

# 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 ~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**

Sebastian Tobing  
[sebastian.tobing@trimegah.com](mailto:sebastian.tobing@trimegah.com)  
+62 21 29249105

**PT Trimegah Securities Tbk**  
Gedung Artha Graha 18<sup>th</sup> Floor  
Jl. Jend. Sudirman Kav. 52-53  
Jakarta 12190, Indonesia  
t. +62-21 2924 9088  
f. +62-21 2924 9150  
[www.trimegah.com](http://www.trimegah.com)

**DISCLAIMER**

This report has been prepared by PT Trimegah Securities Tbk on behalf of itself and its affiliated companies and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy. This report has been produced independently and the forecasts, opinions and expectations contained herein are entirely those of Trimegah Securities. While all reasonable care has been taken to ensure that information contained herein is not untrue or misleading at the time of publication, Trimegah Securities makes no representation as to its accuracy or completeness and it should not be relied upon as such. This report is provided solely for the information of clients of Trimegah Securities who are expected to make their own investment decisions without reliance on this report. Neither Trimegah Securities nor any officer or employee of Trimegah Securities accept any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. Trimegah Securities and/or persons connected with it may have acted upon or used the information herein contained, or the research or analysis on which it is based, before publication. Trimegah Securities may in future participate in an offering of the company's equity securities.