

FROM EQUITY RESEARCH
Bekasi Fajar Industrial Estate: Slow But Sure

(BEST IJ. IDR 234. BUY. TP IDR 300)

BEST booked 1H18 marketing sales of 6.8Ha (vs. the company's full year target of 35-45 Ha and our full year target of 40 Ha). Despite the weak 1H18 sales, we remain confident that BEST can achieve the full year target given strong inquiries for 86 Ha as of June 18. The FY18 revenues target should also be achieved given the backlog of 31 Ha. Maintain BUY with a lower TP of Rp300 (from Rp330) to account for higher borrowing costs and forex exposure.

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Vale Indonesia: Brighter Outlook

(INCO IJ. IDR 4,280. BUY. TP IDR 5,900)

We upgrade Vale Indonesia (INCO) from HOLD to BUY with a higher target price of IDR5,900 (based on DCF valuation and WACC of 10.6%) as we raise our nickel price assumption. With higher stainless-steel production and the expected increase in nickel demand for electric vehicles (EV) over the long term, the global nickel market will be in deficit. As such, we believe that the nickel price will continue to improve further in the coming years, albeit at a slower rate as high nickel prices will ultimately encourage producers to ramp up production, which will reduce the supply deficit.

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MARKET NEWS
Macroeconomy

- BKPM: Investment interest focuses on upstream sectors
- Bank Indonesia: Businesses start flourishing

KEY INDEX

	Close	Chg (%)	Ytd (%)	Vol (US\$ m)
Asean - 5				
Indonesia	5,908	0.2	(7.0)	379
Thailand	1,641	0.3	(6.4)	1,415
Philippines	7,351	0.2	(14.1)	92
Malaysia	1,704	0.9	(5.2)	503
Singapore	3,253	0.1	(4.4)	811
Regional				
China	2,838	2.2	(14.2)	30,602
Hong Kong	28,481	0.6	(4.8)	11,663
Japan	22,494	1.4	(1.2)	2,649
Korea	2,310	1.1	(6.4)	5,484
Taiwan	10,738	0.6	0.9	4,324
India	36,548	0.8	7.3	413
NASDAQ	7,824	1.4	13.3	112,311
Dow Jones	24,925	0.9	0.8	8,860

CURRENCY AND INTEREST RATE

		Rate	w-w (%)	m-m (%)	ytd (%)
Rupiah	Rp/1US\$	14,390	0.0	(3.3)	(6.2)
SBI rate	%	5.25	0.5	0.8	1.0
10y Gov	Indo bond	7.53	(0.1)	0.2	1.2

HARD COMMODITY

	Unit	Price	d-d (%)	m-m (%)	ytd (%)
Coal	US\$/ton	118	0.1	2.2	17.1
Gold	US\$/toz	1,246	(0.1)	(4.1)	(4.4)
Nickel	US\$/mt.ton	14,099	2.3	(6.8)	11.0
Tin	US\$/mt.ton	19,730	1.4	(7.0)	(1.8)

SOFT COMMODITY

	Unit	Price	d-d (%)	m-m (%)	ytd (%)
Cocoa	US\$/mt.ton	2,445	(1.0)	3.3	28.7
Corn	US\$/mt.ton	123	2.6	(7.7)	(1.9)
Oil (WTI)	US\$/barrel	70	(0.0)	5.5	16.4
Oil (Brent)	US\$/barrel	74	(0.2)	(3.2)	11.1
Palm oil	MYR/mt.ton	2,204	(1.7)	(5.8)	(7.8)
Rubber	US\$/kg	130	(0.8)	(5.9)	(11.5)
Pulp	US\$/tonne	1,205	N/A	2.8	20.5
Coffee	US\$/60kgbag	85	0.8	1.3	(4.9)
Sugar	US\$/MT	340	(0.2)	(3.5)	(14.0)
Wheat	US\$/ton	133	1.0	(8.2)	5.0
Soy Oil	US\$/lb	28	(0.6)	(6.3)	(14.8)
Soy Bean	US\$/by	832	0.2	(11.2)	(12.6)

Source: Bloomberg

Friday, 13 July 2018

BUY
Maintain

Last price (IDR)	234
Target Price (IDR)	300
Upside/Downside	+28.2%
Previous Target Price (IDR)	330

Stock Statistics

Sector	Industrial Estate
Bloomberg Ticker	BEST IJ
No of Shrs (mn)	9,647
Mkt. Cap (IDRbn/USDmn)	2,257/157
Avg. daily T/O (IDRbn/USDmn)	5.1/0.4

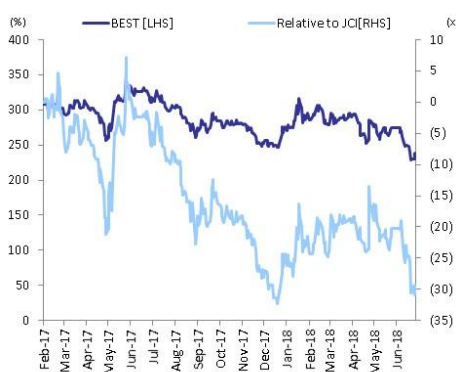
Major shareholders (%)

Argo Manunggal Land Development	48.1
Daiwa House Industry Corporate	10.0
Estimated free float	41.8

EPS Consensus (IDR)

	2018F	2019F	2020F
Danareksa	51.6	60.2	63.7
Consensus	51.1	53.5	58.5
Danareksa/Cons	0.9	12.4	8.9

BEST relative to JCI Index



Source : Bloomberg



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Bekasi Fajar Industrial Estate (BEST IJ)

Slow But Sure

BEST booked 1H18 marketing sales of 6.8Ha (vs. the company's full year target of 35-45 Ha and our full year target of 40 Ha). Despite the weak 1H18 sales, we remain confident that BEST can achieve the full year target given strong inquiries for 86 Ha as of June 18. The FY18 revenues target should also be achieved given the backlog of 31 Ha. Maintain BUY with a lower TP of Rp300 (from Rp330) to account for higher borrowing costs and forex exposure.

Weak 2Q18 land marketing sales. BEST recorded land marketing sales of just 1.8Ha in 2Q18, resulting in 1H18 marketing sales of 6.8Ha. This falls short of the company's FY18 target of 35-45 Ha and our FY18 estimate of 40 Ha. According to the company, the slow sales in 2Q18 mainly owed to fewer working days as a result of Lebaran which caused delays in making deals.

Still optimistic on the FY18 marketing sales. Despite the weak 1H18, we remain optimistic on BEST's FY18 marketing sales target as we expect the bulk of the marketing sales to be booked in 2H18. Note that there were stronger inquiries of 86 Ha as of Jun' 18 (vs. 66-67 Ha as of Jun'17). The plot size for inquiries ranged from 1-20 Ha - mostly smaller plots of 1-5 Ha. In regard to the tenant mix, around 70% of the inquiries came from foreign investors (mostly Japanese), while the remaining 30% were domestic. By sector, inquiries were quite diversified ranging from F&B, packaging, logistics, e-commerce, auto-related and healthcare.

The FY18 revenues target should be achieved. We expect BEST to book Rp1.1tn of FY18 revenues (+10.9% YoY), supported by industrial land sales of Rp986bn (+9.0% YoY) and Rp130bn of recurring income (+27.9% YoY). Given a backlog of 31 Ha and ASP guidance of Rp2.6-3.2mn/sqm, BEST may potentially book ~Rp850bn of industrial land revenues in 2H18.

Maintain BUY with a lower TP of Rp300. Given the IDR depreciation, we revise our USD/IDR assumption to Rp13,600/USD (from Rp13,300/USD), thus leading to a -3.7%/-0.3% adjustment in FY18/FY19 net profits to Rp498bn and Rp581bn, respectively. To account for imminent rising borrowing costs and the company's forex exposure, we lower our TP to Rp300 (from Rp330), based on a higher discount to NAV of 75% (from 72%). Out of a total of ~USD116mn in foreign-denominated loans, USD35mn remains unhedged, hence exposing BEST to some forex risk which could undermine the FY18 earnings. BEST currently trades at an 80% discount to NAV vs. the sector's 79%.

Key Financials

Year to 31 Dec	2016A	2017A	2018F	2019F	2020F
Revenue (IDRbn)	824	1,006	1,116	1,238	1,271
EBITDA (IDRbn)	530	611	674	760	779
EBITDA Growth (%)	30.6	15.3	10.3	12.8	2.6
Net profit (IDRbn)	336	483	498	581	615
EPS (IDR)	34.8	50.1	51.6	60.2	63.7
EPS growth (%)	58.8	43.9	3.0	16.6	5.9
BVPS (IDR)	351.2	398.6	445.3	500.4	558.2
DPS (IDR)	(1.2)	(3.4)	(4.9)	(5.1)	(5.9)
PER (x)	6.7	4.7	4.5	3.9	3.7
PBV (x)	0.7	0.6	0.5	0.5	0.4
Dividend yield (%)	(0.5)	(1.5)	(2.1)	(2.2)	(2.5)
EV/EBITDA (x)	6.6	5.4	5.1	4.5	4.4

Source : BEST, Danareksa Estimates

Thursday, 12 July 2018

BUY
Upgrade

Last price (IDR)	4,280
Target Price (IDR)	5,900
Upside/Downside	+37.9%
Previous Target Price (IDR)	3,300

Stock Statistics

Sector	Metal Mining
Bloomberg Ticker	INCO IJ
No of Shrs (mn)	9,936
Mkt. Cap (IDRbn/USDmn)	42,528/2,956
Avg. daily T/O (IDRbn/USDmn)	41.9/2.9

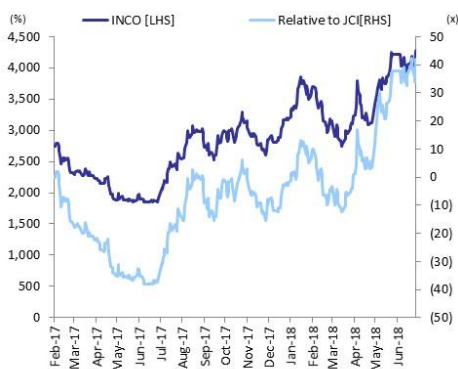
Major shareholders (%)

Vale Canada Ltd	58.7
Sumitomo Metal	20.1
Estimated free float	20.5

EPS Consensus (USDcents)

	2018F	2019F	2020F
Danareksa	0.9	1.4	1.7
Consensus	1.2	1.4	1.8
Danareksa/Cons	(25.1)	2.3	(8.0)

INCO relative to JCI Index



Source : Bloomberg



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Vale Indonesia(INCO IJ)

Brighter Outlook

We upgrade Vale Indonesia (INCO) from HOLD to BUY with a higher target price of IDR5,900 (based on DCF valuation and WACC of 10.6%) as we raise our nickel price assumption. With higher stainless-steel production and the expected increase in nickel demand for electric vehicles (EV) over the long term, the global nickel market will be in deficit. As such, we believe that the nickel price will continue to improve further in the coming years, albeit at a slower rate as high nickel prices will ultimately encourage producers to ramp up production, which will reduce the supply deficit.

Raising our nickel price assumption. Global nickel demand is expected to increase going forward supported by higher stainless steel production and long-term demand from EV. Accounting for about 68% of total nickel demand, stainless steel production is expected to increase at around 5% yoy per annum owing to the rapid development of mills in China and Indonesia. On the supply side, the weak nickel price in the past two years prompted several nickel producers to either stop or lower production. Recently, Vale announced that it would halt nickel investment projects in Canada and New Caledonia. Given this backdrop, we expect the global nickel market deficit to persist in the short term. In turn, this will boost nickel prices, but at a slower rate as high prices would encourage producers to ramp up their production. We assume an average nickel price of USD15,000/tonne for 2018, USD16,000/tonne for 2019 and USD17,000/tonne for 2020.

Higher nickel prices to boost INCO's earnings in 2Q18. Although INCO reported lower-than-expected results in 1Q18, its net profits still jumped 57.3% qoq to USD9.4mn. Profits were boosted by strong nickel prices. For INCO, its ASP jumped by 9.0% qoq amid lower production due to planned maintenance activities. In 2Q18, quarterly earnings should improve given: a) strong nickel prices (+9.0% qoq) and b) rising nickel-in-matte production after completion of the planned maintenance activities. However, higher energy costs of fuels such as HSFO, diesel and coal are expected to dampen INCO's performance as they accounted for 29.4% of the company's total production costs in 1Q18.

Limited production growth in the short term. The management indicated flattish growth in nickel-in-matte production to 77,000 – 78,000 tonnes for 2018 (2017: 76,807 tonnes). In the next two years, the nickel-in-matte production is expected to remain at around the 80,000 tonnes level. Following debottlenecking, beyond 2 – 3 years, INCO plans to increase its nickel-in-matte production capacity to 90,000 tonnes.

Upgrade to BUY with a higher target price of IDR5,900 (based on DCF valuation and WACC of 10.6%) as we raise our nickel price assumption. The downside risks are: a decline in the nickel price on weaker demand for nickel, a big increase in the nickel inventory level, and changes in government policy.

Key Financials

Year to 31 Dec	2016A	2017A	2018F	2019F	2020F
Revenue (USDmn)	584	629	913	998	1,061
EBITDA (USDmn)	143	121	258	329	361
EBITDA Growth (%)	(36.6)	(15.9)	113.5	27.9	9.6
Net profit (USDmn)	2	(15)	89	142	165
EPS (USDcents)	0.0	(0.2)	0.9	1.4	1.7
EPS growth (%)	(96.2)	(901.2)	(685.0)	59.4	15.6
BVPS (USDcents)	18.5	18.3	19.2	20.1	20.9
DPS (USDcents)	0.0	0.0	0.0	0.5	0.9
PER (x)	1,551.1	n/m	33.1	20.8	18.0
PBV (x)	1.6	1.6	1.5	1.5	1.4
Dividend yield (%)	0.0	0.0	0.0	1.8	2.9
EV/EBITDA (x)	20.1	23.3	10.6	8.0	6.9

Source : INCO, Danareksa Estimates

MARKET NEWS

MACRO

BKPM: Investment interest focuses on upstream sectors

According to the Capital Investment Coordinating Board (BKPM), there is now a greater focus on investment interest in capital-intensive upstream industries. Upstream industry focuses on producing raw materials that have been imported from other countries. The steel industry is showing promising growth, with strong demand for steel from the construction industry and from manufacturers of household appliances. The main challenges are on the political front and exchange rate volatility. The government needs to put in place investment-friendly policies to counter negative market sentiment and to maintain trade activities. (Bisnis Indonesia)

Bank Indonesia: Businesses start flourishing

According to a survey of business activities conducted by BI, average capacity utilization in 2Q18 reached 78.40%, up from 77.01% in 1Q18. This is also higher than last year's utilization of 77.01% and 77.87% in 2Q15. BI said that higher capacity utilization was seen in almost all industries. It implies more capacity needs to be added. Brisker business activity is particularly evident in the manufacturing industry, as seen in the growing Prompt Manufacturing Index of 52.40% in 2Q18. However, BI sees a slowdown in agriculture, plantations, forestry and the fishery industries. (Bisnis Indonesia)

COVERAGE PERFORMANCE
LEADERS

	Code	Price as on		Chg, %	w-w, %	m-m, %	YTD, %	Rating
		12-Jul-18	11-Jul-18					
Matahari Putra Prima	MPPA	272	248	9.7	14.3	(4.2)	(39.8)	SELL
Pakuwon Jati	PWON	580	555	4.5	6.4	(1.7)	(15.3)	HOLD
Bukit Asam	PTBA	4,230	4,070	3.9	5.8	3.9	72.0	BUY
Bank Tabungan Pensiunan Nasional	BTPN	3,860	3,740	3.2	1.6	(2.3)	56.9	HOLD
Mayora Indah	MYOR	3,100	3,010	3.0	4.7	0.3	53.5	HOLD
Ace Hardware	ACES	1,330	1,300	2.3	7.7	(2.2)	15.2	BUY
Bank Central Asia	BBCA	22,825	22,325	2.2	7.5	2.6	4.2	HOLD
PP London Sumatra	LSIP	940	920	2.2	2.2	(17.9)	(33.8)	BUY
Waskita Beton	WSBP	378	370	2.2	6.2	(7.4)	(7.4)	BUY
Indocement	INTP	13,775	13,500	2.0	(0.2)	(14.6)	(37.2)	SELL

Sources: Bloomberg

LAGGARDS

	Code	Price as on		Chg, %	w-w, %	m-m, %	YTD, %	Rating
		12-Jul-18	11-Jul-18					
Bumi Serpong Damai	BSDE	1,490	1,550	(3.9)	3.1	(13.4)	(12.4)	BUY
Bank Tabungan Negara	BBTN	2,200	2,270	(3.1)	(2.2)	(27.4)	(38.4)	BUY
Pembangunan Perumahan	PTPP	2,060	2,120	(2.8)	2.5	(22.0)	(22.0)	BUY
Malindo Feedmill	MAIN	715	735	(2.7)	8.3	(3.4)	(3.4)	HOLD
Matahari Department Store	LPPF	7,975	8,175	(2.4)	(9.4)	(11.4)	(20.3)	BUY
United Tractors	UNTR	32,000	32,800	(2.4)	(3.8)	(8.0)	(9.6)	BUY
Indo Tambangraya Megah	ITMG	24,725	25,300	(2.3)	6.3	(8.4)	19.4	BUY
HM Sampoerna	HMSP	3,720	3,800	(2.1)	(1.1)	2.2	(21.4)	BUY
Bank Negara Indonesia	BBNI	7,025	7,175	(2.1)	(1.1)	(12.7)	(29.0)	BUY
Semen Indonesia	SMGR	7,425	7,575	(2.0)	8.4	(10.3)	(25.0)	SELL

Sources: Bloomberg

PREVIOUS REPORTS

- Ramayana Lestari Sentosa: Modest growth in 1H18 revenues, Trade outlook - June Outlook: Softening on Seasonality [SnapShot20180712](#)
- Plantation: June 18 Inventory Increases, Ace Hardware Indonesia: Strong June 2018 revenues and SSSG [SnapShot20180711](#)
- Adhi Karya: Expecting more contracts in 2H [SnapShot20180710](#)
- Plantation: Still Under Pressure in the Short-Term [SnapShot20180709](#)
- Media: Jun-18: SCTV and RCTI's prime time has improved [SnapShot20180704](#)

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