

FROM EQUITY RESEARCH

Strategy: The Trade Imbalance Persists

While the August trade deficit of USD1.0b was lower than July's, it was nonetheless still above our estimate (USD470m) and the consensus (USD674m). Exports were weaker in August. This is attributable, at least in part, to lower gas and coal exports. Going forward, various government policy initiatives can be expected to address the imbalance and we consequently expect the country's Current Account position to improve.

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Construction: Diversification into infrastructure investment (Overweight)

Most SOE contractors are now diversifying their businesses into infrastructure investment. They are particularly targeting high-value infrastructure projects such as toll roads, power plants, property, railways, water treatment and tank storage. The 7M18 new contracts of the 4 SOE contractors grew by 8%yoy, supported by strong carry over contracts. The sector trades at an attractive valuation of below its -1SD 2019 PE of 10.0x. We are OVERWEIGHT on the sector and roll over our valuation to 2019 for each contractor.

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MARKET NEWS

Macroeconomy

- Government global bonds up by 4.8%yoy in July 2018
- Government to offer USD 86.1bn of projects

Sector

- Healthcare: President to sign a regulation allowing cigarette tax to cover the BPJS Kesehatan deficit
- Telco: BRTI pessimistic on SIM card reregistration positives.

Corporate

- Telkom strengthens Satellite Unit Telkomsat
- Telkom exploring digital business in Sharing Economy platform

KEY INDEX

	Close	Chg (%)	Ytd (%)	Vol (US\$ m)
Asean - 5				
Indonesia	5,824	(1.8)	(8.4)	281
Thailand	1,718	(0.2)	(2.0)	1,532
Philippines	7,414	0.0	(13.4)	65
Malaysia	1,804	0.6	0.4	622
Singapore	3,141	(0.6)	(7.7)	510
Regional				
China	2,652	(1.1)	(19.8)	21,316
Hong Kong	26,933	(1.3)	(10.0)	8,243
Japan	23,095	1.2	1.4	19,280
Korea	2,303	(0.7)	(6.7)	5,182
Taiwan	10,829	(0.4)	1.7	2,925
India	37,586	(1.3)	10.4	419
NASDAQ	7,896	(1.4)	14.4	114,316
Dow Jones	26,062	(0.4)	5.4	9,730

CURRENCY AND INTEREST RATE

	Rate	w-w (%)	m-m (%)	ytd (%)
Rupiah Rp/1US\$	14,880	(0.2)	(2.0)	(9.8)
BI7DRRR %	5.50	0.3	0.3	1.3
10y Gov Indo bond	8.42	(0.2)	0.4	2.1

HARD COMMODITY

	Unit	Price	d-d (%)	m-m (%)	ytd (%)
Coal	US\$/ton	115	(0.7)	(2.9)	13.7
Gold	US\$/toz	1,199	(0.2)	1.1	(8.0)
Nickel	US\$/mt.ton	12,158	(3.3)	(9.2)	(4.3)
Tin	US\$/mt.ton	19,045	(0.0)	2.0	(5.2)

SOFT COMMODITY

	Unit	Price	d-d (%)	m-m (%)	ytd (%)
Cocoa	US\$/mt.ton	2,177	(3.2)	4.6	14.6
Corn	US\$/mt.ton	114	(2.0)	(11.6)	(8.8)
Oil (WTI)	US\$/barrel	69	(0.4)	4.2	13.6
Oil (Brent)	US\$/barrel	78	(0.1)	8.7	16.7
Palm oil	MYR/mt.ton	2,210	0.0	0.8	(7.5)
Rubber	US\$/kg	132	(0.3)	(0.9)	(9.9)
Pulp	US\$/tonne	1,205	N/A	2.8	20.5
Coffee	US\$/60kgbag	75	(0.7)	0.1	(10.4)
Sugar	US\$/MT	330	(2.8)	7.3	(16.4)
Wheat	US\$/ton	138	(1.0)	(12.7)	5.0
Soy Oil	US\$/lb	27	(0.2)	(2.8)	(17.1)
Soy Bean	US\$/by	824	(0.8)	(6.6)	(13.5)

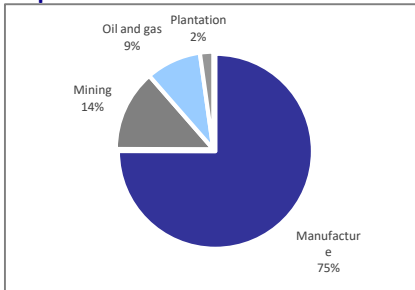
Source: Bloomberg

Tuesday, 18 September 2018

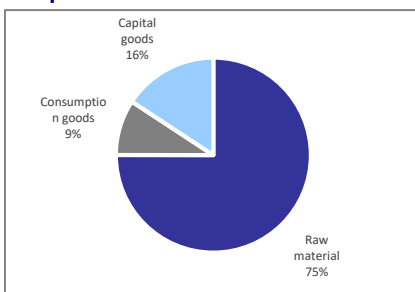
Strategy

The Trade Imbalance Persists

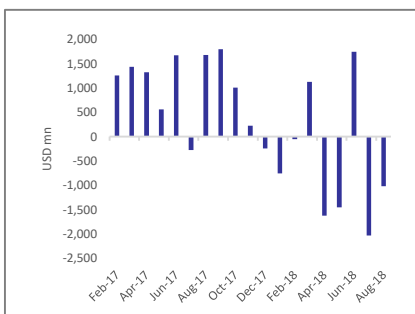
Export Breakdown – 8M18



Import Breakdown - 8M18



Trade Balance



While the August trade deficit of USD1.0b was lower than July's, it was nonetheless still above our estimate (USD470m) and the consensus (USD674m). Exports were weaker in August. This is attributable, at least in part, to lower gas and coal exports. Going forward, various government policy initiatives can be expected to address the imbalance and we consequently expect the country's Current Account position to improve.

Lower trade imbalance in Aug than July, yet still wider than expected

While imports declined in Aug 2018 (down 8% m-m) to USD16.8b, the deficit persisted due to a fall in exports, albeit at a lower level of USD1.0b in Aug vs USD2.0b in July. Even so, this figure is still well above our estimate (USD470m) and the consensus (USD674m), meaning that concerns on the Current Account outlook persist. As such, Sep's data will be highly significant, especially as the government took various policies in a bid to reduce the trade imbalance (implementation of the B20 mandate, import controls on 1,471 items, and the postponement of capital goods imports for 15k MW electricity projects). If these policies are not executed well, further IDR volatility might be on the cards.

Exports down 2.9% m-m to USD15.8b in Aug 18, with oil and gas exports down 3.3% m-m, mainly hit by 10% and 23% lower exports of processed oil and gas, respectively. For the latter, the decline was mostly attributable to lower gas volume exports (-24% m-m in Aug). Gas exports contribute nearly 60% of the total oil and gas exports which are 10% of Indonesia's total exports. Non-oil and gas exports also fell. They dipped 2.9% m-m in Aug to USD14.4b, mainly on the back of lower mineral fuel (coal) exports (-16% m-m). Coal exports are the largest component of non-oil and gas exports, with a 13% contribution, followed by CPO whose export value rose 3.5% in Aug. Aside from coal, metal ore exports also recorded a steep decline in Aug (-11.7% m-m). Overall exports reached USD120.1b in 8M18, up 10.4% y-y. With the implementation of the B20 mandate in September, CPO exports volume will initially decline, with the expectation of a stronger CPO price shoring up overall exports value going forward.

Imports down 8.0% m-m to USD16.8b in Aug 18, as non-oil and gas imports dropped 11.8% m-m on the normalisation of business activity, with imports of raw material goods down 7.6%, consumption goods (-9.2%) and capital goods (-9.0% m-m). By contrast, crude oil imports posted considerable growth in Aug (+75% m-m to USD1.8b). Imports of machinery, steel, plastics, auto-parts and chemicals recorded the biggest decline in Aug, while dairy and sugar imports soared 94% and 23.8% m-m, respectively.

Expect the trade imbalance and CAD to moderate going forward. While the lingering trade deficit in Aug means that concerns on the CAD will persist, we foresee a lower trade imbalance following the implementation of various government policies (*please refer to our Policies Panacea reports*). Based on our calculations, every USD1b of savings in the CAD will reduce the CAD to GDP ratio by 0.1%. As such, at least USD5b of savings in the CAD will be needed to bring the year-end CAD back to the safety level of 2.5% of GDP, of which the B20 mandate is expected to contribute USD2b. Better trade data is only one part of the equation to resolve the CAD issue, in our view, and a healthier services account is equally important (from developing tourism business, for example). We continue to like domestic consumption plays and commodities, especially CPO on the back of implementation of the B20 mandate.



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OVERWEIGHT

Construction

Diversification into infrastructure investment

ADHI relative to JCI Index



PTPP relative to JCI Index



Source : Bloomberg

Most SOE contractors are now diversifying their businesses into infrastructure investment. They are particularly targeting high-value infrastructure projects such as toll roads, power plants, property, railways, water treatment and tank storage. The 7M18 new contracts of the 4 SOE contractors grew by 8%yoy, supported by strong carry over contracts. The sector trades at an attractive valuation of below its -1SD 2019 PE of 10.0x. We are OVERWEIGHT on the sector and roll over our valuation to 2019 for each contractor.

Enlarging infrastructure investment business. To enlarge its order book, now most of the contractors are diversifying its business into investment in infrastructure projects. Some of contractors are expanding its business including into power plant business. Recently, WIKA's consortium has bought a concession of a 120MW power plant in Aceh. WSKT owns 95% stake in Wado hydro power plant in Sumedang, West Java, which is still under construction. Meanwhile, others also enlarging its property business. Some of the company, plans to develop TOD business (ADHI), and some plans to build a new township or mix used development (WIKA, WSKT, PTPP).

Delay on the development of 15GW. Government has released new policy to reduce import to ease pressure on current account deficit (CAD) and currency stabilization. Furthermore, government has decided to delay the development ~15,000MW of power plants which is part of the development of 35,000MW program. Assuming cost for 1MW is USD1.0mn-1.5mn, this should translate to IDR222.0tn-333.0tn of delay in capital expenditure. Meanwhile, the turbine for the generator accounted for 50%-70% of the cost. This is translate to IDR111.0tn – IDR233.1tn (1USD = IDR14,800). However, government still continue the development of power plant which have been kick off.

The 2019 infrastructure budget is set at IDR420.5tn. Under the 2019 state budget draft, the infrastructure budget is set at IDR420.5tn, +2.4%yoy higher than 2018's budget at IDR410.7tn. This is indicating government's commitment in continuing the development of infrastructure.

Order book grew 8%yoy as of Jul18. Total order book of 4 SOE contractors as of Jul18 reached IDR321.7tn, grew +8.1%yoy (7M17: IDR297.7tn). The strong order book supported by massive carry over contracts which reached IDR256.7tn or 80% of the order book. New contracts booked by 4 SOE contractors as of Jul18 reached IDR65.0tn, -26.8%yoy lower than 2017's of IDR88.8tn. Consequently, the realization rate in 7M18 of 35.0%, lower than last year's realization rate of 54.5%.

Valuation. Our top pick is ADHI due to: 1) ADHI has the lowest equity risk in the sector, which is reflecting in positive operating cash flow, 2) ADHI is awaiting for the payment from the Jakarta LRT Project with receivable from the project as of Mar18 reached IDR4.4tn, and 3) ADHI is more likely to be appointed as the contractor for the stage 2 development of the Jakarta LRT. We roll over our valuation to 2019 for each companies under our coverage and shortening our PE Band period to catch better performance of the shares. Our new PE Band now is starting from early 2016 compared to 2013, previously. We maintain Overweight recommendation on the sector due to attractive valuation. The sector is traded below its -2SD 2019 PE of 7.1x.



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Company	Ticker	Rec	Target	Market	P/E (x)		P/BV (x)		ROE (%)
			Price (Rp)	Cap. (RpBn)	2018F	2019F	2018F	2019F	2019F
Adhi Karya	ADHI IJ	BUY	2,150	4,789.3	6.4	5.2	0.7	0.6	11.6
Pembangunan Perumahan	PTPP IJ	BUY	2,800	9,423.8	5.6	4.8	0.7	0.6	14.0
Wijaya Karya	WIKA IJ	BUY	2,200	12,782.2	7.6	5.7	0.9	0.8	15.0
Waskita Karya	WSKT IJ	BUY	2,300	23,347.1	5.4	6.8	1.3	1.2	18.1
Wika Beton	WTON IJ	BUY	600	3,101.9	7.3	6.3	1.0	0.9	15.5
Waskita Beton	WSBP IJ	BUY	500	8,776.7	8.4	7.6	1.2	1.1	14.5

MARKET NEWS

MACROECONOMY

Government global bonds up by 4.8%yoy in July 2018

Indonesia's global bonds increased by 4.8%yoy in July 2018, reaching USD 358bn. This increase is lower than the previous month's increase of 5.5%yoy. The country's global bonds consist of Government and Bank Indonesia loans of USD 180.8bn and SOE bonds of USD 177.1bn. (Investor Daily)

Government to offer USD 86.1bn of projects

In an IMF and World Bank meeting, the government said it would offer 79 projects from 22 SOEs worth USD 86.1bn. 10 SOEs seek investment cooperation deals at the event. Most of the projects are related to infrastructure. (Bisnis Indonesia)

SECTOR

Healthcare: President to sign a regulation allowing cigarette tax to cover the BPJS Kesehatan deficit

The government will issue a regulation to support the National Health Insurance program (JKN) by covering the BPJS Kesehatan deficit. This regulation permits the use of cigarette tax to finance the JKN program. Regional cigarette tax income will provide 50% of the source of the funds with 75% available for use in the JKN program. The government estimates that the tax income from cigarettes may reach IDR 13tn by the end of the year. Thus, IDR 6.5tn can be used for the JKN program, allowing the BPJS Kesehatan deficit to be covered. (CNN Indonesia)

Telco: BRTI pessimistic on SIM card reregistration positives

A Commissioner of the Indonesian Telecommunications Regulatory Agency (BRTI), I Ketut Prihadi, said that the registration of prepaid SIM cards was expected to reduce the churn rate. But because starter packs are cheaper than top-up reloads, some consumers keep changing SIMs and thus SIM card reregistration has not yet led to a change in consumer behavior. XL Axiata does not have plans to reset starter pack prices. According to EXCL, the implementation of card registration is expected to reduce the churn rate. Going forward, it plans to gradually increase data tariffs until the end of the year. (Bisnis Indonesia)

Comment: Affordability is a key issue for consumers who are willing to make the extra effort to benefit from cheaper starter packs. We will continue to monitor the process.

CORPORATE

Telkom strengthens Satellite Unit Telkomsat

PT Telkom (TLKM) made a capital deposit in the form of assets to PT Telkom Satelit Indonesia (Telkomsat) of which Telkom owns 99.99%. This transaction is expected to strengthen the capital structure of Telkomsat and Telkomsat will own and operate the Merah Putih Satellite.

Merah Putih was launched on August 7, 2018 and it is currently tested for around 25 days from August 18, 2018. If it runs smoothly, the satellite can start to be used 3rd week of September. (IDX)

Comment: Satellite Merah Putih is meant to replace the old satellite no.1 with higher capacity and bandwidth and boost its wholesale business as well as improve its offerings to enterprises (Niko)

Telkom exploring digital business in Sharing Economy platform

Government is exploring starting an online transportation application through PT Telkom, according to Transportation Minister Budi Karya Sumadi, the likes of Go-Jek and Grab. Discussions with Telkom are in early stages. Government is still studying the plan and there's no guarantee it will be implemented, Minister tells reporters in Jakarta on Monday. (Bloomberg)

Comment: Potentially this should be beneficial given Telkom's nationwide coverage and with no significant capex needed to be incurred. (Niko)

COVERAGE PERFORMANCE

LEADERS

	Code	Price as on		Chg, %	w-w, %	m-m, %	YTD, %	Rating
		17-Sep-18	14-Sep-18					
Surya Semesta	SSIA	478	466	2.6	1.7	(4.4)	(7.2)	HOLD
Semen Baturaja	SMBR	2,600	2,580	0.8	(0.8)	(7.1)	(31.6)	SELL
Mitra Adi Perkasa	MAPI	810	805	0.6	1.9	1.9	30.6	BUY
BPD Jatim	BJTM	640	640	-	(0.8)	0.8	(9.9)	BUY
Wika Beton	WTON	372	372	-	(1.1)	(3.6)	(25.6)	BUY
Matahari Putra Prima	MPPA	220	220	-	31.7	8.9	(51.3)	SELL
Sampoerna Agro	SGRO	2,330	2,330	-	1.7	(2.1)	(9.3)	BUY
Bank Central Asia	BBCA	23,925	23,975	(0.2)	(3.7)	2.4	9.2	HOLD
BTPN	BTPN	3,700	3,710	(0.3)	(4.9)	(5.9)	50.4	HOLD
BTPS	BTPS	1,645	1,650	(0.3)	0.6	4.1	N/A	BUY

Sources: Bloomberg

LAGGARDS

	Code	Price as on		Chg, %	w-w, %	m-m, %	YTD, %	Rating
		17-Sep-18	14-Sep-18					
Indocement	INTP	16,000	17,025	(6.0)	(9.1)	10.9	(27.1)	SELL
Bekasi Fajar	BEST	182	191	(4.7)	5.2	(20.2)	(27.2)	BUY
Malindo Feedmill	MAIN	1,215	1,275	(4.7)	(3.6)	(9.3)	64.2	HOLD
Bank Mandiri	BMRI	6,450	6,750	(4.4)	(2.6)	(3.7)	(19.4)	BUY
Vale Indonesia	INCO	3,250	3,390	(4.1)	0.9	(14.2)	12.5	BUY
Bank Negara Indonesia	BBNI	7,225	7,525	(4.0)	(1.7)	2.1	(27.0)	BUY
Astra International	ASII	6,950	7,225	(3.8)	(3.1)	(2.1)	(16.3)	BUY
Gudang Garam	GGRM	72,975	75,725	(3.6)	(0.5)	1.9	(12.9)	BUY
Bank Tabungan Negara	BBTN	2,590	2,680	(3.4)	(1.1)	4.0	(27.5)	BUY
Bank Rakyat Indonesia	BBRI	2,970	3,070	(3.3)	(2.0)	(2.6)	(18.4)	BUY

Sources: Bloomberg

PREVIOUS REPORTS

- Banking: Strong enough to weather the headwinds, Surya Semesta Internusa: So Close Yet So Far [SnapShot20180917](#)
- Prodia Widyahusada: Leveraging on increasing health awareness [SnapShot20180914](#)
- Plantation: Increase in Aug 18's inventory, Danareksa Research Institute: August Trade Outlook – Slight improvement [SnapShot20180913](#)
- Pembangunan Perumahan: Energizing PTPP [SnapShot20180910](#)
- Consumer - Retail: The good and the bad, Telco: Strong data volumes while pricing recovers, Telkom Indonesia: EBITDA margin recovery by 200-400bps in 2H18, XL Axiata: Biggest beneficiary in data price recovery, Indosat Ooredoo: Conservative as challenges may remain, 1H18 Result: Antam - Turnaround into profit [SnapShot20180907](#)

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