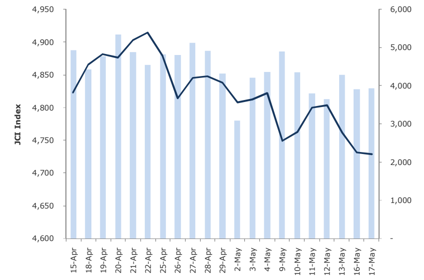
INDOPREMIER

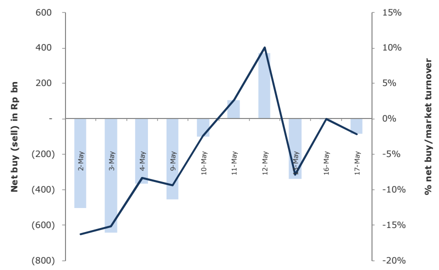
Premier Insight

18 May 2016

JCI Index



Foreign net buy (sell)



Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	4,729	-0.1%	-9.7%	3.0%
LQ45	808	-0.1%	-11.1%	2.1%
DJI	17,530	-1.0%	-4.2%	0.6%
SET	1,407	0.6%	-6.9%	9.2%
HSI	20,119	1.2%	-27.1%	-8.2%
NKY	16,653	1.1%	-16.3%	-13.1%
FTSE	6,168	0.3%	-11.5%	-1.2%
FSSTI	2,781	1.6%	-19.6%	-3.5%
EIDO	22	-1.3%	-14.8%	5.5%

Commodity price

Commodities *(in USD)*	Last price	Ret 1 day	Ret 1 year
Oil/barrel (WTI)	48.3	1.2%	-19.1%
CPO/tonne	615.8	0.5%	10.0%
Soy/bushel	10.7	1.5%	12.4%
Rubber/kg	1.8	-1.2%	0.4%
Nickel/tonne	8,755	0.9%	-37.2%
Tins/tonne	16,967	0.3%	7.8%
Copper/tonne	4,659	0.2%	-27.4%
Gold/try.oz (Spot)	1,279	0.4%	4.4%
Coal/tonne*	50.9	1.0%	-17.0%
Corn/bushel	3.9	0.8%	8.9%
Wheat/bushel**	164.0	3.0%	-19.1%

** : 1 week change*
***: 1 month change*

Source : Bloomberg

Bank Mandiri (BMRI IJ; Buy)

Not out of the woods yet

- **Net profit fell 25% yoy in 1Q16, weaker than expected.**
- **Robust core earnings (+16.5%) was offset by rising new NPLs.**
- **Credit cost guidance is revised up to 2.5%-2.7% (+60bps).**
- **We lower our forecasts/TP but maintain Buy rating.**

Weak 1Q results. BMRI's profit of Rp3.8tn in 1Q16 (-25% yoy) came below our/ market expectations, reversing the bank's results beat in prior quarter. Although core profit still grew a robust 16.5%, which was in line with our forecast, loan provision tripled due to a sharp rise in new NPLs in 1Q16, which is expected to peak in 2Q, and stay elevated throughout 2016. While visibility of the bank's NPLs peaking and credit cost trend reversing is low at present, we believe the more stable asset quality outlook expected in 2017 should give scope for earnings recovery in the coming years as credit cost starts to fall.

Robust core profit. BMRI's PPOP grew by 16.5% in 1Q16, sustaining its strong growth momentum since 2015 driven by widening NIM to 6.13% (+72bps yoy) and despite modest loan growth of 8%. NIM was also stable vs. prior quarter, if we exclude non-recurring interest income which contributed to 30bps NIM uptick in 4Q. Meanwhile, we view low risk to the bank's NIMs from the government's single-digit lending rate target as the OJK (financial regulator) may allow the bank to achieve this target through portfolio basis for its corporate, medium and SME loans (excluding micro & consumer loans) – such loans currently have an average yield of 10.5%. Given our expectation of lower cost of funds, we forecast the bank to sustain NIMs at c.6% in FY16-18F.

Credit cost guidance. Management plans to revise up 2016 credit cost guidance by 60bps to 2.5%-2.7% pending 2Q results, which is expected to show further rise in NPL ratios from BMRI's commercial/small loans to 4.9%/5.3% in 2Q16 (1Q16: 4.4%/4.7%) while management also plans to restructure eight corporate loans worth Rp15tn (of which, half of this is exposure to Krakatau Steel (KRAS IJ; Not Rated). As such, loan provision is expected to peak at Rp6.5-6.8tn in 2Q (1Q: Rp4.3tn). This led us to raise our loan provision forecast to Rp16.9tn for FY16F or equivalent to a gross credit cost of 270bps (FY15: 210bps).

Earnings revisions. We cut our forecasts by 19%/10%/6% for FY16F/17F/18F, respectively, largely due to our higher credit cost assumption (see page 3). We also reduce our GGM-derived TP to Rp10,850 (from Rp11,550), which implies a target FY16F P/B of 1.6x, due to our lower LT ROE assumption of 17% (from 20%). Despite still low visibility of the timing of the bank's NPL trends reversing, we believe the stock's valuation, at FY16F P/E of 10.7x, should mitigate its earnings risk, hence we keep our Buy rating unchanged.

Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Operating income (RpBn)	54,275	63,706	69,637	76,819	85,368
PPOP (RpBn)	28,900	34,951	37,767	41,633	46,468
Net profit (RpBn)	19,872	20,335	18,990	23,718	28,506
Net profit growth (%)	9.2	2.3	(6.6)	24.9	20.2
FD EPS (Rp)	852	871	814	1,016	1,222
P/E (x)	10.3	10.0	10.7	8.6	7.2
P/B (x)	2.0	1.7	1.3	1.1	1.0
Dividend yield (%)	2.4	2.5	2.3	2.9	3.5
ROAA (%)	2.6	2.3	2.0	2.3	2.4
ROAE (%)	21.4	19.0	13.8	14.1	14.9

Source: BMRI, IndoPremier *Share Price Closing as of : 17-May-2016*

News & Analysis

Corporates

BEST: Bekasi Fajar industrial Estate (BEST IJ; Rp250; Not Rated) is in discussion on 70ha land sales with couple of investors in Cibitung. According to company, many investors from domestic or international are interested to invest, but many are still wait and see. (Kontan)

CTRA: Ciputra group with Ciputra Development (CTRA IJ; Rp1,275; Buy), Ciputra Property (CTRP IJ; Rp 464; Not Rated), and Ciputra Surya (CTRS IJ; Rp2,050; Not Rated) are proposing to give bonus shares. CTRA is proposing bonus shares of approximately Rp128.34bn which is 100.68mn shares with nominal value of Rp250/share. Management is currently discussing on cash dividend FY15. Meanwhile, CTRP and CTRS will distribute Rp32.75bn and Rp59.7bn worth of bonus shares which is 70.58mn and 29.12mn shares with nominal value of Rp250/shares. Both companies are also discussing interim dividend 1Q16 and cash dividend FY15. (Bisnis Indonesia)

MPMX: Key take-away from the meeting is as follows:

- New CEO, Rudy Halim, will focus in refining business model to capture higher margin for each divisions and finalizing a strategic roadmap for each divisions for the next 3-5 years.
- MPMFinance implements a tight underwriting for better asset quality by introducing an automatic write-off for 4W, which resulted in higher provision booked. Lower new booking YTD due to persisting weak retail demand conditions in East Java.
- 2W Distribution sales volume decreases yoy due to persisting weak demand in East Java. Inventory level in retailers is kept stable. 2W Retail sales volume slightly increases yoy due to introduction to new scooter and sports units. Higher revenues in 1Q16 yoy are mainly due to ASP increment.
- MPMRent has written-off most of its heavy equipment fleets and put a minimum exposure in mining sectors (c.3% of total fleets), while keeping its fleets utilization rate stable at 85-90%.
- Consumer Parts (FKT) introduces new lubricant under "Federal Mobil" brand, which brings higher 1Q sales volume (+5% yoy) and revenue (+3% yoy).

SMGR: Semen Indonesia (SMGR IJ; Rp9,050; Buy) released its domestic sales volume of 2.0mn in Apr16 (+4.6% yoy, +0.3% mom), while export was 40k tons only. Cumulatively, total domestic sales volume was 7.9mn tons (-0.4% yoy) with export 90k tons (-29.7% yoy). Total cement sales in bags was 6.1mn tons or 77.2% of total sales (-2.0% yoy), while bulk was 1.8mn tons (+5.5% yoy). ASP stood at Rp810,000 per tons in Apr16, down by -1.9% mom or -5.8% lower than the ASP in FY15 of Rp860,000 per tons. (Company)

Markets & Sector

Banks: Ministry of Finance has issued a new ruling on placement of state funds in banks, revising its previous decree issued in 2014. Under the new regulation, the maximum interest rate on such funds is limited to BI's reference rate and the funds can only be placed in publicly listed banks with a minimum OJK health rating of 3, has an investment grade rating from two OJK accredited rating companies and are majority owned by Indonesian legal entities or persons. According to the MoF, the government usually place not more than Rp5tn per month of its fiscal surplus with banks. (Kontan)

Comment: This news is positive for banks as it should contribute to lowering cost of funds in the face of the government's single-digit lending rate targets although it is still unclear if BI's plan to change its reference rate on 19th August from the currrent BI Rate (6.75%) to a 7-day repo rate (5.5%) would *mean the rate on state funds will automatically decline (which we expect to be the case). As such, we remain positive on banks despite still low visibility at present of when the current NPL uptrends will reverse.*

Consumer sector: According to Kantar Worldpanel Indonesia, FMCG still shows no sign of recovery in the beginning of 2016. Total Nationwide FMCG value slightly decreased by 4.7% yoy in early January 2016. Consumers mainly hold up their consumption for non necessity categories such as snacks, ice cream and biscuits. However, Indonesia still holds ample of growth potential supported by its big population of 255.5mn people and 65.1mn households. In addition, governments' plan on improving the infrastructure outside Java will further support the growth. (Investor Daily, Kantar Worldpanel Indonesia)

Comment: We expect to see pickup in consumer consumption trend as we are approaching Ramadan season. However, if this situation persists, it will give negative impact on the foods division in Unilever Indonesia.

Energy sector: The tender of 35GW power generation projects are delayed by the revision of the general plan of electricity provision (RUPTL) which currently is drafted by state owned electricity company, PLN. The government revised three points on the draft: 1) Renewable energy portion of 23% by 2025, 2) 97% electrification ratio, and 3) PLN will focus on transmission expansion with 30GW out of the planned 35GW new power generations will be given to the private sector / independent power producers (IPP). (Investor Daily)

Economic

Foreign debt: Indonesian foreign debt increased 5.7% yoy to USD316bn in 1Q16, with private sector debt declining and public debt increasing. Private sector debt is 52.1% of total foreign debt. Short-term debt increased by 8.4% yoy and long-term 7.9%. Debt-to-GDP ratio of foreign debt is now at 36.5%, a 50 bps increase from 4Q15. BI considers the level of foreign debt healthy and non-alarming. (Bank Indonesia)

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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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