

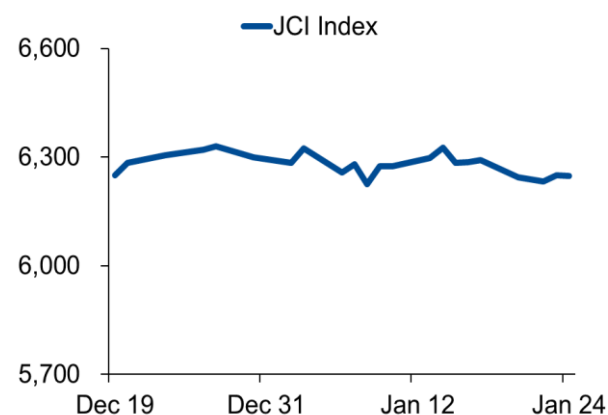
Weekly Brief (January 27th – 31st)

Summary:

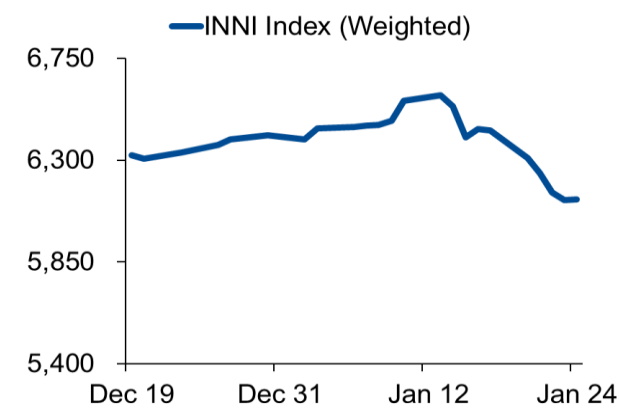
Last week review: Global and domestic sentiments were catalysts for JCI. Global sentiments (e.g., Mnuchin's statement of "phase two" trade deal to unlikely remove all tariffs on Chinese goods and investors' fears of coronavirus outbreaks in Wuhan, China to impede the global economy) were a drag on JCI. Conversely, BI to hold BI 7-DRRR unchanged in January on grounds of maintaining a stable economy was a positive catalyst for JCI.

This week's outlook: Lenders categorized as BUKU 4 and 3 are poised to comply with new measurements standardized on PSAK 71 (the new Financial Accounting Standards) to actively take effects on Jan. 1, 2020. Lenders categorized as BUKU 2 and 1 whose capital, tec. systems to collect and process necessary data, and human resources are below compared with BUKU 4 and 3 lenders have yet to brace for mandatory PSAK 71. PT Bank Rakyat Indonesia (BBRI) is one of the BUKU 4 lenders bracing its capital, technology, and human resources for the default measurement of an added hedging requirements under PSAK 71 following its successive success in maintaining impairment losses well above 150% surpassing OJK-required 100% impairment losses. In 2018, BBRI allocated IDR34.6 trillion worth of impairment losses on receivables and loans; that amount was equal to 200.61% of NPL worth of IDR17.2 trillion. NHKS recommends BBRI as this week's top-pick stock; BBRI's estimated price target of IDR4,950, with the PBV of 2.7x as well as pick up in fee-based income, efficiency, and CASA ratio, as a basis for the recommendation.

JCI - one month



INNI Index – one month



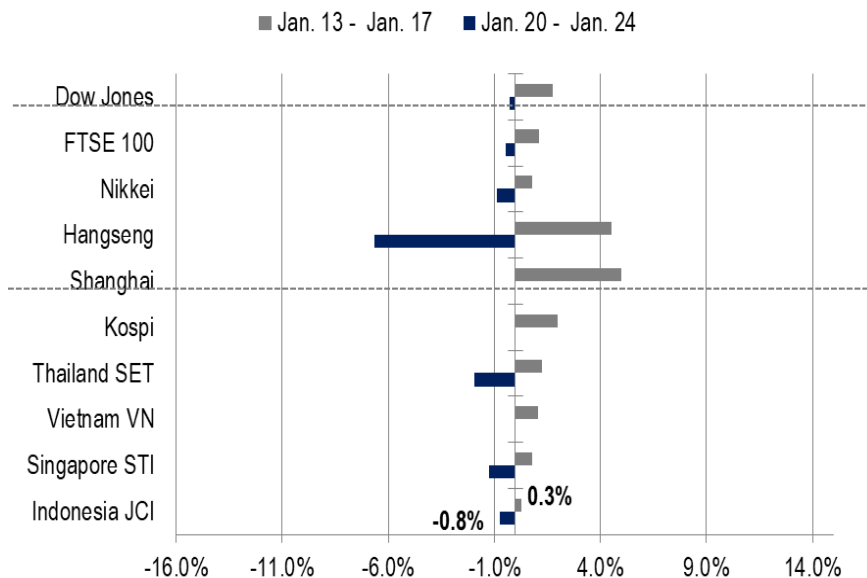
Last Week's JCI Movement

- JCI Index : 6,247.54 (-0.7%)
- Foreign Flow : *Net sell* of IDR328 billion (vs. *net buy* last week of IDR764 billion)
- USD/IDR : 13,583 (-0.45%)
- Yields of sovereign bond with 10-years tenor : 6.622% (-21.40 bps)

JCI Snapped Lower

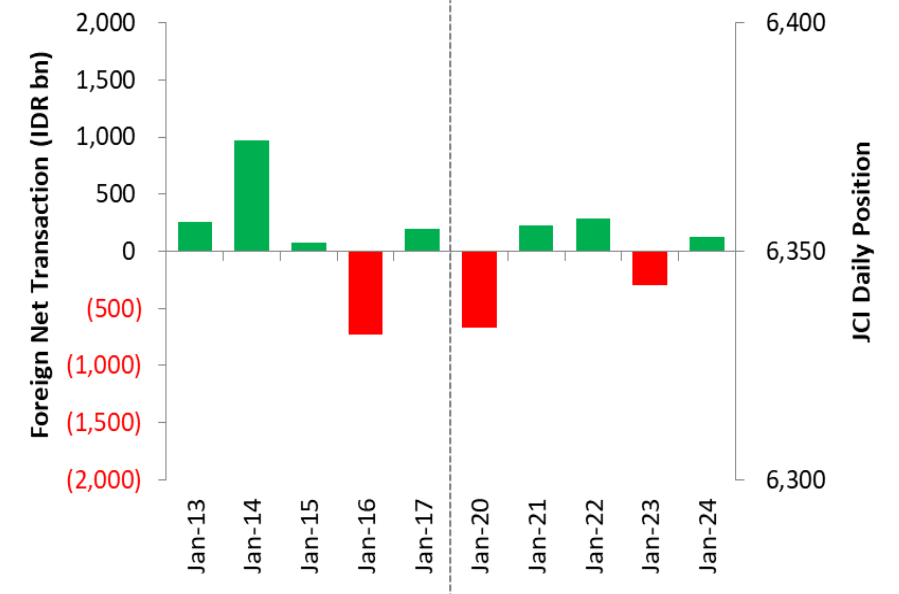
JCI ended two-day trading sessions with declines as the US Treasury Department Minister Steven Mnuchin reasoned "phase 2" trade deal to unlikely mean removal of all tariffs on Chinese goods. In the domestic backdrop, agriculture stocks declined as India, the world's largest CPO importer, curbing demand for CPO left CPO prices downbeat, and that was a hiccup for JCI's big steps. JCI was rebound on Thursday's trading session after BI held BI 7-DRRR unchanged. BI's monetary stance is a mid-term strategy to support growth momentum and keep economic stability maintained since 2019 in check. Asia markets, as did JCI, also rallied after declines caused by investors' jitters of coronavirus outbreaks in Wuhan impeded economic activities in China. On Friday, JCI closed lower triggered by profit taking.

Global Market Movement



Source: Bloomberg, NHKS Research

Foreign Net Flow – Last 10 Days



Source: Bloomberg, NHKS Research

Last Week's INNI Movement

•INNI Index	: 6,125.69 (-4.7%)
INNI Theme 1 (Value)	: 4,416.15 (+0.0%)
INNI Theme 2 (Trend)	: 7,265.38 (-6.5%)

INNI Index Dropped

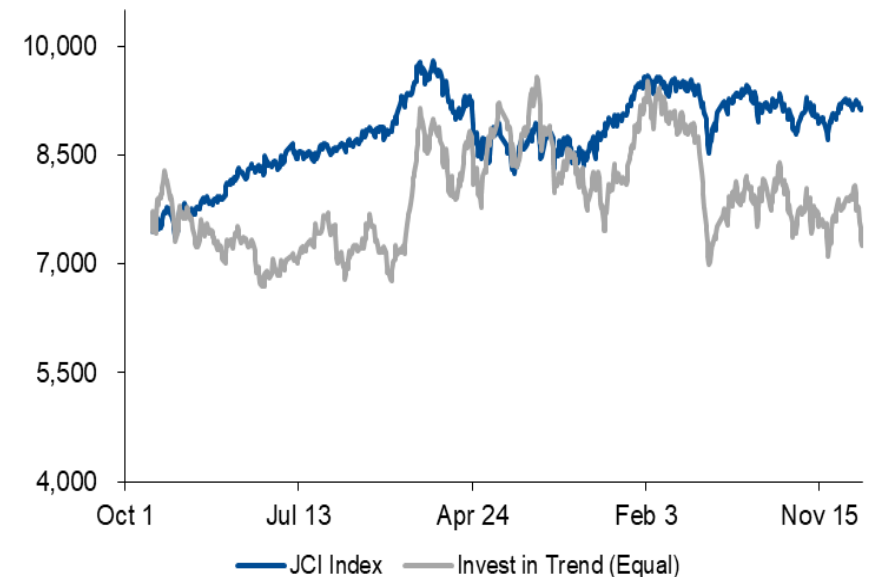
INNI index, likewise Asia markets, closed lower on Tuesday's trading as WSKT, a construction stock, dipped following news of WSKT's projects to involve fictitious subcontractors. It continued to weaken on Wednesday and Thursday's trading sessions, held back by mining stocks. PTBA gave up gains and became INNI's top loser on Thursday's trading session of Jan. 23 along with ICE NewCastle Coal Apr' 20 Futures prices to plunge. But, it is estimated that coal prices will recover in 2020 due to the demand for coal by a number of countries in Southeast Asia. On Friday of Jan. 24, INNI index closed lower, hampered by KLBF, a consumer stock.

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

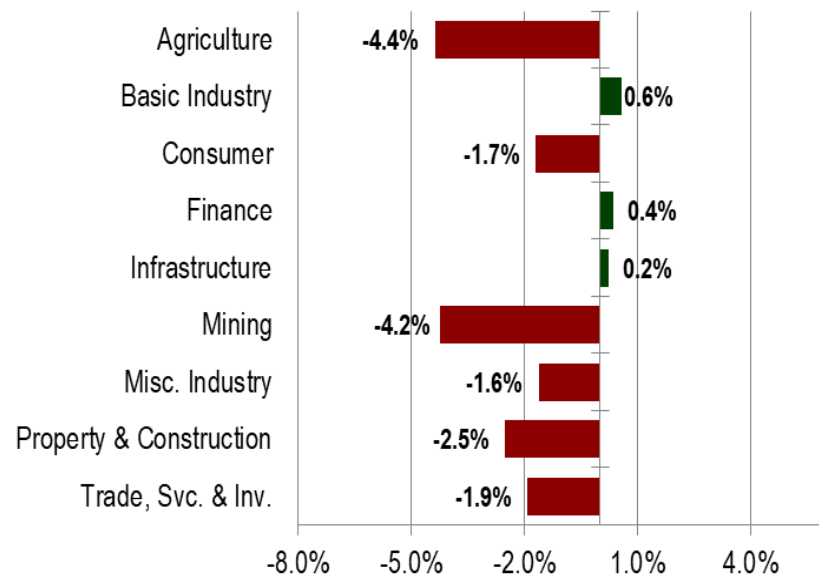
- JCI's Top Losers**

JCI ended last week's trading sessions with declines in all of its sectors, and the agriculture sector gave up the largest gains of 4.4%. CPO prices were revised lower due to turmoils between India and Malaysia to leave Bursa Malaysia Derivatives Berhad (BMD) three-month Coal Futures prices tumbling to RM2,879/ton. Another drag on CPO prices was the appreciation of Ringgit Malaysia exchange rate for USD; agriculture stocks to gave up gains were LSIP (-10.2%) and AALI (-6.62%).

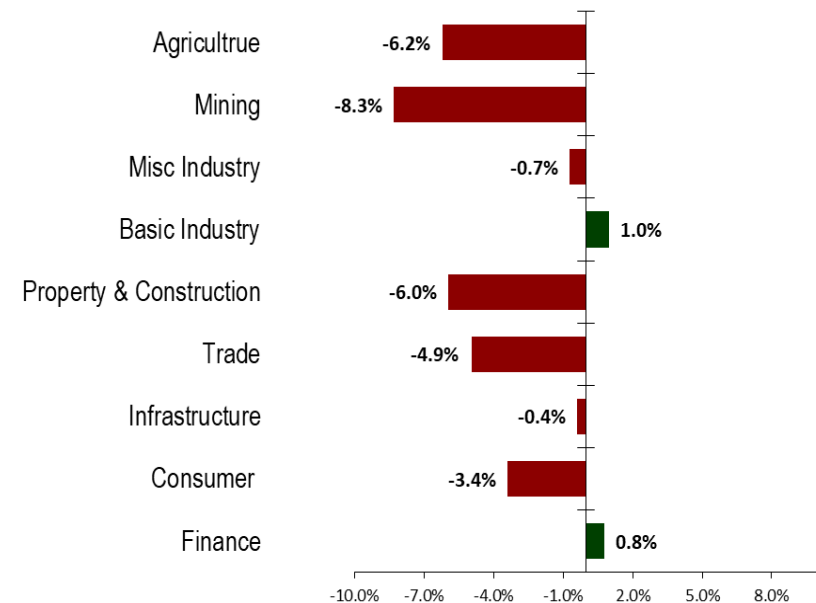
- INNI Index's Top Losers**

INNI's top loser was the mining sector to gave up gains of 8.3% as TINS and PTBA declined by 10.8% and 10.5%, respectively. The declines were triggered by the news of Minister of State-Owned Enterprises Eric Thohir to reform the board of directors of PT Timah Tbk (TINS). Furthermore, PTBA's declines corresponded to weak coal prices due to stockpiles of natural gas.

JCI's Last Week Sectoral Movements



INNI's Last Week Sectoral Movements



This Week's Outlook: Banking Sector

- **CKPN Increments Under PSAK 71**

The banking industry shall comply with mandatory measurements under the new Financial Accounting Standard (PSAK) 71 to be effective for years after January 1, 2020. The Financial Services Authority (OJK) with prudent plans has introduced PSAK 71 to replace PSAK 55. PSAK 71 governs the default measurement of impairment losses (CKPN) on receivables and loans under “expected loss” model calculating default risks carried by loans and receivables because it reasons that each of loans or receivables is bounded to expected losses from its initial acquisition. The expected loan loss model eliminates impairment assessment under “an incurred loss” model recognizing that all loans are due for repayments, and impaired loans will be acknowledged only at the point of contrary evidence is found. Thus, lenders are obliged by PSAK 71 to multiply cash shortfalls allowance for impairment losses by 100% at minimum. NHKS carefully reviews the implementation of PSAK 71 to be a bit of cut in lenders’ capital whose retained earnings proportion is allocated for probable loan losses. Despite greater cash allowance on a basis of default risks prescribed for future periods, lenders are well braced by multiplied sum of incurred risks for any probable outcomes.

- **Mandatory PSAK 71 amid Tighter Liquidity**

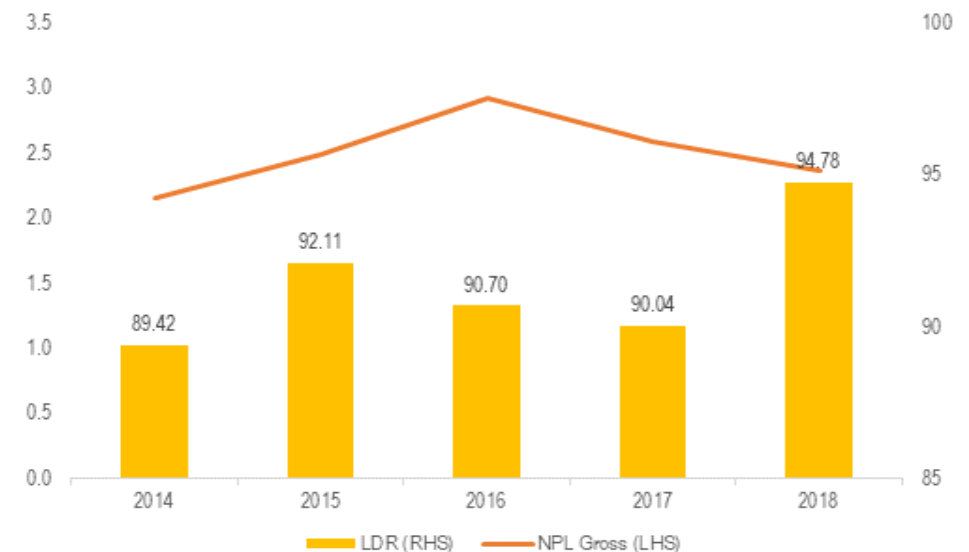
PSAK 71 effective after Jan. 01 amid the tight liquidity quite a challenge for lenders, LDR ratio on an annual basis increased from 93.8% in 3Q18 to 94.7% in 3Q19 surpassing maximum LDR ratio established by BI. Higher LDR ratio to necessarily mean a lesser number of facilitated credits and multiplied sum of cash allowance for impairment losses are a setback credit growth. Hence, chances are the least appetite for credits because tight liquidity countered by rising interest rates of third-party funds (DPK) leaves soaring rates of savings, current accounts, time deposits.

New Measurement Under of Financial Accounting Standard

PSAK 71	Provide guidance on recognition and measurement of financial instruments
	Important points: An added sum of impairment of financial assets in the form of receivables, loans/Credits
	Replacing PSAK 50, 55, 60, and adoption of IFRS 9 Financial Instruments
PSAK 72	Govern revenue recognition from contracts with customers
	The new measurement standard changes the revenue recognition of all rigid (rule based) Into principle based (principle based)
	Replace PSAK 23, 34, and adopt IFRS 15
PSAK 73	The new standard changes substantially the bookkeeping of rental transactions from the tenant side (lessee)
	Replace PSAK 30 and adopt IFRS 16

Source: Tirto.id

Indonesian Lenders' LDR | 2014 - 2018



Source: Bloomberg, NHKS Research

This Week's Outlook: Banking Sector

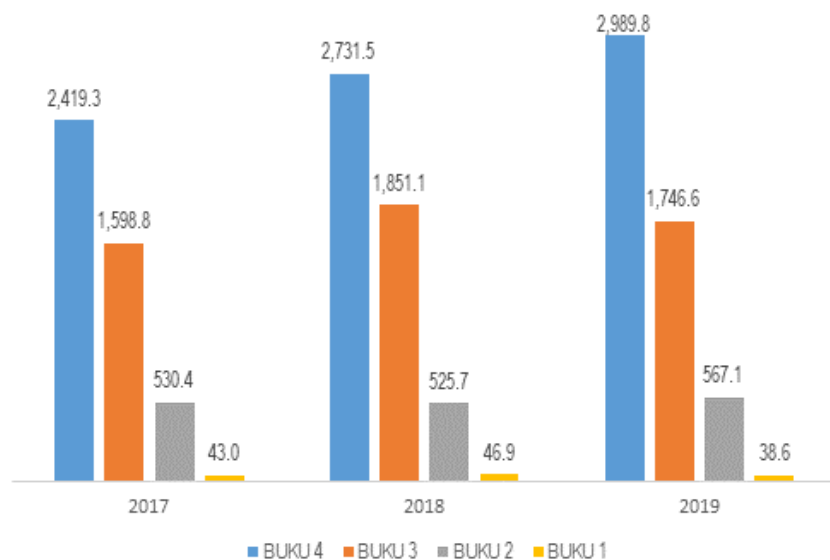
- **BUKU 2 and BUKU 1 Lenders Responses to PSAK 71**

NHKS pencils in those lenders categorized as BUKU 4 and BUKU 3 braced by large capital, tech.system to collect and process necessary data, human resources to easily comply with new measurements under PSAK 71. Conversely, for lenders categorized as BUKU 2 and BUKU 1 whose performance is hardly as excellent as that of BUKU 4 and BUKU 3, compliance with PSAK 71 is quite a hurdle as its "expected loss" model for dealing with default risks attached to loans and receivables has lenders allocate multiplied sum of cash allowance for credit losses because this model recognizes every loans and receivables carried with them future default risks since its initial acquisition.

- **BUKU 4 Lenders Responses to PSAK 71**

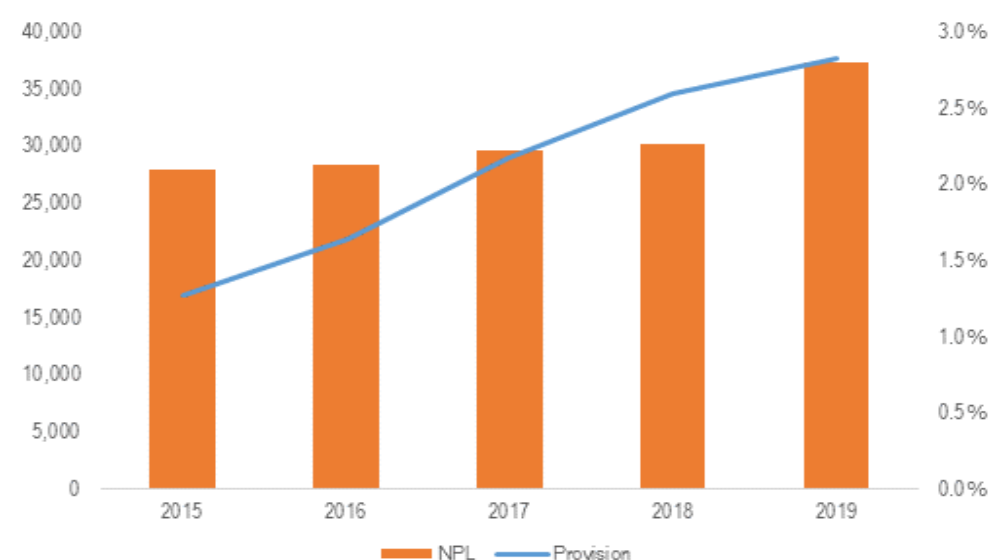
The new measurement under PSAK 71 for some of lenders categorized as BUKU 4 is not worth of hurdle because of their proven credibility of substantial retained earnings and minimum cost of funds. BBRI, for example, has calculated cash allowance for impairment losses on loans and receivables at 151.1% of 2015's NPL ratio and allocated IDR34.6 trillion or 200.61% of 2018's NPL amounting to IDR17.2 trillion. In 9M19, cash allowance for impairment losses amounted to IDR40.3 trillion or equal to 160.0% of IDR25.2 trillion worth of NPL. NHKS estimates that BBRI's expansive loans keeping impairment losses well above 150% in check will find no hurdle in complying with PSAK 71.

Banking Loan Disbursement (IDR Bn) | 2017 - 2019



Source: Bloomberg, NHKS Research

BBRI's Allowance for Impairment of Financial Assets & NPL



Source: Bloomberg, NHKS Research

Bank Rakyat Indonesia Tbk (BBRI IJ – Bank)

Dec 2020 Target Price	4,950
Consensus Price	4,755
Last Price (IDR) as of Jan. 24, 2020	4,740
TP vs. Last Price	4.4%

Liquidity:

LDR	88.9%
CASA	57.7%

IDR bn	FY2018	FY2019E	FY2020F	FY2021F
Int. Income	111,582	122,869	135,974	149,372
y-y	8.4%	10.1%	10.7%	9.9%
Op. Rev	102,035	110,000	125,509	137,387
Net profit	32,349	34,018	37,799	40,182
EPS (IDR)	262	276	306	326
y-y	11.6%	5.2%	11.1%	6.3%
NIM	7.1%	6.9%	7.4%	7.3%
ROE	18.3%	17.3%	17.2%	16.7%
P/E	14.0x	17.9x	16.2x	15.2x
P/BV	2.4x	2.9x	2.7x	2.4x

5-Year P/E Trailing Band



Source : Bloomberg, NHKS Research

- **NHKS** recommends BBRI as this week's top-pick stock estimated to attain the price target of IDR4,950 with the PBV of 2.7x. The estimate is based on BBRI's fee-based income, efficiency, and well-controlled CASA. BBRI likewise other BUKU 4 banks are in progress of completing their new systems and processes to collect the necessary data under PSAK 71's new disclosure requirements. BBRI under PSAK 71's default measurement of an added impairment losses allocates a multiplied sum of cash allowance for credit losses on loans and receivables amounting to IDR8 trillion to counter future default risks carried by its micro-credit business (i.e., Kredit Umum Pedesaan, (Kupedes), mikro KUR, dan Kupedes Rakyat).

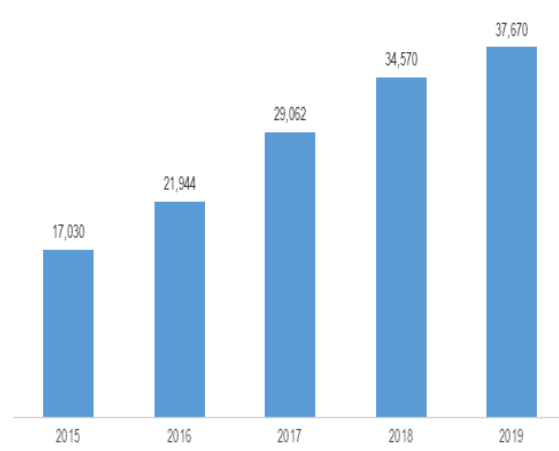
Increases of 10.5% in Impairment Losses

BBRI cheered a 6.2% growth in profits from Rp32.4 trillion in 2018 to IDR34.4 trillion in 2019, supported by micro-credit digitalized business and succeed, on a consolidated basis, in disbursing IDR908.9 trillion worth of micro-credit disbursement or an 8.4% growth well above 6.1%: the banking industry's average micro-credit growth. The micro-credit growth was balanced well with a 10.5% increase in cash allowance for impairment losses from 2018's allowance and achievable on grounds of looser BI 7-DRRR at 5,00%. The micro-credit business making up the largest contribution to BBRI's total profits achieved double-digit growth of 12.2% and even recorded a leap from 34.3% to 35.8% as it strives for its long-run goal embodied in aspirasiBBRI 2022 program to target growth of 40% in its micro-credit business.

Solid Third-Party Funds to Spur LDR

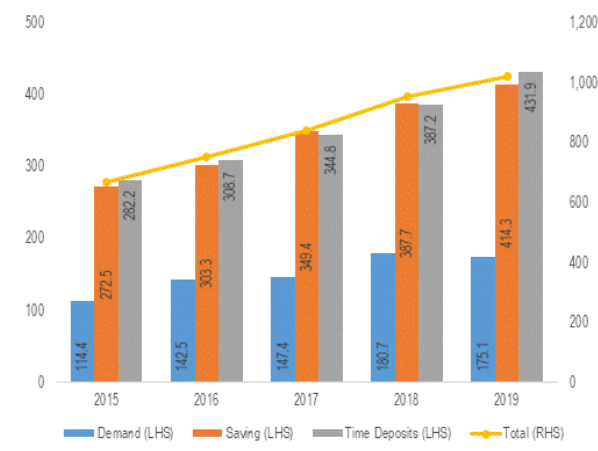
BBRI's LDR to rise from 88.76% in 2018 to 88.98% in 2019 was lower than the banking industry's 3Q19 LDR of 93.60% to increase from 3Q18's LDR. BBRI's solid third-party funds (i.e., current accounts, savings, and time deposits) to gain by 8.2% YoY to IDR1,021.4 trillion drove LDR up. However, fortunately, concurrent tight liquidity left time deposits with the highest rates among the rest as the largest contributor for solid third-party funds by proving double-digit growth of 15% to IDR431.9 trillion.

Reserves for Loan Losses | 2015 – 2019



Source : Company Data, NHKS Research

Third-Party Funds (IDR Bn) | 2015 – 2019



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	34,050	34,375	32,000	Hold	(6.0)	-0.9%	839.5	29.7x	5.0x	18.1	1.0	15.0	13.0
BBRI	Theme 1	4,740	4,630	4,950	Hold	4.4	2.4%	584.7	16.9x	2.9x	18.2	2.8	N/A	6.2
Consumer														
GGRM	Theme 1	58,300	58,300	61,800	Hold	6.0	0.0%	112.2	12.1x	2.4x	20.5	4.5	16.9	25.8
KINO	Theme 1	2,920	3,250	4,680	Buy	60.3	-10.2%	4.2	8.5x	1.6x	21.2	1.7	34.1	323.0
ICBP	Theme 1	11,700	11,575	12,875	Hold	10.0	1.1%	136.4	27.4x	5.7x	22.2	1.2	11.2	11.4
KLBF	Theme 1	1,540	1,615	1,780	Buy	15.6	-4.6%	72.2	28.1x	4.7x	17.6	1.7	7.3	6.2
Infrastructure														
TLKM	Theme 1	3,920	3,810	4,700	Buy	19.9	2.9%	388.3	19.2x	3.9x	21.3	4.2	3.5	15.6
JSMR	Theme 1	5,075	5,175	6,000	Buy	18.2	-1.9%	36.8	19.0x	2.0x	11.3	0.9	(22.8)	(15.2)
Trade														
UNTR	Theme 2	20,200	21,775	26,300	Buy	30.2	-7.2%	75.3	7.0x	1.3x	19.8	6.1	7.3	(4.8)
MAPI	Theme 2	1,015	1,040	1,300	Buy	28.1	-2.4%	16.8	20.6x	2.8x	14.8	1.0	11.4	14.7
Property														
CTRA	Theme 2	990	1,050	1,550	Buy	56.6	-5.7%	18.4	18.2x	1.3x	7.2	1.0	(0.7)	(28.9)
WSKT	Theme 2	1,310	1,445	2,600	Buy	98.5	-9.3%	17.8	12.8x	1.0x	7.8	5.6	(39.2)	(69.4)
WIKA	Theme 2	1,960	2,050	2,500	Buy	27.6	-4.4%	17.6	7.9x	1.1x	15.3	2.0	(12.9)	57.3
Basic Ind.														
SMGR	Theme 1	12,975	12,850	14,300	Hold	10.2	1.0%	77.0	33.7x	2.5x	7.5	1.6	31.1	(38.1)
Misc Ind.														
ASII	Theme 1	6,975	7,075	8,600	Buy	23.3	-1.4%	282.4	13.8x	2.0x	14.9	3.0	1.2	(7.1)
Mining														
TINS	Theme 2	770	880	800	Hold	3.9	-12.5%	5.7	40.6x	0.9x	1.6	3.2	114.6	N/A
PTBA	Theme 2	2,370	2,670	2,300	Hold	(3.0)	-11.2%	27.3	6.0x	1.5x	26.4	14.3	1.4	(24.9)
INCO	Theme 2	3,310	3,500	4,200	Buy	26.9	-5.4%	32.9	420.0x	1.3x	0.3	N/A	(12.6)	N/A
ANTM	Theme 2	785	840	1,100	Buy	40.1	-6.5%	18.9	23.5x	0.9x	4.1	1.6	23.0	(11.1)
Agriculture														
AALI	Theme 2	12,075	12,875	15,600	Buy	29.2	-6.2%	23.2	54.6x	1.3x	2.3	1.9	(10.0)	(90.1)

Source : Bloomberg, NHKS Research

PT NH Korindo Sekuritas Indonesia

Member of Indonesia Stock Exchange

Head Office :

District 8 Treasury Tower 51st Fl
Unit A, SCBD Lot.28
Jl. Jendral Sudirman Kav. 52-53
Jakarta Selatan 12190
Telp : +62 21 50889100
Fax : +62 21 50889101

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

Branch Office Semarang:

Jl. MH Thamrin No. 152
Semarang
Jawa Tengah 50314
Telp : +62 24 8446878
Fax : +62 24 8446879

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