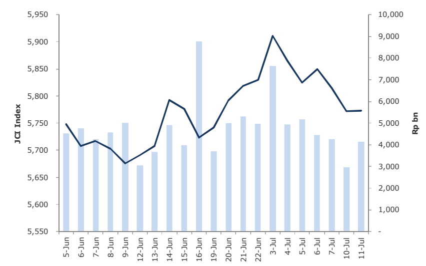
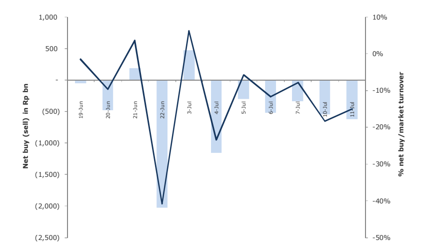
Premier Insight

13 July 2017

JCI Index



Foreign net buy (sell)



Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	5,819	0.8%	13.3%	9.9%
LQ45	976	1.0%	10.2%	10.4%
DJI	21,532	0.6%	17.2%	9.0%
SET	1,575	0.4%	6.6%	2.1%
HSI	26,044	0.6%	22.1%	18.4%
NKY	20,098	-0.5%	23.8%	5.5%
FTSE	7,417	1.2%	11.2%	3.8%
FSSTI	3,209	-0.3%	10.2%	11.4%
EIDO	27	2.1%	8.1%	13.4%

Commodity price

Commodities	Last price	Ret 1 day	Ret 1 year
(in USD)			
Oil/barrel (WTI)	45.5	1.0%	-2.8%
CPO/tonne	601.9	-0.1%	18.0%
Soy/bushel	9.9	-0.8%	-9.8%
Rubber/kg	1.7	0.0%	1.4%
Nickel/tonne	9,160	0.8%	-12.3%
Tins/tonne	20,020	0.7%	11.4%
Copper/tonne	5,880	0.6%	21.2%
Gold/try.oz (Spot)	1,220	0.2%	-9.1%
Coal/tonne	83.2	-0.2%	37.1%
Corn/bushel	3.6	-4.5%	4.1%
Wheat/bushel*	146.5	5.8%	-7.0%

** : 1 month change*

Source : Bloomberg

Bank Negara Indonesia (BBNI IJ; Buy)

Good results despite NIM pressure

- **Core profit grew 13.8% in 1H driven by strong asset growth (+17%)**
- **NIM fell 56bps yoy due to faling yields, shift to lower-risk SOE loans**
- **Stable NPLs, provisioning normalising despite quarterly volatility**
- **Maintain Buy with new TP of Rp7,700 (from Rp6,500)**

1H17 results in-line. BBNI reported net profit of Rp6.4tn in 1H17 (+46% yoy), in line with our expectation (at 50% of our FY17F forecast). The strong yoy profit growth was due to low base in 2Q16 (which was depressed by a steep rise in loan provision) although it was 8% lower vs. 2H16 while quarterly profit was flat in 2Q vs. 1Q. Provision expense fell 19% yoy while loan recovery income grew 66% in 1H17. Excluding provision, core profit growth was still robust at 14% yoy driven by: 1) strong asset/loan growth (+17%/15%), lower NIM of 5.65% (-56bps), strong non-interest income (+18%) and moderate opex growth (+11%). ROAA and ROAE improved to 2.1%/14.4%, from 1.7%/11.2% in 1H16.

NIM pressure. We estimate NIM narrowed to 5.49% in 2Q vs. 5.81% in 1Q or 43bps/69pbs lower than year-earlier levels. This NIM pressure can be attributed to falling the bank's loan yields across all loan segments (not surprisingly given government pressure to cut lending rates), despite 10bps lower cost of funds. Blended loan yield fell to 10.0% in 1H17, from 10.8% on FY16 (FY15: 11.1%), although the downtrend seems to be bottoming out. The declining loan yields is also due to strong growth of SOE & overseas loans (+27%/59%) vs. only 10% growth for consumer/SME loans, and lower yields on restructured loans (Rp29tn; 7% of loan portfolio). Going forward, we expect NIM to be more stable.

Asset quality. NPL ratio (bank-only) was 2.8% in 2Q (1Q: 3.0%) while special mention loans fell to 3.9%, from 4.3%, with the improvements seen in corporate, medium, overseas, consumer loans while SME loans worsened in the last quarter. Meanwhile, credit cost fell to 176bps in 1H17 (2Q: 198bps; 1Q: 153bps), from 280bps a year earlier, while provisions/NPL coverage also improved marginally to 147%. Unlike most other major banks in Indonesia, BBNI's annual credit cost has normalised as it improved slightly to 1.8% in 1H17 (FY16: 2.0%; FY15: 2.3%) despite quarter-to-quarter volatility. As such, asset quality improvement (if any) is unlikely be key earnings growth driver in the coming years.

Valuation. We raise our TP to Rp7,700 (from Rp6,500) due to our 50bps lower cost of equity assumption on the back of declining bond yields in Indonesia. Our TP is based on our GGM-derived target FY17F P/B of 1.45x assuming LT ROAE of 14.1%, growth of 9%, cost of equity of 12.5% (from 13%). We estimate BBNI's LT ROAE based on DuPont analysis, assuming LT ROAA of 1.76% and asset/equity leverage of 8x. Reiterate BUY.

Year To 31 Dec	2015A	2016A	2017F	2018F	2019F
Operating income (RpBn)	33,668	39,921	43,598	48,212	54,658
PPOP (RpBn)	17,158	20,705	21,920	24,332	28,340
Net profit (RpBn)	9,067	11,339	12,795	14,459	16,336
Net profit growth (%)	(15.9)	25.1	12.8	13.0	13.0
FD EPS (Rp)	486	608	686	775	876
P/E (x)	14.2	11.3	10.1	8.9	7.9
P/B (x)	1.6	1.4	1.3	1.1	1.0
Dividend yield (%)	1.4	1.8	2.0	2.2	2.5
ROAA (%)	2.0	2.0	2.0	2.0	2.0
ROAE (%)	14.6	13.9	13.6	13.8	13.8

Source: BBNI, IndoPremier *Share Price Closing as of : 11-July-2017*

Nippon Indosari (ROTI IJ; Hold)

Still expanding despite setback

- **Increasing promotion to counter boycott calls by protestors.**
- **Right issue proceeds to fund expansion in the next 5 years.**
- **New business venture as part of greater area coverage.**
- **We cut our FY17/18F earnings by 5.8%/6.4%. Maintain HOLD.**

Boosting promotion. Our company visit indicates that company has ramped up its promotion and marketing activities to regain its lost sales to counter the negative impact from boycotters which has led to flat revenue growth of only 1.4% yoy in 1Q17 and rising sales returns during the same period where the return rate to 25% in 1Q17 (vs. 4Q16: 21%, 1Q16: 13.6%). We expect the negative sentiment on ROTI's products to diminish although we expect sales to remain slow in 2Q17 due to fasting season and weeklong of Ramadhan holiday in June 2017.

Robust expansion on the way. Company plans to raise capital through a right issue, in which ROTI intends to use the proceeds to fund its robust expansion plans within the next 5 years. Company plans to build 7-8 new factories where 2 factories will be located in Java, 1 in Sumatera, 1 in Kalimantan and 2 more factories for its new business line. In addition, company might add 2 more new plants in Philippines around 2020 as the company expects the capacity of its current plant in Philippines will be running at maximum by then. We remain positive on company's venture into Philippines market given the similarity in demographic profile to Indonesia.

New business line to further support growth. ROTI will be planning to sell pastry products using frozen dough method. In which the frozen unfinished dough products will help company to reach wider coverage such as Papua, Flores and other far flung areas throughout Indonesia due to the longer shelf life of this particular products, which will be around 6 to 9 months. For a start, the company will open 10 kiosks by 2H17 in which will be placed inside mid-range supermarket with big chains. The kiosks will sell 10 product variants such as croissant, pizza and puff pastry as well as coffee. As of now, ROTI will procure the frozen dough from the vendor before producing their own once the factory is completed.

Maintain HOLD at lower TP of 1,400. We lower our earnings by 5.8% for FY17F; by 6.4% for FY18F due to our expected flat revenue in 1H17. We also cut our TP to Rp1,400 (from Rp1,600) to reflect our earnings downgrade. Our TP implies FY17F P/E of 21.4x. As the largest bread producers in Indonesia, we continue to like the company given its strong domination in Indonesia's bread industry and its robust expansion plans but given near term growth uncertainty we retain our HOLD recommendation on the stock.

Year To 31 Dec	2015A	2016A	2017F	2018F	2019F
Revenue (RpBn)	2,175	2,522	2,822	3,331	3,966
EBITDA (RpBn)	523	478	585	709	832
EBITDA Growth (%)	47.0	(8.6)	22.3	21.2	17.3
Net Profit (RpBn)	271	282	331	395	487
EPS (Rp)	54	56	65	78	96
EPS Growth (%)	40.8	3.9	17.6	19.3	23.1
Net Gearing (%)	(43.4)	(42.3)	1.1	(4.1)	(1.7)
PER (x)	21.4	20.6	17.6	14.7	12.0
PBV (x)	4.9	4.0	3.4	2.8	2.3
Dividend Yield (%)	0.5	0.5	0.5	0.6	0.7
EV/EBITDA (x)	12.1	13.5	9.9	8.3	7.1

Source: ROTI, IndoPremier *Share Price Closing as of : 11 July 2017*

News & Analysis

Corporates

BSDE: Bumi Serpong Damai (BSDE IJ; Rp1,790; Buy) reported flat 1H17 (-1% yoy) presales at Rp2.5tn, composed of residential presales of Rp1tn, achieved 48% of FY17 residential target and commercial at Rp631bn, represented 22% of commercial full year target. Overall, BSDE's 1H17 pre sales has reached 35% of FY17 target of Rp7.2tn. Company stated flat marketing sales was resulted from narrow launching in 1H17 due to several events and festive. (Company)

Comment: BSDE's 1H17 was at 36% of our FY17 target of Rp7tn but was weakest in the last five years. A new cluster launch (Avezza at The Mozia) has also seen disappointing take up rate of only 57% of its first day launch. Even so, BSDE owns stronger fundamental compared to other developers and at current price, the company is trading at 65% to our estimated RNAV. Reiterate BUY.

KINO: Kino Indonesia (KINO IJ; Rp2,200; Hold) expects tepid performance during 2017 given the prolonged weak purchasing power. So far, company has launched new products such as Cap Kaki Tiga with Disney character, Ellips dry shampoo, Ovale micellar water and cleansing gel as well as Absolute wipes tissue. 2017 Capex will be at Rp80bn for new machine purchase and replacement.

Comment: Given the disappointing performance seen since 3Q16, we maintain HOLD on KINO.

Economic

Retail survey: Retail sales grew 4.3% yoy in May17, based on BI's retail survey, as increase recorded in cultural and recreational goods (+10.3% yoy), food and beverages (+8.7% yoy) as well as auto parts and accessories (+8.7% yoy). It is expected that retail would remain growing by 6.7% yoy in Jun17 (data launch to follow next month) and prices three months ahead of survey period (Aug17) decline. (Bank Indonesia)

Comment: Albeit growing, we see retail remains lagging due to its diminishing growth against last year's situation. To note, May16's retail growth was 13.6% yoy and Jun16's 16.3%, in which Ramadan commenced last year. We think e-commerce proliferation, which has not been taken into account in the survey, as well as shift in spending style (see our update on BI's Business Survey) might have something to do with this year's pattern.

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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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