Premier Insight

28 July 2016

Bank Mandiri (BMRI IJ; Buy)

Better visibility post loan review

- **Net profit fell 29% to Rp7.1tn in 1H16 but weak 2Q was expected**
- **Ernst & Young loan review led to higher NPLs/credit cost guidance**
- **We expect this to improve visibility of earnings recovery next year**
- **Reiterate Buy; TP raised to Rp12,000 due to lower risk-free rate**

Weak results. BMRI's profit of Rp7.1tn in 1H16 (-29% yoy) was expected as this was indicated by management post 1Q result. Core profit grew 14%, in line with our forecast, driven by 10% loan growth, better NIM of 5.96% (+45bps) and strong non-interest income. However, NPL ratio at 3.86% in 2Q (1Q: 3.21%) was higher than expected and led to higher credit cost guidance of 2.8-3.2% for FY16F (1H: 3.25%) while provisions/NPL coverage also declined to 113% (1Q: 132%). More importantly, we view management's more conservative NPL recognition policy as positive news as this should lead to better visibility of earnings recovery in the coming years on the back of the bank's normalising credit cost.

Comprehensive loan review. BMRI appointed Ernst & Young to conduct detailed review of the bank's entire commercial loans (29% of portfolio), which has seen worst asset quality deterioration in the past year. Based on this, management decided to be more conservative and front-load provisions to anticipate future problem loans. In turn, this led to downgrades of Rp7.8tn of loans into NPLs in 2Q (vs. Rp4.8tn in 1Q), of which 49.2%/15.7% of this amount came from commercial and corporate loans, respectively. Management is guiding for NPL ratio to remain elevated at 3.5-4.0% in 2H16 with a credit cost of 2.8-3.2% for FY16F.

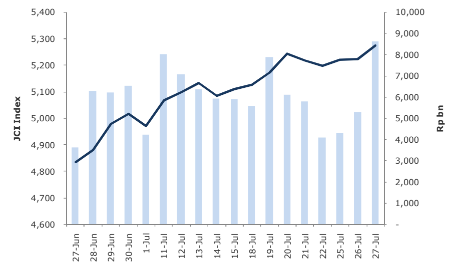
Better earnings visibility. Although BMRI's NPL ratio and credit cost guidance for FY16F are higher than we expected, we view the bank's more conservative NPL recognition policy should lead to stronger visibility of earnings recovery in the coming years as its credit cost normalises. Although we lower our FY16F earnings by 6.6% due to our higher credit cost assumption of 300bps (previously 270bps), our FY17-18F forecasts are largely intact. We forecast strong earnings recovery in next two years, assuming its credit cost to fall to 216bps/179bps in FY17F/FY18F. We believe these assumptions are reasonable as they would still be well above BMRI's average credit cost of 106bps in 2009-2014.

Reiterate Buy. With our FY17-18F earnings intact, we raise our TP to Rp12,000 (from Rp10,850), largely due to lower cost of capital arising from a sharp fall in 10-yr yields to c.7.0% (from 8.8% at end 2015). Our GGM-derived target FY16F P/B of 1.77x assumes LT ROE of 15.2%, growth of 9% and cost of equity of 12.5%. Given our expectation for BMRI's NPLs peaking this year, its earnings to recover from next year and potential upside from ongoing tax amnesty program in Indonesia, we reiterate our Buy rating on the stock.

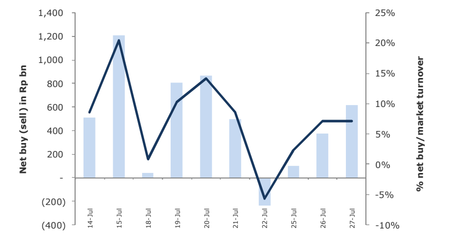
Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Operating income (RpBn)	54,275	63,706	70,012	76,838	85,927
PPOP (RpBn)	28,900	34,951	38,141	41,652	47,027
Net profit (RpBn)	19,872	20,335	17,725	23,721	28,513
Net profit growth (%)	9.2	2.3	-12.8	33.8	20.2
FD EPS (Rp)	852	871	760	1,017	1,222
P/E (x)	11.6	11.3	13	9.7	8.1
P/B (x)	2.2	1.9	1.4	1.3	1.1
Dividend yield (%)	2.1	2.2	1.9	2.6	3.1
ROAA (%)	2.6	2.3	1.9	2.3	2.4
ROAE (%)	21.4	19	12.9	14.1	14.9

Source: BMRI, IndoPremier *Share Price Closing as of : 26-July-2016*

JCI Index



Foreign net buy (sell)



Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	5,274	1.0%	11.9%	14.8%
LQ45	911	1.0%	14.4%	15.0%
DJI	18,472	0.0%	4.8%	6.0%
SET	1,515	0.7%	7.6%	17.7%
HSI	22,219	0.4%	-9.3%	1.4%
NKY	16,506	-1.0%	-18.8%	-13.3%
FTSE	6,750	0.4%	3.0%	8.1%
FSSTI	2,941	0.3%	-10.4%	2.0%
EIDO	26	1.5%	17.4%	23.8%

Commodity price

Commodities	Last price	Ret 1 day	Ret 1 year
(in USD)			
Oil/barrel (WTI)	41.9	-2.3%	-11.5%
CPO/tonne	571.2	0.4%	10.0%
Soy/bushel	10.0	1.7%	3.3%
Rubber/kg	1.9	-2.2%	13.6%
Nickel/tonne	10,312	0.0%	-6.1%
Tins/tonne	17,680	0.2%	12.1%
Copper/tonne	4,839	-1.6%	-6.5%
Gold/try.oz (Spot)	1,340	1.5%	22.3%
Coal/tonne	61.2	0.2%	1.4%
Corn/bushel	3.2	1.0%	-10.9%
Wheat/bushel*	157.5	-3.6%	-18.4%

** : 1 month change*

Source : Bloomberg

Unilever (UNVR IJ; Hold)

A Spark after the Sunset

- **Earnings grew 29.1% yoy in 2Q16, in line with expectations**
- **Margin expansion on better sales mix and favorable material costs**
- **EBIT margin improvement on stable royalty fees**
- **Maintain HOLD at TP Rp42,500**

Strong earnings growth. Unilever Indonesia (UNVR) reported strong earnings growth of 29.1%yoy in 2Q16, accounting for 24% of our FY16F, on the back of 6.8% yoy revenue growth in 2Q16. The revenue growth was driven mainly by the Home and Personal Care (HPC) segment which grew 12.3% yoy; meanwhile, Foods and Ice Cream (FC) reported revenue contraction of 12.5% yoy. We think the slowdown in the FC segment can be attributed to consumers continuing to hold off consumption of non-necessities due to weak economic conditions during 1H16. In addition, we think the effect of Ramadan season has not been fully reflected in FC sales; therefore, we expect FC sales to improve during 3Q16.

Gross margin expansion. UNVR's gross margin expanded by 390bps yoy to 50.9% in 2Q16, helped by higher contribution from the higher-margin HPC segment at 68% of total sales (2Q15:65% of total sales). There was a slight improvement in raw material costs, which accounted for 40% of total sales in 2Q16 (vs. 1Q16:41% of total sales). In addition, the strengthening of the IDR against the USD since the beginning of the year, further improved margins as around 55% of raw material costs are USD link. We expect UNVR to sustain its high gross margin if commodity prices stay at current levels and the IDR continues to strengthen.

EBIT margin improvement. Operating profit grew 25.2%yoy in 2Q16 with operating margin standing at 21.7%. In 2Q16, A&P spending increased slightly to 11.4% of total sales from 10.3% in 1Q16 (vs. 2Q15:11.5% of total sales). We trace the increase in A&P spending to improved macro conditions, which historically translate into more UNVR brand activities. Meanwhile, net margin also improved by 280bps yoy to 16.1% in 2Q16. Furthermore, we do not expect the proposed excise tax on bottle packaging to affect UNVR as the regulation will be imposed specifically on beverage bottle packaging only.

Maintain HOLD at TP Rp42,500. Our DCF-based target price implies FY17F P/E of 45x. We forecast revenue/EBIT to grow 11.4%/10.5% CAGR in 2015-2017F on the back of improving economic conditions. However, we continue to think that UNVR's valuation is highly demanding at current levels given its limited growth prospects. Therefore, we maintain HOLD.

Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue(RpBn)	34,512	36,484	40,542	45,238	50,497
EBITDA(RpBn)	7,779	7,944	8,765	9,706	10,941
EBITDA Growth (%)	9.2	2.1	10.3	10.7	12.7
Net Profit(RpBn)	5,739	5,852	6,515	7,216	8,101
EPS (Rp)	752	767	854	946	1,062
EPS Growth (%)	7.2	2.0	11.3	10.8	12.3
Net Gearing (%)	8.5	23.0	14.3	6.9	-2.0
PER (x)	59.5	58.4	52.4	47.3	42.2
PBV (x)	74.3	73.2	64.1	56.6	49.4
Dividend Yield (%)	1.6	1.7	1.7	1.9	2.1
EV/EBITDA (x)	43.9	42.9	38.9	35.2	31.2

Source: UNVR, IndoPremier *Share Price Closing as of : 26 July 2016*

News & Analysis

Corporates

AALI: Astra Agro Lestari (AALI IJ; Rp14,650; Buy) booked 2Q16 net profit of Rp375bn, down 10% qoq but up 30% yoy, allowing earnings to Rp792bn reach in 1H16, grew 78% yoy mainly backed by forex gain of Rp260bn (vs. forex loss of Rp360bn in 1H15). AALI's 1H16 accounted for 44% of our FY earnings estimates while reaching 48% of the consensus. (IDX)

Comment: We expect CPO price will decrease in 2H16, thus AALI's 1H16 earnings is below our expectation. AALI's core net profit in 1H16 formed only 32% of our FY16 estimates. We will review our estimates as 2Q16 results came below our forecasts.

DMAS: Puradelta Lestari (DMAS IJ; Rp254; Not Rated)

DMAS	6M15	6M16	YOY
Net Sales	1,278.9	976.6	-23.6%
Gross Profit	808.7	587.7	-27.3%
Operating Profit	670.7	489.8	-27.0%
Net Income	772.2	486.5	-37.0%
Gross Margin	63.2%	60.2%	
Operating Margin	52.4%	50.2%	
Net Margin	60.4%	49.8%	

Source: Company, IndoPremier

HMSP: HM Sampoerna (HMSP IJ; Rp4,010; Hold) reported stellar earnings growth of 43.4% yoy in 2Q16 on the back of revenue growth of 14.6%. All segments reported double digit growth with White cigarette reported highest growth of 20.5%. The gross profit expanded 160%yoy in 2Q16 on stable excise tax cost.

Comment: The earnings results are in line with expectation. Through our channel check, ASP has increased c.8% YTD in 7M16. Despite good performance in 2Q16, we still view the stock is highly demanding therefore maintain HOLD at TP of Rp4,180.

(in Rp bn)	2Q16	2Q15	YoY	2Q16	1Q16	QoQ
Revenue	**25,415**	**22,181**	**14.60%**	**25,415**	**21,921**	**15.90%**
SKM	16,038	14,024	14.40%	16,038	13,655	
SKT	5,157	4,578	12.60%	5,157	4,659	
White Cig	3,968	3,294	20.50%	3,968	3,334	
Gross Profit	5,908	4,791	23.30%	5,908	5,653	4.50%
Operating Profit	3,762	2,700	39.30%	3,762	3,922	-4.10%
Net Profit	3,029	2,112	43.40%	3,029	3,119	-2.90%
Gross Margin (%)	23.20%	21.60%		23.20%	25.80%	
Operating Margin (%)	14.80%	12.20%		14.80%	17.90%	
Net Margin (%)	11.90%	9.50%		11.90%	14.20%	

Source: Company, IndoPremier

KINO: PT Kino Indonesia (KINO IJ; Rp6,550; Buy) reported 1H16 earnings growth of +30% yoy to Rp183bn, on the back of revenue growth of +11% yoy. In 1H16, the gross profit margin stays intact at 42%, while operating margin slightly shrinks to 12.7% (from 13.2% in 1H15) due to higher operating cost (+13% yoy). The earnings growth is helped by the increase in interest income of Rp16bn (+16% yoy) and forex gain (from forex loss of Rp5.3bn in 1H15). (Investor Daily)

Comment: The net profit is slightly above consensus (achieving 53% from FY16F), mainly helped by the interest income and forex gain. In quarterly basis, net profit and revenue grows +60%/ +25% qoq, respectively, in 2Q16.

PWON: Pakuwon Jati (PWON IJ; Rp610; Buy) reported net profit Rp896.0bn in 6M16 or grew 20% yoy. This accounts for 50% of our estimates and 47% of consensus. Bottom line was helped by lower interest expense of Rp165bn (-13% yoy) and forex gain of Rp99.3bn (vs forex loss of Rp194.9bn in 1H15). Lower interest exp was caused by PWOn's attempt on refinancing its USD dollar bonds. Meanwhile, revenue only rises slightly by 1% yoy to Rp2.4tn while operating profit dropped further by 9% yoy to Rp1.2tn, causing operating margin to drop to 47.3% from 52.3%. Revenue was mostly supported by newly operational of Tunjungan plaza V, ascott service apartment and Sheraton Gandaria city last year. We think PWON will have stable revenue from its recurring income in future. We will review our TP on this 1H16 result. (Investor Daily)

(In Rp bn)	6M16	6M15	YoY	2Q16	1Q16	QoQ	Consensus	6M16/ consensus	Ours	6M16/ ours
Revenue	2,440.9	2,425.6	1%	1,195.2	1,245.7	-4%	5,643.0	43%	5,535.4	44%
Gross profit	1,365.8	1,434.4	-5%	616.6	749.2	-18%	3,228.4	42%	3,183.5	43%
Operating profit	1,153.7	1,269.5	-9%	501.6	652.1	-23%	2,774.0	42%	2,692.4	43%
Net profit	896.0	755.3	19%	352.7	543.2	-35%	1,921.0	47%	1,795.6	50%

	6M16	6M15	1Q16	4Q15	FY16	FY16
Gross Margin	56.0%	59.1%	51.6%	60.1%	57.2%	57.5%
Operating margin	47.3%	52.3%	42.0%	52.3%	49.2%	48.6%
Net Margin	36.7%	31.1%	29.5%	43.6%	34.0%	32.4%

Source: Company, IndoPremier

SMBR: Semen Baturaja (SMBR IJ; Rp855; Sell) recorded 1H16 net profit of Rp102.5bn, down 39% yoy, mostly caused by financial expenses which reached Rp40.7bn (1H15: Rp2.2bn) as operating profit relatively flat yoy at Rp130.8bn. Top-line grew 3% yoy to Rp651.9bn. (Bisnis Indonesia)

Comment: SMBR's 1H16 earnings formed 28% of consensus FY expectation, while its 1H16 top-line represent 40% of consensus FY estimate.

SMRA: Summarecon Agung (SMRA IJ; Rp1,740; Sell) reported net profit of Rp24.5bn in 6M16 which is 3% of consensus and 2% of ours. The weak achievement was still caused by interest expense that rises to Rp307.4bn or 46% yoy and drop in revenue growth by 11% yoy to Rp2.32tn. as a result, net margin dropped significantly to 1.1% from 20.4% in 1H15. Although marketing sales looks to be on track, we are cautious on SMRA's earnings due to its high gearing ratio. (Bisnis Indonesia)

(In Rp bn)	6M16	6M15	YoY	2Q16	1Q16	QoQ	Consensus	6M16/ consensus	Ours	6M16 / ours
Revenue	2,317.0	2,596.7	-11%	1,270.2	1,046.8	21%	6,177.0	38%	6,235.0	37%
Gross profit	1,060.4	1,393.4	-24%	583.9	476.5	23%	3,095.3	34%	3,140.0	34%
Operating profit	524.4	829.1	-37%	264.9	259.4	2%	1,938.0	27%	1,935.0	27%
Net profit	24.5	529.3	-95%	(3.8)	28.3	-113%	948.7	3%	1,048.0	2%

	6M16	6M15	2Q16	1Q16	FY16	FY16
Gross Margin	45.8%	53.7%	46.0%	45.5%	50.1%	50.4%
Operating margin	22.6%	31.9%	20.9%	24.8%	31.4%	31.0%
Net Margin	1.1%	20.4%	-0.3%	2.7%	15.4%	16.8%

Source: Company, IndoPremier

TLKM: Telekomunikasi Indonesia (TLKM IJ; Rp4,340; Buy) posted strong 2Q16 revenues Rp28.9tr (+5% qoq; +15% yoy), bringing 1H16 revenues to Rp56.5tr (+15.5% yoy), boosted by data revenues of Rp14.6tr (+71.7% yoy). Operating profit up 41.5% yoy while net profit increasing 33.6% yoy. EBITDA margin improved to 51%. (Company)

Comment: We will upgrade our assumption as 2Q16 results came above our expectation.

WSKT: Waskita Karya (WSKT IJ; Rp2,800; Buy) booked net profit of Rp586.3bn (+242% yoy) in 6M16 as company recognized higher interest income by Rp83.6bn (vs Rp23.8bn in 6M15) and other income by Rp23.1bn (vs. Rp6.4bn in 6M15). This accounts for 7% of our estimate and 9% of consensus. Meanwhile, top line increased robustly by 103% yoy to Rp8.1tn and gross margin improved by 635 bps to 18.4%. Company's efficiency in operating expense also pushed operating profit to grow to Rp 1.2tn (+236% yoy) and operating margin to be higher by 606 bps to 15.3% from 9.2% in 1H15. Company has also released its 1H16 new contract Rp45.6tn (+360.5% yoy), slightly above management's guidance of Rp40tn. (Bisnis Indonesia)

(In Rp bn)	6M16	6M15	YoY	2Q16	1Q16	QoQ	Consensus	6M16/ consensus	Ours	6M16/ ours
Revenue	8,084.6	3,984.3	103%	4,760.5	3,324.1	43%	23,382.0	14%	20,034.4	17%
Gross profit (before JO)	1,489.9	481.2	210%	970.2	519.6	87%	3,143.7	17%	2,879.0	18%
Operating profit	1,237.8	368.4	236%	854.1	383.7	123%	2,423.0	16%	2,164.0	18%
Net profit	586.3	171.6	242%	458.9	127.4	260%	1,483.0	9%	1,749.0	7%

	6M16	6M15		2Q16	1Q16		FY16		FY16	
Gross Margin	18.4%	12.1%		20.4%	15.6%		13.4%		14.4%	
Operating margin	15.3%	9.2%		17.9%	11.5%		10.4%		10.8%	
Net Margin	7.3%	4.3%		9.6%	3.8%		6.3%		8.7%	

Source: Company, IndoPremier

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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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