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# Rating Action: Moody's assigns first-time B2 ratings to Intiland Development; outlook stable

**27 Jul 2018**

Singapore, July 27, 2018 -- Moody's Investors Service has assigned a first-time B2 corporate family rating (CFR) to Intiland Development Tbk (P.T.).

At the same time, Moody's has assigned a B2 senior unsecured rating to the company's proposed US dollar bond issuance. The proposed bonds are unconditionally and irrevocably guaranteed by Intiland's major operating subsidiaries.

The outlook on the rating is stable.

The bond proceeds will be used mainly for the refinancing of existing short-term borrowings and general corporate purposes.

RATINGS RATIONALE

"Intiland's B2 CFR reflects its established market position and ownership of a diversified asset portfolio, comprising high-rise apartments, houses, commercial properties and industrial estates, all of which are well located across Jakarta, Greater Jakarta, Surabaya and Greater Surabaya," says Jacintha Poh, a Moody's Vice President and Senior Analyst.

The CFR also considers Intiland's joint ventures with reputable partners such as GIC Private Limited, a sovereign wealth fund established by the Government of Singapore (Aaa stable). Such joint ventures mitigate development and funding risk, while supporting growth.

"In addition, the B2 CFR takes into account the likely improvement in Intiland's financial metrics and liquidity over the next 12-18 months, as the company starts to recognize revenue from sales contracted in previous years and replaces its short-term borrowings with longer tenor debt," adds Poh, who is also Moody's Lead Analyst for Intiland.

Intiland is an established property developer with an operating history of 35 years. The company has successfully developed more than 60 projects in Jakarta and Surabaya.

Intiland had a sizable land bank of around 2,052 hectares at 31 March 2018, a portion of which was located in the prime areas of Jakarta and Surabaya. Its land bank is sufficient to support more than 10 years of development.

Intiland also generates a healthy recurring income — which accounted for around 23% of its total revenue in Q1 2018 — from the leasing of its commercial properties. Moody's estimates that Intiland's recurring cash flow can cover around 0.4x of interest paid over the next 12-18 months, which is higher than the around 0.2x coverage of other similarly-rated Indonesian property developers.

Intiland's target is to achieve total marketing sales of IDR3.3 trillion in 2018. In the first half of 2018, the company achieved marketing sales of around IDR1.3 trillion, of which, IDR693 billion related to the sales of 57 Promenade, which were committed in 2017 but only processed in 2018.The company expects marketing sales to improve, with new project launches in September/October this year.

Moody's expects Intiland's financial metrics will improve over the next 12-18 months, with adjusted debt/homebuilding EBITDA at around 5.5x in 2018 and 5.1x in 2019, and homebuilding EBIT/interest expense at around 1.7x in 2018 and 2.0x in 2019. For the 12 months ended 31 March 2018, the company's adjusted debt/homebuilding EBITDA registered 5.2x and homebuilding EBIT/interest expense 1.8x.

The improvement in the Intiland's financial metrics is largely driven by its stronger revenue generation. Moody's estimates around 40%-45% of the company's revenue over the next 12-18 months will be contributed by marketing sales achieved in previous years.

Intiland's liquidity is weak, owing to its reliance on short-term funding. However, Moody's expects liquidity to improve over the next six months, because the company will be replacing its short-term debt either with the proposed US dollar bond or a syndicated loan, both of which show longer tenors.

As of 31 March 2018, Intiland had cash and cash equivalents of IDR878 billion, which were insufficient to cover IDR2.7 trillion of debt coming due over the next 12 months. The short-term borrowing consisted largely of secured bank loans, which the company has a track record of rolling over. Intiland also had IDR925 billion of committed facilities.

Intiland's proposed US dollar bond is rated in line with its B2 CFR, because bondholders are not exposed to either legal or structural subordination risk. Pro-forma the US dollar bond issuance, around 60% of the company's total debt will be unsecured. Furthermore, the proposed bond will be guaranteed by all major subsidiaries.

The ratings outlook is stable, reflecting Moody's expectation that Intiland will successfully execute its business plans and meet its marketing sales targets, which will support an improvement in the company's financial metrics to within the threshold of its B2 ratings over the next 12-18 months. The stable outlook also incorporates Moody's expectation that the company will continue to successfully roll over its short-term borrowings.

Moody's will unlikely upgrade Intiland's ratings over the next 12-18 months, given the company's weak financial and liquidity profile. However, in the longer term, positive cash-flow generation used towards deleveraging and maintenance of solid liquidity in the form of cash balances and committed facilities will be positive for the ratings.

Credit metrics that will support a ratings upgrade include adjusted debt/homebuilding EBITDA below 3.5x and adjusted homebuilding EBIT/interest coverage above 3.0x on a sustained basis.

Intiland's ratings could be downgraded if its financial and liquidity profiles do not improve, owing to: (1) the company's failure to execute its business plans, such that its marketing sales fall below Moody's expectation of IDR2.5-IDR3.0 trillion over the next 12-18 months; (2) the company's failure to materially improve its debt maturity profile by replacing short term borrowings with medium to long term borrowings; (3) a deterioration in the property market, leading to protracted weakness in its operations; and (4) a material depreciation in the Indonesian rupiah, which could increase the company's debt-servicing obligations.

The credit metrics indicative of a ratings downgrade include failure to improve the following factors over the next 12-18 months: (1) adjusted debt/homebuilding EBITDA, which should fall below 5.5x; (2) adjusted homebuilding EBIT/interest expense, which should rise above 2.0x; or (3) cash holdings and committed facilities to cover the company's short-term debt obligations.

The principal methodology used in these ratings was Homebuilding And Property Development Industry published in January 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Established in 1983, Intiland Development Tbk (P.T.) is engaged in the development, management and operation of office buildings, mixed-use projects, industrial estates, condominiums and houses across Jakarta, Greater Jakarta, Surabaya and Greater Surabaya. The company was formerly known as PT Wisma Dharmala Sakti and listed on the Jakarta Stock Exchange in 1991.

At 30 June 2018, Intiland was around 52% owned by its founder, Mr. Hendro Gondokusumo.

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