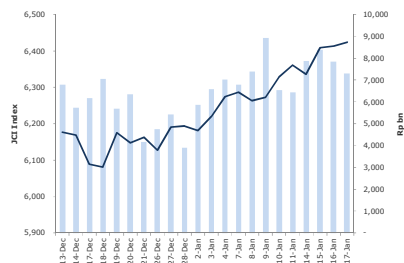


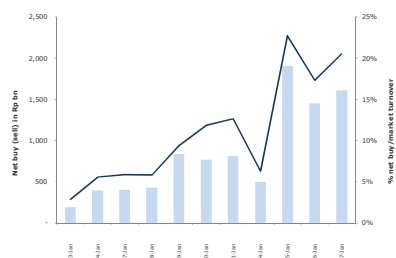
Premier Insight

Economic Update Anticipated first steps

JCI Index



Foreign net buy (sell)



Key Indexes

| Index | Closing | 1 day | 1 year | YTD |
|-------|---------|-------|--------|------|
| JCI | 6,424 | 0.2% | -0.8% | 3.7% |
| LQ45 | 1,025 | 0.3% | -6.7% | 4.3% |
| DJI | 24,370 | 0.7% | -6.3% | 4.5% |
| SET | 1,580 | 0.2% | -13.1% | 1.0% |
| HSI | 26,756 | -0.5% | -16.7% | 3.5% |
| NKY | 20,402 | -0.2% | -14.1% | 3.0% |
| FTSE | 6,835 | -0.4% | -11.2% | 1.6% |
| FSSTI | 3,214 | -0.5% | -8.7% | 4.7% |
| EIDO | 27 | 0.7% | -9.1% | 8.7% |

Commodity price

| Commodities (in USD) | Last price | Ret 1 day | Ret 1 year |
|-------------------------|------------|-----------|------------|
| Oil/barrel (WTI) | 52.1 | -0.5% | -18.6% |
| CPO/tonne | 534.8 | 1.1% | -11.6% |
| Soy/bushel | 8.6 | 1.9% | -9.2% |
| Rubber/kg | 1.6 | -1.1% | -22.2% |
| Nickel/tonne | 11,546 | -0.2% | -6.5% |
| Tins/tonne | 20,690 | 0.2% | 0.8% |
| Copper/tonne | 5,965 | 0.4% | -14.7% |
| Gold/tr.oz (Spot) | 1,292 | -0.1% | -2.6% |
| Coal/tonne | 100.3 | 0.6% | -5.9% |
| Corn/bushel | 3.5 | 1.7% | 8.3% |
| Wheat/bushel (USD) | 517.8 | 1.0% | 22.8% |

Source : Bloomberg

- Policy rate held constant at 6% after the first meeting of the year.
- Global growth forecast to be lower;
- ...and trade concerns would weigh in world output.
- First rate increase to likely be in the 2Q19.

7DRRR held. Policy rate stays at 6% for the time being, after BI's BOG's January meeting concluded. Rate maintenance was in line with market expectation. The central bank believes economic growth to be stable this year as there are improvements in domestic demand and better net exports. Domestic demand growth this year shall be underpinned by confident consumers and preparations of legislative and presidential elections, while at the same time government consumption will remain solid due to procurement and social assistance disbursement policies. It is forecast economic growth to be 5.0-5.4% FY19.

Lower global growth. This year, the central bank's concern includes sluggish global growth after trade tension is projected to weight on global economy. Its background assumption includes slightly reduced uncertainty as more clarity is obtained from the US' interest rate dovish trajectory and decelerating Chinese economy, which although would lower commodity prices, the reduced trade tension between the US and China would benefit EMs in terms of money inflow

Trade concerns to weigh in world output. World outputs are estimated to be 2.9-3.7% FY19 along with less trade volume, growing at 3.6-4% rate. From the US, lower growth appears to be more apparent as the Fed's projection of FY19 growth is revised down by 0.2 percentage point to 2.3% with more benign inflation on the horizon of 2%, according to Dec18's note. Trade has bestowed negative impact to Indonesian economy growth starting last year. Although it was due to mostly domestic development policy, it should stretch the CAD to 3.1% of GDP FY18 (our calculation; actual data to launch in Feb19). Yet, BI is optimist this level of CAD would be progressively lower, at 2.5% of GDP FY19.

First 7DRRR increase to be in the 2Q19. The lower projection of US economy has put consensus estimate for future FFR to accommodate only 1x increase so far, to take time in Jun19, and 25bps lower than the Fed's projection. It thus should lay ground for possible Indonesian policy rate increase in 2Q19, as BI would frontload its policy rate ahead of global market. The farthest BI would raise its policy rate is 50bps, according to current condition and historical elasticity, and would settle Indonesian 7DRRR at 6.5% by year end.

News & Analysis

Corporates

INTP: Indocement Tunggal Prakarsa (INTP IJ; Rp18,500; Hold) earmarked Rp1tn worth of capital expenditure for the completion of its expansion projects of which it was used for mills and terminal expansion in Palembang this year. (Bisnis Indonesia).

Comment: In our view, INTP will use its capital expenditure solely for terminal expansion in Palembang and mills maintenance (P14 Citeureup) as we noted INTP owns limited logistical dan distribution facility in Sumatera (2 seaport vs. SMGR: 7 packaging plants and 3 seaports). The terminal expansion enables INTP to shift its product to Sumatera in the event of frail sales performance in Java and smoothen its clinker delivery to SMBR. We maintain HOLD for INTP as its home market (W.Java) has still been haunted by severe excess capacity (31mt out of nation-wide excess capacity at 45.3mt).

ISAT: Indosat (ISAT IJ; Rp2,040; Hold) Meeting Takeaway;

- We expect 4Q18F revenue to post QoQ positive (in-line to our estimate), supported by data monetization and better network quality, although 4Q subscribers might still decline (but churn rate might be slower compared to previous quarters) due to behavior change as subscribers is in progress of adjustment with tightening in prepaid card regulation. Our 4Q18F number of subscribers is 64mn, still similar to 3Q18.
- The company aims to improve and recover top-line this year along with higher capex investment (company targets 2019F capex of Rp10.6tn, (37% higher than our estimate).
- Company plans to fund 2019F capex by combination of bond financing and internal cash. It plans to ask approval for continuous bond (PUB) totaling Rp10tn this year. As part of the PUB, ISAT will issue Rp2tn bond in 1Q19F with main purpose to finance 2019F capex. We have not included this additional debt in our forecast. This might caused weaker balance sheet than our estimate. Our net debt/EBITDA and net debt/equity in 2019F is 2.3x and 2.4x respectively (both still below covenant).
- Pak Hendri M. Sjam has joined Indosat as Chief of Sales and Distribution since November 2018. Previously, he worked in Telkomsel since 1995 with experienced including several management positions in Project Management (SVP), LTE, and network strategy, among others.
- Possibility of regulation on IMEI (International Mobile Equipment Identity) regulation in Indonesia has insignificant impact to telco as 80% of cellular handsets already use official distribution channel.
- Company denied speculation about possibility of acquisition ISAT by a foreign telco as mentioned in certain online news within last week.
- We have a Hold for ISAT with TP Rp2500. (Company).

PGAS: Perusahaan Gas Negara (PGAS IJ; Rp2,420; Buy) announced acquisition of PT Pertamina Gas (Pertagas) at the end of December 2018. The acquisition with total of Rp20.18 trillion is to be completed in two ways; Rp10.09 trillion or half of the total will be completed by bank transfer and the rest to be completed by issuing a promissory note to Pertamina. The promissory note is a six-month loan with interest of 8.41% per year. The acquisition price of Pertagas and its subsidiaries was originally 16.60 trillion but recently increased to Rp20.18 trillion. (Kontan).

SIDO: Industri Jamu dan Farmasi Sido Muncul (SIDO IJ; Rp825; Buy) allocated Rp100bn (2018: Rp300bn) capital expenditure mainly for maintenance on its production facility in 2019. Company also guided 10% sales growth for this year. (Bisnis Indonesia).

Comment: We forecast 2019 sales to grow at 10.6% which is slightly higher than management guidance in the light of the commencement of its production facility (COD II) that produces 100mn sachet per month that could penetrate product

presence in Modern Trade channel where SIDO's presence is particularly weak. We maintain BUY on SIDO with TP of Rp970/share. Currently, SIDO trades at 18.4x overall trailing P/E (28.8x on its core P/E) painting a mediocre valuation as it trades slightly above of its 7-yr P/E of 18x.

WSKT: PT Waskita Karya (WSKT IJ; Rp2,040; Buy) secured a construction of Jakarta-Cikampek (Japek) II South Toll section III spanning from Sadang to Taman Mekar (27.8km) with Rp3 trillion value (2.3% of our forecast of Rp130tn order book). This toll road is owned by a subsidiary of PT Jasa Marga with total length of 64km which is divided to six sections with the total investment value of Rp14.69 trillion, eying to commence its operation by 2020. (Investor Daily).

Market and Sectors

Automotive sector: Blue Bird (BIRD; Not rated) will revise their partnership with GoJek as the company stated that they open the negotiation with other platform, without mentioning any specific app hailing that expect to collaborate. BIRD expects to increase their fleet and change their sedan to Toyota Avanza Transmover. (Investor Daily).

Comment: We believe this is positive news for ASII especially for its Avanza Transmover. Avanza Transmover contributes 4% to total Avanza sales in 2018. The company has already sold 3,371 Transmover in FY18 (+55% yoy).

Coal sector: China continues safety inspection until March 2019 following accident in a private coal mine (annual production ~900k tons) in Shaanxi which killed 21 workers. All privately owned mines in Shenmu county were forced to suspend operations the day after the accident with mines in adjacent Fugu county (another large coal mining area) may also be subject to suspensions. Some market participants stated that the mining accident has also prompted some China's buyers to turn to the seaborne market pushing up import prices in recent days. (S&P Global).

Comment: This will lead to higher domestic China coal price particularly post the Chinese New Year in Feb'19. We note that currently China's domestic coal inventories (in power plants and ports) are relatively high at approximately equal to 19 days of coal burn as buyers are already anticipate upcoming Holidays and improve coal stocks. However we believe inventory will went down post the Chinese New Year Holiday when manufacturing activities are back to normal. UNTR remains our top sector pick with TP of Rp41,000.

Healthcare sector: The Ministry of Health has issued new *Permenkes no 51/2018*, as one of the strategy to suppress the BPJS deficit. There are 2 schemes of this Permenkes that will be applied to all non-subsidised members:

- Imposition of Rp10,000-20,000 fee per outpatient visit and co-payment up to Rp350,000 for outpatient maximum 20x in 3 months span.
- Co-payment at 10% or certain nominal with maximum of Rp30mio for inpatient. (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.

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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