

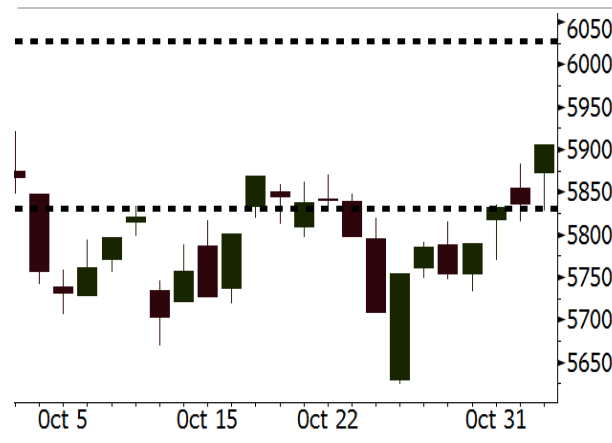
Weekly Brief (November 05 – 09)

Summary:

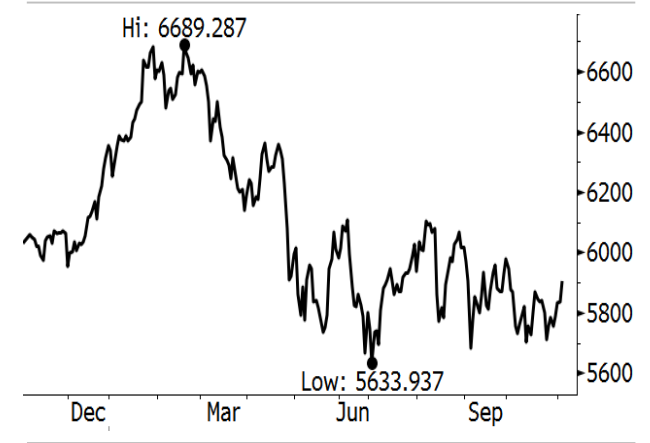
JCI strengthened last week, aligning with the global markets posted hike. Investors positively responded to talks between Presiden Trump and Xi Jinping. The talks sparks hopes of better trade negotiations. From the domestic, October's inflation rallied on the back of hike in non-subsidized fuel prices, yet October's inflation still hovered at 3%.

This week, we estimate JCI to rally. Investors keep their eyes on 3Q18's GDP growth. In 2Q18, the growth was accelerated to reach 5.27%. Now, the consumption sector is the driver for GDP growth after the investment sector decelerated. On the other hand, investors also await October's forex reserves. The stable forex rate sparks hopes of the recovery in forex reserves. This week we recommend UNTR on the back of conducive global coal prices. Another to UNTR, PWON is also attractive to be collected due to its robust performance, albeit the less significant recovery in the property sector.

JCI - one month



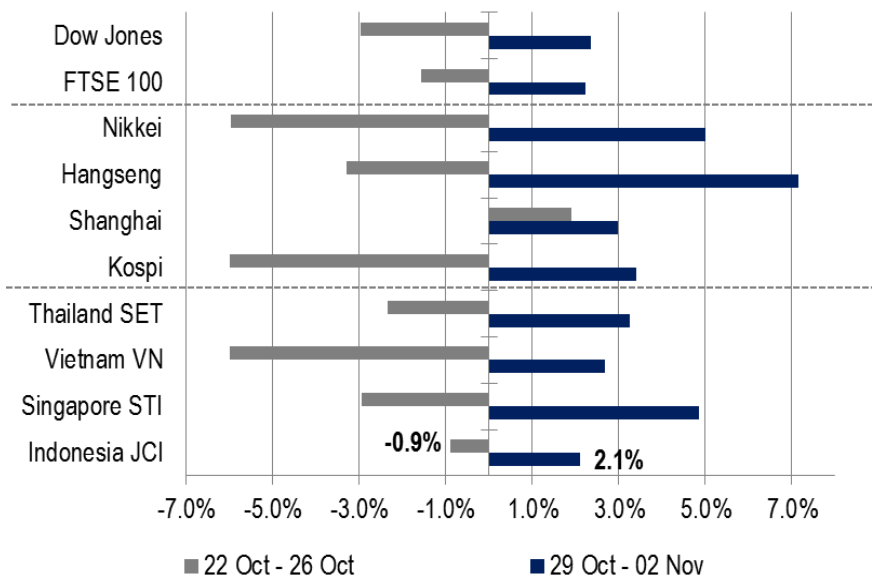
JCI - one year



Last Week's Recap

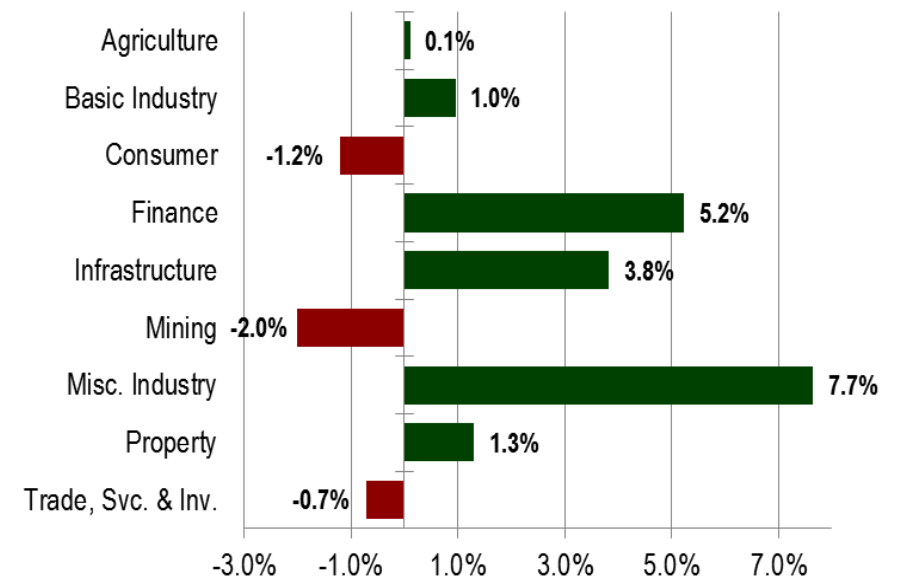
- Jakarta Composite Index (JCI)** : 5,906.29 (+2.10%)
 Foreign Investor : net buy of IDR4.6 trillion (vs. previous week's net sell of IDR326 billion)
 USDIDR : 14,955 (-1.72%)
 10-year Government Bond Yield : 8.340% (-34.8 bps)
- October's Inflation of 0.28% m-m**
 In October, Indonesia posted inflation of 0.28% m-m, higher than the deflation of 0.18% m-m in September. Meanwhile, on an annual basis, October's inflation was 3.16%, higher than September's inflation of 2.88%. October's inflation was mainly prompted by the adjustment to prices of non-subsidized petroleum and the hike in prices of foodstuff commodities. In addition, October's core inflation was at 0.29% m-m, nudging up compared to September of 0.28% m-m.
- Possible Trade Progress between the U.S. and China**
 On Thursday, 11/01/2018/, the U.S. President Donald Trump stated that he had talks with Chinese President Xi Jinping over fears arising from unresolved trade disputes between the U.S. and China. Trump revealed that the talks were productive and moved along nicely, with Chinese President Xi Jinping emphasizing on trade issues. It implied possible trade progress relating trade war tensions between the world's two largest economies.

Global Equity Market



Source: Bloomberg, NH Korindo Research

Sector Index



Source: Bloomberg, NH Korindo Research

This Week's Outlook

- 3Q18's Economic Growth**

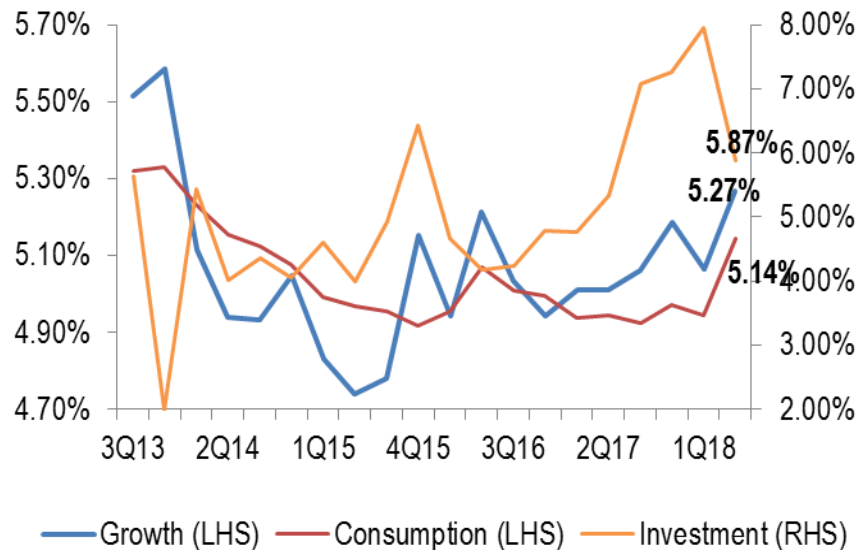
The Central Statistics Agency (BPS) will release the GDP growth on Monday, 11/05/2018. In 2Q18, the GDP grew by 5.27% y-y, higher than 1Q17's growth of 5.06%. The figure was the all-time high since 4Q13. The domestic consumption — the key driver for economic growth — climbed 5.14% y-y, the highest since 2Q14. On the other side, investments grew by 5.87% y-y, lagging than 1Q18's investments of 7.95% y-y. Of note, IMF has revised Indonesia's economic growth in 2018 and estimates Indonesia's economic growth of 2018 to settle at 5.1%, lower than the prior estimate of 5.3%.

- October's Forex Reserves**

Bank Indonesia (BI) will release the data of October's forex reserves on Wednesday, 11/07/2018. September's forex reserves amounted to USD114.8 billion, lower than August's forex reserves of USD117.9 billion and the lowest figure since January 2017. Meanwhile, September's forex reserves declining by USD3.1 billion was the most substantial amount since February 2018. The Indonesian government performed enacted policies to control forex reserves, e.g. export revenues (*Devisa Hasil Ekspor*, DHE) converted to the rupiah.

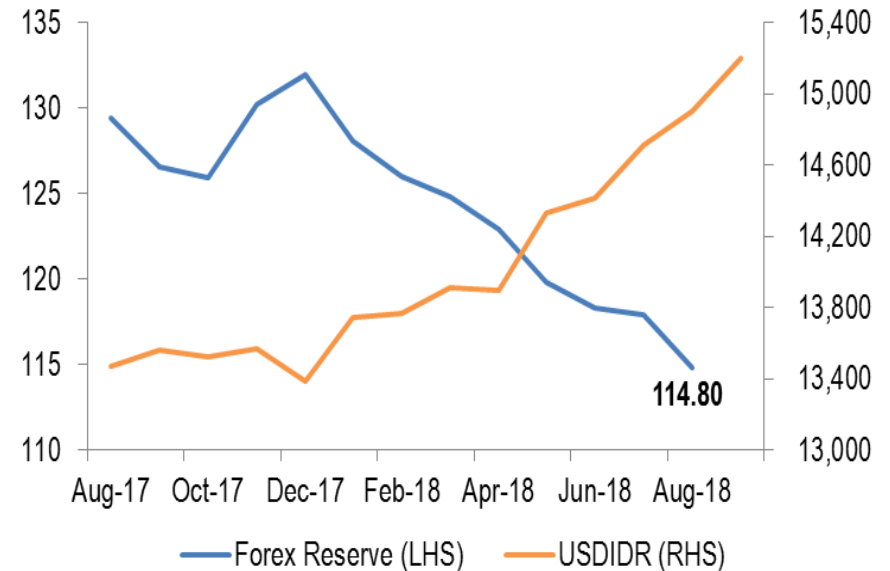
- We estimate JCI to rally at the range of **5830-6027**. The conducive global market makes it possible for investors to focus on Indonesia's recovering economic fundamental.

GDP Growth (y-y)



Source: Indonesia Statistics, NH Korindo Research

Forex Reserves (USD bn)



Source: Bank Indonesia, NH Korindo Research

United Tractors (UNTR – Heavy Machinery & Mining Contracting)

Dec 2019 TP	39,550
Consensus Price	42,766
TP to Consensus Price	-7.5%
vs. Last Price	+20.3%
Last Price (IDR)	32,875
Price date as of	Nov 02, 2018
52wk range (Hi/Lo)	40,500 / 30,775
Free Float (%)	40.5
Outstanding sh. (mn)	3,730
Market Cap (IDR bn)	122,628
Market Cap (USD mn)	8,216
Avg. Trd Vol – 3M (mn)	3,89
Avg. Trd Val – 3M (bn)	129.19
Foreign Ownership	18.7%
Revenue Breakdown:	
Mining Contracting	47.3%
Construction Machinery	35.7%
Others	17.0%

	IDR bn	FY2017	FY2018	FY2019E	FY2020E
Sales		64,559	82,932	106,625	117,840
y-y		41.8%	28.5%	28.6%	10.5%
EBITDA		14,596	21,427	30,274	36,880
Net profit		7,403	12,271	17,158	17,924
EPS (IDR)		1,985	3,290	4,600	4,805
y-y		47.9%	65.8%	39.8%	4.5%
NPM		11.5%	14.8%	16.1%	15.2%
ROE		16.4%	23.3%	27.4%	24.7%
P/E		17.8x	10.1x	7.2x	6.9x
P/BV		2.8x	2.2x	1.8x	1.6x

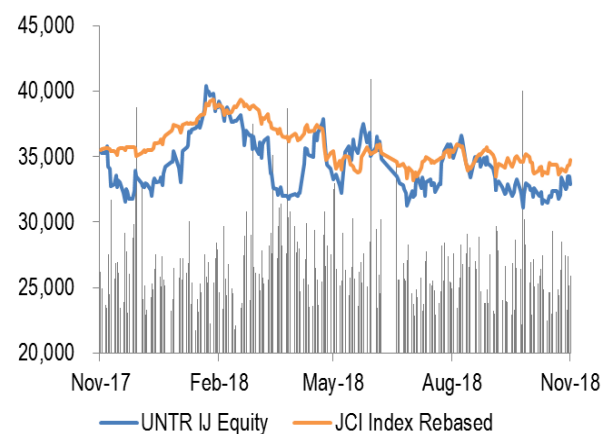
• 3Q18 Review: Top and Bottom Lines Fitting into Estimate

In 3Q18, UNTR posted revenue of USD22.1 trillion (+11.3% q-q, +31.8% y-y), heavy machinery sales of IDR7.4 trillion (+7.0% q-q, +19.8% y-y), and mining contracting revenue of IDR11.4 trillion (+21.7% q-q, +44.0% y-y). On a cumulative basis, 9M18's revenue amounted to IDR61.1 trillion and floated at 73.7% of our 2018F estimate or 73.3% of 2018F consensus. Meanwhile, its net profit settled at IDR3.5 trillion (+21.9% q-q, +62.2% y-y) a lot higher than our estimate and consensus of IDR2.6 trillion and IDR2.5 trillion, respectively.

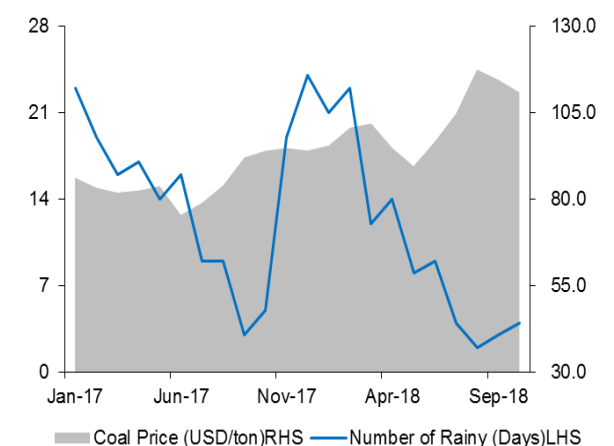
• Robust Tailwind of Dry Season and Coal Prices

Favorable weather and bullish coal prices during 3Q18 allowed the coal miners to reap buoyant production. The increment in production positively correlated to mining contracting and heavy machinery performances. For example, overburden removal was 271.6 million bcm (+14.2% q-q, +20.9% y-y) and stripping ratio was 8.2x (vs. 7.9x in 2Q18 and 7.4x in 3Q17). Additionally, Komatsu sales were 3,681 units (+4.2% q-q, 29.0% y-y), hitting 96.8% of 2018's target of 3,800 units. At the early of 2018, UNTR estimate d Komatsu's sales growth to lag and only float at 9% y-y (vs. 61% y-y in 2017) due to supply setback from Japan, prompting prolonged lead time from 9 months into 12 months. However, we are sanguine about Komatsu's 2018F sales to hit 4,936 units.

Share Price Performance



Coal price and good weather become positive factors



Pakuwon Jati (PWON – Real Estate Developer)

Dec 2019 TP	600
Consensus Price	662
TP to Consensus Price	-9.4%
vs. Last Price	+11.1%
Last Price (IDR)	540
Price date as of	Nov 2, 2018
52wk range (Hi/Lo)	725 / 432
Free Float (%)	30.2
Outstanding sh. (mn)	48,160
Market Cap (IDR bn)	26,006
Market Cap (USD mn)	1,742
Avg. Trd Vol – 3M (mn)	25.43
Avg. Trd Val – 3M (bn)	12.78
Foreign Ownership	12.8%
Revenue Breakdown:	
Real Estate	51.3%
Recurring Income	48.7%

IDR bn	FY2017	FY2018E	FY2019E	FY2020E
Revenue	5,718	6,752	7,148	7,866
y-y	18.1%	18.1%	5.9%	10.0%
EBITDA	3,175	3,657	3,869	4,229
Net profit	1,873	2,207	2,442	2,661
EPS (IDR)	39	46	51	55
y-y	12.1%	17.9%	10.6%	9.0%
NPM	32.8%	32.7%	34.2%	33.8%
ROE	15.7%	15.9%	15.2%	14.4%
P/E	17.6x	10.4x	9.4x	8.7x
P/BV	2.6x	1.5x	1.3x	1.2x

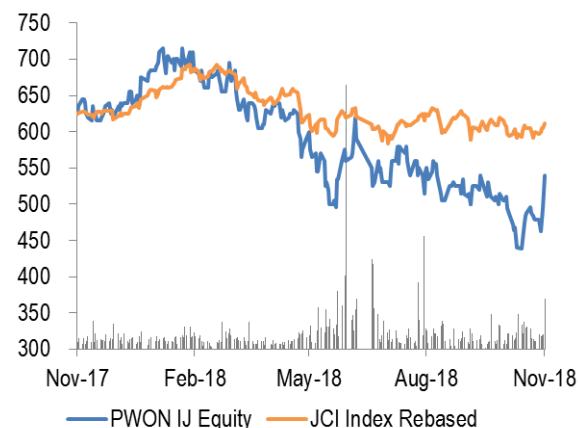
- Top and Bottom Line Growth of Much Higher Than 20%**

3Q18's top and bottom line growth outstripped 3Q17's growth of much higher than 20% y-y. 3Q18's revenue and net profit buoyed by 28.3% y-y to IDR1.85 trillion and 24.9% y-y to IDR651 billion, respectively. The growth in revenue was on the back of increment of 76.0% y-y in sales posted by the condominium and office segment. Revenue deriving from Jakarta areas increased by 1.6% compared to 1H18's revenue on the back of existing project of Kota Kasablanka complex. Besides, the overall margins, from January to September 2018, were higher than the same period of 2017.

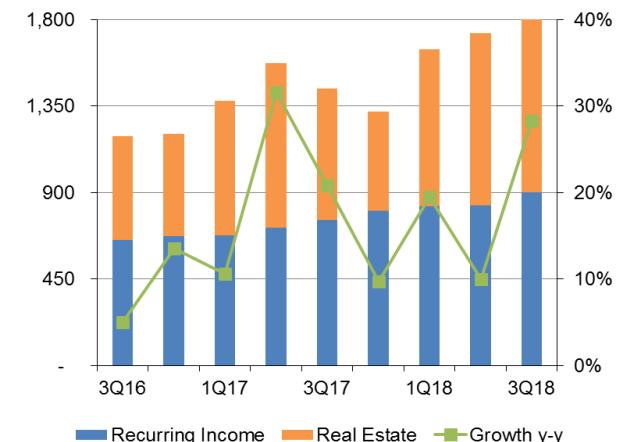
- Recurring Income Segment Gearing to Higher Pace**

In 3Q18, 3 contributors to the recurring income segment, namely rental & maintenance services, hotel revenues, and other business revenues, recorded their all-time high. PWON's performance was the most attractive among its peers amid the stagnant backdrop of the property industry. In 2019, it will increase its hotel room capacities to 42% by constructing two hotels in Pakuwon Mall's complex. Additionally, its recurring income is likely to be boosted by the IV phase of the under-construction project of Pakuwon Mall.

Share Price Performance



PWON Quarterly Revenues | 3Q16- 3Q18



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