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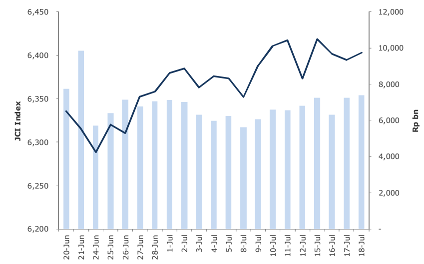
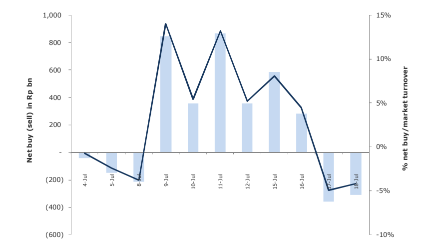
Premier Insight

19 July 2019

JCI Index



Foreign net buy (sell)



Key Indexes

Index	Closing	1 day	1 year	YTD
JCI	6,403	0.1%	9.1%	3.4%
LQ45	1,025	0.1%	11.3%	4.3%
DJI	27,223	0.0%	8.6%	16.7%
SET	1,723	0.3%	4.6%	10.2%
HSI	28,462	-0.5%	1.6%	10.1%
NKY	21,046	-2.0%	-7.5%	6.2%
FTSE	7,493	-0.6%	-2.5%	11.4%
FSSTI	3,361	-0.1%	2.5%	9.5%
EIDO	27	1.2%	14.9%	7.2%

Commodity price

Commodities	Last price	Ret 1 day	Ret 1 year
(in USD)			
Oil/barrel (WTI)	55.3	-2.6%	-19.6%
CPO/tonne	482.5	-0.3%	-10.3%
Soy/bushel	8.6	-0.1%	6.0%
Rubber/kg	1.6	-1.1%	-22.2%
Nickel/tonne	14,817	2.8%	9.6%
Tins/tonne	17,811	-0.4%	-8.9%
Copper/tonne	5,971	0.0%	-2.5%
Gold/try.oz (Spot)	1,446	1.4%	18.3%
Coal/tonne	73.9	-0.6%	-38.3%
Corn/bushel	4.2	-2.6%	32.2%
Wheat/bushel*	146.5	5.8%	-7.0%

** : 1 month change*

Source : Bloomberg

Bank Mandiri (BMRI IJ; Buy)

Weaker profit as credit cost normalises

- **1H19 results were below expectations as provisioning jumped in 2Q.**
- **NIMs were resilient due to improved asset utilisation and loan mix.**
- **New NPLs were stable but we expect higher credit costs in 2H19.**
- **We keep our earnings, TP and Buy rating unchanged at this stage.**

Below expectations. BMRI's quarterly net profit of Rp6.3n in 2Q19 (-13% qoq) came below our expectation as it contributed only 22% to our FY19F forecast (vs. 25% in 1Q19) although this was largely due to its rising credit cost to 1.70% in 2Q (from 1.37% in 1Q), which brought the bank's overall credit cost to 1.53% in 1H19 although this was still in-line with management guidance of a credit cost of 1.60-1.80% for 2019. Excluding provisions, BMRI's core profit (PPOP) came in-line with our forecast, contributing 24.7% to our FY19F in 2Q (1Q: 24.9%), driven by modest loan growth of 9.5%, resilient NIMs of 5.5% and well controlled operating cost growth of 5.9% yoy in 1H19. Meanwhile, its profitability metrics were stable with ROAA and ROAE of 2.23% and 14.7% in 1H19, respectively.

Resilient NIMs. BMRI's NIM narrowed marginally to 5.52% in 1H19 (-5bps yoy) which was in-line with our FY19F forecast assumption of 5.5% albeit at the low-end of management guidance. The bank's resilient NIMs can be attributed to its improved asset utilisation as evident from its stronger loan vs. deposit growth (9.5% vs. 5.0%) and rising contribution of its higher-margin retail loans to 35% of the loan portfolio, which led to higher asset yields in 1H19 (+37bps yoy), which was in contrast to peer other major banks in Indonesia such as BBRI and BBNI whose asset yields have declined in comparison to year earlier levels.

Asset quality. BMRI's credit cost normalised to 1.7% in 2Q, after unexpectedly low provisioning of 1.3% in 1Q, although this was still in-line with management's guidance of 1.6%-1.8% for 2019 (which remained unchanged). Meanwhile, the bank's new NPLs were stable at 1.75% in 2Q vs. 1.84% in 1Q and were lower than in 2018 (1H18: 2.6%; FY18: 2.1%) while its NPL and provision coverage ratios have improved to 2.6% and 147%, respectively. However, in light of the bank's underprovisioned NPL exposures to Krakatau Steel and Dunia Tex (which is a new NPL with an outstanding of Rp2.2tn and was still classified as current), we expect BMRI's credit cost will likely exceed our forecast assumption of 1.62% for FY19F, which implies potential 2-3% downside to our earnings forecasts.

Valuation. At this stage, we maintain our earnings forecasts and TP of Rp9,400 in light of recent steep fall in cost of capital in Indonesia (10-yr yields at 7.1% vs. our assumption of 7.7%). Our TP is based on GGM-derived target P/B of 2.19x, assuming LT ROAE of 17.1%, LT growth of 9%, and cost of equity of 12.7%. Maintain BUY rating.

Year To 31 Dec	2017A	2018A	2019F	2020F	2021F
Operating income (RpBn)	73,718	80,079	85,162	92,277	102,239
PPOP (RpBn)	38,704	42,397	44,810	49,121	56,271
Net profit (RpBn)	20,640	25,015	28,604	32,942	37,488
Net profit growth (%)	49.5	21.2	14.3	15.2	13.8
FD EPS (Rp)	442	536	613	706	803
P/E (x)	17.6	14.5	12.7	11.0	9.7
P/B (x)	2.1	2.0	1.8	1.6	1.5
Dividend yield (%)	2.6	3.1	3.5	4.1	4.6
ROAA (%)	1.9	2.2	2.3	2.4	2.5
ROAE (%)	13.4	14.9	15.0	15.6	16.2

Source: BMRI, IndoPremier *Share Price Closing as of : 17-July-2019*

News & Analysis

Corporates

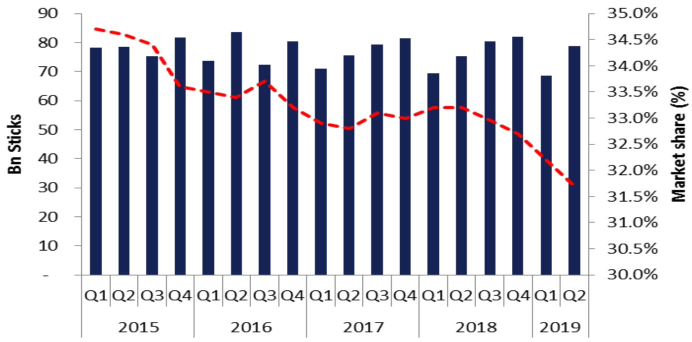
APLN: Agung Podomoro's (APLN IJ; Rp222; Not Rated) rating is downgraded by Moodys (to B2 from B1) and Fitch (to CCC- from B-) following the uncertainties of its ability to refinance its Rp1.3tn debt maturities over next 12 months. APLN obtained Rp750bn term loan facility in May 2019 that used to refinance its bonds matured on 6 June 2019. However, the availability of funds to refinance the remaining Rp550bn bonds maturing in December 2019 and March 2020 remain uncertain. (Investor, Kontan, IDX).

Comment: As of 1Q19 position, company's cash position is at Rp1.2tn, while its short term debt maturing in 1 year is at Rp3tn (Rp1.3tn bonds and Rp1.7tn syndicated loans). By 1Q19, APLN revenue decrease 44.5% yoy, however still managed to booked Rp183tn profit due to proceed from sale of investment in subsidiary at Rp366bn. Without the transaction, APLN should book a net loss in 1Q19. We view that given the weak financial performance and presales of Rp405bn (-29% yoy, 13% of FY19 target as of 1Q19), APLN might need to sell its matured investment properties to refinance the maturing debt.

LPKR: S&P upgraded Lippo Karawaci's (LPKR; Rp278; Not Rated) rating from CCC+ to B- and withdraw the "creditwatch" status to its bonds following the successful right issue with value of Rp11.2tn. Overall, S&P give a stable outlook for LPKR as S&P believe that LPKR would able to maintain its liquidity in next 12-18months. Moreover, with the plan of divesting Lippo Mall Puri in 2H19 with transaction value amounting US$200mn, S&P is optimist with LPKR strong liquidity. (Kontan).

Markets & Sector

Cigarette sector: According to Philip Morris International (PMI, 2Q19 Indonesia cigarettes sales volume recorded 78.8bn (+4.8% yoy) sticks. Despite of stronger sales volume, PMI sales declined to 47.1bn sticks (-1.8% yoy). This also marks the declining market share in 2Q19 to 31.5% from 33.2% last year. Overall, 1H19 industry sales volume showing an improvement recorded 147.5bn sticks (+2.1% yoy). (Company).



Comment: We believe that higher pricing gap is the main factor of declining HMSP market share in 2Q19. We expect increasing market share from GGRM due to its favorable price. Worth to note that GGRM has increased their ASP by 3%-5% in 2Q19. At this stage, we maintain our BUY rating for HMSP.

Coal sector: Ministry of National Development Planning (Bappenas) proposed lower coal export volumes in its Medium-term National Development Plan 2020-2024. A senior official from the Ministry stated that Indonesia should secure its long term energy supply from coal by reducing coal exports. The proposed numbers which handed to President Joko Widodo are not disclosed, but according to several sources, the proposed Indonesia coal production volumes would likely around 400mn tons pa (vs. 2018: 570mn tons). (CNNIndonesia).

Comment: Lower supply from Indonesia would be supportive to coal price. However, it is worth noting that the capping of Indonesia coal production volumes is not a new plan. Initially, the government plans to reduce coal export by capping production volumes and raise domestic market obligation (DMO), however, given weak IDR and trade data in 2018, the government allowed additional coal production quota of 100mn tons to raise coal exports. At this stage we maintain our Neutral stance on the sector.

Healthcare sector: BPJS Kesehatan just released its financial statements of FY2018 with net asset position recovery of 19% yoy. As of May 2019, JKN coverage has reached 83.7% with total beneficiary of c.222mn head. (Investor Daily).

Comment: We are positive towards the better position in net asset which reflects the deficit, although we remain cautious on the IDR11.69tn deficit which was saved by government subsidy of IDR10.26bn (vs. IDR3.6bn in FY17). Premium income also steadily increased by 10.2% (FY17: 10.2%; FY16: 10.4%), in-line with total beneficiary increase in FY18 of 10.6%).

DJS Balance Sheet

IDRtn	2014	2015	2016	2017	2018
Total Asset	4.32	4.72	8.66	1.20	1.16
Total Liabilities	7.63	13.79	17.22	24.23	35.87
Cumulative surplus (deficit)	-3.31	-9.07	-8.56	-23.03	-34.71
Increase (decrease) in Aset Neto	-3.31	-5.76	0.51	-14.46	-11.69
Growth of deficit or surplus		-74%	109%	-2945%	19%

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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.

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