

FROM EQUITY RESEARCH
Cement: Still under pressure

We are UNDERWEIGHT on the cement sector and have a SELL call on all the cement players. We did a survey on the cement retail market and concluded that infrastructure projects may help to improve cement sales, but pressure on pricing will result in negative top line growth. The low utilization rate of new players, the additional capacity from market leaders, and brand switching by customers suggest that the pricing pressure will persist. Meanwhile, increasing energy costs and higher electricity tariffs will further compress profitability margins. We estimate 3-4% compression in the EBITDA margins of cement players.

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MARKET NEWS
Sector

- Consumer: APTINDO targets 6% yoy growth in the wheat flour industry this year
- Retail: A challenging year in store

Corporate

- Adhi Karya: plans to issue Rp5.0tr of bonds by 2018
- Bank Permata: The owner of Mayapada Group is targeting Bank Permata
- Ciputra to extend its project in Citraraya Tangerang
- Surya Semesta to explore the opportunity of divesting its stake in Cipali

KEY INDEX

	Close	Chg (%)	Ytd (%)	Vol (US\$ m)
Asean - 5				
Indonesia	5,273	(0.4)	(0.4)	374
Thailand	1,575	0.4	2.1	1,270
Philippines	7,239	(0.4)	5.8	107
Malaysia	1,673	(0.3)	1.9	491
Singapore	3,025	1.1	5.0	756
Regional				
China	3,113	(0.2)	0.3	29,624
Hong Kong	22,937	0.5	4.3	7,374
Japan	19,241	(0.2)	0.7	1,155
Korea	2,074	(0.1)	2.4	4,007
Taiwan	9,379	(0.3)	1.4	2,199
India	27,238	(0.0)	2.3	440
NASDAQ	5,574	0.5	3.5	60,982
Dow Jones	19,886	(0.0)	0.6	6,770

CURRENCY AND INTEREST RATE

	Rate	w-w (%)	m-m (%)	ytd (%)
Rupiah Rp/1US\$	13,338	0.2	(0.1)	1.0
SBI rate %	5.90	-	-	(1.3)
10y Gov Indo bond	7.62	(0.1)	(0.1)	(0.4)

HARD COMMODITY

	Unit	Price	d-d (%)	m-m (%)	ytd (%)
Coal	US\$/ton	84	(0.7)	(2.9)	(5.5)
Gold	US\$/toz	1,202	0.4	5.9	4.3
Nickel	US\$/mt.ton	10,400	1.7	(8.3)	4.4
Tin	US\$/mt.ton	21,155	0.4	(1.4)	(0.2)

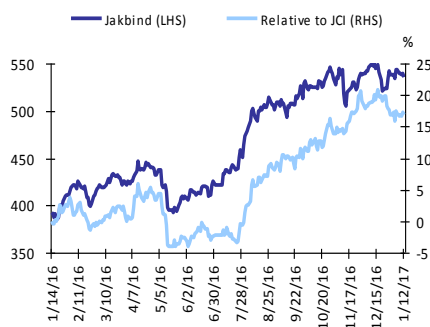
SOFT COMMODITY

	Unit	Price	d-d (%)	m-m (%)	ytd (%)
Cocoa	US\$/mt.ton	2,225	4.0	(1.6)	3.6
Corn	US\$/mt.ton	132	-	1.2	2.6
Oil (WTI)	US\$/barrel	52	0.2	1.1	(2.3)
Oil (Brent)	US\$/barrel	56	0.2	0.7	(2.2)
Palm oil	MYR/mt.ton	3,258	(0.4)	2.3	1.8
Rubber	US\$/kg	209	(1.6)	1.5	7.9
Pulp	US\$/tonne	809	N/A	(0.0)	0.0
Coffee	US\$/60kgbag	154	0.5	3.5	3.6
Sugar	US\$/MT	535	(0.9)	7.1	2.0
Wheat	US\$/ton	116	(0.1)	2.0	4.4

Monday, January 16, 2017

UNDERWEIGHT

Jakbind relative to JCI Index



Cement

Still under pressure

We are **UNDERWEIGHT** on the cement sector and have a **SELL** call on all the cement players. We did a survey on the cement retail market and concluded that infrastructure projects may help to improve cement sales, but pressure on pricing will result in negative top line growth. The low utilization rate of new players, the additional capacity from market leaders, and brand switching by customers suggest that the pricing pressure will persist. Meanwhile, increasing energy costs and higher electricity tariffs will further compress profitability margins. We estimate 3-4% compression in the EBITDA margins of cement players.

After recording flat growth in 2016... Domestic cement sales were flat in 2016 (0.0% yoy). Although bulk cement still managed to record positive growth of 5.3% yoy, weak overall purchasing power resulted in 1.3% yoy lower sales of bagged cement. However, if exports are included, then the total cement sales reached 63.5mn tons in 2016, up 0.9% yoy. This figure is **INLINE** with our forecast of 1.0% yoy growth in 2016.

... we only expect a slight recovery in cement sales in 2017. This year, we only expect 3.0% sales growth. Although we expect higher bulk cement sales growth this year following a higher infrastructure budget allocation in 2017 (+9.3% yoy), we only expect slow recovery in bagged cement sales. Although our economist expects nominal GDP to grow by 9.8% in 2017 (higher than the growth expectation in 2016 of 8.4%), cement sales tend to lag overall economic growth.

Pricing pressure to remain in 2017 ... We did a survey on the cement retail market to both buyers and building material stores, and we concluded that we remain cautious on the pricing power of cement players. This year, we still expect 4-6% further declines in ASP considering: (i) aggressive market penetration by new players in a bid to improve utilization that currently only stands at 35-60%, (ii) aggressive market penetration by market leaders, particularly SMGR. This year, SMGR will have additional installed capacity of 6mn tons. From this new capacity, SMGR expects to sell 4mn tons of cement per annum. To achieve this target, the company expects to cut ASP by 5%. (iii) a higher tendency among consumers to switch brands given the increasing importance of prices in determining buying intentions.

... while energy prices keep trending up. After reduced supply from China's coal miners, the coal price has surged 33.7% from USD67.7/ton in August 2016 to its current level of USD90.5/ton. Although we expect the coal price to consolidate following China's decision to allow coal producers to resume production, we still expect the average coal price to reach USD70/ton in 2017. With the average coal price in 2016 at USD65/ton, this will imply 7.7% yoy growth in coal prices. Coupled with increasing electricity costs, we expect 3-4% compression in the EBITDA margins.

UNDERWEIGHT on the sector. We have an underweight call on the sector. We believe sales growth will not be sufficient to offset the pressure on pricing. This factor coupled with increasing energy prices suggests that financial performance will remain sluggish this year. Although the cement sector trades at 22.6x PE (above +1SD of 20.3x), we don't think that the valuation can be justified considering the changes taking place in the overall industry.

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Company	Ticker	Rec	Price, Rp	Target Price, Rp	Market Cap, Rpbn	EPS Growth, %		P/E, x		P/B, x		EV/EBITDA, x		ROE, %
						2016F	2017F	2016F	2017F	2016F	2017F	2016F	2017F	
Indocement	INTP	SELL	14,950	13,000	55,034	-11%	-34%	14.2	21.5	2.2	2.1	9.8	11.2	15.8
Semen Indonesia	SMGR	SELL	8,775	8,000	52,049	-14%	-28%	13.4	18.7	1.8	1.8	8.1	9.8	14.2
Semen Baturaja	SMBR	SELL	2,200	390	21,643	-31%	-39%	88.3	144.3	6.9	6.7	54.3	47.9	8.1

MARKET NEWS

SECTOR

Consumer: APTINDO targets 6% yoy growth in the wheat flour industry this year

The Association of Indonesian Wheat Flour Producers (APTINDO) is optimistic on the prospect of continued volume growth reaching 6% yoy in 2017. Data from APTINDO shows that total wheat flour consumption in Indonesia reached 6.02mn tons last year, up 6% yoy. Meanwhile, Fransiscus Welirang, the division head of Bogasari Flour Mills, is optimistic that Bogasari books sales volume growth of 5% yoy in 2017 (2016: 4.7% yoy) and maintains its leading position in the wheat flour industry (Bogasari's market share was 51% in 2016). Bogasari also plans to increase the contribution from the export market going forward. (Kontan)

Retail: A challenging year in store

Optimism in the domestic retail industry in 2017 seems to be restrained. The removal of subsidies for 900VA electricity households and the increase in non-subsidized fuel prices will likely have a negative impact on purchasing power over the next 3 months. Meanwhile, uncertainties in the global economy and Indonesian politics in relation to the upcoming gubernatorial election in Jakarta may discourage consumer spending. (Bisnis Indonesia)

Exhibit 1. Growth of Retail sales Indonesia (In %)

	October		November		December	
	2015	2016	2015	2016*	2015	2016*
Spare parts and accessories	(11.5)	23.2	(6.0)	26.1	1.4	26.8
Food, beverages and tobacco	13.0	4.2	13.5	8.6	13.3	10.1
Fuel	(30.8)	(13.2)	(32.7)	(12.4)	(22.2)	(10.0)
Information and communication equipment	23.8	22.7	23.7	19.2	19.8	21.3
Other household supplies	(0.8)	13.6	6.4	10.3	15.1	3.0
Cultural and recreational goods	(14.6)	12.1	(14.6)	12.6	(6.8)	10.7
Other items	(7.3)	(4.2)	(9.3)	(2.6)	(5.2)	(5.8)
Clothing	(10.4)	(5.4)	(14.0)	(3.0)	(14.9)	(1.6)
Growth of Retail Sales Index	8.7	8.1	9.7	10.0	11.4	10.5

Source: Survey Bank Indonesia

*Estimation

CORPORATE

Adhi Karya: plans to issue Rp5.0tr of bonds by 2018

Adhi Karya (ADHI) plans to issue Rp5.0tr of bonds in the period 2017 – 2018. The proceeds will be used for debt refinancing, working capital, and capital injection into its subsidiaries. For the first stage, ADHI plans to issue a Rp2.5tr bond this year, of which Rp500bn of the funds will be used for debt refinancing. ADHI targets 2017 new contracts of Rp44.0tr, including Rp23.0tr from the LRT project. Revenues in 2017 are targeted at Rp14.5tr, or 27.1%yoy higher than the Rp11.4tr targeted in 2016. At the bottom line, net income in 2017 is targeted to reach Rp505bn, or 67.2%yoy higher than the Rp302bn targeted in 2016. The 2016 net income target of Rp302bn has been cut by more than half from the initial target of Rp750bn due to lower revenues booked. Initially ADHI targeted 2016 revenues to reach Rp20.0tr. (Bisnis Indonesia)

Comment: We are reviewing our forecast and recommendation on ADHI given the lower 2016 target. (Maria Renata)

Bank Permata: The owner of Mayapada Group is targeting Bank Permata

The Chairman of Mayapada Group, Dato Sri Tahir, claims his group started the purchase of Bank Permata shares through the market back in November 2016. (Kontan)

Ciputra to extend its project in Citraraya Tangerang

Ciputra Residence (CTRS) will extend 100ha of its existing project in Citraraya Tangerang. So far, CTRS has developed 70% of the existing 50ha of land in Citraraya Tangerang (translating into 1,500 residential units). The remaining 30% will be launched early this year. In the area, the company plans to develop Ciputra Mall and Yellow Hotel. The groundbreaking is set for 2H17. In addition, Universitas Esa Unggul will develop its second campus in the area. (Bisnis Indonesia)

Surya Semesta to explore the opportunity of divesting its stake in Cipali

Surya Semesta Internusa (SSIA) is exploring the opportunity of divesting its stake in Lintas Marga Sedaya (LMS), the operator of the Cikopo-Palimanan (Cipali) toll road. Presently, the company has a 27% stake in LMS. Nevertheless, SSIA has not yet conducted any negotiations with potential buyers. (Bisnis Indonesia)

COVERAGE PERFORMANCE
LEADERS

	Code	Price as on		Chg, %	w-w, %	m-m, %	YTD, %	Rating
		13-Jan-17	12-Jan-17					
Aneka Tambang	ANTM	920	865	6.4	6.4	4.0	2.8	HOLD
United Tractors	UNTR	21,925	21,225	3.3	1.0	(0.2)	3.2	HOLD
Kino Indonesia	KINO	3,120	3,050	2.3	7.6	21.9	3.0	BUY
Waskita Karya	WSKT	2,640	2,600	1.5	2.3	6.5	3.5	BUY
Astra International	ASII	8,000	7,925	0.9	(2.1)	5.6	(3.3)	HOLD
Semen Indonesia	SMGR	8,775	8,700	0.9	(6.6)	(4.4)	(4.4)	SELL
Bank Tabungan Negara	BBTN	1,900	1,885	0.8	4.1	11.8	9.2	BUY
Bank Rakyat Indonesia	BBRI	11,950	11,875	0.6	(1.2)	6.0	2.4	BUY
Bukit Asam	PTBA	12,275	12,200	0.6	-	(1.8)	(1.8)	BUY
Indo Tambangraya Megah	ITMG	15,925	15,850	0.5	(4.1)	(7.5)	(5.6)	HOLD

Sources: Bloomberg

LAGGARDS

	Code	Price as on		Chg, %	w-w, %	m-m, %	YTD, %	Rating
		13-Jan-17	12-Jan-17					
Vale Indonesia	INCO	2,480	2,950	(15.9)	(15.4)	(23.5)	(12.1)	HOLD
Kimia Farma	KAEF	2,430	2,680	(9.3)	(8.6)	(12.6)	(11.6)	SELL
Semen Baturaja	SMBR	2,200	2,350	(6.4)	(8.7)	(16.0)	(21.1)	SELL
Timah	TINS	1,135	1,170	(3.0)	2.7	(3.8)	5.6	HOLD
Summarecon Agung	SMRA	1,335	1,360	(1.8)	(1.5)	(4.3)	0.8	BUY
Bank Mandiri	BMRI	11,100	11,300	(1.8)	(2.4)	3.3	(4.1)	HOLD
Pembangunan Perumahan	PTPP	3,650	3,710	(1.6)	(3.2)	(5.9)	(4.2)	BUY
Harum Energy	HRUM	2,050	2,080	(1.4)	(3.3)	(11.6)	(4.2)	HOLD
Adhi Karya	ADHI	2,170	2,200	(1.4)	1.9	2.8	4.3	BUY
Bank Negara Indonesia	BBNI	5,475	5,550	(1.4)	(2.2)	2.3	(0.9)	HOLD

Sources: Bloomberg

PREVIOUS REPORTS

- Metal Mining Sector : Global supply risks have boosted metal mining prices, Cement: Not encouraging sales in December 2016 (Underweight) [Snapshot201701123](#)
- UNVR: Safe haven, Ace Hardware Indonesia: In-line 12M16 sales [Snapshot20170112](#)
- PTPP: Higher capital for higher growth, RALS: In-line 12M16 gross sales [Snapshot20170111](#)
- BBNI: Accelerating performance, ASRI: beats our marketing sales target [Snapshot20170110](#)
- Strategy: Market Outlook 2017 [Snapshot20170109](#)
- CTRA: Outperforming the sector [Snapshot20170105](#)
- TINS: Outlook for 2017: Further earnings enhancement [Snapshot20170104](#)
- CTRA: Merger approved [Snapshot20161228](#)

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