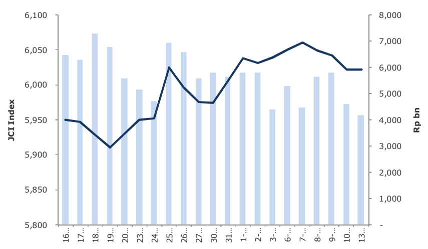
INDOPREMIER

Premier Insight

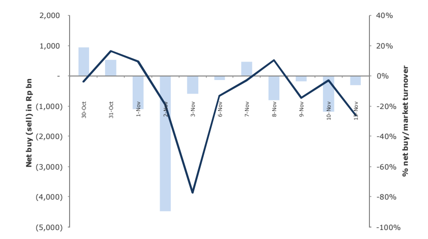
14 November 2017

FDI: after "Invest in remarkable Indonesia"

JCI Index



Foreign net buy (sell)



Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	6,021	0.0%	17.7%	13.7%
LQ45	1,001	0.0%	17.1%	13.2%
DJI	23,440	0.1%	24.2%	18.6%
SET	1,687	-0.1%	14.8%	9.3%
HSI	29,182	0.2%	31.3%	32.6%
NKY	22,381	-1.3%	26.6%	17.3%
FTSE	7,415	-0.2%	9.8%	3.8%
FSSTI	3,420	-0.1%	22.7%	18.7%
EIDO	27	-0.3%	14.3%	10.7%

Commodity price

Commodities	Last price	Ret 1 day	Ret 1 year
(in USD)			
Oil/barrel (WTI)	56.8	0.0%	30.8%
CPO/tonne	658.2	-1.3%	-7.2%
Soy/bushel	9.4	-1.6%	-3.9%
Rubber/kg	1.7	-0.2%	-17.4%
Nickel/tonne	12,432	3.1%	11.4%
Tins/tonne	19,606	0.4%	-8.8%
Copper/tonne	6,861	1.6%	23.8%
Gold/try.oz (Spot)	1,278	0.2%	4.7%
Coal/tonne	97.8	0.2%	-11.0%
Corn/bushel	3.1	-0.3%	-3.7%
Wheat/bushel (usd)	424.3	-1.7%	5.3%

Source : Bloomberg

- **Reading show surplus in BOP & improvement of CAD at 1.65% of GDP**
- **CA improvement was supported by improving trade balance**
- **FDI was highly achieving, offsetting portfolio investment**
- **Reserves bulked up by 8.7% ytd along with better external balances**

Narrowing deficit. We believe the balance of payment (BOP) data retrieval late last week was positive as BOP recorded an overall surplus of US$5.36bn on improving current account deficit (CAD) and capital and financial account (KFA). The extent where overall BOP remained 6.1% lower than last year's was merely due to statistical discrepancy. Current account deficit was 1.65% of GDP in 3Q17 and stronger by 15% than last year's position. This came in the same occurrence of better capital and financial account recorded in the quarter.

CA improvement on trade. The better current account was due to enhancing goods trade (35% yoy), which offset wider deficit recorded in service trade balance. Both segments in the goods trade balance were improving, where non-oil and gas improved by +26.2% yoy and oil and gas trade reduced its deficit by 4%. Whereas for service, even with widening deficit we believe trade remained positive as exports grew higher than last year, at 8.8% yoy rate. Travel remained the largest positive contributor in service trade, generating US$869mn, whose growth was an unfortunate -4% yoy, despite was still in the momentum to peak up before year end.

More FDI flow. Of the overall positive reading in the BOP, we note foreign direct investment flow in 3Q was among the most achieving. With last year's growth already a threefold on annual basis, there was more to realise last quarter and growing by 2.6% yoy. The third-quarter's FDI was record high at least within the last five years; it was also higher than the portfolio investment by 1.7x, indicating a more-steady stream of investment has recently exceeded another one, which was more volatile and unsteady. Just recently, Indonesia also picked up on its rank in the World Bank's Ease of Doing Business to 72nd from initially 91st, which remains some distance away from the president's target of being at 40th. With continuous improvement fundamentally and structurally, we should expect FDI's flow to augment in line with the development.

Higher reserves. Given both improvements in current account and capital and financial account, foreign reserves registered 12% yoy increase by 3Q at US$129.4bn (8.7% ytd). This came in line with some external sustainability indicators, which were also improving, such as lower foreign short-term debt-to-reserve ratio, at 42.8% (vs 50.4% 3Q16) and total foreign debt-to-reserve ratio, declining at 266% (from 284% last year). All in all, we believe this year will see continued external balance improvement brought since last year.

Fig. 1: Summary of BOP

	3Q17	3Q16	% growth 3Q17
Current Account (US$bn)	**-4.34**	**-5.10**	**-14.9**
Goods Net Export (US$bn)	5.30	3.92	35.2
Service Net Export (US$bn)	-2.20	-1.63	35.0
Capital & Financial Account (US$bn)	**10.44**	**9.90**	**5.5**
Portfolio investment (US$bn)	4.07	6.56	-38.0
FDI (US$bn)	6.75	6.58	2.6
Overall BOP (US$bn)	**5.36**	**5.71**	-6.1
Foreign reserves (US$bn)	**129.40**	**115.70**	**11.8**
CA Deficit (% of GDP)	**-1.65**	**-2.09**	**-21.1**

Source: Bank Indonesia, IndoPremier

News & Analysis

Corporates

INTP: Indocement (INTP IJ, Rp , Sell) held an conference call to explain about their 9M17 result. The highlights were as follows:

- Company expect demand to reach 7% in FY17 a healthy turnaround driven by infrastructure demand. Nevertheless, Indocement only expects a growth of 5-6% in FY18, a moderate slow down due to election year.
- Recent increase in coal price has directly affect production cost as there are no long term contract available. Indocement will maximize P14 to compensate rising energy cost. The cost saving from running P14 is expected to reach US$6-7/ton in FY18. Nevertheless, this plant will also be fully depreciated which will affect gross margins but not EBITDA.
- Indocement is looking for possible acquisition as the balance sheet allows to do so. However, plants for acquisition do not come cheap and still not at level where Indocement will be interested. Difficulties to build a new plant, such as experienced by Semen Indonesia, provides appetite for acquisition.
- Rajawali as a fighting brand is expected to contribute 3-5% of total sales volume in FY18, from currently of 1-2% in FY17. Bear in mind, Rajawali brand was effectively available in 2H17.
- Demand growth is potentially coming from Java and Sumatera. To anticipate higher growth Indocement build new cement terminal in Lampung and Palembang. This should be bad news for Semen Baturaja, as these two areas are the main market for Semen Baturaja.
- We maintain our Sell recommendation on the counter as fundamentals do not support the current share price.

ARNA: Arwana Citramulia (ARNA IJ; Rp366; Not Rated) plans to expand their production capacity in Plant IV Palembang by 7mn sqm per annum to reach 15mn sqm per annum. The expansion process is scheduled to start on 1Q18, by preparing capex of Rp200bn for the production machine, while the land for the plant is already owned. The expansion is expected to increase revenue portion from ceramic sales to 45% (vs. 9M16: 41%) in FY18. In addition, the expansion is also aimed to reduce transportation cost by 8-10% from product's cost. (Kontan)

MEDC: Medco Energi Internasional (MEDC; Rp785; Buy) allocates US$3.39mn to fund their exploration activities in its two blocks, Rimau and South Sumatera. The company will spend 46.9% of the total allocated fund for South Sumatera block (this block just received PSC contract renewal up to 2033). (Bisnis Indonesia)

Comment: We foresee that MEDC will intensify their exploration activity in 2017/18F as oil price tend to inching up going forward. Currently, Rimau and South Sumatera contribute 12.5% and 22.9% of MEDC's total production in 1H17.

Sectoral

Infrastructure sector: Japan and Indonesian government has signed a loan memorandum for Patimban Seaport development worth Rp14.18tn. The memorandum has three clausal: 1. interest rates of 0.1% (plus years of consulting service of 0.01%) 2. Payback period of 40 years, and 3. Binding procurement conditions. The government is aimed to complete the tender process by March 2018 and finished the construction of the phase I by March 2019. (Kontan)

Comment: The increase certainty of development of Patimban seaport, will positively impacted SSIA, as SSIA's Subang project is the first licensed industrial estate near the seaport. We believed, SSIA's RNAV value would grow further (+21%) in the long run upon the completion of the seaport. In addition, the seaport will also provide a construction work for NRCA for the construction of Subanng-Patimban tollroad. Maintain Buy on SSIA.

Electricity use: The Ministry of Energy and Mineral Resources along with the state electricity company PLN have recently embarked on the idea to simplify household groups of electricity subscribers for the non-subsidised 900 VA, 1300 VA, 2200 VA, 3300 VA to be put in one group of maximum 4400VA; whereas subscribers within 4400VA-12,600VA will be eligible to use up until 13,000VA. For household above 13,000VA will have unlimited capacity. The capacity increase will be undertaken gradually until Jun18 and provided free of charge by PLN. (Detik, Kontan)

Comment: The simplification will present most impact to the non-subsidised 900VA customers as they will be put in one customer bracket with the higher subscriber groups (from Rp1352/kwh currently to Rp1467.3/kwh). However, PLN President Director Sofyan Basir has negated that this group will be included in the simplification plan. With the simplification, we believe future tariff adjustment would be done more progressively (only two tariffs currently apply) and despite that electricity bill will be dependent on usage, the increased capacity would encourage households to use more and should increase spending on utilities going forward. As it is believed that some middle lower customers also belong in the 1300 VA group and considering what happened earlier this year with the lower economic class purchasing power, we are cautious that the measure will generate extra strain to consumption.

Cement Sector: In Oct17, cement volume was 6.8mn tons (+12.5% yoy, +3.7% mom) showing strong growth momentum supported by Java area that grew +17.0% yoy (vs ex-Java +7.4% yoy). Cumulative volume was 54.2mn (+7.3% yoy) with bulk sales growing +11.7% yoy while bags only grew +5.7% yoy. Overall bags vs bulk was in a proportionof 76:24. Indocement's sales volume stood at 1.7mn tons (+9.3% yoy, +3.7% mom) in Oct17. Market share of Indocement continue to fall to 24.8% in Oct17 (vs 25.5% in Oct16). YTD Oct17, sales volume of Indocement was13.8mn tons (+4.0% yoy) with market share at 25.4% (vs 26.2% up to Oct16).

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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.