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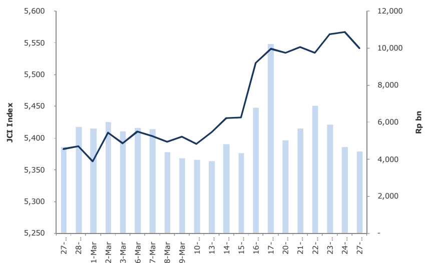
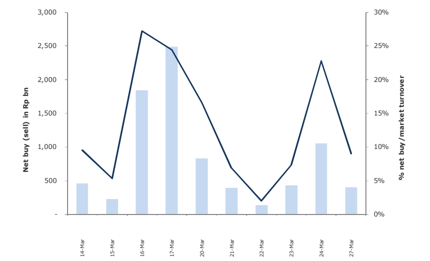
Premier Insight

29 March 2017

JCI Index



Foreign net buy (sell)



Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	5,541	-0.5%	16.1%	4.6%
LQ45	920	-0.7%	11.1%	4.0%
DJI	20,702	0.7%	17.4%	4.8%
SET	1,577	0.4%	13.2%	2.2%
HSI	24,346	0.6%	19.5%	10.7%
NKY	19,203	1.1%	12.3%	0.4%
FTSE	7,343	0.7%	20.3%	2.8%
FSSTI	3,158	1.0%	12.0%	9.6%
EIDO	26	0.2%	12.2%	7.0%

Commodity price

Commodities	Last price	Ret 1 day	Ret 1 year
(in USD)			
Oil/barrel (WTI)	48.4	1.3%	22.8%
CPO/tonne	612.6	0.4%	-2.0%
Soy/bushel	9.5	0.1%	5.3%
Rubber/kg	2.4	1.4%	50.9%
Nickel/tonne	9,928	2.3%	15.3%
Tins/tonne	20,056	2.7%	15.4%
Copper/tonne	5,849	2.0%	17.5%
Gold/try.oz (Spot)	1,252	-0.2%	0.8%
Coal/tonne	80.8	-0.2%	59.4%
Corn/bushel	3.4	0.6%	-6.4%
Wheat/bushel*	137.1	11.6%	-16.7%

** : 1 month change*

Source : Bloomberg

Indofood CBP (ICBP IJ; Hold)

Tough outlook looms, tight margin

- **In-line 4Q16 achievement, decent earnings growth.**
- **Looming margin compression in FY17F.**
- **Lower FY17/18F earnings given tough competition.**
- **Maintain Hold with lower TP of Rp8,700.**

Earnings was in-line with consensus. PT Indofood CBP (ICBP) reported net profit of Rp3.6tn (+20% yoy) in FY16, in-line with our forecast/consensus, on the back of growing revenue and lower interest expense throughout the year. Revenue grew by 8.6% yoy in FY16, which mainly driven by better volume sales growth in snack and dairy division. On quarterly basis, its overall revenue growth slowed by -3.6% qoq, but still better than last year (+4.6% yoy). Looking at noodle and dairy segment sales growth, noodle (-2% qoq, +5% yoy) and dairy (-8% qoq, +2% yoy) still booked slight sales increase amid tough competition in this soft 4Q. To note the quarter-on-quarter drop was a cyclical in nature as retailers have frontloaded the purchase in 3Q16 to prepare the year-end demand.

Slower margin expansion in 4Q16. In 4Q16, gross profit was reported at Rp2.4tn (-11% qoq, +8% yoy) and gross margin at 30% (vs. 4Q15: 29.1%). We expect margin to contract in 2017 on the back of higher material price (ie. palm oil and sugar). We also note that the strong dairy performance in FY16, +17% volume growth and higher EBIT margin at 17%, should not be sustainable, as the competitors have yet to compete in securing market share. We assume more aggressive ads & promotion expense that could hamper dairy's EBIT margin in the future. Meanwhile in noodle segment, weaker volume growth is expected in mature business, but the premiumization strategy has proven to be successful. Better sales mix has increased noodle ASP in 4Q16 (+3% qoq, +8.5% yoy), resulting in stable EBIT margin at 17%.

Earnings revision. We cut FY17/18F earnings by -9%/-11% respectively, after we incorporate lower EBIT growth in dairy and snack segment amidst tougher competition. In addition, we factor in the higher raw material costs (skim milk powder, sugar, palm oil), bringing lower gross margin to 29.8% in FY17F. Our revision is still in-line with 2017 guidance as the management guided for lower EBIT margins across all segments. Higher A&P and distribution cost should lead to overall FY17F EBIT margin at 12.5%.

Hold warranted. We reduce our PE-based TP to Rp8,700 (from Rp9,500), using 27x multiple (at par with 5year historical PE). We reiterate Hold rating for this stock, given the higher operating expense, higher raw material cost, and tight competition will normalize margin post FY16 achievement. Upside risks include: lower material cost YTD, strong uptick in consumer buying appetite.

Year To 31 Dec	2015A	2016A	2017F	2018F	2019F
Revenue(RpBn)	31,741	34,466	37,898	41,815	46,190
EBITDA(RpBn)	3,908	4,936	4,720	5,215	5,753
EBITDA Growth (%)	27.6	26.3	(4.4)	10.5	10.3
Net Profit(RpBn)	3,001	3,600	3,753	4,180	4,588
EPS (Rp)	257	309	322	358	393
EPS Growth (%)	15.2	20.0	4.2	11.4	9.8
Net Gearing (%)	(29.8)	(35.2)	(40.1)	(40.3)	(36.6)
PER (x)	32.7	27.3	26.2	23.5	21.4
PBV (x)	6.0	5.3	4.7	4.2	3.8
Dividend Yield (%)	1.3	1.5	1.6	1.8	2.1
EV/EBITDA (x)	26.4	21.2	22.6	20.6	18.7

Source : ICBP,IndoPremier *Share Price Closing as of : 27-March-2017*

Refer to Important disclosures in the last page of this report

Matahari Putra Prima (MPPA IJ; Hold)

Limited growth catalyst in 2017.

- **Weak performance in 4Q16, worse than expectation.**
- **Weak demand in Kalimantan and Sumatra pressured SSSG.**
- **Earnings revision for FY17F.**
- **Upgrade to Hold with new TP of Rp1,100.**

Earnings came below expectation. MPPA reported net profit of Rp38.5bn in FY16 (-84% yoy), which was 39%/45% below our forecast/consensus respectively, mainly driven by weaker operation, higher interest expense and tax paid. In overall, net revenue was almost flat (-2% yoy) and gross profit has slight increased due to lower inventory cost after implementing average cost method in 2016 (previous: retail method). However, rising operating expense of +9% yoy dragged down EBIT by 47% yoy to Rp170bn. In addition, the bottom-line depressed due to higher interest and tax expense of Rp83bn/Rp54bn (+78%/+25% yoy) respectively. However, management noted that the tax hike in FY16 was a one-off item and should revert in 2017. On quarterly basis, MPPA booked net profit of Rp6bn in 4Q16 (4Q15: net loss Rp78bn), mainly helped by better gross profit after SKU clean up in 4Q15-1H16.

Worsen SSSG in 4Q16. Looking at 4Q16 top-line, MPPA booked lower net revenue (-6% yoy), on the back of slower recovery in Kalimantan and Sumatra and stiff competition from minimarket stores. In addition, the shift in consumer spending was also benefiting smaller modern market formats. We believe the main driver is caused by its accessibility, fast shopping experience, and consistent price discount from minimarkets compared to hypermarket/supermarket. Despite lower FY16 SSSG of -4.5% (FY15: -1.9%), MPPA was able to book gross margin at 19.3% in 4Q16 (4Q15: 13.3%), driven by lower inventory cost after its SKU reduction. At operating level, higher rental and salaries expense pulled down FY16 operating margin to 1.3% (-106bps yoy).

Earnings revision. We cut our FY17/18F earnings by -14%/-12% on the back of lower net revenue as we lower our FY17 SSSG assumption to -1% (from -2%). We expect SSSG to recover in 2017, yet still in negative single digit, after renovating existing stores. We assume minimal growth in new stores sales/ha to reflect the lingering weak purchasing power in Kalimantan and Sumatra. We also factor in the capex at Rp550bn to capture the new stores opening (11 stores) and stores reformat strategy.

Recommend Hold. We lower our DCF-based TP to Rp1,100 (WACC: 12%, TG: 4%) and put a Hold rating as we believe the opex growth will outpace sales growth, pressuring its margin in near term. Upside risks: better consumer purchasing power and on time store reformat.

Year To 31 Dec	2015A	2016A	2017F	2018F	2019F
Revenue(RpBn)	13,802	13,527	13,821	14,432	15,170
EBITDA(RpBn)	541	455	499	516	557
EBITDA Growth (%)	(42.0)	(15.8)	9.5	3.6	7.9
Net Profit(RpBn)	222	38	54	39	58
EPS (Rp)	41	7	10	7	11
EPS Growth (%)	(60.0)	(82.6)	39.8	(26.7)	46.5
Net Gearing (%)	9.6	20.6	21.6	22.5	20.3
PER (x)	31.2	179.6	128.4	175.1	119.5
PBV (x)	2.7	2.8	2.8	2.8	2.7
Dividend Yield (%)	(3.3)	(2.0)	(0.2)	(0.3)	(0.2)
EV/EBITDA (x)	12.3	14.1	12.8	12.3	11.5

Source : MPPA,IndoPremier *Share Price Closing as of : 24-March-2017*

News & Analysis

Corporates

ASII: Astra International's (ASII IJ; Rp8,525; Buy) financing arms, Toyota Astra Financial Service (TAFS) aims to book new financing of Rp14.7tn (+8.9% yoy) in FY17, supported by 4% in automotive growth. TAFS plans to increase penetration in Daihatsu auto financing. This year TAFS targets 99,314 units of financing compared to last year's realization of 81,522 units. (Bisnis Indonesia).

Comment: This will support growth of ASII in the financing business, especially in the 4W segment. We are confident that such targets could be achievable. Nevertheless, the main key driver for ASII's financing arms will be the recovery of Bank Permata (BNLI IJ; Rp680; Not Rated).

IDPR: Indopora (IDPR IJ; Rp1,500; Not Rated) posted earnings of Rp120bn (-47% yoy) in FY16 with net margin decreased to 12% from 20% in FY15 resulted from 13% yoy decrease in revenue. Both gross and operating margin decrease to 25% and 13% in FY16 (vs. 29% and 21% in FY15). (Investor Daily).

RALS: Ramayana Lestari (RALS IJ; Rp1,135; Buy) reported net profit of Rp408bn (+22% yoy) in FY16, in line with consensus/ our forecast, on the back of better sales (+6% yoy). Gross margin expand to 38% (+153bps) and operating margin to 6% (+175bps). On quarterly basis, 4Q net profit booked at Rp47bn (+49% yoy), helped by growing revenue (+2.4% yoy) and lower opex (-2.1% yoy). (Bisnis Indonesia).

Comment: RALS posted good result with its earnings in-line with our forecast/consensus. In 4Q16, gross margin expand to 34.3% (4Q15: 33.6%) and lower opex has resulted in positive operating margin at 1.9% (4Q15: -0.3%). We still put Buy rating in this stock.

WSKT: Waskita Karya (WSKT IJ; Rp2,390; Buy) prepared Rp10tn fund for land acquisition for their subsidiaries Waskita Realty. WSKT just get permit for their three projects in Alam Sutera, Medan, and Surabaya which were not realized last year. Company targets Waskita Realty's profit contribution to double from Rp100mn to Rp200mn this year. WSKT claims to shift their focus to increase the number of partnership project with other SOE and Ministry who has a potential land to develop, such as Misnistry of Public Works and Public Housing (PUPR) and Ministry of Finance (MenKeu). (Bisnis Indonesia).

Markets & Sector

Property Sector: In 1Q17 most of SOEs and its subsidiaries secured substantial amount of new contract, mostly because of infrastructure projects:

Company	New Contract in 1Q2017 (in □pt n)	Growth vs 1Q16
WIKA	13.3	121%
WSKT	8.6	6%
PTPP	6.6	10%
ADHI	1.5	-35%
WTON	1.5	50%
WSBP	4.2	520%

Source: Investor Daily

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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.