

## Jasa Marga (JSRM IJ; Buy)

### Support from the Government

- **Hard evidence of Government support**
- **Acquiring and bidding on more toll roads**
- **Tariff adjustment already proposed**
- **New target price of Rp6,750 (prev. Rp8,175)**

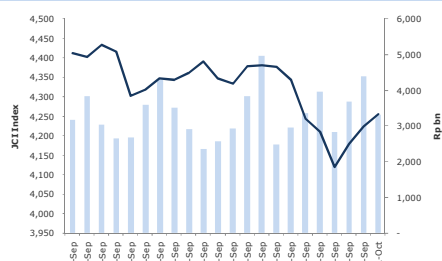
**Government support is real.** We have witnessed real support from the Government in order to push toll road development. This is important as the Government aims to improve logistics efficiency to support sustainable growth. Some hard evidence is 1) new toll road tenders with land acquisition already 70-80%, 2) Government investment participation in non-financial feasible sections, 3) revoke and retender undeveloped toll road concessions and 4) new presidential decree for land acquisition to be retroactive. This makes us confident of seeing a fully connected Trans-Java toll road system by FY18.

**More toll roads to come.** Currently Jasa Marga has 26 toll road concessions (operating and development stage) with a total length of 968km (590km are in operation). Three new concessions were acquired, namely 1) Solo-Ngawi, 2) Ngawi-Kertasono (both part of Trans Java) and 3) Cinere-Serpong (part of JORR 2), with all sections connecting to operating toll roads which ensures traffic volume. Jasa Marga has also won the Kuala Namutoll road concession in North Sumatra. Meanwhile, the company is involved in five new concessions 1) Pandaan-Malang, 2) Semarang-Batang, 3) Balikpapan-Samarinda (East Kalimantan), 4) Menado-Bitung and 5) Cikampek II. Jasa Marga has a good track record with sufficient capital, making it a strong candidate to win these new concessions.

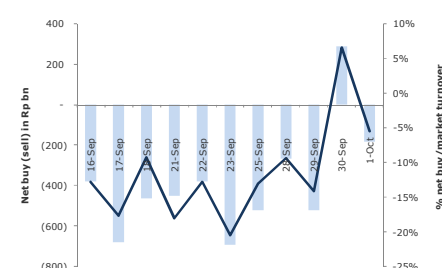
**Tariff adjustment is underway.** A total of 14 toll roads out of 17 of Jasa Marga's toll road concessions are subject to tariff increases, which have already been proposed to the Government. We expect the earliest by the end of Oct 15, 11 toll road concessions will have tariff adjustments subject to service performance evaluation. The remaining batch will be granted tariff increases towards 2015 year end. Tariff adjustments are based on cumulative bi-annual regional inflation which is expected to reach around 12-14%.

**Buy maintained with new target price.** We have lowered our target price to Rp6,750 due to a higher WACC as 10-year government bonds have climbed close to 10% while Jasa Marga's borrowing costs have risen to 12%. No change in forecasted numbers, as we feel that the economic slowdown has already been reflected in our numbers. Moreover, we have not included additional valuation on the newly acquired toll roads due to limited information. Our DCF valuation is a summation of existing toll roads in operation with a value of Rp6,273 plus DCF of the three upcoming toll roads (Cengkareng-Kunciran, Kunciran-Serpong and Medan-Kualanamu) with a value of Rp472.

JCI Index



Foreign net buy (sell)



Index	Closing	1 day	1 year	YTD
JCI	4,255	0.7%	-14.9%	-18.6%
LQ45	712	1.0%	-15.6%	-20.8%
DJI	16,272	-0.1%	-3.1%	-8.7%
SET	1,345	-0.3%	-14.3%	-10.2%
HSI	20,846	1.4%	-9.1%	-11.7%
NKY	17,722	1.9%	13.2%	1.0%
FTSE	6,072	0.2%	-5.8%	-7.5%
FSSTI	2,802	0.4%	-13.2%	-16.7%

### Commodity price

Commodities	Last price	Ret 1 day	Ret 1 year
(in USD)			
Oil/barrel (WTI)	44.7	-0.8%	-50.7%
CPO/tonne	544.8	1.6%	10.0%
Soy/bushel	8.7	-1.7%	-3.5%
Rubber/kg	1.4	1.5%	-3.4%
Nickel/tonne	10,015	-3.4%	-37.5%
Tins/tonne	15,567	-0.9%	-23.3%
Copper/tonne	5,110	-1.3%	-24.1%
Gold/try.oz (Spot)	1,114	-0.1%	-8.3%
Coal/tonne*	61.8	-1.0%	-25.4%
Corn/bushel	3.7	0.3%	28.5%
Wheat/bushel**	197.4	-5.9%	-29.6%

\* : 1 week change

\*\* : 1 month change

Source : Bloomberg

Year To 31 Dec	2013A	2014A	2015F	2016F	2017F
Toll revenue(RpBn)	6,311	7,229	8,178	8,972	9,860
EBITDA(RpBn)	2,430	3,604	4,190	4,547	4,037
EBITDA Growth (%)	(32.0)	48.3	16.3	8.5	(11.2)
Net Profit(RpBn)	933	1,222	1,509	1,793	2,164
EPS (Rp)	137	180	222	264	318
EPS Growth (%)	(39.2)	31.0	23.4	18.9	20.7
Net Gearing (%)	81.5	87.5	80.6	77.9	70.0
PER (x)	41.9	32.0	25.9	21.8	18.1
PBV (x)	3.7	3.4	3.2	2.9	2.7
Dividend Yield (%)	1.4	1.6	1.6	1.8	2.2
EV/EBITDA (x)	12.5	8.1	7.0	6.3	7.1

Source : JSRM, IndoPremier

Share Price Closing as of : 25-September-2015

## Economic Update

### Deflation is back

- **Inflation lowered to 6.83% yoy (-0.05% mom) in September 15...**
- **... resulting in a drop in cumulative inflation.**
- **We still expect lower inflation ahead.**
- **Benchmark rate to stay at 7.5%.**

**Inflation decelerates.** Indonesia recorded mom deflation of 0.05% in September 15 (Aug 15: 0.39%), revising the upward trend that started in Mar15. This is lower than Bank Indonesia's (BI) previous inflation forecast of 0.04% mom (6.92% yoy) and Bloomberg consensus of 0.11% mom (7% yoy). On a YoY basis, consumer prices declined to 6.83% in Sep 15, still mainly spurred by volatile food prices and some transport category items as the holiday season passed and slowing global commodity prices continue. Several main raw food commodities – chicken meat, chilies, shallots and eggs – brought the total contribution from the raw food category to deflation of about -0.23% of the total mom deflation. In addition, the transport category contributed more to deflation at around -0.09%. However, there was some inflation in other commodities (i.e. rice, gold) with yoy core inflation finally increasing to 5.07% from 4.92% in Aug 15, mostly due to some passthrough impact of the rupiah weakness. This persistent component within the inflation movement is influenced by economic fundamentals, including the depreciation of the rupiah. This has led to cumulative core inflation in 9H15 almost reaching the highest core inflation level of the past five years.

**Cumulative inflation decreases.** Consecutive bouts of deflation in 2M15 and inflation in Mar-Sep15 resulted in 2.24% cumulative inflation in the first nine months of 2015, well below the 3.65% inflation reported for the same period in 2014. Although we expect inflation in 2015 to be around half the inflation in 2014, we believe there could be upside risks to BI's inflation target of 3-5%, given the weakening of the Rupiah and adjusted fuel prices. To conclude, we still expect the annual inflation rate to decline significantly in 4Q15, assuming no further significant hike of fuel prices, despite potential delays from these risks that mainly started kicking in at 2Q15.

**Lower inflation ahead.** In the previous month, volatile food categories (i.e. chilies, shallots, chicken meat) recorded deflation due to normalized supply and prices after the Muslim holiday of Eid. Furthermore, deflation in the transport category, partly because of the smoke haze, dragged deflation even more in Sep 15 which in turn brought about a total monthly deflation. Going forward, the general policy of government's decision to let fuel prices float with the market has fed through to lower inflation in general. However, the weakening Rupiah partly offsets the impact from lower global oil prices, and in fact limits domestic fuel price adjustments.

**Rate revision unlikely.** Especially in view of the market volatility caused by the delay in the Fed fund rate hike, Bank Indonesia is unlikely to cut its benchmark rate further. We expect the central bank to maintain a tight monetary policy stance and maintain the BI rate at 7.5% in its upcoming meeting this month amid a weakening Rupiah and current account deficit concerns. As long as external uncertainties persist as a result of the US normalization policy, we see less scope for rates to decline in the foreseeable future. The possibility of a later increase should thus be higher, once the Fed Fund rate is hiked.

## News & Analysis

### Corporates

**HMSP:** In accordance with HM Sampoerna's (HMSP IJ; Rp80,000; Not Rated) plan to conduct right issue, the company has set the exercise price at Rp77,000/shares. PMID has confirmed to HMSP that it is selling 264mn rights which is entitle for placement to institutional investors and PMID subscribing to the remaining 600,640 rights.

*Comment: at the price Rp77,000/share, the company is trading at 28.7x PE FY16 which is 36% discount compared to UNVR (45x PE FY16), according to Bloomberg. We think the deal is well perceived by the market, given its upper price band for the right issue. HMSP is producing also producing huge amount FCF by Rp 10.9tn (vs. UNVR Rp6.5tn) in 2016F that can be used to sustain its dividend payout ratio of 100%. We believe this should be able to give positive effect on the stock. We also like GGRM that is trading 14x PE FY16, a discount of 53% based on HMSP's last price.*

### Markets & Sector

**Construction Sector:** Waskita (WSKT IJ; Rp1,610; Buy) acquired 61.5% stake in Kanci-Pejagan toll road, while the remaining stake hold by MNC. Toll road regulator stated that this 35km toll road does not meet the minimum requirement standard and would require a thorough repair on the construction. On separate news, China Development Bank provides a loan commitment worth USD5bn to the consortium of Wijaya Karya (WIKI IJ; Rp2,665; Buy) to finance the Jakarta-Bandung's medium speed railway. WIKI and its consortium will jointly develop this project with China Railway Construction Corporation (CRC), with the expectation to commence the construction in 2016. (Bisnis Indonesia, Kontan)

**Pharmaceutical sector:** Pharmaceutical entrepreneur association establishes Pharmaceutical Professional Certification Board (Lembaga Sertifikasi Profesi Farmasi) to increase the competition between local pharmaceutical industry and international players. The certification is also supported by Ministry of industry, national drugs and foods control agency (BPOM), and governments. Cosmetic enterprise association (Perkosmi) is also planning to join the certification.

So far, the pharmaceutical industry in Indonesia has faced several problems including unsupportive government's regulation, economic competition and lack of competent workers. This program is set so the human resources will be more prepared to face future pharmaceutical development. (Bisnis Indonesia)

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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

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