

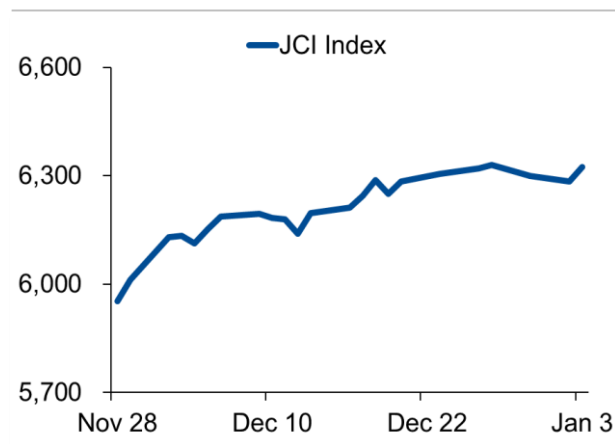
Weekly Brief (January 06th – January 10th)

Summary:

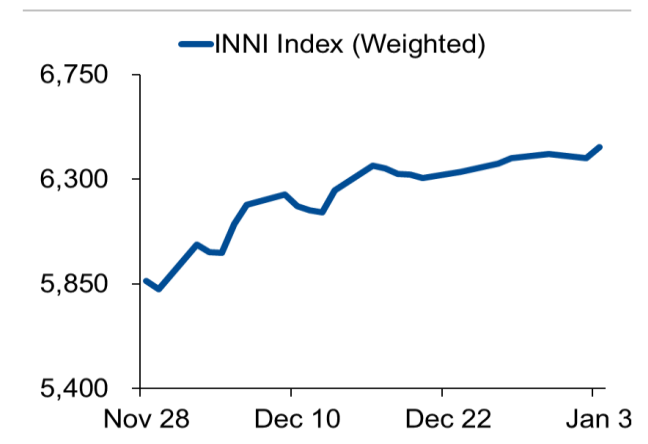
Last week review: In a few early days of 2020, domestic and global sentiments, i.e., Trump to sign the US-China first phase of trade deals on Jan. 15 failed to set JCI free from the red zone regardless of the fact that such sentiments rose investors' optimism about the ending clash between the world's two economic powerhouses. Besides, the People's Bank of China's easing monetary policies to stimulate the lagging economy was a positive catalyst for JCI's big moves. In the domestic backdrop, Statistics Indonesia (BPS) release the 2019's inflation to be lower than that in 2018

This week's outlook: The US-China trade clash comes to an ending chapter in early 2020 as President Trump will sign the first-phase trade pact on January 15, 2020. The bright side of ending trade clash and the phenomenon of January's effects are likely to boost JCI's moves to the green zone. Aside from the global sentiments, the agriculture sector may lead this week's bright momentum based on higher CPO's exports and B30's nationwide commercialization in January 2020. Thus, NHKS recommends AALI with the price target of IDR15,600 based on the P/E trailing band of 66.6x.

JCI - one month



INNI Index – one month



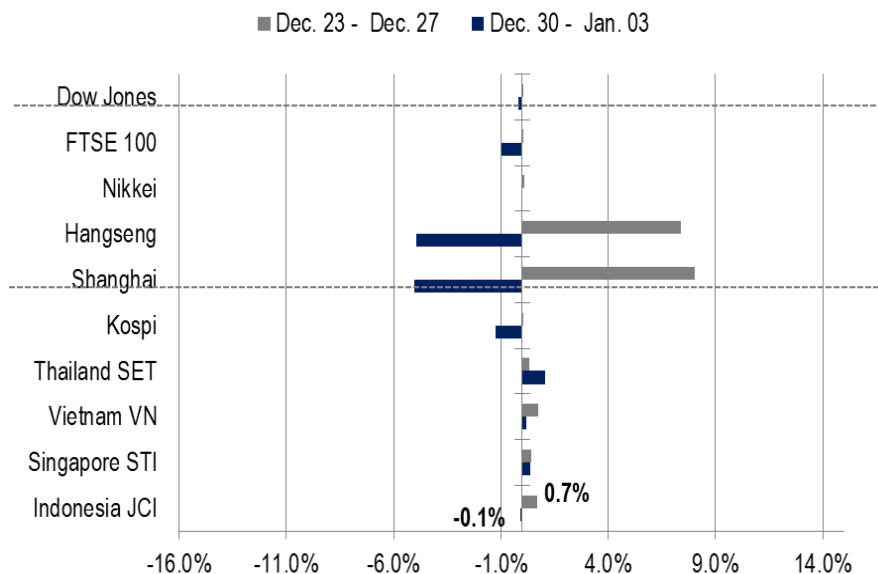
Last Week's JCI Movement

- JCI Index : 6,323.47 (-0.1%)
- Foreign Flow : Net buy of IDR946 billion (vs. net buy last week of IDR1.36 trillion)
- USD/IDR : 13,930 (-0.16%)
- Yields of sovereign bond with 10-years tenor : 7.028% (-7.50 bps)

JCI Gave up Slight Declines

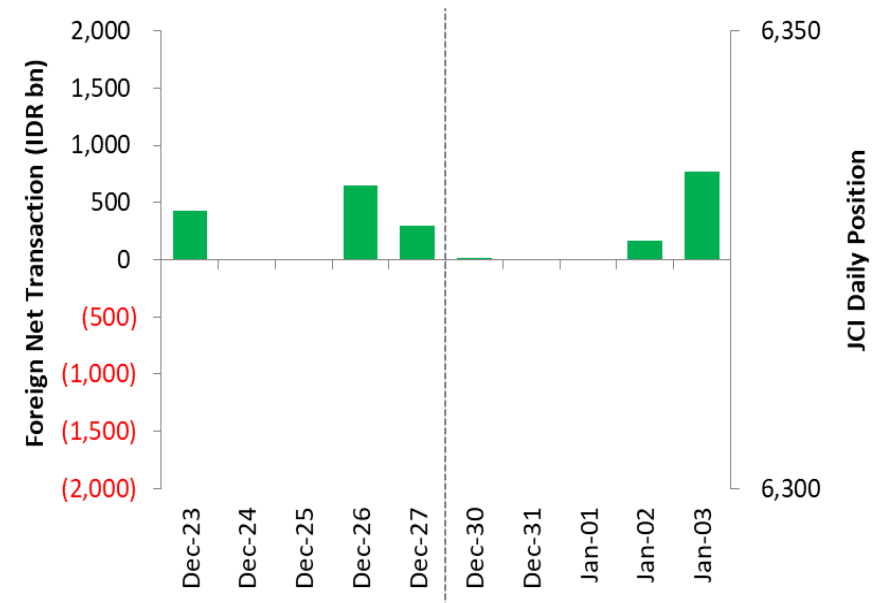
In few early days of last week, JCI pointed lower after a 3-day winning streak. Foreign inflows of IDR296 billion on 2019's final trading day and unchanged non-subsidized electricity tariffs from January to March 2020 failed to set JCI free from the red zone trap. Although such sentiments are likely to counter soft consumption and boost consumers and retail stocks. On the first trading day of 2020, JCI continued to give up gains even though global positive sentiments persisted. Whereas JCI remained unmoved by Trump's good gesture of signing the US-China trade pact on January 15, Asia markets rejoiced the news as Asia stocks rallied. Besides, another positive global sentiment of People's Bank of China's easing monetary stance and the positive domestic sentiment of Dec's inflation of 0.34% m-m and the 2019's inflation of 2.72% y-y were incapable of rescuing JCI from the red zone. On Friday of Jan. 3, 2019, JCI finally paced and reigned in the green zone.

Global Market Movement



Source: Bloomberg, NHKS Research

Foreign Net Flow – Last 10 Days



Source: Bloomberg, NHKS Research

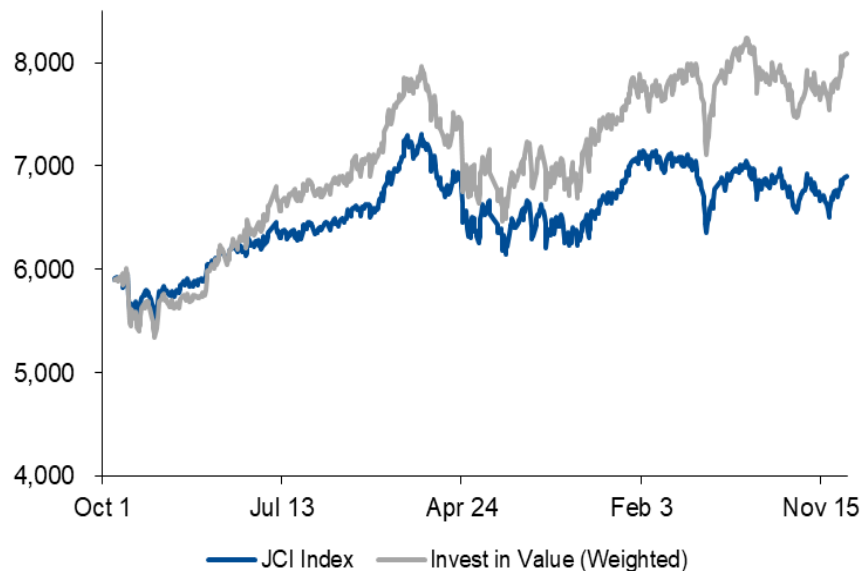
Last Week's INNI Movement

•INNI Index	: 6,439.01 (+0.7%)
INNI Theme 1 (Value)	: 4,220.17 (+1.2%)
INNI Theme 2 (Trend)	: 7,918.24 (+0.6%)

INNI Index Was Rebound

In few early days of last week, JCI pointed lower as INTP, one of its stock portfolios, gave up a 3.8% gain. Cement oversupply lurks cement makers and urges INTP to carry on efficiencies in 2020. On the early trading session of 2020, INNI index was subdued by AALI to post a 2.2% decline albeit positive sentiments for CPO producers. The nationwide commercialization of B30 biodiesel to contain 30% palm-based fuels and 70% fossil-based fuels on January 1, 2020 and tariff cut of imported CPO by India's authorities constituted positive sentiments for CPO. On Friday of January 3rd, INNI Index was rebound, backed by construction stocks, WIKA and WSKT.

Theme 1. Invest in Value (10 Stocks) – Market Cap Base



Source: Bloomberg, NHKS Research

Theme 2. Invest in Trend (10 Stocks) – Policy Base



Source: Bloomberg, NHKS Research

Last Week Sectoral Review

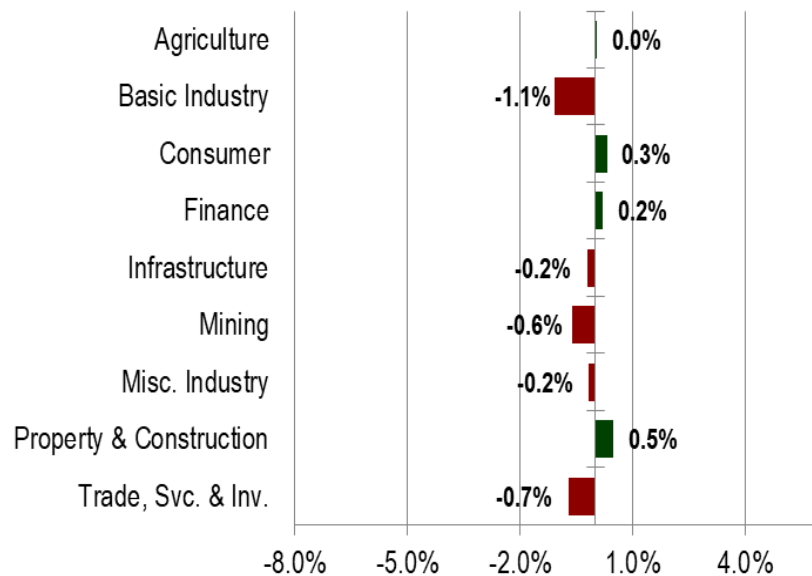
- **JCI's Top Losers**

Last week, JCI's sectors virtually slowed as the basic industry sector gave up the largest gains of 1.1%. TPIA, a stock code for PT Chandra Asri Petrochemical Tbk, on Jan. 1, 2020 officially announced a merger with its subsidiary PT Petrokimia Butadiene Indonesia (PT PBI) to take into effects on Jan. 1, 2020. The merger aims to integrate working capital and production. But, this positive sentiment poorly failed to spur TPI's moves to the green zone as it posted a 1.4% decline on a weekly basis.

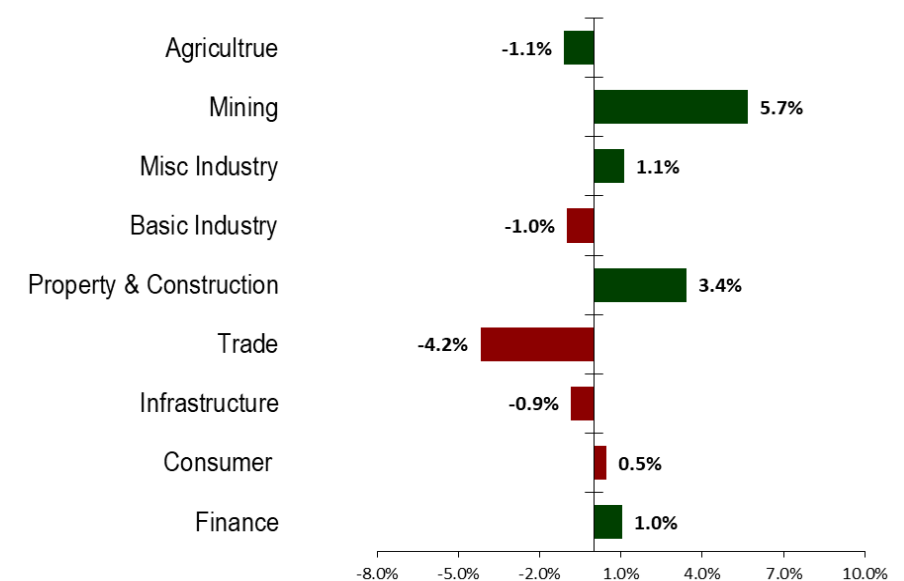
- **INNI Index's Top Losers**

Last week, AALI, an agriculture sector, giving up the largest gains of 2.8% was INNI's top loser. AALI accounting for a lower correction after a six-day rally streak. CPO stocks are attractive to be collected due to the nationwide commercialization of B30 and rising prices of CPO.

JCI's Last Week Sectoral Movements



INNI's Last Week Sectoral Movements



This Week's Outlook: JCI's Trend

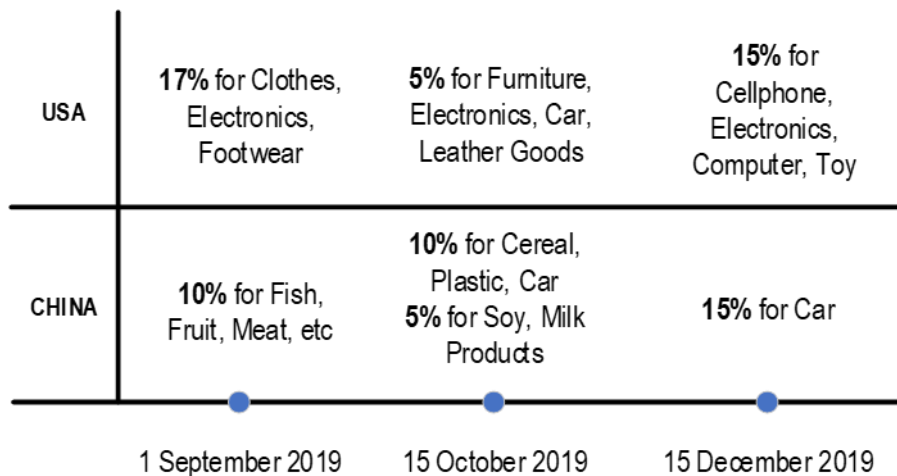
- **Bright Side of 2020's Trade Deals**

President Trump stated to sign the first phase of trade pact on Jan. 15, 2020. The US-China pact subsumes intellectual property rights, food and agricultural products, financial services, exchange rate, dispute settlements. Although the pact has yet to be executed, investors are optimistic about the end of trade disputes. The optimism will lead global equity markets to surge as long as confidence in equity investment persists, and fears of lagging global economic growth fade away. Those are also preconditions for JCI's big moves to the green zone until Friday of Jan. 10, 2020.

- **Welcoming January's Effects**

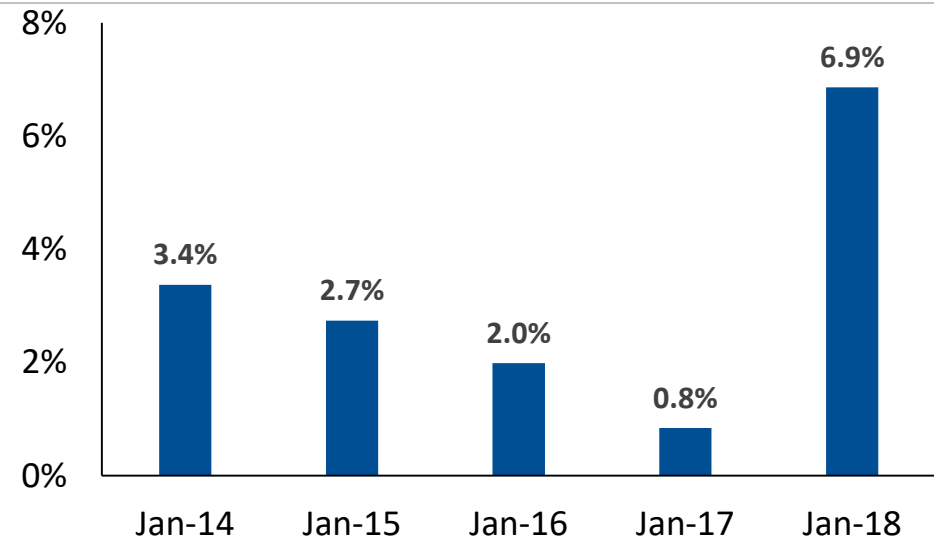
January's effect--a belief in January's rally stock prices--gives investors opportunities to buy stocks, prices of which are cheaper prior to January and re-sell them when their prices soar. January's effect is an annual phenomenon as investors divest their stocks prior to financial closing in order to avoid year-end taxes and re-buy the divested stocks in January. During the last decade, 2009 and 2011's January effects resulted in no positive outcomes; and 2020's January effects have an 80% opportunity to come up with positive results. To that end, the potential for the JCI to move positively throughout January 2020 is very large and there is a possibility that the JCI movement this week will be closed positively until the weekend.

Trade War Timeline in Q4



Source: CNBC, NHKS Research

JCI Performance in January



Source: Bloomberg, NHKS Research

This Week's Outlook: Plantations as Gainers

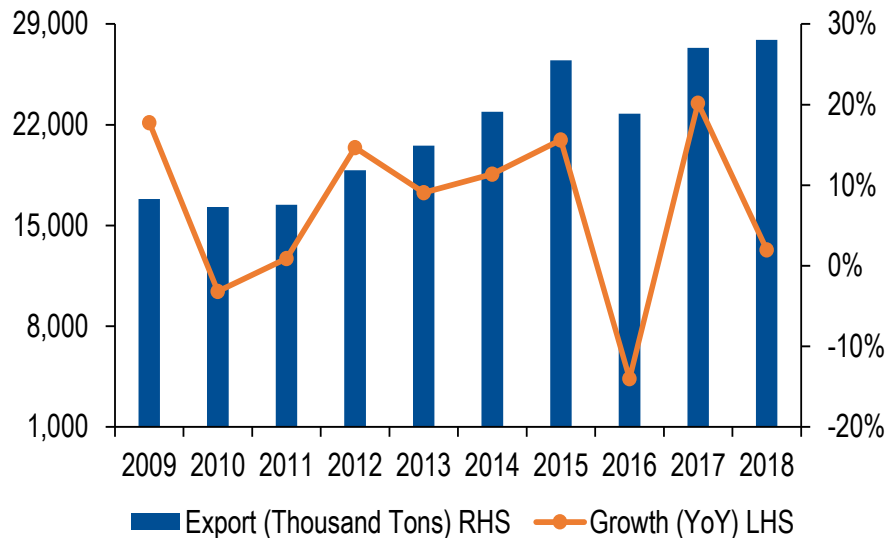
- **Rising CPO Exports**

Data of the Indonesian Palm Oil Producers Association (GAPKI) reveals Indonesia's CPO exports from Jan. to Oct. 2019 to show a 2.1% YoY increase whose the first-largest proportion of 113% YoY was contributed by oleochemical products, and the second-largest proportion of 17% YoY was contributed by CPO. The increase was driven by declining exports in semester I of 2019 and re-inclining CPO demand coupled with rising prices of CPO in Oct. 2019. Indonesia's CPO exported to Pakistan rose by 52% QoQ to 100,000 tons, while CPO exported to South Africa surged by 88% YoY. The rising CPO exports show that Indonesia is independent of India and the European Union's market demand as it acquires new export markets. CPO has a long-term promising outlook so that investors may start to accumulate CPO stocks.

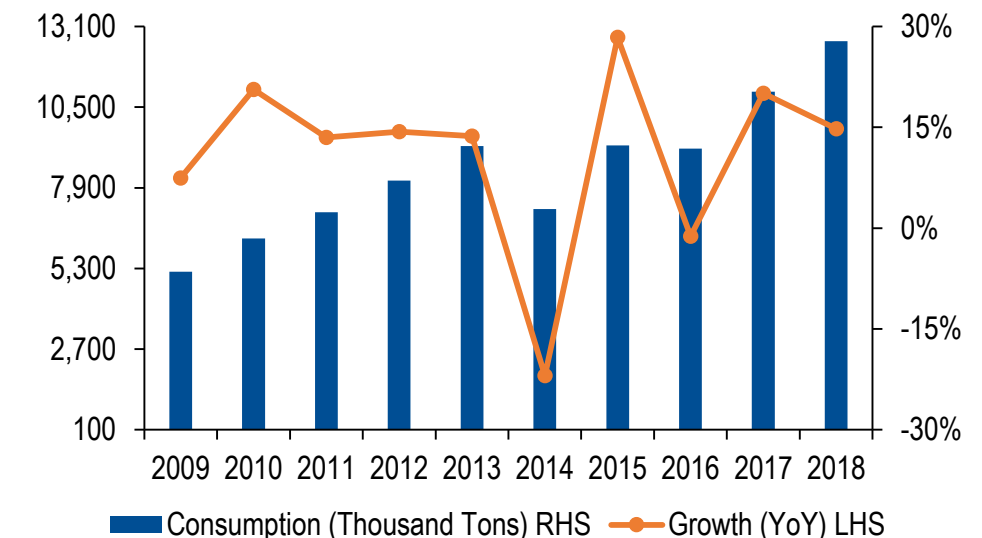
- **B30 Nationwide Commercialization in 2020**

President Joko Widodo accompanied by Coordinating Minister for Economy Airlangga Hartanto, Minister of State-Owned Enterprises Eric Thohir, and Minister of Energy and Mineral Resources Arifin Tasrif on Dec. 23, 2012 officially announced nationwide commercialization of B30 to be effective on Jan. 1, 2020. The commercialized B30 contains 9.6 million of Fatty Acid Methyl Ester (FAME) whose 8.4 million of that amount will be supplied by Pertamina to cooperate with 19 CPO makers. Currently, 70% of 40 million of Indonesia's CPO production is exported, and B30 commercialization is potential for driving higher domestic demand for CPO which in turn will cut global CPO stockpiles and rise global CPO prices. The bright side is expected to persist in 2020 to lead a promising outlook for CPO makers, i.e., AALI.

Indonesia CPO Export



Indonesia CPO Consumption

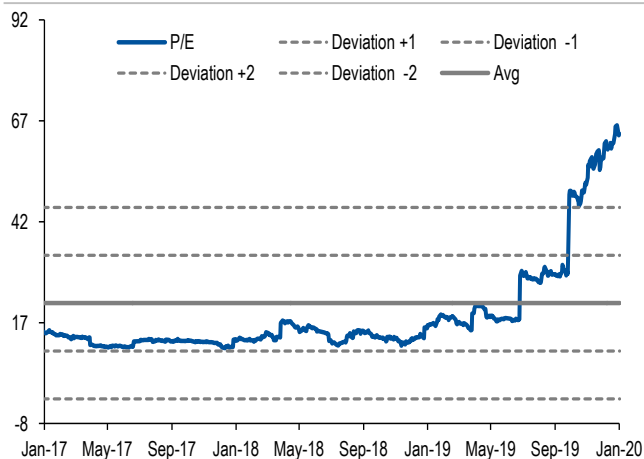


Astra Agro Lestari Tbk (AALI IJ – Plantation)

Dec 2020 Target Price	15,600
Consensus Price	13,734
Last Price (IDR) as of Jan 3, 2020	14,100
TP vs. Last Price	10.6%
Revenue Breakdown:	
Crude Palm Oil	91%
Others	9%

IDR bn	FY2018	FY2019E	FY2020E	FY2021E
Revenue	19,084	16,056	17,065	18,314
y-y	10.3%	-15.9%	6.3%	7.3%
Net Profit	1,439	201	377	519
y-y	-28.9%	-86.0%	87.3%	37.7%
NPM	7.5%	1.3%	2.2%	2.8%
EPS	747	105	196	270
P/E	15.8x	118.7x	66.6x	50.8x

3-Year P/E Trailing Band



Source : Bloomberg, NHKS Research

- **NHKS** recommends AALI as this week's top-pick stock to hit the price target of IDR15,600 based on the P/E trailing band of 66.6x. The estimate is on grounds of 3Q19's better performance and costs efficiencies to boost margins.

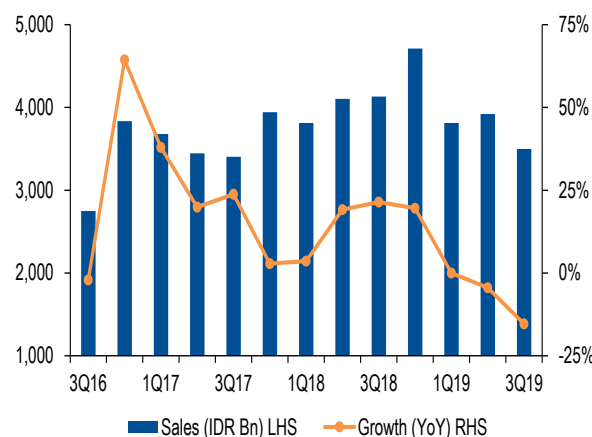
Rosier Quarterly Performance

Struggling prices of CPO in 1H19 left AALI's 2019 performance to less bright than that of 2018, but its quarter performance showed improvement. In 3Q19, AALI recorded revenues of IDR3.8 trillion (-10.1% QoQ), but it succeeded in minimizing several costs, i.e., a 13.4% decrease in COGS to IDR3.3 trillion and a 2.8% QoQ decrease in operational costs to IDR278 billion. The cost efficiencies resulted in a 970.6% QoQ increase in net profits to IDR67.5 billion. We estimate that AALI in 2019F is likely to post revenues of IDR16 trillion underpinned by rising prices of CPO even though its net profits are exposed to declines at 8.6% YoY. However, its 2019F performance competes better than its peers, exposed to more-than-100% net profit losses.

Efficiency to Boost Margins

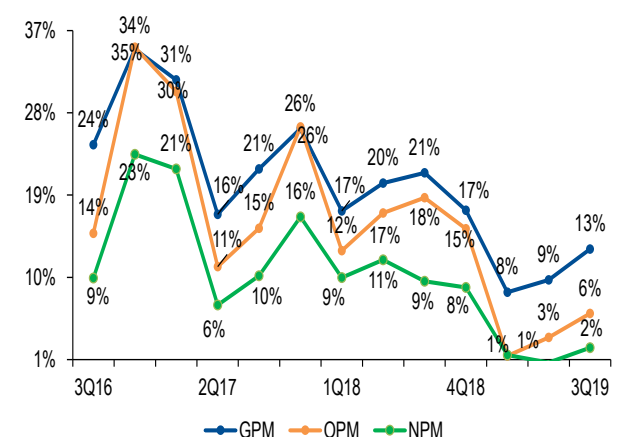
AALI succeeded to boost 3Q19's margins as its GPM stood at 13% (vs. 9% in 2Q19), OPM of 6% (vs. 3% in 2Q19), and NPM of 2% (vs. 0.2% in 2Q19). The increasing margins were underlined by more efficient cost of production, i.e., a 5.4% QoQ decrease to IDR733 billion in harvest costs and a 19.6% QoQ decrease to IDR102 billion in infrastructure maintenance costs. Meanwhile, domestic production increased to 36 million tons (+13% YoY), and domestic consumption to surge to 13.1 million tons (+38% YoY) during 9M19. We estimate that domestic consumption until year-end to fall short at the range of 14.9-15.4 million tons with the biodiesel absorption to fall short at the range of 23.5%-24.7%: larger absorption than that in 2018.

CPO Sales & Growth



Source : Company Data, NHKS Research

Margin Ratios



Source: Company Data, NHKS Research

INNI Index's Stocks List

	Theme 1/2	Last Price	Last Week Price	2020 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	34,000	33,475	32,000	Hold	(5.9)	1.6%	838.3	29.7x	5.0x	18.1	1.0	15.0	13.0
BBRI	Theme 1	4,420	4,430	4,950	Hold	12.0	-0.2%	545.2	16.1x	2.7x	18.2	3.0	10.8	5.6
Consumer														
GGRM	Theme 1	54,100	53,250	61,800	Hold	14.2	1.6%	104.1	11.2x	2.2x	20.5	4.8	16.9	25.8
KINO	Theme 1	3,480	3,430	4,680	Buy	34.5	1.5%	5.0	10.1x	1.9x	21.2	1.4	34.1	323.0
ICBP	Theme 1	11,250	11,175	12,875	Hold	14.4	0.7%	131.2	26.3x	5.5x	22.2	1.2	11.2	11.4
KLBF	Theme 1	1,635	1,615	1,780	Hold	8.9	1.2%	76.6	29.8x	5.0x	17.6	1.6	7.3	6.2
Infrastructure														
TLKM	Theme 1	3,980	3,990	4,700	Buy	18.1	-0.3%	394.3	19.5x	4.0x	21.3	4.1	3.5	15.6
JSMR	Theme 1	5,250	5,300	6,000	Hold	14.3	-0.9%	38.1	19.7x	2.1x	11.3	0.9	(22.8)	(15.2)
Trade														
UNTR	Theme 2	21,275	21,675	26,300	Buy	23.6	-1.8%	79.4	7.4x	1.4x	19.8	5.8	7.3	(4.8)
MAPI	Theme 2	1,070	1,055	1,300	Buy	21.5	1.4%	17.8	21.7x	3.0x	14.8	0.9	11.4	14.7
Property														
CTRA	Theme 2	1,050	1,045	1,550	Buy	47.6	0.5%	19.5	19.3x	1.3x	7.2	1.0	(0.7)	(28.9)
WSKT	Theme 2	1,545	1,480	2,600	Buy	68.3	4.4%	21.0	15.1x	1.2x	7.8	4.7	(39.2)	(69.4)
WIKA	Theme 2	2,130	2,010	2,500	Buy	17.4	6.0%	19.1	8.6x	1.2x	15.3	1.8	(12.9)	57.3
Basic Ind.														
SMGR	Theme 1	12,325	12,225	14,300	Buy	16.0	0.8%	73.1	32.0x	2.3x	7.5	1.7	31.1	(38.1)
Misc Ind.														
ASII	Theme 1	6,950	6,925	8,600	Buy	23.7	0.4%	281.4	13.7x	2.0x	14.9	3.0	1.2	(7.1)
Mining														
TINS	Theme 2	825	825	800	Hold	(3.0)	0.0%	6.1	43.5x	1.0x	1.6	3.0	114.6	N/A
PTBA	Theme 2	2,670	2,650	2,300	Hold	(13.9)	0.8%	30.8	6.8x	1.7x	26.4	12.7	1.4	(24.9)
INCO	Theme 2	3,500	3,530	4,200	Buy	20.0	-0.8%	34.8	433.1x	1.3x	0.3	N/A	(12.6)	N/A
ANTM	Theme 2	850	835	1,100	Buy	29.4	1.8%	20.4	25.4x	1.0x	4.1	1.5	23.0	(11.1)
Agriculture														
AALI	Theme 2	14,100	14,500	15,600	Hold	10.6	-2.8%	27.1	63.7x	1.5x	2.3	1.6	(10.0)	(90.1)

Source : Bloomberg, NHKS Research

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