

## MORNING HIGHLIGHT

### FROM EQUITY RESEARCH

#### GGRM: Beneficiary of improved purchasing power

(GGRM IJ. Rp65,200. BUY. TP Rp74,000)

Gudang Garam reported strong 4Q15 earnings following upward adjustments to selling prices at the end of last year. While we conservatively estimate flattish sales volume this year, we believe the company has the pricing power to sustain its earnings going forward. Furthermore, we believe that stronger purchasing power stemming from lower fuel prices and the realization of infrastructure projects bodes well for the company. The stock's valuation also looks attractive compared to its closest peer, HMSP (FY16 P/E: 40.7x at the current price). Reiterate BUY on GGRM with a higher TP of Rp74,000, based on 22x FY16 P/E.

### MARKET NEWS

#### \*Analysts' comment inside

- Govt urges private companies to procure land (TJP, BI)
- Housing loans: BNI targeting double digit loans (BI)
- INCO keeps high production despite price slump (TJP)
- JSMR to increase other income portion (BI)

#### Previous Reports:

- FY15 Result on mining, property, retail-[Snapshot20160401](#)
- FY15 Result on consumer, healthcare, property, and retail-[Snapshot20160331](#)
- FY15 Result on consumer and property-[Snapshot20160330](#)
- Indofood CBP – FY15 Result, Indofood – FY15 Result-[Snapshot20160328](#)
- Cement: A boost from slag cement-[Snapshot20160324](#)
- HMSP: Quality but at a high price-[Snapshot20160323](#)
- KINO: Exploiting niche markets-[Snapshot20160321](#)

### IDX ANNOUNCEMENT

#### Cash dividend

Code	Ex-Date	Date Payable	Amount (Rp)
LPKR	4-Apr-16	27-Apr-16	3.5
ITMG	5-Apr-16	21-Apr-16	--

#### Corp Action

Code	Action	Date	Time (WIB)
JPFA	AGM-EGM	4-Apr-16	14
KAEF	AGM	6-Apr-16	14
INAF	AGM	6-Apr-16	--

Source: KSEI

#### Key Index

	Close	Chg (%)	Ytd (%)	Vol (US\$ m)
<b>Asean - 5</b>				
Indonesia	4,843	(0.0)	5.4	292
Thailand	1,401	(0.5)	8.7	1,194
Philippines	7,245	(0.2)	4.2	124
Malaysia	1,711	(0.4)	1.1	652
Singapore	2,818	(0.8)	(2.2)	734
<b>Regional</b>				
China	3,010	0.2	(15.0)	68,756
Hong Kong	20,499	(1.3)	(6.5)	8,496
Japan	16,164	(3.5)	(15.1)	14,824
Korea	1,974	(1.1)	0.6	4,509
Taiwan	8,658	(1.0)	3.8	2,235
India	25,270	(0.3)	(3.2)	324
NASDAQ	4,915	0.9	(1.9)	70,365
Dow Jones	17,793	0.6	2.1	8,450

#### Currency and Interest Rate

	Rate	w-w (%)	m-m (%)	ytd (%)
Rupiah Rp/1US\$	13,167	0.6	1.3	4.5
SBI rate %	6.60	0.0	(0.1)	(0.6)
10y Gov Indo bond	7.60	(0.2)	(0.7)	(1.2)

#### Hard Commodities

	Unit	Price	d-d (%)	m-m (%)	ytd (%)
Coal	US\$/ton	51	(1.2)	(0.7)	(0.2)
Gold	US\$/toz	1,220	(0.2)	(3.1)	14.9
Nickel	US\$/mt.ton	8,278	(2.0)	(4.3)	(5.7)
Tin	US\$/mt.ton	16,805	(0.6)	4.0	15.1

#### Soft Commodities

	Unit	Price	d-d (%)	m-m (%)	ytd (%)
Cocoa	US\$/mt.ton	3,023	(0.7)	0.6	(7.5)
Corn	US\$/mt.ton	134	0.9	0.1	0.3
Oil (WTI)	US\$/barrel	36	(1.2)	1.2	(1.8)
Oil (Brent)	US\$/barrel	38	(0.9)	(1.0)	2.8
Palm oil	MYR/mt.ton	2,676	0.2	9.1	21.6
Rubber	US\$/mt ton	133	1.4	16.2	13.2
Pulp	US\$/tonne	789	N/A	(0.2)	(1.7)
Coffee	US\$/60kgbag	103	(0.0)	1.0	(1.0)
Sugar	US\$/MT	437	(1.8)	7.1	3.5
Wheat	US\$/ton	129	0.5	6.7	(0.2)

Source: Bloomberg

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## CIGARETTES/COMPANY UPDATES

**BUY**

Target Price, Rp 74,000

Upside 14%

GGRM IJ/GGMR.JK

Last Price, Rp 65,200

No. of shares (bn) 1.9

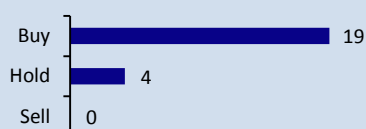
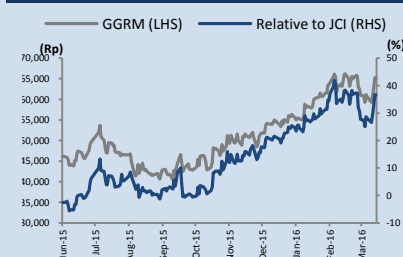
**Market Cap, Rpbn 125,451**

(US\$ mn) 9,552

3M T/O, US\$mn 5.7

**Last Recommendation**

17-Feb-16 BUY Rp68,800

**Market Recommendation****Company relative to JCI Index****Consensus**

	Our	Cons	% Diff
Target Price, IDR	74,000	70,132	5.5
EPS 2016F, IDR	3,391	3,185	6.5
PE 2016F, x	19.2	20.5	(6.1)

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

**Gudang Garam****Beneficiary of improved purchasing power**

Gudang Garam reported strong 4Q15 earnings following upward adjustments to selling prices at the end of last year. While we conservatively estimate flattish sales volume this year, we believe the company has the pricing power to sustain its earnings going forward. Furthermore, we believe that stronger purchasing power stemming from lower fuel prices and the realization of infrastructure projects bodes well for the company. The stock's valuation also looks attractive compared to its closest peer, HMSP (FY16 P/E: 40.7x at the current price). Reiterate BUY on GGRM with a higher TP of Rp74,000, based on 22x FY16 P/E.

**Strong FY15 earnings on higher selling prices**

Gudang Garam (GGRM) reported strong 4Q15 net profits of Rp2.3tn (+71% yoy), lifting the FY15 net profits to Rp6.4tn (+19% yoy). This robust earnings growth surpassed HMSP's (FY15: +1.8% yoy) and WIIM's (FY15:+16% yoy). At the top line, the company reported 4Q15 revenues of Rp19.3tn (+13.9% yoy), supported by aggressive price increases at the end of last year which averaged 17.8% yoy. Hence, while sales volume actually slipped 2.4% yoy, the FY15 total revenues still managed to climb 7.9% yoy to Rp70.4tn with the gross margin expanding to 22% from 20.5% in FY14. This filtered through to the bottom line – GGRM's FY15 net margin of 9.1% was its highest in the past four years.

**2016: 13% earnings upgrade on the better margins**

Based on the strong FY15 result, we upgrade our FY16-17F earnings estimates by 13.3% and 11.7%, respectively. By the end of FY15, the company reported slightly lower market share of 21.5% (from 21.9% in the previous year). Going forward, we estimate that FY16-17F revenues will reach Rp77tn (+9.7% yoy) and Rp85tn (+10% yoy), respectively, supported by higher product selling prices. Sales volume, meanwhile, is expected to remain flattish. Nevertheless, higher excise tax is expected to constrain profitability: we foresee lower FY16-17 gross margins of 21-21.2%. At the bottom line, we estimate FY16-17 net profits of Rp6.5tn and Rp7.4tn with FY16-17F net margins of 8.5% and 8.8%.

**Reiterate BUY with a higher TP of Rp74,000**

We believe Gudang Garam shall benefit from improving purchasing power stemming from lower fuel prices and higher basic minimum wages. Greater realization of infrastructure projects also bodes well for the people's purchasing power, in our view. We also believe that Gudang Garam, with its strong brand equity and second-largest market share in the cigarette market, will have the pricing power to pass on higher excise tax and sustain its earnings. As such, we foresee that a further rerating is on the cards. Reiterate BUY on GGRM with a higher TP of Rp74,000 (based on 22x P/E).

	2014	2015	2016F	2017F	2018F
Revenue	65,186	70,366	77,194	84,973	95,477
EBITDA, Rp bn	10,120	11,812	11,896	13,086	14,572
EBITDA growth, %	30.4	16.7	0.7	10.0	11.4
Net profit, Rp bn	5,406	6,436	6,525	7,437	8,529
Net profit growth %	24.9	19.0	1.4	14.0	14.7
Core profit, Rp bn	5,389	6,364	6,525	7,437	8,529
Core EPS, Rp	2,801	3,307	3,391	3,865	4,433
Core EPS growth, %	24.1	18.1	2.5	14.0	14.7
Net gearing, x	50.2	47.1	38.7	29.9	16.2
Core PER, x	21.3	16.4	19.2	16.9	14.7
PBV, x	3.5	2.7	2.9	2.6	2.3
EV/EBITDA, x	13.0	10.3	11.9	10.7	9.2
Div yield, %	1.3	1.5	1.5	1.5	1.7

## Exhibit 1. 4Q15 result

FY15 Result	FY14	FY15	yoy	4Q14	3Q15	4Q15	qoq	yoy	%A/FY15F	%A/C
Revenue	65,186	70,366	7.9%	16,996	17,786	19,354	8.8%	13.9%	101.9%	98.0%
SKM	58,781	63,357	7.8%	15,356	16,040	17,346	8.1%	13.0%		
SKT	4,889	5,832	19.3%	1,322	1,482	1,642	10.8%	24.3%		
Other	1,516	1,176	-22.4%	318	264	366	38.8%	14.9%		
COGS	(51,806)	(54,880)	5.9%	(13,318)	(14,078)	(14,446)	2.6%	8.5%		
Gross Profit	13,380	15,486	15.7%	3,678	3,708	4,908	32.4%	33.4%		
Opex	(4,806)	(5,579)	16.1%	(1,282)	(1,144)	(1,471)	28.6%	14.8%		
Operating Profit	8,627	10,065	16.7%	2,450	2,564	3,595	40.2%	46.8%	115.5%	107.7%
Profit Before Tax	7,255	8,635	19.0%	1,826	2,279	3,140	37.8%	71.9%	117.5%	114.6%
Net Income	5,406	6,436	19.0%	1,363	1,705	2,328	36.6%	70.8%	117.5%	112.5%
<b>Profitability</b>										
Gross margin	20.5%	22.0%		21.6%	20.8%	25.4%				
Operating margin	13.2%	14.3%		14.4%	14.4%	18.6%				
Pretax margin	11.1%	12.3%		10.7%	12.8%	16.2%				
Net margin	8.3%	9.1%		8.0%	9.6%	12.0%				

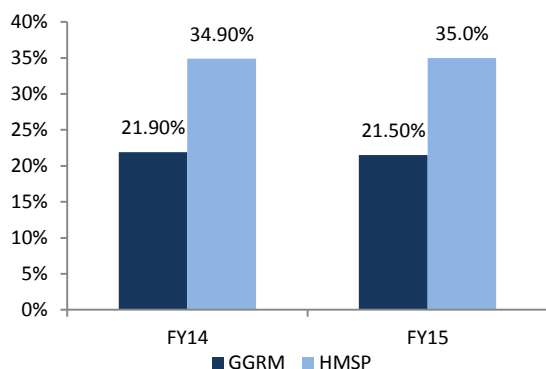
Source: Danareksa, Bloomberg

## Exhibit 2. Earnings revision

	Old			New			Changes		
	2015	2016	2017	2015	2016	2017	2015	2016	2017
Revenue	69,047	77,231	87,997	70,366	77,194	84,973	1.9%	0.0%	-3.4%
Gross profit	14,065	15,508	17,420	15,486	16,177	18,004	10.1%	4.3%	3.4%
Operating profit	8,712	9,384	10,452	10,065	10,076	11,189	15.5%	7.4%	7.1%
Net profit	5,478	5,760	6,660	6,436	6,525	7,437	17.5%	13.3%	11.7%
Gross margin	20.4%	20.1%	19.8%	22.0%	21.0%	21.2%			
Operating margin	12.6%	12.2%	11.9%	14.3%	13.1%	13.2%			
Net margin	7.9%	7.5%	7.6%	9.1%	8.5%	8.8%			

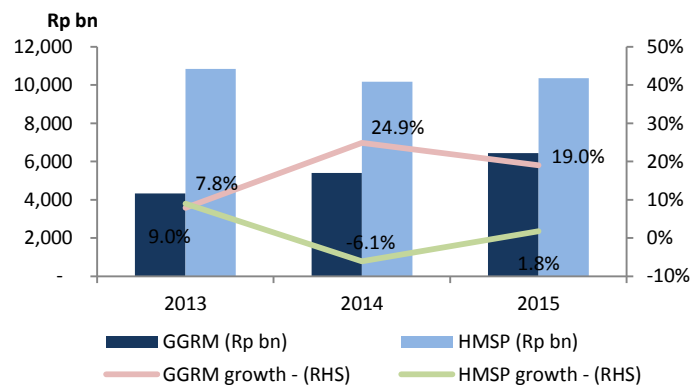
Source: Danareksa, Bloomberg

## Exhibit 3. Market share of GGRM and HMSP



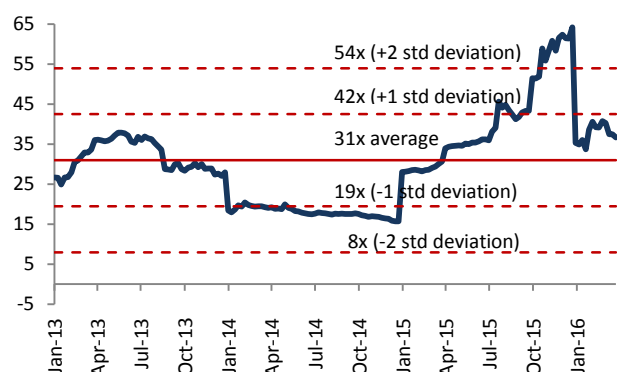
Source: GGRM, HMSP

## Exhibit 4. Net profit and earnings growth – GGRM and HMSP



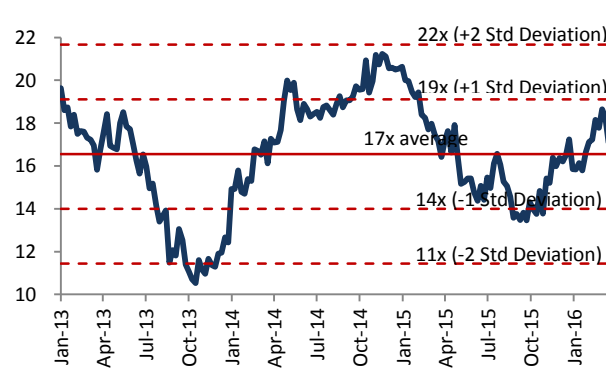
Source: GGRM, HMSP

## Exhibit 5. HMSP PE Band



Source: GGRM, HMSP

## Exhibit 6. GGRM PE Band



Source: GGRM, HMSP

**Exhibit 7. Income Statement (Rp bn)**

	<b>2014</b>	<b>2015</b>	<b>2016F</b>	<b>2017F</b>	<b>2018F</b>
Revenue	65,186	70,366	77,194	84,973	95,477
Cost of good sold	-51,806	-54,880	-61,017	-66,969	-75,148
Gross profit	13,380	15,486	16,177	18,004	20,330
Operating expense	-4,806	-5,579	-6,101	-6,815	-7,734
<b>Operating profit</b>	<b>8,627</b>	<b>10,065</b>	<b>10,076</b>	<b>11,189</b>	<b>12,595</b>
Other income (charges)	-1319	-1271	-1321	-1210	-1152
Profit before tax	7,255	8,635	8,755	9,979	11,444
Tax	-1,822	-2,182	-2,213	-2,522	-2,892
Minority	-27	-17	-17	-20	-23
<b>Net profit</b>	<b>5,406</b>	<b>6,436</b>	<b>6,525</b>	<b>7,437</b>	<b>8,529</b>

Source: GGRM, Danareksa Sekuritas

**Exhibit 8. Balance Sheet (Rp bn)**

	<b>2014</b>	<b>2015</b>	<b>2016F</b>	<b>2017F</b>	<b>2018F</b>
Cash and equivalent	1,588	2,726	2,036	2,570	2,608
Account receivable	1,532	1,568	1,720	1,799	1,920
Inventories	34,739	37,256	41,491	45,771	47,407
Other current asset	673	1019	738	824	936
Total current asset	38,533	42,568	45,985	50,964	52,872
PPE, net	18,973	20,106	19,711	19,167	18,679
Others	728	830	904	998	1,124
<b>Total asset</b>	<b>58,234</b>	<b>63,505</b>	<b>66,601</b>	<b>71,130</b>	<b>72,675</b>
Trade payable	989	2,370	2,587	2,787	3,070
Excise duty & VAT payables	3,882	0	0	0	0
ST Loans	18,147	20,561	18,527	16,995	11,457
Others	765	1,114	1,181	1,325	1,508
Total current liabilities	23,783	24,045	22,295	21,107	16,035
Long term debt	-	-	-	-	-
Others	1,317	1,452	1,529	1,647	1,830
<b>Total liabilities</b>	<b>25,100</b>	<b>25,498</b>	<b>23,824</b>	<b>22,754</b>	<b>17,866</b>
Minority interest	134	108	169	189	211
Shareholder equity	33,000	37,900	42,608	48,187	54,598
<b>Total liabilities and equity</b>	<b>58,234</b>	<b>63,505</b>	<b>66,601</b>	<b>71,130</b>	<b>72,675</b>

Source: GGRM, Danareksa Sekuritas

**Exhibit 9. Statement of Cash Flow (Rp bn)**

	<b>2014</b>	<b>2015</b>	<b>2016F</b>	<b>2017F</b>	<b>2018F</b>
Net income	5,406	6,436	6,525	7,437	8,529
+ Depreciation	1,400	1,715	1,819	1,897	1,977
Changes in working capital	(3,643)	(1,171)	(4,170)	(4,159)	(1,475)
Others	(1,581)	(3,879)	347	59	71
<b>Operating cash flow</b>	<b>1,582</b>	<b>3,101</b>	<b>4,522</b>	<b>5,233</b>	<b>9,101</b>
<b>Investment</b>					
Capex	-5,585	-2,848	-1,424	-1,353	-1,488
Others	648	-102	-73	-95	-126
<b>Investing cash flow</b>	<b>-4,936</b>	<b>-2,950</b>	<b>-1,497</b>	<b>-1,448</b>	<b>-1,614</b>
<b>Financing</b>					
ST Loans	5,169	2,414	-2,035	-1,532	-5,537
Dividend	-1,539	-1,539	-1,832	-1,858	-2,118
Others	(91)	113	153	138	206
<b>Financing cash flow</b>	<b>3,538</b>	<b>987</b>	<b>-3,714</b>	<b>-3,252</b>	<b>-7,449</b>
Changes in cash	184	1,138	-690	534	38
<b>Beginning balance</b>	<b>1,404</b>	<b>1,588</b>	<b>2,726</b>	<b>2,036</b>	<b>2,570</b>
<b>Ending balance</b>	<b>1,588</b>	<b>2,726</b>	<b>2,036</b>	<b>2,570</b>	<b>2,608</b>

Source: GGRM, Danareksa Sekuritas

**Exhibit 10. Ratios (Rp bn)**

	<b>2014</b>	<b>2015</b>	<b>2016F</b>	<b>2017F</b>	<b>2018F</b>
Gross margin	20.5	22.0	21.0	21.2	21.3
EBITDA margin	15.5	16.8	15.4	15.4	15.3
Net margin	8.3	9.1	8.5	8.8	8.9
ROA	9.3	10.1	9.8	10.5	11.7
ROE	16.4	17.0	15.3	15.4	15.6
Debt to equity ratio	55.0	54.3	43.5	35.3	21.0
Net gearing ratio	50.2	47.1	38.7	29.9	16.2

Source: GGRM, Danareksa Sekuritas

## MARKET NEWS

### **Govt urges private companies to procure land (TJP)**

PUPR Minister said that construction companies developing toll road projects need to acquire land with their own fund first to keep the projects going as state is running out cash. Government would later compensate companies through public service agency for land banking to be set up through Finance Ministry regulation. Government aims to set the agency after it finished the revised 2016 state budget mid year,

### **Housing loans: BNI targeting double digit loans (BI)**

Bank Negara Indonesia (BBNI) optimistic for its housing loans to grow above 10% in 2016 compared to 4.5% in 2015. Growth will be driven by a number of programs such as BNI Griya with 8.7% interest in the first year and 10.7% in the second year. Currently, the mortgage business occupies about 60% of the BBNI's consumer loan portfolio amounted to Rp58 tn.

### **INCO keeps high production despite price slump (TJP)**

Vale Indonesia (INCO) will continue to maintain high production this year to prop up revenue amid further uncertainty surrounding the world's nickel prices. INCO President Director said that this year production target would be 80,000 MT, almost the same of level booked in 2015 amounted to 81,177 tons. Maintaining high productions was one of INCO key strategy for coping with low global nickel price. By doing so, company expects it would be able to reduce per unit fixed cost and improving profitability. In addition, INCO has implemented other cost reduction strategies, i.e. managing discretionary spending by shutting down non-essential hiring, keeping employee salary stagnant.

### **JSMR to increase other income portion (BI)**

Jasa Marga (JSMR) plans to increase the portion of its other income to 15-20% in 2016, compared to below 10% previously. Example of the other income source is from toll roads maintenance business managed by the company's subsidiary, PT Jasa Layanan Pemeliharaan, and also other business activities conducted by PT Jasa Layanan Operasi.





## COVERAGE PERFORMANCE

### LEADERS

	Code	Price as on					YTD, %	Rating
		1-Apr-2016	31-Mar-2016	Chg, %	w-w, %	m-m, %		
Gajah Tunggal	GJTL	795	735	8.2	11.2	40.7	50.0	BUY
Metropolitan Land	MTLA	295	280	5.4	1.0	48.2	37.2	BUY
Adaro Energy	ADRO	665	645	3.1	0.8	(2.2)	29.1	BUY
Blue Bird	BIRD	5,950	5,775	3.0	(12.5)	(6.7)	(16.2)	BUY
Mitra Adi Perkasa	MAPI	4,925	4,800	2.6	6.4	(1.1)	29.8	BUY
Kimia Farma	KAEF	1,300	1,270	2.4	(0.8)	9.2	49.4	HOLD
Jasa Marga	JSMR	5,525	5,400	2.3	(2.6)	3.3	5.7	BUY
Summarecon	SMRA	1,620	1,585	2.2	(6.4)	0.9	(1.8)	BUY
Mitra Keluarga	MIKA	2,475	2,425	2.1	3.1	11.5	3.1	BUY
Siloam Hospital	SILO	7,450	7,300	2.1	(2.6)	(6.3)	(24.0)	HOLD

Sources: Bloomberg

### LAGGARDS

	Code	Price as on					YTD, %	Rating
		1-Apr-2016	31-Mar-2016	Chg, %	w-w, %	m-m, %		
Bank Rakyat Indonesia	BBRI	11,100	11,425	(2.8)	(1.6)	(2.4)	(2.8)	BUY
Sarana Menara Nusantara	TOWR	4,295	4,400	(2.4)	5.1	7.4	(9.6)	BUY
Bank Mandiri	BMRI	10,100	10,300	(1.9)	(1.2)	3.3	9.2	BUY
Bank Negara Indonesia	BBNI	5,100	5,200	(1.9)	(1.0)	(3.3)	2.2	BUY
Salim Ivomas Pratama	SIMP	463	472	(1.9)	12.1	18.4	39.5	BUY
Timah	TINS	730	740	(1.4)	(3.9)	19.7	44.6	HOLD
XL Axiata	EXCL	3,950	4,000	(1.3)	0.1	(4.4)	8.2	BUY
Bukit Asam	PTBA	6,200	6,275	(1.2)	(4.6)	6.9	37.0	BUY
Nippon Indosari Corpindo	ROTI	1,265	1,280	(1.2)	0.8	-	-	BUY
Harum Energy	HRUM	870	880	(1.1)	-	12.3	28.9	HOLD

Sources: Bloomberg

## WEEKLY COVERAGE PERFORMANCE

### WEEKLY LEADERS

	Code	Price as on		w-w, %	m-m, %	YTD, %	Rating
		1-Apr-2016	24-Mar-2016				
Salim Ivomas Pratama	SIMP	463	413	12.1	18.4	39.5	BUY
Kalbe Farma	KLBF	1,450	1,295	12.0	9.8	9.8	HOLD
Gajah Tunggal	GJTL	795	715	11.2	40.7	50.0	BUY
PP London Sumatra	LSIP	1,800	1,660	8.4	21.2	36.4	HOLD
Gudang Garam	GGRM	65,200	60,625	7.5	(1.5)	18.5	BUY
Mitra Adi Perkasa	MAPI	4,925	4,630	6.4	(1.1)	29.8	BUY
Sarana Menara Nusantara	TOWR	4,295	4,085	5.1	7.4	(9.6)	BUY
Astra Agro Lestari	AALI	18,150	17,300	4.9	20.2	14.5	BUY
Ace Hardware	ACES	885	850	4.1	(6.3)	7.3	#N/A
Indofood	INDF	7,225	6,975	3.6	(3.3)	39.6	BUY

Sources: Bloomberg

### WEEKLY LAGGARDS

	Code	Price as on		w-w, %	m-m, %	YTD, %	Rating
		1-Apr-2016	24-Mar-2016				
Blue Bird	BIRD	5,950	6,800	(12.5)	(6.7)	(16.2)	BUY
Lippo Karawaci	LPKR	1,035	1,175	(11.9)	(3.3)	-	BUY
Summarecon	SMRA	1,620	1,730	(6.4)	0.9	(1.8)	BUY
Semen Indonesia	SMGR	10,200	10,725	(4.9)	(2.2)	(10.5)	BUY
Bukit Asam	PTBA	6,200	6,500	(4.6)	6.9	37.0	BUY
Timah	TINS	730	760	(3.9)	19.7	44.6	HOLD
Vale Indonesia	INCO	1,735	1,795	(3.3)	(2.5)	6.1	BUY
Tower Bersama	TBIG	5,850	6,050	(3.3)	(0.8)	(0.4)	HOLD
Hexindo Adiperkasa	HEXA	1,600	1,650	(3.0)	24.0	29.6	HOLD
Indosat	ISAT	6,125	6,300	(2.8)	7.9	11.4	BUY

Sources: Bloomberg

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