

Indonesia Strategy

Strategy Update | 06 November 2019

JCI Performance

	3M	6M	12M
Absolute	1.6%	-0.6%	5.0%



Intervention noises; some has its merits but some don't

- Other than 3Q19 results, most investors that we spoke recently have some concerns on government intervention.
- This was a déjà vu from the first term of Jokowi's government. We think some has its merits (gas price) while others don't (bank's rate/NIM).
- Drop in banks' share price today shall present buying opportunity amid its strong 3Q19 results. We keep our JCI target unchanged.

Concerns on government intervention

Other than 3Q19 results, most investors that we spoke recently have concerns on government intervention. Most recently: nickel ore ban (earlier than what was previously communicated), gas price (investors was expecting a hike in gas price but Jokowi's ordered a review on gas price, presumably to lower it) and most recently today on banks' lending rate (banks' lending rate needs to come down in-line with BI rate).

A déjà vu for most of the investors

This was a déjà vu for most investors from Jokowi's first term. During its first term, Jokowi's government did cut cement price (retail bag price back in Jan15), gas price (back in Sept15) and planning to cap NIM at 4% (back in Feb16), though the latter didn't materialize.

Some has its merits..

We think lowering the gas price is possible as: 1) government did cut gas price back in Sep15, 2) gas price is crucial for industry (gas is the 2nd biggest power source for power plant after coal in Indonesia) and by lowering it, government hopes to attract more investments, in our view. Nickel ore ban is imperative as Indonesia needs to start to export a higher value added products to battle its persistent CAD.

..but some don't

Nevertheless, we don't think lowering banks' lending rate by force will materialize as: 1) indeed banks' lending rate have fallen (now at 10.7% - down 10bp ytd/-230bp from Mar15), even during period of rate hike in Sep17-Dec18 when BI hiked its reference rate 175bp, lending rates still fell by 75bp and 2) lower BI rate will eventually translate to lower deposit rate (especially TD) which shall naturally lower the lending rate.

Drop in banks' may present a good buying opportunity

Most banks (especially the big SOEs) dropped by 3% today, this shall represent a good buying opportunity considering banks' strong 3Q19 results. Bond yield has dropped from 7.5% in mid Aug to 7% now, though JCI and overall banks performance was relatively lacklustre (-5.1% and 3.4%, respectively), we think its performance may catch-up soon. Overall banks still trade at 2.4x P/B and 14.9x P/E (vs. its 10Y avg of 2.3x P/B and 12.4x P/E).

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Fig. 1: Summary of previous interventions

Date	Sector affected	Intervention	Materialized	Impact
Jan-15	Cement	President Jokowi lowered cement prices of SMBR and SMGR by Rp3000/bag	Yes	SMGR and INTP share prices dropped 12-13% post announcement week-on-week
Sep-15	Gas	Government pushed for gas prices to be lowered to US\$6/mmbtu	Yes	PGAS' share price dropped c.20% post announcement week-on-week
Feb-16	Banks	OJK wants to cap Indonesia banks' NIM at 4%	No	Bank sector's share price dropped c.7% within a week of the article
Jan-18	Coal	Government implemented DMO price of US\$70/tonne	Yes	Coal stocks fell c.7% within a week post the announcement
Oct-19	Gas	President Jokowi wants lower gas prices	N/A	PGAS's share price dropped 24% within 2 days of the announcement
Nov-19	Banks	President Jokowi wants to lower lending rates	N/A	Banks's share price today down 1-3% today after the news broke

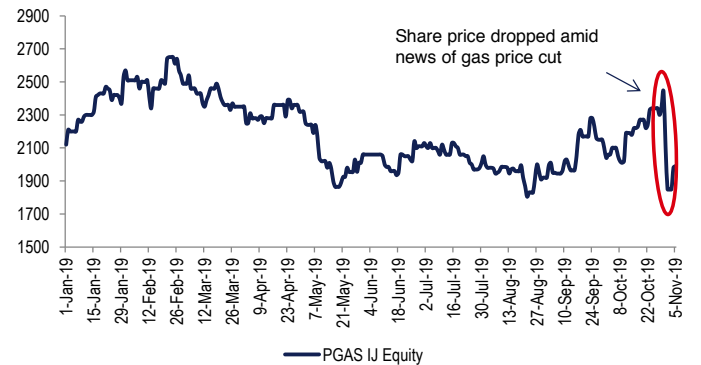
Sources: IndoPremier

Fig. 2: Gas prices to be cut to US\$6/mmbtu in Sep15, and share price corrected by 20% within a week



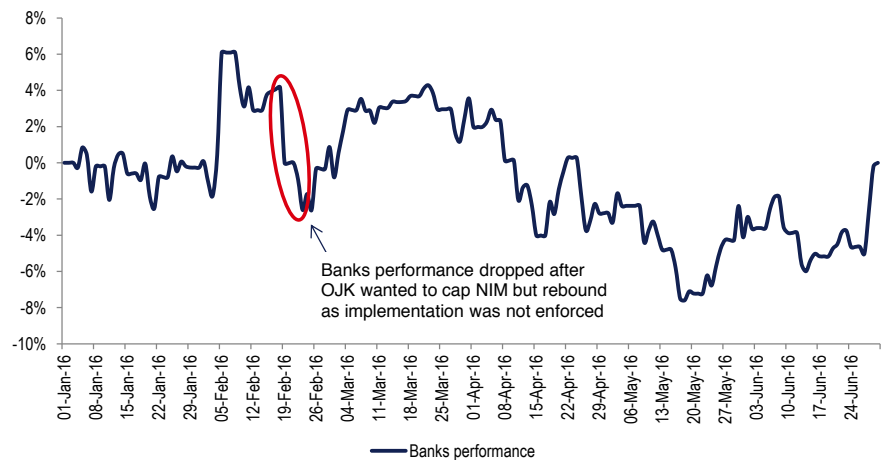
Sources: Bloomberg, IndoPremier

Fig. 3: Share prices fell 24% within 2 days after news of gas prices cut



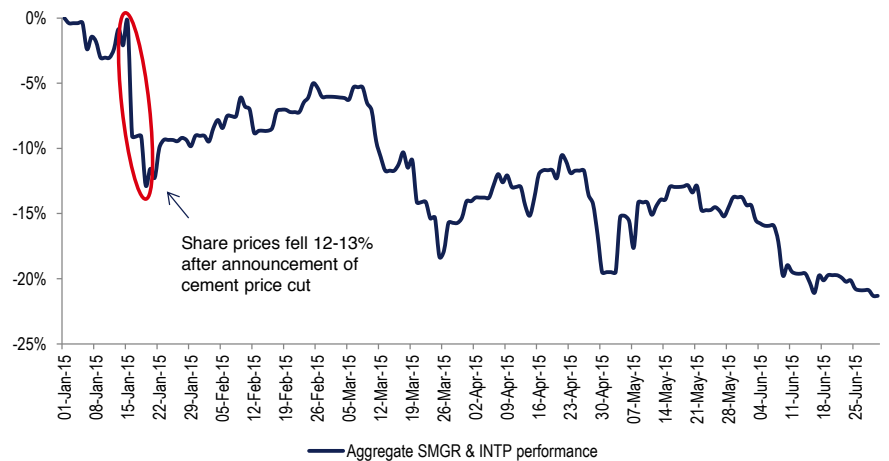
Sources: Bloomberg, IndoPremier

Fig. 4: Banks dropped 7% week after OJK cited that they want to cap bank's NIM at 4% in mid Feb16



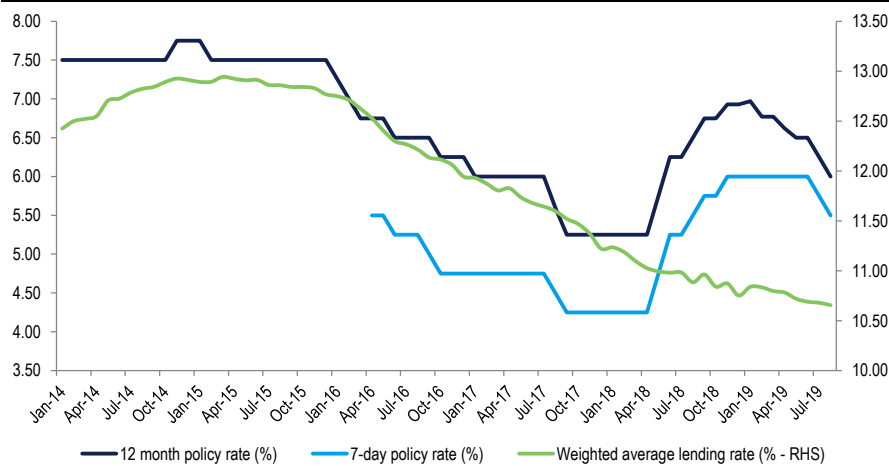
Sources: Bloomberg, IndoPremier

Fig. 5: Cement share price fell by 12-13% after announcement of cement price cut by Rp3,000/bag



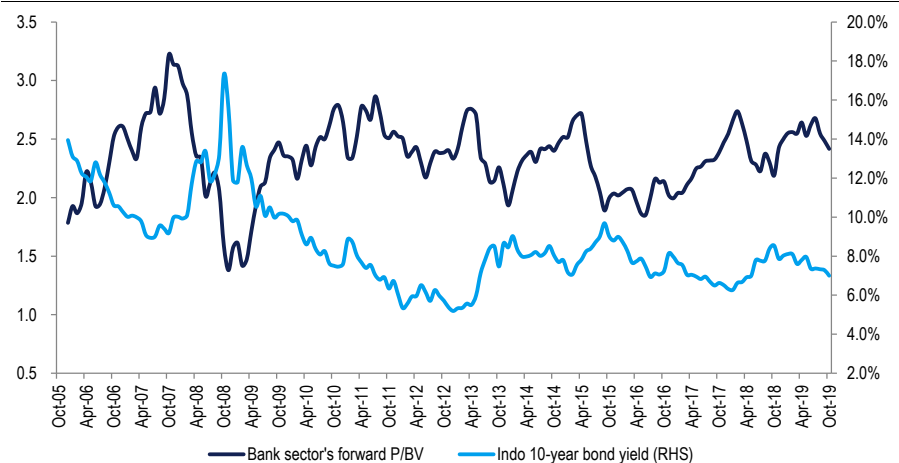
Sources: Bloomberg, IndoPremier

Fig. 6: Lending rates have been benign – average lending rates dropped 75bp in Sep17-Dec18 despite a 175bp increase in reference rates



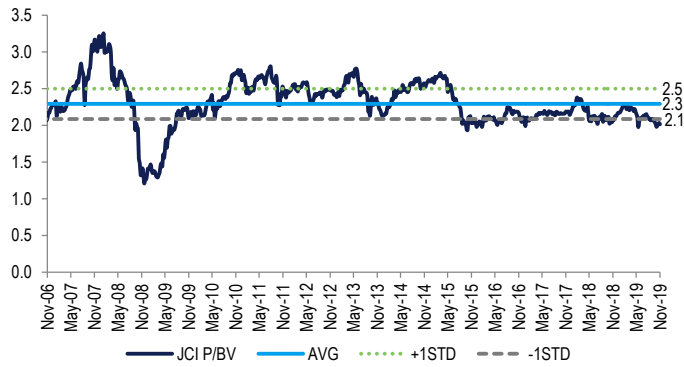
Sources: Bloomberg, IndoPremier

Fig. 7: Banks' P/BV vs. bond yield – bond yield has normalized to 7% in Oct19 from 7.5% in mid-Aug, though bank sector performance remained relatively lacklustre



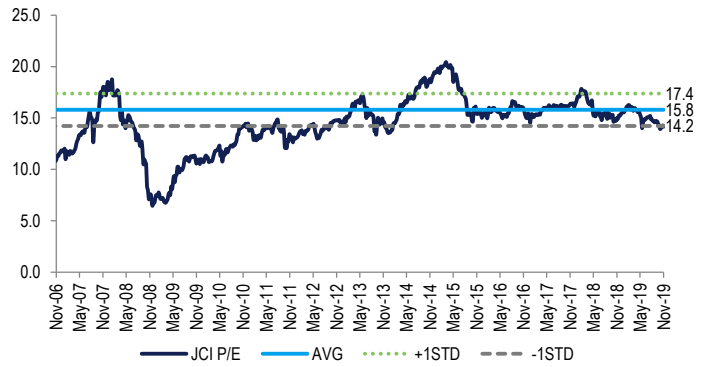
Sources: Bloomberg, IndoPremier

Fig. 8: JCI forward P/BV - now trading at 2x P/BV vs. 10 year average of 2.3x P/BV



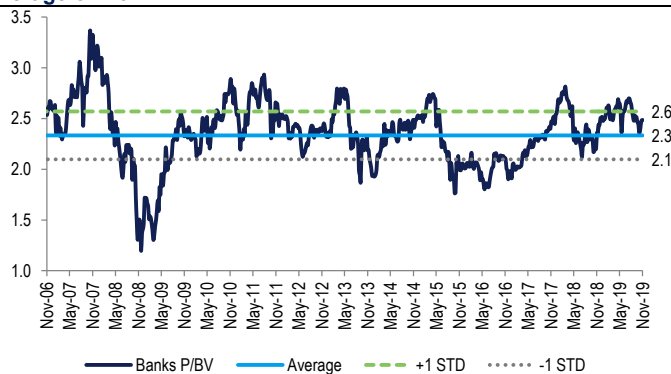
Sources: Bloomberg, IndoPremier

Fig. 9: JCI forward P/E - now trading at 13.9x P/E vs. 10 year average of 15.8x P/E



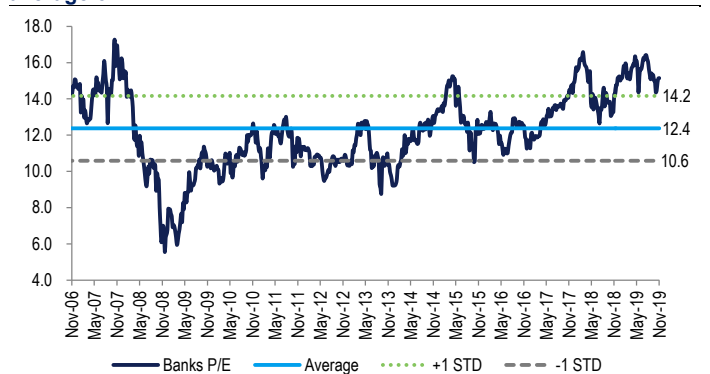
Sources: Bloomberg, IndoPremier

Fig. 10: Banks forward P/BV - now trading at 2.4x P/BV vs. 10 year average of 2.3x P/BV



Sources: Bloomberg, IndoPremier

Fig. 11: Banks forward P/E - now trading at 14.9x P/E vs. 10 year average of 12.4x P/E



Sources: Bloomberg, IndoPremier

SECTOR RATINGS

- OVERWEIGHT** : An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation
- NEUTRAL** : A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation
- UNDERWEIGHT** : An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation

COMPANY RATINGS

- BUY** : Expected total return of 10% or more within a 12-month period
- HOLD** : Expected total return between -10% and 10% within a 12-month period
- SELL** : Expected total return of -10% or worse within a 12-month period

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