

# Lustrous Outlook

## Summary:

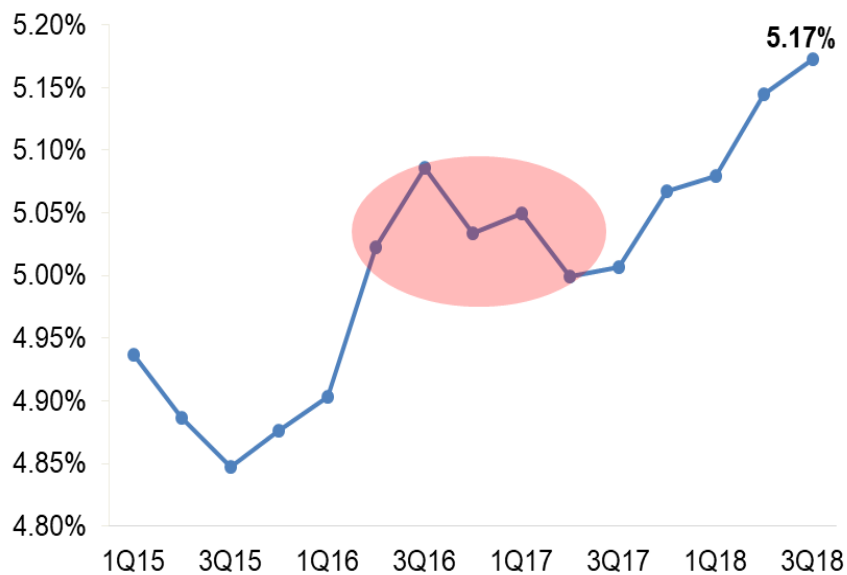
In 2018, Indonesia's financial markets endured turbulence, aligning with wobbling global markets, e.g. stocks and bonds markets, as well as the rupiah were reigning in a murky mood. Yet, Indonesia's macroeconomic indicators still depict stability, e.g. GDP growth in acceleration, a stable inflation, and a healthier state budget (APBN), albeit widening external deficits.

At the end of 2018, financial markets get better and rosier until 2019. Investors are aware of Indonesia's macro-economic resilience is robust enough to face global headwinds. The 2019 global headwinds linger still, but they are less massive than that of 2018. The global trade war tensions are likely to subdue, coupled with easing jitters of monetary tightening. We estimate stocks and bonds markets as well as the rupiah exchange rate to strengthen in 2019.

## Further GDP Acceleration Hinges on Consumption

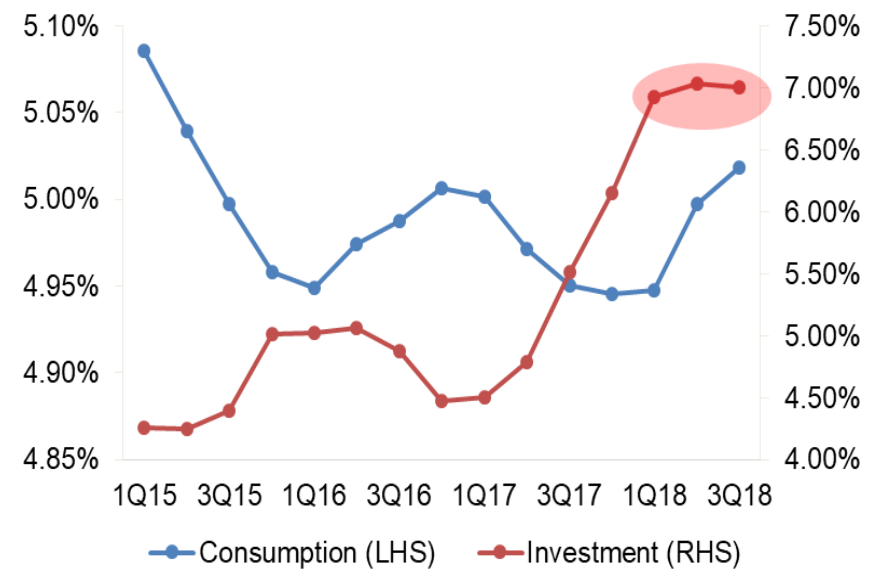
- GDP acceleration keeps in check from 3Q17 to the current time. The GDP of 3Q18 grew by 5.17%. Consumption, contributing 54% to overall GDP and sloping above 5% within the last two quarters, is still the biggest contributor to GDP of 2018. We estimate **GDP of 2019 to hover near 5.20%–5.25%** and Indonesia to remain resilient enough to face headwind of the 3Q16–2Q17 lacklustre economic growth.
- Investment growth, contributing 33% to GDP, is in a flat state in recent 3 quarters and is in a stark contrast to its buoyant state in 2017. **The investment hardly kicks higher-than-7% growth in 2019.** This lacklustre backdrop is attributable to the rupiah depreciation forcing Bank Indonesia (BI) to aggressively raise its benchmark rates. Thus, 2019 less investment appetite is a possibility.
- Consumption is the engine of 2019 GDP growth as stable inflation gears up 2018 consumption to higher level. Indeed, **policies fixating on 2019 inflation stability widen rooms for consumption to accelerate.**

GDP Growth Annualized (y-y)



Source: Indonesia Statistics, NH Korindo Research

Consumption & Investment Growth Annualized (y-y)

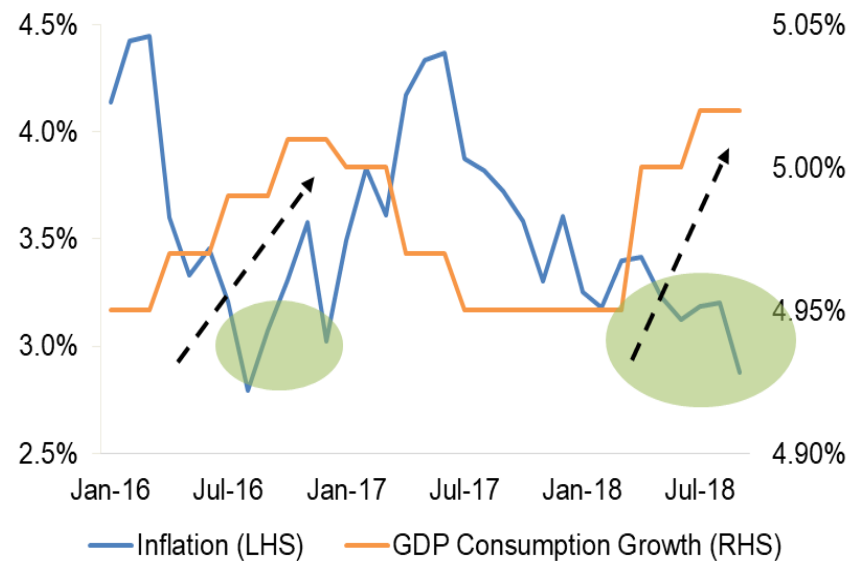


Source: Indonesia Statistics, NH Korindo Research

## Inflation: A Determinant for Acceleration in Consumption

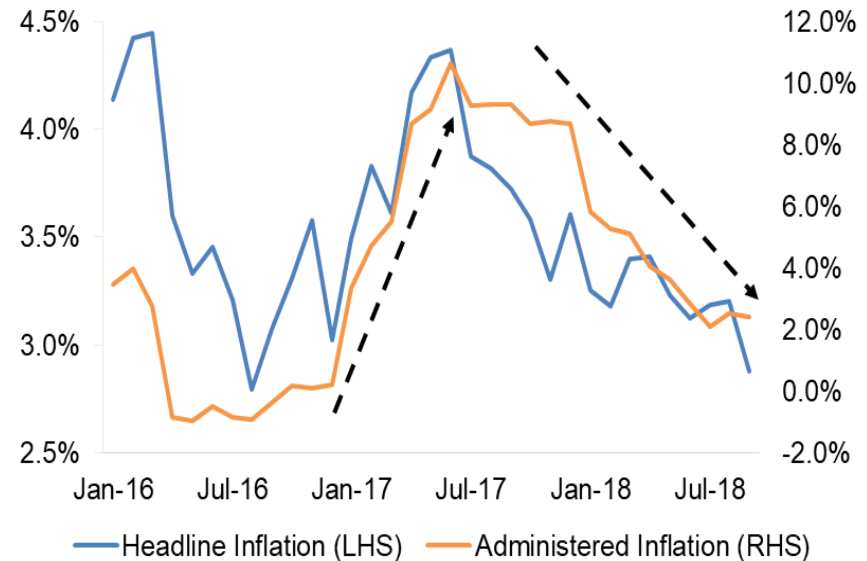
- **Inflation is entwined with Indonesia's consumption growth.** The inflation stably hovering near 3.0%–3.5% since 2016 is an engine for consumption to kick at higher pace.
- **The inflation kept in check at 3.0% in one recent year** leverages the consumption to exceed 5.0%.
- The crucial factor determining inflation rates is the government's shrewd prowess of keeping administered prices in check, e.g. fuels, electricity tariffs, and other basic amenities. In the politic year of 2019, the government is committed to maintaining prices stability; therefore, **the maintainable inflation at 3.0%–3.5% is a certainty.**

**Inflation (y-y) and GDP Consumption Growth Annualized**



Source: Indonesia Statistics, NH Korindo Research

**Headline Inflation (y-y) and Administered Price Inflation (y-y)**

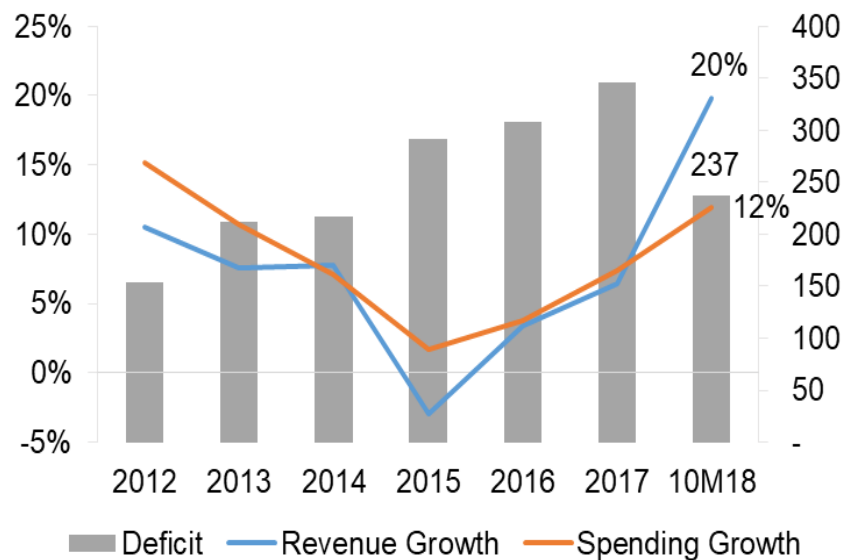


Source: Indonesia Statistics, NH Korindo Research

## Healthier APBN, Juicing Acceleration

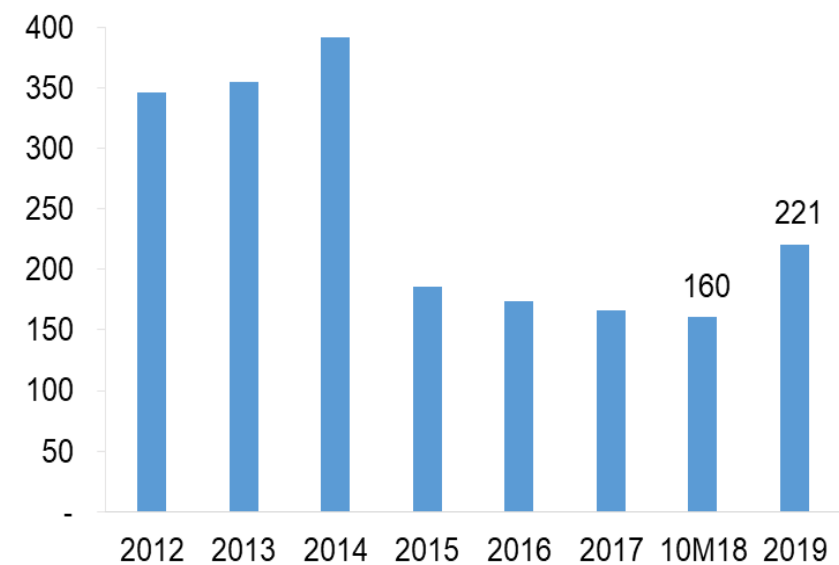
- Judging from Indonesian government's concerted commitment to fostering a healthier state budget (APBN), **the growth of 20% y-y to IDR1.484 trillion in 10M18 government's revenue is an achievement.** The growth was the highest among the prior years and **narrowed budget deficit**, albeit the growth of 12% in the government's spending.
- APBN—on track to grow healthier—enabled the government to spend subsidies keeping the stable inflation of 3.0%–3.5%. From 2015 to 2017, the government spent subsidies amounting to IDR160–180 trillion per year. The amount is estimated to increase in 2018 and **reaches IDR221 trillion in 2019.** The more competent APBN is **fundamental to 2019 subsidies and leads to stable inflation as well as buoyant domestic consumption.**

State Revenue & Spending Growth (y-y), Budget Deficit (IDR tn)



Source: Finance Ministry, NH Korindo Research

Subsidy Spending (IDR tn)

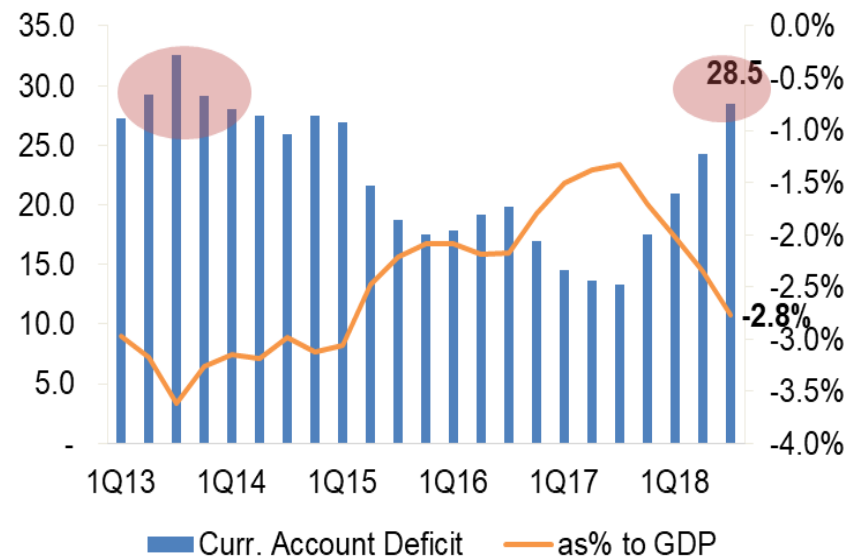


Source: Finance Ministry, NH Korindo Research

## Troubled by External Trade Deficits

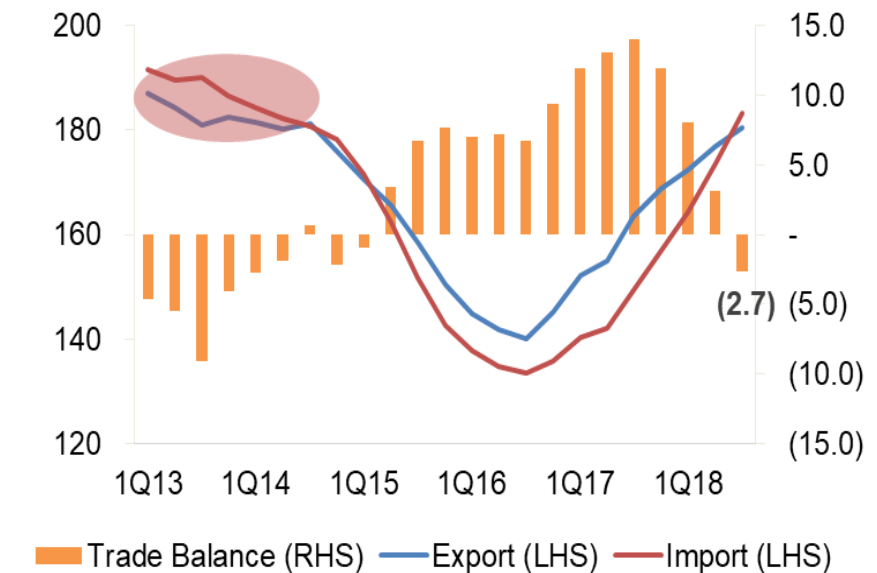
- Indonesia's 2018 external deficit balloon, depicting in chronic current account deficit of USD28.5 billion, **estimated to virtually near to its 3Q13 climax of USD32.6 billion**. We foresee 2019 deficits to hover around USD30 billion or 2.5%–3.0% of GDP.
- Trade balance to be sure remains a catalyst for widening trade deficit. Indonesia started to accumulate trade deficit in the mid of 2018 because exports failed to slash soaring imports. It is hold true that the unresolved global trade war stunts 2019 exports growth. The 2013 data narrate a gloomy story of exports hardly topping USD190 billion and mighty imports above of USD190 billion. **Higher domestic consumption resulting in buoyant imports drowns Indonesia deeper into trade deficit.**

Current Account Deficit Annualized (USD bn)



Source: Bank Indonesia, Bloomberg, NH Korindo Research

Trade Balance Annualized (USD bn)

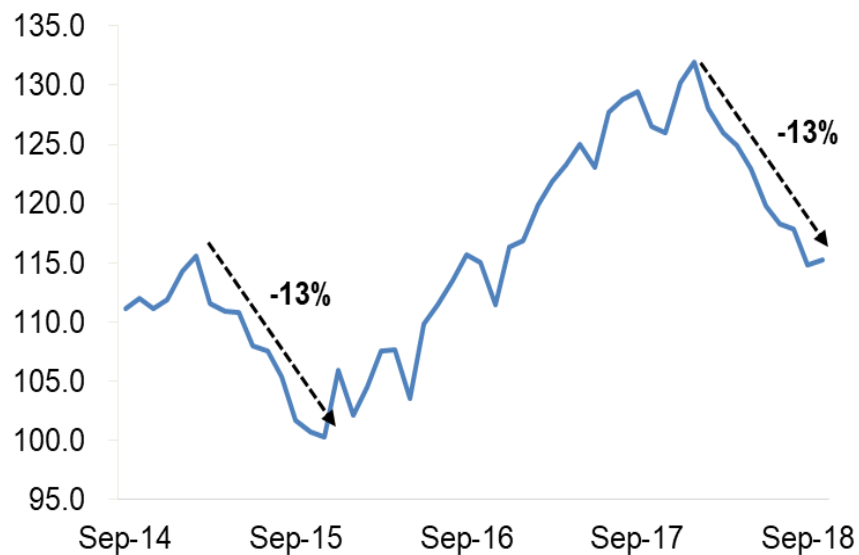


Source: Indonesia Statistics, NH Korindo Research

## End of Sliding Forex Reserves

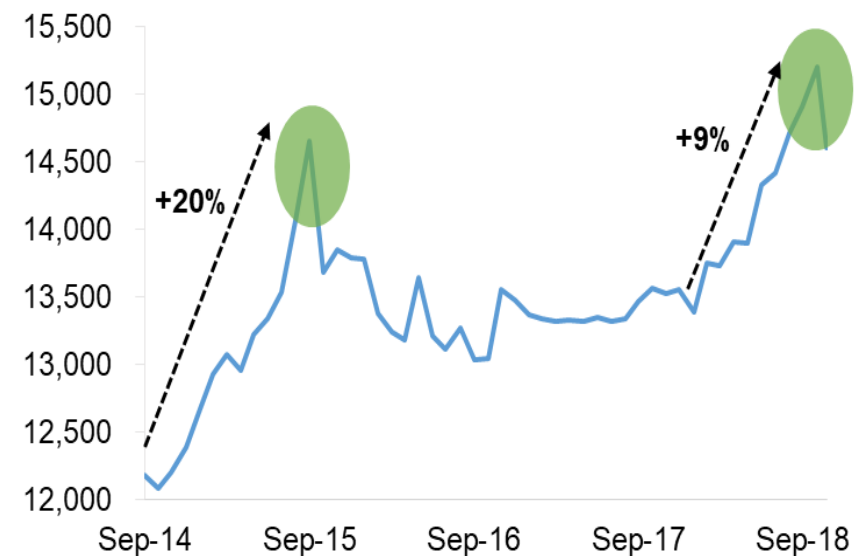
- After reaching its all-time high of USD132 billion in January 2018, Indonesia's forex reserves declined further by 13% to USD114.8 billion. **The downtrend cycle resembles downbeat forex reserves in 2015.** It indicates further narrowing forex reserves to diminish.
- The narrowing forex reserves strongly correlate to the rupiah depreciation, e.g. the downbeat in forex reserves of 2015 and 2018 draining forex reserves by 13%. However, **the depreciation of 9% in 2018 is much better than the depreciation of 20% in 2015.** The much lower depreciation shows BI's firm strive to optimize the allocation of forex reserves for buffering the rupiah depreciation.
- **In light of the rupiah robust appreciation, akin to its appreciation in September 2015,** we estimate the trend of rupiah depreciation and the sliding forex reserves to discontinue.

Forex Reserves (USD bn)



Source: Bank Indonesia, NH Korindo Research

USDIDR

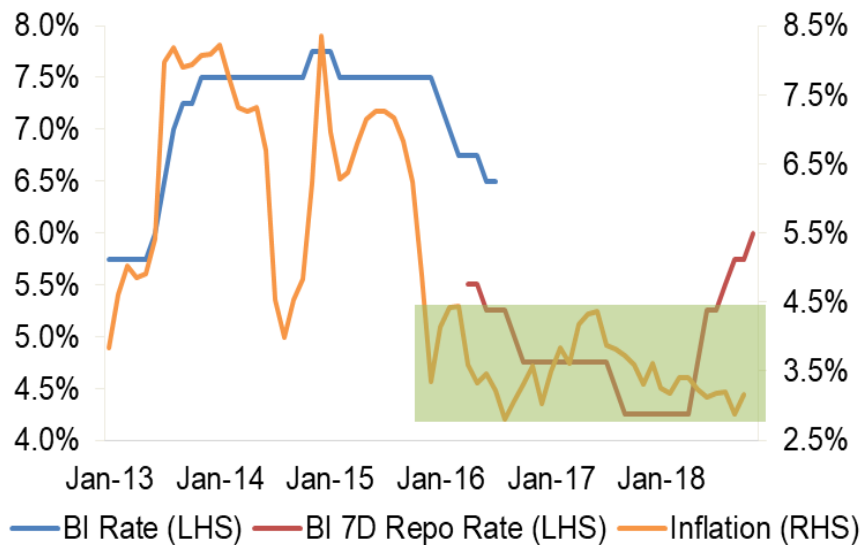


Source: Bloomberg, NH Korindo Research

## Rupiah Depreciation: Challenge BI Has to Conquer

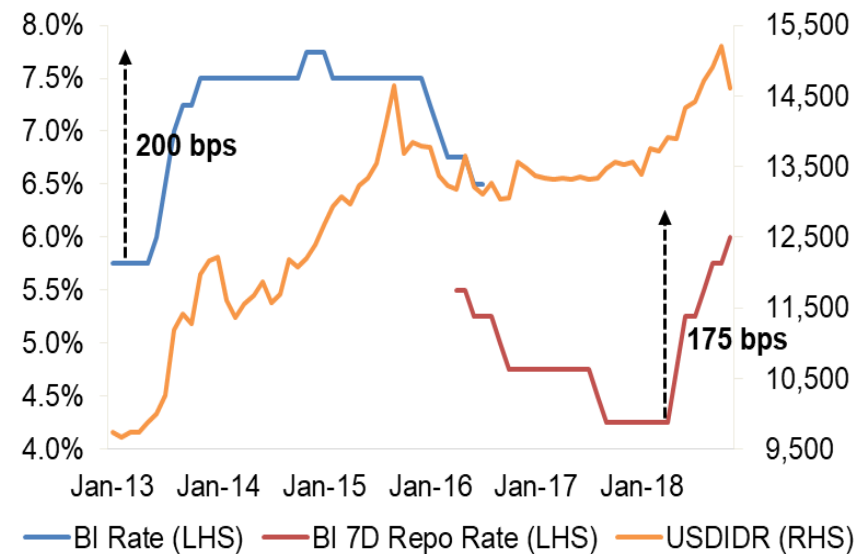
- From 2013 to 2015, BI raised its benchmark rates by 200 bps. The monetary tightening was BI's pre-emptive stance to overcome **headwinds of the rupiah depreciation and ballooning inflation**.
- Stark circumstances prevail in 2018 as inflation stably hovers at 3.5% despite the rupiah depreciation. **BI proves its commitment by taking a pre-emptive stance of raising its benchmark rate of 175 bps to 6.0%**.
- BI's shrewd decision proved effective to avoid massive depreciation. We estimate that **rooms for increment in BI's benchmark rates get narrowing**. BI's benchmark rate are estimated to hover at 5.50%–6.50% in 2019.

Central Bank Reference Rate & Inflation Rate



Source: Bank Indonesia, NH Korindo Research

Central Bank Reference Rate & USDIDR

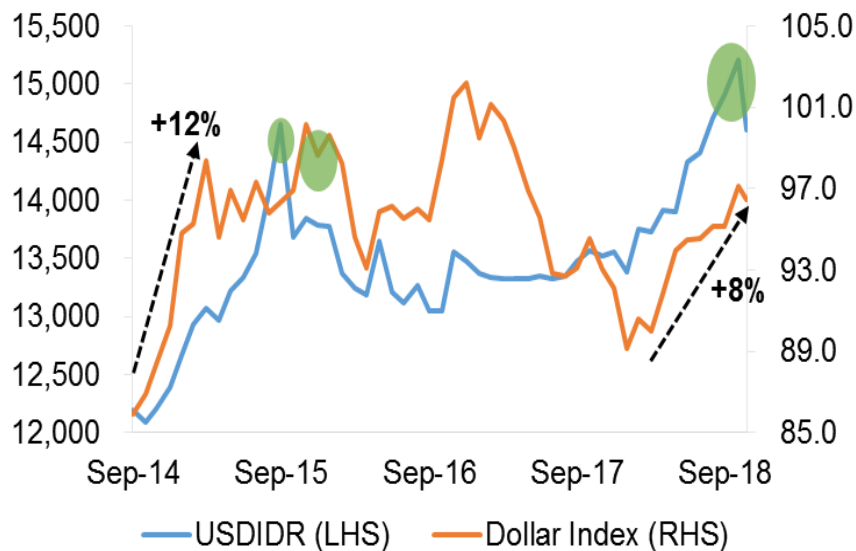


Source: Bank Indonesia, Bloomberg, NH Korindo Research

## Rupiah Appreciation, Embarking Earlier than Changes of Global Trends

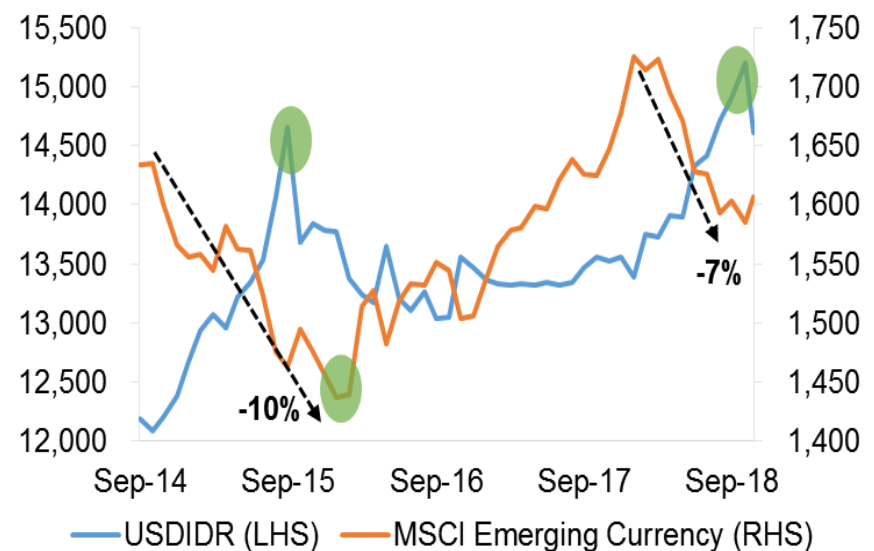
- The rupiah movement is inextricably linked with global market trends because of the strong correlation between the rupiah and the U.S. dollar. For example, the rupiah depreciated from 2014 to 2015 aligned with the U.S. dollar appreciation. The rupiah depreciation halted in 2016, for Indonesia's robust fundamental made investors' to shrug off the U.S. dollar appreciation. **The rupiah is re-depreciated in 2018, aligning with the U.S. dollar appreciation.**
- The rupiah also correlates with MSCI Emerging Market Currency Index. The rupiah depreciated from 2015 to 2018 followed **the depreciation of MSCI Emerging Market Currency Index.**
- It proves that the rupiah is one of assets preferred by global investors when global markets are in a rosier outlook. We project the **rupiah to remain stable at 14,000–14,800 in 2019**, reiterating its stable trend from 2016 to 2017.

USDIDR & Dollar Index



Source: Bloomberg, NH Korindo Research

USDIDR & MSCI Emerging Market Currency Index

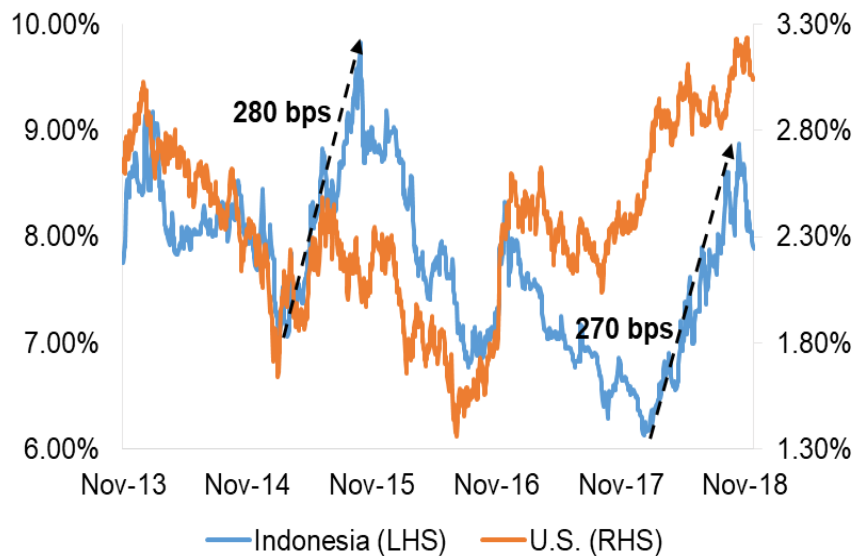


Source: Bloomberg, NH Korindo Research

## Government Bond Disregarding the U.S. High Treasury Yields

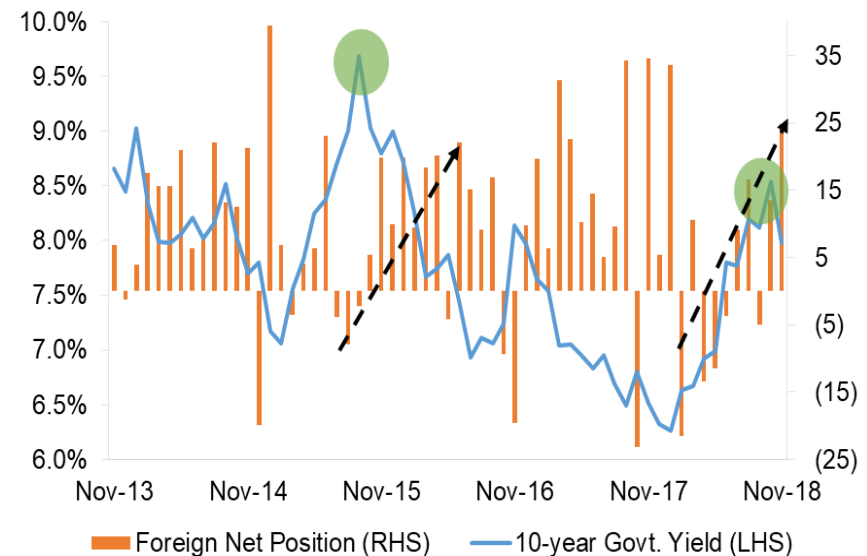
- After tumbling to the lowest level of 6.13% in January 2018, Indonesia's government yield increased by 270 bps to 8.83% in October 2018. We foresee that the increment to hit its climax, just like its climax in from February to September 2015. As of November 2018, **despite the U.S. Treasury yield consistently topping 3.0%, Indonesia's government yield show a reversing trend of declining to 7.9%.**
- The U.S. treasury yield hardly decline below 3.0% due to the Fed's rate normalization; however, foreign investors show their preference of capital inflows in Indonesia. In October and November 2018, foreign investors posted the net buy amounting to IDR13 trillion and IDR25 trillion, respectively. We estimate that Indonesia's government yield are likely to stably hover at 7.5%–8.0% in 2019.

Indonesia & U.S. 10-year Government Bond Yield



Source: Bloomberg, NH Korindo Research

Indonesia 10-year Govt. Bond Yield & Foreign Position (IDR tn)

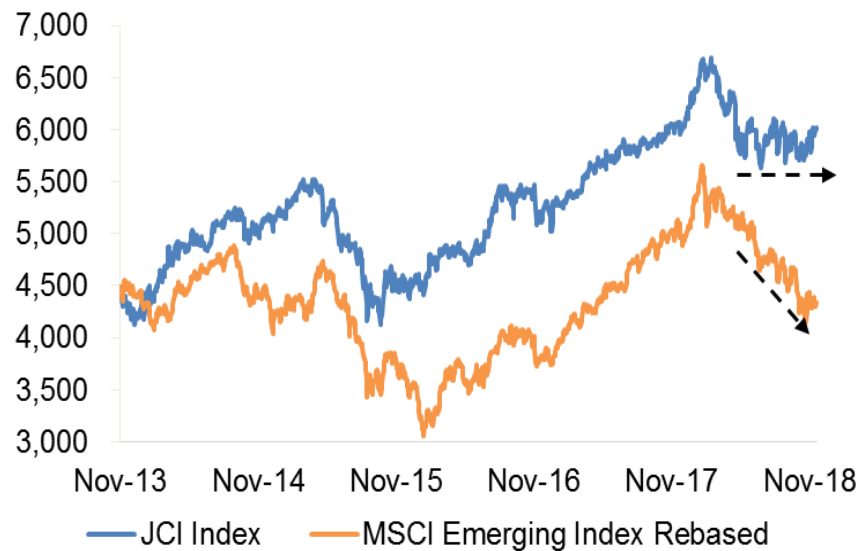


Source: Bloomberg, NH Korindo Research

## JCI as The Most Preferred Stock Market

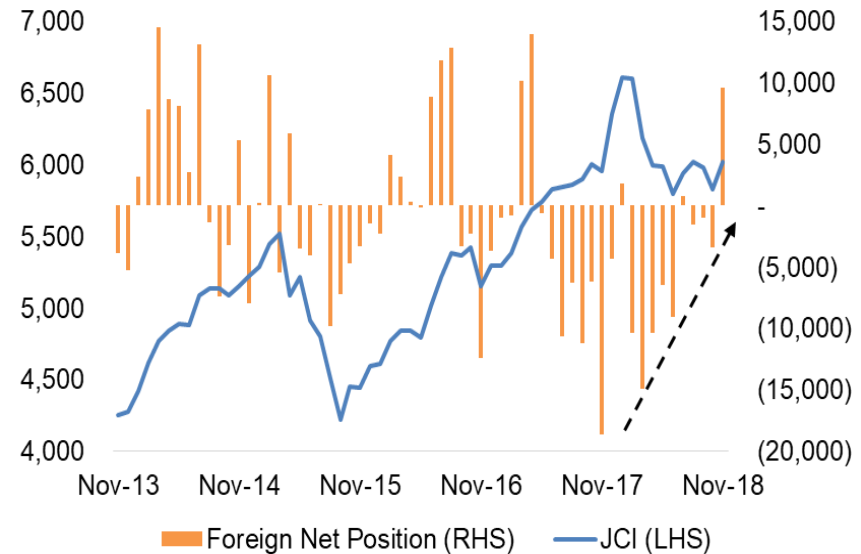
- Within the last 5 years, JCI outstrips benchmark index of emerging economies (MSCI Emerging Index); indeed, in recent months, **it stably moves amid high volatility of global markets**. On the other hand, MSCI Emerging Index is on a sluggish mood. The backdrop shows JCI as one of the most preferred stocks markets.
- Besides, foreign investors posting significant decline in net sell and even net buy now, show foreign investors' preference for JCI. **Foreign investors' preference is crucial in light of high volatility of global markets**.

Jakarta Composite Index & MSCI Emerging Index



Source: Bloomberg, NH Korindo Research

Jakarta Composite Index & Foreign Position (IDR bn)

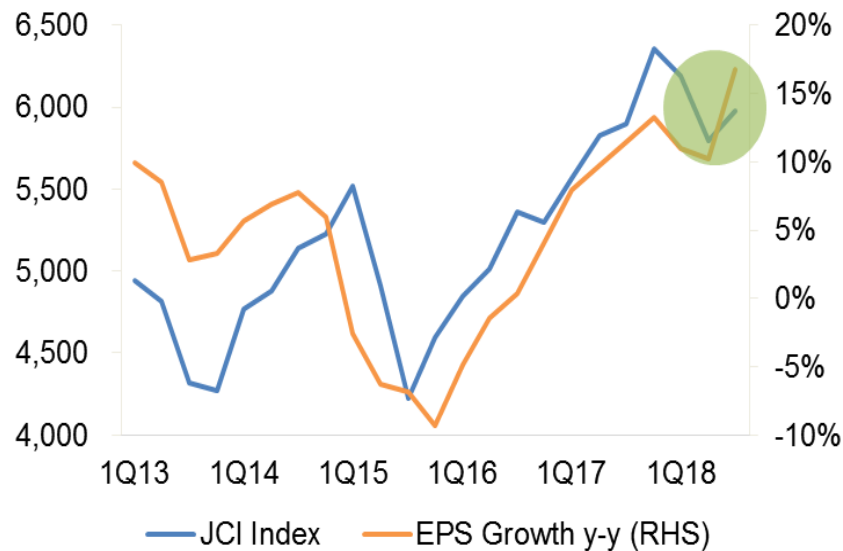


Source: Bloomberg, NH Korindo Research

## Widened Rooms

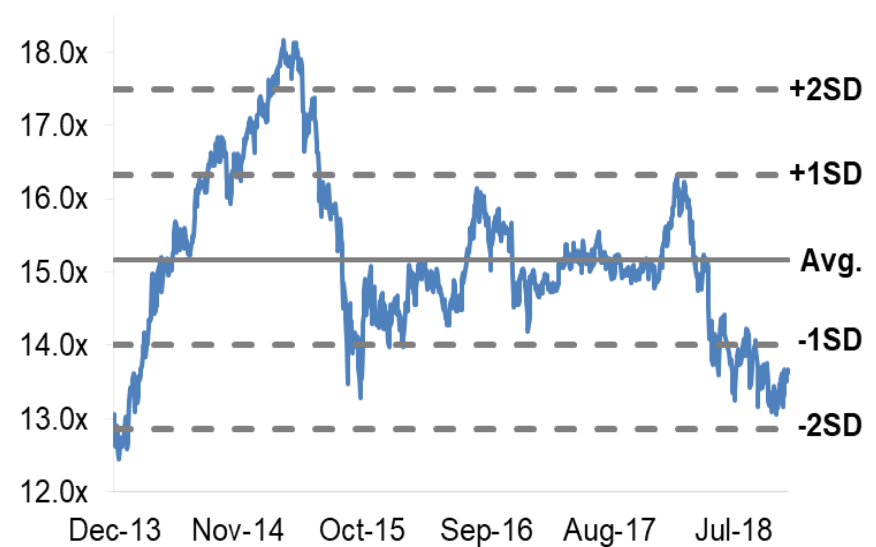
- **JCI's movement correlates with companies' profit growth.** From 2016 to 2017, JCI reining in a rally territory was in line with consistent acceleration in net profit. In the middle of the acceleration in net profit throttled, yet ahead of the end of 2018, the growth in net profit kicks into higher gears. Indonesia's more stable economic engine spurs double-digit growth in net profit and narrows JCI's bearish territory.
- JCI's bearish mood in 2018 makes its forward P/E valuation attractive. Now its forward P/E hovers still at 13.6x, much lower than its last 4-year P/E average of 15.2x. The trend of robust net profit growth, pared with its attractive valuation are potent drivers for **JCI to settle at 6,950 in 2019.**

JCI Index & EPS Growth (Annualized)



Source: Bloomberg, NH Korindo Research

Forward P/E



Source: Bloomberg, NH Korindo Research

# Recommendation Banking

# Bank Rakyat Indonesia (BBRI)

<b>Dec 2019 TP</b>	<b>4,370</b>
Consensus Price	3,817
TP to Consensus Price	+14.5%
vs. Last Price	+20.7%
<b>Last Price (IDR)</b>	<b>3,620</b>
Price date as of	Nov 30, 2018
52wk range (Hi/Lo)	3,920 / 2,720
Free Float (%)	43.2
Outstanding sh. (mn)	123,346
Market Cap (IDR bn)	446,512
Market Cap (USD mn)	31,229
Avg. Trd Vol – 3M (mn)	113.66
Avg. Trd Val – 3M (bn)	360.24
Foreign Ownership	23.8%
<b>Interest Income Breakdown:</b>	
Loan	87.0%
Non-Loan	13.0%

IDR bn	FY2017	FY2018	FY2019E	FY2020E
Int. Income	102,899	111,907	128,752	149,929
y-y	8.6%	8.8%	15.1%	16.4%
Op. Rev	92,482	101,400	112,614	131,670
Net profit	28,997	32,519	36,566	43,388
EPS (IDR)	235	264	296	352
y-y	10.7%	12.1%	12.4%	18.7%
NIM	7.6%	7.4%	7.5%	7.6%
ROE	18.5%	18.5%	18.7%	19.7%
P/E	15.5x	12.4x	11.1x	9.3x
P/BV	2.7x	2.2x	2.0x	1.7x

## • Sound Performance

BBRI posted the interest income of IDR28.8 trillion, marking the 3Q18 growth of 7.9% y-y, all-time high of 3Q17. The acceleration in the interest income growth signs effects of higher loan growth capable of countering pressures stemming from declining credit rates. Meanwhile, the 3Q18 net profit skyrocketed 21.2% y-y. Combination of lower provision, paired with the higher non-interest income was the logical takeaway of the rocketing net income, albeit the nudging up net interest income of only 4.7%.

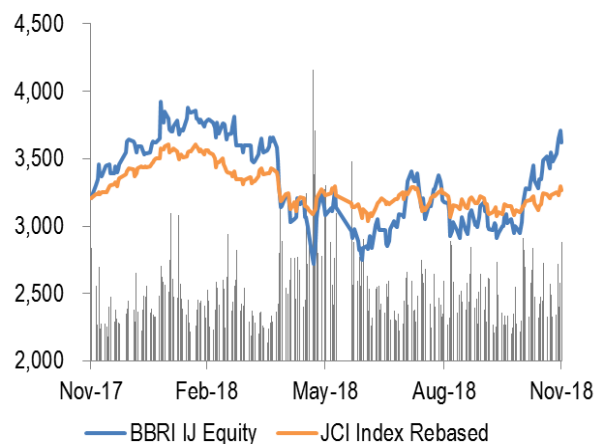
## • Remarkable Loan Growth

The loan grew by 16.5% to IDR808.9 trillion. The growth was mainly contributed by the micro segment posted the growth of 16.3%. Moreover, the SME segment jumped by 20.3%. The remarkable loan growth is likely to be the potent driver for BBRI to jostle for the double-digit growth in the interest income of 2019, terminating the single-digit growth in 2017–2018.

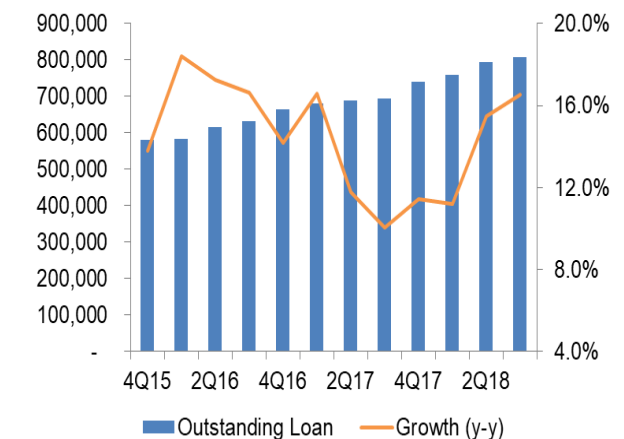
## • Interest Expenses: Looming Threats

BBRI only posted the growth of 4.7% in the net interest income, lower than the interest income growth of 7.9%. The low figure was attributable to the growth of 15.6% to IDR9.1 trillion in interest expenses. The 3Q18 interest expenses were substantially higher than were the previous-quarter interest expenses of smaller-than IDR8 trillion. Interest expenses of the non-deposit were threats as BBRI strived to secure non-core funding accommodating soaring loan growth. We estimate the pressure to remain linger until 2019. However, the expectation of higher top-line growth is possible to tame threats.

Share Price Performance



Outstanding Loan (IDR bn) | 4Q15 - 3Q18



# Bank Negara Indonesia (BBNI)

<b>Dec 2019 TP</b>	<b>10,525</b>
Consensus Price	8,969
TP to Consensus Price	+17.4%
vs. Last Price	+23.8%
<b>Last Price (IDR)</b>	<b>8,500</b>
Price date as of	Nov 30, 2018
52wk range (Hi/Lo)	10,175 / 6,675
Free Float (%)	41.2
Outstanding sh. (mn)	18,649
Market Cap (IDR bn)	158,514
Market Cap (USD mn)	11,086
Avg. Trd Vol – 3M (mn)	23.22
Avg. Trd Val – 3M (bn)	175.54
Foreign Ownership	19.6%
<b>Interest Income Breakdown:</b>	
Loan	85.6%
Non-Loan	14.4%

IDR bn	FY2017	FY2018	FY2019E	FY2020E
Int. Income	40,178	53,402	60,862	69,131
y-y	10.1%	10.8%	14.0%	13.6%
Op. Rev	45,212	49,256	55,490	62,924
Net profit	13,616	15,373	17,965	21,113
EPS (IDR)	730	824	963	1,132
y-y	20.1%	12.9%	16.9%	17.5%
NIM	5.4%	5.1%	5.1%	5.2%
ROE	14.3%	14.6%	15.4%	16.2%
P/E	13.6x	9.6x	8.2x	7.0x
P/BV	1.8x	1.3x	1.2x	1.1x

## Continued Core Acceleration

In 3Q18 BBNI posted the interest income of IDR13.3 trillion or growing 8.4% y-y. This growth was higher than 3Q17's interest income growth of 7.3%. Indeed, the latest growth marks the continued acceleration trend occurred since the 2Q18. Moreover, like the growth in the interest income, in the net interest income (NII) also grew by 5.6% in 3Q18 (vs. 1.8% in 3Q17). We are sanguine about the current acceleration trend persisting in next few years. A combination between stronger loan growth (15.6% in 3Q18) and a narrower room for lower NIM will bolster BBNI's performance.

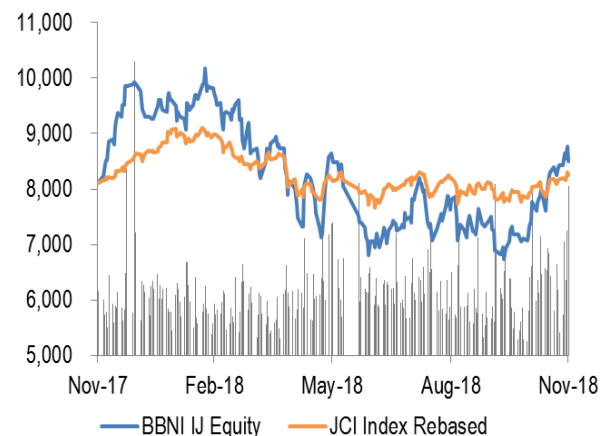
## Jump in Loan Growth Spurred by SOE Segment

The loan growth of 15.6% in 3Q18 was significantly higher than the growth of 10.6% in 2Q18 and the highest growth since 2Q17. The SOE segment marked outstanding performance by posting the growth of 24.9% y-y (vs. 7.7% y-y in 2Q18) to IDR101.9 trillion in 3Q18. The contribution of the SOE segment gave bigger contributions from 19.4% into 20.9%.

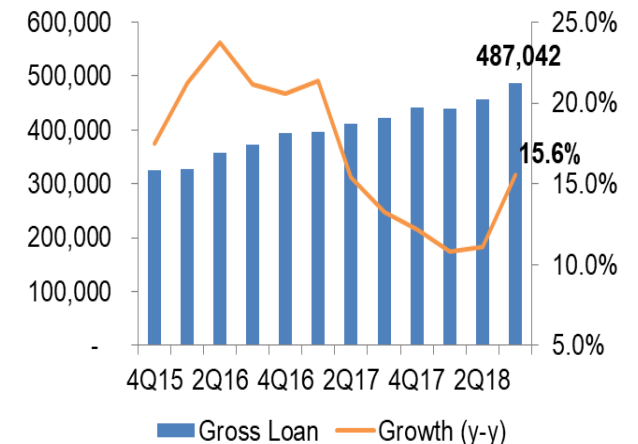
## Healthier Assets Contributed by Corporate Segment

Another positive performance shown by BBNI is its healthier asset qualities. The NPL kept sliding to 2.07% in 3Q18 (vs. 2.16% in 2Q18). The corporate segment — contributing the largest portion (51%) to the total loan — has the lowest NPL (1.5%) among the other segments. The healthier assets allow BBNI to enjoy the stable provision and the higher net profit growth in coming years.

Share Price Performance



Outstanding Loan (IDR bn) | 4Q15 - 3Q18



# Bank Tabungan Negara (BBTN)

<b>Dec 2019 TP</b>	<b>3,150</b>
Consensus Price	2,996
TP to Consensus Price	+5.1%
vs. Last Price	+18.0%
<b>Last Price (IDR)</b>	<b>2,670</b>
Price date as of	Nov 30, 2018
52wk range (Hi/Lo)	3,890 / 2,010
Free Float (%)	40.0
Outstanding sh. (mn)	10,590
Market Cap (IDR bn)	28,275
Market Cap (USD mn)	1,975
Avg. Trd Vol – 3M (mn)	33.18
Avg. Trd Val – 3M (bn)	81.28
Foreign Ownership	17.9%
<b>Interest Income Breakdown:</b>	
Loan	95.9%
Non-Loan	4.1%

IDR bn	FY2017	FY2018	FY2019E	FY2020E
Int. Income	19,272	22,629	26,921	32,432
y-y	12.4%	17.4%	19.0%	20.5%
Op. Rev	10,945	12,947	15,636	18,895
Net profit	3,027	3,498	4,330	5,348
EPS (IDR)	286	330	409	505
y-y	15.6%	15.5%	23.8%	23.5%
NIM	4.1%	4.1%	4.3%	4.4%
ROE	14.8%	15.1%	16.5%	17.6%
P/E	12.5x	6.8x	5.5x	4.5x
P/BV	1.7x	1.0x	0.8x	0.7x

## • Fantastic Growth in Net Interest Income

BBTN recorded the interest income growth of 16.3% into IDR5.7 trillion. The net interest income grew higher by 19.9% into IDR2.8 trillion. However, these fantastic results were not followed by the net income growing only by 10.7% to IDR812 billion. The crucial factor hampering the net profit growth was increasing provision expenses to IDR449 billion, higher than previous quarters growth of IDR200 billion.

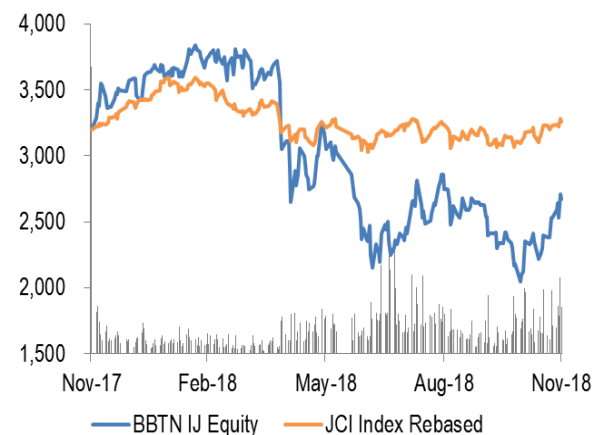
## • Stable Loan Growth

BBTN still maintained the loan growth of 19% in 3Q18. The loan distribution performance was spurred by the subsidized mortgage segment successfully maintaining the growth of 30%. Now, the portion of subsidized mortgage segment has surpassed 40% of the total loan. The consistent growth of 19%-21% lasting for the next several years will be the driver for the acceleration in the interest income.

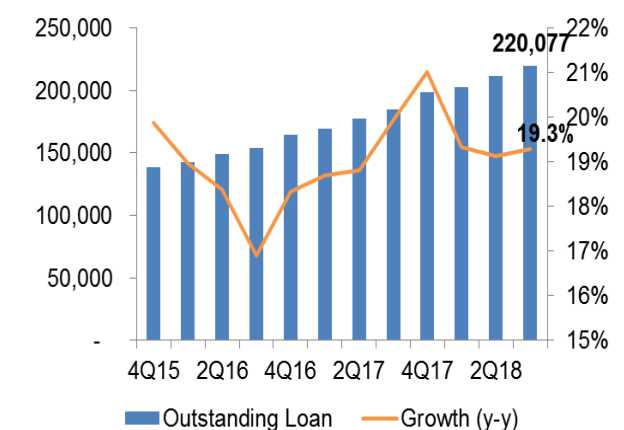
## • Risks of Higher Time Deposit

Risks stemmed from the increasing time deposit accommodating the loan acceleration. In 3Q18, the time deposit jumped by 20% y-y to IDR103.7 trillion. In previous 3 quarters, time deposit hovered stably at IDR96-98 trillion. However, the impacts of increasing interest expenses were insignificant. The 3Q18 interest expenses grew by 13%, lower than the interest income growth of 16%.

Share Price Performance



Outstanding Loan (IDR bn) | 4Q15 - 3Q18



Recommendation Consumer

# Unilever Indonesia (UNVR)

<b>Dec 2019 TP</b>	<b>49,700</b>
Consensus Price	43,951
TP to Consensus Price	+13.1%
vs. Last Price	+17.6%
<b>Last Price (IDR)</b>	<b>42,250</b>
Price date as of	Nov 30, 2018
52wk range (Hi/Lo)	58,100 / 38,900
Free Float (%)	15.0
Outstanding sh. (mn)	7,630
Market Cap (IDR bn)	322,368
Market Cap (USD mn)	22,546
Avg. Trd Vol – 3M (mn)	2.52
Avg. Trd Val – 3M (bn)	109.05
Foreign Ownership	4.3%
<b>Sales Breakdown:</b>	
Home and Personal Care	70.8%
Foods and Refreshment	29.2%

IDR bn	FY2017	FY2018E	FY2019E	FY2020E
Sales	41,205	42,080	43,301	44,575
y-y	2.9%	2.1%	2.9%	2.9%
EBITDA	10,157	10,203	10,607	10,978
Net profit	7,005	9,154	7,501	7,758
EPS (IDR)	918	1,200	983	1,017
y-y	9.6%	30.7%	-18.1%	3.4%
NPM	17.0%	21.8%	17.3%	17.4%
ROE	135.4%	125.6%	99.3%	101.0%
P/E	60.9x	35.6x	43.5x	42.0x
P/BV	82.4x	44.7x	43.2x	42.4x

## • Single Digit Growth

UNVR is estimated to post the low single-digit growth in 2019 as the retail sales are estimated to grow at 5%-10% in two recent years. UNVR's chance to post double-digit growth is estimated to low in light of low inflation and Indonesia' stunting GDP growth. On the business expansion outlook, UNVR has dominated Indonesia's market so that its future growth deriving only from organic growth.

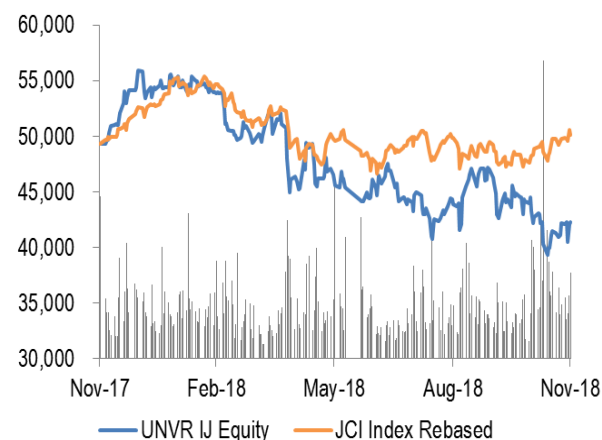
## • Efficiencies, Fundamental to Performance

UNVR succeeded to post efficiencies at ads. costs, market research and promotions. The cost ratio to sales declined consistently since the last 3 years. We estimate that the reduction in ads. costs are unlikely to derail UNVR's performance in light of rosier ads. targets, supported by the cutting-edge technologies so that ads. expenses are keeping in check.

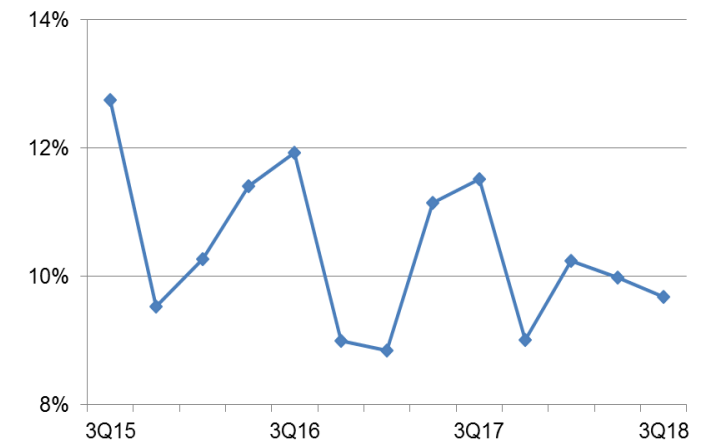
## • Innovation to Maintain Growth

UNVR applies strategies for serving consumers' needs in different market segments and penetrating new business es, e.g. the launch of chili sauce, Jawaara; Korean's soap, Glow; and ice cream, Cornetto, with more affordable prices. The strategies are expected to boost sustainable and profitable growth.

Share Price Performance



Advertising & Promotion Expense vs Sales | 3Q15-3Q18



# Recommendation Telecommunication

# Telekomunikasi Indonesia (TLKM – Telco)

<b>Dec 2019 TP</b>	<b>4700</b>
Consensus Price	4,308
TP to Consensus Price	+9.1%
vs. Last Price	+27.7%
<b>Last Price (IDR)</b>	<b>3,680</b>
Price date as of	Nov 30, 2018
52wk range (Hi/Lo)	4,419 / 3,250
Free Float (%)	47.9
Outstanding sh. (mn)	99,062
Market Cap (IDR bn)	364,549
Market Cap (USD mn)	25,497
Avg. Trd Vol – 3M (mn)	88.27
Avg. Trd Val – 3M (bn)	323.63
Foreign Ownership	28.6%
<b>Sales Breakdown:</b>	
Data, internet & IT Service	60.2%
Cellular voice & SMS	22.2%
Others	17.6%

IDR bn	FY2017	FY2018E	FY2019E	FY2020E
Sales	128,256	134,284	148,149	164,194
y-y	10.2%	4.7%	10.3%	10.8%
EBITDA	64,609	61,556	68,092	75,927
Net profit	22,145	19,864	22,720	25,663
EPS (IDR)	220	201	229	259
y-y	14.4%	-10.3%	14.4%	13.0%
NPM	17.3%	14.8%	15.3%	15.6%
ROE	20.3%	17.2%	18.3%	19.2%
P/E	20.2x	19.7x	17.2x	15.2x
P/BV	4.0x	3.3x	3.0x	2.8x

## • Better Performance of 3Q18 and Profitable Paradoxical Phenomenon

In 3Q18, TLKM posted the hike of 8.8% q-q to IDR34.8 trillion in revenues, coupled with the increment of 57% in operational profits, the hike of 35.5% in EBITDA, and the increase of 86.7% in net profits. The rosier performance was attributable to the successful control costs suppressing employee expenses by -18% q-q to IDR3.26 trillion and declining general and administrative costs by 41% q-q to IDR1.21 trillion.

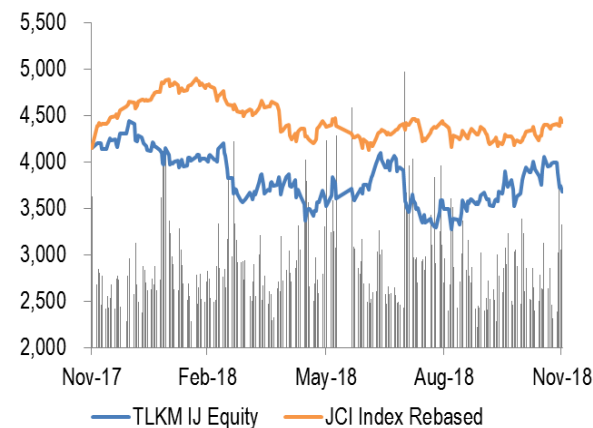
The number of Telkomsel's subscribers declined to 167.8 million at the end of September 2018 (vs/ 177.9 million at the end of June 2018) due to the regulation of SIM card. However, in 3Q18, Telkomsel succeeded to post the growth of 10.1% q-q in revenues thanks to the improving qualities and subscribers' loyalty. Of note, its 12-month loyal subscribers are increasing.

## • Capital and Dividend Profile

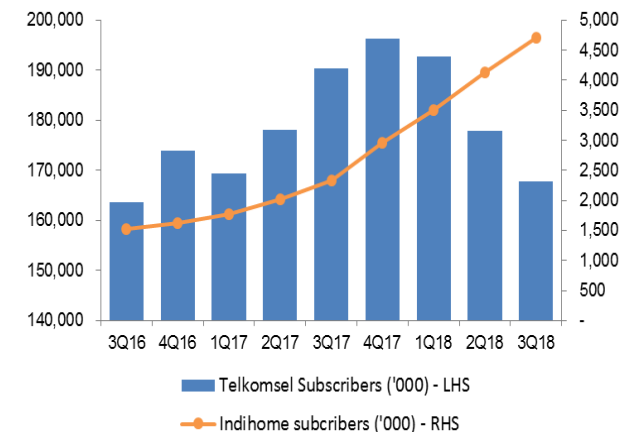
From its capital profile, TLKM has lower risks because its debt ratios are at 21%. 5% out of its overall debt is a foreign-currency denomination so that its exposure to currencies exchange risks is minimum. Besides, TLKM distributed a stable dividend and payout ratios of 75% in 2017.

Ahead of 2019, the political year, the demand for data and telecommunication access is on the rise, likely proving a boon for TLKM. In addition, a way more efficient performance, coupled with a healthier fundamental allows TLKM to grow rosier.

## Share Price Performance



## Telkomsel and Indihome Subscribers | 3Q16 – 3Q18



## Recommendation Retailer

## Mitra Adiperkasa (MAPI)

<b>Dec 2019 TP</b>	<b>1,020</b>
Consensus Price	1,036
TP to Consensus Price	-1.5%
vs. Last Price	+16.6%
<b>Last Price (IDR)</b>	<b>875</b>
Price date as of	Nov 30, 2018
52wk range (Hi/Lo)	945 / 613
Free Float (%)	49.0
Outstanding sh. (mn)	16,600
Market Cap (IDR bn)	14,525
Market Cap (USD mn)	1,016
Avg. Trd Vol – 3M (mn)	9.80
Avg. Trd Val – 3M (bn)	7.84
Foreign Ownership	25.0%
<b>Revenue Breakdown:</b>	
Retail Sales	74.0%
Café and Restaurant	14.3%
Others	11.7%

	IDR bn	FY2017	FY2018E	FY2019E	FY2020E
Revenue		16,306	19,090	21,303	23,497
y-y		15.2%	17.1%	11.6%	10.3%
EBITDA		1,803	2,321	2,713	3,045
Net profit		335	778	838	1,192
EPS (IDR)		20	47	50	72
y-y		60.5%	132.4%	7.7%	42.3%
NPM		2.1%	4.1%	3.9%	5.1%
ROE		9.0%	15.2%	13.2%	16.4%
P/E		30.8x	17.0x	15.8x	11.1x
P/BV		2.4x	2.2x	2.0x	1.7x

### • Backed by Growth in Food and Beverages Segment

MAPI's strategy to close its less profitable stores proved effectively bringing profits, particularly in the department store segment. Indeed, its focus on expanding profitable segment since the late of 2017 gives positive results. For example, it launched 49 new cafe and restaurants during 9M18 and posted the growth of 23.1% y-y in revenue. Indeed, the cafe and restaurants segment posted the growth of 14.3% in the 3Q18 revenues, topping the revenue growth posted by the department store.

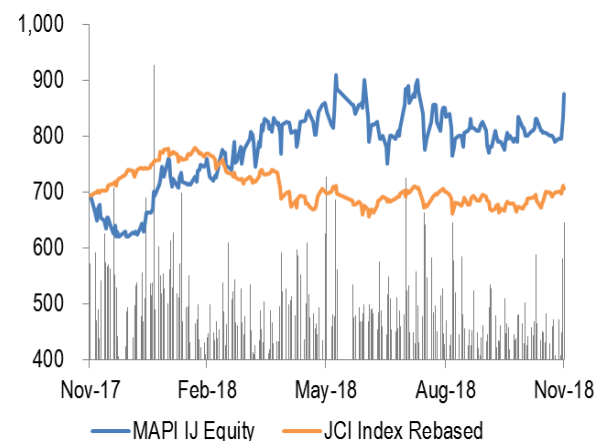
### • Robust Portfolio Brands Against External Threat

Another to expanding its cafe and restaurant segment, MAPI will keep increasing sales of its major retail brands such as Zara, Marks& Spencer, Pull& Bear, etc. The high figure of e-commerce sales and aggressive promotion program failed to halt retail sales growth of 22.0% y-y in 9M18. In addition, the robust retail sales depicted that MAPI's consumers are resilient enough against the rupiah depreciation. On the other side, its promotion strategy succeeded to increase its targeted middle-class consumers.

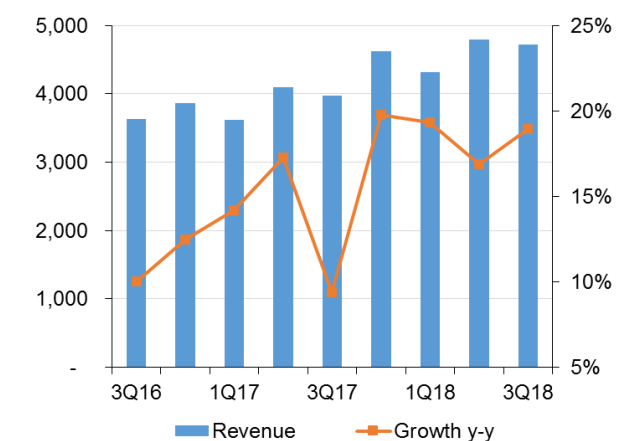
### • Resolved Debt Problem

Those two segments were capable of boosting MAPI's revenue growth to reach 18.4% y-y in 9M18. The growth topped the 2018 target of 15% y-y. Another to its robust financial, its number of inventories days and its debt-equity ratio (DER) consistently decreased. For example, its 1Q17 DER of 111% depleted further to 40% in 3Q18.

Share Price Performance



MAPI Quarterly Revenue | 3Q16 – 3Q18



# Ace Hardware Indonesia (ACES)

<b>Dec 2019 TP</b>	<b>1,900</b>
Consensus Price	1,607
TP to Consensus Price	+18.2%
vs. Last Price	+17.6%
<b>Last Price (IDR)</b>	<b>1,615</b>
Price date as of	Nov 30, 2018
52wk range (Hi/Lo)	1,615 / 1,105
Free Float (%)	40.0
Outstanding sh. (mn)	17,150
Market Cap (IDR bn)	27,697
Market Cap (USD mn)	1,938
Avg. Trd Vol – 3M (mn)	13.17
Avg. Trd Val – 3M (bn)	18.23
Foreign Ownership	27.0%
<b>Sales Breakdown:</b>	
Home Improvement	58.3%
Lifestyle	40.5%
Others	1.2%

IDR bn	FY2017	FY2018E	FY2019E	FY2020E
Net Sales	5,939	7,190	8,411	9,495
y-y	20.3%	21.1%	17.0%	12.9%
EBITDA	1,044	1,362	1,541	1,728
Net profit	778	1,002	1,153	1,287
EPS (IDR)	45	58	67	75
y-y	9.4%	28.9%	15.0%	11.6%
NPM	13.1%	13.9%	13.7%	13.6%
ROE	23.7%	26.2%	25.8%	24.9%
P/E	25.5x	25.6x	22.2x	19.9x
P/BV	5.6x	6.2x	5.3x	4.6x

- **Consistent Growth of +20%**

In the retail sector, the effective strategies for merchandising, promotions, and store expansions are significant factors driving top-line performance higher. The success of the strategy enables ACES to outstrip the 2018 highest top-line growth than that of its peers. Until September 2018, ACES posted the growth of 22.2% y-y in revenues and maintained its growth at higher than 20% y-y since 2Q17. In light of its successful strategy, we project its FY19 growth to be higher than 15%.

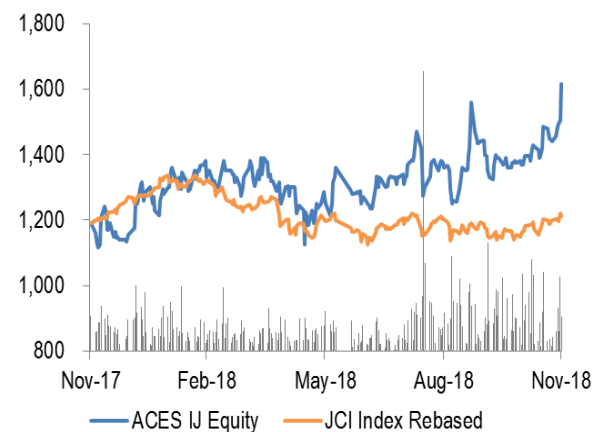
- **Per-Year Increment in New Stores**

ACES's aggressive store launch was fundamental to its performance. In 2016, it launched 13 new stores and in 11M 18 launched 28 new stores. Another to launch new stores in new locations, in 2018 it introduces a new concept of Ace Xpress stores whose width are less than 1,000 sqm. The concept allows ACES to expand its coverage to consumers amid the limited space in shopping malls and massive superblock establishment in big cities. Of note, ACES has no competitor in term of the number of stores.

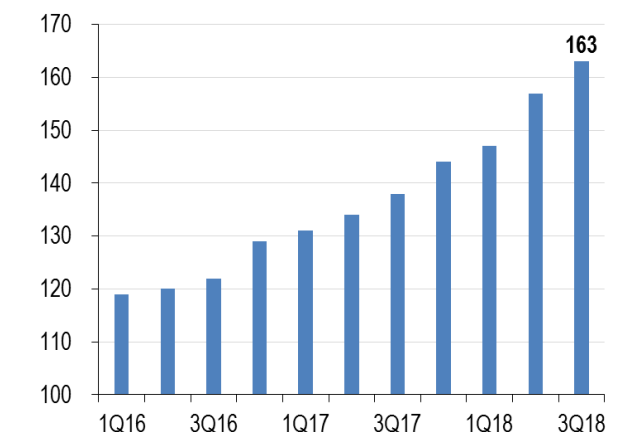
- **Not Dependent on Holiday Season**

Another to massive organic expansion, ACES actively carries on its promotion strategy; it offers attractive special promos in its new stores, for example. Moreover, unlike its peers depending their sales on holiday seasons, ACES also gives different discount programs in every month so that its sales are not dependable on holiday seasons. It also augments the number of lifestyle products and toys in its mature stores with a view to maintaining stores performance.

Share Price Performance



ACES Store Expansion | 1Q16 – 3Q18



## Recommendation Poultry

# Charoen Pokphand Indonesia (CPIN)

<b>Dec 2019 TP</b>	<b>6,900</b>
Consensus Price	5,918
TP to Consensus Price	+16.6%
vs. Last Price	+16.0%
<b>Last Price (IDR)</b>	<b>5,950</b>
Price date as of	Nov 30, 2018
52wk range (Hi/Lo)	6,200 / 2,820
Free Float (%)	44.5
Outstanding sh. (mn)	16,398
Market Cap (IDR bn)	97,568
Market Cap (USD mn)	6,826
Avg. Trd Vol – 3M (mn)	7.20
Avg. Trd Val – 3M (bn)	37.47
Foreign Ownership	10.1%
<b>Sales Breakdown:</b>	
Feeds	47.7%
Broiler	28.5%
Others	23.8%

IDR bn	FY2017	FY2018E	FY2019E	FY2020E
Sales	49,367	51,810	54,467	58,085
y-y	29.0%	4.9%	5.1%	6.6%
EBITDA	4,538	7,495	7,907	8,465
Net profit	2,498	4,644	4,946	5,342
EPS (IDR)	152	283	302	326
y-y	12.5%	85.9%	6.5%	8.0%
NPM	5.1%	9.0%	9.1%	9.2%
ROE	16.7%	26.4%	23.1%	20.8%
P/E	19.7x	17.7x	16.6x	15.3x
P/BV	3.1x	4.2x	3.5x	2.9x

## • Feed Segment Sustaining CPIN's Stable Performance

The feed segment as CPIN's backbone still contributes 47% to CPIN's overall sales. The segment consistently posts stable and outstanding performance as it succeeds to maintain its gross profit margins at 18% for the last 4 years despite the U.S. dollar appreciation. CPIN as the market leader of poultry feed in Indonesia is capable of maintaining its profit margins amid volatile agriculture commodities prices because it charges its customers for incurred costs.

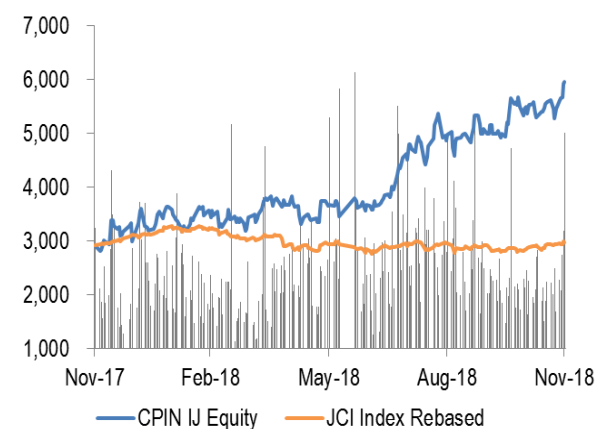
## • Broiler Segment Hitting Balance Level

The broiler segment succeeded to post profits in 2018 after posting losses in 2017. The price of broiler chicken controlled by the government is likely to maintain stable gross margins of 10% posted by the broiler segment. Besides, we estimate that the market of broiler chicken has been stable and fit with domestic demand so that oversupply is possible to avoid.

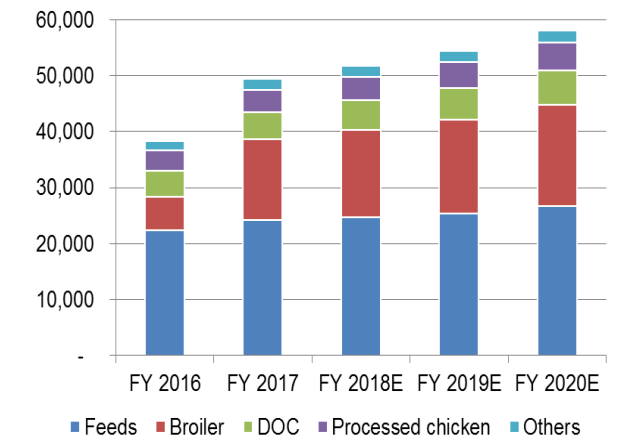
## • Processed Chicken Segment: CPIN's Future

The processed chicken segment contributes 8% to CPIN's overall sales, yet the future of the poultry industry is on the processed chicken segment. The busy lifestyle of modern societies makes consumers buy more processed chicken. Now, CPIN through its popular brands such as Golden Fiesta, Fiesta, Champ, and Okey, dominates 66% market shares of the processed chicken in Indonesia. In fact, it enjoys the growing number of middle-class individuals.

Share Price Performance



CPO Price (IDR/KG) | 2017 - 2018



## Recommendation CPO

# PP London Sumatera Indonesia (LSIP)

<b>Dec 2019 TP</b>	<b>1,380</b>
Consensus Price	1,484
TP to Consensus Price	-7.0%
vs. Last Price	+22.1%
<b>Last Price (IDR)</b>	<b>1,130</b>
Price date as of	Nov 30, 2018
52wk range (Hi/Lo)	1,510 / 905
Free Float (%)	40.4
Outstanding sh. (mn)	6,823
Market Cap (IDR bn)	7,710
Market Cap (USD mn)	539
Avg. Trd Vol – 3M (mn)	13.20
Avg. Trd Val – 3M (bn)	16.43
Foreign Ownership	9.3%
<b>Sales Breakdown:</b>	
Crude Palm Oil	73.7%
Palm Kernel	17.2%
Others	9.1%

IDR bn	FY2017	FY2018E	FY2019E	FY2020E
Sales	4,738	3,919	4,395	4,871
y-y	23.1%	-17.3%	12.2%	10.8%
EBITDA	1,341	904	1,139	1,321
Net profit	764	447	635	749
EPS (IDR)	112	65	93	110
y-y	28.7%	-41.5%	42.0%	17.9%
NPM	16.1%	11.4%	14.4%	15.4%
ROE	9.4%	5.3%	7.2%	8.0%
P/E	12.7x	17.9x	12.6x	10.7x
P/BV	1.2x	1.0x	0.9x	0.9x

## • LSIP's Performance Determined by CPO Prices

LSIP's sales are estimated to decline by 17% in 2018. Yet, its CPO's derivative products hiked by 10%-15% from 2017 to 2018; yields inclined from 11,0MT/ha in 9M17 to 12,4MT/ha in 9M18 despite the tumble of 24% in CPO prices during 2018.

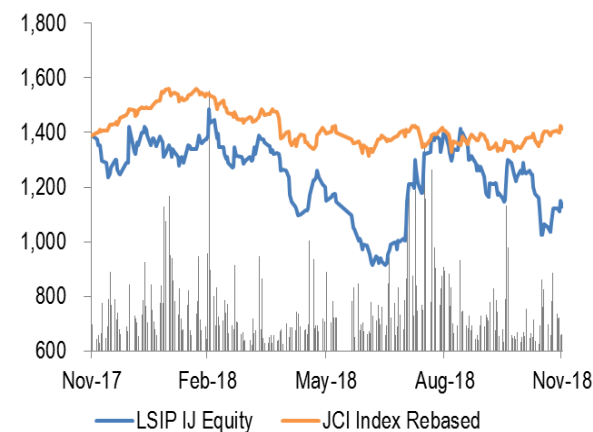
## • Depending on B20 Mandatory

Indonesian Vegetable Oil Refiners Association (GIMNI) estimated Indonesia to lack 2 million tons CPO due to the prolonged B20 mandatory and the increment in the domestic consumption in 2019. The CPO production in 2019 will reach 52.8 million ton, with the demand for CPO to amount to 54.6 million tons. The amount consists of the demand of Fatty Acid Methyl Ester (FAME) market for 10.25 million tons of biodiesel and the demand of the non-energy sector for 44.3 million tons CPO. Based on the calculation, Indonesia is likely to reduce CPO exports, leading to higher CPO's prices.

## • CPO Rebound, LSIP's Stellar Performance

Based on the estimate of the possible rebound in CPO prices higher than IDR8,000/kg and the increment of 5%-10% in the production, LSIP's sales are likely to grow to IDR4.39 trillion with the growth of 42% to IDR635 billion in the 2019 net profit.

Share Price Performance



CPO Price (IDR/KG) | 2017 - 2018



# Recommendation Mining

## Bukit Asam (PTBA)

<b>Dec 2019 TP</b>	<b>5,375</b>
Consensus Price	4,946
TP to Consensus Price	+8.7%
vs. Last Price	+33.7%
<b>Last Price (IDR)</b>	<b>4,020</b>
Price date as of	Nov 30, 2018
52wk range (Hi/Low)	5,025 / 2,160
Free Float (%)	35.0
Outstanding sh. (mn)	11,521
Market Cap (IDR bn)	46,313
Market Cap (USD mn)	3,240
Avg. Trd Vol – 3M (mn)	34.65
Avg. Trd Val – 3M (bn)	148.54
Foreign Ownership	8.8%
<b>Sales Breakdown:</b>	
Coal	100%

IDR bn	FY2017	FY2018E	FY2019E	FY2020E
Net Rev.	19,471	23,776	24,758	26,765
y-y	38.5%	22.1%	4.1%	8.1%
EBITDA	6,584	8,234	8,756	9,536
Net profit	4,476	5,680	6,112	6,645
EPS (IDR)	425	493	531	577
y-y	117.1%	16.1%	7.6%	8.6%
NPM	23.0%	23.9%	24.7%	24.8%
ROE	36.8%	38.0%	36.0%	32.7%
P/E	6.3x	9.3x	8.6x	7.4x
P/BV	2.1x	3.3x	2.9x	2.8x

### • Sustainable Growth Performance

In 3Q18, PTBA succeeded to post the revenue of IDR5.5 trillion (+15.4% q-q, +27.6% y-y) and the net profit of IDR 1.3 trillion (+20.3% q-q, +50.1% y-y). Meanwhile, on a cumulative basis, the 9M18 net profits were at IDR3.9 trillion (+50.2% y-y). Its 3Q18 net profit margins were at 24.6% (vs. 23.6% in 2Q18, and 20.9% in 3Q17).

### • To Be Sanguine about Production and Sales

Until 9M18, it produced 19.7 million tons of coal or 77.1% of the 2018 target of 25.6 million tons. Meanwhile, coal sales were at 18.6 million tons or 71.7% of the 2018 target of 25.9 million tons. We are sanguine about its performance of hit the target so that it is likely to post the total revenue of 23.7 trillion (+22.1% y-y) and the net profit of IDR5.6 trillion (+16.1% y-y) in FY2018 F.

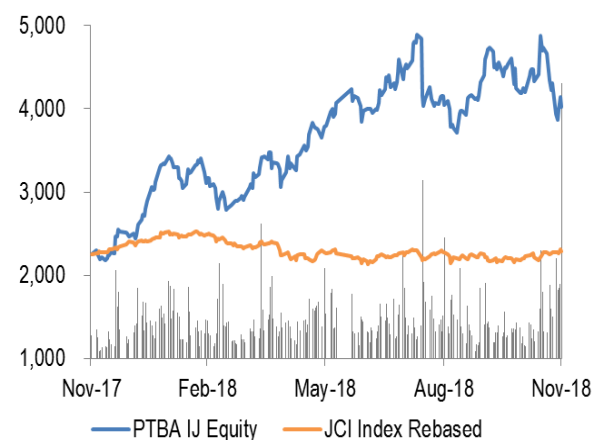
### • Exceeding DMO Quota

Until 9M18, PTBA has coal DMO stockpile of 5.4 million tons. The stockpile is capable of boosting PTBA's revenue that's transfer fees of coal DMO quota from its peer having not yet to meet the obligation of 25% DMO.

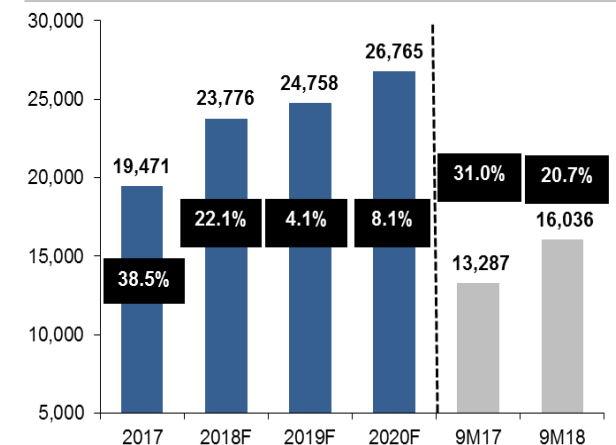
### • Increasing Proportion of High-Calories Coal

PTBA plans to boost its production and sales of 6,100-6,700-Kcal coal by 4 million tons in 2019 because high-calories coal has higher margins. We foresee that the demand for coal in 2019 is still high, particularly in ASEAN nations, where a number of new coal-fired power plants will take into operation.

Share Price Performance



Revenue & Growth Number



# United Tractors (UNTR)

<b>Dec 2019 TP</b>	<b>39,550</b>
Consensus Price	42,263
TP to Consensus Price	-6.4%
vs. Last Price	+43.8%
<b>Last Price (IDR)</b>	<b>27,500</b>
Price date as of	Nov 30, 2018
52wk range (Hi/Lo)	40,500 / 27,350
Free Float (%)	40.5
Outstanding sh. (mn)	3,730
Market Cap (IDR bn)	102,579
Market Cap (USD mn)	7,175
Avg. Trd Vol – 3M (mn)	4.59
Avg. Trd Val – 3M (bn)	148.62
Foreign Ownership	18.4%
<b>Revenue Breakdown:</b>	
Mining Contracting	47.3%
Construction Machinery	35.7%
Others	17.0%

IDR bn	FY2017	FY2018	FY2019E	FY2020E
Sales	64,559	82,932	106,625	117,840
y-y	41.8%	28.5%	28.6%	10.5%
EBITDA	14,596	21,427	30,274	36,880
Net profit	7,403	12,271	17,158	17,924
EPS (IDR)	1,985	3,290	4,600	4,805
y-y	47.9%	65.8%	39.8%	4.5%
NPM	11.5%	14.8%	16.1%	15.2%
ROE	16.4%	23.3%	27.4%	24.7%
P/E	17.8x	10.1x	7.2x	6.9x
P/BV	2.8x	2.2x	1.8x	1.6x

## 3Q18 Review: Top and Bottom Lines Fitting into Estimate

In 3Q18, UNTR posted revenue of USD22.1 trillion (+11.3% q-q, +31.8% y-y), heavy machinery sales of IDR7.4 trillion (+7.0% q-q, +19.8% y-y), and mining contracting revenue of IDR11.4 trillion (+21.7% q-q, +44.0% y-y). Meanwhile, its net profit settled at IDR3.5 trillion (+21.9% q-q, +62.2% y-y) a lot higher than our estimate and consensus of IDR2.6 trillion and IDR2.5 trillion, respectively.

## A More Favorable Weather

Favorable weather during 3Q18 boosts coal production and correlates positively with the performance of mining contractor and heavy machinery segments. Overburden removal was at 271.6 million bcm (+14.2% q-q, +20.9% y-y); the stripping ratio was at 8.2x (vs. 7.9x in 2Q18 and 7.4x in 3Q17).

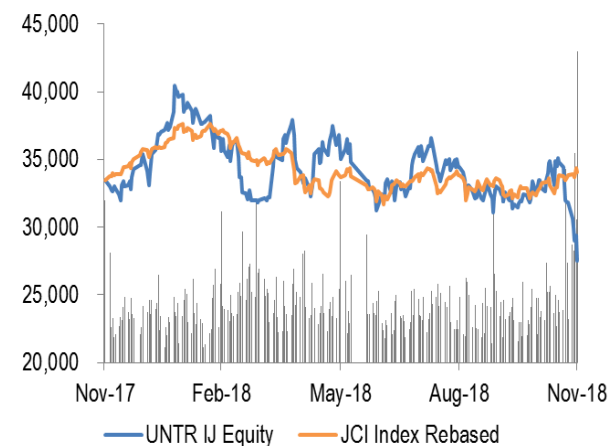
## Banking on Komatsu Sales

Komatsu sales were at 3,681 units (+4.2% q-q, 29.0% y-y) or reaching 96.8% of the 2108 target of 3,800 units. At the early of 2018, UNTR estimated Komatsu sales to lag and grow only 9% y-y (vs. 61% y-y in 2017) due to the setback of prolonged lead time of 9 to 12 months. However, we are sanguine about its sales to hit 4,936 units in FY 2018F.

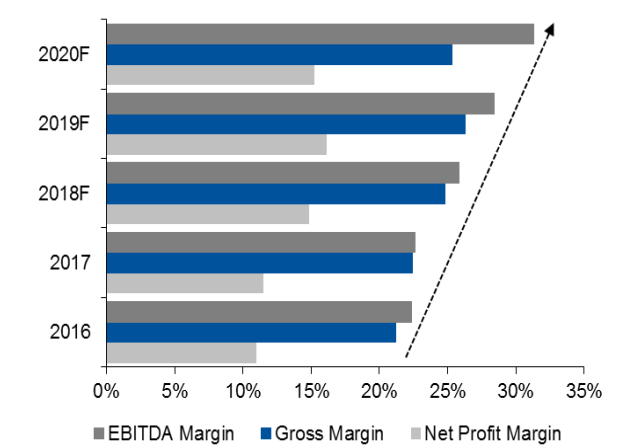
## More Conservative Target in 2019

Overseeing the slowdown in coal prices, UNTR sets a more conservative target in 2019 than that of in 2018, e.g. the growth of 5% y-y in service revenues posted by mining contractor, the growth of 7%y-y in coal sales, the growth of 25% y-y in sales of heavy machines, and the growth of 10% y-y in part-service revenues.

## Share Price Performance



## Profitability Margin Will be Expand



# Thank You



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