

## Premier Insight

21 July 2017

## Economic Update

## An anticipated outcome

- **BI decides reference rate to be maintained at 4.75% in Jul17**
- **Money in circulation was growing only at 10% yoy in May17**
- **An ongoing trend of putting money into savings**
- **Tight liquidity should drive BI to maintain and even lower rate ahead**

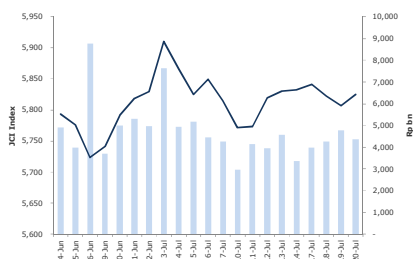
**Rate decision.** Bank Indonesia decided to leave reference rate unchanged after the conclusion of Board of Governors meeting on Thursday evening. Along with that decision, deposit and lending facility rates are also maintained at 4% and 5.25%, respectively. The meeting concluded late as we think some issues emerged which included domestic growth recovery, which had been and is predicted to remain lower than expected – BI is cautious given an early indication of slowing retail growth, and global development such as the US' economy which is seen to grow slower and be exposed to fiscal uncertainty at times when the Federal Reserve plans to reduce its balance sheet.

**Low money in circulation.** We think that money supply in circulation as represented by the M0 has been low throughout 2017, which had also been the trend within the last few years – it grew by only 10% in May17. When growth was higher in 2011-2012, our calculation shows that M0 was growing at almost double the rate it was in May17, recording an average of 15-20% yoy each month within the period. We believe an expansion in money supply would help support economic growth, which is an economic priority at this stage.

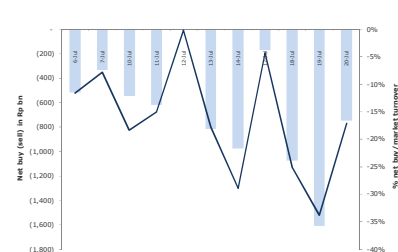
**Saving is trending.** With low narrow money in circulation, we also find a pattern of increase in M2 (+11.1% yoy in May17), whose drivers were savings under multiple accounts, including time deposits and foreign currency demand deposits. Having observed the trend in money supply, we believe increase in foreign currency demand deposits was highly related to the increase in net foreign assets, which grew quite significantly to record 24.2% yoy growth in May17 (vs 14% yoy in Jan17 and -2% yoy in May16). Nonetheless, the increase in time deposit (+8.1% yoy in May17) despite a downward trend in deposit rate (6.1% in May17 for the 12-month deposit) might explain the shift of preference from having cash in hand toward keeping it in the banking system, whose triggers should be various including the future expectation. We have yet to see the trend in Jun17 to confirm (data yet to launch), as Jun17 saw some important occasions such as the *Eid* and school holiday.

**BI should prefer a further loosening.** Given the aforementioned arguments, we view the central bank's stance would be to hold rate as long as possible and to decrease it even further as the right momentum prevails, which we expect should materialise in 2018 with normalising inflation. This would be true, provided stable positive sentiment toward Indonesia's macroeconomic condition, which had kept the 10-year sovereign bond yield moved along our expected 6.8-7.2% band and capital inflow of Rp98.3tn ytd recorded. – the first steps to such sentiment should be captured along with growth and external balance realisation, due to launch in Aug17.

## JCI Index



## Foreign net buy (sell)



## Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	5,825	0.3%	11.7%	10.0%
LQ45	976	0.5%	8.6%	10.4%
DJI	21,612	-0.1%	16.7%	9.4%
SET	1,575	0.0%	4.8%	2.1%
HSI	26,740	0.3%	21.5%	21.5%
NKY	20,145	0.6%	19.8%	5.2%
FTSE	7,488	0.8%	11.8%	4.8%
FSSTI	3,293	-1.0%	12.0%	14.3%
EIDO	27	0.1%	7.0%	12.3%

## Commodity price

Commodities	Last price	Ret 1 day	Ret 1 year
(in USD)			
Oil/barrel (WTI)	46.8	-0.7%	4.1%
CPO/tonne	601.0	2.0%	9.8%
Soy/bushel	9.8	1.4%	-3.7%
Rubber/kg	1.9	4.4%	-1.0%
Nickel/tonne	9,445	-1.6%	-10.5%
Tins/tonne	20,225	-0.1%	13.6%
Copper/tonne	5,925	-0.1%	19.6%
Gold/try.oz (Spot)	1,244	0.3%	-6.5%
Coal/tonne	86.7	1.0%	42.4%
Corn/bushel	3.6	2.5%	11.3%
Wheat/bushel*	146.5	5.8%	-7.0%

\*: 1 month change

Source : Bloomberg

## News & Analysis

### Corporates

**AISA:** PT Indo Beras Unggul, a subsidiary of PT Tiga Pilar Sejahtera Food (AISA IJ; Rp1,605; Buy), who produce "Ayam Jago" and "Maknyuss" has been caught up doing rice fraud by General Police Tito Karnavian. PT Indo Beras Unggul has big rice mill capacity with 2,000ton/silo. This is negative news for AISA, given the losing brand equity and disruption in rice production going forward. (Tempo)

**BNLI:** Bank Permata (BNLI IJ; Rp700; Not Rated) reported net profit of Rp620bn in 1H17 (vs. loss of Rp835bn in 1H16) on the back of: 1) 24% yoy decline in loan portfolio; 2) lower NIM of 3.77% (-14bps yoy); 3) Rp634bn gain from loan portfolio sales; and 4) lower loan provisions (-53% yoy). On quarterly basis, net profit fell sharply to only Rp167bn in 2Q vs. Rp453bn in 2Q as most of the profit from NPL sales was realised in 1Q. Excluding profits from NPL sales, the bank's earnings has not recovered since its steep fall in 2015. (Company).

**PNBN:** Bank Panin (PNBN IJ; Rp1,135; Not Rated) reported net profit of Rp1.4tn in 1H17 (+22% yoy) on the back of: 1) loan growth of 8%; 2) lower NIM of 4.63% (-39bps yoy); 3) strong non-interest income growth; and 4) lower loan provisions (-6% yoy). On quarterly basis, profit was 16% lower at Rp639bn in 2Q vs. Rp760bn in 1Q, forming 24%/29% of consensus estimate of Rp2.64tn for FY17F. The bank's earnings has been on a strong recovery trend since 2016, after 40% decline in 2015, although ROAE was low at only 8.99% in 1H17, despite its strong ROAA of 1.78%, due to low leverage (assets/equity of only 5.9x). (Company).

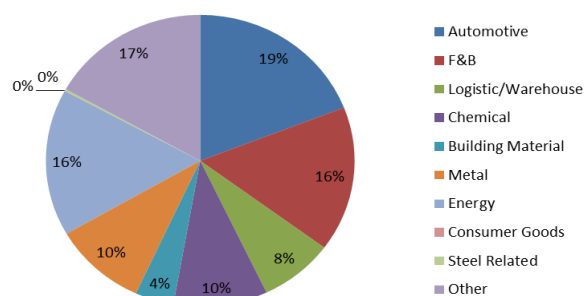
### Markets & Sector

**Construction sector:** PT Kereta Api Indonesia (KAI) targets to obtain Rp18tn of bank loan by November 2017 in order to pay Adhi Karya (ADHI IJ; Rp2,180; Buy) as LRT contractor. The bank loan will then be disbursed in stages and according to the progress. As such, Transportation minister has set first LRT project value to reach Rp21.7tn for the construction. (Bisnis Indonesia)

*Comment: This is positive for ADHI if KAI to pay ADHI according to the progress. Company targets to reach revenue of Rp14.4tn with LRT to contribute up until Rp5tn, while FY17 net profit is expected at Rp505bn. This is inline with our forecast. Maintain BUY at TP of Rp2,500.*

**Industrial Estate:** According to Colliers, Industrial property booked marketing sales of 117ha (+141% yoy) in 1H17 vs. 48.42ha in 1H16. In Q217 alone, the total sales reached 62.81ha (+116 yoy) vs 29.03ha in 2Q16. The sales in 1H17 is still dominated by Automotive and F&B sector with 19% and 16% respectively. (Bisnis Indonesia)

Industrial marketing sales 1H17



**Tobacco sector:** Based on PMI 2Q17 report, PMI tobacco volume shipment to Indonesia further contracted by 13.1% yoy to 24.8bn sticks in 2Q17, which is mainly impacted by the timing of Ramadhan as well as the decline of PMI's share in SPM and SKT segment. Meanwhile, Indonesia total cigarette market also declined by 11.6% yoy to reach 75.7bn sticks in 2Q17. (PMI)

*Comment: The sales volume in 2Q17 is accounted for 46% of our FY17 estimates. We expect the deceleration to still continue as the soft economic condition which hinders the recovery in consumer purchasing power. At this stage, maintain HOLD on HMSP.*

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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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