

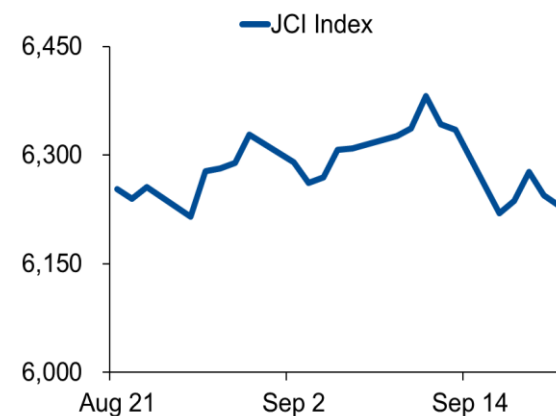
Weekly Brief (September 23th – September 27th)

Summary:

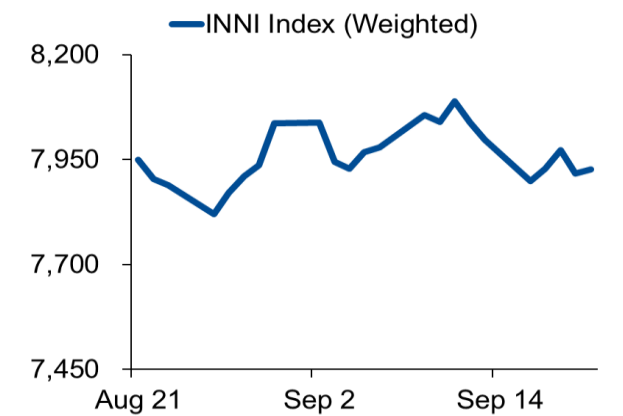
Last week review: The government's move to increase the levy on cigarettes tumbling the consumer stocks down was eased by BI's looser monetary stance on 25 bps rate cut. BI's stance imitated the Fed's dovish stance on grounds of the escalating geopolitical tensions and acute anxiety about the state of the worldwide economy. The central banks' stance provides stimulus package for stimulating economic growth.

This week's outlook: The rising excise tax on cigarettes is paradoxical. On one side, the hike necessarily means greater contributions to tax revenues and curb on smoking prevalence among the young, in particular. But the 2020 cigarette levy of +20%, the highest levy among the sequence of cigarettes levies, hits the cigarette industry hardest. In light of the paradoxical consequences, NHKS pencil in GGRM to attain the price target of IDR75,075 based on 22.1x PE trailing band. The estimate is on grounds of high demand on cigarettes, benign inflation—fundamental to maintain consumers appetite for spending—and GGRM's solid sales volume.

JCI - one month



INNI Index – one month



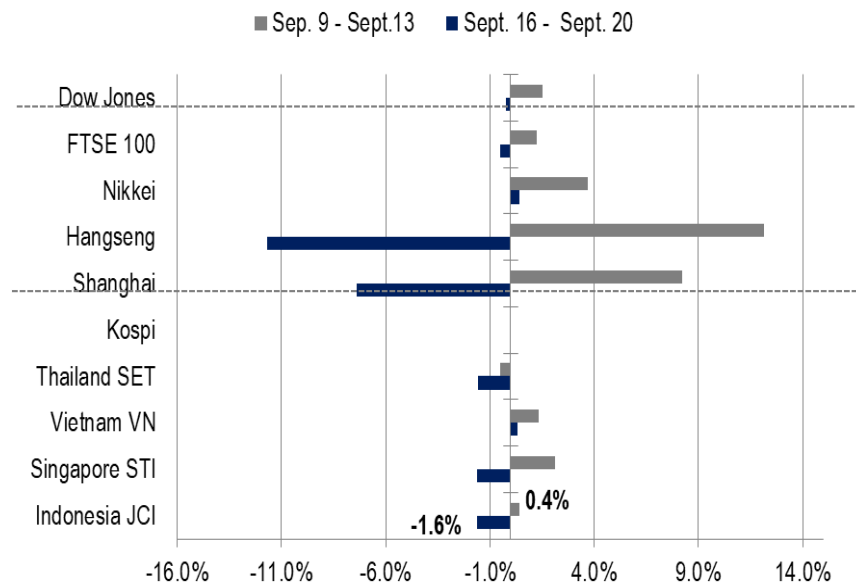
Last Week's JCI Movement

- JCI Index : 6,231.47 (-1.63%)
- Foreign Flow : Net sell of IDR2.9 trillion (vs. net sell last week of IDR658 billion)
- USD/IDR : 14,055 (+0.64%)
- Yields of sovereign bond with 10-years tenor : 7.246% (+5.40 bps)

JCI Snapped Lower

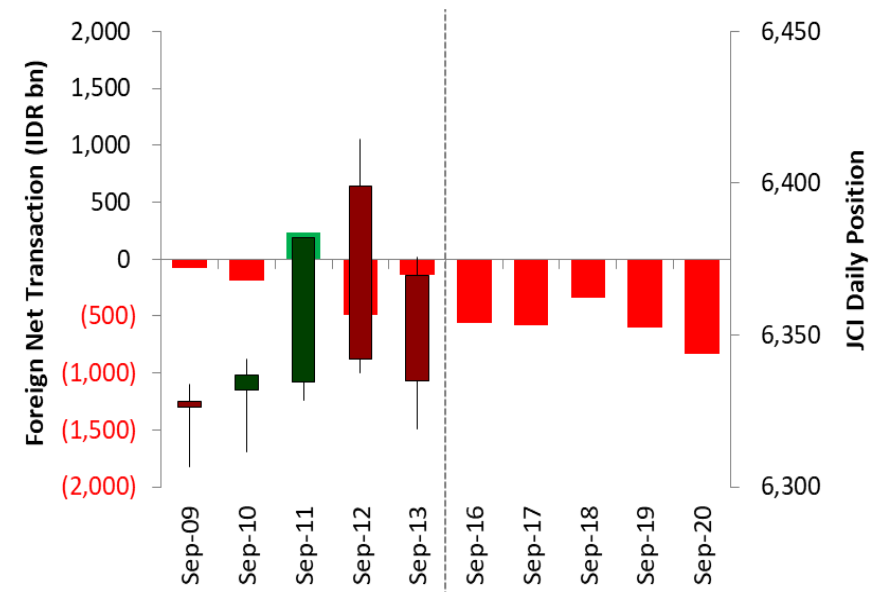
JCI was in the red zone in the start of last week. On Monday's trading (09/16), JCI gave up gains as consumer stocks tumbled on grounds of the hike of 23% on cigarette excise tax and 35% on cigarettes retail selling price. GGRM and HMSP hit hardest by the tax hike tumbled to 20.64% and 18.21%, respectively. Fears of the cigarette makers' tumbling path ahead, foreign investors pulled their funds of IDR538 billion out from JCI. The domestic hiccup in JCI's Monday moves was exacerbated by geopolitical turmoil arising from the attack on Saudi Aramco's two oil facilities. The attack sent crude oil prices to skyrocket and escalated the proxy war between Iran and Saudi Arabia, with the possibility of the US to drag in. JCI's two-day rebounding streak was payback for Monday's tepid close. FOMC's two-day meeting on Sept. 18-19 agreed to cut FFR by 25 bps to 1.75%-2.00%, as widely anticipated. That proved a boost for JCI rallying moves on Sept. 18-19 amid bearish Asia markets. On Thursday (09/19), Bank Indonesia, imitating the Fed's move, took a looser monetary stance on 25 bps rate cut to 5.25%. On Friday, Sept. 20, JCI was at a tepid close. Its performance was in contrast to most of its Asia peers rallying after the People's Bank of China (PBOC) cut lending facility.

Global Market Movement



Source: Bloomberg, NHKS Research

Foreign Net Flow – Last 10 Days



Source: Bloomberg, NHKS Research

Last Week's INNI Movement

•INNI Index	: 6,231.47 (-0.9%)
INNI Theme 1 (Value)	: 7,782.80 (-1.6%)
INNI Theme 2 (Trend)	: 8,170.40 (+0.3%)

INNI Index Dipped

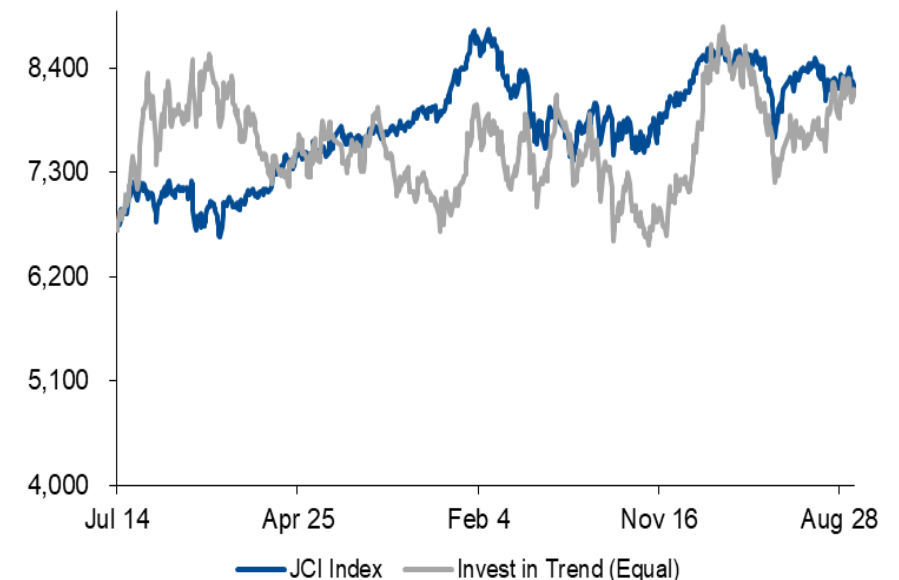
Monday's foreign outflows of IDR346 billion leaving GGRM to tumble by 20.6% was a drag on INNI's moves. Another the consumer sector, bearish WIKA and PTPP (the construction stocks) slowed INNI's Monday moves. After Monday's bearish mood, INNI hit two-day gains on Sept 18-19, 2019 as gains in property stocks—CTRA and PWON—drove INNI up. BI's two-day monetary meeting rose market's optimism about the high demand for property. On Friday, (09/20), INNI rallied as INCO's 4.61% gain backed INNI's movement. INCO advanced, underpinned by a 3.1% increase in nickel price to hit USD17,774/ metric ton.

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

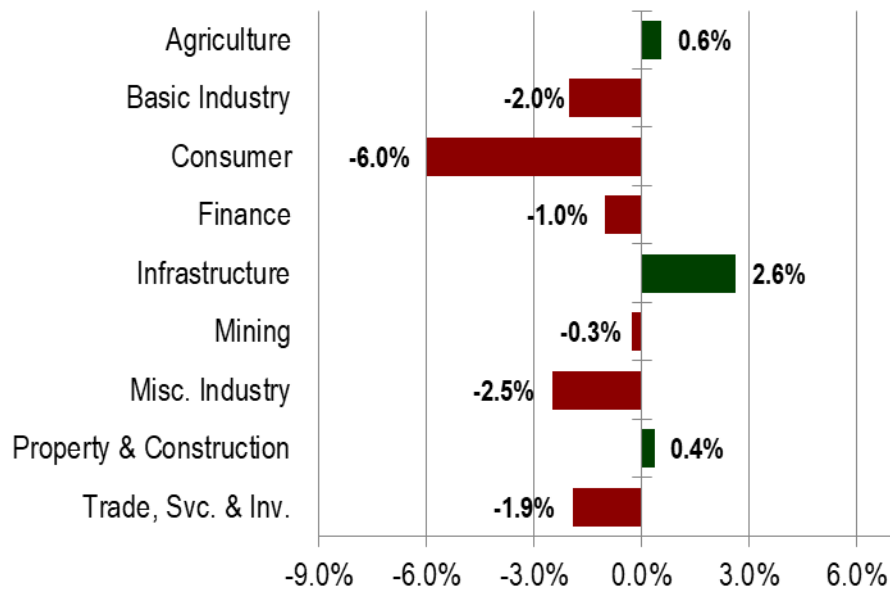
- **JCI's Top Gainers**

The infrastructure sector as JCI's last week top gainer posted a 2.6% gain, while other sectors mostly gave up gains. GIAA, a transportation stock, advanced 4.76% as the stable global crude oil price causes prices of aviation fuel to lower. FREN, a telecommunication stock, also made a 1.84% gain after Fitch ratings upgraded FREN's debt rating from CCC to CCC+. FREN's upgraded rating proved its capability of settling interest expenses and keeping its profits in check.

- **INNI Index's Top Gainers**

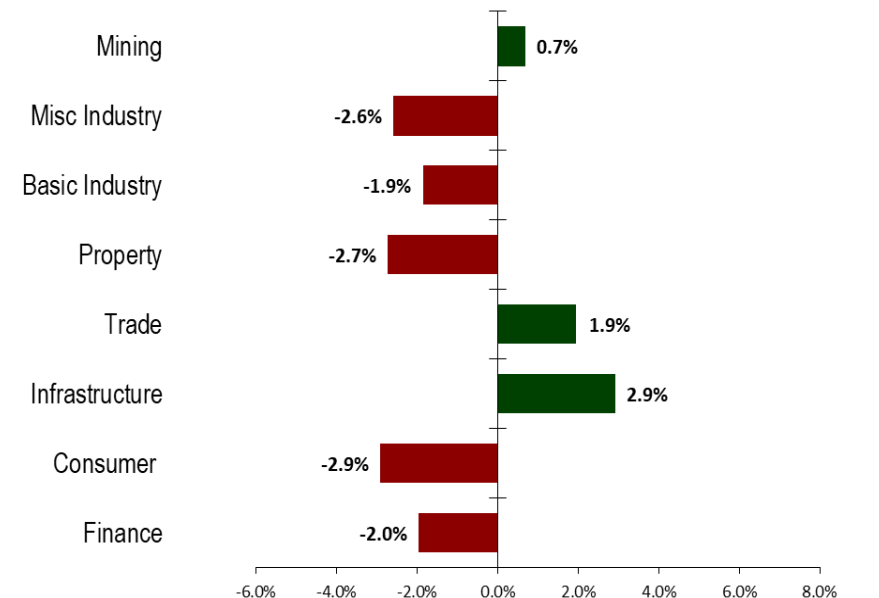
The infrastructure sector was also INNI's first top gainer; then, the trade service sector rallying 1.9% was the second top gainer as a health-care subsector rallied. Last week, SILO and MIKA picked up 5.9% and 5.2%, respectively as the per-month premium payment of Healthcare and Social Security Agency (BPJS Kesehatan) hike, effective per January 2020.

JCI's Last Week Sectoral Movements



Source: Bloomberg, NHKS Research

INNI's Last Week Sectoral Movements



Source: Bloomberg, NHKS Research

This Week's Outlook : Tobacco Manufacturers Sector

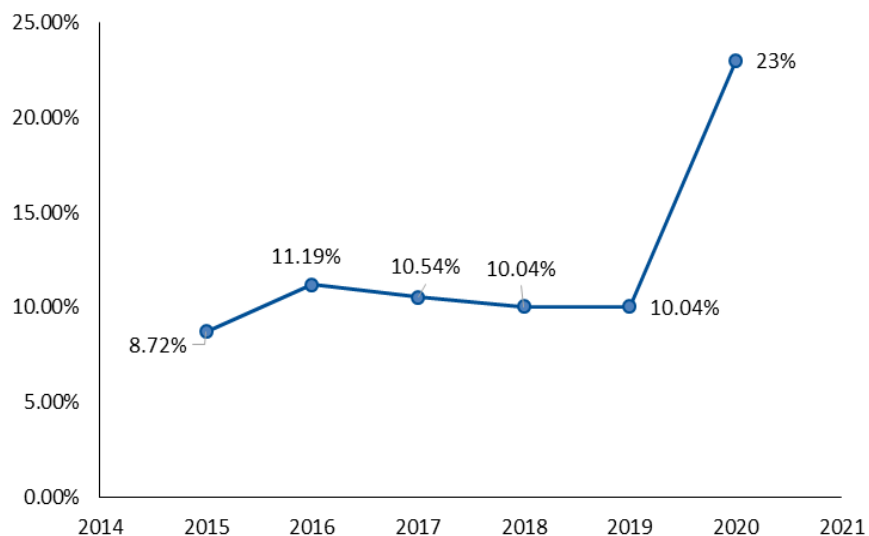
- **Surging Excise Tax to Drive Tax Revenues Up**

The Finance Minister Sri Mulyani, on Friday (09/13), announced that the hike of 23% in the excise tax on cigarettes, to take effect on January 1st, 2020. Smokers and the cigarette industry hit hardest by the significant hike because the excise tax, from 2014 to 2019, fall short in the range of 10%-20%. The rising amount is coupled with the surging average retail selling price of ~35%. Before the rise of excise tax on cigarettes was announced, the executive and judicial branches agreed on the rising state revenues of 8.2%, from IDR165.8 trillion in 2019 to IDR179.3 trillion in 2020, contributed by the excise tax. The decision is set forth in the 2020 State Budget Plan (RAPBN). The targeted tax revenues derive from IDR171.90 trillion worth of excise tax on tobacco products and IDR7.38 trillion, deriving from the excise tax on beverages with ethyl alcohol (MMEA) content & concentrates with ethyl alcohol (EA) content, and fines for excise administration.

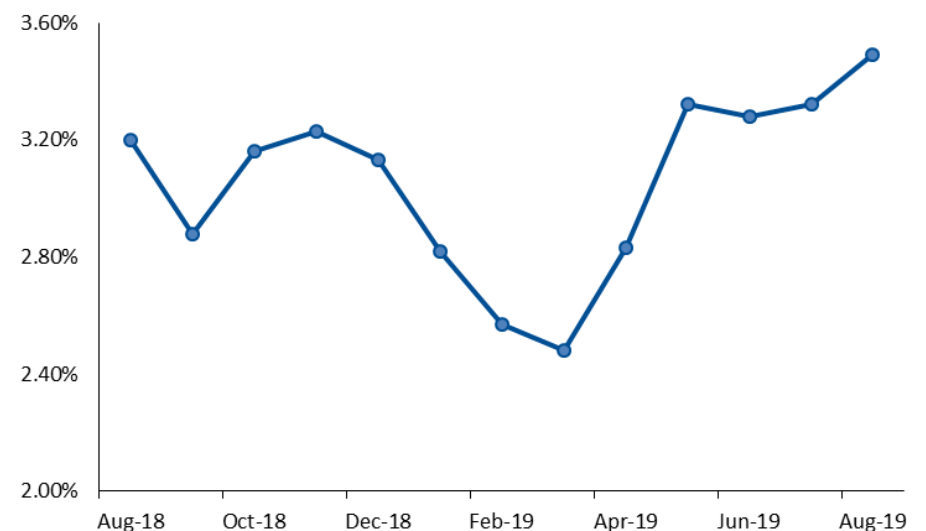
- **Rising Excise Tax: A Catalyst for Inflation**

Statistics Indonesia on Monday (09/02) announced August's inflation of 3.49% falling short in the target range of ~3.5%. The expenditure on education, recreation, and sport contributed 1.21% to August's inflation, while the expenditure on processed food & beverages, cigarettes, and tobacco contributed 0.26% to August's figure. Filtered kretek (clove cigarettes), on a monthly basis, contributes 0.01% to monthly inflation figure, but the hike in excise tax on cigarettes inevitably exaggerate the contribution of clove cigarettes to inflation level.

The Average Hike in Excise Tax on Cigarettes (in percentage)



Consumer Price Index | August 2018 – 2019



This Week's Outlook : Tobacco Manufacturers Sector

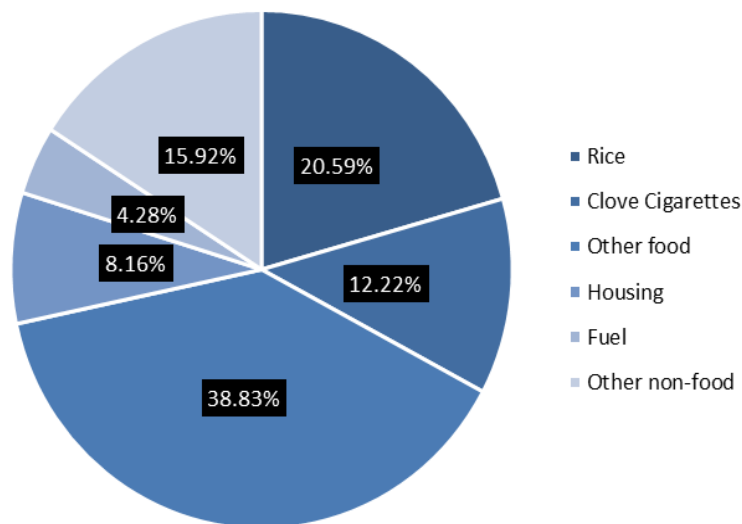
- **Potential Declines in Purchasing Power Vs. Rising Poverty Line**

The increment in cigarette excise tax and average retail selling prices inevitably spike their selling prices, leaving smokers to bear most of the tax. It may curb smoking prevalence, cut demand for cigarettes, and cause inflation to climb higher, not to mention the increment in numbers of the poor as low-income smokers must spend a greater portion of their income to buy them. Likewise in most countries, low-income group accounts for the greater portion of smoking prevalence than middle-to-upper-income group. The poverty line—the minimum level of adequate income in a certain economy—from March 2018 to March 2019 shows the average spending of IDR425,250 per capita per month in March 2019 or a 5.99% increase from IDR401,220 in March 2019. Two main drivers for the rising poverty line are rice and clove cigarettes contributing respectively 20.59% and 12.22% to urban poverty and 25.97% and 11.36% to rural poverty

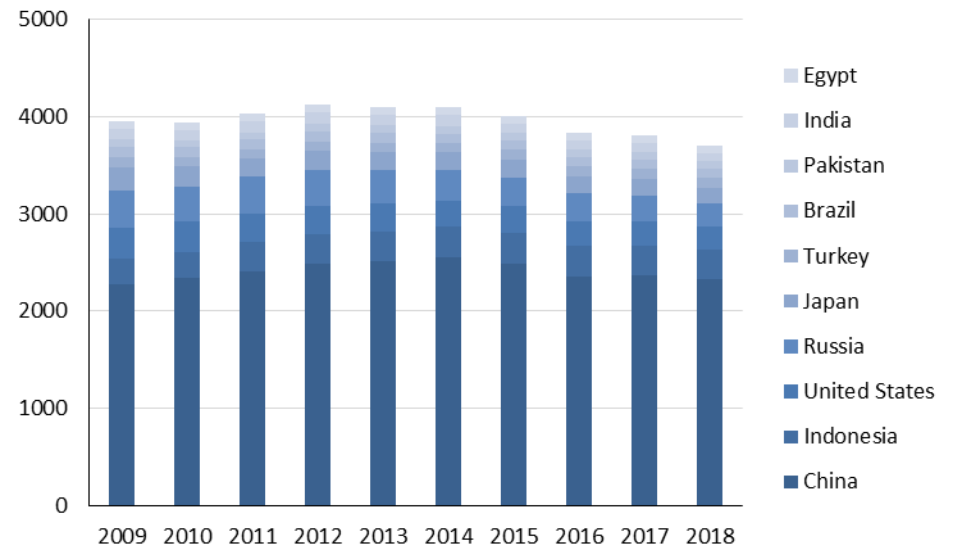
- **The Cigarette Makers' Path Ahead**

The moves are a drag on the cigarettes industry. However, NHKS in light of a number of positive sentiments estimates the solid outlook of cigarettes industry. The first consideration is Indonesia positioning the second rating in the Top Ten Consumers of Cigarettes after China. Indonesia posted consumption of 307 billion cigarettes in 2018 or a 6% contribution to the world's cigarette consumption. The world bank reports that 52 million of Indonesian are middle-class, unlikely prone to the rise in retail cigarette prices. Although Indonesia's growing middle-class consumer benefits the cigarette industry, the rising excise tax is potential to lower the purchasing power of low-class individuals. But the potential is countered by varied cigarette products selling prices of which are affordable for different classes.

Commodities and Their Contribution to Poverty Line, March 2019 (%)



Top 10 Consumer of Cigarettes (Sticks Consumed in Bn)



Source: BPS, NHKS Research

Source: Bloomberg, NHKS Research

Gudang Garam Tbk (GGRM IJ – Tobacco Manufacturers)

Dec. 2019 Price Target	75,075
Consensus Price	79,797
Last Price (IDR) as of Sept. 20, 2019	54,600
TP Vs. Last Price	37.5%

Revenue Breakdown:	
Machine Made Cigarettes	90.7%
Hand Rolled Cigarettes	8.0%
Others	1.3%

IDR bn	FY2018	FY2019E	FY2020E	FY2021E
Revenue	95,708	103,809	122,595	142,129
y-y	14.9%	8.5%	18.1%	15.9%
Net Profit	7,792	10,417	10,800	12,786
y-y	0.5%	34.0%	4.0%	18.0%
EBIT	11,119	14,362	14,599	17,307
EPS	4,050	5,414	5,613	6,645
P/E	20.8	13.7	10.2	9.9

- **NHKS** reviews GGRM, estimated to reach the price target of IDR75,075 based on 22.1x PE trailing band, the increase in cigarette sales volume and GGRM's solid performance.

- **Increment in Sales Volume: Backbone for 1H19 Revenues**

GGRM posted the double-digit revenues growth of 16.4% y-y from IDR45.30 trillion in 1H18 to IDR52.74 trillion in 1H19. Net profits, likewise revenues, also surged by 20.4% from IDR3.55 trillion to IDR4.28 trillion. The hiking top and bottom line contributed to an increase of 14.8% y-y in sales from 40.6 billion cigarettes in 1H18 to 46.6 billion cigarettes in 1H19. The full flavor machine-made clove cigarette (Sigaret Kretek Mesin Full Flavor, SKM FF) posting sales of 38.3 billion cigarettes was the first greatest contributor to revenues, while the hand-rolled cigarette (Sigaret Kretek Tangan, SKT) and machine-made cigarette with low nicotine and tar content (Sigaret Kretek Mesin Low Tar and Nicotine, SKM LTN) respectively posting sales of 4.2 billion cigarettes were both the second-greatest contributors to revenues. The revenue growth proved GGRM's solid sales performance amid a downturn in the cigarette industry, recording an 8.6% decline to only sell 118.5 billion cigarettes, according to research by Nielsen.

- **Future Setback**

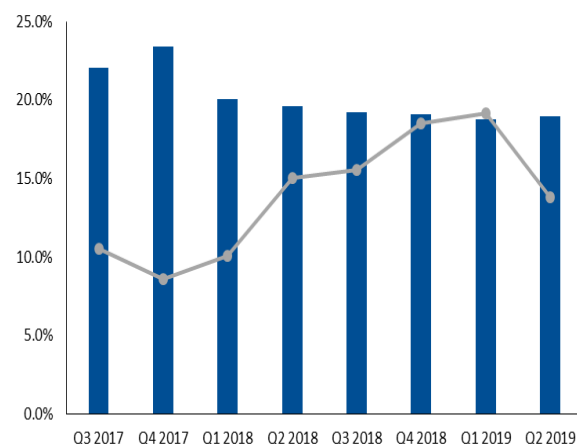
In years ahead, GGRM's performance is likely to be hampered by the excise tax on cigarettes, hiking more than 20%. Despite the government policy, GGRM's past resilience in maintaining solid performance against a series of increases in cigarette excise taxes prove its robustness to counter the 2020 levy on cigarettes. Thus, we pencil in GGRM's performance ahead still falls short in the conservative growth.

5-Year P/BV Trailing Band



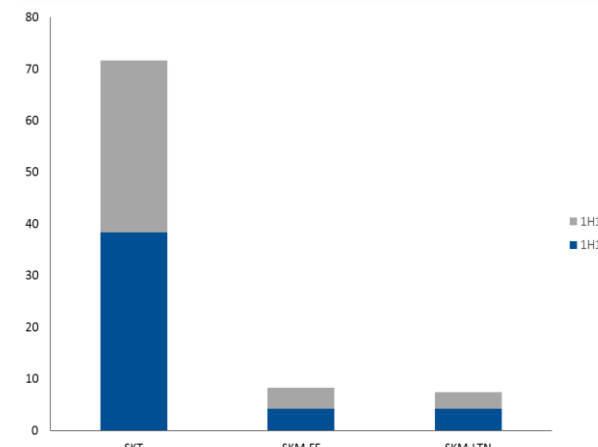
Source : Bloomberg, NHKS Research

GGRM Revenues | 2017 – 2019 (IDR bn)



Source : Company Data, NHKS Research

GGRM Volume | 1H18 vs 1H19 (Sticks bn)



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	30,150	30,125	32,000	Hold	6.1	0.1%	743.3	27.2x	4.7x	18.4	1.1	16.8	12.7
BBRI	Theme 1	4,310	4,270	4,950	Hold	14.8	0.9%	531.6	15.7x	2.8x	19.0	3.1	12.5	8.5
BMRI	Theme 1	7,200	7,050	8,275	Hold	14.9	2.1%	336.0	12.7x	1.8x	15.0	3.4	9.1	11.1
Consumer														
GGRM	Theme 1	68,800	67,700	110,000	Buy	59.9	1.6%	132.4	15.5x	3.0x	20.0	3.8	16.4	20.5
UNVR	Theme 1	46,600	47,050	59,000	Buy	26.6	-1.0%	355.6	38.3x	70.1x	183.9	2.5	1.3	5.2
ICBP	Theme 1	11,600	11,900	11,600	Hold	-	-2.5%	135.3	27.8x	5.9x	22.9	1.7	13.7	12.8
INDF	Theme 1	7,500	7,975	8,700	Buy	16.0	-6.0%	65.9	13.8x	1.9x	14.4	3.1	7.2	30.0
KAEF	Theme 2	2,980	2,910	4,100	Buy	37.6	2.4%	16.6	48.4x	7.3x	16.6	0.5	#N/A	N/A
KLBF	Theme 2	1,680	1,675	1,870	Hold	11.3	0.3%	78.8	31.5x	5.4x	17.9	1.5	7.7	3.5
Infrastructure														
TLKM	Theme 1	4,160	4,210	4,700	Hold	13.0	-1.2%	412.1	20.2x	4.4x	22.8	3.9	7.7	27.4
JSMR	Theme 1	5,500	5,450	6,000	Hold	9.1	0.9%	39.9	18.0x	2.3x	13.3	0.8	(25.9)	1.4
Trade														
UNTR	Theme 1	22,775	21,575	39,550	Buy	73.7	5.6%	85.0	7.6x	1.6x	21.6	5.2	11.2	1.8
SIL0	Theme 2	6,800	6,800	7,230	Hold	6.3	0.0%	11.1	239.6x	1.8x	0.7	N/A	18.5	N/A
MIKA	Theme 2	2,310	2,420	2,300	Hold	(0.4)	-4.5%	33.6	50.8x	7.8x	16.3	0.8	#N/A	N/A
LPPF	Theme 2	3,030	3,020	5,500	Buy	81.5	0.3%	8.5	9.4x	4.7x	45.2	11.0	0.6	(11.5)
RALS	Theme 2	1,200	1,150	2,070	Buy	72.5	4.3%	8.5	11.7x	2.0x	17.7	4.2	(0.2)	21.1
MAPI	Theme 2	1,025	1,010	1,200	Buy	17.1	1.5%	17.0	23.0x	2.9x	14.5	1.0	10.2	25.0
Property														
PWON	Theme 1	680	630	725	Hold	6.6	7.9%	32.7	11.8x	2.4x	22.4	1.0	3.8	20.9
CTRA	Theme 1	1,095	1,045	1,550	Buy	41.6	4.8%	20.3	15.6x	1.4x	9.4	0.9	12.1	74.3
PTPP	Theme 1	1,890	1,790	2,450	Buy	29.6	5.6%	11.7	8.5x	0.9x	11.3	2.6	12.8	(23.4)
WSKT	Theme 1	1,770	1,710	2,500	Buy	41.2	3.5%	24.0	12.2x	1.3x	11.3	4.1	(35.4)	(66.8)
WIKA	Theme 1	2,110	2,080	2,100	Hold	(0.5)	1.4%	18.9	9.0x	1.2x	14.9	1.8	#N/A	N/A
Basic Ind.														
JPFA	Theme 2	1,615	1,535	1,940	Buy	20.1	5.2%	18.9	10.0x	1.9x	20.2	6.2	9.2	(26.8)
SMGR	Theme 2	12,800	13,450	14,600	Hold	14.1	-4.8%	75.9	29.3x	2.5x	8.7	1.6	#N/A	N/A
INTP	Theme 2	20,700	22,000	22,300	Hold	7.7	-5.9%	76.2	53.3x	3.5x	6.5	2.7	7.7	80.2
Misc Ind.														
ASII	Theme 2	6,750	6,750	8,600	Buy	27.4	0.0%	273.3	13.0x	2.0x	15.8	3.2	3.2	(5.8)
Mining														
ADRO	Theme 1	1,375	1,335	1,750	Buy	27.3	3.0%	44.0	6.1x	0.8x	14.2	6.6	10.2	51.9
PTBA	Theme 1	2,560	2,600	5,100	Buy	99.2	-1.5%	29.5	5.7x	1.6x	29.2	13.3	(7.2)	(21.7)
INCO	Theme 2	3,680	3,720	3,370	Hold	(8.4)	-1.1%	36.6	499.4x	1.4x	0.3	N/A	(22.0)	N/A
ANTM	Theme 2	1,070	1,075	1,200	Hold	12.1	-0.5%	25.7	32.1x	1.3x	4.1	1.2	8.5	(30.1)

Source : Bloomberg, NHKS Research

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