

FROM EQUITY RESEARCH

Strategy: Trade war – China's reciprocal measures underway (Overweight)

China's retaliation measures have sparked concerns of a potentially intensifying trade war between the US and China. As this would only lead to a pyrrhic victory for the winner, we expect more opportune measures going forward. For Indonesia, net exports are not such a crucial component in GDP, but currency risk could derail the growth trajectory and dent confidence. We still prefer the domestic consumption related sectors.

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Surya Citra Media: Hitting the upper end of the 1Q18 guidance (SCMA IJ. IDR 2,680. BUY. TP IDR 3,100)

In the FY17 earnings call, SCMA's management stated that the company had hit the upper end of the 1Q18 guidance early in the year, supported, we believe, by larger FTA TV ad spending in 1H18 from local FMCG and internet companies. Encouragingly, SCMA's average audience share picked up in 4Q17 and 1Q18 YTD. We revise up our FY18-19F revenues forecasts and expect a gradual improvement in profitability, but also slightly revise up our direct costs and opex estimates. Maintain BUY.

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MARKET NEWS

Macroeconomy

- Tax deduction and tax allowance are set to be applied at the end of April 2018

Sector

- China to impose 25% reciprocal tariffs on US soybeans

Corporate

- Vale Indonesia: Plan to spend capex of USD95mn for 2018

KEY INDEX

	Close	Chg (%)	Ytd (%)	Vol (US\$ m)
Asean - 5				
Indonesia	6,157	(1.2)	(3.1)	389
Thailand	1,725	(2.3)	(1.6)	2,979
Philippines	7,998	(0.6)	(6.6)	121
Malaysia	1,816	(1.9)	1.1	491
Singapore	3,340	(2.1)	(1.9)	1,179
Regional				
China	3,131	(0.2)	(5.3)	46,606
Hong Kong	29,519	(2.2)	(1.3)	13,928
Japan	21,320	0.1	(6.3)	13,667
Korea	2,431	1.0	(1.5)	7,509
Taiwan	10,822	(0.6)	1.7	3,988
India	33,019	(1.1)	(3.0)	530
NASDAQ	7,042	1.5	2.0	129,007
Dow Jones	24,264	1.0	(1.8)	11,430

CURRENCY AND INTEREST RATE

		Rate	w-w (%)	m-m (%)	ytd (%)
Rupiah	Rp/1US\$	13,766	(0.0)	(0.0)	(1.6)
SBI rate	%	4.25	-	-	-
10y Gov	Indo bond	6.59	(0.1)	(0.0)	0.3

HARD COMMODITY

	Unit	Price	d-d (%)	m-m (%)	ytd (%)
Coal	US\$/ton	94	1.7	(9.1)	(7.2)
Gold	US\$/toz	1,334	0.0	1.0	2.3
Nickel	US\$/mt.ton	13,100	(2.4)	(2.3)	3.1
Tin	US\$/mt.ton	20,948	(1.4)	(2.9)	4.2

SOFT COMMODITY

	Unit	Price	d-d (%)	m-m (%)	ytd (%)
Cocoa	US\$/mt.ton	2,509	(2.5)	8.1	32.1
Corn	US\$/mt.ton	133	(0.6)	(4.0)	6.6
Oil (WTI)	US\$/barrel	64	0.3	1.6	5.2
Oil (Brent)	US\$/barrel	68	(0.1)	5.7	1.7
Palm oil	MYR/mt.ton	2,443	0.3	(2.2)	2.2
Rubber	US\$/kg	134	(1.8)	(9.2)	(8.5)
Pulp	US\$/tonne	1,097	N/A	2.6	9.7
Coffee	US\$/60kgbag	91	1.1	(0.1)	(12.3)
Sugar	US\$/MT	351	(1.0)	(3.3)	(11.0)
Wheat	US\$/ton	124	(0.4)	(8.9)	3.5
Soy Oil	US\$/lb	32	(2.0)	(1.2)	(4.2)
Soy Bean	US\$/by	1,015	(2.2)	(4.3)	6.7

Source: Bloomberg

Thursday, 05 April 2018

Strategy

Trade war – China’s reciprocal measures underway

China’s retaliation measures have sparked concerns of a potentially intensifying trade war between the US and China. As this would only lead to a pyrrhic victory for the winner, we expect more opportune measures going forward. For Indonesia, net exports are not such a crucial component in GDP, but currency risk could derail the growth trajectory and dent confidence. We still prefer the domestic consumption related sectors.

The trade war saga continues

Following the US’s move to issue a list of Chinese imports subject to proposed tariffs, China has retaliated by announcing tariffs on 106 U.S. products. China will put a 25 percent levy on \$50 billion of U.S. imports, including soybeans, corn, aircraft, cars and whiskey, a reciprocal measure in response to the US’s latest decision to impose tariffs of a similar scale on Chinese goods. This move has sparked major concerns in the global financial markets, especially on the possibility that the two countries would take further measures which would create significant uncertainty in relation to the global growth outlook.

More opportune measures are plausible

With China’s latest measures mostly directed toward the US’s main agriculture products, there could be a softening in the stance taken by the US government. Recently, President Donald Trump said that the US is not in a trade war with China, and the recent policies on tariffs are more to address the huge trade deficit and intellectual property theft. Similarly, the Chinese government appears to be willing to negotiate to resolve this issue. We believe that the continuation of a trade war would only lead to a pyrrhic victory for the winner, reducing overall global economic growth.

Currency volatility risk is the biggest threat at this stage

The direct impact on Indonesia’s economy appears to be quite limited, especially as domestic consumption is the largest contributor to the economy, with net exports only less than 3%. However, currency volatility is definitely affecting the economy, especially through corporates which still depend on raw material imports. Indonesia has a USD14.1bn trade surplus with the US, ranking it 15th, mostly from exports of clothing & accessories and footwear. We also believe that over the medium-term, if the tariffs on US soybeans were to be implemented, China would likely satisfy its edible oil needs by looking toward South American soybeans, EU rapeseeds and Asian palm oil, with higher demand for the latter being a positive for CPO prices over the longer run.

Maintain our index target of 6,854

We believe that there will be more opportune measures in relation to the trade war between the US and China, without putting too much risk on global economic stability. We still prefer sectors with a domestic related theme such as the consumer sector (staples, retail and media), banking and construction. Given the recent underperformance of the LQ45 index (a proxy to bigger cap and more liquid stocks), we add ASII to our list of top picks.



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Company	Ticker	Rec	Target Price	Market Cap.	P/E (x)		P/BV (x)		ROE (%)
			(Rp)	(RpBn)	2017F	2018F	2017F	2018F	2018F
Adhi Karya	ADHI IJ	BUY	2,800	7,513	16.7	12.1	1.2	1.0	9.2
Adaro Energy	ADRO IJ	BUY	2,800	65,251	10.4	8.8	1.4	1.4	16.0
Astra International	ASII IJ	BUY	9,100	306,663	16.2	15.0	2.0	1.8	12.5
Bank Rakyat Indonesia	BBRI IJ	BUY	4,350	430,477	14.9	13.6	2.6	2.3	18.0
Bank Tabungan Negara	BBTN IJ	BUY	4,000	37,171	11.9	10.2	1.7	1.5	15.8
Indofood CBP	ICBP IJ	BUY	9,700	95,045	24.4	22.1	4.8	4.3	20.6
Mitra Adiperkasa	MAPI IJ	BUY	8,100	13,322	38.2	26.1	4.1	4.1	15.6
Media Nusantara Citra	MNCN IJ	BUY	1,750	20,914	14.2	11.9	2.3	2.1	18.2
Pembangunan Perumahan	PTPP IJ	BUY	4,000	16,554	12.8	10.5	2.6	2.2	22.6
Pakuwon Jati	PWON IJ	BUY	720	30,822	16.1	13.0	3.0	2.5	21.0
Ramayana Lestari Sentosa	RALS IJ	BUY	1,400	9,118	19.3	18.4	2.6	2.4	12.4

See important disclosure at the back of this report

Thursday, 05 April 2018

BUY
Maintain

Last price (IDR) 2,680
Target Price (IDR) 3,100
Upside/Downside +15.7%
Previous Target Price (IDR) 2,800

Stock Statistics

Sector Media
Bloomberg Ticker SCMA IJ
No of Shrs (mn) 14,622
Mkt. Cap (IDRbn/USDmn) 38,893/2,826
Avg. daily T/O (IDRbn/USDmn) 30.2/2.2

Major shareholders (%)

PT Elang Mahkota Teknologi 60.8
Public 39.1

EPS Consensus (IDR)

	2018F	2019F	2020F
Danareksa	107.4	120.5	N/A
Consensus	116.1	122.2	N/A
Danareksa/Cons	(7.5)	(1.4)	N/A

SCMA relative to JCI Index



Source : Bloomberg



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Surya Citra Media(SCMA IJ)

Hitting the upper end of the 1Q18 guidance

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We revise up our FY18-19F revenues forecasts. The company provided guidance for 1Q18 revenues growth of 12-15% yoy earlier in the year and in the FY17 earnings call stated that it had hit the upper end of the 1Q18 guidance. We raise our FY18-19F revenues estimates by 4.2% and 8.2%, respectively, implying 15% and 7% yoy revenues growth in FY18-19F. We believe that FTA TV ad spending is likely to improve in 1H18 relative to 1H17, supported mainly by local FMCG companies. Internet companies have been advertising heavily in recent quarters due to stiff competition, and we anticipate a similar trend going forward. Despite the threats posed by an increase in digital ads, we still believe TV dominance in the advertising industry will persist in Indonesia, particularly in FY18-19F.

Improving audience share YTD in 1Q18. The recent Nielsen survey revealed an overall improvement in SCMA's audience share in 1Q18 compared to 1Q17, mainly driven by better SCTV performance. In Mar 18, SCTV's top 3 TV shows were: 1) "Anak Langit", 2) "Orang Ketiga", and 3) "Siapa Takut Jatuh Cinta", and they underpinned the improvement in SCTV's audience share in 1Q18 on both a yearly and quarterly basis. IVM's audience share also improved on a yearly basis, although it is down slightly compared to previous quarters (exhibit 9). We think this can drive SCMA's average rate card in the future.

Still expecting a gradual improvement in profitability. Although we slightly raise our direct costs and opex assumptions - and therefore slightly tone down our FY18F operating profits and net profits estimates by 3.1% and 2.5% - we still foresee a gradual improvement in profitability (exhibit 5). In FY18-19F, we expect the operating margin to widen to 41% and 42%, respectively (2016: 40%).

Maintain BUY on SCMA with a TP of IDR3,100. We maintain our BUY call on SCMA with a higher TP of IDR3,100 (WACC: 10% and 3% terminal growth rate), implying 28.9x P/E 2018F or equal to about +0.5 sd based on 2010-2017. The stock is currently trading at 22.3x P/E 2018F, or at the mean level. The risks to our call include: 1) audience share stagnating or worsening, and 2) higher content and operating costs.

Key Financials

Year to 31 Dec	2016A	2017A	2018F	2019F	2020F
Revenue (IDRbn)	4,524	4,454	5,122	5,480	5,864
EBITDA (IDRbn)	2,138	1,967	2,308	2,536	2,783
EBITDA Growth (%)	0.0	(8.0)	17.3	9.9	9.7
Net profit (IDRbn)	1,503	1,332	1,591	1,761	1,942
EPS (IDR)	102.8	91.1	107.4	120.4	132.8
EPS growth (%)	(1.3)	(11.4)	17.9	12.1	10.3
BVPS (IDR)	234.3	266.8	310.9	373.9	438.7
DPS (IDR)	83.9	58.0	60.7	61.5	68.0
PER (x)	26.1	29.4	25.0	22.3	20.2
PBV (x)	11.4	10.0	8.6	7.2	6.1
Dividend yield (%)	3.1	2.2	2.3	2.3	2.5
EV/EBITDA (x)	18.2	19.8	16.9	14.9	13.3

MARKET NEWS

MACROECONOMY

Tax deductions and tax allowances are set to be applied at the end of April 2018

The government plans several packages to improve the tax regulation and several incentives for certain industries. One of the packages is the *Online single submission* that will be a system that allows the user to obtain a permit to do business and fiscal incentives that consist of tax allowances and tax deduction. The tax allowance will be given to entrepreneurs that run certain businesses, while tax deductions will be given to businesses that conduct research and development and vocation programs. The government expects that those plans will be implemented by the end of April 2018. (Investor Daily)

SECTOR

China to impose 25% reciprocal tariffs on US soybeans

According to Bloomberg, China will levy 25% reciprocal tariffs on US soybeans. In addition, other US goods such as planes, automobiles and chemicals will also be subject to the tariffs. The effective date for the new tariffs will be announced at a later time. (Bloomberg)

Comment: As we have stated before, this will be a short-term negative for CPO prices. Higher US soybean import tariffs will mean reduced demand for US soybeans, meaning a decline in US soybean prices and subsequently spilling over to other edible oil prices. Moreover, the negative sentiment from the trade war will induce investors to sell off risky assets and switch to safe haven assets. Over the medium-term, however, we think the impact on edible oil prices (including CPO) will be inflationary, as China would need to turn its preference towards South American soybeans, EU rapeseeds and Asian palm oil to satisfy its edible oil and meal needs. Hence any weakness in CPO prices would create a buying opportunity.

CORPORATE

Vale Indonesia: Plans to spend capex of USD95mn in 2018

Vale Indonesia (INCO) plans to spend capex of USD95mn. Most of the capex will be for business development. Another USD18mn of capex will be spent on repairing production machinery on a regular basis. Meanwhile, the company expects flattish nickel-in-matte production of around 77,800 tonnes (+1% yoy) this year. As energy costs contribute around 30% of total cash costs, the company continues to improve its efficiency, optimize production capacity and reduce costs in order to maintain profitability. After the company managed to save costs of USD23mn due to coal conversion at one of five kilns, for 2018, INCO plans to further conduct coal conversion for the other kilns. (Source: Kontan, Bisnis Indonesia)

COVERAGE PERFORMANCE
LEADERS

	Code	Price as on			Chg, %	w-w, %	m-m, %	YTD, %	Rating
		04-Apr-18	03-Apr-18						
Kino Indonesia	KINO	1,975	1,925	2.6	2.6	(1.3)	(6.8)	HOLD	
Indocement	INTP	16,600	16,200	2.5	(4.6)	(19.8)	(24.4)	SELL	
Pakuwon Jati	PWON	640	630	1.6	4.9	(6.6)	(6.6)	HOLD	
Surya Citra Media	SCMA	2,680	2,660	0.8	(1.1)	(1.5)	8.1	BUY	
Indofood	INDF	7,200	7,150	0.7	0.7	(5.3)	(5.6)	BUY	
Kalbe Farma	KLBF	1,560	1,550	0.6	8.3	(2.5)	(7.7)	HOLD	
PP London Sumatra	LSIP	1,300	1,295	0.4	(0.4)	(10.0)	(8.5)	BUY	
Media Nusantara Citra	MNCN	1,465	1,460	0.3	5.8	(3.0)	14.0	BUY	
Matahari Department Store	LPPF	10,975	10,950	0.2	0.5	(0.2)	9.7	BUY	
BPD Jatim	BJTM	650	650	-	2.4	(9.7)	(8.5)	BUY	

Sources: Bloomberg

LAGGARDS

	Code	Price as on			Chg, %	w-w, %	m-m, %	YTD, %	Rating
		04-Apr-18	03-Apr-18						
Erajaya Swasembada	ERAA	1,195	1,280	(6.6)	(3.2)	(2.0)	62.6	BUY	
Bank Tabungan Negara	BBTN	3,510	3,720	(5.6)	(4.4)	(7.6)	(1.7)	BUY	
Bank Negara Indonesia	BBNI	8,275	8,625	(4.1)	(10.1)	(13.4)	(16.4)	HOLD	
Charoen Pokphand	CPIN	3,350	3,490	(4.0)	4.7	(5.4)	11.7	HOLD	
Adaro Energy	ADRO	2,040	2,120	(3.8)	-	(12.1)	9.7	BUY	
Aneka Tambang	ANTM	775	805	(3.7)	-	(14.8)	24.0	HOLD	
Bank Rakyat Indonesia	BBRI	3,490	3,600	(3.1)	(3.1)	(7.4)	(4.1)	BUY	
Pembangunan Perumahan	PTPP	2,670	2,750	(2.9)	(2.6)	(11.6)	1.1	BUY	
Semen Baturaja	SMBR	3,500	3,600	(2.8)	(3.8)	5.4	(7.9)	SELL	
Bank Mandiri	BMRI	7,600	7,800	(2.6)	(5.0)	(7.6)	(5.0)	HOLD	

Sources: Bloomberg

PREVIOUS REPORTS

- Ace Hardware Indonesia: Expecting solid performance ahead, Media: Mar-18: RCTI's prime time has improved, Matahari Putra Prima: Challenging outlook, Ramayana Lestari Sentosa: Lebaran momentum play [SnapShot20180404](#)
- Harum Energy: High coal prices boost profits, Pakuwon Jati: Still on track, Surya Citra Media: Significantly higher opex [SnapShot20180403](#)
- Kino Indonesia: Depressed net profits, as expected, Mitra Adiperkasa: A significant operating margin improvement, Media Nusantara: Lower direct costs [SnapShot20180402](#)
- Ace Hardware Indonesia: Solid performance, as expected, Charoen Pokphand Indonesia: Margins were under pressured, as expected, Surya Semesta Internusa: Expect another loss in 2018, Bumi Serpong Damai: Upside remains, Ciputra Development: Better days are coming, Summarecon Agung: Attractive valuation [SnapShot20180329](#)
- Gudang Garam: Solid FY17 earnings, Ramayana Lestari Sentosa: In-line with expectations, Sampoerna Agro: Volume Growth Story [SnapShot20180328](#)

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