

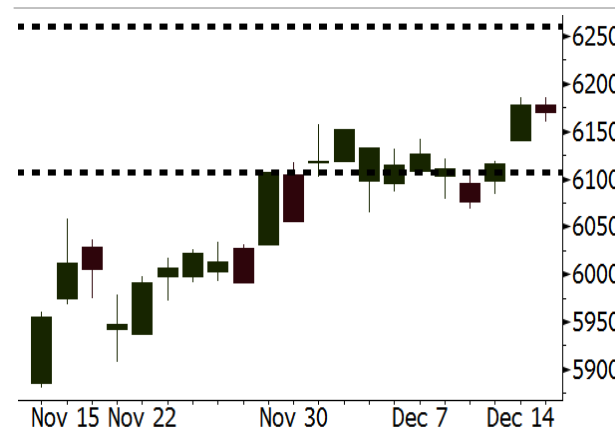
Weekly Brief (December 17 – 21)

Summary:

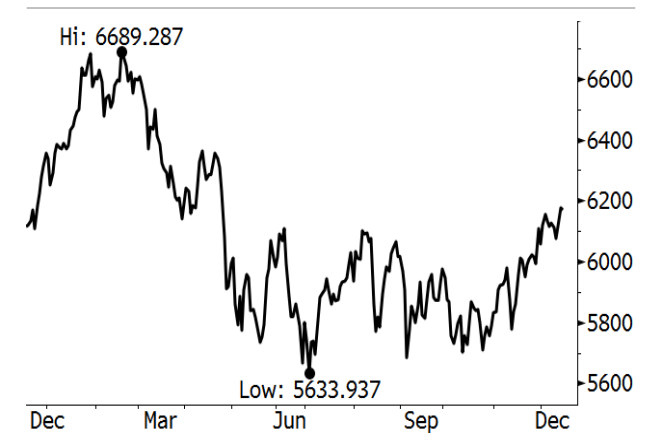
Last week, JCI re-posted the rally. JCI's last-week rally was better than that of the decline in most global markets. Although it experienced the pressure stemming from the slowdown in retail sales, JCI was capable of strengthening further, underpinned by the subdued trade war tension between the U.S. and China as China's authorities plan to cut import tariffs imposed on the U.S. automotive.

This week, we estimate JCI to rally further. This week, investors will digest the release of November's trade balance. Indonesia posted the trade deficit of USD1.8 billion in October. Investors estimated the trade deficit in November is likely to lower. On the other hand, the Fed's meeting will be in the spotlight. The estimated slowdown in the U.S. economy, investors expect the Fed to halt the trend of monetary tightening. For this week, we recommend ADRO backed by its attractive valuation. Another to ADRO, we also recommend TLKM as it has rosier performance amid the domination in the telecommunication industry.

JCI - one month



JCI - one year



Last Week's Recap

- Jakarta Composite Index (JCI) : 6,169.84 (+0.71%)
- Foreign Investor : net sell of IDR2.3 trillion (vs. previous week's net sell of IDR765 billion)
- USDIDR : 14,581 (+0.70%)
- 10-year Government Bond Yield : 8.118% (+8.3 bps)

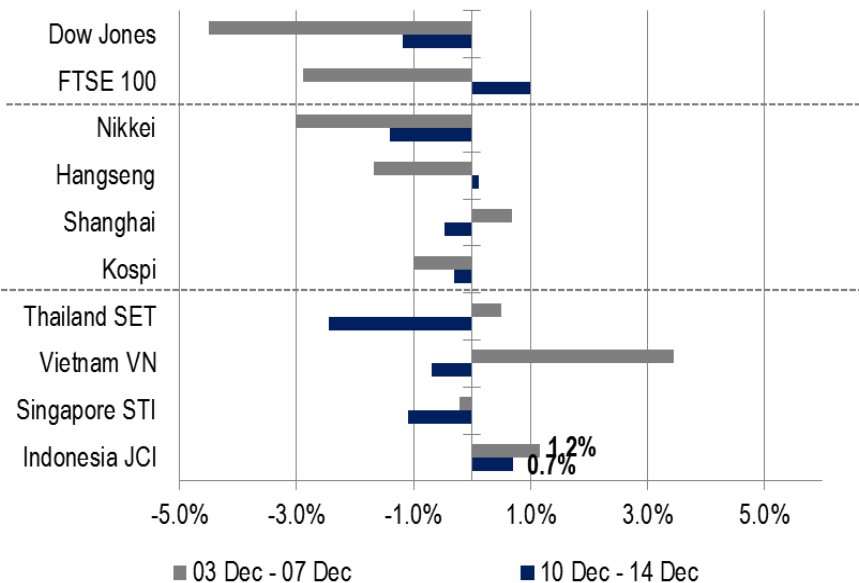
October's Lagging Retail Sales

The retail sales survey showed that October's retail sales were positive; the Real Sales Index (IPR) in October grew by 2.9% y-y, slightly lower than September's growth of 4.8% y-y. The retail sales were backed by the apparel commodity and the vehicle fuels commodity. Bank Indonesia (BI) estimated that the retail sales consistently hiked by 3.4% y-y in November.

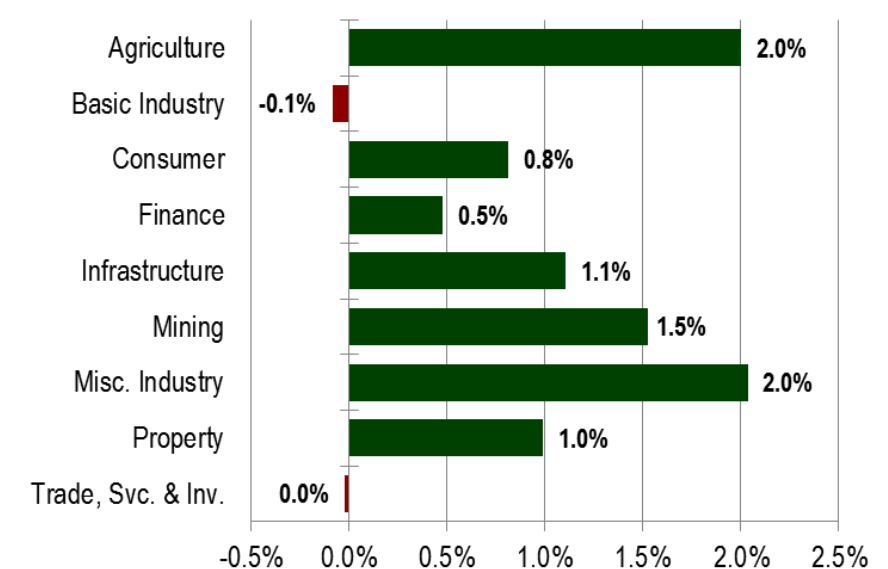
China to Agree to Cut Tariffs on the U.S. Automotive into 15%

China agreed to cut tariffs imposed on the U.S. automotive and spare parts from 40% to 15%. Chinese authorities evaluate the policy within few days ahead. The trade deal was taken after the G-20 summit in Argentina in the early of December. In July 2018, China hiked tariffs of 40% imposed on the U.S. automotive. It was tit-for-tat import tariffs against the U.S. tariffs on Chinese products. The tariffs cut succeeded to spur global stock markets in positive territory; for example, European, Asia, and the U.S. markets mostly rallied last week.

Global Equity Market



Sector Index



This Week's Outlook

- November's Exports—Imports**

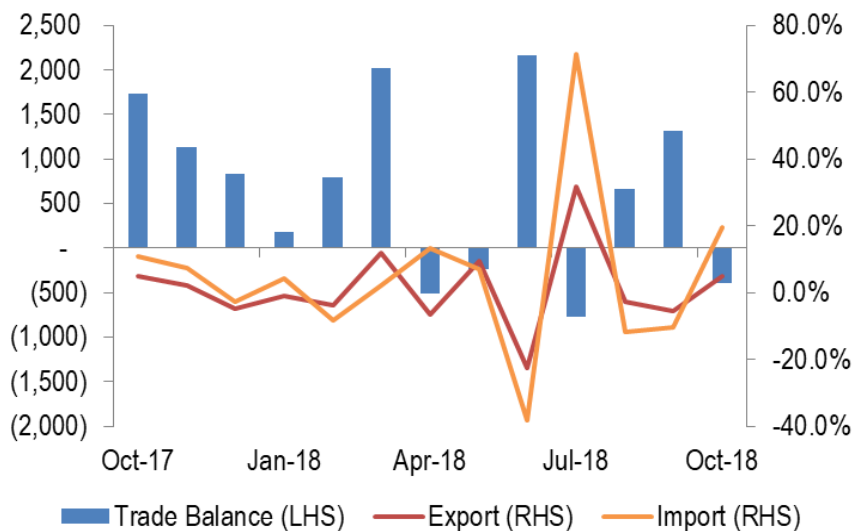
The Central Statistics Agency will release the data of November's exports and imports on Monday, 12/17/18. October's trade balance posted the deficit of USD1.80 billion. October's deficit occurred after September's surplus of USD230 million. On a cumulative basis, from January to October 2018, the trade deficit was at USD5.51 billion. The trade deficit was beset by the worse performance of non-oil and gas trade balance, particularly the surge in non-oil and gas imports of USD2.40 billion (m-m) and the decline in imported machinery and mechanic air flights in September. In addition, the trade deficit was spurred by the higher oil and gas trade deficit due to the hike of USD620 billion (m-m) in imported oil and gas, particularly refined oil.

- December's Fed Meeting**

The Federal Open Meeting Committee (FOMC) is scheduled to be held on December 18-19, 2018. The Fed is estimated to hike its Fed Fund Rate (FFR) in the FOMC. Investors are likely to keep their wary eyes on the Fed's stance of 2019 hinted in Jerome Powell's speech articulated in the meeting. On Wednesday, 11/28.18, Jerome Powell stated that the Fed's rate stands near to its neutral level. The statement is in a stark contrast to his speech in September. Thus, investors await FOMC meeting in December.

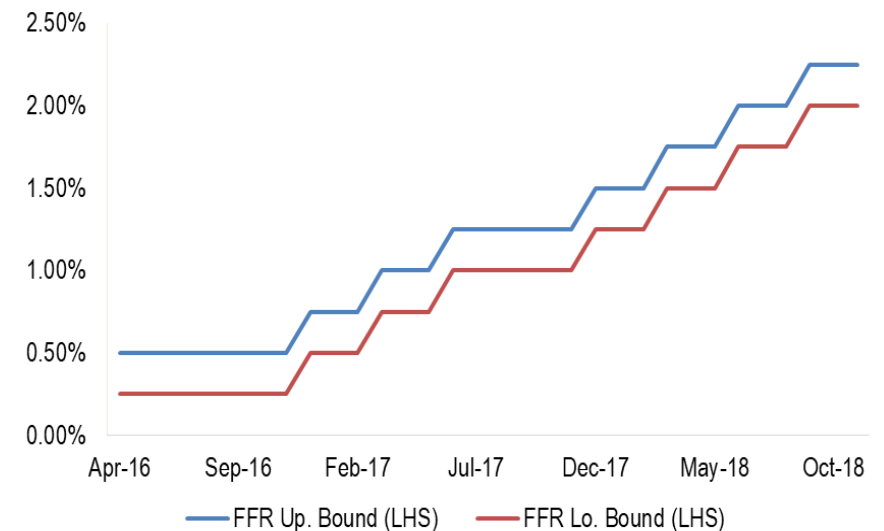
- We estimate JCI to rally within the range of 6107-6260. The trend of JCI's rally is estimated to continue further until the end of 2018, leaving only 8 trading days.

Trade Balance



Source: Bloomberg, NH Korindo Research

Fed Fund Rate



Source: Bloomberg, NH Korindo Research

Adaro Energy (ADRO – Coal)

Dec 2019 TP	1,970
Consensus Price	2,272
TP to Consensus Price	-13.3%
vs. Last Price	53.3%
Last Price (IDR)	1,285
Price date as of	Dec 14, 2018
52wk range (Hi/Lo)	2,650 / 1,220
Free Float (%)	43.7
Outstanding sh. (mn)	31,986
Market Cap (IDR bn)	41,102
Market Cap (USD mn)	2,813
Avg. Trd Vol – 3M (mn)	61.14
Avg. Trd Val – 3M (bn)	93.06
Foreign Ownership	33.1%
Revenue Breakdown	
Sales of Coal	92.3%
Mining Contracting	5.7%
Others	2.0%

USD mn	FY2017	FY2018E	FY2019E	FY2020E
Sales	3,258	3,639	3,884	4,242
y-y	29.1%	11.7%	6.7%	9.2%
EBITDA	1,206	1,331	1,277	1,283
Net profit	483	439	552	628
EPS (IDR)	206	210	266	305
y-y	44.4%	-9.2%	25.7%	13.9%
NPM	14.8%	12.1%	14.2%	14.8%
ROE	11.3%	9.5%	10.9%	11.9%
P/E	9.0x	7.6x	5.9x	5.2x
P/BV	1.1x	0.7x	0.7x	0.6x

• 2018F Preview: A Lot Stable Performance

For FY 2018, we estimate ADRO to post the revenue of USD3.9 billion (+6.7% y-y) and the net profit of USD551 million (+25.7% y-y). The net profit margin is at 12.1% (vs. 14.8% in 2017). We are sanguine about ADRO's capability to hit the 2018F sales target of 53-56 million tons of coal. ADRO has a robust balance sheet, a substantial amount of internal cash, and the least amount of debt, with the net debt to equity ratio of only 0.3x and the growth of 6.8% y-y in operating cash flow.

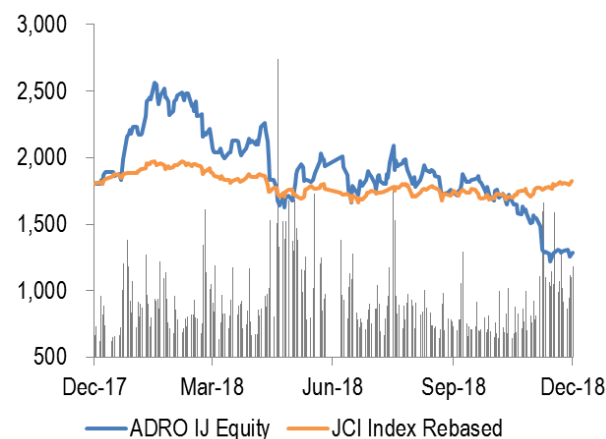
• Expansion on Renewable Energy

In 2019F, we oversee ADRO to likely to balance the revenue obtained from the sales of thermal coal by diversifying its revenues from the renewable energy sector (EBT). In future years, ADRO is likely to develop solar power plants with the capacity of 100MW in Sumatera. Through its subsidiary, PT Adaro Power, ADRP performed bidding projects of state-owned electricity firm (PLN). We oversee that the power plant projects are much profitable to spur its long-term performance. Now, PT Adaro Power only contributes 2% from ADRO's overall revenues.

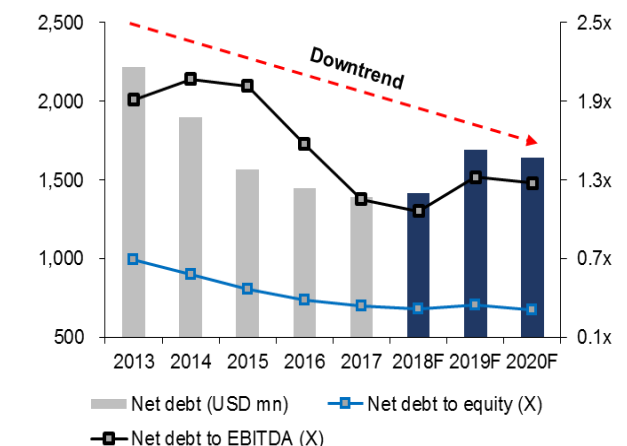
• Expand Thermal Coal Destination

To anticipate the slowdown in demand for coal by China, ADRO expands its thermal coal export markets. ADRO increases its sales portion to ASEAN countries, particularly Vietnam because coal-fired power plant s mushroom in Vietnam. However, its sales in the domestic market constitute the biggest portion: 25% of the overall sales. We oversee that its position as the supplier of coal-fired power plants in ASEAN countries gives ADRO two benefits, i.e., 1) the destination of Indonesia to ADRO's export markets in ASEAN is not far; 2) Most coal-fired power plants in ASEAN countries still make use low-calories coal.

Share Price Performance



Reduce debt and improved financial position



Telekomunikasi Indonesia (TLKM – Telco Operator)

Dec 2019 TP	4,700
Consensus Price	4,333
TP to Consensus Price	+8.5%
vs. Last Price	+26.0%
Last Price (IDR)	3,730
Price date as of	Dec 14, 2018
52wk range (Hi/Lo)	4,450 / 3,250
Free Float (%)	47.9
Outstanding sh. (mn)	99,062
Market Cap (IDR bn)	369,502
Market Cap (USD mn)	25,298
Avg. Trd Vol – 3M (mn)	87.22
Avg. Trd Val – 3M (bn)	324.39
Foreign Ownership	28.8%
Revenue Breakdown	
Data, internet & IT Service	60.2%
Cellular voice & SMS	22.2%
Others	17.6%

IDR bn	FY2017	FY2018E	FY2019E	FY2020E
Sales	128,256	134,284	148,149	164,194
y-y	10.2%	4.7%	10.3%	10.8%
EBITDA	64,609	61,556	68,092	75,927
Net profit	22,145	19,864	22,720	25,663
EPS (IDR)	220	201	229	259
y-y	14.4%	-10.3%	14.4%	13.0%
NPM	17.3%	14.8%	15.3%	15.6%
ROE	20.3%	17.2%	18.3%	19.2%
P/E	20.2x	19.7x	17.2x	15.2x
P/BV	4.0x	3.3x	3.0x	2.8x

• Profitable Paradoxical Phenomenon

The number of Telkomsel declined into 167.8 million in the end of September 2018 (vs. 177.9 in the end of June 2018) as the impacts of SIM card registration. However, the payload data keeps increasing to 1.14 million terabyte (+90.8% y-y). It causes the improvement in the quality and subscribers' loyalty. Of note, the number of subscribers, who consistently uses Telkomsel's services for more than 12 months, hike. The number of Indihome's subscribers were 5 million in the end of November: reaching 100% of the 2018 target.

• 2019 Capex Budget

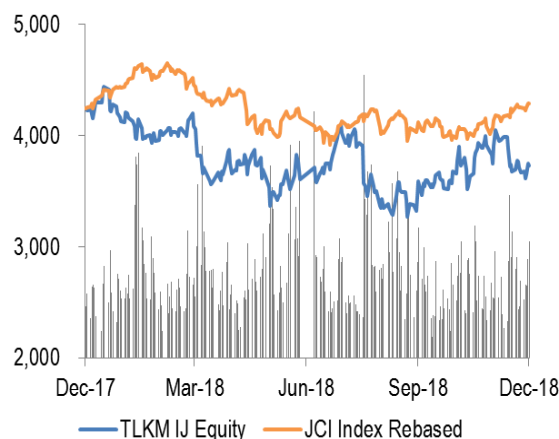
The company targets the FY2019 capex of 25% from the revenue or IDR30 trillion at minimum. The capex will be allocated for mobile business by 50%, fixed broadband Indihome by 30%, and other business expansion by 20%.

• Capital and Dividend Profile

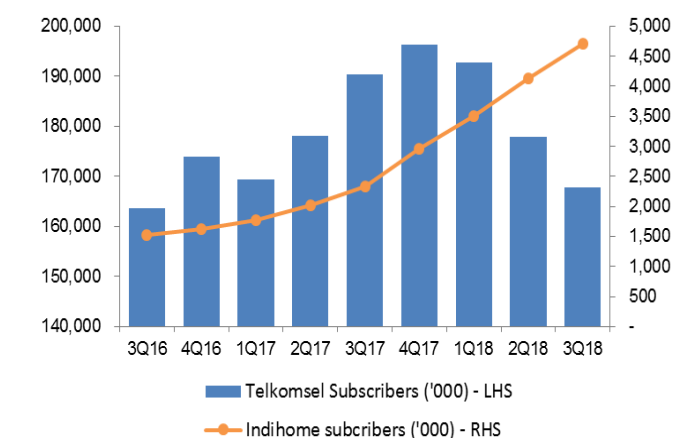
TLKM has lower risks of capital because its debt ratio is only 21%. 5% of its total debt is in foreign currencies denomination so it is likely to be exposed to the minimum risks of forex loss. Besides, TLKM is one of the most stable company in distributing the dividend with the payout ratio of 75% in 2017.

Ahead of the political year in 2019, the increment in telecommunication access and data gives a boon for the telecommunication industry. Besides, the more efficient performance, backed by the healthy fundamental will allow TLKM to continue its growth.

Share Price Performance



Telkomsel and Indihome Subscribers | 3Q16 – 3Q18



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