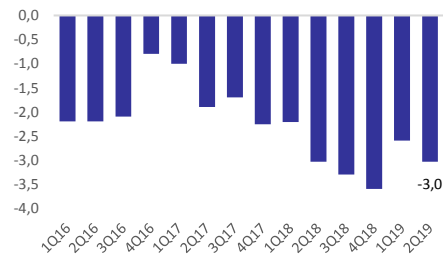


Friday, 20 September 2019

Strategy

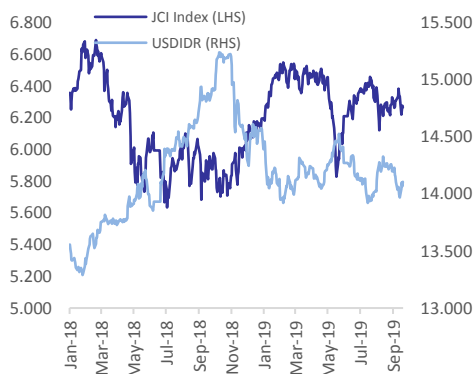
Opportune Mix of Macro Prudential Policies

CAD trends (as % to GDP)



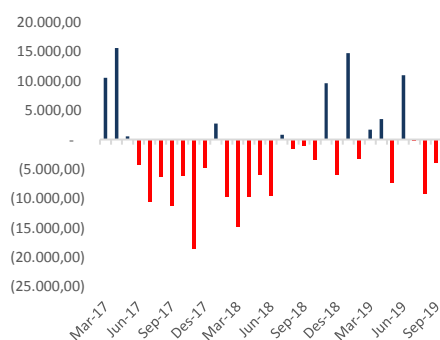
Source: Bank Indonesia

JCI vs USD



Source: Bloomberg

Net Foreign Flow (IDRbn)



Source: Bloomberg

Bank Indonesia's third rate cut signals deeper stance into easing cycle as it seeks to promote domestic growth against the backdrop of global economic slowdown. We believe that accommodative monetary policy coupled with stronger fiscal policy will spur brisker economic activity in 2020 and greater confidence in the resilience of the domestic economy. As we believe there is one more rate cut to come this year, investor confidence has room to improve further. In the stock market, we continue to favour interest rate sensitive counters (Banks, Property and Autos), as well as highly capital intensive and highly leveraged sectors such as Telcos and Construction.

Astute mix of macro-prudential policies. Bank Indonesia (BI) cut its 7-day Reverse Repo Rate by 25 bps to 5.25%, the third cut this year, with, we believe, one more rate cut to materialise in 2019. Similar to its previous policies, BI also cut the deposit rate facility by 25 bps to 4.5% whilst also lowering the lending rate facility by 25 bps to 6.0%. BI reiterated that the benign inflation outlook as well as stable Balance of Payments as the basis for rate cut decision.

In addition to the rate cut, BI also announced several macro prudential policies in a bid to boost credit activity, namely: 1) relaxation of the Macroprudential Intermediary Ratio (RIM) by including borrowings in the funding calculation. Under the new RIM policy, funding consists of customer deposits, securities issued and borrowings with a maturity of more than one year. BI argues that there will be additional liquidity of IDR128tn from this move; 2) Relaxation of the LTV to reduce the down payment by 5% for mortgages and 5-10% for automotives. These two new policies will be effective starting on December 2, 2019, and 3) the inclusion of all tenor from 7 day to 12 month of RRSBN (Reverse Repo Govt Bonds) as a monetary operations instrument starting from 4 October 2019. More importantly, to hasten the transmission of the lower benchmark rate, BI has urged all financial institutions to follow suit and cut their lending and deposit rates to support economic growth in 2019. So far this year, credit growth has slowed to 9.6%y-y in Jul from 9.9%y-y in Jun 19 on the back of low credit demand from corporations. All in all, BI still maintains credit growth targets of 10-12% in 2019 and 11-13%yoy in 2020.

Stable external outlook amid revised-down global economic targets. The protracted Sino-US trade war has become the main spectre to global economic growth, and, accordingly, BI has revised down its global economic growth forecast from 3.2% in 2019 and 3.3% in 2020 to 3.1% for both 2019 and 2020. BI's third rate cut yesterday already takes into consideration the cut in the Fed Funds rate to 1.75% to 2% this month. While Bank Indonesia still expects economic growth to reach 5.1% in 2019 and 5.3% in 2020, we believe the latter is rather aggressive. To achieve this target, BI will further enhance its monetary and macro prudential policy mix with the ultimate goal of improving investor confidence and luring more foreign capital into Indonesia.

Maintaining our positive stance on rate sensitive, capital intensive and highly leveraged sectors. By adopting a more accommodative policy stance, BI is looking to promote economic growth. In turn, this should make Indonesia a more attractive destination for investment. Given this backdrop, interest rate sensitive counters stand to benefit such as Banks, Property and Autos. Also, lower interest rates and a lower CDS will benefit highly capital intensive and highly leveraged sectors, such as Telcos and Construction. Our top picks are TLKM, EXCL, ASII, ICBP, RALS, BBTN, CTRA, WIKA and BEST.



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Exhibit 1. Top picks valuation

Company	Ticker	Rec	Last	Market	Upside	Target	P/E (x)		P/BV (x)		ROE (%)
			Price	Cap.	(%)	Price	2019F	2020F	2019F	2020F	2019F
			(Rp)	(RpBn)		(Rp)					
Telekomunikasi Indonesia	TLKM IJ	BUY	4,230	419,033	20.6	5,100	19.4	17.5	3.9	3.5	21.0
XL Axiata	EXCL IJ	BUY	3,510	37,515	16.8	4,100	89.5	53.0	2.0	1.9	2.3
Astra International	ASII IJ	BUY	6,600	267,191	21.2	8,000	12.9	12.2	1.8	1.7	14.6
Indofood CBP	ICBP IJ	BUY	11,900	138,777	5.0	12,500	28.0	25.8	5.8	5.2	21.7
Ramayana	RALS IJ	BUY	1,235	8,764	61.9	2,000	12.8	11.9	2.1	1.9	17.1
Bank Tabungan Negara	BBTN IJ	BUY	2,270	24,039	32.2	3,000	9.6	8.0	0.9	0.9	10.1
Ciputra Development	CTRA IJ	BUY	1,120	20,788	20.5	1,350	21.8	18.6	1.4	1.3	6.5
Wijaya Karya	WIKAIJ	BUY	2,010	18,030	69.2	3,400	7.8	6.6	1.1	0.9	14.7
Bekasi Fajar	BEST IJ	BUY	290	2,798	27.6	370	5.0	4.2	0.6	0.5	12.7

Source: Danareksa Sekuritas Estimates, Bloomberg as of 19 Sep 2019

Exhibit 2. Government Budget Plan 2020 (IDRbn)

APBN Components	2015	2016	2017	2018	Outlook 2019	2020 Budget Plan
Government Revenue	1,508,020	1,555,934	1,666,376	1,943,675	2,030,758	2,221,548
Domestic Revenue	1,496,047	1,546,947	1,654,746	1,928,110	2,029,418	2,221,050
Tax Revenue	1,240,419	1,284,970	1,343,530	1,518,790	1,643,084	1,861,770
Domestic Tax	1,205,479	1,249,500	1,304,316	1,472,908	1,603,293	1,819,167
International Trade Tax	34,940	35,470	39,214	45,882	39,790	42,603
Non-tax revenue	255,629	261,976	311,216	409,320	386,334	359,280
Grant	11,973	8,988	11,630	15,565	1,340	499
Government Expenditure	1,806,515	1,864,275	2,007,352	2,213,118	2,341,570	2,528,774
Central government expenditure	1,183,304	1,154,018	1,265,359	1,455,325	1,527,152	1,669,984
Ministries and institutions expenditures	732,137	684,204	765,134	846,561	854,917	884,550
Non-ministries and institutions expenditures	451,167	469,814	500,225	608,763	672,235	785,434
Regional transfer and village funds	623,140	710,257	741,992	757,793	814,419	858,790
Regional transfer	602,373	663,578	682,226	697,934	744,586	786,790
Balance fund	583,046	639,766	654,483	668,643	712,406	749,042
Regional incentive fund	1,665	5,000	7,500	8,231	10,000	15,000
Special autonomy and special region fund	17,663	18,812	20,243	21,060	22,180	22,749
Village fund	20,766	46,679	59,767	59,859	69,832	72,000
Primary Balance	(142,485)	(125,580)	(124,408)	(11,491)	(34,707)	(12,013)
Budget surplus/(deficit)	(298,495)	(308,341)	(340,976)	(269,443)	(310,812)	(307,226)
% of GDP	(3)	(2)	(3)	(2)	(2)	(2)
Budget financing	323,108	334,503	366,624	305,693	310,812	307,226
Loan financing	380,916	403,009	429,077	372,029	373,882	351,853
Investment financing	(59,655)	(89,080)	(59,754)	(61,114)	(75,788)	(74,230)
Borrowings	1,505	1,663	(2,052)	(4,270)	(2,281)	5,193
Collateral	-	(652)	(1,005)	(1,121)	-	(591)
Other financings	342	19,563	359	169	15,000	25,000
Over/(under) budget financing	24,613	26,162	25,648	36,250	-	-

Source: Ministry of Finance

Exhibit 3. Proposed vs Approved Budget 2020 (IDRtn)

APBN Components	2020 Budget Plan (IDRtn)	Temporary Figure from DPR (IDRtn)	Difference (IDRtn)
Government Revenue	2,221.5	2,233.2	11.7
Domestic Revenue	2,221.0	2,232.7	11.7
Tax Revenue	1,861.8	1,865.7	3.9
Non-tax revenue	359.3	367.0	7.7
Oil and gas revenue	120.6	127.3	6.7
Separated state wealth	48.0	49.0	1.0
Grant	0.5	0.5	0.0
Government Expenditure	2,528.8	2,540.4	11.6
Central government expenditure	1,670.0	1,683.5	13.5
Ministries and institutions expenditures	884.6	909.6	25.1
Non-ministries and institutions expenditures	785.4	773.9	(11.6)
Energy subsidies	137.5	125.3	(12.1)
Fuel and LPG subsidy	75.3	70.5	(4.8)
Electricity subsidy	62.2	54.8	(7.4)
Regional transfer and village funds	858.8	856.9	(1.9)
Regional transfer	786.8	784.9	(1.9)
Village fund	72.0	72.0	-
Primary Balance	(12.0)	(12.0)	0.0
Budget surplus/(deficit)	(307.2)	(307.2)	0.0
% of GDP	-1.76	-1.76	

Source: Ministry of Finance

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