



Fitch Assigns First-Time 'B(EXP)' Rating to Intiland; Rates USD Bonds 'B(EXP)'

Fitch Ratings-Singapore-27 July 2018: Fitch Ratings has assigned Indonesia-based property developer PT Intiland Development Tbk's an expected Long-Term Foreign-Currency Issuer Default Rating (IDR) of 'B(EXP)' with a Stable Outlook. At the same time, the agency has assigned the company an expected senior unsecured rating of 'B(EXP)' and an expected rating of 'B(EXP)' on its proposed US dollar senior unsecured notes with a Recovery Rating of 'RR4', to be issued by Intiland and guaranteed by certain subsidiaries.

The expected IDR assumes that Intiland will raise sufficient funds from the proposed US dollar notes to refinance secured debt, which will improve the company's liquidity and capital structure. The final ratings are contingent on the successful issue of the proposed bond.

The ratings reflect Intiland's long property development record in Jakarta and Surabaya - Indonesia's two largest cities. The company's residential projects are mostly located within proximity of each city's central business district and therefore target more affluent middle- to high-end buyers. The ratings are constrained by limited leverage headroom, as measured by net debt/adjusted inventory, and more volatile presales than 'B' category peers. Fitch believes the company's ability to raise new borrowings will be constrained under the proposed note issuance, at least until 2021, as fixed-charge cover, as defined in the documentation, will be below the minimum 2.5x. However, the documentation allows for permitted indebtedness, which we believe will be sufficient to finance construction.

KEY RATING DRIVERS

Recovering Attributable Presales: Fitch expects Intiland to book annual attributable presales of around IDR2 trillion over the medium-term, a level broadly in line with 'B' category peers. The company's key target market of middle- to high-end buyers increases presale volatility above that of peers in the mass-market segment, as its target market is more sensitive to macroeconomic and political adversity. This risk is mitigated to some extent by Intiland's geographically dispersed projects, which

increase product flexibility. Fitch also expects Intiland's mix of completed but unsold inventories, which are more appealing for end-buyers than newer projects, to contribute to presales in the short term.

Intiland's attributable presales stood at IDR527 billion in 1H18. This lagged Fitch's full-year estimate of IDR1.7 trillion due to weaker-than-Fitch-expected industrial land sales and the combination of a May 2018 terror attack in Surabaya, long Idul Fitri holiday and soft demand temporarily affecting sales and launch schedules. This situation has normalised and the company expects pre sales to ramp up in 2H18 as it proceeds with new-project launch schedules in September and October 2018.

High Leverage Limits Rating Headroom: Fitch expects Intiland's leverage, as measured by net debt/adjusted inventory, to remain elevated at around 45%, and therefore to limit its rating headroom. This is because Intiland may need to replenish landbank, particularly for its high-rise projects within the central business district, which commands higher acquisition costs. This is in contrast to peers' ability to deleverage quickly from large and low-cost landbank inventory.

Adjustments for Joint-Venture Cash Flow: A joint venture with Singapore's sovereign wealth fund, GIC - which has invested in Intiland's 57 Promenade and South Quarter Jakarta projects - has helped the company accelerate development and deleverage. Of IDR980 billion cash received for both projects, IDR844 billion has been used to repay project-related loans, reducing Intiland's consolidated leverage, as measured by net debt/adjusted inventory, to 37% in 2017, from 54% in 2016. However, Fitch understands cash flow from both projects is ringfenced, meaning Intiland may have limited cash flow access.

Fitch factors in minority interests in these projects by using proportionate presales when calculating inventory turnover, as measured by presales/gross debt, and deconsolidates both projects in the leverage ratio, as measured by net debt/adjusted inventory. Both projects have low leverage, and therefore, after the adjustments, the ratios stood at 50% and 42%, respectively, as of end-2017.

Low Margin to Improve: Fitch expects Intiland's low margin to improve over the next few years, as the company recognises profit from higher-margin projects, such as South Quarter, 57 Promenade and Graha Golf. The company's low margin compared with that of other Fitch-rated Indonesian developers stems from its high-rise residential development focus and the discounts it has offered over the previous two years to reduce inventory holdings. Key projects launched in the previous few years, including Serenia Hills and 1 Park Residences, were also recently acquired,

increasing its land acquisition costs compared with township peers that benefit from a large, low-cost landbank.

Manageable Development Risk: Intiland has manageable development risk, despite a large proportion of high-rise, niche-market projects, due to limited capex commitments that allow it to better manage cash flow. Management's strategy to start construction only when a minimum presales target is achieved, historically around 60%, effectively covers construction costs. Development risks are also somewhat counterbalanced by Intiland's landed township project in Surabaya, where it has an established record in the upscale residential segment, and its large, mature industrial estate in Ngoro, near Surabaya, from which it has generated consistent annual presales for the previous four years.

Expanding Investment Portfolio: Fitch estimates that Intiland's attributable non-development income increased to IDR500 billion in 2017, from around IDR200 billion in 2015, and expects it to continue rising over the long-term, supported by improving occupancy and two additional hotels under construction in Praxis and Spazio Tower. Non-development gross profit/net interest cover should move closer to 1.0x by end-2022, from 0.4x at end-2017. The company has an expanding investment portfolio, primarily the South Quarter office tower that opened in mid-2016 and has a 71% occupancy rate and a weighted-average lease maturity of over seven years.

DERIVATION SUMMARY

Intiland's risk profile is comparable with that of PT Alam Sutera Realty Tbk (ASRI, B/Stable) and PT Modernland Realty Tbk (B/Stable). ASRI's higher presales, which Fitch forecasts at IDR3 trillion in 2018, and better margin from its large, low-cost landbank are counterbalanced by higher leverage, which Fitch forecasts at 52.3% for 2018, and a lower non-development income contribution. Fitch expects Intiland and Modernland to generate a similar amount of annual attributable presales, at around IDR2 trillion, over the medium-term, and believes Intiland's lower development margin is compensated by a stronger recurring profile over the medium-term.

KEY ASSUMPTIONS

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

- Attributable presales of IDR1.7 trillion in 2018 and IDR2.5 trillion in 2019
- Majority of bond proceeds used to refinance debt
- Minimal capex in 2018 and IDR260 billion in 2019

Key Recovery Rating Assumptions:

- Recovery analysis assumes Intiland would be liquidated in a bankruptcy rather than continue as a going concern because it is an asset-heavy company. The analysis is based on management accounts as of 30 June 2018.
- 75% recovery from accounts receivable
- 75% recovery from inventory
- 50% recovery from development landbank
- 50% recovery from investment properties and fixed assets
- Fitch estimates Intiland's liquidation value will cover 100% of its secured debt and 82% of its unsecured debt, corresponding to a 'RR2' Recovery Rating for the senior unsecured notes after adjusting for administrative claims. The Recovery Rating is, however, capped at 'RR4', because under Fitch's Country-Specific Treatment of Recovery Ratings Criteria, Indonesia falls into 'Group D' of creditor friendliness. Instrument ratings of issuers with assets in this group are subject to a soft cap at the issuer's IDR.

RATING SENSITIVITIES

Fitch does not expect positive rating action over the next 18 to 24 months due to Intiland's high business-risk profile and high leverage stemming from its lack of land replenishment compared with 'B' rated peers.

Developments that may, individually or collectively, lead to negative rating action include:

- Attributable presales/gross debt at less than 45% (2017: 50%)
- Leverage, as measured by net debt/adjusted inventory, based on deconsolidated numbers, at more than 50% (2017: 42%)

LIQUIDITY

Proposed Bonds Improve Flexibility: Fitch expects Intiland's financial flexibility and liquidity profile to substantially improve upon the successful issuance of its proposed bonds. This is because the bond proceeds will partially refinance secured, amortising term loans and improve the company's cash flow flexibility in light of its volatile presales and high cash flow commitments for high-rise projects.

The company had IDR528 billion of unrestricted cash at end-2017, against the current portion of long-term debt of IDR954 billion. Fitch believes Intiland has adequate access to bank funding, as seen from its relationships with multiple local and regional

banks and record of domestic bonds issuance. The company also has around IDR925 billion of undrawn bank lines to support near-term liquidity if required.

Contact:

Primary Analyst

Erlin Salim

Director

+65 6796 7259

Fitch Ratings Singapore Pte Ltd.

One Raffles Quay

South Tower #22-11

Singapore 048583

Secondary Analyst

Bernard Kie

Associate Director

+65 6796 7216

Committee Chairperson

Vicky Melbourne

Senior Director

+612 8256 0325

Summary of Financial Statement Adjustments:

- Fitch adjusts presales from 57 Promenade and South Quarter, and non-development income from South Quarter, to reflect only Intiland's effective ownership- Fitch deconsolidates 57 Promenade and South Quarter and adds back Intiland's equity shares when computing the net debt/adjusted inventory ratio
- Fitch reclassifies long-term inventory and advances from customers as part of working capital

For regulatory purposes in various jurisdictions, the supervisory analyst named above is deemed to be the primary analyst for this issuer; the principal analyst is deemed to be the secondary.

Media Relations: Leslie Tan, Singapore, Tel: +6567967234, Email: leslie.tan@fitchratings.com

Additional information is available on www.fitchratings.com

Applicable Criteria

Corporate Rating Criteria (pub. 23 Mar 2018)

(<https://www.fitchratings.com/site/re/10023785>)

Corporates Notching and Recovery Ratings Criteria (pub. 23 Mar 2018)

(<https://www.fitchratings.com/site/re/10024585>)

Sector Navigators (pub. 23 Mar 2018) (<https://www.fitchratings.com/site/re/10023790>)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form

(<https://www.fitchratings.com/site/dodd-frank-disclosure/10039155>)

Solicitation Status (<https://www.fitchratings.com/site/pr/10039155#solicitation>)

Endorsement Policy (<https://www.fitchratings.com/regulatory>)

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK:

[HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2018 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch

believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in

connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

Solicitation Status

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

Fitch Updates Terms of Use & Privacy Policy

We have updated our Terms of Use and Privacy Policies which cover all of Fitch Group's websites. Learn more (<https://www.thefitchgroup.com/site/policies>).

Endorsement Policy - Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures (<https://www.fitchratings.com/regulatory>) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.