

# Weekly Brief (February 18 – February 22)

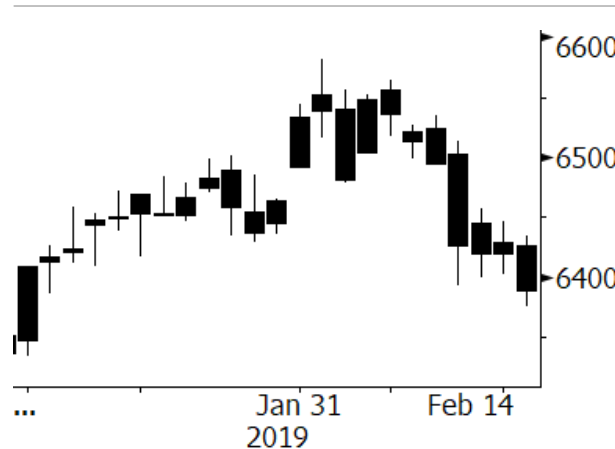
## Summary:

Last week, JCI dropped 2% as most of its sectors underwent downward corrections. Based on the percentage, the miscellaneous industry hit hardest to 5.9%, whereas the financial industry - the biggest contributor to JCI - dipped 2.3%. The simultaneous slump swept stocks listed on JCI was attributable to investors' fears of BI's hawkish stance, throttling the growth in Indonesia's industries.

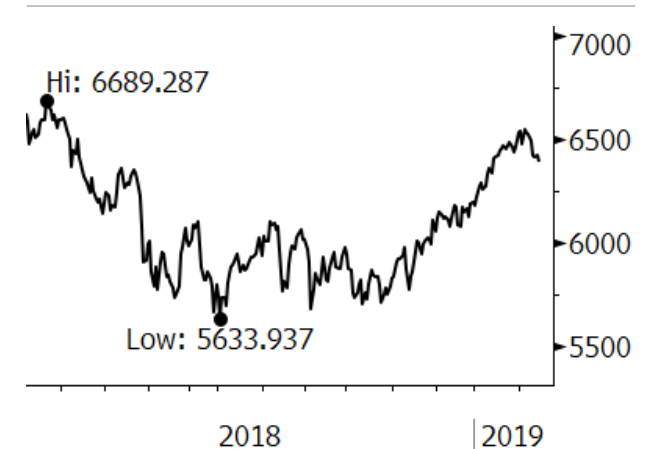
In this week, Bank Indonesia (BI) holds the Board of Governors' Meeting with a view to determining 7-Day Reverse Repo Rate (benchmark rate). We estimate BI to keep its benchmark rate at 6.0%. Acknowledging the consistent hike in mortgage loan (KPR) outstanding, we recommend Bank Tabungan Negara (BBTN) stock as a top-pick with its domination over KPR portfolios. BI's unchanged benchmark rate proves a boon for BBTN to enjoy the further growth in KPR, coupled with the buoyant interest incomes.

We argue that the narrative of food self-sufficiency, reiterated on the second round of presidential election debate, will be the main working program promoted by the two candidates. The narrative will be embodied by the bountiful amount of domestic rice production; thus, Buyung Poetra Sembada (HOKI) will obtain rice stockpile with the stable price, potential for a stable profit margins.

JCI - one month



JCI - one year



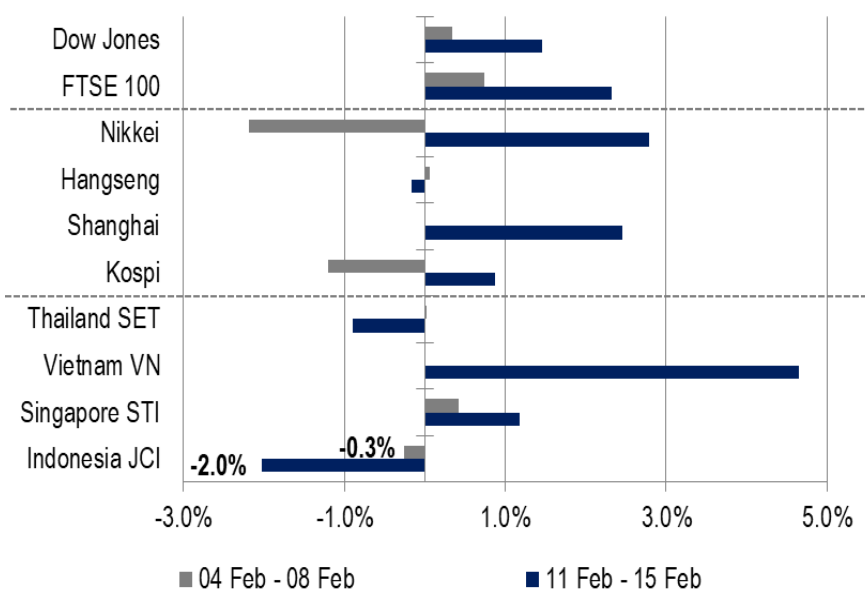
# Last Week's Movement

- Jakarta Composite Index (JCI) : 6,389.08 (-2,0%)
- Foreign Investors : the net sell of IDR3.3 trillion (vs. the prior week's net sell of IDR212 billion)
- USDIDR : 14,154 (+1.43%)
- Yields of sovereign bonds with 10-year tenor : 8.03% (+15.3 bps)

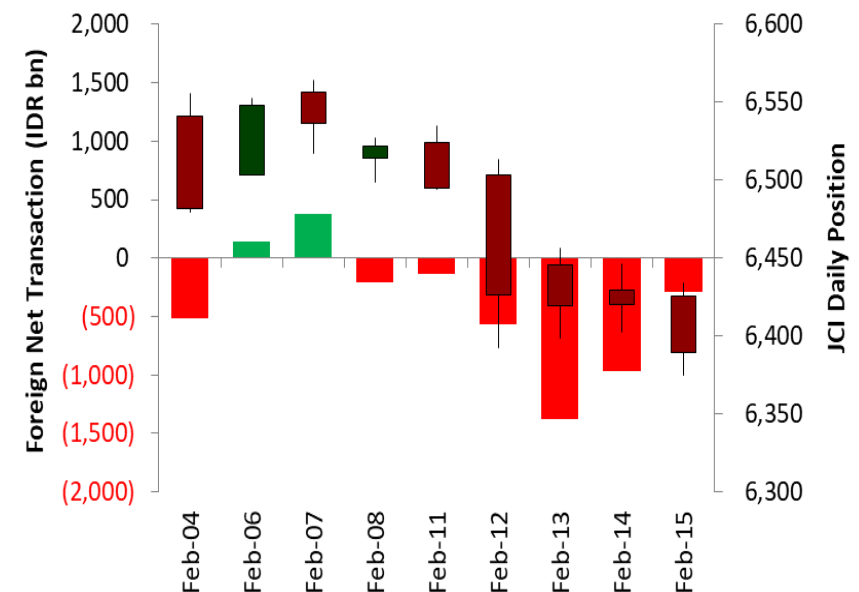
## JCI Hit Hardest Last Week

Last week, JCI was suffered as it tumbled deepest among its global equity peers. foreign securities companies' analysts revised downwards JCI's rating from 20%, an overweight state, to 10%, an underweight state, dragged JCI sharpest. They argued JCI's bullish favor from May 2018 to date is at the overbought of 34% compared to emerging markets' MSCI indexes. Additionally, the banking sector with the highest valuation and BI's hawkish stance sent a fear full signal of domestic liquidity tightening, stunting the growth in the banking sector. Last week's foreign net sell of IDR3.3 trillion narrated the 2019 biggest net sell. On YTD basis, foreign investors still posted the net buy of IDR10.9 trillion in Indonesia's equity market.

### Global Market Movement



### Foreign Net Flow – Last 10 Days



# Last Week's Sector Movement

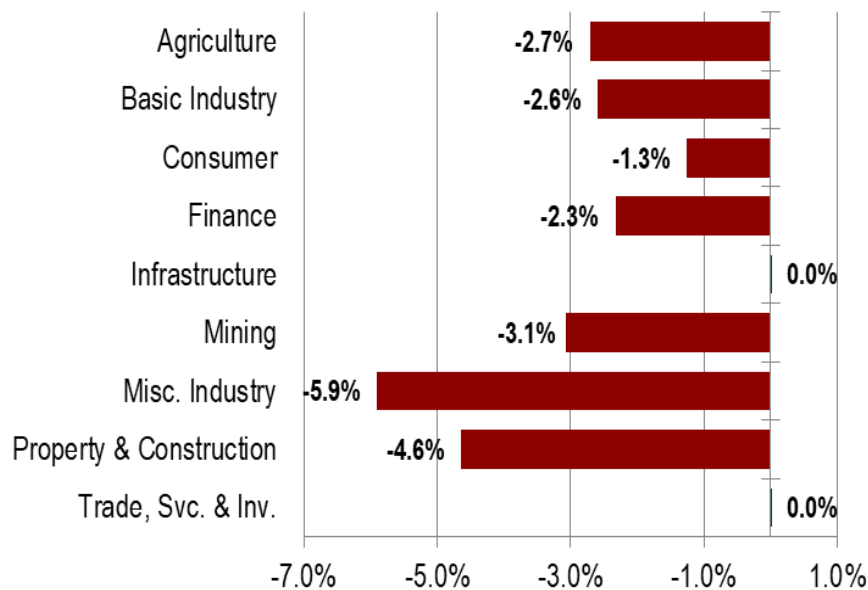
- **Miscellaneous Industry: The First's Top Loser**

Last week, all sectors on JCI virtually were revised downwards as the miscellaneous industry slumped to the sharpest; ASII's stocks - contributing 78% to the miscellaneous industry fell by a sharp correction of 6.7%. January's vehicle sales was at a critical fall of 15.4% to 81,218 units. That drove up the decline in ASII's stocks. Slowdown sales data sent a worrying signal to foreign investors that they with no hesitance rushed into the net sell of IDR683 billion over ASII. Yet, the automotive sector may relieve as it still has 11 months to boost its sales in light of January's sales data: the first sales data released in 2019.

- **The Property and Construction Sectors: The Second's Top Losers**

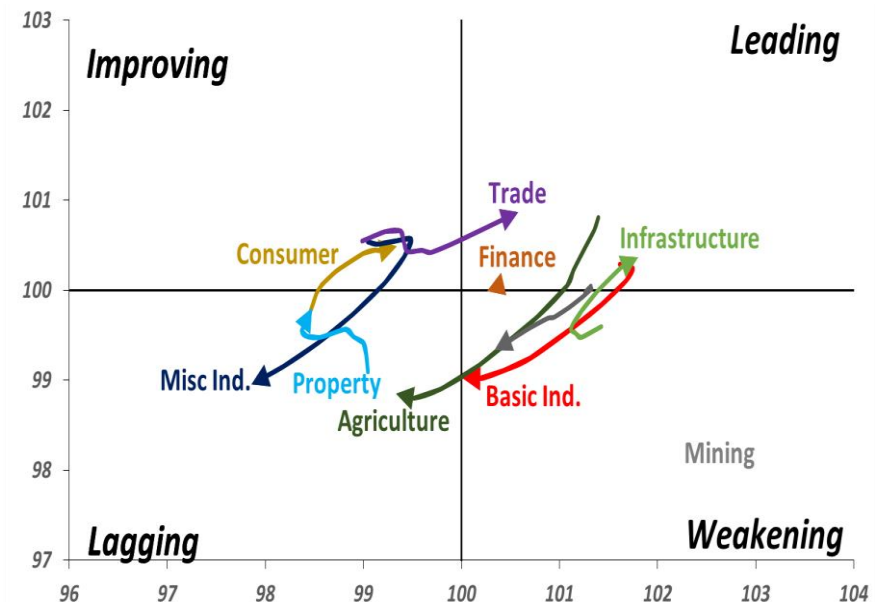
The property sector is the second biggest contributor to JCI after the miscellaneous industry. WSKT's stocks- contributing 6.2% to the property index - dipped to the sharpest percentage of 12%. We projected the summons served on the defendants - WSKT's two officers- by the Corruption Eradication Commission (KPK) was the logical takeaway for the downward correction on WSKT's stocks. The two officers are allegedly committed to corruption of WSKT's projects. The negative sentiments are likely to exacerbate massive net sell over property and construction sectors on JCI.

**Last Week JCI Sector Movement**



Source: Bloomberg, NH Korindo Research

**Sector Rotation – Last 10 Days**



Source: Bloomberg, NH Korindo Research

# This Week's Outlook

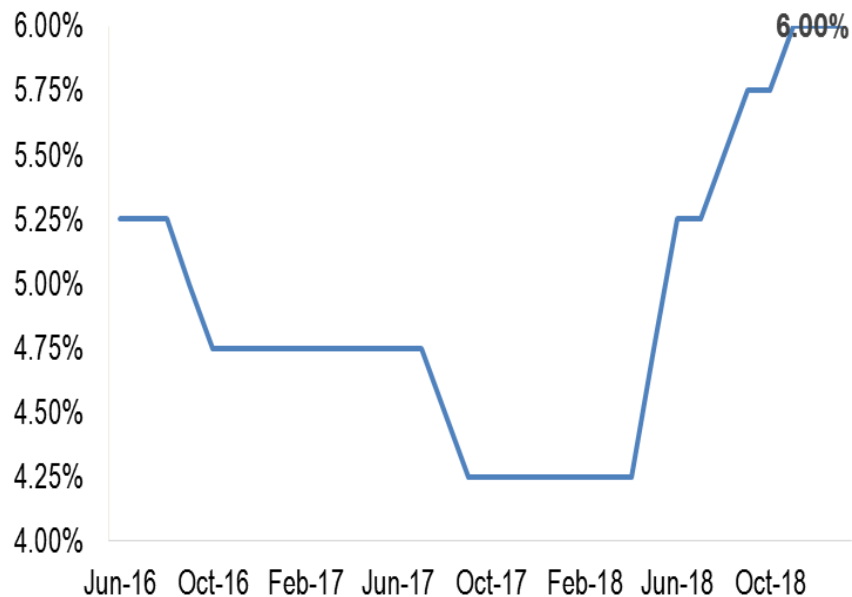
- BI's February RGD**

On Wednesday 02/20/19 & Thursday 02/21/19, BI will hold the Board of Governors' Meeting (RDG) of February. Looking back at January's RDG, BI came out with the stance of holding 7-Day Reverse Repo Rate (benchmark rates) unchanged at 6.00%. From May 2018 to date, BI has raised its benchmark rates to 175 bps. As a run of USDIDR appreciation at 14,000 since the early of 2019, coupled with the Fed's dovish stance, BI's unchanged benchmark rate is inevitable.

- Second Round of Presidential Debate's Narrative: Food Self-Sufficiency**

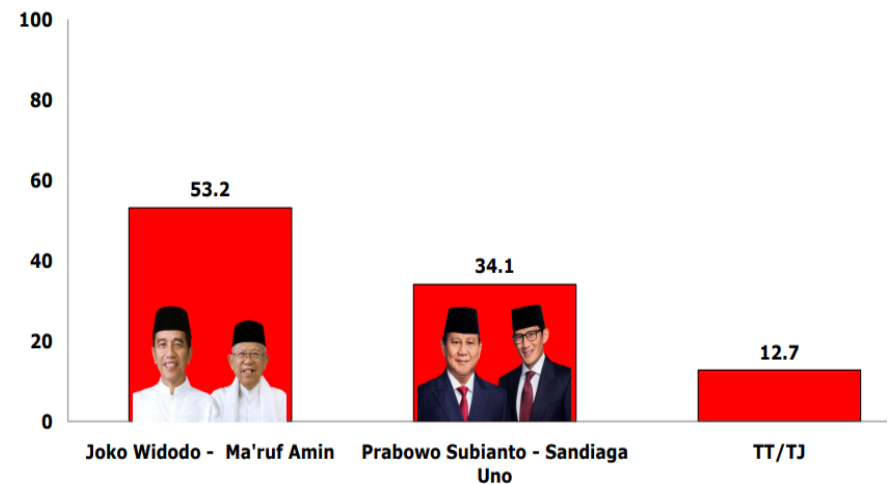
The presidential candidates step up their campaigns into the second round with the grand narratives of natural resources, energy & food, living environment, and infrastructure. Food self-sufficiency was a heightened narrative as the imported food is on the spotlight. In December 2014, President Jokowi pledged Indonesia to capable of food self-sufficiency within 3 years. Yet, the current issue of imported food negates his pledge. Taking a look back, Indonesia narrated its success of food self-sufficiency in 1984 when the rice production was 27 million tons with the national consumption of only 25 million tons. Thus, the two candidates put the agriculture sector as the backbone of future economic development.

## Bank Indonesia 7-Day Reverse Repo Rate



Source: Bank Indonesia, NH Korindo Research

## Presidential Election Survey | Period: 22 Dec 2018 – 02 Jan 2019



\*TT/TJ = undecided voters

Source: Charta Politika Indonesia

## Top-Pick Sectors Based on This Week's Outlook

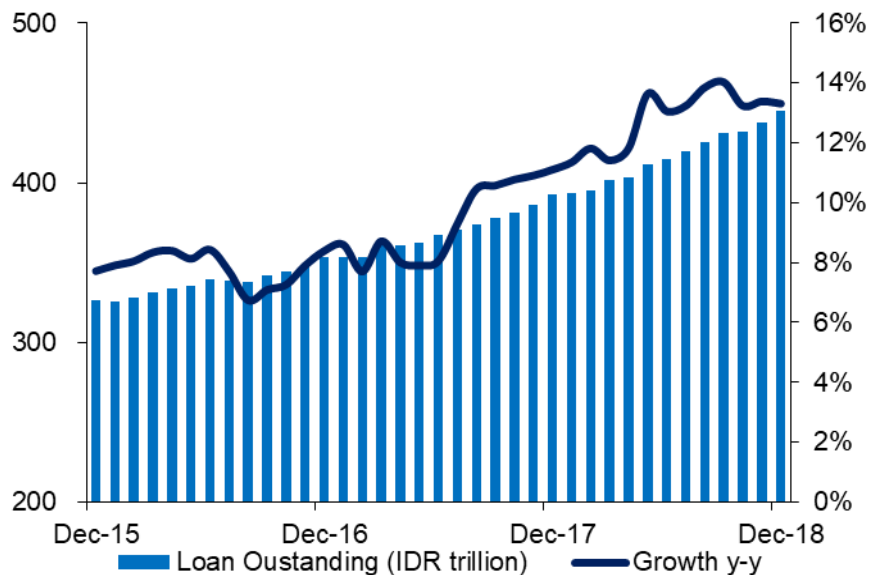
- **Targeting Banks, Focusing on KPR**

BI leaving its benchmark rate unchanged within the near time proves a boon for the banking sectors. As BI's benchmark rate is likely to be fixed one, banks to enjoy stable interest incomes are estimated. But banks focusing on offering mortgage loan (KPR) are likely to reap profits from BI's stance. Their stocks are top picks for mid-term investment because the skyrocketing demand for KPR from 8%-10% in 2016-2017 to 12%-13% in 2018. The millennial's high demand for houses is potent driver for KPR to enjoy the double-digit growth, topping 10%. Banks with domination over KPR will inevitably look to have robust growth.

- **The Ministry of Agriculture's Commitment to No Imported Rice in 2019**

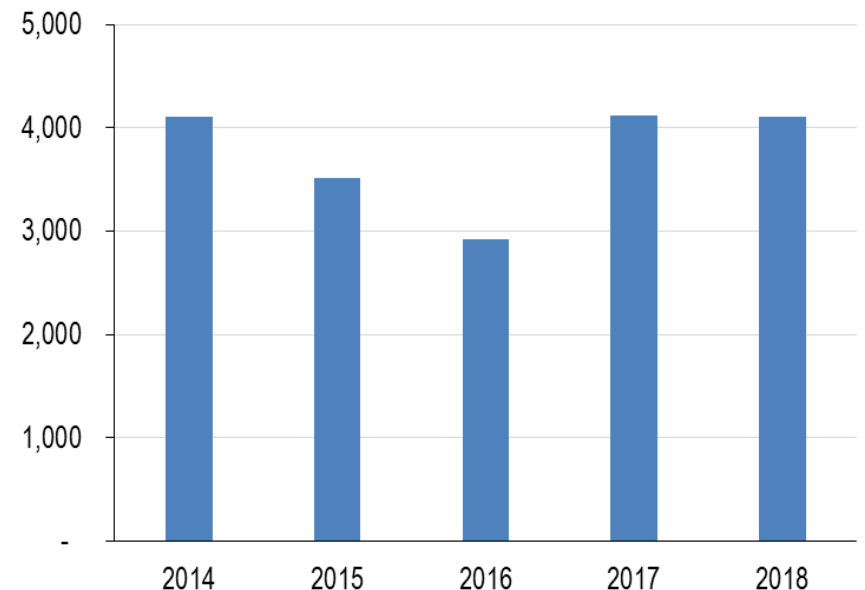
The chief person of the Food Security Agency (BKP) of the Ministry of Agriculture Agung Hendradi stated that in 2019, Indonesia will import no rice as the current stockpile of rice is adequate. The United States Department of Agriculture (USDA) noted that the ending stockpile of the state milled rice reserves in 2016 amounted to 2.9 million tons and 4.1 million tons in 2017 and 2018. The abundance stockpiles are likely to benefit rice producers because of the stable prices of rice.

**Indonesia Outstanding Loans by Sector Housing**



Source: Bank Indonesia, Bloomberg, NH Korindo Research

**Indonesia Milled Rice Ending Stocks | ('000 metric tons)**



Source: USDA, Bloomberg, NH Korindo Research

# Bank Tabungan Negara (BBTN – Banks)

<b>Dec 2019 Target Price</b>	<b>2,940</b>
Consensus Price	3,029
Last Price (IDR) as of Feb 15, 2019	2,480
TP vs. Last Price	18.5%
<b>Revenue Breakdown:</b>	
Loan	95.9%
Non-Loan	4.1%

IDR bn	FY2017	FY2018E	FY2019E	FY2020E
Int Income	19,272	22,629	26,921	32,432
y-y	12.4%	17.4%	19.0%	20.5%
Net profit	3,027	3,206	3,661	4,240
y-y	15.6%	5.9%	14.2%	15.8%
NIM	4.1%	3.8%	4.0%	4.0%
EPS	286	303	346	400
P/E	12.5x	8.4x	7.3x	6.3x

## P/E Band (EPS Trailing)



- **NHKS** recommends BBTN's stocks as this week's preferred stock as its potential for hitting the target price of IDR2,940 at the PE LTM of 9.9x looks to be a firm one. The target price indicates PE 7.3x for FY2019E.

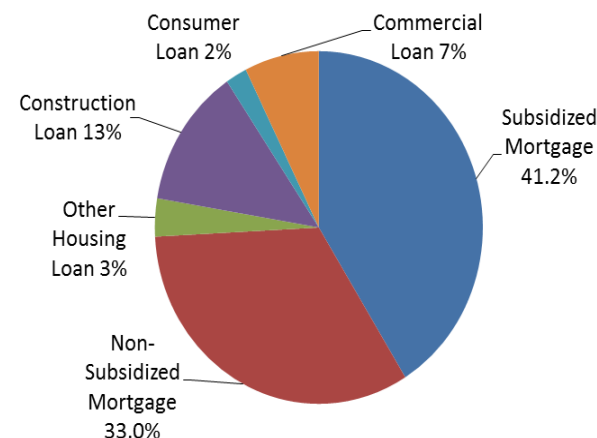
- **BBTN's Weapons : Increment in Assets and Unchanged Benchmark Rates**

BBTN as a state-owned bank, the business focus of which distributes mortgage loans (KPR). It left 2018 with the success to position at the fifth ranking of a bank with the biggest asset worth IDR308.47 trillion (+18% y-y). The growth in KPR distribution—contributing 77% to the overall revenues—and the growth of 19% y-y in the third party funds (DPK) drove up BBTN's assets. We are sanguine about BI's 7-Day Reverse Repo Rates (benchmark rates) near to its climax after the total hike of 175 bps for most of 2018, leading to February's unchanged benchmark rate. BI's accommodative monetary proves a boon for KPR's higher growth. No doubt. Its ballooning assets and unchanged benchmark rates are weapons for BBTN to hit the higher target of KPR distribution in 2019.

- **The Government's Supports**

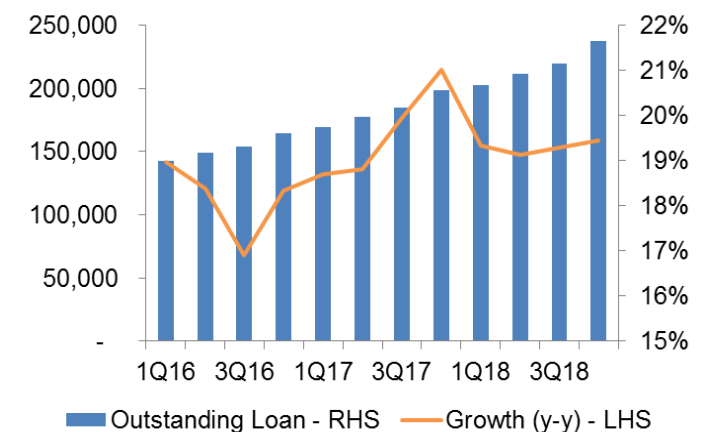
As regards the program of 1 million houses, the Ministry of Public Works and Public Housing (PUPR) targets to build 1.25 million houses in 2019. Under the program, BBTN expects to distribute 850,000 KPR (+12% y-y). Indeed, the easing policy of Loan to Value (LTG) is a one-off boost to accelerated growth in KPR. BI imposes no LTV for the first credited house, applied to all type houses. As BI's policies, unchanged benchmark rates and LTV take into effect, BBTN pursues the growth of 15% in the 2019 distributed credit.

## BBTN's Loan Breakdown



Source : Company, NHKS Research

## Outstanding Loan (IDR bn) | 1Q16 – 4Q18E



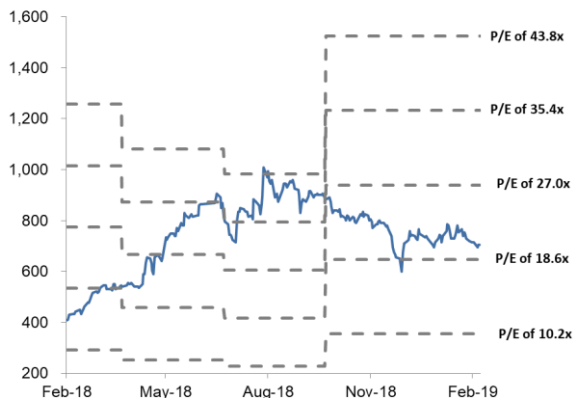
Source: Company, NHKS Research

# Buyung Poetra Sembada (HOKI – Rice Distribution Company )

<b>Dec 2019 Target Price</b>	<b>800</b>
Consensus Price	1,075
Last Price (IDR) as of Feb 15, 2019	660
TP vs. Last Price	21.2%
<b>Revenue Breakdown:</b>	
Rice	92.9%
Food and Beverage	7.1%

IDR bn	FY2017	FY2018E	FY2019E	FY2020E
Revenue	1,209	1,453	1,820	2,123
y-y	5%	20%	25%	17%
Net profit	48	92	121	153
y-y	10%	92%	32%	26%
NPM	4.0%	6.3%	6.6%	7.2%
EPS	20.2	38.7	51.0	64.4
P/E	39.0x	18.8x	13.7x	10.8x

## P/E Band (EPS Trailing)



- **NHKS** recommend HOKI's stocks as this week's top pick as the stocks are quite promising to stand at the target price of IDR800 at the PE LTM of 22.8x. The target price signifies PE of 13.7x for FY 2019E, backed by a one-off booster: staple food self-sufficiency—rice in particular—geared up two presidential candidates.

- **Popular Policy: Rice Self-Sufficiency**

Ahead of the 2019 presidential election, the policy of staple food self-sufficiency—rice in particular, popularly geared up by both the incumbent party and its opponent. Joko Widodo-Ma'ruf Amin pledges food self-sufficiency in 2024E whereas Prabowo-Sandi assures its quality system to accomplish food self-sufficiency in near time. Yet, the fact narrates the not-yet-integrated agriculture sector is a set-back, sending prices of local rice to skyrocket prices of imported rice. We underline the policy pledged by the two candidates proves a boon for HOKI as the biggest rice miller and trader in Indonesia.

- **Reliance on Raw Material Stockpiles and Increment in Production Capacities**

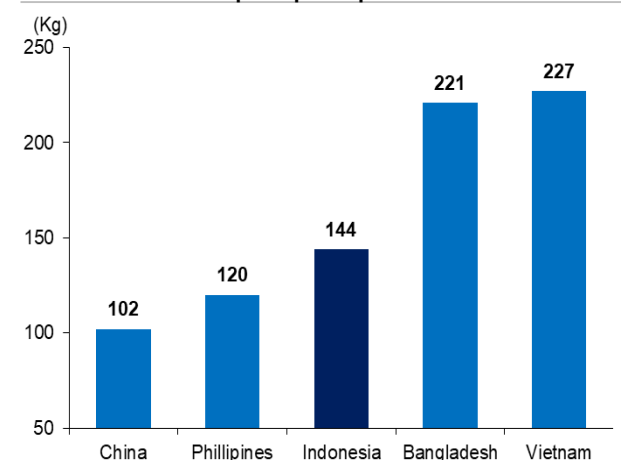
The popular policy of food self-sufficiency a one-off positive catalyst for HOKI because the stockpile of dry grains narrows risks of rice deficits in ahead years. Yet, HOKI consistently boosts its production capacity with the targeted rice production of 95 tons/hour or edging up 72% for 2020E (vs. the current production of 55 tons/hour). The season of rice harvest draws to close in March, HOKI's rice mill utilization as what we estimate is likely to operate at an optimum level until the end of 1Q19E.

## Rice imported by BULOG has decreased over past years



Source: Bulog, Company data, NHKS Research

## Annual rice consumption per capita in 2018



Source: Bloomberg, USDA, NHKS Research

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