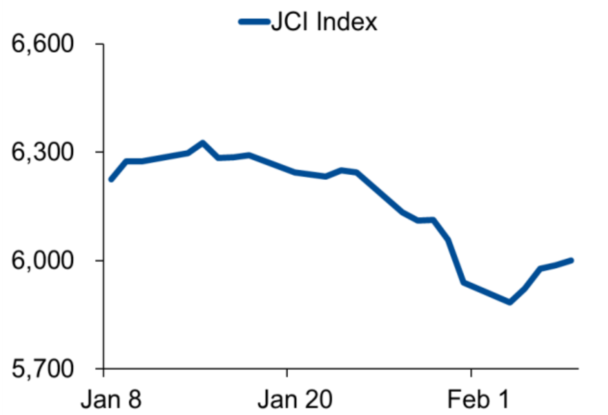
Weekly Brief (February 17th – 21th)

Summary:

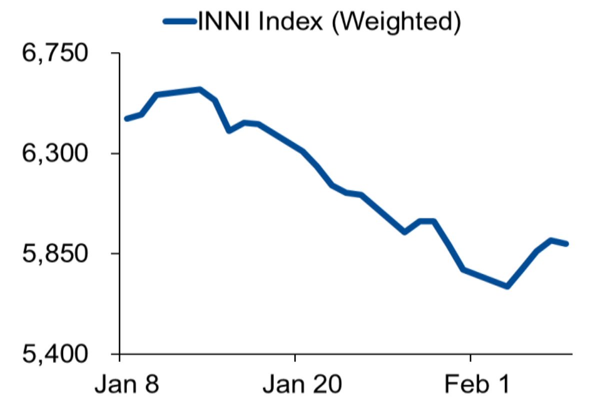
Last week review: The 2019's narrowing current account deficit, Indonesia's 4Q19 balance of payment (BoP) to be in surplus, Jerome Powell's semi-annual testimony to Congress, and the US economic prospect were catalysts for JCI's last week pace. The world's pharmaceuticals to ramp up efforts to discover antidote to deadly coronavirus eased markets' fear as JCI recorded a streak of 4-day foreign inflows.

This week's outlook: The central banks' accommodative stance responded by gradual lending rate trim is a breath of expectancy for property developers banking whose sales bank in mortgage loans. The prevailing PSAK 72 benefits CTRA to develop landed houses as landed-house development takes shorter time frame than high-rise development. Thus, the property exchange and completion stage and revenue recognition accounting take less time. To prove IDR6.1 trillion worth of marketing sales outperforming 2019's target supports our optimism about CTRA braced by revenue-driven strategies to be capable of posting growth in 2020's revenues. We hold CTRA as this week's top-pick stock to attain the price target of IDR1,390 at a 77% discount to RNAV.

JCI - one month



INNI Index – one month



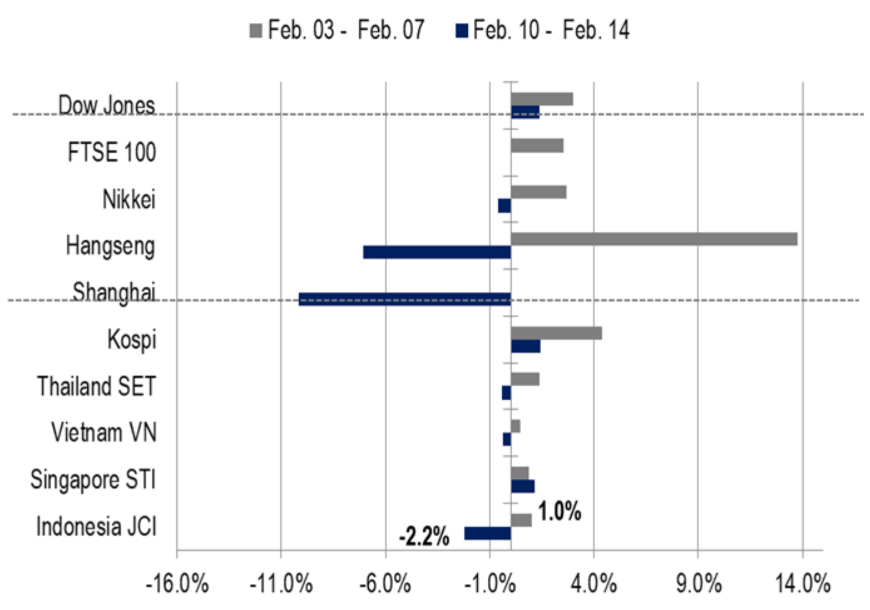
Last Week's JCI Movement

•JCI Index	: 5,866.95 (-2.2%)
Foreign Flow	: *Net buy* of IDR724 billion (vs. *net buy* last week of IDR143 billion)
USD/IDR	: 13,693 (+0.13%)
Yields of sovereign bond with 10-years tenor	: 6.582% (-0.20 bps)

JCI Is Bearish

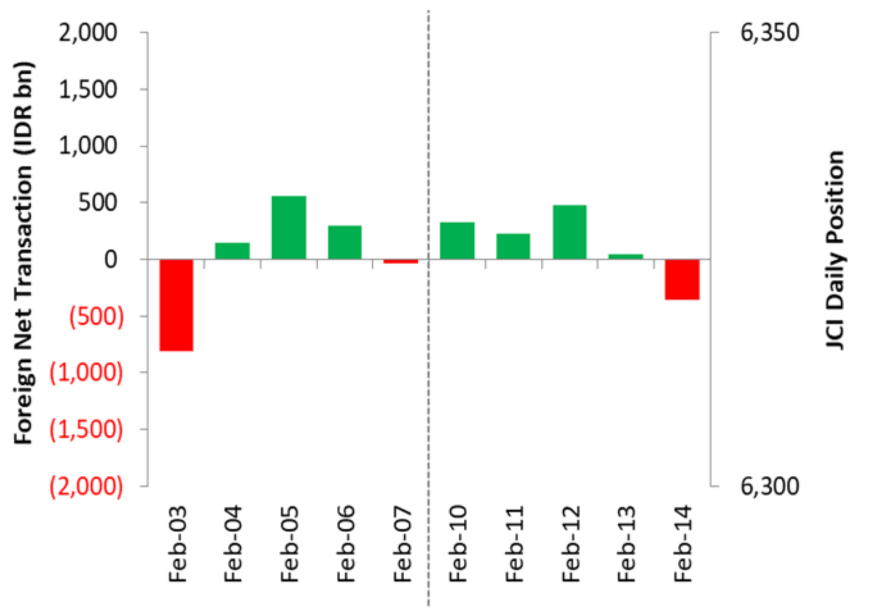
Bank Indonesia (BI) announced 2019's current account deficit (CAD) of USD30.4 billion or equal to 2.72% of the total GDP narrower than USD30.6 billion or equal to 2.94% of 2018's total GDP. Besides, Indonesia's Balance of Payments (BoP) of 4Q19 also accounted for USD4.3 billion worth of surplus. These two positive macroeconomic data stimulated foreign investors' appetite for investing in Indonesian stocks as JCI secured foreign inflows but remained unmoved from the red. The Fed Chair Jerome Powell's semiannual testimony before Congress articulated the US economy to remain resilient against infectious coronaviruses to spill over global economies and assured the Fed's patient stance of holding interest rates steady. That's dovish emphasis muted rising prices of Comex gold futures contract. On Friday of Feb. 14, despite of foreign inflows, JCI still posted a slight decline.

Global Market Movement



Source: Bloomberg, NHKSI Research

Foreign Net Flow – Last 10 Days



Source: Bloomberg, NHKSI Research

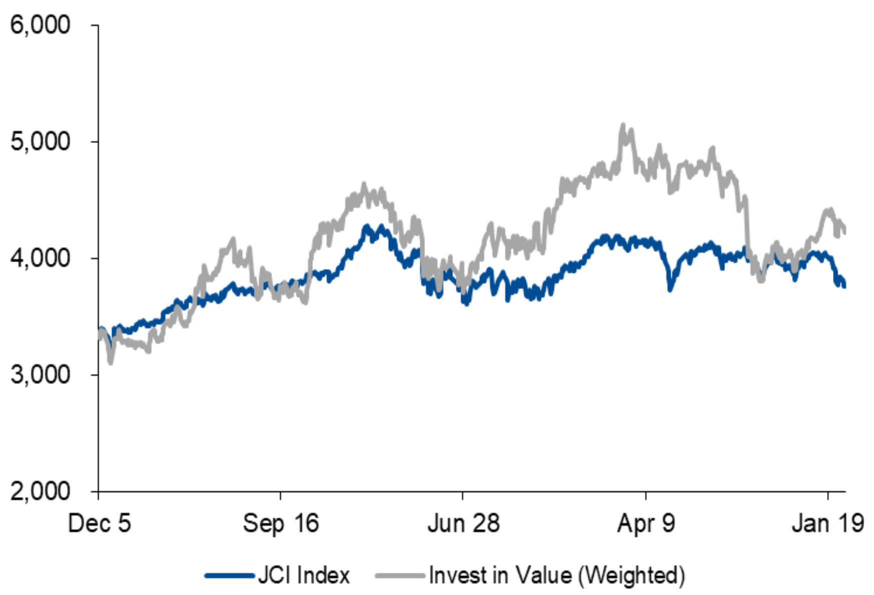
Last Week's INNI Movement

- INNI Index : 5,669.12 (-3.8%)
  INNI Theme 1 (Value) : 4,228.73 (-1.7%)
  INNI Theme 2 (Trend) : 6,629.37 (-4.7%)

INNI Index Diminishes

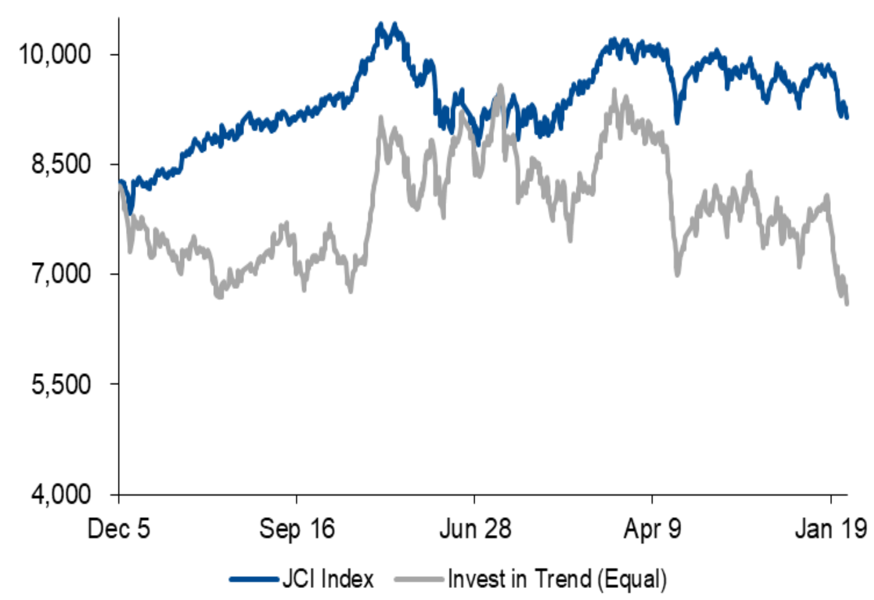
WSKT revoked the debt papers rating given by PT Pemeringkat Efek Indonesia (Pefindo) because it decided to cancel the issuance of shelf registration conventional bonds IV (PUB IV) of 2019. The cancelation was on grounds of IDR21.5 trillion worth of cash flows it attained in late 2019 and wobbly markets. It was a blow on WSKT to post a 5.0% loss and left INNI lethargic in early last week. INNI remained vulnerable in the midweek as its consumer stocks ebbed, i.e., ICBP (-6.3%) dan KLBF (-3.4%). The culprit in ICBP's bearish state was the due diligence on stocks of Pinehill Group to find higher purchasing valuation than the reasonable valuation, while KLBF's decreasing stockpiles of China-imported medicine raw substances weakened its paces. On Friday of Feb.14, INNI index increased slightly, backed by UNTR to advance by 4.0%.

Theme 1. Invest in Value (10 Stocks) – Market Cap Base



Source: Bloomberg, NHKSI Research

Theme 2. Invest in Trend (10 Stocks) – Policy Base



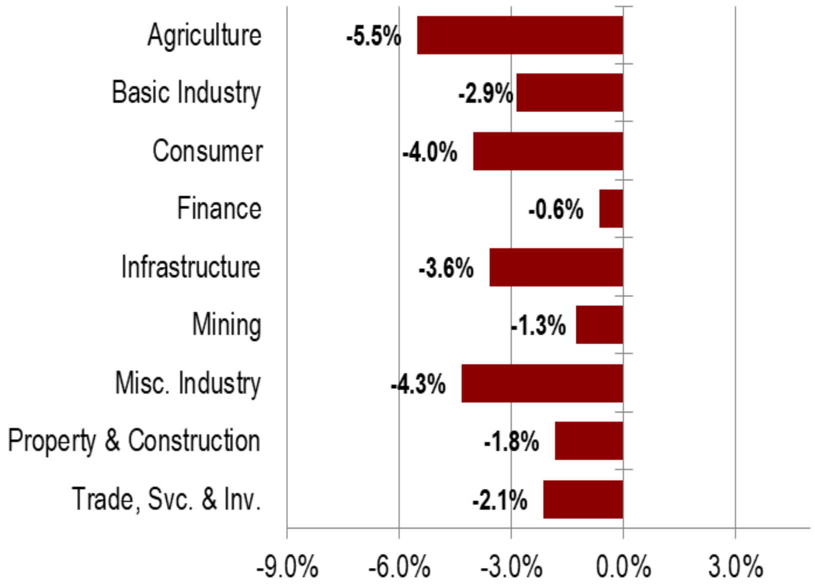
Source: Bloomberg, NHKSI Research

Last Week Sectoral Review

- **JCI's Top Losers**
  Last week, JCI's all sectors dropped, with stocks in the agricultural sector gave up the largest gains of 5.5%; prices of CPO to decline further showed the downturn in CPO stocks and fallout of coronavirus' surging death toll in light the fact that China is the world's largest CPO importer. Malaysia's Jan. CPO exports accounted for more than 13% declines as stocks of CPO makers i.e., ALLI and LSIP respectively declined by 7.8% and 9.0%.

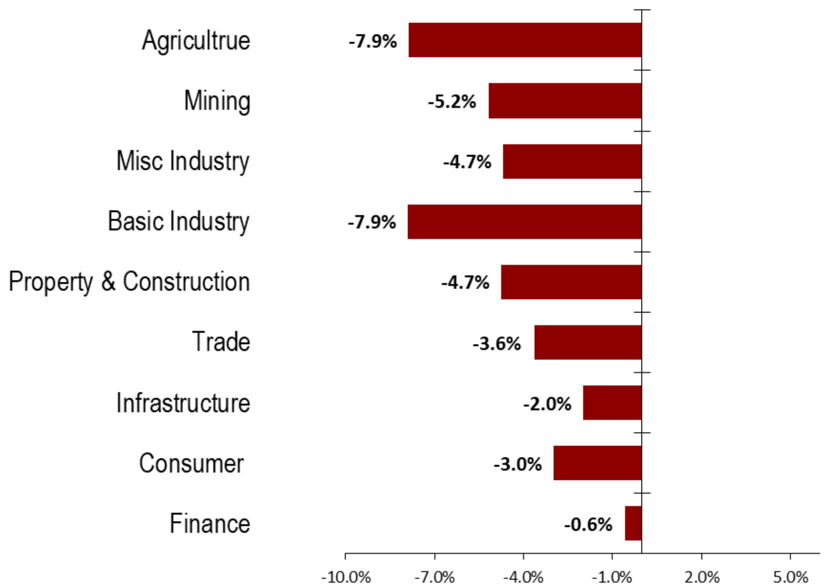
- **INNI Index's Top Losers**
  Another to stocks in the agriculture sector, stocks in the basic industry sector to give up the largest gains of 7.9% were INNI's top losers. SMGR as one of the stocks in the basic industry sector launched its new logo as the company's rebranding strategy to signify its business transformation from the cement producer into the supplier of innovative, updated, and valued-added building materials.

JCI's Last Week Sectoral Movements



Source: Bloomberg, NHKSI Research

INNI's Last Week Sectoral Movements



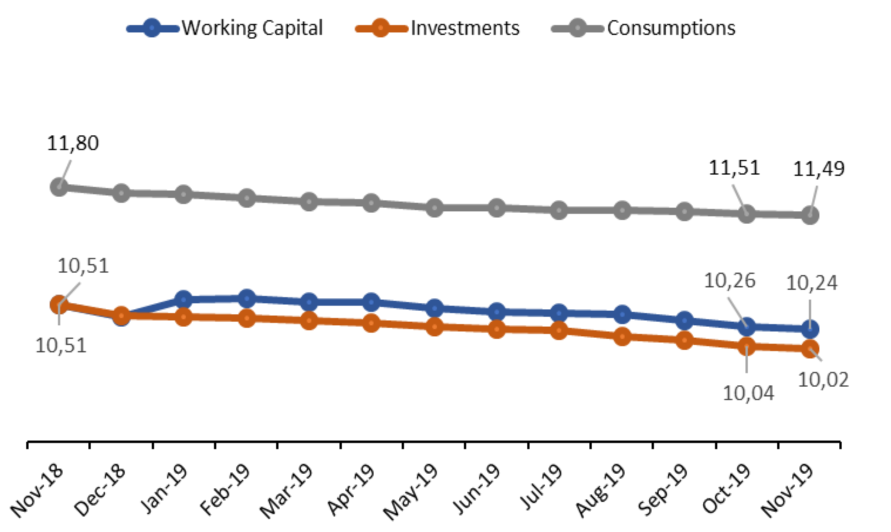
Source: Bloomberg, NHKSI Research

This Week's Outlook: Property Sector

- **Lower Lending Rates**
  Bank Indonesia (BI) on Thursday of Jan. 23, 2020 held its interest rates (BI 7-DRRR) at 5.0% and as of June 2019 had slashed BI 7-DRRR to 100 bps. Banks need a 6-month adjustment to the significant credit cut. Indonesian Banking Statistics (SPI) of November 2019 displayed that lending rates for working capital, investment, and consumption stood at 10.24%, 10.02%, and 11.49%, respectively. Although the lending rates have yet to account for sharp declines, banks have gradually trimmed their lending rates in compliance with more relaxed BI 7-DRRR. Banks' consistent stance of providing lower lending rates will whet creditors' appetite for lending more so that robust consumption and accelerated economic growth are tangible.

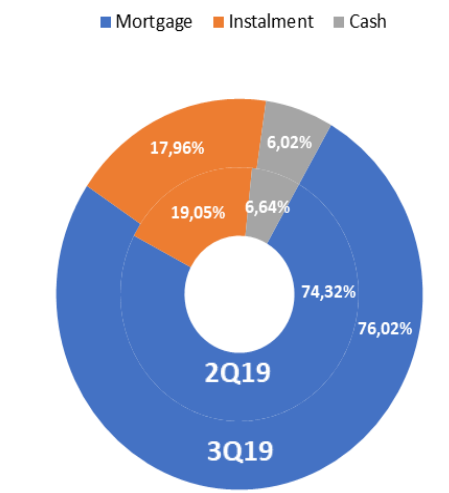
- **Credits Are Most-Preferred Types of Financing**
  Banks' commitment to gradual lending rates trim pursuant to looser BI 7-DRRR is a boost for consumption and property loans because residential or commercial property buyers, particularly homebuyers, still heavily rely on the mortgage loans (KPR) to afford their dream homes. The 3Q19's home purchasing data explained that 76.02% of home buyers had opted to afford their homes by applying for KPR; that was a 74.32% increase from 3Q18's growth. The cash installment to be opted by 17.96% of home buyers was the second-preferred type of home financing, while the hard cash was the least popular option of home financing to only account for 6.02% of home buyers. It is noteworthy to learn that KPR application grew from 0.70% in 2Q19 to 2.06% in 3Q19.

Bank's Lending Rates (%)



Source: OJK, NHKSI Research

Payment Method of Landed-House Property (q-q)



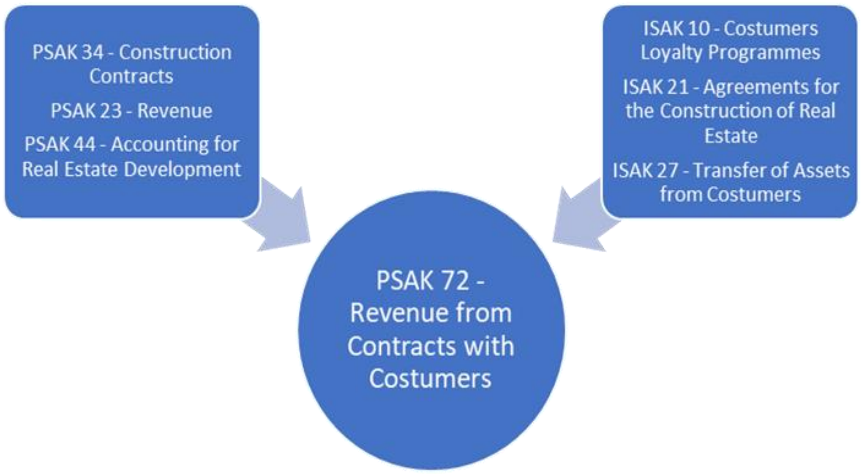
Source: Bank Indonesia, NHKSI Research

This Week's Outlook: Property Sector

- **PSAK 72 Affects All across Industries**
  PSAK 72 drafted as of 2017 took into force on January 1, 2020 and affects all across industries. This new standard replaces most of previous standards, including 3 prior PSAK's standards and 3 older ISAK's standards to apply rule-based principles into new principle-based standards. Thus, revenue recognition takes into account over-the-time or at a-point-of-time contracts. The mandatory PSAK 72 has significant impacts on property developers particularly high-rise developers, for the revenue recognition in financial statements requires a longer time frame. Of note, the stages of high-rise property (apartments, office spaces, malls, hotels) sale subsume pre-sales to completion & final steps and the revenue recognition in financial statements can be carried on in shorter time frame.

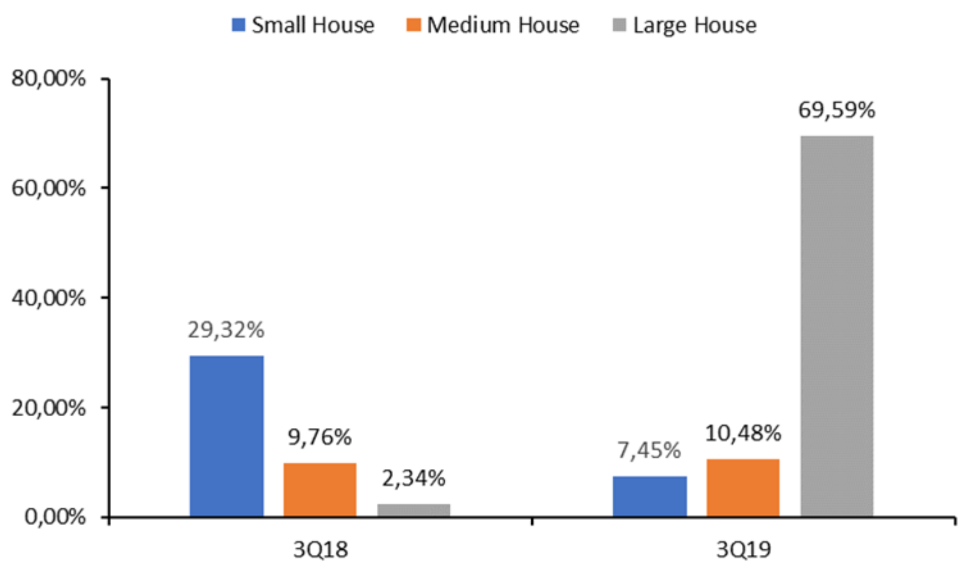
- **Property Developers Set Strategies to Balance Projects**
  The high-rise developers should efficiently allocate the time needed to complete the projects so that the mandatory PSAK 72 will not have to widen the gap between the revenue recognition accounting and the deadline for different project completion. Meanwhile, the landed-house developers should balance between the number of property development and the increase in sales volume. Of note, sales of large-type landed houses on an annual basis increased significantly from 2.34% in 3Q18 to 69.59% in 3Q19 because buyers of this type landed houses are investors instead of end-users. Take a comprehensive account of the middle-class or end-users demands for landed houses, the landed house developers in 2020 seem to target the promising segment of middle-class buyers. To secure maximum revenues from the Indonesian middle-class boom, the property developers sell landed-house units at the average prices of IDR300 million to IDR1 million.

PSAK 72 and Amendments



Source: Indonesia Statistics, NHKSI Research

Sales of Landed House (y-y)



Source: Indonesia Stock Exchange, NHKSI Research

Ciputra Development Tbk (CTRA IJ – Property)

Dec 2020 Target Price	**1,390**
Consensus Price	1,328
Last Price (IDR) as of Feb 14, 2020	880
TP vs. Last Price	57.9%
Revenue Breakdown:	
Real Estate	67.3%
Rental	25.3%
Others	7.4%

IDR bn	FY2018	FY2019E	FY2020E	FY2021E
Revenue	7,670	7,125	7,282	7,580
y-y	19.1%	-7.1%	2.2%	4.1%
Net Profit	1,185	915	1,006	1,118
y-y	32.6%	-22.8%	9.9%	11.2%
EPS	64	50	55	59
P/E	16.8x	18.3x	16.8x	15.4x
P/BV	1.2x	1.1x	1.1x	1.0x

- **NHKSI** recommends CTRA as this week's top-pick stock estimated to retain the price target of IDR1,390 at a 77% discount to RNAV on grounds of its solid development income and external supports from looser BI 7-DRRR as well as the prevailing PSAK 72 whose the revenue recognition accounting to benefit CTRA by means of shorter time frame for posting revenues from marketing sales to financial statements.

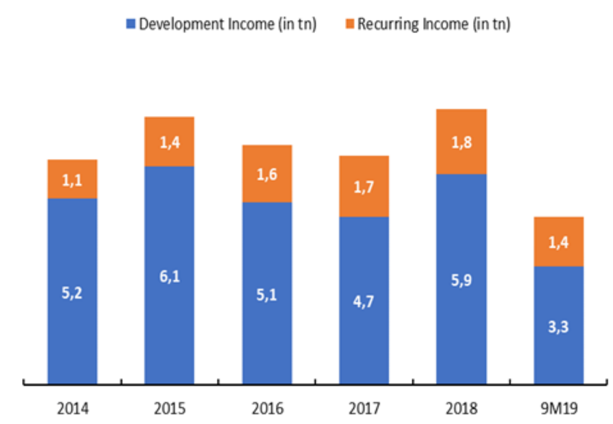
- **Development Incomes Sustain Performance**
  CTRA, in 9M19, posted revenues of IDR4.65 billion or a slight decrease of 1% y-y. Recurring income deriving from hotels, hospitals, offices, golf clubs business segments was the second-largest contributor of 29.7% equal to IDR1.38 billion to the total revenues. Meanwhile, the development income stemming from landed houses, shop houses, apartments, offices, and parcels of land business segments was the first-largest contributor of 70.3% or IDR3.27 billion to the total revenues. Although the development dominated the contribution to the total revenues, it ebbed 4% due to 2019's national election and the period of democratic transition from Jokowi's first-term Working Cabinet (2014-2019) to his second-term cabinet of Indonesia Maju (2019-2024) to weaken consumption. We believe that the implementation of PSAK 72 has no significant impacts on CTRA because most of its business segments are landed houses, shop houses, and parcels of land to boost development income: the first-largest contributor to revenues. Indeed, CTRA with unit's selling prices to lower than IDR2 billion targets the middle-income buyers.

- **2020's Marketing Sales Contribute Greater to Revenues**
  CTRA succeeded to post 2019's marketing sales of IDR6.1 trillion outperforming the target of IDR6 trillion. We are optimistic about CTRA to rely 53% on its property sales by means of mortgage loan is likely to post higher marketing sales in light of conducive political circumstances and looser BI 7-DRRR. CTRA is still banking on a landed house project in Citra Maja Raya area and build movie theaters and schools in the area with a view to boosting sales. Another to Citra Maja Raya project, CTRA in 1Q20 will launch the second phase of Citraland Driyorejo project consisting of 412 units of landed houses and parcels of land as well as 246 shophouses in order to boost 2020's marketing sales. In addition, it will strive to boost the contribution of recurring income to revenues by construction malls in Citra Raya area, Tangerang and an extension mall in Ciputra World, Surabaya.

Last 3 Year Discount to RNAV

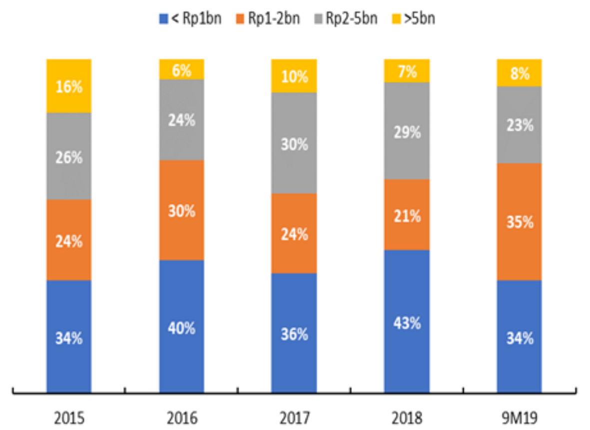
Source : Bloomberg, NHKSI Research

CTRA's Income | 2014 – 9M19



Source : Company Data, NHKSI Research

CTRA's Presales per Unit Price | 2014 – 9M19



Source: Company Data, NHKSI Research

INNI Index's Stocks List

	Theme 1/2	Last Price	Last Week Price	2020 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	33,400	33,800	32,000	Hold	(4.2)	-1.2%	829.6	29.3x	4.9x	18.1	1.1	15.0	13.0
BBRI	Theme 1	4,550	4,550	4,950	Hold	8.8	0.0%	555.1	16.0x	2.7x	17.7	2.9	11.1	6.3
Consumer														
GGRM	Theme 1	54,575	56,375	61,800	Hold	13.2	-3.2%	105.4	11.4x	2.2x	20.5	4.7	16.9	25.8
KINO	Theme 1	3,080	2,990	4,680	Buy	51.9	3.0%	4.4	8.9x	1.7x	21.2	1.6	34.1	323.0
ICBP	Theme 1	10,775	11,500	12,875	Buy	19.5	-6.3%	126.5	25.4x	5.3x	22.2	1.3	11.2	11.4
KLBF	Theme 1	1,390	1,470	1,780	Buy	28.1	-5.4%	65.4	25.5x	4.3x	17.6	1.9	7.3	6.2
Infrastructure														
TLKM	Theme 1	3,640	3,790	4,700	Buy	29.1	-4.0%	358.6	17.7x	3.6x	21.3	4.5	3.5	15.6
JSMR	Theme 1	4,900	4,900	6,000	Buy	22.4	0.0%	35.1	18.2x	1.9x	11.3	0.9	(22.8)	(15.2)
Trade														
UNTR	Theme 2	18,325	18,800	26,300	Buy	43.5	-2.5%	69.9	6.5x	1.3x	19.8	6.6	7.3	(4.8)
MAPI	Theme 2	905	950	1,300	Buy	43.6	-4.7%	15.1	18.5x	2.5x	14.8	1.1	11.4	14.7
Property														
CTRA	Theme 2	880	920	1,390	Buy	58.0	-4.3%	16.9	16.7x	1.2x	7.2	1.1	(0.7)	(28.9)
WSKT	Theme 2	1,095	1,195	2,600	Buy	137.4	-8.4%	15.0	10.8x	0.8x	7.8	6.6	(39.2)	(69.4)
WIKA	Theme 2	1,945	1,975	2,500	Buy	28.5	-1.5%	17.5	7.9x	1.1x	15.3	2.0	(12.9)	57.3
Basic Ind.														
SMGR	Theme 1	11,375	12,350	14,300	Buy	25.7	-7.9%	68.1	29.8x	2.2x	7.5	1.8	31.1	(38.1)
Misc Ind.														
ASII	Theme 1	6,100	6,400	8,600	Buy	41.0	-4.7%	246.9	12.1x	1.7x	14.9	3.5	1.2	(7.1)
Mining														
TINS	Theme 2	670	730	800	Buy	19.4	-8.2%	5.0	35.6x	0.8x	1.6	3.7	114.6	N/A
PTBA	Theme 2	2,330	2,320	2,300	Hold	(1.3)	0.4%	26.8	5.9x	1.5x	26.4	14.6	1.4	(24.9)
INCO	Theme 2	3,130	3,310	4,200	Buy	34.2	-5.4%	30.7	389.2x	1.2x	0.3	N/A	(12.6)	N/A
ANTM	Theme 2	675	730	1,100	Buy	63.0	-7.5%	16.1	20.0x	0.8x	4.1	1.9	23.0	(11.1)
Agriculture														
AALI	Theme 2	11,100	12,050	15,600	Buy	40.5	-7.9%	21.7	51.0x	1.2x	2.3	2.0	(10.0)	(90.1)

Source : Bloomberg, NHKS Research

PT NH Korindo Sekuritas Indonesia

Member of Indonesia Stock Exchange

Head Office :
District 8 Treasury Tower 51
st Fl. Unit A, SCBD Lot.28
Jl. Jendral Sudirman Kav. 52
-53Jakarta Selatan 12190
Telp : +62 21 50889100
Fax : +62 21 50889101

Branch Office BSD:
ITC BSD Blok R No.48
Jl. Pahlawan Seribu Serpong
Tangerang Selatan 15322
Indonesia
Telp : +62 21 5316 2049
Fax : +62 21 5316 1687

Branch Office Medan:
Jl. Timor No. 147
Medan
Sumatera Utara 20234
Indonesia
Telp : +62 61 4156500
Fax : +62 61 4568560

Branch Office Semarang:
Jl. MH Thamrin No. 152
Semarang
Jawa Tengah 50314
Telp : +62 24 8446878
Fax : +62 24 8446879

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