

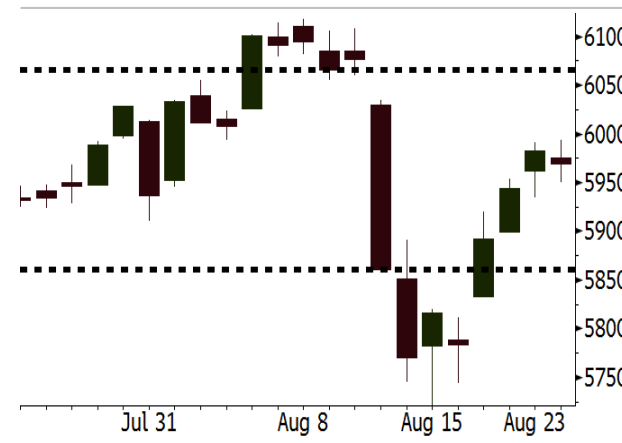
Weekly Brief (August 27 – 31)

Summary:

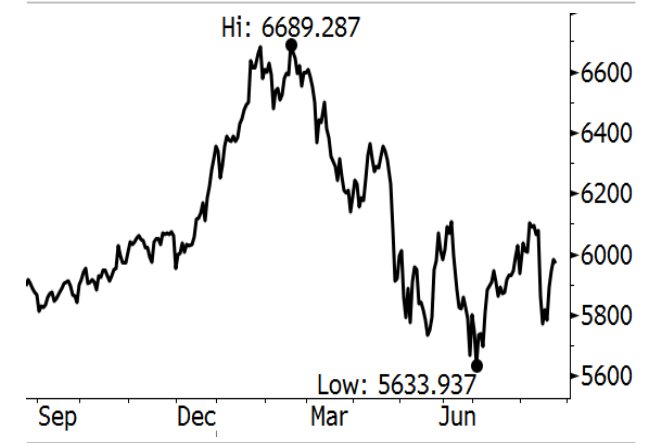
Last week JCI posted a significant rally after it endured a significant correction in prior week. Investors positively responded to the disclosure of the 2019's state budget draft. In the 2019's state budget draft, the government focuses the budget allocation on the development of human resources (SDM) by spending many stimuli capable of maintaining the trend of recovery in domestic purchasing power. Besides, investors also positively respond to the release of the lagging growth figures of Indonesia's foreign debt.

Within this week, investors likely focus on the release of money supply analysis of July 2018 by Bank Indonesia (BI). This analysis mainly focuses on the credit and time deposit rates. Albeit the massive rate increases, the credit and time deposit rates experienced no hike until June. On the other side, investors also face global headwind stemming from the escalating trade war between the U.S. and China although the two countries scheduled trade negotiations. We recommend INCO amid the government's focus on boosting exports commodity. Additionally, KLBF is also top pick as KLBF is the market leader in Indonesia.

JCI - one month



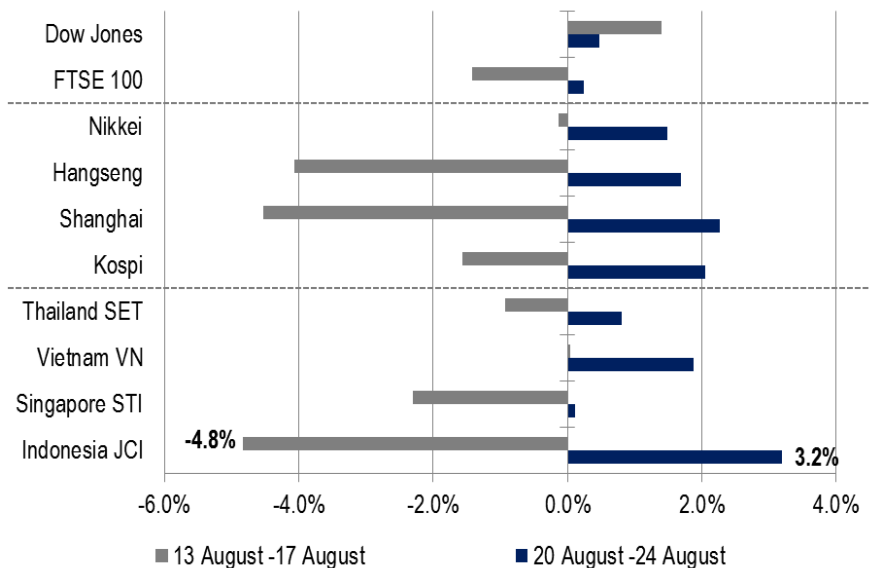
JCI - one year



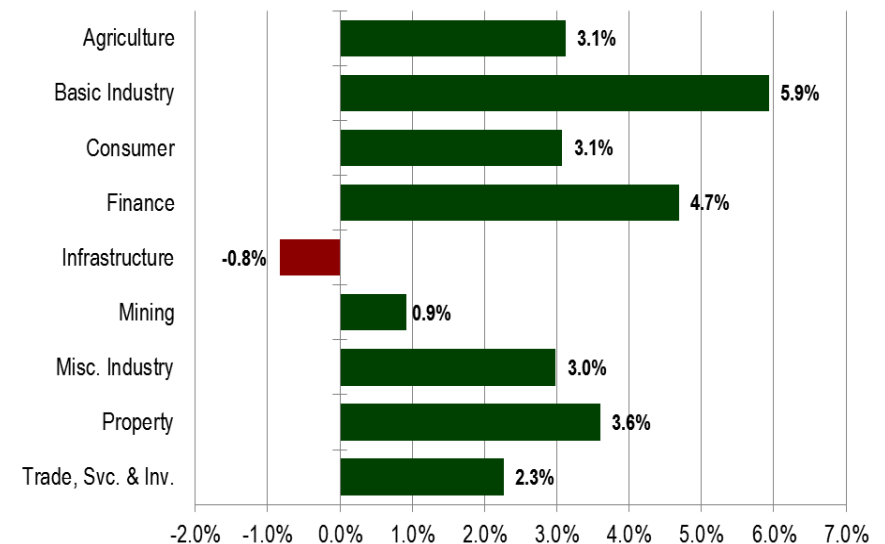
Last Week's Recap

- Jakarta Composite Index : 5,968.75 (+3.20%)
 Foreign Investor : net buy of IDR99 billion (Vs. previous week's net sell of IDR1.78 trillion)
 USDIDR : 14,649 (+0.38%)
 10-year Government Bond Yield : 7.940% (-4.10 bps)
- 2Q18's Lagging ULN**
 The 2Q18's foreign debt (ULN) grew by 5.5% lagging than the 1Q18's ULN of 8.9% y-y and settled stably at the ratio of debt to GDP at the average of 34%. The total ULN reached USD355.7 billion consisting of the government debt and Bank Indonesia's (BI) debt of USD179.7 billion, as well as the private debt of USD176 billion. The lagging ULN growth aligned with the accountable fiscal management buffering such global pressures as the strengthening USD and the trade war tension between the U.S. and a number of countries.
- 2019's State Budget Draft: Focus on Improvement of SDM Quality**
 Based on the disclosure of the 2019's state budget draft (RAPBN), the government will focus on improving the quality of human resources (SDM) and the social assistance program. The Indonesia Smart Card (KIP), Education Operational Assistance (BOS), vocational and undergraduate scholarship are programs for improving SDM. Meanwhile, the national health insurance (JKN), the Family Home Program (PKH), the meal allowance, and the microcredit program are some of the social assistance programs. Additionally, the government is committed to maintaining the welfare of civil servants — officers and retirees — by providing the 13th month salary and the Idul Fitri bonus, the hike of 5% in principal salaries and pension funds, and the hike of 25% in veteran allowance.

Global Equity Market



Sector Index



This Week's Outlook

- **Jitters of the U.S. and China Trade War**

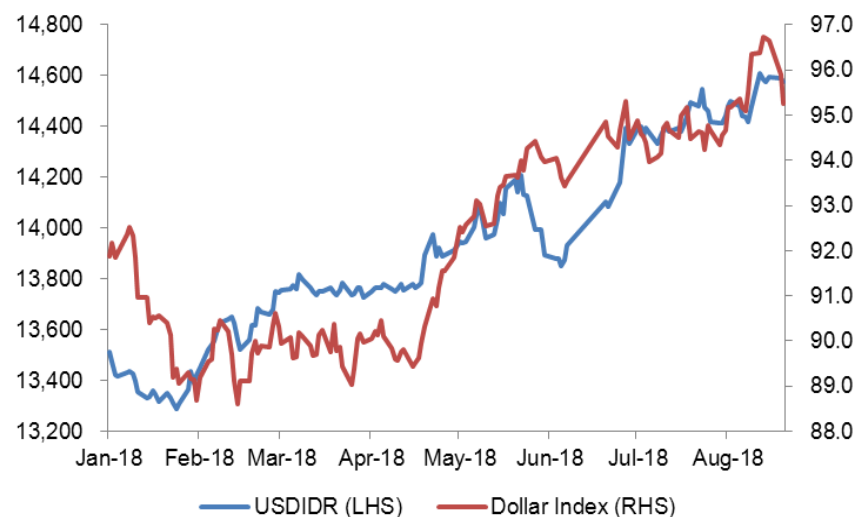
The jitters of the U.S. and China re-emerged after the U.S. imposed the new tariffs of USD16 billion on goods imported from China. The import tariffs by the U.S. ignited China to retaliate by imposing the tariffs worth USD16 billion on goods imported from the U.S. The trade war tension re-escalates when the authorities from the U.S. and China will re-embark the recent-month-deadlock trade negotiation. The backdrop likely drives investors confusing whether the trade war tension between the U.S. and China will subdue or the trade negotiation between the two countries likely ends deadlock. The trade war inevitably causes rupiah to be depreciated and settle at nearly 14,700 per USD on 08/15/18.

- **Credit and Deposit Rates of July 2018**

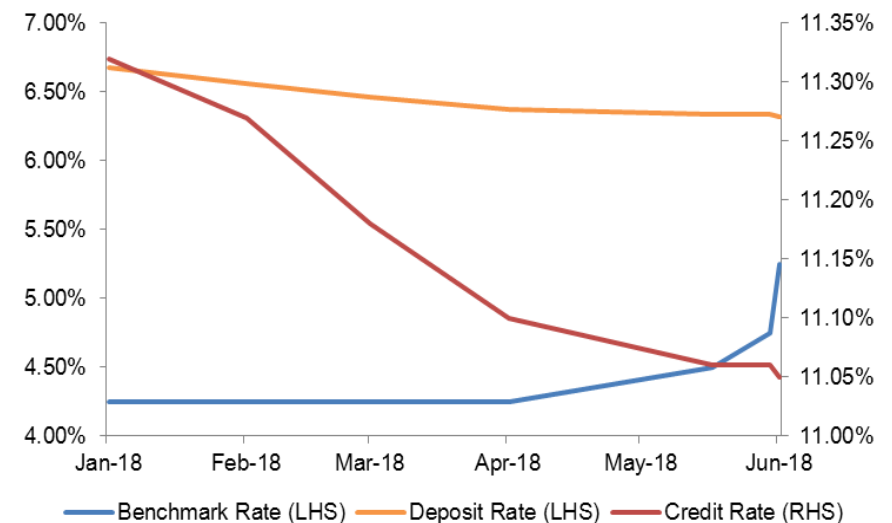
On Friday, 08/31/18, Bank Indonesia (BI) will release money supply analysis of July 2018. The credit and time deposits rates are crucial factors to the money supply. The massive benchmark rate hikes since May have no significant impacts on the credit and time deposit rates of June 2018. In June 2018, the credit rate was 11.05% declining by 0.01% from the prior month, while the rate of time deposit with 12-month tenor was 6.32% declining by 0.02% from the prior month. Investors will await whether the hike of 100 bps in BI's benchmark rate will have significant impacts on the hike in credit and time deposit rates of July.

- Within this week, we estimate that **JCI likely moves at a slightly modest pace with the range of 5861-6066**. Investors need to be watchful of global turmoil arising from the trade war between the U.S. and China.

USDIDR & Dollar Index



Benchmark Rate, Credit Rate, & Time Deposit Rate



Vale Indonesia (INCO – Nickel)

Dec 2018 TP	5,325
Consensus Price	5,302
TP to Consensus Price	+0.4%
vs. Last Price	+36.5%
Last Price (IDR)	3,900
Price date as of	Aug 24, 2018
52wk range (Hi/Lo)	4,720 / 2,510
Free Float (%)	20.5
Outstanding sh. (mn)	9,936
Market Cap (IDR bn)	38,752
Market Cap (USD mn)	2,654
Avg. Trd Vol – 3M (mn)	8.00
Avg. Trd Val – 3M (bn)	33.25
Foreign Ownership	99.8%
Sales Breakdown:	
Nickel Export	100%

USD mn	FY2016	FY2017	FY2018E	FY2019E
Sales	584	629	812	906
y-y	-26.0%	7.7%	29.0%	11.7%
EBITDA	140	105	266	320
Net profit	1	(18)	93	136
EPS (IDR)	2.0	(25.3)	133.3	194
y-y	-97.0%	N/A	N/A	45.5%
NPM	0.3%	-2.9%	11.5%	15.0%
ROE	0.1%	-1.0%	5.0%	6.9%
EV/EBITDA	14.5x	18.6x	9.4x	7.3x
P/BV	1.1x	1.2x	1.4x	1.3x

• 2Q18's Outperformance: Thanks to Soaring ASP

INCO enjoyed the net profit of USD22.5 million or growing by 247.2% y-y and 11.0% q-q. Thanks to the soaring ASP to USD 10,880/ton or edging up 10.0% q-q and 44.3% y-y. The uptrend of higher global nickel prices is a logical takeaway for the soaring ASP. We project that the global nickel prices likely tops USD14,000-14,750/ton in 2018-2019 in light of the growth of 5%-7% in demand for China's steel.

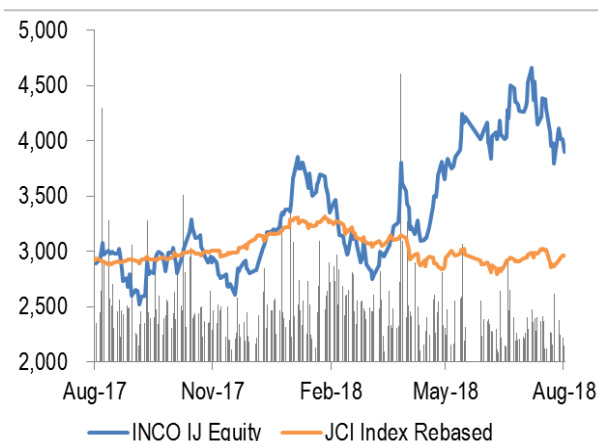
• Buoyant LME Nickel Prices

In ahead years, we estimate that the global nickel prices likely rallies, thanks for positive catalysts: 1) the termination of Philippine-based nickel mine caused detriment to environment, 2) uptrend growth of steel industry in China, 3) the demand for nickel supplied to the electric vehicle (EV) battery industry, 4) the Indonesia government revoking the ban on raw mineral exports.

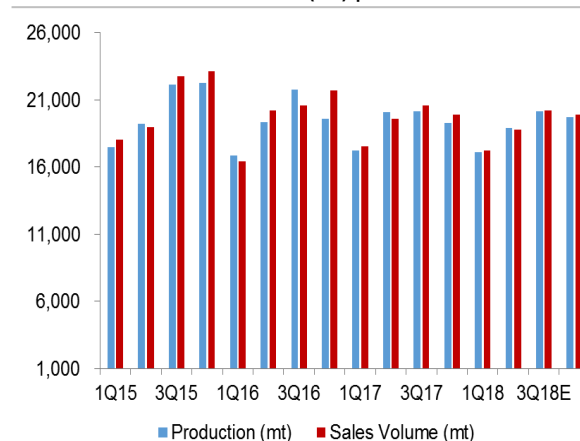
• Optimizing Production of *Intermediate Product*

INCO likely focuses on optimizing the production capacity of intermediate products with 78% nickel content as the catalyst for maximum revenues. Meanwhile, from 2018 to 2019, its capacity production is stable at the average of 76,000 ton/year. On the other side, the downside risks of a prolonged dry season most likely cause production delay due to the shortage of electricity supply from hydropower plant.

Share Price Performance



Production & Sales Volume (mt) | 1Q15-4Q18E



Kalbe Farma (KLBF – Consumer Specialty)

Dec 2018 TP	1,730
Consensus Price	1,418
TP to Consensus Price	+22.0%
vs. Last Price	+33.1%
Last Price (IDR)	1,300
Price date as of	Aug 24, 2018
52wk range (Hi/Lo)	1,785 / 1,155
Free Float (%)	43.2
Outstanding sh. (mn)	46,875
Market Cap (IDR bn)	60,938
Market Cap (USD mn)	4,175
Avg. Trd Vol – 3M (mn)	22.59
Avg. Trd Val – 3M (bn)	29.57
Foreign Ownership	19.7%
Sales Breakdown:	
Distribution & Packaging	30.2%
Nutritional Food	28.8%
Others	20.5%

IDR bn	FY2016	FY2017	FY2018E	FY2019E
Sales	19,374	20,182	20,876	21,898
y-y	8.3%	4.2%	3.4%	4.9%
EBITDA	3,382	3,608	3,544	3,844
Net profit	2,300	2,404	2,420	2,598
EPS (IDR)	49	51	52	55
y-y	14.7%	4.5%	0.7%	7.4%
NPM	11.9%	11.9%	11.6%	11.9%
ROE	19.7%	18.2%	16.6%	16.2%
P/E	30.9x	33.0x	25.2x	23.5x
P/BV	5.7x	5.7x	4.0x	3.6x

• Consistently Robust Sales

KLBF posted a light growth of 3.1% in sales from IDR10.06 trillion in the 1H17 to IDR10.38 trillion in the 1H18. The performance of its overall segments was the booster of the growth in sales. The prescription drugs segment posted the sales growth of 2.7% from IDR2.42 trillion in the 1H17 to IDR2.48 trillion in the 1H18, while the consumer health segment recorded the slight sales growth of 0.7% from IDR1.83 trillion in the 1H17 to IDR1.84 trillion in the 1H18. In addition, the nutritional food segment marked the surging sales of 3.4% from IDR2.89 trillion in the 1H17 to IDR2.99 trillion in the 1H18.

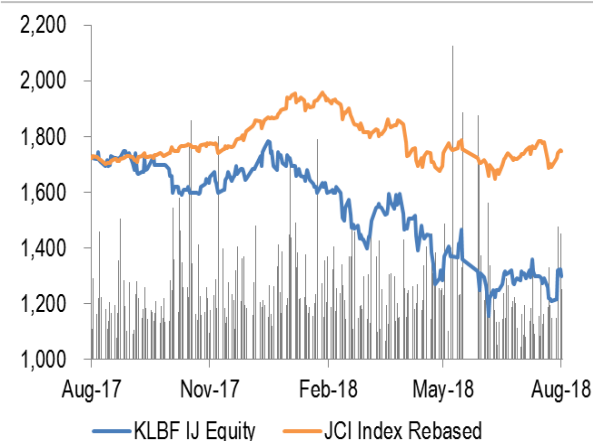
• Profit Constrained by Rupiah Depreciation

The prescription drugs posted the gross margin decline from 56.6% in the 1H17 to 55.4% in the 1H18. The decline was attributable to the rupiah depreciation. Furthermore, the consumer health segment also posted the slight gross margin decline from 55.7% in the 1H17 to 54.9% in the 1H18. The decline was also attributable to the rupiah depreciation. In addition, the rupiah depreciation also caused the nutritional food segment to suffer from the gross margin decline from 57.9% in the 1H17 to 55.8% in the 1H18. The rupiah depreciation during the 1H18 caused KLBF's gross profit to grow only by 1.4% from IDR4.92 trillion in the 1H17 to IDR4.99 trillion in the 1H18. Meanwhile, its net profit grew by 0% to IDR1.21 trillion in the 1H18.

• Rupiah Appreciation Sparking Positive Opportunities

KLBF is a top pick stocks for investors who are optimistic that rupiah is likely appreciated in 2019. The consistent rupiah appreciation will have positive impacts on KLBF's outperformance. KLBF as the market leader in Indonesia is likely capable of adjusting the selling prices of its products easily by passing on costs to consumers.

Share Price Performance



USDIDR | 2017-2018



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