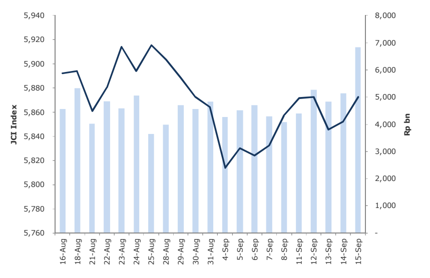
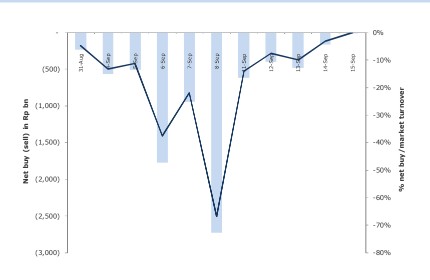
Premier Insight

18 September 2017

JCI Index



Foreign net buy (sell)



Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	5,872	0.3%	11.5%	10.9%
LQ45	977	0.3%	7.6%	10.4%
DJI	22,268	0.3%	22.9%	12.7%
SET	1,661	0.1%	12.3%	7.6%
HSI	27,808	0.1%	19.2%	26.4%
NKY	19,807	-0.3%	19.9%	4.2%
FTSE	7,215	-1.1%	7.5%	1.0%
FSSTI	3,210	-0.4%	13.5%	11.4%
EIDO	27	1.0%	6.1%	11.9%

Commodity price

Commodities	Last price	Ret 1 day	Ret 1 year
(in USD)			
Oil/barrel (WTI)	49.9	0.0%	13.6%
CPO/tonne	677.0	-0.3%	9.3%
Soy/bushel	9.5	-0.8%	-1.0%
Rubber/kg	1.9	-1.1%	11.7%
Nickel/tonne	11,010	-1.0%	13.9%
Tins/tonne	20,666	0.2%	8.4%
Copper/tonne	6,461	0.1%	35.6%
Gold/try.oz (Spot)	1,320	-0.7%	0.8%
Coal/tonne	99.2	-0.8%	39.8%
Corn/bushel	3.2	0.0%	5.9%
Wheat/bushel*	146.5	5.8%	-7.0%

** : 1 month change*

Source : Bloomberg

Economic Update

Expected improvement

- **Aug17's trade balance was US$1.7bn surplus on non-oil and gas exports**
- **...driven by conventional commodities such as coal and CPO**
- **Lower imports due to lower capital goods & supporting materials**
- **Bulking foreign reserves supported rupiah appreciation, may persuade more imports of consumer goods**

Trade surplus. Trade surplus in Aug17 was US$1.72bn, higher than consensus expectation and a rebound of last month, where an unanticipated US$0.27bn deficit took place. Export increased by 19% yoy and import 9% yoy driven by non-oil and gas commodities. Trade balance in calendar year was recently US$9.1bn ytd, an improvement of 81% yoy. We had believed that the trend was positive throughout the year and thus looked at Jul17's figure with confidence *(read: Rose-colored glasses)*. Aug17's data supported this notably since non-oil and gas trade balance of Jan-Aug17 grew by 72% (vs oil and gas trade balance's of -59.6%).

Commodities supported. This month's expansion was largely supported by oils including CPO (+22% mom) and fossil fuel including coal (+4% mom). In addition to the conventional two, which have contributed to the trade balance since early this year and made up almost 30% of total year's export, electrical equipment and jewelries also put up another 9% in the total export. We believe the improving growth trends in developing economies such as in European Union, Japan, and the United States along with demands made in emerging markets support this, although international price hike remained the bigger cause.

Slowing import. Imports were slowing than Jul17's with 9% yoy growth, but remained higher than last year's, on the back of lower capital goods and supporting materials imports. This was a reversal of last month's occurrence where supporting materials and capital goods were behind steep increase in imports. We believe the trend with imports remains positive this year, but remain cautious on the fact that import composition has shifted since end of commodity boom to favour more consumer goods (11% of total vs 9% earlier) and leave capital and raw material goods behind, now at 18% and 89% (vs 26% and 93%).

Foreign reserves adding up. With such development in trade and increase in capital inflow in bond market (Rp132tn ytd), foreign reserves were US$129bn as of Aug17 (+13.5% yoy) and rupiah has now been trading closer to our lower border of expectation of US$/IDR13,200. The rupiah appreciation would be a concern variable in trade notably on imports, whose trend, as aforementioned, has contained more consumer goods, as imports may increase and reduce net exports – we would remain in observance of such possible risk going forward.

Fig.1: Trade performance in calendar year

	Jan-Aug2017 (US$bn)	Jan-Aug2016 (US$bn)	Jan-Aug2015 (US$bn)	% change 2017	% change 2016
Export	**108.8**	**92.4**	**102.6**	**18%**	-10%
Export oil and gas	10	8.6	12.9	16%	-33%
Export non-oil and gas	98.8	83.8	89.7	18%	-7%
Export Manufacturing	81.6	71.1	73.6	15%	-3%
Export Agriculture	2.4	2.0	2.4	23%	-19%
Export Mining	14.7	10.9	13.7	36%	-21%
Import	**99.7**	**87.4**	**96.4**	**14%**	-9%
Import oil and gas	15.4	12.0	17.5	28%	-31%
Import non-oil and gas	84.3	75.4	78.9	12%	-5%

Source: Statistics Indonesia, IndoPremier, CEIC

News & Analysis

Corporates

ASRI: Alam Sutera Realty (ASRI IJ; Rp364; Buy) targets marketing sales of Rp300bn from Kota Ayodya, Tangerang project vs current contribution of Rp100bn. To increase Ayodya project contribution, ASRI set to launch another cluster, Ayodya Garden house with 33 houses, with ASP Rp1.6bn/unit. ASRI also prepares 8.800sqm for commercial lot area to improve the attractiveness of the area. Ayodya project is expected to contribute 30% to FY17 target which expected to grow 30% yoy from FY16 revenue of Rp 2.7tn. (Kontan)

LPPF: Matahari Dept Store (LPPF IJ; Rp10,200; Buy) will close two stores in Pasaraya Blok M and Manggarai by end of September 2017, given the poor performance (low traffic and high operating cost). LPPF is going to hold a big discount (up to 75%) to clear out its remaining inventory. (Kontan)

Comment: We view the closing of two stores should benefit LPPF by easing off its high operating cost. The crowded customers to purchase in high discount period show us the slowing consumption expenditures in retail sectors. To note, LPPF still maintain its new stores opening targets at 6-8 stores in 2017, with current realization at 4 stores.

PTPP: PT PP (PTPP IJ; Rp2,350; Buy) reported total new contract of Rp24.1tn (+28.6% yoy) in August 2017, which is 59.2% from FY17 target of Rp40.6tn. Regarding the IPO process of its subsidiary, PP Presisi plans to release maximum of 35% to the public with target fund of Rp3tn. The IPO proceeds will be use to fund the company's capex (70%), and operating expense (30%). (Investor daily)

WTON: Wika Beton (WTON IJ; Rp520; Not Rated) is set to launch floating dock precast to add to 12 types of product that are already available. WTON has reported Rp2tn sales in 1H17, which is 39% from FY17 target of Rp5.1tn. The contribution to its parent, WIKA is currently at 24.1%, while target to reach 30% in the FY17.

Comment: WTON shows a modest growth on contribution towards Wijaya Karya (WIKA IJ; Rp1,795; Buy). WTON contribution towards WIKA is ranged between 6%-14.6% in 2013-2016. (Bisnis)

Markets & Sector

Automotive sector: Total wholesales 4W was 96.5k units (+13.6% mom, +0.17% yoy), helped by momentum from Gakindo Autoshow of 10 days in Aug17. Toyota total sales volume was 34.7k units (+10.6% yoy) in Aug17, but Daihatsu's volume dropped -5.8% yoy to 15.8k units due to lack of new models. Honda's sales volume only grew 3.5% mom to 17.9k units helped by launching of new Jazz. Meanwhile Suzuki grew 55.5% yoy from a low base supported by introduction of Ignis and Baleno. Mitsubishi's sales also grew 11.3% to 8.3k units mainly benefitted from light truck sales combined with launching of Xpander. (Bisnis Indonesia)

Comment: Launching of new models has been a key factor to gain market share. However, we believe that in the long run brand equity remains a more important attribute. Toyota and Daihatsu will need to be creative in launching new models to sustain its operation.

Coal sector: Price cap for state electricity company's (PLN's) domestic coal consumption might take longer to materialize as Minister of Energy and Natural Resources (ESDM) Ignasius Jonan stated that PLN should lower their maintenance costs, distribution costs and transmission costs before discussing the fixed domestic coal price mechanism for electricity used. Jonan also added that PLN should have the efficient standard for coal burn per 1kWh of electricity production before discussing the pricing. To note, on PLN's 2017 operational plan and budget

(RKAP), primary energy costs consist of Rp56.5tn for gas, Rp38tn for coal, Rp21.9tn for fuel oil, Rp3.2tn for geothermal and Rp510bn for hydropower. (DetikFinance)

Comment: We expect positive sentiments for coal mining companies after several clarifications from the government relating to this issue. We maintain our Buy rating for ADRO and UNTR.

Mining sector: Ministry of Energy and Natural Resources (ESDM), granted nickel ore export permit of 118.8k tons for PT Itamarta Nusantara, subsidiary of Omega Resources. With this permit, the total volumes of ore export which allowed by the government reached 6.6mn tons, translating to approximately 120k tons of nickel content. (Kontan)

Comment: The new permit is not significant enough and we expect global nickel supply would remain deficit this year. We maintain our positive view on the nickel mining sector and reiterate our Buy rating on INCO.

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