

Tuesday, 24 January 2017

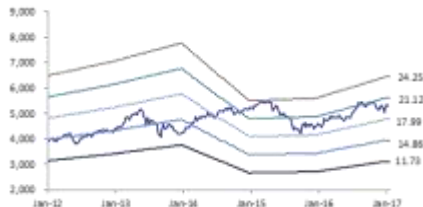
Market Outlook

Postcard from Asia

JCI Index (as of Jan 20, 2017)

5,254

JCI PE Band



The feedback we got from meetings with foreign clients last week was interesting as our clients mostly have index weighted positions in the Indonesian market, although they are positive on the country in general. Despite having concerns on the budget achievement, political developments and the valuation of the market, they agreed that some stocks such as BBNI and RALS are still attractive considering their growth prospects and valuations.

Valuation does matter. We met with Asian clients last week. Most of them share the view that the valuation of the JCI is not cheap. At 19.3x 12-month forward PE (including HMSP), the JCI is still trading above its 5-year average. As a mean-reverting believer, we think that such a view is reasonable. While investors sought reasons why small cap stocks outperformed the JCI in 2016, corporate governance and capital market integrity are among the main concerns of the investors we met. Investors are also concerned about political issues following the large rally held on 4 November 2016.

The catalysts for the market are the realization of infrastructure projects and the rebound in commodity prices. We foresee 15% EPS growth for 2017 which our clients believe is reasonable. They also asked about the fund outflows from Indonesia. We explained that the holdings of foreign investors in the free-float portion of the IDX30 (the 30 largest companies) had fallen to as low as 59%.

Budget risk may dampen infrastructure development. Almost all clients expressed concerns in the ability of the government to achieve its budget in terms of tax revenues. As the revenues from the tax amnesty program in 2016 is a one-off event, investors believe that the tax revenues in 2017 will potentially be below the budget. This, in turn, may prompt the government to make budget cuts which would affect infrastructure projects. At the same time, with the leverage that has to be assumed by companies, the future financing risk is high. Nevertheless, the infrastructure companies can divest the projects once completed (as Jasa Marga (JSMR) plans to divest some of its toll roads).

Rebound in commodity prices: sustainable? Investors are skeptical in regard to the rebound in commodity prices as the driver is the reduction in supply rather than demand recovery. However, they still believe that the coal price in 2017 should be higher than it was in 2016. Meanwhile, although the valuation of coal stocks at around 12.3x 2017 PE is considered cheap, a correction in coal prices would create negative sentiment in this sector.

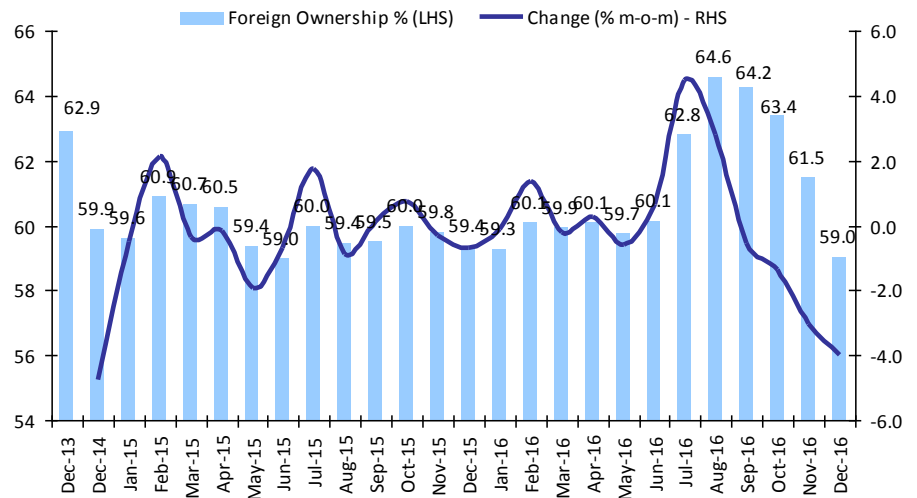
Turnaround companies in the banking and consumer sectors. Investors agree that Bank Negara Indonesia (BBNI), our top pick in the banking sector is attractive and some of them asked about Bank Danamon (BDMN) and Bank CIMB Niaga (BNGA) on the back of these banks' turnarounds after the new managements have taken new strategies and cleaned up the books to put them on the road to recovery. In the consumer sector, the rebound in commodity prices should boost the people's purchasing power in commodity producing regions. This would benefit Ramayana (RALS).

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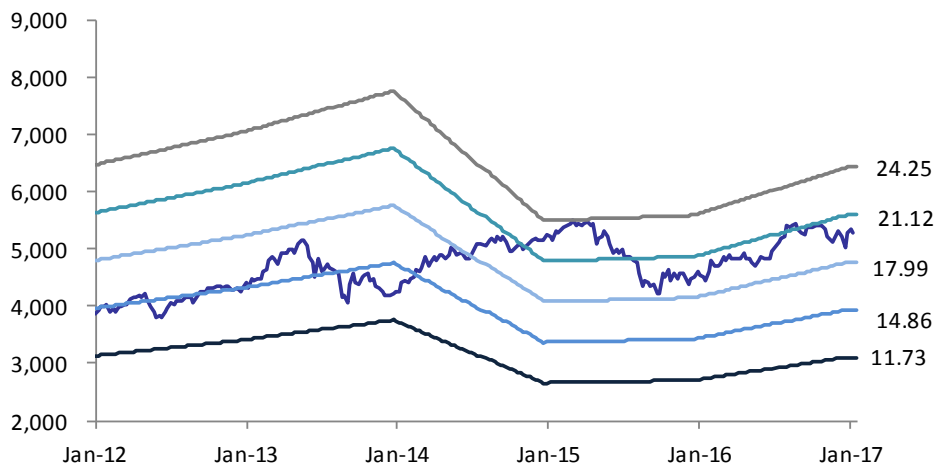
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Exhibit 1. Foreign ownership



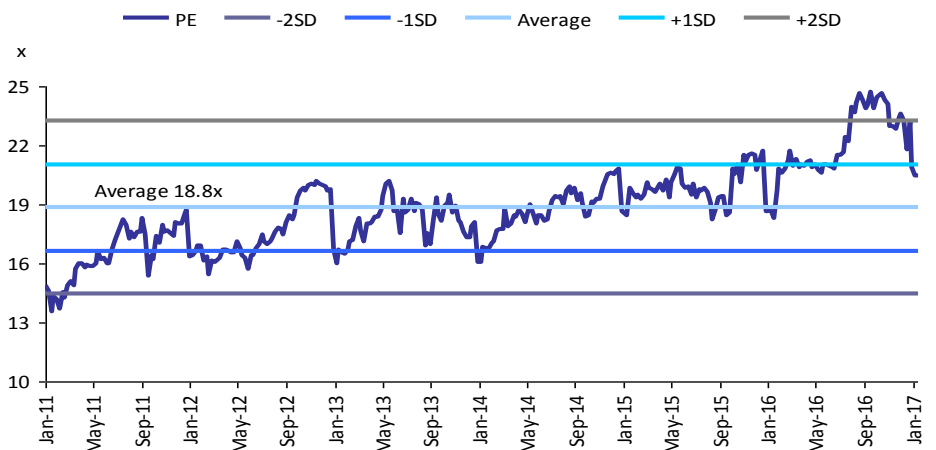
Source: KSEI

Exhibit 2. JCI PE Band



Source: Bloomberg

Exhibit 3 . Auto Sector PE band



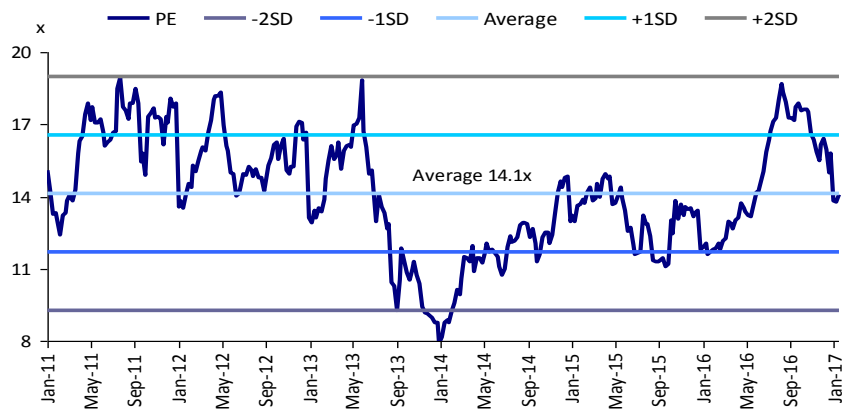
Source: Bloomberg

Exhibit 4. Consumer PE band



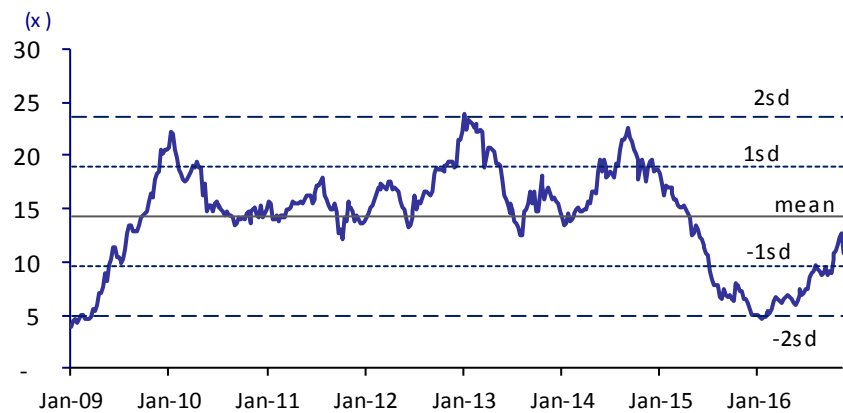
Source: Bloomberg

Exhibit 5. Construction PE band



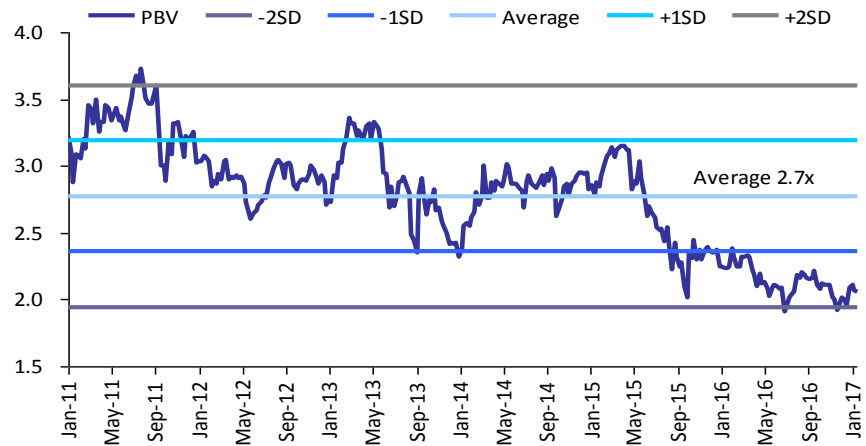
Source: Bloomberg

Exhibit 7. Coal PE band



Source: Bloomberg

Exhibit 8. Bank PBV



Source: Bloomberg

Exhibit 9. Stock picks

	Rec	Target price Rp	EPS		PER		PBV		ROE, %	
			2016	2017	2016	2017	2016	2017	2016	2017
ADRO	BUY	1,900	113	134	15.3	12.9	1.4	1.3	9.1	10.3
PTBA	BUY	14,500	665	1,149	17.7	10.3	2.7	2.3	15.2	22.9
TINS	BUY	1,250	24	50	44.6	21.3	1.4	1.3	3.2	6.4
PTPP	BUY	5,700	200	267	17.9	13.4	4.3	3.5	20.2	22.5
WSKT	BUY	3,700	124	173	21.1	15.2	3.2	2.7	16.4	19.5
WSBP	BUY	1,300	31	42	27.0	20.0	2.9	2.6	11.5	13.9
BBNI	BUY	6,700	590	753	9.2	7.2	1.1	1.0	13.3	14.7
UNVR	BUY	44,500	894	965	45.3	42.0	57.6	54.5	130.9	132.7
GGRM	BUY	79,500	3,296	3,565	19.0	17.5	3.1	2.7	16.4	16.4
CTRA	BUY	1,530	41	48	32.0	27.5	2.8	1.9	7.4	8.2
RALS	BUY	1,350	56	66	21.9	18.5	2.5	2.4	11.6	13.0

Source: Danareksa Sekuritas

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