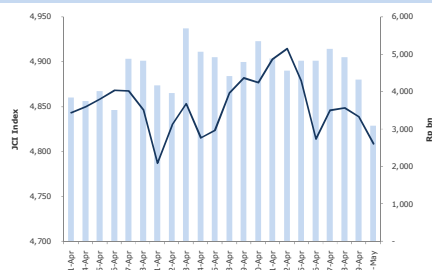


Economic Update

JCI Index



April prices lower after reduced volatility

- Deflation of 0.45% mom and 3.6% yoy seen in April
- Pressure from volatile food prices diminished
- Fuel price decline contributed to deflation
- Inflation likely to go up in Jun16 as the nation enters holy month of *Ramadhan*

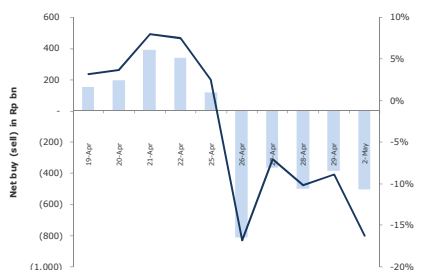
April's deflation foreseen. A deflation of 0.45% mom and 3.6% yoy was recorded in April, after prices of volatile components such as food and energy moderated. Core inflation was also down by nine basis points to 3.41% yoy. We are in line with the government and the central bank, which had expected this, based on the first week of survey undertaken by BI in Apr16. Monthly and annual price declines, however, were below the level anticipated by consensus at 0.19% and 3.8%, respectively triggered mainly by food prices declining 0.94% mom, transportation, communication, and finance 1.6%, and energy prices 3.51%.

Volatility diminished. In Mar16, Indonesian Crude Oil Price (ICP) was US\$34.2, or -36% yoy. The reduced ICP has translated into lower fuel prices (of RON85 fuel and diesel fuel) set by the government effective from early Apr16. The decline in fuel prices brought down transportation costs, which reduced distribution cost. On top of that, we also acknowledge that due to the delay in harvest season this year from March to April and May, price fluctuation in the food group has moderated. Prices of onion, chili, cayenne pepper, all of which saw a steep rise in Mar16, had dropped by Apr16 and food inflation was 8.9% yoy (vs 9.1% in Mar16). The highest inflation was seen in the category that includes processed foods, beverages, and tobacco.

Raised non-taxable income likely to increase purchasing power. In the second week of April, the House of Representatives approved a proposal by the Ministry of Finance to increase the minimum level of non-taxable income by 50% from Rp36mn to Rp54mn. The official adjustment of non-taxable income for each group will be announced in Jun16 but the full effect will be valid throughout the tax year 2016. We think the measures undertaken by the government will likely increase purchasing power and contribute to the whole inflation figure in FY16, as confirmed by a statement from the Minister of Finance Bambang Brodjonegoro which argues that the non-taxable income increase will add 0.6% to inflation in FY16. Given this concern, the larger-than-expected deflation in Apr16 provided space for inflation to remain in-line with FY16's target of 4±1%, with ytd inflation now at 0.17%.

Expect price increase in Jun16. In addition to concerns on the higher floor for non-taxable income, we also expect prices to rise in Jun16 as the country welcomes the fasting month of *Ramadhan*, which will be followed by *Eid ul-Fitr* in the first week of Jul16. Despite anticipated volatility in this period, we believe inflation will remain within expectations as government policies, through correction in administered prices, have allowed prices to stay on course.

Foreign net buy (sell)



Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	4,808	-0.6%	-5.5%	4.7%
LQ45	827	-0.7%	-4.9%	4.4%
DJI	17,891	0.7%	-0.7%	2.7%
SET	1,405	0.3%	-8.0%	9.1%
HSI	21,067	-1.5%	-25.1%	-3.9%
NKY	16,147	-3.1%	-17.3%	-15.2%
FTSE	6,242	-1.3%	-10.7%	0.0%
FSSTI	2,839	-0.8%	-18.6%	-1.5%
EIDO	23	0.3%	-6.8%	11.0%

Commodity price

Commodities (in USD)	Last price	Ret 1 day	Ret 1 year
Oil/barrel (WTI)	44.8	-2.5%	-24.3%
CPO/tonne	615.8	-0.3%	10.0%
Soy/bushel	10.3	1.6%	8.0%
Rubber/kg	1.9	0.0%	10.6%
Nickel/tonne	9,409	1.6%	-31.4%
Tins/tonne	17,260	0.7%	8.1%
Copper/tonne	5,064	2.2%	-21.0%
Gold/try.oz (Spot)	1,292	-0.1%	9.6%
Coal/tonne*	51.0	0.1%	-18.0%
Corn/bushel	3.8	-0.1%	7.7%
Wheat/bushel**	164.0	3.0%	-19.1%

* : 1 week change

** : 1 month change

Source : Bloomberg

Salim Ivomas Pratama (SIMP IJ; Hold)

High costs offset top-line growth

- Earnings recovered in 1Q16, mainly on forex gain
- Operating profit decreased, as higher costs offset top-line growth
- Maintain production volumes forecast on expected recovery in 2H16
- Downgrade to Hold on the back of lower earnings estimates

Earnings recovery mainly on forex gain. In 1Q16, SIMP recorded net profit of Rp67.8bn, down 64% qoq but up 45% yoy, representing only 14% of our FY16 earnings forecast and 13% of consensus' estimate. Earnings grew yoy, mainly on forex gain of Rp90.7bn from financing activities, vs forex loss of Rp133bn in 1Q15. Revenue reached Rp3.15tn in 1Q16, up 18% yoy, on the back of higher CPO sales volumes of 215k tons (+17% yoy) and higher contribution from EOF sales (+12% yoy), but negated by lower CPO average selling price (ASP) of -16% yoy.

Higher production costs offset revenue growth. In 1Q16, SIMP's gross profit fell 12.8% yoy to Rp564bn due to higher COGS of +28.4% yoy, driven by higher contribution of low margin EOF. Opex also increased 45% yoy, putting pressure on operating profit (-52% yoy). However, the increase in operating cost is attributable to operational forex loss of Rp11bn (vs. the gain of Rp48.7bn in 1Q15). We note that selling and G&A expenses was 10.7% of 1Q16 total sales, lower than 11.4% of total sales in 1Q15.

Maintain production volume estimates. In 1Q16, SIMP recorded FFB production of 639k tons (-2% yoy) and CPO production of 186k tons (-2% yoy), accounting 17% of our FY16 CPO production volumes estimate. We believe that our FY16 CPO production volume target of 1.1m tons looks achievable on the back of diminishing El-Nino impact and higher FFB yield per hectare from higher productivity of SIMP's maturing estates. Approximately, 30% of palm oil planted areas were planted in the last seven years, with approximately 15k ha (~10% of total) to be in mature age of 4 years and 5k ha (~3% of total) to be in prime mature age of 7 years.

Adjust estimates and downgrade to Hold. We downgrade SIMP to a Hold (from Buy) given some adjustments in our estimates. On the back of lower-than-expected results, we downgrade our FY16-17 earnings, by 11% and 9%, respectively. We incorporate lower CPO ASP of Rp7,290/kg for FY16E (vs Rp7,500/kg previously) and Rp7,590/kg in FY17E (vs Rp7,820/kg previously). We lower our target price to Rp450 and downgrade to Hold, given 7.4% potential downside to our new target price.

Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue (RpBn)	14,963	13,835	15,383	17,208	18,443
EBITDA (RpBn)	3,644	2,819	3,053	3,496	3,742
EBITDA Growth (%)	39.8	-22.6	8.3	14.5	7
Net Profit (RpBn)	866	264	487	640	713
EPS (Rp)	55	17	31	40	45
EPS Growth (%)	65.2	-69.5	84.2	31.4	11.4
Net Gearing (%)	37.7	44.4	48.5	48.5	46.6
PER (x)	8.9	29.1	15.8	12	10.8
PBV (x)	0.5	0.4	0.4	0.4	0.4
Dividend Yield (%)	2	3.2	1	1.9	2.5
EV/EBITDA (x)	0.4	0	-0.2	-0.3	-0.2

Source: SIMP, IndoPremier

Share Price Closing as of : 29 April 2016

News & Analysis

Corporates

MPPA: Matahari Putra Prima (MPPA IJ; Rp1,510; Not Rated) posted 1Q16 net loss of Rp123bn. FMCG market remains weak; Sales continue to be challenging amidst a tough economic environment. Q1 2016 Sales declined by 2.5% versus last year; SSSG improved by 130bps compared to 4Q15, but decline on an annual basis at -5.2%. Inventory continue to reduce from the peak in 2015 with levels down by Rp37.5 billion from Q1 2015, on a yoy basis inventory levels were 1.3% lower for the quarter. Profit turnaround expected in Q2 2016, with a much stronger results expected in the second half of 2016. (Company)

MPPA	3M15	3M16	YOY
Sales	3,347.5	3,265.3	-2.5%
Gross Profit	597.4	458.9	-23.2%
Operating Profit	97.5	(109.9)	-212.7%
EBIT	102.7	(126.3)	-223.0%
Net Income	81.6	(123.1)	-250.9%
Gross Margin	17.8%	14.1%	
Operating Margin			
EBIT Margin	3.1%	-3.9%	

Source: MPPA, IndoPremier

SMGR: Semen Indonesia (SMGR IJ; Rp9,550; Buy) has addressed interest to acquire a concrete mixed company to enhance the value added of its cement business. Furthermore, Semen Indonesia will also explores the possibility to build a new concrete mix company, including exploring to participate in upcoming WaskitaBeton IPO. Currently, Semen Indonesia own a subsidiary SGG Prima Beton with direct and indirect shareholding 51%. (Bisnis Indonesia)

Comment: Acquisition might be the best solution to enhance arms-length operation of the cement business. Concrete mixed is a highly competitive market. Through acquisition, Semen Indonesia will immediately tap into the market.

WIKA: Wijaya Karya (WIKA IJ; Rp2,580; Buy) is working on overseas construction project such as Tomor Leste, Myanmar, Malaysia and Arab Saudi which worth Rp2.5tn in total. Company has secured mega project in Timor Leste to build an airport (Rp1.4tn), bridges and port. Company will also build mall and roads in Myanmar and now joining tender for hospital and hotel in Arab Saudi. (Bisnis Indonesia)

Markets & Sector

Property sector: Government has reiterated its commitment on Patimban port in Subang, West Java as a replacement of Cilamaya port. President Jokowi has commanded Transportation Minister to renegotiate funding with Japanese or other parties that could help to fund the project. Overall value is estimated at Rp40tn and is expected to start in 2017. Patimban port will have a capacity of 7.5mn TEUs and 250k car capacity which will be build gradually. (Kontan)

Comment: The government's commitment to build Patimban port may benefit industrial land developer, Surya Semesta (SSIA IJ; Rp660; Not Rated) as company will have better access to its landbank thus might improve demand and ASP in Subang.

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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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