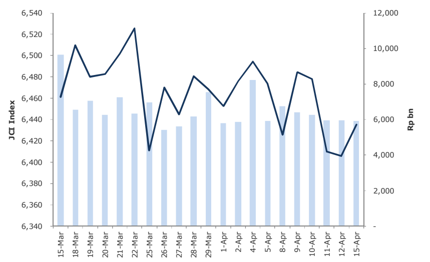
INDOPREMIER

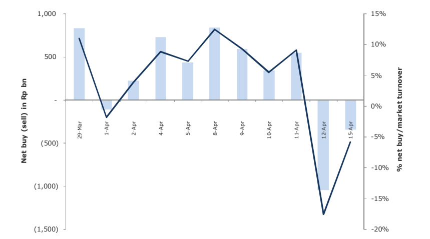
Premier Insight

16 April 2019

JCI Index



Foreign net buy (sell)



Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	6,435	0.5%	2.4%	3.9%
LQ45	1,013	0.5%	-1.4%	3.1%
DJI	26,385	-0.1%	7.4%	13.1%
SET	1,660	0.1%	-6.0%	6.2%
HSI	29,811	-0.3%	-1.7%	15.3%
NKY	22,169	1.4%	1.5%	11.1%
FTSE	7,437	0.0%	3.3%	10.5%
FSSTI	3,326	-0.2%	-4.9%	8.4%
EIDO	26	0.9%	-5.2%	5.0%

Commodity price

Commodities	Last price	Ret 1 day	Ret 1 year
(in USD)			
Oil/barrel (WTI)	63.4	-0.8%	-5.9%
CPO/tonne	525.6	-1.1%	-9.9%
Soy/bushel	8.6	0.4%	-16.6%
Rubber/kg	1.6	-1.1%	-22.2%
Nickel/tonne	12,908	-0.3%	-7.1%
Tins/tonne	20,690	-0.1%	-2.0%
Copper/tonne	6,452	-0.2%	-5.1%
Gold/try.oz (Spot)	1,288	-0.2%	-4.3%
Coal/tonne	84.4	0.2%	-9.7%
Corn/bushel	3.4	0.6%	-6.4%
Wheat/bushel*	146.5	5.8%	-7.0%

** : 1 month change*

Source : Bloomberg

Economic Update

Considerate gain in trade

- **Trade generated surplus for the second consecutive month.**
- **Enhancement came from both OG and NOG trades.**
- **Albeit deficit, 1Q19 trade had solid underpinnings.**
- **We project 1Q19 CAD at 2.84% of GDP.**

Second consecutive surplus. Trade booked in a US$0.54bn surplus for the second month in 1Q19, against consensus' deficit expectation. Exports enhanced by c. 11.7% and imports 10.3%, which represent better trade as the two evidences reversed previous trajectory, where exports and imports steadily declined in the four months prior to Mar19, as impact of both global market condition and domestic policy. Trade deficit in 1Q19 had by now registered US$-0.19bn and 162% weaker than a year before. Nonetheless, we believe the path where trade gradually improved was positive indication of its underpinnings, which should reduce the burden to current account deficit this quarter and this year, if persistently occurring.

Stronger OG and NOG trades. Mar19's trade enhancement was attributable to improvement in both OG and NOG trades. While deficit in the OG trade was reduced by 5.4%, the surplus in NOG trade also increased by 23% mom to record US$0.98bn, a level unattained since 3Q18. Volume wise, imports had significantly reduced by 21.4% yoy in 1Q19 (or -11.9% mom and -32.4 yoy in Mar19) in the OG segment, following a similar downward course in OG exports, which should partially reflect the B20 implementation. In NOG trade, improvement materialised as there were larger exports in coal, iron and steel, as well as paper and petrochemical products; all of which corresponded to increase in manufacturing products (+9.5% mom), which was positive as it underwent its first positive trend in the year.

1Q19 smaller deficit. Where 1Q19 deficit remained a sizeable US$0.19bn, the future of it should be brighter, provided consistent improvement in its underpinnings. Fundamentally, 1Q19's trade deficit was positive in light of 1) Gradual improvement in OG and NOG trades, which was mostly driven by larger exports, 2) The extent where real trades remained positively growing (exports: 10% yoy; imports 0.8% yoy), despite lower aggregate prices (exports: -16.8% yoy; imports: -8.3% yoy), and 3) Import reduction, which mostly took place in consumer goods (1Q19: -14.3% yoy) rather than raw materials or capital goods (To note, imports of all goods categories had been positive again in Mar19 with better trade in the month).

Impact to CAD. With last year's capital outflow triggered by concerns evolving on Indonesian current account deficit (CAD), we view a similar risk should deteriorate as an impact of less tightening emerging in the US and notably given latest update in the Indonesia's trade balance. Bank Indonesia in coordination with the fiscal authority made it an objective to narrow the CA gap to below 2.5% of GDP. Assuming for 5.11% GDP growth in 1Q19, we estimate CAD to be 2.84% of GDP in 1Q19. Although this was substantially wider than 1Q18's -2.07%, it should be considerate gain against 4Q18's CAD at -3.56% of GDP. A consistent improvement should help form stronger CAD, and thus support an achievement of BI's objective this year.

Fig. 1: Mar19's trade overview

	Mar19 US$bn	Mar19 change% mom	Mar19 change yoy
Export	**14.0**	**11.7**	**-10.0**
Export oil and gas	1.1	-1.6	-18.3
Export non-oil and gas	12.9	13.0	-9.2
Export Manufacturing	10.3	9.5	-8.1
Export Agriculture	0.3	15.9	-15.4
Export Mining	2.4	31.3	-3.9
Import	**13.5**	**10.3**	**-6.8**
Import oil and gas	1.5	-2.7	-31.2
Import non-oil and gas	12.0	12.2	-2.3

Source : Statistics Indonesia, IndoPremier

News & Analysis

Corporates

AALI: Shareholders of Astra Agro Lestari (AALI IJ; Rp12,300; Buy) agreed to distribute dividend of Rp648bn or 45% of FY18 net profit. AALI had distributed interim dividend of Rp216bn or Rp112 per share in Oct'18. The remaining final cash dividend of Rp224 per share (yield: 1.8%) will be distributed in May'19. The company targets palm oil replanting of 5,000ha for FY19 (vs. 5,150ha in FY18) with realization of 200ha in 1Q19. AALI allocates capex of Rp1.6-1.7tn for FY19 which will be use for replanting, nurturing immature plants, infrastructure maintenance and additional mill capacity. AALI constructed new palm oil mill with capacity of 45 ton per hour (tph) in South Kalimantan which had commenced operation in Feb'19, currently AALI operates palm oil mills with total capacity of 1,525tph. Management of AALI indicates CPO production increased 4-6% yoy in 1Q19. (Kontan, Bisnis Indonesia).

Comment: AALI's 1Q19 earnings would likely increase qoq but dropped yoy as we note that palm oil price increased 4.4% qoq but down 19% yoy in 1Q19. At this stage, we maintain our Buy recommendation for AALI with TP of Rp15,500.

ADHI: Adhi Karya (ADHI IJ; Rp1,695; Hold) target Rp37.7tn infrastructure projects this year, among others from Solo-Yogyakarta tollroad, loop line and dam. For the loop line project, it will be a consortium with WIKA and JKON, with total investment of Rp15tn. The loop line will be 24km long and should begin construction in 2020. Meanwhile for Solo-Yogyakarta toll road (160km) with total investment of Rp21tn, ADHI together with Gama Group are waiting for the tender announcement this year. Lastly, for dam projects, ADHI together with Korean Water Resources Corporation (K-Water) and LG International aim for Rp1.7tn dam project contract in Banten. In other note, ADHI targets Rp4.5tn from IPO of its 2 subsidiaries, Adhi Commuter Property (ACP) and Adhi Persada Gedung (APG). (Investor Daily, Kontan).

Comment: We remain neutral about the news as most are still in tender process. As for now, we maintain our hold call for ADHI.

ADRO: Adaro Energy (ADRO IJ; Rp1,285; Buy) continues its diversification in utility sector (power and clean water). ADRO's subsidiary in power sector, Tanjung Power Indonesia (TPI) had almost completed its power generation development with capacity of 2 x 100MW and 99% completion as of Dec'18. These power generators are expected to commence operation in 1H19. The construction of Bhimasena Power Indonesia's (BPI) power plant (Batang, capacity: 2 x 1,000MW) had reached 60% completion and expected to commence operation in 2020. Additionally, ADRO currently operates clean water infrastructures with capacity of 1,220 liters per second, which expected to further increase to 2,000 liters per second by end of 2019, recently ADRO with Adhi Karya won the tender of Dumai, Riau clean water project with capacity of 450 liters per second. (Bisnis Indonesia).

Comment: Currently, coal mining remains the largest contributor for ADRO's EBIT. However, we like the company's consistent expansions beyond thermal coal industry. We reiterate our Buy recommendation for ADRO with TP of Rp1,800.

AUTO: Astra Otoparts (AUTO I; Rp1,585; Not Rated) recorded a revenue of Rp3.94tn (+2.7% y-y) translating into gross profit of Rp544.93bn (+8% y-y) or a gross profit margin of 13.8%. The company recorded the bottom line of Rp159.17bn (+9.02% y-y). (Bisnis.com).

ERAA: We recently had a company visit to Erajaya (ERAA IJ; Rp1,535; Not Rated), here are some of the key takeaways from the meeting:

- In FY18 strong top line growth was mainly driven by volume (+30% yoy), albeit there was also an increase in ASP of around +13% yoy.
- Sales contribution in terms of brands, are still led by Samsung, but was closely trailed by Xiaomi in second place. Significant growth can also be seen from Oppo and Huawei.
- Demand for smartphones priced below Rp3 mil is growing rapidly and is currently the bulk of the sales.
- Significant improvement in 4Q18 margin was mainly due to low base 3Q18 margin caused by aggressive promotions and clearance which dragged down GPM.
- In 2019 the company is targeting to open around 300-330 new stores, which was relatively higher compared to last year's store opening of 212 stores.

- Inventory days and cash cycle is expected to improve this year due to change in agreement with Xiaomi.
- The company declined to comment on the recent news that they will distribute JUUL in Indonesia. JUUL is an alternative electronic cigarette that packages nicotine from leaf tobacco into single use cartridges.
- The management has not given any guidance for 2019, as they are waiting post-election.
- 1Q19 performance is expected to be relatively soft due to election and political uncertainties, as people are holding back their spending. (Company).

EXCL: XL Axiata (EXCL IJ; Rp2,770; Buy) parthners with Ericsson's Internet of Things (IoT) Accelerator and connectivity management. This will enable EXCL's enterprise subscriber to manage and track their IoT's device and asset using integrated connectivity management. (Berita Satu, Kontan).

Comment: Neutral for now to EXCL as we expect insignificant impact of data usage from IoT as we view IoT industry in Indonesia might still be in the early development stage. We have a Buy for EXCL with TP Rp2800.

INCO: Vale Indonesia (INCO IJ; Rp3,370; Buy) recorded weak operational performance in 1Q19 with nickel matte production of only 13,080 tons, down 36% qoq and 24% yoy due to planned maintenance activities related to the Larona Canal Relining, plant shutdowns and unplanned electric furnace issues. (Company).

Comment: We are reviewing our forecasts for INCO given this weak 1Q19 operational performance.

JSMR: Jasa Marga (JSMR IJ; Rp6,125; Buy), in collaboration with Mandiri Investment Management, launched the first infrastructure funds (D-INFRA) in which JSMR's Gempol – Pandaan is put as the underlying asset. This investment product paves a way for JSMR to elusively divest its stake in Gempol – Pandaan toll road to 40% (from 92%) with the premise that JSMR could exercise a call option in which JSMR is allowed to buy back 10% (from D-INFRA public ownership) for the first four year and 60% in the fifth year after the launching date. Post D-INFRA creation, Gempol – Pandaan shareholders will include JSMR (40%), D-INFRA investors (54%), and local province (6%). Yesterday, JSMR listed Rp423bn worth of stake to be offered through public offering (60% of which is retail investor) through limited public offering and opens for other retail investor participation by subscribing to the fund with the minimum unit of Rp100k. The return on this instrument is fixed at 10%. (Bisnis Indonesia, Kontan, Investor Daily).

Comment: This is a good de-leveraging step for JSMR as we noted that JSMR' Gempol – Pandaan has IRR of 13% which is in excess of what is paid to retail investor (Rp43bn with 54% stake of Rp799 total of equity). Our back at the envelope calculation suggests this toll road generates about Rp50bn worth of EBITDA and potentially books a gain of Rp7bn annually. In addition, this transaction should also translate to one-off gain Rp353bn as we noted JSMR was able to divest this toll road at 2.3x P/B (Rp799bn vs. our implied calculation at Rp446bn.

MDIA: Intermedia Capital (MDIA IJ; Rp140; Not rated) booked net loss of Rp141bn in FY18. FY18 revenue declined -9%YoY to Rp1.8tn. Operating profit last year was Rp326bn (-52%YoY) as programming & broadcasting expense and general & adm. expense jumped +18%YoY and +10%YoY respectively. Thus, operating margin significantly shrank to 18% in FY18 from 34% in FY17. The company bottom-line turned negative this year (net loss Rp141bn), from positive profit of Rp550bn last year. We view this is aligned with declining operating margin, coupled with: Rising (net) interest and financing exp. (FY18 Rp208bn in FY18 vs. Rp FY17 41bn); higher forex loss this year (FY18 Rp112bn vs. loss Rp8bn); and increase in other expenses (FY18 Rp340bn vs. FY17 Rp526mn). (Company, IndoPremier).

SMBR: Semen Baturaja (SMBR IJ; Rp1,190; Sell) reported a sales volume of 161kt in March 2019 (-44% mom, +7.6% yoy) bringing a total 1Q19 sales volume of 0.611mt (-32% yoy) and forming 23% to our forecast. (Bisnis Indonesia).

Comment: Sumatera booked 1.05mt sales volume in March 2019 (+1.8% mom, -9.3% yoy) with total 1Q19 of 3.2mt (-4.2% yoy) which suggest SMBR volume growth downtrend seems to be amplified relative to industry performance due to its clustered market coverage. SMBR is now holding 18.7% market share in Sumatera as of 1Q19, a significant drop relative to last year position (vs. IQ18: 26%) as we believe *outstanding volume performance in 2018 was driven by Asian Games which is a one-off event. We maintain SELL on SMBR as we believe SMBR will have a sub-par profitability margin performance (3% in FY19F) compared to its peers due to debt-financed expansion which we think is a wrong strategy given current oversupply condition in cement industry*

WSKT: Fitch rating has revised down Waskita (WSKT; Rp2,060; Hold) outlook from stable to negative, following the company's high leverage (net debt/EBITDAR) at 6.1x (vs. Fitch rating's policy at below 5.5x for stable outlook). The high leverage is due to external funding generated to execute its turnkey projects, in addition to some delay of turnkey payment following the long administrative process. (Kontan).

Comment: The company's high leverage is also our main concern. However we hope on the upcoming turnkey payments this 2Q19 and proceed from divestment of its toll road to push down its leverage ratio.

WSKT: Waskita Karya through its subsidiary PT Waskita Toll Road (WTR owned 79.88% by WSKT) injected additional paid-in capital to PT Jasamarga Solo Ngawi (JSN) of Rp1.3tn. By this transaction, WTR's share in JSN is still 40% as other shareholder of JSN also inject additional capital. This year, WSKT allocated capex of Rp25.3tn (60-70% from external financing) and targets to book positive operating cash flow of Rp5tn. (Investor Daily).

Markets & Sector

Infrastructure Sector: Ministry of General Works (Kementrian PU) planning to build a Batam-Bintan bridge. To date, the project is waiting for site review from General Works Minister and President, while ADHI is preparing the feasibility study for the project. According to Ministry of General Works, the bridge will be 6.40km long with total investment of Rp4-5tn. If all goes well, the construction shall begin in 2020. (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

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.