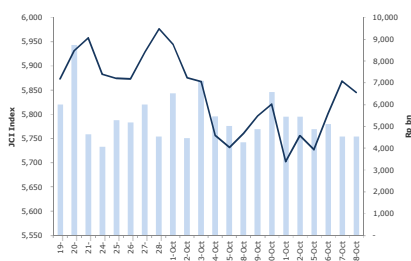
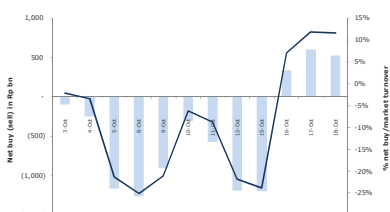


JCI Index



Foreign net buy (sell)



Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	5,845	-0.4%	-1.1%	-8.0%
LQ45	920	-0.9%	-6.1%	-14.7%
DJI	25,379	-1.3%	9.6%	2.7%
SET	1,683	-0.7%	0.0%	-4.0%
HSI	25,455	0.0%	-9.6%	-14.9%
NKY	22,658	-0.8%	5.6%	-2.2%
FTSE	7,027	-0.4%	-6.6%	-8.6%
FSSTI	3,070	0.0%	-8.0%	-9.8%
EIDO	21	-2.2%	-19.3%	-24.5%

Commodity price

Commodities	Last price	Ret 1 day	Ret 1 year
(in USD)			
Oil/barrel (WTI)	68.7	-1.6%	33.8%
CPO/tonne	539.2	-1.0%	-18.3%
Soy/bushel	8.1	-2.7%	-15.4%
Rubber/kg	1.5	-1.1%	-22.2%
Nickel/tonne	12,276	-0.2%	6.0%
Tins/tonne	19,036	-0.3%	-5.6%
Copper/tonne	6,158	-0.9%	-11.4%
Gold/try.oz (Spot)	1,226	0.3%	-5.0%
Coal/tonne	109.8	0.5%	13.0%
Corn/bushel	3.2	-0.9%	0.3%
Wheat/bushel (USD)	513.0	0.0%	18.5%

Source : Bloomberg

Bank Mandiri (BMRI IJ; Buy)

Solid growth from lower credit cost

- 9M18 earnings rose 20% (in-line) while core profit grew modestly.
- Strong loan growth mitigated NIM pressure from rising rates.
- Credit cost improved despite still elevated middle corporate NPLs.
- Reiterate BUY albeit with lower TP of Rp8,200 (from Rp8,300).

**Results in-line.** BMRI reported net profit of Rp18.1n in 9M18 (+20% yoy), in line with FY18F consensus estimate of Rp24.3tn albeit slightly below our forecast due to tax-case loss of c.Rp300bn in 3Q18 arising from disputed timing of tax-benefit associated with achieving 40% stock free float post a rights issue in 2011. BMRI's tax-case loss in 3Q, as ruled by the Supreme Court, came after its tax-dispute win of Rp1.08tn in 2Q18. Excluding these non-operating items, its earnings grew 19% qoq in 3Q due to its lower loan provisions (-24% qoq). The bank's strong earnings growth in 9M18 was driven by its modest top line growth, strong cost control and also partly due to a low base effect from its very weak 1Q17 earnings.

**Modest PPOP growth.** Excluding provisions, BMRI's core profit grew 7% in 9M18 driven by its strong asset growth (loans: +14%; deposits: +9%), which mitigated NIM pressures arising from 125bps interest rate hikes so far in 2018, and modest operating cost growth of only 6%. Although NIMs declined 17bps yoy in 9M18, NIMs were stable in the past 3 quarters and came at the top end of 5.5%-5.7% guidance although we still expect lower NIM in 4Q when its loan growth slows to narrow the gap with deposit growth. The bank's IDR cost of funds rose by 20bps to 3.1% in 3Q due to 50bps rise in time deposit costs in the last quarter.

**Asset quality.** BMRI's credit cost improved to 183bps in 3Q18 (1H18: 209bps) while its new NPL formation also dropped to Rp3.06tn (1.8% of loans), from an average of Rp4.1tn or 2.6% of loans in 1H18 (FY17: 2.6%), of which half of these new NPLs came from its middle corporate loans (4.3% of loans), albeit still better vs. 6.1% in 1H18. Management is guiding for new NPLs of Rp3.6tn in 4Q18 (9M: Rp13.5tn) and maintain credit cost guidance of 2.0-2.2% for FY18F (9M: 1.97%). BMRI's NPL ratio improved to 3.0% in 3Q, from 3.74% a year earlier, with stable provision/NPL coverage of 136%.

**Valuation.** We lower our earnings forecasts for FY18F/FY19F by 2.6%/3.1% and our TP to Rp8,200 (from Rp8,300), due to our slightly lower book value forecast arising from bond revaluation losses in 2018. Our TP is based on our GGM-derived target FY18F P/B of 2x, assuming LT ROAE of 16.6%, growth of 8.5%, and cost of equity of 12.5%. We estimate BMRI's LT ROAE based on our DuPont analysis, assuming LT ROAA of 2.08% and asset/equity leverage of 8x. We maintain our BUY rating.

Year To 31 Dec	2016A	2017A	2018F	2019F	2020F
Operating income (RpBn)	70,824	73,718	78,504	85,827	93,882
PPOP (RpBn)	39,556	38,704	41,670	46,113	51,060
Net profit (RpBn)	13,807	20,640	24,314	28,608	33,438
Net profit growth (%)	(32.1)	49.5	17.8	17.7	16.9
FD EPS (Rp)	296	442	521	613	717
P/E (x)	22.2	14.9	12.6	10.7	9.2
P/B (x)	2.0	1.8	1.6	1.4	1.2
Dividend yield (%)	2.0	3.0	3.6	4.2	4.9
ROAA (%)	1.4	1.9	2.1	2.2	2.4
ROAE (%)	10.5	13.4	13.7	14.1	14.2

Source: BMRI, IndoPremier

Share Price Closing as of : 17-October-2018

## News & Analysis

### Corporates

**ADHI:** Adhi Karya (ADHI IJ; Rp1,265; Buy) will have a partnership with two local companies to develop clean water supply (SPAM) Karian Barat with total investment of Rp6tn. The feasibility study is expected to be complete in the next 2-3 months, thus the development is included in ADHI's next year's work plan and budget. (Bisnis Indonesia).

*Comment: We are neutral on the news as the detail of ownership for the project has not been disclosed yet. However, we expect minor investment by ADHI given the project lower IRR. Maintain Buy on ADHI with TP of Rp1,600.*

**BBNI:** Bank BNI (BBNI IJ; Rp7,200; Buy) - Modest 3Q18 results (in-line)

- Net profit up 12.6% in 9M18 (3Q: +5.6% qoq), in-line with our FY18F forecast (Rp15.1tn) and consensus estimate (Rp15.4tn)
- Earnings growth has slowed vs prior 2 years as credit cost normalised at 153bps in 9M18 (FY17: 160bps; 3Q18: 127bps), management is guiding for 140-170bps for FY18F (similar for FY19F).
- Excl. provisions, core profit growth slowed to 6.3% in 9M (3Q: -9% qoq) as NIM narrowed to 5.2% in 3Q (2Q: 5.6%), partly due to lower loan yields (-20bps qoq), while opex grew 12%.
- Asset quality stable (NPL ratio: 2%; coverage: 152%), despite rising middle corporate NPLs, with recovery income boosted by one-off Rp400bn of asset sales from 20-yr legacy loans, which helped 3Q profit.
- Overall this is a decent result with 3Q NIM squeeze as our key concern, albeit partly due to its equally strong loan vs. deposit growth. Reiterate BUY. (Company).

**DMAS:** Puradelta Lestari (DMAS IJ; Rp136; Buy) reported marketing sales of Rp651bn (-20% yoy), slower than expectation, forming only 52% of company's FY18F guidance of Rp1.25tn. During 3Q18, company managed to sell 3ha of industrial land, totaling 24.7ha in 9M18. (Investor Daily).

*Comment: The marketing sales were slower than expected. However, company still confident to achieve its FY18 marketing sales target given 100ha inquiries. However, given 6-9 months revenue recognition, we believe DMAS will have a better performance in FY19 if they succeeded to achieve its FY18 target of Rp1.25tn.*

**ELSA:** Elnusa (ELSA IJ; Rp362; Not Rated) secured new contract amounted to Rp1tn. The company won tenders 2D & 3D land seismic survey in Pesut Mas, Central Sulawesi and modular drilling in Sanga Sanga, East Kalimantan and Attaka. The company stated that these contracts will bring significant contribution to the company's financial performance. (Investor Daily).

**ISAT:** Indosat (ISAT IJ; 2,650; Hold) committed to 4G network overlay in the next 2 years with est. cost amounted more than USD2bn (equivalent to c.Rp30tn assuming forex Rp15K/USD). The company said it still open for option for M&A potential. New CE, Chris Kanter, said that 2 years ago during acquisition option was discussed during his tenure as ISAT's commissioner. However, he affirms that company has no targeted company for consolidation. Mr. Chris Kanter said since he is appointed as new CEO there is no acquisition consideration, according to Bisnis Indonesia. In 2Q18, ISAT has cash amount of Rp1.4tn. Meanwhile, Detik reported that ISAT previously might explore M&A process with other operator, with EXCL name mentioned. (Bisnis Indonesia, Detik)

*Comment: We think investors might first monitor whether ISAT's 3Q18F EBITDA trend showed strong recovery trend after prepaid card and blocking period completed. We think it is still remain to be seen whether there will be another consolidation in telco industry. We have a Hold for ISAT with TP Rp3,500.*

**WIKA:** Wijaya Karya (WIKA IJ; Rp1,255; Buy) plans to divest its investment in several toll roads:

- Surabaya-Mojokerto (20%) with total project investment of Rp3.8tn
- Serang-Panimbang (80%) with total project investment of Rp11.4tn
- Manado-Bitung (20%), Lintas Jabar (25%), Balikpapan-Samarinda (15%), Kunciran-Cengkareng (<5%), and Bali toll road (<5%), with total cumulative investment of Rp447bn.

*Comment: We believe the divestment of any toll road would positively impact WIKA's cash flow which will enable WIKA to take on more projects going forward. Maintain Buy on WIKA with TP of Rp2,900.*

### Markets & Sector

**Infrastructure sector:** The signing of a loan agreement for the Jakarta MRT project funding between Japan and Indonesia for Rp25.1tn will be conducted next week. The loan will be used for the development of MRT phase 2 Bundaran HI-Kampung Bandan, and additional work of phase 1 Lebak Bulus-Bundaran HI of Rp22.5tn and Rp2.6tn, respectively. The completion of MRT phase 2 is scheduled to be completed in 2024 with total 8 stations throughout 7.8km which is: Sarinah-Monas-Harmoni-Sawah Besar-Mangga Besar-Glodok-Kota-Kampung Bandan. (Investor Daily).

**Plantation sector:** Positive sentiment for the palm oil sector as National Oceanic and Atmospheric Administration (NOAA) predicted that in the next couple of months El-Niño would occur with 70%-75% chance. El-Niño would potentially cause low precipitation in South East Asia and Australia while resulting in high precipitation in the American continent. The impacts of these events are usually positive to palm oil prices. Additionally, the market expects better palm oil prices as Indonesia's palm oil inventory is expected to decrease to the lowest level in five months in September on the back of higher domestic demand for mandatory B-20 blending. According to the median of seven estimates from analysts, traders and plantation executives compiled by Bloomberg, Indonesia's palm oil inventories dropped 2% mom to 4.5 million metric tons in Sep'18. (NOAA, Bloomberg).

*Comment: We maintain our positive view on the palm oil sector which we believe would enter supply-deficit in 2019. At this stage we reiterate our Buy recommendations for AALI (TP: Rp16,000) and LSIP (TP: Rp1,300).*

**Property sector:** Finance Ministry is studying the possibilities of waiving property taxes:

- Income Tax (PPH 22) for houses and apartments with area of 400sqm or 150sqm or more, respectively, or ticket price of Rp5bn or more.
- Sales Tax on Luxury Goods (PPnBM) of 20% for houses or apartments with ticket price of Rp20bn and Rp10bn or more, respectively.

The study was made to reduce house prices, create a multiplier effect by creating more jobs, and improve property market conditions. (Bloomberg, CNN Indonesia).

*Comment: We are positive towards the news as any tax relaxation will help to boost property market recovery. Reiterate Buy on CTRA as our top pick in the residential property sector with TP of Rp1,355. Maintain Buy on BSDE with TP of Rp2,200.*

**Telco Sector:** Ministry holds public consultation for regulation plan about usage of 2.3Ghz spectrum. Communication and Informatics Ministry announced public consultation period on 16-21 Oct 2018 on Ministerial Regulation plan regarding usage of 2.3Ghz spectrum. The regulation plan is based on Ministerial Regulation no. 53/2000 and to support Ministry's plan to reduce 100 Communication and Informatics Ministerial regulations. The Ministerial Regulation Plan on 2.3Ghz spectrum usage includes: 1) Combination, change, and revoke of 4 Ministerial regulations; 2) Planning of 2.3Ghz spectrum to use time division duplexing

(TDD) based on neutral technology (2300-2360Mhz for national; 2360-2390 for zone based; 2390-2400 for telco universal service requirement); 3) Usage coordination consists of with regional country and for mobile cellular network service. Following bandwidth holder in 2.3Ghz band: Telkomsel 30Mhz + 15Mhz regional license; ISAT 15Mhz in certain regions (valid until 2019); FREN 30Mhz. (IndoTelko, Communication and Informatics Ministry)

*Comment: We expect Neutral impact for now as the regulation is still in public consultation. We will check with company regarding the impact as this regarding to detaid spectrum location in 2.3Ghz band. We have a Buy for EXCL TP Rp3,500, but Hold for both TLKM Rp 3,700and ISAT TP Rp3,500.*

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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.

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