

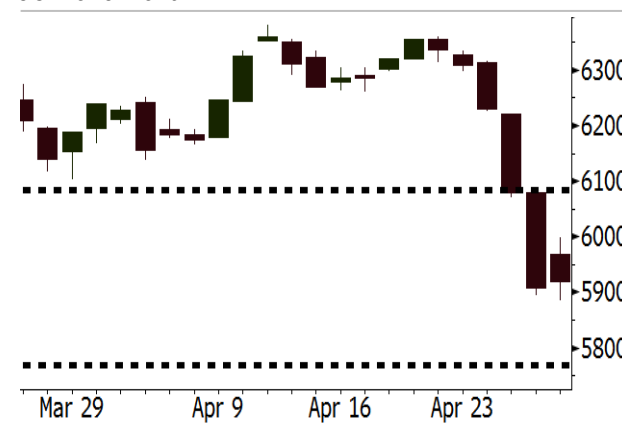
## Weekly Brief (April 30 – May 04)

### Summary:

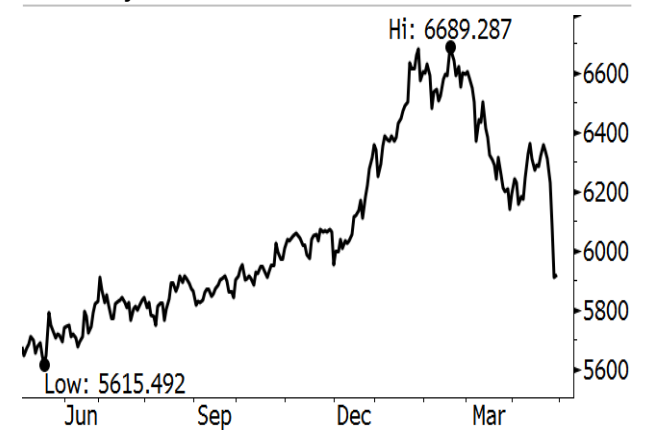
Last week JCI tumbled to the psychology limit, a lower-than-6,000 level. The tumble was attributable to the volatility of global financial market ignited by the U.S. Treasury yield topping 3%. The massive capital outflow impacting on the depreciated rupiah potential for escalating inflation urged BI to raise its benchmark rates.

We estimate JCI to be bearish. The agenda for FOMC meeting held in this week cause investors to wait and see. It is recommended that investors keep their eyes cautiously on the release of the April's inflation with a view to projecting the possibility of raising benchmark rate. We recommend consumers based stocks, namely INDF and CPIN, as well as LPPF's stocks for retail sector. The stocks are top picks ahead of Ramadhan in May.

JCI - one month



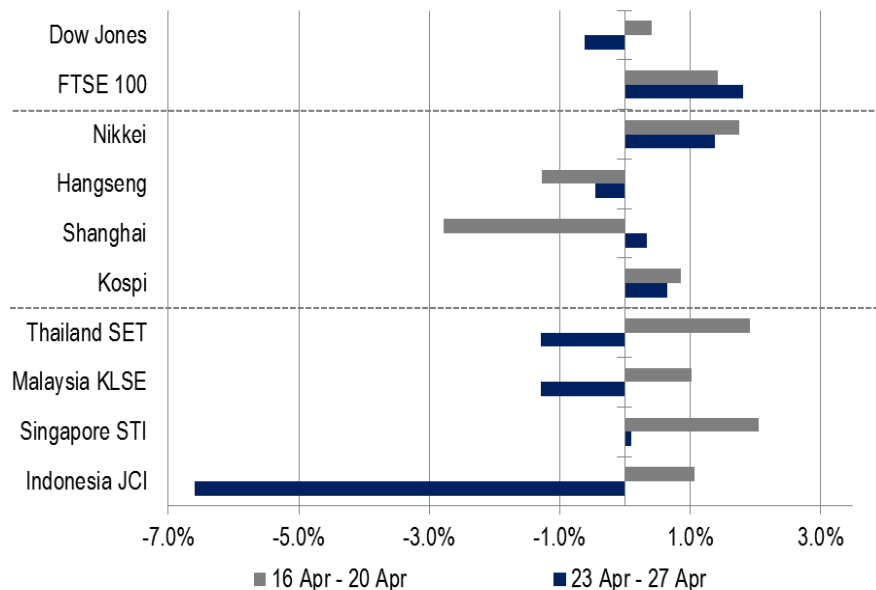
JCI - one year



## Last Week's Recap

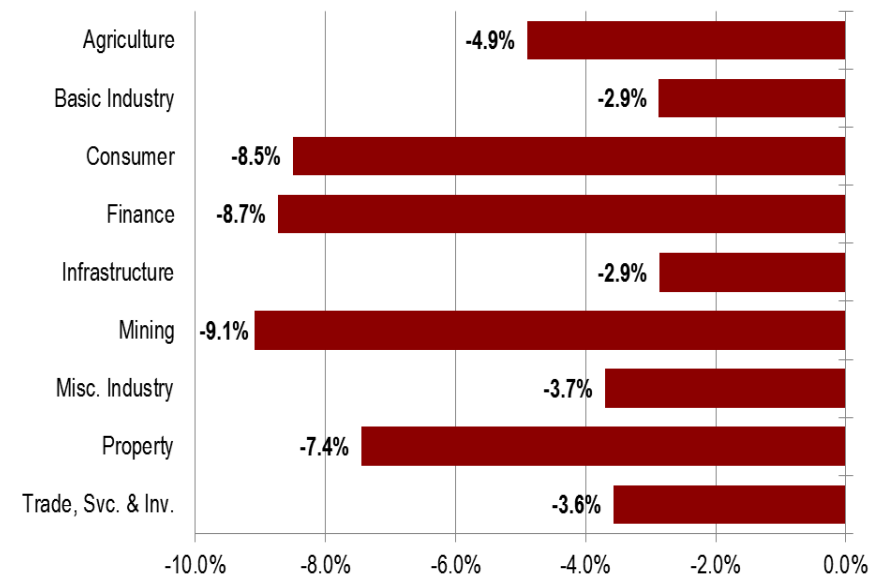
- Jakarta Composite Index (JCI)** : 5,919.24 (-6.60%)  
**Foreign Investor** : net sell of IDR5.3 trillion (Vs previous week's net sell of IDR1.5 trillion)  
**USDIDR** : 13,893 (+0.00%)  
**10-year Government Bond Yield** : 6.976% (+17.6 bps)
- The U.S. Treasury Yield Tops Psychology Limit of 3%**  
 Last week, the U.S. 10-year Treasury yield topped the psychology limit of 3% along with the expectancy of accelerated monetary tightening by the Fed. This backdrop ignited the massive sell-off in global stocks and bonds markets as well as the depreciation of emerging countries' currencies.
- Depreciated Rupiah Urges BI to Raise Its Benchmark Rates**  
 The impact of last-week global financial market turmoil caused Indonesia's government bonds yield to top 7% and rupiah to near 14,000. Considering the massive foreign outflow, Bank Indonesia (BI) finally has the second plan of raising its benchmark rate in light of the global volatility potential for unstable inflation.

### Global Equity Market



Source: Bloomberg, NH Korindo Research

### Sector Index



Source: Bloomberg, NH Korindo Research

## This Week's Outlook

- **FOMC Meeting**

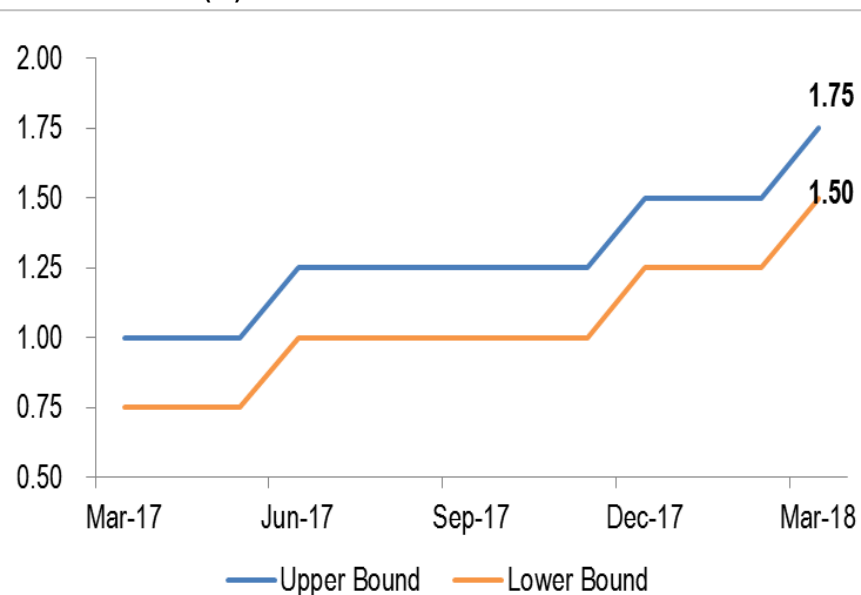
This-week global market uncertainty stems from investors' wait-and-see acts ahead of Federal Open Market Committee (FOMC) meeting dated 05/02/18 and 05/03/18. In recent occasions, the Fed's officials stated to leave its monetary tightening policy unchanged. However, the current markets perception on the number of Fed's rate hikes is still opaque. Markets concern the possibility of 4x Fed's rate hikes topping the initial projection of 3x Fed's rates hike.

- **April's Inflation**

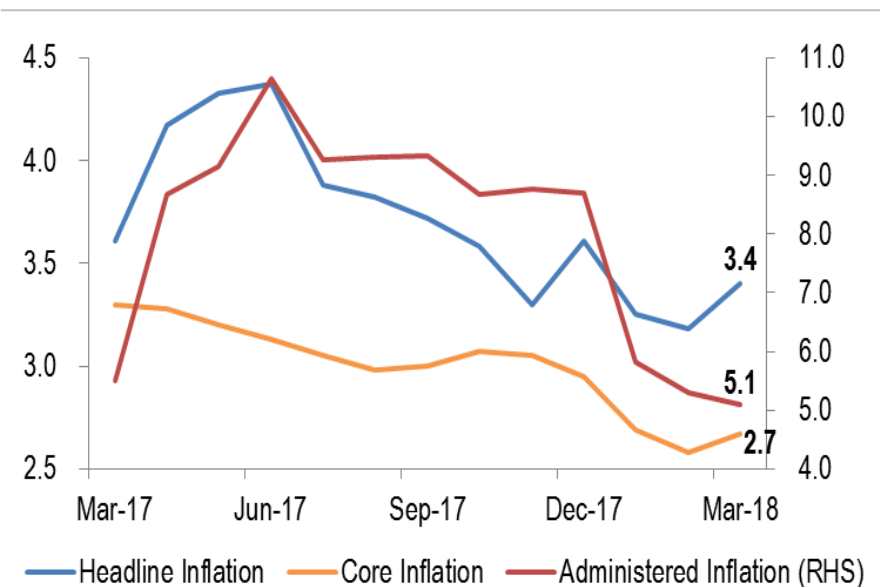
On Wednesday, 05/02/2018, the Central Statistics Agency (BPS) will release the data of April's inflation. The March's inflation was 3.4% higher than February's inflation of 3.18%. Although the inflation figure still paced at BI's target of 2.5%–4.5%, it is estimated that markets in the ahead days will be more sensitive to the inflation movement. The gradually hiking inflation amid the depreciated rupiah likely urges BI to raise its benchmark rates.

- We estimate **JCI to lag with the range of 5770-6085**. The last-week dramatic decline ignited JCI's soaring volatility. Investors need to keep their eyes on the high volatility as the sudden hike in JCI guarantees no halting trend of current decline.

**Fed Fund Rate (%)**



**Indonesia Inflation Rate (%)**



## Charoen Pokphand Indonesia (CPIN – Poultry)

<b>Dec 2018 TP</b>	<b>4,200</b>
Consensus Price	3,497
TP to Consensus Price	+20.1%
vs. Last Price	+15.1%
<b>Last Price (IDR)</b>	<b>3,650</b>
Price date as of	Apr 25, 2018
52wk range (Hi/Lo)	3,530/ 2,660
Free Float (%)	44.2
Outstanding sh. (mn)	16,398
Market Cap (IDR bn)	57,229
Market Cap (USD mn)	4,291
Avg. Trd Vol – 3M (mn)	6.06
Avg. Trd Val – 3M (bn)	19.40
Foreign Ownership	9.0%
<b>Sales Breakdown:</b>	
Animal Feed	47%
Broiler Chicken	28%
Others	25%

IDR bn	FY2016	FY2017	FY2018E	FY2019E
Sales	38,257	49,367	51,766	57,293
y-y	27.1%	29.0%	4.9%	10.7%
EBITDA	5,200	4,538	5,114	5,629
Net profit	2,221	2,498	2,946	3,349
EPS (IDR)	135	152	180	204
y-y	20.9%	12.5%	17.9%	13.7%
NPM	5.8%	5.1%	5.7%	5.8%
ROE	16.6%	16.7%	17.7%	17.9%
P/E	22.8x	24.0x	20.3x	17.9x
P/BV	3.6x	3.8x	3.4x	3.0x

### • A Glance at CPIN

CPIN has main business activities engaging in feedmill industry; chicken breeding and cultivation, processed chicken meat; chicken meat preservation; and cold storage units. It has 8 animal feed mills situated in Banten, East Java, North Sumatera, Central Java, South Sulawesi, and West Java. Besides, it also has 5 chicken meat processing mills located in Banten, Central Java, North Sumatera, and East Java.

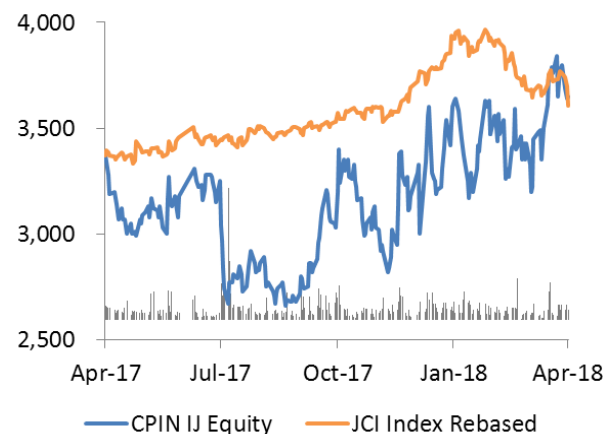
### • Broiler Segment Potential for Reaping Profits

Although the broiler segment posts the excellent growth within the last 2 years, its margin is still unstable. In light of the broiler market conditions in Indonesia experiencing excessive supplies, the aggressive growth accomplished by the broiler segment likely suppresses the selling price of broiler. However, we estimate that in 1Q18 the selling price of broiler for breeders likely tops the broiler benchmark prices set by the government. It is underlined by the government regulation of the lowest retail broiler selling prices for breeders.

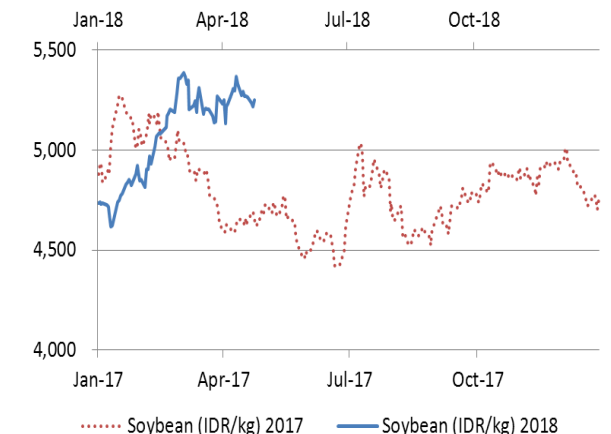
### • Upbeat Soybean Prices

CPIN dominates 31% of the animal-feed market shares in Indonesia. The domination allows it to pass on the cost arising from the upbeat raw material to consumers even though the global soybean prices surge by 6% in 1Q18. These qualities enable CPIN to post the upswing in sales boosted by the surging selling prices and stable margin.

### Share Price Performance



### Soybean Price 2017 vs 2018



## Indofood Sukses Makmur (INDF – Packaged Food & Agricultural Products)

<b>Dec 2018 TP</b>	<b>8,175</b>
Consensus Price	9,117
TP to Consensus Price	-10.3%
vs. Last Price	+18.5%
<b>Last Price (IDR)</b>	<b>6,900</b>
Price date as of	Apr 24, 2018
52wk range (Hi/Lo)	8,925/6,800
Free Float (%)	49.9
Outstanding sh. (mn)	8,780
Market Cap (IDR bn)	59,706
Market Cap (USD mn)	4,289
Avg. Trd Vol – 3M (mn)	7.40
Avg. Trd Val – 3M (bn)	55.27
Foreign Ownership	99.9%
<b>Sales Breakdown:</b>	
Consumer Branded Product	50%
Flour	25%
Others	25%

IDR bn	FY2016	FY2017	FY2018E	FY2019E
Sales	66,750	70,187	73,699	77,420
y-y	4.2%	5.1%	5.0%	5.0%
EBITDA	10,614	10,528	11,600	12,368
Net profit	4,145	4,168	4,373	4,580
EPS (IDR)	472	475	498	522
y-y	39.6%	0.6%	4.9%	4.7%
NPM	6.2%	5.9%	5.9%	5.9%
ROE	9.5%	9.2%	9.1%	9.1%
P/E	16.8x	16.1x	13.9x	13.2x
P/BV	1.6x	1.4x	1.2x	1.2x

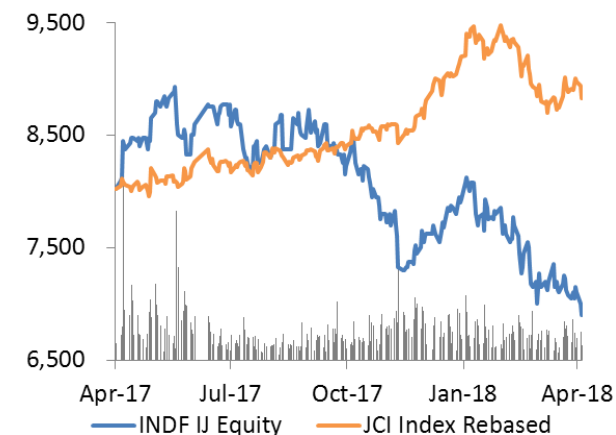
### • A Glance at INDF

Indofood (INDF) has transformed into a Total Food Solutions within the last two decades with the operational activities covering all phases of the processed food production — from raw materials processing into end products available in markets. Now, INDF has its credibility of a leading company in each of its business categories. Its operational activities gain benefits from economics scale and its robust business model consisting of 4 integrated strategic business categories (Group), namely 1) the consumer branded products (CBP) produces a diverse range of consumer branded products, such as instant noodles, dairy products, snacks, food seasonings, nutrition and special foods, and beverages; 2) the Bogasari segment equipped with shipping and packaging business units has main business activity is to produce wheat flour and pasta; 3) the agribusiness segment activities are researches and developments, seed breeding, cultivating and processing oil palm, as well as, production and marketing cooking oil, margarine, and shortening; 4) the distribution segment has a main business activity to distribute most of consumer products manufactured by Indofood, its subsidiaries, and the third parties, to markets.

### • Stable Earnings Margin

INDF likely succeeds in maintaining a stable gross margin at the average of 55% estimated to be maintainable in 2018. The CBP segment dominating 70% of the instant noodle markets in Indonesia is one of the bolsters for stable earnings margin; thus, INDF finds no difficulties in control the selling price. Another to the CBP segment, the flour segment also sets the cost plus selling prices resulting in the maintainable earnings margin.

### Share Price Performance



### Flour Division Sales Trend



## Matahari Department Store (LPPF – Retail)

<b>Dec 2018 TP</b>	<b>13,750</b>
Consensus Price	12,514
TP to Consensus Price	+9.9%
vs. Last Price	+27.6%
<b>Last Price (IDR)</b>	<b>10,775</b>
Price date as of	Apr 26, 2018
52wk range (Hi/Lo)	15,900 / 8,600
Free Float (%)	82.5
Outstanding sh. (mn)	2,918
Market Cap (IDR bn)	31,441
Market Cap (USD mn)	2,264
Avg. Trd Vol – 3M (mn)	3.99
Avg. Trd Val – 3M (bn)	43.1
Foreign Ownership	70.7%
<b>Sales Breakdown:</b>	
Direct Purchase Sales	37.1%
Consignment Sales – net	62.9%

IDR bn	FY2016	FY2017	FY2018E	FY2019E
Sales	9,897	10,024	10,671	11,215
y-y	9.9%	1.3%	6.5%	5.1%
EBITDA	2,795	2,670	3,016	3,177
Net profit	2,020	1,907	2,160	2,275
EPS (IDR)	692	654	740	780
y-y	13.4%	-5.6%	13.3%	5.3%
NPM	20.4%	19.0%	20.2%	20.3%
ROE	136.4%	91.2%	76.2%	60.9%
P/E	21.9x	15.3x	14.6x	13.9x
P/BV	23.8x	12.5x	9.4x	7.6x

### • A Glance at LPPF

LPPF is a retail company running its business through Matahari brand. Its businesses covering retail sales, consignment, and service revenues target the low to middle income classes. Having 156 stores situated across Indonesia, it dominates 42.3% of the retail market share in Indonesia.

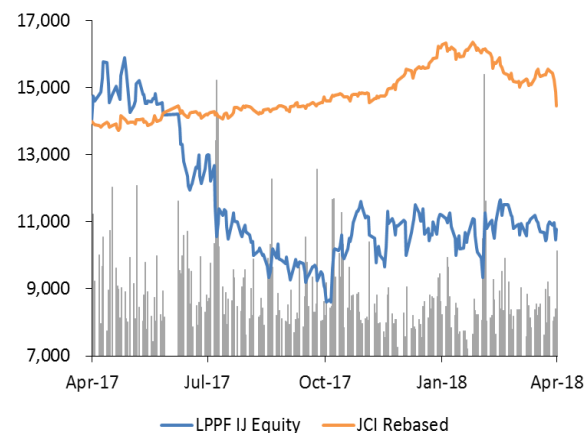
### • Efficiency: Growth Bolster

LPPF posted 4Q17's sales of IDR2.5 trillion (+37% q-q, +4% y-y) and achieved the overall 2017's sales of IDR10 trillion (+1% y-y). Besides, it also posted the increment of 65% in the total transactions compared to 3Q17's total transactions; indeed, it also performed the cost efficiency embodied in reforms of store-staff schedule resulting in a maintainable operational cost and the cash of IDR1.6 trillion (+167% q-q, -8% y-y) albeit the sluggish retail conditions in the domestic market.

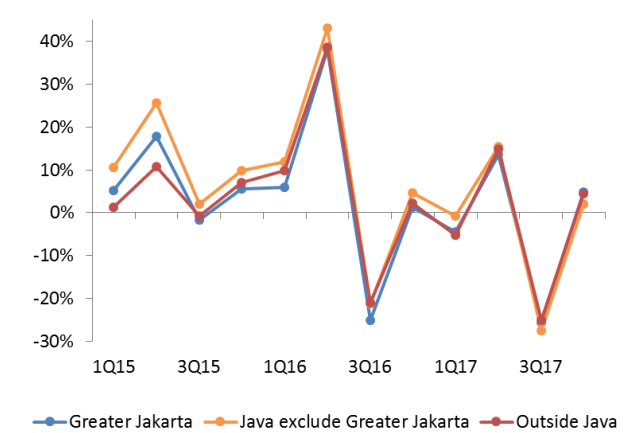
### • A More Effective Marketing Strategy

In 2017, it actively performed a number of strategies to boost its market share, such as the use of big data analytics for figuring the trend of consumer behavior. The increment of 47% in loyalty membership program caused the direct marketing strategy to work more effectively and hit the precise target. Furthermore, the collaboration with Disney and several local artists aimed to boost its sales, particularly the retail sales.

Share Price Performance



SSSG by Region



# PT NH Korindo Sekuritas Indonesia

Member of Indonesia Stock Exchange

**Head Office :**

Wisma Korindo 7<sup>th</sup> Floor  
Jl. M.T. Haryono Kav. 62  
Pancoran, Jakarta 12780  
Indonesia  
Telp : +62 21 7976202  
Fax : +62 21 7976206

**Branch Office BSD:**

ITC BSD Blok R No.48  
Jl. Pahlawan Seribu Serpong  
Tangerang Selatan 15322  
Indonesia  
Telp : +62 21 5316 2049  
Fax : +62 21 5316 1687

**Branch Office Solo :**

Jl. Ronggowarsito No. 8  
Kota Surakarta  
Jawa Tengah 57111  
Indonesia  
Telp : +62 271 664763  
Fax : +62 271 661623

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