

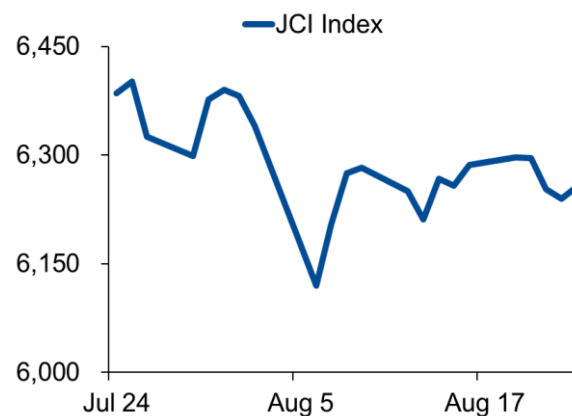
Weekly Brief (26 August – 30 August)

Summary:

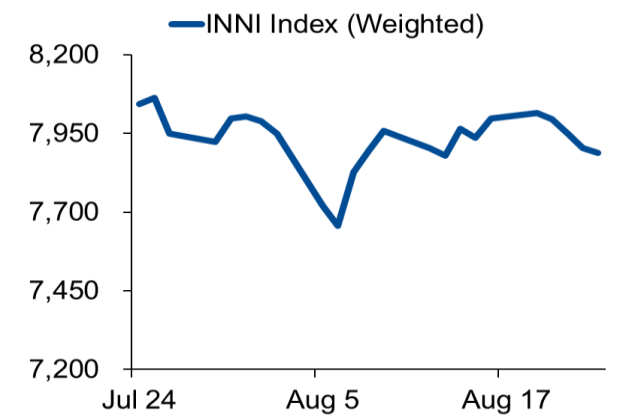
Last week review: Escalating anxieties about recession urge some economies, i.e. German and China to temper markets' fears by signaling that more economic stimulus was about to come. A glance at central banks' monetary policies, the minutes of FOMC meeting released on Wednesday (08/21) was followed by BI's footstep of looser BI 7-DRRR.

This week's outlook: A slowdown in small and mid-types houses has a number of developers find strategies to secure revenues, one of the strategies is to increase recurring income. Property developers opt to use internal funds to finance their property projects because internal funds have lower risks and give no incurring liabilities. PT Pakuwon Jati Tbk (PWON) as the pioneer of mixed-use development is potential for attaining higher recurring income; accordingly, NHKS maintains recommendation on PWON estimated to hit the price target of IDR725 at a 62.6% discount to NAV.

JCI - one month



INNI Index – one month



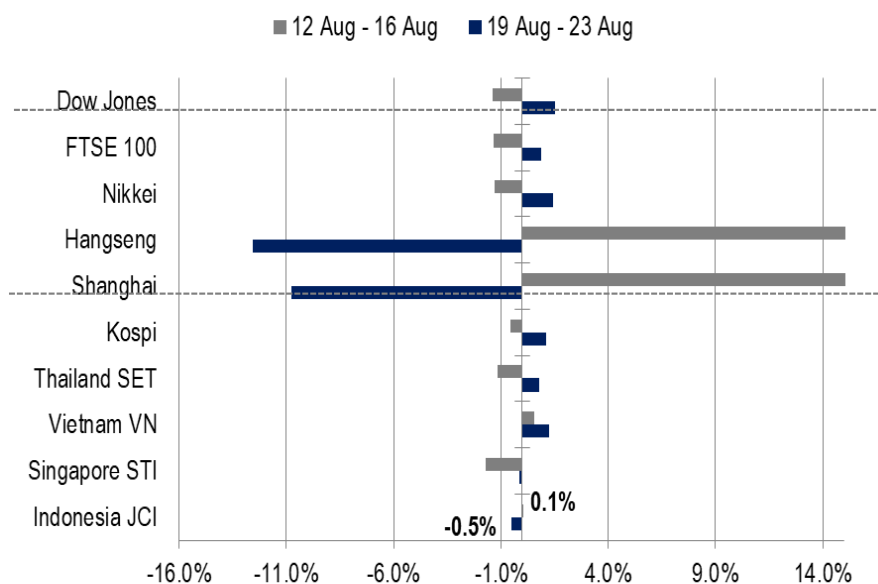
Last Week's JCI Movement

- JCI Index : 6,255.60 (-0.5%)
- Foreign Flow : *Net sell* of IDR1.5 trillion (vs. *net sell* last week of IDR2.6 trillion)
- USD/IDR : 14,215 (-0.20%)
- Yields of sovereign bond with 10-years tenor : 7.243% (-17.90 bps)

JCI Slowed

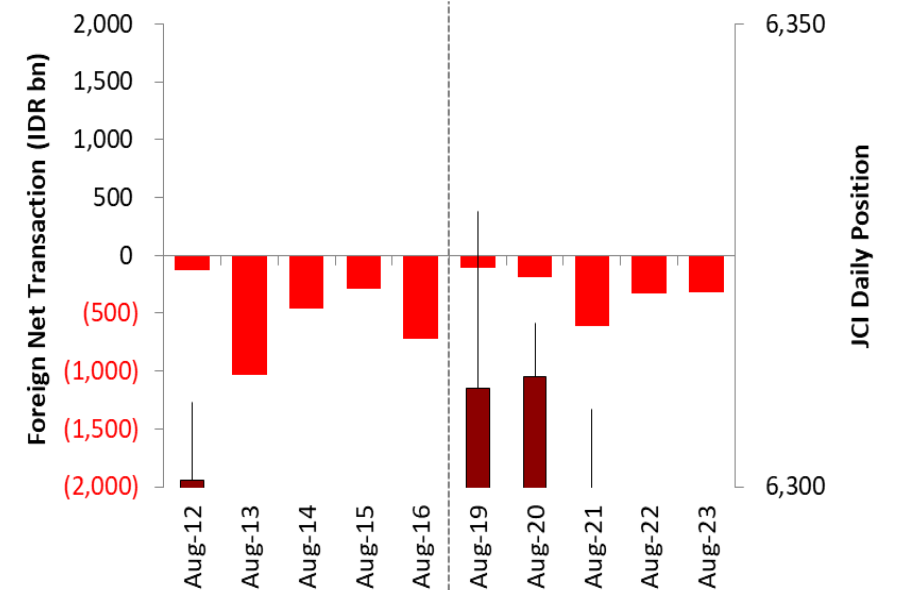
The German and Chinese authorities are poised to roll out stimulus package, tackling impacts of a slowdown in the broader economy on both economies. These two external sentiments gave boosts for JCI's movements on the early days of last week. The German authorities are committed to ditching balanced budget regulations and performing a bond-buying program should the murky economy turn into a recession. Meanwhile, the People's Bank of China lowers its borrowing costs in an attempt to increase companies' appetite for taking loans. The minutes of FOMC meeting announced on Wednesday (08/21) confirmed that July's looser monetary was a "recalibration" rather than a beginning of another aggressive looser cycle, appropriate for most of 2019. Bank Indonesia (BI) responded to the Fed's move by cutting BI 7-DRRR at 25 bps to 5.50% decided at BI's Board of Governors meeting held from August 21 to 22, 2019. JCI was rebounding on 23 August's trading session along with the US dollar's exchange rate to slightly strengthen at 0.14%. Nevertheless, JCI made a week drop of 0.5% to close at 6,255.

Global Market Movement



Source: Bloomberg, NHKS Research

Foreign Net Flow – Last 10 Days



Source: Bloomberg, NHKS Research

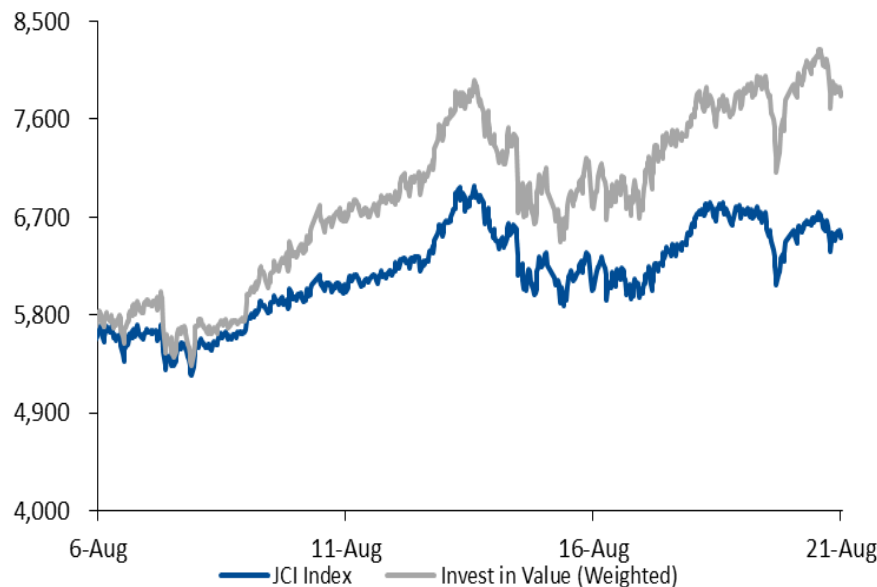
Last Week's INNI Movement

•INNI Index	: 7,889.29 (-1.4%)
INNI Theme 1 (Value)	: 7,843.63 (-0.1%)
INNI Theme 2 (Trend)	: 7,967.03 (-3.4%)

INNI Index Dropped

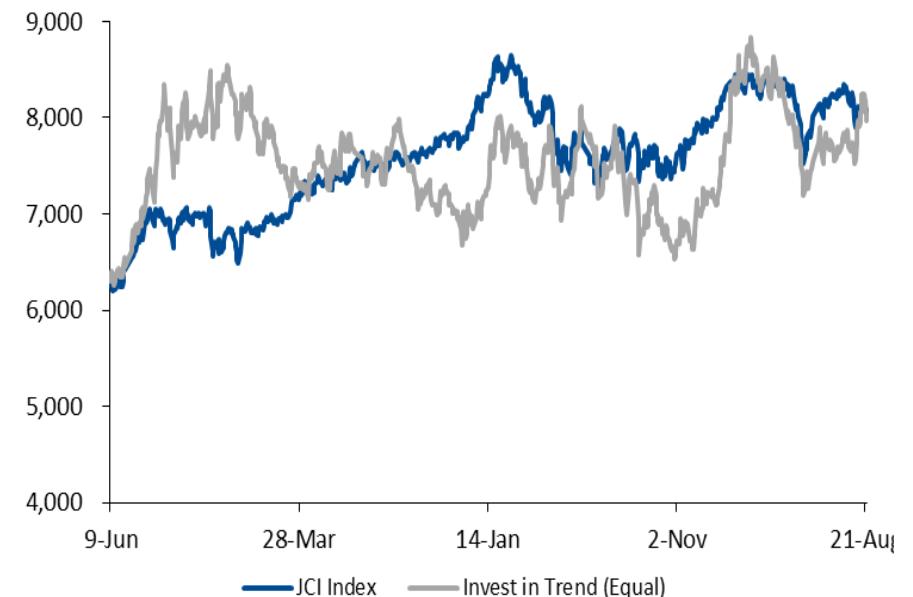
SMGR posting 19 August's 2.7% increase was one of INNI's top gainer as it secured market shares to 53.1% after taking over PT Solusi Bangun Indonesia Tbk (SMCB). After Monday's 0.20% gain, INNI closed 20 August's trading session at tepid close as miners, i.e. ANTM and INCO dropped. Jokowi administration bans nickel exports in order to create added-values for the nickel downstream industry. Adding to the ban is markets negatively responding to the ban on ore nickel exports taking into effect earlier in 2019 rather than 2020. On Friday (08/23), INNI index pared down because property stocks, i.e. CTRA and PWON posting declines. But ADRO was INNI's top gainer on Friday's trading session as it succeeded in posting a jump of 52% to IDR4.2 trillion in earnings amid the declining prices of coal.

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



Source: Bloomberg, NHKS Research

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



Source: Bloomberg, NHKS Research

Last Week Sectoral Review

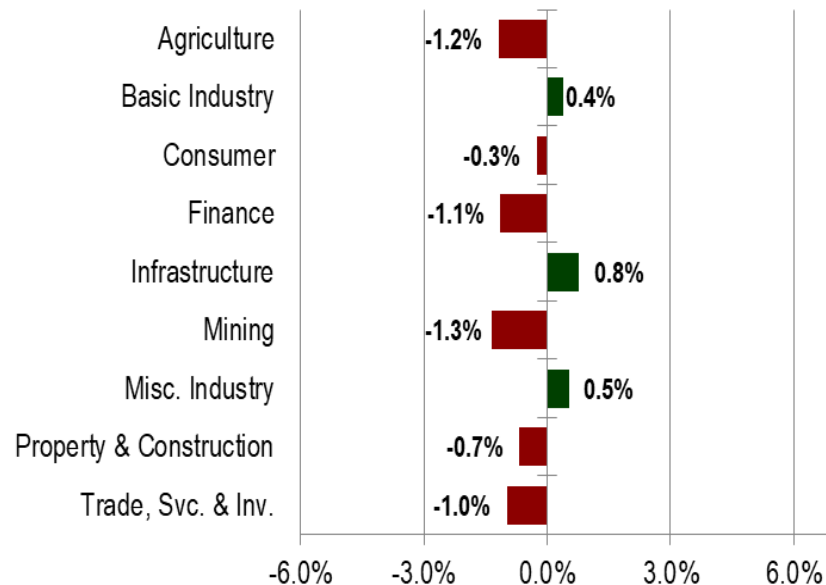
- JCI's Top Gainers**

Although most sectors on JCI were bearish, the infrastructure sector posted a 0.8% gain. The 2020 stated budget draft set forth increases in the budget allocated for the infrastructure sector from IDR399.7 trillion in 2019 to IDR419.2 trillion in 2020. The 2020 budget will be spent on the construction of 837-km roads, 6.9-km new bridges, and 49 new dams. The larger amount of infrastructure budget is a positive catalyst for the infrastructure sector. Besides, TLKM's plan for taking over e-commerce companies attracts foreign inflows.

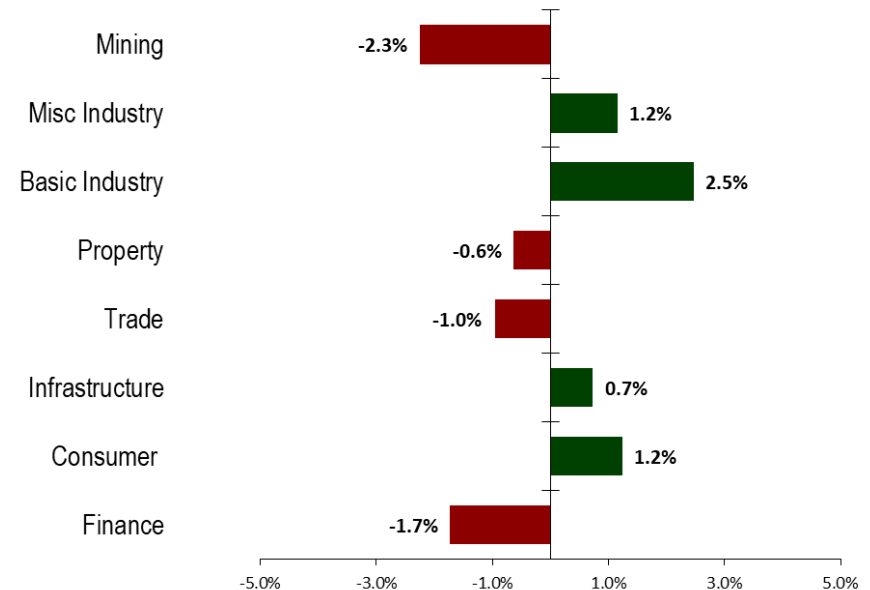
- INNI Index's Top Gainers**

The basic industry sector posting a 2.5% gain was INNI's top gainer. INTP succeeded to post sales of 1.7 million tons of cement in July, the highest sales of 2019, thanks to the post Idulfitri, conducive weather, and optimism on promising basic industry outlook. Another to INTP's robust sales performance, SMGR succeeded in posting a 1.2% q-q increase to IDR5.7 trillion and a 2.4% q-q decrease to IDR5.7 trillion after taking over SMCB. SMGR's success reflects its strategy of efficiency capable of optimizing margins.

JCI's Last Week Sectoral Movements



INNI's Last Week Sectoral Movements



This Week's Outlook: Property Sector

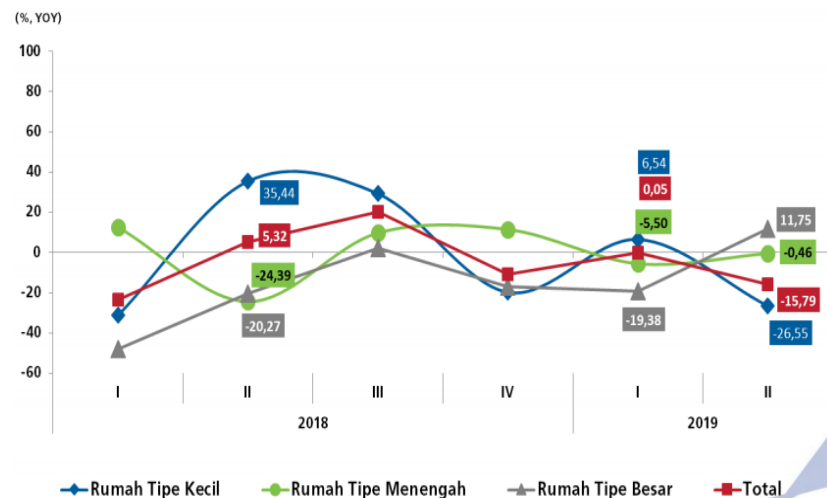
• Sales of Small and Mid Types of Houses Contract

The domestic property—housing in particular— is still slow-moving; the Residential Property Price Index (RPPI) falling from 2.04% YoY in 1Q19 to 1.47% YoY in 2Q19 showed the sluggish domestic property. All types of houses posted the downbeat RPPI with the small-type houses posting the slowest growth of 100 bps (3.18% YoY to 2.18% YoY). The big-type and mid-type houses have decreased at 24 bps (1.16% to 0.92%) and 50 bps (1.82% YoY to 1.32%). The rocketing property prices, the low purchasing power of middle-to-low income class, and high mortgage rates are setback in higher sales of the small-type houses. Of note, 74.3% middle-to-low class individual apply for mortgage loan to purchase small-types houses. Based on sales, small and mid-types houses have decreased at 26.55% YoY and 0.46% YoY. But, big-type houses has grown to 11.75% YoY. Sales of small-type houses contracted at the deepest indicate low-income individuals powerlessness against rocketing prices of property.

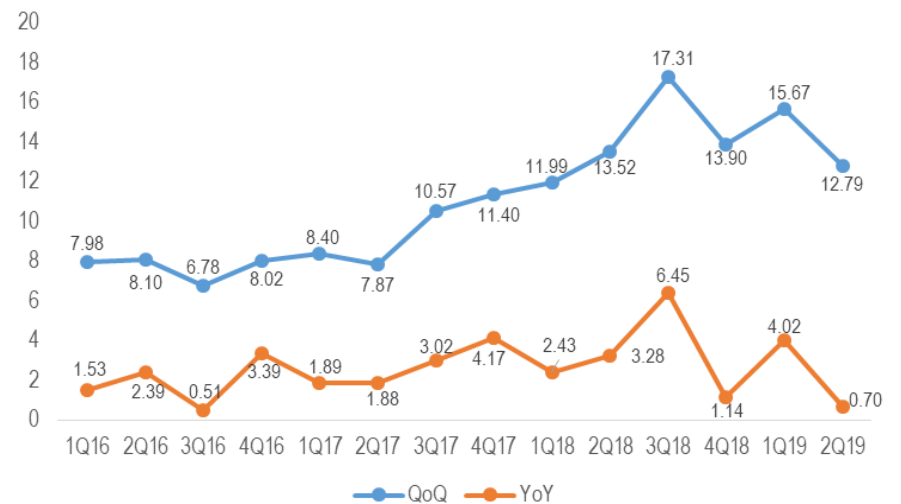
• Popularity of Mortgage Loan

Most of property purchasers (74.32%) apply for mortgage loan to buy their homes, while the remaining purchasers (19.05%) and (6.64%) opt for installment payments and in cash. The average mortgage rates of 2Q19 were at 9.43% a 10 bps lower than rates in 1Q19, but in a number of regions, i.e. South Kalimantan mortgage rate still stands at 11.86%-- the highest level. In sharp contrast to private national banks or regional state-owned banks, foreign banks and joints banks set their mortgage rates at the lowest level of 7.05%. Mortgage and apartments credits of 2Q19 tumbled to 12.79% YoY or the slowest growth since 1Q18 due to decreasing property sales in the primer market.

House Sales Annually Growth



House and Apartment Mortgage



This Week's Outlook: Property Sector

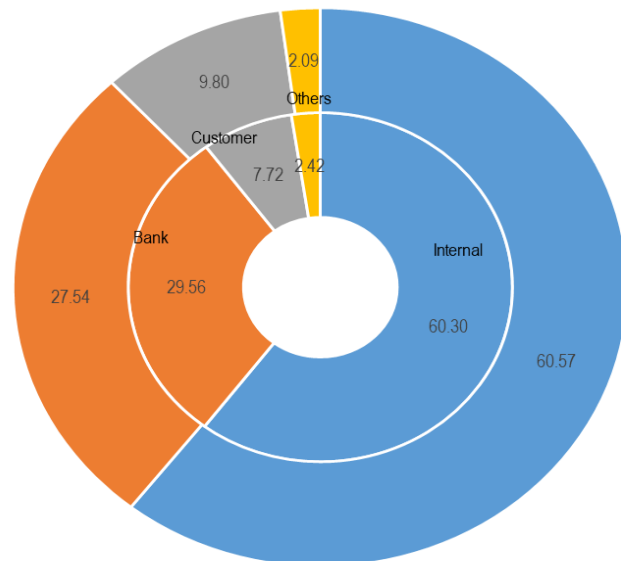
- Internal Funds to Finance Residence Development**

Most of developers (60.75%) prefer to use internal cash to fund residences development; 27.54% and 9.80% of them opt for banking loans and bank on payments by mortgage applicants. Corporate internal funds win the first preference due to lower risks and no incurring liabilities, but external funds, i.e. bank loans or payments by mortgage applicants are still options, maintaining balanced cash flow. Based on the internal funds composition, retained earnings (58.9%) and paid-up capital (37.0%) are the first and the second option of funds sources.

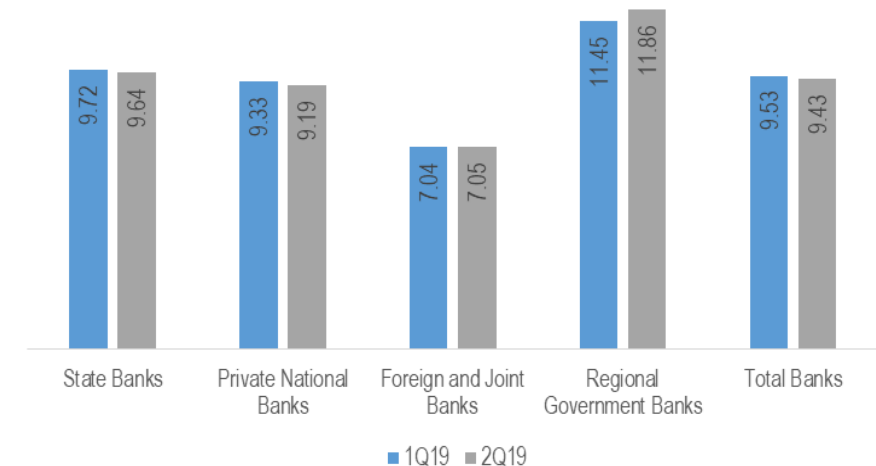
- Revenues Contributed by Recurring Income from Mixed-Use**

To anticipate decreases in revenues due to declining mortgage and apartments loans, developers develop mixed-use function, blending residential, commercial, and office spaces to boost their recurring income in 2019. Developers cautiously eye on the interest rates declining yet mortgage and apartment loans also tumbling. After three of its projects become Jakarta's landmark, PT Pakuwon Jati Tbk (PWON) rules as the pioneer of the mixed-use development integrating retail and office spaces with hotels. Its large amount of land bank situated in premium locations across Jakarta and Surabaya facilitates its purpose to develop property projects in years ahead.

Residential Property Developers' Source of Funds (%)



Average Mortgage Interest Rates by Group of Banks



Pakuwon Jati Tbk (PWON IJ – Property and Real Estate)

Dec. 2019 Price Target	725
Consensus Price	765.42
Last Price (IDR) as of Aug. 23, 2019	670
TP vs. Last Price	8.21%

Revenue by Segment:

Condo Sales	41.3%
Retail Leasing	39.1%
Others	19.6%

IDR bn	FY2018	FY2019E	FY2020F	FY2021F
Revenue	7,081	6,975	7,303	7,519
y-y	23.1%	-1.5%	+4.7%	+2.9%
Op. Profit	3,076	3,472	3,623	3,671
EBITDA	2,840	3,724	3,863	4,020
Net Income	2,549	2,617	2,818	2,944
ROE	22.19%	18.09%	16.42%	15.13%
ROA	10.51%	10.31%	9.69%	9.19%

- NHKS** maintains recommendation on PWON, potential for achieving the price target of IDR725 at a 62.6% discount to NAV. We recommend PWON for its robust resilience in jostling for higher recurring income amid stagnant property industry. PWON posted increases in recurring income from 49% of 2018, 51% of 1H19, to 52% of the 2019 year-end target. The estimate of rising recurring income is on the ground of several new projects actively running into operation in 2019, namely 1) Pakuwon Mall of IV Phase, with 7,000 sqm rented retail spaces to take into active operation in 3Q19; 2) Four Points Hotel (four-stars hotel with 316 rooms); 3) The Westin (five-star hotel with 204 rooms) situated in Pakuwon Mall, Surabaya taking into active operation in 2H19; 3) a number of office spaces, e.g. Kota Kasablanka (Jakarta), Gandaria City (Jakarta), and Tunjungan City (Surabaya).

Recurring Income: the Biggest Contributor

In 1H19, recurring income from rented retail spaces in Pakuwon Mall Surabaya and Kota Kasablanka & Gandaria City in Jakarta contributed 51% or IDR3 trillion to PWON's total revenues. Of note, rented retail spaces were the biggest contributor (~39.1%) to recurring income, then hotel & apartment services (7.6%) and rented office spaces (3.9%) follow.

A Developer with the Highest Earnings

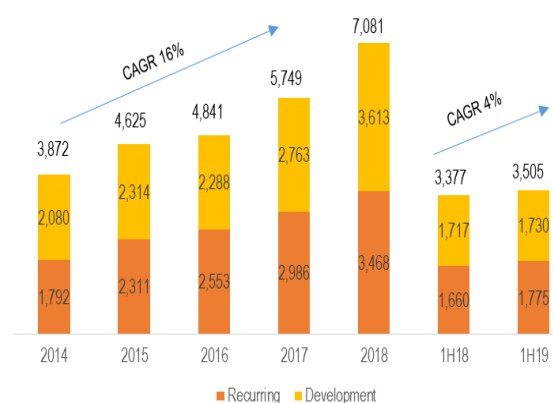
An 18.09 x ROE is the late 2019E figure on grounds of investments and development in the property industry offering high margin returns. PWON is likely to be capable of narrowing interest rates until the end of 2019 after it succeeded in narrowing debt to equity ratio (DER) from 11% in 1H18 to 2% 1H19. Adding to lower interest rates is its recurring income to likely book high CAGR from 2020 to 2030.

Discount to NAV band | Last 3 years



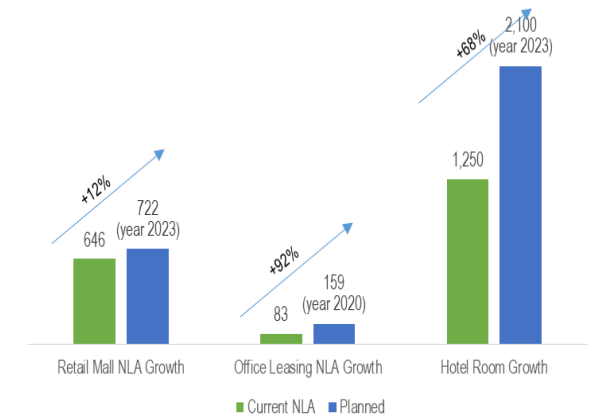
Source : Bloomberg, NHKS Research

Revenues (1H19 in IDR Bn)



Source : Company, NHKS Research

Growth of Recurring Income Portfolios



Source: Company, NHKS Research

INNI Index'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 (%)
Finance														
BBCA	Theme 1	29,975	29,800	32,000	Hold	6.8	0.6%	739.0	27.1x	4.6x	18.4	1.1	16.8	12.7
BBRI	Theme 1	4,080	4,210	4,950	Buy	21.3	-3.1%	503.3	14.8x	2.6x	19.0	3.2	12.5	8.5
BMRI	Theme 1	7,175	7,375	8,275	Buy	15.3	-2.7%	334.8	12.7x	1.8x	15.0	3.4	9.1	11.1
Consumer														
GGRM	Theme 1	76,475	76,500	110,000	Buy	43.8	0.0%	147.1	17.3x	3.3x	20.0	3.4	16.4	20.5
UNVR	Theme 1	45,825	44,975	59,000	Buy	28.8	1.9%	349.6	37.7x	68.9x	183.9	2.6	1.3	5.2
ICBP	Theme 1	11,775	11,625	11,600	Hold	(1.5)	1.3%	137.3	28.2x	6.0x	22.9	1.7	13.7	12.8
INDF	Theme 1	7,775	7,575	8,700	Hold	11.9	2.6%	68.3	14.3x	2.0x	14.4	3.0	7.2	30.0
KAEF	Theme 2	3,210	3,400	4,100	Buy	27.7	-5.6%	17.8	44.6x	7.9x	16.6	0.5	21.8	(44.6)
KLBF	Theme 2	1,620	1,510	1,870	Buy	15.4	7.3%	75.9	30.4x	5.2x	17.9	1.6	7.7	3.5
Infrastructure														
TLKM	Theme 1	4,380	4,280	4,700	Hold	7.3	2.3%	433.9	21.3x	4.6x	22.8	3.7	7.7	27.4
JSMR	Theme 1	5,700	5,750	6,000	Hold	5.3	-0.9%	41.4	18.7x	2.3x	13.3	0.8	(25.9)	1.4
Trade														
UNTR	Theme 1	20,500	20,500	39,550	Buy	92.9	0.0%	76.5	6.8x	1.4x	21.6	5.8	11.2	1.8
SILO	Theme 2	6,175	6,275	4,350	Sell	(29.6)	-1.6%	10.0	217.6x	1.6x	0.7	N/A	#N/A N/A	N/A
MIKA	Theme 2	2,340	2,230	2,300	Hold	(1.7)	4.9%	34.0	51.4x	7.9x	16.3	0.8	#N/A N/A	13.6
LPPF	Theme 2	3,100	3,250	5,500	Buy	77.4	-4.6%	8.7	9.7x	4.8x	45.2	10.7	0.6	(11.5)
RALS	Theme 2	1,250	1,295	2,070	Buy	65.6	-3.5%	8.9	12.2x	2.1x	17.7	4.0	(0.2)	21.1
MAPI	Theme 2	1,000	1,010	1,200	Buy	20.0	-1.0%	16.6	22.4x	2.9x	14.5	1.0	10.2	25.0
Property														
PWON	Theme 1	670	685	725	Hold	8.2	-2.2%	32.3	11.6x	2.4x	22.4	1.0	3.8	20.9
CTRA	Theme 1	1,220	1,235	1,550	Buy	27.0	-1.2%	22.6	17.4x	1.6x	9.4	0.8	12.1	74.3
PTPP	Theme 1	1,890	1,910	2,450	Buy	29.6	-1.0%	11.7	8.5x	0.9x	11.3	2.6	12.8	(23.4)
WSKT	Theme 1	1,790	1,815	2,500	Buy	39.7	-1.4%	24.3	12.3x	1.3x	11.3	4.1	(35.4)	(66.8)
WIKA	Theme 1	2,340	2,280	2,100	Hold	(10.3)	2.6%	21.0	10.0x	1.4x	14.9	1.6	#N/A N/A	72.2
Basic Ind.														
KRAS	Theme 2	332	324	600	Buy	80.7	2.5%	6.4	N/A	0.3x	(11.2)	N/A	(17.8)	(775.0)
SMGR	Theme 2	13,075	12,900	14,600	Hold	11.7	1.4%	77.6	29.9x	2.6x	8.7	1.6	#N/A N/A	(50.0)
INTP	Theme 2	21,175	22,075	22,300	Hold	5.3	-4.1%	78.0	54.5x	3.6x	6.5	2.6	7.7	80.2
Misc Ind.														
ASII	Theme 2	6,575	6,500	8,600	Buy	30.8	1.2%	266.2	12.6x	1.9x	15.8	3.3	3.2	(5.8)
Mining														
ADRO	Theme 1	1,085	1,030	1,750	Buy	61.3	5.3%	34.7	4.7x	0.6x	14.2	8.3	10.2	51.9
PTBA	Theme 1	2,490	2,440	5,100	Buy	104.8	2.0%	28.7	5.6x	1.5x	29.2	13.6	(7.2)	(21.7)
INCO	Theme 2	3,300	3,550	3,370	Hold	2.1	-7.0%	32.8	440.0x	1.2x	0.3	N/A	(22.0)	N/A
ANTM	Theme 2	1,015	1,120	1,200	Buy	18.2	-9.4%	24.4	30.5x	1.2x	4.1	1.3	8.5	(30.1)

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