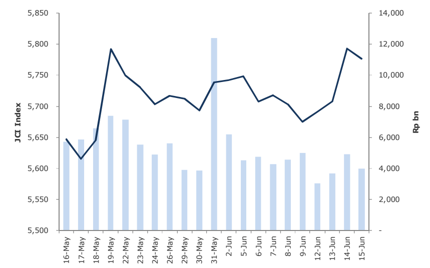
INDOPREMIER

Premier Insight

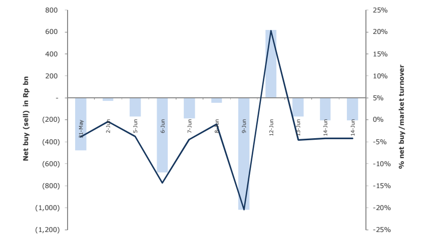
16 June 2017

Economic Update

JCI Index



Foreign net buy (sell)



Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	5,776	-0.3%	20.0%	9.1%
LQ45	970	-0.4%	18.3%	9.7%
DJI	21,360	-0.1%	20.5%	8.1%
SET	1,574	-0.2%	11.5%	2.0%
HSI	25,565	-1.2%	27.6%	16.2%
NKY	19,832	-0.3%	28.5%	4.1%
FTSE	7,419	-0.7%	24.7%	3.9%
FSSTI	3,232	-0.7%	17.5%	12.2%
EIDO	27	0.1%	18.3%	13.4%

Commodity price

Commodities	Last price	Ret 1 day	Ret 1 year
(in USD)			
Oil/barrel (WTI)	44.5	-0.6%	-7.4%
CPO/tonne	572.3	1.2%	-0.8%
Soy/bushel	9.1	0.3%	-20.9%
Rubber/kg	1.9	0.0%	19.1%
Nickel/tonne	8,790	-1.0%	-2.3%
Tins/tonne	19,623	1.4%	15.5%
Copper/tonne	5,636	-0.6%	21.8%
Gold/try.oz (Spot)	1,254	-0.5%	-1.9%
Coal/tonne	80.8	0.4%	54.1%
Corn/bushel	3.5	0.7%	-16.1%
Wheat/bushel*	138.4	-5.5%	-15.3%

** : 1 month change*

Source : Bloomberg

Positive on both fronts

- **Two economic events: trade data and monetary decision**
- **Double-digit increase in import still resulted to a robust May17's trade surplus of US$0.47bn**
- **...due to increase in capital goods exports and imports**
- **BI maintained the reference rate at 4.75%, an anticipated move**

Two events. The economy observes two events on June 15th, which include the trade data launch and the meeting of central bank's Board of Governors. There is a ground to believe that the US$0.47bn surplus recorded in May17 was decent, given the pattern with exports and imports in the month. Along with that, the monetary decision to hold rate was much anticipated for Jun17 despite our shared opinion that the monetary trajectory has now been in the upward direction.

Decent trade surplus. We think Indonesia had registered good surplus in trade in May17, with US$0.47bn recorded (+25.8% yoy, -64% mom), which should also send positive sentiment, notably as the registered figure came after adjusting for 24% yoy balanced increase in export and import. To note, import increase was the highest recorded within the last five years; the last time import increased by more than 20% was in 2012. The May17's trade balance affirmed the improvement in trade position this year, which has so far registered US$5.9bn ytd, doubling the level in 2016 and up 49.7% from the 2015's course.

Capital goods behind exports. The surplus was derived from increase in export of non-oil and gas, whose major drivers are capital goods such as electrical machineries/ equipments (+12% mom), machinery and mechanical appliances (+43.8% mom). Intermediate goods such as iron and steel also saw steep 43.4% mom boost. All the aforementioned products are manufactured goods, which had recorded US$51bn ytd (+16.2% yoy). To support, we also look at industrial production index, notably for the above commodities, which had gone up since beginning of year. Generally, we believe Indonesia benefitted from higher prices in the month, as export in real term was indeed declining by 1.9%. However, there is evidence on better trade this year, as volume on rose by 7.3% yoy.

..and imports. We also observe a similar pattern in imports, where higher contributors of imports were mainly machineries, both mechanical and electrical. But food such as cereals also rose by 29.6% mom; the increase of which we believe was highly related to the *Eid al-Fitr* celebration and the *Ramadan* that preludes it. The cereals increase might justify monthly growth in terms of goods category, where raw materials (material goods) rose highest by 17.4% mom, followed by consumption and capital goods.

Monetary decision. In another occasion, the central bank has decided to maintain the 7DRRR at 4.75%, in line with our and consensus expectation, with deposit and lending facility rates also stay at 4% and 5.5%. The decision came despite higher May17's inflation and this morning's decision of the US' Federal Reserves to raise rate to 1.00-1.25% ban; we had been confident of this to happen in a solid belief that BI's preference would be to prolong as many momentums it has to support growth. We also believe capital inflow has been high (Rp95.4tn ytd, and Rp5tn until the second week of Jun17) and will remain surging in despite the maintenance. To note, sovereign bond yield of 10-year tenure recorded a year-low of 6.84 on the closing of trading day.

News & Analysis

Corporates

ADHI: Adhi Karya (ADHI IJ; Rp2,210; Buy) reported new contract of Rp5.3tn in 5M17, accounting for 25% of FY17 target. New contracts came from Gelora Bung Karno (Rp350bn) and several new contracts from ADHI's subsidiaries, Adhi Persada Gedung. Construction and energy dominates new contract by 92% with private to contribute 39% from ADHI's new contract. (Kontan)

Comment: ADHI's achievement was flat yoy and was the most laggard compared to other SOEs. It is also under its historical achievement of past few years. Maintain Buy at TP of Rp2,500.

CTRA: We attended Ciputra Development's (CTRA IJ; Rp1,150; Buy) pubex yesterday and found that company is still optimist to reach FY17 target of Rp8.5tn on the back of four new project launches; Sadana in Bali (landed house), the Newtown 2 and the suites in CWJ 2 extension (highrise) and Citra plaza Batam (mixed use). Demand pick up are seen in Surabaya, Jakarta, Bali, and Makassar. Company expect flat revenue and lower earnings this year, but growing revenue of 20-25% next year due to massive unit handover from pre sales 2015-16. Company saw competition from China developer but expect them to expose least risk due to high land cost acquistion and several foreign limitations on labor, etc. (Company)

Comment: We will review our earnings estimate based on this newest guidance. Even so, we still like CTRA due to large exposure across Indonesia and its early plan to enter low cost apartment that might attract large demand. The project is expected to launch around next year.

MYOR: Based on Mayora Indah's (MYOR IJ; Rp2,120; Sell) AGM, company to distribute total dividend of Rp469.5bn (~34.9% of FY16 earnings), which translates to Rp22 per share (0.98% dividend yield at share price of Rp2,150). (Investor Daily)

Comment: We remain cautious on the volatility of its earnings due to its high exposure to sugar price. Maintain SELL on MYOR.

Markets & Sector

Property sector: Property developers reported slow pre sales in 5M17 and expect sales to recover in 2H17. As such, Summarecon Agung (SMRA IJ; Rp x; Buy) reported pre-sales of Rp1.2tn (-15% yoy) in 5M17 or only 24% of FY17 target. Similarly, Pakuwon Jati (PWON IJ; Rp620; Buy) has secured Rp654bn (-34% yoy) or 24% of FY17 target. On the other hand, Ciputra Development (CTRA IJ; Rp1,150; Buy) and Metropolitan Land (MTLA IJ; Rp322; Not Rated) reported relatively better achievement 5M17 pre sales at Rp2.6tn (31% of FY17) and Rp1.5tn (34% of FY17). Meanwhile, strong performance is shown by PP Properti (PPRO IJ; Rp226; Not Rated) that reported sales of Rp1.4tn or 45% of FY17 target. (Kontan)

Comment: The unstable political condition and upcoming eid al-fitr will slow property demand in 1H17. Maintain neutral on the sector with top picks of Bumi Serpong Damai (BSDE IJ; Rp1,800; Buy) and CTRA on the back of resillient housing sales as well as PWON as recurring income player that shall help company on steady earnings.

Telecommunication sector: The recent event of Google to pay its tax obligation to Indonesian Government has caused a ripple effect. The Ministry of Communication and Information will soon use issue a ministry regulation to government tax collection on advertising by Over The Top (OTT) application. This regulation is aimed at OTT foreign companies such as Facebook, Twitter, WhatsApp, Netflix, Spotify, etc.

Comment: This should be a positive effort of the Government to increase tax collection with relatively neutral impact to the telecommunication sector. This regulation is aimed at foreign entities in the OTT business. Local OTT are already subject to corporate tax and should have no implication. This will also even the playing field between local and foreign OTT.

Transportation sector: Starting July 1st 2017, government to oblige all online transportation to have commercial licensing. So far, Grab has not completed the required documents unlike Uber and Gojek. Ministry of transportation will also impose lower and upper limit by area and not by province. So far, local governments in Lampung, West java, East Java, Medan and Makassar have agreed to it. (Investor Daily)

Comment: The imposition of lower and upper limit will make the online transportation to be less attractive in terms of pricing; it may be possible that people will switch back to conventional taxi.

Economic

Economy Update: We came to World Bank's launch of 3Q17's IEQ meeting yesterday titling "Upgraded" and obtain the following highlights:

- The Bank is upbeat on Indonesian economy, highlighting some progress in growth, external resilience (better balance of payment and current account position), capital inflow, and better fiscal management. Growth in Indonesia is forecast to be unchanged at 5.2% FY17, global growth 2.7%, and global trade to pick up from 2.5% to 4%, with potential downside risk due to protectionism.
- The term "Upgraded" itself reflects an improving handling of the economy, which is also reflected by confirmations of domestic and international agencies such as the unqualified opinion awarded for the first time for 2016 Central Govt's Financial Statement (LKPP 2016), S&P's acknowledgment of Indonesia's investment rating which firms up other rating agencies' view toward Indonesia, UNCTAD inclusion of Indonesia to be 4th top destination for investment, and IMD's increase of Indonesia's position in World Competitiveness Ranking to be at 42 from 48 last year.
- Finance Minister Sri Mulyani presented keynote speech in the event. Three core principles under her budget management are to prioritise stability, allocation, and distribution. Policy actions derived from these principles include prudent fiscal administration, disbursement and monitoring of quality spending, strengthened institutional capacity (notably on the Tax Office's front).
- Note that Sri, in few events we attended, had always mentioned her aspiration for better budget spending. She mentioned few times about "the next-level problem" which is a state condition of having money but lacks capacity to ensure fund to be well spent. We believe any budget cutting and reallocation forward should reflect this stance.
- Globally, the minister is pushing an agenda of countries to support tax evasion basing on ethic and moral grounds.

(World Bank, Indo Premier)

Policy Package: Coordinating Ministry of Economic Affairs (CMEA) has launched the 15th policy package focusing on increasing competitiveness and business development of domestic logistic providers. This package covers the following domains:

- Opportunity granting for industry players aim to venture into export-import's transport and logistic insurance as well as docking and maintenance business;
- Ease of business and lowering cost for existing players in terms of (1) reducing transportation cost, (2) dismissing the license to transport goods, (3) lowering port investment cost (4) document standardization for domestic goods flow, (5) developing regional distribution centres, (6) ease of procurement for certain types of ship, (6) refund policy for money put to guarantee containers.

- Empowering Indonesia National Single Window by (1) putting it as independent agency, (2) supervising export import activities potentially used for illegal trading, (3) developing single risk management to lower dwelling time
- Simplification of trade in order to reduce limited restriction from 49% to 19%.

Comment: Upon comprehensive implementation, we believe this should be good for transportation and commerce business in general. To note, logistic cost makes up around 40% of retail prices and 72% of the cost comes from transportation cost.

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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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