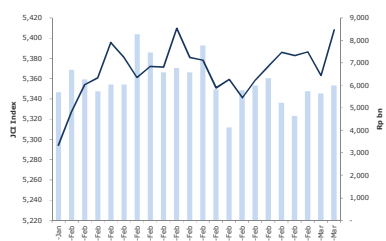
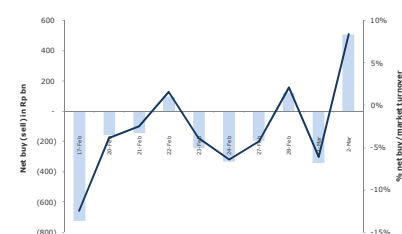


## JCI Index



## Foreign net buy (sell)



## Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	5,408	0.8%	11.6%	2.1%
LQ45	898	1.2%	5.7%	1.5%
DJI	21,003	-0.5%	24.0%	6.3%
SET	1,570	0.2%	13.8%	1.7%
HSI	23,728	-0.2%	19.0%	7.9%
NKY	19,565	0.9%	15.4%	2.3%
FTSE	7,382	0.0%	20.4%	3.4%
FSSTI	3,136	0.4%	12.5%	8.9%
EIDO	24	-0.4%	5.2%	1.4%

## Commodity price

Commodities	Last price	Ret 1 day	Ret 1 year
(in USD)			
Oil/barrel (WTI)	52.6	-2.3%	51.8%
CPO/tonne	643.1	1.1%	14.9%
Soy/bushel	10.2	-1.4%	19.0%
Rubber/kg	2.5	0.6%	84.2%
Nickel/tonne	10,725	-2.3%	23.3%
Tins/tonne	19,320	-0.9%	18.7%
Copper/tonne	5,918	-1.4%	23.4%
Gold/try.oz (Spot)	1,234	-1.2%	-2.4%
Coal/tonne	82.2	-0.7%	62.8%
Corn/bushel	3.6	-0.7%	3.8%
Wheat/bushel*	137.1	11.6%	-16.7%

\*: 1 month change

Source : Bloomberg

## Semen Indonesia (SMGR IJ; Hold)

## Oversupply is not over

- Pricing pressure to continue
- Coal price hikes affecting cost
- Potential inorganic growth
- Downgrade to Hold with new TP Rp10,260

**Pricing pressure to persist.** Last year cement demand was flat at 62mn tons leaving an oversupply gap of around 44mn tons based on the total industry production capacity of 106mn as of Feb17. We expect that the market will only be growing by 3-4% in FY17 still leaving a substantial oversupply gap of 42mn tons. Demand will be driven by infrastructure spending from the Government as infrastructure budget is expect to grow by 22.3% yoy for FY17. We continue to see absence from the property sector. Under such circumstances, we expect continuous pressure on cement pricing with Semen Indonesia's domestic ASP to drop by 4% in FY17.

**Cost pressure comes from coal.** Coal prices based on Indonesian coal price benchmark (HBA) increase on average of +3.3% to US\$62.1 per ton in FY16. In 4Q16, HBA reached already US\$85 per tons. However, we think that coal price of US\$101.7 per ton in Dec16 was abnormal. In Jan 17, the HBA has dropped to US\$86.2 per ton. Based on its coal contract, Semen Indonesia will revise its pricing every three months. So, gradual increase in coal cost is expected throughout FY17. Nevertheless, Semen Indonesia will focus to reduce cost by substituting coal with oil sludge, and reduce clinker content by substituting with steel slag. However, we think that the cement industry will face inability to pass on cost.

**Potential acquisition.** Semen Indonesia's management has budgeted capex of Rp5tn for FY17, which includes a certain amount allocated for acquisition. The company has yet to disclose details about the targeted company and amount of acquisition. We suspect that funds allocated for acquisition could be around Rp3-4tn, with remaining amount to finance maintenance capex. We also suspect that acquisition target could be cement plant in South/South East Asia or downstream business such as ready mix and pre-cast concrete plant. We have not included this acquisition capex since it is difficult to assume the cash flow stream post acquisition.

**Downgrade to Hold.** We have downgraded our earnings by 5.6% for FY17 and relatively maintain our numbers for FY18 to reflect the financial result of FY16. As a result we have downgraded our DCF target to Rp10,260 and recommend a Hold on the stock. Early indicators of recovery for the cement industry should come from increase marketing sales from the property sector. Up to now, we not witness such signs.

Year To 31 Dec	2015A	2016A	2017F	2018F	2019F
Revenue (RpBn)	26,948	26,134	25,407	30,400	34,398
EBITDA (RpBn)	7,265	6,611	7,025	8,187	8,793
EBITDA Growth (%)	(11.6)	(9.0)	6.3	16.5	7.4
Net Profit (RpBn)	4,521	4,522	3,829	4,788	5,364
EPS (Rp)	762	762	645	807	904
EPS Growth (%)	(18.8)	0	(15.3)	25.0	12.0
Net Gearing (%)	(0.5)	11.1	4.8	(5.8)	(15.5)
PER (x)	12.3	12.3	14.6	11.6	10.4
PBV (x)	2.3	2.1	2	1.8	1.7
Dividend Yield (%)	3.7	3.7	3.7	3.1	3.9
EV/EBITDA (x)	7.8	8.5	8.3	6.7	5.8

Source: SMGR, IndoPremier

Share Price Closing as of : 1 March 2017

## News & Analysis

### Corporates

**ADHI:** Adhi Karya (ADHI IJ; Rp2,180; Buy) reported new contract of Rp1tn until January 2017, which forms 5% of FY17 target. New contract were sourced from Medan – Kualanama – Tebing Tinggi section IA, Transmart Bekasi, Bintaro Pavilion apartment, Bandarmasih – Banjarmasin dam, drinking water plant Karmantul in Yogyakarta. (Kontan)

*Comment: ADHI's achievement is relatively lower compared to its peers. Upside for ADHI may come from more certainty of LRT funding, which is expected to be announced soon.*

**BIRD:** Blue Bird (BIRD IJ; Rp3,890; Not rated) has received a contract to provide 600 limousine fleets for 12 days visit of King Salman. However, no disclosures are made regarding the total amount of the contract. To note, limousine & rental business contributes 17% to total sales with 4,900 total fleets, which means this contract is using c.41% of total limousine. The one-off contract may impact positive to 1Q17 sales. (Kontan)

**SMRA:** We met up with Summarecon Agung (SMRA IJ; Rp1,375; Sell) yesterday. The company claimed residential sales still soft in Serpong and Krawang, while commercial plot in Serpong is selling well with many enquiries came from various industries (distribution, banks, etc). Lower LTV is indeed increasing mortgage user, but most of customers are still waiting for more certainty in both political and regulations before purchasing. Hence, we maintain our Sell call on SMRA given high debt profile and soft sales due to weak property demand.

**TLKM:** Telkom Indonesia's (TLKM IJ; Rp3,830; Buy) subsidiary, Telkom Sigma, aims for revenue growth of 20-25% to Rp4.3tn in FY17. Telkom Sigma is looking to penetrate 1) the health sector by developing health information exchange 2) e-tourism to develop booking and payment application 3) education sector by developing ERP. The company sees revenue contribution from integrated business system of 50%, data business center of 30% and managed service of 20%.

*Comment: It is good to that non telecommunication business to grow faster despite that revenue contribution is still at 3-4% to Telkom. In order to maintain sustainable growth, Telkom will need to diversify or enhance revenue from non telecommunication. We think by pushing revenue from subsidiaries, Telkom is on the right track.*

**WSKT:** Waskita Karya's (WSKT IJ; Rp2,440; Buy) subsidiary, Waskita Toll Road (WTR) will operate toll road this year, namely: Pejagan – Pemalang section III and IV, Cimanggis – Cibitung section I, Bekasi – Cawang – Kampung Melayu section IB and IC and part of Solo – Kertasono and Medan – Kualanamu – Tebing tinggi. (Bisnis Indonesia)

*Comment: the operation of more toll road will allow WSKT to have higher recurring income which is good for long term although still generating little margin.*

### Markets & Sector

**Consumer Sector:** According to Bloomberg, consumer sector index has improved by 3.89%, beats the improvement in mining and property sector. As of January 2017, Consumer Confidence Index is relatively stable at a level of 115.3. However, according to survey carried out by Bank Indonesia, there might be some price pressure in the next 3 to 6 months. (Bisnis Indonesia)

*Comment: Despite challenging market during 2016, we see Kalbe Farma (KLBF IJ; Rp1,475; Buy) and Unilever Indonesia (UNVR IJ; Rp42,100; Hold) are able to maintain their performance. Therefore, we expect the improving economic condition will support most consumer companies to post stronger growth.*

**Head Office****PT INDO PREMIER SEKURITAS**

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 Sekuritas or its affiliates may seek or will seek investment banking or other business relationships with the companies in this report.