INDOPREMIER

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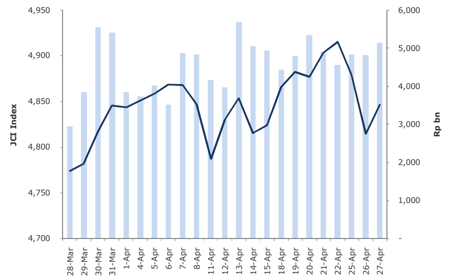
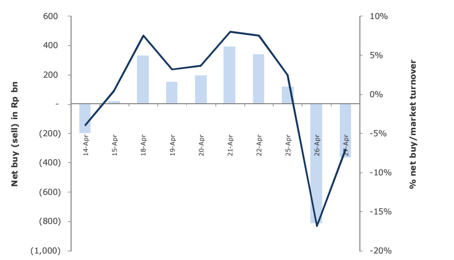
Premier Insight

28 April 2016

JCI Index



Foreign net buy (sell)



Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	4,846	0.7%	-7.6%	5.5%
LQ45	835	0.5%	-8.1%	5.5%
DJI	18,042	0.3%	-0.4%	3.5%
SET	1,412	-0.5%	-7.8%	9.6%
HSI	21,362	-0.2%	-24.9%	-2.5%
NKY	17,290	-0.4%	-13.8%	-8.2%
FTSE	6,320	0.6%	-10.1%	1.2%
FSSTI	2,875	-0.7%	-17.7%	-0.3%
EIDO	24	0.6%	-9.7%	12.7%

Commodity price

Commodities	Last price	Ret 1 day	Ret 1 year
(in USD)			
Oil/barrel (WTI)	45.3	2.9%	-20.5%
CPO/tonne	615.8	-1.6%	10.0%
Soy/bushel	10.2	0.1%	5.3%
Rubber/kg	1.9	0.4%	12.1%
Nickel/tonne	9,166	0.1%	-32.2%
Tins/tonne	17,122	-2.0%	5.5%
Copper/tonne	4,914	-1.2%	-19.1%
Gold/try.oz (Spot)	1,246	0.2%	2.8%
Coal/tonne*	51.0	-0.1%	-17.4%
Corn/bushel	3.7	-0.4%	5.1%
Wheat/bushel**	164.0	3.0%	-19.1%

** : 1 week change*

***: 1 month change*

Source : Bloomberg

Astra Agro Lestari (AALI IJ; Buy)

Earnings recovery, as expected

- **Earnings rose, as expected, on forex gain.**
- **Operating performance was in line with expectation.**
- **AALI underperformed the industry as downstream exposure increased.**
- **Retain Buy with additional potential gain from ex-rights discount.**

Earnings jumped on forex. AALI posted net profit of Rp402bn, rising 167% yoy, accounting for 24% of our and consensus' FY16 estimates. This was mainly due to forex gain of Rp245bn (vs forex loss of Rp.246bn in 1Q15), as IDR strengthened against US$ with AALI holding US$-denominated debt of US$505m (Rp6.7tn). Gross and operating margins, although lower than our FY16 forecast, remain in line with our view, as we expect margin improvement in 2H16, helped by higher sales volumes and palm oil price improvement.

Operating profit decreased. AALI recorded operating profit of Rp339bn, down 31% qoq and 25% yoy on lower ASP and margins due to the higher exposure to the olein segment. CPO sales volumes reached 271k tons in 1Q16, up 5% yoy, while olein sales jumped 78% yoy to 106k tons. However, the average CPO price decreased 16% yoy to Rp6,593/kg. AALI's operational performance remains relatively in line with our forecast, as 1Q16 olein sales volumes accounted for 22% of our FY16 estimate, while 1Q16 CPO sales volumes represent 23% of our FY16 forecast.

AALI underperformed peers. YTD, AALI's share price (+2.8%) has underperformed peers' by -28%, which we expect to resume on the company's higher exposure to downstream business (1Q16 olein sales volumes jumped 78% yoy). We have a negative view on plantation companies' exposure to the downstream business, which offers lower EBIT margin (around 3% vs. AALI's 2013-15 average EBIT margin of 20%), while the pricing fluctuates in line with the CPO price movement. Thus, the nature of the business is volatile, similar to plantation business, but with much lower margins and higher risks.

Retain Buy, as 1Q16 results in line with expectation. We retain Buy on AALI with 29% potential upside at our target price of Rp21,000, as 1Q16 performance was in line with our estimates. We view our FY16 earnings estimate of Rp1.72tn (+178% yoy) as achievable, on the back of forex gain combined with higher volumes and palm oil selling prices in the upcoming quarters. However, AALI's rights issue plan of up to 450m new shares with the estimated proceeds of Rp4tn (cum-right on 30 May 2016) should lead to a temporary correction in the share price, as the exercise price is likely lower than the current price, providing an opportunity for investors to buy the shares on weakness. Note that we have not included the rights proceeds and the debt repayment plan in our model.

Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue(RpBn)	16,306	13,059	15,023	15,802	16,559
EBITDA(RpBn)	4,260	2,517	3,147	3,512	3,688
EBITDA Growth (%)	24.6	-40.9	25	11.6	5
Net Profit(RpBn)	2,496	619	1,722	1,981	2,164
EPS (Rp)	1,585	393	1,094	1,258	1,374
EPS Growth (%)	38.6	-75.2	178.2	15	9.2
Net Gearing (%)	32.2	63.6	34.3	23.8	14.6
PER (x)	10.3	41.5	14.9	13	11.9
PBV (x)	2.2	2.2	1.9	1.7	1.6
Dividend Yield (%)	3.7	2.9	0.8	2.1	2.5
EV/EBITDA (x)	5.1	7.2	6.7	6.3	6.3

Source: AALI, IndoPremier *Share Price Closing as of : 26 April,2016*

HM Sampoerna (HMSP IJ; Hold)

Earnings Surprise Amid Slow Volume

- **Earnings were in-line (+7.6%yoy) amid weak sales volume growth**
- **Gross margin remained stable on favorable raw materials costs**
- **Strong market position and pricing power.**
- **Maintain HOLD with TP of Rp104,500 (unchanged)**

Earnings of Rp3.1tn, in-line with our expectations. HM Sampoerna reported net profit of Rp3.1tn in 1Q16, accounting for 26.2% of our FY16 forecast. Revenue still grew 1.7% yoy despite negative sales volume due to soft economic conditions and an excise tax hike to an average of 11.2% effective January 2016 (vs. 2015: 8.7%). For 1Q16, the company reported a decline in cigarette sales volume of 9% (vs. Indonesia's cigarette market: -6% yoy). However, the volume decline, which we suspect to be attributable to negative U Mild sales volume as market share contracted by 0.7%qoq, is still within our expectations (1Q16 cigarette sales accounted for 22% of our FY16 estimates). In addition, the market share of its machine rolled cigarettes (SKM) declined by 2%; however, the market share of the hand-rolled cigarettes (SKT) segment increased to 39.8% in 1Q16 (vs. 1Q15: 37.7%).

Stable gross margin on lower raw material costs. Gross margin was relatively stable at 25.8% (1Q15: 25.4%) due to modest excise tax expense at 44.9% of total sales (vs. 1Q15: 47.8% of total sales) on changes in product mix and lower raw material costs, which accounted for 11% of total sales (vs. 1Q15: 12.6%). Although the excise tax was notably higher than last year, the hike to 11% is still in-line with the annual excise tax hike over the past ten years. Coupled with favorable raw material costs, we expect gross margin to remain relatively stable for the next couple of years.

Strong presence in Indonesia's cigarette industry. Despite slower growth of the SKM segment in the recent years, Sampoerna Mild still dominates the mild segment market. In addition, Sampoerna Mild is priced at a premium compared to its competitors in the mild segment. While volume remains a challenge, we believe HMSP has the ability to increase its ASP to maintain its profitability, as it has done historically.

Maintain HOLD with TP Rp104,500. Our DCF-based target price implies 2017F P/E of 35x on the back of 12% earnings growth over the next three years. We view the valuation as still demanding with limited upside potential. However, HMSP continues to maintain its leadership in Indonesia's tobacco industry with 34.1% market share as of 1Q16. In addition, although overall industry volumes have been declining in recent years, Indonesia still ranks third in the world in terms of cigarette consumption.

Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue(RpBn)	80,690	89,069	101,377	114,898	129,960
EBITDA(RpBn)	13,239	13,393	15,338	16,671	18,030
EBITDA Growth (%)	-6.1	1.2	14.5	8.7	8.2
Net Profit(RpBn)	10,181	10,363	11,919	14,068	14,803
EPS (Rp)	2,323	2,227	2,562	3,023	3,182
EPS Growth (%)	-5.9	-4.1	15	18	5.2
Net Gearing (%)	20.5	-5.4	-43.5	-49.8	-55.7
PER (x)	41	42.8	37.2	31.5	30
PBV (x)	30.9	13.8	13.2	12.4	12.2
Dividend Yield (%)	2.5	2.8	2.3	2.7	3.2
EV/EBITDA (x)	31.3	33.2	29.9	27.7	25.7

Source: HMSP, IndoPremier *Share Price Closing as of : 26 April 2016*

News & Analysis

Corporates

ARNA: Key points from PT Arwana Citramulia site visit (ARNA IJ; Rp590; Not rated) are as follows:

- Management targets to book sales from its premium product, UNO, up to 25% in FY16 (from 17% in FY15).

- Management targets to increase its production volume to c.50mn m2 ceramics in FY16, back to near 100% utilization rate (from 80% in FY15).
- No further plant expansion in near future as management has finished its fifth plant in Mojokerto (Rp300bn capex) at last year and focus to fully utilize this plant production up to 8mn m2 ceramics per year.
- Management has increased its ASP by c.10% in early this year and targets to book sales growth in FY16 at minimum 20% yoy.
- Management concerns for its high gas (US$9/mmbtu) and electricity costs, which contributes 43% in total COGS. According to ARNA, 50% of its COGS are USD-related (gas cost and glassy ceramic components). (Company)

BBCA: Bank Central Asia (BBCA IJ; Rp13,050; Hold) reported net profit of Rp4.5tn in 1Q16 (+11.1% yoy; -3.1% qoq) on the back of 11.4% loan growth and widening NIM to 7.0% in 1Q (1Q15: 6.5%; 4Q15: 6.9%). This, coupled with strong non-interest income growth (+24.2% yoy) and unusually slow operating expense growth (+7.6% yoy) have boosted the bank's core profit before provisions (PPOP) to grow strongly by 27.4% yoy to Rp6.64tn in 1Q16, albeit a decline of 14.6% qoq vs. prior quarter. However, loan provisioning jumped to Rp989bn in 1Q16 (1Q15: only Rp94bn), albeit still lower vs. 4Q15 (Rp1,968bn) on the back of increased NPL ratio to 1.1% (vs. 0.7% in 1Q15 and 4Q15), partly due to a downgrade of one corporate customer (Rp500bn) to NPLs. (Company)

Comment: BBCA's 1Q earnings was slightly ahead of our expectation (1Q profit at 24.5% of our FY16F estimate), largely because growth of operating cost was more modest than we expected (our assumption: 12.6% yoy for FY16F), although we believe the result was still within market expectations (at 23% of FY16F consensus forecast). However, with surprising rise in loan provisioning in 1Q16, achievement of market earnings expectations will still depend on the bank's NPL trend in the coming quarters. We also risk of declining SME yields (currently at 12.4%) given recent lending rate cuts by SOE banks to single digit levels. We maintain our Hold rating on the stock.

HMSP: We attended HM Sampoerna (HMSP) public expose yesterday on April 27, 2016. The company commented on the volume decline, which mainly caused by the decline in U Mild due to increasing competition and pricing pressure. According to company's guidance, the volume is expected to decline by 1-2% for FY16. In order to pass on the excise tax hike, the company plans to increase its ASP by small increment generally each month. For capex this year will be at Rp1tn. The company declared a dividend of Rp 2,235 per share (dividend payout ratio of 99.9%). HMSP also announced stock split (1:25) in order to increase the liquidity. (Company)

KINO: Kino Indonesia (KINO IJ; Rp4,995; Buy) reported net profit of Rp71.7bn, grew 74% yoy. This has achieved 22% of consensus estimates. Company recorded lower forex loss to Rp0.1bn in 3M16 from Rp3.6bn. Interest income also jumped to Rp10.3bn from Rp0.4bn, as well as other income (+209% yoy). Sales increased moderately 12% yoy while gross profit raised 11% yoy. As such, gross and operating margin fell slightly to 40.7% and 11% from 40.9% and 11.3% in 3M15. (Investor daily)

(Rp bn)	3M16	3M15	YoY	Consensus	3M16/ consensus	Ours	3M16/ ours
Sales	860.5	771.4	11.60%	4,259.00	20.2%	4334	19.9%
Gross profit	350.4	315.2	11.20%			1739	20.1%
Operating profit	94.8	86.9	9.10%			481.7	19.7%
Net profit	71.7	41.2	73.90%	329.2	21.8%	378	19.0%
Margins							
Gross margin	40.7%	40.9%				40.1%	
Op. margin	11.0%	11.3%				11.1%	
Net margin	8.3%	5.3%				8.7%	

Source: Company

PTBA: Bukit Asam (PTBA IJ; Rp7,375; Not Rated) posted 1Q16 net profit of Rp332bn, down -37.3% qoq and -2.2% yoy, most likely caused by forex loss (long-form report not yet available) as top-line increased +8.2% yoy, and EBIT improved +28.3%. PTBA's earnings in 1Q16 formed 21% of consensus FY16 earnings estimate. (Investor Daily)

Comment: Despite PTBA's 1Q16 earnings decreased by -2.2% yoy and -37.3% qoq, we believe the results remain relatively in-line with market expectation. To note, PTBA's 1Q15 earnings formed only 17% of FY15 earnings.

ROTI: ROTI reported net profit of Rp86bn (+28.6%yoy; +10.7% qoq) on the back of 17.8%yoy revenue growth to Rp611bn. Despite small contribution to the revenue (1.8% of net sales), Dorayaki, which was just launched last year reported growth of 327.4%yoy. The main revenue contributors are still the white bread and sweet bread segments with growth of 25.1% yoy and 4.1% yoy respectively. We also see 11.7% yoy improvement from sales return, which accounting for 13.6% of net sales in 1Q16 (vs. 1Q15:14.3%). The gross margin was relatively stable at 53.1% on lower raw materials and packaging. (Company)

Comment: The earnings were in-line with our expectation and 6% above consensus expectation. We expect the gross margin to be sustainable due favorable raw materials cost. In addition, low oil price persistence *will give benefit to the company due to lower cost in packaging. Therefore, we maintain our BUY ratings on the stock with strong earnings growth of 19.6% for the next two years. (Note: we do not have forecast for 2015, as we initiated the stock after FY15 results.)*

							3M/Forecast	3M/Consensus	
(in Rp bn)	**1Q16**	**1Q15**	**YoY**	**1Q16**	**4Q15**	**QoQ**	**2016**	**2015**	**2016**
Revenue	611	519	17.8%	611	601	1.7%	23.7%	23.8%	24.0%
Gross Profit	324	275	17.8%	324	298	8.7%	23.7%	24.6%	25.3%
Operating Profit	113	97	16.5%	113	113	0.5%	23.4%	25.4%	26.6%
Net Profit	86	67	28.6%	86	78	10.7%	25.5%	26.3%	31.1%
	2015	**2014**		**4Q15**	**3Q15**				
Gross Margin (%)	53.1%	53.0%		53.1%	49.7%				
Op. Margin (%)	18.6%	18.8%		18.6%	18.8%				
Net Margin (%)	14.1%	12.9%		14.1%	13.0%				

Source: Company

Markets & Sector

Property sector: Governor of Jakarta affirmed halt in reclamation project will only valid for six months. After that, the reclamation project for 17 islands will continue. The moratorium will sync between reclamation project and National Capital Integrated Coastal Development (NCID) or so called Garuda project. President Jokowi also supports the project, noting the project should also be environmental friendly. He has also summoned head of BAPPENAS to rearrange and fix Garuda project arrangement. (Bisnis Indonesia)

Comment: the affirmation of reclamation project could elevate pressures on APLN, DILD and PJAA. But we remain cautious on the outcome from Garuda project and reclamation islands remain uncertain.

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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.