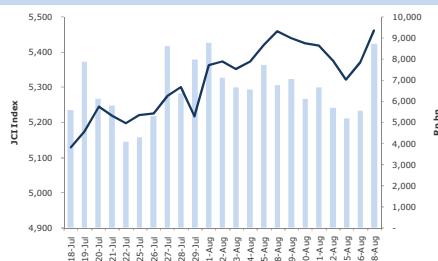
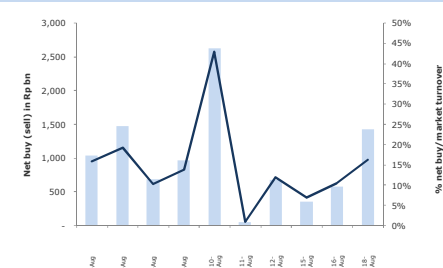


JCI Index



Foreign net buy (sell)



Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	5,461	1.7%	21.8%	18.9%
LQ45	942	2.1%	24.6%	19.0%
DJI	18,598	0.1%	7.2%	6.7%
SET	1,547	1.0%	12.2%	20.1%
HSI	23,023	1.0%	-0.6%	5.5%
NKY	16,486	-1.6%	-18.5%	-12.9%
FTSE	6,869	0.1%	7.3%	10.0%
FSSTI	2,837	-0.2%	-6.7%	-1.4%
EIDO	27	2.1%	33.2%	28.3%

Commodity price

Commodities	Last price	Ret 1 day	Ret 1 year
(in USD)			
Oil/barrel (WTI)	48.2	3.1%	13.1%
CPO/tonne	643.5	-2.5%	25.0%
Soy/bushel	10.2	-0.1%	12.2%
Rubber/kg	1.7	-0.4%	11.5%
Nickel/tonne	10,301	1.3%	-0.2%
Tins/tonne	18,420	0.3%	17.4%
Copper/tonne	4,793	0.7%	-4.8%
Gold/try.oz (Spot)	1,352	0.3%	19.3%
Coal/tonne	67.1	-1.5%	13.7%
Corn/bushel	3.2	0.6%	-11.2%
Wheat/bushel*	156.7	-0.6%	-21.6%

* : 1 month change

Source : Bloomberg

Indo Tambangraya (ITMG IJ; Buy)

Raising TP on higher ASP

- 2Q16 earnings remained weak, but better than expected
- We upgrade 2016-18 earnings estimates on higher ASP forecasts
- ITMG more active in coal mine acquisition and power plant tender
- Raising TP and recommendation to Buy

2Q16 earnings above expectations. ITMG recorded 2Q16 earnings of US\$13.5m, down 42% qoq and 34% yoy, but came in above our expectations as this brings 1H16 bottom line to US\$36.5m, about 60% of our FY16F earnings. In 2Q16, ITMG recorded coal sales volumes of 6.2m tons (-10% qoq; -9.3% yoy) and coal average selling price of US\$44.7/ton, down 6.1% qoq and 22% yoy. With these results, 1H16 revenues reached US\$609m, down 26.1% yoy, accounting for 47% of our FY16 estimate.

Upgrade earnings on higher ASP estimates. We raise our 2016/17/18 earnings estimates by 32%/16%/13%, respectively, on higher FY16 sales volume forecast by 1.2% and higher 2016-18 ASP estimates by 1.6%, as we apply a lower discount for ITMG ASPs to the Newcastle coal price. We believe FY16F ASP will reach US\$48/t (1H16: US\$46.3/t) as coal price has been increasing since July 2016, while 23% of ITMG's FY16F sales volumes should enjoy higher ASP (fig. 3). With ITMG's single-digit net profit margin (1H16: 6%), earnings are very sensitive to ASP change.

ITMG is now more active in M&A and power plant tender. As ITMG has relatively low reserves, it has been planning to acquire coal deposits over the past several years. Management reveals that the company is now more active in finding coal mine acquisition targets, preferably those with CV of around 4,800-5,000kcal/kg, similar to its current coal reserves, as ITMG has the expertise in the marketing of the medium-to-high CV coal. Additionally, ITMG is currently participating in the bidding process for several power generation projects in Kalimantan and Sumatera.

Raising TP, recommendation to Buy. We adjust our earnings estimates on the back of higher ASP assumptions, and accordingly raise our DCF-based (WACC: 12.7%, TG: 1.5%) target price to Rp14,000. Our new TP implies FY17F P/E of 11.4x and dividend yield of 5.2%. With 15% potential upside to our new TP, we raise our rating to Buy. We believe the company will benefit from the recent coal price improvement, while risk of lower production volumes in 2H16 caused by La-Nina should be mitigated by the current coal inventory level of ~800k tons, which would pave the way for ITMG to meet our FY16 sales volumes estimate of 27.2m tons, which is lower than the company's target of 27.7m tons.

Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue(US\$m)	1,943	1,589	1,305	1,392	1,448
EBITDA(US\$m)	303	233	158	214	228
EBITDA Growth (%)	(26.4)	(22.9)	(32.2)	35.1	6.7
Net Profit(US\$m)	201	63	79	107	115
EPS (US\$Cents)	17.8	5.6	7.0	9.5	10.1
EPS Growth (%)	(21.8)	(68.6)	25.9	34.6	7.1
Net Gearing (%)	(25.6)	(32.1)	(40.4)	(40.3)	(37.4)
PER (x)	5.2	16.6	13.2	9.8	9.2
PBV (x)	1.2	1.3	1.2	1.2	1.1
Dividend Yield (%)	19.1	10.9	4.8	6.1	8.2
EV/EBITDA (x)	2.7	3.3	4.4	3.2	3.1

Source: ITMG, IndoPremier

Share Price Closing as of : 16 August 2016

Refer to Important disclosures on the last of this report

News & Analysis

Corporates

ICBP: PT Indofood CBP (ICBP IJ; Rp9,200; Buy) reported good 2Q16 net profit of Rp1.0tn (+9.5% qoq, +16% yoy), bringing 1H16 earnings to reach Rp1.9tn (+17% yoy). The results are above market/our expectation (accounted for 55% / 57% of FY16F). (Bisnis Indonesia)

Comment: The 2Q16 result shows a solid performance, driven by sales growth (+4% qoq and +8% yoy) and lower operating expense (+4.6% qoq, -1.1% yoy). The gross margin was intact at 31.9% in 2Q16 (from 2Q15: 31.8%), while operating margin expanded to 15.2% (from 2Q15: 13.6%). We believe the good achievement is sustainable, given the strong recovery in consumer purchasing power.

INDF: PT Indofood Sukses Makmur (INDF IJ; Rp8,250; Hold) reported stellar 2Q16 net profit of Rp1.1tn (+5.5% qoq, +33% yoy), bringing 1H16 earnings to reach Rp2.2tn (+29% yoy). The results are ahead of market/our expectation (accounted at 57%/ 67% of FY16F). (Bisnis Indonesia)

Comment: The 2Q16 result shows a gradual recovery in sales at Rp17.6tn (+6% qoq, -0.3% yoy), closing in to last year 2Q high base results. Earnings growth was driven by gross and operating margin expansion (29.5%/12.9% in 2Q16). We believe the stellar achievement is sustainable, mostly driven by CBP's strong performance.

PTPP: PT Pembangunan Perumahan (PTPP IJ; Rp4,560; Buy) is ready to join four power plants tender as Independent Power Producer (IPP) in Sumatera and Kalimantan with total capacity of 800MW. Details are: PLTU Bangka 1 (2x100MW), PLTU Kalselteng 3 (2x100MW), PLTU Kaltim 3 (1x200MW) and PLTU Kaltim 6 (1x200MW). PTPP aims to be a majority shareholder in the projects. (Kontan)

Comment: PTPP's venture to power plant projects could mean margin improvement for the company, considering EPC's GPM are between 13-22%, better than construction business of 10-12%.

WIKA: Wijaya Karya (WIKA IJ; Rp3,270; Buy) reported net profit of Rp184.8bn in 2Q16, grew 158% qoq with net margin expanded to 5.6% from 2.6%. The growth was supported by revenue and gross profit that posted strong growth of 21% qoq and 50% qoq. Net profit 1H16 came at Rp257bn was largely inline as it formed 31% and 33% of our expectation and consensus. (Bisnis Indonesia)

Comment: We maintain our Buy rating on WIKA with TP of Rp3,900/share as we expect strong earnings growth to continue in 3Q16, when company starts recognize earnings from HSR.

WTON: Wijaya Karya Beton (WTON IJ; Rp960; Not Rated) booked net profit of Rp59bn, grew 18% qoq with net margin expanded to 7.5% from 6.9%. Revenue and gross profit grew 7% qoq and 20% qoq to Rp785bn and Rp109bn. Net profit 1H16 was at Rp109bn and 37% of consensus. (Bisnis Indonesia)

Markets & Sector

Excise Tax: Indonesia White Cigarette Manufacturers Association rejected government's proposed plan to increase the tobacco excise by 10% next year, which could further worsen the tobacco industry in Indonesia. The association proposed a milder hike of 5-6%, which is in-line with the inflation. According to Indonesia's 2017 state budget proposal, government expects Rp149.9tn from tobacco's tax revenue (vs. 2016: Rp141.7tn). (Kontan)

Comment: 10% excise tax hike in FY17F is still in-line with our forecast. However, we think the aggressive excise tax hike will further hurt the industry considering the weak consumer purchasing power. Therefore, maintain HOLD on HMSP at TP Rp4,180 (FY17F P/E 24.3x).

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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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