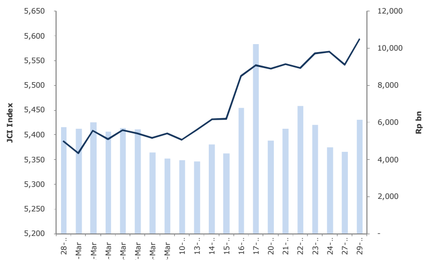
INDOPREMIER

Premier Insight

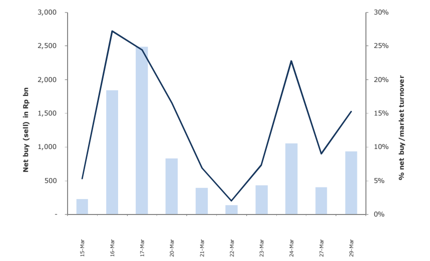
30 March 2017

Equity | Indonesia | Research Daily

JCI Index



Foreign net buy (sell)



Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	5,593	0.9%	16.1%	5.6%
LQ45	930	1.1%	11.3%	5.1%
DJI	20,659	-0.2%	16.6%	4.5%
SET	1,575	-0.1%	11.7%	2.1%
HSI	24,392	0.2%	17.3%	10.9%
NKY	19,217	0.1%	13.9%	0.3%
FTSE	7,374	0.4%	18.9%	3.2%
FSSTI	3,185	0.8%	10.9%	10.5%
EIDO	26	0.5%	11.1%	7.5%

Commodity price

Commodities	Last price	Ret 1 day	Ret 1 year
(in USD)			
Oil/barrel (WTI)	49.5	2.4%	29.3%
CPO/tonne	615.8	0.5%	-2.1%
Soy/bushel	9.5	-0.6%	3.9%
Rubber/kg	2.4	0.5%	51.0%
Nickel/tonne	9,978	0.5%	18.7%
Tins/tonne	20,197	0.7%	19.9%
Copper/tonne	5,884	0.6%	19.6%
Gold/try.oz (Spot)	1,254	0.1%	2.3%
Coal/tonne	80.8	0.0%	57.6%
Corn/bushel	3.4	0.2%	-6.9%
Wheat/bushel*	137.1	11.6%	-16.7%

** : 1 month change*

Source : Bloomberg

Perusahaan Gas Negara (PGAS IJ; Hold)

Making a soft landing

- **Steady gas distribution business**
- **Better outlook from oil assets**
- **FSRU operation still limited**
- **Maintain Hold, TP Rp2,560**

Distribution is in good state. The gas distribution volume reached 803mmscfd in FY16, of which we expect similar volume for FY17 especially with energy prices remain at the lower end. PLN remains the largest customer taking 42% of total PGN's volume. PLN has extended and increase its gas purchase for Muara Tawar but at a lower price. We expect distribution margin to contract to US$2.72/MMBTU vs US$2.83/MMBTU in FY16 due to the subdue volume and new tariff from PLN. Meanwhile, the Government fails to lower gas price by improving distribution efficiency. We do not see any imminent action from the Government to could affect PGN's distribution margins.

Upstream Assets helped by oil price. Higher average oil price helped the financial performance of the oil assets. Furthermore, we expect no further write down in oil assets as oil price remains steady at current levels. Last year, Saka Energi's revenue hit US$314mn (+50.0% yoy) with EBITDA of US$193mn (+19.3% yoy), thanks for the recovery oil price to US$55 per barrel (vs US$40 in FY16). PGN sets capex of US$200mn to develop the oil asset in FY17, which could lead to increase of production and revenue in the future. We see limited downside from the oil asset write off with potential upside from increase of production and revenue.

FSRU operation remains challenging. PGN has secured only 4 cargo of LNG for FY17 due to weak demand in gas. This translates into a utilization rate of only 13.7% for FY17, significantly lower than last year of 27.4% when PGN was able to secure 8 cargos. Meanwhile, Nusantara Regas operations remains stable, contributing US$31mn in share of profit in FY16. We expect stable income stream from Nusantara Regas, but questionable outlook for South Sumatra FSRU due to weak demand of gas.

Maintain Hold, Earnings downgrade. We have lowered our earnings by -9.7% for FY17 and -5.3% for FY18, due to lower distribution margin but with slight recovery in oil profitability. Other income streams such as share of profit from Nusantara Regas, Transportasi Gas Indonesia and Kalimantan-Jawa Gas are expected to be stable. We think that Government intention to lower gas prices remain a significant overhang, clouding certainty of distribution margin. We maintain our Hold recommendation on the counter with TP of Rp2,560 translating to PER FY17-18 of 14.7-13.8x and EV/EBITDA of 8.1-7.3x.

Year To 31 Dec	2015A	2016A	2017F	2018F	2019F
Revenue (US$Mn)	3,069	2,935	2,889	3,047	3,179
EBITDA (US$Mn)	951	807	745	806	858
EBITDA Growth (%)	-16.7	-15.1	-7.7	+8.1	+6.5
Net Profit (US$Mn)	401	309	314	336	376
EPS (US$Cents)	1.7	1.3	1.3	1.4	1.6
EPS Growth (%)	(43.6)	(23.1)	1.8	6.8	12.1
Net Gearing (%)	53.1	51.3	41.2	34.1	25.7
PER (x)	10.9	14.1	14.0	13.1	11.7
PBV (x)	1.5	1.4	1.3	1.2	1.1
Dividend Yield (%)	6.2	2.2	2.2	2.5	2.9
EV/EBITDA (x)	6.3	7.3	7.7	6.9	6.2

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

Ramayana Lestari (RALS IJ; Buy)

Excellent 4Q16 performance

- **In-line FY16 result, driven by better SSSG.**
- **Expect margin expansion to continue in 2017.**
- **Yet, 1Q17 was quite challenging with slower SSSG.**
- **Reiterate Buy, maintaining FY17F earnings forecast.**

Earnings within our expectation. PT Ramayana Lestari booked net profit of Rp408bn in FY16 (+22% yoy), which was in-line with our forecast/consensus, mainly driven by better SSSG (6.3%). Net revenue grew by +5.9% yoy and gross profit at +10% yoy in FY16, reflecting better purchasing power in middle low income earners in Greater Jakarta and rest of Java, while outside Java performance has not shown significant recovery. On quarterly basis, RALS posted earnings of Rp47bn (+48% yoy), driven by better operation level with net revenue at Rp1.3tn (+2.4% yoy) in 4Q16.

Expecting a stable margin expansion. Looking at FY16 result, RALS was able to bring better operating margin to 6.3% (FY15: 4.5%) and net margin to 7% (FY15: 6%), thanks to cost saving in salary and rental. Opex-to-sales ratio was kept intact at 31.5% in FY16 (FY15: 31.9%). In addition, direct purchase (DP) margin was increased to 38% (FY15: 36%), thanks to better inventory turnover in FY16. Meanwhile, consignment (CV) margin was relatively stable at 24-25%. However, Jan and Feb’17 reading has shown weaker-than-expected SSSG and we expect a depressing 1Q17 result. Nevertheless, we believe RALS to able achieve Rp6.2tn revenue in 2017, on the back of consistent new stores opening coupled with existing store revamping. We assume 4.6% SSSG to support 5.8% gross sales growth in FY17F, expecting better recovery in 2Q17 onwards.

Supermarket remains challenging. We note that supermarket business booked operating loss of Rp71bn in FY16, still has yet to reaching its economic of scale. Net revenue was relatively flat (+0.8%) in FY16, bringing SPAR’s operating margin to -3% (FY15:-5%). By considering the weak 2M17 sales growth (-1.1% yoy), we believe to reach break-even in this year is quite challenging unless sales pickup in 2Q17 onwards to reach scalable level at Rp2.6tn given opex has grown stable flat over the past 2 years. However, we are still positive on the management strategy in reinventing its supermarket with SPAR to benefiting from operational expertise and eventually capture higher productivity and profitability.

Reiterate Buy and maintain our TP at Rp1,700. We still maintain our FY17F forecast after we incorporated the in-line FY16 results. Our TP at Rp1,700 implies 26x PE (using one standard deviation above 3-year trading PE) on our FY17F EPS estimate of Rp65. Downside risks to our call: worsen SSSG post 1Q17, delay in store renovation and opening.

Year To 31 Dec	2015A	2016A	2017F	2018F	2019F
Revenue (RpBn)	5,533	5,857	6,202	6,657	7,208
EBITDA (RpBn)	380	527	596	701	789
EBITDA Growth (%)	(22.7)	38.9	13.0	17.6	12.7
Net Profit (RpBn)	336	408	463	539	643
EPS (Rp)	47	58	65	76	91
EPS Growth (%)	(5.5)	21.6	13.4	16.4	19.2
Net Gearing (%)	(54.8)	(52.8)	(53.6)	(49.2)	(59.4)
PER (x)	23.9	19.6	17.3	14.9	12.5
PBV (x)	2.4	2.4	2.0	1.9	1.8
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
EV/EBITDA (x)	25.9	18.5	17.0	14.4	13.6

Source : RALS, IndoPremier *Share Price Closing as of : 29-March-2017*

News & Analysis

Corporates

CTRA: Ciputra development (CTRA IJ; Rp1,240; Buy) posted earnings of Rp1.17tn (-33% yoy, qoq) in FY16 above the consensus of Rp1.02tn, however net margin decrease to 17% (vs 23% FY15) resulted from topline decrease of -10% yoy. Gross margin slightly decreased to 49% (vs 50% FY15) while operating margin decreased to 27% (vs 31% FY15). (Bisnis Indonesia).

JRPT: Jaya Real Property (JRPT IJ; Rp950; Not Rated) posted earnings of Rp 1.01tn (+16% yoy) in FY16 in line with consensus, on the back of better sales (+11% yoy). Gross margin slightly improved to 60% (vs 59% FY15), while net margin increased to 43% (vs 41% FY 15). (Bisnis Indonesia).

SIDO: Sido Muncul (SIDO IJ; Rp560; Not Rated) reported earnings of Rp480.5bn (+9.9% yoy) in FY16, slightly ahead of consensus, on the back of 15.5% yoy revenue growth. Gross margin expanded to 41.68% while operating margin also expanded to 21.84%. (Investor Daily).

Comment: we view SIDO has shown some significant sales recovery in FY16 compared to FY15. The better economic outlook in FY17 might further boost its performance.

Markets & Sector

Automotive sector: The Government is likely to revoke exemption of luxury duty for LCGC cars. For an exchange, the Government will introduce new tax incentive scheme for low carbon emission vehicles (LCEV), which will include hybrid, gas and electrical cars. Gaikindo seems to agree with the Government as LCGC cars has already hit breakeven for its investment. Currently, the LCGC model is exempt of 10% luxury tax. (Bisnis Indonesia).

Comment: We think this will create temporary pressure on Astra International (ASII IJ; Rp8,725; Buy). There is also a possibility for upfront volume growth to anticipate price increase followed by a drop post price increase. Nevertheless we think that the decline in demand will be temporary and to pick up probably in 3-6 months. Furthermore, effective price increase could be around 7-8% as the 10% luxury tax will be based on base price. Current street price already accounts duties and road taxes.

Banks sector: Loans to the Jabotabek LRT project reportedly would bear a lending rate of 7% although the syndicated lending by SOE banks and SMI still awaits issuance of a Perpres. This project requires financing of Rp14tn, of which Rp4tn is expected to be disbursed in the first year. For corporate lenders Bank Mandiri (BMRI IJ; Rp11,775; Buy) and BNI (BBNI IJ; Rp6,600; Buy), infrastructure loans accounted for 16% and 13% of their loan portfolios, respectively. (Kontan daily).

Comment: The stated 7% lending rate is below current lending rates for lending to SOEs/infrastructure loans (c.9%) and is negative for bank NIMs despite implicit government guarantee for such loans. This could also set a precedent for future infrastructure financing deals involving SOE banks, thus sustaining the expected NIM downtrend for the sector in the coming years. Bank Rakyat (BBRI IJ; Rp12,825; Buy) would be at lower risk from low infrastructure lending rate (given its lower exposure of 8% of portfolio) but the bank is also exposed to risks from low KUR lending rates. However, despite such negative news of government intervention on banks, we are not changing our Buy ratings as we believe the NIM downtrend in the sector will be gradual and is already priced-in by the sector's low valuation while 10-yr bond yields have also fallen to near 7% at present.

Consumer sector: Government to include refined sugar in the commodity future trading (PBK) to set the fair price based on reference price for both small and big scale industry. It is expected to be realized in 2018. (Bisnis Indonesia).

Comment: we believe this will be positive for companies with high exposure to sugar such as Mayora Indah (MYOR IJ; Rp2,130; Sell). It will subsidize the fluctuation in sugar price as well as the foreign exchange risk as Indonesia still needs to import sugar. However, we still maintain SELL on MYOR.

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