

## Weekly Brief (March 04 – March 08)

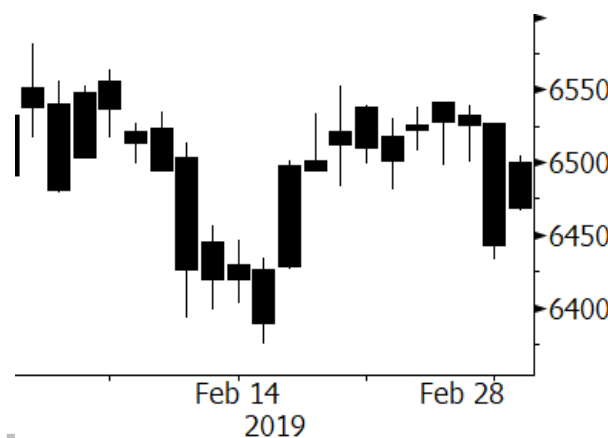
### Summary:

Last week, JCI nudged down at 0.02% despite the foreign outflows of IDR928 billion. It was attributable to the persistent foreign inflows in the financial sector (contributing 31% to JCI) and the foreign outflows in the miscellaneous industry sector (contributing 5% to JCI). Foreign net sell in the miscellaneous industry sector was triggered by ASII's less-outperforming earnings; thus, we oversee that foreign investors are still selective in considering whether they have to post net buy or net sell based on companies' fundamental performance. They are also still interested in investing funds in Indonesia's equity market.

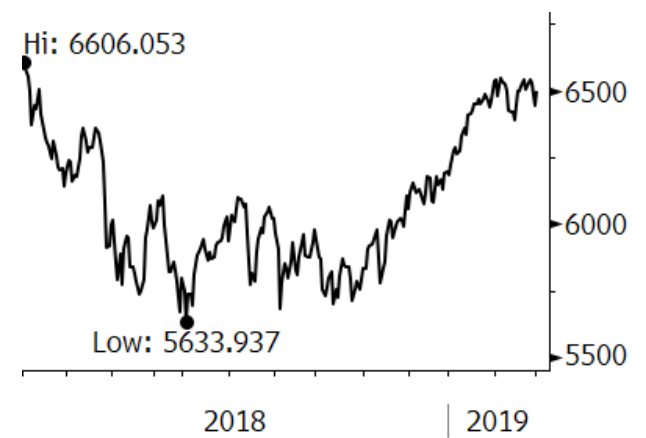
This week, Bank Indonesia will release the data of forex reserves. We estimate that forex reserves of February 2019 will be positive. Investors' high appetite for sovereign bonds (SUN) auction is one of the positive catalysts driving forex reserves up. We estimate investors to target other risk assets, i.e., Indonesia's equity market. Thus, we recommend the bank with large capitalization as the top-pick stock on JCI.

Bank Indonesia will release the Consumer Confidence Index (CCI) this week. We oversee that another to consistently high CCI, the home-improvement showed leveraging growth in sales since 2017. Thus, we recommend retailers focusing on selling home-improvement.

JCI - one month



JCI - one year



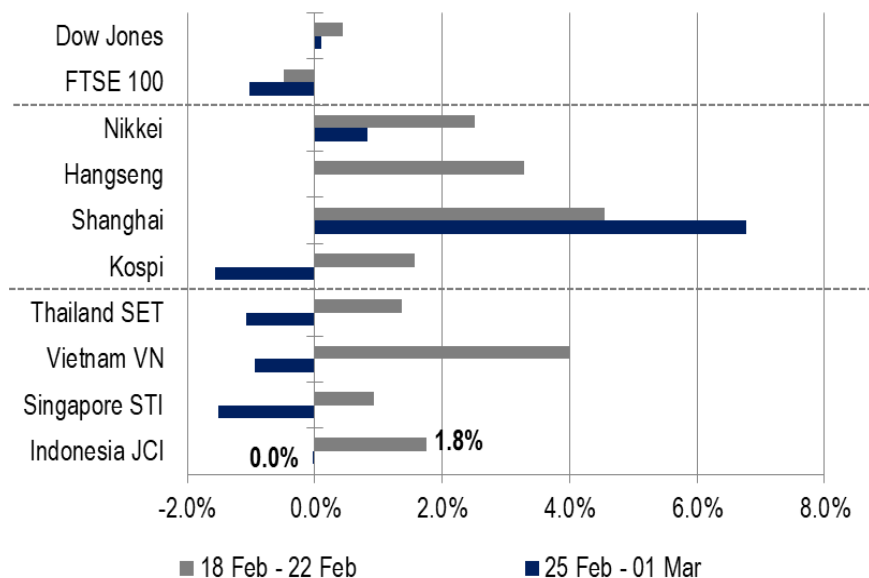
# Last Week's Movement

- Jakarta Composite Index (JCI) : 6,499.88 (-0.02%)
- Foreign Investors : the net sell of IDR928 billion (vs. the prior week's net sell of IDR79 billion)
- USDIDR : 14.120 (+0.44%)
- Yields of sovereign bonds with 10-year tenor : 7.84% (-10 bps)

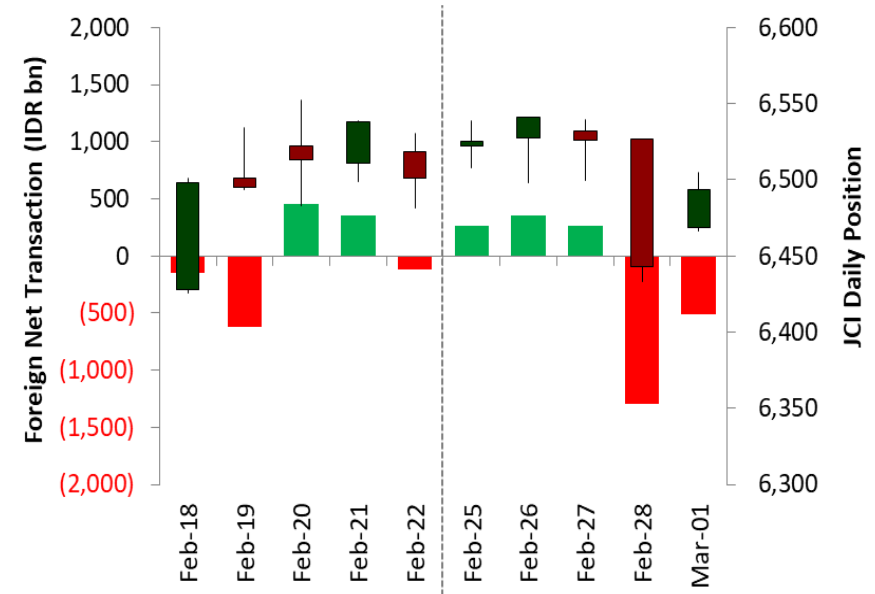
## Foreign Investors' Intense Appetite for the Banking Sector

Although JCI was exposed to massive foreign outflows of IDR928 billion last week, it only slightly moderated at 1.49 points or -0.02%. Foreign outflows occurred when the data of China Manufacturing Purchasing Manager Index (PMI), released on Thursday, 02/28/2019, dipped by 2.2% y-y to 49.2. The slump in PMI heightened foreign investors' fears of the global economic growth. That halted inflows occurred in the first 3 days of last week and triggered outflows within last week's two last days. The miscellaneous sector (particularly, Astra International (ASII's stock) contributing 76%) was the targeted net sell of nearly IDR 522 billion, as ASII released its 4Q18 earnings, posting profit margins at 7%: the lowest since the last 3 years. For the banking sector, foreign investors still posted the net buy of nearly IDR 739 billion. Bank Indonesia's commitment to keeping rupiah stability in check mounted foreign investors' confidence in the banking sector: JCI's most biggest sector. JCI was still in bullish favor because the banking sector still posted the foreign net buy, albeit the foreign outflows of virtually IDR928 billion.

### Global Market Movement



### Foreign Net Flow – Last 10 Days



# Last Week's Sector Movement

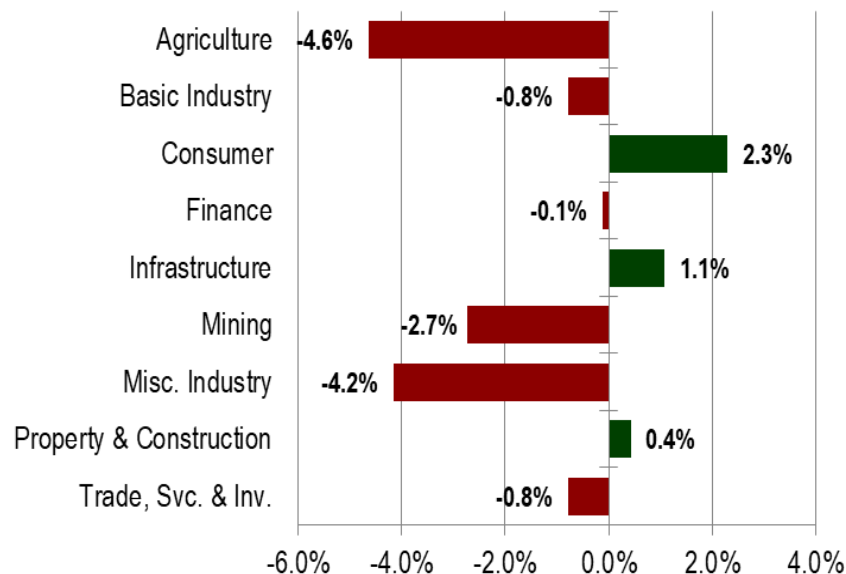
- **The Agricultural Sector Slumped to the Lowest Last Week**

The agricultural sector on JCI, dominated by CPO companies moderated last week due to two factors. The first factor was the government's announcement of 16 regions across Indonesia likely exposed to negatives impacts of El-Nino, a climate phenomenon marked by prolonged dry seasons, triggering the high possibility of land fire. The El-Nino phenomenon is projected to have negative impacts on the agricultural sector, as its harvest will shrink due to the longer dry seasons. The second factor is the escalating conflict between India and Pakistan. Because India is the world's biggest CPO importer and dominates the share market of imported CPO by 25%, the conflict between both countries is possible to whittle away the worldwide CPO consumption. Thus, prices of CPO diving nearly 6% last week heightened investors' concern about the performance of CPO companies.

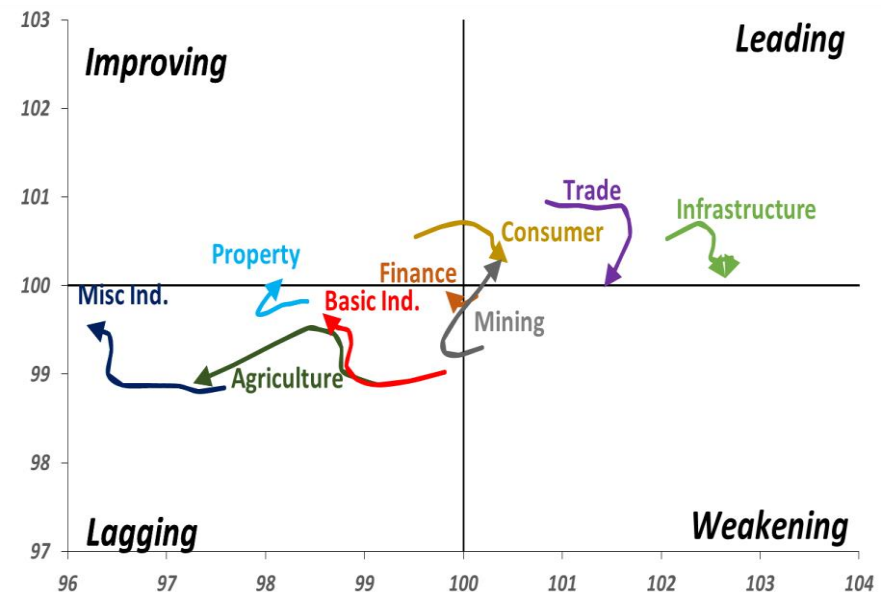
- **The Consumer Sector Shone Brightly Last Week**

The Indonesian government is confident that although the shaky global economy, Indonesia's economy is capable of leveraging by 5%-5.4% in 2019, backed by the high domestic consumption, contributing 45%-50% to the GDP growth. The high domestic consumption contribution to GDP ensures the Indonesian government that although exports moderate, Indonesia's economy will be at a solid pace. Discerning the Indonesian government's high confidence, investors targeted the consumer sector last week.

**Last Week JCI Sector Movement**



**Sector Rotation – Last 10 Days**



# This Week Outlook

- **Forex Reserves of February 2019**

Bank Indonesia will release February's forex reserves on Friday, 03/08/2019. January's forex reserves amounted USD120.1 billion, sliding slightly from USD120.7 billion in December 2018. The payment of the government's foreign debt shrank forex reserves and halted forex reserves' positive performance since September 2018. We project forex reserves to mark positive performance in February 2019. The rupiah's further appreciation sparks the expectancy: ballooning forex reserves in future years. Rising foreign investors' appetite for SBN's auction as of early of 2019 inevitably boosts forex reserves.

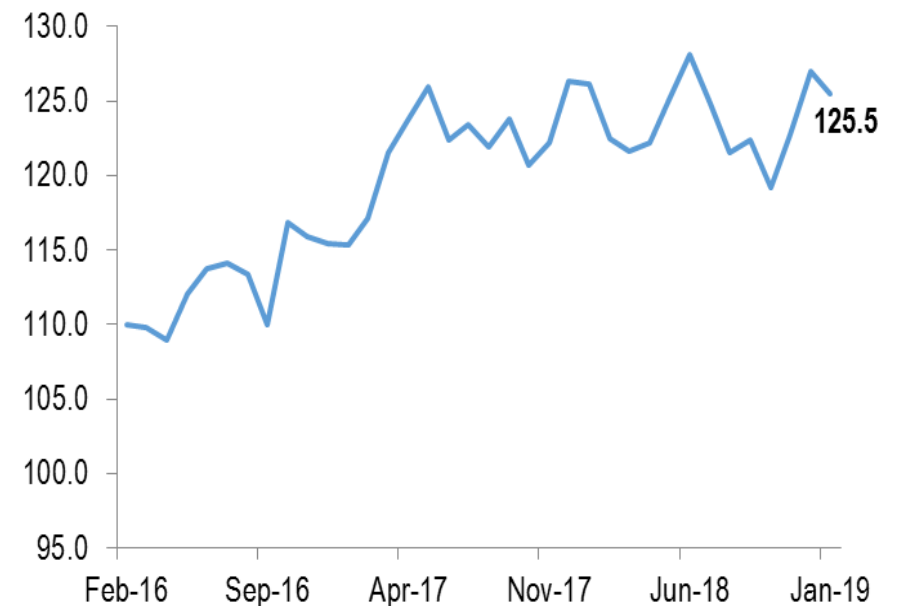
- **IKK of February 2019**

Bank Indonesia will release the Consumer Survey by Bank Indonesia on Wednesday, 03/06/2019. The Consumer Confidence Index (IKK) of January was at 125.5, higher than the optimistic level of 100, reflected consumers' persist optimism. However, January's level was a bit lower than that of 127 in December 2018. We overview that their perception of Indonesia's current economic backdrop and expectation of future economic conditions hold their optimism in check. Indeed, we are certain that consumers' optimism is likely to be maintainable due to the benign core and non-core inflation from late 2018 to early of 2019.

**Indonesia Forex Reserves (USD bn)**



**Indonesia Consumer Confidence Index**



# Top-Pick Sectors Based on This Week's Outlook

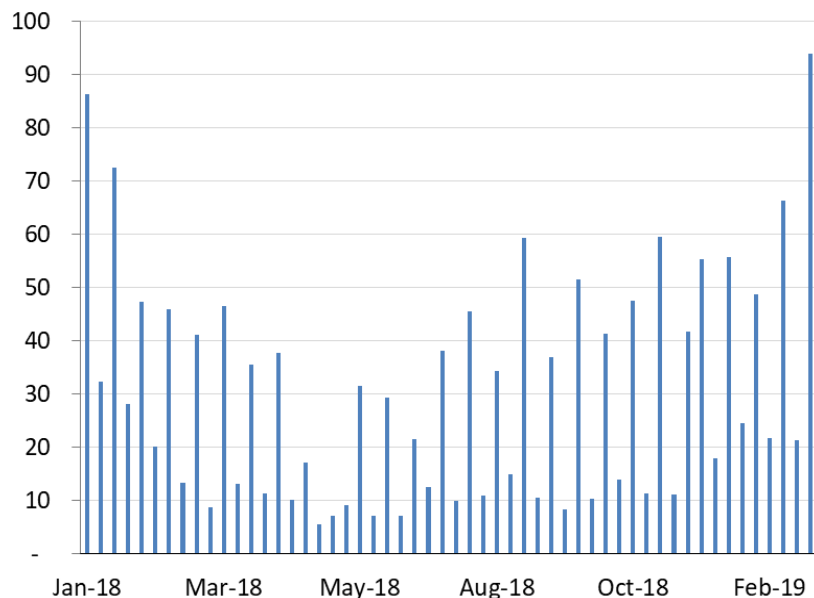
- **Banking Sector, Benefited Most from Foreign Inflows**

At last week's auction, investors targeted the sovereign bonds (SUN), accounting for the total bid of IDR93.9 trillion—6-time higher than the indicative target of IDR15 trillion. However, the government only secured IDR22 trillion of the incoming bid. Yields of SUN with 10-year tenor declined 10 bps to 7.84% heightened the appeal of SUN, so foreign inflows persist. As foreign inflows flock to SUN whose yields rallied, rupiah appreciation is inevitable. The stable and solid rupiah appreciation raises investors' appetite for other juicier risk assets, i.e., Indonesia's equity markets. Foreign investors turned to the banking sector, a market capitalization of which is the largest, when they invest their funds on JCI. Thus, the banking sector is this-week alluring sector with juicier returns, according to our recommendation.

- **Retail Sector to Persistently Reign in Bullish Favor**

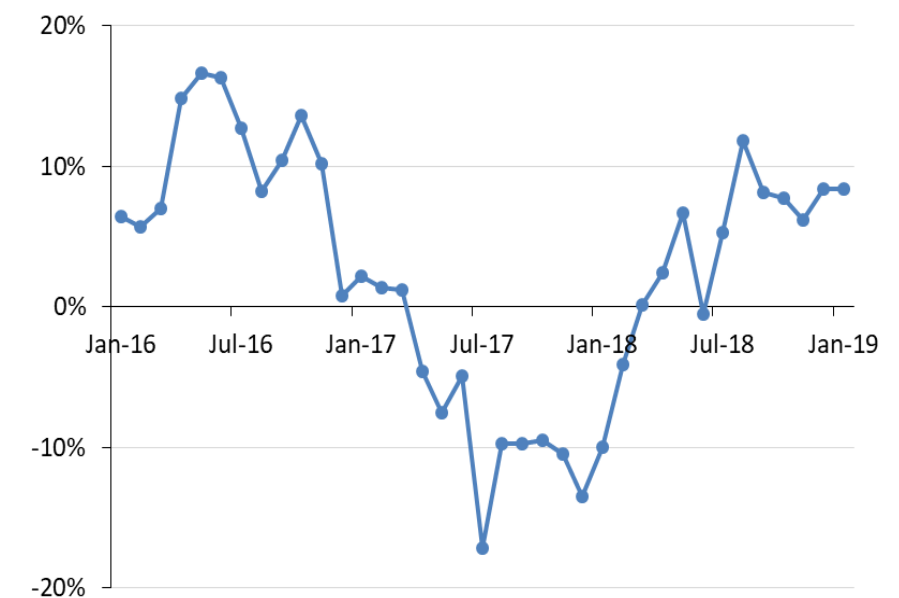
After the slump of II semester in 2018, Indonesia's consumer confidence index (IKK) soared near to its all-time high level. The soaring IKK and the buoyant growth in retail sales signified highly consumptive Indonesian consumers. We analyze that not only basic needs, e.g. food and apparels but also sales of home-improvement products jostle for persistently consistent growth from year to year after the 2017 slump. Raising consumerism in Indonesia, which remains to persist on annual basis, means reaping juicier returns through investing money in the retail sector, particularly home-improvement retailers reaping, according to our estimate. In fact, retailers enjoy the basic needs shifting from foods into apparel then home-improvement.

**Incoming Bids for Indonesia Sovereign Bond Auction (IDR tn)**



Source: Ministry of Finance, NH Korindo Research

**Indonesia Other Household Equipment y-y Growth (%)**



Source: Bloomberg, NH Korindo Research

# Bank Central Asia (BBCA - Banking)

<b>Dec 2019 Target Price</b>	<b>31,800</b>
Consensus Price	27,949
Last Price (IDR) as of Mar 01, 2019	27,700
TP vs. Last Price	+14.8%
<b>Revenue Breakdown:</b>	
Loan	82.6%
Non-Loan	17.4%

IDR bn	FY2017	FY2018	FY2019E	FY2020E
Int. Income	53,799	56,812	61,898	69,206
y-y	6.7%	5.6%	9.0%	11.8%
Net profit	23,341	25,502	28,316	31,341
y-y	13.3%	9.3%	11.0%	10.7%
NIM	6.2%	6.1%	6.0%	5.9%
EPS	945	1,045	1,148	1,271
P/E	23.2x	24.9x	24.0x	21.7x

## P/B Band



- **NHKS** recommends BBCA's stocks as this week's top-pick stock because BBCA is potential for hitting the target price of IDR 31,800 at the PB 5.3x.

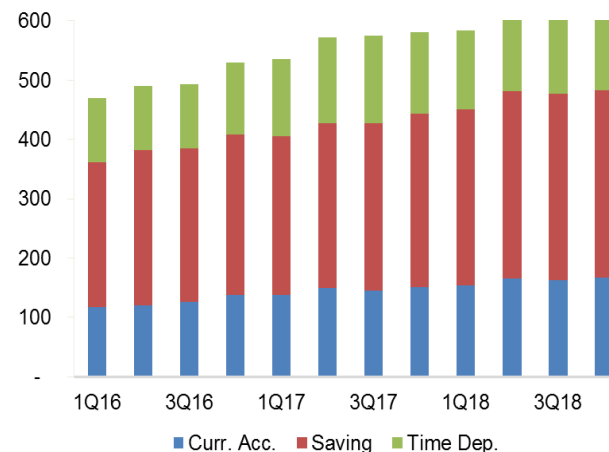
- **Balance Sheet Profile and Solid Performance**

The hike of 175 bps in the time deposit's interest rate as a response to hike in BI's 7DRR for most of 2018 impacted slightly on BBCA because its capability of obtaining cheap third-party fund (DPK), spurring its CASA ratio at 77%: the highest among its BUKU IV peers' ratio of 60%-70%. For most of 2018, it increased the credit interest rate by 50 bps, following the hike in BI's 7DRR. However, the decision to hold the rate higher brought no negative impacts on credit performance, successfully posting the growth of 15% y-y (vs. the industry +11.75% y-y). The growth in credit was a positive catalyst, spurring its success to maintain net interest margin (NIM) at 6.13%, outpacing the industry level of 5.14%.

- **Outstanding Transaction and Digital Banking**

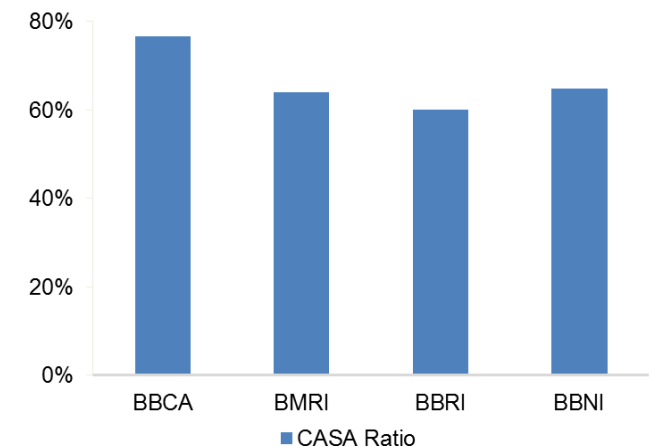
BBCA is a private bank with outstanding banking transactions, as it accomplished digital transactions worth IDR27,000 trillion in 2018. The accomplishment stemmed from 22 million transactions per day by 97% of its customers, performing digital banking transactions. Its innovation in developing digital banking creates efficiencies and bolsters fee-based incomes by 15.5% y-y. Comprehending well the success of its innovation, BBCA is committed to developing the digital banking's products & services and information technology as well by allocating funds of IDR1 trillion and IDR5.2 trillion, respectively in 2019.

## BBCA DPK Composition (IDR tn) | 1Q16 – 4Q18



Source : Company, NHKS Research

## CASA Ratio Comparison | 12M18



Source: Company, NHKS Research

# Ace Hardware Indonesia (ACES – Home Improvement Retail)

<b>Dec 2019 Target Price</b>	<b>1,950</b>
Consensus Price	1,794
Last Price (IDR) as of Mar 01, 2019	1,800
TP vs. Last Price	+8.3%

<b>Sales Breakdown:</b>	
Home Improvement	54.2%
Lifestyle	41.1%
Others	4.7%

IDR bn	FY2017	FY2018E	FY2019E	FY2020E
Net Sales	5,939	7,190	8,411	9,495
y-y	20.3%	21.1%	17.0%	12.9%
Net profit	778	1,002	1,153	1,287
y-y	9.4%	28.9%	15.0%	11.6%
NPM	13.1%	13.9%	13.7%	13.6%
EPS	45	58	67	75
P/E	25.5x	25.5x	26.1x	23.8x

• **NHKS** recommends ACES's stocks as this week's top-pick stock because ACES is potential for hitting the target price of IDR1,950 at the PE LTM 35.2x. The target price indicates PE 26.1x for FY2019E.

• **Customers' Lustrous Purchasing Power: ACES's Stellar Sales**

After the 2017 post-Eid Mubarak moderated home-improvement sales index, the survey of retail sales noted that its sales index persistently outpaced to its all-time high in December 2018. The outperformance was also shown in the overall Real Sales Index. The buoyant sales index inevitably a positive catalyst for ACES: the leading home-improvement retailer. Its SSSG of December 2018 and January 2019 jostled for the growth of 19% y-y and 10.8% y-y, respectively. The SSSG of January 2019 higher than that of 10.1% y-y in January 2018 proved its persistent sales outperformance. In details, ACES's outperformance was reflected in its sales of January 2019 picking up 20% y-y; its shares persistent rising and hitting 21.1% YTD.

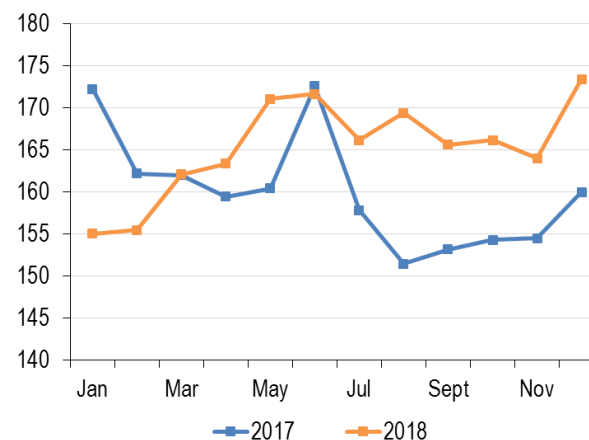
• **Preserving Organic Expansion Strategy**

The main catalyst spurring ACES's sales is its effectively-proven strategy of expanding new stores. In the mid of 2018, it came up with a brand-new concept of 'Ace Xpress' with compact-sized stores, effectively covering differ areas outside shopping centers. In 2019, ACES fixes on the organic expansion of 20-25 new stores, the focused new areas coverage of which are across big cities through Ace Xpress and new cities outside Java through Ace stores. We are sanguine about ACES's strategy, effectively-managing SSSG in check in light of outside Java areas as the fundamental backbone contributing most to its outperformance.

**P/E Band (EPS Trailing)**

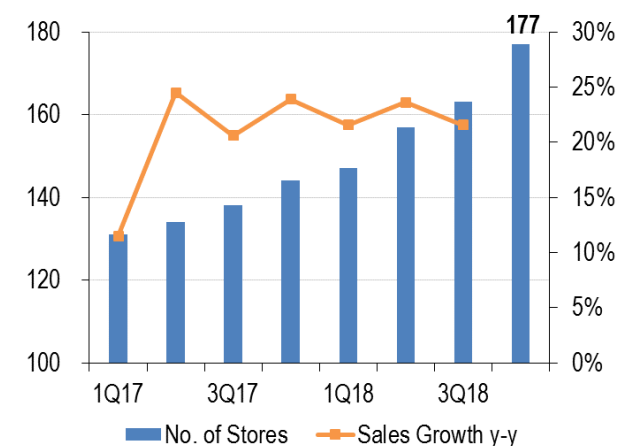


**Other Household Equipment Sales Index | 2017 - 2018**



Source : Bank Indonesia, NHKS Research

**Effectiveness of Expansion Strategy | 2017 - 2018**



Source: Company, NHKS Research

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