Go get alpha

15% index upside to 5,233 – Focus on alpha

We set an index target of 5,233 based on target PEG of 1.0x on the back of 16x 1yr-forward PE and 16% earnings CAGR estimate (2012-15E). Market currently trades at 13.9x 1-yr forward PE. Given potentially higher volatility and lack of strong sector catalyst, we suggest investors to focus less on beta or sector plays and more focused on company specific alpha.

Less concerned on inflation and balance of payment…

Although there is a possibility that weakened Rupiah may result in higher inflation in the next 1-3 months, we believe inflation will improve significantly in 2014, particularly given higher base starting July. Balance of payment should also improve given government's active efforts (selling USD govt bonds, reducing steel and other imports). Worth noting that Indo govt 10-yr bond yield has improved from year-high of 8.9% on 9 Sep to currently 7.2% with recovering foreign buying interest.

…but some of the companies we cover suggest potential economic slowdown in 2014

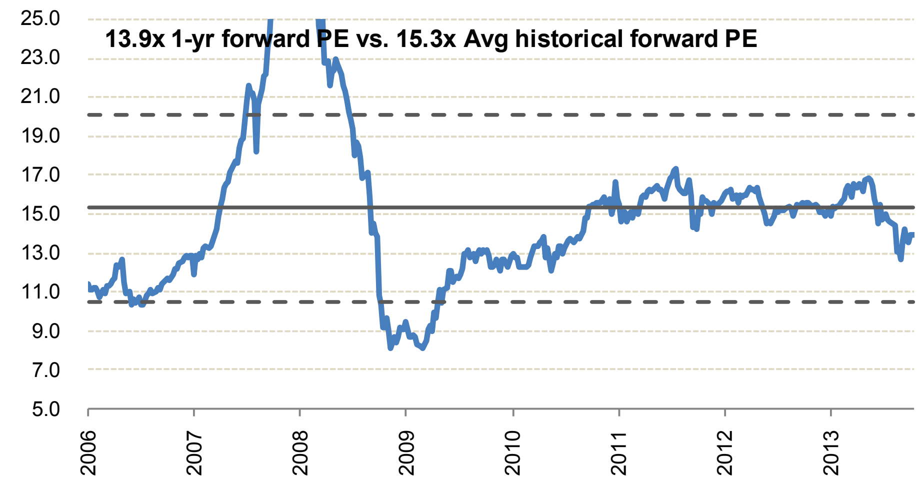
Although most of the companies we cover still maintain their capex guidance for 2014, the following suggest potential slowdown: 1) Some banks are guiding for lower loan growth from an average of 22% this year to 19% in 2014, 2) Industrial property companies are guiding for lower to flat marketing sales in 2014 as they expect FDI delays due to 2014 elections.

Alpha driven portfolio

We suggest BMRI and BBNI on further CASA improvement in 2014. We like MTLA on the back of above average growth (61% YoY FY14 EPS growth vs. sector's 31% average) with 30% of earnings as recurring income and its focus on low and middle income segment implies it is less impacted by new LTV (loan-to-value) regulation.

Strategy Update

Stock picks	Ticker
Bank Mandiri	BMRI
BNI	BBNI
Metropolitan Land	MTLA



Source: Trimegah Securities, Bloomberg

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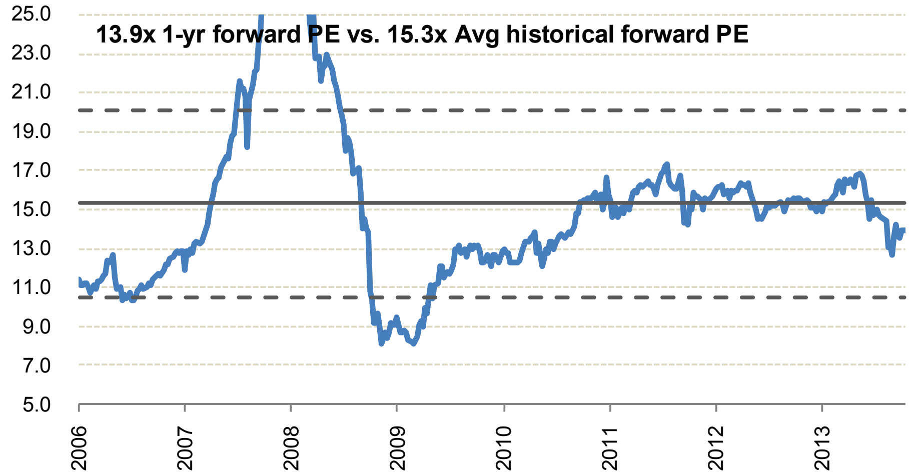
Reasonable valuation relative to historical and regional markets

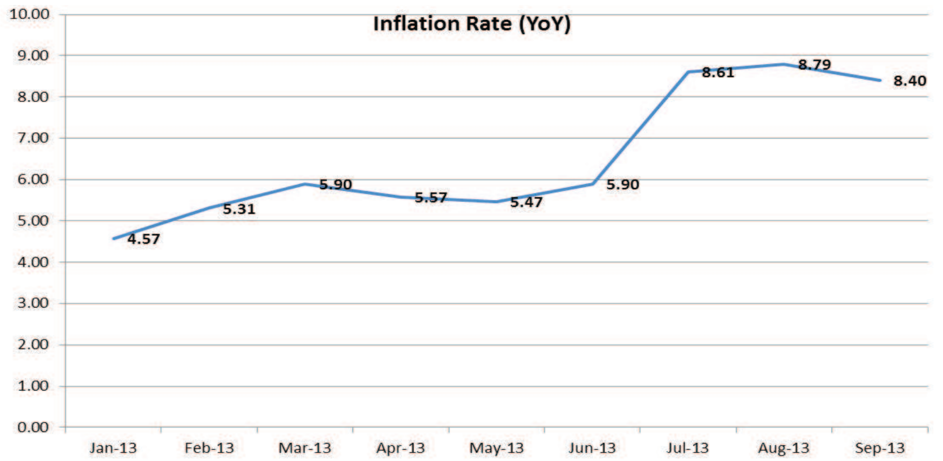
JCI currently trades at 13.9x 1-yr forward PE, a 10% discount relative to historical PE of 15.3x. JCI also looks favorable versus regional, as it currently trades at 13.5x FY14 PE versus regional (South-East Asia) average of 14.6x. JCI's earnings growth outlook for 2014 also looks favorable relative to other markets in the region. There is a risk of earnings downgrades in some sectors i.e. construction (due to project delays) and property (due to tightening credit on the back of new LTV regulation) but these sectors have small weighting in the index (combined 7%).



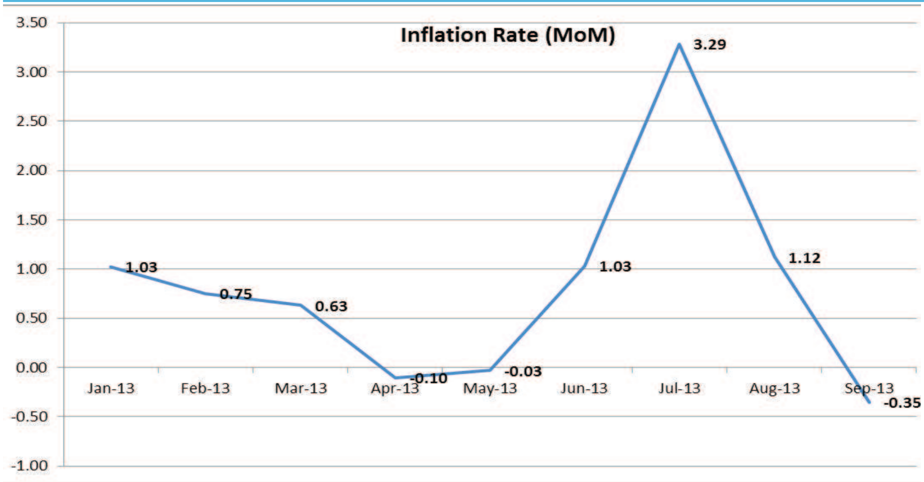
Source: Bloomberg

Less concerned on inflation

Headline inflation has fallen from its height of 8.8% in August to 8.4% in September. A closer look at price momentum of each item that forms the index shows that only clothing was up significantly last month. Our chat with some of the listed consumer companies suggest there is risk of lagging inflation effect from Rupiah depreciation this year (10% depreciation since end of Jun13) but this risk should only be short-term (1-3months). We are optimistic of a tamer inflation from in 2014, particularly starting July given higher base this year.



Source: CEIC



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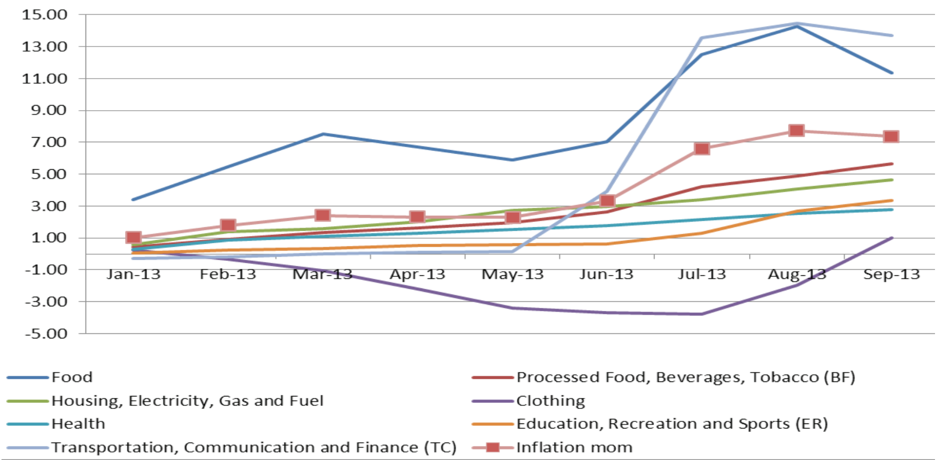
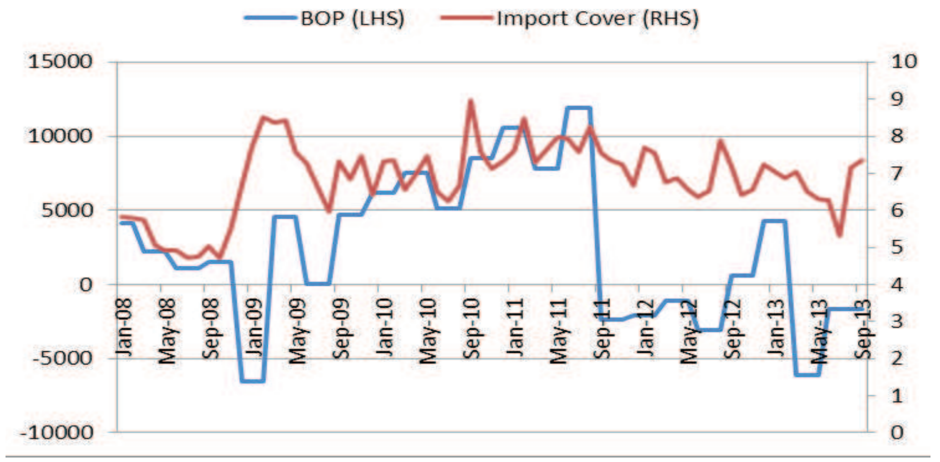


Source: CEIC

Improving balance of payment

There has been plenty of focus on Indonesia's balance of payment in the past several months as it fell significantly in 2Q13. We think such concerns are overstated given that Rupiah free float (versus managed float in 1997) implies quicker reaction in the form of lower import as imported goods become more expensive and government's fuel hike in June has helped improve the balance of payment. It is also worth noting that Indonesia current level of reserves remains high at 7.1x months import, similar to historical (since 2008) average of 6.9x and still more than double the critical point of 3 months import.



Source: Bloomberg

Economic growth is likely to slow down in 2014

A review of banks' guidance on 2014 loan growth (only those that have published 9m13 have provided 2014 outlook) and a far from enthusiastic guidance from industrial property companies we cover on 2014 marketing sales suggest a likely slowdown in Indonesian economy in 2014. Both Bekasi Fajar (BEST) and Surya Semesta (SSIA) are guiding for either slightly negative or no growth in marketing sales next year.

Banks are less optimistic for 2014 loan growth, guiding for an average of 19% versus 22% in 2013. This follows the central bank's cautious guidance for 2014. Note that the central bank's recent moves i.e. new LTV (loan to value) regulation for property also implies an effort by the central bank to slow down loan growth (at least consumer loans).

Guidance

	2013	2014 range	2014 avg
BBNI	23%	18-20%	19.0%
BBRI	23%	20-22%	21.0%
BDMN	15%	14-15%	14.5%
BJBR	26%	22-25%	23.0%
Average	**22%**		**19.4%**

Source: BBNI, BBRI, BDMN, BJBR

Focus on alpha – four stocks we think will outperform

We expect BMRI (TP Rp10,500, 24% upside), BBNI (TP Rp6,200, 35% upside) and MTLA (TP Rp740, 38% upside) to outperform the market (expected 15% upside for JCI) given specific company catalysts and attractive valuation.

Bank Mandiri (BMRI, Buy, TP Rp10,500, 24% upside)
Analyst: Robby Hafil (robby.hafil@trimegah.com)
We like BMRI due to its strong CASA franchise as liquidity in the banking system tightened and interest rate on deposit began to creep up. Furthermore, we believe BMRI would be able to grow its non-interest income through its non-bank subsidiaries (ie. AXA Mandiri, Mandiri Sekuritas), which will dampen the effect of slower net interest income growth from its bank businesses. We expect Bank Mandiri to post 20% earnings growth in FY14 on the back of 20% loan growth. Bank Mandiri trades at 9.6x near bank sector's average of 10x. Its PBV of 2.5x trades slightly below its 5-yr PBV average of 2.7x. We expect ROAE to improve from currently 22% to 25% in the next two years, which will drive PBV re-rating.

Bank Negara Indonesia (BBNI, Buy, TP Rp6,200, 35% upside)
Analyst: Robby Hafil (robby.hafil@trimegah.com)
We like BBNI for its growth potential. BBNI has been growing conservatively in the last few years, while improving its loan quality. In 3Q13, the Bank is able to grow its loan at over 30% YoY, much higher than the industry average of 22%. Furthermore, as BBNI's profitability began to improve, the Bank's ROAE has increased to 20% in 3QFY13 from just 17% in FY12, which we believe merit higher valuation. We expect BBNI to post 22% earnings growth in FY14 on the back of 21% loan growth. Note that consensus have downgraded BBNI's FY14 earnings by 6% since Jun13 and we believe upgrades are likely post 4Q13 result (our earnings projection is 15% above consensus). BBNI trades at FY14 PE of 8.1x, below bank sector' average of 10x.

Metropolitan Land (MTLA, Buy, TP Rp740, 38% upside)
Analyst: Melvina Wildasari (melvina.wildasari@trimegah.com)
Year to date, MTLA has achieved 80% of FY13 marketing sales target versus property stocks' 70% average. We remain optimistic on marketing sales momentum in 2014 as MTLA caters to low and mid-income segment with four of its five residential projects located in the outer Jakarta area. This reduces the risk from new LTV regulation that loans for second mortgage can only be 40% of total property value and loans for third mortgage to be 50% of total property value (versus 30% for first mortgage). Most of the buyers of Metland projects are first-time owners.

In addition, approximately 30% of Metland's profit is recurring income from malls located in its residential projects, implying higher visibility of our earnings growth projection for MTLA relative to most other property companies. We expect MTLA to post 69% earnings growth in 2014 and 52% growth in 2015. Balance sheet is solid with only 0.07x net debt to equity ratio as at end of 1H13. We also expect dividend yield of 3% in 2014 and 5% in 2015. In addition to execution on marketing sales and delivery of earnings projection, additional potential catalyst includes planned acquisition of 100ha of land (30ha in 4Q13, 70ha in 2014) that further solidifies its medium and long-term growth story (company currently has 338ha of land bank). MTLA trades at 9.2x FY14 PE and 6.1x FY15 PE.

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