

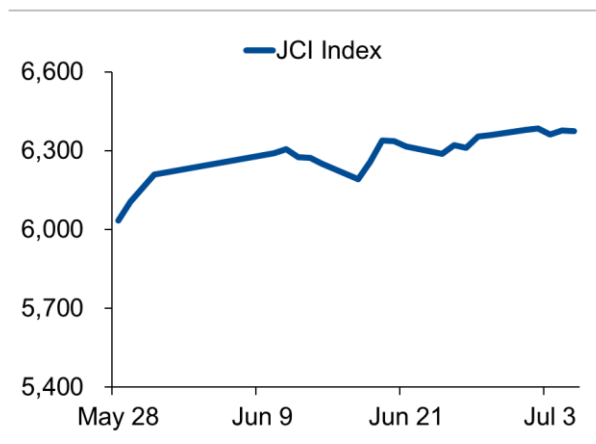
Weekly Brief (July 08 – July 12)

Summary:

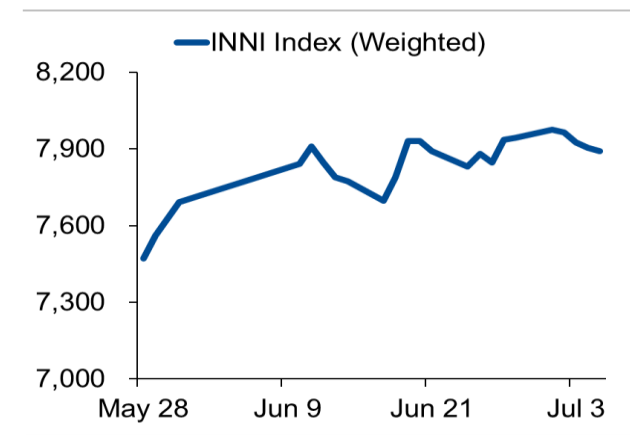
Last Week's Review: Mixed external sentiments drove JCI up at 0.2%. Trump and Xi holding off on new tariffs, the flare-up between the greenback and the single economies over retaliatory tariffs, growing expectancy of FFR cut amid the US economic slowdown were few global catalysts for JCI movements. Other than those external stimuli, June's benign inflation, Indonesia's June muted PMI, and KPU to name Jokowi and Ma'ruf Amin as President and Vice President-elect, and June's forex reserve gain of USD3.5 billion were sentiments affecting JCI movements.

This Week's Outlook: We project pharma outlook is still promising albeit headwinds—imported raw material content of medicines and rising oil prices. TKDN, rupiah appreciation, JKN to temper the headwinds are the basis for our investment thesis. We estimate KLBF to hit the price target of IDR1,730 at 32.03x P/E trailing band based on 1) appreciation of the Indonesian rupiah's exchange rate for the US dollar; 2) JKN potential for a sharp pickup in medicines demands; 3) partnership with digital platforms to expand its markets.

JCI - one month



INNI Index – one month



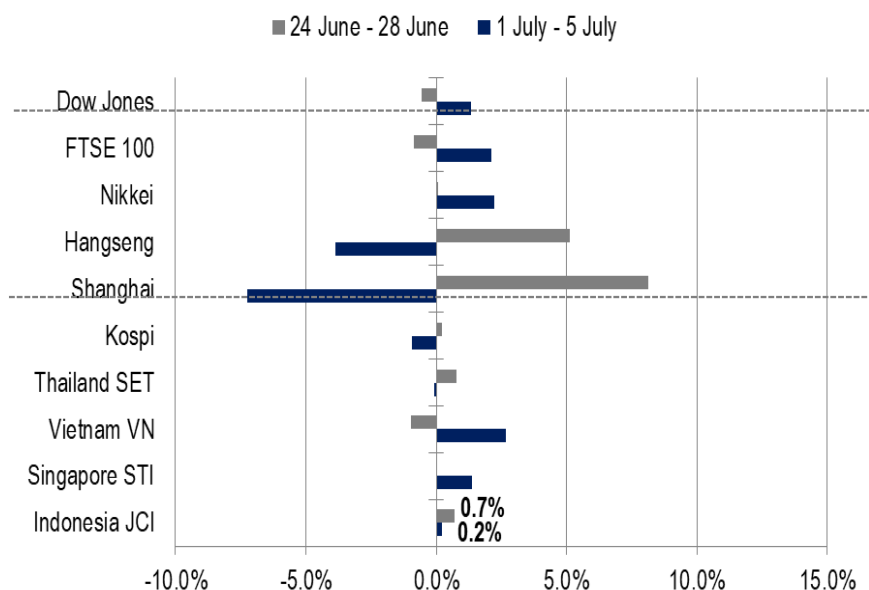
Last Week's JCI Movement

- JCI Index : 6,373.48 (+0,2%)
- Foreign Flow : Net buy of IDR978 million (vs. net buy last week of IDR9.8 billion)
- USD/IDR : 14,083 (-0.32%)
- Yields of sovereign bond with 10-years tenor : 7.213% (-15.5 bps)

JCI's Last Week Slight Hike

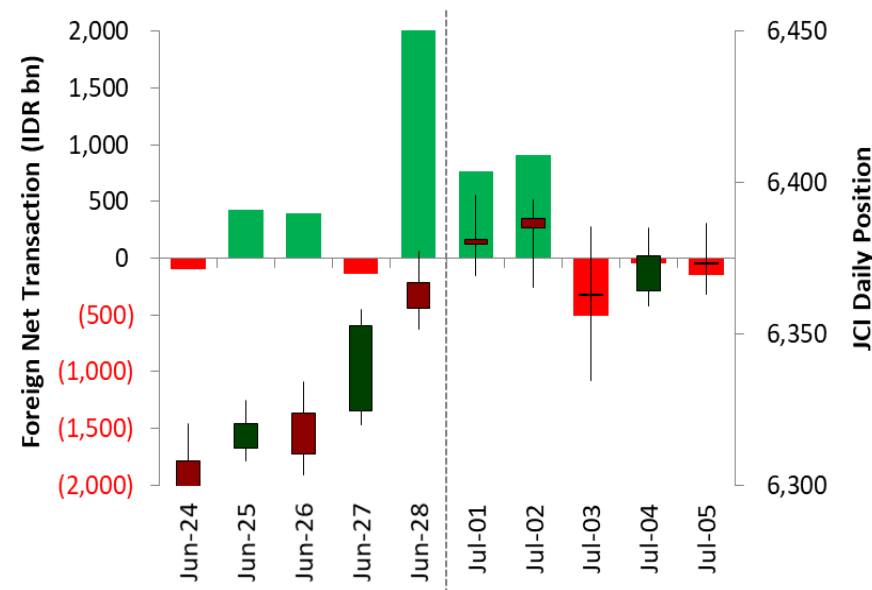
Trump holding off on new tariff of USD300 billion on Chinese goods and his decision to revise the ban on selling products to Chinese tech giant Huawei after the highly anticipated talks between Trump and Xi in the G-20 was a positive sentiment for JCI. The domestic sentiment of June's 0.55% m-m inflation lower from May's 0.68% m-m proved a positive sentiment for JCI. June's benign inflation was attributable to declining inflation of volatile food as Ramadan and Idulfitri season came to end. Meanwhile, June's modest PMI of 50.6 compared to May's 51.6 due to June's lagging production and sales impeded JCI's movement. JCI was closed higher at 0.33% as KPU named Joko Widodo and Ma'ruf Amin as President and Vice President-elect. On the last week's mid-days, most drivers for JCI's movements were global sentiments. Markets were anxious about the greenback economy imposing tit-for-tat tariffs of USD4 billion on EU goods. They feared it becomes another series of US trade disputes with its trade partners. The fears slowed JCI. But, the following day, JCI was at higher close as the US trade deficits grew markets expectation of FFR cuts. On Friday (7/05), Bank Indonesia released June's forex reserve of USD123.8 billion, increasing by USD3.5 billion. Last week, JCI closed higher at 6,373.

Global Market Movement



Source: Bloomberg, NH Korindo Research

Foreign Net Flow – Last 10 Days



Source: Bloomberg, NH Korindo Research

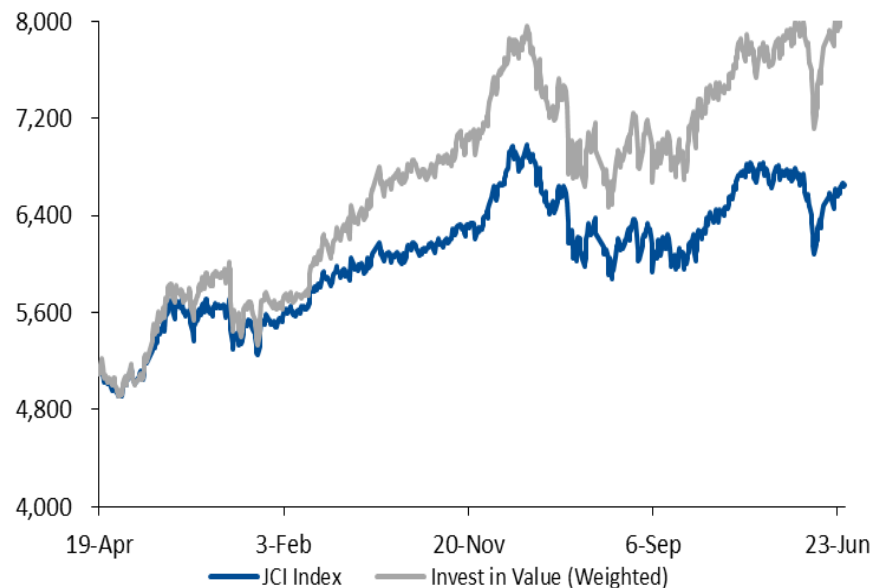
Last Week's INNI Movement

•INNI Index	: 7,892.15 (-0.7%)
INNI Theme 1 (Value)	: 8,084.08 (+0.4%)
INNI Theme 2 (Trend)	: 7,565.34 (-2.4%)

INNI Index Lagged

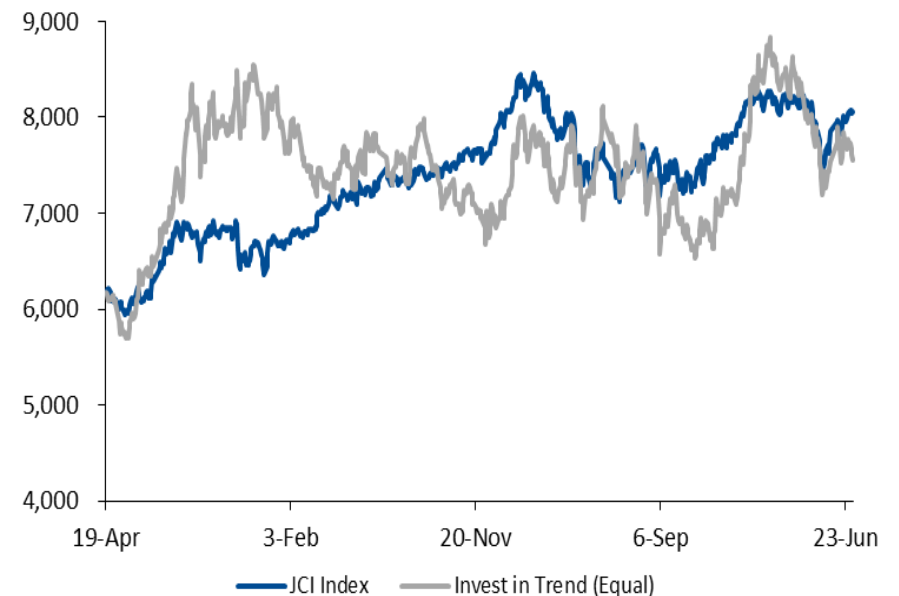
On Monday (07/01), INNI Index nudged up 0.41%, backed by SMGR (+7.8%) and (+3.4%). Markets are optimistic about promising sales in the second semester of 2019 as Jokowi and Ma'ruf Amin are committed to developing further infrastructure projects. On Tuesday (07/02), INNI Index closed lower at 0.15%, held back by declining mining stocks, i.e. ADRO (-1.4%) and PTBA (-1.3%). Miners are still anxious about the uncertain regulation of coal and mineral mining sites of not exceeding 15,000 ha. On Wednesday (07/03), INNI Index continued to drop at 0.48% as declining export benchmark prices (HPI) in such commodities as copper, lead, zinc, nickel, and bauxite put strains on mining stocks. On Thursday (07/04), INNI Index closed lower at 0.27%, held back by modest retailers (-4.7%) and LPPF (-1.8%). Last week, INNI Index slowed as WIKA and BMRI respective declines of 2.5% hampered its movement. BMRI plunged as it will acquire Philippine and Vietnam-based banks. Markets analyzed that the acquisition is not an adept strategy, so they sold BMRI for IDR217 billion. Last week, INNI Index dropped at 0.7% to close at 7,892.

Theme 1. Invest in Value (19 Stocks) – Market Cap Base



Source: Bloomberg, NH Korindo Research

Theme 2. Invest in Trend (11 Stocks) – Policy Base



Source: Bloomberg, NH Korindo Research

Last Week's Sector Movement

Last Week's Sector Review

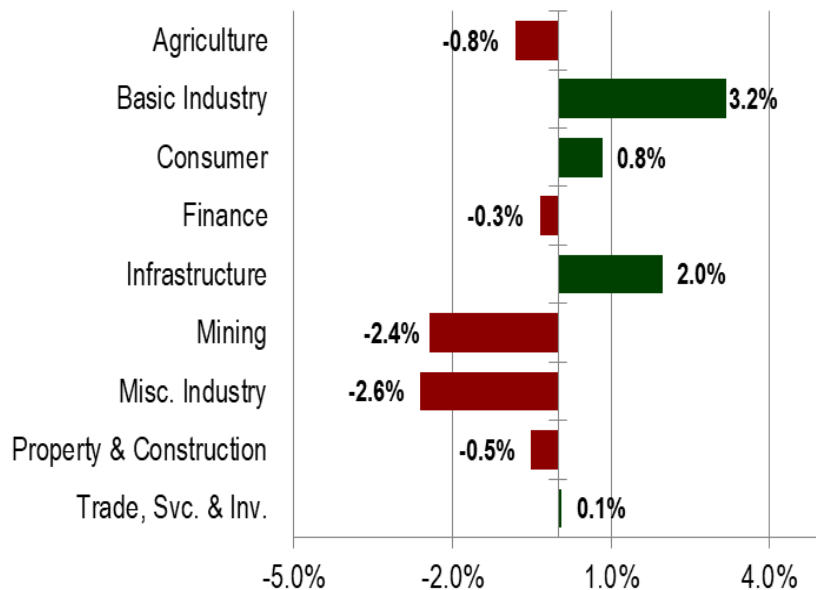
INNI Index's Top Gainers

INNI Index's last week top gainer was the basic industry as it rallied by 3.2%. Although the cement sector is still facing challenges of oversupplies and low demand amid the political uncertainty backdrop. It is expected that Jokowi's next five-year administration will be a positive sentiment for cement companies. Jokowi's administration prioritizing infrastructure projects shall be boosts for higher revenues in 2Q19. Basic industry stock, i.e. SMGR and INTP including in INNI Index will benefit from the government's stimulus to promote the property industry.

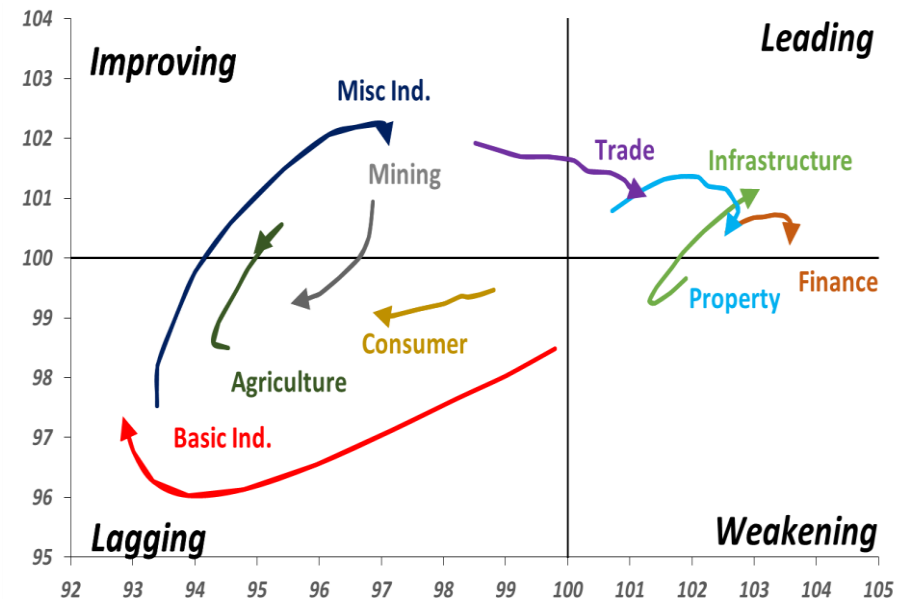
INNI Index's Top Losers

The miscellaneous industry was INNI Index's last week top loser as it declined by 2,6%. The automotive sales from January to May 2019 were weak as the Association of Indonesian Automotive Manufacturers (Gaikindo) data stated May's growth of only 84,029 units or declining by 16.4% compared to May 2018. The decline was portrayed in ASII's declining 4W sales. Indeed, BI has given no signals to lower benchmark rates, expected to boost consumers' purchasing power

Last Week INNI Sector Movement



Sector Rotation – Last 10 Days



This Week's Outlook: Pharma (1)

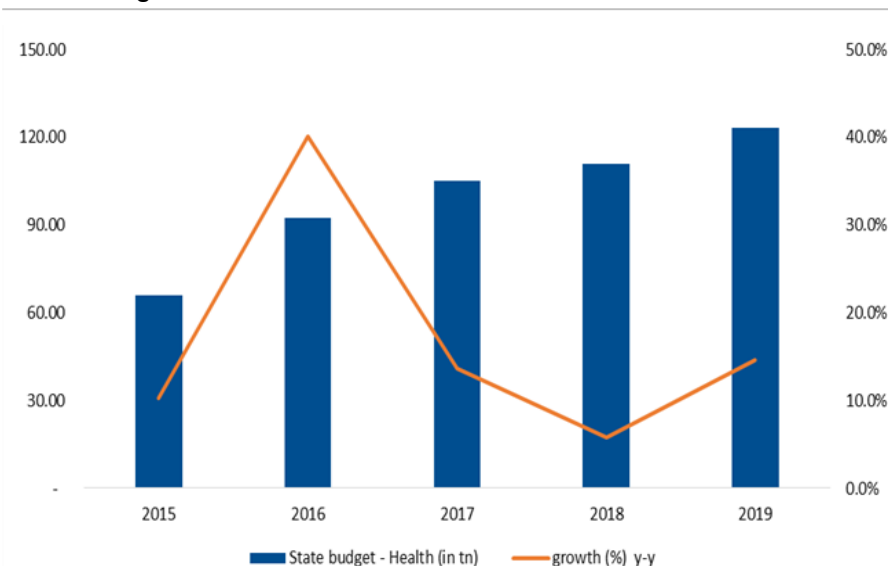
- **TKDN : A Potent Drivers for Pharma Earnings**

To stimulate the growth of pharmaceutical industry in the country, the Indonesian government sets forth the provision and procedure for calculating domestic component level (TKDN) in the Presidential Regulation (Perpres) 16/2018 on Government Procurement of Goods and Services. The calculation procedures ensure that patent medicines are treated with complete confidentiality and are applied by pharma as a cooperation basis with foreign pharma. As the provisions take into effects, imported raw materials for medicines components are lower in number. The National Health Insurance (JKN) promotes massive medicines production: a potent driver for pharma earnings. The Indonesian government through the 2019 state budget (APBN) allocates IDR123.1 trillion worth of health funds or a 10.8% increase from IDR111 trillion in 2018. JKN guarantees that 96.8 million of Indonesian people receive proper health services through Indonesia Health Cards. Of note, JKN is administered by the Healthcare and Social Security Agency (BPJS Kesehatan)—a state health insurance, eligible for natives and foreigners with a minimum of 6-month working experience in Indonesia.

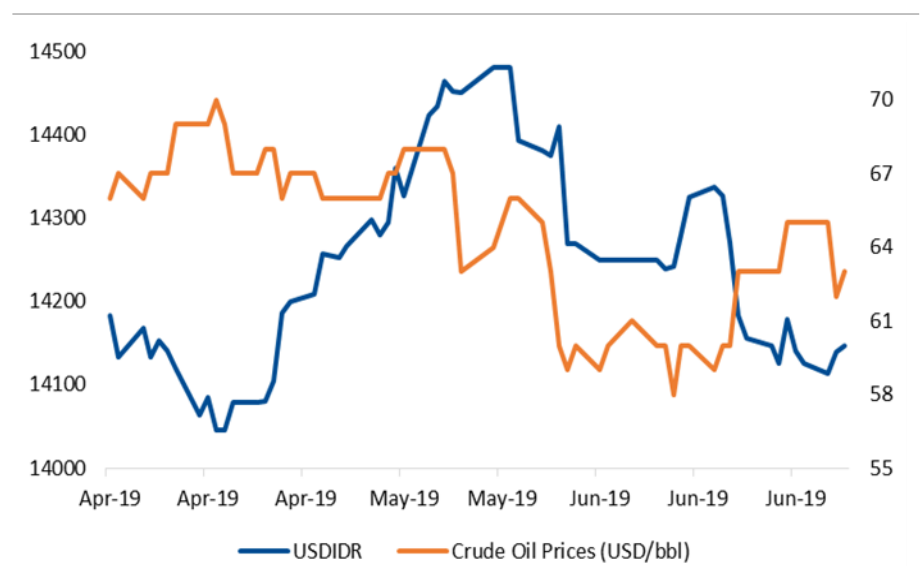
- **USDIDR and Global Crude Oil Prices**

USDIDR is appreciated as the US and China agree on mutual trade deals after highly-anticipated talks between Trump and Xi at the G-20; its position strengthens as global negative sentiments—an uncertain FFR cut and the US retaliatory tariffs over EU aircraft subsidies—linger. The Indonesian rupiah appreciation proves a positive catalyst for pharmaceutical companies highly banking on imported medicine raw materials. Unfortunately, a crude oil price rebound after OPEC's extended production cuts curbs positive effects of the Indonesian rupiah appreciation on those companies.

State Budget Allocation for Health



Movements of USDIDR and Crude Oil Prices



Source: CME Group, NH Korindo Research

Source: Bloomberg, NH Korindo Research

This Week's Outlook: Pharma (2)

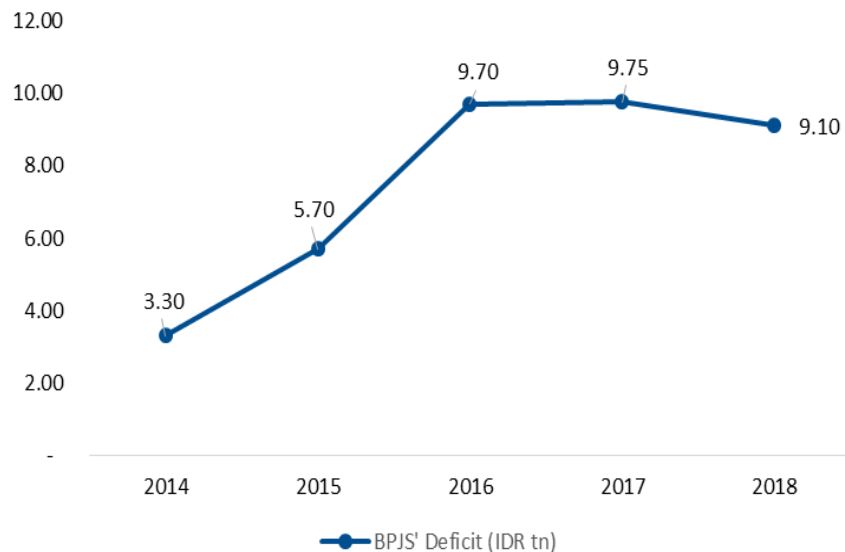
- **The Government Endeavors to Curb BPJS Deficit**

Pharmaceutical companies are anxious about BPJS swollen deficit as Indonesia's National Government Internal Auditor (BPKP) found that BPJS's 2018 financial statements disclosed IDR9.1 trillion worth of deficit. To overcome the ballooning deficit, the Indonesian government revises higher BPJS's monthly premium. The government's policy eases pharma's fears of possibly unsettled payments for medicines supplies.

- **Pharma's Promising Prospect**

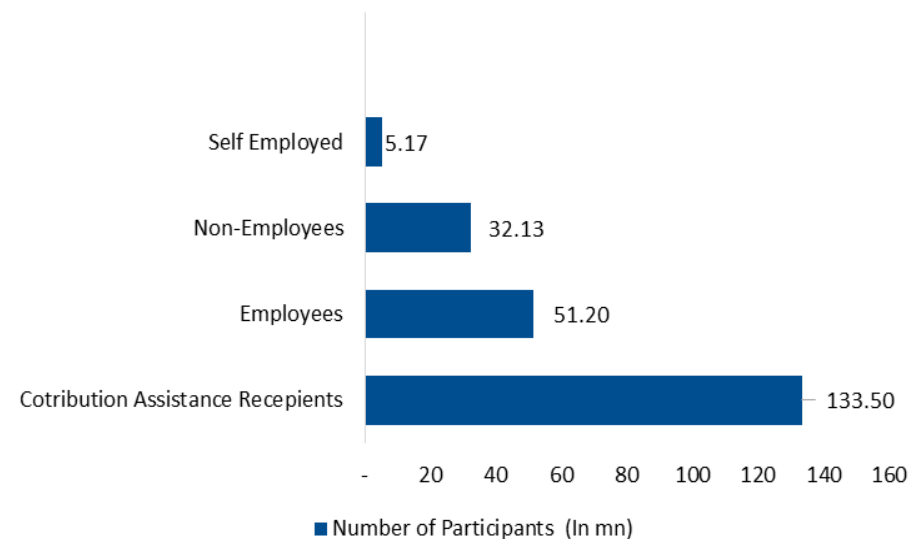
An impediment to earnings lurks pharma; adept operational strategies are inevitable. The Directorate General of Pharmaceutical and Medical Devices articulates, "at-large imported raw material content of medicines is a major setback in Pharma's higher earnings." The looming dims; Pharma's outlook brightens as TKDN prevailing provisions of which curb production costs, promote qualified medicines affordable take into effects.

BPJS Deficit | 2014 - 2018



Source: BPJS Kesehatan, Kementerian Keuangan, NH Korindo Research

The National Health Insurance (JKN) Participants as per June 1, 2019



Source: BPJS Kesehatan, NH Korindo Research

Kalbe Farma Tbk (KLBF IJ – Pharmaceuticals)

Dec 2019 Target Price	1,730				
Consensus Price	1,505				
Last Price (IDR) as of July 5, 2019	1,440				
TP vs. Last Price	20,1%				
Revenue Breakdown:					
Distribution & Logistic	29.6%				
Nutritional Food	28.3%				
Prescription Drugs	24.7%				
Consumer Health	17.4%				
	IDR bn	FY2017	FY2018	FY2019E	FY2020E
Revenue	20,182	21,073	22,482	24,024	
y-y	4.2%	4.4%	6.7%	6.8%	
Net profit	2,404	2,457	2,572	2,748	
y-y	4.5%	2.2%	4.9%	6.8%	
NPM	11.9%	11.7%	11.5%	11.4%	
EPS	51	52	54	58	
P/E	33.0x	29.0x	26.4x	26.5x	

5-Years P/E Trailing Band



Source : Bloomberg, NHKS Research

- **NHKS** reviews KLBF as a top-pick stock estimated to attain the price target of IDR1,730 at 32.03x P/E trailing band. NHKSe is based on 1) appreciation of the Indonesian rupiah's exchange rate for the US dollar; 2) JKN potential for sharp pickup in medicines demands; 3) partnership with digital platforms to expand its markets

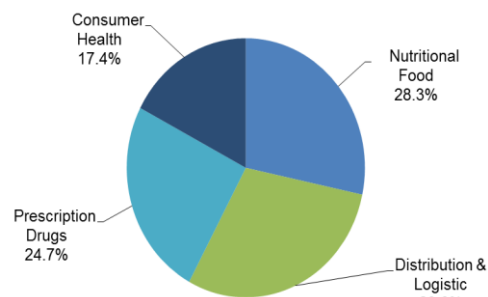
Distribution & Logistic Division: Potent Driver for Growth

KLBF posted a 7% y-y revenue gain from IDR5.0 trillion in 1Q18 to IDR5.3 trillion in 1Q19. Based on sales contributed by each of its divisions, the distribution & logistic posted the first highest growth of 10.7% y-y to IDR1.43 trillion, then followed by the prescription pharmaceuticals posting the second highest growth of 6.5% y-y to IDR1.2 trillion. The nutritionals and consumer health positioned as the third and fourth biggest contributors to sales with respective growth of 5.3% y-y and 4.8% y-y. Domestic sales growth of 7.1% y-y outperformed export sales of 5.5% y-y. It allocates IDR1.5 trillion worth of capex to build factories--one of its strategies to boost overseas sales.

Occupying Marketplaces and Eating Up e-Commerce Platform

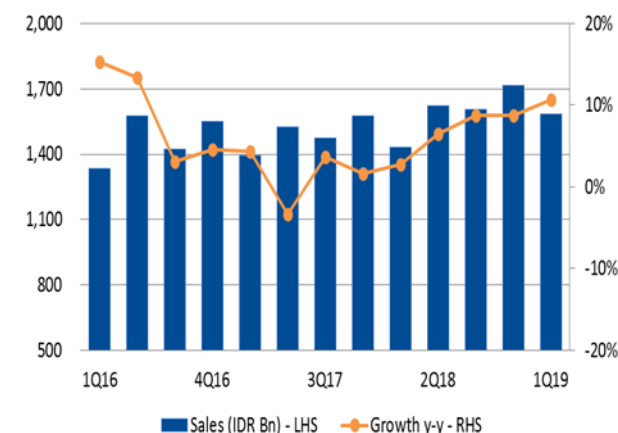
Virtual spaces and e-commerce platforms are gateways to lucrative markets as they provide easy facilities for online shopping. More pharma giants occupy virtual spaces, i.e. Klikdokter.com and Kalbestore.com developed by KLBF. It also turns to e-commerce platforms for "clicking-and-collecting" higher sales and cooperates with Grab to synergize between its online and offline services. KLBF and makes use GrabExpress—an app-based express courier— and GrabFresh—grocery shopping deliverance to integrate its offline with online businesses. The paradigm shift in commerce spaces is likely to pick its sales up and expand its markets: our estimate.

KLBF Revenue Breakdown | 1Q19



Source : Company, NHKS Research

Distribution and Logistic KLBF (IDR bn) | 1Q15 - 1Q19



Source: Company, NHKS Research

INNI's Stocks List

	Theme 1/2	Last Price	Last Week Price	2019 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	29,950	29,975	32,000	Hold	6.8	-0.1%	738.4	28.0x	4.7x	17.9	1.1	15.1	10.3
BBRI	Theme 1	4,400	4,360	4,950	Hold	12.5	0.9%	541.5	16.2x	2.8x	18.8	3.0	11.2	10.3
BMRI	Theme 1	7,775	8,025	8,000	Hold	2.9	-3.1%	362.8	13.7x	1.9x	15.0	3.1	10.9	23.4
Consumer														
GGRM	Theme 1	77,225	76,875	110,000	Buy	42.4	0.5%	148.0	17.9x	3.1x	18.0	3.4	19.2	24.5
UNVR	Theme 1	44,975	45,000	59,000	Buy	31.2	-0.1%	343.2	38.1x	37.9x	112.2	2.6	(0.8)	(4.6)
ICBP	Theme 1	10,125	10,150	11,600	Hold	14.6	-0.2%	118.1	25.1x	5.1x	21.6	1.9	13.9	10.6
INDF	Theme 1	7,050	7,025	8,700	Buy	23.4	0.4%	61.7	14.2x	1.8x	12.8	3.4	8.7	14.1
KAEF	Theme 2	3,320	3,360	4,100	Buy	23.5	-1.2%	18.3	45.9x	8.1x	16.6	0.5	21.8	(44.6)
KLBF	Theme 2	1,435	1,460	1,870	Buy	30.3	-1.7%	67.3	27.3x	4.4x	16.9	1.8	7.0	1.0
Infrastructure														
TLKM	Theme 1	4,260	4,140	4,700	Hold	10.3	2.9%	422.0	22.8x	4.0x	18.2	3.8	7.7	8.6
JSMR	Theme 1	5,725	5,725	6,000	Hold	4.8	0.0%	41.9	19.0x	2.4x	13.3	0.8	(20.8)	0.3
Trade														
UNTR	Theme 1	28,000	28,200	39,550	Buy	41.3	-0.7%	104.4	9.0x	1.9x	22.3	4.3	19.0	20.6
SILO	Theme 2	4,870	4,700	4,350	Hold	(10.7)	3.6%	8.0	422.2x	1.3x	0.3	N/A	18.2	583.3
MIKA	Theme 2	1,920	1,895	2,300	Buy	19.8	1.3%	28.0	43.7x	6.6x	15.7	0.9	15.8	18.2
LPPF	Theme 2	3,350	3,450	5,500	Buy	64.2	-2.9%	9.8	9.9x	5.3x	45.6	9.9	(1.7)	(41.2)
RALS	Theme 2	1,375	1,410	2,070	Buy	50.5	-2.5%	9.7	14.1x	2.3x	17.5	3.7	(0.4)	428.0
MAPI	Theme 2	895	900	1,300	Buy	45.3	-0.6%	14.9	33.0x	2.7x	10.5	1.1	8.4	(62.3)
Property														
PWON	Theme 1	730	730	725	Hold	(0.7)	0.0%	35.2	13.0x	2.6x	22.3	1.0	3.9	28.1
CTRA	Theme 1	1,150	1,150	1,080	Hold	(6.1)	0.0%	21.4	16.1x	1.5x	9.5	1.7	21.3	114.3
PTPP	Theme 1	2,110	2,210	2,450	Buy	16.1	-4.5%	13.1	8.6x	1.0x	12.4	2.3	34.9	12.0
WSKT	Theme 1	1,975	2,010	2,500	Buy	26.6	-1.7%	26.8	8.5x	1.4x	18.5	3.7	(30.0)	(53.0)
WIKA	Theme 1	2,370	2,430	2,100	Hold	(11.4)	-2.5%	21.3	11.6x	1.4x	13.2	1.6	3.9	66.9
Basic Ind.														
KRAS	Theme 2	404	418	600	Buy	48.5	-3.3%	7.9	N/A	0.3x	(7.3)	N/A	(13.8)	(966.7)
SMGR	Theme 2	12,550	11,575	14,600	Buy	16.3	8.4%	74.4	25.4x	2.4x	9.7	1.7	22.8	(34.8)
INTP	Theme 2	21,000	20,000	22,300	Hold	6.2	5.0%	77.2	60.4x	3.3x	5.3	2.6	8.5	50.2
Misc Ind.														
ASII	Theme 2	7,175	7,450	8,600	Buy	19.9	-3.7%	292.5	13.3x	2.1x	16.2	3.0	6.8	4.9
Mining														
ADRO	Theme 1	1,430	1,360	1,750	Buy	22.4	5.1%	45.9	7.0x	0.9x	12.6	6.3	10.8	59.2
PTBA	Theme 1	3,060	2,960	5,100	Buy	66.7	3.4%	35.3	6.8x	1.9x	29.2	11.1	(7.2)	(21.7)
INCO	Theme 2	2,910	3,120	3,370	Buy	15.8	-6.7%	29.0	60.6x	1.1x	1.8	N/A	(25.8)	N/A
ANTM	Theme 2	820	845	1,200	Buy	46.3	-3.0%	19.6	24.5x	1.0x	4.1	1.6	8.5	(30.1)

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