Weekly Brief (March 25 – March 29)

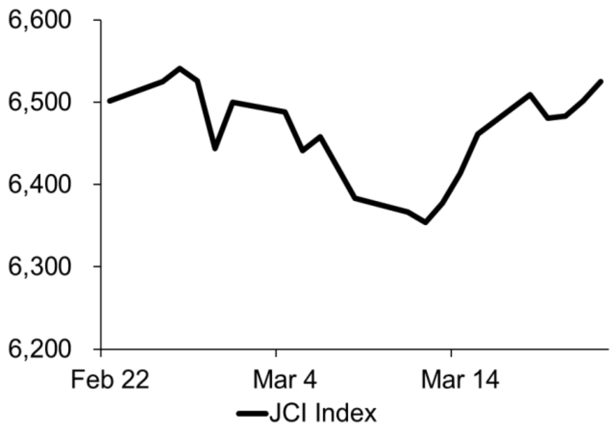
Summary:

JCI succeeded last week's rally of 1.0% as two factors prevailed. The external factor of no FFR rate hikes, appropriate for 2019 attracted foreign investors to opt for emerging economies, i.e., Indonesia with higher returns. The domestic factors of unchanged 7DRR rate at 6.0% and an accommodative macro prudential policy were another positive catalysts for JCI.

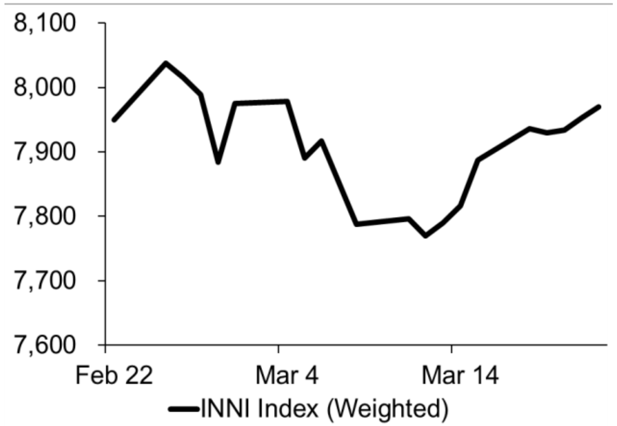
Like JCI, INNI strengthened at 1.0%, backed by two same positive catalysts, contributing to INNI's bullish state. The financial and the property& construction sectors were fundamental to INNI's favor state. Higher growth in banking loan allows the financial sector to enjoy higher interest incomes and the property & construction sectors to cheer much bigger amount of banking loan, offered to them.

The healthcare sector, listed on INNI, is this week's discussed sector. On Sunday's vice-presidential debate, both vice-president candidates debated about swallow BPJS Kesehatan's deficits, taking Indonesia's concerted efforts to overcome. The determined commitment to carrying out BPJS Kesehatan, pledged by two candidates brings an air of expectancy of Indonesia's preference for medical treatments, offered by hospitals instead of traditional remedies. Thus, the healthcare sector may expand profits. Digesting well the backdrop, MIKA and SILO stocks are two out of 30 top-pick stocks listed on INNI.

JCI - one month



INNI Index – one month



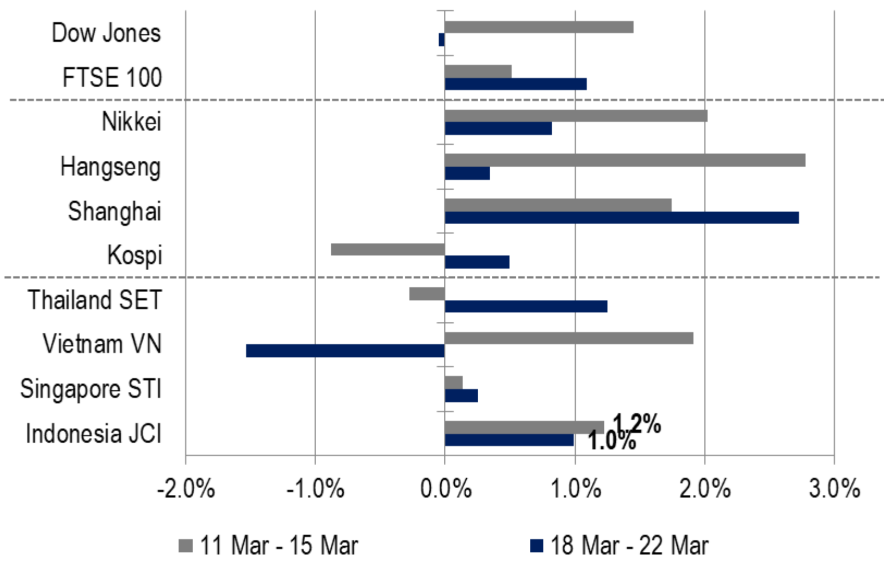
Last Week's JCI Movement

- Jakarta Composite Index (JCI) : 6,525.27 (+1.0%)
  Foreign Investors : the net buy of IDR1.3 trillion (vs. the prior week's net sell of IDR1.8 trillion)
  USDIDR :14,163 (-0.68%)
  Yields of sovereign bonds with 10-year tenor : 7.596% (-17.7 bps)

- **JCI's Last-Week Further Rally of 1.0%**
  As the Fed is estimated to postpone any hikes in FFR, foreign inflows of IDR1.3 trillion flooded JCI after last 2-week's foreign outflows of IDR1.8 trillion. The Fed's pausing FFR hike button on for the remaining 2019 certainly arises investors' insatiable appetite for investing their funds in emerging economies, e.g., Indonesia, offering higher return than its developed peers.

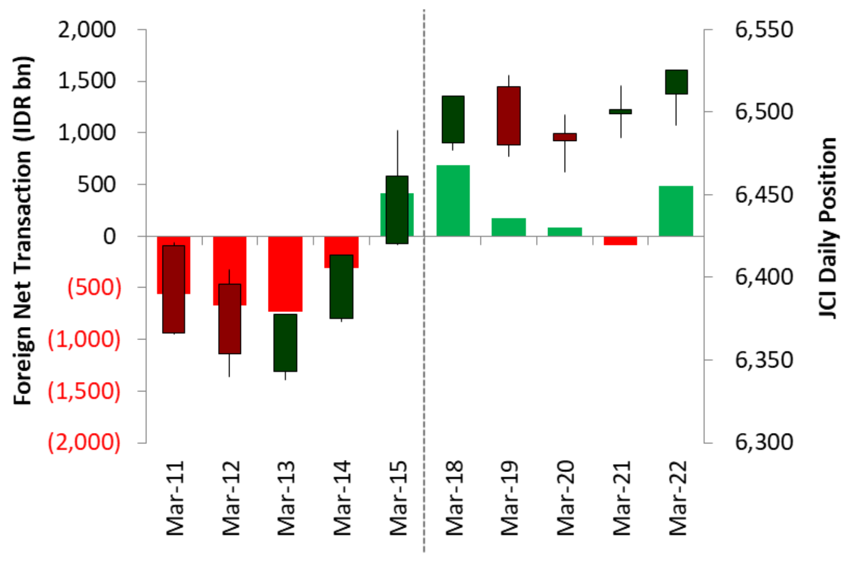
  Another to the Fed's dovish stance, the outcome of BI's Board of Governors Meeting brought an air of expectancy among market participants. As BI holds 7DRR unchanged at 6.0% and maintains an accommodative macro prudential policy, foreign investors begin to consider Indonesia's stocks to collect in 2019.

Global Market Movement



Source: Bloomberg, NH Korindo Research

Foreign Net Flow – Last 10 Days



Source: Bloomberg, NH Korindo Research

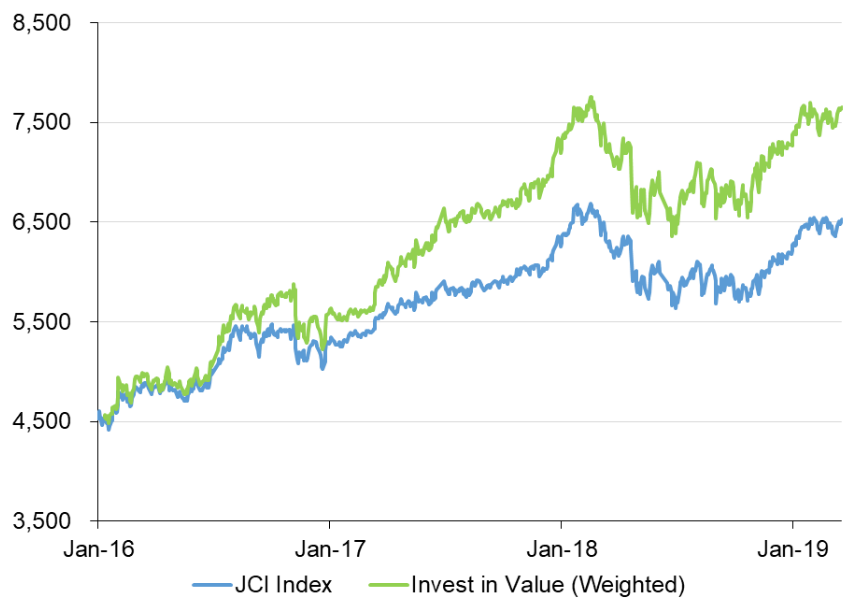
Last Week's INNI Movement

- Indonesia NH Index (INNI) : 7,970.26 (+1.0%)
  Comparison with JCI (YTD %) : 4.4% (INNI 7,970.26 vs JCI 6,525.27)
  INNI Theme 1 (Value) : 7,649.83 (+0.9%)
  INNI Theme 2 (Trend) : 8,515.86 (+1.3%)

- **INNI's Last-Week Rally of 1.0%**
  As JCI was outperformed, INNI nudged up 1.0% thanks to BMRI's rally of 4.9%. CTRA and KAEF rallied by 16.4% and 14.7%, respectively were INNI's last-week top gainers. Unlike CTRA and KAEF, ALLI and LSIP-- CPO's stocks---dropping at 5.8%, respectively and GGRM correction at 6.7% gave a burden to INNI.

  The Fed's signaling no rate hikes, appropriate for 2019, proving a boon for emerging markets, e.g., Indonesia, offering higher return than its developed peers was a positive catalyst for INNI's last-week bullish state.

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



Source: Bloomberg, NH Korindo Research

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

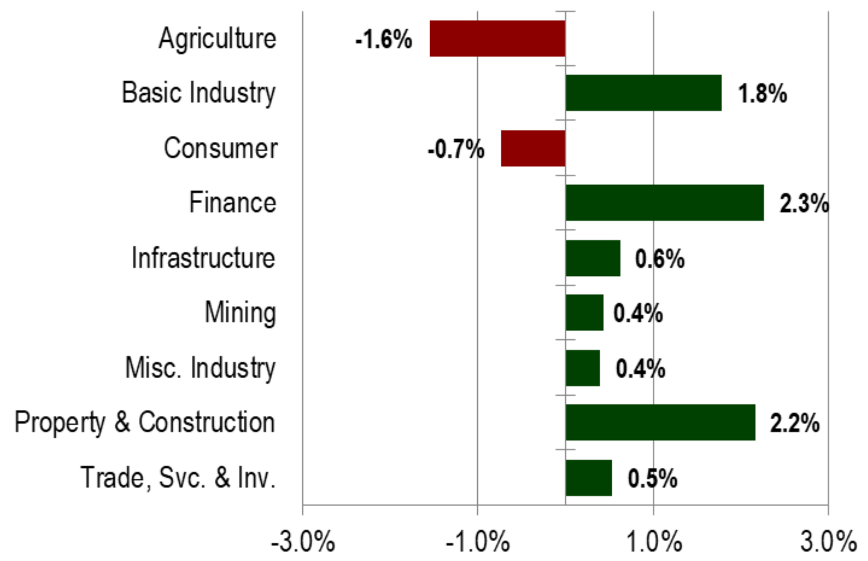
Source: Bloomberg, NH Korindo Research

Last Week's Sector Movement

- **The Financial Sector: Last Week's Most Outperformed Sector**
  The Financial sector marked rallied at 2.3% as the outcome of Thursday's BI's Board of Governors Meeting was to hold 7DRR at 6.0%. But, the positive catalyst of the banking sector is BI's accommodative macro prudential policy. BI hiked the threshold range of macro prudential intermediation ratio (RIM) from 80%-92% to 84%-94%. That policy supports banking loan facilities, given by businesses. Financial investors digest the policy as the fundamental of ballooning credit growth. The macro prudential intermediation ratio (RIM) is the comparison between rupiah-and-forex denominated credits, with rupiah-and-forex denominated corporate bonds and rupiah-and-forex denominated savings and deposits, with rupiah-and-forex denominated corporate bonds. The loose RIM is expected to pour more banking loans into business sectors.

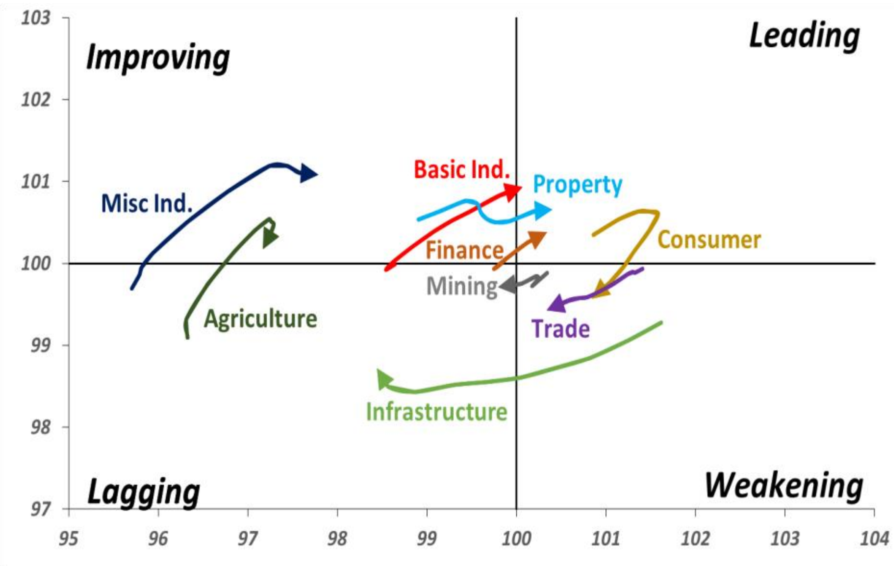
- **The Property & Construction Sectors: The Second's Best Gainers**
  The bright outlook of property and construction sectors intensify investors' appetite for ploughing their funds into both sectors as buoyant banking loan growth is expected. To run construction of national projects prior to their full payments, construction companies need loan, facilitated by banks. Meanwhile, high demand for mortgage loan (KPR) is a logical takeaway for the popularity of the property sector.

Last Week JCI Sector Movement



Source: Bloomberg, NH Korindo Research

Sector Rotation – Last 10 Days



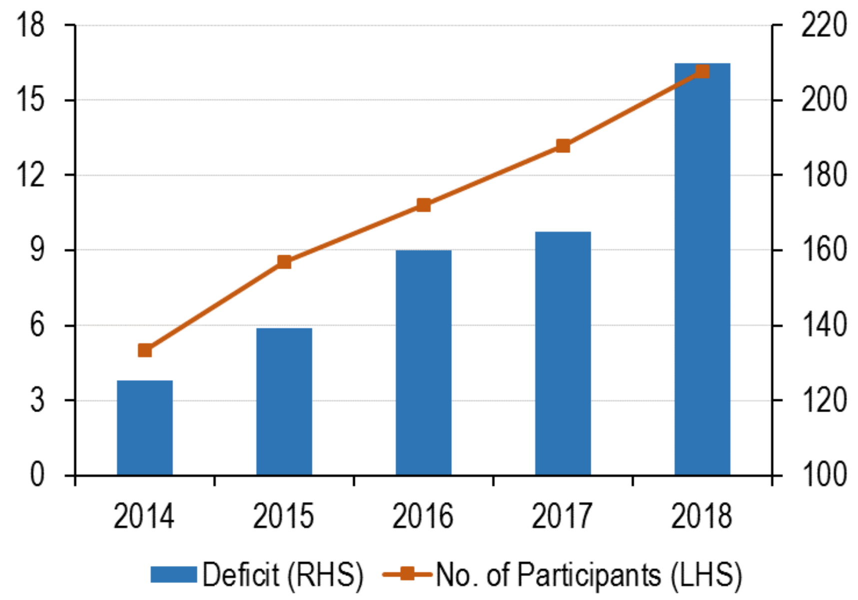
Source: Bloomberg, NH Korindo Research

This Week's Outlook

- **A Flood of BPJS Kesehatan Deficits**
  Deficits of the Healthcare and Social Security Agency (BPJS Kesehatan) was an issue, addressed at the vice-presidential candidate debate on Sunday, 03/17/2019. BPJS Kesehatan is a state health insurance, eligible for natives and foreigners with a minimum of 6-month working experience in Indonesia. Deficits ballooned from IDR3.8 trillion in 2014 and to IDR16.5 trillion in 2018. Low premium insurance and broad medication claims it has to cover pump deficits bigger. As deficits get swollen, a number of negative impacts begin to dominate, i.e., months-late payment of hospital bills, postponed payment of physicians and staff management salaries. Despite its negative impacts, the benefits its gives to low-class individual outperform; patients with BPJS Kesehatan can have proper medicines and medication treatments, instead of traditional medicines.

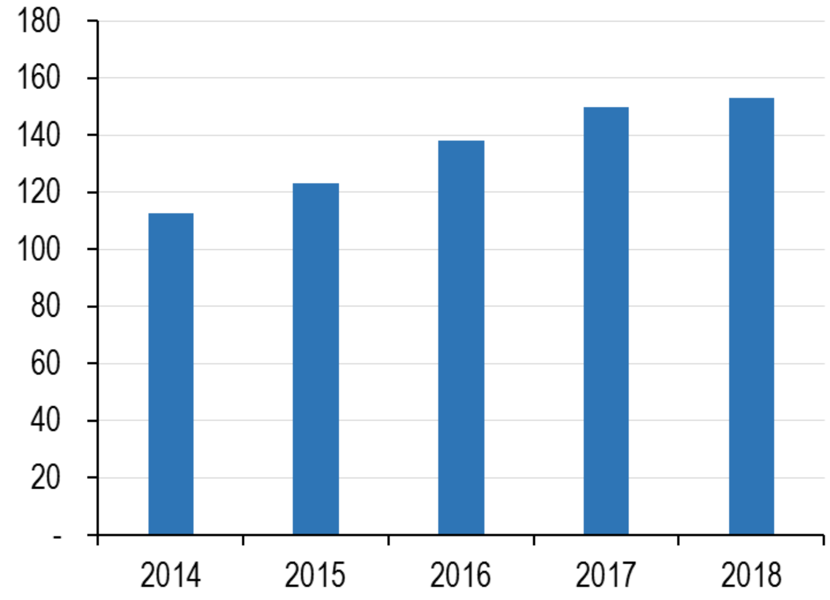
- **Efforts to Overcomes Issues**
  In the middle of 2018, the government actively endeavored to overcome swollen deficits. The Indonesian central government, through Presidential Regulation No.82/2018, allocated state incomes from excise duties on cigarettes to fund BPJS programs. The Indonesian local government previously held the responsibility for funds allocated to BPJS programs. 2018's excise duties on cigarettes were worth IDR153 trillion. Besides, the Indonesian authorities promulgated a ministerial regulation (Permenkes) No.51/2018 on cost sharing and differences to curb outpatients cost, subject to health services manipulation. Efforts were taken into effect to maintain the future sustainability of BPJS Kesehatan, proven a boon for pharmaceutical and hospital industry.

BPJS' deficits (IDR bn) & No. of Participants (mn)



Source: Bloomberg, NH Korindo Research

Excise Duties on Cigarettes (IDR tn)



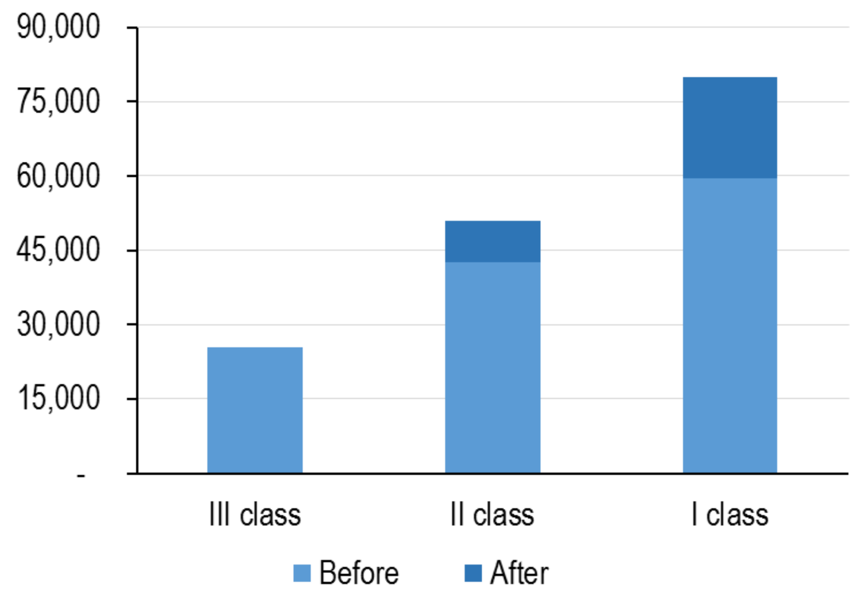
Source: Bloomberg, NH Korindo Research

Top-Pick Stocks, Based on This Week's Outlook

- **Affordability, Fundamental to Bolster Patients**
  Since its initial implementation in 2014, participants of BPJS has totaled 218 million individuals and are targeted to cover Indonesian in 2019. The growing participants contribute to the rising number of patients. BPJS's premium affordability, lower than USD2, coupled with benign inflation makes public opt more to proper medical treatments, offered by hospitals. The rising public preference is reflected in the surging number of MIKA and SILO patients (stocks listed on INNI Index); their revenues stemming from inpatients and outpatients inevitably creep higher.

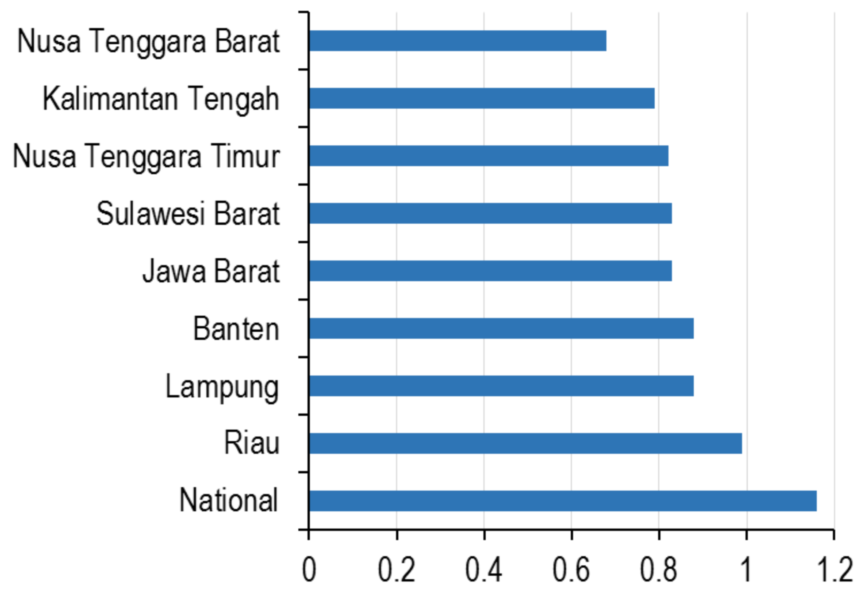
- **Higher Growth Room**
  Health-service providers take the best benefits from the rising patient number. In 2017, 8 provinces had a hospital bedroom ratio of 1:1,000 (a WHO standard). For most 2018, WIKA and SILO aggressively launch hospitals in new locations. Newly-launched hospitals begin to target the low-to-middle individuals, who are mostly participants of BPJS Kesehatan. We oversee that the business segmentation, in the long run, is likely to boost margins, reaped by the hospital industry along with medication equipment and physicians, fit for patients with BPJS. Nevertheless, times required to increase the number of both inpatients and outpatients in new hospitals will suppress short-to-middle term operational profit margins.

Adjustment of BPJS Monthly Premium in Mid 2016 (IDR)



Source: Bloomberg, NH Korindo Research

The Ratio of Hospital Beds per 1,000 Population | 2017



Source: Bloomberg, NH Korindo Research

Mitra Keluarga Karyasehat (MIKA – Healthcare)

Dec 2019 Target Price	**2,300**
Consensus Price	1,935
Last Price (IDR) as of Mar 22, 2019	1,965
TP vs. Last Price	+17.0%
Revenue Breakdown:	
Inpatient	62.4%
Outpatient	37.6%

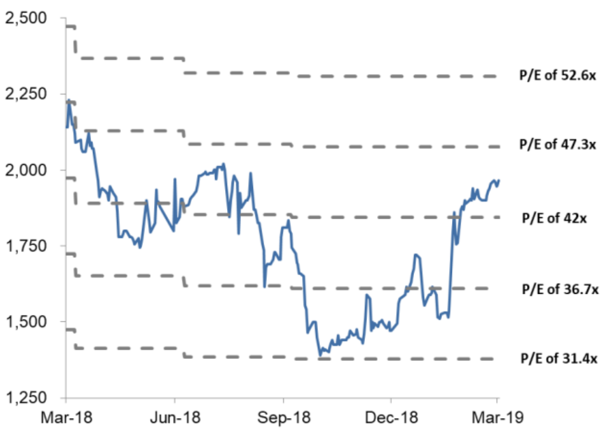
IDR bn	FY2017	FY2018E	FY2019E	FY2020E
Revenue	2,496	2,741	2,997	3.259
y-y	*2.5%*	*9.8%*	*9.3%*	*8.7%*
Net profit	680	666	755	844
y-y	*-2.2%*	*-2.0%*	*13.4%*	*11.8%*
Op. Margin	*27.2%*	*24.3%*	*25.2%*	*25.9%*
EPS	47	46	52	58
P/E	39	34	38	34

- **NHKS** recommend MIKA (one of INNI's stock) as its prices are possible to hit the target price of IDR2,300 with PE LTM of 52.6x, backed by the rising trend of patients number and network expansion strategies.

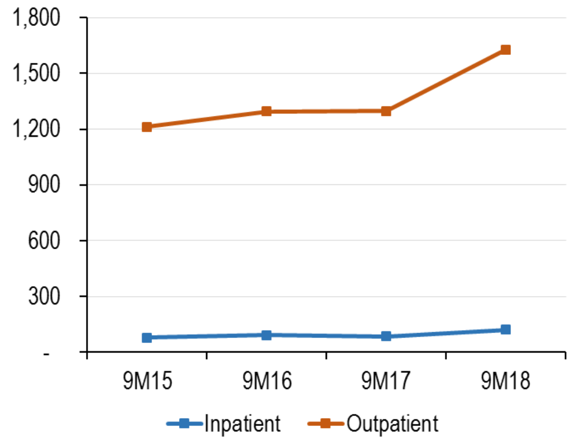
- **Acquisition Strategies to Manage Well Increment in Patient Number**
We oversee MIKA's expansion strategy—through acquisition—will directly impact on revenues and leave operational profit margins unsuppressed, unlike opening new buildings. The acquisition of PT Rumah Kasih Indonesia (RKI) also proved MIKA's determination to manage patients with BPJS. PT RKI has more than 500 bedrooms across greater Jakarta and serves 19,000 outpatients and 2,800 patients per month. Leaving operational profit margins unsuppressed, the acquisition has direct positive impacts on MIKA's revenues.

- **RS Mitra Keluarga Pratama: Key to Maintain EBITDA**
In the start of 2019, MIKA expanded its West Java coverage by taking over Bogor-based hospital, Bina Husada, and Subang-based Hospital Mutiara Hati as well as adding ±7% MIKA's bedroom capacities. Another to hospital acquisition, MIKA will add greater-Jakarta-based new buildings in Bintaro and Jatiasih. Mutiara Hati and Jatiasih hospitals will be incorporated into a new division, Mitra Keluarga Pratama, focusing on patients with BPJS. The strategy is set to manage well the current trend of low private patients and high patients with BPJS—suppressing the growth of EBITDA. Our projection of 2019's revenues growth aligns with the high single digit and conservative growth of 4%-5% in EBITDA set by the management.

P/B Band

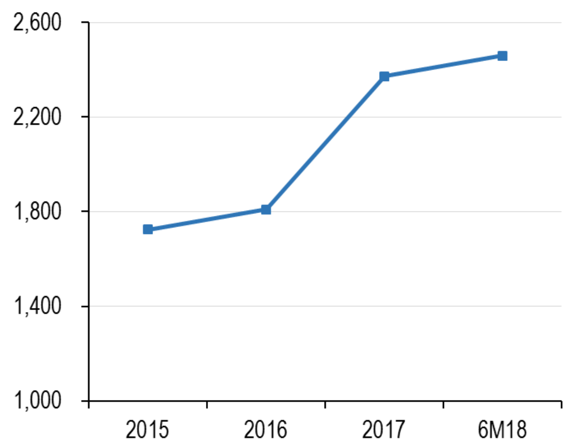


MIKA No. of Patients (thousands)



Source : Company, NHKS Research

MIKA Operational Beds Growth (unit)



Source: Company, NHKS Research

Siloam International Hospitals (SILO – Healthcare)

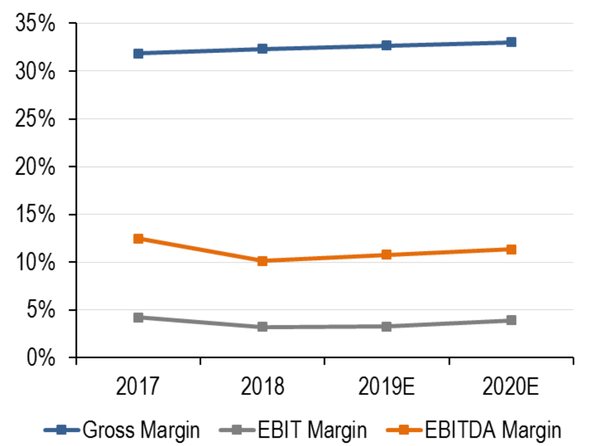
Dec 2019 Target Price	**4,350**
Consensus Price	4,116
Last Price (IDR) as of Mar 22, 2019	3,780
TP vs. Last Price	+15.1%
Revenue Breakdown:	
Inpatient	59.1%
Outpatient	40.9%

IDR bn	FY2017	FY2018	FY2019E	FY2020E
Revenue	5,182	5,965	6,841	7,786
y-y	*0.3%*	*15.1%*	*14.7%*	*13.8%*
Net profit	94	16	49	105
y-y	*8.9%*	*-82.6%*	*198.8%*	*116.4%*
Op. Margin	*1.2%*	*3.2%*	*3.3%*	*3.9%*
EPS	58	10	30	65
P/E	166	359	127	58

- **NHKS** Recommend SILO (one of INNI's stock), possible to reach the target price of IDR4,350 with PE LTM of 188.4x, banking on business transformation and possible increment in patients number.
- **One of Prioritized Business Lines**
  Post-Lippo Group leadership regeneration, the performance of property and healthcare segments will be prioritized. The management efforts will support SILO's target of maintaining top-line performance. In 2018, SILO's business strategies succeeded to boost the number of new-hospitals inpatients and outpatients by 246% and 152.3%, respectively. The rising number of patients in mature hospitals also spurred 2018's revenues by 15.1% y-y.
- **Expectancy of Higher Profit Margins**
  On the other side, SILO's aggressive business expansion of building new hospitals throttle its EBIT margins. But its focus on boosting the number of patients will accelerate the shifting process from new hospitals to mature hospitals. Furthermore, the expansion focuses on outside Java. We forecast that SILO's efforts to boost the number of bed occupancy ratio higher above 56% will spur its margins in ahead years.
- **Focus on Launching New Hospitals**
  Our projection of 2019-2020 top-line growth is underlined by SILO's aggressive launch of 11 new hospitals since the early of 2017. We oversee the management's focus on efficiency and the increment in patient number will gradually spur its profit margins, suppressed to 3.2% in 2018. SILO's strategies to distribute no dividends of FY18 also aim to fund additional 5 new hospitals.

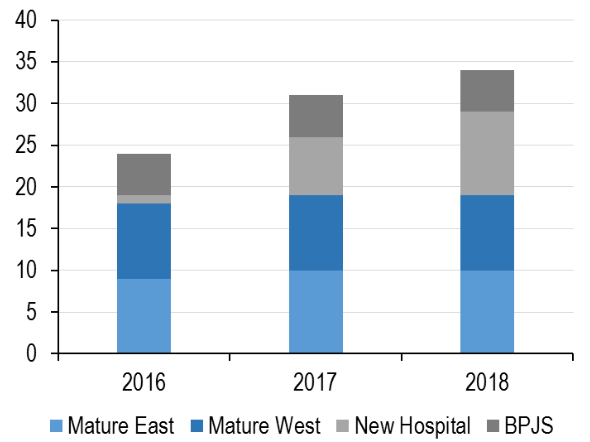
P/B Band

SILO Margin Ratios



Source : Company, NHKS Research

SILO Hospitals Network by Segment



Source: Company, NHKS Research

INNI Stock 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	27,450	27,500	32,000	Buy	16.6	-0.2%	676.8	26.2x	4.5x	18.3	0.9	8.7	11.0
BBRI	Theme 1	4,060	3,980	4,650	Hold	14.5	2.0%	500.8	15.3x	2.7x	18.5	2.6	10.4	11.7
BMRI	Theme 1	7,450	7,100	8,000	Hold	7.4	4.9%	347.7	13.9x	1.9x	14.4	2.7	7.4	21.2
Consumer														
GGRM	Theme 1	85,900	92,050	110,000	Buy	28.1	-6.7%	165.3	20.4x	3.9x	19.6	3.0	13.6	6.3
UNVR	Theme 1	49,250	49,900	59,000	Buy	19.8	-1.3%	375.8	41.3x	49.6x	142.9	1.9	1.5	30.1
ICBP	Theme 1	10,325	10,300	11,800	Hold	14.3	0.2%	120.4	26.3x	5.8x	21.3	2.1	7.9	20.4
INDF	Theme 1	7,400	7,175	8,700	Buy	17.6	3.1%	65.0	17.5x	2.0x	11.7	4.1	3.1	(13.7)
KAEF	Theme 2	3,360	2,930	4,100	Buy	22.0	14.7%	18.7	44.9x	7.1x	14.5	0.5	24.6	27.3
KLBF	Theme 2	1,515	1,555	1,870	Buy	23.4	-2.6%	71.0	29.2x	5.1x	18.3	1.7	3.9	1.4
Infrastructure														
TLKM	Theme 1	3,820	3,740	4,350	Hold	13.9	2.1%	378.4	20.5x	4.2x	20.4	4.4	2.3	(20.6)
JSMR	Theme 1	5,325	5,325	6,000	Hold	12.7	0.0%	38.6	17.5x	2.3x	13.8	1.1	5.4	0.1
Trade														
UNTR	Theme 1	28,000	26,000	35,000	Buy	25.0	7.7%	104.4	9.4x	1.9x	22.4	3.5	31.1	50.3
SILO	Theme 2	3,780	3,500	4,350	Buy	15.1	8.0%	6.1	379.9x	1.0x	0.3	N/A	2.0	(85.4)
MIKA	Theme 2	1,965	1,955	2,300	Buy	17.0	0.5%	28.6	44.7x	7.3x	17.3	N/A	10.1	(8.3)
LPPF	Theme 2	4,150	3,840	5,500	Buy	32.5	8.1%	12.1	11.1x	6.5x	53.0	11.0	2.2	(42.4)
RALS	Theme 2	1,730	1,800	2,050	Buy	18.5	-3.9%	12.3	20.5x	3.1x	15.7	2.3	2.2	43.4
MAPI	Theme 2	1,080	1,115	1,300	Buy	20.4	-3.1%	17.9	31.0x	3.4x	14.0	0.4	18.3	126.7
Property														
PWON	Theme 1	695	670	725	Hold	4.3	3.7%	33.5	15.0x	2.8x	20.6	0.9	19.0	25.2
CTRA	Theme 1	1,030	885	1,080	Hold	4.9	16.4%	19.1	21.1x	1.4x	6.8	0.9	7.9	1.7
PTPP	Theme 1	2,080	2,090	2,450	Buy	17.8	-0.5%	12.9	8.6x	1.0x	12.4	2.3	16.8	3.4
WSKT	Theme 1	1,935	1,940	2,500	Buy	29.2	-0.3%	26.3	5.0x	1.5x	33.2	3.0	27.0	41.1
WIKA	Theme 1	1,980	1,940	2,100	Hold	6.1	2.1%	17.8	10.3x	1.2x	12.6	1.4	19.0	43.9
Basic Ind.														
KRAS	Theme 2	484	472	600	Buy	24.0	2.5%	9.4	N/A	0.4x	(2.5)	N/A	22.7	51.3
Misc Ind.														
ASII	Theme 2	7,250	7,225	9,100	Buy	25.5	0.3%	293.5	13.5x	2.1x	16.6	2.6	16.1	14.8
Mining														
ADRO	Theme 1	1,425	1,420	1,750	Buy	22.8	0.4%	45.6	7.7x	0.9x	11.7	7.0	11.1	(13.6)
PTBA	Theme 1	4,100	4,030	5,100	Buy	24.4	1.7%	47.2	8.6x	2.7x	33.9	7.8	8.7	12.2
INCO	Theme 2	3,540	3,640	4,400	Buy	24.3	-2.7%	35.2	39.0x	1.3x	3.3	N/A	23.4	N/A
ANTM	Theme 2	960	975	1,200	Buy	25.0	-1.5%	23.1	26.4x	1.2x	4.6	0.2	99.5	540.7
Agriculture														
AALI	Theme 1	11,775	12,500	16,000	Buy	35.9	-5.8%	22.7	15.8x	1.2x	7.7	3.7	10.3	(26.9)
LSIP	Theme 1	1,145	1,215	1,500	Buy	31.0	-5.8%	7.8	23.6x	0.9x	4.0	3.9	(15.2)	(54.6)

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