

FROM EQUITY RESEARCH

Strategy: Policy Panacea - Import Control Measure

The government release new policy to reduce import, especially on consumption goods. Not only it will help to reduce trade imbalance, but also can boost domestic product price competitiveness. The import control will neither deter economic growth nor considerably impact inflation. Domestic ceramic, textile, tire and toiletries producers are likely to benefit, while retailers will be the worst affected, in our view. Also, we continue to favour commodities counters, especially CPO due to B20 program.

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MARKET NEWS

Sector

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- Retail: Restriction on franchise expansion

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KEY INDEX

	Close	Chg (%)	Ytd (%)	Vol (US\$ m)
Asean - 5				
Indonesia	5,684	(3.8)	(10.6)	487
Thailand	1,686	(1.6)	(3.8)	1,831
Philippines	7,752	(1.6)	(9.4)	109
Malaysia	1,796	(1.0)	(0.1)	485
Singapore	3,156	(1.7)	(7.2)	749
Regional				
China	2,704	(1.7)	(18.2)	22,717
Hong Kong	27,244	(2.6)	(8.9)	12,171
Japan	22,581	(0.5)	(0.8)	11,867
Korea	2,292	(1.0)	(7.1)	4,060
Taiwan	10,995	(0.2)	3.3	3,739
India	38,018	(0.4)	11.6	525
NASDAQ	7,995	(1.2)	15.8	142,292
Dow Jones	25,975	0.1	5.1	10,970

CURRENCY AND INTEREST RATE

	Rate	w-w (%)	m-m (%)	ytd (%)
Rupiah Rp/1US\$	14,938	(2.0)	(3.2)	(10.2)
SBI rate %	5.50	0.3	0.3	1.3
10y Gov Indo bond	8.62	0.6	0.8	2.3

HARD COMMODITY

	Unit	Price	d-d (%)	m-m (%)	ytd (%)
Coal	US\$/ton	115	(0.5)	(2.3)	13.9
Gold	US\$/toz	1,197	(0.0)	(0.9)	(8.1)
Nickel	US\$/mt.ton	12,358	(0.2)	(8.2)	(2.7)
Tin	US\$/mt.ton	18,857	(0.2)	(4.2)	(6.2)

SOFT COMMODITY

	Unit	Price	d-d (%)	m-m (%)	ytd (%)
Cocoa	US\$/mt.ton	2,271	0.5	9.1	19.6
Corn	US\$/mt.ton	121	(0.6)	(5.8)	(3.5)
Oil (WTI)	US\$/barrel	69	(0.2)	(0.6)	13.5
Oil (Brent)	US\$/barrel	77	(1.2)	5.5	15.6
Palm oil	MYR/mt.ton	2,215	0.8	2.4	(7.3)
Rubber	US\$/kg	132	(0.1)	0.4	(10.2)
Pulp	US\$/tonne	1,205	N/A	2.8	20.5
Coffee	US\$/60kgbag	75	(0.2)	0.5	(10.3)
Sugar	US\$/MT	335	1.9	3.3	(15.2)
Wheat	US\$/ton	142	(1.8)	(10.0)	8.2
Soy Oil	US\$/lb	28	(0.7)	(0.6)	(14.8)
Soy Bean	US\$/by	826	(0.8)	(6.9)	(13.3)

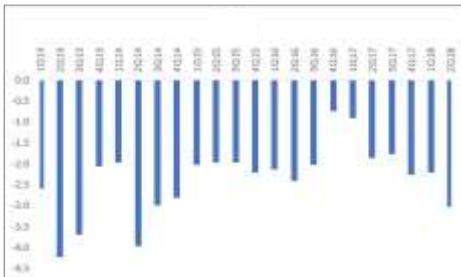
Source: Bloomberg

Thursday, 06 September 2018

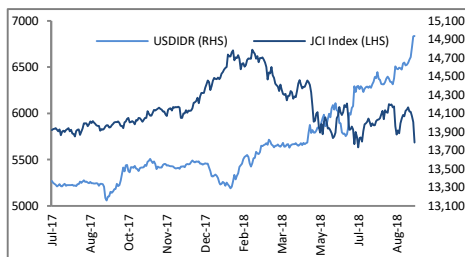
Strategy

Policy Panacea: Import Control Measure

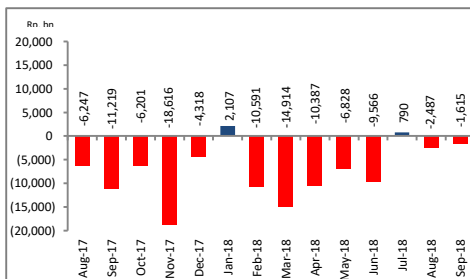
CAD trends (as % to GDP)



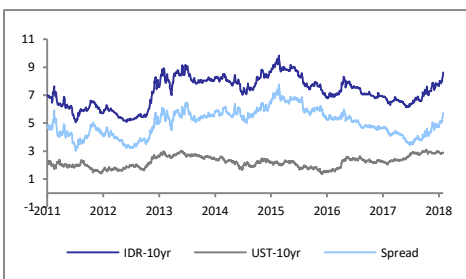
JCI vs USD



Net Foreign Flow



UST10yr-IDN10yr-Spread



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Import control to reduce trade imbalance. As part of policies to ease pressure on current account deficit (CAD) and currency stabilisation, the government and Bank Indonesia has taken several measures which include rising rates, promote export and a reduction of importation. On the latter, aside from the recently launch B20 mandate, the government just released import control measures which affect 1,147 import items.

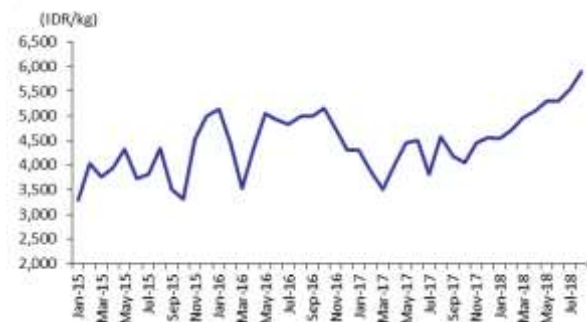
We view there are 3 main points on this new measure: 1. The import control is directed toward consumption products and the selection of the affected items would emphasized on the availability of domestic product substitution. Imported goods that is deemed to have greater impact on production process will see no tariff increase; 2. The import control will ultimately boost the price competitiveness of domestic manufacture by 15-20% compared to import items; 3. The fiscal tools for this import control is Income Tax article 22 (Pph 22), it is not only it will create an equal playing field to all importers but also to minimize potential inquisition risk from WTO, and it should not interpret as an effort to generate additional revenue for government. The government also expect minimal inflation pressure from this new measure.

The 3 tiers import control. For import control, the government divided the goods into 3 categories: 1. Imported goods that is used as raw material and is deemed important for production process will see no tariff increase, still at 2.5% (57 goods); 2. Consumption goods that is also deemed as intermediate products will see higher tariff of 7.5% from 2.5%. There are 719 items in this category such as textile, tire and ceramic; and 3. 428 goods will have maximum tariff of 10%, which include imported final product for consumption that can be produced locally, such as cosmetics, toiletries and utensil; as well as luxury items such as CBU automotive.

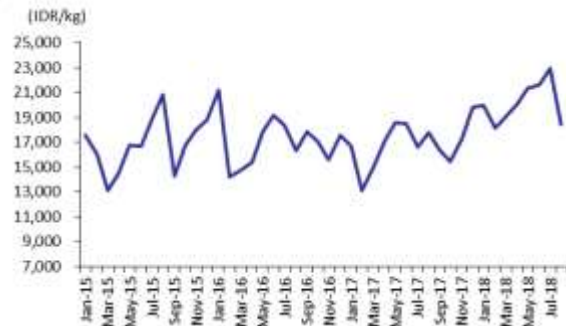
Impact on sectors. Rapid policy response clearly highlights proactive stance of government to deal with the current dynamic macro environment without compromising economic growth. Ostensibly, there could be retaliation from the affected countries. Our initial take on the beneficiaries of this new policy would be ceramic manufacturer (ARNA IJ), textile (SRIL IJ), tire (GJLT IJ & MASA IJ) and toiletries (UNVR IJ and KINO IJ). ASII IJ will also benefit on reduction in CBU car importation. The retailers will be the most negatively impacted, as they will face two round of cost increase, weakening USD and higher import tariff. We are still waiting for the release of the full list of 1,147 item for a more precise assessment. We continue to like commodity play especially with the expected greater effort from government to promote export activity, such as coal, nickel and CPO.

MARKET NEWS
SECTOR
Poultry: Broiler price has fallen sharply in August 2018

Broiler price in Aug-18 significantly decreased by -19.8% mom to IDR18,416/kg, despite +3.6% yoy (Jul-18: IDR22,960/kg; Aug-17: IDR17,781/kg). However, in average, broiler price as of Aug 2018 still increased by 21.1% YTD to IDR20,202/kg. DOC price in Aug-18, still increased by +6.7% mom and +29.0% yoy to IDR5,900/DOC. This translates to IDR5,169/DOC in average as of Aug-18, +25.2% YTD. (Company Release)

Exhibit 1. DOC Price in August 2018


Source: Market Average

Exhibit 2. Broiler Price in August 2018


Source: Market Average

Retail: Restriction on franchise expansion

The Ministry of Trade will revise 4 franchise regulations: 1) Minister of Trade Regulation No 53/2012 concerning franchising, 2) Minister of Trade Regulation No. 68/2012 concerning franchising and the type of modern shop business, 3) Permendag No. 7/2013 concerning franchise partnership, 4) Minister of Trade Regulation No. 70/2013 concerning guidelines for arranging and duding traditional markets, centers, shopping and modern stores. (Kontan)

CORPORATE
Waskita Karya: Waiting for the payment of LRT Palembang worth IDR3.9tn

Waskita Karya (WSKT) expects to receive IDR3.9tn of the payment on Palembang LRT project by end of Sep18. This will be the second tranche of payment on the project following the first payment in early 2018 with an amount of IDR72bn. The total works carries out on the project reaches IDR10.9tn with the payment will be done partially in 2018-2020. (Bisnis Indonesia)

Comment: WSKT booked IDR7.5tn of receivables from the Ministry of Transportation as of Jun18. We believe this account emerged from the LRT project. Maria Renata

Jasa Marga: Developing property business

Jasa Marga (JSMR) is entering property business which location near its new toll road. The business is called toll corridor development (TCD). JSMR through its subsidiary, Jasa Marga Properti (JMP), plans to develop property areas which are located in around its new toll roads. One of the project is located near to access Patimban toll road. JSMR forms partnership with Surya Semesta Internusa (SSIA) as the initiator of the toll road. Furthermore, JSMR is waiting for the set of location for the extension of Ngawi – Kertosono toll road to Kediri. JSMR cooperates with Gudang Garam (GGRM) will develop a property area in Kediri near the new airport. Hence, the construction of Kertosono – Kediri toll road is targeted to start next year. (Bisnis Indonesia)

Telkom Indonesia: Reprofiles its debts

PT Telkom Indonesia (TLKM) has issued Rp1.5 tn Medium Term Notes (MTN) to improve its debt structure in terms of its interest profile. MTN I Year 2018 issued in the amount of Rp. 758 bn while MTN Syariah Ijarah Telkom I in 2018 was issued worth IDR742 billion. MTN proceeds will be used for the construction of backbone networks and access to IndiHome triple play services. Previously, Telkom Telkom decided to lock some interest into fixed interest for the next two to three years. This is done to anticipate the trend of changes in interest rates going forward, amid the pressure of rising interest rates from the United States which could have an impact on domestic interest rates. Based on 1H18 financial results of Telkom, the group debt position was at ~Rp48.9 tn up from Rp31.7 tn in FY17 or +54.5%. The debt/equity ratio was standing at 57.6% and debt / EBITDA at 0.9x. (Bisnis Indonesia)

COVERAGE PERFORMANCE

LEADERS

	Code	Price as on		Chg, %	w-w, %	m-m, %	YTD, %	Rating
		05-Sep-18	04-Sep-18					
Sampoerna Agro	SGRO	2,320	2,310	0.4	(1.3)	(2.1)	(9.7)	HOLD
Media Nusantara Citra	MNCN	880	880	-	(4.3)	(18.5)	(31.5)	BUY
BTPS	BTPS	1,620	1,625	(0.3)	(0.3)	(0.3)	N/A	BUY
Ramayana	RALS	1,225	1,235	(0.8)	(3.5)	(6.5)	2.1	HOLD
Indocement	INTP	16,325	16,625	(1.8)	(6.0)	7.4	(25.6)	SELL
Astra Agro Lestari	AALI	13,000	13,250	(1.9)	(1.1)	4.8	(1.1)	HOLD
BTPN	BTPN	3,880	3,960	(2.0)	(3.2)	(2.0)	57.7	HOLD
PP London Sumatra	LSIP	1,295	1,325	(2.3)	(5.1)	7.0	(8.8)	BUY
Mayora Indah	MYOR	2,780	2,850	(2.5)	(1.8)	(7.0)	37.6	HOLD
Indofood CBP	ICBP	8,400	8,650	(2.9)	(4.8)	(6.7)	(5.6)	BUY

Sources: Bloomberg

LAGGARDS

	Code	Price as on		Chg, %	w-w, %	m-m, %	YTD, %	Rating
		05-Sep-18	04-Sep-18					
Vale Indonesia	INCO	3,190	3,490	(8.6)	(18.4)	(24.4)	10.4	BUY
Alam Sutera	ASRI	288	314	(8.3)	(11.1)	(14.3)	(19.1)	HOLD
Matahari Department Store	LPPF	6,525	7,075	(7.8)	(13.6)	(4.0)	(34.8)	BUY
Pembangunan Perumahan	PTPP	1,665	1,805	(7.8)	(12.1)	(17.2)	(36.9)	BUY
Ciputra Development	CTRA	750	810	(7.4)	(14.8)	(25.4)	(36.7)	BUY
Kimia Farma	KAEF	2,140	2,300	(7.0)	(11.6)	(7.8)	(20.7)	HOLD
Matahari Putra Prima	MPPA	177	190	(6.8)	(14.9)	(24.4)	(60.8)	SELL
Bumi Serpong Damai	BSDE	1,100	1,180	(6.8)	(14.4)	(18.5)	(35.3)	BUY
Wijaya Karya	WIKA	1,455	1,555	(6.4)	(11.6)	(11.8)	(6.1)	BUY
Bank Tabungan Negara	BBTN	2,480	2,650	(6.4)	(13.3)	(6.8)	(30.5)	BUY

Sources: Bloomberg

PREVIOUS REPORTS

- Strategy: Less Spice, Banking: On track (Overweight), Danareksa Research Institute: Concerns on Higher Prices Weigh on Consumer Confidence [SnapShot20180904](#)
- Plantation: Time for a Rerating, London Sumatra: The Cleanest One of All, Astra Agro Lestari: Focusing on Costs and Replanting, Sampoerna Agro: Second-Tier Choice, Timah: 2Q18: Boosted by strong sales volume [SnapShot20180903](#)
- Gudang Garam: Higher ASP boost performance [SnapShot20180831](#)
- Danareksa Research Institute: Inflation Outlook – Milder [SnapShot20180829](#)
- Plantation: Impact of the Full Implementation of B20, Indofood Sukses Makmur: Go with the grain, Danareksa Research Institute: Monetary Watch – Further Tightening [SnapShot20180828](#)

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