

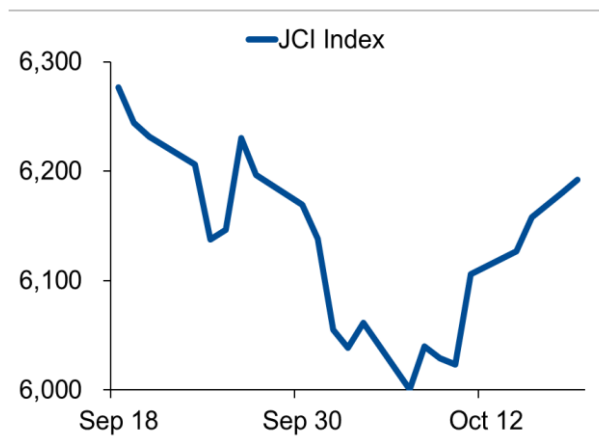
## Weekly Brief (October 21st – October 25th)

### Summary:

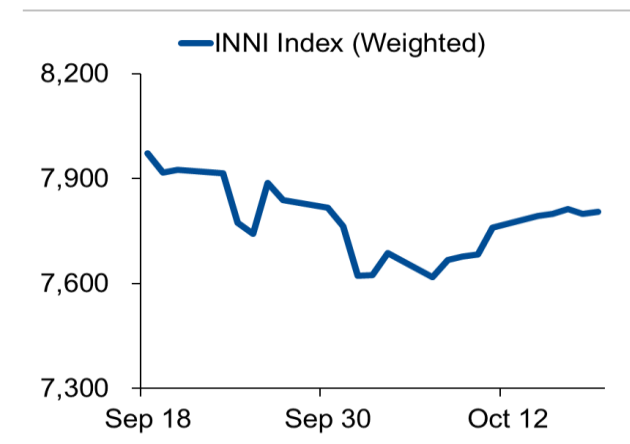
**Last week review:** Few domestic and global fluxes bucked up JCI. A little truce, temporarily chilling US-China tensions out, left Asia markets rebounding. The trade truce between Mr. Trump and Vice Premier Liu He concluded with a delay on tariff hikes, protections for intellectual property rights, more access to partially closed Chinese markets, and purchase of US agriculture products. Apart from the global backdrop, Sept. trade balance reading was disappointing as it was in deficit on grounds of lesser expansive exports and struggling prices of commodities.

**This week's outlook:** The US-China truce deferring tariff hikes and the lineup of Jokowi's 2019-2024 announced on Sunday, Oct. 20th, are catalysts for bucking up JCI or weighing down JCI. Aside from our projection of global and domestic macroeconomic sentiments to which JCI is vulnerable, we estimate that the poultry industry's outlook is likely promising as the policy on production curb of DOC broiler final stock sends prices of broilers rising. We, on grounds of JPFA's more diverse businesses than its peers, sound poultry feed segment, and ceaseless business expansion, recommend it as top-pick stock with the price target of IDR1,940 based on the trailing band of 12.7x.

JCI - one month



INNI Index – one month



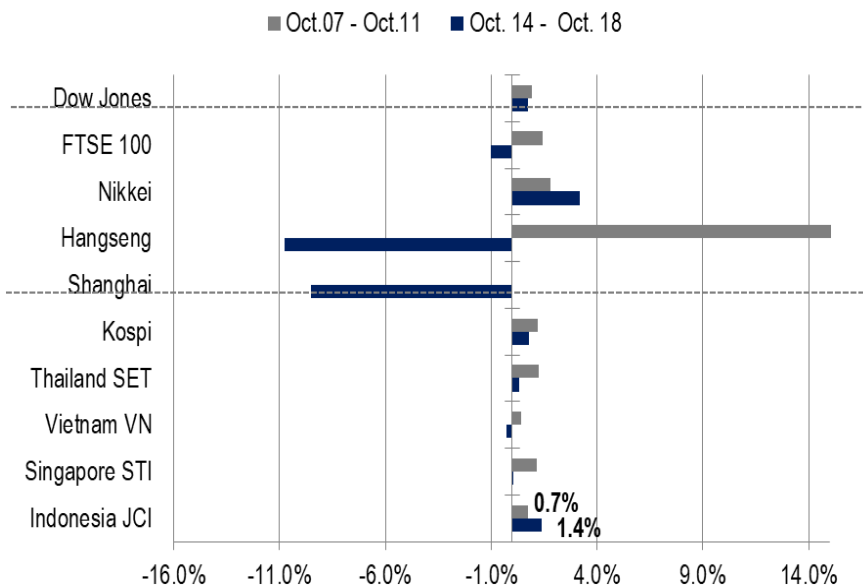
# Last Week's JCI Movement

- JCI Index : 6,191.95 (+1.41%)
- Foreign Flow : Net sell of IDR1.3 trillion (vs. net sell last week of IDR1.1 trillion )
- USD/IDR : 14,148 (+0.07%)
- Yields of sovereign bond with 10-years tenor : 7.141% (-10.60 bps)

## JCI Bucked Up

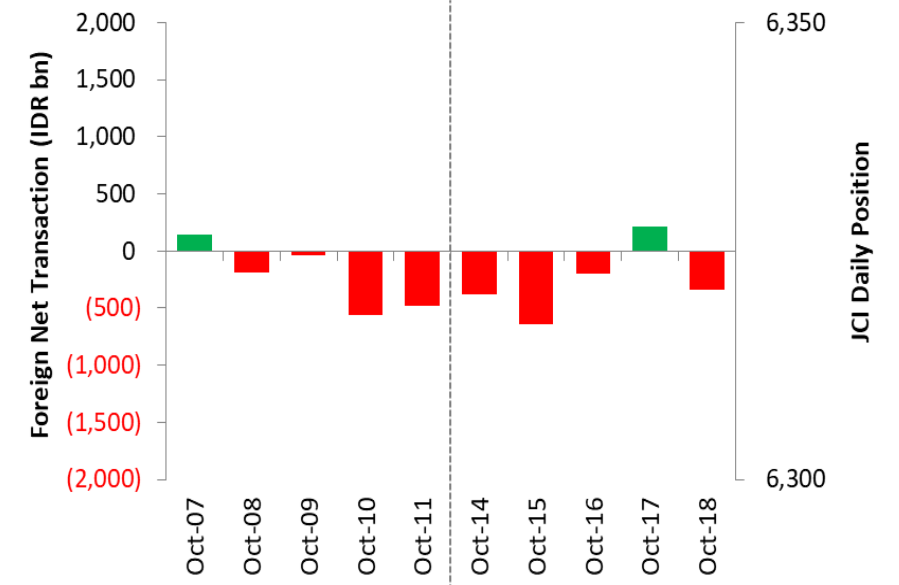
In Washington, October 11, 2019, was a smaller truce agreed, leaving China to purchase USD40 billion to USD50 billion worth of US agricultural products, enforcing protections for both economies' intellectual property rights, leveraging market access, pausing a tariff hike planned for Oct.15, when USD250 billion worth of Chinese goods would have been subject to a 30% tax, hiking from 25%. The little truce, an interim pause in trade tensions, left stock markets rebounding, as JCI's two-day gains in the early days of last week. For another two-mid day, Sept. trade deficit of USD160 million, with imports of USD14.2 billion outweighing exports of USD14.1 billion failed to be a drag on JCI's advance moves to the green zone. On Thursday's trading intraday of Oct. 17, JCI received foreign inflows of IDR208 billion after three-day foreign outflows. JCI, as did most of Asia markets bucked up on Friday's trading intraday.

## Global Market Movement



Source: Bloomberg, NHKS Research

## Foreign Net Flow – Last 10 Days



Source: Bloomberg, NHKS Research

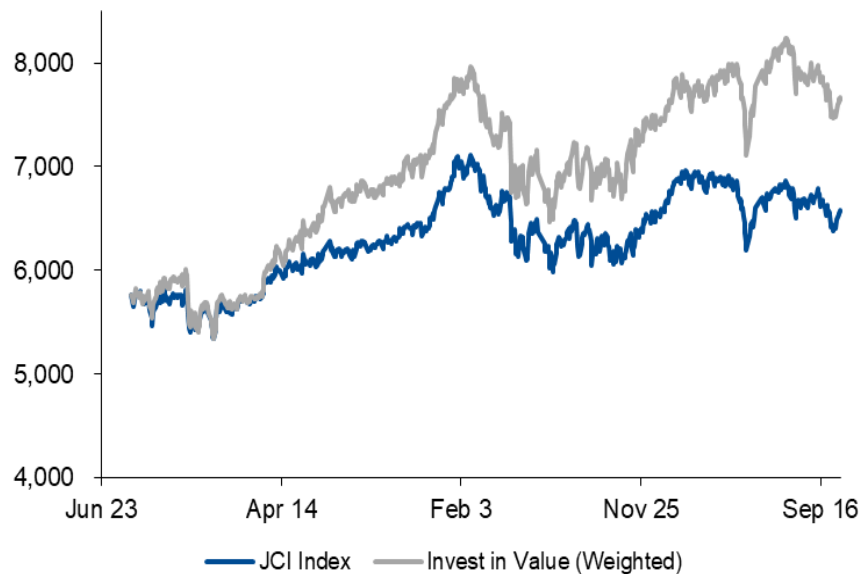
# Last Week's INNI Movement

•INNI Index	: 7,805.14 (+0.6%)
INNI Theme 1 (Value)	: 7,672.50 (+1.7%)
INNI Theme 2 (Trend)	: 8,030.98 (-1.2%)

## INNI Snapped Higher

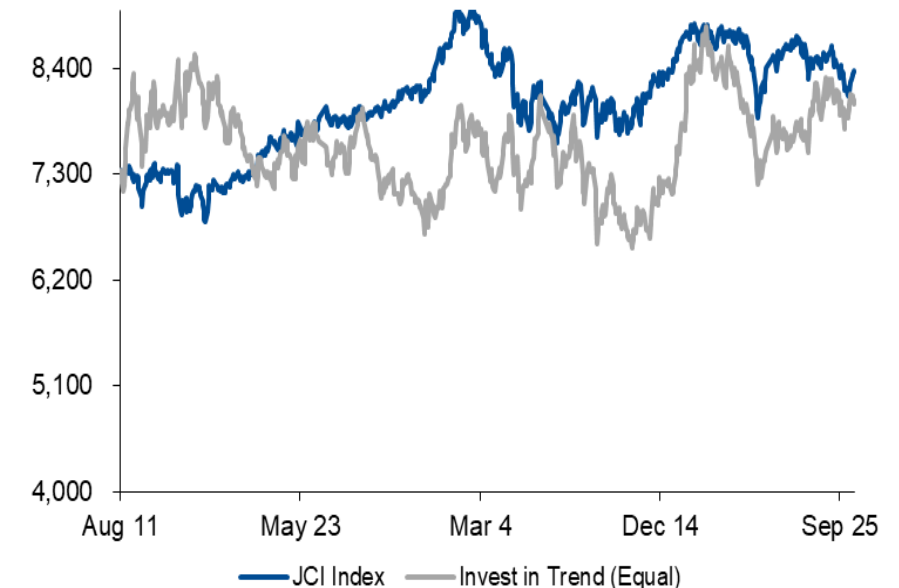
INNI index, on two early days of last week, advanced on the back of basic industry stocks' robust moves, i.e. INTP making a 4.0% gain. Although INTP's 3Q19 sales volume was lower than that of 3Q18, it was higher than a 2.2% y-y drop to 45.75 tons in 3Q19 cement consumption. After two-day gaining streak, INNI, on few mid days, gave up gains as ANTM, one of its mining portfolios dropped 2.5%, vulnerable to lackluster prices of the yellow metal. Gold lost its positive momentum as investors rediscover their insatiable appetite for equities after 3Q19 robust earnings. Finally, INNI, on Friday's intraday trading, snapped higher as construction stocks secured gains, i.e. WIKA (+5.3%) and WSKT (+3.2%).

**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

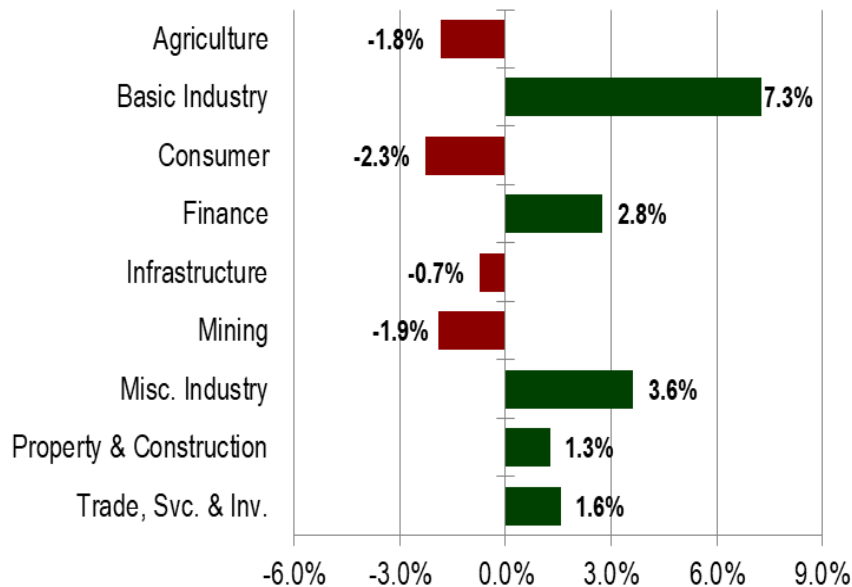
- JCI's Top Gainers**

Sectors in JCI virtually bucked up, with the basic industry sector posted the largest gain of 7.3%. TPIA, on a weekly basis, posted a 7% gain after deciding to distribute interim dividends of IDR5.24 per stock or equal to 20.5% of the company's total net profits. The dividends will be distributed on Nov. 1, 2019. Apart from the rally in basic industry stocks, poultry stocks had their positive momentum, i.e. CPIN (+6.90%), MAIN (+11.34%), and JPFA (+3.93%).

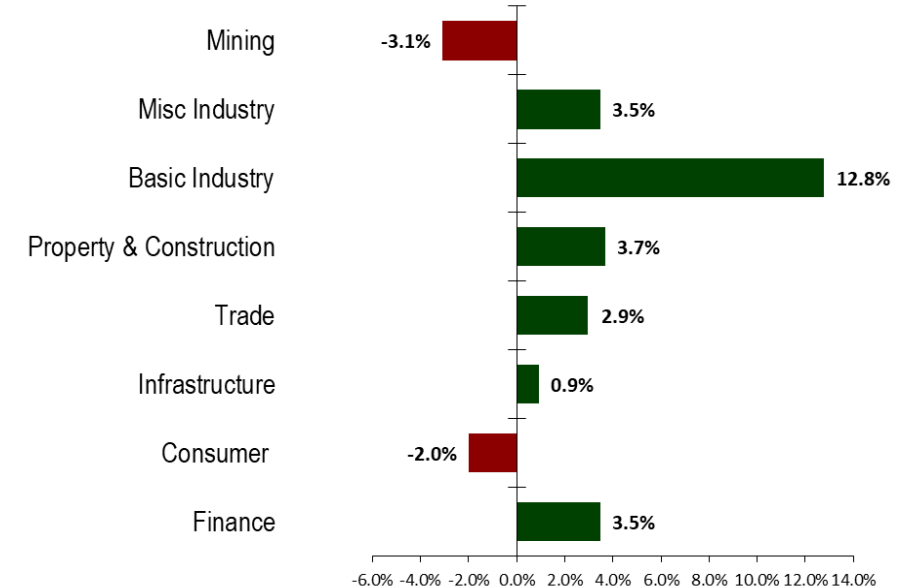
- INNI Index's Top Gainers**

INNI index's portfolios virtually were in rally mode. The basic industry sector posted the largest gains, while construction stocks posted the second's largest gains, i.e. PTPP (+9.4%), WSKT (+6.2%), and WIKA (+7.2%). PTPP is currently issuing II self-registration/ II Phase/2019, with the maximum amount of IDR1.5 trillion. Meanwhile, WSKT, on Sept. 29, marked sound performance as it secured new contracts of ~IDR15 trillion.

**JCI's Last Week Sectoral Movements**



**INNI's Last Week Sectoral Movements**



# This Week's Outlook: The Direction of JCI

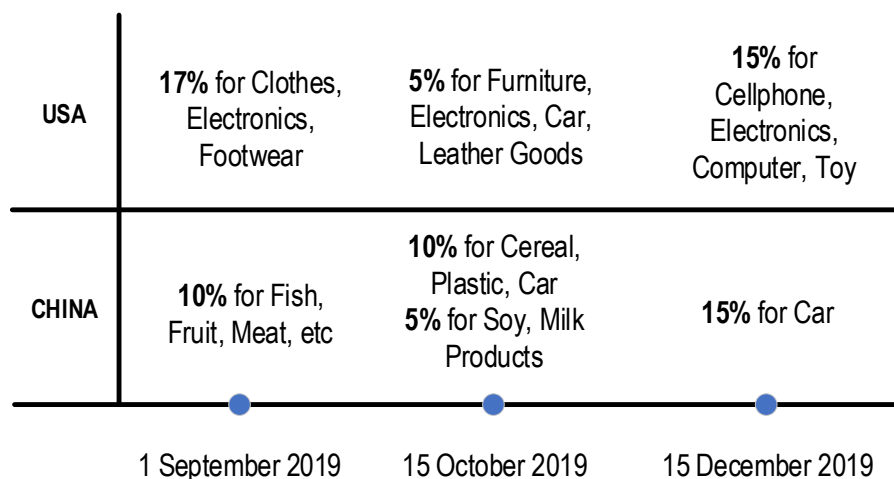
- **US-China Partial Truce**

Chinese Vice Premier Liu He wrapped up the second day of trade talks with a delay on a 30% tariff hike on Chinese goods worth of USD250 billion. The tariff was a 5% hike from a prior measure of 25%, supposedly taking into effect on Oct. 15. Asia market responded to the trade talks likely to result in a partial truce with rally mood. The White House statement of run-smoothly trade talks and Chinese goodwill gesture of granting tariff waivers to US imported soy do not necessarily untangle disputes of a 15-month trade war, but the two economies are paving a way for broader deals in scope. As a matter of fact, they are still at loggerheads over contentious issues, leaving them for feasible upcoming talks. We believe, if there are no new statements this week, the JCI will move positively throughout the week, assuming foreign investors do not sell in large numbers in Big Caps shares and vice versa.

- **Jokowi's Working Cabinet of 2019-2024**

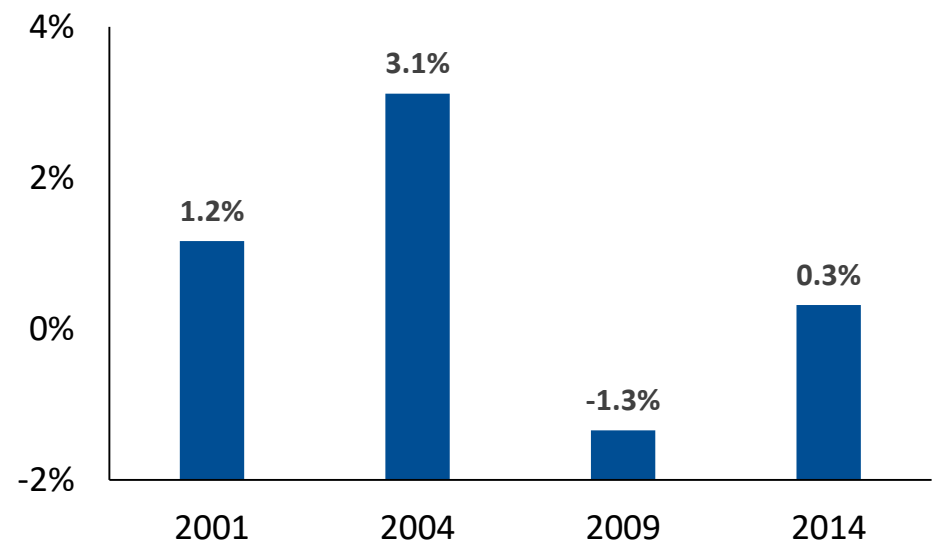
After taking an oath of his second presidential administration, Joko Widodo announced his Cabinet ministers lineup. The winds of wobbly global economy is a blow to Indonesia's economic growth, the lineup is expected to immunize the industrial sectors against border setbacks. Markets responded differently to each of Cabinet lineup from Megawati, Jokowi's I and II's arrival to power, practically only the Jokowi's Working Cabinet 2014-2019 at the time of the announcement on Wednesday, Oct. 21 2014 decreased by 1.37% until the market close on Friday, Oct. 23, 2014. The lineup of Jokowi's 2019-2024 ministers should determine JCI's this-week moves. Should names of ministers elect match those preferred candidates by investors, the chance is JCI's big moves to the green zone; opposite backdrop applies.

## Tariff Sequences from September 2019



Source: CNBC, NHKS Research

## JCI's One Week Performance after the Cabinet Announcement



Source: Investing.com, NHKS Research

# This Week's Outlook: Poultry as the Leading Sector

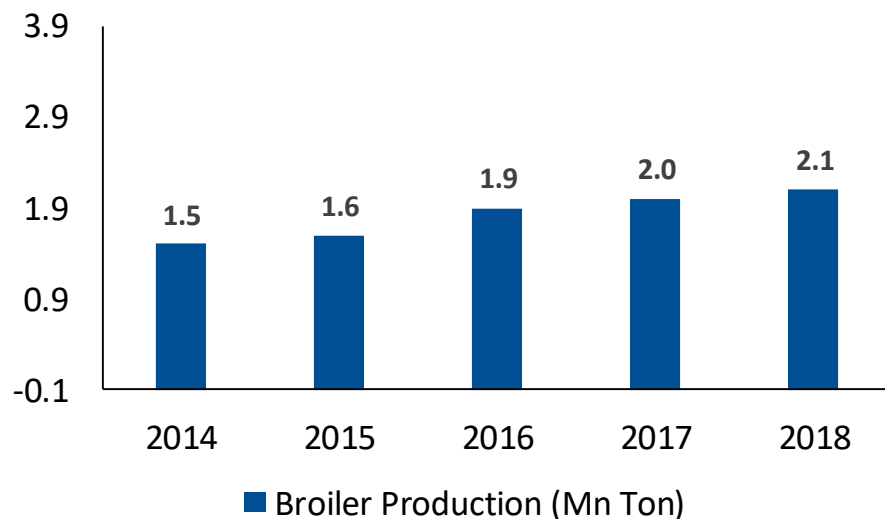
- Authorities' Concerted Commitment to Poultry Industry**

On Sept. 02, 2019, the Ministry of Agriculture instructed domestic producers of DOC broiler/ layer & pullets to curb production of final stock broilers by removal of 19-day old chicks from hatching facilities. The Ministry of Agriculture dispatched the circular instruction to curb production of DOC broiler final stock in 2019. Forty-five producers, on a weekly basis, succeeded to reduce 10 million DOC broiler production. We pencil in that the long-term impacts are the balance between supplies and demands; thus, losses are minimized, whereas rising prices are optimized. In fact, domestic producers, on a weekly basis, produce 69 million final stock of broiler chickens, while domestic consumption, on a weekly basis, fall short in the range of 52-54 million broiler chickens, leaving 13-15 million oversupply. Should the oversupply remain, the authorities are likely to roll out policies, supporting the future path of the national poultry industry.

- Rising Broiler Prices**

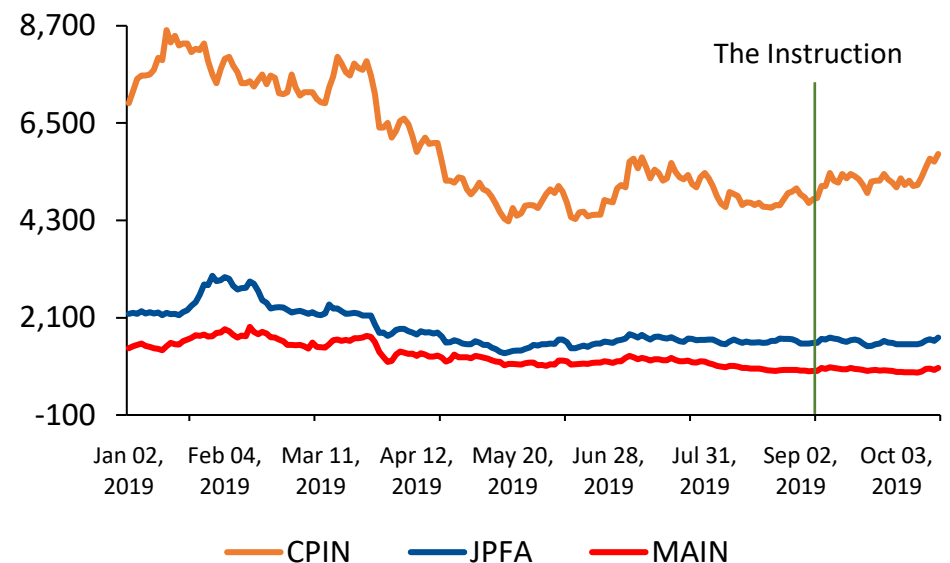
Based on a survey by the Indonesian People's Poultry Individuals (Pinsar) in Java Island, Oct. average prices of broiler chickens for farmers fall short in the range of IDR18,500-IDR19,000 per kg. Oct. prices were an increase from Sept. prices of IDR15,000-IDR16,000 per kg, with the prices in West Java markets constituting the highest range of IDR19,000-IDR19,500. Meanwhile, the prices of eggs for farmers in Greater Jakarta and Banten rose at IDR17,500-IDR18,500 per kg. The survey explains that the Indonesian poultry industry has revived as curbs on broiler final stock production send prices to surge. We recommend JPFA in light of poultry stocks' positive moves and JPFA's more diversified businesses than that of its peers.

## Indonesia Broiler Production



Source: Badan Pusat Statistik, NHKS Research

## Poultry Stock Movement after The Instruction



Source: Bloomberg, NHKS Research

# Japfa Comfeed Indonesia Tbk (JPFA IJ – Poultry)

<b>Dec 2020 Price Target</b>	<b>1,940</b>
Consensus Price	1,764
Last Price (IDR) as of Oct. 18, 2019	1,720
TP vs. Last Price	12.7%

<b>Geographic Segments:</b>	
Indonesia	98%
International Sales	2%

USD bn	FY2018	FY2019E	FY2020E	FY2021E
Revenue	34,013	36,877	40,609	41,045
y-y	14.9%	8.4%	10.1%	1.1%
Net Profit	2,168	1,985	2,170	2,404
y-y	121.4%	-8.4%	9.3%	6.2%
NPM	6.4%	5.4%	5.3%	5.6%
EPS	185	169	185	196
P/E	11.6x	12.7x	11.6x	10.9x

• **NHKS** recommends JPFA as this week's top pick stock, estimated to reach the price target of IDR1,940 based on the P/E trailing band of 12.7x. The estimate is supported by the poultry feed as JPFA's strong footing and ceaseless business expansion.

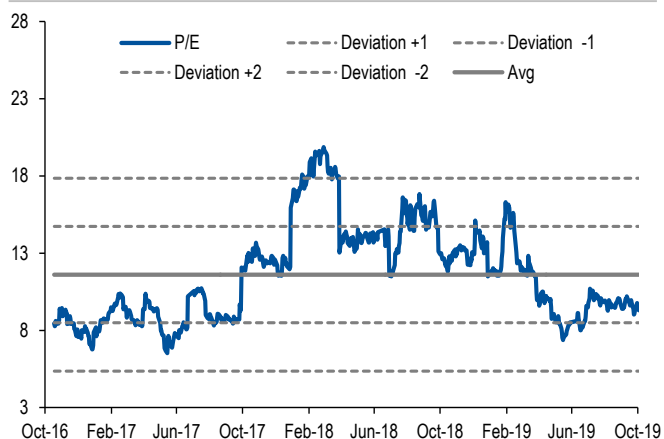
• **The Poultry Feed Segment as JPFA's Strong Footing**

The Poultry Feed segment was JPFA's 2Q19 strong footing as the segment succeeded to post revenues of IDR3.5 trillion, equal to a 23% y-y gain or a 6% q-q gain. The 2Q19 excellent performance was underlined by Lebaran momentum when local broiler farmers made excessive use of poultry feed to balance rising demands for chicken meat. The segment posted operational margins of IDR886 billion, equal to a 40% y-y increase or a 71% q-q increase. We are certain that the segment's solid performance provides JPFA a strong footing for posting revenues of IDR14.8 - DR15.5 trillion in 2019F.

• **Ceaseless Expansion**

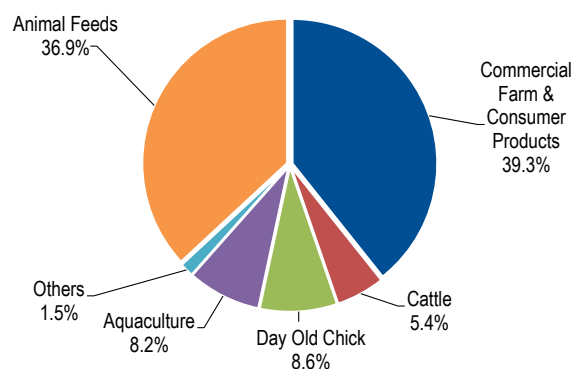
JPFA allocates IDR3 trillion worth of Capex to be spent on business expansion as it, through its subsidiary, Indojava Agrinusa, has established a 6.2-hectare breeding and hatching facility in Aceh. The facility is an endeavor to boost production by establishing cooperation with local broiler farmers. Another to Aceh-based facility, JPFA also builds 3 corn-drying mills, located in West Nusa Tenggara, Gorontalo, and East Java. The production will supply demands for poultry feed. We oversee that JPFA is likely to see tangible benefits from its clear-cut business expansion over plans. There is also plausibility that JPFA will establish another 26 breeding and hatching facilities across Indonesia. JPFA occupies more rooms for revenue growth, compared with CPIN as its valuation is less expensive than that of CPIN.

3-Year P/E Trailing Band



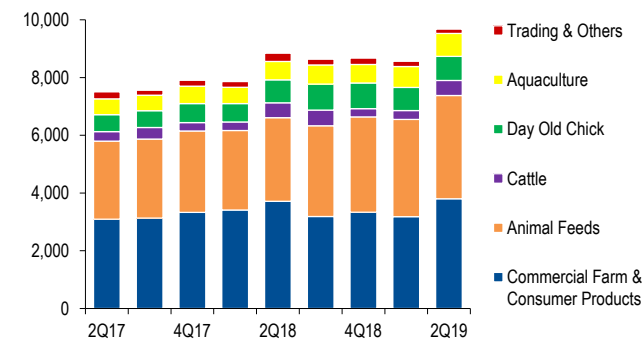
Source : Bloomberg, NHKS Research

Revenue Breakdown



Source : Company Data, NHKS Research

Revenue Trend



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 (%)
<b>Finance</b>														
BBCA	Theme 1	30,800	30,625	32,000	Hold	3.9	0.6%	759.4	27.8x	4.8x	18.4	1.1	16.8	12.7
BBRI	Theme 1	4,170	3,920	4,950	Buy	18.7	6.4%	514.4	15.2x	2.7x	19.0	3.2	12.5	8.5
BMRI	Theme 1	6,775	6,550	8,275	Buy	22.1	3.4%	316.2	12.0x	1.7x	15.0	3.6	9.1	11.1
<b>Consumer</b>														
GGRM	Theme 1	52,050	52,950	75,075	Buy	44.2	-1.7%	100.1	11.8x	2.3x	20.0	5.0	16.4	20.5
UNVR	Theme 1	43,125	44,175	59,000	Buy	36.8	-2.4%	329.0	45.0x	47.8x	92.3	2.7	2.6	(24.4)
ICBP	Theme 1	11,275	11,625	11,800	Hold	4.7	-3.0%	131.5	27.0x	5.8x	22.9	1.7	13.7	12.8
INDF	Theme 1	7,550	7,650	8,700	Buy	15.2	-1.3%	66.3	13.9x	1.9x	14.4	3.1	7.2	30.0
KAEF	Theme 2	2,810	2,850	4,100	Buy	45.9	-1.4%	15.6	45.7x	6.9x	16.6	0.5	#N/A	N/A
KLBF	Theme 2	1,625	1,660	1,870	Buy	15.1	-2.1%	76.2	30.5x	5.2x	17.9	1.6	7.7	3.5
<b>Infrastructure</b>														
TLKM	Theme 1	4,190	4,170	4,700	Hold	12.2	0.5%	415.1	20.3x	4.4x	22.8	3.9	7.7	27.4
JSMR	Theme 1	5,575	5,500	6,000	Hold	7.6	1.4%	40.5	18.3x	2.3x	13.3	0.8	(25.9)	1.4
<b>Trade</b>														
UNTR	Theme 1	20,850	20,325	39,550	Buy	89.7	2.6%	77.8	6.9x	1.4x	21.6	5.9	11.2	1.8
SILO	Theme 2	7,450	7,600	7,230	Hold	(3.0)	-2.0%	12.1	262.5x	1.9x	0.7	N/A	18.5	N/A
MIKA	Theme 2	2,850	2,780	2,300	Sell	(19.3)	2.5%	41.5	62.6x	9.6x	16.3	0.6	#N/A	N/A
LPPF	Theme 2	4,180	3,980	5,500	Buy	31.6	5.0%	11.7	13.0x	6.5x	45.2	8.0	0.6	(11.5)
RALS	Theme 2	1,260	1,265	1,515	Buy	20.2	-0.4%	8.9	12.3x	2.1x	17.7	4.0	(0.2)	21.1
MAPI	Theme 2	1,110	1,010	1,200	Hold	8.1	9.9%	18.4	24.9x	3.2x	14.5	0.9	10.2	25.0
<b>Property</b>														
PWON	Theme 1	610	630	725	Buy	18.9	-3.2%	29.4	10.6x	2.2x	22.4	1.1	3.8	20.9
CTRA	Theme 1	1,125	1,140	1,080	Hold	(4.0)	-1.3%	20.9	16.0x	1.4x	9.4	0.9	12.1	74.3
PTPP	Theme 1	1,750	1,600	2,450	Buy	40.0	9.4%	10.8	7.8x	0.8x	11.3	2.8	12.8	(23.4)
WSKT	Theme 1	1,625	1,530	2,500	Buy	53.8	6.2%	22.1	11.2x	1.2x	11.3	4.5	(35.4)	(66.8)
WIKA	Theme 1	2,000	1,865	2,100	Hold	5.0	7.2%	17.9	8.5x	1.2x	14.9	1.9	#N/A	N/A
<b>Basic Ind.</b>														
JPFA	Theme 2	1,720	1,525	1,940	Hold	12.8	12.8%	20.2	10.6x	2.1x	20.2	5.8	9.2	(26.8)
SMGR	Theme 2	12,500	11,825	14,600	Buy	16.8	5.7%	74.1	28.6x	2.4x	8.7	1.7	#N/A	N/A
INTP	Theme 2	20,125	18,225	22,300	Hold	10.8	10.4%	74.1	51.8x	3.4x	6.5	2.7	7.7	80.2
<b>Misc Ind.</b>														
ASII	Theme 2	6,700	6,475	8,600	Buy	28.4	3.5%	271.2	12.9x	1.9x	15.8	3.2	3.2	(5.8)
<b>Mining</b>														
ADRO	Theme 1	1,310	1,295	1,750	Buy	33.6	1.2%	41.9	5.7x	0.8x	14.2	6.9	10.2	51.9
PTBA	Theme 1	2,350	2,270	5,100	Buy	117.0	3.5%	27.1	5.7x	1.6x	29.7	14.5	1.2	(25.8)
INCO	Theme 2	3,480	3,830	3,370	Hold	(3.2)	-9.1%	34.6	465.7x	1.3x	0.3	N/A	(22.0)	N/A
ANTM	Theme 2	935	1,015	1,200	Buy	28.3	-7.9%	22.5	25.1x	1.1x	4.6	1.4	22.1	6.2

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