

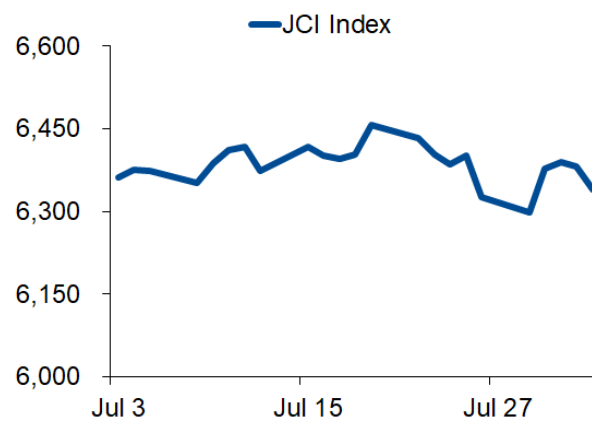
# Weekly Brief (5 Agustus – 9 Agustus)

## Summary:

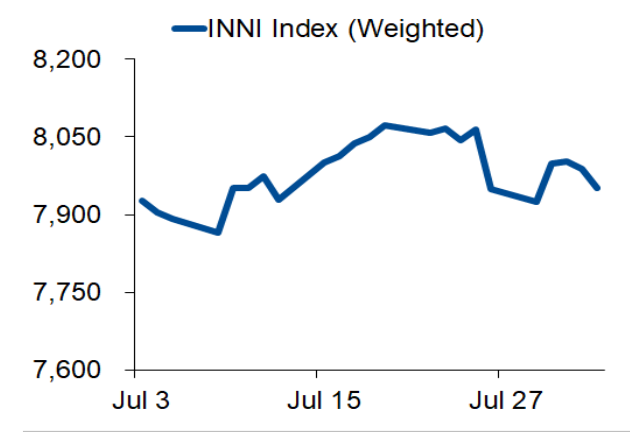
**Last week review:** Last week, JCI was hardly hit by a foreign-outflows blow. Markets held off on making big moves ahead of central banks' monetary decisions. On Tuesday (07/30), Bank of Japan (BoJ) finally decided to leave its rates unchanged and potentially take aggressive stance if broader economic volatilities jeopardize Japan's economy. BoJ's monetary stance was in contrast to the Fed's looser rates, revised lower by 25 bps--not a start of looser rates trend appropriate for the remaining 2019.

**This week's outlook:** Amid the euphoria of looser lender requirement and BI 7-DRRR cut, the banking industry is surprised by the default potential by textile conglomerates. Textile conglomerates have high exposure to credits facilitated by a number of national banks; that makes the Financial Services Authority (OJK) put cautious attention to NPL of the banking industry. Of note, the banking gross NPL hikes to 2.61% in May higher than April's 2.57%. BBKA as one of lenders not to be exposed to default potential by textile conglomerates has selective credit requirements and establish monitoring system. We recommend BBKA potential for reaching the price target of IDR32,150 with the PBV target of 4.6% because of its edging up asset quality with NPL keeping in check at 1.4%. Its LDR of 79.0% or much lower than the banking industry accelerates its credit expansion.

JCI - one month



INNI Index – one month



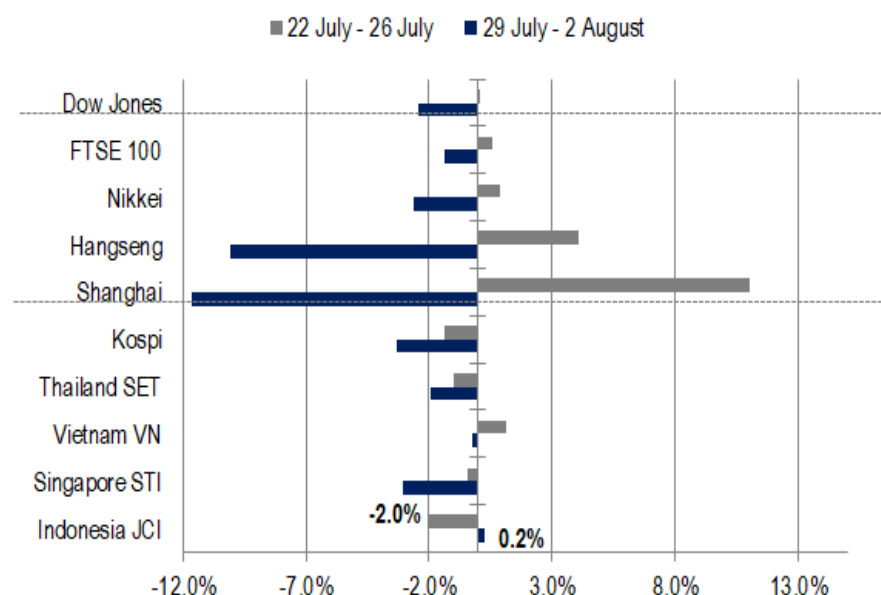
## Last Week's JCI Movement

•JCI Index	: 6.340,18 (0,2%)
Foreign Flow	: Net sell of IDR930 billion (vs. net sell last week of IDR2,4 trillion)
USD/IDR	: 14.185 (+1,26%)
Yields of sovereign bond with 10-years tenor	: 7,569% (+35,40 bps)

### JCI Moved

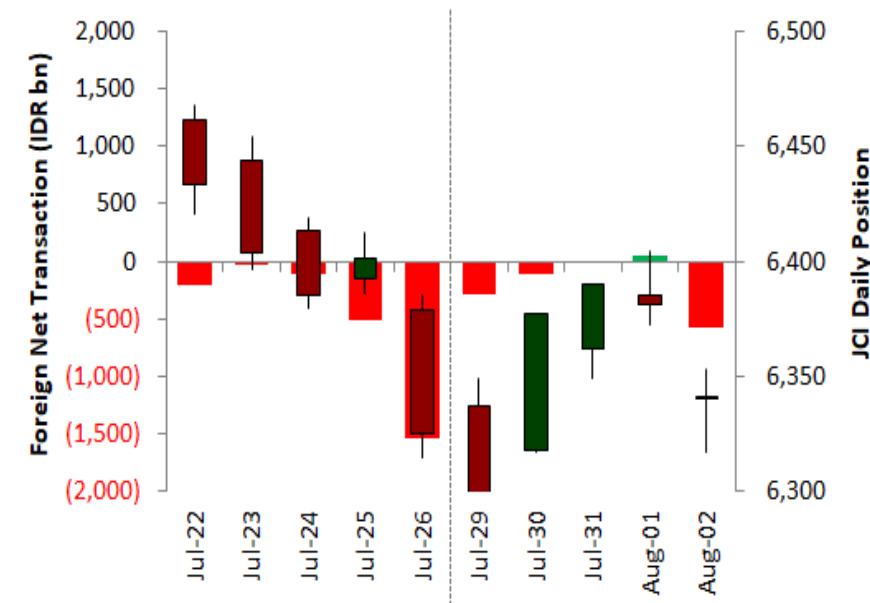
JCI recorded 29 July's tepid close, impeded by IDR280 billion worth of capital outflows. It was 9-day losing streak as markets held off on making big moves ahead of central bank's monetary decisions. BoJ left its rates unchanged at -0.1% but committed to looser monetary policies if the slowdown in broader economy jeopardizes Japan's recovering economy. The Fed, taking a contrast stance to BoJ, cut its rates by 25 bps to 2%-2.25% bolstering muted inflation to fall shortly at the Fed's target range of 2% and economic acceleration, as well. It also emphasized that 31 July's rate cut--the first looser monetary rate since its near zero rate cut in the gloomy days of financial crisis--should not be translated into other large cut appropriate for the remaining 2019. JCI's two-day rebound streak on mid-days of last week was a payback for two-day losing streak on early days of last week. A glance at domestic data, the Coordinating Investment Board (BKPM) disclosed the 2Q19 foreign investment to settle at 9.61%: a start of recovering investment trend in Indonesia. The 2Q19 foreign investment figure was a positive catalyst for JCI's rebound. On Friday, the domestic sentiment was July's core inflation of 3.18% YoY lower than June's 3.25%, while the external sentiment is Trump's administration imposing another tariffs measures exaggerate the trade war tensions, weakening Asia markets. JCI on a weekly basis closed higher at 6,340.

### Global Market Movement



Source: Bloomberg, NH Korindo Research

### Foreign Net Flow – Last 10 Days



Source: Bloomberg, NH Korindo Research

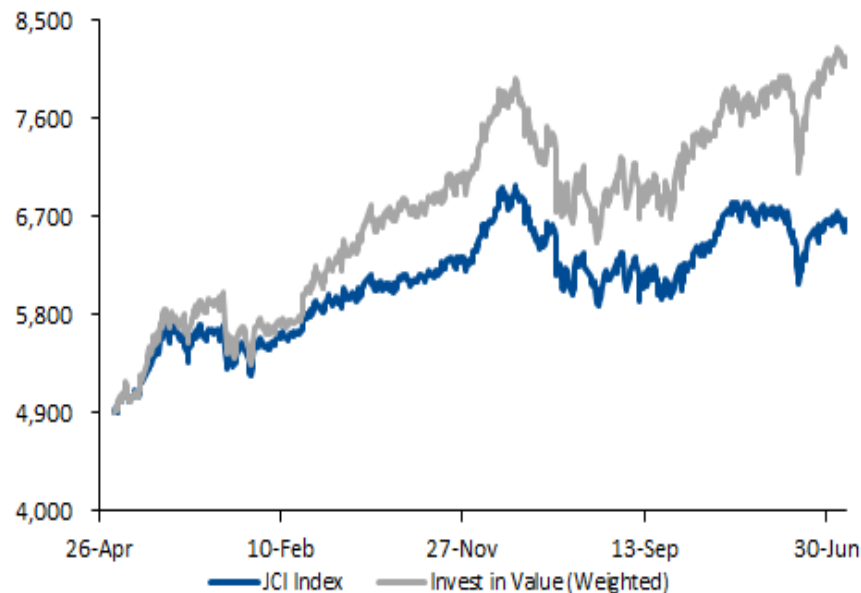
# Last Week's INNI Movement

•INNI Index	: 7.950,52 (0,0%)
INNI Theme 1 (Value)	: 8.084,43 (-0,2%)
INNI Theme 2 (Trend)	: 7.722,51 (0,3%)

## INNI Index Flat

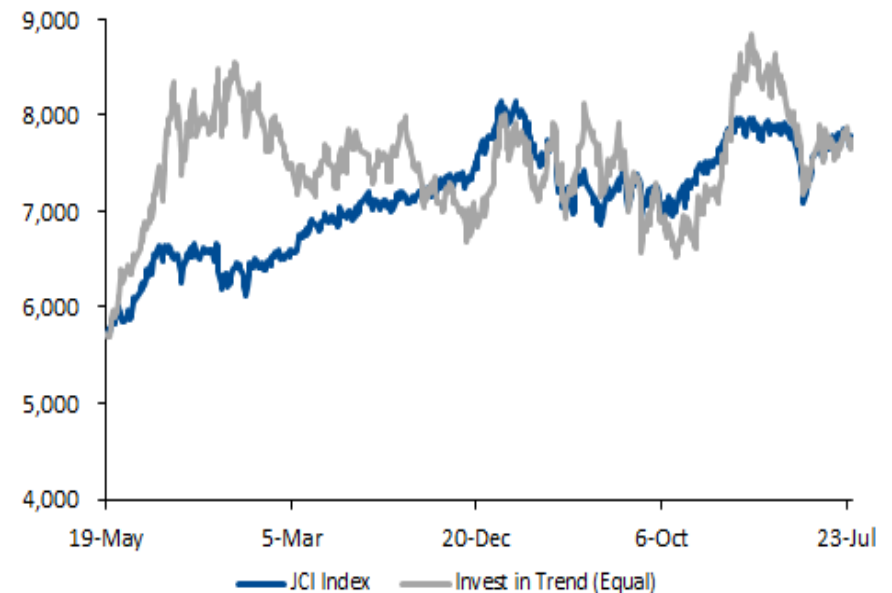
INNI index posted 29 July's 0.33% drop, subdued by a 3.6% slump in UNTR whose the IH19 financial statements disclosed slack sales of 20.13% to 1,917 units of mining heavy machinery. UNTR's performance responded to the dimmed mining commodities outlook. INNI was rebounding at 0.07% underpinned by retailers, e.g. MAPI (+2.7%) and RALS (+2.3%). MAPI's success of posting a 10% y-y increase to IDR10 trillion in IH19 revenues compared with the IH18 achievement of IDR9 trillion was a boost for its stocks movement. Meanwhile, RALS's IH19 profits grew by 21.34% y-y to IDR589.83 billion from IDR486.09 billion. On Friday INNI index declined slightly as declines in 5 sectors, namely mining, basic industry, property, retailers, and financial were cushioned by increases in infrastructure and consumers sectors. JSRM with its additional toll roads and TLKM with 5G services contribute positive outlook for infrastructure stocks. INNI index on a weekly basis was flat at 7,950.

### Theme 1. Invest in Value (19 Stocks) – Market Cap Base



Source: Bloomberg, NH Korindo Research

### Theme 2. Invest in Trend (11 Stocks) – Policy Base



Source: Bloomberg, NH Korindo Research

# Last Week's INNI Movement

## Last Week's Sector Review

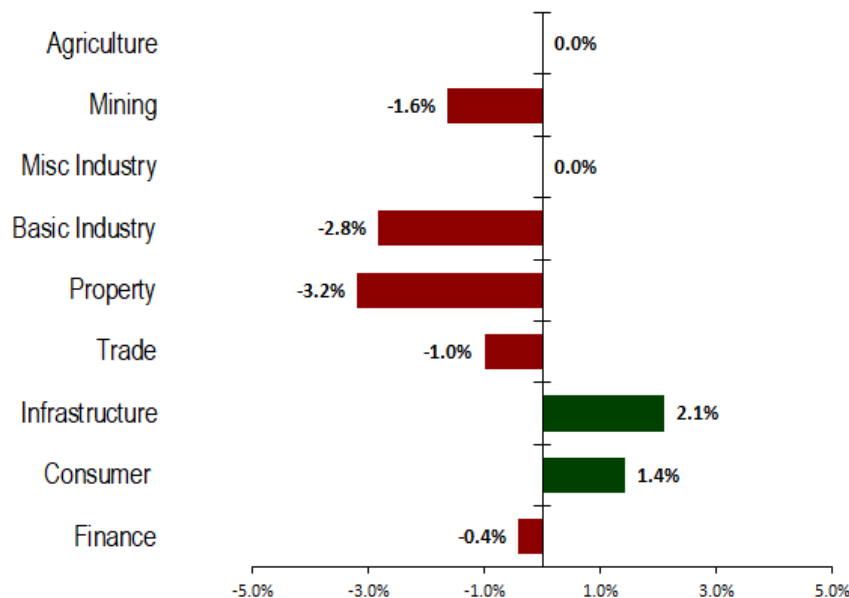
### • INNI Index's Top Gainers

Last week, the infrastructure sector was INNI index's top gainer as the sector posted a 2.1% increase. TLKM as one of infrastructure stocks advanced, backed by its plan of providing 5G services with B2B concept. The second top gainer was the consumer sector. INDF posting a 30% gain in IH19 earnings was followed by a 12.4% earnings gain posted by ICBP in IH19.

### • INNI Index's Top Losers

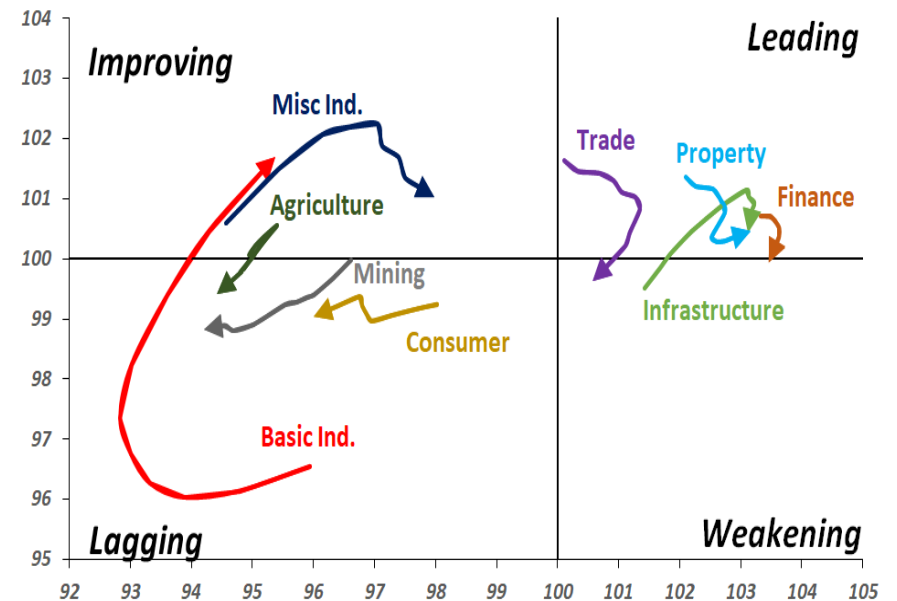
Last week, the property sector was INNI index top loser as it posted a 3.2% drop. PTPP and WSKT declined. WSKT's financial statement disappointed as its earnings slump 66.63% YoY to IDR997.82 Bn in IH19: a negative sentiment for JCI. The basic industry also declined 2.8%, as did SMGR and INTF posting flat financial performance and hit hardest by Chinese cement sold at low prices.

## Last Week INNI Sector Movement



Source: Bloomberg, NH Korindo Research

## Sector Rotation – Last 10 Days



Source: Bloomberg, NH Korindo Research

# This Week's Outlook: Banking Industry's NPL (1)

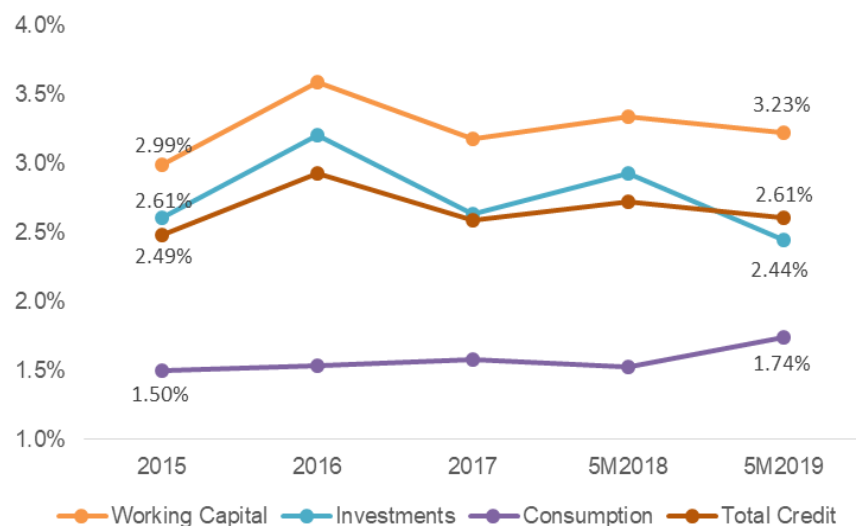
- OJK to IHH19 Keep Banking NPL in Check**

Hit hardest by the 1997-1998 financial crisis, Indonesian banking industry now has revived and regained its footing—stable NPL, higher CAR, and higher profitability— after hard-self reforms worth of more than 50% GDP and IBRA bailout in financial sector. But, the Financial Services Authorities (OJK) fears of the protracted trade battles rattling broader economic activities, including Indonesia has it to keep the banking industry's NPL in check. It also notices large cap. textile conglomerates with much credit exposure to a number of national lenders are potential for default.

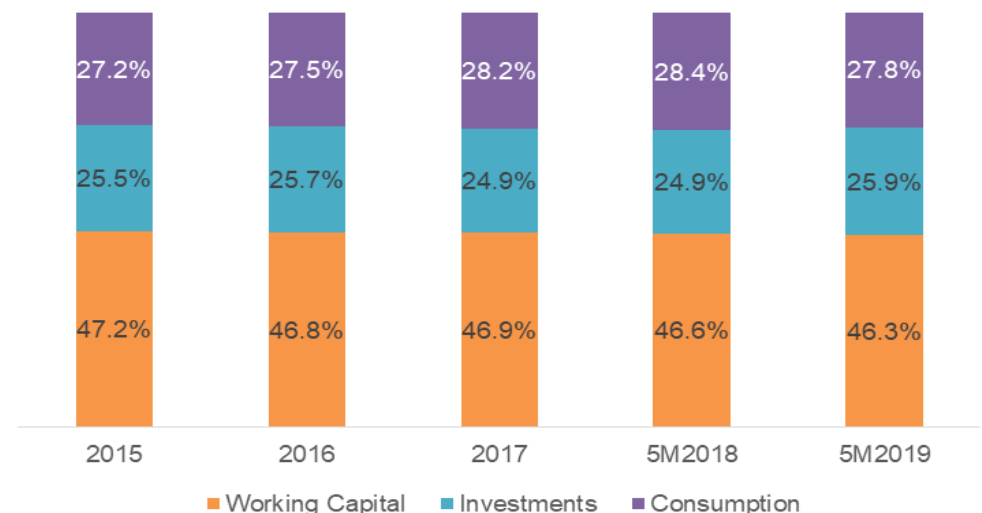
- Blows for Domestic Textile Producers**

The Indonesian textile is left bruised by the tit-for-tat trade battles and no protection for local textile producers, susceptible to protracted tensions. After the US additional tariff measures against Chinese goods, Chinese textile producers export their textiles to other other countries. Brazil and Turkey are countries protecting their domestic textile producers from a flood of exported textiles penetrating their markets--footsteps Indonesia has yet to take. No preventive measures against a flood of foreign textiles is exacerbated by export barriers to other countries. This negative news prevail when the banking industry post higher NPL within the first 5 months of 2019.

**NPL of Commercial Banks**



**Credit Portion of Commercial Banks**



## This Week's Out Look: Banking Industry's NPL (2)

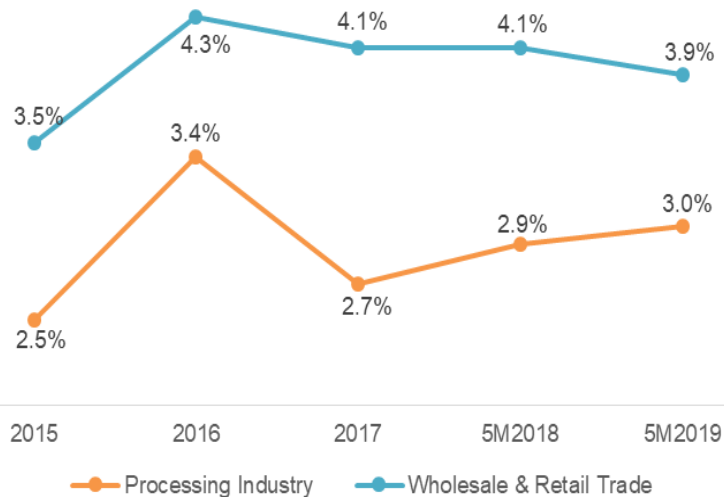
- **Credits to Retailers and Processing Industry to Spike NPL**

Based on the data disclosed by OJK, the credits facilitated by the lenders grew 11.1% YoY underpinned by the investment credit growth of 15.7% hiking to 3-last-year high. The higher credits are followed by the higher banking NPL---May's gross NPL to edge up to 2.61% from April's 2.57%, and May's net NPL to notch to 1.18% from April's 1.15%. The increasing NPL was attributable to higher NPL in the retail industry and processing service industry with the high exposure to banking credits. Commercial banks distributed IDR987.29 trillion worth of credits to retailers that was a 7.3% YoY growth. Meanwhile, the credit distributed to the processing industry grew by 8.8% YoY to IDR885.41 trillion.

- **Selective Monitoring**

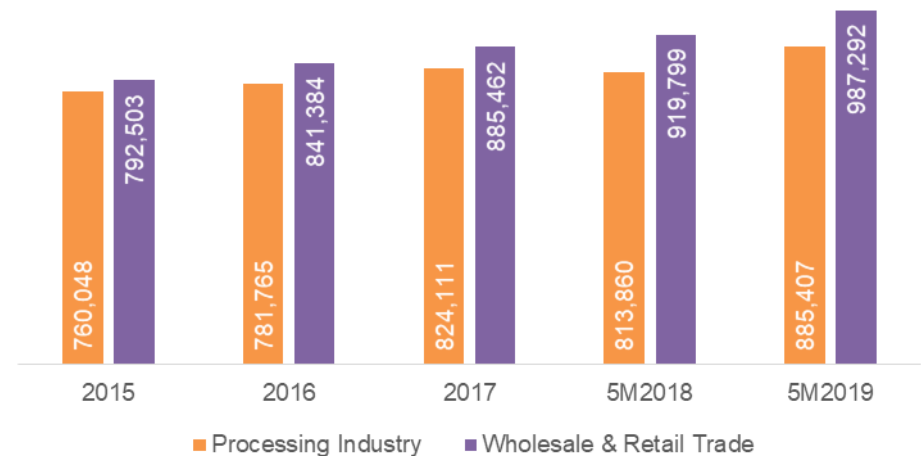
PT Bank Central Asia Tbk (BCA) is one of lenders not exposed to risks of default by textile conglomerates as it remains selective in distributing credits during I19 but ensuring not to exclude any of sectors. It allocates loan loss coverage to 183.7% to cushion the risks of NPL---its current NPL is stable at 1.4% below the banking industry's NPL of 2.61%. Its selective credit requirements and established monitoring systems. Besides, its credits are also equally distributed instead of being concentrated in only one sector.

**NPL Credit Channeling of Commercial Banks**



Source: OJK, NHKS Research

**Credit Channeling of Commercial Banks (Bn, IDR)**



Source: OJK, NHKS Research

# Bank Central Asia (BBCA – Banking)

<b>Dec 2019 Target Price</b>	<b>32,150</b>
Consensus Price	30,304
Last Price (IDR) as of Aug 2, 2019	30,825
TP vs. Last Price	4.3%

<b>Liquidity</b>	
LDR	79.0%
CASA	75.7%

IDR bn	FY2017	FY2018	FY2019E	FY2020E
Net Rev.	56,786	63,226	70,381	78,257
Op. Income	29,403	32,616	36,286	41,222
Net Income	23,310	25,855	29,102	33,018
Op. Margin	51.78	51.59	51.56	52.68
Prft. Margin	41.05	40.89	41.34	42.19
DPS	255	340	338	393
PBV	4.1x	4.0x	4.6x	4.6x

- **NHKS** recommended BBCA as this-week preferred stock likely to hit the price target of IDR32,150 with the PBV target of 4.6x. BBCA's strategy for deposit rate adjustment prior to BI 7-DRRR cut signifies BBCA's optimism about the domestic economic growth. The banking industry with low cost of funds (CoFs) drives consumers' appetite for retail products: an inevitable boost for domestic economy.

- **Asset Qualities to Edged Up**

BBCA's credits grew 11.5% YoY in IH19 grew slightly higher than the credit growth of 11.1% YoY achieved by the banking industry in IH18. It amid the outstanding credit performance was still capable of maintaining asset qualities by posting NPL ratio above 1.4%, loan loss coverage ratio of 183.7% or 500bps higher than its 2018 ratio. Higher NPL ratio and loan loss coverage can be translated into robust performance amid the tight BI 7-DRRR. The working capital loans (+11% YoY) and investment loans (+22% YoY) were the largest contributors to credits so that net interest incomes grew to 13.1% YoY.

- **CASA Ratio To Top The Banking Industry**

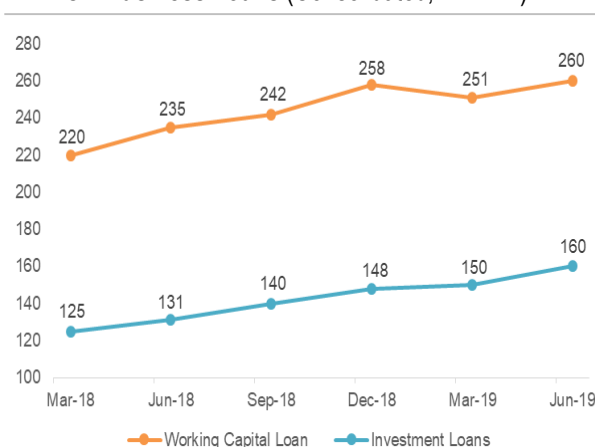
Its CASA ratio of 76% or the highest ratio in the banking industry maintains asset quality in check. CASA highest than the remaining banking peers and LDR of 79.0% below the banking industry of 96.2% enable BBCA to have adequate rooms for credit expansion.

## 5-Years P/B Trailing Band



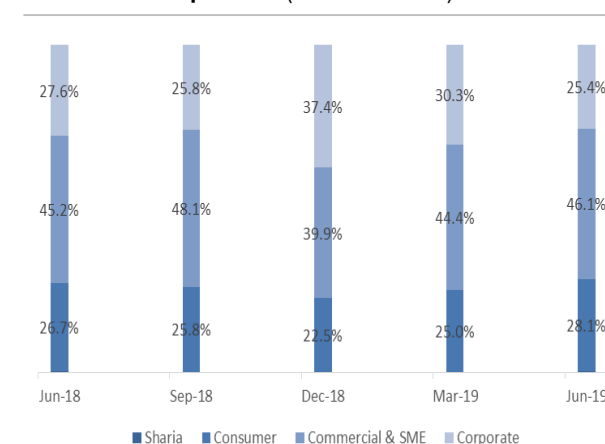
Source : Bloomberg, NHKS Research

## BBCA Business Loans (Consolidated, IDR Trn)



Source : Corporate Presentation, NHKS Research

## BBCA NPL Composition (% of Total NPL)



Source: Corporate Presentation, NHKS Research

## INNI's Stocks List

	Theme 1/2	Last Price	Last Week Price	2019 Target Price	Rating	Upside Potential (%)	1 Week Change (%)	Market Cap (IDR tn)	Price / EPS (TTM)	Price / BVPS	Return on Equity (%)	Dividend Yield TTM (%)	Sales Growth Yoy (%)	EPS Growth Yoy (%)
<b>Finance</b>														
BBCA	Theme 1	30,825	30,975	32,000	Hold	3.8	-0.5%	760.0	27.8x	4.8x	18.4	1.1	16.8	12.7
BBRI	Theme 1	4,450	4,440	4,950	Hold	11.2	0.2%	548.9	16.4x	2.8x	18.8	3.0	11.2	10.3
BMRI	Theme 1	7,675	7,750	8,275	Hold	7.8	-1.0%	358.2	13.6x	1.9x	15.0	3.1	9.1	11.1
<b>Consumer</b>														
GGRM	Theme 1	74,800	74,950	110,000	Buy	47.1	-0.2%	143.9	16.9x	3.2x	20.0	3.5	16.4	20.5
UNVR	Theme 1	45,000	44,800	59,000	Buy	31.1	0.4%	343.4	37.0x	67.7x	183.9	2.6	1.3	5.2
ICBP	Theme 1	10,850	10,575	11,600	Hold	6.9	2.6%	126.5	26.0x	5.6x	22.9	1.8	13.7	12.8
INDF	Theme 1	7,075	6,675	8,700	Buy	23.0	6.0%	62.1	13.1x	1.8x	14.4	3.3	7.2	30.0
KAEF	Theme 2	3,200	3,220	4,100	Buy	28.1	-0.6%	17.8	44.5x	7.9x	16.6	0.5	21.8	(44.6)
KLBF	Theme 2	1,455	1,450	1,870	Buy	28.5	0.3%	68.2	27.3x	4.7x	17.9	1.8	7.7	3.5
<b>Infrastructure</b>														
TLKM	Theme 1	4,280	4,160	4,700	Hold	9.8	2.9%	424.0	20.8x	4.5x	22.8	3.8	7.7	27.4
JSMR	Theme 1	5,825	5,750	6,000	Hold	3.0	1.3%	42.3	19.1x	2.4x	13.3	0.8	(25.9)	1.4
<b>Trade</b>														
UNTR	Theme 1	24,575	26,525	39,550	Buy	60.9	-7.4%	91.7	8.2x	1.7x	21.6	4.9	11.2	1.8
SILO	Theme 2	6,475	6,275	4,350	Sell	(32.8)	3.2%	10.5	228.2x	1.7x	0.3	N/A	18.5	N/A
MIKA	Theme 2	2,170	2,110	2,300	Hold	6.0	2.8%	31.6	47.7x	7.4x	15.7	0.8	16.0	13.6
LPPF	Theme 2	3,450	3,700	5,500	Buy	59.4	-6.8%	9.7	10.7x	5.3x	45.2	9.7	0.6	(11.5)
RALS	Theme 2	1,330	1,365	2,070	Buy	55.6	-2.6%	9.4	13.0x	2.2x	17.7	3.8	(0.2)	21.1
MAPI	Theme 2	990	945	1,300	Buy	31.3	4.8%	16.4	22.2x	2.8x	14.5	1.0	10.2	25.0
<b>Property</b>														
PWON	Theme 1	700	670	725	Hold	3.6	4.5%	33.7	12.1x	2.5x	22.4	1.0	3.8	20.9
CTRA	Theme 1	1,275	1,280	1,550	Buy	21.6	-0.4%	23.7	18.2x	1.6x	9.4	0.8	12.1	74.3
PTPP	Theme 1	1,925	2,080	2,450	Buy	27.3	-7.5%	11.9	8.6x	0.9x	12.4	2.5	12.8	(23.4)
WSKT	Theme 1	1,870	2,070	2,500	Buy	33.7	-9.7%	25.4	12.9x	1.4x	11.3	3.9	(35.4)	(66.8)
WIKA	Theme 1	2,270	2,340	2,100	Hold	(7.5)	-3.0%	20.4	9.7x	1.3x	14.9	1.7	N/A	72.2
<b>Basic Ind.</b>														
KRAS	Theme 2	344	354	600	Buy	74.4	-2.8%	6.7	N/A	0.3x	(7.3)	N/A	(17.8)	(775.0)
SMGR	Theme 2	12,950	12,400	14,600	Hold	12.7	4.4%	76.8	29.6x	2.5x	8.7	1.6	N/A	(50.0)
INTP	Theme 2	21,850	22,150	22,300	Hold	2.1	-1.4%	80.4	56.2x	3.7x	6.5	2.5	7.7	80.2
<b>Misc Ind.</b>														
ASII	Theme 2	7,075	7,075	8,600	Buy	21.6	0.0%	286.4	13.6x	2.0x	16.2	3.0	3.2	(5.8)
<b>Mining</b>														
ADRO	Theme 1	1,175	1,230	1,750	Buy	48.9	-4.5%	37.6	5.7x	0.7x	12.6	7.7	10.8	59.2
PTBA	Theme 1	2,690	2,750	5,100	Buy	89.6	-2.2%	31.0	6.0x	1.6x	29.2	12.6	(7.2)	(21.7)
INCO	Theme 2	2,890	2,920	3,370	Buy	16.6	-1.0%	28.7	59.7x	1.1x	1.8	N/A	(25.8)	N/A
ANTM	Theme 2	900	890	1,200	Buy	33.3	1.1%	21.6	27.0x	1.1x	4.1	1.4	8.5	(30.1)

Source : Bloomberg, NHKS Research

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