

Economic Update

Life after amnesty

- Tax amnesty program concluded on March 31st with success
- We think period ahead of TA will still be challenging budget wise
- ...with weak revenue performance
- ...and caution on the ability to disburse spending

Successful TA. After nine months, Indonesian tax amnesty (TA) program, which came into implementation based on Law Number 11 Year 2016, finally saw conclusion this Mar17. In terms of achievement, we believe Indonesian tax amnesty had been remarkable. Redemption fund and asset declaration gathered were 0.9% and 39% of GDP, much higher than those of Chile (0.6% and 8.3%, respectively) and India (0.002% and 0.004%, respectively) which were undertaking similar programs recently.

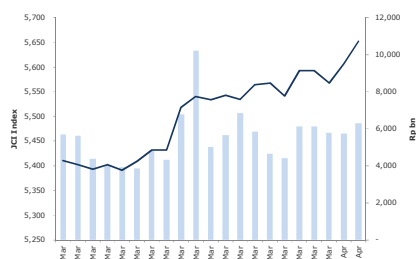
Achievements. The TA had invited more than 965 thousand participants, a 41% increase within the last few days, with asset declaration reaching Rp4866tn and contribution made to the state revenue of some Rp114tn. Target wise, assets declaration was 122% of target and redemption fund collection 69%. Repatriated funds, which were among championed objective element under tax amnesty, had only managed to account for 15% of target, inviting some Rp147tn new funds to Indonesian market. The majority of asset declaration, redemption fund, and repatriation collection (72%, 85%, and 85%, respectively) took time in the first phase, running in Jul-Sep16.

What's next? Upon the TA's conclusion, we see the periods ahead of tax amnesty will still be challenging for Indonesia's budget on both revenue and spending concerns. In the last five years, tax revenue financed an average of 68% of spending but tax ratio was only around 10-11% (vs Malaysia's 14.8%, Thailand's 16%, Philippines' 13.6% and world's average of 14.8%). The government critically needs to collect Rp2081tn of which some 18.6% will be used to finance infrastructure. There might be an extra yet unrealised revenue of Rp7.4tn from the tax amnesty if assets-repatriating taxpayers fail to comply to wire funds within 14 days of the TA closing day. Only Rp121tn had been wired until the closing day, creating a Rp24.7tn that is yet to be realised. We expect the Indonesian rupiah to appreciate in the close future, upon materialisation.

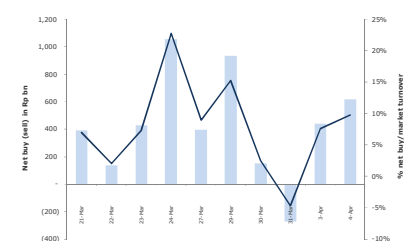
Weak revenue. We are concerned of the state's weak revenue creation as 61% of spending will be financed by non-oil and gas tax revenue and the state spending should make up around 16% of the economy. By 2016, Indonesia's non-oil and gas tax revenue grew by only 5.8%, with TA's contribution to total tax revenue of 7%. The exclusion of money from tax amnesty, however, translates into a growth of -4.9% in the non-oil and gas tax coffer. With economic growth of 5.03%, it indicates that a negative real growth of 10% was also recorded in the tax revenue formation throughout the year. Part of the decline in non-oil and gas revenue performance was due to the diversion of resources in the tax collection agency (i.e. the DG Tax) in order to take care of the TA. But that does not negate our cautiousness in the revenue side. In addition, slow progress in the DG Tax's performance reform reinforces our view.

Slow reform progress. The government has initiated a series of reform to permeate within the tax ecosystem, which we believe is rather slow and unlikely to be all achieving this year. A single identity card dubbed *Kartin1* was launched on March 31st to cover for various information including ID card number, tax number, passport and health insurance details in order to allow for better data recording. A bill on General Tax Administration, which has been included in the priority list of -

JCI Index



Foreign net buy (sell)



Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	5,652	0.8%	16.3%	6.7%
LQ45	941	1.1%	11.3%	6.4%
DJI	20,689	0.2%	17.5%	4.7%
SET	1,584	0.2%	15.3%	2.6%
HSI	24,261	0.6%	18.4%	10.3%
NKY	18,810	-0.9%	19.6%	-1.3%
FTSE	7,322	0.5%	20.2%	2.5%
FSSTI	3,179	-0.3%	13.5%	10.4%
EIDO	26	1.2%	13.7%	9.7%

Commodity price

Commodities	Last price	Ret 1 day	Ret 1 year
(in USD)			
Oil/barrel (WTI)	51.0	1.6%	42.9%
CPO/tonne	594.1	-1.2%	-5.0%
Soy/bushel	9.1	-0.1%	0.4%
Rubber/kg	2.4	-1.1%	46.0%
Nickel/tonne	9,915	1.3%	19.1%
Tins/tonne	20,049	-0.2%	20.3%
Copper/tonne	5,753	0.4%	20.4%
Gold/try.oz (Spot)	1,256	0.2%	2.0%
Coal/tonne	89.8	0.3%	79.3%
Corn/bushel	3.4	-1.4%	-0.7%
Wheat/bushel*	137.1	11.6%	-16.7%

* : 1 month change

Source : Bloomberg

the national legislation program since last year and should guide reform in tax collection, has not yet surfaced again (discussion was rife that the bill would pass into law this year). Main problems include low compliance (62.3% formal compliance rate), low tax base (registered taxpayer was 32.8 million by 2016, only approximately 36% of non-freelance labor force), under staffed tax agency collection, and high informality in the economy (accounting for 61% of the active labour force; World Bank, 2010).

Spending ability. Lastly, we also see spending ability as yet another concern. We believe by design, spending is properly allocated with 63% allocation for central government. We also like new initiative which stipulates that 25% of block transfer to the regions must come in form of infrastructure program. But the size of Rp2000tn had never been achieved, at least in the last three years, partly because revenue reduction and also because the ability to disburse, much less to undertake a quality spending remains an issue in both central and regional levels. Within the last five years, average disbursement rates were 94% and 96% by central and regional governments, respectively (they were only 86% and 93% within the last two years). We believe this challenge, as seldom as it is discussed, will contest the budget at one point, creating lower contribution to the economy's growth.

News & Analysis

Corporates

SMBR: Semen Baturaja (SMBR IJ; Rp3,540; Sell) has set an optimistic target with revenue growth of 27% and operating profit growth of 19% for FY17. This growth is supported by expected volume growth of 23%, which implies an ASP growth of 4%. The company remains optimistic on demand growth from LRT projects, power plant Way Semangka, several property projects and venues for Asian Games in 2018. Moreover, the company will operate its new plant Baturaja II in 2H17. (Bisnis Indonesia).

Comment: We think that the outlook is overly optimistic since competition will be draw to such growth potential, especially with significant oversupply in the industry. ASP increase of 4% will be challenging as it will also draw competition into that area. Maintain our Sell call as valuation is not justified.

UNTR: United Tractors (UNTR IJ; Rp29,150; Buy) through its subsidiary Bhumi Jati Power (BJP) has reached the financial closure for the 2GW coal-fired power plant, Tanjung Jati B 5&6 expansion project (PLTU Jawa-4) and commenced construction work on March 31. The project is scheduled to achieve commercial operation in 2021. The power generation will consume approximately 7.5m tons of coal per annum and UNTR will supply 30% of the plant's coal consumption. UNTR holds 25% ownership in the power plant, Sumitomo Corp holds 50% stake and the remaining 25% stake is owned by Kansai Electric. (Company).

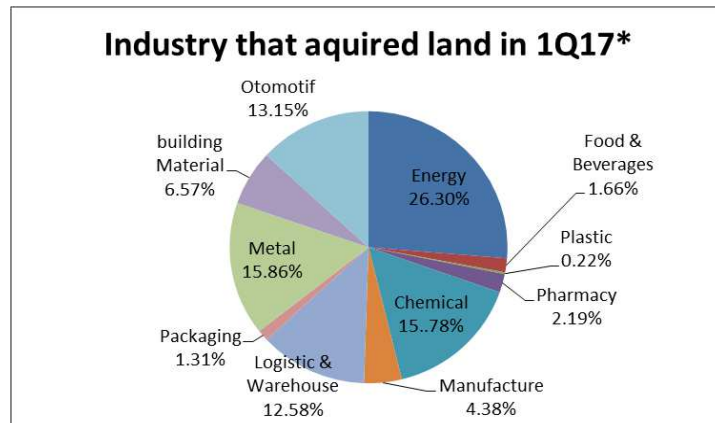
Comment: This is positive for UNTR. However, at this stage we maintain our forecast and valuation for the counter.

Markets & Sector

Precast Sector: Waskita Beton Precast (WSBP IJ; Rp505; Not Rated) per 1Q17 already acquired new contract of Rp4.4tn (+549% vs 1Q16), which is worth 35% from their 2017 target. The projects include Jakarta Garden City, Jakarta-Cikampek toll road, and Kapal Betung (Kayu Agung-Palembang-Betung) Project. On the other hand, Wijaya Karya Beton (WTON IJ; Rp790; Not Rated) acquired Rp1.5tn which is 24% of their total target of Rp6.3tn. The contracts come from toll road projects, PLTU (Electric Steam Power Plant) and train overpass. Company targets net income of Rp300bn (+10% yoy). (Bisnis Indonesia).

Industrial Estate Sector: Demand for industrial estate in 1Q17 has bolted. According colliers, per 1Q17 total of land sales for industrial estate has reached 50.72ha. (DMAS IJ; Rp228; Not Rated) sold 29ha, Subsidiaries of Modernland Realty (MDLN; Rp284; Not Rated) sold 16.76ha, Kawasan Industri Jababeka (KIJA IJ; Rp332; Not Rated) sold 3ha, Surya Semesta Internusa (SSIA IJ; Rp695; Not Rated) sold 1.8ha, and Lippo Cikarang only sold 0.16ha. (Bisnis Indonesia).

Industry that acquired land in 1Q17



Source : Colliers

*Note: Not including DMAS

Utility Sector: It is likely that the Government will set a ceiling margin for gas distribution, which was ungoverned until now. The distribution margin is possible to be set at 7% based from the upstream price and will provide an IRR of 11%, according to the Government. (Bisnis Indonesia).

Comment: If Well head price is assume at US\$7/MMBTU, then transmission cost will be only US\$0.5/MMBTU. Nevertheless, this ceiling is similar to what PGN (PGAS IJ; Rp2,490; Hold) charges for transmission. So the proposed regulation should have a neutral impact on PGN.

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.