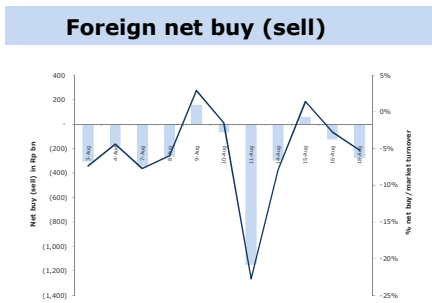
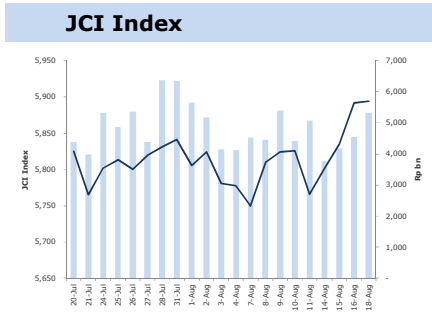


Premier Insight

Economic Update

Budget of multiple arrows

- **2018 budget was launched with moderate expansion in general**
- **We observe growth next year will be highly dependent on govt stimulus**
- **Infrastructure will be a double-edged sword, to also narrow inequality gap**
- **...and revenue generation remains a concern, but AEOI will be a catalyst**



Index	Closing	1 day	1 year	YTD
JCI	5,894	0.0%	8.8%	11.3%
LQ45	982	0.0%	5.5%	11.1%
DJI	21,675	-0.4%	16.8%	9.7%
SET	1,567	-0.2%	1.8%	1.5%
HSI	27,048	-1.1%	17.9%	22.9%
NKY	19,470	-1.2%	17.7%	1.7%
FTSE	7,324	-0.9%	6.8%	2.5%
FSSTI	3,252	-0.5%	14.3%	12.9%
EIDO	27	1.0%	2.3%	12.3%

Commodities	Last price	Ret 1 day	Ret 1 year
Oil/barrel (WTI)	48.5	3.0%	0.6%
CPO/tonne	624.9	0.9%	4.1%
Soy/bushel	9.2	0.5%	-10.1%
Rubber/kg	1.9	0.0%	6.1%
Nickel/tonne	10,929	2.4%	6.1%
Tins/tonne	20,365	0.3%	10.6%
Copper/tonne	6,452	-0.1%	34.6%
Gold/try.oz (Spot)	1,284	-0.3%	-4.3%
Coal/tonne	98.3	0.3%	46.6%
Corn/bushel	3.3	0.6%	1.9%
Wheat/bushel*	146.5	5.8%	-7.0%

* : 1 month change

Source : Bloomberg

Moderate budget expansion. We believe the 2018 budget launched this week with 8% increase in revenue (against 2017's realisation outlook) and 5% spending is moderate, although the more aggressive expansion had been witnessed in 2017, which may explain as to why the increase this year was milder. We think the government aims to set a lower expectation and anticipates a better performance, as what 2017's outlook might suggest with expected higher spending absorption of 101% and minimal budget revision.

Stimulus dependent. With growth next year is expected to reach 5.4%, we believe it is fiscal stimulus that should play major part. To note, government consumption is expected to increase by 3.8% and investment of 6.3%. Despite the rather conservative growth level, to accomplish such targets will require a lot of things to be achieved, notably as government spending hardly reached an annual average of 1% within the last two years and the current regime where expenditure is directed toward quality spending. We believe the government would be key player in both spending and investment as 2018 will see some projects completion due to the hosting of Asian Games and joint regional elections in some 171 regions including provinces and sub-provinces (district or city); the success of government will determine growth performance next year.

Narrowing inequality. Infrastructure spending, which is earmarked at Rp409tn (up 5%), will be much to rely on as in addition to growth and connectivity issue, it is due to deliver another objective that is promoting equality. A set of projects such as procuring drinkable water, sanitation, housing development and handling of slum areas belong to the infrastructure focus in 2018, along with other national strategic project such as in maritime and connectivity, and are believed to help narrowing the inequality gap. Despite promising a good secular growth trend in the long run, we are cautious as to whether all objectives will be served, particularly as these projects might not bring quick spillover to the economy. The success of government in enacting all its aspirations will be an object of interest next year. In terms of means, a higher proportion of infrastructure funds will be disbursed through ministry (and line ministries) and infrastructure support, whereas there seems lower state injection, earmarked at Rp6tn. This should impact SOEs albeit in limited fashion as SOEs can still benefit from facilities provided by the government when procuring strategic projects (*read: Small steps of thousand miles*).

Revenue generation still a concern. We continue to remain vigilant on revenue generation next year on tax revenue concern, despite improvement in tax revenue this year and despite moderate target set (+9.3%). The reason would be a long and tedious way to reform in Directorate General of Tax, which is believed to boost the tax performance but has only seen small progress so far. A catalyst, however, would emerge from the Automated Exchange of Information regime that will commence next year, where Indonesia should partake. This regime would help the government to push for tax submission, provided other assumptions such as tax auditor capacity, IT availability, are available.

Refer to Important disclosures in the last page of this report

Fig. 1: Budget comparison 2017-18

	2017				2018 State budget	
	State Budget	Revised State Budget	Outlook realisation	% change	Rptn	% change
A. REVENUE	1750	1736	1736	12%	1878	8%
A1. Domestic Revenue	1749	1733	1733	12%	1877	8%
Tax revenue	1499	1473	1473	15%	1609	9%
Oil and gas tax revenue	36	42		16%	36	-14%
Non-oil and gas tax revenue	1272	1242		16%	1379	11%
Excise tax and other levies	191	189		6%	194	3%
Excise tax	157	153		7%	155	1%
A2. Non-tax revenue	250	260	260	-1%	268	3%
Grants	1	3	3	-66%	1	-61%
B. EXPENDITURE	2081	2133	2099	13%	2204	5%
Central govt	1316	1367	1343	16%	1443	7%
Ministries spending	764	799	769	12%	814	6%
Non-ministries spending	552	568	574	22%	629	10%
Local and regional transfer	765	766	756	6%	761	1%
C. PRIMARY BALANCE	-109	-178	-144	15%	-78	-46%
D. % SURPLUS/ BUDGET DEFICIT	2	3	3	7%	2	-18%
E. FINANCING	330	397	362	8%	326	-10%
Debt financing	385	461	427	6%	399	-7%
Bond emission	400	467	433	6%	415	-4%
Investment financing	-48	-60	-60	-33%	-66	10%
Loan	-6	-4	-4	-318%	-7	81%

Source: MoF, Indo Premier

News & Analysis

Corporates

TOWR: Sarana Menara Nusantara (TOWR IJ; Rp4,580; Buy) has released its 1H17 financial result which was below our expectation due to higher than expected interest expenses. Overall, operationally the result was inline with our expectation.

- Total revenue increased 9.1% yoy in 1H17 and 1.3% qoq in 2Q17, mainly supported by new revenue stream from additional equipment. Total tenants dropped to 24,396 tenant (-1.3% yoy) due to divestment of towers in Netherland and lease expiry. Nevertheless, gross additional new tenants was 753 tenants.
- Total tower was 14,614 towers (-1.1% yoy) purely driven by divestment in Netherland. Net additional tower in the past 12 months was 99 new towers. This led to a tenancy ration of 1.67x, relatively unchanged compared to last year.
- EBITDA grew 7.6% yoy in 1H17 and 0.2% qoq in 2Q17, with EBITDA margin of 85.9% a slight drop from last year affected by sale of Netherland tower.
- Meanwhile, net income fell -3.9% yoy and -3.5% qoq, mainly affected by other incomes. At the moment we maintain our Buy call on the counter.

Rp bn	1H17	1H16	%	2Q17	1Q17	%	FY17	%
Turnover	2,643	2,423	9.1	1,330	1,313	1.3	5,508	48
EBITDA	2,270	2,109	7.6	1,136	1,134	0.2	4,810	47.2
Operating Profit	2,031	1,890	7.5	1,019	1,012	0.6	4,317	47
Net Int. & Invest. Inc.	(326)	(253)	28.6	(154)	(172)	-10.8	(516)	63.2
Forex gain (losses)	-	-	nm	-	-	nm		
Except. & Others	(10)	150	nm	(35)	26	nm	80	
Group Pretax	1,695	1,786	-5.1	830	866	-4.2	3,881	43.7
Taxation	(419)	(458)	-8.5	(203)	(216)	-6.2	(970)	
Minorities			nm	-	-	nm	na	
Net Profit	1,276	1,328	-3.9	627	649	-3.5	2,911	43.8
EBITDA margin	85.9%	87.0%		85.4%	86.3%		87.3%	

Source: Company

MPMX: Mitra Pinasthika Mustika (MPMX IJ; Rp830; Buy) has secured two tranche term loan of Rp1.9tn and Rp1.2tn (total: Rp3.2tn), to refinance the Rp2.6tn senior loan issued at 2014. (Bisnis Indonesia)

WSKT: Waskita Karya (WSKT IJ; Rp2,290; Buy) booked new contract of Rp37tn in 7M17 which represents 61% of FY17 target. Company maintains its revenue and earnings target unchanged at Rp45tn and Rp3.5tn. (Bisnis Indonesia)

Comment: WSKT's new contract might exceed its FY17 target given stronger seasonality for new contracts in second half. We think company's earnings visibility remain intact if the divestment of WTR to be completed in September 2017. Reiterate BUY at Rp3,100/share.

Markets & Sector

Automotive sector: Total 4W sales was 85k units in Jul17 (+37.5% yoy and +28.2% mom) supported by normalized working days post Eid holidays. Cumulatively, total 4W grew +4.2% yoy to 619k units up to Jul17. After 8 days, the Gaikindo autoshow seems to exceed last year's number of total visitors of 450k and total transaction of Rp6.1tn. Mitsubishi posted record sales with its new model Mitsubishi Xpander to book around 3500-4000 units. Usually Low MPV segment sales could reach this number for a month. Nevertheless, this is a new product of which its sales sustainability need to be proven. (Bisnis Indonesia)

Consumer sector: Commodity analysis firm, F.O. Licht GmbH forecasts global sugar surplus of ~8mn tons in 2018 on the back of production recovery in Asia and increasing production in Brazil and Europe. Brazil is expected to produce an additional of 2.5mn tons of sugar in 2018, allowing the country's sugar production to reach 40.3mn tons (+6.6% yoy). Brazil is the largest sugar producer with ~20% market share in global market. Sugar consumption is expected to reach 184mn tons in 2018. (Bisnis Indonesia)

Comment: With sugar surplus, we believe sugar price will decrease next year which will be positive for F&B producers which use sugar as their raw material, i.e. Kino Indonesia (KINO IJ; Rp1,820; Hold), Mayora Indah MYOR IJ; Rp1,980; Sell), Indofood CBP (ICBP IJ; Rp8,700; Hold).

Rice Sector: Government is still in the discussion process to set a price cap (HET) for medium and premium rice. According Contact Farmers and Fisherman Mainstay (KTNA), the enactment for HET is aimed to control inflation. This policy is considered to have less effect on the farmers because the farmers have been protected by government purchase price (HPP). HET policy will more likely affect traders due to lower margins. Recently Bulog has raised the price (+10%) of dry grain harvest to Rp4,070. (Investor Daily)

Head Office

PT INDO PREMIER SEKURITAS

Wisma GKBI 7/F Suite 718

Jl. Jend. Sudirman No.28

Jakarta 10210 - Indonesia

p +62.21.5793.1168

f +62.21.5793.1167

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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