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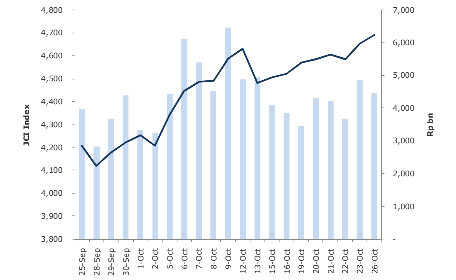
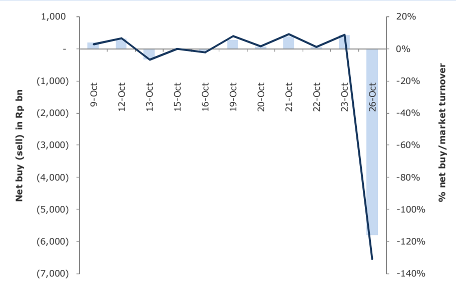
Premier Insight

29 October 2015

JCI Index



Foreign net buy (sell)



Index	Closing	1 day	1 year	YTD
JCI	4,609	-1.4%	-9.2%	-11.8%
LQ45	796	-1.8%	-7.8%	-11.4%
DJI	17,780	1.1%	4.7%	-0.2%
SET	1,409	-1.0%	-9.8%	-5.9%
HSI	22,957	-0.8%	-3.6%	-2.7%
NKY	18,882	-0.1%	21.4%	8.9%
FTSE	6,438	1.1%	-0.2%	-2.0%
FSSTI	3,041	-0.4%	-5.7%	-9.6%

Commodity price

Commodities	Last price	Ret 1 day	Ret 1 year
(in USD)			
Oil/barrel (WTI)	45.9	6.3%	-43.6%
CPO/tonne	544.5	0.8%	5.8%
Soy/bushel	8.9	0.7%	-11.2%
Rubber/kg	1.3	-1.1%	-18.5%
Nickel/tonne	10,585	0.4%	-31.6%
Tins/tonne	15,248	-1.4%	-23.2%
Copper/tonne	5,229	0.5%	-23.1%
Gold/try.oz (Spot)	1,156	-0.9%	-4.6%
Coal/tonne*	61.8	-1.0%	-25.4%
Corn/bushel	3.7	-1.1%	7.0%
Wheat/bushel**	173.1	-3.7%	-29.0%

** : 1 week change*

***: 1 month change*

Source : Bloomberg

XL Axiata (EXCL IJ; Hold)

Signs of improvement

- **'Revamp, Rise & Reinvent' in progress**
- **Improvements reflected in EBITDA margin**
- **US$ loans 100% hedged**
- **Maintain Hold**

Transformation is on the right track. Since the beginning of FY15, XL's management has introduced the 3R program – Revamp – to move to value subscribers and a total overhaul of distribution channels; Rise – to increase XL brand value by using dual brand strategy; Reinvent – to go beyond today's business model. In 3Q15, this strategy is reflected in ARPU improving to Rp38k in 3Q15 (from Rp32k in 2Q15), and higher distribution using modern channels, leading to lower marketing expenses. Nevertheless, this strategy has negatively impacted other operating metrics, with MoU falling 27.7% qoq to 13.8bn minutes, SMS volumes falling 49.1% qoq to 23bn SMS due to tariff increase and total subs falling by 4.6mn subs qoq to 41.4mn as of September 2015. Data volume was relatively stable, as no significant price change was implemented.

EBITDA margin expanded by 200bps. EBITDA was Rp2.2tn in 3Q15, an increase of 9.8% qoq, leading to an EBITDA margin of 37.7% (vs 35.6% in 2Q15). This significant improvement was a result of the reshaping of customer base to focus on profitable subscribers plus efforts to improve the product's profitability. EBITDA margin was influenced by the Axis acquisition, which pulled down margins by 400bps, and the sale and lease-back transaction of towers that compressed margins by 120bps. Management expects the transformation process to be completed in the next 12-18 months. We expect EBITDA margins to fluctuate due to continued transformation efforts.

Refinancing efforts. As of September 2015, XL accounted forex loss of Rp3.0tn with interest expense of Rp963bn, resulting in net loss of Rp507bn despite the one-off gain of Rp1.9tn from tower sales. Therefore, XL's management has decided to accelerate the repayment of unhedged US$ denominated debt. As of 28 October 2015, XL has repaid US$250mn unhedged debt, which means that all external US$ debt is 100% hedged until maturity. Nevertheless, total debt of Rp12.6tn and US$938mn has led to a net gearing of 1.7x.

Recommend HOLD. We see that XL is on the right track for its transformation, reflected in the improvement of some of the operating metrics such as RPM and RPS, lower marketing costs, and lower capex requirement to sustain network quality. However, all these improvements have yet to be reflected all the way down to net profit. Improvement in EBITDA is challenged by high leverage and interest cost. Therefore, XL will need to have higher revenue growth to ensure returns to shareholders.

Year To 31 Dec	2013A	2014A	2015F	2016F	2017F
Revenue (RpBn)	21,265	23,460	22,344	23,116	24,918
EBITDA (RpBn)	7,302	6,767	7,754	7,883	8,247
EBITDA Growth (%)	-21.9	-7.3	14.6	1.7	4.6
Net Profit (RpBn)	1,033	-891	-728	-685	-1,199
EPS (Rp)	121	-104	-85	-80	-141
EPS Growth (%)	-62.7	-186	-18.3	-5.9	75.2
Net Gearing (%)	107.9	177.3	141.2	146.1	157.5
PER (x)	43.7	n/m	n/m	n/m	n/m
PBV (x)	1.8	2	2	2.1	2.4
Dividend Yield (%)	2.6	1.2	0	0	0
EV/EBITDA (x)	5.2	6.6	6.5	6.3	6

Source : EXCL, IndoPremier *Share Price Closing as of : 23-October-2015*

Unilever (UNVR IJ; Hold)

Sluggish growth

- **Earnings decelerated due to economic slowdown**
- **Better gross margin, but …**
- **… Lower operating margin on higher selling expenses**
- **Maintain HOLD.**

Deceleration in bottom-line growth. UNVR posted Rp.1,253 earnings in 3Q15 (-6.5%qoq; 4.3%yoy) accounting for 71% of our full year forecast. On a yearly basis, Home and Personal Care revenue grew 3.2, while food posted an 11.3% increase. The weak top-line growth is mainly due to low consumer purchasing power as a result of the current sluggish economic conditions. Thus, we lower our revenue growth forecast to 10.1% (vs.12.4%) for FY2015 with the Indonesian Consumer Index down to 97.5, the lowest in the past 5 years. However, with its diversified product, we believe UNVR has the ability to maintain its market share.

Gross margin improved. Despite the weakening IDR against USD, gross margin showed a slight improvement to 50.7% from 50.3% in the last quarter. UNVR has benefited from lower commodity prices such as packaging or other oil-based materials. That apart, it has increased ASP by 3.7% YoY posted on March, August and the latest in October 2015 to sustain the GPM. This year’s price hike is still relatively subdued compared to last year’s cumulative hike at 9%, which will give UNVR room to adjust its ASP if necessary. Moreover, we expect its newly operated sister company will guarantee flexibility and supply of raw materials to UNVR.

Slightly lower operating margin due to higher selling expenses. UNVR’s spending on A&P accounts increased to 12.75% of sales from 12.37% of sales in 2Q15. We see the increase in A&P as crucial to maintain brand awareness among consumers during difficult times; in particular, UNVR has diversified products that require constant A&P to maintain market share. Another significant hike also comes from royalty spending at 7.46% of sales in 3Q15, which we expect will rise to 8% of sales in 2016F. The operating margin is currently at 19.5%, an increase of 3bps on quarterly basis.

Maintain HOLD. We trim our earnings forecast by 2% considering the current economic conditions. We derive our TP of Rp. 39,375 from 51x P/E 2015F. The valuation is justified due to its brand reputation, strong track record and healthy balance sheet. However, based on 3Q15 results and the continuation of weak purchasing power, the stock price is relatively overpriced since the risk of heating up competition, further economic slowdown and further IDR depreciation are unavoidable. Thus, we maintain our HOLD recommendation on the stock.

Year To 31 Dec	2013A	2014A	2015F	2016F	2017F
Revenue (RpBn)	30,757	34,512	38,013	42,484	47,509
EBITDA (RpBn)	7,122	7,779	8,024	8,831	9,815
EBITDA Growth (%)	10.3	9.2	3.1	10.1	11.1
Net Profit (RpBn)	5,353	5,739	5,904	6,531	7,257
EPS (Rp)	702	752	774	856	951
EPS Growth (%)	10.6	7.2	2.9	10.6	11.1
Net Gearing (%)	16.8	8.5	12.2	8	-0.5
PER (x)	54.9	51.2	49.8	45	40.5
PBV (x)	69	63.9	58.2	54.6	49.1
Dividend Yield (%)	1.7	1.8	1.9	2.1	2.3
EV/EBITDA (x)	41.1	37.7	36.5	33.2	29.9

Source: UNVR, IndoPremier *Share Price Closing as of : 27-October 2015*

News & Analysis

Corporates

AALI: PT Astra Agro Lestari (AALI IJ; Rp; Not rated) booked 3Q15 sales -22% qoq and -16.9% yoy to Rp3,1tn on the back of dropping CPO sales volume of 17.7% yoy to 826,472 MT. At 3Q15, gross margin falls to 20.8% from 21.9%, while net margin shrinks due to forex loss amounted Rp598bn triggered by depreciating Rupiah. Sales and net profit are below consensus (69.8%, 9.6% respectively). (Company)

	3Q15	2Q15	3Q14		Change	9M15	9M14	Change	Consensus
	(Rp bn)	(Rp bn)	(Rp bn)	(%qoq)	(%yoy)	(Rp bn)	(Rp bn)	(%yoy)	FY15F (%)
Sales	**3,118**	**3,996**	**3,752**	**-22.0**	**-16.9**	**10,347**	**11,760**	**-12.0**	**70**
COGS	-2,471	-3,119	-2,563	-20.8	-3.6	-8,060	-8,077	-0.2	
Gross profit	**647**	**877**	**1,190**	**-26.2**	**-45.6**	**2,288**	**3,683**	**-37.9**	
Operating cost	-294	-322	-316	-8.6	-6.9	-928	-885	4.9	
Operating profit	**353**	**555**	**874**	**-36.4**	**-59.6**	**1,360**	**2,798**	**-51.4**	**59**
Forex gain / (loss)	-598	-113	-76	427.8	684.9	-958	-49	1841.1	
Pre-tax profit	**-269**	**454**	**792**	**nm**	**nm**	**409**	**2,797**	**-85.4**	
Net profit	**-299**	**288**	**515**	**nm**	**nm**	**145**	**1,884**	**-92.3**	**10**
Margins									
Gross margin (%)	20.8	21.9	31.7			22.1	31.3		
Op. margin (%)	11.3	13.9	23.3			13.1	23.8		
Pre margin (%)	-8.6	11.4	21.1			4	23.8		
Net margin (%)	-9.6	7.2	13.7			1.4	16		

Source: Company

BBCA: Bank Central Asia (BBCA IJ; Rp13,575; Hold) reported net profit of Rp13.4tn in 9M15 (+9.6% yoy) on the back of 10.3% yoy rise in the bank's loan portfolio, marginally higher NIM of 6.6% (vs. 6.5% in same period in 2014) and stable asset quality (NPL ratio of 0.7%) and loan provisioning (+1.9% yoy). Core earnings (PPOP), before provisions, grew by 8.7% yoy as its operating expense growth (+20.5% yoy) continued to outpace revenue growth since 2014. As such, cost/income ratio went up to 46.9% during the nine-month period, up from 43.8% a year ago. On quarterly basis, earnings was up by 7.6% qoq to Rp4.8tn in 3Q15 (2Q: Rp4.5tn; 1Q: Rp4.1tn), as higher provisioning of Rp963bn (2Q: Rp480bn) was offset by seasonally lower operating cost during the quarter. BBCA's loan growth was underpinned by corporate lending (+12% yoy) while commercial/SME and consumer loans grew only 9.3% and 9.8% yoy, respectively. However, asset quality remains very robust with an uptick of NPL ratio in commercial/SME to 1.2% in 3Q (2Q: 0.7%) offset by lower NPL ratio from corporate loans of 0.1% (2Q: 0.4%) while consumer NPL ratio was unchanged at 0.8% in 3Q.

Comment: BBCA's third-quarter earnings came in line with market expectation (at 74.3% of consensus forecast of Rp18tn for FY15F) albeit slightly below our expectation, partly due to its much higher loan provisioning in 3Q vs. 2Q. However, we view this is a good results in comparison to peer major banks in Indonesia which can be attributed to the bank's strong asset quality in the face of an economic slowdown in Indonesia. We maintain our Hold rating mainly due to the stock's steep premium valuation relative to peers.

BKSL: Sentul City (BKSL IJ; Rp75 ; Not Rated) will develop superblock on 8 ha land. The project include mall, apartment and hotel. The project value is estimated to reach Rp3tn. The first phase starts with AEON mall on 430,000sqm and estimated investment value of Rp1.2tn. When the mall completed, it will be rented by AEON mall for 20 years tenor. BKSL will also build a hotel with 400 rooms and 4 towers of apartment with 1,400 unit. The company has allocated Rp1.2-1.4tn for next year capex which will be financed by internal cash and bank loan. (Investor Daily)

TLKM: Telkom Indonesia (TLKM IJ; Rp2,795; Buy) has announced its 9M15 result with highlights as follows:

- Strong operational result with revenue growth of 15% yoy and EBITDA growth of 11.4% yoy, which was inline with our expectation and market consensus. Nevertheless, net profit only grew by 2.5% yoy affected by increasing interest cost and lower other income in 9M15.
- Telkom was able to balance between strong data growth accompanied by moderate growth in voice and SMS. Data revenue grew 34.7% yoy, while voice increased by 9.5% yoy with SMS 8.1% yoy. Meanwhile matured fixed voice fell by 4.7% yoy. Contribution from voice was 36.3%, while data became the second largest contributor with 31% share to revenue in 9M15. Data revenue posted 9.8% qoq growth in 3Q15 compared to voice of 5.5% qoq.
- Total subs base has reached 148.6mn cellular (+4.5m qoq), with 55.6mn (+57.3% yoy) subs are using 3G/4G capable device. RPM was mainly flat at Rp165/min with RPS to increase by 7.0% to Rp60.6, thanks to strategic cluster pricing. Data pricing remains unchanged at Rp40/Mb.
- EBITDA grew 11.4% yoy to Rp37.1tn in 9M15 with margins to decline to 49% due to early retirement program.

RpBn	9M15	9M14	%	3Q15	2Q15	%	FY15F	%
Turnover	75,719	65,841	15.0	26,879	25,224	6.6	99,381	76.2
EBITDA	37,074	33,295	11.4	13,534	11,178	21.1	50,262	73.8
Operating profit	23,570	21,259	10.9	8,823	7,483	17.9	35,037	67.3
Net Int. & Invest. Inc.	(678)	(405)	67.4	(274)	(275)	(0.4)	209	nm
Forex gain (losses)	77	(203)	na	52	37	na	-	nm
Except. & Others	351	881	-60.2	(1)	157	na	11	nm
Group Pretax	23,320	21,532	8.3	8,600	7,402	16.2	35,257	66.1
Taxation	(5,983)	(5,431)	10.2	(2,242)	(1,931)	16.1	(8,814)	67.9
Minorities	(5,792)	(4,834)	19.8	(2,260)	(1,838)	23.0	(7,543)	76.8
Net Profit	11,545	11,267	2.5	4,098	3,633	12.8	18,900	61.1
EBITDA Margin	49.0%	51.1%		49.0%	50.9%		50.6%	
OPM	31.1%	32.8%		32.8%	29.7%		35.3%	
NPM	15.2%	17.4%		15.2%	14.4%		19.0%	

Source: Company

LPCK: Lippo Group through Lippo Cikarang (LPCK IJ; Rp8,075; Not Rated) and Mitsubishi Corporation (through PT Diamond Realty Investment Indonesia will jointly develop Orange County in Cikarang through its new Joint Venture, PT Lippo Diamond Development. Lippo and Mitsubishi will invest a total USD100mn for project development. On the first phase, the JV will develop two apartments in Orange County with total 1,112 unit. Lippo will continue to have partnerships with foreign companies to develop its project going forward. (Kontan)

SIDO: 9M15 result in line with consensus. The bottom-line grew by 3.7% YoY. However, in a quarterly basis, the net profit plunged by 37.61%. The gross profit gross margin is down by 4bps QoQ. (Company)

(in Rp bn)	9M15	9M14	YoY	3Q15	2Q15	QoQ	Consensus 2015	Consensus 2014
Revenue	1,650	1,594	3.5%	509	632	-19.4%	72.2%	72.5%
Gross Profit	642.937	562	14.5%	189	259	-27.2%		
Operating Profit	420	404	3.9%	103	163	-36.9%		
Net Profit	326	314	3.7%	80	128	-37.6%	76.8%	75.7%

	9M15	9M14		3Q15	2Q15
Gross Margin (%)	38.9%	35.2%		37.1%	41.1%
Operating Margin (%)	25.5%	25.3%		20.2%	25.8%
Net Margin (%)	19.8%	19.7%		15.7%	20.3%

Source: Company

SIMP: PT Salim Ivomas Pratama (SIMP IJ; Rp; Not rated) reported 9M15 net profit of Rp74bn (-86.9% yoy) on the back of dropping sales 6.6% yoy to Rp10tn. Net margin shrinks significantly due to hikes in finance cost to Rp413bn (86% yoy, 72% qoq), driven by high forex loss caused by depreciating Rupiah. 9M15 CPO sales volume is recorded at 673,000 MT (+1%yoy), but overall Oil&Fat division contributes only 62% to total sales (prev. 70%). Sales is slightly below consensus at 71%, while net profit is far below consensus at 18%. (Company)

	3Q15	2Q15	3Q14		Change	9M15	9M14	Change	Consensus
	(Rp bn)	(Rp bn)	(Rp bn)	(%qoq)	(%yoy)	(Rp bn)	(Rp bn)	(%yoy)	FY15F (%)
Sales	**3,268**	**4,133**	**3,602**	**-20.9**	**-9.3**	**10,060**	**10,770**	**-6.6**	**71**
COGS	-2,510	-3,295	-2,741	-23.8	-8.4	-7,787	-7,885	-1.2	
Gross profit	**758**	**838**	**861**	**-9.5**	**-11.9**	**2,273**	**2,885**	**-21.2**	
Operating cost	-372	-443	-452	-16.1	-17.8	-1,108	-1,255	-11.7	
Operating profit	**386**	**395**	**409**	**-2.1**	**-5.5**	**1,165**	**1,630**	**-28.5**	**70**
Finance cost	-413	-240	-222	72.0	86.1	-966	-548	76.4	
Pre-tax profit	**-30**	**161**	**173**	**nm**	**nm**	**219**	**1,083**	**-79.8**	**31**
Net profit	**-52**	**80**	**62**	**nm**	**nm**	**74**	**568**	**-86.9**	**18**
Margins									
Gross margin (%)	23.2	20.3	23.9			22.6	26.8		
Operating margin (%)	11.8	9.6	11.4			11.6	15.1		
Pre tax margin (%)	-0.9	3.9	4.8			2.2	10.1		
Net margin (%)	-1.6	1.9	1.7			0.7	5.3		

Source: Company

WIKA: Wijaya Karya (WIKA IJ; Rp3,080; Hold) reported 9M15 new contracts of Rp14.1tn, or 45% of company's internal target of Rp31tn (+76% yoy). Toll, road and bridges provided major contribution of 32% to 9M15 new contracts, followed by building (29%), precast (13%) and port/irrigation/dam (12%). By end of September 2015, the company booked total order book of Rp38tn with major contracts stemming from Timor Leste Airport (Rp910bn), Solo-Kertosono toll road (Rp718bn) and Pasellorang dam (Rp478bn). (Company)

WTON: Wijaya Karya Beton (WTON IJ; Rp990; Not Rated) estimates potential new contracts of Rp5tn to Rp6tn for the next three years, from Jakarta-Bandung medium-speed railway project. The contribution of precast in construction sector is estimated to increase to 30% in 2019 from 16.7% this year. To push further contribution of precast, the minister of public works and housing plans to standardize precast products as well as publishing products' catalog as the reference for precast production. (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

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.