

Equity Strategy

Diminishing foreign inflows

- Foreign equity net inflows have fallen to near historical lows...
- ...and JCI may remain vulnerable to global portfolio rebalancing
- Earnings were downgraded as GDP growth slowed in 1Q
- We lower our end-2015 JCI target to 5,500 (from 6,000) but remain optimistic for a potential market recovery in 2H.

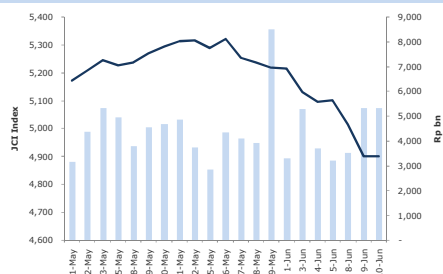
Diminishing equity inflows. Foreign net selling of Indonesia's equity market in the past three months have reduced their cumulative net buys in the past twelve months to Rp3.6tn (YTD net inflow: Rp5.2tn) or just 0.1% of the JCI total market capitalization – this foreign net buy has declined from a peak of Rp45tn post the presidential election in Nov 2014 (equivalent to 0.9% of total mkt cap). Similarly, over longer period of two-years, the cumulative foreign net inflows into Indonesia have also declined to just 0.2% of the total mkt cap (see Figs. 1-2). Indonesia's slowing economic growth to 4.7% in 1Q15, which led to weaker-than-expected corporate earnings across nearly all sectors, coupled with vulnerabilities of its financial markets to portfolio flow reversals in anticipation of US rate rises, have reduced the country's attractiveness to foreign equity investors.

Market remains vulnerable. Indonesia's financial markets, in our view, remain vulnerable to ongoing global portfolio rebalancing in anticipation of rising US rates and narrowing growth between developed and emerging countries globally. These vulnerabilities stem from shallow financial markets in the country and their large dependence on foreign portfolio investors, which account for 38% of outstanding onshore sovereign bonds and 29% of the equities market. We estimate foreign portfolio investors account for 29.4% of market cap vs. 9.3% for local investors, (out of free float of 38.7%) based on latest ownership data of the Top-50 stocks in Indonesia (Fig. 3). The country's Big-Four banks, Astra Intl, Unilever, Telkom and cement stocks are among top twenty holdings by foreign portfolio investors in Indonesia (Fig. 4).

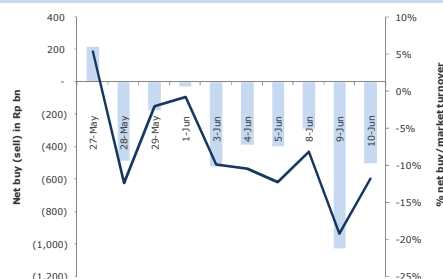
Earnings downgraded. Consensus earnings for Indonesia market have been cut by 8.6% for FY15F (by 6.3% for FY16F) post 1Q results, with a market earnings growth of 3.7% expected this year. The Big-four banks and construction stocks have been among the most defensive companies in Indonesia with consensus earnings cuts of less than 1% within the past six months, followed by consumer sector (-4.3%), telcos (-6.4%), utilities & property (-8%), cement (-11%), and auto sector (-13%). Meanwhile, consensus earnings downgrades have been the most severe in the commodity sectors, with earnings cuts averaging over 20% for CPO and coal stocks and over 40% for metals mining companies in Indonesia (Figs 5-6).

Stock picks. We lower our end-2015 JCI target to 5,500 (previously 6,000) to reflect the downgrades in consensus earnings expectations for the market and our lower 12-m forward target P/E of 14.5x (from 14.9x). Despite risk of potential further portfolio outflows on the back of rate rises in the US, we remain optimistic of a potential market recovery in the second half on the back of cyclically stronger economic growth, sustained improvement in Indonesia's CA deficit, infrastructure development (which should elevate longer term economic growth prospect) and ongoing structural reforms in the country. Our top Buy picks include major banks (BMRI; BBRI; BBNI), telecom (TLKM), infrastructure-related stocks (JSMR; INTP), construction sector (WIKA; PTPP); and consumer stock ICBP, which we view as still attractively valued.

JCI Index



Foreign net buy (sell)



Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	4,934	0.7%	-0.8%	-5.6%
LQ45	847	0.9%	0.5%	-5.8%
DJI	18,000	1.3%	6.9%	1.0%
SET	1,504	0.8%	2.8%	0.4%
HSI	26,688	-1.1%	14.7%	13.1%
NKY	20,046	-0.2%	33.0%	15.9%
FTSE	6,830	1.1%	-0.1%	4.0%
FSSTI	3,326	0.9%	1.1%	-1.2%

Commodity price

Commodities (in USD)	Last price	Ret 1 day	Ret 1 year
Oil/barrel (WTI)	61.4	2.1%	-41.1%
CPO/tonne	613.8	-1.1%	-3.9%
Soy/bushel	9.5	-0.2%	-35.8%
Rubber/kg	1.9	0.0%	-4.8%
Nickel/tonne	13,564	0.8%	-27.4%
Tins/tonne	15,348	0.8%	-32.8%
Copper/tonne	6,024	1.1%	-10.2%
Gold/try.oz (Spot)	1,186	0.8%	-5.9%
Coal/tonne*	61.8	-1.0%	-25.4%
Corn/bushel	3.5	-2.2%	-21.1%
Wheat/bushel**	223.3	-3.2%	-31.3%

* : 1 week change

** : 1 month change

Source : Bloomberg

News & Analysis

Corporates

BEST: Bekasi Fajar (BEST IJ; Rp409; Buy) has cut its FY15 marketing sales target from 40ha to 15-20ha following continued domestic and global uncertainties that led to slow industrial land sales. To support the sales, the company will focus on the relocation of existing factories/plants in Jakarta to designated industrial estates. (Company, Kontan)

DILD: Intiland Development (DILD IJ; Rp590; Not Rated) will develop a new townships in Maja (Rangkasbitung, Banten) in total area of 1,100ha land. The company will build houses and all the supporting facilities including commercial areas. The company stated that currently DILD has a total land of 2,000ha. (Investor Daily)

ISAT: Indosat (ISAT IJ; Rp3,680; Hold) has appointed Sarwoto Atmosutarna as a new director for the Company. Prior to this appointment, Sarwoto was the president director of Telkomsel. During the EGM, Elisa Lumbantoruan has been appointed as independent commissioner. He was ex-director with Garuda Indonesia. The new BOD of Indosat is Alexander Rusli (President Director), Caba Pinter (new), Joy Wahyudi, John Martin Thompson and Sarwono Atmosutarno (new). (Kompas)

MYOR: Mayora Indah (MYOR IJ; Rp25,100; Not rated) revised up its net income target from Rp600bn to Rp840bn on the back of lower raw material costs and at the same time, kept its revenue growth target of 9.46%yoy (Rp15.5tn) for this year. To further support its growing business, MYOR will spend US\$50mn (60% internal cash and 40% bank loans), mainly to increase production capacity and purchase of machinery. (Kontan)

SMRA: We met with the management of Summarecon (SMRA IJ; Rp1,700; Hold) and learned that the company plans to launch Summarecon Bandung in September 2015. Following this year's slow property market, the company will continue to offer property products with affordable prices (Below Rp2bn/unit). On a more positive note, DKI Jakarta Governor's plan to develop Light Rail Transit (LRT) from Kelapa Gading to Kebayoran Lama would provide greater access for SMRA's project in Kelapa Gading and support its selling prices. By end of May 2015, the company booked 5M15 marketing sales of Rp2tn, reaching 36% of its FY15 target. (Company, Jakarta Post)

SRTG: PT Saratoga Investama Sedaya (SRTG IJ; Rp4,880; Buy), partnering with PT Puncak Jaya Berlima, has set up a JV company focusing on oil and gas exploration supporting services, PT Agra Energi Indonesia. Based on the news, SRTG, which hold 30% stake in PT Agra Energi Indonesia valued at US\$7.5mn, has signed an operational agreement since 21 May 2015. PT Agra Energi Indonesia will team up with local universities in data collection for oil drilling discoveries, which will further support oil production businesses. (Investor Daily)

WSKT: Waskita Karya (WSKT IJ; Rp1,670; Buy) would utilize the fund from rights issue to acquire three new toll roads (each with 40% stake); Solo – Ngawi, Ngawi – Kertosono and Cinere-Serpong. Going forward, the company will acquire another two toll roads with the remaining fund from rights issue. Currently, WSKT is developing four toll road projects: Medan-Kualanamu- Tebingtinggi (30% stake), Depok – Antasari (25% stake), Pejagan – Pemalang (100% stake) and Becakayu (60%). (Kontan)

Markets & Sector

Cement sector: Cement association has release May15 sales volume with highlights:

- May15 sales volume was 4.8mn tons (+6.4% mom), gaining slightly better traction due to seasonality. Macro economy condition has not changed much with the Government still trying to boost infrastructure development. The property sector continued to have overhang due to subject of luxury tax of 20% for landed housing sold around Rp3.5bn per unit.
- Cumulative cement demand was 23.5mn tons, lower by 1.1% yoy up to May15, meanwhile domestic supply was down by 3.8% yoy with the gap filled by export and import. Import has increase significantly due to cement manufacturers, such

as Semen Merah Putih importing clinker since their just have a milling capacity.

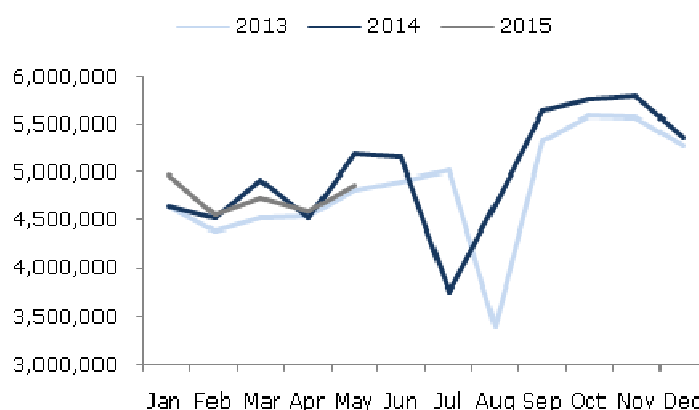
- Semen Indonesia was the best performer among the incumbent as its domestic volume dropped only -0.4% up to May 15. Nevertheless, recovery was across the market with Semen Baturaja posting strong volumes (+17.3% mom). Semen Indonesia maintained its market share of 45%, followed by Indocement of 29.1% and Holcim 13.8%
- Semen Merah Putih (Cemindo Gemilang) has completed its first production facility in Indonesia with an total investment of US\$600mn consisting of production facility (estimated capacity of 2.0mn), power plant of 60MW and seaport facility. This new facility is expected to operate commercially in Aug15.
- We should have positive traction towards Jun15, before volume to fall in Jul15 due to the Lebaran festive seasons. Logistics for cement will be halted for two weeks in anticipation of the traffic of as people return to their home village. We continue to remains positive on Indocement and Semen Indonesia due to their excellent display of operational efficiency.

	Apr-15	May-15	+/- %	May-14	+/- %	5M14	5M15	+/- %
Java	2,519,239	2,723,401	8.1	2,981,786	-8.7	13,288,051	12,723,804	-4.2
Sumatra	981,421	998,806	1.8	1,081,306	-7.6	4,989,865	4,837,917	-3.0
Kalimantan	320,031	304,875	-4.7	402,204	-24.2	1,882,895	1,734,898	-7.9
Sulawesi	325,320	356,866	9.7	410,064	-13.0	1,763,362	1,687,651	-4.3
Nusa Teng	235,958	307,803	30.4	209,910	46.6	1,317,726	1,365,322	3.6
Ind Timur	88,662	85,565	-3.5	102,065	-16.2	542,968	524,167	-3.5
Domestic supply	4,470,631	4,777,316	6.9	5,187,335	-7.9	23,784,867	22,873,758	-3.8
Export	51,755	68,282	31.9	28,400	140.4	21,200	229,461	982.4
Import	124,896	86,757	-30.5	-	na	-	851,230	na
Total consumption	4,543,772	4,795,791	5.5	5,158,935	-7.0	23,763,667	23,495,526	-1.1

	Apr-15	May-15	+/- %	May-14	+/- %	5M14	5M15	+/- %
Semen Indonesia	1,936,146	2,028,658	4.8	2,307,278	-12.1	10,485,632	10,440,649	-0.4
Indocement	1,384,763	1,455,973	5.1	1,638,689	-11.2	7,265,876	6,717,978	-7.5
Holcim Indonesia	646,271	689,202	6.6	725,089	-4.9	3,386,567	3,195,521	-5.6
Semen Baturaja	106,373	124,805	17.3	69,837	78.7	430,088	533,209	24.0
Others	397,078	478,679	20.6	446,442	7.2	2,216,704	1,986,401	-10.4
Total	4,522,386	4,845,598	7.1	5,215,735	-7.1	23,806,067	23,103,219	-3.0

Source : Indopremier

Monthly sales volume



Source : Indopremier

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

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.

DISCLAIMERS

This research is based on information obtained from sources believed to be reliable, but we do not make any representation or warranty nor accept any responsibility or liability as to its accuracy, completeness or correctness. Opinions expressed are subject to change without notice. This document is prepared for general circulation. Any recommendations contained in this document do not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is not and should not be construed as an offer or a solicitation of an offer to purchase or subscribe or sell any securities. PT. Indo Premier Securities or its affiliates may seek or will seek investment banking or other business relationships with the companies in this report.