

Weekly Brief (January 14 – 18)

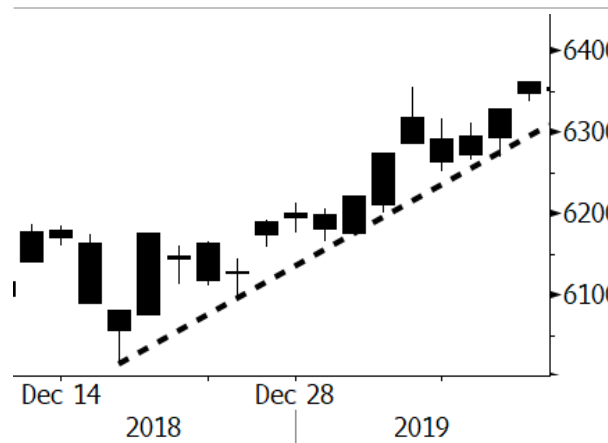
Summary:

Last week, JCI rallied at 1.4% on the back of the net foreign buy of IDR3.2 trillion. The property index was the best performer in JCI's last week rally. Positive sentiments of the property sector derive from the amendment to government regulation in relation to property ownership. The prior regulation stated that foreigners shall only own property in Indonesia with the right of usage over land for 4-5 years, now they may have 30-year Right to Build (HGB).

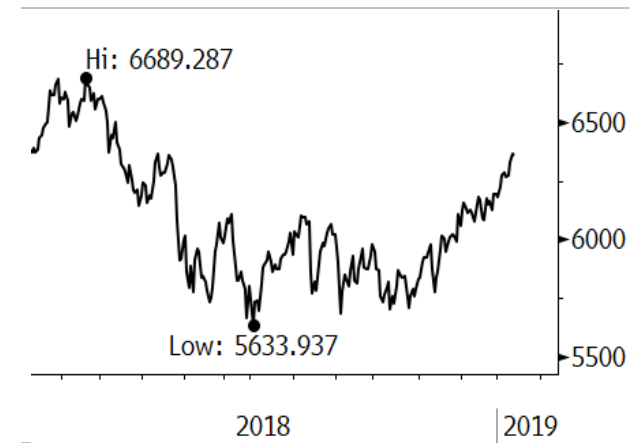
This week, we estimate the 2019 Indonesia's trade balance is likely to be better than that in 2018. It is boosted by the oil and gas sector. The price of crude is possible to hover at USD50/barrel; accordingly, the oil and gas trade deficits will narrow. The better trade balance is a logical takeaway for the rupiah appreciation.

Consumer sector is likely to enjoy rupiah appreciation. Especially, we expect that a pharmacy company KLBF will be affected by it the most as KLBF banks on imported raw materials for its most production. Thus, the further rupiah appreciation is a positive signal for KLBF.

JCI - one month



JCI - one year



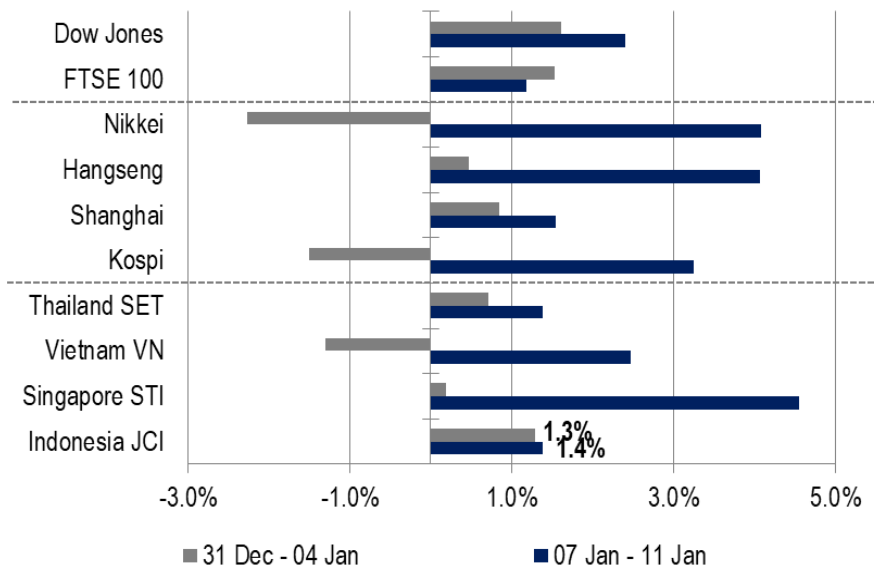
Last Week's Movement

- Jakarta Composite Indexes (JCI) : 6,361.46 (+1.4%)
 Foreign Investors : *net buy* amounting to IDR3.25 trillion (vs. prior *net buy* amounting to IDR789 billion)
 USDIDR : 14,048 (-1.56%)
 The government bonds yield with 10-year tenor *Yield* : 7.981% (+11.2 bps)

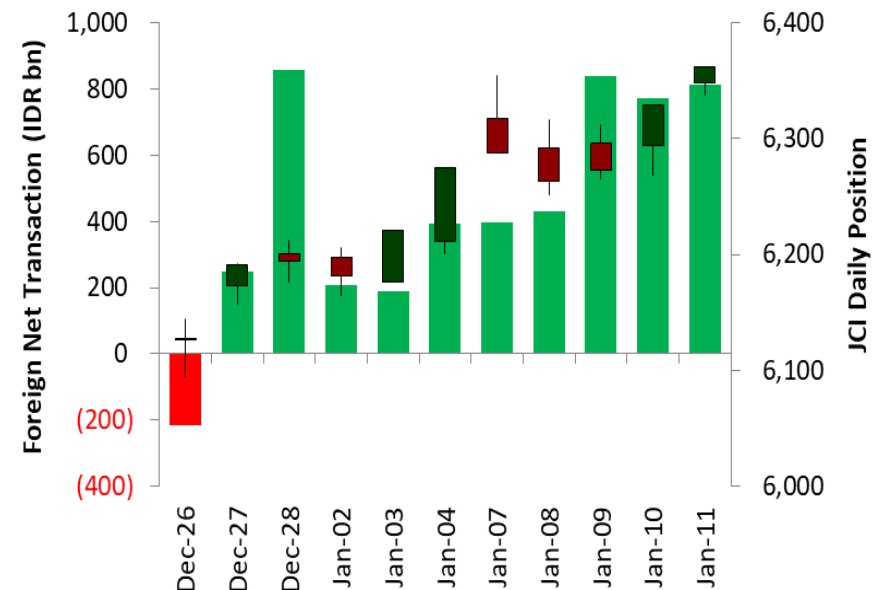
Last Week's Foreign Inflow of IDR3.2 Trillion

Last week, JCI rallied at 1.4% on the back of the net foreign buy of IDR3.2 trillion. Foreign investors posted the net buy for ten consecutive days, starting from 12/27/2018. We oversaw that foreign investors started to penetrate emerging markets, particularly Indonesia. It was underlined by the 10-year yield of the government bonds (SUN) settling at 8.095% on 04/01/2019 alluring investors seeking for higher yields than that of bond yields offered by other emerging economies. Thus, the backdrop resulted in the rally of SUN with 10-year tenor by 11.2 bps to 7.981%. Massive foreign net buy in Indonesia's bond market caused substantial foreign inflows: a balanced investment between SUN markets and equity markets.

Global Market Movement



Foreign Net Flow – Last 10 Days



Last Week's Sector Movement

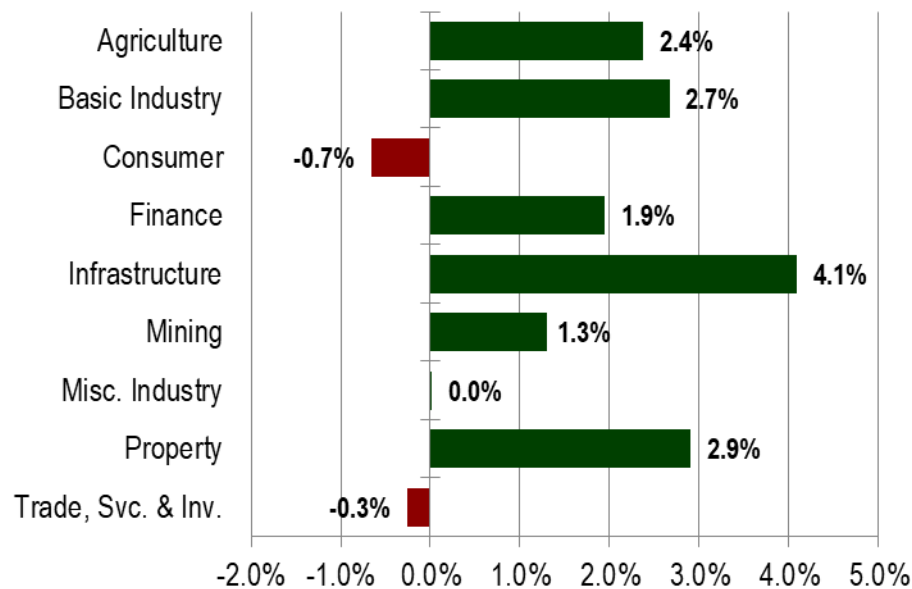
- TLKM Dominating Infrastructure Sector**

TLKM's stocks contributed 50.5% to the infrastructure sector, listed on JCI. It attributed to the last-week rally of 4.04% in TLKM's stocks and buoyed the infrastructure sector by 4.1%. Foreign investors posted the net buy of IDR508.5 billion (<-> domestic in net sell position) on TLKM's stocks. It was the biggest foreign net buy of 15.6% of the total last-week foreign net buy. We estimated that the massive foreign inflows to TLKM's stocks were unrelated to specific fundamental factors - non-alpha factors, but it was more likely to be underlined by the increasing exposure to Indonesia's stock markets: a more-likely beta factor.

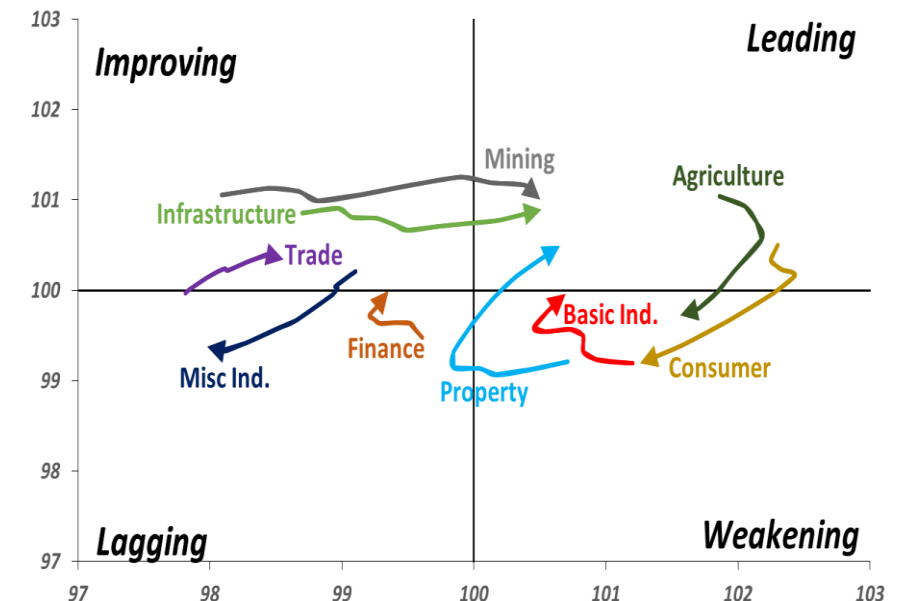
- Property Sector Outperforming JCI**

The property sector posted the biggest gains in JCI. It outperformed other sectors as it made a dramatic change from lagging to leading without undergoing improving stages. Positive sentiments of the property sector derive from the amendment to government regulation in relation to property ownership. The prior regulation stated that foreigners shall only own property in Indonesia with the right of usage over land for 4-5 years, now they may have 30-year Right to Build (HGB). The regulation underlined the last-week foreign net buy of IDR205 billion (<-> domestic in net sell position) in the property sector.

Last Week JCI Sector Movement



Sector Rotation – Last 10 Days



This Week's Outlook

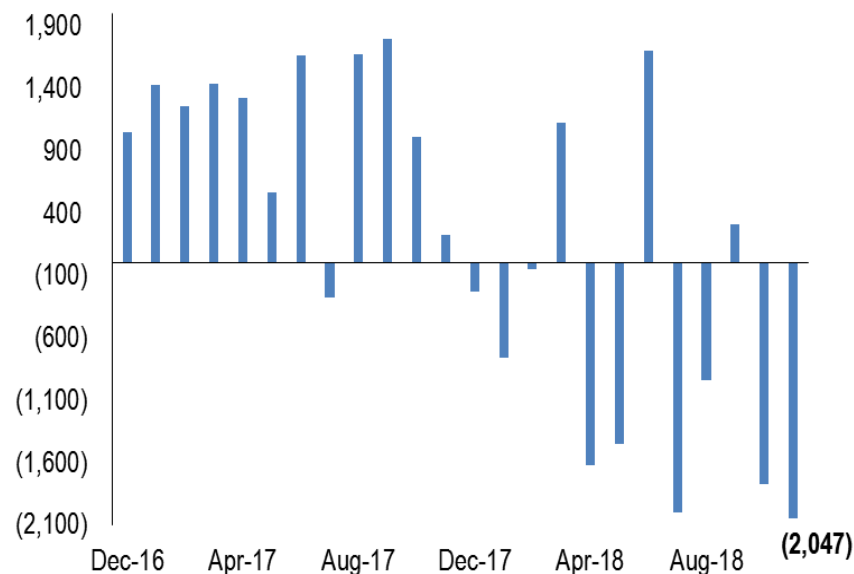
- BI's Board of Governors Meeting in January 2019**

On Wednesday 01/16/19 & Thursday 01/17/19, Bank Indonesia (BI) will hold its Board of Governors Meeting in January. In its Board of Governors Meeting of December 2018, BI decided to hold its BI 7-day Reverse Repo Rate unchanged at 6%. BI's Governor Perry Warjiyo at the press conference announced that BI's policy of leaving its benchmark rate unchanged aims to strengthen investors' interest in the domestic financial market and narrow current account deficits at safe threshold. We estimate that BI is likely to maintain its 7-Day Reverse Repo Rate at 6.0%, backed with the Fed's dovish stance.

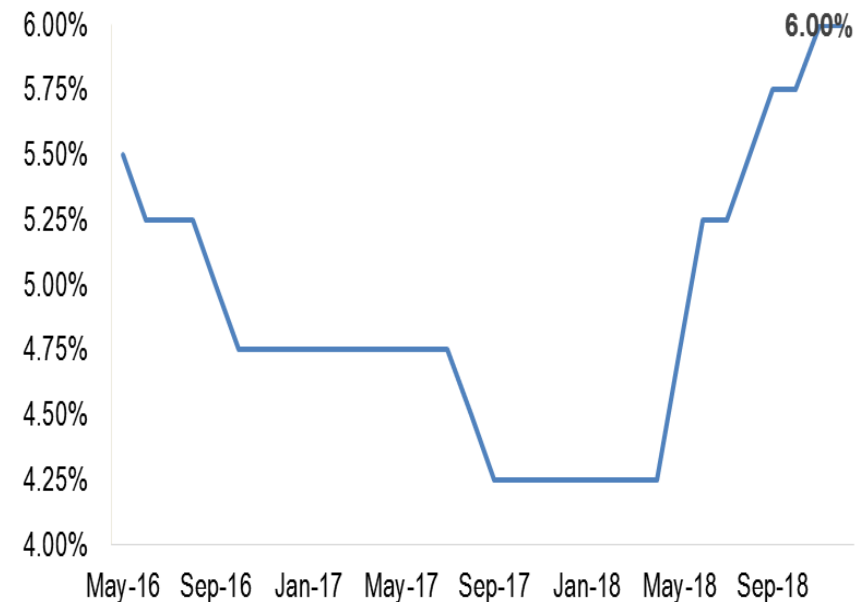
- December's Exports & Imports**

The Statistics Indonesia (BPS) will release Indonesia's exports and imports data on Tuesday, 01/15/19. November's trade balance posted deficits of USD2.05 billion with exports worth USD14.83 billion, lower than imports of USD16.04 billion. November's deficits were attributable to the worse performance of non-oil and gas trade balance and higher deficits of oil and gas trade. We estimate the 2019 Indonesia's trade balance is likely to be better than that in 2018. It is boosted by the oil and gas sector. The price of crude is possible to hover at USD50/barrel; accordingly, the oil and gas trade deficits will narrow. The better trade balance is a logical takeaway for the rupiah appreciation.

Indonesia Trade Balance (USD mn)



7-Day Reverse Repo Reference Rate Bank Indonesia



Highlighted Sector Based on This Week Outlook

- Further Rupiah Appreciation: A Positive Sentiment for Consumer and Trade Sectors**

We estimate that two sectors, the consumer and trade sectors, out of 9 sectors will enjoy the continued rupiah appreciation. The trade sector is likely to enjoy positive sentiments as a number of companies export goods to be sold in the domestic market; accordingly, the rupiah appreciation proves a boon for companies selling imported goods.

- NHKS's Projection: Consumer Sector Enjoying Rupiah Appreciation**

NHKS overview that the consumer sector enjoys more positive sentiments than does the trade sector. The rupiah appreciation brings psychology impacts on consumers' spending and creates wealthy effects. Of note, a number of companies in the consumer sector still import raw materials for their production. KLBF is the top-pick stocks due to its higher demand for imported raw material.

JCI Trade Sector VS USDIDR (inverse)



Source: Bloomberg, NH Korindo Research

JCI Consumer Sector VS USDIDR (inverse)



Source: Bloomberg, NH Korindo Research

Kalbe Farma (KLBF – Pharmaceutical)

Dec 2019 Target Price	2,000
Consensus Price	1,478
Last Price (IDR) as of Jan 14, 2019	1,615
TP vs. Last Price	+23.8%

Sales Breakdown:	
Nutritionals	30%
Pharmaceutical	23%
Others	47%

IDR bn	FY2017	FY2018E	FY2019E	FY2020E
Sales	20,182	21,012	22,026	23,244
<i>y-y</i>	4.2%	4.1%	4.8%	5.5%
Gross Profit	9,812	10,020	10,613	11,237
<i>GPM</i>	48.6%	47.7%	48.2%	48.3%
Net profit	2,404	2,417	2,619	2,795
<i>y-y</i>	4.5%	0.6%	8.4%	6.7%
NPM	11.9%	11.5%	11.9%	12.0%

- NHKS recommended KLBF as the top-pick stock, capable of hitting the target price of 2,000 at the P/E of 38.1x. The recommendation is underlined by the fact that KLBF banks on imported raw materials for its production; thus, the further rupiah appreciation proves a boon for KLBF.

- JKN: Potential for Boosting Sales**

KLBF's management is sanguine about the 2019 sales to be rosier at 4%-5%, similar to the 2018 sales. One of the sales drivers is the National Health Insurance (JKN) program, carried on by the government since 2015. The program aims to target 264 million Indonesian citizens. Until January 1st, 2019, 215.7 million Indonesian citizens have owned JKN. The government targets that at the end of 2019, 250 million Indonesian citizens have JKN. Overseeing the government's target, there is a possible growth of 16% in the number of Indonesia citizens owning JKN program.

- KLBF's Less Lustrous Performance over JCI to Discontinue Promptly**

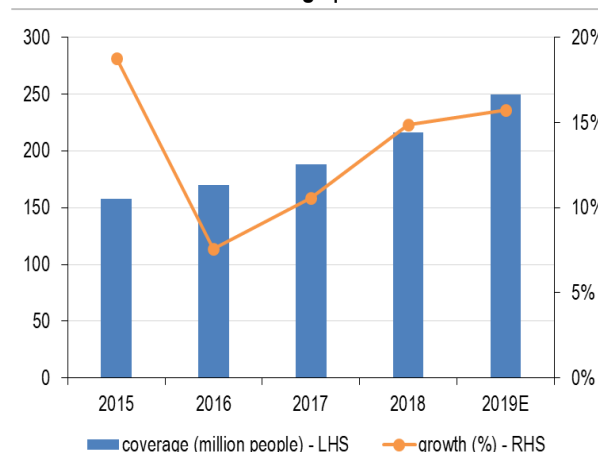
For most of 2018, KLBF's stock price was less lustrous over JCI. It was attributable to its gross margin banking on USDIDR. Of note, in 2018, the rupiah was depreciated by 7.4%; therefore, KLBF's gross margin depleted from 49% in 2017 to 48% in 2018.

It is estimated that the rupiah appreciation as of November 2018 is likely to continue further until 2019. The rupiah appreciation is on the back of Bank Indonesia (BI) intervention in stabilizing the rupiah and the decline in global crude prices. The further appreciation and stability of the rupiah are likely to contribute to KLBF's rosier performance over JCI in 2019.

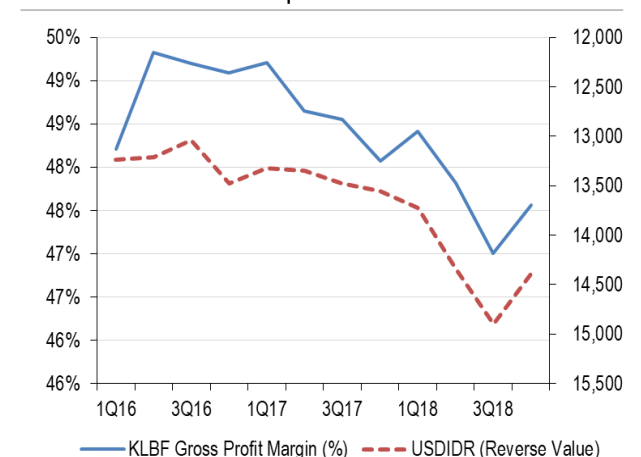
P/E Band Last 5 Years (Price Last 1 Year)



National Healthcare Coverage | FY2015 – FY2019E



KLBF's GPM vs USDIDR | 1Q16 – 4Q18E



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