

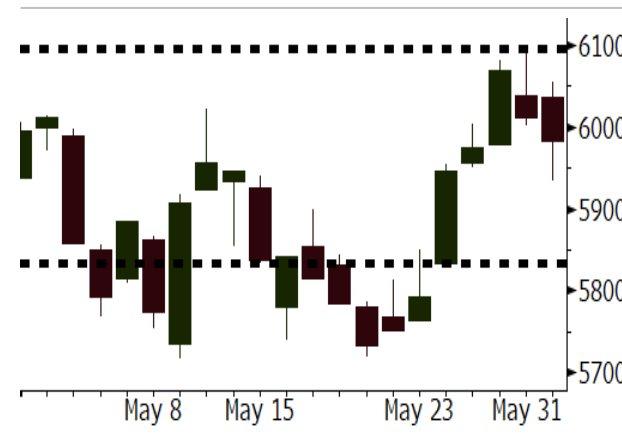
# Weekly Brief (June 04 – June 08)

### Summary:

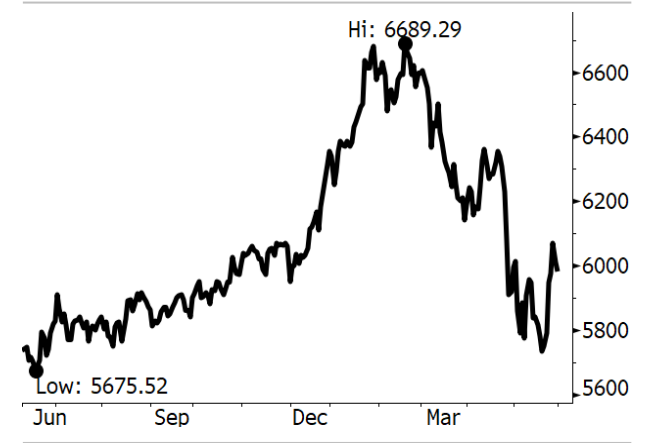
Last week JCI was capable of rallying further backed by Bank Indonesia (BI) stance of raising benchmark rate into 4.75% decided at the additional Board of Governors Meeting. BI's tightening stance boosted global investors' confidence and strengthened rupiah to move below 14,000 per USD. However JCI's off on Friday, June 1<sup>st</sup> 2018 amid active global markets caused JCI's rally was limited in last week.

In this week we project that JCI still hardly rallies as this week is the last week ahead of long-holiday Eid Mubarak. Volatile global market amid the Fed's meeting dated June 12<sup>th</sup> and 13<sup>th</sup> causes wait-and-see stance by investors. Indeed, investors likely eye on two macroeconomic data: inflation and forex reserves. These two indicators are crucial determinants for projecting BI's monetary stance in 2018. We recommend ADRO and HMSP as top pick stocks this week.

JCI - one month



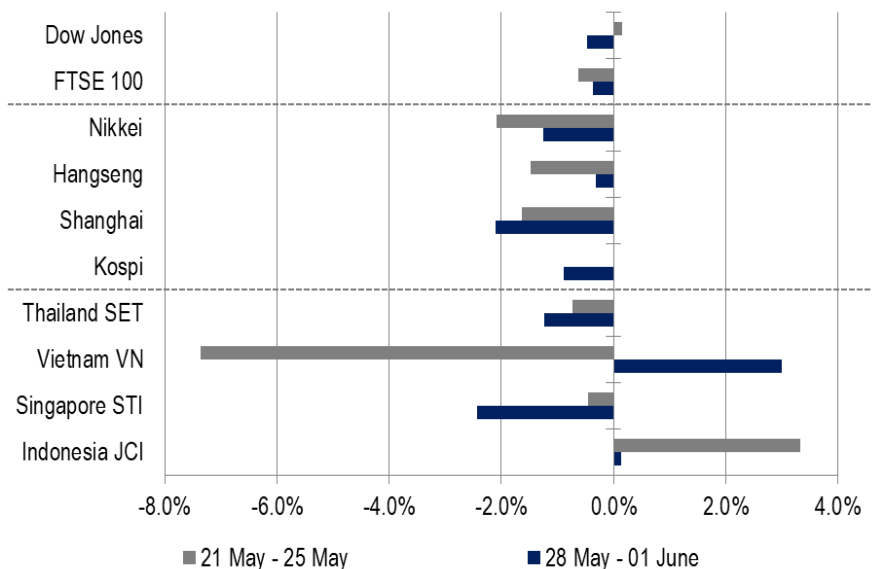
JCI - one year



## Last Week's Recap

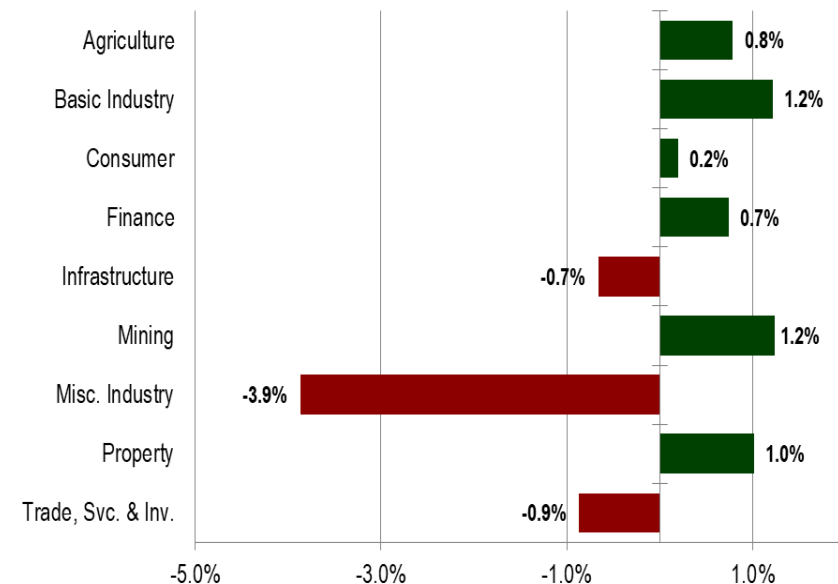
- Jakarta Composite Index (JCI) : 5,983.59 (+0.13%)  
 Foreign Investor : net sell of IDR165 billion (Vs previous week's net buy of IDR867 billion)  
 USDIDR : 13,896 (-1.62%)  
 10-year Government Bond Yield : 6.995% (-37.1 bps)
- Ad-Hoc Board of Governors Meeting**  
 Newly elected Governor of Bank Indonesia Perry Warjiyo unexpectedly decided to hold an ad-hoc Board of Governors Meeting dated May 30<sup>th</sup> 2018. In the meeting, BI decided to raise its benchmark rate by 25 bps into 4.75%. It is BI's pre-emptive monetary stance ahead of the Fed's meeting dated from June 12<sup>th</sup> to 13<sup>th</sup> 2018 when Eid Mubarak holiday occur. BI considers the importance to take a pre-emptive stance in light of the possibility of the rise in the Fed's rate after the Fed's June meeting.
- Rupiah Appreciated below 14,000**  
 Global investors positively responded to BI's aggressive stance of raising its benchmark rate. Rupiah was appreciated and strengthened to settle at below 14,000 per USD. The rupiah appreciation was also backed by the U.S. Treasury yield settling at below 3% due to the political turmoil in Italy looming European Union.

### Global Equity Market



Source: Bloomberg, NH Korindo Research

### Sector Index



Source: Bloomberg, NH Korindo Research

## This Week's Outlook

- **May Inflation**

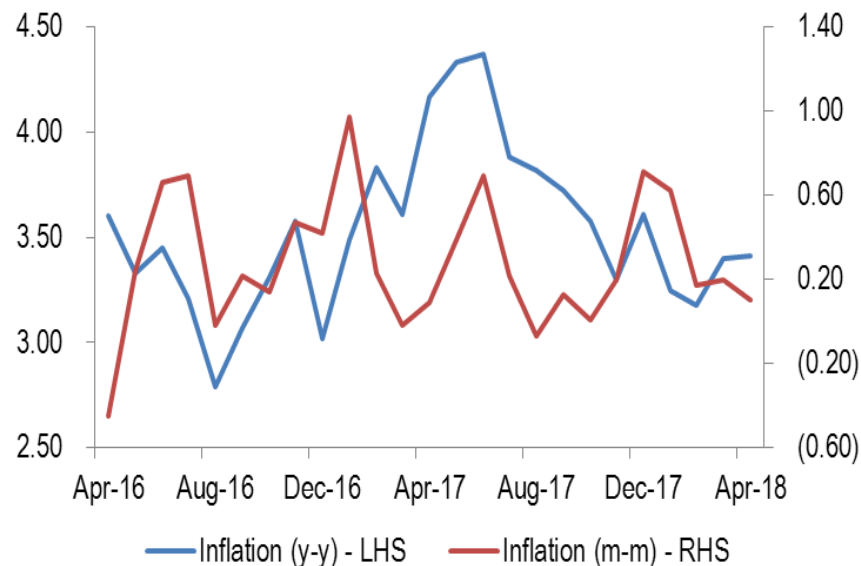
Investors will keep their eyes on May inflation to be released on Monday, June 4<sup>th</sup> 2018. The inflation pressure on May is estimated to escalate as the soaring price in Ramadhan month. Besides, in May the depreciated rupiah likely impacts on inflation. Based on survey by Bank Indonesia, until the third week of May, monthly inflation is 0.22% higher than April's inflation of 0.1%. May and June's inflation are key determinant for the 2018 inflation because Ramadhan month and Eid Mubarak festive occur in May and June.

- **May's Forex Reserves**

May's forex reserve data to be released on Friday, June 8<sup>th</sup> 2018 gives investors depiction of BI's intervention in controlling rupiah. BI's aggressive intervention in May inevitably caused forex reserve to whittle away, yet investor likely eyes on the amount of whittled away forex reserve in May. Of note, in the end of April, the amount of forex reserve was USD124.9 billion.

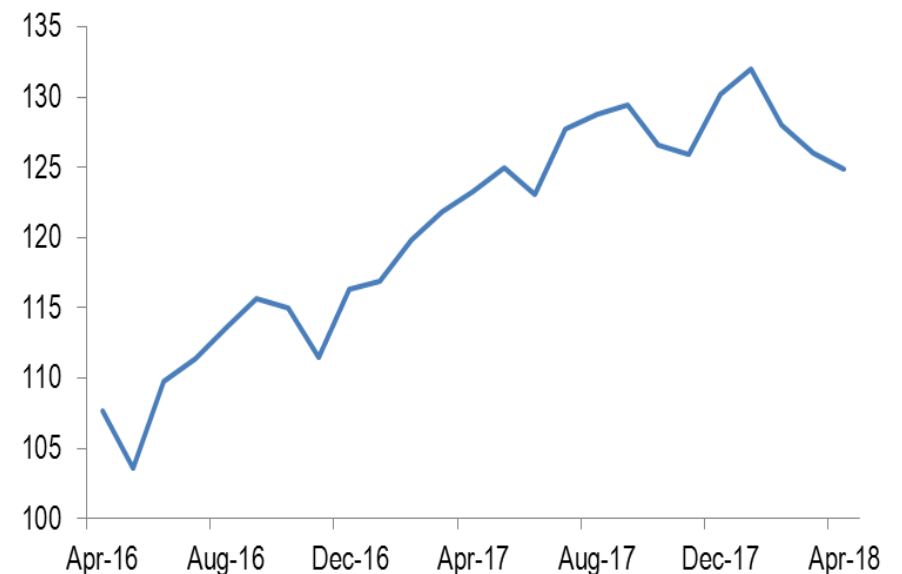
- In this week we estimate that **JCI will move moderately within the range of 5833-6095**. This week is the last week ahead of the long holiday of Eid Mubarak festive. Beside, during Eid Mubarak festive global market volatility likely escalates due to the Fed's meeting.

**Indonesia Inflation (%)**



Source: Bloomberg, NH Korindo Research

**Indonesia Foreign Reserve (USD bn)**



Source: Bloomberg, NH Korindo Research

## Adaro Energy (ADRO – Coal Mining)

<b>Dec 2018 TP</b>	<b>2,500</b>
Consensus Price	2,614
TP to Consensus Price	-4.4%
vs. Last Price	+32.6%
<b>Last Price (IDR)</b>	<b>1,885</b>
Price date as of	May 31, 2018
52wk range (Hi/Lo)	2,650 / 1,445
Free Float (%)	43.9
Outstanding sh. (mn)	31,986
Market Cap (IDR bn)	60,294
Market Cap (USD mn)	4,335
Avg. Trd Vol – 3M (mn)	88.46
Avg. Trd Val – 3M (bn)	171.81
Foreign Ownership	33.0%
<b>Sales Breakdown:</b>	
Coal Mining & Trading	92.6%
Logistic	7.4%

USD mn	FY2016	FY2017	FY2018E	FY2019E
Sales	2,524	3,258	3,690	3,932
y-y	-6.0%	29.1%	13.2%	6.6%
EBITDA	923	1,192	1,262	1,481
Net profit	335	483	558	671
EPS (IDR)	139	206	240	279
y-y	119.5%	44.4%	15.4%	20.2%
NPM	13.3%	14.8%	15.1%	17.1%
ROE	9.4%	12.3%	13.1%	14.6%
P/E	12.2	9.0x	7.9x	6.8x
P/BV	1.1x	1.1x	1.0x	0.9x

### • Ahead of Kretsel Acquisition

In March 2018, ADRO cooperated with EMR Capital to acquire 80% coking Kertsel coal mining in Australia. This corporate act is about to face its realization after on Wednesday, May 30<sup>th</sup> 2018, it obtained a license approved by the Australian government. It is estimated that the acquisition will be settled in August–September 2018. We project that the corporate act likely boosts ADRO's sales due to the high coking coal prices.

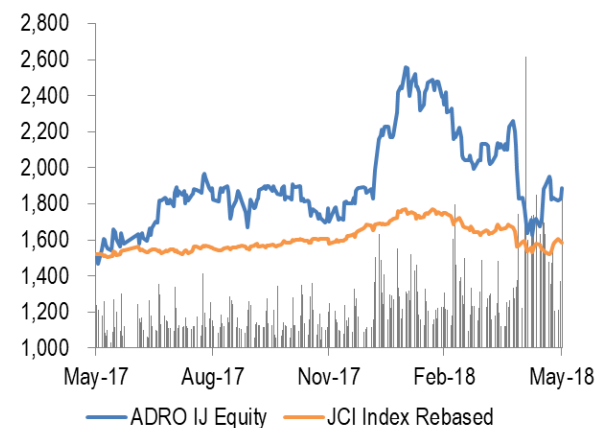
### • Increment in Coking Coal Production

ADRO targets the coking coal production of 1 million tons by Adaro Metcoal Company in 2018. Besides, it targets Kretsel mining to produce 8 million tons of coking coal per year. We oversee that the high coking coal prices will boost ADRO's sales performance in ahead years. In 2018 coking coal prices are estimated to move at the range of USD186-192 per ton.

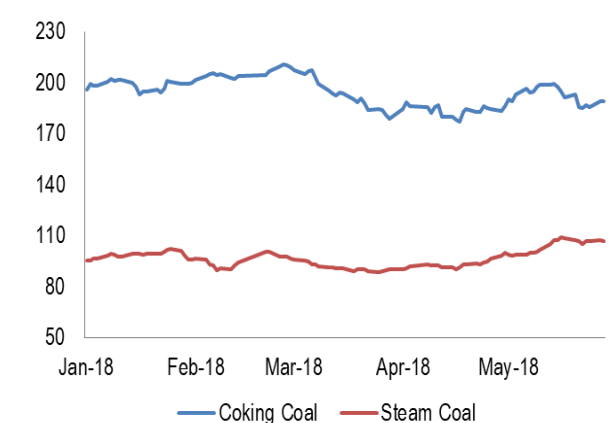
### • Temporary Decline in 1Q18 Production

ADRO posted the growth of 5.1% y-y into USD764 million in 1Q18 sales vs. 1Q17 sales of USD727 million. The 1Q18 sales growth was backed by the hike in ASP into USD65/ton. Meanwhile, the sales volume decreased by 9.1% y-y into 10.93 million underscored by the decline in production. The heavy rainfall in mining area caused disruption to the mining operation. We estimate that the production will better off in ahead quarters; thus, ADRO is likely capable of realizing the target production of 54-56 million ton in 2018.

### Share Price Performance



### Coking Coal & Steam Coal Prices (USD/ton)



## HM Sampoerna (HMSP – Cigarette)

<b>Dec 2018 TP</b>	<b>4,575</b>			
Consensus Price	4,287			
TP to Consensus Price	+6.7%			
vs. Last Price	+20.7%			
<b>Last Price (IDR)</b>	<b>3,790</b>			
Price date as of	May 31, 2018			
52wk range (Hi/Lo)	5,550 / 3,230			
Free Float (%)	7.5			
Outstanding sh. (mn)	116,318			
Market Cap (IDR bn)	440,846			
Market Cap (USD mn)	31,693			
Avg. Trd Vol – 3M (mn)	23.35			
Avg. Trd Val – 3M (bn)	92.67			
Foreign Ownership	1.88%			
<b>Sales Breakdown:</b>				
Machine-made Clove Cigarettes	68.8%			
Hand-rolled Clove Cigarettes	19.7%			
White Cigarettes	11.1%			
<b>IDR bn</b>	<b>FY2016</b>	<b>FY2017</b>	<b>FY2018E</b>	<b>FY2019E</b>
Sales	95,467	99,091	106,283	113,216
y-y	7.2%	3.8%	7.3%	6.5%
EBITDA	16,745	16,696	16,992	18,064
Net profit	12,762	12,671	12,911	13,718
EPS (IDR)	110	109	111	118
y-y	23.1%	-0.7%	1.9%	6.2%
NPM	13.4%	12.8%	12.1%	12.1%
ROE	37.3%	37.1%	37.3%	38.5%
P/E	34.9x	43.4x	34.1x	32.1x
P/BV	13.0x	16.1x	12.7x	12.4x

### • Net Margin Squeezed

HMSP booked sales growth of 2.5% from IDR22.5 trillion in 1Q17 into IDR23.1 trillion in 1Q18. However, net profit declined by 8% from IDR3.29 trillion in 1Q17 into IDR3.03 trillion in 1Q18. The main factor for declining profit was increasing excise tariff of 11% causing portion of excise expense against sales soaring from 45% in 1Q17 into 51% in 1Q18.

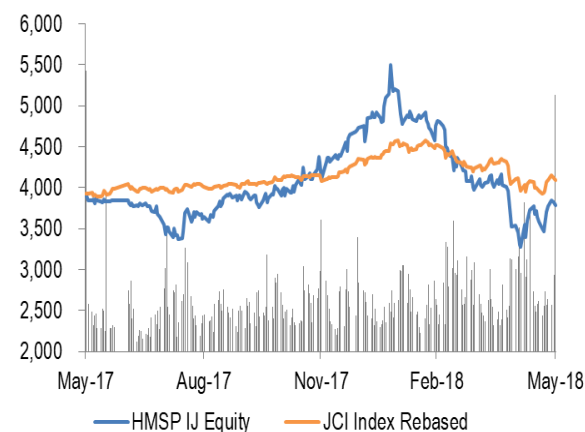
### • Excise Increase More than Inflation

Total cigarette sales volume in Indonesia declined by 2.3% from 71 billion sticks in 1Q17 into 69.3 billion sticks in 1Q18. This decline was caused by increasing excise tariff which was higher than inflation. In 2018, it is estimated that cigarette sales volume to decline by 1%-3%.

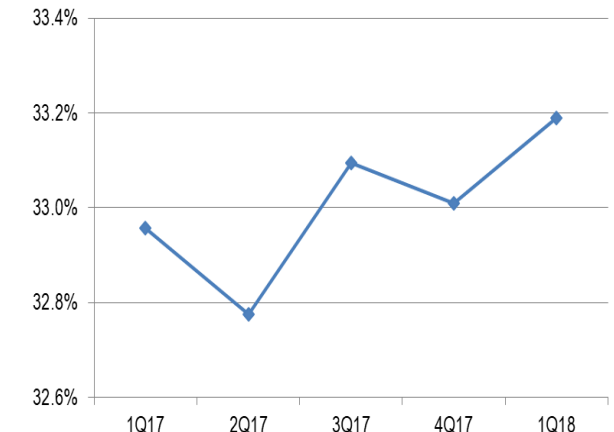
### • HMSP's Market Share Increasing

HMSP is still becoming favorable stock pick as it succeeded increasing market share from 30,3% in 1Q17 into 33,2 in 1Q18. This increase is supported by good performance from the sales of Marlboro Filter Black and Dji Sam Soe Magnum Mild. These products, launched in May 2017, are a breakthrough for the machine-made cigarette having light flavor.

Share Price Performance



HMSP Market Share



# PT NH Korindo Sekuritas Indonesia

Member of Indonesia Stock Exchange

**Head Office :**

Wisma Korindo 7<sup>th</sup> Floor  
Jl. M.T. Haryono Kav. 62  
Pancoran, Jakarta 12780  
Indonesia  
Telp : +62 21 7976202  
Fax : +62 21 7976206

**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

**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