

Sector Update

Property tax hike

- Residential properties > Rp2bn/unit will incur additional 5% tax
- We expect more product launches at selling price below Rp2bn...
- ... with commercial products to sustain sales this year
- The most resilient: BSDE and CTRA

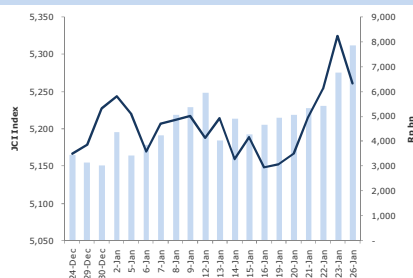
Additional 5% tax for residential properties above Rp2bn. The government plans to impose 5% additional income tax (Pph pasal 22) for all residential properties priced at > Rp2bn or those with a building area above 400sqm for landed house or above 150sqm for apartments. Previously, the 5% additional tax applied only for residential properties above Rp10bn in value (or above 500sqm building area). This new tax is in addition to the prevailing value added and luxury taxes.

What to expect: Property companies in our coverage have released their FY15 marketing sales targets, ranging from 6-35% yoy growth early this year. However, we believe these companies would adjust their planned project launches in the coming months, to mitigate the impact of this revised tax regulation, which would potentially hamper marketing sales achievement this year. We estimate property companies will offer more commercial products (including lands, offices) this year, which are exempted by the revised regulation.

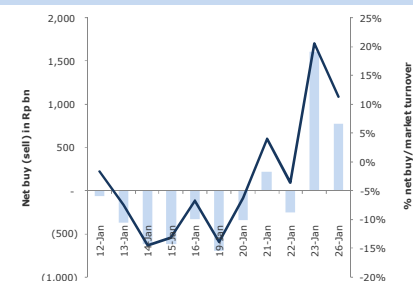
Most resilient: commercial products, large land bank and project variety.

Companies with large land bank (BSDE IJ – Rp2,060 - BUY) and project variety (CTRA IJ – Rp1,475 - BUY) would be the most resilient, in our view. BSDE will have the flexibility to offer commercial products as well as products with lower prices, to support marketing sales growth. For CTRA, geographically diversified projects throughout Indonesia and office projects would also provide a cushion for sales this year, we believe. We also believe Summarecon (SMRA IJ – Rp1,630 – HOLD) will sustain its sales this year, given its capability to meet demand in property market and support from loyal buyers. However, increasing product mix toward lower margin products would trim earnings growth this year, based on our forecast. Following its focus on apartments/high-rise in Jakarta and Surabaya, we believe the implementation of this regulation would negatively affect Pakuwon (PWON IJ – Rp505 – BUY), despite its strong recurring income.

JCI Index



Foreign net buy (sell)



Key Indexes

| Index | Closing | 1 day | 1 year | YTD |
|-------|---------|-------|--------|-------|
| JCI | 5,260 | -1.2% | 21.7% | 0.6% |
| LQ45 | 913 | -1.5% | 26.4% | 1.6% |
| DJI | 17,679 | 0.0% | 11.6% | -0.8% |
| SET | 1,588 | -0.6% | 23.3% | 6.1% |
| HSI | 24,910 | 0.2% | 13.3% | 5.5% |
| NKY | 17,469 | -0.2% | 16.4% | 1.3% |
| FTSE | 6,852 | 0.3% | 4.6% | 4.4% |
| FSSTI | 3,399 | -0.4% | 11.7% | 1.0% |

Commodity price

| Commodities | Last price | Ret 1 day | Ret 1 year |
|--------------------|------------|-----------|------------|
| (in USD) | | | |
| Oil/barrel (WTI) | 45.2 | -0.2% | -53.3% |
| CPO/tonne | 601.4 | -2.6% | -16.2% |
| Soy/bushel | 9.7 | 1.1% | -24.6% |
| Rubber/kg | 1.7 | 0.0% | -27.0% |
| Nickel/tonne | 14,692 | 2.8% | 1.7% |
| Tins/tonne | 19,563 | 0.6% | -11.2% |
| Copper/tonne | 5,629 | 1.4% | -21.9% |
| Gold/try.oz (Spot) | 1,281 | -1.0% | 1.9% |
| Coal/tonne* | 61.8 | -1.0% | -25.4% |
| Corn/bushel | 3.8 | -0.7% | -10.4% |
| Wheat/bushel** | 258.7 | 5.4% | -15.7% |

*: 1 week change

**: 1 month change

Source : Bloomberg

Luxury products imposed by income tax chapter 22

The revision plan

| | |
|--|--|
| - Private airplane with selling price >Rp20bn | - Private airplanes (no limit on selling price) |
| - Yacht and similar products with selling price > Rp10bn | - Yachts and similar products (no limit on selling price) |
| - House including land with selling price/transfer price > Rp10bn and/or building area > 500sqm | - Houses including land with selling price/transfer price > Rp2bn and/or building area > 400sqm |
| - Apartment and similar products with selling price/transfer price > Rp10bn and/or area > 400sqm | - Apartments and similar products with selling price/transfer price > Rp2bn and/or area > 150sqm |
| - Vehicle with selling price > Rp5bn and capacity > 3,000cc | - Vehicles (2 or 3 wheel) with selling price > Rp75mn or capacity > 250cc |
| | - Jewellery including diamond, gold, and similar products with selling price above Rp100mn |
| | - Watches (> Rp50mn), Bags (> Rp15mn), Shoes (>Rp5mn) |

Source: Bisnis Indonesia, IndoPremier

Refer to Important disclosures on the last of this report

News & Analysis

Corporates

BBRI: Bank Rakyat (BBRI IJ; Rp11,875; Buy) reported net profit of Rp24.2tn in FY14 (+13.6% yoy) on the back of strong balance sheet growth (loans: +13.8% yoy; deposits: +23.4% yoy), stable NIMs of 8.51% (vs. 8.55% in FY13) and strong non-interest income growth (+20% yoy). This led to strong growth in gross operating income (+17% yoy), which was moderated by strong operating expense growth (+19% yoy) and offset by a big increase in net credit cost (+82% yoy). On quarterly basis, reported profit was slightly lower at Rp6.1tn in 4Q (-5.1% yoy) despite very little loan provisioning as non-operating incomes normalised (after a big jump in 3Q).

For 2015, the bank is guiding for 15-17% loan growth, slightly lower NIMs (-25bps), stable cost/income ratio of 43%, and a slightly higher NPL ratio of 2% (FY14: 1.7%). Earnings is expected to grow at 10-12% yoy. BBRI expanded its network aggressively last year (micro branches: +590 units; employees: +15,000; e-channel: +152,000 units), which will have to be justified by sustained loan growth in coming years. (Company).

Comment: BBRI's reported earnings in FY14 was very much in line with our forecast (Rp24.3tn) and consensus estimate (Rp23.9tn). The bank's core earnings (PPOP) in the last quarter was 5% below our expectation but this was fully offset by a sharp fall in loan provisioning, likely due to loan restructuring (Rp5tn in FY14 vs. Rp2.2tn in FY13). Deposit growth was also stronger than expected, well above industry growth (13% yoy), which in turn lowered the bank's LDR to 81.7% (FY13: 88.5%). Strong network expansions last year implies sustained strong growth of operating cost this year. Reiterate Buy (TP: Rp12,900).

CTRA: Ciputra Development (CTRA IJ; Rp1,430; Buy) targets FY15 marketing sales of Rp10.6tn, +24.7% yoy, stemmed from projects under CTRA (55%), CTRP (23%) and the remaining from CTRS. Landed house in Greater Jakarta and Greater Surabaya are still the major contribution (62%) to this year marketing sales. (Company)

Comments: If materialized, the revision of income tax for residential properties with Rp2bn selling price would hamper CTRA to achieve its FY15 target.

LPPF: CVC Capital Partners has raised Rp3.67t (US\$292.94m) by selling an 8% stake in Matahari Department Store (LPPF IJ; Rp15,600; Not rated). CVC sold 238.6mn Matahari shares at Rp15,400 each in a block trade, which represented a 4.9% price discount to Matahari's closing price of Rp16,200 last Friday. (Reuters)

MYOR: Mayora Indah (MYOR IJ; Rp24,025; Not rated) earmarks US\$50mn for FY15 capex. In the last fiscal, Mayora had spent US\$75mn for machinery and equipment for a biscuit plant in Balaraja, Tangerang. Meanwhile, the company expects FY15 net profit to decline by 25%yoy to Rp600bn vs. Rp800bn target for FY14, and attributes its lower net profit to higher raw material prices and forex loss. (Kontan)

TELE: Tiphone (TELE IJ, Rp965, Not rated), has completed the acquisition of a private company Simpatindo of US\$30mn. Simpatindo engages in distribution of started pack and reload vouchers of Telkomsel and Flexi. Going forward, TELE will consolidate its business with Simpatindo which will strengthen the distribution of Telkomsel's products. Furthermore, TELE aims to generate revenue of Rp18tn (+28.6% yoy) with 65-70% contributed by voucher and 30-35% from handset sales.

Comment: Simpatindo and TELE are large distributors of Telkomsel's product. Consolidation of these two companies will provide better control over distribution and avoiding price war. Voucher distribution is usually divided by regions to avoid overlaps and competition among distributors.

WSKT: Waskita Karya (WSKT IJ; Rp1,570; Buy) provides guidance for FY14 revenue and bottom line of Rp9.9tn (flat yoy) and Rp501bn (+36% yoy), respectively, on the back of FY14 new contracts of Rp22.7tn (+73% yoy). In 2015, the company targets FY15 new contracts of Rp20.8tn, which brought total contracts in hand reaching Rp40.9tn by end of 2015. For 2015, the company also provides guidance for FY15 top and bottom line of Rp13.3tn (+34% yoy) and Rp650bn (+29.7% yoy). Bear in mind that this guidance excludes the scenario of additional capital injection from the government. The company has budgeted Rp2tn capex this year, which would be utilized for property (50%), toll road investment (17%), precast (17%) and construction (8%). WSKT plans to develop a new superblock in Surabaya through a JO (51% WSKT, PT Dharmo Permai 49%), of which WSKT plans to build 2 tower from total 8 apartment towers. Another property project with Hotel Indonesia Natour (HIN) in 0.7ha land in Medan is still in design process. On precast division, the company plans to build two precast factories in Karawang and Panajam (East Kalimantan) on top of existing 925k ton annual capacity. In 2015, the company plans to start the construction of Medan-Kualanamu-Tebing Tinggi toll road (Rp4tn) and Legundi-Bunder (Rp4.3tn) while continue the construction of Pejagan-Pemalang toll road (Rp2.3tn) and phase 1 Becakayu toll road (Rp4.1tn). (Company)

Comment: Company's guidance on FY14-15 earnings is 22-25% higher than consensus' estimates. Based on company's FY15 earnings guidance, WSKT is trading at FY15 P/E of 23.6x, at par with sector. The company stated that post the capital injection from the government, WSKT may reach FY15 earnings of Rp1tn (EPS Rp103.8 and FY15 P/E of 15.3x.

Head Office

PT INDO PREMIER SECURITIES

Wisma GKBI 7/F Suite 718

Jl. Jend. Sudirman No.28

Jakarta 10210 - Indonesia

p +62.21.5793.1168

f +62.21.5793.1167

Institutional Equity & Private Client

| | | |
|--------------------------|------------------|----------------------------|
| Benny B. Soebagjo | Head of Equities | benny.soebagjo@ipc.co.id |
| Angkula Ruriawan | Equity Sales | angkula.ruriawan@ipc.co.id |
| Alexander Salim | Equity Sales | alexander.salim@ipc.co.id |
| Edward Azizy | Equity Sales | edazizy@ipc.co.id |
| Henry Sutanto | Equity Sales | henry.sutanto@ipc.co.id |
| Isna Alfiathi | Equity Sales | isna.alfiathi@ipc.co.id |
| Angky Amarylis | Sales Trader | angky.amarylis@ipc.co.id |
| Thomas Samuil | Sales Trader | thomas.samuil@ipc.co.id |

INVESTMENT RATINGS

BUY : Expected total return of 10% or more within a 12-month period
HOLD : Expected total return between -10% and 10% within a 12-month period
SELL : Expected total return of -10% or worse within a 12-month period

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