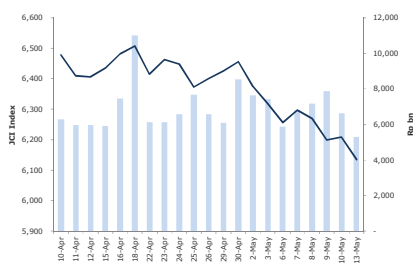


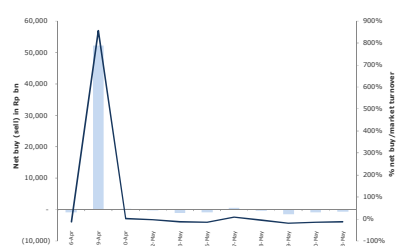
## Premier Insight

14 May 2019

## JCI Index



## Foreign net buy (sell)



## Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	6,135	-1.2%	3.2%	-1.0%
LQ45	961	-1.2%	-0.1%	-2.2%
DJI	25,325	-2.4%	1.7%	8.6%
SET	1,640	-0.5%	-7.5%	4.9%
HSI	28,550	0.8%	-8.3%	10.5%
NKY	21,191	-0.7%	-7.3%	3.9%
FTSE	7,164	-0.5%	-7.1%	6.5%
FSSTI	3,234	-1.2%	-9.2%	5.4%
EIDO	23	-3.5%	-6.9%	-5.5%

## Commodity price

Commodities	Last price	Ret 1 day	Ret 1 year
(in USD)			
Oil/barrel (WTI)	61.0	-1.0%	-13.7%
CPO/tonne	476.0	0.1%	-16.6%
Soy/bushel	7.6	-0.9%	-22.8%
Rubber/kg	1.6	-1.1%	-22.2%
Nickel/tonne	11,759	-1.1%	-16.0%
Tins/tonne	19,505	-1.6%	-7.3%
Copper/tonne	5,987	-2.0%	-13.3%
Gold/try.oz (Spot)	1,300	1.1%	-1.0%
Coal/tonne	85.6	-0.7%	-15.9%
Corn/bushel	3.3	1.2%	-10.7%
Wheat/bushel*	146.5	5.8%	-7.0%

\*: 1 month change

Source : Bloomberg

## News &amp; Analysis

## Corporates

**ACES:** Ace Hardware (ACES IJ; Rp1,625; Buy) reported sales of Rp646bn in Apr19 (+26.6% yoy; -0.3% mom) and Rp2.5tn cumulatively in 4M19 (+21.3% yoy). SSSG in April declined slightly to 5.6% (vs. Mar19: 5.8%; Apr18: 10.3%), mainly driven by a decline in Java ex Jakarta which recorded SSSG of 3.2% (vs. Mar19: 4.6%). 4M19 SSSG still stands at a healthy level of 7.5% (vs. 4M18: 12.8%), still mainly supported by Ex. Java recording SSSG of 9.7%.

**ERAA:** we just went to Erajaya's (ERAA IJ; Rp1,040; Not Rated) investor gathering, here are some of the key takeaways from the meeting:

- Globally, smartphone sales declined by -6% yoy in 1Q19, while China experienced a worse decline at -20% yoy.
- In Indonesia, smartphone sales are expected to be flattish in 1H19 due to political situation, but should expect a recovery in 2H19.
- Significant increase in black market products has affected ERAA's sales since 4Q18, which is still continuing into 1Q19. However, it is expected to improve going forward as the company is getting better deals from brand principals, which should reduce price disparity.
- The company is targeting 330 new store openings in 2019 and they have been appointed to manage Oppo's retail stores. This will add around 70 new stores on top of the 330 new stores planned for this year.
- Expansion will still be focused in 2<sup>nd</sup> and 3<sup>rd</sup> tier cities, as their presence in these cities is still minimal, so the company is seeing a lot of growth opportunities.
- The company already got the distribution rights for Juul, which will be announced in 3Q19. The brand is expected to be consolidated under ERAA but will not be sold in Erafone stores. (Company).

**SMGR:** We dissected 1Q19 results by organizing the meeting with management. Inter alia, our discussions gravitate on surged finance expenses (c. 8.7% of sales vs. 1Q18: 3.4%) and effective tax ratio (47% vs. 1Q18: 27%) in 1Q19. Meeting wrap up listed below:

- The final amount of syndicated loan (BNP-Deutsche-Maybank-MUFG-Standard Chartered) drew down by SMGR is at \$927mn (c. Rp13tn of which \$10mn apportioned for loan admin fees). In relation to recent MTO (c. Rp2.8tn), it is financed by internal cash and bank loan (Rp600bn) in which the interest payment on this loan is subject to non-deductible expenses based on Indonesian corporate taxation law.
- Semen Indonesia (SMGR IJ; Ro10,475; Buy) also indicates a refinancing on its syndicated-based offshore loan in 2H19 (with no prepayment penalty) as interest payment on this loan also subjects to non-deductible expenses due to its sole purpose of entire Holcim stake acquisition on SMCB which is unrelated to operational activities.
- We also saw a worsened operating cash flow (Rp464bn; -45% yoy) as it booked Rp177bn cash outflow in 1Q19 resulting from Holcim overpayment of tax assessment in FY17 (c. Rp25bn) due to difference in accounting depreciation and Rp146bn one-off loan admin syndication loan fees.
- SBI is still in process of acquiring SNI for several of its W. Java plant to legally gain permit of cross-bagging SMGR products in SBI facility (Naragong had acquired SNI). By the time all SBI facilities acquired SNI, it could save up to \$12/t. In addition, SMGR is to introduce new brand for Holcim instead of using existing SMGR brands.
- SMGR also informs several outlooks: (i) ASP hike of 2-3% in 2H19, (ii) 4% volume growth in FY19F (vs. 1Q19: -1.8% yoy), and blended utilization rate of 87% (vs. INTP: c.75%). (Company).

**PTBA:** Bukit Asam (PTBA IJ; Rp2,940; Buy) plans to obtain bank loan of approximately US\$168mn to finance coal-fired power plant project of 3 x 60MW and diesel power generation project of 3 x 17MW in Halmahera, North Maluku. PTBA and Aneka Tambang (ANTM IJ; Rp730; Not Rated) will form a Joint Venture for these projects with PTBA's ownership of 75%. Total capex for these projects are expected to reach US\$350mn which will be financed 64% from bank loans and 36% from equities. (Investor Daily).

*Comment: These would increase PTBA's exposure to the power generation industry. However, we believe the impact to PTBA's earnings would be limited, in our view. At this stage we maintain our Buy recommendation for PTBA with TP of Rp4,600.*

## Markets & Sector

**Cement Sector:** Semen Indonesia reported decelerated 4M19 sales volume (-5.8% yoy) while Holcim's 4M19 sales volume came flattish (+0.5% yoy) amid contracted industry environment in 4M19 (-3% yoy). Other important details are as follow

- SMGR's domestic sales volume was at 1.85mt in Apr'19 (-6.2% mom, -12% yoy) with total 4M19 sales volume of 7.8mt (-5.8% yoy) which is fairly in-line with our forecast (27%).
- SMCB's domestic sales volume was at 0.71mt (-7.8% mom, -10% yoy) forming a flattish 4M19 sales volume of 3.16mt (+0.5% yoy) which is in-line with our forecast (28%).
- Export sales of SMGR and SIB were at 0.29mt (+19% mom, +1.5% yoy) and 0.03mt in Apr'19 which brings total 4M19 exportation of 0.82mt (+39% yoy) and 0.14mt (-37% yoy). Altogether, SMGR exportation sums to 0.96mt (c.51% of Indonesia cement exportation).
- In terms of volume share, SMGR's 4M19 budged lower at 38% (vs. 1Q19: 38.2%) while SMCB's market share ticked down to 15.4% (vs. 1Q19: 15.6%). (Company).

**Infrastructure sector:** According to Minister of Transportation, the construction progress of Patimban Seaport has reached 25%. The phase-I soft opening will be delayed to November 2019, hopefully equipped with a car terminal (phase-I capacity: 600,000 vehicles). (Investor Daily, Bisnis Indonesia).

*Comment: We are positive towards the Patimban construction progress. We believe SSIA will be the key beneficiary of the Patimban Seaport completion as SSIA's Subang industrial estate will be the closest and largest industrial estate in the area.*

**Toll road sector:** Hutama Karya (HK) is now exploring some financing option for the construction of solicited Banda Aceh – Sigli toll road project on which 30% of total investment costs will be funded by government since this is a government-mandated project. Among the options available on the table, there are several banks stated its interest to give a loan to HK, namely Bank Mandiri, BNI, BRI, CIMB, Bank Mega, and Sarana Multi Infrastruktur. The progress has hit 37% and 2% for land clearing and construction progress (which is above government expectation) thus far and HK had injected Rp500bn equity portion for this toll road. (Bisnis Indonesia).

## Economics

**State budget:** The government mulls over plan to increase capital spending under state expenditure for 2020. The budget increase is to expand productivity capacity and connectivity development and will be financed through reduction in goods spending. There are three ministries that will be the focus area, namely Ministry of Public Works and Housing, Ministry of Energy and Mineral Resources, and Ministry of Communication and Information Technology. There has been no sure indication as to how much the increase discussed, but general guidance foretells a potential increase of 0.6% from all ministries budget. (Kontan).

*Comment: Positive news in medium term for construction, but potentially negative to growth as spending in goods will be reduced. News remain fluid as 2020 budget discussion remains ongoing and has yet to be submitted later this year*

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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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