

Weekly Brief (May 20 – May 24)

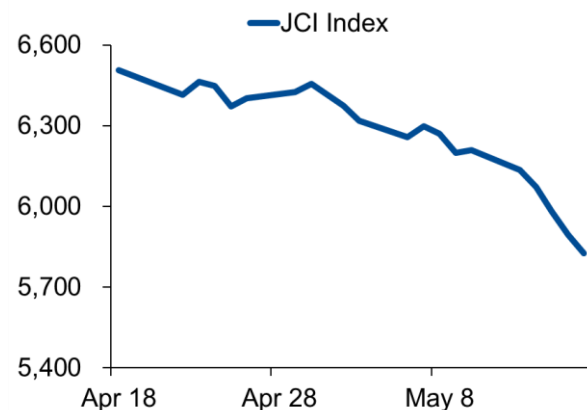
Summary:

Last week's Review: Last week, a flood of negative sentiments dampened JCI as declines' 6.2%. Chinese countermeasures against American goods, China's downward revisions to its 2019's economic outlook, and Chinese declining production in April were series of bruises left by trade frictions on JCI. Additionally, April's widening trade balance deficits dimmed investors' optimism.

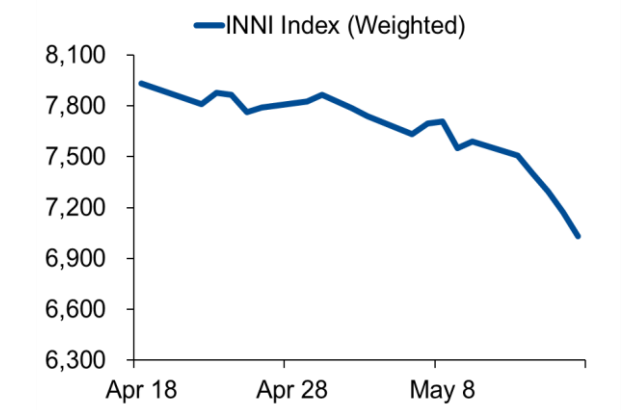
This Week's Outlook:

IIQ19 buoyant household consumption at 5.01%, consumers' optimism about economic outlook, and food & beverage industry's robust growth—a potent driver for GDP—are positive catalysts for FCMG sector. The distribution of Idul Fitri bonus, 13th month salary bonus, and Family Hope Program (PKH) social aids are likely to whet consumers' appetite for more spending, so the FMCG sector is likely to enjoy soaring sales, we penciling in. Based on the estimate, NHKS reviews ICBP, potential for hitting the target price of IDR11,800 with PE trailing band at 29.2 due to the instant-noodles segment's outstanding performance in this week.

JCI - one month



INNI Index – one month



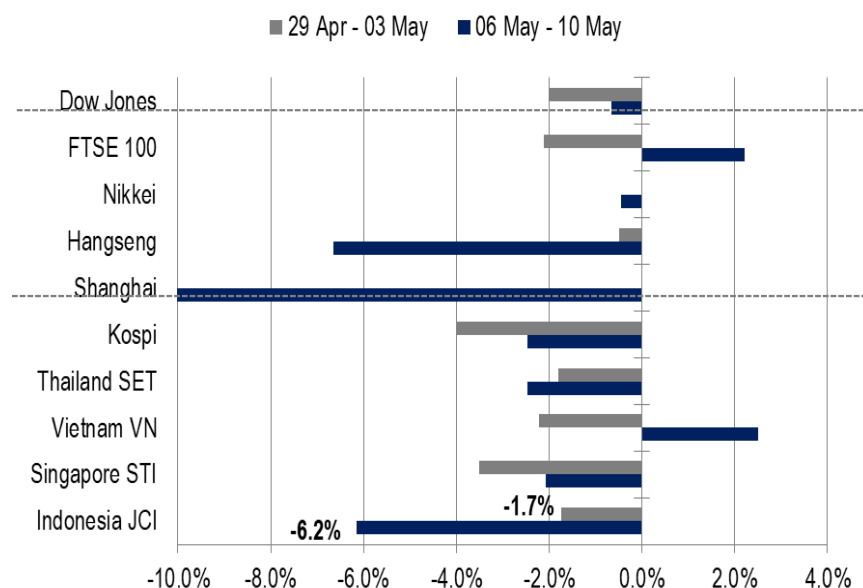
Last Week's JCI

Jakarta Composite Index (JCI) : 5,826.87 (6.2%)
 Foreign investors : Net sell of IDR3,6 trillion (vs. last week's net sell of IDR3,0 trillion)
 USD/IDR : 14,453 (+0.01%)
 Yield of sovereign bonds with 10-year tenor: 8.041% (+4.6bps)

JCI's Steep Dive

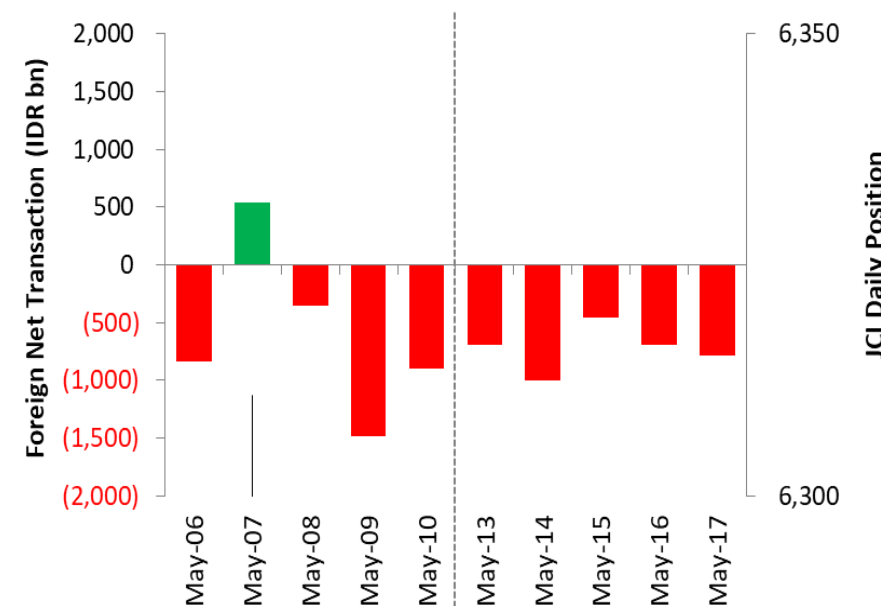
Last week, a flood of negative sentiments dampened JCI. Chinese retaliated against American levies, taking into effect on May 10th, 2019, with hiking tariffs from 5% to 25% on US\$60 billion worth on American goods, effective on June 1st, 2019. It sent a worrying signal of stunting growth for those two economic powerhouses. Chinese production at 5.4% in April, lower than March was bruise left by escalating frictions. China even previously slashed its 2019's economic growth at 6%-6.5%. If the downward revision tumbles into the lowest threshold, Indonesia is likely to get bruise as JCI closed negative, at most. On Wednesday (05/15) and (05/16), JCI recorded IDR998 billion worth of foreign outflows. Investors panicked that the more bruising backdrop of tit-for-tat tariffs will curb companies' earnings, so they pulled their capital out from Asian emerging markets, including Indonesia. From domestic backdrop, US\$2.5 billion worth of April's trade balance deficits dimmed investors' optimism and rattled JCI at (-6.2%) as slumping prices of Indonesian exported commodities widened deficits. Trump's warning signs of threat to American technologies added Huawei Technologies to the Bureau of Industry and Security (BIS) Entity List exacerbated bruise of the US-China trade frictions.

Global Market Movement



Source: Bloomberg, NH Korindo Research

Foreign Net Flow – Last 10 Days



Source: Bloomberg, NH Korindo Research

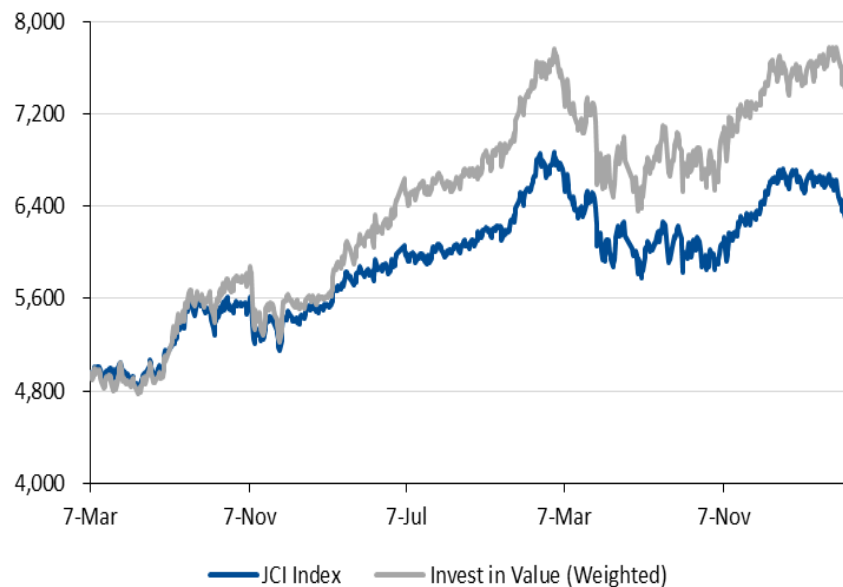
Last Week's INNI Index Movement

INNI Index : 7,031.76 (-7.3%)
 INNI Theme 1 (Value) : 6,940.24 (-7.1%)
 INNI Theme 2 (Trend) : 7,817.60 (-7.7%)

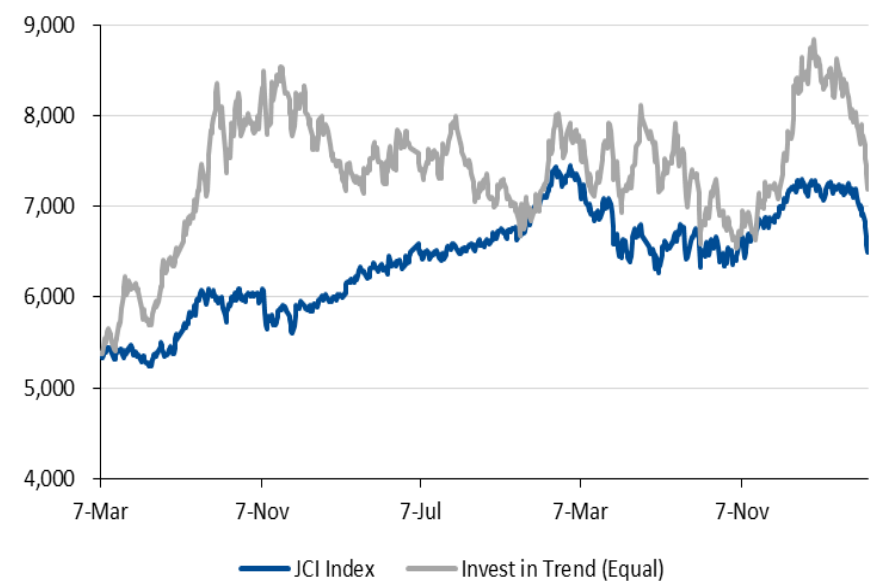
• **INNI Index's Downswing**

Monday's 1.07% slump in INNI Index laid in the fact of property stocks' conservative growth as applicants for mortgage loan whittled down from 76.73% in IV18 to 74.16% in IQ19. Indeed, the national election momentum exaggerated declines in property stocks. From Wednesday (05/15) and Thursday (05/16), such retail stocks as LPPF and MAPI falling by 3.9% and 3.2% exposed INNI Index to negative intraday, at most. Foreign investors' appetite for a net buy of 28.5 million retail stocks failed to sustain retail stocks. Tumbling Ice NewCastle coal prices caused the mining stocks to reign at bearish favor; that dragged INNI Index lower at 4.9%. Short-run downbeat demand for coal supplied to coal-fired power plants and trade frictions were logical takeaways for mining's bearish favor. Last week, all sectors — especially property—listed in INNI Index were on a negative trend, hurt by murky global sentiments. The property sector is still facing headwinds, i.e., climbing benchmark rate at the end of 2018 and the deadline for construction completion amid unachieved sales target. Given this lackluster performance, PT Pemeringkat Efek Indonesia (PEFINDO) rated property companies with a negative outlook. JCI, on a weekly basis, was at a tepid close of 7.3% to 7,031.

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



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



Last Week's Sector Movement

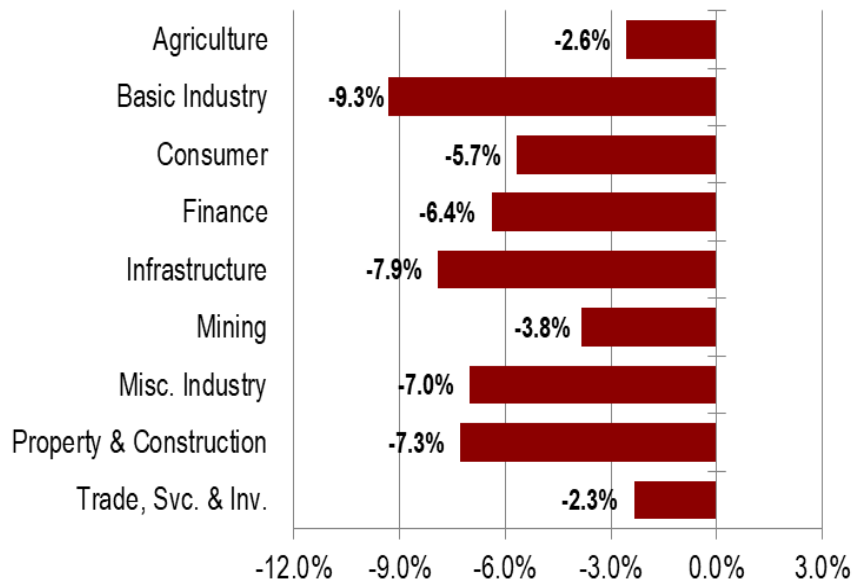
Last Week's Sector Review

- INNI Index's Top Loser**

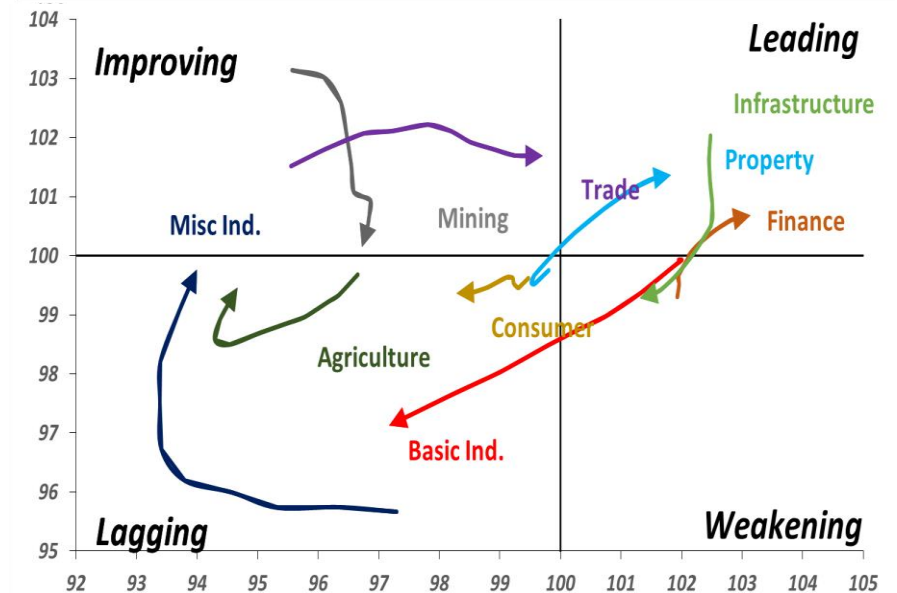
Last week, the mining sector (-10.3) was INNI Index's top loser. Indonesian authorities urging the use of national insurance for coal exports taking into effect on June 1st will bring negative sentiments for ADRO and PTBA listed in INNI Index. Coal miners were used to applying Free on Board (FoB) selling scheme; thus, importers were liable for insurance requirement. The enactment of such mandatory has coal miners allocate additional costs, burdening their financial.

Furthermore, the infrastructure sector (-8.9%) was INNI Index's second top loser. The first candidate of Indonesia President and Vice President Jokowi and Ma'aruf Amin still dominated votes at 55.92% on May 17th. If on May 22nd the national votes wins the first candidate, Jokowi has prepared a number of plans, e.g., infrastructure development. In the former administration, Jokowi's ministries were focusing on infrastructure development. However, in the future, it will focus more on improving human resource quality. That policy is likely to prove a boon for infrastructure stocks, i.e., PTPP, WSKT, and WIKA listed in INNI Index.

Last Week JCI Sector Movement



Sector Rotation – Last 10 Days



This Week's Outlook: Food & Beverage Industry (1)

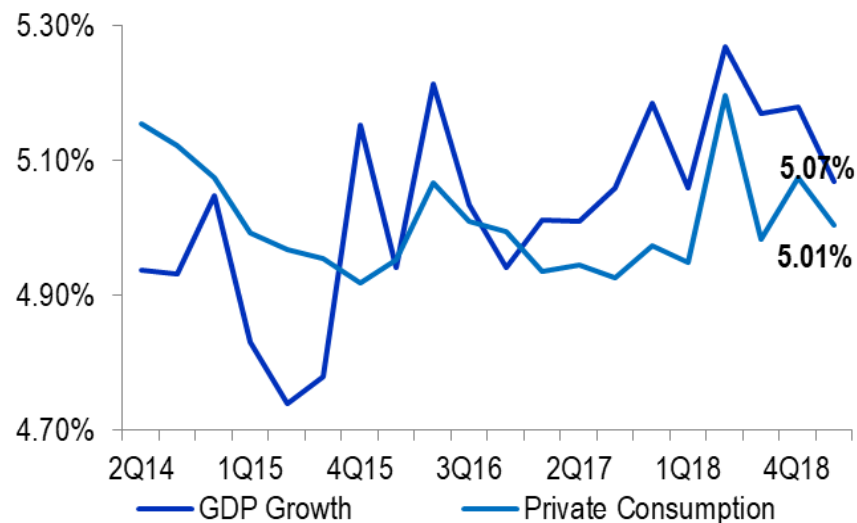
- IIQ19 Zip Household Consumption: A Forecast**

IQ19 household consumption rose by 5.01% y-y (vs. 4.94% in IV18) to 56.82%—driving force for Indonesian economic growth. The hike underlines projection of IIQ19 higher household consumption at 5.1%-5.2%. That appetite for more consumption is whetted by distribution of Idul Fitri bonus and 13th salaries for state civil apparatus (ASN), civil servants, Indonesian military's personnel and national police (TNI/POLRI) in compliance with the Finance Ministerial Regulation (PMK) Number 58/PMK/05/2019. Another to the distribution of Idul Fitri bonus and 13th salaries, the zip household consumption lies in the fact of IDR260.74 trillion worth of March's state spending or around 15.95% of 2019 state budget (Anggaran Pendapatan Belanja Negara, APBN).

- Creeping-Higher Consumer Expectation Index**

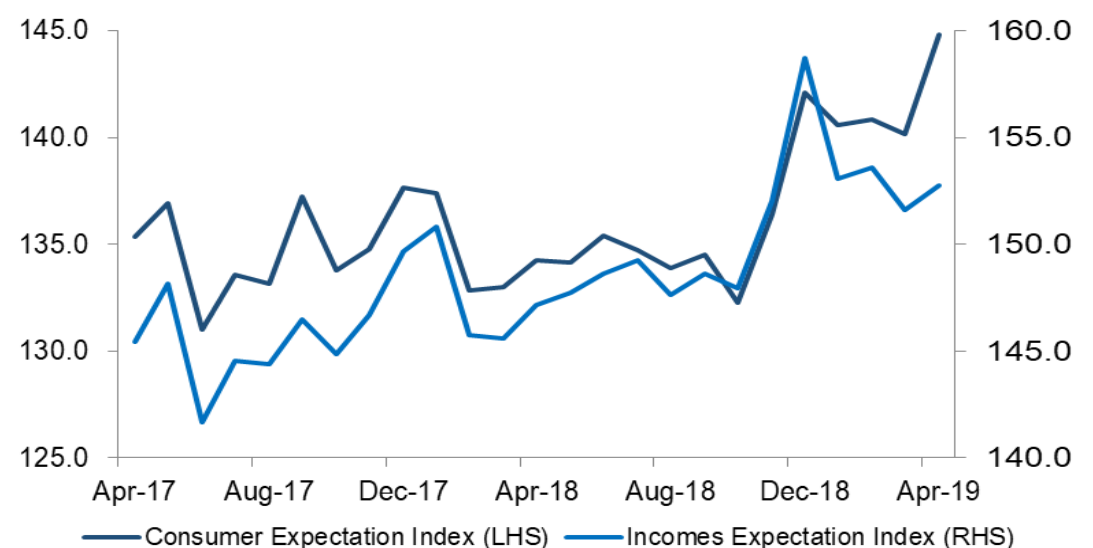
Bank Indonesia (BI) revealed consumers' vibrant optimism for future economic backdrop, reflected in the Consumer Expectation Index (CEI) of April standing at 144.8, outperforming March's 140.2. April's rising Income Expectation Index (IEI) at 152.8 compared with March's 151.6 was the potent driver for the optimism as consumers projected increment in next-6-month income after Idul Fitri distribution.

GDP Growth Rate Based on IQ19 Spending



Source: BPS, NH Korindo Research

Consumer Expectation Index



Source: BPS, NH Korindo Research

This Week's Outlook: Food & Beverage Industry (2)

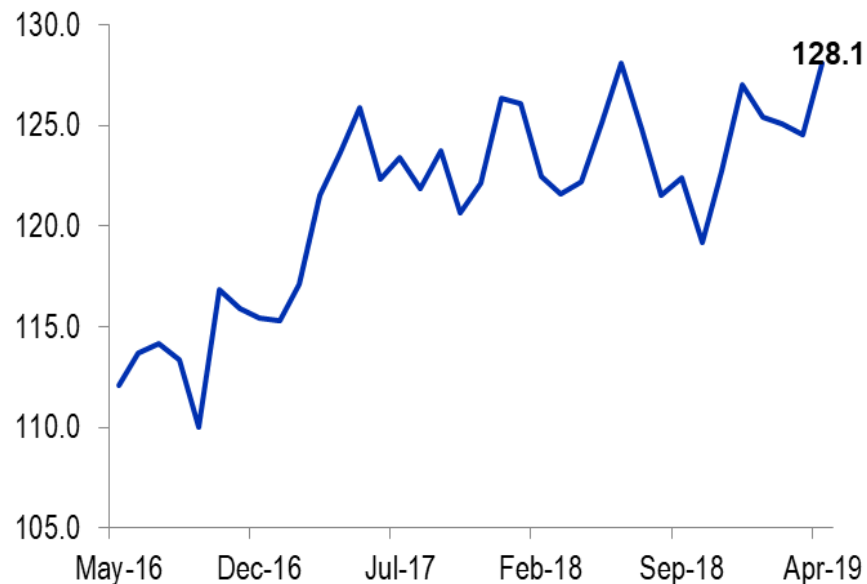
- **Solid CCI**

The Consumer Confidence Index (CCI) was at 128.1 in April, outpacing March's 124.5 and added to the evidence of consumers' optimism about future economic backdrop. Based on historic data, consumers' consumption—during Ramadan and ahead of Idul Fitri on June 5th, 2019—is likely to skyrocket aligning with vibrant vibes of food spending. Given the seasonal upbeat consumption, solid consumers' confidence and receptive rising Consumer Expectation Index (CEI) and Current Economic Condition Index (CECI) to 144.8 and 111.4.

- **FMCG Kicking into Higher Gears**

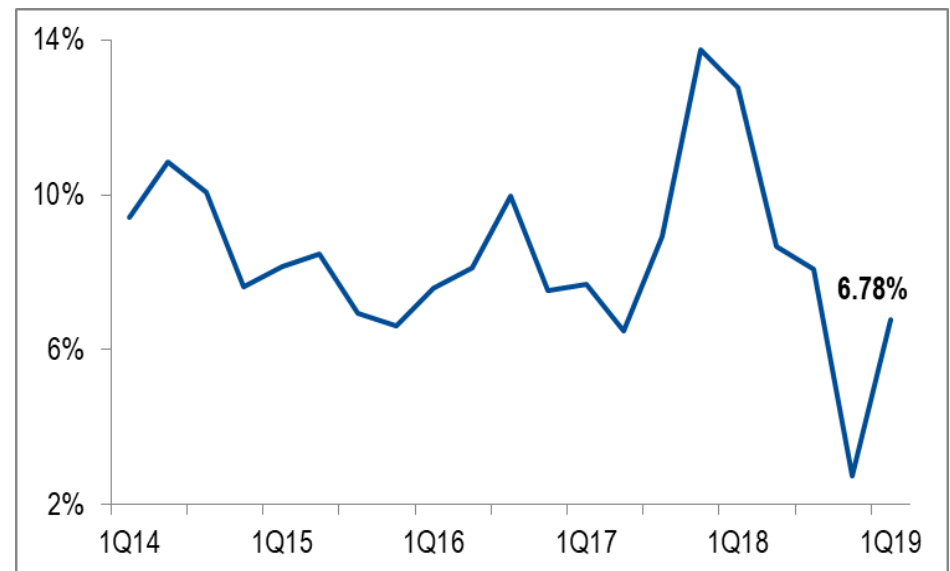
Keeping a close watch on GDP growth, based on business sectors, IQ19 non-oil and gas industry virtually grew by 4.80 y-y, lower than 5.8 y-y. Besides, the food & beverage industry also increased by 3.13 q-q in IQ19 (vs. -0.77 q-q in IQ18). Ramadan's exaggerating spending, rising CPO production, and distribution of Family Hope Program (PKH), a social assistance program are drivers for accelerated growth in the food & beverage industry.

Consumer Confidence Index



Source: BPS, NH Korindo Research

Business Growth Rate (y-on-y)



Source: BPS, NH Korindo Research

Indofood CBP Sukses Makmur Tbk (ICBP – Food & Beverages)

| | |
|-------------------------------------|---------------|
| Dec 2019 Target Price | 11,800 |
| Consensus Price | 10,588 |
| Last Price (IDR) as of May 17, 2019 | 9,300 |
| TP vs. Last Price | 26,8% |

| | |
|---------------------------|-------|
| Revenue Breakdown: | |
| Noodles | 64.7% |
| Dairy | 18.2% |
| Others | 17.1% |

| IDR bn | FY2017 | FY2018 | FY2019E | FY2020E |
|------------|--------|--------|---------|---------|
| Revenue | 35,607 | 38,414 | 41,650 | 44,993 |
| y-y | 3.3% | 7.9% | 8.4% | 8.0% |
| Net profit | 3,797 | 4,576 | 4,709 | 5,143 |
| y-y | 5.4% | 20.5% | 2.9% | 9.2% |
| NPM | 10.7% | 11.9% | 11.3% | 12.0% |
| EPS | 326 | 391 | 404 | 441 |
| P/E | 27.3x | 23.7x | 23.6x | 21.6x |

• **NHKS** reviews ICBP gauged to reach the target price of IDR11.800, with the PE trailing band of 29.2x as the instant noodles segment reveals solid sales numbers in this week.

• IQ19 Outstanding Performance

ICBP's IQ19 revenues surged to IDR11.3 trillion (+13.9% y-y and +26.0 q-q), coupled with profits growth of 10.74% y-y to IDR1.34 trillion. It evidenced the fast moving consumer goods (FMCG) to kick into higher gears in IQ19 after the intense competition with local or imported peers left the industry at slow-moving pace. ICBP's IIQ19 sales are likely to soar in numbers on the back of Ramadan and Idul Fitri momentum, our estimate.

• Instant Noodles Segment as the Biggest Contributor

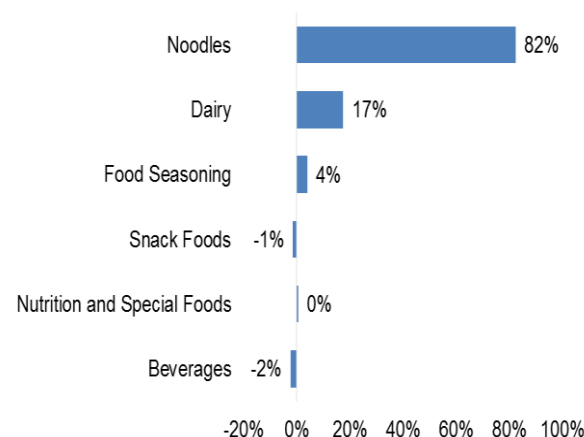
In IQ19, the instant noodles and dairy segments marked rising revenues of 13.7% y-y and 9.1%y-y, respectively. Still, the instant noodles performance is well ahead of dairy's performance that was confirmed by its domination as the biggest contributor to total consolidated net sales. The buoyance also lies in the fact that Indonesian authorities are committed to social-aid injection, whetting Indonesian's appetite for consuming more. Consumers' spending is likely to kick into higher gears in Ramadan and ahead of Idul Fitri; that signs of momentum for ICBP to enjoy II19 soaring sales.

5 - years P/E trailing band



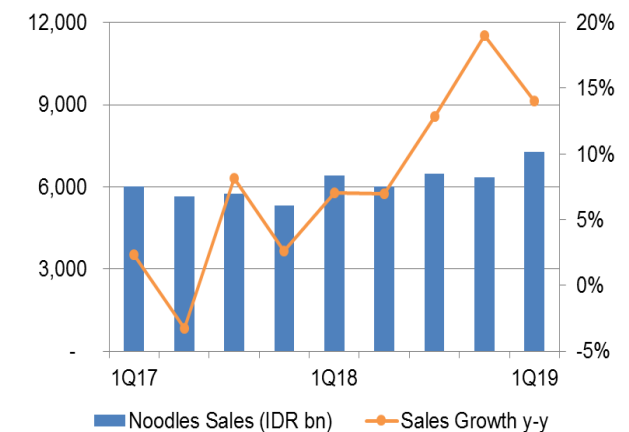
Source : Company, NHKS Research

Operating Profit Contribution Breakdown | 1Q19



Source : Company, NHKS Research

Noodle Sales | 1Q17 – 1Q19



Source: Gaikindo, 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 | 25,900 | 28,050 | 32,000 | Buy | 23.6 | -7.7% | 638.6 | 24.2x | 4.0x | 17.9 | 1.3 | 15.1 | 10.3 |
| BBRI | Theme 1 | 3,790 | 4,120 | 4,650 | Buy | 22.7 | -8.0% | 467.5 | 14.0x | 2.4x | 18.8 | 2.8 | 11.2 | 10.3 |
| BMRI | Theme 1 | 7,075 | 7,475 | 8,000 | Hold | 13.1 | -5.4% | 330.2 | 12.5x | 1.7x | 15.0 | N/A | 10.9 | 23.4 |
| Consumer | | | | | | | | | | | | | | |
| GGRM | Theme 1 | 79,725 | 83,325 | 110,000 | Buy | 38.0 | -4.3% | 153.4 | 18.6x | 3.2x | 18.0 | 3.3 | 19.2 | 24.5 |
| UNVR | Theme 1 | 41,600 | 44,200 | 59,000 | Buy | 41.8 | -5.9% | 317.4 | 35.2x | 35.0x | 112.2 | 2.2 | (0.8) | (4.6) |
| ICBP | Theme 1 | 9,300 | 9,825 | 11,800 | Buy | 26.9 | -5.3% | 108.5 | 23.1x | 4.7x | 21.6 | 2.4 | 13.9 | 10.6 |
| INDF | Theme 1 | 6,000 | 6,650 | 8,700 | Buy | 45.0 | -9.8% | 52.7 | 12.2x | 1.5x | 12.8 | 5.0 | 8.7 | 14.1 |
| KAEF | Theme 2 | 3,190 | 3,370 | 4,100 | Buy | 28.5 | -5.3% | 17.7 | 44.4x | 7.8x | 16.6 | 0.5 | 21.8 | (44.6) |
| KLBF | Theme 2 | 1,260 | 1,445 | 1,870 | Buy | 48.4 | -12.8% | 59.1 | 24.0x | 3.9x | 16.9 | 2.0 | 7.0 | 1.0 |
| Infrastructure | | | | | | | | | | | | | | |
| TLKM | Theme 1 | 3,510 | 3,790 | 4,700 | Buy | 33.9 | -7.4% | 347.7 | 18.8x | 3.3x | 18.2 | 3.8 | 7.7 | 8.6 |
| JSMR | Theme 1 | 5,025 | 5,600 | 6,000 | Buy | 19.4 | -10.3% | 36.5 | 16.5x | 2.1x | 13.3 | 0.9 | (20.8) | 0.3 |
| Trade | | | | | | | | | | | | | | |
| UNTR | Theme 1 | 24,825 | 26,250 | 39,550 | Buy | 59.3 | -5.4% | 92.6 | 8.0x | 1.6x | 22.3 | 4.8 | 19.0 | 20.6 |
| SILO | Theme 2 | 4,360 | 4,580 | 4,350 | Hold | (0.2) | -4.8% | 7.1 | 372.6x | 1.1x | 0.3 | N/A | 18.2 | 583.3 |
| MIKA | Theme 2 | 2,090 | 2,100 | 2,300 | Hold | 10.0 | -0.5% | 30.4 | 47.5x | 7.2x | 15.7 | N/A | 15.8 | 18.2 |
| LPPF | Theme 2 | 3,670 | 3,830 | 5,500 | Buy | 49.9 | -4.2% | 10.7 | 10.8x | 5.8x | 45.6 | 9.1 | (1.7) | (41.2) |
| RALS | Theme 2 | 1,700 | 1,770 | 2,050 | Buy | 20.6 | -4.0% | 12.1 | 17.6x | 2.9x | 17.5 | 2.4 | (0.4) | 428.0 |
| MAPI | Theme 2 | 840 | 940 | 1,300 | Buy | 54.8 | -10.6% | 13.9 | 30.8x | 2.5x | 10.5 | 0.5 | 8.4 | (62.3) |
| Property | | | | | | | | | | | | | | |
| PWON | Theme 1 | 630 | 680 | 725 | Buy | 15.1 | -7.4% | 30.3 | 11.2x | 2.3x | 22.3 | 1.0 | 3.9 | 28.1 |
| CTRA | Theme 1 | 905 | 1,090 | 1,080 | Buy | 19.3 | -17.0% | 16.8 | 12.6x | 1.1x | 9.5 | 1.0 | 21.3 | 114.3 |
| PTPP | Theme 1 | 1,790 | 2,070 | 2,450 | Buy | 36.9 | -13.5% | 11.1 | 7.3x | 0.9x | 12.4 | 2.7 | 34.9 | 12.0 |
| WSKT | Theme 1 | 1,715 | 1,945 | 2,500 | Buy | 45.8 | -11.8% | 23.3 | 7.4x | 1.2x | 18.5 | 3.3 | (30.0) | (53.0) |
| WIKA | Theme 1 | 1,930 | 2,200 | 2,100 | Hold | 8.8 | -12.3% | 17.3 | 9.4x | 1.1x | 13.2 | 2.0 | 3.9 | 66.9 |
| Basic Ind. | | | | | | | | | | | | | | |
| KRAS | Theme 2 | 356 | 386 | 600 | Buy | 68.5 | -7.8% | 6.9 | N/A | 0.3x | (7.3) | N/A | (13.8) | (966.7) |
| Misc Ind. | | | | | | | | | | | | | | |
| ASII | Theme 2 | 6,700 | 7,175 | 8,600 | Buy | 28.4 | -6.6% | 271.2 | 12.4x | 1.9x | 16.2 | 3.2 | 6.8 | 4.9 |
| Mining | | | | | | | | | | | | | | |
| ADRO | Theme 1 | 1,175 | 1,265 | 1,750 | Buy | 48.9 | -7.1% | 37.6 | 5.6x | 0.7x | 12.6 | 7.7 | 10.8 | 59.2 |
| PTBA | Theme 1 | 2,750 | 3,080 | 5,100 | Buy | 85.5 | -10.7% | 31.7 | 6.2x | 1.7x | 29.2 | 12.4 | (7.2) | (21.7) |
| INCO | Theme 2 | 2,470 | 2,850 | 4,400 | Buy | 78.1 | -13.3% | 24.5 | 50.1x | 0.9x | 1.8 | N/A | (25.8) | N/A |
| ANTM | Theme 2 | 670 | 745 | 1,200 | Buy | 79.1 | -10.1% | 16.1 | 20.1x | 0.8x | 4.1 | 1.9 | 8.5 | (30.1) |
| Agriculture | | | | | | | | | | | | | | |
| AALI | Theme 1 | 10,350 | 10,500 | 16,000 | Buy | 54.6 | -1.4% | 19.9 | 17.8x | 1.0x | 6.0 | 3.2 | 9.3 | (89.5) |
| LSIP | Theme 1 | 1,090 | 1,085 | 1,500 | Buy | 37.6 | 0.5% | 7.4 | 29.0x | 0.9x | 3.0 | 4.1 | 6.9 | (64.7) |

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