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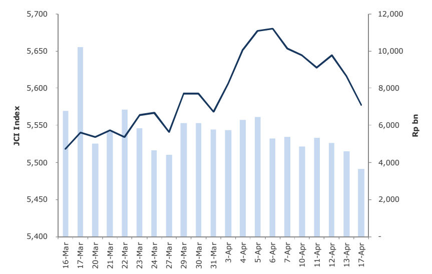
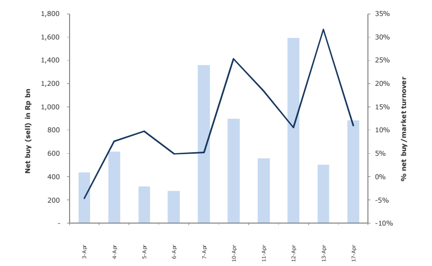
Premier Insight

18 April 2017

JCI Index



Foreign net buy (sell)



Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	5,577	-0.7%	14.6%	5.3%
LQ45	917	-1.0%	8.5%	3.6%
DJI	20,637	0.9%	14.6%	4.4%
SET	1,576	-0.9%	12.7%	2.1%
HSI	24,262	-0.2%	13.7%	10.3%
NKY	18,355	0.1%	12.8%	-3.2%
FTSE	7,328	-0.3%	15.1%	2.6%
FSSTI	3,138	-1.0%	7.6%	8.9%
EIDO	26	-0.2%	8.8%	7.6%

Commodity price

Commodities *(in USD)*	Last price	Ret 1 day	Ret 1 year
Oil/barrel (WTI)	52.7	-1.0%	30.5%
CPO/tonne	566.5	-0.2%	-5.5%
Soy/bushel	9.3	-0.2%	-2.3%
Rubber/kg	2.3	-1.4%	29.5%
Nickel/tonne	9,680	0.0%	9.0%
Tins/tonne	19,398	0.0%	12.9%
Copper/tonne	5,601	0.0%	16.0%
Gold/try.oz (Spot)	1,285	-0.1%	4.2%
Coal/tonne	84.2	0.0%	65.5%
Corn/bushel	3.5	-1.3%	-6.2%
Wheat/bushel*	137.1	11.6%	-16.7%

** : 1 month change*

Source : Bloomberg

Economic Update

A solid first quarter

- **Mar17 trade balance was lower by 2% mom at US$1.23bn**
- **...after exports rose by 15.7% mom**
- **...and imports +17.7% mom**
- **1Q17's trade was 137% better, expected to firm**

Lower trade surplus. Goods trade recorded a US$1.23bn surplus in Mar17, some 2% lower than the surplus registered in Feb17 but in line with consensus expectation, on the back of decline in the non-oil and gas trade. The surplus was 1.4 times the level recorded last year, when we consider trade was at its trough. On the contrary, oil and gas trade saw 38.7% improvement from the Feb17 course due to higher exports emerging from intensifying crude oil mining and oil processing industry. Average Indonesian oil price (ICP) was 69% higher in 1Q17 compared to 1Q16.

Fig 1. Trade balance (% growth)

	Mar17 (%, mom)	1Q17 (%, yoy)
Exports	**15.7**	**20.8**
Oil and gas	23.6	14.1
Non-oil and gas	14.9	21.6
Imports	**17.7**	**14.8**
Oil and gas	-8.5	68.4
Non-oil and gas	24.9	7.4
Trade surplus (deficit)	**-2**	**137**
Non-oil and gas	-20.5	212

Source: Statistics Indonesia, Indo Premier

Exports increased. The lower trade surplus came in despite exports which were recording a +16% growth mom and 24% yoy. In terms of volume, exports grew a hefty 26.3%, which were so much higher than any month in the year, where export growths were mainly driven by higher prices. Prices of non-oil and gas goods were declining by 9.6% mom, which we partly believe came from harvest season which drove prices down. To support, the FAO's food price index suggests a 2.8% mom fall in Mar17 with oils and sugar prices recording steepest decline, each by 6.2% and 10.9% mom.

Imports also increased. We believe the increase in imports (17.7% mom or 15% yoy) was mostly positive as it should exhibit continuous signs of recovery from its position through the past few years and also because supporting goods (including raw materials) were contributing the bulk of imports; they satisfied 75.6% of total import content in 1Q17. All categories of goods appeared to experience positive monthly growths with the following order: consumption (+58%), supporting goods incl. raw materials (+13%), and capital goods (+19%). We expect this trend to sustain and materialise into better investment and manufacturing activities, having looked at specific goods imported which included mechanical and electrical machineries as well as plastics, iron and steels.

Better 1Q17's trade. In the first quarter, we think trade was better in general in comparison with last year's position, with trade balance recording some 137% yoy increase. Non-oil and gas trade balance was 212% higher vs 1Q16 driven by higher export in all but notably mining industry, which saw 32% yoy increase, followed by agriculture (23% yoy) and manufacturing (20% yoy). We are partial to growth in the manufacturing sector, as 75% of exports came from this industry and the revival of this industry should benefit Indonesia on other respective fronts including better value creation and employment spillover. We expect the trend to -

sustain and improve along with global recovery and government-initiated structural reforms, but remain cautious as trade slowdown remains a risk stemming from either trade restriction in the US vis-à-vis countries running large trade deficits with the US such as China (which give further impact to Indonesia as our major export destination) or from unanticipated weakness in global trade.

News & Analysis

Corporates

BBTN: Bank BTN (BBNI IJ; Rp2,270; Buy) reported net profit of Rp594bn in 1Q17 (+21% yoy) on the back of its strong loan growth (+19% yoy), slightly lower NIM of 4.32% (-27bps yoy), higher cost/income ratio of 56.9% (1Q16: 54.5%) and stable asset quality with NPL: 3.34%. (Company).

Comment: BBTN's 1Q results are still within expectations, at 21%/20% of our/consensus estimates for FY17F, respectively, given the bank's usually much stronger 2H earnings.We reiterate our Buy rating on the stock.

PPRO: PP Property (PPRO; Rp286; Not Rated) booked marketing sales of Rp600bn in 1Q17, which is 17% from their FY17 target of Rp3.5bn. PPRO targets FY17 net income of Rp438bn (+20% yoy) which Rp116bn is estimated comes from JO. Company plans to use Rp1.5tn right issue's fund to add additional 10-20 ha landbank. As of 2016, PPRO owns 60ha landbank in Jabodetabek, Cikarang, Lombok, Surabaya, Semarang, and West Java. (Bisnis Indonesia)

WSKT: At least five investors are interested to purchase Waskita Toll road, a subsidiary from Waskita Karya (WSKT IJ; Rp2,330; Buy). According to WSKT's CEO, 20% of WTR will be solf to investor while Waskita will retain 51% at minimum. Company expects the plan to be completed in 3Q17. (Bisnis Indonesia)

Comment: the selling of WTR will lighten WSKT's cash flow and allowing company to take on more projects.

Markets & Sector

Automotive sector: The 4W sales volume reached 101,484 units (+7.1% mom) in Mar17, building up good growth momentum in 1Q17. Both Astra and non-Astra brands were growing by 1.3% mom and 15.3% mom. Cumulative sales were 282.5k units (+5.8% yoy) with non-Astra brands catching up. We see a positive momentum in the 4W, especially from the non-Astra brands. This is a healthy sign for the auto industry.

	17-Feb	17-Mar	% +/-	16-Mar	% +/-	1Q16	1Q17	% +/-
Astra	55,551	56,251	1.3%	46,182	21.8%	127,266	161,258	26.7%
Others	39,240	45,233	15.3%	47,808	-5.4%	139,859	121,270	-13.3%
Total	94,791	101,484	7.1%	93,990	8.0%	267,125	282,528	5.8%

Source: Gaikindo

In contrast, 2W sales volume remains soft despite a volume of 473.9k units (+4.4% mom) in Mar17. Cumulative numbers were lagging at -6.8% yoy in 1Q17. Strong growth was attributed by Suzuki due to the launching of sport model GSX-150. Therefore, model launching and face lift remains as ley strategy to win market share. The 2W recovery is less convincing due to choppy growth triggered only by model launching. We think that the 2W market has yet to be fueled by improve purchasing power from commodity sector.

	17-Feb	17-Mar	% +/-	16-Mar	% +/-	1Q16	1Q17	% +/-
Honda	345,921	358,524	3.6%	440,171	-18.5%	1,090,615	1,073,184	-1.6%
Yamaha	93,511	98,040	4.8%	108,416	-9.6%	359,775	285,668	-20.6%
Suzuki	5,904	8,600	45.7%	5,085	69.1%	22,393	18,015	-19.6%
Kawasaki	8,298	8,601	3.7%	9,482	-9.3%	31,244	24,269	-22.3%
TVS	129	131	1.6%	187	-29.9%	441	402	-8.8%
Total	453,763	473,896	4.4%	563,341	-15.9%	1,504,468	1,401,538	-6.8%

Source: Gaikindo

Pharmaceutical Sector: Kimia Farma (KAEF IJ; Rp2,060; Not Rated) to start the construction of several facilities including rapid test kits facility and pharmaceutical salt facility. KAEF prepares capex of Rp 2tn this year using internal cash and bank loans. (Kontan)

Comment: We think the growing number of pharmaceutical raw materials facility recently will benefit most pharma comps in Indonesia such as Kalbe Farma (KLBF IJ; Rp1,540; Buy), KAEF as it will lessen the import dependency as well as forex risk. As of now, more than 70% of the raw materials are still imported.

Economic

East Asia and Pacific Update: We attended the World Bank's EAP April Update discussion meeting with The Bank and Economic Research Institute for ASEAN (ERIA). Below are some key takeaways from the meeting:

- Global growth accelerated starting in 2H16 to 2.5% and has been sustained in early 2017. There are signs of recovery as indicated by upward movement in producer prices across countries including in Indonesia, Malaysia, China, Philippines, and Thailand. Region wise, East Asia with the exclusion of China exhibited highest economic growth in the last decade.
- Indonesia economic growth expected to firm to reach 5.4% in 2019. Latest revision that changed economic prediction to 5.2% (vs 5.3% yoy) was rather technical and thus should be ignorable and should not signal anything that change the course of Indonesia's current economic trajectory.
- Potential risks include shock to financial sectors and global trade slowdown if there is enacted policy by the US against countries running large trade deficits with it such as China, which may have spillover to Indonesian trade.
- Policy priorities prescribed for Indonesia include: enhancing tax policy & tax administration, tendency to follow suit with interest rate hike if there is capital outflow emerging after the US raises rate, ensuring effective spending on infrastructure, staying course with structural reform which include reducing restriction on trade.
- We also obtain information that for the moment, Indonesia's low government debt-to-GDP ratio (27%) should benefit the economy as it would signal that macroprudential management remains ongoing and keep investors confident. (World Bank)

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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.