Strategy

The Long Awaited Investment Grade

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S&P has finally raised ratings on Indonesia to 'BBB-/A-3' driven by reduced fiscal risks. A long awaited rating change which sets Indonesia on investment grade (stable outlook) aligned with ratings given by Moody and Fitch. Some of the keynotes from the Standard & Poor's rating upgrade includes: 1) effective expenditure and revenue measures taken by Indonesian authorities to stabilize public finances despite the terms of trade shock, 2) expectation on net general government debt to remain at the moderate levels of below 30% of GDP, 3) better revenue collection to result from the data collected during tax amnesty, 4) increased control over fiscal spending with subsidy reforms, and last but not least, 5) sustainable CAD at below 2.5% of GDP over the next few years despite infrastructure projects due to conservative projection in the state budget. All in all, S&P concludes that the outlook on the long-term rating is stable because upside and downside risks to the ratings are broadly balanced.

Which sectors are benefited? We see the adjustment made on the sovereign rating may attract significant foreign inflows going forward, especially factoring the geopolitical condition and weakening greenback Dollar post Trump's "obstruction of justice" indictment. Hence, we recommend big market capitalization companies or companies listed in LQ45 for investors who are seeking for short-term trading ideas (ASII, BBRI, TLKM, etc). Setting inflows aside, we see two sectors as the main beneficiaries from the rating change, Infrastructure and Property, seeing that lower cost of fund will naturally benefit sectors that are highly leveraged or need massive funding. Lower cost of fund should lower infrastructure companies' interest expenses and bring some projects more feasible. WIKA and PTPP have low Debt to Equity Ratio (DER) due to capital injection last year. Nonetheless, WSKT and JSMR which have high DER will benefit the most from lower funding costs. Moving forward, in property sector, the most benefitted developer is ASRI, followed by SMRA and BSDE. Be that as it may, we conducted a sensitivity analysis on both sectors in a case of lower borrowing cost, to see which company within its respective sector benefits the most, although in reality we believe there will be a time lag before the change materializes.

Stocks	Current Price (IDR)	Previous TP* (IDR)	Market Cap (IDR tn)
PTPP	3,080	4,620	19.2
WIKA	2,380	2,545	21.4
WSKT	2,420	2,630	32.8
ADHI	2,300	2,645	8.2
JSMR	5,075	4,710	36.7
ASRI	328	515	6.5
BSDE	1,800	2,400	34.6
SMRA	1,370	1,800	19.7

*Notes: *before S&P upgrade*

Impact From Lower Borrowing Costs on Infrastructure and Property Companies to FY17E Profitability

(IDR bn)	ASRI	BSDE	SMRA
	Present		
Interest Expense 2017	(610)	(428)	(628)
NPAT 2017	666	2,769	677
	Scenario 1 (-50 bps)		
Interest Expense 2017	(570)	(395)	(599)
NPAT 2017	706	2,802	706
	Scenario 2 (-100 bps)		
Interest Expense 2017	(531)	(362)	(569)
NPAT 2017	745	2,835	736
	Scenario 3 (-150 bps)		
Interest Expense 2017	(491)	(329)	(540)
NPAT 2017	785	2,868	765
% Growth			
NPAT 2017	5.97%	1.19%	4.33%
NPAT 2017	11.9%	2.4%	8.7%
NPAT 2017	17.90%	3.57%	12.99%

Stocks	DER 1Q17
ASRI	1.05
BSDE	0.30
SMRA	0.90

(IDR bn)	PTPP	WIKA	WSKT	ADHI	JSMR
	Present				
Interest Expense 2017	(579)	(645)	(1,720)	(381)	(3,242)
NPAT 2017	1,337	1,132	1,419	514	1,016
	Scenario 1 (-50bps)				
Interest Expense 2017	(542)	(605)	(1,505)	(357)	(3,039)
NPAT 2017	1,374	1,173	1,638	539	1,162
	Scenario 2 (-100bps)				
Interest Expense 2017	(506)	(565)	(1,290)	(333)	(2,837)
NPAT 2017	1,411	1,214	1,858	563	1,308
	Scenario 3 (-150bps)				
Interest Expense 2017	(470)	(524)	(1,075)	(309)	(2,634)
NPAT 2017	1,449	1,256	2,077	588	1,454
% Growth					
NPAT 2017	2.77%	3.64%	15.46%	4.77%	14.36%
NPAT 2017	5.55%	7.27%	30.92%	9.54%	28.71%
NPAT 2017	8.32%	10.91%	46.37%	14.31%	43.07%

Stocks	DER 1Q17
PTPP	0.63
WIKA	0.54
WSKT	1.28
ADHI	0.78
JSMR	1.71

Source: Company Data, Sinarmas Investment Research

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