

# Premier Insight

## Economic Update

### Maintaining stability

- **BI decides to maintain 7DRRR at 4.75%, as expected**
- **We believe high inflation this year would be one-off...**
- **...but consecutive events in 2Q17 might temporarily affect BI's decision on the reference rate**
- **Investors concern on budget revision and S&P's rating upgrade**

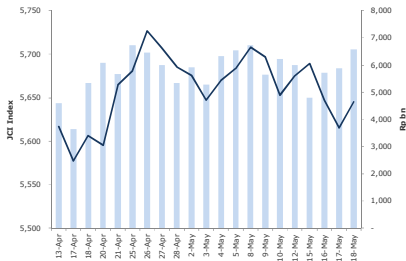
**BI holds rate.** The reference rate 7DRRR is maintained at 4.75% along with deposit and lending facility rates which are kept at 4% and 5.5%. These were all according to consensus expectation as well as ours, which had been expecting the reference rate to stay at 4.75%. To note, it has been the eighth consecutive time the central bank decided to maintain rate.

**Inflation unconvincing.** We come to believe that high inflation is going to be one-off this year due to administered prices increase, which should be less concerning. Yet, inflation rate was higher than expected in Apr17 of 4.17%, the highest in a year, mostly on electricity price increase. In Mar17, the government scrapped subsidy in a second-phase move for 33% subscribers of 900 VA power who were decided ineligible to accept subsidy. That coincided with a slight increase in the Indonesian Crude Oil Price of 1.9% by Apr17 had translated into higher energy prices (+10.7% yoy) in the month.

**Foreseen future events possible to alter BI's stance.** With current inflation, BI remains well within its usual ban of >25bps spread over the headline inflation, but we argue that it may revise its stance due to foreseen events. First one is another electricity subsidy removal which took place early this May17. Together with the start of fasting month *Ramadhan* and *Eid al-Fitr* celebration in May and Jun17 they should contribute to higher inflation in 2Q17. We believe electricity alone should contribute at least 0.2% to monthly inflation figure, which may or may not be spread over few months. The May17's subsidy removal would be the final removal, but we think the impact would be larger to energy prices as 23,04 million subscribers will now be exposed to unsubsidised electricity price. In addition, July is also the beginning of school term in Indonesia, of which inflation was usually recorded relatively high. Moreover, the Federal Reserves' plan to increase the Fed Funds Rate in Jun17 is imminent and cannot be negligible as well. Last month, we also highlighted a rising rate tendency emerging from global recovery, which should present more support to the argument.

**Investors concern.** Post the rate decision, investors concerns evolve around the possible budget revision that may take up soon and the extent whether S&P may upgrade Indonesian credit rating to BBB. The fiscal authority's response signals that with current budget assumptions, there should be no reason as to why the budget must be modified. However, it is believed that the fiscal agenda this year would be directed toward better allocation for quality spending, hence possible budget reallocation, in our view. In the S&P's case, although the central bank lacks disproof of why rating agencies should not put Indonesia among investment grade, a view which we also share, we think current political state of affairs might at least affect the timeline.

JCI Index



Foreign net buy (sell)



## News & Analysis

### Corporates

**ADHI:** Adhi Karya (ADHI IJ; Rp2,180; Buy) aims pre sales of Rp500bn from two Transit Oriented Development (TOD) projects in Sentul and Bekasi. Both projects will be located close to Light Rail Transit (LRT) train station. Company will build houses, shop houses and apartment in Sentul which will be targeted for middle to upper class while Bekasi will have more apartment towers with starting price of Rp500mn/unit. (Bisnis Indonesia)

**BSDE:** Bumi Serpong Damai (BSDE IJ; Rp1,705; Buy) through its subsidiaries, Global Prime Capital, will issue US\$70mn bond with interest rate of 5.5% p.a and mature in 2023. This is part of US\$200mn senior notes that to be issued gradually. Company has signed purchase agreement with Citigroup global market as initial purchasers and BSDE's affiliates, namely: Sinar Mas Wisesa, Sinar Mas Teladan, Sinar Usaha Marga, Mustika Candraguna and non affiliates: Garwita Sentra Utama, Pastika Candra Pertiwi, Sentra Talenta Utama, Sinar Usaha Mahitala, Prabas Selaras Pratama, Sentra Selaras Lestari, Bumi Sentra Selaras and Bumi Pramudita Mas. (Company, Investor Daily)

**SMGR:** According to Semen Indonesia's (SMGR IJ; Rp9,200; Hold) president director, Rizkan Chandra, cement demand is only expected to grow by 4% in FY17 with further pressure on pricing due to oversupply condition. It seems that infrastructure demand was not sufficient to induce growth in the property sector. Up to Apr17, cement demand only grew 3% yoy. Export cement remains relative low due to several oversupply condition within the region. (Bisnis Indonesia)

### Markets & Sector

**Coal sector:** Government of China released the guidelines for the coal mine types which become the target for capacity cuts; 1) zombie projects (mines under long-term loss including illegal mines), 2) mines with high rate of fatality (with high risk for accidents), 3) low capacity mines (of below 300k tons), 4) mines with low operational efficiency. The capacity cut, coupled with capacity expansion from big and efficient mines are expected to result in net capacity cut of ~150mn tons this year. China targets approximately 800mn tons of inefficient coal capacity replacement with 500mn tons of new capacity each year until 2020. (Platts)

*Comment: The impact of this policy will not create a sudden jump for coal price like what happen in 2016 when the government limit operational days which result in capacity cut of ~290mn tons. However, we believe the new policy will result in stable coal price between the range of \$65-\$75 per ton in 2H17. We maintain our coal price estimate of \$65/ton in FY17F-18F and reiterate our Buy rating for our top picks, ADRO (TP: Rp2,000) and UNTR (TP: Rp28,500).*

**Construction sector:** Angkasa Pura predicts capex for Tomang – Soekarno hatta new toll road to reach Rp9-10tn with estimated 21km in length. Company will invite several State Owned Enterprise (SOE), such as Waskita Karya (WSKT IJ; Rp2,230; Buy) and Jasa Marga (JSMR IJ; Rp4,800; Buy) to join the bidding. Angkasa Pura said the new toll road might be connected with high speed railway and has sent letter of interest to toll road committee (BPJT). (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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