

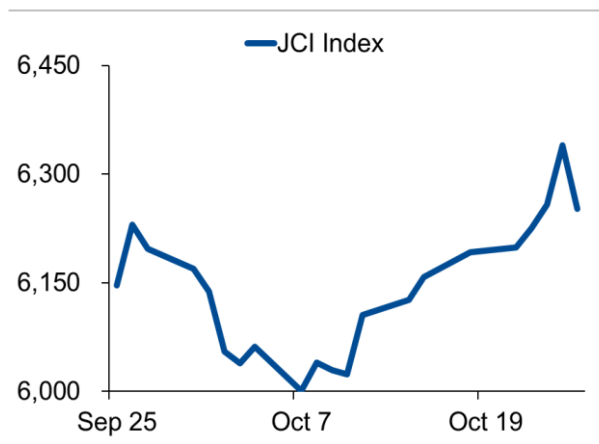
Weekly Brief (November 18th – November 22th)

Summary:

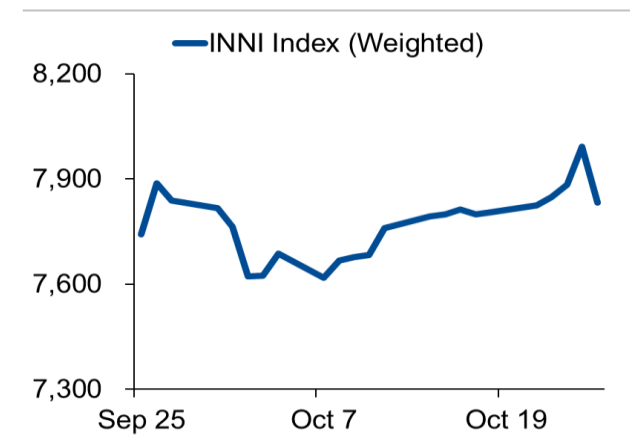
Last week review: JCI moved mixed, driven by domestic and global sentiments. JCI was bearish for most days in a week, for bank stocks tanked. Jokowi's order for banks to lower their loan rates and state-owned banks' capital injection to PT Bank Muamalat Indonesia Tbk dan PT Asuransi Jiwasraya weakened banking stocks. Apart from the domestic backdrop, Trump's tweets on the prerequisite conditions for partial deals made JCI vulnerable to declines. Oct. trade balance posting surplus drove JCI up on Friday (11/15).

This week's outlook: President Jokowi urged that banks not responding to BI's monetary easing promptly cut their loan rates in order to stimulate better economic growth. Loan rates only declined by 9bps from June to Sept, whereas BI, in the same period, slashed BI 7-DRRR by 75 bps. Lower loan rates will suppress Net Interest Margin (NIM)—particularly banks with high CoF—amid intense competition for third-party funds. NHKS recommends BBKA as this week's top pick stock, estimated to reach the price target of IDR32,000 with the PBV target of 4.8x.

JCI - one month



INNI Index – one month



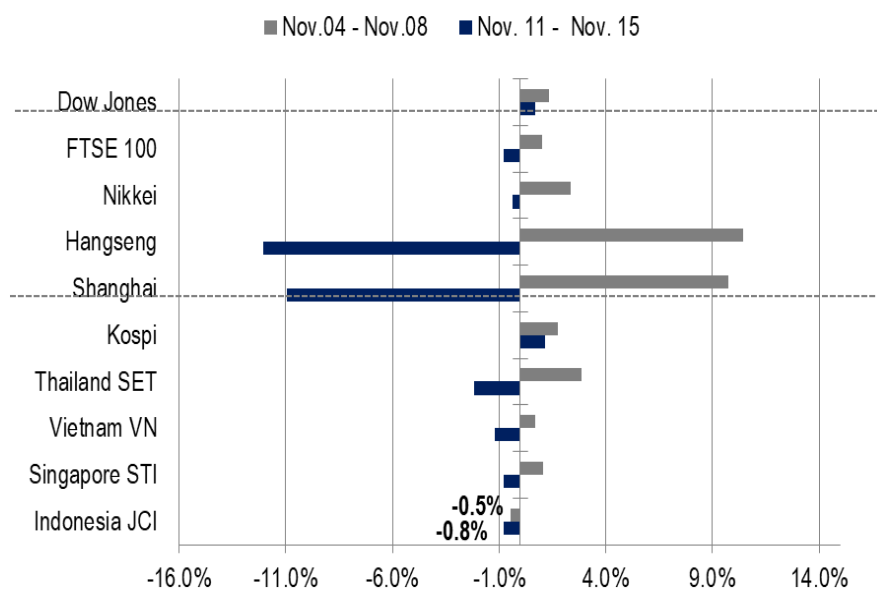
Last Week's JCI Movement

- JCI Index : 6,128.35 (-0.80%)
- Foreign Flow : *Net sell* of IDR909 billion (vs. *net sell* last week of IDR2.5 trillion)
- USD/IDR : 14,077 (+0.45%)
- Yields of sovereign bond with 10-years tenor : 7.029% (+5.40 bps)

JCI Gave up Gains

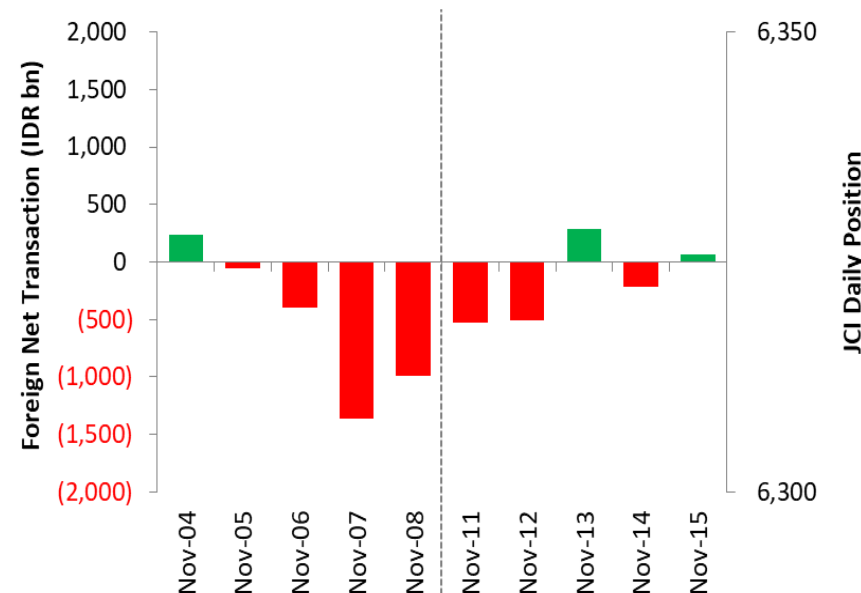
JCI's moves on Monday of Nov. 12 were weak as Trump tweeted that the US-China partial deal will take place only if it stands for the US benefits. Trump's tweet feared investors as they pulled their capital from emerging markets, including JCI. Apart from the global sentiments, Jokowi's order for banks to cut their loan rates was a drag on JCI's moves on Monday (11/11). It is estimated that declines in loan rates suppress state-owned banks more than private banks. After posting two-day losing streak, JCI continued to be bearish on Wednesday (13/11). Wednesday's bearish moves were triggered by state-owned banks' capital injection to PT Bank Muamalat Indonesia Tbk and PT Asuransi Jiwasraya (Persero) to boost their liquidity. On Friday (11/15), Statistics Indonesia released Oct. trade balance posting surplus of USD161.3 million so that JCI rebound on Friday (11/15).

Global Market Movement



Source: Bloomberg, NHKS Research

Foreign Net Flow – Last 10 Days



Source: Bloomberg, NHKS Research

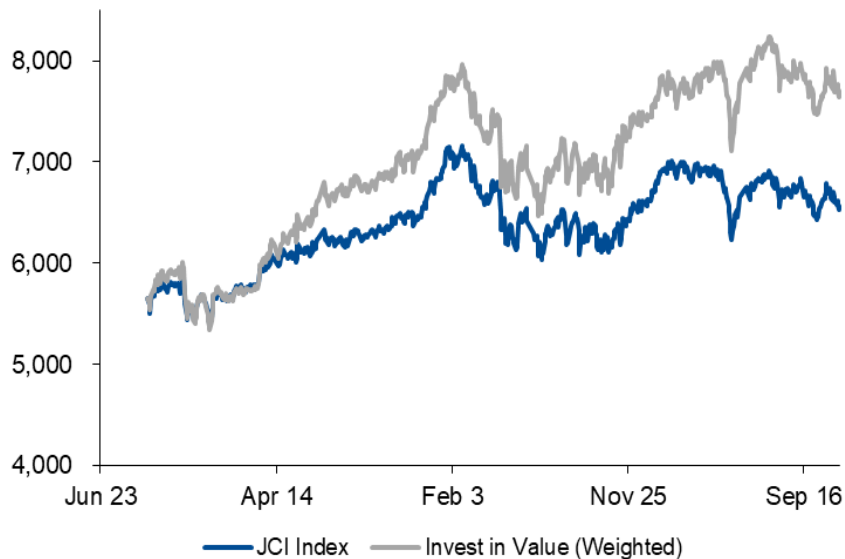
Last Week's INNI Movement

•INNI Index	: 7,544.71 (-1.5%)
INNI Theme 1 (Value)	: 7,709.49 (-0.4%)
INNI Theme 2 (Trend)	: 7,264.14 (-3.3%)

INNI Index Slumped

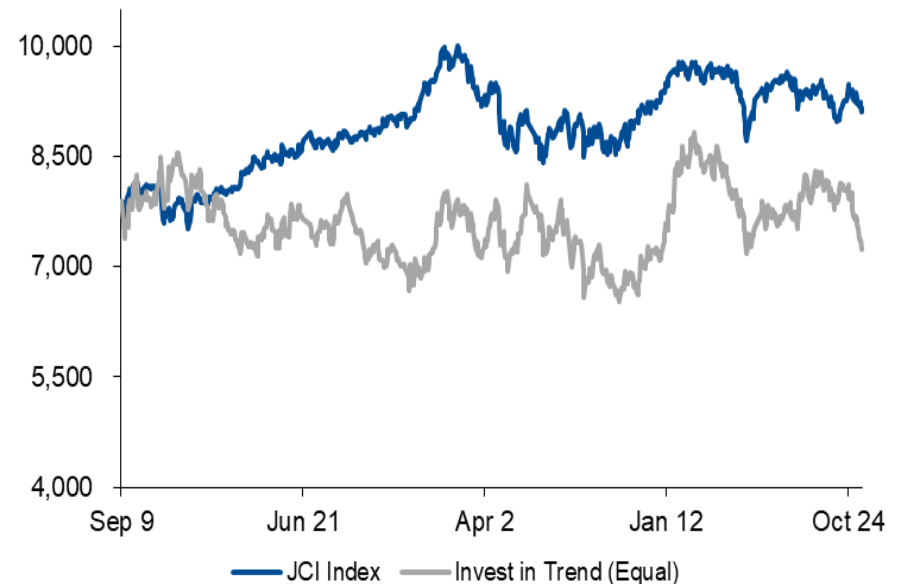
In the early days of last week, INNI index closed lower as INCO tumbled 3.4% after the government reopens nickel ore exports. An official memo stipulated by the Directorate General of Customs and Excise approves of PT Macika Mada Madana, PT Aneka Tambang Tbk (ANTM), PT Rohul Energi Indonesia, PT Sinar Jaya Sultra Utama, PT Wanatiara Persada, PT Trimegah Bangun Persada, PT Gane Permai Sentosa, PT Tekindo Energi, dan PT Gebe Sentra Nickel exporting ore nickel. In mid-days of last week, INNI index closed lower as coal prices moving sideways weakened coal stocks. On Friday (11/15), INNI was rebound, supported by property stocks, CTRA (+3.9%) and PWON (+3.5%). Fitch Rating report highlighting the property sector's sound presales of IDR7.7 trillion or a 5% q-q from July to Sept. contributed to the rally in property stocks.

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



Source: Bloomberg, NHKS Research

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



Source: Bloomberg, NHKS Research

Last Week Sectoral Review

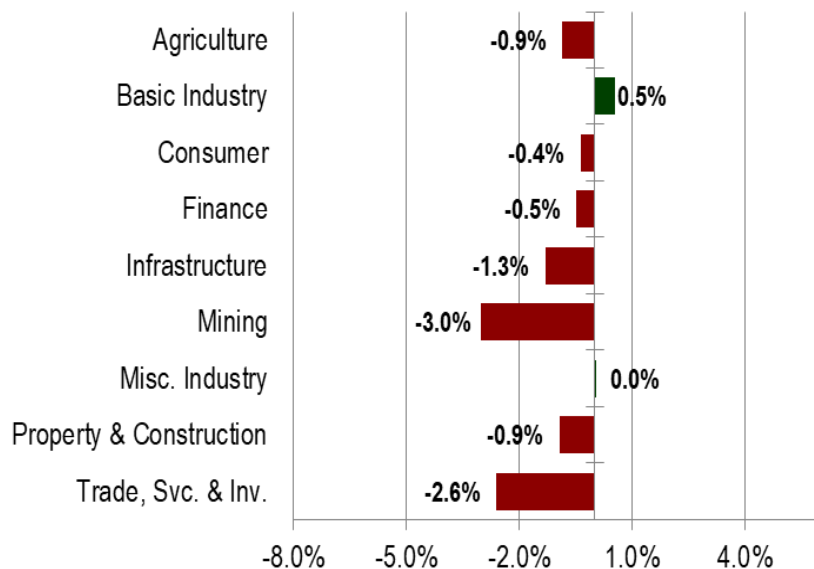
- JCI's Top Losers**

Last week, JCI's sectors were mostly in the bearish mode as the mining sector dropped 3.0%. The mining sector was hampered by fluctuating prices of commodities; that its growth slowed. Aware of the slow growth, banks are more selective in giving loans to the sector. The banks' loan policies are hiccups in smooth operational activities the miners hardly run.

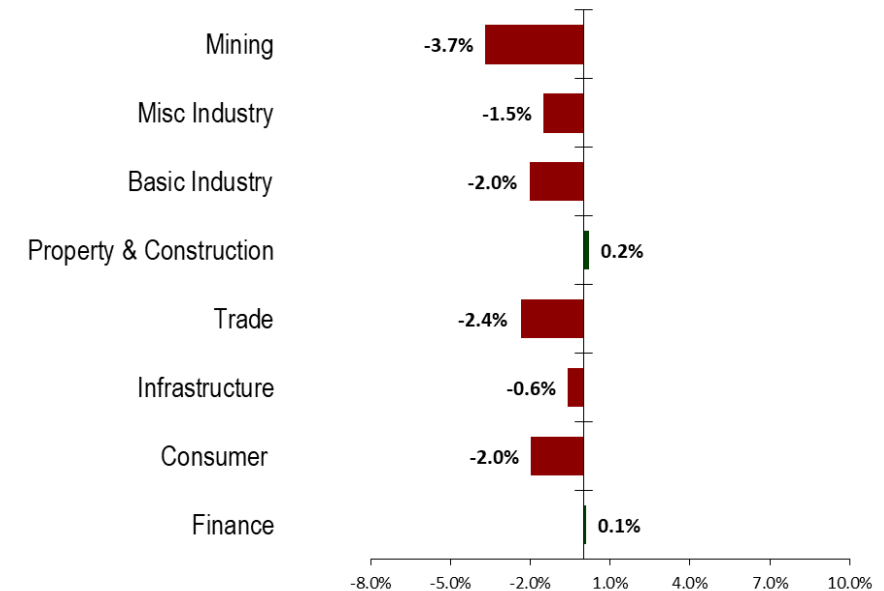
- INNI Index's Top Losers**

INNI's sectors virtually weakened. Another to the mining sector posting the largest loss, the retail sector posted the second's largest loss of 2.4%. Retailers were pessimistic as consumption softened. Sept. retail sales posted a slight growth of 0.7% y-y, much lower than 4.8% y-y in September. Sept. level weakened retail stocks, i.e., LPPF (-4.1%) and RALS (-3.9%) for a week

JCI's Last Week Sectoral Movements



INNI's Last Week Sectoral Movements



This Week's Outlook: Banking Sector

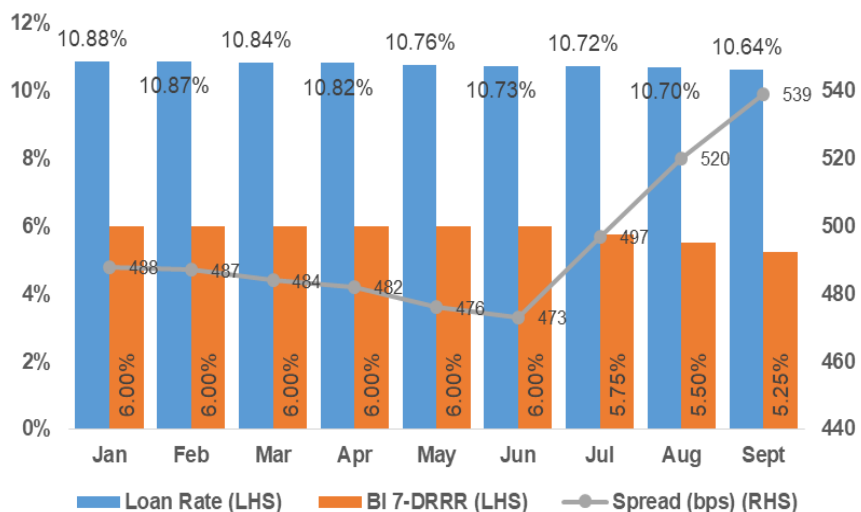
• Tight Liquidity and Loan Risks

President Joko Widodo urged banks to cut their loan rates amid tight liquidity and higher loan risks to banks. Banks cut loan rates only as much as 9 bps from June to September, whereas Bank Indonesia (BI) slashed BI 7-DRRR by 75 bps. Although tycoons and UMKM (micro, small and medium) entrepreneurs expect lower loan rates, banks (lenders) are reluctant to cut loan rates significantly on grounds of the currently higher Cost of Funds (CoFs) and suppressed margins. Prior to cutting loan rates, banks should lower deposit rates--particularly time deposits with higher CoFs than that of savings and current account. From June to September 2019, loan rates fell short in the range of 10.73%-10.64%, whereas BI 7-DRRR fell in the broader range of 6.00%-5.25%.

• Loan Rates per Segment

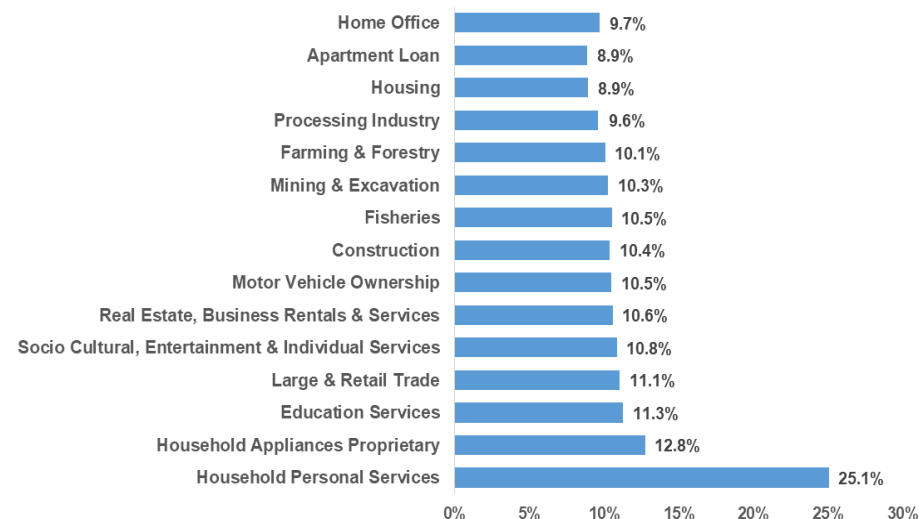
To keep net interest margin (NIM) in check, declines in loan rates should be in harmony with decreases in both CoFs of time deposits and interest income. Banks also cautiously examine risks and tenors as loans distributed to different business segments are bound to different risks and adjustable rates. Such business segments as electricity, trade, and hotels showing high demands are lucrative targets for loan distribution. Conversely, mortgage loans (KPR), apartment loans (KPA), and automotive credits struggle with soft consumption. In fact, a number of banks battle with tight liquidity and jostle for funds as LDR ratio soars.

Loan Rate Movements



Source: FSA, BI, NHKS Research

Loan Rates for Varied Segments



Source: FSA, BI, NHKS Research

This Week's Outlook: Banking Sector

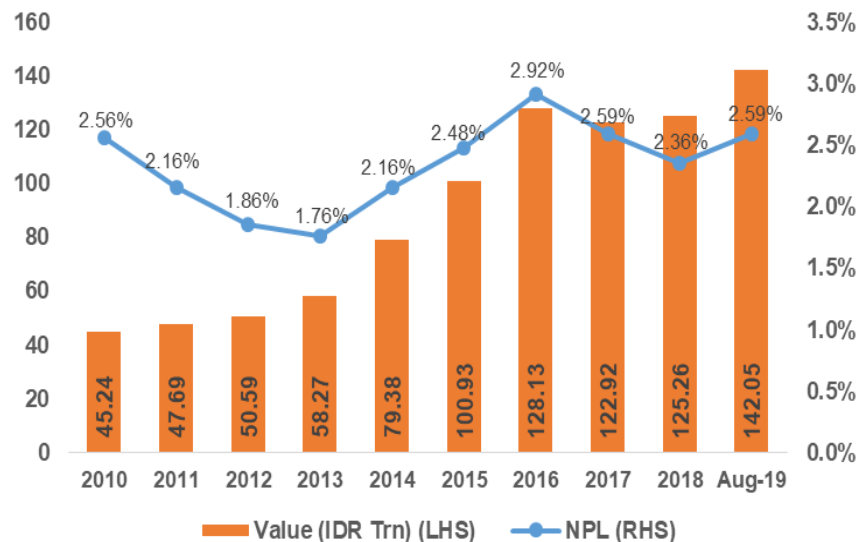
- Larger Loan Facilitated, Higher NPL in Default**

Banks set high loan rates because the loan segment is exposed to high NPL risks. The Financial Service Authority (OJK) data discloses that the banking sector posts rising NPL ratio from 2.36% in 2018 to 2.59% in August 2019. NPL rose as banking loans hiked by 13.4% to IDR142.05 trillion in August 2019. The 2019's riot-free general election boosts entrepreneurs' confidence in Indonesia's economic circumstances so that they are enthusiastic about lending working capital for running production. Insatiable consumption during Ramadhan month and Eid Mubarak of 2019 contributed to higher demands for loan facilities. Statistic Indonesia (BPS) recorded Indonesia's 3Q19 economic growth at 5.02% YoY lower than 5.05% YoY in 2Q19 or 5.17% YoY in 3Q18. Loan facilities spent on less productive business activities were likely to be a drag on 3Q19 economic growth.

- Loan --Loss Provisioning to Counter NPL in Default**

To counter risks from rising NPL in default, a number of banks allocate larger portions of loan-loss provisioning. Should in default risks not arise, the larger allocation strengthens profits. PT Bank Central Asia Tbk (BBCA) categorized as BUKU IV bank doubles its loan-loss provisioning to 100.2% from IDR1.75 trillion to IDR3.5 trillion. It carries out a strict-screening process of approving loans facilitated to corporate businesses, in particular.

Banks' NPL



Source: BI, NHKS Research

NPL Risks Posed by Varied Segments



Source: BI, NHKS Research

Bank Central Asia Tbk (BBCA IJ – Bank)

Dec. 2020 Price Target	32,000
Consensus Price	32,449
Last Price (IDR) as of Nov. 15, 2019	31,375
PT vs. Last Price	2.0%

Liquidity:	
LDR	80.6%
CASA	75.0%

IDR Bn	FY18A	FY19A	FY20E	FY2021E
Revenues	74,702	70,997	78,275	87,163
y-y	8.7%	-4.9%	10.2%	11.3%
Op. Profits	32,620	36,392	41,285	46,559
Net Income	25,855	28,981	32,868	36,858
ROE	18.2%	17.8%	17.6%	17.5%
P/E	23.8x	26.5x	23.4x	20.9x
P/BV	4.5x	4.8x	3.9x	3.4x

- **NHKS** recommends on BBCA estimated to attain the target price of IDR32,000 at a 4.8x PBV. Increases in NIM were driven by the growth in fee-based income. Despite the tighter liquidity and the trend of rising NPL, BBCA is persistently selective in giving loan facilities to the corporate segment in particular.

- **NPL Is Maintainable at 1.6%**

Based on BBCA's 3Q19 earnings, its NPL was at 1.6% or a better-maintained level than 3Q18's level of 1.4%. BBCA's prudent business expansion and its tactical shrewdness of optimizing opportunities narrow its August's NPL, much lower than 2.6% posted by the banking industry. Factors driving BBCA's 3Q19 NPL up to 1.6% were one of its creditors—a steel exporter which was in default on the loan-- and a natural disaster hit Palu, Central Sulawesi in September 2018. Of note, BBCA's 3Q19 distributed loans grew by 10.9% YoY to IDR585.49 trillion underpinned by the corporate loans and commercial & micro, small and medium (UKM) loans grew by 16.5% YoY and 10.5% YoY, respectively.

- **LDR at 80.6% Keeps Liquidity in Check**

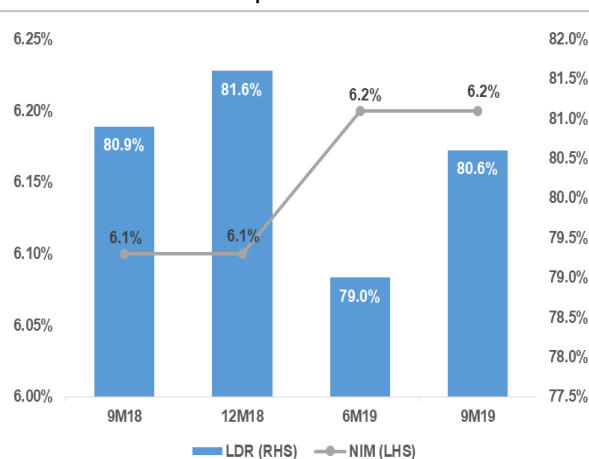
The 3Q19's stable liquidity ratio (LDR) at 80.6% or a slight decline from 80.9% in 3Q18. BBCA's narrowing liquidity ratio signified BBCA's better LDR than the banking industry of 94.7% hiking from 93.8% in 3Q18. BBCA's lower LDR indicated its agility of disbursing larger loans to a greater number of debtors compared to its peers. BBCA's low maintained LDR is supported by third-party funds rising by 10.4% to IDR683.05 trillion.

Last 5-Year P/BV Trailing Band



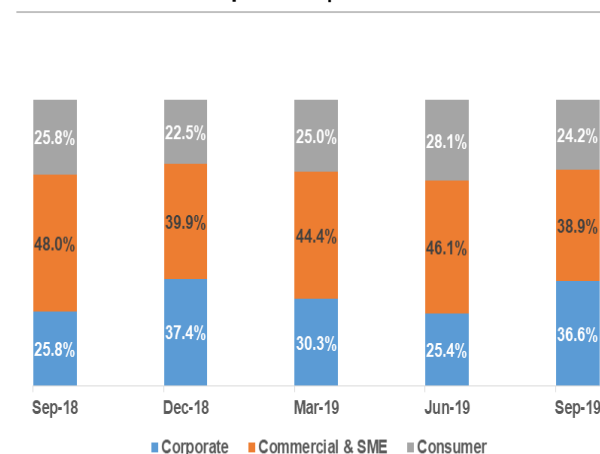
Source : Bloomberg, NHKS Research

BBCA's LDR vs. NIM | 9M18 – 9M19



Source : Company Data, NHKS Research

BBCA's NPL Composition | 3M18 – 3M19



Source: Company Data, NHKS Research

INNI Index'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	31,375	31,400	32,000	Hold	2.0	-0.1%	773.6	27.4x	4.6x	18.1	1.1	15.0	13.0	
BBRI	Theme 1	4,090	3,990	4,950	Buy	21.0	2.5%	504.5	14.9x	2.5x	18.2	3.2	10.8	5.6	
BMRI	Theme 1	6,950	7,100	8,275	Buy	19.1	-2.1%	324.3	11.9x	1.6x	14.7	3.5	10.6	11.9	
Consumer															
GGRM	Theme 1	53,500	53,500	75,075	Buy	40.3	0.0%	102.9	11.1x	2.2x	20.5	4.9	16.9	25.8	
UNVR	Theme 1	42,225	43,150	59,000	Buy	39.7	-2.1%	322.2	44.0x	46.8x	92.3	2.8	2.6	(24.4)	
ICBP	Theme 1	11,400	11,275	11,800	Hold	3.5	1.1%	132.9	26.7x	5.6x	22.2	1.2	11.2	11.4	
INDF	Theme 1	7,875	7,750	8,700	Hold	10.5	1.6%	69.1	14.2x	1.9x	14.2	2.2	5.7	25.2	
KAEF	Theme 2	2,260	2,450	3,210	Buy	42.0	-7.8%	12.6	54.0x	5.6x	16.6	0.7	29.6	(81.4)	
KLBF	Theme 2	1,510	1,585	1,870	Buy	23.8	-4.7%	70.8	27.6x	4.6x	17.6	1.7	7.3	6.2	
Infrastructure															
TLKM	Theme 1	4,080	4,110	4,700	Buy	15.2	-0.7%	404.2	20.0x	4.1x	21.3	4.0	3.5	15.6	
JSMR	Theme 1	5,075	5,100	6,000	Buy	18.2	-0.5%	36.8	19.0x	2.0x	11.3	0.9	(22.8)	(15.2)	
Trade															
UNTR	Theme 1	22,375	23,275	39,550	Buy	76.8	-3.9%	83.5	7.8x	1.5x	19.8	5.5	#N/A	N/A	(4.8)
SILO	Theme 2	7,050	7,150	7,230	Hold	2.6	-1.4%	11.5	204.4x	1.8x	0.9	N/A	18.6	1333.7	
MIKA	Theme 2	2,660	2,710	2,300	Hold	(13.5)	-1.8%	37.9	57.6x	9.1x	16.4	0.7	17.2	12.1	
LPPF	Theme 2	3,500	3,650	5,500	Buy	57.1	-4.1%	9.8	12.6x	5.5x	37.8	9.5	0.7	(18.7)	
RALS	Theme 2	1,110	1,155	1,515	Buy	36.5	-3.9%	7.9	11.1x	1.8x	17.1	4.5	(2.0)	15.8	
MAPI	Theme 2	1,065	1,055	1,200	Hold	12.7	0.9%	17.7	21.6x	3.0x	14.8	0.9	11.4	14.7	
Property															
PWON	Theme 1	585	580	725	Buy	23.9	0.9%	28.2	9.7x	2.0x	22.2	1.2	0.2	20.8	
CTRA	Theme 1	1,065	1,085	1,080	Hold	1.4	-1.8%	19.8	19.5x	1.3x	7.2	0.9	(0.7)	(28.9)	
PTPP	Theme 1	1,580	1,580	2,450	Buy	55.1	0.0%	9.8	8.4x	0.8x	9.4	3.1	8.6	(37.6)	
WSKT	Theme 1	1,465	1,485	2,500	Buy	70.6	-1.3%	19.9	14.3x	1.1x	7.8	5.0	(39.2)	(69.4)	
WIKA	Theme 1	2,010	1,945	2,100	Hold	4.5	3.3%	18.0	8.1x	1.1x	15.3	1.9	#N/A	N/A	57.3
Basic Ind.															
JPFA	Theme 2	1,675	1,720	1,940	Buy	15.8	-2.6%	19.6	12.7x	2.0x	16.1	3.0	7.3	(38.6)	
SMGR	Theme 2	12,750	12,825	14,600	Hold	14.5	-0.6%	75.6	33.1x	2.4x	7.5	1.6	31.1	(38.1)	
INTP	Theme 2	19,950	20,550	22,300	Hold	11.8	-2.9%	73.4	43.1x	3.3x	7.6	2.8	5.3	90.4	
Misc Ind.															
ASII	Theme 2	6,525	6,625	8,600	Buy	31.8	-1.5%	264.2	12.9x	1.8x	14.9	3.2	1.2	(7.1)	
Mining															
ADRO	Theme 1	1,340	1,415	1,750	Buy	30.6	-5.3%	42.9	5.9x	0.8x	14.2	6.7	10.2	51.9	
PTBA	Theme 1	2,510	2,580	5,100	Buy	103.2	-2.7%	28.9	6.4x	1.6x	26.4	13.5	1.4	(24.9)	
INCO	Theme 2	3,360	3,560	3,370	Hold	0.3	-5.6%	33.4	411.6x	1.3x	0.3	N/A	(12.6)	N/A	
ANTM	Theme 2	825	835	1,200	Buy	45.5	-1.2%	19.8	24.6x	1.0x	4.1	1.5	23.0	(11.1)	

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