

Weekly Brief (April 1 – April 5)

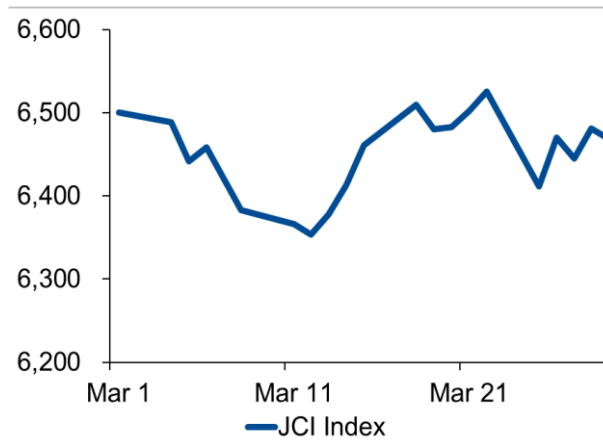
Summary:

Last week, Indonesia's stock markets were volatile. At the early of last week, JCI nudged down at -1.7% as yields between bonds with 3-month tenor and 10-year tenor inverted, and it weakened investors' confidence in the U.S. economy. The inverted yield curve is seen as an early indicator of recession, possible to occur 18 months ahead, at least. Investors demanded for short-term instruments with higher "collateral" as they panicked over a looming global economic outlook. Yet, in the mid of week JCI was rebounding at 0.9%. Indonesian market participants were optimistic as the Fed made a dovish stance of no FFR hikes, appropriate for 2019 due to the slowing momentum in the U.S. economy, bringing benefits for emerging economies' financial markets. Besides, other positive sentiments came from the new rounds of trade talks between the U.S and China in Beijing. The U.S. trade representatives came in Beijing on Thursday, (03/28), and started a new round of talks, aiming to end their tit-for-tat trade war. Thus, JCI, on a weekly basis, nudged down at 0.9%.

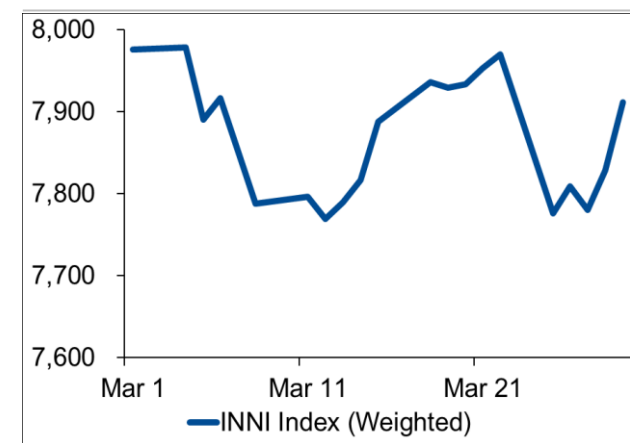
Like JCI, INNI also muted at -0.7% last week as consumer and mining stocks put strains on JCI. We oversee that lower-than-estimate earnings posted by consumer companies made their stocks undervalued. Meanwhile, Morgan Stanley's downward revisions on 2019's coal price outlook moderated the mining sector.

Last week, the infrastructure sector balanced INNI Index. The sector nudged up 0.5, while the construction sector, on a weekly basis, was bullish at 3.5%. The rally in both sectors were underlined by BI's projection of Indonesia's economy to grow by 6.1% in 2024.

JCI - one month



INNI Index – one month



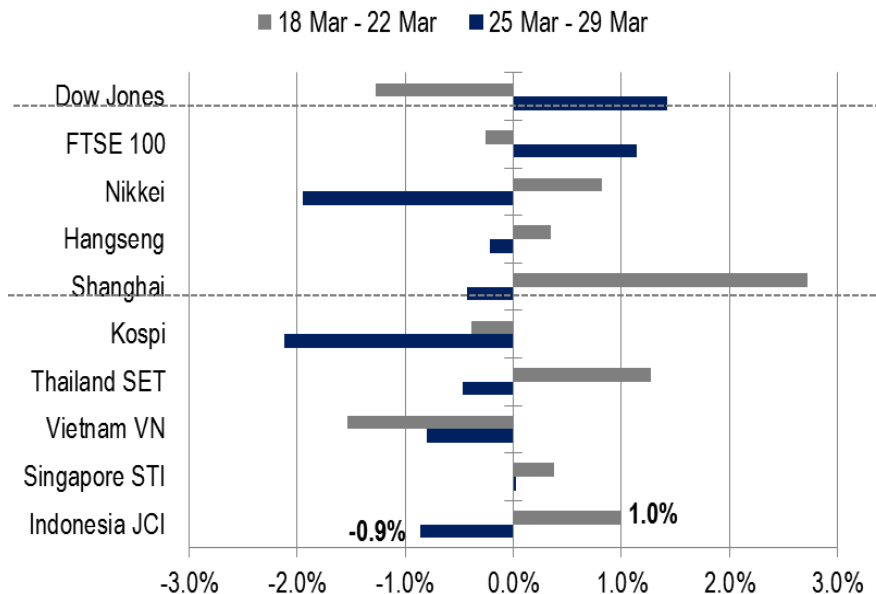
Last Week's JCI Movement

- Jakarta Composite Index (JCI) : 6,468.75 (-0.9%)
- Foreign Investors : the net buy of IDR559 miliar (vs. the prior week's net buy of IDR1.3 trillion)
- USDIDR : 14,243 (+0.56%)
- Yields of sovereign bonds with 10-year tenor : 7.633% (+2.2 bps)

JCI Finally Closed Lower Last Week

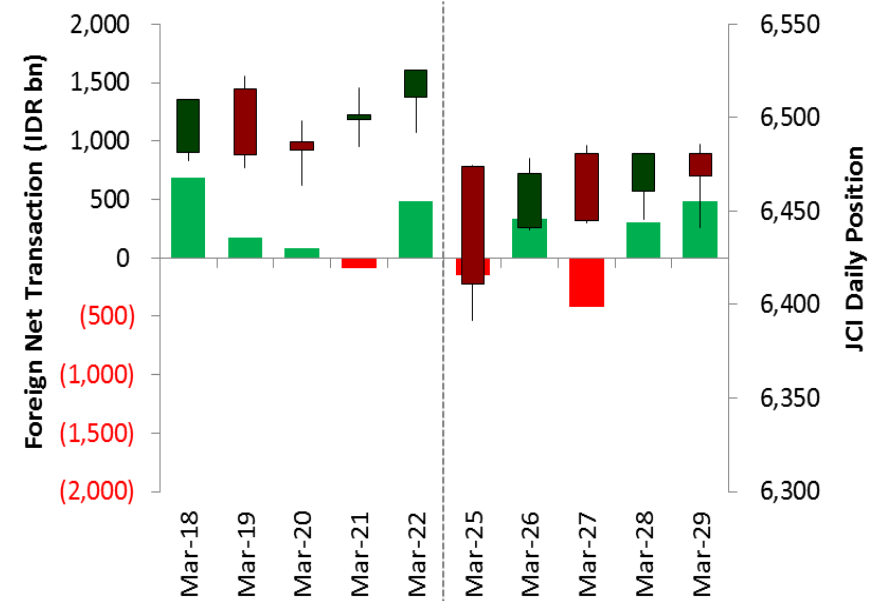
Last week, Indonesia's stock markets were volatile. At the early of last week, JCI nudged down at -1.7% as yields between bonds with 3-year tenor and 10-year tenor inverted, and it weakened investors' confidence in the U.S. economy. The inverted yield curve is seen as an early indicator of recession, possible to occur 18 months ahead, at least. Investors demanded for short-term instruments with higher "collateral" as they panicked over a looming global economic outlook. Yet, in the mid of week, Indonesian market participants were optimistic as the Fed made a dovish stance of no FFR hikes, appropriate for 2019 due to the slowing momentum in the U.S. economy, bringing benefits for emerging economies' financial markets. Besides, other positive sentiments came from the new rounds of trade talks between the U.S and China in Beijing. The U.S. trade representatives came in Beijing on Thursday, (03/28), and started a new round of talks, aiming to end their tit-for-tat trade war. Thus, JCI, on a weekly basis, nudged down at -1.0%.

Global Market Movement



Source: Bloomberg, NH Korindo Research

Foreign Net Flow – Last 10 Days



Source: Bloomberg, NH Korindo Research

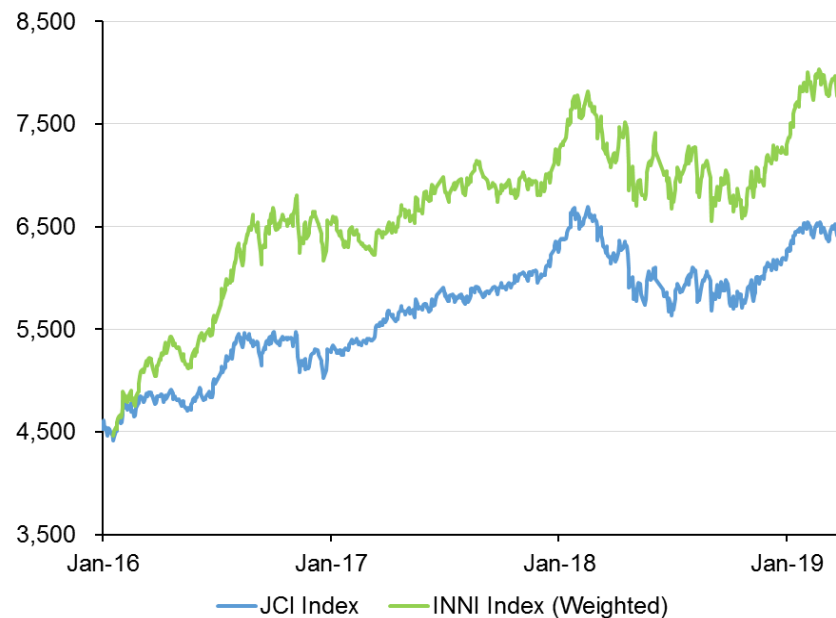
Last Week's INNI Movement

- Indonesia NH Index (INNI) : 7,911.30 (-0.7%)
- Comparison with JCI (YTD %) : 4.5% (INNI 7,911.30 vs JCI 6,469.76)
- INNI Theme 1 (Value) : 7,652.45 (+2.2%)
- INNI Theme 2 (Trend) : 8,352.06 (+1.0%)

- INNI Dropped at 0.7% Last Week**

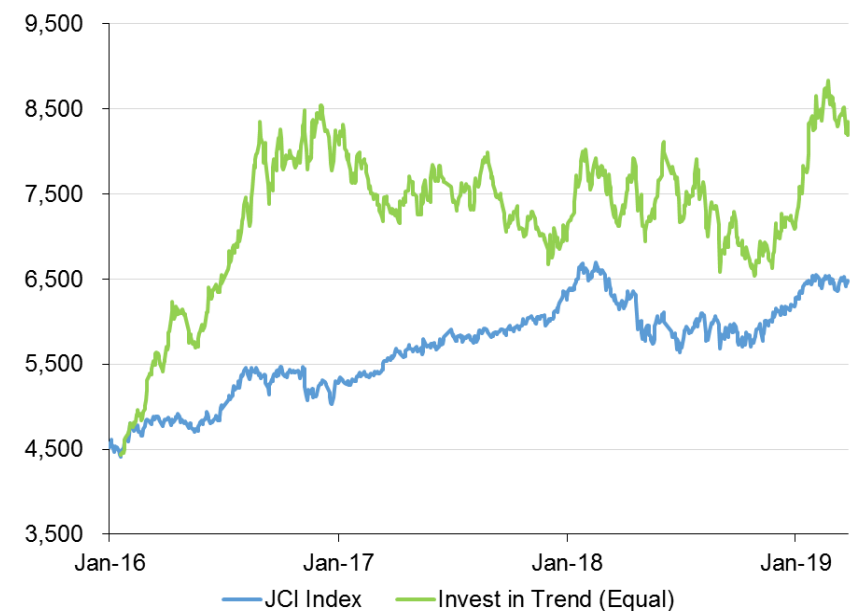
Like JCI, INNI also muted at 0.7% last week as consumer and mining stocks put strains on JCI. INDF and ICBP, on a weekly basis, revised downwards by -13.5% and -9.0%, respectively. As consumer companies mostly marked lower-than-estimate earnings, their stocks were undervalued. Market participants considered valuation of consumers stocks, under Salim Group in particular, are quite expensive. Meanwhile, Morgan Stanley's downward revisions on 2019's coal prices due to lower-than-initially-estimated- coal imports by Chinese authorities was a negative sentiment, dragging the mining sector lower. Morgan Stanley estimated Chinese demand for imported coal dropped by 17 million tons to 200 million tons for 2019. Like China, India's demand for imported coal is also at a modest level along with its domestic stockpile of coal. As Indonesian exported coal dropped at 19 million tons, in this week, coal miners such as ADRO and UNTR slow at -5.3% and -3.5%, respectively. Unlike its peers, PTBA successes to rally at +2.7% thanks to its plenty sales of domestic coal.

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

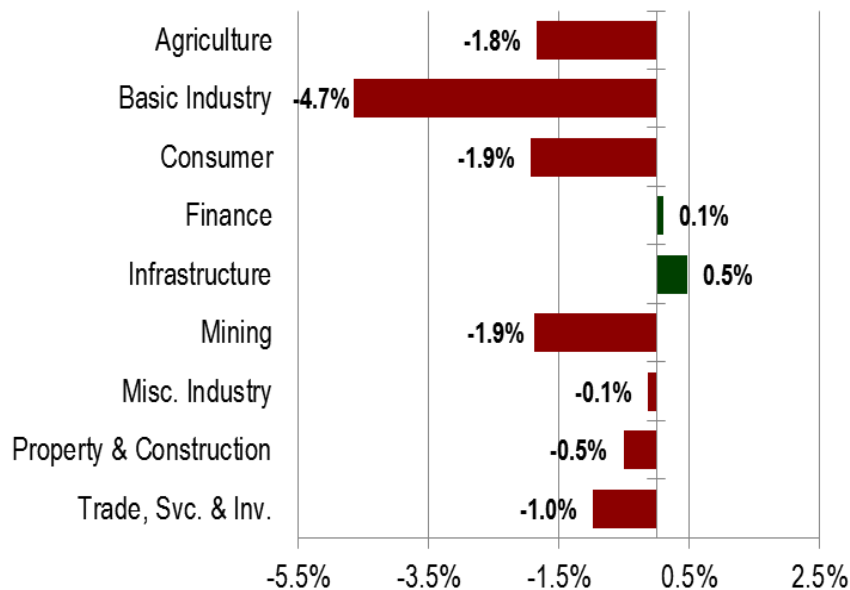
Last Week's Sector Movement

Sectors Balancing INNI Index Last Week

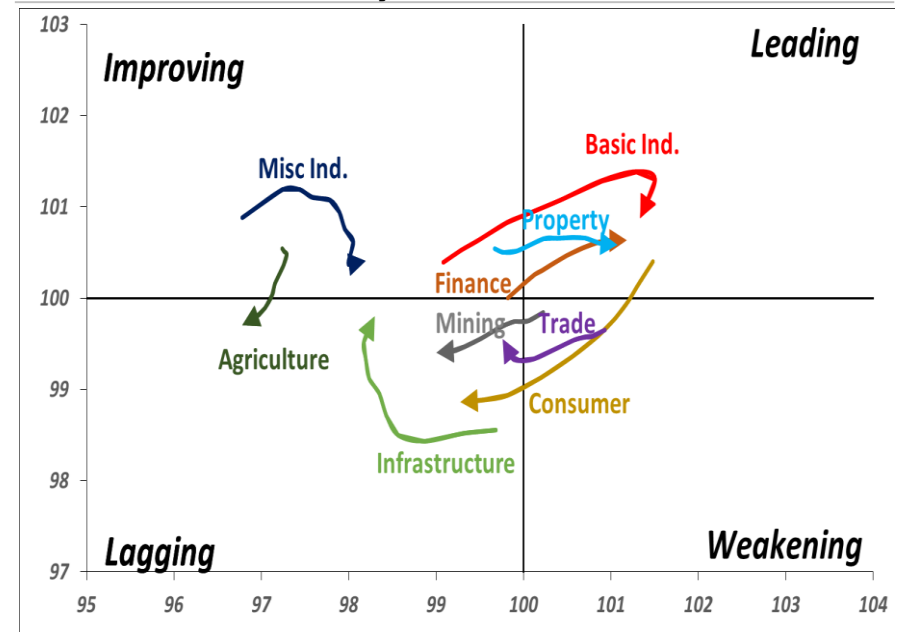
- Infrastructure and Construction Sectors: BI's Projection of Indonesia's Economic Growth at 6.1% in 2024**

Last week, the infrastructure sector balanced INNI Index. The sector nudged up +0.5% as JSMR and TLKM, on a weekly basis, strengthened by +12.7% and +3.7%, respectively. Meanwhile, the construction sector, on a weekly basis, were bullish at 3.5%, as WIKA, WSKT, and PTPP strengthened by +9.1%, +2.8%, +0.5%, respectively. BI's projection of Indonesia's economy to grow by 6.1% in 2024 is a positive catalyst for both the construction and infrastructure sectors. The acceleration in Indonesia's infrastructure development resulting in higher productivity, a key to Indonesia's fundamental. Massive infrastructure development such as power plants, toll roads, ports and airports is estimated to suppress costs of production & distributions and to positively impacts on competitiveness and economic capacities. Besides, varied deregulation efforts, coupled with structural reformation create a way more conducive investment backdrop in Indonesia. As higher banking credit growth is expected, the construction sector, in high need of banking loans, inevitably becomes investors main target.

Last Week JCI Sector Movement



Sector Rotation – Last 10 Days



This Week's Outlook

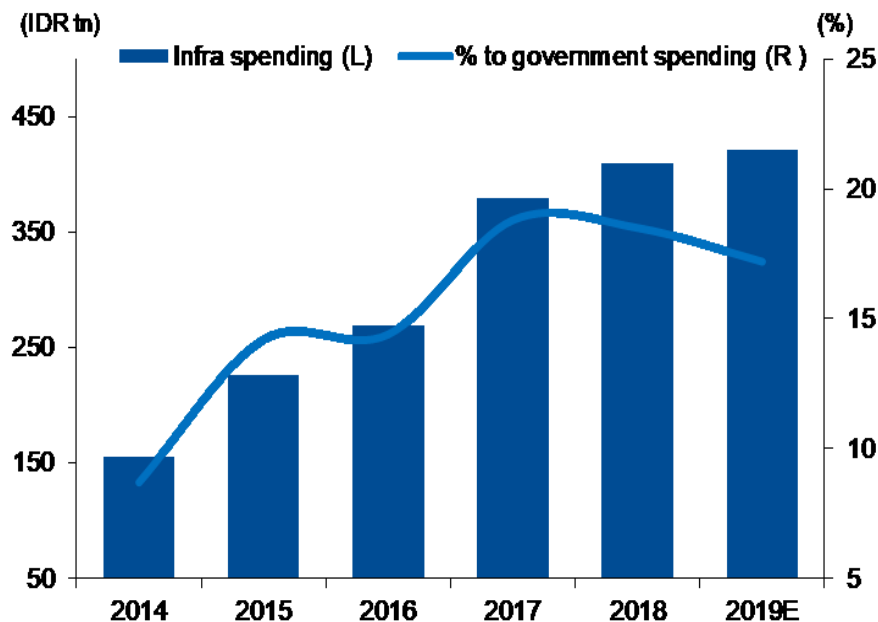
• Increment in Infrastructure Projects

We are optimistic about whoever President-elect will keep on with in-progress construction of infrastructure projects. In years ahead, construction stocks are likely to offer promising yields despite 2019' state budget (APBN) allocation of IDR421 trillion for infrastructure budget, a slight increase of +2.1% y-y (vs. CAGR of 26.8% from 2014-2018). In this political year, we digest that Indonesian authorities focus more on social spending: a more-populist policy for the public. Although the slight increase in infrastructure budget, Indonesian authorities contribute to the growth of +19.3% YTD in new contracts of infrastructure projects. Of note, state-owned contractors win 68% infrastructure projects, while private contractors win 32% of remaining infrastructure projects. In 2019, Indonesian authorities plan to build 915-km toll roads, 680-km new roads, 50 dams, and 170,000 irrigation system.

• Optimism, Regardless of Soaring Receivables

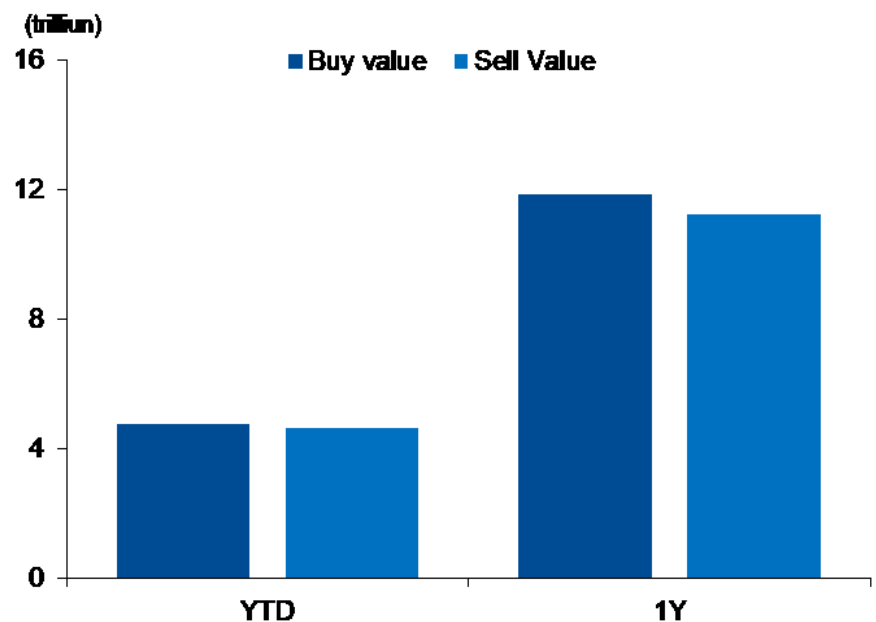
The construction sector is exposed to a major risk: receivables slashing operational cash flows. As most of the construction projects are turnkey, construction companies are in need of a larger amount of debts. The construction sector's receivables total around IDR170 trillion (vs. the construction market capitalization of around IDR80 trillion). 78.2% of receivables are risky receivables, exposed to the high possibility of postponed payments because most of them are public infrastructure projects. Indonesian authorities leave plenty of strategic infrastructure projects to be developed, and that constitutes a positive catalyst for the construction sector as well as strengthening investors' confidence in Indonesia's sustainable infrastructure development. That explains the persistent foreign inflows of IDR145 billion on construction stocks.

Infrastructure spending as % of total government spending



Source: Ministry of Finance, NH Korindo Research

Foreign investors recorded a net buy for construction sector stocks



Source: Bloomberg, NH Korindo Research

Top-Pick Stocks, Based on This Week's Outlook

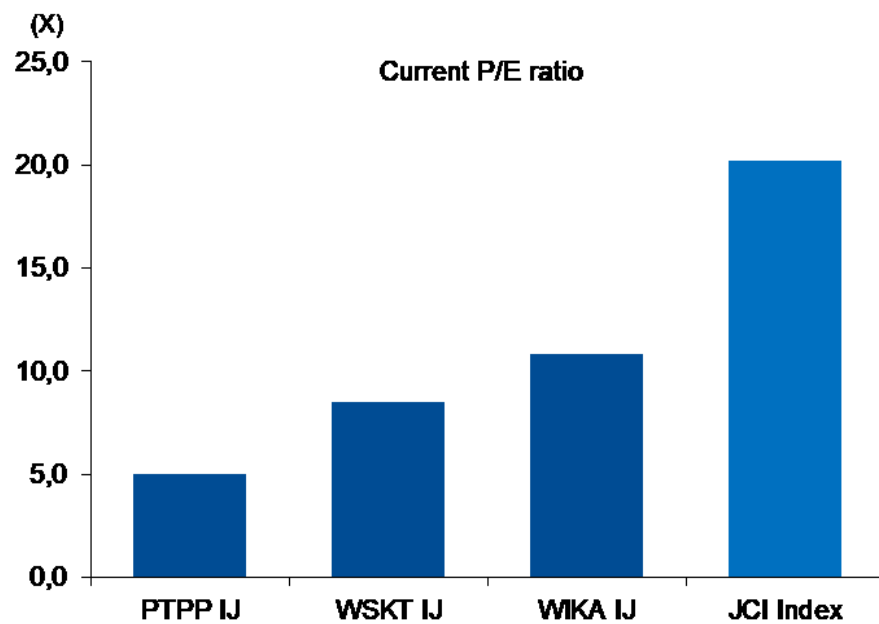
- **Attractive Valuation, Expected Rebound**

We are optimistic that construction stocks, in 2019, are likely to rebound because of the shift of foreign investors from the coal sector to the construction sector. The shift brightens chances of a rebound in the construction sector, based on history, possible to re-occur in the year of presidential election. Now, P/E valuation of construction stocks such as WIKA, PTPP, and WKST (members of INNI Index) are at a discount and at the level of 10.8x, 5.0x, and 8.5x compared with JCI P/E of 20.2x. We analyse that in FY2018, construction companies were underperformed as they secured fewer new contracts. That underlined why construction stocks are at a discount. WIKA, PTPP, and WSKT only secured 40.2%, 55.5%, and 16.8% of their respective targeted contracts. Despite less successful performance, Indonesia-based infrastructure projects, in a long run, are still promising because they are massively developing. As construction companies do not want to bank heavily on public infrastructure projects, they diversify their infrastructure businesses into power plants, toll roads, and residencies with a view to increasing the number of new contracts. The business diversification brightens the construction sector prospect.

- **Audit : A Solution to Improving Work Quality and Transparencies**

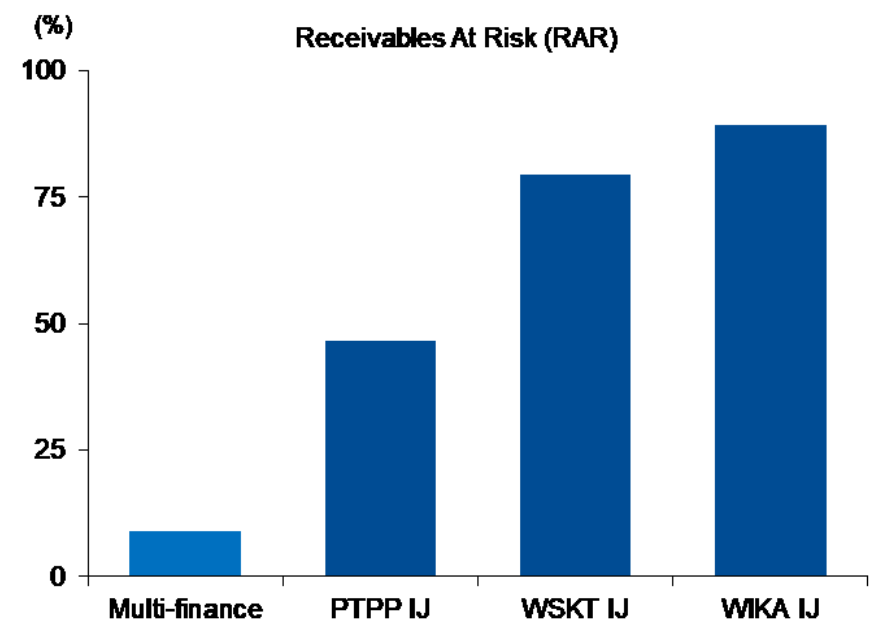
The construction and leasing sectors are similar in their nature of business. They are reliant on receivables payments and taking profits from spread margins they offer. Yet, facts evidence that state-owned contractors have higher risky receivables than leasing companies. State-owned contractors are exposed to risky receivables by 72.1%, while leasing companies are exposed to risky receivables by only 8.9%. WSKT, WIKA, and PTPP have risky receivables of 89.2%, 79.6%, and 46.5%, respectively, for example. To limit risks arising from unpaid receivables, Indonesian authorizes regulate that each of projects performed by state-owned contractors shall undergo and pass audit procedures. A project shall undergo one-to-three week audit procedures, improving state-owned contractors' work quality and transparencies.

Valuation of construction sector stocks has been attractive



Source: Bloomberg, Company data, NH Korindo Research

Receivable at risk construction company vs. multi-finance company



Source: Bloomberg, Company data, NH Korindo Research

Wijaya Karya (WIKA – Building Construction)

Dec 2019 Target Price	Rp2,500
Consensus Price	Rp2,256
Last Price (IDR) as of Mar 29, 2019	Rp2,160
TP vs. Last Price	15.7%
Revenue Breakdown:	
Infrastructure & building	72,0%
Road and railway	19,3%
Others	8,7%

IDR bn	FY2017	FY2018	FY2019E	FY2020E
Revenue	26,176	31,158	40,144	45,719
y-y	67.1%	19.0%	28.8%	13.9%
Net profit	1,202	1,730	2,081	2,507
y-y	18.8%	43.9%	20.3%	20.5%
NRM	4.6%	5.6%	5.2%	5.5%
EPS	134.0	192.9	232.0	279.5
P/E	14.8x	10.3x	8,5x	7.1x

- **NHKS** recommend WIKA, listed in INNI Index and estimated to reach the target price of IDR2,500 with P/E trailing band at 12,5x. The estimate is backed by 1) WIKA's strategies for increasing capacities of its businesses with higher margins; 2) Efforts to improve balance sheets; 3) Possibilities of stable growth until 2023.

- **Higher Margins Balancing Lower Margins**

We oversee that in years ahead, WIKA will expand capacities of its higher-margin businesses, capacity will be increased so that capable of balancing its low-margin businesses. The property business, margins of which are virtually 30% balances out the construction services, whose margins are 5%.

- **Strengthening Equity**

To make its balance sheets robust, WIKA put its best efforts to perform divestment of profitless projects. The divestment increases its equity. Besides, WIKA will consistently issue perpetual bonds worth IDR10 trillion for the next five years. The strategies will have positive impacts for WIKA because the proceeds from the perpetual bond issuance will be re-invested in businesses with higher yields than cost of funds of perpetual bonds. WIKA opts for issuing perpetual bonds to maintain its debt ratio because proceeds from the issuance are not recognized as debts but the company's equity.

- **Stable Growth until 2023**

WIKA targets CAGR 2018-2023 growth of 24.3%, 24.9%, and 38.5% in revenues, EBITDA, and net profits, respectively until 2023. Meanwhile, margins are targeted to be stable at 7.1% to 11.2%

12-month P/E trailing band



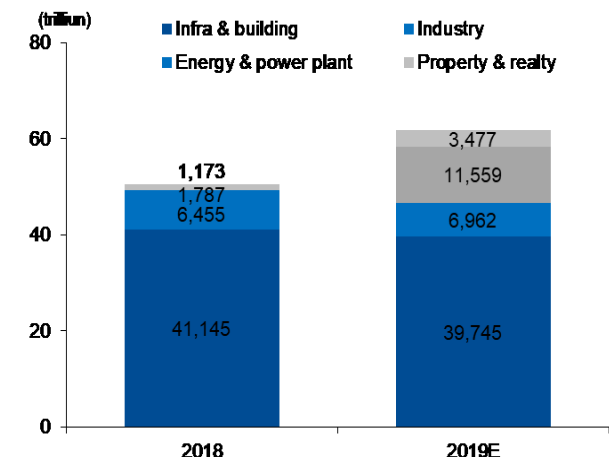
Source : Bloomberg, NHKS Research

Financial performance estimation

2018*	2019	2020	2021	2022	2023
123,51T Order Book	145,54T Order Book	186,30T Order Book	225,14T Order Book	275,70T Order Book	345,38T Order Book
31,16T Revenue	42,13T Revenue	53,74T Revenue	61,20T Revenue	75,39T Revenue	92,51T Revenue
4,35T EBITDA	5,17T EBITDA	6,97T EBITDA	8,38T EBITDA	10,80T EBITDA	13,22T EBITDA
13,99% EBITDA Margin	12,28% EBITDA Margin	12,97% EBITDA Margin	13,70% EBITDA Margin	14,06% EBITDA Margin	14,30% EBITDA Margin
2,03T Net Income Margin 6,5%	3,01T Net Income Margin 7,1%	3,97T Net Income Margin 7,4%	5,32T Net Income Margin 8,7%	7,56T Net Income Margin 10,0%	10,35T Net Income Margin 11,2%
49,28% Growth	40,27% Growth	31,99% Growth	34,00% Growth	42,10% Growth	36,90% Growth

Source : Company data, NHKS Research

New contract projection



Source: Company data, NHKS Research

Pembangunan Perumahan (PTPP – Building Construction)

Dec 2019 Target Price	Rp2,600
Consensus Price	Rp2,785
Last Price (IDR) as of Mar 29, 2019	Rp2,080
TP vs. Last Price	25.1%
Revenue Breakdown:	
Building construction services	69,7%
Property & realty	17,5%
Others	12,8%

IDR bn	FY2017	FY2018	FY2019E	FY2020E
Revenue	21,502	25,120	28,931	32,914
y-y	30.6%	16.8%	22.6%	13.8%
Net profit	1,453	1,502	1,898	2,088
y-y	42.0%	3.4%	21.0%	10.0%
NIM	6.8%	6.0%	6.6%	6.3%
EPS	234.4	253.0	306.1	336.7
P/E	8.3x	7.6x	6.3x	5.7x

- **NHKS** recommended PTPP, listed in INNI Index and estimated to hit the target price of IDR2,600 with P/E trailing band at 10,2X. The estimate is based on 1) PTPP as one of contractors, capable of consistent growth in new contracts; 2) PTPP, receiving solid support from its subsidiaries; 3) Consistent double-digit growth in net profits.

- **Consistent Growth in New Contracts**

We oversee that PTPP's consistent growth in securing new contracts from year to year is at 20.5% CAGR 2014-2019E. The contracts are dominated by state-owned enterprises (SOE), privates, and public projects by 55%, 31%, and 14%, respectively. For 2019E, new contracts are targeted to grow by 15.2% to IDR50.3 trillion as projects such as building construction and bridges dominate by 48.2% and 17.3%, respectively.

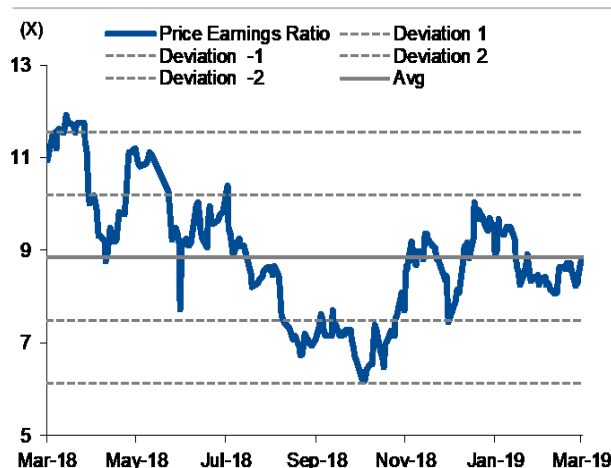
- **Reliable Subsidiaries**

Two subsidiaries of PTPP, namely PPRO IJ and PPRE IJ, are listed on IDX. Both subsidiaries marked positive performance in FY18. Amid Indonesian sluggish property markets, PPRO outperformed by marking the growth of 5.97% y-y to IDR326.4 billion, while PPRE jostled for the growth of 73.4% y-y to IDR326.4 billion in net profits.

- **Outstanding Growth in Operational and Financial Performance**

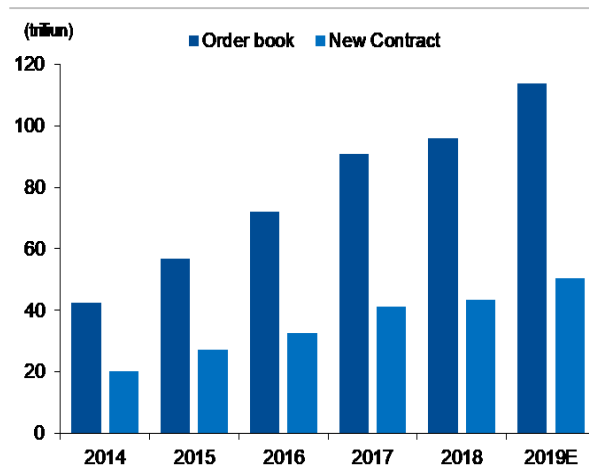
PTPP is one of construction companies, capable of marking positive cash flow or surpluses from 2014-2018. Thus, we are sanguine about its surplus achievement in 2019E. Meanwhile, sales grew by 18.5% of CAGR 2014-2019E, while net profits grew by 32.5% of CAGR 2014-2019E.

12 month P/E trailing band



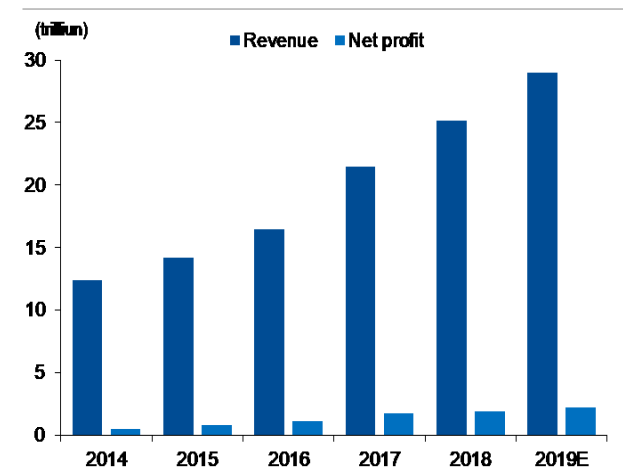
Source : Bloomberg, NHKS Research

Order books and new contracts grow consistently



Source : Company data, NHKS Research

Financial performance movement



Source: Company data, NHKS Research

INNI Stock 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	27,750	27,450	32,000	Buy	15.3	1.1%	684.2	26.5x	4.5x	18.3	0.9	8.7	11.0
BBRI	Theme 1	4,120	4,060	4,650	Hold	12.9	1.5%	508.2	15.6x	2.8x	18.5	2.6	10.4	11.7
BMRI	Theme 1	7,450	7,450	8,000	Hold	7.4	0.0%	347.7	13.9x	1.9x	14.4	2.7	7.4	21.2
Consumer														
GGRM	Theme 1	83,200	85,900	110,000	Buy	32.2	-3.1%	160.1	20.5x	3.7x	19.6	3.1	14.9	0.5
UNVR	Theme 1	49,225	49,250	59,000	Buy	19.9	-0.1%	375.6	41.2x	49.6x	142.9	1.9	1.5	30.1
ICBP	Theme 1	9,325	10,325	11,800	Buy	26.5	-9.7%	108.7	23.8x	5.0x	22.2	2.4	7.9	20.2
INDF	Theme 1	6,375	7,400	8,700	Buy	36.5	-13.9%	56.0	13.4x	1.7x	12.8	4.7	4.6	0.2
KAEF	Theme 2	3,560	3,360	4,100	Buy	15.2	6.0%	19.8	47.5x	7.6x	14.5	0.5	24.6	27.3
KLBF	Theme 2	1,520	1,515	1,870	Buy	23.0	0.3%	71.3	29.0x	5.1x	18.3	1.6	4.4	2.2
Infrastructure														
TLKM	Theme 1	3,950	3,820	4,350	Hold	10.1	3.4%	391.3	21.2x	4.3x	20.4	4.2	2.3	(20.6)
JSMR	Theme 1	5,975	5,325	6,000	Hold	0.4	12.2%	43.4	19.7x	2.6x	13.8	1.0	5.4	0.1
Trade														
UNTR	Theme 1	27,050	28,000	35,000	Buy	29.4	-3.4%	100.9	9.1x	1.9x	22.4	3.6	31.1	50.3
SILO	Theme 2	3,800	3,780	4,350	Hold	14.5	0.5%	6.2	381.9x	1.0x	0.3	N/A	2.0	(85.4)
MIKA	Theme 2	1,950	1,965	2,300	Buy	17.9	-0.8%	28.4	44.4x	7.2x	17.3	N/A	10.1	(8.3)
LPPF	Theme 2	4,090	4,150	5,500	Buy	34.5	-1.4%	11.9	10.9x	6.4x	53.0	11.2	2.2	(42.4)
RALS	Theme 2	1,780	1,730	2,050	Buy	15.2	2.9%	12.6	20.3x	3.2x	15.7	2.2	2.1	44.4
MAPI	Theme 2	970	1,080	1,300	Buy	34.0	-10.2%	16.1	27.8x	3.1x	14.0	0.4	18.3	126.7
Property														
PWON	Theme 1	690	695	725	Hold	5.1	-0.7%	33.2	13.1x	2.6x	22.2	0.9	23.2	35.8
CTRA	Theme 1	1,000	1,030	1,080	Hold	8.0	-2.9%	18.6	20.5x	1.4x	6.8	1.0	7.9	1.7
PTPP	Theme 1	2,080	2,080	2,450	Buy	17.8	0.0%	12.9	8.6x	1.0x	12.4	2.3	16.8	3.4
WSKT	Theme 1	1,985	1,935	2,500	Buy	25.9	2.6%	26.9	6.8x	1.5x	33.2	2.9	7.9	2.7
WIKA	Theme 1	2,160	1,980	2,100	Hold	(2.8)	9.1%	19.4	11.2x	1.3x	12.6	1.2	19.0	43.9
Basic Ind.														
KRAS	Theme 2	462	484	600	Buy	29.9	-4.5%	8.9	N/A	0.4x	(2.5)	N/A	22.7	51.3
Misc Ind.														
ASII	Theme 2	7,325	7,250	9,100	Buy	24.2	1.0%	296.5	13.7x	2.2x	16.6	2.6	16.1	14.8
Mining														
ADRO	Theme 1	1,345	1,425	1,750	Buy	30.1	-5.6%	43.0	7.2x	0.8x	11.7	7.4	11.1	(13.6)
PTBA	Theme 1	4,200	4,100	5,100	Buy	21.4	2.4%	48.4	8.8x	2.8x	33.9	7.6	8.7	12.2
INCO	Theme 2	3,390	3,540	4,400	Buy	29.8	-4.2%	33.7	37.1x	1.3x	3.3	N/A	23.4	N/A
ANTM	Theme 2	885	960	1,200	Buy	35.6	-7.8%	21.3	24.3x	1.1x	4.6	0.2	99.5	540.7
Agriculture														
AAJI	Theme 1	11,225	11,775	16,000	Buy	42.5	-4.7%	21.6	15.0x	1.1x	7.7	3.9	10.3	(26.9)
LSIP	Theme 1	1,040	1,145	1,500	Buy	44.2	-9.2%	7.1	21.4x	0.9x	4.0	4.3	(15.2)	(54.6)

Source : Bloomberg, NHKS Research

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