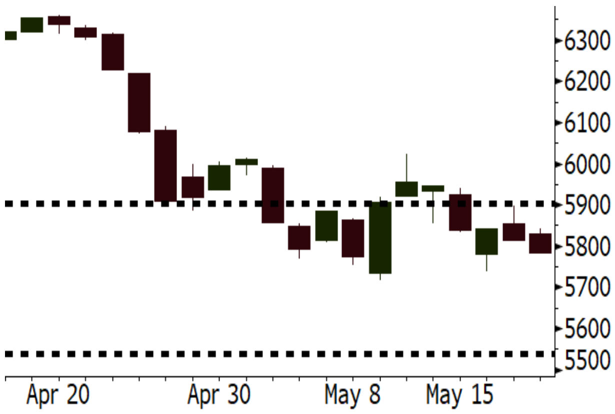
Weekly Brief (May 21 – May 25)

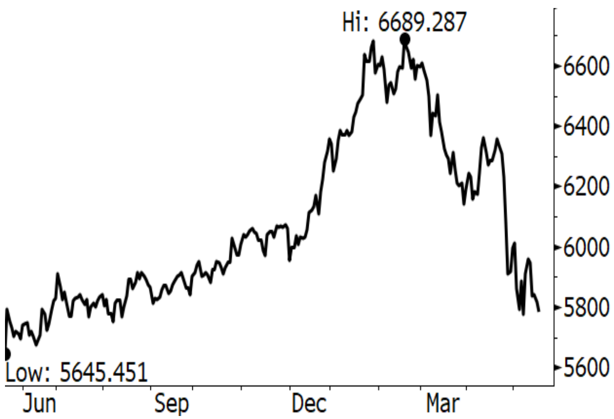
Summary:
Last week JCI tumbled after it was rebound in the previous week. JCI's last week decline was attributable to the high trade balance deficit of April in stark contrast to the trade balance surplus of March. On the other side, Bank Indonesia's stance of favorable hike in its benchmark rate hardly spurs rupiah appreciation.

In this week, we estimate that JCI is still bearish. The consistently soaring U.S. Treasury yield settling at 3% causes prolonged global market concerns. On the other side, the raising SUN yield and escalating global crude prices whittle away state budget allocated to maintain stability of petroleum prices in 2019. We recommend top-pick stocks of LSIP and INDY from commodities sector. Additionally, LPPF is another top-pick stock amid the significant hike in retail sales ahead of Ramadhan season and Eid Mubarak.

JCI - one month



JCI - one year



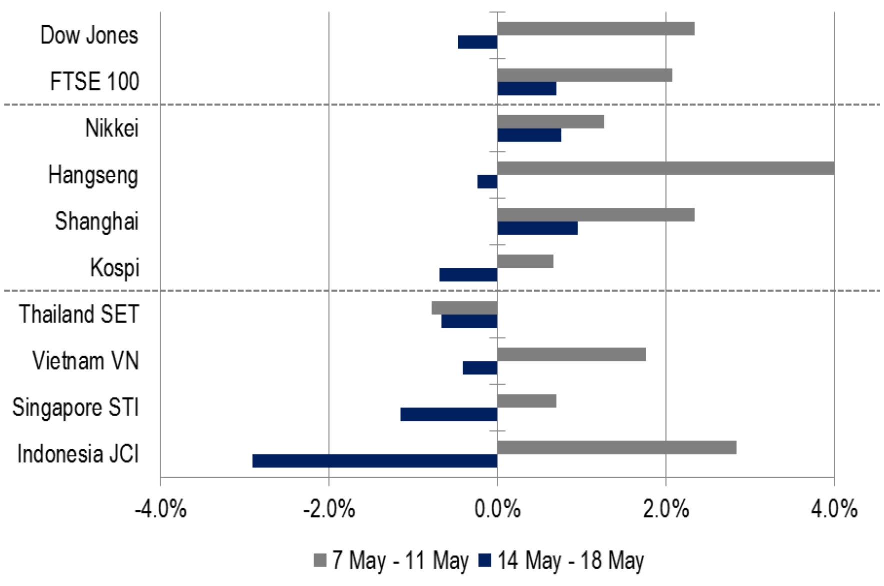
Last Week's Recap

- Jakarta Composite Index (JCI) : 5,783.31 (-2.91%)
  Foreign Investor : net sell of IDR3.4 trillion (Vs previous week's net sell of IDR1.6 trillion)
  USDIDR : 14,156 (+1.40%)
  10-year Government Bond Yield : 7.393% (+25.1 bps)

- **April's Trade Deficit**
  After March's trade balance surplus of USD1.09 billion, Indonesia's trade balance posted a significant deficit of USD1.63 billion in April. The deficit was mainly attributable to the soaring import of 34.68% y-y ahead of Ramadhan season and Eid Mubarak.

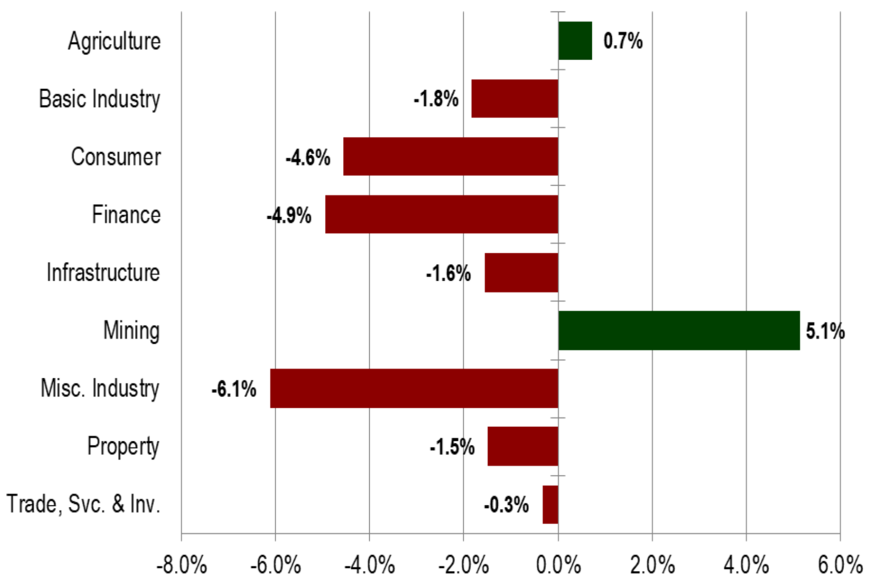
- **BI's Favorable Stance of Raising Benchmark Rate**
  Last week, Bank Indonesia (BI) through Board of Governors Meeting raised its benchmark rate by 25bps. BI stated that the hike in benchmark rate aimed to maintain macroeconomic stability amid the global financial markets volatility. Indeed, it signaled that another benchmark rate hike is possible if the Fed raises its Fed Fund Rate more than 3x in 2018.

Global Equity Market



Source: Bloomberg, NH Korindo Research

Sector Index



Source: Bloomberg, NH Korindo Research

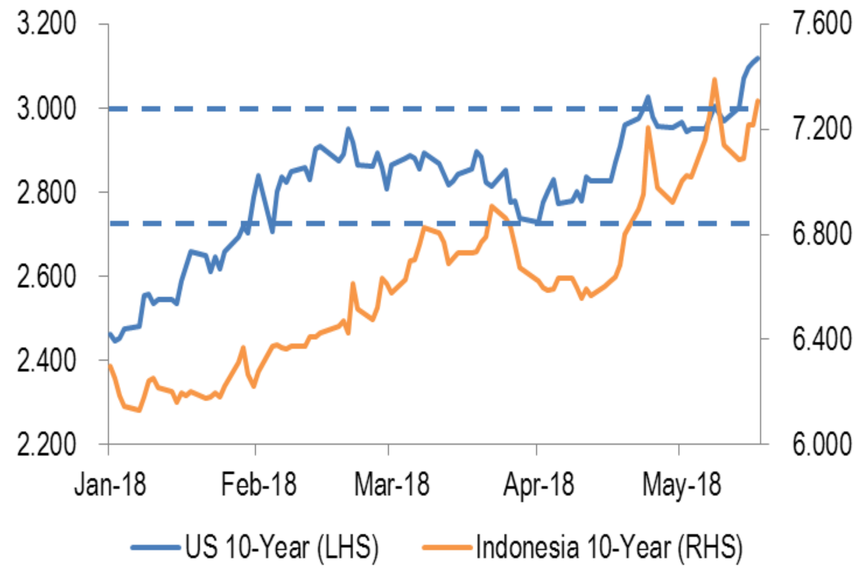
This Week's Outlook

- **Consistently Soaring U.S. Treasury Yield**
  After reaching the psychology level at 3.0%, the U.S. Treasury yield soared further to top 3.1%. Since the early of 2018, the U.S. Treasury yield has soared by 66 bps amid the expectancy of the acceleration in Fed's monetary tightening. In light of the U.S. Treasury yield pacing at range of 2.7%-3.0% from April to May, we oversee that the soaring U.S. Treasury yield is technically capable of furthering to 3.3%.

- **Concern about State Budget's Credibility**
  April's balance trade deficit heightened investors' concern about rupiah stability. Despite the benchmark rate cut by Bank Indonesia, rupiah is still depreciating. State budget's credibility faced headwind of the soaring U.S. Treasury yield and escalating global crude prices. The government's concerted commitment to leaving petroleum prices unchanged inevitably results in a greater amount of external funding than initially planned external funding as the uptrend of soaring global crude prices. On the other side, the trend of soaring Indonesia's government bonds (SUN) inevitably undermined efficient debt facilities sought by the Indonesian government.

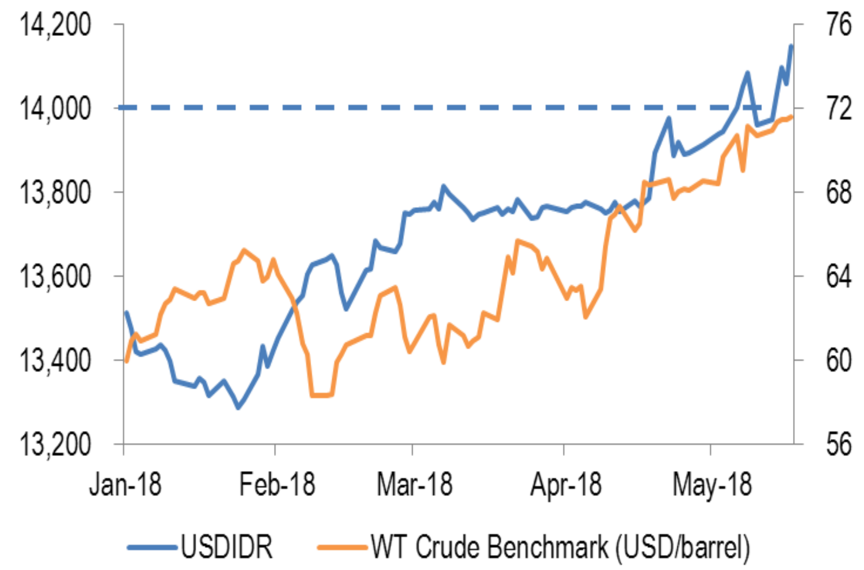
- We estimate that in this week, **JCI moves moderately at the range 5540-5903**. Rupiah which is still depreciating albeit BI's loosening monetary stance causes investors to take wait-and-see acts.

Government Bond Yield



Source: Bloomberg, NH Korindo Research

USDIDR and WTI Crude Benchmark Price



Source: Bloomberg, NH Korindo Research

PP London Sumatera (LSIP – CPO Plantation)

Dec 2018 TP	1,380
Consensus Price	1,628
TP to Consensus Price	-15.2%
vs. Last Price	+17.9%
Last Price (IDR)	**1,170**
Price date as of	May 18, 2018
52wk range (Hi/Lo)	1,570 / 1,070
Free Float (%)	40.4
Outstanding sh. (mn)	6,823
Market Cap (IDR bn)	7,983
Market Cap (USD mn)	565
Avg. Trd Vol – 3M (mn)	12.39
Avg. Trd Val – 3M (bn)	16.59
Foreign Ownership	11.4%
Sales Breakdown:	
Oil Palm & Palm Kernel	91.1%
Rubber	5.3%
Others	3.6%

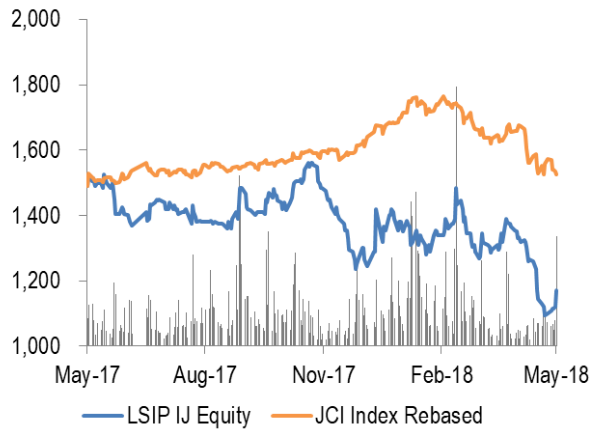
IDR bn	FY2016	FY2017	FY2018E	FY2019E
Sales	3,848	4,738	4,067	4,427
y-y	*-8.2%*	*23.1%*	*-14.2%*	*8.8%*
EBITDA	1,181	1,344	1,148	1,224
Net profit	594	764	642	709
EPS (IDR)	87	112	94	104
y-y	*-4.7%*	*28.7%*	*-16.0%*	*10.4%*
NPM	*15.4%*	*16.1%*	*15.8%*	*16.0%*
ROE	*7.9%*	*9.7%*	*7.7%*	*8.1%*
P/E	20.0x	12.7x	12.4x	11.3x
P/BV	1.6x	1.2x	0.9x	0.9x

- **A Glance at LSIP**
  The history of PT Perusahaan Perkebunan London Sumatra Indonesia Tbk traced back over more than a century to 1906 with the initiatives of the London-based Harrisons & Crossfield Plc, as a general trading and plantation management services firm. In its early years, the London-Sumatra plantations, known later as "Lonsum", diversified its businesses into rubber, tea and cocoa plantations. Throughout Indonesia's for mative years as an independent nation, it concentrated on rubber, and in the 1980s, it commenced oil palm production. By the end of the following decade, oil palm had replaced rubber as the company's primary commodity. Now, it has 38 inti estates and 14 plasma estates in Sumatera, Java, Kalimantan, and Sulawesi covering on areas of 100,000 hectares.

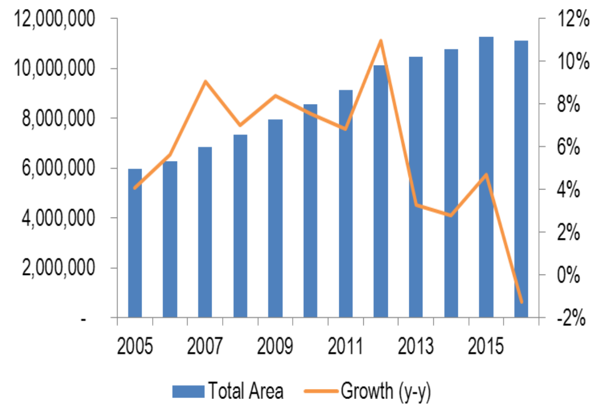
- **Domestic Economy: Sustainer of CPO Industry**
  The CPO industry in 2018 is estimated to be sustained by the positive growth in the domestic economy along with Indonesia's fiscal policy on the infrastructure sector and social securities, as well as the increment in the domestic consumption as Indonesia is the world's second-biggest palm oil consumers.

- **CPO Moratorium Curbing Oversupply**
  In long term, CPO prices are likely supported by **the lagging growth in production due to the decline in new planting activity**. The moratorium on new oil palm plantation likely avoids a long-term oversupply condition.

Share Price Performance



Total Palm Oil Plantation Area in Indonesia (ha)



Indika Energy (INDY – Energy Infrastructure)

Dec 2018 TP	**5,000**
Consensus Price	N/A
TP to Consensus Price	N/A
vs. Last Price	+25.6%
Last Price (IDR)	**3,980**
Price date as of	May 18, 2018
52wk range (Hi/Lo)	4,630 / 745
Free Float (%)	29.7
Outstanding sh. (mn)	5,210
Market Cap (IDR bn)	20,737
Market Cap (USD mn)	1,468
Avg. Trd Vol – 3M (mn)	17.27
Avg. Trd Val – 3M (bn)	64.52
Foreign Ownership	51.3%
Sales Breakdown:	
Coal	80.8%
Contract & Service Revenue	19.2%

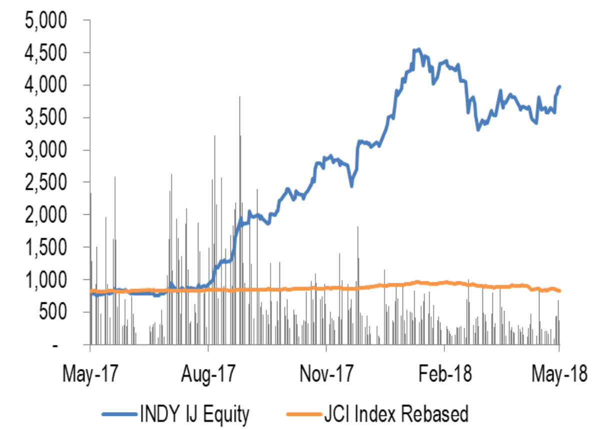
IDR bn	FY2016	FY2017	FY2018E	FY2019E
Sales	775	1099	3320	3984
y-y	-29.4%	41.7%	202.2%	20.0%
EBITDA	76	124	815	801
Net profit	(68)	335	432	496
EPS (IDR)	(13)	64	83	95
y-y	N/A	N/A	28.8%	14.9%
NPM	-8.7%	30.5%	13.0%	12.5%
ROE	-8.6%	36.1%	32.8%	28.7%
P/E	N/A	3.5x	3.5x	3.1x
P/BV	0.5x	1.1x	1.0x	0.8x

- **A Glance at INDY**
  INDY is a miner in the energy sector and has business lines such as energy service, energy resource, energy infrastructure, and coal sale. its's services in the energy service sector ranging from engineering, procurement & construction (EPC), operation & maintenance (O&M), and logistics operated by its two major subsidiaries, namely Petrosea and Tripatra. It provides comprehensive services ranging from pit-to-port (integrated business from upstream to downstream), life-of-mine coal mining, and oil and gas industry.

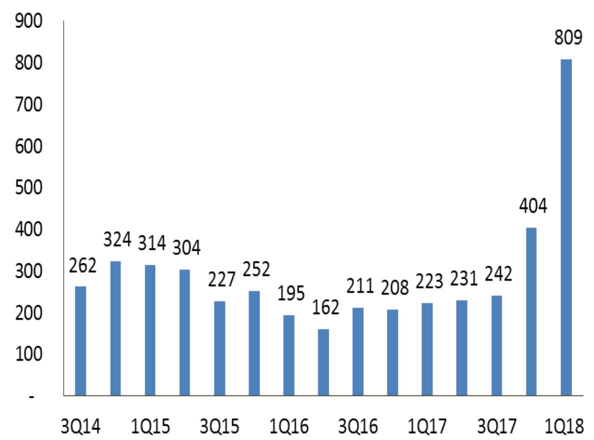
- **Kideco' Acqusition Bolstering Sales**
  INDY posted the 1Q18 sales of USD809 million soaring by 263.9% y-y Vs. the 1Q17 sales of USD223 million. Of note, Kideco contributed USD527 million or 65% to INDY's overall sales. The 1Q18 sales were all-time high since 2012. Besides, it also posted the 1Q18 upbeat gross margin of 28.3% vs. the 1Q17 gross margin of 12.7%. Escalating coal prices were the logical takeaways for the 1Q18 upbeat gross margin.

- **Escalating Coal Prices: Bolster for ASP**
  Average selling prices (ASP) of Kideco's coal products surged by 13.7% y-y into USD56.4 per ton. The uptrend of global coal prices was a logical takeaway for the surge of 24.8% y-y in Kideco's sales. We oversee that Kideco likely further its excellent performance in light of escalating global coal prices.

Share Price Performance



Quarterly Sales (USD mn)



Matahari Department Store (LPPF – Retailer)

Dec 2018 TP	**11,250**
Consensus Price	12,350
TP to Consensus Price	-8.9%
vs. Last Price	+27.8%
Last Price (IDR)	**8,800**
Price date as of	May 18, 2018
52wk range (Hi/Lo)	15,950 / 8,100
Free Float (%)	82.5
Outstanding sh. (mn)	2,918
Market Cap (IDR bn)	25,678
Market Cap (USD mn)	1,818
Avg. Trd Vol – 3M (mn)	4.70
Avg. Trd Val – 3M (bn)	48.94
Foreign Ownership	70.8%
Revenue Breakdown:	
Retail Sales	38.7%
Consignment Sales	60.9%
Services Fee	0.4%

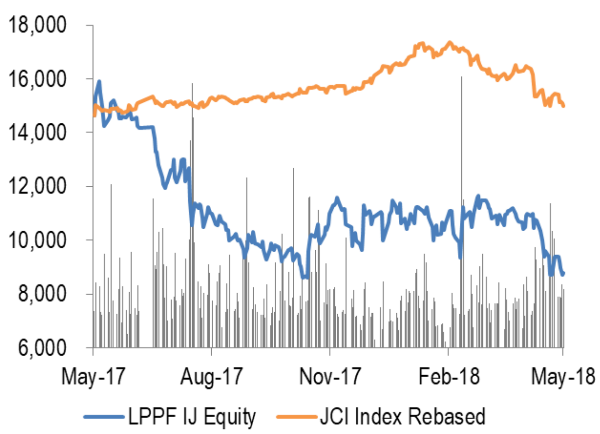
IDR bn	FY2016	FY2017	FY2018E	FY2019E
Revenue	9,897	10,024	10,673	11,297
y-y	*9.9%*	*1.3%*	*6.5%*	*5.8%*
EBITDA	2,795	2,670	2,969	3,077
Net profit	2,020	1,907	2,110	2,213
EPS (IDR)	692	654	723	758
y-y	*13.4%*	*-5.6%*	*10.6%*	*4.9%*
NPM	*20.4%*	*19.0%*	*19.8%*	*19.6%*
ROE	*136.4%*	*91.2%*	*77.7%*	*63.8%*
P/E	21.9x	15.3x	12.2x	11.6x
P/BV	23.8x	12.5x	8.3x	6.7x

- **A Glance at LPPF**
  LPPF is a retail company running its business through Matahari brand. Its businesses covering retail sales, consignment, and service revenues target the low to middle income classes. Having 154 stores situated in 73 cities across Indonesia, it dominates 42.3% retail market share in Indonesia.

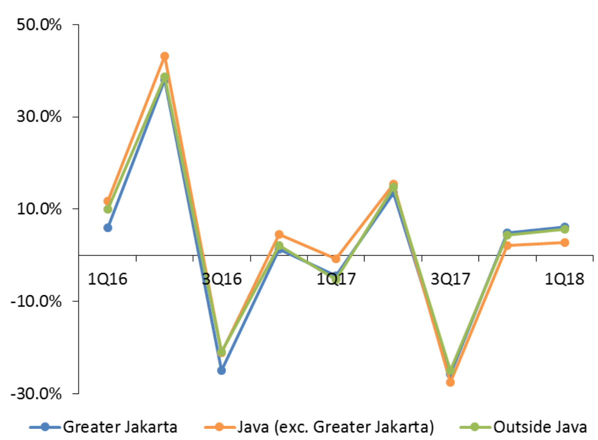
- **Well-Maintained Growth Momentum in 1Q18**
  LPPF posted the growth of 5.9% into IDR1.96 trillion in the 1Q18 revenue. The growth was driven by the surge in the same store sales growth (SSSG) into 4.8% underlined by the increment in the number of transactions and sales volume. In 2018, LPPF actively accelerates its marketing strategies, particularly for Matahari–owned brands and hikes its marketing expense by 55.7% y-y in 1Q18. On the other side, the 1Q18 gross margin declining by 1.8% y-y was attributable to the suppressed selling prices.

- **Consistent Growth in Direct Purchase Sales**
  On the merchandising outlook, LPPF changes its merchandising mix and increases its direct purchases sales (DP). The sales performance of Disney brand and the collaboration with local celebrities marked outperformance. However, the selling prices of DP segment lower than the consignment segment also lowers the average unit retail and likely suppresses the gross margin performance further.

Share Price Performance



SSSG by Region



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