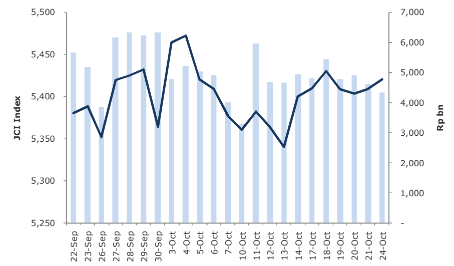
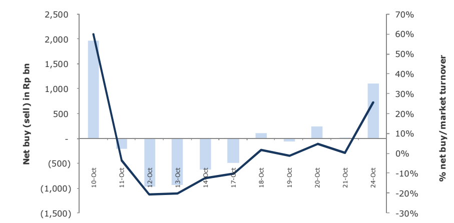
Premier Insight

25 October 2016

JCI Index



Foreign net buy (sell)



Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	5,421	0.2%	16.5%	18.0%
LQ45	930	-0.1%	15.6%	17.4%
DJI	18,223	0.4%	3.3%	4.6%
SET	1,500	0.5%	5.9%	16.5%
HSI	23,604	1.0%	2.0%	7.7%
NKY	17,234	0.3%	-8.5%	-8.7%
FTSE	6,986	-0.5%	8.4%	11.9%
FSSTI	2,857	0.9%	-6.9%	-0.9%
EIDO	26	-0.4%	20.1%	26.4%

Commodity price

Commodities	Last price	Ret 1 day	Ret 1 year
(in USD)			
Oil/barrel (WTI)	50.1	-0.9%	14.8%
CPO/tonne	675.6	3.6%	21.2%
Soy/bushel	9.7	0.9%	9.1%
Rubber/kg	1.7	0.0%	26.4%
Nickel/tonne	10,068	1.5%	-4.0%
Tins/tonne	20,190	0.5%	27.5%
Copper/tonne	4,619	0.1%	-10.9%
Gold/try.oz (Spot)	1,265	-0.1%	8.6%
Coal/tonne	92.8	0.0%	75.8%
Corn/bushel	3.3	-1.3%	-12.0%
Wheat/bushel*	127.9	-4.3%	-26.3%

** : 1 month change*

Source : Bloomberg

HM Sampoerna (HMSP IJ: Hold)

Earnings Remain Intact

- **3Q16 earnings up 13.5% yoy, in-line with our/consensus expectations**
- **Slight margin contraction on changes in product sales mix**
- **Remains a market leader despite marginal loss of market share**
- **Maintain HOLD with TP of Rp4,180**

3Q16 earnings in line. HM Sampoerna reported net profit of Rp2.9tn in 3Q16, accounting for 76% of our FY16 estimates, on the back of 5.3% yoy revenue growth. Machine-rolled cigarettes (SKM) saw the earnings highest growth of 10.6% yoy, followed by white cigarette (SKT) with growth of 2.3% yoy. Meanwhile, its hand-rolled cigarettes saw a net profit decline of 6.1% yoy. HMSP reported cigarette volume sales of 25.1bn sticks in 3Q16 (-5.5% yoy, -13.5% qoq). As of 9M16, its total cigarette sales volume represents 70% of our FY16 forecast. Overall industry cigarette volume declined to 72.3bn sticks (-4.1% yoy) in 3Q16, mainly due to competitors' aggressive discounted product offerings.

Gross margin contraction. HMSP's gross margin slightly contracted by 70 bps yoy in 3Q16 due to a shift in product mix with higher contribution from SKM segments. Excise tax accounted for 43.7% of total sales in 3Q16, which is 2.5% higher yoy. Meanwhile, raw material costs accounted for 10.6% of total sales in 3Q16 (vs. 3Q15: 10.9%). Next year's excise hike has been set at an average of 10.3% yoy, which we think is relatively moderate (vs. 2016: 15% yoy). Therefore, we expect less pressure on cigarette companies to increase ASP given the soft demand in Indonesia's cigarette market lately. However, we expect to see a recovery in consumer purchasing power on a better economic outlook such as subsiding inflation in the coming year.

Loss of market share. HMSP's total market share in 3Q16 stood at 34.7%, a marginal decrease from 35.1% in 3Q15. Further loss of market share is underpinned by the soft performance of its SKM and SKT products. Dji Sam Soe reported further market share loss of 60bps yoy in 3Q16. Despite soft cigarette volume in recent years, cigarette consumption in Indonesia remains high compared to Japan, South Korea and the United States, according to World Bank. Therefore, we think Indonesia is still a lucrative market for cigarette companies, especially HMSP, which has maintained its market leadership.

Maintain HOLD with TP of Rp4,180. Our DCF-based TP of Rp4,180 (down from Rp104,500 following a 1:25 stock split three months ago) implies FY17F P/E of 32.6x and FY17F EV/EBITDA of 26.7x. We like HMSP due to its market leadership in the Indonesian cigarette market. Despite stagnant sales volume, HMSP has been able to maintain its EBITDA margin at above 17% in the past five years. However, we think the current valuation is highly demanding given the limited volume growth expected in the next couple of years. Therefore, we maintain our HOLD rating on the stock.

Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue (RpBn)	80,690	89,069	101,377	114,898	129,960
EBITDA (RpBn)	13,239	13,393	15,338	16,671	18,030
EBITDA Growth (%)	(6.1)	1.2	14.5	8.7	8.2
Net Profit (RpBn)	10,181	10,363	11,919	14,898	15,427
EPS (Rp)	88	89	102	128	133
EPS Growth (%)	(5.9)	1.8	15.0	25.0	3.5
Net Gearing (%)	20.5	(5.4)	(57.6)	(62.4)	(66.5)
PER (x)	45	44.2	38.5	30.8	29.7
PBV (x)	34	14.3	10.2	9.6	9.5
Dividend Yield (%)	2.3	2.7	2.3	2.6	3.3
EV/EBITDA (x)	34.4	34.3	31.6	29.3	27.2

Source: HMSP, IndoPremier *Share Price Closing as of 21 October 2016*

News & Analysis

Corporates

ADHI: Adhi Karya (ADHI IJ; Rp2,300; Buy) revised down new contract target to Rp18tn from Rp25tn initially. The cut was caused by delay of light rail transit (LRT) contract. Therefore, ADHI also expects revenue to be Rp12.3tn from previously Rp20tn. Net income revision will follow after. (Bisnis Indonesia)

Comment: the new guidance of new contract and revenue are inline with our estimates. In our forecast, we expect ADHI's net income to be Rp557bn FY16, and then jump to Rp891.7bn in FY17 as we believe LRT contract to boost FY17 earnings. Maintain Buy

BBRI: Bank Rakyat (BBRI IJ; Rp12,200; Buy) reported net profit of Rp18.95tn in 9M16 (+2.9% yoy) on the back of its very modest loan growth (+8.2% yoy), better NIM of 8.41% (+33bps yoy), strong fee income growth and despite a sharp rise in loan provisions (+60% yoy). In 3Q16, net profit grew 16.8% qoq to Rp6.93tn (2Q: Rp5.93tn; 1Q: Rp6.25tn) on the back of stable loan provisioning. Excluding provisions, the bank's core profit grew strongly by 24% yoy to Rp33.4tn in 9M16 (3Q: 12.4tn; +15% qoq). Asset quality appears stable, with NPL ratio of 2.22% in 3Q vs. 2.31% in 2Q. (Company)

Comment: BBRI's nine-month results came in line with ours and market's expectations as it accounted for 73%/74% of FY16F forecasts, respectively. Its third-quarter core earnings was particularly strong (+15% qoq) while loan provisions were stable. We maintain our Buy rating.

BBTN: Bank Tabungan (BBTN IJ; Rp1,940; Buy) reported net profit of Rp1.6tn in 9M16 (+32.6% yoy) on the back of its strong loan growth (+16.9% yoy), slightly lower NIM of 4.59% (-18bps yoy) and declining loan provisions (-27% yoy). In 3Q16, net profit grew 5% qoq to Rp579bn (2Q: Rp551bn; 1Q: Rp491bn) despite slightly higher loan provisions (+3.5% qoq). Excluding provisions, the bank's core profit grew by 18% yoy to Rp2,677bn in 9M16 (3Q: Rp1,056bn; +27% yoy). Asset quality was stable with NPL ratio of 3.6% in 3Q (2Q: 3.4%). (Company)

Comment: BBTN's nine-month results was still within our expectation although it accounted for just 68% of our FY16F forecast of Rp2.4tn (consensus: Rp2.3tn) given its fourth quarter results had been much stronger in each of the past three years on the back of its usually stronger loan recoveries and lower loan provisions in the last quarter. We maintain our Buy rating on the stock.

DMAS: Puradelta Lestari (DMAS IJ; Rp258; Not Rated) claimed land enquiry of 100ha. With this inquiry, land sales in 2017 are estimated to be higher from FY16. Company said the enquiry comes from both domestic and regional investors. (Bisnis Indonesia)

TOWR: Tower Bersama (TOWR IJ; Rp3,800; Not Rated) plans to buyback its shares of 236mn with a total amount of Rp1.5tn sourced from internal cash flow. The buyback program will be effective for 18 months starting 25Oct 2016. Furthermore, the company sees potential to add 2000-2500 new tenants in FY16, which is significantly higher than last year of 1400 tenants.

UNVR: Unilever (UNVR IJ; Rp44,400; Hold) to allocate capex of Rp1.4tn in 2017 (vs. 2016: Rp2tn). As of 9M16, 62.5% of the total capex has been absorbed. Around Rp 600bn of 2016 capex was allocated for the construction of its new head office in BSD, Tangerang. In the next 2-4 years, UNVR will gradually expand the capacity of its oleo chemical facility which is located in North Sumatera. (Bisnis Indonesia)

Comment: We think UNVR will see improvement starting 2H16 due to improving economic condition. Going forward, we expect its oleo chemical to support UNVR's raw material supply.

Markets & Sector

Construction sector: Housing and Public works ministry (PUPR) will obtain budget of Rp101.5tn in FY17, lower than FY16 of Rp105.6tn. Similarly, transportation ministry also gets lower budget of Rp45.9tn from previously planned of Rp48.7tn. (Investor Daily)

Comment: we expect this new budget to give limited impact to our SOE companies as we believe FY16 realization won't achieve its full year target of Rp105.6tn.

Consumer sector: Wings Food to focus more on its ready-to-drink (RTD) products as well as coffee products with target market of middle to lower end consumers. The company plans to widen its promotion and distribution network to smaller cities along with the plan of facility expansion which will be carried out next year. (Kontan)

Comment: We think this will further intensify the competition in RTD and coffee market in Indonesia which will likely to affect KINO and MYOR given their exposure in the respective market.

Plantation sector: Indonesia palm oil production in 4Q16 is expected to reach 8.5m tons, bringing FY16F palm oil production to reach 30.4m tons, down 6.5% yoy, according to Indonesia Vegetable Oil Industry Association (Gimni). Strong production in 2H16 would not be enough to offset weak production of 12.5m tons in 1H16 caused by El-Nino. With increasing domestic consumption from higher bio-diesel, palm oil export in FY16F is expected to decrease ~20% to around ~20.5m tons. (Kontan)

Comment: We believe CPO price to remain strong in 1H17 on the back of lower production caused by seasonal factor which would allow earnings recovery for our plantation counters. London Sumatra (LSIP IJ; Rp 1,530; Buy) is our top-pick in the plantation sector.

Transportation sector: Grab has launched an in-app instant messaging feature (GrabChat) enabling drivers and passengers to communicate, which will cut down cost of communication between both ends. At the year-end, GrabChat will also be equipped with auto-translation and photo exchange features to help users identify locations. (Jakarta Globe)

Comment: Innovation from online-transportation business should bring efficiency between its services and provide easiness for users. Meanwhile, conventional taxi players are struggling to catch up with innovations to win market share. We see continuous pressure for transportation sector and reiterate sell rating for Express (TAXI IJ; Rp177; Sell).

Economic

Trade control: Indonesia's financial authorities is considering to discuss a possible revision of the current free foreign-exchange regime in the next Financial System Stability Committee (KSSK) meeting on January 23rd. It is expected that exporters will bring proceeds to Indonesia after the implementation of capital control; there is currently no regulation requiring them to convert the proceeds into rupiah and to keep them in the country.

Comment: While remain potential discussion, we think the implementation of such capital control is positive for Indonesian financial system in adding domestic liquidity and help support the rupiah's stability.

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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.