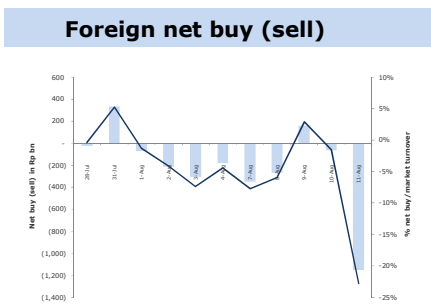
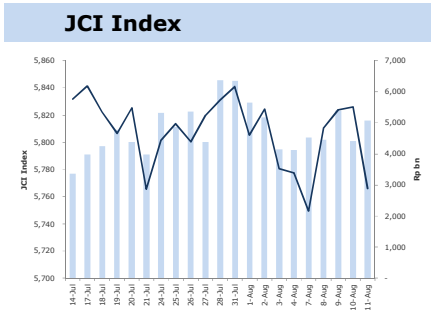


# Premier Insight

## Infrastructure Update

### Small steps of thousand miles

- **Priority infrastructures progress well, but many are yet to be done**
- **Funding breakthroughs for private sector should increase attractiveness**
- **Government support was fruitful for private, not so much for SOEs**
- **Positive scheme but concern for investors from 2018-19 political risk**



**Key Indexes**

Index	Closing	1 day	1 year	YTD
JCI	5,766	-1.0%	7.2%	8.9%
LQ45	956	-1.2%	3.7%	8.1%
DJI	21,858	0.1%	17.7%	10.6%
SET	1,561	-0.7%	0.6%	1.2%
HSI	26,884	-2.0%	18.1%	22.2%
NKY	19,730	0.0%	17.9%	2.1%
FTSE	7,310	-1.1%	5.7%	2.3%
FSSTI	3,280	-1.3%	14.4%	13.8%
EIDO	27	0.8%	1.3%	10.4%

**Commodity price**

Commodities	Last price	Ret 1 day	Ret 1 year
<i>(in USD)</i>			
Oil/barrel (WTI)	48.8	0.5%	12.3%
CPO/tonne	625.2	0.7%	8.0%
Soy/bushel	9.2	0.9%	-7.7%
Rubber/kg	1.9	-0.8%	2.6%
Nickel/tonne	10,616	-2.9%	-0.7%
Tins/tonne	20,420	0.1%	11.4%
Copper/tonne	6,383	-0.2%	31.9%
Gold/try.oz (Spot)	1,289	0.2%	-3.5%
Coal/tonne	95.8	-0.1%	41.2%
Corn/bushel	3.3	0.9%	9.2%
Wheat/bushel*	146.5	5.8%	-7.0%

\* : 1 month change

Source : Bloomberg

**Priority infrastructure progressed.** We met with the Committee for Acceleration of Priority Infrastructure Delivery (in short, KPPIP) for updates on infrastructure and have a positive overall impression on this administration's commitment for infrastructure procurement, despite the remaining setbacks in the implementation. To note, construction sector recorded growth of 7% yoy in 2Q17, the highest performing based on industry segregation. Putting in the context of GDP by spending, fixed investment grew by 5% yoy (vs 3.8% in 2Q16). From a total of 245 national strategic projects (PSNs) and two strategic programs valued at around Rp4,800tn, KPPIP has been responsible to oversee 30 priority projects (Fig.3). With only 41% state budget capacity to finance all PSNs, the rest of the financing should be shared among various schemes, namely business-to-business (a preferred scheme but is excluded from total value), Public Private Partnerships (PPPs) of 37% and SOEs appointment of 22%.

**Funding breakthroughs.** Introduction of funding schemes by the government should help increase project's attractiveness from private investors point of view. That includes offer of: (1) viability gap funding (VGF), which bridges upfront financing of up to 49% of the construction cost, (2) availability payment, which allows for annuity payment starting from operation, (3) land revolving fund to accelerate land acquisition of up to 49%. In addition to fiscal support, some other measures undertaken in the institutional and regulatory domains should encourage private sector to partake in the investment. Despite the potential benefits, the attribute through which the partnership is conducted in the last two years of Jokowi's administration (2018-19), i.e. where a project is taken into account until construction phase, may reduce the attractiveness as we believe investors may account a project as a whole set, from planning to completion.

**Private sector participation fared better than SOEs.** We think overall participation from private sector, based on realisation up to 2016, was very well performing in PSNs, although the same achievement was not represented in priority projects. Until 2016, private sector had contributed 67% from a total US\$39bn of funding realisation for 245 PSNs (Fig. 1). Assuming 49% funds comes from the government through VGF, AP and Land Revolving Fund, private investment contributed at least 34% which was an excellent achievement of 94% of target contribution of funding requirement 2015-2019. Some of the private-sector players in context include Medco Energi's in Umbulan water supply project and Adaro-Adhi Karya consortium's interest in Lampung drinking water supply or already 94% of estimate according to Medium Development Plan. Going forward, if the government could sustain this rate of contribution from private sector, we believe all PSNs could be realised as planned. As for the SOEs, achievement was still around 40% of estimate, less than half of the realisation earned by private sector. Unlike private sector whose calculation base is purely incentive, SOEs are distinct in their characteristic. Therefore, despite their current backlog we believe SOEs appointment to PSNs could provide a solution to increase their contribution.

**Positive but remain cautious.** Overall, we think the provided scheme from government is beneficial for all SOE contractors as they might be able to attract private investors through more attractive return on investment, though they might still need to spend significant capex for the project. We also have growing concern for lesser private investor appetite to take on more projects given upcoming presidential election in 2019. Our top picks in construction sector is PT Pembangunan Perumahan (PTPP IJ; Rp2,960; Buy) and Waskita Karya (WSKT IJ; Rp2,340; Buy) on the back of low gearing that will enable PTPP to take on more projects and short term upside risk for WSKT from its divestment of its toll road subsidiary.

## News & Analysis

### Corporates

**RALS:** Ramayana (RALS IJ; Rp945; Hold) reduces its FY17F sales growth target to 0.4% yoy (previous target: 8%), given the missed 1H results and no immediate catalyst in 2H17. By incorporating RALS new target, FY17F EPS growth should fell by -20% yoy. However, our sales growth target in FY17F still at 4% (a downgrade from 6% yoy previously) with -5% yoy EPS growth. (Bisnis Indonesia)

### Markets & Sector

**Automotive Sector:** Motorcycle sales hit 538k units in July17, rebounded strongly by 41% yoy due to normalized effective working days after Eid holidays. Cumulatively, total motorcycle sales were 3.2mn units still down by -9% yoy. This is the second consecutive year that motorcycle sales was down. (Investor Daily)

*Comment: This Jul17 numbers looks encouraging as monthly average was 464k units excluding Jun17 as it was disturbed by Eid Holidays. Nevertheless, high Jul17 numbers could driven by pent up demand from the previous month. We are not convinced that the growth momentum could last in the coming months*

**Cement Sector:** The cement association requests the Government to halt permits to build new cement plant. This year, the will be the new plants in operation, in Padang owned by Semen Indonesia (SMGR IJ; Rp10,675; Hold) with capacity of 2.5mn, one plant from Conch with capacity of 1.5mn in Manokwari Papua, and another one of 1.85mn tons of Semen Baturaja (SMBR IJ; Rp3,080; Sell) in South Sumatera. Total production capacity will reach 107mn tons with demand of only 65mn tons for FY17, which translate to an utilization rate of 60%. The association expects production capacity to hit 117mn tons in FY20. Therefore, current capacity should be sufficient for the next five years. (Bisnis Indonesia).

**Property sector:** President Joko Widodo will stimulate demand in property sector by accelerate property license for developers. President also promised to review license difficulties in selected area. So far, government has simplified licenses permit from 33 licenses to 11 licenses as well as giving tax incentives through real estate investment trust (REIT). (Investor Daily)

*Comment: This is positive for property sector as it appears government is supportive to improve property demand. Reiterate BUY on BSDE and CTRA as our top picks.*

### Economic

**Current Account and BOP:** BOP in 2Q17 recorded a surplus of US\$0.74bn (vs US\$2.16bn in 2Q16) supported by surplus in the Capital and Financial Account of US\$5.9bn. Current account deficit was US\$1.96bn, lower than 2Q16 (US\$-2.25bn) or 1.96% of GDP as net exports were improving and capital and financial account was higher due to higher foreign direct investment.

*Comment: Overall we think BOP was showing healthy improvement vis-à-vis last year, despite recording less overall balance. We will review this more thoroughly in our report due to launch today.*

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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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