

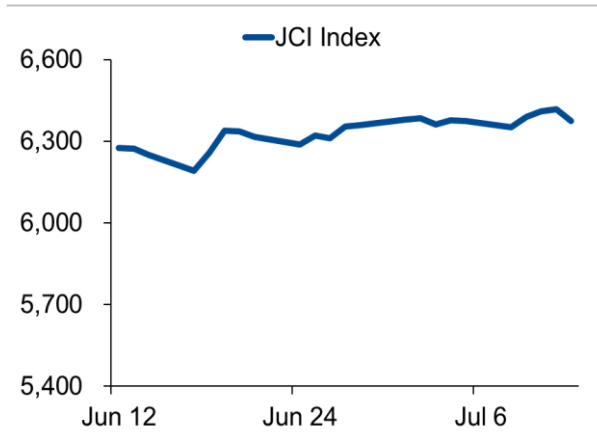
Weekly Brief (July 15 – July 19)

Summary:

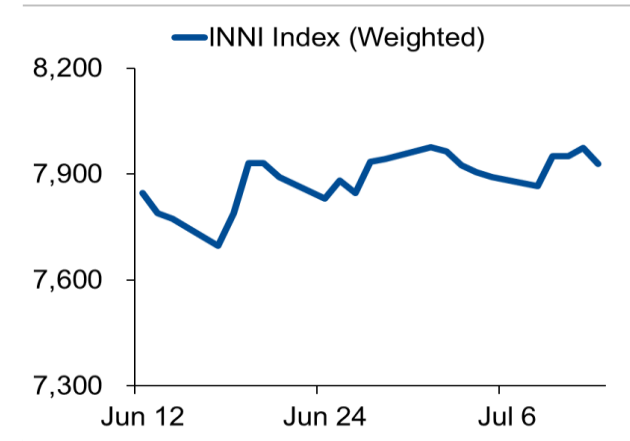
Last week review: JCI closed flat driven by mixed domestic and global sentiments. June's lagging consumer confidence index (CCI) as was the Consumer Expectation Index (CEI) failed to dragged JCI lower as the Fed's hints of rate cut drove most Asia markets, including JCI up. Fears of unsettled trade disputes weighing on the US economy urged the Fed to ease its monetary policy.

This week's outlook: We project the banking sector is still competitive despite tightening BI 7-DRRR and tight liquidity. The reduction in lender's reserve requirement provides supports for banks to maintain its credit rates and accumulate more mid-term notes. Based on the fact, NHKS recommends BMRI estimated to attain the price target of IDR8,275 at a P/BV trailing band of 2.0x. The estimate is on the basis of lower cost of funds (CoF) and potential easing liquidity; a more accommodative monetary policy easing margin pressures; and portfolios divestment from high-risk to low-risk segmented credits.

JCI - one month



INNI Index – one month



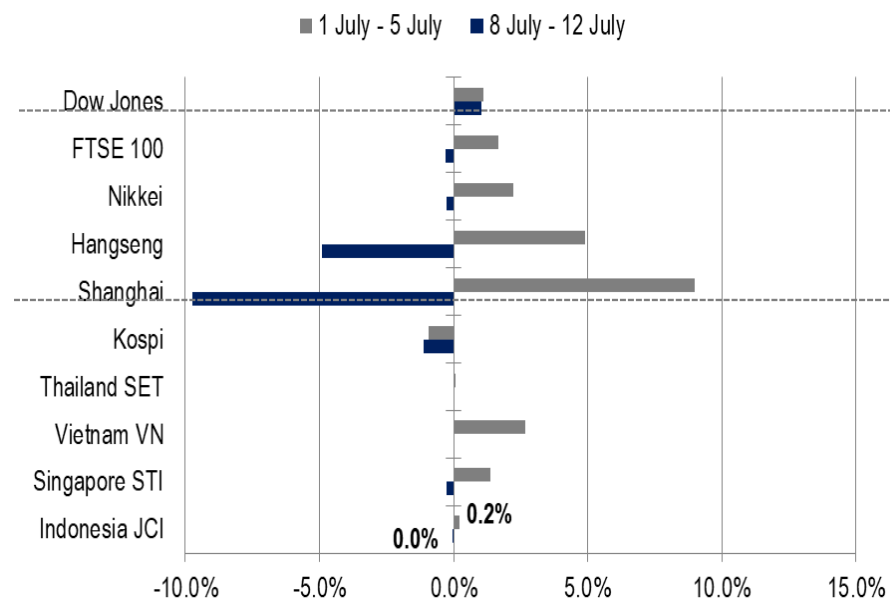
Last Week's JCI Movement

- JCI Index : 6,373.35 (+0,0%)
- Foreign Flow : Net buy of IDR2.2 trillion (vs. net buy last week of IDR978 million)
- USD/IDR : 14,007 (-0.54%)
- Yields of sovereign bond with 10-years tenor : 7.203% (-2.50 bps)

JCI's Moved Sideways

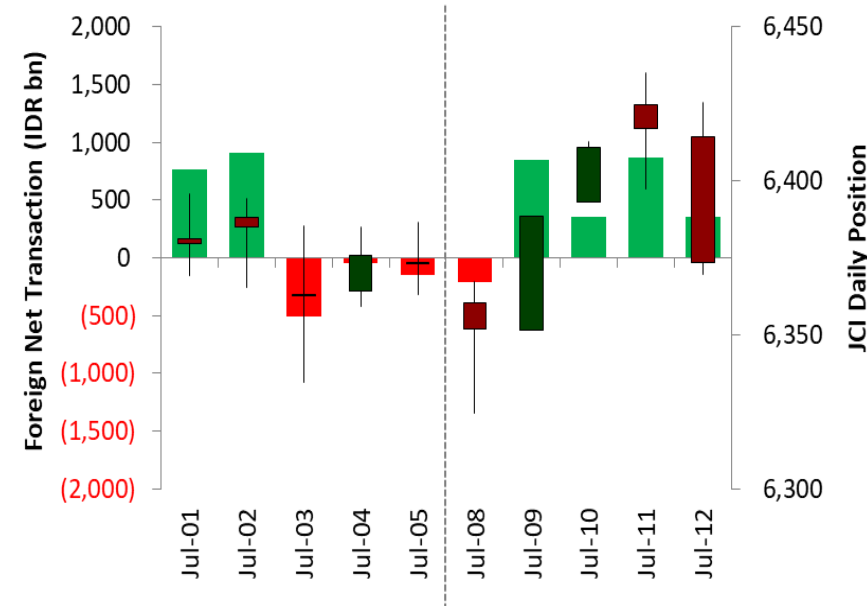
On early days of last week, consumers' dampened optimism retreated JCI to 0.34%. June's CCI slowed at 126.4, lower than May's 128.2, as did CEI to lag at 138.1— a fall from May's 142.9. The murky outlook of next-6-month slump in wages, business activities, and job data was a logical takeaway for the slumping figures. After the tepid close, JCI was rebounding 0.35% on mid-days of last week as the Fed's signal of loosen monetary stance proved a potent driver for JCI movement. On Friday (7/12) JCI dipped 0.68% as investors retained profit-taking to anticipate the trade balance figure to be released on Monday (7/15). BI has not taken any pre-emptive stance following the Fed's hint of rate cut; thus, investors pulled out their money, while awaiting BI's Board of Governors Meeting to be held on Thursday (07/18). Last week, JCI closed flat at 6,373.

Global Market Movement



Source: Bloomberg, NH Korindo Research

Foreign Net Flow – Last 10 Days



Source: Bloomberg, NH Korindo Research

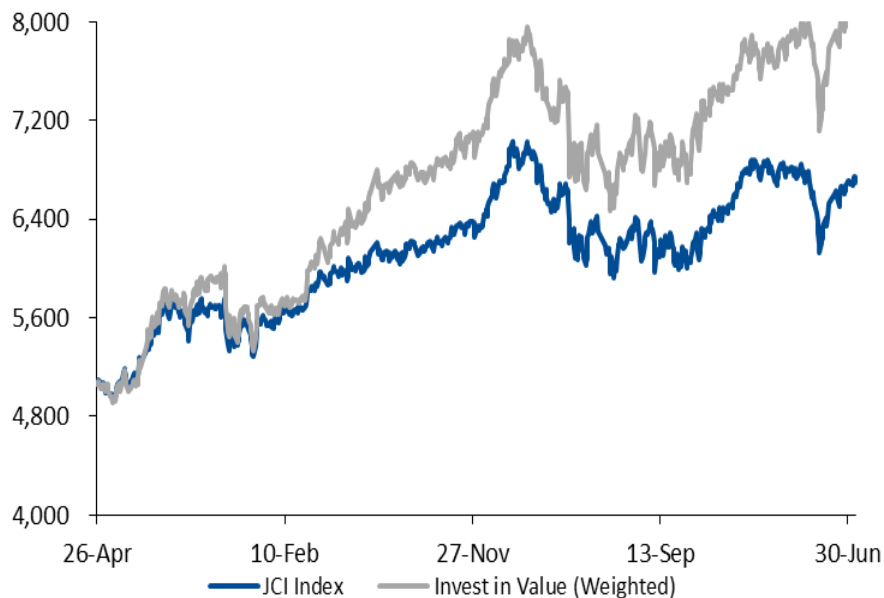
Last Week's INNI Movement

•INNI Index	: 7,928.87 (+0.5%)
INNI Theme 1 (Value)	: 8,095.70 (+0.1%)
INNI Theme 2 (Trend)	: 7,644.80 (+1.1%)

INNI Index Nudged Up

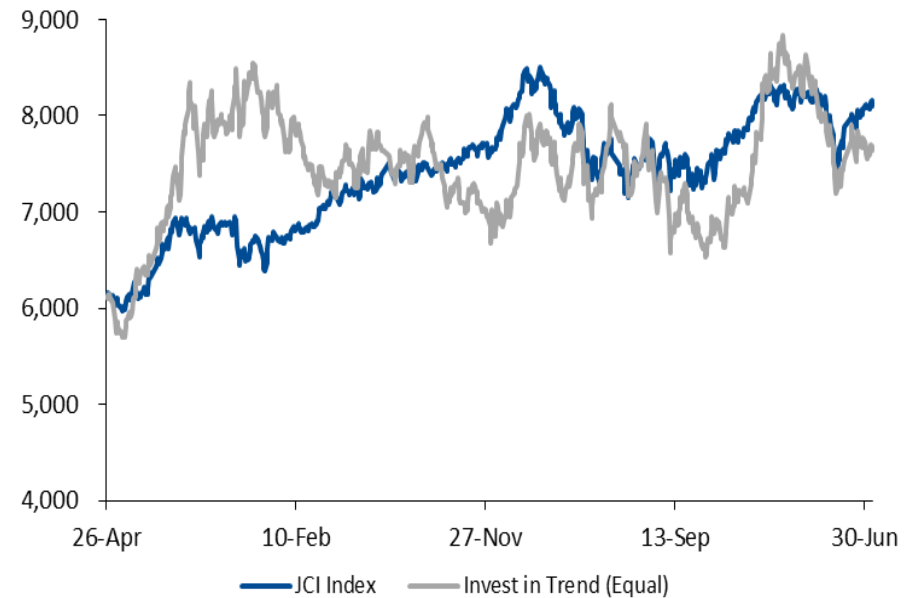
INNI index dipped 0.33% on early days of last week's trading sessions as coal stocks dropped, i.e. ADRO (-2.5%) and PTBA (-2.3%). July's benchmark coal prices at ~USD77 per ton undermine coal miners, and Korea and Japan shifting from coal-fired power plants to natural gas-fired power plants slash demands for coal and weaken prices of coal. On mid-days of last week, INNI index performed better to close flat as PTPP and WSKT—its top gainers—advanced 2.9% and 2.8%, respectively. Investors positively responded to those two companies' plans of toll-road divestment to support their financial performance and finance their ongoing infrastructure projects. PTPP even increases its II-semester-2019 capex to fund its ongoing projects. On Friday (7/12), INNI index slowed 0.57%, held back by ADRO (-4.1). ADRO declined, threatened by tax fraud. Global Witness reports that ADRO has committed to tax avoidance by laundering earnings to its Singapore-based company network from 2009 to 2017. Indonesian miners urge authorities to enact a regulation in lieu of law (Perppu) for Mineral and Coal (Minerba) to assure mining activities. Last week, INNI index nudged up 0.5% to close at 7,928.

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

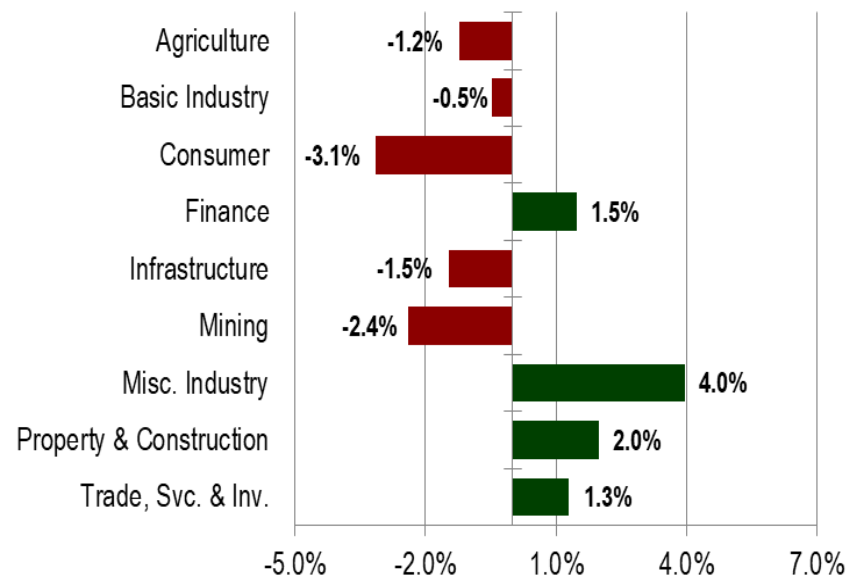
INNI Index's Top Gainers

The miscellaneous industry was the last week's top gainer as it gained 4.0%. ASII including in INNI index plans to boost sales of Toyota Hybrid at GAIKINDO Indonesia International Auto Show (GIIAS) on July 18-28, 2019. It makes the best use of consumers' appetite for purchasing 4W to boost its sales and plans to invest in one of Indonesian start-up companies, Trukita: a logistics marketplace providing truckload services. It is a positive sentiment for Astra, particularly its business line Astra UD Trucks.

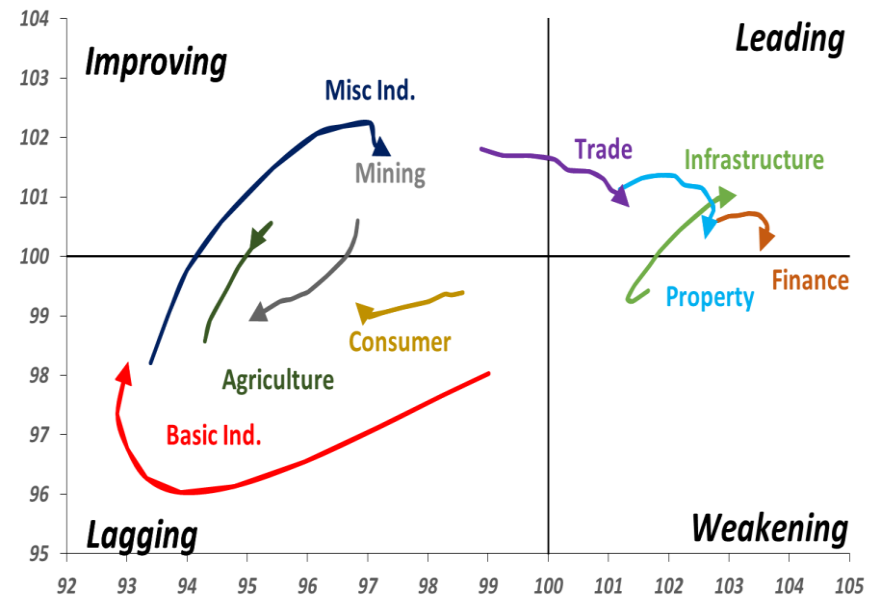
INNI Index's Top Losers

The consumer sector was the last week's top loser as it dipped 3.1%, hampered by pharmaceutical subsector stocks, particularly KLBF (-4.86%). Kalbe Farma (KLBF) cooperates with China-based Shandong Kexin for technology transfer and incorporates a joint venture with South Korea-based company. KLBF currently is producing medicines using biotech, but foreign investors give less positive responses to that biotech development and pull out their money from KLBF's portfolios.

Last Week INNI Sector Movement



Sector Rotation – Last 10 Days



This Week' Outlook: Banking Sector (1)

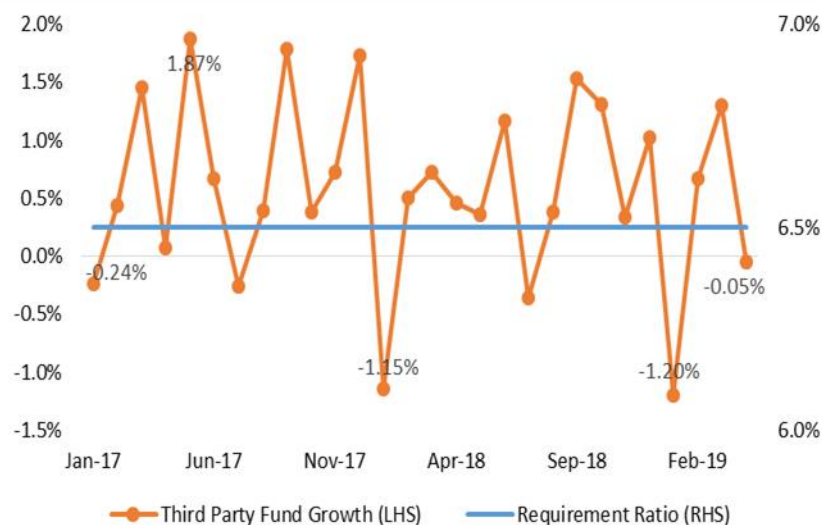
- The Regulator's 50 bps GWM Easing**

In June's Board of Governors Meeting, Bank Indonesia decided to ease its rupiah-denomination lenders' reserve requirements (GWM) by 50 bps to 6% for commercial banks and 4.5% for sharia banks. The easing policy injecting liquidity of IDR25 trillion and BI 7-DRRR at 6.0% in June—a 75 bps higher than June 2018—help banks struggling with high Cost of Funds (CoF). The liquidity easing spurs credit growth and accelerates the economic pace.

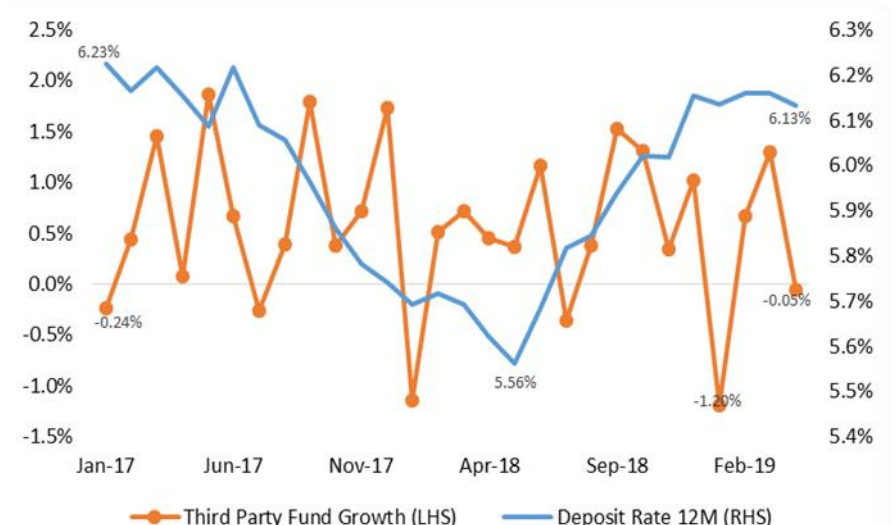
- A Breather of Loose Monetary Controls**

Despite the liquidity injection, banks remain selective about the portion of third-party funds. Banks prefer to leverage CASA than time deposits. The more accommodative liquidity and the Indonesian one-notch upgraded bonds rating by S&P will ease margin pressures. The tightening liquidity left margins throttled away as global sentiments determining monetary stance remains. Unsettled trade disputes between the US and Beijing blocks foreign capital inflows to emerging markets, i.e. Indonesia as foreign investors prefer to flee their money into developed economies with the allure of high yields and minimum risks. Another to curb margin pressures, the reduction in lenders' reserve requirement signals the case for loose monetary policy to strengthen.

Third Party Funds Growth and Requirement Ratios



Third Party Fund Growth and 12-Months Deposit Rates



This Week' Outlook: Banking Sector (2)

- **A Hint of Easing Monetary**

BI Governor Perry Warjiyo articulated cue for another BI 7-DRRR cut with careful considerations of “the timing and the magnitude.” To address its accommodative stance, BI is monitoring two key determinants: Indonesia’s balance of payments and global financial market backdrop. As the Fed’s last-year hawkish stance left rupiah as one of the most destabilized EM currencies among its peers, BI cautiously takes pre-emptive stance to keep rupiah stable. Its last rate cut was in September 2017 then gradually tightened its rates up to 175 bps. The Reserve Bank of India and the Reserve Bank of Australia have moved to loosen their monetary policies, but BI still-unchanged monetary move is an exception. Those accommodative policies prove boosts for business expansion and household consumption, and temper impacts of gloomier global growth outlook.

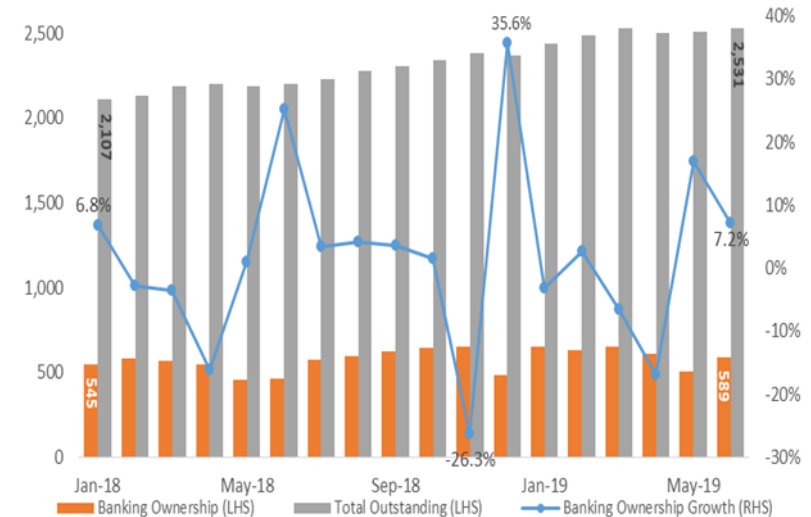
- **Credit Disbursement vs. Investment**

BI’s idealism of easing liquidity for spurring credit supply is negated by the fact that a number of BUKU-IV-categorized banks diversify the liquidity injection into money market investment. BMRI, for instance, accumulates much larger medium-term notes (MTNs) and is less generous in spending the injection on credit disbursement. Discerning the domestic cycle of credit supply woes—generous credit supply with high lending rates returning in high NPL slashing banks’ margins, BMRI sets its 1Q19 targeted credit growth only at 11% and ploughs IDR125.2 trillion into MTNs—a 10% increase from IDR114.2 trillion in late December 2018. Its 1Q19 declining LDR to 95.07% from 97.08% in late December is a lucid portrayal of gradual decoupling from credit supply.

BI 7-DRRR and Balance of Payment (BoPs)



Outstanding Indonesia Government Securities (IDR Tn)



Bank Mandiri (Persero) Tbk (BMRI IJ – Bank)

Dec 2019 Target Price	8,275
Consensus Price	8,837
Last Price (IDR) as of July 12, 2019	8,075
TP vs. Last Price	2,5%

Liquidity:	
LDR	95.1%
CASA	62.4%

IDR bn	FY2017	FY2018	FY2019E	FY2020E
Net Revenue	73,684	79,948	90,535	100,050
y-y	3.7%	8.5%	13.2%	12.0%
Operating Profit	26,754	34,134	37,546	42,352
Net Profit	20,640	25,015	28,129	32,062
NIM	5.9%	5.7%	5.6%	5.6%
P/E	18.1x	14.3x	12.8x	11.4x
P/BV	2.2x	1.9x	2.0x	1.9x

- NHKS** recommends on BMRI estimated to attain the price target of IDR8,275 at a P/BV trailing band of 2.0x. The estimate is on the basis of the regulator's 50 bps cut in lenders' reserve requirements giving leeway to post ~11% credit growth backed by its corporate and commercial divisions, its more competitive credits and lower provision expenses.

- More Competitive Credits, Lower Provision Expenses**

BMRI posted 1Q19 earnings of IDR7.2 trillion or picking up 23.4% Y-Y as interest incomes surged 15.1% YoY to IDR22.0 trillion. Its credit surging on the number—a 12% YoY increase to IDR790.5 trillion—secured the largest portion of banking loans. Its credit competitiveness supported by lower provision expenses—a 28.1% decrease to IDR2.8 trillion—positions BMRI as Indonesian lender margin lead.

- NPL Slumping to 64 bps**

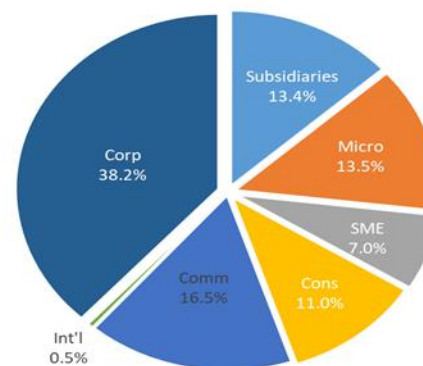
BMRI had 1Q19 lower NPL ratio to 2.68% dipping 64 bps from 3.32% in 1Q18 as its segments mostly retained credit competitiveness. A 10% YoY increase to IDR1,205 trillion in its assets evidenced its credibility as the Indonesian largest banks by assets. Its portfolio diversification from high risk to low risk-segmented credits shrinking its NIM by 15 bps to 5.66% is cautious consideration for investors retain BMRI as it places the most reliance on micro credits, mortgage loans, and vehicles loans to secures NIM growth of 5.6%-5.8%.

5 - Years P/BV Trailing Band



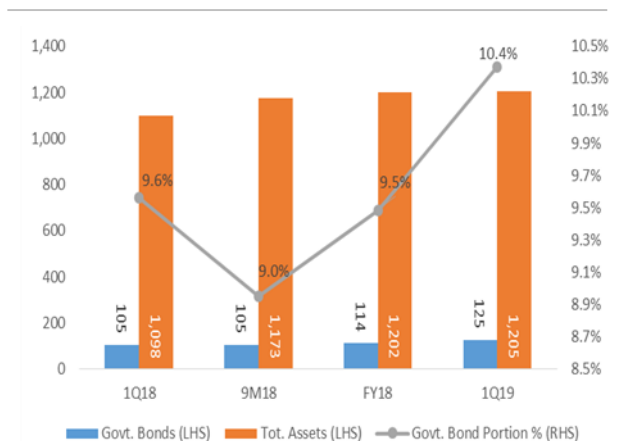
Source : Company, NHKS Research

Loan by SBU + Subsidiaries | 1Q19



Source : Company, NHKS Research

Govt. Bond to Total Assets (IDR Trn)



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	30,050	29,850	32,000	Hold	6.5	0.7%	740.9	28.1x	4.7x	17.9	1.1	15.1	10.3
BBRI	Theme 1	4,510	4,400	4,950	Hold	9.8	2.5%	556.3	16.6x	2.9x	18.8	2.9	11.2	10.3
BMRI	Theme 1	8,075	7,825	8,275	Hold	2.5	3.2%	376.8	14.3x	2.0x	15.0	3.0	10.9	23.4
Consumer														
GGRM	Theme 1	74,000	77,200	110,000	Buy	48.6	-4.1%	142.4	17.2x	3.0x	18.0	3.5	19.2	24.5
UNVR	Theme 1	44,775	44,950	59,000	Buy	31.8	-0.4%	341.6	37.9x	37.7x	112.2	2.6	(0.8)	(4.6)
ICBP	Theme 1	10,275	10,100	11,600	Hold	12.9	1.7%	119.8	25.5x	5.2x	21.6	1.9	13.9	10.6
INDF	Theme 1	6,775	7,000	8,700	Buy	28.4	-3.2%	59.5	13.7x	1.7x	12.8	3.5	8.7	14.1
KAEF	Theme 2	3,280	3,330	4,100	Buy	25.0	-1.5%	18.2	45.6x	8.1x	16.6	0.5	21.8	(44.6)
KLBF	Theme 2	1,370	1,440	1,870	Buy	36.5	-4.9%	64.2	26.1x	4.2x	16.9	1.9	7.0	1.0
Infrastructure														
TLKM	Theme 1	4,180	4,280	4,700	Hold	12.4	-2.3%	414.1	22.4x	3.9x	18.2	3.9	7.7	8.6
JSMR	Theme 1	5,650	5,650	6,000	Hold	6.2	0.0%	41.0	18.6x	2.3x	13.3	0.8	(20.8)	0.3
Trade														
UNTR	Theme 1	27,850	28,025	39,550	Buy	42.0	-0.6%	103.9	8.9x	1.8x	22.3	4.3	19.0	20.6
SILO	Theme 2	5,600	4,940	4,350	Sell	(22.3)	13.4%	9.1	478.6x	1.4x	0.3	N/A	18.2	583.3
MIKA	Theme 2	1,925	1,950	2,300	Buy	19.5	-1.3%	28.0	43.7x	6.6x	15.7	0.9	15.8	18.2
LPPF	Theme 2	3,260	3,340	5,500	Buy	68.7	-2.4%	9.1	9.6x	5.1x	45.6	10.2	(1.7)	(41.2)
RALS	Theme 2	1,340	1,375	2,070	Buy	54.5	-2.5%	9.5	13.9x	2.3x	17.5	3.7	(0.4)	428.0
MAPI	Theme 2	930	890	1,300	Buy	39.8	4.5%	15.4	34.1x	2.7x	10.5	1.1	8.4	(62.3)
Property														
PWON	Theme 1	720	735	725	Hold	0.7	-2.0%	34.7	12.8x	2.6x	22.3	1.0	3.9	28.1
CTRA	Theme 1	1,190	1,145	1,080	Hold	(9.2)	3.9%	22.1	16.5x	1.5x	9.5	1.6	21.3	114.3
PTPP	Theme 1	2,160	2,090	2,450	Hold	13.4	3.3%	13.4	8.8x	1.0x	12.4	2.2	34.9	12.0
WSKT	Theme 1	2,040	1,960	2,500	Buy	22.5	4.1%	27.7	8.8x	1.5x	18.5	3.6	(30.0)	(53.0)
WIKA	Theme 1	2,310	2,330	2,100	Hold	(9.1)	-0.9%	20.7	11.2x	1.4x	13.2	1.7	3.9	66.9
Basic Ind.														
KRAS	Theme 2	394	406	600	Buy	52.3	-3.0%	7.6	N/A	0.3x	(7.3)	N/A	(13.8)	(966.7)
SMGR	Theme 2	12,400	12,600	14,600	Buy	17.7	-1.6%	73.6	25.1x	2.4x	9.7	1.7	22.8	(34.8)
INTP	Theme 2	21,525	21,000	22,300	Hold	3.6	2.5%	79.2	62.0x	3.4x	5.3	2.6	8.5	50.2
Misc Ind.														
ASII	Theme 2	7,450	7,150	8,600	Buy	15.4	4.2%	301.6	13.8x	2.1x	16.2	2.9	6.8	4.9
Mining														
ADRO	Theme 1	1,280	1,415	1,750	Buy	36.7	-9.5%	40.9	6.3x	0.8x	12.6	7.1	10.8	59.2
PTBA	Theme 1	2,840	3,050	5,100	Buy	79.6	-6.9%	32.7	6.4x	1.7x	29.2	12.0	(7.2)	(21.7)
INCO	Theme 2	3,000	2,880	3,370	Hold	12.3	4.2%	29.8	62.9x	1.1x	1.8	N/A	(25.8)	N/A
ANTM	Theme 2	845	810	1,200	Buy	42.0	4.3%	20.3	25.4x	1.0x	4.1	1.5	8.5	(30.1)

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