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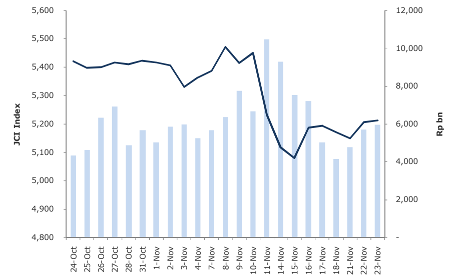
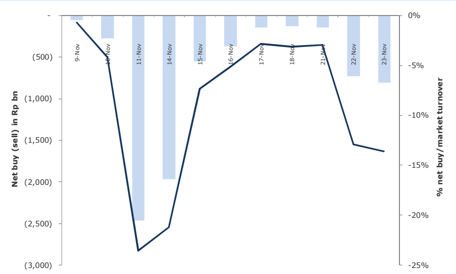
Premier Insight

24 November 2016

JCI Index



Foreign net buy (sell)



Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	5,212	0.1%	14.7%	13.5%
LQ45	873	0.3%	11.8%	10.3%
DJI	19,083	0.3%	7.1%	9.5%
SET	1,496	0.7%	8.0%	16.2%
HSI	22,677	0.0%	0.4%	3.5%
NKY	18,163	0.3%	-8.6%	-3.7%
FTSE	6,818	0.0%	8.6%	9.2%
FSSTI	2,840	0.6%	-2.9%	-1.5%
EIDO	23	-1.5%	12.1%	12.5%

Commodity price

Commodities	Last price	Ret 1 day	Ret 1 year
(in USD)			
Oil/barrel (WTI)	46.7	0.1%	16.5%
CPO/tonne	663.2	0.9%	29.4%
Soy/bushel	10.2	0.6%	17.2%
Rubber/kg	2.0	0.0%	59.4%
Nickel/tonne	11,554	2.0%	39.8%
Tins/tonne	21,480	0.9%	49.3%
Copper/tonne	5,725	2.3%	26.9%
Gold/try.oz (Spot)	1,188	-2.0%	10.5%
Coal/tonne	103.3	-2.8%	96.0%
Corn/bushel	3.3	-0.1%	-8.0%
Wheat/bushel*	122.5	-0.6%	-25.9%

** : 1 month change*

Source : Bloomberg

Matahari Dept. Store (LPPF IJ; Buy)

Worth the extra money

- **Limited risk in minority investment in mataharimall.com**
- **Matharistore.com domain launched to better showcase LPPF products**
- **Rp590bn extra investment in ecommerce is one-time top-up**
- **Limited downside risk, reiterate Buy**

Limited risk in minority investment in mataharimall.com. Through its minority investment in mataharimall.com (vs. investing a full-blow ecommerce platform), we think LPPF is able to capture the ecommerce potential without taking all the extra risks and investment entailing the establishment of a new ecommerce business unit in which they have limited expertise. As of today, extra sales captured from mataharimall.com roughly equate to about 1 out of 148 Matahari stores that are consolidated to LPPF's top line. This means that the bulk of sales still come from physical stores, and thus it would only make sense to invest in e-commerce, and not shift its focus and commit major resources to e-commerce, which is whole different ballgame from brick-and-mortar stores.

Mataharistore.com a virtual showcase at your fingertips. LPPF's new website domain mataharistore.com is not a new ecommerce site, but rather a storefront landing page hyperlinked to mataharimall.com intended to better showcase LPPF's products. The website domain is wholly-owned by LPPF and was included as part of Company's Rp200bn capex this year dedicated for IT and general maintenance. With logistics, manpower, infrastructure, payment etc still handled by mataharimall.com, we believe LPPF is on the roadmap to reach the goal of becoming a true omni-channel retailer with mataharistore.com without diverting its current focus on its physical store business.

Rp590bn additional investment is a one-time top-up. Following recent announcement of investment by Japan's Mitsui & Co. in mataharimall.com, LPPF plans to increase investment in e-commerce by injecting Rp590bn in stages, starting at the end of this year and concluding in 3Q17, to further capture the e-commerce potential in Indonesia. LPPF now holds 9.47% of mataharimall.com and the planned additional investment is expected to maintain its stake in the ecommerce business after share dilution post Mitsui's investment. LPPF has adequate cash for this one-off investment despite almost doubling its total capex for FY17 to Rp990bn; the Board of Management believes this will be the final time investment in mataharimall.com will be topped up.

Limited downside risk, reiterate Buy. At LPPF's current price, shares bought during the two placements in 2016 (CVC in May at Rp17,250 and Multipolar in September at Rp18,735) are down by 30% but we think further downside risk is limited as the stock is now at a 2-year low, not too far from the price of the second CVC placement in March 2014 at Rp13,100. We believe valuation is attractive at PE2017E of 18x, below the 3-year avg of 30x. We maintain our earnings forecasts.

Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue(RpBn)	7,926	9,007	9,880	10,949	12,170
EBITDA(RpBn)	2,339	2,570	2,864	3,188	3,483
EBITDA Growth (%)	17.7	9.9	11.4	11.3	9.3
Net Profit(RpBn)	1,419	1,781	2,143	2,363	2,596
EPS (Rp)	486	611	735	810	890
EPS Growth (%)	23.4	25.5	20.4	10.3	9.9
Net Gearing (%)	(235.9)	(85.6)	(61.7)	(65.0)	(70.8)
PER (x)	36.9	29.4	24.4	22.2	20.2
PBV (x)	328.8	47.3	26.3	18.3	13.8
Dividend Yield (%)	(0.9)	(1.6)	(2.4)	(2.9)	(3.2)
EV/EBITDA (x)	22.5	20.7	18.7	17.0	15.8

Source : LPPF,IndoPremier *Share Price Closing as of : 21-November-2016*

Cikarang Listrindo (POWR IJ; Buy)

Delay in coal power plant

- **Net income supported by deferred tax**
- **SGA up +39.3% yoy in 9M16**
- **Delay in coal power operation**
- **Maintain Buy; cut TP to Rp1,640**

Net income up by 79.5% yoy on deferred tax. Cikarang Listrindo booked net income of US$109mn (+79.5% yoy) in 9M16, mostly supported by deferred tax of US$78.8mn. However, the company also booked additional cost of US$17.4mn for early retirement of its bonds. Meanwhile, operationally, Cikarang was stable with power generated volume to industrial estate (IE) growing 6.0% yoy but slightly offset by decline in demand from PLN of -5.6% yoy. Tariff was also unchanged for both IE and PLN in 9M16. As a result, total revenue was up +1.2% yoy in 9M16, but -4.4% qoq in 3Q16 due to seasonality.

SGA increased significantly. The increase in SGA of 39.3% yoy in 9M16 can be mainly attributed to the provision of employee benefits with longer service period and Employee Stock Option (ESA), besides salary increment and new hiring. We expect SGA to increase another 3.4% yoy in FY17 due to routine salary increment but in the absence of ESA. Additionally, the company has decided to distribute interim dividend of US$10mn, or equivalent to Rp8 per share. The final dividend will be decided most likely in Apr16 with a guidance dividend payout ratio of 60%.

Coal-fired power plant is delayed. The first line of its coal fired power plant is scheduled to start operations in Feb16, after a delay of two months due to issues in transmission development. Cikarang was forced to re-route the transmission line due to land acquisition issues. The land was supposed to be owned by the Ministry of Public Works but was transferred to the Ministry of Agricultural, causing problems with the permit. To overcome this problem, Cikarang developed a new transmission route, but this led to a delay of two months in the operation of line 1. We expect the second line to operate a month thereafter.

Maintain Buy. We cut our target price to Rp1,640 after 9M16 results, on tariffs being slightly lower than our expectations, delays in the operation of coal-fired power plant and adjustments to reflect deferred tax and bonds retirement penalty. We remain positive on the stock due to strong cash flow with a stable business model, which allows the company to distribute dividend with a yield of 5.1% in FY16 and 4.2% in FY17. We maintain our BUY call on the stock.

Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue(US$Mn)	545	548	565	600	638
EBITDA(US$Mn)	191	195	191	236	272
EBITDA Growth (%)	41.7	0.4	0.3	23.8	28.5
Net Profit(US$Mn)	84	80	139	113	140
EPS (US$Cents)	7,903.5	0.6	0.9	0.7	0.9
EPS Growth (%)	95.5	(100.0)	64.2	(22.8)	23.9
Net Gearing (%)	145.6	129.8	33.6	25.5	12.5
PER (x)	19.1	20.1	11.6	14.3	11.5
PBV (x)	6.1	4.8	2.7	2.5	2.3
Dividend Yield (%)	2.6	0.3	5.2	4.2	5.2
EV/EBITDA (x)	10.4	10.5	9.7	7.7	6.4

Source: POWR, IndoPremier *Share Price Closing as of : 22-November-2016*

Kino Indonesia (KINO IJ; Hold)

Keeping up with Kino

- **Competition remains tough, negative effect might linger until 4Q16.**
- **Earnings downgrade on even lower-than-expected beverage demand.**
- **Halal Certification might temporarily reduce foreign products' entry.**
- **Maintain HOLD with updated TP of Rp3,700 (from Rp4,400).**

Competition to remain tense. We believe KINO's segmentation that offers differentiated products in high-growth niche categories has attracted new players to enjoy robust growth. KINO claimed competition is intensifying in its hair vitamin product, *Ellipse*, which is currently facing stiff competition from Chinese brands, especially in the general trade channel. Note that general trade constituted 60% of its distribution channel. Meanwhile, in female hygiene products, KINO is competing head to head with another local company, Sumber Ayu, that came up with new variances and cornered KINO's market share. As a result, KINO will allocate higher A&P spending to stimulate demand and maintain brand awareness. Therefore, we expect KINO's operating margin to deteriorate slightly in the next two years on higher A&P expenses.

Earnings downgrade. We cut FY16F and FY17F earnings by 19.5% and 8.1%, as we reduce FY16F and FY17F beverage sales by 4.0% and 3.9%, respectively, on rather muted demand in the beverage division and mounting inventories at distributors' level. Meanwhile, we still maintain our revenue growth estimates for other divisions. Hence, we expect overall gross margin to fall slightly to 40.1% in FY16F before improving slightly to 40.3% in FY17F. Hence, we expect net margin to be at 6.2% and 6.5% in FY16F and FY17F, respectively, on the back of expected better economic conditions in FY17F, boosting demand recovery, especially in non-necessity items such as personal care and beverage products.

Halal certification to benefit KINO. We think Halal requirement might help KINO to mitigate emerging competition, especially from foreign players. As a majority of KINO's products are already Halal-certified, we think this serves as a competitive advantage for KINO. Note that the regulation will be applicable for products that enter, circulate and trade in Indonesia, and is expected to be effective by 2019. Given rather complicated procedures to acquire Halal accreditation, we see the impact might hurt smaller businesses due to their limited financial resources to comply with the regulation.

Maintain HOLD. With our new assumptions, we adjust our DCF-based TP to Rp3,700, implying FY17F P/E of 19.5x. We still think intense competition in personal care and slow demand in beverage demand will remain a threat for KINO's profitability. Although the current share price implies 23% potential upside to our TP, as a result of US-election results shock, as seen on other Indonesia stocks, we still maintain HOLD on unexpected disappointing performance in 2016.

Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue (RpBn)	3,339	3,604	3,726	4,151	4,686
EBITDA (RpBn)	236	461	401	461	538
EBITDA Growth (%)	29.7	95.2	(13.1)	14.9	16.9
Net Profit (RpBn)	104	263	232	271	319
EPS (Rp)	73	184	162	190	223
EPS Growth (%)	79.1	152.8	(11.9)	16.9	17.7
Net Gearing (%)	92.7	7.3	(27.2)	(19.4)	(14.9)
PER (x)	41.2	16.3	18.5	15.8	13.4
PBV (x)	6.5	2.4	1.5	1.4	1.3
Dividend Yield (%)	0.0	0.0	0.0	1.6	1.9
EV/EBITDA (x)	0.0	9.0	12.6	10.6	8.9

Source: KINO, IndoPremier *Share Price Closing as of : 23 November 2016*

News & Analysis

Corporates

UNTR: United Tractors (UNTR IJ; Rp21,900; Buy) released October 2016 operational updates as follow;

- Heavy equipment sales reached 218 units, up 7.4% mom and 207% yoy, bringing 10M16 sales to 1,806 units, down 3.4% yoy. If the trend continues, sales volumes in FY16 will came above our estimate of 2,100 units.
- Coal extraction in Oct'16 reached 9.9m tons (+10% mom, +15% yoy), bringing coal extraction vol to 88.4m tons (-1.7% yoy) in 10M16.
- OB removal reached 58.5m bcm (+3.9% mom, -9.8% yoy) in Oct'16, bringing OB removal to 582m bcm (-11.8% yoy). PAMA performance came in relatively in-line with our expectation.
- Coal sales volumes in Oct'16 reached 323k tons (+12.9% mom, +55% yoy), allowing 10M16 coal sales vol to reach 6.07m tons (+46% yoy), inline with our estimate.

Comment: The improvement of UNTR operational performance in Oct'16 will persist further in FY17F, in our view. We maintain our positive view on the company and reiterate our Buy recommendation with TP of Rp26,000.

WIKA: Wijaya Karya (WIKA IJ; Rp2,460; Buy) is optimist to reach its target of Rp52.8tn this year. Until 21 November 2016, company has booked Rp43.3tn of new contract or 83% of FY16 target. Company is aiming road project in Timor Leste of Rp250bn, power plant in Cilacap of Rp500bn, projects in Angkasa Pura of Tp200bn and subsidiary's project of Rp2.3tn. Furthermore, company has also been appointed by JakPro as preferred contractor for LRT inner Jakarta (Kelapa Gading – Velodrome) worth of Rp5tn and expects the contract to be awarded next week. As such, finance director of WIKA expects earnings to reach Rp782bn this year, higher than initial estimate of Rp750bn. (Kontan)

Comment: the company should come close its full year target of Rp52.8tn without any contribution of high speed railway (HSR) if company managed to secure the potential contracts as mentioned. We think the strong achievement in FY16 topped with delayed HSR project will maintain strong FY17 and onwards earnings for WIKA. Maintain BUY.

Markets & Sector

F&B sector: PT East West Seed Indonesia (Ewindo Group) and Salim Group has formed a JV after signing MoU on 22 April 2016. Early investment for the JV, named PT Kentang Orlando Sejahtera, is around Rp100bn with 70% financed by Salim Group. (Kontan)

Comment: Through PT Kentang Orlando Sejahtera, Ewindo Group will supply high quality potato seeds, while Salim Group focuses on building potato processing facility. Thus, it should benefit its consumer business (ICBP) specifically in its snack food division by giving access to steady supply of high quality raw potato. To note, potato chips products are the backbone of ICBP's snack food division.

INDOPREMIER

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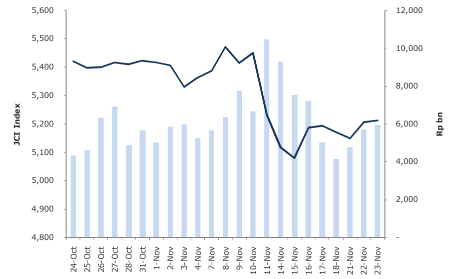
JCI Index



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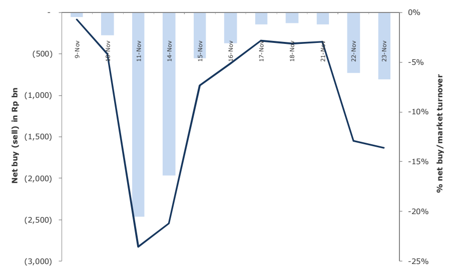

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Commodity price

Commodities	Last price	Ret 1 day	Ret 1 year
(in USD)			
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- **Rp590bn extra investment in ecommerce is one-time top-up**
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Delay in coal power plant

- **Net income supported by deferred tax**
- **SGA up +39.3% yoy in 9M16**
- **Delay in coal power operation**
- **Maintain Buy; cut TP to Rp1,640**

Net income up by 79.5% yoy on deferred tax. Cikarang Listrindo booked net income of US$109mn (+79.5% yoy) in 9M16, mostly supported by deferred tax of US$78.8mn. However, the company also booked additional cost of US$17.4mn for early retirement of its bonds. Meanwhile, operationally, Cikarang was stable with power generated volume to industrial estate (IE) growing 6.0% yoy but slightly offset by decline in demand from PLN of -5.6% yoy. Tariff was also unchanged for both IE and PLN in 9M16. As a result, total revenue was up +1.2% yoy in 9M16, but -4.4% qoq in 3Q16 due to seasonality.

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Maintain Buy. We cut our target price to Rp1,640 after 9M16 results, on tariffs being slightly lower than our expectations, delays in the operation of coal-fired power plant and adjustments to reflect deferred tax and bonds retirement penalty. We remain positive on the stock due to strong cash flow with a stable business model, which allows the company to distribute dividend with a yield of 5.1% in FY16 and 4.2% in FY17. We maintain our BUY call on the stock.

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EPS Growth (%)	95.5	(100.0)	64.2	(22.8)	23.9
Net Gearing (%)	145.6	129.8	33.6	25.5	12.5
PER (x)	19.1	20.1	11.6	14.3	11.5
PBV (x)	6.1	4.8	2.7	2.5	2.3
Dividend Yield (%)	2.6	0.3	5.2	4.2	5.2
EV/EBITDA (x)	10.4	10.5	9.7	7.7	6.4

Source: POWR, IndoPremier *Share Price Closing as of : 22-November-2016*

Kino Indonesia (KINO IJ; Hold)

Keeping up with Kino

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Maintain HOLD. With our new assumptions, we adjust our DCF-based TP to Rp3,700, implying FY17F P/E of 19.5x. We still think intense competition in personal care and slow demand in beverage demand will remain a threat for KINO's profitability. Although the current share price implies 23% potential upside to our TP, as a result of US-election results shock, as seen on other Indonesia stocks, we still maintain HOLD on unexpected disappointing performance in 2016.

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Revenue (RpBn)	3,339	3,604	3,726	4,151	4,686
EBITDA (RpBn)	236	461	401	461	538
EBITDA Growth (%)	29.7	95.2	(13.1)	14.9	16.9
Net Profit (RpBn)	104	263	232	271	319
EPS (Rp)	73	184	162	190	223
EPS Growth (%)	79.1	152.8	(11.9)	16.9	17.7
Net Gearing (%)	92.7	7.3	(27.2)	(19.4)	(14.9)
PER (x)	41.2	16.3	18.5	15.8	13.4
PBV (x)	6.5	2.4	1.5	1.4	1.3
Dividend Yield (%)	0.0	0.0	0.0	1.6	1.9
EV/EBITDA (x)	0.0	9.0	12.6	10.6	8.9

Source: KINO, IndoPremier *Share Price Closing as of : 23 November 2016*

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UNTR: United Tractors (UNTR IJ; Rp21,900; Buy) released October 2016 operational updates as follow;

- Heavy equipment sales reached 218 units, up 7.4% mom and 207% yoy, bringing 10M16 sales to 1,806 units, down 3.4% yoy. If the trend continues, sales volumes in FY16 will came above our estimate of 2,100 units.
- Coal extraction in Oct'16 reached 9.9m tons (+10% mom, +15% yoy), bringing coal extraction vol to 88.4m tons (-1.7% yoy) in 10M16.
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Comment: The improvement of UNTR operational performance in Oct'16 will persist further in FY17F, in our view. We maintain our positive view on the company and reiterate our Buy recommendation with TP of Rp26,000.

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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

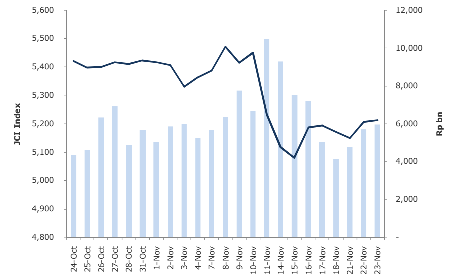
ANALYSTS CERTIFICATION.

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.

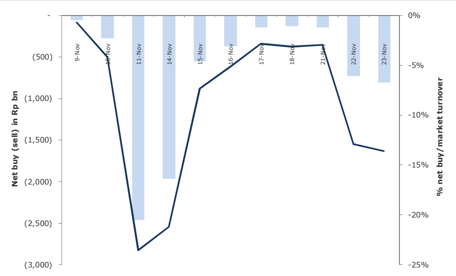
Premier Insight

24 November 2016

JCI Index



Foreign net buy (sell)



Key Indexes

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Coal/tonne	103.3	-2.8%	96.0%
Corn/bushel	3.3	-0.1%	-8.0%
Wheat/bushel*	122.5	-0.6%	-25.9%

** : 1 month change*

Source : Bloomberg

Matahari Dept. Store (LPPF IJ; Buy)

Worth the extra money

- **Limited risk in minority investment in mataharimall.com**
- **Matharistore.com domain launched to better showcase LPPF products**
- **Rp590bn extra investment in ecommerce is one-time top-up**
- **Limited downside risk, reiterate Buy**

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Mataharistore.com a virtual showcase at your fingertips. LPPF's new website domain mataharistore.com is not a new ecommerce site, but rather a storefront landing page hyperlinked to mataharimall.com intended to better showcase LPPF's products. The website domain is wholly-owned by LPPF and was included as part of Company's Rp200bn capex this year dedicated for IT and general maintenance. With logistics, manpower, infrastructure, payment etc still handled by mataharimall.com, we believe LPPF is on the roadmap to reach the goal of becoming a true omni-channel retailer with mataharistore.com without diverting its current focus on its physical store business.

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Limited downside risk, reiterate Buy. At LPPF's current price, shares bought during the two placements in 2016 (CVC in May at Rp17,250 and Multipolar in September at Rp18,735) are down by 30% but we think further downside risk is limited as the stock is now at a 2-year low, not too far from the price of the second CVC placement in March 2014 at Rp13,100. We believe valuation is attractive at PE2017E of 18x, below the 3-year avg of 30x. We maintain our earnings forecasts.

Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue(RpBn)	7,926	9,007	9,880	10,949	12,170
EBITDA(RpBn)	2,339	2,570	2,864	3,188	3,483
EBITDA Growth (%)	17.7	9.9	11.4	11.3	9.3
Net Profit(RpBn)	1,419	1,781	2,143	2,363	2,596
EPS (Rp)	486	611	735	810	890
EPS Growth (%)	23.4	25.5	20.4	10.3	9.9
Net Gearing (%)	(235.9)	(85.6)	(61.7)	(65.0)	(70.8)
PER (x)	36.9	29.4	24.4	22.2	20.2
PBV (x)	328.8	47.3	26.3	18.3	13.8
Dividend Yield (%)	(0.9)	(1.6)	(2.4)	(2.9)	(3.2)
EV/EBITDA (x)	22.5	20.7	18.7	17.0	15.8

Source : LPPF,IndoPremier *Share Price Closing as of : 21-November-2016*

Cikarang Listrindo (POWR IJ; Buy)

Delay in coal power plant

- **Net income supported by deferred tax**
- **SGA up +39.3% yoy in 9M16**
- **Delay in coal power operation**
- **Maintain Buy; cut TP to Rp1,640**

Net income up by 79.5% yoy on deferred tax. Cikarang Listrindo booked net income of US$109mn (+79.5% yoy) in 9M16, mostly supported by deferred tax of US$78.8mn. However, the company also booked additional cost of US$17.4mn for early retirement of its bonds. Meanwhile, operationally, Cikarang was stable with power generated volume to industrial estate (IE) growing 6.0% yoy but slightly offset by decline in demand from PLN of -5.6% yoy. Tariff was also unchanged for both IE and PLN in 9M16. As a result, total revenue was up +1.2% yoy in 9M16, but -4.4% qoq in 3Q16 due to seasonality.

SGA increased significantly. The increase in SGA of 39.3% yoy in 9M16 can be mainly attributed to the provision of employee benefits with longer service period and Employee Stock Option (ESA), besides salary increment and new hiring. We expect SGA to increase another 3.4% yoy in FY17 due to routine salary increment but in the absence of ESA. Additionally, the company has decided to distribute interim dividend of US$10mn, or equivalent to Rp8 per share. The final dividend will be decided most likely in Apr16 with a guidance dividend payout ratio of 60%.

Coal-fired power plant is delayed. The first line of its coal fired power plant is scheduled to start operations in Feb16, after a delay of two months due to issues in transmission development. Cikarang was forced to re-route the transmission line due to land acquisition issues. The land was supposed to be owned by the Ministry of Public Works but was transferred to the Ministry of Agricultural, causing problems with the permit. To overcome this problem, Cikarang developed a new transmission route, but this led to a delay of two months in the operation of line 1. We expect the second line to operate a month thereafter.

Maintain Buy. We cut our target price to Rp1,640 after 9M16 results, on tariffs being slightly lower than our expectations, delays in the operation of coal-fired power plant and adjustments to reflect deferred tax and bonds retirement penalty. We remain positive on the stock due to strong cash flow with a stable business model, which allows the company to distribute dividend with a yield of 5.1% in FY16 and 4.2% in FY17. We maintain our BUY call on the stock.

Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue(US$Mn)	545	548	565	600	638
EBITDA(US$Mn)	191	195	191	236	272
EBITDA Growth (%)	41.7	0.4	0.3	23.8	28.5
Net Profit(US$Mn)	84	80	139	113	140
EPS (US$Cents)	7,903.5	0.6	0.9	0.7	0.9
EPS Growth (%)	95.5	(100.0)	64.2	(22.8)	23.9
Net Gearing (%)	145.6	129.8	33.6	25.5	12.5
PER (x)	19.1	20.1	11.6	14.3	11.5
PBV (x)	6.1	4.8	2.7	2.5	2.3
Dividend Yield (%)	2.6	0.3	5.2	4.2	5.2
EV/EBITDA (x)	10.4	10.5	9.7	7.7	6.4

Source: POWR, IndoPremier *Share Price Closing as of : 22-November-2016*

Kino Indonesia (KINO IJ; Hold)

Keeping up with Kino

- **Competition remains tough, negative effect might linger until 4Q16.**
- **Earnings downgrade on even lower-than-expected beverage demand.**
- **Halal Certification might temporarily reduce foreign products' entry.**
- **Maintain HOLD with updated TP of Rp3,700 (from Rp4,400).**

Competition to remain tense. We believe KINO's segmentation that offers differentiated products in high-growth niche categories has attracted new players to enjoy robust growth. KINO claimed competition is intensifying in its hair vitamin product*, Ellipse*, which is currently facing stiff competition from Chinese brands, especially in the general trade channel. Note that general trade constituted 60% of its distribution channel. Meanwhile, in female hygiene products, KINO is competing head to head with another local company, Sumber Ayu, that came up with new variances and cornered KINO's market share. As a result, KINO will allocate higher A&P spending to stimulate demand and maintain brand awareness. Therefore, we expect KINO's operating margin to deteriorate slightly in the next two years on higher A&P expenses.

Earnings downgrade. We cut FY16F and FY17F earnings by 19.5% and 8.1%, as we reduce FY16F and FY17F beverage sales by 4.0% and 3.9%, respectively, on rather muted demand in the beverage division and mounting inventories at distributors' level. Meanwhile, we still maintain our revenue growth estimates for other divisions. Hence, we expect overall gross margin to fall slightly to 40.1% in FY16F before improving slightly to 40.3% in FY17F. Hence, we expect net margin to be at 6.2% and 6.5% in FY16F and FY17F, respectively, on the back of expected better economic conditions in FY17F, boosting demand recovery, especially in non-necessity items such as personal care and beverage products.

Halal certification to benefit KINO. We think Halal requirement might help KINO to mitigate emerging competition, especially from foreign players. As a majority of KINO's products are already Halal-certified, we think this serves as a competitive advantage for KINO. Note that the regulation will be applicable for products that enter, circulate and trade in Indonesia, and is expected to be effective by 2019. Given rather complicated procedures to acquire Halal accreditation, we see the impact might hurt smaller businesses due to their limited financial resources to comply with the regulation.

Maintain HOLD. With our new assumptions, we adjust our DCF-based TP to Rp3,700, implying FY17F P/E of 19.5x. We still think intense competition in personal care and slow demand in beverage demand will remain a threat for KINO's profitability. Although the current share price implies 23% potential upside to our TP, as a result of US-election results shock, as seen on other Indonesia stocks, we still maintain HOLD on unexpected disappointing performance in 2016.

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Premier Insight

24 November 2016

Equity | Indonesia | Research Daily

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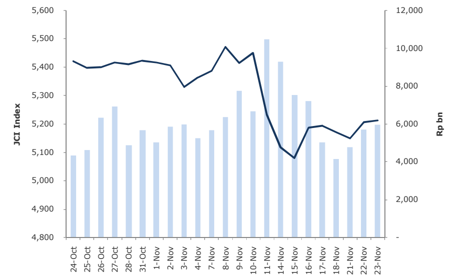

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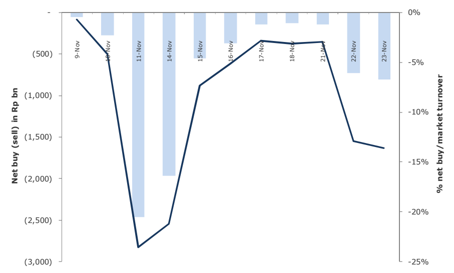

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- **Delay in coal power operation**
- **Maintain Buy; cut TP to Rp1,640**

Net income up by 79.5% yoy on deferred tax. Cikarang Listrindo booked net income of US$109mn (+79.5% yoy) in 9M16, mostly supported by deferred tax of US$78.8mn. However, the company also booked additional cost of US$17.4mn for early retirement of its bonds. Meanwhile, operationally, Cikarang was stable with power generated volume to industrial estate (IE) growing 6.0% yoy but slightly offset by decline in demand from PLN of -5.6% yoy. Tariff was also unchanged for both IE and PLN in 9M16. As a result, total revenue was up +1.2% yoy in 9M16, but -4.4% qoq in 3Q16 due to seasonality.

SGA increased significantly. The increase in SGA of 39.3% yoy in 9M16 can be mainly attributed to the provision of employee benefits with longer service period and Employee Stock Option (ESA), besides salary increment and new hiring. We expect SGA to increase another 3.4% yoy in FY17 due to routine salary increment but in the absence of ESA. Additionally, the company has decided to distribute interim dividend of US$10mn, or equivalent to Rp8 per share. The final dividend will be decided most likely in Apr16 with a guidance dividend payout ratio of 60%.

Coal-fired power plant is delayed. The first line of its coal fired power plant is scheduled to start operations in Feb16, after a delay of two months due to issues in transmission development. Cikarang was forced to re-route the transmission line due to land acquisition issues. The land was supposed to be owned by the Ministry of Public Works but was transferred to the Ministry of Agricultural, causing problems with the permit. To overcome this problem, Cikarang developed a new transmission route, but this led to a delay of two months in the operation of line 1. We expect the second line to operate a month thereafter.

Maintain Buy. We cut our target price to Rp1,640 after 9M16 results, on tariffs being slightly lower than our expectations, delays in the operation of coal-fired power plant and adjustments to reflect deferred tax and bonds retirement penalty. We remain positive on the stock due to strong cash flow with a stable business model, which allows the company to distribute dividend with a yield of 5.1% in FY16 and 4.2% in FY17. We maintain our BUY call on the stock.

Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue(US$Mn)	545	548	565	600	638
EBITDA(US$Mn)	191	195	191	236	272
EBITDA Growth (%)	41.7	0.4	0.3	23.8	28.5
Net Profit(US$Mn)	84	80	139	113	140
EPS (US$Cents)	7,903.5	0.6	0.9	0.7	0.9
EPS Growth (%)	95.5	(100.0)	64.2	(22.8)	23.9
Net Gearing (%)	145.6	129.8	33.6	25.5	12.5
PER (x)	19.1	20.1	11.6	14.3	11.5
PBV (x)	6.1	4.8	2.7	2.5	2.3
Dividend Yield (%)	2.6	0.3	5.2	4.2	5.2
EV/EBITDA (x)	10.4	10.5	9.7	7.7	6.4

Source: POWR, IndoPremier *Share Price Closing as of : 22-November-2016*

Kino Indonesia (KINO IJ; Hold)

Keeping up with Kino

- **Competition remains tough, negative effect might linger until 4Q16.**
- **Earnings downgrade on even lower-than-expected beverage demand.**
- **Halal Certification might temporarily reduce foreign products' entry.**
- **Maintain HOLD with updated TP of Rp3,700 (from Rp4,400).**

Competition to remain tense. We believe KINO's segmentation that offers differentiated products in high-growth niche categories has attracted new players to enjoy robust growth. KINO claimed competition is intensifying in its hair vitamin product*, Ellipse*, which is currently facing stiff competition from Chinese brands, especially in the general trade channel. Note that general trade constituted 60% of its distribution channel. Meanwhile, in female hygiene products, KINO is competing head to head with another local company, Sumber Ayu, that came up with new variances and cornered KINO's market share. As a result, KINO will allocate higher A&P spending to stimulate demand and maintain brand awareness. Therefore, we expect KINO's operating margin to deteriorate slightly in the next two years on higher A&P expenses.

Earnings downgrade. We cut FY16F and FY17F earnings by 19.5% and 8.1%, as we reduce FY16F and FY17F beverage sales by 4.0% and 3.9%, respectively, on rather muted demand in the beverage division and mounting inventories at distributors' level. Meanwhile, we still maintain our revenue growth estimates for other divisions. Hence, we expect overall gross margin to fall slightly to 40.1% in FY16F before improving slightly to 40.3% in FY17F. Hence, we expect net margin to be at 6.2% and 6.5% in FY16F and FY17F, respectively, on the back of expected better economic conditions in FY17F, boosting demand recovery, especially in non-necessity items such as personal care and beverage products.

Halal certification to benefit KINO. We think Halal requirement might help KINO to mitigate emerging competition, especially from foreign players. As a majority of KINO's products are already Halal-certified, we think this serves as a competitive advantage for KINO. Note that the regulation will be applicable for products that enter, circulate and trade in Indonesia, and is expected to be effective by 2019. Given rather complicated procedures to acquire Halal accreditation, we see the impact might hurt smaller businesses due to their limited financial resources to comply with the regulation.

Maintain HOLD. With our new assumptions, we adjust our DCF-based TP to Rp3,700, implying FY17F P/E of 19.5x. We still think intense competition in personal care and slow demand in beverage demand will remain a threat for KINO's profitability. Although the current share price implies 23% potential upside to our TP, as a result of US-election results shock, as seen on other Indonesia stocks, we still maintain HOLD on unexpected disappointing performance in 2016.

Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue (RpBn)	3,339	3,604	3,726	4,151	4,686
EBITDA (RpBn)	236	461	401	461	538
EBITDA Growth (%)	29.7	95.2	(13.1)	14.9	16.9
Net Profit (RpBn)	104	263	232	271	319
EPS (Rp)	73	184	162	190	223
EPS Growth (%)	79.1	152.8	(11.9)	16.9	17.7
Net Gearing (%)	92.7	7.3	(27.2)	(19.4)	(14.9)
PER (x)	41.2	16.3	18.5	15.8	13.4
PBV (x)	6.5	2.4	1.5	1.4	1.3
Dividend Yield (%)	0.0	0.0	0.0	1.6	1.9
EV/EBITDA (x)	0.0	9.0	12.6	10.6	8.9

Source: KINO, IndoPremier *Share Price Closing as of : 23 November 2016*

News & Analysis

Corporates

UNTR: United Tractors (UNTR IJ; Rp21,900; Buy) released October 2016 operational updates as follow;

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Comment: The improvement of UNTR operational performance in Oct'16 will persist further in FY17F, in our view. We maintain our positive view on the company and reiterate our Buy recommendation with TP of Rp26,000.

WIKA: Wijaya Karya (WIKA IJ; Rp2,460; Buy) is optimist to reach its target of Rp52.8tn this year. Until 21 November 2016, company has booked Rp43.3tn of new contract or 83% of FY16 target. Company is aiming road project in Timor Leste of Rp250bn, power plant in Cilacap of Rp500bn, projects in Angkasa Pura of Tp200bn and subsidiary's project of Rp2.3tn. Furthermore, company has also been appointed by JakPro as preferred contractor for LRT inner Jakarta (Kelapa Gading – Velodrome) worth of Rp5tn and expects the contract to be awarded next week. As such, finance director of WIKA expects earnings to reach Rp782bn this year, higher than initial estimate of Rp750bn. (Kontan)

Comment: the company should come close its full year target of Rp52.8tn without any contribution of high speed railway (HSR) if company managed to secure the potential contracts as mentioned. We think the strong achievement in FY16 topped with delayed HSR project will maintain strong FY17 and onwards earnings for WIKA. Maintain BUY.

Markets & Sector

F&B sector: PT East West Seed Indonesia (Ewindo Group) and Salim Group has formed a JV after signing MoU on 22 April 2016. Early investment for the JV, named PT Kentang Orlando Sejahtera, is around Rp100bn with 70% financed by Salim Group. (Kontan)

Comment: Through PT Kentang Orlando Sejahtera, Ewindo Group will supply high quality potato seeds, while Salim Group focuses on building potato processing facility. Thus, it should benefit its consumer business (ICBP) specifically in its snack food division by giving access to steady supply of high quality raw potato. To note, potato chips products are the backbone of ICBP's snack food division.

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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.

INDOPREMIER

Premier Insight

24 November 2016

Equity | Indonesia | Research Daily

Matahari Dept. Store (LPPF IJ; Buy)

Worth the extra money

- **Limited risk in minority investment in mataharimall.com**
- **Matharistore.com domain launched to better showcase LPPF products**
- **Rp590bn extra investment in ecommerce is one-time top-up**
- **Limited downside risk, reiterate Buy**

Limited risk in minority investment in mataharimall.com. Through its minority investment in mataharimall.com (vs. investing a full-blow ecommerce platform), we think LPPF is able to capture the ecommerce potential without taking all the extra risks and investment entailing the establishment of a new ecommerce business unit in which they have limited expertise. As of today, extra sales captured from mataharimall.com roughly equate to about 1 out of 148 Matahari stores that are consolidated to LPPF's top line. This means that the bulk of sales still come from physical stores, and thus it would only make sense to invest in e-commerce, and not shift its focus and commit major resources to e-commerce, which is whole different ballgame from brick-and-mortar stores.

Mataharistore.com a virtual showcase at your fingertips. LPPF's new website domain mataharistore.com is not a new ecommerce site, but rather a storefront landing page hyperlinked to mataharimall.com intended to better showcase LPPF's products. The website domain is wholly-owned by LPPF and was included as part of Company's Rp200bn capex this year dedicated for IT and general maintenance. With logistics, manpower, infrastructure, payment etc still handled by mataharimall.com, we believe LPPF is on the roadmap to reach the goal of becoming a true omni-channel retailer with mataharistore.com without diverting its current focus on its physical store business.

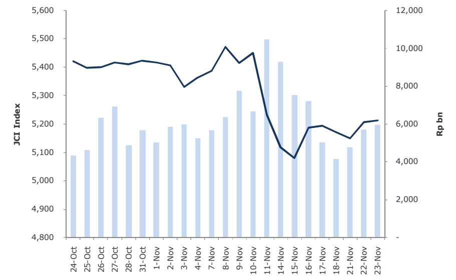
Rp590bn additional investment is a one-time top-up. Following recent announcement of investment by Japan's Mitsui & Co. in mataharimall.com, LPPF plans to increase investment in e-commerce by injecting Rp590bn in stages, starting at the end of this year and concluding in 3Q17, to further capture the e-commerce potential in Indonesia. LPPF now holds 9.47% of mataharimall.com and the planned additional investment is expected to maintain its stake in the ecommerce business after share dilution post Mitsui's investment. LPPF has adequate cash for this one-off investment despite almost doubling its total capex for FY17 to Rp990bn; the Board of Management believes this will be the final time investment in mataharimall.com will be topped up.

Limited downside risk, reiterate Buy. At LPPF's current price, shares bought during the two placements in 2016 (CVC in May at Rp17,250 and Multipolar in September at Rp18,735) are down by 30% but we think further downside risk is limited as the stock is now at a 2-year low, not too far from the price of the second CVC placement in March 2014 at Rp13,100. We believe valuation is attractive at PE2017E of 18x, below the 3-year avg of 30x. We maintain our earnings forecasts.

Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue(RpBn)	7,926	9,007	9,880	10,949	12,170
EBITDA(RpBn)	2,339	2,570	2,864	3,188	3,483
EBITDA Growth (%)	17.7	9.9	11.4	11.3	9.3
Net Profit(RpBn)	1,419	1,781	2,143	2,363	2,596
EPS (Rp)	486	611	735	810	890
EPS Growth (%)	23.4	25.5	20.4	10.3	9.9
Net Gearing (%)	(235.9)	(85.6)	(61.7)	(65.0)	(70.8)
PER (x)	36.9	29.4	24.4	22.2	20.2
PBV (x)	328.8	47.3	26.3	18.3	13.8
Dividend Yield (%)	(0.9)	(1.6)	(2.4)	(2.9)	(3.2)
EV/EBITDA (x)	22.5	20.7	18.7	17.0	15.8

Source : LPPF,IndoPremier *Share Price Closing as of : 21-November-2016*

JCI Index



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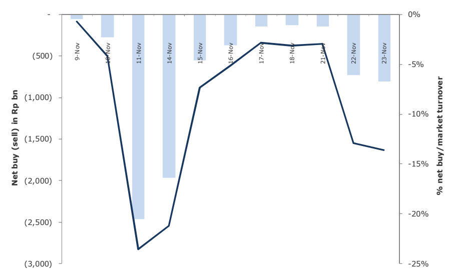

Key Indexes

Index	Closing	1 day	1 year	YTD
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FSSTI	2,840	0.6%	-2.9%	-1.5%
EIDO	23	-1.5%	12.1%	12.5%

Commodity price

Commodities	Last price	Ret 1 day	Ret 1 year
(in USD)			
Oil/barrel (WTI)	46.7	0.1%	16.5%
CPO/tonne	663.2	0.9%	29.4%
Soy/bushel	10.2	0.6%	17.2%
Rubber/kg	2.0	0.0%	59.4%
Nickel/tonne	11,554	2.0%	39.8%
Tins/tonne	21,480	0.9%	49.3%
Copper/tonne	5,725	2.3%	26.9%
Gold/try.oz (Spot)	1,188	-2.0%	10.5%
Coal/tonne	103.3	-2.8%	96.0%
Corn/bushel	3.3	-0.1%	-8.0%
Wheat/bushel*	122.5	-0.6%	-25.9%

** : 1 month change*

Source : Bloomberg

Cikarang Listrindo (POWR IJ; Buy)

Delay in coal power plant

- **Net income supported by deferred tax**
- **SGA up +39.3% yoy in 9M16**
- **Delay in coal power operation**
- **Maintain Buy; cut TP to Rp1,640**

Net income up by 79.5% yoy on deferred tax. Cikarang Listrindo booked net income of US$109mn (+79.5% yoy) in 9M16, mostly supported by deferred tax of US$78.8mn. However, the company also booked additional cost of US$17.4mn for early retirement of its bonds. Meanwhile, operationally, Cikarang was stable with power generated volume to industrial estate (IE) growing 6.0% yoy but slightly offset by decline in demand from PLN of -5.6% yoy. Tariff was also unchanged for both IE and PLN in 9M16. As a result, total revenue was up +1.2% yoy in 9M16, but -4.4% qoq in 3Q16 due to seasonality.

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Dividend Yield (%)	2.6	0.3	5.2	4.2	5.2
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Source: POWR, IndoPremier *Share Price Closing as of : 22-November-2016*

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- **Halal Certification might temporarily reduce foreign products' entry.**
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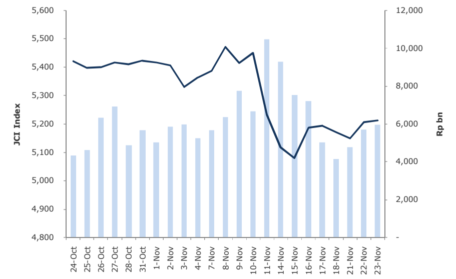
Equity | Indonesia | Research Daily

Premier Insight

24 November 2016

JCI Index



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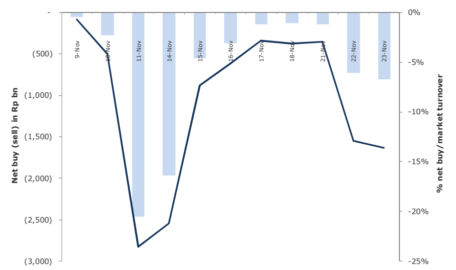

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Commodities	Last price	Ret 1 day	Ret 1 year
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Oil/barrel (WTI)	46.7	0.1%	16.5%
CPO/tonne	663.2	0.9%	29.4%
Soy/bushel	10.2	0.6%	17.2%
Rubber/kg	2.0	0.0%	59.4%
Nickel/tonne	11,554	2.0%	39.8%
Tins/tonne	21,480	0.9%	49.3%
Copper/tonne	5,725	2.3%	26.9%
Gold/try.oz (Spot)	1,188	-2.0%	10.5%
Coal/tonne	103.3	-2.8%	96.0%
Corn/bushel	3.3	-0.1%	-8.0%
Wheat/bushel*	122.5	-0.6%	-25.9%

** : 1 month change*

Source : Bloomberg

Matahari Dept. Store (LPPF IJ; Buy)

Worth the extra money

- **Limited risk in minority investment in mataharimall.com**
- **Matharistore.com domain launched to better showcase LPPF products**
- **Rp590bn extra investment in ecommerce is one-time top-up**
- **Limited downside risk, reiterate Buy**

Limited risk in minority investment in mataharimall.com. Through its minority investment in mataharimall.com (vs. investing a full-blow ecommerce platform), we think LPPF is able to capture the ecommerce potential without taking all the extra risks and investment entailing the establishment of a new ecommerce business unit in which they have limited expertise. As of today, extra sales captured from mataharimall.com roughly equate to about 1 out of 148 Matahari stores that are consolidated to LPPF's top line. This means that the bulk of sales still come from physical stores, and thus it would only make sense to invest in e-commerce, and not shift its focus and commit major resources to e-commerce, which is whole different ballgame from brick-and-mortar stores.

Mataharistore.com a virtual showcase at your fingertips. LPPF's new website domain mataharistore.com is not a new ecommerce site, but rather a storefront landing page hyperlinked to mataharimall.com intended to better showcase LPPF's products. The website domain is wholly-owned by LPPF and was included as part of Company's Rp200bn capex this year dedicated for IT and general maintenance. With logistics, manpower, infrastructure, payment etc still handled by mataharimall.com, we believe LPPF is on the roadmap to reach the goal of becoming a true omni-channel retailer with mataharistore.com without diverting its current focus on its physical store business.

Rp590bn additional investment is a one-time top-up. Following recent announcement of investment by Japan's Mitsui & Co. in mataharimall.com, LPPF plans to increase investment in e-commerce by injecting Rp590bn in stages, starting at the end of this year and concluding in 3Q17, to further capture the e-commerce potential in Indonesia. LPPF now holds 9.47% of mataharimall.com and the planned additional investment is expected to maintain its stake in the ecommerce business after share dilution post Mitsui's investment. LPPF has adequate cash for this one-off investment despite almost doubling its total capex for FY17 to Rp990bn; the Board of Management believes this will be the final time investment in mataharimall.com will be topped up.

Limited downside risk, reiterate Buy. At LPPF's current price, shares bought during the two placements in 2016 (CVC in May at Rp17,250 and Multipolar in September at Rp18,735) are down by 30% but we think further downside risk is limited as the stock is now at a 2-year low, not too far from the price of the second CVC placement in March 2014 at Rp13,100. We believe valuation is attractive at PE2017E of 18x, below the 3-year avg of 30x. We maintain our earnings forecasts.

Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue(RpBn)	7,926	9,007	9,880	10,949	12,170
EBITDA(RpBn)	2,339	2,570	2,864	3,188	3,483
EBITDA Growth (%)	17.7	9.9	11.4	11.3	9.3
Net Profit(RpBn)	1,419	1,781	2,143	2,363	2,596
EPS (Rp)	486	611	735	810	890
EPS Growth (%)	23.4	25.5	20.4	10.3	9.9
Net Gearing (%)	(235.9)	(85.6)	(61.7)	(65.0)	(70.8)
PER (x)	36.9	29.4	24.4	22.2	20.2
PBV (x)	328.8	47.3	26.3	18.3	13.8
Dividend Yield (%)	(0.9)	(1.6)	(2.4)	(2.9)	(3.2)
EV/EBITDA (x)	22.5	20.7	18.7	17.0	15.8

Source : LPPF,IndoPremier *Share Price Closing as of : 21-November-2016*

Cikarang Listrindo (POWR IJ; Buy)

Delay in coal power plant

- **Net income supported by deferred tax**
- **SGA up +39.3% yoy in 9M16**
- **Delay in coal power operation**
- **Maintain Buy; cut TP to Rp1,640**

Net income up by 79.5% yoy on deferred tax. Cikarang Listrindo booked net income of US$109mn (+79.5% yoy) in 9M16, mostly supported by deferred tax of US$78.8mn. However, the company also booked additional cost of US$17.4mn for early retirement of its bonds. Meanwhile, operationally, Cikarang was stable with power generated volume to industrial estate (IE) growing 6.0% yoy but slightly offset by decline in demand from PLN of -5.6% yoy. Tariff was also unchanged for both IE and PLN in 9M16. As a result, total revenue was up +1.2% yoy in 9M16, but -4.4% qoq in 3Q16 due to seasonality.

SGA increased significantly. The increase in SGA of 39.3% yoy in 9M16 can be mainly attributed to the provision of employee benefits with longer service period and Employee Stock Option (ESA), besides salary increment and new hiring. We expect SGA to increase another 3.4% yoy in FY17 due to routine salary increment but in the absence of ESA. Additionally, the company has decided to distribute interim dividend of US$10mn, or equivalent to Rp8 per share. The final dividend will be decided most likely in Apr16 with a guidance dividend payout ratio of 60%.

Coal-fired power plant is delayed. The first line of its coal fired power plant is scheduled to start operations in Feb16, after a delay of two months due to issues in transmission development. Cikarang was forced to re-route the transmission line due to land acquisition issues. The land was supposed to be owned by the Ministry of Public Works but was transferred to the Ministry of Agricultural, causing problems with the permit. To overcome this problem, Cikarang developed a new transmission route, but this led to a delay of two months in the operation of line 1. We expect the second line to operate a month thereafter.

Maintain Buy. We cut our target price to Rp1,640 after 9M16 results, on tariffs being slightly lower than our expectations, delays in the operation of coal-fired power plant and adjustments to reflect deferred tax and bonds retirement penalty. We remain positive on the stock due to strong cash flow with a stable business model, which allows the company to distribute dividend with a yield of 5.1% in FY16 and 4.2% in FY17. We maintain our BUY call on the stock.

Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue(US$Mn)	545	548	565	600	638
EBITDA(US$Mn)	191	195	191	236	272
EBITDA Growth (%)	41.7	0.4	0.3	23.8	28.5
Net Profit(US$Mn)	84	80	139	113	140
EPS (US$Cents)	7,903.5	0.6	0.9	0.7	0.9
EPS Growth (%)	95.5	(100.0)	64.2	(22.8)	23.9
Net Gearing (%)	145.6	129.8	33.6	25.5	12.5
PER (x)	19.1	20.1	11.6	14.3	11.5
PBV (x)	6.1	4.8	2.7	2.5	2.3
Dividend Yield (%)	2.6	0.3	5.2	4.2	5.2
EV/EBITDA (x)	10.4	10.5	9.7	7.7	6.4

Source: POWR, IndoPremier *Share Price Closing as of : 22-November-2016*

Kino Indonesia (KINO IJ; Hold)

Keeping up with Kino

- **Competition remains tough, negative effect might linger until 4Q16.**
- **Earnings downgrade on even lower-than-expected beverage demand.**
- **Halal Certification might temporarily reduce foreign products' entry.**
- **Maintain HOLD with updated TP of Rp3,700 (from Rp4,400).**

Competition to remain tense. We believe KINO's segmentation that offers differentiated products in high-growth niche categories has attracted new players to enjoy robust growth. KINO claimed competition is intensifying in its hair vitamin product*, Ellipse*, which is currently facing stiff competition from Chinese brands, especially in the general trade channel. Note that general trade constituted 60% of its distribution channel. Meanwhile, in female hygiene products, KINO is competing head to head with another local company, Sumber Ayu, that came up with new variances and cornered KINO's market share. As a result, KINO will allocate higher A&P spending to stimulate demand and maintain brand awareness. Therefore, we expect KINO's operating margin to deteriorate slightly in the next two years on higher A&P expenses.

Earnings downgrade. We cut FY16F and FY17F earnings by 19.5% and 8.1%, as we reduce FY16F and FY17F beverage sales by 4.0% and 3.9%, respectively, on rather muted demand in the beverage division and mounting inventories at distributors' level. Meanwhile, we still maintain our revenue growth estimates for other divisions. Hence, we expect overall gross margin to fall slightly to 40.1% in FY16F before improving slightly to 40.3% in FY17F. Hence, we expect net margin to be at 6.2% and 6.5% in FY16F and FY17F, respectively, on the back of expected better economic conditions in FY17F, boosting demand recovery, especially in non-necessity items such as personal care and beverage products.

Halal certification to benefit KINO. We think Halal requirement might help KINO to mitigate emerging competition, especially from foreign players. As a majority of KINO's products are already Halal-certified, we think this serves as a competitive advantage for KINO. Note that the regulation will be applicable for products that enter, circulate and trade in Indonesia, and is expected to be effective by 2019. Given rather complicated procedures to acquire Halal accreditation, we see the impact might hurt smaller businesses due to their limited financial resources to comply with the regulation.

Maintain HOLD. With our new assumptions, we adjust our DCF-based TP to Rp3,700, implying FY17F P/E of 19.5x. We still think intense competition in personal care and slow demand in beverage demand will remain a threat for KINO's profitability. Although the current share price implies 23% potential upside to our TP, as a result of US-election results shock, as seen on other Indonesia stocks, we still maintain HOLD on unexpected disappointing performance in 2016.

Year To 31 Dec	2014A	2015A	2016F	2017F	2018F
Revenue (RpBn)	3,339	3,604	3,726	4,151	4,686
EBITDA (RpBn)	236	461	401	461	538
EBITDA Growth (%)	29.7	95.2	(13.1)	14.9	16.9
Net Profit (RpBn)	104	263	232	271	319
EPS (Rp)	73	184	162	190	223
EPS Growth (%)	79.1	152.8	(11.9)	16.9	17.7
Net Gearing (%)	92.7	7.3	(27.2)	(19.4)	(14.9)
PER (x)	41.2	16.3	18.5	15.8	13.4
PBV (x)	6.5	2.4	1.5	1.4	1.3
Dividend Yield (%)	0.0	0.0	0.0	1.6	1.9
EV/EBITDA (x)	0.0	9.0	12.6	10.6	8.9

Source: KINO, IndoPremier *Share Price Closing as of : 23 November 2016*

News & Analysis

Corporates

UNTR: United Tractors (UNTR IJ; Rp21,900; Buy) released October 2016 operational updates as follow;

- Heavy equipment sales reached 218 units, up 7.4% mom and 207% yoy, bringing 10M16 sales to 1,806 units, down 3.4% yoy. If the trend continues, sales volumes in FY16 will came above our estimate of 2,100 units.
- Coal extraction in Oct'16 reached 9.9m tons (+10% mom, +15% yoy), bringing coal extraction vol to 88.4m tons (-1.7% yoy) in 10M16.
- OB removal reached 58.5m bcm (+3.9% mom, -9.8% yoy) in Oct'16, bringing OB removal to 582m bcm (-11.8% yoy). PAMA performance came in relatively in-line with our expectation.
- Coal sales volumes in Oct'16 reached 323k tons (+12.9% mom, +55% yoy), allowing 10M16 coal sales vol to reach 6.07m tons (+46% yoy), inline with our estimate.

Comment: The improvement of UNTR operational performance in Oct'16 will persist further in FY17F, in our view. We maintain our positive view on the company and reiterate our Buy recommendation with TP of Rp26,000.

WIKA: Wijaya Karya (WIKA IJ; Rp2,460; Buy) is optimist to reach its target of Rp52.8tn this year. Until 21 November 2016, company has booked Rp43.3tn of new contract or 83% of FY16 target. Company is aiming road project in Timor Leste of Rp250bn, power plant in Cilacap of Rp500bn, projects in Angkasa Pura of Tp200bn and subsidiary's project of Rp2.3tn. Furthermore, company has also been appointed by JakPro as preferred contractor for LRT inner Jakarta (Kelapa Gading – Velodrome) worth of Rp5tn and expects the contract to be awarded next week. As such, finance director of WIKA expects earnings to reach Rp782bn this year, higher than initial estimate of Rp750bn. (Kontan)

Comment: the company should come close its full year target of Rp52.8tn without any contribution of high speed railway (HSR) if company managed to secure the potential contracts as mentioned. We think the strong achievement in FY16 topped with delayed HSR project will maintain strong FY17 and onwards earnings for WIKA. Maintain BUY.

Markets & Sector

F&B sector: PT East West Seed Indonesia (Ewindo Group) and Salim Group has formed a JV after signing MoU on 22 April 2016. Early investment for the JV, named PT Kentang Orlando Sejahtera, is around Rp100bn with 70% financed by Salim Group. (Kontan)

Comment: Through PT Kentang Orlando Sejahtera, Ewindo Group will supply high quality potato seeds, while Salim Group focuses on building potato processing facility. Thus, it should benefit its consumer business (ICBP) specifically in its snack food division by giving access to steady supply of high quality raw potato. To note, potato chips products are the backbone of ICBP's snack food division.

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