

MORNING HIGHLIGHT

FROM RESEARCH

Weekly Report: Inviolable will (OVERWEIGHT)

Although concerns on the ongoing economic slowdown have rattled investors, we don't think this necessarily implies poor delivery capabilities of the current government. In fact, we would like to believe that it has actually served as a wake-up call for the government to take measures to accelerate economic growth. This year, government efforts will be key to accelerating growth, especially as consumers started to feel the pinch coming from the tighter monetary policy implemented since last year. Recognizing the importance of swift and decisive action, the government has been running on all cylinders recently, launching several major projects.

Indo Tambangraya Megah: Gloomy coal outlook to persist

(ITMG IJ. Rp 15,000. HOLD. TP Rp 18,500)

Indo Tambangraya Megah (ITMG) reported net profit of US\$38mn in 1Q15 (-61% yoy, but +20% qoq). The net profit was within our expectation, but slightly above consensus forecast. The decline in the net profit was mainly attributable to a) a weak in coal prices, which reflected on a decline in ASP by 15% yoy, b) lower gain on coal swaps resulted on a decline in other income and c) higher effective tax rate of 38.9% in 1Q15 (1Q14: 25.4%). At the moment, we still maintain HOLD recommendation with Target Price to Rp18,500 (based on DCF valuation with a WACC of 12.3%).

Previous Reports:

Monday, May 11 2015

- **Surya Semesta Internusa: Property business growth** (SSIA IJ. Rp 1,200. Under Review. TP 1,040)

Friday, May 8 2015

- **Adhi Karya: An early peek at the ADHI's LRT** (ADHI IJ. Rp 1,815. BUY. TP Rp 3,700)
- **Japfa Comfeed: Oversupply takes its toll** (JPFA IJ. Rp 560. Not Rated)

MARKET NEWS

*Analysts' comment inside

- Cement sales fell by 2.7% (ID)
- INAF Wins Contract of Rp 250bn (BI)
- RI to Cut Taxes Near Singapore Level in Profits Battle (TJP)
- Solusi Tunas Shareholders Postpone Share Sale (TJP)

IDX ANNOUNCEMENT

Cash Announcement

Code	Ex-Date	Date Payable	Amount (Rp)
AAAI	22-Apr-15	15-May-15	472
SMGR	24-Apr-15	20-May-15	375.34
TLKM	27-Apr-15	21-May-15	89.46

Source: KSEI

Key Index

	Close	Chg (%)	Ytd (%)	Vol (US\$ m)
Asean - 5				
Indonesia	5,172	(0.2)	(1.0)	240
Thailand	1,501	(0.6)	0.2	947
Philippines	7,778	0.2	7.6	126
Malaysia	1,805	(0.1)	2.5	536
Singapore	3,471	0.5	3.1	607
Regional				
China	4,334	3.0	34.0	90,366
Hong Kong	27,718	0.5	17.4	17,168
Japan	19,611	(0.1)	12.4	833
Korea	2,098	0.0	9.5	4,599
Taiwan	9,664	(0.3)	3.8	3,121
India	27,507	1.5	0.0	426
NASDAQ	4,994	(0.2)	5.4	64,312
Dow Jones	18,105	(0.5)	1.6	7,370

Currency and Interest Rate

	Rate	w-w (%)	m-m (%)	ytd (%)
Rupiah (Rp/1US\$)	13,155	(1.3)	(1.3)	(6.2)
SBI rate (%)	6.67	(0.3)	(0.3)	(0.6)
10-y Govt Indo bond	8.22	0.3	1.0	0.4

Hard Commodities

	Unit	Price	d-d (%)	m-m (%)	ytd (%)
Coal	US\$/ton	62	n/a	(0.6)	(27.0)
Gold	US\$/toz	1,184	0.0	(2.0)	(0.1)
Nickel	US\$/mt.ton	14,241	(0.1)	13.2	(5.5)
Tin	US\$/mt.ton	15,769	(0.6)	(5.3)	(18.9)

Soft Commodities

	Unit	Price	d-d (%)	m-m (%)	ytd (%)
Cocoa	US\$/mt.ton	2,997	0.6	5.4	4.8
Corn	US\$/mt.ton	135	(0.9)	(4.9)	(15.4)
Crude Oil	US\$/barrel	65	(0.1)	12.1	13.1
Palm oil	MYR/mt.ton	2,146	(0.6)	(1.6)	(16.6)
Rubber	US\$/kg	154	0.8	10.7	0.9
Pulp	US\$/tonne	855	n/a	(2.8)	(5.7)
Coffee	US\$/60kgbag	131	0.9	(2.3)	33.3
Sugar	US\$/MT	383	0.1	4.8	(2.0)
Wheat	US\$/mt.ton	176	(0.4)	(8.6)	(19.8)

Source: Bloomberg

PT Danareksa Sekuritas

Jl. Medan Merdeka Selatan No. 14
Jakarta 10110
Indonesia
Tel (62 21) 29 555 888
Fax (62 21) 350 1709

Equity Research Team

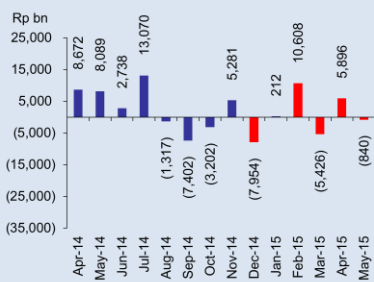
Agriculture	Helmy Kristanto	helmyk@danareksa.com	(62-21) 2955 824
Automotive	Helmy Kristanto	helmyk@danareksa.com	(62-21) 2955 824
Auto Component	Joko Sogie	jokos@danareksa.com	(62-21) 29555 888 ext.3512
Banking	Eka Savitri	ekas@danareksa.com	(62-21) 29555 888 ext.3509
Cement	Helmy Kristanto	helmyk@danareksa.com	(62-21) 2955 824
Coal	Stefanus Darmagiri	stefanus.darmagiri@danareksa.com	(62-21) 29555 888 ext.3530
Construction	Joko Sogie	jokos@danareksa.com	(62-21) 29555 888 ext.3512
Consumer	Jennifer Frederika Yapply	jennifer.yapply@danareksa.com	(62-21) 29555 888 ext.3508
Heavy Equipment	Stefanus Darmagiri	stefanus.darmagiri@danareksa.com	(62-21) 29555 888 ext.3530
Media	Lucky Ariesandi, CFA	lucky.ariesandi@danareksa.com	(62-21) 29555 888 ext.3520
Metal Mining	Stefanus Darmagiri	stefanus.darmagiri@danareksa.com	(62-21) 29555 888 ext.3530
Pharmaceutical	Armando Marulitua	arandom@danareksa.com	(62-21) 29555 888 ext.3503
Property	Anindya Saraswati	anindyas@danareksa.com	(62-21) 29555 888 ext.3506
Retail	Anindya Saraswati	anindyas@danareksa.com	(62-21) 29555 888 ext.3506
Strategy	Helmy Kristanto	helmyk@danareksa.com	(62-21) 2955 824
Telecommunication	Lucky Ariesandi, CFA	lucky.ariesandi@danareksa.com	(62-21) 29555 888 ext.3520
Transportation	Joko Sogie	jokos@danareksa.com	(62-21) 29555 888 ext.3512
Utilities	Lucky Ariesandi, CFA	lucky.ariesandi@danareksa.com	(62-21) 29555 888 ext.3520
Research Associate	Puti Adani	putia@danareksa.com	(62-21) 29555 888 ext.3511

Sales team

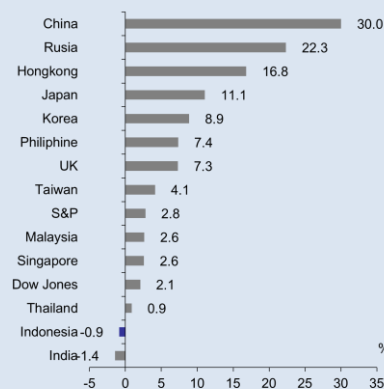
Ermawati A. Erman	ermawatiae@danareksa.com	(62 21) 29555 888 ext. 3151
Asfarita Andalusia	asfarita@danareksa.com	(62 21) 29555 888 ext. 3134
Novrita E. Putrianti	novrita@danareksa.com	(62 21) 29555 888 ext. 3128
Ehrlich Suhartono	ehrlich@danareksa.com	(62 21) 29555 888 ext. 3132
Yunita L. Nababan	yunita@danareksa.com	(62 21) 29555 888 ext. 3145
Bram Taarea	bramt@danareksa.com	(62 21) 29555 888 ext. 3127
Martin Joshua	martinjs@danareksa.com	(62 21) 29555 888 ext. 3126
Laksmi Armandani	laksmiata@danareksa.com	(62 21) 29555 888 ext. 3125
Muhammad Hardiansyah	mhardiansyah@danareksa.com	(62 21) 29555 888 ext. 3109
Tuty Sutopo	tuty@danareksa.com	(62 21) 29555 888 ext. 3121
Upik Yuzarni	upik_y@danareksa.com	(62 21) 29555 888 ext. 3137

Tuesday, May 12, 2015
OVERWEIGHT

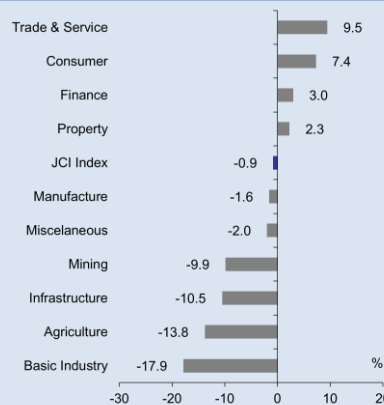
Foreign fund flow



2015 Ytd Regional Performance



2015 Ytd Sector Performance



Helmy Kristanto

(62-21) 2955 5824
helmyk@danareksa.com

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

Weekly Report

Inviolable will

Gear up – it's now in the fast lane!

Although concerns on the ongoing economic slowdown have rattled investors, we don't think this necessarily implies poor delivery capabilities of the current government. In fact, we would like to believe that it has actually served as a wake-up call for the government to take measures to accelerate economic growth. This year, government efforts will be key to accelerating growth, especially as consumers started to feel the pinch coming from the tighter monetary policy implemented since last year. Recognizing the importance of swift and decisive action, the government has been running on all cylinders recently, launching several major projects. To this end, Jokowi visited several places across the country and kick started a number of infrastructure projects covering power generation, toll roads, housing, and dams (details in Exhibit 1). Most impressively of all, progress has now been made on the Trans Sumatra toll road – a project which previous governments could only aspire to. This project will – when fully realized – be the longest and most ambitious toll road development in Indonesia, having large multiplier effects in the regions it passes through.

Despite the government's lack of a long track-record given its recent formation, we can sense its urgency to deliver on its promises and meet the deadlines. The recent acceleration of the 117km Cikapali toll road project is evidence of this. Progress on this toll road has come under the watchful eye of the government which is keen for the deadlines to be met; thereby setting the benchmark for other projects which will follow. Furthermore, we also believe that the lackluster 1Q15 will be used to measure the progress of government ministers, which, in turn, should put more pressure on them to make more meaningful contributions. We also believe that a cabinet reshuffle is still on the cards, and whilst this could potentially create positive market confidence, the risk of market discontentment is still there – especially if the cabinet reshuffle is a political act to bring in the growing number of government supporting parties. Nonetheless, we remain confident that the government will realize the importance of bringing in more capable people rather than just focusing on strengthening its coalition.

Improvements on the tax front with more clarity on ultra-luxury taxes

Lower tax collection was one of the problems in 1Q15, and this issue sparked concerns over the risk of either a ballooning budget deficit or lower infrastructure spending. We have been arguing that the slow tax collection that only reached 15.3% of its yearly target in 1Q15 would be balanced by the government's front loading strategy for bonds issuance (note that 1Q15 issuances reached 38% of the full year target). Encouragingly, the tax collection itself has started to improve with the 4M15 figure reaching IDR310tn, only down 1.3% y-y, and already 24% of the full year target. This improvement comes as a relief, especially in view of the growing importance of tax revenues to the government's overall income amidst dwindling oil and gas revenues on the back of soft commodity prices. To raise more taxes, the government issued a new regulation covering ultra-luxury taxes, which fall under article 22 and govern taxes on high-end products such as planes, yachts, luxury apartments and houses above IDR5bn/unit, cars above IDR2bn/unit and motorcycles above IDR500m/unit. Whilst this new regulation may not significantly boost the government's income - given the very small taxpayer segment targeted - we nonetheless believe that it may presage more intensive tax raising efforts in the future. In particular, sectors which cater toward upper income groups, low compliance taxpayers, and sectors which have enjoyed low taxes (like shipping and coal IUP) will be at more risk of an escalation in taxes.

Pressures to ease the tight monetary policy

In our previous report, we highlighted four positive market catalysts post the announcement of the weak 1Q15 corporate results and GDP data: 1. With the huge trade surplus in 1Q15 of USD2.4b, the CAD figures should be more favorable, a catalyst to revive the ailing currency; 2. Expected improvements in 2Q15, not only thanks to better business seasonality than in 1Q but also due to the surge in demand in the period leading up to Ramadan in mid-July. This should help underpin demand growth in late-2Q15; 3. More progress on infrastructure development can also be expected, especially regarding the awarding of infrastructure contracts to construction firms – another development likely to help bolster investor confidence; and 4. The possibility of more relaxation in the central bank's currently tight-biased monetary policy is still wide open, especially in efforts to support economic growth acceleration. However, aside from potential Fed rate hikes, the upsurge in domestic inflation in recent months may make BI more reluctant to cut rates. Nonetheless, cutting rates is not the only way for BI to relax its policy as it can also further ease the LTV regulation as well as the minimum reserves of banks – an approach taken by China's central bank recently to propel economic growth in that country. In short, we expect the announcement of more favorable policies in 2Q15.

Exhibit 1. Progress of Government Infrastructure Program

I Power Plant Project 35,000 MW		Location	Capacity
Project Progress			
1	Signing of PPA PLTB (wind power plant) Samas	Yogyakarta	50 MW
2	Signing of PPA PLTU (steam power plant) Kendari-3	South East Sulawesi	2x50 MW
3	Signing of PPA PLTU (steam power plant) Jeneponto Expansion	South Sulawesi	2x125 MW
4	Signing of PPA PLTA (hydro power plant) Malea	South Sulawesi	2x45 MW
5	Signing of LOI of EPC PLTU (steam power plant) Grati	East Java	450 MW
6	Groundbreaking PLTA (hydro power plant) Jati Gede	West Java	2X55 MW
7	Groundbreaking PLTU (steam power plant) Takalar	South Sulawesi	2x100 MW
8	Groundbreaking PLTU (steam power plant) Pangkalan Susu unit 3 and 4	North Sumatera	2x220 MW
II Trans Sumatera Toll Road (Ground Breaking)			
a. Four Main Corridor Development Plan			Length
1	Bandar Lampung - Palembang (South Sumatera)		358 km
2	Palembang - Pekanbaru (Riau)		610 km
3	Pekanbaru - Medan (North Sumatera)		548 km
4	Medan - Banda Aceh		460 km
b. Three Priority Corridor Development Plan			Length
1	Palembang - Bengkulu		303 km
2	Pekanbaru - Padang (West Sumatera)		242 km
3	Medan - Sibolga		175 km
III Solo - Kertosono Toll Road (Accelerating program)			
			Length
1	Solo - Ngawi acceleration program (91.62% completion)		90.1 km
2	Ngawi - Kertosono toll road ground breaking (48.5% land acquisition, expect to complete by end of 2016)		87.02 km
IV One Million Housing Programs (Ground Breaking)			
Total Budget Allocation Rp13tn:			
-60 percent allocation for low income people, selling price breakdown:			
1	Greater Jakarta	Rp120mn	per unit
2	Java (exclude greater Jakarta)	Rp105mn	per unit
3	Sumatera (exclude Bangka Belitung)	Rp105mn	per unit
4	Kalimantan	Rp118mn	per unit
5	Sulawesi	Rp110mn	per unit
6	Papua and Papua Barat	Rp165mn	per unit
-40 percent allocation for middle income people			
IV Inauguration of Way Leman Dam in Maluku			
*Project value of Rp25.8bn			
IV Pledge Rp3tn budget for infrastructure project in North Maluku			

Source: Secretariat of the Cabinet of the Republic of Indonesia

Exhibit 2. Tax Realization up to April 30th 2015

No	Type of Tax	Realization for	APBN-P	Target %	Realization up to 30 April		
		2014	2015	change	2014	2015	% change
1	2	3	4	5	6	7	(9)=(7-6)÷6
A	Non Oil and Gas Tax	458,692	629,835	37	162,937	180,169	11
1	Tax Article 21	105,642	126,848	20	32,904	36,062	10
2	Tax Article 2	7,245	9,646	33	1,918	1,786	(7)
3	Tax Article 22 Import	39,456	57,124	45	15,774	13,826	(12)
4	Tax Article 23	25,513	33,479	31	7,812	8,523	9
5	Tax Article 25/29 Individual	4,725	5,215	10	2,490	2,703	9
6	Tax Article 25/29 Institutional	149,281	220,874	48	67,738	74,833	(1,047)
7	Tax Article 26	39,447	49,779	26	9,176	11,984	31
8	Final Tax	87,294	126,805	45	25,108	30,439	21
9	Tax - Other Non Oil & Gas	89	66	(26)	17	13	(26)
B	VAT and Luxury Sales Tax	408,996	576,469	41	117,495	111,322	(525)
1	VAT Domestic	240,961	338,192	40	64,122	63,202	(1)
2	VAT Import	152,304	207,510	36	47,881	43,528	(9)
3	Luxury Sales Tax Domestic	10,240	19,349	89	3,262	3,035	(7)
4	Luxury Sales Tax Import	5,336	10,752	102	2,165	1,520	(30)
5	VAT and Luxury Sales Tax Others	155	666	330	66	38	(43)
C	Property Tax	23,476	26,690	14	873	308	(65)
D	Other taxes	6,293	11,729	86	1,721	1,557	(10)
E	Oil and Gas Tax	87,446	49,535	(43)	31,112	16,744	(46)
Total A + B + C + D		897,457	1,244,724	39	283,027	293,356	4
Total A + B + C + D + E		984,903	1,294,259	31	314,139	310,101	(1)

Source: Directorate General Of Taxation

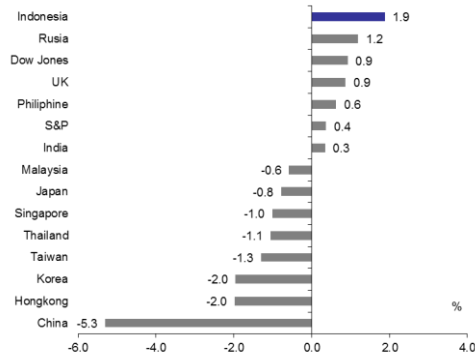
Exhibit 3. 1Q15 Result Wrap

	Revenue (Rp bn)		Result	
	Actual	Estimate (FY15)	YoY Growth (%)	A/F
ANTM	2,867	10,129	(21)	28.3
TCID	654	2,574	11	25.4
TLKM	23,616	96,111	11	24.6
BBNI (NII)	6,097	25,115	15	24.3
UNVR	9,413	38,915	8	24.2
ICBP	7,968	33,096	8	24.1
BMRI (NII)	10,945	45,736	22	23.9
BBTN (NII)	1,554	6,502	8	23.9
UNTR	12,648	52,925	(9)	23.9
BBCA (NII)	8,500	35,733	12	23.8
PTBA	3,277	13,851	6	23.7
ADRO	8,447	35,774	(4)	23.6
ROTI	519	2,249	16	23.1
SMGR	6,340	27,595	3	23.0
LPKR	2,384	10,444	19	22.8
JSMR	1,657	7,329	9	22.6
MAPI	2,965	13,145	11	22.6
ASRI	991	4,423	14	22.4
BTPN (NII)	1,845	8,250	6	22.4
BBRI (NII)	13,488	61,090	9	22.1
INDF	15,021	68,801	(0)	21.8
PGAS	8,274	38,191	(13)	21.7
ACES	1,108	5,115	3	21.7
EXCL	5,481	25,437	(1)	21.5
KLBF	4,247	20,469	4	20.7
BIRD	1,284	6,229	17	20.6
SILO	976	4,791	30	20.4
TINS	1,356	6,680	10	20.3
SMSM	597	2,946	(5)	20.3
ASII	45,187	224,744	(9)	20.1
SMCB	2,250	11,510	(4)	19.5
INCO	2,519	12,891	13	19.5
KAEF	1,015	5,198	17	19.5
AALI	3,233	16,618	(13)	19.5
INTP	4,328	22,521	(4)	19.2
RALS	1,492	7,894	(3)	18.9
MTLA	223	1,205	4	18.5
LSIP	888	4,937	(31)	18.0
SIMP	2,659	15,364	(16)	17.3
SGRO	527	3,441	(19)	15.3
HRUM	886	5,936	(34)	14.9
WIKA	2,005	16,504	(28)	12.1
ADHI	1,241	10,610	(14)	11.7
PTPP	1,982	17,203	(1)	11.5
WSKT	1,403	13,209	36	10.6
WTON	428	4,085	(47)	10.5
Overall 1Q15 result	236,785	1,103,515	1	21.5

	Net Profit (Rp bn)		Result	
	Actual	Estimate (FY15)	YoY Growth (%)	A/F
ADRO	701	1,996	(48)	35.1
SILO	35	102	30	34.3
ROTI	67	203	(0)	33.1
BBTN	402	1,357	18	29.6
UNTR	1,636	5,544	4	29.5
ICBP	797	2,974	16	26.8
LPKR	417	1,565	23	26.6
TCID	62	236	(1)	26.4
UNVR	1,592	6,091	17	26.1
TLKM	3,814	15,554	5	24.5
BMRI	5,138	22,087	4	23.3
BBNI	2,817	12,142	18	23.2
BBRI	6,147	27,391	4	22.4
ASRI	280	1,254	(10)	22.3
BTPN	487	2,228	(1)	21.9
INDF	870	4,057	(37)	21.4
KLBF	529	2,481	7	21.3
BBCA	4,063	19,127	11	21.2
JSMR	330	1,600	(12)	20.6
ACES	126	615	(8)	20.5
MTLA	59	290	9	20.3
SMGR	1,190	5,861	(9)	20.3
INTP	1,146	5,741	1	20.0
PTBA	340	1,746	(37)	19.5
BIRD	223	1,253	2	17.8
PGAS	1,300	7,465	(38)	17.4
KAEF	44	258	91	17.1
HRUM	20	120	(82)	16.8
ASII	3,992	23,978	(16)	16.6
SMSM	75	465	(11)	16.1
LSIP	153	1,055	(32)	14.5
PTPP	94	694	54	13.5
INCO	297	2,400	58	12.4
WIKA	62	843	(63)	7.4
AALI	156	2,770	(80)	5.6
WTON	17	396	(79)	4.3
SIMP	47	1,221	(75)	3.8
SGRO	17	464	(69)	3.7
SMCB	33	923	(90)	3.6
MAPI	12	352	(74)	3.4
ADHI	11	399	(31)	2.8
WSKT	12	646	71	1.9
RALS	6	409	(85)	1.5
TINS	(19)	651	(120)	-2.9
EXCL	(758)	1,208	(300)	-62.7
ANTM	(240)	44	14	-545.5
Overall 1Q15 result	38,599	190,256	1	20.3

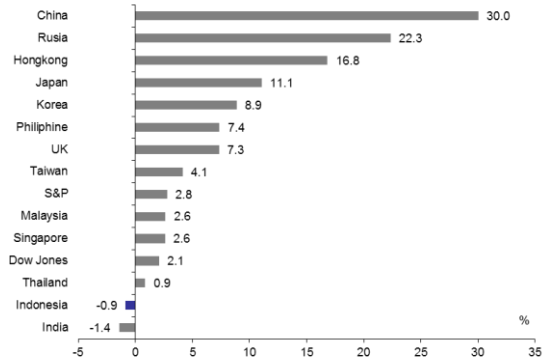
Source: Company, Danareksa Sekuritas

Exhibit 4. Regional weekly performance



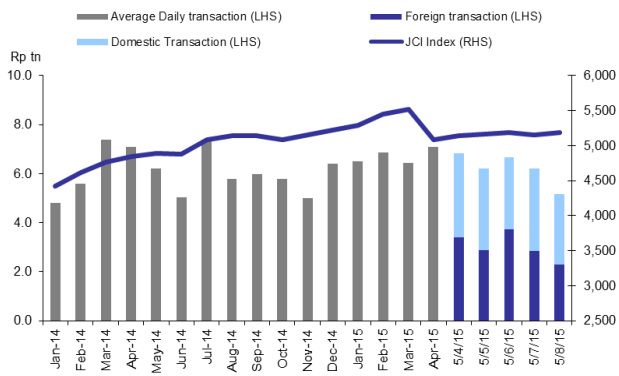
Source: Bloomberg, as of May 8th, 2015

Exhibit 5. Regional Ytd 2015 performance



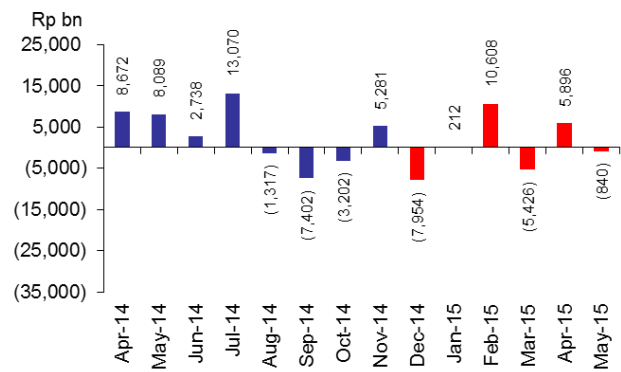
Source: Bloomberg, as of May 8th, 2015

Exhibit 6. Average daily transactions



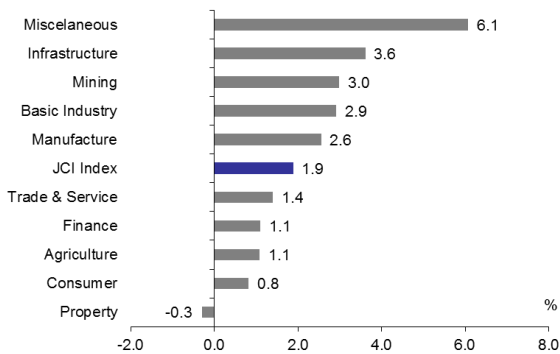
Source: IDX, as of May 8th, 2015

Exhibit 7. Foreign fund flows



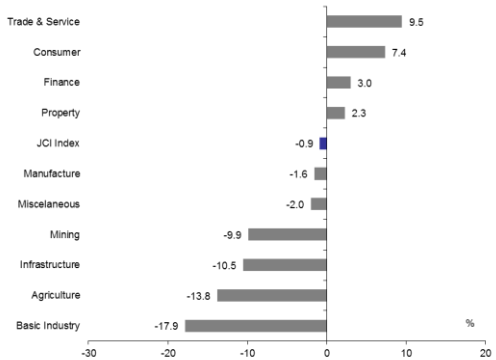
Source: IDX, as of May 8th, 2015

Exhibit 8. Sector weekly performance



Source: Bloomberg, as of May 8th, 2015

Exhibit 9. Sector Ytd 2015 performance



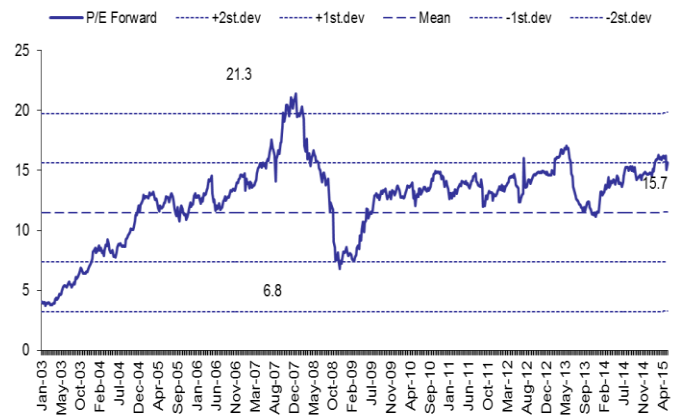
Source: Bloomberg, as of May 8th, 2015

Exhibit 10. Regional market valuations

	2015F	2016F
Philippines	19.5	17.2
Malaysia	16.6	15.4
NKY	18.7	16.9
Singapore	14.3	13.1
JCI	15.2	12.9
Dow Jones	16.2	14.8
Sensex	15.3	12.9
Thailand	15.2	13.2
FTSE	16.6	14.6
Hongkong	13.5	12.2
Korea	11.8	10.6
China	18.1	15.9
Taiwan	13.7	12.6
Average	15.7	14.0

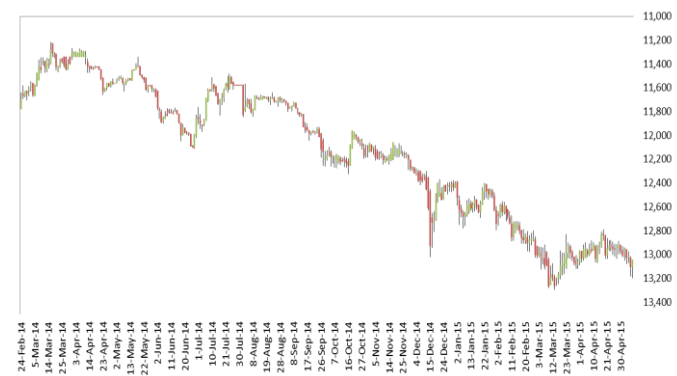
Source: Bloomberg, as of May 3th, 2015

Exhibit 11. JCI Valuation



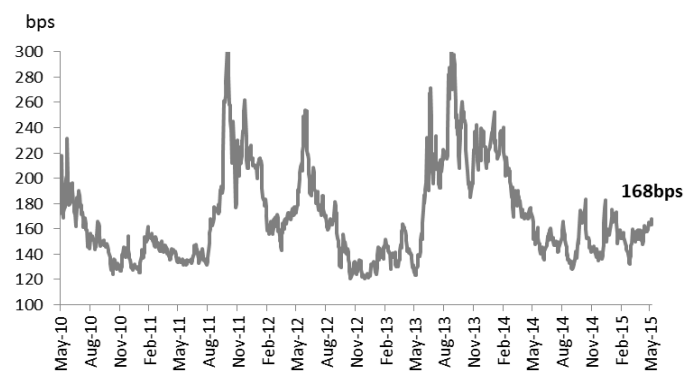
Source: Danareksa Sekuritas, as of May 8th, 2015

Exhibit 12. USD/IDR performance



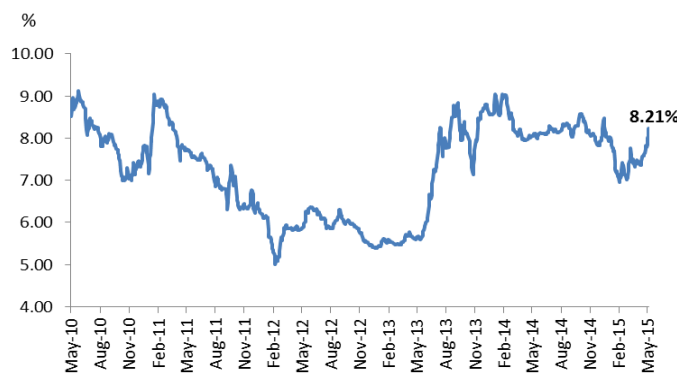
Source: Bloomberg, as of May 8th, 2015

Exhibit 13. CDS - 5 years



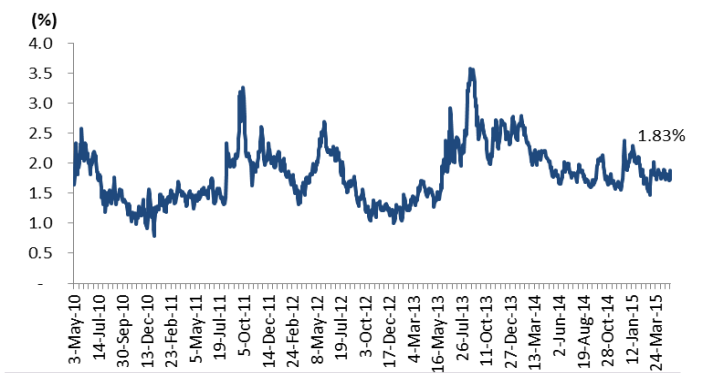
Source: Bloomberg, as of May 8th, 2015

Exhibit 14. Danareksa bonds yield index



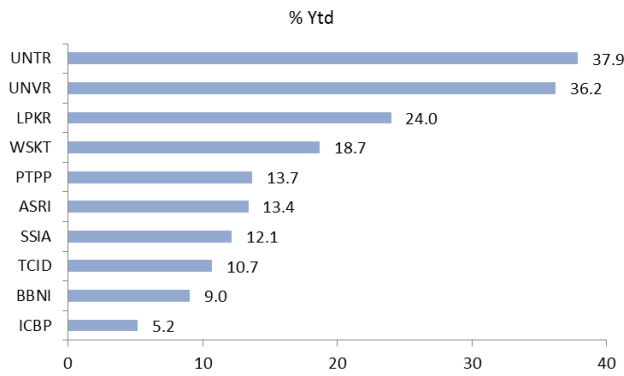
Source: Danareksa Sekuritas, as of May 8th, 2015

Exhibit 15. Country risk premium



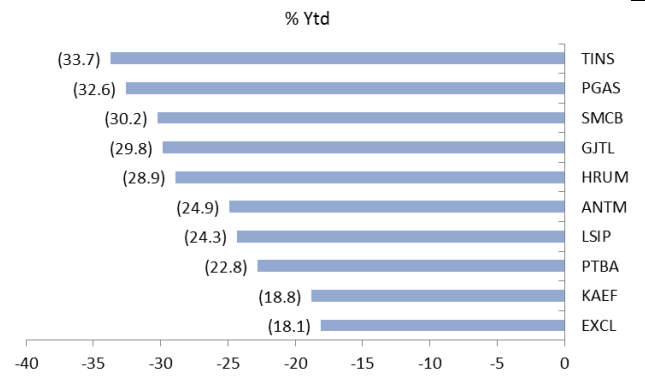
Source: Danareksa Sekuritas, as of May 8th, 2015

Exhibit 16. Winners within our coverage



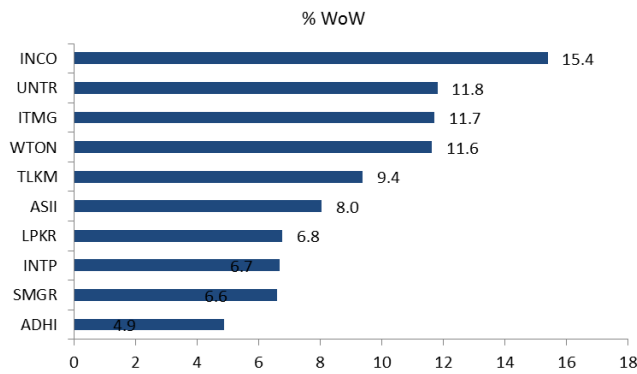
Source: Bloomberg and Danareksa Sekuritas, as of May 8th, 2015

Exhibit 17. Losers within our coverage



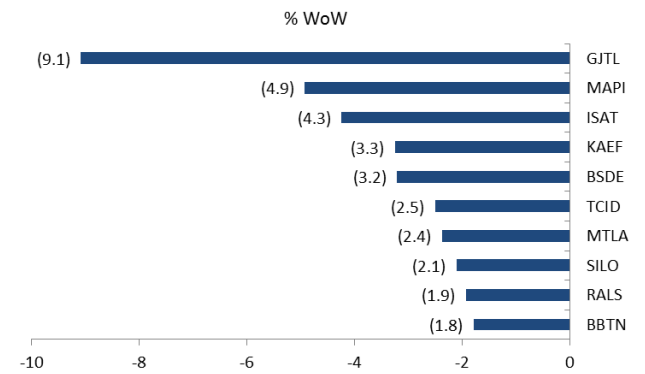
Source: Bloomberg and Danareksa Sekuritas, as of May 8th, 2015

Exhibit 18. Winners within our coverage (Weekly)



Source: Bloomberg and Danareksa Sekuritas, as of May 8th, 2015

Exhibit 19. Losers within our coverage (Weekly)



Source: Bloomberg and Danareksa Sekuritas, as of May 8th, 2015

Exhibit 20. One-week report wrap

Date	Company	Title	Key Point
7-May-15	Adhi Karya	An early peek at the ADHI's LRT	ADHI has just provided an overview on its LRT project (previously known as monorail). At first glance, the outlook for this project looks to be quite auspicious since the government shall provide full support for the project through both land availability and the planned Rp1.4tn capital injection in the near-term. In the first phase of the LRT project, Cibubur will be connected to Grogol, and interconnections will also be made with other forms of mass-transportation – feeding more traffic. The groundbreaking ceremony is slated to take place on August 17, 2015, with planned operation within the next 30-36 months (i.e. 2018F) or around the same time that the Jakarta MRT should be ready for operation.
7-May-15	Japfa Comfeed	Oversupply takes its toll	We visited two of JPFA's facilities: its feedmill and slaughterhouse. The visit was informative and we gained valuable insights into the operations of one of the largest players in Indonesia's poultry market. Nonetheless, harsh conditions in the industry remain a reality and the oversupply in the market is unlikely to be turned around soon. On a more positive note, poultry prices can be expected to increase with Lebaran just around the corner. This should give some breathing space to poultry players. While JPFA booked a net loss in 1Q15, we are expecting 2Q15 to be better, mainly supported by higher DOC prices.
6-May-15	Market Outlook	Weak 1Q15 GDP: A wake up call for the government	Despite softer growth expectation on 1Q15 GDP, the real 4.7% growth was a surprise. The weakness mainly came from continued soft situation on commodity, the main driver of export in Indonesia. We believe such a weak GDP figures would serve as a strong wake up call for the government, for either to make more reasonable revision on its target of 5.8% growth target or make a stronger and more meaningful infrastructure spending. Given the recent inauguration of several massive infra projects, arguably the government prefers the latter than the former at this stage.
6-May-15	Intiland Development	Enticing valuation	Intiland Development (DILD) is one of the leading property companies in Indonesia with a track record of more than 40 years, in which time it has developed over 40 projects in Jakarta and Surabaya. The company focuses on developing superblocks and high rise residential projects, targeting the middle to middle-up segments. Supported by its ongoing projects, earnings should grow by 65.3% CAGR from 2009-2015F. In September 2014, the company's assets were appraised by Colliers Indonesia, who came up with a total appraisal value of Rp19,147 bn. Using this figure, the current share price offers an attractive valuation at a 57% discount to NAV.
5-May-15	Weekly report	Back to a forward-looking focus	Indonesia's equity market has been on a rollercoaster ride with the index reaching a record high of 5,523 in early April before falling back to the 5,100 level at the end of the month. YTD, Indonesia is the worst-performing market in the region, down 2.7% YTD and by an even worse 7.2% if IDR depreciation is taken into account. Investor concerns mainly center on: 1. Disappointing 1Q15 results; 2. Weak 1Q15 GDP figures - which would open up the possibility of the government revising down its 2015 economic growth target of 5.7%; 3. A potential rift in international relations given the Indonesian government's firm decision to go ahead with the executions of a number of inmates convicted of serious drugs offenses, all of whom but one were foreigners and 4. Weak realization of government spending this year, as seen in the lower-than-targeted tax collection in 1Q15.
5-May-15	Indofood Sukses Makmur	Too cheap to ignore	As we adjust our 2015 numbers to reflect more on the weak 1Q15 result, we cut our 2015 forecast by some 6%, followed by lower margins expectations. Valuation wise, we also trim several of our SOTP multiples, to reflect the cyclical nature of the segments and more intense competition, and enlarge our discount factor to 20%. This results in our target price to form into Rp8,050 – 18.5x 2015PE, at some 32% discount to ICBP. We continue to like INDF for its cheap valuation, and the stock remains a BUY.
5-May-15	Nippon Indosari	Slower growth but upside remains	Given softer wheat prices, whilst also taking into account the new bonds issuance, we raise our 2015-16 bottom line estimates by around 31-47%. Using our new numbers, ROTI is trading at 21x 2015PE, or slightly below 1SD from its 5-year mean. We value ROTI at 22.8x, 1SD below its mean, to capture the risks to growth. This translates into a Rp1,200 Target Price, providing 8.6% upside potential. We rate the stock a HOLD.

Source: Danareksa Sekuritas

MINING/1Q15RESULTS

HOLD

Target Price, Rp 18,500

Upside 23%

ITMG IJ/ITMG.JK

Last Price, Rp 15,000

No. of shares (bn) 1.1

Market Cap, Rpbn 16,949

(US\$ mn) 1,288

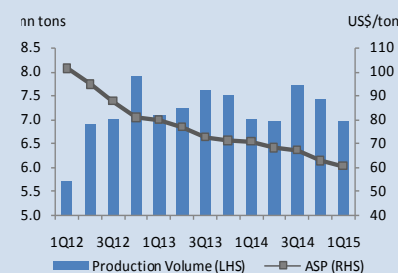
3M T/O, US\$mn 2.04

Last Recommendation

25-Feb-15	HOLD	Rp18,500
08-Jan-14	HOLD	Rp21,500

1Q15 Result, A/F, % (IN-LINE)

	1Q15, US\$ mn	A/F, %
Revenue	428	24
Operating Profit	59	29
Net profit	38	25

Key Chart – Prod. Volume and ASP**Consensus**

	Our	Cons	% Diff
Target Price, IDR	18,500	19,215	-4
EPS 2015F, IDR	1,763	1,763	0
PE 2015F, x	9	9	0

**Stefanus Darmagiri**

(62-21) 2955 5777 ext3530

stefanus.darmagiri@danareksa.com

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

Indo Tambangraya Megah**Gloomy coal outlook to persist**

Indo Tambangraya Megah (ITMG) reported net profit of US\$38mn in 1Q15 (-61% yoy, but +20% qoq). The net profit was within our expectation, but slightly above consensus forecast. The decline in the net profit was mainly attributable to a) a weak in coal prices, which reflected on a decline in ASP by 15% yoy, b) lower gain on coal swaps resulted on a decline in other income and c) higher effective tax rate of 38.9% in 1Q15 (1Q14: 25.4%). At the moment, we still maintain HOLD recommendation with Target Price to Rp18,500 (based on DCF valuation with a WACC of 12.3%).

Weak coal prices depressed net profit as well as...

The company reported lower net profit by 61% yoy to US\$38mn in 1Q15. This was mainly attributable to a) lower revenue by 15% yoy to US\$428mn as a result of weak ASP by 15% yoy to US\$60.5/ton while the company managed to maintain its sales volume at 7.1mn tons, b) lower other income as a result of a decline in gain on coal swaps and c) higher effective tax rate of 38.9% in 1Q15 vs. of only 25.4% in 1Q14. Rising on the effective tax rate was mainly driven by adjustment from previous year.

...lowered gross and operating margin

The company managed to lower its average cash production cost by 25% yoy to US\$33.5/ton. This was mainly attributable to lower average stripping ratio by 15% yoy to 8.7x in 1Q15 (1Q14: 10.1x). Hence, its mining costs, the largest production cost contributors, dropped by 30.5% yoy. However, as a result of weak ASP, the company experienced a decline in the gross and operating margin to 23.1% and 13.9% in 1Q15 from 25.8% and 17.3% in 1Q14 respectively. Moreover, as a result of higher effective tax rate, net margin further declined to 8.8% in 1Q15 from 19.1% in 1Q14.

Improvement in the quarterly figures – lower stripping ratio and opex

While revenue went down by 6% qoq as a result of lower ASP by 3% qoq and lower sales volume by 3% qoq, the company managed to improve its quarterly net profit by 20% qoq. This was mainly attributable to a) further decline in the stripping ratio from 9.8x in 4Q14 to 8.7x in 1Q15 reflected on a decline in the cash production cost by 17% qoq and b) lower operating expenses by 20% qoq. While the company incurred higher effective tax rate, still its net margin improved from 6.9% in 4Q14 to 8.8% in 1Q15.

Strong balance sheet with no debt

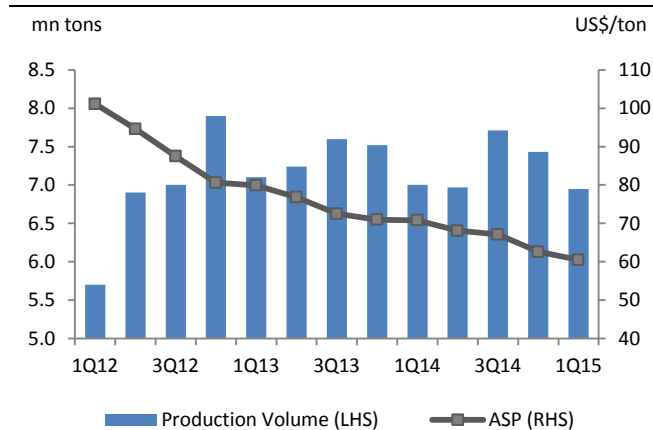
The company has a strong balance sheet with a net cash position and no debt. Moreover, ITMG managed to increase its cash position by 20.9% qoq to current level of US\$273mn in 1Q15. This is definitely a positive for the company amidst the currently weak coal prices since the company does not incur financial charges. Meanwhile, despite a slight decline in the coal production by 1% yoy to 6.9mn tons for 1Q15 and considering that first quarter production tend to be the lowest, we believe the company is expected to post a flat production growth of 29.5mn tons for 2015.

	2013	2014	2015F	2016F	2017F
Revenue, USD mn	2,179	1,943	1,784	1,873	1,995
EBITDA, USD mn	375	299	275	308	330
EBITDA Growth, %	-41.0	-20.1	-8.1	12.1	7.1
Net profit, USD mn	205	200	152	172	190
EPS, USD	0.181	0.177	0.134	0.153	0.168
EPS growth, %	-52.6	-2.3	-24.3	13.7	10.1
BVPS, USD	0.795	0.795	0.781	0.797	0.812
DPS, USD	0.238	0.177	0.148	0.137	0.153
Net Gearing, %	-32	-23	-24	-25	-29
PER, x	8.1	8.1	9.5	8.5	8.1
PBV, x	1.8	1.8	1.6	1.6	1.7
EV/EBITDA, x	3.6	4.6	4.4	4.0	3.8
Yield, %	16.3	12.4	11.6	10.5	11.2

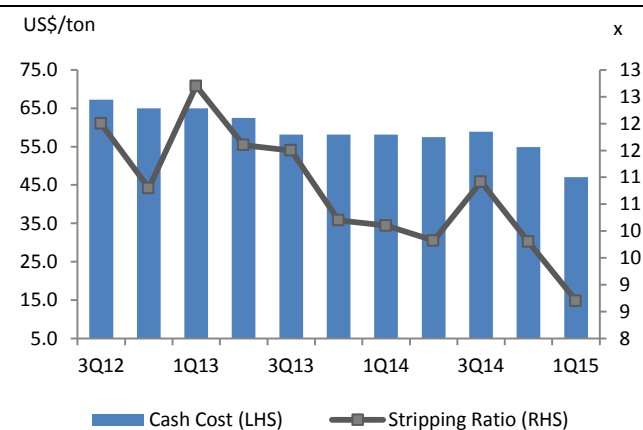
Exhibit 1. 1Q15: Net profit declined mainly due to lower ASP

Operational performance	4Q14	1Q15	QoQ,%	1Q14	1Q15	YoY,%	2015F	A/F,%
Sales volume, mn tons	7.3	7.1	(3)	7.1	7.1	0	29.5	24
Production volume, mn tons	7.4	6.9	(6)	7.0	6.9	(1)	29.5	24
ASP, USD/ton	62.6	60.5	(3)	70.8	60.5	(15)	60.5	100
Strip ratio, bcm/ton	9.8	8.7	(11)	10.1	8.7	(14)	9.6	91
Cash production cost, USD/ton	40.4	33.5	(17)	44.4	33.5	(25)	38.6	87
Total cost, USD/ton	54.9	47.0	(14)	58.1	47.0	(19)	51.7	91
Financial performance	4Q14	1Q15	QoQ,%	1Q14	1Q15	YoY,%	2015F	A/F,%
Net sales, USD mn	455	428	(6)	504	428	(15)	1,784	24
COGS, USD mn	(362)	(329)	(9)	(374)	(329)	(12)	(1,416)	23
Gross profit, USD mn	93	99	7	130	99	(24)	369	27
Opex, USD mn	(50)	(40)	(20)	(43)	(40)	(7)	(166)	24
Operating profit, USD mn	43	59	37	87	59	(32)	203	29
Net profit, USD mn	31	38	20	96	38	(61)	152	25
Gross margin, %	20.4	23.1	2.7	25.8	23.1	(2.7)	20.7	
Operating margin, %	9.5	13.9	4.4	17.3	13.9	(3.5)	11.4	
Net margin, %	6.9	8.8	1.9	19.1	8.8	(10.3)	8.5	

Source: ITMG, Danareksa Sekuritas

Exhibit 2. First quarter tend to be the weakest production

Source: ITMG

Exhibit 03. Cut in stripping ratio resulted on lower cost

Source: ITMG

MARKET NEWS

Cement sales fell by 2.7% (ID)

Domestic cement sales in January-April 2015 fell 2.7% yoy to 18.1 million tons compare to 18.6 million tons in the same period last year. Sales decline occurs evenly throughout Indonesia. Based on data from the Indonesian Cement Association (ASI), the biggest sales decline occurred in the Nusa Tenggara, which lower by 4.5% during the first four months in 2015. While in other regions, cement sales also decreased amounted 3.4% in Kalimantan, 3% in Java, 1.8% in Sumatra, 1.7% in Sulawesi, and 0.5% in Maluku and Papua. ASI predicts domestic cement sales to reach 62 million tons in 2015, up by 3.5% from last year, which will be supported by government infrastructure projects.

INAF Wins Contract of Rp 250bn (BI)

Indofarma (INAF) bagged a generic drugs contract sale through electronic catalogs tender worth IDR 250bn, or half of 2015 contracts target of IDR 300-350bn. INAF also plans to increase generic drugs production capacity from the current 3mn grain per year to 3.5mn grains, aside of their plan to revise its sales target from the initial target of IDR 1.7tn. On the other hand, Kimia Farma (KAFF), also targeting the new contracts worth IDR 350bn of E-catalogue tender, and now also building a new plant in the Banjarnegara, Bandung with a capacity of 3.5mn grains per year.

RI to Cut Taxes Near Singapore Level in Profits Battle (TJP)

Indonesia will gradually cut its corporate tax rate to discourage companies from booking profits in lower-tax countries, such as Singapore. The government will cut the rate from 25% currently to around 18%. The move adds to plans for a tax amnesty for citizens as the government tries to lift revenue collection. The tax cuts will narrow the gap with Singapore's rate of 17%. In addition to that, the government will also implement electronic systems to improve tax collection, to boost the number of individual tax payers and reach a tax-to-GDP ratio of 15% (vs. current 11%).

Solusi Tunas Shareholders Postpone Share Sale (TJP)

Telco tower operator, PT Solusi Tunas Pratama (STP) said two its shareholders shelved a planned share sale citing current weak market conditions. Initially, PT Kharisma Indah Ekaprima and PT Cahaya Anugerah Nusantara Holdings had intended to offer around 312.8mn shares, or 27.5% of company's paid-up capital to potential investors in Indonesia, Malaysia, and other countries. The shareholders and their advisors will continue to monitor the market and may re-launch the offering in the future. Previously, the planned share sale was worth around US\$300mn.



Equity Valuation

Rating	Price (Rp)	Price Target	Mkt Cap Rp Bn	Net profit, Rp bn		EPS (Rp)		EPS Growth		PER (x)		EV / EBITDA (x)		PBV (x)		Net Gearing	ROE		
				2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016				
Danareksa Universe			3,035,030	198,282	225,861	329.3	375.1	11%	14%	15.3	13.4	13.3	12.1	2.7	2.4		19.0		
Auto			309,521	24,660	29,165	451.7	534.3	15%	18%	12.6	10.6	10.1	8.7	2.2	1.9		18.6		
	Astra International	HOLD	7,325	8,300	296,542	23,976	28,096	592	694	16%	17%	12.4	10.6	10.3	8.8	2.2	1.9	33.5	19.1
	Gajah Tunggal	BUY	1,005	1,500	3,502	266	633	76	182	-1%	139%	13.2	5.5	4.6	4.4	0.6	0.5	80.8	4.4
	Selamat Sempurna	BUY	4,605	5,300	6,630	419	437	291	303	14%	4%	15.8	15.2	9.1	8.6	4.7	4.0	net cash	32.3
Banks			1,046,730	84,332	96,420	782.9	895.1	13%	14%	12.4	10.9			2.4	2.1		21.4		
	BCA	HOLD	13,700	14,050	337,774	19,127	21,921	767	879	15%	15%	17.9	15.6	NA	NA	3.6	3.0	NA	22.4
	BNI	BUY	6,650	7,450	124,014	12,142	13,914	651	746	13%	15%	10.2	8.9	NA	NA	1.8	1.6	NA	19.1
	BRI	BUY	11,775	13,800	290,479	27,391	31,497	1,110	1,277	13%	15%	10.6	9.2	NA	NA	2.4	2.0	NA	25.2
	Bank Tabungan Negara	BUY	1,090	1,400	11,519	1,357	1,609	129	153	22%	19%	8.4	7.1	NA	NA	0.9	0.8	NA	10.6
	Bank Mandiri	BUY	11,125	13,600	259,583	22,087	24,946	947	1,069	11%	13%	11.8	10.4	NA	NA	2.2	1.9	NA	19.8
	Bank Tabungan Pensiunan	BUY	4,000	5,450	23,361	2,228	2,533	381	434	19%	14%	10.5	9.2	NA	NA	1.7	1.4	NA	17.2
Cement			171,797	12,525	15,375	725	890	7%	23%	13.7	11.2	8.3	7.3	2.6	2.3		20.0		
	Holcim	HOLD	1,575	2,300	12,069	923	1,213	120	158	12%	31%	13.1	10.0	6.9	5.4	1.1	1.1	30.0	9.1
	Indocement	BUY	22,000	28,300	80,987	5,741	6,595	1,559	1,792	8%	15%	14.1	12.3	8.3	7.0	2.8	2.5	net cash	21.2
	Semen Indonesia	BUY	13,275	18,800	78,741	5,861	7,587	988	1,276	5%	29%	13.4	10.4	8.7	8.2	2.9	2.5	12.3	23.2
Construction			113,984	4,577	5,552	120	146	24%	21%	24.9	20.5	12.1	10.3	3.9	3.4		16.7		
	Jasa Marga	BUY	6,400	8,200	43,520	1,600	1,877	422	547	25%	30%	15.2	11.7	14.7	13.2	3.5	3.1	116.4	13.4
	Wijaya Karya	BUY	3,125	4,000	19,216	843	1,004	137	164	37%	19%	22.7	19.1	9.4	7.8	3.2	2.8	8.9	15.4
	Pembangunan Perumahan	BUY	4,065	4,600	19,685	694	856	143	177	30%	23%	28.4	23.0	11.1	9.1	6.6	5.3	18.0	25.8
	Adhi Karya	BUY	2,855	3,700	5,143	399	531	221	295	23%	33%	12.9	9.7	6.7	5.7	2.5	2.0	66.5	20.8
	Waskita Karya	BUY	1,735	2,100	16,877	646	792	66	81	28%	23%	26.3	21.5	13.3	10.8	5.0	4.3	39.2	20.9
	Wika Beton	HOLD	1,095	1,350	9,543	396	491	45	56	32%	24%	24.1	19.4	12.9	10.4	3.8	3.3	net cash	17.1
Consumer			481,343	13,686	15,530	498	565	9%	13%	35.2	31.0	21.0	19.0	9.2	8.4		27.8		
	Indofood CBP	HOLD	13,725	13,800	80,030	3,033	3,308	520	567	16%	9%	26.4	24.2	18.3	17.2	5.1	4.5	net cash	20.3
	Indofood	BUY	6,650	8,050	58,390	3,811	4,287	434	488	-2%	12%	15.3	13.6	7.3	6.7	2.1	1.9	19.2	14.1
	Unilever	SELL	43,650	30,000	333,050	6,365	7,332	834	961	11%	15%	52.3	45.4	36.5	32.1	61.8	55.4	net cash	129.7
	Nippon Indosari Corpindo	HOLD	1,180	1,200	5,973	266	377	53	75	41%	42%	22.4	15.8	12.9	9.1	5.1	4.0	63.0	25.0
	Mandom	BUY	19,400	19,300	3,901	210	226	1,045	1,126	8%	8%	18.6	17.2	10.0	9.3	2.7	2.5	2.6	15.3
Heavy Equipment			90,348	5,764	6,341	1,261	1,387	4%	10%	15.7	14.2	6.9	5.9	2.1	1.9		14.1		
	Hexindo Adiperkasa	HOLD	2,980	3,650	2,503	220	260	262	309	13%	18%	11.4	9.6	5.4	4.3	0.9	0.9	net cash	8.0
	United Tractors	HOLD	23,550	22,200	87,845	5,544	6,081	1,486	1,630	3%	10%	15.8	14.4	7.0	6.0	2.2	2.0	net cash	14.5
Healthcare			109,204	2,633	3,039	49	57	11%	15%	41.5	35.9	24.8	20.7	7.6	6.7		19.3		
	Kalbe Farma	HOLD	1,850	1,900	86,719	2,273	2,593	48	55	9%	15%	38.5	33.6	25.3	21.7	8.2	7.2	net cash	22.7
	Kimia Farma	BUY	1,155	1,500	6,415	258	313	47	56	12%	19%	24.6	20.6	16.7	13.4	3.2	2.8	2.3	13.5
	Siloam Hospital	BUY	13,900	15,750	16,070	102	133	89	115	64%	30%	156.9	121.0	20.5	9.1	8.5	64.2	6.0	
Mining			118,137	8,963	10,056	138	155	5%	12%	13.2	11.7	5.9	5.2	1.2	1.2		9.4		
	Adaro Energy	BUY	905	1,150	28,947	2,095	2,202	86	69	2%	5%	13.8	13.1	4.7	4.2	0.8	0.8	33.0	6.2
	Timah	BUY	815	1,400	6,070	651	765	87	103	40%	18%	9.3	7.9	4.6	4.1	1.1	1.0	10.2	12.4
	Vale Indonesia	BUY	3,255	4,200	32,343	2,375	2,566	239	258	17%	8%	13.6	12.6	6.2	5.4	1.5	1.4	2.6	11.0
	Aneka Tambang	HOLD	800	1,100	7,631	194	400	20	42	-148%	6%	106.6	39.3	19.1	14.5	10.8	0.6	62.8	1.6
	Bukit Asam	BUY	9,950	13,500	22,926	1,746	1,939	803	892	-13%	11%	12.4	11.2	9.0	7.8	2.5	2.3	net cash	19.7
	Indo Tambangraya Megah	HOLD	15,000	18,500	16,949	1,782	1,982	1,577	1,755	-15%	11%	9.5	8.5	4.4	4.0	1.6	1.6	net cash	18.0
	Harum Energy	HOLD	1,210	1,750	3,271	119	202	44	75	-53%	69%	27.5	16.2	2.4	1.8	0.9	0.9	net cash	3.1
Plantation			58,920	5,510	5,938	211	227	11%	8%	10.7	9.9	5.8	5.2	1.5	1.4		14.9		
	Astra Agro Lestari	BUY	22,225	27,100	34,999	2,770	2,832	1,759	1,798	4%	2%	12.6	12.4	7.6	7.1	3.0	2.7	net cash	24.5
	Sampoerna Agro	BUY	1,845	2,600	3,487	464	550	245	291	18%	19%	7.5	6.3	4.9	4.2	1.0	0.9	31.8	14.5
	PP London Sumatra	HOLD	1,465	2,090	9,995	1,055	1,133	155	166	8%	7%	9.5	8.8	4.7	4.0	1.3	1.2	net cash	13.9
	Salim Ivomas Pratama	BUY	660	850	10,439	1,221	1,423	77	90	33%	17%	8.6	7.3	4.4	3.9	0.7	0.6	37.6	8.2
Property			85,292	5,943	6,634	80	89	-25%	12%	14.4	12.9	10.7	9.5	2.0	1.7		14.4		
	Alam Sutera	BUY	630	700	12,379	1,254	1,516	64	77	15%	2%	9.9	8.2	9.2	7.8	1.7	1.5	75.3	18.9
	Bumi Serpong Damai	BUY	1,835	2,100	35,318	2,369	2,617	135	150	-36%	10%	13.6	12.3	11.9	10.4	2.3	2.0	net cash	16.6
	Metropolitan Land	BUY	409	620	3,100	290	322	38	43	14%	11%	10.7	9.6	7.3	6.7	1.4	1.3	27.7	14.2
	Surya Semesta Internusa	HOLD	1,225	1,040	5,764	464	415	99	88	32%	-11%	12.4	13.9	5.8	6.0	2.0	1.8	net cash	16.9
	Lippo Karawaci	BUY	1,245	1,200	28,732	1,565	1,763	72	82	-38%	13%	17.2	15.3	13.0	11.0	1.8	1.7	29.1	10.1
Telco & Infrastructure			434,403	19,860	22,840	145	167	28%	15%	21.9	19.0	6.4	5.9	3.6	3.3		17.4		
	XL Axiata	BUY	3,815	4,710	32,585	356	680	42	80	-140%	91%	91.3	47.9	6.1	5.5	2.3	2.2	120.7	2.5
	Indosat	HOLD	3,830	3,820	20,812	312	588	57	108	-152%	89%	66.7	35.4	3.7	3.4	1.3	1.3	132.4	2.0
	Telkom	HOLD	2,845	3,050	286,776	15,554	16,458	158	168	6%	6%	18.0	17.0	5.8	5.3	3.9	3.6	net cash	22.1
	Sarana Menara Nusantara	BUY	3,975	4,525	40,557	1,702	2,121	167	208	35%	25%	23.8	19.1	11.9	10.1	6.2	4.9	107.9	29.8
	Tower Bersama	HOLD	8,900	9,625	42,689	1,933	2,570	380	462	38%	22%	23.4	19.2	15.0	12.8	3.5	2.9	120	

COVERAGE PERFORMANCE

LEADERS

	Code	Price as on		Chg, %	w-w, %	m-m, %	YTD, %	Rating
		11-May-2015	08-May-2015					
Indo Tambangraya Megah	ITMG	15,000	14,075	6.6	16.3	(5.2)	(2.4)	HOLD
Adaro Energy	ADRO	905	860	5.2	7.1	(7.2)	(13.0)	BUY
Astra Agro Lestari	AALI	22,225	21,200	4.8	9.8	(7.9)	(8.4)	BUY
Holcim	SMCB	1,575	1,525	3.3	1.6	4.7	(27.9)	HOLD
Salim Ivomas Pratama	SIMP	660	640	3.1	3.1	(3.6)	(6.4)	BUY
Bukit Asam	PTBA	9,950	9,650	3.1	6.4	(7.0)	(20.4)	BUY
Harum Energy	HRUM	1,210	1,180	2.5	0.8	(17.1)	(27.1)	HOLD
PP London Sumatra	LSIP	1,465	1,430	2.4	6.2	(11.7)	(22.5)	HOLD
Surya Semesta Internusa	SSIA	1,225	1,200	2.1	7.0	(0.4)	14.5	HOLD
Nippon Indosari Corpindo	ROTI	1,180	1,160	1.7	6.8	3.1	(14.8)	HOLD

Sources: Bloomberg

LAGGARDS

	Code	Price as on		Chg, %	w-w, %	m-m, %	YTD, %	Rating
		11-May-2015	08-May-2015					
XL Axiata	EXCL	3,815	3,985	(4.3)	(6.7)	(9.1)	(21.6)	BUY
Kimia Farma	KAEF	1,155	1,190	(2.9)	(7.6)	(10.1)	(21.2)	BUY
Indocement	INTP	22,000	22,400	(1.8)	(3.5)	(3.7)	(12.0)	BUY
Lippo Karawaci	LPKR	1,245	1,265	(1.6)	(4.6)	(8.5)	22.1	BUY
United Tractors	UNTR	23,550	23,925	(1.6)	10.6	2.3	35.7	HOLD
Adhi Karya	ADHI	2,855	2,900	(1.6)	6.3	(7.2)	(18.0)	BUY
MNC Sky Vision	MSKY	1,555	1,575	(1.3)	(2.8)	(8.5)	(2.8)	HOLD
Selamat Sempurna	SMSM	4,605	4,660	(1.2)	(0.8)	(4.7)	(3.1)	BUY
Astra International	ASII	7,325	7,400	(1.0)	3.2	(10.1)	(1.3)	HOLD
Mitra Adi Perkasa	MAPI	5,250	5,300	(0.9)	(4.5)	(9.5)	3.4	BUY

Sources: Bloomberg

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