

## Premier Insight

## Economic Update

## Low for longer

- Inflation was 3.02% in 2016, in line with expectation
- Dec16 recorded 0.42% mom inflation, lower than usual
- Lower core inflation resulted from moderating housing, utilities, and transportation costs
- Persistently low inflation may be adverse for firms

**Low year end inflation.** The year 2016 closed with prices up 3.02% ytd, in line with consensus and within our range of expectations (3.0-3.5%). FY16's inflation was 33bps lower than 2015's after core inflation declined to 3.1% yoy by year end (vs 4% yoy in FY15) and energy prices fell at least 20% from 2015, which should reduce pressure on administered prices and help maintain relatively low transportation costs. To note, average Indonesian Crude Oil Price (ICP) in 2016, at US\$39.2 per barrel was 20.4% lower than 2015's average of US\$49.2.

**Dec16's inflation lower than usual.** Recorded inflation in the month was 0.42% mom, or the lowest December inflation in the past three years. It was also lower than Nov16's inflation, another exceptional pattern, due to lower food inflation which added to less volatility in the year. In Dec16, all categories of goods but clothing saw a price rise with the highest contributors being food, processed food, as well as transportation and communication. Given the holiday season, we deem the increase in those categories appropriate and expected.

Fig 1. Inflation by group of goods and services

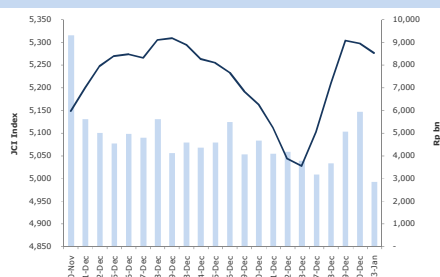
	Dec16 inflation (yoy)	Nov16 inflation (yoy)	Contribution to Dec16 Inflation	Contribution to Nov16 Inflation
<b>Headline</b>	<b>3.02</b>	<b>3.58</b>	<b>0.42</b>	<b>0.47</b>
Food	5.69	8.53	0.11	0.36
Processed food	5.38	5.43	0.08	0.05
Housing and utilities	1.90	2.12	0.04	0.04
Clothing	3.05	3.63	-0.03	0.00
Health	3.92	3.83	0.01	0.01
Education and sports	2.73	2.68	0.01	0.00
Transportation, communication, financial services	-0.72	-1.38	0.20	0.01

Source: Statistics Indonesia, Indo Premier

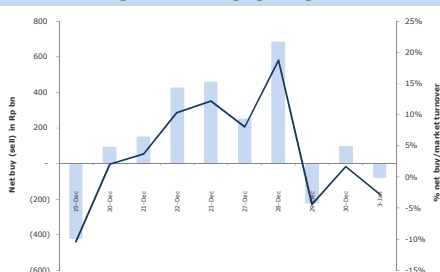
**Stable and lower core inflation.** In the last quarter in 2016, core inflation had remained stable, at around 3.07-3.08% yoy, with Dec16's core inflation at 3.07%. Yet throughout 2016, core inflation had been almost 100bps lower than Dec15's 4%. The downward trajectory, in our view, was related to the stabilising housing and utilities costs, where there had been little sign of recovery in the housing sector, and clothing prices. Fittingly, we also believe that transportation fares had benefited from lower fuel prices and innovations in online-based transportation, which has brought a new equilibrium to the industry.

**Wary of low inflation.** Despite increasing purchasing power to customers given fixed incomes, we are cautious on the impact of a persistently low inflation on the next stages such as business in general. The low inflation may translate into lower revenues for firms, which may limit their expansion plans, assuming unchanging costs (although wherever appropriate, we believe costs would be pushed down as well).

## JCI Index



## Foreign net buy (sell)



## Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	5,276	-0.4%	16.6%	-0.4%
LQ45	883	-0.2%	12.9%	-0.2%
DJI	19,882	0.6%	15.9%	0.6%
SET	1,543	0.3%	19.8%	0.0%
HSI	22,150	0.7%	3.9%	0.7%
NKY	19,114	-0.2%	0.4%	1.7%
FTSE	7,178	0.5%	17.8%	0.5%
FSSTI	2,899	0.6%	2.2%	0.8%
EIDO	24	0.7%	16.5%	0.7%

## Commodity price

Commodities (in USD)	Last price	Ret 1 day	Ret 1 year
Oil/barrel (WTI)	52.3	-2.6%	41.3%
CPO/tonne	703.5	1.7%	27.3%
Soy/bushel	9.8	-1.0%	12.6%
Rubber/kg	2.3	-0.4%	82.8%
Nickel/tonne	9,855	-1.1%	12.2%
Tins/tonne	21,095	-0.5%	44.6%
Copper/tonne	5,487	-0.7%	16.6%
Gold/try.oz (Spot)	1,159	0.6%	7.8%
Coal/tonne	90.5	-4.4%	78.9%
Corn/bushel	3.4	1.9%	-2.7%
Wheat/bushel*	122.5	0.0%	-22.3%

\*: 1 month change

Source: Bloomberg

As seen in producer prices, lower inflation materialised in almost every sector but mining, plantation, and processing of meat, fish, and fats by 3Q16 (no available data yet for 4Q16), in comparison to those of 3Q15. To note, the lowest producer inflation took place in the manufacturing sector in that period. Yet, the turnaround for the case of low inflation might happen in 2017 as the government scraps subsidy, thus raising tariff gradually for around 18 million electricity subscribers of 900 VA power capacity (18 million existing subscribers were considered ineligible for subsidy by a recent study). There is no definite plan of when the measure will be implemented.

## News & Analysis

### Corporates

**BMRI:** Bank Mandiri (BMRI IJ; Rp11,300; Buy) stated it received repatriated funds of Rp23tn as of Dec 2016, which was mostly kept as savings account. This represented around 16.3% of the committed repatriated funds of Rp141tn, of which some Rp51tn is yet to be realised. As such, BMRI's repatriated funds proceeds represented a substantial 25.5% of the total of Rp90tn of repatriated funds realised as of Dec 2016. (Detik Finance)

*Comment: We view this news as positive for BMRI as the bank can benefit from additional funding or fee based incomes from these repatriated funds. The other major bank with potentially substantial proceeds of repatriated funds is BCA (BBCA IJ; Rp15,775; Hold).*

**KLBF:** PT Kalbe Farma (KLBF IJ; Rp1,510; Hold) conservatively targets its FY17F sales growth at 8-10%, as management views looming forex risk, higher raw material costs (USD-linked), and weak consumer purchasing power in pharmaceutical industry. In addition, the company will launch another 10 new products and allocate Rp1tn capex for its biopharma factory in Cikarang. (Kontan)

**TOTL:** Total Bangun Persada (TOTL IJ; Rp765; Not Rated) has booked 93% of its new contract FY16 target of Rp3tn. 68% of new contracts were sourced from apartment followed by hotel, school, hospital, shopping centre and exhibition. In 2017, company targets new contract of Rp4tn with revenue of Rp3.1tn. (Bisnis Indonesia)

**WTON:** Wijaya Karya Beton (WTON IJ; Rp815; Not rated) allocates capex of Rp682bn this year, grew 41% yoy. Company will build ten set of batching plants and focus more on ready mix business. Company is also planning to sell treasury stock to fund its expansion and dre Rp400bn from loan facility in banks. (Bisnis Indonesia)

### Markets & Sector

**Banks:** The OJK is still reviewing the option of abandoning its deposit rate capping post BI's benchmark policy rate change in August 2016 (from BI Rate to 7-day Repo Rate) or lowering its existing deposit rate caps by using the new benchmark rate (7-day Repo Rate). At present, the LPS rate – which reflects deposit rates of major banks in Indonesia – is set at 6.25% vs. a 7-day repo rate of 4.75% (ie. a 150bps gap). The existing deposit rate cap mechanism was introduced in March 2016 and it stipulated deposit rate caps of 75bps and 100bps above BI Rate (which is no longer available) for BUKU4 and BUKU3 banks, respectively. (Investor Daily).

*Comment: We view any plan by OJK to lower its deposit rate caps as positive for major banks as this should enable them maintain high NIMs and limit competition for deposit funding. On the other hand, we believe a removal of deposit rate caps (if any), while could lead to higher deposit pricing, should not significantly impact Indonesia's Big Four banks (BMRI IJ, BBRI IJ, BBKA IJ, BBNI*

*IJ), which have a much stronger deposit franchise in comparison to the rest of the industry. We maintain our bullish view on banks.*

**Retail Sector:** Elimination of subsidized utilities for the 900VA category and increase in cigarette taxes of 10.54% is deemed to have a negative impact on consumer purchasing power in the retail sector. As a result, some retailers won't be expected to increase ASP in 1Q17 due to anticipation of lower consumer purchasing power in the period. (Kontan)

*Comment: This is most likely to affect RALS sales as the category of 900VA for subsidized utilities that has been eliminated is for mid-low income class and is RALS main target market. However, RALS mention it will not increase its ASP in 1Q17 to mitigate the negative impact.*

## Economic

**Budget Realisation:** Indonesia's budget deficit was 2.46% in 2016, based on the interim budget realisation. Along with that, it was also announced that state revenue and expenditure reached 87% and 89%, respectively, of the 2016 Revised State Budget. But since Sri Mulyani took office in mid 2016, there was an amendment again to the revised state budget, namely the 2016 state budget outlook; state revenue and expenditure were each 98% and 97.9% to the outlook. In addition, tax revenue grew 4.2%, tax amnesty contributed some Rp107tn to the revenue, and non tax revenue was 7% above target in the revised state budget. (Ministry of Finance)

*Comment: We think budget realisation at this point looks decent, heavily supported by tax amnesty (without tax amnesty, non-oil and gas tax revenue grew -4.9%), improvement in the non tax revenue, and undeniably, discipline of the current finance minister. There is hope at the moment for budget to improve, given a better tax enforcement climate after tax amnesty.*

**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.**

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.

**DISCLAIMERS**

This research is based on information obtained from sources believed to be reliable, but we do not make any representation or warranty nor accept any responsibility or liability as to its accuracy, completeness or correctness. Opinions expressed are subject to change without notice. This document is prepared for general circulation. Any recommendations contained in this document do not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is not and should not be construed as an offer or a solicitation of an offer to purchase or subscribe or sell any securities. PT. Indo Premier Securities or its affiliates may seek or will seek investment banking or other business relationships with the companies in this report.