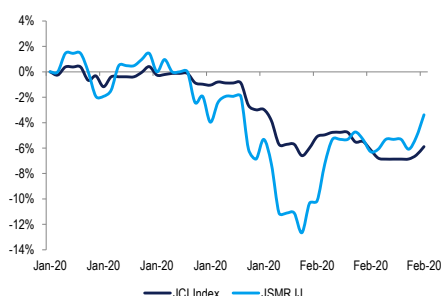


Stock Data

Target price	Rp7,100
Prior TP	Rp7,100
Current price	Rp5,000
Upside/downside	+42%
Shares outstanding (mn)	7,258
Market cap (Rp bn)	36,289
Free float	24%
Avg. 6m daily T/O (Rp bn)	21

Price Performance

	3M	6M	12M
Absolute	-3.8%	-12.3%	-2.0%
Relative to JCI	-0.2%	-6.5%	6.8%
52w low/high (Rp)	4,520 - 6,225		



Major Shareholders

Republic of Indonesia	70%
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Timothy Handerson

PT Indo Premier Sekuritas
timothy.handerson@ipc.co.id
+62 21 5088 7168 ext. 714

More tailwinds ahead

- Japek-Elevated II tariff will be implemented in Mar20, a delay though we have taken this into our calculation (10mn traffic vs. target 11-14mn).
- Implementation of blended tariff may raise Jakarta-Cikampek overall tariff by 75-80%, which translates to 5%/13% EBITDA/EPS upside in 2020.
- We see an imminent drop in interest costs along with normalizing capex beyond 2020. Maintain Buy on JSMR.

A delay to Japek Elevated II operations, though we have expected this

Our checks suggest that the handover of Japek Elevated II will be done in 1Q20 at the latest, a delay from initial plan of Jan20. Nonetheless, we already pencil in a conservative Japek-Elevated II traffic of 10m in 2020 vs. its target of 11-14mn (after taking into account the delay).

Expect positive EPS impact from implementation of blended tariffs

We found that JSMR plans to implement a blended tariff system (i.e. Japek Elevated II tariff will be equivalent to the tariff for Jakarta-Cikampek section), which suggests a higher tariff for the non-elevated Jakarta-Cikampek section (as non-elevated sections will also benefit from lower congestion post operation of Japek Elevated II). Based on our estimate, this could translate to a pricing of Rp30k/car, implying a 75-80% increase on existing tariff for Jakarta-Cikampek section (now at c.Rp17k with estimated annual traffic of c.45m cars) – we think this provides an EBITDA/EPS upside of 5%/13% in 2020 and 4%/10% in 2021, all else equal.

Prudent funding strategy shall translate to lower interest costs

Some of its funding initiatives in the short term (1H20) are: 1) JORR non-S securitization (into KIK Dintra with proceed target of Rp2tr and indicative rate of 8.75%) and 2) re-profiling the loan for Ngurah Rai toll road (i.e. lower cost of funds on the loan to 6-7% from c.9% now) – both shall be value accretive for JSMR as it remains lower than current cost of fund of c.9.3% as of Sep19.

Foreign ownership at its lowest amid unfound concern on high capex

Foreign ownership has declined to an all-time low of 0.2% in Jan20 vs. peak of 1.0% in 2014 due to concern on heavy capex in the last few years (Fig 8). Our checks confirmed that capex trajectory beyond 2020 shall trend down (Rp20-25tr in 2020/Rp5-10tr in 2021) as construction of Probolinggo-Banyuwangi will be done gradually, alleviating capex pressure.

Re-iterate our Buy call, valuations on its side

We re-iterate our Buy call with a DCF-based (WACC: 11.2%) TP of Rp7,100 – the stock has dropped 3.4% YTD, now trading at 8.5x 2020F EV/EBITDA (vs.10-year average of 11x). Risk is further delay on Japek Elevated II.

Financial Summary (Rp bn)	2017A	2018A	2019F	2020F	2021F
Revenue	8,922	9,784	10,957	12,576	14,137
EBITDA	5,639	6,209	6,826	7,962	9,021
Net profit	2,200	2,203	1,926	1,856	2,138
EPS (Rp)	303	303	265	256	295
EPS growth	16.5%	0.1%	-12.6%	-3.6%	15.2%
ROE	12.7%	11.4%	9.2%	8.4%	9.1%
PER (x)	16.5	16.5	18.8	19.6	17.0
EV/EBITDA (x)	11.9	10.8	9.9	8.5	7.5
Dividend yield	1.6%	1.2%	1.1%	1.0%	1.2%
IPS/consensus			94%	88%	92%

Sources: Company, IndoPremier

Share price closing as of: 19 February 2020

Delay to Japek Elevated II schedule, though it is within expectations; implementation of blended tariffs shall impact EPS positively

Our checks suggest that the handover of Japek Elevated II will be done in 1Q20 at the latest, a delay from initial plan of Jan20. Nonetheless, we already pencil in a conservative Japek-Elevated II traffic of 10m in 2020 vs. its target of 11-14mn (after taking into account the delay).

We found that JSMR plans to implement a blended tariff system (i.e. Japek Elevated II tariff will be equivalent to the tariff for Jakarta-Cikampek section), which suggests higher tariffs for non-elevated Jakarta-Cikampek section as well (as non-elevated sections will also benefit from lower congestion post operation of Japek Elevated II).

Based on our estimate, this could translate to a pricing of Rp30k/car, implying a 75-80% increase on existing tariff for Jakarta-Cikampek section (now at c.Rp17k with estimated annual traffic of c.45m cars) – we think this provides an EBITDA/EPS upside of 4%/13% in 2020 and 5%/10% in 2021, all else equal.

Fig. 1: Current Jakarta-Cikampek tariff – weighted average of furthest section (Jakarta-Cikampek) is currently at c.Rp17k/car, based on our estimate. Our checks suggest that this might be increased to Rp30k/car post operations of Japek Elevated II

		in Rp	in Rp	in Rp	in Rp	in Rp	in Rp
Jakarta-Cikampek toll road section	Length (in km)	Weighted average	Class I	Class II	Class III	Class IV	Class V
Jakarta IC-Pondok Gede	4	1,700	1,500	2,000	2,000	3,000	3,000
Jakarta-Cikarang Barat	31	5,150	4,500	6,500	6,500	9,000	9,000
Jakarta-Karawang Timur	54	13,800	12,000	18,000	18,000	24,000	24,000
Jakarta-Cikampek	72	17,250	15,000	22,500	22,500	30,000	30,000

Sources: Bloomberg, IndoPremier

Fig. 2: Implementation of blended tariffs shall result in higher incremental revenues for JSMR

Simulation on impact of blended tariffs	
Base case - no adjustment to non-elevated tariff	
Incremental traffic (m cars)	10
Length (km)	39
Tariff/km (in rupiah)	1,250
Implied tariff/car	48,750
Incremental revenue from elevated (Rp bn)	488
New case - adjusting the Jakarta-Cikampek (non-elevated) section	
Estimated Jakarta-Cikampek section volume (m cars)	45
Weighted average existing tariff/car (in Rp)	17,250
Target new tariff/car (in Rp)	30,000
Incremental revenue from non-elevated (Rp bn)	574
Estimated Jakarta-Cikampek II Elevated (m cars)	10
Target new tariff/car	30,000
Incremental revenue from elevated (Rp bn)	300
Total incremental revenue for Jakarta-Cikampek (Rp bn)	874
Difference vs. base case	79%

Sources: Company, IndoPremier

Fig. 3: We estimate an EBITDA/EPS upside of 5%/13% in 2020 and 4%/10% in 2021 from implementation of blended tariffs

Impact of blended tariff implementation *	Old		New		Changes	
	2020	2021	2020	2021	2020	2021
EBITDA	7,962	9,021	8,364	9,393	5%	4%
Net profit	1,856	2,138	2,093	2,357	13%	10%

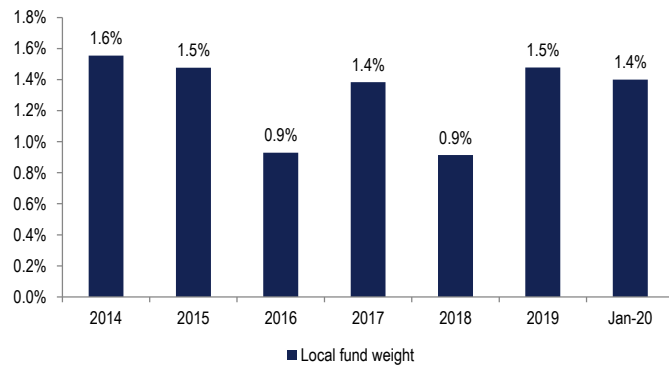
* assumes new pricing of Rp30,000/car for Jakarta-Cikampek Elevated II and Jakarta-Cikampek section (non-elevated)

Sources: Bloomberg, IndoPremier

Foreign ownership at its lowest amid unfound concern on high capex

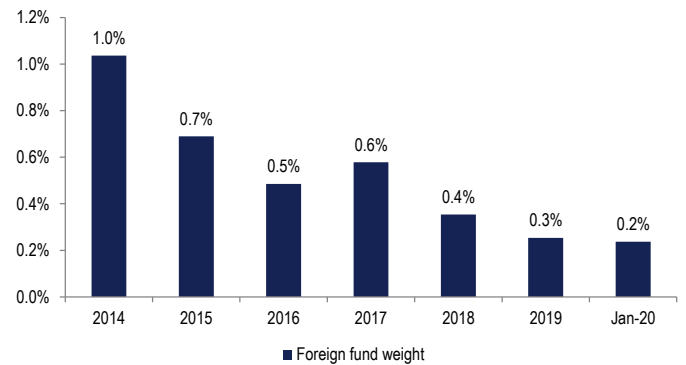
Foreign ownership has declined to an all-time low of 0.2% in Jan20 vs. peak of 1.0% in 2014 amid heavy capex in the last few years (Fig 8). Our checks affirmed of a lower capex trajectory beyond 2020 (Rp20-25tr in 2020/Rp5-10tr in 2021) as construction of Probolinggo-Banyuwangi will be done gradually which shall alleviate concerns on extended capex.

Fig. 4: Local fund weight of JSMR



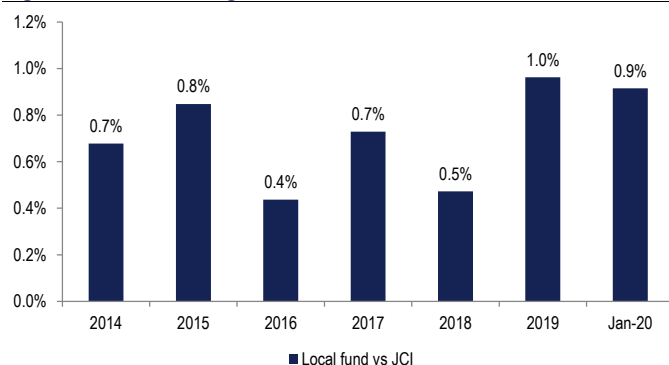
Sources: KSEI, IndoPremier

Fig. 5: Foreign fund weight on JSMR has reached 7-year low



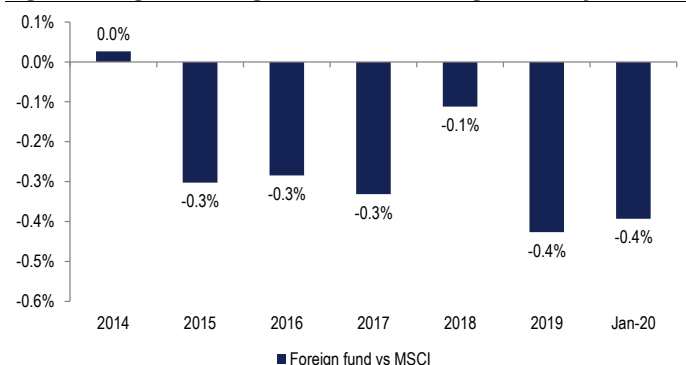
Sources: KSEI, IndoPremier

Fig. 6: Local fund weight vs. JCI



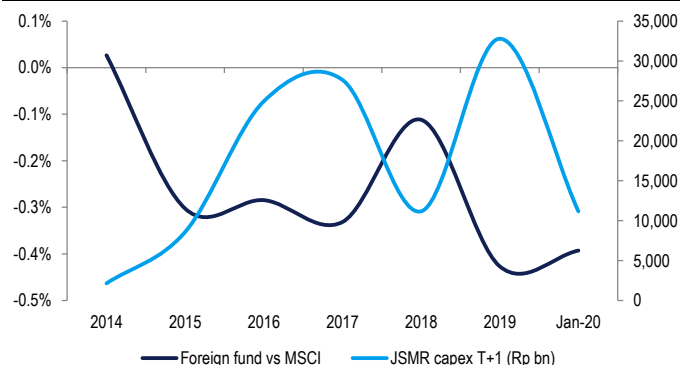
Sources: Bloomberg, KSEI, IndoPremier

Fig. 7: Foreign fund weight vs. MSCI – at its lightest in 7 years



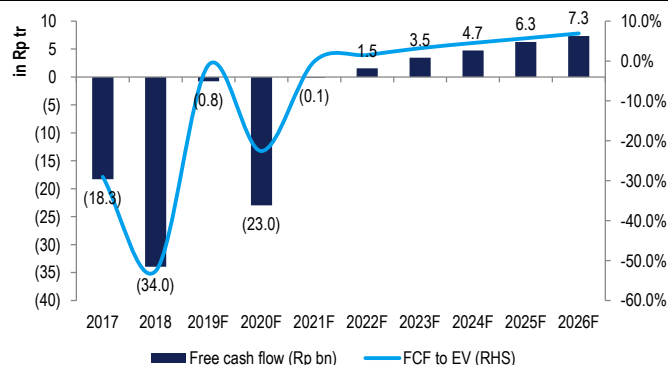
Sources: KSEI, MSCI, IndoPremier

Fig. 8: Foreign positioning on JSMR negatively correlated with capex expectations – we think that the normalizing capex outlook beyond 2020 is still underappreciated by investors



Sources: Bloomberg, KSEI, Company, IndoPremier

Fig. 9: We expect cash flow to significantly improve beyond 2020F



Sources: Company, IndoPremier

Re-iterate Buy call, valuations at its side

We re-iterate our Buy call with a DCF-based (WACC: 11.2%) TP of Rp7,100/sh. The stock has dropped 3.4% YTD, now trading at 8.5x 2020F EV/EBITDA (vs. 10-year average of 11x EV/EBITDA).

The current share price also implies a risk-free rate of c.10.5-11%, much higher than the current 10-year bond yield of c.6.7% - note that our DCF-based TP is based on a risk-free rate assumption of 7.5%.

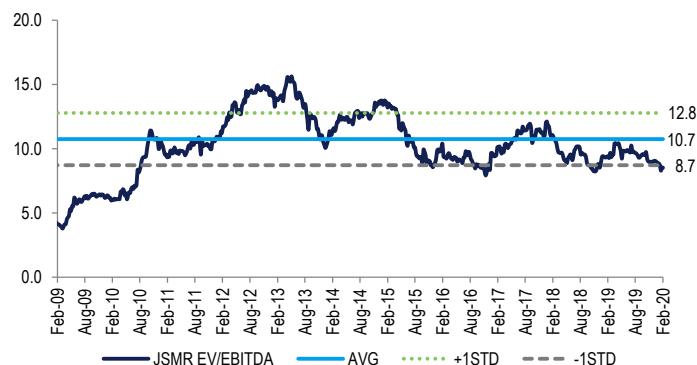
Catalysts are better-than-expected tariffs/rates for Jakarta-Cikampek Elevated II. Main risks are further delay on Japek Elevated II, a surge in capex, and higher rates.

Fig. 10: Current share price implies a risk-free rate of 10% in the valuation (case 6), much higher than the current bond 10-year bond yield of 6.7% - note that our TP is based on a risk-free rate assumption of 7.5% (case 1)

DCF valuation simulation	Case 1	Case 2	Case 3	Case 4	Case 5	Case 6	Case 7
Risk free rate	7.5%	8.0%	8.5%	9.0%	9.5%	10.0%	11.00%
Beta	1	1	1	1	1	1	1
Market risk premium	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Cost of equity	15.0%	15.5%	16.0%	16.5%	17.0%	17.5%	18.5%
Cost of debt	9.50%	9.50%	9.50%	9.50%	9.50%	9.50%	9.50%
Target equity weight	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
WACC	11.2%	11.3%	11.5%	11.6%	11.8%	11.9%	12.2%
Terminal growth	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
NPV (Rp bn)	101,707	98,818	96,019	93,309	90,682	88,137	83,278
Cash FY20 (Rp bn)	4,755	4,755	4,755	4,755	4,755	4,755	4,755
Debt FY20 (Rp bn)	55,055	55,055	55,055	55,055	55,055	55,055	55,055
Total equity value (Rp bn)	51,407	48,518	45,719	43,008	40,382	37,836	32,978
No of shares (in mn shares)	7,258	7,258	7,258	7,258	7,258	7,258	7,258
Target price (Rp/share)	7,100	6,700	6,300	5,900	5,600	5,200	4,500

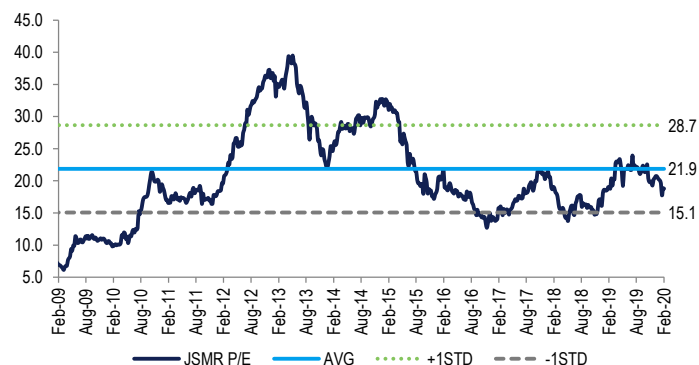
Sources: Company, IndoPremier

Fig. 11: JSMR's EV/EBITDA – now trading at 8.5x 2020F EV/EBITDA, below 10-year average of 10.7x EV/EBITDA



Sources: Company, IndoPremier

Fig. 12: JSMR's forward P/E – now trading at 19.6x 2020F P/E, slightly below 10-year average of 21.9x P/E



Sources: Company, IndoPremier

Income Statement (Rp bn)	2017A	2018A	2019F	2020F	2021F
Net revenue	8,922	9,784	10,957	12,576	14,137
Cost of sales	(3,772)	(4,053)	(4,397)	(4,881)	(5,381)
Gross profit	5,150	5,732	6,560	7,695	8,755
SG&A Expenses	(1,152)	(1,325)	(1,538)	(1,740)	(1,950)
Operating profit	4,155	4,592	5,097	6,026	6,847
Net interest	(1,033)	(1,569)	(1,664)	(2,333)	(3,126)
Forex gain (loss)	0	0	0	0	0
Others	128	187	(756)	(1,166)	(801)
Pre-tax income	3,250	3,210	2,677	2,527	2,920
Income tax	(1,157)	(1,174)	(937)	(884)	(1,022)
Minority interest	107	166	186	214	240
Net income	2,200	2,203	1,926	1,856	2,138

Balance Sheet (Rp bn)	2017A	2018A	2019F	2020F	2021F
Cash & equivalent	6,873	5,943	4,343	4,755	5,010
Receivable	11,547	5,550	5,010	2,833	2,919
Inventory	134	41	41	41	41
Other current assets	432	280	280	280	280
Total current assets	18,987	11,814	9,673	7,909	8,249
Fixed assets	1,278	1,058	1,375	1,740	2,156
Other non-current assets	58,928	69,547	78,669	87,158	91,124
Total non-current assets	60,206	70,605	80,045	88,898	93,280
Total assets	79,193	82,419	89,718	96,806	101,529
ST loans	3,336	6,415	1,500	3,000	3,000
Payable	15,455	21,019	27,614	10,664	10,750
Other payables	3,284	1,038	1,038	1,038	1,038
Current portion of LT loans	2,922	2,609	2,609	2,609	2,609
Total current liab.	24,998	31,081	32,761	17,312	17,397
Long term loans	29,113	26,524	30,789	52,055	55,222
Other LT liab.	6,723	4,614	4,614	4,614	4,614
Total liabilities	60,833	62,220	68,164	73,981	77,234
Equity	6,973	7,021	7,021	7,021	7,021
Retained earnings	8,125	9,887	11,428	12,913	14,623
Minority interest	3,262	3,290	3,104	2,891	2,651
Total SHE + minority int.	18,359	20,199	21,554	22,825	24,295
Total liabilities & equity	79,193	82,419	89,718	96,806	101,529

Sources: Company, IndoPremier

Cash Flow Statement (Rp bn)	2017A	2018A	2019F	2020F	2021F
Net income	2,200	2,203	1,926	1,856	2,138
Depr. & amortization	1,484	1,617	1,729	1,936	2,174
Changes in working capital	15,591	5,071	7,136	(14,773)	(0)
Others	(14,919)	(7,980)	(186)	(214)	(240)
Cash flow from operating	4,356	910	10,605	(11,194)	4,072
Capital expenditure	(24,951)	(27,634)	(11,169)	(10,789)	(6,557)
Others	12,272	20,455	0	0	0
Cash flow from investing	(12,678)	(7,179)	(11,169)	(10,789)	(6,557)
Loans	7,430	490	(651)	22,767	3,167
Equity	0	0	0	0	0
Dividends	(567)	(440)	(385)	(371)	(428)
Others	4,323	6,164	0	0	0
Cash flow from financing	11,185	6,214	(1,036)	22,395	2,739
Changes in cash	2,863	(55)	(1,600)	412	254

Key Ratios	2017A	2018A	2019F	2020F	2021F
Gross margin	57.7%	58.6%	59.9%	61.2%	61.9%
Operating margin	44.8%	45.0%	45.8%	47.3%	48.1%
Pre-tax margin	36.4%	32.8%	25.9%	21.4%	20.7%
Net margin	24.7%	22.5%	18.5%	15.6%	15.1%
ROA	3.3%	2.7%	2.4%	2.1%	2.1%
ROE	12.7%	11.4%	9.7%	8.8%	9.0%
ROIC	9.8%	9.6%	10.7%	10.0%	9.0%
Acct. receivables TO (days)	34	73	73	73	73
Inventory TO (days)	103	84	70	26	10
Payable TO (days)	4	4	8	8	10
Debt to equity	2.4	2.4	2.4	2.4	2.4
Interest coverage ratio (x)	4.4	3.4	3.7	3.2	2.6
Net gearing	1.4	1.3	1.0	2.1	2.1

Sources: Company, IndoPremier

INVESTMENT 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

ANALYSTS CERTIFICATION

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

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