

Gradual implementation of free-float adjusted indexes. IDX has finalized the plan to replace the weighting methodology for IDX30 and LQ45 indexes from market cap to free-float adjusted following the announcement published last Friday. Regarding this matter, it will be implemented gradually in three phases. The timeline will begin from 1 February 2019 and will be fully completed on 1 August 2019. Initial phase calculation will be "free-float shares + 70% of non free-float shares", while in the last phase "0% of non free-float shares" will be used for the calculation. In between the periods, IDX will gradually reduce the "70% of non free-float shares", though they have not stated the timeline of the announcement. **In all, this should be positive for HMSP, UNVR, ICBP, and GGRM given that initially bigger capital outflow was expected.**

Year-end bonds issuance cancelation leads to short-term bull for Indonesia bond market. The four canceled bonds auctions consisted of SBSN auctions on November 27, SBN on December 4, SBSN on December 11, and SBN on December 18 with total potential amount of IDR 48tn. Based on our estimate, the government has achieved 98.9% of bonds issuance target this year and thus has lessened the need for another round of bonds auction. We expect short-term bond price to rebound supported by supply cut, while correction may occur nearing end-of-year up to earlier 2019 due to abundant bonds issuance in 1Q of fiscal year. Despite the recent 25 bps hike of 7DRRR from 5.75% to 6.00%, we note the stabilizing Rupiah has been giving positive sentiment for the domestic bonds market, adding up to the aforementioned catalyst for the short-term rally.

Our view on MoF's plan to relax property taxes. Back in October, the government aimed to support its real estate industry with the possibility of eliminating the luxury tax (PPnBM) and income tax article 22 on properties. However, based on latest news, tax relaxation are more feasible rather than tax elimination on lux properties. Minister of Finance stated that the threshold for luxury tax of 20% applied to houses would be raised to at least IDR 30 bn from IDR 20 bn. At current, properties that are object to luxury tax are houses or non strata-title property with more than IDR 20 bn value and strata-title properties with more than IDR 10 bn value. Moreover, she also said the sales of luxury property will also be subject to a lower income tax of 1% of the selling price, against 5% now. At current, properties that are object to income tax article 22 are houses and apartments with value of more than IDR 5bn.

The markets are reacting positively on the news, reflected by the rally of property and construction stocks on the day after the news was released. However, we believe the impact to overall property sector will be limited since most of developers are rarely to offer property that are object to 20% luxury tax, while the smaller income tax of 1% are more impactful to some developers with premium property products. Nevertheless, considering current property market are mostly supported by end-user buyers, we hope that the tax relaxation could also help the property demand from investor buyers side.

Research Team

+62 21 392 5550 ext. 611

research@sinarmassekuritas.co.id



Worry not regarding ADHI's light rail transit (LRT) phase I and WIKA's high speed railway (HSR) project delay. Last week local news reported that there will be a potential construction delay for ADHI's LRT and WIKA's HSR due to severe traffic jam that has been occurring frequently alongside the Jakarta – Cikampek toll operated by JSMR. A bit of background, ADHI's LRT project contract is worth IDR 22,9tn and construction progress stands at 48.5% as of November 2018, while completion target is 2019. WIKA's HSR project contract is worth USD 6,1bn (WIKA's stake is 22.8%) and construction progress/land clearing reached 5%/82.5% as of October 2018, while completion target is 2021. Any delay in the construction progress will provide negative sentiment as payment will be postponed to the contractor. However, after a meeting was held between the Ministry of Transportation and the aforementioned companies, they concluded that there will be no construction pause needed. Instead all related entities will be coordinating their schedules. Moreover, WIKA and ADHI can focus their resources on building different segments of the LRT and HSR when circumstances do not permit them to work on the bottleneck area. Thus, there should be minimal impact towards projects completion as per today unless there are further changes.

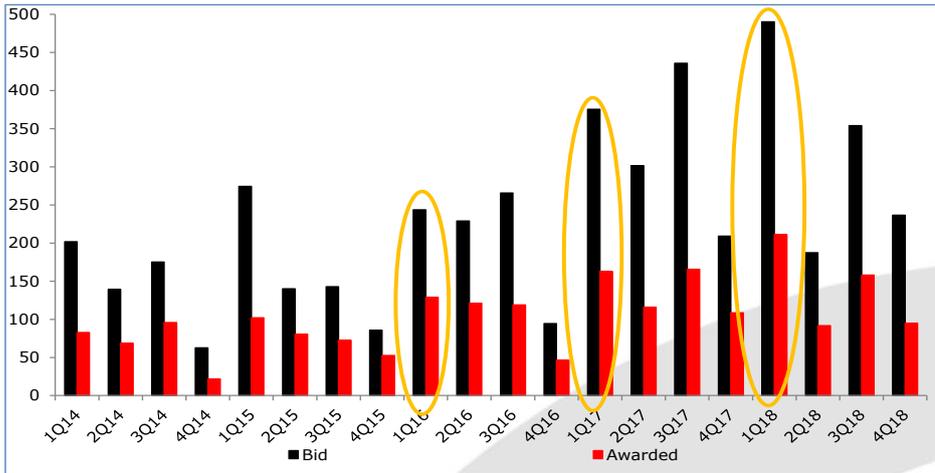
Coal sector went off as confidence began to wear off. Coal mining sector share prices plunged ~9.7% last week, led by INDY (-17.9%), ADRO (-13.5%), HRUM (-11.0%), ITMG (-10.9%), PTBA (-9.4%) and UNTR (-7.6%). Major correction in coal sector was driven by 1) concerns on global economy growth as investors have started to price in the potential impact of trade war to the global growth next year as many economists have started to tone down their GDP forecasts. 2) Lower demand for seaborne coal export market amidst China regulation to limit coal import for the rest of the year. Furthermore, inventory in China's power plants were recorded close to a record high in the past few months. 3) Newcastle active contract (XWA) was recorded at USD 98 per ton this week, the first time price fell below the USD 100 mark this year. In our view, at current situation, we prefer mining contractor (UNTR) over coal miners as they have less exposure to coal price volatility and global growth uncertainty. For coal miners, despite potential for slight rebound, we advise investors to stay cautious as coal demand for next year might soften and coal price might have a slight correction. Our least preferred stock for coal miners are INDY and ADRO as both have significant exposure to low CV coal price and China export market.

LQ45 and IDX 30 Free Float Weighting Calculation

Phase	Effective Date	Total Shares for Indexes Calculation	Non free-float ratio that are not taken into the calculation
Initial phase	1st February 2019	Free-float shares + 70% non free-float shares	30%
Next phase	To be announced by the latest 5 days before effective		
Last phase	1st August 2019	Free-float shares + 0% non free-float shares	100%

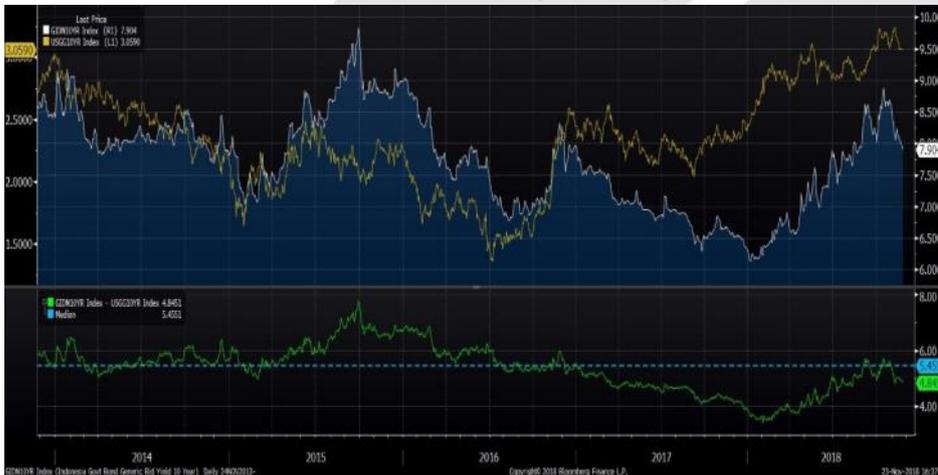
Source: IDX, Sinarmas Investment Research

SUN and SBNS Auction Results since 2014



Source: Sinarmas Investment Research

ID 10-Yr Govt Bonds and US Treasury-Yield Spread



Source: Sinarmas Investment Research

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