



Indonesia Strategy

Lower fuel prices

- Remain positive on the market with 2016 index target of 6,000, at 14.9x FY17 P/E. Positive macro developments & earnings recovery to be main catalysts.
- Government cuts fuel prices by 3-11%. Positive impact on inflation.
- Interest-rate cuts likely in 1Q16, backed by low inflation. Maintain forecast of 50bp cut for 2016.

Stay positive, JCI target of 6,000

We remain positive on the market and maintain our end-2016 index target of 6,000, set at 14.9x 2017 P/E or 1SD above the market's six-year mean. Lower inflation, interest-rate cuts, IDR stability and earnings recoveries should provide market catalysts, in our view. Our top picks are AALI, ACES, ASII, BBRI, BSDE, GGRM, JSMR, LPCK, TLKM and WSKT.

Cutting fuel prices

Following oil-price declines and currency stability, the government has decided to cut prices for premium (RON 88) and subsidised diesel by 3.4% and 11.2% to IDR7,150 and IDR5,950/litre respectively, from 5 Jan 2016. It will review prices at least once every quarter and set floor and ceiling prices for fuel. Its price bands, we believe, will serve to maintain investment interest in the sector and help it manage inflation.

Positive for inflation

We estimate that the price cuts would lower 2016 inflation by 0.2-0.3%. Every IDR100/litre change in fuel prices affects inflation by 0.06%, in our estimation. Companies that sell to the mass market such as GGRM, INCBP, INDF, MYOR, RALS, TELE, TLKM and UNVR should benefit from low inflation and higher minimum wages.

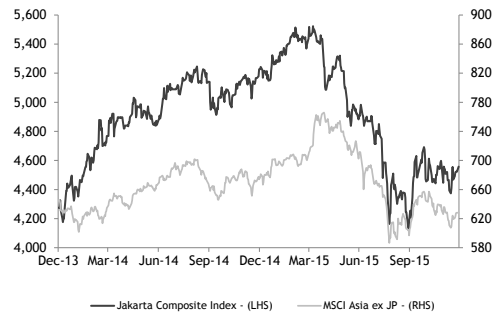
Rate cuts more likely

With December's inflation estimated at 3% YoY, Indonesia's real benchmark rate would be 4.5%. This would be its highest in six years. Rates are more likely to be cut in 1Q16, as we think inflation will remain low due to cheaper fuel. We maintain our view of a 50bp cut in 2016.

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Country Index vs MSCI



No	Ticker	Rating	Mkt cap*	Price**	TP**	+/- to TP (%)	PER (x)		P/BV (x)		Net profit growth (%)		ROE (%)		Yield (%)
							2015F	2016F	2015F	2016F	2015F	2016F	2015F	2016F	
1	AALI IJ	BUY	1,791	15,500	24,000	54.8	37.9	14.8	2.1	1.9	-74.2	156.1	5.5	12.9	1.1
2	ACES IJ	BUY	1,038	825	850	3.0	25.2	22.2	5.0	4.2	1.3	13.2	19.8	18.8	0.6
3	ASII IJ	BUY	17,818	6,000	7,500	25.0	15.0	12.8	2.3	2.1	-15.7	17.1	15.5	16.5	3.0
4	BBRI IJ	BUY	20,087	11,100	13,000	17.1	11.1	10.5	2.4	2.1	1.8	5.7	23.2	21.0	2.7
5	BSDE IJ	BUY	2,457	1,740	2,100	20.7	13.5	12.6	1.7	1.5	-35.0	7.2	12.9	12.3	0.9
6	GGRM IJ	BUY	7,643	54,150	60,000	10.8	18.8	16.4	2.8	2.5	3.0	14.6	15.1	15.4	1.8
7	JSMR IJ	BUY	2,519	5,050	6,500	28.7	26.0	19.7	3.2	2.9	-5.9	31.9	12.4	14.7	1.6
8	LPCK IJ	BUY	359	7,025	11,000	56.6	5.0	4.9	1.3	1.1	15.8	2.7	26.7	21.5	0.0
9	TLKM IJ	BUY	22,996	3,110	3,500	12.5	20.4	18.1	4.2	3.8	5.1	12.3	20.7	21.0	2.8
10	WSKT IJ	BUY	1,308	1,620	2,200	35.8	22.3	18.6	2.0	2.2	59.3	47.8	9.0	12.0	0.6

Pricing as of 23 December 2015

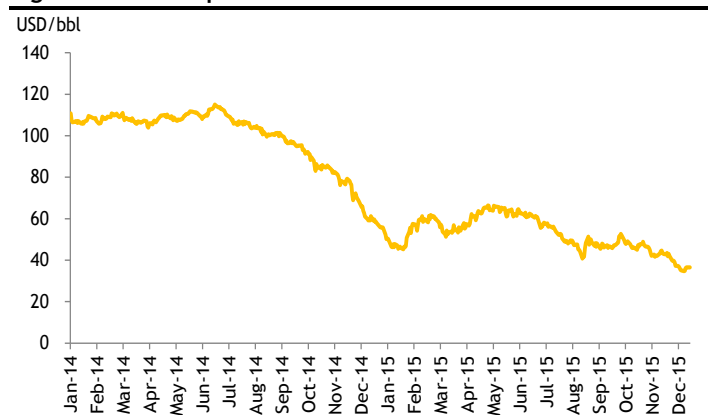
* in USD m; ** in IDR

Source: Bloomberg & Maybank KE

Lower fuel prices

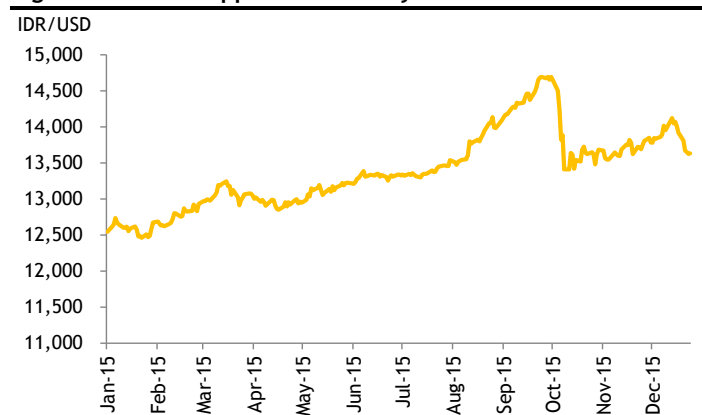
On 23 Dec, the government announced that RON 88 and subsidised diesel prices will be cut by 3.4% and 11.2% to IDR7,150 and IDR5,950/litre from IDR7,400 and IDR6,700 respectively. The new prices take effect on 5 Jan 2016. The government cites three variables in its price decision: oil prices, currency and efficiency in fuel-distribution chains.

Figure 1: Low oil prices



Source: Bloomberg

Figure 2: IDR has appreciated lately



Source: Bloomberg

The government also plans to introduce floor and ceiling prices for fuel. These have yet to be determined. The idea is not new; it has been discussed before, by the current and previous administrations. If fuel prices fall below its floor price, the difference will be considered “savings” and be used by the government when fuel prices move above its ceiling price. This mechanism, we believe, could serve to maintain investment in the sector and help the government manage inflation.

Positive impact on inflation

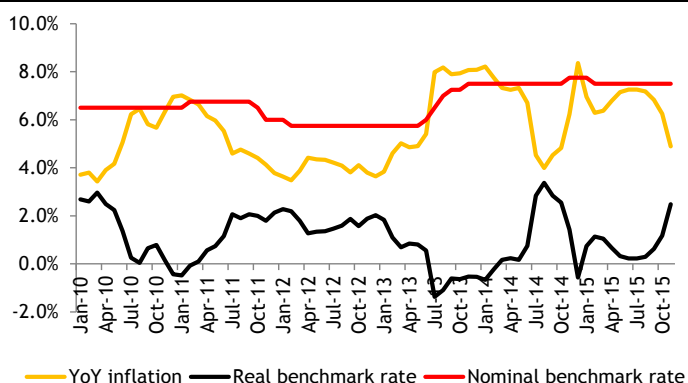
We estimate that the price cuts will lower 2016 inflation by 0.2-0.3%. As we expect IDR to be fairly stable in 2016, any further drops in oil prices may lower fuel prices even more. Our analysis suggests that inflation declines by 0.2-0.3% for every IDR100/litre decline in both premium and subsidised diesel prices, *ceteris paribus*.

The mass market should benefit the most, not only from low inflation but also higher minimum wages. Companies that cater to this market include GGRM, INCBP, INDF, MYOR, RALS, TELE, TLKM and UNVR.

Higher chances of rate cuts

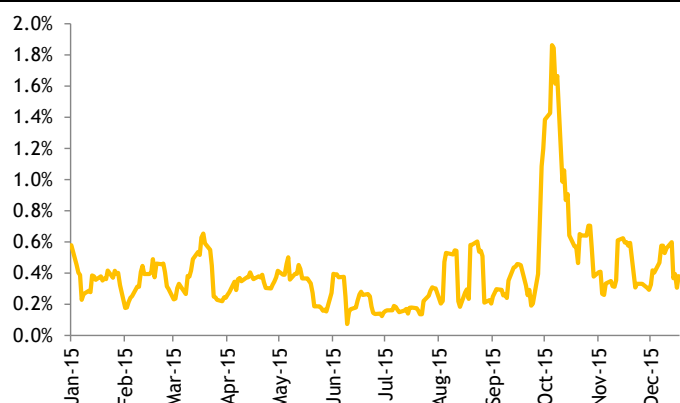
Having been down to 4.9% YoY in November from 6.3% YoY in October, inflation, in our estimation, could slide down in December to 3.0% YoY. If so, the real benchmark rate would be 4.5%, its highest in six years. With inflation set to remain low in 2016, we believe interest rates could be cut next year. We continue to build in a 50bp cut for 2016. Stocks that should gain from this are ASII, banks (top picks: BBKA and BBRI) and property developers (top pick: BSDE).

Figure 3: Real rates on the high side



Source: Bloomberg & Maybank KE

Figure 4: Stable IDR



Source: Bloomberg & Maybank KE

Stay bullish

We remain bullish on the market with a 2016 index target of 6,000, at 14.9x 2017 P/E or 1SD above its six-year mean of 14.1x. The index trades at 12.5-11.2x 2016-17 P/Es, or 11.7% and 20.7% discounts to its mean. Market catalysts could include lower inflation, interest-rate cuts, IDR stability and earnings recoveries, in our view. Our top picks are AALI, ACES, ASII, BBRI, BSDE, GGRM, JSMR, LPCK, TLKM and WSKT.

Figure 5: Top picks

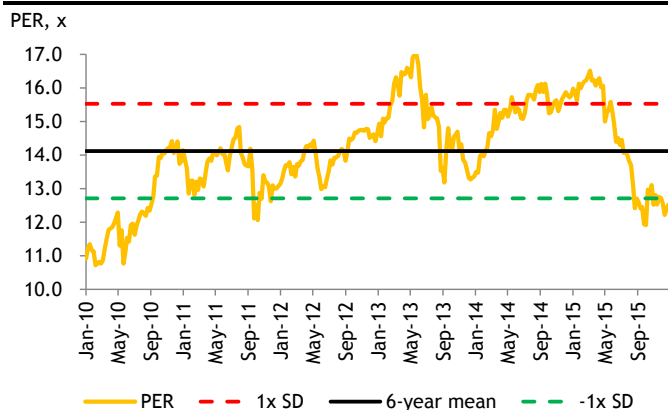
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Note: Pricing as of Dec 23rd, 2015

* in USD m; ** in IDR

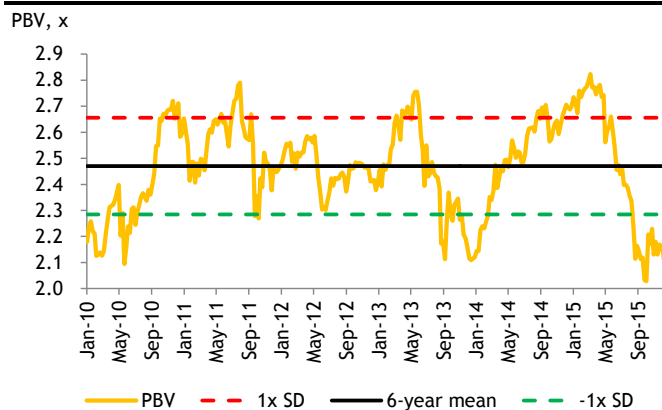
Source: Bloomberg & Maybank KE

Figure 6: JCI's P/E...



Source: Bloomberg & Maybank KE

Figure 7: ...and P/BV are below their six-year means



Source: Bloomberg & Maybank KE

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