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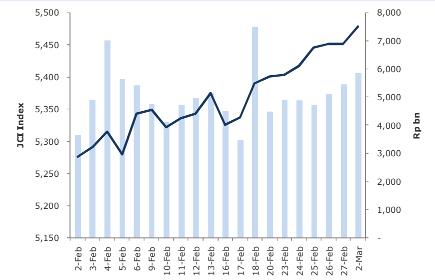
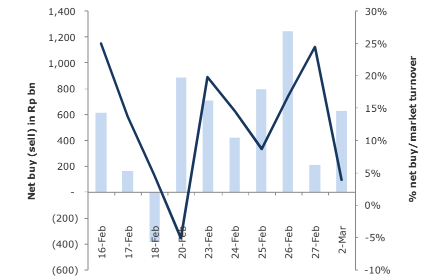
Equity | Indonesia | Research Daily

JCI Index



Foreign net buy (sell)



Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	5,478	0.5%	19.5%	4.8%
LQ45	954	0.7%	23.9%	6.1%
DJI	18,289	0.9%	13.1%	2.6%
SET	1,582	-0.3%	18.1%	5.6%
HSI	24,887	0.3%	10.6%	5.4%
NKY	18,827	0.2%	28.5%	8.0%
FTSE	6,941	-0.1%	3.5%	5.7%
FSSTI	3,404	0.0%	10.2%	1.2%

Commodity price

Commodities	Last price	Ret 1 day	Ret 1 year
(in USD)			
Oil/barrel (WTI)	49.6	-0.3%	-51.7%
CPO/tonne	653.5	3.0%	-15.3%
Soy/bushel	10.1	-1.8%	-28.7%
Rubber/kg	1.9	0.0%	-12.8%
Nickel/tonne	13,794	-1.7%	-6.1%
Tins/tonne	17,755	-0.9%	-24.7%
Copper/tonne	5,926	0.0%	-16.3%
Gold/try.oz (Spot)	1,207	-0.5%	-10.6%
Coal/tonne*	61.8	-1.0%	-25.4%
Corn/bushel	3.7	-0.9%	-16.8%
Wheat/bushel**	248.5	-7.9%	-9.8%

** : 1 week change*
***: 1 month change*

Source : Bloomberg

Economic Update

Volatile Foods Maintained Consecutive Deflation

- **Inflation moderated to 6.29% yoy (-0.36% mom) in Feb15…**
- **…resulting in cumulative deflation.**
- **We expect lower yoy inflation to continue.**
- **Lower rate is unlikely; BI rate to stay at 7.75%.**

Inflation continues to slow down. Indonesia booked a deflation in Feb15 with mom deflation at 0.36% (-0.24% in Jan15), another consecutive monthly deflation after 2013. This deflation is higher than Bank Indonesia's (BI) previous deflation forecast of 0.2% mom. Annually, consumer prices climbed 6.29% in Feb15, declining from 6.96% in Jan15, due to lower volatile food prices and transportation tariffs. Contribution to deflation from transportation and volatile food categories is -0.58% of total mom deflation with 14% from transportation tariffs alone. Meanwhile, mild increases occurred in five other groups with yoy core inflation slightly decreasing to 4.96% from 4.99% in the previous month.

Cumulative deflation. Consecutive bouts of deflation resulted in -0.6% cumulative deflation for the first two months of 2015, well below 1.33% inflation reported for the same period in 2014. Although we expect inflation in 2015 to be less than half the inflation in 2014, we believe there could be upside risks to BI's inflation target of 3-5%, given higher LPG and gasoline prices in March and planned electricity adjustment tariffs (starting in April) for two categories of household customers. Meanwhile, five other categories will have lower electricity re-adjustment tariffs for this month. To conclude, we still expect the annual inflation rate to decline significantly in the coming months despite the negative impact of these risks that will mainly start kicking in at 2Q15. Currently, Statistics Indonesia is still optimistic about maintaining deflation in March and April 2015.

Continued lower inflation from lower transportation costs. As global oil prices are plunging, letting fuel prices float with the market has fed through to lower inflation. It has been pushing down the cost of transportation and delivering goods, thus securing food distribution as well. The harvest season starting end of this month would normally increase food supply and drive down prices. However, a distribution problem could lock food accessibility, causing a shortage. The government needs to supervise the distribution channel, so that the benefit of lower transportation costs and lower staple goods prices can be reflected in the final prices paid by consumers. The government's recent intervention in the rice markets proved the importance of market operations in controlling inflation.

Tight monetary policy is still on the table. Although there is a lower pattern of inflation this year, Bank Indonesia should not lower its benchmark rate due to current account deficit concerns and higher global rate environment in the near future. BI's revised forecast for 2015 current account performance also shows that Bank Indonesia's stabilization policy has not been enough to meet its target of 2.5% sustainable level. A further rate cut would lead to additional burden on the Rupiah, which has already faced pressures after the BI rate cut two weeks ago. In addition, economic growth has started to rebound in 4Q14 (vs 3Q14), so we believe a further cut would be too soon and inconsistent with the efforts on narrowing CA deficit. Hence, we expect no further changes in the rate as long as the external uncertainties persist related to the timing of US normalization policy. Nevertheless, BI seems committed to ensure that the government's economic growth stimulation works well, leaving the probability of another cut still on the table.

News & Analysis

Corporates

AUTO: Astra Otoparts (AUTO IJ; Rp3,650; Buy) intends to prioritize sales to the replacement market both for export and domestic. The company is facing headwinds in the OEM market due to decline in demand for new cars. The company expects that sales from OEM to be flat for this year. Last year, contribution from OEM was about 52% of total sales. AUTO was not able to fully pass on production cost hikes from raw materials, weaker rupiah and labor cost. (Kontan)

BTEL: Bakrie Telecom (BTEL IJ; Rp 50; Not rated), plans to restructure its debt into mandatory convertible bonds in 2Q15. This corporate action will be subject to shareholders approval. BTEL has liabilities of US$145m to Huawei and Rp1.0tn each to Protelindo (subsidiary of TOWR IJ) and Solusi Tunas Pratama (SPUR IJ). At the end of this transaction it is likely that Huawei, Protelindo and Solusi Tunas Pratama will be a shareholder of BTEL. (investor Daily)

BTPN: Bank BTPN (BTPN IJ;Rp4,150; Not rated) reported net profit of Rp1.85tn in FY14 (-13% yoy), which was 7.5% below consensus estimate. The bank's earnings decline can be attributed to: 1) a narrowing of its reported NIM to 11.0% in FY14 (FY13: 12.7%); and 2) impairment losses rising to Rp768bn in FY14 (+30% yoy). Meanwhile, loan portfolio grew by 10.6% yoy, slightly below credit growth in the banking industry. (Company).

Comment: BTPN's earnings decline in FY14 was already evident from prior quarters and was a dramatic reversal from its strong earnings growth in recent years. However, this simply reflects the weak earnings performance of major banks in Indonesia outside of the Big Four in the face of macro headwinds from rising interest rates, slowing economic growth and strong competition for deposit funding as a result of high LDR in the banking system. In addition, most of BTPN's loan portfolio comprises of high-yield fixed installment loans (microcredit, pension loans etc.), which has less repricing flexibility when rate rises.

ICBP: Indofood CBP (ICBP IJ; Rp14,325; Buy) acquired 9.88% stake in JC Comsa Corporation, a Japan-based company engaged in the manufacture of pizza and bread as well as restaurant management, for 284.4mn yen (US$2.37mn). The company will fund the purchase with internal funds. (Kontan)

Comment: *We believe the acquisition would strengthen the relationship with its Japanese counterpart, where both entered into a JV in restaurant management last year. The JV company, namely PT Indofood Comsa Sukses Makmur is now operating restaurant chains under Popolamama brand name (Italian restaurant). Going forward, we expect ICBP to actively pursue an inorganic route to growth, mainly to provide alternatives for its maturing noodle business. ICBP is sitting with nearly US$500mn of cash on its balance sheet, which should be enough to finance its future acquisitions or JVs, in our view.*

PTPP: Pembangunan Perumahan (PTPP IJ; Rp4,060; Buy) 4Q14 result:

- PTPP reported 4Q14 earnings of Rp242bn (+19.5% yoy and 68% qoq), which brought FY14 bottom line of Rp532bn (+26% yoy). This FY14 net profit was in line with our (102%) and consensus (103%) estimates.
- On the top line, PTPP reported flat FY14 revenue of Rp12.4tn, +6.6% yoy, on the back of flat new contracts secured in the past two years.
- Compared to the same period last year, PTPP reported 4Q14 margin improvement across the board. This had supported the company to book improved FY14 net margin of 4.3% (versus FY13: 3.6%), higher than our forecast.
- We will revisit our forecast post the release of this FY14 result.

	4Q13	3Q14	4Q14	yoy	qoq	2013	2014	yoy	FY14/	FY14/
	Rp bn	Rp bn	Rp bn			Rp bn	Rp bn		FY14F	Cons
Net sales	4,400	3,205	4,620	5.0%	44.2%	11,656	12,427	6.6%	**85.7%**	**87.5%**
Gross profit	546	375	620	13.5%	65.3%	1,273	1,533	20.4%		
Gross profit after JO	582	402	649	11.6%	61.5%	1,367	1,604	17.3%		
Opex	(49)	(46)	(66)	35.7%	44.5%	(200)	(276)	38.3%		
EBIT	534	356	583	9.4%	63.7%	1,168	1,328	13.7%	**93.7%**	**100.6%**
Net interest inc (exp)	(132)	(111)	(163)	23.4%	47.6%	(267)	(334)	24.9%		
Allowance for impairment	(44)	(18)	(37)	-16.0%	97.8%	(107)	(81)	-24.0%		
Other	(22)	10	6	-129.5%	-37.8%	(27)	7	-124.9%		
Pretax profit	336	238	390	16.2%	64.2%	767	919	19.9%		
Net profit	202	143	242	19.5%	68.5%	421	532	26.5%	**102.2%**	**103.0%**
	4Q13	**3Q14**	**4Q14**			**2013**	**2014**	**2014F**	**2015F**	**2016F**
Gross margin	12.4%	11.7%	13.4%			10.9%	12.3%	10.6%	10.6%	10.6%
GPM after JO	13.2%	12.5%	14.1%			11.7%	12.9%	11.4%	11.4%	11.4%
EBIT margin	12.1%	11.1%	12.6%			10.0%	10.7%	9.8%	9.8%	9.8%
Pretax margin	7.6%	7.4%	8.4%			6.6%	7.4%	6.5%	7.1%	7.2%
Net margin	4.6%	4.5%	5.2%			3.6%	4.3%	3.6%	3.9%	3.9%

Source: PTPP, IndoPremier

SMGR: Semen Indonesia (SMGR IJ; Rp14,900; Buy) has announced its FY14 result with highlights:

- Net income was Rp5.6tn (+3.6% yoy) in FY14 supported mainly by a combination volume growth and price increase but dragged down by cost hikes. Nevertheless, the result was within expectation as the cement companies were not able to fully pass on cost increase.
- Total revenue increase by 10.1% yoy to Rp27tn in FY14 driven by volume growth of 2.2% yoy to 26.3mn tons, while ASP has hiked by 7.2% yoy.
- Production cost has increased from several factors such as electricity hikes, increase in subsidized fuel and weaker Rupiah. With demand relative weak, Semen Indonesia decided to maintain market share over profitability leading to EBITDA margin compression to 30.4% in FY14 vs 32.7% in FY13. In 4Q14, EBITDA margin fell further to 28.6% from 29.0% in 3Q14. With the recent price reduction in retail cement price, it is likely that Semen Indonesia EBITDA margin to sustain around 29-30% in FY15.

	FY14	FY13	%	4Q14	3Q14	%	4Q13	%
Turnover	26,987	24,501	*10.1*	7,638	6,463	*18.2*	7,110	*7.4*
Gross profit	11,599	10,944	*6.0*	3,148	2,688	*17.1*	3,104	*1.4*
EBITDA	8,216	8,015	*2.5*	2,184	1,873	*16.6*	2,222	*(1.7)*
Operating profit	6,954	6,972	*(0.3)*	1,844	1,547	*19.2*	1,927	*(4.3)*
Net Int. & Invest. Inc.	(97)	(177)	*(45)*	(59)	(27)	*116.2*	(55)	*6.2*
Forex gain (losses)	-	-	*Nm*	-	-	*nm*	-	*nm*
Except. & Others	234	125	*nm*	112	65	*nm*	42	*166.1*
Group Pretax	7,091	6,920	*2.5*	1,897	1,584	*19.8*	1,914	*(0.8)*
Taxation	(1,517)	(1,566)	*(3.1)*	(417)	(326)	*27.8*	(452)	*(7.7)*
Minorities	(8)	16	*(148.4)*	(3)	4	*nm*	2	*(233.8)*
Net Profit	5,566	5,370	*3.6*	1,478	1,262	*17.1*	1,464	*0.9*
EBITDA Margin	30.4%	32.7%		28.6%	29.0%		31.3%	
Sales volume (000 tonne)								
Total	**26,353**	**25,778**	***2.2***	**7,250**	**6,305**	***15.0***	**7,287**	*(0.5)*

Source: SMGR, IndoPremier

Markets & Sectors

Banking sector: Indonesia's National Bank Association (Perbanas) suggested the draft revised Banking Law to be deliberated by the parliament to exclude stipulations restricting foreign ownership of local banks. Perbanas view it is better for regulations of foreign ownership to be implemented by regulations issued by the OJK (Financial Services Authority), not through the Law, as this will give more flexibility for the banking sector to cope with adverse shocks to the economy, when foreign funding/capital might be required. (Investor Daily).

Comment: We view the proposal to exclude foreign ownership restrictions from the draft New Banking Law to be positive as such stipulation could potentially have negative impacts on government efforts to attract FDIs and particularly, negatively affecting foreign owned banks such as Bank Danamon (BDMN IJ; Hold), CIMB Niaga (BNGA IJ; Not Rated) and Bank Intl. Indonesia (BNII IJ; Not Rated). However, it remains to be seen if the parliament will consider this suggestion from Perbanas.

Property sector: 10 listed property companies have targeted FY15 marketing sales of Rp54.5tn (+19%) yoy compared to FY14 achievement of Rp45.6tn. At present, most property companies are reviewing the government's plan to impose 5% final tax on property products with selling price above Rp2bn/unit. Minarto Basuki, the finance director of Pakuwon (PWON IJ – Rp540 – BUY) stated that this additional tax on property buying would negatively affect the marketing sales in the short-term period. PWON prepares some new projects to support marketing sales this year, including high-rise (condominium and office) and landed house. (Investor Daily)

Economic Update

Exchange rate: Governor of Bank Indonesia mentioned that it is normal for Rupiah to fluctuate around 3-5% from Rupiah assumption in 2015 revised fiscal budget (Rp12,500/USD). With this level, Rupiah may fluctuate in between Rp.12,875-Rp.13,125/USD. (Kontan)

Comment: Beside as a consequence of external factor, Rupiah has faced more pressures after BI rate cut which has pushed Rupiah to always be above Rp.12,800/USD since then. However, this BI's statement is consistent with its policy statement 2 weeks ago mentioning that Indonesia is benefiting from Rupiah depreciation in terms of the CA deficit through lower imports, in particular of consumer goods, as well as greater export competitiveness, especially of manufacturing exports.

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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

ANALYSTS CERTIFICATION.

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