INDOPREMIER

Premier Insight

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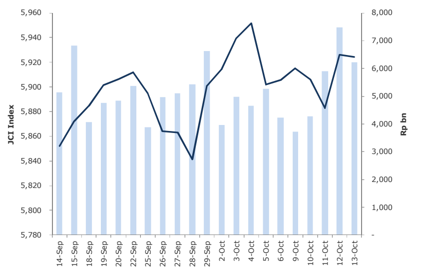
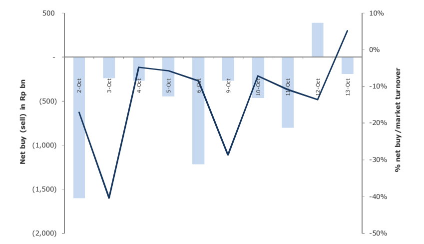
Equity | Indonesia | Research Daily

JCI Index



Foreign net buy (sell)



Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	5,924	0.0%	9.7%	11.8%
LQ45	987	0.1%	6.0%	11.6%
DJI	22,872	0.1%	26.1%	15.7%
SET	1,712	-0.1%	21.2%	11.0%
HSI	28,476	0.1%	22.6%	29.4%
NKY	21,155	1.0%	25.5%	11.5%
FTSE	7,535	-0.3%	7.4%	5.5%
FSSTI	3,303	0.0%	17.3%	15.2%
EIDO	27	1.1%	3.0%	11.9%

Commodity price

Commodities	Last price	Ret 1 day	Ret 1 year
(in USD)			
Oil/barrel (WTI)	51.5	1.7%	2.0%
CPO/tonne	653.7	1.4%	5.3%
Soy/bushel	9.7	0.8%	2.8%
Rubber/kg	1.7	-1.4%	-8.5%
Nickel/tonne	11,611	2.4%	11.8%
Tins/tonne	20,735	-0.6%	6.2%
Copper/tonne	6,859	0.0%	46.2%
Gold/try.oz (Spot)	1,305	0.8%	4.2%
Coal/tonne	95.8	0.6%	8.8%
Corn/bushel	3.2	1.9%	-1.2%
Wheat/bushel	440.5	0.2%	4.6%

Source : Bloomberg

Cement Update

Consolidation needed

- **Oversupply might force consolidation**
- **Anhui Conch a serious contender**
- **Big boys will survive a new environment**
- **Remained underweight on the sector**

Total cement capacity hits 109.5mn tons. According to Assosiasi Semen Indonesia (ASI), total cement production capacity reached 109.5mn tons as of FY16, which already includes couple cement plant that will run in FY17. However, clinker capacity was 71.3mn tons, which translates to integrated cement production of 89.2mn tons (based on the assumption of 80% clinker content). This means that some cement plants will need to import clinker to maximize its production capacity. Total production is estimated to hit 68mn in FY17, leaving a gap of oversupply of 41.5mn, based on cement capacity and 21.2mn if based on integrated capacity. A growth of 6% p.a in cement demand will enclosed the oversupply gap in 10 years for cement capacity and 5 years for integrated capacity.

Disruptive strategies, Anhui Conch. Anhui Conch has been very aggressive in entering the Indonesian domestic cement market. Disruptive strategies have been implemented to win markets from pricing, distribution and manufacturing. ASP of Indocement (INTP IJ; Rp19,275; Hold) and Semen Indonesia (SMGR IJ; Rp10,450; Hold) are relatively similar with Anhui Conch being 15% below them. Distribution fess are normally about 1-2%, while Anhui Conch is willing to provide 4-8% depending on areas. We estimate that Anhui Conch could have 20% lower COGS compared to incumbents such as Semen Indonesia and Indocement. We think that Anhui Conch has lower overhead in general administrative. These higher efficiencies have led to disruptive pricing and distribution.

New players might be suffering. Stiff competition has led to erosion of EBITDA margin. Before the price war, incumbent operators were able to booked EBITDA margin of 35-40%, compared to current EBITDA margins of 19-20% in 1H17. With such squeezed margin we think that Semen Bosowa and Cemindo Gemilang (Semen Merah Putih) are in financial distress to service bank loans. We believe that Semen Indonesia, Indocement, Holcim Indonesia and Semen Baturaja are in healthy cash flow. No financial information is stated about Anhui Conch, but we know that Anhui Conch overseas operation, which includes Indonesia, is in pretax profit of US$4.4mn in 1H17 and US$15.4mn in FY16. We suspect that other smaller new players having difficulties to service bank loans.

Waiting for consolidation. Before we see any improvement in the sector, consolidation is a necessary condition to fulfill. Nevertheless, we also think that post consolidation, EBITDA margin will normalized around 20-25%, similar to margins across the globe. New player such as Anhui Conch will continue to disrupt the margin pushing the industry into new equilibriums. Nevertheless, with Anhui Conch operation to spread out in Indonesia, cost advantages might slim down especially on logistics. We maintain our underweight view on the sector with Hold calls on both Semen Indonesia and Indocement.

Stock	Ticker	Rating	Price (Rp)	TP (Rp)	17F P/E (x)	18F P/E (x)	17FEV/ EBITDA (x)	18FEV/ EBITDA (x)
Indocement	INTP	Hold	19,275	19,800	32.2	28.9	17.1	15.3
Semen Baturaja	SMBR	Sell	2,850	375	214.8	311.9	85.6	73.8
Semen Indonesia	SMGR	Hold	10,750	11,450	24.8	17.8	12.4	9.7

Source: IndoPremier *Note: Share prices as of closing 12 October 2017*

Bank Negara Indonesia (BBNI IJ; Buy)

Strong 3Q, ahead of expectation

- **Net profit grew 31% as cost growth slowed to 9%, from 16% in 2016**
- **Core profit up by 10%, driven by strong loan & fee income growth**
- **Stable NPL led to declining credit cost despite quarterly volatility**
- **Maintain Buy with higher TP of Rp8,500 (from Rp7,700)**

Strong 3Q. BBNI reported net profit of Rp3.74tn in 3Q (+17% qoq) or Rp10.16tn in 9M17 (+31% yoy) – these figures were ahead of our expectation, representing 29% and 79% of our FY17F forecast, respectively. The stronger-than-expected earnings can be attributed to the bank's slowing operating cost growth and lower loan provisioning this year. Excluding provisions, BBNI's core profit grew by 9.9% in 9M17, driven by: 1) strong loan/deposit growth (13%/20% yoy, respectively), albeit offset by lower NIM of 5.67% (-69bps); 2) strong non-interest incomes (+16%); and 3) slower opex growth of 9% vs. 16% in FY16. ROAA and ROAE improved to 2.17%/15.1% in 9M17, from 1.96%/12.8% a year earlier.

NIM recovery in 3Q. We estimate the bank's NIM has recovered to 5.67% in 3Q vs. 5.53% in 2Q, although these were still 100bps/65bps lower than year-earlier levels. The NIM pressure was due to falling loan yields across all loan segments with the blended loan yield declining to 10.0% in 9M17 (-90bps yoy). Non-interest incomes grew 16% in 9M17, driven by growth of trade finance, syndication, bancassurance and other recurring fees. Meanwhile, operating cost growth slowed to 9% in 9M17 (1H17: 11%; FY16: 16%), below our assumption of 13% growth for FY17F, thus lowering cost/income ratio to 45% in 3Q (2Q: 47%).

Asset quality. NPL ratio eased to 2.78% in 3Q17 (2Q17: 2.86%; 3Q16: 3.12%), although special mention loans grew strongly from last year (3.63% vs. 3.11%), with improvements seen in NPL ratios for corporate, small, and consumer loans. Although BBNI's new NPLs and loan write-offs showed high volatility from quarter to quarter, both metrics were much lower in 3Q vs. 2Q, resulting in lower loan provisions while still maintaining high provisions/NPL coverage of 147%. As such, credit cost improved to 160bps in 3Q (2Q: 198bps), down sharply from 250bps in 9M16. Loan recovery income also grew strongly by 56% yoy in 9M17, contributing to the bank's strong earnings growth.

Earnings and TP upgrades. We upgraded our earnings forecasts by around 3% for FY17F; 5% for FY18F-FY19F, due to our lower assumptions for operating cost and credit cost. We also raise our TP to Rp8,500 (from Rp7,700) due to lower LT cost/asset assumption. Our TP is based on GGM-derived FY17F P/B target of 1.58x, assuming LT ROAE of 14.5% (raised from 14.1%), growth of 9%, cost of equity of 12.5%. We estimate LT ROAE based on DuPont analysis, assuming LT ROAA of 1.82% and asset/equity leverage of 8x. Reiterate BUY.

Year To 31 Dec	2015A	2016A	2017F	2018F	2019F
Operating income (RpBn)	33,668	39,921	43,212	47,227	52,371
PPOP (RpBn)	17,158	20,705	22,272	24,561	27,821
Net profit (RpBn)	9,067	11,339	13,217	15,118	17,178
Net profit growth (%)	(15.9)	25.1	16.6	14.4	13.6
FD EPS (Rp)	486	608	709	811	921
P/E (x)	15.4	12.3	10.6	9.3	8.1
P/B (x)	1.8	1.6	1.4	1.2	1.1
Dividend yield (%)	1.3	1.6	1.9	2.2	2.5
ROAA (%)	2.0	2.0	2.1	2.1	2.1
ROAE (%)	14.6	13.9	14.4	14.2	14.3

Source: BBNI, IndoPremier *Share Price Closing as of : 12-October-2017*

News & Analysis

Corporates

KIJA: Kawasan industry Jababeka (KIJA IJ; Rp308; Not Rated) according to the chairman of Indonesian Toy Association, some of the toys companies are interested to be relocate to Kendal industrial area. The reason for relocation was due to 1) lower minimum wage in Central Java of Rp1.7mn vs. Rp3mn in Tangerang area and 2) lower land price in Kedal at Rp1.6mn.sqm vs. Rp3-5mn/sqm in Jabodetabek area. As of now, there is one toy company, PT Sinar Harapan Plastik which already bought 2ha land in Kendal which intended to be the new toy factory location. Their old factory in Kapuk needs to be relocated due to the non-industrial zone regulation (Local regulation no.1 2014). (Bisnis Indonesia).

MMLP: Mega Manunggal Property (MMLP IJ; Rp570; Buy) will hold a right issue with a ratio of 100:54. Every 100 shares will get 54 new rights with 35% dilution. The right issue proceed will be used for capex (90%) of land acquisition and property development, while the rest (10%) will be used for opex. (Investor Daily).

WSKT: Waskita Karya (WSKT IJ; Rp1,865; Buy) expects revenue of Rp28.5tn (+104% yoy) and net profit of Rp2.9tn (+167% yoy) in 9M17 while targets FY17 revenue and earnings to reach Rp45tn (+89% yoy) and Rp3.6tn (+98% yoy), respectively. Hence, WSKT's 9M17 carry over and new contract stands at Rp124.5tn (+34% yoy) and Rp44.5tn (-24% yoy). FY17 new contract target remain unchanged at Rp60tn. (Company, Bisnis Indonesia).

Comment: WSKT's 9M17 achievement was above ours and consensus FY17 target while net contract remain in-line with expectations. We will review our call based on this developments, however at this stage, maintain BUY at TP of Rp2,500 given outstanding results.

WSBP: Waskita beton Precast (WSBP IJ; Rp360; Not rated) expects revenue of Rp5.0tn (+63% yoy) and net profit of Rp825bn (+64% yoy) in 9M17 while targets FY17 revenue and earnings to reach Rp7.9tn (+67% yoy) and Rp1.2tn (+90% yoy), respectively. Hence, WSBP's 9M17 carry over and new contract stands at Rp18.6tn (+74% yoy) and Rp8.4tn (+13% yoy). WSBP targets new contract target at Rp12.4tn and capacity of 3.25mn ton in FY17. (Company, Bisnis Indonesia).

Markets & Sector

Property Sector: The government launches a new regulation via Land and Spatial Planning Minister to provide tax incentive for ease of shift of land ownership to follow the tax amnesty program concluded in Mar17. Three points included in the regulation: (1) Ease of name change handling from on behalf of the nominee to on behalf of the tax payer, (2) For nominee who has passed away but has not registered his/ her land, taxpayer could propose for rights registration and name change altogether, (3) Taxpayers are exempt from income tax. (Kontan).

Comment: This news is neutral for property sector in general since the regulation will be valid for existing properties and also should not impact nor give incentive to purchase new properties.

Utility Sector: The draft on gas price legislation proposed that transmission fee should be based on IRR 11%, while distribution margin to be set at 7%. It has not been mentioned when this bill will be implemented. Currently the draft has been finalized and submitted to the Government to be approved. (Kontan).

Comment: It is unclear how much the transmission fee will be to implement a IRR of 11%. Currently transmission fee are about US$0.5-0.6 per MMBTU. Meanwhile distribution margin of 7% will be US$0.42/MMBTU, assuming a well head gas price of US$6/MMBTU. Therefore, transmission plus distribution margin should be only US$0.9-1.0/MMBTU, significantly lower than current margins of US$3.2 in 1H17.

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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.