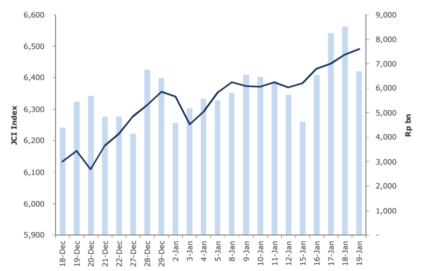
INDOPREMIER

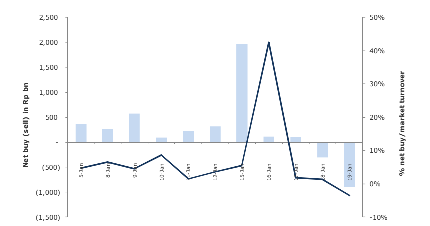
Premier Insight

22 January 2018

JCI Index



Foreign net buy (sell)



Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	6,491	0.3%	23.5%	2.1%
LQ45	1,100	0.1%	25.7%	1.9%
DJI	26,072	0.2%	31.5%	5.5%
SET	1,821	0.1%	16.5%	3.9%
HSI	32,255	0.4%	40.9%	7.8%
NKY	23,808	0.2%	24.4%	4.2%
FTSE	7,731	0.4%	7.4%	0.6%
FSSTI	3,521	0.0%	16.9%	4.3%
EIDO	30	0.5%	24.5%	4.6%

Commodity price

Commodities	Last price	Ret 1 day	Ret 1 year
(in USD)			
Oil/barrel (WTI)	63.4	-0.9%	23.4%
CPO/tonne	620.8	-1.3%	-21.9%
Soy/bushel	9.6	0.4%	-9.2%
Rubber/kg	1.7	1.6%	-40.6%
Nickel/tonne	12,679	2.1%	28.4%
Tins/tonne	20,690	1.1%	-0.2%
Copper/tonne	6,999	-0.5%	22.5%
Gold/try.oz (Spot)	1,332	0.4%	10.0%
Coal/tonne	106.8	0.0%	27.9%
Corn/bushel	3.3	0.3%	-6.9%
Wheat/bushel (USd)	422.8	-0.6%	-0.2%

Source : Bloomberg

Economic Update

The year to deepen

- **Bank Indonesia holds rate at 4.25% for Jan18, an anticipated move.**
- **Cautiously optimist on recent foreign developments.**
- **Implementation of average reserve requirement ratio is advanced,**
- **...along with enhancements made in macroprudential measures.**

Reference rate maintained. Bank Indonesia decided to hold rate in its first meeting in 2018 at 4.25% along with lending and deposit facility rates, each at 5% and 3.5%. This is an expected outcome, in consensus view and ours, not only for this month but for the remainder of the 1Q as inflation was closing relatively low last year, at c. 2.8% (headline inflation was 3.6% yoy, instead), after adjusting out for administrative price increase represented mostly by the electricity tariff adjustment happened in 1H17. We also think BI would prefer to see further development of the upward tendency of FFR and how it impacts to Indonesian market.

Optimist but with caution. While domestic economy has been stable throughout last year and expectedly so this year, we believe some foreign developments are worth to be vigilant for. Recently China has realised FY17's economic growth at 6.9%, which would risk to decline this year as its population continues to age, some 2-3 times hike possibility by The Federal Reserve for its FFR, and combined with Bank of Japan's recent move to limit the purchase of bond buying by JPY10bn for the long-tenured bonds of 10-25 years to JPY190bn and of 25-40 years to JPY90bn. The risk of the second and third events would be to limit liquidity going for the EMs, including Indonesia, which has observed an influx of fund entering its bond market of Rp33tn ytd (vs Rp19.7tn 1M17) and to possibly put the central bank at the stance of tightening, depending on the magnitude and domestic prices.

Advancing average RRR. That said, the central bank's continuous plan to perfect the average reserve requirement ratio (or, average GWM, according to BI's jargon), is being implemented faster than expected. Conventional banks will be imposed of fixed GWM at 4.5% and average GWM 2% for rupiah deposits and fixed GWM at 6% and average GWM 2% for foreign currency deposits, whereas *sharia* banks must put 3% fixed GWM and 2% average GWM for their rupiah deposits. The effective timeline for this would start on July 16, 2018 and gradually until October 1. This should give more liberty and therefore, creativity, to banks, notably smaller ones, in managing their liquidity while the central bank should benefit from promoted intermediation service.

Two macroprudential measures. As with the GWM, BI also introduces a new ratio, dubbed Macroprudential Intermediation Ratio (or RIM), in replacement of the loan-to-funding ratio (GWM-LFR), in which the ratio formula is modified to incorporate securities owned and issued by conventional and *sharia* banks. Where the LFR once used to only account for loan divided by funding (third party funds plus securities issued), now it takes into account loan plus ownership of securities as the numerator in the ratio. The idea behind this is to help banks enact countercyclical measures as in an event of economic slowdown, there is usually hesitance to disburse loan, which makes LDR unsatisfactory. The new accounting should allow purchase of securities in making up for the loss in loan disbursement and maintain credit quality going forward. Moreover, BI also modifies the rule for secondary GWM into what is named Macroprudential Liquidity Support (or, PLM) – where in PLM, a portion of securities from third party funds can be put in repurchase agreement (repo) to BI for open market operation (the maximum amount for repo is 2% of 4% imposed by BI). It is perceived that BI's move this year will be mostly about penetrating deeper into the money market, whose impact we would continue to monitor upon implementation.

News & Analysis

Corporates

INDF: Indofood Sukses Makmur (INDF; Rp7,925; Hold) plans to add new flour factory this year to improve the Bogasari segment sales going forward. The company stated that the capacity of the flour factory will be around 200,000 ton/annum. But, the company still does not yet disclose about the investment value for this factory. Further, the company targets that flour's sales volume growth will be the same as previous year (4%-5% yoy). (Bisnis Indonesia).

NRCA: Nusa Raya Cipta (NRCA IJ; Rp406; Not Rated) targets total new contract growth of 10-15% in FY18 (vs. FY17: Rp2.8tn). They are currently waiting for the document process for Subang-Patimban toll road project, which they initiated together with Jasa Marga (JSMR IJ; Rp6,200; buy). The project is expected to have total investment of Rp5tn, which NRCA is aiming for minority share. In addition, NRCA just received the payment from Astratel, for the sales of Cipali toll-road of Rp190bn. Thus, with total transaction of Rp224bn, NRCA enjoyed 87% return from the sales. (Kontan).

WSKT: Waskita Karya (WSKT IJ; Rp2,630; buy) we met with WSKT and here some key takeaways:

- New Contract target of Rp70tn (+27% yoy), Revenue of Rp55tn (+38% yoy), and Net Income of Rp5.3tn (+51% yoy). Projected Interest Bearing Debt at Rp57tn in FY18, or DER ratio of 1.9x.
- Expecting payment of Rp20-30tn in 2018 from several turnkey projects such as, toll roads in Java, LRT Palembang and electric transmission.
- Capital Expenditure (Capex) 2018 targeted to be Rp 26 Trillion. Around 85% Capex for toll road, 6% each for construction and realty, and 3% for precast.
- Both Toll road divestment and PT Waskita Toll Road (WTR) new shares issuance phase 2 are still ongoing and expected to be completed by June 2018. (Company).

WTON: Wika Beton (WTON IJ; Rp570; Buy) prepares capex of Rp680bn which will be use for capacity enhancement (55%) and additional ready mix facility (45%). With optimization of two factories in Majalengka and Makassar, WTON's annual production capacity is expected to reach 3.4mn ton (+6% yoy). In addition, WTON targets 30% contribution from non-precast product in FY18 (vs. FY17: 15%). (Bisnis Indonesia).

Comment: WTON's production capacity growth is in-line with our forecast. Thus, maintain Buy on WTON with TP Rp810.

Markets & Sector

Automotive sector: Mitsubishi Xpander sales volume has touched 50,000 units of which 14,000 units have been delivered. According to Mitsubishi, its local production volume is at max at 7,000 unit per month, leaving a waiting list of 5 months. The most fast selling variant is the Xpander ultimate, priced at Rp245mn. Mitsubishi has prioritize to manufacture this model to fulfill demand. (Bisnis Indonesia).

Comment: Strong sales volume of Mitsubishi is a good indicator of willingness to pay for auto in the segment of Rp200-300mn. Nevertheless the market needs to be intensified in order to make actual sales. A long waiting list, might be good news for Toyota that recently has launched All-New Rush-Terios as impatient customer might switch to this model.

Economic

Tax rate: Indonesia will see cut final income tax on SMEs by half and impose taxes on e-commerce business in order to level the playing field between e-commerce and conventional players, which are brick-and-mortar based, according to finance minister Sri Mulyani. Currently, business earning less than Rp4.8bn pay final tax of 1% of total sales. (Jakarta Globe)

Comment: This policy should help retail players gain extra support in terms of competitiveness vis-à-vis digital players, albeit it remains to be seen the scheme for e-commerce tax rate. Despite the added competitiveness, downward trend in retail is also due to the shift of lifestyle.

Sovereign rating: Finance minister Sri Mulyani is confident that rating agency Moody's Investor Service will upgrade Indonesian rating a notch higher. Some measures are deemed improved: such as (1) better fiscal performance and (2) consistent monetary policy. However, Moody's also takes caution on domestic political event within the following two years. (Kontan)

Comment: If in line with schedule, Moody's expectedly will launch its revision early in Feb18, which might explain heavy stream of inflow to domestic bond market in Jan18 which was already Rp33tn ytd.

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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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