

Premier Insight

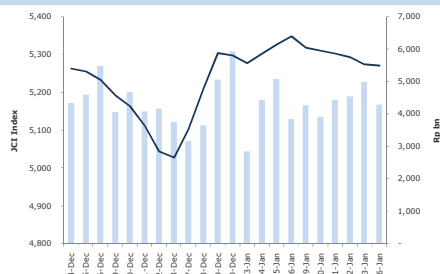
17 January 2017

Economic Update

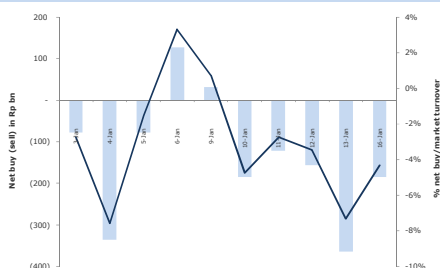
Bigger not better

- Dec16's trade was US\$0.99bn, increase of seven-fold than last year, on non-oil and gas trade
- Dependency remained on primary commodities
- Monthly surplus, however, was derived from oil and gas trade
- Cumulative trade balance had gone up in value but not in volume

JCI Index



Foreign net buy (sell)



Key Indexes

| Index | Closing | 1 day | 1 year | YTD |
|-------|---------|-------|--------|-------|
| JCI | 5,270 | -0.1% | 16.5% | -0.5% |
| LQ45 | 880 | -0.3% | 12.2% | -0.6% |
| DJI | 19,886 | 0.0% | 24.4% | 0.6% |
| SET | 1,572 | -0.2% | 26.2% | 1.9% |
| HSI | 22,718 | -1.0% | 16.4% | 3.3% |
| NKY | 19,095 | -1.0% | 11.4% | -1.0% |
| FTSE | 7,327 | -0.1% | 26.2% | 2.6% |
| FSSTI | 3,013 | -0.4% | 14.5% | 4.6% |
| EIDO | 25 | 0.0% | 21.9% | 1.5% |

Commodity price

| Commodities (in USD) | Last price | Ret 1 day | Ret 1 year |
|-------------------------|------------|-----------|------------|
| Oil/barrel (WTI) | 52.4 | -1.2% | 71.8% |
| CPO/tonne | 696.3 | 0.9% | 28.9% |
| Soy/bushel | 10.3 | 0.3% | 15.9% |
| Rubber/kg | 2.7 | 2.5% | 99.9% |
| Nickel/tonne | 10,212 | -1.8% | 22.2% |
| Tins/tonne | 21,037 | -0.6% | 58.2% |
| Copper/tonne | 5,844 | -0.7% | 35.0% |
| Gold/try.oz (Spot) | 1,203 | 0.4% | 10.5% |
| Coal/tonne | 82.9 | -0.7% | 68.7% |
| Corn/bushel | 3.4 | 0.1% | -1.7% |
| Wheat/bushel* | 122.5 | 0.0% | -22.3% |

*: 1 month change

Source : Bloomberg

Better surplus in Dec16 on non-oil and gas trade. Trade surplus registered in Dec16 of US\$0.99bn was a staggering seven-fold increase than last year's US\$-0.16bn, thanks to non-oil and gas trade which had seemed to improve 328% yoy. Both exports and imports were increasing by 15.6% and 5.8% yoy on non-oil and gas trade (vs -5.2% yoy and -6.2% yoy in oil and gas). The surpassing increase in exports over imports had supported Indonesian trade to contribute continuous trade surpluses throughout the year; helping foreign reserves to record US\$116.4bn by year end, or an increase of 10% yoy in Dec16.

Primary industry dependency. The improvement in 2016's trade was related to better commodity prices, which Indonesia seemed to remain dependent with. Higher coal and CPO prices, notably posted from 3Q16 onwards, provided a sustained improvement in the non-oil and gas trade balance by approximately 20% until end 2016. On top of prices, a real export growth is non-negligible as well. We are particular to look at a volume increase of 5.3% in the non-oil and gas export segment (vs -5.1% in imports of the same category), which should be positive indication of a real export growth. Of commodities under the segment, we like the growth recorded in vehicles and parts of +8.3% yoy as well as mechanical equipment of +4.5% yoy, as they should represent higher value added to Indonesian export derived through manufacturing process. Albeit in more primary forms, other goods in the segment, such as precious stones, irons, as well as ores-slugs-ashes also remained positive contribution – at least 20% of the 2016's exports belongs to these primary commodities.

Monthly surplus. Despite the annual pattern of which non-oil and gas trade was championing, the trade surplus' monthly improvement was heavily supported by oil and gas, whose exports gained 11.7% mom and imports recorded -2.1% mom decline. The event would be a direct impact of higher Indonesian oil price traded in the world market, which earned 18% mom increase to post US\$51.1 by Dec16. On top of price, volume was also improving as seen in the 9.8% mom increase in total oil and gas volume (mining activity alone increased by 10.8% mom).

Cumulative trade balance. In cumulative terms (Jan-Dec16), trade balance was also augmenting by some 14.5% in comparison to last year on improvement of both oil and gas (+6.6% yoy) and non-oil and gas trades (+5.2% yoy). In real terms, exports were +0.66% yoy and imports +3.3% yoy driven by consumption goods (13.5% yoy); noting that capital goods and raw materials (supporting goods) were -9.6% and -5.7% yoy, respectively. To say that the impact of sluggish global economy had bottomed out for Indonesian trade remains a distance away, as developed economies remain expected to progress slowly this year and global uncertainties may still fill the nuance in 2017.

News & Analysis

Corporates

ANTM: Aneka Tambang (ANTM IJ; Rp905; Not Rated) is ready to sell its 5m tons of low-grade nickel ore inventories. The company will potentially generate additional revenues of US\$150m with ore price expectation of around US\$30/ton. (Investor Daily)

Comment: Nickel ore export relaxation by the government of Indonesia will potentially create an over-supply in the nickel market and will be negative for nickel price. However, with ANTM's significant amount of low-grade nickel ore inventories, the impact of ore export relaxation is positive for ANTM in the short term.

ASII: Astra International (ASII IJ; Rp7,975; Buy) has express its interest to acquire stake of Surya Semesta (SSIA IJ; Rp525; Not Rated) in Cipali toll road. Astratel, the subsidiary of Astra International sees growth potential in this toll road especially with next year connection to Semarang. However, both parties has not engage into any talks of pricing at this point of time. (Kontan)

Comment: Toll road acquisition will be inline with the business model of Astratel which will enhance revenue stream from infrastructure and improves the diversification for the parent company. Pricing will be the main issue for this acquisition.

ISAT: Indosat (ISAT IJ; Rp6,175; Buy) budgets capex of Rp7-7.5tn for FY17 which will be allocated to improve its 3G and 4G network. The capex will be fully finance by using internal cash flow. The company also aims revenue growth of 8% yoy for FY17.

Comment: The guideline capex is slightly higher than this year's capex of Rp6.0tn. However, we think capex numbers to remain reasonable. We expect revenue growth of 10.4% for FY17, so slightly higher than the company's expectation. Maintain our Buy call with target price of Rp8,150

MDLN: Modernland Realty (MDLN IJ; Rp320; Not Rated) aims pre sales of Rp4.3tn, flat growth from FY16. Company is eyeing block sales to help pre sales this year and expect sales to recover in 2H17. Company has prepared several projects to be launched into the market. (Bisnis Indonesia)

MEDC: Medco Energi Internasional (MEDC IJ; Rp1,430; Not rated) plans to start the construction of its copper smelter near Batu Hijau mine by the end of this year, to comply with the recent issued regulation. The company is eyeing the export permit for its copper concentrates and going to allocate c.US\$500mn for the smelter construction. (Jakarta Post)

MYOR: Mayora Indah (MYOR IJ; Rp1,755; Not Rated) issues bonds of Rp500bn to refinance debts as well as expansion. The initial interest payment will be on May 21 2017. The bond is categorized into 2 series, A and B with the maturity date on February 21, 2022 and February 21, 2024, respectively. (Bisnis Indonesia)

Economic

Foreign debt: Indonesia's foreign debt grew 3.6% yoy in Nov16 to record US\$316bn, slower than Oct16 of 6.5% yoy. Slower growth was due to lower public and private debts in both long-tenure and short-tenure debt categories. Public debt grew by 12.1% yoy (vs 17% yoy in Oct16) and private debt 3.4% yoy (vs 2% yoy in Oct16). By sector, finance remained largest debt contributor in private debt (51%), followed by manufacturing (11%) and mining (8%). (Bank Indonesia)

Comment: Slower growth materialised in the public debt was due to the government's front-loading strategy which applied more bond issuance in the 1H16. As for private debt, the bulk of bond issuance also took place in the 2Q-3Q16, which should partially explain the lower private debt.

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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

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