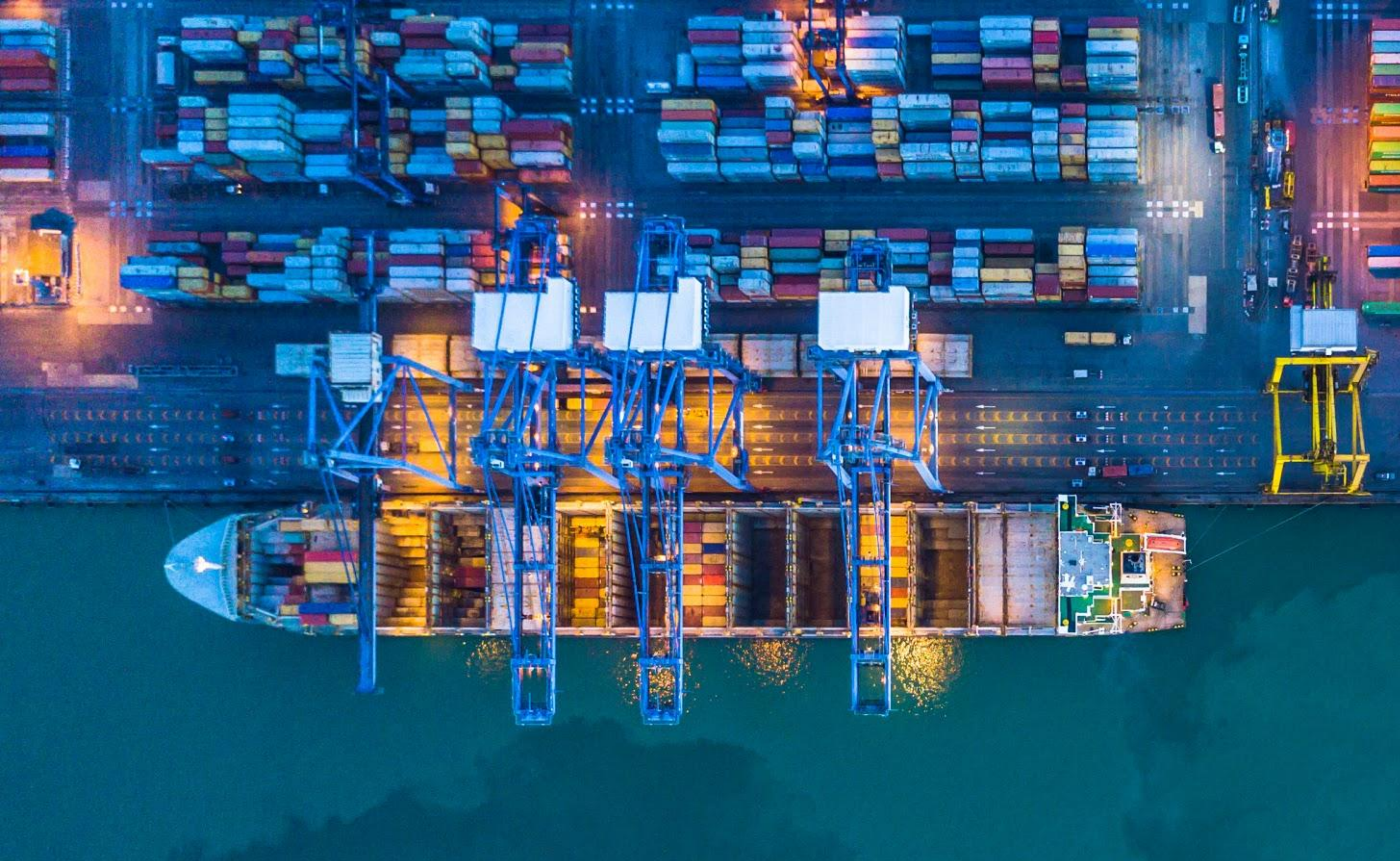
Indonesia 2021 Market Outlook

2021 Market Outlook



Economic Outlook

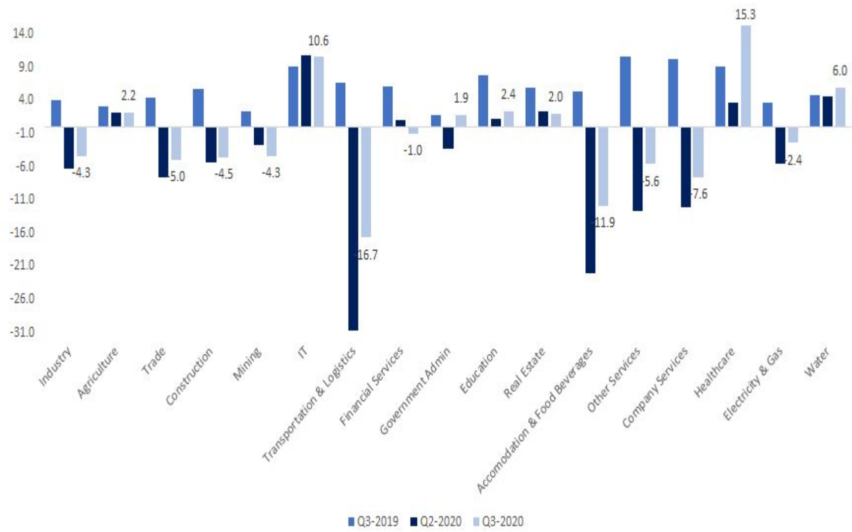
Economic Growth - GDP Growth to Normalize in 2021

- In 2020, Indonesia has entered into recession for the first time since 1998 monetary crisis with 2Q20 & 3Q20 GDP of -5.32% and -3.49% respectively, while the government projecting FY20 GDP to be around -1.5% yoy. Sharp decline in demand caused by the Covid-19 pandemic was the main culprit of this economic slowdown. Business activities reached its lowest level during the second quarter of 2020 when Large Scale Social Restrictions (PSBB) was fully implemented.
- As an effort to fight negative economic effects caused by the pandemic, the government has launched the National Economic Recovery (PEN) program with a budget of IDR695.2 trillion. As of November 2020, absorption level of this program was still below 60%. This has caused economic recovery to be less than optimal.
- The Telecommunication and Healthcare sectors were among the few industries that still able to grow in 2020. Meanwhile, the transportation and tourism sectors were among the hardest hit industries.
- Under the 2021 Macroeconomic assumptions, the government is targeting an economic growth of 4.5% - 5.5%. Meanwhile, projections from several international institutions include: IMF (6.1%), World Bank (3% - 4.4%) and the Asian Development Bank (5.3%). If the target for economic growth recovery can be achieved, Indonesia will return to its long-term economic growth path of around 5%.

Indonesia GDP Growth

Source: Bloomberg, NHKSI Research

Sectoral GDP Growth in 3Q20

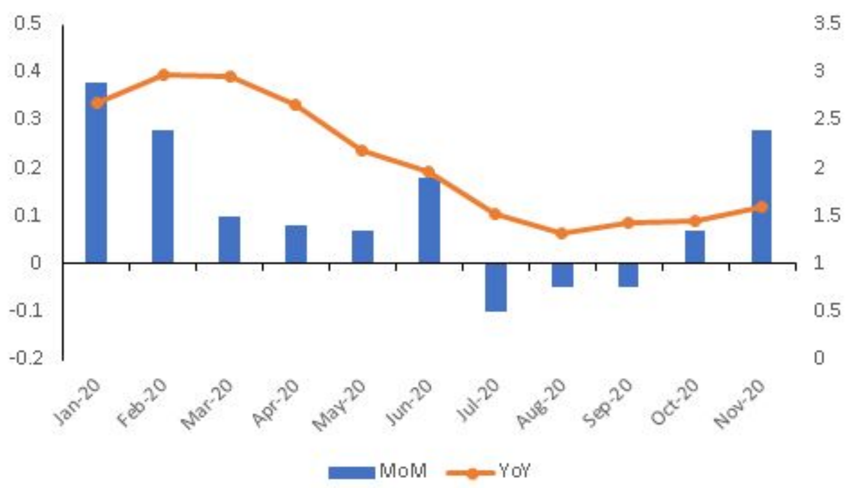


Source: Bloomberg, NHKSI Research

Inflation - Counting on Stronger Purchasing Power

- Up until November 2020, Indonesia's inflation was recorded at 1.23% (calendar year 2020) and 1.59% (yoy). With this persistently low inflation rate, the FY20 inflation is projected to only be at the level of 1.5% or below Bank Indonesia's target of 3% (+/- 1%).
- The Covid-19 pandemic has severely hit purchasing power and put pressure on demand, with the majority of upper middle class seemed to be delaying consumption. This was indicated by a decline in the retail sales index, which until September 2020 stood at 194.1 or decreased by 8.7% yoy.
- The year 2020 was also marked by the occurrence of an anomaly in inflation rate. In general, inflation rate in Indonesia usually reaches its peak during the period of Ramadan - Eid Al-Fitr. The enforcement of large-scale social restrictions had caused inflation to reverse down to 0.07% in May 2020. This low inflation continued into the third quarter of 2020, where Indonesia experienced deflation for 3 consecutive months between July - September.
- Core inflation was recorded at 1.67% yoy as a result of low demand and relatively stable exchange rate. The volatile goods category recorded the highest price increase of 2.41% yoy. Meanwhile, price-controlled goods served as a laggard to inflation with an increase of only 0.56% yoy.
- In 2021, Bank Indonesia will still set an inflation target of 3% (+/- 1%) amid hopes of a recovery in purchasing power and increasing level of demand. Meanwhile, some challenges to inflation will still be lurking, such as: the effectiveness of supply distribution and delayed monetary expansion in 2020. NHKSI projects that inflation rate in 2021 will be at a level of 2.7%.

Indonesia Consumer Price Index (CPI)



Source: Statistics Indonesia, NHKSI Research

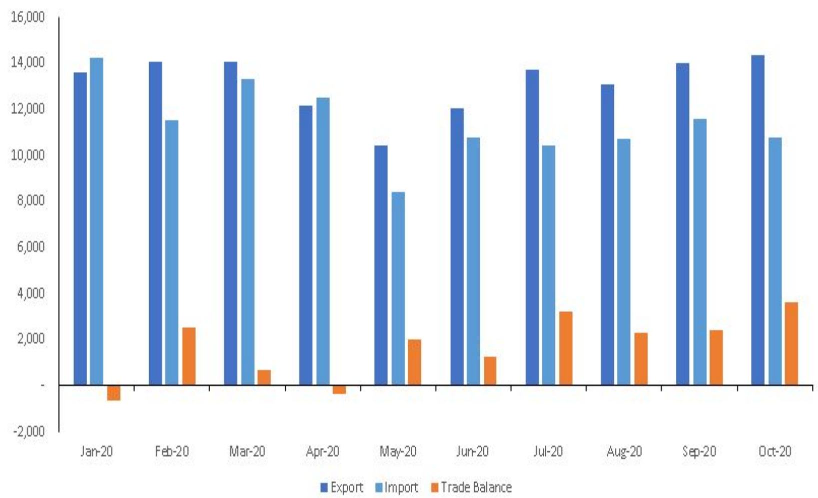
Inflation Contribution by Components

Source: Statistics Indonesia, NHKSI Research

Trade Balance - Trade Surplus to Narrow Down

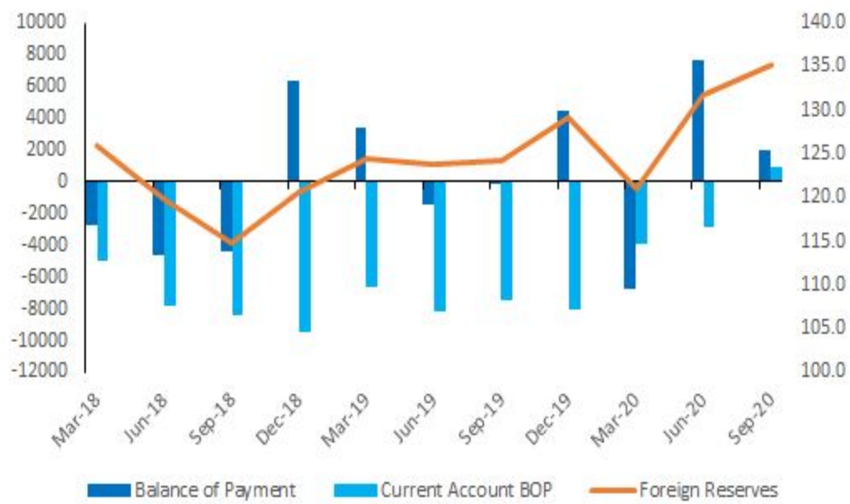
- During the January - October 2020 period, Indonesia posted a trade balance surplus of USD17.07 billion, significantly higher than the same period in previous year, which experienced a deficit of USD2.11 billion. Total exports reached USD131.54 billion or decreased by 5.58% yoy. Meanwhile, import values recorded a steeper decline, by -19.07% yoy to USD114.46 billion.
- The trade balance surplus which was primarily caused by the decline in imports is not necessarily a positive indicator, because lower imports of raw materials and capital goods indicate weak levels of domestic production.
- The value of import is expected to post better growth in 2021 as the economy recovers, which will cause trade surplus to be smaller. This is in line with IMF projection that predicts global trade to increase by 8.3% in 2021. In addition, Indonesia's inclusion in the Regional Comprehensive Economic Partnership (RCEP) agreement is also expected to increase the potential of product exports.
- Balance of Payment (BOP) and Current Account in the third quarter of 2020 recorded a surplus of USD2.1 billion and USD1 billion (0.4% of GDP), respectively. This has an impact in strengthening the position of Foreign Exchange Reserves which reached USD135.2 billion by the end of September 2020 or equivalent to 9.1 months worth of imports plus government debt commitments.

Indonesia Trade Balance (USD bn)



Source: Bloomberg, NHKSI Research

Balance of Payment and Foreign Reserves (USD bn)

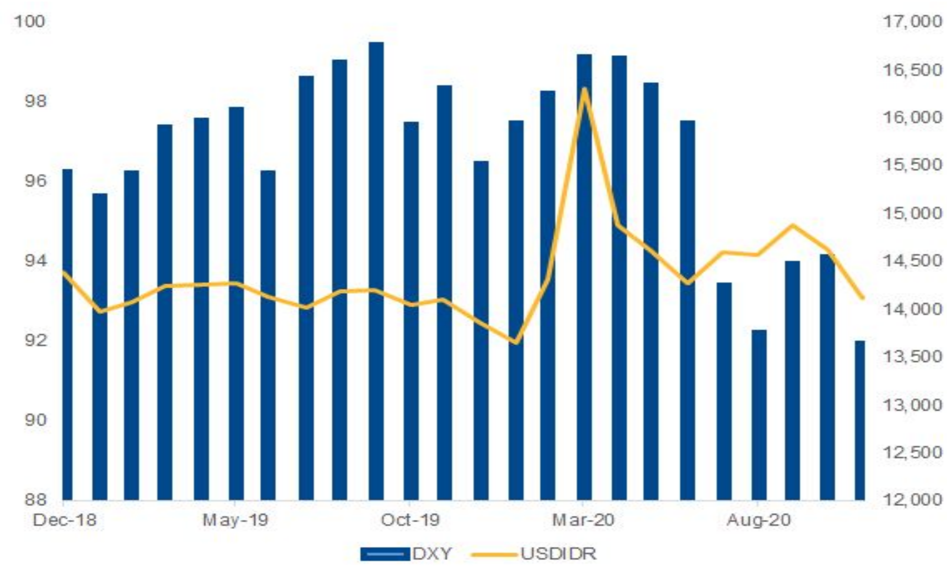


Source: Bloomberg, NHKSI Research

Exchange Rate - Domestic Sentiments to Support IDR

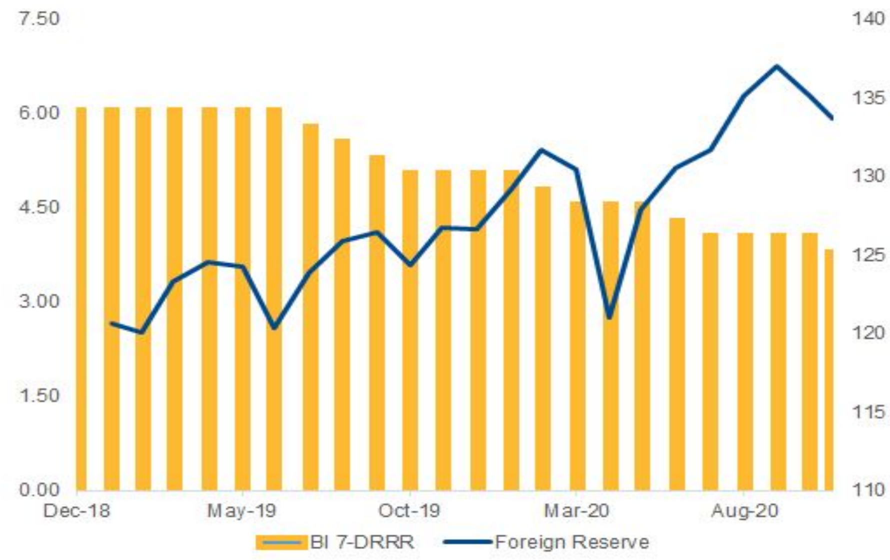
- The Indonesian Rupiah has strengthened significantly by more than 13% from its lowest level at the end of March 2020 at IDR16,310/USD to a level of IDR14,135/USD at the early of December 2020. Improvements in domestic economic indicators have contributed in reducing the volatility of IDR. The appreciation was also amidst pressure on the US dollar index, to a level of 91.87 in November 2020 or the lowest level in the last two years. This was mainly due to the sentiments ahead of US presidential election in November 2020.
- Using the State Budget 2021 assumption of USD/IDR exchange rate and the yield of 10-year SBN, at the level of IDR14,600/USD and 7.29%, respectively. Based on its position at the beginning of December, rupiah will come under a little pressure, but will still have an attractive yield of 7% for a 10-year tenor.
- Domestic sentiments, such as the progress of the Covid-19 pandemic and the implementation of Omnibus Law on Job Creation will play key roles for IDR movement in 2021. Through the Job Creation Law, the government will streamline numerous laws and regulations, which in turn is expected to attract foreign investments to the country.

Rupiah Strengthening amidst USD Depreciation



Source: Bloomberg, NHKSI Research

Foreign Reserve Movement

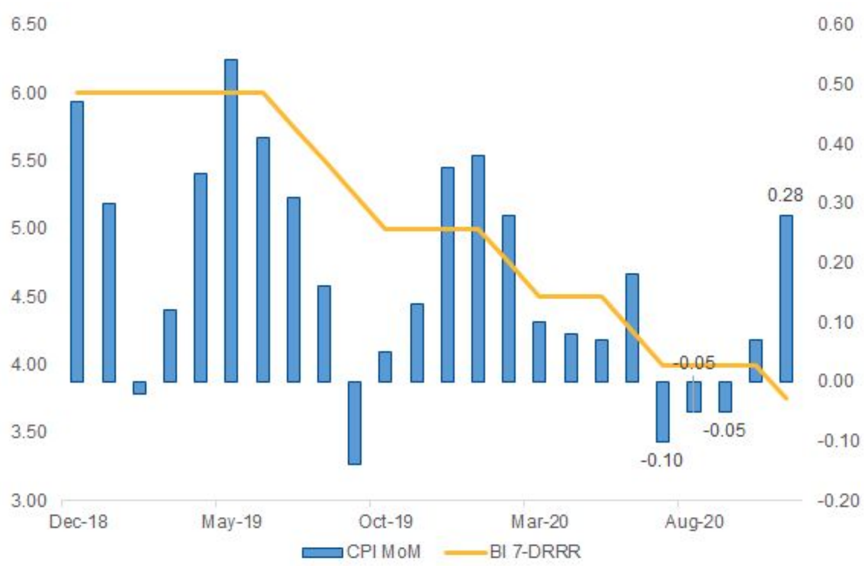


Source: Bloomberg, NHKSI Research

Interest Rate - BI Commitment to Maintain Low Benchmark Rate

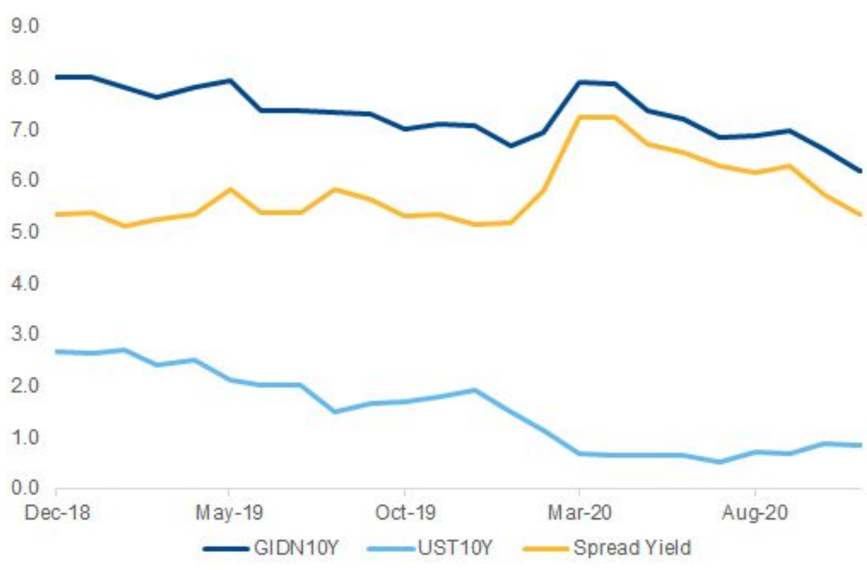
- The Fed's decision to cut interest rates was a key driver to the BI 7-DRRR. The FFR was cut twice in March 2020 to 0.25% -0%, responding the slowing global economic growth. On the other hand, the Fed's commitment to keep the FFR close to zero until 2023, will give the BI 7-DRRR room to remain low. During 2020, BI has cut the benchmark rate by 125 bps to the level of 3.75%.
- The lowest inflation in the last 20 years indicates low demand amid the Covid-19 pandemic. As of November 2020, Indonesia posted inflation of 0.28% MoM, after previously recording deflation during the 3Q20 period. Food and transportation prices fell the most, as households saved more. This has the potential to continue until Ramadan-Eid Mubarak season in 2Q21. However, we see that inflation in 2021 is likely to be above 2020.
- The relatively wide yield spread will support capital inflows in the Indonesian financial market, particularly bonds. In 2020, the yield spread between Indonesian Government Bonds and 10-year US Treasury reached up to 724 bps in March 2020 and April 2020, before finally narrowing to the level of 534 bps as of early December 2020. We see that the yield spread above 500 bps is still attractive to foreign investors whose current ownerships of SBN are less than 26%.

CPI MoM (%) and BI 7-DRRR (%)



Source: Bloomberg, NHKSI Research

Capital Inflow amidst High Spread Yield (%)



Source: Bloomberg, NHKSI Research

Fixed Income - Front Loading amidst Crowding out Effect

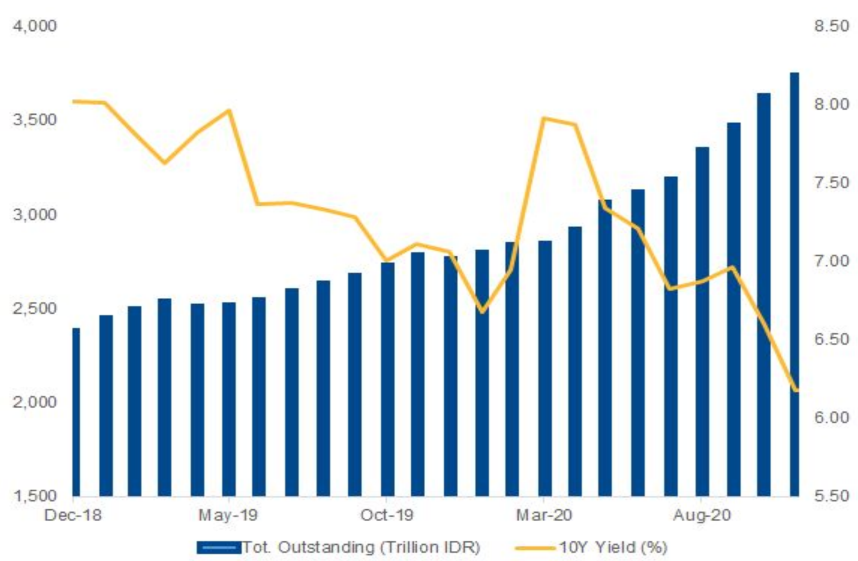
- In early 2021, Indonesia domestic bond market will be faced with a *crowding out effect*, where the government and corporations compete to issue debt securities. Other than as a source of funding and refinancing, the issuance of bonds at the start of year will also take advantage of the low BI 7-DRRR interest rate.

- The government, through the Directorate General of Budget Financing and Risk Management (DJPPR), will aggressively offer auctions for Government Securities (SBN), both Government Bond (SUN) and Sharia Bond (SBSN), between 50% and 60% of the total annual target in the first semester of 2021 (*front loading*).

- High liquidity has boosted banks ownership in SBN up to 39.4% (as of Nov. 26, 2020). This is higher than foreign investor ownership of only 26%.

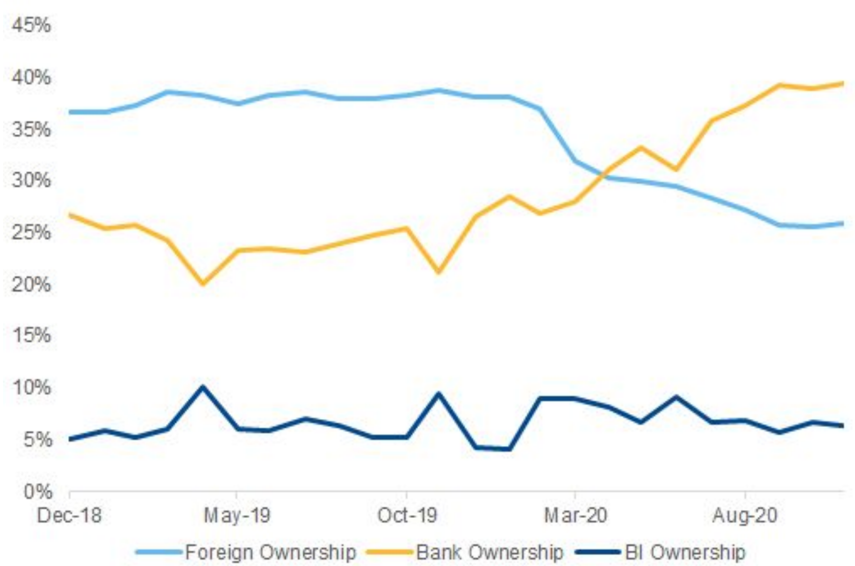
- On the other hand, the Omnibus Law states that BI will act as a standby buyer for SBN during the time of financial crisis. This policy will again increase SBN ownership, after previously BI and the government carried out burden sharing in buying SBN. In 2020, BI's share of ownership in SBN was between 5% to 10%. We see that the trend of Bank Indonesia ownership in SBN will also remain high in 2021.

Govt. Securities Outstanding (IDR Tn.) Hike amidst Low Yield (%)



Source: Bloomberg, NHKSI Research

Banking Liquidity has Boosted Govt. Securities Ownership



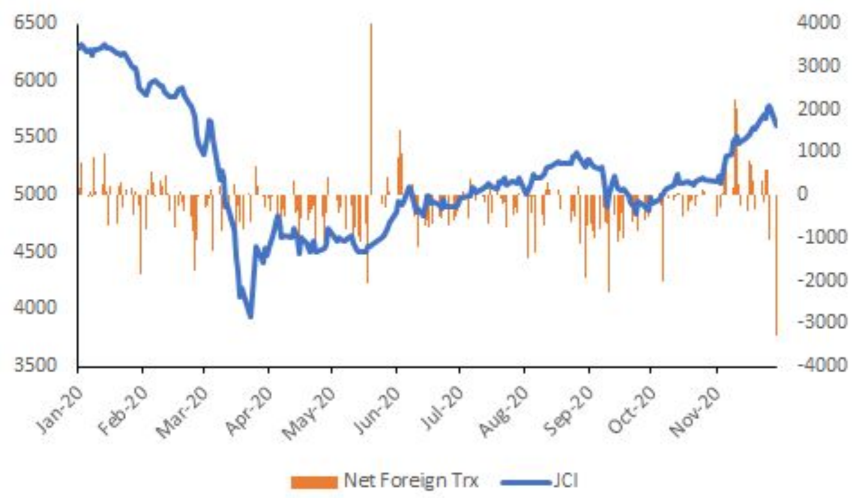
Source: Bloomberg, NHKSI Research

Equity Market

Equity Market - JCI Review 2020

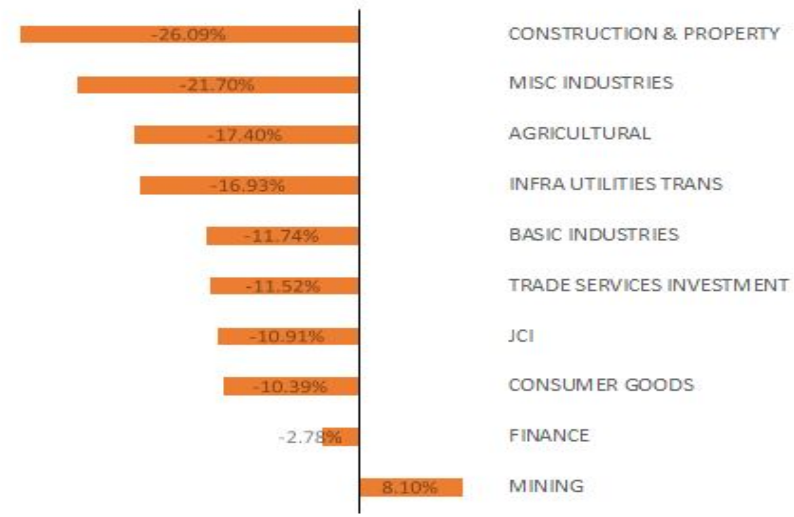
- As of November 2020, the JCI fell by 10.91% ytd to 5,612, after reaching its lowest point of 3,937 at the start of the Covid-19 pandemic in March. With the easing of PSBB along with gradual recovery of economic activities, the stock market managed to steadily rebound by the end of 1H20.
- Several positive catalysts in 2H20, such as: the development Covid-19 vaccines, the passing of Omnibus Law on Job Creation, and United States Election which went relatively smooth were several factors which moved the JCI further upward. This was highlighted by a gain of 9.44% in November 2020 with trading volume setting an all-time high record.
- Mining sector was the only sector that managed to book a YTD increase until November 2020 with a gain of 8.1%. Other sectors that still managed to outperform the JCI were: Financial Services (-2.78% ytd) and Consumer Goods (-10.39% ytd).
- During the January - November 2020 period, foreign investors booked a net sell of IDR43.5 trillion in all markets. However, massive outflow in foreign funds was also accompanied by an increase in participation from domestic investors. As of October 2020, the number of Indonesian capital market investors were recorded at 3.39 million, an increase of 36.82% from 2019. Meanwhile, ownership share of domestic retail investor also booked an increase to 12.2% from previously 10.6%.

JCI Movement and Foreign Transaction



Source: Bloomberg, NHKSI Research

Sectoral Performance



Source: Bloomberg, NHKSI Research

Equity Market - JCI Review 2020

- Up to November 2020, **MDKA** was the most sought after stock by foreign investors (in regular market) with a total net buy of IDR2 trillion. The increase in gold prices during Covid-19 pandemic was the main catalyst for share price increase of the company which operates the Tujuh Bukit mine in Banyuwangi. In second place, **BNLI** recorded a net foreign inflow of IDR450 billion as its acquisition by Bangkok Bank was completed in 2Q20.
- **TLKM** was the stock with the largest net sell by foreign investors during the Jan-Nov 2020 period with amount of IDR9.3 trillion. Furthermore, the four big bank stocks (**BBCA, BBRI, BMRI, and BBNI**) also dominate the list of top net foreign sell. Meanwhile, the telecommunication company owned by Djarum group, **TOWR**, is in fifth position with a net sell of IDR2.8 trillion. However, the departure of foreign investors in large banking and telecommunication sector stocks did not seem to deter local investors, as domestic ownerships rose.
- Mining sector was the biggest winner throughout 2020. Increase in gold and nickel prices have boosted the share price of LQ45 members such as **MDKA** (81.31%); **ANTM** (36.31%) and **INCO** (26.65%).
- Meanwhile, the list of top LQ45 losers was filled with issuers from different industries, namely: Media Sector (**MNCN**), Utilities (**PGAS**), Basic Industry (**TKIM**), Cigarettes (**HMSP**), and Trade (**AKRA**). This indicates that Covid-19 pandemic have been having major impacts on almost all sectors across the board.

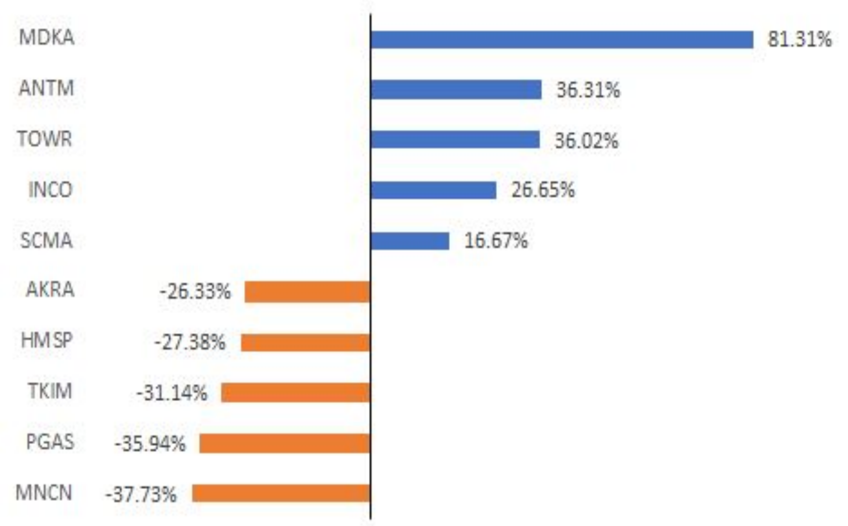
Top Net Foreign Buy and Sell (Regular Market) in IDR million

Net Foreign Buy	
MDKA	2,035,793
BNLI	451,297
SMMA	301,756
BULL	166,317
BOGA	139,018
WOOD	130,410
INCO	127,279
ERAA	119,976
IPTV	111,631
UCID	108,375

Net Foreign Sell	
TLKM	-9,337,874
BBNI	-6,534,349
BBCA	-6,021,810
BBRI	-3,181,529
TOWR	-2,882,309
BMRI	-2,126,277
PGAS	-2,011,668
HMSP	-1,537,852
MNCN	-1,517,830
KLBF	-1,409,112

Source: NHKSI Research

LQ45 Winners and Losers



Source: Bloomberg, NHKSI Research

Equity Market - JCI 2021 Outlook

- Normal case → **6,800 (Implied Forward P/E 18.1x)**. Our base target of the JCI was derived from the following key assumptions: 1) Ongoing vaccine distribution, coupled with decreasing Covid-19 cases; 2) The stock market starts seeing the return of foreign inflow; 3) Gradual recovery in both production and consumption activities; and 4) Moderate EPS growth between 5% to 20%.

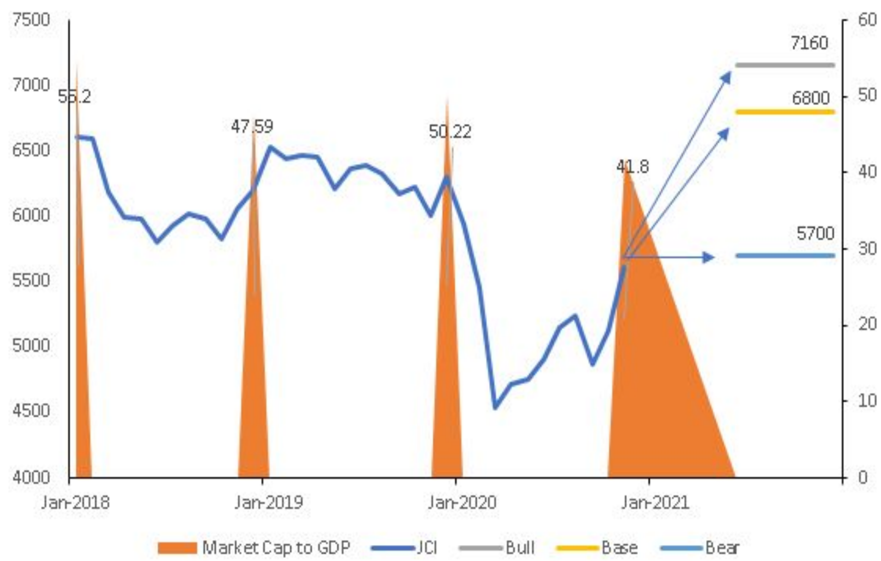
- Bull case → **7,160 (Implied Forward P/E 19x)**. The JCI may outperform in 2021, supported by the following factors: 1) Successful nation-wide distribution of Covid-19 vaccine; 2) Economic growth in line with projections of 5% yoy or more; 3) Commodity prices remain in uptrend; 4) Further cuts to BI-7DRRR ; and 5) Significant EPS growth of more than 20% across the board.

- Bear case → **5,700 (Implied Forward P/E 15.2x)**. Conversely, the JCI may be unable to perform well under some unfavorable conditions, such as: 1) Covid-19 cases remain persistently high with no meaningful progress in vaccination program; 2) Foreign outflow continues; 3) Household consumption and purchasing power remain weak; and 4) 2021 EPS growth continue to contract.

JCI 12 month Blended Forward P/E

Source: Bloomberg, NHKSI Research

JCI 2021 Target



Source: Bloomberg, NHKSI Research

Equity Market - JCI Outlook 2021 (Technical View)

JCI to continue its strong bullish and test its all-time high level in the area of 6700.

Equity Market - Top Picks 2021

- NHKSI top cyclical picks come from the Property and Construction sector which enter 2021 with several positive catalysts such as: 1) Key favourable regulations from the omnibus law on Job Creation Act; 2) Lower benchmark interest rate; and 3) Government plan to resume the National Strategic Projects. This will also benefit the cement industry as Indonesia should see higher cement consumption as a result. Moreover, we are also bullish on Metal Mining industry, specifically on Nickel commodity.
- We also maintain some defensive plays which still hold significant upsides, with Telecommunication and Healthcare as our top sectoral picks. Other non-cyclical selections include Consumer goods and Banking (with emphasis on Buku IV SOE Banks).

NHKSI 2021 Top Stock Picks - Key Fundamental Ratios (as of 3 December 2020)

Ticker	Market Cap (IDR mn)	P/E Ratio (x)	Ratio (x)	GPM (%)	OPM (%)	NPM (%)	ROE (%)	DER (%)	Net Debt/Equity (%)
BBNI IJ	118,418,969	15.32	1.07	61.07	0.85	-1.11	6.75	n/a	n/a
BMRI IJ	306,833,333	14.43	1.66	57.93	26.46	20.04	11.14	n/a	n/a
MYOR IJ	55,449,575	22.58	5.25	29.41	10.76	9.51	25.31	42.65	12.01
KLBF IJ	68,672,054	26.22	4.03	45.87	15.39	11.65	16.18	8.1	Net Cash
TOWR IJ	54,075,503	20.03	5.48	68.94	32.09	32.46	29.5	194.91	178.79
TLKM IJ	326,905,315	17.31	3.21	31.57	32.27	17.2	18.76	52.4	37.41
EXCL IJ	25,908,550	11.3	1.23	20.00	17.46	5.04	11.51	152.38	137.76
CPIN IJ	104,947,200	31.36	4.77	13.70	9.50	5.80	15.90	24.00	14.65
WIKA IJ	16,818,659	17.14	1.24	6.75	-4.43	-6.16	6.7	141.2	93.66
CTRA IJ	17,168,281	17.34	1.17	43.01	16.51	4.37	6.68	57.25	30.35
PWON IJ	25,765,387	22.02	1.8	50.34	38.13	11.02	8.14	24.84	2.6
INTP IJ	53,561,921	30.15	2.4	39.19	18.52	16.27	7.94	0.52	Net Cash
AALI IJ	23,288,729	34.12	1.23	14.46	8.05	4.49	3.64	30.66	21.67
ANTM IJ	30,158,610	64.39	1.59	18.11	11.22	8.52	2.41	44.63	25.25

Source: Bloomberg, NHKSI Research

Domestic Sentiment - Between Vaccine Hope and Rising Covid-19 Cases

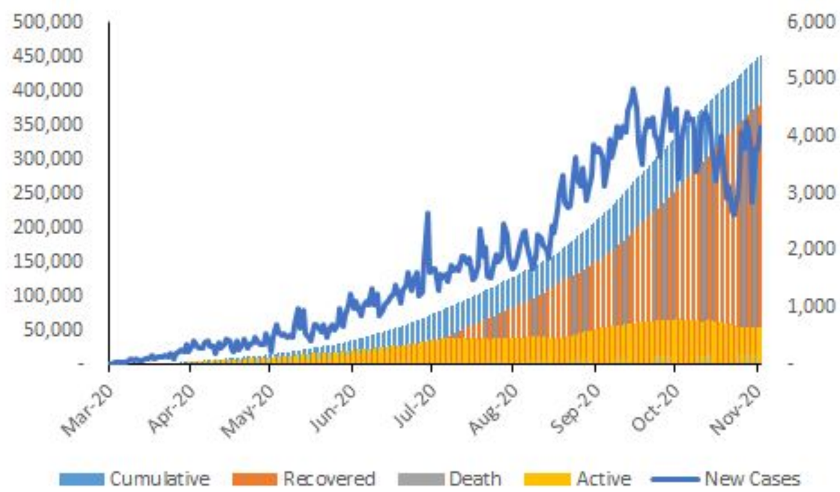
- As we approach the end of 2020, Covid-19 new cases still show no sign of slowing down, with daily cases remaining around 5,000. While numerous measures have been launched to combat this pandemic, the government tend to put far larger emphasis on the economic effects rather than the disease itself. This can be seen from health allocation figure under the National Economic Recovery (PEN) program, which only amounted to IDR97.3 Trillion or 14% of the total budget. However, the stock market seemed to ignore the rising Covid-19 cases as vaccine sentiment played a larger role in driving the market during 2H20.
- In November 2020, several major pharmaceuticals companies, such as Pfizer, Moderna, and AstraZeneca, have released encouraging results of vaccine candidates with efficacy rates above 90%.
- In early December 2020, Indonesia has received the first batch of vaccine shipment from Sinovac, with 1.2 million doses. However, the use of these vaccines are still pending the results of clinical trials and emergency use permit. This has moved the timeline of vaccination program which was initially planned to start in November 2020 to early 2021.
- While vaccine hopes have been a main catalyst in the stock market in 2020, the success of its distribution will be a key factor next year. Although it will be a difficult task to deliver vaccines to the wider population, any meaningful progress should have positive impacts to the market.

Timeline of Vaccine Progress

Sponsor	Vaccine	Status (as of 3 December 2020)
Pfizer / Biontech	BNT162b2	Authorized for Emergency use in UK; 94% effective
Moderna	mRNA-1273	Applied for Emergency use, 94.1% efficacy rate
AstraZeneca / Univ of Oxford	AZD1222	90% effective according to late stage trial results
Sinovac	CoronaVac	Approved for China prior to phase 3
Sinopharm	BBIBP-CorV	Approved in China & UAE after phase 3
Gamaleya Research	Sputnik V	Approved for use in Russia
Cansino Biologics	Ad5-nCoV	Approved for use in China military

Source: Vaccine Tracker, NHKSI Research

Indonesia Covid-19 Daily Cases



Source: The Covid-19 Handling & National Economic Recovery Committee

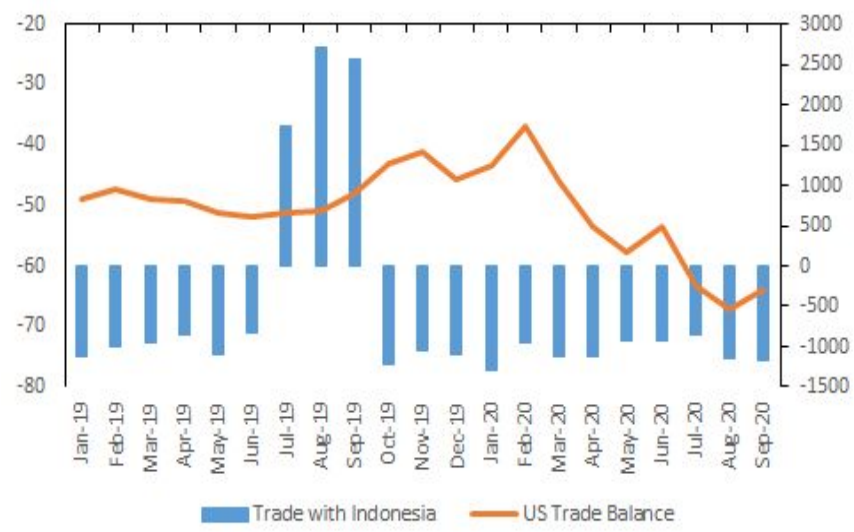
Global Sentiment - A Vastly Different U.S Government

- With the 2020 United States Election concluded, another major market uncertainty has also passed. Immediate response to Joe Biden as president-elect have been overwhelmingly positive with all three major US indices reached all-time highs in November. The prospect of a more stable relationship between the US and other economies should benefit the global market. We also expect market volatility to go down as the incoming government should invite less controversies and focus more on recovery efforts.
- In addition, the prospect of GOP to remain in control of the US Senate has been viewed as the best case scenario for investors. This is because any government plans which are not favorable to business climate, such as corporate tax increase, will face tougher challenges to be passed.
- The nomination of Janet Yellen as Treasury Secretary was also well received, as she had successfully navigated the US economy post sub-prime mortgage crisis during her tenure as the Federal Reserve chairwoman (2014-2018). Investors worldwide should take comfort in her steady hand to lead the world's biggest economy into recovery.
- Another key theme in the Biden administration will be the commitment to combat climate change, as demonstrated in a proposed USD2 trillion climate plan along with the appointment of John Kerry as Special Envoy. With wider adoption of cleaner energy, technologies such as solar panel and electric vehicle will see a huge boost. As a result, we see this as opportunities for commodities such as Nickel and Copper, with demand bound to rise in upcoming years.

US Major Indices Movement

Source: Bloomberg, NHKSI Research

US Trade with Indonesia



Source: Bloomberg, NHKSI Research

Sector Outlook

Consumer Goods

Consumer Goods - Technical View

Potential of technical rebound to re-test its resistance level at 3030 area (currently in consolidation phase).

Consumer Staples: Overweight

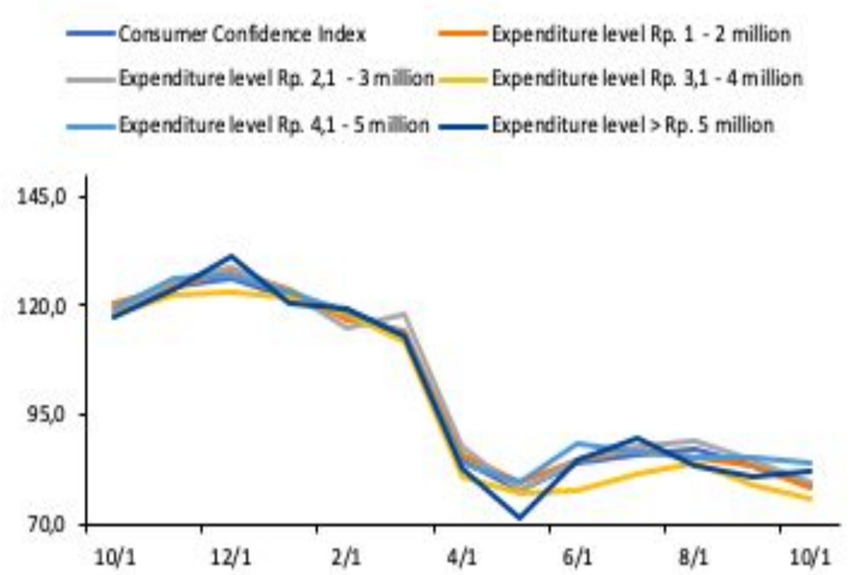
- Taking into account the prolonged pandemic and lower baseline economic growth in 2020, the government expects real GDP growth to hit 3% - 5,5% in 2021. While inflation is expected to remain low, inflation would likely be within the central bank target of 3% (+/- 1%).
- Meanwhile in the 2021 state budget, **the govt' allocates IDR408.8tn** for social welfare programs, 17.4% lower than the budget in 2020, largely owing to the government's concern about accelerating the National Economic Recovery (PEN) program and vaccine program.
- The govt continue to put extraordinary effort to **boost purchasing power and reduce the burden on lower-middle income household** through: direct cash assistance (BLT) program for six months from Jan-June 2021 of IDR200,000/each family/month; staple food card program; Family Hope Program (PKH), and more.
- With **the continued increase in certain raw materials,** we expect margin for consumer goods companies to be relatively soft in 2021. By early December, price of CPO has increased by 29.9% YoY, followed by Wheat (+7.3% YoY) and Sugar (+12.8% YoY). Although Coffee (-5.8% YoY), Oil (-21.7% YoY), and Skimmed Milk (-14.3% YoY) have been on downward trend.
- As the consumer confidence index is now on track towards a recovery coupled with the disbursement of social assistance programs, we believe these will become positive sentiments for consumer sector going forward and therefore we put an **Overweight** rating.

Social Welfare Budget in 2021

	Outlook 2020	State Budget 2021	Growth
I. Central Government Expenditure	**422,8**	**334,8**	**-21%**
A. Ministries/Institutions	**170,3**	**156,1**	**-8%**
1. Smart Indonesia Program	11,1	11,1	0%
2. Bidikmisi	7,1	10,2	44%
3. Family Hope Program	37,0	28,7	-22%
4. Non-Cash Food Assistance	43,1	45,1	5%
5. Beneficiary Dues	48,8	48,8	0%
B. Non-Ministries/Institutions	**252,6**	**178,6**	**-29%**
1. Subsidies	180,1	163,6	-9%
2. Pre-Working Cards	20,0	10,0	-50%
II. Transfer to the Regions and Village Funds (TKDD)	**71,2**	**72,0**	**1%**
- Vilage Funds	71,2	72,0	
III. Funding	**1,0**	**2,0**	**100%**
- Ultra Micro Funding Program	1,0	2,0	
Total	***495,0***	***408,8***	***-17,4%***

Source: Ministry of Finance, NHKSI Research

Consumer Confidence Index - Indonesia



Source: Bank Indonesia, NHKSI Research

Mayora Indah Tbk (MYOR)

Target Price (IDR)	**2,700**
Consensus Price	2,811
TP to Consensus Price	-3.9%
vs. Last Price	+13.4%
Last Price (IDR)	2,380
Price date as of	Nov. 30, 2020
52wk range (Hi/Lo)	2,590/1,415
Free Float (%)	42.7
Outstanding sh. (mn)	46,875
Market Cap (IDR bn)	70,547
Market Cap (USDmn)	4,999
Avg. Trd Vol – 3M (mn)	30.75
Avg. Trd Val – 3M (bn)	47.50
Foreign Ownership	3.9%
Cost of Revenue Breakdown:	
Food Processing	50.1%
Beverage Processing	49.9%

IDR bn	FY2019	FY2020F	FY2021F	FY2022F
Revenue	25,027	25,146	26,467	27,894
y-y	*4.0%*	*0.5%*	*5.3%*	*5.4%*
Net Profit	1,988	2,248	2,635	3,030
EPS (IDR)	134	151	177	204
y-y	*15.8%*	*13.1%*	*17.2%*	*15.0%*
P/E	17.8x	17.4x	15.3x	13.2x
P/BV	3.1x	3.0x	2.6x	2.2x
NPM	*7.9%*	*8.9%*	*10.0%*	*10.9%*
ROE	*20.1%*	*19.5%*	*19.7%*	*19.5%*

3Q20 Top Line Growth of 10% YoY

MYOR posted strong revenue of IDR6,4tn (+10.1% YoY, +14.0% QoQ) in 3Q20, on the back of robust growth from food and beverage processing segments. MYOR's net profit came in at IDR618bn, which nearly tripled the profit of the same quarter last year. On margin side, MYOR's GPM continued to slip by 170bps to 29.4% in 3Q20 (vs. 31.1% in 3Q19). Meanwhile, thanks to IDR177bn of forex gains in 3Q20 and other income, MYOR reported a better EBIT margin of 10.8% (vs 9.4% in 3Q19) and NPM of 9.5% (vs 4.9% in 3Q19). On the positive note, prices of commodities that are used as MYOR's raw material like coffee have been on downward trend by -16.1% YTD. Thus, we saw MYOR could reap the benefits to expand gross margin level. But, this may partially compensate for MYOR's other major raw materials – sugar and CPO which rose by 9.0% and 27.0% YTD respectively.

New Products Launched to Boost Sales Growth

Despite the tight competition coupled with lackluster purchasing power, MYOR was still on track to keep innovating by launching several products this year such as the new variety of *Roma Malkist – Malkist Keju Tabur*. At a retail price of IDR12,000/pax, we see this new variant have premium price among the existing product. As for beverage processing segment, the company has launched new variety of *Le Minerale* and *Toracafe* product.s We expect the new products could add to biscuit and coffee segment growth, to increase by 2-4% in FY21F.

Domestic Consumption Recovered More Quickly

With well-positioned brands and the relaxation of lockdown restriction, MYOR export sales turned positive after two consecutive quarter of negative growth. MYOR revenues from export in 3Q20 stood at IDR2,8tn (+0.1% YoY, +13.2% QoQ), as some export destination (Philippine, Vietnam and Thailand) have shown signs of gradual recovery. As such, we expect MYOR's export to total revenue will be around 42%/48% in FY20F/FY21F. On the flip side, domestic sales were significantly better than expected compared to global recovery. Domestic sales rose by 19.9% YoY to IDR3,5tn, which indicates that domestic consumption spending in F&B recovered at a faster pace. We see this may be a positive sign for 4Q which has always been the stronger quarter.

Unilever Indonesia Tbk (UNVR)

Target Price (IDR)	**8,600**
Consensus Price	8,896
TP to Consensus Price	-3.3%
vs. Last Price	+12.6%
Last Price (IDR)	7,638
Price date as of	Nov. 30, 2020
52wk range (Hi/Lo)	8,770/5,650
Free Float (%)	15.0
Outstanding sh. (mn)	38,150
Market Cap (IDR bn)	307,107
Market Cap (USDmn)	21,651
Avg. Trd Vol – 3M (mn)	9.67
Avg. Trd Val – 3M (bn)	77.96
Foreign Ownership	4.4%
Cost of Revenue Breakdown:	
Home Personal Care	72.0%
Food and Refreshment	28.0%

IDR bn	FY2019	FY2020F	FY2021F	FY2022F
Revenue	42,923	43,573	44,515	45,366
y-y	*2.7%*	*1.5%*	*2.2%*	*1.9%*
Net Profit	7,393	7,476	7,850	7,994
EPS (IDR)	194	196	206	210
y-y	*-18.8%*	*1.1%*	*5.0%*	*1.8%*
P/E	43.3x	40.3x	38.4x	37.7x
P/BV	60.7x	46.7x	45.4x	44.9x
NPM	*17.2%*	*17.2%*	*17.6%*	*17.6%*
ROE	*140.0%*	*115.9%*	*118.3%*	*119.2%*

3Q20 Review: Revenue Slip 2.0% YoY; Net Profit Up 0.3% YoY

UNVR posted a -2.0% YoY slip in its revenue for 3Q20, as a result of weak performance in F&R segment. Meanwhile, with a lower tax rate, UNVR's earnings managed to grow slightly by 0.3% YoY to IDR1.8bn. On the bright side, 3Q20 GPM of 53.7% marks a 340bps improvement from the 50.3% recorded in 3Q19, along with OPM and NPM which recorded an improvement on quarterly basis. We think that the margin improvement in 3Q20 might be a good sign amid stagnant revenue growth due low purchasing intention. However, we saw the growth trends of A&P as promotion expense were up 19.7% YoY, bring up A&P to revenue stood at 21.5% (vs. 19.8% in 3Q19).

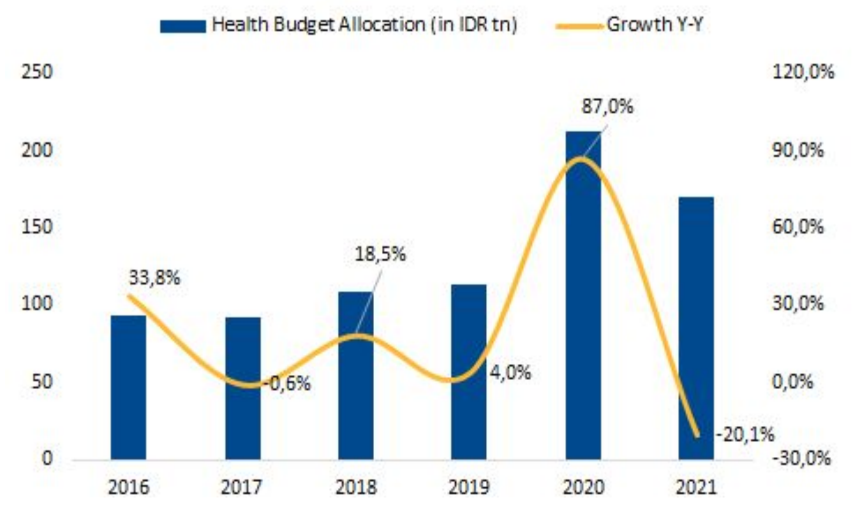
F&R Segment Remains Weak

Food and Refreshment (F&R) sales fell by -11.2% YoY in 3Q20, steeper decline than -2.5% YoY drop in 2Q20. The decline that came on the back of large-scale social restriction has become a major challenge for ice cream and ingredient products under Unilever Food Solution (UFS). In addition, we noticed that UNVR continued to maintain its innovation stance, which targeted all market segment. This year, UNVR has launched Walls Viennetta, Walls Unicornetto Minipack (Ice Cream Category), as well as health and hygiene product such as Lux Hand Sanitizer, Molto Fabric Spray, Sahaja Spray Higienis. On the flip side, Home and Personal Care (HPS) reported modest growth, which increased by 2.1% YoY. We saw that the demand of HPC (c.72% of total revenue) has recovered faster than F&R, underpinned by better hygiene awareness. UNVR has witnessed a growing demand for some notable products such as Lifebuoy soap and hand-sanitizer as well as other home care categories such as toilet-cleaning and floor-cleaning. As such, we estimate HPC segment to still be able to book a low-single digit growth by 3.5%/3.1% FY20E/FY21E, respectively.

Healthcare: Overweight

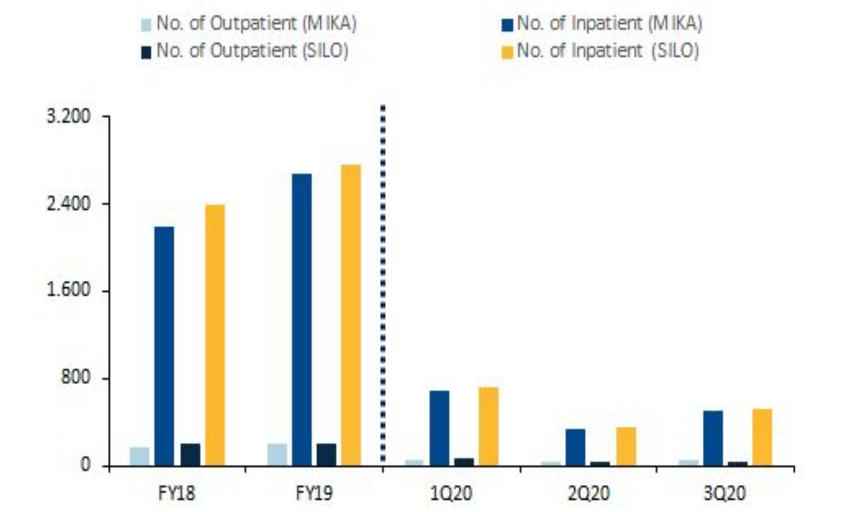
- The Indonesian government planned to **allocate IDR169.7 trillion towards its healthcare budget** based on the 2021 State Budget, which included vaccine procurement of IDR18 trillion and other national healthcare insurance program (JKN).
- The healthcare budget allocation represents **6.2% of state budget in 2021** (vs.5.2% of state budget in 2020). Although, in terms of nominal, the 2021 health budget is 20.1% lower than previous budget, mainly because the govt' had increased spending on medical equipment, hospital capacity and incentive for health professionals this year.
- Indonesia's great concern to improve the healthcare industry will benefit healthcare and pharmaceutical sectors. As for healthcare sector, **the number of outpatient and inpatient volume have shown signs of recovery in 3Q20**, leading to increased revenue, mainly driven by medication and diagnostic testing to treat Covid-19 patients. Furthermore, we expect patient volume to continue its improvement in 2021 supported by (1) increase in number of JKN participants; (2) plan to distribute Covid-19 vaccine in the second half of 2021.
- Meanwhile, the insurance premium of the health care and social security agency (BPJS Kesehatan) in 2021 will be based on the government regulation (Perpres No.64/2020). According to the regulation, the premium of third class non-wage recipients scheme (PBPU) would increase to IDR35,000 and for first and second class will still use the existing rate. Thus, in our view, pharmaceutical companies will rely on currency stability and segment diversification.

Health Budget Allocation 2021



Source: Ministry of Finance, NHKSI Research

Patient Volume (in th people)



Source: SILO, MIKA, NHKSI Research

Kalbe Farma Tbk (KLBF)

Target Price (IDR)	**1,750**
Consensus Price	1,788
TP to Consensus Price	-2.1%
vs. Last Price	+16.3%
Last Price (IDR)	**1,505**
Price date as of	Nov. 30, 2020
52wk range (Hi/Lo)	1,665/865
Free Float (%)	42.7
Outstanding sh. (mn)	46,875
Market Cap (IDR bn)	69,375
Market Cap (USDmn)	4,935
Avg. Trd Vol – 3M (mn)	30.63
Avg. Trd Val – 3M (bn)	47.25
Foreign Ownership	18.2%
Revenue Breakdown:	
Distribution & Logistic	31.8%
Nutritional Food	31.3%
Prescription Drugs	22.0%
Consumer Health	14.9%

IDR bn	FY2019	FY2020F	FY2021F	FY2022F
Revenue	22,633	23,210	24,245	25,771
y-y	*7.4%*	*2.5%*	*4.5%*	*6.3%*
Net Profit	2,507	2,603	2,711	2,864
EPS (IDR)	53	56	58	61
y-y	2.0%	3.9%	4.1%	5.7%
P/E	30.3x	25.4x	24.4x	23.1x
P/BV	4.5x	3.6x	3.3x	3.1x
NPM	11.1%	11.2%	11.2%	11.1%
ROE	15.0%	14.1%	13.6%	13.3%

3Q20 Revenue Below Our Expectation

Kalbe Farma (KLBF) reported 3Q20 revenue of IDR5.4tn (-2.8% YoY; -5.5% QoQ), achieving 73.6% of our full year forecast and 72.2% of the full year consensus. EBIT slipped by -4.0% YoY, which leads to EBIT margin down to 15.3% YoY in 3Q20 (vs. 15.5% in 3Q19). Subsequently, finance expenses jumped to IDR22bn. This increase was caused by higher level of debt this year. Thus, net profit for 3Q20 stood at IDR640bn (-2.7% YoY; -10.9% QoQ), broadly in line with our estimation. On a cumulative basis, KLBF booked YTD revenue of IDR17.0tn (+1.6% YoY) and net profit of IDR2.0tn (+5.8% YoY). We see a prolonged pandemic has created immediate risk to supply chains and currency volatility, but KLBF's management have performed relative well.

Segment Performance Evaluation

KLBF delivered a weak top line growth this quarter, dragged by a -7.9% YoY decline in distribution segment. This was mainly due to an adverse impact on the portfolio product mix. The prescription drugs segment has continued to fall back into negative growth on this quarter considering the current situation where people still worried about visiting to hospital. On the flip side, consumer health segment has reported zero growth amid tighter competition coupled with lackluster purchasing power. Nevertheless, the nutritional division grew by 1.5% to IDR1.7tn, supported by the fact that powdered milk category had a slight increase (9M20: 0.4% YoY) in terms of sales volume according to Nielsen.

Sido Muncul Tbk (SIDO)

Target Price (IDR)	**930**
Consensus Price	813
TP to Consensus Price	14.4%
vs. Last Price	22.4%
Last Price (IDR)	**760**
Price date as of	Nov. 30, 2020
52wk range (Hi/Lo)	810/470
Free Float (%)	42.7
Outstanding sh. (mn)	46,875
Market Cap (IDR bn)	71,485
Market Cap (USDmn)	4,876
Avg. Trd Vol – 3M (mn)	35.7
Avg. Trd Val – 3M (bn)	56.1
Foreign Ownership	3.9%
Cost of Revenue Breakdown:	
Herbal and Supplement	64.0%
Food and Beverages	32.0%
Pharmaceutical	4.0%

IDR bn	FY2019	FY2020F	FY2021F	FY2022F
Revenue	3,067	3,227	3,420	3,665
y-y	*11.0%*	*5.2%*	*6.0%*	*7.2%*
Net Profit	808	885	976	1,088
EPS (IDR)	54	59	66	73
y-y	*21.7%*	*9.6%*	*10.3%*	*11.5%*
P/E	11.8x	10.2x	9.3x	8.3x
P/BV	3.0x	2.7x	2.5x	2.2x
NPM	*26.3%*	*27.4%*	*28.5%*	*29.7%*
ROE	*25.5%*	*26.6%*	*26.5%*	*26.7%*

Herbal Product's Demand Remains Hopeful of Recovery

As of 2019, SIDO held 35.6 percent share of the Jamu Industry and become a key player in the fast-growing Indonesian consumer health market. SIDO has witnessed an increase in demand for herbal product, which can be translated into CAGR of 10.3% during FY14-19, according to Euromonitor. In 3Q20 we saw 11% YoY revenue growth, led by 7% growth in herbal segment which is mostly represented by *Tolak Angin* (c. 64% of total revenue) with modest recovery from one of the export destinations, Malaysia. Overall sales were also supported by impressive growth in the F&B segment (especially *Vit C 1000* and Ginger Beverage) with 23% YoY, while Pharma segment reported a -11% sales decline in 3Q20. Furthermore, we still need to be cautious about herbal medicine sales in the short term as recovery in consumer spending, particularly for the low-income segment, could be slower than expected. Of note, sales via Modern Trade (MT) accounted for c.13% of total sales in 9M20, which indicates that most of total sales rely heavily on General Trade (GT).

Financial Outlook

SIDO's earnings for 3Q increased by 11.0% YoY to IDR182 bn with steady sales during the period. However, GPM slipped by 100bps due to higher COGS. This year, SIDO has launched another food supplement product, e.g. *Vitamin E100, Sari Kunyit*, and others. The newly launched food supplement is a strategic addition to the existing product portfolio. Meanwhile, SIDO decided to spend less on A&P spending amidst the current unfavorable situation, which lead to 11% A&P-to-sales ratio in 3Q20 (vs. 13% in 3Q19). We still expect the management could increase their budget for promotional activities with average of about >10% as these products may potentially target the upper middle class. Another positive note, SIDO kept its leverage ratio to zero and strong cash position which make SIDO more appealing compared to its peers

Expanding Footprint

We see that SIDO is well on the track to dominate the SEA such as Philippines, Malaysia and Nigeria, through two brands Tolak Angin and Kuku Bima. This year, SIDO has executed several initiatives: 1) entering new export market, with Saudi Arabia as export destination for *Tolak Angin*. 2) Launching new types of food supplement in soft capsule format (e.g. *Tolak Angin, Sari Kunyit*) and *Tolak Linu*. In addition, SIDO also has launched new type of remedy for gastric problem, *Esemag* during the fasting month of Ramadan.

Mitra Keluarga Tbk (MIKA)

Target Price (IDR)	**2,810**
Consensus Price	2,805
TP to Consensus Price	+0.2%
vs. Last Price	+4.1%
Last Price (IDR)	**2,700**
Price date as of	Nov. 30, 2020
52wk range (Hi/Lo)	2,840 /1,570
Free Float (%)	38.1
Outstanding sh. (mn)	14,246
Market Cap (IDR bn)	33,051
Market Cap (USDmn)	2,329
Avg. Trd Vol – 3M (mn)	28.2
Avg. Trd Val – 3M (bn)	68.9
Foreign Ownership	7.2%
Revenue Breakdown:	
Inpatient	35.1%
Outpatient	64.9%

IDR bn	FY2019	FY2020F	FY2021F	FY2022F
Revenue	3,205	3,209	3,791	4,218
y-y	*18.1%*	0.1%	18.1%	11.3%
Op. Profit	943	869	1,050	1,135
Pre-Tax Prof	1,103	1,050	1,150	1,244
Net Income	731	673	779	843
y-y	*19.1%*	*-7.9%*	*15.9%*	*8.2%*
ROE	15.2%	12.8%	13.8%	14.2%
ROA	13.1%	11.1%	11.9%	11.7%
P/E	52.1x	59.5x	51.4x	47.5x
P/BV	7.9x	7.6x	7.1x	6.7x

Performance Recovery in 3Q20.

MIKA's performance has started to show strong signs of recovery in 3Q20. Revenue increased by 54.3% compared to previous quarter. This resulted net income to jumped to IDR253.Bn in 3Q20 (vs IDR97 Bn in 2Q20) or a surge of 160%. Meanwhile, 9M20 revenue has reached IDR2,316 Bn (-2.8% yoy), while net income also decline by –2.9% to IDR570 Bn (vs IDR587 Bn). Revenue from inpatient segment managed to record a modest growth of 1.7% (IDR1,502 Bn vs IDR1,476 Bn); while outpatient segment decreased by 10.2%.We see this slight performance decline as a positive, considering the company was greatly affected by the PSBB period in 2Q20 which greatly reduced the number of hospital visits.

Increase in Average Spending offsets Declining Volume.

While both Inpatient and Outpatient segments saw declines in number of admissions and visits, it was made up for in average spending per visit. Average revenue per inpatient rose 11,9% to IDR3.4 Mn (vs IDR3.1 Mn in 9M19); while the number of admission declined by 12.2% from 158,000 to 139,000 in 9M20. Inpatient segment was supported by admissions of Covid-19 patients which on average needed 8-14 days of hospitalization, and hence boosted the number of revenues. Meanwhile, Outpatient segment fared a bit worse with number of visits down by 23.2% yoy. However, this was also able to be offset by average spending per visit which went up from IDR457,000 in 9M19 to IDR535,000 in 9M20.

Maintain Hospital Expansion Plan.

Amid the Covid-19 pandemic, MIKA will continue its expansion plan. In 2020, MIKA has acquired a hospital in Cirebon through its subsidiary, Rumah Kasih Indonesia (RKI). The company has also completed the construction of its hospital in Surabaya, which currently awaits for approval to operate. For next year, MIKA will allocate between IDR300-400 Bn to build 2 new hospitals.

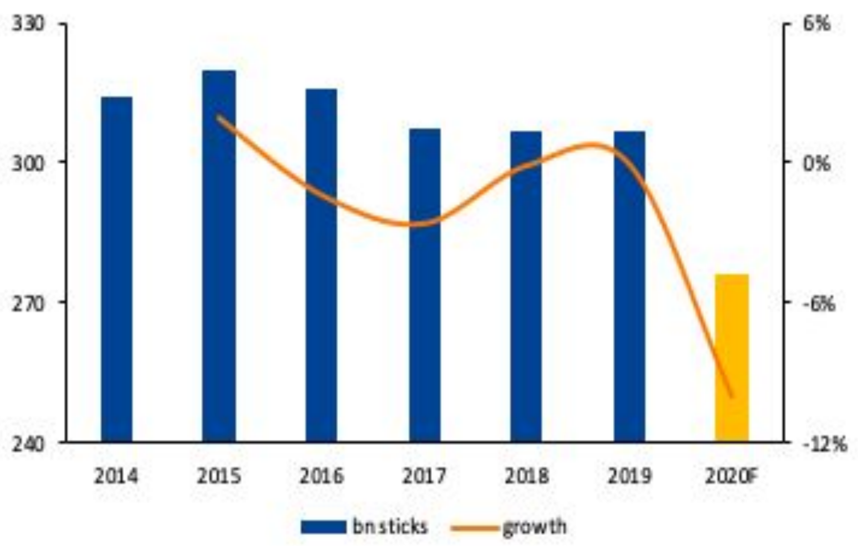
Cigarette : Neutral

- We do not expect cigarette industry sales volume to rebound in 2021 **after experiencing a steep decline in 2020,** as recovery of purchasing power might not grow at a faster pace especially for lower income segment.

- We also note that cigarette industry is changing as customers are looking for higher impact products – SKM High Tar in lower value of money. This year, **Indonesian smokers prefer affordable products** due to lacklustre purchasing power and excise tax hike. We believe this trend will continue next year.

- Government has decided to raise cigarette excise tax for 2020 by 23% YoY to compensate for the tax revenue in 2019 after keeping the excise tax unchanged. Furthermore, Finance Minister Sri Mulyani has made the decision to raise the **cigarette excise tax by 12.5%** which takes effect in 2021. As excise tax remains the biggest burden for both producer and consumer, thus we believe it will translate into a higher average selling price (ASP) of cigarettes and more likely will suppress sales volume considering the prolonged pandemic. As such, we put a **Neutral** rating for cigarette Sector.

Indonesia Cigarette Sales Volume



Source: PMI, NHKSI Research

Excise Tax for Cigarettes in Indonesia, Effective 2021

Type	2020 Tariff (IDR/Sticks)	2021 Tariff Increase (IDR/Sticks)	2021 Excise Tax 2021 (IDR/sticks)	Growth (%)
SKM I (Machine Made Rolled Cloves)	740	125	865	16,9%
SKM IIA	470	65	535	13,8%
SKM IIB	455	70	525	15,4%
SPM (White Cigarettes)	790	145	935	18,4%
SPM IIA	485	80	565	16,5%
SPM IIB	470	85	555	18,1%
SKT I A (Hand Rolled Cloves)	425	0	425	0,0%
SKT I B	330	0	330	0,0%
SKT II	200	0	200	0,0%
SKT III	110	0	110	0,0%

Source: Ministry of Finance, NHKSI Research

HM Sampoerna Tbk (HMSP)

Target Price (IDR)	**1,750**
Consensus Price	1,580
TP to Consensus Price	+10.8%
vs. Last Price	+14.8%
Last Price (IDR)	**1,525**
Price date as of	Nov. 30, 2020
52wk range (Hi/Lo)	3,970/1,155
Free Float (%)	7.5
Outstanding sh. (mn)	116,318
Market Cap (IDR bn)	186,108
Market Cap (USDmn)	13,162
Avg. Trd Vol – 3M (mn)	60.3
Avg. Trd Val – 3M (bn)	90.9
Foreign Ownership	1.5%
Cost of Revenue Breakdown:	
Machine-rolled Cloves	64.0%
Hand-Made Cloves	25.0%
White Cigarette	10.0%
Others	1.0%

IDR bn	FY2019	FY2020F	FY2021F	FY2022F
Revenue	106,055	92,628	99,024	100,018
y-y	*-0.6%*	*-12.7%*	*6.9%*	*1.0%*
Net Profit	13,722	8,633	10,091	10,739
EPS (IDR)	118	74	87	92
y-y	*1.4%*	*-37.1%*	*16.9%*	*6.4%*
P/E	18.0x	21.2x	18.1x	17.0x
P/BV	6.8x	6.0x	5.7x	5.6x
NPM	*12.9%*	*9.3%*	*10.2%*	*10.7%*
ROE	*38.5%*	*28.4%*	*31.6%*	*33.0%*

3Q20 Results

HM Sampoerna (HMSP) booked 3Q20 revenue of IDR23.04tn (-14.0% YoY) and net profit of IDR2.02tn (-41.0% YoY). The company posted positive revenue growth for its hand-rolled cloves (SKT) products of around 15% YoY. That indicates that consumer still continued downtrading towards affordable product, while its machine rolled cloves (SKM) and white cigarettes (SPM) were down by -21.1% YoY and -18.2% YoY, respectively. Nevertheless, we saw signs of recovery in 3Q20 as the company posted robust top line and bottom line growth of 9.5% QoQ and 29.4% QoQ. This improvement was mainly driven by better than expected sales volume and limited rise ASP.

Margin Compressed

In 3Q20, HMSP's GM contracted by 500bps to 20% YoY, improving on a QoQ basis by 110bps due to lower COGS. Furthermore, the company again recorded net profit margin compression by 402bps to 8.8% (vs. 12.8% in 3Q19). On the bright side, in terms of quarterly figure, we are starting to see improvement in sales volume. SKM product booked modest growth of 3.3% to 12.7bn sticks, while SKT product rose 22.8% to 5.5bn sticks. We saw the unfavorable economic condition coupled with hike excise tax this year provided less room for the company to increase ASP, and thus hitting the earnings.

Flat Market Share in 3Q20

The company's overall market share was down by 410 bps to 28.2% (vs. 32.3% in 3Q19). Given the 270bps QoQ gain in SKT shares, we can conclude that DJI Sam Soe and Sampoerna Kretek market share gains were driven by higher demand in SKT products. But, HMSP's flagship product Sampoerna U, continued to lose market share in 3Q20, by 20bps QoQ to 0.7% and A mild continued to maintain its market share of 11.3%.

Gudang Garam Tbk (GGRM)

Target Price (IDR)	**49,000**
Consensus Price	54,355
TP to Consensus Price	-9.9%
vs. Last Price	+16.0%
Last Price (IDR)	**42,250**
Price date as of	Nov. 30, 2020
52wk range (Hi/Lo)	58,325/32,900
Free Float (%)	23.8
Outstanding sh. (mn)	1,924
Market Cap (IDR bn)	81,581
Market Cap (USDmn)	5,773
Avg. Trd Vol – 3M (mn)	1.9
Avg. Trd Val – 3M (bn)	85.0
Foreign Ownership	8.0%
Cost of Revenue Breakdown:	
Machine-rolled Cloves	90.0%
Hand-Made Cloves	7.0%
Others	3.0%

IDR bn	FY2019	FY2020F	FY2021F	FY2022F
Revenue	110,524	112,785	120,809	129,701
y-y	*15.5%*	*2.0%*	*7.1%*	*7.4%*
Net Profit	10,881	7,806	8,632	9,105
EPS (IDR)	5,655	4,057	4,486	4,732
y-y	*39.6%*	*-28.3%*	*10.6%*	*5.5%*
P/E	14.8x	10.2x	9.2x	8.7x
P/BV	3.2x	1.4x	1.3x	1.2x
NPM	*9.8%*	*6.9%*	*7.1%*	*7.0%*
ROE	*21.4%*	*13.2%*	*13.8%*	*13.6%*

3Q20 Revenue Beat Our Expectation

Gudang Garam (GGRM) booked 3Q20 revenue of IDR29.7tn (+2.6% YoY, +12,6% QoQ), achieving 73.9% and 74.5% of our and consensus estimate respectively. This revenue was above our expectations, as hand-rolled cloves (SKT) sales growth continued to increase at moderate pace by 8% YoY (vs. 6% in 3Q19). Meanwhile, machine-rolled cloves (SKM) sales was recorded at IDR26.6tn (+0.3% YoY, +12.8% QoQ). We see the demand for this segment was starting to show signs of recovery. Gross profit slumped by 25.2% YoY due to excise tax hike, which caused GPM to shrink by 540bps to 14.5% YoY in 3Q20. On margin side, EBIT margin and NPM declined by 600bps to 8.1% YoY and 410bps to 6.1% YoY respectively. The sharp decline in margins was largely due to higher opex. Thus, net profit in 3Q20 stood at IDR1.8tn (-38.3% YoY, +32.9% QoQ).

Dividend Not Distributed This Year

GGRM had distributed total dividend of IDR5tn (IDR2,600 per share) for four consecutive year. With that track record, AGM's decision to not to distribute dividends this year was unexpected. Based on our previous assumption, GGRM's next DPR will be at 46%, lower than the 4 years (FY16-19) average at 70.3% and still able to generate enough cash flow. In accordance with current circumstances, we have revised our DPR projection to 0%/64% for FY20E/FY21E. Meanwhile, we noticed that the total debt in 3Q20 has decreased significantly by 86% to IDR1.0tn, from IDR8.3tn in 2Q20. As a result, DER has improved to 2.09x in 3Q20 (vs. 15.5x in 2Q20).

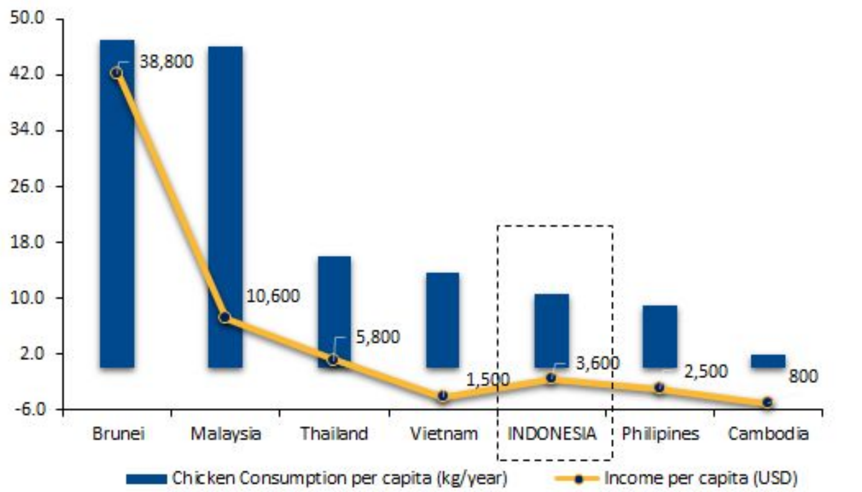
Keep an Eye on The Cigarette Excise Tax Announcement

As stated in the 2021 Draft State Budget, the govt' has proposed for tobacco excise revenue increase by 4.8% YoY to IDR172.8tn, which indicates the excise tax is expected to hike next year even though Finance Ministerial Regulation 2021 (PMK/Peraturan Menteri Keuangan) has not been released. Our projection for excise tax growth for machine-rolled in FY21E will be around 10% (vs.~25% in FY20), as significant increase in excise tax will negatively impact the sector.

Poultry: Neutral

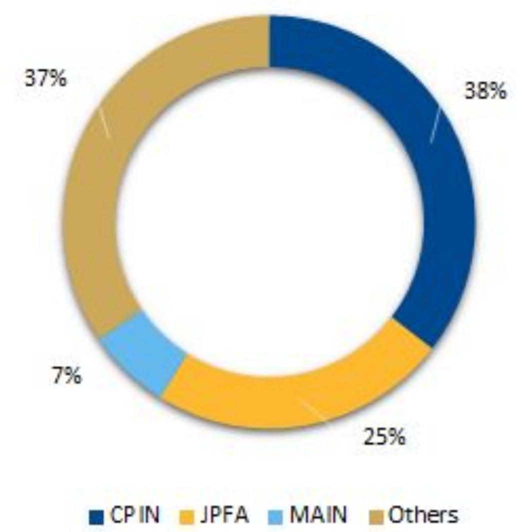
- **Along with the distribution of the COVID-19 Vaccine, Economic Recovery in 2021** will have a positive impact on the demand for poultry product. Since PSBB was implemented in Indonesia, the consumer's purchasing power had been weak, resulting in decreased market demand prices. The weak market demand has depressed Broiler and DOC prices.
- **The continuation of culling program from the government is expected to improve market demand in 2021.** Several points in the Ministry of Agriculture circular letter regarding the culling program are expected to improve prices, especially in the Broiler and DOC segments.
- We initiate a **Neutral** rating for the poultry sector, taking into account the rapid economic recovery in 2021 which is expected to have a positive impact on the recovery of public consumption interest.

Chicken Consumption in ASEAN



Source: Companies, NHKSI Research

Indonesia DOC Production Capacity Share



Source: Companies, NHKSI Research

Charoen Pokphand Indonesia Tbk (CPIN)

Target Price (IDR)	**6,675**
Consensus Price	6,291
TP to Consensus Price	+6.1%
vs. Last Price	+9.9%
Last Price (IDR)	**6,075**
Price date as of	Nov. 30, 2020
52wk range (Hi/Lo)	7,450/3,800
Free Float (%)	44.5
Outstanding sh. (mn)	16,398
Market Cap (IDR bn)	108,227
Market Cap (USDmn)	7,619
Avg. Trd Vol – 3M (mn)	6.4
Avg. Trd Val – 3M (bn)	39.2
Foreign Ownership	8.9%
Sales Contributions:	
Feed	46.8%
Broiler	31.2%
DOC	11.0%
Others	11.0%

IDR bn	FY2019	FY2020F	FY2021F	FY2022F
Revenue	58,635	59,046	64,574	70,783
y-y	*8.7%*	*0.7%*	*9.4%*	*9.6%*
EBITDA	5,740	4,842	5,607	6,752
Net Profit	3,635	2,568	2,985	3,628
EPS (IDR)	221.7	156.6	182.0	221.3
y-y	*-20.2%*	*-29.3%*	*16.2%*	*21.6%*
ROE	*17.2%*	*11.6%*	*12.5%*	*13.9%*
ROA	*12.4%*	*8.2%*	*8.5%*	*9.0%*
P/E	29.3x	42.6x	36.7x	30.2x
P/BV	5.1x	4.9x	4.6x	4.2x

Sales Up 9.5% YoY, Bottom Line Still Under Pressure

Charoen Pokphand Indonesia (CPIN) have started to record sales growth of 9.5% to IDR15.7 trillion in the July-September 2020 period, compared to the previous 3 months that showed a decline of 9.3% YoY or IDR13.7 trillion. The growth was supported by the increase of sales in some segments. The highest growth came from the day-old-chick (DOC) segment and broiler segment that each grew by 17.1% YoY and 15.4% YoY in 3Q/20. Cumulatively in 9M20, the company still booked a decline in sales of 1.4% YoY, still better than the first semester of 2020 that declined by more than 6% YoY. We see the company's chicken segment sales have started to recover until the end of the third quarter, considering the sales have reached 73.3% of our FY20 estimates. We expect the sales to continue growing up to 7.0% YoY in Q4/2020.

Meanwhile, the quarterly sales growth has not been able to increase the company's net profit. Distributed net profit decreased to IDR628.1 billion (-14.0% QoQ) as loss in culled chicken sales reached IDR114.7 billion. However, we see that the 3Q/20 net profit is better compared to 2Q/20 that declined by more than 20% QoQ.

Sales in Some Segments are Better Quarterly

In 3Q/20 the company succeeded in recording better sales performance in the animal feed, broiler, day-old-chicken, and processed chicken segments that each grew by 7.0%, 15.4%, 17.1%, and 2.3% YoY in July-September 2020. The government's measures in maintaining the stability of chicken price are crucial to the company's chicken sales growth. We are optimistic that ahead of 4Q/20, sales will continue to grow.

Infrastructure

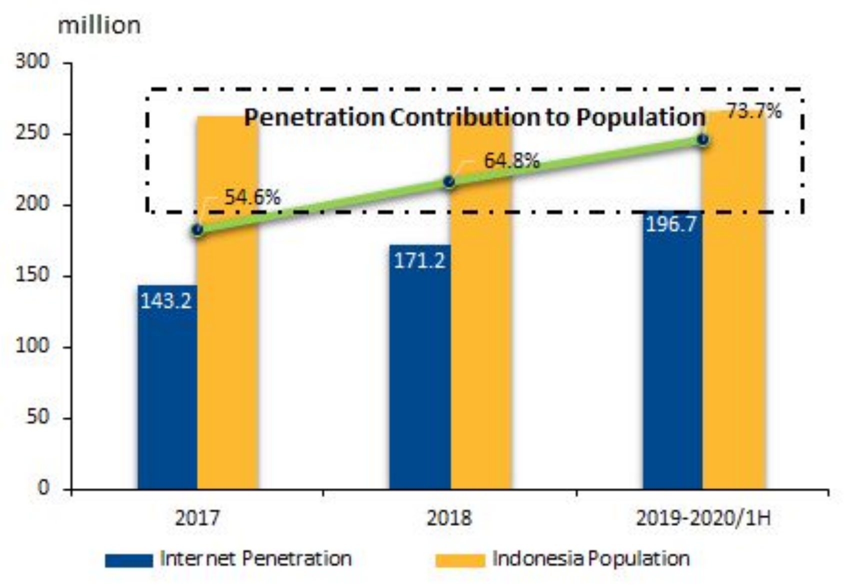
Infrastructure - Technical View

Potential of a technical rebound to test a resistance level at 1240.

Telecommunication (Telco Carriers): Overweight

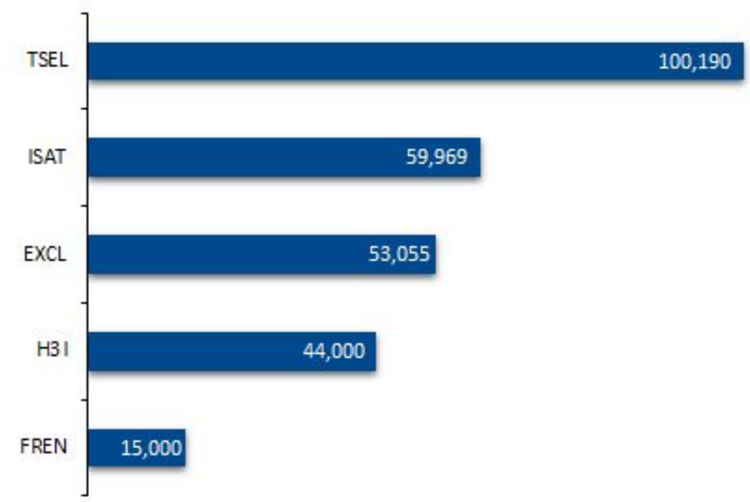
- **Internet penetration will increase in 2021.** Data traffic grew from 2019 to the first semester of 2020, as an impact of the large-scale social restrictions (PSBB). The number of internet users have increased by 14.9% to 196.7 million users by the first semester of 2020. New habit from PSBB will increase data traffic in 2021.
- **Omnibus Law on Job Creation Law is an opportunity for collaborations and Merger & Acquisitions (M&A).** Several rules of the Omnibus law are related to limiting tariffs on the upper and lower limits of telecommunications networks operations, usage cooperation as well as spectrum transfer, do not rule out the possibility of creating an infrastructure cooperation scheme. Those factors will result in higher cost efficiency.
- Merger and acquisition opportunities are open for small cellular operator industry, supporting healthy competition among operators.
- **4G Network is Still being Expanded.** The need for data traffic is always increasing, forcing mobile operator businesses to continue expanding the 4G networks, in anticipation of the upcoming 5G network technology that will be available in the next 3-5 years.

Internet Penetration & Indonesia Population



Source: APJII, NHKSI Research

Total BTS Operator 4G/9M20



Source: Companies, NHKSI Research

Telekomunikasi Indonesia Tbk (TLKM)

Target Price (IDR)	**3,800**
Consensus Price	3,894
TP to Consensus Price	-2.4%
vs. Last Price	+17.6%
Last Price (IDR)	**3,230**
Price date as of	Nov. 30, 2020
52wk range (Hi/Lo)	3,114/2,417
Free Float (%)	47.9
Outstanding sh. (mn)	99,062
Market Cap (IDR bn)	296,196
Market Cap (USDmn)	20,824
Avg. Trd Vol – 3M (mn)	153.2
Avg. Trd Val – 3M (bn)	427.3
Foreign Ownership	27.3%
Revenue Contributions:	
Data, Internet & IT Services	52.3%
Telephone	17.9%
Indihome	17.4%
Others	12.4%

IDR bn	FY2019	FY2020F	FY2021F	FY2022F
Revenue	135,567	138,685	148,592	154,335
y-y	*3.7%*	*2.3%*	*7.1%*	*3.9%*
EBITDA	63,991	69,660	75,480	80,127
Net Profit	18,663	19,550	21,062	21,516
EPS (IDR)	188.4	197.3	212.6	217.2
y-y	*3.5%*	*4.8%*	*7.7%*	*2.2%*
ROE	*15.9%*	*15.7%*	*15.9%*	*15.4%*
ROA	*8.4%*	*8.4%*	*8.4%*	*8.1%*
EV/EBITDA	6.5x	5.9x	5.9x	5.1x
P/BV	3.2x	3.0x	3.0x	2.7x

3Q/20 Net Income Surged 11.0% QoQ

Telekomunikasi Indonesia (TLKM) recorded income growth of IDR33.1 trillion (+1.3% QoQ) vs IDR32.7 trillion in the second quarter of 2020. Income from the Indihome segment booked a growth of 16.1% YoY, 8.5% QoQ in July-September period, reaching IDR5.7 trillion vs 5.3 trillion in 3Q/2020. Efficiency efforts continued, where on a quarterly basis the company recorded a decline in general and administrative expenses by 28.1% and 35.2% on a yearly basis. This boosted operating profit margin and net profit by 52.9% QoQ and 11.0% QoQ vs 49.7% and -12.5% in 2Q/20.

Focuses on Digital Business Service, Telkomsel Sells Tower to Mitratel

The company's subsidiary, Telkomsel, entered a tower sale agreement, selling 6,050 towers to Mitratel with the agreed total sales at IDR10.3 trillion. With this corporate action, Telkomsel can focus on expanding its digital business and tower maintenance cost can be more efficient. Until now, Telkomsel is still the biggest contributor to TLKM's income. Telkomsel booked 10.6% YoY income growth in the third quarter to IDR47.7 trillion vs IDR43.1 trillion in 9M19 with the digital business segment contributing 73.2% to Telkomsel's income. Meanwhile, the transfer of towers from Telkomsel to Mitratel will strengthen Mitratel's future tower business. With this addition, Mitratel owns 28,075 towers. As a note, income from the Wholesale and International Business (WIB) increased by 24.9% YoY to IDR10.2 trillion in the third quarter. The largest contribution was booked from Telkomsel's tower business. We are optimistic that with this arrangement of subsidiaries' portfolio, it can optimize the business and assets owned to ensure optimal value for shareholders.

XL Axiata Tbk (EXCL)

Target Price (IDR)	**3,350**
Consensus Price	3,403
TP to Consensus Price	-1.6%
vs. Last Price	+39.0%
Last Price (IDR)	**2,410**
Price date as of	Nov. 30, 2020
52wk range (Hi/Lo)	3,590/1,315
Free Float (%)	33.6
Outstanding sh. (mn)	10,706
Market Cap (IDR bn)	24,624
Market Cap (USDmn)	1,745
Avg. Trd Vol – 3M (mn)	24.7
Avg. Trd Val – 3M (bn)	54.4
Foreign Ownership	99.1%
Revenue Contributions:	
Data Internet	82.9%
Non Data	10.7%
Interconnection	2.7%
Others	3.8%

IDR bn	FY2019	FY2020F	FY2021F	FY2022F
Revenue	25,133	27,283	28,613	29,869
y-y	*9.6%*	*8.6%*	*4.9%*	*4.4%*
Op. Profit	3,274	5,059	4,404	3,931
Net Profit	713	1,629	1,855	1,576
EPS (IDR)	66.6	152.1	173.2	147.1
y-y	N/A	*128.6%*	*13.9%*	*-15.1%*
ROE	*3.7%*	*7.8%*	*8.2%*	*6.5%*
ROA	*1.1%*	*2.5%*	*2.6%*	*2.1%*
EV/EBITDA	6.5x	5.3x	5.3x	5.2x
P/BV	1.8x	1.7x	1.6x	1.5x

Parallel Growth in Top and Bottom Line

XL Axiata (EXCL) income in 3Q/20 grew 1.7% YoY to IDR6.6 trillion vs IDR6.5 trillion in Q3/19. Growth was supported by consistent increase in data segment by 7.6% YoY to IDR5.4 trillion during July-September vs IDR5.1 trillion in the same period in 2019. EXCL managed to increase cost efficiency, as costs during 3Q/20 was suppressed by 3.2% YoY, 2.9% QoQ. The efficiency came from the infrastructure cost segment that was down to IDR1.9 trillion (-21.5% YoY, -8.2% QoQ) due to IFRS 16 implementation. This resulted in the company's net profit to jump 53.5% YoY, 48.1% QoQ to IDR331.4 billion vs IDR216.0 billion in 3Q/19.

Subscribers and Traffic Data Increases in Line with Our Expectation

The company booked an increase in subscribers until the end of the third quarter of 2020 by 2.6% YoY, 0.3% YtD to 56.9 million subscribers. Data traffic also increased by the end of September to 3,496 petabyte vs 2,386 petabyte in 3Q/20 or increased by 46.5% YoY due to the subsidizing of internet data for teachers and students. We see that by taking advantage of the momentum amid PSBB implementation in some areas, the company can still increase growth of data traffic and subscribers.

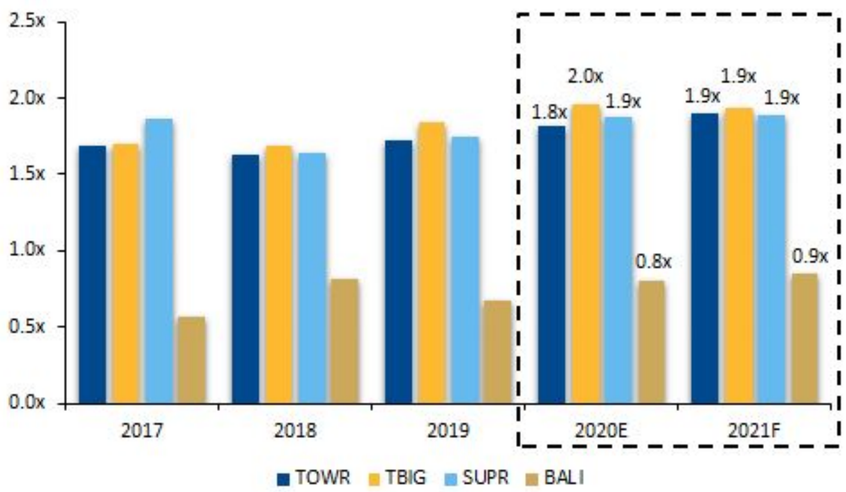
Capex Absorption Reaches 72.4% of Estimation

The company has absorbed capital expenditure of IDR5.1 trillion or reaching 72.4% of our 3Q/20 estimation. We forecast that the capex absorption of the company to be IDR7.0 trillion until the end of 2020. We see that most of the capex were allocated to add BTS for 4G network. Until 3Q/20, EXCL booked a 35.0% YoY, 31.8% YtD growth of BTS for 4G network to 53,055 BTS. With the surge in demand for data traffic, we assess that the addition of BTS in the 4G network will continue.

Telecommunication (Tower): Overweight

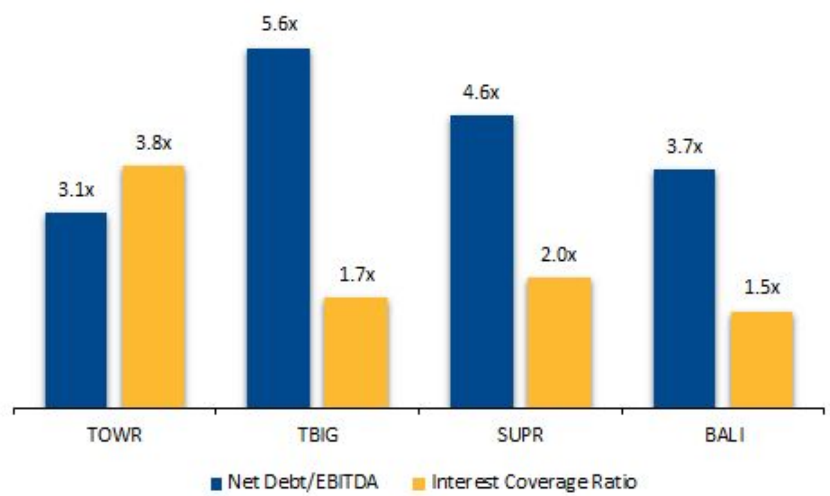
- **The Potential Benefits of Long-Term Contracts are Still Promising.** The increasing demand for data traffic is directly proportional to the demand for tower leases. As we may see in the upcoming year, the competition between the telecommunication operators will be tighter. One of the examples is by strengthening or expanding their 4G network. This will have a positive impact on the continuation of long-term lease contracts in tower companies by telecommunications operators.
- **Expansion & Tower Fiberization Will Continue.** There is a lot of potential from telecommunication operator-based companies that tend to divest their towers to increase efficiency. Lower interest rate at the end of 2020 is also a momentum for tower-focused companies to refinance so that the cost of fund can be minimized and allow the companies to expand their tower more freely in 2021.
- Tower Fiberization is still being carried out to welcome the upcoming 5G network. We assess that in 2021, the number of telecommunications operators that lease towers will continue to grow.
- We initiate **Overweight** rating for the telecommunication sector, considering the potential benefits to be made in 2021 are still promising.

Tower Tenancy Ratio



Source: Companies, NHKSI Research

Tower Credit Ratio 9M20



Source: Bloomberg, Companies, NHKSI Research

Sarana Menara Nusantara Tbk (TOWR)

Target Price (IDR)	**1,310**
Consensus Price	1,244
TP to Consensus Price	+5.3%
vs. Last Price	+19.6%
Last Price (IDR)	**1,095**
Price date as of	Nov. 30, 2020
52wk range (Hi/Lo)	1,180/575
Free Float (%)	47.5
Outstanding sh. (mn)	51,015
Market Cap (IDR bn)	53,055
Market Cap (USDmn)	3,765
Avg. Trd Vol – 3M (mn)	168.6
Avg. Trd Val – 3M (bn)	176.2
Foreign Ownership	17.6%
Revenue Contributions:	
Hutchison 3 Indonesia	34.3%
XL Axiata Tbk	32.0%
Telekomunikasi Seluler	15.3%
Others	18.4%

IDR bn	FY2019	FY2020F	FY2021F	FY2022F
Revenue	6,454	7,481	8,542	9,014
y-y	*10.0%*	*15.9%*	*14.2%*	*5.5%*
EBITDA	5,385	5,271	5,942	6,244
Net Profit	2,342	2,786	3,137	3,351
EPS (IDR)	45.9	54.6	61.5	65.7
y-y	6.5%	*19.0%*	*12.6%*	*6.8%*
ROE	*26.7%*	*26.6%*	*25.7%*	*24.0%*
ROA	*8.5%*	*9.2%*	*9.3%*	*9.4%*
EV/EBITDA	11.3x	15.5x	13.9x	13.1x
P/BV	5.3x	6.4x	5.5x	4.8x

5,269 More Tenants, Profit Jumps 19.5%

Sarana Menara Nusantara (TOWR) booked an income jump in 3Q/20 by 19.3% YoY to IDR5.5 trillion vs IDR4.6 trillion in 3Q/19. Income from tower tenancy grew 23.5% to IDR5.2 trillion. PT Hutchison 3 Indonesia was still the biggest contributor of 34.3% with tenancy growth of 50.6% QoQ. On a YtD basis, tenant grew by 5,269 to 38,615. Meanwhile, tax expenses fell 36.5% YoY, boosting company's net income to IDR1.9 trillion or grew 19.5% YoY.

Additional Tower to Meet Increasing Demand

The company also recorded tower growth until 9M20 by 2,054 YTD to 21,373, 17% YoY vs 18,233 in 9M19. Quarterly, the company has added 102 towers, higher than the previous year which only increased 81 towers. We see that there is still room for more tower ownership as the need for data traffic is still high, and 5G technology will increase needs of BTS towers. We project the company's tenancy ratio to be at level 1.82x FY20E and 1.90 FY21E. Currently, tenancy ratio is at 1.81x.

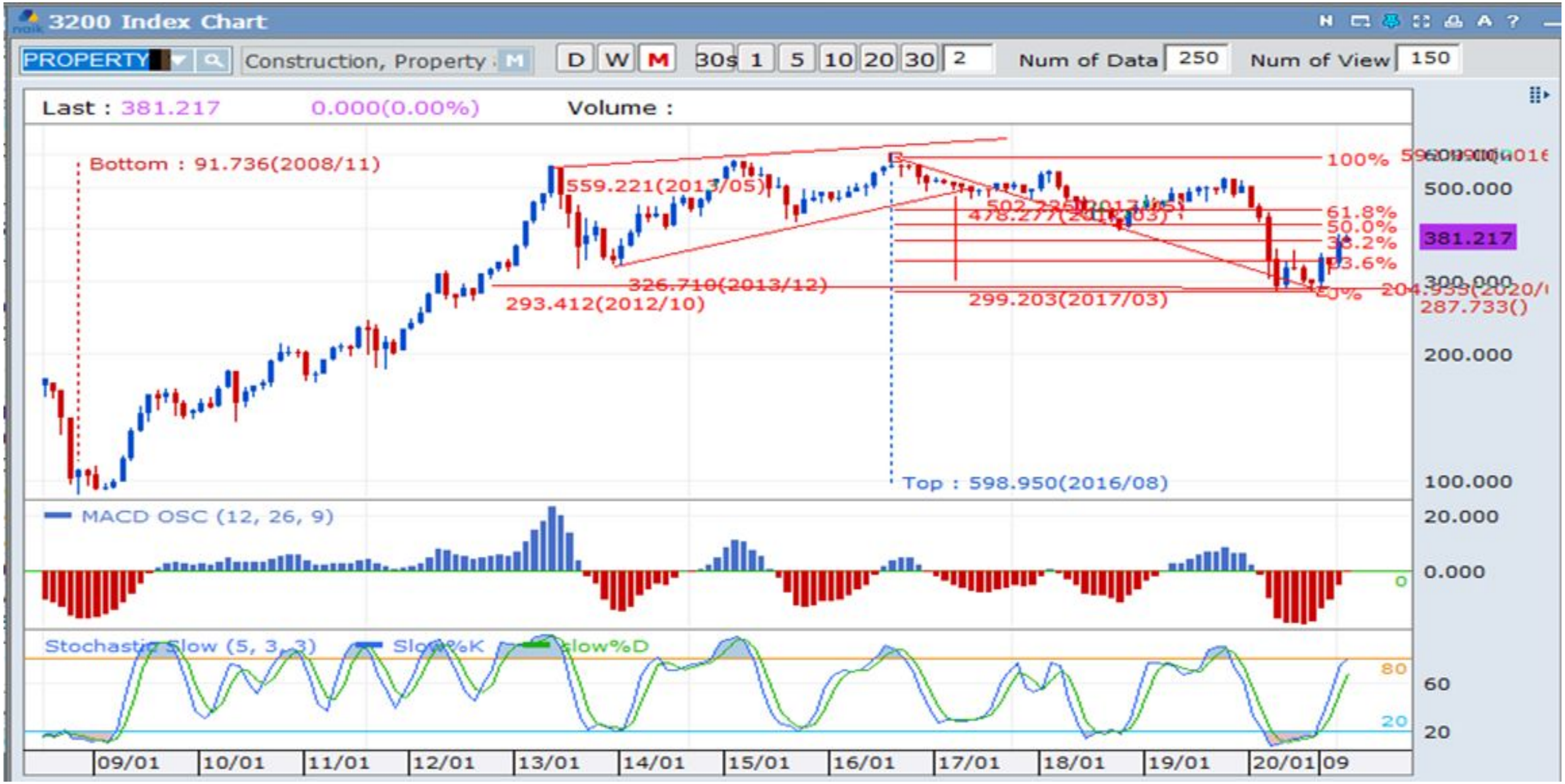
Long-term Contract Growth

Long term contract in 3Q/20 grew 18.9% YoY to IDR53.6 trillion vs IDR45.1 trillion. On a quarterly basis, it grew 0.8% vs IDR53.1 trillion in 2Q/20. Long term contract mostly come from telecommunication tower tenancy with settlement term of 10 years .

Property and Construction

Property and Construction - Technical View

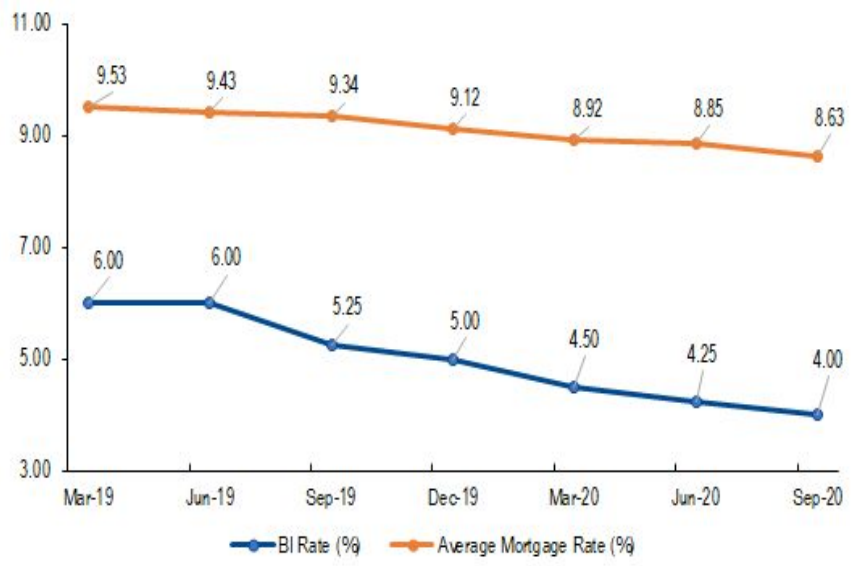
Signal of potential technical rebound to a target level of 590



Property: Overweight

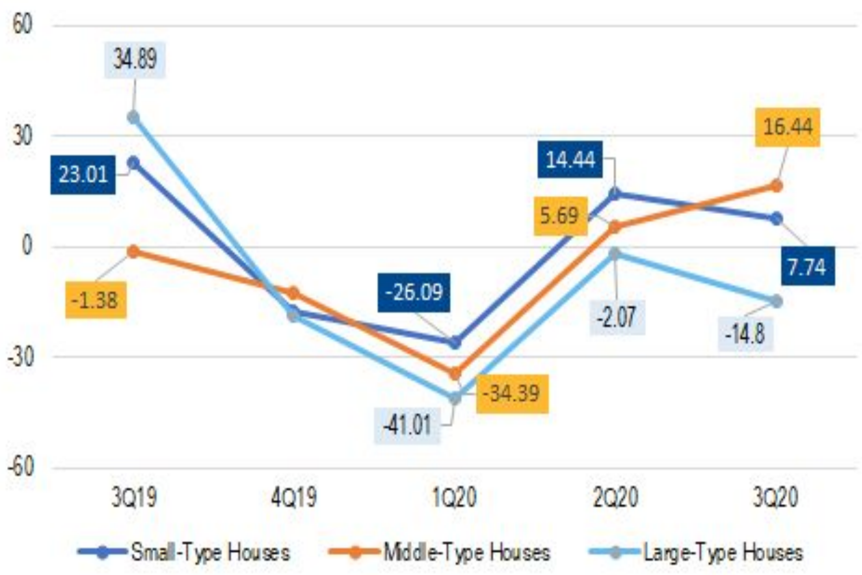
- **The Job Creation Law** states that foreign nationals (WNA) and Foreign Legal Entities with representatives in Indonesia can own property rights over flats/apartments and an organizing body to accelerate housing provisions for low-income community (MBR). These two factors can be positive stimulus for the property sector in 2021.
- **BI-7DRRR** has been on a decline since mid-2019 and by November 2020, it fell by 225 bps. The average mortgage rate is also on a downward trend to 8.63% in 3Q20. However, we see that the decline has not reached the lowest point. As a note, more than 75% of property consumers use mortgages as payment method.
- In 2Q20, **residential property** sales jumped 10.14% QoQ supported by the rise in sales of small houses due to increasing FLPP fund disbursement. In 3Q20, sales of medium houses went up by 16.44% QoQ, while big houses still declined by 14.88% QoQ as upper-middle class tend to hold back their money. On the other hand, **commercial property** purchasing index went up by 0.33% QoQ in 3Q20, supported by demand growth in the hotel and convention hall segments as an impact of PSBB relaxation.
- The low interest rate, convenience in purchasing procedure, amount of down payment, and terms determined by the bank are the factors that boost demand of property, both residential and commercial. Furthermore, declining Covid-19 cases, availability of vaccine, and economic recovery will be **the key drivers for property sector in 2021.**

BI Rate and Average Mortgage Rate (%)



Source: Statistics Indonesia, BI, NHKSI Research

Quarterly Sales Growth in Residential Property (%, QoQ)



Source: BI, NHKSI Research

Pakuwon Jati Tbk (PWON)

Target Price (IDR)	**615**
Consensus Price	570
TP to Consensus Price	+7.9%
vs. Last Price	+23.0%
Last Price (IDR)	**500**
Price date as of	Nov. 30, 2020
52wk range (Hi/Lo)	610/266
Free Float (%)	31.3
Outstanding sh. (mn)	48,160
Market Cap (IDR bn)	23,791
Market Cap (USDmn)	1,685
Avg. Trd Vol – 3M (mn)	115.0
Avg. Trd Val – 3M (bn)	46.49
Foreign Ownership	14.9%
Revenue Breakdown:	
Office & Shopping Center Leasing	52.0%
Real Estate	43.2%
Others	4.8%

IDR bn	FY2019	FY2020F	FY2021F	FY2022F
Revenue	7,202	4,421	4,879	5,856
y-y	*1.7%*	*-38.6%*	*10.4%*	*22.9%*
Op. Profit	3,061	1,549	1,839	2,194
EBT	3,271	1,336	1,784	2,083
Net Income	2,720	1,092	1,471	1,710
y-y	*7.1%*	*-59.8%*	*34.7%*	*16.2%*
ROE	*16.3%*	*6.1%*	*8.1%*	*8.8%*
ROA	*10.6%*	*4.0%*	*5.2%*	*5.7%*
P/E	10.1x	27.1x	20.1x	17.3x
P/BV	1.5x	1.7x	1.6x	1.5x

Income Rebound in 3Q20

PWON 3Q20 income was recorded at IDR1.07 trillion (-38.2% YoY vs IDR1.73 trillion 3Q19) or +10.9% above our estimation at IDR967 billion. On a quarterly manner, PWON's income increased significantly by 231% QoQ (vs IDR324 billion in 2Q20). This in turn increased GPM and OPM to 50.3% and 38.1% compared to 2Q20 when PWON booked loss on both gross profit and operating profit. Meanwhile the increase in loss due to exchange rate gap in 3Q20 amounted to IDR138 billion, meaning PWON's profit was at IDR118 billion or down by -85% YoY and -71.6% QoQ. The profit is -64.3% below our expectation.

All Income Segments Increase

The increase in income was supported by gains in all segments. Development income, sales of offices and condominiums jumped by IDR462 billion (+510% QoQ), as the share in income also rose to 43% in 3Q20 (vs 23% 2Q20). Sales of land and building reached IDR22 billion (+364% QoQ). From recurring income, the rental and service charge segment with income share of 43%, booked 178% QoQ increase to IDR458 billion, followed by the hotel segment that recorded IDR27 billion. Annually, income still decreased, but quarterly performance recovery indicated improvement in PWON's business. This was supported by PSBB relaxation in the third quarter that improved property purchasing power and extended, relaxed shopping centers operating hours.

Optimistic Top Line and Bottom Line Improve in 4Q20

PWON is able to maintain its debt to equity ratio (DER) level at 0.25x or lower than other property companies. Marketing sales until September 2020 reached IDR725 billion or 68.4% of this year's target. We are optimistic that PWON's performance in 4Q20 will grow compared to 3Q20, supported by the F&B tenants in shopping centers that are already operating by implementing health protocols and started to look busy with visitors. This made PWON retract the extension of rental fee payment tenor. Several long holidays at the end of this year and improved mobility can also increase the hotel rental rates. In addition, we predict that rupiah will strengthen at the end of the year in line with the possibility of an increase in the flow of foreign funds to Indonesia due to the passage of Omnibus Law. We revised up PWON's revenue projection in FY20 and FY21 to IDR4.42 trillion (+6.6%) and IDR4.88 trillion (+2.2%) with estimates that the property sector will recover in the future.

Ciputra Development Tbk (CTRA)

Target Price (IDR)	**1,160**
Consensus Price	1,003
TP to Consensus Price	+15.7%
vs. Last Price	+25.4%
Last Price (IDR)	**925**
Price date as of	Nov. 30, 2020
52wk range (Hi/Lo)	1,220/ 412
Free Float (%)	47.1
Outstanding sh. (mn)	18,560
Market Cap (IDR bn)	11,560
Market Cap (USDmn)	777
Avg. Trd Vol – 3M (mn)	41.7
Avg. Trd Val – 3M (bn)	28.2
Foreign Ownership	20.1%
Revenue Breakdown:	
Real Estate	74.0%
Rental	18.6%
Others	7.4%

IDR bn	FY2019	FY2020F	FY2021F	FY2022F
Revenue	7,608	6,304	7,577	8,269
y-y	*-0.8%*	*-17.1%*	*20.2%*	*9.1%*
Op. Profit	2,240	1,201	2,229	2,328
Pre-Tax Prof	1,608	667	1,467	1,648
Net Income	1,158	564	1,144	1,327
y-y	*-2.3%*	*-51.3%*	*102.9%*	*16.0%*
ROE	*6.7%*	*3.2%*	*6.4%*	*7.0%*
ROA	*3.3%*	*1.4%*	*2.6%*	*2.8%*
P/E	16.7x	25.7x	18.8x	16.2x
P/BV	1.1x	0.8x	1.2x	1.1x

Landed House and Shophouse Segment Still Grow

CTRA booked 2Q20 income of IDR1.29 trillion or down 13.6% YoY (vs IDR1.49 trillion 2Q19). Development and recurring income overall booked a decline each by -17% and -74% YoY. However in 2Q20 with the implementation of PSBB, sales of landed house and shophouse recorded at IDR749 billion or up by 11.05% YoY, when other income segments fell by more than 30% YoY. Moreover, an increase in general and administrative expenses pushed OPM down to 16.4% in 2Q20 (vs 19.7% in 2Q19). CTRA booked a net loss in 2Q20 of IDR8 billion or under our profit expectation of IDR8 billion, making it CTRA's first net loss. Meanwhile in 1H20, CTRA's net profit was IDR169.4 billion (-43% YoY vs IDR296.3 billion in 1H19).

Continues to Focus on End-Users as Target Market

CTRA marketing sales in 2020 was revised down to IDR4.51 trillion. Meanwhile until 1H20, its marketing sales has been booked at IDR2.02 trillion or 44.6% of the target. Housing and land products contribute to 92% of marketing sales, with the largest portion (35%) came from sales of units under IDR1 billion. Currently, CTRA is focused on lower middle class landed houses and subsidized houses aimed at end users. With that strategy, we believe that CTRA will be able to achieve marketing sales this year. We also consider that if CTRA offers more landed house products for the middle to upper class, it will be difficult to increase sales because people in that group tend to buy houses for investment, and in this condition they tend to hold their funds.

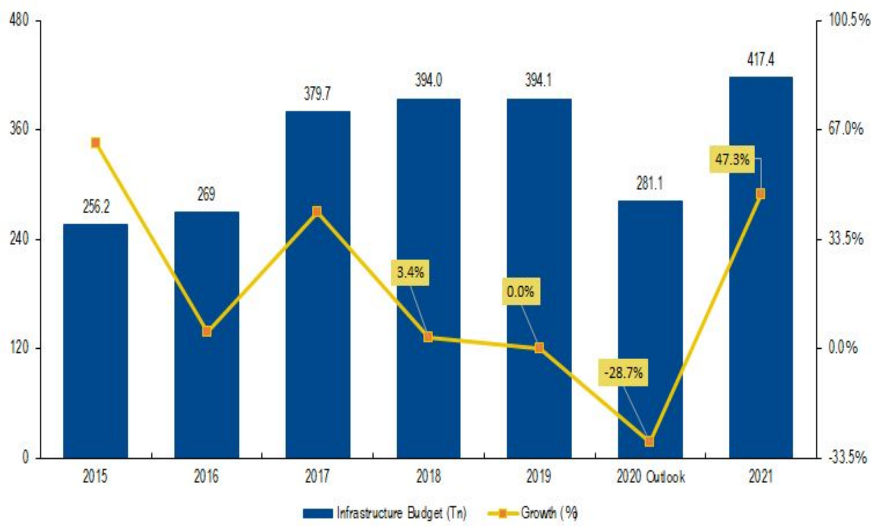
KPR will be in PEN

The government has launched a discourse to add the property sector into the National Economic Recovery (PEN) program where there will be a Payment Holiday program or deferred payment of principal and interest instalments specifically for the Housing Loan (KPR) with a maximum amount of IDR500 million. If the program can be implemented, we think it will be a positive sentiment for CTRA, where the portion of payment methods for marketing sales in 1H20 using KPR is at 56%. On the other hand, in order to make this program successful, CTRA must have a strategy to increase homebuyers interests which are still low due to the threat of economic downturn caused by the pandemic.

Construction: Overweight

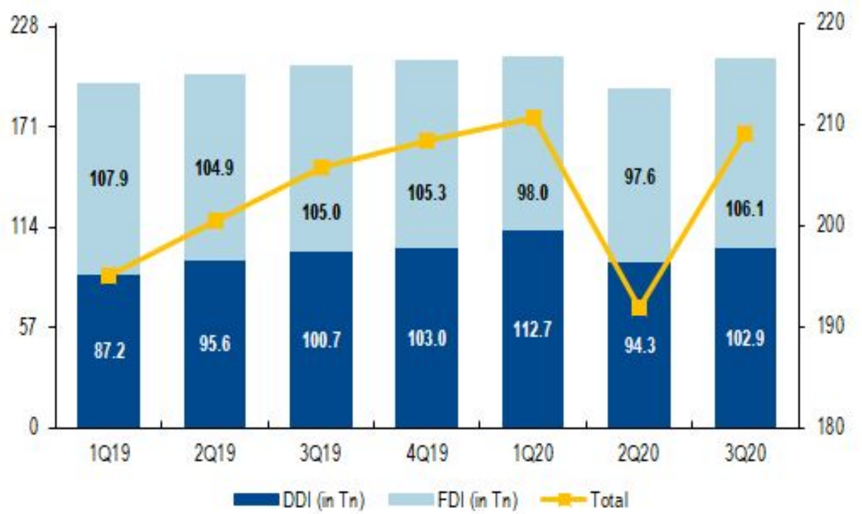
- **Infrastructure Allocation in the 2021 State Budget** is set to increase by 47.3% to IDR417.4 trillion to support economic recovery. Previously in 2020 State Budget, infrastructure budget was contracted by 28.7% YoY from the initial allocation to IDR281.1 trillion, as it was redirected to Covid-19 treatment.
- **Indonesia Infrastructure Stock** on 2019 was recorded at 43% of GDP, or far below the global infrastructure stock average at 70% of GDP. Meanwhile, to meet the infrastructure development target in RPJMN 2020-2024, there is still a gap between development target and financing.
- **Domestic Direct Investment (DDI) and Foreign Direct Investment (FDI)** in 3Q20 was booked at IDR209 trillion (+8.9% QoQ vs IDR191 trillion in 2Q20). However, we see that other source of funding is needed to address the gap in infrastructure financing.
- As a part of the Omnibus Law**, Sovereign Wealth Fund (SWF) or Indonesia Investment Authority (IIA)** is established to start its operation in 2021. SWF will raise an initial capital of IDR75 trillion and estimated to attract investment of up to IDR225 trillion.
- **The creation of Sovereign Wealth Fund (SWF)** will serve several goals, such as: increasing employment in infrastructure projects; address infrastructure financing gap; increasing the value of national assets; and support economic development, specifically through realisation of national priority project.

Indonesia Infrastructure Budget (2015 - 2021)



Source: Ministry of Finance, NHKSI Research

Foreign Direct Investment (FDI) & Domestic Direct Investment (DDI)

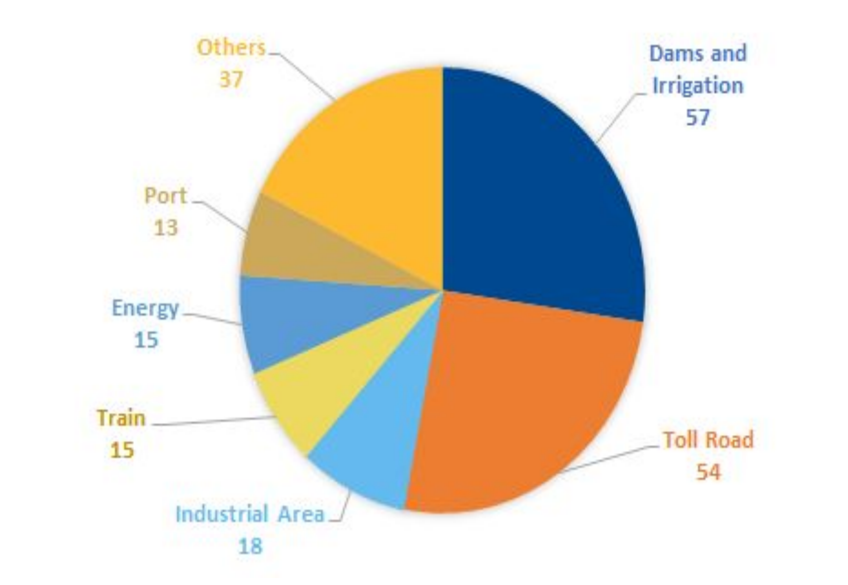


Source: Indonesia Investment Coordinating Board, NHKSI Research

Construction: Overweight

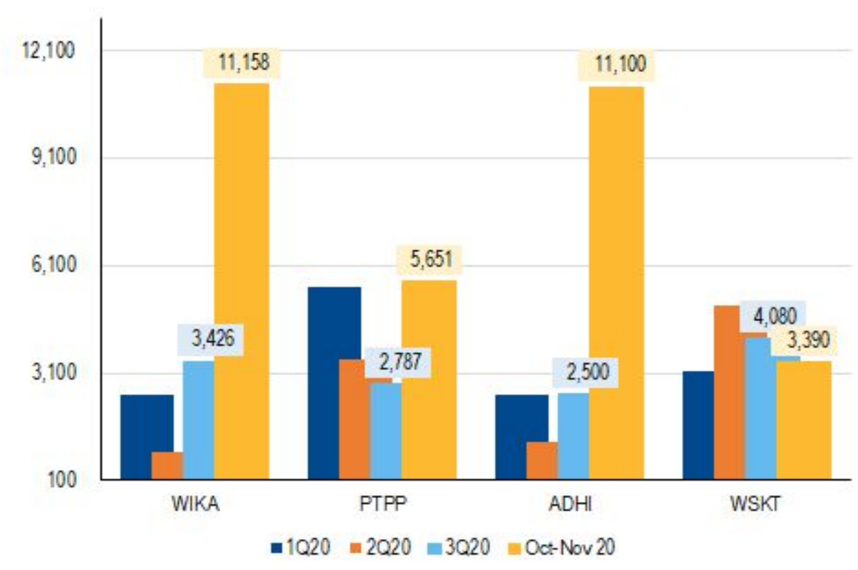
- **National Strategic Program (PSN)** which was delayed in 2020 will be continued in 20201. Under Presidential Regulation (Perpres) no. 109 year 2020, on Acceleration of PSN, there are 201 projects and 10 programs in 23 sectors. In 2021, 38 projects are targeted to be completed.
- **Dam and Irrigation Projects** contributes the largest with 57 projects, including the Ciawi, Karian, and Sepaku Semoi dams. Followed by toll road projects with 54 projects, with 23 Trans-Sumatra Toll Roads, 6 Jakarta Inner City Toll Roads, and South Jakarta-Cikampek II Toll Road.
- **Challenge in Obtaining New Contracts** can be seen in all SOE construction companies that booked a decline in new contracts of up to 70% YoY during 9M20. This is caused by delays in project works and tender process as an impact of PSBB.
- Entering the **fourth quarter of 2020**, new contract acquisition showed a significant increase. Four SOE companies (WIKA, PTPP, ADHI, WSKT) managed to achieve 60%-80% of the 2020 new contract targets. We see that as projects that have been delayed due to the pandemic will be resumed through PSN, coupled with government's strategy to boost financing, these will encourage the recovery of new contracts addition in 2021.

National Strategic Projects (PSN) based on Sectors



Source: Audit Board of the Republic of Indonesia, NHKSI Research

New Contract of SOE's Company - (in Bio)



Source: Companies, NHKSI Research

Wijaya Karya Tbk (WIKA)

Target Price (IDR)	**2,180**
Consensus Price	1,502
TP to Consensus Price	+45.1%
vs. Last Price	+34.6%
Last Price (IDR)	**1,620**
Price date as of	Nov. 30, 2020
52wk range (Hi/Lo)	2,200 /675
Free Float (%)	34.9
Outstanding sh. (mn)	8,970
Market Cap (IDR bn)	10,943
Market Cap (USDmn)	760
Avg. Trd Vol – 3M (mn)	19.5
Avg. Trd Val – 3M (bn)	23.4
Foreign Ownership	6.4%
Revenue Breakdown:	
Infrastructure and Building	61.0%
Industrial	23.0%
Others	16.0%

IDR bn	FY2019	FY2020F	FY2021F	FY2022F
Revenue	27,213	15,228	18,848	21,992
y-y	*-12.7%*	*-44.0%*	*23.8%*	*16.7%*
Op. Profit	2,666	1,338	1,922	2,037
Pre-Tax Prof	2,789	567	733	1,166
Net Income	2,285	379	545	904
y-y	*32.1%*	*-83.4%*	*43.8%*	*66.0%*
ROE	*12.5%*	*2.1%*	*3.3%*	*5.3%*
ROA	*3.8%*	*0.6%*	*0.9%*	*1.3%*
P/E	7.8x	31.0x	35.9x	21.6x
P/BV	0.9x	0.7x	1.2x	1.1x

Facing PSBB Relaxation, Income Up 11% QoQ

In 3Q20, WIKA booked an income of IDR3.25 trillion (-53% YoY vs IDR6.93 trillion 3Q19). This number is 23.8% under our projection of IDR2.47 trillion. However, on a quarterly basis, WIKA's income managed to jump by 11%. We see that this was due to WIKA's effort to prove its business resilience facing the pandemic in the third quarter with PSBB not as strict as in the second quarter. WIKA still recorded single digit GPM of 7%, higher than 5% in 2Q20 as WIKA effectively restrained a jump in cost of revenue. Meanwhile, the high financial cost at IDR397 billion pushed WIKA's bottom line which recorded net loss of IDR200 billion (vs net profit IDR463 billion in 3Q19), made it the first quarterly loss experienced by the company. The result suppressed the 9M20 profit to IDR50 trillion or down by 96% YoY.

Must Control Leverage Ratio

After reaching the highest net and gross gearing ratio in 2Q20 of 126% and 82%, in 3Q20; both indicators increased to 141% and 93.7%. We anticipate WIKA's performance balance sheet to maintain its interest-bearing debt and control the source of project funding to keep leverage ratio under control. Meanwhile, WIKA was able to increase operating cash flow of IDR1.41 trillion supported by cash receipt from customers that increased by up to 90% QoQ. Until the end of the year, we are quite optimistic that WIKA will be able to book a positive cash flow driven by the receipt of fresh funds from projects that are completed at the end of 2020.

New Contract Target Revised Down

Since July, WIKA revised down its new contract to IDR21.47 trillion. During 9M20, realization of new contracts amount to IDR6.84 trillion or 32% of target. In 3Q20, new contracts from all segments booked an increase. The infrastructure and building, industry, realty and property, each jumped 274%, 183%, and 56% on a quarterly basis. Although it is still far from target, we forecast that WIKA's new contract achievement in 4Q20 will recover. Currently, WIKA is still working on strategic national projects such as the 16 dams with 10%-90% construction progress. The first session of Serang-Panibang toll road will also be completed by the end of the year and ready to operate in early 2021. We revised down our FY20 income and net profit as WIKA's 3Q20 performance was still below our projection. WIKA income and net profit were both revised down by 7.7% to IDR15.23 trillion and 65.3% to IDR379 billion. We see the construction sector will not be stable enough until the fourth quarter, although new contract achievements of WIKA's segments are recovering.

Pembangunan Perumahan Tbk (PTPP)

Target Price (IDR)	**1,940**
Consensus Price	1,293
TP to Consensus Price	+50.0%
vs. Last Price	+42.6%
Last Price (IDR)	**1,360**
Price date as of	Nov. 30, 2020
52wk range (Hi/Lo)	1,945 / 484
Free Float (%)	49.0
Outstanding sh. (mn)	6,200
Market Cap (IDR bn)	5,859
Market Cap (USDmn)	416
Avg. Trd Vol – 3M (mn)	33.4
Avg. Trd Val – 3M (bn)	31.1
Foreign Ownership	21.7%
Revenue Breakdown:	
Construction	75.2%
EPC	12.0%
Others	12.8%

IDR bn	FY2019	FY2020F	FY2021F	FY2022F
Revenue	24,660	15,560	17,567	20,770
y-y	*-1.8%*	*-36.9%*	*12.9%*	*18.2%*
Op. Profit	1,857	939	1,187	1,290
Pre-Tax Prof	1,240	491	831	1,170
Net Income	930	250	642	827
y-y	*-38.1%*	*-73.2%*	*157.4%*	*28.8%*
ROE	*5.8%*	*1.7%*	*4.3%*	*5.2%*
ROA	*1.7%*	*0.4%*	*1.1%*	*1.3%*
P/E	10.6x	28.3x	18.7x	14.5x
P/BV	0.6x	0.5x	0.8x	0.7x

Income Still Decreases Annually and Quarterly

PTPP booked an income of IDR3.27 trillion in 3Q20 (-38.7% YoY vs IDR5.33 trillion 3Q19). On a quarterly basis, PTPP's income slightly decreased by 2%. The construction segment with the largest contribution on its revenue of 76.1% was recorded at IDR2.49 trillion (-48% YoY, -5% QoQ), followed by property and realty with a 14% contribution of IDR458 billion and the EPC segment of IDR262 billion. Meanwhile, GPM, OPM and NPM each recorded an increase to 13%, 9%, 0.3% compared to the previous quarter. On the other hand, PTPP's profit in 3Q20 was IDR10 billion (-94.2% YoY vs IDR181 billion 3Q19).

New Contract Reaches 46% of 2020 Target

Until September 2020, new contracts acquired by PTPP reached IDR11.77 trillion or 46% of this year's target of IDR25.23 trillion. We see that the new contracts acquired by PTPP is not yet optimal, where the achievement is lower than our expectation of IDR15 trillion. In 3Q19, PTPP only managed to achieve new contracts worth IDR2.79 trillion or lower than the achievements of the previous two quarters.

Relies on Divestment to Boost Performance

PTPP still booked a negative operating cash flow (CFO) until 3Q20. An increase in cash received from customers still could not result in a positive CFO. In order to cover the negative balance in the CFO, increase profits and improve performance this year, PTPP must realize the divestment plan of its assets as soon as possible. These includes: ownership of 14% of the assets of the Citra Karya Jabardan toll road concession and 25% of shares in Prima Multi Terminal (PMT). Both will generate fresh cash flows of up to IDR421 billion for PTPP. Other assets that PTPP plans to be divested are the Cisumdawu Toll, Kuala Tanjung Port, Pandaan-Malang Toll Road and Medan Kuala Namu-Tebing Tinggi Toll. As the 3Q20 performance is under our projection, we revised down our FY20 and FY21 income estimation each by -4.8% and -16.2% to IDR15.56 trillion and IDR17.57 trillion. PTPP's profit was also revised by -24.7% and 11.1% to IDR250 billion and IDR642 billion. Until the end of the year, we forecast PTPP's performance to still be sluggish, especially if divestment is not realized.

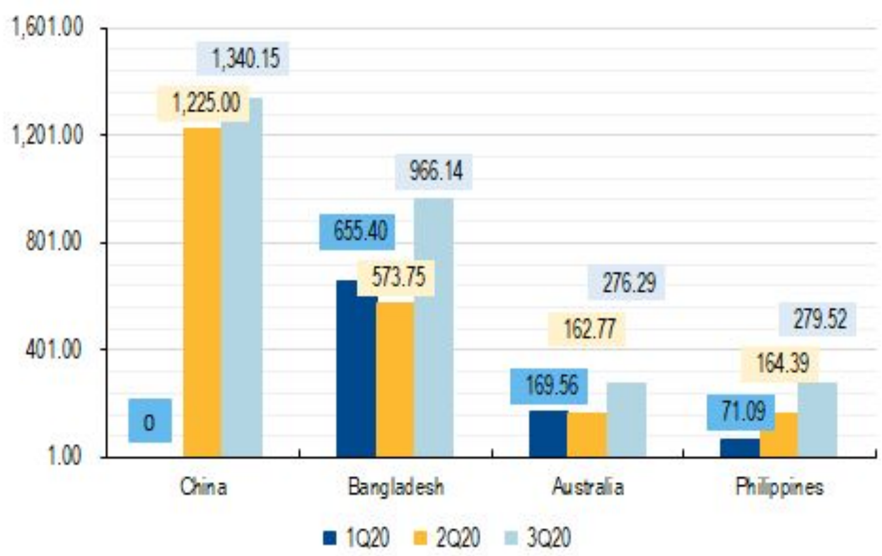
Cement: Overweight

- **National Cement Sales Volume** until 9M20 was recorded at 44,651 million ton (-8.6% YoY). Although it fell in 2Q20, it was slowly recovering in 3Q20 and reached 20,629 million ton.
- Until October, sales of cement in **Bulk** fell significantly, by 21.7% YoY because of the stagnation in construction projects. Meanwhile, **bag cement** sales slightly decreased by 5.4% as the retail segment continued massive constructions. We see that there is still a potential for the national cement sales to grow along with the continuation of construction projects.
- **Coal Benchmark price** is estimated to be stagnant in the coming future, so the margin of cement producers will be relatively stable. Moreover, cement issuers have started to develop fuel alternatives to keep margins down from fluctuating coal prices.
- On the **Export** side, sales volume was booked at 7,180 million ton or increased 31% YoY, as the economy of export destination countries recover. Export to China was halted in 1Q20, but managed to book 2,565 million ton until 9M20 (+173% YoY). Although it only contributed up to 20% of the total national cement sales, we are sure that as the economy of destination countries recover, the volume of cement exports will also go up.

National Sales Volume (in Mn)

Source: Indonesia Cement Association, NHKSI Research

Top 4 Export Destination Country (in Mn)



Source: Statistics Indonesia, NHKSI Research

Indocement Tunggal Prakarsa Tbk (INTP)

Target Price (IDR)	**18,775**
Consensus Price	15,909
TP to Consensus Price	+18.0%
vs. Last Price	+31.3%
Last Price (IDR)	**14,300**
Price date as of	Nov. 30, 2020
52wk range (Hi/Lo)	22,875/16,725
Free Float (%)	49.0
Outstanding sh. (mn)	3,681
Market Cap (IDR bn)	54,482
Market Cap (USDmn)	3,860
Avg. Trd Vol – 3M (mn)	3.4
Avg. Trd Val – 3M (bn)	41.4
Foreign Ownership	99.8%
Revenue Breakdown:	
Cement	92.7%
Ready Mix Concrete	7.3%
Others	0%

IDR bn	FY2019	FY2020F	FY2021F	FY2022F
Revenue	15,939	14,701	15,724	16,511
y-y	*4.9%*	*-7.8%*	*7.0%*	*5.0%*
Op. Profit	1,905	1,827	2,403	2,650
Pre-Tax Prof	2,274	2,159	2,760	3,026
Net Income	1,835	1,773	2,248	2,464
y-y	*60.2%*	*-3.4%*	*26.7%*	*9.6%*
ROE	*7.9%*	*7.7%*	*9.8%*	*10.6%*
ROA	*6.6%*	*8.5%*	*8.3%*	*9.0%*
P/E	37.0x	39.0x	30.7x	28.1x
P/BV	2.9x	3.0x	3.0x	3.0x

Top Line Performance Recovers

INTP booked 3Q20 revenue of IDR3.97 trillion (-9% YoY vs IDR4.36 trillion). However, on a quarterly basis, revenue hiked by 41.3% and all income segments increased significantly. Income from the cement segment was booked at IDR3.78 trillion (+40.5% QoQ), ready-mix concrete segment at IDR275 billion (+64.6% QoQ), and aggregates and quarries at IDR10 billion (+2.629% QoQ). Meanwhile, sales volume also jumped by 42.5% QoQ by 4.78 million tons. Economic recovery in export destinations such as China and the Philippines to increase export sales volume by 233.3% QoQ to 50,000 tons.

Outstanding Profitability, Supported by Margin Increase

The high margin in 3Q20 sent INTP to book profit of IDR647 billion (+829.3% QoQ, +20.7% YoY vs IDR536 billion 3Q19). GPM increased to 39.2% (vs 35.2% 3Q19) as an effect of company efficiency in fuel and electricity usage that declined by 17% YoY. Currently INTP is increasing the use of low-calorie value coal and renewable alternative fuel. Moreover, OPM jumped to 18.5% (vs 14.2% 3Q19) due to the cuts to operating expenses. During the pandemic, INTP maximized sales in its home-market, West Java, to minimize freight and transportation costs. NPM also increased to 16.3% (vs 12.3% 3Q19).

Challenges for End of Year and Next Year

Approaching the end of 2020, we expect cement sales growth in 4Q20 will slow down by 30% compared to 3Q20, as it will face the upcoming rainy season and long holiday in October and December. We are optimistic that INTP will still book a high margin, as INTP will continue to maximize the use of alternative fuel that can replace coal consumption by up to 30%. Meanwhile for 2021, INTP performance will be influenced by development in Covid-19 cases. Moreover, two new market players, PT Semen Grobogan and Hongsi Holdings Group will also tighten business competition especially in Java. However, we expect INTP to outplay competitors with distribution ability and digital system use through Sales Force Automation (SFA). But Omnibus Law and hike in infrastructure budget allows for multiplier effect from infrastructure development that will encourage the development of industrial estates and factories. With various challenges, we estimate INTP revenue for FY20 and FY21 to be IDR14.70 trillion (-7.8% YoY) and IDR15.72 trillion (+7.0% YoY). Risks to our target price are 1) increase in Covid-19 cases, re-tightening of PSBB, 2) volatility of coal prices, 3) presence of new players may cause oversupply.

Semen Indonesia Tbk (SMGR)

Target Price (IDR)	**13,325**
Consensus Price	12,526
TP to Consensus Price	+6.4%
vs. Last Price	+13.9%
Last Price (IDR)	**11,700**
Price date as of	Nov. 30, 2020
52wk range (Hi/Lo)	13,250/5,475
Free Float (%)	48.9
Outstanding sh. (mn)	5,932
Market Cap (IDR bn)	66,433
Market Cap (USDmn)	4,670
Avg. Trd Vol – 3M (mn)	5.9
Avg. Trd Val – 3M (bn)	57.5
Foreign Ownership	21.6%
Revenue Breakdown:	
Cement Production	74.0%
Non-Cement Production	26.0%
Others	0%

IDR bn	FY2019	FY2020F	FY2021F	FY2022F
Revenue	40,368	36,925	39,172	40,604
y-y	*31.5%*	*-8.5%*	*6.1%*	*3.7%*
Op. Profit	6,185	5,775	6,044	6,305
Pre-Tax Prof	3,196	3,618	3,996	4,097
Net Income	2,371	2,507	2,767	2,837
y-y	*-23.2%*	*5.7%*	*10.4%*	*2.5%*
ROE	*7.1%*	*7.2%*	*7.5%*	*7.3%*
ROA	*3.6%*	*3.2%*	*3.5%*	*3.4%*
P/E	30.0x	27.2x	24.7x	24.1x
P/BV	2.91x	1.9x	1.8x	1.7x

Quarterly Income Increases Supported by Gains in All Segments

3Q20 income for SMGR was recorded at IDR9.59 trillion or down 18.5% YoY (vs IDR11.77 trillion 3Q19) or -14.9% under our estimates of IDR11.28 trillion. However, it increased by 28.9% from the previous quarter. We assume the relaxation of PSBB in 3Q20 to be quite effective in the recovery of the company's sales, as some construction projects have restarted. All 3 segments experienced quarterly gains. Income segment from cement, clinker, and ready mix concrete each recorded IDR8.06 trillion, IDR813 billion, and IDR473 billion or increased by 31%, 7% and 43% QoQ.

Reaches Highest Margin in 3Q20

SMGR also booked an excellent bottom line performance, by recording 3Q20 profit of IDR935 billion or 16.1% higher YoY (vs IDR806 billion 3Q19) and significantly higher by 417% QoQ (vs IDR181 billion 2Q20). The income was +23% higher than our estimates of IDR760 billion. Other than due to improving quarterly sales, SMGR reached a high margin this year. GPM, OPM, and NPM increased to 35.6%, 19.1%, 97% from 28.3%, 11.3% and 2.4% in 2Q20. SMGR managed to execute cost efficiency, starting from production cost, raw material management by optimizing the composition of raw and auxiliary materials, integrating marketing, distribution and procurement functions, and utilizing industrial waste as an alternative source of raw materials.

Challenges for Increasing Sales Trend

Sales volume until 3Q20 was recorded at 29.13 million tons or slightly declining by 2.9% YoY. Meanwhile, on a quarterly basis, it achieved 11.01 million tons or an increase of 8% QoQ. We estimate that sales in 4Q20 will experience problems due to the arrival of the rainy season and the long holiday at the end of the year. On the other hand, SMGR market share dominated by bulk cement sales will benefit from the recovery of infrastructure and construction sector. So we predict the sales of SMGR cement will recover next year with infrastructure projects are optimally underway. As the economy of export destination country such as China recovers, it can boost the future SMGR sales. We cut down our estimates for SMGR's FY20 and FY21 income each to IDR36.92 trillion (-5.9%) and IDR39.17 trillion (-3.6%) and revised up FY20 and FY21 profit estimates to IDR2.50 trillion (+14.2%) and IDR2.76 trillion (19.9%). We see that as the pandemic has not slowed down significantly until 3Q20, it became a challenge for cement sales. Meanwhile, we forecast that SMGR is able to be more cost efficient in both production and sales cost.

Mining

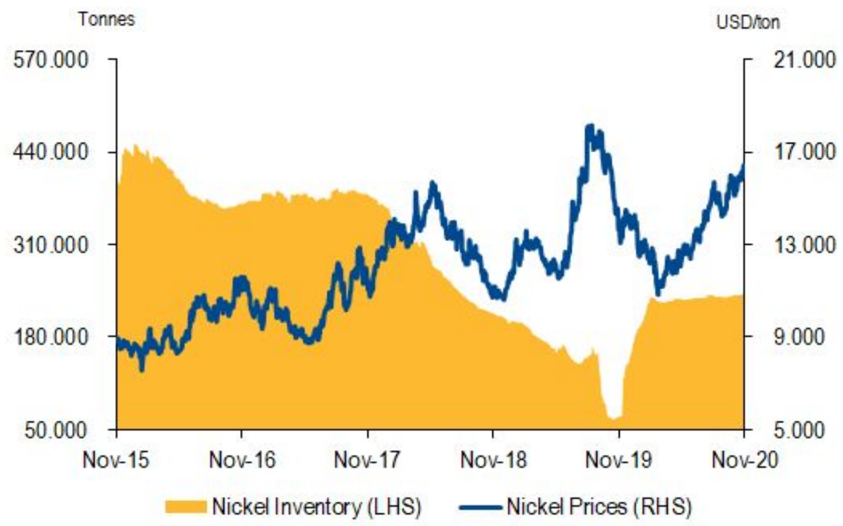
Mining - Technical View

Moving up in its uptrend channel with potential target of 2800.

Mining (Precious Metal): Overweight (Nickel) & Neutral (Gold)

- **Nickel Price will Continue to Rally in 2021.** Along with economic recovery in China, the Chinese government plans to increase nickel consumption for electric vehicles. On the other hand, the nickel price rally was also supported by Indonesian government's policy to limit the export of nickel ore. We expect this to be a positive catalyst for nickel price to continue strengthening.
- **Higher Nickel Inventory.** During the pandemic, nickel inventory was recorded at 241,662 tonnes (year-to-date), higher than FY2019 (150,650 tonnes). We expect that the increasing demand for EV battery will be supported by a more than adequate nickel supply.
- We initiate **Overweight** rating on the Nickel sector due to some positive catalysts we mentioned earlier, and we project nickel price to be in the range of USD16,000-17,000/ton in 2021F.
- **Economic Recovery will be a Pressure for Gold Prices.** During the uncertain situations gold prices rose as investors prefer safe haven (reaching USD2,052/ounce at one point). At the time of writing, gold price had declined to USD1,790/ounce due to positive vaccine news indicating that economic recovery will begin in the next year and resulting in investors turning to riskier assets.
- We initiate **Neutral** rating for Gold sector and we assume the average of gold price will be at USD1,800/ounce in 2021F.

LME Nickel Price and Inventory



Source: Bloomberg, NHKSI Research

Gold Price

Source: Bloomberg, NHKSI Research

Aneka Tambang Tbk (ANTM)

Target Price (IDR)	**1,480**
Consensus Price	1,261
TP to Consensus Price	+17.4%
vs. Last Price	+29.3%
Last Price (IDR)	**1,145**
Price date as of	Nov. 30, 2020
52wk range (Hi/Lo)	1,315 / 338
Free Float (%)	35
Outstanding sh. (mn)	24,031
Market Cap (IDR bn)	19,705
Market Cap (USDmn)	1,351
Avg. Trd Vol – 3M (mn)	112.2
Avg. Trd Val – 3M (bn)	78.2
Foreign Ownership	96.2%
Revenue Breakdown:	
Gold	72.5%
Ferronickel	18.2%
Alumina	4.5%

IDR bn	FY2019	FY2020F	FY2021F	FY2022F
Revenue	32,719	23,759	23,424	24,462
y-y	*29.4%*	*-27.4%*	*-1.4%*	*4.4%*
Op. Profit	956	1,566	1,171	1,468
Pre-Tax Prof	687	1,166	898	1,135
Net Income	194	875	674	851
y-y	*-88.2%*	*351.2%*	*-23.0%*	*26.3%*
ROE	*1.1%*	*4.7%*	*3.5%*	*4.4%*
ROA	*0.6%*	*2.8%*	*2.1%*	*2.7%*
P/E	164.7x	49.7x	64.6x	51.1x
P/BV	1.8x	2.3x	2.2x	2.3x

Bottom Line Exceeds our Expectations

In 3Q20, ANTM posted a revenue of IDR8,8 trillion, +119% QoQ or –12.9% YoY, resulting in bottom line of IDR751 billion, +104.8% QoQ or +463.8% YoY. Meanwhile in 9M20, ANTM recorded IDR18 trillion in revenue (-26% YoY) and managed to record a bottom line of IDR836 billion (+48.9% YoY) due to a significant decline in selling and marketing expense by -74.4% YoY. Thus, we expect ANTM's revenue in 2021F to be IDR23,4 trillion, -1,4% YoY as we assume the average gold price will decrease to USD1.800/ounce in 2021F alongside economic recovery.

Smelter Projects still on development

Currently, the East Halmahera ferronickel plant project still have problems with electricity supply. So the smelter is still on progress at 97,98% of completion target, adding 13.500 TNi/annum when completed. Therefore, with Halmahera smelter targeted to complete in 2021, we see that it will have a significant increase in ANTM's nickel segment production. On the other hand, ANTM is still developing its Smelter Grade Alumina Refinery (SGAR), with estimated total production capacity of up to 1 million ton SGA/annum (stage 1) and targeted to be complete in 2023.

EV Battery factory as positive catalyst

Indonesian government has plans to build EV battery factory lead by Inalum (through ANTM), PT Pertamina (Persero), and PT PLN (Persero). We see that the plans will increase the revenue contribution of nickel segment as ANTM's nickel will be directly absorbed by the factory.

Vale Indonesia Tbk (INCO)

Target Price (IDR)	**4,530**
Consensus Price	4,801
TP to Consensus Price	-5.6%
vs. Last Price	-1.7%
Last Price (IDR)	**4,610**
Price date as of	Nov. 30, 2020
52wk range (Hi/Lo)	5,175 /1,340
Free Float (%)	20.5
Outstanding sh. (mn)	9,936
Market Cap (IDR bn)	4,521
Market Cap (USDmn)	3,208
Avg. Trd Vol – 3M (mn)	14.1
Avg. Trd Val – 3M (bn)	55.3
Foreign Ownership	99.6%
Sales Destination:	
Vale Canada Limited	80%
Sumitomo Metal Mining	20%

USD mn	FY2019	FY2020F	FY2021F	FY2022F
Revenue	782	805	760	791
y-y	*0.7%*	*3.0%*	*-5.6%*	*4.0%*
Op. Profit	103	116	118	121
Pre-Tax Prof	85	110	114	117
Net Income	53	102	97	99
y-y	*-13.0%*	*92.5%*	*-5.3%*	*2.7%*
ROE	*2.7%*	*5.0%*	*4.5%*	*4.4%*
ROA	*2.4%*	*4.5%*	*4.0%*	*3.9%*
P/E	45.3x	31.0x	32.7x	31.9x
P/BV	1.3x	1.5x	1.5x	1.4x

Net Profit Exceeds Our Expectation

In 3Q20, INCO successfully booked an income of USD211 million, +13.4% QoQ or -1.7% YoY, resulting in 3Q20 net profit of USD24 million, -2.7% QoQ or -10.7% YoY. Meanwhile in 9M20 period, INCO recorded USD571 million income, +12.7% YoY, with net profit of USD76 million, +47.800% YoY (88% of 2020F). So, we revised our income and net profit expectations in 2020F. Then, we project INCO's income in 2021F to be USD760 million, -5.6% YoY with net profit of USD97 million, -5.3% YoY as INCO will rebuild furnace 4 in 2Q21 which will decrease the nickel production volume in 2021.

Massive Expansion to Support Future Performance

INCO plans to build 2 smelters, the HPAL smelter in Pomalaa, ferronickel smelter in Bahodopi, and increases production capacity in the Sorowako smelter. The HPAL and ferronickel smelters are expected to each produce 40,000 ton/year, and 70,000 ton/year, as well as the smelter expansion in Sorowako which will increase production capacity by 10,000 ton/year (currently, Sorowako's capacity is 70,000 ton/year). We consider the increase in production capacity will be a positive catalyst for INCO in the long run.

Nickel Price will Continue to Rally Supported by China's Policy

Amid the economic recovery in China, the Chinese government plans to increase nickel consumption for electric vehicles. It will be a positive catalyst for nickel price which continue to increase. Meanwhile, the nickel price rally is also supported by Indonesian government's policy to limit the export of nickel ore. So, we project the nickel price to be in the range of USD15,000–16,000/ton until the end of 2020 and USD16,000-17,000/ton in 2021F.

Mining (Mineral): Neutral

- **China Restriction on Australia's Coal Exports.** At the end of 2020, China has decided to ban coal products from Australia. We see this restriction as a potential opportunity for Indonesia to increase its coal exports to China as its economy recovers.
- Moreover, China also plans to buy thermal coal worth USD1.46 billion from Indonesia next year. China's plans were revealed in a Memorandum of Understanding (MoU) between China Coal Transportation and Distribution and Indonesian Coal Mining Association (*APBI*). This will add to Indonesia's coal exports to China which averaged around IDR100 trillion per year.
- **Coal is Subjected to Value Added Tax (VAT).** Under the Job Creation Law (Omnibus Law), Indonesian government includes coal mining products as taxable goods (*BKP*). This will impact coal companies which will pay 10% tax rate, thus increasing their costs. Currently, only PT Bukit Asam, Tbk (PTBA) accepts the law, while other companies are still reviewing it.
- We initiate **Neutral** rating for Mining (Mineral) in 2021, as we expect coal price to be ranging at USD55-65/ton.

Indonesian Coal Export to China

Source: Statistics Indonesia, NHKSI Research

Indonesian Coal Benchmark Price

Source: Bloomberg, NHKSI Research

United Tractors Tbk (UNTR)

Target Price (IDR)	**19,000**
Consensus Price	27,054
TP to Consensus Price	-29.8%
vs. Last Price	-17.4%
Last Price (IDR)	**23,000**
Price date as of	Nov. 30, 2020
52wk range (Hi/Lo)	27,175 / 12,000
Free Float (%)	40.4
Outstanding sh. (mn)	3,730
Market Cap (IDR bn)	100,341
Market Cap (USDmn)	7,086
Avg. Trd Vol – 3M (mn)	4.9
Avg. Trd Val – 3M (bn)	111.5
Foreign Ownership	15.4%
Revenue Breakdown:	
Construction Machinery	51%
Coal Mining	32%
Gold Mining	17%

IDR bn	FY2019	FY2020F	FY2021F	FY2022F
Revenue	84,430	66,586	70,752	75,863
y-y	*-0.2%*	*-21.1%*	*6.3%*	*7.2%*
Op. Profit	16,605	11,912	12,877	14,414
Pre-Tax Prof	15,477	10,966	11,751	13,341
Net Income	11,312	7,151	7,802	8,972
y-y	*1.7%*	*-36.8%*	*9.1%*	*15.0%*
ROE	*19.1%*	*11.4%*	*12.0%*	*13.4%*
ROA	*9.9%*	*6.2%*	*6.5%*	*7.1%*
P/E	7.1x	12.0x	11.0x	9.6x
P/BV	1.3x	1.3x	1.3x	1.3x

Weak Results

UNTR's net profit was down to IDR4.06 trillion (-28.3% YoY) in 1H20, accounting for 57% of our 2020F target. In 1H20, revenue of construction machinery plummeted to IDR7.27 trillion (-39.9% YoY) and revenue of mining contracting decreased to IDR15.06 trillion (-21.9% YoY). The weak results were caused by sluggish demand amid low coal prices and economic slowdown following COVID-19 pandemic. However, the gold mining segment contributed higher profit (+34% YoY) in 1H20.

Coal Production Still Low

In 8M20, coal production declined to 75.8 million tonnes (-9.8% YoY) due to soft coal demand and several coal miners scaled down the coal production as the impact from COVID-19 pandemic. Pamapersada is targeting lower coal production of 110 million tonnes for 2020 (-16% YoY), and so far 8M20's production is within our target. In our opinion, the target is a significant decline compared to last year (131 milion tonnes in 2019) plus the potential of lower coal selling prices this year. So, we see the coal outlook still sluggish until the first quarter of 2021, which around 80% of UNTR's businesses are related to coal.

The Increase in Gold Segment is Limited

We change our view for UNTR's gold segment after 1H20 performance. Until year-end, we see that the increase in gold segment is limited as around 80% of its gold sales were hedged at USD1,325/oz. UNTR is also guided for flattish gold production in the next few years without any clear plan to expand its capacity.

Plantation

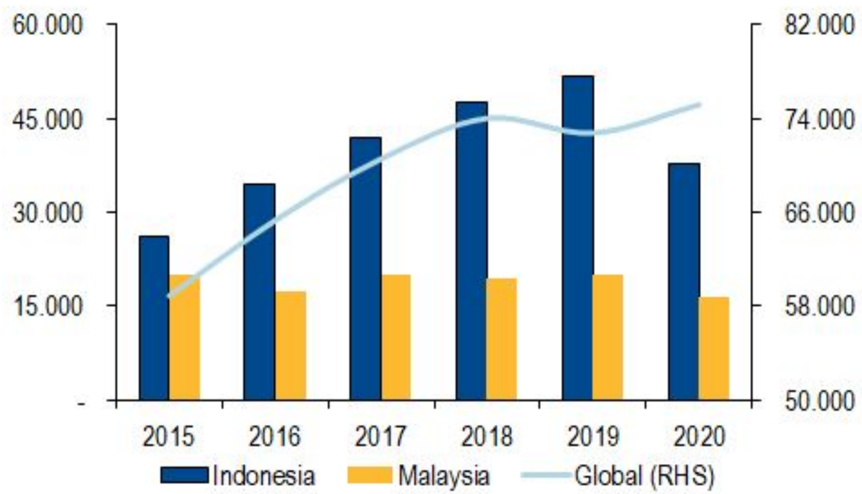
Plantation - Technical View

After a long downtrend since 2016 (Break Double Top), Agriculture has rebounded from its low level in March 2020, with the potential to re-test the 2430 area as its target.

Plantation: Neutral

- **Tight CPO Supply in the First Quarter of 2021.** Amid the global pandemic, the price of Crude Palm Oil (CPO) had been on a significant rise due to tight supply. Towards the end of 2020, CPO price already reached over RM3,386/ton. The tight supply was also caused by La Nina that occur in some of the major CPO producing countries. We see that CPO price will continue to strengthen as La Nina is expected to continue until early 2021.
- **Biodiesel Mandate Still Continues.** B20 and B30 program have been implemented in 2019 and 2020, while President Joko Widodo has announced that B50 will be implemented in early 2021. We expect this program will maintain the demand for CPO in Indonesia.
- **New Policy from India and Malaysia.** In November 2020, India has cut import duties on CPO products and their derivatives by 10%, from 37.5% to 27.5%. We see that Indonesia will have the potential for an increase in CPO exports. On the other hand, Malaysia has no plans to continue the tax exemption for CPO which ends on 31 December 2020.
- **Indonesia CPO Export Levy changed.** Indonesia have revised CPO export levy from a fixed export levy of US$55/ton into a progressive levy based on different levels of CPO price. Starting on December 10, export levy is expected to be set at US$180/ton based on CPO reference price of US$870/ton (according to the Ministry of Trade). The pricing have also been incorporated with domestic CPO price.
- We initiate **Neutral** rating for Plantation sector.

CPO Production (000 tonnes)



Source: Bloomberg, GAPKI, USDA, NHKSI Research

CPO Consumption and Global Inventories

Source: Bloomberg, GAPKI, USDA, NHKSI Research

Astra Agro Lestari Tbk (AALI)

Target Price (IDR)	**14,200**
Consensus Price	12,477
TP to Consensus Price	+13.8%
vs. Last Price	+15.2%
Last Price (IDR)	**12,325**
Price date as of	Nov. 30, 2020
52wk range (Hi/Lo)	14,675 /4,140
Free Float (%)	20.3
Outstanding sh. (mn)	1,925
Market Cap (IDR bn)	23,000
Market Cap (USDmn)	1,625
Avg. Trd Vol – 3M (mn)	2.7
Avg. Trd Val – 3M (bn)	29.4
Foreign Ownership	4.3%
Revenue Breakdown:	
Crude Palm Oil	93%
Palm Kernel	6%
Others	1%

IDR bn	FY2019	FY2020F	FY2021F	FY2022F
Revenue	17,453	18,065	19,654	20,873
y-y	*-8.5%*	*3.5%*	*8.8%*	*6.2%*
Op. Profit	960	1,302	1,860	1,975
Pre-Tax Prof	661	917	1,585	1,762
Net Income	211	536	926	1,029
y-y	*-85.3%*	*153.7%*	*72.9%*	*11.1%*
ROE	*1.1%*	*2.8%*	*4.7%*	*5.0%*
ROA	*0.8%*	*1.9%*	*3.2%*	*3.5%*
P/E	113.2x	44.3x	25.6x	23.1x
P/BV	1.3x	1.2x	1.2x	1.1x

Below Our Expectation but Still Solid

In 1H20, AALI posted a net profit of IDR391 billion (+769% YoY) supported by higher revenue to IDR9.1 trillion (+6.5% YoY) and a significant improvement of ASP (+25.9% YoY). The lower tax rate to 22% in 1H20 (from previously 25%) and cost efficiency helped AALI's bottom line during the pandemic. AALI's net profit is below our expectation (-8%) in 1H20 but we believe that AALI is capable of attaining net profit to IDR536 billion this year. 1H20 revenue and net profit have reached 50% and 72% of our 2020F target.

Lower Production

FFB production decreased to 2.28 million tonnes (-8.1% YoY) in 1H20 which is the impact of drought from last year and the COVID-19 pandemic. 1H20 production already reached 43% of our 2020F FFB production target (2020F of 5.25 million tonnes). In our opinion, the favorable weather circa July to September will allow AALI to reach peak FFB production in 3Q19 around 1.92 million tonnes (9M20E of 4.2 million tonnes).

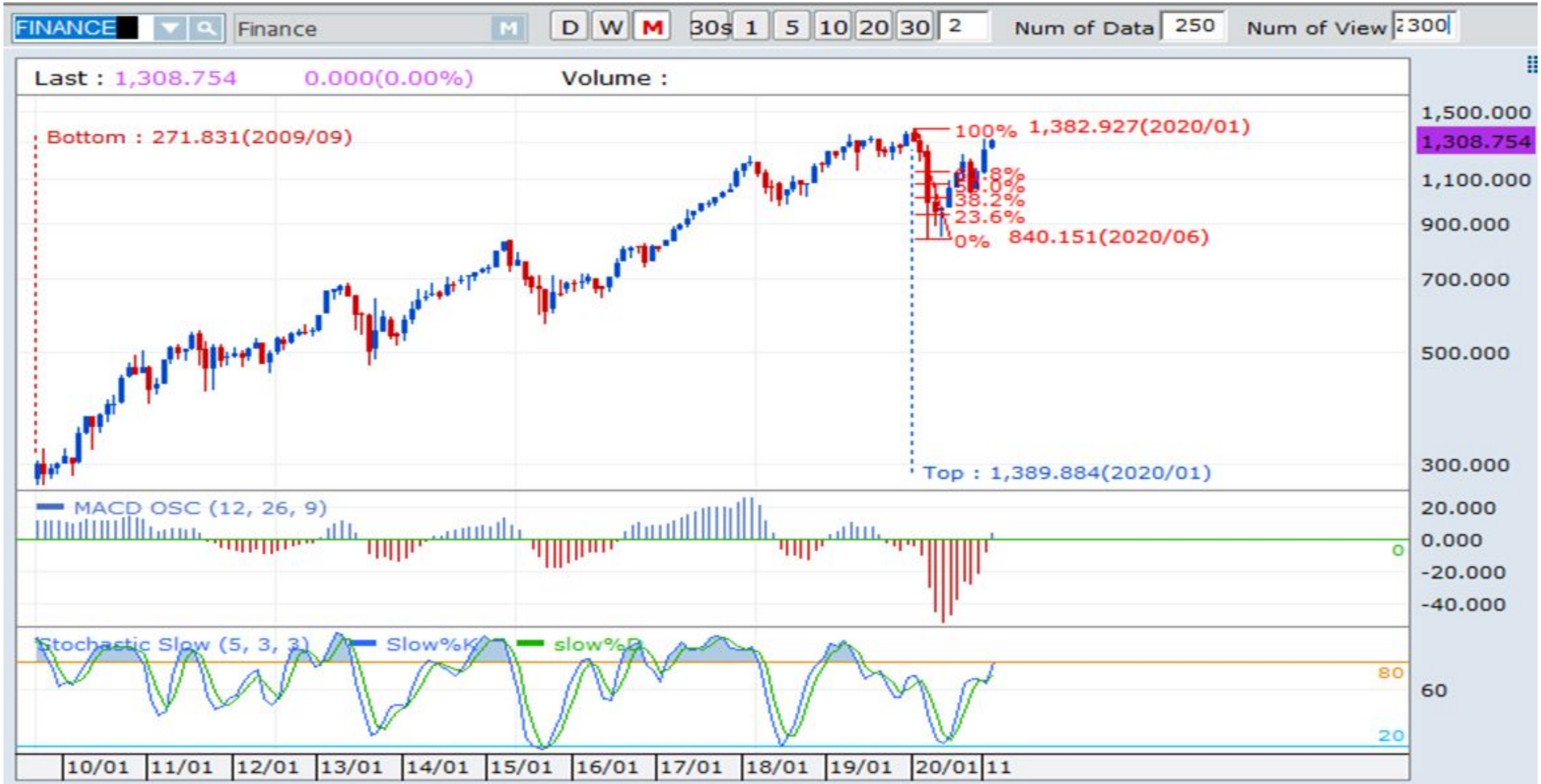
CPO Price Rally and We Maintain Our Estimates for 2020F

We see CPO price rally unlikely to persist in 4Q20 as we expected CPO output peak has likely shifted to 4Q20 due to heavy rains in Indonesia, thereby leading to expectations of higher inventory towards the end of the year. However, we maintain our assumptions and 2020F estimates (in page 4), considering: 1) favorable weather in 3Q20; 2) global CPO prices in 2H20 are expected to hover around MYR2,400-2,800/tonne (USD569-663/tonne), which is expected to be better than 1H20.

Banking

Banking - Technical View

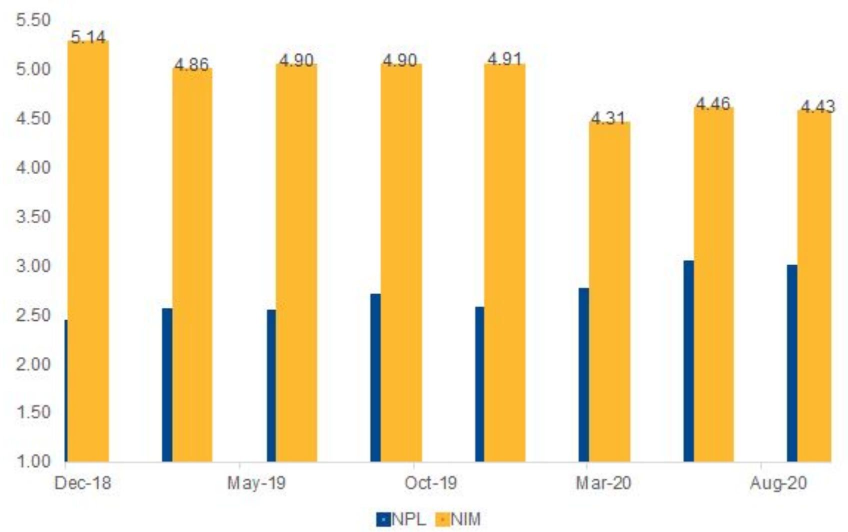
Upside potential toward an area of 1650 (Fibonacci level 161.8%)



Banking: Neutral

- **The COVID-19 Pandemic** had been limiting economic activities for most parts of 2020, which resulted in increasing delinquency rate and and delayed loan repayments. This has suppressed the banking industry's NIM which is currently at 4.43% compared to 4.91% at the beginning of the year, and may potentially put more pressure to banking performance of up to 20-25% in the next 12 months. Meanwhile, we see the BUKU 4 category banks may have easier path to recovery.
- In 2021, we expect restructuring to continue. However, **NPL and NIM** will start to recover along with economic activities that is slowly returning to normal. Credit growth can already be seen in 3Q20, in line with PSBB relaxation in some regions. Meanwhile, banks in BUKU 4 category enjoys excess liquidity, along with the movement of customer deposits to bigger and safer banks during the pandemic. Banks make use of this excess liquidity, increasing bank ownership of bonds from 28.5% at the beginning of the year to 39.4%.
- We put a **Neutral** rating for banking, with BMRI and BBNI as our top picks in 2021. Assuming the slow down of credit restructuring which has started in 4Q20, we expect banking performance to gradually recovers in 2021. Currently, BMRI and BBNI are each traded at PBV of 1.12x and 1.73x.

Indonesia Banking NPL & NIM Movement (%)



Source: Bloomberg, NHKSI Research

Indonesia Banking Ownership in Govt. Securities (%) & LDR

Source: Bloomberg, NHKSI Research

Bank Mandiri Tbk (BMRI)

Target Price (IDR)	**7,000**
Consensus Price	6,992
TP to Consensus Price	+0.1%
vs. Last Price	+10.7%
Last Price (IDR)	**6,325**
Price date as of	Nov. 30, 2020
52wk range (Hi/Lo)	8,050 /3,660
Free Float (%)	37.7
Outstanding sh. (mn)	46,667
Market Cap (IDR bn)	277,667
Market Cap (USDmn)	18,996
Avg. Trd Vol – 3M (mn)	53.6
Avg. Trd Val – 3M (bn)	303.8
Foreign Ownership	27.2%
Loan Composition:	
Corporate	38%
Commercial (Middle Corp.)	16%
Others	46%

IDR bn	FY2019	FY2020F	FY2021F	FY2022F
Int. Income	91,525	86,709	95,933	101,184
y-y	*13.0%*	*-5.3%*	*10.6%*	*5.5%*
Op. Income	88,600	80,604	85,429	86,772
Net Profit	27,482	17,015	21,694	26,987
EPS (IDR)	589	365	465	578
y-y	*9.1%*	*-38.1%*	*27.5%*	*24.4%*
ROE	*14.0%*	*8.4%*	*10.7%*	*12.3%*
ROA	*2.2%*	*1.3%*	*1.5%*	*1.7%*
P/E	13.0x	19.2x	15.1x	12.1x
P/BV	1.7x	1.7x	1.5x	1.4x

Highest Liquidity in the Last Four Years

High liquidity gives room for loan growth. Previously, BMRI loan was stagnant at 0.2% QoQ or only increased by 3.8% YoY. This is lower than third party funding (DPK) that grew by 4.9% QoQ or even 14.9% YoY. This combination again suppressed the loan to deposit ratio (LDR) to 84.4% or down by 970 bps on annual basis. This also makes BMRI's LDR at the lowest since 1Q16. The high liquidity increased BMRI's capability to push the current account and saving account (CASA) ratio to 65.4% in 9M20 from 61.9% in 1H20. Credit expansion capability is accompanied BMRI's ability to maintain non performing loan (NPL) ratio, as the credit restructuring process is almost complete.

NPL Maintained at 3.3%

BMRI managed to maintain its NPL ratio at 3.3% in 9M20 or unchanged from 1H20 period. BMRI also kept the productive asset by pushing the NPL coverage ratio to 205.2% or higher than in 1H20 at 196%. Meanwhile the increase in ratio is a risk mitigation during the pandemic. We see that BMRI keeps its loan provision high with a conservative lending policy.

Net Profit Grows 57.1% QoQ

BMRI booked IDR3.7 trillion of net profit in 3Q20 or grew 57.1% on a quarterly basis. The increase of profit was amid net interest income drop by 1.3% in the same period. Meanwhile, BMRI managed to maintain its quarterly operating expenses, so in 9M20 it only amounted to IDR9.1 trillion or flat compared to the previous quarter. This pushed 3Q20 operating profit to IDR5.1 trillion or grew 44.3% QoQ. We project BMRI's net profit to grow by 27.5% YoY in FY21F, after a decrease of 38% YoY in FY20E period.

Bank Negara Indonesia Tbk (BBNI)

Target Price (IDR)	**6,000**
Consensus Price	5,732
TP to Consensus Price	+4.7%
vs. Last Price	0.0%
Last Price (IDR)	**6,000**
Price date as of	Nov. 30, 2020
52wk range (Hi/Lo)	8,000 /2,970
Free Float (%)	40.0
Outstanding sh. (mn)	18,649
Market Cap (IDR bn)	97,905
Market Cap (USDmn)	7,053
Avg. Trd Vol – 3M (mn)	62.2
Avg. Trd Val – 3M (bn)	307.3
Foreign Ownership	16.3%
Loan Composition:	
Corporate Non SOE	34%
SME	26%
Others	40%

IDR bn	FY2019	FY2020F	FY2021F	FY2022F
Int. Income	58,532	53,528	58,231	60,336
y-y	*8.1%*	*-8.6%*	*8.8%*	*3.6%*
Op. Income	52,012	51,070	56,130	58,775
Net Profit	15,384	10,219	13,876	15,554
EPS (IDR)	825	548	744	834
y-y	*5.1%*	*-33.6%*	*35.8%*	*12.1%*
ROE	*13.1%*	*8.6%*	*11.6%*	*11.7%*
ROA	*1.9%*	*1.2%*	*1.6%*	*1.7%*
P/E	9.5x	10.9x	8.1x	7.2x
P/BV	1.2x	1.0x	0.9x	0.8x

Coverage Ratio 2x NPL

This net profit pressure is a part of BBNI's efforts to maintain quality of assets. The company's coverage ratio was at 206.9% in 3Q20, higher than the previous year at 159.2%. However, it is lower than 2Q20 which was at 214.1% as loan restructuring process was almost finished. As a note, BBNI's total asset until September 2020 grew 12.5% YoY, supported by 21.4% DPK growth to IDR705.1 trillion. BBNI still prioritizes low-cost funds (current account and saving account, CASA) to keep a low Cost of Fund (CoF).

CASA Growth Pushes Down CoF by 40 Bps

BBNI CASA was at 65.4% or increased by more than 100 bps compared to the same period last year. This successfully pushed down CoF to 2.9% or improved by 40 bps from last year's position at 3.2%. DPK growth followed recovering CoF, supporting BBNI credit growth. BBNI recorded credit growth up to 4.2% to IDR582.4 trillion in 3Q20 or grew 4.6% YtD. Meanwhile, the growth of CASA was also able to reduce BBNI's interest expense.

Interest Expense Decreases Significantly

BBNI anticipated pressure on net interest income (NII) by reducing interest expense by up to 8% YoY. The effort was to maintain net interest margin (NIM) which is at 4.3% in 3Q20 or lower by 60 bps compared to last year. Meanwhile, BBNI also managed to book non-interest income growth, which went up by 7.2% YoY. This was better than the previous quarter that grew 3.2% YoY.

Bank Central Asia Tbk (BBCA)

Target Price (IDR)	**34,000**
Consensus Price	34,108
TP to Consensus Price	-0.3%
vs. Last Price	+9.6%
Last Price (IDR)	**31,025**
Price date as of	Nov. 30, 2020
52wk range (Hi/Lo)	35,300/21,625
Free Float (%)	44.8
Outstanding sh. (mn)	24,655
Market Cap (IDR bn)	764,922
Market Cap (USDmn)	51,687
Avg. Trd Vol – 3M (mn)	19.7
Avg. Trd Val – 3M (bn)	551.8
Foreign Ownership	25.3%
Loan Composition:	
Corporate Non SOE	40.0%
Commercial & SME	33.1%
Consumer	26.9%

IDR bn	FY2019	FY2020F	FY2021F	FY2022F
Int. Income	56,767	63,838	64,423	69,294
y-y	*5.6%*	*12.5%*	*0.9%*	*7.6%*
Op. Income	63,034	71,623	71,598	77,900
Net Profit	25,848	28,565	27,548	28,434
EPS (IDR)	1,048	1,159	1,117	1,153
y-y	*10.9%*	*10.5%*	*-3.6%*	*3.2%*
ROE	*18.3%*	*17.5%*	*15.2%*	*14.3%*
ROA	*3.3%*	*3.3%*	*2.9%*	*2.7%*
P/E	24.8x	28.8x	30.4x	29.5x
P/BV	4.2x	4.7x	4.5x	4.0x

CASA Growth Suppresses LDR

BBCA maintained conservative credit growth, declining 0.6% YoY or 2.2% QoQ. This strategy was amid BBCA's high liquidity with loan to deposit ratio (LDR) that reached under 70% in 9M20 period compared to 80.6% in 9M19. Liquidity was supported by solid third party fund growth at 14.4% YoY with current account and saving account (CASA) each grew by 14.3% and 17.1%. Meanwhile, BBCA was able to reduce the higher interest time deposit which only increased by 8.8% YoY 9M20, or grew slower than last year's double-digit growth of 12% YoY 9M19. With a conservative credit strategy, we see BBCA utilizing excess liquidity for government bonds and market securities.

PPOP Solid Performance

BBCA reserves reached IDR9.1 trillion in 9M20 or increased 160.6% YoY, amid the company effort to maintain asset quality. Previously, NPL (gross) increased by 30 bps to 1.9% 9M20 from 1.6% in the same period last year. The increase in provision pushed net profit down to IDR20 trillion. Outside of provision, pre-provision operating profit (PPOP) BBCA grew by 13.5% to IDR33.8 trillion. We see that BBCA's PPOP performance is better than most major banks which mostly booked a decline in PPOP.

Bank Rakyat Indonesia Tbk (BBRI)

Target Price (IDR)	**4,500**
Consensus Price	4,394
TP to Consensus Price	+2.4%
vs. Last Price	+10.0%
Last Price (IDR)	**4,090**
Price date as of	Nov. 30, 2020
52wk range (Hi/Lo)	4,760/2,160
Free Float (%)	27.1
Outstanding sh. (mn)	123,346
Market Cap (IDR bn)	410,742
Market Cap (USDmn)	27,713
Avg. Trd Vol – 3M (mn)	175.6
Avg. Trd Val – 3M (bn)	568.8
Foreign Ownership	20.8%
Loan Composition:	
Micro	35.2%
SME	25.1%
Others	39.7%

IDR bn	FY2019	FY2020F	FY2021F	FY2022F
Int. Income	121,756	118,207	124,162	139,325
y-y	*9.1%*	*-2.9%*	*5.0%*	*12.2%*
Op. Income	111,157	108,853	110,739	127,625
Net Profit	34,455	24,671	24,762	27,122
EPS (IDR)	279	200	201	220
y-y	*6.5%*	*-23.7%*	*0.4%*	*9.5%*
ROE	*17.5%*	*12.0%*	*12.0%*	*12.6%*
ROA	*2.5%*	*1.7%*	*1.7%*	*1.7%*
P/E	13.1x	20.0x	19.9x	18.2x
P/BV	2.2x	2.4x	2.4x	2.2x

Micro Credit Growth Supports NIM

BBRI's Net Interest Margin (NIM) was maintained at 5.76% in 9M20, up by 4 bps compared to 1H20 at 5.72%. This was achieved with the support of credit growth in the micro and small commercial segments. BBRI credit grew by 3.2% YoY, with the micro credit segment booked the biggest growth at almost 9% YoY. Followed by commercial and consumer segments that each grew by 4.6% YoY and 3.8% YoY. BBRI's micro credit growth was boosted by the government's National Economic Recovery (PEN) program which focused on Micro, Small, and Medium Enterprises (UMKM). Meanwhile, the maintained NIM was also a sign of success in increasing CASA ratio amid low interest rate trend.

DPK Outgrows Industry

Current Account Saving Account (CASA) still dominated BBRI's third party fund (DPK), reaching IDR639 trillion or more than 60% from the total DPK. Meanwhile, BBRI's DPK until 9M20 amounted to IDR1,062 trillion or increased by 16.3% YoY, outgrowing the industry. DPK growth also boosted BBRI's LDR liquidity to 82.6% compared to the 93.0% in the same period last year. The laxed in liquidity also gives room for BBRI to reduce Cost of Fund (CoF) which is currently falling by 9 bps on a quarterly basis.

Thank You

DISCLAIMER

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