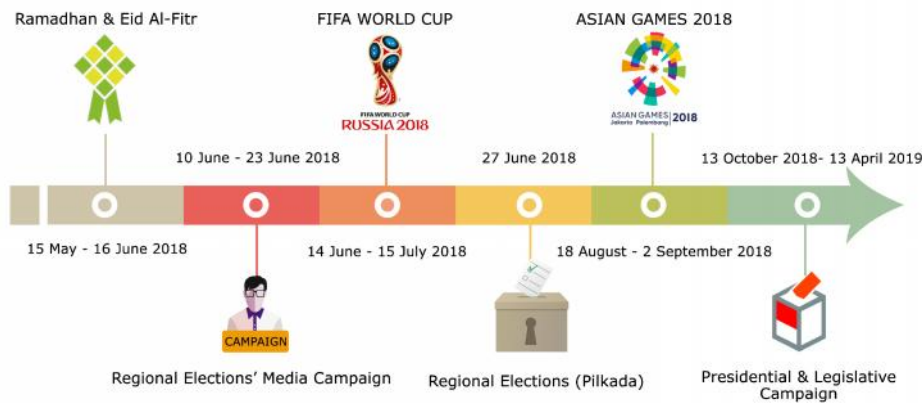


A super packed year of festive events that can revive the nation's consumptive appetite



### All eyes on Indonesia consumption

As 2Q18 is just around the corner, we turn more positive on staples, retail, and media as we see a line of forthcoming events starting from 2Q18 (up to 2Q19) to fuel and catalyze domestic consumption. In addition to the aforementioned, government's focus towards the success of social assistance programs should aid mid-to-low income segment's purchasing power recovery. The following discussion within our report will further talk about what lies beneath the events as well as social assistance programs within the period and how they could lift domestic consumption.

Our top picks to play this theme: INDF (BUY, TP: 9,675), ICBP (ADD, TP: 9,600), RALS (BUY, TP: 1,354), LPPF (ADD, TP: 11,747), TLKM (BUY, TP: 4,500), EXCL (BUY, TP: 3,700), and MNCN (BUY, TP: 1,690).

### What's there in 2Q18 onwards?

2018's second quarter is going to be highlighted with a name of big events: Fasting & Eid Al-Fitr which normally leads to ~40% of annual retail sales, accompanied by the biggest Regional Elections ever covering up to 160 millions of citizen which tend to benefit media and telco players, and then ended with FIFA World Cup 2018—a once every four years event considered to be one of the biggest event amongst Indonesian citizens whose majority are soccer fans. Moreover, we see spending trend to continue its path towards the end of 3Q18 as it coincides with Asian Game 2018 held in Jakarta and Palembang which will further catalyze domestic consumption from many different angles. Closing 2018, we expect a combination of presidential & legislative campaigns conducted nationwide to speed up consumption recovery and completion of social programs. Each event mentioned previously should bring potentials which would likely to bolster consumption as described below.

### Fasting and Eid Al-Fitr (15 May - 16 June 2018)

Consumer spending is expected to increase during this period as many seasonal foods and drinks are sold in 1-to-2 hours pre-breakfasting time. Not only that, demand on clothing, furniture, and motorcycles usually rise approaching the Eid Al-Fitr celebration. Normally at this time, disposable income will be boosted by the holiday allowance disbursed no later than

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two weeks before the celebration. Another thing to note is that last year's spending pre- Eid Al-Fitr was recorded soft due to as it collided with new academic year tuition payment. Hence, lower income remained to be spent. Fortunately, 2018 calendar offers different story as we expect 2 weeks gap between Eid Al-Fitr event and new academic year.

#### FIFA World Cup 2018 (14 June - 15 July 2018)

The biggest football competition in the world, World Cup 2018, participated by 32 countries will definitely catch the eyes of every football lovers across the world. During this event, people mostly come together in cafes, restaurants, or their homes to watch the game. Accordingly, it is very visible that snacks and beverages spending would jump significantly. Interestingly, the World Cup 2018 will be held in Russia where the time difference is only +3 hours from Indonesia. Therefore, the game will be on-air at prime time from 5pm to 2am. Compared to World Cup 2014, the game was started from 11pm to 8am and in 2010's from 6.30pm to 1.30am. We believe the prime time factor along with more airing time should heat up enthusiasm during the event and attract more viewers. We view that World Cup 2018 will be an extra booster for consumption in this year.

#### More primetime this time around

World Cup	2010	2014	2018
Kick-off (WIB)	01.30	02.00	01.00
	18.30	03.00	02.00
	21.00	05.00	17.00
		08.00	19.00
		23.00	21.00
			22.00
Host	South Africa	Brazil	Russia
TV Station	RCTI, Global TV	ANTV, TVOne	Trans TV, Trans7

Source: Various News, Sinarmas Investment Research

#### Time to vote (15 February –27 June 2018; 13 October 2018 - 13 April 2019)

On June 27<sup>th</sup> 2018, Indonesia will hold concurrent regional elections in 171 areas, with approximately 60% or ~160 millions of the population will use their voting rights. A series of campaign activities should take place before the big day, divided into non-media and media campaigns. The schedule for non-media campaign starts from 15 February to 23 June 2018, while for media campaign from 10 June to 23 June 2018. Moving forward, in April 2019, Indonesia will also hold two important events which are presidential and legislative elections. Following this event, campaign period will start from 23 September 2018 to 13 April 2019. In our view, these campaign activities may have the power to stimulate economy on the back of rising money circulation and higher spending. We view political campaigns will benefit staples and media players.

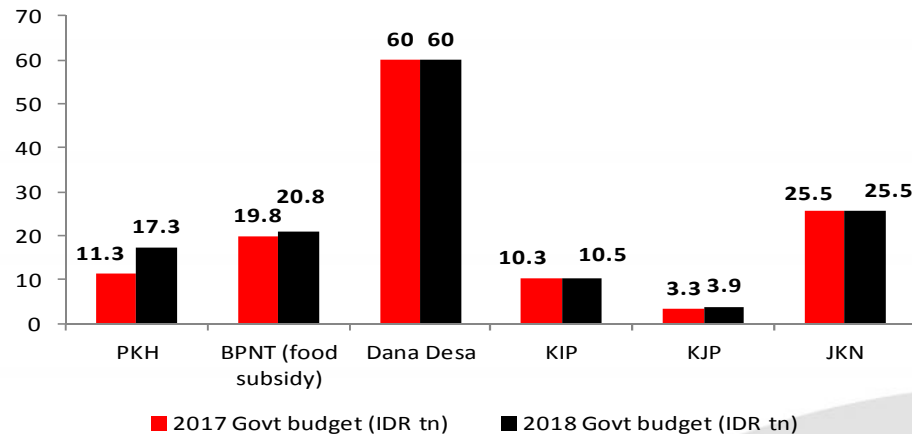
#### The 18<sup>th</sup> Asian Games (18 August - 2 September 2018)

Indonesia will host one of the most prestigious sport event, the 18th Asian Games this year. With total 45 Asian countries participating, an estimate of 15,000 athletes will gather in Indonesia. Not to mention it is also expected to attract many spectators across Asia who want to directly feel the euphoria of Asian Games. We view this event will serve as another catalyst to the domestic consumption from many different angles ranging from travel & transportation to local businesses and SMEs located in Jakarta and Palembang.

## Where the money will be coming from

Boosting consumption and maintaining purchasing power have apparently becoming the government's top of mind during the political year. As reflected in the 2018 State Budget, government allocates IDR 145.5 tn for energy subsidy (vs IDR 101 tn in 2017) and IDR 138 tn (vs IDR 130.2 tn in 2017) for social assistance program. The aid comes in the form of upgraded version of existing programs which mainly involve helping those with lower income and improving their standard of living. Below is the discussion of the social assistance programs.

### Social assistance program



Source: Various News, Sinarmas Investment Research

#### PKH (Program Keluarga Harapan)

PKH is a program of giving cash to very poor households based on predetermined terms and conditions (Conditional Cash Transfer). The government allocates IDR 17.3 tn and targets 10 million households as recipients with each household receiving IDR 1.89 mn/year. In addition, there are also elderly, disability, as well as Papua and West Papua regional assistance which amounts for IDR 2 mn respectively. Currently, the cash is disbursed to beneficiary families (KPM/Keluarga Penerima Manfaat) who hold KKS (Kartu Keluarga Sejahtera). KKS is gradually shifting to debit card format which supports disbursement through e-warong and Bulog and other saving account features. The first disbursement of IDR 500k has been executed in February 2018. The rest is going to be re-disbursed in the next phases on May, August, and November.

#### BPNT (Bantuan Pangan Non Tunai)

BPNT is a new food subsidy scheme which serves as the complement of PKH and the substitute of Rastra (Beras pra-sejahtera). The program targets the same recipients as PKH does with budget allocation of IDR20.8tn. Beneficiary families accept good quality of rice plus eggs at the price of IDR110k for free. The first monthly disbursement has started at the end of January 2018 and will continue to be given at every month-end.

#### Dana Desa (Village Fund)

The village fund is one of the government programs for regional development especially aimed for infrastructure improvement and social welfare. The government allocates IDR 60 tn for around 75 thousands villages this year. This year, several adjustments are made, such as to assign larger proportion of fund for the less developed villages and to allocate minimum 30% of fund for labor incentive program. The changes are applied with the hope that the cash for work program would be able to employ villagers and stimulate economy.

## KIP (Kartu Indonesia Pintar) and KJP (Kartu Jakarta Pintar)

In order to elevate the education level of Indonesian future generation, KIP and KJP are distributed to students in need whose age ranging from 7 to 18 years old for KIP and from 6 to 21 years old for KJP. Government assigns IDR 10.8 tn of budget for 19.4 million students for KIP where each receives IDR 450k – 1 mn per year based on their education level. Meanwhile, KJP is exclusively given for Jakarta residents in which kids accept IDR 3-5 mn/year. Budget allocation for KJP program amounts for IDR 3,9 tn with 800 students as its target.

## KIS (Kartu Indonesia Sehat)

To guarantee the sustainability of national healthcare program, President Joko Widodo launched the brand-new KIS to the poor to complete the existing health insurance card (Askes, Jamkesmas, KJS, BPJS Kesehatan). Looking at current numbers, there are 92.4 million KIS holders with IDR 25.5 tn government budget for the program. Considering the importance of health towards citizens' living quality, the government aims to attain 107 million KIS holders by 2019.

### Additional IDR 8 trillion to spend this year

Program	Allowances per recipient (IDR)	Recipients	Distribution	Total budget 2017	Total budget 2018
PKH	1.89mn/year/family	10 mn beneficiary families	4 Phases (Feb, May, Aug, Nov)	11.3 tn	17.3 tn
BPNT (food subsidy)	110k/month/family	10 mn beneficiary families	110.000 per month, 25th	19.8 tn	20.8 tn
Dana Desa	~800mn/village	74,985 villages	3 phases (Jan-Feb 20%, Mar-Jun 40%. Jul-Dec 40%)	60 tn	60 tn
KIP	450k - 1mn/year/person	19.4 mn students	Semi annually (Mar/Apr and Aug/Sep)	10.3 tn	10.5 tn
KJP	3 - 5.4mn/year/person	0.8 mn students	Semi annually (Mar/Apr and Aug/Sep)	3.3 tn	3.9 tn
KIS		92.4 mn students		25.5 tn	25.5 tn

Source: Various News, Sinarmas Investment Research

## Political campaigns

On top of government's social assistance programs in the aforementioned, we view that the upcoming regional, presidential, and legislative campaigns will stimulate medium-to-low income segment's spending to a certain extent given the potential money circulation arising from campaign activities and historical pattern of the domino effects.

## Downside risk:

Despite of being optimistic towards consumption recovery brought by events and social programs as the catalysts, our research team noted down a number of occurrences which might serve as downside risk to our thesis. At the time of this writing, JCI stood at 6,211 (-2.3% YTD), down from a record high of 6,693 (+5.3% YTD) in Feb '18 as IDR 20 trillion foreign outflow erased YTD gains. While it gets increasingly harder to measure the uncertainty from Trump administration, primarily concerning Rex Tillerson ousting (replaced by Mike Pompeo) and early indication of further tax reform as well as trade wars looming from recent development, we view that domestic economy still remains on track despite possible weak 1Q18 reading as export fell below expectation and the lack of catalysts that support domestic consumption. In addition to that, Harvest season that fell on the 1st quarter last year, lags to April this year. These uncertainties and 1.5% YTD currency depreciation have changed foreign investors' perspectives to Indonesia as an EM which during the early part of 2018 was traded at 18.0x PE.

## The battle of online and offline

Last year, Investment Coordinating Board (BKPM) announced that e-commerce investment in Indonesia had reached USD4.8bn. Big chunk of those investments went into unicorn start-ups (Tokopedia, Lazada, Traveloka, Bukalapak, Shopee). This month, Alibaba injected another USD2bn for Lazada, placing it as e-commerce with the highest value of investment. Provided with continuous funds injection, those digital economy players market themselves very aggressively in order to grab market share. They capture traffic and buyers by providing massive discounts at brand, merchant, and shipping levels altogether. In the latest development, we also observe a number of leading platforms is mixing their business models into not only C2C but also B2C with tech stuffs or gadgets, fashions, and F&B for starters. While these developments benefit consumer staples as the product providers and media as the promotion place, e-commerce's very existence cannot be denied to be a threat for brick and mortar retail businesses.

## Consumer staples and retail sector

Amid a year of great chances. Last year was a disappointing year for consumption, impacted by: 1) lackluster purchasing power on electricity tariff adjustment and 2) people's tendency to save more than to spend. Throughout 2017, FMCG value has only grown by 2.5% (vs 7.8% in FY16), worsen by the fact that volume was down 2.3% (vs +2% in FY16). While retailers, especially the middle-to-low-end one, have seen lower than expected SSSG. This time around, the major events starting in the upcoming months until 1H19 should promise a better atmosphere for consumption as discussed earlier. Aligned with the smooth disbursement of social assistance programs, we expect money circulation to rise, spending to surge, hence benefit consumer names, both staples and retailers.

Top picks for staples. We remain optimistic to see better FMCG demand on the back of potential consumption recovery this year. For staples, we favor the mass producer names such as Indofood group (INDF and ICBP). Utilizing their well-known products that target all consumer classes coupled with nationwide distribution channel, positive volume growth should be visible this year. INDF would benefit from higher demand of daily staples (flour, cooking oil, margarine, syrups etc) during the fasting and Eid Al-Fitr. Meanwhile, increasing consumption on snacks and beverages during World Cup and Asian Games would provide some fresh air for ICBP.

Top picks for retailers. Historically, retailers count on Lebaran season which commonly accounts for 30% - 40% of their annual sales. It is also worth to note that recent data released by LPPF (better-than-expected 4Q17 result) and RALS (improving Feb 2018 SSSG) signaling recovery is around the corner. Greater growth particularly occurred at outer Java area on behalf of rising commodity prices, with coal leading the rally. Being optimistic, we look upon RALS and LPPF whose target market are government social programs' priorities as the main beneficiaries should their customers are back to shop.

## Telecommunication sector

Streaming time! Shortly, we will face several major events in these upcoming months whereas data traffic growth is expected to improve rapidly. Rising data traffic will become the key strategy for telecommunication industry this year as legacy revenue has experience its downfall. Eid Al-Fitr, World Cup 2018, Asian Games 2018 as well as regional and presidential election campaign will become the main trigger for rising data consumption. Historically, during Eid al-Fitr weeks, data consumption could grow by around 128.7% YoY or around 21.6% higher than normal periods. Moreover, we could count on rising data consumption during World Cup and Asian Games as live online streaming and match highlight video replay become very popular during these period. Not to mention, social media and internet forums will become more active as people tend to share the latest news and video of the match. Lastly, political campaign could also be an additional major force toward data consumption growth. Overall, we believe rising consumer spending and several huge events occurrence this year could boost data traffic growth and benefited telecommunication sector.

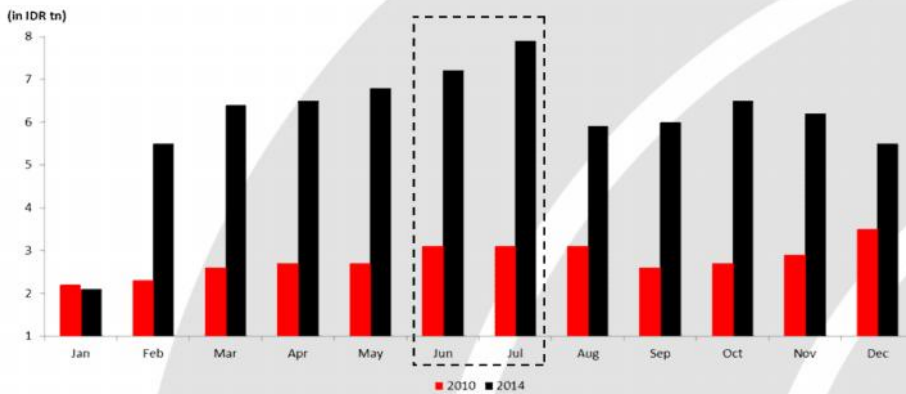
In this sector, our top picks are TLKM and EXCL due to: 1) better performance ahead, and 2) attractive valuation. At current price, TLKM is traded at 6.2x forward EV/EBITDA, -1.4SD below its 3-years average EV/EBITDA while EXCL's stand at 4.1x forward EV/EBITDA, -1.9SD below its 3-years average EV/EBITDA.

## Media sector

Rising ad-spending. Heading to 2Q18, we most likely see rising ad-spending on the back of rising consumption and major events for this year. As we have pointed out, there will be several big events held this year namely World Cup, Asian Games as well as regional and presidential election campaign which should bolster ad-spending. Looking at the data in 2010 and 2014, ad-spending on the World Cup month (June & July) had increased by 15.3%/31.5% respectively compared to normal periods. Despite having no direct impact toward media companies under our coverage, the rising consumption effect could trigger higher overall ad-spending. Not to mention, Asian Games will also be held one month right after the World Cup ended, which we believe could contribute similar portion toward overall ad spending. Worth to note, SCTV under SCMA has the broadcasting rights for Asian Games. Lastly, we also have our regional and presidential election media campaign. Flashing back to 2014, ad spending from political campaign during election grew by 89% YoY where RCTI under MNCN positioned as the second biggest portion of ad spending in the last election campaign. Overall, ad-spending should significantly improve this year. Furthermore, rising consumption effect could also trigger higher ad-spending especially from FMCG companies and also e-commerce. Taking everything into consideration, we remain our positive stance on media sector.

Our top picks for the sector is MNCN (12.5x forward PE, -2.4SD below 5 years avg PE) as it owns a more attractive valuation compared to SCMA (25.0x forward PE, -1.1 SD below 5 years avg PE). However, we also like SCMA as it has exposure toward Asian Games. Overall, we think both companies will perform well this year supported by higher overall ad spending.

## Ad spending 2010 and 2014



Source: Nielsen, Sinarmas Investment Research

## World Cup 2018: Germany to lift the trophy

The 2018 World Cup will be held in Russia from June to July 2018. This time around, unlike the previous World Cup brackets, there are no "group of deaths" (though some observers might say Group F is, but with aging Ibrahimovic and South Korea being a shadow of their own past, Germany is almost certain to cruise their way past the group stages). That being said, this is The World Cup where any potential surprises could happen such as Egypt overthrowing Russia, Nigeria's neck-in-neck battle with Croatia to be Argentina's plus one as well as Colombia upsetting Poland to be Group's Winner.

Going forward, round of 16 and quarter finals should be rather straight forward. Interesting to note is Spain vs Argentina where Messi is expected to bring his side victorious against arguably the best goalkeeper in the world, Spain's De Gea. Another interesting game is Brazil vs Belgium where both squads are still very young and abounds with talents. However, Brazil's strong leadership quality in the form of Alves as well as Thiago Silva which Belgium lacks should give them the edge.

Semi-finals are tricky. On paper, France should have the upper hand given their 3-layer squad strength backed by the astonishing talents of their young stars Griezmann, Dembele and Mbappe. But they are facing a squad which has Coutinho and Neymar. This is a tough call but our faith is on the Brazil's magicians. For Argentina vs Germany, this time the "flea" argument will not work because this is Germany, the juggernaut of big time tournaments. Consistently ranks in the top 4, Germany has everything they need, including possibly the strongest midfield in the game. With Ozil and Kross at the centre, as the team's passing metronome, as well as Thomas Muller's goal-getter instinct, German should outshine the brilliance Messi.

The Final will be a show of resilience between Brazil's persistence attack vs Germany's unrelenting defence. Neymar will be too much for Hummels to handle, given his lack of speed. Furthermore, Philip Lahm's retirement may also leave Germany slightly disoriented. But this is Der Panzer we are talking about. If Kimmich / Boateng can collapse on Neymar / Coutinho, Brazil's aggressive offense is sure to be contained. Toni Kroos has become the spiritual leader and centre-piece of Germany's play which provides stability to the entire system. If him and Ozil are in sync, German will undoubtedly win.

### Our FIFA World Cup 2018 predictions



4 Times  
WC Champion

2 Times  
WC Champion

5 Times  
WC Champion

\*Feel free to cast your vote via email to: [research@sinarmassekuritas.co.id](mailto:research@sinarmassekuritas.co.id)

\*\*Pooling results will be announced on June 12<sup>th</sup> 2018



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