

MORNING HIGHLIGHT

FROM EQUITY RESEARCH

Banking: Tailwind from lower BI rate (Overweight)

We reiterate our OVERWEIGHT view on banking sector following the announcement of BI to lower interest rate by 25 bips to 7.25%. In 2016 we are put our OVERWEIGHT view on all of our bank stocks under our coverage. With better economy that is expected to grow at around 5.3% in 2016, the banking sector is anticipating for around 13% loan growth, higher than last year 10.5%. Our top picks in the sector are BBRI and BBKA.

MARKET NEWS

*Analysts' comment inside

- Aims Freeport shares, a consortium of mining SOE prepared USD 1 bn (ID)*
- Bank Mandiri projects profit to reach Rp23 tn (BI)
- CTRA target marketing sales grew 8.7% (ID)
- Jokowi Decided Kertajati Airport to be Funded by State Budget (DI)
- PMN Rp 34 tn still proposed (BI)

Previous Reports:

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- ASII: Challenges remain-[Snapshot20160113](#)
- Cement: Seasonality impact-[Snapshot20160112](#)
- PPRO: Strong 4Q15 numbers-[Snapshot20160111](#)
- PTBA: Improved production amid lackluster coal prices-[Snapshot20160106](#)
- Bank Central Asia: 11M15-[Snapshot20160105](#)
- Bank Rakyat Indonesia: 11M15-[Snapshot20160104](#)
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- BMRI: 11M15 – Still Growing, BBTN: 11M15 – Strong loan growth -[Snapshot20151229](#)

IDX ANNOUNCEMENT

Corp Action

Code	Action	Date	Time (WIB)
ASRI	EGM	15-Jan-16	10
BATA	EGM	15-Jan-16	10
PKPK	EGM	19-Jan-16	14
SIAP	EGM	20-Jan-16	11

Source: KSEI

Key Index

	Close	Chg (%)	Ytd (%)	Vol (US\$ m)
Asean - 5				
Indonesia	4,513	(0.5)	(1.7)	378
Thailand	1,263	(1.2)	(1.9)	1,266
Philippines	6,409	(1.3)	(7.8)	102
Malaysia	1,633	(0.6)	(3.5)	430
Singapore	2,645	(1.9)	(8.3)	836
Regional				
China	3,008	2.0	(15.0)	47,203
Hong Kong	19,817	(0.6)	(9.6)	9,748
Japan	17,241	(2.7)	(9.4)	15,274
Korea	1,900	(0.8)	(3.1)	3,263
Taiwan	7,743	(1.0)	(7.1)	2,419
India	24,773	(0.3)	(5.1)	468
NASDAQ	4,615	2.0	(7.8)	100,675
Dow Jones	16,379	1.4	(6.0)	11,870

Currency and Interest Rate

	Rate	w-w (%)	m-m (%)	ytd (%)
Rupiah Rp/1US\$	13,838	0.7	1.7	0.1
SBI rate %	7.10	-	-	(0.1)
10y Gov Indo bond	8.55	(0.3)	(0.5)	(0.2)

Hard Commodities

	Unit	Price	d-d (%)	m-m (%)	ytd (%)
Coal	US\$/ton	49	0.7	(5.7)	(2.8)
Gold	US\$/toz	1,077	(0.1)	1.5	1.5
Nickel	US\$/mt.ton	8,356	1.9	(3.5)	(4.8)
Tin	US\$/mt.ton	13,295	(1.1)	(8.8)	(8.9)

Soft Commodities

	Unit	Price	d-d (%)	m-m (%)	ytd (%)
Cocoa	US\$/mt.ton	2,949	0.8	(13.4)	(9.8)
Corn	US\$/mt.ton	135	0.1	(6.3)	0.7
Crude Oil	US\$/barrel	31	(0.3)	(16.7)	(16.0)
Palm oil	MYR/mt.ton	2,245	0.9	3.8	2.0
Rubber	US\$/mt ton	108	(0.1)	(7.1)	(8.4)
Pulp	US\$/tonne	793	N/A	(2.1)	(1.3)
Coffee	US\$/60kgbag	94	0.2	2.5	2.3
Sugar	US\$/MT	428	1.3	6.7	1.5
Wheat	US\$/ton	128	(1.9)	(5.0)	(0.3)

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

A. Indrajatri Suwono, CFA

adriana.suwono@danareksa.com
(62-21) 2955 5616
Strategy, Banking

Anindya Saraswati

anindyas@danareksa.com
(62-21) 2955 5820
Property, Retail

Armando Marulitua

armandom@danareksa.com
(62-21) 2955 5817
Pharmaceutical

Stefanus Darmagiri

stefanus.darmagiri@danareksa.com
(62-21) 2955 5831
Coal, Heavy Equipment, Metal Mining

Natalia Sutanto

natalia.sutanto@danareksa.com
(62-21) 29555 888 ext.3508
Consumer, Tobacco

Puti Adani

putia@danareksa.com
(62-21) 2955 5824
Research Associate

Antonia Febe Hartono

antonia.hartono@danareksa.com
(62-21) 29555 888 ext.3504
Research Associate

Sales team

Ermawati A. Erman

ermawatiae@danareksa.com
(62 21) 29555 888 ext. 3151

Novrita E. Putrianti

novrita@danareksa.com
(62 21) 29555 888 ext. 3128

Ehrliech Suhartono

ehrliech@danareksa.com
(62 21) 29555 888 ext. 3132

Yunita L. Nababan

yunita@danareksa.com
(62 21) 29555 888 ext. 3145

Martin Joshua

martinjs@danareksa.com
(62 21) 29555 888 ext. 3126

Laksmi Armandani

laksmitaa@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

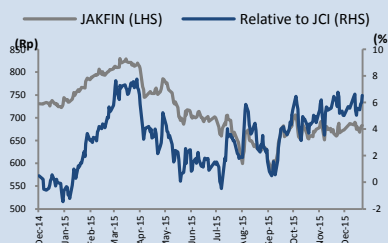
Upik Yuzarni

upik_y@danareksa.com
(62 21) 29555 888 ext. 3137

Kevin Giarto

kevin.giarto@danareksa.com
(62 21) 29555 888 ext. 3139

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OVERWEIGHT**Jakfin relative to JCI Index**

Banking Sector

Tailwind from lower BI rate

We reiterate our OVERWEIGHT call on the banking sector after BI announced its decision to cut the BI rate by 25 bips to 7.25%. Our view is that the sector will gain traction from brisker economic growth of around 5.3% in 2016, which will support decent loans growth of around 13%, significantly better than last year's 10.5%. Among the stocks under our coverage, we have BUYs on all of them. Our top picks are BBRI and BBKA.

Government spending will favor SOE banks

The other main growth catalyst in the banking sector is acceleration of government spending, which will benefit SOE banks more than their private counterparts. With inflation to remain under control and the rupiah relatively stable after the hike in the Fed's key interest rate, Indonesia's central bank (BI) now has more room to cut interest rates further. Our economist expects Indonesian interest rates to be cut by 50 -75 bips by year-end 2016.

Government spending in several areas will benefit SOE banks differently. We note that BBRI will benefit the most from channeling subsidized micro credit (KUR), while BBTN will benefit from providing subsidized financing in the government's housing program. And most banks, in particular BMRI and BBNI, will be able to channel more loans by financing government infrastructure projects. While the loans growth of private banks will be less than that of SOE banks, BBKA, as the nation's most competitive private bank, conservatively anticipates a somewhat lower level of loans growth.

Higher loans growth in 2016

The Indonesian banking industry expects loans growth to reach around 13% in 2016, or higher than 2015's figure of around 10.5%. SOE banks are more optimistic, however, and foresee loans growth of around 15% in 2016. BBKA, as the largest bank in the private sector, has a more conservative view and expects loans growth of only around 9 - 10% in 2016. In regard to assets quality, most banks still expect NPLs to increase slightly as the economy is still recovering. The NPL ratio of the banks under our coverage ranges from 0.7% - 4.5% compared to the industry's NPL ratio of 2.7% in September 2015.

BBRI: the KUR winner

With the government targeting Rp100 tn of KUR lending in 2016, BBRI shall channel Rp69.5 tn, or about 49.6% of its micro portfolio (which stood at Rp170.2 tn as of 9M15). From that total, around 20-25% (around Rp40 tn) is micro lending with individual loans below Rp25 mn, which may potentially be cannibalized by KUR.

The new KUR will carry a lower lending rate of 19% (compared to 22% previously), but the government will provide a 10% subsidy on the interest rate. Thus, ultimately, the borrower will only pay 9% with the cost of the insurance premium of 1.5% borne by the bank. Overall, BBRI will see its margin on new KUR lending decline by 4.5%, which should, however, still be well compensated by higher KUR loans growth. Nonetheless, we foresee that the lower lending rate on KUR will inevitably reduce the overall NIM by around 0.5%.

In general, KUR is good for banks, since subsidized loans are easier to channel. Consider that banks are able to channel loans with a 19% lending rate at only 9% with the 10% interest rate differential subsidized by the government (excluding the cost of insurance). At the same time, subsidized KUR will also increase the capacity of borrowers to service their debts, increasing the quality of the loans and reducing NPLs. Over the medium to long term, this may help to provide BBRI with a huge micro client base and further strengthen its position as the nation's preeminent micro lending bank.

Besides KUR, BBRI can accelerate its loans growth by providing syndicated loans in financing SOE companies such as PLN, Pelindo and Angkasa Pura. We reiterate our BUY call on BBRI with a TP of Rp13,400, implying PBV FY16F of 2.1x.

Company	Recom.	Last price	Target price	PBV		ROE	EPS CAGR (%)
				2015F	2016F	2015F	2014-16F
BBKA	BUY	13,025	15,425	3.6	3.0	21.4	8.9
BBNI	BUY	5,025	5,850	1.4	1.3	12.1	(10.7)
BBRI	BUY	11,725	13,400	2.5	2.1	23.0	3.3
BBTN	BUY	1,400	1,450	1.1	1.0	12.4	32.7
BMRI	BUY	9,350	11,450	1.8	1.6	18.2	3.8

A. Indrajatri Suwono, CFA

(62-21) 2955 5616

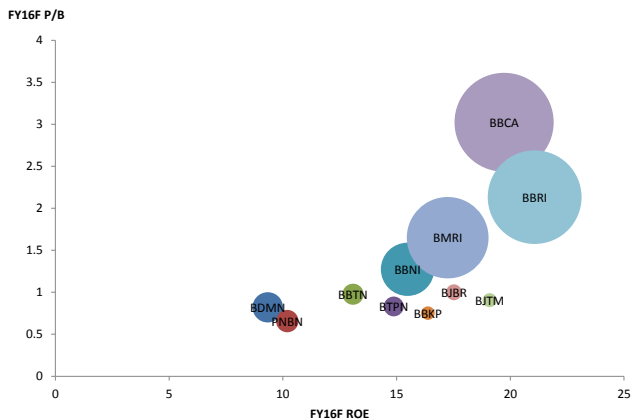
adriana.suwono@danareksa.com

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BBCA: excellent asset quality

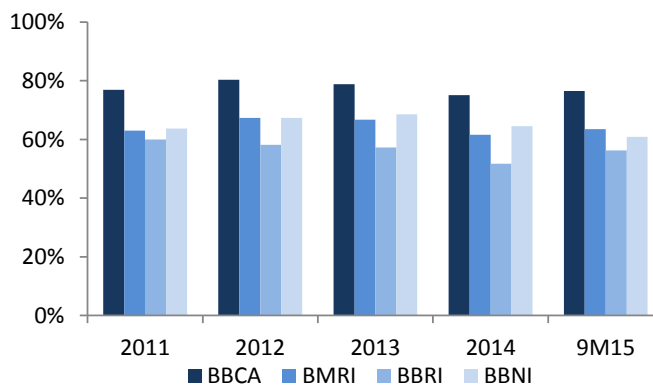
BBCA holds leading position in Indonesia banking industry with approximately 10.5% of its deposits market share in 2015. We consider BBCA brand of being the “transactional bank” as the most robust in Indonesia, especially among private banks. This result in BBCA’s strong pricing power and profit generation capacity. BBCA’s share valuation is usually higher among peers ranging at 3.5 – 4.5x PBV versus PBV of four SOEs banks of below 3x. We believe higher valuation is justified for BBCA’s strong brand equity, sound fundamental, prudent management, and respectable growth level. Besides, BBCA’s second largest market capitalization in JCI is an added benefit for investor. Our TP of Rp15,325 and implies PBV FY16F of 3.6x. BUY

Exhibit 1. PBV/ROE matrix



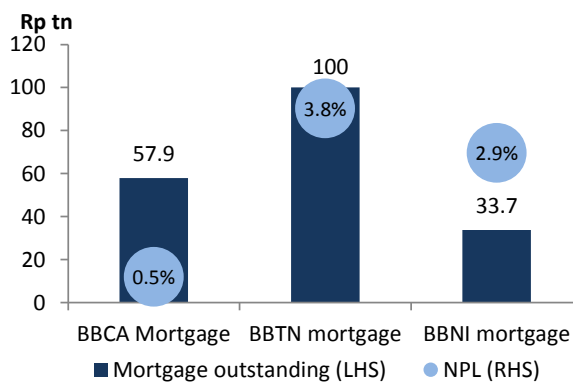
Source: Bloomberg, Danareksa Sekuritas

Exhibit 2. Comparison of CASA ratio



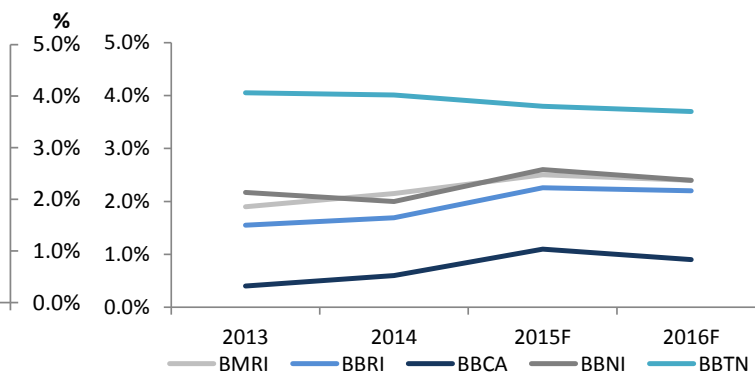
Source: Company

Exhibit 3. Mortgage and NPL



Source: Company

Exhibit 4. Comparison of NPL



Source: Company, Danareksa Sekuritas

MARKET NEWS

Aims Freeport shares, a consortium of mining SOE prepared USD1 bn (ID)

SOE consortium is ready to allocate USD500 million - 1 bn to acquire divested shares of Freeport Indonesia. Deputy for Restructuring and Enterprise Development Ministry of SOEs, Aloysius Kiik Ro said mining SOE consortium consists of Aneka Tambang (ANTM), Tambang Batubara Bukit Asam (PTBA), Timah (TINS), and Indonesia Asahan Aluminium (Inalum). The consortium is ready to receive further instructions from the government to acquire a 10.64% stake in Freeport worth USD1.7 bn. Apart from equity, acquisition financing sources can come from the state bank loans.

Bank Mandiri projects profit to reach Rp23 tn (BI)

BMRI is targeting net profit of Rp22 – 23 tn in 2016, which is better than last year due to better economic condition. The higher net profit will be supported by credit growth that is targeting at around 14 - 15%. Up to December 2015, BMRI credit grew by 13% yoy. Lending into infrastructure sector is going to grow significantly. NPL ratio for this year is expected to stay at around 2.5 – 2.9%.

CTRA target marketing sales grew 8.7% (ID)

Ciputra Development (CTRA) targeting marketing sales to grow by 8.7% to Rp10 tn from Rp9.2 tn in 2015. Marketing sales is supported by residential and high rise building. Currently, CTRA still waiting for the stimulus from the government, especially the BI rate cut by 1%, which is believed to be able to boost purchasing power considerably. Historically, with 1% lower on BI rate, company can increase its sales by 10-30%. In addition, in 2016, CTRA will expand 5 project which is carried over from last year.

Jokowi Decided Kertajati Airport to be Funded by State Budget (DI)

The government has decided that Kertajati airport development in Majalengka, West Java, will use the state budget to pursue a target completion in 2017. Out of the total investment valued Rp2.5tn, the government through the Ministry of Transportation will bear the Rp2tn from the state budget. With regards to land acquisition, the first phase covering an area of 1,000ha has been completed. The next phase, the acquisition of 800ha land areas, will be charged to the West Java province.

PMN Rp 34 tn still proposed (BI)

Ministry of SOEs still plans to propose state capital participation (PMN) worth Rp34.31 tn for SOE in 2015. This PMN is composed of cash amounting to Rp31.75 tn and non-cash amounting to Rp2.56 tn for 23 SOEs. However, should PMN was not agreed to by the House, then the financing alternative is issuing obligation.

COVERAGE PERFORMANCE

LEADERS

	Code	Price as on		Chg, %	w-w, %	m-m, %	YTD, %	Rating
		14-Jan-2016	13-Jan-2016					
Timah	TINS	493	463	6.5	3.8	2.1	(2.4)	HOLD
PP London Sumatra	LSIP	1,270	1,225	3.7	1.6	-	(3.8)	HOLD
Aneka Tambang	ANTM	310	301	3.0	5.4	7.3	(1.3)	BUY
Bank Tabungan Negara	BBTN	1,400	1,370	2.2	4.1	9.4	8.1	BUY
Sampoerna Agro	SGRO	1,750	1,725	1.4	4.2	16.7	2.9	BUY
Bank Rakyat Indonesia	BBRI	11,725	11,600	1.1	4.2	9.1	2.6	BUY
Bank Negara Indonesia	BBNI	5,025	4,985	0.8	0.8	4.9	0.7	BUY
Astra Agro Lestari	AALI	16,450	16,375	0.5	0.3	-	3.8	BUY
Nippon Indosari Corpindo	ROTI	1,210	1,205	0.4	0.8	3.4	(4.3)	BUY
Alam Sutera	ASRI	332	331	0.3	(0.6)	2.2	(3.2)	BUY

Sources: Bloomberg

LAGGARDS

	Code	Price as on		Chg, %	w-w, %	m-m, %	YTD, %	Rating
		14-Jan-2016	13-Jan-2016					
Ramayana	RALS	580	600	(3.3)	(9.4)	(10.8)	(10.1)	SELL
Mitra Adi Perkasa	MAPI	3,870	4,000	(3.3)	(0.6)	(0.5)	2.0	BUY
Semen Indonesia	SMGR	10,600	10,900	(2.8)	(4.1)	1.9	(7.0)	BUY
Blue Bird	BIRD	6,525	6,700	(2.6)	(5.8)	(8.1)	(8.1)	BUY
Indofood	INDF	5,700	5,850	(2.6)	0.9	16.6	10.1	BUY
Indocement	INTP	19,775	20,250	(2.3)	(6.3)	(2.6)	(11.4)	HOLD
Indo Tambangraya Megah	ITMG	5,525	5,650	(2.2)	(4.7)	(4.3)	(3.5)	HOLD
Jasa Marga	JSMR	5,825	5,950	(2.1)	0.9	23.3	11.5	BUY
Adaro Energy	ADRO	464	473	(1.9)	(4.3)	0.2	(9.9)	BUY
Perusahaan Gas Negara	PGAS	2,615	2,665	(1.9)	2.1	8.7	(4.7)	BUY

Sources: Bloomberg

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