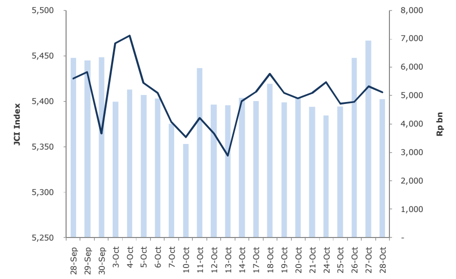
INDOPREMIER

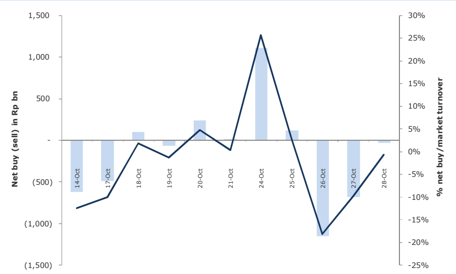
Premier Insight

31 October 2016

JCI Index



Foreign net buy (sell)



Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	5,410	-0.1%	21.4%	17.8%
LQ45	926	-0.1%	21.9%	17.0%
DJI	18,161	0.0%	2.8%	4.2%
SET	1,494	-0.3%	7.1%	16.0%
HSI	22,955	-0.8%	1.4%	4.7%
NKY	17,446	0.6%	-8.6%	-8.6%
FTSE	6,996	0.1%	10.0%	12.1%
FSSTI	2,816	-0.4%	-6.1%	-2.3%
EIDO	26	-0.3%	29.4%	25.0%

Commodity price

Commodities	Last price	Ret 1 day	Ret 1 year
(in USD)			
Oil/barrel (WTI)	48.7	-2.1%	6.0%
CPO/tonne	661.9	0.1%	19.1%
Soy/bushel	9.8	-1.3%	11.2%
Rubber/kg	1.8	0.4%	33.8%
Nickel/tonne	10,396	0.6%	-1.8%
Tins/tonne	20,840	1.2%	36.7%
Copper/tonne	4,832	1.0%	-7.3%
Gold/try.oz (Spot)	1,276	0.6%	11.7%
Coal/tonne	104.0	0.2%	96.6%
Corn/bushel	3.4	-0.1%	-8.7%
Wheat/bushel*	123.2	-3.7%	-24.8%

** : 1 month change*

Source : Bloomberg

XL Axiata (EXCL IJ; Hold)

No signs of turnaround

- **Net income supported by gains from tower and forex**
- **No significant turnaround in operation**
- **Network improvement in implementing 4G and U900**
- **Maintain Hold, new TP Rp2,380.**

One-offs supported net income. XL Axiata posted net profit of Rp160bn in 9M16 vs a loss in the year-ago period, supported mainly by gains from tower sales of Rp731bn and forex gains of Rp481bn. The result was better than our numbers but behind consensus. 3Q16 results were challenging with revenue falling -0.2% qoq and EBITDA -4.2%, with net loss of Rp65bn. Post the rights issue and tower sales, net gearing stood at a healthy level of 0.6x. However, we have yet to see a turnaround in operational numbers.

Minor improvement in operational matrix. XL saw some positive developments, seeing positive quarterly net add for the first time in four quarters leading to total subs of 45mn as of Sep16. ARPU remained relatively stable at Rp36,000 per month per sub. Data volume growth was 13.0% qoq with effective data tariff up by 15.9% qoq. However, data pricing remains very competitive at Rp16/MB vs Telkomsel's Rp32/MB. Overall revenue continues to be affected by substitution effect despite smartphone penetration already reaching 60%. Therefore, rapid data growth and better customer base have yet to translate to revenue.

Network improvement underway. XL Axiata is pushing network improvement by implementing 4G and 3G on 900Mhz. The company has also launched trial operation on 4.5G with double the transfer rate compared to 4G. By strengthening its network, XL is enhancing its strategy to capture value oriented customers by providing smooth user experience. The combination of 4G and 3G on 900Mhz should fill capacity and the coverage gap across the country. Moreover, about 80% of the handset ecosystem is now ready to support 3G U900. Nevertheless, we think XL still needs to play catch-up with its competitors; winning back market share and subscribers will not be an easy task.

Hold maintained, new TP Rp2380. We maintain our Hold recommendation on the counter as XL has yet to display any turnaround in its financials. We have a new target price of Rp2,380 to reflect low data pricing of XL to win competition. Our earnings adjustment is also to reflect revision on one-off gains from tower sales and forex. Post the rights issue and tower sales, XL should now have better capex flexibility to concentrate on network improvement. We expect improvement in the operating matrix in the next 2-3 quarters.

Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue (RpBn)	23,460	22,876	22,778	22,754	22,988
EBITDA (RpBn)	7,701	8,169	8,902	8,387	7,906
EBITDA Growth (%)	6	6	9	(5.8)	(5.7)
Net Profit (RpBn)	290	122	631	(1,662)	(1,837)
EPS (Rp)	34	14	59	(156)	(172)
EPS Growth (%)	(72.0)	(58.1)	313.9	(363.6)	10.5
Net Gearing (%)	176.2	184.7	82.6	92.1	103.1
PER (x)	155.9	371.7	89.8	n/m	n/m
PBV (x)	3.2	3.2	2.6	2.8	3.1
Dividend Yield (%)	1.2	0	0	0	0
EV/EBITDA (x)	2.7	2.4	4.3	4.6	4.8

Source : EXCL, IndoPremier *Share Price Closing as of : 26-October-2016*

Mitra Adiperkasa (MAPI IJ; Hold)

Improvement Priced In

- **3Q16 earnings reached Rp74bn, in-line with our expectations**
- **Transformational initiatives continue to bear fruit**
- **Performance expected to sustain into 4Q16**
- **Downgrade to HOLD with unchanged TP of Rp5,100**

MAPI continues to deliver expectations. Mitra Adiperkasa booked earnings of Rp120.3bn (+501% yoy) in 9M16, making up 61% of our FY16 forecast. 3Q16 earnings of Rp74bn represent 38% of our FY16 estimate, helped by solid revenue growth of 9.5% yoy; 9M16 consolidated SSSG was 3%. Specialty business performed better with revenue growth of 13.2% yoy and 6% SSSG in 9M16. F&B also continued to deliver strong revenue growth of 10.2% yoy, growing its SSSG in 3Q16 by 10%, up from 7% in 2Q16. Sales growth in department stores was flat, with SSSG -2% as of 9M16, but we expect recent restructuring in the segment involving the discontinuation of underperforming brands to lift performance by next year.

Transformational initiatives continue to bear fruit. Less merchandise discounting this year, a reversal of past trends, sustained gross margin expansion of 150bps yoy in 9M16 and 43bps qoq in 3Q16. Improvements in operating efficiencies continue to bear fruit with operating profit jumping 89% from Rp305bn to Rp577bn, expanding EBIT margins by 237bps yoy, in 9M16. Bearing in mind the one-off Rp40bn gain realized through the reduction of shares in Dominos Pizza from 49% to 33.5%, we see other transformational initiatives to sustain into 4Q16 and expand margin. YTD, MAPI has trimmed 207 unprofitable outlets and we see this as potential upside to profitability next year.

Performance to sustain into 4Q16. Inventory levels are back to normal levels at 171 days (-5.6% yoy) and at 160 days based on company calculations and we expect sustainable management of business segments especially post involvement of private equity CVC and GA. Furthermore we expect MAPI's YTD expansion of 186 new outlets and success of the Zara launch in Vietnam last month to boost sales recovery momentum and sustain growth in 4Q16, which is usually a strong quarter for the company due to the Christmas holiday.

Downgrade to HOLD. With these in-line sets of results, we are downgrading MAPI's rating to Hold as we now see the stock as fairly valued. While we are pleased with the on-going transformational initiatives to remove operational drag as well as with the sales momentum recovery which we think is sustainable through 4Q16, we think such improvement is already reflected in the current share price. We maintain our estimates and our DCF-based (WACC: 10.7%; TG:3%) target price of Rp5,100, -5% potential downside.

Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue (RpBn)	11,822	12,833	14,041	16,171	18,191
EBITDA (RpBn)	536	527	654	773	891
EBITDA Growth (%)	(29.0)	(1.7)	24.0	18.2	15.3
Net Profit (RpBn)	78	30	182	276	381
EPS (Rp)	47	18	110	167	230
EPS Growth (%)	(76.1)	(61.4)	505.6	51.4	38.0
Net Gearing (%)	58.3	22.6	32.4	8.9	54.1
PER (x)	90	233	38.5	25.4	18.4
PBV (x)	2.8	2.4	2.2	2.0	1.9
Dividend Yield (%)	0.5	0	0.1	0.4	0.6
EV/EBITDA (x)	10.4	12	9.2	8.7	5.6

Source : MAPI,IndoPremier *Share Price Closing as of : 26-October-2016*

News & Analysis

Corporates

ACES: Ace Hardware (ACES IJ; Rp865; Buy) booked earnings of Rp470bn in 9M16 (+20.7% yoy), forming 73% of our FY16F forecasts, above our expectations. Earnings of Rp237.4bn in 3Q16 (+149% qoq) that form 37% of our FY16F estimates and 39.2% of consensus was mainly driven by a one-off Rp74.4gain from sale of fixed asset in 3Q16. Gross margin also expanded by 50bps, despite modest growth in sales (+2.8% yoy in 9M16; +3.1% qoq in 3Q16). Although sales are soft, we expect ACES to maintain profitability into 4Q16. Reiterate BUY on ACES with TP Rp1,085. (Company)

AUTO: Astra Otoparts (AUTO IJ; Rp2,160; Buy) released its 9M16 result with highlights:

- Net profit reached Rp346bn (+118.6% yoy) in 9M16, significantly improvement from topline growth, contribution from affiliates/subsidiaries and margins. Nevertheless the result was still below our expectation especially from contribution of affiliates/subsidiary.
- Quarterly operation numbers were down due to seasonality from Ramadhan holidays as manufacturing activities stop for a full week. Although, net income was up +52.8% qoq, thanks to robust contribution from affiliates/subsidiary.
- Net contribution from affiliates and subsidiary are on net basis, meaning that increase in net contribution could be sourced from operation as well as from forex gains/losses or interest payment. However, with stable currency and low interest environment, we suspect source of improvement from operation.
- At the moment we will review the 9M16 result while holding momentarily our Buy call on the counter.

	9M16	9M15	+/- %	3Q16	2Q16	+/- %	FY16F	% of forecast
Total sales	9,557	8,670	*10.2*	3,122	3,312	*(5.7)*	13,160	72.6
Gross profit	1,454	1,265	*14.9*	456	512	*(11.1)*	2,075	70.1
Operating profit	431	270	*59.3*	118	159	*(25.8)*	601	71.6
Equity income	65	30	*114.1*	56	(9)	*(689.2)*	239	27.1
Net interest	(45)	(65)	*(31.9)*	(10)	(13)	*(28.0)*	(141)	31.6
Tax	(130)	(74)	*76.0*	(37)	(48)	*(23.0)*	(175)	74.1
Net profit	346	158	*118.6*	141	92	*52.8*	524	66.1

Source: Company, IndoPremier

PTPP: PT Pembangunan Perumahan (PTPP IJ; Rp4,100; Buy) booked 9M16 earnings of Rp567bn (+50% yoy), inline with ours and consensus with 57/59% achievement. 3Q16 revenue and operating profit grew by 13% and 12% qoq but net income was down 18% qoq to Rp212bn only due to higher impairment of Rp28.4bn (vs Rp6.7bn in 2Q16. As such, net margin dropped to 4.8% from 6.6% in 2Q16. (Investor Daily)

Comment: We still like PTPP's strong performance in 9M16, thus maintain Buy on the stock. PTPP is aiming for more EPC projects that can be used to boost its profit margin in future.

ROTI: Nippon Indosari (ROTI IJ; Rp1,650; Hold) reported net profit of Rp203bn (+5.7% yoy) in 9M16, below our/consensus estimates, on the back of 17% yoy revenue growth. White bread grew 22% yoy while sweet bread grew 10.2% yoy in 9M16. Dorayaki continued to fare well with growth if 79% yoy in 9M16. Gross margin slid 110 yoy in 9M16 due to higher raw mat cost. While operating margin stood at 11% in 9M16 (vs. 9M15: 12.2%).

Comment: We suspect the lower than expected result is attributable to slow purchasing power that has not been fully recover this year. In addition, we think lower margin is due to the uptrend in sugar and cacao prices since early 2016, despite lower wheat price trend. Therefore we maintain HOLD on ROTI.

SMGR: Semen Indonesia (SMGR IJ; Rp9,975; Buy) released its 9M16 result with highlights such as:

- Net profit was down -8.4% yoy from weaker ASP as volume was flat at 19.0mn tons. The result was below our and consensus expectation due to weaker-than-expected volume.
- ASP remained under pressure, down by -6.7% ytd. New capacity are still coming in from Indocement with 4.4mn tons, and Semen Indonesia its self by 2x3.0mn tons and Semen Baturaja of 1.85mn tons in FY18.
- COGS remained relatively stable since there was no significant change in coal price, electricity and exchange rate. However, next year cost might get some pressure from increasing coal price. This will depend on how long are the current contract and price of coal.
- We maintain our Buy call on the counter, since balance sheet remained intact despite the short term pressure from oversupply. TP Rp11,000.

	9M16	9M15	%	3Q16	2Q16	%	FY16	%
Turnover	19,082	19,115	*(0.2)*	6,612	6,449	*2.5*	26,124	*73.0*
Gross profit	7,574	7,513	*0.8*	2,586	2,563	*0.9*	10,577	*71.6*
EBITDA	5,019	5,128	*(2.1)*	1,691	1,708	*(1.0)*	6,944	*72.3*
Operating profit	3,872	4,099	*(5.5)*	1,309	1,330	*(1.5)*	5,404	*71.7*
Net Int. & Invest. Inc.	(110)	(80)	*38.4*	(54)	(32)	*67.0*	(170)	*64.9*
Forex gain (losses)	-	-	*nm*	-	-	*nm*	-	*nm*
Except. & Others	106	83	*28.7*	39	33	*nm*	-	*nm*
Group Pretax	3,868	4,102	*(5.7)*	1,294	1,331	*(2.7)*	5,234	*73.9*
Taxation	(905)	(894)	*1.2*	(322)	(390)	*(17.4)*	(1,151)	*78.6*
Minorities	(35)	(10)	*246.2*	(9)	(10)	*(11.6)*	(4)	*804.9*
Net Profit	2,929	3,198	*(8.4)*	964	931	*3.5*	4,078	*71.8*
EBITDA Margin	26.3%	26.8%		25.6%	26.5%		26.6%	

Source: Company, IndoPremier

SMRA: Summarecon Agung (SMRA IJ; Rp1,695; Sell) reported weak 9M16 earnings of Rp57.6bn (vs Rp807bn in 9M15), making only 5/8% of ours and consensus. The weak performance was caused by higher net interest expense (+33% yoy) and also lower revenue growth of Rp3.6tn only (-20% yoy) in 9M16 which further resulted in drop of net margin to 1.6% in 9M16 from 18% in 9M15. (Company)

Comment: SMRA's DER increased to 77% in 9M16 (vs. 69% in 9M15) which indicates pressure from interest expense may persists for some time. We maintain Sell on SMRA given weak performance and high leverage profile of the company.

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