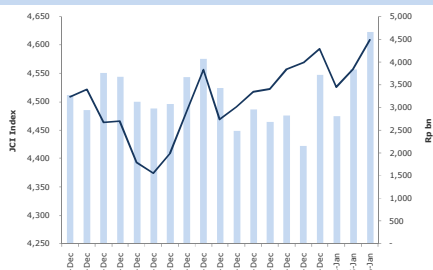


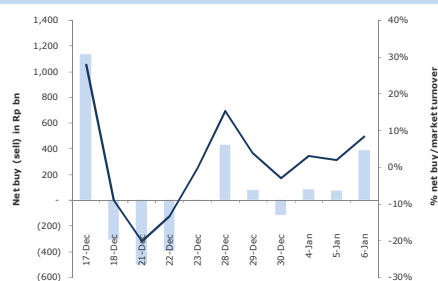
News & Analysis

Corporates

JCI Index



Foreign net buy (sell)



Index	Closing	1 day	1 year	YTD
JCI	4,609	1.1%	-11.5%	0.3%
LQ45	802	1.6%	-10.6%	1.3%
DJII	16,907	-1.5%	-3.9%	-3.0%
SET	1,260	0.5%	-16.0%	-2.2%
HSI	20,981	-1.0%	-11.4%	-4.3%
NKY	18,191	-1.0%	7.7%	-4.9%
FTSE	6,073	-1.0%	-5.4%	-2.7%
FSSTI	2,804	-1.1%	-15.0%	-2.7%
EIDO	21	-0.4%	-20.2%	0.4%

Commodity price

Commodities (in USD)	Last price	Ret 1 day	Ret 1 year
Oil/barrel (WTI)	34.0	-5.6%	-29.1%
CPO/tonne	554.2	-0.2%	7.2%
Soy/bushel	8.7	0.9%	-17.0%
Rubber/kg	1.2	-1.1%	-25.5%
Nickel/tonne	8,573	1.0%	-43.6%
Tins/tonne	13,822	-2.6%	-30.1%
Copper/tonne	4,620	-0.5%	-25.7%
Gold/try.oz (Spot)	1,094	1.5%	-9.7%
Coal/tonne*	51.5	1.8%	-16.2%
Corn/bushel	3.4	0.1%	-11.5%
Wheat/bushel**	157.7	-4.6%	-27.0%

* : 1 week change

** : 1 month change

Source : Bloomberg

EXCL: XL Axiata (EXCL IJ; Rp3,680; Hold) plans to spin off its tower asset with a total number of 2000-2500 towers. The proceeds will be used to reduce its debt. Additionally, the company is also restructuring its US\$500mn shareholders loan. This tower asset sell-off could potentially raise proceeds of Rp3.2-4tn. Currently XL still owns 6,500 tower which are available for sale. However, tower divestment will be in stages. Some tower companies such as Tower Bersama (TBIG IJ; Rp5,725; Buy) and Menara Sarana (TOWR IJ; Rp4,850; Not rated) has expressed interest to participate in the bidding. Nothing on pricing and potential bidder has been decided up to this stage.

Comment: Pricing and rental will be the deciding factor whether the transaction is beneficiary for both sides, since this will structured as sale and lease back. Negative sentiment has occurred over the tower industry due to the issue of removal from negative list by allowing foreign investment in this sector. The news could have more positive sentiment towards XL rather than the tower companies.

KAFF: Kimia Farma (KAFF IJ; Rp895; Not rated) is targeting Rp268bn for this year's profit, 10.74% increase from last year. For 2015's profit is still under review, however, they are optimistic it will exceed Rp242bn, a 2 digit growth from 2014. The growth is attributable to the newly operated pharmaceutical salt facility in Watu Dakon. In 2016, they set the target to add 100 new drugstores and 50 new clinics mostly located in Java and Eastern Indonesia. Capex allocation will be around Rp1tn, thrice the amount of last year's capex, in which will be funded internally. The capex will be allocated for further constructions of pharma salt facility and other facility as well as improving their information system for more integrated communication in all levels. (Bisnis Indonesia)

KLBF: Kalbe Farma (KLBF IJ; Rp1,375; Buy) will perform clinical trial for *allogenic* stem cell soon starting with animal testing and human testing afterwards. The total fund required is predicted to reach Rp40bn. All the clinical trials are done outside Indonesia, and are expected to be done by 2022. It will be reviewed by Foods and Drugs Administration (FDA) before it is commercialized. Meanwhile, stem cell with type *autologous* has been commercialized since 2014. (Bisnis Indonesia)

Comment: Despite the time consuming and tremendously expensive process, this type of medicine is expected to give KLBF advantage in terms of profit as this is classified as KLBF's higher margin business and will be exported to other ASEAN country. Furthermore, In Indonesia, it is predicted that there will be rapid increase in cancer patients thus resulting in a jump in demand for cancer medicines. Currently, PT. Kimia Farma, PT. Berlico Mulia Farma (SIDO's subsidiary) and PT. Fonko International Pharma (Dexa Group) also produce cancer medicines. However, their capacity is still below KLBF.

Markets & Sector

Banks sector: The government has started allocating disbursement targets to each bank participating in its subsidized microloan program (KUR). Of the Rp100tn (US\$7.2bn) worth of KUR loans targeted for 2016, Bank Rakyat (BBRI IJ; Buy) will be allocated Rp67.5tn, while peer state banks Bank Mandiri (BMRI IJ; Buy) and Bank Negara (BBNI IJ; Buy) will get Rp13tn and Rp12tn, respectively. The rest will be distributed to private lenders (Rp4tn), provincial banks (Rp2.5tn) and finance companies (Rp1tn). The total KUR loans disbursement target of Rp100-120tn for 2016 is well above last year's target (Rp30tn), with lower lending rate of 9% (vs. 12% in 2015) after government subsidies to participating banks. (Jakarta Post)

Comment: We expect higher subsidies required for the KUR lending rate reduction for 2016 to be borne by the state, hence no negative impact to participating banks in the short term. However, such low subsidized microlending rate to non-bankable population could be a risk to the banking sector's profitability in the long run due to potential cannibalisation of commercial micro and SME loans. We view private banks, most notably Danamon (BDMN IJ; Hold) and BTPN (BTPN IJ; Not Rated), to be most negatively impacted by this government-supported loan subsidy program.

Consumer sector: Consumer Confidence Index (CCI) at December 2015 was recorded higher at 107.5 (+3.7% mom), reflecting a better consumer expectation index at 121 (+5.4% mom). Yet, on average, CCI in 4Q15 was still at 103.5 (-13.1% yoy), showing a shrink in consumer confidence and household consumption level compared to 2014. (Investor Daily)

Infrastructure sector: The government signed agreements on 644 infrastructure project packages worth Rp8.8tn (US\$632m) yesterday, adding to the existing 382 multiyear projects worth Rp25.8tn, with more contracts (worth Rp9.5tn) expected to be signed by end of this month. The contracts signing followed the early opening of tenders by the Ministry of Public Works since August last year for projects worth Rp42.7tn for 2016 as it strived to improve budget disbursement. The ministry was allocated a budget of Rp73.4tn for this year. (Jakarta Post).

Comment: The early tenders in August last year for projects slated for 2016 raised optimism of faster fiscal disbursements of infrastructure projects and its higher contribution to Indonesia's economic growth in the early quarters. During 2015, the government's capital spending made its impact on GDP growth mainly in 3Q, after relatively slow disbursements in the first half of the year. In turn, we believe this should sustain stronger GDP growth momentum in 2016.

Property sector: Colliers International Indonesia forecast Indonesia property to be flat in 2016. If gross domestic bruto (GDB) remains below 5%, recovery in property sector should happen in early 2017. Generally, demand across residential, office, retail and apartment are reported to be weak while supply keep coming into the market. Hence the recovery might happen earlier in 2H16 if there are supportive regulations such as lower interest rate and acceleration of infrastructure. (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.

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