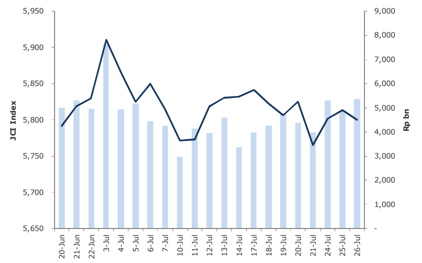
INDOPREMIER

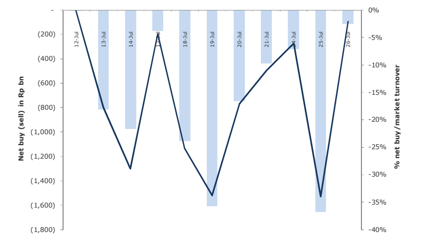
Premier Insight

27 July 2017

JCI Index



Foreign net buy (sell)



Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	5,800	-0.2%	10.0%	9.5%
LQ45	972	-0.5%	6.7%	9.8%
DJI	21,711	0.5%	17.5%	9.9%
SET	1,583	0.1%	4.5%	2.6%
HSI	26,941	0.3%	21.3%	22.5%
NKY	20,050	0.5%	20.3%	4.8%
FTSE	7,452	0.2%	10.4%	4.3%
FSSTI	3,337	0.3%	13.4%	15.8%
EIDO	27	0.1%	4.3%	11.7%

Commodity price

Commodities	Last price	Ret 1 day	Ret 1 year
(in USD)			
Oil/barrel (WTI)	48.8	2.1%	13.6%
CPO/tonne	614.9	0.1%	13.9%
Soy/bushel	9.6	0.7%	-2.4%
Rubber/kg	1.9	0.6%	-7.8%
Nickel/tonne	9,995	0.4%	-3.1%
Tins/tonne	20,500	0.0%	16.1%
Copper/tonne	6,298	1.6%	28.1%
Gold/try.oz (Spot)	1,261	0.8%	-5.9%
Coal/tonne	87.3	0.5%	42.9%
Corn/bushel	3.5	0.9%	7.1%
Wheat/bushel*	146.5	5.8%	-7.0%

** : 1 month change*

Source : Bloomberg

Bank Danamon (BDMN IJ; Hold)

Profit recovery but still no growth

- **1H17 profit up 18% yoy but this was solely due to lower credit cost**
- **More importantly, core profit and top-line growth are still lacking**
- **Credit cost improves as loan mix shifts towards lower-risk assets**
- **Reiterate Hold with new TP of Rp4,400 (from Rp3,800)**

Profit recovery, at last. BDMN reported profit of Rp2.04tn in 1H17 (+18% yoy), ahead of our forecast but in line with expectations, with profits of Rp989bn in 2Q (1Q: Rp1,050bn) forming 25%/27% of FY17F consensus estimate of Rp3.92tn although it is unclear if the bank will book restructuring cost this year, as it has in 2014-2016, given ongoing bisnis transformation. However, BDMN's profit recovery back to 2013 level solely came from lower credit cost while its top line growth was still absent. Core profit (PPOP) was flat in 1H17, after a muted 3.9% growth in FY16, while ROAA/ROAE improved to 2.36%/11.1%, from 1.93%/10.0% in 1H16.

Lacking top line growth. Loan portfolio declined 2% yoy in 1H17, sustaining its negative growth of the prior 2 years, due to continuing drag from micro lending, which fell 32%, folowing declines of 30%/23% in FY16/FY15, respectively, while wholesale, SME, consumer loans grew by 6-9%. However, NIM improved 48bps to 8.9% (our calculation) as the bank got rid of its high-cost CASA deposits. In our view, growing top-line will be a challenge for BDMN given still subdued outlook for auto lending (35% of its loan portfolio) and the prospect of further shrinking of its micro loans (7% of loans). In addition, the bank's NIMs in the coming years may be under pressure on the back of its loan portfolio mix shift away from these high-margin loans while scope for further cost efficiency may be more limited.

Asset quality. Loan provisioning cost fell 22% to 2.75% in 1H17 as credit cost of BDMN's mass-market loans (auto, micro) improved to 4.3% (1H16: 6.0%) while its loan portfolio mix is also shifting towards lower-risk wholesale/SME/consumer loans (credit cost: 1.5%). NPL ratio was unchanged at 3.2% with provision/NPL coverage of 119%. Although BDMN's credit cost improvement this year has been above our expectation, we expect scope for further improvements in coming years to be more limited.

Valuation. We raise our FY17F/18F earnings by 13%/10% due to our lower credit cost assumption and upgrade our TP to Rp4,400 (from Rp3,800), which is also 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 1.09x assuming LT ROAE of 12.8%, growth of 9%, cost of equity of 12.5% (from 13%). We estimate BDMN's LT ROAE based on DuPont analysis, assuming LT ROAA of 1.60% and asset/equity leverage of 8x. Given our pessimistic outlook for the bank's growth prospect, we maintain our HOLD rating.

Year To 31 Dec	2015A	2016A	2017F	2018F	2019F
Operating income (RpBn)	18,257	18,472	18,272	18,862	20,096
PPOP (RpBn)	9,025	9,375	8,903	9,211	9,964
Net profit (RpBn)	2,393	2,669	3,987	4,119	4,602
Net profit growth (%)	(8.1)	11.5	49.4	3.3	11.7
FD EPS (Rp)	250	279	416	430	480
P/E (x)	20.9	18.8	12.6	12.2	10.9
P/B (x)	1.5	1.4	1.3	1.2	1.1
Dividend yield (%)	1.4	1.9	2.8	2.9	3.2
ROAA (%)	1.2	1.5	2.2	2.1	2.2
ROAE (%)	7.2	7.6	10.6	10.2	10.6

Source: BDMN, IndoPremier *Share Price Closing as of : 25-July-2017*

Refer to Important disclosures in the last page of this report

News & Analysis

Corporates

AALI: Astra Agro Lestari (AALI IJ; Rp15,375; Buy) posted relatively inline 2Q17 results as follow:

- Net profit in 2Q17 dropped 70% qoq and 35% yoy which likely caused by lower production volumes and ASP.
- Earnings in 1H17 reached Rp1.04tn, up 32% yoy, but came slightly lower than our forecast (44% of our FY17F earnings) but inline with consensus' forecast (50.6%).
- Revenues in 2Q17 reached Rp4.06tn, down 9.7% qoq but up 22% yoy, allowing 1H17 top line to reach Rp8.55tn, up 35% yoy, came slightly above our (53.5%) and consensus' (55.4%) FY17F expectation.
- Operating profit in 2Q17 reached Rp400bn, down 64% qoq and 17% yoy due to higher production costs in 2Q17. Operating profit in 1H17 reached Rp1.52tn, up 85% yoy and came slightly lower than our (47%) estimate but inline with the consensus (52%). (Company)

Comment: At this stage we maintain our Buy rating for AALI, as we expect lower precipitation in 2H17 which will be supported to palm oil price, while the impact to production will be lagging.

ADHI: Adhi Karya (ADHI IJ; Rp2,110; Buy) reported earnings of Rp131bn (+136% yoy) in 1H17, supported with outstanding revenue growth of 67% yoy. This allowed significant improvement in gross and operating margin to 11.5% and 8.3% (vs. 8.6% and 3.3%), resulted in higher net margin of 2.5% (vs.1.8% in 1H16). (Company)

Comment: ADHI posted a strong achievement with 1H17 forming 25/20% of ours and consensus, compared to its normal first half average of 11-18%. The revenue contribution came from LRT (28%), non LRT construction (61%), property (4%) and industry (2%). We maintain our TP of Rp2,500 given 2Q17 strong result and more certainty on LRT project.

ACST: Acset Indonusa (ACST IJ; Rp3,090; Not Rated) booked an earnings of Rp64.6bn (+108.6% yoy) in 2Q17, with net margin improved to 6.3% vs 3.3% in 2Q16 on the back of improved top line and decreasing finance cost (-29% yoy). This is in-line with consensus (45% of FY17) and its 3 years historical performance. Revenue grew by 8.4%, while gross profit and operating margin increased to 17.1% and 11.4% from 15.6% and 9.9% in 2Q16.

PWON: Pakuwon Jati (PWON IJ; Rp645; Buy) reported earnings of Rp900bn in 1H17, flat yoy, due to loss in derivative by Rp43.9bn, resulting in lower net margin to 30.5% (vs.36.7% in 1H16). On the other hand, company recorded moderate revenue growth of 21% yoy, improving gross and operating margin to 56.6% and 48.5% (vs. 56% and 47.3% in 1H16).

Comment: this is below our estimates, but slightly above consensus estimate. We will review our earnings estimate for PWON.

JSMR: Jasa Marga (JSMR IJ; Rp5,325; Buy) has released its 1H17 financial result with highlights as follows:

- Toll revenue grew +2.8% yoy to Rp4.0tn in 1H17 most likely driven from volume growth with relatively minor tariff adjustments
- Operating profit margin stood firmly at 43.5% in 1H17 indicating stable opex
- Interest expense jumped significantly to Rp970bn (+30.3% yoy) due to increasing leverage to finance development of new toll roads. Nevertheless, the company booked interest income of Rp377bn in 1H17 from bridging funds for land acquisition.
- As a result net income before minority was Rp960bn (+9.8% yoy) in 1H17.
- We see a sound operational result with dim volume growth while bottom line was supported by non recurring income. Stripping out interest income

from bridging loans, net income should be at Rp583bn. We maintain our Buy call on the company due to long term growth prospect.

Rp bn	1H17	1H16	%	2Q17	1Q17	%	FY17	%
Toll revenue	4,529	4,214	*7.5*	4,529	2,140	*111.6*	9,035	*50.1*
Operating Profit	1,972	1,851	*6.5*	1,972	1,014	*94.5*	3,488	*56.5*
Net Int. & Invest. Inc.	(495)	(652)	*-24.2*	(495)	(390)	*26.9*	(1,772)	*27.9*
Except. & Others	(42)	10		(42)	149	*-127.9*	-	*nm*
Group Pretax	1,436	1,209	*18.7*	1,436	773	*85.7*	1,716	*83.7*
Taxation	(476)	(335)	*42*	(476)	(249)	*90.7*	(515)	*92.4*
Net Profit	1,016	874	*16.2*	1,016	548	*85.3*	1,201	*84.6*
Op Margin	43.5%	43.9%		43.5%	47.4%			
Net margin	22.4%	20.7%		22.4%	25.6%			

Source: Company

SCMA: Surya Citra Media (SCMA IJ; Rp2,170; Not rated) reported profit of Rp839bn in 1H17 (+0.2% yoy), below consensus (forming 48% of FY17F consensus vs. 4yr average of 54%), on the back weak sales growth and lower finance income. On quarterly basis, 2Q sales growth (+11% yoy) was seen insufficient to cover up last quarter tepid sales, bringing weak 1H17 sales at Rp2.4tn (+3.2% yoy). 2Q margin expansion is expected given seasonality effect. (Investor Daily)

UNTR: United Tractors (UNTR IJ; Rp28,850; Buy) reported June 2017 operational performance as follow:

- Heavy equipment sales in Jun'17 reached 263 units, down 13% mom but up 57% yoy, bringing 1H17 sales to 1,751 units (+69% yoy) which accounted for 58% of our FY17F sales estimate of 3,000 units (+38% yoy). Sales improvement was mostly helped by increasing demand from the mining sector, which formed 53% of total 1H17 sales (vs. 23% in 1H16).
- PAMA recorded 1H17 OB removal of 360.4m bcm (+5.7% yoy) and coal mining volumes of 52m tons (+4% yoy). PAMA performance came in relatively in-line with our forecast.
- Coal mining division posted coal sales volumes of 3.6m tons (-18.4% yoy) in 1H17, inline with our estimate (53% of our FY17F forecast).

Comment: As UNTR posted operational performance which inline with our forecast, we maintain our Buy rating for UNTR with TP of Rp32,000. UNTR remains our top pick in the mining sector.

Markets & Sector

Rice Sector: government will set ceiling price for medium rice only at Rp9,000/kg. This policy is expected to maintain the stability of rice price. (Investor Daily)

Comment: This will be positive for Tiga Pilar Sejahtera (AISA IJ; Rp1,175; Buy) as the company is moving towards premium rice (c. 28% of FY16 rice sales). However note that its brand image may suffer due to recent incident. At this stage, maintain BUY.

Economic

Investment: Investment realisation was picking up 12.7% yoy (3.1% qoq) to record Rp170.9tn in 2Q17 (vs 12.3% yoy in 2Q16) on the back of increase in domestic investment of 16.9%. FDI grew by 10.6% yoy (vs 7.9% yoy in 2Q16) on account of metal, machinery, and electronic industry; whereas DDI's growth was mainly supported by investment in construction and food industry. In 2Q17, DDI stood at Rp61tn and FDI at US$8.3bn. (BKPM)

Comment: While this should be a positive development for the economy, there is discrepancy between data released by the Investment Coordinating Board (BKPM) and the one by the Central Statistics Agency (BPS). To note, last year, BKPM recorded a 12.3% yoy increase, whereas the BPS 6.6% yoy. The discrepancy stems as both institutions use different bases for calculation.

INDOPREMIER

Head Office

PT INDO PREMIER SEKURITAS

Wisma GKBI 7/F Suite 718

Jl. Jend. Sudirman No.28

Jakarta 10210 - Indonesia

p +62.21.5793.1168

f +62.21.5793.1167