

Premier Insight

22 March 2016

News & Analysis

Corporates

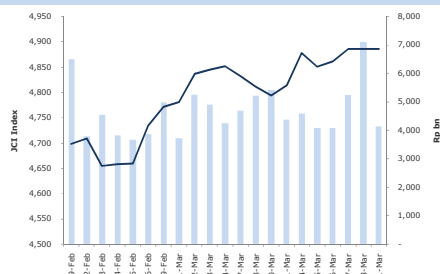
INTP: Takeaways from Indocement's (INTP IJ; Rp20,750; Buy) public expose:

- Competition remains fierce in selected areas.** New players such as Siam Cement and Jui Shin offers discount of Rp10,000-11,000 per bag from the normal price difference of Rp5,000-6,000 per bag. However, the promotion price only applies in certain areas usually in the surrounding of the factory. This steep discount is needed to attract distributors and customers. This practice was also adopted by Conch in South Kalimantan offering steep discount of Rp18,000 per bag driving out competition. In order to protect its market, Indocement has re-applied a price discount of Rp1,500 per bag and regaining back some of its markets. This shows that Indocement's brand is preferred compared to new comers at the right price.
- Competition to concentrate in Java.** In West Java, there are already presence of new players such as Siam Cement, Jui Shin, and Semen Merah Putih. Indocement has just completed its 4.4mn tons new capacity. Meanwhile, in East Java Holcim and Semen Indonesia has also recently completed new facilities. Therefore, the Java market remains crowded with increased competition from both new players and incumbents.
- Indocement to increase export.** Despite that export selling price are less attractive, but export volume helps to reach better operating efficiency. Exports are mainly in clinker priced at around US\$29 per tons. This year, Indocement aims to export 300k-500k tons, using long term contracts through is parent company Heidelberg.
- Capex budgeted at Rp2.3tn.** With the completion of P14, capex will only allocated for maintenance and additional machinery such as aeroderivative power plant and packaging terminals. The aeroderivative power plant cost Rp500bn with a capacity of 73MW. This new power plant is to replace the obsolete 55MW. Generation cost from the aeroderivative turbine will be similar to PLN, using gas purchased from Pertamina and PGN. Expansion in the Pati Regency remains to face headwinds as environmental license has been revoked. Indocement has appealed to the administrative court.
- Market is expected to grow by 3-5% in FY16.** Indocement is expecting the national cement market to grow by 3-5%. The company will grow accordance to the market while focusing on profitability. Lower coal and electricity price with stronger Rupiah might help stabilize margin in the cement industry.

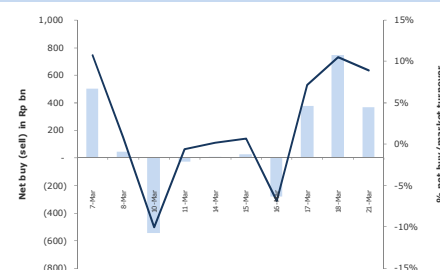
Comment: we think that most of the concerns have already being reflected in our forecast. Therefore, we maintain our But call on the company, despite we prefer Semen Indonesia (SMGR IJ; Rp10,450; Buy) over Indocement.

JSMR: Jasa Marga (JSMR IJ; Rp5,500; Buy) together with four state-owned banks intensify the penetration of e-toll payment system. Now BRI, BTN and BNI are joining the cashless toll payment system which was previously managed only by Bank Mandiri. At the moment cashless transactions only account about 20% out of the total 110mn transactions. It is expected that this number to increase to 60% by having wider choice of banks. It has also been reported that the SOE minister urged banks to provide top up discounts for toll road payments, in order to speed up penetration. (Jakarta Post)

JCI Index



Foreign net buy (sell)



Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	4,885	0.0%	-10.2%	6.4%
LQ45	853	0.1%	-10.0%	7.6%
DJI	17,624	0.1%	-2.8%	1.1%
SET	1,394	0.8%	-8.9%	8.2%
HSI	20,684	0.1%	-15.1%	-5.6%
NKY	16,725	-1.2%	-14.5%	-10.3%
FTSE	6,185	-0.1%	-11.9%	-0.9%
FSSTI	2,881	-0.9%	-15.6%	-0.1%
EIDO	24	-1.3%	-13.4%	13.4%

Commodity price

Commodities	Last price	Ret 1 day	Ret 1 year
(in USD)			
Oil/barrel (WTI)	39.9	1.2%	-12.7%
CPO/tonne	615.8	0.2%	10.0%
Soy/bushel	9.0	0.5%	-7.0%
Rubber/kg	1.5	0.4%	-10.2%
Nickel/tonne	8,729	1.2%	-38.6%
Tins/tonne	16,995	0.0%	-1.5%
Copper/tonne	5,089	0.3%	-16.2%
Gold/try.oz (Spot)	1,244	-0.9%	5.2%
Coal/tonne*	52.0	0.8%	-18.8%
Corn/bushel	3.6	0.7%	-4.1%
Wheat/bushel**	163.8	3.8%	-29.7%

* : 1 week change

** : 1 month change

Source : Bloomberg

Comment: This should be positive to JSMR as higher penetration of cashless transaction should improve operating efficiency. Nevertheless, top up discount should be liable to the banks and not as a toll discount. This top up incentive could be regard as cost of funds or marketing for the banks.

MDLN: Modernland Realty (MDLN IJ; Rp393; Not Rated) reported net profit of Rp 873bn or 24% yoy. The increase was triggered by non-operational income which rose 498% and gain arising from a share purchase transaction. On the top line, revenue slightly increased by 4% to Rp2.9tn, mostly caused by land sold in Modern Cikande industrial estate. As a result, gross margin expanded to 57% from 56% in 2014. (Company, Bisnis Indonesia)

MPPA: Matahari Putra Prima (MPPA IJ; Rp1,680; Not Rated) reported poor earnings for FY15. Sales merely grew 2.49% to Rp13.9tn, way below company's sales target of 5-10% and 94% of market expectations. EBIT and net income decreased more than 68% and 66% respectively, further hurting earnings at a low margin industry. Net margin was 1.31% in FY15, lower than the 4.08% achieved in FY14. (Investor Daily)

MPPA	FY14	FY15	YoY	FY15 Consensus	% achieved
Revenue	13,590.41	13,928.86	2.49%	14,756.00	94%
Gross Profit	2,354.46	2,356.48	0.09%	2539.66	93%
Income before tax	730.83	233.05	-68.11%	534.32	44%
Net Income	554.02	182.99	-66.97%	385.04	48%
Gross Margin	17%	17%		17%	
EBIT Margin	5.38%	1.67%		3.62%	
Net Margin	4.08%	1.31%		2.61%	

Source: MPPA, IndoPremier

WIKA: Wijaya Karya (WIKA IJ; Rp2,645; Buy) recorded new contract of Rp4.7tn until third week of March 2016. This accounts for 8.8% from total target this year and increased 37.3% yoy. Company is currently in progress to win several projects, such as: airport, bridges, cooking oil factory, and power plant. If all tender succeed, company will book Rp6.62tn of new contract and will achieve 12.5% from its total target 2016. (Kontan)

Markets & Sectors

Plantation sector: The Ministry of Agriculture is reviewing the judicial aspects to disband IPOP (Indonesia Palm Oil Pledge) and freeze its activities. IPOP is a partnership of palm oil companies with a mission to work towards sustainable palm oil business practice which is deforestation free. The organization was signed at the UN Climate Summit in March 2015. Members of IPOP (Astra Agro Lestari (AALI IJ; Rp17,700; Not Rated), Wilmar Indonesia, Cargill Indonesia, Golden Agri Resources, Asian Agri and Musim Mas Group) refused to buy and process farmers' palm oil fresh fruit bunch which planted in the conservation or forestry areas. This is the main reason behind the Ministry of Agriculture's plan to freeze IPOP activities.

Comment: IPOP is an initiative of palm oil companies in Indonesia. Thus, the disbandment of the organization will have no impact to CPO import from overseas customers.

Poultry sector: Ministry of Agriculture will release a ministerial regulation to control poultry supply in Indonesia as an effort to stabilize the price. Details about the regulation are not available at the current moment. It is likely that the government will control DOC parent and grandparent stock import and will limit the development of new large scale farm by big poultry companies. (Bisnis Indonesia)

Comment: The planned regulation may reduce volatility of poultry companies' earnings performance.

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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.

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