

Weekly Brief (February 25 – March 01)

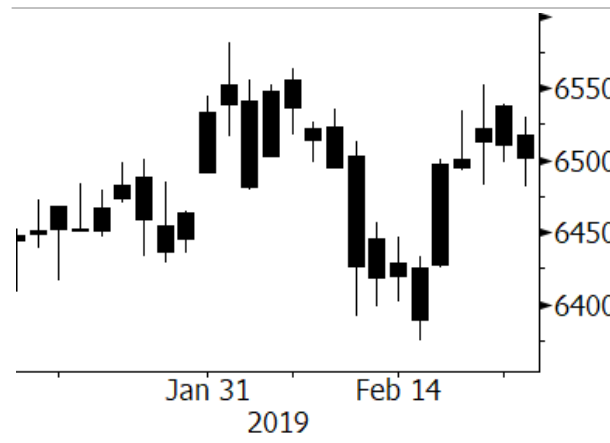
Summary:

Despite the foreign net sell of IDR79 billion, JCI thrived to rally at 1.8% last week. That was driven by the foreign net buy on the banking and infrastructure sectors, contributing 40% weight to JCI, and the foreign net sell on the basic industry sector, particularly the poultry sector, contributing 2% to JCI. Foreign investors' confidence of posting net buy on JCI's main sector was a positive sentiment for BI holding 7DRR at 6.0%.

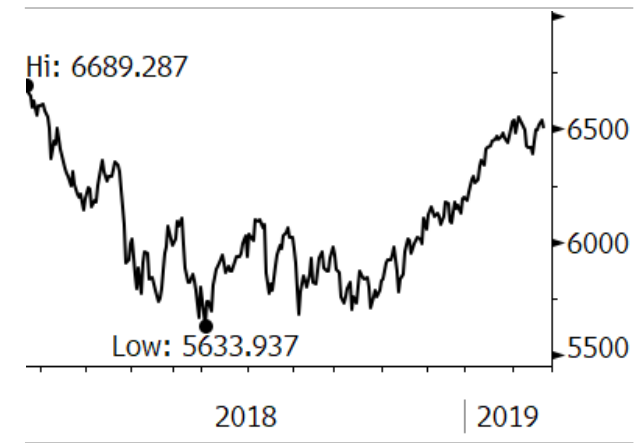
The Statistics Indonesia (BPS) will release February's inflation during this week. Inflation is estimated to be benign due to the stable food prices: one of the components of volatile inflation. In a sharp turn to non-core inflation, the core inflation is likely to gear up. The upbeat prices of apparel drove up the core inflation. Thus, we recommend stocks of Ramayana Lestari Sentosa (RALS) as the stock benefited most from higher purchasing power by middle to low consumers.

Bank Indonesia will also release Money Supply (M2) data next week. Based on the historical data, we digest the banking credit distributed to the construction sector to outpace the total credit growth in Indonesia. No doubt, we recommend stocks of Bank Negara Indonesia (BBNI) as a bank with the biggest credit portfolio in the construction sector.

JCI - one month



JCI - one year



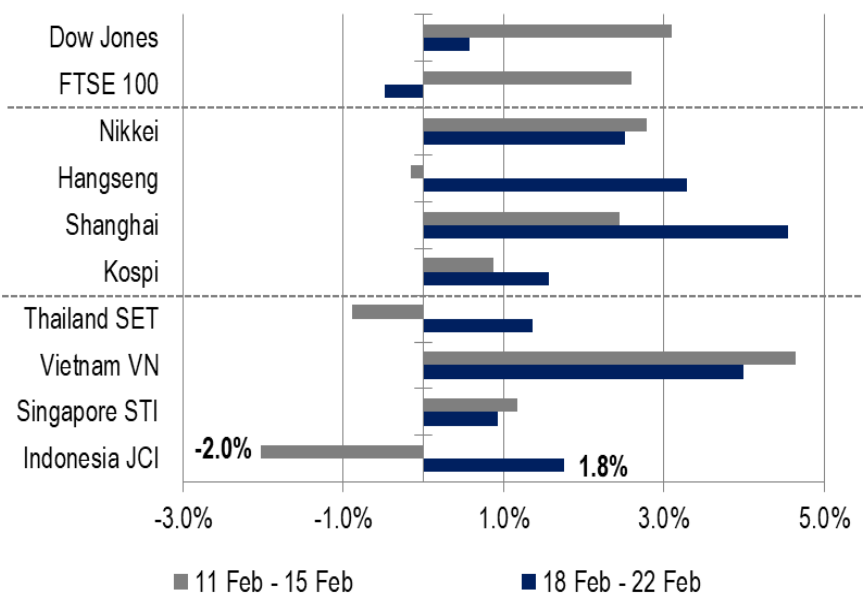
Last Week's Movement

- Jakarta Composite Index (JCI) : 6,501.37 (+1.8%)
- Foreign Investors : the net sell of IDR79 billion (vs. the prior week's net sell of IDR3.3 trillion)
- USDIDR : 14,058 (-0.68%)
- Yields of sovereign bonds with 10-year tenor : 7.94% (-10.4 bps)

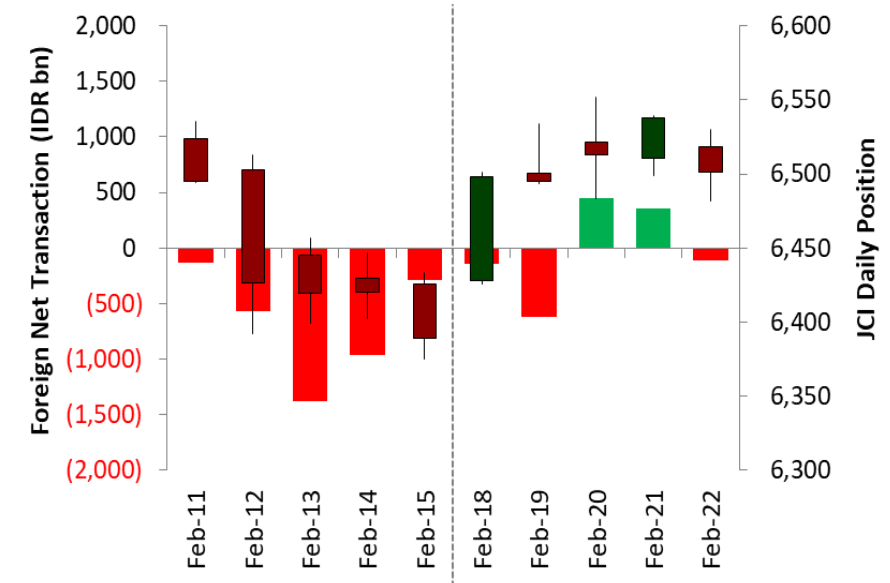
JCI's Rebound of 1.8% Last Week

Foreign investors thrilled to know that BI held 7DRR unchanged at 6.0%. Last week's foreign net sell of IDR79 billion, far lower than the foreign net sell of IDR3.3 trillion in the last two-week. Despite the slight foreign net sell, JCI was rebound at 1.8% thanks to the foreign net buy of nearly IDR637 billion on the banking and infrastructure sectors. Furthermore, foreign investors target the net sell on the basic industry sector, poultry in particular. The poultry industry posted the foreign net sell of IDR416 billion due to its high valuation. For example, the price of CPIN, the stock code of Charoen Pokphand Indonesia is appreciated to 120% as of January 2018, while the stock of Japfa Comfeed Indonesia (JPFA) soared to 130% at the early of January 2018 and hit an all-time high in February 2019. We analyze foreign investors to rotate portfolios from high-valuation industries to the lower-valuation industries.

Global Market Movement



Foreign Net Flow – Last 10 Days



Last Week's Sector Movement

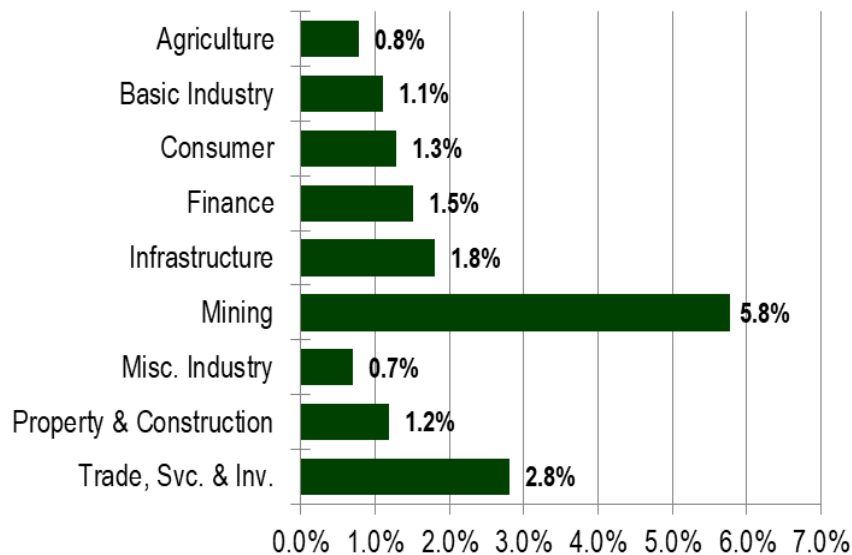
- **Mining Sector: Last Week's Top Gainer**

Last week, Chinese authorities restrained coal imported from Australia to pass into Dalian Port. The restriction on imports is not applied to other countries, i.e. Indonesia. The restriction on Australian coal imports is one-off booster for prices of Indonesian coal stocks with export orientation. Investors estimate ADRO, a stock code for Adaro Energy Tbk, to enjoy most profits if China authorities revised downward Australian coal to only at 12 million tons in 2019, falling at the sharpest amount of 80 million tons in 2018. The ban proves a boon for Indonesia's coal miners to target market shares previously dominated by Australia.

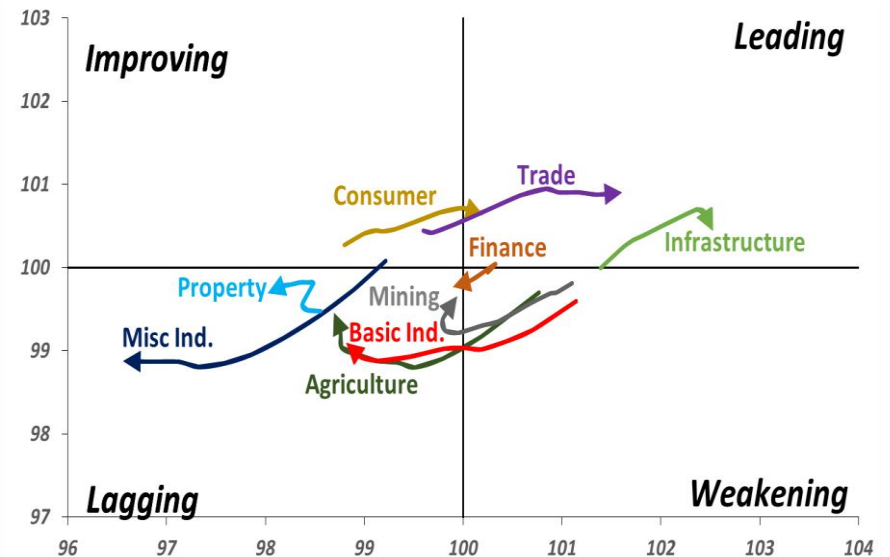
- **Trade & Services Sectors Inching Higher by 2.8%**

UNTR, a stock code for United Tractor Tbk, as the first contributor of 14% to the trade & service sector picked up 12% last week. That drove up the sector to position at the second rating. As coal stocks were buoyant, so was UNTR, enjoying the positive sentiments from the restriction on Australian coal imports. Investors are aware of the possible hike in sales of UNTR's heavy machinery as Indonesian coal exports soar.

Last Week JCI Sector Movement



Sector Rotation – Last 10 Days



This Week Outlook

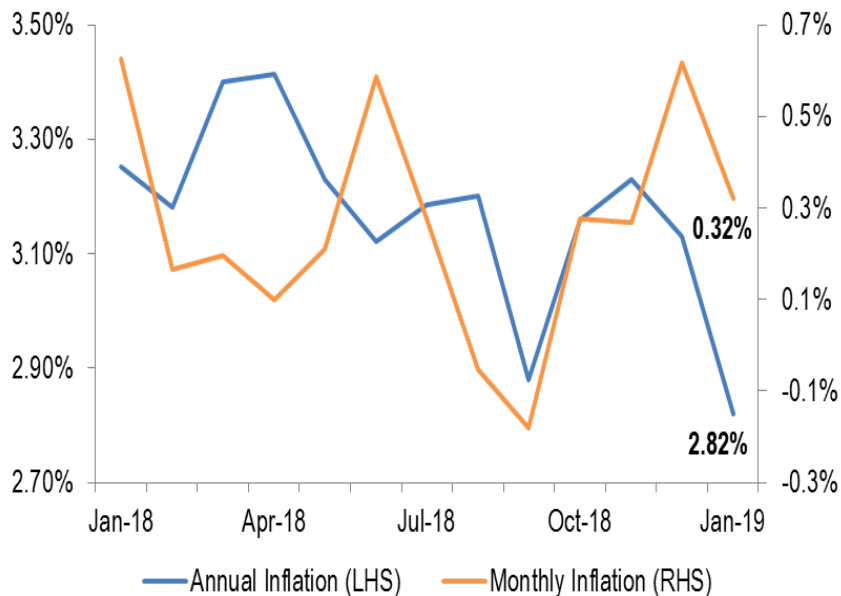
- ### February's Inflation

The statistics Indonesia will release February's inflation on Friday, 03/01/19. January's inflation dropped to 0.32% m-m from December's 0.62% m-m. The decline in volatile inflation and administrated price slowed January's inflation, followed by January's core inflation of 3.06% y-y, far stable than December's 3.07% y-y. We underlined the stable core inflation in January proved the maintainable domestic consumption amid the shaky global economy. Besides, we estimate the benign inflation, hovering at 0.2%-0.4% m-m in February due to the positive catalyst—the slump in prices of non-subsidized fuel. We estimate modest non-core inflation--- volatile foods & administered prices-- coupled with stable core inflation to persist in Indonesia.

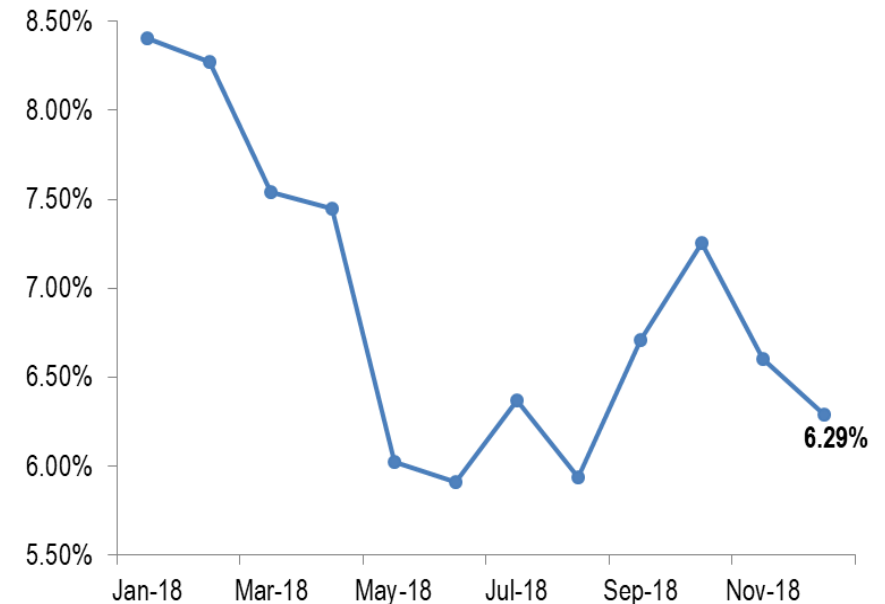
- ### January's Broad Money Development

Bank Indonesia (BI) will release January's M2 on Thursday, 02/28/19. In December 2018, M2 amounted to IDR5,760 trillion or growing by 6.29% y-y, slightly lower than that of 6.6% y-y in November. The shrinking net foreign assets slowed M2. Of note, net foreign assets in December 2018 slumped sharply by -6.4% y-y, much higher than that of -2.4% y-y in November. The modest M2 growth aligned to the lagging growth of 11.7% in December's banking credit. December's growth fell from November's 11.9% gain. Based on the historical data, we digest the banking credit distributed to the construction sector to outpace the total credit growth in Indonesia.

Indonesia y-y & m-m Inflation



Money Supply Growth



Top-Pick Sectors Based on This Week's Outlook

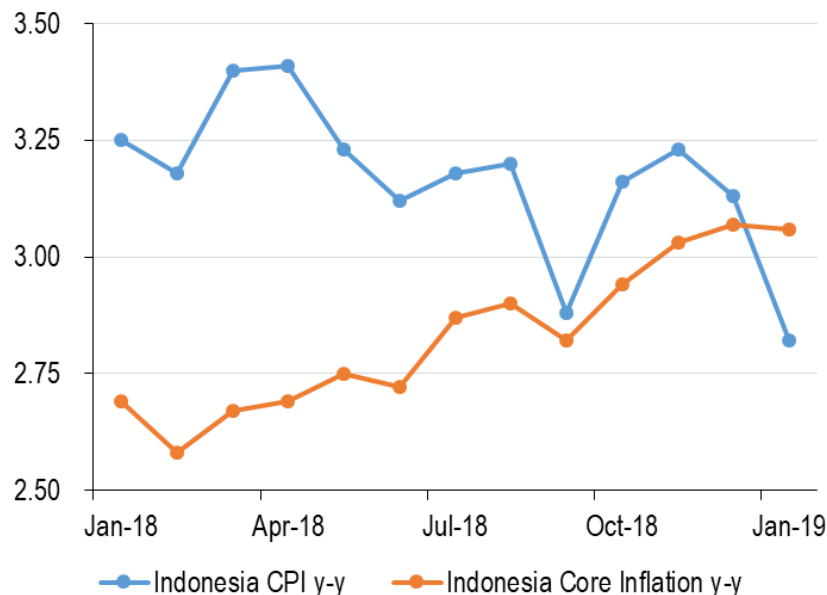
- **Benign Food Inflation, Rising Core Inflation**

Indonesia marked the stable inflation—even benign. Yet, a thorough analysis of inflation based on its categories showed the core inflation to map a different direction. The core inflation consistently picked up from 2.69% y-y in January 2018 to 3.07 y-y in January 2019. The surging core inflation was in a stark contrast to the sliding inflation from 3.18% to 2.82% for the same period. The low prices of food was a logical takeaway for the low inflation, yet the mounting prices of apparel sent the core inflation to incline by the sharpest. We underline Indonesian to be quite sufficient for fulfill the primal needs of food, so excessive apparel spending is on the trend, driving up prices of apparel. Based on the trend, the retail sector selling apparel is this week's top-pick stocks.

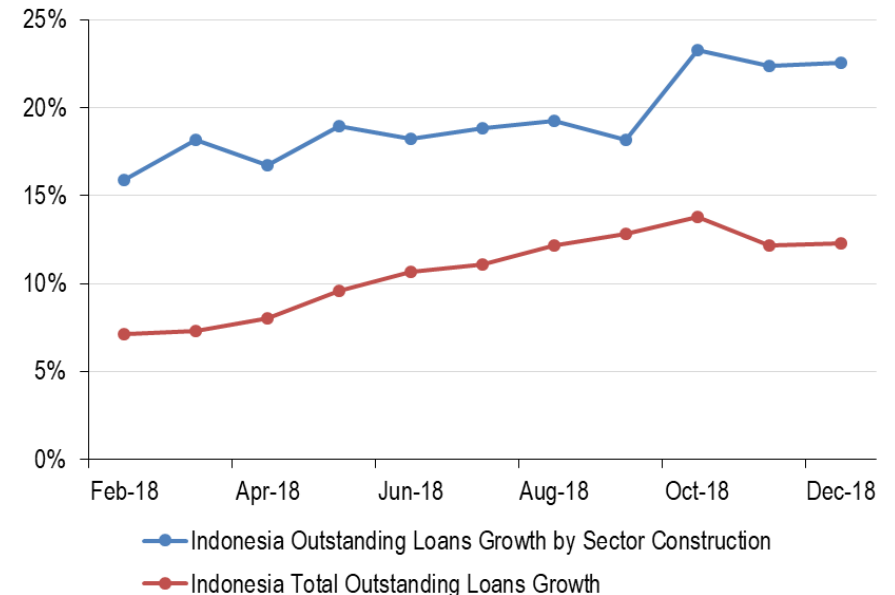
- **Credit for Construction Sector: Pacing at Fastest Gear**

According to the Money Supply by BI, the total credit facilities circulating in Indonesia gears up into the fastest pace. We point out credit facilitated into the construction sector outpaced the total credit facilitated in sectors, other than the construction: a fact denoting Indonesia's current stage of developing. The fact leads the recommendation of banks with credit facilities segmented to the construction sector as this weeks' top-pick stocks.

Indonesia CPI vs. CPI Core y-y (%)



Indonesia Loan Outstanding Growth y-y



Source: Statistics Indonesia, Bloomberg, NH Korindo Research

Source: Bank Indonesia, Bloomberg, NH Korindo Research

Ramayana Lestari Sentosa (RALS – Retailer)

Dec 2019 Target Price	1,960
Consensus Price	1,733
Last Price (IDR) as of Feb 22, 2019	1,680
TP vs. Last Price	+16.7%

Sales Breakdown:	
Direct Purchase	56.3%
Consignment Sales	43.7%

IDR bn	FY2017	FY2018	FY2019E	FY2020E
Sales	8,146	8,515	8,859	9,290
y-y	-1.1%	4.5%	4.0%	4.9%
Net profit	407	597	702	780
y-y	-0.5%	46.8%	17.7%	11.0%
NPM	5.0%	7.0%	7.9%	8.7%
EPS	60	89	104	116
P/E	19.8x	16.0x	16.5x	14.9x

- **NHKS** recommend RALS as this week's top-pick stock, capable of hitting the target price of Rp1,960 at the target PE LTM 24.0x. The target price indicates PE 16.5x for FY2019E.

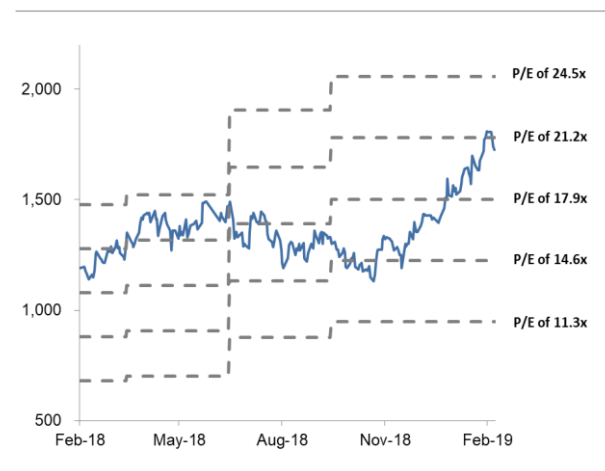
- **Strengthening Purchasing Power of Middle to Low Consumers**

Along with Indonesia's stable inflation and the consistent growth in core inflation, we keep into account that the purchasing power of consumers, the middle to low particularly, is recovering. Benign food inflation strengthens consumers' purchasing power for other primary needs, e.g., apparel. Government policies such as unchanged electricity tariffs, decline in fuel prices, and social aid programs prove a boon for the middle to low retailer such as RALS. The buoyant purchasing power is reflected in RALS's buoyant sales since August 2018. The trend persists to date, bolstering the 1Q19 performance.

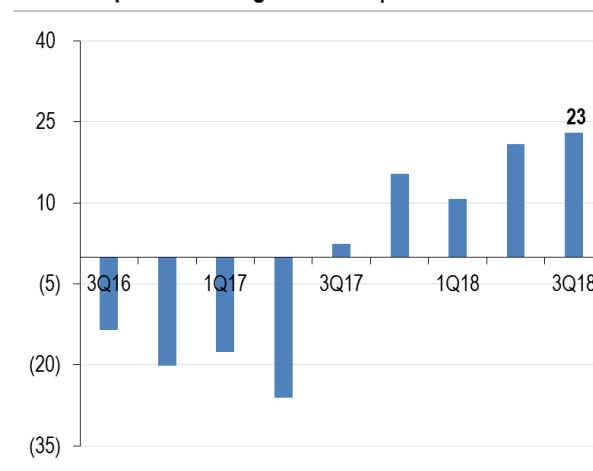
- **Sales of 2018 Outpacing Estimate**

RALS succeeded to end 2018 by posting gross sales of IDR8.53 trillion (+4.75% y-y), backed with SSSG of 2.9% and the launch of 5 new stores. The growth figure was a sharp turn from the loss of 1.1% y-y in the 2017 sales and outpaced the conservative growth target of 1.5% y-y. RALS enjoyed the internal transformation strategies actively performed since the end of 2017, i.e., the closure of tens of less profitable department stores and the launch of lifestyle-oriented tenants to adapt to the shifting trend of consumers spending behavior.

P/E Band (EPS Trailing)

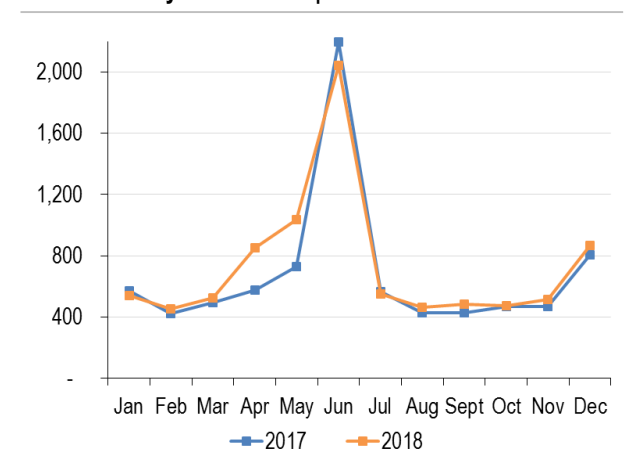


RALS Supermarket Segment EBIT | 3Q16 – 3Q18



Source : Company, NHKS Research

RALS Monthly Gross Sales | 2017 - 2018



Source: Company, NHKS Research

Bank Negara Indonesia (BBNI – Banking)

Dec 2019 Target Price	10,425
Consensus Price	10,000
Last Price (IDR) as of Feb 22, 2019	8,725
TP vs. Last Price	+19.5%

Revenue Breakdown:

Loan	82.3%
Non- Loan	17.7%

IDR bn	FY2017	FY2018	FY2019E	FY2020E
Int Income	48,178	54,139	61,933	69,475
y-y	10.1%	12.4%	14.4%	12.2%
Net profit	13,616	15,015	17,663	21,394
y-y	20.1%	10.3%	17.6%	21.1%
NIM	5.4%	5.2%	5.1%	5.1%
EPS	730	805	947	1,147
P/E	13.6x	11.1x	9.4x	7.8x

- **NHKS** recommend BBNI as this week's top-pick because of its potential for reaching the target price of IDR10.425 with the PE LTM 13.1x. The target price indicates PE 9.4x for FY2019E.

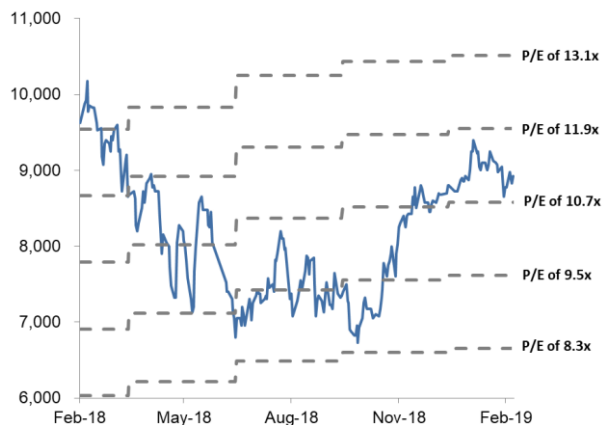
- **Targeted Credit Growth in 2019**

BBNI distributes credit of IDR110 trillion (+11% y-y) or 42% of the total corporate credit to the infrastructure sector. The biggest credit portion of 34% is given to toll roads and construction segments in particular. In 2019, BBNI targets the credit distributed for investment to raise at 12%-13% in light of the Indonesia's current constructing stage and the projection of better macroeconomic backdrop. Mushrooming infrastructure projects result in the prevailing subcontractor projects. Beware of the prevailing factors, BBNI is bold to pursue the 2019 growth of 16% in the credit distributed to the construction sector.

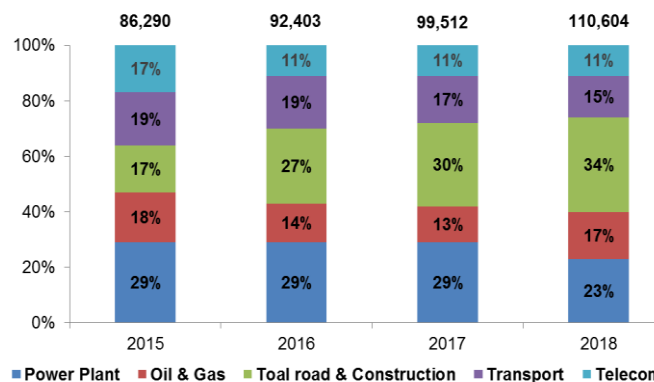
- **BBNI's Much Solid Performance**

BBNI outperformed in 2018 by posting the growth of 10.3% y-y. Its asset quality improved as well, marked by the narrowing NPL to 1.9% (vs. 2.3% in 2017). Meanwhile, improving liquidity was shown by the growth of IDR62.67 trillion to IDR578.77 trillion (+12% y-y) in the third-party fund (DPK), and the surge of 65% in its CASA ratio (vs. 63% in 2017). The improvement in asset qualities and liquidity for most 2018 is a solid fundamental for supporting the growth in the 2019 credit distribution.

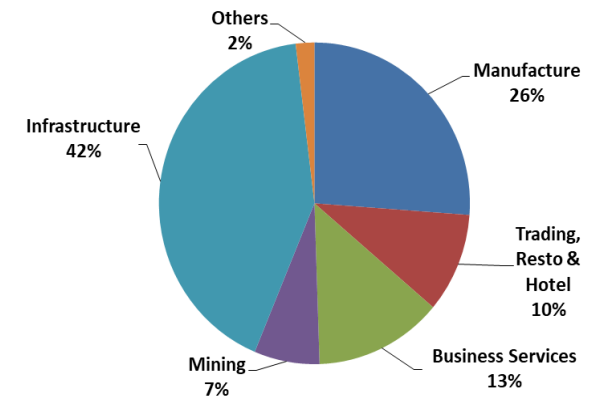
P/E Band (EPS Trailing)



Infrastructure Loan (Rp. bn) | 2015 - 2018



Corporate Loan Composition by Sector | FY 2018



PT NH Korindo Sekuritas Indonesia

Member of Indonesia Stock Exchange

Head Office :

Wisma Korindo 7th Floor
Jl. M.T. Haryono Kav. 62
Pancoran, Jakarta 12780
Indonesia
Telp : +62 21 7976202
Fax : +62 21 7976206

Branch Office BSD:

ITC BSD Blok R No.48
Jl. Pahlawan Seribu Serpong
Tangerang Selatan 15322
Indonesia
Telp : +62 21 5316 2049
Fax : +62 21 5316 1687

Branch Office Solo :

Jl. Ronggowarsito No. 8
Kota Surakarta
Jawa Tengah 57111
Indonesia
Telp : +62 271 664763
Fax : +62 271 661623

DISCLAIMER

This report and any electronic access hereto are restricted and intended only for the clients and related entities of PT NH Korindo Sekuritas Indonesia. This report is only for information and recipient use. It is not reproduced, copied, or made available for others. Under no circumstances is it considered as a selling offer or solicitation of securities buying. Any recommendation contained herein may not be suitable for all investors. Although the information hereof is obtained from reliable sources, its accuracy and completeness cannot be guaranteed. PT NH Korindo Sekuritas Indonesia, its affiliated companies, employees, and agents are held harmless from any responsibility and liability for claims, proceedings, action, losses, expenses, damages, or costs filed against or suffered by any person as a result of acting pursuant to the contents hereof. Neither is PT NH Korindo Sekuritas Indonesia, its affiliated companies, employees, nor agents are liable for errors, omissions, misstatements, negligence, inaccuracy contained herein.

All rights reserved by PT NH Korindo Sekuritas Indonesia