

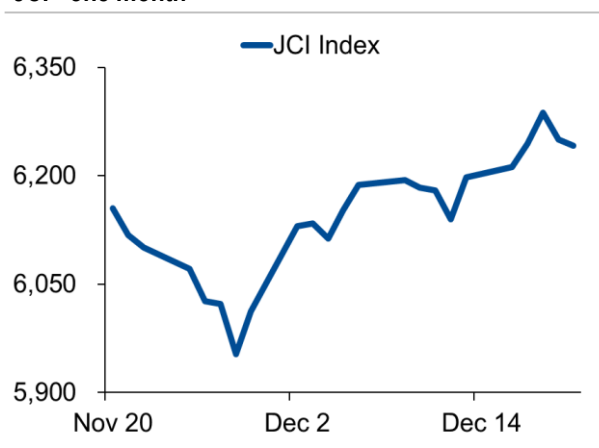
Weekly Brief (December 23rd – December 27th)

Summary:

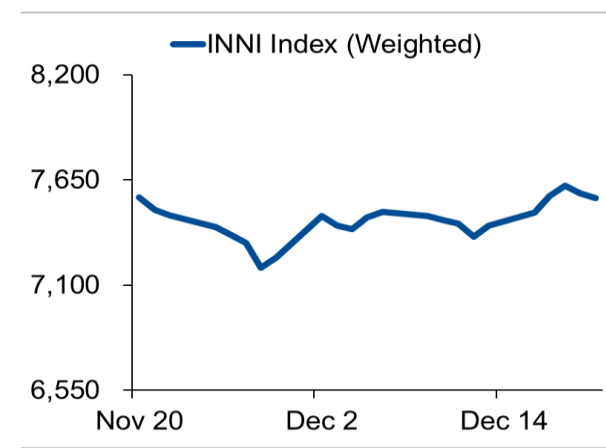
Last week review: Domestic sentiments such as trade balance reading and looser BI 7-DRRR were main catalysts for JCI while foreign inflows came flooding in JCI's large-cap. stocks, banking particularly. From the global backdrop, the success of phase I trade deals between the US and China to temper the global volatility. But, the impeachment of President Trump by the House re-escalated anxiety about the global state.

This week's outlook: Bank Indonesia (BI) within the early 11 months in 2019 relaxed BI 7-DRRR for 100 bps to be at 5%. But, banks did not directly adjust their lending loans to looser BI 7-DRRR to leave loan rates for the construction sector soaring. The unchanged loan rates coupled with an economic slowdown weakened prices and demands for commercial property. PWON as a property developer with high recurring income (52% of the total revenues) proves its resilience, supported by the rental & service maintenance, hotel revenue & other business revenues. We recommend PWON to hit the price target of IDR750 on grounds of a 61.7% NAV discount.

JCI - one month



INNI Index – one month



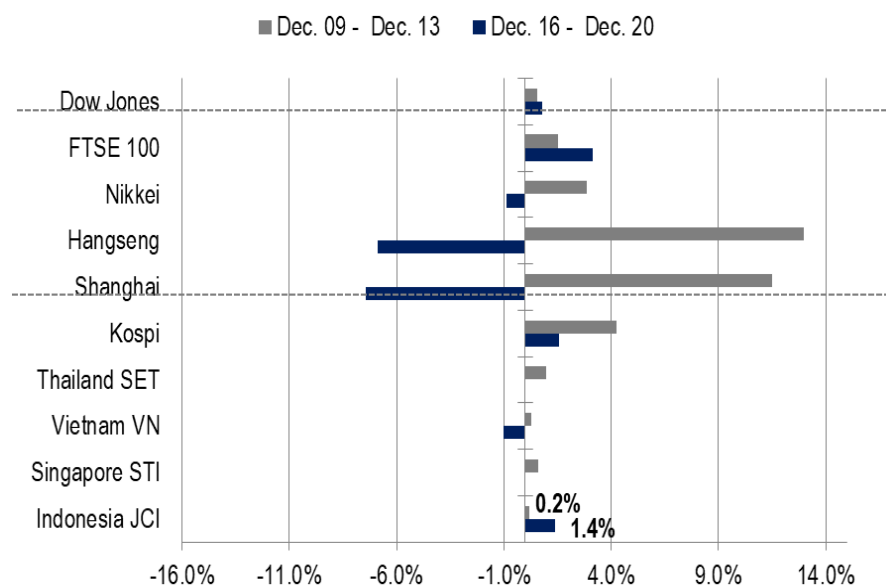
Last Week's JCI Movement

- JCI Index : 6,284.37 (+1.4%)
- Foreign Flow : Net buy of IDR5.89 trillion (vs. net buy last week of IDR209 billion)
- USD/IDR : 13,989 (-0.01%)
- Yields of sovereign bond with 10-years tenor : 7.175% (-5.80 bps)

JCI Rose

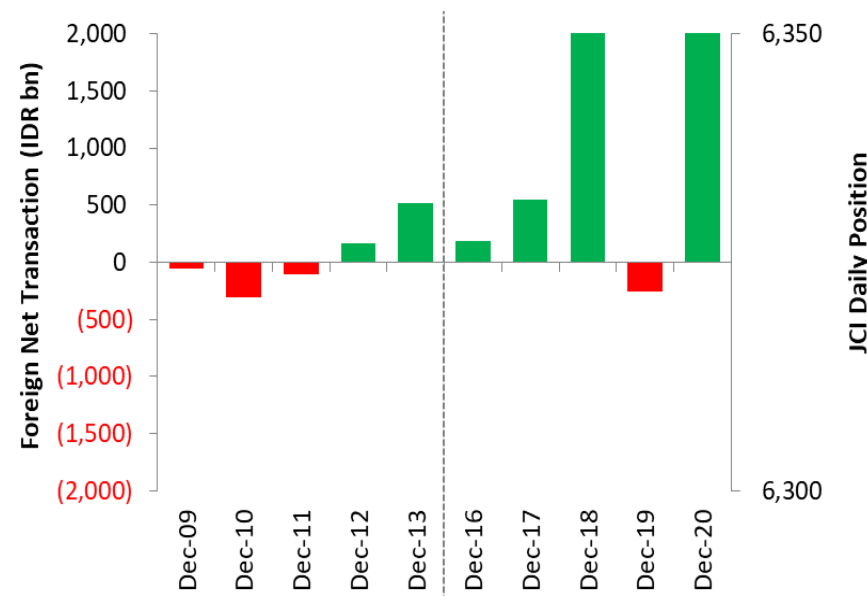
JCI pointed higher as the US-China to reach I phase of trade deals shootened global state soothed the global tensions. Three-day foreign inflows helped JCI to cope with the trade balance deficit of USD1.33 billion as it kept staying at the green zone until Wednesday's trading session of Dec. 18, 2019. Wednesday's rally was also backed by BI's easing monetary following the two-day BI's Board of Governors Meeting to hold BI 7-DRRR at 5% as what economist estimated. The settled I phase trade deal was one of the underlying reasons for unchanged BI 7-DRRR. Three-day foreign inflows into JCI's large-cap stocks, banking stocks in particular evidenced foreign investors' optimism about Indonesia's economic stability. Meanwhile, the negative global sentiment of Trump's impeachment by the House impacted little on JCI. On Friday, Dec. 12, JCI rose, underpinned by the infrastructure sector.

Global Market Movement



Source: Bloomberg, NHKS Research

Foreign Net Flow – Last 10 Days



Source: Bloomberg, NHKS Research

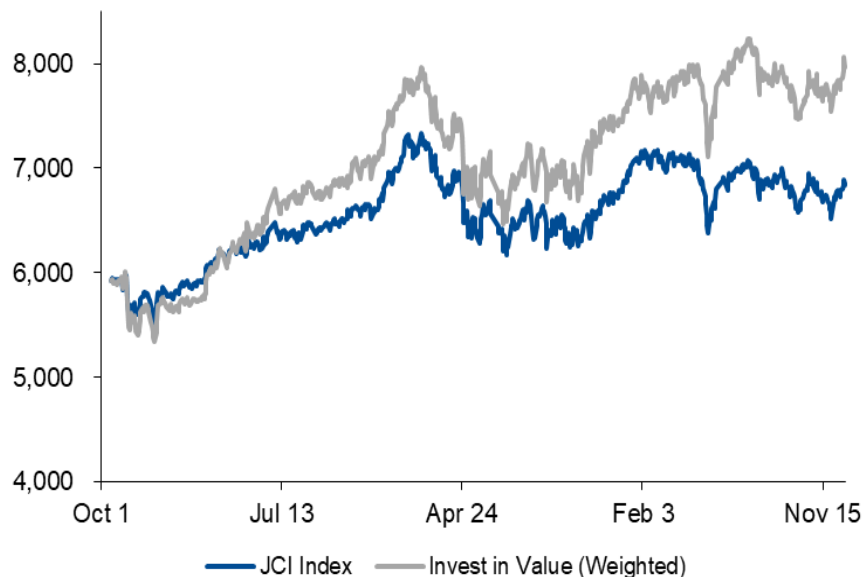
Last Week's INNI Movement

•INNI Index	: 8,290.73 (+1.8%)
INNI Theme 1 (Value)	: 8,035.07 (+2.5%)
INNI Theme 2 (Trend)	: 8,726.03 (+0.7%)

INNI Inched Higher

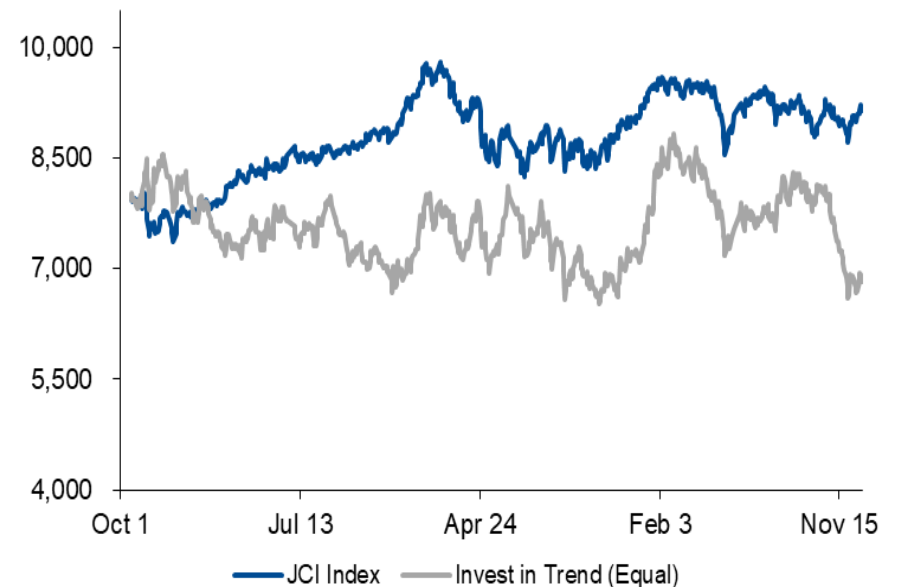
INNI index, on Monday of Dec. 16, was at rally mood, sustained by retailer stocks, i.e., RALS (+10.1%). Retailers cheer seasonal momentum of Christmas and New Year as they promote the year-end sale to whet shoppers' insatiable appetite for spending. For a few days in the mid-week, INNI stayed solid, underpinned by property stocks, i.e., PWON whose senior notes were rated as Ba2 notes with a stable outlook by Moody's. PWON's sufficient liquidity is a logical takeaway for its consistent Ba2 rating. On Friday of Dec. 20, INNI index inched lower, held back by ADRO. ADRO decided to not take over any coal mines in 2020 and to focus only on developing its existing coal mines.

Theme 1. Invest in Value (19 Stocks) – Market Cap Base



Source: Bloomberg, NHKS Research

Theme 2. Invest in Trend (11 Stocks) – Policy Base



Source: Bloomberg, NHKS Research

Last Week Sectoral Review

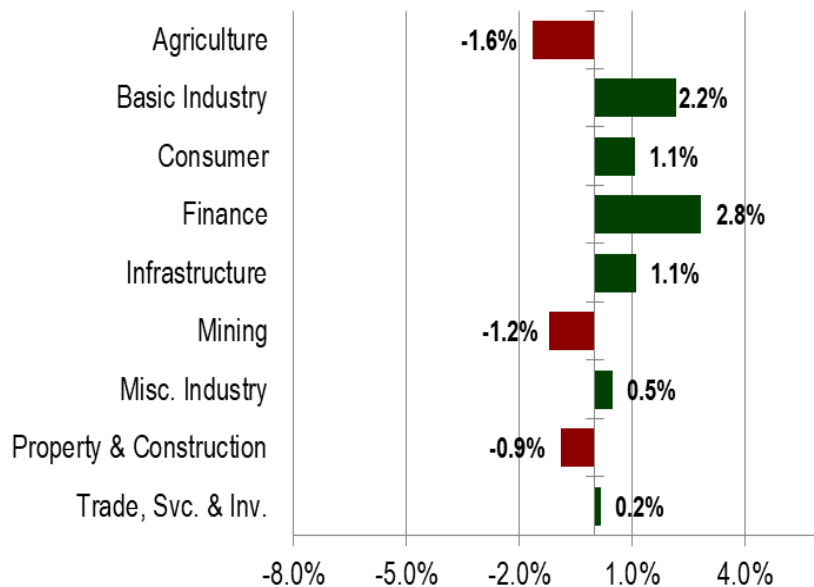
• JCI's Top Gainers

Last week, stocks listed on JCI virtually were bullish as banking stocks, whetting investors' appetite, secured the largest gains of 2.8% among the rest. On Thursday of Dec. 19, Bank Indonesia (BI) decided to hold BI 7-DRRR unchanged and open any possibilities of relaxed macroprudential policies to boost banking performance. BI's front-loaded decision on grounds of the rupiah appreciation, Credit Default Swap (CDS), and yields of short-term government bonds (SUN) standing at the lowest level.

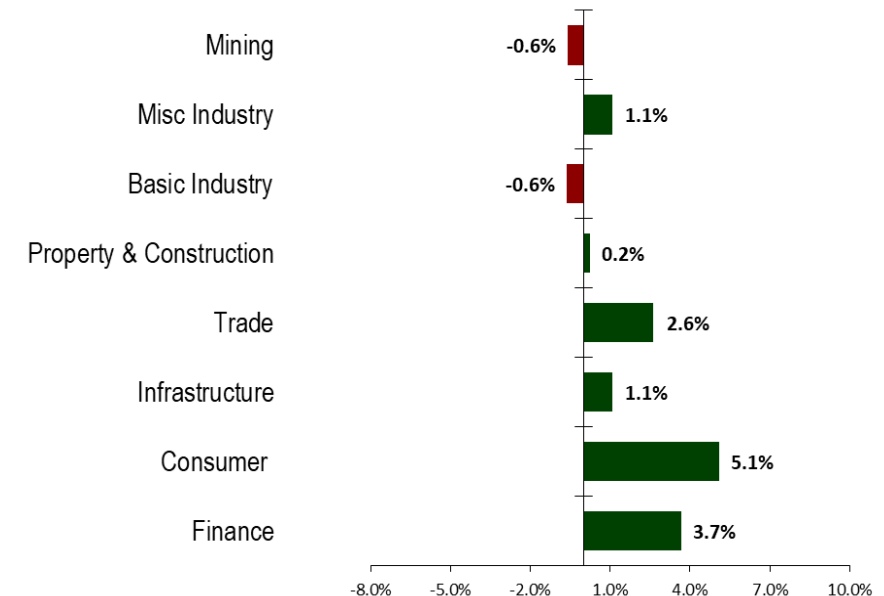
• INNI Index's Top Gainers

Last week, consumer goods stocks won the largest gains of 5.1%, and subsector pharma stocks snapped higher, i.e., (+0.62%) and KAEF (+23.9%). The Indonesian authorities through the Government Regulation (PP) No. 76 the Year of 2019 regulate a pharmaceutical holding company to be incorporated in the early of 2020; in fact, President Jokowi ever ordered to erase any regulations impeding the development of the pharmaceutical industry.

JCI's Last Week Sectoral Movements



INNI's Last Week Sectoral Movements



This Week's Outlook: Property and Real Estate

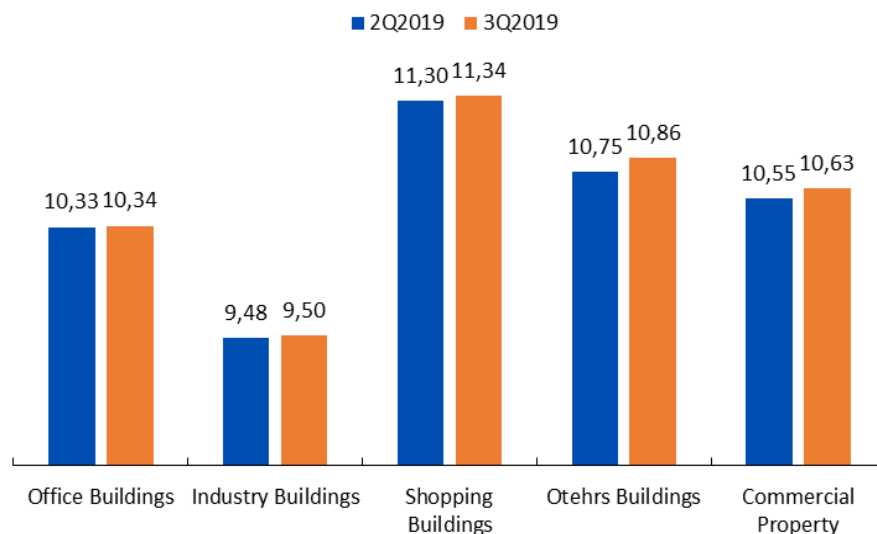
- **Anticipate Looser Loan Rates**

President Joko Widodo in his speech in Indonesia Banking Expo (IBEX) on Nov. 6, 2019 urged banks to loosen their loan rates because Bank Indonesia (BI) within 11 months in 2019 has eased BI 7-DRRR by 100 bps to stand at 5%. But, a number of banks are still reluctant to relax their rates, and loan rates are still at 10%, to ease slightly from 10.72% in July to 10.64% in September. Take a deeper look at the construction sector in 3Q19, rates of loans facilitated to the shopping center construction at 11.34% were the highest while rates of loans facilitated to buildings construction and commercial property at 10.36% and 10.63% positioned as the second and third highest level, respectively.

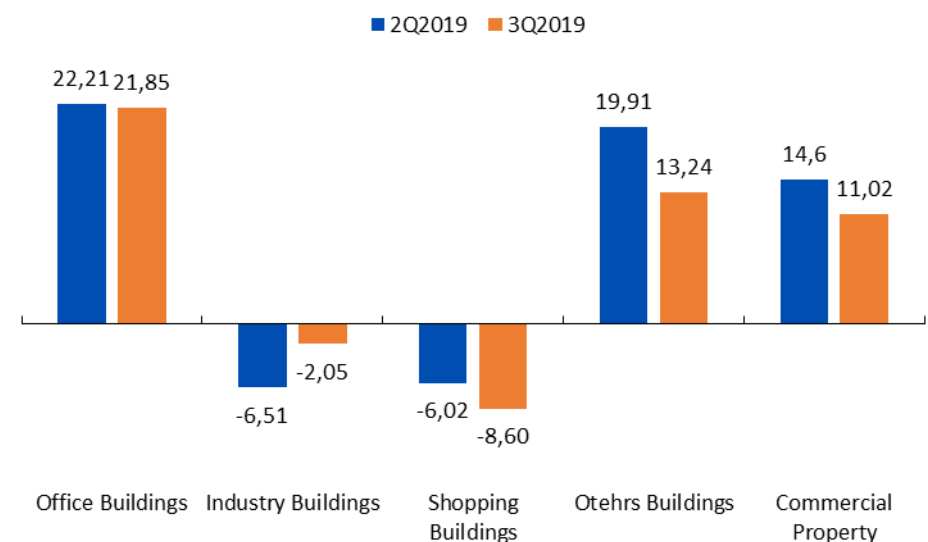
- **3Q19 Construction Loans**

The 3Q19 construction loans, on a quarter or annual basis, slowed; in fact, soaring loan rates and Indonesia's slowing economic growth left loans for shopping center construction tumbling at 6.02% that that of 8.60% in 3Q18, let alone dipping deeper commercial property construction from 14.06% in 3Q18 to 11.02% in 3Q 19. Loans for different construction sectors virtually weakened, excluding loans for industrial-estate construction. This sector showed the highest demand for loans among the rest despite its modest performance.

Rate of Construction Sector (%)



Growth of Construction Loans - Yearly (%)



Source: BI , NHKS Research

Source: BI, NHKS Research

This Week's Outlook: Property and Real Estate

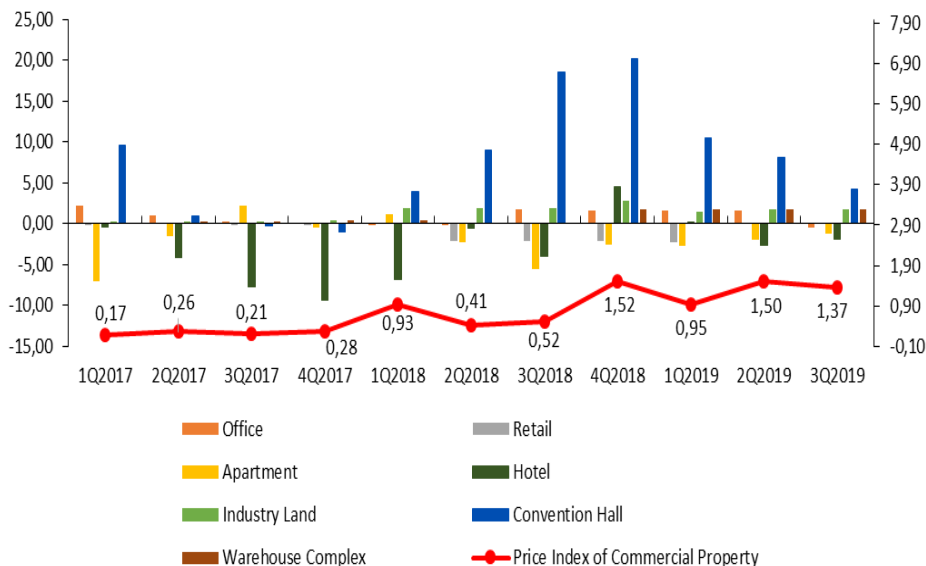
• Prices for Commercial Property Slid

Public needs for large space to hold Meeting, Incentive, Convention, and Exhibition (MICE) and social events, as well as wedding parties are worth a fortune for building providers. The demands for commercial property, i.e., apartments, hotels, offices, retails, and convention centers are worth of fortune for the property developers and spur property prices. After increasing 1.12% from 4Q17, the index of commercial property prices on an annual basis slid from 1.50% in 3Q18 to 1.37% in 3Q19. The rented office segment dived deepest to 3.09% y-y, rented apartments to 1.19% y-y, and hotels to 1.94% y-y on grounds of low demands.

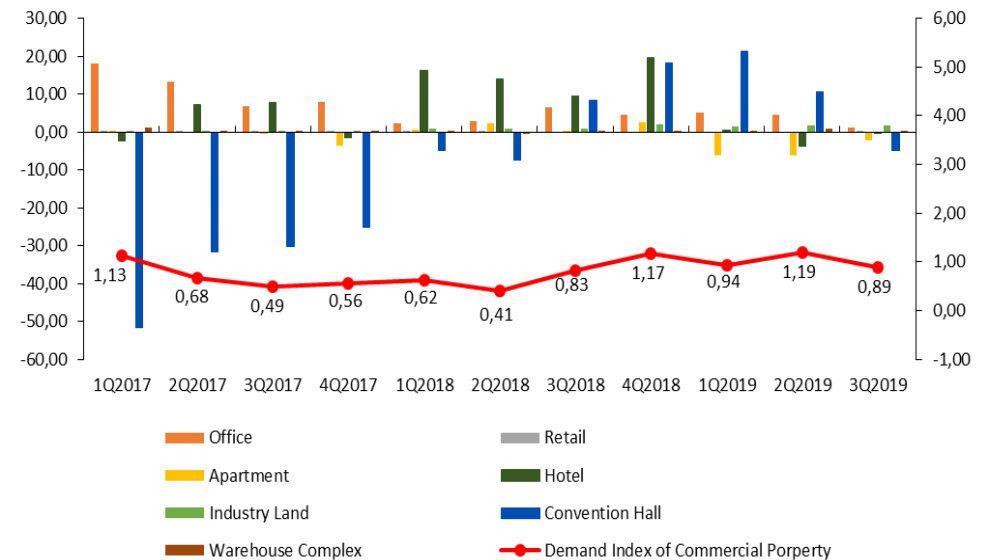
• Low Demands for Commercial Property

The index of commercial property on an annual basis softened, to tumble to 0.89% (y-y) in 3Q19 prior to its higher level of 1.19% (y-y) in 2Q18. Offices, convention centers, and warehouse complex to record the slowest growth among the rest was the major cause for the disappointing index. The imbalance between mushrooming buildings and least office occupancy left rented offices in Jakarta, Semarang, Balikpapan, and Palembang tumbling. Furthermore, the 3Q19 demand for convention centers was not as favorable as the 2Q19 demand due to low frequencies of MICE and other parties amid the economic slowdown.

Property Price Growth Index – Yearly (%)



Commercial Property Demand Index - Yearly (%)



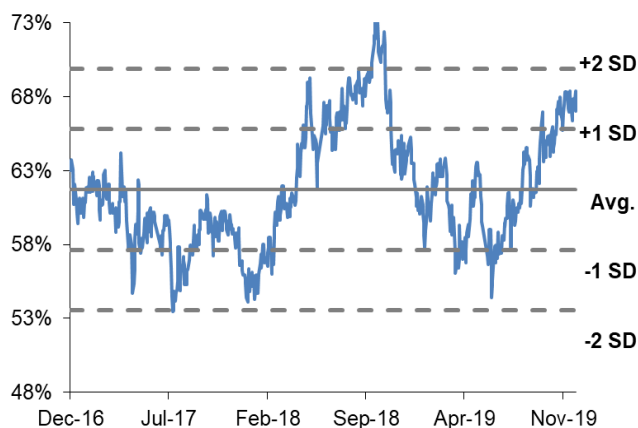
Pakuwon Jati Tbk (PWON IJ – Property and Real Estate)

Dec 2020 Price Target	750
Consensus Price	729
Last Price (IDR) as of Nov 20, 2019	570
PT vs. Last Price	31.6%

Breakdown:	
Condo Sales	67.2%
Retail Leasing	14.6%
Others	6.7%

IDR Bn	FY2018A	FY2019E	FY2020E	FY2021E
Revenue	7,081	6,907	7,185	7,264
y-y	23.1%	-2.5%	4.0%	1.1%
Op. Profit	3,076	3,457	3,594	3,613
EBITDA	3,681	3,760	3,853	3,755
Net Income	2,549	2,660	2,787	2,739
ROA	10.51%	10.74%	9.90%	9.03%
ROE	22.19%	18.39%	16.03%	14.65%

Discount to NAV Band | Last 3 Years



Source : Bloomberg, NHKS Research

- **NHKS** recommends PWON estimated to reach the price target of IDR750, using a discount to NAV of 61.7%. Despite the low demands for property and declining prices of commercial property, we view PWON to be quite robust, supported by its high rise projects and large recurring income.

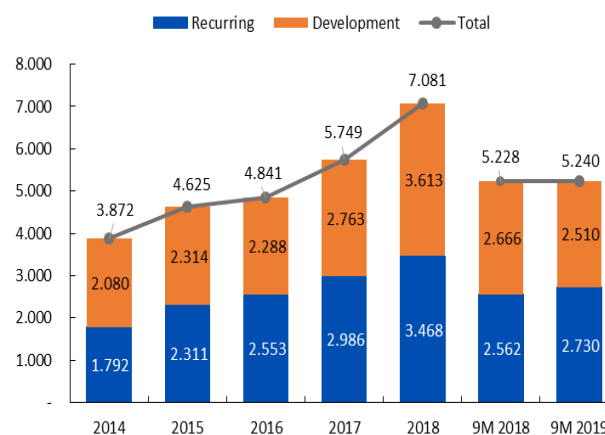
Recurring Income Soars Whereas Commercial Property Lags

PWON is most likely to stay robust with the recurring income to contribute 55.5% to total revenues, while the remaining percentage of 45% was contributed by development revenue. The 3Q19 recurring revenue made a 5.8% gain to IDR955 billion, backed by the rental & charges service, hotel revenues, and other operating revenues. Furthermore, the 3Q19 development revenues declined by 17.8% to IDR781 billion from IDR950 billion in 3Q18. Whereas the commercial property segment softened in demands and prices, the recurring income segment was buoyant. The rental & service charges recorded a 6% hike to IDR632 billion in 3Q19 as did hotel revenues, soaring 8.5% to IDR133 billion in 3Q19 from IDR123 billion in 3Q18. In addition, other operating revenues edged up 6.7% to IDR189 billion.

PWON: Leading Developer Outside Jakarta

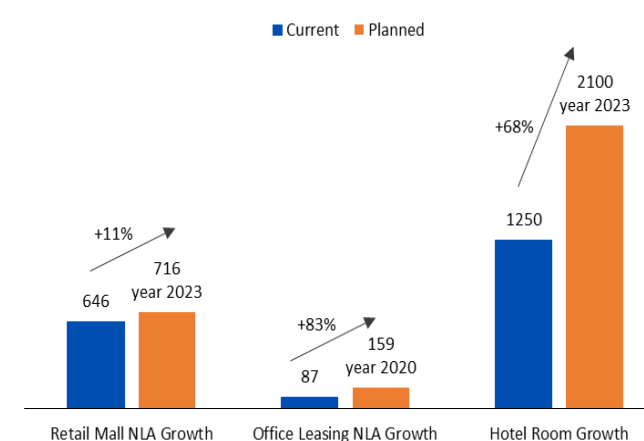
In the middle of 2019, PWON was chosen as the best property and real estate, proven by its outstanding performance of managing shopping centers, offices, hotels, and residential property. Another to managing large projects such as Kota Kasablanka and Gandaria City, PWON also manages large projects, i.e., superblocks, land bank, and the biggest shopping centers in Surabaya; thus, it is known as the property tycoon in Surabaya. On Sunday (12/08), PWON officially runs the operation of Four Points Hotels in Surabaya, while the Westin is still under construction. To strengthen the recurring income segment, PWON at the end of 2019 also plans to build Bekasi-based superblock comprising of one mall, two hotels, and four condominium towers.

PWON Revenue | 2014 – 2018; 9M2018 & 9M2019



Source : Company Data, NHKS Research

Recurring Revenue | PWON



Source: Company Data, NHKS Research

INNI Index's Stocks 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	33,300	31,800	32,000	Hold	(3.9)	4.7%	821.0	29.0x	4.9x	18.1	1.1	15.0	13.0	
BBRI	Theme 1	4,360	4,280	4,950	Hold	13.5	1.9%	537.8	15.8x	2.7x	18.2	3.0	10.8	5.6	
BMRI	Theme 1	7,700	7,375	8,275	Hold	7.5	4.4%	359.3	13.2x	1.8x	14.7	3.1	10.6	11.9	
Consumer															
GGRM	Theme 1	53,100	52,025	75,075	Buy	41.4	2.1%	102.2	11.0x	2.2x	20.5	4.9	16.9	25.8	
UNVR	Theme 1	41,625	41,225	59,000	Buy	41.7	1.0%	317.6	43.4x	46.1x	92.3	2.9	2.6	(24.4)	
ICBP	Theme 1	11,525	11,450	12,875	Hold	11.7	0.7%	134.4	27.0x	5.6x	22.2	1.2	11.2	11.4	
INDF	Theme 1	7,925	7,750	8,700	Hold	9.8	2.3%	69.6	14.3x	1.9x	14.2	2.2	5.7	25.2	
KAEF	Theme 2	1,320	1,065	3,210	Buy	143.2	23.9%	7.3	31.6x	1.0x	4.7	1.1	14.6	(81.4)	
KLBF	Theme 2	1,610	1,600	1,870	Buy	16.1	0.6%	75.5	29.4x	4.9x	17.6	1.6	7.3	6.2	
Infrastructure															
TLKM	Theme 1	4,020	3,990	4,700	Buy	16.9	0.8%	398.2	19.7x	4.0x	21.3	4.1	3.5	15.6	
JSMR	Theme 1	5,300	5,225	6,000	Hold	13.2	1.4%	38.5	19.9x	2.1x	11.3	0.9	(22.8)	(15.2)	
Trade															
UNTR	Theme 1	21,250	21,175	39,550	Buy	86.1	0.4%	79.3	7.4x	1.4x	19.8	5.8	#N/A	N/A	(4.8)
SILO	Theme 2	6,975	6,925	7,230	Hold	3.7	0.7%	11.3	202.2x	1.8x	0.9	N/A	N/A	1333.7	
MIKA	Theme 2	2,690	2,680	2,300	Hold	(14.5)	0.4%	38.3	58.2x	9.2x	16.4	0.7	17.2	12.1	
LPPF	Theme 2	4,370	3,700	5,500	Buy	25.9	18.1%	12.3	15.7x	6.8x	37.8	7.6	0.7	(18.7)	
RALS	Theme 2	1,000	1,035	1,515	Buy	51.5	-3.4%	7.1	10.0x	1.6x	17.1	5.0	(2.0)	15.8	
MAPI	Theme 2	1,025	1,030	1,300	Buy	26.8	-0.5%	17.0	20.8x	2.9x	14.8	1.0	11.4	14.7	
Property															
PWON	Theme 1	570	570	750	Buy	31.6	0.0%	27.5	9.4x	1.9x	22.2	1.2	0.2	20.8	
CTRA	Theme 1	1,085	1,060	1,080	Hold	(0.5)	2.4%	20.1	19.9x	1.4x	7.2	0.9	(0.7)	(28.9)	
PTPP	Theme 1	1,635	1,650	2,450	Buy	49.8	-0.9%	10.1	8.7x	0.8x	9.4	3.0	8.6	(37.6)	
WSKT	Theme 1	1,490	1,445	2,500	Buy	67.8	3.1%	20.2	14.6x	1.1x	7.8	4.9	(39.2)	(69.4)	
WIKA	Theme 1	1,980	2,050	2,100	Hold	6.1	-3.4%	17.8	8.0x	1.1x	15.3	1.9	(12.9)	57.3	
Basic Ind.															
JPFA	Theme 2	1,535	1,575	1,940	Buy	26.4	-2.5%	18.0	11.6x	1.8x	16.1	3.3	7.3	(38.6)	
SMGR	Theme 2	12,375	12,300	14,600	Buy	18.0	0.6%	73.4	32.1x	2.4x	7.5	1.7	31.1	(38.1)	
INTP	Theme 2	20,000	20,000	22,300	Hold	11.5	0.0%	73.6	43.2x	3.3x	7.6	2.8	5.3	90.4	
Misc Ind.															
ASII	Theme 2	6,925	6,850	8,600	Buy	24.2	1.1%	280.3	13.7x	2.0x	14.9	3.0	1.2	(7.1)	
Mining															
ADRO	Theme 1	1,540	1,590	1,750	Hold	13.6	-3.1%	49.3	6.9x	0.9x	13.6	5.9	(0.5)	29.8	
PTBA	Theme 1	2,600	2,580	5,100	Buy	96.2	0.8%	30.0	6.6x	1.7x	26.4	13.1	1.4	(24.9)	
INCO	Theme 2	3,570	3,490	3,370	Hold	(5.6)	2.3%	35.5	439.9x	1.3x	0.3	N/A	(12.6)	N/A	
ANTM	Theme 2	830	850	1,200	Buy	44.6	-2.4%	19.9	24.8x	1.0x	4.1	1.5	23.0	(11.1)	

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