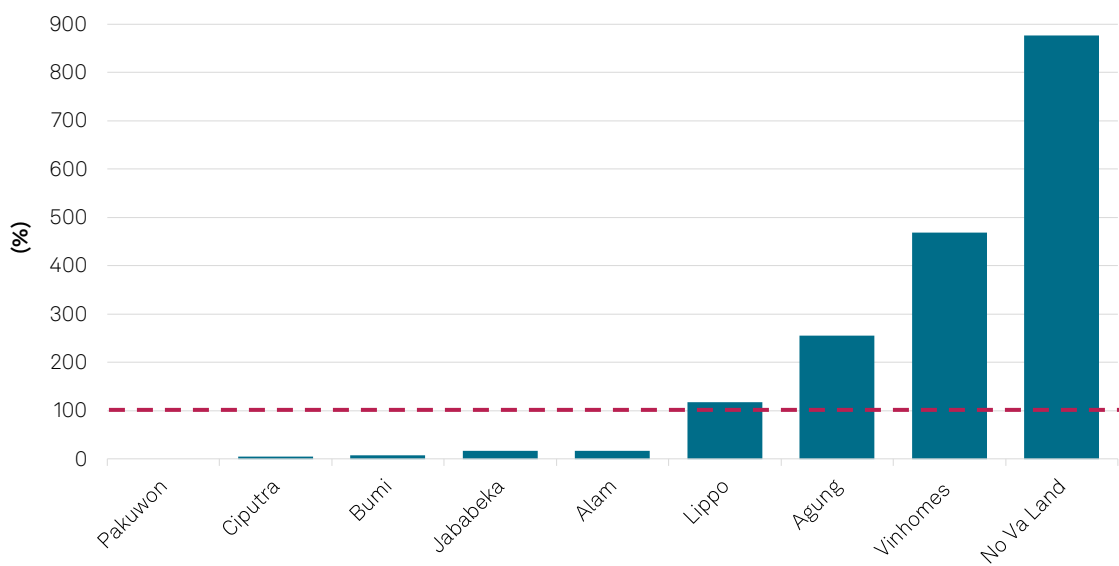


\*According to Vietnam Bond Market Association (VBMA). Q--Quarter.  
Sources: VBMA. S&P Global Ratings.

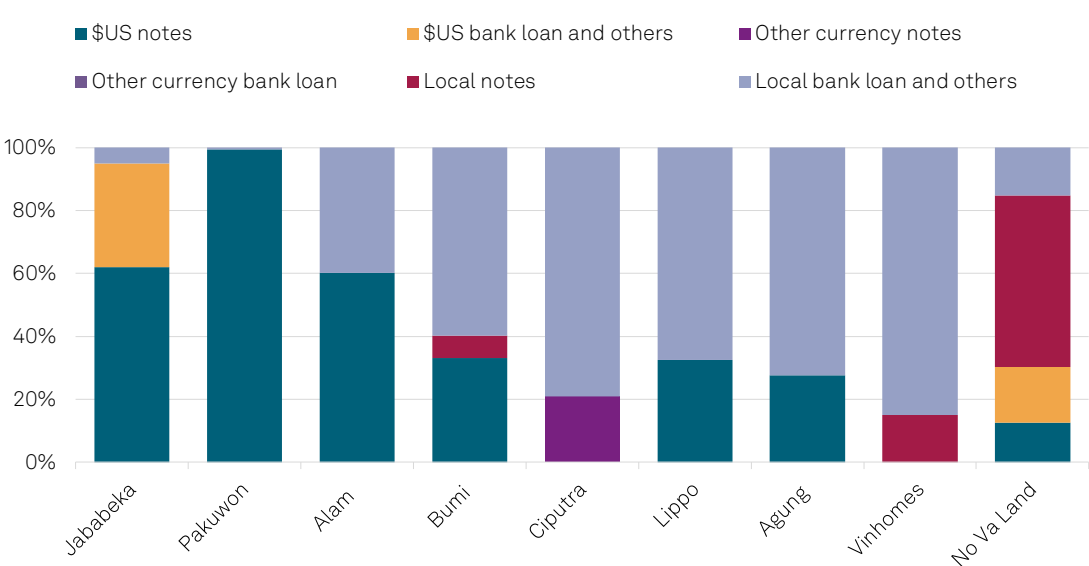
# Vietnam Developers Still Face High Refinancing Pressure In 2024

- About VND380 trillion in corporate bonds will mature in 2024, equal to about one-third of total outstanding corporate bonds according to VBMA.
- Vietnam developers rely more on short-term funding than their Indonesia counterparts, exposing Vietnam developers to higher refinancing and liquidity risk.

Ratio of short-term debt over cash



Funding diversity

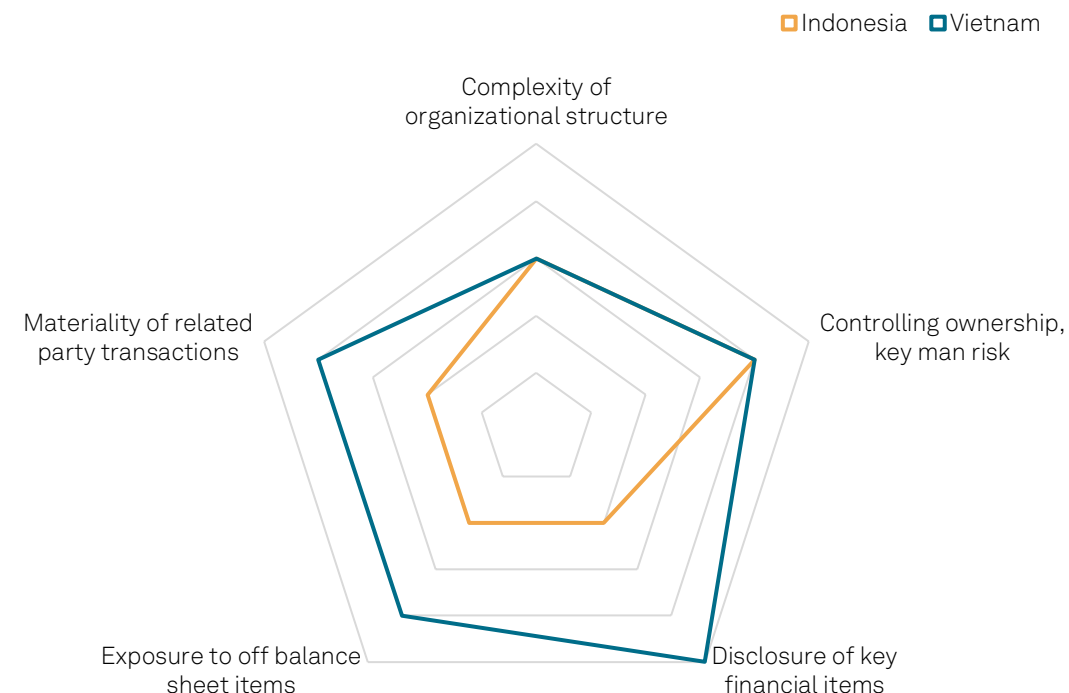


As of Sept.30, 2023. Sources: Company disclosures S&P Global Ratings.

# Governance: Company Structure And Off-Balance-Sheet Items Are In Focus

- Most Indonesia and Vietnam developers face potential key-man risk because they remain controlled--directly or indirectly--by the founding family.
- Some have a more complex corporate structures with multiple business lines and/or joint ventures.
- Vietnam developers tend to have higher off-balance sheet obligations (e.g. sales incentives such as mortgage interest support and guaranteed yield), and higher exposure to related-party transactions arising from business cooperation contracts.

## Governance--degree of materiality of risk

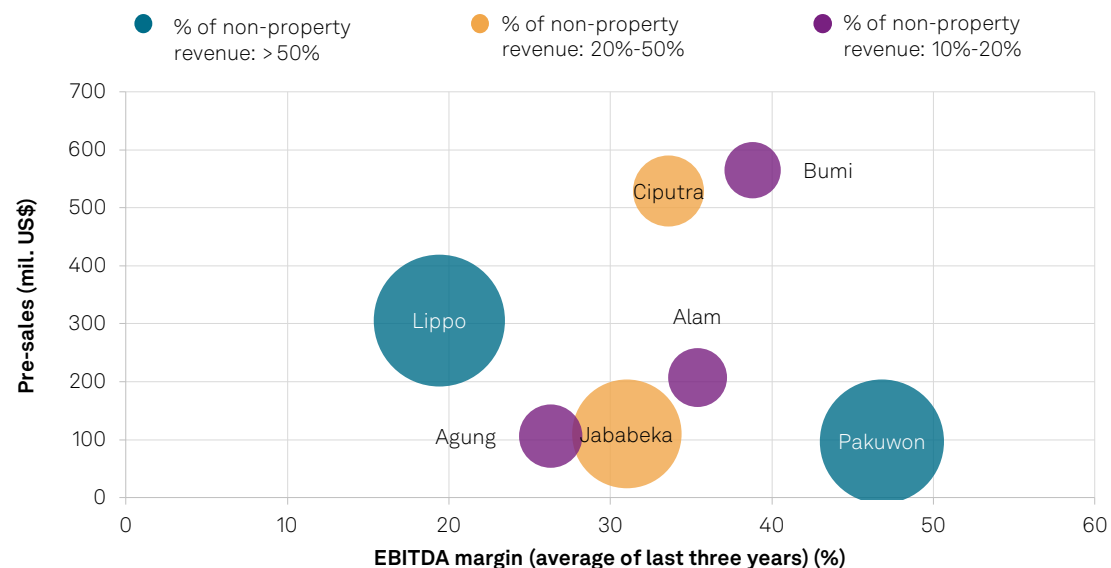


Outer to inner rings represent very negative, negative, moderately negative, neutral, positive  
Above governance aspects do not represent the management and governance assessment.  
The size of the chart represents the materiality of each governance risk we identified.  
Source: S&P Global Ratings.

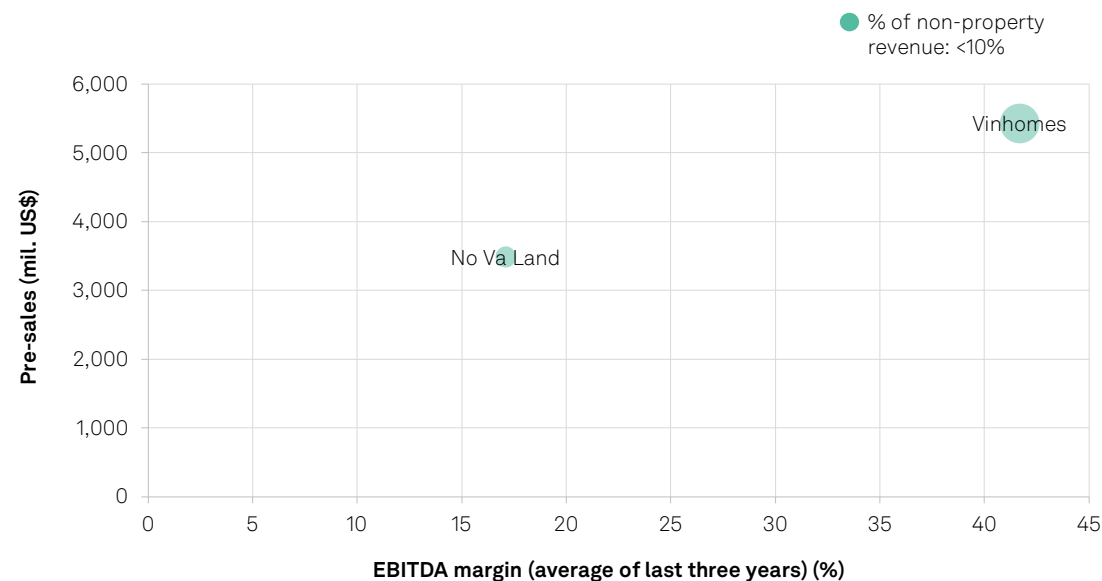
# Indonesia Vs. Vietnam Developers: Divergent Business Profile Traits

- Both countries' developers have a high geographic concentration in one or two cities.
- Vietnam developers are significantly larger than their Indonesia counterparts.
- Indonesia developers have a higher proportion of recurring income.

## Indonesia developers' business position



## Vietnam developers' business position



Size and color of the bubbles represent companies' percentage of non-property revenue. Lippo's average EBITDA is an average of historical (two year) numbers.

Sources: Company disclosures, S&P Global Ratings.

# Singapore



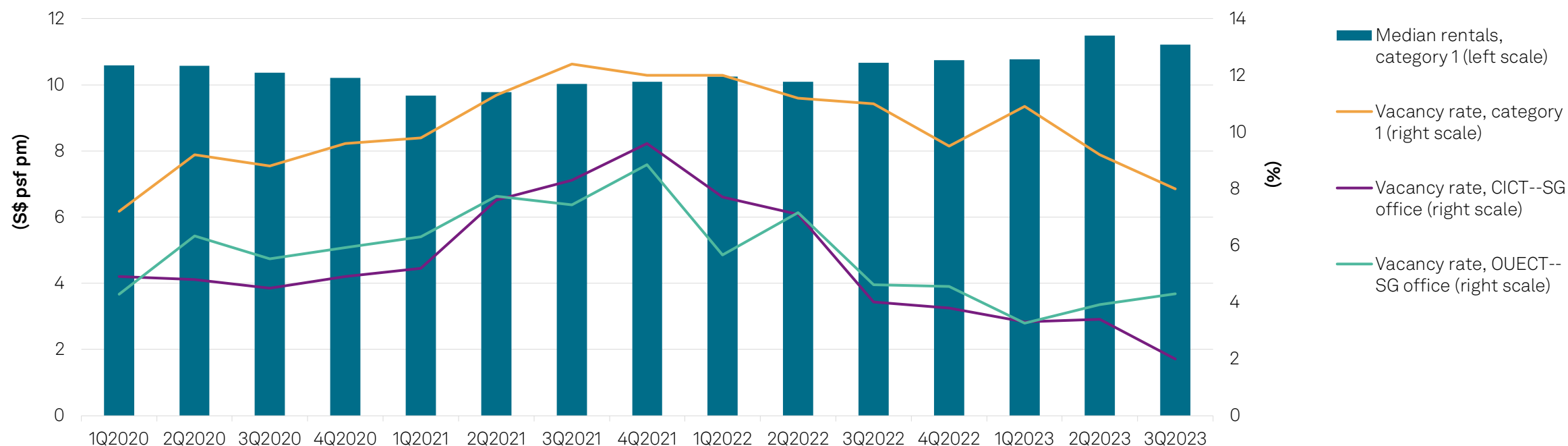
# Main Assumptions: Rated Singapore REITs

	2023	Looking into 2024
GDP growth	1.1%	2.6%
Inflation	4.9%	3.0%
Consumer sentiment	Macroeconomic uncertainties and heightened inflation weigh on consumer sentiment	Improving sentiment as economic pressures ease
Revenue growth	Up to 20% growth in fiscal 2023	Up to 10% growth in fiscal 2024
Margins	Some cost pressure but this typically can be passed to tenants	Stabilizing margins
Capital spending	Selective on acquisitions & asset enhancement initiatives	Focus on asset enhancement initiatives
Funding conditions	Good funding access	Similar to 2023

Source: S&P Global Ratings.

# Resilient Demand For Prime Offices

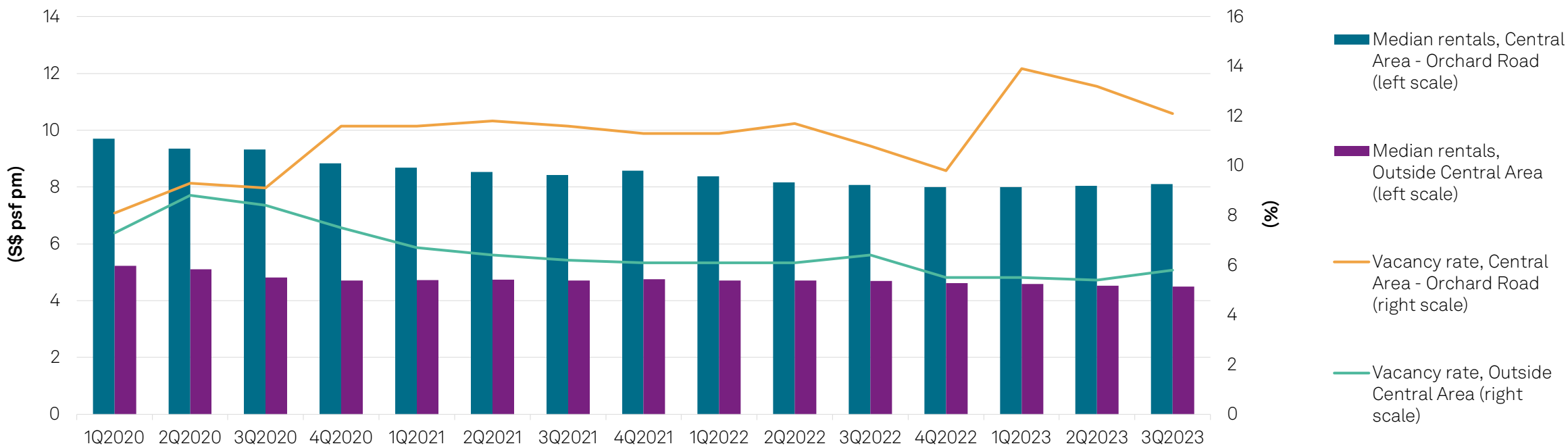
- Flight-to-quality trend supports prime offices.
- Back-to-office momentum keeps vacancies at healthy levels.
- Elevated near-term office supply may cap rentals and vacancy improvements.



Category 1 refers to office space in buildings in core business areas in Downtown Core and Orchard Planning Area, which are relatively modern or recently refurbished, command relatively high rentals, and have large floor plate size and gross floor area. Q—Quarter. Sources: Company disclosures. Urban Redevelopment Agency. S&P Global Ratings.

# Downtown Malls Benefiting From Tourism Recovery

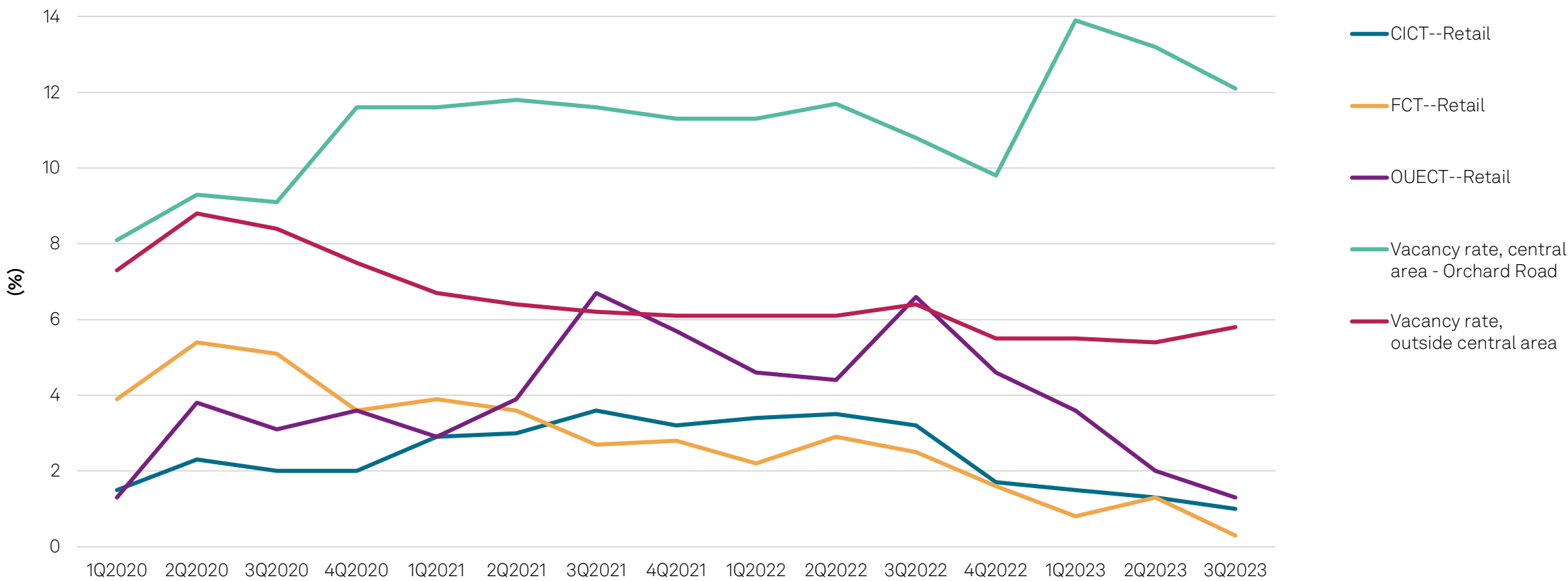
- Improving tourism inflows drive performance at downtown malls.
- Suburban malls remain resilient against macroeconomic uncertainties.
- New to market F&B brands drive leasing activity.



F&B--Food and beverage. Q--Quarter. Sources: Urban Redevelopment Agency, S&P Global Ratings.

# Rated REITs Tend To Outperform The Broader Market

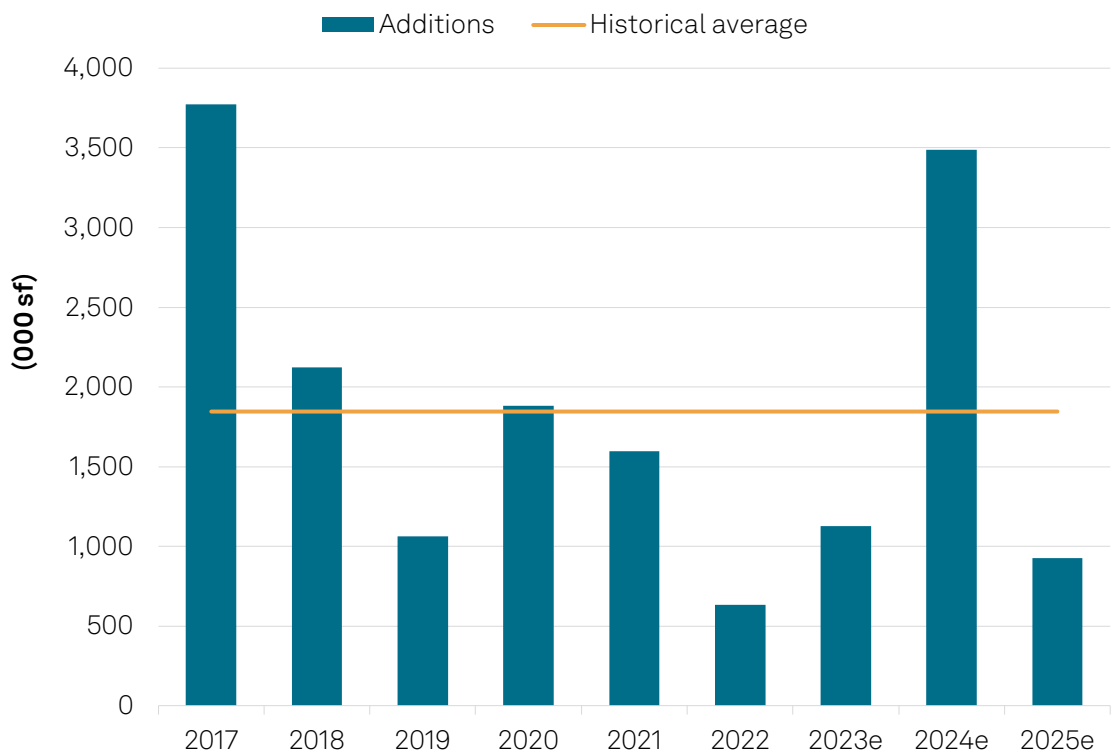
## Retail vacancy rate



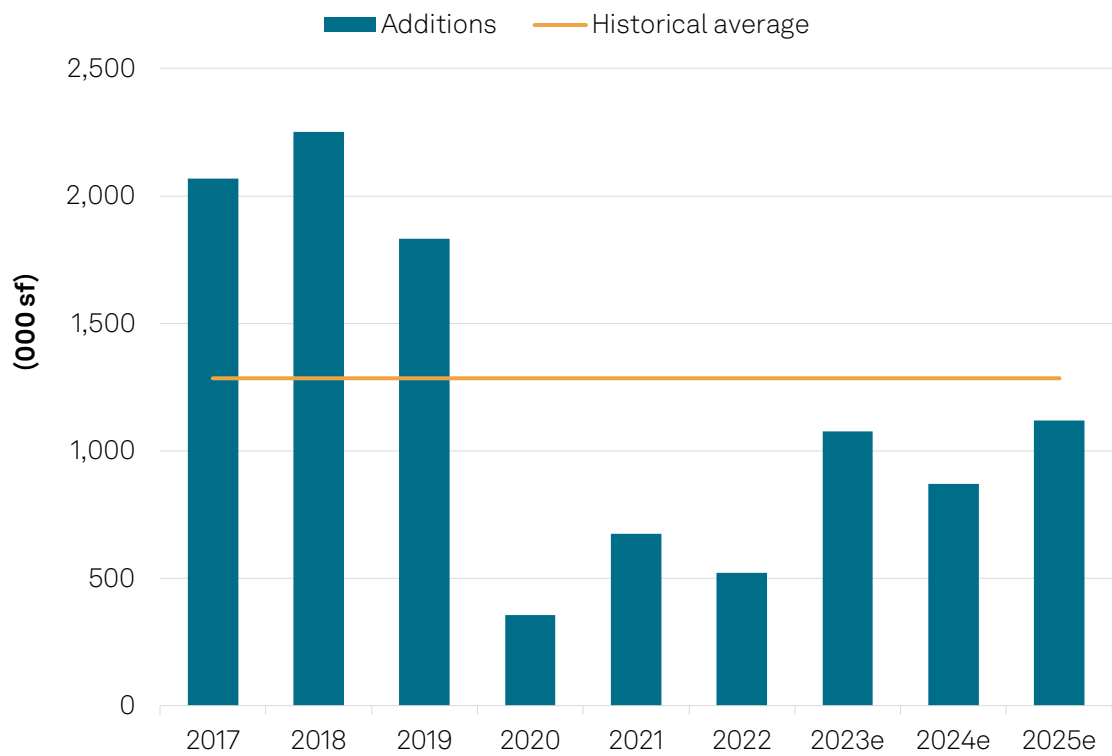
Q--Quarter. Sources: Company disclosures. Urban Redevelopment Authority. S&P Global Ratings.

# Supply Pipeline Elevated For Office

Office: elevated additions in 2024



Retail: limited supply comes mostly from mixed development

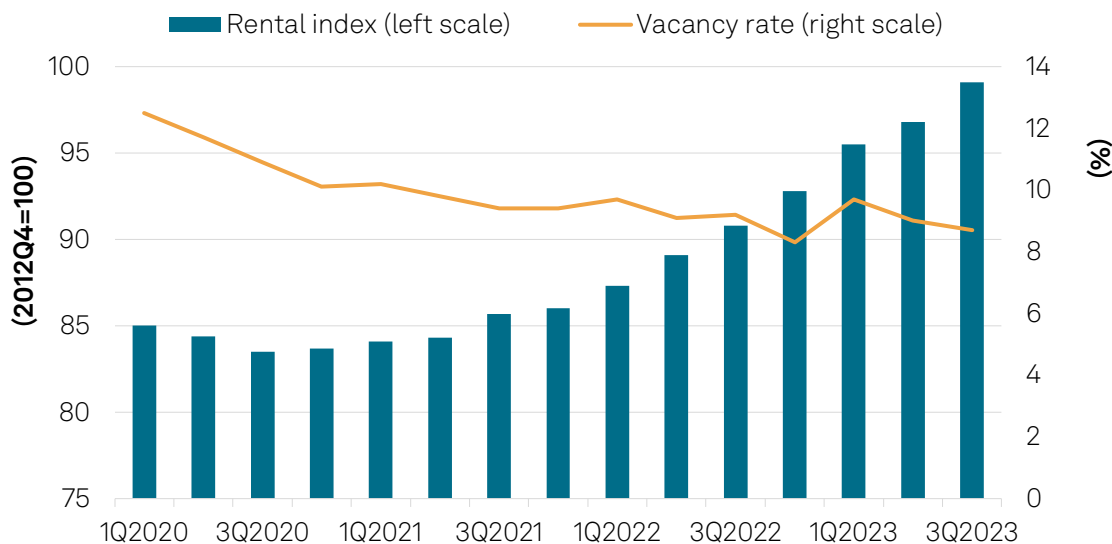


Forecast data is based on statistics as at third quarter of 2023.  
Sources: Urban Redevelopment Agency. S&P Global Ratings.

# Healthy Demand For Warehouse Space

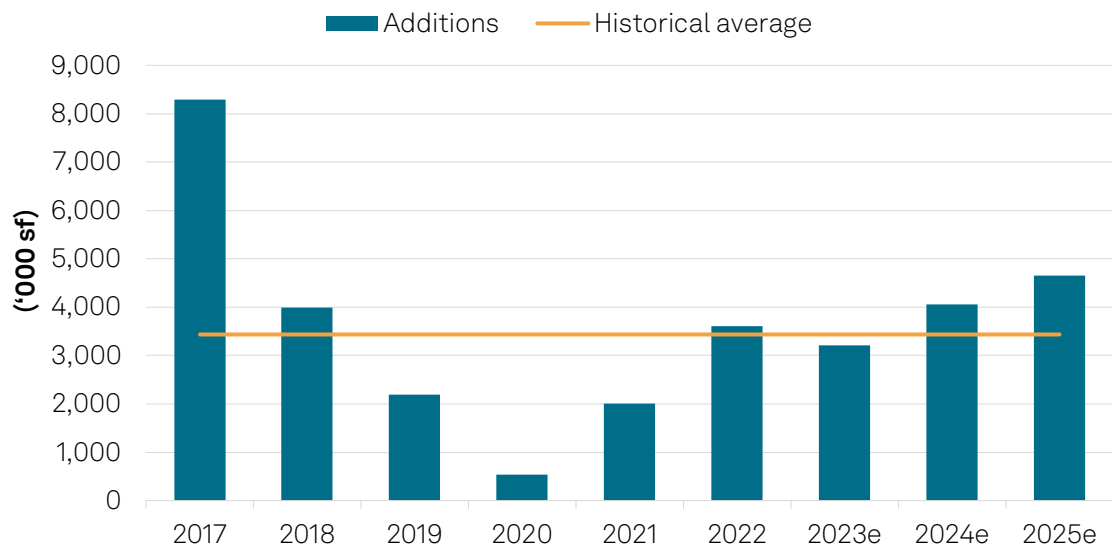
- E-commerce remains a structural driver.
- Shifting supply requirements from just-in-time to just-in-case inventory strategies.
- New completions ahead and economic uncertainties could weigh on vacancy rates and rents.

Rents in an upcycle



Q--Quarter. Sources: JTC Corp. S&P Global Ratings.

Sizable additions due to earlier construction delays

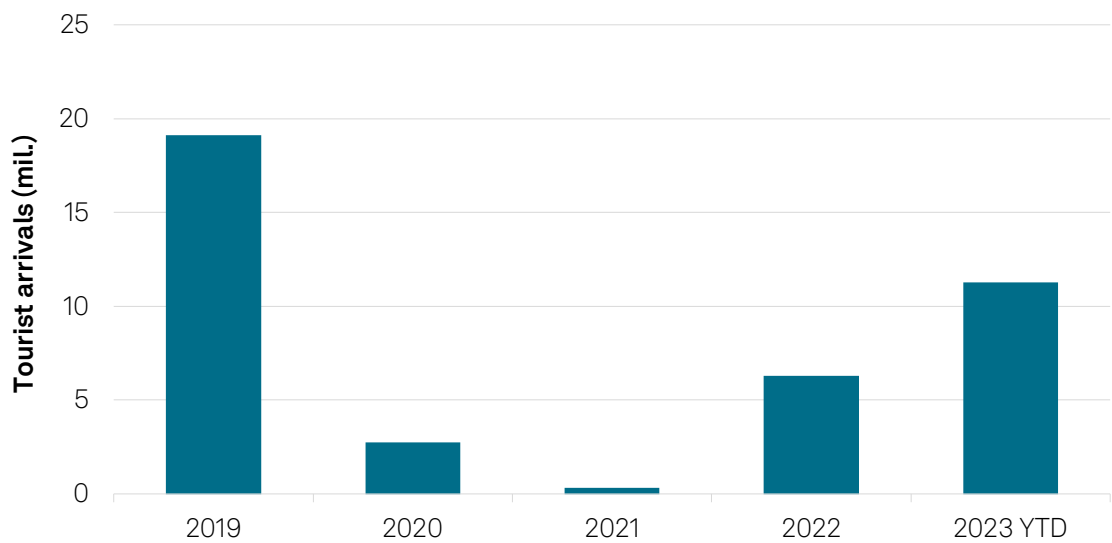


Forecast data is based on statistics as at third quarter of 2023 and refers to gross floor area. e--Estimate. sf--Square foot. Source: JTC Corporation, S&P Global Ratings.

# Tourism Recovery Drives Hospitality Upswing

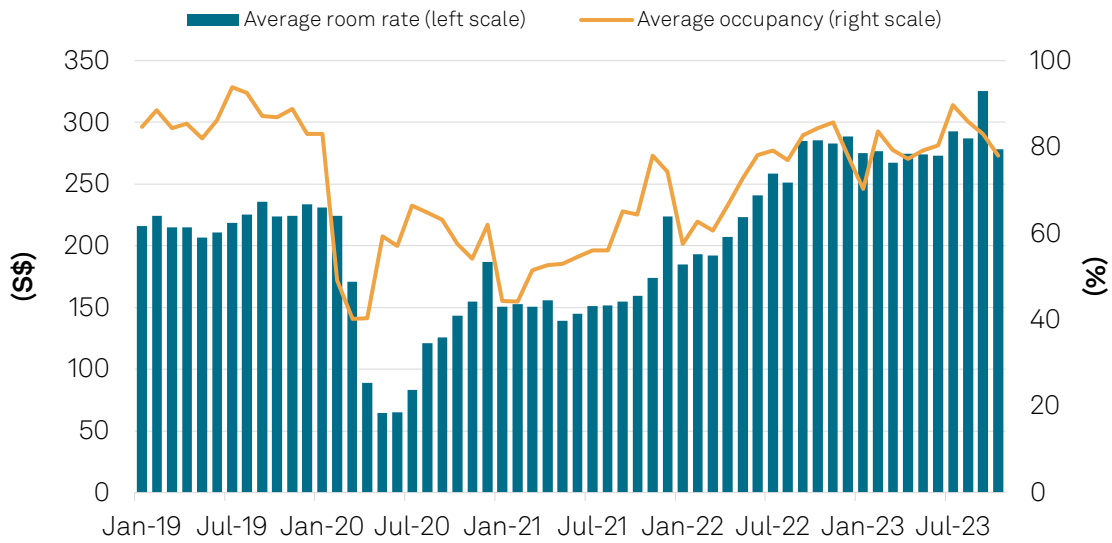
- Tourist arrivals increased substantially since the easing of border restrictions.
- A slate of entertainment acts will drive further tourism activities.
- Average room rates surpassed pre-pandemic levels, while maintaining healthy occupancy.

Tourist arrivals have surged



As of October 2023. YTD--Year to date.  
Sources: Singapore Tourism Analytics Network. S&P Global Ratings.

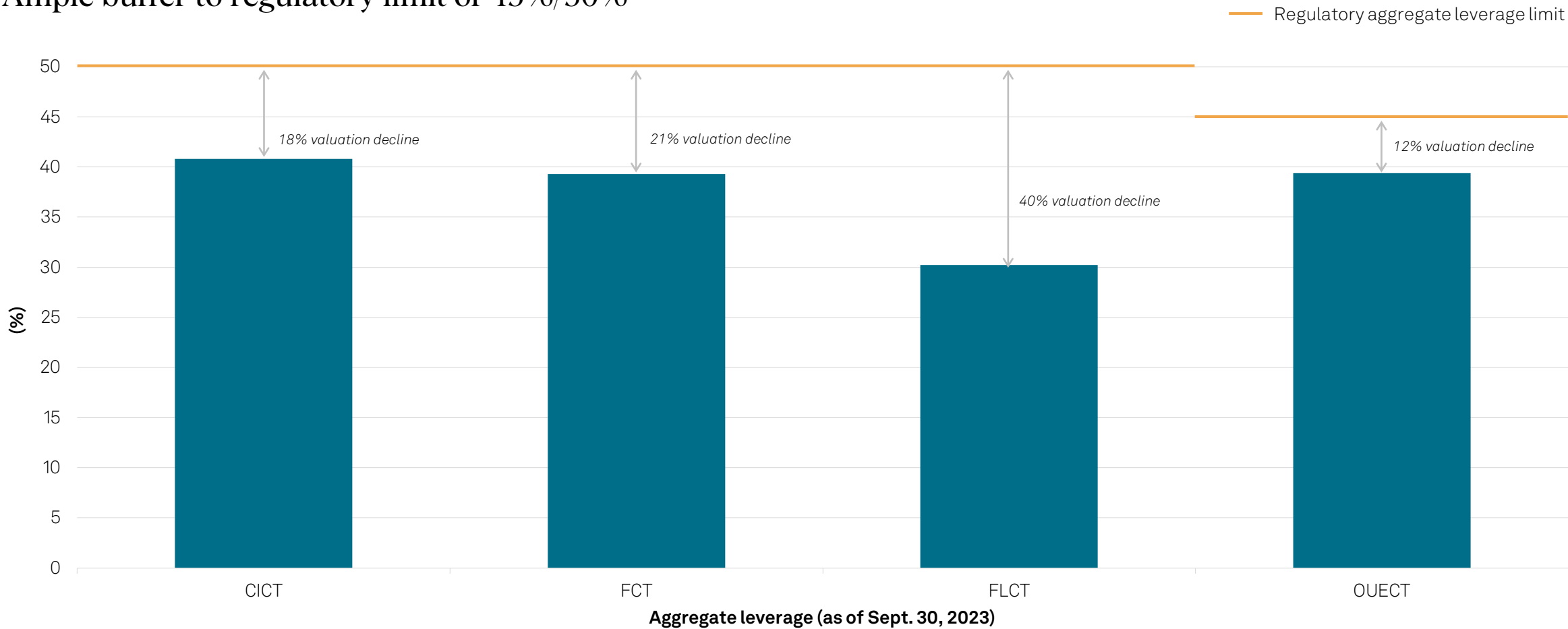
Hotel room rates and occupancy in an upward trend



As of October 2023. S\$--Singapore dollar.  
Sources: Singapore Tourism Analytics Network. S&P Global Ratings.

# Rated REITs Can Withstand At Least 10% Decline In Asset Valuation

Ample buffer to regulatory limit of 45%/50%



See Glossary for breakdown of company names. Sources: Company disclosures. S&P Global Ratings.



# Key Credit Themes And Metrics For Singapore REITs

# CapitaLand Integrated Commercial Trust (A-/Stable/--)



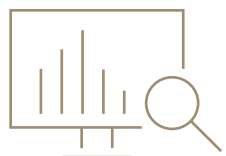
## Key rating drivers

- Leading market position in Singapore's retail and grade-A office space.
- Earnings diversification across retail, office, and integrated development supports stability.



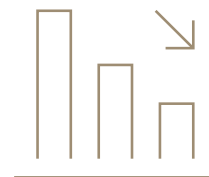
## Key S&P assumptions

- Rental reversions largely positive, with average rent improving up to 8% in 2023 and 2024.
- Occupancy: around 95%.



## Key monitoring events

- Leasing conditions for office assets amid hybrid work arrangements.
- Leasing progress for ongoing asset enhancement initiatives.
- Debt-funded acquisitions.



## Downside scenario

- If prolonged economic downturn results in lower tenant occupancy or declining rentals.
- If headwinds dent CICT's earnings more than we expect.
- If the REIT embarks on aggressive debt-funded growth.
- This may be apparent in the ratio of FFO to debt falling below 7% for a sustained period, or aggregate leverage rising above 40%.

# Frasers Centrepoint Trust (BBB/Stable/--)



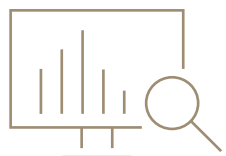
## Key rating drivers

- Among the largest suburban retail landlords in Singapore.
- Earnings stability underpinned by resilient suburban asset base.



## Key S&P assumptions

- Rental reversion: Largely positive, with average rents improving up to 5% year on year in fiscal 2024.
- Occupancy: around 98%.



## Key monitoring events

- M&A activities, especially debt-funded acquisitions of sponsor-owned assets.
- Ability to extend debt maturity profile.



## Downside scenario

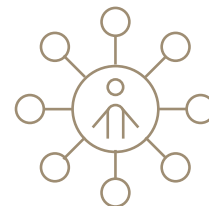
- If the REIT undertakes sizable acquisitions or asset enhancement initiatives materially funded by debt.
- If performance of its portfolio is significantly worse than our base case.
- This may be apparent in the ratio of FFO to debt staying below 7% on a sustained basis.
- If the debt maturity profile deteriorates such that it weighs on the REIT's ability to manage upcoming maturities.

# Frasers Logistics & Commercial Trust (BBB+/Stable/--)



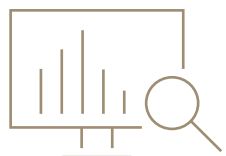
## Key rating drivers

- Geographic diversification across three continents.
- Exposure to multiple asset classes supports earnings resilience.



## Key S&P assumptions

- Average annual rental escalations:
  - Australian L&I → fixed annual escalations averaging 3%
  - Most European L&I → fixed escalations or CPI-linked indexation
- Occupancy:
  - L&I → 98%-100%
  - Commercial → around 90%



## Key monitoring events

- Debt-funded acquisitions. Management has a long-term plan to raise L&I exposure to 85% from a current 70%.
- Leasing conditions for commercial portfolio amid hybrid work arrangements.
- Currency headwinds.



## Downside scenario

- Highly debt-funded acquisitions or developments, or a moderate deterioration in performance of portfolio assets.
- If quality of FLCT's portfolio weakens.
- This may be apparent in the ratio of FFO to debt staying below 9% with no prospect of recovery.

# OUE Commercial Real Estate Investment Trust (BBB-/Stable/--)



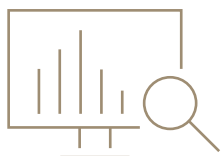
## Key rating drivers

- Exposure to multiple asset classes supports income diversity and resilience.
- Sound asset quality with proactive asset management.



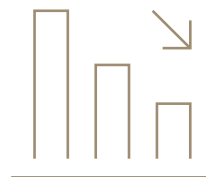
## Key S&P assumptions

- Rental reversions largely positive, with average rent improving up to 14% in 2023 and 2024
- Occupancy: around 90%



## Key monitoring events

- Debt-funded acquisitions.
- Extension of its 2025 debt maturities.
- Leasing conditions for office assets amid hybrid work arrangements.



## Downside scenario

- If economic headwinds reduce earnings more than we expect or the REIT embarks on aggressive debt-funded growth.
- This may be apparent by EBITDA interest coverage staying below 1.8x or the ratio debt to EBITDA staying above 11x on a sustained basis.
- If the REIT cannot extend its 2025 debt maturities well ahead of time.

# Appendix – Indonesia Developer : Foreign Currency Hedges

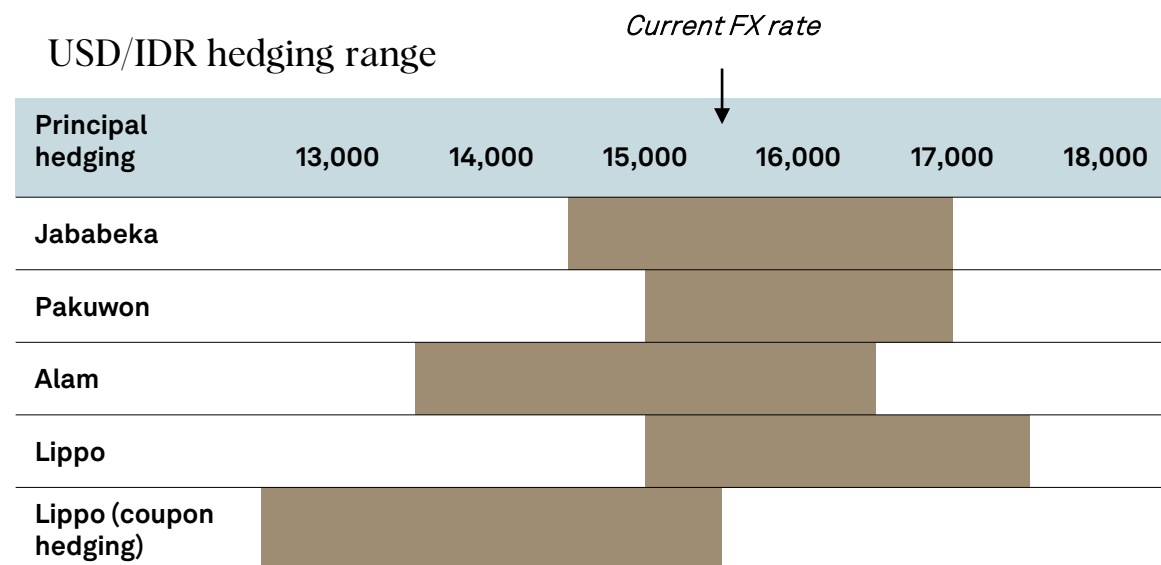
## Indonesian developers' hedging strategies

	Type of hedge	Bond/bank loan maturing	Percentage of \$US principal hedged
<b>Jababeka</b>	Hedge on principal	2027	33.9%
<b>Pakuwon</b>	Hedge on principal	2028	62.5%
<b>Alam</b>	Hedge on principal	2025	47.8%
<b>Lippo</b>	Hedge on principal	2025, 2026	100%
	Hedge on coupon	2026	100%
<b>Ciputra*</b>	Hedge on principal	2026	100%

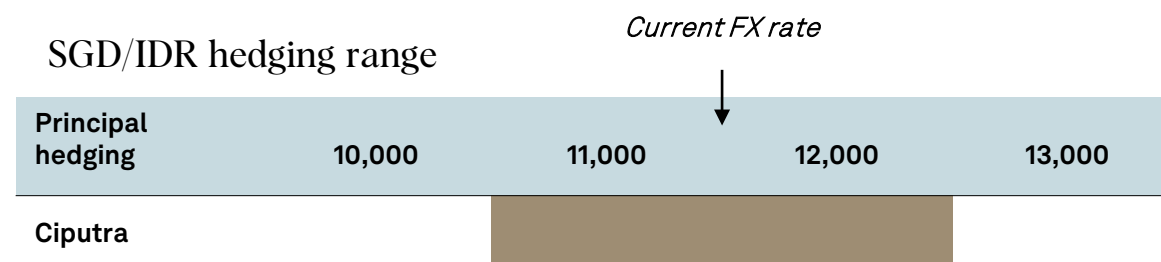
\*Ciputra hedged its SGD denominated bond.

Sources: Company's disclosure. S&P Global Ratings.

## USD/IDR hedging range



## SGD/IDR hedging range



# Abbreviations

- Jababeka--Kawasan Industri Jababeka Tbk. PT
- Pakuwon--Pakuwon Jati Tbk. PT
- Alam--Alam Sutera Realty Tbk. PT
- Bumi--Bumi Serpong Damai Tbk. PT
- Ciputra--Ciputra Development Tbk. PT
- Lippo--Lippo Karawaci Tbk. PT
- Agung--Agung Podomoro Land Tbk. PT
- Modernland—Modernland Realty Tbk. PT
- Vinhomes--Vinhomes Joint Stock Company.
- No Va Land--No Va Land Investment Group.
- CICT--CapitaLand Integrated Commercial Trust.
- OUECT--OUE Commercial Real Estate Investment Trust
- FCT--Fraser's Centrepont Trust.
- FLCT--Fraser's Logistics & Commercial Trust.
- Tril. --Trillion.
- Bil.--Billion.
- IDR--Indonesian rupiah.
- VND--Vietnamese dong.
- US\$--United States dollar.
- S\$--Singapore dollar.
- a—Actual.
- f--Forecast.
- e--Estimate.
- psf--Per square foot.
- pm--Per month.
- sf--Square feet.
- FFO--Funds from operations.
- L&I--Logistics & Industrial.
- CPI—Consumer Price Index.

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## Related Research

- Update On Southeast Asia Property: External Conditions Squeeze Developers, May 31, 2023
- Indonesia And Vietnam Developers Face Steeper Path To Growth, June 7, 2023
- Industry Top Trends Update Asia-Pacific: Real Estate Development, July 18, 2023
- Industry Top Trends Update Asia-Pacific: Real Estate Investment Trust, July 18, 2023
- Rated Singapore REITs To Hold Firm Against Moderating Demand, July 28, 2023
- Economic Outlook Asia-Pacific Q1 2024: Emerging Markets Lead The Way, November 26, 2023



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