

Telkom Indonesia (TLKM IJ; Buy)

Going strong

- Continue to display strong results
- Capex concentrated around data
- Favorable operating matrix
- Remains a Buy, TP Rp5,000

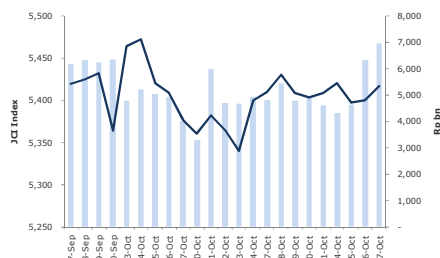
Margin expansion in 3Q16. Although revenue growth was only 2.8% qoq, EBITDA grew 10.2% qoq increasing EBITDA margin to 52.4% in 3Q16 vs 50.9% in 2Q16 from operating leverage. Nevertheless, net income fell 16.3% qoq due to forex losses and charges related to early termination of Telkom Flexi's tower. Over the nine-month period Telkom delivered much higher growth - Revenue 13.8% yoy, EBITDA 19.7% yoy and net income 27.6% yoy.

Capex to support data development. Telkom has spent Rp19.9tn of capex up to 9M15, highly concentrated on developing radio access network (BTS), submarine cable system, tower, data center and property. This represents about 23% of the total revenue, which is still inline with the management's guidance. We expect capex to reach Rp25.7tn for FY16. During 3Q16, Telkom added 5,424 BTS, lower by 50.5% qoq but still at the high side of quarterly additional BTS.

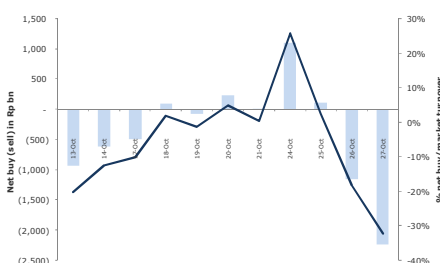
Strong operation matrix. Subsidiary Telkomsel continues to display excellent operational results. Up to Sep16, total subscribers reached 163.7mn (+4.0% qoq) while ARPU stood at Rp45k per user per month (+2.3% qoq). RPM and RPS were relatively stable at Rp166 and Rp70 respectively in 9M16, while data pricing was marginally weaker at Rp32/Mb. Telkomsel continues to balance substitution of OTT apps and SMS by using cluster pricing. Moreover, having a balanced distribution of subscribers also allows effective cluster pricing unlike its competitors.

Buy maintained. We maintain our Buy call on the counter as we see that Telkom is able to maintain its growth momentum with high financial discipline leading to strong cash flow. We also believe that Telkom has the best operating leverage due to various business segments with the potential to unlock values from its property and tower business. We keep our target price at Rp5,000.

JCI Index



Foreign net buy (sell)



Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	5,417	0.3%	17.5%	17.9%
LQ45	928	0.5%	16.5%	17.1%
DJI	18,170	-0.2%	2.2%	4.3%
SET	1,498	0.4%	6.3%	16.3%
HSI	23,132	-0.8%	0.8%	5.6%
NKY	17,336	-0.3%	-8.3%	-8.4%
FTSE	6,987	0.4%	8.5%	11.9%
FSSTI	2,829	0.0%	-7.0%	-1.9%
EIDO	26	-0.2%	24.5%	25.4%

Commodity price

Commodities (in USD)	Last price	Ret 1 day	Ret 1 year
Oil/barrel (WTI)	49.7	1.1%	15.1%
CPO/tonne	663.1	-0.4%	20.0%
Soy/bushel	10.0	0.4%	11.8%
Rubber/kg	1.8	1.6%	31.9%
Nickel/tonne	10,330	1.0%	-2.1%
Tins/tonne	20,595	-0.3%	33.1%
Copper/tonne	4,782	1.0%	-8.6%
Gold/try.oz (Spot)	1,268	0.1%	9.7%
Coal/tonne	94.1	0.6%	78.2%
Corn/bushel	3.4	1.1%	-9.6%
Wheat/bushel*	123.2	-3.7%	-24.8%

* : 1 month change

Source : Bloomberg

Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue(RpBn)	89,696	102,470	120,775	136,533	141,671
EBITDA(RpBn)	46,337	50,952	60,339	68,995	71,771
EBITDA Growth (%)	6.2	10.0	18.4	14.3	4.0
Net Profit(RpBn)	14,467	15,489	19,996	24,463	25,433
EPS (Rp)	144	154	198	243	252
EPS Growth (%)	1.8	7.1	29.1	22.3	4.0
Net Gearing (%)	1.8	2.7	0.7	-3.7	-7.8
PER (x)	28.2	26.4	20.4	16.7	16.1
PBV (x)	4.7	4.4	4.0	3.5	3.2
Dividend Yield (%)	2.4	2.2	2.7	3.3	3.4
EV/EBITDA (x)	8.8	8.0	6.8	6.0	5.8

Source : TLKM,IndoPremier

Share Price Closing as of : 26-October-2016

Kino Indonesia (KINO IJ; Hold)

Disappointing 3Q16 earnings result

- 9M16 profit grew by a mere 0.7% yoy due to poor 3Q16 result.
- Margin contraction on higher raw material cost.
- Inventory days worsened to 77 days in 9M16.
- Maintain HOLD at TP of Rp4,400.

Earnings disappoint. KINO reported earnings of Rp184.6bn in 9M16 (+0.7% yoy), representing only 64% of our FY16F estimates (below expectation). The weak result was due to the company reporting only Rp0.93bn profit in 3Q16 (-98% yoy), on the back of revenue decline of 15% yoy. Beverage sales weakened by 24% yoy, while personal care sales dropped by 21% yoy. We suspect the intensifying competition and slow recovery in consumer purchasing power is the main culprit. We expect the situation to persist at least until the end of this year. Therefore, we still maintain our revenue growth forecast of 3.1% yoy in FY16F.

Gross margin slid. The overall gross margin slid to 37.2% in 3Q16 from 39.4% in 3Q15. The margin contraction is more significant in beverages, where the gross margin dropped to 38% in 3Q16 from 40% in 3Q15. We suspect the margin erosion was somehow due to uptrend in sugar prices, which surged 48% YTD. Meanwhile, the margin in personal care still grew 3% yoy to 56% in 3Q16. At the operating level, KINO reported net loss of Rp6.6bn in 3Q16. We see that KINO has intensified its A&P spending due to stiffer competition. A&P spending accounted for 24.6% of total non-food sales in 3Q16 (vs. 3Q15:17.2%).

Intense competition to persist. We believe KINO's segmentation that offers differentiated products in high-growth niche categories has attracted new players. Account payable and inventory days have worsened to 90 days and 77 days in 9M16, compared to 78 days and 58 days, respectively in FY15. According to the company, KINO's hair vitamin product, *Ellipse*, is currently facing stiff competition from Chinese brands, especially in the general trade channel. Meanwhile, KINO is competing head to head with another local company in the female hygiene segment. We expect higher A&P spending to stimulate demand and maintain brand awareness. Therefore, we expect KINO's operating margin to slightly deteriorate in the next two years on higher A&P expense.

Maintain HOLD. Our DCF-based TP of Rp4,400 implies FY17F P/E of 21.3x. We believe KINO is well-positioned in Indonesia's high-growth FMCG segments. However, we are also cautious on intensifying competition especially from foreign products which offer a lower pricing point. Meanwhile, we would need to wait for the recovery in consumer purchasing power before it is reflected in KINO's beverage sales. Therefore, we maintain our HOLD recommendation on the stock.

Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue(RpBn)	3,339	3,604	3,716	4,110	4,564
EBITDA(RpBn)	236	461	441	458	519
EBITDA Growth (%)	29.7	95.2	(4.4)	3.8	13.3
Net Profit(RpBn)	104	263	288	295	340
EPS (Rp)	73	184	201	207	238
EPS Growth (%)	79.1	152.8	9.4	2.7	15.3
Net Gearing (%)	92.7	7.3	(26.1)	(18.6)	(14.6)
PER (x)	57.7	22.8	20.9	20.3	17.6
PBV (x)	9.1	3.4	2.1	1.9	1.8
Dividend Yield (%)	0.0	0.0	0.0	1.4	1.5
EV/EBITDA (x)	0.0	12.7	15.3	14.4	12.5

Source: KINO, IndoPremier

Share Price Closing as of : 26-October-2016

News & Analysis

Corporates

AALI: Astra Agro Lestari (AALI IJ; Rp15,625; Buy) posted 3Q16 earnings of Rp376bn, flat qoq but improved from net loss of Rp299bn recorded in 3Q15. 9M16 earnings reached Rp1.15tn, jumped 8x yoy which mostly caused by forex gain. Core earnings reached Rp876bn, down 21% yoy, represent 73% of our FY16F estimate, inline. (IDX)

Comment: We reiterate our Buy recommendation on AALI with TP of Rp18,500, as we expect CPO price to remain strong in 1H17 on the back of weaker than expected supply recovery post the El-Nino.

APLN: Agung Podomoro Land (APLN IJ; Rp290; Sell) posted 9M16 earnings of Rp432.9bn (+18% yoy), below consensus, but inline with our expectation. 3Q16 net profit came at Rp124.6bn (-37% qoq) with net margin dropped to 10.2% from 11.4% in 2Q16. Company recorded weak topline of Rp1.2tn (-30% qoq) and operating profit of Rp365bn (-26% qoq) in 3Q16. (Company)

Comment: We maintain Sell on APLN given its execution risk due to high dependency on political climate on its reclamation island project.

BSDE: Bumi Serpong Damai (BSDE IJ; Rp2,170; Buy) reported 9M16 net profit of Rp1.2tn (-33% yoy), fell below expectations as it formed 50/51% of ours /consensus. 3Q16 net profit stands at Rp333.5bn (-41% qoq) due to weak operating profit (-36% qoq) and revenue (-22% qoq). Despite the disappointment, GPM still managed to improve to 74.8% in 3Q16 from 73% in 2Q16 as company sold more landed houses and land plot. On separate news, company has formed strategic alliance with Mitsubishi to develop mixed use project in Tangerang. The joint venture will develop 19ha land and build 1,000 unit of landed houses and shops. (Investor Daily, Company)

Comment: Although we think weak earnings may persist until end of this year, we believe property sales will recover in FY17 due to tax amnesty effect. Maintain Buy on BSDE.

HERO: Hero Indonesia (HERO IJ; Rp1,380; Not Rated) booked earnings of Rp45bn in 9M16 (vs -Rp31bn in 9M15). In 3Q16, HERO booked Rp20bn in earnings (-35.8% qoq), having slower revenue growth of -14.7% qoq, and operating loss of -Rp9.5bn despite increasing gross margin by 158bps. Company had -0.29% EBIT margin in 3Q16, down from 1.46% in 2Q16 but positive net margin of 0.77% as of 3Q16 from one-off gain of discontinued operations. (Company)

ICBP: PT Indofood CBP (ICBP IJ; Rp9,575; Buy) reported 3Q16 net profit of Rp853bn (-18% qoq, +13% yoy), bringing 9M16 earnings to reach Rp2.8tn (+16% yoy). The results are in-line with our expectation and above consensus (accounted at 74% / 79% of FY16F, respectively). (Bisnis Indonesia)

Comment: In our view, the 3Q16 result is still on-track, despite negative -18% qoq growth (due to seasonality effect in 3Q), driven by 9M sales growth (+10% yoy) and lower COGS. Gross margin expanded to 32.5% in 3Q16 (from 2Q16: 31.9%), and operating margin expanded to 15.1% in 3Q16 compared to last year (14%). We believe the our FY16 forecast is achievable, maintain Buy at TP Rp10,500.

INCO: Vale Indonesia (INCO IJ; Rp2,680; Under Review) recorded earnings recovery in 3Q16 on the back of higher ASP of US\$7,694/ton (+12.8% qoq) and lower HSFO consumption to 18.7 barrel per ton of nickel matte production (2Q16: 23.3 barrel per ton). 3Q16 earnings reached US\$13m, allowing net loss to reach US\$7m in 9M16. This is slightly above our FY16F net loss estimate of \$3m and consensus FY16F net loss forecast of \$10m as positive earnings in 3Q16 would likely sustain in 4Q16 on the back of stable nickel price at around US\$10k per ton. (Company)

Comment: We are reviewing our forecast to see whether efficiency on HSFO consumption which posted in 3Q16 will be sustainable.

INDF: PT Indofood Sukses Makmur (INDF IJ; Rp8,625; Buy) reported 3Q16 net profit of Rp1.0tn (-12% qoq) after recording net loss Rp47bn in 3Q15. Thus, it brings 9M16 earnings to reach Rp3.2tn from Rp1.7tn (+92% yoy). The results are above market/our expectation (accounted at 84%/ 82% of FY16F). (Bisnis Indonesia)

Comment: The 3Q16 result shows a significant strong achievement, despite negative 12% qoq (due to seasonality effect in 3Q), thanks to decrease in finance cost (-55% yoy). The 3Q sales continue to grow at 5% yoy, while COGS were relatively stable, which resulted gross margin expansion to 30% (from 2Q15: 26%). We believe the strong achievement is sustainable, given lower finance expense and forex loss.

MAPI: Mitra Adiperkasa (MAPI IJ; Rp5,350; Buy) booked earnings of Rp120.3bn (+501% yoy) in 9M16, formed 61% of our FY16F forecasts. Earnings of Rp74bn in 3Q16 represent 38% of our FY16F estimates and 42% of the consensus. Revenues growing by 9.5% yoy under 3% SSSG and lower discounting led to a gross margin expansion of 150bps yoy. Operating efficiencies imposed and closures of unprofitable outlets continues to bear fruit with operating profit jumping 89% from Rp305bn to Rp577bn, expanding EBIT margins by 237bps yoy in 9M16. A one-off gain was realized through reduction of shares in Dominos Pizza from 49% to 33.5%. Inventory levels are back to normal levels at 171 days (-5.6% yoy). (Company)

Comment: We expect MAPI YTD expansion of 186 outlets and sales recovery momentum to sustain growth in revenue into 4Q16. Meanwhile continuous operating efficiencies and closures of 207 unprofitable outlets will further eliminate the drag in performance and earnings. However, with these in-line sets of results, we are reviewing MAPI's rating.

LSIP: London Sumatra (LSIP IJ; Rp1,535; Buy) recorded 3Q16 net profit of Rp159bn, jumped 156% qoq but down 1% yoy, allowing 9M16 earnings to reach Rp272bn, down 42% yoy. 9M16 earnings came lower than our and consensus expectations, reaching 43% of our FY16F earnings and 53% of consensus expectation. (IDX)

PTBA: Bukit Asam (PTBA IJ; Rp12,500; Under Review) recorded 3Q16 earnings of Rp340bn (-10% qoq and -47% yoy), bringing 9M16 earnings to reach Rp1.05tn, down 30% yoy, and accounting for 61% of consensus FY16F expectation and 53% of our FY16F forecast (below). Top-line reached Rp3.28tn (+2.2% qoq and -19.5% yoy), allowing 9M16 revenues to reach Rp10tn, down 4% yoy. (Bisnis Indonesia)

Comment: PTBA's 3Q16 results were below our and consensus expectation, which is likely caused by lower than expected ASP. PTBA has secured coal selling prices for 2016 delivery prior to the coal price hike. However, we are reviewing PTBA's FY17F earnings on the adjustment of coal price assumption.

SIMP: Salim Ivomas Pratama (SIMP IJ; Rp500; Hold) posted 3Q16 net profit of Rp87bn, down 17% qoq, bringing 9M16 earnings to reach Rp259bn, up 12% yoy, but came slightly lower than expected, 61% of our FY16F earnings estimate and 58% consensus FY16F expectation, which mostly caused by higher than expected tax. (Company)

UNTR: United Tractors (UNTR IJ; Rp21,550; Under Review) released September Operational Performance as follow:

- Coal extraction: 9.2m tons (-10% mom, +1% yoy), above 9M16 average of 8.7tons/month.
- OB removal: 57.3m bcm (-15% mom, -23% yoy), below 9M16 average of 58.2m bcm/month.
- Machinery sales: 203 units (+17% mom, +81% yoy), above 9M16 average of 176 units/month.
- Coal production: 285k tons, below 9M16 average of 628k tons/month, which in-line with the company's guidance.

Comment: September operational performance were inline with our expectation. However, we are reviewing our forecast as coal price currently higher than our estimate.

WTON: Wijaya Karya Beton (WTON IJ; Rp870; Not Rated) reported earnings of Rp164.4bn in 9M16, higher 87% yoy. This formed 57% of consensus. The strong net income was supported by growth in top line of 45% yoy and operating profit of 88% yoy. As a result, net and operating margin expanded to 7.3% and 10.8% in 9M16 from 5.7% and 8.3% in 9M15. (Company)

Markets & Sectors

Property sector: Basuki Tjahaja Purnama has signed Governor Regulation to free land and building transfer fee (BPHTB) for land under Rp2bn in Jakarta. Previously, BPHTB stands at 5%. For land above Rp2bn, owner must pay the BPHTB, but are given exception to pay after the land is sold. (Detik)

Comment: this is positive for property sector but might have limited impact to property developers who have most exposure in Jakarta only and have property under Rp2bn as this can stimulate buying appetite. We are positive to Ciputra Development (CTRA IJ; Rp1,590; Buy) and Agung Podomoro Land (APLN IJ; Rp290 x; Sell) given their exposure to middle class residential in Jakarta.

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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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