

Danareksa Snapshot

Monday, October 27, 2014

From Research:

Market Outlook: The Jokowi's team (OVERWEIGHT)

The most anticipated announcement - the cabinet with emphasize on hard working coupled with clean background, Jokowi finally announces his cabinet member. The announcement itself has seen a delay from the initial Wednesday night (22 Oct 2014) timeline, mainly believed in an effort to address the Anti Corruption Body's assessment on several minister candidates. To some extent, the final cabinet member composition differs from the various version of cabinet lists which usually pop-up in various online and social media. In a surprising and bold move, Jokowi cabinet, which was named "Work Cabinet" is filled with a good balance of well-known individuals as well as relatively new names. To our surprise, some of the well-known ministry candidate initially perceived to be in the cabinet, have not made it into the final list, such as Sri Mulyani (top official at the World Bank - ex Finance Minister), Luhut Panjaitan (retired General), Kuntoro Mangkusubroto (ex Energy and Resources Minister), and Darmin Nasution (Ex BI Governor).

Retail Sector: Set to improve after a seasonally weak September (OVERWEIGHT)

September is always a relatively slow month for retailers as it is sandwiched between the Idul Fitri holiday period and the year-end when the sales are high. Of the three retailers under our coverage, ACES and RALS have announced their September numbers: 18.9% yoy accumulated 9M14 sales growth for ACES and -0.1% for RALS. Going forward, we expect sales to improve - especially for ACES and MAPI - and to peak in the last quarter of the year. Meanwhile, the revised Ministry of Trade regulation is also a positive for both ACES and MAPI. All in all, we remain upbeat on the sector although sentiment may weaken in the short-term with the high market volatility.

From Today's Headlines:

(please see our analysts' comment inside)

- Adaro Hasten Bond Payment US\$ 800mn (ID)
- Rp6tn Dam Project Ready to Auction in 2015 (BI)
- Waskita Offer 10.4% Coupon Bonds (BI)

From IDX:

Cash Announcement

Code	Ex-Date	Date Payable	Amount (Rp)
AAI	10-Oct-2014	28-Oct-2014	244
UNTR	10-Oct-2014	28-Oct-2014	195
ASII	15-Oct-2014	31-Oct-2014	64
ITMG	30-Oct-2014	14-Nov-2014	1100

Source: KSEI

Key Index				
	Close	Chg (%)	Ytd (%)	Vol (US\$ m)
Asean - 5				
Indonesia	5,073	(0.6)	18.7	282
Thailand	1,540	0.5	18.6	1,296
Philippines	7,104	(0.2)	20.6	144
Malaysia	1,819	0.5	(2.6)	614
Singapore	3,223	(0.4)	1.7	718
Regional				
China	2,302	(0.0)	8.8	23,067
Hong Kong	23,302	(0.1)	(0.0)	6,536
Japan	15,292	1.0	(6.1)	11,321
Korea	1,938	0.7	(3.6)	4,186
Taiwan	8,646	(1.0)	0.4	2,225
India	26,851	0.2	26.8	427
NASDAQ	4,484	0.7	7.4	71,579
Dow Jones	16,805	0.8	1.4	6,660

Currency and Interest Rate				
	Rate	w-w (%)	m-m (%)	ytd (%)
Rupiah (Rp/1US\$)	12,069	0.3	(1.0)	0.8
SBI rate (%)	6.97	(0.1)	(0.1)	(0.3)
10-y Govt Indo bond	8.01	(0.1)	(0.2)	(0.4)

Hard Commodities					
	Unit	Price	d-d (%)	m-m (%)	ytd (%)
Coal	US\$/ton	63	n/a	(3.8)	(25.2)
Gold	US\$/toz	1,229	(0.1)	0.9	2.0
Nickel	US\$/mt.ton	14,949	(0.9)	(13.7)	8.1
Tin	US\$/mt.ton	19,447	0.3	(8.5)	(12.9)

Soft Commodities					
	Unit	Price	d-d (%)	m-m (%)	ytd (%)
Cocoa	US\$/mt.ton	3,147	(0.0)	(5.3)	10.0
Corn	US\$/mt.ton	124	(1.7)	12.9	(22.6)
Crude Oil	US\$/barrel	86	(0.4)	(11.5)	(22.6)
Palm oil	MYR/mt.ton	2,170	1.0	1.8	(15.7)
Rubber	US\$/kg	161	0.6	8.6	(28.8)
Pulp	US\$/tonne	932	n/a	(0.0)	2.8
Coffee	US\$/60kgbag	119	(0.4)	3.8	21.7
Sugar	US\$/MT	429	1.4	3.3	(4.4)
Wheat	US\$/mt.ton	190	(0.4)	8.8	(19.5)

Source: Bloomberg



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Overweight

YE14 Target **5,248**
JCI Index **5,073**

Market Cap. (Rp tn) 5,051

US\$ (bn) 420

1Y Avg. daily T/O. (Rp bn) 5,850

US\$ (mn) 487

JCI Valuation



USD/IDR


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Danareksa research reports are also available at Reuters Multex and First Call Direct and Bloomberg.

Market Outlook

The Jokowi's team

The most anticipated announcement - the cabinet with emphasize on hard working coupled with clean background, Jokowi finally announces his cabinet member. The announcement itself has seen a delay from the initial Wednesday night (22 Oct 2014) timeline, mainly believed in an effort to address the Anti Corruption Body's assessment on several minister candidates. To some extent, the final cabinet member composition differs from the various version of cabinet lists which usually pop-up in various online and social media. In a surprising and bold move, Jokowi cabinet, which was named "Work Cabinet" is filled with a good balance of well-known individuals as well as relatively new names. To our surprise, some of the well-known ministry candidate initially perceived to be in the cabinet, have not made it into the final list, such as Sri Mulyani (top official at the World Bank - ex Finance Minister), Luhut Panjaitan (retired General), Kuntoro Mangkusubroto (ex Energy and Resources Minister), and Darmin Nasution (Ex BI Governor).

A sign of strong reform

In our view, Jokowi's cabinet announcement is clearly signaling the plethora of potential reform during his next 5 years term. There are several positive aspect on Jokowi's cabinet: 1. More new names within the cabinet is ostensibly the way to boost the cleanness of Jokowi's cabinet member in an act of reform to further dissipate potential corruption. Moreover, pre the announcement, Jokowi has seek advise from Anti Corruption Body on the background check for the ministry candidate. Once those ministers start to deliver meaningful results on their respective duty, there would be a gradual improvement on confidence which could provide catalyst for the market. 2. Most of the ministers are perceived to have necessary experiences within their respective ministerial duty coverage which, in our view, is critical to hasten the progress of work in delivering results. 3. Balance between professional and political party-professional will continue to solidify support within Jokowi's current coalition especially as the opposition are still gaining upper hand on the parliament. From 34 ministers, 14 come from political party (PDIP 4, PKB 4, Nasdem 3, Hanura 2, and PPP1).

Strong economic and infra team

Jokowi's economic team, in our view, is solid and posses the ability to address the current macro problem in Indonesia. In our view, solid economic team is critical for Jokowi, especially with the imminent announcement of fuel price hike, which would be followed by a spike in inflation as well as potential increase in interest rate. The economic team will be headed by Sofyan Djalil (ex SOE Minister), with Bambang Brodjonegoro (Previous deputy Finance Minister) as the Finance Minister and Rahmat Gobel (well known businessman) as the Trade Minister.

In his effort to speed up the infrastructure development to tackle the current disconnectivity in Indonesia, Jokowi chose outstanding minister, which has proven their capabilities with Ignatius Jonan (Chairman of State owned railways company) as the Transportation Minister, Basuki Hadimuljono (the top official in the Public Work Ministries) as the Public Works and Public Housing Minister. In a bold move, to tackle the rampant corruption issue on Energy and Resources Department, Jokowi chose Sudirman Said (Ex Pertamina Executive) as the minister, which also known for his outspoken anti corruption activity.

The next big announcement - fuel price hike In our view, most of rally on Jokowi inauguration has been priced in and potential market rally would be relatively limited. The next big thing would be the imminent announcement of fuel price hike, which is expected to be effective in November. The magnitude of the next fuel price hike would decide the level of macro volatility in the short term. It is perceived that higher fuel price hike will resulted in greater saving on the budget, which could be allocated into infra and other more productive sector.

However, the impact on those saving would only materialized in the longer term, while macro volatility on higher inflation and interest rate, would discourage investor in the short term, as is in 2008 and 2013. In our view, market will need to embrace short term macro volatility, with potential spike up in inflation, higher interest rate and weakening IDR.

The last two, in our view, would be the factors which would negatively affected equity market performance. The speed of the market recuperation would also largely depends on Jokowi's strategy to improve overall economic growth. We believe that on the medium to longer term, better macro fundamental will further amplified the attractive demographic story of Indonesia, with huge population base, rising per capita income and under penetrated market, which will be a solid mixture in delivering sustainable growth in the future.

Big cap defensive and infra play is our top choice. We continue to like big cap defensive stock and infra play (construction and cement), and any weakness in the share price should be seen as the opportunity to subscribe into solid LT story in Indonesia. On the other hand, the commodity sector could draw re-new interest during macro volatility as : 1. the sector has been the most underperforming sector YTD, especially agriculture; 2. it is the beneficiary of IDR weakening; and 3. it has the least impact on domestic factors. Our top pick would be Inco on this space.

Exhibit 1. The Working Cabinet (2014-2019)

Ministry Position	Minister	Education	Career	Affiliation
1 Coordinating Ministry for Political, Legal and Security Affairs	Tedjo Edhy Purdijanto	1. Naval Academy 2. CFC-34 Education Defense (National Defense Institute)	1. Chief of Staff of the Navy (2008-2009) 2. Chief of General Staff of the TNI (2007) 3. Director General of the Department of Defense	Nasdem Party
2 Coordinating Ministry for Maritime Affairs	Indroyono Soesilo	1. Ph.D in Geologic Remote Sensing, University of Iowa 2. Msc. in Remote Sensing for Natural Resources, University of Michigan	1. Fisheries and aquaculture resource division director at Food and Agriculture Organization (FAO) 2. Secretary/Deputy Senior Minister of the Coordinating Ministry for People's Welfare 3. Director General for the Agency for Marine and	Professional
3 Coordinating Economic Ministry	Sofyan Djalil	1. Ph.D at The Fletcher School of Law and Diplomacy, Tufts University, Massachusetts, US 2. Master of Arts in Law and Diplomacy, Tufts University, Massachusetts, US	1. Expert Team Member, National Committee on Good Corporate Governance 2. State-owned Enterprises Minister (2007-2009) 2. Minister of Communication and Information	Professional
4 Coordinating Ministry of Human Development and Culture	Puan Maharani	Bachelor Degree in Communication at University of Indonesia	1. PDI-P Politician 2. Member of House of Representative (2009-2014)	PDI-P Party
5 Ministry of Home Affairs	Tjahjo Kumolo	1. National Defense Institute, Jakarta 2. Diponegoro University	1. Secretary General of Indonesian Democratic Party of Struggle (PDIP) 2. Chairman of PDIP Fraction at the House of	PDI-P Party
6 Ministry of Foreign Affairs	Retno L.P. Marsudi	1. Human Rights Study at the Oslo University 2. European Union Law at The Hoogse Haagse School in Den Haag	1. Indonesian ambassador to Netherlands 2. Director-General of the United States and parts of Europe cooperation	Professional
7 Ministry of Defense	Ryamizard Ryacudu	1. Indonesia Military Academy	1. Army Chief of Staff (2002-2004) 2. Pangkostrad (2000-2002)	Professional
8 Ministry of Law and Human Rights	Yasonna Laoly	1. Ph.D at North Carolina State University Raleigh, USA	1. Legislator/PDI-P top executive 2. Lecturer	PDI-P Party
9 Finance Ministry	Bambang Brodjonegoro	Ph.D in Regional Economy and Development Economy at the University of Illinois at Urbana-Champaign	1. Deputy Finance Ministry (2013-2014) 2. Head of Fiscal Policy Office, Ministry of Finance (2011-2013)	Professional
10 Ministry of Energy and Mineral Resources	Sudirman Said	1. MBA at George Washington University, USA	1. President Director PT Pindad 2. Vice President PT Petrosea 3. Group Chief of Human Capital and Corporate Services	Professional
11 Ministry of Industry	Saleh Husin	Master Degree in Public Administration at Unkris, Jakarta	1. Member of House of Representative (2009-2014) 2. Hanura Party Politician	Hanura Party
12 Ministry of Trade	Rahmat Gobel	1. Doctor Honoris Causa from Chuo University, Tokyo, Japan 2. Bachelor Degree in International Trade at Chuo University, Japan	1. President Director at Gobel Internasional 2. Commissioner at Panasonic Manufacturing Indonesia 3. Commissioner at Indosat	Professional
13 National Development Planning Agency (Bappenas) Ministry	Adrinof Chaniago	1. Doctorate degree in Philosophy at University of Indonesia 2. Master degree in Planning and Public Policy, University of Indonesia	1. Executive Director CIRUS Surveyors Group 2. Research Fellow The Habibie Center 3. Lecturer of Political Science at University of Indonesia	Professional
14 Ministry of Transportation	Ignasius Jonan	1. Fletcher School, Tufts University, AS 2. Faculty of Business and Economy, Accounting, at Airlangga University	1. Director Kereta Api Indonesia (KAI) 2. Managing Director Citibank 3. Director Bahana Pembinaan Usaha Indonesia	Professional
15 Ministry of State-Owned Enterprises	Rini Soemarno	Bachelor of Economics at Wellesly College, Massachusetts, US	1. Minister of Industry and Trade (2001-2004) 2. President Director PT Kanzen Motor Indonesia (2004) 3. President Director Astra International (1998-2000)	Professional
16 Ministry of Public Works and Housing	Basuki Hadimuljono	Ph.D in Civil Engineering at Colorado State University, USA	1. Director General of Spatial Planning of Ministry Public Works 2. Inspector General of the Ministry of Public Works	Professional
17 Ministry of Communication and Information Technology	Rudiantara	1. MBA at IPPM 2. University of Indonesia	1. Vice President Director of PT Semen Gresik 2. Commissioner PT Indosat 3. Vice President PT PLN	Professional
18 State Secretary	Pratikno	1. Ph.D at Department of Asian Studies, Flinders University of South Australia 2. Master degree at Development Administration University of Birmingham, England	1. Rector at Gajah Mada University (UGM) 2012-2017 2. Lecturer at Political Science Gajah Mada University (UGM)	Professional
19 Ministry of Maritime Affairs and Fisheries	Susi Pudjiastuti	1. High School (Unfinished)	1. Director PT Asi Pudjiastuti Flying School 2. Owner and President Director PT Asi Pudjiastuti Marine Product	Professional
20 Ministry of Tourism	Arief Yahya	1. Telematics (Software & Telecommunications), Universitas Surrey, England. 2. Electrical Engineering, Bandung Institute of Technology	President Director Telekomunikasi Indonesia (Telkom)	Professional
21 Ministry of Administrative Reform	Yuddy Chrisnandi	1. Doctorate degree of Political Science at University of Indonesia 2. Master degree in economics at University of Indonesia	1. Hanura Party Politician 2. Commissioner at PT Time Line Visual 3. Member of House of Representative (2004-2009)	Hanura Party
22 Ministry of Cooperatives and Small and Medium Enterprises	A.A. Gede Ngurah Puspayoga	Bachelor Degree at Ngurah Rai University, Bali	1. Deputy Governor of Bali (2009-2013) 2. PDI-P Politician	PDI-P Party
23 Ministry of Health	Nilla F Moeloek	Doctorate Degree in Medicine at University of Indonesia	1. Indonesian representatives for MDGs 2. Professor at Faculty of Medicine, University of Indonesia	Professional
24 Ministry of Primary and Secondary Education and Culture	Anies Baswedan	1. Ph.D in Political Science at Northern Illinois University, USA 2. Master Degree at School of Public Affairs University of Maryland, USA	1. Rector at Paramadina University 2. Researcher at Indonesia Survey Agency 3. Initiator of Indonesia Teaching Movement	Professional
25 Ministry of Research and Technology and Higher Education	Muhammad Nasir	1. Ph.D at University of Science Malaysia 2. Master Degree at Gajah Mada University	1. Rector at Diponegoro University 2. Dean at Business and Economics Faculty, Diponegoro	PKB Party

	Ministry Position	Minister	Education	Career	Affiliation
26	Ministry of Agriculture	Amran Sulaiman	1. Doctorate Degree in Agriculture, Hasanudin University 2. Master Degree in Agriculture, Hasanudin University	1. PT Perkebunan Nusantara XIV staff member 2. Lecturer at Hasanuddin University 3. President Director at Tiran Grup	Professional
27	Ministry of Manpower	Hanif Dhakiri	Master Degree at University of Indonesia	1. Member of House of Representative (2009-2014) 2. PKB Politician	PKB party
28	Ministry of Forestry and Environment	Siti Nurbaya	Doctorate Degree at Bogor Institute of Ariculture	1. Nasdem Party Politician 2. Secretary General of the Council of Regional Representatives	Nasdem Party
29	Ministry of Agrarian and Spatial Planning	Ferry Mursyidan Baldan	Bachelor Degree in Political Science at Padjadjaran University	1. Nasdem Party Politician 2. Member of House of Representative	Nasdem Party
30	Religious Affairs Ministry	Lukman Hakim Saifuddin	Bachelor Degree at Islam As-Syafi'iyah University	1. Religious Affairs Minister (2014) 2. Member of House of Representative/PPP Politician	PPP Party
31	Ministry of Social Affairs	Khofifah Indar Parawansa	Master Degree in Political Science at University of Indonesia	1. Women's empowerment minister (1999-2001) 2. Member of House of Representative 3. PKB Politician	Nahdatul Ulama
32	Ministry of Women's Empowerment and Child Protection	Yohana S. Yembise	1. Doctorate Degree at Cendrawasih Unoversity 2. Master of Art Simom Fraser University British Colombia Canada	1. Lecturer at Cendrawasih University 2. Professor at Cendrawasih University	Professional
33	Ministry of Sports and Youth Affairs	Imam Nahrawi	IAIN Sunan Ampel Surabaya	1. Member of House of Representative 2. PKB Politician	PKB Party
34	Ministry of Development of Villages and Underdeveloped Regions and Transmigration	Marwan Ja'far	Master Degree in Law at Kebangsaan University Malaysia	1. Member of House of Representative 2. PKB Politician	PKB Party

Source: Various Publication

Exhibit 2. Minister announcement by President Jokowi



Source: Various Publication

Exhibit 3. JCI and sector performance post fuel price hike

Fuel Price Hike 1 Mar 2005				Fuel Price hike 1 Oct 2005			
	3M Return	6M Return	1Yr Return		3M Return	6M Return	1Yr Return
JCI	↑ 1%	↓ -2%	↑ 15%	JCI	↑ 8%	↑ 23%	↑ 42%
Agriculture	↑ 19%	↑ 27%	↑ 91%	Agriculture	↑ 2%	↑ 34%	↑ 77%
Basic Industry	↓ -4%	↓ -14%	↑ 10%	Basic Industry	↑ 8%	↑ 27%	↑ 27%
Consumer	↑ 10%	↓ -1%	↑ 10%	Consumer	↑ 8%	↑ 13%	↑ 32%
Finance	↓ -4%	↓ -12%	↓ -7%	Finance	↑ 3%	↑ 13%	↑ 41%
Infrastructure	↑ 2%	↑ 13%	↑ 64%	Infrastructure	↑ 24%	↑ 47%	↑ 75%
Mining	↑ 1%	↑ 4%	↑ 20%	Mining	↓ -7%	↑ 15%	↑ 17%
Miscellaneous	↑ 7%	↓ -4%	↓ -8%	Miscellaneous	↑ 0%	↑ 8%	↑ 15%
Property	↑ 3%	↓ -17%	↓ -6%	Property	↑ 2%	↑ 26%	↑ 33%
Trade & Service	↓ -1%	↓ 0%	↑ 3%	Trade & Service	↑ 3%	↑ 12%	↑ 29%

Fuel Price hike 24 May 2008				Fuel Price hike 22 Jun 2013			
	3M Return	6M Return	1Yr Return		3M Return	6M Return	1Yr Return
JCI	↓ -11%	↓ -49%	↓ -22%	JCI	↓ -10%	↓ -11%	↑ 1%
Agriculture	↓ -37%	↓ -73%	↓ -46%	Agriculture	↓ -14%	↑ 5%	↑ 16%
Basic Industry	↓ -10%	↓ -47%	↓ -16%	Basic Industry	↓ -20%	↓ -18%	↓ -12%
Consumer	↓ -4%	↓ -23%	↑ 5%	Consumer	↓ -10%	↓ -13%	↓ -2%
Finance	↑ 3%	↓ -31%	↑ 5%	Finance	↓ -8%	↓ -10%	↑ 8%
Infrastructure	↓ -5%	↓ -36%	↓ -13%	Infrastructure	↓ -9%	↓ -9%	↑ 6%
Mining	↓ -24%	↓ -74%	↓ -46%	Mining	↑ 1%	↑ 0%	↑ 4%
Miscellaneous	↓ 0%	↓ -44%	↓ -7%	Miscellaneous	↓ -7%	↓ -5%	↑ 1%
Property	↓ -11%	↓ -43%	↓ -29%	Property	↓ -21%	↓ -30%	↓ -16%
Trade & Service	↓ -21%	↓ -63%	↓ -45%	Trade & Service	↓ -12%	↓ -12%	↑ 2%

Source: IDX, Bloomberg



Equity Valuation

Table with 17 columns: Rating, Price (Rp), Mkt Cap Rp Bn, Net profit Rp bn, EP9 (Rp), EP9 Growth, PER (x), EV/EBITDA (x), PBV (x), Net Gearing, ROE. Rows include companies such as Danareksa University, Astra International, Garuda Indonesia, Bank Mandiri, and various infrastructure and retail companies.

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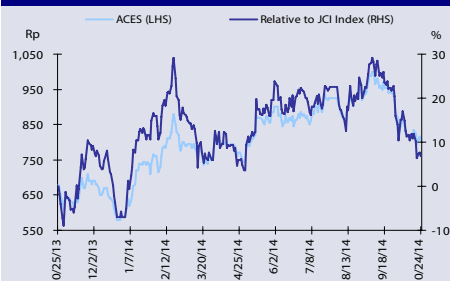
OVERWEIGHT

Retail Sector

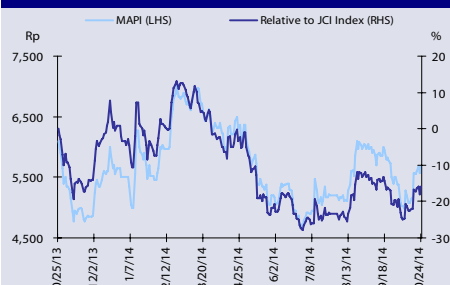
Set to improve after a seasonally weak September

Stocks	Price (Rp)	Target price (Rp)	Rec.
ACES	805	1,040	BUY
MAPI	5,675	6,250	BUY
RALS	810	1,140	BUY

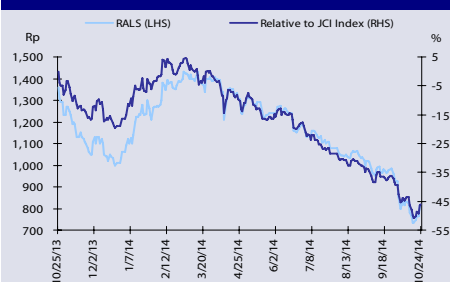
ACES relative to JCI Index



MAPI relative to JCI Index



RALS relative to JCI Index



September is always a relatively slow month for retailers as it is sandwiched between the Idul Fitri holiday period and the year-end when sales are high. Of the three retailers under our coverage, ACES and RALS have announced their September numbers: 18.9% yoy accumulated 9M14 sales growth for ACES and -0.1% for RALS. Going forward, we expect sales to improve - especially for ACES and MAPI - and to peak in the last quarter of the year. Meanwhile, the revised Ministry of Trade regulation is also a positive for both ACES and MAPI. All in all, we remain upbeat on the sector although sentiment may weaken in the short-term with the high market volatility.

September sales - seasonally low

Of the three retailers under our coverage, ACES and RALS have announced their September sales figures, while MAPI will publish its operational result together with its financial result at the end of this month. September is typically a slow month for retailers since it comes after the Idul Fitri holiday period (in July 2014) when sales are buoyant. ACES booked strong 18.9% growth in its 9M14 accumulated sales, while RALS's accumulated sales, by contrast, edged down 0.1% yoy. Looking ahead, sales should improve - especially for ACES and MAPI - and peak in the last quarter of the year.

The new revision to regulations is good news for ACES and MAPI

We previously stated in our retail sector report in August that the government had plans to revise the Trade Ministry regulations which regulate the operation of modern retail shops and franchises, as well as the operation of traditional markets, shopping centres, and modern retailers. The Ministry of Trade finally came up with the revised regulation, which, in our view, is positive and should benefit both ACES and MAPI since they would potentially be exempted from the requirement that more than 80% of sales must be of locally-produced goods. The other revisions have a relatively neutral impact on retailers under our coverage.

Maintain OVERWEIGHT

Although market volatility may stay high in the short-term, we still believe that the sector outlook remains promising with the retailers under our coverage expected to perform strongly in the coming years supported by stable margins. We also note that consumer confidence recently strengthened in September 2014, with the index climbing 2.4% to 102.2, surpassing the 100 level for the first time since March 2005. The retail sector currently trades at an average FY15F PE of 17.8x. OVERWEIGHT maintained.



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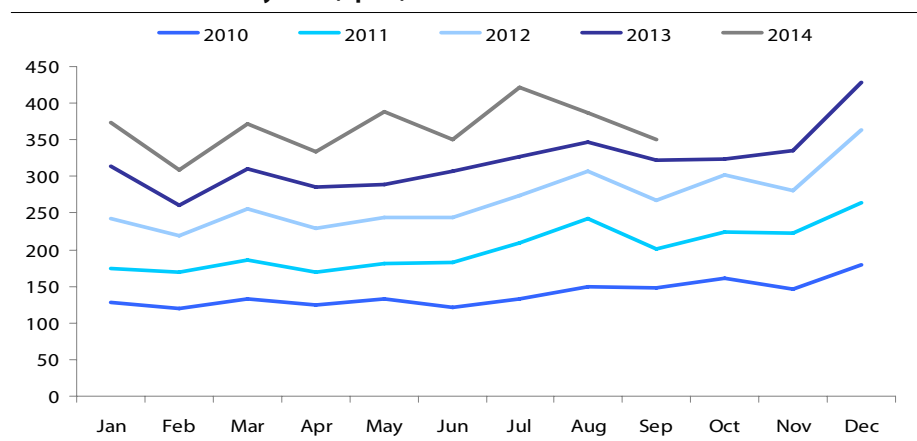
	Rec	Current price	Target price	PE 2015F	EV/EBITDA 2015F	EPS CAGR FY13-15	ROE 2015F	Net gearing 2015F
		Rp	Rp	x	x	%	%	%
Sector average				17.9	11.2	13.9	18.1	
ACES	BUY	805	1,040	19.7	16.5	17.3	26.1	Net cash
MAPI	BUY	5,675	6,250	21.3	8.1	16.2	15.3	78.5
RALS	BUY	810	1,140	12.6	9.0	8.2	13.0	Net cash

Septembersales – seasonally low

Of the three retailers under our coverage, ACES and RALS have announced their September sales figures, while MAPI will publish its operational result together with its financial result at the end of this month. September is typically a slow month for retailers since it comes after the Idul Fitri holiday period (in July 2014) but before the year-end when sales are buoyant.

ACES recorded Rp351 bn of sales in September 2014. This figure is down 9.2% on a monthly basis but still up 8.9% year-one-year. The number is also pretty much inline with the seasonality, since the company usually books quite low sales in September. ACES’ accumulated sales in 9M14 reached Rp3,287 bn (+18.9% from Rp2,763 bn in 9M13). Going forward, we foresee a stronger top line in the last quarter of the year, since 29.0% of sales are typically booked in the fourth quarter due to seasonality. ACES’ year-to-date SSG is 4.7%. So far in 2014, the company has added 13 new stores, translating into total additional floor space of 33,400 sqm (95.4% of our FY14 expansion target).

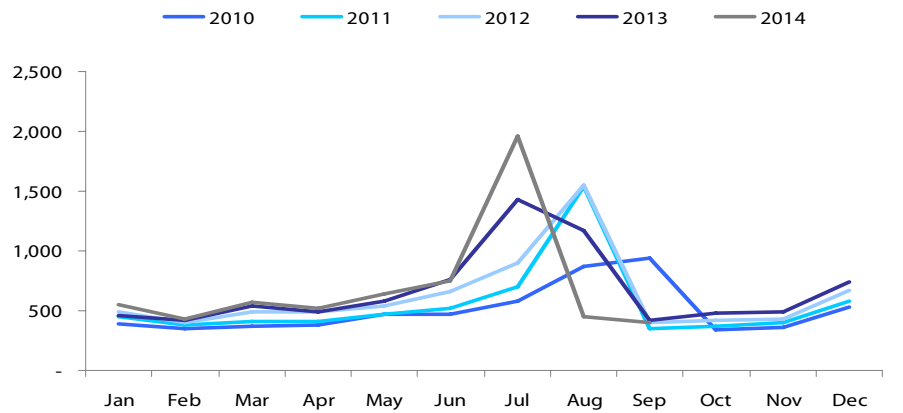
Exhibit 1. ACES’s monthly sales (Rp bn)



Source: Company

RALS, meanwhile, generated Rp395 bn of sales in September 2014, but only 87.0% of the company’s September sales target. Consequently, the 9M14 total sales reached Rp6,254 bn, or 0.1% lower than 9M13’s Rp6,259 bn. The out-of-Java stores, as the biggest contributor to revenues (42.1% in 9M14), continued to book negative SSG (-0.7%). Hence, overall, the year-to-date SSG reached 1.3%.

Exhibit 2. RALS's monthly sales (Rp bn)



Source: Company

Looking ahead, we expect retail sales to improve - especially for ACES and MAPI - and to peak in the last quarter of the year. The opening of the first IKEA store in Indonesia (on October 15th 2014) in Alam Sutera, Serpong may have a slight impact on ACES in the short term as ACES' Jakarta and greater Jakarta stores have contributed 34% of the total sales ytd. However, we don't believe the threat will be sustained, since only about 10-15% of the ticket items at the two stores are similar.

Exhibit 3. The opening of the IKEA store has attracted the people's attention



Source: Danareksa Sekuritas

New revision to regulations: to benefit retailers

We previously stated in our retail sector report in August that the government had plans to revise the Trade Ministry regulations which regulate the operation of modern retail shops and franchises, as well as the operation of traditional markets, shopping centres, and modern retailers. Last week, the Ministry of Trade issued a press release on the revision to the regulation:

The modern retail regulation

The Ministry of Trade issued Ministry of Trade Regulation (Permendag) No.56/M-DAG/PER/9/2014 (revision from Permendag No.70/M-DAG/PER/12/2013), which regulates the operation of traditional markets, shopping centres and modern retailers. This regulation has been effective since the date of announcement.

Some key points of the revised regulation are:

1. **Article 8:** modern retailers can only sell their main supporting products up to a maximum 10% of the total products sold at the outlets. However, in certain cases the Trade Minister can grant exemptions to the stores. In the previous regulation, exemptions would be granted from the Communication Forum of Restructuring and Development of Traditional Markets, Shopping Centres, and Modern Retailers.
2. **Article 21:** modern retailers can only sell their private label products up to a maximum 15% of their total stock keeping units (SKUs), except for the partnership scheme which is regulated in Article 15.
3. **Article 22:** modern retailers and shopping centres must sell at least 80% locally produced goods. However, the Trade Minister grants consent for them to sell less than 80% locally produced goods for stand-alone brand modern retailers and/or specialty stores, in the case that the product: a) needs uniformity and is sourced from a global supply chain; b) has its own brand which is sold globally (premium product) and has no production base in Indonesia; or c) originates from certain countries to meet the needs of its citizens who live in Indonesia. These modern stores as explained above need to gradually increase the sales of similar products that are produced in Indonesia and report to the Trade Minister.
4. **Article 41:** modern retailers which have operated and have more than 150 stores before the regulation was issued are still allowed to continue their operations with that number of stores. Besides that, modern retailers and shopping centres that were operated before the regulation was issued and sell less than 80% locally produced goods need to adjust their sales so they meet the stipulations of the regulation within 2 years.

All the retailers under our coverage are subject to this regulation. Our concerns were on the stipulation that modern retailers must sell at least 80% locally-produced goods - potentially threatening ACES and MAPI. The revised regulation is good news for ACES and MAPI, since they can be exempted from the requirement that more than 80% of sales must be of locally-produced goods.

Over the longer term, all retailers under our coverage might be impacted by point number 4 concerning the maximum number of company-owned outlets. However, none of the retailers under our coverage have yet reached a total of 150 outlets.

Exhibit 4. Total number of outlets owned by each company

Company	Brand	Total stores
ACES	Ace hardware	108
MAPI	Sogo	13
	Debenhams	3
	Seibu	1
	GalleriesLafayette	1
	Lotus	6
	The Foodhall	23
	Alun-alun Indonesia	8
RALS	Ramayana / Robinson	119

Source: Company

The franchise regulation

The Ministry of Trade also issued Ministry of Trade Regulation (Permendag) No.57/M-DAG/PER/9/2014 (revision from Permendag No.53/M-DAG/PER/8/2012) which regulates franchise businesses and Permendag No.58/M-DAG/PER/9/2014 (revision from Permendag No.07/M-DAG/PER/2/2013) that specifically regulates food & beverages franchises.

The only key point on the revised regulation regards the stipulation that the Franchisor or Franchisee of a F&B business which already has 250 company-owned outlets and seeks to add more outlets, is obligated to form a partnership with another party in the form of either: 1) a franchise or 2) through capital participation. The revised regulation states that the Franchisor or Franchisee of an F&B business which already has 250 company-owned outlets before the regulation was issued can continue their operations with that number of stores.

Of the three retailers under our coverage, MAPI is the only retailer which will be impacted by these franchise regulations (for its food and beverages brands). However, the number of stores owned by the company for each brand is still far from the maximum number of 250 outlets. The other brands in the MAPI portfolio are operating under license agreements or distribution agreements.

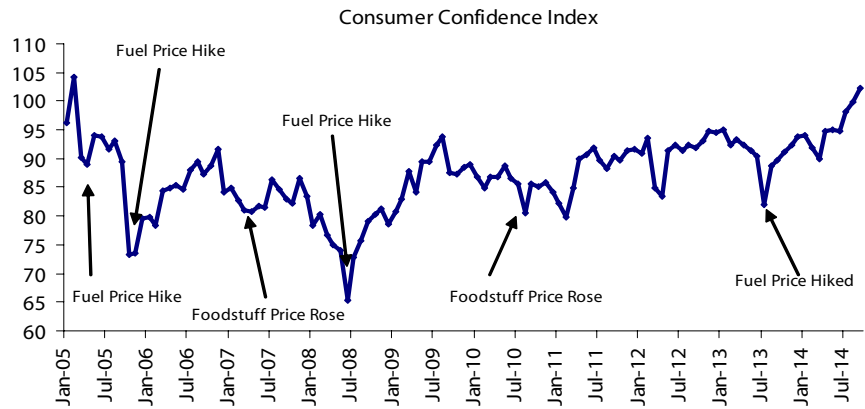
Exhibit 5. MAPI's F&B brands

Brands	Total outlets
Starbucks	184
Domino's	59
Burger King	46
Coldstone	15
Krispy Kreme	14
Pizza Express	11
Chatterbox	7
Godiva	1
Paul	1
Genki Sushi	1

Source: Company

Maintain OVERWEIGHT

Although market volatility may stay high in the short-term, we still believe that the sector outlook remains promising with the retailers under our coverage expected to perform strongly in the coming years supported by stable margins. We also note that consumer confidence recently strengthened in September 2014, with the index climbing 2.4% to 102.2, surpassing the 100 level for the first time since March 2005. The retail sector currently trades at an average FY15F PE of 17.8x. OVERWEIGHT maintained.

Exhibit 6. Consumer confidence strengthened again in September 2014

Source: Danareksa Research Institute

Exhibit 7. Valuation table

Company	Recom. Rp	Current price Rp	Target Price 2015F	PE, x 2015F	EV/EBITDA, x	EPS CAGR FY13-15, % 2015F	ROE, % 2015F	Net gearing, %
Sector Average				17.9	11.2	13.9	18.1	
ACES	BUY	805	1,040	19.7	16.5	17.3	26.1	Net Cash
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Source: Bloomberg, Danareksa Sekuritas

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Adaro Hasten Bond Payment US\$ 800mn (ID)

Adaro Energy (ADRO) pay off its bonds earlier with a total value of US\$ 800mn, which was acquired in August this year by its subsidiary, Adaro Indonesia, worth US\$ 1bn. Company uses its internal cash and amortizing loans with cost lower than bond. Through this action, company is able to save interest payments of US\$ 40mn per year.

Rp6tn Dam Project Ready to Auction in 2015 (BI)

Ministry of Public Works will tender six dam projects worth Rp6tn in 2015, as currently still in DED process. The six dam projects are Karalloe reservoir in South Sulawesi, Telagawaja in Bali, Segong in Batam, Bintangbano in West Sumbawa, Tanjung in Dompou, and Mila in Sumbawa.

Waskita Offer 10.4% Coupon Bonds (BI)

WSKT offers 10.4% coupon for three-year bond worth Rp500bn. This bond is part of company's shelf registered bond-I worth a total of Rp2tn. The proceeds will be used to finance working capital needs. Pefindo declared A-rating for WSKT's bond.



The leaders on Danareksa coverage

	Code	Price as on		Chg, %	w-w, %	m-m, %	YTD, %	Rating
		24-Oct-14	23-Oct-14					
Sampoerna Agro	SGRO	1,930	1,840	4.9	5.5	(5.4)	(3.5)	BUY
Astra Agro Lestari	AALI	20,300	19,675	3.2	1.8	(12.5)	(19.1)	HOLD
PP London Sumatra	LSIP	1,845	1,805	2.2	(1.1)	(1.3)	(4.4)	BUY
Mitra Adi Perkasa	MAPI	5,675	5,575	1.8	1.8	5.1	3.2	HOLD
Salim Ivomas Pratama	SIMP	745	735	1.4	-	(11.3)	(4.5)	BUY
Gajah Tunggal	GJTL	1,475	1,460	1.0	(3.3)	(5.1)	(12.2)	BUY
Jasa Marga	JSMR	6,200	6,150	0.8	1.6	(3.1)	31.2	BUY
Indo Tambangraya Megah	ITMG	21,650	21,500	0.7	11.0	(13.9)	(24.0)	HOLD
Indocement	INTP	23,875	23,750	0.5	4.3	7.7	19.4	HOLD
Adaro Energy	ADRO	1,055	1,050	0.5	7.7	(11.7)	(3.2)	BUY

Sources: Bloomberg

The laggards on Danareksa coverage

	Code	Price as on		Chg, %	w-w, %	m-m, %	YTD, %	Rating
		24-Oct-14	23-Oct-14					
Surya Semesta Internusa	SSIA	775	805	(3.7)	7.6	2.6	38.4	BUY
Kimia Farma	KAEF	1,125	1,150	(2.2)	(4.7)	(3.4)	90.7	BUY
Unilever	UNVR	30,600	31,200	(1.9)	(4.2)	(3.8)	17.7	HOLD
Pembangunan Perumahan	PTPP	2,445	2,490	(1.8)	(0.6)	11.9	110.8	BUY
Holcim	SMCB	2,495	2,540	(1.8)	(4.0)	(5.1)	9.7	HOLD
Adhi Karya	ADHI	2,810	2,860	(1.7)	-	0.2	86.1	BUY
Alam Sutera	ASRI	473	481	(1.7)	0.2	0.6	10.0	BUY
Harum Energy	HRUM	1,575	1,600	(1.6)	(0.6)	(23.7)	(42.7)	HOLD
Waskita Karya	WSKT	950	965	(1.6)	3.3	11.1	134.6	BUY
United Tractors	UNTR	17,650	17,925	(1.5)	2.3	(12.4)	(7.1)	BUY

Sources: Bloomberg

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