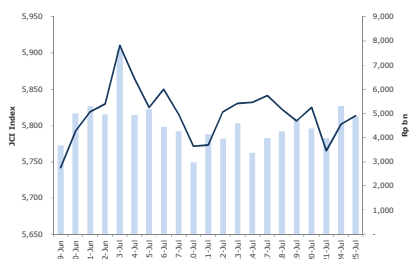


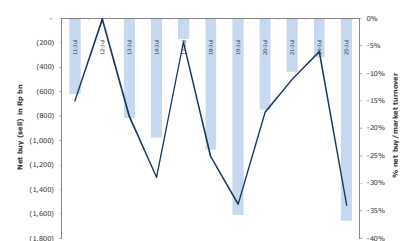
## Premier Insight

26 July 2017

JCI Index



Foreign net buy (sell)



## Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	5,814	0.2%	11.3%	9.8%
LQ45	976	0.4%	8.2%	10.4%
DJI	21,613	0.5%	17.0%	9.4%
SET	1,581	0.3%	5.1%	2.5%
HSI	26,852	0.0%	21.3%	22.1%
NKY	19,955	-0.1%	21.8%	5.2%
FTSE	7,435	0.8%	10.6%	4.1%
FSSTI	3,328	0.5%	13.4%	15.5%
EIDO	27	0.3%	5.7%	11.5%

## Commodity price

Commodities	Last price	Ret 1 day	Ret 1 year
(in USD)			
Oil/barrel (WTI)	47.8	3.4%	12.7%
CPO/tonne	613.2	2.9%	15.7%
Soy/bushel	9.6	-1.4%	-2.2%
Rubber/kg	1.8	0.0%	-10.4%
Nickel/tonne	9,955	2.4%	-4.6%
Tins/tonne	20,500	0.6%	15.5%
Copper/tonne	6,197	3.4%	26.8%
Gold/try.oz (Spot)	1,250	-0.4%	-5.3%
Coal/tonne	86.8	0.5%	41.7%
Corn/bushel	3.4	-2.6%	5.2%
Wheat/bushel*	146.5	5.8%	-7.0%

\*: 1 month change

Source : Bloomberg

## Tiga Pilar Sejahtera (AISA IJ; Buy)

## Under great scrutiny

- **Accusation of illegally profiting from government rice subsidy.**
- **Company clarifies some misconception on the rice products.**
- **Brand image may suffer even if TPS is cleared from wrongdoing.**
- **Stock price has dropped by 21.8% since last Friday. Reiterate BUY.**

**Accusation of wrongdoings.** PT. Tiga Pilar Sejahtera Food (TPS) was allegedly using subsidized rice as its raw materials and labels it as premium rice, namely Maknyuss and Ayam Jago brands when sold to consumers. The inspection took place on one of facility of AISA's subsidiary, PT. Indo Beras Unggul (IBU) in Bekasi last Thursday. During the raid, it is reported that police confiscated 1.16 tons of rice stored by IBU, which is the total inventory for the whole week as mentioned by the company. Since the news broke out, the company has released numerous statements to deny the allegation.

**Further clarification on the allegation.** AISA has once again denied of using subsidized rice for its rice production during the company's public expose on July 25<sup>th</sup>. Regarding other accusation that company uses lower quality rice for their premium brands, company explains that quality of the finished rice products is not based on the type of rice but depends on the processing method. So far, the company has complied with Indonesia National Standard (SNI) to produce the desired rice quality. It is also worth nothing the other common misconception that the quality of rice has nothing to do with its nutritional information. Based on our channel check, some minimarts such as Indomart still continue to sell AISA's products namely Maknyuss as usual.

**Weak 1H17.** Company estimated total revenue of Rp3.34tn in 1H17 (-7% yoy). Rice sales was expected to be at Rp2.1tn (-12% yoy), which we suspect due to fasting season, while foods to reach Rp1.3tn (+6% yoy) in 1H17. Company also mentions possible biscuit contract with estimated value of Rp400bn during 2H17 to further drive the revenue. In regards of the recent incident, we expect its rice business, particularly its premium brand products to suffer. As a result, we lower our FY17/18F earnings by 4.7% and 2.0% as we lower our rice sales estimates to Rp3.7bn (-10.8%) and Rp3.9bn (-6.1%), respectively, as a result of this unfortunate event. Note that rice segment contributed 42.4% to 1Q17 earnings.

**BUY at lower TP of Rp2,000.** We lower our target price by 4.8% as we adjust our FY17/18F earnings forecast. Despite earnings downgrade and possible risk of brand damage going forward, we think the current valuation has already reflected that risk as the stock price has plunged by 21.8%. We continue to like the company given the prospect of its foods as well as rice division which are both supported by rising per capita income and new product launch especially in foods segment to support further growth. Reiterate BUY.

Year To 31 Dec	2015A	2016A	2017F	2018F	2019F
Revenue (RpBn)	6,011	6,546	6,709	7,601	8,434
EBITDA (RpBn)	861	1,144	1,260	1,448	1,594
EBITDA Growth (%)	14.4	32.8	10.2	15.0	10.1
Net Profit (RpBn)	322	594	474	560	621
EPS (Rp)	100	184	147	174	193
EPS Growth (%)	(8.9)	84.1	(20.1)	17.9	11.0
Net Gearing (%)	66.0	43.5	32.6	39.5	34.8
PER (x)	12.5	6.8	8.5	7.2	6.5
PBV (x)	1.0	0.9	0.9	0.8	0.7
Dividend Yield (%)	0.0	0.0	2.2	1.2	1.4
EV/EBITDA (x)	1.7	1.9	2.0	1.4	1.3

Source: AISA, IndoPremier

Share Price Closing as of : 24-July-2017

Refer to Important disclosures in the last page of this report

## Bank Tabungan Negara (BBTN IJ; Buy)

### Poised for another strong year

- **1H17 profit up 22% yoy (2Q: +14% qoq) due to strong loan growth**
- **Hidden profit from unaccrued interests may be realised in 2H**
- **Stable asset quality despite higher provisioning in 2Q**
- **We upgrade earnings and TP to Rp2,900 (from Rp2,400)**

**Strong results.** BBTN reported profit of Rp1.27tn in 1H17 (+22% yoy), which is in-line with our expectation, with profits of Rp677bn in 2Q (1Q: Rp594bn) forming 24%/21% of our FY17F forecast of Rp2.84tn, despite higher credit cost of 55bps (1Q: 33bps). Key drivers of the strong 1H results were: 1) loan growth of 19%, albeit offset by slightly lower NIMs; 2) strong non-interest incomes (+44%); and this was despite growth in operating cost (+15%) and loan provisions (+21%). Core profit (PPOP) grew by a robust 21%, ROAA/ROAE improved to 1.28%/13.9% in 2Q, from 1.15%/12.4% in 1Q.

**Hidden profit.** NIM declined 17bps yoy to 3.99% in 1H (our calculation) although margin recovered in 2Q (+25bps qoq). It should be noted that BBTN's interim results are often understated in comparison to full year (audited) results, as also evident in 4Q16. Management stated there are unaccrued interest incomes from its subsidized home mortgage loans under SSB scheme (interest subsidy loans) in 2015-2017 amounting to Rp251bn a year (or Rp753bn in total) which the bank will likely accrued in 2H given finalisation of the fiscal budget for the subsidized loans in July. As such, we estimate NIM of 4.52% for FY17F (1H17: 3.99%).

**Asset quality.** BBTN's asset quality has remained stable with NPL ratio of 3.23% in 2Q (1Q: 3.34%), which was also lower than its year-earlier level (3.41%). The decline in NPL ratio was reported for commercial loans (9.28% vs. 10.25%) while housing loans were unchanged at 2.83%. The bank's commercial loans were very problematic in the past, due to its exposure to KUR (micro) loans. However, with this segment's strong growth (+30% yoy) now driven by lower-risk SOE loans, we expect the improvement in asset quality to be sustained in the coming years. Meanwhile, credit cost was higher at 55bps in 2Q (1Q: 33bps) but this is still in-line with management guidance of 40-50bps for FY17F.

**Valuation.** We raise our FY17F/18F earnings by 19.2%/4.6%, assuming accrual of Rp753bn of interest incomes from the SSB loans in 2H. We also upgrade our TP to Rp2,900 (from Rp2,400) 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 1.4x assuming LT ROAE of 13.9%, growth of 9%, cost of equity of 12.5% (from 13%). We estimate BBTN's LT ROAE based on DuPont analysis, assuming LT ROAA of 1.16% and asset/equity leverage of 12x. BBTN, together with BMRI, remain as our top sector picks. Reiterate BUY.

Year To 31 Dec	2015A	2016A	2017F	2018F	2019F
Operating income (RpBn)	7,706	9,268	11,238	12,023	13,861
PPOP (RpBn)	3,216	3,881	5,042	5,079	6,078
Net profit (RpBn)	1,851	2,619	3,389	3,455	4,111
Net profit growth (%)	65.9	41.5	29.4	2.0	19.0
FD EPS (Rp)	175	247	320	326	388
P/E (x)	14.0	9.9	7.6	7.5	6.3
P/B (x)	1.9	1.3	1.2	1.0	0.9
Dividend yield (%)	1.3	1.8	2.4	2.4	2.9
ROAA (%)	1.2	1.4	1.6	1.4	1.4
ROAE (%)	14.4	15.7	16.5	14.7	15.4

Source: BBTN, IndoPremier

Share Price Closing as of : 24-July-2017

## News & Analysis

### Corporates

**BDMN:** Danamon (BDMN IJ; Rp5,225; Hold) reported profit of Rp2,039bn in 1H17 (+18% yoy) driven entirely by lower credit cost (-23%) while top-line growth remains lacking (loans: +0%; fee incomes: -14%; PPOP: +0%) sustaining the trend of the past 3 years. Quarterly profit was weaker at Rp989bn in 2Q (1Q: Rp1,050bn) due to lower NIM of 9.2% (-20bps qoq) and higher credit cost of 2.8% (+10bps qoq). Mass market business remain weak with micro lending declining 32% yoy (-9% qoq) and no growth in auto financing although consumer/SME/wholesale loans grew by 9%/9%/6% yoy, respectively. However, credit cost declined 90bps yoy to 2.7% in 1H in line with the shift in loan portfolio mix. ROAA/ROAE improved to 2.4%/11.8% in 1H17, from 1.9%/10.5% a year earlier. (Company)

*Comment: Results were in line with 1Q/2Q profits forming 27%/25% of FY17F consensus estimate. We believe BDMN's loan growth outlook remains challenging given still significant contribution of auto/micro loans at 34.7%/6.7% of portfolio, whose growth prospects remain subdued. Reiterate Hold.*

**KINO:** We visited one of the factories of PT Kino Indonesia (KINO IJ; Rp2,160; Hold) which is located at Cikembar yesterday with key takeaways as follows: 1) expect still tepid performance in 2Q17 but slightly improving from 1Q17. 2) More product launch especially in personal care segment in 2H17 to further support growth. 3) Company aims to increase automation for cost efficiency. (Company)

*Comment: given the expected slow recovery in Indonesia consumer sector, we maintain HOLD on KINO.*

**NISP:** OCBC NISP (NISP IJ; Rp1,780; Not Rated) reported profit of Rp1,130bn in 1H17 (+23% yoy) on the back of strong loan growth (+16%) and lower credit cost (-14%). NISP is one of the very few Indonesian banks with profit growth each year since 2010 (27.4% CAGR) on the back of its strong asset quality despite some worsening in past 2 years.

### Markets & Sector

**Industrial Estate:** Government plans to set upper limit for land price in industrial area for both SOE and private developer. The upper limit will refer to land acquisition cost and the investment risk, such as the availability of infrastructure. For SOE industrial estate, the developer only gives the building rights (HGB) for 30 years, with an option to extend every 20 years. Therefore, setting the reference prices for SOE Industrial developer will be more complicated. (Kontan)

*Comment: Although the regulation is still in the planning process, the implementation of the regulation in the future should effect negatively to the industrial estate developer due to the selling price limitation.*

### Economic

**Policy forum:** We came to a foreign policy community's forum event which was co-arranged by the World Bank where Sri Mulyani and WB's President Jim Yong Kim spoke.

- We think the event speaks to promote more equality in general as inequality discussion in Indonesia has been rife lately.
- We believe the approach to tackle inequality is more substantial from economic perspective such as through 1) budget enhancement and better budget allocation, 2) investment made in clean water and health. Sri Mulyani also indicated that the proposal for a debt increase is a way to support budget revenue and should not be problematic if spending is to be done responsibly.

- President Jim spoke specifically about children stunting within the first 1000 days of children lives, which could worsen inequality if not properly handled. We concur to the idea of health promotion and better access to education as means to tackle inequality once and for all.
- Also highlighted by Sri Mulyani was the approval rating of President Jokowi (survey made by OECD) which was highest among countries presented and has so much increased since 2007 - the news of which was not released by mainstream media. We believe this should be positive to market confidence in general. (FPCI, World Bank)

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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.

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