

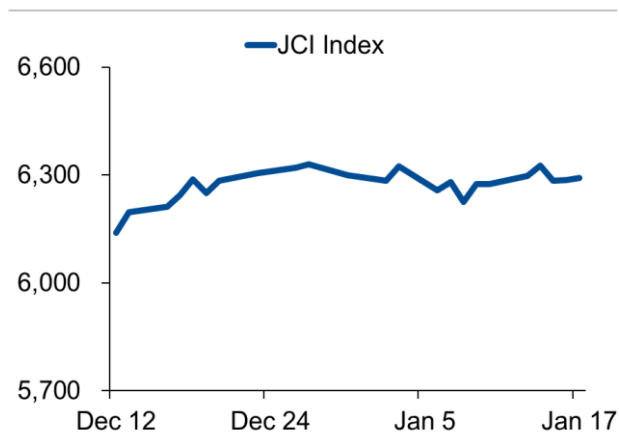
## Weekly Brief (January 20th – 24th)

### Summary:

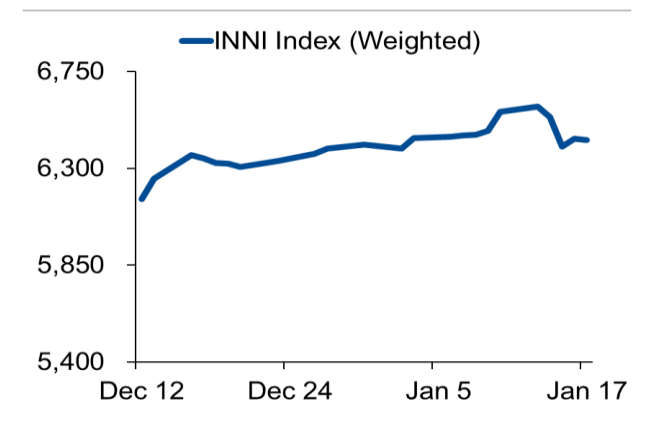
**Last week review:** Narrower trade balance deficit, Middle East's easing geopolitical tensions, fresh bilateral cooperation between Indonesia and the United Arab Emirates (UAE), the signing of "phase on" trade deal were catalysts for JCI.

**This week's outlook:** Indonesia's 3Q19 economic growth slowed and arrived at 5.02% lower than 5.05% in 2Q19. The construction sector lagged and stood in 5.65% (vs. 5.79% in 3Q18). The Indonesian government in 2020 targets to finish 11 PSN whose financing is under KPBU scheme. Construction companies should be selective in securing only profit-making projects out of mushrooming unprofitable projects leaving internal cash in deficit. WIKA's proven agility of securing only lucrative projects left its 3Q19 operational cash flows in surplus of IDR1.70 trillion: outstanding financial performance among its two peers (i.e. PTPP and WSKT). Indeed, to better strengthen its internal cash, WIKA consistently performs divestment and aggressively secures overseas projects to maximize its revenues in a long-term timeframe. We recommend WIKA with the price target of IDR2,840 based on P/E of 9.3x and PBV of 1.16x.

JCI - one month



INNI Index – one month



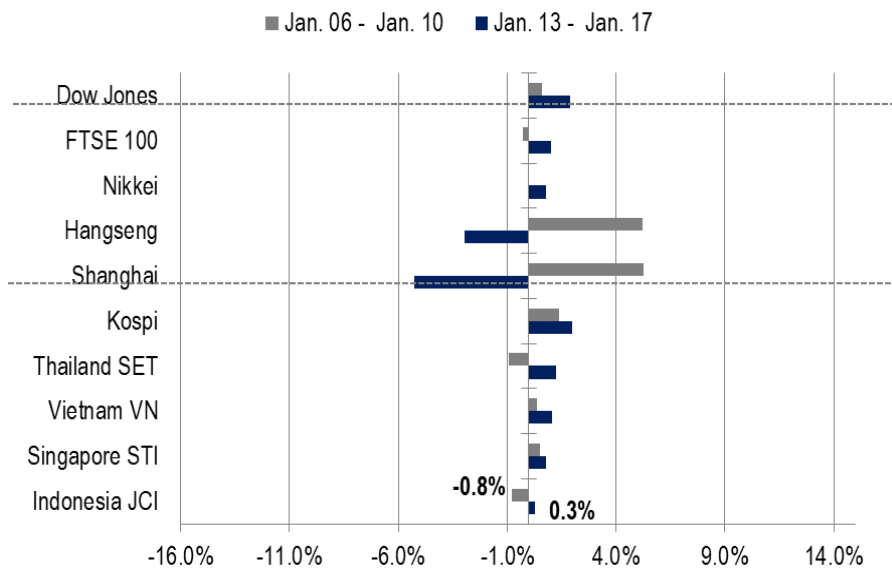
# Last Week's JCI Movement

- JCI Index : 6,429.93 (+0.3%)
- Foreign Flow : Net buy of IDR764 billion (vs. net buy last week of IDR1,0 trillion)
- USD/IDR : 13,645 (-0.92%)
- Yields of sovereign bond with 10-years tenor : 6.836% (-9.00 bps)

## JCI Picked Up

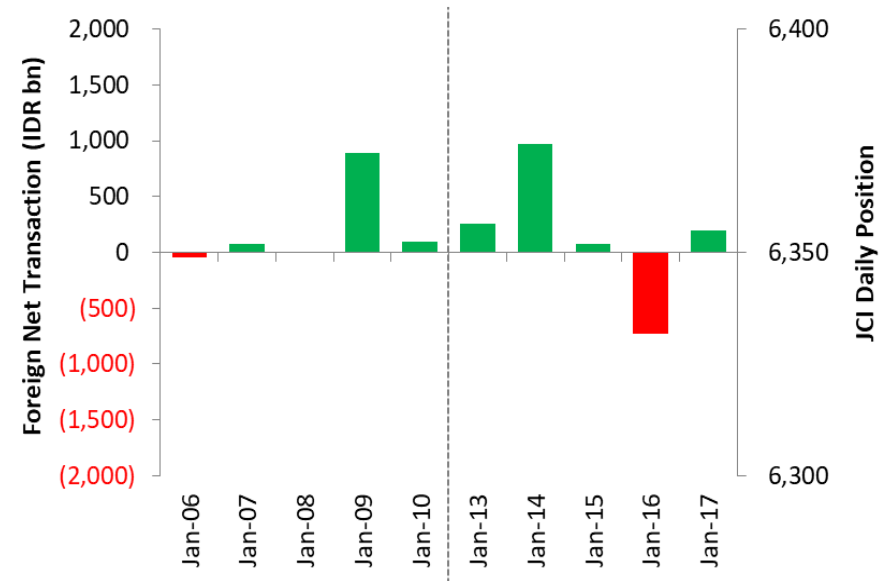
A number of Indonesia's strong macroeconomic reading improving better investors' investing confidence in Indonesia and the bilateral economic ties between Indonesia-the UAE were boosts for JCI's big moves on Jan. 13 and Jan. 14, 2019 when JCI won foreign inflows for a two-day in a row and reigned in the green zone. An external potent driver (i.e. easing jitters of Middle East's geopolitical tensions) was also a boost for JCI's rally. JCI still continued to rally on Jan. 16, backed by Dec's narrower trade deficit to USD0.03 billion: a sharp decline from USD1.39 billion in November. The narrower deficit was attributable to the surplus in the non oil & gas trade balance. Apart from Indonesia's strong macroeconomic data, the US and China to ink "phase one" trade deal as what investors have expected brought positive mood for Indonesia's market. On Friday of Jan. 17, JCI picked up.

## Global Market Movement



Source: Bloomberg, NHKS Research

## Foreign Net Flow – Last 10 Days



Source: Bloomberg, NHKS Research

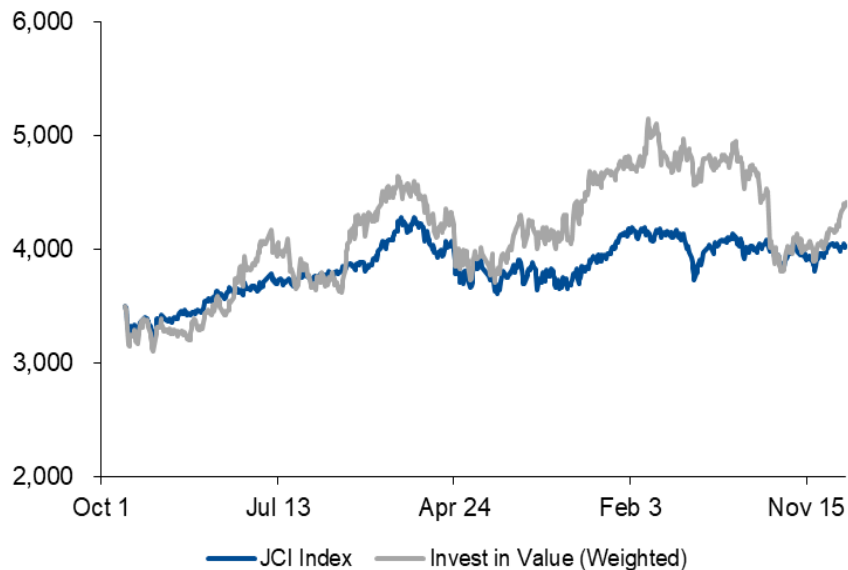
# Last Week's INNI Movement

•INNI Index	: 6,429.93 (-2.0%)
INNI Theme 1 (Value)	: 4,415.70 (+1.9%)
INNI Theme 2 (Trend)	: 7,772.74 (-3.5%)

## INNI Index Dipped

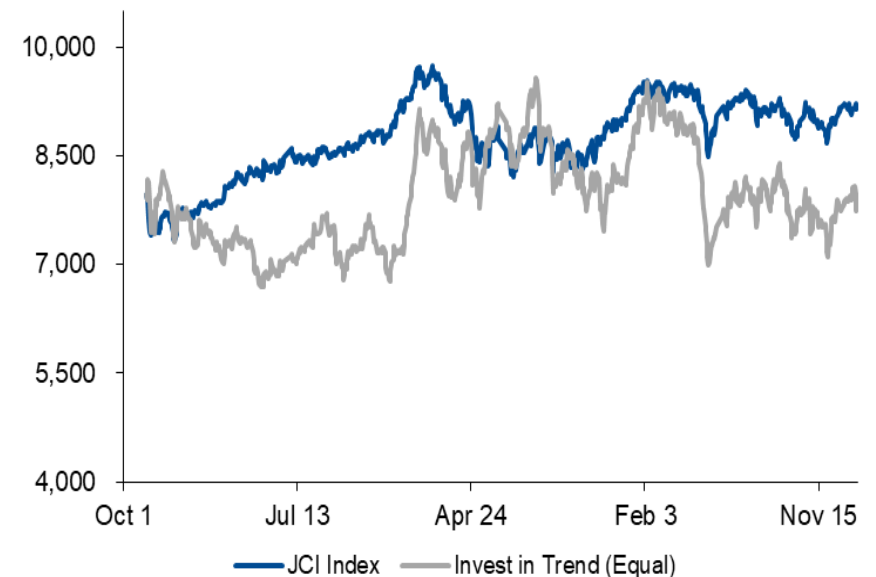
INNI index closed Monday's trading of Jan. 13 with a rally, backed by BBRI as the banking sector won the largest foreign funds regardless of Fitch Rating to rate Indonesia's banking sector with a negative outlook. The negative outlook is attributable to soaring NPL of BUKU IV banks, tighter funding liquidity, corporate actions executed in a prompt timeframe. On Jan. 15, INNI continued to dip as its sectors, excluding banking and miscellaneous, virtually gave up gains. Trump's decision to drop tariffs on Chinese goods after the two economies will have inked "phase two" trade deal. On Friday of Jan. 17, INNI index dipped, subdued by the infrastructure sector.

**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

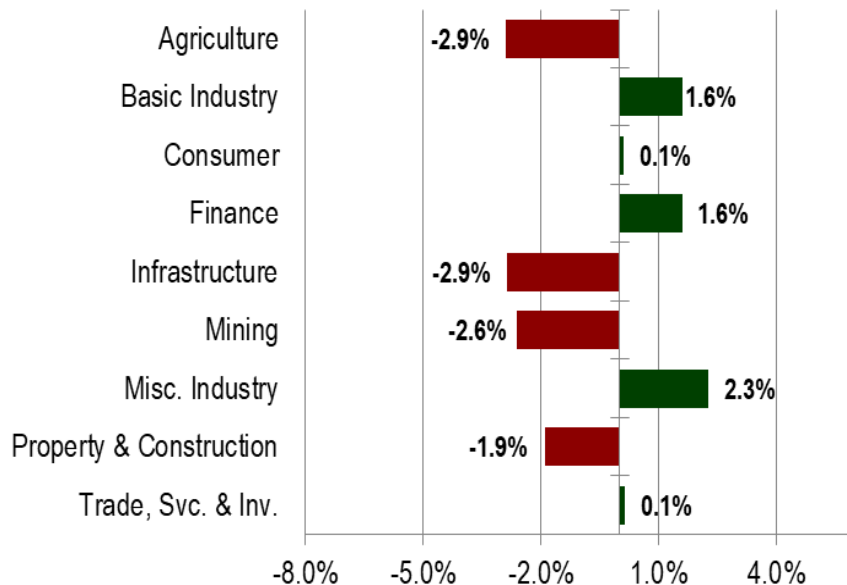
## • JCI's Top Gainers

JCI moved mixed following the miscellaneous sector to post the largest gains of 2.3%. Although the Association of Indonesian Automotive Manufacturers (Gaikindo) data revealed the 2019 4W sales to decline on an annual basis, ASII to experience declining sales in 2019 still dominated 52% of Indonesia's 4W market shares increasing from 51% in 2018. BI's policy to lower minimum down payments on vehicles into 5%-10% since Dec. 02 is a positive catalyst for ASII as it posted a 3.6% increase last week.

## • INNI Index's Top Gainers

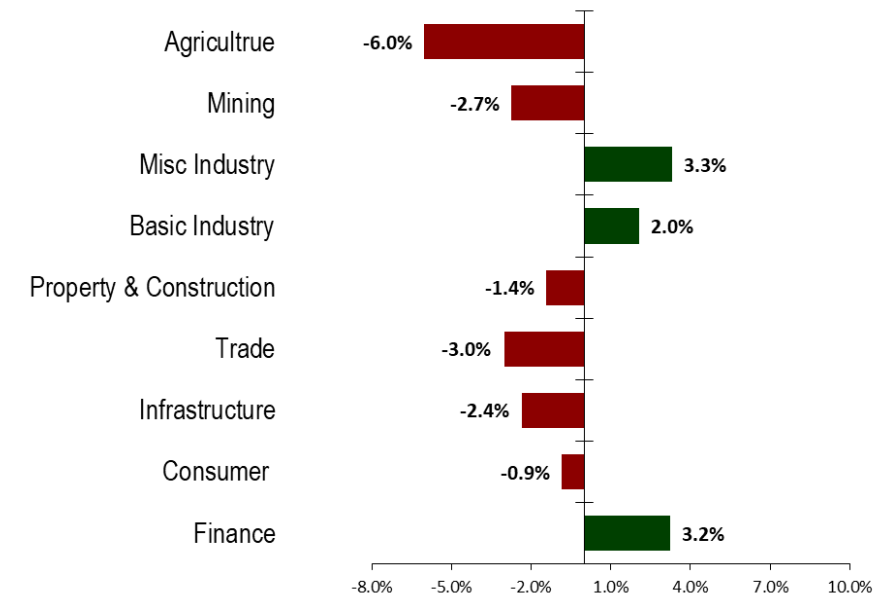
The miscellaneous industry--one of INNI index's portfolios--won the largest gains of 3.2%, and the banking sector securing transactions of IDR1.7 trillion as investors have high optimism for the banking sector. The 2020's Lender Business Plans to target 10% credit expansion boosts investors' optimism, evidenced by banking stocks to strengthen in last week (i.e. BBCA (+2.2%) and BBRI (+4.9%)).

JCI's Last Week Sectoral Movements



Source: Bloomberg, NHKS Research

INNI's Last Week Sectoral Movements



Source: Bloomberg, NHKS Research

# This Week's Outlook: Infrastructure Sector

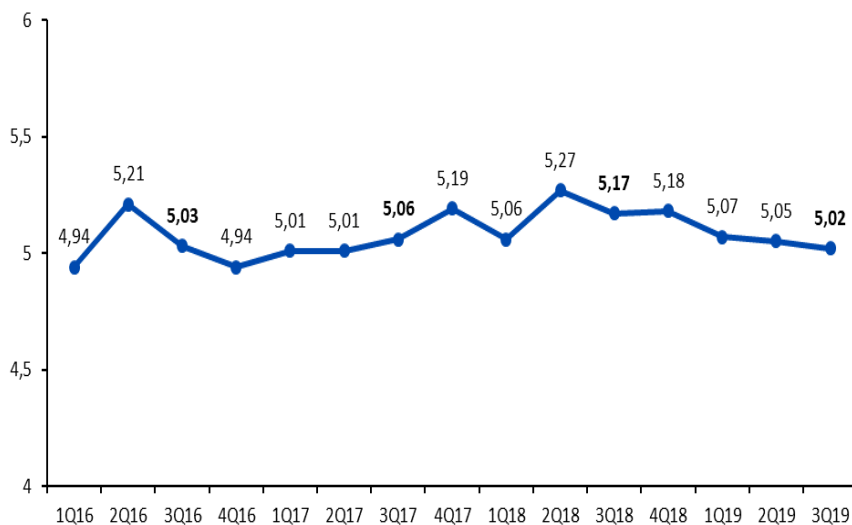
## • Decelerating Economic Growth

Indonesia's 3Q19 economic growth of 5.02% the lowest among the two preceding quarters 5.05% in 2Q19, and 5.07% in 1Q19 was a portrayal of deceleration in the domestic economy. Other economies tying trade partnerships with Indonesia were also far from immune to economic deterioration. The US and China's 3Q19 economic growth respectively fell behind 2Q18 growth (i.e. 2.0% vs. 2.3%; 6% vs. 6.2%). Indonesia's neighboring countries--Singapore and South Korea---were also prone to stagnancy as those two nations' economic growth respectively got stuck in 0.1% and 2.0%. The global state to get deteriorated by wobbly economies and geopolitical tensions hinders Indonesia to accelerate 2020's economic growth as the world bank revises lower the projection of Indonesia's 2020 economic growth from 5.2% to 5.1%. Despite the revised lower projection, the Indonesian government as set forth in the 2020-2024 national medium-term development program (RPJMN) holds firm 5.6%-6.2% economic growth for the next 5 years.

## • Four Fundamental Sectors to GDP

Four structural sectors to make up a larger than 50% proportion of Indonesia's 3Q19 GDP on an annual basis evidenced slower growth than that in 3Q18. The construction, trade, industry, and agriculture sectors slowed respectively (i.e. 5.65% vs. 5.79%; 4.75% vs. 5.28%; 4.15% vs. 4.35%; 3.08% vs. 3.66%). The logical takeaway for 3Q19 slower growth than 3Q18 was investors' cautious investments during President Joko Widodo's second-term cabinet transition to impede the four sectors' better progress.

Indonesia's GDP | 1Q16 – 3Q19 (%)



Fundamental Sectors on Indonesia's GDP | 3Q18 vs 3Q19



# This Week's Outlook: Infrastructure Sector

- KPBU Scheme Utilizing Private and SOEs' Financial Supports**

One hundred and three national out of 223 national strategic projects (proyek strategis nasional, "PSN") the investment values of which are IDR556 trillion finished in 2019. The PSN projects subsume dams, industrial estates, special economic estates, toll roads, railways, and satellites. Another to the government, the private sectors and state-owned enterprises are also committed to providing financial supports for PSN realization through the government-to-business (KPBU) scheme. The Indonesian government in 2020 set a goal of finishing 11 PSN. Of note, the telecommunication projects worth of IDR14.2 trillion is the most expensive projects among the rest.

- Strengthening Better Operational Cash Flows**

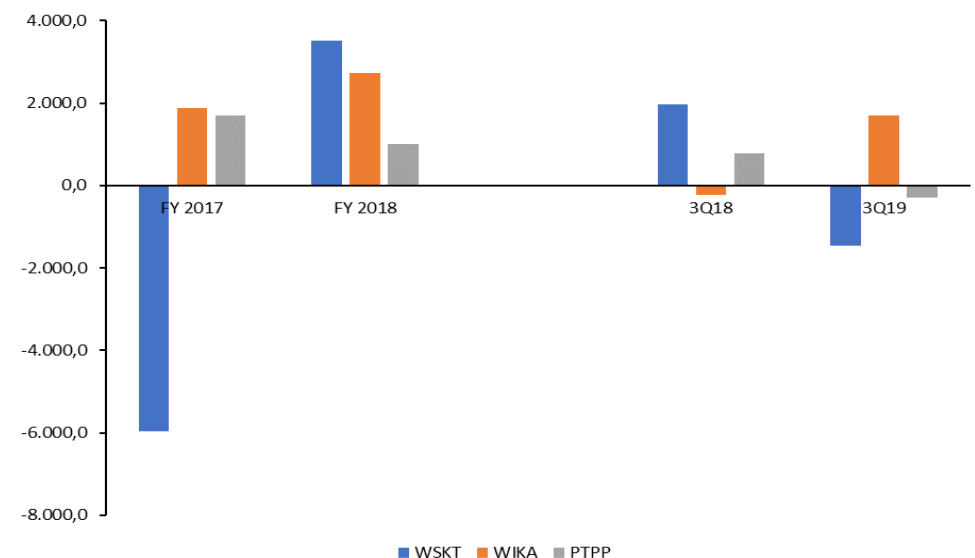
Operational cash flows are proportional to companies' good-governed cash management and agility for winning profit-making projects. After an in-depth analysis of INNI's 3 construction companies, WIKA's 3Q19 cash-flow surplus of IDR1.70 trillion proved its operational cash flow was best managed among its peers: PTPP and WSKT to be in deficit of IDR291.9 billion and IDR1.46 trillion, respectively. To better strengthen the operational cash-flow performance, it is common that companies perform divestment, collecting receivables, or corporate actions. WIKA to record cash-flow surplus from 2017-2018 has Balikpapan-Samarinda toll-road project receivables worth of IDR4.4 trillion.

## KPBU Projects 2020

No.	Types of Projects	Investment Value (Trillion)
1	The Palapa Ring's Western Package	1.2
2	The Palapa Ring's Middle Package	1
3	The Palapa Ring's Eastern Package	5.4
4	The Multifunction Satellite	6.6
5	Non-Toll Roads in South Sumatera	0.9
6	Non-Toll Roads in Riau	1.1
7	Bekasi-Situated Proving Ground Development of Motor Vehicles Roadworthiness and Certification Testing Center	1.6
8	Makassar-Parepare Railways	1
9	Development and Active Operation of Aggrek Seaport in Gorontalo Province	0.3
10	Development and Active Operation of Baubau Seaport in Southeast Sulawesi Province	0.2
11	Projects for Construction of Vehicle Weighing Scales in Sumatera and Java Islands	3

Source: Finance Ministry, NHKS Research

## Operating Cash Flow of Construction Company



Source: Company Data, NHKS Research

# Wijaya Karya Tbk (WIKA IJ – Infrastructure)

<b>Dec 2020 Target Price</b>	<b>2,840</b>
Consensus Price	2,734
Last Price (IDR) as of Jan 17, 2020	2,050
TP vs. Last Price	38.5%

<b>Revenue Breakdown:</b>	
Construction	63.1%
Industrial (Concrete Products)	19.8%
Mechanical Construction	12.7%
Real Estate	4.4%

IDR bn	FY2018	FY2019E	FY2020E	FY2021E
Revenue	31,158	35,931	43,130	49,008
y-y	19.0%	15.3%	20.0%	13.6%
Net Profit	1,730	2,027	2,298	2,588
y-y	43.9%	17.2%	13.4%	12.6%
EPS	193.020	222,425	254,893	294,200
P/E	9.00	9.75	8.57	7.65
P/BV	1.23	1.22	1.10	1.00

## 5-Year P/E Trailing Band



Source : Bloomberg, NHKS Research

- **NHKS** holds a recommendation for WIKA with the price target of IDR2.840 based on P/E trailing band of 9.3x and P/BV of 1.16x. We pencil in that its overseas project construction is a 15%-20% boost in revenues.

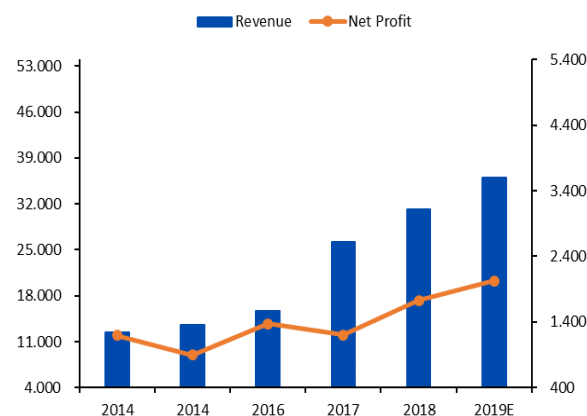
### Worth-A-Fortune Divestment

WIKA's 3Q19 net profits increased by 57.18% y-y to IDR1.35 trillion, backed by the use of cutting-edge technologies for improvements in efficiency at operational activities and profits generated by divestment. WIKA in May 2019 received IDR715 billion worth of fresh funds, deriving from a 20.3% stock-ownership divestment in Surabaya-Mojokerto toll-road section to Astra Infrastruktur. Although 3Q19 net profits picked up, 3Q19 revenues narrowed to IDR18.3 trillion or a 12.86% decrease from 3Q18 revenues. The decrease was attributable to the postponed infrastructure projects during 2019 when President Joko Widodo's second-term cabinet was in transition and a number of profit-making joint operating projects which were not acknowledged as revenues.

### Firm Grasp on Upgraded Rating and Overseas Projects

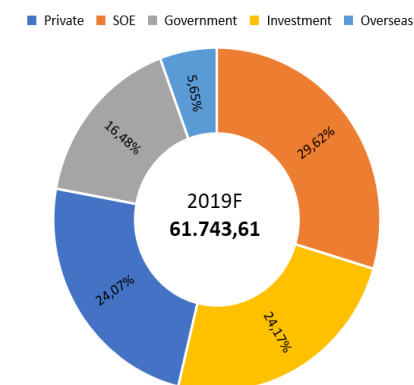
Fitch Rating upgraded WIKA's outlook from negative to stable based on its outstanding performance to generate a 1.19x gearing ratio, much lower than a 2.5x debt threshold. Besides, winning upgraded rating, WIKA proves its aggressive project expansion as it manages the construction of industry and infrastructure projects worth of IDR50 million in Tanzania, East Africa; as well as the construction of 5-star hotel projects worth of USD33 million in Dodoma, the national capital of Tanzania. WIKA ended the year of 2019 with expanding its project portfolios in nine countries, while its 2020 business goal is to win project construction in Madagascar, Mauritius, and Ethiopia. WIKA's aggressive project expansion marked by IDR6 trillion worth of an increase in new overseas contracts well above 2019's contracts of IDR5 trillion. We optimistically view that WIKA is likely to win overseas contracts and make a fortune in constructing 2019's postponed infrastructure projects.

## WIKA Revenue | 2014 - 2019E



Source : Company Data, NHKS Research

## New Contract Based on Project Owners (IDR Bn)



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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