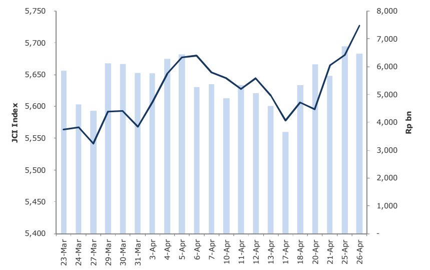
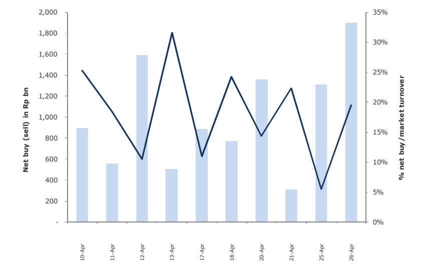
Premier Insight

27 April 2017

JCI Index



Foreign net buy (sell)



Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	5,727	0.8%	18.2%	8.1%
LQ45	951	1.0%	13.8%	7.5%
DJI	20,975	-0.1%	16.3%	6.1%
SET	1,567	0.3%	11.0%	1.6%
HSI	24,578	0.5%	15.1%	11.7%
NKY	19,289	1.1%	11.6%	0.5%
FTSE	7,289	0.2%	15.3%	2.0%
FSSTI	3,174	0.3%	10.4%	10.2%
EIDO	27	0.3%	13.1%	10.2%

Commodity price

Commodities	Last price	Ret 1 day	Ret 1 year
(in USD)			
Oil/barrel (WTI)	49.6	0.8%	12.7%
CPO/tonne	577.7	1.1%	-6.0%
Soy/bushel	9.2	-0.9%	-9.5%
Rubber/kg	2.3	0.6%	20.6%
Nickel/tonne	9,180	-1.0%	0.3%
Tins/tonne	19,965	1.5%	14.2%
Copper/tonne	5,689	0.2%	14.4%
Gold/try.oz (Spot)	1,269	0.4%	1.9%
Coal/tonne	83.8	-0.1%	64.2%
Corn/bushel	3.4	-1.7%	-8.9%
Wheat/bushel*	146.4	-0.6%	-10.8%

** : 1 month change*

Source : Bloomberg

Perusahaan Gas Negara (PGAS IJ; Hold)

Cost to catch up

- **1Q17 better than expectation on lower opex**
- **Improved contribution from oil assets**
- **Gas distribution slightly weak**
- **Maintain Hold, new TP Rp2,720**

Better than expectation. Perusahaan Gas Negara (PGN) booked net profit of US$98mn in 1Q17 (-2.7% yoy, +54.6% qoq), which was better than our and consensus expectation. The result was attributed with slight decline in gas distribution, improved contribution from oil asset and lower opex compared to 4Q16. We expect opex to accelerate in the coming quarter, leaving EBITDA in 1Q17 less likely to sustain through-out the year. Opex in 1Q17, only represents 15.7% from our opex estimates and 15% from opex in FY16.

Higher contribution from oil assets. PGN through its subsidiary Saka Energi now owns 11 oil and gas blocks, with a mix of productive and brown field well heads. Supported by both increase of oil price and production volume, revenue from oil and gas stood at US$100mn (+76.5% yoy, -4.2% qoq) accompanied with EBITDA of US$78mn (+110.5% yoy, +35.3% qoq). We expect that strong performance from the oil asset to sustain through-out the year.

Gas distribution on the weaker side. Gas distribution was 816 mmscfd in 1Q17 (+2.4% yoy, +1.6% qoq) due to recovery in electricity consumption with gas supplied mostly conventional reserves. ASP for gas was US$8.22 per MMBTU with gas cost at US$5.44 per MMBTU, resulting distribution margin of US$2.8 per MMBTU (-8.2% yoy, -14.9% qoq) which was inline with our expectation due lower pricing from new contracts from PLN. Gas transmission was also on the weaker side, as volume was 726 mmscfd (-14.2% yoy, -8.7% qoq) as demand was weak from Singapore and Central Sumatera. Meanwhile income stream from Regas Nusantara was US$13.3mn (-21.0% yoy, +46.6% yoy), which should be relatively steady income flow for PGN.

Maintain Hold. Despite displaying a strong 1Q17 result, we expect opex to play catch up in the coming quarters to normalize profitability. Gas distribution margin is expected to come down to US$2.7 per MMBTU due to new contract from PLN assigning lower ASP but higher volume. Oil operation should improve from increased production activities. Floating FSRU operation remains challenging as gas demand remains on the weaker side. We have slightly upgraded our target price to Rp2,720, while maintain our Hold call on the counter. We have increase our earnings estimate by 4.6% for FY18 while maintain our FY17 numbers.

Year To 31 Dec	2015A	2016A	2017F	2018F	2019F
Revenue (US$Mn)	3,069	2,935	2,949	3,153	3,301
EBITDA (US$Mn)	951	807	745	825	886
EBITDA Growth (%)	-16.0	-17.1	-6.3	+10.8	+7.4
Net Profit (US$Mn)	401	309	314	351	399
EPS (US$Cents)	1.7	1.2	1.3	1.4	1.6
EPS Growth (%)	(43.6)	(27.8)	8.4	11.9	13.5
Net Gearing (%)	53.1	51.3	41.2	33.9	25.1
PER (x)	11.4	15.7	14.5	13.0	11.4
PBV (x)	1.5	1.4	1.3	1.3	1.2
Dividend Yield (%)	6.0	2.1	2.1	2.6	3.0
EV/EBITDA (x)	6.2	7.4	7.7	6.8	6.0

Source: PGAS, IndoPremier *Share Price Closing as of : 25 April 2017*

News & Analysis

Corporates

BDMN: Danamon (BDMN IJ; Rp4,630; Hold) reported profit of Rp1.05tn in 1Q17 (+29% yoy), within expectations (forming 27% of FY17F consensus), on the back of flat lending (no growth), higher NIM of 9.4% (+80bps yoy), lower cost/income of 47.5% (vs. 48.3%) and a significant fall in credit cost to 2.7% (-90bps yoy). Core profit (PPOP) grew 3% yoy, due to flat opex, but unclear if restructuring cost would be booked in 4Q this year, as in prior three years. Credit cost has improved as micro loans continued to shrink (-29% yoy). Reiterate Hold rating. (Company)

LPPF: Matahari Department Store (LPPF IJ; Rp14,000; Buy)reported net profit of Rp244bn in 1Q17 (+0.2% yoy), still in line with expectation (forming 12%/11% of our FY17F forecast/consensus which normally 1Q formed 12% of FY achievement). Despite lower gross revenue (-1.4% yoy) and poor SSSG (-3.5%) in 1Q17, better profitability was driven by expanding gross margin at 36% (1Q16: 35%) thanks to better performance in its direct purchase (DP); less discount brings higher retail selling price. Thus, net margin was kept intact at 13% in 1Q17.

Comment: We view the news as positive as LPPF was able to keep net margin at 13% in the midst of weak purchasing power. We note that LPPF has lowered utility (-37% yoy) and salary (-3% yoy) expense in 1Q17, but we view this phenomenon is unsustainable as opex should shoot up in 2Q17 following the sales pickup in Lebaran season. At this stage, we still have Buy on LPPF.

HMSP: HMSP reported net profit of Rp3.3tn in 1Q17 (+5.5% yoy), in-line with our/consensus estimates. Revenue reported at Rp22.6tn (+3.0% yoy) where revenue in SKM grew 7.7% yoy while SKT and SPM declined by 1.5% yoy and 7.7% yoy, respectively, in 1Q17. As of 1Q17, SKM contributed 65% to total sales, while SKT and SPM accounted for 20% and 14% to total sales. Gross margin was stable at 25.7% in 1Q17. As a result, net margin was also stable at 14.6% in 1Q17. (Company)

Comment: PMI cigarette shipments still declined by 6.9% yoy in 1Q17, which is in-line with the decline in total Indonesia cig market (-5.5% yoy). We still think tobacco industry will continue to see pressure as an impact of tax-driven price increase and slow recovery in consumer purchasing power. At this stage, we still maintain HOLD on HMSP.

(in Rp bn)	1Q17	1Q16	YoY	1Q17	4Q16	QoQ
Revenue	**22,576**	**21,921**	**3.0%**	**22,576**	**25,191**	**-10.4%**
SKM	14,700	13,655.20	7.7%	14,700	16,458	-10.7%
SKT	4,588	4,659.20	-1.5%	4,588	5,113	-10.3%
SPM	3,078	3,334.40	-7.7%	3,078	3,377	-8.8%
Gross Profit	**5,807**	**5,653**	**2.7%**	**5,807**	**6,674**	**-13.0%**
Operating Profit	**4,162**	**3,922**	**6.1%**	**4,162**	**4,622**	**-10.0%**
Net Profit	**3,291**	**3,119**	**5.5%**	**3,291**	**3,681**	**-10.6%**
(%)						
Gross Margin	**25.7%**	**25.8%**		**25.7%**	**26.5%**	
Operating Margin	**18.4%**	**17.9%**		**18.4%**	**18.3%**	
Net Margin	**14.6%**	**14.2%**		**14.6%**	**14.6%**	

Source: Company

PTBA: Bukit Asam (PTBA IJ; Rp12,675; Buy) reported better than expected 1Q17 results:

- 1Q17 net profit reached Rp871bn, down 8.8% qoq but jumped 162% yoy on the back of low base number in 1Q16.
- 1Q17 earnings formed 33% of our FY17F estimate (above) and 31% of consensus' FY17F forecast (above).
- 1Q17 operating profit reached Rp1.22tn, up 2.2% qoq while jumped 165% yoy, forming 37% of our FY17F estimate (above) and 34% of consensus' FY17F forecast (above).
- 1Q17 revenues reached Rp4.55tn, up 13% qoq and 28% yoy, slightly above our expectation as revenues in 1Q17 accounted for 27% of our FY17 estimate while reaching 25% of consensus' FY17F expectation (in-line).

Comment: We expect positive sentiment for PTBA as 1Q17 results came in above our and consensus expectations. We will review our forecast given these better than expected results, at this stage we maintain our Buy rating for PTBA.

SRTG: We attend Saratoga (SRTG IJ; Rp3,600; Not Rated) RUPST/LB and Company plans to distribute Rp87/share final dividend (yield: 2.4%), after the interim dividend of Rp61/share in 2016. To note, SRTG's 2016 new investment (total: Rp107bn) includes PT MGM Bosco Logistics and PT Famon Awal Bros Sedaya. (Company)

WIKA: Wijaya karya (WIKA IJ; Rp2,330; Buy) booked strong earnings of Rp245bn (+242% yoy) in 1Q17 with revenue came strong at 40% yoy, driven by construction (+94% yoy) while other segments (industry, property, EPC) were declining at 12% yoy. Gross margin was flat at 10.8% in 1Q17 (vs 10.7% in 1Q16) due to declining margin of construction whereas other segments were improving. Despite so, operating and net margin improved significantly to 11.6% and 6.4% in 1Q17 from 8.6% and 2.6% in 1Q16, given the help of recent right issue and operating efficiency. (Company)

Comment: WIKA has achieved 16% and 20% of ours and consensus forecast which was inline with its five years historical performance. The outstanding 1Q17 was rather expected due to delayed revenue recognition from its construction business. Nevertheless, we reiterate Buy on WIKA at TP of Rp3,100/share given superb new contract achievement of 39.4% of FY17 target, which is the strongest among last five years and strong earnings visibility for years to come.

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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.