

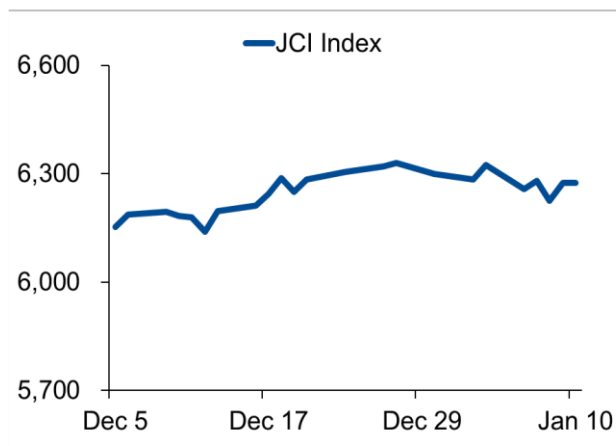
## Weekly Brief (January 13th – 17th)

### Summary:

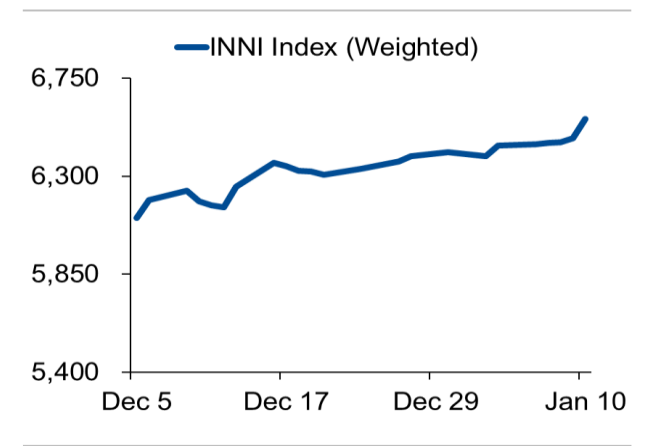
**Last week review:** The US-Iran after the attack on top Iranian general Qasem Soleimani, China's violation of Indonesia's exclusive economic zone (EEZ), the release of Indonesia's economic data (e.g. consumers' upbeat optimism and rising forex reserves) left JCI at mixed movements in a week.

**This week's outlook:** New tariff measures drafted in 2019 take into force in 2020, and BPJS Kesehatan's new premiums are one of them. The new premiums curb deficit burdened BPJS Kesehatan and reduce consumers' appetite for spending. To curb deficit while avoiding a deeper tumble in consumption, BPJS Kesehatan offers switchable premiums paid by varied class-income groups as the unchanged electricity tariffs and lower prices of BBM are hopes for an insatiable appetite for consumption. **NHKS** reviews Indonesia pharmaceutical maker KLBF as this week's top-pick stock to gain the price target of IDR1,780 based on a 30.2x P/E trailing band. The prevailing new measures, KLBF's 3Q19 double-digit earnings, and its greater domestic and overseas market penetration are factors underlying NHKS's estimate.

JCI - one month



INNI Index – one month



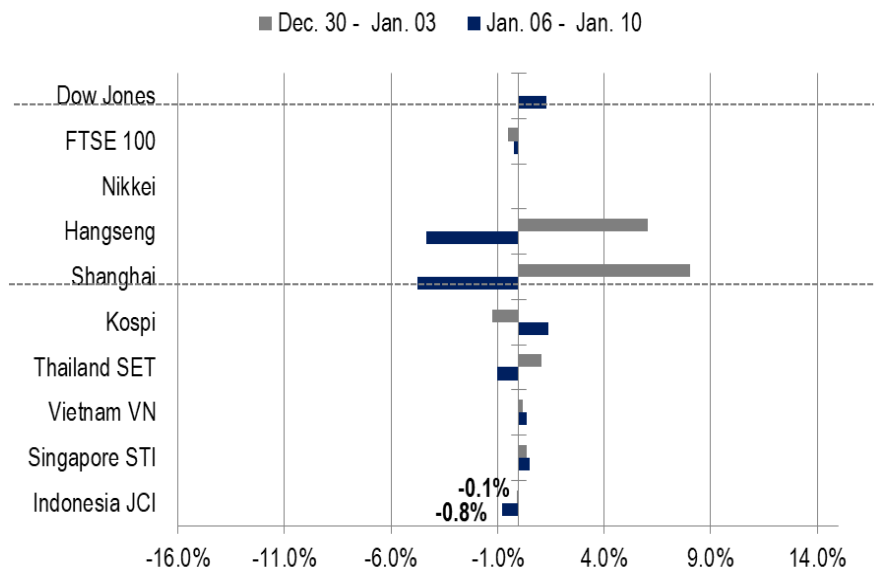
# Last Week's JCI Movement

- JCI Index : 6,274.94 (-0.8%)
- Foreign Flow : Net buy of IDR1,0 trillion (vs. net buy last week of IDR946 billion )
- USD/IDR : 13,772 (-1.13%)
- Yields of sovereign bond with 10-years tenor : 6.932% (-9.80 bps)

## JCI Slowed

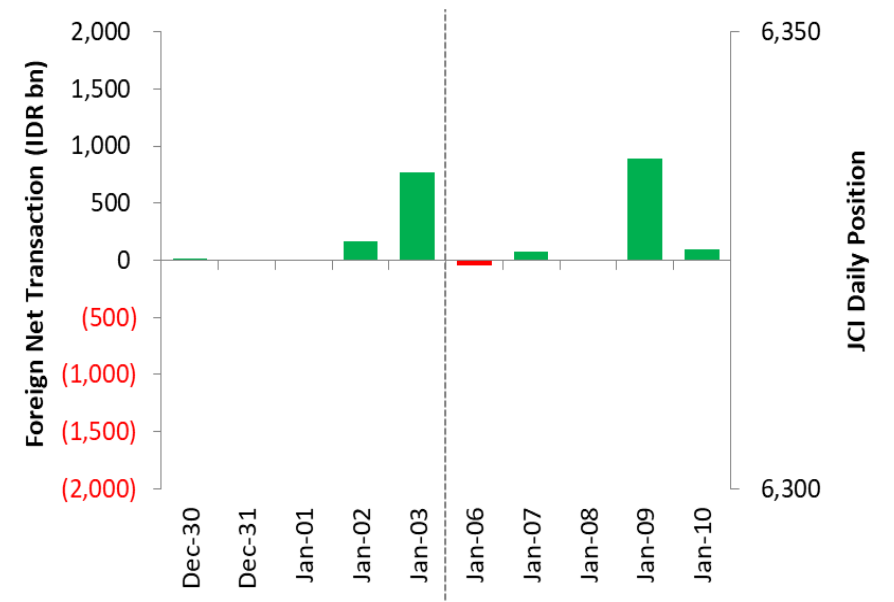
In few early days of last week, JCI pointed lower after a 3-day winning streak. Foreign inflows of IDR296 billion on 2019's final trading day and unchanged non-subsidized electricity tariffs from January to March 2020 failed to set JCI free from the red zone trap. Although such sentiments are likely 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

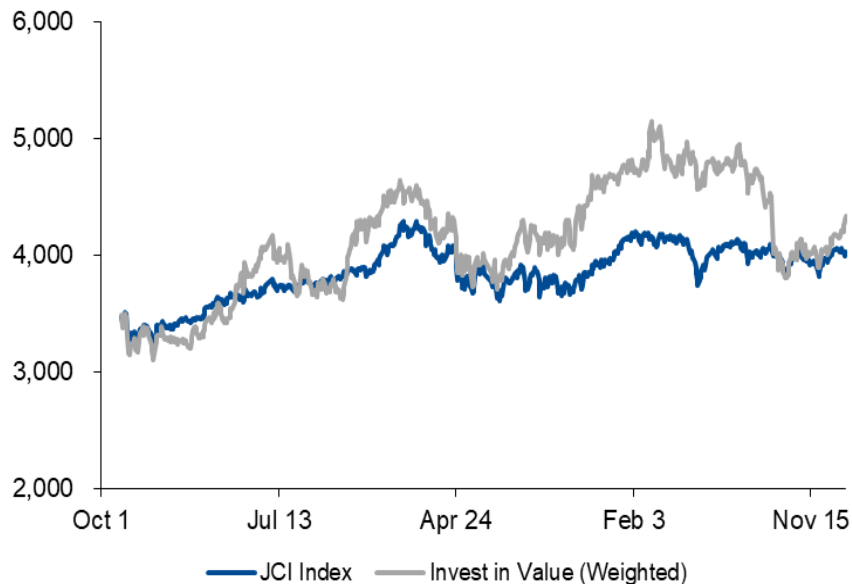
# Last Week's INNI Movement

•INNI Index	: 6,563.91 (+1.9%)
INNI Theme 1 (Value)	: 4,332.67 (+2.7%)
INNI Theme 2 (Trend)	: 8,051.41 (+1.7%)

## INNI Index Gained

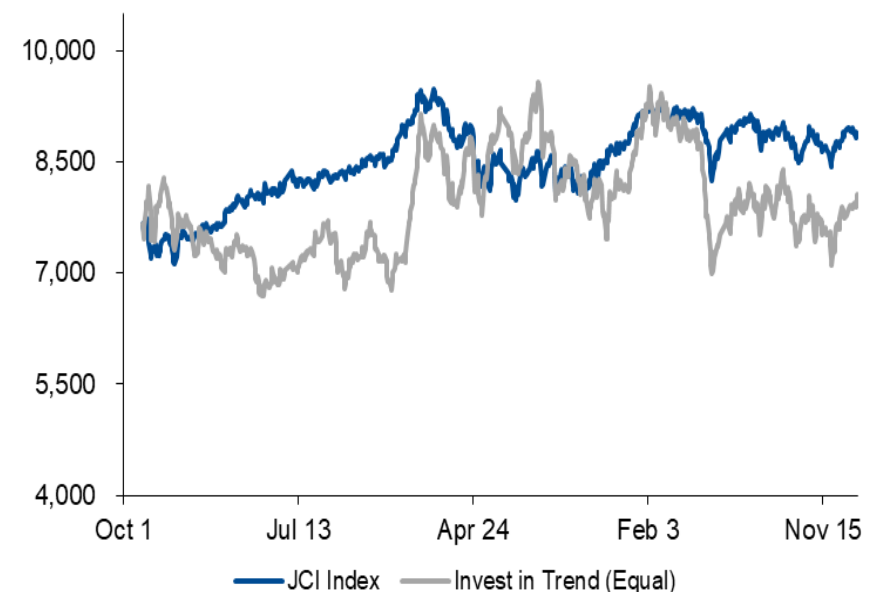
In a few days of early last week, INNI index rallied as ANTM posted gains. ANTM's rally correlated to prices of gold Comex to outshine amid wobbly domestic and global state. INNI continued to rally in the mid-week as construction stocks, i.e., WIKA and WSKT to advance. In 2020, WIKA targets to list its subsidiaries WIKA Realty and WIKA Industri dan Konstruksi on IDX and allocates CapEx of IDR25 trillion to IDR28 trillion to be invested on a number of projects such as toll-road, realty, and non-toll road projects. On Friday of Jan 10, INNI index rallied, backed by KINO's 9.0% gain.

**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

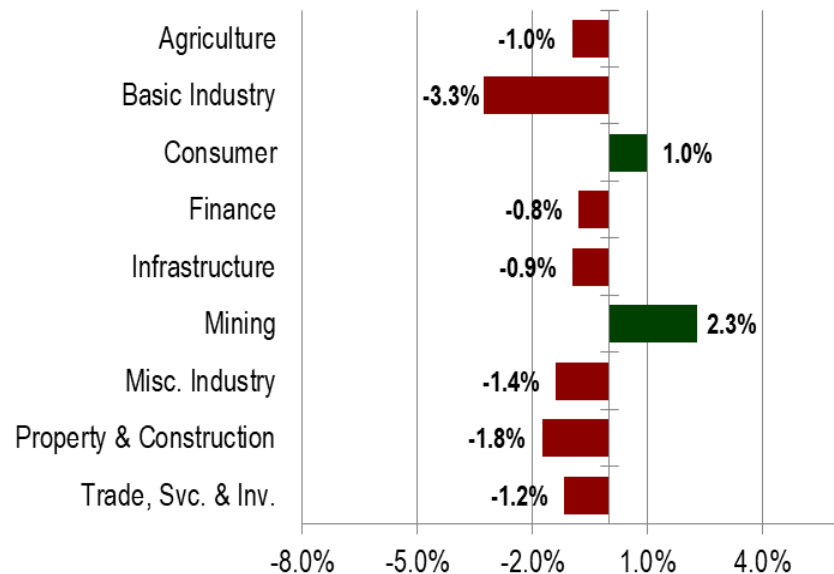
- **JCI's Top Losers**

Last week, all JCI's sectors virtually slowed, excluding the mining and consumer sectors. The basic industry to give up the largest gains of 3% led the declines. The US-Iran conflict to send prices of global coal price rising negatively impacted on the manufacturing sector, particularly companies with high demand for oil; for example, petrochemical midstream businesses and their upstream industries such as packaging and plastic makers hit hardest by the conflict. TPIA gave up a 8.27% gain on a weekly basis as the conflict arose.

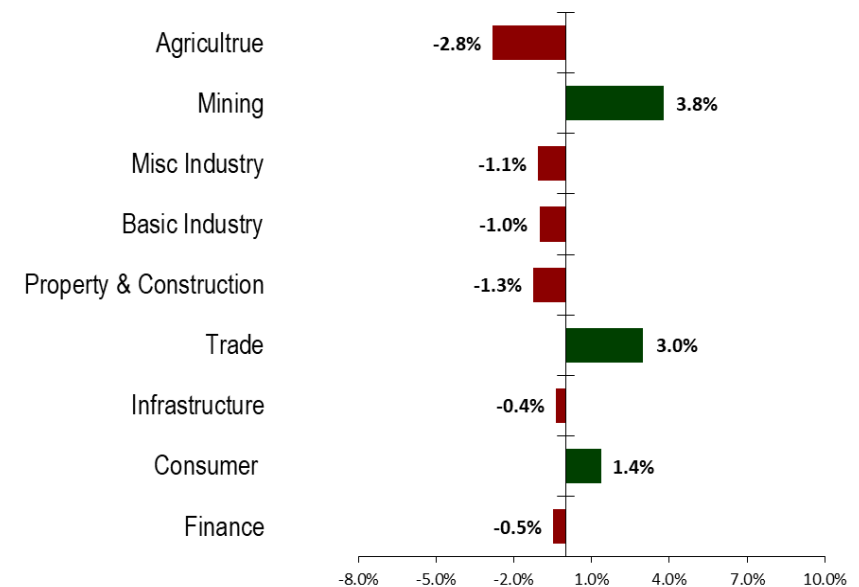
- **INNI Index's Top Losers**

Last week, agriculture stocks declined at the deepest by 2.8. After posting gains following the nationwide commercialization of B30, prices of COP re-subdued due to heavy rainfall curbing CPO production. AALI on a weekly basis dropped by 3.10%.

**JCI's Last Week Sectoral Movements**



**INNI's Last Week Sectoral Movements**



# This Week's Outlook: Pharma Sector

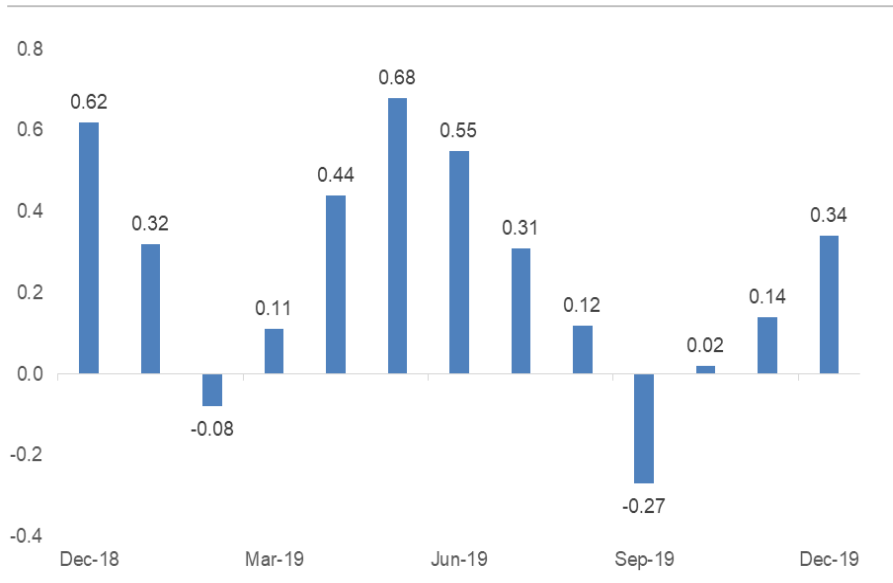
- Benign Inflation in 2019**

Statistics Indonesia (Badan Statistik Indonesia, "BPS") released Dec's 2019 inflation of 0.34% with the Consumer Price Index (CPI) of 139.07. Inflation from Jan. to Dec. 2019 stood at 2.72% more benign than that of 3.13% from Jan. to Dec. 2018. Three grouped expenditures making up the most gains were foodstuffs; transportation, communication, and financial services; and processed food, beverages, cigarettes, and tobaccos rose by 0.78%, 0.58%, 0.29%, respectively. Bank Indonesia (BI) affirmed the 2019's benign inflation to be attributable to production surpassing demand, adequate foodstuffs supplies and affordable prices of foodstuffs, a mild pick up in commodities contributing to inflation, and the rupiah's stable exchange rate.

- BPJS's Premiums Open 2020 with Hiking Premiums**

The Health Care and Social Security Agency (BPJS Kesehatan) projects the National Health Insurance (JKN) to be burdened by IDR16 trillion worth of 2020's deficit. The estimated deficit is smaller than the initial estimate of IDR32.89 trillion, if the 2020's new premiums are left unchanged. Its premiums opened the new year 2020 with the first-time increases since the beginning of its operation in 2014. Despite its new premiums, BPJS Kesehatan facilitates its participants to switch their payable premiums to the more affordable ones by means of an easy switch of more affordable services (Program Perubahan Kelas Tidak Sulit, "PRAKTIS"). BPSJ Kesehatan, until December 2019, recorded 224 million participants out of 269 million Indonesian citizens. We view that Indonesian pharmaceutical makers will stand to benefit from hiking premiums even though the benefits will come in the long-term run in light of ballooning deficit.

**Monthly Inflation (%) | Dec.18 – Dec.19**



**BPJS Premiums 2020**

Types	Prior Premiums	Existing Premiums
Beneficiaries	IDR23,000	IDR42,000
III Class	IDR25,000	IDR 42,000
II Class	IDR51,000	iDR 110,000
I Class	IDR80,000	IDR160,000

Source: Indonesia Statistics, NHKS Research

Source: Health Care and Social Security Agency (BPJS Kesehatan), NHKS Research

# This Week's Outlook: Pharma Sector

- **Projection of Upbeat Indonesia Manufacturing PMI**

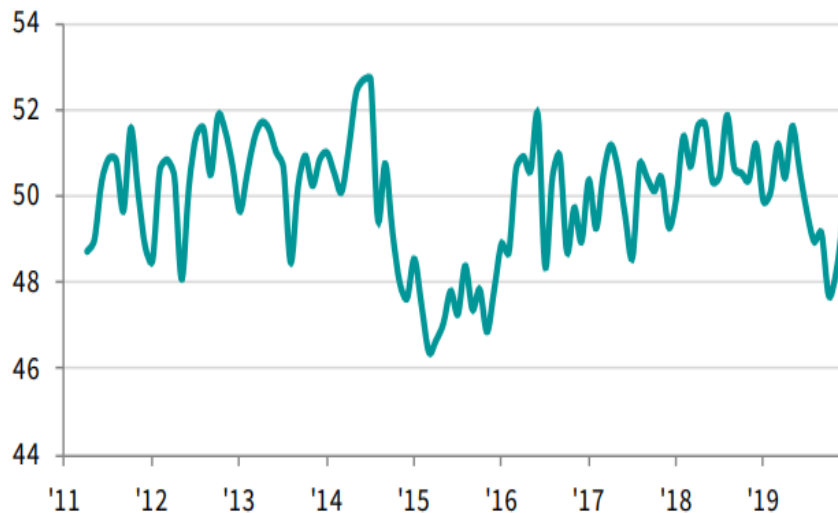
The IHS Markit Indonesia Manufacturing PMI fell to 49.5 in December 2019, down below 50. The 4Q19 reading on an average basis stood at 48.5 to tumble to the weakest level since 2015. Although Dec's reading proved Indonesia's manufacturing malaise, its 2020's outlook is estimated to recover, supported Dec's respective pick up in production, sales, corporate inventories, and business confidence index. However, the recovery in Indonesia's manufacturing activities is a tough challenge amid the global economic slowdown. The IHS Markit Indonesia Manufacturing revealed the job data to hit a six-month low and deeper tumble inflation.

- **2020's Prospects for Pharmaceutical Makers**

We are optimistic about pharmaceutical makers' prospective outlook in 2020 as their 3Q19 sound sales, supported further by forging-ahead demand for drugs and Indonesian rising populations prove their strong footing. They inevitably benefited from the rupiah's stable exchange rate over the last year, leaving the costs of their mostly imported raw materials lower. A tangible challenge faced by them is the 2020 hikes in tariff to weaken consumption, particularly over the counter (OTC) drugs. However, the Decree of Ministry of Energy and Mineral Resources 187K/10/MEM/2019 regulating declines in prices of oil and household fuels (Bahan Bakar Minyak, BBM) and unchanged electricity tariffs unchanged are hopes for beating upbeat tariffs and whetting consumers' appetite for spending.

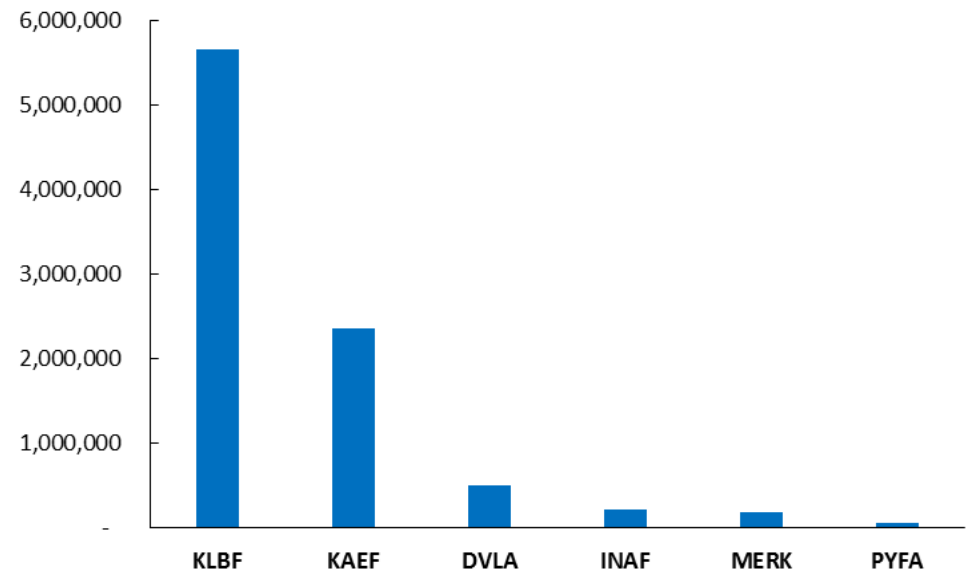
## Indonesia Manufacturing PMI

sa, >50 = improvement since previous month



Source: Badan Pusat Statistik, NHKS Research

## 3Q19 Revenue of Pharmaceutical Companies



Source: NHKS Research

# Kalbe Farma Tbk (KLBF IJ – Pharmaceuticals)

<b>Dec 2020 Target Price</b>	<b>1,780</b>
Consensus Price	1,737
Last Price (IDR) as of Jan 10, 2020	1,600
TP vs. Last Price	11.2%

<b>Revenue Breakdown:</b>	
Distribution & Packaging	31.5%
Nutritional Food	27.5%
Prescription Drugs	23.3%
Consumer Health	17.7%

IDR bn	FY2018	FY2019E	FY2020E	FY2021E
Revenue	21,074	22,495	23,744	25,060
y-y	4.4%	6.7%	5.6%	5.5%
Net Profit	2,457	2,651	2,771	2,982
y-y	2.2%	7.9%	4.5%	7.6%
NPM	11.7%	11.8%	11.7%	11.9%
EPS	52	57	59	64
P/E	32.2x	26.9x	25.3x	23.5x

## 3-Year P/E Trailing Band



Source : Bloomberg, NHKS Research

- **NHKS** recommends KLBF as this week's top-pick stock to hit the price target of IDR1,780 based on a 30.2x P/E trailing band. KLBF's 3Q19 forging ahead earnings and domestic and overseas market expansion

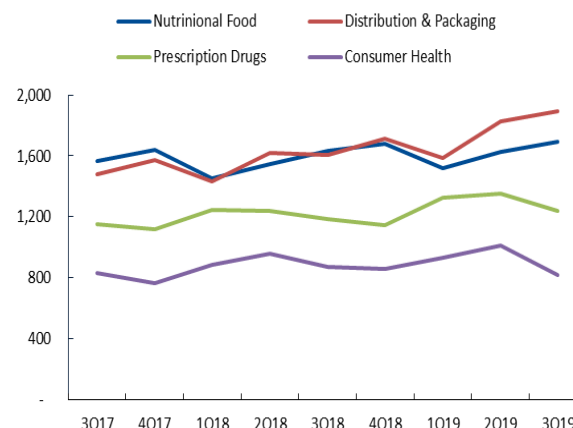
## Cost Efficiency as Strong Footing for Earnings

KLBF recorded 3Q19's revenues of IDR5.6 trillion (+6.6% y-y, -2.8% q-q) as its GPM dropped from 47.0% in 3Q18 to 45.8% in 3Q19. COGS of 3Q19 showed a 9.0% y-y increase to IDR3 trillion leaving GPM lower, and its cumulative figures of 9M19 even mounted to IDR9 trillion attributable to IDR3.7 trillion worth of raw material purchases or a 9.9% y-y hike surpassing IDR8.1 trillion worth of 9M18's COGS. Although CGOS hit a 9.9% y-y hike, KLBF ended 3Q19 with double-digit earnings of IDR657 billion (+11.7% y-y, -1% q-q) following curbs on costs from 3Q18 of IDR1.8 trillion to 3Q19 of IDR1.7 trillion.

## 2020's Business Strategies

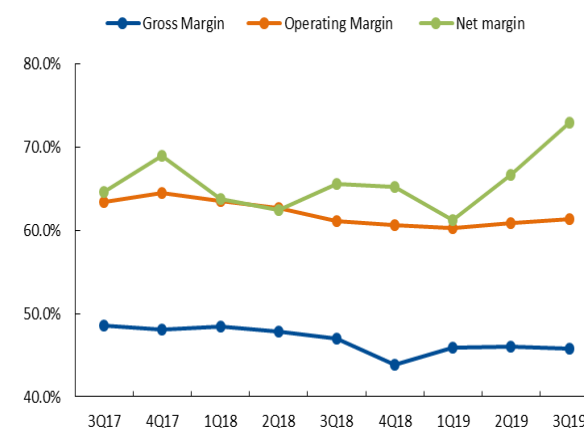
KLBF plans for allocating IDR1 trillion worth of 2020's CapEx for finishing the construction of Bintang Toedjoe and Sukafarma factories as well as Enseval Putera Megatrading distribution center. It also focuses on greater domestic market penetration by means of building a business partnership with the National Health Insurance (Jaminan Kesehatan Nasional, "JKN"), supplying drugs to commercial hospitals, and greater penetration in remote markets across Indonesia. Not only does it broaden its expansion in the domestic market, but KLBF concertedly also expands its exports to countries in both Southeast Asia and Africa, i.e., Nigeria.

## Increasing Distribution & Consumer Segment



Source : Company Data, NHKS Research

## KLBF's Margin Ratio



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 (%)
<b>Finance</b>														
BBCA	Theme 1	33,625	34,000	32,000	Hold	(4.8)	-1.1%	829.0	29.3x	4.9x	18.1	1.1	15.0	13.0
BBRI	Theme 1	4,410	4,420	4,950	Hold	12.2	-0.2%	544.0	16.0x	2.7x	18.2	3.0	10.8	5.6
<b>Consumer</b>														
GGRM	Theme 1	58,100	54,100	61,800	Hold	6.4	7.4%	111.8	12.1x	2.4x	20.5	4.5	16.9	25.8
KINO	Theme 1	3,500	3,480	4,680	Buy	33.7	0.6%	5.0	10.2x	2.0x	21.2	1.4	34.1	323.0
ICBP	Theme 1	11,525	11,250	12,875	Hold	11.7	2.4%	134.4	27.0x	5.6x	22.2	1.2	11.2	11.4
KLBF	Theme 1	1,600	1,635	1,780	Hold	11.3	-2.1%	75.0	29.2x	4.9x	17.6	1.6	7.3	6.2
<b>Infrastructure</b>														
TLKM	Theme 1	3,980	3,980	4,700	Buy	18.1	0.0%	394.3	19.5x	4.0x	21.3	4.1	3.5	15.6
JSMR	Theme 1	5,200	5,250	6,000	Buy	15.4	-1.0%	37.7	19.5x	2.1x	11.3	0.9	(22.8)	(15.2)
<b>Trade</b>														
UNTR	Theme 2	22,250	21,275	26,300	Buy	18.2	4.6%	83.0	7.8x	1.5x	19.8	5.6	7.3	(4.8)
MAPI	Theme 2	1,090	1,070	1,300	Buy	19.3	1.9%	18.1	22.1x	3.0x	14.8	0.9	11.4	14.7
<b>Property</b>														
CTRA	Theme 2	1,035	1,050	1,550	Buy	49.8	-1.4%	19.2	19.0x	1.3x	7.2	1.0	(0.7)	(28.9)
WSKT	Theme 2	1,475	1,545	2,600	Buy	76.3	-4.5%	20.0	14.4x	1.1x	7.8	4.9	(39.2)	(69.4)
WIKA	Theme 2	2,160	2,130	2,500	Buy	15.7	1.4%	19.4	8.7x	1.2x	15.3	1.8	(12.9)	57.3
<b>Basic Ind.</b>														
SMGR	Theme 1	12,200	12,325	14,300	Buy	17.2	-1.0%	72.4	31.7x	2.3x	7.5	1.7	31.1	(38.1)
<b>Misc Ind.</b>														
ASII	Theme 1	6,825	6,950	8,600	Buy	26.0	-1.8%	276.3	13.5x	1.9x	14.9	3.1	1.2	(7.1)
<b>Mining</b>														
TINS	Theme 2	880	825	800	Hold	(9.1)	6.7%	6.6	46.4x	1.1x	1.6	2.8	114.6	N/A
PTBA	Theme 2	2,780	2,670	2,300	Sell	(17.3)	4.1%	32.0	7.1x	1.8x	26.4	12.2	1.4	(24.9)
INCO	Theme 2	3,510	3,500	4,200	Buy	19.7	0.3%	34.9	439.9x	1.3x	0.3	N/A	(12.6)	N/A
ANTM	Theme 2	885	850	1,100	Buy	24.3	4.1%	21.3	26.4x	1.1x	4.1	1.4	23.0	(11.1)
<b>Agriculture</b>														
AALI	Theme 2	13,675	14,100	15,600	Hold	14.1	-3.0%	26.3	61.8x	1.4x	2.3	1.6	(10.0)	(90.1)

Source : Bloomberg, NHKS Research

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