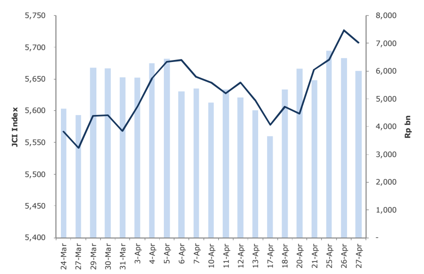
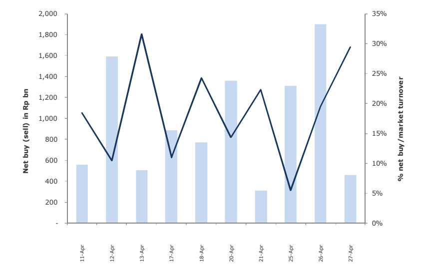
# Premier Insight

28 April 2017

## JCI Index



## Foreign net buy (sell)



## Key Indexes

| Index | Closing | 1 day | 1 year | YTD |
|---|---|---|---|---|
| JCI | 5,707 | -0.3% | 17.7% | 7.7% |
| LQ45 | 946 | -0.5% | 13.4% | 6.9% |
| DJI | 20,981 | 0.0% | 17.7% | 6.2% |
| SET | 1,567 | 0.0% | 11.9% | 1.5% |
| HSI | 24,698 | 0.5% | 15.5% | 12.3% |
| NKY | 19,252 | -0.2% | 15.5% | 0.7% |
| FTSE | 7,237 | -0.7% | 14.5% | 1.3% |
| FSSTI | 3,171 | -0.1% | 10.8% | 10.1% |
| EIDO | 27 | -0.4% | 13.9% | 9.8% |

## Commodity price

| Commodities | Last price | Ret 1 day | Ret 1 year |
|---|---|---|---|
| *(in USD)* | | | |
| Oil/barrel (WTI) | 49.0 | -1.3% | 8.0% |
| CPO/tonne | 575.4 | -0.3% | -4.8% |
| Soy/bushel | 9.2 | 0.0% | -9.6% |
| Rubber/kg | 2.3 | 0.0% | 20.1% |
| Nickel/tonne | 9,288 | 1.2% | 1.3% |
| Tins/tonne | 19,910 | -0.3% | 16.3% |
| Copper/tonne | 5,669 | -0.4% | 15.4% |
| Gold/try.oz (Spot) | 1,264 | -0.4% | -0.2% |
| Coal/tonne | 84.8 | 1.2% | 66.4% |
| Corn/bushel | 3.4 | 0.9% | -7.7% |
| Wheat/bushel* | 146.4 | -0.6% | -10.8% |

** : 1 month change*

Source : Bloomberg

# Telkom (TLKM IJ; Buy)

## Sustaining growth

- **Continuous growth from data**
- **Manageable voice and SMS pricing to compensate substitution**
- **Network and other telco service up 48.2% yoy**
- **Maintain our Buy call, TP Rp 5,120**

**1Q17 result slightly ahead of expectation.** Telkom's net profit was Rp6.6tn (+45.7% yoy, +43.7% qoq) supported by strong operation from growing data and slower substitution effect in voice of cellular and fixed line. Nevertheless, the growth impact was amplified from declining interest expense as Telkom grows cash rich and the absence of accelerated depreciation. EBITDA margin expanded to 54% in 1Q17 vs 53.2% in 1Q16 and 50.9% in 4Q16. We expect EBITDA margin to fall to 52.2% for FY17 as some opex might catch up such as ERP programs and possible further accelerated depreciation and write offs. Overall, Telkom was able to maintain its growth momentum from data while managing decline in legacy business by using cluster pricing.

**Data remains attractive in a competitive environment**. Data have become an important component of Telkom's revenue with contribution of 46% followed by cellular voice 35%, SMS of 12% and fixed voice of 7%. Data revenue was Rp12.9tn (+25.4% yoy, +23.4% qoq) in 1Q17, consist of fixed and cellular data. Meanwhile cellular data volume reached 365PB in 1Q17 (+115.5% yoy, +11.8% qoq), but with competitive pricing at Rp23/Mb (-37.5% yoy, -20.4% qoq). In order to enhance revenue, Telkom bundled voice, SMS and data services into one package. By using cluster pricing, tariff in voice and SMS has effectively increase RPM to Rp191/min (+32.5% yoy, +11.1% qoq) and RPS to Rp74.4/SMS (+7.2% yoy, +3.0% qoq), compensating volume losses. We expect strong growth in data to sustain with more stable contribution from voice and SMS.

**Network and other telco service seem promising**. These segments contributed revenue of Rp2.0tn (+48.2% yoy) in 1Q17, still account 6.5% of total revenue. Low base growth was attributed by various services such as CPE and Terminal, E-payments, E-health, and other services. There should be further potential in these new areas to contribute higher growth. Furthermore, these other service should also create operating synergy with the existing business enhancing profitability of Telkom.

**Buy reiterated**. Telkom once again has proved to sustain its growth while enhancing profitability. We remain positive on Telkom despite some cost might catch up. Having a dominant position with potential operating leverage will drive the company's growth. We maintain our Buy call on Telkom with target price of Rp5,120.

| Year To 31 Dec | 2015A | 2016A | 2017F | 2018F | 2019F |
|---|---|---|---|---|---|
| Revenue (RpBn) | 102,470 | 116,333 | 127,721 | 136,199 | 147,994 |
| EBITDA (RpBn) | 50,952 | 57,727 | 66,670 | 71,347 | 78,055 |
| EBITDA Growth (%) | 10.0 | 13.3 | 15.5 | 7.0 | 9.4 |
| Net Profit (RpBn) | 15,489 | 19,352 | 24,930 | 26,615 | 30,587 |
| EPS (Rp) | 154 | 192 | 247 | 264 | 303 |
| EPS Growth (%) | 7.1 | 24.9 | 28.8 | 6.8 | 14.9 |
| Net Gearing (%) | 2.7 | 1.9 | (1.7) | (4.1) | (7.8) |
| PER (x) | 28.6 | 22.9 | 17.8 | 16.7 | 14.5 |
| PBV (x) | 5.9 | 5.3 | 4.7 | 4.2 | 3.8 |
| Dividend Yield (%) | 2.0 | 2.6 | 3.4 | 3.6 | 4.1 |
| EV/EBITDA (x) | 8.7 | 7.6 | 6.7 | 6.3 | 5.8 |

*Source: TLKM, IndoPremier* *Share Price Closing as of : 26 April 2017*

# Matahari Dpt. Store (LPPF IJ; Buy)

## In-line results, focus on DP margin

- **Expected flat 1Q17 profit with negative SSSG due to seasonal shift.**
- **Better direct purchase margin, improving overall 1Q gross margin.**
- **Expecting higher opex growth in 2Q, pressuring EBIT margin.**
- **Reiterate Buy with TP of Rp16,350.**

**In-line 1Q17 results.** Matahari Department Store (LPPF) booked net profit at Rp244bn in 1Q17 (+0.2% yoy), still in-line with our and consensus expectation (forming 12%/11% respectively, which normally 1Q formed 12% of FY achievement). Gross revenue was slightly decreased to Rp3.2bn (-1.4% yoy) on the back of negative SSSG at -3.5% given the seasonal calender shift (Easter holiday moved to April 2017 vs. last year on March), which formed 17% of our and consensus forecast. EBITDA was flat at Rp366bn, helped by lower operating expense and better gross margin. We expect the opex will shoot up in the coming quarter as sales begin to pickup in early April. Management is guiding at 3-6% SSSG for FY17, while we maintain our SSSG at 6%.

**Gross margin expanded from better Direct Purchase.** Looking at the 1Q17 profitability, LPPF booked higher gross profit at Rp1.2tn (+2.2% yoy) and gross margin expanded +139bps yoy to 36.8%, mainly driven by better direct purchase (DP) and consignment (CV) margin. CV margin was relatively stable at 31.4% in 1Q17. DP margin grew to 44.5% in 1Q17 (1Q16: 32.5%, 4Q16: 41.9%), on the back of higher discount received from bulk buying strategy (lower COGS). We view the bulk buying strategy should be effective in securing gross margin as long as the management carefully execute the key item program and targeted market approach. By these strategies, LPPF should be able to track consumer behaviour and target specific consumer needs, leading to efficient LPPF procurement process.

**Lower salary expense helped sustain operating margin in 1Q.** LPPF booked flat EBITDA at Rp366bn in 1Q17, helped by slower pace in operating expense growth. We note that salary cost decreased by 3% yoy (salary cost formed 28% of total opex), which we believe is not sustainable going forward. Rental cost in 1Q increased by +15% yoy, still within 3yr CAGR of 15.1%. Finally, ads and promotion cost grew to Rp51bn (+22% yoy) to support both offline and online store (Mataharistore.com) promotional activities. We believe opex will accelerate in 2Q when entering the Lebaran festive season and potentially pressure EBIT margin.

**Maintain Buy rating and forecast.** We maintain our forecast, given the 1Q17 SSSG was at negative low single digit, better than management expectation. We are positive with the sales pickup in early April, serving as an early indication of better 2Q17. Reiterate Buy with TP of Rp16,350.

| Year To 31 Dec | 2015A | 2016A | 2017F | 2018F | 2019F |
|---|---|---|---|---|---|
| Revenue (RpBn) | 9,007 | 9,897 | 10,736 | 11,825 | 13,112 |
| EBITDA (RpBn) | 2,570 | 2,789 | 2,938 | 3,186 | 3,515 |
| EBITDA Growth (%) | 9.9 | 8.5 | 5.3 | 8.4 | 10.3 |
| Net Profit (RpBn) | 1,781 | 2,020 | 2,071 | 2,237 | 2,461 |
| EPS (Rp) | 611 | 692 | 710 | 767 | 844 |
| EPS Growth (%) | 25.5 | 13.4 | 2.5 | 8.0 | 10.0 |
| Net Gearing (%) | (85.6) | (92.3) | (95.9) | (95.6) | (98.0) |
| PER (x) | 19.2 | 16.9 | 16.5 | 15.3 | 13.9 |
| PBV (x) | 30.9 | 18.4 | 13.5 | 10.3 | 8.3 |
| Dividend Yield (%) | (2.5) | (3.6) | (4.1) | (4.2) | (4.9) |
| EV/EBITDA (x) | 13.7 | 12.9 | 12.5 | 11.7 | 10.9 |

*Source : LPPF, IndoPremier* *Share Price Closing as of : 26-April-2017*

# News & Analysis

## Corporates

**DMAS:** Puridelta Lestari (DMAS IJ; Rp236; Not Rated) booked net profit of Rp123bn (-55% yoy) with net margin expanded to 55.4% from 46.1% as company saw higher gross and operating margin as well as lower loss on forex. Revenue reached Rp222bn (-62% yoy) of which industrial made up 81% of 1Q17 revenue. the achievement was indeed lower than 1Q16 due to high base of revenue from booking of sales to PT SAIC international Indonesia. (Company)

**JSMR:** Jasa Marga (JSMR IJ; Rp4,660; Buy) has spent capex of Rp3.3tn in 1Q17 or representing 60% of its total capex for FY17. This capex was used to finance toll road construction. This year, Jasa Marga is expected to operate new toll road of 210 km. (Bisnis Indonesia)

*Comment: Jasa Marga has recently appointed a new finance director, of which seems to affect the capex commitment for FY17. Now the company aims capex of Rp5.5tn vs earlier of Rp16-17tn. There is no explanation on how this number has changed and how it would affect cash flows.*

**HMSP:** We attended HM Sampoerna (HMSP IJ; Rp3,860; Hold) Pubex with key takeaways as follows:

- Volume sales still hurts by soft economy and above-inflation cigarette tax driven price hike
- As trend towards SKM continues, HMSP expands into SKM High Tar category
- SKT remains sluggish but seems stabilizing
- HMSP has agreed to issue dividend of Rp12.5tn (~98.2% of FY16 earnings), which translates to Rp108/share (2.8% dividend yield at share price of Rp3,850).

*Comment: As we view Indonesia's tobacco market to remain challenging, we maintain HOLD on HMSP. (Company)*

**ICBP:** Indofood CBP (ICBP IJ; Rp8,700; Hold) reported net profit of Rp1.1tn (+42% qoq, +16% yoy), still in line with our/consensus expectation (28%/29% respectively). 1Q sales increased (+18% qoq, +6% yoy), in line with our forecast (forming 25% of FY17). Strong operating profit (efficient operational) expands operating margin to 16% (1Q16: 15%). Thus, net margin increased to 11.5% (1Q16: 10.6%). (Bisnis Indonesia)

*Comment: We view the overall result as positive as ICBP posted a solid sales in 1Q17. We note that the Company has focus keeping opex under control (-2.5% qoq, -0.8% yoy), and bring the bottom-line margin to expand in 1Q. However, we still cautious on the opex acceleration (especially in ads, distribution) in the coming quarters as competition remains tight. At this stage, we still have Hold rating for the stock.*

**INDF:** Indofood Sukses Makmur (INDF IJ; Rp8,450; Buy) reported net profit of Rp1.2tn (+33% qoq, +11% yoy), still in line with our/consensus expectation (27%/27%, respectively). 1Q sales grew (+6% qoq, +8% yoy) and operating profit soared to Rp2.6tn (+19% qoq, +35% yoy). Operating margin in 1Q was at 14.4% (1Q16: 11.5%), helped by lower opex growth in this quarter. Lower interest expense helped offsetting higher tax paid, bringing net margin to 6.8% (1Q16: 6.6%). (Bisnis Indonesia)

*Comment: We view the result as strong and positive as INDF posted a solid margin expansion in 1Q. We note that gross margin has expanded to 30% (1Q16: 28%), which we suspect coming from Agribusiness. At this stage, we still have Buy rating for the stock.*

**SMBR:** Semen Baturaja (SMBR IJ; Rp3,580; Sell) has booked net profit of Rp32bn in 1Q17 (+13.0% yoy), supported by revenue growth of 20.0% yoy to Rp327.8bn. Total sales volume grew 10.2% yoy to 350k tons in 1Q17. The company has target volume growth 23% for FY17 with operating profit growth of 19%. (Bisnis Indonesia)

*Comment: it seems that Semen Baturaja's achievement in 1Q17 was below its management expectation. We think that the share price is above its intrinsic value. Therefore we maintain our Sell call on the counter.*

**WSKT:** Waskita Karya (WSKT IJ; Rp2,400; Buy) reported outstanding earnings of Rp450bn in 1Q17 (+263% yoy, +260% qoq), supported by robust revenue growth of 132% yoy to Rp7.1tn. New contract was at Rp11.6tn in 1Q17, accounts for 14.5% of company's FY17 target. (Company)

*Comment: WSKT's 1Q17 net profit formed 18/19% of ours and consensus estimate, which is strongest achievement in last four years while 1Q17 new contracts achievement were also notably stronger compared to last three years that only ranged between 8-13%, thus ensuring strong earnings visibility for years. Maintain BUY on WSKT based on this set of very strong results at TP of Rp3,400/share.*

## Economic

**Economy:** We came to BI's launch of 2016 Economic Report with keynote speech made by BI's governor Agus Martowardojo and the coordinating minister of economic affairs Darmin Nasution. A number of panelists including Maurice Obstfeld (IMF), BI's senior deputy governor Mirza Adityaswara, as well as Prof. Mohammad Ikhsan were also attending discussions. Some highlights from the conference:

- Global recovery appears to be on track and would still be improving in the close future. However, it is argued that medium-term outlook for advanced economies and commodity exporting nations remain subdued in the medium term (IMF). The IMF also maintains a view that despite a presence of upside and downside, risks tend to skew to the downside.
- Downside risks emerge from tighter global financial condition and US further appreciation, inward-looking policies, spillover from Chinese slowdown, ageing population, and slowing productivity growth.
- Domestically, BI's three policy responses; namely coordination and synergy, response of policy mix, and consistency and continuity; seem to have reaped result. BI's policy stance seems to be neutral this year, prioritising stability in macroeconomic fronts and financial health.
- Darmin Nasution maintains that a good governance in the economy has managed to overturn the slowdown that has actually started to take place since 2011. In 2016, Indonesia's growth was higher compared to other countries which happened to experience most sluggish year. In addition, three other indicators are improving such as unemployment rate, poverty rate, and Gini ratio that are declining.
- Darmin expects economic growth this quarter to be 5.1% yoy on higher commodity prices and returning harvest season.
- Current structural homework includes: relaxing 'disguised' import restriction of almost 32% of total HS code spread across ministries, the need of land certification to promote financial inclusion (with 5, 7, 9 million target in 2017, -18, -19). (BI and CMEA)

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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.**

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