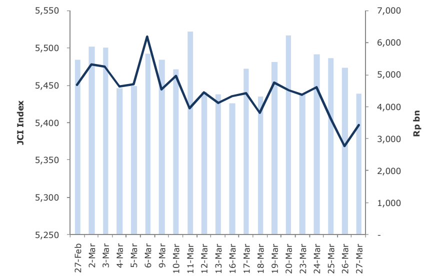
INDOPREMIER

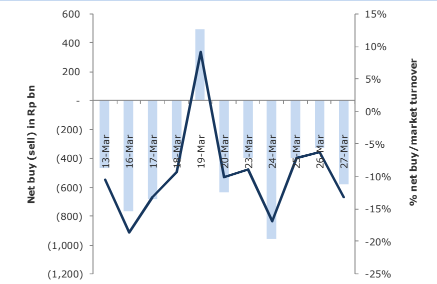
PremierInsight

30 March 2015

JCI Index



Foreign net buy (sell)



Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	5,397	0.5%	13.2%	3.3%
LQ45	938	0.6%	17.3%	4.3%
DJI	17,713	0.2%	8.5%	-0.6%
SET	1,495	-0.1%	9.2%	-0.2%
HSI	24,486	0.0%	11.0%	3.7%
NKY	19,286	-1.0%	31.2%	10.4%
FTSE	6,855	-0.6%	3.6%	4.4%
FSSTI	3,450	0.5%	8.8%	2.5%

Commodity price

Commodities	Last price	Ret 1 day	Ret 1 year
(in USD)			
Oil/barrel (WTI)	48.9	-5.0%	-51.7%
CPO/tonne	586.1	-1.0%	-18.3%
Soy/bushel	9.6	-0.7%	-33.6%
Rubber/kg	1.8	0.0%	-23.4%
Nickel/tonne	13,233	-3.0%	-15.6%
Tins/tonne	17,143	0.3%	-25.0%
Copper/tonne	6,079	-1.9%	-7.5%
Gold/try.oz (Spot)	1,199	-0.5%	-7.5%
Coal/tonne*	61.8	-1.0%	-25.4%
Corn/bushel	3.8	-0.1%	-19.8%
Wheat/bushel**	248.5	-7.9%	-9.8%

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

Source : Bloomberg

Sector Update: Cement

All about the price

- **Pricing power taken away temporarily**
- **Cheaper coal and electricity help mitigate margin squeeze…**
- **… lower logistics costs also helping**
- **Top pick is INTP, TP Rp 24,000**

Government price control, not likely. Early January 2015, the Government announced a lower retail selling price of Rp3,000 per bag, or a 5% discount, which was co-ordinated through Semen Indonesia, the state-owned cement company and the market leader. As a result, Semen Indonesia (SMGR IJ, Rp13,000, Buy) and Indocement (INTP IJ, Rp21,025, Buy) lowered their selling prices by 5% and 4%, respectively, in early 2015. We believe the Government intervened mainly due to inflation concerns on fuel hike in early December 2014. With inflation under control, we expect no further Government intervention. We expect cement manufacturers to regain pricing power later this year.

A little help from softer energy costs. Despite the lower selling price, cement manufacturers could escape margin compression on benefits from lower energy costs. Energy cost, coal and electricity account for about 30-35% of total COGS. Indonesian coal price benchmark and electricity tariff have declined by 1.6% qoq and 2.7% qoq, respectively. Electricity tariff is unsubsidized and will fluctuate in tandem with the movement in oil price, exchange rate and inflation.

Logistics costs also expected to fall. We expect some cost reduction in logistics due to lower subsidized and non-subsidized fuel costs. A part of the logistics is carried out using subsidized fuel, especially for inland transportation, while shipping logistics use non-subsidized fuel. Subsidized high speed diesel (HSD) fuel has declined by 12.3% qoq to Rp11,338/liter as of March 2015, while non-subsidized HSD has fallen by 3.2% qoq to Rp6,400 per liter. Transportation costs account for about 15-17% of the total costs. Lower fuel price from subsidize and unsubsidized should help ease margin pressure.

Becoming a volume play. The cement industry has enjoyed high margins in the past few years due to demand/supply imbalance. Recently, major cement manufacturers have been adding capacity, not to mention the smaller players with similar initiatives. We expect the industry to run at a healthy utilization rate of 80-85%. However, this will take away the pricing power enjoyed by cement companies in the recent years. With relatively normalized margins, the cement industry in Indonesia will be less attractive for new entrants, creating a more sustainable equilibrium for the industry. Nevertheless, this simply means that cement manufacturers' growth will be dependent on volumes rather than margin expansion. We expect cement demand volumes to grow 5.5% in FY15 and then jump to 10% in FY16, assuming infrastructure investment improves. We expect major cement companies to experience margin compression of 2-3% in FY15.

Stock	Ticker	Rating	Price (Rp)	TP (Rp)	15F P/E (x)	16F P/E (x)	15F P/B (x)	16F P/B (x)	15F ROA (%)	15F ROE (%)
Indocement	INTP IJ	Buy	21,025	24,000	19.6	17.0	3.2	2.9	14.9	17.1
Holcim Indonesia	SMCB IJ	Hold	1,470	1,600	18.4	15.7	1.1	1.1	3.5	6.5
Semen Indonesia	SMGR IJ	Buy	13,000	14,950	18.9	15.8	3.2	2.9	13.3	15.2

Source: Bloomberg, IndoPremier *Note: Share prices as of closing 26 March 2015*

News & Analysis

Corporates

APLN 4Q14 result:

- Agung Podomoroland (APLN IJ; Rp419; Buy) reported 4Q14 net profit of Rp348bn (+37% yoy and 130% qoq), which led to flat FY14 bottom line of Rp855bn. This FY14 earnings were inline with our but higher than consensus estimates
- On the top line, the company booked solid 4Q14 revenue growth of 47% qoq and 26% yoy, following increasing revenue from apartment and houses, while the recurring booked stable growth, which brought to FY14 top line of Rp5.3tn, +8% yoy.
- Compared to 2013, the company reported improved margins for its development products (apartment/landed/office etc) to 48% in FY14, while the recurring gross margin down to 57% (from FY13: 64%). Combined with higher financing cost, the company booked slightly lower FY14 net margins of 16.1%. (Company, Indopremier)

Rp bn	FY13 Rp bn	FY14 Rp bn	yoy	4Q13 Rp bn	3Q14 Rp bn	4Q14 Rp bn	qoq	yoy	FY14/ 2014F	FY14/ Cons
Revenue	**4,901**	**5,297**	**8%**	**1,420**	**1,215**	**1,787**	**47%**	**26%**	**102%**	**102%**
Gross profit	2,355	2,655	13%	668	666	899	35%	35%		
Opex	(1,079)	(1,225)	14%	(340)	(380)	(339)	-11%	0%		
EBIT	1,276	1,430	12%	328	286	561	96%	71%	106%	87%
Net int inc (exp)	(329)	(393)	20%	(85)	(135)	(85)	-37%	0%		
Other	231	193	-16%	71	109	13	-88%	-81%		
Pretax profit	1,177	1,230	4%	313	260	489	88%	56%		
Net profit	**851**	**855**	**0%**	**254**	**151**	**348**	**130%**	**37%**	**103%**	**108%**
Margins	**FY13**	**FY14**		**4Q13**	**3Q14**	**4Q14**	**2014F**	**2015F**		
Gross margin	*48.0%*	*50.1%*		*47.0%*	*54.8%*	*50.3%*	*49.9%*	*49.8%*		
EBIT margin	*26.0%*	*27.0%*		*23.1%*	*23.5%*	*31.4%*	*25.9%*	*25.8%*		
Net margin	*17.4%*	*16.1%*		*17.9%*	*12.5%*	*19.5%*	*15.9%*	*16.1%*		

Source: APLN, IndoPremier

ASRI 4Q14 result:

- Alam Sutera (ASRI IJ; Rp540; Buy) reported 4Q14 earnings of Rp279bn (+67% qoq and 2952% yoy), which brought FY14 bottom line of nearly Rp1.1tn (+25% yoy). This FY14 net profit was below our (88%) and consensus (90%) estimates.
- On the top line, the company booked flat FY14 revenue of Rp3.6tn, following slower than expected marketing sales last year as well as the expectation to see more revenue from apartment/office to come in 2016.
- The company booked improved margin across the board in 4Q14 and FY14, on the back of higher selling prices. ASRI booked improved FY14 gross and operating margin of 63% and 52%, respectively, which were the highest in the past five years. However, increasing financing cost and forex loss has curbed net margin improvement to 30%. (Company, Indopremier)

(ASRI) Rp bn	FY13	FY14	yoy	4Q13	3Q14	4Q14	qoq	yoy	FY14/ 2014F	FY14/ Cons
Revenue	**3,684**	**3,631**	**-1%**	**643**	**879**	**807**	**-8%**	**26%**	**99%**	**92%**
Gross profit	1,837	2,307	26%	328	628	601	-4%	83%		
Opex	304	399	31%	93	111	107	-3%	16%		
EBIT	1,533	1,908	24%	236	517	494	-5%	110%	101%	105%
Net int inc (exp)	(130)	(214)	65%	(5)	(63)	(47)	-25%	943%		
Forex gain (loss)	(277)	(138)	-50%	(156)	(81)	(84)	4%	-46%		
Other	(45)	(170)	279%	(18)	(23)	(13)	-44%	-26%		
Pretax profit	1,082	1,386	28%	57	351	350	0%	513%		
Net profit	**877**	**1,097**	**25%**	**9**	**167**	**279**	**67%**	**2952%**	**88%**	**90%**
Margins	**FY13**	**FY14**		**4Q13**	**3Q14**	**4Q14**	**2014F**	**2015F**	**2016F**	
Gross margin	*49.9%*	*63.5%*		*51.1%*	*71.5%*	*74.5%*	*61.3%*	*56.3%*	*47.7%*	
EBIT margin	*41.6%*	*52.5%*		*36.7%*	*58.9%*	*61.2%*	*51.8%*	*44.7%*	*39.4%*	
Pretax margin	*29.4%*	*38.2%*		*8.9%*	*39.9%*	*43.4%*	*39.5%*	*40.4%*	*36.1%*	
Net margin	*23.8%*	*30.2%*		*1.4%*	*19.0%*	*34.5%*	*34.3%*	*33.1%*	*29.4%*	

Source: ASRI, IndoPremier

ISAT: Indosat (ISAT IJ; Rp4,265; Buy) has announced its FY14 result with highlights:

- Indosat booked net loss of Rp2.0tn in FY14 largely driven by legal case losses of Rp1.4tn since 3Q14. Stripping out non-recurring income and expenses, Indosat booked net profit of Rp112bn. Our estimates were inline at revenue and EBITDA, which was also inline with market consensus.
- Revenue has reached Rp24.1tn, nearly flat compared to last year, a reflection of flat cellular revenue in FY14. In 4Q14, total revenue increased 4.3% qoq but negated by increase in opex leading to EBITDA decline of 4.3% qoq. Operational data has yet to be disclosed, but we suspect that data substituted with voice and SMS.
- Operating cash cost increased by 4% yoy to Rp14tnin FY14, but depreciation decline 8.2% post the modernization program with accelerated depreciation. As a result total opex remain relatively flat.
- Net gearing remains relatively high at 164% as of Dec14. The company has limited room to deleverage its balance sheet given the capex of Rp7-8tn plus interest cost of Rp2.4tn, while EBITDA is only Rp10tn.

	FY14	FY13	%	4Q14	3Q14	%	FY14	%
Turnover	24,085	23,855	1.0	6,368	6,104	4.3	23,113	104.2
EBITDA	10,059	10,375	(3.0)	2,459	2,569	(4.3)	10,033	100.3
Operating profit	2,184	1,509	44.8	287	410	(30.0)	2,008	108.7
Net Int. & Invest. Inc.	(2,264)	(2,105)	7.5	(553)	(553)	(0.1)	(2,394)	94.6
Forex gain (losses)	(395)	(3,011)	nm	(175)	(354)	(50.5)	-	nm
Except. & Others	(1,461)	273	nm	(208)	(1,074)	nm	(4,603)	nm
Group Pretax	(1,936)	(3,334)	nm	(649)	(1,572)	nm	(2,595)	74.6
Taxation	(78)	(667)	(88.3)	(27)	(49)	(45.7)	-	nm
Minorities	129	116	11.8	42	30	37.6	(110)	-117.9
Net Profit	(1,987)	(2,783)	(28.6)	(664)	(1,553)	(57.2)	(2,704)	73.5
EBITDA Margin	41.8%	43.5%	(4.0)	38.6%	42.1%		43.4%	

Source: ISAT

KLBF: Kalbe Farma (KLBF IJ; Rp1,840; Buy) reported FY14 results with net profit accounting for 92% of our and 98% of consensus while revenue was in line. The results are no surprise given that the company has already given its indicative results back in mid-February. We will revisit our forecasts after the detailed financial results are released.

	4Q13 (Rpbn)	3Q14 (Rpbn)	4Q14 (Rpbn)	Growth (q-q%)	(y-y%)	FY14 (Rpbn)	FY13 (Rpbn)	Growth y-y%
Sales	4,562	4,379	4,610	5.3%	1.0%	17,369	16,002	8.5%
COGS	(2,454)	(2,260)	(2,265)	0.2%	-7.7%	(8,893)	(8,323)	6.8%
Gross Profit	2,108	2,119	2,345	10.7%	11.2%	8,476	7,679	10.4%
Opex	(1,391)	(1,450)	(1,581)	9.0%	13.7%	(5,715)	(5,130)	11.4%
Op. profit	717	669	764	14.3%	6.5%	2,761	2,549	8.3%
Net profit	553	494	578	17.0%	4.4%	2,065	1,920	7.6%
Gross margin	46.2%	48.4%	50.9%			48.8%	48.0%	
Op. margin	15.7%	15.3%	16.6%			15.9%	15.9%	
Net margin	12.1%	11.3%	12.5%			11.9%	12.0%	

Source: Kalbe Farma

NRCA: Nusa Raya Cipta (NRCA IJ; Rp1,205; Not Rated) is eyeing another toll road, Solo – Kertosono, to add toll road portfolio in its business. The company will join a consortium with undisclosed private parter, competing with other bidders including the consortium of Waskita (WSKT IJ; Rp1,720; Buy) and Jasa Marga (JSMR IJ ;Rp7,150; Buy). NRCA will complete the construction of 116km cikampek – palimanan toll road by June 2016. In 2015, the company targets FY15 revenue and net profit of Rp3.6tn and Rp230bn, respectively.

UNVR: Unilever Indonesia (UNVR IJ; Rp39,100; Hold) posted a good set of results thanks to better-than-expected 4Q. Operating margin expanded in 4Q perhaps due to lower Ad and promotion spending, which constituted a big chunk of the company's total operating expenses. As a result, 4Q net income grew 17%qoq, bringing the FY14 earnings to Rp2.07tn, up 7.6%yoy. We also noted that Cash Conversion Cycle (CCC) continued to improve, with CCC coming in at -5 days vs. 5 days in FY13. The results are above consensus and our estimates by 6% at operating and bottom-line level.

	4Q13 (Rpbn)	3Q14 (Rpbn)	4Q14 (Rpbn)	Growth (q-q%)	(y-y%)	FY14 (Rpbn)	FY13 (Rpbn)	Growth y-y%
Sales	7,732	8,507	8,422	-1.0%	8.9%	34,512	30,757	12.2%
COGS	(3,778)	(4,406)	(4,053)	-8.0%	7.3%	(17,412)	(14,979)	16.2%
Gross Profit	3,955	4,101	4,368	6.5%	10.5%	17,099	15,778	8.4%
Opex	(2,273)	(2,453)	(2,078)	-15.3%	-8.6%	(9,320)	(8,657)	7.7%
Operating profit	1,682	1,648	2,291	39.0%	36.2%	7,779	7,122	9.2%
Net profit	1,262	1,201	1,690	40.7%	33.9%	5,739	5,353	7.2%
Gross margin	51.1%	48.2%	51.9%			49.5%	51.3%	
Operating margin	21.8%	19.4%	27.2%			22.5%	23.2%	
Net margin	16.3%	14.1%	20.1%			16.6%	17.4%	

Source: Unilever Indonesia

Economic Update

Fuel Price: The government has increased fuel prices by Rp.500/liter for gasoline and diesel fuel which started last Saturday, March 28 due to the average increase of world oil price and weakening Rupiah. On separate news, Statistics Indonesia and Bank Indonesia (BI) predict the inflation rate below 0.5% in Mar15 which comes from fuel, rice, and shallot prices. BI predicted the inflation rate at 0.27-0.3%, the highest monthly rate for March in 7 years. (Investor Daily)

Comment: The inflation rate for this month and next month will still be affected by fuel price hike which in turn offset the deflation from volatile foods during these harvest seasons. The yoy inflation rate will face challenges to decline below 6% until April15 in regard to another recent hike of fuel prices by Rp.500/liter.

BI rate: Deputy Governor of Bank Indonesia (BI) mentioned that current level of BI rate at 7.5% has taken into account the possibility of 75 bps Fed fund rates hike, ICP at US$55, inflation rate of 4.3%, and the hikes in domestic fuel price and electricity tariffs. Nevertheless, BI could not guarantee the BI rate will stay at this level until the end of 2015 in regard to assumption changes and Rupiah volatility against USD. (Investor Daily)

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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.

The views expressed in this research report accurately reflect the analyst;s personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.