The Journal
19 November 2018

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MSCI Semi-Annual Index Rebalancing (13 November 2018). MSCI announced changes to its index on 13 November 2018 (GMT) after U.S. close. The changes will be traded on 30 November, 2018, and be effective on 3 December, 2018. For the MSCI Global Standard Index, they have added PTBA and TKIM; and deleted LPPF and WSKT. For the MSCI Global Small Cap Index, they have added LPPF, POOL, WSKT; and deleted BBKP, HRUM, ITMG, BHIT, MDLN, SILO, VIVA. We expect there will be constant flow as active funds will adjust their weight on the stocks listed above, while passive funds will make the adjustments on the closing of trading session on 30 November, 2018. Buying opportunity can arise when passive funds adjust and sell deleted stocks, as on 3 December 2018 changes would have been effective and valuations might be undemanding by then. Note that the next MSCI quarterly Index Reviews will be announced on 11 February, 2019 (GMT) and will be effective on 1 March, 2019 (GMT).

Global MSCI addition/deletion

MSCI Global Standard Index	
Additions (+)	Deletions (-)
PTBA	LPPF
TKIM	WSKT
MSCI Global Small Cap Index	
Additions (+)	Deletions (-)
LPPF	BBKP
POOL	HRUM
WSKT	ITMG
	BHIT
	MDLN
	SILO
	VIVA

Source: MSCI, Sinarmas Investment Research

BI raised 7DRRR by 25 bps to 6.00% in November meeting; FASBI and REPO O/N raised to 5.25% and 6.75% respectively. Governor Perry Warjiyo explained during the press conference that decision to raise the 7DRRR was taken to strengthen the nation's current account and increase financial assets' attractiveness. In addition, decision to raise the rate was also taken in anticipation of further tightening on global monetary policy.

On the flip side, while headline Rupiah reserve requirement was maintained at 6.50%, Rupiah reserve averaging was raised by 100 bps to 3.00% in an effort to increase liquidity flexibility and distribution within the financial system. Additionally, BI also increased the PLM's (macroprudential liquidity buffer) portion that can be repoed to the central bank to 4.00%. The PLM relaxation is expected to improve the liquidity condition given that 100% (previously 50%) of the securities that are used to conform to PLM can now be used as underlying.

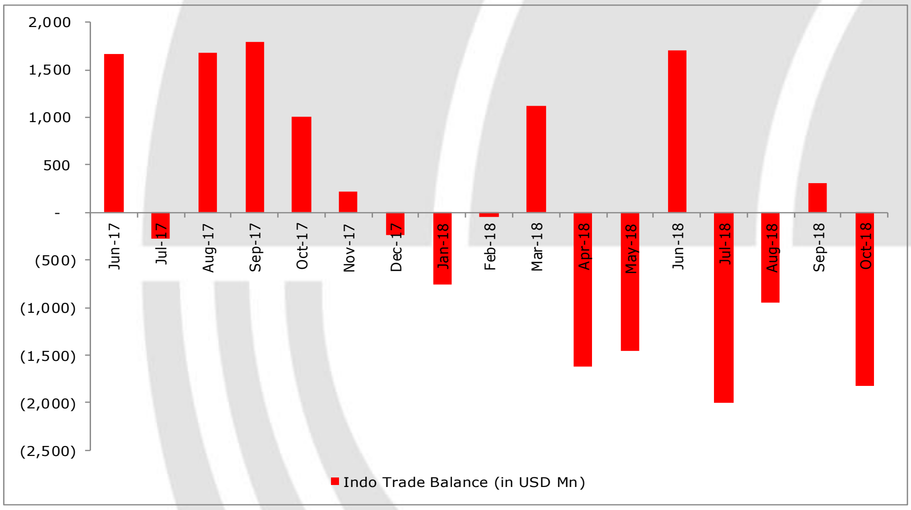
We view BI's decision to raise policy rate will bring positive impact to the market. Considering the key objectives behind the rate hike were strengthening current account and attracting foreign investment to the country, widened trade deficit that was announced earlier that day, however, might have played a critical role in BI's decision. Be that as it may, we believe that measures taken by BI may have the power to regain investors' confidence as it promotes currency stability and shows amidst the tightening monetary policy, BI still has some room to maneuver at the macroprudential level to address the liquidity issue. Meanwhile, tighter monetary policy is expected to reduce the import-export divergence (23.4% vs 8.8% YTD), and lead to lower current account deficit and healthier balance sheet.

Another trade balance deficit in October 2018. Indonesia posted Oct-18 exports at USD 15.8 bn which grew by 3.59% YoY and 5.87% MoM, supported by a mild growth of 4.03% YoY in the non oil & gas (non O&G) while oil & gas (O&G) saw a slight contraction of 0.44% YoY. Contraction in O&G was contributed by -25.7% YoY and -17.3% YoY growths in refined oil and crude oil respectively, which we view, was on the back of higher domestic usage. Meanwhile, non O&G growth of 9.71% YoY should come from coal export.

On the other hand, imports reached USD 17.6 bn in Oct-18 (+23.66% YoY and +20.6% MoM), pushed by 31.78% YoY and 22.17% YoY growth from O&G and non O&G. Significant oil price hike had pulled up crude oil and refined oil imports to USD 878 mn (+13.2% YoY) and USD 1.7 bn (+44.3% YoY) respectively, despite the moderate volume. Classified into the usage of goods (consumer, raw materials and capital), all three sections still posted strong growth in Oct-18. Growing consumer goods and raw materials imports could indicate strong domestic demand, whereas strong growth on capital goods could be a signal of higher spending for infrastructure projects.

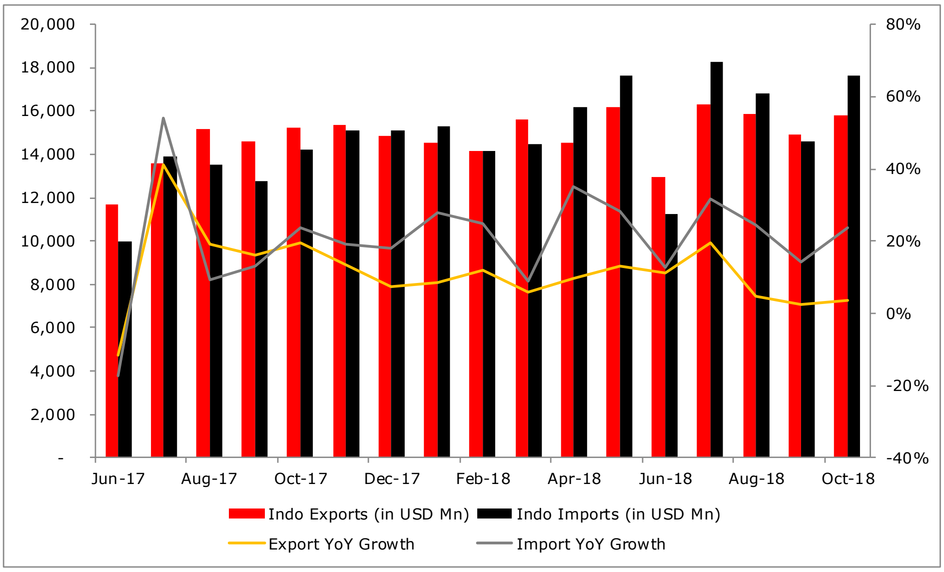
With imports far exceeding exports, we once again saw trade balance deficit of USD 1.82 bn (contributed by a deficit of USD 1.4 bn and USD 393.2 mn from O&G and non O&G respectively) in Oct-18, compared to a surplus of USD 227 mn in the previous month. In the upcoming months, we expect a softening trade balance as we see 1) continuous lower oil imports on the B20 implementation and 2) plunging oil price to ~USD 57/barrel (as of 16 Nov 2018) following US waiver on Iran sanction as well as rising production and inventory had raised concern on supply glut in the near term.

Indonesia Trade Balance



Source: BPS, Sinarmas Investment Research

Indonesia export/import



Source: BPS, Sinarmas Investment Research

New proposed regulation on coal permits. Local news have cited the potential cut tax rate from 45% to 25% for coal miners whose coal contracts of work (PKP2B) will soon expire and be converted to special mining permits (IUPK). According to the draft, trade off from lower tax rate will come from higher royalty tax from 13.5% to 15% as well as additional 10% tax from net profit (6% for regional government and 4% for central government). Our sensitivity analysis suggests that as long as profit before income tax margin remain above 10%, the new tax regulation will bring benefit to the coal miners. In the case of ADRO and Kideco whose PBT margin were at 24%/30% respectively, it could potentially uplift ADRO and Kideco net profit margin by up to 1.5-2.0%, assuming no further tax given. However, note that this is only a proposal draft and even if implemented, its benefit will only take place right after the conversion of permit, though it should give short term catalyst to the sector.

Expiry date for CCoW of coal mining companies

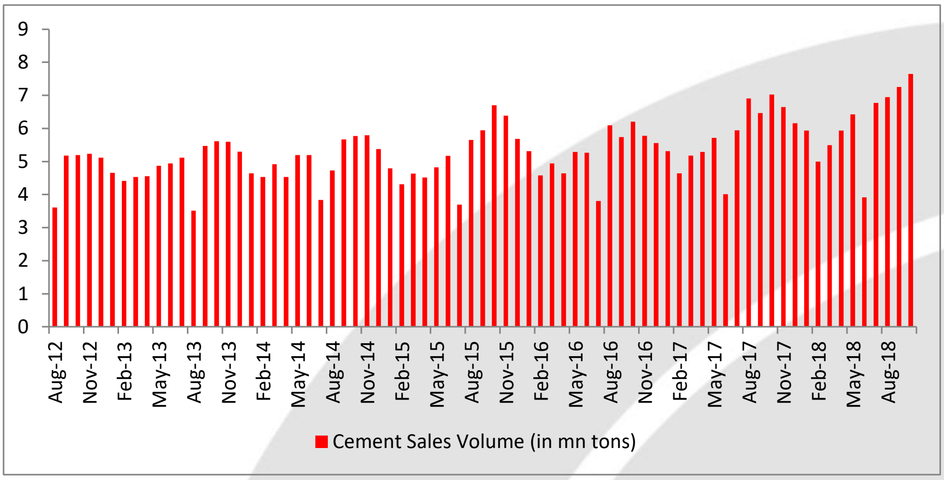
Coal company	Contract expiry date
Kaltim Prima Coal	2021
Arutmin Indonesia	2020
Adaro Energy	2022
Kideco Jaya Agung	2023
Berau Coal Energy	2025

Source: Local news, Sinarmas Investment Research

Industry consolidation is imminent. Cement sector's consolidation phase has finally started with Semen Indonesia (SMGR) taking the first step in acquiring Holcim Indonesia (SMCB). LafargeHolcim closed the acquisition deal of 80.6% SMCB's stake disposal with USD 1.75 bn transaction value on a 100% basis. The assets to be sold include four cement plants (total capacity of 15 mn tons, 33 ready mix-plants, and two aggregate quarries. In order to complete the deal, SMGR receives new loan facilities from foreign and local banks amounting to USD 1.28 bn. We believe that the acquisition, though driving company's finance cost higher for the next two years, is a necessary action for the sake of sectoral recovery. It will benefit SMGR as well since the consolidation reinforces SMGR's dominance through 55% market share (SMGR alone: 39.4% market share) and 47.3 mn tons capacity (SMGR alone: 32.2 mn tons). The consolidation brings positive sentiment for cement sector as a whole since SMCB's acquisition is won by local player, SMGR, which is expected to support pricing recovery. As competition lessened and more pricing power gained, SMGR will have much more room for adjusting prices.

Domestic cement sales grew by 5.1% YoY as of 10M18. Overall domestic cement sales grew in-line with industry's target of 5% YoY growth. The sector sustained last year's demand recovery where industry posted 5.1% YoY 10M18 domestic growth and 5.9% YoY growth including export sales. The improvement is mainly supported by intensive infrastructure projects as indicated by solid bulk cement sales for the past two tears (+12.9% YoY in 10M18). On the other hand, 10M18 bag cement sales grew by only 2.6% YoY, giving a hint that sluggish demand from property sector remains. Banten contributed the highest growth in Oct-18 (+23.1% YoY) compared to other regions. We also note a slowing demand from Sumatera and Kalimantan whose sales volume grew by +2.5% YoY and +3.8% YoY respectively in Oct-18.

Cement industry monthly sales volume



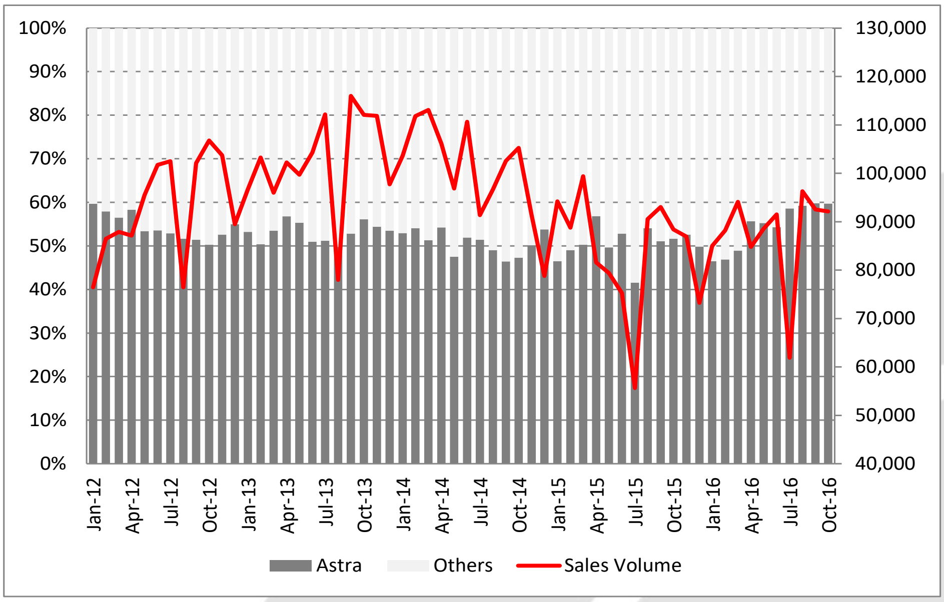
Source: Company data, Sinarmas Investment Research

10M18 National 4W Wholesales climbed to 7.1% YoY. Indonesia's car sales from January to October 2018 recorded a positive growth of 7.1% YoY with a total of 962,817 units. In October only, car sales recorded at 106k units (+13.7% MoM, +12.3% YoY) which was only second to Jul-18 sales (107.5k units). We believe the strong wholesale growth October was backed by the decrease in inventory level. Nonetheless, we expect 4W sales to remain stable until year-end 2018.

Breaking sales down into brands, Toyota leads with 36.2k units (+20.8% MoM, +20.2% YoY), followed by Daihatsu with 21k units (+22.9% MoM, +25.5% YoY). The overall Astra brands which include Toyota, Daihatsu, Isuzu, and Peugeot booked a total of 59.9k units (+20.1% MoM, +22.0% YoY) in Oct-18, gaining back its market share and grabbed 56.5% of total industry sales during the period (this is the highest sales that Astra has recorded in the past 19 months). However, Astra's sales YTD stood at 484.5k units (-1.7% YoY and equivalent to 50.3% market share). While the number is lower compared to last year, after strong sales in Oct-18, this is the first month that Astra's market share came back above 50%. On the other hand, Mitsubishi booked 15.2k units of wholesales in Oct-18 (-5.8% MoM, +28.7% YoY), while Honda recorded 15.5k units (+41.3% MoM, -9.0% YoY) boosted from the launching of New Honda Brio (6.7k units in Oct-18). To add, Suzuki posted 8.5k units sales in Oct-18 (-4.1% MoM, -11.3% YoY) while Nissan booked 167 units of sale during the same period (+5.7% MoM, -60.9% YoY).

While competition remains tight this year, we see next year to be even more interesting as more new models will be launched. From the Chinese automakers, Wuling plans to launch its SUV models in 1H19, while DFSK also plans 2 new SUV models which will be positioned under the Glory 580. These models will bring competition to multiple brands such as Mitsubishi Xpander, Toyota Rush, Daihatsu Terios, and Honda HR-V. On the flip side, Mitsubishi commits to add 4 bn yen worth of investment to increase the production capacity in Indonesia and to collaborate with Nissan to produce Xpander's engines in Nissans' factory. Lastly, Nissan has confirmed that they are planning to launch a similar model to Mitsubishi Xpander under Nissan brand in 2019.

National 4W sales



Source: Gaikindo, Sinarmas Investment Research

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