

Equity strategy A 31% fuel price hike

November 18, 2014

A 31% fuel price hike from from 6500 to Rp8500/liter

After long public discussion in the past several months, Mr. Jokowi's government finally delivers on its promise to raise fuel price hike by 31%. In this report we answer frequent questions we expect from investors.

How much does the govt save and how will it be allocated?

Government saves approximately Rp100tn. Allocation will depend on how much government spends on social net (which govt plans to distribute through Jokowi's health and education programs). If we assume govt to lower budget deficit from 2.2% to 2.0% and spend Rp20tr on social compensation scheme, govt would have Rp36tr to be allocated for infrastructure (21% higher than the Rp169tr currently budgeted). This is positive for SOE construction companies (PTPP, WIKA, WSKT, ADHI).

How much inflation should we expect and BI's reaction?

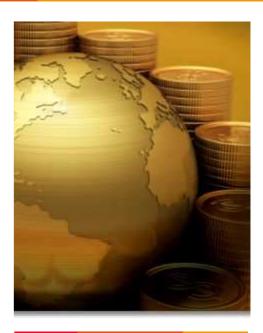
We expect inflation to rise from currently 4.8% YoY to 7.7-8.1% YoY by Dec (usually YoY inflation peaks ~2 months after a fuel price hike). Our estimate is more conservative than finance minister Mr. Bambang Brodjonegoro's 7.3% estimate. Indonesia's central bank will have an unscheduled meeting today, we expect it to maintain the benchmark rate at 7.5%.

How would the market react?

We expect market to move positively as market is likely to focus on the long-term impact (government budget allocated for productive use i.e. infrastructure, rather than fuel subsidy) rather than the short-term impact (higher inflation in next 12 months). Note that government is already discussing possibility of switching the subsidy system from fixed price to fixed subsidy (floating price), which would eliminate future volatility on budget. Bond market has already responded positively. Indo's equity basket trading in the US is up 0.6% last night.

Which sector/stocks will benefit?

Expect construction sector (top pick is PTPP), healthcare (KAEF, INAF), and JSMR (beneficiary of higher inflation) to benefit from fuel price hike. Construction companies are already up $\sim\!20\%$, KAEF 15%, INAF 55% and JSMR up 9% in the past three weeks but some more upside is to be expected.



STRATEGY UPDATE

Index Target (Jun-15):

5,675

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