

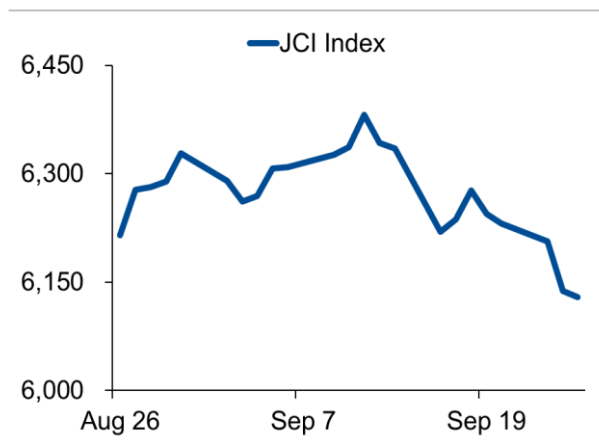
Weekly Brief (September 30th – October 4th)

Summary:

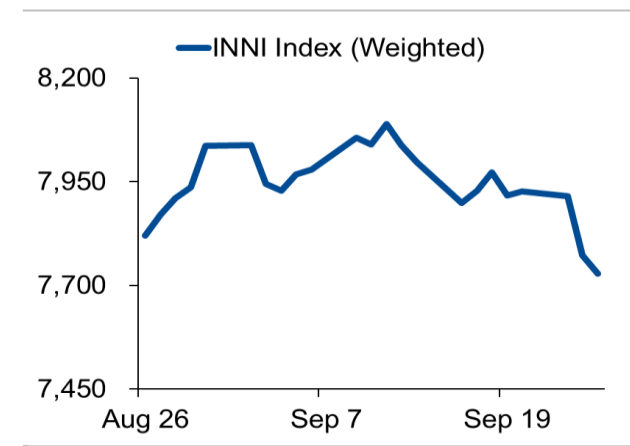
Last week review: Last week, varied internal and external sentiments made JCI either vulnerable or robust to setback. Indonesia's political unrest fueled fears as foreign investors pulled their money out from JCI's portfolios, while Chinese officials calling off a visit to farms in American heartland and Trump's harsh criticism of Chinese fraudulent trade practices scattered optimism for better global trade and rattled markets, including JCI. But, markets' fears of global volatility were eased as a number of central banks taking the lead in slashing rates as an economic stimulus.

This week's outlook: The persistence of US Treasury yield curve inversion, creating positive momentum for gold rush rings a bell of recession to lurk this-week trading session, and chances are wary investors may leave stock markets fragile and binge on gold. But, the concerns about a slowdown in global growth proves futile to hurt the electric vehicles industry. The industry tipping point delight nickel miners and brings about buoyant momentum for INCO's future path. NHKS maintains HOLD recommendation on INCO capable of hitting the price target of IDR3,960 based on a 32.7x P/E trailing band, the rising nickel prices, and a stock divestment plan.

JCI - one month



INNI Index – one month



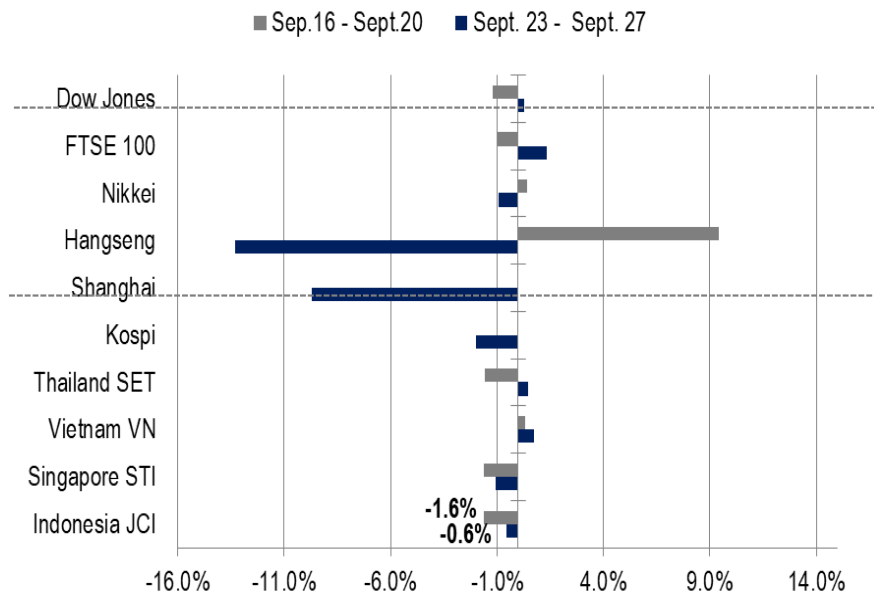
Last Week's JCI Movement

- JCI Index : 6,129.39 (-2.35%)
- Foreign Flow : *Net sell* of IDR1.8 trillion (vs. *net sell* last week of IDR2.9 trillion)
- USD/IDR : 14,173 (+0.84%)
- Yields of sovereign bond with 10-years tenor : 7.312% (+6,50 bps)

JCI Tanked

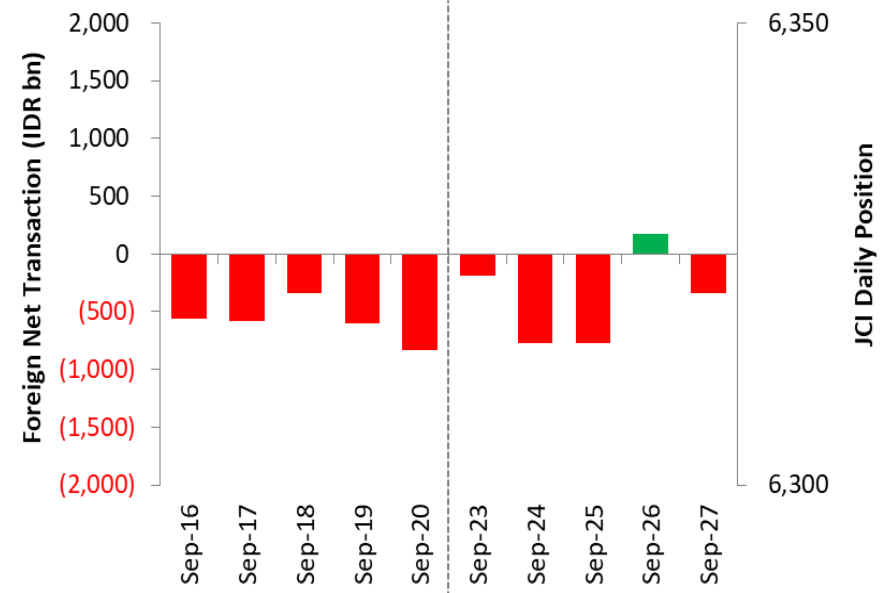
To arrest the global economic deterioration, the Fed, European Central Bank (ECB), People's Bank of China (PBOC), and Bank Indonesia (BI) took the lead in cutting their rates. The dovish stance made equities more desirable and strengthened markets to a setback. Apart from central dovish messages was worsening bilateral relations between China and the US after Chinese trade representatives delayed a visit to farms in the American heartland. Markets worried that the cancellation could delay October's constructive talks, and prone to markets' fears of two economies' worsening relations, JCI gave up gains. Trump's harsh gesture of not tolerating any unfair trade deals between the US and China even tangled the world's state embroils in trade disputes. Back in the domestic backdrop, political unrest across Indonesia made JCI vulnerable to massive foreign outflows. On Friday of Sept. 27, JCI gave up gains, similar to most of Asia markets' bearish state due to the US political uncertainty.

Global Market Movement



Source: Bloomberg, NHKS Research

Foreign Net Flow – Last 10 Days



Source: Bloomberg, NHKS Research

Last Week's INNI Movement

•INNI Index	: 7,728.94 (-3.1%)
INNI Theme 1 (Value)	: 7,628.85 (-3.0%)
INNI Theme 2 (Trend)	: 7,899.37 (-3.2%)

INNI Index Gave Up Gains

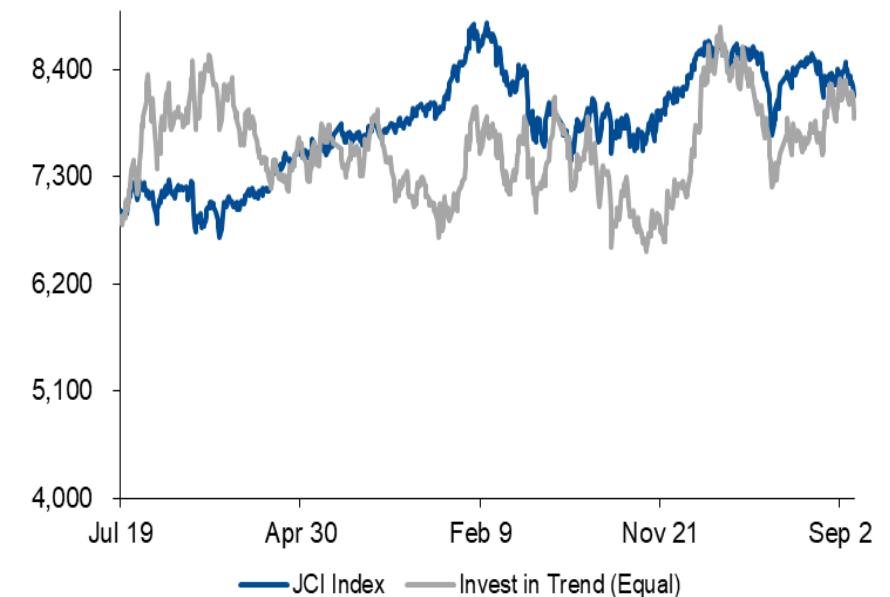
INNI began to dip in early days of last week's trading session, curtailed by declines in construction stocks, e.g. WIKA, WSKT, and PTPP. The tangled global state exposes Indonesia to tight liquidity so that a number of construction companies hardly obtain any loan facilities to work on turnkey projects. INNI continued to decline further on Sept. 25 as INTP struggling against cement oversupply in the domestic market dipped 4.0%. On Friday of Sept. 27, INNI dipped as a slowdown in Chinese economy curbs the demand for nickel ore, and prices of LME Nickel Futures in London Metal Exchange dropped 0.16%.

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

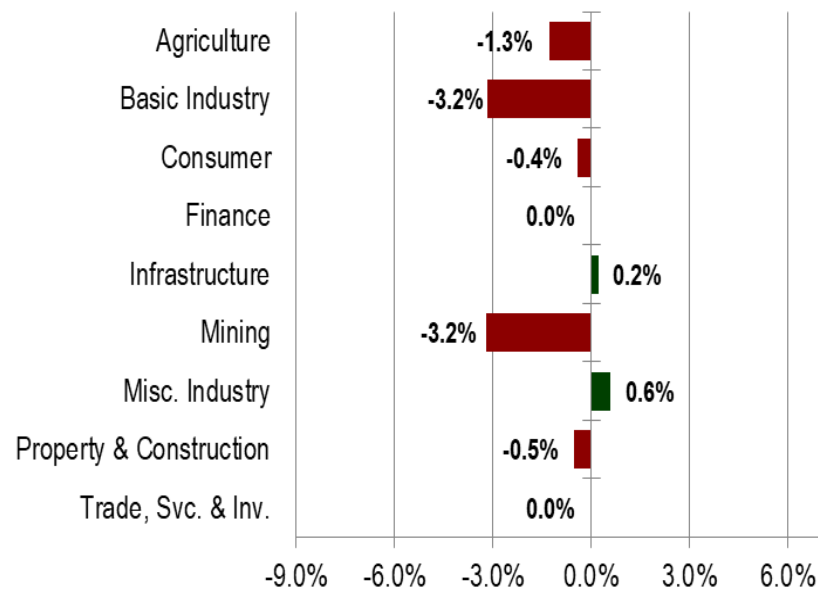
• JCI's Top Gainers

Most of JCI's sectors gave up gains last week, but the miscellaneous and infrastructure sectors made gains of 0.6% and 0.2%, respectively. The 2019 Indonesia International Motor Show (IIMS) held in Surabaya on Oct. 30 and Nov. 3 is expected to be a positive catalyst for the automotive industry. The prior IIMS held in Jakarta received a positive response as it secured sales of IDR250 billion. The IIMS success motivates ASII to accelerate its automotive sales amid the sluggish automotive industry.

• INNI Index's Top Gainers

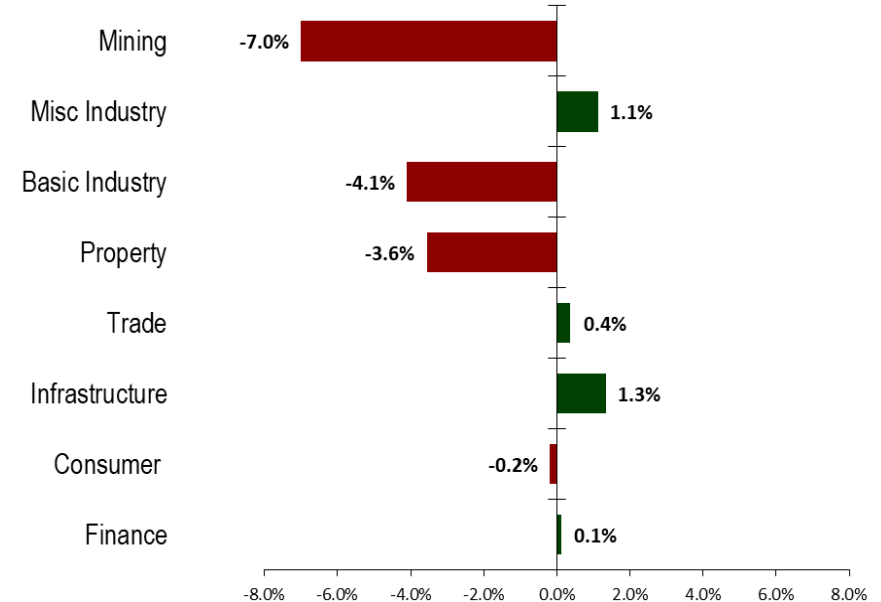
Like JCI, INNI's portfolios, the infrastructure and miscellaneous sectors, strengthened 1.35% and 1.1%, respectively. The infrastructure sector regains its strong footing as Canada-headquartered Pension Pension Plan Investment Board (CPPIB) and PT Bhaskara Utama Sedaya took over 55% stock ownership of Cikopo-Palimanan (Cipali) toll road, owned by PT Astra Tol Nusantara (Astra Infra), a subsidiary of ASII. Another to ASII, TLKM launched a premium package of 200 Mbps and 300 Mbps in responses to the high demand.

JCI's Last Week Sectoral Movements



Source: Bloomberg, NHKS Research

INNI's Last Week Sectoral Movements



Source: Bloomberg, NHKS Research

This Week's Outlook: The Direction of JCI

- **A Recession Signal**

The Organization for Economic Co-operation and Development (OECD) announced that global economic growth gets weaker as it revised lower its projection of the 2019 global economic growth from 3.2% to 2.9%. The revised-lower growth is rooted in the retaliatory trade wars yet to settle down as fears of a recession signal--- an inverted yield curve for US Treasury bonds, heightening gold's prices--- rattle markets. OECD also estimates that Indonesia's economic growth for 2019-2020 slides down into 5% from May's estimate of 5.1%. The downward revision indicates Indonesia's economic activities to slow and fuel investors' doubt about ploughing their capital into investments in Indonesia. Apart from, the OECD projection, yellow metal's price is a catalyst for JCI's movements from Sept. 30 to Oct. 04. Should gold's positive momentum remain, chances are investors to diversify away from equities into the safe-haven asset such as gold and a further drag on JCI's moves or vice versa.

- **Sept. Inflation Reading**

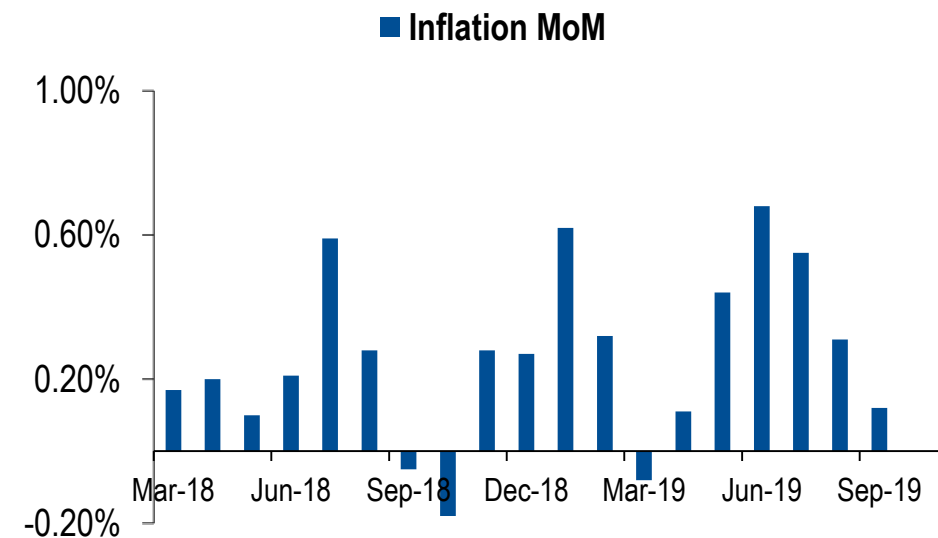
September's inflation data will be announced on Oct. 01, 2019, and markets hope for the higher level inflation at 1.16% from August's 0.12%. Based on Aug. inflation data, the groups of foodstuff, transportation, communication, and financial services were major drivers for August's benign level. Markets expect that August's easing monetary policies could prove as a stimulus, countering deflation the group may contribute. If Sept. reading disappoints the consensus, JCI's is likely to retreat, while the converse condition equally applies.

Indonesia Economic Growth



Source: Badan Pusat Statistik, NHKS Research

Indonesia's Inflation MoM



Source: Badan Pusat Statistik, NHKS Research

This Week's Outlook: Nickel Mining as the Leading Sector

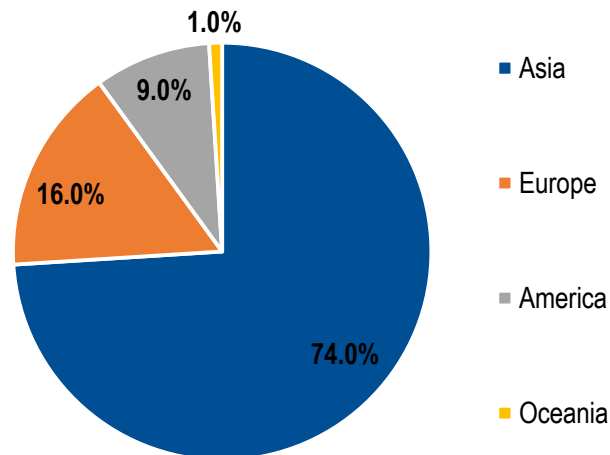
- **The Electric Vehicles and Stainless Steel Industry**

The electric vehicle industry is at a tipping point growth amid the world's lagging economic growth. In 2019, the worldwide electric car sales account for 3 million units, and the sales volume is likely to hit 27 million units, with the annual average growth rate at 21.1%, we pencil in. The price of nickel continuing its positive momentum and hitting USD17.315 per ton on Sept. 26m 2019 is a portrayal of the electric cars' landmark year. The industry banks on nickel, a vital element for battery electric vehicles (BEV); and Indonesia as one of the world's largest nickel producer should stand to benefits from nickel's best-performing momentum. In 2016, Indonesia accounted for 39% portion of the world's nickel ore supply, and the portion grew into 63% in 2017 as it, currently, is the world's seventh-largest nickel ore producer. Another to the electric vehicle industry, the stainless steel industry is also dependable to nickel ore as the derivatives products of stainless steel are supplied to power plants, chemicals, automotive, and defense industries.

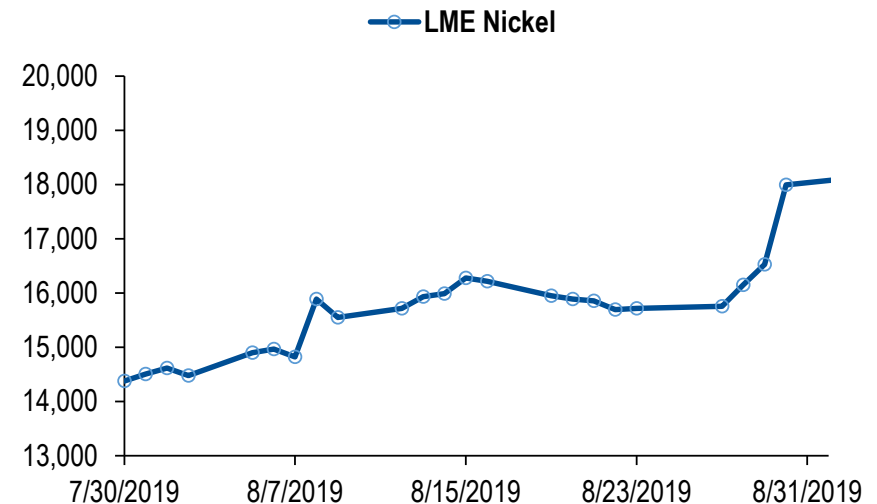
- **Ban on Nickel Ore Exports**

The Ministry of Energy and Mineral official banned miners from exporting nickel ore, to take into effect on January 1st. The ban is on grounds of preserving Indonesia's nickel reserves and the national plan for constructing an additional number of smelters; thus Indonesia is capable of selling value-added nickel products. We believe that the policy will be a long-term setback in the world's adequate nickel supply chain, leading to rising nickel prices. The bright side from that ban is the heightening nickel's allure for wary investors; South Korea-headquartered LG Chem cooperating with Volkswagen is poised to an electric-vehicle battery (EVB) manufacture in Indonesia, for example. We are optimistic that the nickel miners' future path remains promising due to foreign investors' insatiable appetite for nickel investment. It is recommended that investors invest INCO.

Primary Nickel Usage Proportion



Global Nickel Prices

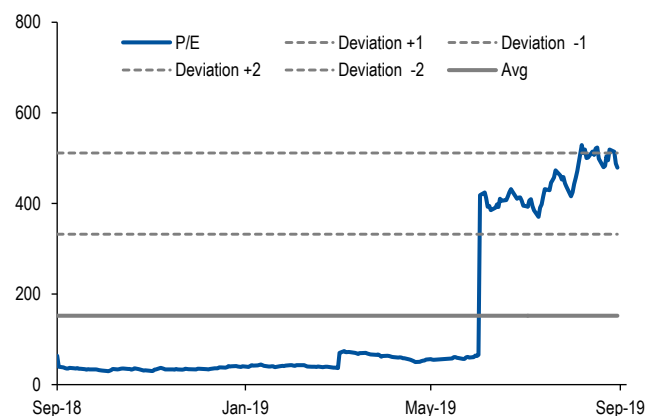


Vale Indonesia Tbk (INCO IJ – Mining)

Dec. 2020 Price Target	3,960
Consensus Price	3,987
Last Price (IDR) as of Sept. 27, 2019	3,550
TP vs. Last Price	11.5%
Export Destination:	
Canada	80%
Japan	20%

USD bn	FY2018	FY2019	FY2020E	FY2021E
Revenue	777	736	780	836
y-y	23.4%	-5.3%	6.1%	7.1%
Net Profit	61	54	79	93
y-y	-431.1%	-11.4%	10.1%	11.2%
NPM	7.8%	7.3%	10.1%	11.2%
EPS	0.006	0.006	0.008	0.009
P/E	34.1	37.2	25.9	21.5

1-Year P/E Trailing Band



Source : Bloomberg, NHKS Research

- **NHKS** recommends INCO as this week's top pick stock whose the price target is likely to arrive at IDR3,960 based on a 37.2 P/E trailing band. The estimate is underlined by the rising nickel prices to have positive impacts on INCO's ASP and its prioritized stocks divestment, to be absorbed by state-owned enterprises.

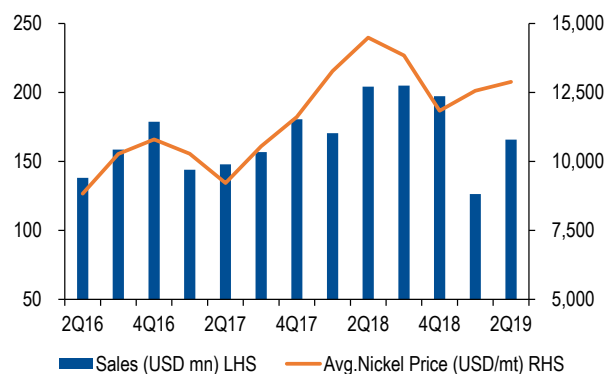
Rising Nickel Prices, Driving ASP Up

The world's average nickel prices of 2Q19 reaching USD12.291 led INCO to post the 2Q19 ASP of USD9.774 per ton or a 7% gains q-q. Furthermore, the curb on diesel fuel consumption to 19.976 kiloliters or a 1% y-y decrease resulted in lower COGS and controlled revenues. We pencil in that rising ASP and cost efficiency are keys to securing revenues of USD736 million and net profits of USD54 million at the end of 2019.

Stock Divestment to Prioritize SOE's

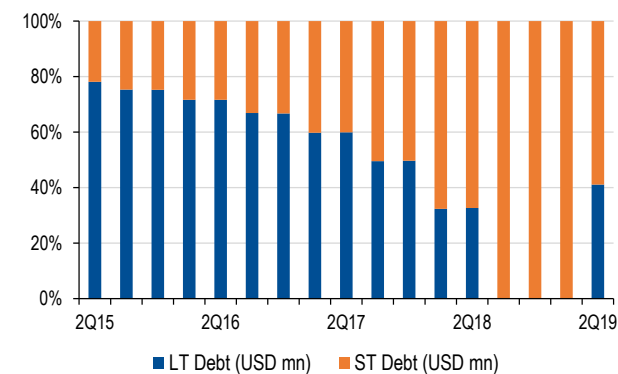
INCO, in 2019, has to divest 40% of its stocks in compliance with amendments to the 2014 working contract. INCO has divested 20% of its stocks and must divest another 20% of its stocks. The government priorities state-owned enterprises to absorb the 20% stock divestment, the remaining stocks are publicly offered to regions-owned enterprises (BUMD), and private entities. Inalum and Aneka Tambang are two SOEs potential for buying INCO's divested stocks. Should the divested stocks are absorbed by SOEs, chances are a positive synergy between INCO and SOEs and long-term business sustainability for INCO.

Sales & Avg. Nickel Prices



Source : Company Data, NHKS Research

ST Debts & LT Debts



Source: Company Data, NHKS Research

INNI Index's Stocks List

	Last Price	End of Last Year Price	Target Price*	Rating	Upside Potential (%)	1 Year Change (%)	Market Cap (IDR tn)	Price / EPS (TTM)	Price / BVPS	Return on Equity (%)	Dividend Yield TTM (%)	Sales Growth Yoy (%)	EPS Growth Yoy (%)	Adjusted Beta
Finance						17.8	2,373.1							
BBCA	30,350	26,000	32,000	Hold	5.4	26.5	740.8	27.4x	4.7x	18.4	1.1	16.8	12.7	1.0
BBRI	4,180	3,660	4,950	Buy	18.4	36.2	515.6	15.2x	2.7x	19.0	3.2	12.5	8.5	1.4
BMRI	6,975	7,375	8,000	Hold	14.7	5.3	325.5	12.3x	1.8x	15.0	3.5	9.1	11.1	1.4
Consumer						(11.3)	1,264.3							
GGRM	52,500	83,625	110,000	Buy	109.5	(30.0)	101.0	11.9x	2.3x	20.0	5.0	16.4	20.5	1.0
UNVR	47,000	45,400	59,000	Buy	25.5	(0.3)	358.6	38.7x	70.7x	183.9	2.5	1.3	5.2	1.0
ICBP	11,950	10,450	11,600	Hold	(2.9)	35.4	139.4	28.7x	6.1x	22.9	1.6	13.7	12.8	0.7
INDF	7,825	7,450	8,700	Hold	11.2	31.0	68.7	14.4x	2.0x	14.4	3.0	7.2	30.0	1.2
KAEF	2,920	2,600	4,100	Buy	40.4	18.7	16.2	47.5x	7.2x	16.6	0.5	#N/A	N/A	1.0
KLBF	1,675	1,520	1,870	Hold	11.6	23.6	78.5	31.4x	5.4x	17.9	1.6	7.7	3.5	1.3
Infrastructure						19.8	865.14							
TLKM	4,310	3,698	4,350	Hold	0.9	22.1	427.0	20.9x	4.5x	22.8	3.8	7.7	27.4	0.9
JSMR	5,775	4,280	6,000	Hold	3.9	29.2	41.9	18.9x	2.4x	13.3	0.8	(25.9)	1.4	1.1
Trade						(2.6)	717.2							
UNTR	20,475	27,350	35,000	Buy	70.9	(36.4)	76.4	6.8x	1.4x	21.6	5.8	11.2	1.8	1.0
SILO	7,025	3,590	7,230	Hold	2.9	134.2	11.4	247.6x	1.8x	0.7	N/A	18.5	N/A	0.8
MIKA	2,640	1,575	2,300	Hold	(12.9)	47.5	38.4	58.0x	8.9x	16.3	0.7	#N/A	N/A	0.5
LPPF	3,240	5,600	5,500	Buy	69.8	(53.0)	9.1	10.1x	5.0x	45.2	10.3	0.6	(11.5)	0.8
RALS	1,200	1,420	2,050	Buy	70.8	(9.8)	8.5	11.7x	2.0x	17.7	4.2	(0.2)	21.1	0.7
MAPI	1,025	805	1,300	Buy	26.8	25.0	17.0	23.0x	2.9x	14.5	1.0	10.2	25.0	0.8
Property						18.8	469.4							
PWON	645	620	725	Hold	12.4	29.0	31.1	11.2x	2.3x	22.4	1.1	3.8	20.9	1.3
CTRA	1,045	1,010	1,080	Hold	3.3	27.4	19.4	14.9x	1.3x	9.4	1.0	12.1	74.3	1.7
PTPP	1,745	1,805	2,450	Buy	40.4	13.7	10.8	7.8x	0.8x	11.3	2.8	12.8	(23.4)	1.6
WSKT	1,665	1,680	2,600	Buy	56.2	(1.8)	22.6	11.5x	1.3x	11.3	4.4	(35.4)	(66.8)	1.5
WIKA	1,940	1,655	2,500	Buy	28.9	42.6	17.4	8.3x	1.1x	14.9	2.0	#N/A	N/A	1.4
Basic Ind.						5.5	679.2							
JPFA	1,520	2,150	1,940	Buy	27.6	(25.1)	17.8	9.4x	1.8x	20.2	6.6	9.2	(26.8)	1.1
SMGR	11,850	11,500	14,600	Buy	23.2	25.7	70.3	27.1x	2.3x	8.7	1.8	#N/A	N/A	1.4
INTP	18,850	18,450	22,300	Buy	18.3	5.6	69.4	48.5x	3.2x	6.5	2.9	7.7	80.2	1.5
Misc Ind.						(6.4)	351.8							
ASII	6,650	8,225	9,100	Buy	36.8	(9.8)	269.2	12.8x	1.9x	15.8	3.2	3.2	(5.8)	1.2
Mining						(17.7)	376.3							
ADRO	1,315	1,215	1,750	Buy	33.1	(27.9)	42.1	5.7x	0.8x	14.2	6.9	10.2	51.9	1.3
PTBA	2,300	4,300	5,100	Buy	121.7	(44.7)	26.5	5.6x	1.6x	29.7	14.8	1.2	(25.8)	1.2
INCO	3,550	3,260	3,960	Hold	11.5	(4.1)	35.3	474.5x	1.3x	0.3	N/A	(22.0)	N/A	1.6
ANTM	990	765	1,200	Buy	21.2	18.6	23.8	29.7x	1.2x	4.1	1.3	8.5	(30.1)	1.5

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