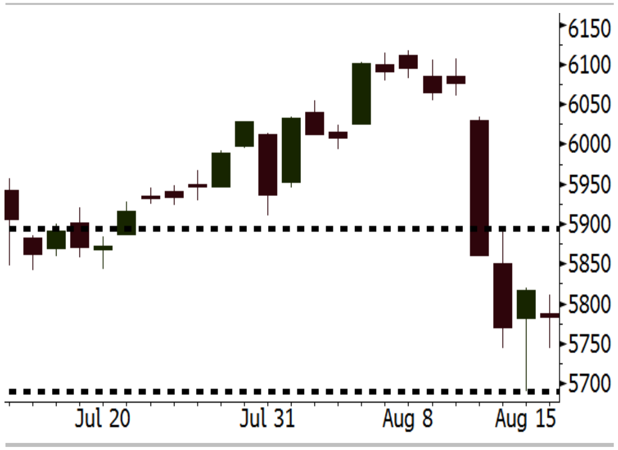
Weekly Brief (August 20 – 24)

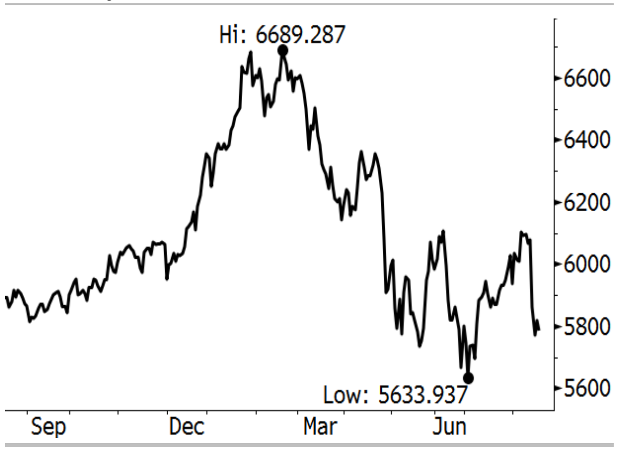
Summary:
Last week JCI posted a steep plunge after the release of July's 2018 highest trade deficit since July 2013. The deficit was attributable to the escalating imports so that the Indonesian government decided to curb the imports of capital goods and consumption goods. JCI's last week movement was also stimulated by the positive sentiments stemming from Bank Indonesia (BI)'s stance of raising 7-Day Reverse Repo Rate by 25 bps to 5.5%. BI proves its concerted commitment to maintaining rupiah's stability.

Within this week investors likely focus on President Joko Widodo's speech, relating to 2019's state budget (APBN), in particular. The government is estimated to focus on spending funds on stimulus for the energy subsidy or other stimuli with a view to maintaining the trend of GDP growth acceleration. Another to stimulus for the energy subsidy and GDP growth, the government and BI likely provide a way more massive stimuli as rupiah comes closer to 14,700: its weakest level since 2015. Meanwhile, we recommend BBRI and PTBA's stocks as top picks. BBRI's stocks are still favorable along with the recovery in credit growth, while PTBA's stocks are another top pick as the government's concerted endeavor to boost coal exports.

JCI - one month



JCI - one year



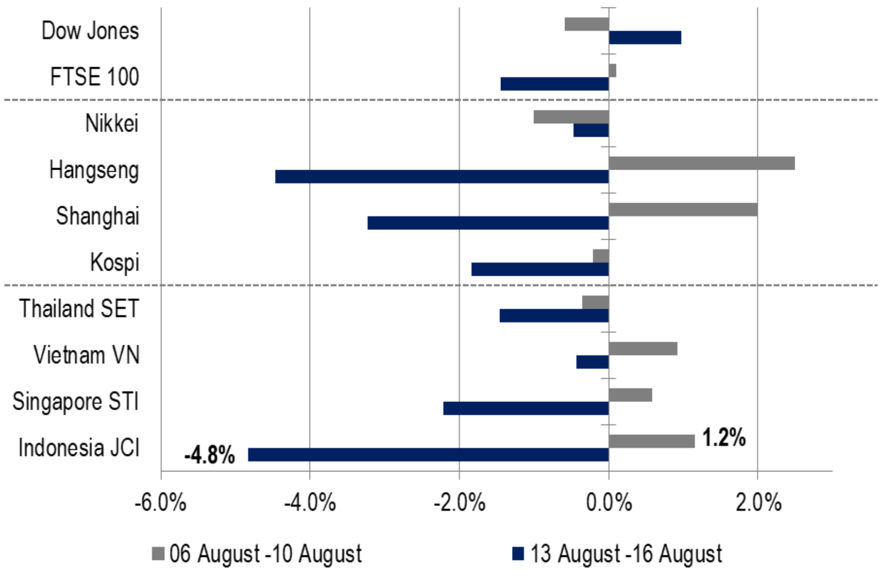
Last Week’s Recap

- Jakarta Composite Index (JCI) : 5,783.80 (-4.83%)
  Foreign Investor : net sell of IDR2.5 trillion (Vs previous week’s net sell of IDR731 billion)
  USDIDR : 14,615 (+0.97%)
  10-year Government Bond Yield : 7.981% (+28.6 bps)

- **Trade Balance Deficit: The Highest Since July 2013**
  July’s trade balance posted the deficit of USD2.03 billion consisting of the deficit of USD842 million and USD1.2 billion respectively in non-oil & gas and oil & gas. Meanwhile, exports only nudged up 19.33%, but imports soared by 31.56%. The steep surge was attributable to the soaring consumption imports by 60.75%, raw material imports by 30.07%, and capital goods imports by 24.81%. Therefore, the Indonesian Government plans to curb imports of consumption goods and capital goods , and reduce oil and gas imports through the mandatory use of B20.

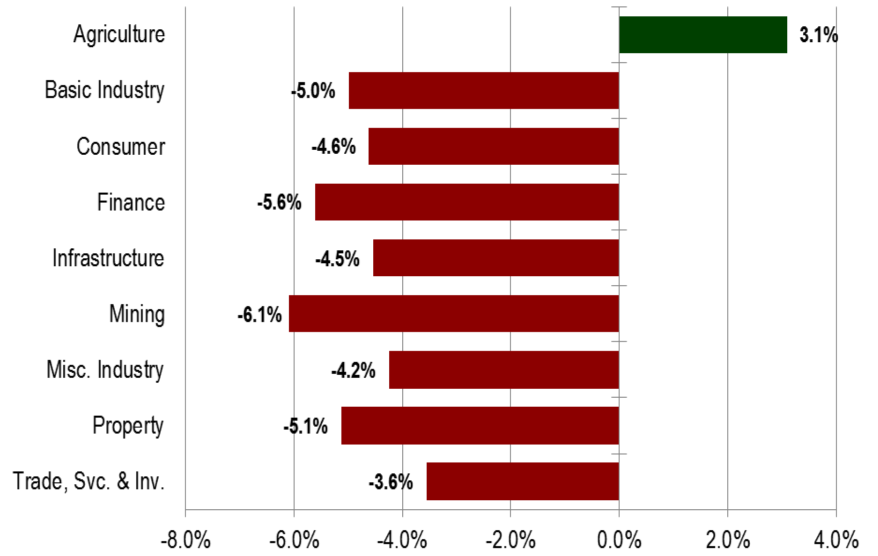
- **BI’s Stance of Higher Benchmark Rate**
  Bank Indonesia (BI) raised its benchmark rate, BI-7 Days Reverse Repo Rate, by 25 bps to 5.5%. The monetary stance is an effort to stimulate the sluggish domestic financial market as the prolonged trade war tension and the uncertainty of the Fed’s rate hike. Indeed, it aims at controlling the exchange rate and current account deficit to stand stably at the safe zone.

Global Equity Market



Source: Bloomberg, NH Korindo Research

Sector Index



Source: Bloomberg, NH Korindo Research

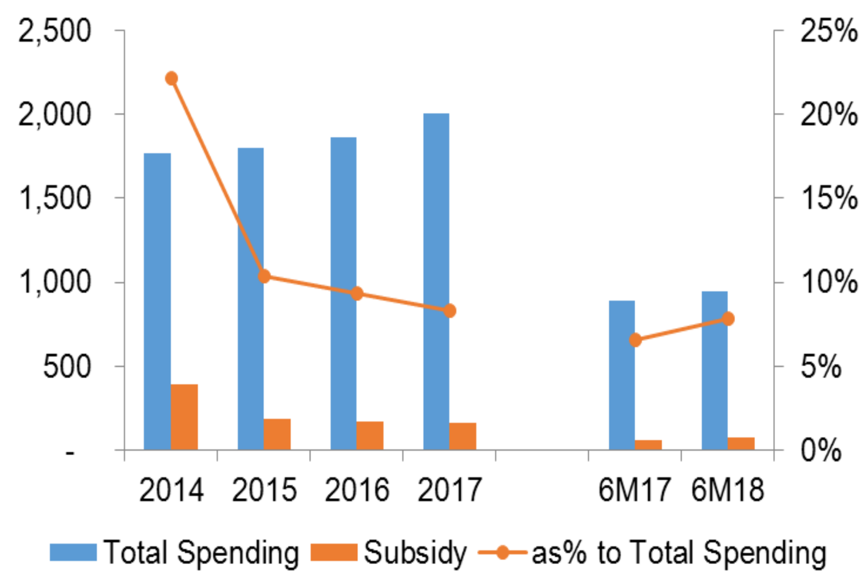
This Week's Outlook

- **President Joko Widodo's Official Speech**
  Within next week investors likely eye President Joko Widodo's official speech: the last speech of his administration from 2014-2019. In his speech, President Joko Widodo will address the draft of 2019's state budget (ABPN). We oversee that the government spent the substantial amount of 2018's APBN on subsidizing energy and other incentives such as a hike in higher THR (13^{th} month salary and Idul Fitri bonus) allocation proved a boon for stimulating 2Q18's economic growth of 5.27%. In prior occasions, the government stated its concerted commitment to subsidizing energy prices. If the government emphasizes on additional incentives for stimulating domestic purchasing power in the draft of 2019's APBN, the consistent recovery in economic growth is likely maintainable until 2019.

- **Rupiah to Near Its Weakest Level Since 2015**
  Rupiah depreciated further since the early of 2018 came closer to 14,700 per USD the weakest level since 2015. Within this week rupiah is likely loomed by the global threat of the Fed's minutes of August's meeting. The minutes are significance ahead of the Fed's meeting of September in which the Fed likely raises its benchmark rate for the third times in 2018. Indonesia's authorities either the Indonesian Government or BI will keep enacting varied stimulus boosting forex reserves and stabilizing rupiah.

- Within this week we estimate that **JCI is likely reign in rebound mood with the range of 5690-5894**. JCI is attractive after last week's steep decline likely spurs buy action on stocks with positive prospects.

Government Spending (IDR tn)



Source: Finance Ministry, NH Korindo Research

USDIDR

Source: Bloomberg, NH Korindo Research

Bank Rakyat Indonesia (BBRI – Bank)

Dec 2018 TP	**3,930**
Consensus Price	3,751
TP to Consensus Price	+4.8%
vs. Last Price	+28.9%
Last Price (IDR)	**3,050**
Price date as of	Aug 16, 2018
52wk range (Hi/Lo)	3,920 / 2,720
Free Float (%)	43.2
Outstanding sh. (mn)	123,346
Market Cap (IDR bn)	376,205
Market Cap (USD mn)	25,730
Avg. Trd Vol – 3M (mn)	161.39
Avg. Trd Val – 3M (bn)	486.42
Foreign Ownership	24.5%
Interest Income Breakdown:	
Loan	86.6%
Non-Loan	13.4%

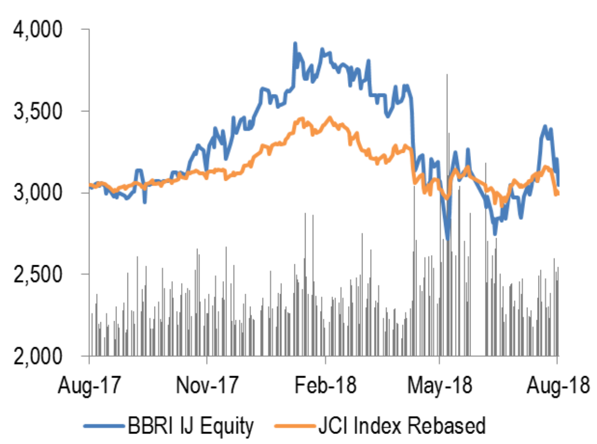
IDR bn	FY2016	FY2017	FY2018E	FY2019E
Int. Income	94,788	102,899	113,843	130,114
y-y	*10.9%*	*8.6%*	*10.6%*	*14.3%*
Op. Rev.	84,580	92,482	105,447	121,282
Net profit	26,196	28,997	32,976	39,022
EPS (IDR)	212	235	267	316
y-y	*3.1%*	*10.7%*	*13.7%*	*18.3%*
NIM	*8.0%*	*7.6%*	*7.8%*	*7.9%*
ROE	*20.2%*	*18.5%*	*18.7%*	*20.0%*
P/E	11.0x	15.5x	11.4x	9.6x
P/BV	2.0x	2.7x	2.0x	1.8x

- **2Q18's Profit Constrained by High Provision**
  BBRI posted the net profit of IDR7.5 trillion or growing by 10.4% y-y—lower than the estimated net profit of IDR8.4 trillion. The lower net profit was attributable to the high provision cost of IDR5.0 trillion (vs. the estimated provision cost of IDR4.2 trillion). Despite the sliding net profit, the 2Q18's interest income, net interest income, operating revenue, and pre-provisioning operating profit (PPOP) were pursuant to the estimate we make.

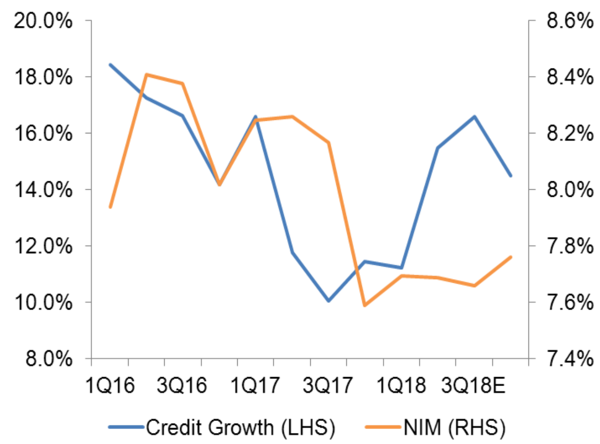
- **Growth Acceleration in Credit Distribution**
  BBRI enjoyed the growth of 15.5% y-y to IDR794.3 trillion in credit distribution. The growth was the all-time high since the 1Q17. Its small commercial segment succeeded to marked the growth of 21%, while its SOE (state-owned enterprise) segment surged by 24% after sliding in the 1Q18. We overview that its 2018's credit outgrows 14%.

- **Expectancy of 2018's Net Profit Acceleration**
  We overview that BBRI likely enjoys the rosier net profit of 13.7% y-y to IDR 33.0 trillion (vs. the 2017's growth of 10.7%). The pressure stemming from the high provision cost likely subdues, particularly in the 4Q18, while the net interest margin likely remains to stand at 7.7% since the 1Q18. Indeed, it most likely enjoys the sliding cost of deposits thanks to the 4Q18's hike in savings account.

Share Price Performance



Credit Growth & NIM



Bukit Asam (PTBA – Coal)

Dec 2018 TP	**5,375**
Consensus Price	4,633
TP to Consensus Price	+15.3%
vs. Last Price	+30.5%
Last Price (IDR)	**4,120**
Price date as of	Aug 16, 2018
52wk range (Hi/Lo)	4,940 / 1,810
Free Float (%)	35.0
Outstanding sh. (mn)	11,521
Market Cap (IDR bn)	47,465
Market Cap (USD mn)	3,247
Avg. Trd Vol – 3M (mn)	38.79
Avg. Trd Val – 3M (bn)	160.43
Foreign Ownership	8.2%
Sales Breakdown:	
Domestic	53.2%
Export	46.8%

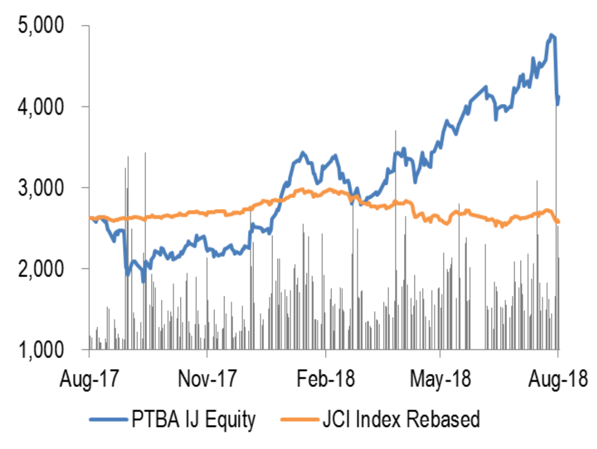
IDR bn	FY2016	FY2017	FY2018E	FY2019E
Sales	14,059	19,471	23,776	24,758
y-y	*2.4%*	*38.5%*	*22.1%*	*4.1%*
EBITDA	2,909	6,584	8,234	8,756
Net profit	2,006	4,476	5,680	6,112
EPS (IDR)	196	425	493	531
y-y	*3.6%*	*117.1%*	*16.1%*	*7.6%*
NPM	*14.3%*	*22.1%*	*25.9%*	*26.5%*
ROE	*20.2%*	*36.8%*	*38.0%*	*36.0%*
P/E	14.4x	6.3x	8.4x	7.8x
P/BV	2.7x	2.1x	3.0x	2.6x

- **1H18's Performance Review: Buoyant Exports**
  PTBA enjoyed the growth of 49.4% y-y to IDR2.57 trillion in net profit, thanks to the upbeat sales volume and exports average selling price (ASP). The exports volume surged 51.2% y-y to 6.2 million tons vs. 4.1 million tons in the 1H17, while the exports ASP beefed up 14.2% y-y. The uptrend of higher global coal price was the potent driver for the rosier ASP. We project that the global coal price likely tops USD85-90/ton until the end of 2018.

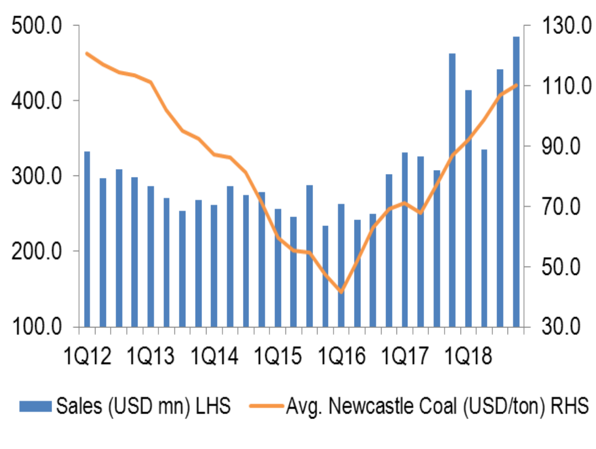
- **Optimizing Low to Medium Calories**
  We estimate that the currently dry season is a potent driver for the escalating demand for the electric supply of air conditioners; therefore, the demand for global coal escalates amid the downward electricity supply by China-based hydropower plants. PTBA can make use of that momentum to increase the FY2018's exports volume to hit 12.4 tons soaring by 42.5% y-y.

- **Reaping Benefits of Quota Transfer Scheme**
  The FY2018's total domestic sales are estimated to reach 13.7 million tons or 54% of the total production. Its estimated achievement in sales enables PTBA to comply with the domestic market obligation (DMO) requirements of supplying coal production of 25% at the minimum to the domestic market. Assuming that 25% of PTBA's coal production in the amount of 6.3 million tons, we estimate that under the quota transfer scheme its overproduction of 7.3 million of coal that can be sold to other miners.

Share Price Performance



Sales & Coal Price | 1Q12 - 4Q18E



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