

STRATEGY INDONESIA 2015

Tough Times Produce Good Economic Policy

Developed Economies are One Step Closer to Secular Stagnation

By Sinarmas Investment Research

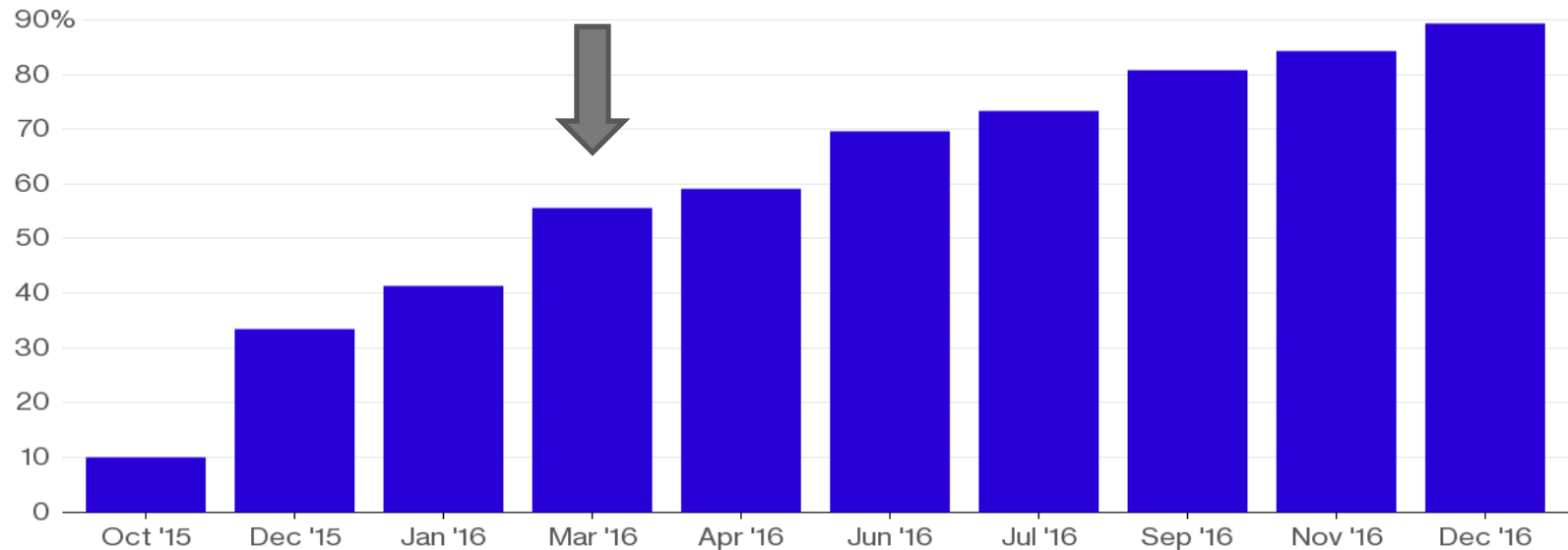
07 Oct 2015

Market thinks Fed will not raise rate in 2015

When will the Fed hike?

The disappointing payrolls data has pushed out bets until 2016

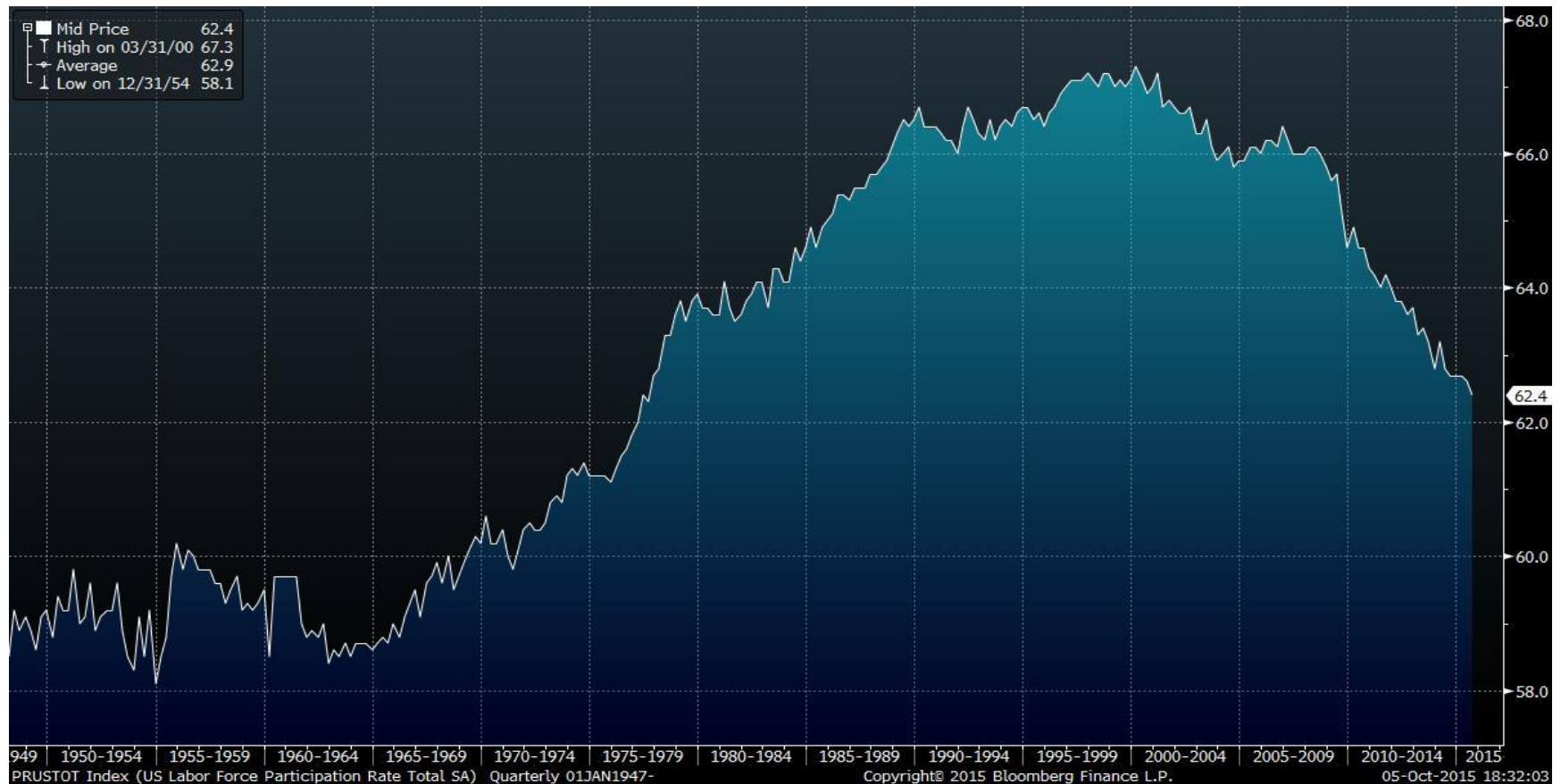
■ Odds of a move by each FOMC meeting



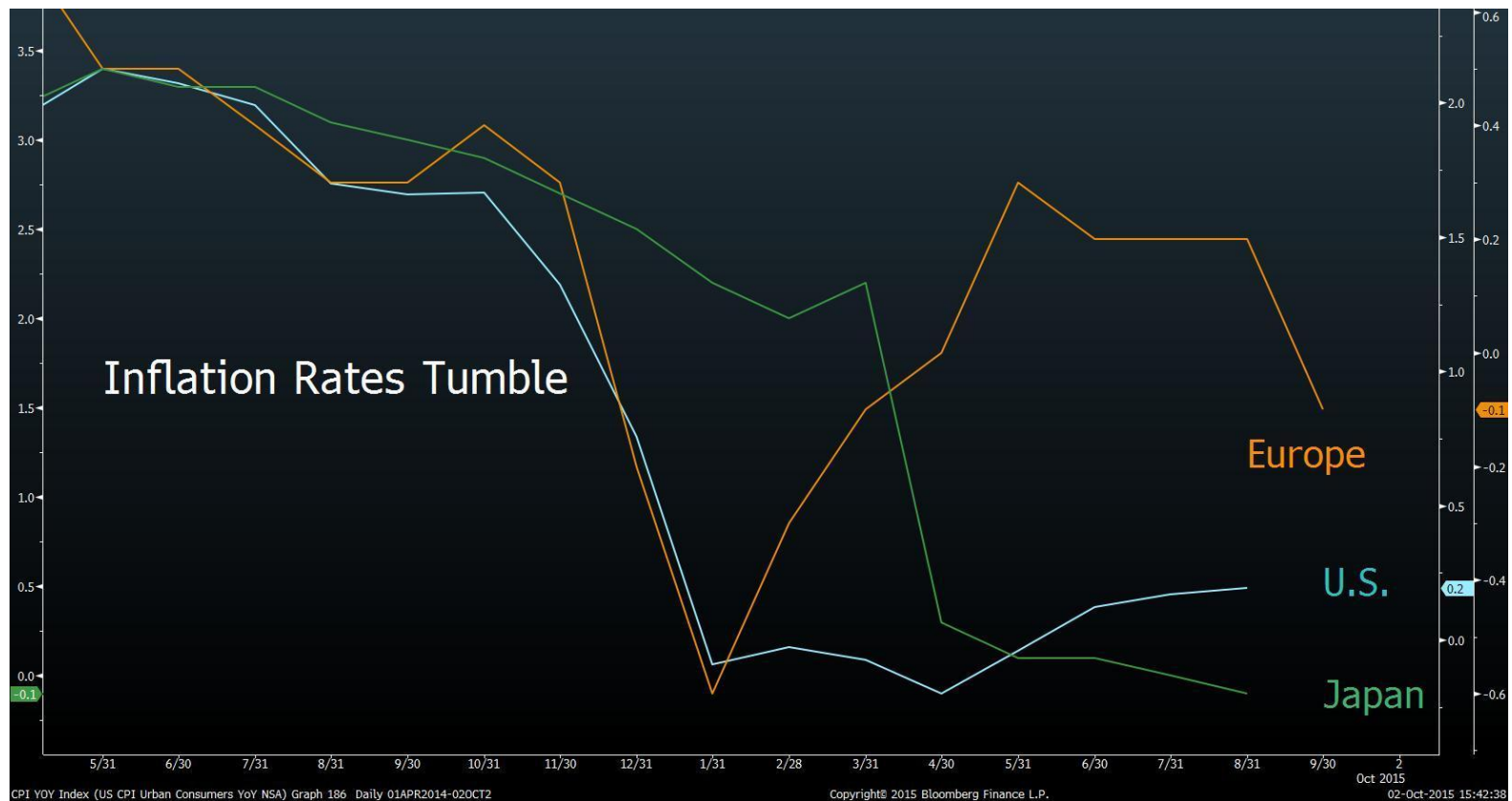
Fed funds futures trading, via Bloomberg

Bloomberg 

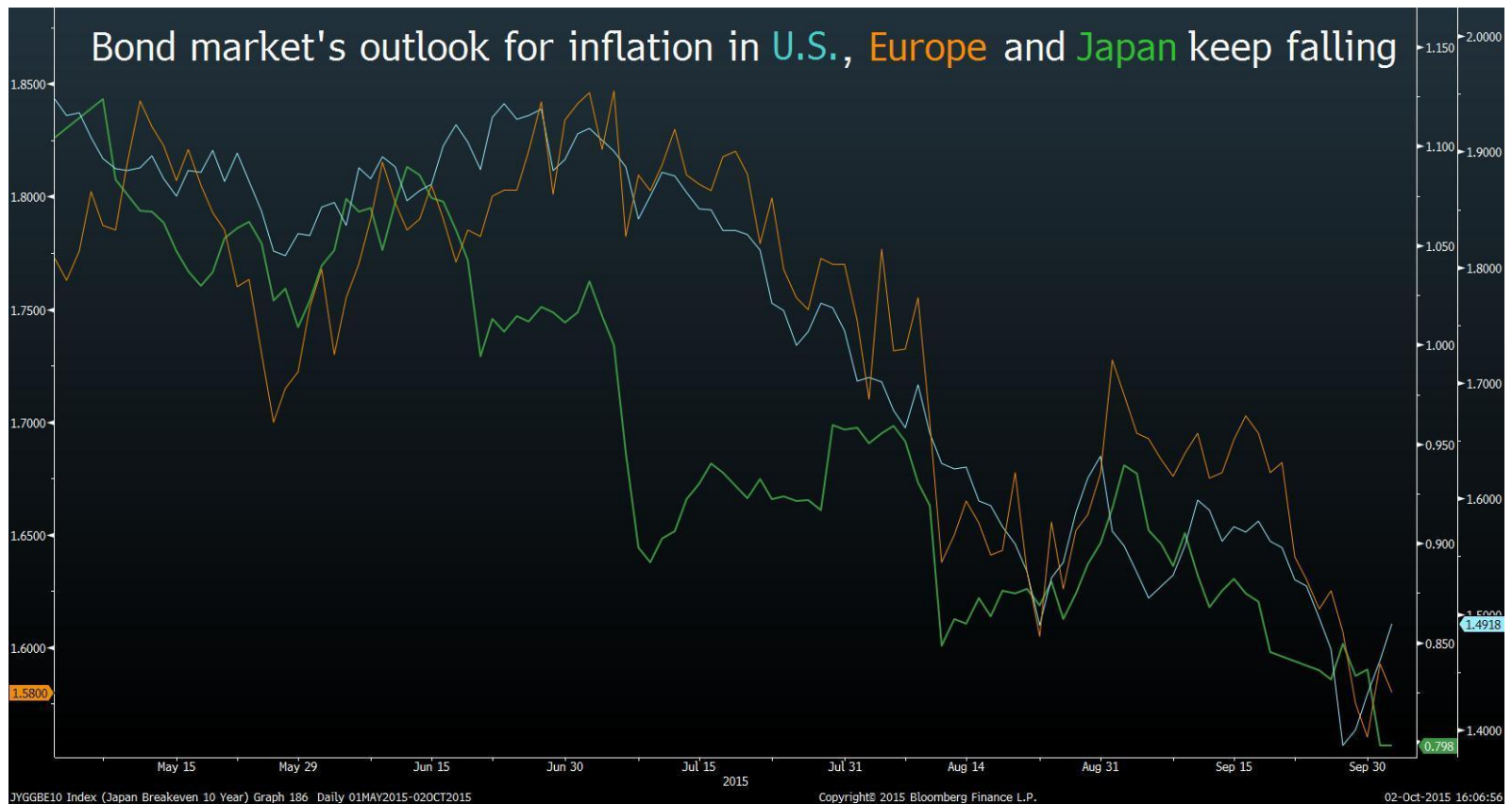
U.S Labor Participation Rate in decline



Inflation rates are persistently low in G3



Yields in G3 are at historical lows.



Jakarta Composite Index

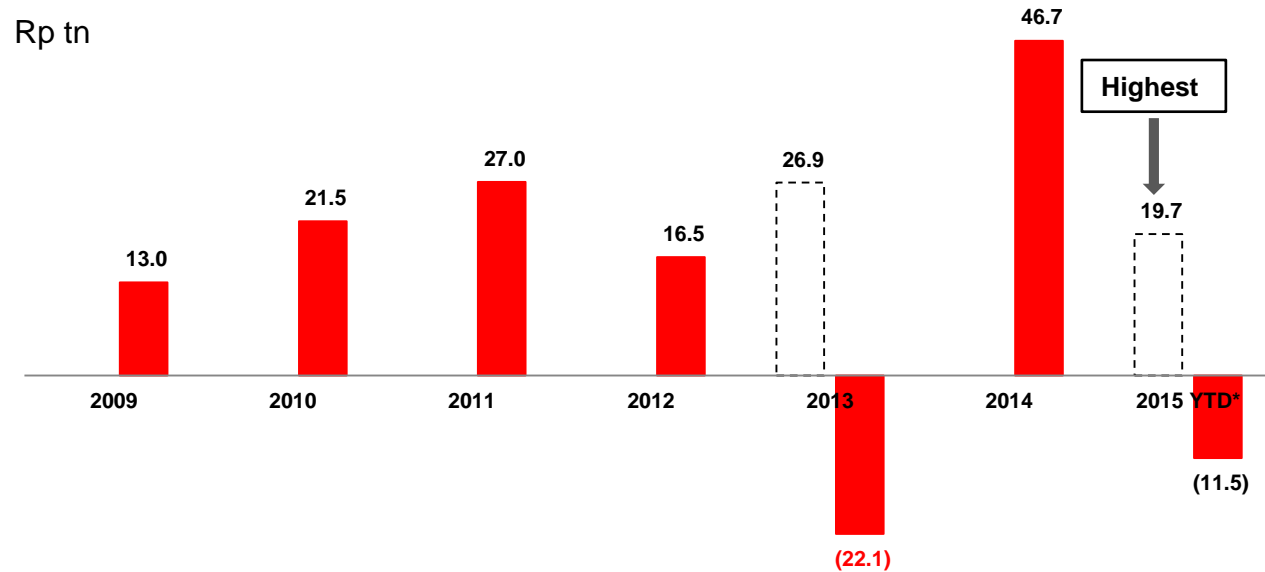
JCI was at 4487* (-14.3% YTD).



- 1Q15 disappointing GDP growth and companies financial results
- Government budget spending lagged
- IDR depreciation VS. USD
- Greece debt crisis
- Fed's rate hike uncertainty
- China stock market dropped
- 2Q15 bad earning season
- RMB devaluation
- China's economy slowing down
- Domestic economic policy packages

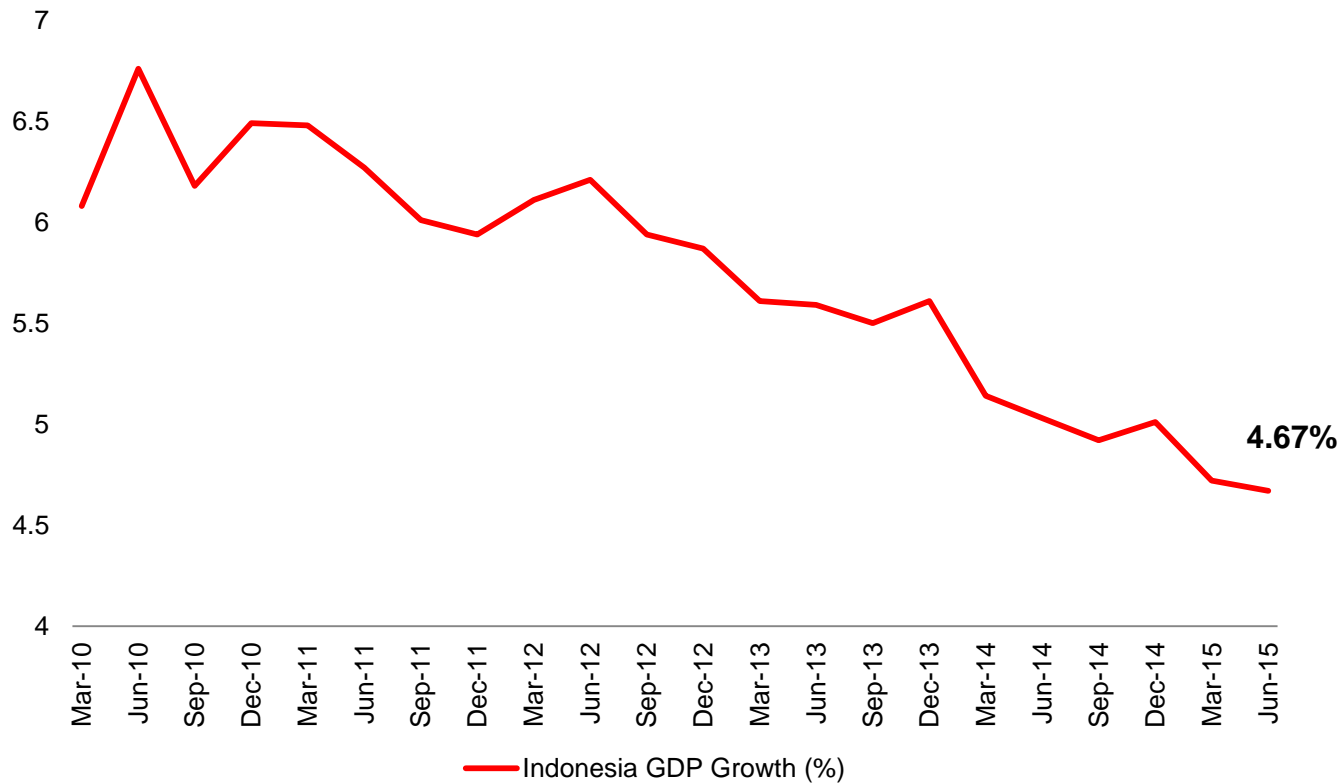
Foreign Flow

Net foreign flow to our stock market.



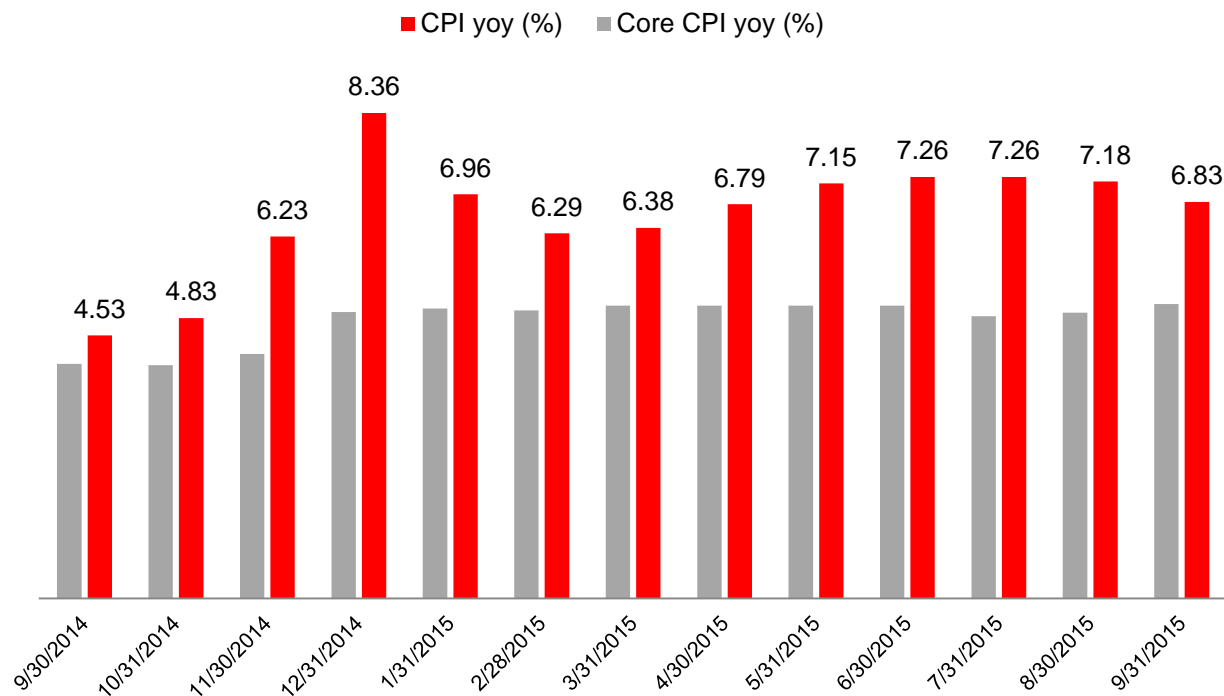
Indonesia's GDP Growth

2Q15 GDP growth touched the lowest level since 2009



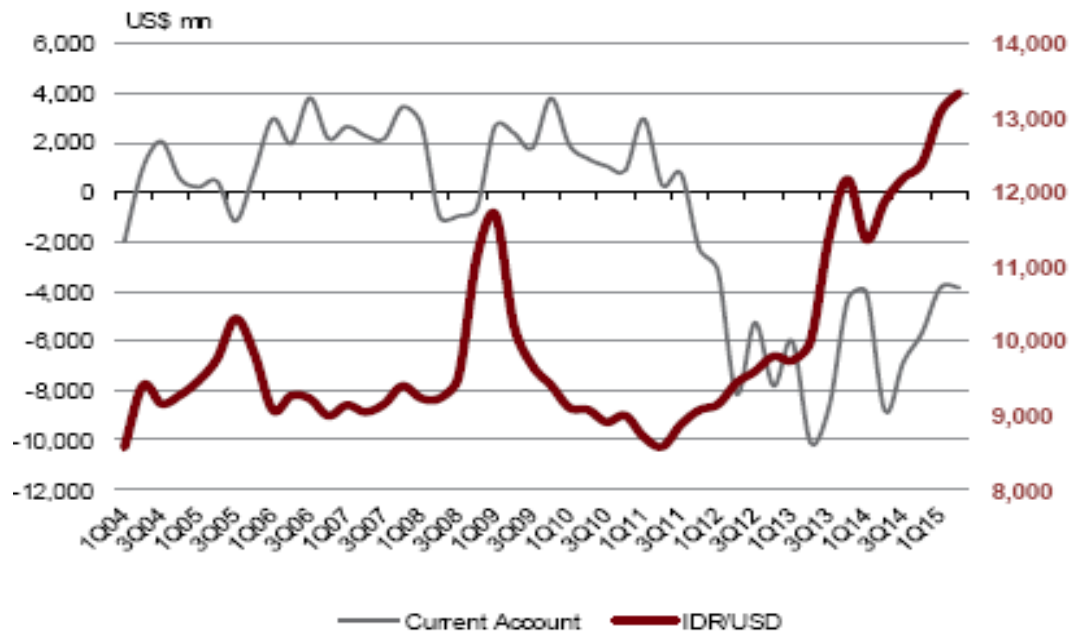
Source: Bloomberg, Sinarmas Investment Research

Domestic CPI

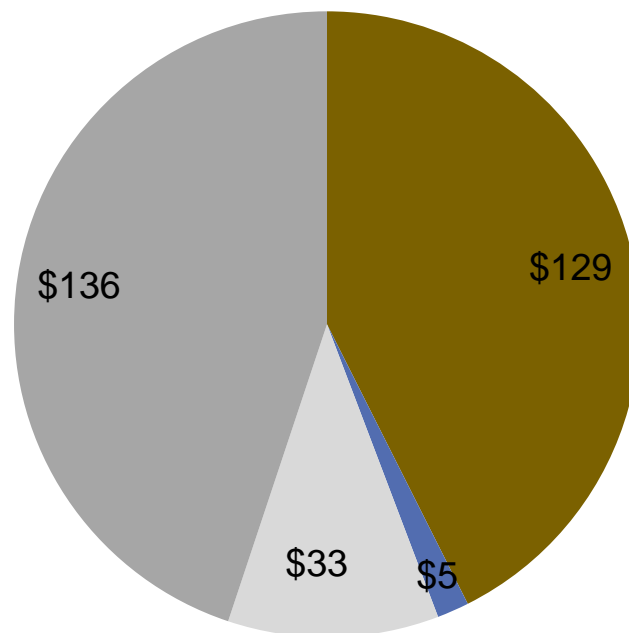


Source: Bloomberg, Sinarmas Investment Research

Current Account Deficit as of 2nd Q at -2.5% of GDP

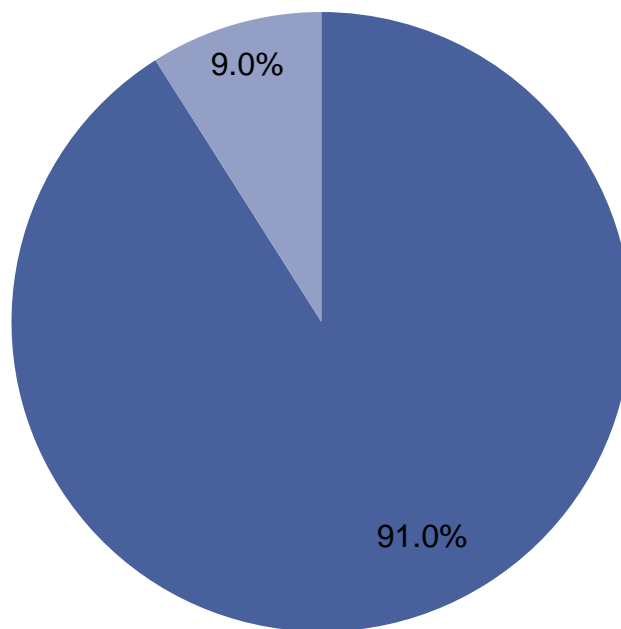


External Debt Position in Billion USD by Private Versus Govt



■ Government ■ Central Bank ■ Private - Bank ■ Private - Nonbank

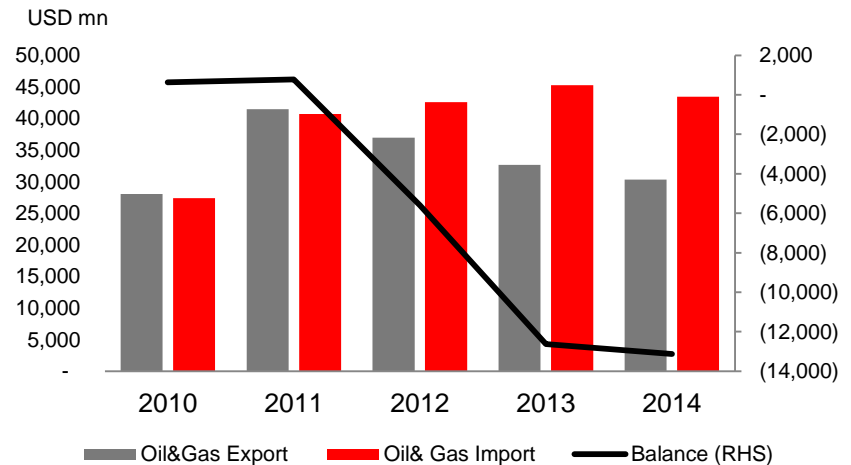
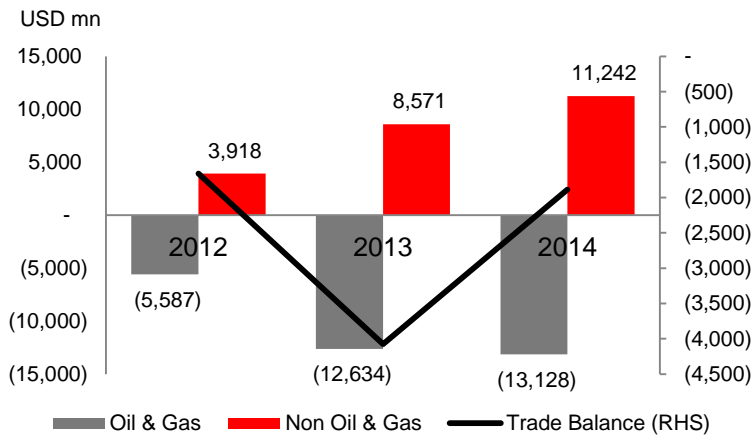
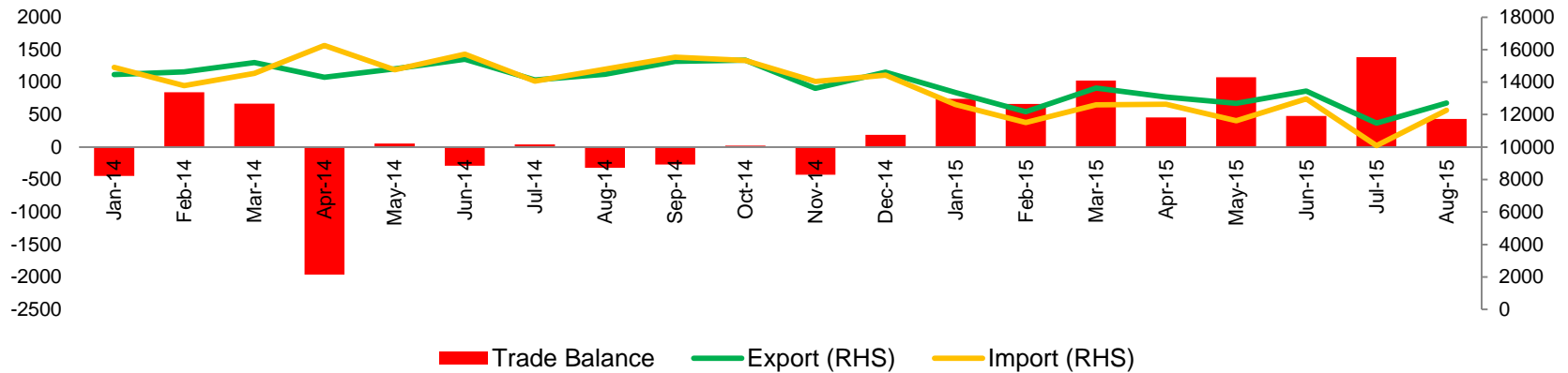
Huge USD Concentration (Around \$153 B) on Private External Debt



■ USD ■ Non USD

Indonesia's Trade Balance

Trade balance surplus for 9 consecutive months.

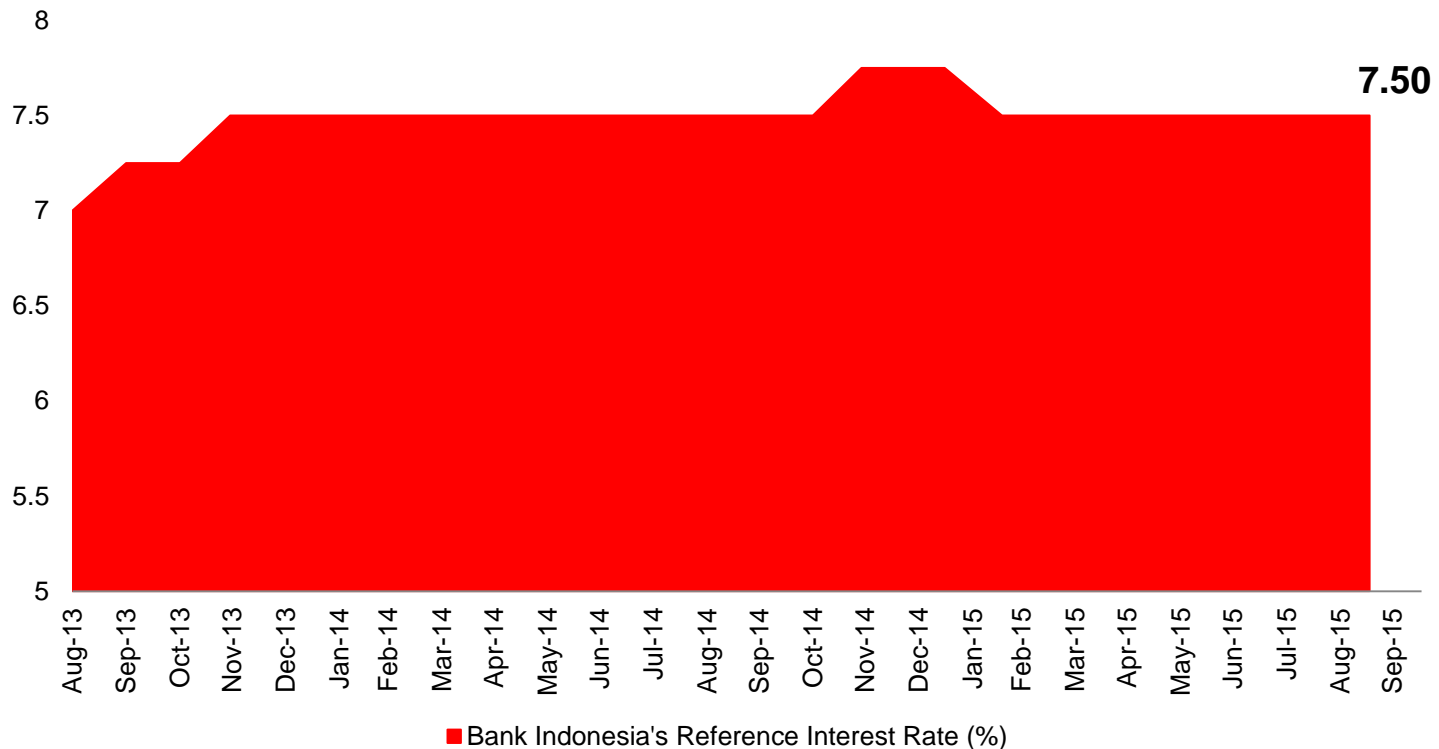


Source: Bloomberg, Sinarmas Investment Research

Bank of Indonesia's Reference Rate



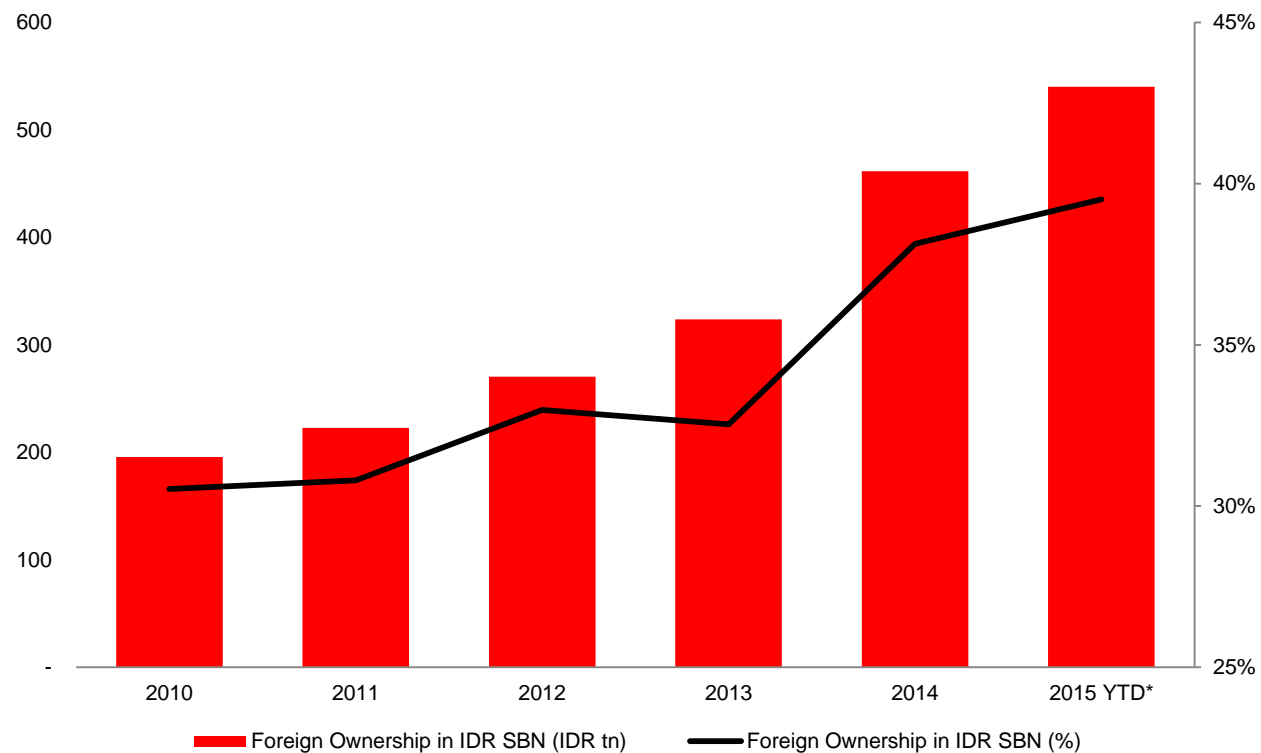
We expect BI Rate to remain flat for this year



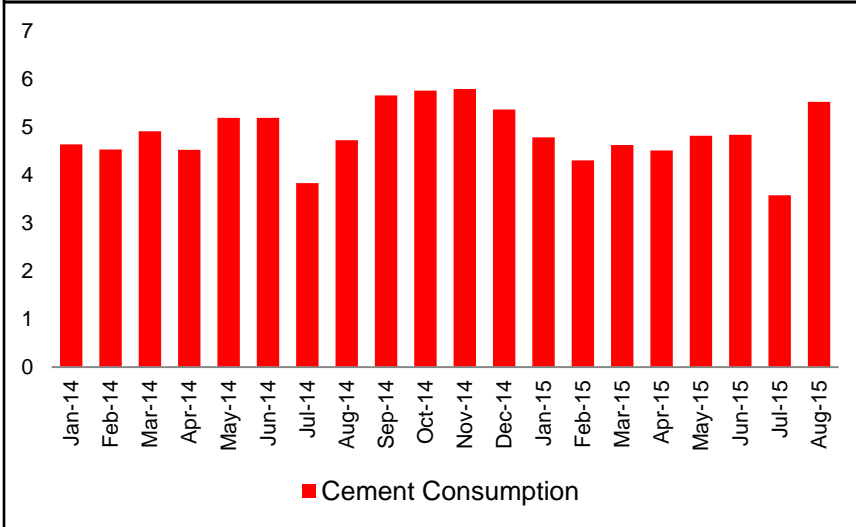
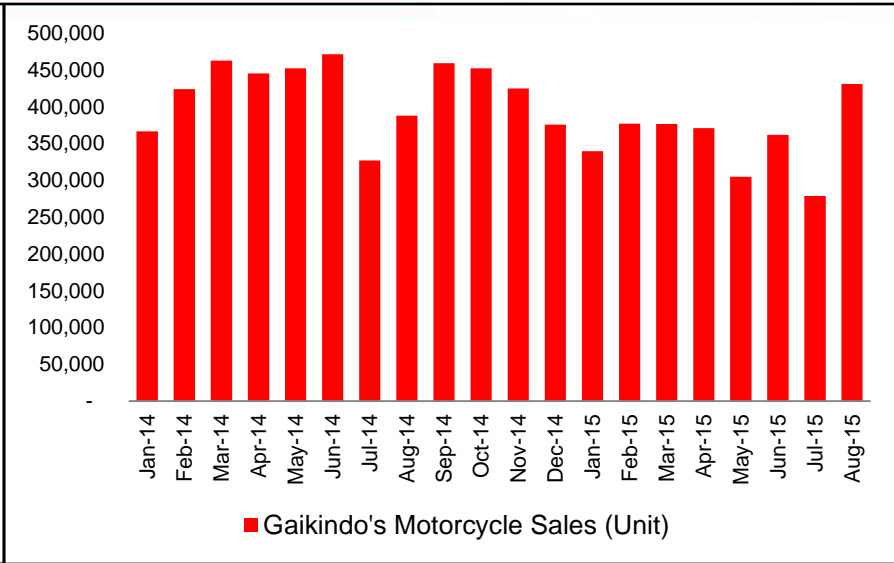
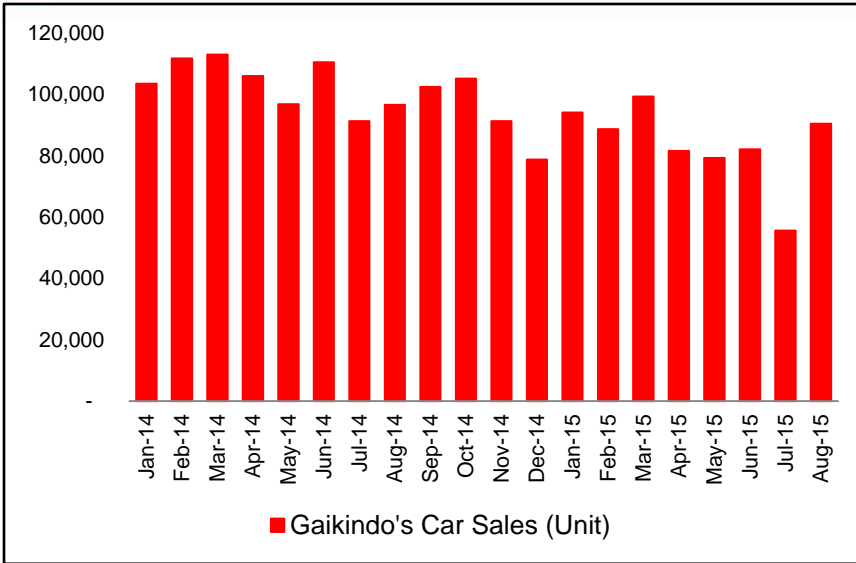
Source: Bloomberg, Sinarmas Investment Research

Foreign Ownership in IDR SBN

Foreign Ownership in IDR SBN reached to IDR 521.65 tn (37.56%)*



Indonesia's Auto & Cement Sales



2Q15 vs. 2Q14

- Car: -22.5% YoY, -13.9% QoQ.
- Motorcycle: -24.2% YoY, -5.1% QoQ.
- Cement: -4.9% YoY, +3.3% QoQ.

1H15 vs. 1H14

- Car: -18.2% YoY.
- Motorcycle: -18.8% YoY.
- Cement: -3.8% YoY.

Source: Bloomberg, Sinarmas Investment Research

- In 8M15, the realization of the Ministry of Public Works' infrastructure budget was IDR 33tn or 27.8% of the IDR 118.5tn FY15 budget.
- Although absorption of infrastructure spending is quite low, 96.3% infrastructure projects (IDR 91.5tn out of IDR 95tn) has been tendered so far (significantly increase from 65% in 1H15).
- New Land Acquisition Law that gives flexibility on source of funding.
- Batang's court case will be watched closely.

Conclusion

OPPORTUNITIES

Domestic

- BI rate might get lower next year
- Infrastructure projects execution on track with government plans.
- FDI stays strong.
- Tax Amnesty.
- Economic policy packages.
- Fiscal Incentive i.e. tax holiday for several sectors.

Global

- More liquidity maybe coming from European Central bank and Bank of Japan.

RISKS

Domestic

- GDP growth concern.
- Rupiah depreciation.
- Delay in infrastructure projects execution.
- Lagged infrastructure budget spending.

Global

- The Fed's rate hike.
- Hard Landing of Chinese Economy
- RMB devaluation.
- G3 suffers from Secular Stagnation

Our Pick

Value Play

- Banking (BBNI, BBRI & BBTN)
- Property* (BSDE, SMRA, & ASRI)
- Infrastructure (PGAS**)
- Astra Related (ASII & UNTR)
- Poultry (CPIN*)
- Coal (PTBA* & ADRO*)
- Cement (SMGR* & INTP*)

* For short-term trade

** Attractive Risk Reward Play

Thematic Play

- CPO (AALI & LSIP)
- Nickel (INCO)
- Construction (ADHI & PTPP)
- Defensive (TLKM & KLBF)

End of Year Forecast

	2015E	2016F
GDP Growth	4.7% - 5.0%	5.1% - 5.3%
Inflation	4.0% - 5.0%	4.0% - 5.0%
BI Reference Rate	7.00% - 7.75%	7.00% - 7.50%
FX USD-IDR	13,500 - 14,500	12,000 - 15,000
JCI	4,500 - 4,700	4,900 - 5,400

