

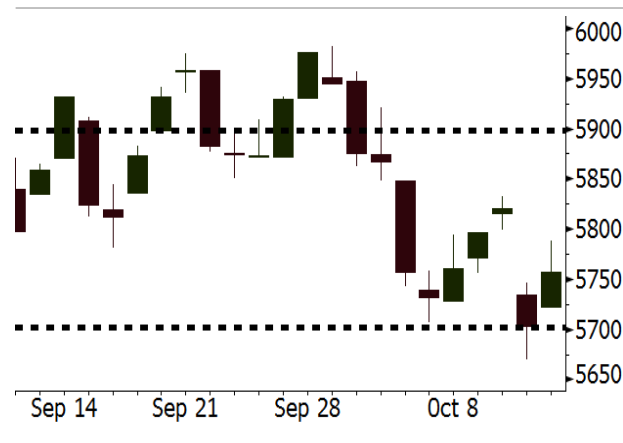
Weekly Brief (October 15 – 19)

Summary:

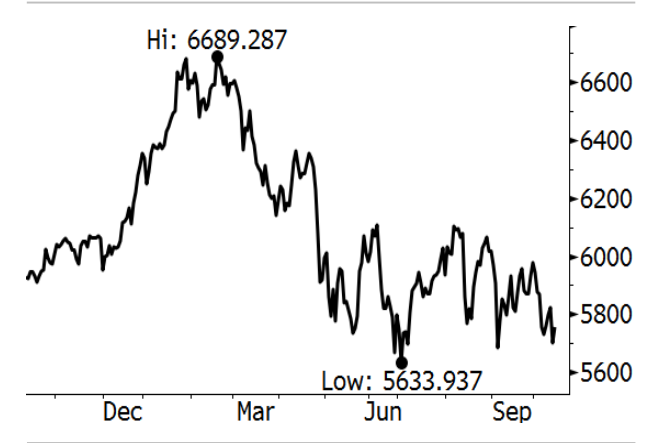
Last week, JCI rallied albeit a steep tumble on Thursday, 10/11/2018. JCI's positive performance was in a stark contrast to the global markets' movement tumbling last week. The negative sentiment of global markets comes from IMF's revisions to the global economic growth. Besides, global investors also concerned about the hike in the U.S. Treasury yield.

Within this week, JCI is estimated to rally further. Investors keep their wary eyes on September's trade balance. Investors estimated that September's trade deficit is narrower than August's trade deficit. On the other side, investors will eye on 3Q18's banking survey by BI as a tool for fathoming whether or not the acceleration in credit growth can be maintainable. We recommend BBNI's stocks as it will release its 3Q18's performance. Besides, we also recommend TLKM projected to outperform as another top pick stocks.

JCI - one month



JCI - one year



Last Week's Recap

- Jakarta Composite Index (JCI) : 5,756.49 (+0.43%)
- Foreign Investor : net sell of IDR4.2 trillion (vs. previous week's net sell of IDR2.4 trillion)
- USDIDR : 15,197 (+0.09%)
- 10-year Government Bond Yield : 8.762% (+38.4 bps)

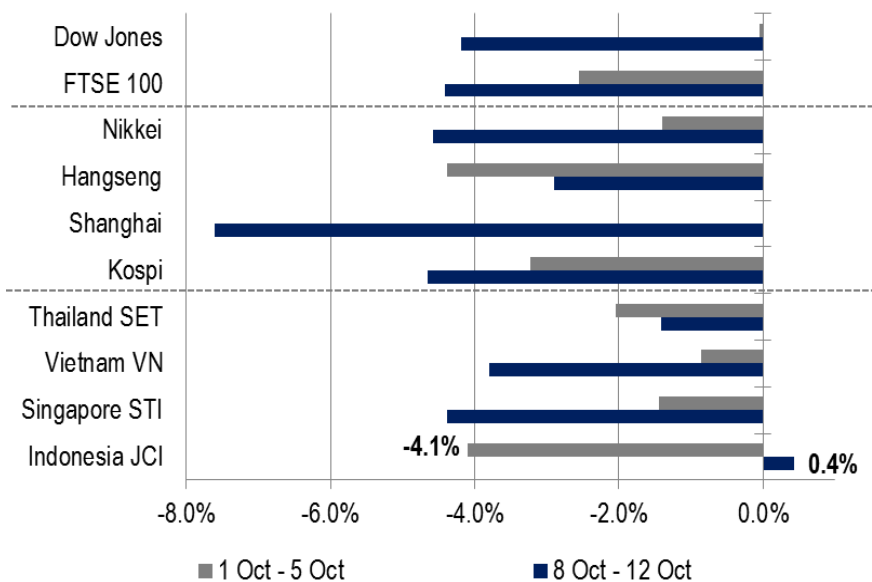
• Revision to Global Economic Growth by IMF

IMF revised its projection of global economic growth set forth in the October 2018 World Economic Outlook and estimated that in 2018 and 2019, the global economy grows by 3.7%, declining than the growth of 3.9% estimated in April. The high global economic volatility and unresolved trade disputes are factors, causing IMF to revise the global economic growth. Another to the revision to the global economic growth, IMF also projected that in 2018 and 2019, Indonesia economy is likely to grow by 5.1%, lower than the initially projected growth of 5.3%.

• US Treasury Yield, the Highest Since 2011

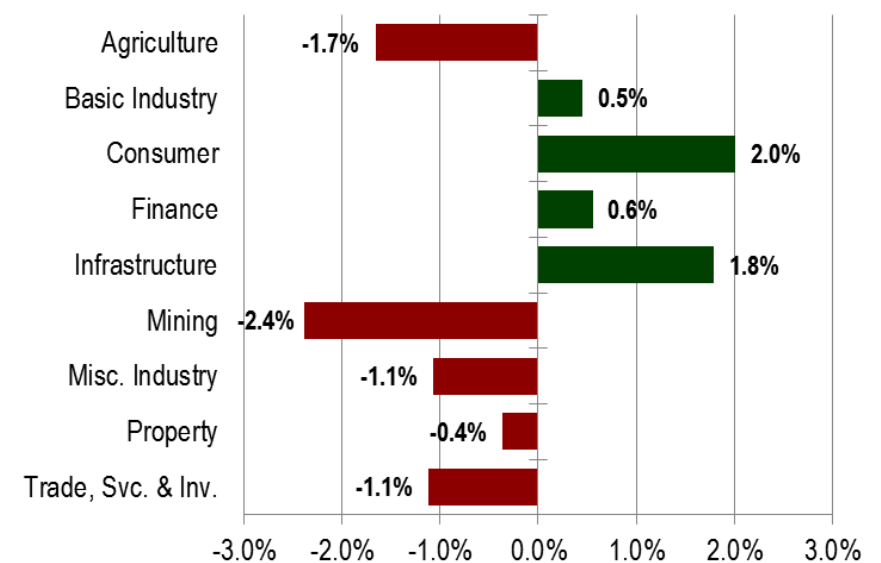
Last week, the U.S. 10-Year Treasury yield climbed to 3.21%, by far the highest since 2011. The jitters of the Fed's benchmark rate hikes is a logical takeaway for the soaring yield. Indeed, the rising yield pushed the U.S., European, and most Asia markets in negative territories.

Global Equity Market



Source: Bloomberg, NH Korindo Research

Sector Index



Source: Bloomberg, NH Korindo Research

This Week's Outlook

• September's Trade Balance

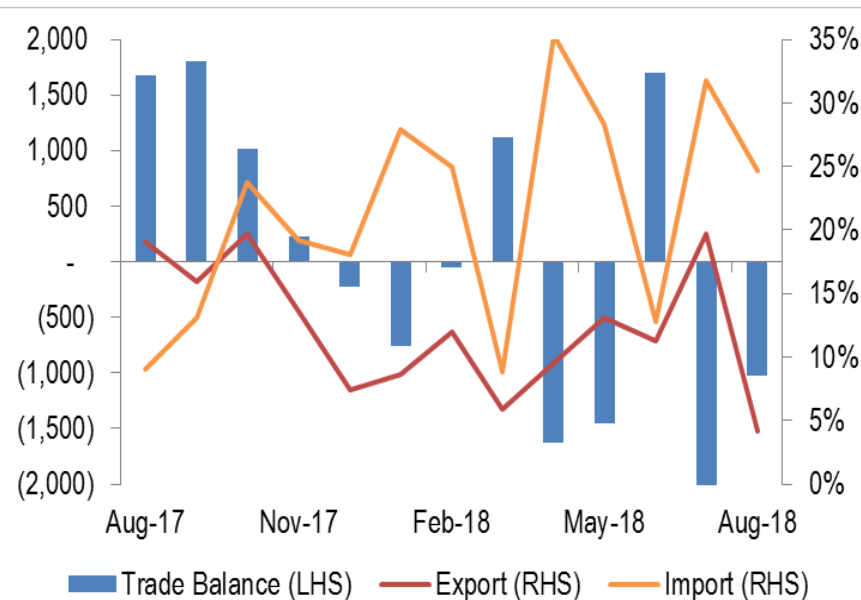
The Central Statistics Agency (BPS) releases September's trade balance on Monday, 10/15/18. Of note, August's trade balance posted the deficit of USD1.02 billion, lower than July's deficit of USD2.01 billion. The trade balance deficit was attributable to the oil and gas (migas) deficit of USD1.66 billion and the non-oil and gas (non-migas) surplus of USD640 million. The migas deficit was beset by the soaring migas imports of 0.39 billion m-m, crude imports in particular. Investors expect Indonesia to post a significant decline in the trade deficit after the government enacted policies on curbing imports, e.g. B20 mandatory and increment in income tax (PPH 22) on imported consumer goods.

• 3Q18's Banking Survey

On Tuesday, 10/16/18, Bank Indonesia (BI) releases the 3Q18's banking survey. Based on 2Q18's survey, 2018's credit growth is likely to reach 11.6% y-y. However, the credit growth settled at 12.1% y-y in August. Investors keep their wary eyes on the result of 3Q18's banking survey as it gives the projection whether or not the credit growth in Indonesia at the end of 2018 to likely hiked than the prior projection. To date, the acceleration in credit growth gets no negative impacts of BI's massive benchmark rate hikes.

- We estimate that within this week JCI likely rallies at the range of **5,702-5,898**. JCI posting no significant rally is still potential for further rally.

Indonesia Trade Balance



Source: Indonesia Statistics, NH Korindo Research

Loan Growth (y-y)



Source: Bank Indonesia, NH Korindo Research

Bank Negara Indonesia (BBNI – Bank)

Dec 2019 TP	9,675
Consensus Price	9,044
TP to Consensus Price	+7.0%
vs. Last Price	+39.7%
Last Price (IDR)	6,925
Price date as of	Oct 12, 2018
52wk range (Hi/Lo)	10,175 / 6,675
Free Float (%)	40.0
Outstanding sh. (mn)	18,649
Market Cap (IDR bn)	129,142
Market Cap (USD mn)	8,483
Avg. Trd Vol – 3M (mn)	23.30
Avg. Trd Val – 3M (bn)	172.14
Foreign Ownership	19.0%
Interest Income Breakdown:	
Loan	86.3%
Non Loan	13.7%

IDR bn	FY2016	FY2017	FY2018E	FY2019E
Int. Income	43,768	48,178	55,837	64,525
y-y	18.6%	10.1%	15.9%	15.6%
Op. Rev.	41,299	45,212	50,071	58,554
Net profit	11,339	13,616	15,866	19,744
EPS (IDR)	608	730	851	1,059
y-y	25.1%	20.1%	16.5%	24.4%
NIM	6.0%	5.4%	5.4%	5.5%
ROE	13.5%	14.3%	15.0%	16.7%
P/E	9.1x	13.6x	8.1x	6.5x
P/BV	1.2x	1.8x	1.2x	1.0x

• 3Q18's Expectancy: Persistent Double-Digit Growth in Net Profit

This week BBNI is scheduled to release 3Q18's performance. In 2Q18, it posted the growth of 19.0% y-y to IDR3.8 trillion in net profit. Since 1Q18, it consistently posts the double-digit growth in net profit. We estimate that in 3Q18, it is likely capable of posting the growth of 17.2% to IDR4.4 trillion in net profit. 3Q18's net profit will be backed by the consistent growth of 16.0% to IDR14.2 trillion in interest income.

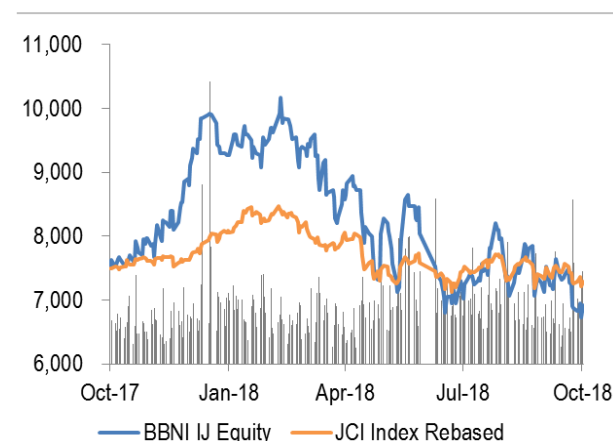
• Low LDR Offsetting Lagging Time Deposits

Financial market volatility sending the benchmark rate to soar sparks fears of lagging deposit to the banking sector. The soaring benchmark rate causes funds deposited in bank accounts to flee into other instruments. However, we estimate that the negative impact of outflows cause no any harm to BBNI due to the low loan-to-deposit (LDR) ratio. Its current LDR ratio is at 86%, a lot lower than BBRI and BMRI's LDR of 94.8% and 92.9%, respectively. This backdrop saves BBNI from liquidity risks and enables BBNI to bolster credit expansion.

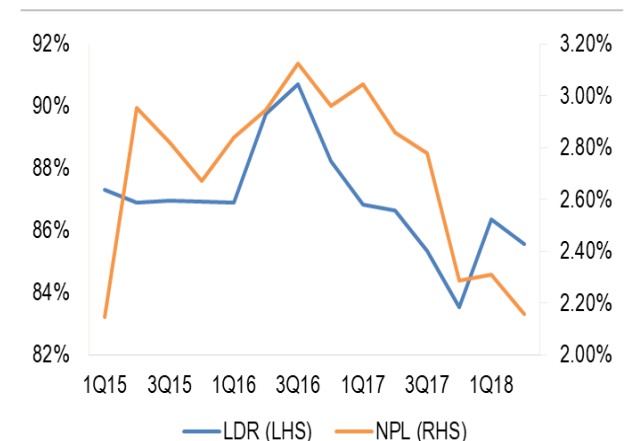
• Recovery in Credit Qualities

In 2Q18, BBNI posted the non-performing loan (NPL) ratio of 2.1%, much the lowest since 2Q15. In 3Q16, its NPL ratio touched is by far the highest figure of 3.12%. Its success in improving credit qualities inevitably whittles away provision expenses and keeps the double-digit net profit growth in check.

Share Price Performance



LDR and NPL Ratios



Telekomunikasi Indonesia (TLKM – Telco)

Dec 2019 TP	4,700			
Consensus Price	4,143			
TP to Consensus Price	+13.4%			
vs. Last Price	+27.7%			
Last Price (IDR)	3,680			
Price date as of	Oct 15, 2018			
52wk range (Hi/Lo)	4,450 / 3,520			
Free Float (%)	47.9			
Outstanding sh. (mn)	99,062			
Market Cap (IDR bn)	364,549			
Market Cap (USD mn)	23,946			
Avg. Trd Vol – 3M (mn)	104.28			
Avg. Trd Val – 3M (bn)	372.53			
Foreign Ownership	29.1%			
Revenue Breakdown:				
Data, internet & IT Service	52.5%			
Cellular voice & SMS	30.4%			
Others	17.1%			
IDR bn	FY2017	FY2018E	FY2019E	FY2020E
Revenue	128,256	134,807	149,039	167,069
y-y	10.2%	5.1%	10.6%	12.1%
EBITDA	64,609	63,642	70,398	79,030
Net profit	22,145	20,829	24,335	26,964
EPS (IDR)	220	210	246	272
y-y	14.4%	-5.9%	16.8%	10.8%
NPM	17.3%	15.5%	16.3%	16.1%
ROE	20.3%	18.0%	19.1%	18.9%
P/E	20.2x	17.5x	15.0x	13.5x
P/BV	4.0x	3.1x	2.8x	2.5x

• Reliance on Infrastructure

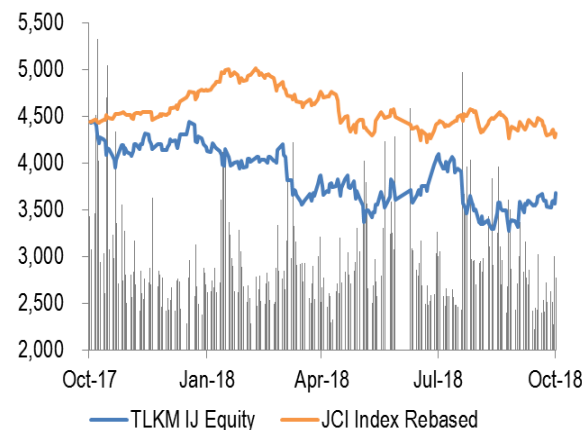
We project that in 3Q18, TLKM is likely capable of stabilizing its performance after 2Q18's underperformance. TLKM ploughs into infrastructure developments, e.g. Merah Putih satellite, the Indonesia Global Gateway (a submarine cable communication system), and 14,978 base transceiver station (BTS) — an increment of 20% y-y in 1H18. It expects that the investment results in positive revenues. In addition to investment in infrastructure developments, in 1H18, it spent IDR14.1 trillion on capex.

After the end of price war among operators, TLKM finally raised its data package prices by 4%-11%. Until June 2018, it served 177.9 million subscribers whose 134.7 million are data users. The fix-broadband business — Indihome — posted a significant growth, with the total subscribers of 4.5 million at the end of August 2018, increasing 1.5 million since the early-2018. The significant growth inevitably boosts its revenues.

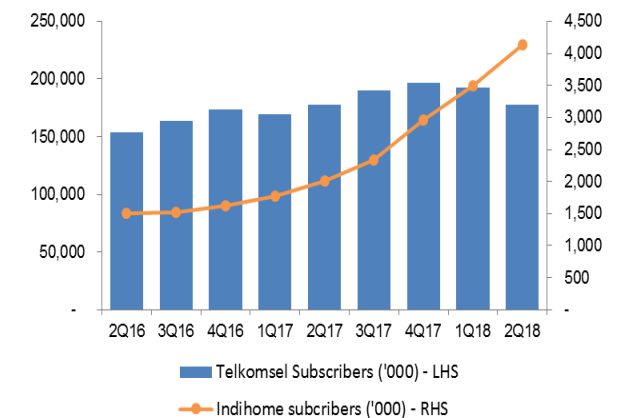
• Robust Fundamental

A number of financial indicators sign TLKM's reliance on a robust fundamental. In 1H18, ROE and ROA were 20.5% and 8.6%, respectively. Meanwhile, D/E ratio of FY17 and FY18E respectively settle at 31.6% and 37.3%. Indeed, its dividend payout ratio is attractive because it settles at 75% in FY17 and 60% in FY18E.

Share Price Performance



Telkomsel and Indihome Subscribers | 2Q16 – 2Q18



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