9 April 2019

# Indonesia Election 2019

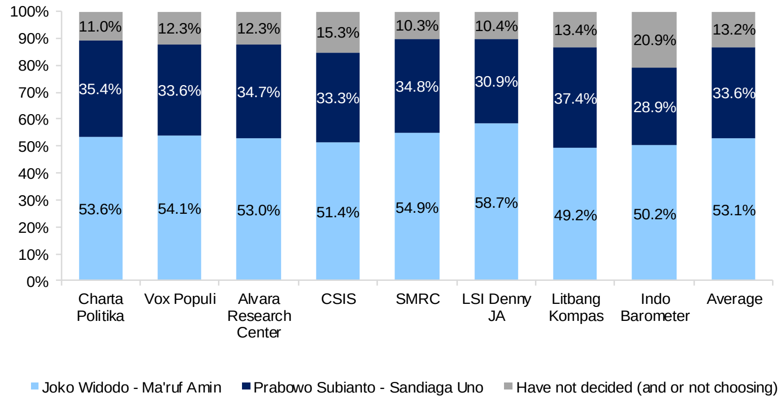
# Overweight (Maintained)

## Reform Theme Under Jokowi Vs Prabowo

End-2019 JCI target: 7,000

- **Race to the throne.** Approximately 192m eligible Indonesians – the third-largest democracy in the world – will cast their votes on 17 Apr 2019 to decide the Republic's next president for 2019-2024. It will be a reprise of the 2014 election between incumbent President Joko Widodo (Jokowi) and retired army general Prabowo Subianto. In this thematic report, we highlight key reform agendas of both candidates, along with a basket of stocks that we believe will outperform market.
- **Candidates #01: Jokowi and Ma'ruf Amin.** Nicknamed the "Father of Indonesia Infrastructure" by supporters, we believe Jokowi will continue to roll out his infrastructure masterplan (eg toll roads, ports, MRT, LRT, power plants, and broadband connectivity) if elected for a second term. Since the law prohibits a third term for an Indonesian president, we expect Jokowi to also implement less populist but much needed reforms – eg on the labour law (high severance pay) to attract more FDI – especially in the manufacturing sector (Industrial Revolution 4.0) to boost value-added exports and reduce dependency on raw materials. If re-elected, Jokowi also promised to spend more resources on enhancing the quality of Indonesia's human capital by improving education standards.
- **Stock basket.** We believe 10 stocks could outperform the market if Jokowi and Amin are elected. They are from the construction (WSKT, WIKA, ADHI, and PTPP), toll road (JSMR), cement (SMGR), and industrial estate (BEST and SSIA) sectors, as well as selected banks: those with high infrastructure lending exposure (BBNI) and *shariah*-based (BRIS) (Amin factor). We expect post-election market euphoria, with the JCI rallying to +2SD above its mean.
- **Candidates #02: Prabowo and Sandiaga Uno.** We expect to see a more "Indonesia First" approach and nationalistic measures if Prabowo wins. Reducing dependency on imports, especially food and energy, is among key campaign promises. Prabowo also plans to reduce both corporate and personal tax rates, making it more competitive vs neighbouring countries like Singapore. Existing BPJS healthcare deficit and low national defence budgets are among issues that Prabowo plans to turn round, if elected.
- **Stock basket.** The 10 stocks we believe could outperform market if Prabowo and Sandiaga are elected will be Saratoga-affiliated companies (SRTG, ADRO, TBIG, and MPMX), defensive USD-earners with high dividends (ITMG and UNTR), defensive domestic-driven banks/consumer names (BBCA, HMSP, and UNVR), and ISAT (to buy back from Qatar's Ooredoo – based on a campaign promise). We expect the market to adopt a wait-and-see approach, given the 6-month transition period between election (Apr 2019) and inauguration (Oct 2019).

**Latest poll survey (Feb-Mar 2019)**




*Source: RHB, Bisnis Indonesia compilation*

| Jokowi-Amin \| stock basket | TP |
|---|---|
| Waskita Karya (WSKT IJ) – BUY | IDR2,700 |
| Wijaya Karya (WIKA IJ) – BUY | IDR2,900 |
| Adhi Karya (ADHI IJ) – BUY | IDR2,100 |
| Perumahan Persero (PTPP IJ) – BUY | IDR2,800 |
| Jasa Marga (JSMR IJ) – BUY | IDR6,100 |
| Semen Indonesia (SMGR IJ) – BUY | IDR14,500 |
| Bank Negara Indonesia (BBNI IJ) - BUY | IDR11,500 |
| Bekasi Fajar (BEST IJ) – NR | N/A |
| Surya Semesta Internusa (SSIA IJ) – NR | N/A |
| BRI Syariah (BRIS IJ) – NR | N/A |

| Prabowo-Sandiaga \| stock basket | TP |
|---|---|
| Adaro Energy (ADRO IJ) – BUY | IDR1,830 |
| Indo Tambangraya (ITMG IJ) - NEUTRAL | IDR23,860 |
| United Tractors (UNTR IJ) – BUY | IDR32,500 |
| Bank Central Asia (BBCA IJ) – NEUTRAL | IDR28,400 |
| HM Sampoerna (HMSP IJ) – NEUTRAL | IDR3,700 |
| Unilever Indonesia (UNVR IJ) - NEUTRAL | IDR46,900 |
| Indosat Ooredoo (ISAT IJ) - NEUTRAL | IDR2,800 |
| Saratoga Capital (SRTG IJ) – NR | N/A |
| Tower Bersama (TBIG IJ) – NR | N/A |
| Mitra Pinasthika Mustika (MPMX IJ) – NR | N/A |

### Analysts

Henry Wibowo
+6221 2970 7056
henry.wibowo@rhbgroup.com

Ghibran Al Imran
+6221 2783 0888
ghibran.imran@rhbgroup.com

**RHB Indonesia Analysts:**

Henry Wibowo – Strategy, Banks, Media/Internet, Property
Andrey Wijaya – Auto, Staples, Cement, Logistics
Michael Setjoadi – Retail, Tobacco, Poultry, Telco
Andrew Hotama – Coal & Mining
Alvin Baramuli – Banks, Multi-finance, Healthcare
Christopher Andre Benas – Plantation
Ahmad Nazmi – Regional Economist

# Overview On Indonesia’s Election

**Indonesia’s election is around the corner,** when approximately 192m eligible Indonesians will vote for the president and three legislative bodies on 17 Apr 2019. In the upcoming election, we will see a rematch of the 2014 election as President Jokowi is bidding for his second term in office against Prabowo, a former general of the Indonesian National Armed Forces and leader of the Gerindra Party. In 2014, Jokowi defeated Prabowo by a thin margin of c.6%. Jokowi is now accompanied by vice presidential candidate Amin, chairman of the Ulema Council of Indonesia (MUI), while his challenger Prabowo is accompanied by his vice presidential candidate, Sandiaga, the former Deputy Governor of Jakarta and a prominent businessman.

**The legislatures include** the House of Representatives (DPR-RI), Regional House of Representatives (DPRD), and Regional Representative Council (DPD). There are 20 parties in total (16 national + four Aceh-only) and 20,211 candidates nationwide (DPR-RI: 575, DPD: 19,500, DPRD: 136). For DPR-RI, their political parties must meet the parliamentary threshold of 4% of total voters before the candidates are elected, regardless of the candidates’ number of votes. The calculation for DPR-RI’s candidates will be based on the “Sainte-Lague” method vs the “Kuota Hare” method.

**Political support.** Jokowi and Amin’s campaign team is backed by 10 political parties, whereas Prabowo and Sandiaga’s team is backed by five. Currently, Jokowi-Amin’s coalition party controls 60% of seats in the DPR-RI.

**Support from the business community.** In the business community, Jokowi-Amin’s campaign team is supported by Erick Thohir (chairman of the campaign team), the brother of a prominent businessman Garibaldi Thohir. Erick owns stakes in several companies in media and sports, such as Mahaka Group, Inter Milan, and The Philadelphia 76ers, while Garibaldi owns stake in Adaro Energy and the TNT group. In Prabowo-Sandiaga’s campaign team, Sandiaga himself represents the business community. He is the co-founder of Saratoga Capital, a private equity firm with stakes in companies such as Adaro Energy, Medco Power, and Tower Bersama Group among others.

**Figure 1: Profiles of the presidential and vice-presidential candidates**

| Candidate Number | Name | Position | Profile |
|---|---|---|---|
| #01 | Joko Widodo  | Presidential Candidate | Joko Widodo, also known as Jokowi, is an Indonesian politician who is the seventh and current President of Indonesia. Elected in Jul 2014 as the first Indonesian president to not come from an elite political or military background, he was previously the Mayor of Surakarta from 2005-2012 and Governor of Jakarta from 2012-2014. |
| | Ma'ruf Amin  | Vice-Presidential Candidate | Ma’ruf Amin is an Indonesian Islamic scholar and politician. He is currently the chairman of the MUI, or Indonesian Ulema Council and Supreme Leader (*rais ‘aam syuriah*) of the Nahdlatul Ulama (NU), the world’s largest Islamic organisation. On 9 Aug 2018, President Joko Widodo announced that Ma’ruf would be his running mate in the 2019 Indonesian presidential election. |
| #02 | Prabowo Subianto   | Presidential Candidate | Prabowo Subianto is an Indonesian politician and businessman. He has served 28 years in the Indonesian Armed Forces (TNI) with the last rank of 3 Star Lieutenant General and was once a Commander in the Kopasus, the elite force of TNI. Prabowo's family has been involved in the government since Soekarno's and Suharto's eras. His grandfather, Soemitro, served as the Minister of Finance during Soekarno's and Suharto's terms, while his other grandfather, RM Margono Djojohadikusumo, was known as the pioneer of Bank Indonesia in 1946, now known as BNI 46. |
| | Sandiaga Uno   | Vice-Presidential Candidate | Sandiaga Uno is an Indonesian politician and businessman. In 2014, Sandiaga was actively involved as Prabowo's spokesperson in the economics field. He previously relinquished all positions in 25 companies to focus on politics and was appointed and elected as Deputy Governor of DKI Jakarta in 2017. In Aug 2018, he resigned from his position as Deputy Governor to run as a Vice-Presidential Candidate in the upcoming election. |

*Source: RHB, JokowiAmin.id, Prabowo-Sandi.com*

**Presidential debates.** During January-March, there were four Presidential Debates aired, with another one coming up on Saturday, 13 Apr – only four days prior to the election. Overall, the debates went smoothly and peacefully. Key topics discussed included corruption, energy, food, infrastructure, national health insurance (BPJS), defence, and international relations. Both presidential and vice-presidential candidates will face-off once more to discuss economic and social welfare, finance and investment, as well as industries.

**Electability.** As at Mar 2019, based on polls from various news sources, Jokowi-Amin (#01) is ahead in terms of electability by 11.8-27.8%, at 49.2-58.7% vs Prabowo-Sandiaga (#02) at 28.9-37.4%. The remaining 10.3-20.9% was undecided or abstained.

**Figure 2: Presidential debate schedule**

| Date | Theme | Participant |
|---|---|---|
| 17 Jan 2019 | Law enforcement, human rights, corruption, and terrorism | Both |
| 17 Feb 2019 | Energy, food, infrastructure, natural resources, and environment | President only |
| 17 Mar 2019 | Education, health, employment, and social & cultural issues | VP only |
| 30 Mar 2019 | Ideology, defence, and international relations | President only |
| 13 Apr 2019 | Economic and social welfare, finance, investment, and industries | Both |

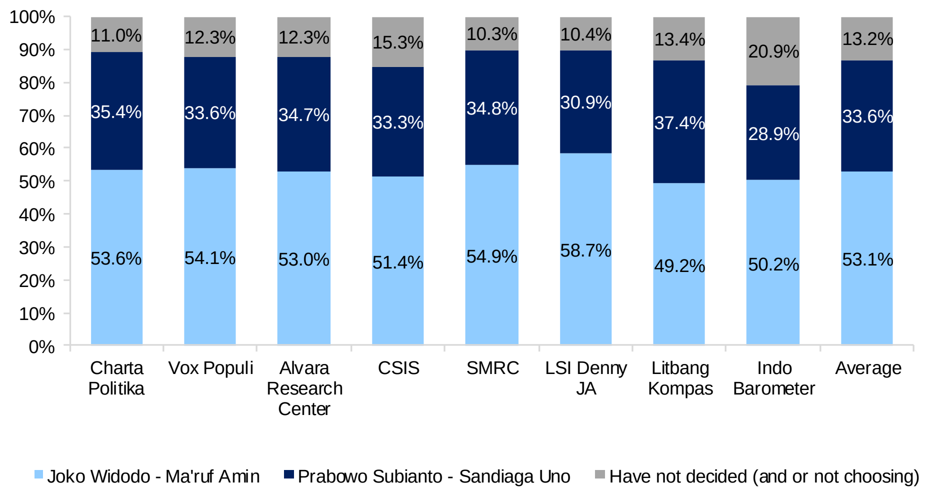
*Source: RHB, Various media*

**Figure 3: Pictures from the presidential debates**

- The four previous presidential debates went peacefully, with one upcoming debate on 13 Apr 2019, which will cover economic and social welfare, finance and investment, as well as industries.

*Source: CNN, Tirto, Merdeka*

**Figure 4: Electability poll – Jokowi vs Prabowo (Feb-Mar 2019)**




- Based on the average latest polls, Jokowi has 53% votes as compared Prabowo with 34%, implying a 19% lead.

*Source: RHB, Various media*

**Figure 5: Coalition parties' chairpersons and their profiles**

| Coalition party | Party name | Chairperson | Profile |
|---|---|---|---|
| | Indonesian Democratic Party (PDIP) | Megawati Soekarnoputri  | Megawati Soekarnoputri was the fifth President of Indonesia as well as the first female president of Indonesia. She is also the daughter of Soekarno, the first President of Indonesia. She has been chairwoman of PDIP party since 1999. |
| | Golkar Party | Airlangga Hartarto  | Airlangga Hartarto is currently the Industrial Minister of Indonesia, prior to his appointment he was elected several times in the House of Representatives. He has been chairman of the Golkar Party since 2017, replacing Setya Novanto who was arrested and put on trial for alleged corruption. |
| | National Awakening Party (PKB) | Muhaimin Iskandar  | Muhaimin Iskandar or better known as Gus Imin or Cak Imin has been chairman of the PKB party since 2014. He was the Minister of Manpower and Transmigration during 2009-2014. |
| | Nasional Demokrat Party | Surya Paloh  | Surya Paloh has been chairman of the Nasdem party since its inception in 2011 – the party was previously just a mass organisation. He is the owner of Media Group, which owns Media Indonesia newspaper and Metro TV channel. Surya Paloh was previously chairman of the advisory board at Golkar Party, which he quit in 2011. |
| **Jokowi - Amin #01** | United Development Party (PPP) | M Romahurmuziy  | Romahurmuziy or better known as Romi is currently the chairman of the PPP party. He has also been a member of the House of Representatives since 2009 although he was recently arrested for alleged corruption. |
| | People's Conscience Party (HANURA) | Oesman Sapta  | Oesman Sapta, also known as Oso, has been chairman of the Hanura party since 2016. He has been a speaker in the regional House of Representatives since 2017. |
| | Indonesia Solidarity Party (PSI) | Grace Natalie  | Grace Natalie has been chairwoman of the PSI party since its inception in 2014. She is a former news anchor and journalist for several TV channels such as SCTV, ANTV, and tvOne. She was also the CEO of Saiful Mujani Research and Consulting (SMRC). |
| | Indonesian Justice and Unity Party (PKPI) | Diaz Hendropriyono  | Diaz Hendropriyono has been chairman of the PKPI party since 2018. He is also a commissioner of Telkomsel, a member of transition team in the national football league (PSSI) as well as owner of several businesses. |
| | Indonesian Unity Party (PERINDO) | Hary Tanoesoedibjo  | Hary Tanoesoedibjo has been chairman of Perindo since he declared the new party in 2015. He is the owner of MNC Investama, an investment company involved in media, financial services, energy and natural resources among others. He is also involved in several businesses with Donald Trump, the President of the United States. |
| | Crescent Star Party (PBB) | Yusril Ihza Mahendra  | Yusril Ihza Mahendra has been chairman of the PBB party since 2015. He was appointed as the Minister of Law Human Rights (in 1999-2001 and again in 2001-2004) and Minister of State Secretariat (2004-2007). |

| | | | |
|---|---|---|---|
| | Great Indonesia Movement Party (GERINDRA) | Prabowo Subianto  | Prabowo Subianto is running for President, has been the chairman of the Gerindra Party since 2015. He previously ran for Vice President in the 2009 election, and ran for President in the 2014 election. |
| | National Mandate Party (PAN) | Zulkifli Hasan  | Zulkifli Hasan has been chairman of the PAN party since 2015. He is currently the speaker of the People's Consultative Assembly (MPR). He was also previously the Forestry Minister (2009 - 2014). |
| **Prabowo - Sandiaga #02** | Prosperous Justice Party (PKS) | M Sohibul Iman  | Sohibul Iman has been chairman of the PKS party since 2015. He was appointed Deputy Speaker of the House of Representatives since 2013, replacing Luthfi Hasan Ishaaq who was convicted of corruption and was re-elected in 2014 before resigning in 2017. |
| | Democratic Party | Susilo Bambang Yudhoyono  | Susilo Bambang Yudhoyono was the sixth President of Indonesia. He was elected twice as President until his retirement from office. He has been chairman of the Democratic Party since 2015. |
| | Berkarya Party | Hutomo Mandala Putra  | Hutomo Mandala Putra, or better known as Tommy Soeharto, is a politician and businessman. He is also the youngest son of Suharto, the second President of Indonesia. He formed Berkarya Party in 2016, with the merger of Beringin Karya Party and Nasional Republik Party, and became its chairman. |

*Source: RHB, Various media*

## Figure 6: Political candidates and coalition parties

| No. | Party name | Abbreviation | number of seats for each party in DPR | Percentage (%) |
|---|---|---|---|---|
| 1 | Partai Demokrasi Indonesia Perjuangan | PDIP | 109 | 19.46 |
| 2 | Partai Golongan Karya | PG | 91 | 16.25 |
| 3 | Partai Gerakan Indonesia Raya | GERINDRA | 73 | 13.04 |
| 4 | Partai Demokrat | PD | 61 | 10.89 |
| 5 | Partai Amanat Nasional | PAN | 48 | 8.57 |
| 6 | Partai Kebangkitan Bangsa | PKB | 47 | 8.39 |
| 7 | Partai Keadilan Sejahtera | PKS | 40 | 7.14 |
| 8 | Partai Persatuan Pembangunan | PPP | 39 | 6.96 |
| 9 | Partai Nasdem | NASDEM | 36 | 6.43 |
| 10 | Partai Hati Nurani Rakyat | HANURA | 16 | 2.86 |
| | **Total** | | **560** | **100.00** |
| | | | | |
| | Jokowi - Ma'ruf coalition | | 338 | 60.35 |
| | Prabowo - Sandiaga coalition | | 222 | 39.64 |

*Source: RHB, Various media*

## Figure 7: Potential campaign funders from each party


Source: RHB, Company websites

## Figure 8: Stocks that we think will outperform the market if Jokowi and Ma'ruf win

| Stocks that we think will outperform the market if Jokowi & Ma'Ruf Amin Win | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Company | Ticker | Rating | Price (IDR) | TP (IDR) | % Upside | Market Cap (USDm) | Note |
| 1 | Waskita Karya | WSKT | BUY | 1,940 | 2,700 | 39.2 | 1,860 | Big Beneficiary of Jokowi's Infrastructure Masterplan - SOE Construction |
| 2 | Wijaya Karya | WIKA | BUY | 2,140 | 2,900 | 35.5 | 1,356 | Big Beneficiary of Jokowi's Infrastructure Masterplan - SOE Construction |
| 3 | Adhi Karya | ADHI | BUY | 1,655 | 2,100 | 26.9 | 416 | Big Beneficiary of Jokowi's Infrastructure Masterplan - SOE Construction |
| 4 | Perumahaan Persero | PTPP | BUY | 2,130 | 2,800 | 31.5 | 933 | Big Beneficiary of Jokowi's Infrastructure Masterplan - SOE Construction |
| 5 | Jasa Marga | JSMR | BUY | 6,000 | 6,100 | 1.7 | 3,076 | Big Beneficiary of Jokowi's Infrastructure Masterplan - SOE Tollroad |
| 6 | Semen Indonesia | SMGR | BUY | 13,575 | 14,500 | 6.8 | 5,687 | Big Beneficiary of Jokowi's Infrastructure Masterplan - SOE Cement |
| 7 | Bank Negara Indonesia | BBNI | BUY | 9,550 | 11,500 | 20.4 | 12,579 | Proxy for SOE Infrastructure Lending - SOE Bank |
| 8 | Bekasi Fajar | BEST | NR | 292 | N/A | N/A | 199 | Labor Reform = FDI from Manufacturing = Higher demand for Industrial Estates |
| 9 | Surya Semesta | SSIA | NR | 555 | N/A | N/A | 184 | Labor Reform = FDI from Manufacturing = Higher demand for Industrial Estates |
| 10 | BRI Syariah | BRIS | NR | 525 | N/A | N/A | 360 | More initiatives to boost syariah banking penetration under Ma'ruf Amin |

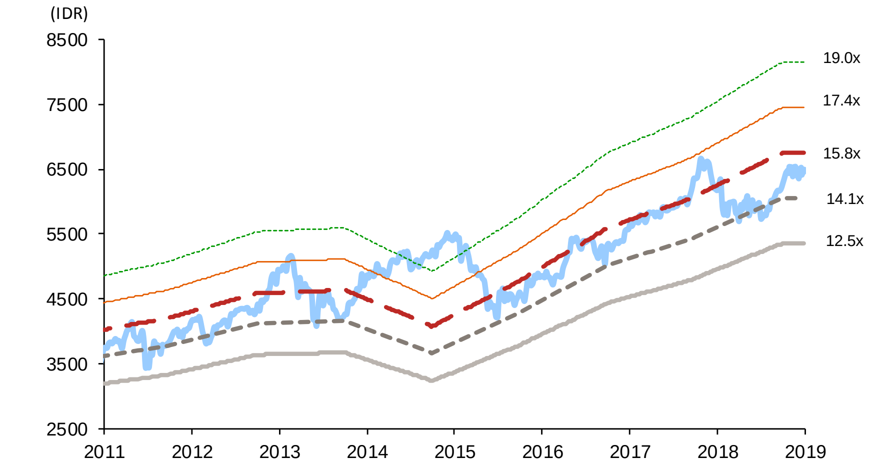
*Note: Share prices as at 8 Apr 2019*
*Source: Bloomberg, RHB*

## Figure 9: Stocks that we think will outperform the market if Prabowo and Sandiaga win

| Stocks that we think will outperform the market if Prabowo & Sandi Win | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Company | Ticker | Rating | Price (IDR) | TP (IDR) | % Upside | Market Cap (USDm) | Note |
| 1 | Adaro Energy | ADRO | BUY | 1,265 | 1,830 | 44.7 | 2,858 | Defensive USD earner, Part of Saratoga Group |
| 2 | Indo Tambang Raya | ITMG | NEUTRAL | 19,525 | 23,860 | 22.2 | 1,558 | Defensive USD earner with double digit dividend yield buffer |
| 3 | United Tractors | UNTR | BUY | 25,900 | 32,500 | 25.5 | 6,824 | Defensive USD earner with exposure to Gold as safe haven |
| 4 | Bank Central Asia | BBCA | NEUTRAL | 27,575 | 28,400 | 3.0 | 48,020 | Most defensive bank/stock in Indonesia with lowest beta |
| 5 | HM Sampoerna | HMSP | NEUTRAL | 3,640 | 3,700 | 1.6 | 29,905 | Defensive consumer name with small free float |
| 6 | Unilever Indonesia | UNVR | NEUTRAL | 48,200 | 46,900 | (2.7) | 25,976 | Most defensive consumer name with lowest beta |
| 7 | Indosat | ISAT | NEUTRAL | 2,560 | 2,800 | 9.4 | 983 | Promise to be bought back by Government if Prabowo-Sandi Win |
| 8 | Saratoga Capital | SRTG | NR | 3,720 | N/A | N/A | 713 | Private Equity company co-founded by Sandiaga Uno |
| 9 | Tower Bersama | TBIG | NR | 3,990 | N/A | N/A | 1,277 | Tower company that is part of Saratoga Group |
| 10 | Mitra Pinasthika Mustika | MPMX | NR | 1,125 | N/A | N/A | 355 | Auto and Financing company that is part of Saratoga Group |

*Note: Share prices as at 8 Apr 2019*
*Source: Bloomberg, RHB*

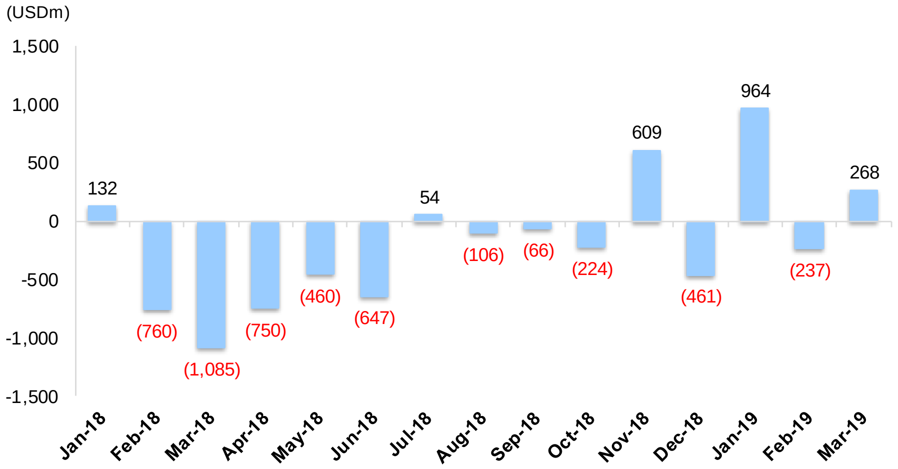
### Figure 10: Indonesian market's (JCI) 8-year P/E band




*Note: Data as at 8 Apr 2019*
*Source: Bloomberg, RHB*

- JCI is trading at 15x FY19F P/E, around -0.5SD from its mean. We expect post-election market euphoria to drive a re-rating to +2SD, similar to 4Q14's level

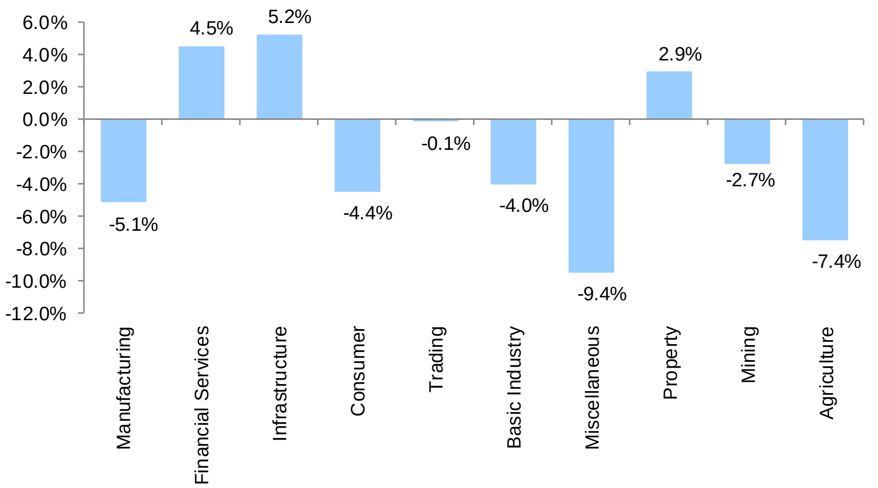
### Figure 11: 2018-YTD 2019 foreign fund flows




*Note: Data as at 8 Apr 2019*
*Source: Bloomberg*

- In 2018, foreign fund outflows totalled USD3.7bn
- Strong inflow of foreign funds in Jan 2019 (USD964m) signalled an encouraging start to the year

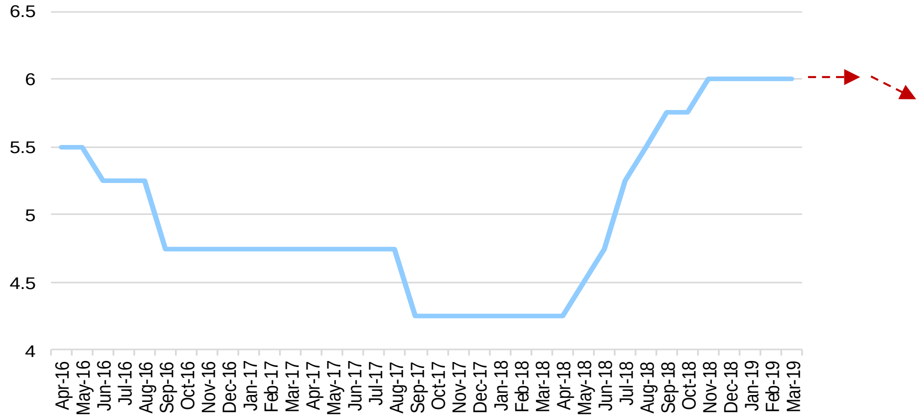
### Figure 12: Sector price performances relative to JCI (2019 YTD)




*Note: Data as at 8 Apr 2019*
*Source: Bloomberg, RHB*

- YTD-2019 best-performing sector relative to JCI is infrastructure (+5.2% YTD)
- Note that the basic industry sector includes chemicals, poultry, cement, and pulp & paper industries

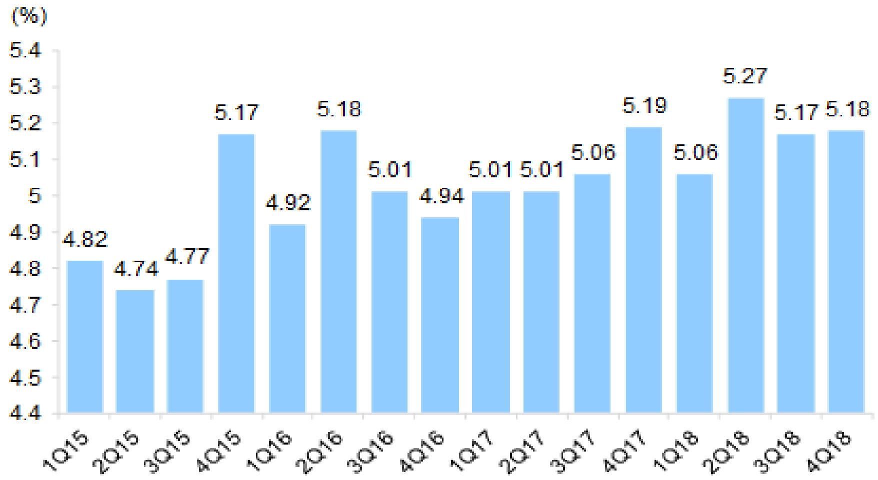
**Figure 13: Central Bank's benchmark rate (BI 7DRRR Rate)**



*Source: Badan Pusat Statistik, RHB*

- During 2018, BI's 7-Day Reverse Repo Rate was raised by 175bps
- We believe the rate cycle is already at peak levels and expect flat rate movements in 2019F. We are not ruling out a 25bps cut in 4Q19

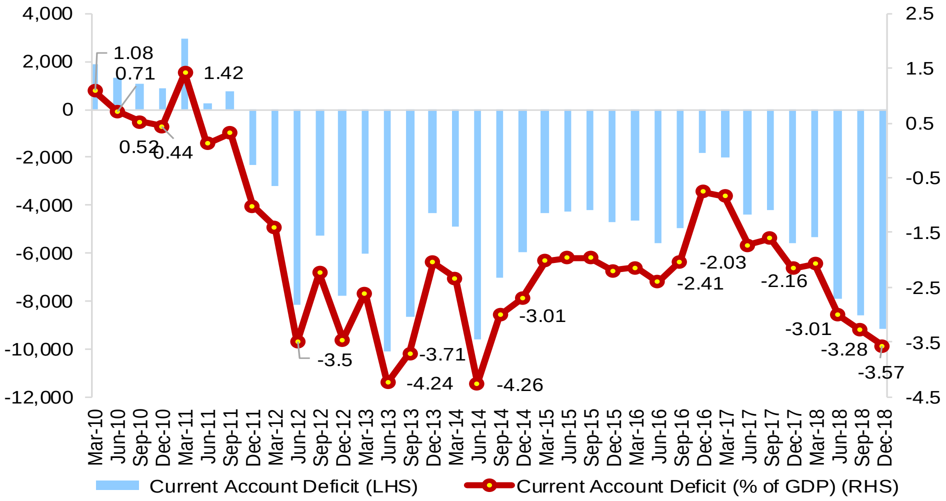
**Figure 14: Indonesia's GDP trend**




*Source: Badan Pusat Statistik, RHB*

- 4Q18 GDP growth was steady at 5.18% YoY

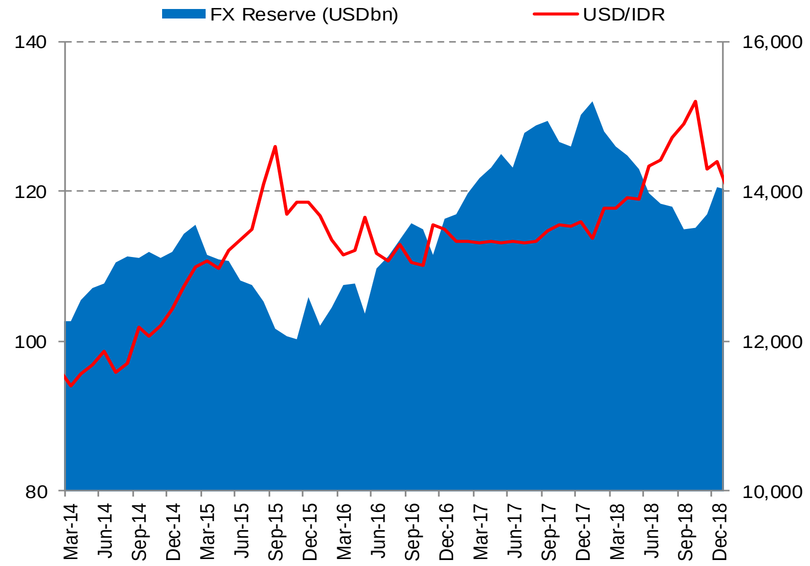
**Figure 15: Indonesia's current account deficit**




*Source: Bloomberg, Bank Indonesia (BI)*

- Indonesia's 4Q18 CAD widened to 3.6% of GDP (vs 3.3% of GDP in 3Q18). We believe this is the bottom, and the outlook ahead should improve

**Figure 16: Indonesia's FX reserves**




*Note: FX reserves as at 31 Dec 2018*
*Source: Bloomberg, RHB*

- As at Dec 2018, FX reserves stood at USD120bn, -USD11bn YTD but still higher than in 2015, at an average of USD107.7bn

# Sector Commentaries

## Automotive

We see that both incumbent and opposition candidate have the same view to boost the manufacturing industry in Indonesia. The incumbent is currently in discussion to issue a new policy to regulate tax incentives for low carbon emission and electric vehicles. This should encourage global manufacturers to build their production facilities in Indonesia. Meanwhile, the opposition's programme to increase the people's welfare, especially farmers and people in rural areas, which should boost motorcycles sales.

This year's slew of new model launches indicates that auto companies are more optimistic about the long-term outlook of Indonesia's 4-wheel (4W) vehicles market. After mid-January's Toyota *Avanza* and *Camry* launches, Nissan launched the new *Grand Livina* and *Serena*. In addition, Wuling launched the new SUV, *Almaz*. Top sector picks are Astra International (ASII) and Astra Otoparts.

Our ground checks suggest that ASII lowered its sales discounts in February. Sales mix also improved although lower sales discounts may result in lower volume growth. We see domestic sales volume accelerating after the national election in mid-April. Based on our checks at auto dealers, some customers – especially corporates – are postponing their vehicle purchases until after the election.

**Figure 17: If incumbent stays in administration – Automotive**

- Likely to be positive for auto industry. Finance Ministry is in discussion to issue new regulation to lower tax for low emission, electric and hybrid cars. It is also planning to lower taxes for sedan. This should attract vehicle manufacturers to build their manufacturing facilities in Indonesia.
- Indonesia-Australia ECA agreement, which eliminates import duties for Indonesian products entering Australia, should boost Indonesia's vehicle export sales. Toyota had recently closed its car manufacturing facilities in the country.

*Source: RHB*

**Figure 18: If opposition takes office – Automotive**

- The opposition's campaign programme to increase people's welfare – especially farmers – which is to increase selling prices for paddy and other agricultural products, by reducing intermediate merchants' profit. This should increase welfare in rural areas, and in turn, increase motorcycles sales.

*Source: RHB*

## Banks

Maintain OVERWEIGHT on Indonesian banks given the stabilising NIM outlook as benchmark interest rates seem to have peaked, in line with the dovish sentiment from the US Fed, with the possibility of a rate cut as soon as 4Q19. After Bank Indonesia (BI) raised rates by 175bps throughout 2018, banks increased their rates for customers, thereby squeezing their NIM. In 2019, banks should be able to pass on the higher interest rates for loans and gradually increase NIM.

Loan growth should accelerate in 2H19 at 10-12%, post-election and coming from SME, commercial, and corporate loans as businesses ceases their wait-and-see stance after the uncertainty from pre-election is over.

We also assume that asset quality should be stable with NPL at 2.5%. Both presidential candidates' programmes focus on providing access to capital for entrepreneurs and particularly in farming and fisheries businesses, which should be good for micro and SME, and commercial loans, and also in ensuring easy access to subsidised housing for low-income citizens – this should boost mortgage loans. If the incumbent wins the election and takes office for a second term, corporate loans should increase on the continuation of infrastructure projects.

**Figure 19: If incumbent stays in administration – Banks**

- The incumbent, President Jokowi, with his VP candidate, Ma'ruf Amin's programme is to improve access to capital for new entrepreneurs. This will likely be similar to previous programmes such as UMI (ultra-micro lending) and KUR (*kredit usaha rakyat*) and also specifically providing access to technology for farmers and fishermen. If this were to be done, this should be positive for banks as it might drive growth in micro and SME loans.
- Additionally, the candidate is focusing on ensuring access to house ownership for more than 5m poor citizens (low-wage workers, soldiers and the police force) trough FLPP (liquidity facility for housing purchase) and SSB (interest difference subsidy) mortgage schemes. This should help boost mortgage loans. Jokowi's continued infrastructure programmes should also boost corporate loans further, helped by the infrastructure financing company, Sarana Multi Infrastructure (SMI), which is owned by the Government through the ministry of finance.

*Source: RHB*

**Figure 20: If opposition takes office – Banks**

- The opposition is also focusing on farming and fisheries businesses, more specifically in establishing farmers and fishermen banks (Bank Tani and Bank Nelayan) and integrating with fintech to push credit allocation. This should be positive for the banking sector as it will increase micro and SME loans.
- Additionally, Sandiaga Uno's programme that started in his term in DKI Jakarta, OK OCE is likely to be widened to the national level, which should provide access to capital for entrepreneurs. On the mortgage side, the opposition states that they will eliminate property tax for main and first properties as well as expedite housing supply and build low-cost flats for low-income citizens – this should help the property sector and boost mortgage loans as well.

*Source: RHB*

# Coal & Mining

## 1. Indonesia Coal

We are UNDERWEIGHT the sector, as we believe global economic slowdown especially in China, will affect demand for commodities and coal in particular. We are also of the view that the increase in domestic coal output in China on its new advanced capacity to reduce the country's imports this year and in future would be a negative for Indonesia coal companies. This should negatively impact the seaborne thermal coal prices and hence, coal miners' ASP.

Our Top Pick in the sector is ADRO (BUY, TP: IDR1,830) as we see lower downside risks for low CV coal prices as compared to high CV coal due to its in-line movement with China's domestic coal prices vs high CV coal prices that are currently at a USD10/tonne premium with China's domestic coal prices. We also like Adaro for its more stable cash flows generation going forward, as the recently-acquired Kestrel mine will contribute to 14% of NPBT in FY19F, and provide more stable cash flows going forward.

**Figure 21: If incumbent stays in administration – Coal**

- Potentially positive for the Indo coal sector, as the Jokowi team's goal is to enforce a corruption-free system, which would make it harder for illegal coal miners to operate and negatively affect seaborne thermal coal prices going forward. Positive for all the coal players such as ADRO, ITMG & PTBA.

*Source: RHB*

**Figure 22: If opposition takes office – Coal**

- Potentially positive as one of Prabowo's goal is to fight illegal mining activities in Indonesia. This should be positive for the Indonesian coal sector, as fewer illegal miners from Indonesia could help stabilise global export prices considering Indonesia is the top seaborne thermal coal exporter in the world.

*Source: RHB*

## 2. Indonesia heavy equipment

We are NEUTRAL on the Indonesian heavy equipment (HE) industry, as we believe the volatility in coal prices is resulting in coal miners delaying HE purchases this year as they are still unsure of the direction of coal prices going forward. However, we believe this year's demand for heavy equipment will come from HE replacements, as huge HE investments in 2011 would need to be replaced in 2018-2019 – we therefore believe that this year's HE sales will remain high, although declining on a YoY basis.

Out Top Pick in the sector is UNTR (BUY, TP: IDR32,500) as we believe UNTR's valuations are attractive at current levels, nearing its 10-year bottom, while current coal prices are 80% higher. We also believe all the major overhang issues on UNTR regarding its mining discounting fees have been resolved by its management, with discounts to be lower than expected – this is positive in our view. The Martabe gold mine, which was recently acquired will also provide more stable cash flows for UNTR going forward (11% of FY19F earnings).

**Figure 23: If incumbent stays in administration – Heavy equipment**

- Potentially positive for the Indo HE sector, as the Jokowi team's aim to invest further in Indonesia's infrastructure will increase demand for HE in the construction sector. This will benefit United Tractors as HE deliveries for the construction sector contribute to 24% of total Komatsu HE sales.

*Source: RHB*

**Figure 24: If opposition takes office – Heavy equipment**

- Potentially negative for the Indonesian HE sector, as Prabowo's mission to improve self-efficiency will result in lower investments in infrastructure going forward, which would lower demand for HE allocated to the sector. This would negatively impact UNTR's HE volumes going forward.

*Source: RHB*

## 3. Indonesia metal mining

We believe the metal mining segment has a better outlook going forward, as the ongoing trade deal between the US and China should be positive for metal prices going forward. In Indonesia, the Government's commitment to fight illegal mining activities has been benefitting TINS (NR) as the country is targeting 80% growth in production volumes this year on illegal mining crackdown. For nickel players, positive sentiment from a trade-war deal as well as future demand from electric vehicles have been supporting nickel prices, which in turn benefits INCO and ANTM.

**Figure 25: If incumbent stays in administration – Metal mining**

- Potentially positive for the Indo metal mining sector, as the Jokowi team focuses on fighting illegal mining activities, which has lowered Indonesia's tin export volumes (-18% YoY). This benefits metal players such as TINS, ANTM & INCO.

*Source: RHB*

**Figure 26: If opposition takes office – Metal mining**

- Potentially positive as Prabowo's team is targeting to fight illegal miners in the industry. This should benefit metal players, such as TINS, ANTM & INCO.

*Source: RHB*

# Cement

We believe cement sales would accelerate after the election, driven by higher infrastructure project development and property sales. The incumbent candidate is likely to continue the programme to build infrastructure to increase connectivity across Indonesia. In addition, he will likely continue building 1m low-cost houses per year. Meanwhile, the opposition candidate's programme is to eliminate property tax for main and first properties, as well as developing supporting infrastructure in rural areas across Indonesia.

We are OVERWEIGHT the cement sector, with Semen Indonesia (SMGR IJ) as our Top Pick. Consolidation in the cement industry is likely to progress, indicated by the sale of majority stakes in Holcim Indonesia and Semen Panasia. Cement makers started to increase ASPs to partially pass on higher costs. In 2019, we see overcapacity sustaining, although unutilised production capacity is expected to decline. We expect FY19F earnings growth for Indonesian cement companies under our universe to turnaround to 17% YoY (vs -11% YoY in FY18F), thanks to higher sales volume and ASP.

**Figure 27: If incumbent stays in administration – Cement**

- To have fair infrastructure development for areas such as toll road, seaport, airport, and to increase connectivity in areas across Indonesia.
- To continue building 1m low-cost houses per annum.
- Strengthening regional economies via infrastructure development, village funding programme, decentralisation, and by fostering local industries.

*Source: RHB*

**Figure 28: If opposition takes office – Cement**

- Eliminating property tax for main and first properties
- Expediting housing supply and building low-cost flats via private and SOEs for low-income citizens, and developing a public transportation fleet that would serve the remote and outermost islands
- Developing supporting infrastructure in secluded rural areas.

*Source: RHB*

# Consumer Staples

Both incumbent and opposition candidates have almost the same views on boosting consumer spending. The incumbent is more focused on human development improvements with main programmes to improve sufficient nutrition for children to reduce stunting numbers in children and improving the quality of clean water and sanitation, as well as healthcare and education access for the poor.

The opposition candidate is more focused on improving welfare in rural areas which include farmers and fishermen, by ensuring production prices that would benefit farmers. Its main programme also includes increases in the national production of milk, eggs, fish, and meat.

We are OVERWEIGHT the consumer staples sector with Indofood CBP (ICBP IJ) and Mayora Indah (MYOR IJ) as our Top Picks. In the 2019 State Budget, the Government significantly increased spending to boost consumer consumption, such as a conditional cash transfer programme, health and education subsidy. The Government also allocated a 14th salary for civil workers on top of *Lebaran* allowances. This should have a multiplier impact on household consumption. Our ground checks to consumer companies suggest that sales volume growth would remain stable despite a hike in selling price in early 2019.

**Figure 29: If incumbent stays in administration – Consumer staples**

- Improving healthcare access for the poor, improve overall healthcare quality and to reduce mother and babies' mortality rates.
- Improving the parenting system in a family and ensuring sufficient nutrition for the children to reduce stunting numbers in children and improving quality of clean water and sanitation
- Improving education access for the poor through the Smart Indonesia Programme or "Kartu Indonesia Pintar'"

*Source: RHB*

**Figure 30: If opposition takes office – Consumer staples**

- Industrialising the agricultural sector in rural areas and improving farmers' welfare.
- Increasing budget allocations for sectors with natural advantages eg farming, stockbreeding, fishery, maritime, forestry, cooperative, SME, tourism and the creative economy.
- Ensuring production prices benefit farmers.

*Source: RHB*

# Healthcare

Maintain NEUTRAL on healthcare sector on concerns over BPJS Kesehatan – in terms of margins, reimbursements and overall healthcare quality in Indonesia. Despite the short term challenges, the longer term outlook remains appealing as healthcare spending in Indonesia is improving as well as the opening of new volume markets from Indonesia's universal healthcare system (JKN).

Both Presidential candidates have stated their programmes regarding Indonesian healthcare with Jokowi-Amin focusing on improving overall healthcare quality and widening the overall coverage of JKN, and Prabowo-Sandiaga on strengthening BPJS.

HEAL remains our sector Top Pick as it is the main beneficiary of the growing number of JKN patients. As overall margins should decline gradually, patient volume growth is key over the short and medium term. MIKA's penetration into the JKN market is likely to bring further pressure on margin vs peers, given its diversification into the premium market despite its greater revenue growth potential.

On pharmaceutical companies, KLBF's pharmaceutical margin is expected to decline on pressures from BPJS deficits and late payments, while its penetration into the JKN market is likely to pressure margin further vs peers, given its diversification into the premium market and despite its greater revenue growth potential.

**Figure 31: If incumbent stays in administration – Healthcare**

- Jokowi-Amin's programme is to continue with its BPJS Kesehatan coverage target of 100% by 2019, from c.80% currently. Their vision is to ensure that healthcare is accessible to all Indonesians with its populist measure to ensure premiums are affordable with vast healthcare coverage.
- Additionally, they would also increase the healthcare budget using other cross subsidies eg cigarettes' tax income.
- Short-to-medium impact would be positive as more BPJS volumes for hospitals will likely generate more revenue, benefiting hospitals with more BPJS exposure, in addition to establishing partnerships with stakeholders to promote healthier lifestyle.

*Source: RHB*

**Figure 32: If opposition takes office – Healthcare**

- Prabowo-Sandiaga's programme to strengthen BPJS Kesehatan is via restructuring of its management, increasing the healthcare budget, decreasing insurance coverage, and increasing premiums. If this is realized, it could be positive in the short-to-medium term on potentially reducing BPJS deficits for healthcare players, especially for hospitals' cash low but at the expense of healthcare quality in Indonesia.
- Additionally, reducing coverage and increasing premiums would likely reduce BPJS Kesehatan's patient volume and participation as the middle-upper segment will likely switch to private insurance.

*Source: RHB*

# Infrastructure & Construction

We believe infrastructure development would accelerate after the national election. Although some construction contracts have been postponed due to wait-and-see behaviour of project owners before the election, we believe the projects will be carried out after the election regardless of who will be President during 2019-2024.

We also see both candidates having the same views on developing Indonesia's infrastructure sector. While Jokowi has more intention to improve national interconnectivity and create more integration between regions, Prabowo's vision will focus more on creating equality between rural and urban areas, thus improving infrastructure especially for remote areas in Indonesia.

Our Top Pick is Jasa Marga, which is a key beneficiary of the fully-connected Merak-Surabaya toll road that began operating at end-2018. In mid-2019, it is set to kick off operations of the Jakarta-Cikampek elevated toll road. New toll roads ahead – Kunciran-Serpong and Serpong-Cinere (part of Jakarta's Outer Ring Road 2 or "JORR2") – should boost traffic volume, being in areas with high traffic density.

**Figure 33: If incumbent stays in administration – Infrastructure & construction**

- Positive for infrastructure and construction sector. National projects initiated by Jokowi's regime during 2014-2019 will most likely continue in 2019-2024
- Jokowi's vision on infrastructure development over 2019-2024 will focus more on national interconnectivity and creating greater integration between regions.
- Expect more national strategic development under Jokowi's second regime.

*Source: RHB*

**Figure 34: If opposition takes office – Infrastructure & construction**

- Positive for infrastructure and construction sector as Prabowo's vision on infrastructure development is to improve equality between rural and urban areas, thus improving infrastructure especially for the remote areas in Indonesia.
- Although a shift in types of projects will likely happen, we are expecting a continuous flow of construction projects

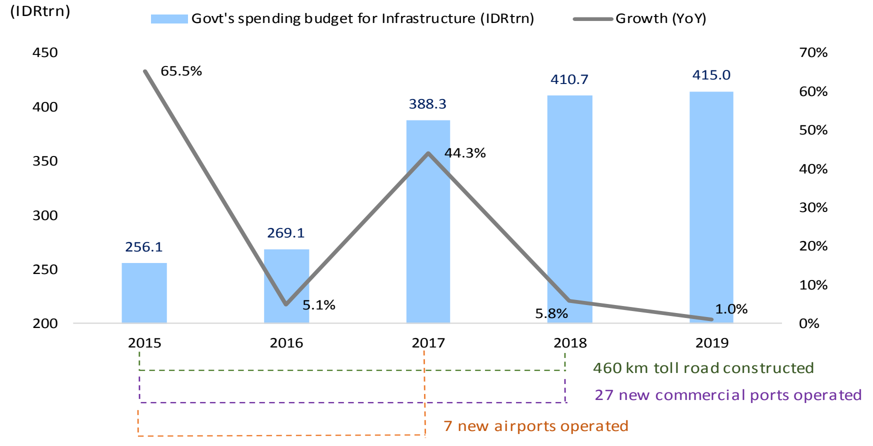
*Source: RHB*

The Government has allocated IDR415trn for infrastructure development in 2019's state budget (+1% YoY). Although limited in growth rate, the allocated amount is already 62% higher compared to the infrastructure budget of IDR256trn in 2015. With the infrastructure budget in 2019, we expect infrastructure development to continue at least at the same pace as in 2018.

Based on the Ministry of State-Owned Enterprises (SOE) data, since 2015, the infrastructure budget has been used to improve land, sea and air connectivity. Toll roads constructed have increased by 460km since 2015-9M18 to 1,254km, while a target to reach 1,794km by end of 2019 or another 540km to be constructed.

Commercial ports have increased by 27 ports since 2015-present, followed by the increase in container traffic volume by 40% since 2014. There are also an additional seven new airports that were built during 2015-2017, with another four new airports to be built under the National Strategic Projects programme.

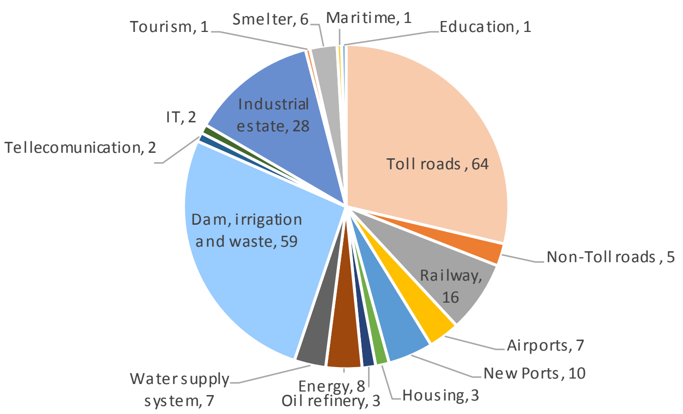
### Figure 35: State budget for infrastructure, 2015-2019




*Source: Ministry of Finance, Ministry of SOE, RHB*

The Government has 223 projects under the National Strategic Projects scheme, 84 of which are targeted for completion by 3Q19, including airports, transportation, housing, and technology. The Government is also targeting an additional ~540km of constructed toll roads in 2019.

### Figure 36: 223 development projects under the National Strategic Projects in 2018



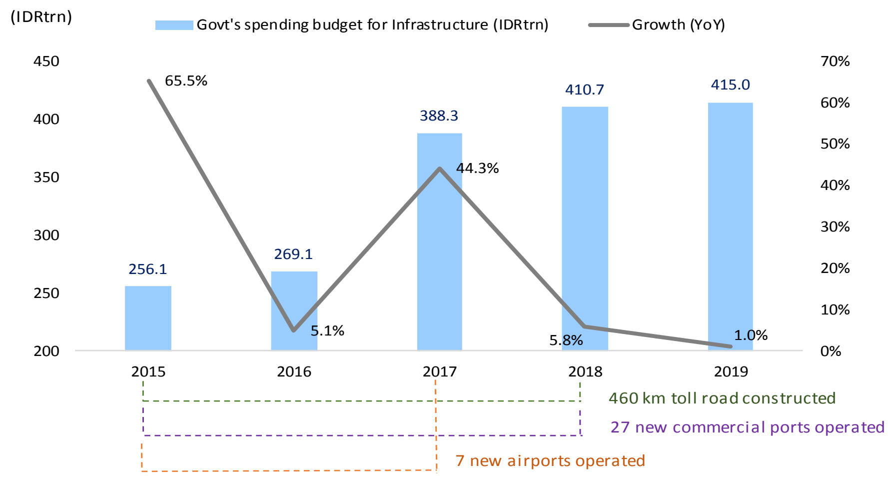

*Source: Ministry of Finance, Ministry of SOE,RHB*

### Figure 37: Infrastructure achievement and targets under the 2019 State Budget

| | 2015 | 2016 | 2017 | 2018 | 2019F |
|---|---|---|---|---|---|
| Roads constructed (in km) | 5,229 | 2,529 | 2,754 | 2,271 | 1,835 |
| Bridges built (in m) | 29,176 | 18,352 | 19,875 | 52,449 | 37,177 |
| Dam built (in unit) | 29 | 32 | 36 | 48 | 48 |
| Railway constructed (in km spoor) | 176.25 | 68.99 | 269.98 | 615.05 | 394.8 |
| Airports built (in location) | 2 | 2 | 3 | 4 | 4 |

*Source: Ministry of Finance, RHB*

### Figure 38: State Budget for infrastructure, 2015-2019




*Source: Ministry of Finance, Ministry of SOE,RHB*

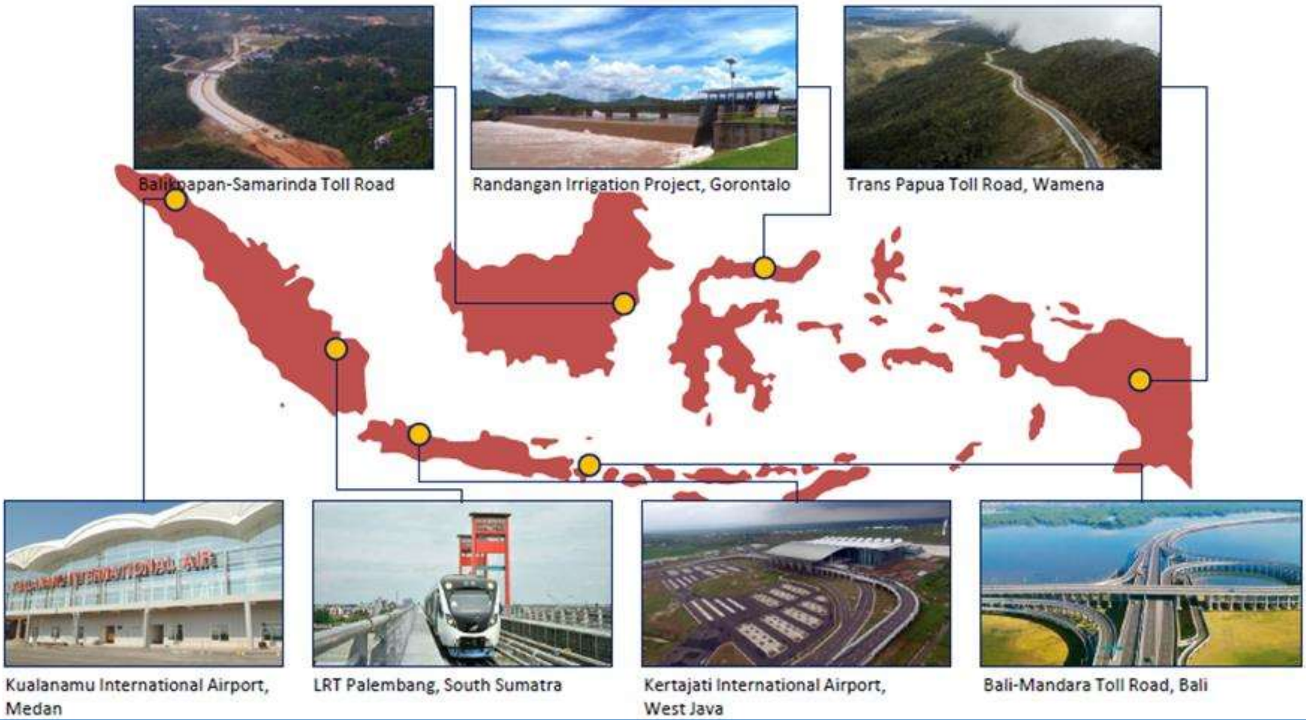
In addition to the above State Budget funding, the Government is also open to the private sector participating in infrastructure projects financing. *Bloomberg* reported that the Indonesian state investment company, SOE Ministry, is offering more than USD46bn of investment opportunities in Indonesian infrastructure projects which include energy, oil & gas, manufacturing, telecommunication, construction and infrastructure, seaport, and airport.

*Bloomberg* reported that Bandha Investasi Indonesia and a foreign partner will allocate USD600m to invest in existing toll roads, according to SOE Minister, Rini Soemarno. The two parties will set aside USD300m each for the investment. The fund is expected to be ready in late Apr 2019. It was indicated that funds will be allocated for the JSMR and WSKT toll road projects. We believe this will reduce the possibility of the former acquiring toll roads from the latter.

**Figure 39: Over USD46bn of investment opportunities in infrastructure projects**


*Source: Ministry of SOE, RHB*

**Figure 40: Some infrastructure projects across Indonesia under the Jokowi administration, from Kuala Namu International Airport in Medan to Trans Papua toll road in Wamena**




*Source: Ministry of SOE, RHB*

# Plantation

NEUTRAL on the sector, as the bio diesel policy that was introduced since the beginning of Jokowi's era has resulted in lower CPO prices and put the palm oil sector under pressure in 2018. However, the B20 implementation in 2018 was a success. Biodiesel production in 2018 stood at 6.01m kl, above the 5.70m kl target that the Government set previously. The total consumption of domestic biodiesel in 2018 of 4.02m kl included the use of biodiesel produced within the B20 programme as well as outside the programme. As a comparison, biodiesel production levels since 2014 were at 3.32m kl (2014), 1.62m kl (2015), 3.65m kl (2016) and 3.41m kl (2017).

Given the strong production in 2018, it is estimated that Indonesia will have strong production in 2019 as well compared to Malaysia due to the country's palm oil profile that is younger compared to Malaysia. If palm oil consumption and export in 2019 do not pick up, 2019's CPO price outlook will not be as encouraging.

We believe it is still too early to determine production and consumption levels in 2019. Significant increases in bio diesel consumption as well as strong consumption from the refining businesses will be very positive for pricing. We remain NEUTRAL on the sector as it is still too early to determine the impact of recent developments in terms of demand and supply.

**Figure 43: If incumbent stays in administration – Plantation**

- Positive for CPO sector going forward. Jokowi will push for higher implementation of the bio diesel policy. During the second debate, he said he would push the bio diesel to B100. Even though, this is debatable, the policy towards higher bio diesel usage will increase CPO consumption in Indonesia. However, palm oil expansion might be limited as the Government puts restrictions on deforestation. This might cap Indonesia's production in the future.

*Source: RHB*

**Figure 44: If opposition takes office – Plantation**

- More neutral, as Prabowo's team has never mentioned about policies on the palm oil directly. However, during the second debate he also mentioned about banning deforestation for sectors such as palm oil, forestry, or other agricultural companies. This might also cap planters' ability to expand their landbank and limit production capability. His policy about equality to farmers might benefit plasma farmers as he promised to maintain better pricing for the commodity. This might reduce profitability for palm oil producers as plasma farmers have the upper hand on pricing.

*Source: RHB*

# Poultry

On the back of higher day-old chick (DOC) supply outlook in 2H19, we maintain our NEUTRAL view on the sector. Nevertheless, we are expecting continued strong chicken consumption demand in the lead up to the election, as the Government increased the civil servants' budget by IDR26.1trn, +7.6% YoY and subsidies.

Our Top Picks for the sector is JPFA due to its attractive valuation, trading at c.60% discount to CPIN. JPFA's share price has been under pressure since KKR announced its sale of 385m shares at IDR2,200/unit on 4 Mar. KKR still has a 8.37% stake in the company. We believe there could be another two stages for the divestment to be fully completed over a 1-year period. Post-divestment, JPFA's free float improved to close to 48%, which should boost liquidity and qualify it for a 5% income tax break. As liquidity improves, JPFA could also be included in major benchmark indices.

**Figure 45: If incumbent stays in administration – Poultry**

- Potentially negative for the sector, as potential subsidy cuts may dampen purchasing power over the short term. This could lead to lower DOC and broiler prices, leading to a bad cycle for the poultry industry. Note that JPFA has higher DOC and broiler sales contribution than CPIN/MAIN.

*Source: RHB*

**Figure 46: If opposition takes office – Poultry**

- Potentially positive for the sector as Prabowo is pro-grassroots and farmers, while stable commodity prices may help farmers' welfare, including chicken farmers, and boost demand for chicken consumption – this would support prices in the industry. On the other hand, the long-term plan could dampen economic and chicken sales volume growths in Indonesia.

*Source: RHB*

# Property

Maintain OVERWEIGHT on the property sector, as developers are focusing more on aggressive launches post Apr 2019 election, with a more dovish interest rate outlook (max 1-2x 25bps hike). Currently, property investors are still adopting a wait-and-see due to uncertainties over the upcoming election. Property developers with larger exposures to the fast-growing low-cost market should benefit – we like CTRA and MYRX on its low-cost township development – Citra Maja Raya.

The programmes from both the candidates are focused on ensuring access to low-cost housing for low-income citizens, which should be positive for the property sector. Other programmes on the development side are focused on providing public transportation and other supporting infrastructure, which should help provide access and increase property value for low-cost developments.

The opposition party also has a programme to eliminate property taxes for main and first properties, which should be positive for the property market. On the other hand, the opposition has plans to re-purpose landbank and suspend building rights titles, which may impact several developers.

**Figure 47: If incumbent stays in administration – Property**

- The incumbent President Joko Widodo, and his vice-presidential candidate Ma'ruf Amin plan to ensure access to house ownership for more than 5m low income citizens (such as low-wage workers, soldiers, and the police force) through the continuation of FLPP (liquidity facility for housing purchase) and SSB (interest difference subsidy) mortgage schemes, which should be positive for low-cost property developers.
- President Joko Widodo's achievements in building toll roads and other infrastructure, if continued, will also increase access to township developments in the outer big-city areas as well as increasing property values around it for home owners.

*Source: RHB*

**Figure 48: If opposition takes office – Property**

- The opposition, Prabowo and Sandiaga Uno's programme is similar, in expediting housing supply and building low-cost flats by private developers and SOEs for low-income citizens, as well as low-cost public transportation. This should help low-cost property townships as it will provide easier access, which should translate to higher property value for home owners.
- They also plan to eliminate property taxes for main and first properties, which should help sales in the property market. On the other hand, Prabowo-Sandiaga also proposes to re-purpose landbank to improve land use as well as suspending building rights titles which in turn may cause uncertainty for developers in landbanking and developing building projects.

*Source: RHB*

# Retail

OVERWEIGHT the sector as the more "populist" Government has started to provide higher subsidies (ie 1.5-8.6% lower gasoline prices in 1Q19, 14th month salary for civil servants and -3.8% lower electricity prices for 900VA households). Furthermore, the Government has increased the civil servants' budget by IDR26.1trn, +7.6% YoY, which should increase grassroots' disposable income and purchasing power in the lead up to the election.

Our Top Picks for the sector: ERAA, MAPI and AMRT. Although RALS is the main beneficiary of grassroots' higher disposable income, the stock has rallied 42% YoY and has surpassed our TP. RALS currently trades at c.35% premium to its regional department store peers. The increased disposable income should also result in higher smartphone penetration for mid-low income segment, especially for lower-priced Chinese brands (ie *Xiaomi* and *Honor*), of which ERAA controls 100% of distribution in Indonesia.

**Figure 49: If incumbent stays in administration – Retail**

- Potentially negative for retail in the short-medium term if the Government reallocates resources to increase infrastructure spending, improve bureaucracy and human resources.
- These are positive over the long-run for Indonesia's economy and transparency. However, mid-low-income earners may suffer from short-term subsidy cuts (ie higher fuel prices), which could dampen purchasing power.

*Source: RHB*

**Figure 50: If opposition takes office – Retail**

- Potentially positive for the retail sector over short to medium term. Given that Prabowo's team focuses on improving farmers' welfare, low cost public transport and stable commodity prices.
- These should help mid-low income purchasing power over the short-term. Positive for companies with exposure to low-end consumers, ie RALS and LPPF.

*Source: RHB*

# Telecommunications

Rising disposable income on higher subsidies and government budget should increase demand for data usage and help to normalise ARPU ahead. EXCL is the main beneficiary, given its highest data revenue contribution in the industry. EXCL currently trades at 1.5SD below its 3-year mean EV/EBITDA.

Post SIM registration, Indonesia's big-3 operators' 2019 EBITDA growth is expected to reach +12% YoY, much higher vs regional peers' +1.7% YoY and the JCI consensus' growth expectation of +7.4% YoY. Currently the Big-3 telcos are trading at 5.7x 2019F EV/EBITDA, or at a 6%/54% discount than peers/market.

**Figure 51: If incumbent stays in administration – Telecommunications**

- Potentially more negative for the sector over the short- mid-term, as the Government may lower subsidies to fund infrastructure projects. This should however be positive over the long run.
- TLKM will be the most defensive counter, and with its highest ARPU in the industry – this suggests that its customers are less price sensitive vs other operators'.
- In addition, TLKM's premium ARPU may suggest that its targeted

**Figure 52: If opposition takes office – Telecommunications**

- Positive for the sector in the short term on higher ARPU for mid-low, as grassroots may continue to enjoy higher subsidies. This should benefit EXCL/ISAT more given that their ARPU is c.30% lower than TLKM – this indicates that their subscribers are more price-sensitive.
- However, over the long term, the lack of economic growth may dampen revenue growth for the industry.

subscribers are generally higher than EXCL's and ISAT's, who are less affected by potential subsidy cuts.

*Source: RHB*

*Source: RHB*

## Palapa Ring to provide broadband internet access across Indonesia

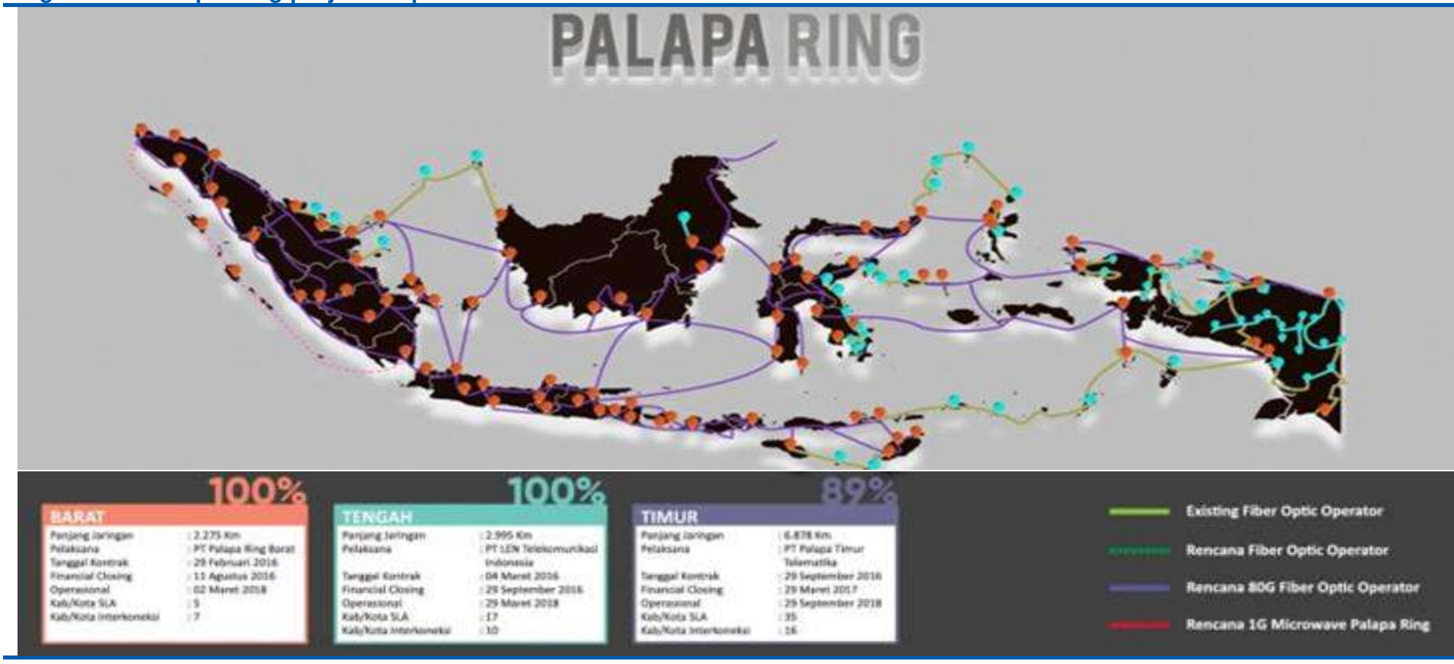
Through Universal Service Obligation (USO) funds collected through telecommunication companies, the Government has mandated that the Palapa Ring project provide broadband internet access, especially to rural areas. This is also to connect all the sub-regional government offices and have an interlink-connected operating system.

As a part of the President Jokowi's infrastructure plan, Palapa Ring is one of his successful projects. Internet access could provide education and economic growth support. About 70-80% of internet users access the worldwide web through their smartphones. As such, further expansion of internet use should support the use of these devices in Indonesia.

## 3-section Palapa Ring will be fully completed by end-2019

The West and Central Palapa Ring projects are done, while the East section is expected to be completed by end-2019. This should support affordable rollout capex for operators to areas covered by the Palapa Ring, and increase competition for Telkomsel's existing market dominance in remote areas. The Government has commenced a trial period in the West section.

**Figure 53: Palapa Ring project map**




*Source: BAKTI Kominfo, RHB*

**Figure 54: BTS built by USO as part of #IndonesiaMerdekaSinyal2020**


- As of FY18, 856 BTS have been built under USO to provide cellular coverage in remote areas.
- 3G/4G-LTE coverage in 110 rural areas covered by the Palapa Ring projects has reached 75%/ 58% respectively, with targets to reach 100%/64% by 2019F

*Source: BAKTI Kominfo, RHB*

# Tobacco

OVERWEIGHT on flat excise tax hike in 2019F to ease price inflation pressures and support volume growth. The more 'populist' Government has started to provide higher subsidies (ie 1.5-8.6% lower gasoline prices in 1Q19, 14th month salary for civil servants and -3.8% lower electricity prices for 900VA households). Furthermore, the Government has increased civil servants' budget by IDR26.1trn, +7.6% YoY. These should increase grassroots' disposable income and purchasing power in the lead up to the election.

Our Top Picks for the sector: GGRM. Targeting the lower-end segment vs HMSP, GGRM's earnings are more sensitive to excise tax hikes, as its excise-to-sales is higher than HMSP's. In addition, the growing popularity for *Kretek* machine-rolled full flavour (SKM FF) cigarettes should also boost GGRM's market share, given that the company is the leader in the segment.

**Figure 55: If incumbent stays in administration – Tobacco**

- Potentially more positive for HMSP, given the company has higher exposure for mid-up income smokers – this is if the Government reallocates resources to increase infrastructure spending, improving bureaucracy and human resources.
- These are positive over the long-run for Indonesia's economy and transparency. However, mid-low-income earners may suffer from short-term subsidy cuts (ie higher fuel prices) and could dampen purchasing power for mid-low segment (ie worse for GGRM).

*Source: RHB*

**Figure 56: If opposition takes office – Tobacco**

- Potentially positive for GGRM over short to medium term, as Prabowo's team focuses on improving farmers welfare, low cost public transportation, and stable commodity prices.
- These should help mid-low income purchasing power over the short-term. Given GGRM has more mid-low and farmers-background exposure, the company should benefit more than HMSP.

*Source: RHB*

## RHB Guide to Investment Ratings

| | |
|---|---|
| **Buy:** | Share price may exceed 10% over the next 12 months |
| **Trading Buy:** | Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain |
| **Neutral:** | Share price may fall within the range of +/- 10% over the next 12 months |
| **Take Profit:** | Target price has been attained. Look to accumulate at lower levels |
| **Sell:** | Share price may fall by more than 10% over the next 12 months |
| **Not Rated:** | Stock is not within regular research coverage |

**Investment Research Disclaimers**

RHB has issued this report for information purposes only. This report is intended for circulation amongst RHB and its affiliates' clients generally or such persons as may be deemed eligible by RHB to receive this report and does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. This report is not intended, and should not under any circumstances be construed as, an offer or a solicitation of an offer to buy or sell the securities referred to herein or any related financial instruments.

This report may further consist of, whether in whole or in part, summaries, research, compilations, extracts or analysis that has been prepared by RHB's strategic, joint venture and/or business partners. No representation or warranty (express or implied) is given as to the accuracy or completeness of such information and accordingly investors should make their own informed decisions before relying on the same.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to the applicable laws or regulations. By accepting this report, the recipient hereof (i) represents and warrants that it is lawfully able to receive this document under the laws and regulations of the jurisdiction in which it is located or other applicable laws and (ii) acknowledges and agrees to be bound by the limitations contained herein. Any failure to comply with these limitations may constitute a violation of applicable laws.

All the information contained herein is based upon publicly available information and has been obtained from sources that RHB believes to be reliable and correct at the time of issue of this report. However, such sources have not been independently verified by RHB and/or its affiliates and this report does not purport to contain all information that a prospective investor may require. The opinions expressed herein are RHB's present opinions only and are subject to change without prior notice. RHB is not under any obligation to update or keep current the information and opinions expressed herein or to provide the recipient with access to any additional information. Consequently, RHB does not guarantee, represent or warrant, expressly or impliedly, as to the adequacy, accuracy, reliability, fairness or completeness of the information and opinion contained in this report. Neither RHB (including its officers, directors, associates, connected parties, and/or employees) nor does any of its agents accept any liability for any direct, indirect or consequential losses, loss of profits and/or damages that may arise from the use or reliance of this research report and/or further communications given in relation to this report. Any such responsibility or liability is hereby expressly disclaimed.

Whilst every effort is made to ensure that statement of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable and must not be construed as a representation that the matters referred to therein will occur. Different assumptions by RHB or any other source may yield substantially different results and recommendations contained on one type of research product may differ from recommendations contained in other types of research. The performance of currencies may affect the value of, or income from, the securities or any other financial instruments referenced in this report. Holders of depositary receipts backed by the securities discussed in this report assume currency risk. Past performance is not a guide to future performance. Income from investments may fluctuate. The price or value of the investments to which this report relates, either directly or indirectly, may fall or rise against the interest of investors.

This report does not purport to be comprehensive or to contain all the information that a prospective investor may need in order to make an investment decision. The recipient of this report is making its own independent assessment and decisions regarding any securities or financial instruments referenced herein. Any investment discussed or recommended in this report may be unsuitable for an investor depending on the investor's specific investment objectives and financial position. The material in this report is general information intended for recipients who understand the risks of investing in financial instruments. This report does not take into account whether an investment or course of action and any associated risks are suitable for the recipient. Any recommendations contained in this report must therefore not be relied upon as investment advice based on the recipient's personal circumstances. Investors should make their own independent evaluation of the information contained herein, consider their own investment objective, financial situation and particular needs and seek their own financial, business, legal, tax and other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report.

This report may contain forward-looking statements which are often but not always identified by the use of words such as "believe", "estimate", "intend" and "expect" and statements that an event or result "may", "will" or "might" occur or be achieved and other similar expressions. Such forward-looking statements are based on assumptions made and information currently available to RHB and are subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievement to be materially different from any future results, performance or achievement, expressed or implied by such forward-looking statements. Caution should be taken with respect to such statements and recipients of this report should not place undue reliance on any such forward-looking statements. RHB expressly disclaims any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

The use of any website to access this report electronically is done at the recipient's own risk, and it is the recipient's sole responsibility to take precautions to ensure that it is free from viruses or other items of a destructive nature. This report may also provide the addresses of, or contain hyperlinks to, websites. RHB takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to RHB own website material) are provided solely for the recipient's convenience. The information and the content of the linked site do not in any way form part of this report. Accessing such website or following such link through the report or RHB website shall be at the recipient's own risk.

This report may contain information obtained from third parties. Third party content providers do not guarantee the accuracy, completeness, timeliness or availability of any information and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such content. Third party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability or fitness for a particular purpose or use. Third party content providers shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use of their content.

The research analysts responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously. The research analysts that authored this report are precluded by RHB in all circumstances from trading in the securities or other financial instruments referenced in the report, or from having an interest in the company(ies) that they cover.

RHB and/or its affiliates and/or their directors, officers, associates, connected parties and/or employees, may have, or have had, interests in the securities or qualified holdings, in subject company(ies) mentioned in this report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities. Further, RHB and/or its affiliates may have, or have had, business relationships with the subject company(ies) mentioned in this report and may from time to time seek to provide investment banking or other services to the subject company(ies) referred to in this research report. As a result, investors should be aware that a conflict of interest may exist.

The contents of this report is strictly confidential and may not be copied, reproduced, published, distributed, transmitted or passed, in whole or in part, to any other person without the prior express written consent of RHB and/or its affiliates. This report has been delivered to RHB and its affiliates' clients for information purposes only and upon the express understanding that such parties will use it only for the purposes set forth above. By electing to view or accepting a copy of this report, the recipients have agreed that they will not print, copy, videotape, record, hyperlink, download, or otherwise attempt to reproduce or re-transmit (in any form including hard copy or electronic distribution format) the contents of this report. RHB and/or its affiliates accepts no liability whatsoever for the actions of third parties in this respect.

The contents of this report are subject to copyright. Please refer to Restrictions on Distribution below for information regarding the distributors of this report. Recipients must not reproduce or disseminate any content or findings of this report without the express permission of RHB and the distributors.

The securities mentioned in this publication may not be eligible for sale in some states or countries or certain categories of investors. The recipient of this report should have regard to the laws of the recipient's place of domicile when contemplating transactions in the securities or other financial instruments referred to herein. The securities discussed in this report may not have been registered in such jurisdiction. Without prejudice to the foregoing, the recipient is to note that additional disclaimers, warnings or qualifications may apply based on geographical location of the person or entity receiving this report.

The term "RHB" shall denote, where appropriate, the relevant entity distributing or disseminating the report in the particular jurisdiction referenced below, or, in every other case, RHB Investment Bank Berhad and its affiliates, subsidiaries and related companies.

### RESTRICTIONS ON DISTRIBUTION

**Malaysia**

This report is issued and distributed in Malaysia by RHB Research Institute Sdn Bhd. The views and opinions in this report are our own as of the date hereof and is subject to change. If the Financial Services and Markets Act of the United Kingdom or the rules of the Financial Conduct Authority apply to a recipient, our obligations owed to such recipient therein are unaffected. RHB Research Institute Sdn Bhd has no obligation to update its opinion or the information in this report.

**Thailand**

This report is issued and distributed in the Kingdom of Thailand by RHB Securities (Thailand) PCL, a licensed securities company that is authorised by the Ministry of Finance, regulated by the Securities and Exchange Commission of Thailand and is a member of the Stock Exchange of Thailand. The Thai Institute of Directors Association has disclosed the Corporate Governance Report of Thai Listed Companies made pursuant to the policy of the Securities and Exchange Commission of Thailand. RHB Securities (Thailand) PCL does not endorse, confirm nor certify the result of the Corporate Governance Report of Thai Listed Companies.

**Indonesia**
This report is issued and distributed in Indonesia by PT RHB Sekuritas Indonesia. This research does not constitute an offering document and it should not be construed as an offer of securities in Indonesia. Any securities offered or sold, directly or indirectly, in Indonesia or to any Indonesian citizen or corporation (wherever located) or to any Indonesian resident in a manner which constitutes a public offering under Indonesian laws and regulations must comply with the prevailing Indonesian laws and regulations.

**Singapore**
This report is issued and distributed in Singapore by RHB Securities Singapore Pte Ltd and it may only be distributed in Singapore to accredited investors, expert investors and institutional investors as defined in the Financial Advisers Regulations and the Securities and Futures Act (Chapter 289), as amended from time to time. By virtue of distribution to these categories of investors, RHB Securities Singapore Pte Ltd and its representatives are not required to comply with Section 36 of the Financial Advisers Act (Chapter 110) (Section 36 relates to disclosure of RHB Securities Singapore Pte Ltd 's interest and/or its representative's interest in securities). Recipients of this report in Singapore may contact RHB Securities Singapore Pte Ltd in respect of any matter arising from or in connection with the report.

**Hong Kong**
This report is issued and distributed in Hong Kong by RHB Securities Hong Kong Limited (興業僑豐證券有限公司) (CE No.: ADU220) (“RHBSHK”) which is licensed in Hong Kong by the Securities and Futures Commission for Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities. Any investors wishing to purchase or otherwise deal in the securities covered in this report should contact RHBSHK. RHBSHK is a wholly owned subsidiary of RHB Hong Kong Limited; for the purposes of disclosure under the Hong Kong jurisdiction herein, please note that RHB Hong Kong Limited with its affiliates (including but not limited to RHBSHK) will collectively be referred to as “RHBHK.” RHBHK conducts a full-service, integrated investment banking, asset management, and brokerage business. RHBHK does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this research report. Investors should consider this report as only a single factor in making their investment decision. Importantly, please see the company-specific regulatory disclosures below for compliance with specific rules and regulations under the Hong Kong jurisdiction. Other than company-specific disclosures relating to RHBHK, this research report is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such.

**United States**
This report was prepared by RHB and is being distributed solely and directly to “major” U.S. institutional investors as defined under, and pursuant to, the requirements of Rule 15a-6 under the U.S. Securities and Exchange Act of 1934, as amended (the “Exchange Act”). Accordingly, access to this report via Bursa Marketplace or any other Electronic Services Provider is not intended for any party other than “major” US institutional investors, nor shall be deemed as solicitation by RHB in any manner. RHB is not registered as a broker-dealer in the United States and does not offer brokerage services to U.S. persons. Any order for the purchase or sale of the securities discussed herein that are listed on Bursa Malaysia Securities Berhad must be placed with and through Auerbach Grayson (“AG”). Any order for the purchase or sale of all other securities discussed herein must be placed with and through such other registered U.S. broker-dealer as appointed by RHB from time to time as required by the Exchange Act Rule 15a-6. This report is confidential and not intended for distribution to, or use by, persons other than the recipient and its employees, agents and advisors, as applicable. Additionally, where research is distributed via Electronic Service Provider, the analysts whose names appear in this report are not registered or qualified as research analysts in the United States and are not associated persons of Auerbach Grayson AG or such other registered U.S. broker-dealer as appointed by RHB from time to time and therefore may not be subject to any applicable restrictions under Financial Industry Regulatory Authority (“FINRA”) rules on communications with a subject company, public appearances and personal trading. Investing in any non-U.S. securities or related financial instruments discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in the United States. The financial instruments discussed in this report may not be suitable for all investors. Transactions in foreign markets may be subject to regulations that differ from or offer less protection than those in the United States.

## OWNERSHIP AND MATERIAL CONFLICTS OF INTEREST

**Malaysia**
RHB does not have qualified shareholding (1% or more) in the subject company (ies) covered in this report except for:
(a) -

RHB and/or its subsidiaries are not liquidity providers or market makers for the subject company (ies) covered in this report except for:
(a) -

RHB and/or its subsidiaries have not participated as a syndicate member in share offerings and/or bond issues in securities covered in this report in the last 12 months except for:
(a) -

RHB has not provided investment banking services to the company/companies covered in this report in the last 12 months except for:
(a) -

**Thailand**
RHB Securities (Thailand) PCL and/or its directors, officers, associates, connected parties and/or employees, may have, or have had, interests and/or commitments in the securities in subject company(ies) mentioned in this report or any securities related thereto. Further, RHB Securities (Thailand) PCL may have, or have had, business relationships with the subject company(ies) mentioned in this report. As a result, investors should exercise their own judgment carefully before making any investment decisions.

**Indonesia**
PT RHB Sekuritas Indonesia is not affiliated with the subject company(ies) covered in this report both directly or indirectly as per the definitions of affiliation above. Pursuant to the Capital Market Law (Law Number 8 Year 1995) and the supporting regulations thereof, what constitutes as affiliated parties are as follows:

1. Familial relationship due to marriage or blood up to the second degree, both horizontally or vertically;
2. Affiliation between parties to the employees, Directors or Commissioners of the parties concerned;
3. Affiliation between 2 companies whereby one or more member of the Board of Directors or the Commissioners are the same;
4. Affiliation between the Company and the parties, both directly or indirectly, controlling or being controlled by the Company;
5. Affiliation between 2 companies which are controlled, directly or indirectly, by the same party; or
6. Affiliation between the Company and the main Shareholders.

PT RHB Sekuritas Indonesia is not an insider as defined in the Capital Market Law and the information contained in this report is not considered as insider information prohibited by law. Insider means:

a. a commissioner, director or employee of an Issuer or Public Company;
b. a substantial shareholder of an Issuer or Public Company;
c. an individual, who because of his position or profession, or because of a business relationship with an Issuer or Public Company, has access to inside information; and
d. an individual who within the last six months was a Person defined in letters a, b or c, above.

**Singapore**
RHB Securities Singapore Pte Ltd and/or its subsidiaries and/or associated companies do not make a market in any securities covered in this report, except for:
(a) -

The staff of RHB Securities Singapore Pte Ltd and its subsidiaries and/or its associated companies do not serve on any board or trustee positions of any issuer whose securities are covered in this report, except for:
(a) -

RHB Securities Singapore Pte Ltd and/or its subsidiaries and/or its associated companies do not have and have not within the last 12 months had any corporate finance advisory relationship with the issuer of the securities covered in this report or any other relationship (including a shareholding of 1% or more in the securities covered in this report) that may create a potential conflict of interest, except for:
(a) -

RHB Securities Singapore Pte Ltd accepts legal responsibility for the contents of the analysis or report without any disclaimer limiting or otherwise curtailing such legal responsibility.

**Hong Kong**
The following disclosures relate to relationships between RHBHK and companies covered by Research Department of RHBSHK and referred to in this research report:

RHBSHK hereby certifies that no part of RHBSHK analyst compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

RHBHK had an investment banking services client relationships during the past 12 months with: -.

RHBHK has received compensation for investment banking services, during the past 12 months from: -.

RHBHK managed/co-managed public offerings, in the past 12 months for: -.

On a principal basis. RHBHK has a position of over 1% market capitalization of: -.

**Additionally, please note the following:**

**Ownership and material conflicts of interest:** RHBSHK policy prohibits its analysts and associates reporting to analysts from owning securities of any company covered by the analyst.

**Analyst as officer or director:** RHBSHK policy prohibits its analysts, and associates reporting to analysts from serving as an officer, director, advisory board member or employee of any company covered by the analyst.

RHBHK salespeople, traders, and other non-research professionals may provide oral or written market commentary or trading strategies to RHB clients that reflect opinions that are contrary to the opinions expressed in this research report.


**KUALA LUMPUR**

**RHB Research Institute Sdn Bhd**
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

**JAKARTA**

**PT RHB Sekuritas Indonesia**
Wisma Mulia, 20th Floor
Jl. Jenderal Gatot Subroto No. 42
Jakarta 12710
Indonesia
Tel : +6221 2783 0888
Fax :+6221 2783 0777

**HONG KONG**

**RHB Securities Hong Kong Ltd.**
12th Floor, World-Wide House
19 Des Voeux Road
Central
Hong Kong
Tel : +852 2525 1118
Fax : +852 2810 0908

**BANGKOK**

**RHB Securities (Thailand) PCL**
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

**SINGAPORE**

**RHB Securities Singapore Pte Ltd.**
10 Collyer Quay
#09-08 Ocean Financial Centre
Singapore 049315
Tel : +65 6533 1818
Fax : +65 6532 6211