

Premier Insight

8 November 2016

Economic Update

Thriving consumers economy

- Economic growth recorded a positive improvement in 3Q16 to record 5.02% yoy, albeit lower than last quarter
- Private consumption remained robust growth contributor
- Lower government spending and sluggish trade behind diminishing growth
- Financial, transportation, and construction were industrial champion

Growth still an improvement. We think the economy expanded considerably well in 3Q16 after recording 5.02% yoy and 3.2% qoq growth, albeit by a declining percentage than last quarter (5.18% yoy, 4.03% qoq). It was slightly lower than what had been widely anticipated at 5.04% yoy, but at this point, we should expect market to be relieved as growth remained sufficient to maintain the momentum of at least 5% yoy expansion by year end despite budget cuts. GDP in current prices had also lowered to record 7.3% yoy (vs 7.5% yoy in 2Q16) as prices had been in diminishing trend, with registered inflation of 2.15% yoy (vs 2.22% yoy in 2Q16) based on GDP's deflator. To note, consumer prices inflation was on average 3% yoy in 3Q16 (vs 3.5% yoy in 2Q16).

Solid private consumption. As with the prevailing pattern, private consumption remained the major contributor of 3Q16's growth, contributing some 2.7% to the whole growth figure, an uptick against last year's 2.66%. It recorded a 5.01% yoy increase (vs 4.95% yoy in 2Q16) and 3.48% qoq (vs 1.30% qoq in 2Q16), as seasonally, July-September see holiday season, the beginning of school term, and this year's Islamic religious day of *Eid al-Fitr* and religious sacrifice feast of *Eid al-Adha*. We think the positive growths in food and beverages, health and education, as well as transportation and communication expenditures (of 5.22%, 6.36%, and 6.15%, respectively) are very much related with the aforementioned occasions, as similar pattern was also found last year's, of which the four occasions coincided in the same quarter. We believe private consumption will remain intact in the coming months to contribute 2.6-3% to growth by year end.

Fig 1. GDP by expenditure

	% Change (quarter-on-quarter)			
	Private Consumption	Government Expenditure	Investment	Net Export
3Q16	3.5	-0.2	3.0	15.3
2Q16	1.3	36.1	2.8	-3.4
3Q15	3.5	9.3	3.4	59.6
	% Change (year-on-year)			
	Private Consumption	Government Expenditure	Investment	Net Export
3Q16	5.0	-3.0	-4.1	-24.3
2Q16	5.1	6.2	4.6	4.9
3Q15	5.0	7.1	7.0	91.9

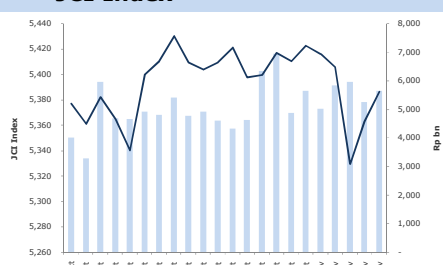
Source: Statistics Indonesia, Indo Premier

Fig 2. Contribution to growth

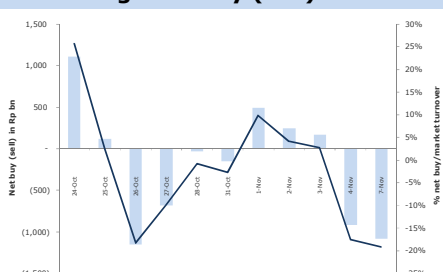
	% Contribution to Growth					
	Private Consumption	Government Expenditure	Investment	Net Export	Statistical Discrepancy	Total Growth
3Q16	2.70	-0.25	1.40	-0.55	1.72	5.02
2Q16	2.71	0.50	1.57	0.02	0.38	5.18
1Q16	2.72	0.18	1.69	0.03	0.30	4.92
3Q15	2.66	0.58	2.35	1.15	-2.00	4.74

Source: Statistics Indonesia, Indo Premier

JCI Index



Foreign net buy (sell)



Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	5,386	0.4%	17.9%	17.3%
LQ45	917	0.4%	17.0%	15.8%
DJII	18,260	2.1%	2.0%	4.8%
SET	1,502	1.1%	6.2%	16.6%
HSI	22,801	0.7%	-0.3%	4.0%
NKY	17,177	1.6%	-10.8%	-9.7%
FTSE	6,807	1.7%	7.1%	9.0%
FSSTI	2,801	0.4%	-7.0%	-2.8%
EIDO	26	3.0%	24.1%	25.6%

Commodity price

Commodities (in USD)	Last price	Ret 1 day	Ret 1 year
Oil/barrel (WTI)	44.9	1.9%	1.4%
CPO/tonne	662.4	1.9%	20.1%
Soy/bushel	9.8	0.8%	12.3%
Rubber/kg	1.8	1.1%	39.1%
Nickel/tonne	11,088	6.4%	15.5%
Tins/tonne	21,965	2.4%	49.7%
Copper/tonne	5,080	2.1%	1.7%
Gold/try.oz (Spot)	1,282	-1.8%	17.6%
Coal/tonne	112.0	3.0%	114.7%
Corn/bushel	3.2	-0.8%	-11.7%
Wheat/bushel*	123.2	-3.7%	-24.8%

*: 1 month change

Source: Bloomberg

Lagging government expenditure and weak trade. Growth was diminishing on the back of lower government spending (-2.97% yoy, -0.2% qoq) and weakening trade (-24.26% yoy, 15.27% qoq) – both contributed negatives to whole growth figure at 0.25% and 0.55%, respectively. In trade, the weakening net export which had seen 26.2% yoy trade balance decline had brought negative impact to total growth figure without little sign of it to rebound anytime soon. Government spending disbursed was a mere 62.7% of total budget by Sep16 and will be pressured again in the coming months as the finance minister has announced the plan to ration budget, slashing some Rp137.6tn on top of the Rp46tn that will see decline according to law (by law, education and health budgets are benchmarked against total spending). We think the 31% remaining budget remains possible to be realised in 4Q16, provided aggressive spending and sufficient fiscal revenue.

Financial, transportation, construction remained champion. We consider sectoral growth in the finance, transportation, and construction industries remained defensive as they were all registering 8.83%, 8.2%, and 5.69% yoy, respectively and above the 5.02% recorded in general. In real growth perspective, however, only mining and transportation recorded improvement against last quarter and last year. Mining industry appeared to reap benefit from high prices with 0.13% yoy (vs -0.09% in 2Q16 and -5.66% in 3Q15) and will likely stay if prices sustain.

News & Analysis

Corporates

ADRO: President Director of Adaro Energy (ADRO IJ; Rp1,685; Buy) expects by end of this year the company will complete the financial closure related the agreement with Electricity Generating Authority of Thailand (EGAT). ADRO will supply coal to the power plant which will be built in the Southern part of Thailand and the agreement also includes the sales and purchase agreement of 12% stake in Adaro Indonesia's (ADRO's coal mining subsidiary) which estimated to worth around US\$325m. (Jakarta Post)

Comment: This confirms the previous news we highlighted several weeks ago. Details of the transactions have not been disclosed. However, assuming no other deal behind the sales and purchase agreement of Adaro Indonesia's (AI), we view the transaction valuation at EV/Reserves of \$3.6/ton as less attractive, as currently ADRO is traded at EV/Reserves of \$3.7/ton. We view that with the well established infrastructure in AI's mining sites (compared to ADRO's other mining sites), AI should be valued premium to ADRO.

ANTM: Aneka Tambang (ANTM IJ; Rp910; Not Rated) formed a strategic partnership with Newcrest Mining Ltd. to explore potential gold deposits in West Java, East Java, South Sumatera, Nusa Tenggara, North Sulawesi, Halmahera and The Islands of Maluku. Newcrest is one of the largest gold mining company in the world with operations in four countries. (Kontan)

Comment: At this stage, we see the impact of this partnership with Newcrest is very limited to ANTM's performance.

ASII: Astra International's (ASII IJ; Rp8,225; Buy) financing arms, Federal International Finance (FIF), disclosed that total new financing has reached Rp26.8tn or +13.5% yoy in 10M16. Total new motor cycle financed reached 1.1mn units similar to last year. The internal target of FIF for this year is a growth of 10% in new financing or Rp35tn. FIF expects demand to recover in FY17, especially from Sumatera and Kalimantan with the recovery in CPO and coal price.

Comment: The recovery in CPO and coal price will play an important role in purchasing power from Sumatera and Kalimantan. We should be optimistic as CPO and coal price has increased significantly.

MYOR: Mayora (MYOR IJ; Rp1,505; Not Rated) plans to build 2 more bottled drinking water plants in West Java and South Sumatera. MYOR's President Directors claims that MYOR will be able to capture 30-40% of market share by the time of the completion. This year, he estimates the domestic sales to grow 30% yoy. (Investor Daily)

Comment: We see the bottled drinking water in Indonesia is still dominated with Danone Aqua due to its strong brand equity. Therefore, we think it will take some time for MYOR to establish its brand among Indonesian consumers. To note, the product is not included under listed company.

Markets & Sectors

Automotive sector: Last week the Indonesian Motor Cycle Show (IMOS) ended after a 5-days event. This was a motorcycle show dedicated for 2W to display latest and concept motorcycle. Total transaction during this event reached 19.4bn with total unit sold of 751 units. This number is much smaller than the last motor show in 2014 with total transaction of 35.7bn and 1,543 units sold.

Comment: This is solid evidence that the motorcycle market remains very tepid due to high penetration. We think going forward the motorcycle market will be driven by uptrends with new model launching as a deciding factor.

Economic

Foreign reserves: Indonesia's foreign reserves were US\$115bn by Oct16, a decline of 0.6% from Sep16 due to low tax revenue realisation. Foreign reserves were sufficient to finance 8.8 months of import and 8.4 months of imports and foreign debt servicing.

Comment: Despite declining, foreign reserves remained high and well above the average in 2015 and 2016, growing at 14.2% yoy and 8.6% ytd (vs 13.7% yoy and 9.2% ytd in Sep16)

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.

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