

Indofood (INDF IJ; Buy)

Early recovery seen in Bogasari

- Net profit grew 33% yoy in 2Q16, above our/market expectation.
- Expanding margins on the back of low soft commodity price.
- Upgrade earnings on the back of ICBP & Bogasari's performance.
- We upgrade to Buy and raise TP to Rp9,600.

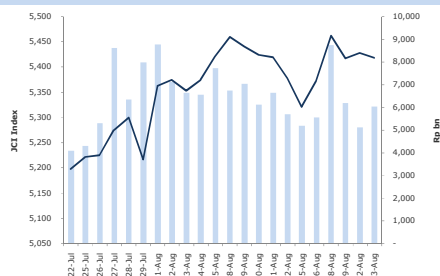
Mixed 2Q results. Indofood Sukses Makmur (INDF) booked net profit of Rp1.1tn (+5.5% qoq, +33.1% yoy), leading to 1H16 earnings of Rp2.2tn (+29% yoy). The results were ahead of our/market expectations (accounted for 67%/57% of FY16F estimates, respectively), driven by steady sales growth (+6.4% qoq) and low input cost, mainly contributed by ICBP. Bogasari posted sales at Rp5.1tn in 2Q16 (+2.4% qoq, +2.7% yoy), bringing 1H16 sales to Rp10tn (+3.9% yoy). For the Agribusiness segment, sales seemed to pick up in 2Q16 at Rp3.6tn (+13% qoq, -15% yoy), due to recent uptick in CPO price. On the EBIT side, the consolidated EBIT has reached Rp2.3tn in 2Q16 (+19% qoq, +12% yoy), thanks to ICBP's achievement (+21% yoy) which offset poorer performance from its Agribusiness at Rp289bn (-15% yoy). Bogasari posted growing EBIT of Rp436bn (-4% qoq, +7% yoy), due to higher volume growth and still enjoying a bottomed wheat price.

Better outlook in Bogasari, yet Agribusiness still dragging. INDF's gross margin expanded to 29.5% in 2Q16 (+160bps qoq, +200bps yoy), helped by lower raw material price in all business segments, and EBIT margin improved to 12.9% (+140bps qoq, +150bps yoy). Apart from ICBP's stellar performance in 2Q16, Bogasari was able to keep EBIT margin at 8.6% (-60bps qoq, +30% yoy) due to relatively stable competition in the market. Meanwhile for Agribusiness, we view the quarterly EBIT growth (+37% qoq, -16% yoy) and margin expansion to 8.1% (+1.4% qoq, -0.1% yoy) is not sustainable, given the lower ASP for the coming quarters, following our stagnant CPO price assumption.

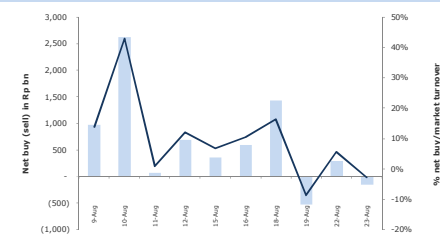
Earnings upgrades. We upgrade our earnings forecast by 16% and 13% for FY16/17F respectively, after we factor in the upgrades in ICBP and slight increase in Bogasari's EBIT margin at 7.1% for FY16F. We raise ICBP sales growth to 9%/14% for FY16/17F to be in-line with management's prudent guidance. As for Agribusiness, we adjust our FY16F earnings forecast due to lower CPO production volumes post El Nino impact, whilst maintaining our FY17F estimates due to volume recovery following better rainfall in 1H16.

Upgrade to Buy with new TP at Rp9,600. We roll over our valuation FY17F, raise our TP to Rp9,600 (from Rp7,000) and upgrade our recommendation to Buy. Our TP implies 21.8/19.6x P/E in FY16/17F, while five-year average historical PE of FY11-15 stood at 20x. Downside risks: worsening agribusiness performance, soft consumer purchasing power, and weaker Rupiah.

JCI Index



Foreign net buy (sell)



Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	5,417	-0.2%	30.1%	17.9%
LQ45	932	-0.2%	34.7%	17.7%
DJII	18,547	0.1%	16.9%	6.4%
SET	1,540	0.1%	18.4%	19.6%
HSI	22,999	0.0%	8.2%	4.9%
NKY	16,497	-0.6%	-11.0%	-12.7%
FTSE	6,869	0.6%	16.4%	10.0%
FSSTI	2,850	0.3%	0.2%	-1.1%
EIDO	26	-0.7%	47.0%	24.5%

Commodity price

Commodities	Last price	Ret 1 day	Ret 1 year
(in USD)			
Oil/barrel (WTI)	47.7	1.3%	18.4%
CPO/tonne	638.3	1.4%	10.0%
Soy/bushel	10.2	-0.2%	13.9%
Rubber/kg	1.7	-0.8%	12.8%
Nickel/tonne	10,214	0.0%	0.4%
Tins/tonne	18,728	0.8%	24.7%
Copper/tonne	4,693	-0.9%	-7.3%
Gold/try.oz (Spot)	1,338	-0.1%	15.8%
Coal/tonne	67.1	-1.5%	14.1%
Corn/bushel	3.2	-1.5%	-11.9%
Wheat/bushel*	156.7	-0.6%	-21.6%

* : 1 month change

Source : Bloomberg

Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue(RpBn)	63,594	64,062	71,769	76,050	84,416
EBITDA(RpBn)	6,874	6,877	8,078	8,779	9,813
EBITDA Growth (%)	23.7	0.0	17.5	8.7	11.8
Net Profit(RpBn)	3,885	2,968	3,875	4,309	4,888
EPS (Rp)	443	338	440	490	557
EPS Growth (%)	55.2	(23.6)	30.1	11.5	13.6
Net Gearing (%)	31.0	33.7	13.8	10.9	9.5
PER (x)	17.9	23.4	18.0	16.2	14.2
PBV (x)	1.7	1.6	1.5	1.4	1.3
Dividend Yield (%)	1.8	2.8	2.1	2.8	3.1
EV/EBITDA (x)	8.3	8.0	7.8	7.3	6.6

Source : INDF,IndoPremier

Share Price Closing as of : 22-August-2016

Pembangunan Perumahan (PTPP IJ; Buy)

Well above expectations

- **1H16 earnings (+121% yoy) were above estimates**
- **Strong EPC growth and improving construction margin**
- **Rights issue to potentially boost order book**
- **Reiterate Buy and upgrade TP to Rp5,100 (from Rp4,800)**

Strong 1H16 net profit. PT Pembangunan Perumahan (PTPP) booked net profit of Rp355bn (+121% yoy) and net profit before minority interest of Rp410bn (+95% yoy), which is in line with management guidance for 1H16. 6M16 results were ahead of our estimates (40%) and consensus (39%) as they came in above the 4-year historical average of 22-34%. The superb performance was partly attributed to miscellaneous income that jumped nearly four-fold but mainly to strong revenue growth of 50% qoq to Rp3.8tn in 2Q16. Gross and operating margins improved by 16bps and 160bps to 14.1% and 11.7%, respectively while net margin increased to 6.6% in 2Q16 (vs 3.8% in 1Q16).

Strong EPC growth and improved construction margin. PTPP's Engineering, Procurement, Construction (EPC) revenue more than quadrupled in 2Q16 to Rp829bn as the company took on more power plant projects that led to better EPC margin of 15.5% (vs 12.2% in 1Q16), which is indeed the strongest margin growth in the last two years. In 2Q16, construction revenue also grew by 46% qoq to Rp2.5tn with gross margin improving by 199bps to 10.9%, thus taking overall gross profit margin to 14.1% from 13.9% in 1Q16. Similarly, the realty segment also managed to increase its margin to 63.1% from 44.2% amid weak revenue in 2Q16. On the other hand, equipment rent and precast still recorded gross profit loss of Rp37bn and Rp109bn, respectively in 2Q16.

Rights issue to boost equity and potential order book. PTPP is planning to conduct a rights issue (RI) in 4Q16 after obtaining approval from state equity injection (PMN) in the previous quarter. PTPP is seeking Rp4.4tn of proceeds from the RI, which will bring total equity to Rp9.8tn and allow the company to potentially take on more order book in the long run. Note that PTPP is expected to obtain the House of Representatives' approval for the RI by tomorrow. PTPP's subsidiaries PP Equipment and PP Precast are also scheduled to go public in 3Q17 and 4Q17 with targeted proceeds of Rp1.2tn and Rp1.1tn.

Upgrade earnings and raise TP to Rp5,100 from Rp4,800. Based on the strong results in 6M16, we tweak our earnings forecast by 12/16% in FY16/17F and raise our profitability margin expectations as we expect improving margins from EPC and construction. We roll over our valuation base to 2017 (from 2016) to arrive at our new TP of Rp5,100/share which implies 18.6x PE FY17F and offers 11% upside potential from the current price. Reiterate Buy.

Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue(RpBn)	12,427	14,217	21,499	26,145	30,725
EBITDA(RpBn)	1,313	1,677	2,531	3,147	3,734
EBITDA Growth (%)	21.6	27.7	50.9	24.3	18.7
Net Profit(RpBn)	532	740	1,002	1,324	1,709
EPS (Rp)	110	153	207	273	353
EPS Growth (%)	26.4	39.2	35.4	32.2	29.1
Net Gearing (%)	26.1	12.7	22.0	26.7	18.0
PER (x)	41.9	30.1	22.2	16.8	13.0
PBV (x)	9.3	4.4	3.3	2.6	2.1
Dividend Yield (%)	0.4	0.5	0.7	0.9	1.2
EV/EBITDA (x)	16.5	12.9	8.2	6.4	5.4

Source : PTPP,IndoPremier

Share Price Closing as of : 22-August-2016

News & Analysis

Corporates

GGRM: Gudang Garam (GGRM IJ; Rp67,000; Buy) plans to increase its selling price next year in accordance with the excise tax hike. Company will be more cautious in price increase to maintain its volume sales. Heru Budiman, Director of GGRM, mentioned that the excise tax hike is expected to be less than 10% in 2017F. (Bisnis Indonesia)

Comment: We heard similar info regarding the excise tax hike next year from the marketing director at Djarum, Ichwan Hartanto. If that were going to happen, it means that the hike will be milder next year, which will be positive for the tobacco companies such as: GGRM and HM Sampoerna (HMSP IJ; Rp4,050; Hold).

PTPP: PT Pembangunan Perumahan (PTPP IJ; Rp4,650; Buy) expects revenue and profits to exceed this year's target following an encouraging result in first half of the year, said PTPP's President Director. PTPP cited the efficiency program carried by the company as well as performance of EPC, property and precast to contribute more in earnings this year. On separate news, PTPP has cancelled to publish bond this year but will look for additional fund from interim equity of Rp1-2tn which is totally separate from right issue. (Jakarta Post, Kontan)

Comment: We like the strong performance of PTPP in 6M16 and have upgraded our earnings to 12/16% FY16/17F to Rp1.02tn and Rp1.3tn. Maintain Buy on the stock as we expect high earnings performance to continue in 2H16.

LPKR: Lippo Karawaci (LPKR IJ; Rp1,150; Hold) has obtained loan of Rp3tn through its subsidiaries, Lippo Malls Indonesia Retail Trust (LMIRT). The loan was syndicated from BNP Paribas, CIMB Bank and JP Morgan Chase Bank. (Kontan)

DMAS: Puridelta Lestari (DMAS IJ; Rp278; Not Rated) still aim additional 10ha land sales despite having fully achieved its 50ha land sales target this year. According to company, there are several investors in talk to purchase 5ha land in Greenland International Industrial Center (GIIC). Most of sales are still dominated by automotive company. (Bisnis Indonesia)

Markets & Sector

Property sector: Ministry of spatial and land will issue recommendation on building use rights for foreign ownership certificates which will equalizes building use rights for foreign ownership certificates and local property buyer. Both certificates are now allowing building use up to 30 years and renewal options. (Bisnis Indonesia)

Comment: we think the changing regulation might have little impact for foreign property market in Indonesia as we deem 30 years time period is too short for foreign investors and high price limit is unfavorable for foreign investors (Rp10bn for landed house and Rp5bn for apartment in Jakarta).

Head Office**PT INDO PREMIER SECURITIES**

Wisma GKBI 7/F Suite 718

Jl. Jend. Sudirman No.28

Jakarta 10210 - Indonesia

p +62.21.5793.1168

f +62.21.5793.1167

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.

DISCLAIMERS

This research is based on information obtained from sources believed to be reliable, but we do not make any representation or warranty nor accept any responsibility or liability as to its accuracy, completeness or correctness. Opinions expressed are subject to change without notice. This document is prepared for general circulation. Any recommendations contained in this document do not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is not and should not be construed as an offer or a solicitation of an offer to purchase or subscribe or sell any securities. PT. Indo Premier Securities or its affiliates may seek or will seek investment banking or other business relationships with the companies in this report.