

# Premier Insight

## Economic Update

### Keeping the ammo

#### Key takeaways from meeting with the central bank

- **BI decided to maintain the 4.75% rate after BoG's Mar17 meeting**
- **Indonesia remains resilient to external vulnerabilities**
- **Vigilant toward risks emerging from mostly global sector**
- **S&P upgrade may trigger more inflow to Indonesia**

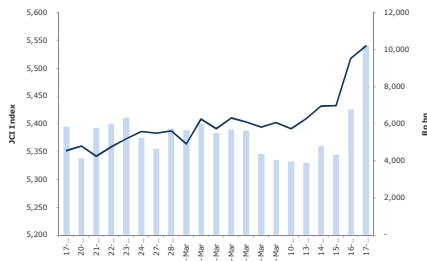
**Maintained rate.** In line with our and consensus expectation, Bank Indonesia decidedly maintained the reference rate 7-day (reverse) repo rate at 4.75% after a Board of Governors meeting that took longer than usual. Along with the rate, the deposit and lending facilities rates were also held at 4% and 5.50%, respectively. We believe the decision was appropriate given domestic condition in which inflation by Feb17 had been relatively stable at 3.83% yoy (core inflation of 3.4% yoy) and external vulnerabilities indicators had shown improvement amid the two most anticipated events this year: the Federal Funds Rate hikes and geopolitics in the Europe.

**External resilience was key behind decision.** As mentioned above, Indonesia's risks toward vulnerabilities have diminished. Fundamentally, this was driven by Indonesia's better balance of payment position and current account deficit which recorded -0.8% GDP in 4Q16 (read: *External vulnerability less of a concern*). The rupiah has appreciated by 0.7% ytd. The condition with the current account is expected to prolong this year as Indonesia will benefit from rising commodity prices. Improved resilience on top of controlled inflation should bring less pressure for Indonesian market. In addition to that, it is also believed that positive sentiment toward Indonesia remains developed with investors' confidence built upon our improved fiscal credential. We bought into BI's idea as well, having noticed intact capital inflow in our bond and equity markets post the FFR hike early on Thursday (16/03) Indonesian time. To note sovereign bond yield index for 10-year tenure has gone down at least 20bps after the FOMC meeting concluded – it had declined 67bps ytd. Benchmark series of 10-year tenure, the FR0059's, yield is currently at 7.19%. In the equity market, foreign net buy recorded was Rp4.2tn during 16-17 Mar17 in contrast with average net buy transaction which was Rp51bn per day in 2016.

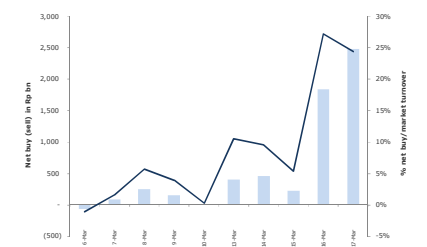
**Global risks.** Despite the current tailwind in foreign capital, some risks are also perceived to be sources of reversal going forward. The central bank acknowledges four risks, namely: (1) Global inflation risk, which has the tendency to increase provided the trend with commodity prices, (2) Shift of stance risk in terms of monetary policy as the Fed seeks three-time increases this year, (3) Risks of slowdown in capital inflow to emerging markets (EMs), as well as (4) Geopolitical and economic condition in the Europe with two out of three elections after Netherlands' to ensue this year: the French's presidential election and Germans' federal election as well as Greece's debt maturity in Jul17. Domestically, tax revenue also has the potential to be under target, in BI's view, with fiscal deficit to reach -2.6% of GDP. In light of these risks, we believe BI's stance may shift as well going forward, where it had kept the 7DRRR to later increase it as these risks slowly materialise.

**S&P's upgrade.** The central bank is confident that Standard & Poor's will upgrade its rating toward Indonesia (currently at BB+, not investment grade) – a similar tone with Indonesia's finance minister last year. Among the sparked optimism by BI, we like its idea that portfolio weighting for Indonesia may be increased upon S&P's upgrade – since it validates Indonesia's position in the investment grade, following Fitch's and Moody's ratings – and should bring more capital inflow to Indonesia.

JCI Index



Foreign net buy (sell)



#### Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	5,540	0.4%	13.4%	4.6%
LQ45	923	0.5%	8.3%	4.3%
DJI	20,915	-0.1%	18.8%	5.8%
SET	1,561	0.3%	12.9%	1.2%
HSI	24,310	0.1%	17.6%	10.5%
NKY	19,590	0.1%	17.1%	2.1%
FTSE	7,425	0.1%	20.0%	3.9%
FSSTI	3,169	0.2%	9.0%	9.9%
EIDO	26	0.5%	6.8%	6.2%

#### Commodity price

Commodities (in USD)	Last price	Ret 1 day	Ret 1 year
Oil/barrel (WTI)	48.8	0.1%	21.3%
CPO/tonne	632.1	0.3%	5.6%
Soy/bushel	9.8	-0.2%	10.1%
Rubber/kg	2.5	1.0%	67.4%
Nickel/tonne	10,203	0.4%	15.2%
Tins/tonne	20,455	1.2%	19.8%
Copper/tonne	5,917	0.4%	16.1%
Gold/try.oz (Spot)	1,229	0.2%	-2.1%
Coal/tonne	81.3	0.2%	55.4%
Corn/bushel	3.5	0.4%	-3.2%
Wheat/bushel*	137.1	11.6%	-16.7%

\* : 1 month change

Source : Bloomberg

## News & Analysis

### Corporates

**AISA:** Tiga Pilar (AISA; Rp1,840; Buy) allocates capex of Rp560bn in 2017, in which 83% of the capex will be allocated for foods segment and 16% for rice segment. For this year's guidance, revenue to reach Rp7.6tn. In addition, the completion of Caprisonne facility will be around 3Q/4Q17 and is expected to contribute Rp100bn to the total sales in 2017. (Investor Daily)

*Comment: Our revenue estimates is in-line with company's 2017 guidance. We also expect AISA's new product, Capri-sonne to drive further growth in AISA's foods segment in the future. At this stage, we maintain BUY on AISA.*

**ARNA:** Arwana Citramulia (ARNA IJ; Rp 468; Not Rated) booked 12M16 net profit at Rp90.5bn (+29.7% yoy), in line with consensus, helped by growing revenue (+17% yoy) and slightly better operating margin at 8.9% (from 8.5%), and forex gain: Rp6bn (from forex loss: -Rp9bn last year). In quarterly basis, 4Q16 net profit and revenue grew +77%/10% yoy, respectively. (Investor Daily)

**INTP:** Indocement (INTP IJ; Rp15,900; Hold) expects cement demand to grow by 3-5%, with the company maintaining its market share at current levels of 26%. According to the CEO, demand could continue to grow from infrastructure with couple of property projects. The company sees oversupply to continue with total national capacity of 102mn tons. (Bisnis Indonesia)

**PGAS:** Perusahaan Gas Negara (PGAS IJ; Rp2,540; Hold) released its FY16 financial result, which was below our and consensus expectation mainly from distribution margin as PLN was charged lower gas price starting in Aug16 for an exchange of higher volumes. The result highlights were:

- Total gas distributed was 802mmscfd almost similar with last year with average gas price of US\$8.2/MMBTU (-4.0% yoy) with margin to hold at US\$3.3/MMBTU. PLN has extended gas purchase for MuaraTawar by lowering gas purchase price but increase volume purchased by 50%. Demand from other industries remained weak.
- Despite weak oil price through-out FY16, contribution from Saka energy was US\$314mn (+18.9% yoy) driven by increased lifting volume of 23% yoy to 30,026 boepd.
- Floating LNG operation remains subdued as PGN only bought and distributed 8 cargos equivalent to 65mmscfd.
- Net income was down -29.4% yoy affected by several factors has affected the net profit of 2016 which included adjustment of gas price to the power plant of PLN, impairment of oil and gas properties and weakening US Dollar against Rupiah which resulted a translation loss and loss on change in fair value of derivatives.
- We maintain our Hold call on the counter.

	FY16	FY15	% +/-	4Q16	3Q16	% +/-	FY16F	% of total
Revenue	2,935	3,069	-4.4	779	716	8.8	2,885	101.7
EBITDA	807	951	-15.1	166	211	-21.2	883	91.4
Op profit	433	574	-24.6	39	140	-71.9	532	81.2
Pre-tax profit	385	443	-13.1	89	117	-24.1	509	75.7
Net profit	309	437	-29.4	63	91	-30.2	425	72.6
<i>EBITDA margin</i>	27.5	31		21.3	29.4			
<i>Operating margin</i>	14.7	18.7		5	19.5			
<i>Net margin</i>	13.1	14.4		11.4	16.4			

Source: Company

**SMBR:** Semen Baturaja (SMBR IJ; Rp2,630; Sell) announced its financial result with net profit of Rp274bn (-21.3% yoy) in FY16. Total revenue was up +14.2% from higher volume but gross profit only grew +3.5% yoy and operating profit up by +1.5%. Strong demand in the South Sumatera region has not translate into higher profitability due to competitive pricing. The decline in bottom line has been affected by lower interest income as Semen Baturaja used its cash to finance the construction of plant 3. We maintain our sell call on the company as its financial result does not justified its valuation. (Company)

**WIKA:** Wijaya Karya (WIKA IJ; Rp2,490; Buy) through its subsidiaries, Wika Realty, is planning to develop four industrial estate this year. To do so, WIKA will allocate capex of Rp3-4tn from overall capex of Rp12tn. the locations are in Makassar, Bitung, East Java and Banten with Makassar to start first. According to company, there are four potential buyers who are interested into Makasar Industrial estate. (Bisnis Indonesia)

## Markets & Sector

**Property sector:** State administrative court (PTUN Jakarta) has revoked three licenses of Jakarta reclamation islands, namely: island F, I and K. The repeal will result in halt of developer's activities on those following islands. (BBC)

*Comment: The mentioned island (F, I and K) belongs to Pembangunan Jaya Ancol and Jakarta Propertindo (JakPro), therefore might have limited impact for APLN. However, there is growing uncertainty that island G might face similar fate. Reiterate Hold.*

**Property Sector:** Until 2M17 marketing sales of property developers are still slow, forming 10% from FY17 target. The best performance came from Bumi Serpong Damai (BSDE IJ; Rp1,840; Buy) which managed to gain Rp300bn from the launch of Alegria City, Ciputra Development (CTRA IJ; Rp1,260; Buy) with its Citraland Cibubur and Pakuwon Jati (PWON IJ; Rp600; Buy).

*Comment: the resilient performance of BSDE, PWON and CTRA will support solid earnings momentum in years ahead. Maintain Buy for all three developers.*

Property Companies' Marketing Sales (in Billion)			
Company	Jan-Feb 2017	2017 Target	Realization
CTRA	800	8,500	9%
ASRI	180	5,000	4%
SMRA	230	4,500	5%
LPCK	90	1,139	8%
BSDE	1,300	7,225	18%
MDLN	281	4,300	7%
PWON	370	2,600	14%
JRPT	300	2,530	12%

Source: Bisnis Indonesia

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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

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