

Passing Pressures

Summary:

In February, global financial markets experienced volatility triggered by investors' concerns about monetary tightening that can be more aggressive than the initial projection. Rupiah and Indonesia's government bond yield suffered the impact of such volatility. Nonetheless, Indonesia's stock market similar to Southeast Asia's stock markets show robust resilience underpinned by the banking sector.

Ahead of March, investors need to digest cautiously that the sluggish dollar will be maintainable with a view to supporting the Fed's consistent monetary stance. From domestic, the expectancy of consistent stability of financial markets in Indonesia will constitute as a crucial factor. The uptrend of JCI consistent hike in March as of 2009 gives confidence of the conducive stock market conditions. We recommend BMRI, SCMA, JPFA, and ELSA as top pick.

1. Macroeconomic Brief

Three Interest-Rate Hikes

Consistent Downtrend of Dollar to Support Fed's Monetary Stance

Being Selective amid the U.S. High Government Bond Yield

Low Inflation: Indonesia's Outlier Factor

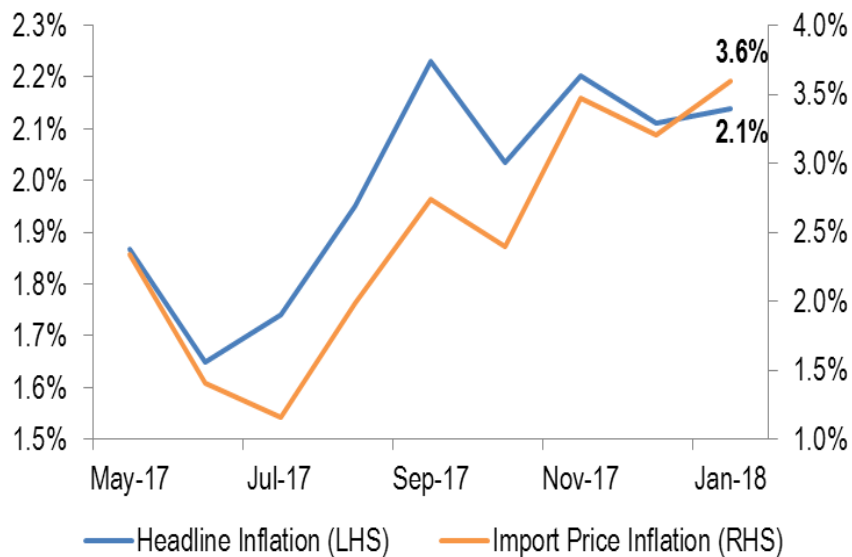
Economic Growth: Recovery in Investment

Politic: Jokowi's Aggressive Parties

Three Interest-Rate Hikes

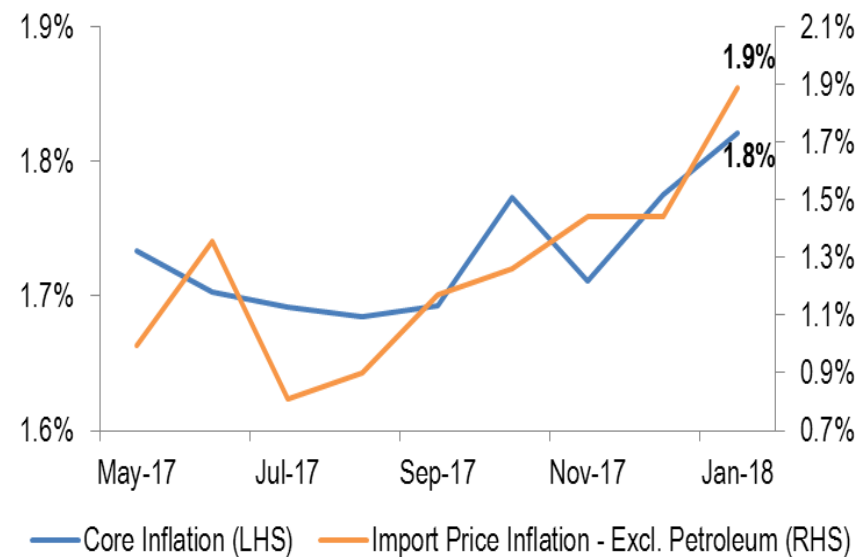
- After FOMC meeting held in the end of January, the volatility in global markets heightened since February. **Markets concerned about the Fed's statement and the uptrend of inflation potential for four interest-rate hikes** (vs markets expectancy of three interest-rate hikes). The concerns heightened as the government bond yield consistently hit the level of 2.9%.
- Although the U.S. inflation of January hiked, **the uptrend of inflation was mainly driven by import**. Index of import price leaped by 3.6% (vs 3.0% in December) amid the hike of 4.3% in the import oil price. The index of non-oil import price also leaped by 1.9% the highest growth since 2012 the downtrend of dollar caused imported goods to be more expensive and bolster the uptrend of inflation.
- This fact will cause **the Fed to be cautious to heighten its aggressive stance in tightening monetary**. The rapid hike in inflation coupled with the moderate purchasing power loomed the risk of overheating. This backdrop underlined the Fed's stance of three interest-rate hikes in 2018 aligning with the current expectancy.

U.S. Headline & Import Price Inflation (y-y)



Source: Bloomberg, NH Korindo Research

U.S. Core & Import Price (Excluding Petroleum) Inflation (y-y)

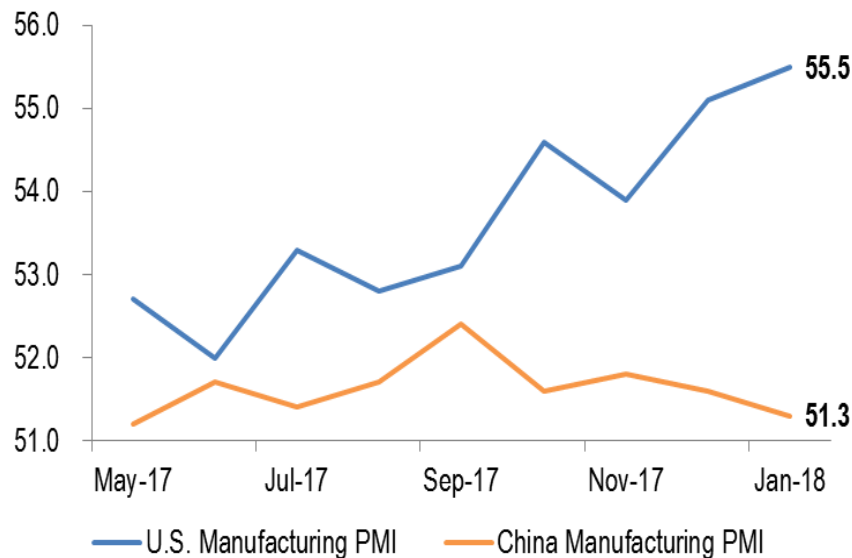


Source: Bloomberg, NH Korindo Research

Consistent Downtrend of Dollar to Support Fed's Monetary Stance

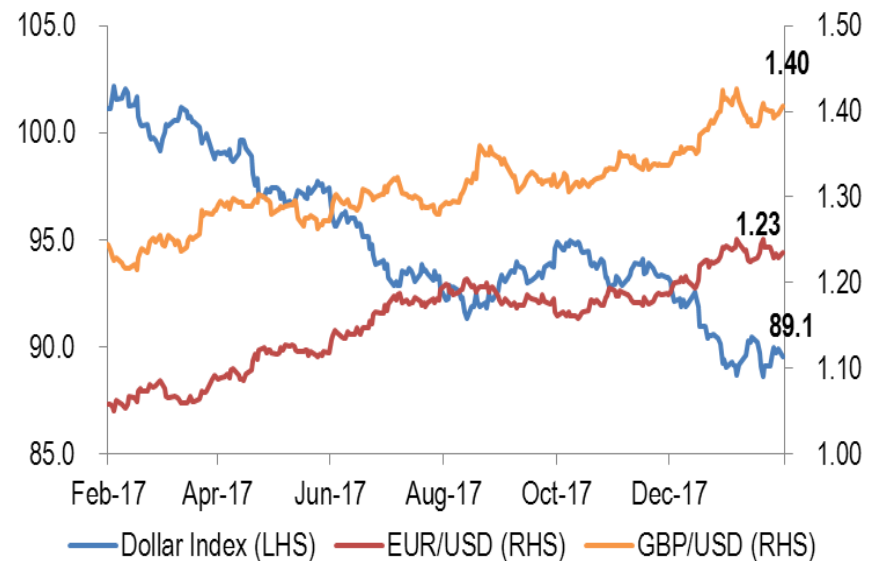
- The downtrend of dollar triggered the uptrend of inflation, and succeeded in **subduing pressure on the U.S. domestic manufacture product competition**. Since the mid of 2017, the U.S. PMI manufacture index hiked aggressively, while its competitor, China experience a stable trend.
- Although the Fed stated that no financial market circumstance shall affect its monetary policy, the Fed, for the time being, requires **the consistent downtrend of dollar with a view to accommodating the consistency in interest rate normalization**. It is estimated that the Fed implicitly will cushion volatility in market potential for strengthening dollar, particularly amid the challenge of the U.S. upbeat government bond yield.
- From the external outlook, **the expectancy of monetary normalization in Europe and UK** amid the economic recovery of those two regions will sustain further downtrend of dollar.

Manufacturing PMI Index



Source: Bloomberg, NH Korindo Research

Dollar Index, EUR/USD, GBP/USD

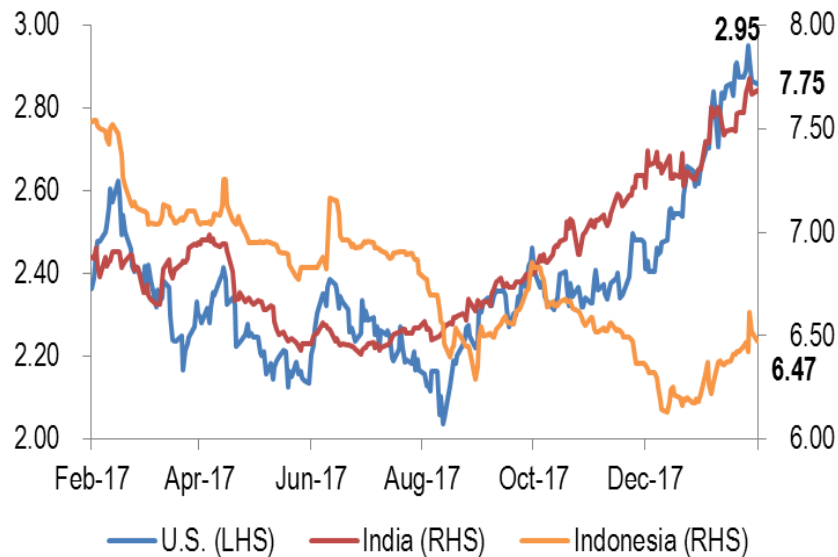


Source: Bloomberg, NH Korindo Research

Being Selective amid the U.S. High Government Bond Yield

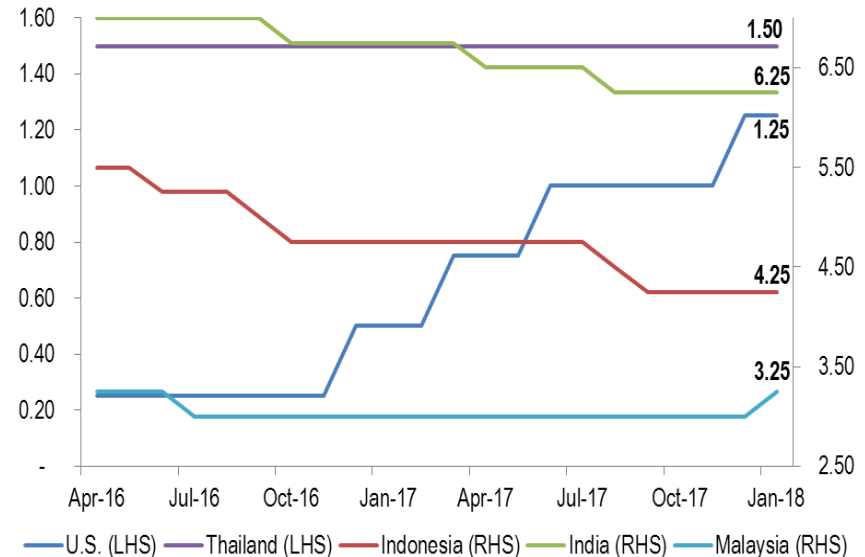
- The U.S. government bond yield currently constitutes as investors' focus. **The consistency in the uptrend yield** holding firmly around the psychology threshold of 3% raises global investors' concern for global financial market risk.
- The downtrend of dollar impacting on the uptrend of the U.S. inflation resulted in the uptrend of government bond yield. However, the downtrend of dollar also subdued the pressure on economy. Thus, **the uptrend of government bond yield does not result only in the lack of global investment appetite.**
- The uptrend of the U.S. government bond yield caused global investors to be more selective about investing in the emerging nations offering **an alluring yield and a stable monetary policy.** The emerging markets in Asia of which monetary normalization paces slower than does the U.S. steal global investors' attention.

Selected 10-Year Government Bond Yield (%)



Source: Bloomberg, NH Korindo Research

Central Banks' Reference Rates



Source: Bloomberg, NH Korindo Research

Low Inflation: Indonesia's Outlier Factor

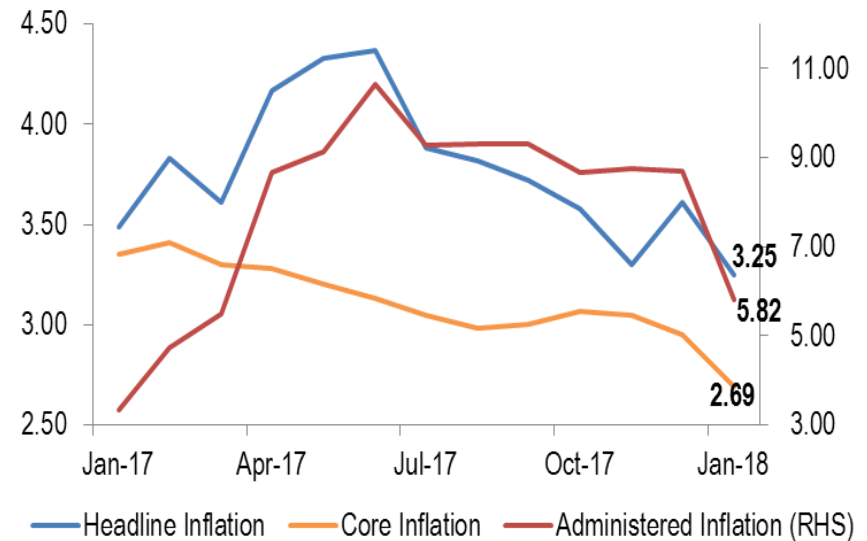
- In February, Indonesia's government bond and rupiah experienced pressure as the impact of volatility in global markets. Government bond yield with 10-year tenor hiked by 35.8 bps to the position of 6.625%. Meanwhile, rupiah's exchange rate for dollar lowered by 2.7% into 13,745 in February. We consider the volatility as **the temporal impact of profit taking action by foreign investors** digesting the global market direction.
- As the time passes by and the more lucid direction of global market, Indonesia's government bond coupled with a stable policy will be one of investment priorities in the emerging markets. We estimate that **rupiah will likely stood at the range of 13,300-13,400** and the **government bond yield with 10-year tenor will continue the long-term downtrend** at the average of 6.0% along with the subdued global volatility and Bank Indonesia's commitment to intervention.
- Indonesia's inflation currently is a crucial factor for maintaining the balance of financial market. The low inflation will guarantee that **Bank Indonesia will hold its interest rate benchmark steady in 2018** amid the U.S. monetary normalization. The low inflation is underpinned by the concerted effort the Indonesian government put to lower the administrated prices, such as the electricity tariff ahead of the political year of 2019. The currently low inflation is also backed by the lack of appetite for domestic consumption reflected in the downtrend of core inflation.

Indonesia 10-year Government Bond Yield (%) and USD/IDR



Source: Bloomberg, NH Korindo Research

Indonesia Inflation (%)

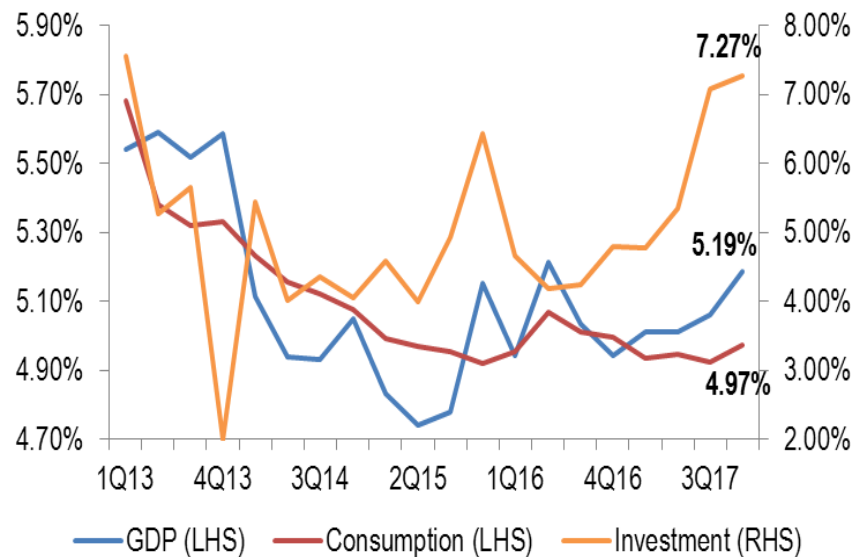


Source: Bloomberg, NH Korindo Research

Economic Growth: Recovery in Investment

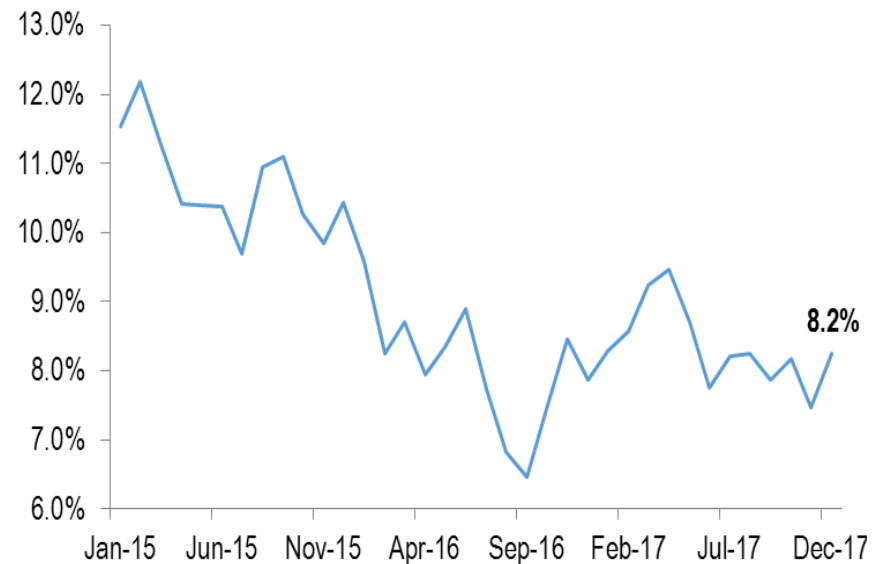
- Indonesia's economy grows at the moderate pace of 4.9%-5.2%. In January, Indonesia announced 4Q17 GDP growth of 5.19% higher than 3Q17 GDP growth of 5.96%. The consumption sector giving contribution of 54.7% to the total GDP grows 4.97% **to remain stable within the last 3 years**.
- Although the economy still grows at the moderate pace, the impacts of economic stability has been noticeable in the picking up investment contributing 34% to the total GDP. In 4Q17, investment grew by 7.1% the highest growth since 1Q13. We conclude that **the current investors' appetite for investment in the real sector has returned** to the level at which Bank Indonesia had not aggressively hiked its interest rate as the global impact of 2013 taper tantrum.
- In next couple of years, the potency for the accelerating pace of economic growth will be stimulated by the growth in credit. However, the banking sector currently does not aggressively distribute credit so that the growth in credit lags. The further stability of financial market is the key for the banking sector to **start credit expansion particularly in the consumption sector**.

Indonesia GDP Growth



Source: Bloomberg, NH Korindo Research

Indonesia Credit Growth

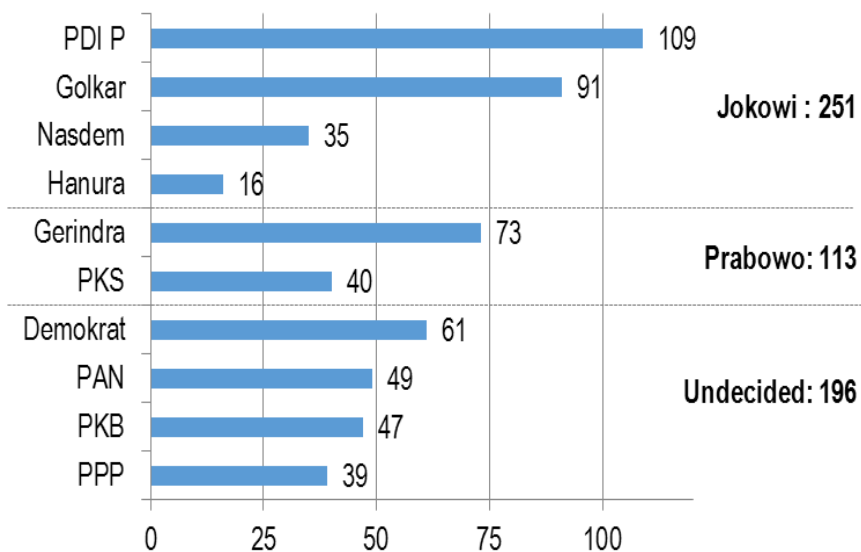


Source: OJK, NH Korindo Research

Politic: Jokowi's Aggressive Parties

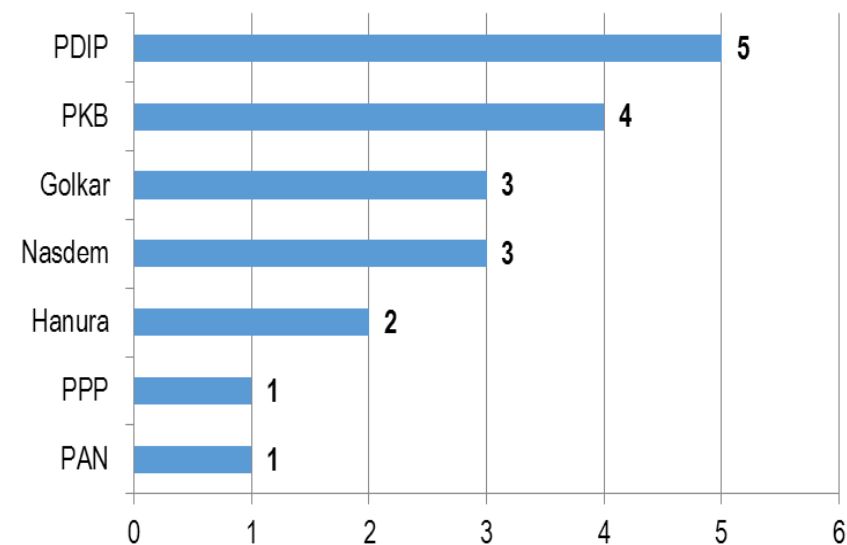
- Ahead of 2019's Presidential Election, the political turmoil impacting on internal volatility in financial market looms investors. Furthermore, 2017's DKI Jakarta Governor Election marked by the loss to incumbent party **looms a threat to Joko Widodo Presidential candidacy** for 2019-2024.
- It is too early to conclude whether or not Joko Widodo will succeed in being elected as the President of Indonesia for the second time, but we projects that **2019' presidential election tension will not be as frightening as what it is predicted**. The aggressive stance of Joko Widodo and its party, namely Indonesian Democratic Party of Struggle (PDI-P) is contrast to their stance in 2017's Presidential and DKI Governor Elections. In the end of February, PDI-P officially announced Joko Widodo as its candidate for 2019 President.
- **PDI-P has been aggressively establishing coalition with other parties**. The Golkar Party the second biggest party promoting Prabowo (Joko Widodo's rival) in 2014's presidential election now gives its endorsement to Joko Widodo's presidential nomination. In fact, PDI-P now actively seeks support from the Democratic Party (Indonesian: Partai Demokrat), one of its rival in the past.

Number of Parliament Member



Source: NH Korindo Research

Jokowi Cabinet Member from Political Party Background



Source: NH Korindo Research

2. Indonesia's Stock Market

February's Recap : Anomaly in Banking Stocks

JCI Valuation Is Expensive, but has Upside Room

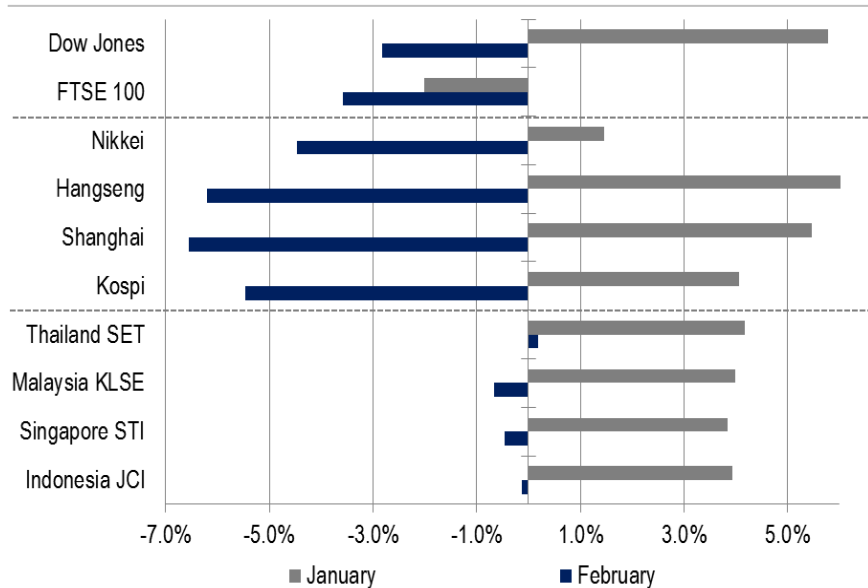
March Always Gives Return

Top Pick: BBRI, BMRI, SCMA, JPFA, ELSA

February's Recap : Anomaly in Banking Stocks

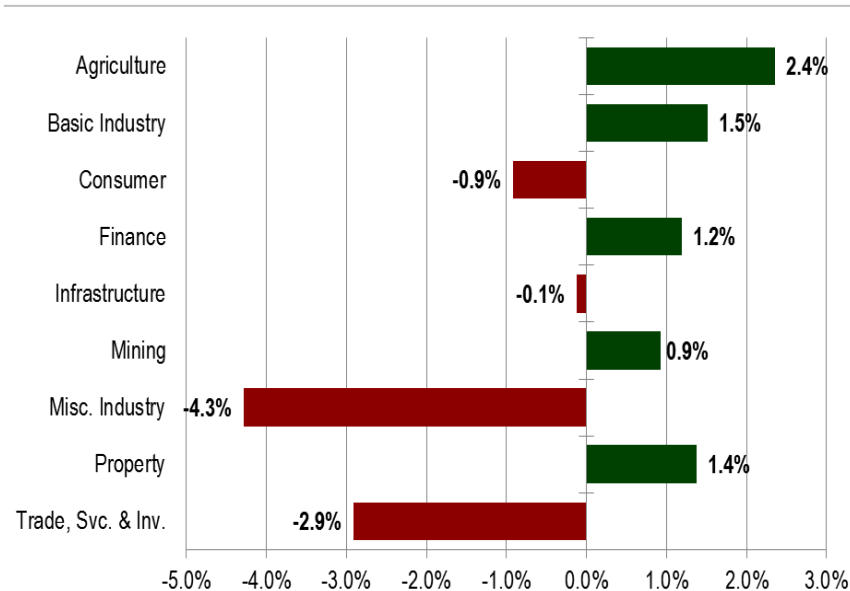
- Although Indonesia stock market experienced volatility, it still recorded solid performance and even posted the new highest record in February which was in the position of 6,693 dated 02/20/2018. JCI closed lower by 0.1% into 6,597 in February. The result was **better than the movement of major global stock markets** lowering more than 1%. Besides, it is lucid that the stock markets in Southeast Asia have the robust resilience in global volatility of February.
- JCI performance was highly underpinned by the financial sector strengthening by 1.2% standing in stark contrast to the weakening JCI. The **rally in four big cap bank shares** was the potent driver for the financial sector. The shares of BBKA, BBRI, BMRI, and BBNI respectively hiked by 2.0%, 2.2%, 1.8%, and 3.5% in February.

Global Equity Index Return



Source: Bloomberg, NH Korindo Research

JCI Sector Index

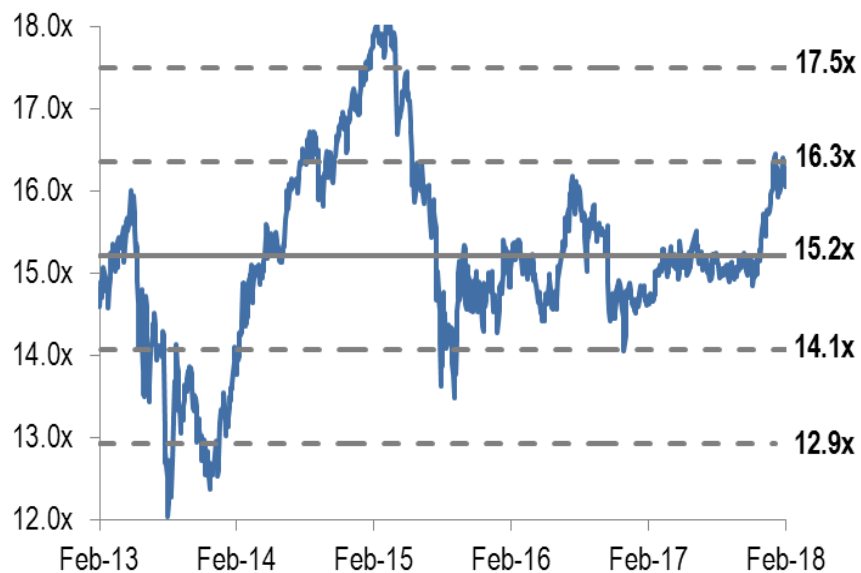


Source: Bloomberg, NH Korindo Research

JCI Valuation Is Expensive, but has Upside Room

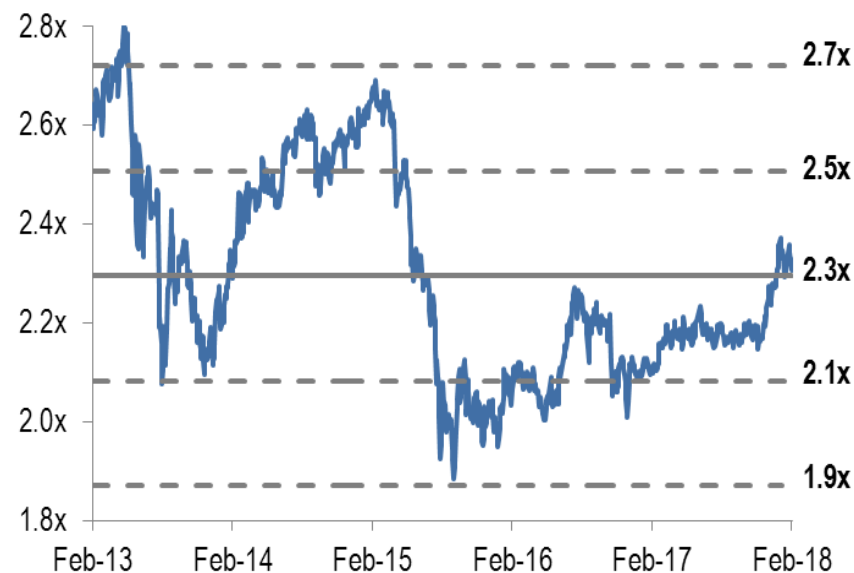
- In February, **JCI consistently stood at the position of a 2018E forward P/E of 16.3x** (1SD higher than the 5-year average of 15.2x). Its expensive position was inevitably coupled with high risk of volatility in markets. Nonetheless, the different condition occurs at a 2018E P/BV of 2.3x the 5-year average position.
- We estimate that JCI is capable of maintaining the valuation position at a 2018E P/E of 16.3x in the end of 2018 along with varied global financial market dynamics; thus, **JCI is capable of settling at the position of 7,025**. The expectancy of respective two-digit growth of 17.2% and 12.7% in 2017 and 2018 gives further upside rooms for JCI.

JCI Forward P/E



Source: Bloomberg, NH Korindo Research

JCI Forward P/BV

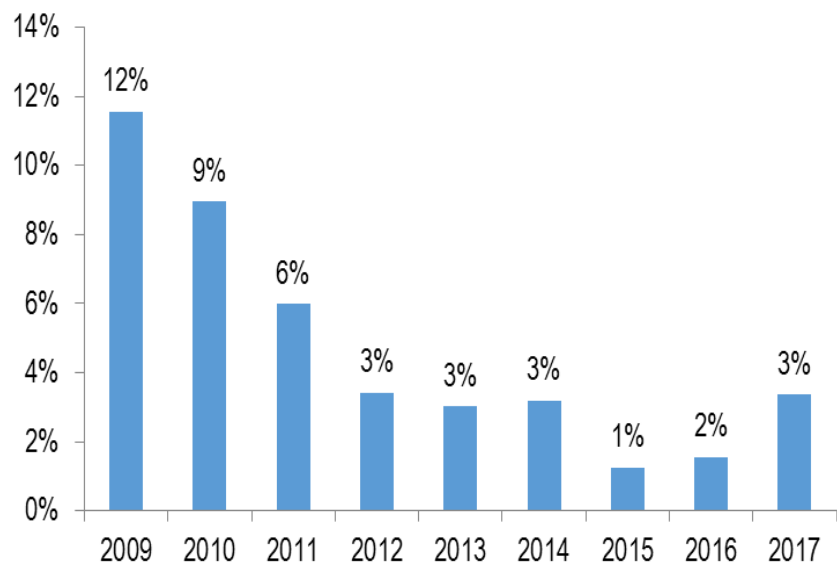


Source: Bloomberg, NH Korindo Research

March Always Gives Return

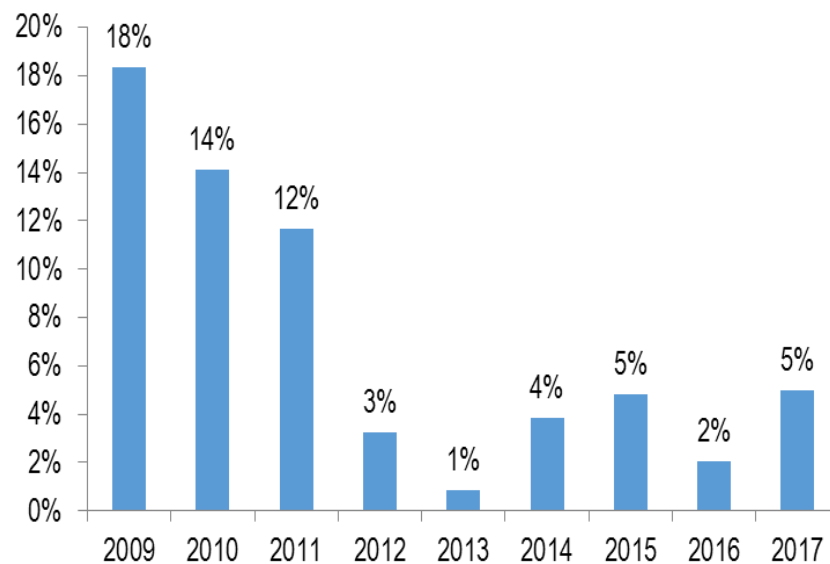
- Based on since-2009 trend, another to December, **March is one of months when JCI always posts hike**. Although JCI faced headwind in 2013 and 2015, it was still capable of posting a positive performance. The release of financial performance and the prospect of dividend distribution allure investors to take position in March.
- In detail, the financial sector is **one sector out of nine sectors listed on the Indonesia Stock Exchange consistently posting hike in March**. The movement in the financial sector is dominated by the movement of bank's big cap shares favorable for big-scale institutional investors. Besides, the movement of bank's big cap shares **is highly correlated to global investors' perception of Indonesia's macroeconomic conditions**.

JCI Return in March



Source: Bloomberg, NH Korindo Research

Finance Sector Index Return in March



Source: Bloomberg, NH Korindo Research

Investment Idea

- In 2017, JCI moved at an uptrend range. In the early of 2018, it was capable of breaking out from the resistance uptrend range. We estimate that JCI will move higher in 2018 and **pace at the higher uptrend range**.
- In March, investors can **take benefit from any of volatilities caused by global concerns** relating to the Fed's monetary stance as an opportunity to obtain an optimal buy position. We project that in March, JCI moves at the range of 6,420-6,850.
- We recommend BBRI and BMRI as top pick relating to the rally cycle in the banking shares of March. We gauge that **BBRI and BMRI are fundamentally the most primed banks in term of credit expansion** particularly in the consumer segment. We also recommend SCMA amid the **massive political events and sport events** spurring the uptrend of ads spending. JAPFA is investors' top pick along with the expectancy of recovery in economy underpinned by the public consumption sector. Besides, the recovery in the poultry industry supported by **the government regulation giving certainty for growth** in JPFA's performance. Lastly, as the top pick in the commodities sector, we recommend oil and gas contracting shares of ELSA amid the more **conducive global and domestic oil and gas industries**.

JCI Trend



Source: Bloomberg, NH Korindo Research

Stock Recommendation for March

	BBRI	BMRI	SCMA	JPFA	ELSA
Market Cap (IDR tn)	466.3	387.3	41.7	18.5	3.7
Total Asset (IDR tn)	1,126.2	1,124.7	5.6	19.3	4.9
Price	3,780	8,300	2,850	1,620	505
Target Price (Dec 2018)	4,700	10,300	3,250	1,970	625
P/E 2016A	11.0x	19.6x	30.6x	8.0x	9.9x
P/E 2017E	15.5x	18.1x	27.1x	12.7x	14.9x
P/E 2018E	13.6x	17.0x	25.4x	10.3x	8.3x
P/BV FY2018E	2.4x	2.2x	8.6x	1.5x	1.1x
ROE FY2018E	18.7%	13.5%	35.9%	15.2%	13.6%
Dividend Yield FY2018E	2.9%	2.7%	2.6%	2.2%	2.3%

Source: Bloomberg, NH Korindo Research

Bank Rakyat Indonesia (BBRI)

• BBRI at A Glance

BBRI is state-owned bank with the biggest assets among other banks. It is facilitated with the widest network covering urban areas to remote areas. It distributes around 15% of the total credit distribution in Indonesia. Meanwhile, in the micro and SMEs divisions, it distributes around 32% of the total distributed credit.

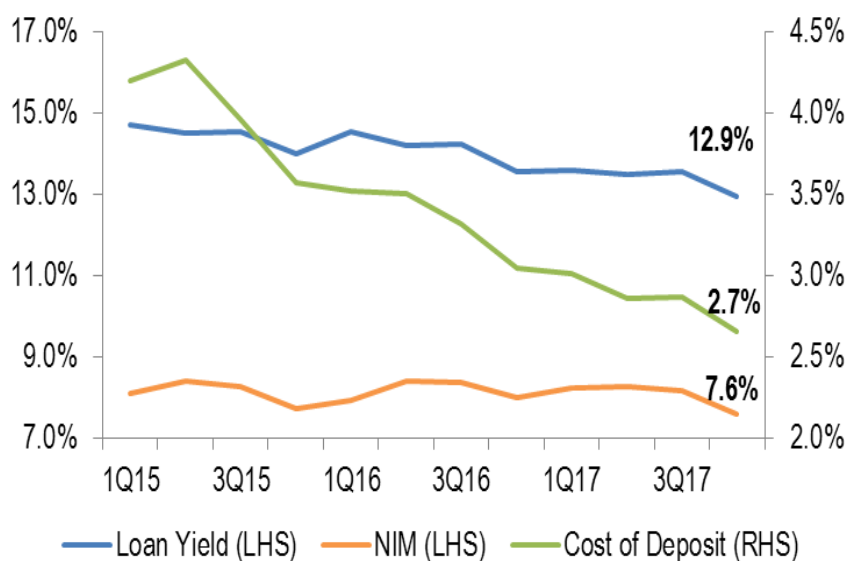
• Double-Digit Credit Growth

In the end of 2017, the credit distribution grew 11.4% higher than the credit distribution average growth of 8.2% posted by the banking industry. The non-corporation divisions, namely micro, consumer, and small and medium enterprises (SMEs) posting the hike of 13%-14% were the key pillars for the growth in the credit distribution.

• Well-Maintained Margin

The accelerated credit growth of non-corporation division in 2018 likely underpins the interest income performance as the division generates a higher yield than does the corporation division. The accelerated credit growth in such division coupled with the consistent decline of 2.7% in cost of deposit attributable to the higher portion of saving account likely boost BBRI's capability of maintaining well its net interest margin higher than 7.5% amid the headwind lowering yield.

Loan Yield, Cost of Deposit, Net Interest Margin



Source: Bloomberg, NH Korindo Research

Financial Summary (IDR bn)

	FY2016	FY2017	FY2018E	FY2019E
Interest Income	94,788	102,899	115,375	131,187
<i>Growth</i>	10.9%	8.6%	12.1%	13.7%
Operating Revenue	84,580	92,482	107,015	122,223
Net profit	26,196	28,997	33,254	38,242
EPS (IDR)	212	235	270	310
<i>EPS growth</i>	3.1%	10.7%	14.7%	15.0%
BVPS (IDR)	1,190	1,357	1,525	1,731
Net Interest Margin	8.0%	7.6%	7.9%	8.0%
Loan/Deposit	87.9%	87.8%	88.8%	89.5%
ROE	20.2%	18.5%	18.7%	19.0%
NPL	2.0%	2.1%	2.0%	1.9%
P/E	11.0x	15.5x	13.6x	11.9x
P/BV	2.0x	2.7x	2.4x	2.1x
Dividend yield	3.6%	2.6%	2.9%	3.4%

Source: Bloomberg, NH Korindo Research

Bank Mandiri (BMRI)

• BMRI at A Glance

BMRI is the second biggest bank in Indonesia after BBRI. In 2017, it distributed the credit of IDR730 trillion or around 15% from the total credit distributed in Indonesia. Besides, it is the most credible bank among other banks in Indonesia in term of the corporate segment.

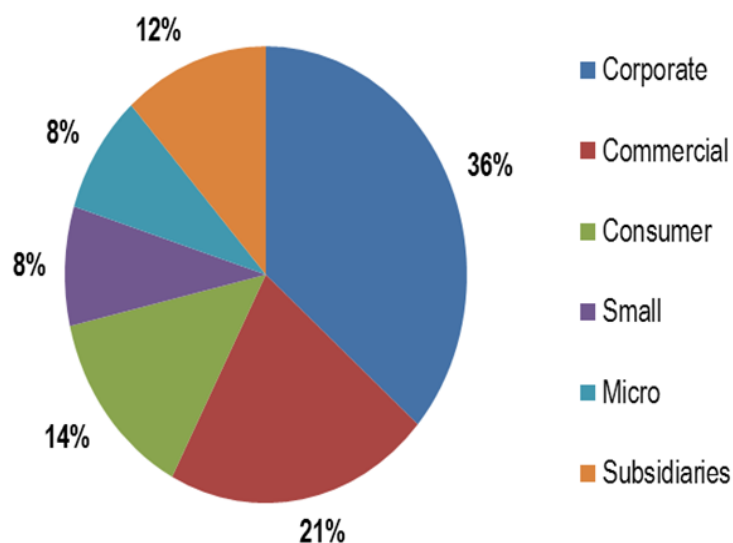
• Room for Growth in Credit

Although the banking industry is loomed by lagging growth, BMRI is capable of posting the stable credit growth at the average of 10% within the last two years. It is bolstered by the robust performance of the corporate segment with the average growth of 15%.

• Strengthening Consumer and Micro Segment

We project that it will achieve the growth of 12.4% in 2018. The robust corporate segment coupled with the consumer and micro segment of which contribution is concertedly boosted will bolster the room for growth in credit. The consumer and micro segment is capable of posting the current growth of 20%. The contribution of the consumer segment is targeted to hit 19% in 2020 with the focus on mortgage loan, automotive credit, and payroll-based credit, particularly for employees of companies which are the corporate clients of BMRI.

Credit Distribution Segment



Source: Bloomberg, NH Korindo Research

Financial Summary (IDR bn)

	FY2016	FY2017	FY2018E	FY2019E
Interest Income	76,710	79,502	86,785	97,067
<i>Growth</i>	7.2%	3.6%	9.2%	11.8%
Operating Revenue	72,490	75,981	82,156	93,885
Net profit	13,789	20,640	24,162	28,925
EPS (IDR)	295	442	518	620
<i>EPS growth</i>	-32.2%	49.7%	17.1%	19.7%
BVPS (IDR)	3,286	3,643	4,009	4,443
Net Interest Margin	8.9%	5.3%	5.4%	5.5%
Loan/Deposit	85.7%	88.5%	89.1%	90.9%
ROE	10.1%	12.8%	13.5%	14.7%
NPL	4.0%	3.5%	3.2%	3.2%
P/E	19.6x	18.1x	17.0x	14.2x
P/BV	1.8x	2.2x	2.2x	2.0x
Dividend yield	2.3%	2.5%	2.7%	3.2%

Source: Bloomberg, NH Korindo Research

Surya Citra Media (SCMA)

• SCMA at A Glance

SCMA currently is the market leader of free to air TV industry in Indonesia. It has two prominent TV station, namely SCTV and Indosiar. The local soap opera is the key contributor to SCTV's audience share, while the talent show program is the key contributor to Indosiar's audience share.

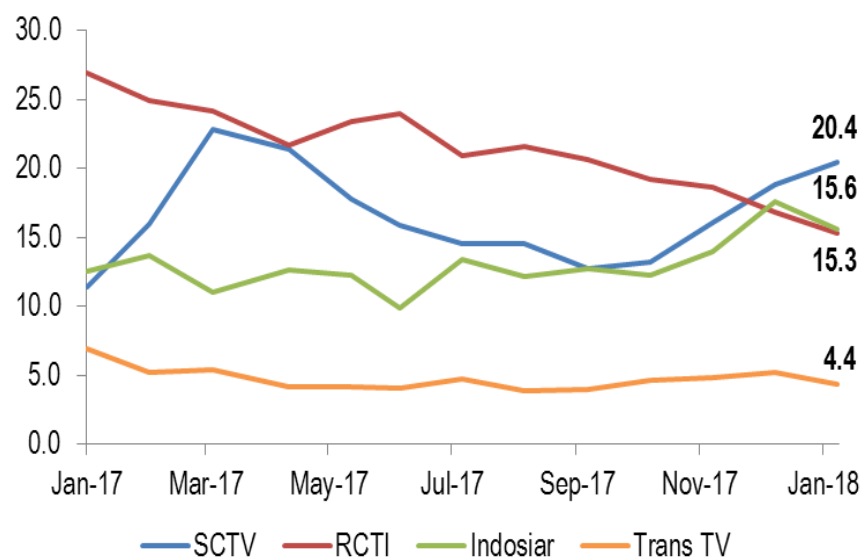
• Positive Outlook of 2018's Events

In 2018, it is forecasted that ads spending will be rosier along with **a number of events in 2Q18 and 3Q18**. The political parties likely constitute as one of ads-revenue boosters considering that **2018's Regional Elections (Pemilihan Kepala Daerah, "Pilkada")** across 17 provinces are potential for bolstering the ads revenue. Another to Pilkada, sport events such as **World Cup and Asian Games** to be held in 2Q18 and 3Q18 are the potent driver for increment in ads revenue. SCTV holds no license of airing World Cup, yet the broadcast of such sport event historically bolstered ads spending.

• Retaining Audience Share

Since November 2017, SCTV's audience share is in uptrend mood. For the prime time show, in January 2018, its audience share led 20.4%, edging up from 16.1% in November 2017 since the airing of new local soap opera show, namely "Siapa Takut Jatuh Cinta".

Prime Time Audience Share by Group (%)



Source: Company, NH Korindo Research

Financial Summary (IDR bn)

	FY2016	FY2017E	FY2018E	FY2019E
Revenue	4,524	4,632	4,887	5,204
Revenue growth	6.7%	2.4%	5.5%	6.5%
EBITDA	2,149	2,231	2,237	2,436
Net profit	1,479	1,511	1,617	1,748
EPS (IDR)	101	104	111	120
EPS growth	-1.6%	2.2%	7.0%	8.1%
BVPS (IDR)	253	291	326	369
NPM	32.7%	32.6%	33.1%	33.6%
ROE	41.5%	38.0%	35.9%	34.4%
ROA	31.5%	29.7%	28.4%	27.4%
P/E	30.6x	27.1x	25.4x	23.5x
P/BV	12.2x	9.6x	8.6x	7.6x
EV/EBITDA	21.0x	18.3x	18.2x	16.7x
Dividend yield	2.7%	2.6%	2.6%	2.8%

Source: Bloomberg, NH Korindo Research

Japfa Comfeed Indonesia (JPFA)

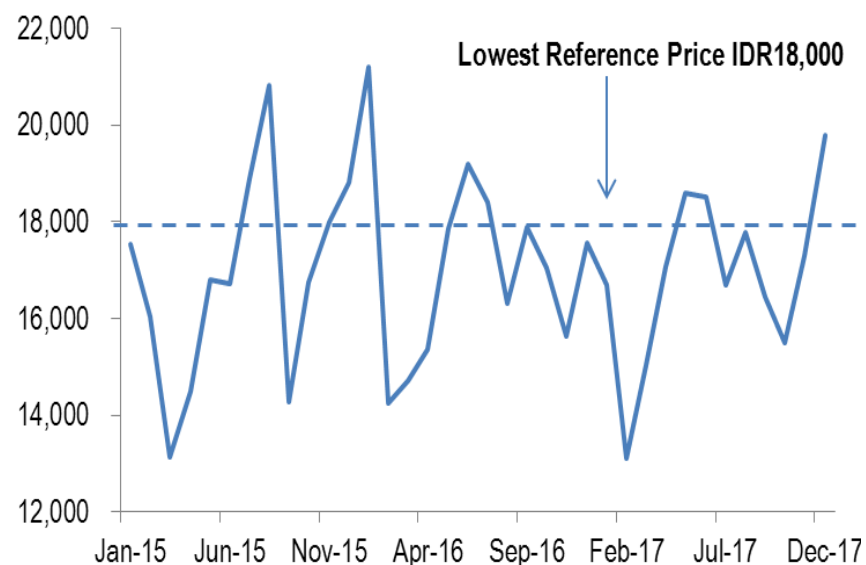
• JPFA at A Glance

PT Java Pelletizing Factory, Ltd (JAPFA) was established in 1971. After 10 years of its establishment, it penetrates into breeding operation with a view to integrating its business. In 1990, it acquired the assets of PT Comfeed Indonesia and it changed its name into PT Japfa Comfeed Indonesia Tbk. Currently, it has the second largest market share of animal feed and chicken breeding in Indonesia.

• Implementation of Lowest Reference Price

Under the regulation of the Minister of Trade Number 27/M-DAG/PER/5/2017 on purchasing reference price from breeders and selling reference price for consumers, the Indonesian government establishes broiler lowest reference price of IDR18,000/kg for breeders. If the market price for breeders is lower than the reference price, the government can assign the State Logistics Agency (Bulog) and State Owned Enterprises (BUMN) to conduct purchase pursuant to the established reference price. We oversee that from 2016-2017, the sales of broiler for breeders likely settles below IDR18,000/kg. The implementation of reference price will have a positive impact on either local or integrated breeders.

Broiler Market Price



Source: Company, NH Korindo Research

Financial Summary (IDR bn)

	FY2016	FY2017E	FY2018E	FY2019E
Sales	27,063	30,019	33,793	37,970
<i>Sales growth</i>	8.2%	10.9%	12.6%	12.4%
EBITDA	3,563	3,006	3,424	3,993
Net profit	2,065	1,307	1,619	1,907
EPS (IDR)	181	115	142	167
<i>EPS growth</i>	340.9%	-36.7%	23.8%	17.8%
BVPS (IDR)	821	879	990	1,118
NPM	7.6%	4.4%	4.8%	5.0%
ROE	26.7%	13.5%	15.2%	15.9%
ROA	11.3%	6.5%	7.4%	8.1%
P/E	8.0x	12.7x	10.3x	8.7x
P/BV	1.8x	1.7x	1.5x	1.3x
EV/EBITDA	6.0x	7.4x	6.7x	5.9x
Dividend yield	1.0%	3.4%	2.2%	2.7%

Source: Bloomberg, NH Korindo Research

Elnusa (ELSA)

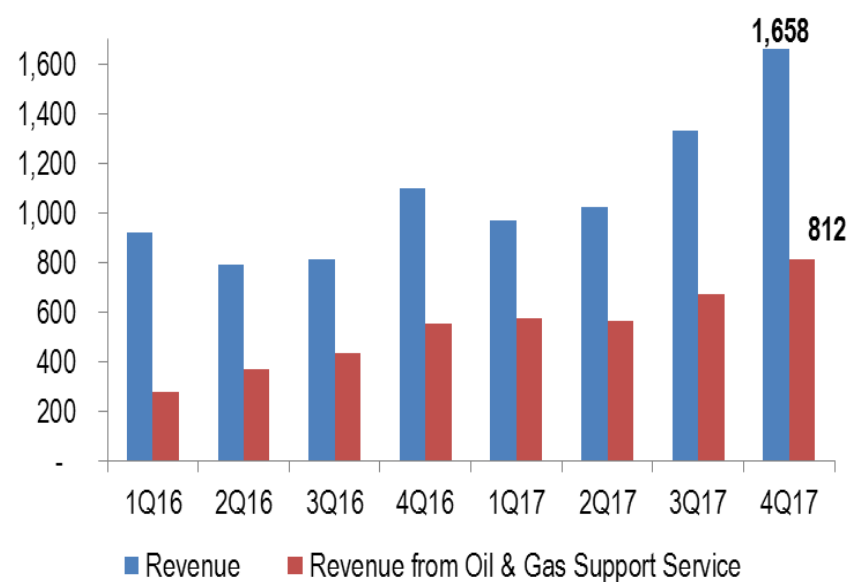
• ELSA at A Glance

ELSA is an integrated oil and gas service company and through its subsidiary provides services ranging from oil and gas drilling service, geophysics or seismic data measurement service, threading service, open cycle gas turbine (OCGT) pipe trading to marketing oil and gas products in Indonesia. ELSA categorizes its business lines into three segmentations, namely integrated upstream oil & gas services, upstream oil & gas support services, and downstream oil & gas services.

• Growth Stemming from Pertamina

The picking up in oil prices has re-spurred the activity of oil and gas exploration in Indonesia. We project that Pertamina (state-owned oil and gas enterprise) upstream activity will be more active along with the large number of oil and gas blocks in Indonesia of which contracts will have terminated in 2018.

Quarterly Revenue (IDR bn)



Source: Bloomberg, NH Korindo Research

Financial Summary (IDR bn)

	FY2016	FY2017	FY2018E	FY2019E
Revenue	3,621	4,979	5,737	5,946
<i>Revenue growth</i>	-4.1%	37.5%	15.2%	3.7%
EBITDA	723	711	737	827
Net profit	311	247	444	472
EPS (IDR)	43	34	61	65
<i>EPS growth</i>	-17.2%	-20.5%	79.5%	6.5%
BVPS (IDR)	394	418	475	529
NPM	8.6%	5.0%	7.7%	7.9%
ROE	11.3%	8.3%	13.6%	12.9%
ROA	7.2%	5.5%	8.8%	8.8%
P/E	9.9x	14.9x	8.3x	7.8x
P/BV	1.1x	1.2x	1.1x	1.0x
EV/EBITDA	4.0x	4.9x	4.5x	3.9x
Dividend yield	1.0%	1.3%	2.3%	2.5%

Source: Bloomberg, NH Korindo Research

Thank You



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