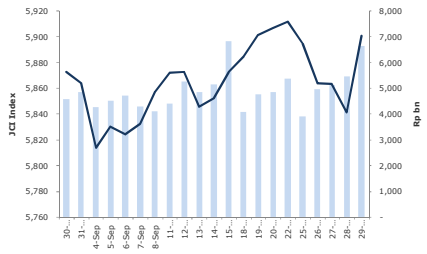
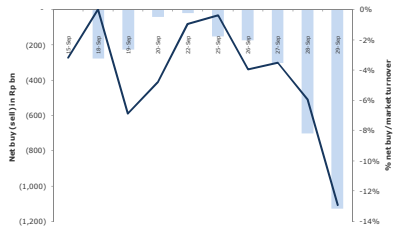
Premier Insight

3 October 2017

JCI Index



Foreign net buy (sell)



Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	5,914	0.2%	8.2%	11.7%
LQ45	985	0.5%	4.3%	11.3%
DJI	22,558	0.7%	23.6%	14.1%
SET	1,689	0.9%	13.3%	9.4%
HSI	27,554	0.5%	18.3%	25.2%
NKY	20,401	0.2%	22.9%	7.0%
FTSE	7,439	0.9%	6.5%	4.1%
FSSTI	3,262	1.3%	13.6%	13.5%
EIDO	27	-0.6%	-1.8%	9.9%

Commodity price

Commodities (in USD)	Last price	Ret 1 day	Ret 1 year
Oil/barrel (WTI)	50.6	-2.1%	4.9%
CPO/tonne	628.6	-1.1%	1.1%
Soy/bushel	9.2	-1.2%	-1.6%
Rubber/kg	1.7	0.0%	2.5%
Nickel/tonne	10,305	-1.1%	-2.1%
Tins/tonne	20,842	0.0%	3.4%
Copper/tonne	6,446	0.2%	33.0%
Gold/try.oz (Spot)	1,271	-0.7%	-3.2%
Coal/tonne	95.9	1.1%	32.8%
Corn/bushel	3.2	-0.9%	1.9%
Wheat/bushel*	146.5	5.8%	-7.0%

** : 1 month change*

Source : Bloomberg

XL Axiata (EXCL IJ; Buy)

Monetizing data

- **Reducing bonuses while encourage 4G migration**
- **Ex-Java expansion to preserve growth**
- **Voice and SMS as marketing tools**
- **Roll over to FY18, new TP Rp 4,670**

Increase data price. XL Axiata over couple months has reduced its bonus for combo package. By reducing bonuses, XL is effectively increase data pricing. However, yields were continued to downtrend as customers tend to consume more. Higher price combo package have cheaper effective yields. For instance a Rp59,000 combo package will have data of 5Gb (including bonus), but a Rp89,000 package has 12Gb. Additionally, 4G adaptors tend to consume 4.5Gb per months compared to 3G users of 2.0Gb. Therefore, XL continues to incentivizes migration to 4G, especially in areas with low utilization rate of the 4G network.

Finding the right balance for Ex-Java expansion. Ex-Java expansion remains crucial to preserve growth. Telkomsel is the major player in ex-Java areas, which allows Telkomsel to price its data product 3-10x more expensive depending on the presence of competitors in certain areas. XL intends to penetrate these new markets with disruptive pricing. To avoid further price war, the pricing strategy should also induce new growth. Balancing network capacity with demand will be tricky, especially with the absence of cost sharing by MOCN (multi-operator core network). Balancing capex with future revenue stream will be a key success to positive cash flows. XL intends to spend capex of Rp21tn in the next three years with concentration in ex-Java area.

Voice and SMS for marketing gimmicks. XL is ahead of the curve to reduce dependency from legacy voice and SMS and switch to data. A significant difference in XL's offering is to provide free minutes to be used for all operators. Ngobrol Seru is a starter pack which offers free on net voice and SMS, while charging only Rp1/second for voice to all operators and Rp50/SMS to all operators. However, voice tariff changes for the second minute onwards to Rp4/sc (Rp240/min). Under such tariff structure, XL's voice is making money for calls more than 5 minutes.

New TP Rp4,670, rolled over to FY18. XL remains consistent with its effort to monetize data. However, we think that competition on pricing will occur in certain areas depending on network utilization. In place where network utilization is high with even competition, monetization will take place. We think that competition is in a healthy state allowing the industry to maximize return on investment. Key challenge for XL is to contest Telkomsel in ex-Java and capture sizeable market. We maintain our Buy call on the counter.

Year To 31 Dec	2015A	2016A	2017F	2018F	2019F
Revenue (RpBn)	22,876	21,341	23,755	26,197	29,176
EBITDA (RpBn)	8,169	7,905	8,637	9,763	11,055
EBITDA Growth (%)	6.1	(3.2)	9.3	13.0	13.2
Net Profit (RpBn)	(25)	376	(420)	345	1,240
EPS (Rp)	(3)	35	(39)	32	116
EPS Growth (%)	(108.7)	n/m	n/m	n/m	259.1
Net Gearing (%)	184.7	80.0	84.3	79.3	69.3
PER (x)	n/m	106.4	n/m	115.7	32.2
PBV (x)	2.3	1.9	1.9	1.9	1.8
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.6
EV/EBITDA (x)	7.2	7.5	7.0	6.1	5.2

Source: EXCL, IndoPremier *Share Price Closing as of : 29-September-2017*

Economic Update

A provisional pick-up

- **Sep17's inflation was low, at 0.13% mom (3.72% yoy)**
- **Core inflation picked up on goods and services we deem unsustainable**
- **...but volatile inflation sustains on 'lows' due to declining food prices**
- **We believe reference rate will be held despite available space for cut**

Low Sep17's inflation. Sep17's inflation was at 0.13% mom or 3.72% yoy and in line with consensus. Despite picking up from Aug17's deflation, we consider September's inflation low, as it is below the mean and median of inflation within the past two years, which has now reached 0.27% and 0.22% mom, respectively. To note, inflations in 2016-17 have very similar patterns, outside of the atypical administrative prices increase this year. To date, calendar year inflation is 2.63% and is approximately 70% of median inflation target this year. We believe inflation should bottom out in Oct17 before picking up again to spending season of Christmas and year-end holiday.

Unsustainable core inflation pick-up. Core inflation of 3% yoy was also a slight pick-up from Aug17, but remained generally low. The pick-up was strongly driven by increase in educational fees as Sep17 was the term start for higher education (college level); education inflation was 1.48% mom and the contribution of inflation in this category to total monthly inflation was approximately 61%. We had been wary of the persistence in low core inflation since last year and the Sep17's figure did not deflect our concern, in light of the data, as the core inflation pick-up was mostly due to few unsustainable reasons, which are: (1) A one-off event that was college term-commencement, and (2) Dominant increase in gold jewelries purchase in the clothing category, which was another core inflation contributor (making at least one-fifth of the month's inflation) and whose trend unlikely preserves.

...but volatility remained tamed. With volatility, the trend is quite the opposite as food prices (+1.04% yoy) have sustained on being in the low trajectory within the past two years, where the improvement in distribution, market inspection, and enactment of regulations to curb selling prices of some staples such as sugar and rice have all pitched in the trend. Energy prices had also been in the low territory, but have recently been rising due to domestic electricity price adjustment this year and a recent (i.e. day-to-month trend) crude oil price increase. The overall trend with energy this year, however, looks at a course where it remains low and stable. In light of these general trends in both food and energy, we believe volatility should be a peripheral issue that contributes little to inflation outlook by end of year.

Fig 1. Sep17's inflation by group of goods and services

	Sep17 inflation (%, mom)	Sep17 inflation (%, yoy)	Contribution to Sep17 inflation (%)
Headline	**-0.13**	**3.72**	**0.13**
Food	-0.53	1.04	-0.11
Processed food	0.34	4.24	0.06
Housing and utilities	0.21	5.58	0.05
Clothing	0.52	2.68	0.03
Health	0.16	3.25	0.01
Education and sports	1.03	3.17	0.08
Transportation, communication, financial services	0.02	4.71	0.01

Source: Statistics Indonesia, Indo Premier

BI's should prefer a rate maintenance. Inflation considered, the central bank would have some space to undertake further cut, but we have reservations that it would do so in the coming October 19th meeting. Two external factors would be considered unease, which are the European central bank meeting this month and the major market expectation where the Federal Funds rate will be increased by end of year. BI's governor has also recently declared that "rate cuts are sufficient" for the time being; we come to the opinion where a 4.25% 7DRRR will be a concluding rate by 2017.

News & Analysis

Corporates

AALI: Astra Agro Lestari (AALI IJ; Rp14,975; Buy) will distribute interim dividend of Rp148/sh (yield: 1.0%) on 19 October 2017 with cum date on 5 October 2017. (Kontan, Liputan6.com)

Comment: We expect AALI will distribute higher dividend in 1H18 as this interim dividend represent ~27% of AALI's 1H17 earnings, lower than our expectation of 50% dividend payout ratio in FY17F-18F.

MEDC: Medco Energi Internasional (MEDC; Rp800; Not Rated) posted 1H17 net profit amounted to US$83mn ,up 564.5% yoy. This is resulted by revenue spiked 54.3% yoy to US$403mn and margins expansion across the board. The revenue and net profit number came in line to consensus with 50.3% and 47.3% achievement, respectively. Nevertheless, on quarterly basis, the company posted negative performance with revenue and net profit declined by 8.1% qoq and 6.5% qoq to US$193mn and US$40.3mn, respectively. (Company)

	1H17	1H16	yoy chg	Cons	2Q17	1Q17	qoq chg
Revenue	403.5	261.5	54.3%	50.3%	193.3	210.3	-8.1%
Gross profit	198.2	57.6	244.0%		93.1	105.1	-11.4%
Operating profit	129.6	69.2	87.2%		55.3	74.3	-25.5%
Profit before tax	147.6	38.6	282.2%		69.3	78.2	-11.3%
Net profit	83.3	12.5	564.5%	47.3%	40.3	43.1	-6.5%
Gross margin							
EBIT margin	49.1%	22.0%			54.4%	50.0%	
EBT margin	32.1%	26.5%			28.6%	35.3%	
Net margin	36.6%	14.8%			36.6%	37.2%	

SILO: Siloam International Hospital (SILO IJ; Rp10,000; Hold) reported 1H17 earnings of Rp26.9bn (-61% yoy) with net margin fell to 1% from 2.7% in 1H16 as company saw significant increase in other expense to Rp42.9bn (vs 15.1bn in 1H16). Hence, revenue grew slow at 8% yoy to Rp2.7tn while operating profit dropped 27% yoy with margin at 4.2% only (vs. 6.2% in 1H16). (Company, Investor Daily)

Comment: SILO's 1H17 earnings result was way below expectations by only represents 26/23% of our and consensus, although revenue and gross profit was largely inline. We believe higher other expense was due to impairment from Mediplus that may continue for the next two years. Maintain HOLD.

SMGR: Semen Indonesia (SMGR IJ; Rp10,200; Hold) plans to divest its holding in its subsidiary, PT Semen Beton Indonesia, through IPO in 2020. The company engages in ready mix concrete, pre-cast, concrete masonry and aggregate. Semen Indonesia aims to grow the company's asset from Rp1.7tn in FY17 to Rp2.5tn in FY20. Currently, the company has a turnover of Rp1.6tn vs its target turnover of Rp2.0tn for FY17. Additionally, Semen Indonesia also explores the possibility to float shares of PT Semen Padang, PT Semen Tonasa and Semen Indonesia Logistik. (Kontan)

UNTR: United Tractors (UNTR IJ; Rp32,100; Buy) will distribute interim dividend of Rp282/sh (yield: 0.9%) on 23 October 2017 with cum date on 5 October 2017. (Kontan, Liputan6.com)

Comment: We expect higher dividend will be distributed in 1H18 as we forecast ~60% dividend payout ratio for FY17F-18F while this interim dividend represent only 30% of UNTR's 1H17 earnings.

WSKT: Waskita Karya (WSKT IJ; Rp1,810; Buy) booked new contract of Rp45tn in 9M17, which accounts 74% of FY17 target. The latest contract comes from Ahmad Yani Airport, 500KV transmission, Kunciran-Serpong toll road, and Cilincing-Cibitung toll road. WSKT aims its sales target at Rp50tn in FY18. (Kontan)

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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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