

Pharmaceutical Sector

Poised for stronger growth

- **Universal healthcare will lift Indonesia's healthcare spending...**
- **...which is by far the lowest in ASEAN due to affordability issues**
- **Strong demand for generic drugs will be a key growth driver**
- **Key beneficiaries: hospital operators, generic drug manufacturers**

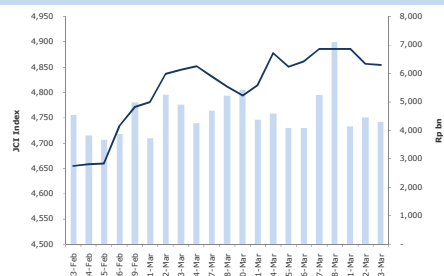
Universal healthcare will support growth. Revenue growth of Indonesia's four listed pharma companies, on average, has slowed to <6% in 2015, from 20% in 2012, due to weakening consumer purchasing power and rising costs of imported materials. However, we expect growth to resume in the coming years on the back of implementation of universal healthcare coverage (UHC) since 2014, which is targeted to cover the entire population of c.260m by 2019 once teething issues are resolved. In turn, this should boost demand for healthcare services, benefiting healthcare segments, such as hospitals, pharmaceutical, and diagnostic markets. IMS Health forecasts Indonesia's pharmaceutical market turnover to rise to Rp89tn in 2018, from Rp58tn in 2014, or CAGR of 11.3% vs. 10.4% in 2010-2014. The UHC scheme should help the mass population move away from self-medication and seek treatment in clinics and hospitals, resulting in stronger growth of prescription drugs (vs. OTC medicines), particularly for branded and non-branded generics (vs. patented drugs), due to demand from public hospitals.

Low healthcare spending vs. ASEAN peers. Indonesia's healthcare spending of 3.1% of GDP in 2014 was below most of its ASEAN peers such as Singapore (4.6%), Thailand (4.6%), Philippines (4.4%), Malaysia (4.0%) and even Vietnam (3.9%). The country's per capita pharmaceutical spending of US\$18 in 2014 was below spending levels in countries with lower per capita incomes such as Vietnam (\$42) and the Philippines (\$33), reflecting low affordability of medical services due to lack of universal healthcare insurance prior to 2014. However, with the UHC scheme providing subsidization of medication and hospital insurance by the government and cross-subsidy from middle/upper income population, we expect healthcare services to rapidly expand to cover the mass population.

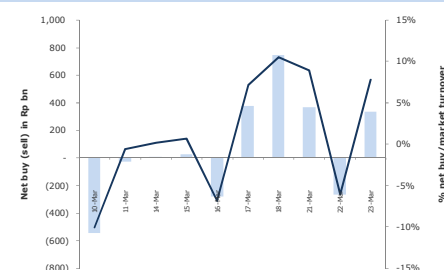
Generic drugs to drive growth. Indonesia's pharma market is characterised by high contribution of OTC medicines (at 40%), which is the highest among ASEAN countries, reflecting propensity towards self medication in the country. Meanwhile, generic (branded and unbranded) and patented prescription drugs accounted for 42.5% and 17.5% of the pharma market, respectively. We expect UHC to spur demand for unbranded generic drugs from public hospitals as healthcare services become available to the mass population. However, branded generics should also grow on the back of rising middle class population, which are likely to opt for private hospitals, clinics and diagnostic centres to avoid increasingly crowded public hospitals.

Key beneficiaries. We believe hospital operators Siloam Hospitals (SILO IJ; Rp7,775; Buy), Mitra Keluarga (MIKA IJ; Rp2,600; Not Rated) and the Omni group (SAME IJ; Rp2,720; Not Rated) will be key beneficiaries from rising demand for healthcare services. In the pharma segment, we expect state-owned Kimia Farma (KAEF IJ; Rp1,280; Not Rated), which is a leading producer of generic drugs, to benefit the most. Kalbe Farma (KLBF IJ; Rp1,290; Buy) and Tempo Scan (TSPC IJ; Rp1,905; Not Rated) should also benefit from rising healthcare spending in Indonesia given their leadership positions in the pharma market although we expect the impact to be more muted given their lower exposures to generic drugs and large contribution of OTC medicines, nutritional and other consumer products. For KLBF and TSPC, prescription drugs accounted for 35% and 26%, respectively, of their total revenues in 9M15 (excluding distribution business). Please refer to Fig. 19 on page 8 for a valuation summary of the above mentioned stocks.

JCI Index



Foreign net buy (sell)



Key Indexes

| Index | Closing | 1 day | 1 year | YTD |
|-------|---------|-------|--------|--------|
| JCI | 4,854 | 0.0% | -10.9% | 5.7% |
| LQ45 | 844 | -0.2% | -11.0% | 6.5% |
| DJI | 17,503 | -0.5% | -2.8% | 0.4% |
| SET | 1,412 | 1.1% | -6.8% | 9.6% |
| HSI | 20,615 | -0.2% | -15.5% | -5.9% |
| NKY | 17,001 | -0.3% | -13.8% | -11.4% |
| FTSE | 6,199 | 0.1% | -11.7% | -0.7% |
| FSSTI | 2,882 | 0.0% | -15.6% | 0.0% |
| EIDO | 23 | -1.6% | -15.6% | 11.2% |

Commodity price

| Commodities (in USD) | Last price | Ret 1 day | Ret 1 year |
|-------------------------|------------|-----------|------------|
| Oil/barrel (WTI) | 38.5 | -3.7% | -17.8% |
| CPO/tonne | 615.8 | -0.4% | 10.0% |
| Soy/bushel | 9.0 | -0.6% | -7.6% |
| Rubber/kg | 1.5 | 0.9% | -8.5% |
| Nickel/tonne | 8,659 | -1.0% | -39.3% |
| Tins/tonne | 17,434 | 1.3% | -1.0% |
| Copper/tonne | 4,972 | -2.3% | -19.2% |
| Gold/try.oz (Spot) | 1,220 | -2.3% | 2.2% |
| Coal/tonne* | 52.2 | 0.0% | -16.3% |
| Corn/bushel | 3.6 | -0.4% | -5.7% |
| Wheat/bushel** | 163.8 | 3.8% | -29.7% |

* : 1 week change

** : 1 month change

Source : Bloomberg

News & Analysis

Corporates

ISAT: Indosat (ISAT IJ; Rp6,150; Hold) announced its financial result FY15, which was better than expectation on the operating side but inline with consensus. The highlights are:

- Net income was still in red from a combination of high interest expenses and significant forex loss. Nevertheless, Indosat was able to book strong result on the operation side but will need to strengthen its balance sheet.
- Revenue grew 11.1% yoy and 3.2% qoq mainly supported by strong demand in data plus the consolidation in pricing of voice and SMS.
- As a result EBITDA grew 14.1% yoybut lower by 9.4% qoq driven by accelerated cost in operation.
- Financing cost rose 15.3% yoy due to increasing leverage. However, we think that Indosat is in a good position to reduce its debt levels using its growing operational cash flow.
- Indosat has yet to release its operational figures and will hold a conference call this afternoon at 3pm.

| | FY15 | FY14 | % | 4Q15 | 3Q15 | % | FY15 | % |
|-------------------------|---------|---------|---------|-------|---------|---------|---------|-------|
| Turnover | 26,769 | 24,085 | 11.1 | 7,187 | 6,962 | 3.2 | 25,300 | 105.8 |
| EBITDA | 11,473 | 10,059 | 14.1 | 2,906 | 3,205 | (9.4) | 10,824 | 106.0 |
| Operating profit | 2,669 | 2,184 | 22.2 | 444 | 1,185 | (62.6) | 2,241 | 119.1 |
| Net Int. & Invest. Inc. | (2,611) | (2,264) | 15.3 | (569) | (867) | (34.3) | (623) | 419.4 |
| Forex gain (losses) | (1,599) | (395) | 304.4 | 730 | (1,424) | (151.3) | - | nm |
| Except. & Others | (245) | (1,461) | nm | (737) | 345 | nm | (2,564) | nm |
| Group Pretax | (1,786) | (1,936) | (7.8) | (133) | (760) | nm | (323) | 552.7 |
| Taxation | (622) | (78) | 699.1 | 16 | (413) | (104.0) | - | nm |
| Minorities | - | 129 | (100.0) | (108) | 41 | (364.4) | (120) | 0.0 |
| Net Profit | (1,163) | (1,987) | (41.5) | (41) | (388) | (89.3) | (443) | 262.6 |
| EBITDA Margin | 42.9% | 41.8% | 2.6 | 40.4% | 46.0% | | 42.8% | |

Source: ISAT, IndoPremier

MPMX: PT Mitra Pinasthika Mustika (MPMX IJ; Rp505; Buy) booked declining FY15 net profit at -32% yoy to Rp285bn (from Rp422bn previously), given lower gross profit margin at 13.8% (from 14.4% in FY14) and higher opex (+5% yoy). Thus, it resulted in squeezing 12M15 net margin to 1.7% (from 2.6% previously). Top-line is below market expectation (at 92%), while in-line with our forecast (at 103%). In addition, bottom-line is surprisingly below market expectation and our forecast (at 54% of consensus and 72% of our forecast). On quarterly basis, MPMX recorded net loss of Rp51bn in 4Q15, driven by higher opex at +52% qoq. (Bisnis Indonesia)

| | 4Q15 | 3Q15 | 4Q14 | Change | | 12M15 | 12M14 | Change | Consensus | Forecast |
|-------------------------|--------------|--------------|--------------|-------------|-------------|---------------|---------------|-------------|-----------|----------|
| | (Rp bn) | (Rp bn) | (Rp bn) | (%qoq) | (%yoy) | (Rp bn) | (Rp bn) | (%yoy) | (%) | (%) |
| Sales | 4,451 | 4,008 | 4,065 | 11% | 9% | 16,640 | 16,076 | 4% | 92.1 | 102.9 |
| COGS | (3,876) | (3,452) | (3,481) | 12% | 11% | (14,341) | (13,763) | 4% | | |
| Gross profit | 575 | 556 | 584 | 3% | -2% | 2,299 | 2,314 | -1% | | |
| Operating cost | (505) | (333) | (498) | 52% | 1% | (1,586) | (1,511) | 5% | | |
| Operating profit | 70 | 223 | 86 | -69% | -18% | 713 | 802 | -11% | 71.1 | 96.7 |
| Interest expense | (108) | (89) | (80) | 22% | 35% | (324) | (281) | 15% | | |
| Pre-tax profit | (10) | 162 | 42 | nm | nm | 501 | 633 | -21% | | |
| Tax | (36) | (53) | (22) | -31% | 68% | (194) | (186) | 4% | | |
| Net profit | (51) | 104 | 23 | nm | nm | 285 | 422 | -32% | 53.9 | 71.8 |
| Margins | | | | | | | | | | |
| Gross margin (%) | 12.9 | 13.9 | 14.4 | | | 13.8 | 14.4 | | | |
| Operating margin (%) | 1.6 | 5.6 | 2.1 | | | 4.3 | 5.0 | | | |
| Pre tax margin (%) | (0.2) | 4.0 | 1.0 | | | 3.0 | 3.9 | | | |
| Net margin (%) | (1.2) | 2.6 | 0.6 | | | 1.7 | 2.6 | | | |

Source: MPMX, IndoPremier

SILO: Siloam Hospital International (SILO IJ; Rp7,675; Buy)) allocates capex of US\$100-110mn this year. Capex will be used to fund last year's delayed hospital and to build new hospital. The capex will come from internal cash US\$60-70mn, while the remaining will come from parent company's loan of US\$30-40mn. The capex will not include landbank acquisition as it will be provided by its parent company. (Kontan)

UNTR: United Tractors (UNTR IJ; Rp15,350; Not Rated) targets revenues to stay flat in 2016 as commodity prices (mining and plantation) remain relatively low compared to the prices in 2015. The company will allocate US\$200mn for capital expenditure this year. (Kontan)

Comment: We view the company's target is conservative as commodity prices are improving in ytd 2016. However, we see stronger Rupiah (to US\$) as the major risk for UNTR's earnings performance. Without any improvement in the top-line and margins, we believe UNTR's FY16 core earnings may decrease caused by stronger Rupiah.

Markets & Sectors

Plantation sector: The Ministry of Agriculture encourages plantation farmers to utilize the subsidized business credit (KUR) from the SOE Banks. Gamal Nasir, a top official of Ministry of Agriculture, stated that the government will encourage small plantation farmers to use the credit for the replanting of their old and less productive plantations. (Bisnis Indonesia)

Comment: This will increase palm oil seed demand and positive for our top-pick in the plantation sector, London Sumatera (LSIP IJ; Rp1,710; Buy) as the company has the exposure to the seed sales, which formed 2.4% of LSIP's FY15 revenues and 5% of FY15 EBIT. We believe doubling seed sales from FY15 sales volumes of 9.9m seeds, will translate to additional earnings of around Rp100bn for LSIP (~12% of our FY16 earnings estimate) as almost all costs in the seed segment are fixed costs.

Transportation sector: The government allows Grab and Uber application to operate, while completing all requirements needed to secure proper permits. Recently, Grab and Uber partner drivers were awarded a deed of establishment as cooperatives entity from Ministry of Small and Medium Enterprises. Yet, both Minister of Transportation secretary-general Sugihardjo and Jakarta Transportation Agency Andri Yansah stated that Uber and Grab have to register the public transportation operational permits. (Jakarta Post)

Comment: The mixed signals over ride-hailing applications will put negative sentiment in land transportation sector. We believe conventional taxi operators' EBIT margin will be negatively hit with current high competitions (TAXI IJ; Rp225; Hold) & (BIRD IJ; Rp6,275; Not rated).

Economics

Inflation prediction: BI expects to see Mar16 yoy inflation at 4.53%, taking into account increase in prices of food such as red chili, cayenne pepper, and onion. BI Governor Agus Martowardojo says that BI is cautious with the predicted inflation level as he seeks to maintain the rate at around 4%. Updated statistics on inflation is expected to launch on Apr 1st. (Bisnis Indonesia)

Comment: Inflation had trended up in Feb16 (4.4% yoy) from Jan16 (4.1% yoy), with core inflation remained stable at 3.6%. We agree with Mr. Martowardojo's comment to remain vigilant on volatile prices. We also expect to see the government revising price of domestic fuel early in April which may give impact to volatile prices.

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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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