Equity Market Outlook

The nexus to transformation

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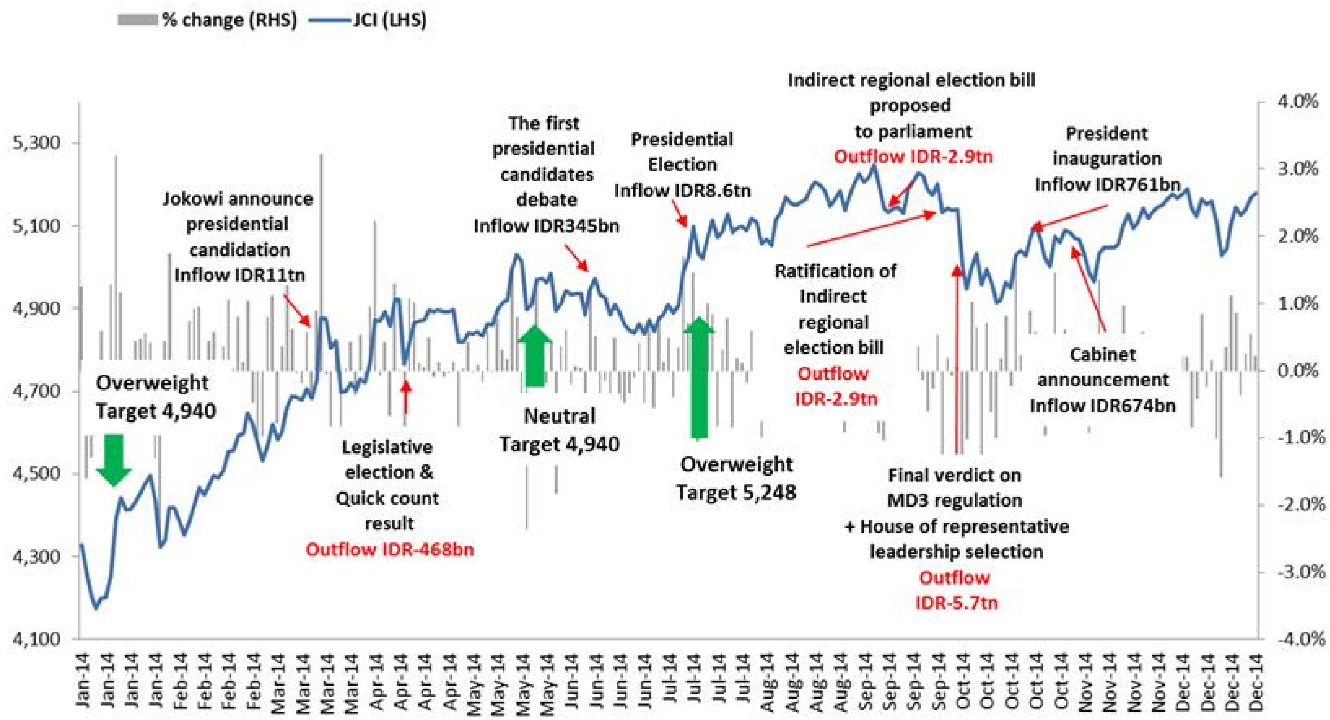
2014 – a year of dynamics and volatility

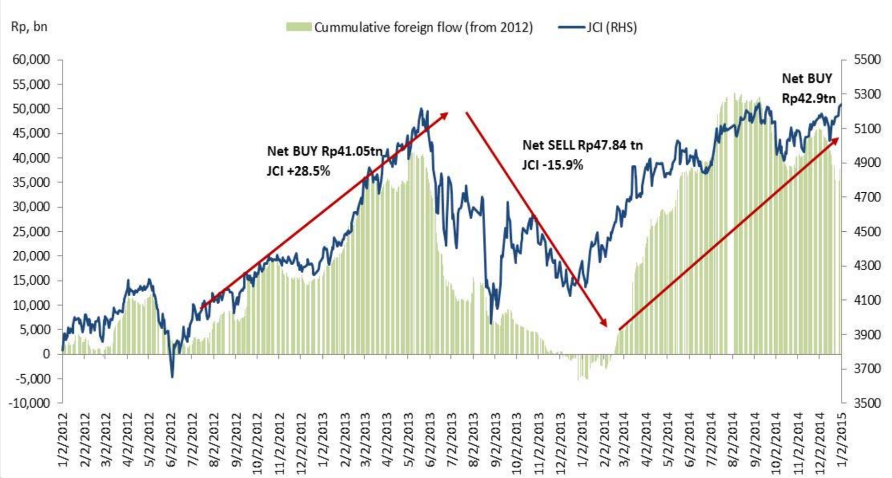


Source: IDX, Bloomberg, Danareksa Sekuritas

2014 was certainly full of surprises, especially on the political front in relation to the fiercely contested elections. The year got off to a shaky start with a challenging macro environment marked by high IDR volatility and a continued slowdown in economic growth. Yet opportunities were still there and we believed that the market could make gains in 2014, mainly owing to: 1. the election driven rally; 2. belief that the peak in the inflation and interest rate cycle had been reached; 3. a rosier macro outlook with expectations that the IDR had the potential to strengthen and 4. still healthy corporate balance sheets. For the year of 2014, the JCI climbed 22.3% to 5,227, making it the second-best performing ASEAN 5 market after the Philippines, and the fourth-best performer in the region

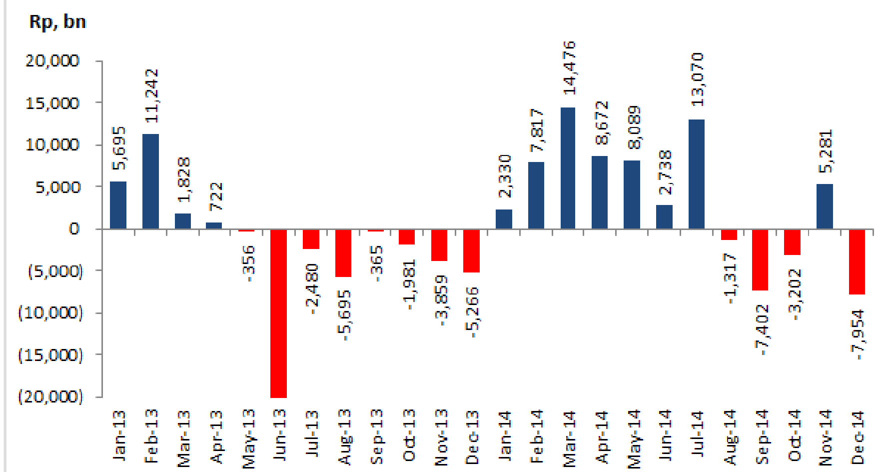
The reversal of outflow

Inflow was going back in 2014



Source: Bloomberg as of Dec 30, 2014

But outflow trend dominated in 2H14

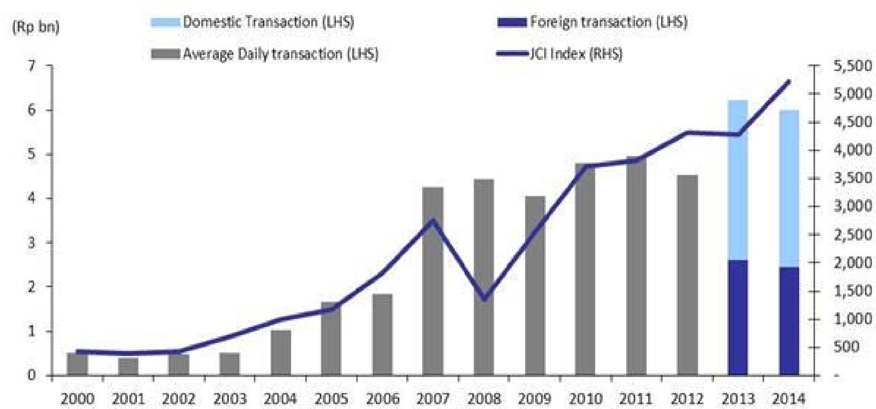


Source: Bloomberg as of Dec 30, 2014

After the massive outflows in 2013, an improvement in economic conditions coupled with elections exuberance helped give rise to inflows in 2014. Total inflows reached IDR42.6t vs outflows of IDR40.1tn in the period May – December 2013, in which period the market collapsed. Nonetheless, protracted IDR weakness to beyond the IDR12,500/USD level created jitters in the market, as seen in the more consistent monthly outflows in 2H14.

Liquidity moderated in 2014 while valuation is still favorable

Slower liquidity in 2014



Source: Bloomberg as of Dec 30, 2014

Favorable valuation

		2014	2015F
Philippines	PCOMP Index	20.8	20.7
Malaysia	FBMKLCI Index	15.8	15.5
NKY	NKY Index	21.4	19.0
Singapore	FSSTI Index	13.7	13.8
JCI	JCI Index	21.0	15.0
Dow Jones	INDU Index	15.9	15.8
Sensex	SENSEX Index	19.3	17.8
Thailand	SET Index	9.8	16.1
FTSE	UKX Index	18.8	13.8
Hongkong	HSI Index	10.0	10.7
Korea	KOSPI Index	13.4	10.8
China	SHCOMP Index	15.5	13.7
Taiwan	TWSE Index	15.4	14.6
Average		**16.2**	**15.2**

Source: Bloomberg and Danareksa Sekuritas, as of Dec 30, 2014

Despite the stronger inflows in 2014, market turnover was relatively low, however, and even lower than in 2013. Average trading in 2014 only reached IDR6.0t/day, or down from IDR6.2t/day in 2013. Even so, this figure is still much better than the average of IDR4.6t/day seen in 2008-12.

In valuation terms, the JCI still compares favorably with other markets in the region. It trades at 15x 2015 forecast earnings, or pretty much at par with the regional average. With more potential reforms expected to be instigated by the new government, hopes are high that this will lead to a transformation of Indonesia, giving room for the market to deliver positive returns in 2015.

2015: A year of transformation

A quantum leap of transformation

We believe that 2015 will be the year of transformation in Indonesia with the establishment of stronger foundations for structural change in the domestic economy going forward. In particular, the government's decision to raise fuel prices in November 2014 demonstrates its commitment to this goal since the state budget is no longer at threat from ballooning fuel subsidies.

There are four main reasons to be bullish on Indonesia's equity market:

1. From a macro perspective, we believe that Indonesia is still heading in the right direction. Notably, there is less prospect of higher interest rates as inflation will more quickly normalize with the recent fuel price cuts;
2. The reduction in fuel subsidies will provide the government with plenty of room to boost spending in more productive sectors.
3. Political risk is gradually abating, as evident in a more conducive working environment between the legislative and executive.
4. Improving macro-economic conditions will positively affecting corporates performance.

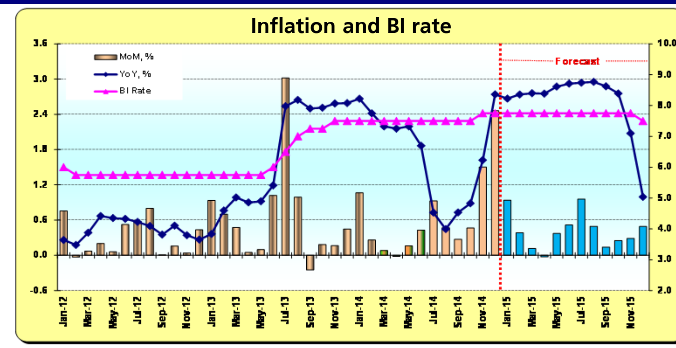
Macro improvement is underway

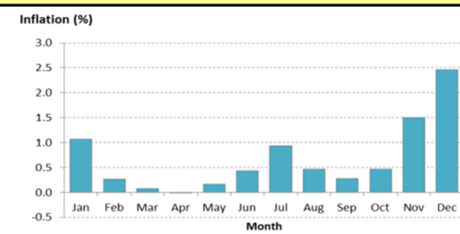
Danareksa's macroeconomic forecast

Indicator	2013	2014F	2015F
1 GDP Growth, %	5.78	5.15	5.34
2 Inflation Rate, %YoY	7.72	7.42	5.04
3 BI Rate, %pa	7.50	7.75	7.50
4 IDR/USD, one year average	10,563	11,845	11,752

Source: Danareksa Research Institute

Inflation will moderate in 2015 even before the recent cut in price





Source: Central Bureau of Statistic , Danareksa Research Institute

We expect a better year in 2015 with GDP growing at a brisker pace of 5.34% compared to 5.15% in 2014, mainly supported by higher government spending. Moreover, the concerns on the CAD are gradually easing and eventually this will pave the way for IDR strengthening in the second half of the year. Inflation will also normalize at 5.04% by year-end 2015, since the impact of November 2014's fuel price hikes will completely disappear.

Higher than expected inflation in December 2014 raise some concerns, especially given the seasonally high inflation in January 2015. The key risk centers on government policy toward food commodity imports. More stringent restrictions on food commodity imports could lead to higher domestic food prices, pushing up inflation.

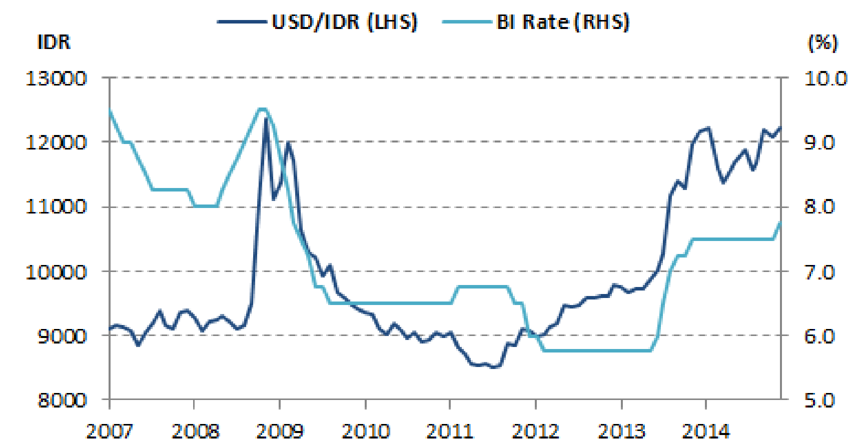
Fuel price reduction will ease pressure on inflation

New fuel price scheme introduced in January 2015

	Previous Price (IDR/ltr)	Price adjustment (IDR/ltr)	Price adjustment (%)	New Retail Price, inc tax (IDR/ltr)
Price Hike in November 2014				
Premium	6,500	2,000	30.8	8,500
Diesel Fuel	5,500	2,000	36.4	7,500
Price Adjustment in Jan 2015				
Premium	8,500	-900	-10.6	7,600
Diesel Fuel	7,500	-250	-3.3	7,250

Source: Minister of Finance

USD/IDR vs BI rate



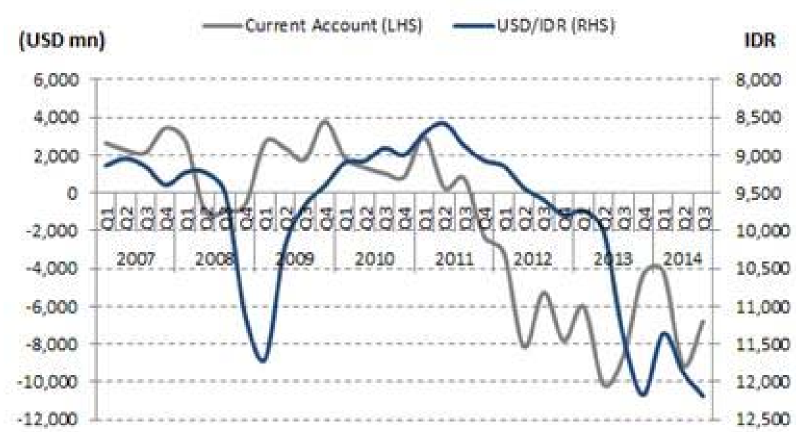
Source: Bloomberg and Danareksa Sekuritas, as of Dec 30, 2014

Continues weakness in crude oil price, provided an opportunity for the government to reduce fuel price while also make substantial transformation to fully abolished subsidy on gasoline while implementing fixed subsidy on diesel and kerosene. This situation would help to partially ease inflation pressure, although the adjustment period will not instant.

Whilst we don't believe that cost push inflation can effectively be combated by raising interest rates, any spike in inflation will inevitably lead to hikes in policy rates given that BI still adopts an inflationary targeting framework. At this stage, we believe that another increase in the BI rate will be unnecessary at this stage, especially considering that historic data shows that higher interest rates policy is not an effective way to defend the currency.

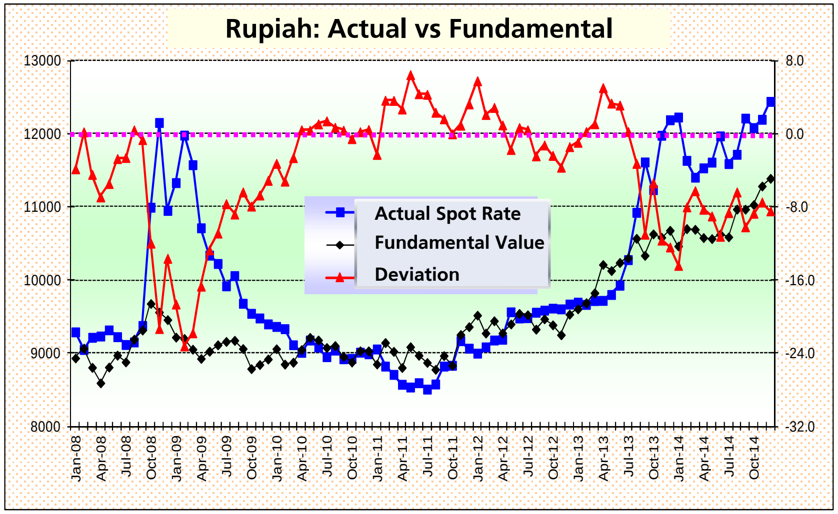
IDR appreciation: when and by how much

CAD is affecting IDR



Source: Danareksa Research Institute

IDR still undervalue



Source: Danareksa Research Institute

Indonesia's trade data remains under close scrutiny. The CAD has been one of the key factors behind IDR depreciation since 2013. Whilst there have been improvements, volatility remains (as seen in November's trade data which showed a deficit of USD425.7m vs October's surplus of USD23.2m and the USD270.3m deficit in September. Looking ahead, we believe that the trade surplus should be more sustainable in 2015.

We believe that the IDR will strengthen in 2015, albeit gradually, with volatility likely to be seen over the short term. Our economist believes that the IDR is still undervalued at its current level, and we expect the IDR to average IDR11,750/USD in 2015, stronger than its level at end-December of IDR12,440/USD. Strengthening of the currency would have considerable impact to corporate performance.

Greater government spending budget

State budget vs realisation

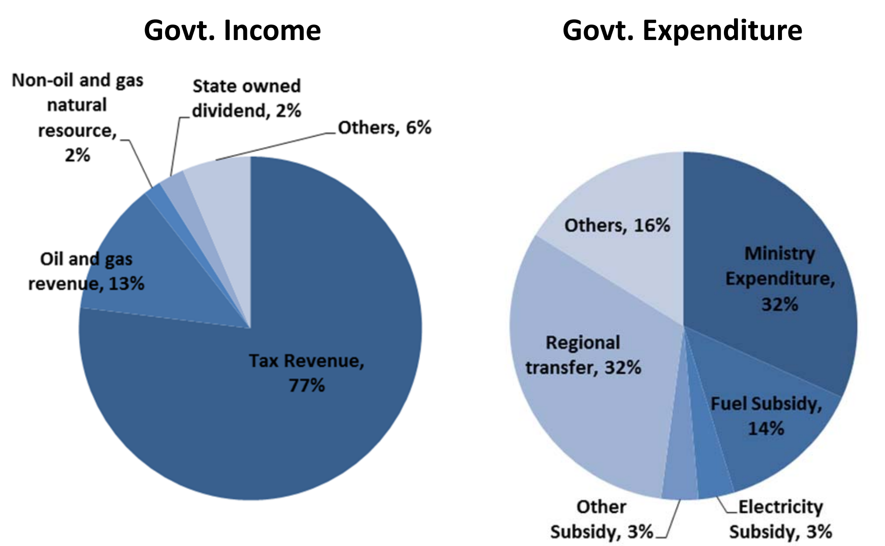
	2009 APBN	2009 APBN-P	2009 Realization	2010 APBN	2010 APBN-P	2010 Realization	2011 APBN	2011 APBN-P	2011 Realization	2012 APBN	2012 APBN-P	2012 Realization	2013 APBN	2013 APBN-P	2013 Realization	2014 APBN	2014 APBN-P	2015 APBN
A. Government revenue and grant	986	871	849	950	992	995	1,105	1,170	1,211	1,311	1,358	1,338	1,530	1,502	1,439	1,667	1,635	1,794
I. Domestic revenue	985	870	847	948	991	992	1,101	1,165	1,205	1,311	1,357	1,332	1,525	1,498	1,432	1,666	1,633	1,790
1. Tax revenue	726	652	620	743	850	723	850	8,779	874	1,033	1,016	981	1,193	1,148	1,077	1,280	1,246	1,380
% Tax ratio to GDP	*13.60*	*12.10*	*11.10*	*12.40*	*11.90*	*11.26*	*12.10*	*12.10*	*11.77*	*12.70*	*11.92*	*11.90*	*12.90*	*12.20*	*11.86*	*12.35*	*12.38*	*12.40*
2. Non-tax revenue	259	218	227	205	251	269	251	287	331	278	341	352	332	349	355	385	387	410
II. Grant	1	1	2	2	4	3	4	5	5	1	1	6	4	4	7	1	2	3
B. Government expenditure	1,037	1,008	937	1,051	1,126	1,042	1,230	1,321	1,295	1,435	1,548	1,491	1,683	1,726	1,651	1,843	1,877	2,040
I. Central government expenditure	716	692	629	725	782	697	837	908	884	965	1,070	1,011	1,154	1,197	1,137	1,250	1,280	1,402
1. Ministries expenditure	322	315	307	340	366	333	433	462	418	508	548	489	595	622	583	638	602	647
2. Non-ministries expenditure	394	377	322	385	415	364	404	447	466	457	522	521	560	575	554	612	678	754
2.1. Subsidy	167	158	138	158	201	193	188	237	295	209	245	346	317	348	355	334	403	415
2.1.1 Energy subsidy	104	100	95	107	144	140	137	195	256	169	202	306	275	300	310	282	350	345
a. Fuel subsidy	58	52	45	69	89	82	96	130	165	124	137	212	194	200	210	211	247	276
b. Electricity subsidy	46	48	50	38	55	58	41	66	90	45	65	95	81	100	100	71	104	69
II. Regional transfer	321	309	309	322	345	345	393	413	411	470	479	481	529	529	513	593	597	638
C. Primary balance	50	(20)	5	14	(28)	42	(9)	(44)	9	(2)	(72)	(53)	(40)	(112)	(90)	(54)	(106)	(94)
D. Surplus / (Deficit)	(51)	(130)	(89)	(98)	(134)	(47)	(125)	(151)	(84)	(124)	(190)	(153)	(153)	(224)	(212)	(175)	(241)	(246)
% Budget deficit to GDP	*(1.0)*	*(2.4)*	*(1.6)*	*(1.6)*	*(2.1)*	*(0.7)*	*(1.8)*	*(2.1)*	*(1.1)*	*(1.5)*	*(2.2)*	*(1.9)*	*(1.7)*	*(2.4)*	*(2.3)*	*(1.69)*	*(2.4)*	*(2.21)*
E. Financing	51	130	113	98	134	92	125	151	131	124	190	175	153	224	237	175	(241)	(246)

Source: Ministry of Finance

The huge fuel subsidies in the past created great uncertainty on the government budget, especially since the amount of fuel subsidies is subject to changes in the price of crude oil and currency movements. In the 2014 budget, fuel subsidies were approximately 13% of the total government spending or 15% of total state revenues. In our view, such large fuel subsidies are a huge misallocation of resources, and given Indonesia's dis-connectivity, a greater allocation on infrastructure spending would do more to support long-term economic growth. This may not be an easy task, however, since government spending has always been below target in the past.

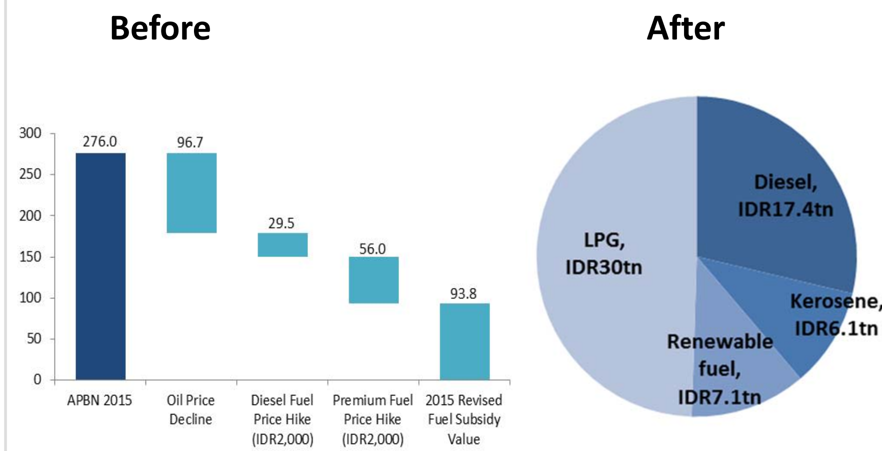
Less subsidy provide ample room for spending on more productive sector

Govt income vs spending



Source: Government Budget (APBN) 2015

Considerable spending from subsidy reduction



Source: Government Budget (APBN) 2015

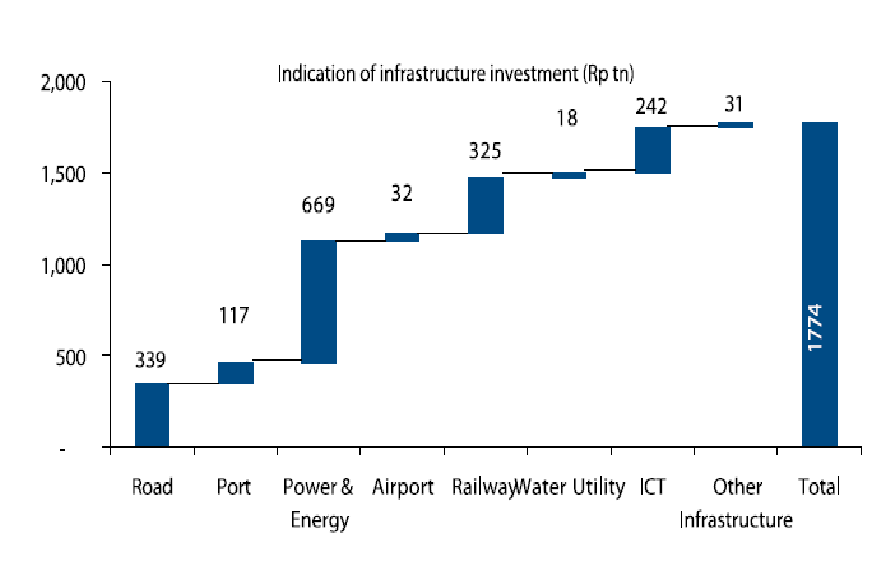
In our view, the slow rechanneling of fuel subsidy savings would reduce liquidity in the economy since subsidies were a main form of government spending in the past. Nonetheless, we are optimistic that the new government has the political will to get things done, with recent government initiatives demonstrating its determination to stimulate growth: 1. reducing dividends from SOEs so they can pursue more business opportunities; 2. supporting rights issue plans for SOEs to strengthen their capital base; and 3. trimming the fuel price given further weakness in the crude oil price.

Government decision to abolished subsidy on gasoline while introducing fixed subsidy on diesel and kerosene will ultimately speed up the transformation process. Even before the recent cut in fuel, the saving itself has already been large with fuel subsidy to go down to only IDR93.8t from the fuel subsidy allocation of IDR276t stated in the 2015 state budget. With the recent abolishment of subsidy in gasoline, potential saving is greater. In total the government will only spend slightly over IDR60t of fuel subsidy in 2015. As such, with saving more than IDR200t, there would be more allocation to infrastructure spending as well as food security program.

Danareksa

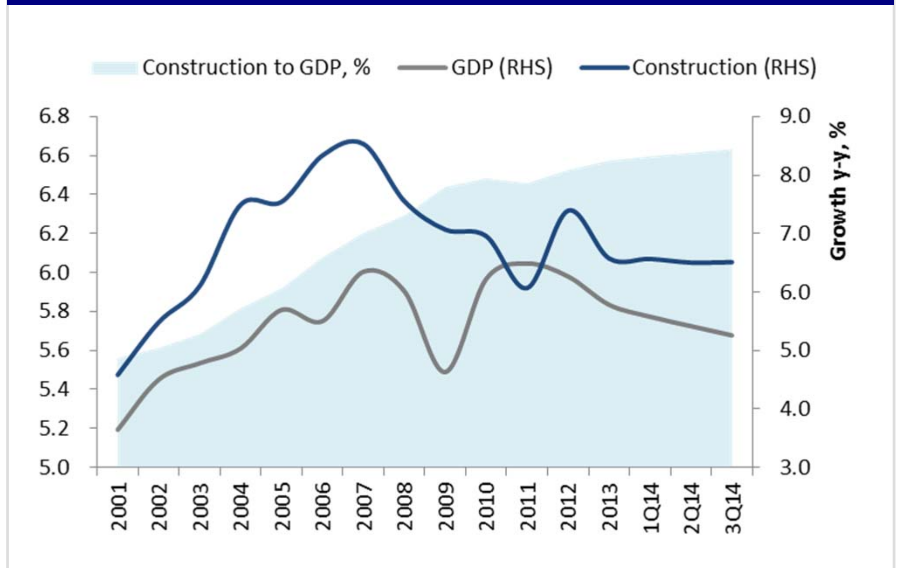
Infrastructure will be the main story

MP3EI: The master plan



Source: Coordinating Ministry of Economic Affairs

Higher contribution from construction sector



Source: Indonesia National Bureau of Statistics (BPS)

MP3EI is the master plan initiated by the government to lift economic growth to a sustainable 7-9%. The idea is to optimize the country's economic corridors based upon their competitiveness. Each corridor will require a certain amount of investment from a total of Rp4,000tn. From that amount, around Rp1,774tn is to be invested in infrastructure, with power and energy investment is the biggest with Rp669tn.

Over the years, growth in the construction sector has outpaced GDP growth, indicates a growing market in infrastructure activities in Indonesia. Even during the GDP growth deceleration in the past couple of quarters, the construction sector still managed to expand.

Potential acceleration of infrastructure projects in Indonesia

Project catalysts

Type of infrastructure	Project name	Location	Funding	Investment, Rp tn
Road	Trans Sumatera 1,580km	Sumatera	Government	55.3
Railway	Railway Kertapati-Simpang-Tj. Api-Api	South Sumatera	Government	25.0
Power & Energy	PLTU Mulut Tambang (2x300MW, 4x150MW, 2x300MW)	Riau, South Sumatera	SOE	25.2
Railway	North-South Jakarta MRT	DKI Jakarta	Government	40.0
Water Utility	Citarum Water Management Program	West Java	Government	10.2
Toll road	Six Jakarta Inner City Toll Road	DKI Jakarta	SOE	40.0
Power & Energy	PLTU Central Java (2,000MW)	Central Java	SOE	26.0
Port	Kali Baru Port	DKI Jakarta	SOE	22.0
Road	Trans Java 619km	Java	Government and SOE	51.6
Railway	East-West Jakarta MRT	DKI Jakarta	Government and SOE	30.0
Power & Energy	Power Plant Kalimantan (East, West, Central, South)	Kalimantan	SOE	22.3
Railway	Puruk Cahu-Tanjung Isuy and Bangkuang (203km, 185km)	Kalimantan	Government and SOE	35.3
Power & Energy	Power Plant Sulawesi	Sulawesi	SOE	20.0
Railway	Railways in Bali	Bali	Government	12.1
Road	Trans Papua	Papua	Government	50.0
Port	Jayapura Port	Papua	Government and SOE	43.0

Source: Coordinating Ministry of Economic Affairs

The government already has many high-scale projects ready in the pipeline. Almost in all economic corridors from Sumatera to Papua, the infrastructure projects is still highly needed to reduce the cost of doing business in Indonesia. The new government blueprint to reallocate fuel subsidy costs to infrastructure will accelerate theese project development. Hence, with the potential of infrastructure acceleration, construction companies, the toll road operators, as well as the power plant players will be positively impacted.

Political risk is gradually abating

High political tension

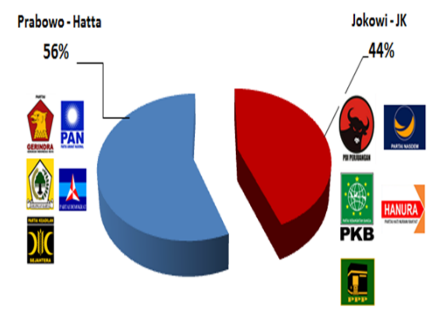
in %	Prabowo - Hatta	Jokowi - JK	Difference
Radio Republik Indonesia	47.43	52.57	5.14
SMRC	47.09	52.91	5.82
Litbang Kompas	47.66	52.34	4.68
CSIS-Cyrus	48.10	51.90	3.80
Lingkaran Survei Indonesia	48.26	51.74	3.48
Indikator Politik Indonesia	47.06	52.94	5.88
Populi Center	49.05	50.95	1.90
Poll Tracking	46.63	53.37	6.74
LSN	50.56	49.44	1.12
Jaringan Suara Indonesia	50.26	49.74	0.52
Puskaptis	52.05	47.95	4.10
Indonesia Research Center	51.11	48.89	2.22
Average	**48.77**	**51.23**	**2.46**

in %	LSI	SSSG	Populi Center	FSI	Poll Tracking	LSN	Cyrus Network	PDB	Indo Barometer	Kompas	LIPI	LSI*	LSN*	Indo Barometer*	Average
Jokowi - Jusuf Kalla	35.4	42.7	47.5	45.2	48.5	38.8	53.6	29.9	49.9	42.3	43.0	45.0	39.9	46.0	43.4
Prabowo - Hatta Rajasa	22.8	28.4	36.9	45.7	41.1	46.3	41.1	31.8	36.5	35.3	34.0	38.7	46.6	42.6	37.7
Undecided	41.8	29.0	15.6	9.1	10.4	14.9	5.3	38.3	13.6	22.4	23.0	16.3	13.5	11.4	18.9

Source: Various publication

Parliament composition

in percent (%)	Election Result	Parliament Seat	
	%	Count	%
Nasdem	6.72	35	6
PKB	9.04	47	8
PKS	6.79	40	7
PDIP	18.95	109	19
Golkar	14.75	91	16
Gerindra	11.81	73	13
Demokrat	10.19	61	11
PAN	7.59	49	9
PPP	6.53	39	7
Hanura	5.26	16	3
PBB	1.46	0	0
PKPI	0.91	0	0
		560	100



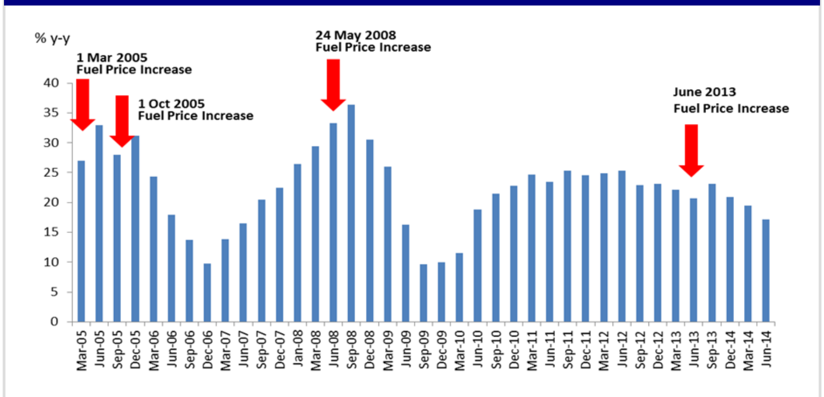
Source: General Election Commission (KPU), Various publication

While Jokowi was ultimately successful in his presidential bid with Jusuf Kalla as his VP, the road to the Presidential Palace was a rocky one and investor confidence was tested at times. Given the intense rivalry during the presidential campaigning, both good and bad news intermittently affected investor perceptions, ultimately meaning that the impact of the change in government on the equity market was more muted.

Going forward, we believe that political risk will gradually ease, and ultimately, the discord between the legislative and executive will be resolved. This would ease concerns that Jokowi's government would not be able to govern effectively. Such is a prerequisite for a further re-rating of the equity market, especially as the 2015 revised budget will still need to get approval from parliament. Without this, the market might flounder since hopes of a full and rapid transformation would be dashed.

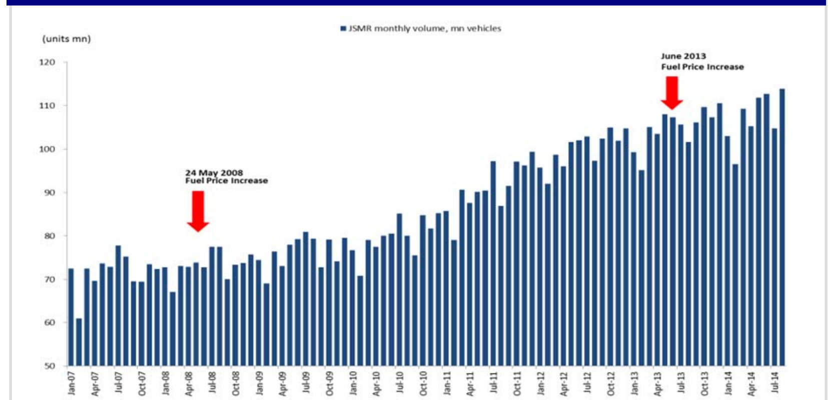
Impact of fuel price hike to demand

Banks (Loan Growth)



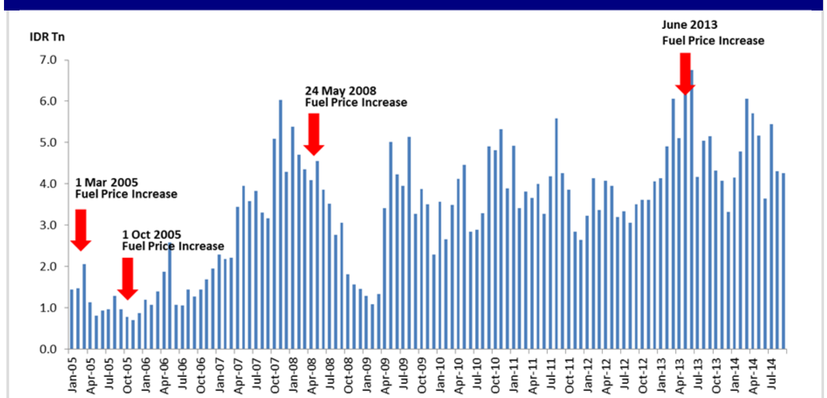
Source: Danareksa Sekuritas

Toll road (Traffic)



Source: Danareksa Sekuritas

Equity market liquidity

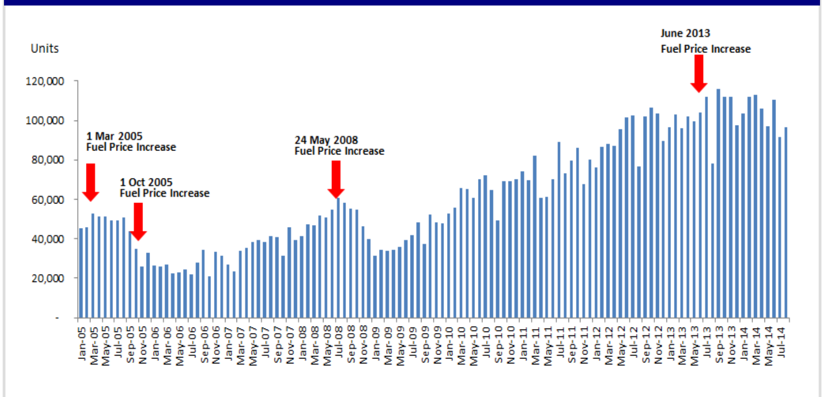


Source: Danareksa Sekuritas

Despite the recent fuel price cuts, the government's earlier move to hike subsidized fuel prices in November had economic ramifications, prompting BI to raise its benchmark rate by 25 bps. As a result, Indonesian corporates will still need to navigate turbulent waters over the short to medium term. To preserve profitability while maintaining market share we believe it will be necessary for corporates to have: 1) strong positioning with high market share; and 2) greater economies of scale which provide more flexibility for them to withstand growing cost pressures.

Impact of fuel price hike to demand base

4W



Source: Danareksa Sekuritas

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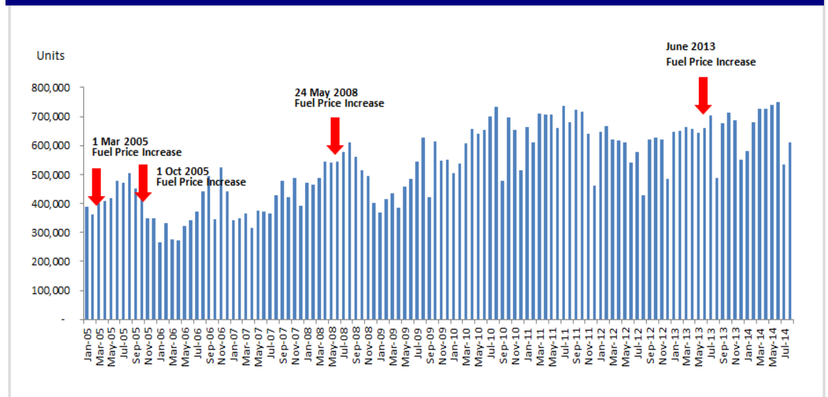
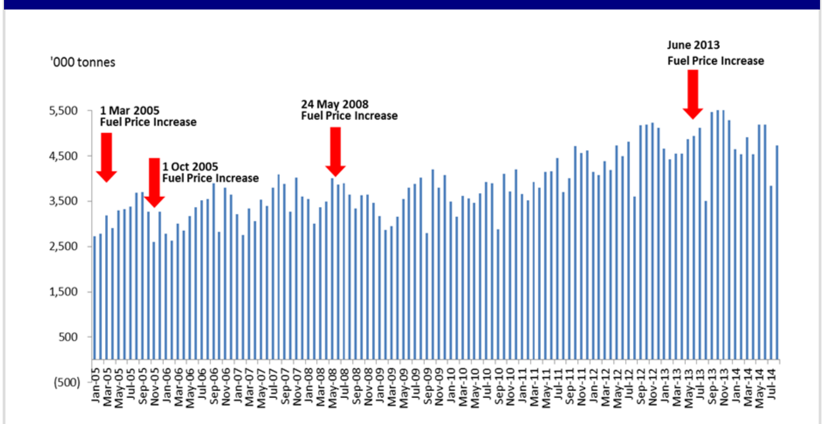


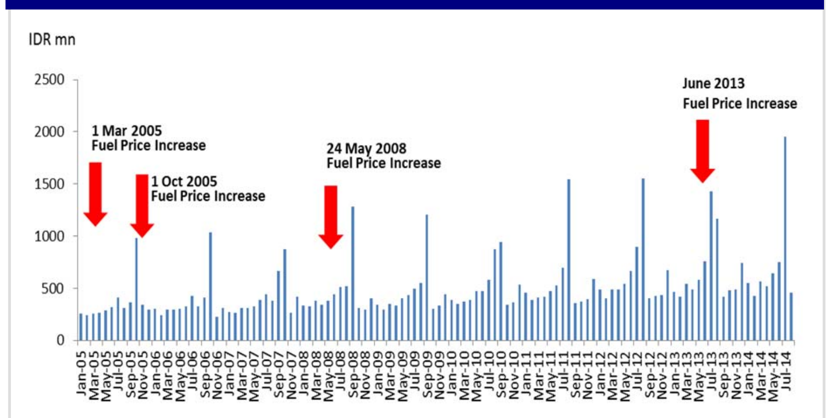
Source: Danareksa Sekuritas

Cement



Source: Danareksa Sekuritas

Retail



Source: Danareksa Sekuritas

Labor cost pressures persist while energy costs ease

High labour cost for corporates

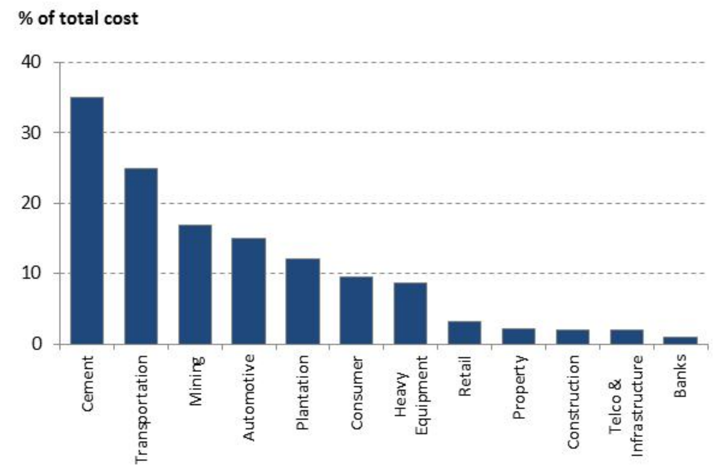
Employer:		Employee:
• Health insurance	4 %	1 %
• Old age fund	3,7 %	2 %
• Accidents ins	0,24 - 1,74 %	-
• Death insurance	0,3 %	-
• Pension fund	5 % *	3 % *
Total	**13,24 - 14,74**	**6 %**

- Social security contribution 13.24 – 14.74%
- Wages increment/ year 13%
- Severance payment reserve 5%

Total labor cost reserve/year 31.24 – 32.74%

Source: Apindo

Energy cost



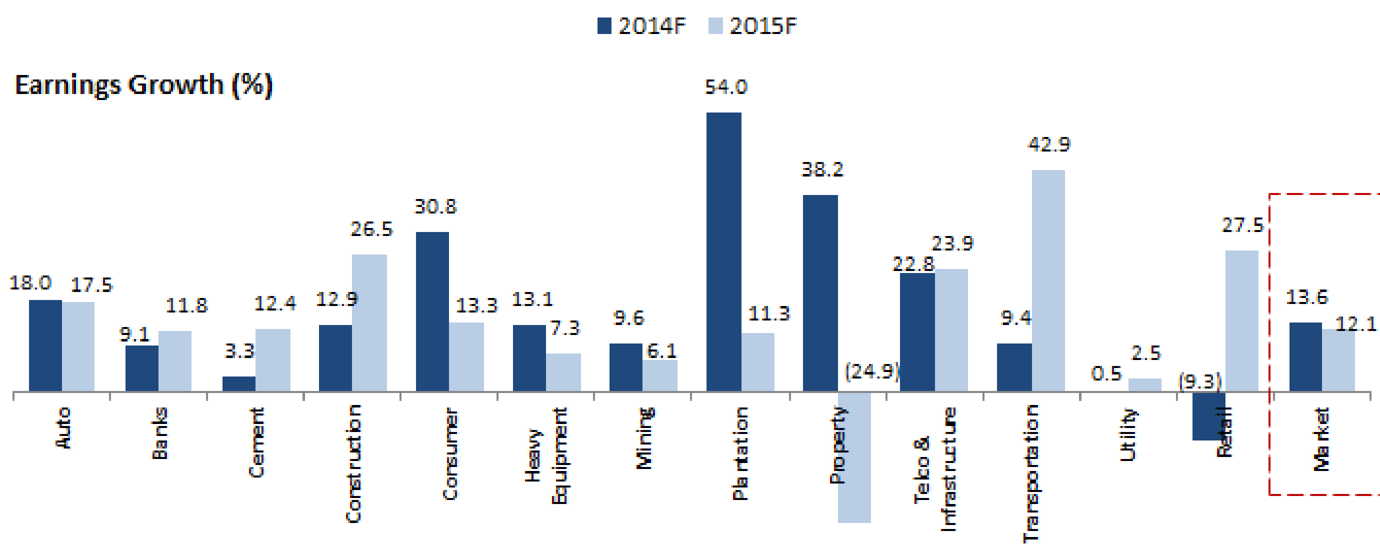
Source: Company, Danareksa Sekuritas

Corporates in Indonesia will continue to face upward cost pressures from labour costs, mainly driven by regulations, meaning it is difficult for companies to avoid such cost pressures. The minimum wage is adjusted on a yearly basis, and it is decided by the government after discussions with labour unions and the regional wage council. To determine the regional minimum wage, three main elements are taken into account: 1. standard living needs; 2. regional economic growth; 3. macro productivity and 4. other factors such as the labor market and the capability of businesses to pay the minimum wage in marginal sectors.

With the softness in energy prices recently, we believe that industry stands to benefit. The crude oil price has continued to decline whilst the outlook for coal prices is also unfavorable - we expect an average coal price of USD70/tonne in 2015, lower than 2014's level. As a result, we expect manufacturing, transportation and metal mining to benefit from this trend.

Growth is moderating but quality is improving

Sector earnings growth



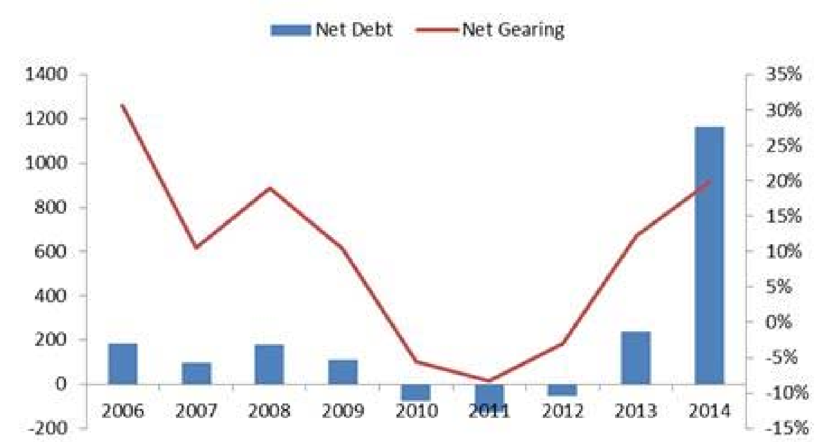
Source: Danareksa Sekuritas

We estimate EPS growth to moderate to 12% in 2015 from 14% in 2014, mainly driven by normalization of commodity prices which affect the agriculture, metal mining and heavy equipment sectors. In 2014, those sectors enjoyed above average growth, mainly underpinned by better commodity prices and a weaker currency, which propelled bottom line growth. In 2015, we expect commodity prices to remain stable, resulting in moderate earnings growth. For property, negative bottom line growth is expected in 2015 – although mainly due to the huge extraordinary gains recorded by BSDE and LPKR in 2014.

While growth is moderating, earnings quality is improving, especially with the lower risk of earnings downgrade, in our view. The biggest risk to our forecast would be further and protracted rupiah depreciation, which would particularly affect the cost structure of companies in the pharmaceutical, consumer and auto sectors.

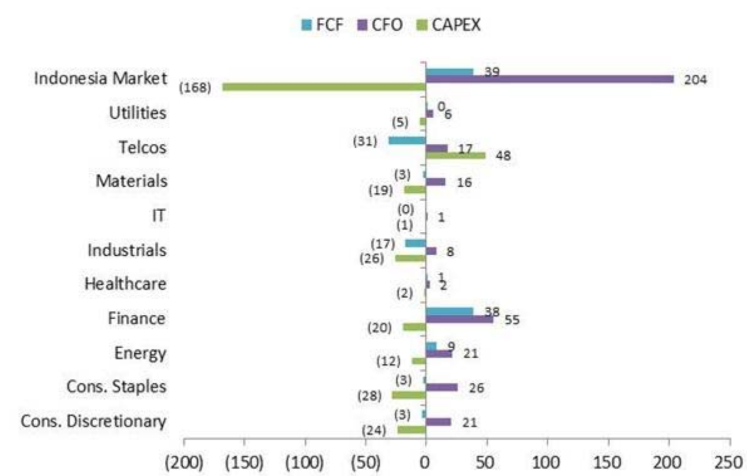
Cashflow generation remains healthy

Higher gearing level



Source: Bloomberg

Cashflow generation remain healthy



Source: Bloomberg

Net gearing continued to increase in 2014 to 20% - a level similar to that in 2008. At this level, we believe that it is still very much manageable, and we don't see major risk on this front. We continue to see healthy cashflow generation, with corporates still generating positive free cashflow.

Overall, the 9M14 corporate results are pretty much in line with our expectations: the 9M14 revenues and net profits reached 72% and 73% of our full year estimates, respectively, with 12% y-y growth (vs 14% in 1H14). Generally, the 3Q figures are weaker than the 2Q figures, mainly due to seasonality. Overall growth has been moderating: a reflection of the slowdown in the domestic economy. To meet this challenge, we notice that companies have either hiked ASP - a sign of sustained pricing power - or made changes to their business mix by focusing on more profitable businesses as seen in the consumer, pharmaceutical, cement and auto sectors.

Overweight with index target 5,900

The government short term achievement

Ministry	Actions Taken/Breakthrough
Ministry of Maritime Affairs and Fisheries	Moratorium of Large Fishing Ships Permits Sinked the Fish Thief Ships Ship Fee Removal for the Small Fishermen Opening the Access of Fishing Ships Data
Ministry of Administrative Reform	Moratorium of Civil Servant Recruitment
Ministry of Information Technology	Rolling out 4G LTE Permit
SOE Ministry	Reduce the Dividend Payout Ratio of SOE companies
Ministry of Finance	Auction of Civil Cervant Echelon I Position
Ministry of Transportation	Weekend picket for all Civil Servant in Ministry of Transportation Opening the command center for 24/7 service Bureaucratic and License Reform Build multi modal transportation connectivity
Ministry of Social Affairs	Issued "Kartu Keluarga Sejahtera (KKS)", "Kartu Indonesia Sehat (KIS), and "Kartu Indonesia Pintar (KIP)

Source: Various publication

Our Top Picks

Stock	Recom.	Price IDR	Target price IDR	PE, x 2015F	PBV, x 2015F	EPS CAGR FY14-16F %	ROE 2015F %	Net Gearing 2015F, %
ACES	BUY	785	980	20.4	4.6	15.2	24.9	net cash
BBRI	BUY	11,600	13,150	10.7	2.4	13.4	25.0	NA
BMRI	BUY	10,700	12,400	11.8	2.1	9.7	19.5	NA
BSDE	BUY	1,790	2,100	13.2	2.2	(16.0)	16.6	net cash
ICBP	BUY	12,400	13,800	21.2	4.4	18.4	22.3	net cash
INCO	BUY	3,595	4,700	16.0	1.6	22.8	10.0	2.5
PTPP	BUY	3,505	4,100	22.3	5.4	25.8	27.1	17.1
SMGR	BUY	16,100	19,200	15.5	3.5	17.9	24.3	11.2
TLKM	BUY	2,845	3,250	17.7	3.6	10.0	21.8	net cash
WSKT	BUY	1,470	1,650	22.9	4.4	31.4	20.5	40.0

Source: Bloomberg and Danareksa Sekuritas, as of Dec 24, 2014

We maintain our positive view on the Indonesian equity market for 2015. In our view, the government's commitment to upgrading Indonesia's dilapidated infrastructure is a key driver that will, in turn, lead to improvements at the micro level. Nonetheless, it is important to realize that the benefits from the government's infrastructure initiative may only be seen in the longer term. In the short term, we believe that further equity market gains are contingent on developments in a number of key areas: 1) the real impact of the higher fuel prices on demand; 2) the ability of Jokowi's ministers to achieve quick results that will boost confidence in certain sectors of the economy; 3) the development of relations between the legislative and the executive, which, thus far, have not been particularly cordial; 4) the real allocation made to productive sectors from the fuel subsidy savings.

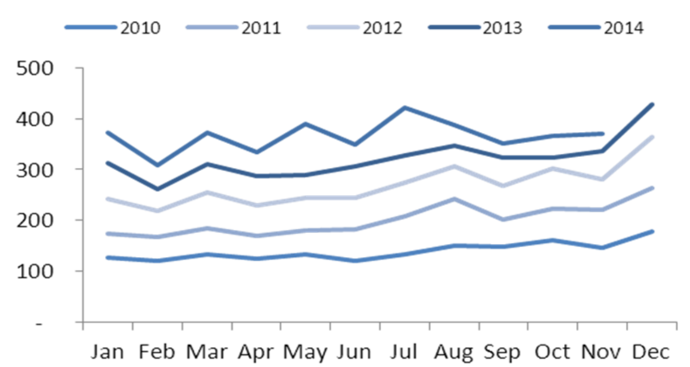
We see 13% upside in 2015 with a year-end index target of 5,900 based on a top down approach with a PE benchmark of 16.2x which reflects half a standard deviation above the mean. Our bottom up approach also shows similar index level. We are Overweight on Banks, Telcos, Infrastructure (construction and cement), Property, Retail and Agriculture, but Neutral on Autos, Consumer, Coal and the tower sectors

Our top picks for 2015 are BMRI, BBRI, TLKM, SMGR, PTPP, WSKT, ACES, ICBP, INCO and BSDE.

Ace Hardware Indonesia (ACES.IJ) – BUY, TP Rp980

	2013	2014F	2015F
Revenue, Rp bn	4,018	4,787	5,534
EBITDA, Rp bn	645	762	870
EBITDA growth, %	10.9	18.1	14.3
Net profit, Rp bn	509	572	659
Core profit, Rp bn	439	546	628
Core EPS, Rp	26	32	37
Core EPS growth, %	10.0	24.3	15.0
Net gearing, %	(6.6)	(14.8)	(23.9)
Core PER, x	30.7	24.7	21.4
PBV, x	7.1	5.7	4.6
EV/EBITDA, x	20.7	17.2	14.7
Yield, %	1.3	0.8	0.8

ACES' monthly sales (Rp bn)



Ahead of its rivals

Although two new competitors have entered the market, Ikea (Alam Sutera) and Courts Megastore (Bekasi), we believe that ACES is well placed to fend off the competition with its strong position in the marketplace. In 2015, we expect the company to open another 10-15 new stores (around 30,000 sqm of floor space). Whilst greater penetration may lead to cannibalism between stores, it is nonetheless preferable to giving up market share to its rivals.

SSG to normalize

ACES still booked strong topline growth in 2014, reaching 17.5% in 11M14. However, with its continued expansion, SSG declined to 3.6% as of November 2014. Going forward, as expansion remains the company's focus, we don't expect any significant improvement in SSG – 4% in 2015. Overall, we expect sales to reach Rp5,534 bn in 2015F, growing 15.6% from 2014's level.

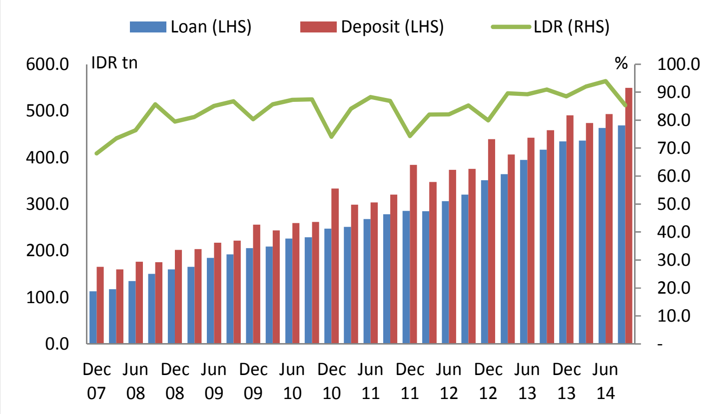
Sustainable margins

ACES' average inventory days climbed to a peak of 215 days in 1H14. However, as the reason behind the high inventory level is the aggressive expansion - especially out of Java - we don't see any significant threat to margins. We expect ACES' margins to be relatively stable, with a gross margin of 47.4% in 2015F. With its debt-free position, we expect the company to maintain the net margin at 11.9% in 2015F.

Bank Rakyat Indonesia (BBRI.IJ) – BUY, TP IDR13,150

	2013	2014F	2015F
Net interest income, IDR bn	43,980	49,383	55,943
PPOP, IDR bn	29,948	33,214	37,758
PBT, IDR bn	27,784	30,255	34,786
Net income, IDR bn	21,218	23,750	26,786
EPS, IDR	860	963	1,086
EPS growth, %	13.6	11.9	12.8
Dividend yield, %	2.2	2.1	2.4
ROAE, %	29.5	27.0	25.0
PBV, x	3.6	2.9	2.4
PER, x	13.4	12.0	10.6
BVPS, IDR	3,209	3,931	4,745

Loan to Deposit Ratio (LDR)



Deposits structure still in good shape
Amidst challenging macroeconomic conditions, BBRI has been the market leader in deposits, taking a market share of 13.7%. BBRI's impressive achievement owes to high TD growth of 32.2% YoY in September 2014 while deposits only grew 19.9% YoY. Going forward, we forecast deposits will still be dominated by CASA, accounted for 56.7% of total deposits as of December 2015F.

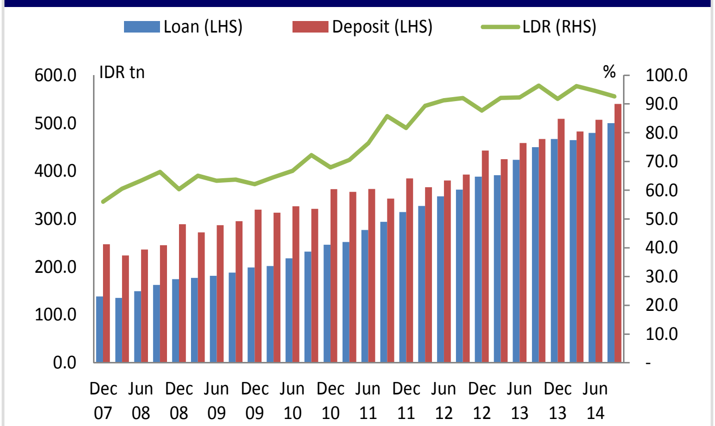
Resilient margins
As the deposits structure remains manageable despite a higher blended CoF of 3.9%, margins have held up pretty well. NIM could be maintained at an impressive 8.8% in 9M14 supported by a higher loan yield (in 9M14, the loan yield expanded to 14.8% from 9M13's 13.3%). Going forward, we expect the NIM to be maintained at 8.6% in FY15F as micro loans will grow by 16.9% in 2015F, underpinned by micro lending to traders in traditional wet markets, which is notable for its resiliency in a challenging environment.

Maintain BUY, TP of IDR13,150
We maintain our positive stance on BBRI, particularly liking its manageable deposits structure and resilient margins. BBRI also offers the highest RoAE within the industry at 25.0% for 2015F. Derived from the DBV model with a 16.3% cost of equity and 6.0% terminal growth rate, our Target Price is unchanged at IDR13,150, implying PBV 2015-16F of 2.8-2.3x. BUY maintained.

Bank Mandiri (BMRI.IJ) – BUY, TP IDR12,400

	2013	2014F	2015F
Net interest income, IDR bn	32,777	36,247	40,203
PPOP, IDR bn	28,408	30,744	33,245
PBT, IDR bn	24,062	25,833	28,180
Net income, IDR bn	18,204	19,463	21,218
EPS, IDR	780	834	909
Dividend yield, %	2.2	2.3	2.1
ROAE, %	22.5	20.7	19.5
PBV, x	2.9	2.5	2.1
PER, x	13.7	12.8	11.7
BVPS, IDR	3,747	4,330	5,012

Loan to Deposit Ratio (LDR)



Better positioning in deposits

Although BMRI now ranks second in deposits with a 13.5% market share as of September 2014, the bank was still able to maintain its CASA composition at 63.3% as of September 2014. As such, the 36.7% proportion of deposits coming from TD as of September 2014 looks quite sound in the more challenging economic environment at the present time. Looking forward, we are confident that the bank can maintain a CASA proportion above the 60.0% level.

Profitability remains intact

BMRI was able to maintain its NIM at 5.6% in 9M14 backed by the bank's active earning assets management. In our calculation, the yield on earning assets rose to 9.3% in 9M14 from 8.5% in 9M13 due to a higher loans yield of 10.2% and a higher recap bonds yield of 5.4% in 9M14. For 2014-15F, we expect that the bank can maintain its NIM at around 5.6% supported by its manageable blended CoF of 3.7% for FY14F, then falling slightly to 3.6% in FY15F.

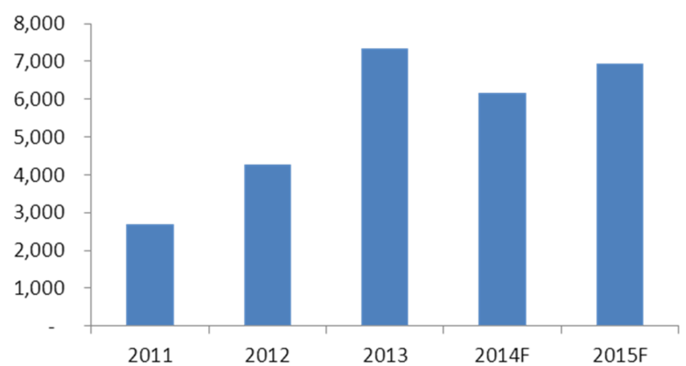
BUY, TP of IDR12,400

Factoring in the above, we maintain our positive outlook on BMRI going forward. Using the Deposit Base Valuation (DBV) model with 15.6% cost of equity and a 6.3% terminal growth rate, we arrive at a Target Price of IDR12,400. Our Target Price implies PBV 2015-16F of 2.5-2.2x. Maintain BUY.

Bumi Serpong Damai (BSDE.IJ) – BUY, TP Rp2,100

	2013	2014F	2015F
Revenue, Rp bn	5,741	5,674	6,290
EBITDA, Rp bn	3,003	2,702	2,922
EBITDA growth, %	97.4	(10.0)	8.2
Net profit, Rp bn	2,691	3,710	2,369
Core profit, Rp bn	2,585	2,195	2,454
Core EPS, Rp	148	125	140
Core EPS growth, %	91.7	(15.1)	11.8
Net gearing, %	(2.3)	(12.2)	(4.2)
Core PER, x	12.1	14.3	12.8
PBV, x	3.1	2.3	2.1
EV/EBITDA, x	10.5	12.2	10.9
Yield, %	0.8	1.7	2.4

BSDE’s marketing sales (Rp bn)



BSD City: a rapidly growing city

BSDE performed well in 2014 and we expect the company to continue recording strong growth with total marketing sales to reach Rp6,931 bn in FY15F (up 12.4%). The company’s flagship project “BSD City” will remain the largest contributor to total marketing sales. The huge landbank in the area coupled with a sizeable population provide the company with the flexibility to devise attractive property offerings based on market demand.

More new projects in the pipeline

BSDE will also launch several new projects to support growth in 2015. The company will start to develop land at Rasuna, South Jakarta by launch two condo towers. Marketing sales will also be supported by the new township developments in Balikpapan and Samarinda, Kalimantan. Elsewhere, BSDE plans to sell its small development in Manado, North Sulawesi.

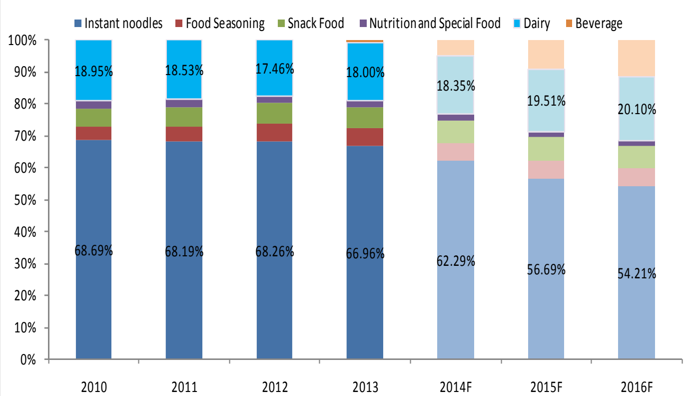
The balance sheet remains strong

We like BSDE’s strategy to always maintain a cash rich position since this provides the company with the flexibility to fund future developments. Although the company has a total of 3,841 ha of land for development (as of 9M14), BSDE will continue to undertake land acquisition every year. We expect the company to remain net cash by the end of 2015F.

Indofood CBP Sukses Makmur (ICBP.IJ) – BUY, TP Rp13,800

	2013	2014F	2015F
Revenue, Rp bn	25,095	30,113	34,663
EBITDA, Rp bn	3,099	3,917	4,805
EBITDA growth, %	3.3	26.4	22.7
Net profit, Rp bn	2,225	2,830	3,408
Core profit, Rp bn	2,224	2,830	3,407
Core EPS, Rp	381	485	584
Core EPS growth, %	1.7	27.3	20.4
Net gearing, %	net cash	net cash	net cash
Core PER, x	32.5	25.5	21.2
PBV, x	5.7	5.1	4.4
EV/EBITDA, x	23.3	18.5	15.0
Yield, %	1.5	2.0	2.4

ICBP's revenue distribution, 2010-2016F



Sheltering with Noodles

As in beginning 2015 consumer purchasing power may wane, we continue to like ICBP for its defensive nature, which should provide a shelter during uncertain times. Additionally, the company has strong brand name, distribution network and pricing power, which provide the company some footing against its competitors.

Propelling forward with Dairy and Beverages

Going forward, once the consumer power hiccup is over, we can look forward to its dairy segment due to: 1) Indonesia' low milk consumption (13.4L); 2) growing young demographic 3) increasing trend on healthy food, backed with increasing GDP per capita. Despite only starting in 2013 and having many competitors, the beverage business is promising, especially backed by ICBP intensive distribution network.

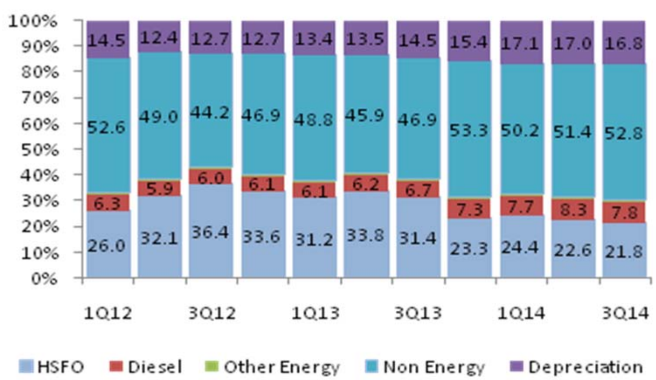
TP Rp13,800 with 23.6x 2015 PE-at par with regional peers

Compared to its regional peers, ICBP is trading at some 11.3% discount. Given its resilience in tougher times and with some segments still growing, we believe ICBP should be at least valued at par to its regional peers. As such, we derive our target price of Rp13,800 from 23.6x 2015PE, at around the same level with its regional peers.

Vale Indonesia (INCO.IJ) – BUY, TP Rp4,700

	2013	2014F	2015F
Revenue, USD mn	922	1,069	1,138
EBITDA, USD mn	236	403	459
EBITDA growth, %	-8.0	70.9	13.8
Net profit, USD mn	39	155	191
EPS, USD	0.0039	0.0156	0.0192
EPS growth, %	-42.7	302.2	22.6
BVPS, USD	0.1725	0.1883	0.1956
Net Gearing, %	1.1	-1.1	-3.0
PER, x	80.7	20.1	16.4
PBV, x	1.8	1.7	1.6
EV/EBITDA, x	13.3	7.8	6.8
Yield, %	1.6	0.7	3.0

Energy contributed 30% of total cost



Maintain nickel-in-matte production for 2015

As the company plans to postpone its plans to upgrade its electric furnace (EF) No. 1 from the beginning of 2015 to the second or third quarter of 2016 in order to reap the benefits of expected better nickel prices in 2015, we believe the company will fully utilize its current capacity and maintain its nickel-in-matte production at a maximum level of 80,000 tons in 2015 (2014F: 79,600 tons).

Better margin on higher nickel prices, cost efficiency and lower HSFO prices

We foresee gross margins improvement to 32% in 2015 from an estimated 29% in 2014 with the cost of production expected to be maintained at around US$9,000/ton (9M14 COGS per ton: US$9,136/ton). This will be attributable to: a) an improvement in the average nickel price to US$20,000/ton (+17.6% yoy) in 2015 on the expectation that the nickel market deficit, b) lower energy costs going forward following the full operation of coal conversion project phase 1 for dryers (CCP1) at end-3Q13 to reduce the usage of High Sulphur Fuel Oil (HSFO) and further declines in the crude oil price will lower HSFO prices.

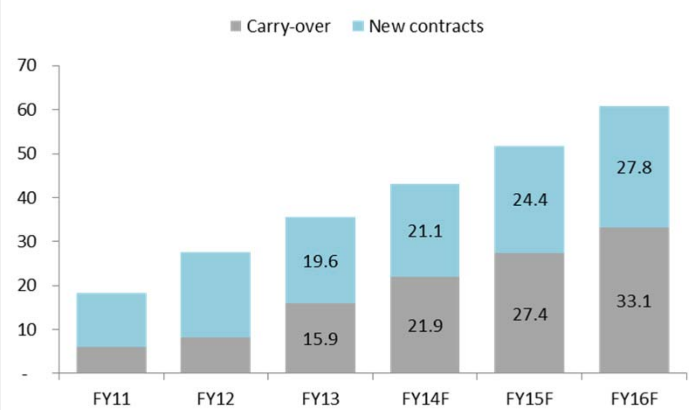
Long-term capex of US$2bn to sustain growth

The company plans to spend long-term capex of about US$2bn, consisting of US$1.5bn for Sorowako project developments and the remaining US$500mn for Bahodopi. In the first stage (2015 – 2017), US$500mn of capex will be used for a) EF #1 upgrade and b) further improvements and de-bottlenecking. This will increase nickel-in-matte production to 90,000 tons from 80,000 tons. In the second stage (2018 – 2020), the company plans to increase the nickel-in-matte production capacity further to 120,000 tons by adding the fifth furnace as well as its supporting facilities. Meanwhile, for Bahodopi, the company plans to build either a refinery or smelter, for which the ore-feed will come from Sorowako.

Pembangunan Perumahan (PTPP.IJ) – BUY, TP Rp4,100

	2013	2014F	2015F
Revenues, Rp bn	11,656	14,138	17,037
EBITDA, Rp bn	1,188	1,608	1,769
EBITDA growth, %	38.2	35.3	10.0
Net profit, Rp bn	421	592	762
Core profit, Rp bn	486	656	831
Core EPS, Rp	100	135	172
Core EPS growth, %	35.6	35.1	26.6
Net gearing, %	Net cash	24.4	17.1
PER, x	40.3	28.7	22.3
PBV, x	8.6	6.8	5.4
EV/EBITDA, x	14.2	10.9	9.9
Yield, %	0.5	0.7	0.9

Order book progress, Rp tn



The best new contracts achiever for the third consecutive year

PTPP maintained its status as the biggest new contracts achiever for the third consecutive year. Its order book is estimated to reach Rp40tn in FY14F – at par with WIKA. Going forward, we believe PTPP is on the right track to get more contracts, especially from the government's accelerated projects, considering its expertise in maritime-based projects – as reflected in the Rp8.2tn signature New Priok port project which is on-track.

Sound earnings growth expected in 2015

PTPP's carry-over projects to 2015 are estimated to be around Rp25-27tn, or 1.8-2.0x its FY14F revenues. Looking at those figures, the management has expressed its optimism with targeted net profits of Rp730bn in FY15F, or growth of 32% CAGR in FY13-15F. In our view, the management's target is reasonable considering the company's strong earnings visibility. Also worth noting are the company's strong marketing sales from its high margins property projects that will materialized in FY15F.

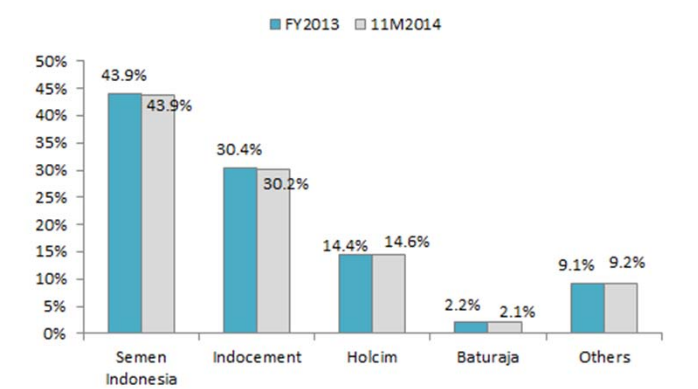
The valuation is justified

Encouraged by its order book size which gives the best earnings visibility, PTPP remains one of our Top Picks in the sector. PP Properti's plans to go public have been well received since they allow PTPP to leverage its equity to undertake more government projects in the future. All in all, we believe PTPP's valuation is justified to +1.5sd above the sector mean during the up-cycle period. Utilizing targeted FY15F PE of 25.9x, we raise our Target Price to Rp4,100. BUY.

Semen Indonesia (SMGR.IJ) – BUY, TP Rp19,200

	2013	2014F	2015F
Revenue, Rp bn	24,501	25,561	28,358
EBITDA, Rp bn	8,048	8,439	9,842
EBITDA growth, %	12.8	4.9	16.6
Net profit, Rp bn	5,370	5,563	6,178
EPS , Rp	905	938	1,042
EPS growth, %	10.8	3.6	11.0
Net gearing, %	(0.0)	12.3	11.2
Core PER , x	15.8	15.2	13.7
PBV , x	4.1	3.6	3.1
EV/EBITDA, x	10.5	10.4	8.9
Yield, %	3.2	3.3	3.6

SMGR remains the market leader



The competitive landscape remains favorable for the big players

We don't expect any major change in the market shares of the main cement producers with Semen Indonesia to retain its status as the country's largest cement producer. In 2014, SMGR's market share was relatively stable at 44%, exceeding Indocement's 30% and Holcim Indonesia's 14.6%. Despite new capacity, the competitive landscape in the sector is still favorable, and, most importantly, price discipline among the major players remains intact. This should pave the way for further 4-5% ASP increases in 2015, in our view.

Change in leadership: does not pose a big threat to the ongoing expansion

Arguably, Mr Dwi Soecipto, the previous CEO of SMGR is the man behind the full transformation of SMGR into the country's largest cement producer. While we believe that his departure to Pertamina will be negative for SMGR, the path of progress and execution is unlikely to be affected especially in view of SMGR's well-planned expansion. We believe that the new CEO will retain the current plans, undertaking organic growth in the domestic market whilst pursuing acquisitions overseas.

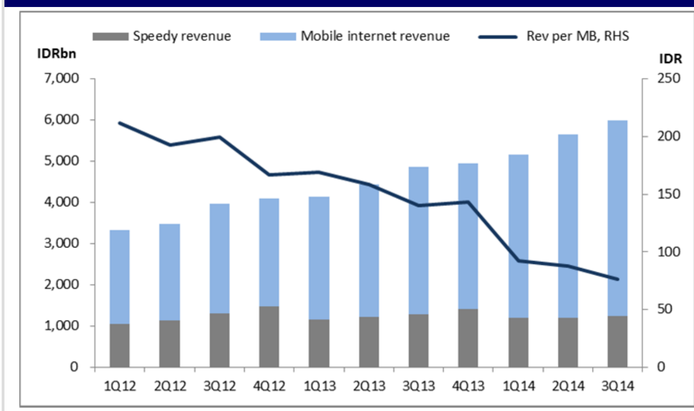
Lower dividends are a risk; BUY with a TP of IDR19,200

SMGR is seen as a good dividend play given its high payout ratio. In the past 5 years, SMGR typically paid out 45-60% of its earnings as dividends. However, with government plans to cut SOE dividends, SMGR may lose its reputation as a good dividend play, although we would view this positively for SMGR's capital management given the large capex spending needed to build a cement plant. We expect a dividend payout of 35% in 2015 onward. BUY maintained with a TP of IDR19,200 based on DCF, which reflects 2015 PE of 18.4x.

Telkom (TLKM.IJ) – BUY, TP Rp3,250

	2013	2014F	2015F
Revenue, IDRbn	82,967	88,882	97,019
EBITDA, IDRbn	41,776	44,678	48,182
EBITDA growth, %	5.1	6.9	7.8
Net profit, IDRbn	14,205	14,805	16,211
Core profit, IDRbn	14,391	14,805	16,211
EPS, IDR	147	152	161
EPS growth, %	10.1	3.2	5.8
Core EPS, IDR	149	152	161
Core EPS growth, %	10.4	1.8	5.8
Net gearing, %	(2.2)	(13.3)	(24.3)
PER, x	19.2	18.6	17.6
Core PER, x	18.9	18.6	17.6
Yield, %	3.1	3.6	3.6
EV/EBITDA, x	6.5	5.9	5.5

Data revenue growth



The best in the pack

We see Telkom continuing to maintain its leadership in the mobile data market in 2015. Telkomsel is the first big carrier to launch LTE and we expect the company to build its lead given largely LTE-capable network, which allows rapid rollout of LTE services. This will create momentum for data re-pricing in 2015 which should allow better data monetization and drive 9%-11% revenues and EBITDA growth in FY15-16F.

LTE provides momentum for data re-pricing in 2015

LTE rollout will provide momentum for Telkomsel to adjust its data pricing upward via the introduction of tiered pricing. Other large carriers indicate that they too deem data plan pricing in Indonesia, at an average of USD0.29c/MB, as overly cheap compared to pricing in other ASEAN countries. The closest competitors, carriers in Vietnam, charge an average of USD0.47c/MB. .

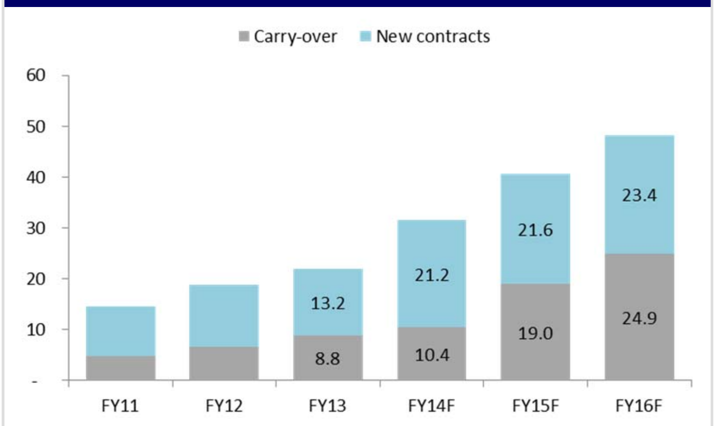
Revenues growth to accelerate with steady margins

Given our expectation of data re-pricing, we expect a decline in revenues per MB to decelerate in 2015F and 2016F to 10-11% compared to expected 40% decline in the metric in 2014F. Meanwhile, we expect data payload to continue growing strongly by CAGR 60% in those periods. Revenue growth should accelerate to 9-11% in FY15F-16F from 7% in FY14F, with EBITDA margin stable at around 50%.

Waskita Karya (WSKT.IJ) – BUY, TP Rp1,650

	2013	2014F	2015F
Revenues, Rp bn	9,687	10,523	13,707
EBITDA, Rp bn	725	856	1,280
EBITDA growth, %	26.3	18.0	49.6
Net profit, Rp bn	368	420	618
Core profit, Rp bn	363	399	617
Core EPS, Rp	38	41	64
Core EPS growth, %	63.2	10.0	54.8
Net gearing, %	21.1	27.5	40.0
PER, x	38.5	33.7	22.9
PBV, x	5.9	5.2	4.3
EV/EBITDA, x	20.2	17.4	12.1
Yield, %	0.1	0.5	0.6

Order book progress, Rp tn



High risk-rewards in the toll road business

The rationale of venturing into the toll road business for WSKT is to boost its order book and improve profitability going forward. We do see an exit risk for WSKT, however, as maintaining ownership in toll roads after their completion will limit the company's balance sheet capacity, but overall, we are positive on WSKT's toll road ventures. In that case, we recognize its toll road projects as normal projects. With four toll roads in the pipeline, WSKT could bag a high-margin order book between Rp4.0-6.0tn until 2017.

Potential equity raising in 2015

With government ownership in WSKT still standing at 65%, WSKT still has the chance to undertake a rights issue with the government making a placement. At the current share price, a 15% placement by the government could increase WSKT's equity by Rp2tn, elevating the total equity to Rp5tn at YE15F – creating the company as the biggest contractor in Indonesia in terms of its equity size. In that scenario, WSKT's gearing could fall to only 0.4-0.5x during the peak cycle, giving the company ample room to get sizeable projects in the future.

Revising up our estimates

WSKT's better-than-expected new contracts achievement in 2014 has led us to revise up our estimates. With a brighter outlook for government projects in 2015, we believe WSKT will have a robust order book to maintain its growth story. Utilizing the sector's up-cycle target PE FY15F of 25.9x, we raise our Target Price to Rp1,650, implying 0.5x PEG. BUY.

Sectoral View

A year of transformation

Automotive Sector: Speed bump (NEUTRAL)

Multiple risks still persist

We maintain our neutral rating on the automotive sector as we believe this sector will continue to face multiple risks: 1. softer demand post the fuel price hikes and interest rate hike; 2. an intensifying competitive landscape; 3. a weak currency putting pressure on production costs; and 4. the risk of negative government regulation. In 2015, we expect flat demand growth to persist, especially with recent car launches only targeting the medium to upper segments.

Competition alert: Honda's forays into more car segments is negative for both Toyota and Daihatsu

We believe the impact of the recent fuel price hikes on auto demand should be less severe than in either 2008 or 2013, especially since the impact on inflation has been moderate, lessening the risk of further interest rate hikes. Going forward, we anticipate a stiffer competitive landscape in the Low-end SUV segment with the recent launch of Honda HRV at the 2014 IIMS. As such, the Toyota Daihatsu duo will face a serious challenge, especially in light of the warm reception received by the Honda HRV. Toyota Rush and Daihatsu Terios currently enjoy a share of almost 90% in this segment with the two models accounting for 8% of Astra's total 4W sales.

Auto-parts: exports recovery provides a cushion against domestic downturn

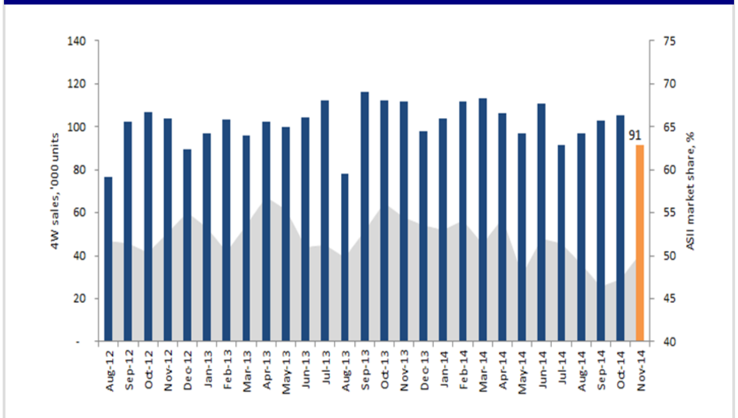
For 2015, we believe that the domestic market will remain challenging although export markets, by contrast, look better placed to recover, especially the US market. Overall, we still foresee high single digit growth in FY15F earnings. Helping to maintain profitability are the mild steel price and a higher contribution from exports amidst the current rupiah weakness.

Company	Recom.	Current Price, Rp	Target Price, Rp	PE, x 2015	EV/EBITDA, x 2015	EPS CAGR, % 2013-2015	ROE, % 2014	Net gearing, % 2014
Sector	**NEUTRAL**			**12.4**	**10.1**	**13.3**	**20.6**	
ASII	BUY	6,800	8,300	12.4	10.3	13.1	17.9	34.6
SMSM	HOLD	3,450	5,300	15.9	9.1	25.0	32.3	Net Cash
GJTL	BUY	1,680	2,000	6.8	5.1	1.9	11.5	91.0

Source: Bloomberg as of 24 December 2014, Danareksa Sekuritas

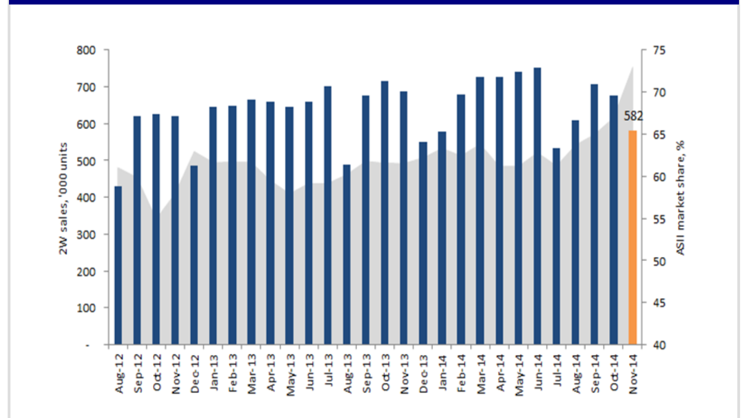
Automotive Sector: Drive forward (NEUTRAL)

4 Wheel monthly sales trends



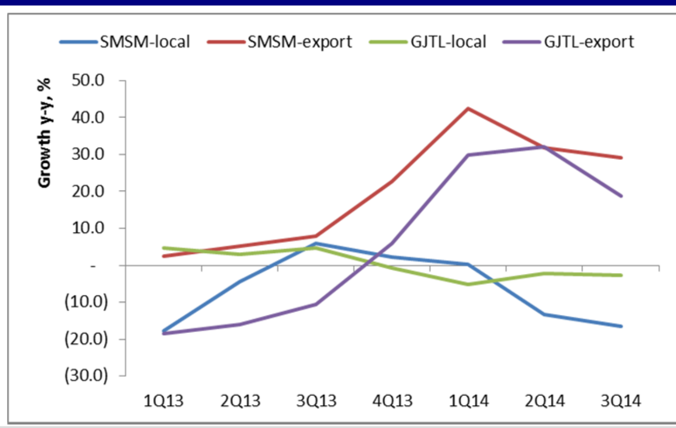
Source: Gaikindo

2 Wheel monthly sales trends



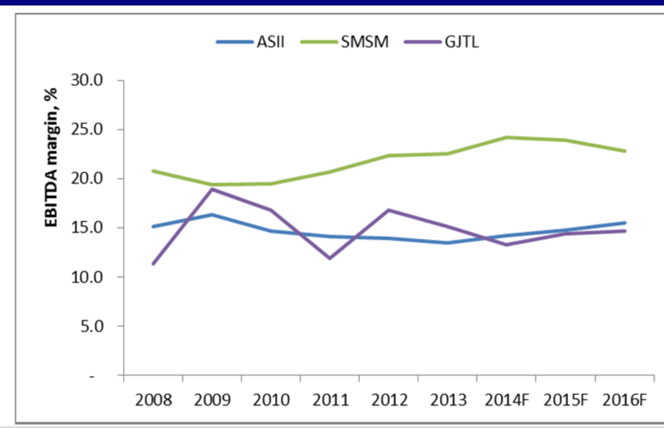
Source: Gaikindo

Export recovery in auto-parts



Source: Company, Danareksa Sekuritas

Profitability maintained



Source: Company, Danareksa Sekuritas

Banking Sector: Optimism remains (OVERWEIGHT)

Sufficient liquidity is a key

As BI recently relaxed its LDR definition, now including securities issued by the bank as a component of the deposits, liquidity should increase in our view. With the modified LDR standing at 88.0% as of September 2014 (compared to a simple LDR of 89.1%), we believe this regulation will have a more significant impact on medium-sized banks. At the same time, the big banks will continue to depend more on customer deposits given their extensive network infrastructure and lower costs.

With more sustainable growth and manageable assets quality

Due to the more challenging environment, loans grew at a softer rate of 13.2% YoY while deposits grew at 13.3% YoY in September 2014 backed by 21.4% YoY TD growth. Yet, gross NPLs could still be managed at 2.3% as of September 2014. Thus, in 2015F, we forecast loans and deposits growth at sustainable levels of 15.1% and 14.7%, with gross NPLs at 2.5-2.7% as of December 2015F.

Valuation: BBRI as our top pick

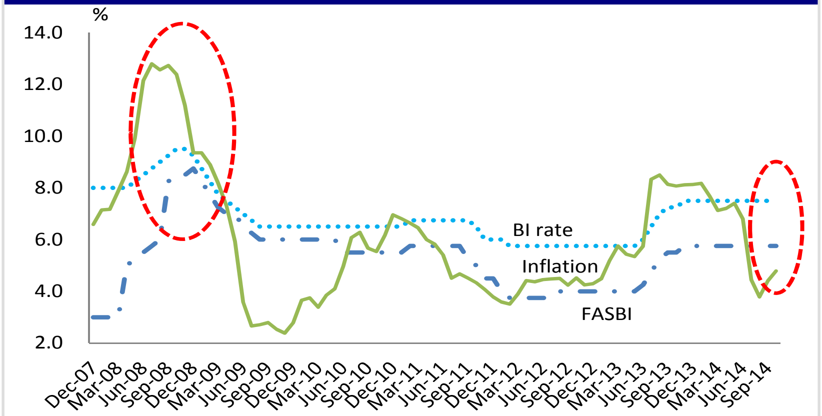
We believe that banks will continue to perform relatively well even with the imminent challenges facing the sector. Moreover, as the government also proposes a lower dividend payout ratio for SoE banks, stronger capital positions should be seen in the future.

Company	Recom.	Current Price, IDR	Target Price, IDR	PB, x 2015	PE, x 2015	ROAE,% 2015	EPS CAGR, % 2013-2016
sector	**OVERWEIGHT**			**2.1**	**12.0**	**18.6**	**8.3**
BBCA	HOLD	13,200	12,100	3.6	17.6	22.1	14.4
BMRI	BUY	10,700	12,400	2.1	11.8	19.6	8.8
BBRI	BUY	11,600	13,150	2.4	10.7	25.0	12.9
BBNI	BUY	6,150	6,750	1.8	10.4	18.6	11.0
BBTN	BUY	1,200	1,400	1.0	10.5	9.4	(2.7)
BTPN	BUY	4,000	5,450	1.7	10.9	16.7	5.1

Source: Bloomberg as of 24 December 2014, Danareksa Sekuritas

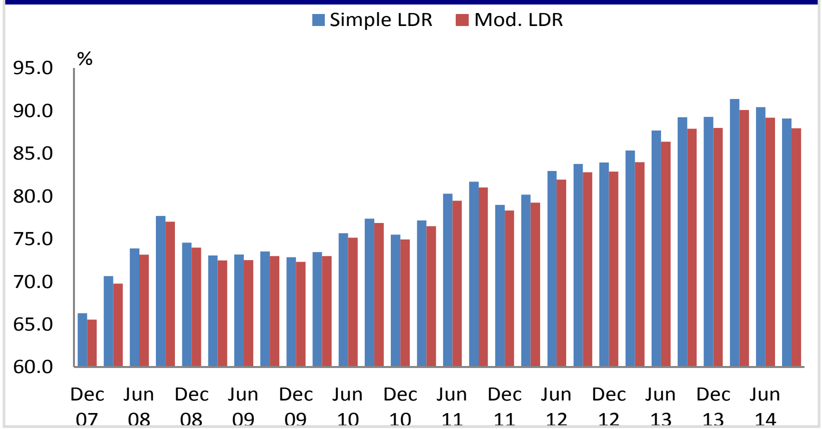
Banking Sector: Optimism remains (OVERWEIGHT)

Macroeconomic indicators



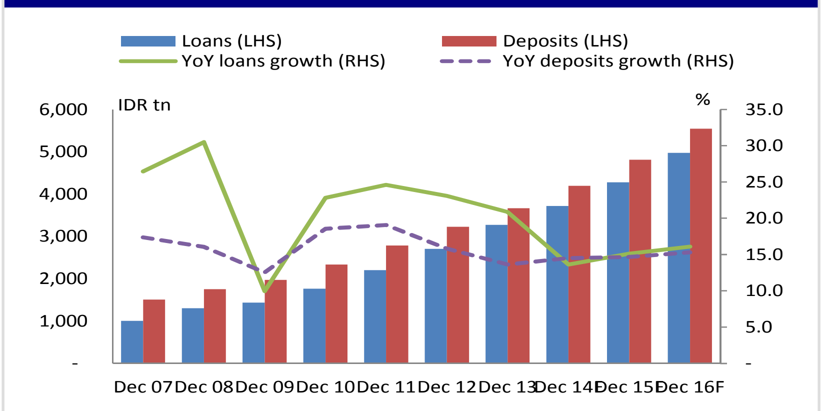
Source: Bank Indonesia, Central Bureau of Statistics, Danareksa Sekuritas

More relaxed LDR should be positive for the industry



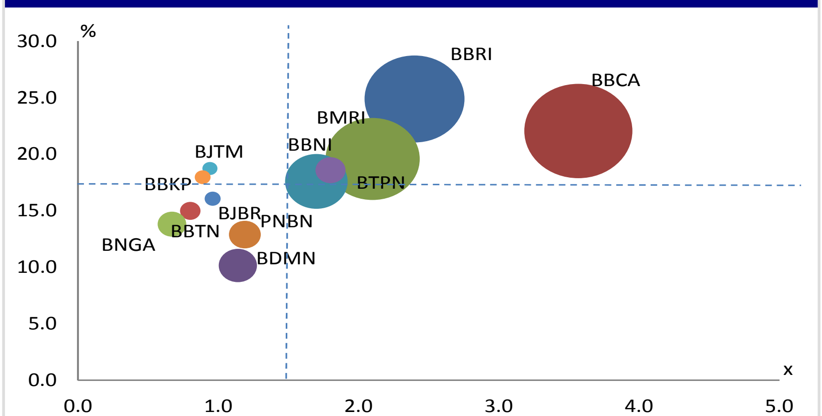
Source: Bank Indonesia

..with more sustainable growth



Source: Bank Indonesia, Danareksa Sekuritas

PBV/ROE matrix



Source: Danareksa Sekuritas, Bloomberg (as of December 24, 2014)

Danareksa

Cement Sector: Building the nation (OVERWEIGHT)

Upgrade to Overweight from Neutral

We upgrade our rating on the cement sector to Overweight reflecting: 1. a better outlook for the property sector, the biggest consumer of cement; 2. a still-favorable competitive landscape. While competition is likely to increase with the entrance of new players, barriers to entry remain high. The first obstacle faced by new players is obtaining the necessary licenses and securing landbank for their mills - not an easy task; 3. easing production cost pressures on lower energy costs. With the sharp decline in crude oil prices in 2H14, cement producers stand to benefit, especially since energy costs account for up to 35% of total production costs.

Government infrastructure projects will boost consumption

The government's new programs which will focus more on resolving the current dis-connectivity and attaining food self-sufficiency bode well for infrastructure development. Higher infrastructure spending will undoubtedly lead to stronger demand for cement, especially bulk cement. Furthermore, with the implementation of the new land bill for public infrastructure effective in 2015, smoother execution of projects is more likely to transpire, underpinning the stronger demand for bulk cement.

Higher demand growth this year to be at par with the long-term demand multiplier

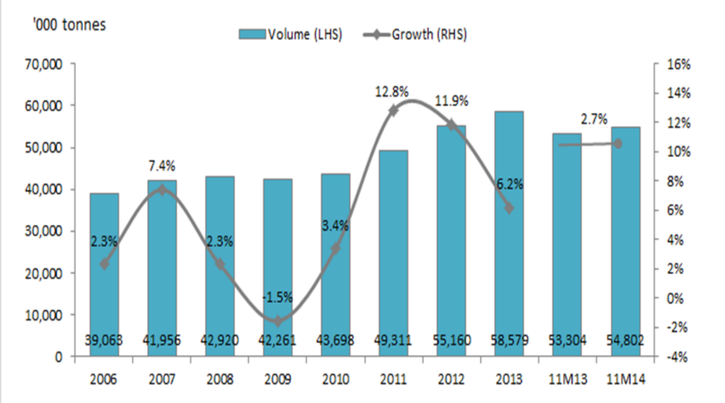
In 2015, we expect cement consumption to grow by 8.8% to 66.4m tonnes, mainly driven by 7.4% growth of bagged cement and 13.7% growth of bulk cement. In our view, with the prospect of higher infrastructure spending, as well as potentially brisker economic growth overall, the demand multiplier should improve. In 2015, the expected cement demand growth of 8.8% would reflect a demand multiplier of 1.5x GDP growth, or inline with the long term cement demand multiplier.

Company	Recom.	Current Price, Rp	Target Price, Rp	PE, x 2015	EV/EBITDA, x 2015	EPS CAGR, % 2014-2016F	ROE, % 2015	Net gearing, % 2015
Sector	**OVERWEIGHT**			**15.8**	**9.3**	**1.3**	**21.0**	
SMGR	BUY	16,100	19,200	15.5	10.0	17.9	24.3	11.2
INTP	BUY	24,800	29,300	15.3	9.2	12.2	22.1	Net Cash
SMCB	HOLD	2,180	2,400	16.7	8.6	23.8	9.8	29.6

Source: Bloomberg as of 24 December 2014, Danareksa Sekuritas

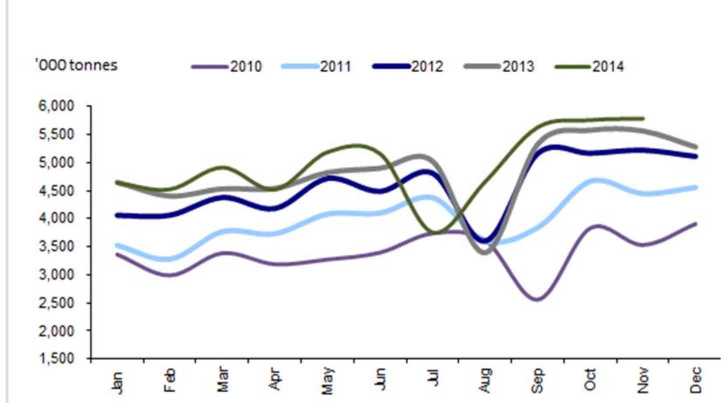
Cement Sector (OVERWEIGHT)

Cement sales volume and growth



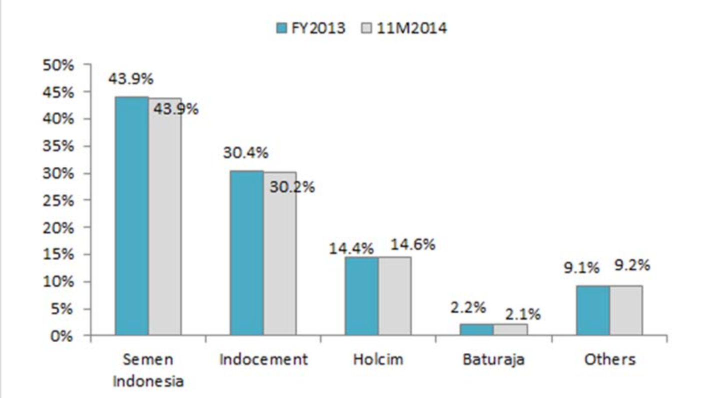
Source: Cement Association, Danareksa Sekuritas

Domestic cement sales seasonality



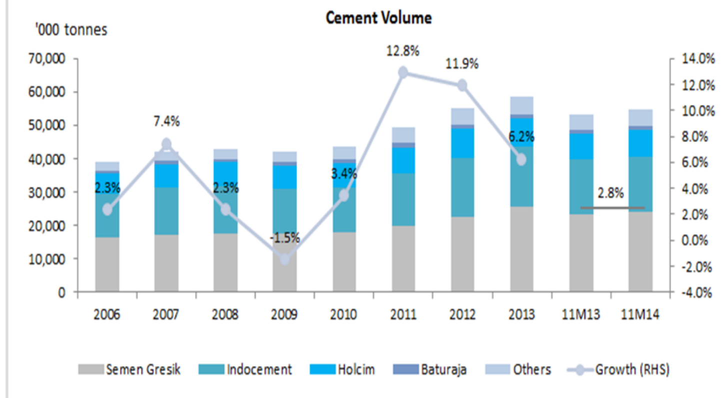
Source: Cement Association, Danareksa Sekuritas

SMGR remains the market leader



Source: Cement Association, Danareksa Sekuritas

Cement Production by Company



Source: Cement Association, Danareksa Sekuritas

Danareksa

Coal Mining: Overhang from weak coals to persist (NEUTRAL)

Slower consumption growth

- **China.** Low domestic price increased competitiveness against imported coal, announcements of several policies measure to reduce pollutions and protect domestic producers as well as higher new import tariffs for thermal coal, and rising utilization rate of alternative energy, such as hydro power.
- **India.** Weak Indian Rupee vs, US Dollar and port limitation to slow down coal consumption. But, we expect sustainability on import of coal to India on increased power demand, and inadequate of domestic coal supply on infrastructure and land acquisitions constraints to dampen the expansion.

Oversupply to persist

- Possibility by the Indonesian government to revise up the coal production to about 450mn tons for 2015 recently in order to boost state revenue
- Coal production in Australia remained high as several coal producers are locked by take-or-pay agreements, which encourage coal export.
- Weakening currency in producing countries to help several producers to sustain or increase their production rate to maintain profitability.

Long-term outlook: Indonesia will be the silver lining with higher coal demand from power plants.

- Demand for electricity is expected to increase going forward on government programs to increase electrification ratio to 97.7% by 2022 from 75.9% in 2012. This will be supported from the construction of power plants with total capacity of 35 GW in the next five years.
- With greater usage of coal in power plants, coal demand for power plant is expected to increase at 5-year CAGR of 14.1% in 2013 to 2018.

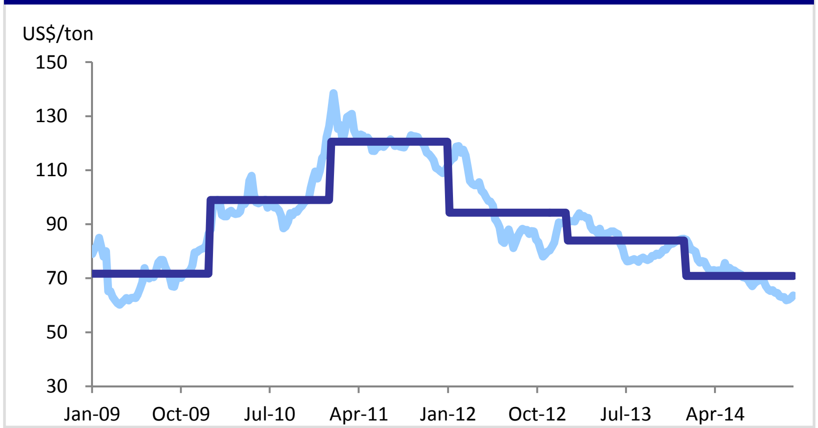
We assume coal price of US$72/ton for 2014, US$70/ton for 2015 and US$73/ton for 2016.

Company	Recom.	Current Price, Rp	Target Price, Rp	PE, x 2015F	EV/EBITDA, x 2015F	EPS CAGR, % 2014-2016	ROE, % 2015F	Net gearing, % 2015F
Sector	**NEUTRAL**			**11.9**	**4.9**	**3.1**	**12.7**	
ADRO	BUY	1,060	1,280	13.0	5.0	-2.6	8.1	37.0
HRUM	HOLD	1,685	1,750	38.2	6.3	-11.0	3.1	net cash
ITMG	HOLD	15,600	21,500	9.3	4.0	-2.6	18.5	net cash
PTBA	BUY	12,625	15,500	13.5	9.7	3.1	22.7	net cash
HEXA	HOLD	3,505	3,650	13.4	6.5	15.0	8.0	net cash
UNTR	BUY	17,150	23,300	10.8	4.6	8.2	15.7	net cash

Source: Bloomberg as of 24 December 2014, Danareksa Sekuritas

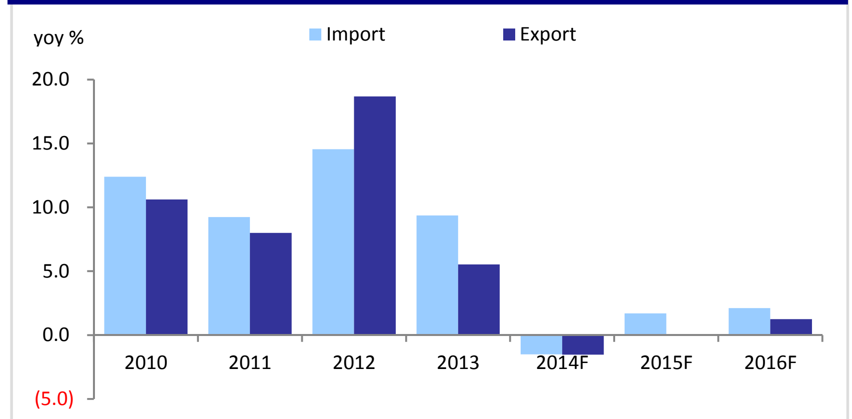
Coal Sector (NEUTRAL)

Unfavorable coal prices



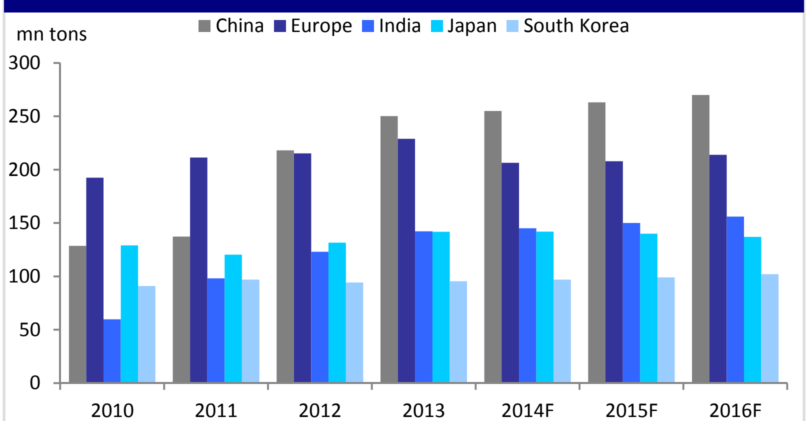
Source: Bloomberg, Danareksa Sekuritas

Coal trade growth activities



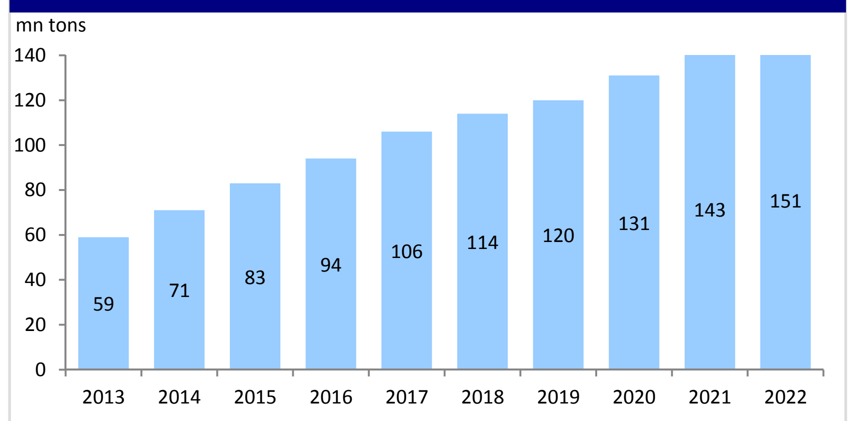
Source: BREE, IEA, Danareksa Sekuritas

China remains the largest importer of thermal coal



Source: BREE, IEA, Danareksa Sekuritas

Domestic coal consumption for electricity



Source: PLN

Construction: Infrastructure's compelling story (OVERWEIGHT)

Structural changes are coming

The new government is intent on accelerating the nation's infrastructure development. This is seen by its initiative to reduce the fuel subsidies to freed up the state funds, along with the plan to almost double the budget of Public Works and Transportation Ministry to Rp205tn in the FY15F revised state budget, coupled with plans to hasten project tenders in 1Q15F. All in all, confidence among state-owned contractors is high and their guidance of 25-30% growth in FY15F earnings is sensible following the flattish performance in 2014.

Capital for leverage

Equity size might become a key consideration for the state-owned contractors in the future given its leverage during strong multi-year supply of government projects. Thus, government's proposal to undertake capital injections will be the game changer. Even so, without any equity raising, the state-owned contractors are still able to handle up to Rp200tn in their order books given its current leverage.

Valuations moving towards the peak of the cycle

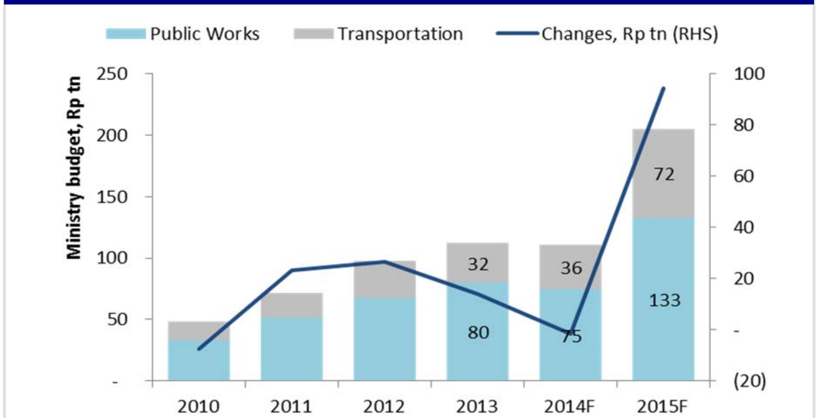
At current valuation, investors already appear to price in the bullish scenario of multi-year growth expansion. Thus, valuations might move towards the peak of the cycle (+2sd above mean – 29x PE). All in all, we reiterate our OVERWEIGHT call with our Top Picks are PTPP and WSKT. Key risks include lower-than-expected infrastructure budgets, poor government execution, and potential increases in interest rates.

Company	Recom.	Current Price, Rp	Target Price, Rp	PE, x 2015F	EV/EBITDA, x 2015F	EPS CAGR, % 2013-2015F	ROE, % 2015F	Net gearing, % 2015F
Sector	**OVERWEIGHT**			**21.2**	**10.0**	**21.8**	**21.3**	**39.7**
WIKA	BUY	3,535	4,000	25.7	10.6	21.6	15.4	8.9
PTPP	BUY	3,505	4,100	22.3	9.9	34.6	27.1	17.1
WSKT	BUY	1,470	1,650	22.9	12.1	29.6	20.5	40.0
ADHI	BUY	3,245	3,900	14.0	7.5	1.5	22.4	92.7

Source: Bloomberg as of 24 December 2014, Danareksa Sekuritas

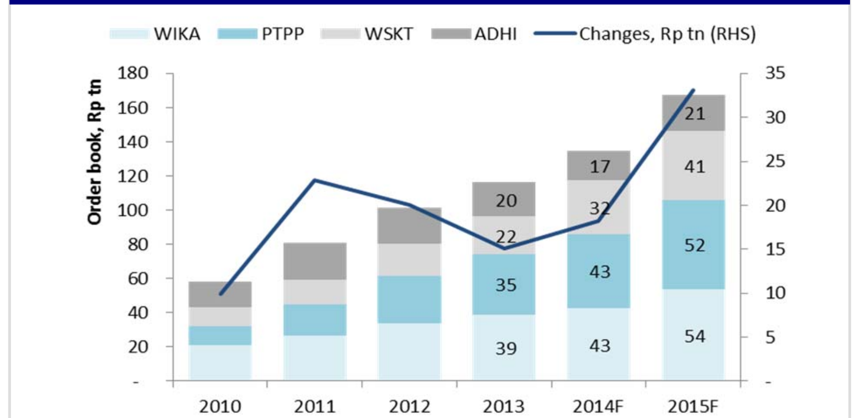
Construction Sector (OVERWEIGHT)

Higher budgets…



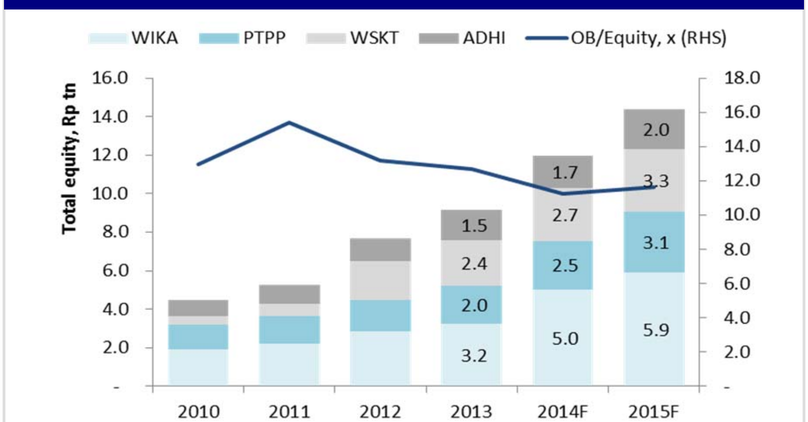
Source: Ministry of Finance

…lead to huge order book size



Source: Companies, Danareksa Sekuritas

Equity to leverage



Source: Companies, Danareksa Sekuritas

Up-cycle valuations

Source: Bloomberg

Consumer: Back to Basics (NEUTRAL)

Performance should pick up

While we are upbeat on macro improvement in 2015, we believe that more good news will come in 2H15. That said, 1H15 consumer power may be weaker than its later half, which may not spell good performance. However, we think that the basic necessity products companies will thrive under these circumstances.

Margins improvement should be on the cards

On the costs side, with continued low oil prices, other commodities prices should also remain soft, paving way for lower COGS. In addition, with USD/IDR rate hovering at Rp12,000 level, we expect a less volatile rate movement in 2015. With these factors, we expect margins improvement to be reflected in 2015.

Remains lucrative, with inclination towards deep-rooted companies

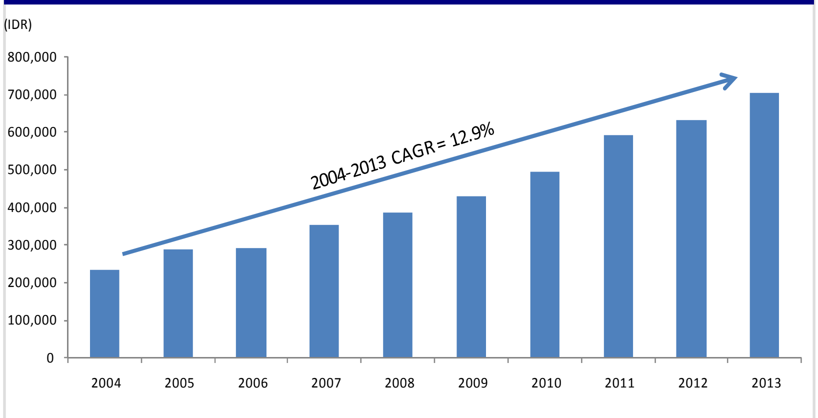
Fundamentally, with robust population growth and rising GDP per capita (supported by increasing middle income class), Indonesia's consumer sector remains lucrative. However, the attractiveness could entice new entrants, both from foreign and domestic market, which will dampen the competition. That said, we opt for companies that have strong presences in Indonesian market, as the company is less likely to be shaken off with new competitions.

Company	Recom.	Current Price, Rp	Target Price, Rp	PE,x 2015F	EV/EBITDA, x 2015F	EPS CAGR, % 2013-2015	ROE, % 2015F	Net gearing, % 2015F
Sector	**NEUTRAL**			**19.8**	**11.4**	**16.1**	**19.1**	**29.4**
ICBP	BUY	12,400	13,800	21.2	15.0	18.4	20.9	net cash
INDF	BUY	6,600	7,600	12.3	5.9	13.2	16.7	15.5
ROTI	BUY	1,425	1,700	29.0	15.9	25.2	23.3	43.4
TCID	BUY	17,525	19,300	16.8	8.9	7.7	15.3	net cash
UNVR	SELL	32,000	26,000	40.9	29.1	11.1	124.3	21.0

Source: Bloomberg as of 26 November 2014, Danareksa Sekuritas

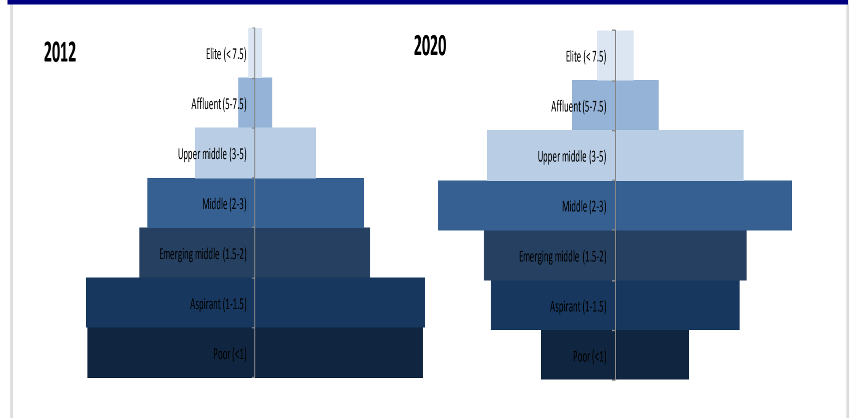
Consumer Sector (NEUTRAL)

Average monthly exp. per capita, 2004-13



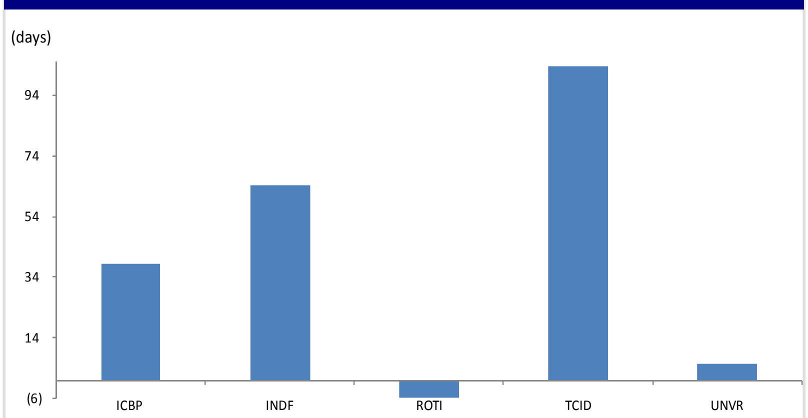
Source: CEIC

Population distribution



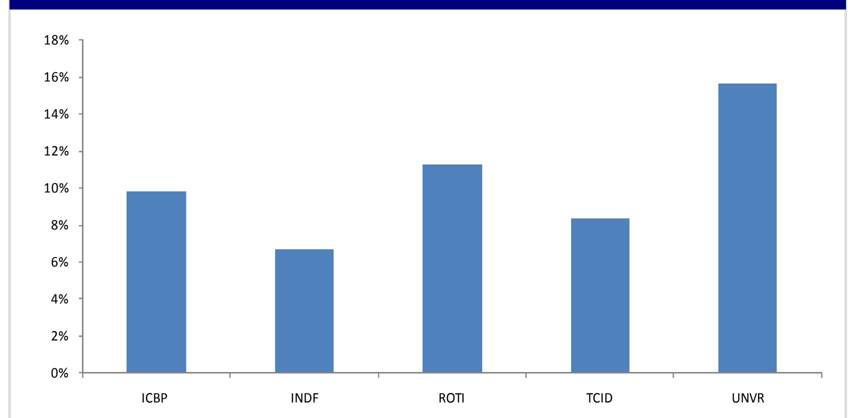
Source: BCG

Cash conversion cycle, 2015F



Source: Companies, Danareksa Sekuritas

2015F net margin comparison



Source: Company, Danareksa Sekuritas

Metal Mining: Continues its shine (OVERWEIGHT)

Nickel: Continues its shine

While LME nickel price is expected to remain volatile in the near term as nickel inventory level at LME is still at high level and depressed on commodity prices, we expect nickel market to turn into deficit in 2015. This will be due to:

- Reiteration on the nickel ore export ban from Indonesia to affect availability of nickel ore in the global market as Indonesia is considered to be the largest global mine producer, accounted about 31% of total global nickel mine production in 2013
- Slow progress on the development smelters in Indonesia due to substantial investment required and the supporting infrastructure
- Global nickel demand is expected to recovery at 8.3% yoy in 2015 vs. a decline in 2014
- As such, this will lower currently high refined nickel inventory level at LME and to increase nickel price in 2015.

We assume average nickel price of US$20,000/ton (+18% yoy) for 2015 as well as its price to maintain for 2016.

Tin: Stagnate on Indonesia tin production to help sustaining tin price amid muted tin demand growth

- While refined tin demand is expected to post slow growth at only 3-year CAGR of 1.3% in 2013 - 2016, we expect stagnate on Indonesia tin production going forward on the depletion of onshore resources, which will encourage the search for offshore resources. As only larger tin mining companies to undertake offshore exploitation due to high capital requirement for equipments. Hence, we expect a slight refined tin market deficit in 2016 to improve on the tin price.
- Expect refined tin export from Indonesia to decline further in 2015 from about 70,000 tons in 2014 (-23% yoy). This will be due to:
    - Stringent regulation in the tin mining industry imposed at end Aug 2013 and revised regulation of non-ingots products in Nov 2014.
    - Export of refined tin from Indonesia, the largest refined tin exporter in the world, went down by 15.9% yoy to 65,068 tons in 11M14

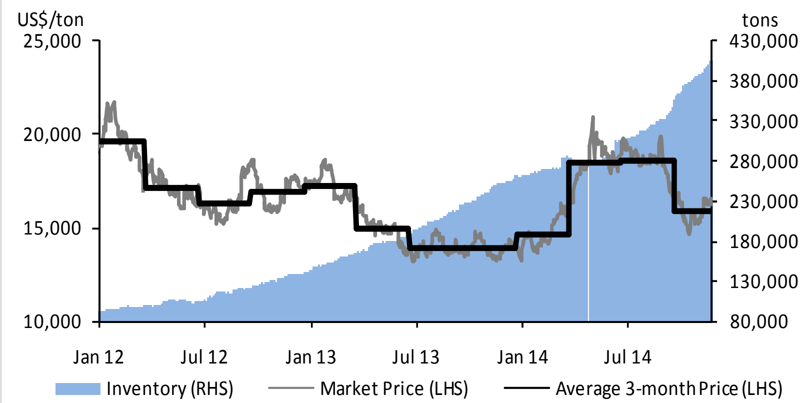
We assume average tin price of US$22,500/ton (+2.3% yoy) for 2015 and US$23,000/ton (+2.2% yoy) for 2016.

Company	Recom.	Current Price, Rp	Target Price, Rp	PE, x 2015F	EV/EBITDA, x 2015F	EPS CAGR, % 2014-2016	ROE, % 2015F	Net gearing, % 2015F
Sector	**OVERWEIGHT**			**17.9**	**7.0**	**14.6**	**8.0**	
TINS	BUY	1,220	1,400	14.0	6.7	18.4	12.4	10.2
INCO	BUY	3,595	4,700	16.0	6.7	10.7	10.0	2.5
ANTM	HOLD	1,085	1,100	53.3	17.0	n.a.	1.6	62.8

Source: Bloomberg as of 24 December 2014, Danareksa Sekuritas

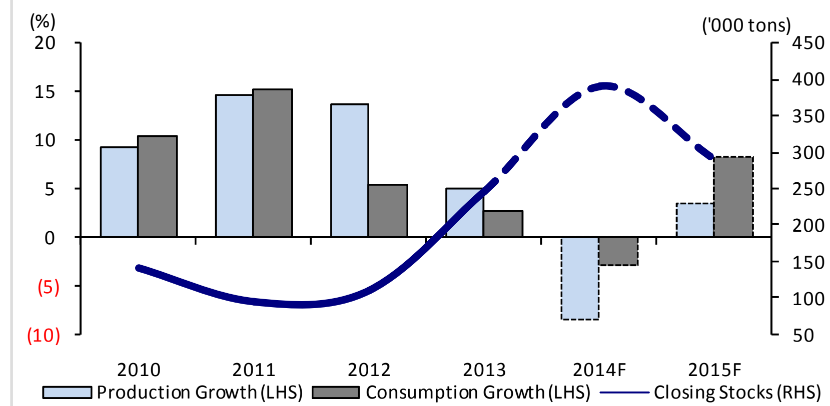
Metal Mining Sector (OVERWEIGHT)

Nickel price and inventory level



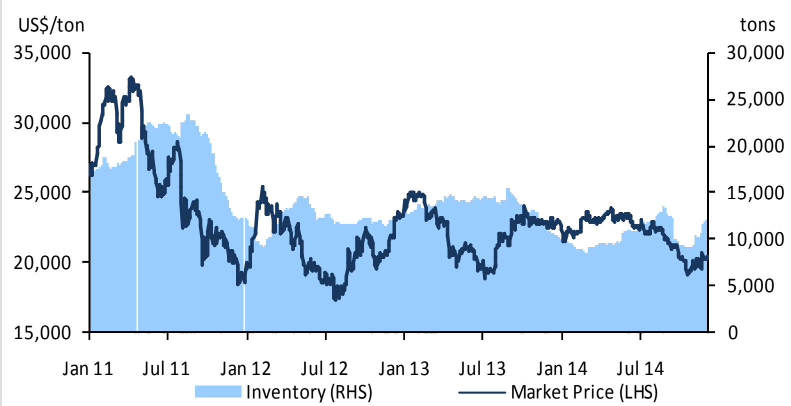
Source: Bloomberg, Danareksa Sekuritas

Nickel market deficit expected in 2015



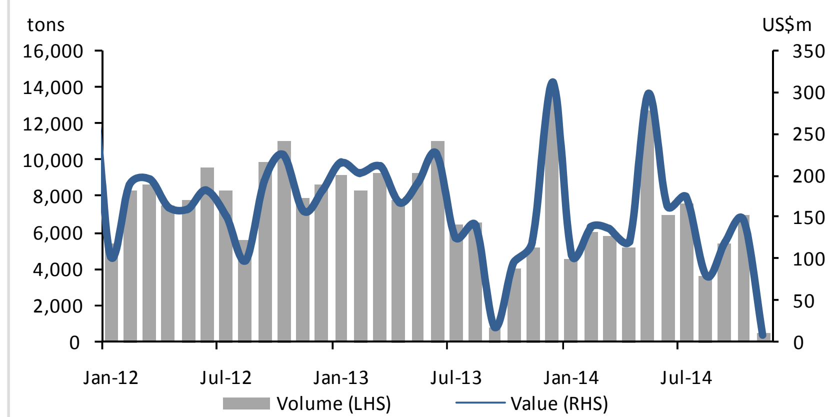
Source: Bloomberg, WBMS, The EIU, Danareksa Sekuritas

Tin price and inventory level



Source: Bloomberg, Danareksa Sekuritas

Indonesia's monthly refined tin export



Source: Bloomberg, Ministry of Trade

Oil and gas: Falling oil price casts a long shadow (NEUTRAL)

The oil price might remain low in 2015F
OPEC's meeting failed to agree on an output cut, given Saudi Arabia's resistance. Instead, Saudi plans to maintain production even at a low price to squeeze other producers with higher breakeven costs, including shale oil producers, to scale back output. The strategy will eventually work, as there are reports that well permits in the US dropped by 40% MoM in November as a result of the precipitous drop in oil prices. But this way, the supply response will take a while, and the oil price will remain temporarily low, we believe.

Gas price to also come under pressure through the LNG channel
The gas price in Asia is primarily determined by Japanese buyers, with price set on a formula based on a Japanese Crude Cocktail, which is the average price of oil imported by Japan. As such, LNG's landed price is directly linked to the global oil price. This will have little direct impact on listed O&G players, with the exception of Medco. But arguably, the domestic gas price will now have a lower ceiling as LNG might become competitive for the domestic market if the domestic gas price rises too sharply.

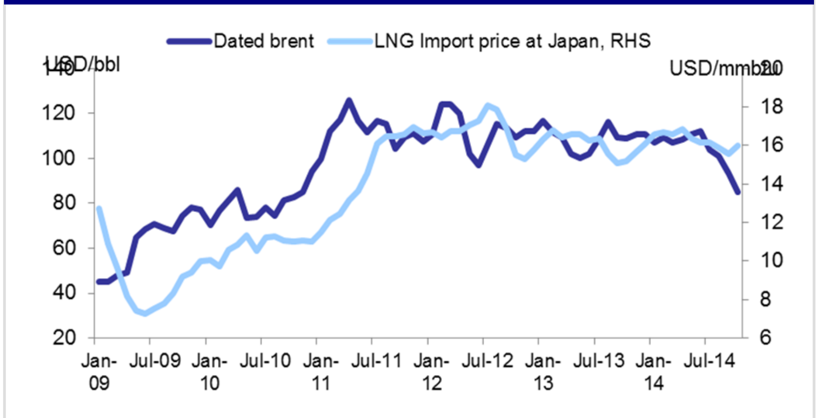
PGN to benefit from lower LNG prices
The only potential beneficiary from lower LNG prices is PGN as part of its feedstock is LNG-based. PGN has met resistance from customers in selling LNG, resulting in the company planning to sell less LNG-based gas than its allocated cargo. But the falling LNG price makes it increasingly feasible for PGN to blend pipe gas and LNG and sell at a price not significantly higher than what it currently charges to its customers. We estimate that at an oil price of USD70/bbl, the LNG price in Asia should be re-priced at around USD11-12/mmbtu from USD14/mmbtu currently.

Company	Recom.	Current Price, Rp	Target Price, Rp	PE, x 2015F	EV/EBITDA, x 2015F	EPS CAGR, % 2014-2016	ROE, % 2015F	Net gearing, % 2015F
PGAS	BUY	1,220	1,400	14.0	6.7	-3	28.4	Net cash

Source: Bloomberg as of 24 December 2014, Danareksa Sekuritas

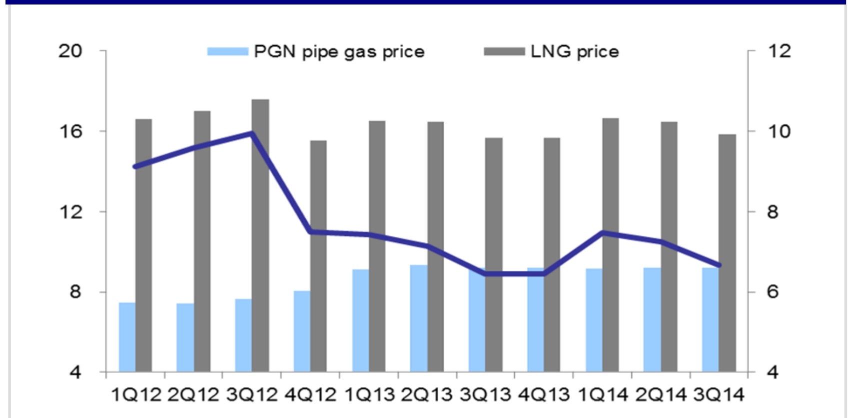
Oil and gas sector (NEUTRAL)

LNG price in Japan tracks oil price



Source: Bloomberg

Spread between PGN's ASP and LNG has narrowed



Source: Company, Bloomberg, Danareksa Sekuritas

Additional conventional gas supply almost non existent

Block	Location	Expected Production	Peak prod (mmcfd)	Allocated	Method of delivery
Kepodang	Offshore Central Java	4Q14	116	Yes	Pipe
Gundih	Central Java	4Q14	50	Yes	Pipe
Block A	Aceh	2015	70	Yes	Pipe
Senoro-Toili	Central Sulawesi	2015	284	Yes	Donggi Senoro LNG
South Mahakam 3	East Kalimantan	2015	74	Yes	Bontang LNG
Jangkrik	Offshore East Kalimantan	2016/2017	145	No	Bontang LNG
Offshore Madura Strait(MDA-MBH)	East Java	2017/2018	120	No	Pipe
Tiung Biru-Jambaran	East Java	2018/2019	185	Yes	Pipe
IDD (Gendalo-Gehem)	Offshore East Kalimantan	2018/2019	1,100	No	Bontang LNG
Abadi Masela	Offshore Maluku	2018/2019	350	No	Floating LNG

Source: Various

Addt'l LNG supply from Aus to put pressure on LNG price

Project name	Capacity (mtpa)	Budget (USI	Target completion
Queensland Curtis	8.5	20.4	2014
Gorgon	15	54	2015
Australia Pacific LNG	9	24.7	2015
Gladstone	7.8	18.5	2015
Wheatstone	8.9	29	2016
Prelude	3.5	13	2017
Ichthys	8.4	34	2017

Source: APPEA

Pharmaceutical: Supported By a Healthy Environment (OVERWEIGHT)

Entering a More Healthy Environment

Following the fuel price hikes in November 2014, we expect pharmaceutical companies to remain under pressure from rupiah weakening, higher transportation costs and higher labor costs. This condition will likely persist until at least 1Q15 in our view. However, we believe the worst will soon come to an end since the impact of fuel price hikes will normalize in 2Q15. Furthermore, the better expected macroeconomic conditions (i.e. an improving current account deficit and benign inflation) will support rupiah strengthening. As such, the profitability of pharmaceutical companies should improve in 2015 in our view.

National Health Insurance Program (JKN) remains the positive catalyst

We expect the national insurance program (JKN) to have a bigger impact in 2015. This is because the system will be more established with more members registered at the Social Security Administrative Body (BPJS). Consequently, the demand for unbranded generic drugs will outpace that of branded and licensed medicines. We estimate unbranded generics consumption to grow by 25.8% CAGR in FY14F-16F (vs. 19.7% CAGR in FY10-FY13). Furthermore, following the implementation of JKN, health centers and clinics will also be positively impacted. Against this backdrop, KAEF stands to benefit thanks to its large number of clinics compared to the other pharmaceutical companies.

Premium valuations price in high expectations

The balance sheets of both KAEF and KLBF remain healthy in our view: KAEF's gearing stood at 9%, while KLBF was still in a net cash position as of 9M14. This, in our view, will support business expansion. However, The two pharmaceutical companies under our coverage are trading at a premium compared to the consumer average. Kalbe Farma is currently trading at 34.4x FY15F P/E, a 40% premium to the average consumer's FY15F P/E. KAEF, meanwhile, is now trading at 25x FY15F P/E, a 6% premium to the average consumer's FY15F P/E. KAEF is our top pick given its accelerating EPS growth and higher leverage on profitability from expected strengthening of the rupiah.

Company	Recom.	Current Price, Rp	Target Price, Rp	PE, x 2015	EV/EBITDA, x 2015	EPS CAGR, % 2014-2016F	ROE, % 2015	Net gearing, % 2015
SECTOR	**OVERWEIGHT**			**33.6**	**23.1**	**18.2**	**23**	
KAEF	BUY	1,400	1,550	24.9	17.8	20.7	15.3	Net Cash
KLBF	HOLD	1,825	1,900	34.0	23.4	16.0	23.6	Net Cash

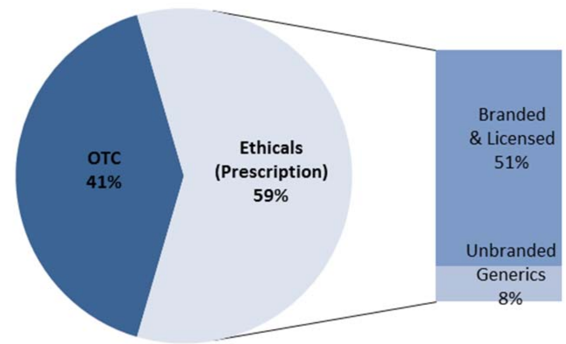
Source: Bloomberg as of 24 December 2014, Danareksa Sekuritas

Pharmaceutical Sector (OVERWEIGHT)

The Pharmaceutical Industry has been growing at a steady pace

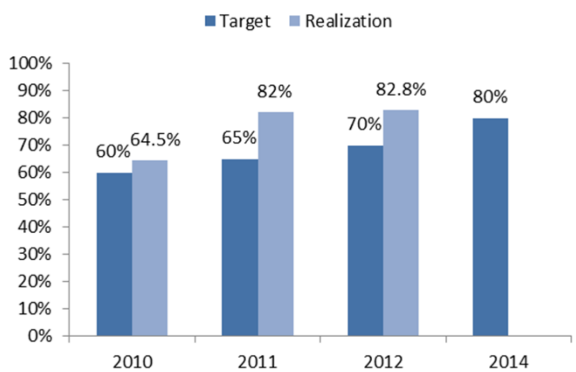
Source: IMS, Danareksa Sekuritas

The Pharmaceutical industry is still dominated by Ethicals



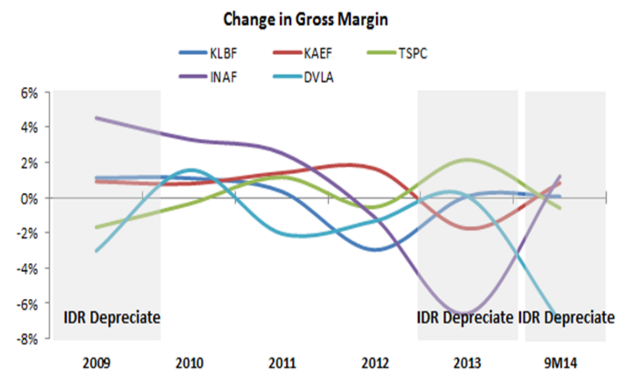
Source: IMS, Danareksa Sekuritas

Implementation of JKN will boost unbranded generic medicine utilization



Source: Ministry of health, Danareksa Sekuritas

Rupiah strengthening will be a major boost to profitability



Source: Company, Danareksa Sekuritas

Plantation Sector: Overhang from weak CPO prices to persist (OVERWEIGHT)

A tight market persists despite stronger soybean production in 2015

While strong soybean production has been anticipated, with potential global production growth of 9.8% in the 2014/15 season, it won't alleviate the tight global vegetable oil market. The tightness is mainly underpinned by a slowdown in global palm oil production which is expected to grow by only 2.8% yy to 61.2m tonnes in the 2014/15 season, or considerably lower than the CAGR growth of 6.6% since 2010. On the other side of the equation, demand growth will also see some moderation with total consumption reaching 61.4m tonnes, up 4.3% y-y, or lower than the 6.9% CAGR growth since 2010. the global palm oil stock usage ratio will decline further to 16.6%, well below the 20.7% level in 2011/12 - a positive for the CPO price outlook.

The weather factor could improve sentiment although the real impact on yields will take time

El Nino is now back in the spotlight, with the recent upgrade from Australia's BOM back to a 75% chance of occurrence, a similar level as in early 2014 when the CPO price made a solid rally close to MYR3,000/tonne. The recent reading of the SOI (Southern Oscillation Index) points to -5.1, marking 7 straight months of negative readings since June 2014, with the August – November reading consistent with the pattern of El Nino (at least -8 reading on SOI).

The CPO price will improve to MYR2,480/tonne in 2015 and MYR2,700/tonne in 2016

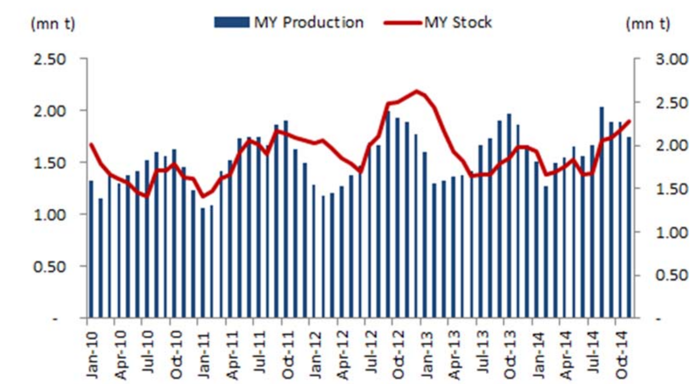
The CPO price has followed a rollercoaster trend in 2014, down more than 30% from its peak in April to MYR1,942/tonne, averaging MYR2,425/tonne. While the recent weakness in the crude oil price will have an impact on the CPO price, the tight CPO market this year will outweigh the negativity, and hence, we expect the CPO price to reach an average of MYR2,480/tonne in 2015 and a higher MYR2,700/tonne in 2016.

Company	Recom.	Current Price, Rp	Target Price, Rp	PE, x 2015	EV/EBITDA, x 2015	EPS CAGR, % 2014-2016	ROE, % 2015	Net gearing, % 2015
Sector	**OVERWEIGHT**			**12.6**	**5.1**	**13.4**	**14.9**	
AALI	BUY	23,300	27,100	13.2	7.9	3.1	24.5	Net Cash
SGRO	BUY	2,005	2,600	8.2	5.2	18.1	14.5	31.8
LSIP	HOLD	1,875	2,090	12.1	6.3	7.9	13.9	Net Cash
SIMP	BUY	705	850	9.1	4.6	24.6	8.2	37.6

Source: Bloomberg as of 24 December 2014, Danareksa Sekuritas

Plantation Sector (OVERWEIGHT)

Monthly CPO Production and Stocks



Source: Bloomberg, Danareksa Sekuritas

Stock usage ratio is lower

	09/10	10/11	11/12	12/13	13/14	14/15F
in mn ton						
Opening stock	7.5	7.7	9.3	10.6	10.2	10.3
Production	46.1	49.6	52.5	56.0	59.4	61.2
Growth (%)	*3.7*	*7.6*	*5.9*	*6.8*	*6.1*	*3.0*
Imports	36.6	37.9	40.4	44.2	43.2	44.6
Exports	36.6	38.1	40.4	44.0	43.6	44.5
Consumption	46.3	47.8	51.3	56.6	58.8	61.4
Growth (%)	*3.3*	*3.4*	*7.1*	*10.4*	*3.9*	*4.4*
Ending stock	7.7	9.1	10.6	10.2	10.3	10.2
Stock usage, %	16.7%	19.1%	20.7%	18.0%	17.5%	16.6%

Source: Oil World, Danareksa Sekuritas

Soybean supply and demand

	11/12	12/13	13/14	14/15F
in mn ton				
Opening stock	75.7	54.7	60.0	69.0
Production	241.1	266.8	285.0	312.9
Growth (%)	*-9.0*	*10.7*	*6.8*	*9.8*
Total Supply	316.7	321.4	344.9	381.9
Crush (Sep/Aug)	227.8	225.4	238.2	253.6
Other use	34.3	36.1	37.7	39.4
Growth (%)	*3.1*	*-0.2*	*5.5*	*6.2*
Ending stock	54.7	60.0	69.0	89.0
Stock usage, %	20.9%	22.9%	25.0%	30.4%

Source: Oil World, Danareksa Sekuritas

Higher domestic consumption in Indonesia

Consumption	**09/10**	**10/11**	**11/12**	**12/13**	**13/14**	**14/15F**
in mn ton						
India	6.8	6.7	7.3	8.3	7.9	8.5
Indonesia	5.2	6.1	6.9	7.8	8.8	9.7
China	6.0	6.0	6.1	6.4	6.1	6.2
EU 28	5.8	5.3	5.7	6.8	7.1	6.6
Growth (%)						
India	3.0	(0.2)	8.5	13.6	(4.9)	7.2
Indonesia	**9.3**	**16.9**	**13.1**	**13.0**	**12.4**	**10.6**
China	(0.1)	0.1	1.9	4.6	(4.0)	2.0
EU 27	3.4	(8.8)	7.7	18.6	4.4	(6.4)
Share (%)						
India	14.6	14.1	14.3	14.7	13.4	13.8
Indonesia	**11.3**	**12.7**	**13.4**	**13.8**	**14.9**	**15.8**
China	12.9	12.5	11.9	11.3	10.4	10.2
EU 27	12.5	11.0	11.1	11.9	12.0	10.8

Source: Oil World, Danareksa Sekuritas

Property: Better days are coming (OVERWEIGHT)

More project launches – higher marketing sales

We are confident that the improving demand in the sector, after removal of political uncertainty during election, can be sustained in 2015. The growth will also be supported by more aggressive project launches undertaken by developers. We expect marketing sales to reach Rp19,046 bn, generated by 4 property companies under our coverage. This is 17.4% yoy higher than the 2.1% growth in FY14F.

The long-term outlook remains promising

We still believe that the long-term outlook for the Indonesian property sector is promising, given: 1) Indonesia's demographic profile – 50% of the population is under 30 years of age, 2) the large housing backlog in the country, and 3) the relatively low property prices compared to those in other countries in the region.

Liquidity improvements a positive sign

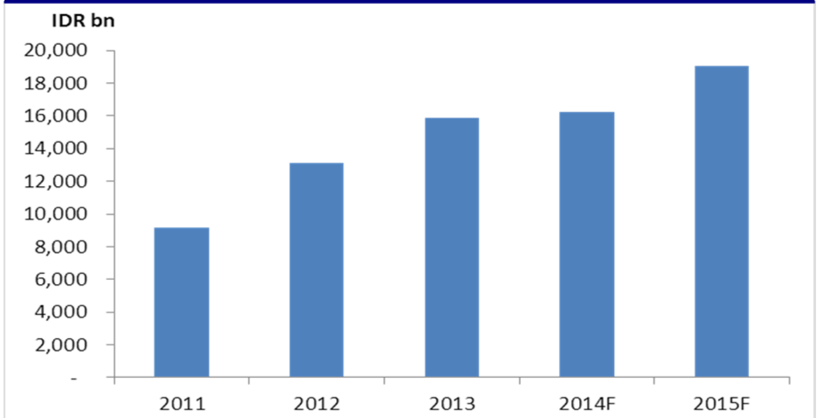
Since 76.1% of total homebuyers in Indonesia still make use of mortgage facilities, government regulations and policy on mortgages significantly impacts demand in the property market. Besides this, the property outlook is also affected by banking liquidity and the level of mortgage rates offered by banks. Better funding availability condition, which shown by the lower loans to deposits ratio in the banking sector, potentially giving a boost to the property sector.

Company	Recom.	Current Price, Rp	Target Price, Rp	Discount to NAV, %	EV/EBITDA, x 2015F	EPS CAGR, % 2013-2015	ROE, % 2015F	Net gearing, % 2015F
Sector	**OVERWEIGHT**			**58.5**	**8.8**	**6.0**	**15.7**	
ASRI	BUY	540	700	70.2	13.7	19.6	18.9	69.1
BSDE	BUY	1,790	2,100	65.1	11.2	(6.2)*	18.3	Net Cash
LPKR	BUY	990	1,200	57.3	6.9	12.9	10.1	27.3
MTLA	BUY	450	620	71.2	5.5	9.7	14.2	27.7
SSIA	HOLD	1,050	1,040	28.6	6.8	(18.0)	16.9	Net Cash

Source: Bloomberg as of 24 December 2014, Danareksa Sekuritas

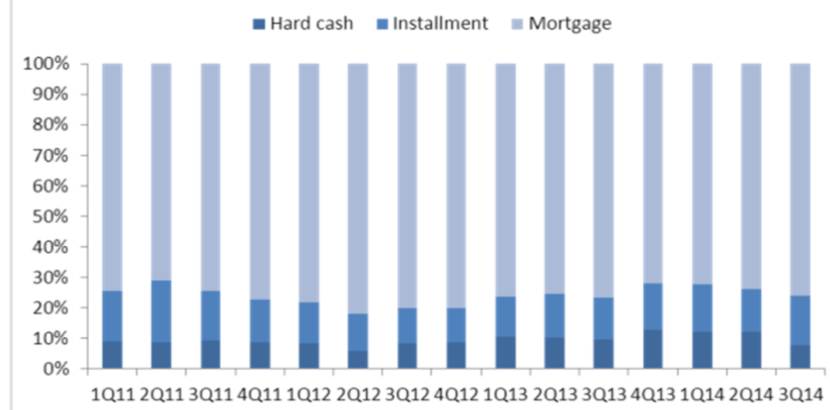
Property Sector (OVERWEIGHT)

Marketing sales for companies under our coverage



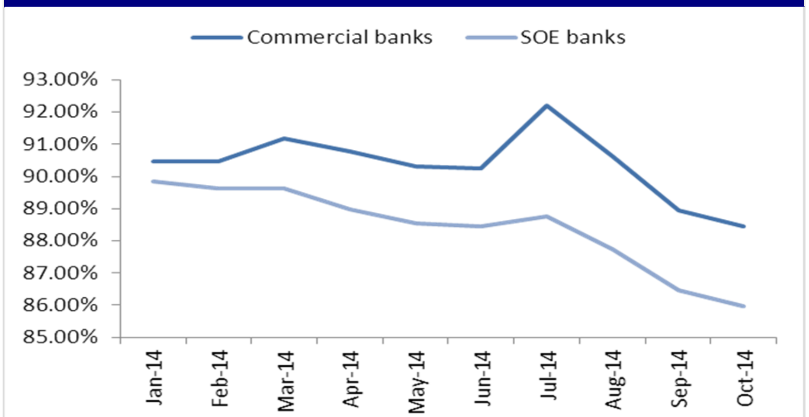
Source: Companies, Danareksa Sekuritas

Consumers financing methods



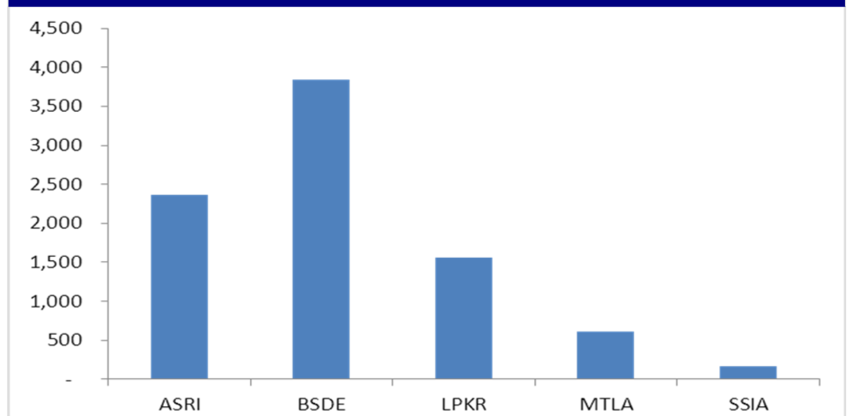
Source: Bank Indonesia Survey

Banks' loan to deposit ratio (LDR)



Source: Indonesia banking statistics

Landbank availability (ha)



Source: Companies, Danareksa Sekuritas

Retail: Keeping the faith (OVERWEIGHT)

Set to improve once the impact of fuel price hikes recedes
Sentiment on the retail sector might be weak in the first quarter of 2015 with its low seasonality and short-term impact from fuel price hikes. However, we believe that the sector will quickly recover given the improvements in consumer confidence. For the retailers under our coverage, we expect topline growth of 10.9% on average (15.6% for ACES, 14.1% for MAPI, and 3.0% for RALS) in 2015.

On top of the game
Despite all the new players in the market, retailers under our coverage have managed to maintain leading positions in their respective market segments. ACES, MAPI, and RALS will seek to gain more market share in 2015, even though they already have strong footholds in the market. We forecast average 6.9% store space growth in 2015, bringing the total store space to 322,656 sqm for ACES, 709,477 sqm for MAPI, and 1,042,581 sqm for RALS by the end of 2015.

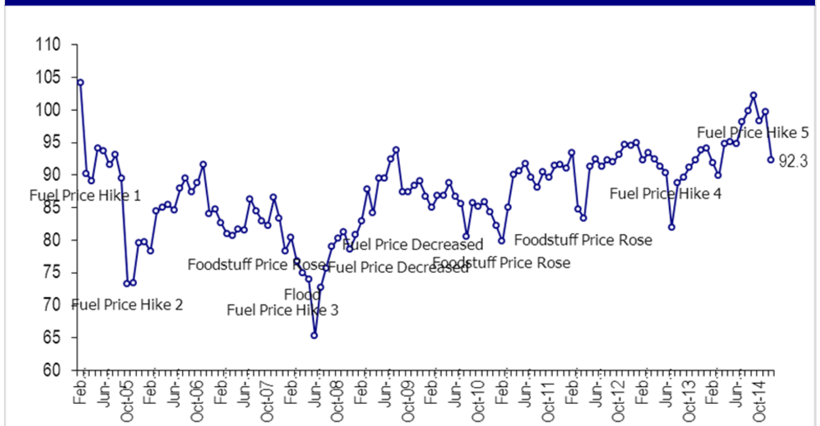
Maintaining profitability
This year, ACES and RALS should be able to maintain their solid gross margins while MAPI should enjoy an improvement in gross margins as well as better working capital. At the operating level, we do not expect any significant increase in opex since growth in minimum wages and rental rates should be moderate. A note of caution is warranted, however, since further depreciation of the rupiah would pose a risk to retailers which sell a large proportion of imported goods (ACES and MAPI, under our coverage).

Company	Recom.	Current Price, Rp	Target Price, Rp	PE, x 2015F	EV/EBITDA, x 2015F	EPS CAGR, % 2013-2015	ROE, % 2015F	Net gearing, % 2015F
Sector	**OVERWEIGHT**			**18.9**	**9.6**	**6.6**	**16.6**	
ACES	BUY	785	980	20.4	14.2	13.8	24.9	Net Cash
MAPI	BUY	4,990	6,250	23.5	8.5	3.6	13.0	104.6
RALS	BUY	730	910	12.7	6.2	2.3	11.8	Net Cash

Source: Bloomberg as of 24 December 2014, Danareksa Sekuritas

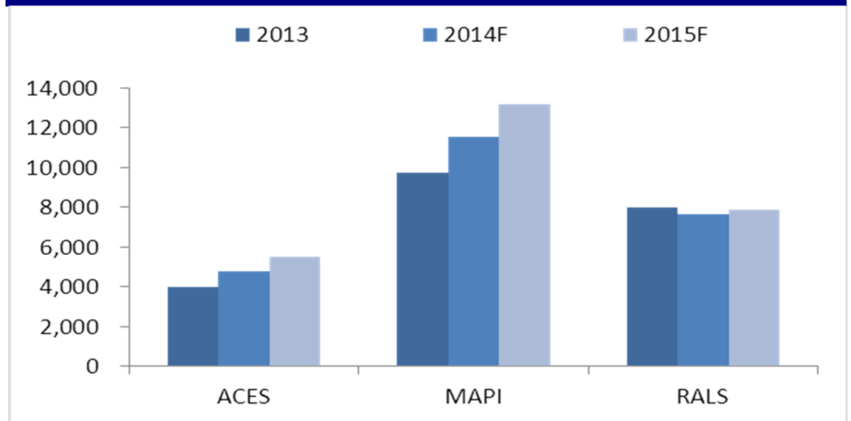
Retail Sector (OVERWEIGHT)

Consumer confidence index



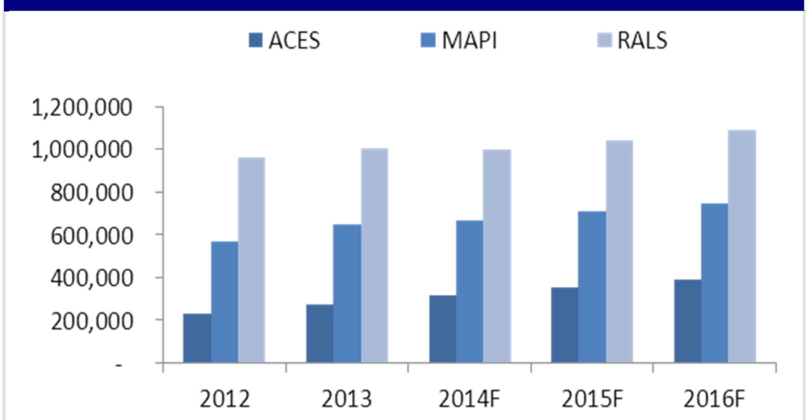
Source: DRI

The topline will grow by 10.9% on average



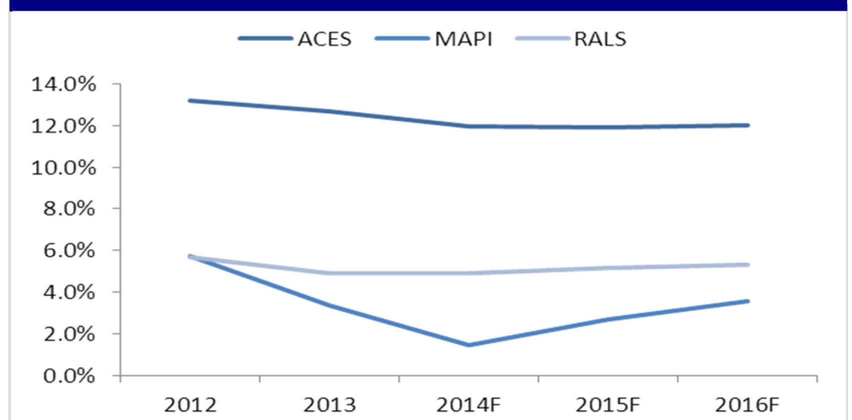
Source: Companies, Danareksa Sekuritas

Strong footholds in the retail market (sqm)



Source: Companies, Danareksa Sekuritas

Maintaining profitability



Source: Companies, Danareksa Sekuritas

Telecom: Welcoming LTE (OVERWEIGHT)

LTE launch to propel mobile data to the next level

LTE is designed to optimize better delivery of data, giving customer better experience. This should allow faster data payload growth going forward. But most importantly, LTE provides the momentum for the carriers to re-price data, which is the lowest in the region. Currently, data plans in Indonesia average USD0.29c/MB, 39% below the average in Vietnam. We expect data re-pricing to accelerate revenues growth to CAGR of 9% in FY15F-16F compared to 7% in FY14F.

Minimal direct impact initially

While positive on LTE rollout, we believe LTE impact to carriers will be minimal at first for several reasons. First, the 900MHz spectrum band used for LTE is not a popular band for LTE globally; thus, handset availability will be an issue. Second, the service is supported by a minimal number of BTSs, in small areas, and narrow bandwidth of just 5MHz, limiting the number of users that can access the network. Third, there is no price differential yet between LTE and HSPA services.

…but LTE should be long-term positive for big carriers

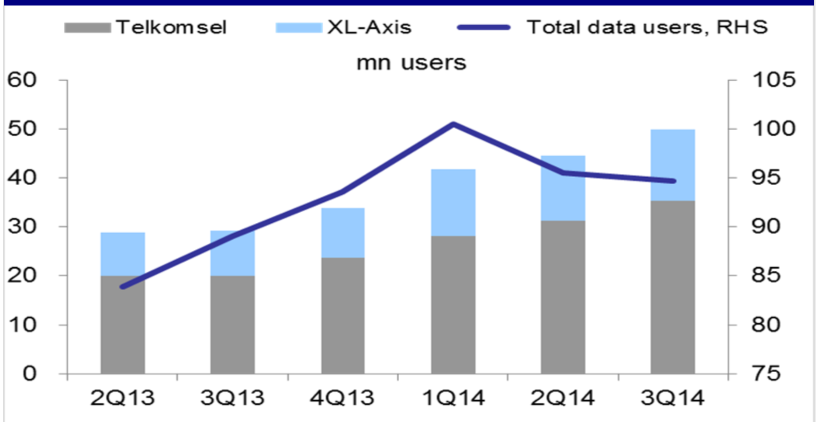
LTE should have a positive impact on carriers' performance, especially after proper rollout at 1,800MHz. The reasons are: 1) Compared to HSPA, LTE has higher spectral efficiency; thus it can better manage the incessant increase in data payload, especially in the absence of additional spectrum resources until 2018, 2) LTE will increase data consumption per capita, and potentially trigger purchases of bigger quota data plans, and 3) LTE allows carriers to introduce tiered pricing

Company	Recom.	Current Price, Rp	Target Price, Rp	PE, x 2015F	EV/EBITDA, x 2015F	EPS CAGR, % 2014-2016F	ROE, % 2015F	Net gearing, % 2015F
Sector	**OVERWEIGHT**			**20.7**	**5.8**	**20.9**	**16.1**	
EXCL	BUY	4,690	5,450	121.5	6.4	NM	2.3	124.0
ISAT	HOLD	4,030	3,850	70.5	3.8	NM	2.0	132.0
TLKM	BUY	2,845	3,250	17.7	5.6	10.0	21.8	Net Cash

Source: Bloomberg as of 24 December 2014, Danareksa Sekuritas

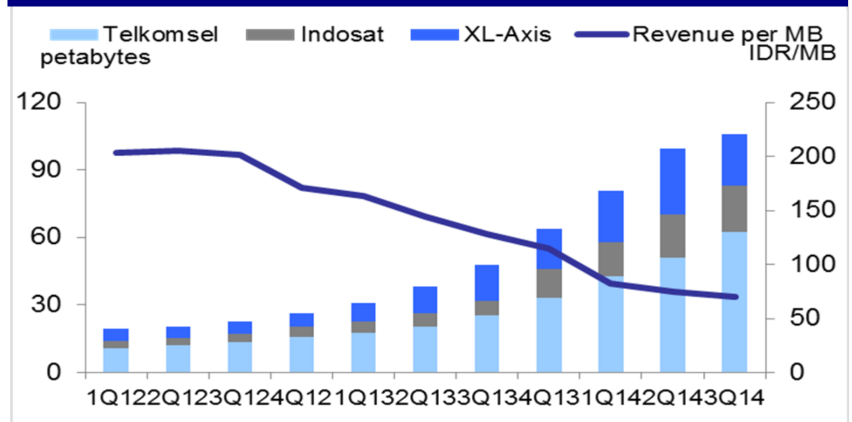
Telecom Sector (OVERWEIGHT)

Smartphone users of major carriers



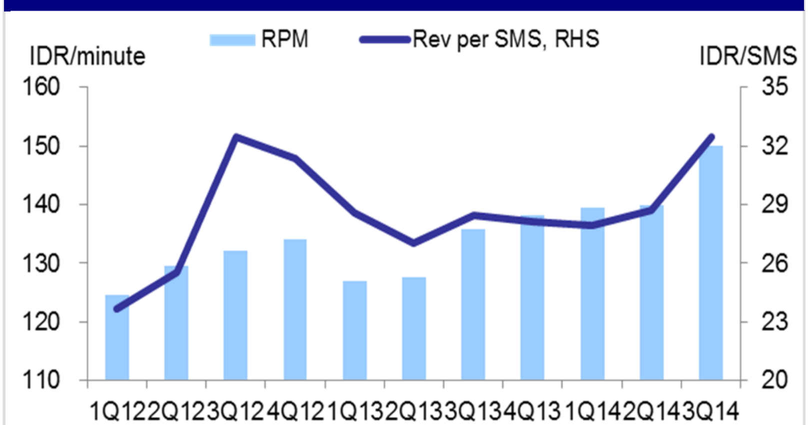
Source: Company

Explosive data payload growth



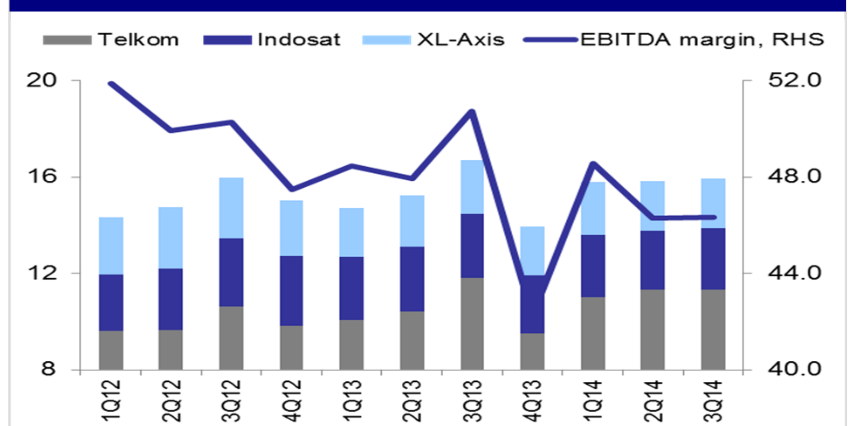
Source: Company

Higher productivity of legacy business



Source: Company, Danareksa Sekuritas

EBITDA and EBITDA margin



Source: Company, Danareksa Sekuritas

Tower: Mixed growth outlook (NEUTRAL)

Data payload to continue growing strongly

The big three carriers reported 9M14 combined data payload of 296PB. 3Q14 traffic reached 116PB, increasing by 17% QoQ and 143% YoY. We believe the trend will continue in the foreseeable future given the still low smartphone penetration (currently at 27%) and 3G penetration in Indonesia. The introduction of LTE also potentially increases data consumption per capita given the superior customer experience. Against this backdrop, we expect data traffic to grow by a CAGR of 70% in 2015F-16F.

Demand for sites will be capped by availability of new spectrum

We believe tower demand growth will be capped by the availability of new spectrum for the big carriers. XL has 15MHz of additional spectrum at 1,800MHz from the acquisition of Axis which can be used for LTE later on in 1Q15. Meanwhile, Telkomsel and Indosat each obtained 5MHz of additional spectrum which was previously (under)utilized by their respective CDMA services. The availability of new spectrum means there is less need for cell densification, which is negative for tower demand

The weaker Rupiah weighed on all ITCs

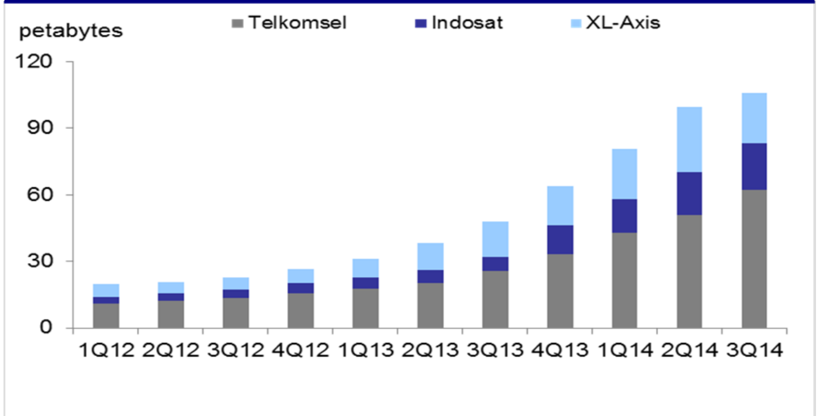
Both SMN and TBIG borrow heavily in USD due to the huge rate differential between USD and IDR loans. As such, both companies will be negatively impacted by the current rupiah weakness. As of Sep 2014, SMN has a net exposure of USD304mn and EUR57mn while TBIG has net exposure of USD912mn, but has hedged a total notional amount of USD733mn. As the rupiah will likely remain weak in 2015, there will be increasing pressure on the ITCs' balance sheets given the need to finance expansion and service debt.

Company	Recom.	Current Price, Rp	Target Price, Rp	PE, x 2015F	EV/EBITDA, x 2015F	EPS CAGR, % 2014-2016F	ROE, % 2015F	Net gearing, % 2015F
Sector	**OVERWEIGHT**			**26.4**	**14.3**	**22.9**	**22.7**	
TOWR	BUY	4,095	4,525	24.6	12.2	29.7	29.8	108
TBIG	SELL	9,625	6,600	30.1	14.9	8.5	18.2	99

Source: Bloomberg as of 24 December 2014, Danareksa Sekuritas

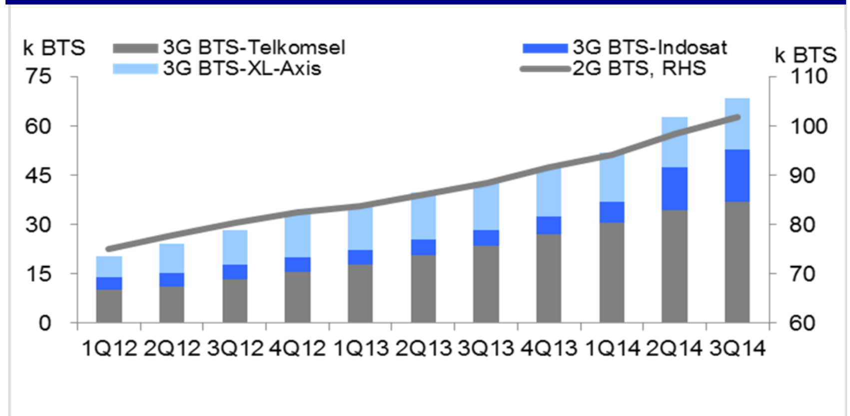
Tower Sector (NEUTRAL)

Data payload has been growing strongly



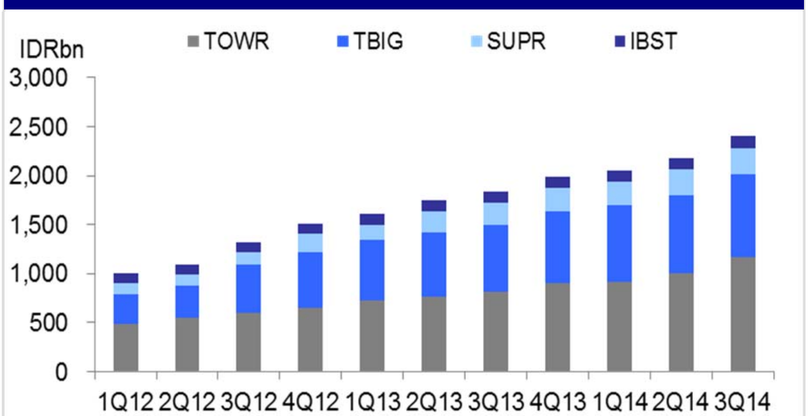
Source: Company

Carriers resort to cell densification for additional capacity



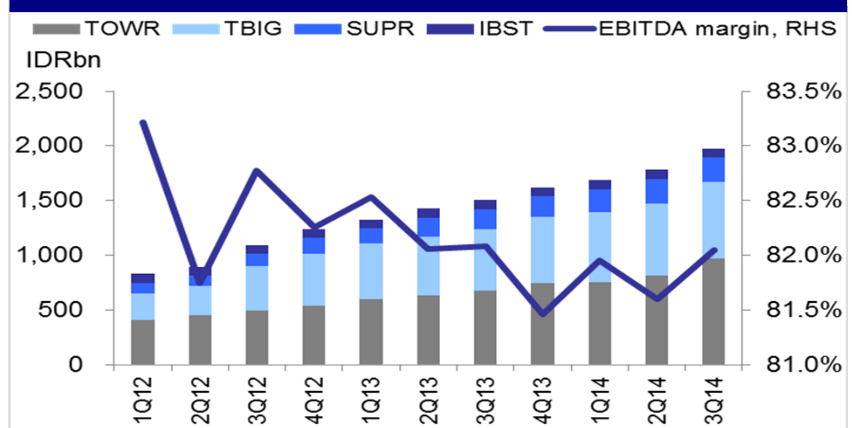
Source: Company

Revenue for ITCs steadily increasing



Source: Company

EBITDA margin remains strong at over 80%



Source: Company

Danareksa coverage valuation matrix

Equity Valuation	Rating	Price (Rp)	Price Target	Mkt Cap Rp Bn	Net profit, Rp bn		EPS (Rp)		EPS Growth		PER (x)		EV / EBITDA (x)		PBV (x)		Net Gearing	ROE
					2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2015
Danareksa Universe				**3,086,931**	**202,869**	**230,213**	**310.4**	**352.2**	**12%**	**13%**	**15.2**	**13.4**	**13.0**	**11.7**	**2.8**	**19.4**		**19.3**
Auto				**312,052**	**25,124**	**29,427**	**460.2**	**539.0**	**18%**	**17%**	**12.4**	**10.6**	**10.1**	**8.7**	**2.2**	**6.2**		**18.9**
Astra International	BUY	7,325	8,300	296,542	23,976	28,096	592	694	16%	17%	12.4	10.6	10.3	8.8	2.2	1.9	33.5	19.1
Gajah Tunggal	BUY	1,420	2,000	4,948	730	895	209	257	183%	23%	6.8	5.5	5.1	4.6	0.7	0.7	75.3	11.5
Selamat Sempurna	BUY	4,625	5,300	6,658	419	437	291	303	14%	4%	15.9	15.3	9.2	8.7	4.7	4.0	net cash	32.3
Banks				**1,012,007**	**81,035**	**91,666**	**752.3**	**851.0**	**12%**	**13%**	**12.5**	**11.0**			**2.4**	**2.1**		**21.0**
BCA	HOLD	13,200	12,100	325,446	18,714	21,363	742	856	11%	15%	17.8	15.4	NA	NA	3.5	3.0	NA	22.1
BNI	BUY	6,150	6,750	114,689	10,981	12,397	589	665	11%	13%	10.4	9.3	NA	NA	1.8	1.6	NA	18.6
BRI	BUY	11,600	13,150	286,162	26,786	30,574	1,086	1,239	13%	14%	10.7	9.4	NA	NA	2.4	2.0	NA	25.0
Bank Tabungan Negara	BUY	1,200	1,400	12,681	1,199	1,441	114	137	11%	21%	10.5	8.7	NA	NA	1.0	0.9	NA	9.4
Bank Mandiri	BUY	10,700	12,400	249,667	21,218	23,420	909	1,004	9%	10%	11.8	10.7	NA	NA	2.1	1.9	NA	19.5
Bank Tabungan Pensiunan	BUY	4,000	5,450	23,361	2,137	2,472	366	423	17%	16%	10.9	9.4	NA	NA	1.7	1.4	NA	16.7
Cement				**203,497**	**13,157**	**15,694**	**762**	**908**	**12%**	**19%**	**15.5**	**13.0**	**9.5**	**8.6**	**3.1**	**2.7**		**21.0**
Holcim	HOLD	2,180	2,400	16,705	1,002	1,267	131	165	21%	26%	16.7	13.2	8.6	6.9	1.6	1.5	29.4	9.8
Indocement	BUY	24,800	29,300	91,295	5,977	6,696	1,624	1,819	12%	12%	15.3	13.6	9.2	8.0	3.2	2.9	net cash	22.1
Semen Indonesia	BUY	16,100	19,200	95,497	6,178	7,732	1,042	1,303	11%	25%	15.5	12.4	10.0	9.6	3.5	3.0	11.2	24.3
Construction				**117,401**	**4,779**	**5,645**	**126**	**148**	**27%**	**18%**	**24.6**	**20.8**	**12.2**	**10.7**	**3.9**	**3.4**		**17.2**
Jasa Marga	BUY	6,950	7,600	47,260	1,742	1,959	256	288	10%	12%	27.1	24.1	14.7	13.6	3.7	3.4	113.5	14.1
Wijaya Karya	BUY	3,535	4,000	21,738	843	1,004	137	164	37%	19%	25.7	21.6	10.6	8.8	3.7	3.1	8.9	15.4
Pembangunan Perumahan	BUY	3,505	4,100	16,973	762	936	157	193	29%	23%	22.3	18.1	9.9	8.3	5.4	4.3	17.1	27.1
Adhi Karya	BUY	3,245	3,900	5,845	419	530	232	294	56%	27%	14.0	11.0	7.5	6.4	2.9	2.4	92.7	22.4
Waskita Karya	BUY	1,470	1,650	14,299	618	725	64	75	47%	17%	22.9	19.5	12.2	10.7	4.4	3.7	40.0	20.5
Wika Beton	HOLD	1,295	1,350	11,287	396	491	45	56	32%	24%	28.5	23.0	15.6	12.7	4.5	3.9	net cash	17.1
Consumer				**475,279**	**18,573**	**21,062**	**232**	**263**	**13%**	**13%**	**25.6**	**22.6**	**17.4**	**15.4**	**7.1**	**6.3**		**29.7**
Indofood CBP	BUY	12,400	13,800	72,304	3,408	3,968	584	680	20%	16%	21.2	18.2	14.4	12.6	4.4	3.9	net cash	22.3
Indofood	BUY	6,600	7,600	57,951	5,942	6,572	563	623	18%	11%	11.7	10.6	6.7	5.9	1.9	1.8	14.8	21.0
Kalbe Farma	HOLD	1,830	1,900	85,781	2,481	2,895	53	62	18%	17%	34.6	29.6	23.7	20.3	8.1	7.0	net cash	25.1
Kimia Farma	BUY	1,435	1,550	7,970	312	379	56	68	31%	21%	25.5	21.1	18.2	15.2	3.9	3.4	net cash	16.1
Unilever	SELL	31,525	26,000	240,536	5,972	6,717	783	880	10%	12%	40.3	35.8	28.6	25.4	45.3	41.5	21.0	124.3
Nippon Indosari Corpindo	BUY	1,425	1,700	7,213	248	306	49	61	27%	23%	29.0	23.6	16.0	13.4	6.2	5.0	43.4	23.3
Mandom	BUY	17,525	19,300	3,524	210	226	1,045	1,126	8%	8%	16.8	15.6	9.1	8.4	2.4	2.2	2.6	15.3
Heavy Equipment				**66,916**	**6,144**	**6,734**	**1,344**	**1,474**	**7%**	**10%**	**10.9**	**9.9**	**4.7**	**3.9**	**1.6**	**1.4**		**15.2**
Hexindo Adiperkasa	HOLD	3,505	3,650	2,944	220	260	262	309	13%	18%	13.4	11.3	6.5	5.2	1.0	1.0	net cash	8.0
United Tractors	BUY	17,150	23,300	63,972	5,924	6,475	1,588	1,736	7%	9%	10.8	9.9	4.6	3.8	1.6	1.5	net cash	15.7
Mining				**140,334**	**9,730**	**11,016**	**150**	**169**	**6%**	**13%**	**14.4**	**12.7**	**6.5**	**5.8**	**1.5**	**1.4**		**10.2**
Adaro Energy	BUY	1,060	1,280	33,905	2,607	2,662	82	83	-7%	2%	13.0	12.7	5.0	4.6	1.1	1.1	37.0	8.1
Timah	BUY	1,220	1,400	9,086	651	765	87	103	40%	18%	14.0	11.9	6.7	6.0	1.7	1.5	10.2	12.4
Vale Indonesia	BUY	3,595	4,700	35,721	2,240	2,753	225	277	23%	23%	16.0	13.0	6.7	5.5	1.6	1.5	2.5	10.0
Aneka Tambang	HOLD	1,085	1,100	10,349	194	400	20	42	-148%	106%	53.3	25.9	17.0	12.6	0.8	0.8	62.8	1.6
Bukit Asam	BUY	12,625	15,500	29,090	2,031	2,170	934	998	-1%	7%	13.5	12.6	9.7	8.9	3.1	2.8	net cash	22.7
Indo Tambangraya Megah	HOLD	15,600	21,500	17,627	1,888	2,064	1,671	1,827	-13%	9%	9.3	8.5	4.0	3.7	1.8	1.7	net cash	18.5
Harum Energy	HOLD	1,685	1,750	4,556	119	202	44	75	-53%	69%	38.2	22.6	6.3	4.9	1.2	1.2	net cash	3.1
Plantation				**64,424**	**5,510**	**5,938**	**211**	**227**	**11%**	**8%**	**11.7**	**10.8**	**6.3**	**5.7**	**1.7**	**5.0**		**14.9**
Astra Agro Lestari	BUY	23,300	27,100	36,692	2,770	2,832	1,759	1,798	4%	2%	13.2	13.0	7.9	7.4	3.1	2.9	net cash	24.5
Sampoerna Agro	BUY	2,005	2,600	3,789	464	550	245	291	18%	19%	8.2	6.9	5.2	4.5	1.1	1.0	31.8	14.5
PP London Sumatra	HOLD	1,875	2,090	12,793	1,055	1,133	155	166	8%	7%	12.1	11.3	6.3	5.5	1.6	1.5	net cash	13.9
Salim Ivomas Pratama	BUY	705	850	11,150	1,221	1,423	77	90	33%	17%	9.1	7.8	4.6	4.1	0.7	0.7	37.6	8.2
Property				**74,694**	**5,943**	**6,634**	**81**	**90**	**-25%**	**12%**	**12.6**	**11.3**	**9.5**	**8.4**	**1.7**	**1.5**		**14.4**
Alam Sutera	BUY	540	700	10,611	1,254	1,516	64	77	15%	21%	8.5	7.0	8.3	7.0	1.5	1.3	75.3	18.9
Bumi Serpong Damai	BUY	1,790	2,100	32,886	2,369	2,617	135	150	-36%	10%	13.2	12.0	11.0	9.7	2.2	1.9	net cash	16.6
Metropolitan Land	BUY	450	620	3,411	290	322	38	43	14%	11%	11.7	10.6	7.9	7.3	1.6	1.4	27.7	14.2
Surya Semesta Internusa	HOLD	1,050	1,040	4,941	464	415	99	88	32%	-11%	10.6	11.9	4.8	4.9	1.7	1.5	net cash	16.9
Lippo Karawaci	BUY	990	1,200	22,847	1,565	1,763	72	82	-38%	13%	13.7	12.1	10.7	9.1	1.4	1.3	29.1	10.1
Telco & Infrastructure				**447,951**	**20,368**	**24,337**	**149**	**178**	**24%**	**19%**	**22.0**	**18.4**	**6.4**	**5.7**	**3.5**	**3.2**		**17.1**
XL Axiata	BUY	4,690	5,450	40,027	329	717	39	84	-153%	118%	121.5	55.8	6.4	5.7	2.7	2.6	124.1	2.3
Indosat	HOLD	4,030	3,820	21,899	312	588	57	108	-152%	89%	70.2	37.2	3.8	3.5	1.4	1.3	132.4	2.0
Telkom	BUY	2,845	3,250	286,776	16,211	18,544	161	184	6%	14%	17.7	15.5	5.6	4.9	3.6	3.3	net cash	21.8
Sarana Menara Nusantara	BUY	4,095	4,525	41,781	1,702	2,121	167	208	35%	25%	24.6	19.7	12.2	10.4	6.4	5.1	107.9	29.8
Tower Bersama	SELL	9,625	6,600	46,167	1,629	2,042	320	367	3%	15%	30.1	26.2	14.9	13.8	3.8	3.2	98.7	18.2
MNC Sky Vision	HOLD	1,600	1,710	11,302	184	324	26	46	71%	76%	61.4	34.9	9.4	8.0	5.6	5.0	117.0	9.5
Tranportation				**23,707**	**1,106**	**1,379**	**442**	**551**	**43%**	**25%**	**21.4**	**17.2**	**11.4**	**9.3**	**5.5**	**4.4**		**29.1**
Blue Bird	BUY	9,475	10,200	23,707	1,106	1,379	442	551	43%	25%	21.4	17.2	11.4	9.3	5.5	4.4	49.4	29.1
Utility				**145,449**	**11,088**	**10,313**	**457**	**425**	**3%**	**-7%**	**13.1**	**14.1**	**8.8**	**9.5**	**3.6**	**3.2**		**28.7**
PGN	BUY	6,000	6,650	145,449	11,088	10,313	5,713	5,313	2%	-7%	1.1	1.1	8.8	9.5	3.6	3.2	net cash	28.7
Retail				**26,926**	**1,419**	**1,745**	**55**	**67**	**27%**	**23%**	**19.0**	**15.4**	**9.6**	**8.1**	**2.9**	**2.5**		**16.1**
Mitra Adi Perkasa	BUY	4,990	6,250	8,283	352	543	212	327	112%	54%	23.5	15.3	7.8	6.5	2.9	2.5	84.7	13.0
Ramayana	BUY	730	910	5,180	409	444	58	63	9%	9%	12.7	11.7	6.2	5.5	1.5	1.4	net cash	11.8
Ace Hardware	BUY	785	980	13,463	659	759	38	44	15%	15%	20.4	17.7	14.7	12.5	4.6	3.8	net cash	24.9

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