

# EQUITY MARKET OUTLOOK 2021 :

## Gradual recovery from pandemic slowdown





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# MACRO ECONOMIC AND EQUITY STRATEGY



## Economic Outlook

### Covid-19: enigma to global economy

Since its first occurrence in late 2019, Covid-19 has wrecked the world. The number of lives taken now exceeds 1 mn and the number of infections is already above 33 mn globally, of which 60% are in developing countries. The condition sustains the uncertainty that 2019 left to 2020. Thus, there are three major issues triggering world's uncertainty that we see will remain in 2021: the pandemic, de-globalization and US – China dispute. However, the current ups and downs of economic recovery including the progress of vaccine rekindle hope towards the prospect of global economy. Though global economic growth is estimated to decline by 4.9% YoY in 2020, it is expected to soar by 5.4% YoY in 2021.

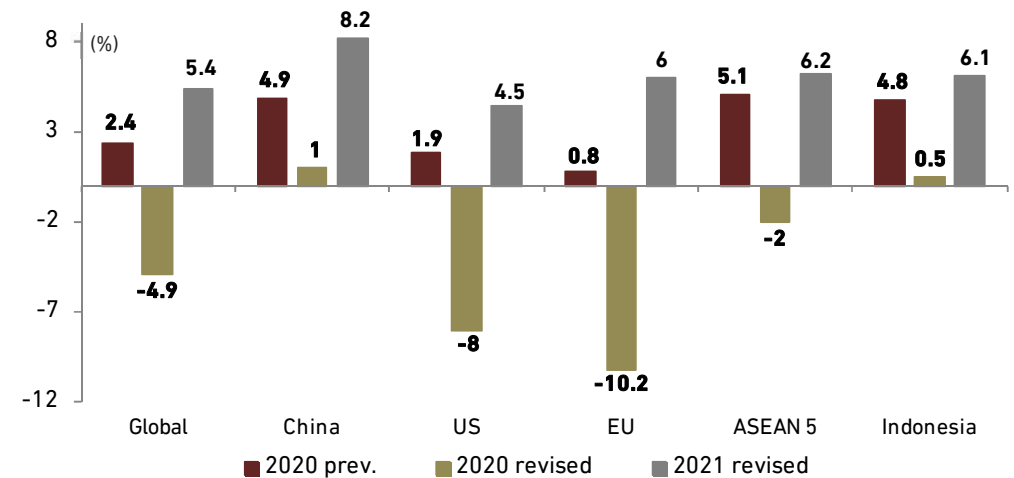
#### • Pandemic containment in SEA

Covid-19 containment measures like lockdowns and international travel bans were imposed by all ASEAN countries. Despite of our large-scale social restriction (PSBB) in mid Mar-20, Indonesia becomes country with most confirmed Covid-19 cases in ASEAN. We see the combination of strict lockdowns and those highly exposed to international travel will face harder comeback to their pre-Covid levels of output until 2021. Though the stimulus is relatively low compared the ASEAN5, we've been more optimistic about Indonesia's trajectory given better mobility and macroeconomic indicators.

#### • Stronger post-crisis emergence

Indonesia is preparing for a strong post-crisis emergence. The government may be denial on its first response to Covid-19 but it has acknowledged broad actions to tackle the downside risks afterwards. Compared to the peers, the external sectors are not the key drag of Indonesia under the pandemic, but it is more due to the collapse of domestic demand. As the domestic demand share of GDP in 2020 and 2021 is around 54%, we see the demand side stimulus and the better condition in 2021 will reverse the expected Indonesia economic growth from -1.2% YoY in 2020 to 4.4% YoY in 2021.

Exhibit 1: Global economic growth forecast



Source: IMF

Exhibit 2: Responses in tackling Covid-19 in SEA



Source: Google Mobility Report, Bloomberg, Ciptadana estimates





## EQUITY MARKET OUTLOOK 2021

### Emergency break for interest rate

The Federal Reserve unexpectedly cut Federal Funds Rate (FFR) to combat the economic slowdown due to the pandemic. It was the first emergency rate cut since the Global Financial Crisis (GFC) in 2008, as well as the first of this size since then. There were 2 times of FFR cut in Mar-20 each from 1.75%-1.5% to current level at 0.25%-0%. The Fed expects to leave FFR near zero for years through at least 2023 and will tolerate higher inflation in order to revive the labor market and economy. Thus, it triggers worldwide interest rates go lower.

#### • BI-7DRRR to stay at 4%

Similar, Bank Indonesia (BI) has cut BI-7DRRR by 100bps so far to 4%, which is the lowest in two years. However, in general, monetary policy loses its effectiveness as expansive fiscal policy is much more needed amid the crisis that hit the demand side. Thus, keeping the rate unchanged until the economy restarts is wise to store monetary ammunition when it is needed. Ergo, we expect BI will hold the rate at 4% until 2021 without ruling out the possibility of it getting lower in 1H21 as BI may do the rate cut to fuel up the growth in 2H21.

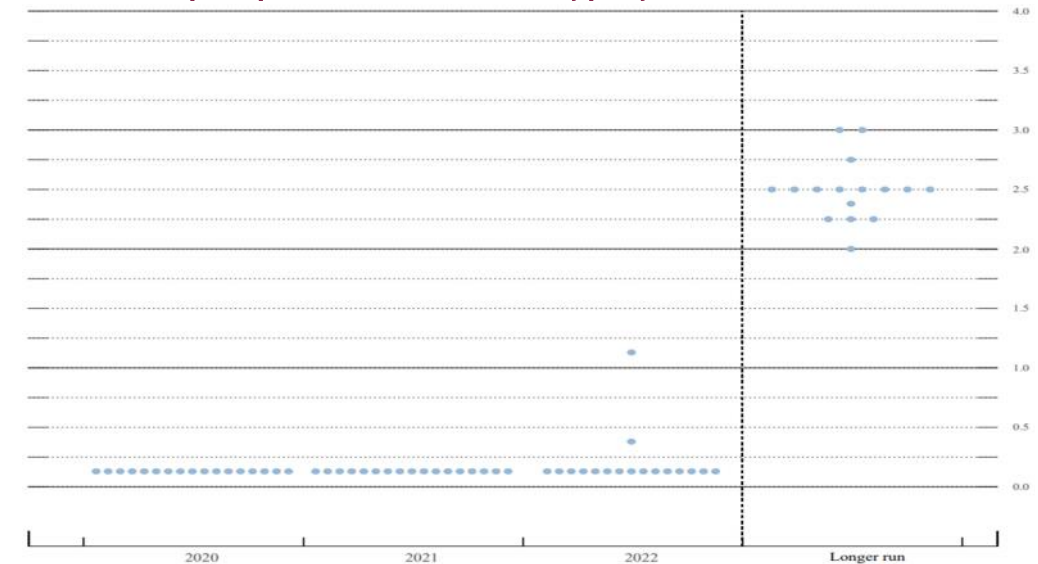
#### • Wider room for BI-7DRRR cut

Regardless we expect the rate remains at 4% until 2021, we spot wide room for BI to have mild rate cut. Indonesia real interest rate is around 3.7% or relatively high compared to our peers given the inflation that stays low until YE 2020. Trade surplus (is expected at USD111 mn in YE 2020) remain though the size will get narrower in line with the recovery of domestic manufacturers that require imported goods. The higher expected forex reserves in 2021 also provide room for the rate cut. We also see some banks are reluctant to cut interest rates due to risk premium and the transmission lag of the rate cut.

#### • Burden sharing to remain in 2021

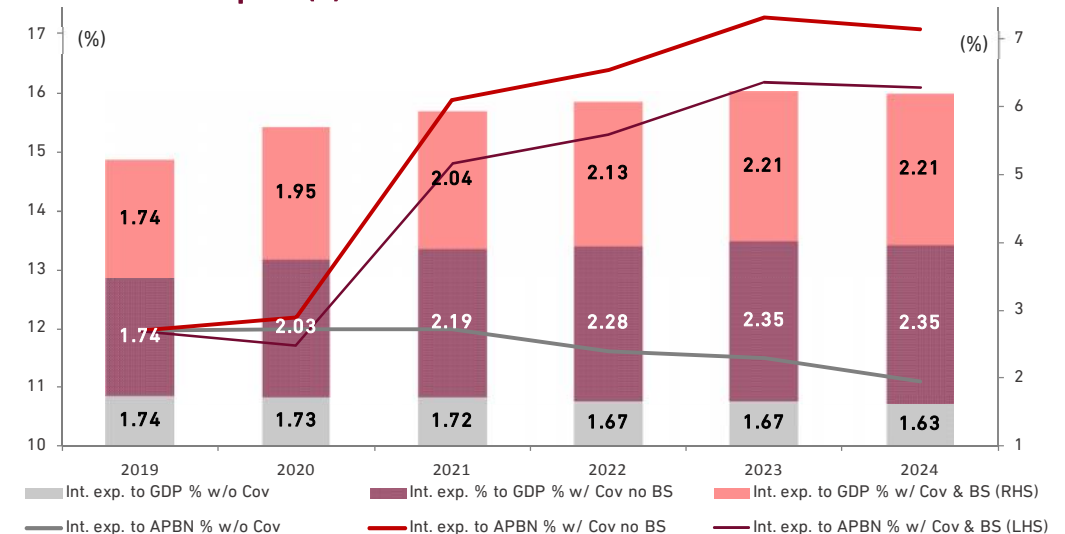
According to Government Regulation (PP) 23/2020 on National Economic Recovery (PEN), the government and BI have agreed to implement burden sharing (BS) scheme on debt worth Rp574.6 tn (USD39.7 bn) for PEN program. The government will bear 4.3%-7.4% less interest expense in State Budget (APBN) until 2021. However, deterioration in debt affordability will emerge afterwards. All in all, we see BI is still on track and do the right for economy.

Exhibit 3: FOMC participants view on future monetary policy



Source: The Fed

Exhibit 4: Interest expense (%) to GDP & APBN under BS scheme forecast



Source: MoF



## Temporary deflation, manageable inflation ahead

The inflation edged down to the lowest in 20 years due to the low demand amid the Covid-19 pandemic where it plunged to 1.4% YoY in Sep-20, followed by three-month consecutive monthly deflations. Households tend to save more to avoid uncertainty in the near future due to the pandemic where food prices and transportation tariffs tumble the most. We expect the low inflation stays longer despite some festivities in 4Q20, the previous muted Ramadan effect may indicate the other muted impact of festivities on inflation subsides. We expect inflation to stay low at 1.7% YoY in 2021 as the improvement of the economic activity and the realization of fiscal stimulus may ease the deflation ahead.

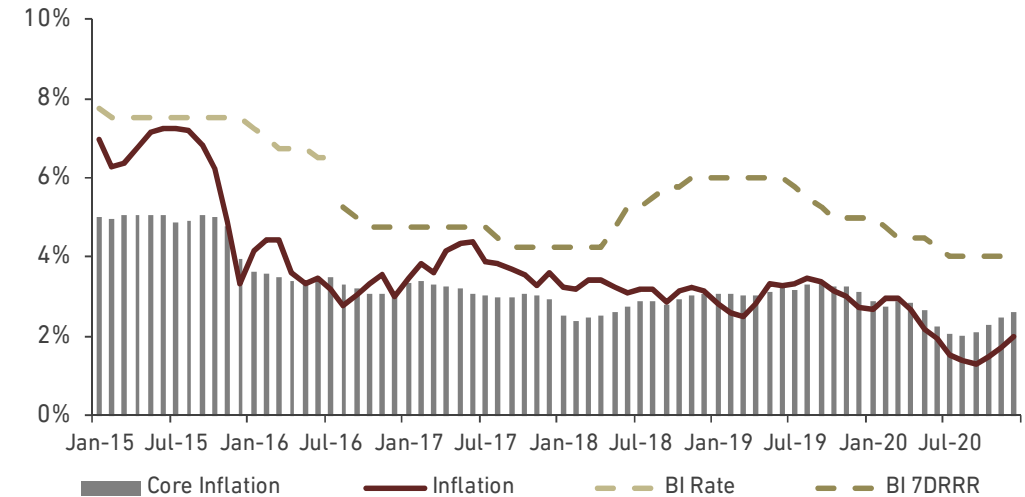
### • Price boosters

Under the unusual inflation, we see the chicken culling program and the end of harvest season for some commodities may escalate price of food basket as both commodities contribute dominantly all this time. Starting Jan-20, Indonesia Consumer Price Index (CPI) calculation changed its methodology to adapt with new consumption pattern. It included ride-hailing tariff and makes voucher/internet related price to be the 5<sup>th</sup> biggest weight in CPI calculation. As everything goes online, internet related price may contribute to inflation. Besides, we see transportation tariffs will soar once more as PSBB loses its effectiveness to halt people mobility over time. Liquidity injection, previously moved in the same pattern, will likely to impact the inflation with lag and increase the inflation eventually. Thus, we remain confidence the price will pick up, even if limited, to 3% YoY in 2021 or within BI's target at  $3 \pm 1\%$  YoY.

### • Right time for debt monetization

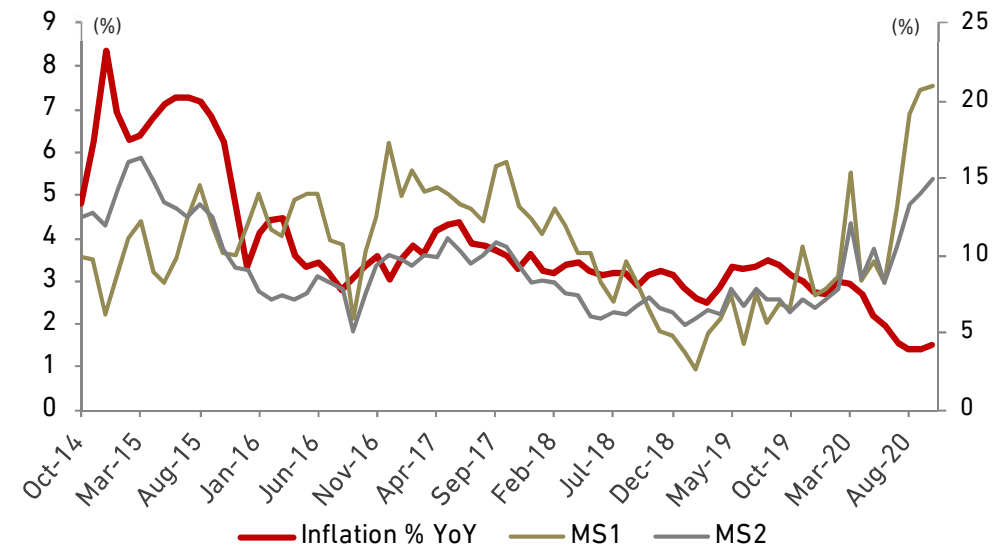
There are some risk occur related to BS scheme which usually materialize within two months lags to inflation. It may trigger inflation to soar and weaken the exchange rate. In addition, BI will hold some risks associated with the more substantial percentage of national debt and issue on its independence. However, we see the policy is implemented at the right time, with low inflation regime alongside with the weak demand that will not get back to the pre-Covid levels in 2021. Yet, we believe this will not be translated into further rate cut. BI has emphasized that it will support the economy via the quantitative channel while maintaining the aggregate price.

**Exhibit 5: Inflation and policy rate estimates**



Source: BI, BPS, Ciptadana estimates

**Exhibit 6: Inflation and money supply growth YoY estimates**



Source: BPS, Ciptadana estimates





## Maintained external resilience

Since late 2011, Indonesia recorded current account deficit (CAD) and it has remained in deficit ever since. In 2Q20, CAD was recorded at USD2.9 bn (1.2% of GDP), lower than the deficit in the previous quarter of USD3.7 bn (1.4% of GDP). The decline in CAD stemmed from a surplus in the goods trade balance due to lower imports as domestic demand weakened. Besides, CAD narrowed due to declining payment of yields to foreign investors after domestic economic growth contracted in 2Q20, as reflected by the decline in performance of companies and investment. However, we see the CAD will go deeper from our estimation at -1.7% of GDP in 2020 to -2.2% of GDP in 2021. CAD prevails as domestic industries are heavily dependent on imports and payments to foreign investors will rise as the economy revives.

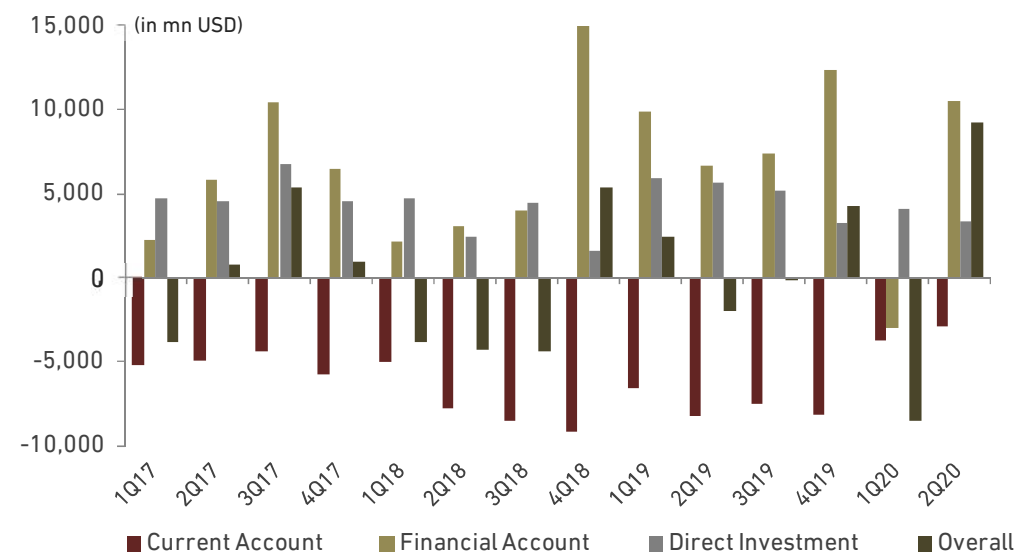
### • Large surplus on BoP, manageable debt

Surplus on balance of payment (BoP) in 2Q20 was the largest BoP surplus under President Joko Widodo's cabinet at USD9.2 bn. Of course, it was mainly made up of inflows of a surge of portfolio investment inflows. It was primarily attributable to the issuance of global bonds by the government and corporate. In 1H20, Indonesia external debt was recorded at Rp5,264 tn (USD354.2 bn) or 32.9% of GDP – under assumption the GDP at Rp15,972 tn (USD 1,074 bn). We see the debt ratio will hover around 40±1% of GDP until YE 2020 as Ministry of Finance (MoF) is planning to raise Rp900.4 tn (USD61.1 bn) from the government bonds issuance in 2H20.

### • Remarkable trade reversal

In Jul-20, Indonesia recorded the second highest surplus at USD3.26 bn from the highest surplus at USD3.57 bn since Aug-11. Lockdowns and the weakening demand for imported goods generate serious trade surplus at USD10.9 bn YtD. We see the surplus remains but smaller to USD0.11 bn in YE 2020. Not for long, as the manufacturers grow stronger in 2021, trade deficit will occur as we expect the import will grow at 3.8% YoY or bigger than the growth of export at 2.4% YoY in YE 2021. Unfortunately, the commodity price downtrend in 2020 deteriorates Indonesia trade performance as commodity is around 60% of our exports. Based on our estimation, we see the performance will get better as the commodity prices hike will be seen in 2021.

Exhibit 7: Balance of payment



Source: BI

Exhibit 8: Commodities price forecast (annual average)

Commodities	Year	World Bank	Bloomberg Consensus	Ciptadana Estimates
CPO (Malaysian Peninsula)	2020	650	2607*	2500*
	2021	668	2571*	2500*
Coal (Australia)	2020	65	62.8	62
	2021	68	66.9	65
Oil (Brent)	2020	35	40.8	43
	2021	42	44.9	48

\*: In MYR

Source: WB, Bloomberg, Ciptadana estimates



## EQUITY MARKET OUTLOOK 2021

### Mild strike on rupiah

Dramatically, rupiah depreciated in Mar-20 amid capital outflows from emerging markets. However, it has since clawed back some of these losses. It was recorded at Rp14,840/USD in the end Sep-20 where it has appreciated by 11.4% from its highest level at Rp16,575/USD in Mar-20. We expect in YE 2020, rupiah will reach Rp14,439/USD in 2020 and appreciate more to Rp14,218/USD in 2021 as the current gauge of market fear is temporary following the more conducive economic condition. Nevertheless, the currency volatility will follow the development of Covid-19 cases in Indonesia.

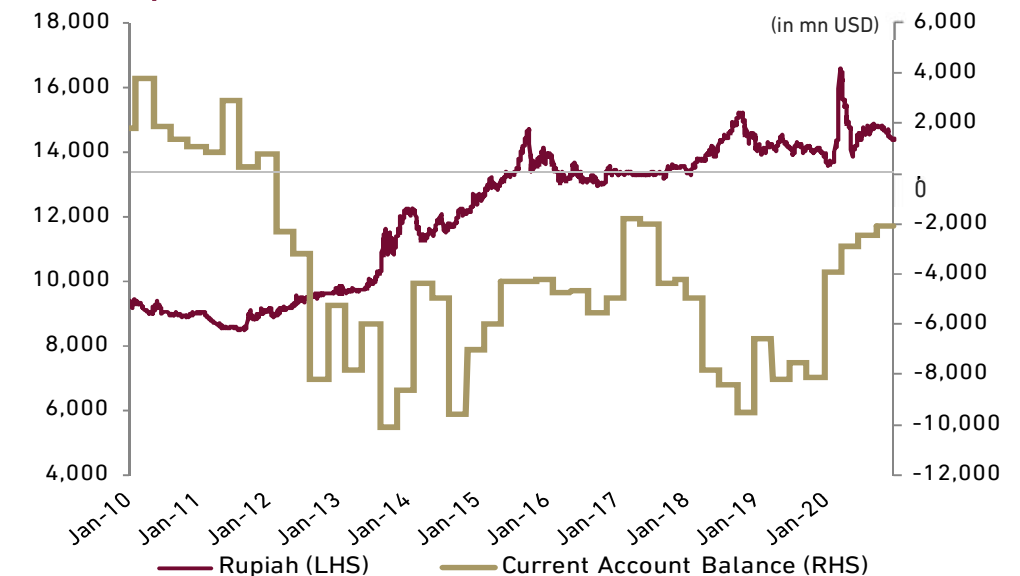
#### • Rupiah to cool down

The rate cut disincentives people to save rupiah on the bank or in other word money supply will increase; makes it loses its value. Thus, we expect BI-7DRRR will stay longer at 4% in order to stabilize the currency. The smaller CAD will keep rupiah from dive down deeper as we expect it will be at -1.7% and -2.2% of GDP in 2020 and 2021 consecutively or smaller than CAD in previous years. Besides, the massive bonds issuance builds up foreign exchange (forex) reserve more. It was a record high, surpassing the previous highest record reserves all of time in Jul-20. In Aug-20 it was at USD137 bn, sufficient to support 9 months of imports and payments of the government's short-term debts.

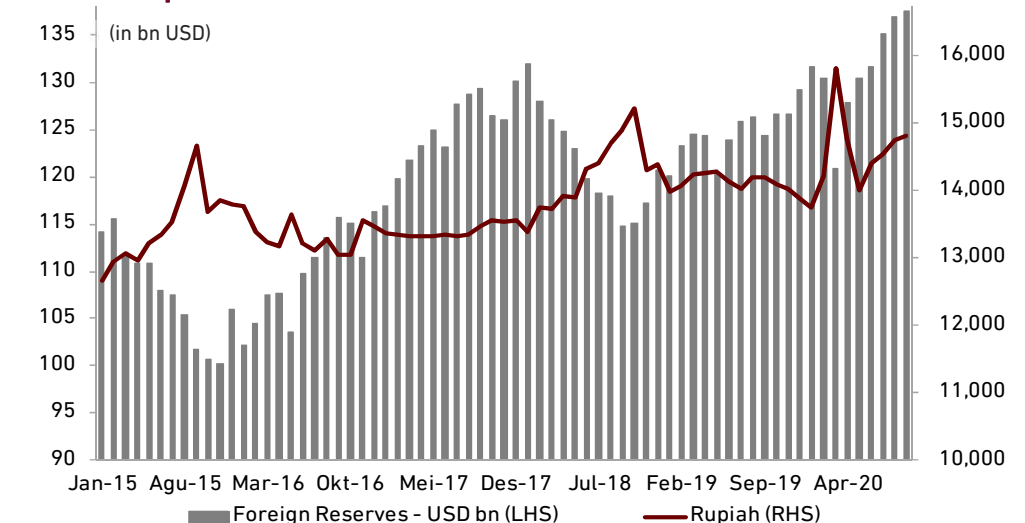
#### • Sentiment plays bigger role on rupiah

Currency imbalances should be expected during periods of high resident (corporate) foreign currency demand, such as in the forthcoming interim dividend repatriation season, which usually happens in Nov-20. We expect FDI inflows will anchor the current account in 2021 although portfolio inflows to local currency bond market stay low until the YE 2020 as foreign investor appetite for government bonds has apparently been held back by concerns over issues especially the rising Covid-19 cases in Indonesia. We remain confident that the vaccine progress in 4Q20 will bring positive sentiment alongside with the Omnibus Law. The obvious preference of the government for the "mini" lockdowns over the stricter lockdowns somehow desist market to fall deeper in short run as well.

**Exhibit 9: Rupiah and current account balance estimates**



**Exhibit 10: Rupiah and forex reserves**





## Battling Covid-19 through fiscal policy

Under the crisis that hit the demand side the most, expansive fiscal policy is a must. In order to do so, the government set a budget deficit at 6.3% of GDP amid plunging tax revenue and a widening state budget deficit. As much as Rp695.2 tn (USD49.6 bn) is allocated for National Economic Recovery (PEN) program 2020 and Rp356.5 tn (USD24.1 bn) for 2021 to cushion the impact of the pandemic. It comprises stimulus for: 1) social protection (2020: Rp242,01 tn & 2021: Rp110.2 tn), 2) MSMEs incentives (2020: Rp128,05 tn & 2021: Rp48.8 tn), 3) healthcare (2020: Rp84,02 tn & 2021: Rp25.4 tn), 4) government agencies (2020: Rp71,54 tn & 2021: Rp136.7 tn) and 5) fiscal incentives for business sector (2020: Rp116.05 tn & 2021: Rp35.3 tn). Realization of the stimulus is daunting as it has only reached 43.8% in 3Q20. Bureaucracy and classic problematic citizen data base are the main obstacles to accelerate the stimulus realization. We are optimistic that the realization can achieve 100% in YE 2020 as the government has the flexibility to allocate the stimulus to the posts that need the most especially the social protection.

### Continued spending in prioritized sectors

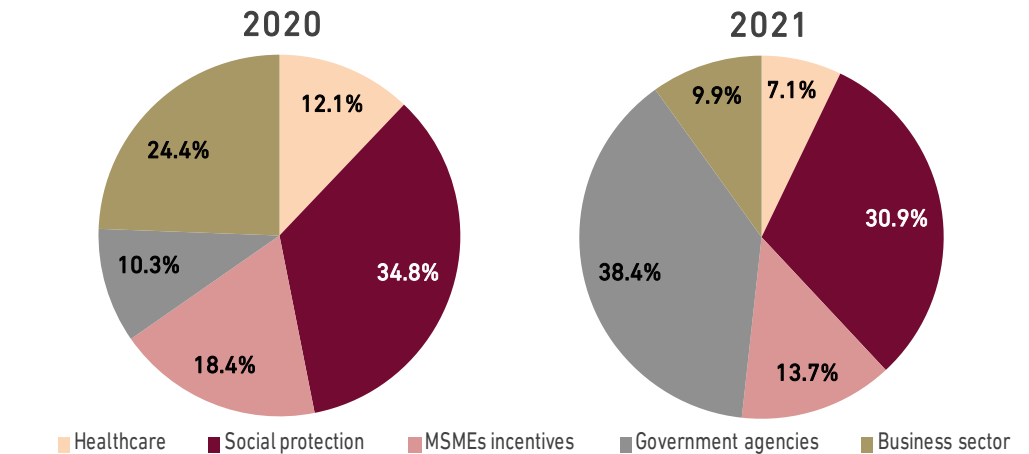
Ministry of Finance (MoF) allocated Rp2,748 tn (USD185.2 bn) in state expenditure to fuel the virus-battered economy next year. The government will continue with spending in priority sectors such as infrastructure (Rp413.8 tn, 47.3% YoY), tourism (Rp15.7 tn, 214% YoY), and new priority: food resiliency (Rp 104.2 tn). Dismally, we see there are more important budgets, pandemic-related, that should be prioritized more, unlike infrastructure and others. The unprecedented fiscal support to mitigate the pandemic will put a huge burden in APBN as MoF has allocated Rp373.2 tn on debt interest payment next year.

### Digging up potential revenue

MoF expects to collect Rp1,776 tn (USD119.6 tn) of state revenue in 2021. MoF will accelerate tax reform, widen tax base and put more goods into excise. Rising pressure on public finances as well as increased demands for fairer burden-sharing urges MoF to innovate in collecting potential revenue from new source such as digital companies that will be charged with 10% of Value Added Tax (VAT), generating Rp10 tn (USD707.5 mn) of potential income. Taxing the digital economy is not an easy matter but the effort to start the taxation on this field is necessary especially amid the tax revenue contraction.

## EQUITY MARKET OUTLOOK 2021

Exhibit 11: Share of stimulus to total PEN allocation in 2020 and 2021



Source: MoF

Exhibit 12: State budget for 2020 and 2021

Revenue/ Expenditure Post	Perpres 72/2020 (Rp tn)	RAPBN 2021 (Rp tn)	Growth (%)
<b>Government Revenue</b>	<b>1,699.9</b>	<b>1,776.4</b>	<b>4.5</b>
Tax income	1,404.5	1,861.8	13.31
Income without tax	294.1	293.5	-0.2
Grant	1.3	0.9	-30.6
<b>Government expenditure</b>	<b>2,739.2</b>	<b>2,747.5</b>	<b>0.3</b>
Central government expenditure	1,975.2	1,951.3	-1.2
Transfer to Regions and Village funds	763.9	796.3	4.2
<b>Budget Surplus/Defisit</b>	<b>-1,039.2</b>	<b>-971.2</b>	<b>-6.5</b>
% GDP	-6.34	-5.50	
<b>Financing</b>	<b>1,039.2</b>	<b>971.2</b>	<b>-6.5</b>

Source: MoF



## Boost the consumption, rekindle the economy

Consumption is precarious amid the pandemic as people tend to save more under the high uncertain period. Household consumption is the main driver of growth as it contributes 54.3% to GDP. Household consumption is predicted to contract by 1.34% YoY 2020 especially related to mobility and outside activity. Current stimulus packages are relatively effective but the challenge is the impossibility for the beneficiaries to be forever helped. We see the government is planning to design the gradual assistance in stages from mere consumptive assistance to productive assistance. Alongside, as the economy recovers, it is predicted to soar at 4.82% YoY in 2021.

### • Mixed impact from fiscal policy

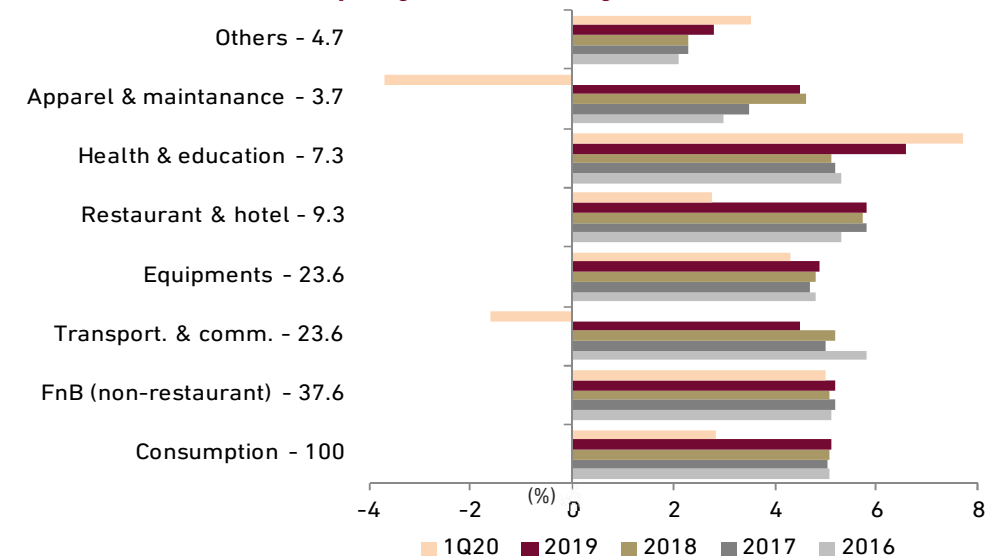
Some demand side stimulus consist of Rp43.6 tn for Sembako Card, Rp37.7 tn for salary subsidy program (Rp2.4 mn/recipient), Rp37.4 tn for Family Hope Program (Rp1.3 mn - Rp2.8 mn/beneficiary), Rp32.4 tn for cash transfer (Rp1.2 mn/family), Rp20 tn for Pre-Employment Card (Rp3.55 mn/recipient), Rp6.9 tn for electricity discount, etc. However, there are several government policies which negatively affect purchasing power, such as 900 VA electricity subsidies elimination (approximately 27 mn of impacted subscribers), slashing solar subsidies from Rp2,000 to Rp1,000/litre, lowering 3-kg LPG subsidies, unresolved Social Security Administration Agency (BPJS Kesehatan) tariff hike, increasing cigarette excise, etc. The upcoming regional elections in 9 provinces and 261 cities/regencies should help the consumption though it will be very limited. Its impact on consumption will be greater if it is suspended until 2021 when Covid-19 cases are already contained better.

### • Focus on the middle

The pandemic showed its significant hit on Indonesian household in the end of 1Q20. It has affected the consumption pattern especially for the low and middle income groups as the increasing trend of their share to total household spending shrank in Mar-20. It is predicted that the open unemployment rate will rise from 5.2% to 7.3-9.0% in 2020 or it can add up to 5.23 mn of new unemployed, increasing the number of middle and low income groups in 2021. Thus, the shifted focus from the poor-vulnerable groups to the middle income groups through the stimulus package is plausible.

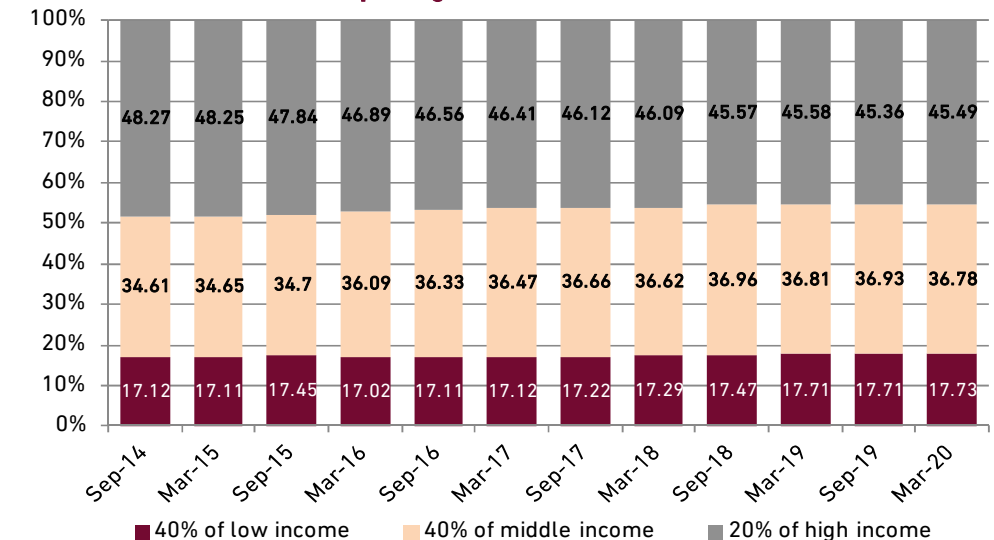
## EQUITY MARKET OUTLOOK 2021

Exhibit 13: Household consumption growth with its weight



Source: CEIC

Exhibit 14: Share of household spending



Source: BPS



## Quadrupling effort to attract investment

Pandemic detrimental effect on investment is inevitable. Surprisingly, investment realization in Indonesia in 1H20 still showed a positive trend where it increased by 1.8% YoY to Rp402.6 tn (USD27.5 bn). For domestic direct investment (DDI), it reached Rp207 tn (51.4%) and foreign direct investment (FDI) reached Rp195.6 tn (48.6%). There were 57,815 investment projects that absorbed 566,194 workers. It reached 49.3% of the 2020 investment target of Rp871.2 tn. The impressive results may not sustain in 2H20 as the pandemic impact seems to take a lag. However, the government has maneuvered to accelerate and attract investment through some efforts such as Investment Coordinating Board (BKPM) consolidation and Omnibus Law.

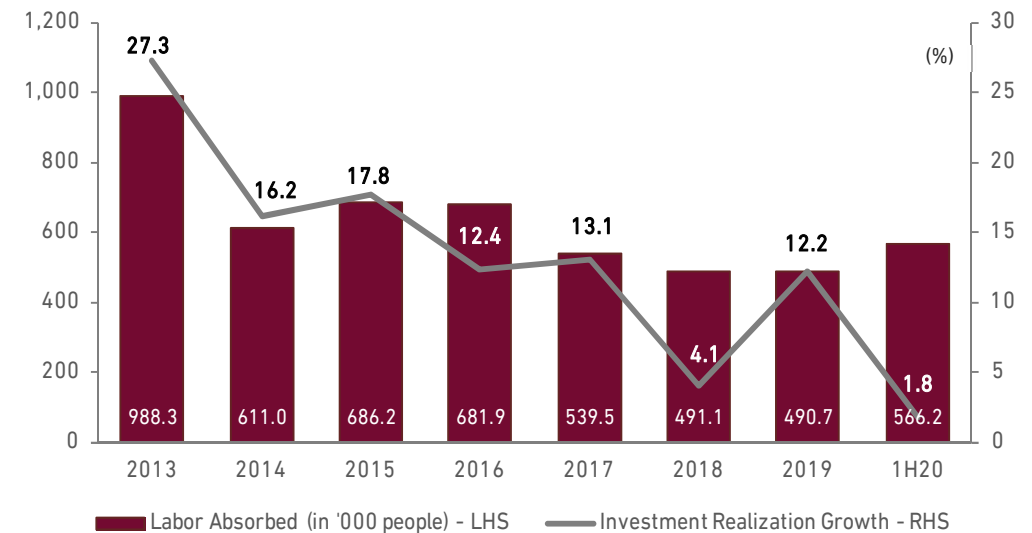
### • BKPM plays bigger role

Now Indonesia Investment Coordinating Board (BKPM) has greater authority such as in attracting and determining the eligibility of companies for the tax allowance. Moreover, BKPM established a special task force to facilitate investors looking to relocate from China. A wave of foreign companies has confirmed to relocate their production facilities to the Indonesia, mostly from China, which is predicted to bring USD850 mn in investments and employ up to Indonesian 30,000 workers. From 119 potential China relocations, there are 17 corporations under process of relocation to Indonesia and it is almost done. We expect more investment relocation to come as Indonesia can capitalize more on a shift in manufacturing away from China after Covid-19 pandemic.

### • Reforms in pipeline

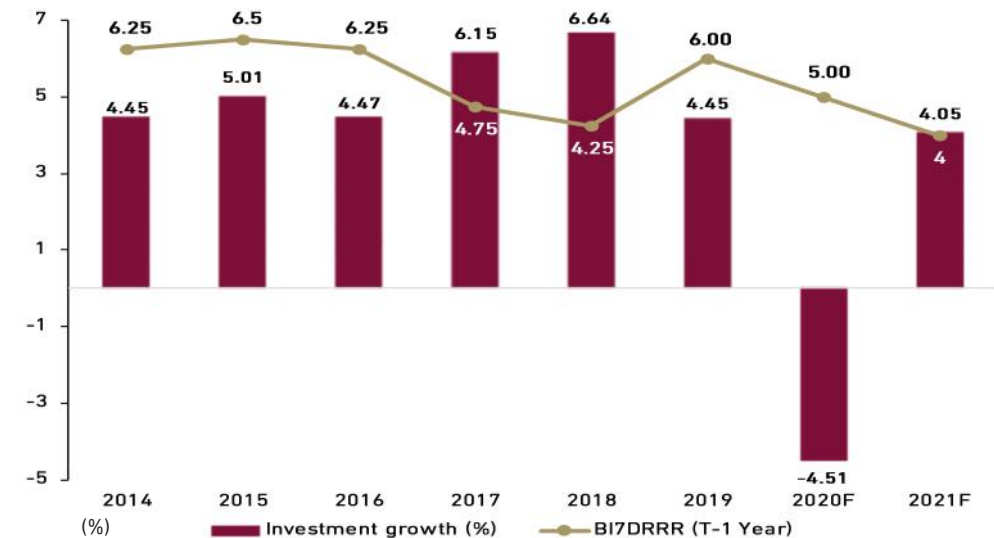
The government strives to remove dozens of overlapping regulations which serve as obstacles to business through Omnibus Law with three main focus: (1) tax law, (2) labor reform and (3) MSME empowerment. The government aims to improve Indonesia's Ease of Doing Business (EoDB) rating from 73 to 60 in 2020 then to 40 in 2023. We believe Omnibus Law alone is not sufficient enough to improve EoDB rank significantly as the top three problems are corruption, bureaucracy and access to finance. However, we see Omnibus Law, accommodative monetary-fiscal policy and the low policy rate will attract investment where we expect the gross fixed capital formation (GFCF) can reverse its contraction at 4.5% YoY in 2020 to rebound at 4.1% YoY in 2021.

**Exhibit 15: Investment realization growth and labor absorbed**



Source: BKPM

**Exhibit 16: Investment growth and BI-7DRRR**



Source: BPS, BI, Ciptadana estimates



## What to expect

The pressure is real but it has been diminishing along the time. The pandemic might bring a kind of shock the world has never experienced before amid the current complexity. However, there are always silver lining in every hardships and we are making some noteworthy progress onwards. Thus, just like the previous global crisis, this too shall pass.

### • Inevitable recession

Given the hardships, we expect Indonesia will experience recession where economic contraction happens in two consecutive quarters, even in 4Q20 we expect the economy will contract. As the result, Indonesia will contract at 1.2% YoY in 2020. Under the assumption that the pandemic start to diminish or the vaccine is effective enough to suppress the fear of Covid-19 in 2021, we expect the GDP will grow at 4.4% YoY.

### • Path of recovery

In 2020, massive government spending is a must. Although it injects lot of money to the economy, low inflation prevails as the demand side weakens. Divergence in recovery among sectors reflects the K-shaped recovery in short run. Policy mix between fiscal and monetary policy will bring the recovery in next year from the low based 2020. However, the condition in 2021 will still below the pre-Covid level with rosy outcome ahead. Hopefully, every efforts taken in 2020 in attracting investment will reap the apparent results in 2022 and afterwards. In 2023, the government will push the budget deficit to below 3% according to Law No.2/2020. As the inflation rises, BI-7DRRR starts to go up. Furthermore, 2024 election year comes alongside with its positive impact for economic growth from higher domestic consumption as the main driver.

**Exhibit 17: Indonesia's Macroeconomic Projection**

Year-end 31-Dec	18A	19A	20F	21F	22F
Nominal GDP (Rp tn)	14,838	15,834	15,646	16,331	17,146
Nominal GDP (USD bn)	1,065	1,131	1,084	1,149	1,209
GDP/capita (USD) - Nominal	3,945	4,193	4,013	4,223	4,413
Real GDP (%YoY)	5.2	5.0	-1.2	4.4	5.0
Private Consumption (%YoY)	5.0	5.0	-1.3	4.8	5.0
Government consumption (%YoY)	4.8	3.3	1.9	3.7	1.4
Gross Fixed Capital Formation (%YoY)	6.7	4.5	-4.5	4.1	5.6
Exports (%YoY)	6.5	-0.9	-6.1	2.4	5.2
Imports (%YoY)	12.0	-7.7	-10.7	3.8	6.1
Inflation rate (%YoY) - year end	3.1	2.7	1.7	3.0	3.4
Core inflation rate (%YoY) - year end	3.0	3.0	1.8	2.4	3.1
BI 7 Days Reverse Repo Rate - year end	6.00	5.00	4.00	4.00	4.00
Rupiah / US Dollar - average	14,246	14,142	14,942	14,457	14,291
Rupiah / US Dollar - year end	14,390	13,866	14,439	14,218	14,177
Current account as % of GDP	-2.9	-2.7	-1.7	-2.2	-1.9
Fiscal balance as % of GDP	-1.8	-2.2	-6.4	-5.6	-4.2

Source: BI, MoF, BPS, Ciptadana estimates

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## EQUITY STRATEGY



# Strategy Overweight

### 2020 in review

- **Perfect storm in March**

In March this year, global equity markets were caught in the perfect storm of outbreak of a new coronavirus, an oil price collapse and an intensified US-China trade war. On 9 March, most global markets reported severe contractions which are colloquially known as Black Monday and JCI dropped 6.6%. Three days after Black Monday there was another drop, where stocks across Europe and US fell more than 9%, the largest single-day percentage drop and then followed by major indices sank across the Asian region triggering trading halts in several markets including Jakarta. The stock market has been in a downward trajectory since the beginning of March when the country announced its first confirmed case of Covid-19, which forced the bourse to implement the circuit breaker in the first place. The JCI hit its lowest point when it plunged to 3,938 on 24-March.

- **Uptrend market trajectory in April-August period**

After market turbulence in March Indonesia stock market have risen steadily from its March low to August high of 5,371(+36%) , driven by i) various forms of stimulus pledged by governments to mitigate the economic fallout from the COVID-19 pandemic, ii) optimism on the coming relaxation of social distancing and gradual economic re-opening iii) potential coronavirus vaccines. This is in tandem with global market trends. Another factor that has helped ignite markets is that so many of them are awash in liquidity mainly supplied by retail investors. We opine that the rally had been mostly domestic investor driven dominated by retailers. According to data from Indonesia Stock Exchange (IDX) and OJK (Indonesia FSA), domestic investors contributed 73.3% of total trading of Rp161 tn in Aug-20, 55% of which is retail investors, and foreign investors made up the 26.7% balance. Based on data from KSEI

(Indonesia Central Securities Depository), retail investors' value of equity holding continued to rise by 10.4% to Rp853 tn in 8M20 which is 31% of total domestic investors holding and 20% of total investors holding (domestic and foreign). Moreover, the number of retail investors in the country had risen to 1.2 mn as of Jun-20, an increase of around 12% from December last year, according to data from KSEI. To sum it up, Indonesia equity market has shown its ability to decouple from the bleak economic data, weak earnings and heavy net foreign selling of USD1.9 bn in Mar-Aug 2020

- **September sell-off but market remains intact**

The JCI dropped by 7.0% in September to 4,870 level, in-line with global markets that were in a sea of red led by the slump in US stocks and profit taking activities . We believe recent market weakness is driven by domestic sentiment such as concern on i) more fiscal support from government , ii) BI's independence , iii) continued rising Covid-19 cases prompting longer strict mobility measures as well as iv) persistent net foreign selling partly due to Indonesia's weighting loss in MSCI EM mainly on increased weight in China weightings. Foreign investors recorded net foreign selling of USD2.91 bn in 9M20 leaving foreign ownership of Indonesia to lowest level of 40%.

On global factor, upcoming US election, less dovish Fed were also contributed to the market anxiety. Historically, September is also not a great month for the markets. The average daily trading value (ADTV) of shares traded on Indonesia bourse (IDX), which touched a peak of Rp8.13 tn in August dropped by 16.9% in September to Rp6.76 tn. However, we believe retail investor that has been dominating daily trading did not flee the market as ADTV in September is relatively equal to average turnover in April to August period of Rp6.84 tn when market staged rally. Therefore, we believe the downtrend is likely temporary and part of market correction and profit-taking after a strong rally.

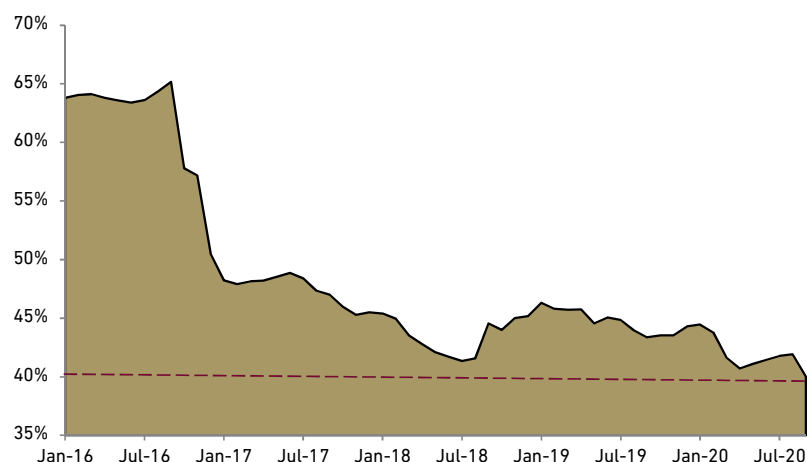


**Exhibit 18: JCI performance in 9M20**



Source: Bloomberg

**Exhibit 19: Foreign ownership of Indonesia equity**



Source: KSEI

## EQUITY MARKET OUTLOOK 2021

### • The top laggards & leaders stocks

The JCI dropped by 1,429 points or 22.6% to 4,970 as at 30 September and among worst performing markets in the region. One of the main reasons for Indonesia did not participate in the global rally is its lack of technology stocks. We looked at various stocks in JCI that have contributed the most to the decline and have seen selling pressure. Among JCI constituents, large-caps bank led the lagging movers include: BBRI (-28.7% YTD ; contributing -134.0 points decrease to JCI) , BBKA (-17.6% ; -127.1 points), BMRI (-32.8% ; -100.2 points). We believe this is due to the expectations that the Covid-19 outbreak will hit banking sectors through weaker economic growth, slower credit growth and dampened profitability. This is followed by TLKM (-32.6% ; -109.9 points) and ASII (-33.5% ; -81.6 points). Among the top leaders pack are TOWR (+34.7% ; 12.2 points), MDKA (+48.9% ; 10.4 points). There were plenty of rallies in several stocks that might have got unnoticed due to their thin trading liquidity such as EMTK, CARE, and SOHO

**Exhibit 20: Top leaders and top laggards in JCI in 9M20**

Ticker	Name	Price	% Chg	Points	Ticker	Name	Price	% Chg	Points
1 TOWR	Sarana Menara Nusantara	1035	34.7%	12.2	1 BBRI	Bank Rakyat Indonesia	3040	-28.7%	-134.0
2 MDKA	Merdeka Copper Gold	1615	48.9%	10.4	2 BBKA	Bank Central Asia	27100	-17.6%	-127.1
3 EMTK	Elang Mahkota Teknologi	7500	33.3%	9.5	3 TLKM	Telekomunikasi Indonesia	2560	-32.6%	-109.9
4 CARE	Metro Healthcare Indonesi	374	263.1%	8.1	4 BMRI	Bank Mandiri	4960	-32.8%	-100.2
5 SOHO	Soho Global Health	8875	387.6%	8.0	5 ASII	Astra International	4460	-33.5%	-81.6
6 KAEF	Kimia Farma	2890	119.8%	7.8	6 HMSP	HM Sampoerna	1400	-30.0%	-62.4
7 SMMA	Sinar Mas Multiartha	16800	8.7%	7.7	7 BRPT	Barito Pacific	790	-47.5%	-58.6
8 MYOR	Mayora Indah	2380	17.7%	7.2	8 BBNI	Bank Negara Indonesia	4440	-42.3%	-53.9
9 UNTR	United Tractors	22800	10.2%	7.0	9 TPIA	Chandra Asri Petrochemical	7200	-30.9%	-51.6
10 INKP	Indah Kiat Pulp & Paper	8975	16.1%	6.1	10 INTG	Indocement	10400	-45.2%	-28.3

Source: Bloomberg

All other sectoral indices ended in the red in 9M20 in the following order : Misc. Industry of -33.0%, Construction / property of -32.4%, Infra/utilities of -30.9%, Basic Industry of -27.5%, Agricultural of -25.4%, Finance -23.2%, Trade & Service of -18.0%, Mining of -14.0% and Consumer goods of -10.9%.



## 2021 : Moving from recession to recovery

### • Gradual recovery seen next year after poor 2020

The global markets look optimistic on the shape of the economic recovery going into 2021 supported by further easing of movement restrictions, boost in fiscal spending, low interest rates and vaccine developments. Based on recent news flow we witness the global race to develop a vaccine with China leading as it has four candidates in the last phase of clinical trials, more than any other country. The U.S. has three vaccine candidates in late-stage trials, with Pfizer saying it could apply for emergency approval in October-November. Russia has announced that it has granted regulatory approval to a Covid-19 vaccine. According to WHO, more than 200 vaccine candidates are being developed and trialled globally. In other words, the plausibility of a Covid-19 vaccine is no longer a matter of if, but when. Working on a base assumption that Indonesia economy will gradually reopen, we believe the worst is somewhat priced-in for Indonesian economy and market despite confidence is still lacking in the speed of the economic recovery. We also expect foreign investors to return to Indonesia as weakened USD and a global hunt for value while we also expect stable Indonesia weighting in the MSCI EM going forward.

### • Corporate earnings to strongly recover off low-base

The aggregate 2020F and 2021F earnings of the JCI constituents under our coverage, representing 68% of the JCI's market cap, are Rp191 tn and Rp250 tn, translating to market EPS of 297 (-26% YoY) and 389 (+31% YoY). The earnings growth in 2021F will be boosted largely by the banking sector with net profit growing by 52% (vs. -29% in 2020F) led by BBRI of 79% (vs. -40% in 2020F), BBKA of 34% (vs. -17% in 2020F) and BMRI of 54% (vs. -30% in 2020F). Other sectors such as heavy equipment, cement, and metals and plantation are also forecast to post double-digit earnings growth. Our 2020F market EPS of 297 returns to 2014 level (296), 2021 EPS of 389 is between 2018 (378) and 2019 (401) levels and we expect our market EPS to exceed pre-Covid level in 2022F at 452.

Exhibit 21: Sectoral earnings

Sector	2019A	2020F	2021F	2022F	Chg YoY			% total
					2020F	2021F	2022F	
Bank	111,058	77,677	119,058	145,780	-29%	52%	22%	40.7%
Consumer staples	19,328	22,723	23,352	24,432	18%	3%	5%	11.9%
Telco	20,945	21,408	21,421	22,889	2%	0%	7%	11.2%
Automotive	21,707	16,416	17,491	19,175	-24%	7%	10%	8.6%
Cigarette	24,602	17,529	16,741	16,571	-29%	-4%	-1%	9.2%
Heavy Equipment	11,312	7,319	9,037	9,897	-35%	23%	10%	3.8%
Coal	11,902	6,215	6,517	5,049	-48%	5%	-23%	3.3%
Poultry	5,552	3,867	5,616	6,806	-30%	45%	21%	2.0%
Property	5,779	993	3,250	3,681	-83%	227%	13%	0.5%
Cement	4,227	3,323	4,096	4,941	-21%	23%	21%	1.7%
Construction	5,328	202	1,858	3,635	-96%	820%	96%	0.1%
Metal	1,337	2,452	2,952	5,279	83%	20%	79%	1.3%
Media	3,303	3,083	3,504	3,730	-7%	14%	6%	1.6%
Plantations	762	1,800	2,766	3,833	136%	54%	39%	0.9%
Tower	3,161	3,685	4,183	4,707	17%	14%	13%	1.9%
Healthcare	2,168	2,655	2,819	3,002	22%	6%	6%	1.4%
Oil and Gas	583	-737	397	1,737	-226%	n/a	338%	-0.4%
Retail	3,340	1,000	2,702	2,963	-70%	170%	10%	0.5%
Toll Road	2,207	528	1,581	2,047	-76%	199%	30%	0.3%
Shipping	305	935	1,151	1,367	207%	23%	19%	0.5%
Toiletries	349	239	259	284	-31%	8%	9%	0.1%
Aviation	100	-2,416	-1,028	-932	n/a	-57%	-9%	-1.3%
<b>Total</b>	<b>259,355</b>	<b>190,896</b>	<b>249,722</b>	<b>290,872</b>	<b>-26%</b>	<b>31%</b>	<b>16%</b>	<b>100.0%</b>

Source: Listed companies and Ciptadana estimates



### • Valuation and index target

JCI valuation is mostly cheaper and more attractive relative to its regional peers. The PER of JCI stood at 2020-21F PER of 16.4-12.5x (31% earnings growth) which is cheaper than ASIA Ex-Japan PER of 19.3-15.8x (22% growth). We are still positive on the market on the basis of potential near-term catalysts such as i) better quarterly earnings in 3Q20 supported by higher earnings from banks on higher NIM and better cost of fund. Banks earnings accounts for 41% of our aggregate earnings of Rp191 tn in 2020F. We also saw volume improvement in car sales, cement and gas volume in 3Q20. ii) Additional stimulus from government including tax relief for automotive sector, 3) finalization of omnibus law, and 4) news about vaccine development. At this juncture, we retain our year-end 2020 JCI target of 5,530 that would mean 13.5% upside over September's close, but 12.2% negative return for the calendar over the December 31, 2019 close of 6,299. We also introduce year-end 2021 JCI index target of 6,425 based on 14.2x forward earning (-1stdev of mean).

**Exhibit 22: JCI forward PER band**



Source: Bloomberg and Ciptadana estimates

### • Stock selection

Our preferred sectors for 2021 are banks, consumers, telecom/tower, toll road operator, metal commodity and tanker operator based on our gradual economic recovery theme coupled with the criteria of earnings growth, valuations, and entry points.

- i. **Banks:** The fate of the banking sector is closely tied to the economic cycle. Just as banks are negatively affected when the economy heads into a downturn, the fortunes of banks are expected to improve in a cyclical recovery as the pressure from credit cost recedes and loan demand picks up. Our top bank stock picks are : BBRI and BMRI
- ii. **Consumer (staples and pharmacy):** While the sector is clearly defensive in nature during recessions, packaged food and pharmaceutical products will continue to benefit from an uptick in demand because of stay-at-home behavior is expected to continue at least until 1H21 and an increased focus on health. The extended stimulus/benefits for household will also help support households disposable income. We like ICBP and KLBF on this theme.
- iii. **Telco/tower operator:** We believe TLKM will be beneficiaries of the Indonesia's use of technology-enhanced infrastructure such as the internet and long-term digitalization trends coupled with its attractive valuation at 4.4x 2021F EV/EBITDA , dividend yield of 6.3% as well as its stock laggard performance this year (-32.6%). We also like TBIG, the telco tower operator which should benefit from robust data demand and competition among telcos.
- iv. **Toll road operator:** We expect toll-road traffic levels should recover quickly as lockdown measures are loosened to support economy recovery. JSMR is our top pick in this sector.



- v. **Commodity:** We believe it is also suitable to add commodities in the recovery phase with MDKA as our top pick. The improvement in global economic activity with - monetary policy remaining accommodative - has led to some gains in industrial (copper) and precious (gold) metals.
- vi. **Tanker operator:** We expect tanker rates to remain strong going into 2021 on global tight supply as tanker orderbook, measured as a percentage of the existing fleet, is currently at a 23-year low of around 8%. We like BULL, tanker operator with extraordinary earnings growth of 107% CAGR seen in 2019-21F.

Sector wise, we are overweight on banks, consumer staples, telco, tower, healthcare, metal, toll-road, shipping, plantation, property, oil & gas and media. We are neutral on cigarette, cement, automotive, heavy equipment, construction, retail, coal and poultry. We assign an underweight rating on aviation.

### Our top picks

Bberg		Mkt.Cap	Last	Target	Upside	PER		EV/EBITDA*		ROE	Yield
Ticker	Rating	(Rptn)	Price	Price	pot.(%)	2019F	2020F	2019F	2020F	21F (%)	21F (%)
BBRI	Buy	374.9	3,040	4,125	35.7	18.4	10.3	1.8	1.6	16.2	2.7
BMRI	Buy	236.8	5,075	7,000	37.9	11.9	8.1	1.2	1.0	13.7	3.3
ICBP	BUY	117.5	10,075	12,050	19.6	17.8	17.6	10.7	10.7	19.1	2.2
KLBF	Buy	72.6	1,550	1,770	14.2	27.6	26.2	18.3	17.3	14.9	1.9
TLKM	Buy	275.4	2,780	4,000	43.9	13.5	13.0	4.6	4.4	19.7	6.3
TBIG	Buy	28.4	1,315	1,800	36.9	27.1	21.5	11.6	10.9	23.0	3.3
JSMR	Buy	23.6	3,250	4,700	44.6	53.7	18.0	13.2	10.7	7.5	0.8
MDKA	Buy	33.5	1,615	2,800	73.4	32.8	23.5	15.9	10.7	14.9	0.0
BULL	Buy	3.4	302	480	58.9	3.9	3.1	4.3	3.5	20.1	0.0
<b>Tot/Avg</b>	<b>OW</b>	<b>1,166.1</b>				<b>23.0</b>	<b>15.7</b>	<b>9.1</b>	<b>7.9</b>	<b>16.6</b>	<b>2.3</b>

\*PBV for banks

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## BANKING SECTOR



# Banking Overweight

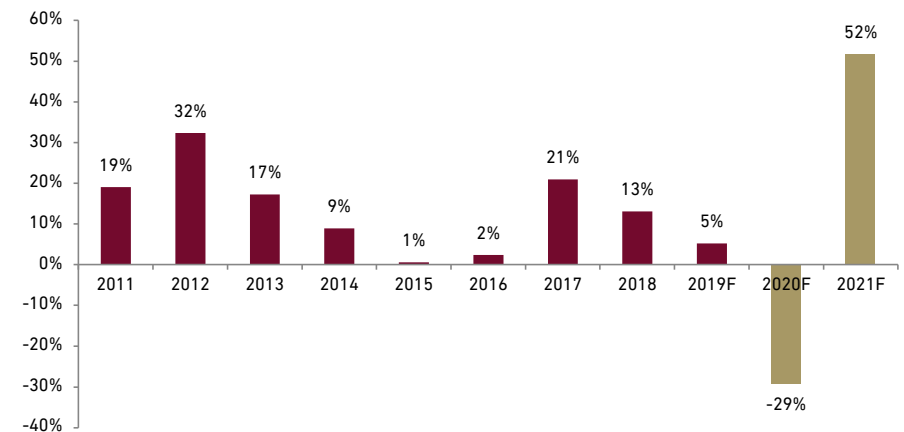
## Sector Outlook

- Severely hit in 2020 , but all metrics to improve in 2021**

Banking sector performance is largely derived from the overall economy, given that they have loan exposures on every sector. It is not surprising that banking industry has been hit severely by Covid-19 pandemic in 2020 with loan growth touching the lowest level in more than a decade (1.04% YoY in Aug-20), NIMs were significantly lower due to delay in loan payment, and asset quality quite worsening as most of the loan segment faced greater failure risk. Bottom line in the banking system is expected to drop by at least 30% in 2020F in our view, as banks under our coverage which is dominated by big and more defensive banks are forecast to post around 29% decline in its bottom line. We see the hit has been fully priced-in in the market, with consensus expecting 38% earnings drop for the big four banks in 2020F.

For 2021F, we see the pandemic would still bring some impacts. Some of loan portfolio would still need some restructuring scheme in our view, weighing down the NIM to come back to the pre-Covid level. Some of the restructured would also fail to be maintained as performing loan and fell under NPLs. Despite the remaining impact from 2020F, we believe both of NIM and CoC metrics should fare better in 2021F compared to 2020F, and it should enough to drive total earnings to grow by 52% and back to the 2019 level. Business is expected to gradually back to normal, hence loan demand should also pick-up. Other earnings driver such opex efficiency would also stay in place considering the new normal habit. Overall we see earnings would rebound in 2021F with almost all substantial metrics shows improvement.

**Exhibit 24: Earnings growth for banks under our coverage**



Source : Companies and Ciptadana Sekuritas Asia

- Loan growth has bottomed in 3Q20**

Loan growth deceleration mainly came from working capital loan and consumer, while investment loan has become the main support of loan growth. Working capital loan decelerates as many of debtors limit their operation hence less utilization of the loan facilities from banks. While on the consumer segments, deceleration came in all sub segments, i.e. mortgage, auto, and credit card due to subdued demand. We believe the bottom of loan growth should have been seen in 3Q20 as we foresee the economy to continue to recover gradually. This is despite some setback from re-enactment of PSBB in Jakarta in Sep-20.

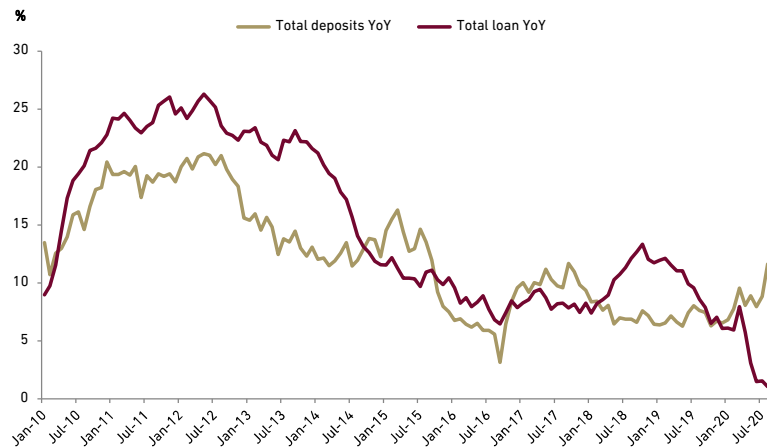
We also believe the transmission of monetary expansion to take impact by early next year. Consumer loan segment, in our view, especially in certain segment such as mortgage and auto, should be sensitive to rates and should see a pick up after the banks transmitted the lower interest rate into the lending rates. We believe BBKA would be the main beneficiaries on this better consumer growth next year considering its dominant market share along with abundant liquidity in the bank's book. Other segment



## EQUITY MARKET OUTLOOK 2021

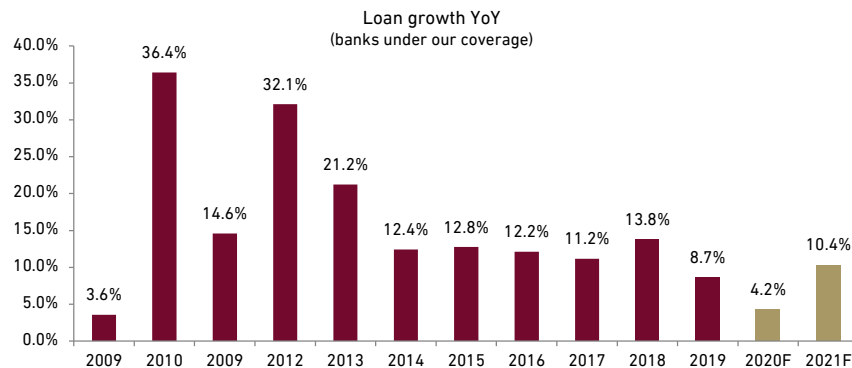
(micro, medium, and corporate banking) would have a better loan growth once the business confidence regained, which we expect in late 2Q20. We see loan growth for banks under our coverage will slightly rebound to 4% YoY by 2020F (from 3% as of 8M20) for banks under our coverage, and further recovered to 10% YoY by 2021F.

**Exhibit 15: Loan growth vs deposit growth in the system**



Source : OJK and Ciptadana Sekuritas Asia

**Exhibit 26: Aggregate banks' loan growth**



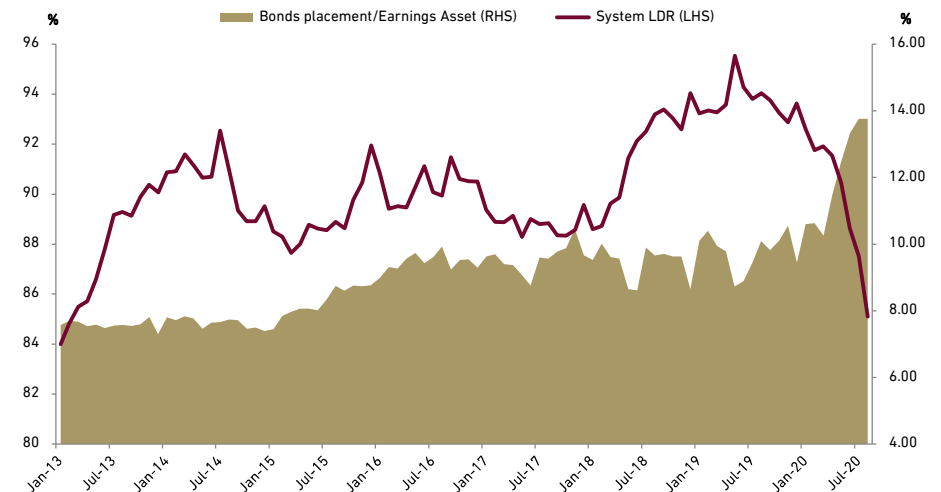
Source : Companies and Ciptadana Sekuritas Asia

### • The era of abundant liquidity

The period of subdued loan growth has resulted in an era of abundant liquidity. LDR tracked much lower to touch the lowest level in the last eight years. But those excess of liquidity was mostly enjoyed by big banks as the deposit growth only grabbed by those banks with good funding franchise. This is showing a flight-to-safety trend where customers' deposit shifted to bigger and safer banks in the middle of pandemic. Aside the big four banks, mid-scale banks with relatively better funding franchise such as BBTN and BNGA also enjoyed the pickup in deposit growth and >1000bps Ytd reduction in LDR.

Banks currently place their excess liquidity on the financial instruments as long as it still provided positive margin. The ownership of bonds by commercial banks has increased by 53% YoY as of Jul-20 to achieve 14% of earnings asset, with placement by BUKU IV bank category increasing the most at 80% YoY as of Jul-20.

**Exhibit 27: Banking system LDR vs. placement in bonds**

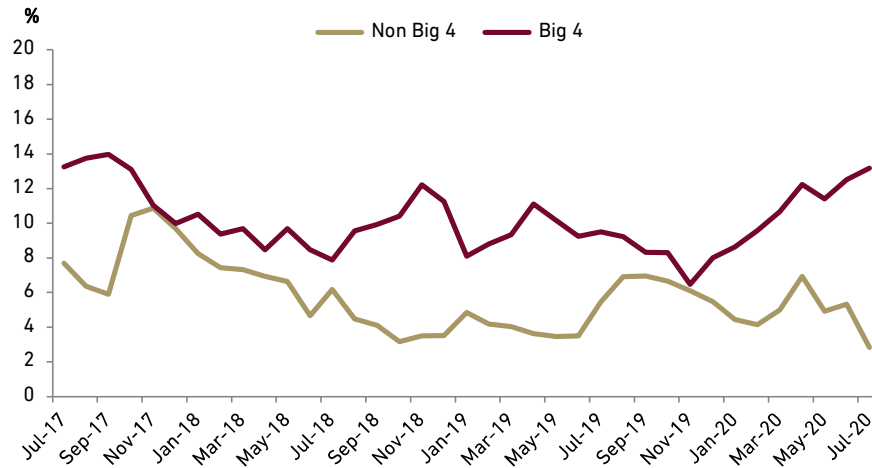


Source : OJK and Ciptadana Sekuritas Asia



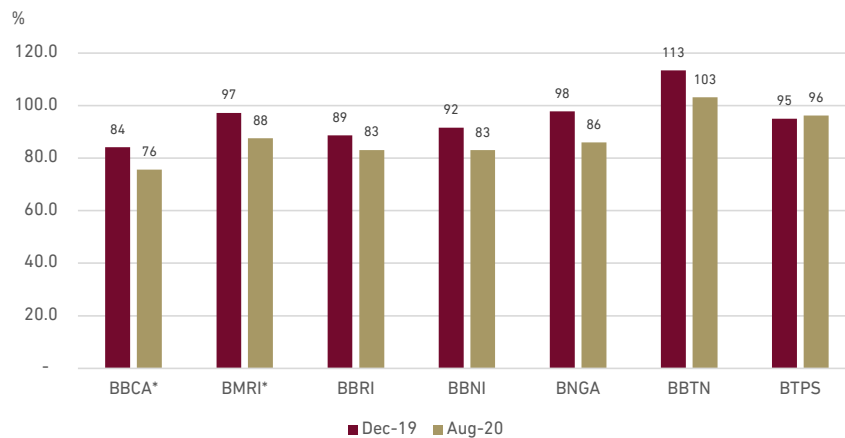
## EQUITY MARKET OUTLOOK 2021

**Exhibit 28: Deposit growth in big four vs. non-big four banks**



Source : OJK and Ciptadana Sekuritas Asia

**Exhibit 29: Banks' LDR as of 12M19 vs. 8M20 (bank only)**

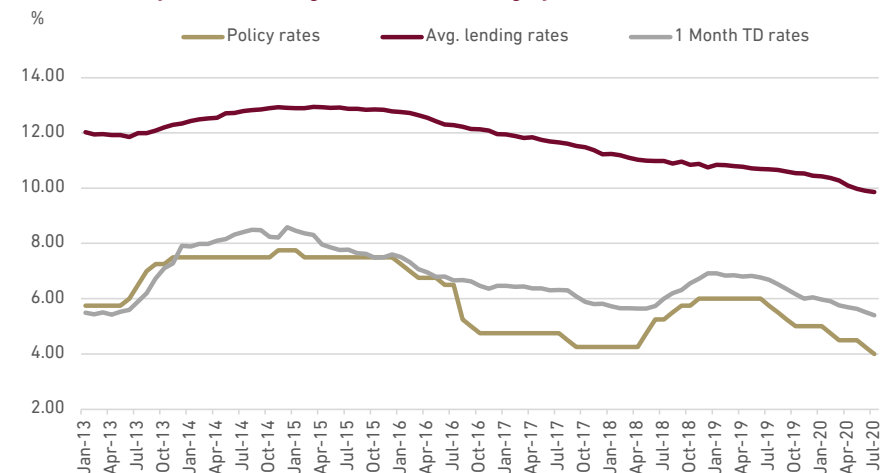


Source : Companies and Ciptadana Sekuritas Asia  
\*) as of Dec-19 and Jul-20

### • Excess liquidity as catalyst for cheaper cost of fund

We see the excess of liquidity should help the big and mid-scale banks to further reduce CoF, which has come faster than our expectation in the last two months. We see the TD rates in all the big banks has come down by ~100 bps in the period of Aug-Sep with board rate in the four banks stood uniformly at 3.5%. We think this would trigger smaller banks to also reduce the rates. Moreover, the SOE banks would also enjoy some additional liquidity in 4Q20 coming from the National Economic Recovery (PEN) program phase 2, which amounted at Rp17.5tn (total placement is Rp47.5tn in phase 1-2). This funding placement came with lower CoF at 2.8% (vs. 3.4% in the previous placement).

**Exhibit 30: Policy rates, lending rates, and banking system 1-month TD rate**



Source : OJK, BI and Ciptadana Sekuritas Asia

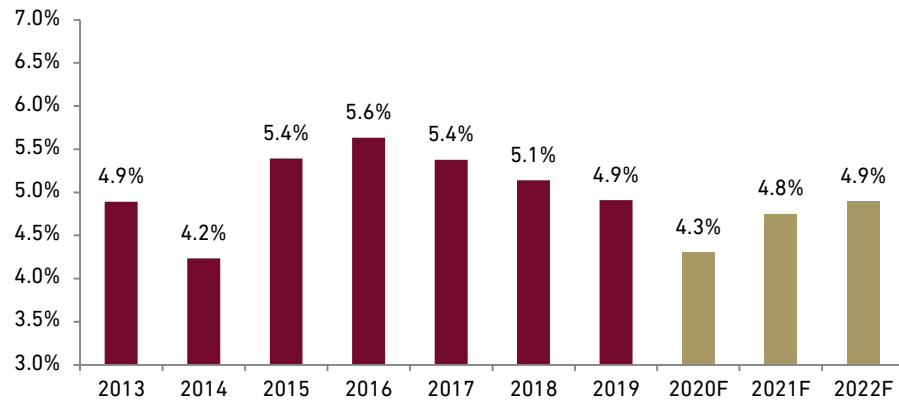
### • NIM rebound in short term but track lower in the longer term

We see support from cheaper CoF and excess of liquidity would only help banks in the short term, as loan yield was structurally track lower in the long term due to subdued loan demand and balance the cheaper CoF. We project NIM to start rebound in 4Q20, and continue until 2021F. Although the impact of cheaper CoF and abundant liquidity should still linger next year, but we project that NIM post-normalized economic in 2021F to still



arrive at lower level than pre-Covid as we expect some remaining restructured loan to be extended beyond 1Q21 coupled with a lower loan yield environment overall.

**Exhibit 31: Banking NIM estimates for banks under our coverage**



Source : OJK, Companies and Ciptadana Sekuritas Asia

#### • Slowing new restructuring trend

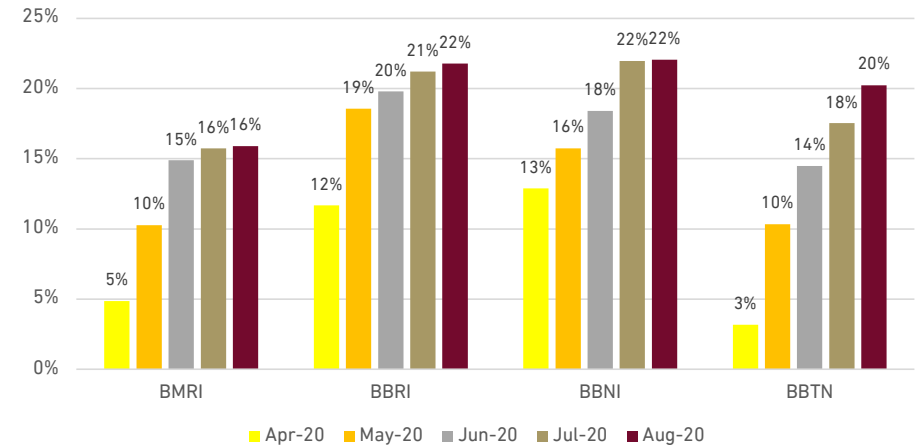
We have compiled the restructured loan data up until Aug-20, which shows slowing trend in new restructuring. The big wave of restructuring loan came mostly in the month of Apr-May 2020 (some until June). As of Jul-20 onwards, the addition in new restructuring is quite marginal. Going forward, potential addition in restructured could still come from corporate segment in our view, as this segment took a longer period on its cash cycle along with longer processing time when it comes into restructuring. The retail segment such as micro and consumer, such as BTPS and BBRI, should have finished the restructuring cycle faster.

Our current expectation is that 10-15% of the restructured loan would fall into downgrades, with around one-third could be downgraded into NPLs. We also didn't see the re-enactment of PSBB scheme in Jakarta on Sep-20 to impact in another big wave in restructuring trend. We see the scheme is quite limited to certain sectors (i.e restaurant, retail, transportation) with

## EQUITY MARKET OUTLOOK 2021

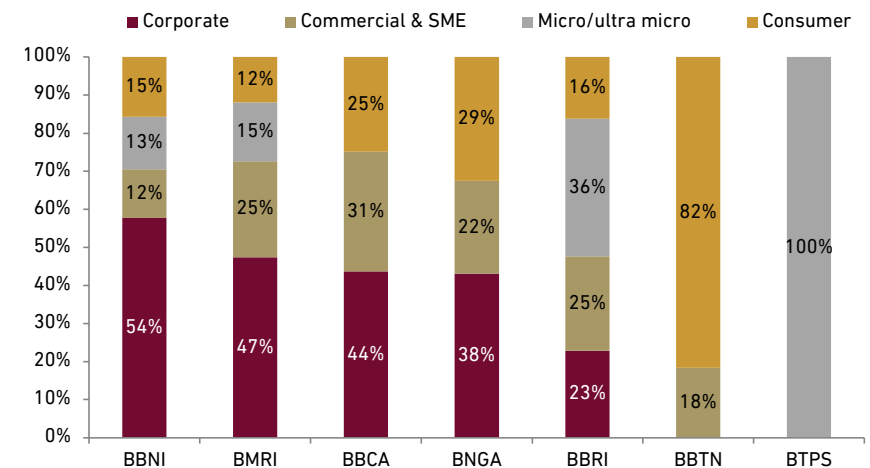
adjustment in loan scheme and customers' operational has already been in place.

**Exhibit 32: Restructuring progress on SOE banks (as % of total loans)**



Source : Companies and Ciptadana Sekuritas Asia

**Exhibit 33: Banks' loan mix as of 1H20**



Source : Companies and Ciptadana Sekuritas Asia



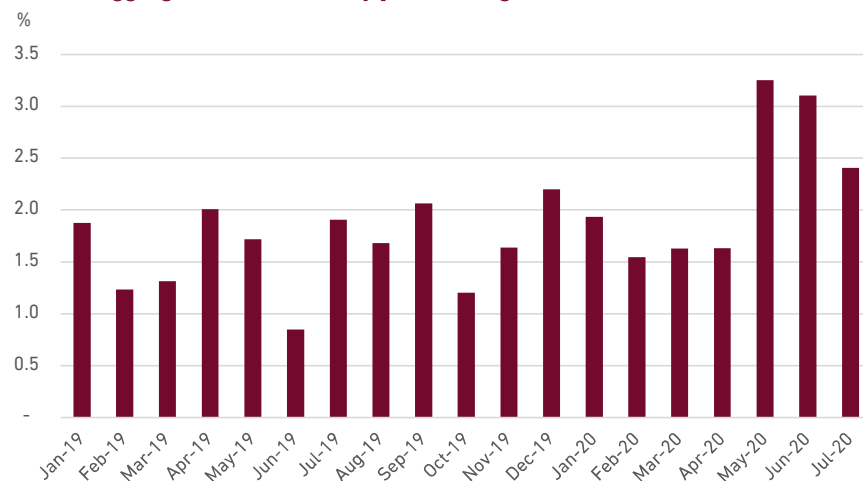
## EQUITY MARKET OUTLOOK 2021

- **Cost of credit is the crucial determinant should situation fare worse**

Given that earnings has been severely hit on NIM pressure, contribution from non-interest income is still somewhat minor, and cost efficiency already at the optimum level, Cost of Credit (CoC) would be the next crucial earnings driver. CoC is expected to peak in 2020F given that restructured loan book has been mostly in place. Banks has calculated its loan loss measurements based on the restructured loan book, with loss criteria remains being conservative despite the asset quality relaxation from OJK. Given the slowing new restructured trend, we believe 2Q-4Q20 would be the peak for provisioning.

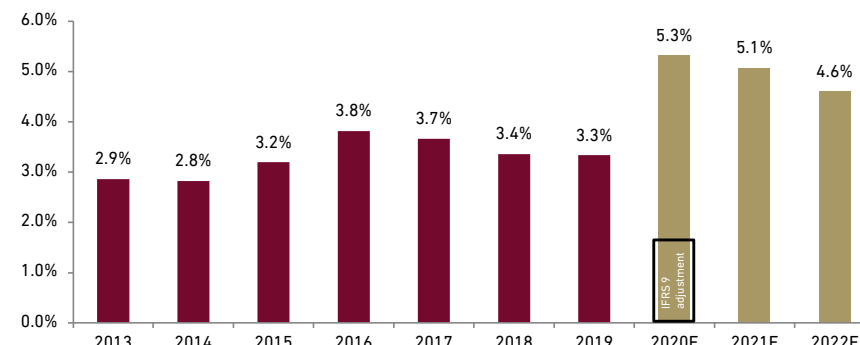
As the result, we see the loan loss coverage for aggregate banks has dramatically jumped in 2020F. Significant addition to loan loss also contributed from the IFRS 9 adjustment in the beginning year. In total, we see this level of coverage should be sufficient to cover the potential NPLs in 2021F when pandemic expected to end. However substantial risk remains should the impact of pandemic fall longer than our expectation or the impact of pandemic go more severe than expected.

**Exhibit 34: Aggregate banks' monthly provisioning**



Source : Companies and Ciptadana Sekuritas Asia

**Exhibit 35: Aggregate banks' loan loss-to-total loan**



Source : Companies and Ciptadana Sekuritas Asia

- **Cost efficiency to continue in 2021**

Pandemic also accelerated some new initiatives on cost efficiencies in banking sector, for example on automation and reduced-physical absence of employee, which has enabled them to push down opex to low single digit growth for the first time in 2020F. We think this is already the optimum level that the bank could achieve. We expect a slightly higher opex growth at high single digit for 2021F, as we expect the efficiencies to continue but coupled with some shifting from the delayed capex from 2020F to 2021F.

- **Riding the economic upcycle: Maintain overweight on banking sector**

We maintain our Overweight stance on banking sector with BMRI and BBRI as our top picks. Our thesis remains that recovery in earnings will take place in 2021 lead by better loan growth, a recovery in NIM, and normalizing credit cost following a downtrend in loan restructuring. The stability of the banking system during covid-19 pandemic is also not a concern given the solid balance sheet and capital (capital ratio and tier-1 capital ratio stood at 21/19% as of Jul-20, respectively), coupled with continued support from the government considering the banking system's pivotal role in economy.

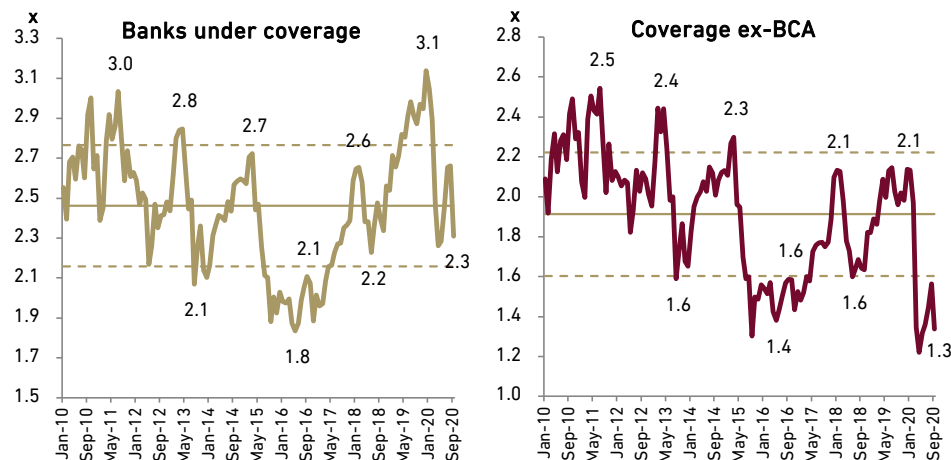




## EQUITY MARKET OUTLOOK 2021

Valuations for the Indonesia banking sector are still compelling in our view, especially in the times of economic upcycle next year. Banks under our coverage currently trade at 2.3x forward PBV, below its historical average of 2.5x. While excluding BBKA, our coverage is trading at 1.3x forward PBV or -2stddev, at the lowest of their historical trading range.

**Exhibit 36: Forward PBV**

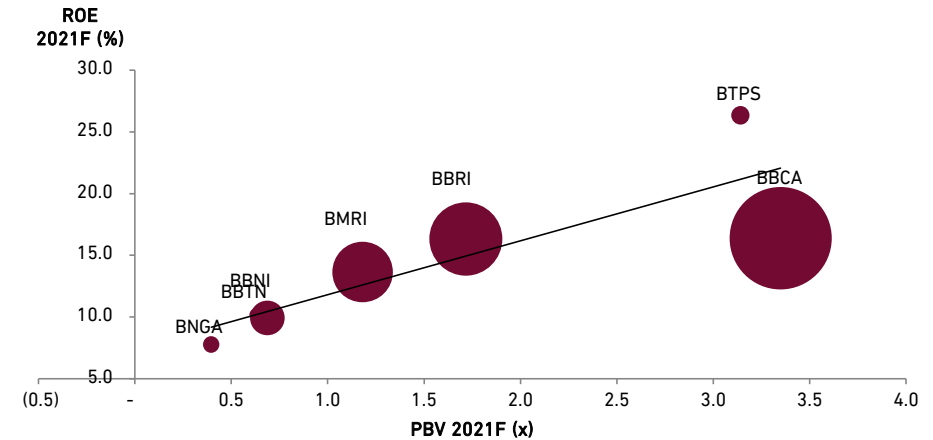


Source : Companies, Bloomberg and Ciptadana Sekuritas Asia

Our banking stock mapping shows that, within the big banks universe, BBRI and BMRI both have relatively compelling valuation considering its ROE profile in 2021F. Among the smaller banks, BTPS also have a relatively attractive valuation. However we think we would stick into the big banks for next year as we riding on the economic recovery while at the same time still facing the risk from longer-than-expected impact of pandemic.

Key risks for banking sector would come from a more severe economic impact from the re-tightening of PSBB or longer-than-expected pandemic impact. This could merge into a new wave of restructured loan and affecting cost of credit along with NIM negatively. Another risk is also the steeper-than-expected rise in LDR while economic resumes, as not all the liquidity came from stable source like saving deposits.

**Exhibit 37: Banking stocks mapping**



Source : Bloomberg and Ciptadana Sekuritas Asia

**Exhibit 38: Banking stocks rating and valuation**

Bberg Ticker	Rating	Mkt.Cap (Rp tn)	Last Price	Target Price	Upside pot.(%)	PER		PBV		ROE 21F (%)	Yield 21F (%)
						2020F	2021F	2020F	2021F		
<b>BBKA</b>	Buy	765	27,525	33,700	22.4	27.8	22.3	3.7	3.3	16.4	1.2
<b>BBRI</b>	Buy	390	3,040	4,125	35.7	15.5	11.2	1.9	1.7	16.3	2.7
<b>BMRI</b>	Buy	269	5,075	7,000	37.9	13.5	9.6	1.2	1.2	13.7	3.3
<b>BBNI</b>	Buy	88	4,510	5,850	29.7	12.3	7.0	0.7	0.7	9.9	2.7
<b>BBTN</b>	Buy	14	1,195	1,450	21.3	12.1	6.4	0.7	0.6	10.2	1.8
<b>BNGA</b>	Buy	20	715	1,075	50.3	6.3	5.1	0.4	0.4	7.8	4.4
<b>BTPS</b>	Hold	25	3,110	3,425	10.1	25.1	13.3	4.0	3.2	26.3	1.0
<b>Sector</b>	<b>OW</b>	1,572				21.0	16.0	2.6	2.3	15.5	2.0

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# Bank Central Asia

**BUY**

**TP: 33,700 (+22.4%)**

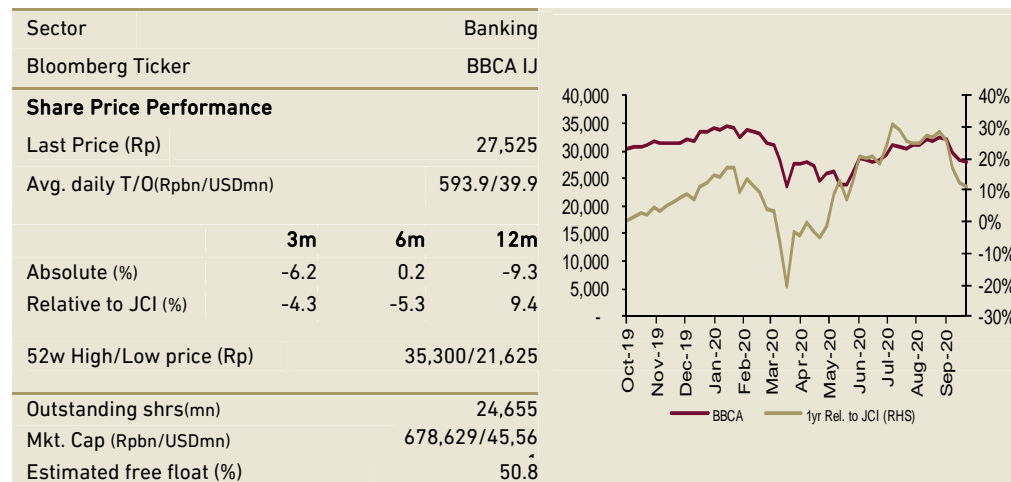
## Company Profile

Bank Central Asia (BBCA) has been known for its transactional franchise, which has made them the largest private bank in Indonesia. BBCA has expanded their platform of 1,246 branches, 23.6k ATMs, and >500k EDCs nationwide. The bank processed about Rp19k tn worth of transaction (ATM, internet, and mobile banking) annually, far larger than other big four banks at less than Rp2-4k tn. BBCA is partly controlled by the Djarum Group.

## Key Points

- **Remain the best in class even during pandemic.** Given its competitive advantage in the form of low cost of fund, BBCA has been able to offer attractive lending rates to blue-chip customers and maintain superior asset quality over time. In the middle of pandemic, we see that the hit on earnings is limited as NII growth is maintained and CoC relatively stable. Aside from stable NII, BBCA is also the bank with highest contribution from fee income (>20% of total revenue vs. peers at mid-high teens), which also add some stability in earnings.
- **Main beneficiary of higher saving rate trends.** Banking system has enjoyed more liquidity from the higher saving rate during pandemic, and BBCA as the main transaction bank is the main beneficiary as they dominate the nation's transaction. We see the float came from this trend should be more stable in nature, hence should give BBCA more liquidity when economy entering the expansion mode again. Currently BBCA places the excess liquidity on other earnings asset such as marketable securities and government and still gain a relatively good margin on it.
- **We maintain our Buy recommendation** on BBCA with Rp33,700/share target price. BBCA has recorded the most defensive numbers among its banking peers during this pandemic cycle. Our TP is based on 4.0x 2021F PBV while BBCA currently trades at 3.3x 2021F PBV.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Net Interest Income(Rpbn)	45,291	50,477	50,150	57,837	64,614
Net Profit (Rpbn)	25,855	28,565	23,734	31,827	36,607
EPS(Rp)	1,048.7	1,158.6	963.0	1,291.3	1,485.3
EPS growth (%)	10.9	10.5	-16.9	34.1	15.0
BVPS (Rp)	6,153.1	7,061.6	7,418.9	8,350.7	9,482.5
PER (x)	26.3	23.8	28.6	21.4	18.6
PBV (x)	4.5	3.9	3.7	3.3	2.9
ROA (%)	3.3	3.3	2.5	3.1	3.3
ROE (%)	18.3	17.5	13.3	16.4	16.7
Dividend Yield (%)	0.9	1.2	1.4	1.2	1.6

## Assumptions

	2018A	2019A	2020F	2021F	2022F
Loan growth	15.1	9.1	2.5	11.3	11.0
Loan to deposit ratio (%)	84.7	83.3	80.5	83.1	85.7
Net interest margin (%)	6.7	6.8	6.2	6.7	6.8
Non-performing loan (%)	1.4	1.4	2.1	2.4	2.1

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## Bank Central Asia

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Interest income	56,767	63,838	64,319	72,601	80,018
Interest expenses	-11,476	-13,360	-14,170	-14,764	-15,404
<b>Net interest income</b>	<b>45,291</b>	<b>50,477</b>	<b>50,150</b>	<b>57,837</b>	<b>64,614</b>
Other non-interest income	17,744	21,145	23,186	23,655	26,197
<b>Total operating income</b>	<b>63,034</b>	<b>71,623</b>	<b>73,336</b>	<b>81,492</b>	<b>90,812</b>
Operating expenses	-27,652	-30,742	-33,542	-36,597	-40,089
PPoP	35,383	40,880	39,794	44,895	50,723
Prov. expenses and others	-2,677	-4,591	-10,119	-5,104	-4,955
<b>Operating profit</b>	<b>32,706</b>	<b>36,289</b>	<b>29,675</b>	<b>39,792</b>	<b>45,768</b>
Non-operating income (exp.)	0	0	0	0	0
<b>Pre-tax profit</b>	<b>32,706</b>	<b>36,289</b>	<b>29,675</b>	<b>39,792</b>	<b>45,768</b>
Income tax	-6,854	-7,719	-5,935	-7,958	-9,154
Minority interest	3	-5	-6	-7	-7
<b>Net profit</b>	<b>25,855</b>	<b>28,565</b>	<b>23,734</b>	<b>31,827</b>	<b>36,607</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash	21,691	25,421	25,421	25,421	25,421
Current acct. with BI	43,548	47,905	59,340	63,952	68,921
Interbank placement	40,181	41,470	41,470	41,470	41,470
Mkt, securities	65,820	96,510	126,936	132,804	138,966
Govt. bonds	58,315	61,959	61,959	61,959	61,959
<b>Loans</b>	<b>524,530</b>	<b>572,034</b>	<b>579,805</b>	<b>646,880</b>	<b>720,069</b>
Fixed assets	19,337	20,852	21,478	22,122	22,786
Other assets	38,753	36,657	36,657	36,657	36,657
<b>Total asset</b>	<b>824,788</b>	<b>918,989</b>	<b>971,675</b>	<b>1,052,666</b>	<b>1,140,858</b>
Deposits from customer	635,029	704,791	747,565	805,207	867,320
Borrowings	3,070	4,293	5,397	5,781	3,965
Other liabilities	28,441	29,041	29,041	29,041	29,041
<b>Total liabilities</b>	<b>673,035</b>	<b>744,846</b>	<b>788,724</b>	<b>846,750</b>	<b>907,047</b>
<b>Shareholder equity</b>	<b>151,659</b>	<b>174,043</b>	<b>182,851</b>	<b>205,816</b>	<b>233,711</b>
Minority interest	94	100	100	100	100
<b>Total liab + SHE</b>	<b>824,788</b>	<b>918,989</b>	<b>971,675</b>	<b>1,052,666</b>	<b>1,140,858</b>

## EQUITY MARKET OUTLOOK 2021

### Per Share Data

(Rp)	2018A	2019A	2020F	2021F	2022F
EPS	1,048.7	1,158.6	963.0	1,291.3	1,485.3
BVPS	6,153.1	7,061.6	7,418.9	8,350.7	9,482.5
DPS	255.1	335.7	382.5	327.4	452.0

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
<b>Ratios</b>					
ROA (%)	3.3	3.3	2.5	3.1	3.3
ROE (%)	18.3	17.5	13.3	16.4	16.7
Net interest margin (%)	6.7	6.8	6.2	6.7	6.8
Yield on earnings asset (%)	8.5	8.6	8.0	8.4	8.5
Average cost of fund (%)	1.9	2.0	1.9	1.9	1.8
Cost to income ratio (%)	43.9	42.9	45.7	44.9	44.1
Cost of Credit (%)	0.4	0.6	1.3	0.6	0.5
Non-performing loan (%)	1.4	1.4	2.1	2.4	2.1
Coverage ratio (%)	178.7	185.3	170.2	142.5	145.5
Loan to deposit ratio (%)	84.7	83.3	80.5	83.1	85.7
CASA ratio (%)	76.1	75.3	77.1	77.1	78.8
Equity to asset (%)	18.4	18.9	18.8	19.6	20.5
Capital adequacy ratio (%)	23.4	23.8	24.6	24.0	24.8
Tier-1 CAR	22.4	22.8	23.2	22.7	23.5
PER (x)	26.3	23.8	28.6	21.4	18.6
PBV (x)	4.5	3.9	3.7	3.3	2.9
Dividend yield (%)	0.9	1.2	1.4	1.2	1.6
<b>Growth (%)</b>					
Total assets growth	9.9	11.4	5.7	8.3	8.4
Loan growth	15.1	9.1	2.5	11.3	11.0
Deposit growth	8.4	11.0	6.1	7.7	7.7
NPL growth	9.3	5.9	58.0	24.4	1.0
SHE growth	15.5	14.8	5.1	12.6	13.6
Net interest income growth	8.3	11.5	-0.6	15.3	11.7
Non-interest income growth	17.1	19.2	9.7	2.0	10.7
Provision expense growth	1.7	71.5	120.4	-49.6	-2.9
Net profit growth	10.9	10.5	-16.9	34.1	15.0



# Bank Rakyat Indonesia

**BUY**

**TP: 4,125 (+36.5%)**

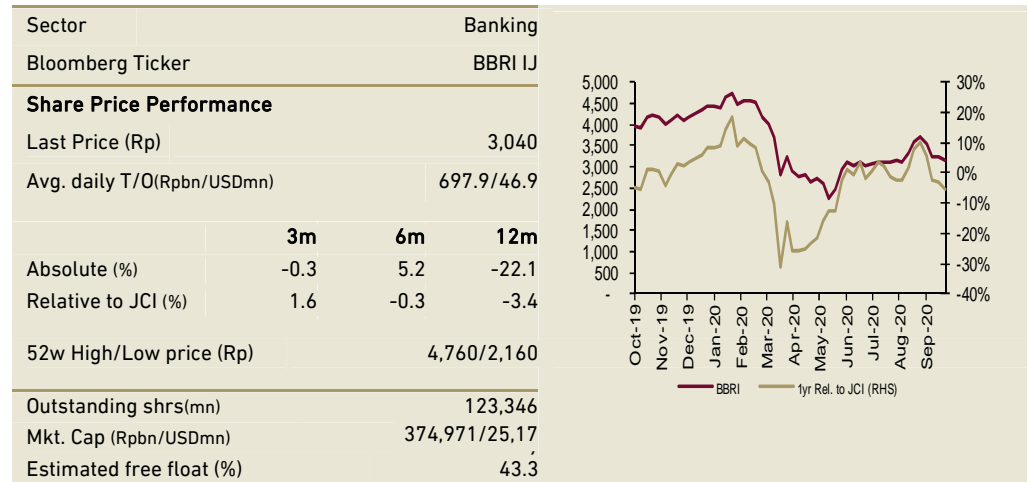
## Company Profile

Bank Rakyat Indonesia (BBRI) is the largest bank in Indonesia as well as the most dominant micro loan lender. The bank has the most extensive and largest network across every area of Indonesia with its 10.6k outlets, 19k ATMs and more than >400k branchless banking agents. BBRI has both non-subsidized micro (Kupedes) and subsidized micro (KUR) as its loan growth driver. Micro lending is the main profit driver for BBRI, accounting for nearly 50% of consolidated revenue.

## Key Points

- **Heavily hit by pandemic but faster to recover.** BBRI experienced the highest restructured loan trend during pandemic due to its highly impacted micro business. However, their new restructuring trend is also slowing quite fast after PSBB lifted. We see this is as evidence that the micro business would be the fastest to recover, especially supported by the government stimuli.
- **Highly conservative in providing provision in the past few years.** BBRI has set aside the thickest CoC in 2017-2019 period among the big four, continued with conservative provision adjustment in IFRS 9 adjustment. Hence the rise of CoC is not as dramatic as other banks post-pandemic. Despite a relatively slower CoC uptick in 2020F, we projected BBRI would still have the highest coverage ratio (loan provision/NPL) in 2020F at 194%.
- **We maintain BBRI as our top pick among the big four banks.** We like BBRI due to its solid fundamental supported by its lower credit risk micro and business normalization next year. We maintain our Buy recommendation with target price at Rp4,125/share. BBRI currently trades at 1.6x 2021F PBV. Our target price implies 2.1x 2021F PBV.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Net Interest Income (Rpbn)	77,666	81,707	75,660	95,712	104,061
Net Profit (Rpbn)	32,351	34,373	20,707	37,012	47,398
EPS (Rp)	262.3	278.7	167.9	300.1	384.3
EPS growth (%)	11.6	6.2	-39.8	78.7	28.1
BVPS (Rp)	1,483.4	1,672.7	1,725.5	1,983.2	2,223.6
PER (x)	11.8	11.1	18.4	10.3	8.0
PBV (x)	2.1	1.8	1.8	1.6	1.4
ROA (%)	2.7	2.5	1.4	2.4	2.8
ROE (%)	18.5	17.7	9.9	16.2	18.3
Dividend Yield (%)	3.4	4.2	5.4	2.7	4.9

## Assumptions

	2018A	2019A	2020F	2021F	2022F
Loan growth	14.2	7.7	6.1	11.1	11.3
Loan to deposit ratio (%)	86.3	85.9	84.6	84.8	85.9
Net interest margin (%)	7.5	7.1	6.1	7.2	7.1
Non-performing loan (%)	2.2	2.8	3.4	3.3	3.0

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## Bank Rakyat Indonesia

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Interest income	111,583	121,756	116,936	141,565	154,884
Interest expenses	-33,917	-40,049	-41,276	-45,853	-50,823
<b>Net interest income</b>	<b>77,666</b>	<b>81,707</b>	<b>75,660</b>	<b>95,712</b>	<b>104,061</b>
Other non-interest income	24,371	29,450	32,067	37,511	41,615
<b>Total operating income</b>	<b>102,037</b>	<b>111,157</b>	<b>107,726</b>	<b>133,223</b>	<b>145,676</b>
Operating expenses	-41,990	-44,966	-48,959	-53,709	-58,863
PPoP	60,047	66,192	58,767	79,514	86,813
Prov. expenses and others	-18,321	-22,760	-32,045	-31,792	-25,713
<b>Operating profit</b>	<b>41,726</b>	<b>43,432</b>	<b>26,723</b>	<b>47,722</b>	<b>61,100</b>
Non-operating income (exp.)	28	-68	0	0	0
<b>Pre-tax profit</b>	<b>41,754</b>	<b>43,364</b>	<b>26,723</b>	<b>47,722</b>	<b>61,100</b>
Income tax	-9,335	-8,950	-5,975	-10,670	-13,661
Minority interest	-67	-41	-41	-41	-41
<b>Net profit</b>	<b>32,351</b>	<b>34,373</b>	<b>20,707</b>	<b>37,012</b>	<b>47,398</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash	27,422	30,219	31,908	35,374	38,911
Current acct. with BI	71,159	71,416	83,868	92,832	101,981
Interbank placement	99,695	127,092	139,802	153,782	169,160
Mkt. securities	193,681	218,422	227,653	237,345	247,521
Govt. bonds	1,505	1,130	1,130	1,130	1,130
<b>Loans</b>	<b>779,627</b>	<b>839,067</b>	<b>869,675</b>	<b>965,298</b>	<b>1,080,279</b>
Fixed assets	26,915	31,433	36,148	41,570	47,805
Other assets	77,213	72,957	73,686	74,423	75,168
<b>Total asset</b>	<b>1,296,898</b>	<b>1,416,759</b>	<b>1,490,428</b>	<b>1,630,968</b>	<b>1,794,091</b>
Deposits from customer	944,269	1,021,197	1,100,265	1,219,794	1,341,773
Borrowings	110,501	120,911	108,999	98,222	109,722
Other liabilities	47,723	47,897	47,897	47,897	47,897
<b>Total liabilities</b>	<b>1,111,623</b>	<b>1,207,975</b>	<b>1,275,131</b>	<b>1,383,883</b>	<b>1,517,363</b>
<b>Shareholder equity</b>	<b>182,968</b>	<b>206,323</b>	<b>212,836</b>	<b>244,625</b>	<b>274,268</b>
Minority interest	2,308	2,461	2,461	2,461	2,461
<b>Total liab + SHE</b>	<b>1,296,898</b>	<b>1,416,759</b>	<b>1,490,428</b>	<b>1,630,968</b>	<b>1,794,091</b>

## EQUITY MARKET OUTLOOK 2021

### Per Share Data

(Rp)	2018A	2019A	2020F	2021F	2022F
EPS	262.3	278.7	167.9	300.1	384.3
BVPS	1,483.4	1,672.7	1,725.5	1,983.2	2,223.6
DPS	105.7	131.1	167.2	83.9	150.0

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
<b>Ratios</b>					
ROA (%)	2.7	2.5	1.4	2.4	2.8
ROE (%)	18.5	17.7	9.9	16.2	18.3
Net interest margin (%)	7.5	7.1	6.1	7.2	7.1
Yield on earnings asset (%)	10.8	10.6	9.4	10.7	10.6
Average cost of fund (%)	3.4	3.6	3.5	3.6	3.6
Cost to income ratio (%)	41.2	40.5	45.4	40.3	40.4
Cost of Credit (%)	1.8	2.0	2.6	2.4	1.8
Non-performing loan (%)	2.2	2.8	3.4	3.3	3.0
Coverage ratio (%)	197.5	156.2	196.4	202.2	210.9
Loan to deposit ratio (%)	86.3	85.9	84.6	84.8	85.9
CASA ratio (%)	60.1	57.7	56.8	56.4	56.4
Equity to asset (%)	14.1	14.6	14.3	15.0	15.3
Capital adequacy ratio (%)	21.2	22.2	20.0	21.1	21.4
Tier-1 CAR	20.1	21.2	19.0	0.0	0.0
PER (x)	11.8	11.1	18.4	10.3	8.0
PBV (x)	2.1	1.8	1.8	1.6	1.4
Dividend yield (%)	3.4	4.2	5.4	2.7	4.9
<b>Growth (%)</b>					
Total assets growth	15.0	9.2	5.2	9.4	10.0
Loan growth	14.2	7.7	6.1	11.1	11.3
Deposit growth	12.2	8.1	7.7	10.9	10.0
NPL growth	16.7	39.0	27.8	9.7	-1.2
SHE growth	9.4	12.8	3.2	14.9	12.1
Net interest income growth	6.4	5.2	-7.4	26.5	8.7
Non-interest income growth	24.0	20.8	8.9	17.0	10.9
Provision expense growth	6.2	24.2	40.8	-0.8	-19.1
Net profit growth	11.6	6.2	-39.8	78.7	28.1



# Bank Mandiri

**BUY**

**TP: 7,000 (+37.9%)**

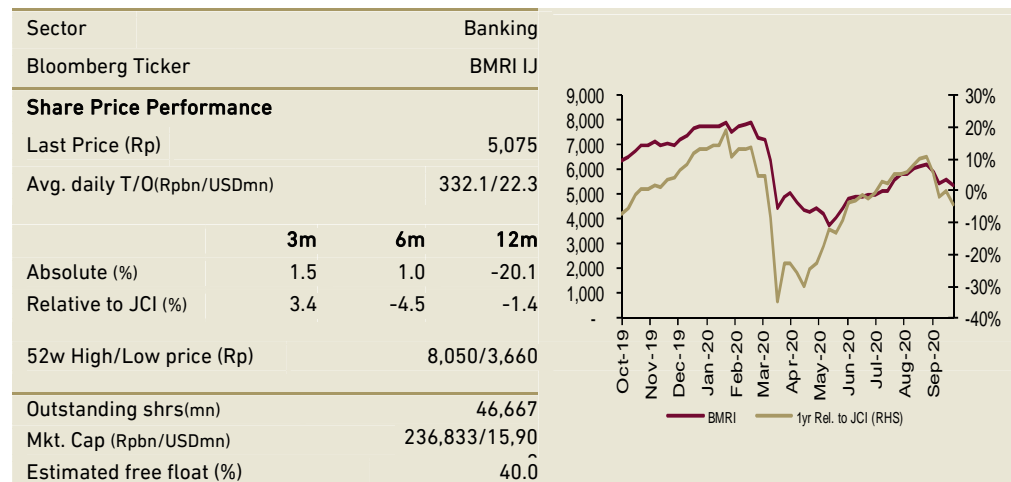
## Company Profile

Bank Mandiri (BMRI) is the second largest bank in Indonesia in term of total assets. The bank was formed in 1998 and the result of the merger of four government-owned banks as part of bank restructuring program. Bank Mandiri is majority-owned by government of Indonesia and has the most diversified loan exposure among its peers, with loan mix come from corporate (47%), middle (19%), MSME (22%), and consumer (12%) loan segment.

## Key Points

- **Enjoying better credit cost trajectory in the next several years.** BMRI should enjoy periods with lower credit cost trend in our view, as the result of their multi years strategy to shift the loan mix to a less risky loan portfolio in 2016-2019.
- **The bank which focuses on corporate and retail segment.** We see BMRI would maintain their focus on the lower risk corporate along with high yield retail segment (consist of consumer and payroll).
- **More resilient NIM despite loan moratorium.** As the largest bank and one of SOE banks in Indonesia, BMRI enjoy from the higher saving rate trend along with support from government in terms of funding placement. This resulted in excess liquidity and we see that BMRI is one of the most aggressive banks to reduce their TD rates in 2H20. We see this could give some NIM resilience to face the lower loan yield environment due to lower benchmark rates and loan moratorium.
- **Maintained as our top Buy with Rp7,000/share target price.** We believe ROE would be trending up to 13.7-14% in 2021/22F. The share currently trades at 1.0x 2021F PBV. Our target price implies 1.4x of 2021F PBV. We would also wait for the appointment of new CEO in next EGMS in Oct-20 to further assess the bank strategy and main focus going forward.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Net Interest Income(Rpbn)	54,623	59,440	57,857	65,722	72,072
Net Profit (Rpbn)	25,015	27,482	20,115	29,751	34,509
EPS(Rp)	536.0	588.9	431.0	637.5	739.5
EPS growth (%)	21.2	9.9	-26.8	47.9	16.0
BVPS (Rp)	3,882.9	4,384.2	4,350.4	4,969.6	5,614.1
PER (x)	9.6	8.7	11.9	8.1	7.0
PBV (x)	1.3	1.2	1.2	1.0	0.9
ROA (%)	2.2	2.2	1.5	2.1	2.2
ROE (%)	14.4	14.2	9.9	13.7	14.0
Dividend Yield (%)	3.9	4.7	4.6	3.3	5.0

## Assumptions

	2018A	2019A	2020F	2021F	2022F
Loan growth	12.3	10.8	6.1	9.8	12.5
Loan to deposit ratio (%)	95.1	94.9	94.3	92.7	93.4
Net interest margin (%)	5.6	5.6	5.1	5.4	5.3
Non-performing loan (%)	2.8	2.4	3.5	3.3	2.8

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## Bank Mandiri

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Interest income	80,993	91,525	85,047	95,059	104,317
Interest expenses	-26,370	-32,085	-27,190	-29,337	-32,245
<b>Net interest income</b>	<b>54,623</b>	<b>59,440</b>	<b>57,857</b>	<b>65,722</b>	<b>72,072</b>
Other non-interest income	31,035	29,160	32,070	35,390	39,325
<b>Total operating income</b>	<b>85,657</b>	<b>88,600</b>	<b>89,926</b>	<b>101,112</b>	<b>111,398</b>
Operating expenses	-37,566	-40,076	-40,196	-43,814	-47,319
PPoP	48,091	48,524	49,730	57,298	64,079
Prov. expenses and others	-14,185	-12,072	-22,463	-17,392	-17,720
<b>Operating profit</b>	<b>33,906</b>	<b>36,452</b>	<b>27,267</b>	<b>39,906</b>	<b>46,358</b>
Non-operating income (exp.)	38	-10	-10	-10	-10
<b>Pre-tax profit</b>	<b>33,943</b>	<b>36,442</b>	<b>27,257</b>	<b>39,896</b>	<b>46,348</b>
Income tax	-8,091	-7,986	-5,973	-8,743	-10,157
Minority interest	-837	-974	-1,168	-1,402	-1,682
<b>Net profit</b>	<b>25,015</b>	<b>27,482</b>	<b>20,115</b>	<b>29,751</b>	<b>34,509</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash	27,349	28,094	28,094	28,094	28,094
Current acct. with BI	59,853	57,563	61,522	68,673	76,655
Interbank placement	37,346	39,108	39,108	39,108	39,108
Mkt. securities	65,934	69,403	69,403	69,403	69,403
Govt. bonds	114,285	131,587	144,746	159,220	175,142
<b>Loans</b>	<b>767,761</b>	<b>855,484</b>	<b>885,205</b>	<b>980,459</b>	<b>1,111,317</b>
Fixed assets	38,443	42,827	43,684	44,557	45,449
Other assets	71,136	75,614	83,176	91,493	100,642
<b>Total asset</b>	<b>1,202,252</b>	<b>1,318,246</b>	<b>1,377,216</b>	<b>1,507,741</b>	<b>1,677,891</b>
Deposits from customer	840,914	933,125	997,310	1,113,216	1,242,616
Borrowings	88,040	90,755	87,117	72,840	83,517
Other liabilities	71,410	71,491	71,491	71,491	71,491
<b>Total liabilities</b>	<b>1,017,292</b>	<b>1,109,214</b>	<b>1,169,762</b>	<b>1,271,390</b>	<b>1,411,467</b>
<b>Shareholder equity</b>	<b>181,203</b>	<b>204,599</b>	<b>203,021</b>	<b>231,917</b>	<b>261,990</b>
Minority interest	3,758	4,434	4,434	4,434	4,434
<b>Total liab + SHE</b>	<b>1,202,252</b>	<b>1,318,246</b>	<b>1,377,216</b>	<b>1,507,741</b>	<b>1,677,891</b>

## EQUITY MARKET OUTLOOK 2021

### Per Share Data

(Rp)	2018A	2019A	2020F	2021F	2022F
EPS	536.0	588.9	431.0	637.5	739.5
BVPS	3,882.9	4,384.2	4,350.4	4,969.6	5,614.1
DPS	199.0	241.2	235.6	172.4	255.0

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
<b>Ratios</b>					
ROA (%)	2.2	2.2	1.5	2.1	2.2
ROE (%)	14.4	14.2	9.9	13.7	14.0
Net interest margin (%)	5.6	5.6	5.1	5.4	5.3
Yield on earnings asset (%)	8.3	8.6	7.5	7.8	7.7
Average cost of fund (%)	2.9	3.2	2.5	2.6	2.5
Cost to income ratio (%)	43.9	45.2	44.7	43.3	42.5
Cost of Credit (%)	1.5	1.1	2.0	1.4	1.3
Non-performing loan (%)	2.8	2.4	3.5	3.3	2.8
Coverage ratio (%)	142.5	145.8	166.8	151.7	153.5
Loan to deposit ratio (%)	95.1	94.9	94.3	92.7	93.4
CASA ratio (%)	64.1	65.3	65.9	65.8	65.7
Equity to asset (%)	15.1	15.5	14.7	15.4	15.6
Capital adequacy ratio (%)	21.0	21.4	20.0	20.6	20.5
Tier-1 CAR	19.8	20.3	18.7	19.3	19.2
PER (x)	9.6	8.7	11.9	8.1	7.0
PBV (x)	1.3	1.2	1.2	1.0	0.9
Dividend yield (%)	3.9	4.7	4.6	3.3	5.0
<b>Growth (%)</b>					
Total assets growth	6.9	9.6	4.5	9.5	11.3
Loan growth	12.3	10.8	6.1	9.8	12.5
Deposit growth	3.1	11.0	6.9	11.6	11.6
NPL growth	-10.9	-6.7	58.1	3.5	-4.8
SHE growth	8.7	12.9	-0.8	14.2	13.0
Net interest income growth	5.1	8.8	-2.7	13.6	9.7
Non-interest income growth	18.8	-6.0	10.0	10.4	11.1
Provision expense growth	-11.1	-14.9	86.1	-22.6	1.9
Net profit growth	21.2	9.9	-26.8	47.9	16.0



# Bank Negara Indonesia

**BUY**

**TP: 5,850 (+29.7%)**

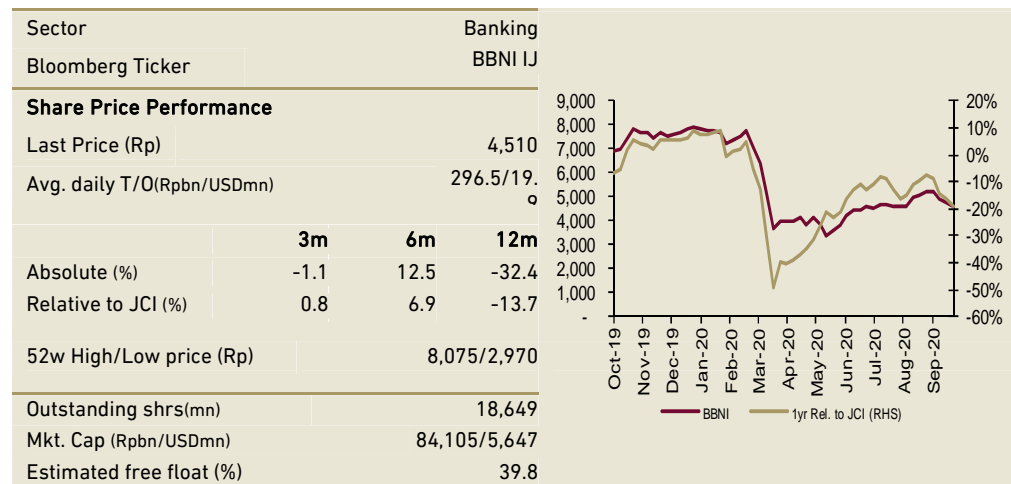
## Company Profile

Bank Negara Indonesia (BBNI) is the fourth largest bank in Indonesia. Established in 1946, the bank is the first bank formed and owned by Government of Indonesia with 60% of the stake is owned by government. The bank mainly focused on corporate loan segment (54% of total loan), with the rest of portfolio consisted of small and medium segment loan (25% of total loan) followed by consumer loan (15%). Their corporate loan portfolio was mostly to SOE-corporates.

## Key Points

- **Underperforming stock due to higher uncertainty in CoC and low NIM.** BBNI has experienced a more dramatic uptick in CoC during pandemic. However this has made the stock to be heavily beaten this year, while market is too conservative in projecting the bank's CoC in our view. BBNI is also arguably has the thinnest NIM among the big four, hence any hit on NIM impacted more heavily on earnings. However, we see the bottom line to start normalize in 2021F.
- **Stronger footing on corporates loan.** With other loan segment outside corporates saw a deceleration growth trend, corporate loan growth remained stable at low-teen. The proportion of corporate loan increased to 54% of total loan (from 50-52% in the last couple of years) and at the higher range of management target. BBNI also recently installed new CEO from BMRI, Mr. Royke Tumilaar who has expertise is in corporate banking. Hence, we see a stronger footing for BBNI in corporate loan segment.
- **Most compelling valuation among the big four banks.** We maintain our Buy recommendation with Rp5,850/share target price. BBNI currently trades at 0.6x 2021F PBV or below its historical average at 1.3x and almost touch the lowest trading range at 0.5x. Our target price implies 0.7x of 2021F PBV. Hence we see a limited downside for the stock.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Net Interest Income(Rpbn)	35,446	36,602	32,727	39,856	43,707
Net Profit (Rpbn)	15,015	15,384	9,132	13,564	18,742
EPS(Rp)	805.2	825.0	489.7	727.3	1,005.0
EPS growth (%)	10.3	2.5	-40.6	48.5	38.2
BVPS (Rp)	5,795.4	6,569.7	6,816.9	7,841.1	8,996.6
PER (x)	5.6	5.5	9.3	6.2	4.5
PBV (x)	0.8	0.7	0.7	0.6	0.5
ROA (%)	2.0	1.9	1.1	1.5	1.9
ROE (%)	14.5	13.3	7.3	9.9	11.9
Dividend Yield (%)	5.6	6.2	4.5	2.7	4.0

## Assumptions

	2018A	2019A	2020F	2021F	2022F
Loan growth	16.2	8.6	4.1	11.1	11.4
Loan to deposit ratio (%)	88.6	90.6	89.9	92.0	93.1
Net interest margin (%)	5.4	5.1	4.4	5.1	5.2
Non-performing loan (%)	2.0	2.3	3.4	3.3	2.9

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## Bank Negara Indonesia

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Interest income	54,139	58,532	53,249	61,457	67,249
Interest expenses	-18,692	-21,930	-20,522	-21,601	-23,543
<b>Net interest income</b>	<b>35,446</b>	<b>36,602</b>	<b>32,727</b>	<b>39,856</b>	<b>43,707</b>
Other non-interest income	13,324	15,409	17,261	19,134	21,421
<b>Total operating income</b>	<b>48,771</b>	<b>52,012</b>	<b>49,987</b>	<b>58,990</b>	<b>65,127</b>
Operating expenses	-21,783	-23,687	-24,243	-26,771	-29,564
PPoP	26,988	28,325	25,744	32,219	35,563
Prov. expenses and others	-7,388	-8,838	-14,068	-14,991	-11,849
<b>Operating profit</b>	<b>19,599</b>	<b>19,487</b>	<b>11,676</b>	<b>17,228</b>	<b>23,714</b>
Non-operating income (exp.)	221	-118	-100	-100	-100
<b>Pre-tax profit</b>	<b>19,821</b>	<b>19,369</b>	<b>11,576</b>	<b>17,128</b>	<b>23,614</b>
Income tax	-4,729	-3,861	-2,307	-3,414	-4,707
Minority interest	-77	-124	-137	-150	-165
<b>Net profit</b>	<b>15,015</b>	<b>15,384</b>	<b>9,132</b>	<b>13,564</b>	<b>18,742</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash	14,044	15,362	16,127	17,523	19,275
Current acct. with BI	35,591	37,104	42,695	46,323	50,877
Interbank placement	52,458	62,740	62,740	62,740	62,740
Mkt. securities	32,044	27,573	28,931	30,357	31,855
Govt. bonds	86,791	81,029	81,029	81,029	81,029
<b>Loans</b>	<b>497,887</b>	<b>539,862</b>	<b>549,090</b>	<b>611,604</b>	<b>686,035</b>
Fixed assets	26,127	26,525	27,851	29,244	30,706
Other assets	39,043	36,203	43,444	52,133	62,559
<b>Total asset</b>	<b>808,572</b>	<b>845,605</b>	<b>872,075</b>	<b>952,127</b>	<b>1,047,311</b>
Deposits from customer	578,775	614,311	644,924	700,730	770,803
Borrowings	76,636	62,504	53,751	58,897	62,457
Other liabilities	28,555	31,861	31,861	31,861	31,861
<b>Total liabilities</b>	<b>698,198</b>	<b>720,601</b>	<b>742,461</b>	<b>803,413</b>	<b>877,047</b>
<b>Shareholder equity</b>	<b>108,077</b>	<b>122,516</b>	<b>127,126</b>	<b>146,226</b>	<b>167,775</b>
Minority interest	2,297	2,488	2,488	2,488	2,488
<b>Total liab + SHE</b>	<b>808,572</b>	<b>845,605</b>	<b>872,075</b>	<b>952,127</b>	<b>1,047,311</b>

## EQUITY MARKET OUTLOOK 2021

### Per Share Data

(Rp)	2018A	2019A	2020F	2021F	2022F
EPS	805.2	825.0	489.7	727.3	1,005.0
BVPS	5,795.4	6,569.7	6,816.9	7,841.1	8,996.6
DPS	255.6	281.8	206.2	122.4	181.8

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
<b>Ratios</b>					
ROA (%)	2.0	1.9	1.1	1.5	1.9
ROE (%)	14.5	13.3	7.3	9.9	11.9
Net interest margin (%)	5.4	5.1	4.4	5.1	5.2
Yield on earnings asset (%)	8.3	8.2	7.2	7.9	8.0
Average cost of fund (%)	3.0	3.2	2.9	2.9	2.9
Cost to income ratio (%)	44.7	45.5	48.5	45.4	45.4
Cost of Credit (%)	1.1	1.2	1.9	1.9	1.4
Non-performing loan (%)	2.0	2.3	3.4	3.3	2.9
Coverage ratio (%)	148.3	130.5	155.1	156.4	150.7
Loan to deposit ratio (%)	88.6	90.6	89.9	92.0	93.1
CASA ratio (%)	64.8	66.6	67.3	67.5	67.5
Equity to asset (%)	13.4	14.5	14.6	15.4	16.0
Capital adequacy ratio (%)	18.5	19.7	19.8	20.3	20.6
Tier-1 CAR	16.6	16.6	16.6	16.6	16.6
PER (x)	5.6	5.5	9.3	6.2	4.5
PBV (x)	0.8	0.7	0.7	0.6	0.5
Dividend yield (%)	5.6	6.2	4.5	2.7	4.0
<b>Growth (%)</b>					
Total assets growth	14.0	4.6	3.1	9.2	10.0
Loan growth	16.2	8.6	4.1	11.1	11.4
Deposit growth	12.0	6.1	5.0	8.7	10.0
NPL growth	-0.6	29.1	52.9	5.7	0.5
SHE growth	9.6	13.4	3.8	15.0	14.7
Net interest income growth	11.0	3.3	-10.6	21.8	9.7
Non-interest income growth	4.0	15.6	12.0	10.9	11.9
Provision expense growth	3.7	19.6	59.2	6.6	-21.0
Net profit growth	10.3	2.5	-40.6	48.5	38.2



# Bank Tabungan Negara

**BUY**

**TP: 1,450 (+21.3%)**

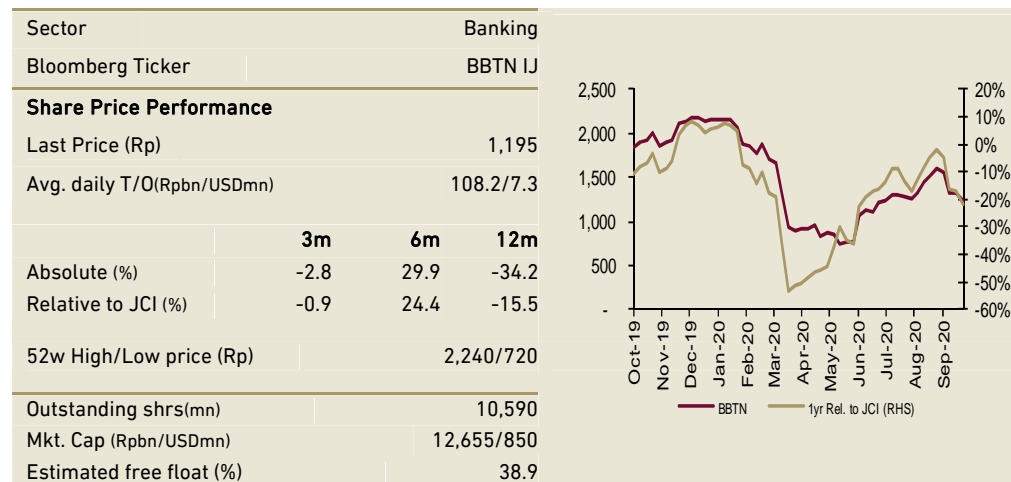
## Company Profile

Bank Tabungan Negara (BBTN) was established in 1897 under the name of "Postspaarbank" and is the only bank in Indonesia focusing on houses financing. The bank enjoys government support in terms of cheap housing subsidy hence enable them to stand as the biggest mortgage market share at 38% as of 1H20. Cheap housing is BBTN's niche market with >90% market share domination.

## Key Points

- **Slow overall property loan but BBTN could still enjoy from government program.** Covid-19 pandemic has made the property loan growth to slow by 3.4% YoY as of Jul-20 from mid-teens growth last year. We see this trend would continue seeing the uncertainty due to pandemic not to mention banks' reluctance to disburse new credit. However, we see BBTN could still enjoy some growth next year coming from larger government support in FLPP program (budget increased to Rp19tn in 2021 from Rp11tn in 2020), as this segment should be not as sensitive as middle-upper housing segment.
- **New management highly emphasizes in CASA.** BBTN installed new CEO, Mr. Pahala N Mansury in 2019, which we think highly put focus on improving the bank's inefficient cost of funding. The bank also installed Mr. Jasmin as Director of Retail Funding (previously SEVP Consumer & Transaction at Bank Mandiri), with strategy to reduce high-cost saving product while utilizing the bank's large customer base to tap more transaction and more CASA.
- **We maintain our Buy recommendation on BBTN** with target price at Rp1,450/share (previously Rp1,275/share) implying 0.7x 2021F PBV. The share currently trades at 0.6x 2021F PBV, far below its trading average of 1.0x.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Net Interest Income(Rpbn)	10,089	8,962	8,905	10,358	11,725
Net Profit (Rpbn)	2,808	209	1,187	1,945	2,290
EPS(Rp)	265.0	20.0	113.5	185.9	218.9
EPS growth (%)	-7.3	-92.5	467.4	63.8	17.7
BVPS (Rp)	2,250.0	2,278.5	1,647.6	1,988.2	2,161.3
PER (x)	4.5	60.0	10.6	6.5	5.5
PBV (x)	0.5	0.5	0.7	0.6	0.6
ROA (%)	1.0	0.1	0.4	0.6	0.6
ROE (%)	12.3	0.9	5.8	10.2	10.5
Dividend Yield (%)	4.8	4.5	0.0	1.9	3.1

## Assumptions

	2018A	2019A	2020F	2021F	2022F
Loan growth	19.5	7.6	3.3	8.4	9.3
Loan to deposit ratio (%)	103.4	113.5	112.1	112.5	111.8
Net interest margin (%)	3.9	3.2	3.1	3.5	3.7
Non-performing loan (%)	2.8	4.8	4.7	4.6	4.4

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## Bank Tabungan Negara

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Interest income	22,852	25,720	24,742	26,492	28,806
Interest expenses	-12,763	-16,758	-15,837	-16,134	-17,081
<b>Net interest income</b>	<b>10,089</b>	<b>8,962</b>	<b>8,905</b>	<b>10,358</b>	<b>11,725</b>
Other non-interest income	2,072	2,110	2,326	2,633	2,827
<b>Total operating income</b>	<b>12,161</b>	<b>11,072</b>	<b>11,231</b>	<b>12,990</b>	<b>14,551</b>
Operating expenses	-6,853	-7,063	-6,966	-7,634	-8,367
PPoP	5,308	4,008	4,265	5,356	6,184
Prov. expenses and others	-1,714	-3,487	-2,738	-2,855	-3,240
<b>Operating profit</b>	<b>3,594</b>	<b>522</b>	<b>1,526</b>	<b>2,501</b>	<b>2,944</b>
Non-operating income (exp.)	16	-111	0	0	0
<b>Pre-tax profit</b>	<b>3,610</b>	<b>411</b>	<b>1,526</b>	<b>2,501</b>	<b>2,944</b>
Income tax	-802	-202	-339	-556	-654
Minority interest	0	0	0	0	0
<b>Net profit</b>	<b>2,808</b>	<b>209</b>	<b>1,187</b>	<b>1,945</b>	<b>2,290</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash	1,244	1,369	1,432	1,547	1,701
Current acct. with BI	15,418	15,512	16,224	17,522	19,274
Interbank placement	28,052	11,845	11,845	11,845	11,845
Mkt. securities	5,848	9,960	9,960	9,960	9,960
Govt. bonds	9,393	11,054	11,054	11,054	11,054
<b>Loans</b>	<b>234,460</b>	<b>249,709</b>	<b>253,330</b>	<b>274,228</b>	<b>299,180</b>
Fixed assets	5,018	5,401	5,563	5,730	5,901
Other assets	7,004	6,927	7,273	7,637	8,019
<b>Total asset</b>	<b>306,436</b>	<b>311,777</b>	<b>316,681</b>	<b>339,522</b>	<b>366,934</b>
Deposits from customer	229,829	225,399	235,740	254,600	280,059
Borrowings	40,079	49,184	49,895	49,816	49,411
Other liabilities	9,678	8,836	8,836	8,836	8,836
<b>Total liabilities</b>	<b>282,596</b>	<b>287,941</b>	<b>299,445</b>	<b>318,725</b>	<b>344,329</b>
<b>Shareholder equity</b>	<b>23,840</b>	<b>23,836</b>	<b>17,236</b>	<b>20,799</b>	<b>22,610</b>
Minority interest	0	0	0	0	0
<b>Total liab + SHE</b>	<b>306,436</b>	<b>311,777</b>	<b>316,681</b>	<b>339,524</b>	<b>366,938</b>

## EQUITY MARKET OUTLOOK 2021

### Per Share Data

(Rp)	2018A	2019A	2020F	2021F	2022F
EPS	265.0	20.0	113.5	185.9	218.9
BVPS	2,250.0	2,278.5	1,647.6	1,988.2	2,161.3
DPS	57.1	53.7	0.0	22.7	37.2

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
<b>Ratios</b>					
ROA (%)	1.0	0.1	0.4	0.6	0.6
ROE (%)	12.3	0.9	5.8	10.2	10.5
Net interest margin (%)	3.9	3.2	3.1	3.5	3.7
Yield on earnings asset (%)	8.9	9.2	8.7	8.9	9.0
Average cost of fund (%)	5.1	6.1	5.6	5.4	5.3
Cost to income ratio (%)	56.3	63.8	62.0	58.8	57.5
Cost of Credit (%)	0.7	1.2	1.0	1.0	1.0
Non-performing loan (%)	2.8	4.8	4.7	4.6	4.4
Coverage ratio (%)	49.2	50.0	88.4	93.6	101.6
Loan to deposit ratio (%)	103.4	113.5	112.1	112.5	111.8
CASA ratio (%)	43.5	43.4	41.5	41.5	41.5
Equity to asset (%)	7.8	7.6	5.4	6.1	6.2
Capital adequacy ratio (%)	18.2	18.2	15.7	16.4	16.0
Tier-1 CAR	16.0	16.0	11.7	13.1	13.1
PER (x)	4.5	60.0	10.6	6.5	5.5
PBV (x)	0.5	0.5	0.7	0.6	0.6
Dividend yield (%)	4.8	4.5	0.0	1.9	3.1
<b>Growth (%)</b>					
Total assets growth	17.2	1.7	1.6	7.2	8.1
Loan growth	19.5	7.6	3.3	8.4	9.3
Deposit growth	19.4	-1.9	4.6	8.0	10.0
NPL growth	26.7	82.6	0.5	6.6	5.0
SHE growth	10.0	0.0	-27.7	20.7	8.7
Net interest income growth	8.0	-11.2	-0.6	16.3	13.2
Non-interest income growth	29.1	1.8	10.2	13.2	7.4
Provision expense growth	93.9	103.4	-21.5	4.3	13.5
Net profit growth	-7.3	-92.5	467.4	63.8	17.7



# Bank CIMB Niaga

**BUY**

**TP: 1,075 (+47.6%)**

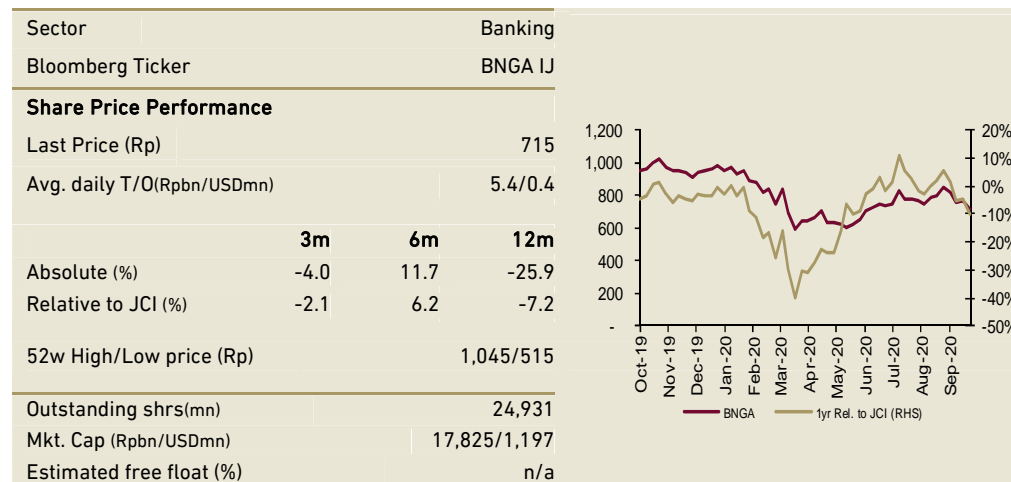
## Company Profile

Bank CIMB Niaga (BNGA) is the second biggest private bank in Indonesia after BBCA. The bank is a local subsidiary of Malaysia-based investment bank CIMB Group Holdings Berhad, and has operated since 1955 under the name of Bank Niaga. CIMB Group is the majority shareholder with 91.48% ownership. BNGA offers a range of product to both individual and business banking. Its loan book currently consists of corporate (38% of total loan), MSME (22%), and consumer loan (29%) as of 1H20.

## Key Points

- **Enjoying the same CASA trends with big banks.** BNGA achieved high record CASA ratio since the 1Q20 onwards, coming from both saving and demand deposit. Low-cost funding (CASA) ratio achieved 61% in 2Q20 (vs. 54% in 2Q19), and trending up significantly from sub 50% level four years ago. With this excess liquidity trend, which is similar to big banks, we think BNGA could benefit more from low interest rate environment.
- **Covid-19 pandemic as accelerator for e-banking penetration.** BNGA is the first mover in terms of digital technology but it is often considered not successful in terms of customer penetration. However, during this limited social interaction period, BNGA saw better penetration as customer was enforced to use the digital banking platform. Number of users added by 15% YoY as of 1H20 while savings from mobile-banking users added by 37% YoY due to more active transaction.
- **Loans should contract in 2020F but slightly grew in 2021F.** We see loans should contract in 2020F in the middle of risk-off loan strategy and policy tightening for new loan acquisition in pandemic situation. Main contraction should come from credit card and commercial loan.
- **We maintain our Buy rating** on the stock with a target price of Rp1,075/share, which implies a fair 2021F PBV of 0.6x. BNGA trades at a compelling valuation at 0.5x 2021F PBV (vs. historical average at 0.8x).

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Net Interest Income(Rpbn)	12,012	12,568	11,934	12,534	13,145
Net Profit (Rpbn)	3,482	3,645	2,609	3,201	4,223
EPS(Rp)	139.7	146.2	104.7	128.4	169.4
EPS growth (%)	17.9	4.7	-28.4	22.7	31.9
BVPS (Rp)	1,587.6	1,736.0	1,599.8	1,700.8	1,850.8
PER (x)	5.1	4.9	6.8	5.6	4.2
PBV (x)	0.5	0.4	0.4	0.4	0.4
ROA (%)	1.3	1.3	1.0	1.2	1.4
ROE (%)	9.1	8.8	6.3	7.8	9.5
Dividend Yield (%)	3.3	3.9	6.1	4.4	5.4

## Assumptions

	2018A	2019A	2020F	2021F	2022F
Loan growth	2.7	2.5	-6.3	6.5	6.6
Loan to deposit ratio (%)	97.6	97.6	83.8	81.8	79.5
Net interest margin (%)	5.2	5.4	5.1	5.4	5.3
Non-performing loan (%)	3.1	2.8	4.0	3.8	3.3

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## Bank CIMB Niaga

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Interest income	20,293	21,689	20,421	20,977	22,245
Interest expenses	-8,282	-9,121	-8,487	-8,442	-9,100
<b>Net interest income</b>	<b>12,012</b>	<b>12,568</b>	<b>11,934</b>	<b>12,534</b>	<b>13,145</b>
Other non-interest income	3,816	4,257	5,119	4,829	5,317
<b>Total operating income</b>	<b>15,828</b>	<b>16,825</b>	<b>17,054</b>	<b>17,363</b>	<b>18,462</b>
Operating expenses	-8,004	-8,634	-8,826	-9,270	-9,741
PPoP	7,824	8,190	8,228	8,093	8,721
Prov. expenses and others	-3,030	-3,257	-4,703	-3,765	-3,004
<b>Operating profit</b>	<b>4,794</b>	<b>4,934</b>	<b>3,525</b>	<b>4,328</b>	<b>5,718</b>
Non-operating income (exp.)	56	20	20	20	20
<b>Pre-tax profit</b>	<b>4,851</b>	<b>4,954</b>	<b>3,545</b>	<b>4,348</b>	<b>5,738</b>
Income tax	-1,368	-1,311	-938	-1,151	-1,518
Minority interest	0	2	3	3	4
<b>Net profit</b>	<b>3,482</b>	<b>3,645</b>	<b>2,609</b>	<b>3,201</b>	<b>4,223</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash	4,293	5,693	5,693	5,693	5,693
Current acct. with BI	10,435	11,396	15,034	16,396	17,984
Interbank placement	12,321	14,267	14,267	14,267	14,267
Mkt. securities	11,270	12,486	13,500	14,616	15,844
Govt. bonds	24,000	22,160	24,376	26,814	29,495
<b>Loans</b>	<b>180,311</b>	<b>184,998</b>	<b>171,252</b>	<b>182,211</b>	<b>194,611</b>
Fixed assets	7,050	7,952	8,191	8,437	8,690
Other assets	15,047	12,336	12,336	12,336	12,336
<b>Total asset</b>	<b>266,781</b>	<b>274,467</b>	<b>267,904</b>	<b>284,025</b>	<b>302,175</b>
Deposits from customer	190,750	195,600	213,414	232,868	255,553
Borrowings	21,149	22,442	1,459	-4,392	-12,667
Other liabilities	12,373	11,766	11,766	11,766	11,766
<b>Total liabilities</b>	<b>227,201</b>	<b>231,173</b>	<b>228,003</b>	<b>241,607</b>	<b>256,017</b>
<b>Shareholder equity</b>	<b>39,580</b>	<b>43,279</b>	<b>39,885</b>	<b>42,403</b>	<b>46,142</b>
Minority interest	1	15	15	15	15
<b>Total liab + SHE</b>	<b>266,781</b>	<b>274,467</b>	<b>267,904</b>	<b>284,025</b>	<b>302,175</b>

## EQUITY MARKET OUTLOOK 2021

### Per Share Data

(Rp)	2018A	2019A	2020F	2021F	2022F
EPS	139.7	146.2	104.7	128.4	169.4
BVPS	1,587.6	1,736.0	1,599.8	1,700.8	1,850.8
DPS	23.9	27.9	43.9	31.4	38.5

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
<b>Ratios</b>					
ROA (%)	1.3	1.3	1.0	1.2	1.4
ROE (%)	9.1	8.8	6.3	7.8	9.5
Net interest margin (%)	5.2	5.4	5.1	5.4	5.3
Yield on earnings asset (%)	8.8	9.3	8.8	9.0	8.9
Average cost of fund (%)	3.8	4.2	3.9	3.8	3.8
Cost to income ratio (%)	50.6	51.3	51.8	53.4	52.8
Cost of Credit (%)	1.3	1.4	2.0	1.6	1.2
Non-performing loan (%)	3.1	2.8	4.0	3.8	3.3
Coverage ratio (%)	104.3	112.6	108.3	116.2	127.0
Loan to deposit ratio (%)	97.6	97.6	83.8	81.8	79.5
CASA ratio (%)	52.6	55.3	55.8	56.3	56.9
Equity to asset (%)	14.8	15.8	14.9	14.9	15.3
Capital adequacy ratio (%)	21.5	23.0	23.5	23.1	23.0
Tier-1 CAR	18.0	19.6	18.5	18.2	18.1
PER (x)	5.1	4.9	6.8	5.6	4.2
PBV (x)	0.5	0.4	0.4	0.4	0.4
Dividend yield (%)	3.3	3.9	6.1	4.4	5.4
<b>Growth (%)</b>					
Total assets growth	0.2	2.9	-2.4	6.0	6.4
Loan growth	2.7	2.5	-6.3	6.5	6.6
Deposit growth	0.8	2.5	9.1	9.1	9.7
NPL growth	-15.8	-6.9	33.1	1.3	-5.7
SHE growth	7.1	9.3	-7.8	6.3	8.8
Net interest income growth	-3.2	4.6	-5.0	5.0	4.9
Non-interest income growth	13.8	11.5	20.3	-5.7	10.1
Provision expense growth	-25.7	7.5	44.4	-20.0	-20.2
Net profit growth	16.9	4.7	-28.4	22.7	31.9





# BTPN Syariah HOLD

TP: 3,400 (+9.3%)

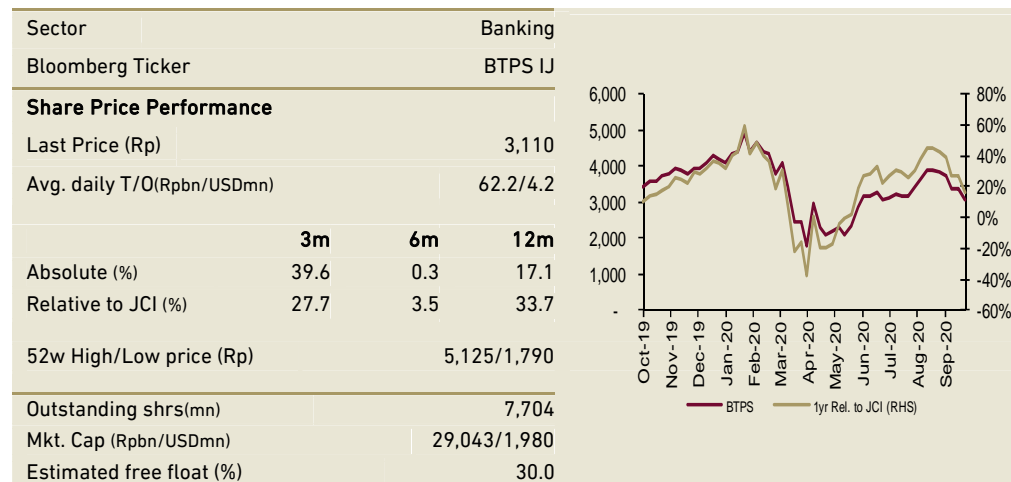
## Company Profile

Bank Tabungan Pensiunan Nasional Syariah (BTPS) focuses on ultra-micro financing with only Rp2.4 mn average financing size. BTPS is inspired by the business model of Grameen Bank which has sustainably served the same segment in Bangladesh since 1983. The bank currently operates in 23 provinces in Indonesia. The majority of shares are owned by PT Bank Tabungan Pensiunan Nasional, Tbk (70%).

## Key Points

- **Fastest recovery to come from the smallest segment.** BTPS mostly operates in West Java area and has been largely affected by the local social restriction in the area. However, since the restriction is lifted up, BTPS shows the fastest recovery as customers who previously did not pay loan now could resume their payment.
- **Sufficiently set aside provision for Covid-19 impacted loan.** During the Covid-19 pandemic, we could see that BTPS set aside all the PPop they made to fuel the provision for anticipating bad loans. Hence NPF coverage jumped to 348% in 2Q20 from 235% in 1Q20, which we see should achieve 420-440% in 3Q20 (assuming bad loans are not yet downgraded into NPL). We see this should be more than sufficient to cover the potential of bad loans.
- **Long-term unique value propositions.** We like BTPS for its unique value proposition that could serve unbankable customers efficiently, which we see no banks could replicate it at the moment. We have a Hold recommendation on BTPS with Rp3,400/share target price. BTPS currently trades at 3.1x 2021F PBV, while our target price implies 3.5x 2021F PBV. Key risks for BTPS relies on their high sensitiveness to further tightening of social activities in rural area due to the still high uncertainty of Covid-19 new cases.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Net Interest Income(Rpbn)	3,080	3,934	3,748	4,853	5,720
Net Profit (Rpbn)	965	1,400	956	1,797	2,211
EPS(Rp)	125.3	181.7	124.1	233.3	287.0
EPS growth (%)	29.6	45.0	-31.7	88.0	23.0
BVPS (Rp)	518.9	700.1	784.5	987.1	1,227.4
PER (x)	24.7	17.1	23.5	13.1	10.6
PBV (x)	6.0	4.4	4.0	3.1	2.5
ROA (%)	9.1	10.2	5.8	9.3	9.8
ROE (%)	30.9	29.8	16.7	26.3	25.9
Dividend Yield (%)	0.0	0.0	1.5	1.1	1.9

## Assumptions

	2018A	2019A	2020F	2021F	2022F
Loan growth	20.2	23.7	7.9	18.8	13.4
Loan to deposit ratio (%)	95.6	95.3	86.2	87.8	89.1
Net interest margin (%)	32.9	31.9	25.0	27.7	27.9
Non-performing loan (%)	1.4	1.4	2.9	1.8	1.6

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## BTPN Syariah

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Interest income	3,447	4,457	4,324	5,551	6,487
Interest expenses	-368	-524	-576	-698	-767
<b>Net interest income</b>	<b>3,080</b>	<b>3,934</b>	<b>3,748</b>	<b>4,853</b>	<b>5,720</b>
Other non-interest income	13	18	21	26	31
<b>Total operating income</b>	<b>3,093</b>	<b>3,952</b>	<b>3,770</b>	<b>4,878</b>	<b>5,751</b>
Operating expenses	-1,514	-1,761	-1,747	-2,021	-2,339
PPoP	1,578	2,190	2,022	2,857	3,412
Prov. expenses and others	-276	-309	-736	-443	-443
<b>Operating profit</b>	<b>1,303</b>	<b>1,881</b>	<b>1,286</b>	<b>2,415</b>	<b>2,970</b>
Non-operating income (exp.)	-4	-3	-3	-3	-3
<b>Pre-tax profit</b>	<b>1,299</b>	<b>1,878</b>	<b>1,283</b>	<b>2,412</b>	<b>2,967</b>
Income tax	-334	-479	-327	-615	-756
Minority interest	0	0	0	0	0
<b>Net profit</b>	<b>965</b>	<b>1,400</b>	<b>956</b>	<b>1,797</b>	<b>2,211</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash	416	711	849	990	1,105
Current acct. with BI	399	0	0	0	0
Interbank placement	2,588	3,220	3,857	4,621	5,537
Mkt. securities	1,038	2,087	2,880	3,381	3,982
Govt. bonds	0	0	0	0	0
<b>Loans</b>	<b>7,061</b>	<b>8,707</b>	<b>9,226</b>	<b>11,013</b>	<b>12,517</b>
Fixed assets	177	210	251	302	362
Other assets	361	448	537	645	774
<b>Total asset</b>	<b>12,039</b>	<b>15,383</b>	<b>17,600</b>	<b>20,951</b>	<b>24,277</b>
Deposits from customer	7,612	9,447	11,272	13,145	14,676
Borrowings	0	0	-259	-342	-397
Other liabilities	430	543	543	543	543
<b>Total liabilities</b>	<b>8,042</b>	<b>9,990</b>	<b>11,557</b>	<b>13,346</b>	<b>14,822</b>
<b>Shareholder equity</b>	<b>3,997</b>	<b>5,394</b>	<b>6,044</b>	<b>7,605</b>	<b>9,455</b>
Minority interest	0	0	0	0	0
<b>Total liab + SHE</b>	<b>12,039</b>	<b>15,383</b>	<b>17,600</b>	<b>20,951</b>	<b>24,277</b>

## EQUITY MARKET OUTLOOK 2021

### Per Share Data

Year to 31 Dec(Rp)	2018A	2019A	2020F	2021F	2022F
EPS	125.3	181.7	124.1	233.3	287.0
BVPS	518.9	700.1	784.5	987.1	1,227.4
DPS	0.0	0.0	45.4	31.0	58.3

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
<b>Ratios</b>					
ROA (%)	9.1	10.2	5.8	9.3	9.8
ROE (%)	30.9	29.8	16.7	26.3	25.9
Net interest margin (%)	32.9	31.9	25.0	27.7	27.9
Yield on earnings asset (%)	36.8	36.1	28.9	31.7	31.6
Average cost of fund (%)	5.2	6.1	5.6	5.9	5.7
Cost to income ratio (%)	49.0	44.6	46.4	41.4	40.7
Cost of Credit (%)	2.9	2.5	4.9	2.5	2.2
Non-performing loan (%)	1.4	1.4	2.9	1.8	1.6
Coverage ratio (%)	214.0	238.3	171.0	246.4	267.3
Loan to deposit ratio (%)	95.6	95.3	86.2	87.8	89.1
CASA ratio (%)	22.8	21.2	21.2	21.3	22.4
Equity to asset (%)	33.2	35.1	34.3	36.3	38.9
Capital adequacy ratio (%)	40.9	44.6	39.9	43.8	47.6
Tier-1 CAR	40.3	43.8	39.6	43.6	47.3
PER (x)	24.7	17.1	23.5	13.1	10.6
PBV (x)	6.0	4.4	4.0	3.1	2.5
Dividend yield (%)	0.0	0.0	1.5	1.1	1.9
<b>Growth (%)</b>					
Total assets growth	31.5	27.8	14.4	19.0	15.9
Loan growth	20.2	23.7	7.9	18.8	13.4
Deposit growth	16.3	24.1	19.3	16.6	11.6
NPL growth	0.1	21.5	131.7	-25.1	-0.5
SHE growth	77.3	34.9	12.1	25.8	24.3
Net interest income growth	20.3	27.7	-4.7	29.5	17.9
Non-interest income growth	86.6	34.9	20.0	20.0	20.0
Provision expense growth	17.3	12.1	138.0	-39.9	0.1
Net profit growth	44.0	45.0	-31.7	88.0	23.0



# CONSUMER SECTOR



# Consumer Overweight

## Sector Outlook

- **Potential tailwind for staples**

We like consumer staples next year due to potential tailwind from the key raw materials prices which could uphold consumer staple companies' margin. We consider more manageable outlook of wheat, coffee, oil as well as CPO, in spite of sugar and dairy products' prices potential rise. We list out the outlook of each key raw material as follows:

- 1) **Wheat:** in FY20F wheat price is expected to be manageable despite slightly increase in wheat prices due to weather issue in Europe and central Asia which caused yield losses this year. However, FY19F USDA outlook on global output still expected to grow by 4.7% to 180.8 MT while the usage only grows by 2.8% to 756.3 MT.
- 2) **Coffee:** coffee price is expected to decline due to oversupply issue with surplus totaling of 4.96 mn bags. If we add the subsequent 2 season's surplus, the total will be around 7 mn bags, in which translate to 2 years of surplus according to International coffee organization (ICO). 3.9% of global increase in production is almost twice higher than the demand which is estimated to grow by 2.1% YoY in FY20F. We foresee that the coffee price will be in favour for staples' counters that have exposure to this commodity as we expect the production growth remains high.
- 3) **CPO:** Our view on CPO price is positive for next year, as our plantation analyst targets CPO price growth at 15% to RM2,300/ton. She notes that the implementation of B20 in FY19F will help Indonesia's CPO inventory to decrease to below 2.5mn tons level (vs. 4mn tons in FY18). we projects soybean oil price to go up on depleting inventory. Another positive tailwind for CPO price comes from Ex-Java consumption, whereas especially on the low end consumption as farmers will likely to have better purchasing power.

- 4) **Oil:** Our oil analyst projects FY20F oil price to decline compare to FY19F as he expects that Brent average oil price will decline by 4.8% at USD 60/bbl next year (vs. average USD 63/bbl in FY19F), and WTI average oil price to decline by 3.4% to USD 56/bbl (vs. average USD 58/bbl in FY19F). We view this should be positive for staples margin.

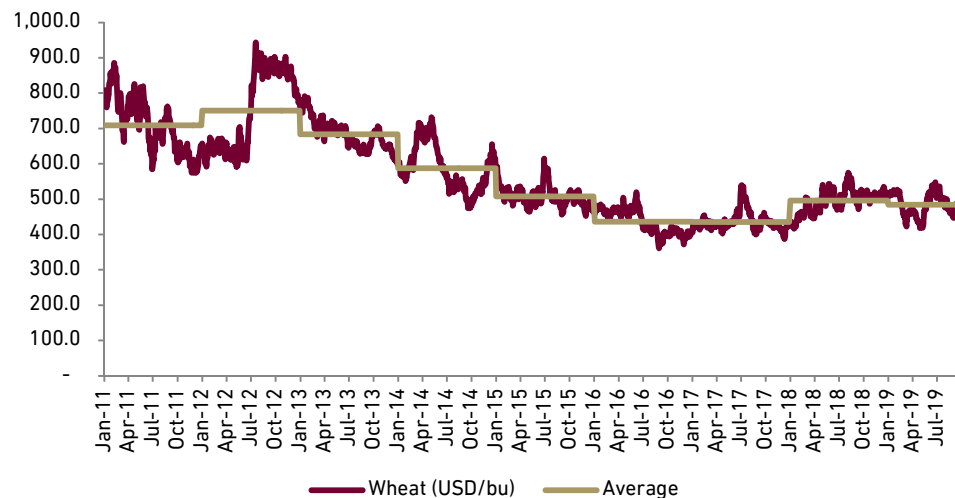
- **Potential headwind for staples**

- 1) **Sugar:** sugar price is expected to increase a little bit in 2020 despite steady decline in FY19F. According to Food and Agriculture Organization (FAO), decline in sugar price is mainly driven by two factors such as: 1). Increasing production in key sugar producing countries such as India and Thailand, and 2). Rising production from Indonesia. On their forecast, Crisil India ( a rating company) expects that sugar price could increase by 8-9% in 2020 due to the delayed rainfall in sugar producing area, and supply from India could shrink by 9-10%. However, there is probability of minimal surge in sugar price since India intention on balancing its supply level by preparing 4 mn tons buffer stock. Looking at the global inventory on sugar Crisil also note that there is huge carry stock of 12 mn tons (vs 7-8 tons average) which should cap the upside on sugar price.
- 2) **Dairy:** dairy price is expected to rise according to US Dairy Export Council (USDEC) triggered by lower production yield to support export skim milk powder (SMP) from bad weather, and government pressure on low phosphate regulation in EU. Since November 2018 top 5 suppliers (EU, US, New Zealand, Australia, and Argentina) experiencing decline in output and in coupled with increasing china demand. With EU production declined by 1.5% YTD, and New Zealand production cannot offset the decline, the global outlook on SMP price should be rosier and erode company margin with high milk production component.



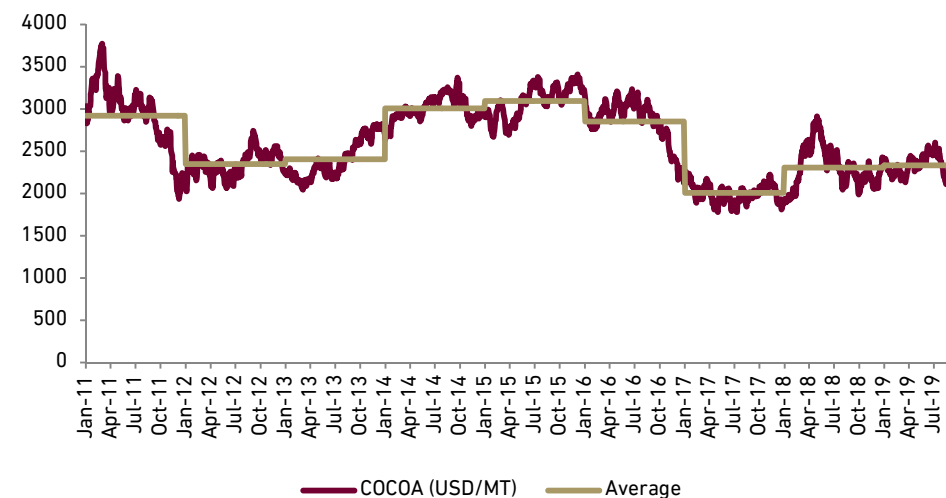
## EQUITY MARKET OUTLOOK 2021

**Exhibit 39: Wheat Price**



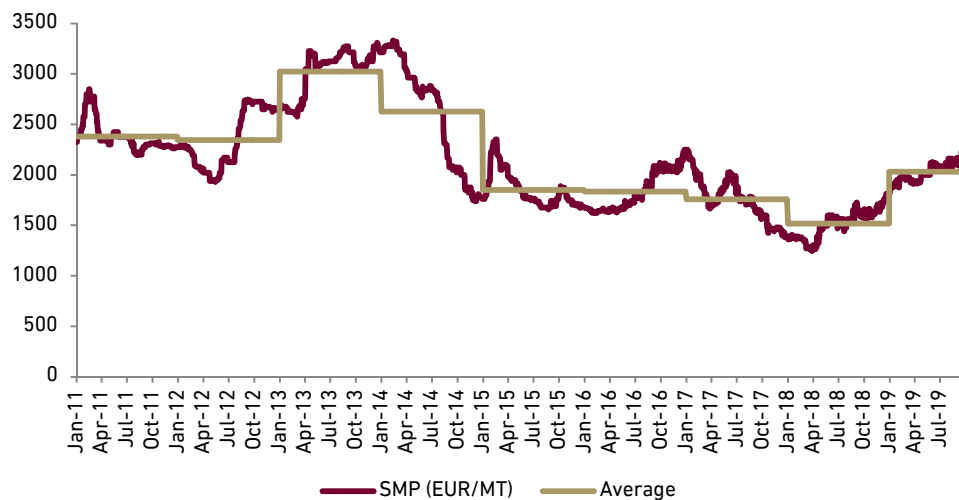
Source: Bloomberg, Ciptadana

**Exhibit 41: Cocoa Price**



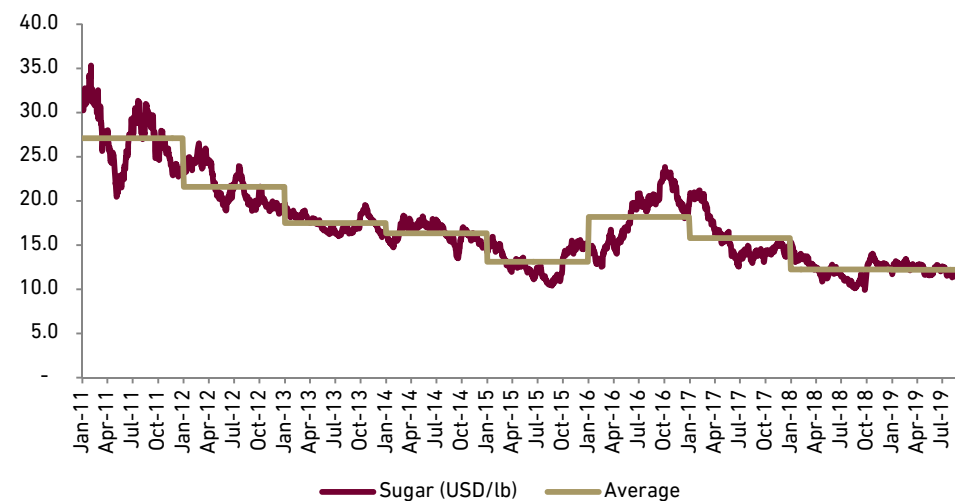
Source: Bloomberg, Ciptadana

**Exhibit 40: Skim Milk Powder (SMP) Price**



Source: Bloomberg, Ciptadana

**Exhibit 42: Sugar Price**



Source: Bloomberg, Ciptadana



### • **Mixed bag consumption signal from government budget**

We are receiving mixed signal from government budget which make us more cautious on mid to low income purchasing power, and how it will impact our staples counter. We think staples will face some pressure from low purchasing power on the brink of energy subsidy cut. We note that based on 2015 and 2017 electricity cut we see contraction on staples sales growth during the two periods. Hence we are cautious on the mid to low end purchasing power from the energy subsidy cut despite the increased in social assistance program.

- 1) **Social assistance program:** social assistance program under PKH and Food security are increased by 7.9% from Rp53.0 tn in 2019 to Rp 57.2 tn in 2020. Digging into the detail PKH (family hope program) is down 10.7% while food security is increased by 37.7%. Thus, we think this is still good for low income household to maintain its consumption for basic necessities since government sending signal that inflation expected to be at 3.1% which means that government will be committed to maintain administered prices steady.
- 2) **The energy and non energy subsidy:** we saw the budget for energy and non energy reduced by 6.6% with the combination of oil and energy subsidy slashed by 16.6%, mainly from two factors: 1). Government wants to control 3 Kg LPG subsidy and increase oversee effort with aim to make the subsidy more effective. 2). Diesel fuel subsidy is expected to be cut to Rp 1000/Litre from Rp 2000/Litre. However, our concern on the electricity subsidy despite 18.9% increase in total budget, since the government wants to take out electricity subsidy for 900Va category which comprises of mid to low consumer and 23 mn household fall under capable household will be impacted by this subsidy cut. Meanwhile the other 6.9 mn household expected to keep receiving subsidy.

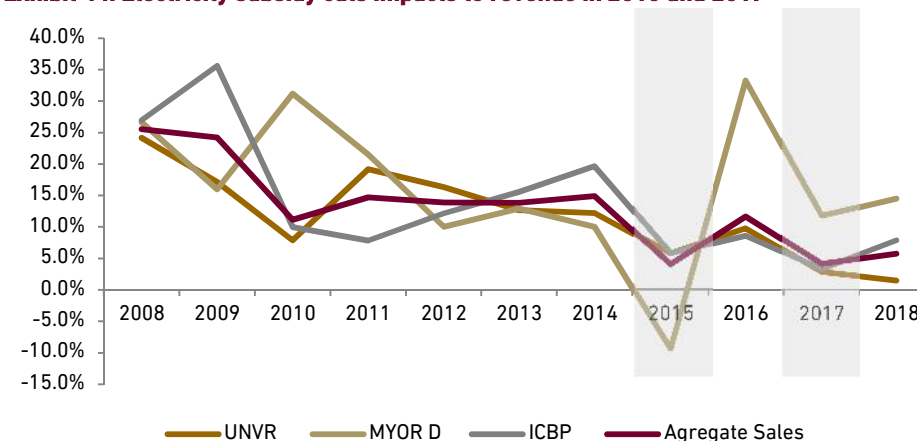
## EQUITY MARKET OUTLOOK 2021

**Exhibit 43: Social Assistance Budget for 2020**

	2019 Outlook	2020 Proposed Budget	YoY
Social assistance budget	369.1	385.1	4.3%
PIP	11.2	11.1	-0.9%
Bidik Misi/KIP kuliah (Education)	4.7	7.5	59.6%
PKH	32.6	29.1	-10.7%
B. Pangan/Kartu sembako (food security)	20.4	28.1	37.7%
PBI JKN	26.7	48.8	82.8%
Energy and non-energy subsidy	200.7	187.5	-6.6%
Electricity subsidy	52.3	62.2	18.9%
Oil and LPG subsidy	90.3	75.3	-16.6%
Others	58.1	50.0	-13.9%
Dana desa (village fund)	69.8	72.0	3.2%
Pembiayaan ultra mikro	3.0	1.0	-66.7%

Source: 2020 RAPBN, Ciptadana

**Exhibit 44: Electricity subsidy cuts impacts to revenue in 2015 and 2017**



Source: Company, Ciptadana



## EQUITY MARKET OUTLOOK 2021

- **Preferences pick MYOR, INDF and UNVR.**

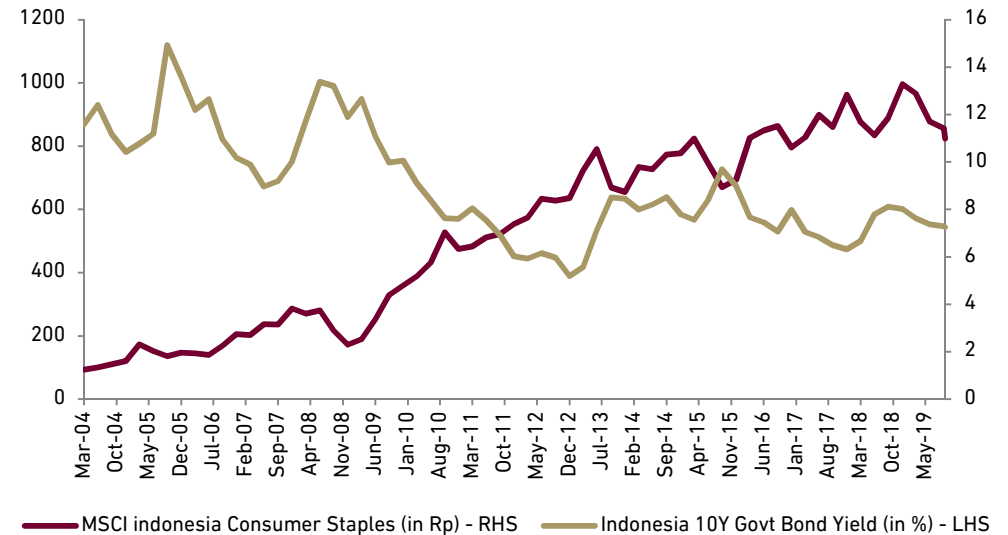
We have BUY call on MYOR, INDF and MYOR with TP of Rp 2,890, Rp 9,560, and Rp 52,540, respectively. Considering the potential upside on the key tailwind risk for staples margin from low soft commodity price we expect staples to outperform JCI next year.

The other drivers for staples to outperform next year from macroeconomic side are 1). As a bond proxy, further cut on interest rate (we found strong relationship with -0.8% correlation between MSCI Indonesia Consumer Staples vs 10Y Indonesia Government bond yield) should support staples valuation to re-rate, 2). Lacklustre on the consumption side especially from low purchasing power consumers (post electricity, LPG, and BPJS contribution hike) as government back to its reform agenda.

Therefore we like consumer names which fit with our 3 criteria's: 1). Limited concentration to domestic market and having successful foreign expansion. 2) Potential earnings surprise from both commodity prices 3). and names that continue to innovate during intense competition. Our pecking orders are MYOR, INDF, and UNVR. Key rationale as follows:

- 1) We prefer MYOR as our top pick on the back of continuation adding new market to its distribution which will help the company to sustain its organic growth and hedges against the currency volatility. Currently MYOR is traded at 2020F PER of 23.9x , which is near to its -1std of mean , hence we believed the risk and reward are attractive.
- 2) INDF's valuation is also attractive at 2020F of 14.5 which is below its 5 year historical average (15.0x). Strong ICBP sales and potential earnings surprise are from the agriculture division as we expect higher CPO price and ICBP deliver a decent growth. INDF is also still attractive in term of 40% discount to ICBP.
- 3) UNVR is currently trading at 2020F PER of 42.6x, still slightly below its mean at 46.4x. We like the company as the firm keep adding new product which should fuelling its long term growth on the back of innovation during intense competition.

**Exhibit 45: Indonesia MSCI consumer Staples vs 10Y Government bond yield**



Source: Bloomberg, Ciptadana Sekuritas

**Exhibit 46: Consumer stocks rating and valuation**

Bberg		Mkt.Cap	Last	Target	Upside	PER		EV/EBITDA		ROE	Yield
Ticker	Rating	(Rp tn)	Price	Price	pot.(%)	2020F	2021F	2020F	2021F	21F (%)	21F (%)
UNVR	BUY	301.4	7,900	10,880	37.7	39.0	35.8	27.0	24.9	159.3	2.8
ICBP	BUY	117.5	10,075	12,050	19.6	17.8	17.6	10.7	10.7	19.1	2.2
INDF	BUY	61.5	7,000	8,320	18.9	9.8	9.9	4.5	4.3	13.2	4.8
MYOR	BUY	53.7	2,400	2,715	13.1	25.3	26.1	17.2	15.1	16.8	1.5
<b>Sector</b>	<b>OW</b>	<b>534.1</b>				<b>29.6</b>	<b>27.8</b>	<b>19.8</b>	<b>18.4</b>	<b>97.3</b>	<b>2.8</b>

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# Indofood CBP

BUY

TP: Rp12,050 (+19.6%)

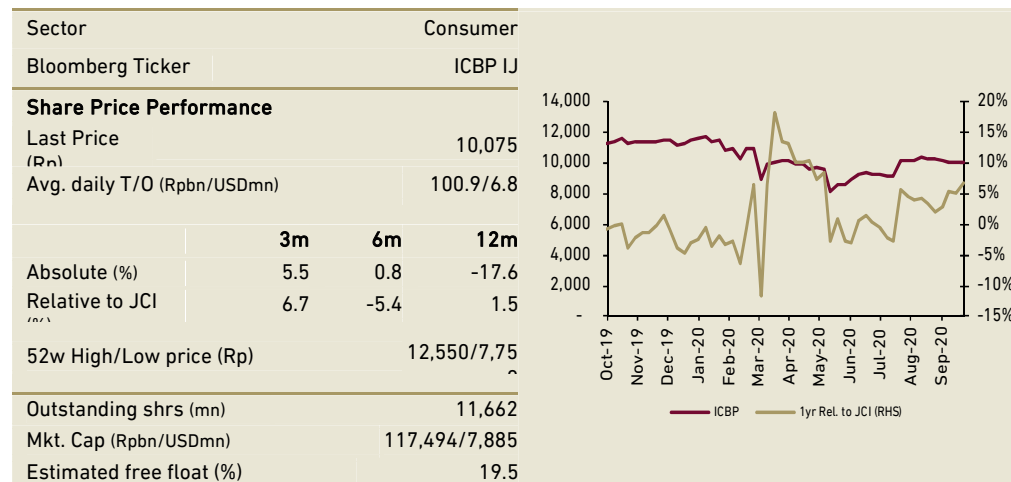
## Company Profile

Established in 2009 under Indofood Sukses Makmur, Indofood CBP (ICBP) is a market-leading producer of consumer branded products. The business operation of ICBP comprises of noodles, dairy, snack foods, food seasoning, nutrition and special food as well as beverages. The major contributor for ICBP's revenue comes from noodles and dairy, as they made up to 85% of the company's total revenue.

## Key Points

- **Revenue expected to grow decently by 3.9% in FY21F**, as Noodle remains the biggest growth contributors, we expected Noodle to deliver 4% sales growth YoY driven by ASP hike.
- **Cheap funding cost to acquire Pinehill.** The management gives guidance to investor that the company would get a 2% interest rate p.a. (vs our expectation of 2.7% p.a.) for the USD2bn debt to acquire Pinehill.
- **Earnings growth will be driven by Pinehill.** While we have not factored in Pinehill earnings into our forecast. Our back to enveloped calculation using USD128.5mn guarantee profit and 2% p.a. interest cost reveals the earnings increase post consolidation will be 16.9% to Rp7.82 tn in FY21F.
- **We maintain our BUY rating with FY21F TP of Rp 12,050/share.** We derived our assumption using multiple based valuations at 21.0x PER target. So far the company provens to be stable pick during the pandemic and investors expect potential earnings uplift post Pinehill acquisitions.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	38,413	42,297	45,845	47,641	50,023
Operating profit (Rpbn)	5,772	7,278	8,794	8,296	8,106
Net profit (Rpbn)	4,576	5,039	6,610	6,693	6,657
EPS (Rp)	392.4	432.1	566.8	574.0	570.8
EPS growth (%)	20.5	10.1	31.2	1.3	-0.6
EV/EBITDA (x)	17.3	13.4	10.7	10.7	10.4
PER (x)	25.7	23.3	17.8	17.6	17.7
PBV (x)	5.4	4.6	3.9	3.4	3.0
Dividend yield (%)	2.3	1.4	1.6	2.2	2.2
ROE (%)	21.2	19.9	21.7	19.1	16.9

## Assumptions

Revenue Assumption	2018A	2019A	2020F	2021F	2022F
Noodles	24,732	27,031	28,923	30,080	31,584
Dairy	7,541	8,046	8,850	9,204	9,664
Food seasoning	943	1,794	2,601	2,705	2,840
Others	5,198	5,426	5,470	5,561	5,934

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## Indofood CBP

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>38,413</b>	<b>42,297</b>	<b>45,845</b>	<b>47,641</b>	<b>50,023</b>
COGS	-26,148	-27,893	-29,754	-31,753	-33,938
<b>Gross profit</b>	<b>12,266</b>	<b>14,404</b>	<b>16,091</b>	<b>15,888</b>	<b>16,085</b>
Oper. expenses	-6,494	-7,126	-7,297	-7,593	-7,980
<b>Oper. profit</b>	<b>5,772</b>	<b>7,278</b>	<b>8,794</b>	<b>8,296</b>	<b>8,106</b>
<b>EBITDA</b>	<b>6,613</b>	<b>8,305</b>	<b>9,969</b>	<b>9,580</b>	<b>9,503</b>
Interest income	254	246	402	546	689
Interest expense	-226	-161	-161	-161	-161
Other income (exp.)	647	74	216	728	766
<b>Pre-tax profit</b>	<b>6,447</b>	<b>7,437</b>	<b>9,250</b>	<b>9,408</b>	<b>9,400</b>
Income tax	-1,788	-2,077	-2,219	-2,288	-2,319
Minority interest	-83	-321	-421	-427	-424
<b>Net profit</b>	<b>4,576</b>	<b>5,039</b>	<b>6,610</b>	<b>6,693</b>	<b>6,657</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	5,291	8,359	12,851	17,033	21,146
Acct, receivables	4,271	4,132	4,479	4,654	4,887
Inventory	4,001	3,841	4,097	4,372	4,673
Other curr, asset	558	293	318	330	347
<b>Total current asset</b>	<b>14,122</b>	<b>16,625</b>	<b>21,745</b>	<b>26,389</b>	<b>31,053</b>
Fixed assets - net	10,742	11,342	11,726	12,061	12,351
Other non-curr.asset	2,886	3,065	3,065	3,065	3,065
<b>Total asset</b>	<b>34,367</b>	<b>38,709</b>	<b>44,212</b>	<b>49,192</b>	<b>54,145</b>
ST debt + curr. maturity	1,107	654	0	0	0
Acct, payable	3,706	3,258	3,475	3,708	3,964
Advances received	0	0	0	0	0
Other curr. liab	2,422	2,645	2,835	3,001	3,190
Long term debt	852	1,702	2,356	2,356	2,356
Other non-curr, liab,	3,573	3,780	3,780	3,780	3,780
<b>Total liabilities</b>	<b>11,660</b>	<b>12,038</b>	<b>12,446</b>	<b>12,845</b>	<b>13,290</b>
Shareholder equity	21,619	25,301	30,396	34,976	39,485
Minority interest	1,088	1,370	1,370	1,370	1,370
<b>Total liab + SHE</b>	<b>34,367</b>	<b>38,709</b>	<b>44,212</b>	<b>49,192</b>	<b>54,145</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	4,576	5,039	6,610	6,693	6,657
Depreciation	841	1,027	1,175	1,284	1,397
Chg in working cap.	-2,780	367	-220	-64	-105
Other	-111	-406	-662	-812	-952
<b>CF-Oper activities</b>	<b>2,525</b>	<b>6,027</b>	<b>6,904</b>	<b>7,102</b>	<b>6,997</b>
Capital expenditure	-4,181	-2,687	-1,559	-1,620	-1,687
Others	-415	564	0	0	0
<b>CF-Investing activities</b>	<b>-4,597</b>	<b>-2,123</b>	<b>-1,559</b>	<b>-1,620</b>	<b>-1,687</b>
Net change in debt	83	397	0	0	0
Net change in equity	0	0	0	0	0
Dividend payment	-2,690	-1,683	-1,936	-2,540	-2,572
Other financing	580	929	843	853	849
<b>CF-Financing activities</b>	<b>-1,999</b>	<b>-272</b>	<b>-853</b>	<b>-1,301</b>	<b>-1,196</b>
<b>Net cash flow</b>	<b>-4,070</b>	<b>3,632</b>	<b>4,492</b>	<b>4,181</b>	<b>4,113</b>
Cash - begin of the year	8,797	4,727	8,359	12,851	17,033
Cash - end of the year	4,727	8,359	12,851	17,033	21,146

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	7.9	10.1	8.4	3.9	5.0
Operating profit gr. (%)	7.3	26.1	20.8	-5.7	-2.3
Net profit gr. (%)	20.5	10.1	31.2	1.3	-0.6
Gross margin (%)	31.9	34.1	35.1	33.3	32.2
Operating margin (%)	15.0	17.2	19.2	17.4	16.2
EBITDA margin (%)	17.2	19.6	21.7	20.1	19.0
Net margin (%)	11.9	11.9	14.4	14.0	13.3
ROA (%)	13.3	13.0	15.0	13.6	12.3
ROE (%)	21.2	19.9	21.7	19.1	16.9
Current ratio (x)	2.0	2.5	3.4	3.9	4.3
Quick ratio (x)	1.4	1.9	2.8	3.3	3.7
Interest cover (x)	29.3	51.4	61.8	59.3	58.9
Debt to equity ratio (x)	0.1	0.1	0.1	0.1	0.1
Net debt to equity (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



# Indofood Sukses Makmur

**BUY**

**TP: Rp8,320 (+18.9%)**

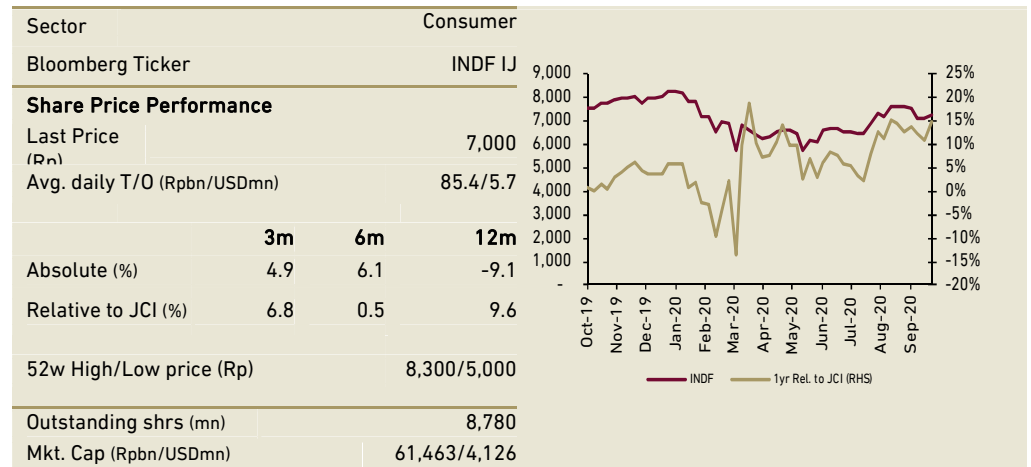
## Company Profile

Founded in 1990, Indofood Sukses Makmur (INDF) is one of the largest food companies in Indonesia that operates through four divisions namely, Consumer Branded Products (CBP), Bogasari (flour milling), Agribusiness (Indofood Agri Resources) and Distribution. In 2016, INDF discontinued its Cultivation (Minzhong) operation.

## Key Points

- **Low Single digit growth revenues next year.** We expect INDF to deliver 2.4% revenue growth, mainly driven by ICBP and Flour division. We expect ICBP to deliver 3.9% revenue growth in FY21F, and Bogasari to deliver 3.0% revenue growth (driven by volume) in FY21F due to weak wheat demand and lower wheat price outlook which will limit ASP hike. Agri revenue we expect to decline to 5% due to lower volume from replanting and flat CPO price.
- **Flat net profit growth in FY21F.** We expect ICBP operating margin to normalize to 17.3% level (from 19% in FY20F) as we start to return to normal life post vaccination. This will shrink the demand in the non-noodle segment. On Bogasari, operating margin is maintained at 9.5% (highest on the past 10Y) driven by lower wheat price outlook.
- **BUY with TP of Rp 8,320/share.** Our target price is based on FY21F EPS and PER target of 11.8x. INDF is currently trading at FY21F PER of just 9.9x. We believe this is an attractive valuation given it fell below 5 year historical PER of 15.0x.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	73,395	76,593	78,404	80,281	83,385
Operating profit (Rpbn)	7,928	9,530	11,634	11,189	11,125
Net profit (Rpbn)	4,166	4,908	6,269	6,189	6,335
EPS (Rp)	474.5	559.0	713.9	704.8	721.5
EPS growth (%)	0.2	17.8	27.7	-1.3	2.4
EV/EBITDA (x)	7.1	5.6	4.5	4.3	4.0
PER (x)	14.8	12.5	9.8	9.9	9.7
PBV (x)	1.8	1.6	1.5	1.3	1.2
Dividend yield (%)	5.7	3.2	4.9	4.8	4.9
ROE (%)	12.4	13.0	14.8	13.2	12.3

## Assumptions

Revenue Assumption	2018A	2019A	2020F	2021F	2022F
ICBP	38,710	42,753	45,728	47,520	49,896
Bogasari	21,245	22,839	23,981	24,705	26,210
Agriculture	14,050	13,600	11,213	10,653	11,120
Distribution	5,497	4,140	4,140	4,140	4,140

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 Estimated free float (%) 49.9



## Indofood Sukses Makmur

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>73,395</b>	<b>76,593</b>	<b>78,404</b>	<b>80,281</b>	<b>83,385</b>
COGS	-53,183	-53,877	-53,315	-56,197	-58,370
<b>Gross profit</b>	<b>20,212</b>	<b>22,716</b>	<b>25,089</b>	<b>24,084</b>	<b>25,016</b>
Oper. expenses	-12,284	-13,187	-13,456	-12,895	-13,891
<b>Oper. profit</b>	<b>7,928</b>	<b>9,530</b>	<b>11,634</b>	<b>11,189</b>	<b>11,125</b>
<b>EBITDA</b>	<b>10,868</b>	<b>12,677</b>	<b>14,810</b>	<b>14,561</b>	<b>14,697</b>
Interest income	421	751	753	756	759
Interest expense	-2,022	-1,727	-1,419	-1,113	-799
Other income (exp.)	1,120	196	111	111	111
<b>Pre-tax profit</b>	<b>7,447</b>	<b>8,749</b>	<b>11,079</b>	<b>10,943</b>	<b>11,196</b>
Income tax	-2,485	-2,847	-3,540	-3,500	-3,576
Minority interest	-796	-995	-1,270	-1,254	-1,284
<b>Net profit</b>	<b>4,166</b>	<b>4,908</b>	<b>6,269</b>	<b>6,189</b>	<b>6,335</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	12,928	13,801	13,851	13,901	13,951
Acct. receivables	5,402	5,406	5,534	5,666	5,885
Inventory	11,644	9,659	9,558	10,075	10,464
Other curr. asset	3,298	2,538	2,519	2,616	2,690
<b>Total current asset</b>	<b>33,273</b>	<b>31,403</b>	<b>31,462</b>	<b>32,258</b>	<b>32,990</b>
Fixed assets - net	42,388	43,073	43,742	44,307	44,823
Other non-curr.asset	10,206	10,299	10,299	10,299	10,299
<b>Total asset</b>	<b>96,538</b>	<b>96,199</b>	<b>96,926</b>	<b>98,288</b>	<b>99,536</b>
ST debt + curr. maturity	21,634	14,022	0	0	0
Acct. payable	4,029	4,522	4,475	4,717	4,899
Advances received	606	0	0	0	0
Other curr. liab	4,935	6,143	6,079	6,407	6,655
Long term debt	7,490	8,955	18,879	14,808	10,627
Other non-curr. liab,	7,927	8,354	8,354	8,354	8,354
<b>Total liabilities</b>	<b>46,621</b>	<b>41,996</b>	<b>37,787</b>	<b>34,286</b>	<b>30,536</b>
Shareholder equity	33,614	37,778	42,317	46,798	51,386
Minority interest	16,303	16,425	16,822	17,204	17,615
<b>Total liab + SHE</b>	<b>96,538</b>	<b>96,199</b>	<b>96,926</b>	<b>98,288</b>	<b>99,536</b>

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	4,166	4,908	6,269	6,189	6,335
Depreciation	2,939	3,148	3,176	3,372	3,572
Chg in working cap.	-9,017	8,435	-119	-176	-252
Other	2,397	1,971	1,936	1,611	1,324
<b>CF-Oper activities</b>	<b>485</b>	<b>18,461</b>	<b>11,262</b>	<b>10,995</b>	<b>10,979</b>
Capital expenditure	-5,835	-3,832	-3,846	-3,937	-4,088
Others	-1,221	-954	0	0	0
<b>CF-Investing activities</b>	<b>-7,057</b>	<b>-4,786</b>	<b>-3,846</b>	<b>-3,937</b>	<b>-4,088</b>
Net change in debt	5,440	-6,146	-4,098	-4,072	-4,180
Net change in equity	0	0	0	0	0
Dividend payment	3,485	1,974	3,000	2,961	3,032
Other financing	-5,633	-3,591	-5,602	-5,541	-5,652
<b>CF-Financing activities</b>	<b>1,691</b>	<b>-8,740</b>	<b>-7,366</b>	<b>-7,009</b>	<b>-6,841</b>
<b>Net cash flow</b>	<b>-4,881</b>	<b>4,936</b>	<b>50</b>	<b>50</b>	<b>50</b>
Cash - begin of the year	13,690	8,809	13,745	13,795	13,845
Cash - end of the year	8,809	13,745	13,795	13,845	13,895

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	4.6	4.4	2.4	2.4	3.9
Operating profit gr. (%)	-6.3	20.2	22.1	-3.8	-0.6
Net profit gr. (%)	0.2	17.8	27.7	-1.3	2.4
Gross margin (%)	27.5	29.7	32.0	30.0	30.0
Operating margin (%)	10.8	12.4	14.8	13.9	13.3
EBITDA margin (%)	14.8	16.6	18.9	18.1	17.6
Net margin (%)	5.7	6.4	8.0	7.7	7.6
ROA (%)	4.3	5.1	6.5	6.3	6.4
ROE (%)	12.4	13.0	14.8	13.2	12.3
Current ratio (x)	1.1	1.3	3.0	2.9	2.9
Quick ratio (x)	0.7	0.9	2.1	2.0	1.9
Interest cover (x)	5.4	7.3	10.4	13.1	18.4
Debt to equity ratio (x)	0.9	0.6	0.4	0.3	0.2
Net debt to equity (x)	0.5	0.2	0.1	0.0	Net Cash



# Mayora Indah

**BUY**

**TP: Rp2,715 (+13.1%)**

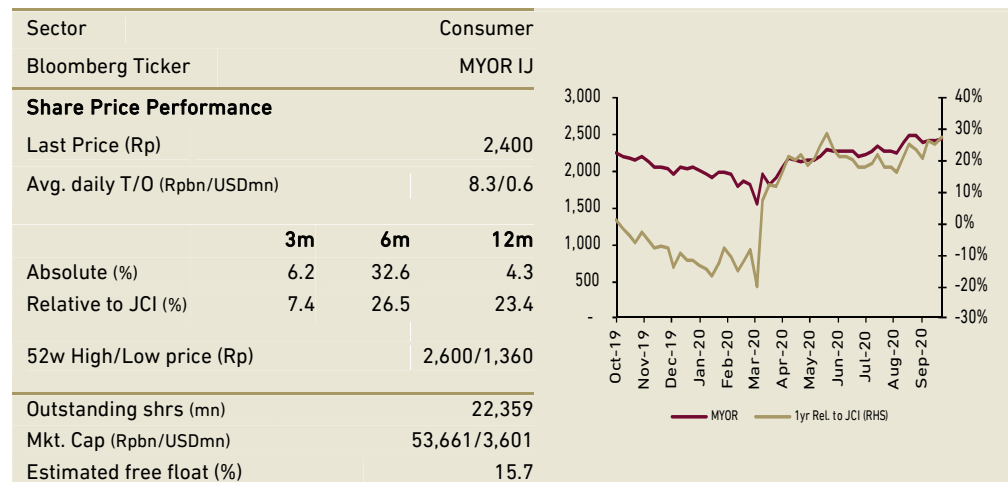
## Company Profile

Mayora Indah is a well-know FMCG company in Indonesia with strong brands marketed in Indonesia and abroad. MYOR product portfolio is balanced between Food which includes Coffee & Cocoa processing deriving (53% of total revenues) and the rest 47% is confectionaries, biscuits, wafer and candy. MYOR exports its product to ASEAN countries, China, Africa, Australia, Eastern Europe and Middle East which together account for for 45% of total revenues. MYOR is characterized by strong margins and ROE.

## Key Points

- **Revenue expected to grow decently at 8.8%.** We expect export sales to recover faster growing by 28.9% and outshine domestic growth which we believe to contract by 3.5% in FY21F. We believe the recovery in export will be faster as we see no disruption in international trade from port closure like we saw in the beginning of 2020 during the great global lockdown.
- **Normalization in margin.** We expect margins to normalize in FY21F as revenue return to growth mode again and tepid raw material price such as sugar price which is expected to decline by USD11 cents/pound, and weaker coffee price as a result of 9.1 mn bags of coffee production surplus. We expect GPM to expand by 0.3p.p in FY21F.
- **BUY recommendation with FY21F TP of Rp 2,715/share.** We derived our TP using multiple based valuations at 29.5x PER target since we consider the company remain resilience amid the pandemic.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	24,061	25,027	21,734	23,651	25,738
Operating profit (Rpbn)	2,628	3,172	2,492	2,834	3,393
Net profit (Rpbn)	1,716	1,988	2,122	2,057	2,514
EPS (Rp)	76.8	88.9	94.9	92.0	112.4
EPS growth (%)	7.6	15.8	6.8	-3.1	22.2
EV/EBITDA (x)	18.0	15.0	17.2	15.1	12.7
PER (x)	31.3	27.0	25.3	26.1	21.3
PBV (x)	6.4	5.6	4.9	4.4	3.9
Dividend yield (%)	0.9	1.2	1.5	1.5	1.8
ROE (%)	20.6	20.6	19.4	16.8	18.3

## Assumptions

Revenue Assumption	2018A	2019A	2020F	2021F	2022F
Foods processing	12,432	13,173	13,437	14,108	14,955
Beverages processing	11,628	11,853	8,297	9,541	10,782
Domestic sales	12,952	13,546	13,475	13,007	12,868
Export sales	11,108	11,479	8,259	10,642	12,868

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## Mayora Indah

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>24,061</b>	<b>25,027</b>	<b>21,734</b>	<b>23,651</b>	<b>25,738</b>
COGS	-17,664	-17,109	-15,416	-16,701	-18,123
<b>Gross profit</b>	<b>6,397</b>	<b>7,917</b>	<b>6,318</b>	<b>6,950</b>	<b>7,615</b>
Oper. expenses	-3,769	-4,745	-3,825	-4,116	-4,221
<b>Oper. profit</b>	<b>2,628</b>	<b>3,172</b>	<b>2,492</b>	<b>2,834</b>	<b>3,393</b>
<b>EBITDA</b>	<b>3,177</b>	<b>3,760</b>	<b>3,150</b>	<b>3,539</b>	<b>4,149</b>
Interest income	47	52	48	39	39
Interest expense	-493	-355	-299	-118	-59
Other income (exp.)	36	41	39	39	39
<b>Pre-tax profit</b>	<b>2,382</b>	<b>2,704</b>	<b>2,885</b>	<b>2,794</b>	<b>3,412</b>
Income tax	-622	-665	-708	-683	-833
Minority interest	-44	-52	-55	-53	-65
<b>Net profit</b>	<b>1,716</b>	<b>1,988</b>	<b>2,122</b>	<b>2,057</b>	<b>2,514</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	2,496	2,982	2,046	2,046	2,046
Acct, receivables	6,075	6,403	5,561	6,051	6,585
Inventory	3,352	2,791	2,514	2,724	2,956
Other curr, asset	725	600	521	567	618
<b>Total current asset</b>	<b>12,648</b>	<b>12,776</b>	<b>10,642</b>	<b>11,388</b>	<b>12,204</b>
Fixed assets - net	4,258	4,675	4,669	4,674	4,690
Other non-curr.asset	686	1,587	1,574	1,582	1,590
<b>Total asset</b>	<b>17,592</b>	<b>19,038</b>	<b>16,886</b>	<b>17,644</b>	<b>18,484</b>
ST debt + curr. maturity	2,630	1,422	0	0	0
Acct, payable	1,625	1,412	1,273	1,379	1,496
Advances received	0	0	0	0	0
Other curr. liab	509	892	797	865	939
Long term debt	3,377	4,386	2,723	1,966	985
Other non-curr, liab,	907	1,025	890	969	1,054
<b>Total liabilities</b>	<b>9,049</b>	<b>9,138</b>	<b>5,683</b>	<b>5,178</b>	<b>4,474</b>
Shareholder equity	8,343	9,663	10,966	12,229	13,772
Minority interest	200	237	237	237	237
<b>Total liab + SHE</b>	<b>17,592</b>	<b>19,038</b>	<b>16,886</b>	<b>17,644</b>	<b>18,484</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	1,716	1,988	2,122	2,057	2,514
Depreciation	549	588	658	705	756
Chg in working cap.	-2,178	-255	841	-501	-547
Other	282	509	-354	79	20
<b>CF-Oper activities</b>	<b>370</b>	<b>2,830</b>	<b>3,267</b>	<b>2,340</b>	<b>2,744</b>
Capital expenditure	-819	-1,005	-652	-710	-772
Others	0	0	0	0	0
<b>CF-Investing activities</b>	<b>-819</b>	<b>-1,005</b>	<b>-652</b>	<b>-710</b>	<b>-772</b>
Net change in debt	1,553	-199	-3,086	-757	-981
Net change in equity	0	0	0	0	0
Dividend payment	-481	-663	-819	-794	-971
Other financing	117	-174	605	0	0
<b>CF-Financing activities</b>	<b>743</b>	<b>-1,338</b>	<b>-3,551</b>	<b>-1,630</b>	<b>-1,971</b>
<b>Net cash flow</b>	<b>294</b>	<b>486</b>	<b>-936</b>	<b>0</b>	<b>0</b>
Cash - begin of the year	2,202	2,496	2,982	2,046	2,046
Cash - end of the year	2,496	2,982	2,046	2,046	2,046

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	15.6	4.0	-13.2	8.8	8.8
Operating profit gr. (%)	6.8	20.7	-21.4	13.7	19.7
Net profit gr. (%)	7.6	15.8	6.8	-3.1	22.2
Gross margin (%)	26.6	31.6	29.1	29.4	29.6
Operating margin (%)	10.9	12.7	11.5	12.0	13.2
EBITDA margin (%)	13.2	15.0	14.5	15.0	16.1
Net margin (%)	7.1	7.9	9.8	8.7	9.8
ROA (%)	9.8	10.4	12.6	11.7	13.6
ROE (%)	20.6	20.6	19.4	16.8	18.3
Current ratio (x)	2.7	3.4	5.1	5.1	5.0
Quick ratio (x)	2.0	2.7	3.9	3.9	3.8
Interest cover (x)	6.4	10.6	10.5	30.0	70.1
Debt to equity ratio (x)	0.7	0.6	0.2	0.2	0.1
Net debt to equity (x)	0.4	0.3	0.1	Net Cash	Net Cash





# Unilever Indonesia

**BUY**

**TP: Rp10,880 (+37.7%)**

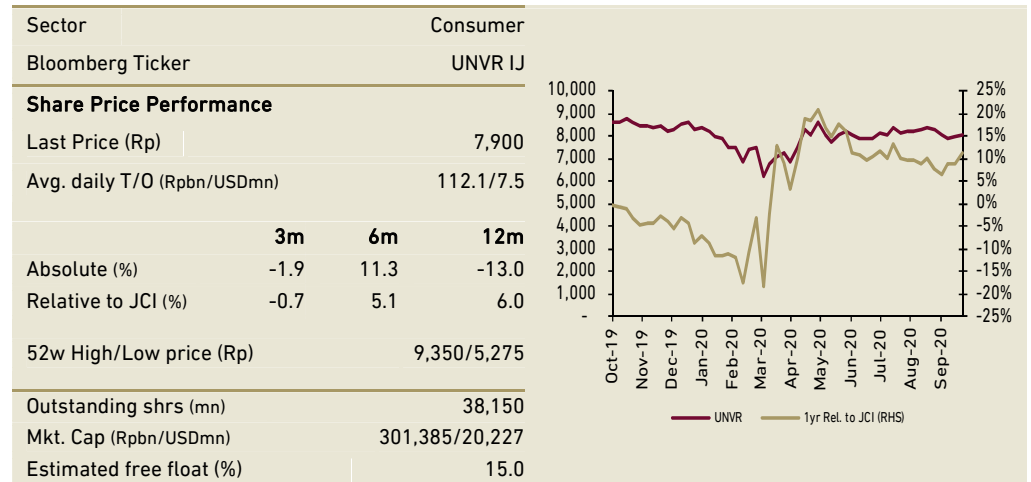
## Company Profile

Unilever Indonesia (UNVR) was established in 1933 under the name Lever's Zeepfabrieken N.V in Indonesia. UNVR has been one of the Indonesia's largest consumer goods producers. The company's portfolio of home & personal care and food & refreshment products contains various well known brands, such as Wall's, Bango, Lifebuoy, Sunsilk, Pepsodent, Rinso, Ponds and Dove.

## Key Points

- **Expect 4.8% top line growth** with expectation of recovery in food and refreshment segment as we expect that the life gradually return to normal post vaccine which will make the demand from horeca channel to come back. We also expect HPC segment growth remain stable at 4.8% driven by skin care product while the rest of HPC product portfolios remain stable.
- **Earnings should improve by 8.9% in 2021F**, mainly due to normalization of company margin and tepid CPO price (flattish). We also hope that post vaccine consumer can start to spend again and back to premiumization as the infection fear on COVID-19 among middle class will be vanished, thus the uncertainty on the economic and income can recover. Based on BI data in Aug-2020 consumer spending pattern, the middle up consumer saving allocation rose by 1-2% and at the same time consumption allocation declined by 2%-4% compared to Dec-2019.
- **Our recommendation is BUY with TP of Rp 10,880.** UNVR is currently trading at FY21F PER of 35.8x, which is still slightly below its mean of 46.4X PER. We like the company due to its revenue stability and product diversification.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	41,802	42,923	44,938	47,095	49,356
Operating profit (Rpbn)	9,502	10,118	10,112	11,025	11,703
Net profit (Rpbn)	9,081	7,393	7,722	8,413	8,926
EPS (Rp)	238.0	193.8	202.4	220.5	234.0
EPS growth (%)	29.6	-18.6	4.4	8.9	6.1
EV/EBITDA (x)	28.7	27.1	27.0	24.9	23.4
PER (x)	33.2	40.8	39.0	35.8	33.8
PBV (x)	40.8	57.1	57.1	57.1	57.1
Dividend yield (%)	2.3	3.0	2.6	2.8	3.0
ROE (%)	123.0	140.0	146.2	159.3	169.0

## Assumptions

Revenue Assumption	2018A	2019A	2020F	2021F	2022F
Home and Personal Care	28,723	29,862	31,355	32,860	34,437
Foods and Refreshment	13,078	13,060	13,582	14,234	14,917

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## Unilever Indonesia

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>41,802</b>	<b>42,923</b>	<b>44,938</b>	<b>47,095</b>	<b>49,356</b>
COGS	-20,697	-20,894	-22,365	-23,012	-23,967
<b>Gross profit</b>	<b>21,105</b>	<b>22,029</b>	<b>22,573</b>	<b>24,084</b>	<b>25,389</b>
Oper. expenses	-11,603	-11,911	-12,461	-13,059	-13,686
<b>Oper. profit</b>	<b>9,502</b>	<b>10,118</b>	<b>10,112</b>	<b>11,025</b>	<b>11,703</b>
<b>EBITDA</b>	<b>10,551</b>	<b>11,247</b>	<b>11,285</b>	<b>12,281</b>	<b>13,047</b>
Interest income	16	11	5	5	5
Interest expense	-192	-230	-219	-246	-266
Other income (exp.)	2,821	-2	-2	-2	-2
<b>Pre-tax profit</b>	<b>12,148</b>	<b>9,902</b>	<b>9,901</b>	<b>10,787</b>	<b>11,445</b>
Income tax	-3,067	-2,509	-2,179	-2,374	-2,519
Minority interest	0	0	0	0	0
<b>Net profit</b>	<b>9,081</b>	<b>7,393</b>	<b>7,722</b>	<b>8,413</b>	<b>8,926</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	352	629	282	282	282
Acct, receivables	4,983	5,335	5,586	5,854	6,135
Inventory	2,658	2,429	2,600	2,675	2,787
Other curr. asset	265	137	147	151	157
<b>Total current asset</b>	<b>8,258</b>	<b>8,530</b>	<b>8,615</b>	<b>8,962</b>	<b>9,360</b>
Fixed assets - net	10,627	10,715	11,184	11,635	12,068
Other non-curr.asset	945	939	938	936	935
<b>Total asset</b>	<b>20,327</b>	<b>20,649</b>	<b>21,169</b>	<b>21,935</b>	<b>22,733</b>
ST debt + curr. maturity	599	3,046	2,861	3,316	3,656
Acct, payable	4,573	4,517	4,835	4,975	5,181
Advances received	0	0	0	0	0
Other curr. liab	6,102	5,502	5,890	6,060	6,311
Long term debt	897	919	919	919	919
Other non-curr. liab,	772	1,383	1,383	1,383	1,383
<b>Total liabilities</b>	<b>12,943</b>	<b>15,368</b>	<b>15,887</b>	<b>16,653</b>	<b>17,451</b>
Shareholder equity	7,384	5,282	5,282	5,282	5,282
Minority interest	0	0	0	0	0
<b>Total liab + SHE</b>	<b>20,327</b>	<b>20,649</b>	<b>21,169</b>	<b>21,935</b>	<b>22,733</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	9,081	7,393	7,722	8,413	8,926
Depreciation	1,049	1,129	1,173	1,256	1,344
Chg in working cap.	660	-35	274	-38	60
Other	174	214	209	235	255
<b>CF-Oper activities</b>	<b>10,964</b>	<b>8,701</b>	<b>9,378</b>	<b>9,867</b>	<b>10,585</b>
Capital expenditure	-1,255	-1,217	-1,641	-1,707	-1,777
Others	-764	33	33	33	33
<b>CF-Investing activities</b>	<b>-2,019</b>	<b>-1,184</b>	<b>-1,608</b>	<b>-1,674</b>	<b>-1,744</b>
Net change in debt	-1,954	2,469	-186	456	340
Net change in equity	0	0	0	0	0
Dividend payment	-6,981	-9,192	-7,722	-8,413	-8,926
Other financing	113	-297	6	6	6
<b>CF-Financing activities</b>	<b>-8,999</b>	<b>-7,240</b>	<b>-8,116</b>	<b>-8,192</b>	<b>-8,841</b>
<b>Net cash flow</b>	<b>-53</b>	<b>277</b>	<b>-347</b>	<b>0</b>	<b>0</b>
Cash - begin of the year	405	352	629	282	282
Cash - end of the year	352	629	282	282	282

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	1.5	2.7	4.7	4.8	4.8
Operating profit gr. (%)	0.0	6.5	-0.1	9.0	6.2
Net profit gr. (%)	29.6	-18.6	4.4	8.9	6.1
Gross margin (%)	50.5	51.3	50.2	51.1	51.4
Operating margin (%)	22.7	23.6	22.5	23.4	23.7
EBITDA margin (%)	25.2	26.2	25.1	26.1	26.4
Net margin (%)	21.7	17.2	17.2	17.9	18.1
ROA (%)	44.7	35.8	36.5	38.4	39.3
ROE (%)	123.0	140.0	146.2	159.3	169.0
Current ratio (x)	0.7	0.7	0.6	0.6	0.6
Quick ratio (x)	0.5	0.5	0.4	0.4	0.4
Interest cover (x)	55.0	48.9	51.4	49.9	49.1
Debt to equity ratio (x)	0.2	0.8	0.7	0.8	0.9
Net debt to equity (x)	0.2	0.6	0.7	0.7	0.8



## TELCO SECTOR



# Telecommunication Overweight

### Sector Outlook

- **On-going legacy to data services transition with complex competition dynamic**

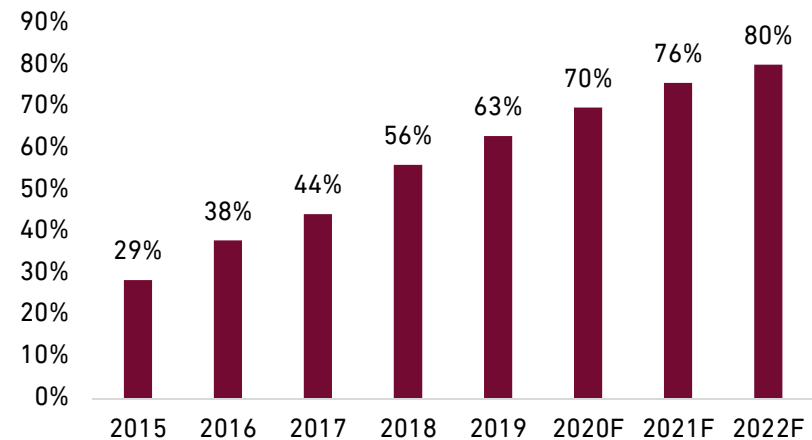
Telecommunication (telecom) sector is still in the structural transition phase from legacy services (voice and SMS) to data services. The stage of the transition, however, is different from one another. On the other hand, we expect the competitive landscape of the industry to remain intense in the near future. Telecom companies (telcos) may have their own agendas, however, none would benefit from a severe price war. Instead of price war, we see telcos are embarking more on quota war by pushing larger data package and unlimited offerings to their respective subscribers. While this would continuously push down data yield, ARPU may still trend upwards. This is a sensible strategy, in our view, as recent network statistics indicate an improving network quality despite the rising data traffic. Costs control in turn benefits into another important lever to cash flow generation which is imperative for telcos to maintain steady capex spending.

- **Industry data traffic growth is set for further growth**

Since the beginning of 4G roll-out in 2015, data consumption has witnessed a tremendous growth. Data traffic (from the top-3 operators) grew at 17.0% compounded quarterly rate in 1Q15-2Q20 with 2Q20's figure is at 27x of that in 1Q15. Notwithstanding the explosive growth, we believe Indonesia is still in the early phase of mobile data adoption. Indonesia's smartphone penetration picked-up rapidly in the last few years due to the rise of cheaper handsets especially the Chinese brands. However, Indonesia's smartphone penetration rate of 63% is still low compared to neighbouring countries (Thailand: 82%, Malaysia: 78%, Philippines: 71%). Furthermore, monthly data-consumption-per-subscriber number also suggests ample further growth potential as the average from top-3 telcos is currently at 5.7GB, far lower than that of other South East Asian countries (Malaysia at 14GB/subscriber/month, Thailand at

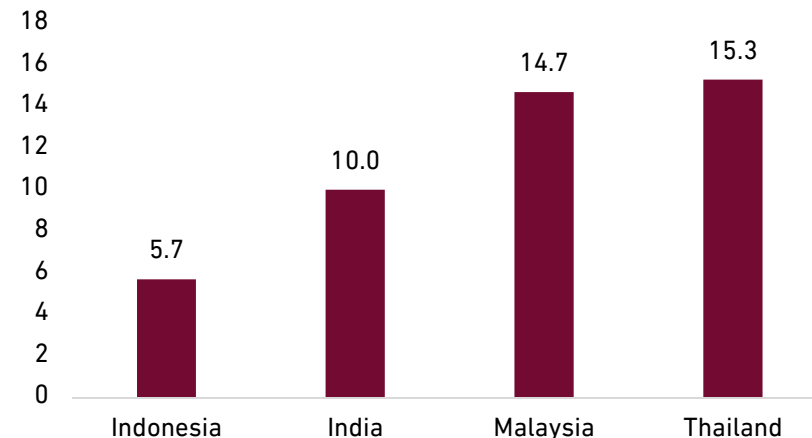
15GB/subscriber/month) or India (10GB). Having a young demographic profile, coupled with the acceleration of digitalization trend, we estimate data traffic could still post 40% CAGR in 2019-22F.

**Exhibit 47: Smartphone Penetration in Indonesia**



Source :ASEANUP, Statista, Ciptadana

**Exhibit 48: Comparison of Monthly Data Consumption per subscriber (in GB)**



Source : Companies, Ciptadana



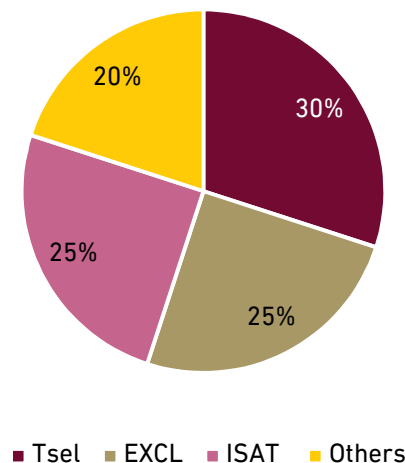
- **Different agendas among telcos: smaller telcos expansions...**

Competition landscape in telcos sector is dynamic and intricate. Differences in ex-Java presence, economic of scale, and legacy/data revenue mix are complicating the competition dynamics. For instance, apart from the incumbent Telkomsel (Tsel), smaller telcos are expanding their ex-Java coverage as a greenfield revenue opportunity. EXCL as the early mover, started its ex-Java expansion in 2H16 and has managed to reach 90% population coverage in key islands with current estimated ex-Java market share at 10-15%. ISAT and Hutchison 3 Indonesia (H3I) have also started expanding to ex-java in 2019 with ex-Java population coverage at around 80%/75%, respectively. FREN, while also has initiated ex-java expansions, is more focused to cover more sites in Java and gain more subscribers. We believe EXCL has already achieved the appropriate scale in some of its early ex-Java investments. It now needs to balance out between monetizing and filling-in more subscribers to its networks. On the other hand, ISAT and H3I will continue to expand their coverage into new areas over the next two years and customers' acquisitions will be their focal points for a while.

- **... and Tsel's needs to increase data traffic**

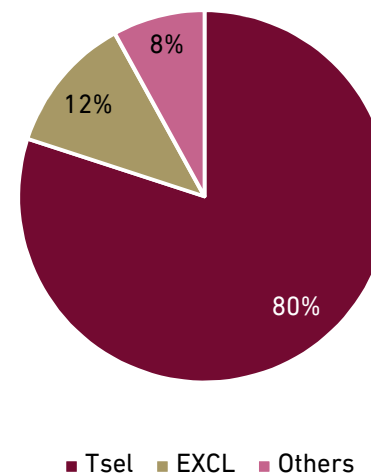
Tsel is the network leader in Indonesia and is the incumbent operator in ex-Java with nationwide coverage of >95%. At the same time, Tsel is still in the midst of legacy transition to data/digital services as 26% of revenue is still derived from legacy services. Before smaller telcos rolled out ex-Java expansions intensively, Tsel could maintain its legacy revenue while growing data business at the same time. As digital adoption accelerates throughout the country, in some part thanks to smaller telcos expansions, Tsel currently suffers the highest revenue decline from legacy services. Furthermore, its relatively low data engagement compared to peers and some market share losses resulting in muted revenue growth of late. From this point onward, as data is the only growth lever in the industry, Tsel would need to increase its data revenue market share. To achieve higher data revenue market share, Tsel must start with increasing traffic shares. Given its low data consumption per subscriber and its superior network quality, the growth potential is still aplenty for Tsel. Increased data usage will consequently drag down data yield in at least the short term (more details in the following section).

**Exhibit 49: Estimated Java market share**



Source : Companies, Ciptadana

**Exhibit 50: Estimated ex-Java market share**

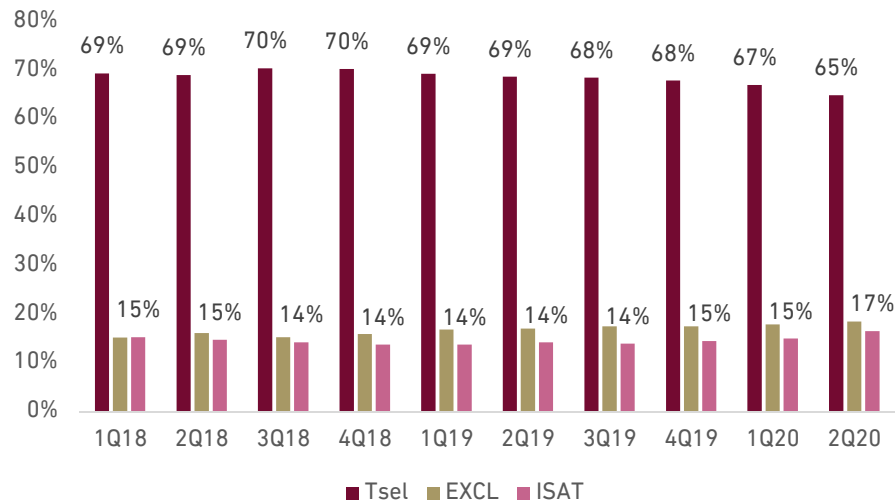


Source : Companies, Ciptadana



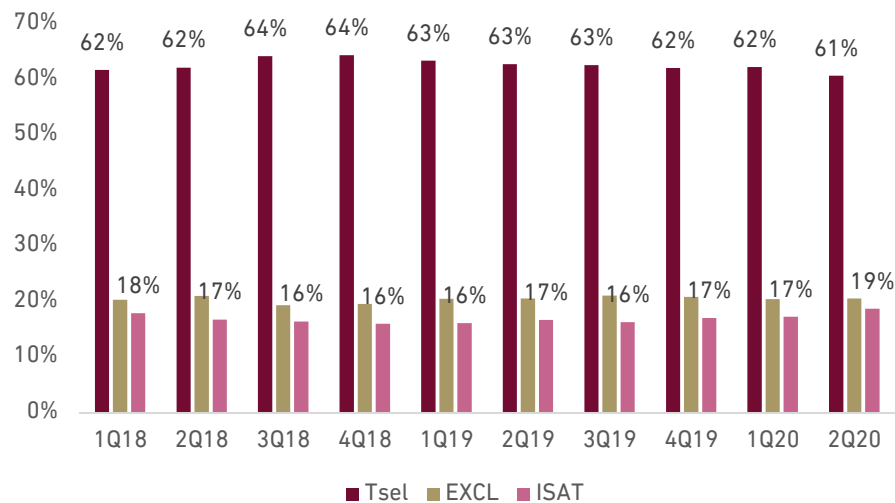
## EQUITY MARKET OUTLOOK 2021

**Exhibit 51: Mobile Revenue Market Share**



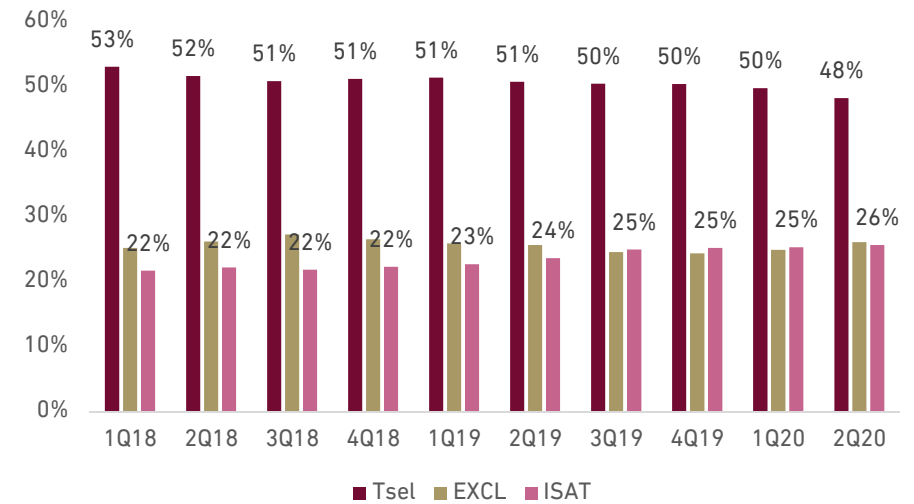
Source : Companies, Ciptadana

**Exhibit 52: Data Revenue Market Share**



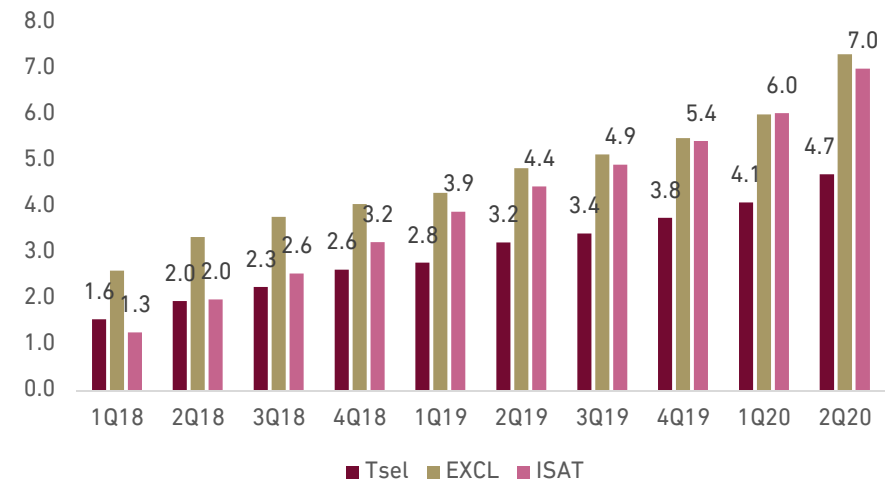
Source : Companies, Ciptadana

**Exhibit 53: Data Traffic Market Share**



Source : Companies, Ciptadana

**Exhibit 54: Data Consumption per Subscriber (in GB)**



Source : Companies, Ciptadana





## • Tsel's strategies to grab back data revenue share...

Going forward, we expect Tsel will try to increase data usage of its subscribers base. We see two-pronged approach coming from Tsel. Firstly, on data engagement front, Tsel is continuously expanding its contents offering on video, gaming, and social media. For example, it had opened access to Netflix and secured partnership with Disney+ Hotstar. Secondly, on pricing and affordability issue, Tsel has introduced "Kuota Ketengan" and unlimited feature to its offerings. Kuota Ketengan is a sachet data package to access select apps with the lowest entry price of Rp2,500/GB which we believe is competitive in the market. Tsel started its unlimited offers in late July/August this year with Unlimited Max aiming to acquire new subscribers. Tsel now has expanded unlimited offerings to more cities as an adds-on/booster of main package.

**Exhibit 55: Comparison of Unlimited Offerings (Top to Bottom: Tsel, EXCL, ISAT)**

Price (Rp K)	Local quota (GB)	National quota (GB)	Unlimited apps (local)	Data yield (Rp/GB)
20	2.5	0.5	WhatsApp, LINE, GamesMAX, MusicMAX	6,667
30	6	1	aforementioned + Facebook, Instagram	4,286
50	13	2		3,333
70	23	2	aforementioned + YouTube, MAXstream	2,800
100	35	3		2,632
120	50	5		2,182

Price (Rp K)	Local quota in area 1 (GB)	Local quota in area 2 (GB)	National quota (GB)	Unlimited apps (local)	Data yield in area 1 (Rp/GB)	Data yield in area 2 (Rp/GB)
33	1.5	1	3.5	WhatsApp, LINE, Gojek, Facebook, Instagram	6,600	7,333
45	2	3	6		5,625	5,000
68	4	6	11	aforementioned + YouTube, Netflix, Iflix, Viu, Vidio	4,533	4,000
105	4	12	21		4,200	3,182
125	6	18	31		3,378	2,551

Price (Rp K)	Main quota (GB)	Select apps quota (GB)	Running apps will first use apps quota then main quota. After they are exhausted, speed will be capped at 64kbps (unlimited)	Data yield (Rp/GB)
25	1	4.5	Whatsapp, LINE Facebook, Twitter, Gojek, Grab, Spotify, Joox, FB Gaming	4,545
40	2	7.5		4,211
60	3	15	aforementioned + Instagram, YouTube	3,333
80	7	20	aforementioned + TikTok, Shopee, Tokopedia, Bukalapak, Traveloka	2,963
100	10	25		2,857
150	38 (combined)			3,947

Source :Companies, Ciptadana

## • ... but Tsel will tread carefully

As the result of Tsel's efforts, we believe the sector will remain competitive for the next few years but should be able to avoid a price war. We believe Tsel may tweak its pricing to be competitive against its smaller peers. As the market leader with 61% of market revenue, we believe Tsel would not drive the market into a price war. On the other hand, ISAT might want to grab more or regain some market shares but would likely to avoid a severe price war as the Company is still in net loss and would like to generate a positive return on its sizeable network investments.

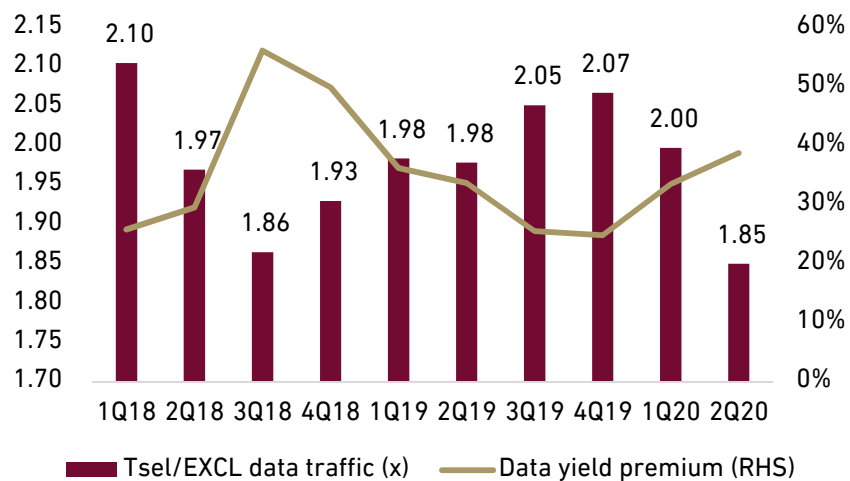
## • Relative Tsel-EXCL pricing elasticity should drive data yield down

We analyse Tsel's data traffic multiple to EXCL's and found that it is correlated to Tsel's data yield premium over EXCL. This implies that Tsel could increase its relative data traffic share to EXCL, if Tsel's data yield decline steeper than EXCL. Interestingly, the correlation is less prominent in Tsel-ISAT relationship. This suggests a more direct competition between Tsel and EXCL. We also observe a decent relationship on EXCL-ISAT analysis. These findings also align with Tsel strategy in maintaining 30-40% premium pricing over EXCL. Therefore, with aforementioned strategies in garnering more data traffic, we believe data yield will continue to trend down at least in the near future. Barring from any significant tariff cuts, this could still translate to a higher ARPU as is the current trend in the industry. This might be the trend in the industry for some time; declining data yield but better ARPU trends.



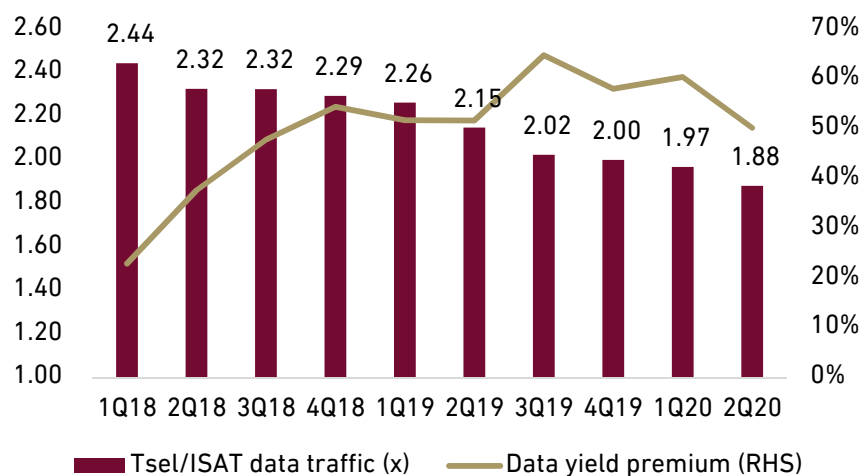
## EQUITY MARKET OUTLOOK 2021

**Exhibit 56: Tsel-EXCL data traffic multiple vs data yield premium**



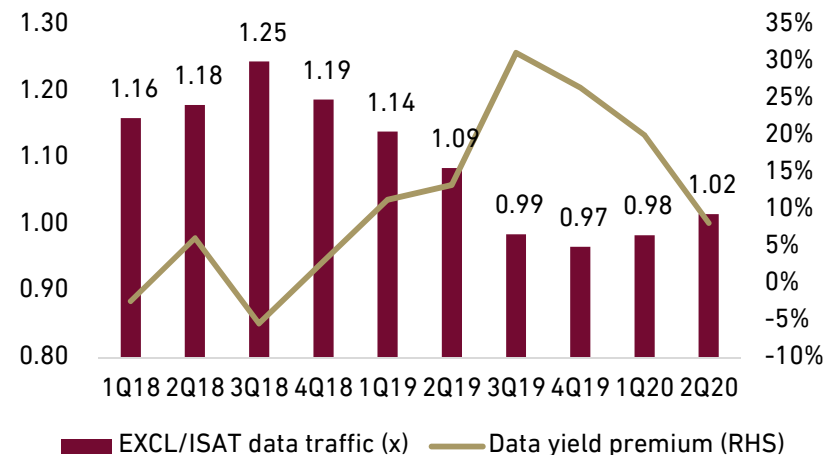
Source :Companies, Ciptadana

**Exhibit 57: Tsel-ISAT data traffic multiple vs data yield premium**



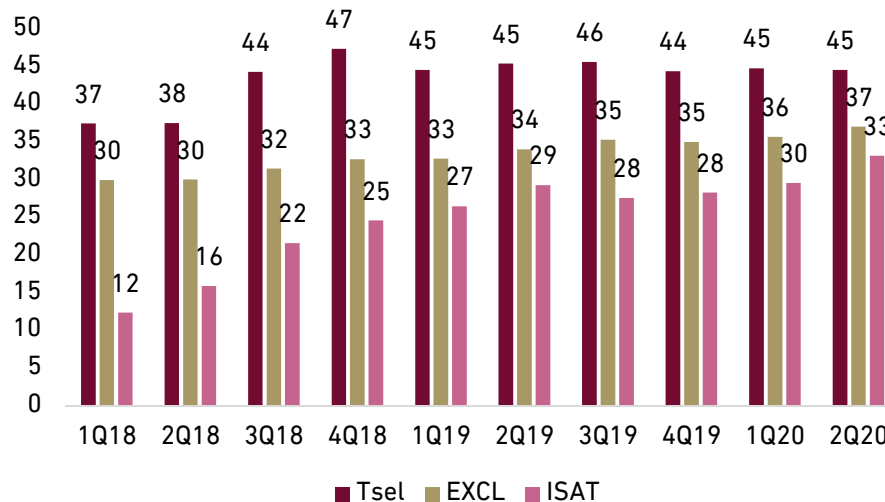
Source :Companies, Ciptadana

**Exhibit 58: EXCL-ISAT data traffic multiple vs. data yield premium**



Source :Companies, Ciptadana

**Exhibit 59: Telco ARPU Trends (in Rp K)**



Source : Companies, Ciptadana



- **Network quality is as important as ever**

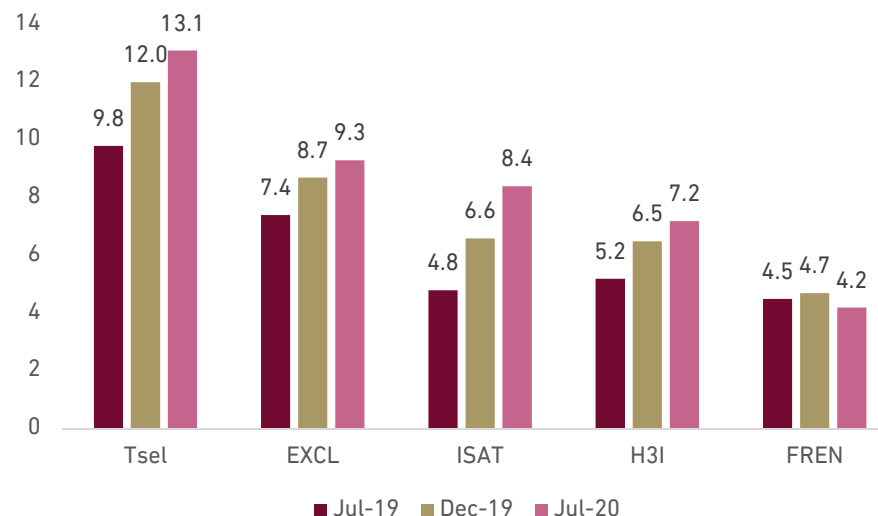
Rapid data traffic growth coupled with plenty of generous/unlimited quota offerings in the market, telcos must ensure their network capacity. With video streaming services become increasingly popular, a stable 4G connection with low latency is required to cater for a good video experience. In that regards, we see telcos continuing to invest in improving their 4G networks. This includes cell densification and fiberization, spectrum refarming, and RAN equipment upgrade. Apart from network upgrades, telcos will also set aside capex for network expansion (as explained in previous section) with EXCL and ISAT have mentioned that they will allocate 50% of capex for ex-Java.

- **Telcos network stats are improving, save for FREN**

Based on the latest OpenSignal report, we observe that telcos have been investing adequately to maintain/improve their network performance. It is also noteworthy that FREN's 4G download speed lag peers significantly and has not been improving since Jul-19, perhaps due to the high usage on its unlimited data plan and MiFi products. In overall, we deem telcos's networks are ready to face traffic hikes from the unlimited offerings. That said, telcos must continue with their capex spending going forward to maintain their networks. However, aside from the spectrum auction (see following section for details), we do not see major upward capex pressure for telcos. We believe under-investing is not an option for telcos as continuous deterioration may result in revenue loss as reflected in ISAT's case before its sizeable capex cycle in 2018-2020. Therefore, smaller telcos with stretched balance sheet may be limited in their capex spending. FREN with 6.2x net debt-to-EBITDA as of 1H20, is limited to Rp2-4tn capex per annum in 2017-19, which we believe is only adequate for adding capacity. On the other hand, H3I's balance sheet is in a much better position after equity injection in 2019. It is currently debt free and has greater capability to invest. H3I is allocating USD300-400mn (Rp4.5-6.0 tn) capex in 2020, a stable amount compared to 2019 number, after years of under-investment in 2015-18. The amount, however, is still lower than EXCL and ISAT, and should resulting in wider network deficit in the future.

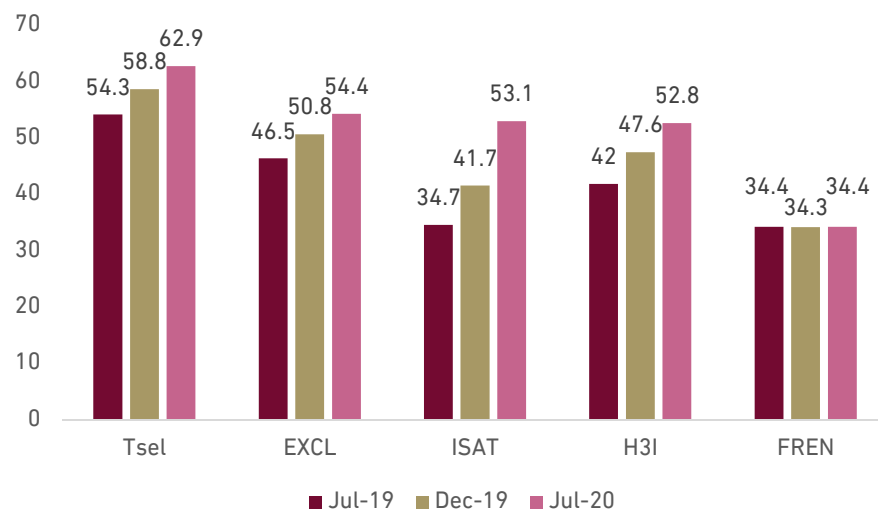
## EQUITY MARKET OUTLOOK 2021

**Exhibit 60: Download Speed (in Mbps)**



Source : OpenSignal, Ciptadana

**Exhibit 61: Video Experience (score from 0 to 100)**

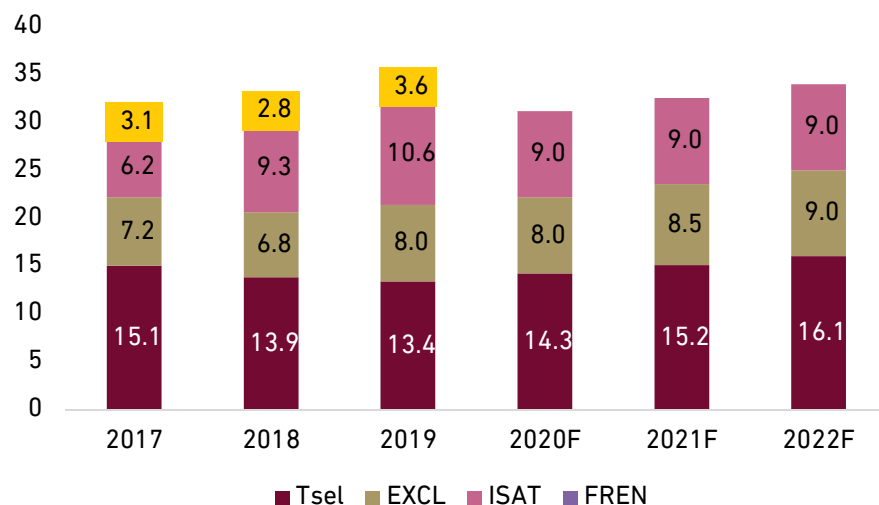


Source: OpenSignal, Ciptadana



## EQUITY MARKET OUTLOOK 2021

**Exhibit 62: Reported Capex (in Rp tn)**



Source: Companies, Ciptadana

### • Free education quota program (FEQP) is neutral to revenue trajectory

To support the study from home (SFH) program, The Ministry of Education and Culture (MEC) has allocated Rp7.2 tn for data quota subsidy for students, teachers, and lecturers for 4 months from Sep-20 until Dec-20. Students and teachers need to register to their schools/colleges by 11<sup>th</sup> of September. Afterwards, there is a verification and approval process from the school before the data is sent to MEC. MEC will cross-check the validity of the registered number with telcos and if nothing is wrong, the number will be eligible for the program. Students who fail to register during the first registration window are able to register in the next window and could get the quota in the subsequent month.

FEQP comprises of 20-50GB data quota, depending on the recipient. The MEC will pay telcos Rp20-50K/month, implying a data yield of Rp1K/GB for every sub registered under FEQP. Of the quota package, 5GB is eligible for general usage, while the remaining 15-45GB is designated for education-related apps/websites. With this quota allocation, we believe FEQP will not adversely impact telcos' earnings substantially. Perhaps, some potential revenue

opportunity from SFH monetization may be gone. That being said, since the beginning of the outbreak, telcos have not monetized the WFH and SFH traffics effectively as they provided CSR quota for work and education related purposes by as much as 10-30GB for 1-3 months. Furthermore, according to telcos, students are unlikely to consume all of their quota, and citing that 10-15GB per month as the current average usage of the education package. We do not see material ARPU cannibalisation from the general quota allowance to subscribers' existing data plan either as the payment from MEC should be able to compensate. Telcos under our coverage reported 33-45K ARPU in 2Q20, and as most of the FEQP recipients are school students, we believe their existing data ARPU is lower than the reported ARPU. Therefore, we are neutral on the FEQP and do not see this could derail the revenue growth trajectory. Telcos' currently strong network condition is prepared for this program, we believe, and we do not see any material hikes on capex or opex.

On the longer term, we believe FEQP is positive in accelerating data adoption in the country. As the program runs nationwide and includes pre-school and elementary students, we believe this could accelerate smartphone penetration and increase data usage in the society. According to MEC website, as of the 29<sup>th</sup> of September, 32.4mn students and 2.8mn teachers have successfully registered. 48%/66% of the verified registered students and teachers are registered on Tsel network, followed by 19%/15% on EXCL and 17%/12% on ISAT.

**Exhibit 63: Number of Students and Teaching Staffs**

Category	Number (mn)	Quota Size (GB)
Pre-school students		20
Elementary-high school students	44	35
Teachers	1	42
College students and professors	8.4	50
<b>Total</b>	<b>53.4</b>	

Source: BPS, Ciptadana



**Exhibit 64: Registered Students by Operator and Expected Monthly Revenue**

Operators	Valid registered number (mn)	Monthly Revenue (Rp bn)
Tsel	15.5	544
EXCL	6.1	213
ISAT	5.6	198
H3I	3.6	125
FREN	1.6	55
<b>Total</b>	<b>32.4</b>	<b>1,134</b>

Source: MEC, Ciptadana

**Exhibit 65: Registered Teachers by Operator and Expected Monthly Revenue**

Operators	Valid registered number (mn)	Monthly Revenue (Rp bn)
Tsel	1.9	79
EXCL	0.4	18
ISAT	0.4	15
H3I	0.1	6
FREN	0.0	2
<b>Total</b>	<b>2.8</b>	<b>119</b>

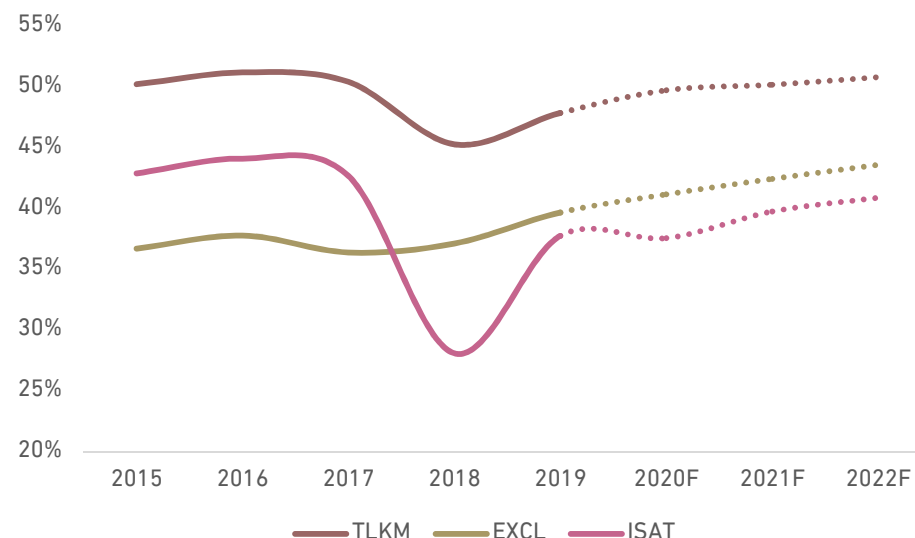
Source: MEC, Ciptadana

- **Costs are generally well-contained**

In addition to pushing top-line growth, telcos are embarking on cost efficiency program. Notwithstanding network cost increases due to the network expansions, costs saving opportunities could arise largely from: 1) tower leases renewals, 2) saving on site's energy and power costs due to modernisation and closer monitoring, 3) lower marketing expenses as telcos are reducing on the ground activities and focusing more on digital marketing, 4) saving on third-party commission fees as telcos are pushing the adoption of in-house apps for reloads and buying data packages, and 5) leaner headcounts and more efficient G&As after rightsizing and business streamlining.

## EQUITY MARKET OUTLOOK 2021

**Exhibit 66: EBITDA margin of telcos (in %)**



Source: Company, Ciptadana

- **The 2.3GHz spectrum auction and 5G rollout from spectrum perspective**

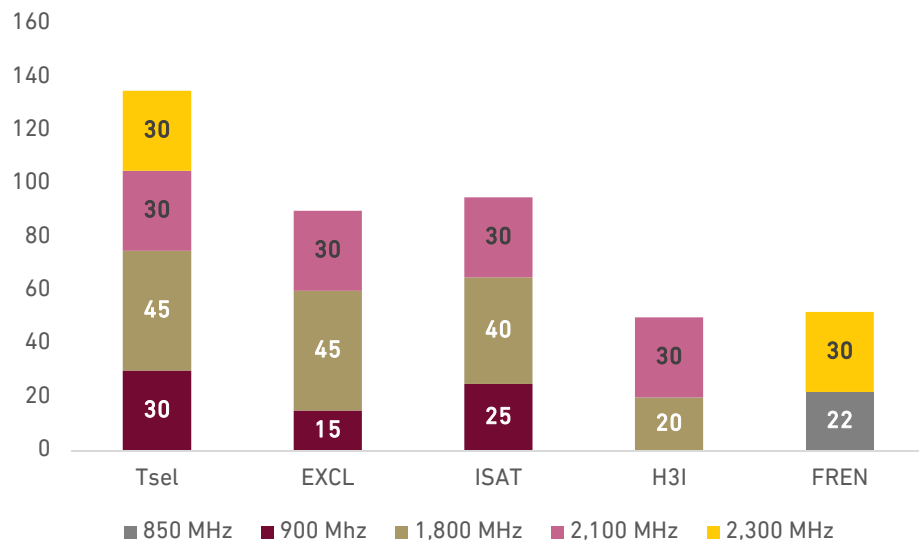
The rollout of 5G networks in Indonesia might take years to materialize. There are a lot of things to prepare, including the network design and architecture, technological aspect, infrastructure upgrade, use case development, and regulatory issue. From spectrum perspective, we believe it requires a few more years before 5G spectrum could be available. Rolling-out 5G would require a broad range of spectrum, spanning from the low-, mid-, and high-band spectrum to achieve the balance of capacity and coverage. However, those spectrums are not readily available at the moment. The ideal low band spectrum (700 MHz) is currently utilized for analogue TV. This could only be freed-up after the process of analogue switch-off (ASO) has been completed. On the proposed omnibus law, ASO is targeted to complete in two years after the passing of the bill which would mean in 2022, though we still see potential delay. Meanwhile the high band of 3.5GHz is currently used for satellite services in Indonesia, including Telkom, and BRI Satellite. The contract expiry for those satellite vary but they run a long term contract until 2031-2034. We believe it would require a lot of efforts and negotiation time to clean up and



optimally utilize the 3.5GHz for 5G rollout. While the mid band spectrum, currently the 2.6GHz is already awarded to IPTV to run its DTH TV service under Indovision brand. The spectrum rights will expire in 2024.

Another possible mid band spectrum is the 2.3GHz. The MICT is currently in the process of auctioning 30MHz quantum of the 2.3GHz band spectrum. Currently, Tsel and FREN are holding 30MHz of 2.3GHz spectrum each. Therefore, we think they will have the biggest incentive to outbid others for the spectrum. This is to form a contiguous 60MHz of bandwidth that is also ideal for 5G rollout and would enable the spectrum winner to have an edge in the market. Considering the financial capability of the two, we expect Tsel would win the auction. We expect the spectrum cost would be similar to the fee paid by Tsel in Oct 2017 auction which required Rp2-3 tn payment, including the acquisition and other upfront fees.

**Exhibit 67: Spectrum Holding (in Mhz)**



Source: Company, Ciptadana

## EQUITY MARKET OUTLOOK 2021

### • Overweight rating on the sector with TLKM as our top pick

Amid the still intense competition outlook, we estimate the sector to deliver mid-single digit growth with some margin expansions in 2019-22F. We are Overweight on telcos as the sector should be able to provide a more stable earnings profile with good visibility, compared to other sectors, as have been demonstrated in 1H20. Our top pick is TLKM as it would remain the most profitable telcos with defensive profile thanks to its scale and unparalleled network. Despite its mobile business (Tsel) may be lagging peers, we see potential upside from the fixed broadband and enterprise business in 2021F. Current valuation is also attractive at 4.4x 2021F EV/EBITDA (lower than -1SD) and 6.3% dividend yield in 2021F.

**Exhibit 68: Telecom stocks rating and valuation**

Bberg		Mkt.Cap	Last	Target	Upside	PER		EV/EBITDA		ROE	Yield
Ticker	Rating	(Rpbn)	Price	Price	pot.(%)	2020F	2021F	2020F	2021F	21F (%)	21F (%)
TLKM	Buy	275.4	2,780	4,000	43.9	13.5	13.0	4.6	4.4	19.7	6.3
EXCL	Buy	21.7	2,030	3,500	72.4	11.3	22.9	4.2	3.9	4.5	2.7
ISAT	Buy	10.9	2,000	3,150	57.5	n/a	n/a	3.5	3.0	n/a	0.0
	<b>OW</b>	<b>308.0</b>				<b>13.3</b>	<b>13.7</b>	<b>4.5</b>	<b>4.3</b>	<b>18.6</b>	<b>5.8</b>

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# Telkom BUY

**TP: Rp4,000 (+43.9%)**

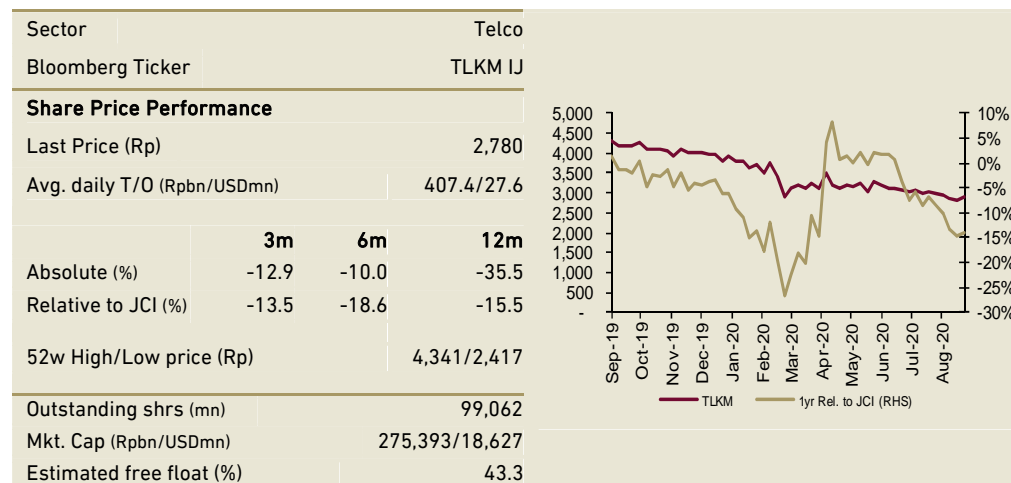
## Company Profile

TLKM Indonesia is the largest telecommunication and network provider in Indonesia. It offers local and domestic long distance telephone services. TLKM operates the largest nationwide fixed-line telephony and broadband internet services, as well as other telco-related services and certain valued-added services such as satellite, fixed broadband services either directly or indirectly through its affiliates.

## Key Points

- **Mobile business to bottom in 2Q20.** After facing sequential quarterly revenue drop in 4Q19-2Q20, we expect mobile (Tsel) revenue to be flat QoQ in 3Q20F. Tsel will focus on maintaining pricing premium to its closest peers given its superior network, while at the same time, being more aggressive in select markets based on its cluster pricing strategy.
- **Plan to list Mitratel to IDX.** TLKM plans to list Mitratel to IDX to unlock its value as towercos could get a valuation of >10x EV/EBITDA. Tsel is in the process to transfer 5,000-6,000 of its tower to Mitratel.
- **IndiHome remained the key growth driver.** IndiHome is the key growth driver for TLKM of late on the back of strong new subs adds. TLKM has recently upgraded its guidance and eyes 1mn new subscribers in 2020F (from previously 750K). IndiHome revenue is increasingly important to TLKM as now it has formed 15.5% of revenue from 13.5% in 2019.
- **Enterprise business is the wild card.** After a weak 2020, we expect enterprise to post a comeback in 2021F. With improved business fundamental, enterprise business should contribute more going forward.
- **BUY TLKM** as our top pick on its defensive earnings and decent yield.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	130,784	135,567	135,671	141,022	146,098
Operating profit (Rpbn)	37,775	41,654	42,131	42,923	44,188
Net profit (Rpbn)	18,032	18,663	20,391	21,182	22,120
EPS (Rp)	182.0	188.4	205.8	213.8	223.3
EPS growth (%)	-18.6	3.5	9.3	3.9	4.4
EV/EBITDA (x)	5.1	4.8	4.6	4.4	4.1
PER (x)	15.3	14.8	13.5	13.0	12.4
PBV (x)	2.8	2.8	2.6	2.6	2.5
Dividend yield (%)	6.0	5.9	5.8	6.3	6.4
ROE (%)	18.2	18.7	19.6	19.7	19.7

## Assumptions

	2018A	2019A	2020F	2021F	2022F
Telephone revenue	36,319	27,978	22,694	20,586	18,985
Interconnection revenue	5,463	6,286	4,479	3,972	3,597
Data, internet & IT services	77,153	91,113	100,492	106,903	113,575
Network & others	11,849	10,190	8,007	9,562	9,942

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## Telkom

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>130,784</b>	<b>135,567</b>	<b>135,671</b>	<b>141,022</b>	<b>146,098</b>
COGS	0	0	0	0	0
<b>Gross profit</b>	<b>130,784</b>	<b>135,567</b>	<b>135,671</b>	<b>141,022</b>	<b>146,098</b>
Oper. expenses	-93,009	-93,913	-93,540	-98,099	-101,910
<b>Oper. profit</b>	<b>37,775</b>	<b>41,654</b>	<b>42,131</b>	<b>42,923</b>	<b>44,188</b>
<b>EBITDA</b>	<b>59,181</b>	<b>64,832</b>	<b>67,752</b>	<b>71,082</b>	<b>74,977</b>
Interest income	1,014	1,092	894	1,049	1,333
Interest expense	-3,507	-4,240	-4,435	-4,657	-4,850
Other income (exp.)	1,055	-512	-886	-365	-371
<b>Pre-tax profit</b>	<b>36,405</b>	<b>37,908</b>	<b>37,705</b>	<b>38,950</b>	<b>40,299</b>
Income tax	-9,426	-10,316	-8,295	-8,569	-8,866
Minority interest	-8,947	-8,929	-9,018	-9,199	-9,314
<b>Net profit</b>	<b>18,032</b>	<b>18,663</b>	<b>20,391</b>	<b>21,182</b>	<b>22,120</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	17,439	18,242	17,708	22,434	28,901
Acct, receivables	11,414	11,797	11,614	12,073	12,507
Inventory	727	585	657	682	707
Other curr, asset	13,688	11,098	13,326	13,621	13,863
<b>Total current asset</b>	<b>43,268</b>	<b>41,722</b>	<b>43,304</b>	<b>48,810</b>	<b>55,978</b>
Fixed assets - net	143,248	156,973	163,914	169,600	173,874
Other non-curr.asset	19,680	22,513	21,097	21,805	21,451
<b>Total asset</b>	<b>206,196</b>	<b>221,208</b>	<b>228,315</b>	<b>240,215</b>	<b>251,302</b>
ST debt + curr. maturity	10,339	18,215	19,417	20,338	21,259
Acct, payable	14,766	13,897	14,342	14,908	15,445
Advances received	0	0	0	0	0
Other curr. liab	21,156	26,257	23,118	24,341	25,055
Long term debt	33,748	33,869	36,369	37,869	39,369
Other non-curr, liab,	8,884	11,720	10,302	11,011	10,657
<b>Total liabilities</b>	<b>88,893</b>	<b>103,958</b>	<b>103,549</b>	<b>108,468</b>	<b>111,785</b>
Shareholder equity	98,910	99,561	103,952	107,777	112,328
Minority interest	18,393	17,689	20,814	23,971	27,190
<b>Total liab + SHE</b>	<b>206,196</b>	<b>221,208</b>	<b>228,315</b>	<b>240,215</b>	<b>251,302</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	18,032	18,663	20,391	21,182	22,120
Depreciation	21,406	23,178	25,620	28,159	30,789
Chg in working cap.	-5,369	6,581	-4,810	1,010	549
Other	0	0	0	0	0
<b>CF-Oper activities</b>	<b>34,069</b>	<b>48,422</b>	<b>41,202</b>	<b>50,351</b>	<b>53,458</b>
Capital expenditure	-29,807	-38,843	-32,561	-33,845	-35,064
Others	1,072	-2,833	1,417	-708	354
<b>CF-Investing activities</b>	<b>-28,735</b>	<b>-41,676</b>	<b>-31,145</b>	<b>-34,554</b>	<b>-34,709</b>
Net change in debt	8,615	7,997	3,702	2,421	2,421
Net change in equity	0	0	0	0	0
Dividend payment	-16,609	-16,229	-16,050	-17,333	-17,581
Other financing	-5,046	2,289	1,757	3,841	2,877
<b>CF-Financing activities</b>	<b>-13,040</b>	<b>-5,943</b>	<b>-10,592</b>	<b>-11,071</b>	<b>-12,283</b>
<b>Net cash flow</b>	<b>-7,706</b>	<b>803</b>	<b>-534</b>	<b>4,726</b>	<b>6,466</b>
Cash - begin of the year	25,145	17,439	18,242	17,708	22,434
Cash - end of the year	17,439	18,242	17,708	22,434	28,901

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	2.0	3.7	0.1	3.9	3.6
Operating profit gr. (%)	-14.5	10.3	1.1	1.9	2.9
Net profit gr. (%)	-18.6	3.5	9.3	3.9	4.4
Gross margin (%)	100.0	100.0	100.0	100.0	100.0
Operating margin (%)	28.9	30.7	31.1	30.4	30.2
EBITDA margin (%)	45.3	47.8	49.9	50.4	51.3
Net margin (%)	13.8	13.8	15.0	15.0	15.1
ROA (%)	8.7	8.4	8.9	8.8	8.8
ROE (%)	18.2	18.7	19.6	19.7	19.7
Current ratio (x)	0.9	0.7	0.8	0.8	0.9
Quick ratio (x)	0.9	0.7	0.7	0.8	0.9
Interest cover (x)	16.9	15.3	15.3	15.3	15.5
Debt to equity ratio (x)	0.4	0.5	0.5	0.5	0.5
Net debt to equity (x)	0.3	0.3	0.4	0.3	0.3



# XL Axiata

## BUY

**TP: Rp3,500 (+72.4%)**

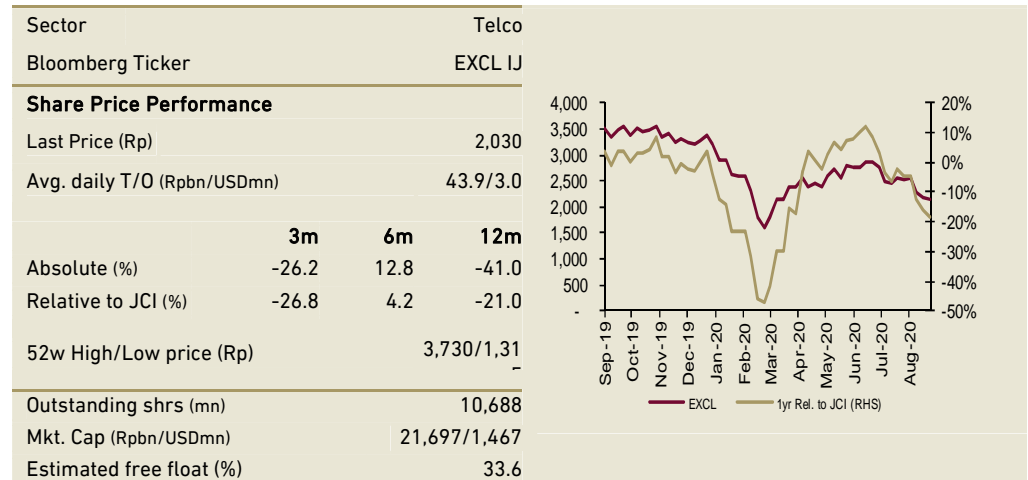
### Company Profile

EXCL provides a wide range of mobile telecommunication services in Indonesia. EXCL is owned by Axiata Group Berhad through Axiata Investments (Indonesia) Sdn Bhd (66.5%) and the public (33.5%). XL Axiata is the third largest cellular provider in Indonesia in terms of revenue with 55.7 mn subscribers. It owns a nationwide cellular network covering all major cities in Java, Bali and Sumatra, as well as populated cities in Sulawesi and Kalimantan

### Key Points

- **The most data centric telco.** Data formed 81%/87% of EXCL total/mobile revenue in 1H20. As such, EXCL will face the least impacts of structural legacy revenue decline in the industry.
- **Introducing Live.On, a digital SIM product.** EXCL recently introduced Live.On as its digital SIM card product. This, we believe is to compete in the youth segment after Tsel's By.U and FREN's Switch! are gaining traction in the market. Pricing is competitive at Rp85 K for 25GB quota.
- **Ex-Java expansion and tower fiberization program.** As EXCL has already reached 90% ex-Java coverage, we believe ex-Java capex will be focused more on network capacity. EXCL has already achieved break even on some of its early (1H16-2017) ex-Java investments. EXCL is also embarking on tower fiberization program and aiming to fiberize 50% of its site by 2020F. We believe fiberized tower will be important especially in anticipation of 5G.
- **Recommend BUY on EXCL.** We believe EXCL is the best proxy among telcos to play on the rising data consumption in the country. EXCL currently trades at 3.9x 2021F EV/EBITDA, near to -2SD of mean.

## EQUITY MARKET OUTLOOK 2021



### Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	22,939	25,133	26,360	27,626	28,958
Operating profit (Rpbn)	-3,109	2,603	2,711	2,913	3,097
Net profit (Rpbn)	-3,297	713	1,925	948	1,103
EPS (Rp)	-308.5	66.7	180.2	88.7	103.2
EPS growth (%)	n/m	n/m	170.2	-50.7	16.3
EV/EBITDA (x)	5.1	4.7	4.2	3.9	3.5
PER (x)	-6.6	30.4	11.3	22.9	19.7
PBV (x)	1.2	1.1	1.0	1.0	1.0
Dividend yield (%)	0.0	0.0	1.0	2.7	1.3
ROE (%)	-18.0	3.7	9.2	4.5	5.0

### Assumptions

	2018A	2019A	2020F	2021F	2022F
Mobile service (Rpbn)	20,086	22,951	24,684	26,342	27,964
Interconnect (Rpbn)	1,318	1,113	799	633	511
Other revenue (Rpbn)	1,535	1,069	877	652	483

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## XL Axiata

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>22,939</b>	<b>25,133</b>	<b>26,360</b>	<b>27,626</b>	<b>28,958</b>
COGS	0	0	0	0	0
<b>Gross profit</b>	<b>22,939</b>	<b>25,133</b>	<b>26,360</b>	<b>27,626</b>	<b>28,958</b>
Oper. expenses	-26,048	-22,529	-23,648	-24,713	-25,861
<b>Oper. profit</b>	<b>-3,109</b>	<b>2,603</b>	<b>2,711</b>	<b>2,913</b>	<b>3,097</b>
<b>EBITDA</b>	<b>8,512</b>	<b>9,966</b>	<b>10,845</b>	<b>11,717</b>	<b>12,616</b>
Interest income	487	111	122	156	198
Interest expense	-1,746	-2,243	-2,140	-2,138	-2,142
Other income (exp.)	439	627	2,058	423	423
<b>Pre-tax profit</b>	<b>-4,396</b>	<b>1,144</b>	<b>2,751</b>	<b>1,355</b>	<b>1,575</b>
Income tax	1,099	-432	-825	-406	-473
Minority interest	0	0	0	0	0
<b>Net profit</b>	<b>-3,297</b>	<b>713</b>	<b>1,925</b>	<b>948</b>	<b>1,103</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	1,047	1,603	2,885	3,153	4,042
Acct, receivables	569	663	608	648	688
Inventory	189	75	173	185	196
Other curr. asset	5,253	4,805	5,190	5,514	5,756
<b>Total current asset</b>	<b>7,059</b>	<b>7,146</b>	<b>8,855</b>	<b>9,500</b>	<b>10,683</b>
Fixed assets - net	36,760	42,082	41,918	41,571	41,026
Other non-curr.asset	13,796	13,498	13,647	13,572	13,610
<b>Total asset</b>	<b>57,614</b>	<b>62,725</b>	<b>64,420</b>	<b>64,643</b>	<b>65,318</b>
ST debt + curr. maturity	2,578	7,459	5,594	4,475	4,028
Acct, payable	9,106	8,042	9,260	9,620	10,004
Advances received	0	0	0	0	0
Other curr. liab	4,050	5,792	5,161	5,409	5,669
Long term debt	20,493	19,470	21,157	22,244	22,750
Other non-curr. liab,	3,045	2,840	2,414	1,690	845
<b>Total liabilities</b>	<b>39,271</b>	<b>43,603</b>	<b>43,587</b>	<b>43,438</b>	<b>43,296</b>
Shareholder equity	18,343	19,122	20,834	21,204	22,023
Minority interest	0	0	0	0	0
<b>Total liab + SHE</b>	<b>57,614</b>	<b>62,725</b>	<b>64,420</b>	<b>64,643</b>	<b>65,318</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	-3,297	713	1,925	948	1,103
Depreciation	11,621	7,363	8,133	8,804	9,519
Chg in working cap.	849	1,148	159	232	350
Other	-562	-1,001	-1,635	0	0
<b>CF-Oper activities</b>	<b>8,612</b>	<b>8,222</b>	<b>8,582</b>	<b>9,985</b>	<b>10,972</b>
Capital expenditure	-6,303	-8,404	-7,970	-8,457	-8,974
Others	411	1,892	1,486	74	-37
<b>CF-Investing activities</b>	<b>-5,892</b>	<b>-6,512</b>	<b>-6,484</b>	<b>-8,382</b>	<b>-9,011</b>
Net change in debt	3,673	3,858	-178	-33	59
Net change in equity	-8	53	0	0	0
Dividend payment	0	0	-214	-578	-285
Other financing	-7,794	-5,065	-426	-724	-845
<b>CF-Financing activities</b>	<b>-4,128</b>	<b>-1,154</b>	<b>-817</b>	<b>-1,335</b>	<b>-1,071</b>
<b>Net cash flow</b>	<b>-1,408</b>	<b>556</b>	<b>1,281</b>	<b>268</b>	<b>889</b>
Cash - begin of the year	2,455	1,047	1,603	2,885	3,153
Cash - end of the year	1,047	1,603	2,885	3,153	4,042

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	0.3	9.6	4.9	4.8	4.8
Operating profit gr. (%)	n/m	n/m	4.2	7.4	6.3
Net profit gr. (%)	n/m	n/m	170.2	-50.7	16.3
Gross margin (%)	100.0	100.0	100.0	100.0	100.0
Operating margin (%)	-13.6	10.4	10.3	10.5	10.7
EBITDA margin (%)	37.1	39.7	41.1	42.4	43.6
Net margin (%)	-14.4	2.8	7.3	3.4	3.8
ROA (%)	-5.7	1.1	3.0	1.5	1.7
ROE (%)	-18.0	3.7	9.2	4.5	5.0
Current ratio (x)	0.4	0.3	0.4	0.5	0.5
Quick ratio (x)	0.4	0.3	0.4	0.5	0.5
Interest cover (x)	4.9	4.4	5.1	5.5	5.9
Debt to equity ratio (x)	1.3	1.4	1.3	1.3	1.2
Net debt to equity (x)	1.2	1.3	1.1	1.1	1.0



# Indosat BUY

**TP: Rp3,150 (+57.5%)**

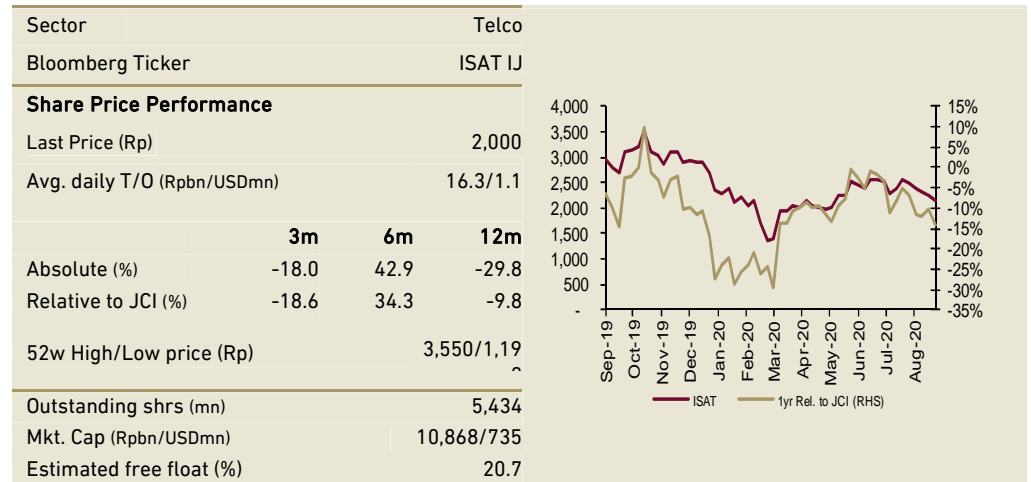
## Company Profile

Indosat provides telecommunications networks, telecommunications services, as well as information technology (IT) and/or convergence technology services. The company operates through three segments: cellular, fixed telecommunications and Multimedia, Data Communication, Internet (MIDI). The company is the country's second largest cellular operator by revenue.

## Key Points

- **Business streamlining in 2020 may provide margin upside in 2021F.** ISAT is undergoing business streamlining in 2020. ISAT laid-off some employees that it deemed redundant this year. On top of that, the business is heading for leaner business process with the aim to save some costs. The impacts from the rightsizing will be fully apparent in 2021F and will be optically enhanced by one-off employee termination costs in 2020. Also, ISAT is currently looking to divest its 55% share of Artajasa Pembayaran Elektronik (APE). ISAT's stake in APE worth Rp1 tn.
- **Aggressive capex program is bearing fruit.** ISAT's aggressive capex program of USD2 bn for 2018-20 has started to bear fruit, in our view. ISAT's network scored the biggest improvement compared to peers, enabling ISAT to garner higher revenue growth. With better network, ISAT is able to improve its monetization. It managed to move away from unlimited offering to Freedom package without losing too many subscribers (YTD 1H20: -2.1 mn or 3.5%). ARPU trends also continue to improve (+12.5% YoY to Rp31.4 K). ISAT is also expanding to ex-Java and its network deficit to EXCL is progressively diminishing, we believe.
- **BUY ISAT.** We believe ISAT is on course to return back to profit in 2023F despite escalating competition. ISAT trades at 3.0x 2021F EV/EBITDA.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	23,140	26,118	27,234	28,607	29,867
Operating profit (Rpbn)	-1,749	286	66	730	979
Net profit (Rpbn)	-2,404	1,569	-908	-709	-334
EPS (Rp)	-442.4	288.7	-167.1	-130.5	-61.4
EPS growth (%)	n/m	n/m	n/m	n/m	n/m
EV/EBITDA (x)	5.3	3.6	3.5	3.0	2.6
PER (x)	n/m	6.9	n/m	n/m	n/m
PBV (x)	1.0	0.9	0.9	1.0	1.0
Dividend yield (%)	5.5	0.0	0.0	0.0	0.0
ROE (%)	-21.5	12.3	-7.7	-6.4	-3.1

## Assumptions

	2018A	2019A	2020F	2021F	2022F
Cellular revenue (Rpbn)	18,027	20,674	21,610	22,403	23,136
MIDI (Rpbn)	4,383	4,781	5,022	5,638	6,200
Fixed Telephony (Rpbn)	729	662	603	566	532

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## Indosat

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>23,140</b>	<b>26,118</b>	<b>27,234</b>	<b>28,607</b>	<b>29,867</b>
COGS	0	0	0	0	0
<b>Gross profit</b>	<b>23,140</b>	<b>26,118</b>	<b>27,234</b>	<b>28,607</b>	<b>29,867</b>
Oper. expenses	-24,888	-25,831	-27,168	-27,877	-28,888
<b>Oper. profit</b>	<b>-1,749</b>	<b>286</b>	<b>66</b>	<b>730</b>	<b>979</b>
<b>EBITDA</b>	<b>6,500</b>	<b>9,856</b>	<b>10,226</b>	<b>11,367</b>	<b>12,205</b>
Interest income	36	81	136	94	63
Interest expense	-2,125	-2,761	-2,381	-2,090	-1,853
Other income (exp.)	1,324	3,905	1,054	418	473
<b>Pre-tax profit</b>	<b>-2,664</b>	<b>1,587</b>	<b>-1,124</b>	<b>-849</b>	<b>-339</b>
Income tax	578	43	281	212	85
Minority interest	-319	-61	-64	-72	-80
<b>Net profit</b>	<b>-2,404</b>	<b>1,569</b>	<b>-908</b>	<b>-709</b>	<b>-334</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	1,142	5,898	4,059	2,711	2,213
Acct, receivables	2,926	2,994	3,434	3,529	3,684
Inventory	48	29	31	33	34
Other curr, asset	3,790	3,524	3,683	3,764	3,873
<b>Total current asset</b>	<b>7,907</b>	<b>12,445</b>	<b>11,208</b>	<b>10,036</b>	<b>9,805</b>
Fixed assets - net	36,899	42,753	44,797	43,283	41,180
Other non-curr.asset	8,334	7,615	7,027	6,969	7,031
<b>Total asset</b>	<b>53,140</b>	<b>62,813</b>	<b>63,031</b>	<b>60,288</b>	<b>58,016</b>
ST debt + curr. maturity	7,060	7,529	4,373	3,168	2,033
Acct, payable	803	607	969	1,034	1,060
Advances received	0	0	0	0	0
Other curr. liab	13,178	13,993	14,954	15,940	16,613
Long term debt	17,886	22,580	24,590	22,569	20,915
Other non-curr, liab,	2,077	4,397	5,282	5,355	5,436
<b>Total liabilities</b>	<b>41,003</b>	<b>49,106</b>	<b>50,168</b>	<b>48,066</b>	<b>46,056</b>
Shareholder equity	11,174	12,723	11,816	11,106	10,773
Minority interest	962	984	1,048	1,116	1,187
<b>Total liab + SHE</b>	<b>53,140</b>	<b>62,813</b>	<b>63,031</b>	<b>60,288</b>	<b>58,016</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	-2,404	1,569	-908	-709	-334
Depreciation	8,249	9,570	10,160	10,637	11,226
Chg in working cap.	2,252	1,183	1,851	882	328
Other	-87	-2,568	0	0	0
<b>CF-Oper activities</b>	<b>8,010</b>	<b>9,754</b>	<b>11,103</b>	<b>10,811</b>	<b>11,221</b>
Capital expenditure	-5,458	-12,647	-9,000	-9,000	-9,000
Others	-5,309	2,484	219	0	0
<b>CF-Investing activities</b>	<b>-10,768</b>	<b>-10,163</b>	<b>-8,781</b>	<b>-9,000</b>	<b>-9,000</b>
Net change in debt	2,310	5,163	-4,226	-3,227	-2,789
Net change in equity	0	-98	0	0	0
Dividend payment	-597	0	0	0	0
Other financing	408	100	64	68	71
<b>CF-Financing activities</b>	<b>2,121</b>	<b>5,165</b>	<b>-4,161</b>	<b>-3,159</b>	<b>-2,718</b>
<b>Net cash flow</b>	<b>-636</b>	<b>4,756</b>	<b>-1,839</b>	<b>-1,348</b>	<b>-497</b>
Cash - begin of the year	1,778	1,142	5,898	4,059	2,711
Cash - end of the year	1,142	5,898	4,059	2,711	2,213

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	-22.7	12.9	4.3	5.0	4.4
Operating profit gr. (%)	n/m	n/m	-76.9	1,002.9	34.1
Net profit gr. (%)	n/m	n/m	n/m	n/m	n/m
Gross margin (%)	100.0	100.0	100.0	100.0	100.0
Operating margin (%)	-7.6	1.1	0.2	2.6	3.3
EBITDA margin (%)	28.1	37.7	37.5	39.7	40.9
Net margin (%)	-10.4	6.0	-3.3	-2.5	-1.1
ROA (%)	-4.5	2.5	-1.4	-1.2	-0.6
ROE (%)	-21.5	12.3	-7.7	-6.4	-3.1
Current ratio (x)	0.4	0.6	0.6	0.5	0.5
Quick ratio (x)	0.4	0.6	0.6	0.5	0.5
Interest cover (x)	3.1	3.6	4.3	5.4	6.6
Debt to equity ratio (x)	2.2	2.4	2.5	2.3	2.1
Net debt to equity (x)	2.1	1.9	2.1	2.1	1.9





## TOWER SECTOR



# Telecommunication Tower Overweight

## Sector Outlook

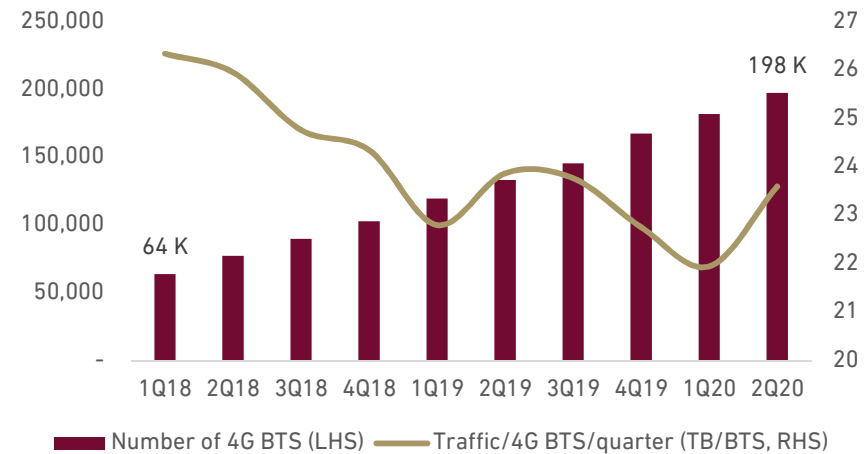
### • Main beneficiary of the rising data consumption trend in Indonesia

Indonesia is still in early stage of data adoption. With low data usage per subscriber, low smartphone penetration and relatively young population, we think data consumption still has long runways. We estimate 40% data traffic CAGR in 2019-22F. In parallel with the data traffic growth, telcos are required to continuously improve their network capacity. However, increasing capacity from acquiring new spectrum is not possible as spectrum availability is limited. Therefore, telcos would need to rely on 4G network infrastructure to facilitate growing data traffics. That said, incremental number of 4G BTS is vital to maintain network performance. On top of that, smaller telcos are also expanding their networks outside Java to realize new potential revenue source. They are gradually narrowing their coverage deficit to incumbent, which would result in new BTS orders. Trend in 2020 suggests that telcos are focusing more on network densification, but going forward, we believe telcos will continue to lay out new BTS for both network densification and network expansion purposes.

### • Large towercos sit at the advantageous position to reap the potential

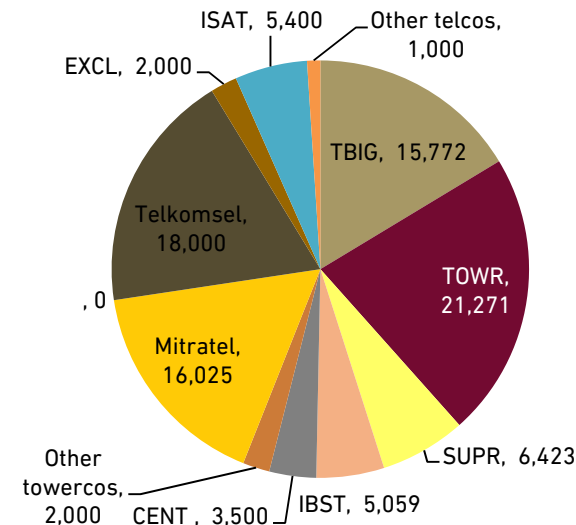
Large towercos set to benefit from the aforementioned telcos' network expansion. As operating scale is key to stay profitable in the business, we believe large towercos command a competitive advantage against their smaller counterparts. The industry landscape is quite consolidated with the top-3 towercos (TOWR, TBIG, and Mitratel) own c.55% of tower population. If we exclude towers held by telcos, big towercos' share is c.76%. Compare to Mitratel, we believe TBIG and TOWR have the advantage as they operate as independent towercos. We believe TBIG and TOWR have achieved the required scale to operate efficiently and consistently grabbing orders from telcos. They are the only towercos who are consistently making profit.

Exhibit 69: 4G BTS count and data traffic per BTS of top-3 telcos



Source :Companies, Ciptadana

Exhibit 70: Tower Holding in Indonesia as of 1H20



Source :Companies, Ciptadana



- **Indonesia is in need for more towers**

Align with the increasing digital lifestyle with rising data usage, we believe Indonesia is still lacking telecommunication towers. Even more so after the widespread of 4G rollout which requires a denser network architecture, hence more tower sites are needed. Indonesia's number of towers per 10,000 populations is currently at around 3.6. According to Tower Exchange, the global average of number of towers per 10,000 populations is 8.1. To reach the average number, Indonesia would need to add around 122K new towers, more than double than the 1H20's towers count of 96K.

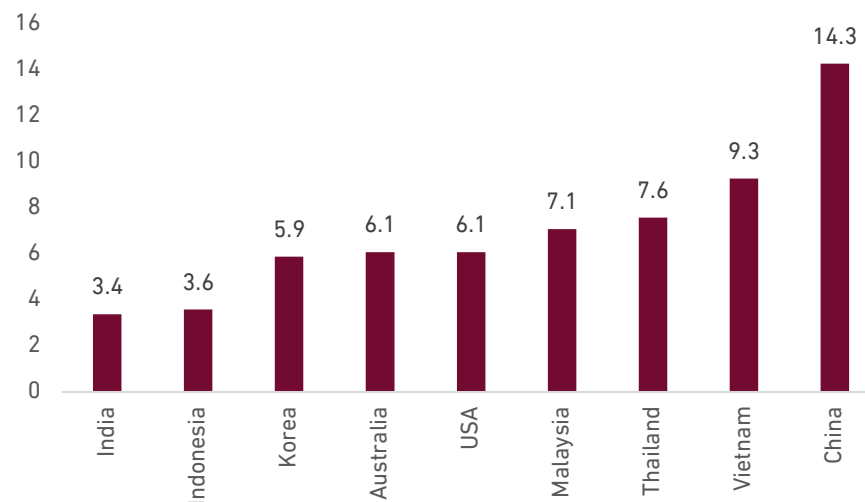
- **Prospective long term growth opportunity**

Aside from comparing the number of towers to other countries, we try to analyse the BTS addition trends to get further insight of the industry prospect. As some telcos have already stopped adding new 2G/3G BTSs, we believe 4G BTS number will be a better proxy to learn about telcos expansion. Based on data from top-3 telcos, data payload per 4G BTS unit is trending down with seasonal pick-up in 2Q. 2Q20 is a little bit special, we believe, as it is the inception of WFH and SFH trend as a result of Covid-19 outbreak. Going forward, we expect telcos to continue adding more BTS to serve its network. Assuming 40% data traffic CAGR in 2019-22F and stable data throughput of 22TB/BTS, we expect the big-3 telcos would need to add 165K 4G BTSs until 2022F. To give a perspective, 165K 4G BTS is equal to 83% of installed 4G BTS as of 1H20.

The next question is whether the projected 4G BTS additions will directly translate to build-to-suit or colocation order. In the past, where telcos just began 4G roll-out, they can overlay the installation of 4G BTS to their existing 2G sites, hence not every newly installed 4G BTS would translate into new order. Meanwhile, at current situation, the 4G to 2G and 4G to 3G overlay ratio have already breached 1.0x (save for EXCL, which we expect to achieve that in 3Q20), meaning that additional 4G BTS would likely translate to more tenants. Therefore, we expect the next 1-2 years will be the important growth period for towercos to grow their tenancies.

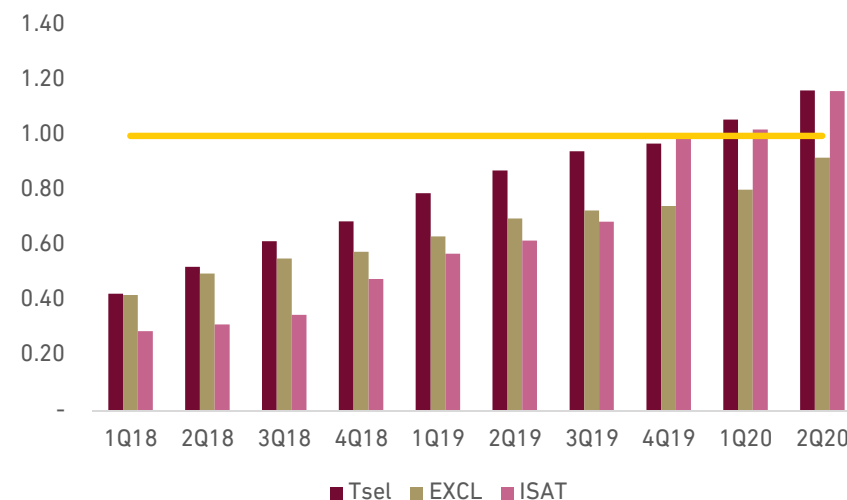
## EQUITY MARKET OUTLOOK 2021

**Exhibit 71: Number of Towers/10,000 Populations**



Source : CENT, TowerXchange, EIU, Ciptadana

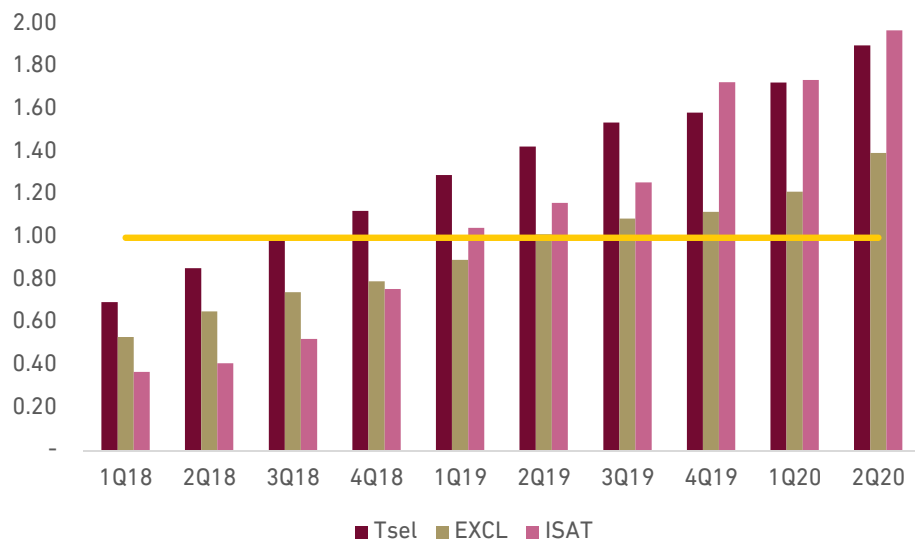
**Exhibit 72: Telcos' 4G to 3G Overlay Ratio (x)**



Source : Companies, Ciptadana



**Exhibit 73: Telcos' 4G to 2G Overlay Ratio (x)**



Source : Companies, Ciptadana

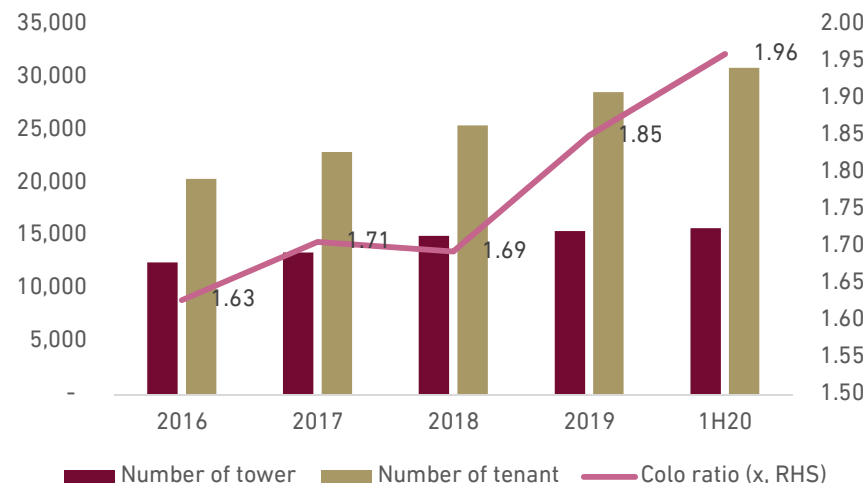
• **Rising trend of colo, build-to-suit is starting to pick-up**

Of late, the majority of orders in the industry have been coming in the form of colos from smaller telcos as they are finding a quick way to densifying their networks as well as expanding to ex-Java by following the footprints of incumbents. This trends drive colo ratio up to 1.96x and 1.79x for TBIG and TOWR, respectively. We believe growth from colo is better than build-to-suit as it is the cheaper growth option (capex requirement is lower) and quicker to install. Colo requires Rp200-250 mn capex, while build-to-suit capex is at around Rp1-1.5 bn per site.

At the same time, build-to-suit orders have been muted largely because Tsel (the major build-to-suit clients) is trying to optimize their spectrum won in late 2017. According to TBIG, after muted for some years, Tsel's orders are set to pick-up this year although the magnitude may not yet be as big as previous years. We believe this is positive as new towers could provide future upside potential through colo orders from smaller operators in the future. TBIG has the edge over TOWR in winning organic new tower orders.

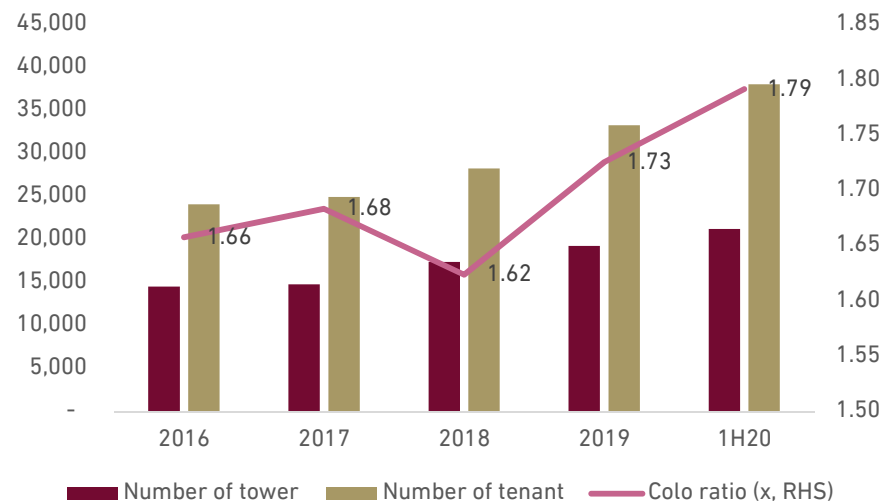
## EQUITY MARKET OUTLOOK 2021

**Exhibit 73: TBIG's Tower and Tenancy**



Source : Companies, Ciptadana

**Exhibit 74: TOWR's Tower and Tenancy**



Source : Companies, Ciptadana



## EQUITY MARKET OUTLOOK 2021

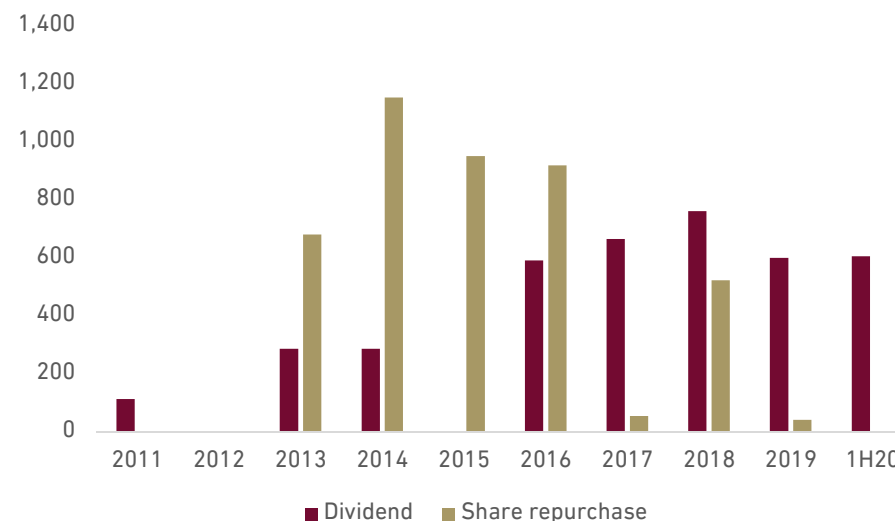
- **Sizeable long-term contracted revenues secure earnings**

As of 1H20, towercos under over coverage have pocketed sizeable contracted revenues which are sufficient to cover revenue for the next 5-6 years. For TOWR, the amount rose from FY19 position of Rp51.0 tn to Rp53.1 tn in 1H20. TOWR has entered a master agreement with H3I to automatically renew expiring lease contracts until 2022. We believe TOWR entered into early contracts renewal to mitigate consolidation risks in the industry, an issue that has been prevalent for a long time. As in the case of EXCL-Axis merger, despite any combination, tower-lease contracts are irrevocable and will run until maturity. Consequently, TOWR's rental rate will face some pressures until 2022F, we believe, although its tenancy growth and strong non-tower business revenue growth could cover for lower rental rate risks. On the other hand, TBIG sits on Rp26.3 tn revenue, equivalent to 5 years of projected revenue.

- **Actively returning cash to shareholders**

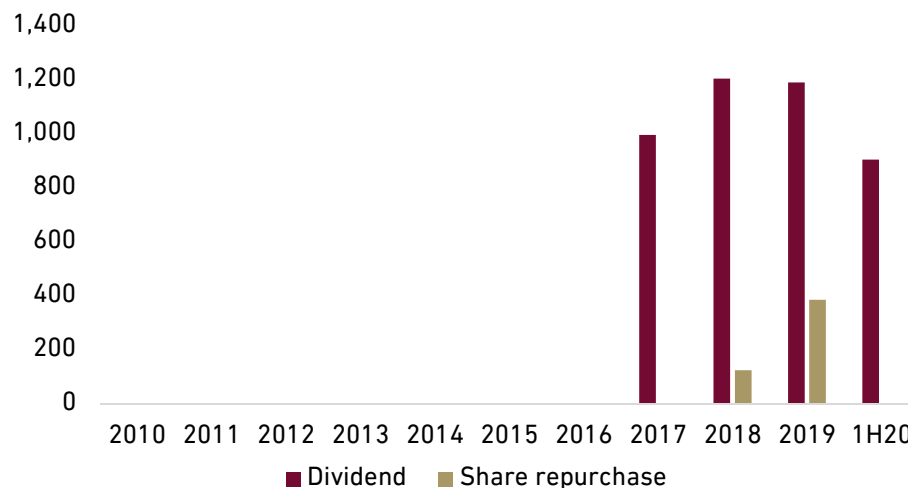
Both towercos are now consistently returning cash to shareholders. TBIG has started to do so since its IPO. TOWR followed suit in 2016 onwards after it revamped a new corporate strategy and coined the “buy, build, return” as the headline. From 2010 to date, TBIG has returned a total amount of Rp8.2 tn back to shareholders in the combination of cash dividend and share repurchases. This equals to c.27% of current market cap and 85% of total earnings during the period. This is a positive trait for the Company as it enables investors to hold in a long-term position in the stock. TOWR is opting for a stable dividend policy in 2018-19 with the amount is set at around Rp1.2 tn. Higher absolute dividend amount is possible in 2020-22F going forward, subject to capex requirements and share buybacks progress. We project 3.3% and 2.8% dividend yield for TBIG and TOWR, respectively.

**Exhibit 75: TBIG's Dividend and Share Repurchase History (in Rp bn)**



Source : Companies, Ciptadana

**Exhibit 76: TOWR's Dividend and Share Repurchase History (in Rp bn)**



Source : Companies, Ciptadana



## EQUITY MARKET OUTLOOK 2021

### • Overweight on towercos with TBIG as our top pick

We are OVERWEIGHT on towercos owing to its robust long-term outlook whereas we believe towercos are in the most critical growth phase for the next 1-2 years. As such we are projecting 9.5/10.2% of revenue/EBITDA CAGR for the industry in 2019-22F. Additionally, we also like towercos' defensive business model with high visible earnings, a merit that is hard to find in the midst of Covid-19 outbreak. We rate BUY for TBIG and TOWR as we believe both of them will be the beneficiary of the current trend. However, our top pick for the sector is TBIG as we believe it has slight edge in garnering organic tower growth. Given no sizeable M&A opportunity in the foreseeable future, we believe TBIG is better positioned in the industry. Also, TBIG is a more leveraged player which should benefit more in currently low interest rate environment.

### Exhibit 77: Towercos stocks rating and valuation

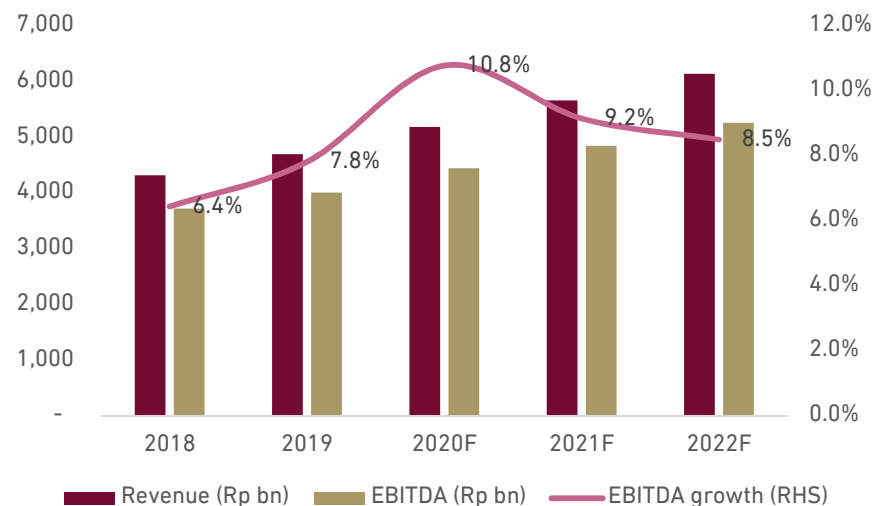
Bberg		Mkt.Cap	Last	Target	Upside	PER		EV/EBITDA		ROE	Yield
Ticker	Rating	(Rpbn)	Price	Price	pot.(%)	2020F	2021F	2020F	2021F	21F (%)	21F (%)
TBIG	Buy	28.4	1,315	1,800	36.9	27.1	21.5	11.6	10.9	23.0	3.3
TOWR	Buy	51.2	1,020	1,350	32.4	19.4	17.9	11.0	10.1	24.9	2.8
Average	OW	79.7				22.1	19.2	11.2	10.4	24.2	3.0

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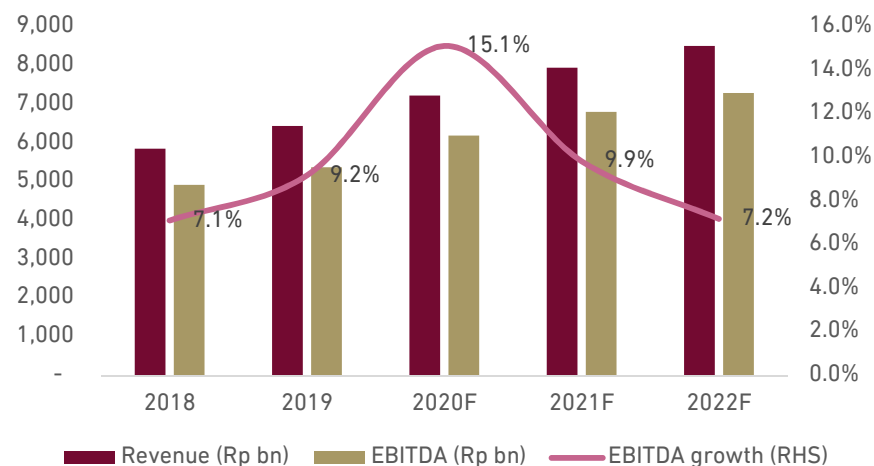
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### Exhibit 78: TBIG financial projections



Source : Companies, Ciptadana

### Exhibit 79: TOWR financial projections



Source : Companies, Ciptadana





# Sarana Menara Nusantara

BUY

TP: Rp1,350 (+32.4%)

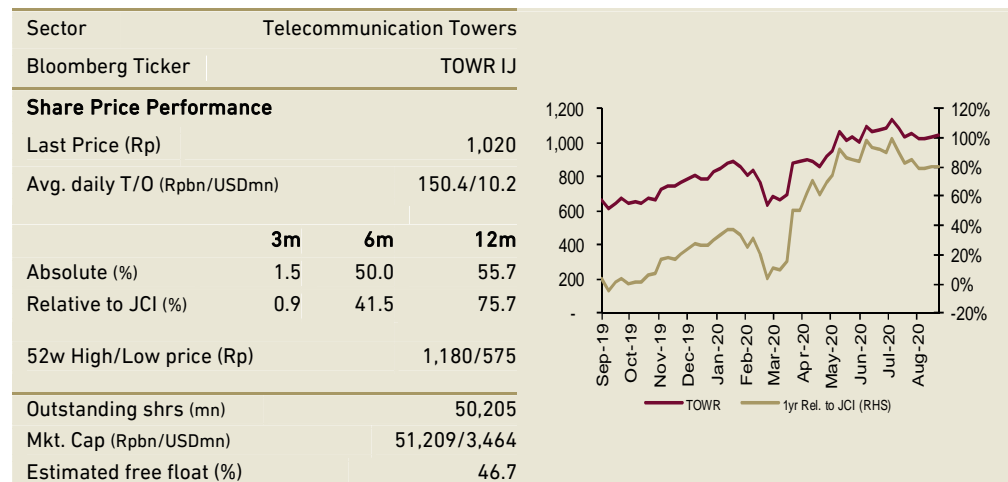
## Company Profile

Sarana Menara Nusantara (TOWR) in 2008 was managed by industry experts led by Gearon, a US entrepreneur & executive in American Tower, setting global tower industry standards. TOWR business grew by purchasing and leasing back to Hutch3 a total of 5,060 towers from 2008 through to 2013. Until 1H19 its portfolio includes 18,152 towers with 29,153 tenants of which 33% are offered to Hutch3, 30% to EXCL and 18% to Tsel. TOWR has the most resilient financial profile among domestic peers managing net debt/EBITDA of 2.3x, not long after having executed acquisitions, maintaining investment grade rating and deepening capacity for more corporate actions. In 2015, TOWR promptly moved into microcell and fibre space by iForte which owns ~600 microcell towers, has license to penetrate Jakarta's dense areas, builds fiber rings around Java, and lastly intends to build data centers.

## Key Points

- **Major contracts renewal to arrive in 2H20 until 2022F.** TOWR will face some contracts renewal as quite a significant portion of its contract with H3I and EXCL will expire in 2H20-2022F. TOWR has entered a master agreement with H3I to automatically renew expiring lease contracts until 2022. This may put pressure to top line growth albeit its strong tenancy growth and non-tower business growth could cover for lower rental rate risks. Renewal impacts will start to kick-in in 2H20 as TOWR guides for 14-15% revenue growth for FY20, while 1H20 revenue has already grown by 21.7%.
- **Fiberization trend to help top-line growth.** This new fiberization trend should present another growth avenue for TOWR, albeit commanding lower margins. 1H20 non-tower revenue grew by 75.4% YoY and contributed 15% to total revenue compared to 11% contribution in 1H19. This was supported by new 3,600 kms of fiber optics that come on stream in 2Q20, bringing total fiber optics network to 34,200 kms by 1H20. The Company is targeting to have 41,000 kms fiber optic network by year end 2020 and is seeking for new client (potentially ISAT) for colocation in the fiber network.
- **BUY rating with TP of Rp1,350/share.** Aside from earnings delivery, another catalyst is the potential inclusion to MSCI Indonesia Index.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	5,868	6,454	7,238	7,952	8,521
Operating profit (Rpbn)	3,817	4,036	4,576	4,978	5,265
Net profit (Rpbn)	2,200	2,342	2,635	2,861	3,033
EPS (Rp)	43.8	46.6	52.5	57.0	60.4
EPS growth (%)	4.8	6.4	12.5	8.6	6.0
EV/EBITDA (x)	12.5	12.2	11.0	10.1	9.5
PER (x)	23.3	21.9	19.4	17.9	16.9
PBV (x)	6.4	5.9	5.1	4.5	4.0
Dividend yield (%)	2.3	2.3	2.5	2.8	3.1
ROE (%)	27.4	26.8	26.2	24.9	23.4

## Assumptions

	2018A	2019A	2020F	2021F	2022F
Net tower additions (unit)	2,583	1,882	2,550	1,000	900
Tenancy additions (unit)	3,308	5,027	6,253	2,000	2,000
Tenancy (colo) ratio (x)	1.62	1.73	1.81	1.82	1.83
Monthly rental rate (Rpbn)	16.7	15.1	13.9	13.3	13.1

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## Sarana Menara Nusantara

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>5,868</b>	<b>6,454</b>	<b>7,238</b>	<b>7,952</b>	<b>8,521</b>
COGS	-1,542	-1,808	-2,024	-2,274	-2,506
<b>Gross profit</b>	<b>4,326</b>	<b>4,646</b>	<b>5,213</b>	<b>5,678</b>	<b>6,016</b>
Oper. expenses	-509	-611	-638	-701	-751
<b>Oper. profit</b>	<b>3,817</b>	<b>4,036</b>	<b>4,576</b>	<b>4,978</b>	<b>5,265</b>
<b>EBITDA</b>	<b>4,932</b>	<b>5,385</b>	<b>6,201</b>	<b>6,812</b>	<b>7,302</b>
Interest income	34	39	44	49	55
Interest expense	-872	-958	-1,050	-1,135	-1,177
Other income (exp.)	-27	-108	-180	-192	-202
<b>Pre-tax profit</b>	<b>2,952</b>	<b>3,009</b>	<b>3,390</b>	<b>3,699</b>	<b>3,940</b>
Income tax	-752	-656	-743	-824	-893
Minority interest	0	-11	-13	-14	-15
<b>Net profit</b>	<b>2,200</b>	<b>2,342</b>	<b>2,635</b>	<b>2,861</b>	<b>3,033</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	963	594	1,181	1,886	3,120
Acct, receivables	821	1,348	1,511	1,660	1,779
Inventory	0	0	0	0	0
Other curr. asset	491	533	598	657	704
<b>Total current asset</b>	<b>2,275</b>	<b>2,474</b>	<b>3,290</b>	<b>4,203</b>	<b>5,603</b>
Fixed assets - net	15,980	19,648	23,409	25,128	26,536
Other non-curr.asset	1,361	1,615	1,805	1,844	1,920
<b>Total asset</b>	<b>22,960</b>	<b>27,666</b>	<b>32,704</b>	<b>35,718</b>	<b>39,032</b>
ST debt + curr. maturity	2,391	1,945	3,193	3,574	3,998
Acct, payable	697	641	805	904	996
Advances received	0	0	0	0	0
Other curr. liab	1,663	1,979	2,100	2,219	2,290
Long term debt	9,094	13,223	15,271	16,150	17,282
Other non-curr. liab,	1,081	1,117	1,228	1,351	1,486
<b>Total liabilities</b>	<b>14,926</b>	<b>18,905</b>	<b>22,596</b>	<b>24,198</b>	<b>26,053</b>
Shareholder equity	8,033	8,725	10,071	11,484	12,943
Minority interest	0	36	36	36	36
<b>Total liab + SHE</b>	<b>22,960</b>	<b>27,666</b>	<b>32,704</b>	<b>35,718</b>	<b>39,032</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	2,200	2,342	2,635	2,861	3,033
Depreciation	1,114	1,350	1,625	1,834	2,037
Chg in working cap.	153	-309	55	11	-3
Other	-448	-802	-874	-996	-1,139
<b>CF-Oper activities</b>	<b>3,020</b>	<b>2,581</b>	<b>3,441</b>	<b>3,710</b>	<b>3,928</b>
Capital expenditure	-4,735	-4,802	-4,784	-2,900	-2,735
Others	-902	-253	-190	-40	-76
<b>CF-Investing activities</b>	<b>-5,637</b>	<b>-5,055</b>	<b>-4,974</b>	<b>-2,939</b>	<b>-2,812</b>
Net change in debt	2,486	3,683	3,296	1,260	1,557
Net change in equity	0	0	0	0	0
Dividend payment	-1,199	-1,185	-1,288	-1,449	-1,574
Other financing	-56	-394	112	123	135
<b>CF-Financing activities</b>	<b>1,232</b>	<b>2,104</b>	<b>2,119</b>	<b>-66</b>	<b>118</b>
<b>Net cash flow</b>	<b>-1,385</b>	<b>-370</b>	<b>587</b>	<b>705</b>	<b>1,235</b>
Cash - begin of the year	2,348	963	594	1,181	1,886
Cash - end of the year	963	594	1,181	1,886	3,120

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	9.9	10.0	12.1	9.9	7.2
Operating profit gr. (%)	2.9	5.7	13.4	8.8	5.8
Net profit gr. (%)	4.8	6.4	12.5	8.6	6.0
Gross margin (%)	73.7	72.0	72.0	71.4	70.6
Operating margin (%)	65.1	62.5	63.2	62.6	61.8
EBITDA margin (%)	84.0	83.4	85.7	85.7	85.7
Net margin (%)	37.5	36.3	36.4	36.0	35.6
ROA (%)	9.6	8.5	8.1	8.0	7.8
ROE (%)	27.4	26.8	26.2	24.9	23.4
Current ratio (x)	0.5	0.5	0.5	0.6	0.8
Quick ratio (x)	0.5	0.5	0.5	0.6	0.8
Interest cover (x)	5.7	5.6	5.9	6.0	6.2
Debt to equity ratio (x)	1.4	1.7	1.8	1.7	1.6
Net debt to equity (x)	1.3	1.7	1.7	1.6	1.4



# Tower Bersama

BUY

TP: Rp1,800 (+36.9%)

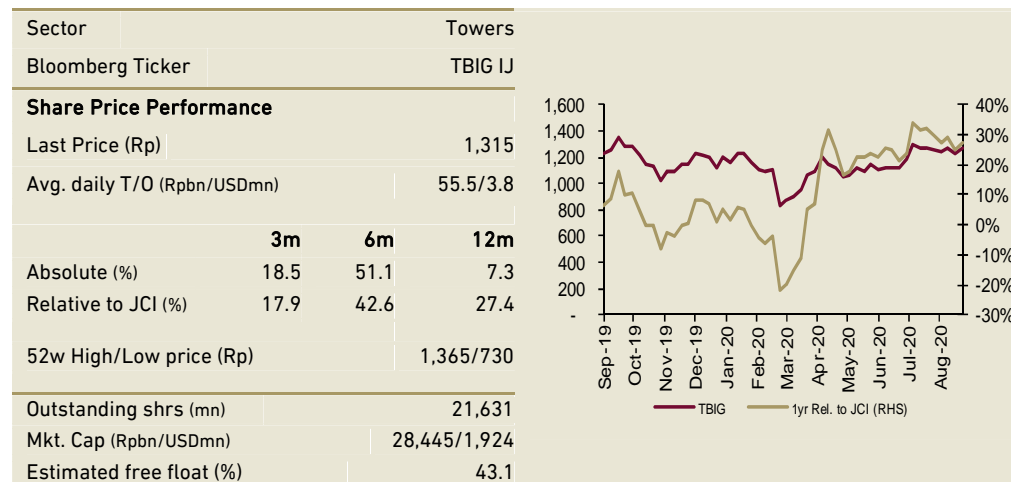
## Company Profile

PT Tower Bersama Infrastructure Tbk (TBIG) began to establish in 2004, and is now holding company of number of subsidiaries operating seamlessly under one management. It achieved scale with early acquisition and consolidation of Telenet Internusa, Bali Telekom, Mobile-8 tower assets, Prima Media Selaras, PT Solu Sindo SKP, Infratel and buying 2500 towers from ISAT in 2012. Predictable cash-flows are supported by usually 10-year lease contracts with investment grade telcos deriving ~45% of their total revenues from TSEL. In 2019 it completed the acquisitions of Gihon (GHON) and Visi Telekomunikasi (GOLD). It controls the 3<sup>rd</sup> largest tower portfolio in Indonesia after TOWR but with better tenancy mix in our view. The recurring CFs from owned assets has allowed TBIG to primarily widen their scale enabling it to raise debt for substantial organic build-to-suit tower orders.

## Key Points

- **Strong client profile puts TBIG in advantageous position.** TBIG has a strong relationship with Tsel as portrayed by its 39% revenue contribution. High exposure to Tsel carries incremental merits as Tsel is typically the first-mover to a new area. Going forward, when other telcos continue their expansions, they are likely to put colo orders to Tsel-occupied towers. We estimate 3,000 new tenants p.a with tenancy rate to increase to 1.98x-2.10x in 2020-22F.
- **Micro cell subsidiary may become vital in the future.** One of TBIG's subsidiaries, PKP, specializes in micro cells installation which will be increasingly important as data traffic getting denser. This capability would be vital when telcos begin the 5G rollout. PKP owns exclusive land lease agreement with Alfamart, one of the biggest retail chain with c.15,000 stores.
- **Reasonable leverage level; boons from rate cuts.** TBIG's net-debt-to-EBITDA ratio stood at 4.8x (1H20 annualized). Given the debt covenant of 6.25x, the gearing level is still reasonable, we believe. Furthermore, TBIG could reap benefits from the lower rates as some of its debts are priced at floating rate. Based on our calculation, every 25bps lower rate, earnings would go up by 2.1/1.6% in 2021-22F.
- **BUY TBIG with Rp1,800/share TP.** TBIG currently trades at undemanding valuation of 10.9x 2021 EV/EBITDA, near to-1SD of its average.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	4,318	4,699	5,186	5,659	6,140
Operating profit (Rpbn)	3,153	3,369	3,759	4,115	4,471
Net profit (Rpbn)	681	819	1,050	1,322	1,674
EPS (Rp)	31.5	37.9	48.5	61.1	77.4
EPS growth (%)	-70.6	20.4	28.1	25.9	26.6
EV/EBITDA (x)	13.9	12.8	11.6	10.9	10.2
PER (x)	41.8	34.7	27.1	21.5	17.0
PBV (x)	8.4	5.7	5.3	4.9	4.6
Dividend yield (%)	2.6	2.1	2.6	3.3	4.2
ROE (%)	20.2	16.4	19.5	23.0	26.9

## Assumptions

	2018A	2019A	2020F	2021F	2022F
Net tower additions (unit)	1,582	498	500	1,000	1,000
Tenancy additions (unit)	2,489	3,165	3,000	3,000	3,000
Tenancy (colo) Ratio (x)	1.69	1.85	1.98	2.04	2.10
Monthly rental rate (Rpbn)	14.8	14.4	14.3	14.2	14.1

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## Tower Bersama

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>4,318</b>	<b>4,699</b>	<b>5,186</b>	<b>5,659</b>	<b>6,140</b>
COGS	-784	-903	-955	-1,027	-1,113
<b>Gross profit</b>	<b>3,534</b>	<b>3,795</b>	<b>4,231</b>	<b>4,631</b>	<b>5,026</b>
Oper. expenses	-381	-426	-472	-516	-556
<b>Oper. profit</b>	<b>3,153</b>	<b>3,369</b>	<b>3,759</b>	<b>4,115</b>	<b>4,471</b>
<b>EBITDA</b>	<b>3,687</b>	<b>3,978</b>	<b>4,443</b>	<b>4,849</b>	<b>5,261</b>
Interest income	8	10	11	11	12
Interest expense	-2,004	-2,017	-2,056	-2,066	-2,110
Other income (exp.)	-125	-67	-70	0	0
<b>Pre-tax profit</b>	<b>1,034</b>	<b>1,304</b>	<b>1,644</b>	<b>2,061</b>	<b>2,373</b>
Income tax	-332	-438	-536	-665	-614
Minority interest	-22	-47	-59	-74	-85
<b>Net profit</b>	<b>681</b>	<b>819</b>	<b>1,050</b>	<b>1,322</b>	<b>1,674</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	221	525	861	915	1,098
Acct, receivables	383	467	494	539	585
Inventory	23	18	21	23	25
Other curr, asset	1,401	1,367	1,374	1,381	1,386
<b>Total current asset</b>	<b>2,027</b>	<b>2,377</b>	<b>2,751</b>	<b>2,858</b>	<b>3,094</b>
Fixed assets - net	21,879	24,649	25,850	27,723	29,609
Other non-curr.asset	5,208	3,846	3,884	3,923	3,962
<b>Total asset</b>	<b>29,114</b>	<b>30,872</b>	<b>32,485</b>	<b>34,504</b>	<b>36,665</b>
ST debt + curr. maturity	3,895	2,152	2,238	2,361	2,479
Acct, payable	232	248	260	280	304
Advances received	0	0	0	0	0
Other curr. liab	2,299	2,114	2,195	2,206	2,217
Long term debt	18,967	20,808	21,641	22,831	23,973
Other non-curr, liab,	43	26	26	25	25
<b>Total liabilities</b>	<b>25,434</b>	<b>25,348</b>	<b>26,360</b>	<b>27,703</b>	<b>28,997</b>
Shareholder equity	3,371	4,994	5,371	5,748	6,232
Minority interest	309	530	754	1,053	1,436
<b>Total liab + SHE</b>	<b>29,114</b>	<b>30,872</b>	<b>32,485</b>	<b>34,504</b>	<b>36,665</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	681	819	1,050	1,322	1,674
Depreciation	535	610	684	734	791
Chg in working cap.	303	-213	56	-23	-19
Other	-486	-562	-658	-707	-764
<b>CF-Oper activities</b>	<b>1,032</b>	<b>655</b>	<b>1,131</b>	<b>1,325</b>	<b>1,683</b>
Capital expenditure	-2,128	-2,819	-1,226	-1,899	-1,913
Others	-1,382	1,362	-38	-39	-39
<b>CF-Investing activities</b>	<b>-3,511</b>	<b>-1,457</b>	<b>-1,265</b>	<b>-1,938</b>	<b>-1,952</b>
Net change in debt	2,481	99	918	1,313	1,260
Net change in equity	0	0	0	0	0
Dividend payment	-750	-600	-738	-945	-1,190
Other financing	560	1,608	289	298	383
<b>CF-Financing activities</b>	<b>2,292</b>	<b>1,107</b>	<b>470</b>	<b>666</b>	<b>453</b>
<b>Net cash flow</b>	<b>-187</b>	<b>305</b>	<b>336</b>	<b>54</b>	<b>183</b>
Cash - begin of the year	407	221	525	861	915
Cash - end of the year	221	525	861	915	1,098

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	7.3	8.8	10.4	9.1	8.5
Operating profit gr. (%)	4.7	6.9	11.6	9.5	8.6
Net profit gr. (%)	-70.6	20.4	28.1	25.9	26.6
Gross margin (%)	81.8	80.8	81.6	81.8	81.9
Operating margin (%)	73.0	71.7	72.5	72.7	72.8
EBITDA margin (%)	85.4	84.7	85.7	85.7	85.7
Net margin (%)	15.8	17.4	20.2	23.4	27.3
ROA (%)	2.3	2.7	3.2	3.8	4.6
ROE (%)	20.2	16.4	19.5	23.0	26.9
Current ratio (x)	0.3	0.5	0.6	0.6	0.6
Quick ratio (x)	0.3	0.5	0.6	0.6	0.6
Interest cover (x)	1.8	2.0	2.2	2.3	2.5
Debt to equity ratio (x)	6.8	4.6	4.4	4.4	4.2
Net debt to equity (x)	6.7	4.5	4.3	4.2	4.1



## HEALTHCARE SECTOR



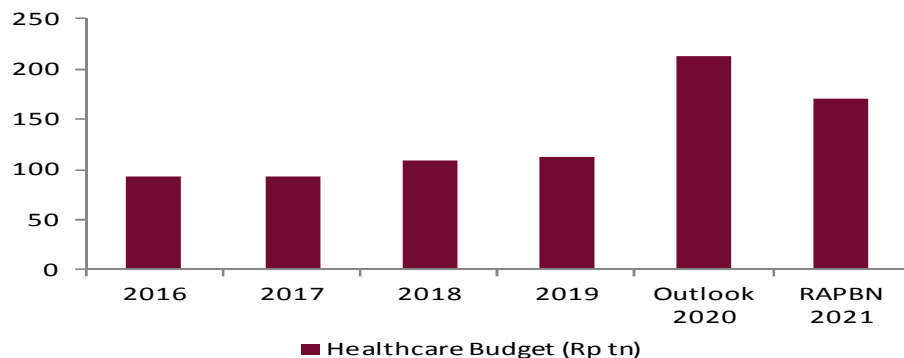
# Healthcare

## Overweight

### • Budget allocation for healthcare in 2021

Indonesian government sets Rp169.7 tn of healthcare budget allocation in 2021 (-20.1% YoY), representing 6.2% of state budget in 2021 (.vs 5.23% of state budget in 2020). Government allocate lower budget, as some of the healthcare equipment that was already purchased in 2020 can still be used in 2021. However, the budget for healthcare ministry (Kemenkes) increased by 7.4% YoY to Rp84.3 tn. Government spending for healthcare budget booked solid growth of 12.8% CAGR from 2016 – 2021, it indicates that the demand for healthcare services and products in Indonesia are keep increasing, which will benefit hospital companies, due to higher patient volume. For pharmaceutical industry, we expect higher healthcare budget allocation would lead to higher demand for unbranded generic products, under prescription pharmaceuticals division. In 2021 government plans to do JKN reformation through better services, JKN cost effectiveness, payment scheme improvements, data validation for PBI (recipients of government allowance for Indonesian poor society), and strengthening the role of local government. We believe, if JKN is improved, this will benefit pharmaceuticals and hospital players including KLBF and SILO in-term of better administration process.

**Exhibit 80: Indonesia Healthcare Budget**



Source: Finance Ministry, Ciptadana

## EQUITY MARKET OUTLOOK 2021

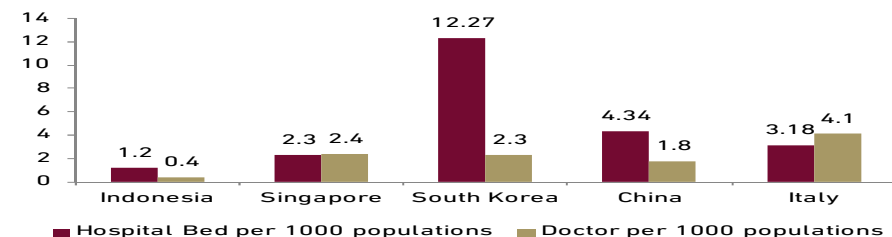
### • Government priority in 2021

During Covid-19 pandemic, Indonesia is far behind other countries in terms of lack in bed capacities and doctors. To support the Indonesian healthcare system reformation, government point out some important focus such as, targeting 96.8mn people of PBI (recipients of government allowance for Indonesian poor society), amounting to Rp48.8 tn. Helping on the payment scheme for PBPU (non-government salary recipients) and BP (non-worker), amounting to Rp2.4 tn. Government also focus on vaccine procurement, targeting 160 mn people, which cost around Rp18 tn. From the hospitals side, government aim to build and renovate 559 designated hospitals also build 971 public health centers. We see this as a positive catalyst for hospitals sector, as government try to make accessible and affordable healthcare services to all society level, especially for the low-income society. This may increase the patient volume of the hospitals operator in second tier cities, and rural area.

### • Indonesia's healthcare industry is still underpenetrated

According to world bank data, the ratio of hospital's bed in Indonesia for every 1000 populations is only 1.2, lower than Singapore with 2.3, and South Korea with 12.27. The doctor ratio for every 1000 populations is only 0.4, lower compared to other countries. In terms of spending, healthcare spending is still low, at 3.3% of GDP, lower than the average of countries with low income level 6.1% of GDP, and also lower than the average of East Asia Pacific countries with 7.4% of GDP. Even with the currently-low healthcare spending, most private hospitals are already overcrowded and profitable, which implies a huge growth opportunity. Hence, we believe, there is still much room for improvement on Indonesia Healthcare sector.

**Exhibit 81: Hospital Bed and Doctor Ratio**



Source: WDI World Bank, Ciptadana

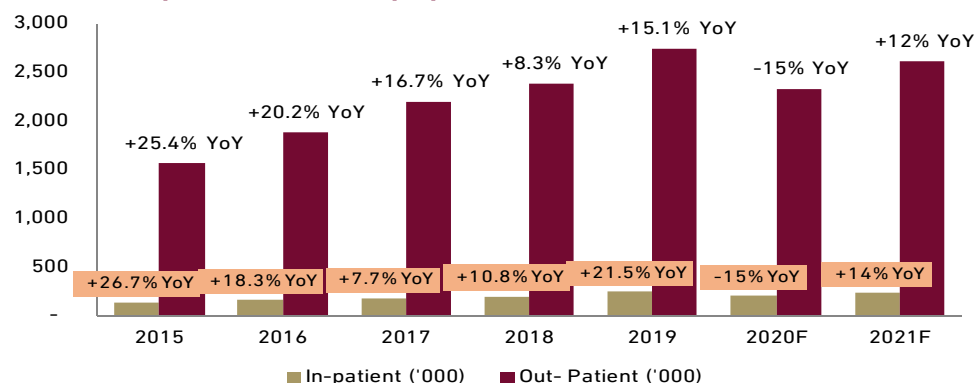




### • Patient volume recovery in 2021

Covid-19 have negative impact for hospitals, in terms of decline in patient volume. We believe people prefer to do self-medication for non-serious illness, especially during PSBB (social distancing) in April and May. Using SILO as an example, in 2Q20, SILO in-patient volume dropped by 44.8% YoY to 32.7 th. While Out-patient volume fell by 45.4% YoY to 347.1 th. However, we believe patient volume to improve in 2021, due to economic recovery and vaccine (we expect vaccine to be available in 2Q20). Other hospital operators (MIKA and HEAL) claimed on significant volume improvements after total PSBB in April and May 2020, which made current volume level to reach 90% pre Covid-19 level. Improvement in patient volume lead to higher revenue per patient and higher gross margin.

**Exhibit 82: SILO patient volume (in th. people)**



Source: SILO, Ciptadana

### • Pharmacy business will keep growing in 2021

Using KLBF as a proxy, Pharma sales declined by 16.4% QoQ, as in 2Q20, hospitals patient volume declined due to covid-19, this negatively impact this segment, where some of the products are BPJS related medicines for hospitals patient. As we expect patient volume to recover in 2021, pharmaceuticals sales will improve as well. Other than that, government focus on increasing JKN coverage will accelerate demand for unbranded generic products. On the other hand, we see that covid-19 will increase people's health awareness which should boost demand for OTC and vitamins product.

### • The rise of Telemedicine in Indonesia

According to Mckinsey survey on more than 700 Indonesian customers, telemedicine usage growth increased by 67% in the past six months. According to Good Doctor, during Covid-19 pandemic, the user traffic increased by eight-fold since early Covid-19 in Indonesia, and 25% of it were related to covid-19. On the otherhand Halodoc app offers affordable consultation cost from Rp10,000 to Rp50,000, depending on the doctor's type (general or special practitioner). Users can receive their prescribed medicines via Gojek or Grab delivery services. Telemedicine offers more convenient and affordable way in obtaining healthcare services. We see this positive trend will continue to grow in 2021, which create a good synergy between online and offline healthcare system, users of telemedicine can be further being referenced to hospitals or clinics, as many diagnoses still need brick and mortar medical treatment.

### • Valuation and recommendation

We have an OVERWEIGHT rating for healthcare sector, we believe on patient volume recovery in 2021 and government support on healthcare revolution system which may boost demand for perscription pharmaceuticals. Our top pick is KLBF, as pharmaceutical business will keep growing in 2021. We like pharmaceuticals industry on its defensive nature, people will keep looking for medicines in any situations because health is one of the most important aspects in human's life. We see KLBF will benefit from growing OTC products and stable IDR. We have a BUY call for KLBF with 2021F TP of Rp1,770/sh, based on 30x multiple or at its 5-yr historical average. Currently, the stocks trades at 26.2 x 2021F PER. Risk to our call; slower than expected GDP, Rupiah depreciation, surge in skimmed milk price.

**Exhibit 83: Healthcare stocks rating and valuation**

Bberg	Mkt.Cap	Last	Target	Upside	PER	EV/EBITDA		ROE	Yield
						2020F	2021F		
Ticker	Rating	(Rp tn)	Price	Price	pot.(%)	2020F	2021F	21F (%)	21F (%)
KLBF	Buy	72.6	1,550	1,770	14.2	27.6	26.2	18.3	17.3
SILO	Buy	7.7	4,780	6,150	28.7	390.0	167.7	10.2	8.6
<b>Sector</b>	<b>OW</b>	<b>80.3</b>				<b>62.4</b>	<b>39.8</b>	<b>17.5</b>	<b>16.5</b>

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# Kalbe Farma

BUY

TP: Rp1,770 (+14.2%)

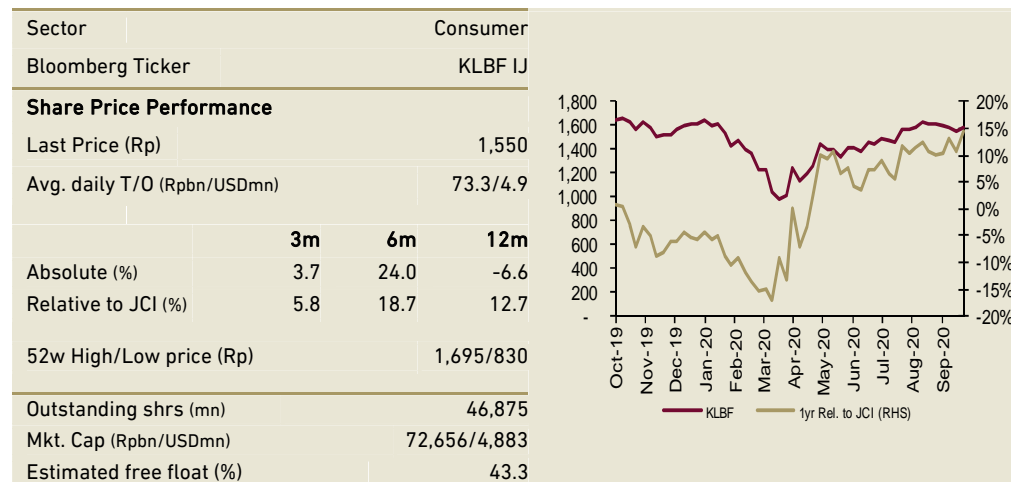
## Company Profile

Kalbe Farma (KLBF) is one of the largest listed pharmaceuticals in SE Asia. It operates four divisions namely Prescription Pharma (licensed, unbranded and branded generic drugs), Consumer Health (OTC drugs and Energy drinks), Nutritionals-based on powder milk and Distribution and Logistics divisions.

## Key Points

- **Collaborate with AmaroX to distribute Remdesivir.** Remdesivir is a medicine to treat covid-19 patient. In 2021, KLBF will distribute remdesivir, the revenue will be shared with AmaroX, some of the sales will go to KLBF's pharmaceutical segment, and KLBF will get distribution margin which includes in Distribution and logistics segment. However KLBF is not the sole distributor for Remdesivir. In India, 1 tube cost around 5400 rupees or around Rp1.1 mn, and a patient typically needs five to six doses.
- **Decent growth for OTC products.** In 2Q20, consumer health segment grew by 8% QoQ and 6.2% YoY. We see Covid-19 increases people health awareness, which will be positive for consumer health segment. We expect consumer health segment to grow by 7% YoY in 2021F. This segment contributes 15% to revenue in 2021F.
- **Distribution segment remains resilient.** Distribution segment will remain to be the biggest contributor for KLBF, as drugstore is still allowed to operate even in any worse case scenario.
- **We have a BUY rating for KLBF with 2021F TP of Rp1,770, based on 30x multiple.** We like KLBF on its resilient business segment, and decent growth prospect on OTC products. Currently, the stocks trade at 26.2x 2021F PER.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	21,074	22,633	24,222	26,228	28,654
Operating profit (Rpbn)	3,314	3,310	3,450	3,635	3,852
Net profit (Rpbn)	2,457	2,507	2,635	2,773	2,936
EPS (Rp)	52.4	53.5	56.2	59.2	62.6
EPS growth (%)	2.2	2.0	5.1	5.3	5.9
EV/EBITDA (x)	19.1	19.2	18.3	17.3	16.3
PER (x)	29.6	29.0	27.6	26.2	24.7
PBV (x)	5.0	4.6	4.2	3.9	3.6
Dividend yield (%)	1.6	1.7	1.8	1.9	2.0
ROE (%)	16.8	15.8	15.3	14.9	14.6

## Assumptions

	2018A	2019A	2020F	2021F	2022F
Prescription pharma	4,822	5,166	5,528	5,915	6,388
Consumer health	3,569	3,470	3,644	3,899	4,212
Nutritionals	6,307	6,620	6,581	7,084	7,650
Distribution and logistics	6,375	7,375	7,966	8,762	9,639

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## Kalbe Farma

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>21,074</b>	<b>22,633</b>	<b>24,222</b>	<b>26,228</b>	<b>28,654</b>
COGS	-11,226	-12,390	-13,354	-14,562	-16,028
<b>Gross profit</b>	<b>9,848</b>	<b>10,243</b>	<b>10,868</b>	<b>11,666</b>	<b>12,626</b>
Oper. expenses	-6,534	-6,933	-7,418	-8,031	-8,774
<b>Oper. profit</b>	<b>3,314</b>	<b>3,310</b>	<b>3,450</b>	<b>3,635</b>	<b>3,852</b>
<b>EBITDA</b>	<b>3,653</b>	<b>3,675</b>	<b>3,878</b>	<b>4,128</b>	<b>4,412</b>
Interest income	126	138	148	160	175
Interest expense	-30	-40	-43	-47	-51
Other income (exp.)	-103	-5	-11	-11	-11
<b>Pre-tax profit</b>	<b>3,306</b>	<b>3,403</b>	<b>3,544</b>	<b>3,737</b>	<b>3,964</b>
Income tax	-809	-865	-877	-930	-991
Minority interest	-40	-31	-32	-34	-36
<b>Net profit</b>	<b>2,457</b>	<b>2,507</b>	<b>2,635</b>	<b>2,773</b>	<b>2,936</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	3,153	3,040	2,261	1,799	1,315
Acct, receivables	3,256	3,573	3,783	4,118	4,487
Inventory	3,475	3,738	4,081	4,422	4,882
Other curr, asset	765	871	932	1,010	1,103
<b>Total current asset</b>	<b>10,648</b>	<b>11,222</b>	<b>11,057</b>	<b>11,348</b>	<b>11,787</b>
Fixed assets - net	6,253	7,666	9,069	10,462	11,845
Other non-curr.asset	1,222	1,348	1,414	1,490	1,579
<b>Total asset</b>	<b>18,146</b>	<b>20,265</b>	<b>21,570</b>	<b>23,333</b>	<b>25,247</b>
ST debt + curr. maturity	97	169	160	173	189
Acct, payable	1,290	1,216	1,430	1,559	1,716
Advances received	0	0	0	0	0
Other curr. liab	899	1,192	1,201	1,307	1,435
Long term debt	260	648	388	420	459
Other non-curr, liab,	306	334	358	387	423
<b>Total liabilities</b>	<b>2,852</b>	<b>3,559</b>	<b>3,538</b>	<b>3,848</b>	<b>4,223</b>
Shareholder equity	14,623	15,893	17,211	18,597	20,066
Minority interest	671	812	821	888	958
<b>Total liab + SHE</b>	<b>18,146</b>	<b>20,265</b>	<b>21,570</b>	<b>23,333</b>	<b>25,247</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	2,457	2,507	2,635	2,773	2,936
Depreciation	340	364	428	493	560
Chg in working cap.	-102	-468	-391	-518	-638
Other	-20	-8	22	30	36
<b>CF-Oper activities</b>	<b>2,674</b>	<b>2,396</b>	<b>2,694</b>	<b>2,778</b>	<b>2,894</b>
Capital expenditure	-1,250	-1,778	-1,831	-1,886	-1,943
Others	16	-119	-66	-79	-92
<b>CF-Investing activities</b>	<b>-1,234</b>	<b>-1,896</b>	<b>-1,897</b>	<b>-1,965</b>	<b>-2,035</b>
Net change in debt	40	460	-268	45	55
Net change in equity	0	0	0	0	0
Dividend payment	-1,172	-1,219	-1,318	-1,387	-1,468
Other financing	61	147	9	66	70
<b>CF-Financing activities</b>	<b>-1,071</b>	<b>-612</b>	<b>-1,577</b>	<b>-1,275</b>	<b>-1,343</b>
<b>Net cash flow</b>	<b>369</b>	<b>-113</b>	<b>-780</b>	<b>-462</b>	<b>-484</b>
Cash - begin of the year	2,785	3,153	3,040	2,261	1,799
Cash - end of the year	3,153	3,040	2,260	1,799	1,315

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	4.4	7.4	7.0	8.3	9.3
Operating profit gr. (%)	3.1	-0.1	4.2	5.4	6.0
Net profit gr. (%)	2.2	2.0	5.1	5.3	5.9
Gross margin (%)	46.7	45.3	44.9	44.5	44.1
Operating margin (%)	15.7	14.6	14.2	13.9	13.4
EBITDA margin (%)	17.3	16.2	16.0	15.7	15.4
Net margin (%)	11.7	11.1	10.9	10.6	10.2
ROA (%)	13.5	12.4	12.2	11.9	11.6
ROE (%)	16.8	15.8	15.3	14.9	14.6
Current ratio (x)	4.7	4.4	4.0	3.7	3.5
Quick ratio (x)	3.1	2.9	2.5	2.3	2.1
Interest cover (x)	122.9	90.9	89.7	88.1	86.2
Debt to equity ratio (x)	0.0	0.1	0.0	0.0	0.0
Net debt to equity (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



# Siloam Hospitals

**BUY**

**TP: Rp6,150 (+28.7%)**

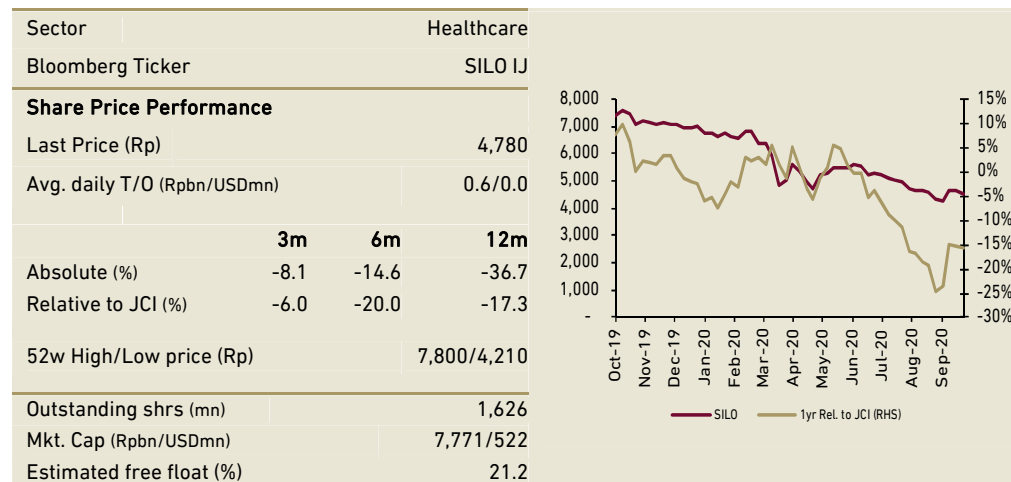
## Company Profile

Established in 1996, Siloam Hospitals (SILO), which is subsidiary of LPKR property developers in Indonesia, offers valuable service for coverage expansion from the onset of JKN. SILO operates 34 hospitals of varying degree of profitability in 24 cities throughout the country, and 6,800 bed capacity supported by ~2,700 specialists and general practitioners and >10,000 nurses and support staff.

## Key Points

- **Patient volume recovery.** In 2Q20, SILO in-patient volume dropped by 44.8% YoY to 32.7 th patients. While Out-patient volume fell by 45.4% YoY to 347.1 th patients. However, we expect SILO in-patient and out-patient revenue to increase by 14% YoY and 12% YoY respectively.
- **Still in discussion with LPKR regarding lease expiry.** The company has not yet provided any further colors regarding its rental scheme to REITS. However, if LPKR is not going to continue the subsidy, SILO' management expect the increment on rent expenses will not be significant.
- **Remain strong corporate insurance segment.** We expect corporate insurance segment remains to be the strongest contributor for SILO's revenue, which contributed 37% to revenue in 2Q20. This segment is more subject to mid-up segment which we expect to remain solid in 2021.
- **Attractive valuation relative to peers.** We have a BUY call for SILO with TP of Rp6,150, based on 2021F EV/EBITDA multiple of 11x. Currently, the stocks trades at undemanding valuation of 8.6x 2021F EV/EBITDA, vs MIKA's of 28x and HEAL's of 11x based on consensus estimates.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	5,965	7,018	6,305	7,395	8,797
Operating profit (Rpbn)	299	330	184	278	396
Net profit (Rpbn)	16	-339	20	46	66
EPS (Rp)	10.1	-208.4	12.3	28.5	40.7
EPS growth (%)	-82.4	n/m	n/m	132.5	42.7
EV/EBITDA (x)	10.1	9.1	10.2	8.6	7.1
PER (x)	471.2	-22.9	390.0	167.7	117.5
PBV (x)	1.2	1.3	1.3	1.3	1.3
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	0.3	-5.7	0.3	0.8	1.1

## Assumptions

	2018A	2019A	2020F	2021F	2022F
No. of in-patient admissions	205,828	250,000	212,500	242,250	278,588
% YoY growth	10.8	21.5	-15	14	15
Avg rev / inpatient (Rp mn)	17.0	16.3	17.7	18.4	19.1
% YoY growth	-7.4	0.4	8.3	4.0	4.0

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## Siloam Hospitals

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>5,965</b>	<b>7,018</b>	<b>6,305</b>	<b>7,395</b>	<b>8,797</b>
COGS	-4,036	-4,818	-4,378	-5,092	-6,008
<b>Gross profit</b>	<b>1,929</b>	<b>2,200</b>	<b>1,928</b>	<b>2,302</b>	<b>2,789</b>
Oper. expenses	-1,630	-1,870	-1,743	-2,024	-2,393
<b>Oper. profit</b>	<b>299</b>	<b>330</b>	<b>184</b>	<b>278</b>	<b>396</b>
<b>EBITDA</b>	<b>764</b>	<b>843</b>	<b>738</b>	<b>861</b>	<b>1,009</b>
Interest income	16	3	13	7	9
Interest expense	-22	-28	-25	-29	-35
Other income (exp.)	-126	-455	-117	-137	-207
<b>Pre-tax profit</b>	<b>166</b>	<b>-150</b>	<b>55</b>	<b>119</b>	<b>163</b>
Income tax	-140	-183	-33	-68	-90
Minority interest	-10	-6	-2	-5	-7
<b>Net profit</b>	<b>16</b>	<b>-339</b>	<b>20</b>	<b>46</b>	<b>66</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	216	314	409	523	797
Acct, receivables	1,209	1,138	1,022	1,199	1,426
Inventory	189	212	191	223	266
Other curr, asset	152	181	163	191	227
<b>Total current asset</b>	<b>1,766</b>	<b>1,845</b>	<b>1,784</b>	<b>2,136</b>	<b>2,716</b>
Fixed assets - net	4,080	4,170	4,082	3,901	3,702
Other non-curr.asset	1,848	1,726	1,628	1,615	1,614
<b>Total asset</b>	<b>7,695</b>	<b>7,742</b>	<b>7,494</b>	<b>7,652</b>	<b>8,032</b>
ST debt + curr. maturity	54	147	63	74	88
Acct, payable	336	333	299	350	417
Advances received	20	23	21	25	29
Other curr. liab	570	867	819	849	1,024
Long term debt	124	104	95	95	112
Other non-curr, liab,	274	279	182	192	222
<b>Total liabilities</b>	<b>1,378</b>	<b>1,754</b>	<b>1,478</b>	<b>1,584</b>	<b>1,892</b>
Shareholder equity	6,286	5,941	5,964	6,011	6,077
Minority interest	30	46	51	57	64
<b>Total liab + SHE</b>	<b>7,695</b>	<b>7,742</b>	<b>7,494</b>	<b>7,652</b>	<b>8,032</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	16	-339	20	46	66
Depreciation	466	513	554	583	613
Chg in working cap.	-310	49	101	-154	-199
Other	149	326	24	55	190
<b>CF-Oper activities</b>	<b>321</b>	<b>550</b>	<b>699</b>	<b>530</b>	<b>671</b>
Capital expenditure	-1,861	-713	-394	-403	-414
Others	835	170	-24	-39	-50
<b>CF-Investing activities</b>	<b>-1,026</b>	<b>-543</b>	<b>-418</b>	<b>-442</b>	<b>-464</b>
Net change in debt	-9	99	-93	10	32
Net change in equity	-13	0	0	0	0
Dividend payment	0	0	0	0	0
Other financing	13	-7	-93	16	36
<b>CF-Financing activities</b>	<b>-9</b>	<b>92</b>	<b>-186</b>	<b>26</b>	<b>68</b>
<b>Net cash flow</b>	<b>-714</b>	<b>98</b>	<b>95</b>	<b>114</b>	<b>274</b>
Cash - begin of the year	930	216	314	409	523
Cash - end of the year	216	314	409	523	797

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	12.4	17.7	-10.2	17.3	19.0
Operating profit gr. (%)	0.5	10.5	-44.2	51.1	42.3
Net profit gr. (%)	-82.4	n/m	n/m	132.5	42.7
Gross margin (%)	32.3	31.3	30.6	31.1	31.7
Operating margin (%)	5.0	4.7	2.9	3.8	4.5
EBITDA margin (%)	12.8	12.0	11.7	11.6	11.5
Net margin (%)	0.3	-4.8	0.3	0.6	0.8
ROA (%)	0.2	-4.4	0.3	0.6	0.8
ROE (%)	0.3	-5.7	0.3	0.8	1.1
Current ratio (x)	1.8	1.3	1.5	1.6	1.7
Quick ratio (x)	1.6	1.2	1.3	1.5	1.6
Interest cover (x)	35.1	30.6	29.8	29.7	29.2
Debt to equity ratio (x)	0.0	0.0	0.0	0.0	0.0
Net debt to equity (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



## METAL MINING SECTOR



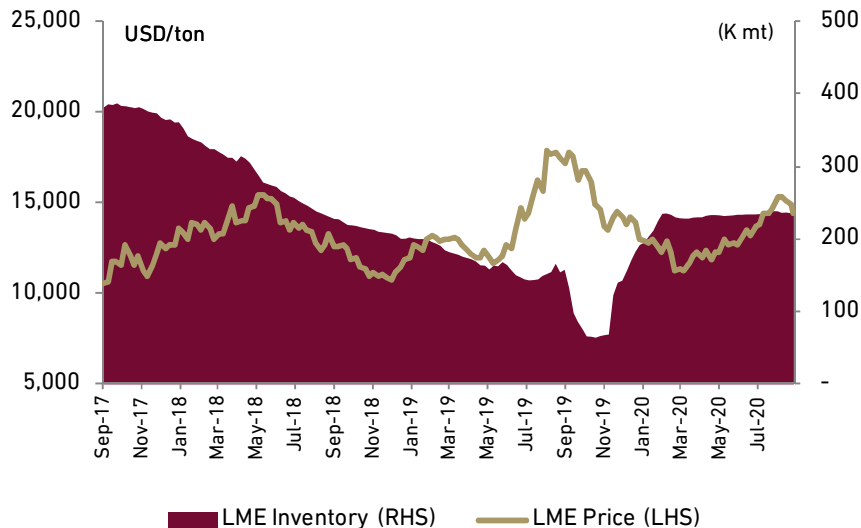
# Metal Mining Overweight

## Sector Outlook

### • China steel production boost nickel prices

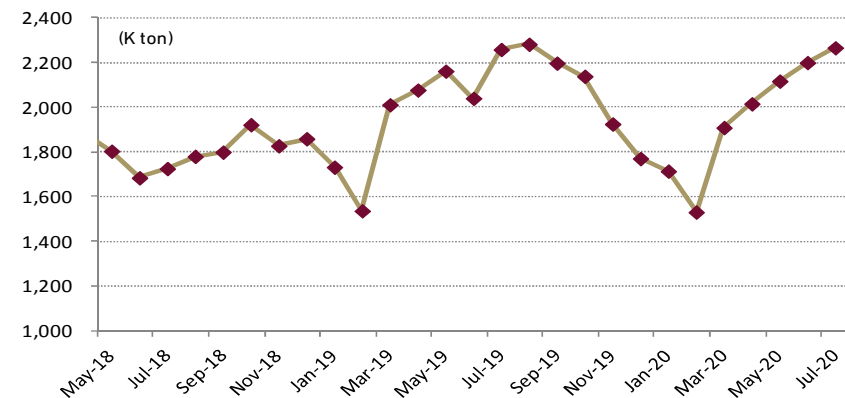
Nickel prices slumped to USD11,225/ton Ytd in March 2020 because of China's pandemic situation and steel mill shutdowns in 1Q20 as China contributing around 52% of the world stainless steel production. At the time of writing however, despite an alarmingly high level of nickel inventory of 236k ton (+51% Ytd), nickel prices have surged by 28.6% since March to USD14,431/ton. This is primarily due to strong production recovery of China's nickel-based stainless steel production, sparked by China's improving economy post Covid-19 restrictions. The country has been able to produce 13.7 mn tons in July 2020 only down 0.5% YoY and is still on track to produce around 24 mn tons of stainless steel this year.

**Exhibit 84: LME Nickel price and inventory**



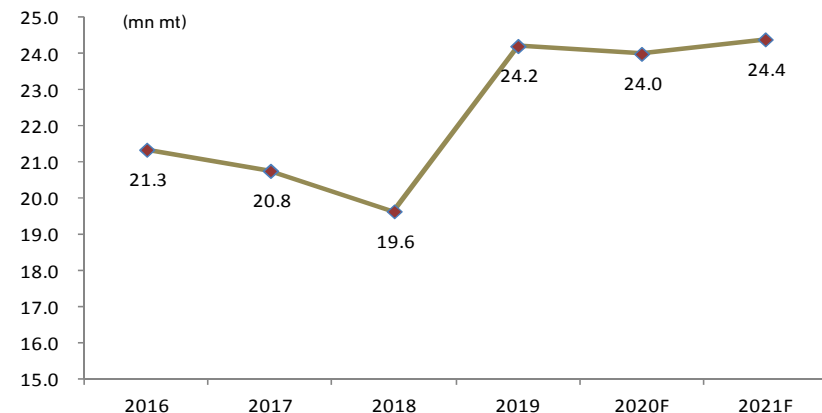
Source: Bloomberg

**Exhibit 85: China monthly nickel based stainless steel production**



Source: Bloomberg

**Exhibit 86: EV demand estimate**



Source: Bloomberg, Ciptadana estimates





Despite strong demand recovery from China's stainless steel industry, we still expect a surplus of 15.8k tons this year, before returning to a deficit of 32.8k tons in 2021. As a result, we recently increased our FY20-22F nickel price to USD13,800, USD15,000 and USD16,000/ton, respectively.

### Exhibit 87: China yearly nickel based stainless steel production

(mt)	2018	2019F	2020F	2021F
<b>Global Refined Nickel Production</b>	<b>1,379,811</b>	<b>1,407,407</b>	<b>1,397,402</b>	<b>1,443,628</b>
America	194,432	198,321	184,438	180,749
Europe	268,433	273,802	268,326	271,009
Asia	743,499	758,369	765,953	804,250
Oceania	147,544	150,495	152,000	159,600
Africa	25,903	26,421	26,685	28,020
<b>Global Refined Nickel Demand</b>	<b>1,435,677</b>	<b>1,452,904</b>	<b>1,381,521</b>	<b>1,476,518</b>
America	169,189	170,881	162,337	170,454
Europe	287,069	292,810	278,170	292,078
Asia	945,759	955,217	907,456	980,052
Oceania	1,076	1,087	978	1,027
Africa	32,584	32,910	32,581	32,907
<b>Refined Nickel Net Surplus/-Deficit</b>	<b>(55,866)</b>	<b>(45,497)</b>	<b>15,880</b>	<b>(32,890)</b>

Source: Bloomberg, Ciptadana estimates

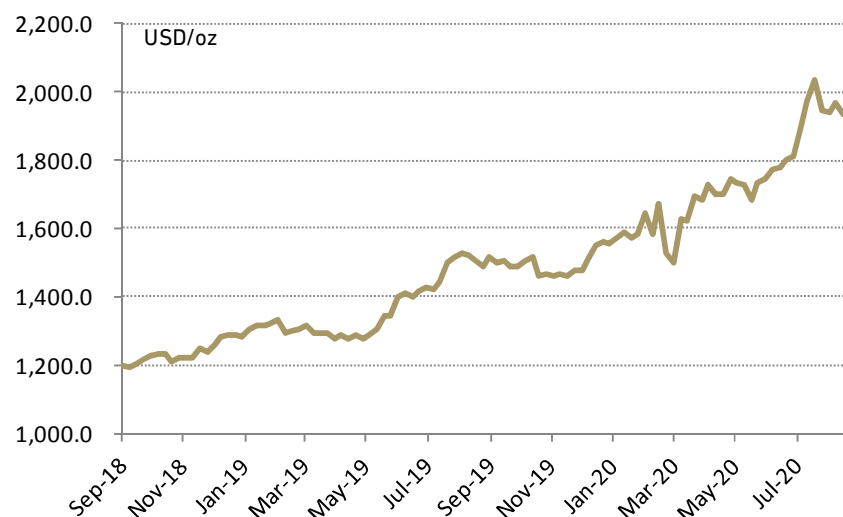
### • Tesla proves to be a catalyst for nickel prices in the long run

Tesla CEO Elon Musk recently appealed for mining companies to produce more nickel which is a key source for its electric vehicle (EV) batteries. Elon Musk further added that he would award companies with a huge and long time contract that for those that can provide him with the raw materials that he needed. This would bode well for nickel prices in the long run as Tesla is the predominant EV producers in the world.

### • U.S economic uncertainty and the pandemic stoke gold prices

At the time of writing gold prices has been soaring 25.7% YTD to USD1,950/oz driven primarily by; 1) global coronavirus pandemic, 2) doubt over the speed of U.S. economic recovery, 3) U.S. senate stalemate concerning further stimulus package and 4) fear of another prolonged trade war following president Donald Trump's recent ban on China mobile apps on the US. The aforementioned factors caused investors to peel-back from the weakening US dollar, boosting gold's safe-haven appeal. Subsequent to gold prices rally, we recently increased our FY20-22F benchmark gold prices to USD1,900 and 1,800/oz, respectively.

### Exhibit 88: Gold price



Source: Bloomberg

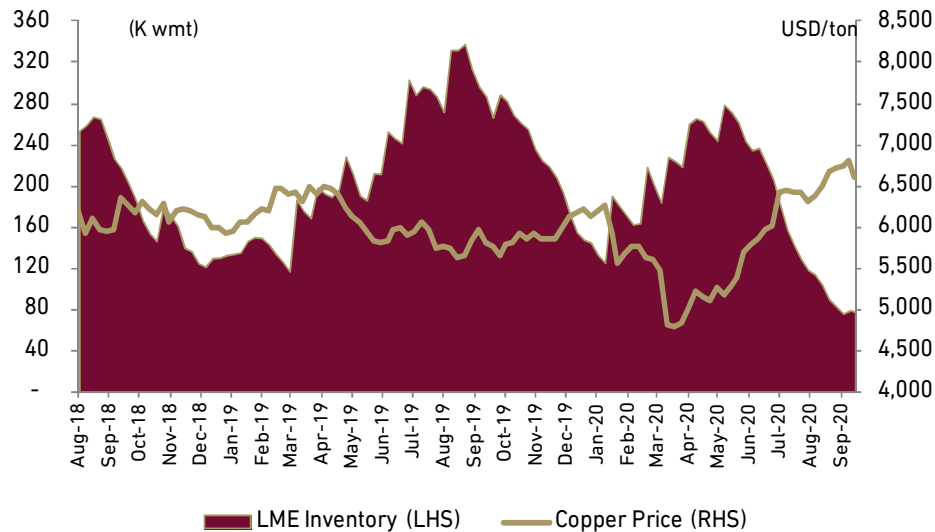


## EQUITY MARKET OUTLOOK 2021

### • Copper prices rebounded on supply concerns

Copper prices have steadily increasing by 37.3% from its lowest point in March to USD6,604/ton, primarily due to a fresh positive economic outlook which predicted a swifter recovery post pandemic mainly from US and China. Moreover, this was further compounded by thinning copper supply which has been steadily declining by 46.5% Ytd to 77k wmt from 144k wmt in the beginning of the year. With demand reinvigorated primarily from China, we anticipated a more balanced market this year, followed by a deficit in 21F. As a result we maintained our FY20-22F copper forecast at USD5,800, USD6,000 and USD6,500/ton, respectively.

**Exhibit 89: LME copper price and inventory**

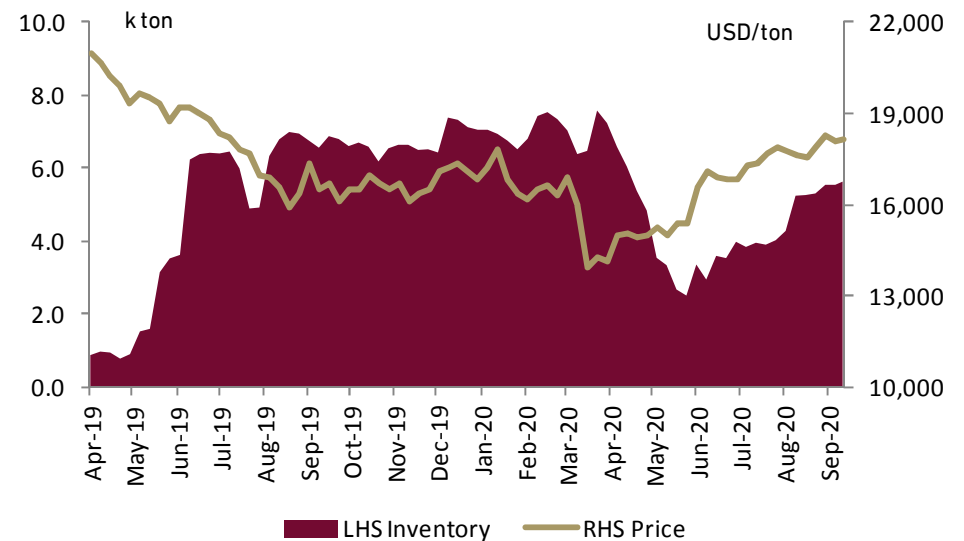


Source: Bloomberg

### • Rising Chinese demand stoking tin prices

Tin prices have been rising steadily 6.3% Ytd whilst LME inventory has been steadily declining (-21.0% Ytd) to 5.6k wmt from 7.1k wmt in the beginning of the year. This is primarily due to recovering Chinese economy sparking an increase of demand for refined tin. Furthermore, smelter maintenance and declining tin ore supply from Myanmar further tightened the already tight raw materials for Chinese smelters, causing Chinese consumers to import more refined tin. Following a faster than expected China economic recovery, we anticipated a more balanced market this year, followed by a deficit in 21F. As a result, we maintained our FY20-22F tin benchmark forecast at USD18,000, USD18,500 and USD20,000/ton respectively.

**Exhibit 90: LME tin price and inventory**



Source: Bloomberg



## • Maintain Overweight rating for metal sector

We maintained our overweight rating for metal sector on account of positive gold price outlook and recovering metal price outlook. We select MDKA as our top pick, mainly due to MDKA's gold producing capabilities ensuring a relatively stable earnings growth caused by gold price stability. Furthermore, MDKA's Copper and Pani Project potentials are also too good to ignore.

### Exhibit 91: Our metal prices estimate

	2020F	2021F	2022F
Nickel USD/t	13,800	15,000	16,000
Tin USD/t	18,000	18,500	20,000
Copper USD/t	5,800	6,000	6,500
Gold USD/oz	1,900	1,800	1,800

Source: Ciptadana estimates

### Exhibit 92: Metal stock rating and valuation

Berg		Mkt.Cap	Last	Target	Upside	PER		EV/EBITDA		ROE	Yield
Ticker	Rating	(Rp tn)	Price	Price	pot.(%)	2020F	2021F	2020F	2021F	21F (%)	20F (%)
MDKA	Buy	33.5	1,615	2,800	73.4	32.8	23.5	15.9	10.7	14.9	0.0
INCO	Buy	34.8	3,510	4,250	21.1	24.4	26.2	9.4	8.3	4.5	6.5
ANTM	Buy	23.1	720	1,000	38.9	37.9	25.4	13.2	10.1	4.2	0.9
TINS	Buy	3.4	680	1,100	61.8	n/a	n/a	56.7	14.6	n/a	0.0
<b>Sector</b>	<b>OW</b>	<b>94.8</b>				<b>22.5</b>	<b>18.8</b>	<b>23.4</b>	<b>10.9</b>	<b>5.8</b>	<b>1.8</b>

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# Aneka Tambang

BUY

TP: Rp1,000 (+38.9%)

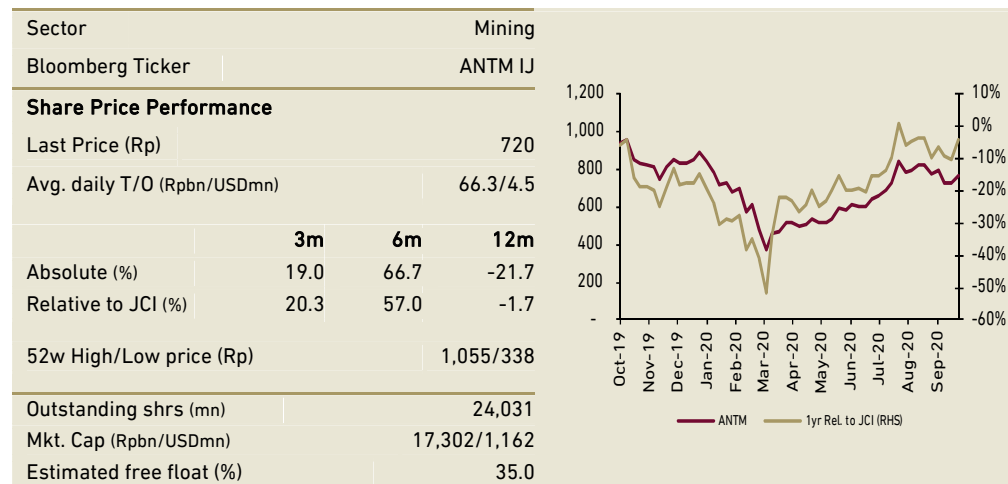
## Company Profile

The state-owned PT Aneka Tambang is one of the largest nickel miners in Indonesia and it has an installed capacity of about 28,500 tons. Its business segment is classified into nickel segment, gold, refinery segment and others operating segment. ANTM also has 25% equity interest in Nusa Halmahera Minerals, which currently operates Gosowong and Cibaliung goldmines.

## Key Points

- **Focusing on processed ore development.** Further to the company's development strategy ANTM is currently focusing on developing its Smelter Grade Alumina Refinery (SGAR) plant in Mempawah, West Kalimantan with an estimated total production capacity of up to 1 mn ton SGA per annum. Furthermore, its Halmahera Ferronickel plant development project ANTM is currently reaching 98% of project completion at the end of 1H20, which should add around 13,500 TNi per annum in North Maluku.
- **Maintaining a solid online gold sales presence.** Despite forecasted gold sales declining by 25.15% YoY the company continues to optimize gold sales through an online scheme in order to mitigate potential gold sales decline in the midst of the COVID-19 pandemic. The company also resumed operation of the Gold Boutique Shop in a limited number of areas for the process of delivering the ordered gold.
- **Maintain BUY rating with TP of RP1,100/share.** We maintained our Buy rating on ANTM as it offers an attractive (+38.9%) to our TP. We like ANTM given its solid operational performance, positive production outlook and positive earnings outlook.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	25,241	32,719	22,407	31,426	33,881
Operating profit (Rpbn)	1,853	956	881	1,304	2,175
Net profit (Rpbn)	874	194	538	803	1,404
EPS (Rp)	36.4	8.1	22.4	33.4	58.4
EPS growth (%)	540.6	-77.8	177.7	49.1	74.9
EV/EBITDA (x)	9.0	12.4	13.2	10.1	6.8
PER (x)	23.4	105.4	37.9	25.4	14.6
PBV (x)	1.0	1.1	1.1	1.1	1.0
Dividend yield (%)	0.2	1.5	0.3	0.9	1.4
ROE (%)	4.3	1.1	2.9	4.2	6.9

## Assumptions

	2018A	2019A	2020F	2021F	2022F
FeNi Sales (TNi)	24,135	26,349	19,721	27,609	27,886
Nickel ore sales (mn Wmt)	6.3	7.5	2.3	4.1	4.5
Gold sales (kg)	27,894	28,173	28,173	28,511	28,796
Bauxite sales (k/wmt)	920	1,660	2,379	2,736	3,147

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## Aneka Tambang

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>25,241</b>	<b>32,719</b>	<b>22,407</b>	<b>31,426</b>	<b>33,881</b>
COGS	-21,765	-28,271	-19,621	-27,734	-29,131
<b>Gross profit</b>	<b>3,476</b>	<b>4,447</b>	<b>2,786</b>	<b>3,692</b>	<b>4,750</b>
Oper. expenses	-1,624	-3,492	-1,905	-2,388	-2,575
<b>Oper. profit</b>	<b>1,853</b>	<b>956</b>	<b>881</b>	<b>1,304</b>	<b>2,175</b>
<b>EBITDA</b>	<b>2,857</b>	<b>2,048</b>	<b>1,892</b>	<b>2,414</b>	<b>3,394</b>
Interest income	164	120	112	157	169
Interest expense	-554	-233	-291	-409	-440
Other income (exp.)	-196	-156	67	94	102
<b>Pre-tax profit</b>	<b>1,266</b>	<b>687</b>	<b>769</b>	<b>1,147</b>	<b>2,005</b>
Income tax	-391	-493	-231	-344	-602
Minority interest	0	0	0	0	0
<b>Net profit</b>	<b>874</b>	<b>194</b>	<b>538</b>	<b>803</b>	<b>1,404</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	4,722	3,636	3,963	4,116	5,049
Acct, receivables	924	1,002	840	1,135	1,223
Inventory	2,028	1,796	2,278	2,595	2,726
Other curr, asset	1,248	1,230	196	455	473
<b>Total current asset</b>	<b>8,922</b>	<b>7,665</b>	<b>7,276</b>	<b>8,301</b>	<b>9,471</b>
Fixed assets - net	20,128	18,866	19,385	19,265	19,069
Other non-curr.asset	3,583	2,919	3,159	2,975	3,035
<b>Total asset</b>	<b>33,730</b>	<b>30,195</b>	<b>30,587</b>	<b>31,331</b>	<b>32,396</b>
ST debt + curr. maturity	2,600	3,025	2,103	2,171	1,954
Acct, payable	1,158	740	747	1,135	1,223
Advances received	317	199	205	211	218
Other curr. liab	1,437	1,330	1,348	1,508	1,558
Long term debt	7,348	5,564	6,353	5,849	5,849
Other non-curr, liab,	708	1,204	1,228	1,240	1,252
<b>Total liabilities</b>	<b>13,567</b>	<b>12,061</b>	<b>11,983</b>	<b>12,113</b>	<b>12,055</b>
Shareholder equity	20,163	18,133	18,604	19,218	20,341
Minority interest	0	0	0	0	0
<b>Total liab + SHE</b>	<b>33,730</b>	<b>30,195</b>	<b>30,587</b>	<b>31,331</b>	<b>32,396</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	874	194	538	803	1,404
Depreciation	1,004	1,092	1,011	1,110	1,219
Chg in working cap.	-169	-383	-306	-218	-124
Other	-1	-1,023	1,410	-532	-211
<b>CF-Oper activities</b>	<b>1,708</b>	<b>-120</b>	<b>2,653</b>	<b>1,162</b>	<b>2,288</b>
Capital expenditure	-6,035	-702	-1,471	-927	-955
Others	1,489	-422	-111	-106	-119
<b>CF-Investing activities</b>	<b>-4,546</b>	<b>-1,124</b>	<b>-1,582</b>	<b>-1,033</b>	<b>-1,074</b>
Net change in debt	2,057	464	-676	213	0
Net change in equity	0	0	0	0	0
Dividend payment	-48	-306	-68	-188	-281
Other financing	0	0	0	0	0
<b>CF-Financing activities</b>	<b>2,010</b>	<b>158</b>	<b>-744</b>	<b>24</b>	<b>-281</b>
<b>Net cash flow</b>	<b>-828</b>	<b>-1,086</b>	<b>327</b>	<b>154</b>	<b>933</b>
Cash - begin of the year	5,551	4,722	3,636	3,963	4,116
Cash - end of the year	4,722	3,636	3,963	4,116	5,049

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	99.5	29.6	-31.5	40.3	7.8
Operating profit gr. (%)	208.5	-48.4	-7.8	48.0	66.8
Net profit gr. (%)	540.6	-77.8	177.7	49.1	74.9
Gross margin (%)	13.8	13.6	12.4	11.7	14.0
Operating margin (%)	7.3	2.9	3.9	4.1	6.4
EBITDA margin (%)	11.3	6.3	8.4	7.7	10.0
Net margin (%)	3.5	0.6	2.4	2.6	4.1
ROA (%)	2.6	0.6	1.8	2.6	4.3
ROE (%)	4.3	1.1	2.9	4.2	6.9
Current ratio (x)	1.6	1.4	1.7	1.7	1.9
Quick ratio (x)	1.3	1.1	1.1	1.1	1.4
Interest cover (x)	5.2	8.8	6.5	5.9	7.7
Debt to equity ratio (x)	0.5	0.5	0.5	0.4	0.4
Net debt to equity (x)	0.3	0.3	0.2	0.2	0.1



# Merdeka Copper Gold

**BUY**

**TP: Rp2,800 (+73.4%)**

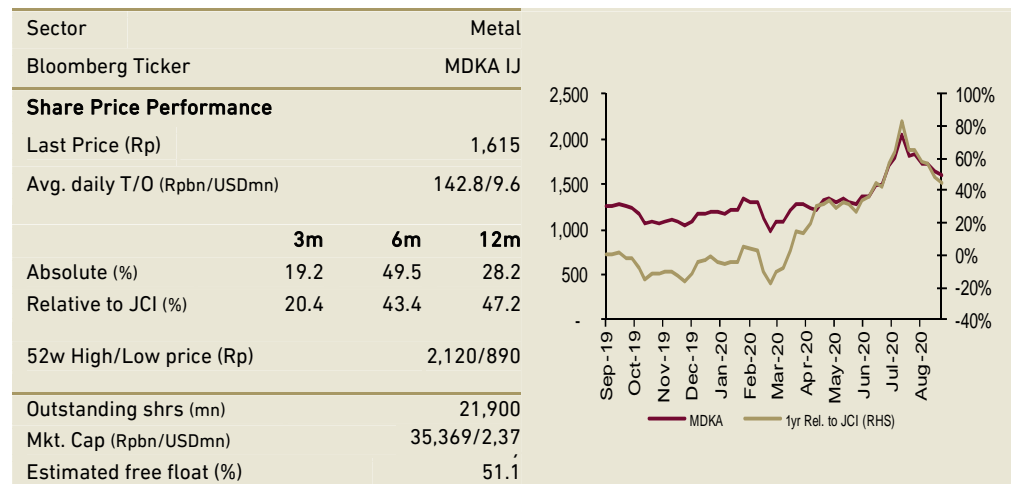
## Company Profile

Founded in 2012, Merdeka Copper Gold (MDKA) is a holding company with operating subsidiaries that are engaged in the mining business, encompassing the exploration and future production of gold, silver, copper and other related minerals. It currently runs two producing assets, yielding copper, gold and silver.

## Key Points

- **Heap leach accident does not affect copper and Pani project.** MDKA announced on the 15th of September, that the company have found some cracking on one of its heap-leach pads on 12 Sep. The accident will somewhat affect 4Q20 production capabilities, decreasing FY20F gold sales volume and earnings by 14.6% and 30.4% to around 160k oz and USD73 mn, respectively. However, this does not affect the progress towards its key non-operating assets namely Copper and Pani project.
- **AIM project update.** Due to promising preliminary concept study, management is confident in engaging consultants to complete a class 3 feasibility study. Despite some delay due to the pandemic, management commented that the feasibility study will be finalized in 4Q20, with a decision of the project to be made in early 2021. Legal documents for acid and steam sales, JV operation and ore sales are expected to be substantially negotiated in Q32020.
- **BUY rating with TP of Rp2,800/share.** We continue to select MDKA as our top picks in the metal sector, which is mainly due to MDKA's gold producing capabilities and promising gold price outlook. We maintain our rating at BUY for MDKA with a 73.4% upside potential to our TP. Downside risks to our call include; 1) Gold and copper price volatility, 2) Delay on project development, 3) Changes in government policies and 4) Lower than expected resource grade.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (USDmn)	294	402	350	443	428
Operating profit (USDmn)	123	135	124	173	175
Net profit (USDmn)	52	71	73	100	98
EPS (US\$Cents)	0.2	0.3	0.3	0.5	0.4
EPS growth (%)	21.8	34.9	3.1	37.3	-1.8
EV/EBITDA (x)	12.4	12.3	15.9	10.7	9.8
PER (x)	46.8	36.4	32.8	23.5	24.0
PBV (x)	6.9	5.2	4.2	3.5	3.1
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	14.8	14.4	12.7	14.9	12.8

## Assumptions

	2018A	2019A	2020F	2021F	2022F
Gold sales volume (k oz)	167.5	197.7	160.0	196.0	162.8
Gold ASP (USD/oz)	1,403	1,305	1,883	1,784	1,819
Copper sales volume (k tn)	17.1	16.7	8.0	15.0	15.0
Copper ASP (USD/t)	6,578	5,663	5,725	6,000	6,500

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## Merdeka Copper Gold

### Income Statement

Year to 31 Dec (USDmn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>294</b>	<b>402</b>	<b>350</b>	<b>443</b>	<b>428</b>
COGS	-155	-247	-200	-239	-220
<b>Gross profit</b>	<b>139</b>	<b>155</b>	<b>150</b>	<b>204</b>	<b>208</b>
Oper. expenses	-16	-20	-26	-31	-34
<b>Oper. profit</b>	<b>123</b>	<b>135</b>	<b>124</b>	<b>173</b>	<b>175</b>
<b>EBITDA</b>	<b>217</b>	<b>228</b>	<b>167</b>	<b>234</b>	<b>243</b>
Interest income	0	1	0	0	0
Interest expense	-17	-20	-15	-9	-2
Other income (exp.)	-20	-8	-7	-9	-9
<b>Pre-tax profit</b>	<b>87</b>	<b>108</b>	<b>102</b>	<b>155</b>	<b>164</b>
Income tax	-29	-39	-37	-56	-59
Minority interest	-5	2	8	1	-7
<b>Net profit</b>	<b>52</b>	<b>71</b>	<b>73</b>	<b>100</b>	<b>98</b>

### Balance Sheet

Year to 31 Dec (USDmn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	24	50	2	5	34
Acct, receivables	6	7	6	8	7
Inventory	87	96	57	80	88
Other curr, asset	38	51	51	51	51
<b>Total current asset</b>	<b>155</b>	<b>205</b>	<b>117</b>	<b>144</b>	<b>181</b>
Fixed assets - net	593	647	798	767	736
Other non-curr.asset	38	99	99	99	99
<b>Total asset</b>	<b>798</b>	<b>951</b>	<b>1,014</b>	<b>1,011</b>	<b>1,016</b>
ST debt + curr. maturity	95	154	135	82	29
Acct, payable	42	33	50	40	37
Advances received	0	0	0	0	0
Other curr. liab	46	67	64	64	64
Long term debt	159	133	115	70	25
Other non-curr, liab,	33	40	40	40	40
<b>Total liabilities</b>	<b>376</b>	<b>427</b>	<b>404</b>	<b>295</b>	<b>195</b>
Shareholder equity	355	493	573	674	772
Minority interest	67	31	36	43	49
<b>Total liab + SHE</b>	<b>798</b>	<b>951</b>	<b>1,014</b>	<b>1,011</b>	<b>1,016</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (USDmn)	2018A	2019A	2020F	2021F	2022F
Net income	52	71	73	100	98
Depreciation	94	93	43	61	68
Chg in working cap.	-26	-28	58	-34	-11
Other	0	19	0	0	0
<b>CF-Oper activities</b>	<b>121</b>	<b>154</b>	<b>175</b>	<b>127</b>	<b>156</b>
Capital expenditure	-420	-146	-194	-31	-36
Others	-52	-42	-5	0	0
<b>CF-Investing activities</b>	<b>-471</b>	<b>-188</b>	<b>-199</b>	<b>-31</b>	<b>-36</b>
Net change in debt	124	32	-36	-99	-97
Net change in equity	91	60	0	0	0
Dividend payment	0	0	0	0	0
Other financing	115	-22	12	6	6
<b>CF-Financing activities</b>	<b>330</b>	<b>70</b>	<b>-24</b>	<b>-93</b>	<b>-91</b>
<b>Net cash flow</b>	<b>-21</b>	<b>36</b>	<b>-48</b>	<b>3</b>	<b>29</b>
Cash - begin of the year	35	14	50	2	5
Cash - end of the year	14	50	2	5	34

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	127.1	36.8	-13.0	26.7	-3.3
Operating profit gr. (%)	65.4	9.8	-8.5	39.7	1.0
Net profit gr. (%)	21.8	34.9	3.1	37.3	-1.8
Gross margin (%)	47.2	38.7	42.9	46.0	48.7
Operating margin (%)	41.9	33.7	35.4	39.0	40.8
EBITDA margin (%)	73.9	56.7	47.7	52.9	56.7
Net margin (%)	17.9	17.6	20.9	22.6	23.0
ROA (%)	6.6	7.4	7.2	9.9	9.7
ROE (%)	14.8	14.4	12.7	14.9	12.8
Current ratio (x)	0.8	0.8	0.5	0.8	1.4
Quick ratio (x)	0.4	0.4	0.2	0.3	0.7
Interest cover (x)	12.9	11.6	10.9	25.4	105.3
Debt to equity ratio (x)	0.7	0.6	0.4	0.2	0.1
Net debt to equity (x)	0.6	0.5	0.4	0.2	0.0





# Timah

## BUY

**TP: Rp1,100 (+61.8%)**

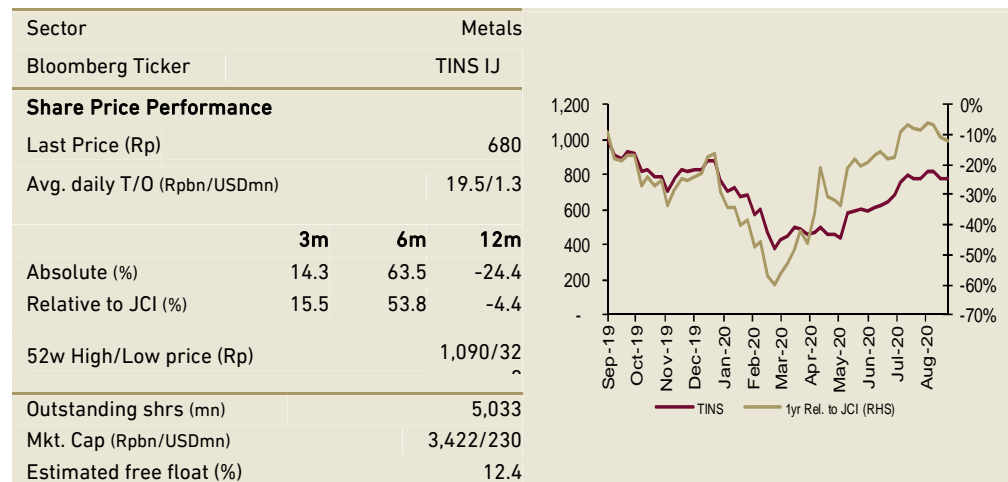
### Company Profile

Timah became a listed company in 1995 with the government of Indonesia owning a 65.0% share. Timah is the second largest tin producer in the world after Yunnan Tin from China. Its mining sites are located in Bangka and Belitung islands, West Indonesia. TINS operate as a holding company, through its subsidiaries, it also diversifies into property, shipping dockyard and R&D services.

### Key Points

- **Continuing to operate on efficiency going forward.** Management indicates that the company is aiming to continue its rigorous efficiency measures in every line of business, while maximizing its production and sales performance in order to optimize its cash flow performance. Furthermore, TINS is also utilizing a backlog or semi-finished tin inventory to be melted back into metal tin with LME standard specifications further maximizing its efficiency.
- **Refinancing to improve cashflow** TINS has recently refinanced their long-term loans amounting to Rp1.7 tn which reduced their short-term bank loan by 19% to Rp7.1 tn. Furthermore, the company also plans to pay off short term bond debt of Rp 600 billion, which will mature at the end of September 2020. This in effect will reduce TINS interest expense by roughly 39.8% which would significantly improve their cash flow in the long term.
- **Maintain BUY rating with TP of Rp1,100.** We maintained our Buy rating on TINS as it offers an attractive (+61.8%) to our TP. We like TINS due to its ability to generate a healthier cashflow freed up from its savvy refinancing policies and strict cost control. Furthermore, we remain optimistic on TINS given its steady growth in production output and earnings outlook.

## EQUITY MARKET OUTLOOK 2021



### Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	11,050	19,303	15,972	17,038	18,594
Operating profit (Rpbn)	747	-76	-352	263	1,385
Net profit (Rpbn)	531	-611	-554	-20	855
EPS (Rp)	71.3	-82.1	-74.4	-2.7	114.7
EPS growth (%)	4.4	n/m	n/m	n/m	n/m
EV/EBITDA (x)	8.5	25.1	56.7	14.6	6.0
PER (x)	11.6	-10.1	-11.1	-304.0	7.2
PBV (x)	0.9	1.2	1.3	1.3	1.1
Dividend yield (%)	2.9	3.0	0.0	0.0	0.0
ROE (%)	8.1	-11.6	-11.8	-0.4	15.4

### Assumptions

	2018A	2019A	2020F	2021F	2022F
LME tin price (USD/ton)	20,072	18,580	18,000	18,500	20,000
Production vol (mt)	33,444	76,389	62,884	63,859	64,498
Sales volume (mt)	33,818	67,704	62,884	63,859	64,498
ASP (USD/ton)	20,205	18,569	18,540	19,055	20,600

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## Timah

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>11,050</b>	<b>19,303</b>	<b>15,972</b>	<b>17,038</b>	<b>18,594</b>
COGS	-9,372	-18,167	-15,210	-15,596	-15,956
<b>Gross profit</b>	<b>1,678</b>	<b>1,136</b>	<b>762</b>	<b>1,442</b>	<b>2,638</b>
Oper. expenses	-931	-1,212	-1,113	-1,180	-1,253
<b>Oper. profit</b>	<b>747</b>	<b>-76</b>	<b>-352</b>	<b>263</b>	<b>1,385</b>
<b>EBITDA</b>	<b>1,354</b>	<b>638</b>	<b>235</b>	<b>884</b>	<b>2,041</b>
Interest income	39	27	40	11	10
Interest expense	-305	-782	-440	-398	-355
Other income (exp.)	242	106	100	100	100
<b>Pre-tax profit</b>	<b>723</b>	<b>-725</b>	<b>-652</b>	<b>-24</b>	<b>1,140</b>
Income tax	-192	114	98	4	-285
Minority interest	0	0	0	0	0
<b>Net profit</b>	<b>531</b>	<b>-611</b>	<b>-554</b>	<b>-20</b>	<b>855</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	786	1,601	449	387	516
Acct, receivables	1,974	1,620	1,094	467	509
Inventory	4,262	6,501	4,167	4,273	4,371
Other curr. asset	2,182	2,585	1,935	2,028	2,165
<b>Total current asset</b>	<b>9,204</b>	<b>12,307</b>	<b>7,645</b>	<b>7,155</b>	<b>7,561</b>
Fixed assets - net	3,085	3,601	3,440	3,390	3,313
Other non-curr.asset	2,828	4,453	4,515	4,578	4,645
<b>Total asset</b>	<b>15,118</b>	<b>20,361</b>	<b>15,600</b>	<b>15,124</b>	<b>15,519</b>
ST debt + curr. maturity	4,644	9,391	5,524	5,014	4,504
Acct, payable	975	1,969	1,459	1,495	1,530
Advances received	0	0	0	0	0
Other curr. liab	557	598	763	775	786
Long term debt	1,500	2,093	2,093	2,093	2,093
Other non-curr. liab,	920	1,052	1,057	1,062	1,068
<b>Total liabilities</b>	<b>8,596</b>	<b>15,103</b>	<b>10,896</b>	<b>10,440</b>	<b>9,980</b>
Shareholder equity	6,522	5,258	4,704	4,684	5,539
Minority interest	0	0	0	0	0
<b>Total liab + SHE</b>	<b>15,118</b>	<b>20,361</b>	<b>15,600</b>	<b>15,124</b>	<b>15,519</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	531	-611	-554	-20	855
Depreciation	607	714	586	621	656
Chg in working cap.	-2,007	-891	2,350	559	-107
Other	-451	-362	815	-82	-126
<b>CF-Oper activities</b>	<b>-1,320</b>	<b>-1,150</b>	<b>3,197</b>	<b>1,078</b>	<b>1,278</b>
Capital expenditure	-1,306	-1,374	-453	-601	-610
Others	-335	-1,480	-34	-34	-34
<b>CF-Investing activities</b>	<b>-1,641</b>	<b>-2,855</b>	<b>-487</b>	<b>-635</b>	<b>-645</b>
Net change in debt	2,452	4,747	-3,867	-510	-510
Net change in equity	0	0	0	0	0
Dividend payment	-176	-186	0	0	0
Other financing	112	259	5	5	5
<b>CF-Financing activities</b>	<b>2,389</b>	<b>4,819</b>	<b>-3,862</b>	<b>-505</b>	<b>-505</b>
<b>Net cash flow</b>	<b>-573</b>	<b>815</b>	<b>-1,152</b>	<b>-62</b>	<b>128</b>
Cash - begin of the year	1,357	785	1,599	448	385
Cash - end of the year	785	1,599	448	385	514

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	19.9	74.7	-17.3	6.7	9.1
Operating profit gr. (%)	2.2	n/m	n/m	n/m	427.6
Net profit gr. (%)	4.4	n/m	n/m	n/m	n/m
Gross margin (%)	15.2	5.9	4.8	8.5	14.2
Operating margin (%)	6.8	-0.4	-2.2	1.5	7.4
EBITDA margin (%)	12.3	3.3	1.5	5.2	11.0
Net margin (%)	4.8	-3.2	-3.5	-0.1	4.6
ROA (%)	3.5	-3.0	-3.6	-0.1	5.5
ROE (%)	8.1	-11.6	-11.8	-0.4	15.4
Current ratio (x)	1.5	1.0	1.0	1.0	1.1
Quick ratio (x)	0.8	0.5	0.4	0.4	0.5
Interest cover (x)	4.4	0.8	0.5	2.2	5.7
Debt to equity ratio (x)	0.9	2.2	1.6	1.5	1.2
Net debt to equity (x)	0.8	1.9	1.5	1.4	1.1



# Vale Indonesia

**BUY**

**TP: Rp4,250 (+21.1%)**

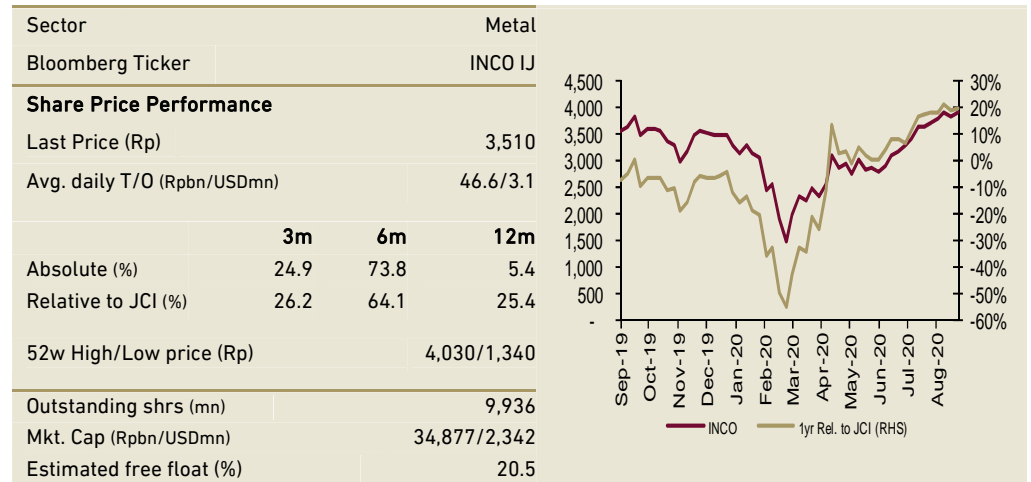
## Company Profile

INCO is engaged in nickel mining and production. It has nickel mining concessions in several areas in Sulawesi and produces nickel in matte from lateritic ores at its integrated mining and processing facilities near Sorowako, Indonesia. INCO is an integral part of its parent's operations and sells all of its production to its largest shareholders, Vale Canada (80% of output) and Sumitomo Metal Mining (20%) under long-term contracts.

## Key Points

- **Furnace 4 rebuilt project to decrease production output in FY21F.** Management stated that they are delaying their furnace 4 rebuilt project to FY21 due to the covid-19 pandemic, resulting in a higher production target for FY20 and a lower target in FY21, before normalizing again in FY22F. As a result, FY21F earnings is expected to inch slightly downward by 7.8% YoY to USD94 mn, despite our projected increase in nickel price.
- **Inalum divestment provides better assurance over INCO's backlog of projects.** Last June, INCO announces the signing of the divestment agreements, which for its stake Vale Canada and Sumitomo Metal Mining, will receive approximately USD371 mn in cash upon completion, which is expected to happen by the end of 2020. Further to this, management commented that the added cash should better help materialize the development of the companies numerous backlogged projects such as the purported 90k capacity expansion and Bahadopi and Pomalaa projects.
- **INCO remains one of our top pick.** We remain optimistic on INCO given its attractive industry and earnings outlook. We currently have Buy rating on INCO with DCF-based TP of Rp4,250.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (USDmn)	777	782	778	811	904
Operating profit (USDmn)	85	85	124	133	190
Net profit (USDmn)	61	57	102	94	141
EPS (US\$Cents)	0.6	0.6	1.0	0.9	1.4
EPS growth (%)	n/m	-5.1	78.1	-8.4	50.6
EV/EBITDA (x)	12.0	12.9	9.4	8.3	6.5
PER (x)	40.1	44.3	24.4	26.2	17.4
PBV (x)	1.3	1.3	1.2	1.2	1.1
Dividend yield (%)	0.0	0.0	0.0	2.1	2.9
ROE (%)	3.2	3.0	5.0	4.5	6.5

## Assumptions

	2018A	2019A	2020F	2021F	2022F
LME nickel price (USD/ton)	13,192	13,994	13,800	15,000	16,000
Production vol (wmt)	74,806	72,059	73,256	70,224	73,416
Sales volume (wmt)	74,806	72,059	73,256	70,224	73,416
ASP (USD/ton)	10,272	10,855	10,626	11,550	12,320

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## Vale Indonesia

### Income Statement

Year to 31 Dec (USDmn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>777</b>	<b>782</b>	<b>778</b>	<b>811</b>	<b>904</b>
COGS	-673	-666	-631	-653	-687
<b>Gross profit</b>	<b>104</b>	<b>116</b>	<b>147</b>	<b>158</b>	<b>217</b>
Oper. expenses	-19	-31	-23	-24	-27
<b>Oper. profit</b>	<b>85</b>	<b>85</b>	<b>124</b>	<b>133</b>	<b>190</b>
<b>EBITDA</b>	<b>179</b>	<b>177</b>	<b>226</b>	<b>251</b>	<b>312</b>
Interest income	0	0	0	0	0
Interest expense	-2	1	0	0	0
Other income (exp.)	0	3	-10	-5	3
<b>Pre-tax profit</b>	<b>83</b>	<b>89</b>	<b>114</b>	<b>128</b>	<b>193</b>
Income tax	-22	-32	-11	-35	-52
Minority interest	0	0	0	0	0
<b>Net profit</b>	<b>61</b>	<b>57</b>	<b>102</b>	<b>94</b>	<b>141</b>

### Balance Sheet

Year to 31 Dec (USDmn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	317	249	376	363	439
Acct, receivables	124	107	66	69	77
Inventory	132	148	112	117	123
Other curr, asset	58	84	73	76	85
<b>Total current asset</b>	<b>631</b>	<b>588</b>	<b>627</b>	<b>626</b>	<b>723</b>
Fixed assets - net	1,435	1,467	1,524	1,574	1,571
Other non-curr.asset	123	152	107	111	124
<b>Total asset</b>	<b>2,202</b>	<b>2,223</b>	<b>2,258</b>	<b>2,311</b>	<b>2,418</b>
ST debt + curr. maturity	37	1	0	0	0
Acct, payable	91	97	63	66	69
Advances received	0	0	0	0	0
Other curr. liab	48	38	32	33	35
Long term debt	0	0	0	0	0
Other non-curr, liab,	143	145	119	126	157
<b>Total liabilities</b>	<b>319</b>	<b>282</b>	<b>214</b>	<b>225</b>	<b>261</b>
Shareholder equity	1,884	1,941	2,043	2,086	2,157
Minority interest	0	0	0	0	0
<b>Total liab + SHE</b>	<b>2,202</b>	<b>2,223</b>	<b>2,258</b>	<b>2,311</b>	<b>2,418</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (USDmn)	2018A	2019A	2020F	2021F	2022F
Net income	61	57	102	94	141
Depreciation	94	92	102	118	122
Chg in working cap.	58	7	44	-6	-11
Other	38	-36	20	-2	-7
<b>CF-Oper activities</b>	<b>250</b>	<b>120</b>	<b>268</b>	<b>204</b>	<b>245</b>
Capital expenditure	-35	-125	-159	-168	-118
Others	-43	-13	45	-4	-13
<b>CF-Investing activities</b>	<b>-78</b>	<b>-139</b>	<b>-114</b>	<b>-172</b>	<b>-131</b>
Net change in debt	-37	-35	-1	0	0
Net change in equity	0	0	0	0	0
Dividend payment	0	0	0	-51	-70
Other financing	-56	1	-26	7	31
<b>CF-Financing activities</b>	<b>-93</b>	<b>-34</b>	<b>-27</b>	<b>-44</b>	<b>-39</b>
<b>Net cash flow</b>	<b>79</b>	<b>-52</b>	<b>127</b>	<b>-12</b>	<b>75</b>
Cash - begin of the year	222	301	249	376	363
Cash - end of the year	301	249	376	363	439

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	23.4	0.7	-0.5	4.2	11.5
Operating profit gr. (%)	n/m	0.2	45.4	7.9	42.8
Net profit gr. (%)	n/m	-5.1	78.1	-8.4	50.7
Gross margin (%)	13.4	14.9	18.9	19.4	24.0
Operating margin (%)	10.9	10.9	15.9	16.4	21.0
EBITDA margin (%)	23.1	22.7	29.0	31.0	34.5
Net margin (%)	7.8	7.3	13.1	11.6	15.6
ROA (%)	2.7	2.6	4.5	4.1	5.8
ROE (%)	3.2	3.0	5.0	4.5	6.5
Current ratio (x)	3.6	4.3	6.6	6.3	7.0
Quick ratio (x)	2.8	3.2	5.4	5.2	5.8
Interest cover (x)	80.2	-209.4	n.m	n.m	n.m
Debt to equity ratio (x)	0.0	0.0	0.0	0.0	0.0
Net debt to equity (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



## TOLL ROAD SECTOR



# Toll road Overweight

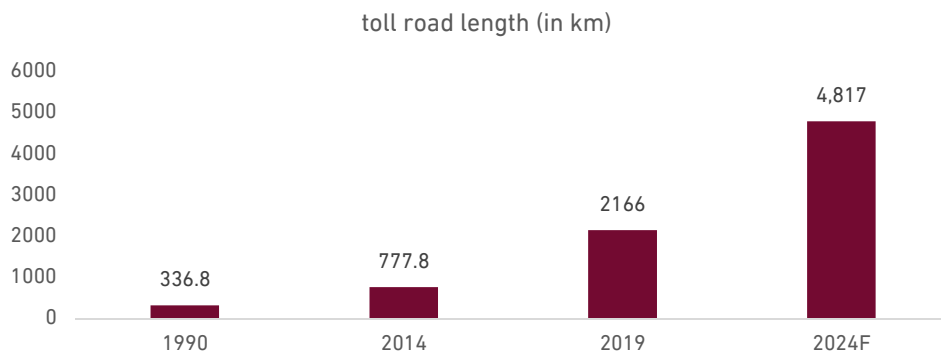
## Sector Outlook

- Government still prioritizes toll road development**

It seems Indonesian government will not take down their ambitious plan to continue expanding the toll road network. Based on our check, up until 2019, the total toll road in operation has reached 2,166 km. Noting that, around 1,298 km finished within 2015-2019 period. Following the target of the government, there should be another 2,000 km more up until 2024 since they are aiming to operate 4,817 km in total.

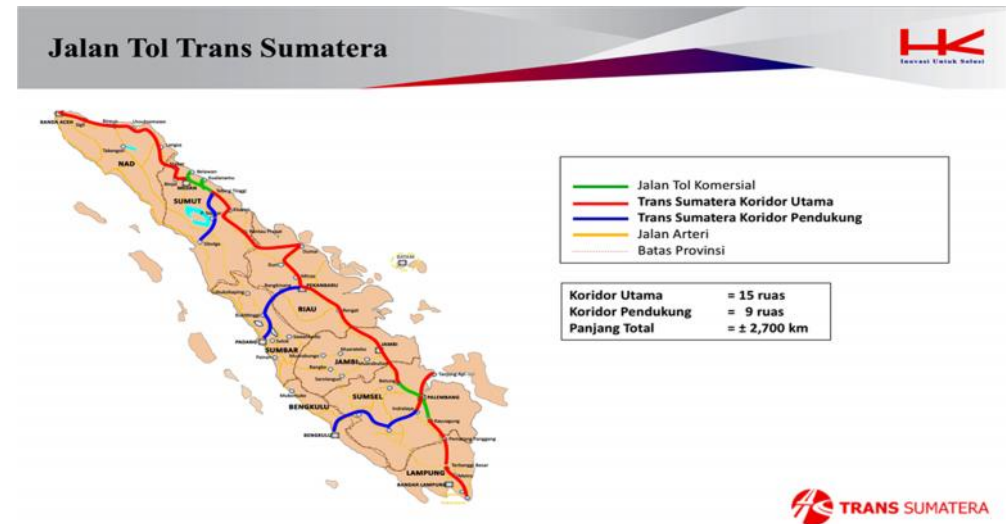
In regard with the location of toll road segment, Java will remain the priority given the attractive investment return. However, in order to reduce the inequality in ex-Java area, government has put its effort to build highway in Sumatera and Kalimantan. More specifically, in Sumatera, from Aceh to Bakaheuni, there will be estimated 2,700 km toll road span; while in Kalimantan, Balikpapan – Samarinda has well connected to support the economy and relocation of capital city.

**Exhibit 93: Total toll road in operation (Indonesia)**



Source: Various and Ciptadana

**Exhibit 94: Trans Sumatera toll road**



- Funding options will vary; SWF to invest in highway soon**

Required capital to be able to achieve the goal of the government is very huge. The government budget obviously will not be able to cover all, hence the funding gap has to be solved. In last couple years, we have seen some initiatives of toll road operator to fulfil their capex needs like using asset backed securities or limited equity fund (RDPT) instead of conservative debt financing. Another good news came recently whereas Sovereign Wealth Fund (SWF) likely to enter Indonesia and invest it highway projects. Therefore, this can be a good factor to drive toll road development in the coming years.

We see 2020 is a challenging year for constructing new toll road buoyed by slower activities and funding. Nevertheless, it will just a short term set back in our view. When the condition turns to be better, they will expedite toll road development. Going forward, we believe if the connectivity between areas have been connected with good quality of toll road, the multiplier effect is yet to come.

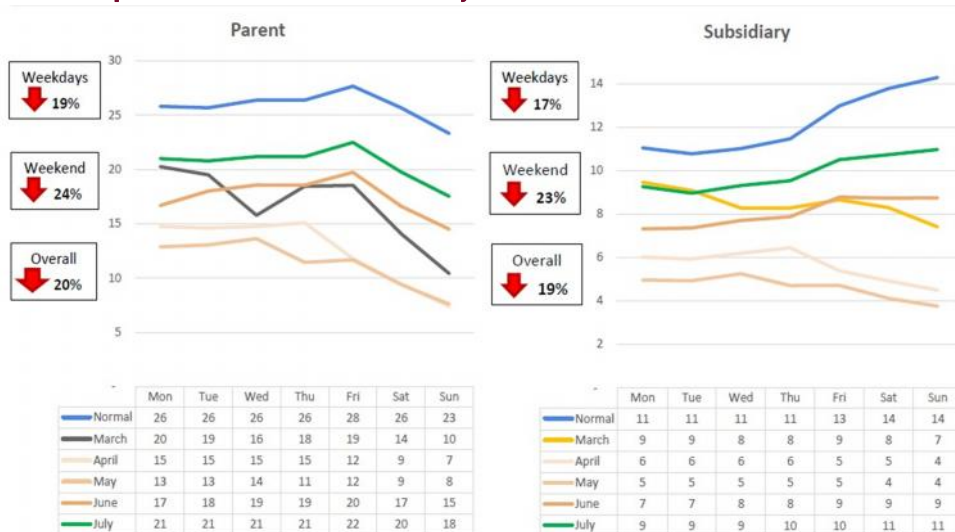




- Toll road sector has faster pace of recovery**

Back to 2Q20, when the government applied the first large scale social restriction (PSBB), JSMR toll traffic dropped to 50% from normal. After the government ease PSBB, traffic volumes recovered to around 80% from normal. In late August-20, JSMR toll traffic has back to only 8.8% below normal. However, in September-20, DKI Jakarta applied the 2nd PSBB but the condition is less strict compare to the 1st PSBB where the people movement in Jabodetabek was really limited. Noting that, during the 1st week of the 2nd PSBB, the traffic volumes only declined by around 19%. Therefore, we have concluded that toll road sector can become one of the interesting options for the investors given the faster pace of recovery in its toll traffic.

**Exhibit 95: Update on toll revenue (March-July-20)**



\*Deconsolidated subsidiaries (Semarang-Solo, Solo-Ngawi, Ngawi-Kertosono, Semarang-Batang) are included

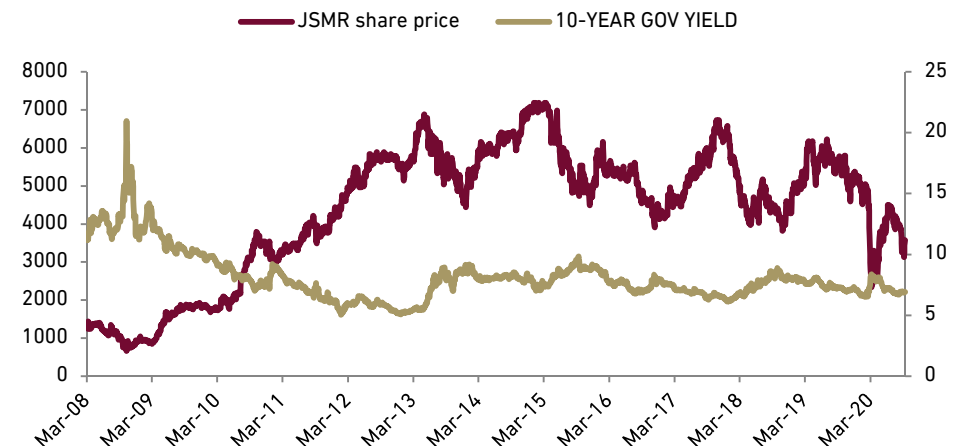
Source: Jasa Marga

- Benefit of low interest rate environment for toll operator**

Bank Indonesia key policy rate has been trending down within the last 2-year. In June-20, they cut another 25 bps to 4% in order to help the economy amid high uncertainties during Covid-19 pandemic. We have discussed with our Economist, whereas there is room for another interest rate cut given our Indonesian real interest rate which relatively still higher compare to the regional, low inflation, trade surplus and sufficient forex reserves. As such, we deem this as the positive driver for toll road operator and developer which by nature are having high leverage during capex period.

With possibility of further rate cut, JSMR as a company under our coverage is poised to benefit. Blended interest rate may go down as time deposit rate will follow benchmark rate in spite lagging. If JSMR want to raise another debt financing, they will bear lighter burden as well. In addition, following the high negative correlation (around -0.74) between JSMR share prices and 10-year government bond yield (JSMR categorized as a so-called bond proxy), we foresee this can be a catalyst for the share prices to temporary go up.

**Exhibit 96: Correlation between share price and 10-year gov bond**



Source: Bloomberg and Ciptadana





**Exhibit 97: Toll road development 2020-2024F**

No.	toll road section	Length (km)	Investment cost (Rp tn)
1	Serang - Panimbang	74.0	5.3
2	Probolinggo - Banyuwangi	172.9	23.4
3	Ciawi - Sukabumi	5.4	7.8
4	Cileunyi - Sumedang - Dawuan (Section 1,4,5 and 6)	39.4	8.4
5	Kriyan - Legundi - Bunder - Manyar	38.4	12.2
6	Semarang - Demak	27.0	15.3
7	Kertosono - Kediri	24.0	3.7
8	Sukabumi - Ciranjang	28.0	5.5
9	Ciranjang - Padalarang	33.0	3.2
10	Yogyakarta - Bawen	71.0	13.0
11	Gedebage - Tasikmalaya - Cilacap	184.0	53.6
12	Solo - Yogyakarta - Kulon Progo	91.9	22.6
13	Access of Port Patimban	37.7	6.4
14	Harbour Road Semarang	26.2	11.2
15	Lingkar Utara Bandung	27.0	6.3
16	Lingkar Selatan Bandung	53.0	8.0
17	Lingkar Selatan Semarang	66.2	9.9
18	Probolinggo - Lumajang	27.4	4.1
19	Malang - Kepanjen	24.0	3.6
20	Sukorejo - Batu - Kediri	110.0	21.1
21	Cirebon - Kuningan	19.3	2.9
22	Sukabumi - Pelabuhan Ratu	43.4	6.5
23	Pandeglang - Rangkasbitung	9.4	1.4
24	Cilacap - Yogyakarta	167.1	25.1
25	Tegal - Cilacap	94.3	14.1
26	Demak - Tuban - Gresik	236.0	68.0
27	Access of Yogyakarta new international airport	30.6	4.6
28	Acess of Wonosobo	81.6	12.2
29	Lumajang - Jember	53.4	8.0
30	Situbondo - Jember	70.5	10.6
<b>Total</b>		<b>1966.1</b>	<b>398.0</b>

Source: Directorate General of Highways, BPTJ and Ciptadana

## • Reiterate Overweight call for Indonesian toll road sector

Rapid growth in toll road lengths since 2015 is the evidence about how serious our government in improving the quality of infrastructure. At least until 2024, seeing from the pipeline of concession to be constructed remains promising. We believe some people might concern whether spending huge capital to infrastructure will really bring positive impact on Indonesia economy. We think this is not wrong move given how critical infrastructure to anticipate growth.

On the back of longer toll road in operation, we believe toll road operator will hit higher revenue growth. Commonly, new operating segment can post higher growth compare to matured toll road. However, in the early years of operation, relative new toll road section will bear operating loss. Yet, we think without any additional length of highways, toll road operator and developer will hardly to grow further.

We reiterate Overweight stance on Indonesian toll road. JSMR is the only company under our toll road coverage and we recommend Buy with 2021F TP of Rp4,700. Risk related to our call: below expected traffic volumes, delay in bi-annual tariff adjustment, and difficulties in divesting toll road ownership.

**Exhibit 98: Toll road stoc rating and valuation**

Bberg		Mkt.Cap	Last	Target	Upside	PER		EV/EBITDA		ROE	Yield
Ticker	Rating	(Rp tn)	Price	Price	pot.(%)	2020F	2021F	2020F	2021F	21F (%)	21F (%)
JSMR	BUY	23.6	3,250	4,700	44.6	53.7	18.0	13.2	10.7	7.5	0.8
Sector	O.W					53.7	18.0	13.2	10.7	7.5	0.8

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# Jasa Marga

BUY

TP: Rp4,700 (+44.6%)

## Company Profile

JSMR was established in 1978 by Indonesian government to spur economic growth. The Company major tasks consist of plan, build, operate, maintain and become supporting facilities to create distinction between toll and non-toll road users. As per 1H20, JSMR has 1,165 km operating toll road and 1,527 concession rights. The company also holds 55% of total toll road in operation.

## Key Points

### • Focus on deleveraging

Going forward, JSMR will focus to reduce its leverage post high capex period. One of their plans is to divest their stakes on several toll road like in Manado – Bitung and Balikpapan – Samarinda. Selling stakes of both toll road will not as easy as divesting sections in Java. Therefore, the company will try to bundle those toll road sections with couple of highways in Java in order to elevate the potential return for the investors.

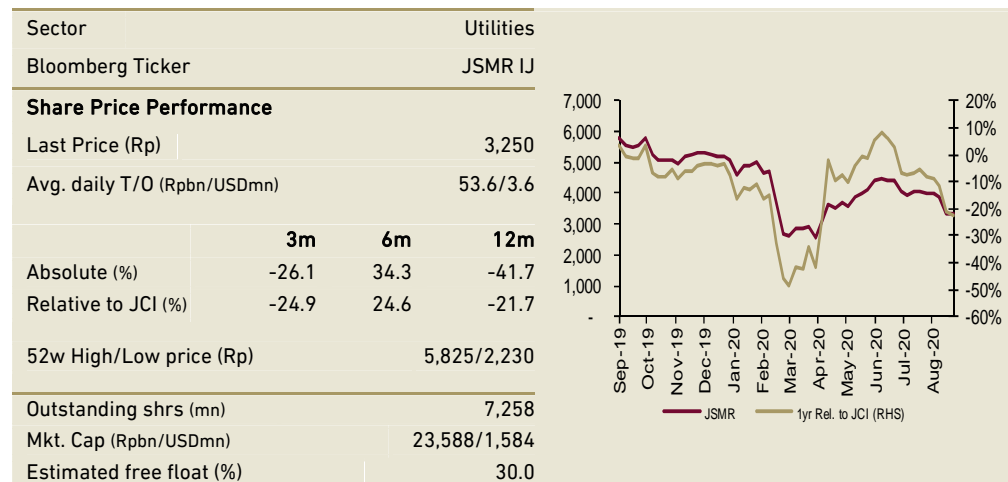
### • Government will not push JSMR too hard in accomplishing their target

We are aware of SoE status of JSMR, whereas the company becomes the agent of toll road development in Indonesia. However, in the years ahead, the government will not give pressure to JSMR to become the majority shareholders in new concessions. Evidently, out of 3-7 new toll roads in government pipeline, JSMR aims to be the majority in only 1 toll road segment which is Bawen – Jogja. We really like idea since JSMR will really benefit from operating the toll road without being as the toll road owner. Becoming the majority shareholders of project company will create burden on their balance sheet.

### • Recommend Buy with TP of Rp4,700

We reiterate a Buy call on JSMR with 2021F TP of Rp4,700. We see the company will have quicker pace of recovery in their traffic volumes when the economic activities restart. Currently the counter trades at 8.9x 2021 EV/EBITDA.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	9,970	11,079	9,782	12,996	15,372
Operating profit (Rpbn)	4,592	4,966	4,206	5,718	6,917
Net profit (Rpbn)	2,203	2,207	528	1,581	2,047
EPS (Rp)	303.5	304.1	72.8	217.8	282.1
EPS growth (%)	0.1	0.2	-76.1	199.1	29.5
EV/EBITDA (x)	9.7	10.4	13.2	10.7	8.9
PER (x)	12.9	12.9	53.7	18.0	13.9
PBV (x)	1.7	1.5	1.5	1.4	1.2
Dividend yield (%)	1.6	1.2	1.2	0.3	0.8
ROE (%)	13.0	11.8	2.7	7.5	9.0

## Assumptions

	2018A	2019A	2020F	2021F	2022F
Toll Revenue	9,036	10,131	8,663	11,673	13,897
Revenue per km	9.24	8.72	6.85	9.04	9.99
Toll road in operation	978	1,162	1,264	1,291	1,391

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## Jasa Marga

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>9,970</b>	<b>11,079</b>	<b>9,782</b>	<b>12,996</b>	<b>15,372</b>
COGS	-4,053	-4,634	-4,108	-5,458	-6,456
<b>Gross profit</b>	<b>5,918</b>	<b>6,445</b>	<b>5,673</b>	<b>7,538</b>	<b>8,916</b>
Oper. expenses	-1,325	-1,479	-1,467	-1,819	-1,998
<b>Oper. profit</b>	<b>4,592</b>	<b>4,966</b>	<b>4,206</b>	<b>5,718</b>	<b>6,917</b>
<b>EBITDA</b>	<b>5,720</b>	<b>6,386</b>	<b>5,864</b>	<b>7,521</b>	<b>8,868</b>
Interest income	0	0	0	0	0
Interest expense	-1,840	-2,434	-3,503	-3,917	-3,984
Other income (exp.)	458	565	82	547	108
<b>Pre-tax profit</b>	<b>3,210</b>	<b>3,098</b>	<b>785</b>	<b>2,349</b>	<b>3,042</b>
Income tax	-1,174	-1,024	-287	-857	-1,110
Minority interest	166	133	30	89	116
<b>Net profit</b>	<b>2,203</b>	<b>2,207</b>	<b>528</b>	<b>1,581</b>	<b>2,047</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	6,087	4,733	3,978	4,109	5,121
Acct, receivables	0	0	0	0	0
Inventory	41	61	46	61	72
Other curr, asset	5,502	6,818	6,158	8,182	9,677
<b>Total current asset</b>	<b>11,630</b>	<b>11,613</b>	<b>10,182</b>	<b>12,351</b>	<b>14,870</b>
Fixed assets - net	755	714	980	1,338	1,748
Other non-curr.asset	66,873	82,958	90,438	93,645	96,074
<b>Total asset</b>	<b>82,419</b>	<b>99,680</b>	<b>105,415</b>	<b>112,404</b>	<b>118,686</b>
ST debt + curr. maturity	6,415	14,797	8,481	3,466	3,074
Acct, payable	322	404	331	440	520
Advances received	415	415	400	400	0
Other curr. liab	23,930	25,909	24,906	25,258	29,438
Long term debt	26,524	28,140	44,325	52,661	52,279
Other non-curr, liab,	4,614	6,827	5,005	5,927	6,734
<b>Total liabilities</b>	<b>62,220</b>	<b>76,494</b>	<b>83,447</b>	<b>88,151</b>	<b>92,046</b>
Shareholder equity	16,909	18,683	19,522	21,003	22,798
Minority interest	3,290	4,503	2,445	3,249	3,843
<b>Total liab + SHE</b>	<b>82,419</b>	<b>99,680</b>	<b>105,415</b>	<b>112,404</b>	<b>118,686</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	2,203	2,207	528	1,581	2,047
Depreciation	1,128	1,419	1,657	1,803	1,951
Chg in working cap.	6,021	2,210	-1,960	-1,274	2,655
Other	141	257	1,831	1,616	2,026
<b>CF-Oper activities</b>	<b>9,492</b>	<b>6,094</b>	<b>2,058</b>	<b>3,726</b>	<b>8,679</b>
Capital expenditure	-7,137	-17,751	-9,281	-4,555	-3,884
Others	-2,046	1,352	974	-128	-363
<b>CF-Investing activities</b>	<b>-9,183</b>	<b>-16,400</b>	<b>-8,307</b>	<b>-4,682</b>	<b>-4,247</b>
Net change in debt	490	9,998	9,868	3,322	-774
Net change in equity	0	0	0	0	0
Dividend payment	-440	-330	-330	-79	-237
Other financing	-1,303	-715	-4,043	-2,155	-2,409
<b>CF-Financing activities</b>	<b>-1,253</b>	<b>8,953</b>	<b>5,494</b>	<b>1,087</b>	<b>-3,420</b>
<b>Net cash flow</b>	<b>-944</b>	<b>-1,353</b>	<b>-755</b>	<b>131</b>	<b>1,012</b>
Cash - begin of the year	7,030	6,087	4,733	3,978	4,109
Cash - end of the year	6,087	4,733	3,978	4,109	5,121

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	9.8	11.1	-11.7	32.9	18.3
Operating profit gr. (%)	10.5	8.1	-15.3	36.0	21.0
Net profit gr. (%)	0.1	0.2	-76.1	199.1	29.5
Gross margin (%)	59.4	58.2	58.0	58.0	58.0
Operating margin (%)	46.1	44.8	43.0	44.0	45.0
EBITDA margin (%)	57.4	57.6	59.9	57.9	57.7
Net margin (%)	22.1	19.9	5.4	12.2	13.3
ROA (%)	2.7	2.2	0.5	1.4	1.7
ROE (%)	13.0	11.8	2.7	7.5	9.0
Current ratio (x)	0.4	0.3	0.3	0.4	0.5
Quick ratio (x)	0.4	0.3	0.3	0.4	0.4
Interest cover (x)	3.1	2.6	1.7	1.9	2.2
Debt to equity ratio (x)	1.9	2.3	2.7	2.7	2.4
Net debt to equity (x)	1.6	2.0	2.5	2.5	2.2



## SHIPPING SECTOR



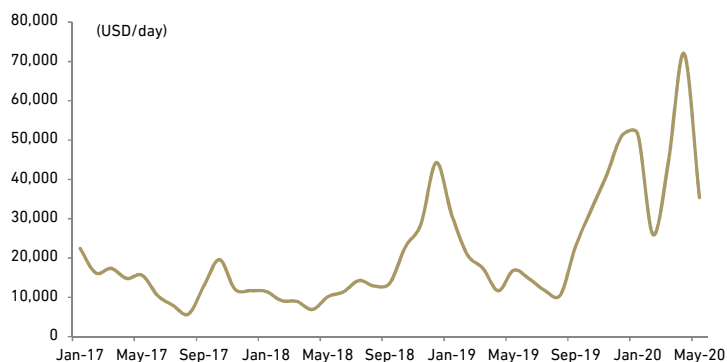
# Shipping Overweight

## Sector Outlook

### • Extraordinary rate in 1H20

Tanker market trading conditions have been robust since Sep-19 and continue to 2020. The special case developed in the spring when oil demand plummeted as economies worldwide were shut down to control the spread of Covid-19. The resulting oil price collapse created a demand for tankers as temporary floating storage facilities, and tanker rates spiked. The most recent spike in tanker rates came in 2H20, with an Aframax/ LR2 product tanker reached a historic peak of USD170,000/day. Rates were supported by a sudden increase in demand for floating storage, caused by the OPEC+ alliance failing to agree production cuts in March. With significant demand destruction caused by Covid-19 lockdowns and increased supply, mainly from Saudi Arabia, the stark mismatch between demand and supply caused a rapid build-up in onshore inventories, with tankers acting as the last resort to place excess oil and peak floating storage absorbed nearly 500 tankers.

**Exhibit 99: Aframax tanker spot rate**

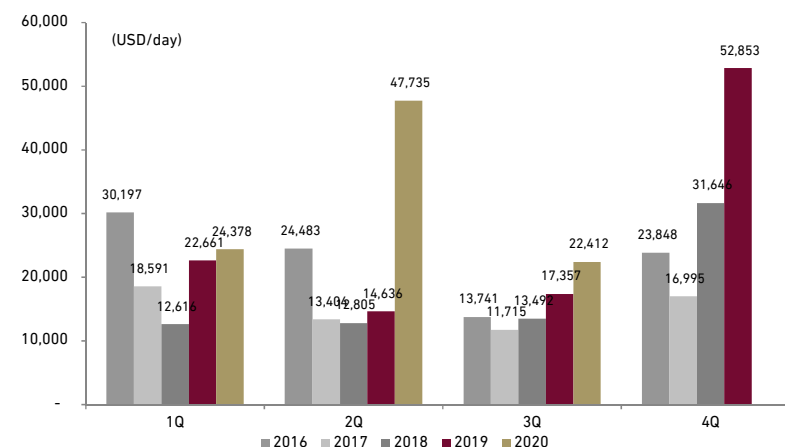


Source: Tanker market research

### • Rates outlook in 2H20-2021

More challenging future tanker market conditions seen in 3Q20, with an accumulation of oil products in key regions expected to pressure product tanker flows. Therefore, rates for crude tankers were negatively impacted resulted average Aframax Time Charter Equivalent (TCE) rate fell to USD22.4 k/day from USD47.7 k/day. We believe tanker supply fundamentals can offer a positive counterbalance to support rate going into 4Q20 and 2021. Although floating storage has fallen from its early-May peak, it remains near historically high levels and will continue to occupy a significant number of vessels for the foreseeable future. Chinese plants are taking advantage of the lower oil price environment to ramp-up imports and output. Notably, China's crude oil imports jumped by 20% YoY to an all-time high of 13 mb/d in July, resulting long port congestion that may last in 3 months.

**Exhibit 100: Quarterly Aframax TCE rates**

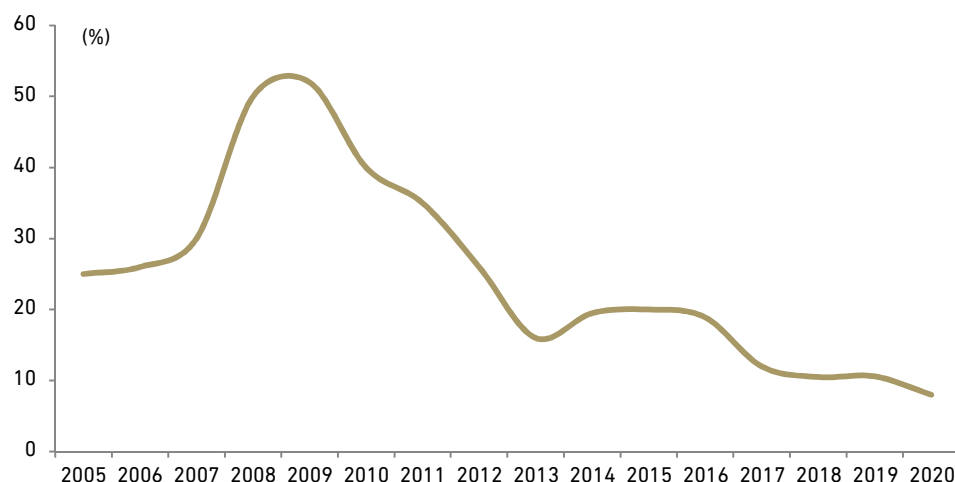


Source: BULL presentation material



Moreover, rates in 4Q have been the seasonally highest with QoQ increase between 45% to 145% compared to the 3Q rates. The tanker orderbook, measured as a percentage of the existing fleet, is currently at a 23-year low of around 8%. This compares to an orderbook of around 20% at the peak of the last market cycle in 2015 and around 50% in 2008 with end with oil contango. Moreover, we believe that many of the older tankers that now go into the floating storage market are unlikely to come back once their storage contracts are over, and the charter rates are lower again. Those tankers will likely be sold for scrap.

**Exhibit 101: Tanker orderbook as % of total fleet**

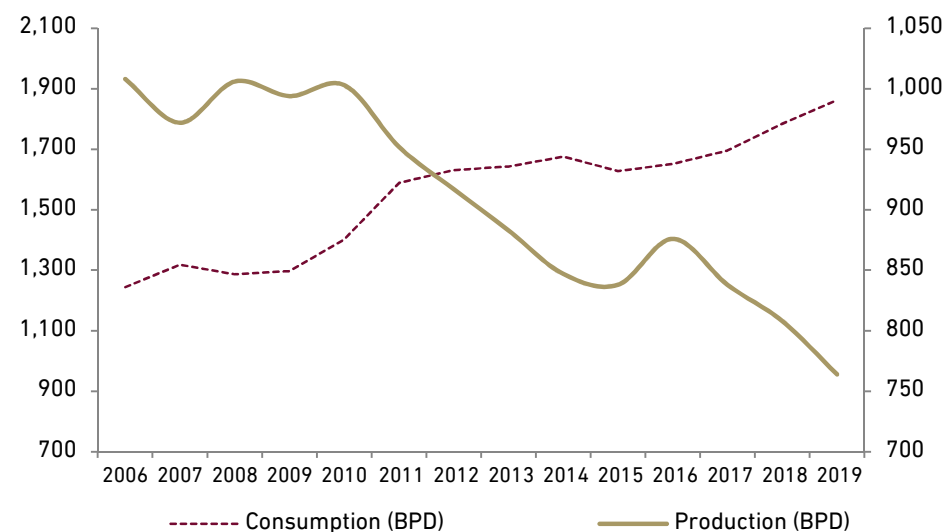


Source: BULL presentation material

- **Domestic market also offers strong long-term outlook**

We see continued increase in oil and gas imports to meet oil and gas consumption needs will support Indonesia's tanker demand as it implies longer distance to ship oil & gas compared the ones originates from Indonesia. Meanwhile, we believe that the continued economic growth and rising per capita income in Indonesia will drive energy consumption growth, which will be partly fulfilled by domestic resource production. In order to optimize the use of petroleum for domestic needs and improve national energy security, the Government issued a regulation in the form of Regulation of the Minister of Energy and Mineral Resources (MEMR) No 42 of 2018 concerning Priority of the Use of Petroleum for meeting domestic needs. The regulation also states that the Cooperation Contract Contractors (KKKS) are obliged to offer their production to Pertamina at a price that is in line with business or business to business. These should help to fuel tanker demand in domestic routes.

**Exhibit 102: Indonesia oil production and consumption**



Source: Bloomberg and BPS



- **Our stock picks and stock ratings**

Buana Lintas Lautan (BULL) is the only stock we cover in the shipping space. We are convinced that the stock will continue to enjoy higher rating as investors will price in what we perceive as solid business profile, underpinned by time charter contracts and high utilization rate which provide good revenue visibility and strong profitability. We like BULL's very thick margins, strong ROE, and fast growing fleet. We believe there is scope for BULL's share price to rise further as a combination higher revenue and margin expansion should underpin 2019-21 F strong 107% CAGR in net profit.

### Exhibit 103: Shipping sector rating and valuation

Bberg		Mkt.Cap	Last	Target	Upside	PER		EV/EBITDA		ROE	Yield
Ticker	Rating	(Rp tn)	Price	Price	pot.(%)	2020F	2021F	2020F	2021F	21F (%)	21F (%)
BULL	Buy	3.7	322	540	67.7	4.0	2.9	4.3	3.4	22.4	0.0
<b>Sector</b>	<b>OW</b>	<b>3.7</b>				<b>4.0</b>	<b>2.9</b>	<b>4.3</b>	<b>3.4</b>	<b>22.4</b>	<b>0.0</b>

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# Buana Lintas Lautan

BUY

TP: Rp540 (+67.7%)

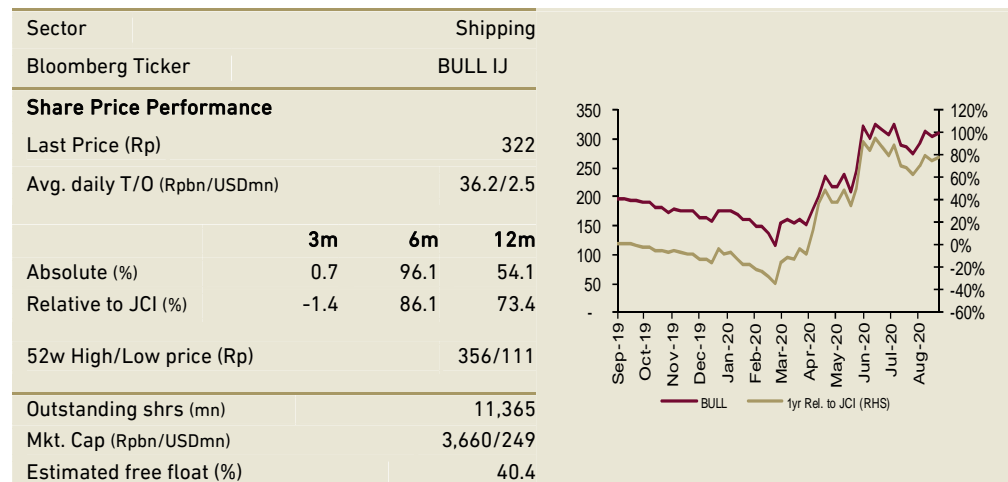
## Company Profile

Buana Lintas Lautan (BULL) is a tanker owner and operator with a fleet of 33 vessels with total capacity of 2.3 mn DWT at end of Sep-20. This makes it the Indonesia's largest and fast growing tanker operator in term of capacity. The company was listed on the IDX in 2011, and has since inception in 2005 had a focus on low risk business in Indonesian market protected by contract based income with normalized time charter contract coverage of 80-90% and expansion of second-hand vessels.

## Key Points

- **More diversification to International market.** As most of additional tankers are deployed to international market, this should boost BULL's revenue significantly and reduced its dependency to Pertamina , implying less revenue concentration risks. We estimate domestic and international revenue split of 65:35 by end of 2020 vs. 95 : 5 in 2019.
- **Earnings growth of 107% CAGR seen in 2019-21F.** Based on our fleet expansions and rate estimates, we model significant growth of 107% CAGR in BULL's earnings in 2019-21F. Our earnings projections are based on the assumption that BULL will acquire 15 additional vessel over 2019-2021F which should boost revenue and margin (larger-sized tanker will generate 75% GPM vs. 39% blended GPM in 2018).
- **Valuation still attractive despite share price run.** Despite its share price has jumped by 97% YTD, significantly outperforming the JCI by 108%, we believe BULL is still attractive given its cheap valuation at 3.1x earnings coupled with extraordinary growth in 2020-21F. Downside risk to our call: lower than expected time-charter rates.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (USDmn)	85	101	171	198	225
Operating profit (USDmn)	27	34	86	105	127
Net profit (USDmn)	14	21	65	90	109
EPS (US\$Cents)	0.1	0.2	0.6	0.8	1.0
EPS growth (%)	58.2	55.4	211.0	37.6	21.4
EV/EBITDA (x)	8.3	9.1	4.3	3.4	2.6
PER (x)	18.8	12.7	4.0	2.9	2.4
PBV (x)	1.4	1.0	0.9	0.6	0.5
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	7.4	7.8	21.3	22.4	20.9

## Assumptions

	2018A	2019A	2020F	2021F	2022F
Beg of year (tanker units)	17	17	25	36	40
Additional	0	8	11	4	2
End of year	17	25	36	40	42

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## Buana Lintas Lautan

### Income Statement

Year to 31 Dec (USDmn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>85</b>	<b>101</b>	<b>171</b>	<b>198</b>	<b>225</b>
COGS	-52	-59	-73	-80	-82
<b>Gross profit</b>	<b>34</b>	<b>43</b>	<b>98</b>	<b>118</b>	<b>142</b>
Oper. expenses	-7	-9	-12	-14	-15
<b>Oper. profit</b>	<b>27</b>	<b>34</b>	<b>86</b>	<b>105</b>	<b>127</b>
<b>EBITDA</b>	<b>44</b>	<b>54</b>	<b>111</b>	<b>132</b>	<b>155</b>
Interest income	0	0	0	0	1
Interest expense	-12	-16	-21	-10	-7
Other income (exp.)	0	5	1	-2	-7
<b>Pre-tax profit</b>	<b>15</b>	<b>23</b>	<b>71</b>	<b>96</b>	<b>117</b>
Income tax	0	0	-2	-2	-2
Minority interest	-1	-2	-3	-5	-6
<b>Net profit</b>	<b>14</b>	<b>21</b>	<b>65</b>	<b>90</b>	<b>109</b>

### Balance Sheet

Year to 31 Dec (USDmn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	4	6	14	19	20
Acct, receivables	19	20	43	52	58
Inventory	2	4	4	4	4
Other curr, asset	60	103	79	50	42
<b>Total current asset</b>	<b>85</b>	<b>133</b>	<b>139</b>	<b>125</b>	<b>125</b>
Fixed assets - net	223	358	381	526	536
Other non-curr.asset	22	59	71	27	102
<b>Total asset</b>	<b>330</b>	<b>551</b>	<b>591</b>	<b>678</b>	<b>763</b>
ST debt + curr. maturity	41	58	58	53	48
Acct, payable	11	12	18	18	20
Advances received	0	0	0	0	0
Other curr. liab	12	18	17	17	17
Long term debt	69	177	171	144	125
Other non-curr, liab,	3	4	3	3	3
<b>Total liabilities</b>	<b>136</b>	<b>268</b>	<b>266</b>	<b>255</b>	<b>212</b>
Shareholder equity	182	268	307	401	523
Minority interest	12	15	18	23	28
<b>Total liab + SHE</b>	<b>330</b>	<b>551</b>	<b>591</b>	<b>678</b>	<b>763</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (USDmn)	2018A	2019A	2020F	2021F	2022F
Net income	14	21	65	90	109
Depreciation	17	20	25	28	28
Chg in working cap.	-10	-1	-20	-30	-15
Other	0	0	0	0	0
<b>CF-Oper activities</b>	<b>21</b>	<b>41</b>	<b>70</b>	<b>88</b>	<b>122</b>
Capital expenditure	-6	-87	-143	-60	-40
Others	-19	-85	74	-8	-35
<b>CF-Investing activities</b>	<b>-25</b>	<b>-173</b>	<b>-69</b>	<b>-68</b>	<b>-75</b>
Net change in debt	-19	81	92	-71	-44
Net change in equity	24	42	0	57	0
Dividend payment	0	0	0	0	0
Other financing	-3	12	-2	-1	-2
<b>CF-Financing activities</b>	<b>2</b>	<b>134</b>	<b>-9</b>	<b>-15</b>	<b>-46</b>
<b>Net cash flow</b>	<b>-2</b>	<b>3</b>	<b>8</b>	<b>5</b>	<b>1</b>
Cash - begin of the year	6	4	6	14	19
Cash - end of the year	4	6	14	19	20

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	31.3	18.7	68.4	16.0	13.4
Operating profit gr. (%)	27.0	28.6	150.9	21.9	21.1
Net profit gr. (%)	58.2	55.4	211.0	37.6	21.4
Gross margin (%)	39.3	42.3	57.1	59.7	63.3
Operating margin (%)	31.2	33.7	50.3	52.8	56.4
EBITDA margin (%)	51.2	53.5	64.9	66.8	69.0
Net margin (%)	15.8	20.7	38.2	45.3	48.5
ROA (%)	4.1	3.8	11.0	13.2	14.3
ROE (%)	7.4	7.8	21.3	22.4	20.9
Current ratio (x)	1.3	1.5	1.5	1.4	1.5
Quick ratio (x)	1.3	1.5	1.5	1.4	1.4
Interest cover (x)	3.7	3.4	8.1	12.2	21.4
Debt to equity ratio (x)	0.6	0.9	0.7	0.5	0.3
Net debt to equity (x)	0.6	0.9	0.7	0.5	0.3



## PLANTATIONS SECTOR



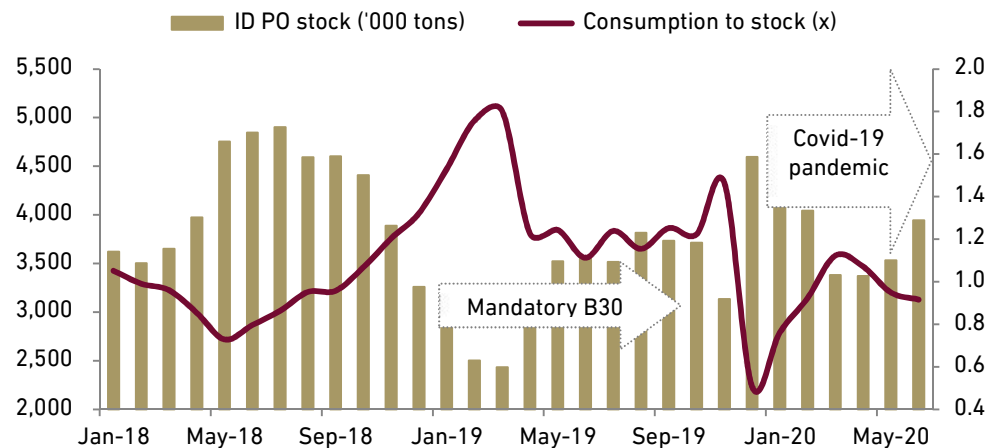
# Plantation Overweight

## Sector Outlook

### Stable inventory amidst pandemic's pressure

As B30 mandatory came to effect in Indonesia, we saw CPO price surpassed RM3,000/ton in the beginning of 2020. However, according to the Ministry of Energy and Mineral Resources (ESDM), the usage of FAME declined by 13% in 1Q20 due to the pandemic. Pertamina then adjusted supply of FAME, but palm oil production in Indonesia is expected to remain steady at around 42 mn tons in 2020. In the short term there will be a higher supply and lower prices due to the current situation surrounding the Coronavirus.

Exhibit 104: Indonesia palm oil statistics



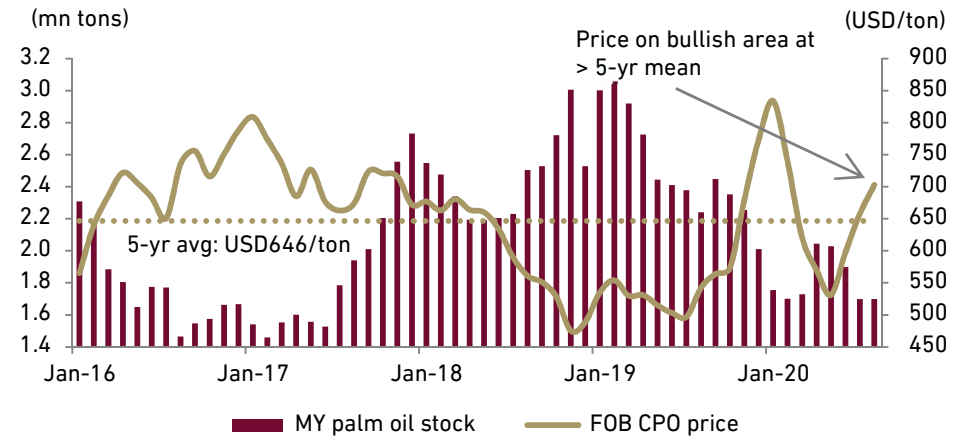
Source : GAPKI, Ciptadana Estimates

Fortunately, Exhibit 104 shows that even during the pandemic, Indonesia's monthly palm oil stocks remain stable at below 4.0 mn tons level. Therefore we expect with stable production and growing demand ahead, CPO price will stay at average **RM2,500/ton or equal to USD600/ton in 2021.**

### Stable CPO price next year

The price of CPO is likely to average at RM2,500/ton in 2021, unchanged from our 2020F of RM2,500/ton. The biodiesel mandates implemented in Indonesia and Malaysia are expected to be able to mitigate the impact of slower global demand post-pandemic. In addition to biodiesel mandates, Chinese and Indian demand for palm oil is also expected to rise due to competitive CPO prices against substitute oils.

Exhibit 105: Malaysia palm oil statistics



Source : MPOB, Oil World, Ciptadana Estimates

In Exhibit 105 we see that as Malaysia's inventory climbed, conversely CPO price went downhill. Currently, CPO price is already on bullish area and we see limited catalyst to maintain the hike. We projected 0% YoY increase in global CPO price for 2021 with the assumption of: (1) threat of covid-19 subsides (2) gradual improvement in CPO demand, and (3) continuation of B30 initiatives.

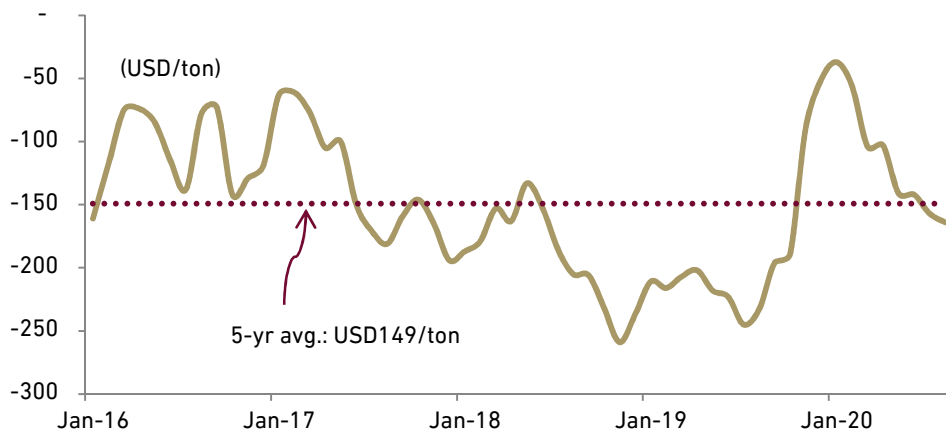
### Soybean oil: favourable low price

We keep track on soybean oil trade, the closest substitute of palm oil. We expect to see relatively low, favorable, soybean oil prices continuing. Amid ample US and world supplies, the average soybean futures level in 2Q20 was near the lowest seen in the last decade.



Steadily increasing use of soybean oil for biodiesel manufacture in recent years has helped underpin soybean oil prices. Despite a slow couple of months because of the coronavirus pandemic reducing the fuel consumption, biodiesel production was on the rise again. Bottom line, soybean oil supplies should be larger in the coming year compared with 2020, and prices should remain under pressure.

**Exhibit 106 : CPO price discount to Soybean oil**



Source : Oil World, Ciptadana Securities

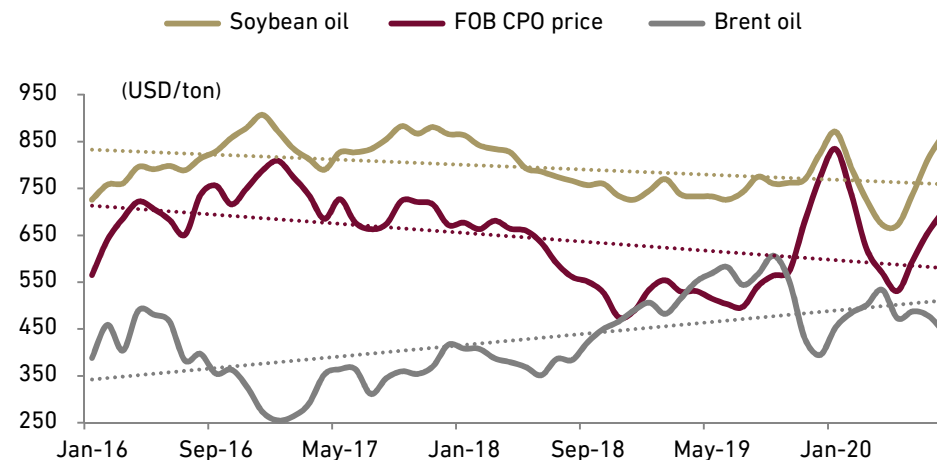
- **Expect narrower premium gap between CPO vs. soybean oil**

The price of soybean oil has been relatively stable in the last five years, while CPO experienced a recent uptrend. As a result, by August 2020 the discount of CPO to soybean oil price widened to USD164/ton which is larger compared to last five-years average discount of USD149/ton. With soybean oil price as a proxy for CPO price ceiling, we believe we will not see a significant hike in CPO price in 2021.

Meanwhile, CPO price premium to Brent oil narrowed to USD99/ton in August or USD110/ton cheaper than its historical 5 year average of USD209/ton. As we placed soybean oil as proxy for the CPO price ceiling and Brent oil as the floor price, we believe the current condition justified our moderate expectation of flat CPO price in 2021.

## EQUITY MARKET OUTLOOK 2021

**Exhibit 107 : Historical price of soybean oil, CPO, and Brent oil**



Source : Bloomberg, MPOB

- **Moving forward with B50**

There is a possibility that fossil fuel industry could further suffer due to the effect of pandemic. It is certain from these past few months that less fossil fuels being used means more breathable air. While palm oil biodiesel is not carbon-neutral, it has significantly less carbon emissions than conventional diesel.

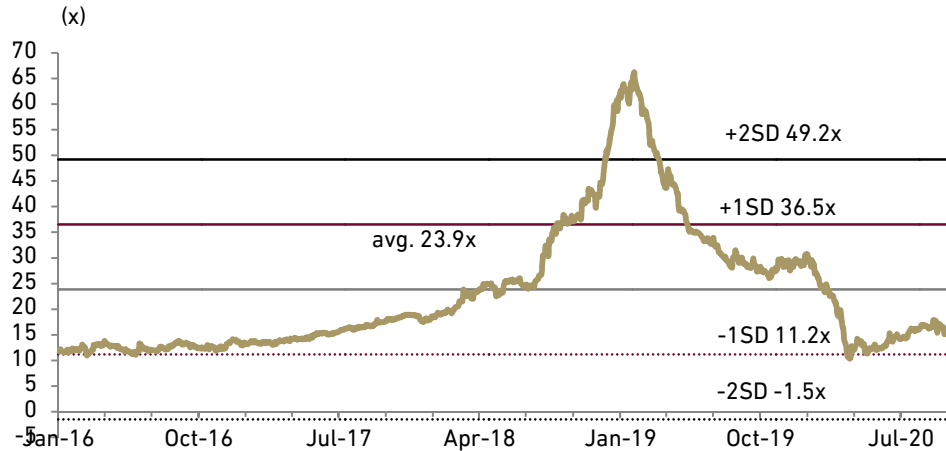
President Joko Widodo has announced a mandatory B50 by early 2021. Later the state owned biodiesel distributor, Pertamina, stated issues in lack of research, testing, and compatibility with machinery. While these are all valid concerns, the funding that should be given to ensure that Indonesia is ready for a biodiesel future will pale in comparison to the costs that will arise from not phasing out fossil fuels before it is too late.

- **Plantation stocks have been undervalued**

We believe at current prices most of the palm oil based company stocks under our universe are undervalued and offer significant upsides. Looking into their blended PE band in Exhibit 108, at present the stocks are attractively trading at around 25% discount to the 5 year mean blended PE of 23.9x.



**Exhibit 108 : Plantation sector\* forward PER band**



\* AALI, DSNG, LSIP, SIMP and TBLA

Source : Bloomberg, Ciptadana Estimates

### • Markets for Indonesian palm oil exports

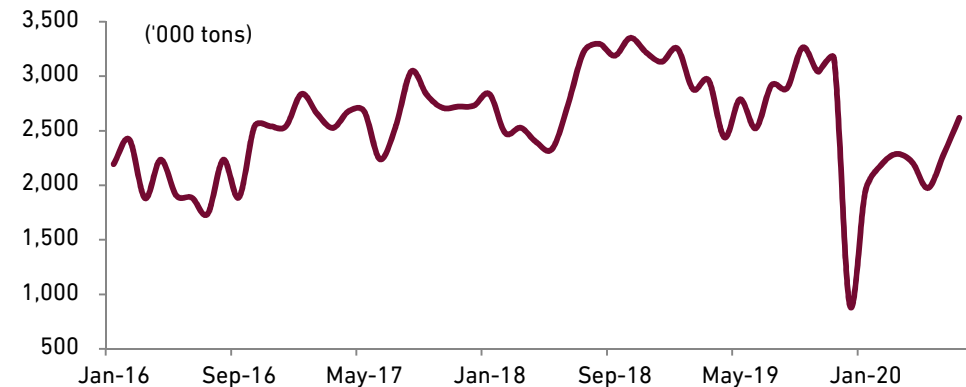
Currently the main obstacle facing the palm oil industry is the Covid-19 pandemic, which has decreased the exports of CPO and derivative products in a number of foreign countries. The Indonesian palm oil exports decreased during the first few months in 2020 after experienced an increase in volume and value on similar period in 2019.

Note that the performance of Indonesia's palm oil export to Indian market is still good in terms of volume and value. Conversely, exports to other major markets, such as China and Netherlands, saw a decrease.

To anticipate the decrease of palm oil exports, the government has been implementing the B30 which is also as part of strategic step to meet the target of renewable energy source. With the B30 program, the local absorption of CPO will increase and will be able to maintain the price at the expected level globally. Other policy includes eliminating price threshold in export tax mechanism and increasing the average export levy by USD5/ton.

## EQUITY MARKET OUTLOOK 2021

**Exhibit 109 : Indonesia's palm oil export volume**



Source : GAPKI

### • Top picks

We maintain OVERWEIGHT on plantation sector with our top picks include AALI and TBLA. In term of production growth, AALI showed stable FFB yield each year while continued to improve their age profile through steady rate of replanting. We also believe TBLA as one of FAME producers will be benefited from biodiesel blending expansion.

**Exhibit 110 : Plantation stock rating and valuation**

Ticker	Rating	Market Cap. (Rp tn)	Last Price (Rp)	Target Price (Rp)	Upside Pot. (%)	PER (x)		EV/EBITDA (x)		ROE 21F (%)	Div. Yield 21F (%)
						2020F	2021F	2020F	2021F		
AALI	Buy	19.6	10,175	18,500	81.8	27.4	22.4	4.9	7.2	4.4	0.8
DSNG	Buy	4.9	458	770	68.1	11.4	10.3	6.3	5.9	0.7	2.8
LSIP	Buy	6.2	905	1,570	73.5	26.2	11.8	7.8	5.3	5.8	1.4
SIMP	Buy	4.6	296	470	58.8	n/m	148.0	5.9	5.6	0.2	0.0
TBLA	Buy	3.9	735	1,270	72.8	6.6	4.5	6.3	5.2	6.9	2.7
<b>OW</b>		<b>39.1</b>				<b>17.9</b>	<b>20.8</b>	<b>6.2</b>	<b>4.8</b>	<b>7.6</b>	<b>1.5</b>

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# Astra Agro Lestari

Buy

TP: Rp18,500(+81.8%)

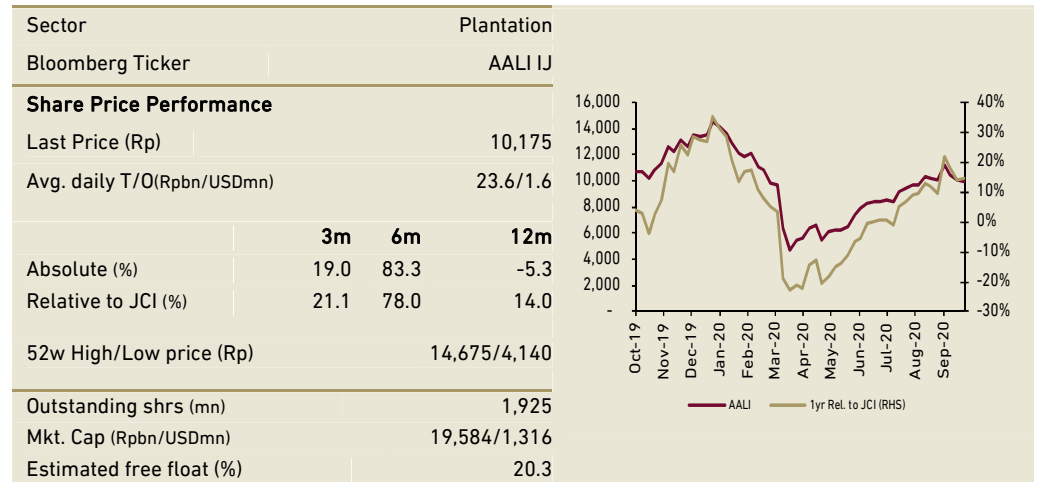
## Company Profile

Astra Agro Lestari (AALI) total planted area is 286,877 ha spread across Sumatra, Kalimantan, and Sulawesi. AALI has expanded its business lines into palm oil integrated sectors including a cattle-in-palm business and NPK (fertilizer) Blending Plant.

## Key Points

- **1H20 CPO production in-line.** Replanting activity took part in softening growth in production. CPO production decreased by -15.2% YoY to 706,800 tons in 1H20. The average utilization rate of AALI's mill has increased to 70% in 2Q20 (vs. 68% in 1Q20) as the new mill was operating below capacity. We expect the utilization rate to improve in 2H20.
- **Average CPO price of RM2,500/ton in 2021.** Though Chinese palm oil import dropped in Feb 2020 at the start of the pandemic, Indonesia's domestic stock leveled to 3.54 mn tons in May 2020, or only a slight 0.3% YoY higher. The combined inventory in Indonesia and Malaysia is relatively low in the end of 1H20 (< 6 mn tons) which set strong support for the CPO price recovery.
- **Strong demand of CPO post-pandemic.** Palm oil is poised to recover as lockdowns across the globe begin to ease and major consumers, including China and India, are boosting purchases to replenish stockpiles. We expect Indonesia's biodiesel blending mandates will continue as planned.
- **Upside potential to our TP, upgrade to BUY rating.** We expect lower costs in 2021 in line with lower sales from 3<sup>rd</sup> party FFB. We now incorporate 2021F PE of 40.1x (+0.5 stdev) resulted to TP of Rp18,500/sh and maintain BUY rating.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	19,084	17,453	18,811	20,253	19,426
Operating profit (Rpbn)	2,326	960	1,440	1,753	1,920
Net profit (Rpbn)	1,454	217	716	876	969
EPS (Rp)	755.2	112.8	371.9	455.0	503.4
EPS growth (%)	-29.2	-85.1	229.8	22.4	10.6
EV/EBITDA (x)	7.7	22.6	5.2	7.6	6.9
PER (x)	13.2	88.7	26.9	22.0	19.9
PBV (x)	1.0	1.0	1.0	1.0	0.9
Dividend yield (%)	2.3	1.2	0.2	0.7	0.9
ROE (%)	7.7	1.2	3.7	4.4	4.7

## Assumptions

	2018A	2019A	2020F	2021F	2022F
CPO Price (RM/ton)	2,235	2,129	2,500	2,500	2,500
CPO Sales Volume (k ton)	1,634	1,740	1,340	1,485	1,422
Olein Sales Volume (k ton)	338	402	338	338	338
CPO Production (k ton)	1,936	1,653	1,507	1,599	1,487
PK Production (k ton)	421	359	328	348	323

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## Astra Agro Lestari

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>19,084</b>	<b>17,453</b>	<b>18,811</b>	<b>20,253</b>	<b>19,426</b>
COGS	-15,545	-15,308	-16,013	-17,068	-16,149
<b>Gross profit</b>	<b>3,540</b>	<b>2,145</b>	<b>2,798</b>	<b>3,184</b>	<b>3,277</b>
Oper. expenses	-1,214	-1,184	-1,357	-1,431	-1,357
<b>Oper. profit</b>	<b>2,326</b>	<b>960</b>	<b>1,440</b>	<b>1,753</b>	<b>1,920</b>
<b>EBITDA</b>	<b>3,107</b>	<b>1,084</b>	<b>4,720</b>	<b>3,238</b>	<b>3,446</b>
Interest income	26	30	15	37	48
Interest expense	-225	-350	-393	-400	-453
Other income (exp.)	29	61	107	0	168
<b>Pre-tax profit</b>	<b>2,222</b>	<b>667</b>	<b>1,169</b>	<b>1,390</b>	<b>1,683</b>
Income tax	-686	-417	-392	-445	-632
Minority interest	-82	-33	-62	-69	-82
<b>Net profit</b>	<b>1,454</b>	<b>217</b>	<b>716</b>	<b>876</b>	<b>969</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	49	383	932	1,212	2,716
Acct, receivables	617	369	531	572	548
Inventory	2,368	1,974	2,663	2,827	2,562
Other curr. asset	1,467	1,746	1,526	1,709	2,229
<b>Total current asset</b>	<b>4,501</b>	<b>4,472</b>	<b>5,652</b>	<b>6,320</b>	<b>8,055</b>
Fixed assets - net	17,268	16,832	17,159	17,192	16,951
Other non-curr.asset	4,916	5,503	5,586	5,713	5,669
<b>Total asset</b>	<b>26,857</b>	<b>26,974</b>	<b>28,564</b>	<b>29,392</b>	<b>30,842</b>
ST debt + curr. maturity	1,125	150	150	150	150
Acct, payable	1,089	827	1,002	1,068	1,010
Advances received	357	89	96	104	99
Other curr. liab	506	501	422	444	475
Long term debt	3,606	5,535	6,217	6,319	7,159
Other non-curr. liab,	700	893	776	776	776
<b>Total liabilities</b>	<b>7,382</b>	<b>7,996</b>	<b>8,663</b>	<b>8,859</b>	<b>9,670</b>
Shareholder equity	18,990	18,521	19,442	20,046	20,671
Minority interest	485	457	459	486	501
<b>Total liab + SHE</b>	<b>26,857</b>	<b>26,974</b>	<b>28,564</b>	<b>29,392</b>	<b>30,842</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	1,454	217	716	876	969
Depreciation	781	124	3,280	1,485	1,527
Chg in working cap.	-174	958	-608	-394	-202
Other	0	0	0	0	0
<b>CF-Oper activities</b>	<b>2,060</b>	<b>1,298</b>	<b>3,388</b>	<b>1,966</b>	<b>2,293</b>
Capital expenditure	-1,183	-19	-3,607	-1,517	-1,286
Others	15	6	0	0	0
<b>CF-Investing activities</b>	<b>-1,168</b>	<b>-13</b>	<b>-3,607</b>	<b>-1,517</b>	<b>-1,286</b>
Net change in debt	762	954	682	102	841
Net change in equity	0	-131	164	0	0
Dividend payment	-835	-431	-77	-271	-344
Other financing	-536	-58	0	0	0
<b>CF-Financing activities</b>	<b>-1,105</b>	<b>-951</b>	<b>769</b>	<b>-169</b>	<b>496</b>
<b>Net cash flow</b>	<b>-213</b>	<b>334</b>	<b>549</b>	<b>280</b>	<b>1,504</b>
Cash - begin of the year	262	49	383	932	1,212
Cash - end of the year	49	383	932	1,212	2,716

### Key Ratios

	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	10.3	-8.5	7.8	7.7	-4.1
Operating profit gr. (%)	-23.8	-58.7	50.0	21.7	9.5
Net profit gr. (%)	-29.2	-85.1	229.8	22.4	10.6
Gross margin (%)	18.5	12.3	14.9	15.7	16.9
Operating margin (%)	12.2	5.5	7.7	8.7	9.9
EBITDA margin (%)	16.3	6.2	25.1	16.0	17.7
Net margin (%)	7.6	1.2	3.8	4.3	5.0
ROA (%)	5.4	0.8	2.5	3.0	3.1
ROE (%)	7.7	1.2	3.7	4.4	4.7
Current ratio (x)	1.5	2.9	3.4	3.6	4.6
Quick ratio (x)	0.7	1.6	1.8	2.0	3.2
Interest cover (x)	13.8	3.1	12.0	8.1	7.6
Debt to equity ratio (x)	0.2	0.3	0.3	0.3	0.4
Net debt to equity (x)	0.2	0.3	0.3	0.3	0.2



# Dharma Satya Nusantara

**BUY**

**TP: 770 (+68.1%)**

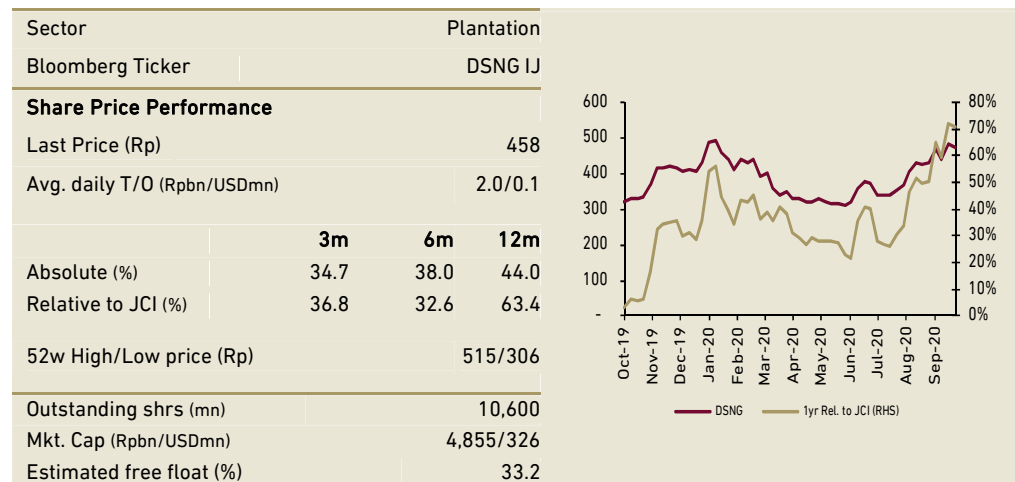
## Company Profile

Dharma Satya Nusantara (DSNG) has two main businesses, plantation and wood products. Currently, DSNG manages palm oil plantation in East Kalimantan and operates 10 palm oil mills. As of June 2020, the company's total planted area, including nucleus and plasma, reached 112,450 ha, with an average age of 10.9 years.

## Key Points

- **DSNG's yield above peers throughout the years.** DSNG plantation age profile of 10.9 years comprises of largely young and prime mature suggested a continuing yield growth potential. Though two estates from the 2018 acquisition has temporarily dragged down average yield from 25.3 ton/ha (excl. acquisition) to 23.6 ton/ha.
- **Producer of wood products for the global market.** DSNG produces panel, engineered floor and engineered door products for export market (Canada, US, Europe, Japan, Australia and New Zealand) which benefited from stronger USD/IDR.
- **The age profile is within the premium band (8 to 15 year old).** DSNG produces panel, engineered floor and engineered door products for export market (Canada, US, Europe, Japan, Australia and New Zealand) which benefited from stronger USD/IDR.
- **Undemanding valuation, maintain BUY.** We maintain our assumption of FY21 CPO ASP at RM2,300/ton. Margins should improve following recovery from Covid-19 pandemic. We incorporated -1SD of 5-year mean PE 17.2x resulted to TP Rp770/sh.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	4,762	5,737	6,528	6,962	6,807
Operating profit (Rpbn)	924	708	1,069	1,107	1,111
Net profit (Rpbn)	421	180	426	470	517
EPS (Rp)	39.7	17.0	40.2	44.4	48.7
EPS growth (%)	-26.9	-57.2	137.0	10.3	9.8
EV/EBITDA (x)	8.6	8.6	6.7	6.3	5.8
PER (x)	10.6	24.7	10.4	9.5	8.6
PBV (x)	1.2	1.2	1.1	1.0	0.9
Dividend yield (%)	2.3	2.3	1.0	2.4	2.6
ROE (%)	11.8	4.9	10.6	10.7	10.8

## Assumptions

(tons)	2018A	2019A	2020F	2021F	2022F
FFB production	1,850	2,204	2,376	2,550	2,473
CPO production	488	610	658	706	684
CPO sales volume	455	666	658	706	684

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## Dharma Satya Nusantara

### Income Statement

Year to 31 Dec (Rpmm)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>4,762</b>	<b>5,737</b>	<b>6,528</b>	<b>6,962</b>	<b>6,807</b>
COGS	-3,219	-4,276	-4,656	-4,999	-4,879
<b>Gross profit</b>	<b>1,543</b>	<b>1,461</b>	<b>1,873</b>	<b>1,963</b>	<b>1,929</b>
Oper. expenses	-620	-753	-803	-857	-817
<b>Oper. profit</b>	<b>924</b>	<b>708</b>	<b>1,069</b>	<b>1,107</b>	<b>1,111</b>
<b>EBITDA</b>	<b>1,203</b>	<b>1,235</b>	<b>1,584</b>	<b>1,629</b>	<b>1,667</b>
Interest income	39	28	15	32	39
Interest expense	-359	-505	-489	-416	-343
Other income (exp.)	-19	73	-8	-10	-10
<b>Pre-tax profit</b>	<b>611</b>	<b>280</b>	<b>635</b>	<b>713</b>	<b>797</b>
Income tax	-179	-102	-205	-237	-275
Minority interest	-7	2	-4	-5	-5
<b>Net profit</b>	<b>421</b>	<b>180</b>	<b>426</b>	<b>470</b>	<b>517</b>

### Balance Sheet

Year to 31 Dec (Rpmm)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	594	270	475	577	653
Acct, receivables	399	355	407	453	442
Inventory	871	711	969	1,030	979
Other curr, asset	534	597	744	751	757
<b>Total current asset</b>	<b>2,398</b>	<b>1,933</b>	<b>2,595</b>	<b>2,811</b>	<b>2,831</b>
Fixed assets - net	7,272	7,239	7,162	7,111	7,051
Other non-curr.asset	2,069	2,449	2,493	2,529	2,531
<b>Total asset</b>	<b>11,739</b>	<b>11,621</b>	<b>12,249</b>	<b>12,450</b>	<b>12,413</b>
ST debt + curr. maturity	1,303	1,399	1,352	1,281	1,165
Acct, payable	570	530	596	642	631
Advances received	0	0	0	0	0
Other curr. liab	448	433	461	476	471
Long term debt	5,211	5,016	5,323	5,116	4,758
Other non-curr, liab,	548	512	379	422	465
<b>Total liabilities</b>	<b>8,080</b>	<b>7,889</b>	<b>8,112</b>	<b>7,937</b>	<b>7,490</b>
Shareholder equity	3,571	3,646	4,028	4,392	4,792
Minority interest	88	85	109	121	131
<b>Total liab + SHE</b>	<b>11,739</b>	<b>11,621</b>	<b>12,249</b>	<b>12,450</b>	<b>12,413</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (Rpmm)	2018A	2019A	2020F	2021F	2022F
Net income	421	180	426	470	517
Depreciation	279	527	514	522	555
Chg in working cap.	143	-58	-524	-31	78
Other	0	0	0	0	0
<b>CF-Oper activities</b>	<b>842</b>	<b>649</b>	<b>417</b>	<b>962</b>	<b>1,150</b>
Capital expenditure	-2,733	-494	-437	-471	-496
Others	-323	-177	-16	-16	2
<b>CF-Investing activities</b>	<b>-3,056</b>	<b>-671</b>	<b>-452</b>	<b>-487</b>	<b>-493</b>
Net change in debt	2,453	-99	261	-279	-474
Net change in equity	0	0	0	0	0
Dividend payment	-105	-105	-45	-106	-117
Other financing	8	-28	24	12	10
<b>CF-Financing activities</b>	<b>2,356</b>	<b>-232</b>	<b>240</b>	<b>-373</b>	<b>-581</b>
<b>Net cash flow</b>	<b>143</b>	<b>-254</b>	<b>205</b>	<b>102</b>	<b>75</b>
Cash - begin of the year	381	524	270	475	577
Cash - end of the year	524	270	475	577	653

### Key Ratios

	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	-7.7	20.5	13.8	6.7	-2.2
Operating profit gr. (%)	-20.1	-23.4	51.1	3.5	0.4
Net profit gr. (%)	-26.9	-57.2	137.0	10.3	9.8
Gross margin (%)	32.4	25.5	28.7	28.2	28.3
Operating margin (%)	19.4	12.3	16.4	15.9	16.3
EBITDA margin (%)	25.3	21.5	24.3	23.4	24.5
Net margin (%)	8.8	3.1	6.5	6.8	7.6
ROA (%)	3.6	1.5	3.5	3.8	4.2
ROE (%)	11.8	4.9	10.6	10.7	10.8
Current ratio (x)	1.0	0.8	1.1	1.2	1.2
Quick ratio (x)	0.7	0.5	0.7	0.7	0.8
Interest cover (x)	3.3	2.4	3.2	3.9	4.9
Debt to equity ratio (x)	1.8	1.8	1.7	1.5	1.2
Net debt to equity (x)	1.7	1.7	1.5	1.3	1.1



# PP London Sumatra Indonesia

## BUY

### TP: Rp1,570 (+64.4%)

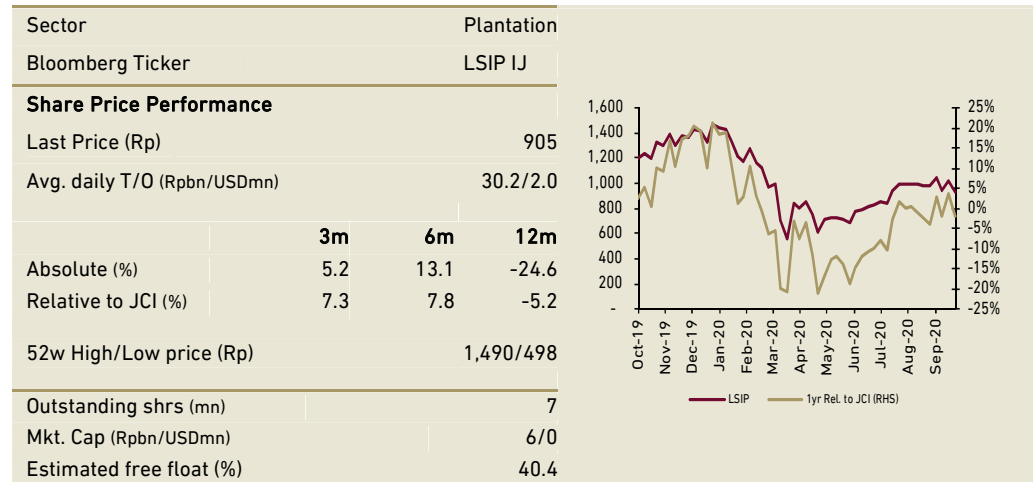
#### Company Profile

PP London Sumatra Indonesia (LSIP) manages 115,236 ha of nucleus plantation estates in Sumatra, Java, Kalimantan and Sulawesi as of June 2020. The Company operates 11 palm oil mills in Sumatra and Kalimantan, with a combined annual FFB processing capacity of up to 2.4 mn tons.

#### Key Points

- **LSIP is experiencing a slower annual production growth due to dry season last year and replanting activity.** Fortunately, we expect ASPs of both CPO and palm kernel (PK) will be stable in 2020. LSIP also reduces harvesting, cultivation, and labour costs. We expect efficiency in production costs will lower COGS and opex ratio.
- **CPO production in 1Q and 2Q 2020 were amongst the lowest quarterly production in the last 5 years.** Declining productivity rates across the board are due to aging plantation. As end of June 2020, LSIP age profile reaches 17.3 years, surpasses its average peers. The Company's replanting activity resulted to a slight decrease in mature area which we believe contributed to slower production.
- **We maintain our previous ASP CPO assumption for 2021 at RM2,500/ton (+0.0% YoY).** We expect the combination of slower annual production growth and improving global demand post-pandemic (with additional consumption from persistent biodiesel initiatives) would support better ASP.
- **Undemanding valuation, maintain BUY.** We incorporated 5-year mean PE of 20.3x resulted to 2021F TP of Rp1,570/sh. We believe LSIP is still undervalued, offering more than 50% upside from current price and maintain BUY rating.

## EQUITY MARKET OUTLOOK 2021



#### Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	4,020	3,699	2,858	3,178	3,417
Operating profit (Rpbn)	310	201	371	593	658
Net profit (Rpbn)	272	254	235	524	603
EPS (Rp)	39.9	37.2	34.5	76.8	88.4
EPS growth (%)	-66.1	-6.6	-7.3	122.6	15.0
EV/EBITDA (x)	7.3	9.5	7.8	5.3	4.9
PER (x)	24.8	26.6	28.7	12.9	11.2
PBV (x)	0.8	0.8	0.8	0.7	0.7
Dividend yield (%)	4.5	1.9	1.5	1.4	3.0
ROE (%)	3.3	3.0	2.7	5.8	6.4

#### Assumptions

	2018A	2019A	2020F	2021F	2022F
CPO Price (RM/ton)	2,235	2,129	2,500	2,500	2,500
CPO Sales Volume (k ton)	436	398	268	302	326
PK Sales Volume (k ton)	113	100	67	76	82
CPO Production (k ton)	453	398	268	302	326
PK Production (k ton)	107	95	64	72	78

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## PP London Sumatra Indonesia

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>4,020</b>	<b>3,699</b>	<b>2,858</b>	<b>3,178</b>	<b>3,417</b>
COGS	-3,337	-3,138	-2,207	-2,301	-2,449
<b>Gross profit</b>	<b>683</b>	<b>562</b>	<b>651</b>	<b>877</b>	<b>968</b>
Oper. expenses	-373	-361	-280	-284	-309
<b>Oper. profit</b>	<b>310</b>	<b>201</b>	<b>371</b>	<b>593</b>	<b>658</b>
<b>EBITDA</b>	<b>694</b>	<b>590</b>	<b>714</b>	<b>918</b>	<b>963</b>
Interest income	71	67	45	46	74
Interest expense	0	-1	-1	-1	-1
Other income (exp.)	-23	86	-118	24	30
<b>Pre-tax profit</b>	<b>357</b>	<b>353</b>	<b>298</b>	<b>662</b>	<b>762</b>
Income tax	-88	-100	-63	-139	-160
Minority interest	2	1	0	1	1
<b>Net profit</b>	<b>272</b>	<b>254</b>	<b>235</b>	<b>524</b>	<b>603</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	1,663	1,132	1,158	1,858	2,033
Acct, receivables	69	367	318	353	854
Inventory	489	342	552	575	612
Other curr, asset	223	352	81	91	96
<b>Total current asset</b>	<b>2,444</b>	<b>2,192</b>	<b>2,108</b>	<b>2,877</b>	<b>3,596</b>
Fixed assets - net	6,235	6,311	6,414	6,110	5,773
Other non-curr.asset	416	448	456	456	459
<b>Total asset</b>	<b>10,037</b>	<b>10,225</b>	<b>10,252</b>	<b>10,717</b>	<b>11,100</b>
ST debt + curr. maturity	0	0	0	0	0
Acct, payable	312	319	198	201	213
Advances received	91	47	63	74	58
Other curr. liab	122	100	108	127	119
Long term debt	0	0	0	0	0
Other non-curr, liab,	1,180	1,260	1,260	1,260	1,260
<b>Total liabilities</b>	<b>1,705</b>	<b>1,727</b>	<b>1,629</b>	<b>1,663</b>	<b>1,649</b>
Shareholder equity	8,328	8,496	8,621	9,053	9,450
Minority interest	4	3	2	1	0
<b>Total liab + SHE</b>	<b>10,037</b>	<b>10,225</b>	<b>10,252</b>	<b>10,717</b>	<b>11,100</b>

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	272	254	235	524	603
Depreciation	385	389	342	325	305
Chg in working cap.	-40	-153	-219	-43	-565
Other	-23	-434	-111	545	548
<b>CF-Oper activities</b>	<b>593</b>	<b>56</b>	<b>248</b>	<b>1,351</b>	<b>891</b>
Capital expenditure	-862	-77	-103	-560	-507
Others	518	-785	-8	1	-3
<b>CF-Investing activities</b>	<b>-344</b>	<b>-861</b>	<b>-111</b>	<b>-559</b>	<b>-510</b>
Net change in debt	0	0	0	0	0
Net change in equity	-2	-1	-11	0	0
Dividend payment	-307	-130	-99	-92	-205
Other financing	29	-16	0	0	0
<b>CF-Financing activities</b>	<b>-219</b>	<b>274</b>	<b>-111</b>	<b>-92</b>	<b>-205</b>
<b>Net cash flow</b>	<b>30</b>	<b>-532</b>	<b>26</b>	<b>700</b>	<b>176</b>
Cash - begin of the year	1,633	1,663	1,132	1,158	1,858
Cash - end of the year	1,663	1,132	1,158	1,858	2,033

### Key Ratios

	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	-15.2	-8.0	-22.8	11.2	7.5
Operating profit gr. (%)	-67.0	-35.2	84.7	59.8	11.0
Net profit gr. (%)	-66.1	-6.6	-7.3	122.6	15.0
Gross margin (%)	17.0	15.2	22.8	27.6	28.3
Operating margin (%)	7.7	5.4	13.0	18.7	19.3
EBITDA margin (%)	17.3	16.0	25.0	28.9	28.2
Net margin (%)	6.8	6.9	8.2	16.5	17.6
ROA (%)	2.7	2.5	2.3	4.9	5.4
ROE (%)	3.3	3.0	2.7	5.8	6.4
Current ratio (x)	4.7	4.7	5.7	7.1	9.2
Quick ratio (x)	3.7	4.0	4.2	5.7	7.7
Interest cover (x)	1,634.1	988.9	1,195.3	1,537.6	1,613.3
Debt to equity ratio (x)	0.0	0.0	0.0	0.0	0.0
Net debt to equity (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



# Salim Ivomas Pratama

**BUY**

**TP: Rp470 (+58.8%)**

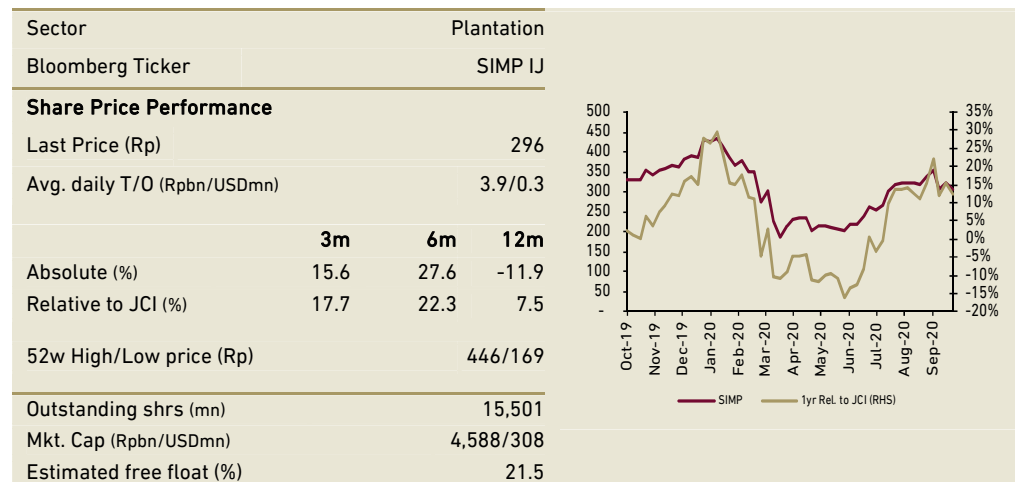
## Company Profile

Salim Ivomas Pratama (SIMP) is one of the largest vertically integrated plantation companies in Indonesia with 299k ha of planted area as of end of June 2020. The company also engages in the cultivation of other crops such as rubber, sugarcane, cocoa, and tea. SIMP owns 27 palm oil mills (7.0 mn ton FFB/year), 5 palm oil refineries (1.7 mn ton CPO/year), and 2 sugar mills (2.2 mn TC/year).

## Key Points

- **Leading branded cooking oils.** SIMP Group's consumer branded cooking oils are marketed under the leading brands of Bimoli, Bimoli Spesial, Delima and Happy, while consumer branded margarine and shortening are packed and sold under the Palmia and Amanda brands.
- **Focus on organic growth.** SIMP's short-term strategy continues to focus on organic growth by utilizing its available land bank to maximize planted area. A move that we think would be positive for the company as net gearing ratio would be maintained at healthy levels (currently 0.6x).
- **Single digit growth revenues next year.** We expect SIMP to experience flat sales in 2021 mainly due to sluggish ASP of palm products which cannot be fully offset by high sales volume from palm products and Edible Oils & Fats (EOF) Division. In term of production, we view that SIMP's growth remain solid backed by improving yield.
- **Maintain BUY rating with TP of Rp470.** We maintain our 2021F CPO ASP at RM2,500/ton and incorporate mean PBV of 0.5x resulted to TP of Rp470/sh. Our TP offers an attractive 46% upside from current market price hence we maintain BUY rating.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	14,059	13,650	14,448	14,584	14,719
Operating profit (Rpbn)	956	653	666	684	860
Net profit (Rpbn)	-77	-546	-174	31	116
EPS (Rp)	-4.9	-35.2	-11.2	2.0	7.5
EPS growth (%)	n/m	n/m	n/m	n/m	271.0
EV/EBITDA (x)	4.7	5.4	5.8	5.6	4.9
PER (x)	-64.0	-9.0	-28.2	157.2	42.4
PBV (x)	0.3	0.3	0.3	0.3	0.3
Dividend yield (%)	3.2	0.0	0.0	-1.1	0.2
ROE (%)	-0.5	-3.8	-1.2	0.2	0.8

## Assumptions

	2018A	2019A	2020F	2021F	2022F
CPO Price (RM/ton)	2,400	2,129	2,500	2,500	2,500
CPO Sales Volume (k ton)	498	188	193	197	201
CPO Production (k ton)	921	840	862	879	900
PK Production (k ton)	221	206	212	216	221

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## Salim Ivomas Pratama

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>14,059</b>	<b>13,650</b>	<b>14,448</b>	<b>14,584</b>	<b>14,719</b>
COGS	-11,732	-11,565	-12,409	-12,296	-12,534
<b>Gross profit</b>	<b>2,327</b>	<b>2,086</b>	<b>2,038</b>	<b>2,288</b>	<b>2,185</b>
Oper. expenses	-1,371	-1,433	-1,373	-1,604	-1,325
<b>Oper. profit</b>	<b>956</b>	<b>653</b>	<b>666</b>	<b>684</b>	<b>860</b>
<b>EBITDA</b>	<b>2,726</b>	<b>2,570</b>	<b>2,207</b>	<b>2,304</b>	<b>2,577</b>
Interest income	86	80	123	74	54
Interest expense	-855	-906	-947	-780	-751
Other income (exp.)	20	-25	-230	92	92
<b>Pre-tax profit</b>	<b>207</b>	<b>-197</b>	<b>-388</b>	<b>69</b>	<b>254</b>
Income tax	-385	-445	166	-29	-109
Minority interest	102	96	49	-8	-30
<b>Net profit</b>	<b>-77</b>	<b>-546</b>	<b>-174</b>	<b>31</b>	<b>116</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	2,071	1,717	1,226	703	873
Acct, receivables	1,283	1,209	811	825	830
Inventory	2,428	2,254	2,222	2,384	2,362
Other curr, asset	1,206	1,579	1,136	1,267	1,310
<b>Total current asset</b>	<b>6,989</b>	<b>6,759</b>	<b>5,394</b>	<b>5,178</b>	<b>5,375</b>
Fixed assets - net	20,066	20,342	20,126	20,157	20,198
Other non-curr.asset	7,612	7,810	6,993	6,959	6,926
<b>Total asset</b>	<b>34,667</b>	<b>34,911</b>	<b>32,513</b>	<b>32,293</b>	<b>32,499</b>
ST debt + curr. maturity	5,886	6,744	6,287	6,204	6,168
Acct, payable	882	892	932	920	938
Advances received	181	249	174	176	177
Other curr. liab	842	921	745	836	828
Long term debt	4,218	3,833	2,893	2,506	2,543
Other non-curr, liab,	4,370	4,490	3,900	3,967	4,031
<b>Total liabilities</b>	<b>16,380</b>	<b>17,130</b>	<b>14,931</b>	<b>14,609</b>	<b>14,685</b>
Shareholder equity	14,863	14,485	14,311	14,395	14,501
Minority interest	3,423	3,296	3,271	3,290	3,314
<b>Total liab + SHE</b>	<b>34,667</b>	<b>34,911</b>	<b>32,513</b>	<b>32,293</b>	<b>32,499</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	-77	-546	-174	31	116
Depreciation	1,770	1,917	1,541	1,620	1,717
Chg in working cap.	-276	33	662	-226	-15
Other	-263	274	145	9	45
<b>CF-Oper activities</b>	<b>1,155</b>	<b>1,677</b>	<b>2,175</b>	<b>1,434</b>	<b>1,862</b>
Capital expenditure	-1,465	-1,724	-1,724	-1,724	-1,724
Others	-656	-790	431	114	-36
<b>CF-Investing activities</b>	<b>-2,120</b>	<b>-2,514</b>	<b>-1,293</b>	<b>-1,610</b>	<b>-1,760</b>
Net change in debt	587	472	-1,397	-469	0
Net change in equity	0	0	0	0	0
Dividend payment	-155	0	0	52	-9
Other financing	344	10	24	70	77
<b>CF-Financing activities</b>	<b>776</b>	<b>482</b>	<b>-1,373</b>	<b>-347</b>	<b>68</b>
<b>Net cash flow</b>	<b>-189</b>	<b>-355</b>	<b>-491</b>	<b>-523</b>	<b>170</b>
Cash - begin of the year	2,261	2,071	1,717	1,226	703
Cash - end of the year	2,071	1,717	1,226	703	873

### Key Ratios

	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	-11.2	-2.9	5.8	0.9	0.9
Operating profit gr. (%)	-46.4	-31.7	2.0	2.7	25.8
Net profit gr. (%)	n/m	n/m	n/m	n/m	271.0
Gross margin (%)	16.6	15.3	14.1	15.7	14.8
Operating margin (%)	6.8	4.8	4.6	4.7	5.8
EBITDA margin (%)	19.4	18.8	15.3	15.8	17.5
Net margin (%)	-0.5	-4.0	-1.2	0.2	0.8
ROA (%)	-0.2	-1.6	-0.5	0.1	0.4
ROE (%)	-0.5	-3.8	-1.2	0.2	0.8
Current ratio (x)	0.9	0.8	0.7	0.6	0.7
Quick ratio (x)	0.6	0.5	0.4	0.3	0.4
Interest cover (x)	3.2	2.8	2.3	3.0	3.4
Debt to equity ratio (x)	0.7	0.7	0.6	0.6	0.6
Net debt to equity (x)	0.5	0.6	0.6	0.6	0.5





# Tunas Baru Lampung

BUY

TP: Rp1,270 (+72.8%)

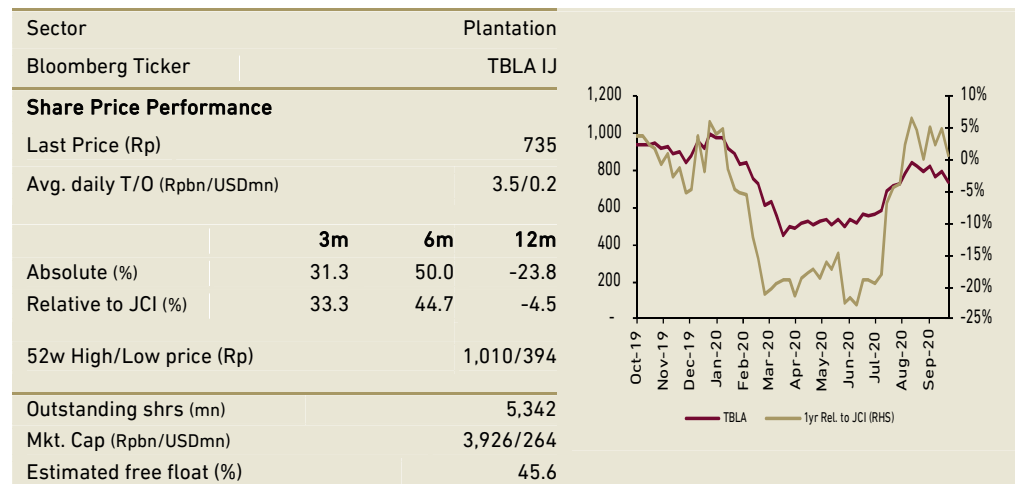
## Company Profile

Tunas Baru Lampung (TBLA) manages 58.8k ha of palm oil estates and 12.6k ha of sugar cane estates as of 1H20. The company has rapidly converted its aging palm oil plantation into sugarcane estates in the recent years. TBLA's new palm oil refinery and biodiesel plant will be completed by 1H21 and bring FAME (biodiesel) production capacity up to 750k ton p.a.

## Key Points

- **Deficit in domestic sugar market.** Sugar industry in Indonesia remains attractive with gap between sugar domestic consumption and production continues to widen and currently demand for sugar in Indonesia is more than twice of domestic sugar production.
- **B30 blending mandate starting January 2019.** In 2Q20, TBLA recorded the highest quarterly FAME (biodiesel) sales at 95k ton. Despite pandemic related demand disruption and global crude price concern, delivery to Pertamina stays consistent so far. TBLA already delivered around 170k ton of FAME to Pertamina in 1H20.
- **Expect strong earnings from sugar business.** Sugar sales remain strong in 2Q20 and we expect to continue in 2021 as supply deficit continues to plague the market. The Company received raw sugar import quota allocation of 170k tons in 1H20, plus another 10k tons in July 2020. Under optimistic scenario, TBLA will receive similar quota in 2021.
- **Maintain BUY, undemanding valuation.** Our 2021 valuation is reflecting global CPO ASP of RM2,500/ton and resulting TP of Rp1,270/sh implying mean PE of 7.8x. Our TP offers an attractive upside from current market price hence we maintain BUY rating.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	8,615	8,533	10,757	11,611	12,373
Operating profit (Rpbn)	1,694	1,425	1,600	2,008	2,680
Net profit (Rpbn)	758	663	596	865	1,629
EPS (Rp)	141.8	124.1	111.6	161.9	304.9
EPS growth (%)	-20.2	-12.5	-10.1	45.0	88.4
EV/EBITDA (x)	6.1	6.4	6.5	5.4	4.1
PER (x)	5.8	6.6	7.3	5.1	2.7
PBV (x)	0.9	0.8	0.8	0.9	0.9
Dividend yield (%)	5.5	3.0	2.7	2.4	3.5
ROE (%)	15.9	12.4	11.4	16.9	32.7

## Assumptions

	2018A	2019A	2020F	2021F	2022F
CPO Price (RM/ton)	2,235	2,129	2,500	2,500	2,500
Cooking oil sales vol. (k ton)	286	210	237	229	214
PK sales volume (k ton)	37	44	33	32	30
Sugar sales volume (k ton)	268	267	267	267	267
CPO production (k ton)	375	335	379	366	342

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## Tunas Baru Lampung

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>8,615</b>	<b>8,533</b>	<b>10,757</b>	<b>11,611</b>	<b>12,373</b>
COGS	-6,312	-6,438	-8,411	-8,800	-8,848
<b>Gross profit</b>	<b>2,303</b>	<b>2,095</b>	<b>2,346</b>	<b>2,811</b>	<b>3,526</b>
Oper. expenses	-609	-670	-746	-804	-846
<b>Oper. profit</b>	<b>1,694</b>	<b>1,425</b>	<b>1,600</b>	<b>2,008</b>	<b>2,680</b>
<b>EBITDA</b>	<b>1,899</b>	<b>1,805</b>	<b>1,915</b>	<b>2,334</b>	<b>3,038</b>
Interest income	4	2	10	6	5
Interest expense	-677	-694	-835	-435	-415
Other income (exp.)	74	131	54	-300	-4
<b>Pre-tax profit</b>	<b>1,043</b>	<b>905</b>	<b>829</b>	<b>1,203</b>	<b>2,266</b>
Income tax	-279	-244	-224	-325	-611
Minority interest	-7	2	-9	-14	-26
<b>Net profit</b>	<b>758</b>	<b>663</b>	<b>596</b>	<b>865</b>	<b>1,629</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	224	401	210	167	112
Acct, receivables	2,023	1,850	1,996	2,220	2,468
Inventory	2,273	2,184	2,615	2,862	2,931
Other curr, asset	1,683	2,117	2,219	1,713	1,103
<b>Total current asset</b>	<b>6,203</b>	<b>6,552</b>	<b>7,040</b>	<b>6,962</b>	<b>6,614</b>
Fixed assets - net	9,835	10,508	11,806	12,450	12,966
Other non-curr.asset	302	304	168	168	168
<b>Total asset</b>	<b>16,340</b>	<b>17,363</b>	<b>19,014</b>	<b>19,579</b>	<b>19,747</b>
ST debt + curr. maturity	900	1,105	1,345	1,307	1,289
Acct, payable	1,635	1,541	2,107	2,506	2,343
Advances received	0	0	0	0	0
Other curr. liab	766	1,381	1,371	1,364	1,887
Long term debt	6,556	6,485	7,011	7,128	7,020
Other non-curr, liab,	1,705	1,487	1,934	2,131	2,213
<b>Total liabilities</b>	<b>11,562</b>	<b>12,000</b>	<b>13,768</b>	<b>14,436</b>	<b>14,752</b>
Shareholder equity	4,758	5,352	5,235	5,130	4,977
Minority interest	20	10	11	14	18
<b>Total liab + SHE</b>	<b>16,340</b>	<b>17,361</b>	<b>19,014</b>	<b>19,579</b>	<b>19,747</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	758	663	596	865	1,629
Depreciation	205	380	315	327	359
Chg in working cap.	-1,053	81	459	624	276
Other	6	2	0	0	0
<b>CF-Oper activities</b>	<b>-85</b>	<b>1,125</b>	<b>1,370</b>	<b>1,815</b>	<b>2,263</b>
Capital expenditure	-570	-895	-1,045	-864	-844
Others	-524	-470	-629	-705	-1,329
<b>CF-Investing activities</b>	<b>-1,094</b>	<b>-1,365</b>	<b>-1,674</b>	<b>-1,569</b>	<b>-2,173</b>
Net change in debt	1,713	147	765	79	-126
Net change in equity	0	0	0	0	0
Dividend payment	-240	-134	-117	-105	-152
Other financing	-196	403	-536	-263	133
<b>CF-Financing activities</b>	<b>1,277</b>	<b>417</b>	<b>112</b>	<b>-289</b>	<b>-145</b>
<b>Net cash flow</b>	<b>98</b>	<b>177</b>	<b>-191</b>	<b>-43</b>	<b>-55</b>
Cash - begin of the year	126	224	401	210	167
Cash - end of the year	224	401	210	167	112

### Key Ratios

	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	-4.0	-0.9	26.1	7.9	6.6
Operating profit gr. (%)	1.5	-15.9	12.3	25.4	33.5
Net profit gr. (%)	-20.2	-12.5	-10.1	45.0	88.4
Gross margin (%)	26.7	24.5	21.8	24.2	28.5
Operating margin (%)	19.7	16.7	14.9	17.3	21.7
EBITDA margin (%)	22.0	21.2	17.8	20.1	24.6
Net margin (%)	8.8	7.8	5.5	7.4	13.2
ROA (%)	4.6	3.8	3.1	4.4	8.2
ROE (%)	15.9	12.4	11.4	16.9	32.7
Current ratio (x)	1.9	1.6	1.5	1.3	1.2
Quick ratio (x)	1.2	1.1	0.9	0.8	0.7
Interest cover (x)	2.8	2.6	2.3	5.4	7.3
Debt to equity ratio (x)	1.6	1.4	1.6	1.6	1.7
Net debt to equity (x)	1.5	1.3	1.6	1.6	1.6



## PROPERTY SECTOR



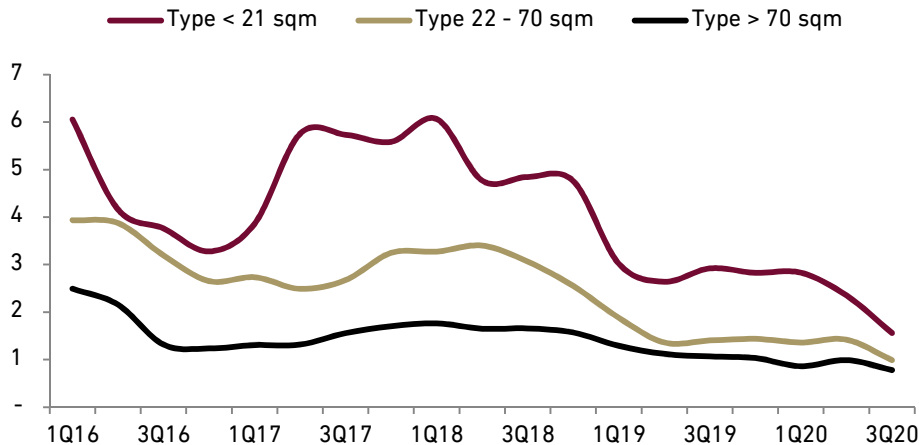
# Property Overweight

## Sector Outlook

### • Coronavirus huge impact on property market

The coronavirus pandemic has a huge impact on property markets around the world. With the massive unemployment, wage cuts, business failures, and job uncertainty, many people are likely to be cautious about making big investments such as home purchase which leads to falling house prices.

**Exhibit 111 : Residential price index growth based on size (% YoY)**



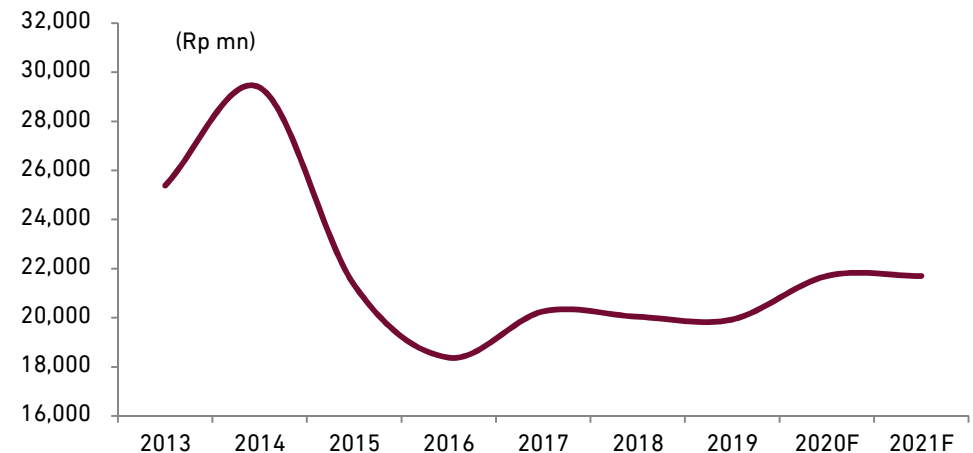
Source : BI

Despite the grim short term prospect, we believe by year 2021 the current situation will stabilize as it is not a typical economic downturn. As lockdown restrictions continue to be lifted, economies and housing markets will rebound. There are also other forces at work on the property sector. The popularity of work from home as alternative to conventional commute to/from office will have influence on the market.

### • Property market to bounce back next year

While house sales were slow in 2020 due to the Covid-19 pandemic, some consumers are merely delaying purchase and planning to buy house by next year. We believe consumers are currently saving money to maintain personal financial stability amid the pandemic that affected the country's economy. Affordable house segment will still be attractive especially for end user.

**Exhibit 112 : Consolidated annual marketing sales**



\*ASRI, BSDE, DILD, LPKR, PWON and SMRA

Source : Company and Ciptadana Estimates

Though the future demands may not look strong however we expect home purchase to bounce back in 2021 as customers plan to buy property. We anticipate the current situation to have implications for the pricing strategy for residential property sellers and developers. According to Bank Indonesia, the combined sales of small, medium and large houses contracted by -25.60% YoY in 2Q20 which an improvement from -43.19% YoY in previous quarter due to the unfolding pandemic. We believe customers were still buying houses during the pandemic which signaling remaining demands despite the economic downturn.

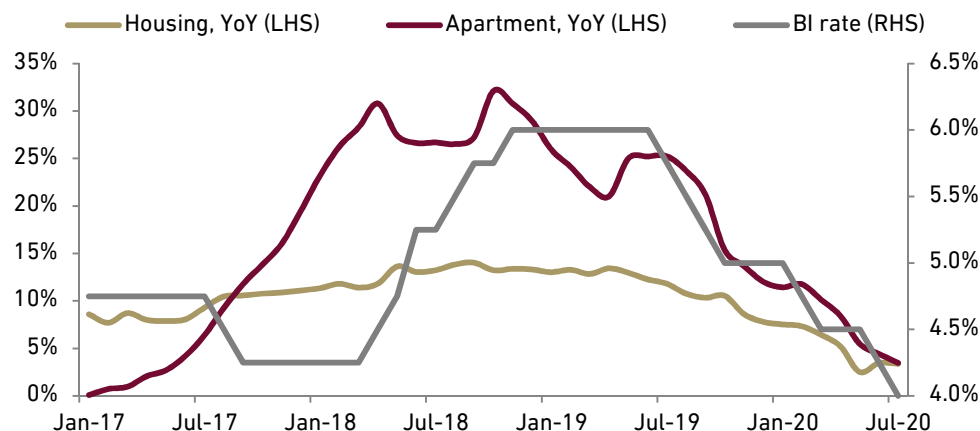


## EQUITY MARKET OUTLOOK 2021

### • Apartments more sensitive to BI rate changes

Over the years, we have seen resilience demand especially on landed house segment which less affected by changes in mortgage rates. However, bank loan for apartment purchases were greatly influenced by lower/higher rates. The lower interest rate will be a positive catalyst for companies with large exposure to high-rise residential, such as SMRA, PWON, and DILD.

**Exhibit 113 : Mortgage YoY growth vs BI rate**



Source : BI

### • Changes in retail spaces

Though bricks and mortar stores are becoming more and more unpopular and regarded as outdated, we believe that retail space sector has over the years proved to be remarkably flexible. Over time the use of land and buildings can change, and often it does so remarkably quickly. For example in US and European countries, plenty shops are now turned into flats, old factories are now hotels and warehouses became dance studios. The coronavirus pandemic may be a massive shock to property markets, but it may well just speed up changes that are already taking place.

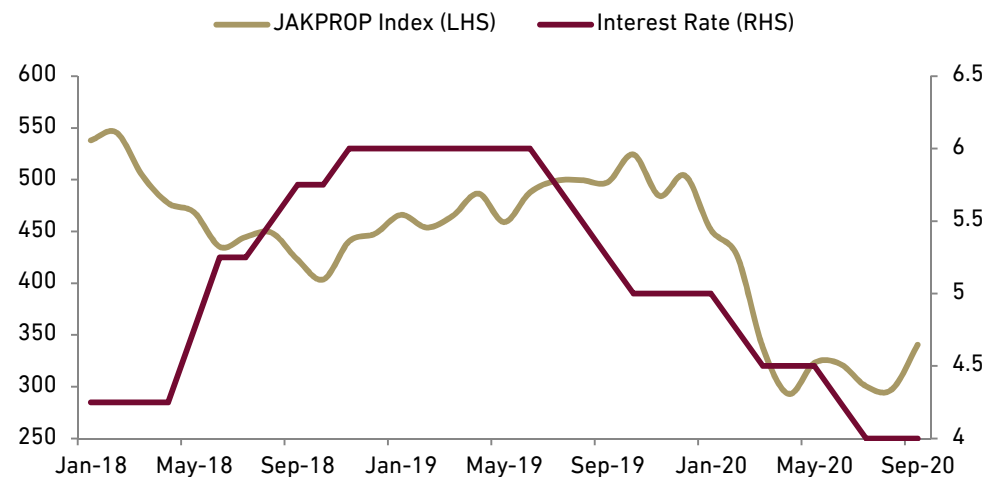
### • Office market shifts post-pandemic

We believe office property market will have to adapt post-pandemic. Indonesia's office property market (especially in two largest cities: Jakarta and

Surabaya) has been matching the supply and demand for a long period of time with rental prices continue to rise. These rapidly changing times will become the game changer.

We believe that even if the price of property falls, it may still be a wise investment. Note that property is a long-term investment, and not many other instruments are both secure and pay a good return. Compared to government bonds which are now paying 5%-6% interest a year, property could also making similar annual interest with addition of capital gain in line with rising property price.

**Exhibit 114 : JAKPROP index vs. 7-day RR**



Source : Bloomberg

### • Rental drop as more office space supplies in 2021

After slowing down in 2020, new office space supplies ramp up in 2021. According to Colliers International, there will be a total of 514k sqm of newly available office space in 2021, almost doubled compared with new office space scheduled to complete by 2020.

Unfortunately, the abundance of supplies combine with sluggish demand post-pandemic will pin down office segment prospect for the year.



## EQUITY MARKET OUTLOOK 2021

We believe average rent in the CBD will drop in 2021. Landlords will face a challenging situation in adjusting rent amidst the anticipated slow absorption in 2021. Most future office buildings that planned to operate in 2021 will offer rent lower than the market price.

### Exhibit 115 : New office space supply in 2021

Office Building Project	Location	SGA (sqm)	Scheme
<b>Jakarta CBD</b>			
Daswin Tower	Rasuna Said	80,000	For Lease
Thamrin Nine	Thamrin	97,500	For Lease
Indonesia Satu North Tower	Thamrin	43,000	For Lease & Sale
Indonesia Satu South Tower	Thamrin	88,500	For Lease
Jakarta Office Tower by MORI	Sudirman	90,000	For Lease
<b>Subtotal Jakarta CBD</b>		<b>399,000</b>	
<b>Outside CBD</b>			
The Sima	TB Simatupang	59,169	For Lease & Sale
Wisma Barito Pacific 2	Slipi	26,000	For Lease & Sale
Southgate Office Tower	Tanjung Barat	30,000	For Lease
<b>Subtotal Outside CBD</b>		<b>115,169</b>	
<b>Total Jakarta</b>		<b>514,169</b>	

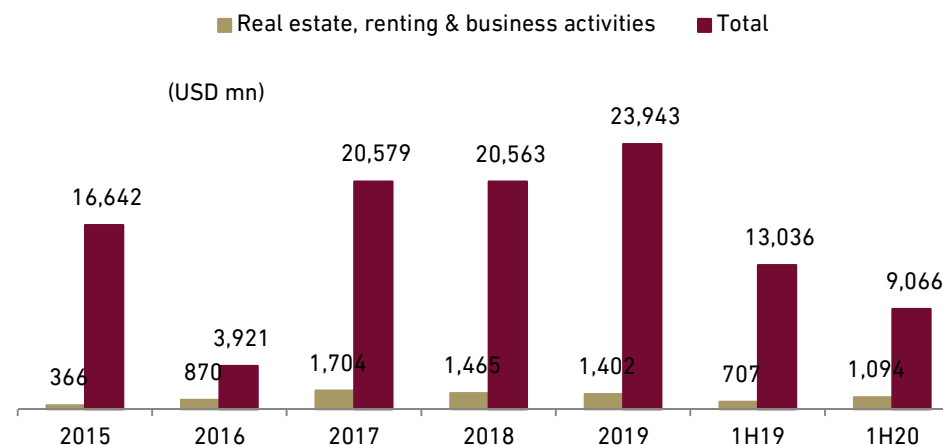
Source : Colliers International

### • Omnibus law benefits property sector

Omnibus law is expected to increase Indonesia's Foreign Direct Investment (FDI), Foreigners can own apartments worth above Rp3 bn with KITAS which we believe it has enough legal power to allow foreign ownership in condos. The law also requires large manufacturing activities to be located within industrial estates and 7. We see that this opportunity will be able to provide positive sentiment for industrial estate developer, such as BEST and SSIA.

Indonesian property drew more real FDI in real estate sector within 1H20 compared to 1H19, increased significantly by 54.8% YoY. The surge in 2020 real estate FDI is contrary to total FDI growth which decreased -30.5% YoY. Therefore the contribution of real estate FDI to total FDI expanded to 12% by end of June 2020 from only 5% in similar period of 2019. This could be a positive note especially for industrial land sector.

### Exhibit 116 : Indonesia's real estate FDI and total FDI



Source: BI

### • Top picks

We see several positive catalysts for property sector in 2021 hence we maintain our OVERWEIGHT recommendation. Based on our valuation, property stocks are mostly undervalued with more than 70% discount to NAV. Our top picks in residential segment include LPKR and SMRA while for industrial estates are BEST and SSIA.

### Exhibit 117 : Property stock rating and valuation

Table 10: Property Price and Valuation											
Ticker	Rating	Mkt. Cap.	Last Price	Target Price	Upside Pot.	PER (x)		EV/EBITDA (x)		ROE	Div. Yield
		(Rp tn)	(Rp)	(Rp)	(%)	2020F	2021F	2020F	2021F	21F	(%)
ASRI	Buy	2.2	111	230	107.2	n/m	5.6	25.0	7.1	3.1	-
BEST	Buy	1.6	169	250	47.9	11.0	9.1	11.6	11.8	3.8	2.4
BSDE	Buy	15.7	740	910	23.0	108.8	27.7	7.5	7.0	1.8	-
DILD	Buy	1.5	147	360	144.9	6.9	9.7	7.6	9.4	2.4	0.6
LPKR	Buy	8.4	119	230	93.3	n/m	38.4	14.6	22.6	0.8	-
PWON	Buy	17.0	354	650	83.6	16.0	11.1	7.7	7.2	9.0	0.8
SMRA	Buy	8.0	555	900	62.2	4.6	7.0	12.1	10.6	3.5	0.1
SSIA	Buy	2.0	430	630	46.5	n/m	37.7	13.1	10.2	1.4	-
OW						29.5	18.3	12.4	10.7	3.2	0.5

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# Alam Sutera Realty

**BUY**

**TP: Rp230 (+107.2%)**

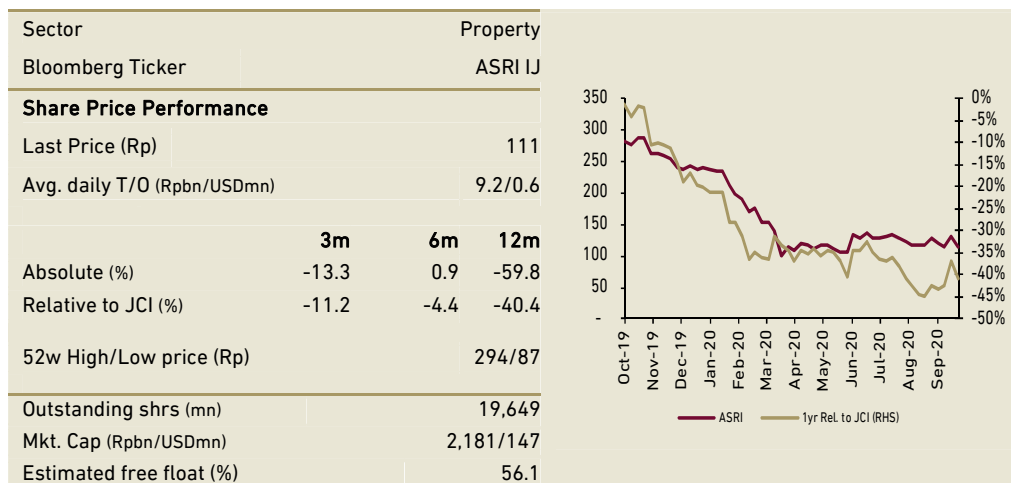
## Company Profile

Alam Sutera Realty (ASRI) is a developer of an integrated area Alam Sutera located in Greater Jakarta. Development of the 1<sup>st</sup> phase has been completed, and along with the development of the 2<sup>nd</sup> phase, in 2012 ASRI began to market a new cluster Suvarna Padi Golf Estate, Pasar Kemis, Tangerang and acquisition of several assets in Bali and office tower in Jakarta.

## Key Points

- **Property sales/Recurring income proportion steady at 81%/19%.** Post-pandemic, contribution from Garuda Wisnu Kencana (GWK) cultural park in Bali is expected to increase in-line with project expansion and easing of the large-scale social restrictions.
- **Issuance of USD485 mn global bond** with maximum interests 13% p.a. to pay off bonds that will mature in 2021 and 2022. We expect pre-sales and cash collections to remain muted in the next 12 months post-pandemic, thus the Company will not have sufficient operating cash flows to meet the April 2021 bond maturity. Post-bond issuance, we expect ASRI's consolidated interest rates climb to 9% (from previously 8% in 2019).
- **Cash flows have benefitted from its partnership with CFLD**, as it has sold around Rp1 tn in land bank on annual average to CFLD from 2016 to 2019 located on Pasar Kemis, Greater Jakarta. The sales helped to make up for slower pre-sales at ASRI other projects.
- **Maintain BUY, with TP Rp230/sh.** We incorporate stronger IDR/USD assumption in 2H20 while higher interest expense post-bond issuance. We maintain BUY for ASRI as our 2021F TP of Rp230/sh based on 72% (-1 stdev) discount to our RNAV offers more than 70% upside.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	3,975	3,476	1,036	2,835	2,924
Operating profit (Rpbn)	1,978	1,692	331	1,256	1,318
Net profit (Rpbn)	970	1,012	-415	387	393
EPS (Rp)	49.4	51.5	-21.1	19.7	20.0
EPS growth (%)	-29.7	4.3	n/m	n/m	1.4
EV/EBITDA (x)	4.7	5.0	24.2	6.9	6.6
PER (x)	2.4	2.3	-5.7	6.1	6.0
PBV (x)	0.2	0.2	0.2	0.2	0.2
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	10.3	9.7	-4.4	3.1	3.1

## Assumptions

(Rpbn)	2018A	2019F	2020F	2021F	2022F
Marketing sales	4,292	3,112	2,000	3,000	3,000
Recurring income	439	514	103	113	124

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## Alam Sutera Realty

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>3,975</b>	<b>3,476</b>	<b>1,036</b>	<b>2,835</b>	<b>2,924</b>
COGS	-1,531	-1,279	-570	-1,223	-1,245
<b>Gross profit</b>	<b>2,444</b>	<b>2,197</b>	<b>466</b>	<b>1,612</b>	<b>1,680</b>
Oper. expenses	-466	-505	-135	-356	-362
<b>Oper. profit</b>	<b>1,978</b>	<b>1,692</b>	<b>331</b>	<b>1,256</b>	<b>1,318</b>
<b>EBITDA</b>	<b>2,026</b>	<b>1,754</b>	<b>365</b>	<b>1,293</b>	<b>1,359</b>
Interest income	19	29	28	28	28
Interest expense	-442	-595	-361	-396	-431
Other income (exp.)	-83	-132	-112	-122	-116
<b>Pre-tax profit</b>	<b>1,155</b>	<b>1,203</b>	<b>-480</b>	<b>452</b>	<b>459</b>
Income tax	-184	-190	65	-64	-66
Minority interest	0	-1	1	0	-1
<b>Net profit</b>	<b>970</b>	<b>1,012</b>	<b>-415</b>	<b>387</b>	<b>393</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	666	1,447	1,374	1,358	1,393
Acct, receivables	212	82	45	114	105
Inventory	415	395	176	377	384
Other curr, asset	158	597	298	351	419
<b>Total current asset</b>	<b>1,450</b>	<b>2,521</b>	<b>1,893</b>	<b>2,200</b>	<b>2,300</b>
Fixed assets - net	1,329	1,298	1,352	1,363	1,395
Other non-curr.asset	18,112	18,075	16,031	19,256	19,741
<b>Total asset</b>	<b>20,891</b>	<b>21,894</b>	<b>19,275</b>	<b>22,818</b>	<b>23,436</b>
ST debt + curr. maturity	425	247	222	151	60
Acct, payable	226	222	99	213	217
Advances received	760	503	150	410	423
Other curr. liab	813	951	837	867	885
Long term debt	7,309	7,614	7,648	7,799	7,963
Other non-curr, liab,	1,806	1,794	757	869	919
<b>Total liabilities</b>	<b>11,340</b>	<b>11,332</b>	<b>9,714</b>	<b>10,310</b>	<b>10,467</b>
Shareholder equity	9,444	10,453	9,529	12,419	12,877
Minority interest	108	109	33	89	92
<b>Total liab + SHE</b>	<b>20,891</b>	<b>21,894</b>	<b>19,275</b>	<b>22,818</b>	<b>23,436</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	970	1,012	-415	387	393
Depreciation	48	63	34	37	41
Chg in working cap.	-335	22	-322	127	34
Other	687	595	-57	42	2
<b>CF-Oper activities</b>	<b>1,370</b>	<b>1,690</b>	<b>-759</b>	<b>593</b>	<b>470</b>
Capital expenditure	-718	-20	-710	-654	-519
Others	22	-574	488	-647	-424
<b>CF-Investing activities</b>	<b>-697</b>	<b>-594</b>	<b>-222</b>	<b>-1,302</b>	<b>-944</b>
Net change in debt	1,297	1,128	1,281	1,235	1,214
Net change in equity	0	0	0	0	0
Dividend payment	0	0	0	0	0
Other financing	-2,235	-1,457	-361	-540	-712
<b>CF-Financing activities</b>	<b>-932</b>	<b>-347</b>	<b>920</b>	<b>695</b>	<b>503</b>
<b>Net cash flow</b>	<b>-259</b>	<b>750</b>	<b>-61</b>	<b>-13</b>	<b>29</b>
Cash - begin of the year	718	459	1,209	1,147	1,134
Cash - end of the year	459	1,209	1,147	1,134	1,163

### Key Ratios

	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	1.5	-12.6	-70.2	173.6	3.1
Operating profit gr. (%)	-0.4	-14.5	-80.4	279.1	5.0
Net profit gr. (%)	-29.7	4.3	n/m	n/m	1.4
Gross margin (%)	61.5	63.2	45.0	56.9	57.4
Operating margin (%)	49.8	48.7	32.0	44.3	45.1
EBITDA margin (%)	51.0	50.5	35.2	45.6	46.5
Net margin (%)	24.4	29.1	-40.0	13.7	13.4
ROA (%)	4.6	4.6	-2.2	1.7	1.7
ROE (%)	10.3	9.7	-4.4	3.1	3.1
Current ratio (x)	0.7	1.3	1.4	1.3	1.5
Quick ratio (x)	0.5	1.1	1.3	1.1	1.2
Interest cover (x)	4.6	2.9	1.0	3.3	3.2
Debt to equity ratio (x)	0.8	0.8	0.8	0.6	0.6
Net debt to equity (x)	0.7	0.6	0.7	0.5	0.5



# Bekasi Fajar Industrial Estate

## BUY

### TP: Rp250 (+47.9%)

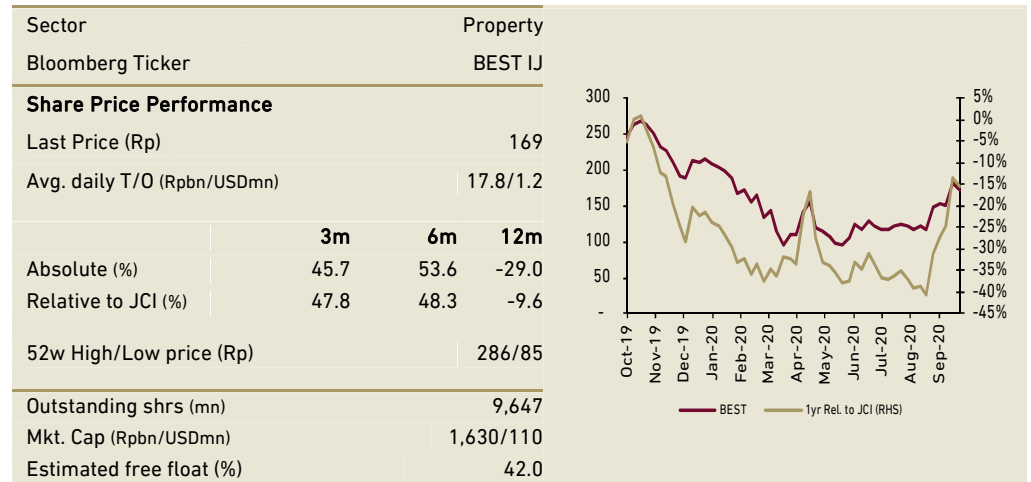
#### Company Profile

Bekasi Fajar Industrial Estate (BEST) is located next to Jakarta-Cikampek toll with direct access to exit at KM 24. The company operates and manages industrial and residential estates, acting as developer, selling properties as well as managing and leasing shopping centres and offices. As of end of Jun 20, the Company's land bank amounted to 1,038 ha (gross) or 695 ha (net).

#### Key Points

- **Industrial land sales remain healthy.** Land sales and maintenance fee contribution reached 81% of 1H20 revenues while the rest were made from commercial businesses. Gross margins from land sales and maintenance services continue to improve.
- **Maintain our FY21 marketing sales target at 15 ha.** The Company revised down annual marketing sales target to 10-15 ha in 2020 (from previously 15-20 ha) due to Covid-19 pandemic condition. We believe sales will improve as of end of June the Company received a total land inquiry of 63 ha.
- **Improving recurring income brings added value to.** Recurring income segment comprised of maintenance fee in the MM2100 Industrial Town, warehouse rentals, hotel, and others. The Company remained focus on land sales segment while developing the recurring income segment.
- **Maintain BUY with TP of Rp250/share.** We incorporate 80% discount to our RNAV which resulted to TP of Rp250/sh for 2021F. Prospect for industrial land remains attractive as it supports the needs for logistics and warehouses following economic recovery expectation.

## EQUITY MARKET OUTLOOK 2021



#### Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	963	951	420	450	489
Operating profit (Rpbn)	570	507	195	205	218
Net profit (Rpbn)	423	380	148	179	188
EPS (Rp)	43.8	39.4	15.3	18.6	19.5
EPS growth (%)	-12.6	-10.0	-61.1	21.1	4.9
EV/EBITDA (x)	3.4	4.4	11.5	11.7	11.4
PER (x)	2.8	3.1	8.0	6.6	6.3
PBV (x)	0.3	0.3	0.3	0.3	0.2
Dividend yield (%)	8.2	7.2	6.5	2.5	3.0
ROE (%)	10.1	8.5	3.3	3.8	3.9

#### Assumptions

	2018A	2019A	2020F	2021F	2022F
Land sales(ha)	35	16	11	15	15
ASP (US\$/sqm)	164	358	358	358	358

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## Bekasi Fajar Industrial Estate

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>963</b>	<b>951</b>	<b>420</b>	<b>450</b>	<b>489</b>
COGS	-272	-317	-169	-185	-206
<b>Gross profit</b>	<b>691</b>	<b>633</b>	<b>250</b>	<b>264</b>	<b>283</b>
Oper. expenses	-121	-126	-56	-60	-65
<b>Oper. profit</b>	<b>570</b>	<b>507</b>	<b>195</b>	<b>205</b>	<b>218</b>
<b>EBITDA</b>	<b>576</b>	<b>514</b>	<b>198</b>	<b>208</b>	<b>222</b>
Interest income	17	36	29	33	33
Interest expense	-141	-163	-39	-11	-4
Other income (exp.)	38	0	14	11	9
<b>Pre-tax profit</b>	<b>447</b>	<b>409</b>	<b>199</b>	<b>238</b>	<b>256</b>
Income tax	-25	-29	-51	-58	-68
Minority interest	0	0	0	0	0
<b>Net profit</b>	<b>423</b>	<b>380</b>	<b>148</b>	<b>179</b>	<b>188</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	1,129	679	619	427	310
Acct, receivables	64	542	240	256	279
Inventory	1,248	1,144	1,212	1,294	1,383
Other curr, asset	314	236	553	573	593
<b>Total current asset</b>	<b>2,755</b>	<b>2,601</b>	<b>2,623</b>	<b>2,550</b>	<b>2,565</b>
Fixed assets - net	181	185	215	247	279
Other non-curr.asset	3,185	3,447	3,331	3,481	3,571
<b>Total asset</b>	<b>6,290</b>	<b>6,399</b>	<b>6,340</b>	<b>6,454</b>	<b>6,598</b>
ST debt + curr. maturity	194	111	52	15	5
Acct, payable	31	42	22	25	27
Advances received	0	0	0	0	0
Other curr. liab	130	76	44	46	48
Long term debt	1,724	1,661	1,664	1,661	1,658
Other non-curr, liab,	39	42	18	18	18
<b>Total liabilities</b>	<b>2,118</b>	<b>1,931</b>	<b>1,800</b>	<b>1,764</b>	<b>1,755</b>
Shareholder equity	4,172	4,468	4,540	4,690	4,842
Minority interest	0	0	0	0	0
<b>Total liab + SHE</b>	<b>6,290</b>	<b>6,399</b>	<b>6,340</b>	<b>6,454</b>	<b>6,598</b>

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	423	380	148	179	188
Depreciation	6	7	3	3	4
Chg in working cap.	-128	-324	208	-96	-108
Other	-88	-15	-343	-18	-19
<b>CF-Oper activities</b>	<b>214</b>	<b>48</b>	<b>17</b>	<b>69</b>	<b>64</b>
Capital expenditure	-24	-13	-28	-36	-36
Others	157	-257	107	-156	-96
<b>CF-Investing activities</b>	<b>133</b>	<b>-270</b>	<b>79</b>	<b>-191</b>	<b>-131</b>
Net change in debt	379	-146	-55	-40	-13
Net change in equity	2	0	0	0	0
Dividend payment	-96	-84	-76	-30	-36
Other financing	-5	4	-24	0	0
<b>CF-Financing activities</b>	<b>280</b>	<b>-227</b>	<b>-155</b>	<b>-70</b>	<b>-49</b>
<b>Net cash flow</b>	<b>626</b>	<b>-450</b>	<b>-60</b>	<b>-192</b>	<b>-116</b>
Cash - begin of the year	502	1,129	679	619	427
Cash - end of the year	1,129	679	619	427	310

### Key Ratios

	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	-4.3	-1.3	-55.8	7.0	8.7
Operating profit gr. (%)	-4.9	-11.0	-61.6	5.0	6.7
Net profit gr. (%)	-12.6	-10.0	-61.1	21.1	4.9
Gross margin (%)	71.8	66.6	59.6	58.8	57.9
Operating margin (%)	59.2	53.3	46.4	45.5	44.6
EBITDA margin (%)	59.8	54.1	47.1	46.2	45.3
Net margin (%)	43.9	40.0	35.2	39.8	38.4
ROA (%)	6.7	5.9	2.3	2.8	2.8
ROE (%)	10.1	8.5	3.3	3.8	3.9
Current ratio (x)	7.8	11.4	22.3	29.8	32.0
Quick ratio (x)	4.2	6.4	12.0	14.7	14.7
Interest cover (x)	4.1	3.2	5.0	18.5	61.2
Debt to equity ratio (x)	0.5	0.4	0.4	0.4	0.3
Net debt to equity (x)	0.2	0.2	0.2	0.3	0.3



# Bumi Serpong Damai

**BUY**

**TP: Rp910 (+23.0%)**

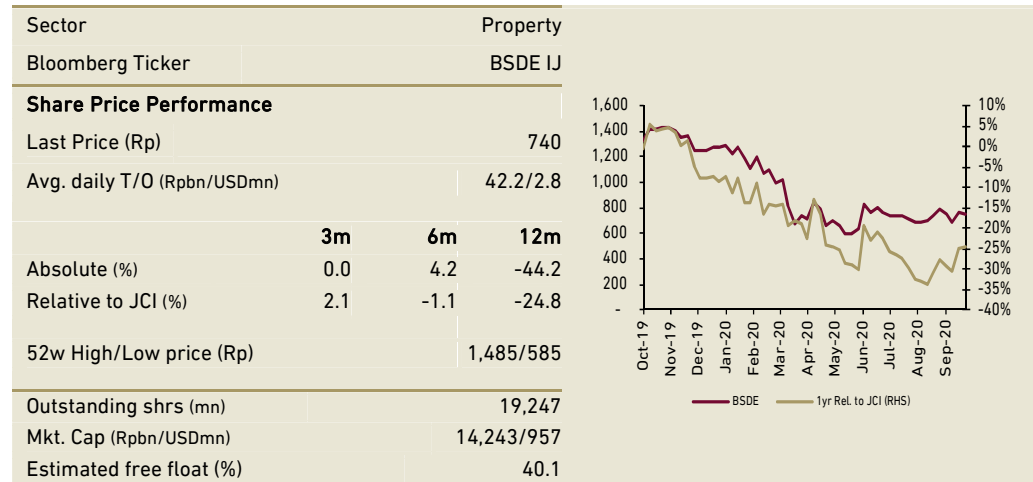
## Company Profile

BSDE is one of the largest developers in Indonesia with a total license area of 5,950 ha. The company's main portfolio is situated in Greater Jakarta, Jakarta CBD and East Jakarta. BSDE has diversified its portfolio into other major cities throughout Indonesia such as: Surabaya, Kalimantan, Manado, Palembang, and Semarang.

## Key Points

- **Stable marketing sales amidst slow down.** We expect the company will meet its FY20 marketing sales target as 1H20 pre-sales achieved 40% from annual target. The 1H20 marketing sales came from residential and commercial launches, plus a land sold to Government of Indonesia from PT Transbumi Serbaraja, a 100% subsidiary of BSDE, owner of toll road Serpong – Balaraja concession with a total pre-sales of Rp1.2 tn.
- **BSDE plans to launch next cluster of Freja**, so-called Freja Suites, located in the 2<sup>nd</sup> phase of BSD City. Freja Suites offers 211 units with more affordable price range from Rp1.4 bn to 1.6 bn per unit with specification of 68 sqm of building area and land area variance from 50 to 60 sqm.
- **Strategic partnership with Mitbana Pte Ltd**, a JV of Mitsubishi Corporation and Surbana Jurong to create a TOD over 100 ha in BSD City. The partnership seeks to develop first-of-its-kind integrated TODs in Indonesia with new approaches to post-pandemic urban development.
- **Undemanding valuation and reiterate BUY.** We rollover our valuation to 2021 resulted to TP of Rp910/sh based on -1 stdev discount to our RNAV at 72% and maintain BUY rating.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	6,629	7,085	4,047	3,885	3,838
Operating profit (Rpbn)	2,438	2,793	1,295	1,306	1,495
Net profit (Rpbn)	1,294	2,791	131	515	719
EPS (Rp)	67.2	145.0	6.8	26.7	37.3
EPS growth (%)	-73.7	115.7	-95.3	291.7	39.6
EV/EBITDA (x)	6.5	4.8	8.1	7.6	6.5
PER (x)	10.6	4.9	104.8	26.7	19.2
PBV (x)	0.5	0.5	0.5	0.5	0.5
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	5.0	9.6	0.5	1.8	2.4

## Assumptions

	2018A	2019A	2020F	2021F	2022F
Marketing sales	6,219	6,480	5,832	5,540	5,439
Recurring income	1,516	1,725	963	963	1,059

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## Bumi Serpong Damai

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>6,629</b>	<b>7,085</b>	<b>4,047</b>	<b>3,885</b>	<b>3,838</b>
COGS	-1,874	-2,019	-1,214	-1,103	-1,088
<b>Gross profit</b>	<b>4,755</b>	<b>5,066</b>	<b>2,833</b>	<b>2,782</b>	<b>2,750</b>
Oper. Expenses	-2,317	-2,273	-1,538	-1,476	-1,255
<b>Oper. profit</b>	<b>2,438</b>	<b>2,793</b>	<b>1,295</b>	<b>1,306</b>	<b>1,495</b>
<b>EBITDA</b>	<b>2,822</b>	<b>3,144</b>	<b>1,676</b>	<b>1,685</b>	<b>1,885</b>
Interest income	387	462	303	418	389
Interest expense	-913	-1,043	-1,280	-983	-916
Other income (exp.)	120	1,290	0	0	0
<b>Pre-tax profit</b>	<b>2,033</b>	<b>3,429</b>	<b>318</b>	<b>741</b>	<b>967</b>
Income tax	-331	-298	-170	-164	-162
Minority interest	-408	-339	-16	-62	-87
<b>Net profit</b>	<b>1,294</b>	<b>2,791</b>	<b>131</b>	<b>515</b>	<b>719</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	11,302	13,577	13,219	12,991	12,966
Acct, receivables	293	181	245	248	225
Inventory	9,044	10,177	6,120	5,559	5,487
Other curr, asset	310	322	322	322	322
<b>Total current asset</b>	<b>20,949</b>	<b>24,257</b>	<b>19,905</b>	<b>19,120</b>	<b>18,999</b>
Fixed assets - net	686	2,293	2,215	2,146	2,072
Other non-curr.asset	22,382	19,643	19,866	20,055	20,260
<b>Total asset</b>	<b>52,101</b>	<b>54,445</b>	<b>50,356</b>	<b>49,801</b>	<b>49,915</b>
ST debt + curr. maturity	827	641	769	904	1,078
Acct, payable	1,288	804	674	624	614
Advances received	3,294	4,094	2,465	2,389	2,375
Other curr. liab	815	614	681	732	695
Long term debt	14,993	14,139	12,222	11,111	10,392
Other non-curr, liab,	598	606	432	413	415
<b>Total liabilities</b>	<b>21,815</b>	<b>20,897</b>	<b>17,242</b>	<b>16,173</b>	<b>15,569</b>
Shareholder equity	26,110	29,149	28,715	29,230	29,948
Minority interest	4,177	4,398	4,398	4,398	4,398
<b>Total liab + SHE</b>	<b>52,101</b>	<b>54,445</b>	<b>50,356</b>	<b>49,801</b>	<b>49,915</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	1,294	2,791	131	515	719
Depreciation	384	352	381	379	390
Chg in working cap.	-666	-2,297	3,534	600	94
Other	604	1,171	441	-113	24
<b>CF-Oper activities</b>	<b>1,617</b>	<b>2,017</b>	<b>4,487</b>	<b>1,380</b>	<b>1,228</b>
Capital expenditure	-1,793	-633	-643	-609	-626
Others	-859	-1,336	1,379	-258	-287
<b>CF-Investing activities</b>	<b>-2,652</b>	<b>-1,969</b>	<b>735</b>	<b>-868</b>	<b>-914</b>
Net change in debt	4,917	-541	-2,034	-852	-607
Net change in equity	23	13	-874	0	0
Dividend payment	0	0	0	0	0
Other financing	-1,559	-799	0	0	0
<b>CF-Financing activities</b>	<b>3,381</b>	<b>-1,327</b>	<b>-2,909</b>	<b>-852</b>	<b>-607</b>
<b>Net cash flow</b>	<b>2,346</b>	<b>-1,279</b>	<b>2,314</b>	<b>-340</b>	<b>-293</b>
Cash - begin of the year	5,793	8,139	6,860	9,174	8,834
Cash - end of the year	8,139	6,860	9,174	8,834	8,541

### Key Ratios

	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	-35.9	6.9	-42.9	-4.0	-1.2
Operating profit gr. (%)	-55.5	14.6	-53.6	0.9	14.4
Net profit gr. (%)	-73.7	115.7	-95.3	291.7	39.6
Gross margin (%)	71.7	71.5	70.0	71.6	71.6
Operating margin (%)	36.8	39.4	32.0	33.6	38.9
EBITDA margin (%)	42.6	44.4	41.4	43.4	49.1
Net margin (%)	19.5	39.4	3.2	13.2	18.7
ROA (%)	2.5	5.1	0.3	1.0	1.4
ROE (%)	5.0	9.6	0.5	1.8	2.4
Current ratio (x)	3.4	3.9	4.3	4.1	4.0
Quick ratio (x)	1.9	2.3	3.0	2.9	2.8
Interest cover (x)	3.1	3.0	1.3	1.7	2.1
Debt to equity ratio (x)	0.6	0.5	0.5	0.4	0.4
Net debt to equity (x)	0.2	0.0	Net Cash	Net Cash	Net Cash



# Intiland Development

BUY

TP: Rp360 (+144.9%)

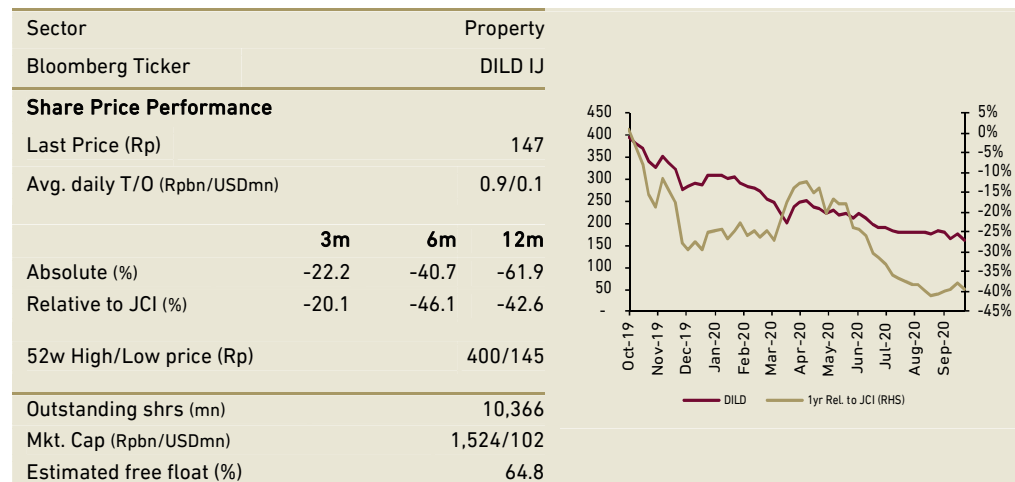
## Company Profile

Primary focus on developing mixed use and high rise projects as well as premium residential projects located in Jakarta and Surabaya catering to middle to middle-up segments. Intiland Development (DILD)'s projects in Jakarta are well located within developed areas of the city and are positioned to benefit from infrastructure developments within the city.

## Key Points

- **Poised to benefit from infrastructure developments.** DILD portfolio stands to benefit from ongoing development of transit infrastructure (LRT/MRT) within Jakarta, which is expected to translate into stronger take-up/occupancy rates as well as higher average selling prices /rental rates.
- **The 1H20 marketing sales results declined -55% YoY** due to Covid-19. There was no new product launching in 1H20 and buyers tend to wait-and-see. The largest contributor to 1H20 results came from the landed residential segment, which primarily from the sale of Serenia Hills, Graha Natura, 1Park Homes, Talaga Bestari and South Grove in South Jakarta. We expect FY21 pre-sales will improve in-line with economic recovery.
- **Well-located portfolio within Central and Greater Jakarta.** Most of DILD ongoing/near term projects in Jakarta are located within 5-10 km radius from CBD in well-established areas and supported by infrastructure developments, e.g. 57 Promenade, 1 Park Avenue, Poins and South Quarter,
- **Maintain BUY rating with TP Rp360/share.** We rollover our valuation to 2021 resulted to TP of Rp360/sh based on -1stdev discount to our RNAV at 80% and maintain BUY rating.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	2,553	2,736	2,697	2,591	2,834
Operating profit (Rpbn)	419	604	685	571	617
Net profit (Rpbn)	204	251	221	157	186
EPS (Rp)	19.6	24.3	21.4	15.1	17.9
EPS growth (%)	-31.5	23.5	-11.9	-29.2	18.5
EV/EBITDA (x)	12.7	8.5	7.6	9.5	9.7
PER (x)	9.3	7.5	8.5	12.0	10.2
PBV (x)	0.3	0.3	0.3	0.3	0.3
Dividend yield (%)	0.0	1.1	0.7	0.6	0.4
ROE (%)	3.5	4.1	3.5	2.4	2.8

## Assumptions

(Rpbn)	2018A	2019A	2020F	2021F	2022F
Marketing sales	2,284	1,558	1,000	1,295	1,330
Houses and land	569	784	500	525	551
Mixed-use & high rise	1,210	768	500	600	720
Industrial estates	505	6	0	170	59
Recurring income	596	600	720	864	1,037

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## Intiland development

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>2,553</b>	<b>2,736</b>	<b>2,697</b>	<b>2,591</b>	<b>2,834</b>
COGS	-1,547	-1,605	-1,527	-1,554	-1,707
<b>Gross profit</b>	<b>1,006</b>	<b>1,132</b>	<b>1,170</b>	<b>1,037</b>	<b>1,127</b>
Oper. expenses	-587	-528	-485	-466	-510
<b>Oper. profit</b>	<b>419</b>	<b>604</b>	<b>685</b>	<b>571</b>	<b>617</b>
<b>EBITDA</b>	<b>455</b>	<b>639</b>	<b>703</b>	<b>592</b>	<b>642</b>
Interest income	25	47	71	45	47
Interest expense	-290	-419	-359	-332	-356
Other income (exp.)	28	291	22	41	76
<b>Pre-tax profit</b>	<b>182</b>	<b>520</b>	<b>458</b>	<b>324</b>	<b>385</b>
Income tax	12	-84	-74	-52	-62
Minority interest	10	-185	-163	-116	-137
<b>Net profit</b>	<b>204</b>	<b>251</b>	<b>221</b>	<b>157</b>	<b>186</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	1,124	1,416	1,071	1,095	663
Acct, receivables	488	412	406	390	427
Inventory	2,817	2,021	2,561	2,588	2,842
Other curr, asset	387	331	321	313	335
<b>Total current asset</b>	<b>4,816</b>	<b>4,180</b>	<b>4,360</b>	<b>4,386</b>	<b>4,267</b>
Fixed assets - net	1,802	1,885	1,917	1,946	1,991
Other non-curr.asset	7,334	8,376	7,613	7,847	8,333
<b>Total asset</b>	<b>14,216</b>	<b>14,777</b>	<b>14,263</b>	<b>14,615</b>	<b>15,144</b>
ST debt + curr. maturity	2,904	1,840	1,290	1,143	770
Acct, payable	214	131	125	127	140
Advances received	1,223	956	942	905	990
Other curr. liab	426	623	601	584	639
Long term debt	2,108	3,120	3,268	3,710	4,244
Other non-curr, liab,	824	873	614	598	655
<b>Total liabilities</b>	<b>7,700</b>	<b>7,543</b>	<b>6,840</b>	<b>7,067</b>	<b>7,438</b>
Shareholder equity	5,842	6,196	6,404	6,549	6,727
Minority interest	674	1,039	1,019	998	979
<b>Total liab + SHE</b>	<b>14,216</b>	<b>14,777</b>	<b>14,263</b>	<b>14,615</b>	<b>15,144</b>

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	204	251	221	157	186
Depreciation	36	36	18	21	24
Chg in working cap.	650	-801	623	54	160
Other	-918	10	-205	141	-210
<b>CF-Operating activities</b>	<b>-28</b>	<b>-504</b>	<b>658</b>	<b>374</b>	<b>160</b>
Capital expenditure	-68	-197	-121	-128	-149
Others	-93	919	-123	23	38
<b>CF-Investing activities</b>	<b>-161</b>	<b>722</b>	<b>-243</b>	<b>-105</b>	<b>-110</b>
Net change in debt	504	-572	-572	-214	-453
Net change in equity	-1	123	0	0	0
Dividend payment	0	-21	-13	-11	-8
Other financing	61	543	-174	-20	-20
<b>CF-Financing activities</b>	<b>563</b>	<b>73</b>	<b>-759</b>	<b>-245</b>	<b>-481</b>
<b>Net cash flow</b>	<b>374</b>	<b>292</b>	<b>-344</b>	<b>23</b>	<b>-431</b>
Cash - begin of the year	750	1,124	1,416	1,071	1,095
Cash - end of the year	1,124	1,416	1,071	1,095	663

### Key Ratios

	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	15.9	7.2	-1.5	-3.9	9.4
Operating profit gr. (%)	-3.4	44.1	13.4	-16.6	8.1
Net profit gr. (%)	-31.5	23.5	-11.9	-29.2	18.5
Gross margin (%)	39.4	41.4	43.4	40.0	39.8
Operating margin (%)	16.4	22.1	25.4	22.0	21.8
EBITDA margin (%)	17.8	23.4	26.1	22.9	22.6
Net margin (%)	8.0	9.2	8.2	6.1	6.6
ROA (%)	1.4	1.7	1.6	1.1	1.2
ROE (%)	3.5	4.1	3.5	2.4	2.8
Current ratio (x)	1.0	1.2	1.5	1.6	1.7
Quick ratio (x)	0.4	0.6	0.6	0.7	0.6
Interest cover (x)	1.6	1.5	2.0	1.8	1.8
Debt to equity ratio (x)	0.9	0.8	0.7	0.7	0.7
Net debt to equity (x)	0.7	0.6	0.5	0.6	0.6





# Lippo Karawaci

## BUY

**TP: Rp230 (+93.3%)**

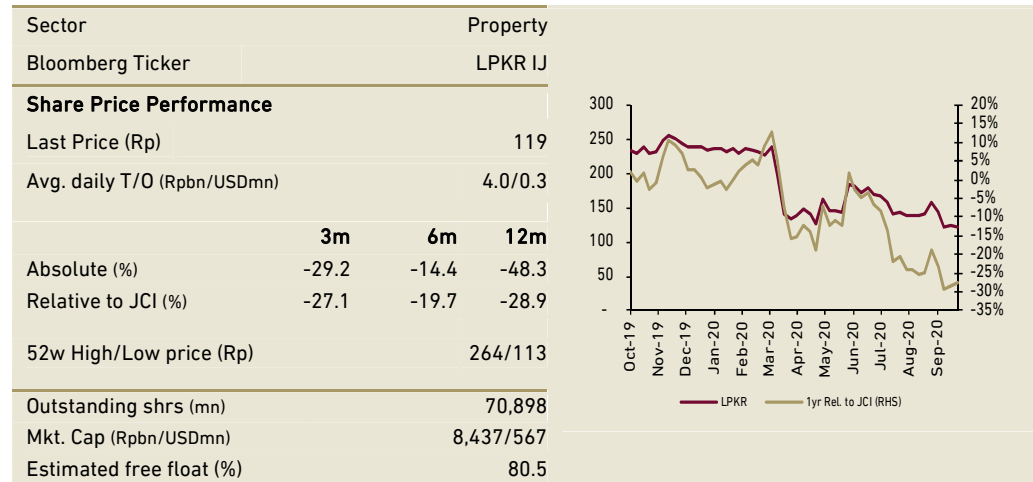
### Company Profile

Lippo Karawaci (LPKR) is Indonesia's largest listed property company by total assets and revenue. It operates a hospital group and a retail property developer. LPKR's portfolio comprises Residential and Urban Development, Hospitals, Malls, Hotels & Leisure and Asset Management.

### Key Points

- **Following company's strategy of focusing on the property segment**, the contribution of property sales is expected to increase to be around 50% in the coming years, which doubled that of in 2020's first halves of 25% of total revenues.
- **Strong support from sales in Lippo Cikarang.** About 52% of total 1H20 marketing sales is generated by Lippo Cikarang township, while Jakarta projects and Lippo Village Tangerang each contributed by 18% and 13% respectively. The rest was generated by company's projects in Makassar (9%), Karawang (8%), and Manado (<1%).
- **LPKR revenue from property sales increased by 33.9% YoY to Rp1.32 tn in 1H20** as core property business improved, boosted by: i) strong revenue growth in Lippo Cikarang, ii) recognition of LPKR handovers at Hillcrest and Fairview Towers in Lippo Village, and iii) sales of existing inventory.
- **Maintain BUY with TP Rp230/share.** We believe LPKR loss in 2019 will reduce to Rp313 bn. Pick up will start in 2021 following the strong marketing sales. We rollover our valuation to 2021 resulted to unchanged TP of Rp230/sh based on -1 stdev discount to our RNAV at 70% and maintain BUY rating.

## EQUITY MARKET OUTLOOK 2021



### Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	11,453	12,320	12,917	14,451	16,505
Operating profit (Rpbn)	1,665	593	271	1,075	1,237
Net profit (Rpbn)	720	-1,983	-313	221	219
EPS (Rp)	10.2	-28.0	-4.4	3.1	3.1
EPS growth (%)	-79.0	n/m	n/m	n/m	-0.9
EV/EBITDA (x)	10.9	14.3	14.5	22.3	9.6
PER (x)	13.8	-5.0	-31.7	44.9	45.3
PBV (x)	0.6	0.3	0.3	0.3	0.3
Dividend yield (%)	0.6	0.0	0.0	0.0	0.0
ROE (%)	4.1	-6.9	-1.1	0.8	0.8

### Assumptions

	2018A	2019A	2020F	2021F	2022F
Marketing sales	1,638	2,500	2,000	2,500	3,500
Retail	213	125	125	125	138
Healthcare	5,965	7,018	8,027	9,412	11,195

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## Lippo Karawaci

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>11,453</b>	<b>12,320</b>	<b>12,917</b>	<b>14,451</b>	<b>16,505</b>
COGS	-6,201	-7,724	-7,848	-8,856	-10,152
<b>Gross profit</b>	<b>5,252</b>	<b>4,596</b>	<b>5,069</b>	<b>5,595</b>	<b>6,352</b>
Oper. expenses	-3,587	-4,003	-4,798	-4,519	-5,116
<b>Oper. profit</b>	<b>1,665</b>	<b>593</b>	<b>271</b>	<b>1,075</b>	<b>1,237</b>
<b>EBITDA</b>	<b>2,105</b>	<b>1,218</b>	<b>1,427</b>	<b>950</b>	<b>2,224</b>
Interest income	108	233	245	46	33
Interest expense	-586	-904	-394	-394	-424
Other income (exp.)	163	-1,615	-438	-548	-663
<b>Pre-tax profit</b>	<b>2,238</b>	<b>-1,522</b>	<b>-482</b>	<b>180</b>	<b>183</b>
Income tax	-575	-539	91	-37	-42
Minority interest	-943	78	78	78	78
<b>Net profit</b>	<b>720</b>	<b>-1,983</b>	<b>-313</b>	<b>221</b>	<b>219</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	1,818	4,685	793	538	178
Acct, receivables	2,402	2,152	2,447	2,596	3,045
Inventory	25,403	27,501	30,040	29,492	30,008
Other curr. asset	3,423	2,859	4,450	4,114	4,403
<b>Total current asset</b>	<b>33,047</b>	<b>37,197</b>	<b>37,729</b>	<b>36,739</b>	<b>37,634</b>
Fixed assets - net	5,830	5,801	7,667	9,006	10,282
Other non-curr.asset	5,506	7,590	6,901	8,252	8,746
<b>Total asset</b>	<b>49,083</b>	<b>55,080</b>	<b>56,587</b>	<b>58,716</b>	<b>61,853</b>
ST debt + curr. maturity	1,614	809	791	737	581
Acct, payable	1,373	1,204	1,481	1,525	1,832
Advances received	3,182	1,994	3,109	3,605	4,180
Other curr. liab	2,927	3,471	4,370	5,366	7,369
Long term debt	13,126	11,332	10,746	11,091	11,113
Other non-curr. liab,	2,114	1,894	2,106	2,263	2,508
<b>Total liabilities</b>	<b>24,336</b>	<b>20,703</b>	<b>22,602</b>	<b>24,588</b>	<b>27,584</b>
Shareholder equity	17,738	28,775	28,462	28,683	28,902
Minority interest	7,009	5,601	5,523	5,445	5,367
<b>Total liab + SHE</b>	<b>49,083</b>	<b>55,080</b>	<b>56,587</b>	<b>58,716</b>	<b>61,853</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	720	-1,983	-313	221	219
Depreciation	441	625	1,157	-125	987
Chg in working cap.	2,838	-2,018	-2,556	444	-660
Other	-349	217	204	1,838	2,114
<b>CF-Oper activities</b>	<b>3,650</b>	<b>-3,160</b>	<b>-1,509</b>	<b>2,378</b>	<b>2,660</b>
Capital expenditure	-1,972	-521	-3,005	-1,145	-2,196
Others	310	-1,949	872	-1,848	-1,034
<b>CF-Investing activities</b>	<b>-1,662</b>	<b>-2,470</b>	<b>-2,132</b>	<b>-2,994</b>	<b>-3,229</b>
Net change in debt	1,049	-2,599	-605	292	-134
Net change in equity	33	11,231	0	0	0
Dividend payment	-61	0	0	0	0
Other financing	-3,728	-135	354	69	342
<b>CF-Financing activities</b>	<b>-2,708</b>	<b>8,497</b>	<b>-251</b>	<b>361</b>	<b>209</b>
<b>Net cash flow</b>	<b>-720</b>	<b>2,867</b>	<b>-3,892</b>	<b>-255</b>	<b>-360</b>
Cash - begin of the year	2,538	1,818	4,685	793	538
Cash - end of the year	1,818	4,685	793	538	178

### Key Ratios

	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	13.7	7.6	4.8	11.9	14.2
Operating profit gr. (%)	-54.0	-64.4	-54.4	297.4	15.0
Net profit gr. (%)	-79.0	n/m	n/m	n/m	-0.9
Gross margin (%)	45.9	37.3	39.2	38.7	38.5
Operating margin (%)	14.5	4.8	2.1	7.4	7.5
EBITDA margin (%)	18.4	9.9	11.1	6.6	13.5
Net margin (%)	6.3	-16.1	-2.4	1.5	1.3
ROA (%)	1.5	-3.6	-0.6	0.4	0.4
ROE (%)	4.1	-6.9	-1.1	0.8	0.8
Current ratio (x)	3.6	5.0	3.9	3.3	2.7
Quick ratio (x)	0.8	1.3	0.8	0.6	0.5
Interest cover (x)	3.6	1.3	3.6	2.4	5.2
Debt to equity ratio (x)	0.8	0.4	0.4	0.4	0.4
Net debt to equity (x)	0.7	0.3	0.4	0.4	0.4



# Pakuwon Jati

BUY

TP: Rp650 (+83.6%)

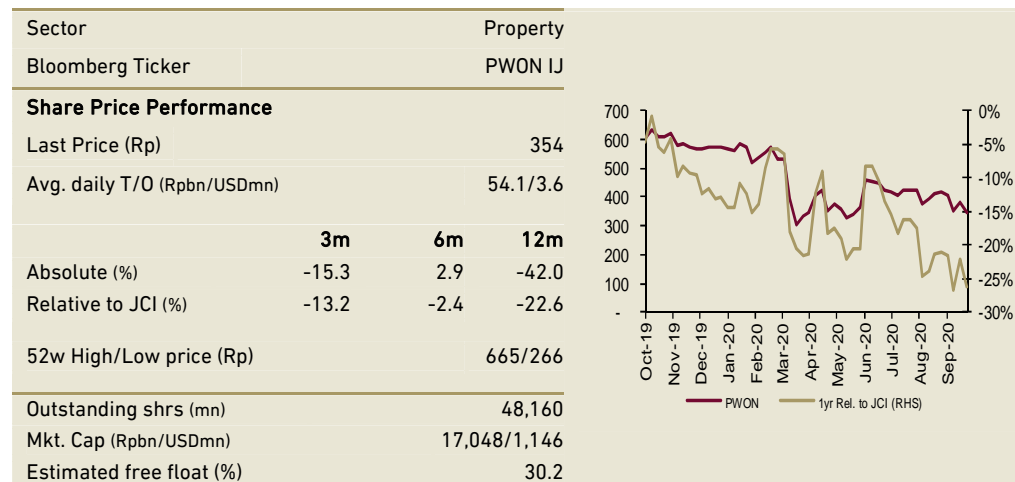
## Company Profile

Pakuwon (PWON) targets 50/50 recurring/development revenue mix over the long term with growth strategies including: a) Leveraging its strength in retail malls and superblock developments; b) Continue to dominate Surabaya property sales while expand Jakarta portfolio; and c) 480.7 ha of land bank to sustain growth and high margins.

## Key Points

- **Kota Kasablanka projects generated 27.5% of total revenue.** Kota Kasablanka is a 6.5 ha mixed use development located next to Jakarta CBD. The pre-sales are generated from 3 condos and 1 office tower currently under development: Angelo, Bella, Chianti and Pakuwon Tower which up to 1H20 are 82% sold.
- **We expect PWON 2021F pre-sales of Rp1.2 tn following low FY20 target of Rp1.0 tn** incorporating slower demand due to pandemic. Surabaya contribution decreases by while Greater Jakarta rose following Bekasi project launch in 1Q20.
- **Jakarta property price is expected to rise in 2021.** The ASP of condos in Jakarta continued to rise despite at a slower rate while Surabaya ASP's are relatively stagnant. Increased revenue contribution from Surabaya primarily came from landed houses such as Grand Pakuwon and Pakuwon Permai.
- **We maintain our BUY rating on PWON with TP of Rp650/share.** Valuation remains attractive though we expect Company's earnings to stagnant on the back of softer marketing sales. Our 2021F TP of Rp650/sh is based on -1 stdev discount to our RNAV at 72% and we maintain BUY rating.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	7,081	7,202	4,338	4,354	4,529
Operating profit (Rpbn)	3,459	3,451	2,223	2,207	2,278
Net profit (Rpbn)	2,160	2,329	1,066	1,529	1,550
EPS (Rp)	44.8	48.4	22.1	31.8	32.2
EPS growth (%)	40.4	7.9	-54.2	43.5	1.4
EV/EBITDA (x)	5.3	5.1	7.8	7.4	6.6
PER (x)	9.1	8.4	18.3	12.8	12.6
PBV (x)	1.6	1.3	1.2	1.1	1.1
Dividend yield (%)	1.5	1.7	1.9	0.8	1.1
ROE (%)	17.1	15.6	6.8	9.0	8.4

## Assumptions

	2018A	2019F	2020F	2021F	2022F
Marketing sales	2,200	1,500	1,000	1,200	1,440
Recurring income	3,468	3,693	2,216	2,689	3,276

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## Pakuwon Jati

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>7,081</b>	<b>7,202</b>	<b>4,338</b>	<b>4,354</b>	<b>4,529</b>
COGS	-3,030	-3,144	-1,750	-1,780	-1,869
<b>Gross profit</b>	<b>4,050</b>	<b>4,058</b>	<b>2,588</b>	<b>2,574</b>	<b>2,660</b>
Oper. expenses	-591	-607	-365	-367	-382
<b>Oper. profit</b>	<b>3,459</b>	<b>3,451</b>	<b>2,223</b>	<b>2,207</b>	<b>2,278</b>
<b>EBITDA</b>	<b>3,903</b>	<b>3,922</b>	<b>2,737</b>	<b>2,735</b>	<b>2,819</b>
Interest income	237	281	86	82	36
Interest expense	-273	-228	-246	-88	-78
Other income (exp.)	-380	-364	-411	-127	-145
<b>Pre-tax profit</b>	<b>2,854</b>	<b>3,271</b>	<b>1,386</b>	<b>1,966</b>	<b>2,010</b>
Income tax	-410	-421	-202	-268	-274
Minority interest	-284	-520	-118	-169	-186
<b>Net profit</b>	<b>2,160</b>	<b>2,329</b>	<b>1,066</b>	<b>1,529</b>	<b>1,550</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	4,460	4,313	1,552	694	1,179
Acct, receivables	532	934	356	372	420
Inventory	3,576	3,531	3,001	2,462	2,023
Other curr, asset	904	864	710	806	956
<b>Total current asset</b>	<b>9,473</b>	<b>9,643</b>	<b>5,618</b>	<b>4,334</b>	<b>4,578</b>
Fixed assets - net	12,922	13,262	14,007	14,653	15,062
Other non-curr.asset	2,550	3,073	4,786	5,060	5,146
<b>Total asset</b>	<b>25,018</b>	<b>26,095</b>	<b>24,597</b>	<b>24,364</b>	<b>25,242</b>
ST debt + curr. maturity	647	912	95	73	62
Acct, payable	296	334	196	203	218
Advances received	1,689	442	266	267	278
Other curr. liab	1,465	1,685	967	963	1,003
Long term debt	4,937	3,888	3,283	1,233	246
Other non-curr, liab,	673	739	576	626	690
<b>Total liabilities</b>	<b>9,706</b>	<b>8,000</b>	<b>5,383</b>	<b>3,365</b>	<b>2,497</b>
Shareholder equity	12,596	14,971	15,681	17,057	18,395
Minority interest	2,716	3,124	3,533	3,942	4,350
<b>Total liab + SHE</b>	<b>25,018</b>	<b>26,095</b>	<b>24,597</b>	<b>24,364</b>	<b>25,242</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	2,160	2,329	1,066	1,529	1,550
Depreciation	444	471	515	528	541
Chg in working cap.	111	-198	795	533	418
Other	-1,649	-1,953	-2,815	-450	-211
<b>CF-Oper activities</b>	<b>1,065</b>	<b>649</b>	<b>-440</b>	<b>2,140</b>	<b>2,298</b>
Capital expenditure	-905	-811	-1,205	-1,147	-946
Others	117	-75	-67	-131	-141
<b>CF-Investing activities</b>	<b>-788</b>	<b>-886</b>	<b>-1,272</b>	<b>-1,279</b>	<b>-1,087</b>
Net change in debt	-158	-1,703	-1,515	-2,122	-1,048
Net change in equity	0	0	0	0	0
Dividend payment	-289	-337	-367	-154	-213
Other financing	-42	994	386	501	627
<b>CF-Financing activities</b>	<b>776</b>	<b>90</b>	<b>-1,049</b>	<b>-1,719</b>	<b>-726</b>
<b>Net cash flow</b>	<b>1,054</b>	<b>-147</b>	<b>-2,761</b>	<b>-858</b>	<b>485</b>
Cash - begin of the year	3,406	4,460	4,313	1,552	694
Cash - end of the year	4,460	4,313	1,552	694	1,179

### Key Ratios

	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	23.2	1.7	-39.8	0.4	4.0
Operating profit gr. (%)	23.8	-0.2	-35.6	-0.7	3.2
Net profit gr. (%)	40.4	7.9	-54.2	43.5	1.4
Gross margin (%)	57.2	56.3	59.7	59.1	58.7
Operating margin (%)	48.9	47.9	51.2	50.7	50.3
EBITDA margin (%)	55.1	54.5	63.1	62.8	62.2
Net margin (%)	30.5	32.3	24.6	35.1	34.2
ROA (%)	8.6	8.9	4.3	6.3	6.1
ROE (%)	17.1	15.6	6.8	9.0	8.4
Current ratio (x)	2.3	2.9	3.7	2.9	2.9
Quick ratio (x)	1.4	1.8	1.7	1.2	1.6
Interest cover (x)	14.3	17.2	11.1	31.1	36.1
Debt to equity ratio (x)	0.4	0.3	0.2	0.1	0.0
Net debt to equity (x)	0.1	0.0	0.1	0.0	Net Cash



# Summarecon Agung

**BUY**

**TP: Rp900 (+62.2%)**

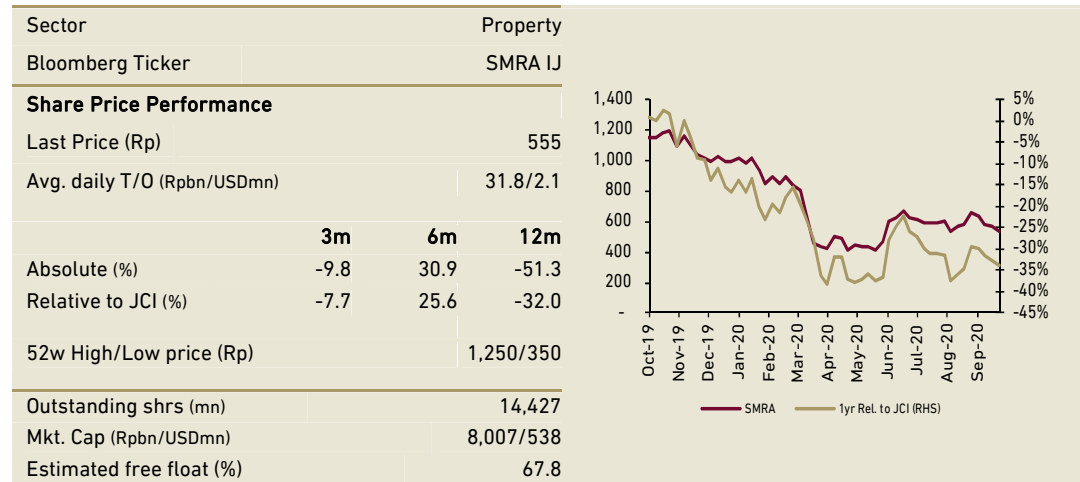
## Company Profile

Summarecon Agung (SMRA) is the developer of one of the first and successful integrated residential townships in Jakarta, Summarecon Kelapa Gading. Company's portfolio comprised of townships located at Greater Jakarta, West Java and outside Java, such as Bali and Makassar.

## Key Points

- **Resilient marketing sales in 2020.** SMRA 8M20 marketing sales figure accounted for 69% of the FY20 marketing sales target of Rp2.5 tn. The achievement is relatively great considering pandemic situation which resulted to launchings postponed and customers take a more wait and see approach. However we believe appetite for property investment will improve by 2021 post-pandemic.
- **Affordable homes launch well received.** Serpong township remains the breadwinner, generated 50% of 8M20 total pre-sales while Bekasi township came second, with contribution climbed to 24% of 8M20 total marketing sales. There is a signal of continuing strong demand from middle to low segment property market.
- **Landed housing segment remained the strongest sales contributor.** Price wise, Summarecon projects are somewhat overshoot the affordable barrier hence we expect more marketing promotion to boost sales next year. However we are optimistic for SMRA prospect as new developing townships such as Bandung, Makassar and Bogor expand.
- **Maintain BUY with TP Rp900/sh.** We expect property sector will improve as soon as next year. Our valuation for 2021 TP of Rp900/sh is based on - 1 stdev discount to our RNAV at 77%. We believe the stock is currently trading undervalued and maintain BUY rating.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	5,661	5,942	5,178	5,236	5,286
Operating profit (Rpbn)	1,540	1,580	965	1,207	1,235
Net profit (Rpbn)	449	515	30	241	264
EPS (Rp)	31.1	35.7	2.1	16.7	18.3
EPS growth (%)	23.9	14.8	-94.2	707.0	9.5
EV/EBITDA (x)	7.7	7.7	12.3	10.8	10.9
PER (x)	18.3	16.0	275.1	34.1	31.1
PBV (x)	1.2	1.1	1.2	1.2	1.2
Dividend yield (%)	0.9	0.9	1.0	0.1	0.5
ROE (%)	6.5	7.0	0.4	3.5	3.8

## Assumptions

(Rp bn)	2018A	2019A	2020F	2021F	2022F
Marketing sales	3,398	4,132	2,479	2,975	3,868
Accounting sales	3,439	3,617	3,434	3,405	2,906
Recurring income	2,226	2,325	1,744	1,831	2,380

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## Summarecon Agung

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>5,661</b>	<b>5,942</b>	<b>5,178</b>	<b>5,236</b>	<b>5,286</b>
COGS	-2,922	-3,092	-2,763	-2,772	-2,783
<b>Gross profit</b>	<b>2,739</b>	<b>2,850</b>	<b>2,415</b>	<b>2,463</b>	<b>2,503</b>
Oper. expenses	-1,199	-1,270	-1,450	-1,257	-1,269
<b>Oper. profit</b>	<b>1,540</b>	<b>1,580</b>	<b>965</b>	<b>1,207</b>	<b>1,235</b>
<b>EBITDA</b>	<b>1,842</b>	<b>1,858</b>	<b>1,269</b>	<b>1,510</b>	<b>1,543</b>
Interest income	96	125	98	110	121
Interest expense	-685	-795	-762	-753	-762
Other income (exp.)	18	13	4	-4	-4
<b>Pre-tax profit</b>	<b>969</b>	<b>923</b>	<b>306</b>	<b>560</b>	<b>590</b>
Income tax	-278	-310	-270	-273	-276
Minority interest	-242	-98	-6	-46	-50
<b>Net profit</b>	<b>449</b>	<b>515</b>	<b>30</b>	<b>241</b>	<b>264</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	1,524	1,664	1,646	1,381	1,515
Acct, receivables	394	221	244	341	347
Inventory	7,890	8,514	8,125	8,154	8,184
Other curr. asset	690	751	641	666	676
<b>Total current asset</b>	<b>10,498</b>	<b>11,151</b>	<b>10,657</b>	<b>10,542</b>	<b>10,722</b>
Fixed assets - net	377	338	329	306	277
Other non-curr.asset	8,038	8,596	9,074	9,758	10,591
<b>Total asset</b>	<b>23,299</b>	<b>24,442</b>	<b>24,378</b>	<b>24,885</b>	<b>25,840</b>
ST debt + curr. maturity	2,615	3,356	3,973	4,635	5,440
Acct, payable	77	86	67	67	69
Advances received	1,637	2,160	1,883	1,904	1,922
Other curr. liab	2,900	3,415	2,920	3,001	3,066
Long term debt	4,893	4,317	5,059	4,788	4,743
Other non-curr. liab,	2,116	1,656	1,726	1,828	1,736
<b>Total liabilities</b>	<b>14,239</b>	<b>14,990</b>	<b>15,629</b>	<b>16,222</b>	<b>16,974</b>
Shareholder equity	6,904	7,368	6,934	6,826	7,011
Minority interest	2,157	2,084	1,816	1,836	1,854
<b>Total liab + SHE</b>	<b>23,299</b>	<b>24,442</b>	<b>24,378</b>	<b>24,885</b>	<b>25,840</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	449	515	30	241	264
Depreciation	302	278	304	303	308
Chg in working cap.	1,144	442	-346	125	33
Other	-2,024	-730	613	-365	-263
<b>CF-Oper activities</b>	<b>-129</b>	<b>505</b>	<b>600</b>	<b>304</b>	<b>343</b>
Capital expenditure	-207	-253	-256	-240	-250
Others	-133	-328	-240	-218	-231
<b>CF-Investing activities</b>	<b>-341</b>	<b>-581</b>	<b>-497</b>	<b>-458</b>	<b>-481</b>
Net change in debt	1,533	1,466	736	608	823
Net change in equity	0	0	0	0	0
Dividend payment	-72	-72	-83	-5	-39
Other financing	-941	-1,177	-775	-714	-511
<b>CF-Financing activities</b>	<b>520</b>	<b>217</b>	<b>-122</b>	<b>-112</b>	<b>273</b>
<b>Net cash flow</b>	<b>50</b>	<b>141</b>	<b>-18</b>	<b>-265</b>	<b>134</b>
Cash - begin of the year	1,474	1,524	1,664	1,646	1,381
Cash - end of the year	1,524	1,664	1,646	1,381	1,515

### Key Ratios

	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	0.4	5.0	-12.9	1.1	1.0
Operating profit gr. (%)	15.0	2.6	-38.9	25.0	2.3
Net profit gr. (%)	23.9	14.8	-94.2	707.0	9.5
Gross margin (%)	48.4	48.0	46.6	47.1	47.4
Operating margin (%)	27.2	26.6	18.6	23.1	23.4
EBITDA margin (%)	32.5	31.3	24.5	28.8	29.2
Net margin (%)	7.9	8.7	0.6	4.6	5.0
ROA (%)	1.9	2.1	0.1	1.0	1.0
ROE (%)	6.5	7.0	0.4	3.5	3.8
Current ratio (x)	1.5	1.2	1.2	1.1	1.0
Quick ratio (x)	0.4	0.3	0.3	0.2	0.2
Interest cover (x)	2.7	2.3	1.7	2.0	2.0
Debt to equity ratio (x)	1.1	1.0	1.3	1.4	1.5
Net debt to equity (x)	0.9	0.8	1.1	1.2	1.2





# Surya Semesta Internusa

**BUY**

**TP: Rp630 (+46.5%)**

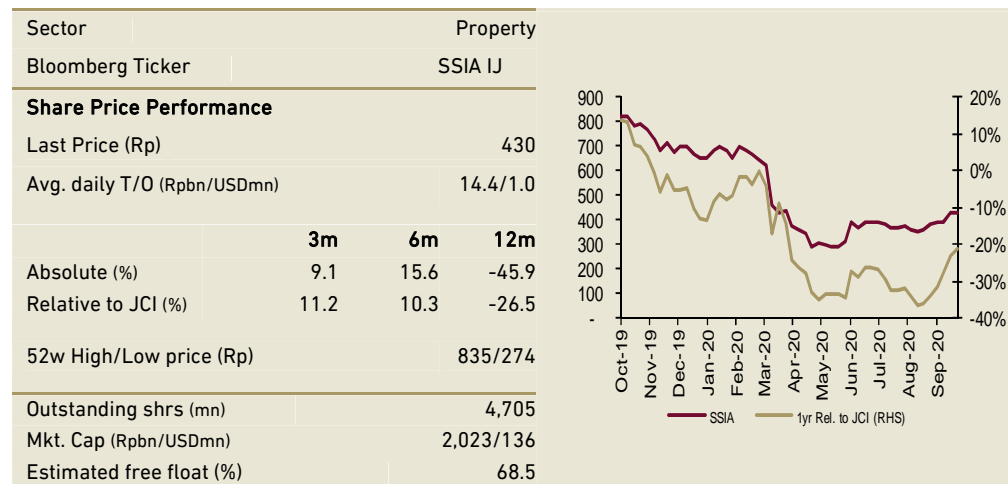
## Company Profile

Surya Semesta Internusa (SSIA) established and commenced operations in 1971, primary businesses are in construction, property and hospitality sectors. In the last few years, SSIA has developed an integrated industrial area in Subang close to Patimban Port. So far the Company have acquired 1,250 ha of land.

## Key Points

- **Initiate Subang Smartpolitan in 4Q20.** Around 250 ha will be released in the first phase of the offering with ASPs ranging from USD100 to USD120 per sqm. According to the management, a number of companies from Japan, China and South Korea have expressed their interest in entering Subang.
- **Monetizing the industrial estates.** Prior to Subang, SSIA develop Suryacipta City of Industry in Karawang which sold 2.9 ha of land as of end of June 2020 and targeted another 67 ha land sales from phase-4 Suryacipta City of Industry in 3Q20.
- **SSIA targeted min. 40 ha land sales in 2021 to anchor tenant.** Patimban Port will play major role for Subang growth as the new port will be the second largest container port in Indonesia after Tanjung Priok in Jakarta. To insure smooth access to the port, SSIA takes part in a consortium Patimban Access toll road project and currently acquires 25% stakes.
- **Maintain BUY with TP Rp630/sh.** We remain optimistic industrial segment will improve as investments should roll in post-pandemic. We applied peers average of 72% discount to our 2021F NAV of Rp2,256/sh resulted to TP of Rp630/sh.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	3,682	4,006	2,560	2,823	2,971
Operating profit (Rpbn)	280	392	84	158	157
Net profit (Rpbn)	38	92	-54	54	70
EPS (Rp)	8.0	19.6	-11.4	11.4	14.9
EPS growth (%)	-96.8	145.0	n/m	n/m	30.6
EV/EBITDA (x)	3.7	4.4	13.1	10.2	10.5
PER (x)	53.7	21.9	-37.8	37.6	28.8
PBV (x)	0.5	0.5	0.5	0.5	0.5
Dividend yield (%)	4.6	1.6	1.9	0.0	1.1
ROE (%)	1.0	2.3	-1.4	1.4	1.8

## Assumptions

	2018A	2019A	2020F	2021F	2022F
Industrial Estates					
Land sales (ha)	8.6	15.6	5.0	5.0	15.0
ASP (USD/sqm)	120	120	120	120	120

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## Surya Semesta Internusa

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>3,682</b>	<b>4,006</b>	<b>2,560</b>	<b>2,823</b>	<b>2,971</b>
COGS	-2,701	-2,915	-1,976	-2,146	-2,258
<b>Gross profit</b>	<b>981</b>	<b>1,091</b>	<b>584</b>	<b>678</b>	<b>713</b>
Oper. expenses	-701	-699	-499	-519	-556
<b>Oper. profit</b>	<b>280</b>	<b>392</b>	<b>84</b>	<b>158</b>	<b>157</b>
<b>EBITDA</b>	<b>441</b>	<b>536</b>	<b>207</b>	<b>289</b>	<b>298</b>
Interest income	73	56	48	50	51
Interest expense	-171	-177	-172	-166	-157
Other income (exp.)	32	-20	3	79	96
<b>Pre-tax profit</b>	<b>214</b>	<b>251</b>	<b>-36</b>	<b>121</b>	<b>147</b>
Income tax	-124	-115	11	-36	-44
Minority interest	-52	-44	-28	-31	-33
<b>Net profit</b>	<b>38</b>	<b>92</b>	<b>-54</b>	<b>54</b>	<b>70</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	1,372	1,527	1,101	774	382
Acct, receivables	343	461	231	243	255
Inventory	463	422	656	654	665
Other curr, asset	1,281	1,648	1,053	1,161	1,222
<b>Total current asset</b>	<b>3,459</b>	<b>4,058</b>	<b>3,041</b>	<b>2,832</b>	<b>2,524</b>
Fixed assets - net	3,551	3,592	3,952	4,238	4,497
Other non-curr.asset	71	111	98	103	109
<b>Total asset</b>	<b>7,404</b>	<b>8,092</b>	<b>7,432</b>	<b>7,522</b>	<b>7,487</b>
ST debt + curr. maturity	247	245	303	345	260
Acct, payable	463	626	333	331	348
Advances received	0	0	0	0	0
Other curr. liab	1,324	842	571	620	652
Long term debt	752	1,611	1,497	1,361	1,225
Other non-curr, liab,	234	291	293	322	354
<b>Total liabilities</b>	<b>3,019</b>	<b>3,614</b>	<b>2,996</b>	<b>2,978</b>	<b>2,838</b>
Shareholder equity	3,944	3,964	3,890	3,942	3,988
Minority interest	441	514	546	601	661
<b>Total liab + SHE</b>	<b>7,404</b>	<b>8,092</b>	<b>7,432</b>	<b>7,522</b>	<b>7,487</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	38	92	-54	54	70
Depreciation	162	144	123	130	141
Chg in working cap.	1,788	-864	26	-70	-35
Other	0	0	0	0	0
<b>CF-Oper activities</b>	<b>1,987</b>	<b>-628</b>	<b>95</b>	<b>114</b>	<b>176</b>
Capital expenditure	-307	-193	-491	-425	-408
Others	-34	-40	13	-5	-5
<b>CF-Investing activities</b>	<b>-341</b>	<b>-233</b>	<b>-478</b>	<b>-430</b>	<b>-413</b>
Net change in debt	-1,284	959	-56	-94	-222
Net change in equity	0	0	0	0	0
Dividend payment	-93	-33	-39	0	-23
Other financing	-42	89	52	84	90
<b>CF-Financing activities</b>	<b>-1,419</b>	<b>1,016</b>	<b>-43</b>	<b>-11</b>	<b>-154</b>
<b>Net cash flow</b>	<b>227</b>	<b>155</b>	<b>-426</b>	<b>-327</b>	<b>-392</b>
Cash - begin of the year	1,145	1,372	1,527	1,101	774
Cash - end of the year	1,372	1,527	1,101	774	382

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	12.5	8.8	-36.1	10.3	5.2
Operating profit gr. (%)	19.4	40.1	-78.5	87.3	-0.9
Net profit gr. (%)	-96.8	145.0	n/m	n/m	30.6
Gross margin (%)	26.6	27.2	22.8	24.0	24.0
Operating margin (%)	7.6	9.8	3.3	5.6	5.3
EBITDA margin (%)	12.0	13.4	8.1	10.2	10.0
Net margin (%)	1.0	2.3	-2.1	1.9	2.4
ROA (%)	0.5	1.1	-0.7	0.7	0.9
ROE (%)	1.0	2.3	-1.4	1.4	1.8
Current ratio (x)	1.7	2.4	2.5	2.2	2.0
Quick ratio (x)	1.5	2.1	2.0	1.7	1.5
Interest cover (x)	2.6	3.0	1.2	1.7	1.9
Debt to equity ratio (x)	0.3	0.5	0.5	0.4	0.4
Net debt to equity (x)	Net Cash	0.1	0.2	0.2	0.3



## MEDIA SECTOR



# Media Overweight

## Sector Outlook

### • Digital shift in media business

Digitalization is disrupting of our daily life by storm. Almost all aspects of human life are impacted. How people consume media is one thing that changes very fast, especially with the proliferation of Over the Top (OTT) technology. Accordingly, advertisers are now incrementally allocating more budgets on digital advertisings. Media Partners Asia estimates that FTA TV portion to the ads pie will shrink to 52.7% in 2022 from 56.9% in 2018 with a CAGR of only 3% vs. digital ads of 16% in the period. Although we believe that FTA-TV will remain relevant for at least the medium term, it is clear that the industry is maturing.

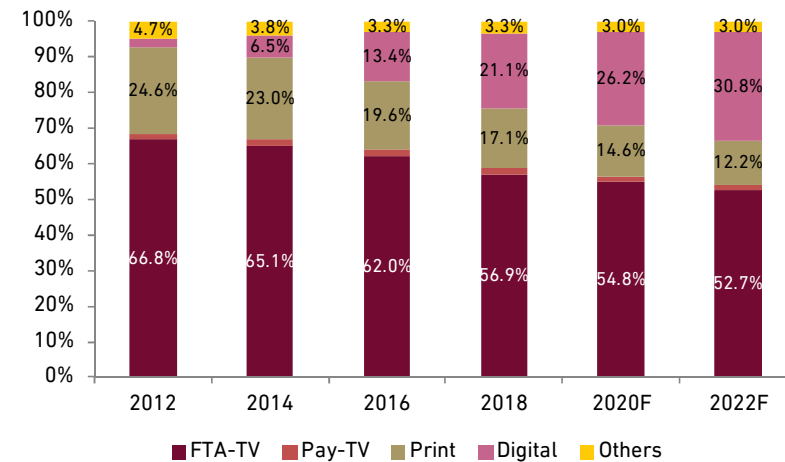
In that regards, we have observed steps taken by the media companies to tap into digital media spheres. SCMA began its digital journey in 2019 when it acquired some digital assets on share swap deal with its parent, EMTK. While, MNCN launches many digital initiatives including social media and Advertising-based video on demand (AVOD) OTT platform.

### • Drawing fortes from in-house production to support digital business

We believe SCMA and MNCN are well-positioned in tapping digital opportunities. As an integrated media group with strong content production capability, SCMA and MNCN possess a competitive advantage compared to other digital players. SCMA and MNCN could derive contents from their in-house production houses and then cross-sell them to social media or their own digital platforms. We believe whether it is digital or FTA-TV, high quality and relevant contents are key to win viewership. In a nutshell, we have observed FTA contents cross selling into: 1) social media and company's own digital platforms/mobile apps (MNCN: RCTI Mobile and RCTI+, SCMA: Vidio.com (basic), and 2) web portal (eg. Okezone.com for MNCN, and Liputan6.com for SCMA).

## EQUITY MARKET OUTLOOK 2021

Exhibit 118: Advertising pie share by type



Source: Media Partners Asia, Ciptadana

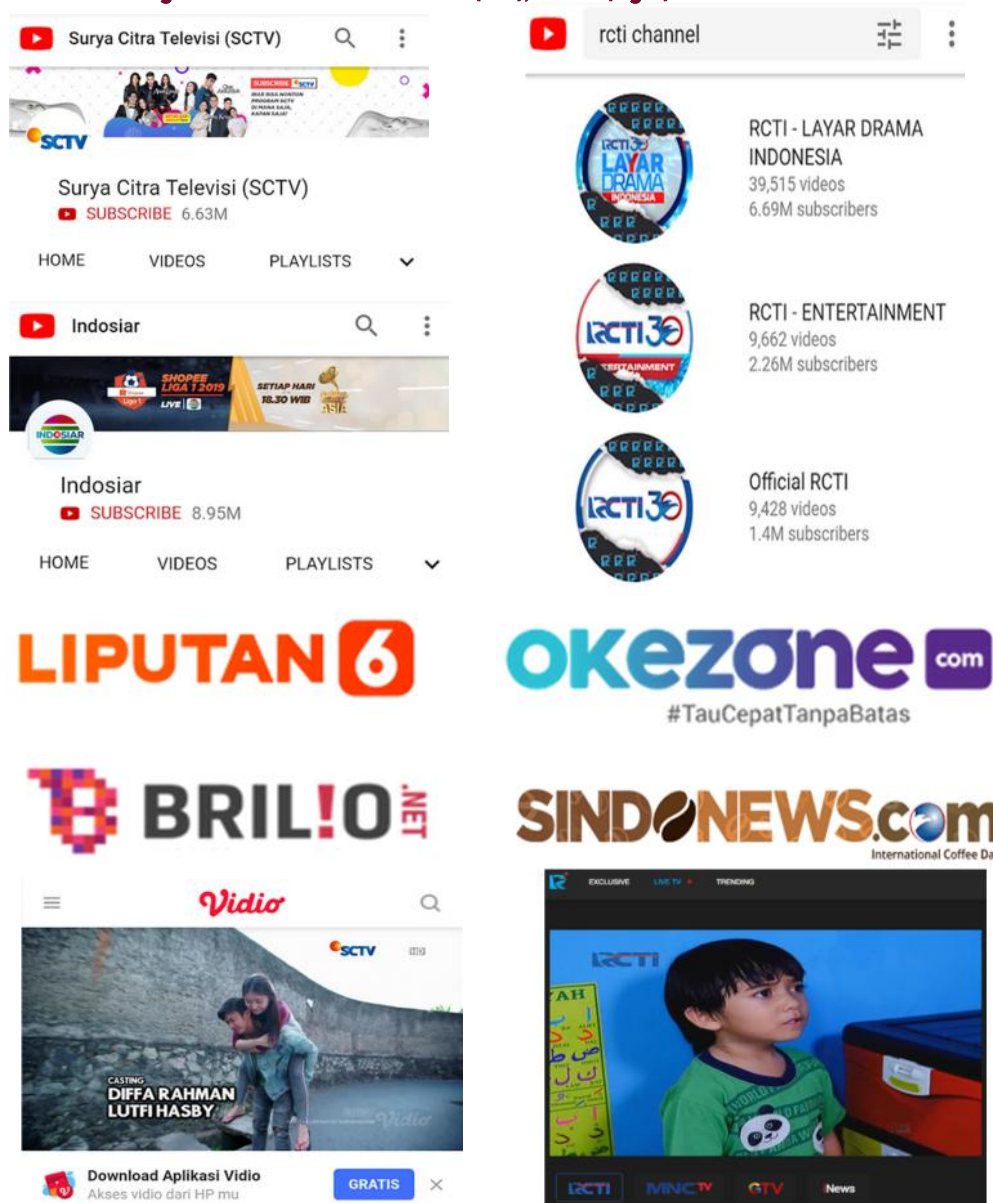
Exhibit 119: Top Website Visits in Indonesia

Rank	Site	Affiliated group
1	Okezone.com	MNCN
2	Google.com	Google
3	Tribunnews.com	Kompas
4	YouTube.com	Google
5	Grid.id	Kompas
6	Sindonews.com	MNCN
7	Kompas.com	Kompas
8	Detik.com	Trans
9	Liputan6.com	SCMA
10	Tokopedia.com	Tokopedia
11	Bukalapak.com	Bukalapak
12	Suara.com	Arkadia Media
13	Brilio.net	SCMA
14	Kumparan.com	Net
15	Idntimes.com	IDN Media

Source: Alexa, Ciptadana



**Exhibit 120: Digital revenue streams: SCMA (left), MNCN (right)**



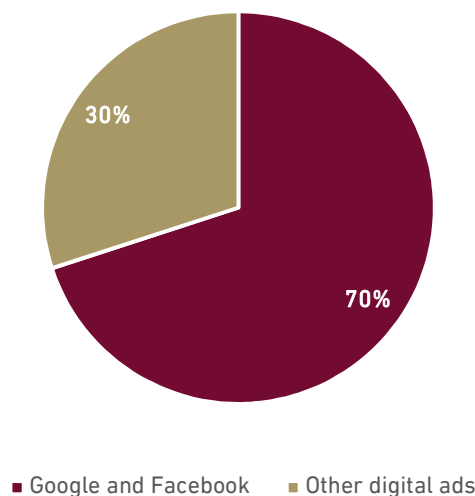
Source: Company, Various, Ciptadana

## EQUITY MARKET OUTLOOK 2021

### • How big is ads-based digital advertising potential?

The aforementioned revenue streams are positive for SCMA and MNCN as they typically provide revenue upside without imposing any additional costs. These are ads-based business model which typically carries lower risks, especially for an integrated media company that produces and cross-sells its own contents. However, we believe the pie size for such type of digital ads is not large enough given the dominance of Google and Facebook. As per Media Partners Asia, total digital/internet ads spending is estimated at Rp8-9 tn in 2020F. A big chunk (65-70%) of the share, however, goes to Google and Facebook. The balance of 30-35% or Rp2.4-3 tn is shared by a lot of other players in several formats, including: search engine (other than Google), social media (Twitter, LinkedIn, Pinterest, etc), online portals, video streaming (eg. RCTI+, Vidio basic, uSee TV, Oona TV, indoxxi) and other forms of digital ads.

**Exhibit 121: Digital ads share**



Source: Various, Ciptadana



### • Vidio.com is growing rapidly

Vidio.com was incorporated in 2014 as a video OTT platform offering FTA-TV live-stream and video package stream. Revenue model was ads-base where viewers need to watch ads before the content plays. Vidio.com enjoyed a lot of attractions during the Asian Games as it is the only legal streaming platform of the event. It is now the second most popular online video platform after Youtube with 60mn monthly active user (MAU) in 1H20. SCMA expects Vidio.com to generate 20% of monthly revenue from ads.

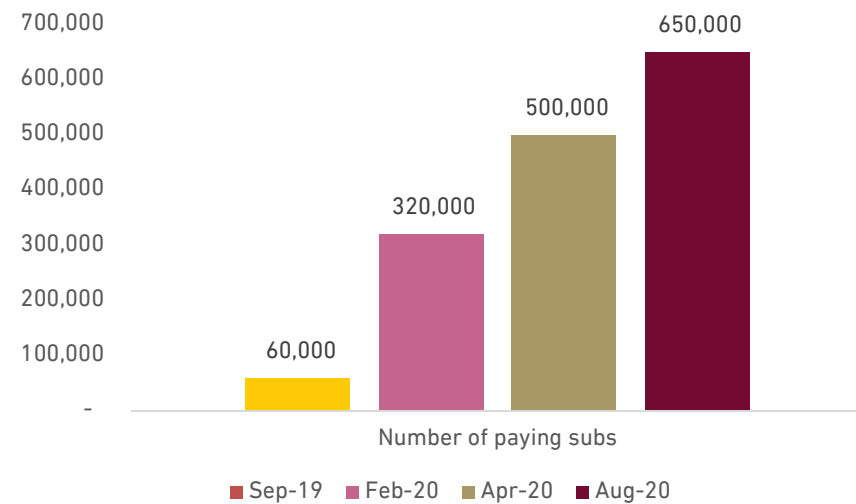
In late-2018, Vidio.com launched premier service, a subscription-base model that offers higher quality contents. Key points of difference from other platforms are in the exclusive live sports (currently it has already secured license of Shopee Liga 1, NBA, and some badminton tournaments) and original drama series.

Vidio currently owns 600-700 K paying subscriber with 60mn MAU. The number of subscriber climbed quickly from 60 K last year. Vidio is also the OTT with highest audience reach in Indonesia. Lockdown period coupled with some promotions rolled by the Company have helped boosting subscriber gains. With a competitive pricing point (current monthly ARPU of Rp29 K), we see a clear different value proposition of Vidio.com with other library-heavy platforms such as Netflix, Iflix or Disney+ Hotstar. We expect Vidio.com to focus on growing the number of paying subscriber by releasing more contents. At the same time, the Company also put stringent emphasize on cost control (especially on content costs) to limit losses.

SCMA is currently in-talk with some potential investors/partners to inject cash to Vidio.com. The deal is positive in many fronts; not only shall it raise fresh funds but it will also bring technical expertise and/or access to contents to Vidio. We expect Vidio.com could be valued at USD300mn, hence SCMA could pocket USD150 mn by selling 50% of its stake.

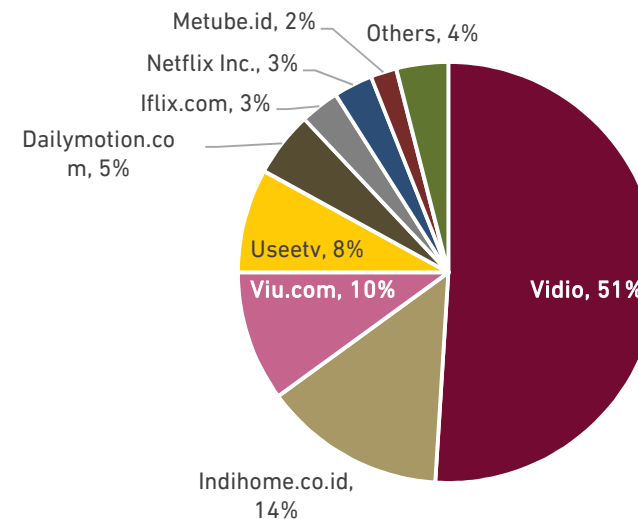
## EQUITY MARKET OUTLOOK 2021

**Exhibit 122: Vidio's Paying Subs Development**



Source : CENT, TowerXchange, EIU, Ciptadana

**Exhibit 123: Audience Reach of OTT platform in Indonesia**



Source : Companies, Ciptadana



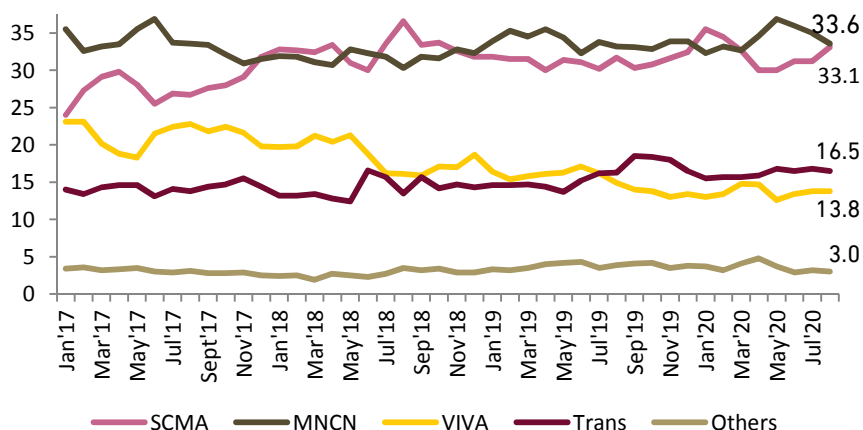
## EQUITY MARKET OUTLOOK 2021

- **FTA-TV will stay relevant to Indonesians and remains to be the cash cow for media companies; expecting a recovery in 2021**

FTA-TV still forms more than 80% of revenue to both SCMA and MNCN (after elimination), therefore, having the right contents to maintaining strong audience shares remains to be the cornerstone of the business. In Aug-20, both companies retain their dominance in FTA-TV landscape with >30% share, respectively. Soap operas from RCTI and dangdut show from SCTV remain in the top-rating chart for respective company.

After Covid-19 crippled 2020 revenue, we see high single digit revenue growth from FTA TV ads driven by recovery of ads budget, continuing ads placements from internet companies (Lazada, Shopee, and Ruang guru) and growing non-time consuming ads. Live events, live sports and time blocking program may also return and have the full year impact in 2021F after some high profile & sponsored events were cancelled in 1H20 due to PSBB restriction. This should provide a low base effect especially on 1H21 vs. 1H20 comparison. However, we note that some businesses may still struggle in 2021 and ads from these companies may still be weak. Nonetheless our 2021F FTA-TV revenue forecasts are still 7%/5% lower than 2019 achievement for SCMA/MNCN, respectively.

**Exhibit 124: All-time audience share movement of FTA-TV**



Source: Company, Ciptadana

- **OVERWEIGHT on media; SCMA as top pick**

We are OVERWEIGHT on media sector as we anticipate ads spending recovery in 2021F after a weak 2020. Notwithstanding the vaccine development (our inhouse projection: vaccine will be available in 2Q20), we expect business activity will not deteriorate further than the stricter PSBB measure implemented in 3Q20. As such, fresh content productions, live events and time blocking could still run (with limitation) which should provide support for 2021F revenue. Digital business remains the key long term growth story for the sector and its development may be important for future rerating. We rated both companies BUY, but prefer SCMA due to its stronger momentum in audience shares (especially after fresh content production) and potential catalyst from deal closure of Vidio. MNCN is also a BUY, however there are hangovers on debt restructuring in its parent level that triggers aggressive equity raising in many of the group's companies (including in MNCN itself).

**Exhibit 125: Audience Reach of OTT platform in Indonesia**

Bberg Ticker	Rating	Mkt.Cap (Rptn)	Last Price	Target Price	Upside pot.(%)	PER 2020F	PER 2021F	EV/EBITDA 2020F	EV/EBITDA 2020F	ROE 21F (%)	Yield 21F (%)
SCMA	Buy	16.5	1,160	1,400	20.7	13.3	12.3	8.8	8.1	22.3	4.5
MNCN	Buy	8.9	715	1,225	71.3	4.8	4.1	3.6	3.3	14.7	6.1
<b>Average</b>	<b>OW</b>	<b>25.4</b>				<b>10.3</b>	<b>9.4</b>	<b>7.0</b>	<b>6.4</b>	<b>19.6</b>	<b>5.1</b>

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# Media Nusantara Citra

**BUY**

**TP: Rp1,225 (+71.3%)**

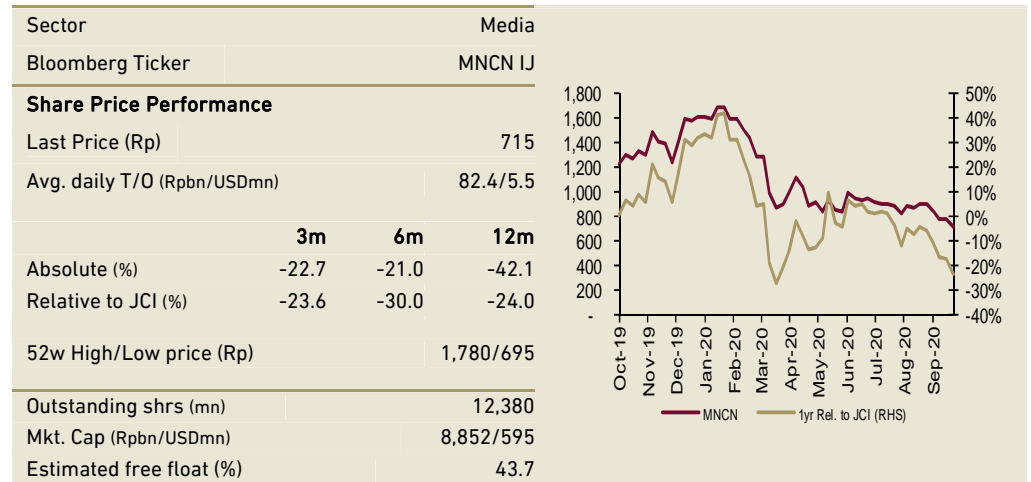
## Company Profile

Founded in 1997, PT Media Nusantara Citra Tbk (MNCN) has now set out itself as a well-established media group in Indonesia. The company's wide range of products and services includes FTA TV stations, regional TV network, in-house production company, national and regional newspapers, radio stations, magazines and advertising agency. MNCN currently operates 4 FTA-TV stations, namely: RCTI, GTV, MNCTV, and iNews.

## Key Points

- **Multiple initiatives to accelerate digital revenue growth.** Around 40% of MNCN's digital revenue is coming from RCTI+. It currently has 10mn MAU and the Company targets to reach 30mn MAU by the end of 2020. To achieve the target, MNCN has prepared some campaigns, including: apps-base sponsored talent search program and new gaming and audio aggregator features. RCTI+ aside, MNCN runs multi-channel network (MCN) operation in YouTube, Facebook, and is currently finalizing agreement with TikTok. MCN services include: content supply, content production, and talent management for the platform.
- **Content business is on the rise.** Net content revenue grew 77% YoY in 1H20. The growth was driven by demand from OTT platforms as they are in the process of library filling. Clients include Netflix and Disney+.
- **FTA to focus on special program sponsorship.** MNCN eyes to intensify special programs on its FTA channels. Pipelines include a new season of returning shows, such as Master Chef Indonesia, Indonesian Idol, and KDI. Despite not generating the highest audience shares, MNCN expects high revenue from these programs as they run on a sponsorship basis. Aside from these programs, MNCN has also launched a new direct shopping feature on its TV ads and plans to intensify non time consuming ads.
- **BUY MNCN** as valuation is undemanding. Risks arise from group sentiments and sequential dilutive equity raisings.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	7,444	8,353	7,979	8,749	9,320
Operating profit (Rpbn)	2,740	3,259	3,000	3,367	3,601
Net profit (Rpbn)	1,531	2,233	1,845	2,166	2,336
EPS (Rp)	122.6	180.4	149.0	175.0	188.7
EPS growth (%)	10.0	47.2	-17.4	17.4	7.9
EV/EBITDA (x)	4.1	3.5	3.6	3.3	3.1
PER (x)	5.8	4.0	4.8	4.1	3.8
PBV (x)	0.9	0.8	0.7	0.6	0.5
Dividend yield (%)	2.3	2.4	4.2	6.1	7.9
ROE (%)	15.5	19.2	14.1	14.7	14.3

## Assumptions

	2018A	2019A	2020F	2021F	2022F
AT audience share (%)	31.8	33.9	32.5	33.0	33.0
Ads revenue (Rpbn)	6,981	7,368	6,521	7,017	7,298
Digital ads revenue (Rpbn)	261	697	872	1,068	1,281
Contents, others (Rpbn)	202	288	587	664	741

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## Media Nusantara Citra

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>7,444</b>	<b>8,353</b>	<b>7,979</b>	<b>8,749</b>	<b>9,320</b>
COGS	-2,825	-3,030	-2,962	-3,160	-3,343
<b>Gross profit</b>	<b>4,619</b>	<b>5,323</b>	<b>5,018</b>	<b>5,589</b>	<b>5,977</b>
Oper. expenses	-1,879	-2,064	-2,018	-2,222	-2,376
<b>Oper. profit</b>	<b>2,740</b>	<b>3,259</b>	<b>3,000</b>	<b>3,367</b>	<b>3,601</b>
<b>EBITDA</b>	<b>3,126</b>	<b>3,650</b>	<b>3,422</b>	<b>3,826</b>	<b>4,101</b>
Interest income	29	24	25	25	26
Interest expense	-353	-436	-450	-432	-436
Other income (exp.)	-313	92	-72	-25	-24
<b>Pre-tax profit</b>	<b>2,104</b>	<b>2,939</b>	<b>2,502</b>	<b>2,937</b>	<b>3,168</b>
Income tax	-498	-587	-546	-641	-691
Minority interest	-74	-119	-111	-130	-140
<b>Net profit</b>	<b>1,531</b>	<b>2,233</b>	<b>1,845</b>	<b>2,166</b>	<b>2,336</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	720	631	1,040	931	822
Acct, receivables	2,786	2,917	3,542	3,883	4,137
Inventory	2,757	2,794	2,651	2,907	3,199
Other curr, asset	1,074	1,294	1,128	1,205	1,266
<b>Total current asset</b>	<b>7,337</b>	<b>7,637</b>	<b>8,361</b>	<b>8,926</b>	<b>9,424</b>
Fixed assets - net	5,542	5,682	6,000	6,390	6,865
Other non-curr.asset	2,902	3,773	4,387	5,119	5,894
<b>Total asset</b>	<b>16,340</b>	<b>17,836</b>	<b>19,657</b>	<b>21,523</b>	<b>23,449</b>
ST debt + curr. maturity	1,387	1,656	1,544	1,432	1,321
Acct, payable	312	205	252	269	285
Advances received	0	0	0	0	0
Other curr. liab	455	279	367	391	414
Long term debt	3,241	2,877	3,046	3,184	3,348
Other non-curr, liab,	303	294	311	327	343
<b>Total liabilities</b>	<b>5,697</b>	<b>5,311</b>	<b>5,521</b>	<b>5,604</b>	<b>5,711</b>
Shareholder equity	9,866	11,630	13,103	14,728	16,363
Minority interest	777	896	1,033	1,192	1,375
<b>Total liab + SHE</b>	<b>16,340</b>	<b>17,836</b>	<b>19,657</b>	<b>21,523</b>	<b>23,449</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	1,531	2,233	1,845	2,166	2,336
Depreciation	386	391	423	459	500
Chg in working cap.	-740	-672	-180	-633	-568
Other	29	4	0	0	0
<b>CF-Oper activities</b>	<b>1,207</b>	<b>1,957</b>	<b>2,088</b>	<b>1,992</b>	<b>2,268</b>
Capital expenditure	-621	-532	-740	-849	-976
Others	-429	-1,057	-779	-910	-953
<b>CF-Investing activities</b>	<b>-1,050</b>	<b>-1,589</b>	<b>-1,519</b>	<b>-1,759</b>	<b>-1,929</b>
Net change in debt	813	-103	74	42	69
Net change in equity	0	0	0	0	0
Dividend payment	-209	-214	-369	-542	-701
Other financing	-510	-140	135	159	183
<b>CF-Financing activities</b>	<b>94</b>	<b>-458</b>	<b>-160</b>	<b>-341</b>	<b>-449</b>
<b>Net cash flow</b>	<b>251</b>	<b>-89</b>	<b>409</b>	<b>-108</b>	<b>-109</b>
Cash - begin of the year	469	720	631	1,040	931
Cash - end of the year	720	631	1,040	931	822

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	5.5	12.2	-4.5	9.6	6.5
Operating profit gr. (%)	2.8	19.0	-8.0	12.3	6.9
Net profit gr. (%)	5.4	45.8	-17.4	17.4	7.9
Gross margin (%)	62.0	63.7	62.9	63.9	64.1
Operating margin (%)	36.8	39.0	37.6	38.5	38.6
EBITDA margin (%)	42.0	43.7	42.9	43.7	44.0
Net margin (%)	20.6	26.7	23.1	24.8	25.1
ROA (%)	9.4	12.5	9.4	10.1	10.0
ROE (%)	15.5	19.2	14.1	14.7	14.3
Current ratio (x)	3.4	3.6	3.9	4.3	4.7
Quick ratio (x)	2.1	2.3	2.6	2.9	3.1
Interest cover (x)	8.9	8.4	7.6	8.9	9.4
Debt to equity ratio (x)	0.5	0.4	0.4	0.3	0.3
Net debt to equity (x)	0.4	0.3	0.3	0.3	0.2



# Surya Citra Media

**BUY**

**TP: Rp1,400 (+20.7%)**

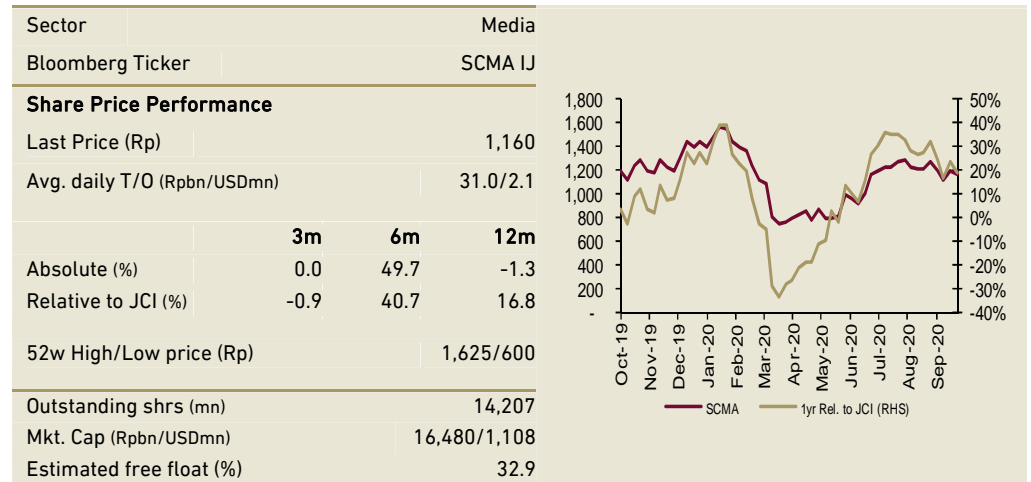
## Company Profile

Surya Citra Media (SCMA), through its subsidiaries, provides a variety of multimedia services in Indonesia. The company owns SCTV and Indosiar, nationwide television network; and acts as a distribution agent for the media content developed by SCTV. As a subsidiary of PT Elang Mahkota Teknologi (EMTK), SCMA also provides media consulting and communication services to other companies and independent businesses. SCMA has recently acquired some companies from its parent to embark into digital sphere.

## Key Points

- **FTA TV revenue to recover gradually.** SCMA has restarted indoor productions, including live and blocking events. Blocking events from internet companies have been the growth driver for FTA TV revenue in recent years. We expect internet companies to remain as the growth engine for several years to come as they have the financial resources to continue to be aggressive and they tend to do well amid the pandemic.
- **Vidio continues its strong momentum.** Vidio saw 30% higher MAU from the end of February to the end of June. Vidio now has 600-700 K paying subscribers, growing rapidly each quarter. Talks for Vidio stake sales are still ongoing and could be an upside potential for the Company should anything materializes.
- **Top pick in media sector, BUY with Rp1,400/share TP.** During the previous sell-down, SCMA splashed Rp445 bn for share repurchases, bringing total treasury shares to 568mn or 3.8% of paid-up capital. The Company plans to continue buying back shares if the share price is under pressure. As of 1H20, SCMA holds Rp708 bn of cash in its balance sheet. This should protect the stock from excessive selling pressures in the future. Aside from that, our BUY is premised on 8.0% YoY earnings growth in 2021F. Our TP is derived based on target PER of 15x 2021 EPS.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	5,277	5,523	4,612	5,129	5,490
Operating profit (Rpbn)	1,849	1,483	1,585	1,712	1,783
Net profit (Rpbn)	1,485	1,070	1,238	1,338	1,394
EPS (Rp)	101.5	72.7	87.2	94.2	98.1
EPS growth (%)	11.5	-28.4	20.0	8.0	4.2
EV/EBITDA (x)	7.8	9.8	8.8	8.1	7.6
PER (x)	11.4	16.0	13.3	12.3	11.8
PBV (x)	3.5	3.5	3.1	2.7	2.5
Dividend yield (%)	4.7	4.8	1.9	4.5	5.1
ROE (%)	30.9	21.8	23.0	22.3	21.3

## Assumptions

	2018A	2019A	2020F	2021F	2022F
AT audience share (%)	32.9	31.2	31.0	31.2	31.5

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## Surya Citra Media

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>5,277</b>	<b>5,523</b>	<b>4,612</b>	<b>5,129</b>	<b>5,490</b>
COGS	-2,358	-2,863	-1,966	-2,289	-2,505
<b>Gross profit</b>	<b>2,918</b>	<b>2,660</b>	<b>2,646</b>	<b>2,840</b>	<b>2,985</b>
Oper. expenses	-1,070	-1,177	-1,061	-1,128	-1,202
<b>Oper. profit</b>	<b>1,849</b>	<b>1,483</b>	<b>1,585</b>	<b>1,712</b>	<b>1,783</b>
<b>EBITDA</b>	<b>2,047</b>	<b>1,686</b>	<b>1,808</b>	<b>1,959</b>	<b>2,060</b>
Interest income	29	45	50	54	57
Interest expense	-3	-2	0	-1	-1
Other income (exp.)	67	-73	-3	-4	-4
<b>Pre-tax profit</b>	<b>1,941</b>	<b>1,453</b>	<b>1,631</b>	<b>1,762</b>	<b>1,835</b>
Income tax	-466	-401	-408	-440	-459
Minority interest	10	19	15	16	17
<b>Net profit</b>	<b>1,485</b>	<b>1,070</b>	<b>1,238</b>	<b>1,338</b>	<b>1,394</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	994	629	572	628	777
Acct, receivables	1,628	1,731	1,472	1,623	1,737
Inventory	956	925	1,312	1,605	1,718
Other curr, asset	215	275	263	292	312
<b>Total current asset</b>	<b>3,792</b>	<b>3,559</b>	<b>3,619</b>	<b>4,148</b>	<b>4,544</b>
Fixed assets - net	1,071	1,502	1,676	1,902	2,191
Other non-curr.asset	1,316	1,339	1,357	1,372	1,383
<b>Total asset</b>	<b>6,590</b>	<b>6,717</b>	<b>6,963</b>	<b>7,745</b>	<b>8,453</b>
ST debt + curr. maturity	16	12	2	2	2
Acct, payable	380	407	250	292	319
Advances received	0	0	0	0	0
Other curr. liab	527	570	413	470	503
Long term debt	0	0	0	0	0
Other non-curr, liab,	214	239	268	285	303
<b>Total liabilities</b>	<b>1,139</b>	<b>1,228</b>	<b>933</b>	<b>1,048</b>	<b>1,127</b>
Shareholder equity	4,807	4,908	5,392	5,994	6,552
Minority interest	645	580	639	702	773
<b>Total liab + SHE</b>	<b>6,590</b>	<b>6,717</b>	<b>6,963</b>	<b>7,745</b>	<b>8,453</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	1,485	1,070	1,238	1,338	1,394
Depreciation	199	203	223	247	277
Chg in working cap.	-185	-62	-431	-375	-187
Other	-40	-62	-68	-75	-84
<b>CF-Oper activities</b>	<b>1,459</b>	<b>1,149</b>	<b>963</b>	<b>1,135</b>	<b>1,399</b>
Capital expenditure	-178	-571	-329	-398	-482
Others	-65	70	-13	-27	-22
<b>CF-Investing activities</b>	<b>-243</b>	<b>-501</b>	<b>-342</b>	<b>-425</b>	<b>-505</b>
Net change in debt	3	20	19	17	19
Net change in equity	0	0	0	0	0
Dividend payment	-804	-820	-310	-736	-836
Other financing	335	-213	-387	64	71
<b>CF-Financing activities</b>	<b>-467</b>	<b>-1,013</b>	<b>-678</b>	<b>-654</b>	<b>-746</b>
<b>Net cash flow</b>	<b>749</b>	<b>-365</b>	<b>-56</b>	<b>56</b>	<b>148</b>
Cash - begin of the year	245	994	629	572	628
Cash - end of the year	994	629	572	628	777

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	18.5	4.7	-16.5	11.2	7.0
Operating profit gr. (%)	3.9	-19.8	6.9	8.0	4.2
Net profit gr. (%)	11.5	-27.9	15.7	8.0	4.2
Gross margin (%)	55.3	48.2	57.4	55.4	54.4
Operating margin (%)	35.0	26.9	34.4	33.4	32.5
EBITDA margin (%)	38.8	30.5	39.2	38.2	37.5
Net margin (%)	28.1	19.4	26.9	26.1	25.4
ROA (%)	22.5	15.9	17.8	17.3	16.5
ROE (%)	30.9	21.8	23.0	22.3	21.3
Current ratio (x)	4.1	3.6	5.4	5.4	5.5
Quick ratio (x)	3.1	2.7	3.5	3.3	3.4
Interest cover (x)	602.5	732.1	3,933.3	3,660.3	3,516.7
Debt to equity ratio (x)	0.0	0.0	0.0	0.0	0.0
Net debt to equity (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



## CIGARETTES SECTOR



# Cigarettes

## Neutral

### Sector Outlook

We expect that down trading and up-tarring trend to continue in FY21, despite the moderation in excise hike. We think the industry still not in healthy condition due to most of the Tier 1 player shift into market share mode as they experience a major volume loss to non-tier 1 player. The volume loss was driven by widening price gap between tier 1 and below which provide incentives for smaller player to not raise price aggressively in order to get bigger volume from price conscious smokers. However excise simplification might be the medium term circuit breaker (Next 2-3Y) of down trading and push the player to be more discipline in their pricing.

- **Moderation in excise hike next year**

Heading to FY21F government decides to increase excise by only 4.8% due to COVID-19 pandemic which create a dilemma for the government in addressing stricter cigarette control to lower the consumption. In the one hand government need to maximize the tax income through excise tax and at the same time controlling the consumption through higher minimum retail selling price (RSP/HJE) as an instrument. However in the other hand the volume loss on cigarette in FY20 are higher than anticipated due to the pandemic effect which dent purchasing power among smokers as most of Indonesian smokers are coming from informal sector which relies on daily income, which will limit government ability to raise excise tax aggressively in the short term FY21-22F.

- **Down trading and up tarring trend will continue**

As most Indonesian work in informal sector the economic impact from this pandemic become easily translates to affordability issue. Heading to FY21 we think the recent trend on down trading, up tarring, and small pack purchase of cigarette will continue since the recovery of consumer affordability will highly dependent on how fast this pandemic end and return to normalcy through vaccine in 2Q21. However the cigarette price will be more expensive in FY21 due to combination of undisciplined cigarette price hike in FY20 and additional 8-9% blended cigarette price hike in order to respond 4.8% excise hike in FY21.

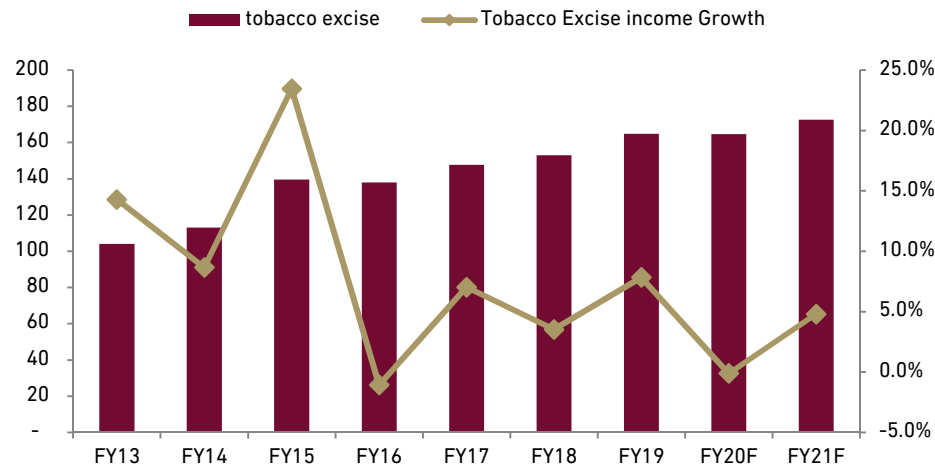
- **Simplification in cigarette tier**

The idea of excise layer/tier simplification was introduced in FY17 under the excise simplification roadmap FY18-FY21F with aim to cut excise layers from 12 in 2017 to only 5 by 2021. The roadmap was executed in 2018 by cutting 2 layers to only 10 layers of excise in 2018. However this roadmap was cancelled in the end of 2018 due to 2019 presidential election. Thus up to now the layers remain the same, and now the government planned to simplify again this excise layers in order to regulate cigarette consumption more effectively and maximize government income. As 2020 cigarette price gap have widened due to the undisciplined passed on of excise by producer and price gap between tier 1 and non-tier 1 player. Thus, the layers reduction should be positive as a backstop of down trading in the medium term and limit smaller player to exploit wider price gap in the sub layer, but in the short term if the layer reduction only 2 in FY21 we think it is not enough critical mass to be a direct circuit breaker.



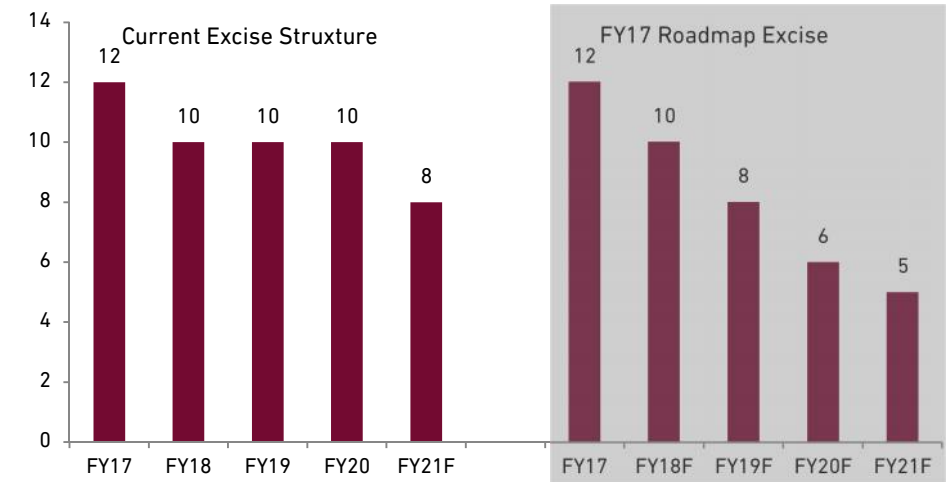
## EQUITY MARKET OUTLOOK 2021

**Exhibit 126: Government excise income and Growth**



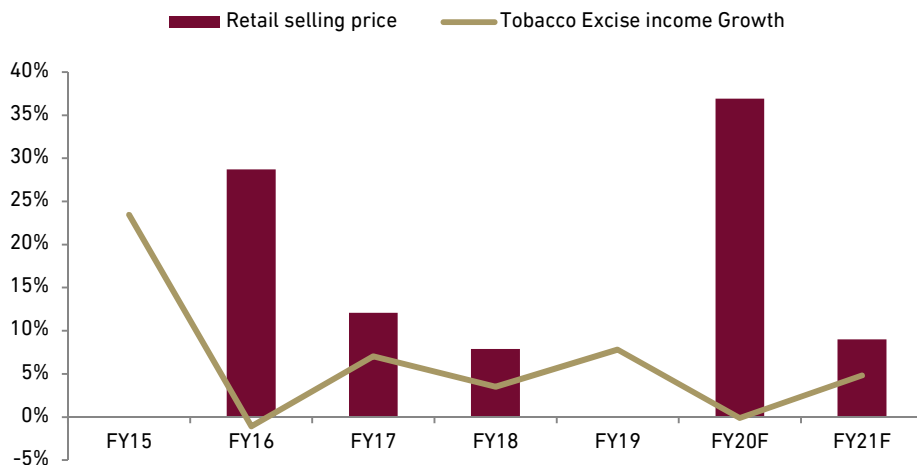
Source: MOF, Ciptadana sekuritas

**Exhibit 128: Current excise layer vs FY17 simplification roadmap**



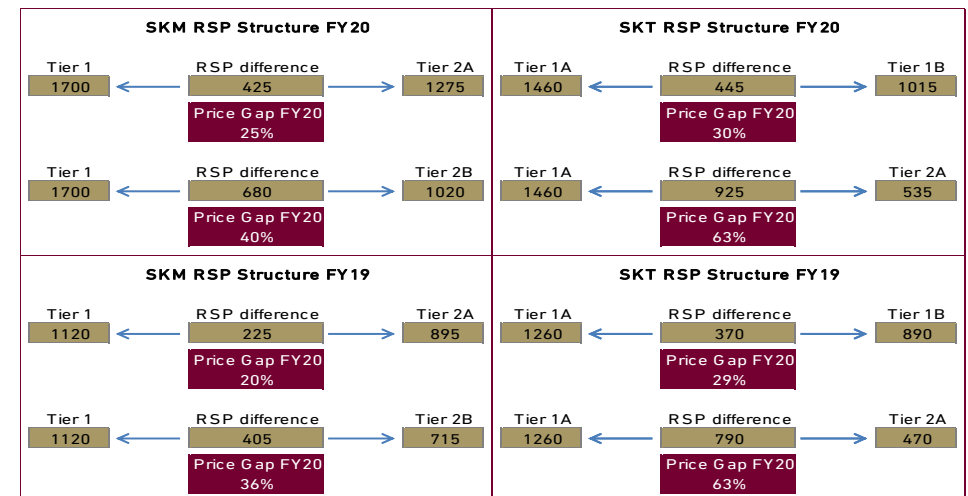
Source: MOF, Ciptadana sekuritas

**Exhibit 127: Government excise income VS RSP hike**



Source: MOF, Company, Ciptadana sekuritas

**Exhibit 129: Widening price gap between Tier**

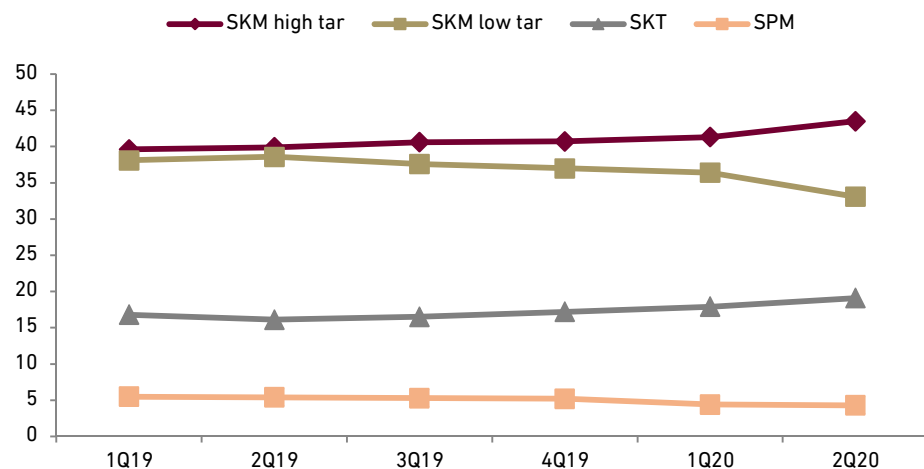


Source: MOF, Ciptadana sekuritas



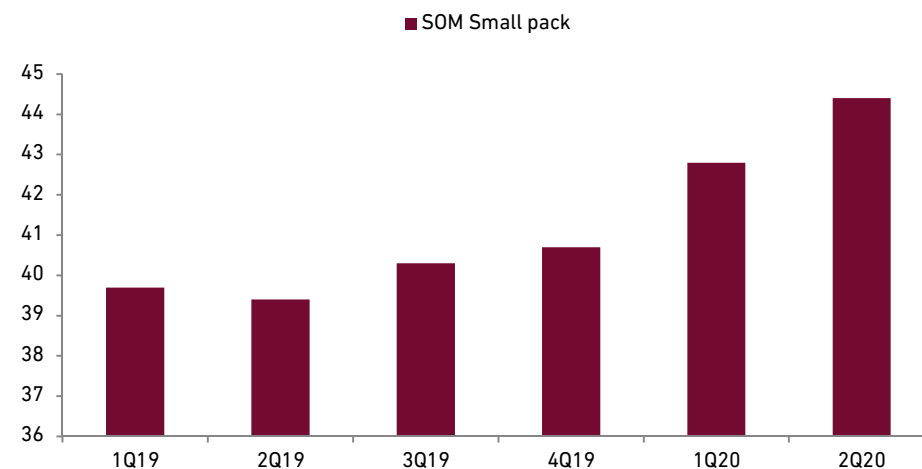
## EQUITY MARKET OUTLOOK 2021

**Exhibit 130: Industry SOM by Segments**



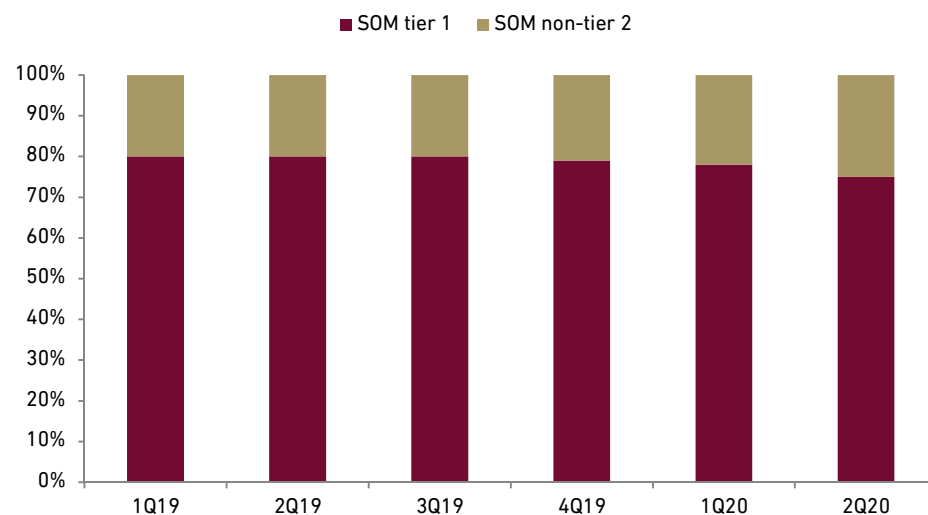
Source: Company, Ciptadana sekuritas

**Exhibit 132: Small Pack cigarette SOM (10-12 stick/pack)**



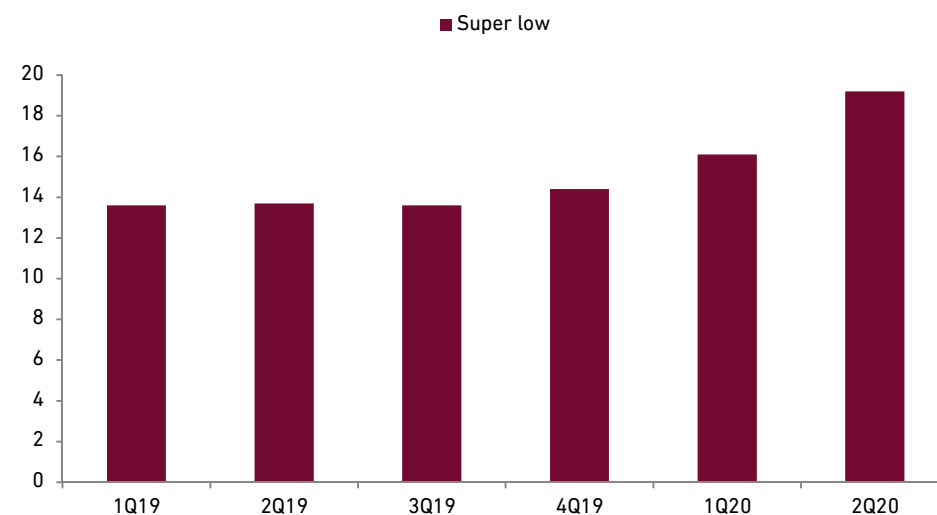
Source: Company, Ciptadana sekuritas

**Exhibit 131: Tier 1 VS. Non-tier 1 SOM**



Source: Company, Ciptadana sekuritas

**Exhibit 133: Super low price cigarette SOM**



Source: Company, Ciptadana sekuritas

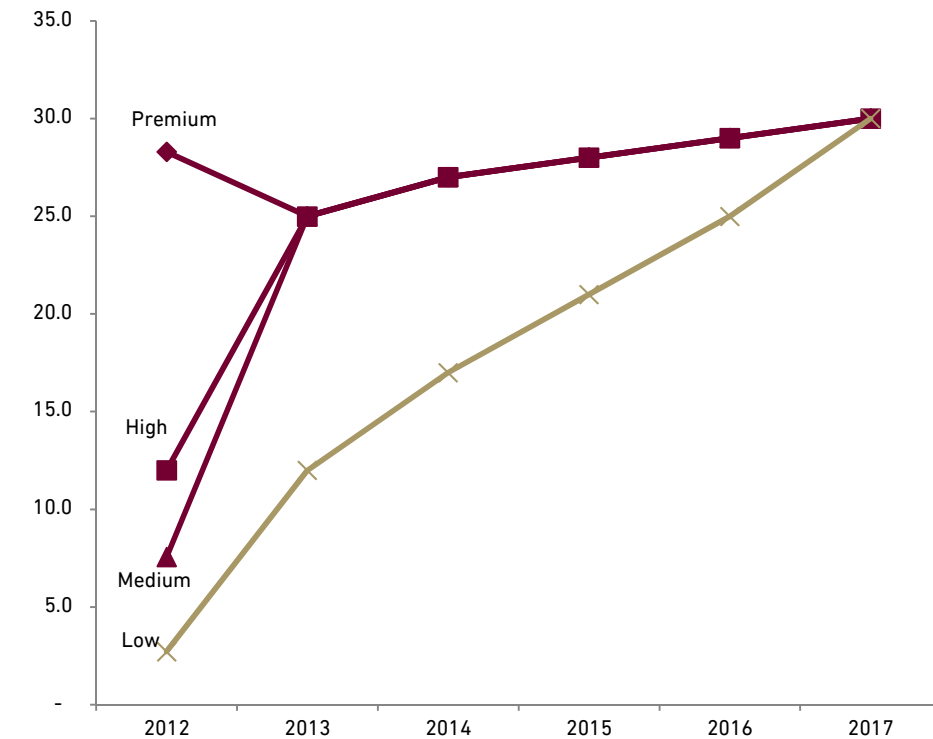




### • Case study from Philippines, higher tax = improvement in healthcare:

The Philippines used to have 4 cigarette classifications and from FY12 to FY17 Philippines simplified the tax structure into unitary tax by cutting the classification and raising taxes. This gradually drove the structure into one tax classification with very positive since the country's incremental revenue is above what government targeted and helped government to increase Department of health budget and the Philippines health coverage budget significantly.

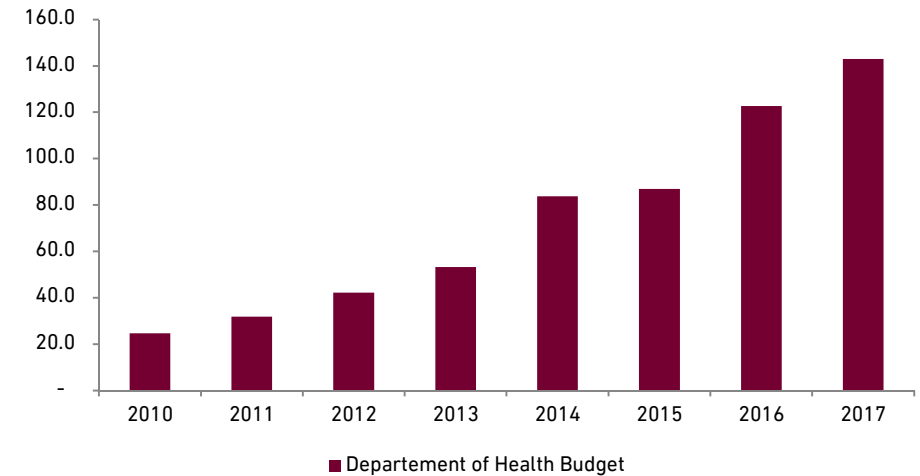
**Exhibit 134: Philippine road to unitary tax (Tax/Pack of 20 stick, in PHP)**



Source: SEATCA

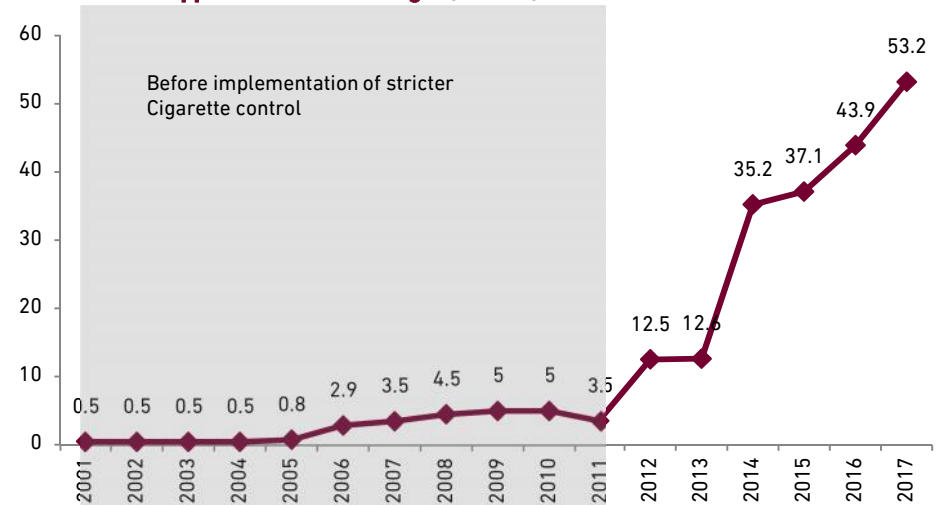
## EQUITY MARKET OUTLOOK 2021

**Exhibit 135: Philippine Department of Health budget jump by 240% (PHP bn)**



Source: SEATCA

**Exhibit 136: Philippine Healthcare Budget (PHP bn)**



Source: SEATCA



## • Preferred Pick GGRM

We prefer GGRM over HMSP since we remain cautious on how FY21F ASP strategy on each company is going to unfold to adjust with 4.8% excise hike during weak purchasing power and undisciplined pricing. Our view, we think GGRM stock prices are already heavily punished compared to HMSP, and provide comparable ROE but traded at lower multiple.

- 1) We have BUY rating on GGRM, our TP implies FY21F PER of 12.1x. We like GGRM due to its lower valuation and comparable dividend yield relative to HMSP.
- 2) We have HOLD rating on HMSP, Our TP implies FY21F PER of 15.6x. We believe the premium valuation over Gudang Garam may be vanished in the future if the firm cannot successfully execute the ASP hike in the future.

**Exhibit 137: Cigarettes stocks rating and valuation**

Bberg		Mkt.Cap	Last	Target	Upside	PER		EV/EBITDA		ROE	Yield
Ticker	Rating	(Rp tn)	Price	Price	pot.(%)	2020F	2021F	2020F	2021F	21F (%)	21F (%)
HMSP	HOLD	165.8	1,425	1,300	-8.8%	18.8	17.1	10.5	8.6	12.6	5.4
GGRM	BUY	80.2	41,675	55,300	32.7%	9.1	9.1	5.6	5.4	13.4	3.8
<b>Sector</b>	<b>N</b>	<b>243.0</b>				<b>15.6</b>	<b>14.5</b>	<b>8.9</b>	<b>7.6</b>	<b>12.9</b>	<b>4.9</b>

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# Gudang Garam

BUY

TP: Rp55,300 (+32.7%)

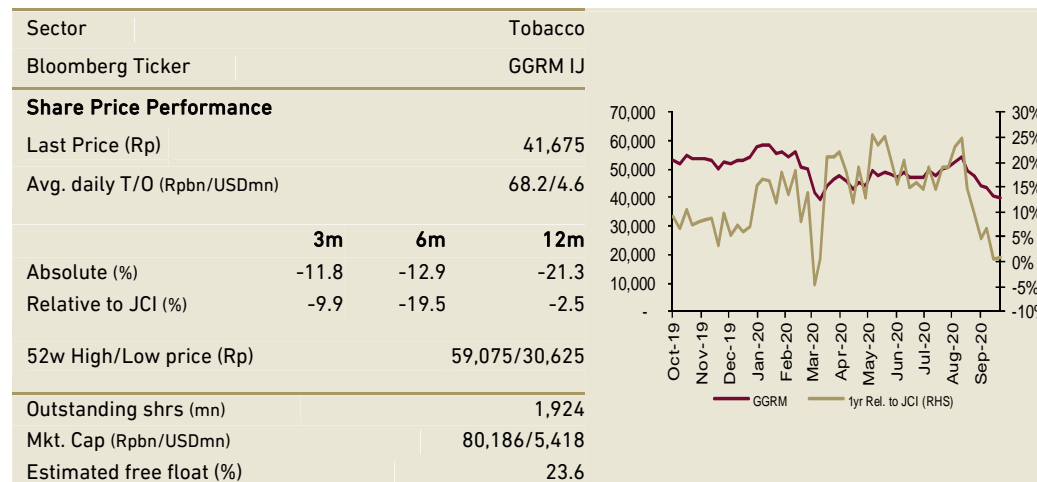
## Company Profile

GGRM is a leading producer of kretek cigarettes in Indonesia which operates production facilities at two main sites in Kediri and Gempol. GGRM produces a wide range of kretek cigarettes including high-tar and low-tar variants (full flavored and mild) as well as traditional hand-rolled kretek.

## Key Points

- **Price hike still hard.** We expect the company to increase ASP by 9.3% next year to catch up with FY20 HJE but not yet pass on the FY21 new HJE which potentially raised by 8%-10%. We forecast company volume to decline by 6.7%. We do not think the company will raise its price aggressively due to more price sensitive consumer's profile.
- **Expect 0.5p.p GPM expansion and flat earnings in FY21F.** We think that the firm will be able to control the volume decline on the back of strong position in FF segment and supported with slower ASP hike.
- **Re-iterate BUY rating with TP of Rp55,300/share.** We have BUY rating on GGRM as our TP offers 32.7% upside potential, post 2<sup>nd</sup> PSBB sell off. Our TP implies FY21F PER of 12.1x. We do not expect any sharp re-rating in the short term as most cigarette player still focuses on market share mode affected by undisciplined price hike and falling consumer purchasing power.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	95,708	110,524	97,160	99,410	100,587
Operating profit (Rpbn)	11,093	14,790	11,833	11,693	10,882
Net profit (Rpbn)	7,792	10,881	8,792	8,802	8,217
EPS (Rp)	4,049.6	5,655.0	4,569.6	4,574.7	4,270.3
EPS growth (%)	0.5	39.6	-19.2	0.1	-6.7
EV/EBITDA (x)	7.1	5.4	5.6	5.4	5.3
PER (x)	10.3	7.4	9.1	9.1	9.8
PBV (x)	1.8	1.6	1.3	1.2	1.1
Dividend yield (%)	6.3	6.2	0.0	3.8	3.6
ROE (%)	17.3	21.4	14.7	13.4	11.6

## Assumptions

Revenue Assumption	2018A	2019A	2020F	2021F	2022F
Machine made (SKM)	84,266	99,776	87,304	81,630	80,813
Hand rolled (SKT)	7,435	7,870	7,083	7,402	7,735
Paperboard & others	1,376	1,088	983	942	939
Export	2,630	1,789	1,789	1,896	2,010

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## Gudang Garam

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>95,708</b>	<b>110,524</b>	<b>97,160</b>	<b>99,410</b>	<b>100,587</b>
COGS	-77,063	-87,741	-76,696	-78,348	-79,521
<b>Gross profit</b>	<b>18,644</b>	<b>22,783</b>	<b>20,464</b>	<b>21,062</b>	<b>21,065</b>
Oper. expenses	-7,551	-7,993	-8,632	-9,369	-10,183
<b>Oper. profit</b>	<b>11,093</b>	<b>14,790</b>	<b>11,833</b>	<b>11,693</b>	<b>10,882</b>
<b>EBITDA</b>	<b>13,358</b>	<b>17,320</b>	<b>14,639</b>	<b>14,775</b>	<b>14,244</b>
Interest income	0	0	0	0	0
Interest expense	-678	-585	-429	-276	-245
Other income (exp.)	29	303	303	303	303
<b>Pre-tax profit</b>	<b>10,479</b>	<b>14,488</b>	<b>11,707</b>	<b>11,720</b>	<b>10,940</b>
Income tax	-2,686	-3,607	-2,915	-2,918	-2,724
Minority interest	-1	0	0	0	0
<b>Net profit</b>	<b>7,792</b>	<b>10,881</b>	<b>8,792</b>	<b>8,802</b>	<b>8,217</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	2,034	3,572	5,875	8,312	10,183
Acct, receivables	1,726	1,876	1,649	2,724	1,929
Inventory	38,560	42,847	37,503	38,327	38,905
Other curr. asset	2,965	3,786	3,328	3,405	3,446
<b>Total current asset</b>	<b>45,285</b>	<b>52,081</b>	<b>48,355</b>	<b>52,768</b>	<b>54,463</b>
Fixed assets - net	22,759	25,374	27,383	29,209	30,791
Other non-curr.asset	1,054	1,192	1,048	1,072	1,085
<b>Total asset</b>	<b>69,097</b>	<b>78,647</b>	<b>76,786</b>	<b>83,049</b>	<b>86,339</b>
ST debt + curr. maturity	17,322	17,413	8,031	8,370	6,192
Acct, payable	1,130	1,297	1,082	1,088	1,100
Advances received	0	0	0	0	0
Other curr. liab	3,552	6,725	5,945	6,094	6,187
Long term debt	0	0	0	0	0
Other non-curr. liab,	1,960	2,281	2,005	2,052	2,076
<b>Total liabilities</b>	<b>23,964</b>	<b>27,717</b>	<b>17,063</b>	<b>17,605</b>	<b>15,554</b>
Shareholder equity	45,133	50,931	59,723	65,444	70,785
Minority interest	0	0	0	0	0
<b>Total liab + SHE</b>	<b>69,097</b>	<b>78,647</b>	<b>76,786</b>	<b>83,049</b>	<b>86,339</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	7,792	10,881	8,792	8,802	8,217
Depreciation	2,265	2,530	2,806	3,081	3,362
Chg in working cap.	1,387	-1,735	4,902	-1,797	290
Other	846	732	536	345	307
<b>CF-Oper activities</b>	<b>12,289</b>	<b>12,407</b>	<b>17,037</b>	<b>10,432</b>	<b>12,175</b>
Capital expenditure	-4,113	-5,375	-5,070	-5,187	-5,249
Others	498	230	254	279	305
<b>CF-Investing activities</b>	<b>-3,615</b>	<b>-5,145</b>	<b>-4,815</b>	<b>-4,908</b>	<b>-4,944</b>
Net change in debt	-3,278	91	-9,382	340	-2,179
Net change in equity	171	-81	0	0	0
Dividend payment	-5,016	-5,003	0	-3,081	-2,876
Other financing	0	0	0	0	0
<b>CF-Financing activities</b>	<b>-8,970</b>	<b>-5,724</b>	<b>-9,918</b>	<b>-3,087</b>	<b>-5,361</b>
<b>Net cash flow</b>	<b>-295</b>	<b>1,538</b>	<b>2,303</b>	<b>2,437</b>	<b>1,870</b>
Cash - begin of the year	2,329	2,034	3,572	5,875	8,312
Cash - end of the year	2,034	3,572	5,875	8,312	10,183

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	14.9	15.5	-12.1	2.3	1.2
Operating profit gr. (%)	-0.2	33.3	-20.0	-1.2	-6.9
Net profit gr. (%)	0.5	39.6	-19.2	0.1	-6.7
Gross margin (%)	19.5	20.6	21.1	21.2	20.9
Operating margin (%)	11.6	13.4	12.2	11.8	10.8
EBITDA margin (%)	14.0	15.7	15.1	14.9	14.2
Net margin (%)	8.1	9.8	9.0	8.9	8.2
ROA (%)	11.3	13.8	11.5	10.6	9.5
ROE (%)	17.3	21.4	14.7	13.4	11.6
Current ratio (x)	2.1	2.0	3.2	3.4	4.0
Quick ratio (x)	0.3	0.4	0.7	0.9	1.2
Interest cover (x)	19.7	29.6	34.1	53.5	58.0
Debt to equity ratio (x)	0.4	0.3	0.1	0.1	0.1
Net debt to equity (x)	0.3	0.3	0.0	0.0	Net Cash



# HM Sampoerna

**HOLD**

**TP: Rp1,300 (-8.8%)**

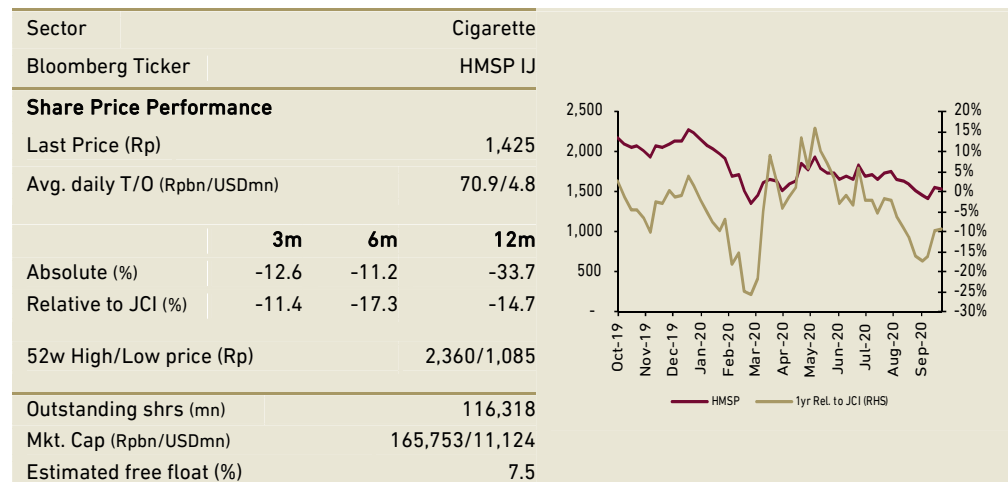
## Company Profile

HM Sampoerna (HMSP) is the biggest cigarette maker with highest market share in Indonesia. The majority stake is owned by Philip Morris, which is the biggest cigarettes company in the world. HMSP has an array of well known brands such as A Mild, Dji Sam Soe and Marlboro. Historically, strong cash flow generation has made the company able to consistently deliver high dividend payout ratio.

## Key Points

- **Revenue growth remains sluggish.** We expect the company to increase its blended ASP by 14.1% in FY21 in order stabilize the 13.3% volume decline impact. The recent down-trade and up-tarring in cigarette consumption hit the company hard in FY20, and we expect the trend to continue but with lower momentum as we assume that the government will simplify cigarette excise layer in FY21.
- **Expect 1.5p.p GPM expansion and 10.3% earnings growth in FY21F.** The ASP hike in FY21 should be positive for the company to partially pass on the excise. Thus we expect company earnings to grow by 10.3% due to low base effect in FY20 and steep decline in cigarette volume.
- **HOLD with FY21F TP of Rp1,300 (8.8% downside).** We derived our TP based on multiple based (PER) methodologies. Our TP implies FY21F PER of 15.6x. We see better situation for HMSP next year due to slow down in volume and market share loss if excise simplification being implemented.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	106,742	106,055	91,890	90,881	93,063
Operating profit (Rpbn)	16,882	17,077	10,180	10,373	10,313
Net profit (Rpbn)	13,538	13,722	8,809	9,717	10,379
EPS (Rp)	116.4	118.0	75.7	83.5	89.2
EPS growth (%)	6.8	1.4	-35.8	10.3	6.8
EV/EBITDA (x)	8.4	8.0	10.5	8.6	6.9
PER (x)	12.2	12.1	18.8	17.1	16.0
PBV (x)	4.7	4.6	2.8	2.2	1.7
Dividend yield (%)	7.5	8.2	8.4	5.4	6.0
ROE (%)	38.3	38.5	15.1	12.6	10.7

## Assumptions

Revenue Assumption	2018A	2019A	2020F	2021F	2022F
Machine made (SKM)	74,291	74,394	62,454	61,767	63,188
Hand rolled (SKT)	20,609	19,694	20,293	20,090	20,994
White cigarette (SPM)	10,904	11,068	8,368	8,334	8,251
Export & others	938	898	776	690	630

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## HM Sampoerna

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>106,742</b>	<b>106,055</b>	<b>91,890</b>	<b>90,881</b>	<b>93,063</b>
COGS	-81,251	-79,932	-73,518	-71,387	-72,598
<b>Gross profit</b>	<b>25,491</b>	<b>26,123</b>	<b>18,372</b>	<b>19,494</b>	<b>20,464</b>
Oper. expenses	-8,609	-9,046	-8,192	-9,121	-10,151
<b>Oper. profit</b>	<b>16,882</b>	<b>17,077</b>	<b>10,180</b>	<b>10,373</b>	<b>10,313</b>
<b>EBITDA</b>	<b>17,835</b>	<b>18,452</b>	<b>11,654</b>	<b>11,933</b>	<b>11,959</b>
Interest income	1,004	1,199	2,004	3,430	4,756
Interest expense	-30	-53	-113	-113	-113
Other income (exp.)	106	37	25	25	25
<b>Pre-tax profit</b>	<b>17,961</b>	<b>18,259</b>	<b>12,097</b>	<b>13,716</b>	<b>14,982</b>
Income tax	-4,423	-4,538	-3,289	-3,999	-4,603
Minority interest	0	0	0	0	0
<b>Net profit</b>	<b>13,538</b>	<b>13,722</b>	<b>8,809</b>	<b>9,717</b>	<b>10,379</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	16,790	19,222	43,246	63,102	84,024
Acct, receivables	3,508	3,255	2,820	2,789	2,856
Inventory	15,183	16,376	15,062	14,626	14,874
Other curr. asset	2,350	2,844	2,515	2,472	2,525
<b>Total current asset</b>	<b>37,831</b>	<b>41,697</b>	<b>63,643</b>	<b>82,989</b>	<b>104,279</b>
Fixed assets - net	7,288	7,298	6,627	5,860	5,026
Other non-curr.asset	839	1,274	1,112	1,100	1,125
<b>Total asset</b>	<b>46,602</b>	<b>50,903</b>	<b>72,016</b>	<b>90,583</b>	<b>111,064</b>
ST debt + curr. maturity	34	168	168	168	168
Acct, payable	3,450	3,802	3,641	3,649	3,657
Advances received	0	0	0	0	0
Other curr. liab	5,310	8,758	7,588	7,505	7,685
Long term debt	81	257	257	257	257
Other non-curr. liab,	2,370	2,239	1,940	1,918	1,964
<b>Total liabilities</b>	<b>11,244</b>	<b>15,223</b>	<b>13,593</b>	<b>13,497</b>	<b>13,731</b>
Shareholder equity	35,358	35,680	58,423	77,086	97,333
Minority interest	0	0	0	0	0
<b>Total liab + SHE</b>	<b>46,602</b>	<b>50,903</b>	<b>72,016</b>	<b>90,583</b>	<b>111,064</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	13,538	13,722	8,809	9,717	10,379
Depreciation	953	1,374	1,474	1,560	1,645
Chg in working cap.	5,988	1,800	610	426	-159
Other	-973	-1,145	-1,892	-3,318	-4,643
<b>CF-Oper activities</b>	<b>19,506</b>	<b>15,751</b>	<b>9,001</b>	<b>8,386</b>	<b>7,222</b>
Capital expenditure	-1,329	-1,363	-803	-793	-812
Others	1,152	861	0	0	0
<b>CF-Investing activities</b>	<b>-177</b>	<b>-501</b>	<b>-803</b>	<b>-793</b>	<b>-812</b>
Net change in debt	6	309	0	0	0
Net change in equity	0	0	0	0	0
Dividend payment	-12,481	-13,632	-13,935	-8,946	-9,869
Other financing	188	232	0	0	0
<b>CF-Financing activities</b>	<b>-11,314</b>	<b>-11,945</b>	<b>15,827</b>	<b>12,263</b>	<b>14,512</b>
<b>Net cash flow</b>	<b>8,015</b>	<b>3,304</b>	<b>24,024</b>	<b>19,856</b>	<b>20,922</b>
Cash - begin of the year	7,502	15,516	18,821	42,845	62,701
Cash - end of the year	15,516	18,821	42,845	62,701	83,623

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	7.7	-0.6	-13.4	-1.1	2.4
Operating profit gr. (%)	4.8	1.2	-40.4	1.9	-0.6
Net profit gr. (%)	6.8	1.4	-35.8	10.3	6.8
Gross margin (%)	23.9	24.6	20.0	21.5	22.0
Operating margin (%)	15.8	16.1	11.1	11.4	11.1
EBITDA margin (%)	16.7	17.4	12.7	13.1	12.8
Net margin (%)	12.7	12.9	9.6	10.7	11.2
ROA (%)	29.1	27.0	12.2	10.7	9.3
ROE (%)	38.3	38.5	15.1	12.6	10.7
Current ratio (x)	4.3	3.3	5.6	7.3	9.1
Quick ratio (x)	2.6	2.0	4.3	6.0	7.8
Interest cover (x)	584.8	345.2	103.6	106.1	106.3
Debt to equity ratio (x)	0.0	0.0	0.0	0.0	0.0
Net debt to equity (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



## CEMENT SECTOR





# Cement

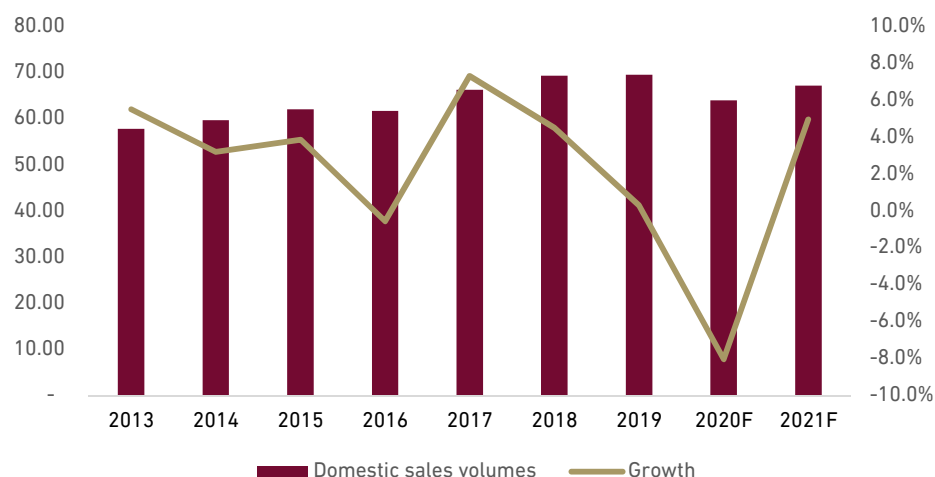
## Neutral

### Sector Outlook

#### Indonesia cement demand to see soft growth in FY21

In 2020, unprecedented event (Covid-19 pandemic) has hit Indonesian cement demand quite severely. Business activities freeze for couple months as the government implemented social-distancing restriction (PSBB). However, after the relaxation of PSBB, apparently the condition has not changed considerably. As such, we view total Indonesian cement consumption growth will remain at negative 6-8% until the end of the year, while start to resume mild growth of 5% in FY21F. Our estimates for next year are based on 3 reasons such as 1) No more PSBB like what happened back in twice in 2020 2) Attractive prospect of residential sector, nonetheless given lower consumers' purchasing power the growth will not be strong, and 3) Infrastructure development continue to stand as the top priority of Indonesian government, yet we are aware of uncertainty toward the projects funding within the private infrastructure projects.

Exhibit 138: Indonesia domestic cement sales volumes



Source: ASI and Ciptadana

#### Concern on pricing discipline to remain persist next year

Since late FY18 up until now, domestic average selling price (ASP) of the incumbent have quite stable as the competition became less intense and bolder oligopoly market due to consolidation of SMGR and SMCB. However, the combination of negative cement consumption growth and additional installed capacity in FY20 have led utilization rate becoming lower. Based on our calculation, if we take into account additional from Semen Grobogan and Semen Hongshi, industry utilization rate will drop to 55-58% in FY20/FY21F from around 63% in FY19. Therefore, we cannot consider the figures as a healthy cement sector. Our concern basically still lies on the sustainability of the pricing discipline since it is very crucial for the stability of cement players' ASP. Furthermore, Indonesian Cement Association (ASI) has made an advice to the government about giving the permits only for new cement capacity that located in Eastern Indonesia. Nonetheless, up until now, we have not heard the concrete feedback from the government about related regulation.

Exhibit 139: Cement Capacity and utilization (Indonesia)

in mn tons	2012	2013	2014	2015	2016	2017	2018	2019	2020F	2021F
Semen Indonesia Group	22.5	27.7	29.5	29.5	29.5	35.5	35.5	50.3	50.3	50.3
Indocement	18.6	18.6	20.5	20.5	24.9	24.9	24.9	24.9	24.9	24.9
Lafarge Holcim Indones	8.5	10.4	12.1	12.1	12.1	14.5	14.8	Merger with SMGR		
Anhui Conch				1.7	1.7	6.7	9.4	11.2	11.2	11.2
Semen Baturaja	1.3	1.3	1.3	1.3	2.0	2.5	3.85	3.85	3.85	3.85
Semen Andalas	1.6	1.6	1.6	1.6	1.6	Merger with Holcim				
Semen Bosowa Maros	4.8	6.0	6.0	6.0	6.0	7.4	7.4	7.4	7.4	7.4
Semen Kupang	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4
Semen Merah Putih					4.0	7.69	7.69	7.69	7.69	7.69
Jui Shin				1.8	1.8	1.8	1.8	1.8	1.8	1.8
Siam Cement					1.8	1.8	1.8	1.8	1.8	1.8
Panasia					1.8	1.8	1.8	1.8	1.8	1.8
Semen Grobogan									3.0	3.0
Hongshi									3.0	3.0
<b>Total Installed Capacity</b>	<b>57.6</b>	<b>65.9</b>	<b>71.3</b>	<b>74.8</b>	<b>87.5</b>	<b>105.0</b>	<b>109.3</b>	<b>111.1</b>	<b>117.1</b>	<b>117.1</b>
<b>Industry Utilization</b>	<b>95.4%</b>	<b>88.0%</b>	<b>84.0%</b>	<b>83.2%</b>	<b>70.8%</b>	<b>63.3%</b>	<b>63.6%</b>	<b>62.8%</b>	<b>54.8%</b>	<b>57.5%</b>

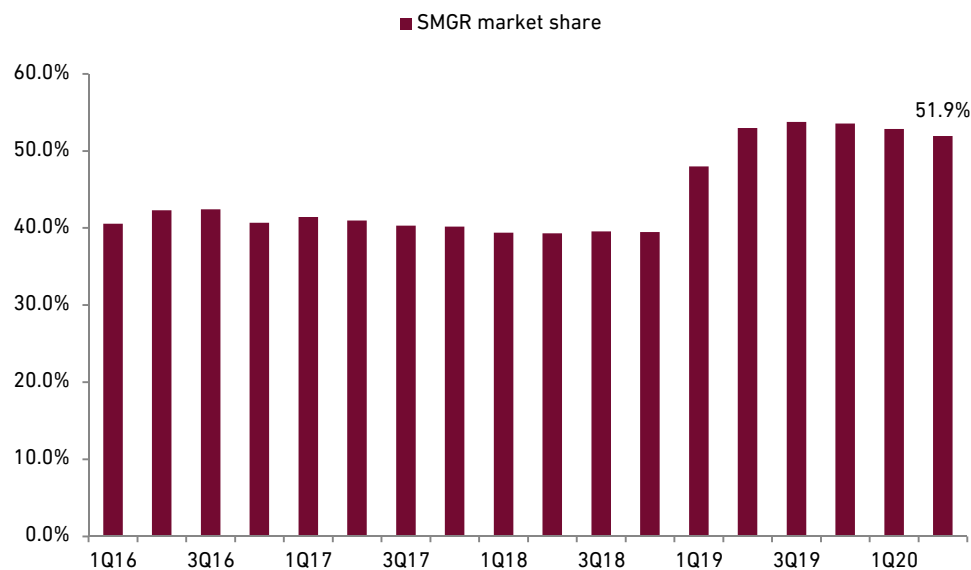
Source: ASI and Ciptadana



- **Total incumbent market share to stay above 75%**

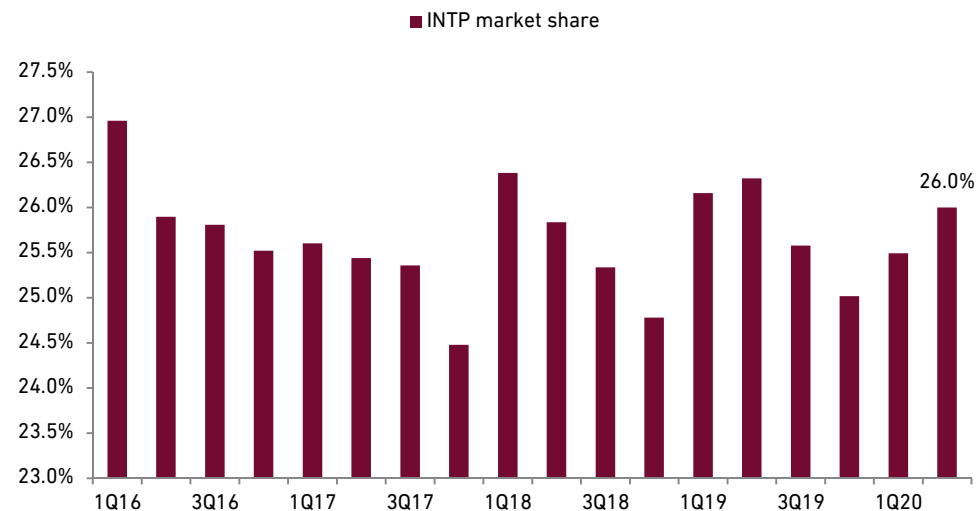
Post the merger between SMGR and SMCB, we view oligopoly market structure in Indonesian cement market has becoming bolder. In 2Q20, SMGR had 51.9% domestic market share, followed by INTP with 26.0%. As such, combined market share between SMGR and INTP is around 78.0%. Despite, utilization rate of cement industry falls below 60%, we think as the incumbent dominates the market, in a way they will have more power to manage cement prices. We do not think the competition to be stiff like what happened back in FY16 until mid-FY18. In addition, we see second-tier cement players are unlikely to sell their cement products at a bigger discount, given the current price points have already below the bigger players (SMGR and INTP). We view ex-incumbent players need to meet their future interest expenses as well, instead of offering bigger prices discount and give more pressure to their financials.

**Exhibit 140: SMGR quarterly market share**



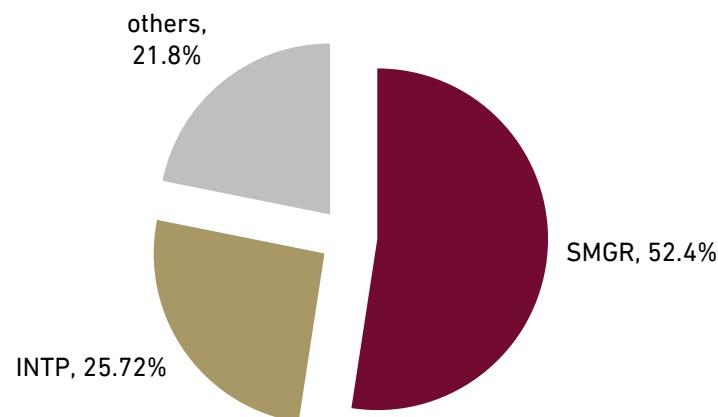
Source: ASI and Ciptadana

**Exhibit 141: INTP quarterly market share**



Source: ASI and Ciptadana

**Exhibit 142: market share in 1H20**



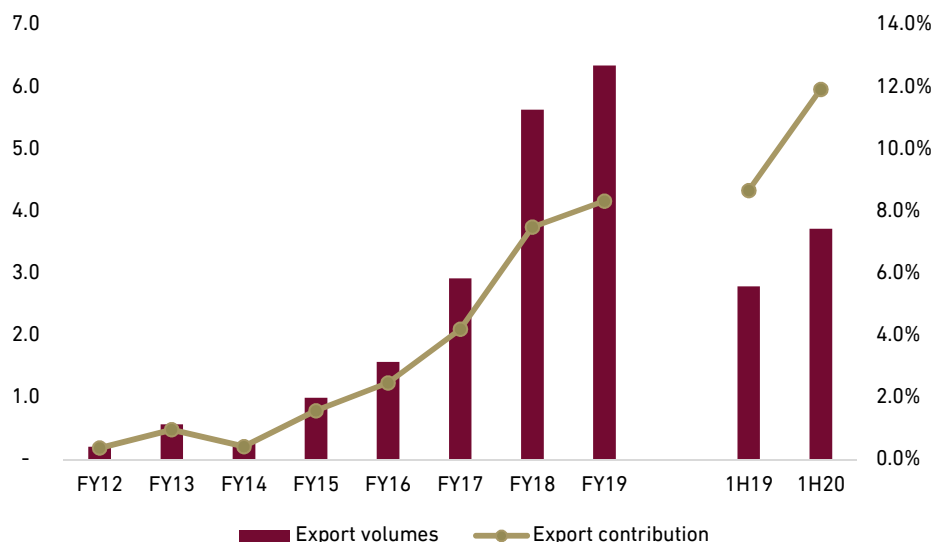
Source: ASI and Ciptadana



- Potential demand from regional to boost Indonesia exports volumes**

Based on our volumes data, export volumes soared by +58.5% CAGR over 2015-2019, bringing export volumes to 8.4% in FY19 (vs. 1.6% in FY15). As per 1H20, it turned out exports remain showing an attractive number despite disruption due to pandemic whereas it jumped by 33.2% YoY to 3.7 mn tons. We discussed with SMGR about the rising exports, 3 countries that stood as the main contributors comprise of Australia, China and Bangladesh. We notice that environmental issue in China is the reason behind why they ask more cement volumes from outside China. We think amid weak demand in domestic market, even though the ASP is relatively lower, pushing exports can be a good strategy to manage cement players' utilization. By and large, in coming years, exports volumes will continue to rise, and we see SMGR is the incumbent that has focus on it.

**Exhibit 143: Export volumes and contribution**

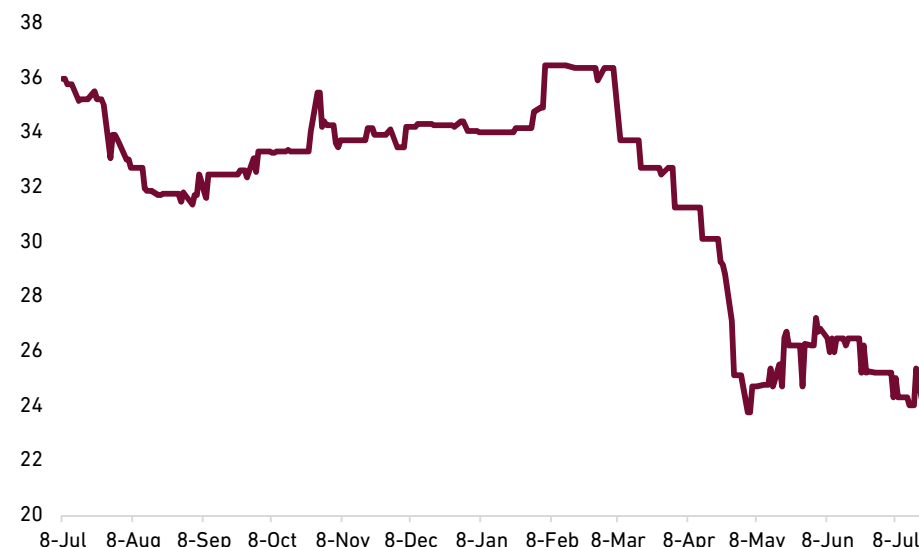


Source: ASI and Ciptadana

- Benign input cost, less margins pressure**

From the cost side, fuel and power have the biggest portion to produce cement. However, in-line with the view of our coal analyst for next year, coal prices will not see any significant hike (<5%). The reason behind it is the demand for coal which remains muted and China also India tends to increase their production volumes. Noting that, our domestic coal price is highly depending on China's demand. Meanwhile, our economist expects FY21F Rupiah to appreciate relative to USD by single low-digit. We foresee in FY21F production cost is not the main issue; hence pressure on cement players margins due to fuel and power cost will be an unlikely story.

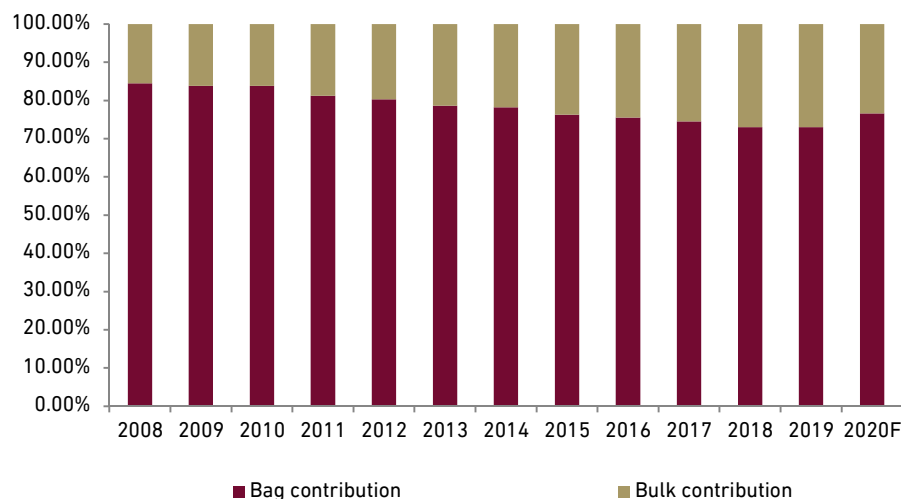
**Exhibit 144: Downtrend in HBA up until July-20**



Source: Bloomberg

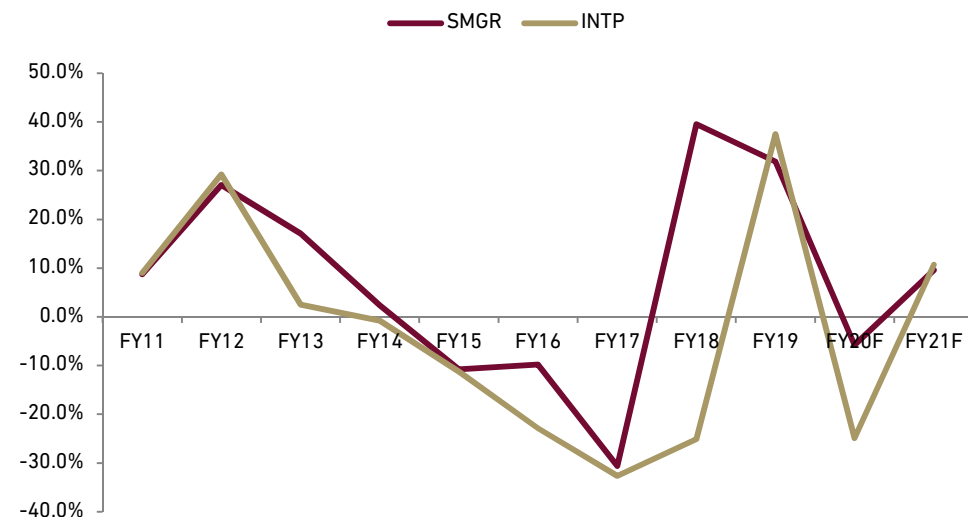


**Exhibit 145: Bag vs Bulk cement contribution**



Source: ASI and Ciptadana

**Exhibit 146: INTP and SMGR EBITDA growth**



Source: Company and Ciptadana

## • Maintain Neutral stance on Indonesian cement

We foresee FY21F will remain challenging for cement sector as the demand will not grow strongly. Our economy will get shock and the recovery takes time. Property development still sees sluggish demand. Infrastructure development may drive bulk cement demand, but we do not have conviction that infra spending will be as big as Jokowi era in pre-2020 years. Private projects would face headwinds given higher precaution of private investors. Therefore, even though the competition will not as severe as the previous years, limited pressure to the margins from the input cost, stabilizing ASP and market share; we reiterate our Neutral stance for cement sector.

In regard with the top pick of the sector, at the moment we prefer INTP over SMGR. At the time of mean reversion happen, we see INTP will have higher upside potential. INTP is a debt free company and will seize the benefit of demand recovery in Java. We have a Buy call on INTP with TP of Rp15,000 and Buy recommendation on SMGR with TP of Rp12,150. Risks to our call include: 1) higher competition in Java which lead to unfavorable ASP movement 2) weakening rupiah 3) Significant hike in coal price and 4) Lack of respond from the government related with moratorium of cement capacity.

**Exhibit 147: Cement stocks rating and valuation**

Bberg		Mkt.Cap	Last	Target	Upside	PER		EV/EBITDA		ROE	Yield
Ticker	Rating	(Rp tn)	Price	Price	pot.(%)	2020F	2021F	2020F	2021F	21F (%)	21F (%)
INTP	BUY	39.0	10,600	15,000	41.5	37.5	32.5	15.9	14.4	6.0	2.1
SMGR	BUY	52.2	8,800	12,150	38.1	30.3	23.5	10.9	9.9	7.3	1.7
Avg.	Neutral					33.4	27.3	13.0	11.8	6.7	1.9

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# Indocement TP BUY

**TP: Rp15,000 (+41.5%)**

## Company Profile

Indocement Tunggal Prakarsa (INTP) is the 2nd largest cement player in Indonesia with 26.0% market share (as of 2Q20). The company sale its cement product under the well-known brand namely "Tiga Roda" and newly introduced brand "Rajawali". Currently, total installed capacity owned by INTP reached 24.9 mtons. In cement industry, the Company has the strongest profitability, which substantially driven by proximity; however centralized operation in West Java has badly impacted INTP during the oversupply in that area.

## Key Points

- **Benefit from bolder oligopoly market**

INTP has a strong balance sheet and is a debt free company. During the testing period due to Covid-19 pandemic, they do not have to worry about their interest-bearing debt. With less intense competition, and relatively more stable ASP and market share; we believe INTP will be poised huge benefit from the demand revival in Java area.

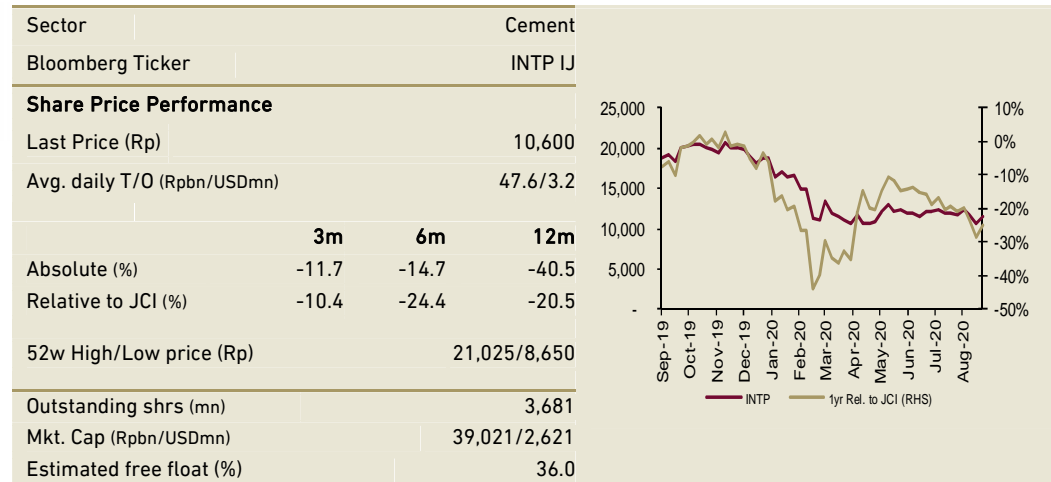
- **Market share to steady above 25%**

The last time we saw INTP market share fell below 25% is in 4Q18. Seeing from the quarterly market share data, we captured more stability on the company market share, with the average of 25.7% during 1Q19-2Q20. Therefore, in FY21F we believe the condition will not turn to be bad, and we expect INTP to manage their market share at above 25%.

- **Reiterate a Buy call with TP of Rp15,000**

We choose INTP as out top pick in cement sector. Despite its always premium multiple relative to SMGR, we believe INTP offers more attractive upside potential when its multiple reverts back to mean. Currently the counter trades at 14.4x 2021 EV/EBITDA and 32.5x 2021 P/E. Moreover, one positive thing to note is INTP keep continuing its initiatives to improve cost efficiencies.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	15,190	15,939	14,041	15,073	16,180
Operating profit (Rpbn)	1,046	1,997	1,137	1,325	1,503
Net profit (Rpbn)	1,146	1,835	1,207	1,391	1,530
EPS (Rp)	311.2	498.6	328.0	378.0	415.6
EPS growth (%)	-38.4	60.2	-34.2	15.2	10.0
EV/EBITDA (x)	16.4	11.8	15.9	14.4	13.2
PER (x)	39.5	24.7	37.5	32.5	29.6
PBV (x)	1.9	2.0	2.0	2.0	1.9
Dividend yield (%)	5.7	4.5	4.1	2.1	2.5
ROE (%)	4.9	8.0	5.3	6.0	6.5

## Assumptions

	2018A	2019A	2020F	2021F	2022F
Domestic Cement ASP ('000)	748.2	786.5	770.8	786.2	809.8
Dom. Sales Volume (in mn tons)	17.7	17.9	16.3	17.1	17.9
COGS/ton	609.0	579.4	580.7	586.8	598.3

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## Indocement TP

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>15,190</b>	<b>15,939</b>	<b>14,041</b>	<b>15,073</b>	<b>16,180</b>
COGS	-10,821	-10,439	-9,505	-10,085	-10,746
<b>Gross profit</b>	<b>4,369</b>	<b>5,500</b>	<b>4,537</b>	<b>4,988</b>	<b>5,434</b>
Oper. expenses	-3,323	-3,503	-3,400	-3,663	-3,931
<b>Oper. profit</b>	<b>1,046</b>	<b>1,997</b>	<b>1,137</b>	<b>1,325</b>	<b>1,503</b>
<b>EBITDA</b>	<b>2,326</b>	<b>3,198</b>	<b>2,402</b>	<b>2,659</b>	<b>2,911</b>
Interest income	332	360	334	394	389
Interest expense	-19	-8	-7	-7	-7
Other income (exp.)	41	-75	27	27	27
<b>Pre-tax profit</b>	<b>1,401</b>	<b>2,275</b>	<b>1,491</b>	<b>1,739</b>	<b>1,912</b>
Income tax	-255	-440	-283	-348	-382
Minority interest	0	0	0	0	0
<b>Net profit</b>	<b>1,146</b>	<b>1,835</b>	<b>1,207</b>	<b>1,391</b>	<b>1,530</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	7,226	7,652	7,179	7,133	7,010
Acct, receivables	2,966	2,984	2,539	2,643	2,793
Inventory	1,838	1,895	1,699	1,824	1,958
Other curr. asset	286	298	263	282	303
<b>Total current asset</b>	<b>12,316</b>	<b>12,829</b>	<b>11,680</b>	<b>11,882</b>	<b>12,063</b>
Fixed assets - net	14,637	14,080	14,491	14,946	15,451
Other non-curr.asset	737	722	680	698	717
<b>Total asset</b>	<b>27,789</b>	<b>27,708</b>	<b>26,927</b>	<b>27,602</b>	<b>28,306</b>
ST debt + curr. maturity	111	107	107	107	107
Acct, payable	1,760	1,749	1,588	1,686	1,796
Advances received	0	0	0	0	0
Other curr. liab	2,055	2,018	1,907	2,026	2,161
Long term debt	5	4	16	12	13
Other non-curr, liab,	636	750	689	726	768
<b>Total liabilities</b>	<b>4,567</b>	<b>4,627</b>	<b>4,307</b>	<b>4,557</b>	<b>4,844</b>
Shareholder equity	23,222	23,080	22,620	23,045	23,462
Minority interest	0	0	0	0	0
<b>Total liab + SHE</b>	<b>27,789</b>	<b>27,708</b>	<b>26,927</b>	<b>27,602</b>	<b>28,306</b>

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	1,146	1,835	1,207	1,391	1,530
Depreciation	1,280	1,201	1,265	1,334	1,409
Chg in working cap.	195	-204	517	6	-62
Other	-118	154	-78	-73	-34
<b>CF-Oper activities</b>	<b>2,502</b>	<b>2,986</b>	<b>2,912</b>	<b>2,659</b>	<b>2,843</b>
Capital expenditure	-937	-644	-1,676	-1,789	-1,913
Others	10	42	9	17	17
<b>CF-Investing activities</b>	<b>-927</b>	<b>-602</b>	<b>-1,667</b>	<b>-1,772</b>	<b>-1,896</b>
Net change in debt	8	-6	12	-3	1
Net change in equity	0	0	0	0	0
Dividend payment	-2,577	-2,025	-1,841	-966	-1,113
Other financing	-76	72	112	37	42
<b>CF-Financing activities</b>	<b>-2,645</b>	<b>-1,959</b>	<b>-1,717</b>	<b>-933</b>	<b>-1,071</b>
<b>Net cash flow</b>	<b>-1,069</b>	<b>426</b>	<b>-473</b>	<b>-46</b>	<b>-124</b>
Cash - begin of the year	8,295	7,226	7,652	7,179	7,133
Cash - end of the year	7,226	7,652	7,179	7,133	7,010

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	5.3	4.9	-11.9	7.3	7.3
Operating profit gr. (%)	-45.7	90.9	-43.1	16.6	13.4
Net profit gr. (%)	-38.4	60.2	-34.2	15.2	10.0
Gross margin (%)	28.8	34.5	32.3	33.1	33.6
Operating margin (%)	6.9	12.5	8.1	8.8	9.3
EBITDA margin (%)	15.3	20.1	17.1	17.6	18.0
Net margin (%)	7.5	11.5	8.6	9.2	9.5
ROA (%)	4.1	6.6	4.5	5.0	5.4
ROE (%)	4.9	8.0	5.3	6.0	6.5
Current ratio (x)	3.1	3.3	3.2	3.1	3.0
Quick ratio (x)	2.7	2.8	2.8	2.6	2.5
Interest cover (x)	124.6	413.2	350.1	398.5	433.8
Debt to equity ratio (x)	0.0	0.0	0.0	0.0	0.0
Net debt to equity (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



# Semen Indonesia

**BUY**

**TP: Rp12,150 (+38.1%)**

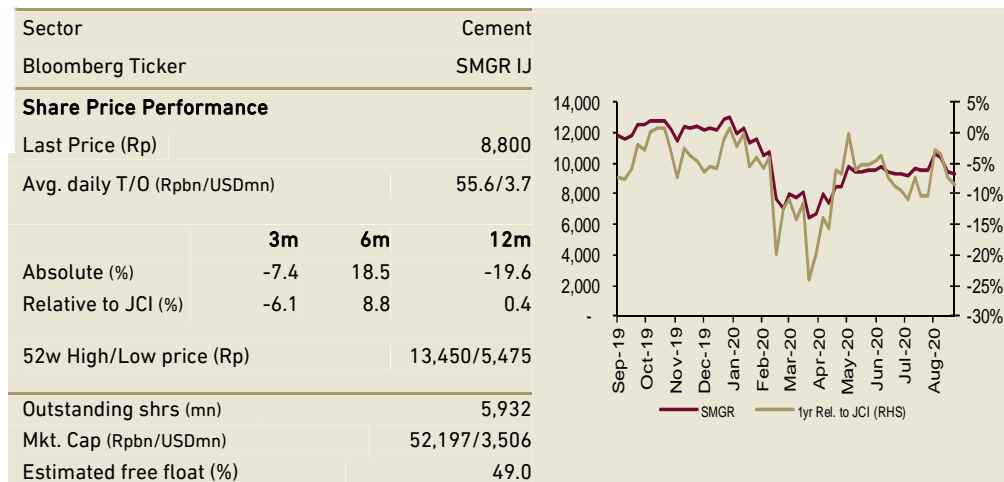
## Company Profile

Semen Indonesia is a state-controlled and the biggest cement producer in Indonesia with around 50 mn tons total domestic installed capacity. Currently, the company has three wholly-owned subsidiaries comprise of Semen Padang, Semen Tonasa and Solusi Bangun Indonesia (formerly Holcim). Presence of Semen Indonesia in regional market has quite sound after successful acquisition of Vietnam based cement producer namely Thang-Long (2.3 mn tons capacity) in 2012. Plants and Terminals location of the company are well spanning across the country, which lead them to witness less intensive competition amid current severe condition.

## Key Points

- **SMGR to improves efficiency**  
Post-merger with SMCB, it is the time for the company to focus on synergy creation and improve efficiency. The company always review the distribution routes and renegotiate to manage the distribution cost. Aside of it SMGR also wants to reduce their cost on clinkers by increasing the non-OPC (Ordinary Portland Cement) product. In addition, with the downtrend of Indonesian benchmark rate, their blended interest rate will go lower as well.
- **Export market is one of the focus**  
One of the focuses of SMGR is to boost exports volumes. With its subsidiary namely SII (Semen Indonesia Internasional), they intent to expand their export market. Top 3 regional countries that SMGR served consist of Australia, China and Srilanka. Going forward, in FY21F, we believe the company will continue their plan to elevate the exports.
- **Maintain a Buy call on SMGR**  
The growth prospect of SMGR remains promising. With well diversified plant location, we think SMGR has ability to manage their ASP. Least cost to serve strategy is giving positive impact to the company. We maintain our Buy call on SMGR with TP of Rp12,150.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	30,688	40,368	39,786	42,313	45,366
Operating profit (Rpbn)	4,773	6,093	5,248	5,921	6,779
Net profit (Rpbn)	3,079	2,392	2,116	2,705	3,411
EPS (Rp)	519.1	403.3	356.8	456.0	575.1
EPS growth (%)	90.0	-22.3	-11.5	27.8	26.1
EV/EBITDA (x)	10.6	10.4	10.9	9.9	8.8
PER (x)	20.6	26.5	30.0	23.5	18.6
PBV (x)	2.0	1.9	1.8	1.7	1.6
Dividend yield (%)	1.3	1.9	1.9	1.7	2.1
ROE (%)	9.9	7.0	6.0	7.3	8.8

## Assumptions

	2018A	2019A	2020F	2021F	2022F
Domestic Cement ASP ('000)	930.1	908.3	912.9	926.6	949.7
Dom. Sales Volume (in mn tons)	27.4	36.5	35.4	37.2	39.1
COGS/ton	778.8	758.7	774.5	797.2	826.5

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## Semen Indonesia

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>30,688</b>	<b>40,368</b>	<b>39,786</b>	<b>42,313</b>	<b>45,366</b>
COGS	-21,357	-27,654	-27,455	-28,635	-30,090
<b>Gross profit</b>	<b>9,331</b>	<b>12,714</b>	<b>12,331</b>	<b>13,678</b>	<b>15,275</b>
Oper. expenses	-4,557	-6,621	-7,083	-7,757	-8,496
<b>Oper. profit</b>	<b>4,773</b>	<b>6,093</b>	<b>5,248</b>	<b>5,921</b>	<b>6,779</b>
<b>EBITDA</b>	<b>6,399</b>	<b>8,437</b>	<b>7,948</b>	<b>8,709</b>	<b>9,666</b>
Interest income	182	218	145	115	97
Interest expense	-959	-3,205	-2,656	-2,509	-2,400
Other income (exp.)	109	90	75	75	75
<b>Pre-tax profit</b>	<b>4,105</b>	<b>3,196</b>	<b>2,812</b>	<b>3,603</b>	<b>4,550</b>
Income tax	-1,019	-825	-717	-919	-1,160
Minority interest	-7	21	21	21	21
<b>Net profit</b>	<b>3,079</b>	<b>2,392</b>	<b>2,116</b>	<b>2,705</b>	<b>3,411</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	5,254	4,018	3,224	2,534	2,298
Acct, receivables	5,786	6,490	6,409	6,817	7,308
Inventory	3,544	4,642	4,612	4,811	5,055
Other curr, asset	1,506	1,509	1,488	1,582	1,696
<b>Total current asset</b>	<b>16,091</b>	<b>16,659</b>	<b>15,734</b>	<b>15,743</b>	<b>16,358</b>
Fixed assets - net	32,392	56,602	56,949	57,567	58,497
Other non-curr.asset	2,215	6,458	6,074	6,387	6,779
<b>Total asset</b>	<b>50,784</b>	<b>79,807</b>	<b>78,846</b>	<b>79,790</b>	<b>81,729</b>
ST debt + curr. maturity	1,690	3,292	5,202	5,531	5,474
Acct, payable	4,476	5,670	5,641	5,884	6,183
Advances received	0	0	0	0	0
Other curr. liab	2,013	3,278	3,255	3,395	3,567
Long term debt	7,912	24,750	21,357	19,556	18,528
Other non-curr, liab,	2,076	6,925	6,601	6,958	7,393
<b>Total liabilities</b>	<b>18,169</b>	<b>43,915</b>	<b>42,056</b>	<b>41,323</b>	<b>41,145</b>
Shareholder equity	31,192	34,277	35,188	36,817	38,886
Minority interest	1,423	1,615	1,601	1,649	1,698
<b>Total liab + SHE</b>	<b>50,784</b>	<b>79,807</b>	<b>78,846</b>	<b>79,790</b>	<b>81,729</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	3,079	2,392	2,116	2,705	3,411
Depreciation	1,626	2,344	2,700	2,788	2,887
Chg in working cap.	-3,042	4,680	-900	-842	-1,076
Other	735	496	476	708	968
<b>CF-Oper activities</b>	<b>2,398</b>	<b>9,912</b>	<b>4,392</b>	<b>5,358</b>	<b>6,190</b>
Capital expenditure	-1,494	-26,554	-3,047	-3,406	-3,817
Others	416	-1,940	542	-163	-252
<b>CF-Investing activities</b>	<b>-1,079</b>	<b>-28,494</b>	<b>-2,505</b>	<b>-3,569</b>	<b>-4,069</b>
Net change in debt	930	18,749	-1,485	-1,473	-1,085
Net change in equity	0	0	0	0	0
Dividend payment	-806	-1,232	-1,196	-1,058	-1,352
Other financing	136	-172	1	51	81
<b>CF-Financing activities</b>	<b>260</b>	<b>17,345</b>	<b>-2,680</b>	<b>-2,480</b>	<b>-2,357</b>
<b>Net cash flow</b>	<b>1,579</b>	<b>-1,237</b>	<b>-794</b>	<b>-690</b>	<b>-235</b>
Cash - begin of the year	3,675	5,254	4,018	3,224	2,534
Cash - end of the year	5,254	4,018	3,224	2,534	2,298

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	10.3	31.5	-1.4	6.4	7.2
Operating profit gr. (%)	81.3	27.7	-13.9	12.8	14.5
Net profit gr. (%)	90.0	-22.3	-11.5	27.8	26.1
Gross margin (%)	30.4	31.5	31.0	32.3	33.7
Operating margin (%)	15.6	15.1	13.2	14.0	14.9
EBITDA margin (%)	20.9	20.9	20.0	20.6	21.3
Net margin (%)	10.0	5.9	5.3	6.4	7.5
ROA (%)	6.1	3.0	2.7	3.4	4.2
ROE (%)	9.9	7.0	6.0	7.3	8.8
Current ratio (x)	2.0	1.4	1.1	1.1	1.1
Quick ratio (x)	1.5	1.0	0.8	0.7	0.7
Interest cover (x)	6.7	2.6	3.0	3.5	4.0
Debt to equity ratio (x)	0.3	0.8	0.8	0.7	0.6
Net debt to equity (x)	0.1	0.7	0.7	0.6	0.6



## AUTOMOTIVE SECTOR



# Automotive

## Neutral

### Sector Outlook

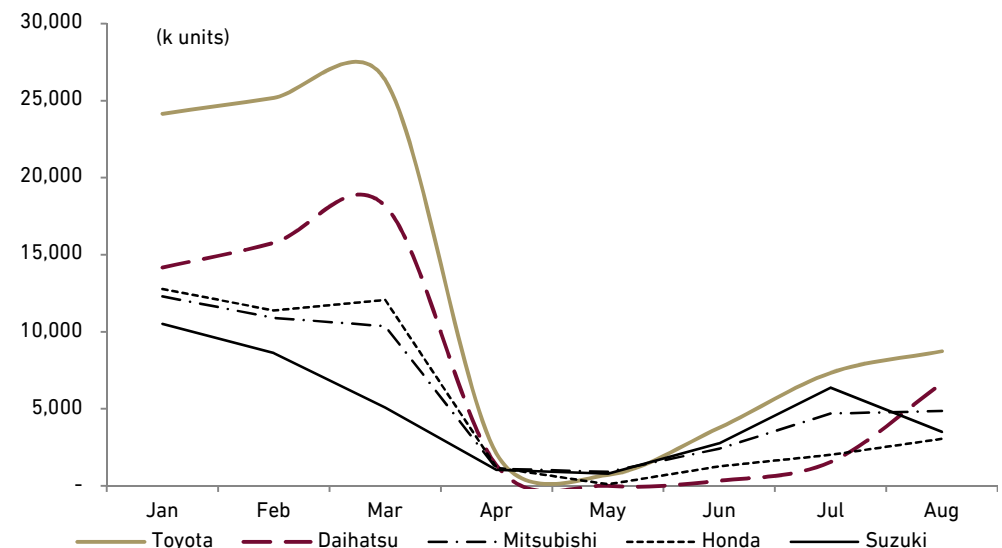
- **Monthly recovery in automotive volume seen**

After recording monthly volume below 10 k units in April (7.8 k units) and May (3.5 k units), domestic car sales volume rose by 256% MoM to 12.6 k units in June, 100.3% MoM in 25.2 k units in July, and 47.4% MoM in August to 37.2 k units. This is still far below average pre-Covid monthly volume of 79 k units. However, 8M20 volume still went down significantly by 51% YoY to 323 units. Astra reported 16.8 k units sales volume in Aug-20 (+65% MoM) translating to a market share of 45% in Aug-20 (+4.9% MoM). Non-Astra brand saw a 47% MoM growth to 20.5 k units. Cumulatively, Astra sold 166.4 k units in 8M20 (-52% YoY, 51% of 2020F of 327 k units) and maintained its solid market share of 52.1%. We also see new challenge from the implementation of second round PSBB in September. We believe sales volume for the rest of year will be affected by duration of Jakarta's second round of PSBB. This would force dealers and factories to operate at 25% capacity but better than temporary close seen at beginning of first round of PSBB in April.

- **Astra still leads the recovery and market share**

We witness different recovery path among major models since the bottom volume in May-20. Astra major brands (Toyota and Daihatsu) continued to show gradual monthly recovery with monthly growth of 120-527% in Jun-20 to Aug-20. On Non-Astra brand, only Honda that showed continued gradual recovery while Mitsubishi and Suzuki volume recovery stopped in Aug-20. Astra also gained strong market share recovery from the lowest level of 31.0% in May-20, to 38.5% in Jun-20, 40.1% in Jul-20 and 45.0% in Aug-20. Cumulatively, Astra still held the largest market share of above 51.4% in 8M20 due to strong market share in 1Q20. On LCGC segment which accounted for 20% of total domestic car volume in 8M20, Astra controls 73% market share.

Exhibit 148: Indonesia's major brand car volume trend



Source: Gaikindo

- **Automotive sector to get Rp70 tn stimulus from government**

The ministry of industry has prepared economic stimulus amounting to Rp70 tn for automotive industry to mitigate Covid-19 impact in Indonesia. The ministry has proposed fiscal, non-fiscal, and monetary stimulus to the related ministry and agencies on the new policies. In detail, the fiscal stimulus is in the form of incentives income tax for six months, value added tax refunds also for six months, and a reduction in import duties. Non-fiscal stimulus is given in the



scheme of simplifying or reducing export and import for raw materials, accelerating the export-import process for reputable traders, and simplifying the import-export process through NLE (National Logistic Ecosystem). Auto is a crucial sector for the economy. Gaikindo mentioned that there are 1.5 mn people working in the auto and related sectors including component suppliers, dealers, financing companies, insurance companies, gas stations and after sales services.

- **Ministry of Industry appeals for tax waiver for new cars to boost sales**

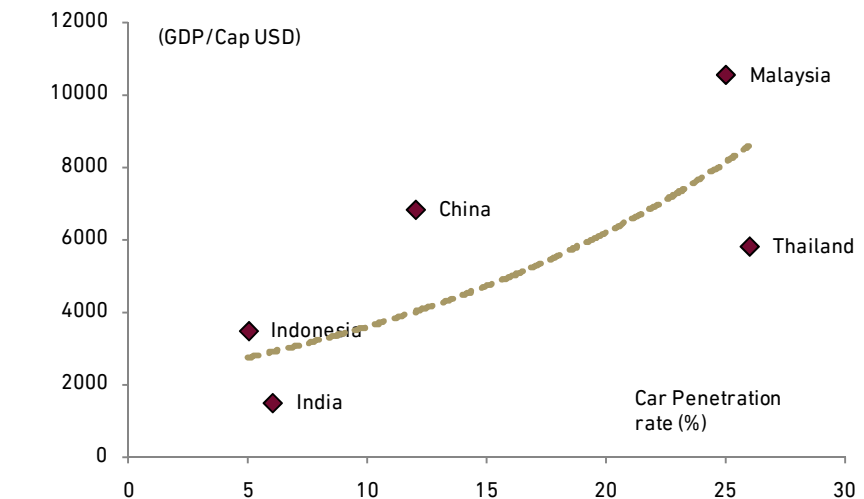
The Industry Minister has requested Finance Minister to temporarily exempt vehicle tax for new cars (zero tax) until December in a bid to boost car sales amid Covid-19 pressures. Domestic new car sales volume declined by 51% YoY to 323.5 k units in 8M20. Based on our understanding, there are three vehicle taxes for new cars : i) Vehicle registration or transfer of title tax is a one-time tax and costs 10%-15% of the sales price of the vehicle and is levied at the discretion of individual provincial governments. ii) 30 % luxury tax on sales of sedans with a cylinder capacity of up to 1,500 cc and 40% for 1,500-3,000 cc sedans. Smaller MPVs and SUVs are currently taxed at 10% while larger models are taxed at 20% and iii) 10% value-added tax. If zero tax implemented, we estimate tax saving for new car buyer could range between 20-35% given that SUVs and MPVs make up the majority of new car sales. This can also trigger new cars purchase as price of new cars can be similar to used cars. Therefore, we believe Astra International will be main beneficiary of this potential tax cut followed by other producers such as Bintraco (CARS) and Indomobil IMAS.

- **Long-term growth outlook still favorable**

Indonesia's auto industry's long-term growth potential is high, in our view, as this is one of the largest and least-penetrated markets especially for car compared to regional countries. Indonesia's 4W penetration rates stood at only 7% versus 26% in Thailand and 25% in Malaysia. In addition to low penetration rate, our positive view is also supported by 1) uptrend in GDP, 2) relatively poor and expensive public transportation, 3) rising middle income class implying consumers' affordability to purchase cars will improve further in the

coming years as households shift to higher-income bracket and 4) favourable demographics structure. The Indonesian automotive industry remains attractive for current and future investment in the region with low labor costs and favorable production growth while 1.5 mn autoworkers in the country qualified as skilled workers, promising productivity at a lower input cost, according to Gaikindo.

**Exhibit 149: Car penetration vs. GDP per capita**



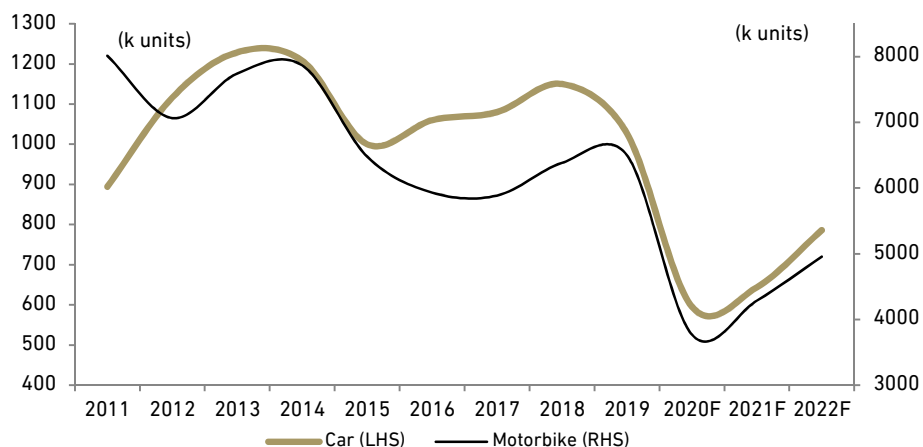
Source: ADB, Gaikindo, IMF, Ciptadana estimates



## • Maintain Neutral rating on sector and Hold rating on Astra

In light of the fast-spreading Covid-19, our economist views that a nationwide strict mobility to contain the outbreak will adversely impact the economy in the short term. This has led to showrooms, manufactures and deliveries to be partly / temporarily closed and delayed, respectively, across all marques. Going forward, the full impact would depend on the outcome of containment measures and whether movement restriction would be extended. Thus, we are placing our 2020 volume target of 596 k units (-42% YoY) and 2021's of 745 k units (+25% YoY), still 28% below pre-Covid level of 1.0 mn units. On motorbike, we see 42% YoY decline to 3.8 mn units and 27% YoY growth to 4.8 mn units in 2020-21F. We expect the sales recovery will be gradual for both 4W and 2W, because the purchasing power of average Indonesians is greatly affected by the pandemic. Consumers remain cautious about their spending, becoming more mindful of how they spend their money, looking for ways to save money rather than spending. We have Hold rating on Astra as we remain cautious on its 2020-21F weak car volume of 310-375 k units and hike in Astra's credit cost in its financing units in increased restructured loan.

## Exhibit 150: Indonesia's car and motorcycle annual sales volume



Source: ADB, Gaikindo, IMF, Ciptanda estimates

## Exhibit 151: Automotive sector rating and valuation

Bberg		Mkt.Cap	Last	Target	Upside	PER		EV/EBITDA		ROE	Yield
Ticker	Rating	(Rp tn)	Price	Price	pot.(%)	2020F	2021F	2020F	2021F	21F (%)	21F (%)
ASII	Hold	214.5	5,300	5,800	9.4	13.3	12.5	9.0	7.9	10.9	3.8
<b>Sector</b>	<b>Neutral</b>	<b>214.5</b>	<b>5,300</b>	<b>5,800</b>	<b>9.4</b>	<b>13.3</b>	<b>12.5</b>	<b>9.0</b>	<b>7.9</b>	<b>10.9</b>	<b>3.8</b>

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# Astra HOLD

**TP: Rp5,800 (+9.4%)**

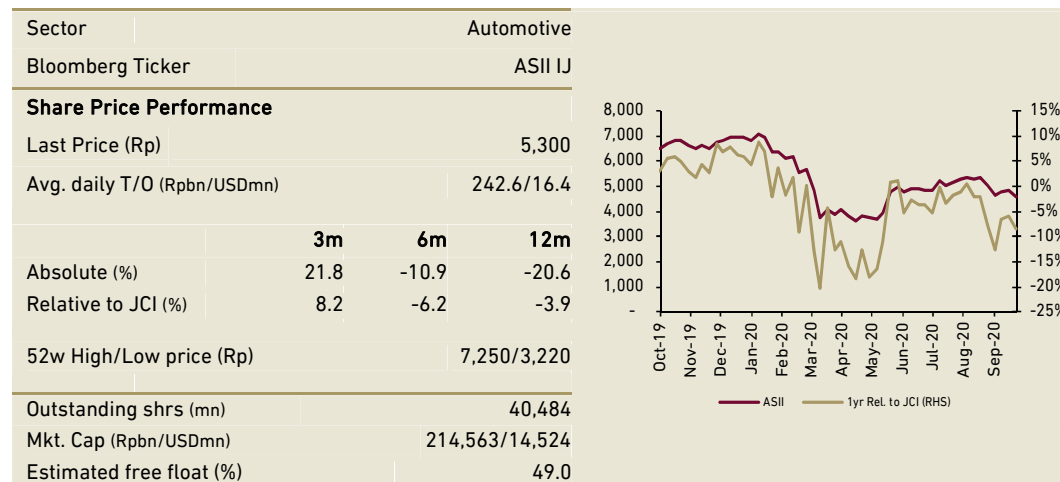
## Company Profile

Listed since 1990, Astra is among the largest companies on the Jakarta Stock Exchange in terms of market capitalization. The company is the largest auto distributor in Indonesia, commanding ~ 50% market share in automobile and ~ 75% market share in motorcycle segments. ASII is structured as a conglomerate with the group's activities are focused on six business segments – automotive, financial services, heavy equipment and mining, agribusiness, infrastructure, logistics and others and information technology.

## Key Points

- **PSBB may slow volume recovery.** Astra reported 16.8 k units sales volume in Aug-20 (+65% MoM , -64% YoY) Cumulatively, Astra sold 166.4 k units in 8M20 (-52% YoY, 54% of 2020F of 310 k units) and maintained its solid market share of 52.1% . However, monthly sales in Sep-Dec need to be around 32 k units which is challenging. We believe sales volume for the rest of 2020 will be affected by duration of Jakarta's second round of PSBB. This would force dealers and factories to operate at 25% capacity.
- **Cash preservation during pandemic.** Astra intends to preserve the cash from the Bank Permata sale given uncertainty on the pandemic, gradually raise the pace of business and for good opportunities in the future. Astra's cash stood at Rp43 tn in Jun-20 .
- **Maintain Hold rating with TP of Rp5,800.** We remain cautious on Astra given our expectation of still weak car volume in 2021 despite growing 21% YoY growth to 375 k units (far below pre-Covid level) and increase in Astra's credit cost in its financing units in increased restructured loan. We still like its leading market share in car , heavy equipment and mining contracting as well as strong balance sheet which could help faster recovery post Covid-19.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	239,205	237,166	187,085	198,996	210,379
Operating profit (Rpbn)	26,868	26,184	18,454	21,986	24,179
Net profit (Rpbn)	21,760	21,707	16,416	17,491	19,175
EPS (Rp)	537.5	536.2	405.5	432.1	473.6
EPS growth (%)	15.2	-0.2	-24.4	6.6	9.6
EV/EBITDA (x)	7.7	7.2	9.0	7.9	6.8
PER (x)	10.0	10.1	13.3	12.5	11.4
PBV (x)	1.6	1.5	1.4	1.4	1.3
Dividend yield (%)	4.3	5.0	5.0	3.8	4.0
ROE (%)	15.9	14.7	10.8	10.9	11.2

## Assumptions

	2018A	2019A	2020F	2021F	2022F
4W sales (k unit)	582	536	310	375	474
2W sales (k unit)	4,789	4,900	2,842	3,609	3,970
4W market shr (%)	53.6	50.6	52.0	52.0	52.0
2W market shr (%)	74.5	75.2	75.7	74.5	74.5

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**Astra**

#### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>239,205</b>	<b>237,166</b>	<b>187,085</b>	<b>198,996</b>	<b>210,379</b>
COGS	-188,436	-186,927	-150,847	-157,513	-165,481
<b>Gross profit</b>	<b>50,769</b>	<b>50,239</b>	<b>36,238</b>	<b>41,483</b>	<b>44,898</b>
Oper. expenses	-23,901	-24,055	-17,784	-19,497	-20,719
<b>Oper. profit</b>	<b>26,868</b>	<b>26,184</b>	<b>18,454</b>	<b>21,986</b>	<b>24,179</b>
<b>EBITDA</b>	<b>36,290</b>	<b>39,636</b>	<b>30,341</b>	<b>34,596</b>	<b>37,530</b>
Interest income	1,859	1,953	1,217	1,205	1,264
Interest expense	-3,105	-4,382	-4,105	-3,800	-3,303
Other income (exp.)	9,460	10,356	9,306	7,417	8,020
<b>Pre-tax profit</b>	<b>35,082</b>	<b>34,054</b>	<b>24,871</b>	<b>26,806</b>	<b>30,159</b>
Income tax	-7,623	-7,433	-5,429	-5,851	-6,583
Minority interest	-5,699	-4,914	-3,026	-3,464	-4,402
<b>Net profit</b>	<b>21,760</b>	<b>21,707</b>	<b>16,416</b>	<b>17,491</b>	<b>19,175</b>

#### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	25,784	24,730	24,211	25,402	29,200
Acct, receivables	31,220	29,367	26,241	27,911	29,508
Inventory	26,505	24,287	23,144	23,303	24,482
Other curr, asset	50,100	50,674	57,227	59,919	62,580
<b>Total current asset</b>	<b>133,609</b>	<b>129,058</b>	<b>130,822</b>	<b>136,535</b>	<b>145,770</b>
Fixed assets - net	57,733	62,337	63,906	60,603	56,875
Other non-curr.asset	141,205	151,166	140,190	145,667	150,719
<b>Total asset</b>	<b>344,711</b>	<b>351,958</b>	<b>344,315</b>	<b>352,202</b>	<b>362,760</b>
ST debt + curr. maturity	45,529	41,752	30,491	30,085	20,727
Acct, payable	42,263	30,087	27,749	28,975	30,441
Advances received	5,051	5,511	9,354	9,950	10,519
Other curr. liab	23,624	22,612	15,907	15,059	16,496
Long term debt	40,385	50,549	47,448	48,293	46,293
Other non-curr, liab,	13,496	14,684	14,436	8,113	12,413
<b>Total liabilities</b>	<b>170,348</b>	<b>165,195</b>	<b>145,385</b>	<b>140,474</b>	<b>136,888</b>
Shareholder equity	136,947	147,847	151,525	160,808	171,237
Minority interest	37,416	38,916	47,405	50,920	54,635
<b>Total liab + SHE</b>	<b>344,711</b>	<b>351,958</b>	<b>344,315</b>	<b>352,202</b>	<b>362,760</b>

## EQUITY MARKET OUTLOOK 2021

#### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	21,760	21,707	16,416	17,491	19,175
Depreciation	9,422	13,452	11,887	12,610	13,351
Chg in working cap.	-75	-8,105	1,932	-604	-1,310
Other	-3,328	-7,879	-9,415	-2,944	-655
<b>CF-Oper activities</b>	<b>27,779</b>	<b>19,175</b>	<b>20,820</b>	<b>26,553</b>	<b>30,561</b>
Capital expenditure	-30,721	-10,188	-7,904	-7,902	-8,203
Others	990	-3,998	5,703	-6,890	-6,479
<b>CF-Investing activities</b>	<b>-29,731</b>	<b>-14,186</b>	<b>-2,201</b>	<b>-14,793</b>	<b>-14,682</b>
Net change in debt	1,415	6,387	-14,362	439	-11,359
Net change in equity	0	0	0	0	0
Dividend payment	-10,489	-11,230	-10,854	-8,208	-8,745
Other financing	4,645	-1,009	6,357	-2,809	8,016
<b>CF-Financing activities</b>	<b>-4,429</b>	<b>-5,852</b>	<b>-18,859</b>	<b>-10,578</b>	<b>-12,089</b>
<b>Net cash flow</b>	<b>-6,381</b>	<b>-863</b>	<b>-240</b>	<b>1,182</b>	<b>3,791</b>
Cash - begin of the year	31,574	25,193	24,330	24,090	25,272
Cash - end of the year	25,193	24,330	24,090	25,272	29,063

#### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	16.1	-0.9	-21.1	6.4	5.7
Operating profit gr. (%)	32.2	-2.5	-29.5	19.1	10.0
Net profit gr. (%)	15.2	-0.2	-24.4	6.6	9.6
Gross margin (%)	21.2	21.2	19.4	20.8	21.3
Operating margin (%)	11.2	11.0	9.9	11.0	11.5
EBITDA margin (%)	15.2	16.7	16.2	17.4	17.8
Net margin (%)	9.1	9.2	8.8	8.8	9.1
ROA (%)	6.3	6.2	4.8	5.0	5.3
ROE (%)	15.9	14.7	10.8	10.9	11.2
Current ratio (x)	1.1	1.3	1.6	1.6	1.9
Quick ratio (x)	0.9	1.0	1.3	1.3	1.6
Interest cover (x)	11.7	9.0	7.4	9.1	11.4
Debt to equity ratio (x)	0.6	0.6	0.5	0.5	0.4
Net debt to equity (x)	0.4	0.5	0.4	0.3	0.2





## HEAVY EQUIPMENT SECTOR



# Heavy Equipment

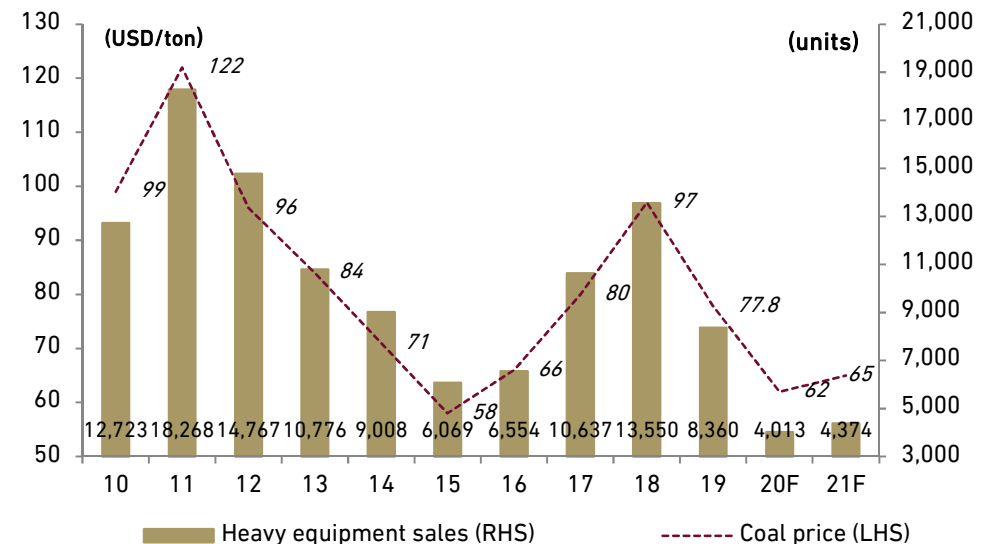
## Neutral

### Sector Outlook

- Pandemic halts the uptrend demand**

After experiencing a three year upswing from the 2015-16 cycle, the uptrend in heavy equipment (HE) demand was halted this year due to severe Covid-19 impact. This adds complexity to the task of estimating how the replacement cycle will play out. On the one hand the industry as a whole has an ageing fleet. On the other hand, based on historical lifetime and utilization assumptions, the replacement cycle should have been completed already and the fleet should be trending younger. Third, the coal industry, which represents more than 40% of material moved, and therefore is a major element of the fleet, is dealing with a large unfavourable coal prices shock that came around USD50/ton at time of writing. We expect coal miners to precipitate a wave of cash preservation measures although it could be offset, partially, by more favourable cash flow conditions in nickel, gold, and copper. Our coal analysts expect coal benchmark prices to stay low at USD62-65/ton in 2020-21F. Heavy equipment demand has strong correlation with coal price

**Exhibit 152: Indonesia's heavy equipment cycle and coal prices**



Source: AEMR and Ciptadana estimates

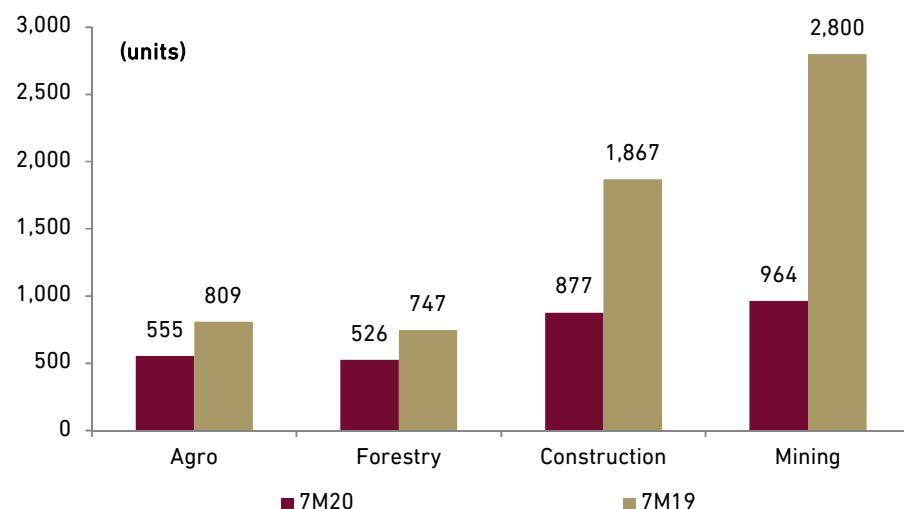
- Expecting decline in 2020 slight recovery next year**

HE demand from agriculture industry is expected to remain relatively resilient as demand for palm oil is poised to recover as lockdowns across the globe begin to ease and major consumers, including China and India, are back in the market boosting purchases to replenish stocks. On the construction sector, the Covid-19 pandemic is expected to impact the construction equipment market growth negatively during 2020 as majority of workers are absent from construction sites for fear of contracting the infection and also due to negative growth in contractors' new contract. The coronavirus pandemic is also pressuring demand on paper packaging, commodity paper and market pulp



prices which negatively affect HE demand from forestry sector. Based on the above factors, we expect Indonesia's HE demand to decline by 52% from 8,360 units in 2019 to 4,013 units in 2020 although they are anticipated to pick up pace by 9% in 2021 to 4,374 units. Sector wise, we believe sales to mining sector still dominate volume albeit in lower share, followed by construction, forestry and agro sector.

**Exhibit 153: Indonesia's heavy equipment demand by sector**



Source: AEMR

## • Komatsu by far the best-selling HE brand

Pertaining to market share, we see Komatsu market share inching down by 2.1% to 32.1% in 7M20 (vs. 34.1% in 7M20) which we believe was dented by significantly lower mining machinery sales which have been its dominant product. Hitachi held second position with market share of 17.2% which was supported by strong sales of forestry machinery (42% of total sales volume). Caterpillar was ranked third and saw a gain in market share from 15.9 % in 7M19 to 16.1% in 7M20. Kobelco enjoys a strong demand from construction

sector which has been its main product . Kobelco is relatively more aggressive in term of pricing and payment terms. Kobelco maintained its ranking 4th in Indonesia's heavy equipment sales with 15.8% share in 7M20 (vs.15.3% in 7M19). We also witness Korean-made excavator makers benefit from strong demand in construction sector. Doosan and Hyundai ranked no five and six with respective market share of 4.1% and 3.6%. The remaining volume were shared by other brands (Volvo, JCB, Terex, Liugong , Liebherr and others)

## • Maintain neutral stance on the sector

The HE markets are exposed to the cyclicity of mining, construction, forestry and agriculture end markets in which the company operates, as well as to broad macroeconomic conditions in Indonesia which are all now in unfavorable condition . Therefore, we are Neutral on heavy equipment sector . We maintain our Hold rating on UNTR (the only stock we cover in the sector) as we believe company's operating environment still relatively weak next year despite a slight improvement from this year but still below pre-Covid level. Solid earnings from gold unit will provide cushion to consolidated earning while loss from construction unit ACST remains a drag.

**Exhibit 154: Heavy equipment sector rating and valuation**

Bberg		Mkt.Cap	Last	Target	Upside	PER		EV/EBITDA		ROE	Yield
Ticker	Rating	(Rp tn)	Price	Price	pot.(%)	2020F	2021F	2020F	2021F	21F (%)	21F (%)
UNTR	Hold	87.6	23,475	23,500	0.1	12.0	9.7	5.1	4.5	12.6	3.6
<b>Sector</b>	<b>Neutral</b>	<b>87.6</b>			<b>0.1</b>	<b>12.0</b>	<b>9.7</b>	<b>5.1</b>	<b>4.5</b>	<b>12.6</b>	<b>3.6</b>

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# United Tractors

HOLD

TP: Rp23,500 (+0.1%)

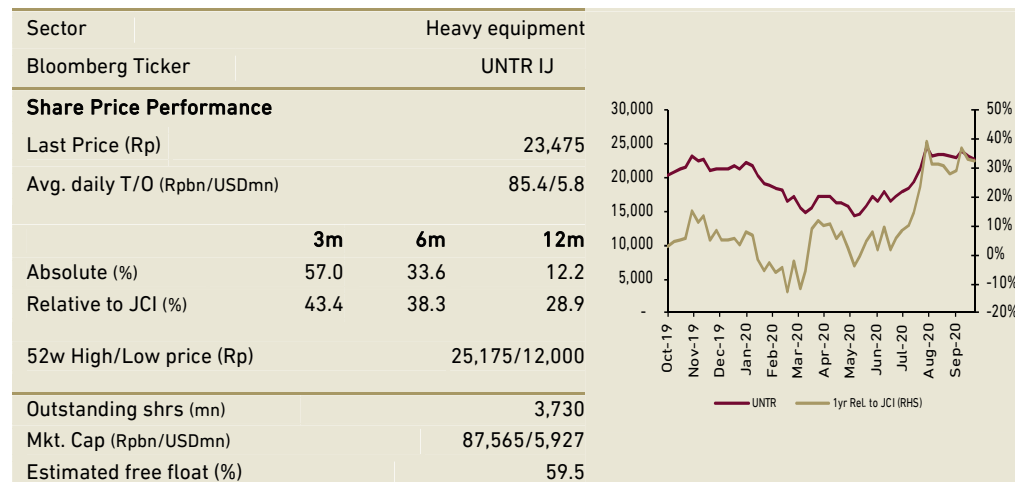
## Company Profile

United Tractor is involved in the distribution of heavy machinery, mining contracting and mining operation. It is the sole distributor of Komatsu heavy equipment and carries other heavy machinery brands such as Nissan Diesel and Scania heavy duty trucks etc. For mining contracting activities, it operates through its 100%-subsidiary, PT Pamapersada Nusantara. UNTR also runs gold mine and construction businesses.

## Key Points

- **Continued weak coal prices to pressure earnings.** With coal prices benchmark sharply fell to below USD50/ton at time of writing, we believe it will give pressure on UNTR going forward. Coal related businesses (heavy equipment, mining contractor and its own coal concession) contributed around 70% of its earnings.
- **High gold prices have a gold lining.** We believe earnings from gold unit could cushion earnings decline from coal related business given its tick margin and solid gold prices. The company has hedged 80% its gold sales volume target until Jan-21 at USD1,350-1,400/oz and will reduce hedging portion in 2021 to take benefit from rising gold prices.
- **Remain at Hold with TP of Rp23,500.** We still expect challenging operating environment in 2021 due to subdued thermal coal market conditions. Higher earnings contribution from gold could help cushion lower profit from coal related business and the loss in its contractor unit ACST. Higher earnings will be partly contributed by lower corporate income tax rate starting in 2020 on government tax reforms to mitigate Covid-19 impact on the corporate.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	84,625	84,430	71,013	75,598	76,762
Operating profit (Rpbn)	16,770	16,605	11,527	13,413	13,615
Net profit (Rpbn)	11,126	11,312	7,319	9,037	9,897
EPS (Rp)	2,982.6	3,032.6	1,962.1	2,422.7	2,653.4
EPS growth (%)	50.3	1.7	-35.3	23.5	9.5
EV/EBITDA (x)	3.9	4.1	5.1	4.5	3.7
PER (x)	7.9	7.8	12.0	9.7	8.9
PBV (x)	1.6	1.5	1.3	1.2	1.2
Dividend yield (%)	4.1	5.1	4.6	3.6	4.2
ROE (%)	20.7	19.4	11.2	12.6	13.5

## Assumptions

	2018A	2019A	2020F	2021F	2022F
Komatsu sales vol (units)	4,879	2,926	1,900	2,100	2,400
Pama coal prod (mn tons)	125.1	131.2	116.9	121.6	124.0
Pama OB (mnbcm)	979.4	988.9	816.6	800.2	808.2
Gold sales (k oz)		410.0	360.0	380.0	390.0

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## United Tractors

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>84,625</b>	<b>84,430</b>	<b>71,013</b>	<b>75,598</b>	<b>76,762</b>
COGS	-63,515	-63,200	-55,845	-58,308	-59,210
<b>Gross profit</b>	<b>21,110</b>	<b>21,231</b>	<b>15,168</b>	<b>17,290</b>	<b>17,552</b>
Oper. expenses	-4,340	-4,626	-3,642	-3,877	-3,936
<b>Oper. profit</b>	<b>16,770</b>	<b>16,605</b>	<b>11,527</b>	<b>13,413</b>	<b>13,615</b>
<b>EBITDA</b>	<b>21,395</b>	<b>21,450</b>	<b>17,070</b>	<b>19,545</b>	<b>21,156</b>
Interest income	764	617	302	291	304
Interest expense	-1,438	-2,334	-2,551	-2,819	-1,912
Other income (exp.)	-388	589	609	1,130	1,153
<b>Pre-tax profit</b>	<b>15,709</b>	<b>15,477</b>	<b>9,887</b>	<b>12,015</b>	<b>13,161</b>
Income tax	-4,210	-4,342	-2,373	-2,763	-3,027
Minority interest	-373	177	-195	-215	-236
<b>Net profit</b>	<b>11,126</b>	<b>11,312</b>	<b>7,319</b>	<b>9,037</b>	<b>9,897</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	13,483	12,091	11,620	12,141	21,398
Acct, receivables	22,093	19,680	17,372	18,493	18,778
Inventory	13,618	11,014	9,925	10,272	10,931
Other curr. asset	6,458	8,043	6,393	6,771	6,867
<b>Total current asset</b>	<b>55,652</b>	<b>50,827</b>	<b>45,311</b>	<b>47,677</b>	<b>57,974</b>
Fixed assets - net	24,585	24,469	31,169	33,984	34,654
Other non-curr.asset	33,704	34,606	35,115	37,363	28,942
<b>Total asset</b>	<b>116,281</b>	<b>111,713</b>	<b>113,415</b>	<b>120,853</b>	<b>123,409</b>
ST debt + curr. maturity	6,966	1,152	1,825	1,906	1,935
Acct, payable	32,673	24,453	21,801	22,763	23,115
Advances received	532	710	527	561	570
Other curr. liab	8,614	6,268	4,546	4,446	4,634
Long term debt	2,959	10,182	9,447	9,863	10,016
Other non-curr. liab,	7,485	7,838	6,591	6,827	6,913
<b>Total liabilities</b>	<b>59,230</b>	<b>50,603</b>	<b>44,737</b>	<b>46,365</b>	<b>47,183</b>
Shareholder equity	53,779	58,212	65,593	71,496	73,187
Minority interest	3,271	2,898	3,085	2,991	3,038
<b>Total liab + SHE</b>	<b>116,281</b>	<b>111,713</b>	<b>113,415</b>	<b>120,853</b>	<b>123,409</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	11,126	11,312	7,319	9,037	9,897
Depreciation	4,625	4,845	5,543	6,132	7,541
Chg in working cap.	1,134	-3,204	745	-507	-592
Other	2,075	-3,607	-4,745	-445	101
<b>CF-Oper activities</b>	<b>18,960</b>	<b>9,346</b>	<b>8,862</b>	<b>14,217</b>	<b>16,947</b>
Capital expenditure	-9,790	-8,634	-9,480	-9,694	-13,722
Others	-17,940	-1,124	5,317	-1,510	9,432
<b>CF-Investing activities</b>	<b>-27,730</b>	<b>-9,758</b>	<b>-4,163</b>	<b>-11,204</b>	<b>-4,289</b>
Net change in debt	5,301	1,409	-62	497	182
Net change in equity	0	0	0	0	0
Dividend payment	-3,639	-4,473	-4,046	-3,134	-3,718
Other financing	-240	2,083	-1,061	143	133
<b>CF-Financing activities</b>	<b>1,422</b>	<b>-981</b>	<b>-5,169</b>	<b>-2,494</b>	<b>-3,403</b>
<b>Net cash flow</b>	<b>-7,348</b>	<b>-1,393</b>	<b>-470</b>	<b>519</b>	<b>9,255</b>
Cash - begin of the year	20,831	13,483	12,091	11,620	12,141
Cash - end of the year	13,483	12,091	11,620	12,140	21,396

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	31.1	-0.2	-15.9	6.5	1.5
Operating profit gr. (%)	55.9	-1.0	-30.6	16.4	1.5
Net profit gr. (%)	50.3	1.7	-35.3	23.5	9.5
Gross margin (%)	24.9	25.1	21.4	22.9	22.9
Operating margin (%)	19.8	19.7	16.2	17.7	17.7
EBITDA margin (%)	25.3	25.4	24.0	25.9	27.6
Net margin (%)	13.1	13.4	10.3	12.0	12.9
ROA (%)	9.6	10.1	6.5	7.5	8.0
ROE (%)	20.7	19.4	11.2	12.6	13.5
Current ratio (x)	1.1	1.6	1.6	1.6	1.9
Quick ratio (x)	0.9	1.2	1.2	1.3	1.6
Interest cover (x)	14.9	9.2	6.7	6.9	11.1
Debt to equity ratio (x)	0.2	0.2	0.2	0.2	0.2
Net debt to equity (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



## CONSTRUCTION SECTOR



# Construction

## Neutral

### Sector Outlook

#### • 2020 is very weak year for contractors as Covid-19 takes toll

Indonesia contractors (including WIKA Beton) reported weak net profits for 2Q20 with some companies reporting first-time quarterly losses. SOE contractors performed much below expectations with 1H20 net profit coming in at less between 2%-17% of our and 5%-19% of our and street's 2020 targets. ADHI and WTON recorded first quarterly net loss in 2Q20 while PTPP saw 80% QoQ decline in net profit. WIKA managed to book quarterly net profit growth helped mainly by recovery in impairment while at operating level booked profit of only Rp18 bn. As for 1H20, the worse performance was ADHI and PTPP at both 2% of our 2020 target with net profit down significantly by both 95% of our 2020F. WIKA and WTON also book sharp drop in net profit of 72-78%, achieving only 7-17% of our 2020F.

We believe it is due Covid-19 impact on construction industry which slowed down and delayed the project execution and tender process as well as lead to contractors' capex savings or cash preservation. The contractor's aggregate new contract wins was subdued at Rp25.6 tn which dropped by 45% YoY and met only 20% of 2020F compared to 36% in 1H19. These resulted to contractor's 1H20 revenue drop of between 29-37% and significant contraction in gross margin of between 240-680 bps prompting to first-time single digit GPM for WIKA (9.4%) and WTON (6.8%) in 1H20. Following the pandemic, the contractors have guided new contracts to only reach 20-50% of initial guidance, depending on their assumption on how long the Covid-19 will last.

#### Exhibit 155 : New contracts and achievement to target

	1H20	1H19	YoY	1H19 Ach	1H20 Ach
PTPP	8.9	14.8	-40	44%	33%
WIKI	3.4	15.2	-78	37%	11%
WSKT	8.1	8.2	-1	32%	52%
ADHI	3.7	5.4	-31	37%	40%
WTON	1.5	2.6	-42	32%	25%
<b>Total</b>	<b>25.6</b>	<b>46.2</b>	<b>-45</b>	<b>36%</b>	<b>20%</b>

Source: Company and Ciptadana estimates

#### • Another challenging year in 2021 despite much higher budget

Indonesia's 2021 state budget draft reveals that the government allocated Rp414 tn budget for infrastructure. This rose by 47% YoY on a low base effect as the government revised down 2020 infrastructure budget by 33% to Rp281 tn from Rp419 tn . We also see government's return to support infrastructure development as infra budget accounted for 15% of total budget which is also the third-largest budget after the budgets for education and social assistance. The infra budget will be allocated among others for 11,650 houses (including low-cost apartment) , sanitation access for 1.04 mn families, 47 units of dam, irrigation network for 20,000 ha, 678 km of roads, railway of 378 km, bridges of 13.1 km and 10 new airport. About Rp30.5 tn will also be allocated for the development of information and communication technology (ICT) in with focus on the acceleration of digital transformation,

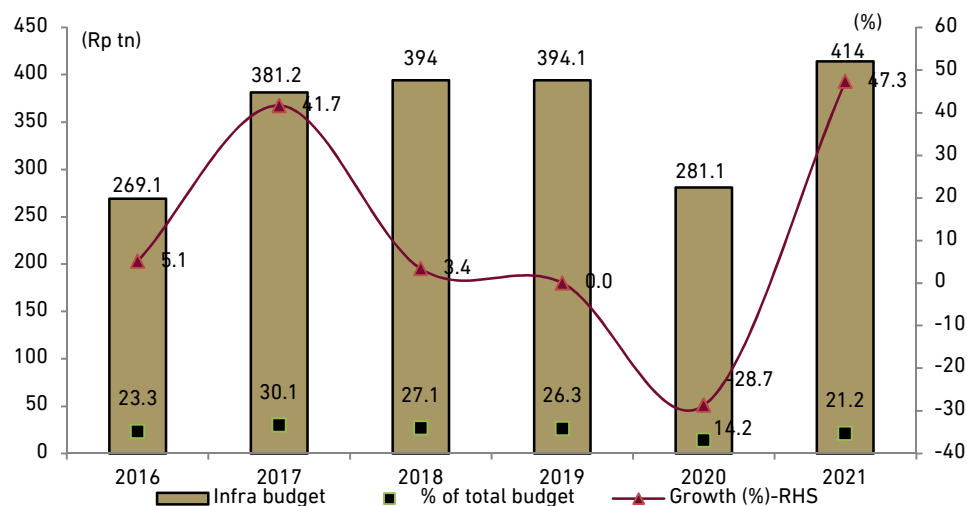
Of the total budget, Rp149.8 tn (+98% YoY) will be allocated to Ministry of Public Work and Housing (PUPR) , followed by region & village fund transfer of Rp131.9 tn (+17%), Ministry of Transportation of Rp45.7 tn (+40%) , State equity





injection of Rp17.4 tn (-8%) but none of listed SOE contractors would receive capital injection, State Asset Management Agency of Rp11 tn (none in 2020) and other spending of Rp58.1 tn (+41%). Judging from Ministry of PUPR low budget relation in 8M20 coupled with the still-large expected budget deficit in 2021, we still expect slow infrastructure budget realization in 2021 as we believe covid-19 pandemic situation will prolong until 2021. Up to mid Aug-20, the absorption of infrastructure spending by the Ministry of PUPR has reached Rp36.5 tn from the total 2020 fiscal year ceiling of Rp83.97 tn (44%) but only 30% of the initial amount of Rp120.2 tn of the 2020 DIPA (Budget Implementation List).

**Exhibit 156 : Infrastructure budget, growth, as % of total spending**



Source: Ministry of Finance

**Exhibit 157 : Infrastructure budget breakdown**

	2020	2021	Chg.
Min. of Public Work (PUPR)	75.6	149.8	98%
Min. of Transportation (Kemenhub)	32.7	45.7	40%
Transfer to village	112.5	131.9	17%
State equity injection (PMN)	18.9	17.4	-8%
State Asset Management (LMAN)	-	11.1	n/a
Others	41.3	58.1	41%
<b>Total</b>	<b>281.0</b>	<b>414.0</b>	<b>47%</b>

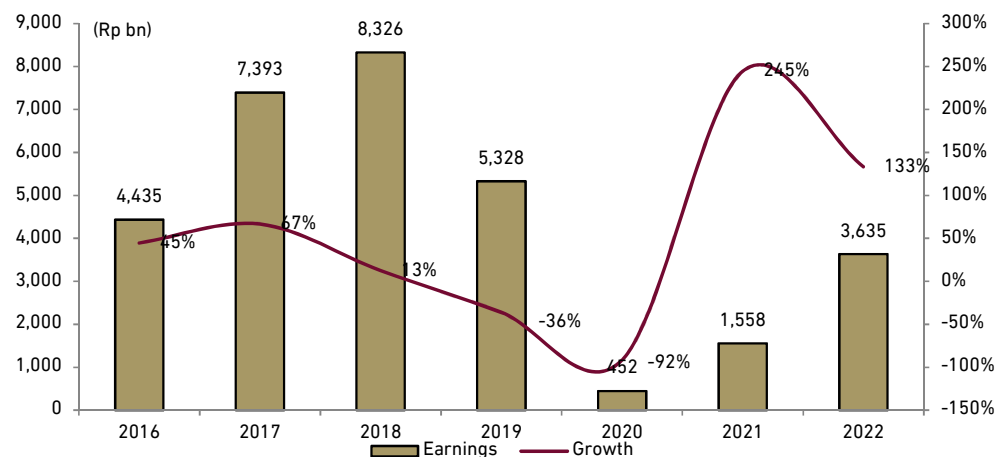
Source: Ministry of Finance

## • Neutral stance premised on weak earnings visibility

We currently have Neutral view on construction sector given its weak earnings visibility due to the weak order-book concern for next year following sharp decline in new contract win in since 2019. This coupled with slow project progress, implying low burning rate, would result in low revenue and margin despite improving from 2020 level but still far below pre-Covid level. We have assumed aggregate new contract wins for our universe of construction companies to continue contracting by -26.5% YoY in 2020F to Rp88.5 tn (2019: -21%) and grow by 15.0% YoY in 2021F to Rp101.7 tn. This would result in 20.4% YoY decline in total orderbook in 2020F to Rp265.2 tn (2019: -14%) before recovery of 11% YoY in 2021F to Rp295.5 tn. As a result, we expect sector revenue by -19% YoY to Rp85.4 tn in 2020F (2019: -17%) and grow by 11% YoY to Rp98.4 tn in 2021F. Coupled with lower margins across the board, we see sector earnings declining by 92% YoY in 2020F to only Rp452 bn (2019: -36%) and recover by 245% YoY off a low base to Rp1.6 tn in 2021F. Moreover, we also concern on contractors stretched balance while 2021 infra budget reveals that no listed SOE contractors that will receive capital injection. We do not expect contractors to face credit defaults despite the probability, as we believe government aid will eventually come to help SOE contractors in loan restructuring or equity injection.



**Exhibit 158 : Contractors earnings and growth**



Source: Company and Ciptadana estimates

## • Valuations are in uncharted territory.

Due to concerns over weak earnings growth trajectory, Indonesia contractors have retracted from 2020F PER of 70.5x to 18.8x in 2021F as WSKT post negative earnings in 2020-21F. We remain negative on the construction sector and believe that valuations will remain depressed amid prevailing macroeconomic risks and weak market sentiment. We note the lack of visible re-rating catalysts, given the unfavourable ripple effects caused by the Covid-19 pandemic, leading to potentially lower-than-expected infrastructure spending realisation by the Government and unclear policy imperatives. Upside risk to our call is higher-than-expected new contract flow that would improve market confidence and sector re-rating. Meanwhile, longer-than-expected Covid-19, further government budget cut, as well as increasing credit risk might serve as downside risks to our call.

## • WIKA and WTON our top picks

We do not expect contractors valuation to quickly revert back to their means in 2021-22F given that the sector faces slow growth in total orderbook. Therefore, we set our target prices based on -1 to -0.5 stdev of mean. However, we still expect a rebound in construction sector next year on improved earnings off low base and market re-rating. Moreover, we believe Indonesia infra still has the most promising long-term outlook given its need for massive upgrade. We have a Buy rating only on WTON and Hold rating for WIKA, PTPP and ADHI. We rate WSKT as a Sell given its very high leverage would hamper room for growth. We select WIKA our top pick due to the company's 1) strongest orderbook among SOE contractors, 2) solid balance sheet will help it to tackle future funding problems, and 3) diversified business portfolio with a proven track record will continue to underpin its long term earnings visibility. We also like WTON on its being a precast manufacture which has better cash flow, balance sheet and ROE than contractors. WTON also remains the precast concrete maker with more than 29% market share in Indonesia supported by nine factories throughout Indonesia.

**Exhibit 159: Construction sector rating and valuation**

Bberg		Mkt.Cap	Last	Target	Upside	PER		EV/EBITDA		ROE	Yield
Ticker	Rating	(Rp tn)	Price	Price	pot.(%)	2020F	2021F	2020F	2021F	21F (%)	21F (%)
WKA	Hold	10.6	1,185	1,200	1.3	13.2	12.7	4.4	4.6	5.8	1.9
WTON	Buy	2.6	270	360	33.3	16.1	7.6	5.3	3.4	8.6	2.0
PTPP	Hold	6.2	1,015	900	-11.3	34.7	10.1	5.5	4.6	4.4	0.8
ADHI	Hold	2.1	610	660	8.2	7.4	5.5	6.1	5.1	6.1	2.7
WSKT	Sell	8.6	645	475	-26.4	-7.4	-28.7	22.4	17.1	-2.0	0.0
Sector	Neutral	30.1				70.5	18.8	10.0	8.1	3.5	1.2

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# Adhi Karya HOLD

**TP: Rp660 (+8.2%)**

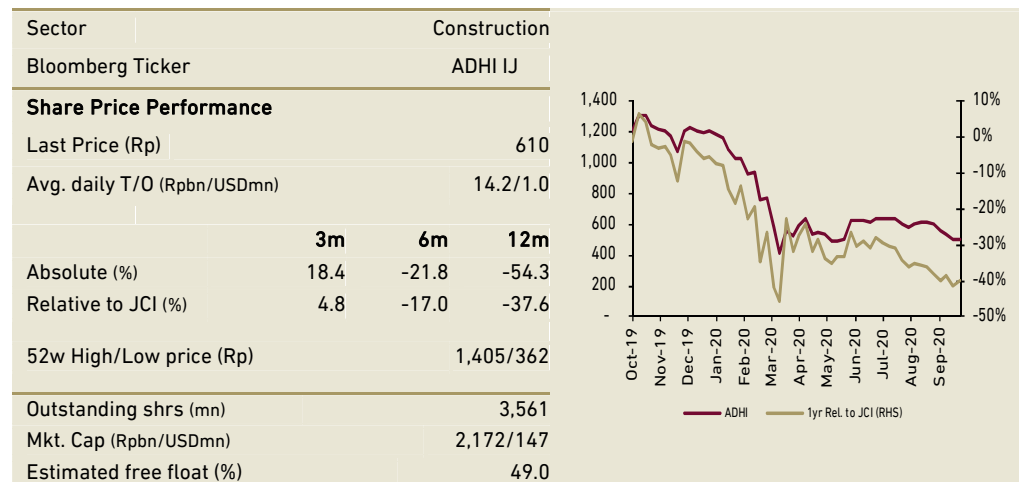
## Company Profile

Adhi Karya (ADHI) is one of the largest state-owned contractors, providing construction services for civil works and EPC for power plants. The company also runs property unit including its own hotel, and investment (precast concrete). In early 2017, ADHI signed the contract of Jabodetabek LRT project phase 1 of Rp23.3 tn with the Transportation Ministry and has reached 71% completion rate due to some delay in the past years. ADHI has high dependency on the LRT project which contributed ~ one third of revenue.

## Key Points

- **Expecting work resumption in big projects.** ADHI sees works recovery in 2H20 at several big projects such as recommence of Phase 2A MRT construction where Shimizu-Adhi Karya JV was appointed as contractor. Moreover, Central Java Governor revealed that construction of the 50-km-long toll road connecting the cities of Yogyakarta and Solo would commence in November 2020. ADHI has received Rp10.75 tn for the construction of the LRT infrastructure. Up to 25-Sep-20, the progress of the project infrastructure construction has reached 77.3%.
- **TOD to support long-term growth.** The company has stepped up its efforts in the construction of transit-oriented development (TOD). The construction of the LRT project will provide new centers of economic activity around the stations. The company was focusing on TOD in four areas, namely Sentul, Ciracas, East Bekasi and Jaticepaka. It hoped to generate up to Rp55 tn over the next five to ten years time.
- **The cheapest contractor stock.** ADHI is trading at only at 2021F PER of 5.5x vs. WIKA's of 14.1x, PTPP's of 10.1x, WTON's of 7.6x and WSKT's negative valuation. However, ADHI stocks trading value is relatively lower compared to WIKA, PTPP and WSKT.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	15,655	15,308	13,948	14,045	16,467
Operating profit (Rpbn)	1,934	1,782	1,500	1,567	1,860
Net profit (Rpbn)	644	664	292	396	543
EPS (Rp)	180.9	186.4	81.9	111.3	152.6
EPS growth (%)	25.0	3.1	-56.1	35.9	37.1
EV/EBITDA (x)	3.5	4.8	6.1	5.1	4.6
PER (x)	3.4	3.3	7.4	5.5	4.0
PBV (x)	0.3	0.3	0.4	0.3	0.3
Dividend yield (%)	4.7	5.9	6.1	2.7	3.6
ROE (%)	10.3	9.7	4.8	6.1	7.6

## Assumptions

	2018A	2019A	2020F	2021F	2022F
New Orderbook (Rpbn)	24.0	10.6	12.5	14.4	16.5
Carry Over OB (Rpbn)	15.0	23.3	18.6	17.2	17.5
Total Orderbook (Rpbn)	39.0	33.9	31.1	31.5	34.0

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## Adhi Karya

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>15,655</b>	<b>15,308</b>	<b>13,948</b>	<b>14,045</b>	<b>16,467</b>
COGS	-13,014	-12,632	-11,653	-11,634	-13,683
<b>Gross profit</b>	<b>2,641</b>	<b>2,676</b>	<b>2,295</b>	<b>2,410</b>	<b>2,784</b>
Oper. expenses	-707	-894	-795	-843	-924
<b>Oper. profit</b>	<b>1,934</b>	<b>1,782</b>	<b>1,500</b>	<b>1,567</b>	<b>1,860</b>
<b>EBITDA</b>	<b>2,113</b>	<b>1,959</b>	<b>1,694</b>	<b>1,781</b>	<b>2,095</b>
Interest income	61	61	65	54	72
Interest expense	-524	-545	-693	-652	-706
Other income (exp.)	-306	-115	-169	-152	-162
<b>Pre-tax profit</b>	<b>1,167</b>	<b>1,184</b>	<b>703</b>	<b>817</b>	<b>1,063</b>
Income tax	-522	-519	-409	-419	-518
Minority interest	-1	-1	-2	-2	-2
<b>Net profit</b>	<b>644</b>	<b>664</b>	<b>292</b>	<b>396</b>	<b>543</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	3,263	3,255	2,708	3,579	3,662
Acct, receivables	3,355	3,904	3,745	3,578	3,880
Inventory	4,351	4,779	4,281	3,941	4,191
Other curr, asset	14,461	18,378	18,394	16,244	17,962
<b>Total current asset</b>	<b>25,430</b>	<b>30,315</b>	<b>29,128</b>	<b>27,342</b>	<b>29,694</b>
Fixed assets - net	1,573	1,837	2,147	2,463	3,137
Other non-curr.asset	2,479	3,345	3,626	3,720	3,948
<b>Total asset</b>	<b>30,119</b>	<b>36,516</b>	<b>35,970</b>	<b>34,701</b>	<b>38,132</b>
ST debt + curr. maturity	3,914	5,558	5,387	5,081	5,475
Acct, payable	12,160	15,734	15,047	13,478	14,998
Advances received	842	670	1,116	1,124	1,317
Other curr. liab	2,048	2,531	2,764	2,781	3,257
Long term debt	4,640	4,963	5,425	5,493	5,670
Other non-curr, liab,	229	225	184	185	217
<b>Total liabilities</b>	<b>23,833</b>	<b>29,682</b>	<b>29,922</b>	<b>28,141</b>	<b>30,935</b>
Shareholder equity	6,274	6,810	6,027	6,537	7,171
Minority interest	11	24	21	23	26
<b>Total liab + SHE</b>	<b>30,119</b>	<b>36,516</b>	<b>35,970</b>	<b>34,701</b>	<b>38,132</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	644	664	292	396	543
Depreciation	179	177	194	214	235
Chg in working cap.	-235	-830	38	576	-144
Other	265	486	611	552	84
<b>CF-Oper activities</b>	<b>854</b>	<b>496</b>	<b>1,135</b>	<b>1,738</b>	<b>718</b>
Capital expenditure	-599	-1,261	-508	-569	-1,002
Others	-588	-254	-187	-6	-145
<b>CF-Investing activities</b>	<b>-1,187</b>	<b>-1,515</b>	<b>-695</b>	<b>-575</b>	<b>-1,148</b>
Net change in debt	-366	1,126	248	-237	604
Net change in equity	0	0	0	0	0
Dividend payment	-103	-129	-133	-58	-79
Other financing	-65	13	-1,103	2	-12
<b>CF-Financing activities</b>	<b>-535</b>	<b>1,011</b>	<b>-987</b>	<b>-293</b>	<b>513</b>
<b>Net cash flow</b>	<b>-868</b>	<b>-8</b>	<b>-547</b>	<b>870</b>	<b>84</b>
Cash - begin of the year	4,131	3,263	3,255	2,708	3,579
Cash - end of the year	3,263	3,255	2,708	3,579	3,662

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	3.3	-2.2	-8.9	0.7	17.2
Operating profit gr. (%)	13.3	-7.9	-15.8	4.5	18.7
Net profit gr. (%)	25.0	3.1	-56.1	35.9	37.1
Gross margin (%)	16.9	17.5	16.5	17.2	16.9
Operating margin (%)	12.4	11.6	10.8	11.2	11.3
EBITDA margin (%)	13.5	12.8	12.1	12.7	12.7
Net margin (%)	4.1	4.3	2.1	2.8	3.3
ROA (%)	2.1	1.8	0.8	1.1	1.4
ROE (%)	10.3	9.7	4.8	6.1	7.6
Current ratio (x)	1.3	1.2	1.2	1.2	1.2
Quick ratio (x)	1.1	1.0	1.0	1.0	1.0
Interest cover (x)	4.0	3.6	2.4	2.7	3.0
Debt to equity ratio (x)	1.4	1.5	1.8	1.6	1.6
Net debt to equity (x)	0.8	1.1	1.3	1.1	1.0



# PT PP HOLD

**TP: Rp900 (-11.3%)**

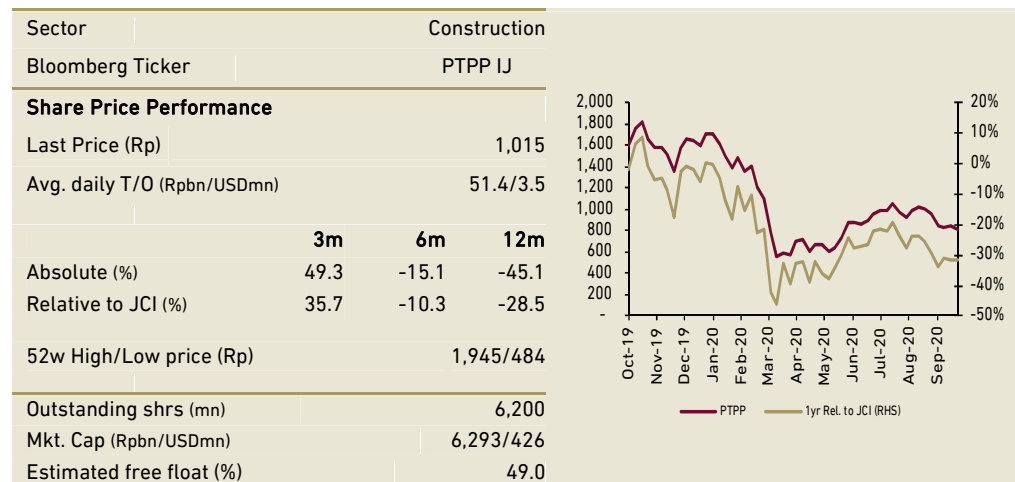
## Company Profile

PTPP is the second largest state-owned contractors by orderbook after WIKA. It offers construction services in civil works (including ports, roads, and bridges) as well as EPC segments. The company also runs property, realty, precast manufacturing and investment business. PTPP could benefit from its expertise in maritime construction as we believe PTPP has an edge over its peers in securing future seaport projects given that it has won the major port project in Indonesia.

## Key Points

- **Outperforming peers in new contract wins.** The company secured the highest new contracts of Rp8.9 tn in 1H20 which is the highest compared to WSKT's of Rp8.1 tn, ADHI's of Rp3.7 tn, WIKA's of Rp3.4 tn and WTON's of Rp1.5 tn. Of total new contracts, 49% came from SOEs project followed by state-budget (APBN) funded projects (27%) and private project of (27%). PTPP currently focuses on working on projects with a regular progress payment system. Until 1H20, the value of PTPP's turnkey projects was Rp1.1 tn, significantly decreased by 82% YoY.
- **Looking at divestment of toll roads assets.** PTPP is offering its minority stake at several toll roads such as Pandaan - Malang toll road, Cisumdawu toll road, Medan - Kualanam -Tebing Tinggi toll road to boost the financial performance and create more room to grab new projects with higher profitability.
- **Hold rating with TP of 900.** We currently rate PTPP as a Hold with TP of Rp900 which is based on -1stdev mean PER of 9.0x. We expect stronger earnings growth in 2021 after the company booked negative earnings growth for two consecutive years.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	25,120	24,660	19,544	24,606	30,660
Operating profit (Rpbn)	3,047	2,857	1,848	2,504	3,201
Net profit (Rpbn)	1,502	930	181	618	918
EPS (Rp)	242.3	150.1	29.1	99.6	148.1
EPS growth (%)	3.4	-38.1	-80.6	242.0	48.7
EV/EBITDA (x)	2.5	3.7	5.5	4.6	4.0
PER (x)	4.2	6.7	34.7	10.1	6.8
PBV (x)	0.5	0.5	0.5	0.4	0.4
Dividend yield (%)	4.6	4.8	3.3	0.7	3.0
ROE (%)	11.8	6.9	1.3	4.4	6.2

## Assumptions

	2018A	2019A	2020F	2021F	2022F
New Orderbook (Rp tn)	43.8	33.5	23.5	28.2	38.3
Carry Over OB (Rp tn)	52.2	45.0	44.8	48.7	47.3
Total Orderbook (Rp tn)	96.0	78.5	68.2	76.8	85.6

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## PT PP

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>25,120</b>	<b>24,660</b>	<b>19,544</b>	<b>24,606</b>	<b>30,660</b>
COGS	-21,155	-20,975	-16,903	-21,014	-26,277
<b>Gross profit</b>	<b>3,964</b>	<b>3,685</b>	<b>2,641</b>	<b>3,592</b>	<b>4,383</b>
Oper. expenses	-918	-828	-792	-1,087	-1,182
<b>Oper. profit</b>	<b>3,047</b>	<b>2,857</b>	<b>1,848</b>	<b>2,504</b>	<b>3,201</b>
<b>EBITDA</b>	<b>3,544</b>	<b>3,401</b>	<b>2,270</b>	<b>3,001</b>	<b>3,776</b>
Interest income	271	194	216	249	62
Interest expense	-760	-782	-867	-1,004	-1,021
Other income (exp.)	255	-238	-281	-282	-338
<b>Pre-tax profit</b>	<b>2,813</b>	<b>2,025</b>	<b>916</b>	<b>1,458</b>	<b>1,974</b>
Income tax	-854	-816	-511	-582	-749
Minority interest	-457	-278	-225	-258	-307
<b>Net profit</b>	<b>1,502</b>	<b>930</b>	<b>181</b>	<b>618</b>	<b>918</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	9,036	9,670	8,597	8,368	9,241
Acct, receivables	10,285	10,728	9,103	11,123	13,860
Inventory	4,659	6,338	5,988	7,452	9,321
Other curr, asset	13,554	14,969	10,904	13,414	15,148
<b>Total current asset</b>	<b>37,534</b>	<b>41,705</b>	<b>34,592</b>	<b>40,357</b>	<b>47,570</b>
Fixed assets - net	6,605	7,425	8,889	10,321	11,722
Other non-curr.asset	6,552	8,050	7,917	7,762	7,616
<b>Total asset</b>	<b>52,549</b>	<b>59,166</b>	<b>53,186</b>	<b>60,050</b>	<b>68,194</b>
ST debt + curr. maturity	3,600	6,051	5,547	6,354	7,542
Acct, payable	19,571	21,164	16,688	20,767	25,098
Advances received	25	29	16	20	25
Other curr. liab	3,326	3,248	2,867	3,152	3,494
Long term debt	7,903	9,800	9,215	9,583	10,491
Other non-curr, liab,	1,807	1,549	1,302	1,791	2,121
<b>Total liabilities</b>	<b>36,234</b>	<b>41,839</b>	<b>35,633</b>	<b>41,667</b>	<b>48,772</b>
Shareholder equity	12,766	13,434	13,436	14,008	14,741
Minority interest	3,550	3,892	4,116	4,375	4,681
<b>Total liab + SHE</b>	<b>52,549</b>	<b>59,166</b>	<b>53,186</b>	<b>60,050</b>	<b>68,194</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	1,502	930	181	618	918
Depreciation	498	544	421	497	575
Chg in working cap.	-3,089	-797	1,094	-1,547	-1,641
Other	1,805	-378	154	165	259
<b>CF-Oper activities</b>	<b>716</b>	<b>300</b>	<b>1,849</b>	<b>-268</b>	<b>111</b>
Capital expenditure	-3,045	-1,021	-1,903	-1,947	-1,992
Others	-994	-2,004	380	351	485
<b>CF-Investing activities</b>	<b>-4,039</b>	<b>-3,025</b>	<b>-1,524</b>	<b>-1,596</b>	<b>-1,506</b>
Net change in debt	-233	2,573	-581	564	908
Net change in equity	0	0	0	0	0
Dividend payment	-291	-300	-209	-45	-185
Other financing	3,110	910	-607	1,116	1,546
<b>CF-Financing activities</b>	<b>2,587</b>	<b>3,183</b>	<b>-1,398</b>	<b>1,634</b>	<b>2,268</b>
<b>Net cash flow</b>	<b>-736</b>	<b>458</b>	<b>-1,072</b>	<b>-229</b>	<b>873</b>
Cash - begin of the year	9,383	8,647	9,105	8,033	7,804
Cash - end of the year	8,647	9,105	8,033	7,804	8,677

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	16.8	-1.8	-20.7	25.9	24.6
Operating profit gr. (%)	5.6	-6.2	-35.3	35.5	27.9
Net profit gr. (%)	3.4	-38.1	-80.6	242.0	48.7
Gross margin (%)	15.8	14.9	13.5	14.6	14.3
Operating margin (%)	12.1	11.6	9.5	10.2	10.4
EBITDA margin (%)	14.1	13.8	11.6	12.2	12.3
Net margin (%)	6.0	3.8	0.9	2.5	3.0
ROA (%)	2.9	1.6	0.3	1.0	1.3
ROE (%)	11.8	6.9	1.3	4.4	6.2
Current ratio (x)	1.4	1.4	1.4	1.3	1.3
Quick ratio (x)	1.2	1.2	1.1	1.1	1.1
Interest cover (x)	4.7	4.3	2.6	3.0	3.7
Debt to equity ratio (x)	0.9	1.2	1.1	1.1	1.2
Net debt to equity (x)	0.2	0.5	0.5	0.5	0.6





# Waskita Karya

**SELL**

**TP: Rp475 (-26.4%)**

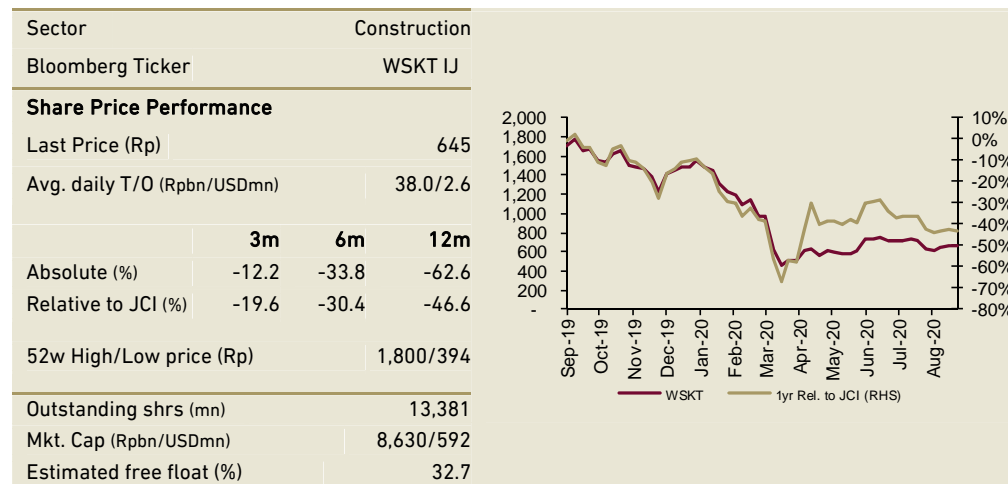
## Company Profile

Waskita Karya (WSKT) is engaged in construction services, precast, realty and investment. The company's projects have majorly been toll-road development with investments in toll road sections. WSKT through its subsidiary PT Waskita Toll Road (WTR) holds the concession of 16 toll-roads with total length of more than 800 km, the second largest after Jasa Marga.

## Key Points

- **Continuing divestments programs.** The company plans to divest a total 5 toll roads, 2 toll roads located in Jakarta, 2 toll roads located in Java and 1 toll road located in Sumatera with expected valuation of 1.5x PBV. All of the transactions already have potential buyers and currently in the midst of due diligence process.
- **The company will accelerate A/R collections** targeting Rp 30 – 35 tn of project payments and Rp 3,8 Tn of land acquisition reimbursement from LMAN.
- **Highest leverage in the sector.** WSKT's DER rose to 3.9x at end on Jun-19 to 4.4x at end of Jun-20 due to lower equity (excluding minority) post the implementation of PSAK 71-71 despite total debt reduced from Rp70 tn to Rp66 tn. Coupled with low interest of 0.9x, these become our main concern on the company.
- **High interest expenses dent profits.** We expect the company will be in red in 2020-2021 as the company operated at loss during pandemic which significantly hit revenue and margin. Moreover, interest expenses from operating toll roads further erases all profits. We rate WSKT as a Sell due to bleak earnings outlook.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	48,789	31,387	17,842	24,184	26,465
Operating profit (Rpbn)	7,224	3,943	1,691	2,398	3,071
Net profit (Rpbn)	3,963	938	-1,229	-315	434
EPS (Rp)	296.2	70.1	-91.8	-23.6	32.5
EPS growth (%)	2.1	-76.3	n/m	n/m	n/m
EV/EBITDA (x)	8.1	13.8	22.4	17.1	13.6
PER (x)	2.3	9.6	-7.4	-28.7	20.8
PBV (x)	0.5	0.5	0.6	0.6	0.5
Dividend yield (%)	14.0	11.0	0.5	0	0
ROE (%)	22.0	5.2	-8.6	-2.0	2.6

## Assumptions

	2018A	2019A	2020F	2021F	2022F
New Orderbook (Rpbn)	27.1	26.8	21.4	24.6	30.8
Carry Over OB (Rpbn)	87.7	62.0	38.1	41.7	42.1
Total Orderbook (Rpbn)	114.8	88.8	59.5	66.3	72.9

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## Waskita Karya

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>48,789</b>	<b>31,387</b>	<b>17,842</b>	<b>24,184</b>	<b>26,465</b>
COGS	-39,897	-26,073	-15,370	-20,729	-22,237
<b>Gross profit</b>	<b>8,892</b>	<b>5,314</b>	<b>2,471</b>	<b>3,455</b>	<b>4,227</b>
Oper. expenses	-1,668	-1,372	-780	-1,057	-1,157
<b>Oper. profit</b>	<b>7,224</b>	<b>3,943</b>	<b>1,691</b>	<b>2,398</b>	<b>3,071</b>
<b>EBITDA</b>	<b>7,862</b>	<b>4,548</b>	<b>2,371</b>	<b>3,021</b>	<b>3,701</b>
Interest income	684	976	834	684	652
Interest expense	-1,490	-3,620	-2,736	-2,579	-2,234
Other income (exp.)	608	736	-700	-200	-200
<b>Pre-tax profit</b>	<b>7,026</b>	<b>2,035</b>	<b>-911</b>	<b>303</b>	<b>1,289</b>
Income tax	-2,406	-1,006	-437	-649	-813
Minority interest	-657	-91	119	30	-42
<b>Net profit</b>	<b>3,963</b>	<b>938</b>	<b>-1,229</b>	<b>-315</b>	<b>434</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	10,854	9,275	7,606	10,878	7,909
Acct, receivables	5,089	4,238	2,114	2,852	3,064
Inventory	3,768	3,556	2,444	3,247	3,698
Other curr, asset	47,278	31,969	19,483	25,346	26,149
<b>Total current asset</b>	<b>66,989</b>	<b>49,038</b>	<b>31,647</b>	<b>42,322</b>	<b>40,821</b>
Fixed assets - net	7,091	8,863	8,527	7,101	6,745
Other non-curr.asset	43,660	59,304	47,505	47,505	47,505
<b>Total asset</b>	<b>124,392</b>	<b>122,589</b>	<b>93,063</b>	<b>102,312</b>	<b>100,455</b>
ST debt + curr. maturity	28,967	17,032	17,532	17,532	14,532
Acct, payable	14,905	12,381	5,610	7,568	8,133
Advances received	377	400	244	331	363
Other curr. liab	12,551	15,210	9,941	11,956	12,990
Long term debt	36,162	45,770	34,100	36,100	34,600
Other non-curr, liab,	2,542	2,678	2,493	2,679	2,747
<b>Total liabilities</b>	<b>95,504</b>	<b>93,471</b>	<b>69,921</b>	<b>76,167</b>	<b>73,365</b>
Shareholder equity	18,001	17,882	14,213	16,056	16,636
Minority interest	10,887	11,236	8,930	10,088	10,453
<b>Total liab + SHE</b>	<b>124,392</b>	<b>122,589</b>	<b>93,063</b>	<b>102,312</b>	<b>100,455</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	3,963	938	-1,229	-315	434
Depreciation	638	605	680	623	630
Chg in working cap.	1,646	11,122	6,798	7,281	6,515
Other	-3,212	-3,650	-2,339	-2,544	-2,394
<b>CF-Oper activities</b>	<b>3,035</b>	<b>9,014</b>	<b>3,911</b>	<b>5,045</b>	<b>5,185</b>
Capital expenditure	-15,182	-14,705	-10,250	-6,500	-8,000
Others	-3,586	-220	-700	1,300	-1,200
<b>CF-Investing activities</b>	<b>-18,768</b>	<b>-14,925</b>	<b>-10,950</b>	<b>-5,200</b>	<b>-9,200</b>
Net change in debt	16,964	49	3,257	2,511	2,512
Net change in equity	0	0	0	0	0
Dividend payment	-1,260	-991	-46	0	0
Other financing	4,786	5,273	2,159	915	-1,465
<b>CF-Financing activities</b>	<b>20,490</b>	<b>4,332</b>	<b>5,370</b>	<b>3,426</b>	<b>1,046</b>
<b>Net cash flow</b>	<b>4,757</b>	<b>-1,579</b>	<b>-1,669</b>	<b>3,271</b>	<b>-2,968</b>
Cash - begin of the year	6,089	10,846	9,267	7,598	10,869
Cash - end of the year	10,846	9,267	7,598	10,869	7,901

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	7.9	-35.7	-43.2	35.5	9.4
Operating profit gr. (%)	-2.2	-45.4	-57.1	41.8	28.0
Net profit gr. (%)	2.1	-76.3	n/m	n/m	n/m
Gross margin (%)	18.2	16.9	13.9	14.3	16.0
Operating margin (%)	14.8	12.6	9.5	9.9	11.6
EBITDA margin (%)	16.1	14.5	13.3	12.5	14.0
Net margin (%)	8.1	3.0	-6.9	-1.3	1.6
ROA (%)	3.2	0.8	-1.3	-0.3	0.4
ROE (%)	22.0	5.2	-8.6	-2.0	2.6
Current ratio (x)	1.2	1.1	0.9	1.1	1.1
Quick ratio (x)	1.1	1.0	0.9	1.0	1.0
Interest cover (x)	5.3	1.3	0.9	1.2	1.7
Debt to equity ratio (x)	3.6	3.5	3.6	3.3	3.0
Net debt to equity (x)	3.0	3.0	3.1	2.7	2.5



# Wika Beton

BUY

TP: Rp360 (+33.3%)

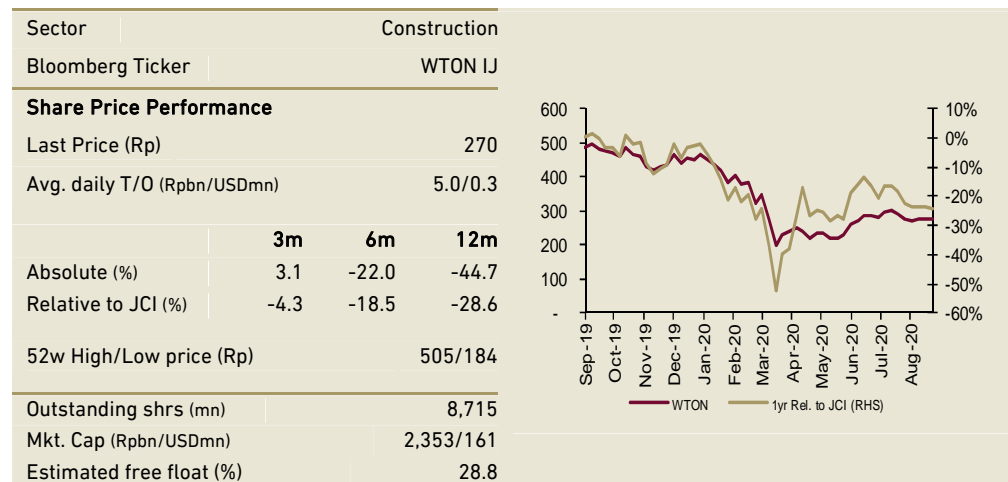
## Company Profile

Wijaya Karya Beton (WTON) has a solid track record in the precast concrete operation with around 40 years of experience, supported by its 14 production facilities across Indonesia. WTON distinctively dominates the precast concrete market as the company 1) is largest precast concrete producer in Indonesia with a capacity market share of 4.42 mn tons or 29% share, 2) has also wider range of product with geographically distributed plant locations (in all Indonesia's major islands) including 26 ha area in East Kalimantan to anticipate capital city relocation.

## Key Points

- **Expecting demand recovery.** Due to pandemic impact the company only booked Rp1.5 tn new contracts in 1H20, down by 42% YoY, with 71.5% new contract coming from infrastructure projects followed by industry (13.2%), energy (10.0%), property (5.1%) and mining (0.3%). Its plants were running at 40% utilisation in 2Q20. We expect gradual recovery in new contract wins in 2H20 onward supported by government's economic recovery effort while utilisation rate was seen improve to 70% in Jul-Aug 2020.
- **Stronger balance sheet** compared to other contractors and precast makers. The DER stood at 0.9x as end 1H20 vs. SOE contractors of between 1.3-4.4x which allow more room to leverage and grab the opportunity when demand recovers.
- **Buy rating intact with revised TP of Rp360.** WTON is the only counter in construction space that we rate as a Buy due to still attractive valuation coupled with stronger earnings growth compared to peers.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	6,931	7,083	5,447	6,537	7,844
Operating profit (Rpbn)	733	795	434	717	868
Net profit (Rpbn)	487	511	151	320	426
EPS (Rp)	55.8	58.6	17.4	36.8	48.9
EPS growth (%)	42.9	4.9	-70.4	111.7	32.9
EV/EBITDA (x)	3.7	3.6	5.3	3.4	2.7
PER (x)	5.0	4.8	16.1	7.6	5.7
PBV (x)	0.8	0.7	0.7	0.7	0.6
Dividend yield (%)	3.9	5.4	6.6	1.9	3.8
ROE (%)	15.9	14.9	4.5	8.6	11.1

## Assumptions

	2018A	2019A	2020F	2021F	2022F
New Orderbook (Rptn)	7.7	8.3	6.2	7.4	8.9
Carry Over OB (Rptn)	5.1	5.9	7.0	7.8	8.6
Total Orderbook (Rptn)	12.8	14.1	13.2	15.2	17.6

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## Wika Beton

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>6,931</b>	<b>7,083</b>	<b>5,447</b>	<b>6,537</b>	<b>7,844</b>
COGS	-6,048	-6,133	-4,903	-5,687	-6,817
<b>Gross profit</b>	<b>882</b>	<b>951</b>	<b>545</b>	<b>850</b>	<b>1,028</b>
Oper. expenses	-150	-155	-111	-133	-160
<b>Oper. profit</b>	<b>733</b>	<b>795</b>	<b>434</b>	<b>717</b>	<b>868</b>
<b>EBITDA</b>	<b>956</b>	<b>1,044</b>	<b>688</b>	<b>990</b>	<b>1,164</b>
Interest income	5	8	15	15	17
Interest expense	-95	-146	-177	-227	-227
Other income (exp.)	-23	12	-72	-91	-114
<b>Pre-tax profit</b>	<b>619</b>	<b>671</b>	<b>199</b>	<b>413</b>	<b>544</b>
Income tax	-133	-160	-47	-92	-118
Minority interest	0	0	0	0	0
<b>Net profit</b>	<b>487</b>	<b>511</b>	<b>151</b>	<b>320</b>	<b>426</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	865	1,602	1,545	1,812	1,932
Acct, receivables	1,213	1,310	1,047	1,111	1,212
Inventory	1,206	1,148	1,105	1,054	1,122
Other curr, asset	2,587	3,109	2,719	2,147	2,080
<b>Total current asset</b>	<b>5,871</b>	<b>7,169</b>	<b>6,416</b>	<b>6,124</b>	<b>6,345</b>
Fixed assets - net	2,948	3,012	3,241	3,515	3,845
Other non-curr.asset	63	157	157	157	157
<b>Total asset</b>	<b>8,882</b>	<b>10,338</b>	<b>9,813</b>	<b>9,796</b>	<b>10,347</b>
ST debt + curr. maturity	1,569	2,403	2,326	2,318	2,320
Acct, payable	1,068	859	754	758	802
Advances received	556	413	366	403	443
Other curr. liab	2,056	2,519	2,373	1,981	2,381
Long term debt	350	500	450	405	365
Other non-curr, liab,	147	134	128	128	128
<b>Total liabilities</b>	<b>5,745</b>	<b>6,829</b>	<b>6,397</b>	<b>5,993</b>	<b>6,438</b>
Shareholder equity	3,064	3,438	3,351	3,735	3,838
Minority interest	72	71	66	68	71
<b>Total liab + SHE</b>	<b>8,882</b>	<b>10,338</b>	<b>9,813</b>	<b>9,796</b>	<b>10,347</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	487	511	151	320	426
Depreciation	224	249	254	273	297
Chg in working cap.	86	365	295	380	288
Other	-23	2	-176	-262	-318
<b>CF-Oper activities</b>	<b>774</b>	<b>1,126</b>	<b>524</b>	<b>711</b>	<b>692</b>
Capital expenditure	-440	-391	-327	-392	-471
Others	0	12	0	0	0
<b>CF-Investing activities</b>	<b>-440</b>	<b>-379</b>	<b>-327</b>	<b>-392</b>	<b>-471</b>
Net change in debt	34	137	-127	-3	2
Net change in equity	0	0	0	0	0
Dividend payment	-101	-146	-128	-49	-103
Other financing	1	0	0	0	0
<b>CF-Financing activities</b>	<b>-106</b>	<b>-9</b>	<b>-255</b>	<b>-52</b>	<b>-101</b>
<b>Net cash flow</b>	<b>228</b>	<b>737</b>	<b>-57</b>	<b>267</b>	<b>120</b>
Cash - begin of the year	638	865	1,602	1,545	1,812
Cash - end of the year	865	1,602	1,545	1,812	1,932

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	29.2	2.2	-23.1	20.0	20.0
Operating profit gr. (%)	38.1	8.6	-45.5	65.2	21.1
Net profit gr. (%)	42.9	4.9	-70.4	111.7	32.9
Gross margin (%)	12.7	13.4	10.0	13.0	13.1
Operating margin (%)	10.6	11.2	8.0	11.0	11.1
EBITDA margin (%)	13.8	14.7	12.6	15.1	14.8
Net margin (%)	7.0	7.2	2.8	4.9	5.4
ROA (%)	5.5	4.9	1.5	3.3	4.1
ROE (%)	15.9	14.9	4.5	8.6	11.1
Current ratio (x)	1.1	1.2	1.1	1.1	1.1
Quick ratio (x)	0.9	1.0	0.9	0.9	0.9
Interest cover (x)	10.1	7.2	3.9	4.4	5.1
Debt to equity ratio (x)	0.6	0.8	0.8	0.7	0.7
Net debt to equity (x)	0.3	0.4	0.4	0.2	0.2



# Wijaya Karya HOLD

**TP: Rp1,200 (+1.3%)**

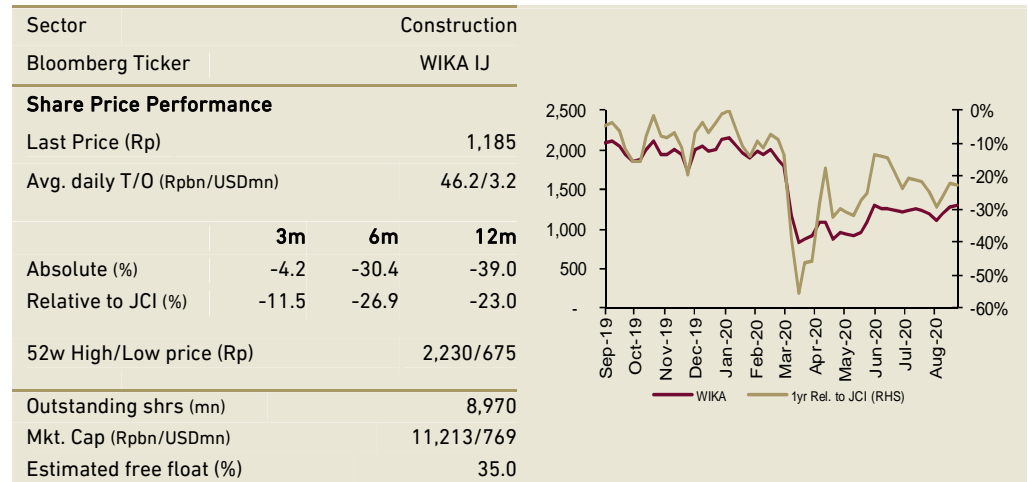
## Company Profile

Wijaya Karya (WIKA) is the most diversified and second largest contractor by market-cap and order book in Indonesia. Its business segments are infrastructure & building, energy and industrial plant, industrial (precast and asphalt producer), realty and property as well as investment. WIKA was awarded the civil work contract of the Jakarta-Bandung high-speed railway (HSR) worth ~ Rp17 tn has reached 60% in 1H20 with operational target in 2022.

## Key Points

- **Still leader in ordebook despite new contracts slump.** WIKA bagged only Rp3.4 tn new contracts in 1H20, which was down significantly by 78% YoY and the lowest among SOE contractors. However, its total orderbook of Rp79.4 tn in due to strong carry-over contracts.
- **Stringent selection process.** WIKA has implemented a more stringent process in assessing project owner's financial capabilities during Covid-19 situations.
- **Slight earning recovery in 2021F.** Following setback in new contract, we only see 4% earnings growth in 2021 as we still expect slow but improved progress and burn rate for existing projects and slightly higher new contracts.
- **We still like the company's** 1) strongest orderbook 2) solid balance sheet will help it to tackle funding problems, and 3) more conservative approach to win the contract reflected in its diversified contracts and investment. Our TP of Rp1,200 is based on 2021F PER of 12.7x (-1stdev of mean). Upside risks: faster-than-expected infrastructure project launch by government to revive the economic growth.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	31,158	27,213	24,419	26,439	34,008
Operating profit (Rpbn)	3,352	3,489	2,685	2,938	4,369
Net profit (Rpbn)	1,730	2,285	807	838	1,313
EPS (Rp)	192.9	254.7	89.9	93.5	146.4
EPS growth (%)	43.9	32.1	-64.7	3.9	56.6
EV/EBITDA (x)	3.1	4.1	4.4	4.6	3.9
PER (x)	6.8	5.2	13.2	12.7	9.0
PBV (x)	0.8	0.7	0.9	0.8	0.8
Dividend yield (%)	2.0	2.9	3.9	1.7	1.8
ROE (%)	11.7	13.5	5.8	5.8	8.4

## Assumptions

	2018A	2019A	2020F	2021F	2022F
New Orderbook (Rptn)	50.6	41.2	24.9	27.1	30.5
Carry Over OB (Rptn)	73.0	76.5	90.5	88.9	83.2
Total Orderbook (Rptn)	123.5	117.7	115.4	116.0	113.7

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## Wijaya Karya

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>31,158</b>	<b>27,213</b>	<b>24,419</b>	<b>26,439</b>	<b>34,008</b>
COGS	-27,020	-22,794	-21,123	-22,885	-28,914
<b>Gross profit</b>	<b>4,138</b>	<b>4,419</b>	<b>3,296</b>	<b>3,555</b>	<b>5,094</b>
Oper. expenses	-786	-931	-611	-617	-725
<b>Oper. profit</b>	<b>3,352</b>	<b>3,489</b>	<b>2,685</b>	<b>2,938</b>	<b>4,369</b>
<b>EBITDA</b>	<b>3,899</b>	<b>3,983</b>	<b>3,310</b>	<b>3,624</b>	<b>5,112</b>
Interest income	624	518	517	512	553
Interest expense	-973	-884	-1,101	-1,350	-1,763
Other income (exp.)	82	363	-615	-480	-585
<b>Pre-tax profit</b>	<b>3,086</b>	<b>3,485</b>	<b>1,487</b>	<b>1,620</b>	<b>2,574</b>
Income tax	-1,012	-864	-515	-610	-992
Minority interest	-343	-336	-165	-172	-269
<b>Net profit</b>	<b>1,730</b>	<b>2,285</b>	<b>807</b>	<b>838</b>	<b>1,313</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	13,994	10,347	10,246	11,065	10,063
Acct, receivables	5,351	4,462	5,541	5,999	7,717
Inventory	5,979	6,855	6,547	7,068	8,946
Other curr. asset	18,264	20,710	14,808	16,033	18,923
<b>Total current asset</b>	<b>43,587</b>	<b>42,374</b>	<b>37,142</b>	<b>40,167</b>	<b>45,648</b>
Fixed assets - net	4,676	5,155	5,683	5,796	5,812
Other non-curr.asset	9,154	10,822	7,695	8,232	10,175
<b>Total asset</b>	<b>59,230</b>	<b>62,111</b>	<b>54,469</b>	<b>58,342</b>	<b>65,989</b>
ST debt + curr. maturity	4,460	6,109	5,557	8,176	9,828
Acct, payable	13,183	12,762	10,831	11,371	14,391
Advances received	1,234	863	656	710	913
Other curr. liab	9,375	10,616	9,895	9,391	10,376
Long term debt	9,940	8,892	8,743	8,814	8,443
Other non-curr. liab,	3,823	3,653	2,532	2,742	3,527
<b>Total liabilities</b>	<b>42,015</b>	<b>42,895</b>	<b>38,213</b>	<b>41,204</b>	<b>47,478</b>
Shareholder equity	14,804	16,985	13,802	14,438	15,542
Minority interest	2,412	2,231	2,454	2,699	2,969
<b>Total liab + SHE</b>	<b>59,230</b>	<b>62,111</b>	<b>54,469</b>	<b>58,342</b>	<b>65,989</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	1,730	2,285	807	838	1,313
Depreciation	547	495	626	686	743
Chg in working cap.	478	-3,542	807	-1,927	-1,576
Other	-32	1,596	1,555	-176	-660
<b>CF-Oper activities</b>	<b>2,723</b>	<b>833</b>	<b>3,795</b>	<b>-579</b>	<b>-180</b>
Capital expenditure	-1,248	-1,058	-997	-1,147	-2,010
Others	-3,670	-4,425	2,058	-398	-939
<b>CF-Investing activities</b>	<b>-4,918</b>	<b>-5,483</b>	<b>1,061</b>	<b>-1,545</b>	<b>-2,949</b>
Net change in debt	2,565	1,538	-702	2,691	1,281
Net change in equity	0	0	0	0	0
Dividend payment	-240	-346	-457	-202	-210
Other financing	2,611	-189	-3,798	455	1,055
<b>CF-Financing activities</b>	<b>4,935</b>	<b>1,003</b>	<b>-4,957</b>	<b>2,944</b>	<b>2,126</b>
<b>Net cash flow</b>	<b>2,740</b>	<b>-3,647</b>	<b>-101</b>	<b>820</b>	<b>-1,003</b>
Cash - begin of the year	11,254	13,994	10,347	10,246	11,065
Cash - end of the year	13,994	10,347	10,246	11,065	10,063

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	19.0	-12.7	-10.3	8.3	28.6
Operating profit gr. (%)	20.9	4.1	-23.0	9.4	48.7
Net profit gr. (%)	43.9	32.1	-64.7	3.9	56.6
Gross margin (%)	13.3	16.2	13.5	13.4	15.0
Operating margin (%)	10.8	12.8	11.0	11.1	12.8
EBITDA margin (%)	12.5	14.6	13.6	13.7	15.0
Net margin (%)	5.6	8.4	3.3	3.2	3.9
ROA (%)	2.9	3.7	1.5	1.4	2.0
ROE (%)	11.7	13.5	5.8	5.8	8.4
Current ratio (x)	1.5	1.4	1.4	1.4	1.3
Quick ratio (x)	1.3	1.2	1.1	1.1	1.0
Interest cover (x)	4.0	4.5	3.0	2.7	2.9
Debt to equity ratio (x)	1.0	0.9	1.0	1.2	1.2
Net debt to equity (x)	0.0	0.3	0.3	0.4	0.5



## RETAIL SECTOR



# Retail

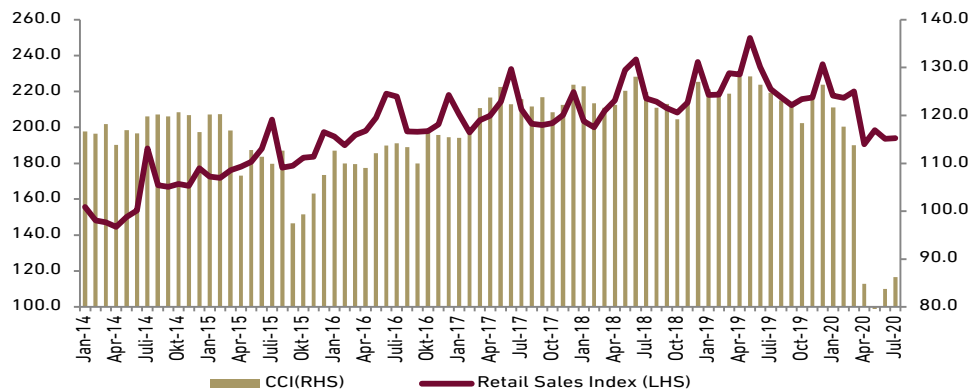
## Neutral

### Sector Outlook

- Overview on BI retail sales index**

BI retail sales index showed a steep decline in April 2020, due to large-scale social distancing caused by covid-19, and companies lay-off which negatively impact the purchasing power. After on, retail sales improve a little bit in May, due to lebaran seasonality, and continue in June and July, due to economic re-opening which boost traffic recovery in shopping malls and street level stores. However, Indonesia retail is still on the recovery pace, which will make 2021 retail sales index to remain below the 2019 level. We expect retail sales to improve gradually in 2021, due to vaccine (we expect vaccine will be available in 2Q21), more meaningful impact from lebaran season, higher shopping mall traffic, and improving economic situation. We see similar trend between retail sales index and CCI, as the economy will recover in 2021, we believe retail sales will improve as well.

**Exhibit 160: BI retail sales index**



Source: BI

**Exhibit 161: Retail Sales Index Growth**



Source: BI

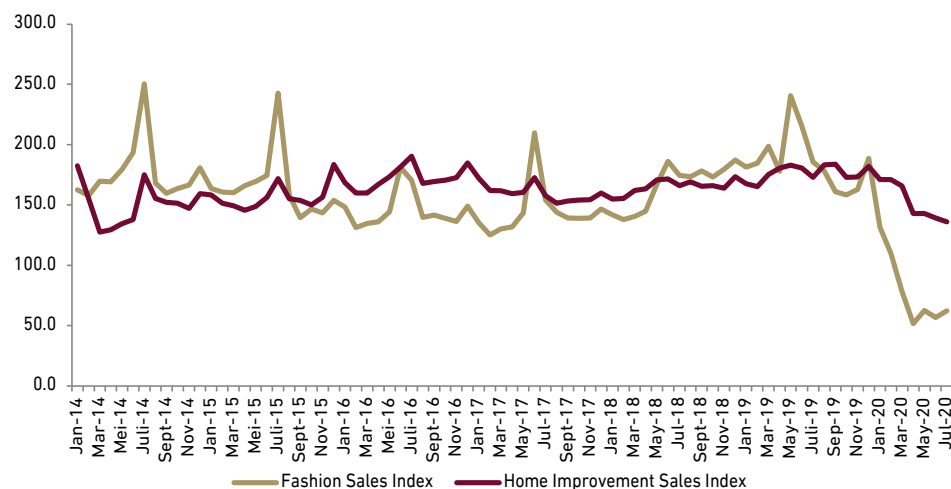
- Declining retail sales growth**

Retail sales index growth showed a decline trend since April 2019, on a big picture, we believe due to higher sales from e-commerce and social media, as the retail sales survey only calculate the offline sales. The growth bottoming in May 2020 with -20.6% (.vs 7.7% in May 2019), due to covid-19. Then the retail sales growth improve gradually in June and July, due to economic re-opening. We see the PSBB (large scale social distancing) have crucial impact on retail sector. In our view, total PSBB is unlikely to happen in 2021 as Indonesia is expected to face recession in 3Q20, and we predict there vaccine will be available in 2Q21, which made retail sales growth to turn into positive territory.





**Exhibit 162: Fashion and Homeimprovement segment**



Source: BI

## • Home Improvement showed more stable trend

Breaking down the retail sales index, fashion category experienced a steeper decline during covid-19 period, compared to home improvement segment. We believe, fashion is less favourable during covid-19 pandemic as people mainly spend their time at home, while home improvement stuff have higher demand, as people need some items to support their activities at home, such as repairation tools, gardening, kitchen utensils, etc. In 2021, we expect fashion sales will improve, in line with the shopping malls traffic recovery, as most of fashion items are available in the shopping malls. On the other hand home improvement will remain stable due to its resilient nature.

## • Shopping malls traffic will continue to improve

In August 2020, Shopping malls traffic reach 60% (.vs 40% in July 2020), we believe this improvement trend will continue in 2021, as we expect there will be no more total PSBB like in April and May 2020. Even if there is another limited PSBB, traffic will improve as well, because, shopping malls are still allowed to operate with some health protocols.

## • Remain concern on low-end segment

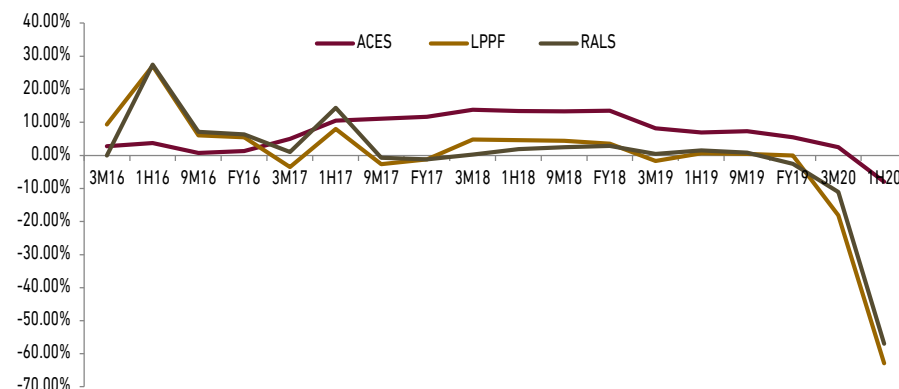
Government will allocate Rp419.3 tn on social assistance budget, 15.3% lower than 2020 budget. However, this figure is 10.9% higher than 2019 budget. Hence, we still see this as a positive catalyst to accelerate the economy recovery. Under the social assistance budget, family hope programme (PKH), declined by 22.4% to Rp28.7 tn (.vs Rp37 tn in 2020), and food security programme increased by 4.6% to Rp45.1 tn. In addition, Government also distribute village fund of Rp72 tn slightly higher than 2020 budget of Rp71.2 tn. However, cash subsidy portion will be cut by 63% to Rp12 tn. We see this as government are confident that the economy will get better naturally, so government can allocate less portion on cash subsidy. However, from all of the above subsidies, we think it will boost the low-end segment purchasing power on basic consumption level (consumer staples). Thus, there is still headwin on low-end retailers (LPPF & RALS) recovery process in 2021. We expect low-end retailers' sales to improve compared to 2020, but still below the pre-covid level, as we have not see any significant catalyst for low-end discretionary.

## • Mids-up over low-end

Retailers experienced a sharp decline in SSSG, due to Covid-19. Home improvement player (ACES) showed less steep decline in SSSG, as they still have more stores that were allowed to operate during total PSBB (April and May 2020), and ACES sell products that support stay at home activities such as, sporting goods, kitchen utensils, and gardening. For the mid-up retailers, such as ACES, we expect SSSG to recover faster, reaching the pre-covid-19 level, due to remained resilient mid-up segment with stable purchasing power. For the low end retailers, we expect SSSG to improve gradually, especially in 2Q21, due to, more meaningful Lebaran seasonality, but still below pre-covid-19 level, as we remained concerned on low-end purchasing power.



**Exhibit 163: SSSG**



Source: Company, Ciptadana

## • Not a good time for expansion

We see there will be not much expansion for retailers in 2021, as most of the retailers will keep focus on sales growth recovery, especially for low-end retailers such as LPPF and RALS. Until 7M20, LPPF already closed 6 large format stores and 12 mono stores, while opening 3 new large format stores. On the other hand, RALS only opened 1 new store in May and closed 1 store in February 2020. However, ACES stores expansion is remain on track, we expect there will be no issue for ACES to follow their expansion guideline in 2021.

## • E-commerce sales offer new opportunity

During PSBB, e-commerce and online sales transaction increased significantly, as people feel more convenient to shop from home. We see this as an opportunity for the retailers to improve their online sales and e-commerce contribution in 2021, as we expect the trend of shop from home will continue to grow. At the moment the contribution from online sales to retailers is still less than 5% to total revenue.

## • Rating and Recommendation

We expect retail sales to recover gradually in 2021 from the low base of 2020. However, we see there is no surprise in 2021 as we have not see any significant catalyst for the low-end segment. The government stimulus, such as PKH (family assistance program) and BLT (direct cash assistance program) are expected to be spend on consumer staples good, hence the low end's purchasing power for discretionary items will remain at risk in 2021. However, we expect middle up segment to remain resilient. Our top pick for retail sector is ACES, as it still the most defensive retail stock in covid-19 situation. We have a HOLD rating for ACES with 2021F TP of Rp1,675/sh, on the back of 23x multiple. At the moment the stock is fairly valued at 21.9x 2021F PER.

**Exhibit 164: Retail stocks rating and valuation**

Bberg		Mkt.Cap	Last	Target	Upside	PER		PBV		ROE	Yield
Ticker	Rating	(Rp tn)	Price	Price	pot.(%)	2020F	2021F	2020F	2021F	21F (%)	21F (%)
ACES	Hold	27.4	1,595	1,675	5.0	31.3	21.9	5.3	4.7	21.3	2.1
ERAA	Hold	4.9	1,545	1,620	4.9	18.4	12.4	1.0	0.9	7.9	1.1
LPPF	Buy	2.7	980	1,250	27.6	-13.6	3.9	1.7	1.2	29.7	0.0
RALS	Hold	3.8	530	550	3.8	54.8	9.5	0.8	0.8	7.9	4.6
<b>Sector</b>	<b>Neutral</b>	<b>38.8</b>				<b>28.3</b>	<b>18.3</b>	<b>4.1</b>	<b>3.6</b>	<b>18.9</b>	<b>2.1</b>

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# Ace Hardware Indonesia

**HOLD**

**TP: Rp1,675 (+5.0%)**

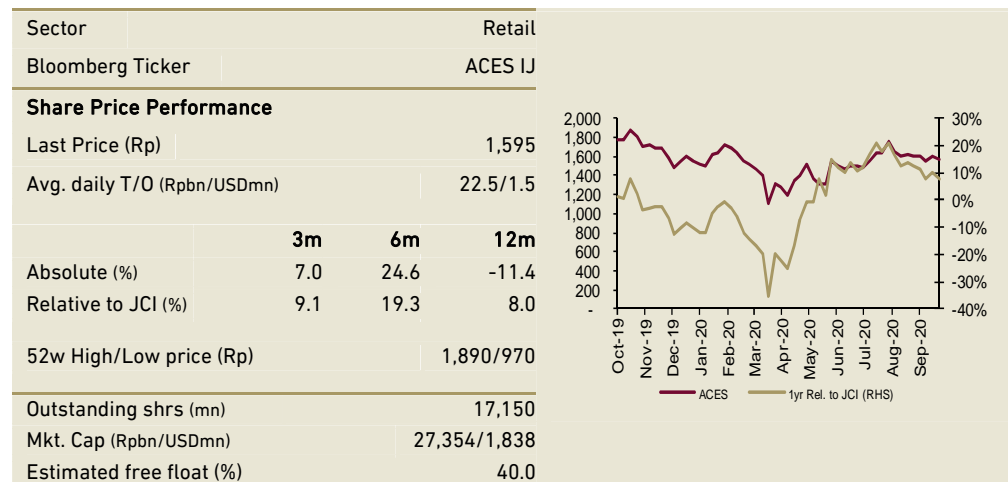
## Company Profile

Established in 1995, Ace Hardware Indonesia (ACES) is a subsidiary company of PT Kawan Lama Sejahtera, a commercial and industrial supplies company in Indonesia. Ace Hardware is presently the market leader in home improvement retailing, where it operates through three divisions namely, home improvement, lifestyle and toys.

## Key Points

- **Well positioned in the market.** ACES business benefits from less competitors with similar market segmentation. We believe this will strengthen ACES stance to maintain its solid performance in 2021.
- **Recovery is clearly seen.** The company showed significant sales improvement after total PSBB in May 2020. From double digit negative YoY sales growth turns into a single digit negative YoY growth within 2 months. We expect this recovery to continue, due to resilient mid-up class and stable home improvement segment.
- **Remain on track expansion.** We believe, ACES expansion will keep on track in 2021, in order to increase their market penetration.
- **We have a HOLD rating for ACES with 2021F TP of Rp1,675/sh.** Despite we like ACES on its solid performance and resilient home improvement segment, we believe the stock is fairly valued at 21.9x 2021F PER.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	7,240	8,143	6,943	9,624	10,441
Operating profit (Rpbn)	1,072	1,163	978	1,403	1,522
Net profit (Rpbn)	964	1,030	875	1,249	1,355
EPS (Rp)	56.2	60.1	51.0	72.8	79.0
EPS growth (%)	24.0	6.8	-15.1	42.7	8.5
EV/EBITDA (x)	22.8	20.6	24.1	16.8	15.2
PER (x)	28.4	26.6	31.3	21.9	20.2
PBV (x)	6.5	5.8	5.3	4.7	4.2
Dividend yield (%)	1.4	1.8	1.5	2.1	2.3
ROE (%)	22.8	21.8	16.9	21.3	20.6

## Assumptions

	2018A	2019A	2020F	2021F	2022F
Gross space (sqm) growth	16%	10%	10%	5%	5%
Net store addition	32	21	20	10	8
Sales per sqm	15.2	15.4	13.2	16.5	17.4

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## Ace Hardware

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>7,240</b>	<b>8,143</b>	<b>6,943</b>	<b>9,624</b>	<b>10,441</b>
COGS	-3,797	-4,256	-3,645	-5,004	-5,430
<b>Gross profit</b>	<b>3,443</b>	<b>3,887</b>	<b>3,298</b>	<b>4,619</b>	<b>5,012</b>
Oper. expenses	-2,371	-2,725	-2,320	-3,216	-3,489
<b>Oper. profit</b>	<b>1,072</b>	<b>1,163</b>	<b>978</b>	<b>1,403</b>	<b>1,522</b>
<b>EBITDA</b>	<b>1,167</b>	<b>1,268</b>	<b>1,067</b>	<b>1,527</b>	<b>1,657</b>
Interest income	29	35	35	46	50
Interest expense	-47	-55	-35	-49	-53
Other income (exp.)	148	138	115	159	172
<b>Pre-tax profit</b>	<b>1,202</b>	<b>1,280</b>	<b>1,092</b>	<b>1,559</b>	<b>1,691</b>
Income tax	-226	-243	-206	-295	-320
Minority interest	-12	-7	-11	-15	-16
<b>Net profit</b>	<b>964</b>	<b>1,030</b>	<b>875</b>	<b>1,249</b>	<b>1,355</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	799	1,255	1,578	1,685	2,051
Acct, receivables	37	89	76	105	114
Inventory	2,520	2,653	2,582	3,058	3,318
Other curr, asset	741	587	501	674	731
<b>Total current asset</b>	<b>4,096</b>	<b>4,584</b>	<b>4,737</b>	<b>5,522</b>	<b>6,214</b>
Fixed assets - net	444	502	627	743	818
Other non-curr.asset	781	834	790	920	985
<b>Total asset</b>	<b>5,321</b>	<b>5,920</b>	<b>6,153</b>	<b>7,185</b>	<b>8,017</b>
ST debt + curr. maturity	115	0	0	0	0
Acct, payable	198	178	152	209	227
Advances received	0	0	0	0	0
Other curr. liab	318	390	333	461	500
Long term debt	0	0	0	0	0
Other non-curr, liab,	455	610	478	662	719
<b>Total liabilities</b>	<b>1,086</b>	<b>1,178</b>	<b>963</b>	<b>1,332</b>	<b>1,445</b>
Shareholder equity	4,225	4,726	5,191	5,853	6,572
Minority interest	10	16	0	0	0
<b>Total liab + SHE</b>	<b>5,321</b>	<b>5,920</b>	<b>6,153</b>	<b>7,185</b>	<b>8,017</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	964	1,030	875	1,249	1,355
Depreciation	95	105	89	124	134
Chg in working cap.	-859	123	-1	-438	-278
Other	-29	-29	-34	-45	-49
<b>CF-Oper activities</b>	<b>172</b>	<b>1,229</b>	<b>929</b>	<b>889</b>	<b>1,162</b>
Capital expenditure	-180	-163	-214	-241	-209
Others	12	7	11	15	16
<b>CF-Investing activities</b>	<b>-168</b>	<b>-157</b>	<b>-203</b>	<b>-225</b>	<b>-192</b>
Net change in debt	115	-115	0	0	0
Net change in equity	0	0	0	0	0
Dividend payment	-389	-484	-411	-586	-636
Other financing	138	-46	-27	-15	-16
<b>CF-Financing activities</b>	<b>-107</b>	<b>-616</b>	<b>-403</b>	<b>-556</b>	<b>-604</b>
<b>Net cash flow</b>	<b>-104</b>	<b>456</b>	<b>323</b>	<b>107</b>	<b>366</b>
Cash - begin of the year	902	799	1,255	1,578	1,685
Cash - end of the year	799	1,255	1,578	1,685	2,051

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	21.9	12.5	-14.7	38.6	8.5
Operating profit gr. (%)	23.4	8.4	-15.9	43.6	8.5
Net profit gr. (%)	24.0	6.8	-15.1	42.7	8.5
Gross margin (%)	47.6	47.7	47.5	48.0	48.0
Operating margin (%)	14.8	14.3	14.1	14.6	14.6
EBITDA margin (%)	16.1	15.6	15.4	15.9	15.9
Net margin (%)	13.3	12.7	12.6	13.0	13.0
ROA (%)	18.1	17.4	14.2	17.4	16.9
ROE (%)	22.8	21.8	16.9	21.3	20.6
Current ratio (x)	6.5	8.1	9.8	8.2	8.6
Quick ratio (x)	2.5	3.4	4.4	3.7	4.0
Interest cover (x)	24.9	22.9	30.1	31.1	31.1
Debt to equity ratio (x)	0.0	0.0	0.0	0.0	0.0
Net debt to equity (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



# Erajaya Swasembada

**HOLD**

**TP: Rp1,620 (+4.9%)**

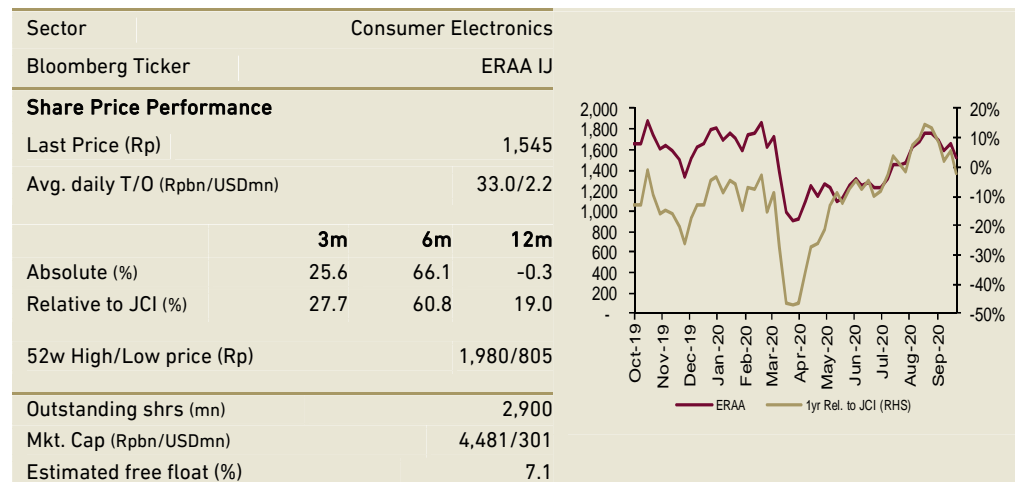
## Company Profile

Established in 1996, PT Erajaya Swasembada Tbk. ("Erajaya") has grown beyond an integrated mobile telecommunication device importer, distributor and retailer, where the Company is also acknowledged as the largest and most trusted companies in its business in Indonesia.

## Key Points

- **Gaining market share from IMEI control.** ERAA will gain higher market share from diminished black market phones, which account to 20% of smartphone market in Indonesia. We expect ERAA market share will increase to around 45%.
- **Concern on high inventory level.** Covid-19 may cause higher than expected inventory level, due to lower sales volume. Gross margin will be at risk if ERAA needs to flush out their old inventories, as new gadget will be out every year.
- **High-end brands to perform better.** We see brands like Apple and Samsung to perform better than the low end-segment brands. As mid-up segment is more resilient to covid-19. However, this may lead to higher inventory for ERAA.
- **HOLD call for ERAA with 2021F TP of Rp1,620/sh.** Our TP is derived based on 13x earnings multiple, offering limited upside of 5% from current price. Despite ERAA is benefited from IMEI regulation, we feel most of the positive catalysts is already represented in current share price. At the moment the stock is fully valued at 12.4x 2021F PER.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	34,744	32,945	28,169	33,448	37,592
Operating profit (Rpbn)	1,317	513	546	675	758
Net profit (Rpbn)	850	295	261	386	495
EPS (Rp)	274.2	95.2	84.1	124.5	159.9
EPS growth (%)	134.2	-65.3	-11.6	47.9	28.4
EV/EBITDA (x)	6.0	10.4	7.5	6.6	6.3
PER (x)	5.6	16.2	18.4	12.4	9.7
PBV (x)	1.0	0.9	1.0	0.9	0.9
Dividend yield (%)	2.5	0.9	0.8	1.1	1.4
ROE (%)	18.1	6.1	5.6	7.9	9.6

## Assumptions

	2018A	2019A	2020F	2021F	2022F
Volume (mn units)	16.1	16.0	9.8	15.1	16.5
Volume growth	29.2%	-18.0%	-26.2%	54.1%	10%
ASP	1.8	1.9	2.5	2.0	2.0

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## Erajaya Swasembada

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>34,744</b>	<b>32,945</b>	<b>28,169</b>	<b>33,448</b>	<b>37,592</b>
COGS	-31,575	-30,096	-25,634	-30,438	-34,209
<b>Gross profit</b>	<b>3,169</b>	<b>2,849</b>	<b>2,535</b>	<b>3,010</b>	<b>3,383</b>
Oper. expenses	-1,852	-2,336	-1,989	-2,335	-2,625
<b>Oper. profit</b>	<b>1,317</b>	<b>513</b>	<b>546</b>	<b>675</b>	<b>758</b>
<b>EBITDA</b>	<b>1,407</b>	<b>636</b>	<b>651</b>	<b>796</b>	<b>895</b>
Interest income	5	5	6	9	8
Interest expense	-349	-326	-215	-177	-109
Other income (exp.)	230	281	42	54	64
<b>Pre-tax profit</b>	<b>1,203</b>	<b>473</b>	<b>379</b>	<b>560</b>	<b>721</b>
Income tax	-314	-147	-104	-154	-200
Minority interest	-39	-31	-14	-20	-26
<b>Net profit</b>	<b>850</b>	<b>295</b>	<b>261</b>	<b>386</b>	<b>495</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	272	571	129	-205	-482
Acct, receivables	1,417	1,042	1,174	1,272	1,395
Inventory	6,795	3,693	3,418	3,889	4,276
Other curr. asset	1,570	1,638	1,303	1,547	1,739
<b>Total current asset</b>	<b>10,054</b>	<b>6,945</b>	<b>6,024</b>	<b>6,504</b>	<b>6,928</b>
Fixed assets - net	554	615	754	924	1,154
Other non-curr.asset	2,076	2,189	1,683	1,998	2,246
<b>Total asset</b>	<b>12,683</b>	<b>9,748</b>	<b>8,460</b>	<b>9,426</b>	<b>10,327</b>
ST debt + curr. maturity	4,286	2,705	496	565	670
Acct, payable	2,807	1,435	2,492	3,044	3,421
Advances received	0	0	0	0	0
Other curr. liab	648	476	547	650	730
Long term debt	2	1	2	2	2
Other non-curr, liab,	115	153	123	144	162
<b>Total liabilities</b>	<b>7,857</b>	<b>4,769</b>	<b>3,660</b>	<b>4,405</b>	<b>4,985</b>
Shareholder equity	4,693	4,822	4,649	4,863	5,174
Minority interest	133	157	151	158	168
<b>Total liab + SHE</b>	<b>12,683</b>	<b>9,748</b>	<b>8,460</b>	<b>9,426</b>	<b>10,327</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	850	295	261	386	495
Depreciation	90	123	105	121	136
Chg in working cap.	-3,675	1,762	1,954	-357	-398
Other	20	-48	109	67	8
<b>CF-Oper activities</b>	<b>-2,715</b>	<b>2,132</b>	<b>2,429</b>	<b>217</b>	<b>241</b>
Capital expenditure	-158	-184	-244	-292	-366
Others	224	270	200	-65	-29
<b>CF-Investing activities</b>	<b>67</b>	<b>86</b>	<b>-43</b>	<b>-357</b>	<b>-395</b>
Net change in debt	2,533	-1,582	-2,207	69	106
Net change in equity	0	0	0	0	0
Dividend payment	-110	-38	-34	-50	-64
Other financing	381	-66	-436	-93	-93
<b>CF-Financing activities</b>	<b>2,554</b>	<b>-1,919</b>	<b>-2,828</b>	<b>-194</b>	<b>-123</b>
<b>Net cash flow</b>	<b>-94</b>	<b>299</b>	<b>-442</b>	<b>-334</b>	<b>-277</b>
Cash - begin of the year	366	272	571	129	-205
Cash - end of the year	272	571	129	-205	-482

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	43.4	-5.2	-14.5	18.7	12.4
Operating profit gr. (%)	151.8	-61.1	6.5	23.6	12.4
Net profit gr. (%)	150.3	-65.3	-11.6	47.9	28.4
Gross margin (%)	9.1	8.6	9.0	9.0	9.0
Operating margin (%)	3.8	1.6	1.9	2.0	2.0
EBITDA margin (%)	4.0	1.9	2.3	2.4	2.4
Net margin (%)	2.4	0.9	0.9	1.2	1.3
ROA (%)	6.7	3.0	3.1	4.1	4.8
ROE (%)	18.1	6.1	5.6	7.9	9.6
Current ratio (x)	1.3	1.5	1.7	1.5	1.4
Quick ratio (x)	0.4	0.7	0.7	0.6	0.6
Interest cover (x)	4.0	2.0	3.0	4.5	8.2
Debt to equity ratio (x)	0.9	0.6	0.1	0.1	0.1
Net debt to equity (x)	0.9	0.4	0.1	0.2	0.2





# Matahari Department Store

**BUY**

**TP: Rp1,250 (+27.6%)**

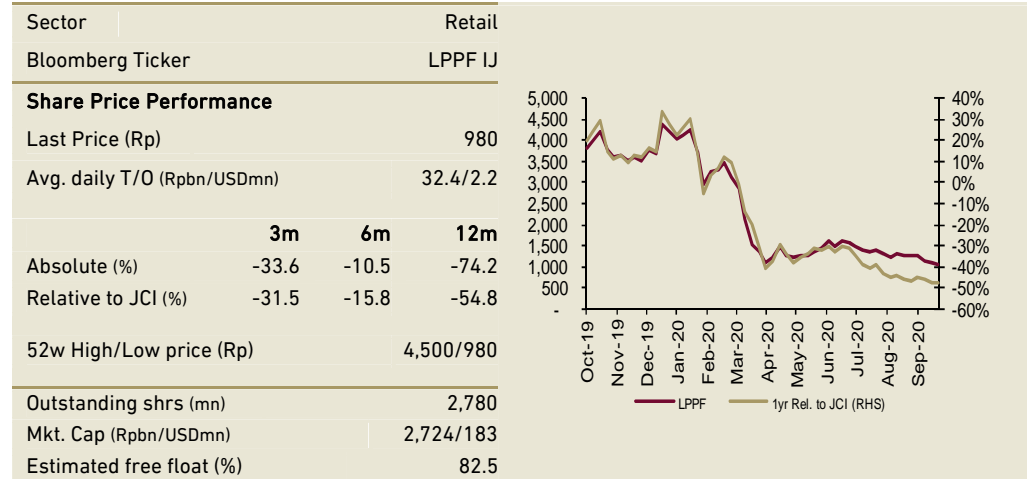
## Company Profile

Matahari Department Store (LPPF) is considered as one of the best retailers in Indonesia which focuses on apparels, accessories, beauty product and home-ware. The company was established in 1958 as a children's fashion store and launched its first modern department store in 1972.

## Key Points

- **Closing underperforming stores.** We expect LPPF to continue on closing their underperforming stores. Until 7M20, the company closed 6 large format stores and 12 mono stores, or 54% of non-profitable stores. We expect the company will continue to close their unperforming stores, and more focus on the profitable stores.
- **More meaningful lebaran seasonality.** Lebaran season is the most crucial moment for LPPF. Sales during lebaran period accounts for around 40% of full year sales. We expect lebaran period in 2021 will delivers better traffic, which help the company on their recovery journey towards pre-covid 19 level.
- **Better mall traffic in 2021.** We expect LPPF sales to improve gradually in parallel with shopping malls' traffic recovery. Shopping malls' traffic will be boost by restaurants and café which are allowed for dine in.
- **Too cheap to ignore.** On YTD basis, LPPF share price has dropped by 76.7%, hit the all time low at current price level, due to negative earnings expectation in 2020. We think the stock is well punished by the market, suggesting attractive valuation of 3.9x 2021F PER. We have a BUY call on LPPF with 2021F TP of Rp1250/sh, offering 27.6% upside potential.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	10,245	10,276	4,387	9,579	9,425
Operating profit (Rpbn)	2,330	1,766	-161	964	977
Net profit (Rpbn)	1,097	1,367	-201	693	704
EPS (Rp)	376.1	470.0	-72.3	249.1	253.1
EPS growth (%)	-42.5	25.0	n/m	n/m	1.6
EV/EBITDA (x)	0.7	0.8	17.9	2.0	1.8
PER (x)	2.6	2.1	-13.5	3.9	3.9
PBV (x)	1.6	1.6	1.7	1.2	1.0
Dividend yield (%)	46.7	32.8	0	-2.2	7.6
ROE (%)	60.4	78.3	-12.8	29.7	24.9

## Assumptions

	2018A	2019A	2020F	2021F	2022F
New space added (sqm)	12,074	17,570	-62,000	-12,000	-6,000
Net stores open (unit)	4	10	-15	-9	0
SSSG	3.5%	0.0%	-55%	1%	1%

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## Matahari Department Store

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>10,245</b>	<b>10,276</b>	<b>4,387</b>	<b>9,579</b>	<b>9,425</b>
COGS	-3,867	-4,120	-2,237	-3,736	-3,787
<b>Gross profit</b>	<b>6,378</b>	<b>6,156</b>	<b>2,150</b>	<b>5,843</b>	<b>5,639</b>
Oper. expenses	-4,048	-4,391	-2,311	-4,879	-4,661
<b>Oper. profit</b>	<b>2,330</b>	<b>1,766</b>	<b>-161</b>	<b>964</b>	<b>977</b>
<b>EBITDA</b>	<b>2,565</b>	<b>2,059</b>	<b>197</b>	<b>1,363</b>	<b>1,452</b>
Interest income	40	32	14	30	30
Interest expense	-31	-57	-110	-96	-94
Other income (exp.)	-763	22	-2	-5	-5
<b>Pre-tax profit</b>	<b>1,575</b>	<b>1,763</b>	<b>-259</b>	<b>893</b>	<b>908</b>
Income tax	-478	-396	58	-201	-204
Minority interest	0	0	0	0	0
<b>Net profit</b>	<b>1,097</b>	<b>1,367</b>	<b>-201</b>	<b>693</b>	<b>704</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	1,184	1,173	2,133	1,279	1,380
Acct, receivables	129	86	51	106	107
Inventory	1,291	1,099	636	1,085	1,091
Other curr, asset	410	392	121	343	333
<b>Total current asset</b>	<b>3,014</b>	<b>2,749</b>	<b>2,941</b>	<b>2,813</b>	<b>2,912</b>
Fixed assets - net	1,249	1,433	1,514	1,816	2,157
Other non-curr.asset	773	651	312	656	658
<b>Total asset</b>	<b>5,036</b>	<b>4,833</b>	<b>4,767</b>	<b>5,285</b>	<b>5,727</b>
ST debt + curr. maturity	0	0	1,620	0	0
Acct, payable	1,698	1,470	920	1,503	1,477
Advances received	0	0	0	0	0
Other curr. liab	1,042	1,127	445	1,000	980
Long term debt	0	0	0	0	0
Other non-curr, liab,	481	488	207	454	446
<b>Total liabilities</b>	<b>3,221</b>	<b>3,086</b>	<b>3,192</b>	<b>2,957</b>	<b>2,903</b>
Shareholder equity	1,816	1,747	1,575	2,328	2,824
Minority interest	0	0	0	0	0
<b>Total liab + SHE</b>	<b>5,036</b>	<b>4,833</b>	<b>4,767</b>	<b>5,285</b>	<b>5,727</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	1,097	1,367	-201	693	704
Depreciation	235	294	358	400	475
Chg in working cap.	-160	75	-497	385	-38
Other	549	167	89	-69	-16
<b>CF-Oper activities</b>	<b>1,721</b>	<b>1,902</b>	<b>-250</b>	<b>1,407</b>	<b>1,125</b>
Capital expenditure	-511	-478	-439	-702	-816
Others	0	0	0	0	0
<b>CF-Investing activities</b>	<b>-511</b>	<b>-478</b>	<b>-439</b>	<b>-702</b>	<b>-816</b>
Net change in debt	0	0	1,620	-1,620	0
Net change in equity	0	-82	82	0	0
Dividend payment	-1,335	-934	-410	60	-208
Other financing	-275	-421	358	0	0
<b>CF-Financing activities</b>	<b>-1,609</b>	<b>-1,436</b>	<b>1,650</b>	<b>-1,560</b>	<b>-208</b>
<b>Net cash flow</b>	<b>-399</b>	<b>-12</b>	<b>961</b>	<b>-854</b>	<b>101</b>
Cash - begin of the year	1,583	1,184	1,173	2,133	1,279
Cash - end of the year	1,184	1,173	2,133	1,279	1,380

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	2.2	0.3	-57.3	118.3	-1.6
Operating profit gr. (%)	-3.3	-24.2	n/m	n/m	1.4
Net profit gr. (%)	-42.5	24.6	n/m	n/m	1.6
Gross margin (%)	62.3	59.9	49.0	61.0	59.8
Operating margin (%)	22.7	17.2	-3.7	10.1	10.4
EBITDA margin (%)	25.0	20.0	4.5	14.2	15.4
Net margin (%)	10.7	13.3	-4.6	7.2	7.5
ROA (%)	21.8	28.3	-4.2	13.1	12.3
ROE (%)	60.4	78.3	-12.8	29.7	24.9
Current ratio (x)	1.1	1.1	1.0	1.1	1.2
Quick ratio (x)	0.6	0.6	0.8	0.7	0.7
Interest cover (x)	82.3	36.2	1.8	14.2	15.4
Debt to equity ratio (x)	0.0	0.0	1.0	0.0	0.0
Net debt to equity (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



# Ramayana Lestari Sentosa

**HOLD**

**TP: Rp550 (+3.8%)**

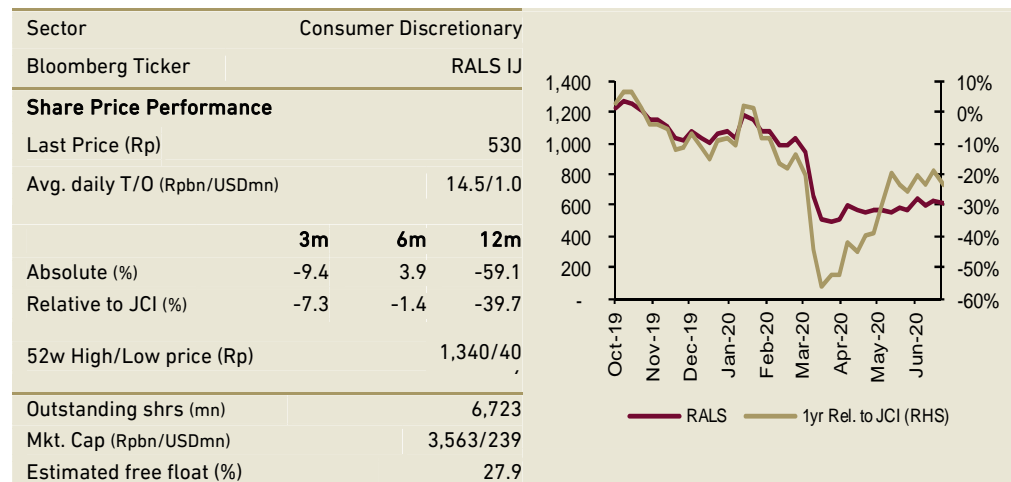
## Company Profile

By 1989 Ramayana has become a retail chain, consisting of 13 outlets and employing a total of 2,500 workers. They variety of products sold has also became more extensive to include household necessities, toys and stationeries. In addition to department stores that sell clothing products such as clothes and shoes, Ramayana also has a supermarket sells food and daily necessities.

## Key Points

- **Efficiencies and Cash preservation.** We expect RALS to do more opex efficiencies in 2021, to minimize the negative impact from covid-19 in 2020. The company will be more prudent in using cash, especially in the recovery period.
- **Better Lebaran in 2021.** Sales during lebaran period contribute around 40-45% to total revenue. We believe lebaran sales in 2021 will help the sales recovery process, but still behind pre-covid level, as we remain concerned on low-end purchasing power post covid-19.
- **Weak online contribution.** RALS online and via e-commerce sales only account for 0.4% of total revenue. In our view, RALS difficult to penetrate the online segment, due to tight competition with other online sellers inside the e-commerce and social media.
- **Reiterate a HOLD call with 2021F TP of Rp550/sh.** We remain cautious on low-end segment purchasing power, despite lebaran 2021 will deliver higher traffic. At the moment, the stock is fully valued at 9.5x 2021F PER.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	5,740	5,596	3,341	5,346	5,472
Operating profit (Rpbn)	608	571	-32	320	333
Net profit (Rpbn)	587	648	65	374	409
EPS (Rp)	87.3	96.3	9.7	55.7	60.8
EPS growth (%)	44.4	10.4	-90.0	476.2	9.2
EV/EBITDA (x)	1.7	1.1	4.0	0.6	0.0
PER (x)	6.1	5.5	54.8	9.5	8.7
PBV (x)	1.0	0.9	0.8	0.8	0.8
Dividend yield (%)	7.2	7.9	0.8	4.6	5.0
ROE (%)	15.3	15.5	1.4	7.9	8.3

## Assumptions

	2018A	2019A	2020F	2021F	2022F
Gross store space (sqm)	994,441	987,401	987,401	987,401	1,010,865
Net store addition	3	-2	0	0	3
Sales/sqm	5.8	5.6	3.4	5.4	5.5

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## Ramayana Lestari Sentosa

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>5,740</b>	<b>5,596</b>	<b>3,341</b>	<b>5,346</b>	<b>5,472</b>
COGS	-3,233	-3,102	-1,971	-3,038	-3,110
<b>Gross profit</b>	<b>2,507</b>	<b>2,494</b>	<b>1,370</b>	<b>2,308</b>	<b>2,362</b>
Oper. expenses	-1,899	-1,923	-1,402	-1,988	-2,029
<b>Oper. profit</b>	<b>608</b>	<b>571</b>	<b>-32</b>	<b>320</b>	<b>333</b>
<b>EBITDA</b>	<b>783</b>	<b>752</b>	<b>112</b>	<b>536</b>	<b>554</b>
Interest income	135	187	130	137	164
Interest expense	0	0	0	0	0
Other income (exp.)	-25	-25	-25	-26	-31
<b>Pre-tax profit</b>	<b>717</b>	<b>733</b>	<b>73</b>	<b>430</b>	<b>466</b>
Income tax	-130	-85	-8	-56	-57
Minority interest	0	0	0	0	0
<b>Net profit</b>	<b>587</b>	<b>648</b>	<b>65</b>	<b>374</b>	<b>409</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	2,416	2,923	3,300	3,432	3,763
Acct, receivables	38	35	21	34	35
Inventory	860	791	537	835	855
Other curr, asset	245	268	160	256	262
<b>Total current asset</b>	<b>3,558</b>	<b>4,018</b>	<b>4,018</b>	<b>4,558</b>	<b>4,915</b>
Fixed assets - net	1,164	1,107	1,011	895	777
Other non-curr.asset	521	525	344	505	515
<b>Total asset</b>	<b>5,243</b>	<b>5,650</b>	<b>5,373</b>	<b>5,957</b>	<b>6,207</b>
ST debt + curr. maturity	0	0	0	0	0
Acct, payable	941	1,050	548	802	821
Advances received	0	0	0	0	0
Other curr. liab	152	86	64	86	88
Long term debt	0	0	0	0	0
Other non-curr, liab,	322	345	252	357	364
<b>Total liabilities</b>	<b>1,416</b>	<b>1,481</b>	<b>864</b>	<b>1,245</b>	<b>1,273</b>
Shareholder equity	3,827	4,169	4,509	4,712	4,934
Minority interest	0	0	0	0	0
<b>Total liab + SHE</b>	<b>5,243</b>	<b>5,650</b>	<b>5,373</b>	<b>5,957</b>	<b>6,207</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	587	648	65	374	409
Depreciation	175	181	143	216	221
Chg in working cap.	-20	109	-59	-187	-8
Other	-135	-187	-130	-137	-164
<b>CF-Oper activities</b>	<b>608</b>	<b>750</b>	<b>19</b>	<b>267</b>	<b>457</b>
Capital expenditure	-104	-124	-47	-100	-103
Others	0	0	0	0	0
<b>CF-Investing activities</b>	<b>-104</b>	<b>-124</b>	<b>-47</b>	<b>-100</b>	<b>-103</b>
Net change in debt	0	0	0	0	0
Net change in equity	0	0	0	0	0
Dividend payment	-269	-297	-30	-172	-187
Other financing	150	178	435	137	164
<b>CF-Financing activities</b>	<b>-119</b>	<b>-119</b>	<b>406</b>	<b>-35</b>	<b>-23</b>
<b>Net cash flow</b>	<b>385</b>	<b>507</b>	<b>378</b>	<b>132</b>	<b>331</b>
Cash - begin of the year	2,031	2,416	2,923	3,300	3,432
Cash - end of the year	2,416	2,923	3,300	3,432	3,763

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	2.1	-2.5	-40.3	60.0	2.4
Operating profit gr. (%)	70.6	-6.0	n/m	n/m	4.4
Net profit gr. (%)	44.4	10.4	-90.0	476.2	9.2
Gross margin (%)	43.7	44.6	41.0	43.2	43.2
Operating margin (%)	10.6	10.2	-1.0	6.0	6.1
EBITDA margin (%)	13.6	13.4	3.3	10.0	10.1
Net margin (%)	10.2	11.6	1.9	7.0	7.5
ROA (%)	11.2	11.5	1.2	6.3	6.6
ROE (%)	15.3	15.5	1.4	7.9	8.3
Current ratio (x)	3.3	3.5	6.6	5.1	5.4
Quick ratio (x)	2.5	2.8	5.7	4.2	4.5
Interest cover (x)	n.m	n.m	n.m	n.m	n.m
Debt to equity ratio (x)	0.0	0.0	0.0	0.0	0.0
Net debt to equity (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



## COAL SECTOR



# Coal

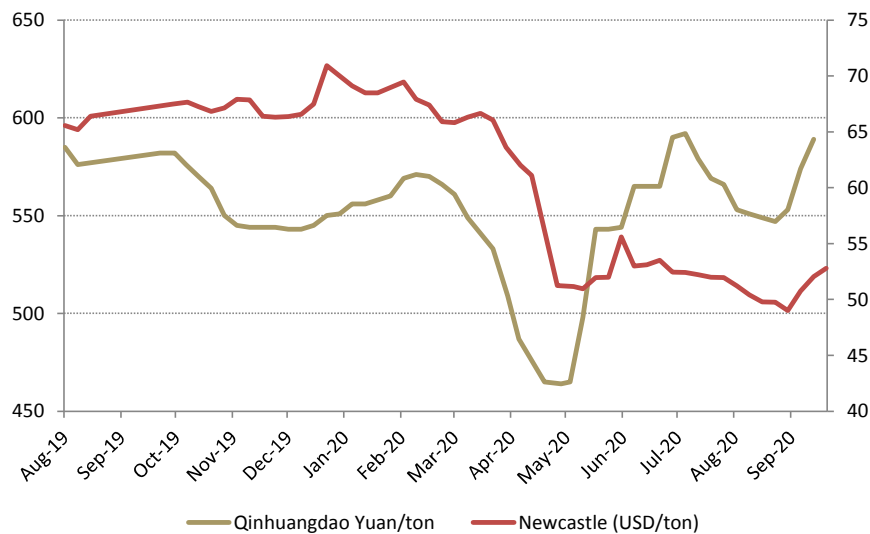
## Neutral

### Sector Outlook

- **China's demand and potential inspection stoking local coal price...**

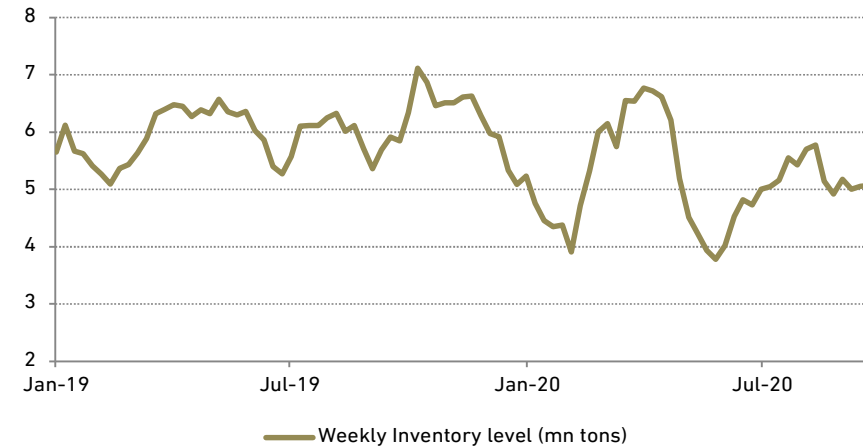
China's benchmark coal price has risen steadily from its lowest point in May at 464 yuan/ton to 589 yuan/ton (+26.9%) at time of writing despite Qinhuangdao port inventory sitting comfortably level at 5.06 mn tons. This was sparked by China's rising electricity demand on increasingly optimistic outlook on a swifter economic recovery post pandemic. Furthermore, with mine examinations coming potentially this October and China's Daqin railway inspections (one of its primary coal railway hub) due in 9<sup>th</sup> of October, this could potentially hamper local coal production in the 4Q20. As such, this could potentially further push China's coal price further up.

**Exhibit 165: Qinhuangdao vs Newcastle coal price yuan/ton**



Source: Bloomberg

**Exhibit 166: 9M20 China port coal inventory**



Source: Bloomberg

- **... could lead to relaxing coal import policy**

China regulators deems coal price at around 500-570 yuan to be its "green zone". In the month of September, Qinhuangdao coal price have averaged 572 yuan/ton (USD83.13/ton), which is above its purported safe zone. Furthermore, with impending mine inspections, rail works and increased electricity demand potentially pushing coal price further up. Local regulators may look to relaxing its import restrictions in order to curb its local coal prices. Newcastle coal price averaging around only USD51/ton in the month of September, this relatively low price is beginning to be looking more attractive for local regulators. With that in mind, China could potentially switch to the cheaper alternative, therefore increasing seaborne thermal coal demand. Despite the aforementioned reasons, we still see China coal import to decrease by 4.9% YoY, resulting in a surplus of 4 mn tons in FY20F before returning to a deficit of 5 mn tons in FY21F (see exh.167).



**Exhibit 167: China supply demand**

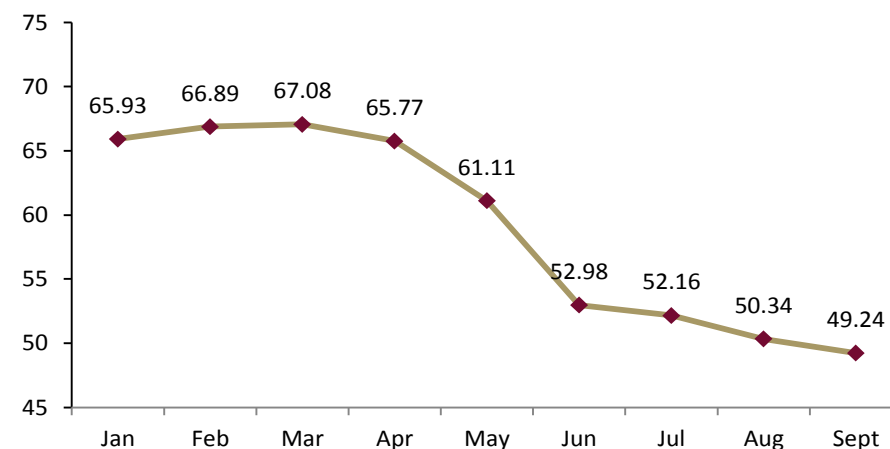
	2017	2018	2019	2020F	2021F
<b>Demand</b>					
Thermal coal (mn tons)	3,147	3,268	3,381	3,398	3,460
YoY%	1.7%	3.8%	3.5%	0.5%	1.0%
<b>Supply</b>					
Mine Production (mn tons)	2,904	3,064	3,118	3,188	3,250
YoY%	2.8%	5.5%	1.8%	2.3%	1.3%
<b>Net Imports</b>	195	213	225	214	205
YoY%	3.2%	9.2%	5.6%	-4.9%	-4.2%
<b>Surplus/Deficit (mn tons)</b>	<b>-48</b>	<b>9</b>	<b>-38</b>	<b>4</b>	<b>-5</b>

Source: Bloomberg

- **Declining coal price may work in Indonesia's favour**

Despite the government effort in reducing total coal domestic production by 50mn tons to 480mn tons (-13.1% YoY), Indonesian coal benchmark prices have declined by 33.9% Ytd from USD65.93/ton to USD49.24/ton in September 2020. This was primarily due to declining seaborne thermal coal demand. This however, could work in Indonesian miner's favor as China's coal price has been steadily rising up forcing China to look for cheaper alternatives to curb rising local prices, possibly increasing seaborne thermal coal demand. As such, we expect pressure on coal prices to lessen during the 4Q20.

**Exhibit 168: Indonesian 2020 coal benchmark price USD/ton**



Source: Bloomberg

- **India's demand is recovering but not enough**

India's power generation has recovered slightly, which was driven by increased demand stemming from its industrial western states and increased power consumption from relaxing lockdown measures. However, despite recovering demand power generation in India is still slated to fall by 13.3% YoY in 2H20 according to Bloomberg. This does not bode well for Indonesian miners which account to around 59% of the countries thermal coal imports in FY19.

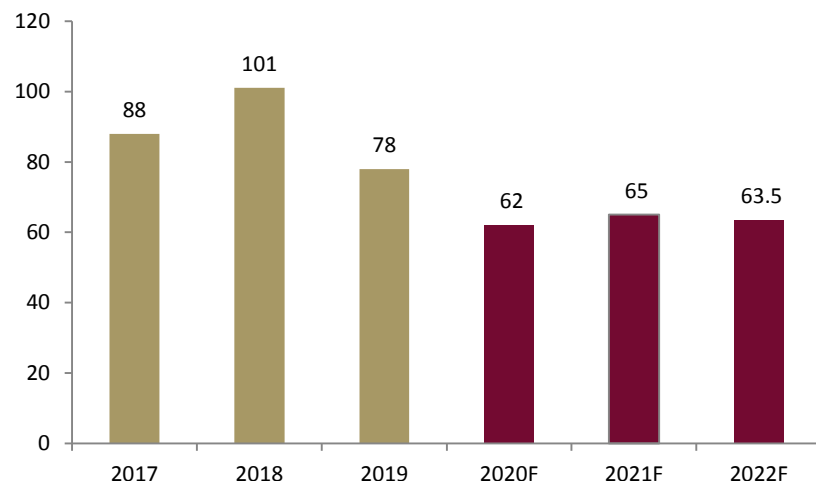
- **Maintain neutral rating with ADRO our top pick**

We maintain our Neutral stance for coal sector. Despite the negative impact from Covid-19 pandemic to the coal market, we expect normalcy to resume in FY21 lifting demand and power consumption up. As such we maintain our coal price forecast at USD62 and 65/ton in FY20 and FY21. Our top pick for coal sector is ADRO (Buy, TP: Rp1,500) and PTBA (Buy, TP: Rp2,650), with both miners having ample reserve life, diverse portfolio, integrated mining system and an attractive dividend yield. Possible upside to our call would be; relaxing



China and India coal import restrictions, strong rebound in metallurgical coal prices, better than expected global thermal power generation recovery and production cuts from coal producing countries.

**Exhibit 169: Coal Benchmark price**



Source: Bloomberg, Ciptadana estimates

**Exhibit 170: Coal stocks rating and valuation**

Bberg Ticker	Rating	Mkt.Cap (Rp tn)	Last Price	Target Price	Upside pot.(%)	PER		EV/EBITDA		ROE 21F (%)	Yield 21F (%)
						2020F	2021F	2020F	2021F		
ADRO	Buy	36.1	1,130	1,500	32.7	10.4	10.1	4.9	4.2	7.1	6.7
PTBA	Buy	22.8	1,985	2,650	33.5	11.9	9.1	6.9	4.4	11.6	7.6
ITMG	Buy	9.1	8,050	9,100	13.0	14.5	8.4	5.6	2.8	9.8	6.9
HRUM	Hold	4.4	1,625	1,500	-7.7	18.4	24.5	4.3	4.6	3.7	0.0
<b>Sector</b>	<b>Neutral</b>	<b>73.4</b>				<b>14.6</b>	<b>14.1</b>	<b>5.7</b>	<b>4.5</b>	<b>7.9</b>	<b>6.2</b>

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# Adaro BUY

**TP: Rp1,500 (+32.7%)**

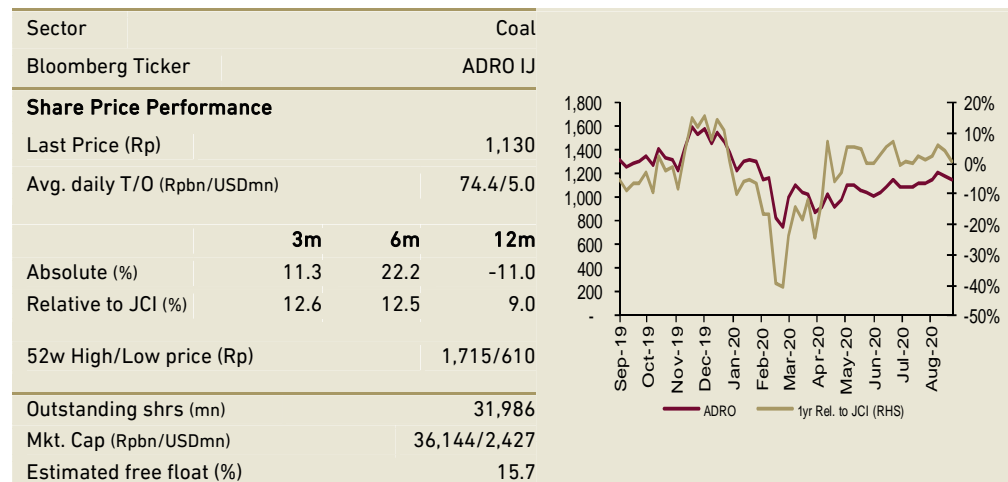
## Company Profile

ADRO is one of Indonesian largest integrated coal mining through its subsidiaries. Its business activities include mining, barging, shiploading, dredging, port services, marketing and power generation. The company's major mine site is located at Tabalong district, South Kalimantan province, where it mostly produces Envirocoal, a sub-bituminous, moderate heat-value, low-pollutant coal. The company also produces coking coal, an irreplaceable input for the production of steel.

## Key Points

- **Built to outlast this predicament.** During these rough times, the company is well built to outlast the current predicament, starting from its integrated mining system enabling the company to control cost to a certain degree, with 1H20 operational performance as its highlight. Furthermore, the company's diverse portfolio, namely coking coal in Australia and Indonesia and adding power into its business segment, should provide a buffer against the volatility of coal market. Together this should help the company in maintaining a healthy balance sheet and provide solid cash flow generation.
- **Retain BUY rating with TP of Rp1,500/share** ADRO remained as our top pick due to its ability to generate a positive cash flow despite this unexciting coal market environment, coming mostly from its stringent cost controls and diverse portfolio. We maintained our buy rating for the company due to its attractive upside potential (+32.7%). Further upside to our call would be; 1) relaxing China coal import restrictions 2) strong rebound in coal prices and 3) savvy M&A deals adding value to its business segments.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (USDmn)	3,620	3,457	2,476	2,572	2,567
Operating profit (USDmn)	1,016	732	395	401	348
Net profit (USDmn)	418	404	268	271	240
EPS (US\$Cents)	1.3	1.3	0.8	0.8	0.7
EPS growth (%)	-13.6	-3.2	-33.6	1.1	-11.6
EV/EBITDA (x)	2.4	3.1	4.9	4.2	4.2
PER (x)	6.5	7.0	10.4	10.1	11.4
PBV (x)	0.7	0.8	0.7	0.7	0.7
Dividend yield (%)	8.3	9.8	10.0	6.7	6.8
ROE (%)	11.4	10.8	7.2	7.1	6.2

## Assumptions

	2018A	2019A	2020F	2021F	2022F
Newcastle (USD/ton) - avg	101.0	78.0	62.0	65.0	63.5
ASP (USD/ton)	61.8	59.1	42.2	43.6	42.5
Cash cost (USD/ton)	30.5	29.3	25.1	25.8	26.1
Sales volume (mn ton)	54.4	55.6	54.0	54.4	55.4

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## Adaro

### Income Statement

Year to 31 Dec (USDmn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>3,620</b>	<b>3,457</b>	<b>2,476</b>	<b>2,572</b>	<b>2,567</b>
COGS	-2,410	-2,493	-1,917	-1,944	-1,988
<b>Gross profit</b>	<b>1,210</b>	<b>965</b>	<b>559</b>	<b>628</b>	<b>578</b>
Oper. expenses	-194	-233	-165	-226	-230
<b>Oper. profit</b>	<b>1,016</b>	<b>732</b>	<b>395</b>	<b>401</b>	<b>348</b>
<b>EBITDA</b>	<b>1,325</b>	<b>1,050</b>	<b>618</b>	<b>608</b>	<b>543</b>
Interest income	24	28	55	48	51
Interest expense	-78	-66	-37	-32	-29
Other income (exp.)	-141	-35	-15	-15	-15
<b>Pre-tax profit</b>	<b>821</b>	<b>659</b>	<b>397</b>	<b>402</b>	<b>355</b>
Income tax	-343	-224	-99	-100	-89
Minority interest	-60	-31	-30	-30	-27
<b>Net profit</b>	<b>418</b>	<b>404</b>	<b>268</b>	<b>271</b>	<b>240</b>

### Balance Sheet

Year to 31 Dec (USDmn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	1,017	1,582	1,372	1,472	1,314
Acct, receivables	371	310	295	307	306
Inventory	112	121	81	106	105
Other curr, asset	100	96	49	50	47
<b>Total current asset</b>	<b>1,600</b>	<b>2,110</b>	<b>1,797</b>	<b>1,934</b>	<b>1,772</b>
Fixed assets - net	3,907	3,257	3,084	2,932	2,791
Other non-curr.asset	977	1,165	1,181	976	976
<b>Total asset</b>	<b>7,062</b>	<b>7,217</b>	<b>6,752</b>	<b>6,534</b>	<b>6,235</b>
ST debt + curr. maturity	220	549	386	223	55
Acct, payable	342	336	256	266	272
Advances received	0	0	0	0	0
Other curr. liab	255	348	370	383	382
Long term debt	1,214	1,435	1,238	1,041	824
Other non-curr, liab,	728	567	552	553	554
<b>Total liabilities</b>	<b>2,758</b>	<b>3,234</b>	<b>2,802</b>	<b>2,467</b>	<b>2,087</b>
Shareholder equity	3,651	3,730	3,721	3,809	3,863
Minority interest	652	253	229	259	285
<b>Total liab + SHE</b>	<b>7,062</b>	<b>7,217</b>	<b>6,752</b>	<b>6,534</b>	<b>6,235</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (USDmn)	2018A	2019A	2020F	2021F	2022F
Net income	418	404	268	271	240
Depreciation	309	318	223	206	195
Chg in working cap.	154	222	44	-13	9
Other	-97	-527	-55	445	27
<b>CF-Oper activities</b>	<b>783</b>	<b>417</b>	<b>480</b>	<b>909</b>	<b>470</b>
Capital expenditure	-354	332	-50	-54	-54
Others	-532	-108	-4	-4	-4
<b>CF-Investing activities</b>	<b>-886</b>	<b>224</b>	<b>-54</b>	<b>-58</b>	<b>-57</b>
Net change in debt	61	762	-360	-567	-385
Net change in equity	0	0	0	0	0
Dividend payment	-223	-277	-277	-184	-186
Other financing	-14	-477	0	0	0
<b>CF-Financing activities</b>	<b>-176</b>	<b>7</b>	<b>-637</b>	<b>-751</b>	<b>-571</b>
<b>Net cash flow</b>	<b>-279</b>	<b>648</b>	<b>-211</b>	<b>100</b>	<b>-158</b>
Cash - begin of the year	1,207	928	1,576	1,365	1,465
Cash - end of the year	928	1,576	1,365	1,465	1,308

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	11.1	-4.5	-28.4	3.9	-0.2
Operating profit gr. (%)	6.8	-28.0	-46.1	1.7	-13.3
Net profit gr. (%)	-13.6	-3.2	-33.6	1.1	-11.6
Gross margin (%)	33.4	27.9	22.6	24.4	22.5
Operating margin (%)	28.1	21.2	15.9	15.6	13.6
EBITDA margin (%)	36.6	30.4	24.9	23.6	21.1
Net margin (%)	11.5	11.7	10.8	10.5	9.3
ROA (%)	5.9	5.6	4.0	4.2	3.8
ROE (%)	11.4	10.8	7.2	7.1	6.2
Current ratio (x)	2.0	1.7	1.8	2.2	2.5
Quick ratio (x)	1.8	1.6	1.7	2.1	2.4
Interest cover (x)	17.0	15.8	16.5	18.9	18.6
Debt to equity ratio (x)	0.4	0.5	0.4	0.3	0.2
Net debt to equity (x)	0.1	0.1	0.1	Net Cash	Net Cash



# Harum HOLD

**TP: Rp1,500 (-7.7%)**

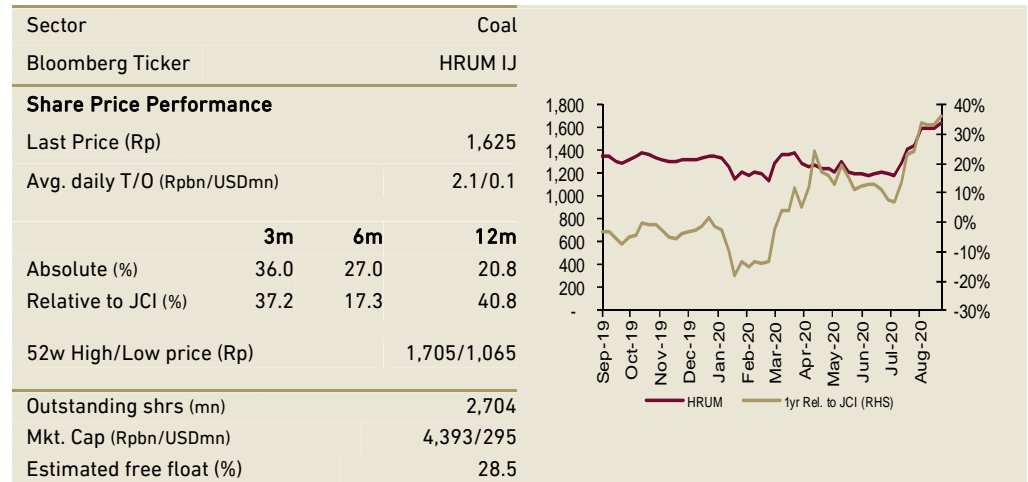
## Company Profile

Harum Energy is an Indonesia-based holding company which owns several subsidiaries engaged in coal mining and logistic activities in East Kalimantan. It operates a vertically integrated supply chain linking from its mine-sites to the offshore ship loading. The company owns its infrastructure, such as hauling roads, ports, coal processing plants, fleet of tugboats and barges and has preferential access to floating cranes.

## Key Points

- **Maintaining efficiency going forward.** Management hinted that in response to market conditions both waste removal and strip ratios will still trend downwards going forward. We believe it could contribute to a healthy margin growth, if things remain as planned. The company currently recorded 1H20 strip ratio of 9.3x and is maintain it at around 9.5x in 2H20.
- **Potential relaxing China import policy bodes well for HRUM.** As China make up to 57% of the company's sales destination, the possibility of the country relaxing its coal import policy bodes positively for HRUM.
- **Retain HOLD rating with TP of Rp1,500/share.** We remain wary over the volatility of coal prices going forward due to the pandemic and increasingly unstable relationship between U.S. and China. We retain our Hold rating for HRUM as our TP offers 7.7% downside potential. Possible downside risk to our call; changes in domestic coal regulations, seaborne thermal coal price volatility and sliding coal demand due to prolonged pandemic.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (USDmn)	337	263	202	217	222
Operating profit (USDmn)	51	24	13	11	12
Net profit (USDmn)	32	19	17	12	12
EPS (US\$Cents)	1.2	0.7	0.6	0.5	0.5
EPS growth (%)	-29.7	-41.8	-8.8	-26.2	-6.5
EV/EBITDA (x)	1.3	2.7	4.3	4.6	4.7
PER (x)	9.5	17.1	18.4	24.5	24.5
PBV (x)	1.0	1.0	0.9	0.9	0.8
Dividend yield (%)	15.1	2.4	0.0	0.0	0.0
ROE (%)	10.5	5.9	5.1	3.7	3.4

## Assumptions

	2018A	2019A	2020F	2021F	2022F
Newcastle (USD/ton) - avg	101.0	78.0	62.0	65.0	63.5
ASP (USD/ton)	71.2	60.7	47.1	49.4	48.2
Cash cost (USD/ton)	45.8	42.8	35.2	37.8	38.1
Sales volume (mn ton)	5.2	4.1	4.1	4.2	6.0

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## Harum

### Income Statement

Year to 31 Dec (USDmn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>337</b>	<b>263</b>	<b>202</b>	<b>217</b>	<b>222</b>
COGS	-235	-195	-151	-166	-171
<b>Gross profit</b>	<b>101</b>	<b>68</b>	<b>51</b>	<b>50</b>	<b>51</b>
Oper. expenses	-50	-44	-38	-39	-39
<b>Oper. profit</b>	<b>51</b>	<b>24</b>	<b>13</b>	<b>11</b>	<b>12</b>
<b>EBITDA</b>	<b>65</b>	<b>34</b>	<b>24</b>	<b>24</b>	<b>28</b>
Interest income	5	6	7	6	6
Interest expense	-2	-2	-2	-2	-2
Other income (exp.)	-6	-2	8	3	3
<b>Pre-tax profit</b>	<b>48</b>	<b>26</b>	<b>26</b>	<b>19</b>	<b>19</b>
Income tax	-8	-6	-6	-5	-5
Minority interest	-8	-2	-3	-2	-2
<b>Net profit</b>	<b>32</b>	<b>19</b>	<b>17</b>	<b>12</b>	<b>12</b>

### Balance Sheet

Year to 31 Dec (USDmn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	216	227	208	195	175
Acct. receivables	35	23	14	15	16
Inventory	35	16	13	17	17
Other curr. asset	24	23	16	16	16
<b>Total current asset</b>	<b>311</b>	<b>288</b>	<b>251</b>	<b>243</b>	<b>225</b>
Fixed assets - net	82	75	93	110	139
Other non-curr.asset	75	84	87	92	108
<b>Total asset</b>	<b>468</b>	<b>447</b>	<b>464</b>	<b>480</b>	<b>511</b>
ST debt + curr. maturity	0	0	0	0	0
Acct. payable	42	18	17	19	19
Advances received	0	0	0	0	0
Other curr. liab	30	19	17	17	18
Long term debt	0	0	0	0	0
Other non-curr. liab,	8	11	11	11	11
<b>Total liabilities</b>	<b>80</b>	<b>47</b>	<b>45</b>	<b>47</b>	<b>48</b>
Shareholder equity	302	312	328	341	367
Minority interest	86	88	91	92	96
<b>Total liab + SHE</b>	<b>468</b>	<b>447</b>	<b>464</b>	<b>480</b>	<b>511</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (USDmn)	2018A	2019A	2020F	2021F	2022F
Net income	32	19	17	12	12
Depreciation	14	10	11	13	16
Chg in working cap.	-39	-11	16	-4	0
Other	15	7	-30	-1	-1
<b>CF-Oper activities</b>	<b>22</b>	<b>24</b>	<b>14</b>	<b>21</b>	<b>28</b>
Capital expenditure	-16	-3	-29	-29	-29
Others	-11	-2	-3	-5	-8
<b>CF-Investing activities</b>	<b>-27</b>	<b>-5</b>	<b>-33</b>	<b>-35</b>	<b>-38</b>
Net change in debt	0	0	0	0	0
Net change in equity	4	-1	0	0	0
Dividend payment	-45	-8	0	0	0
Other financing	-4	0	0	0	0
<b>CF-Financing activities</b>	<b>-45</b>	<b>-9</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net cash flow</b>	<b>-50</b>	<b>10</b>	<b>-18</b>	<b>-14</b>	<b>-10</b>
Cash - begin of the year	266	216	227	208	185
Cash - end of the year	217	227	208	195	175

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	3.4	-22.0	-23.1	7.4	0.0
Operating profit gr. (%)	-29.2	-53.4	-46.6	-9.7	-8.0
Net profit gr. (%)	-29.7	-41.8	-8.8	-26.2	-6.5
Gross margin (%)	30.1	25.7	25.1	23.3	22.9
Operating margin (%)	15.2	9.1	6.3	5.3	5.5
EBITDA margin (%)	19.4	12.9	11.7	11.1	12.6
Net margin (%)	9.4	7.0	8.4	5.7	5.6
ROA (%)	6.8	4.1	3.6	2.6	2.4
ROE (%)	10.5	5.9	5.1	3.7	3.4
Current ratio (x)	4.3	7.9	7.4	6.7	6.1
Quick ratio (x)	3.8	7.4	7.0	6.3	5.6
Interest cover (x)	30.2	20.9	14.6	14.8	17.3
Debt to equity ratio (x)	0.0	0.0	0.0	0.0	0.0
Net debt to equity (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



# Indo Tambangraya

**BUY**

**TP: Rp9,100 (+13.0%)**

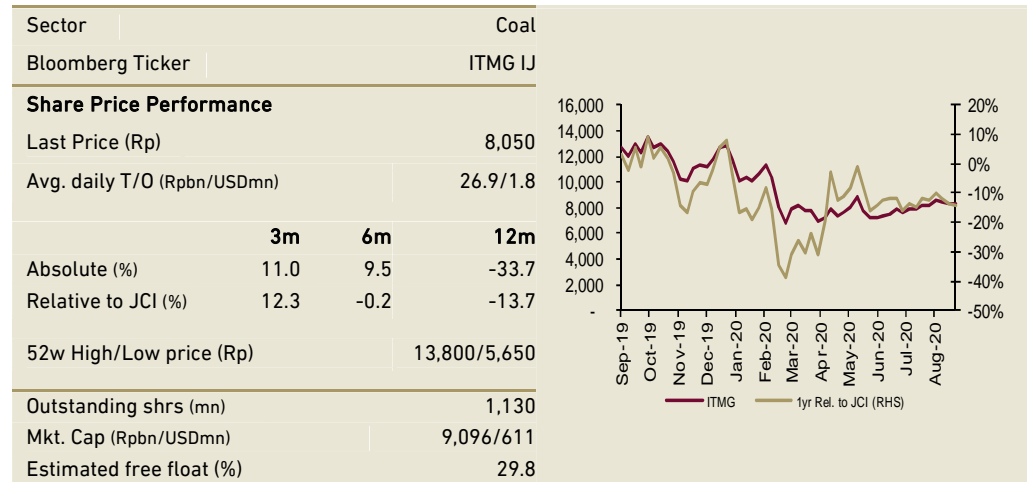
## Company Profile

ITMG is one of leading coal mining companies in Indonesia. The company operates several mining concessions in Kalimantan island. Through its subsidiary, the company also operates a coal terminal and power plant in East Kalimantan. ITMG is majority owned by Thailand-based company, Banpu.

## Key Points

- **Continuous efficiency improvements and cost control.** Driven by digital transformation implementation, cost discipline and low oil prices (recall that 30% of ITMG's cash costs are oil) we expect ITMG to maintain its efficient cash management strategy in order to combat coal price volatility.
- **Swifter economic recovery post pandemic lifting FY21F earnings.** Along with an expected swifter economic recovery post pandemic. We expect coal prices to recover slightly in FY21 to USD65/ton, as everything will return to parity. As such we estimate FY21F earnings to increase by 72% to USD83 mn primarily due to increased cost efficiency and a slight increase in coal benchmark prices.
- **High dividend payout policy to remain.** We do believe ITMG's high dividend pay-out policy is likely to sustain given Banpu's cash need. However, it will not be able to sustain its previous years high yield due to lower estimated earnings. Thus, we estimate ITMG's FY21F dividend yield at 6.9%.
- **Maintain our BUY rating at Rp9,100 per share.** We maintain our BUY rating as our TP still offers a 13.0% upside potential, we do appreciate the company's commitment in maintaining its high dividend payout policy of around 99%. However, we remain wary with the volatility of coal prices going forward due to the pandemic.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (USDmn)	2,008	1,716	1,181	1,297	1,267
Operating profit (USDmn)	436	181	54	110	84
Net profit (USDmn)	268	126	48	83	64
EPS (US\$Cents)	23.8	11.2	4.3	7.3	5.6
EPS growth (%)	10.5	-53.0	-61.6	70.5	-22.9
EV/EBITDA (x)	0.7	2.5	5.6	2.8	3.4
PER (x)	2.5	5.7	14.5	8.4	10.9
PBV (x)	0.7	0.8	0.9	0.8	0.8
Dividend yield (%)	36.4	29.9	18.1	6.9	11.8
ROE (%)	27.7	14.3	6.0	9.8	7.7

## Assumptions

	2018A	2019A	2020F	2021F	2022F
Newcastle (USD/ton) - avg	101.0	78.0	62.0	65.0	63.5
ASP (USD/ton)	81.0	70.5	55.8	58.5	57.2
Cash cost (Rp k/ton)	59.7	44.6	42.6	42.9	43.6
Sales volume (mn ton)	23.6	25.3	25.5	26.4	27.2

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## Indo Tambangraya

### Income Statement

Year to 31 Dec (USDmn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>2,008</b>	<b>1,716</b>	<b>1,181</b>	<b>1,297</b>	<b>1,267</b>
COGS	-1,424	-1,388	-1,032	-1,085	-1,083
<b>Gross profit</b>	<b>584</b>	<b>328</b>	<b>149</b>	<b>211</b>	<b>184</b>
Oper. expenses	-148	-146	-95	-102	-100
<b>Oper. profit</b>	<b>436</b>	<b>181</b>	<b>54</b>	<b>110</b>	<b>84</b>
<b>EBITDA</b>	<b>481</b>	<b>232</b>	<b>87</b>	<b>149</b>	<b>120</b>
Interest income	1	5	4	5	6
Interest expense	0	-1	-1	-1	-1
Other income (exp.)	-60	1	15	8	5
<b>Pre-tax profit</b>	<b>377</b>	<b>186</b>	<b>71</b>	<b>121</b>	<b>94</b>
Income tax	-109	-59	-23	-39	-30
Minority interest	0	0	0	0	0
<b>Net profit</b>	<b>268</b>	<b>126</b>	<b>48</b>	<b>83</b>	<b>64</b>

### Balance Sheet

Year to 31 Dec (USDmn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	368	159	217	277	282
Acct, receivables	217	134	105	113	110
Inventory	108	103	79	83	83
Other curr, asset	73	77	54	57	56
<b>Total current asset</b>	<b>766</b>	<b>473</b>	<b>455</b>	<b>529</b>	<b>531</b>
Fixed assets - net	243	238	250	232	216
Other non-curr.asset	434	499	416	417	413
<b>Total asset</b>	<b>1,443</b>	<b>1,209</b>	<b>1,121</b>	<b>1,178</b>	<b>1,161</b>
ST debt + curr. maturity	0	11	0	0	0
Acct, payable	194	78	108	113	113
Advances received	0	0	0	0	0
Other curr. liab	196	145	112	124	119
Long term debt	0	0	0	0	0
Other non-curr, liab,	83	92	96	101	106
<b>Total liabilities</b>	<b>473</b>	<b>325</b>	<b>316</b>	<b>338</b>	<b>338</b>
Shareholder equity	970	884	805	840	823
Minority interest	0	0	0	0	0
<b>Total liab + SHE</b>	<b>1,443</b>	<b>1,209</b>	<b>1,121</b>	<b>1,178</b>	<b>1,161</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (USDmn)	2018A	2019A	2020F	2021F	2022F
Net income	268	126	48	83	64
Depreciation	45	50	33	40	36
Chg in working cap.	-35	-129	155	1	3
Other	22	-10	4	5	5
<b>CF-Oper activities</b>	<b>300</b>	<b>37</b>	<b>242</b>	<b>128</b>	<b>108</b>
Capital expenditure	-49	-45	-46	-21	-21
Others	-6	0	0	0	0
<b>CF-Investing activities</b>	<b>-55</b>	<b>-45</b>	<b>-46</b>	<b>-21</b>	<b>-21</b>
Net change in debt	0	11	-11	0	0
Net change in equity	-1	0	0	0	0
Dividend payment	-250	-214	-127	-48	-81
Other financing	-1	3	0	0	0
<b>CF-Financing activities</b>	<b>-251</b>	<b>-201</b>	<b>-138</b>	<b>-48</b>	<b>-81</b>
<b>Net cash flow</b>	<b>-6</b>	<b>-209</b>	<b>58</b>	<b>60</b>	<b>5</b>
Cash - begin of the year	374	368	159	217	277
Cash - end of the year	368	159	217	277	282

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	18.8	-14.5	-31.1	9.8	-2.3
Operating profit gr. (%)	12.2	-58.4	-70.2	103.5	-23.8
Net profit gr. (%)	10.5	-53.0	-61.6	70.5	-22.9
Gross margin (%)	29.1	19.1	12.6	16.3	14.5
Operating margin (%)	21.7	10.6	4.6	8.5	6.6
EBITDA margin (%)	24.0	13.5	7.4	11.5	9.5
Net margin (%)	13.4	7.4	4.1	6.4	5.0
ROA (%)	18.6	10.4	4.3	7.0	5.5
ROE (%)	27.7	14.3	6.0	9.8	7.7
Current ratio (x)	2.0	2.0	2.1	2.2	2.3
Quick ratio (x)	1.7	1.6	1.7	1.9	1.9
Interest cover (x)	n.m	179.5	67.7	115.9	93.0
Debt to equity ratio (x)	0.0	0.0	0.0	0.0	0.0
Net debt to equity (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash





# Bukit Asam

BUY

TP: Rp2,650 (+33.5%)

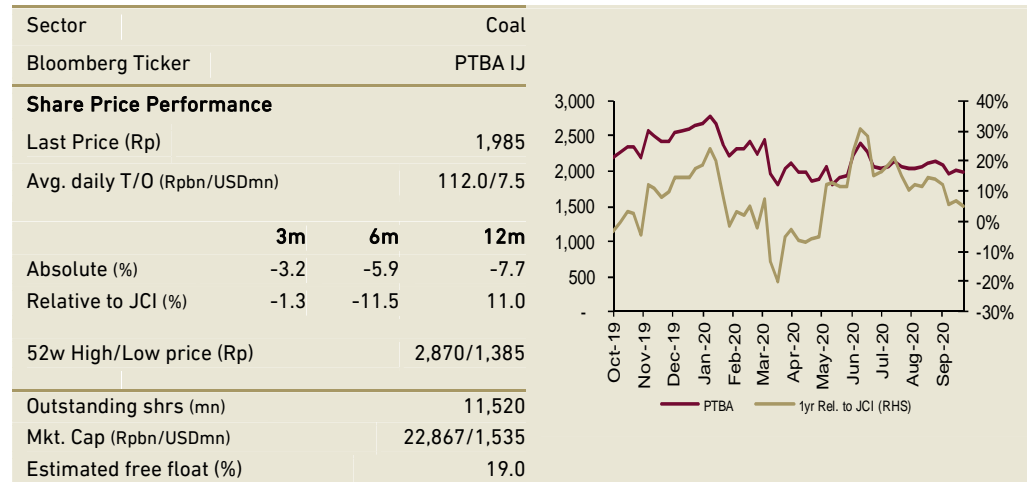
## Company Profile

PTBA is a state-owned coal mining company with 1.99 bn tons of reserves. Its business activities include conducting coal mining operation, coal trading, coal-based power generation, and investment business. Its main coal-mining concession is located in Tanjung Enim, South Sumatra. It is a state-owned company, with the government as its major shareholder.

## Key Points

- **Steady production growth, with rail works progressing on schedule.** Despite many miners cutting its production in FY20F PTBA is still on course to increase its production level by approximately 5% to 29.4 mn tons. This is primarily due to its abundant reserves and increased railway hauling. The company's rail work expansion project is currently progressing on schedule despite the COVID-19 pandemic. According to management it is expected to haul around 27.5 mn tons of coal in FY20. With the completion of the entire railway (estimated at 2025) PTBA will be able to haul a combined 60 mn tons of coal from its Tanjung Enim mine to its ports, reducing an estimated of Rp100k/ton of transporting costs according to management.
- **BUY rating at TP of Rp2,650/share.** We maintain PTBA as our other top pick primarily due to the companies expected generous dividend payout rate at 90% in 2020 and 2021, which translates into yield of 14.7 and 6.0%, respectively. We remain optimistic on PTBA given its growing production output, steady sales growth and increasingly diverse portfolio. We maintain our buy rating as the company offers 33.5% upside potential, possible risk for our call are weak global coal demand recovery, amidst a faster return of supply followed by COVID-19 pandemic causing a widening coal surplus.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	21,167	21,788	17,496	21,094	21,638
Operating profit (Rpbn)	6,283	5,014	2,247	3,389	3,125
Net profit (Rpbn)	5,024	4,057	1,922	2,515	2,341
EPS (Rp)	436.1	352.2	166.9	218.4	203.2
EPS growth (%)	12.2	-19.2	-52.6	30.9	-7.0
EV/EBITDA (x)	2.5	3.2	6.9	4.4	4.5
PER (x)	4.6	5.6	11.9	9.1	9.8
PBV (x)	1.4	1.3	1.4	1.3	1.3
Dividend yield (%)	12.1	16.7	16.0	7.6	8.3
ROE (%)	31.4	22.2	11.6	14.5	13.2

## Assumptions

	2018A	2019A	2020F	2021F	2022F
Newcastle (USD/ton) - avg	101.0	78.0	62.0	65.0	63.5
ASP (Rp k/ton)	835	737	694	728	711
Cash cost (Rp k/ton)	590	581	512	506	505
Sales volume (mn ton)	26.4	28.0	25.2	29.0	30.4

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## Bukit Asam

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>21,167</b>	<b>21,788</b>	<b>17,496</b>	<b>21,094</b>	<b>21,638</b>
COGS	-12,621	-14,176	-13,125	-14,963	-15,688
<b>Gross profit</b>	<b>8,546</b>	<b>7,612</b>	<b>4,371</b>	<b>6,131</b>	<b>5,950</b>
Oper. expenses	-2,263	-2,597	-2,124	-2,742	-2,824
<b>Oper. profit</b>	<b>6,283</b>	<b>5,014</b>	<b>2,247</b>	<b>3,389</b>	<b>3,125</b>
<b>EBITDA</b>	<b>6,829</b>	<b>5,680</b>	<b>2,622</b>	<b>4,085</b>	<b>3,863</b>
Interest income	326	155	170	187	206
Interest expense	-104	-128	-103	-124	-127
Other income (exp.)	352	414	400	100	101
<b>Pre-tax profit</b>	<b>6,858</b>	<b>5,455</b>	<b>2,715</b>	<b>3,553</b>	<b>3,306</b>
Income tax	-1,737	-1,415	-787	-1,030	-959
Minority interest	-97	16	-5	-7	-7
<b>Net profit</b>	<b>5,024</b>	<b>4,057</b>	<b>1,922</b>	<b>2,515</b>	<b>2,341</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	6,301	4,756	5,015	5,232	5,628
Acct, receivables	2,782	2,483	2,499	3,013	3,091
Inventory	1,551	1,383	1,402	1,517	1,590
Other curr, asset	1,379	3,226	897	897	897
<b>Total current asset</b>	<b>12,013</b>	<b>11,848</b>	<b>9,813</b>	<b>10,659</b>	<b>11,206</b>
Fixed assets - net	6,548	7,273	7,030	7,455	7,433
Other non-curr.asset	3,162	4,063	3,861	4,006	4,080
<b>Total asset</b>	<b>24,173</b>	<b>26,098</b>	<b>23,619</b>	<b>25,035</b>	<b>25,633</b>
ST debt + curr. maturity	85	152	152	152	152
Acct, payable	1,048	1,020	875	998	1,046
Advances received	1,274	1,630	1,267	1,636	1,685
Other curr. liab	2,528	1,889	1,727	1,817	1,799
Long term debt	233	10	9	7	6
Other non-curr, liab,	2,734	2,961	2,914	2,958	3,031
<b>Total liabilities</b>	<b>7,904</b>	<b>7,662</b>	<b>6,944</b>	<b>7,568</b>	<b>7,719</b>
Shareholder equity	16,015	18,271	16,516	17,315	17,769
Minority interest	254	165	159	152	145
<b>Total liab + SHE</b>	<b>24,173</b>	<b>26,098</b>	<b>23,619</b>	<b>25,035</b>	<b>25,633</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	5,024	4,057	1,922	2,515	2,341
Depreciation	546	666	374	696	737
Chg in working cap.	2,793	-2,524	2,007	-72	-82
Other	-993	-216	0	0	0
<b>CF-Oper activities</b>	<b>7,370</b>	<b>1,983</b>	<b>4,304</b>	<b>3,139</b>	<b>2,996</b>
Capital expenditure	-894	-1,391	-132	-1,121	-715
Others	-413	-221	-102	-145	-73
<b>CF-Investing activities</b>	<b>-1,307</b>	<b>-1,613</b>	<b>-234</b>	<b>-1,266</b>	<b>-789</b>
Net change in debt	-16	-156	-2	-2	-2
Net change in equity	157	2,001	0	0	0
Dividend payment	-2,774	-3,815	-3,651	-1,730	-1,887
Other financing	-684	55	-158	76	76
<b>CF-Financing activities</b>	<b>-3,317</b>	<b>-1,915</b>	<b>-3,811</b>	<b>-1,656</b>	<b>-1,812</b>
<b>Net cash flow</b>	<b>2,746</b>	<b>-1,545</b>	<b>259</b>	<b>217</b>	<b>396</b>
Cash - begin of the year	3,555	6,301	4,756	5,015	5,232
Cash - end of the year	6,301	4,756	5,015	5,232	5,628

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	8.7	2.9	-19.7	20.6	2.6
Operating profit gr. (%)	6.5	-20.2	-55.2	50.8	-7.8
Net profit gr. (%)	12.2	-19.2	-52.6	30.9	-7.0
Gross margin (%)	40.4	34.9	25.0	29.1	27.5
Operating margin (%)	29.7	23.0	12.8	16.1	14.4
EBITDA margin (%)	32.3	26.1	15.0	19.4	17.9
Net margin (%)	23.7	18.6	11.0	11.9	10.8
ROA (%)	20.8	15.5	8.1	10.0	9.1
ROE (%)	31.4	22.2	11.6	14.5	13.2
Current ratio (x)	2.4	2.5	2.4	2.3	2.4
Quick ratio (x)	2.1	2.2	2.1	2.0	2.1
Interest cover (x)	66.0	44.5	25.6	33.0	30.5
Debt to equity ratio (x)	0.0	0.0	0.0	0.0	0.0
Net debt to equity (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



## OIL and GAS SECTOR



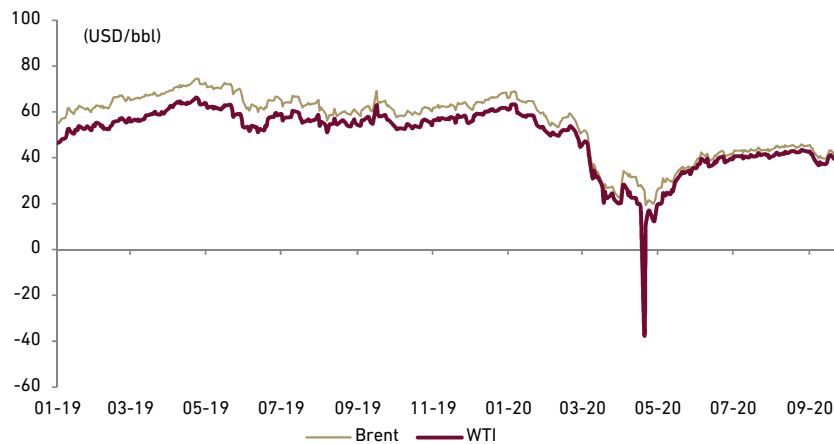
# Oil & Gas Overweight

## Sector Outlook

- Gradual prices stabilization seen starting in 2H20**

Oil price plummeted in 2Q20 with one day in April even WTI closing at negative USD37/bbl but they have rebounded faster than our expectation. Brent has more than doubled from its low to USD45/bbl at time of writing vs. our previous 2020F of USD38/bbl. We believe oil prices will still be volatile going forward affected by Covid-19 pandemic, rising U.S. oil production, the influence of OPEC, and US dollar movement. The outbreak of Covid-19 pandemic had an unprecedented and devastating impact on the global economy and oil market fundamentals in 2020. While the market still finds itself in the midst of the crisis, gradual stabilization is expected to begin in 2H20, leading to a cautious forecast of renewed growth in the year to come.

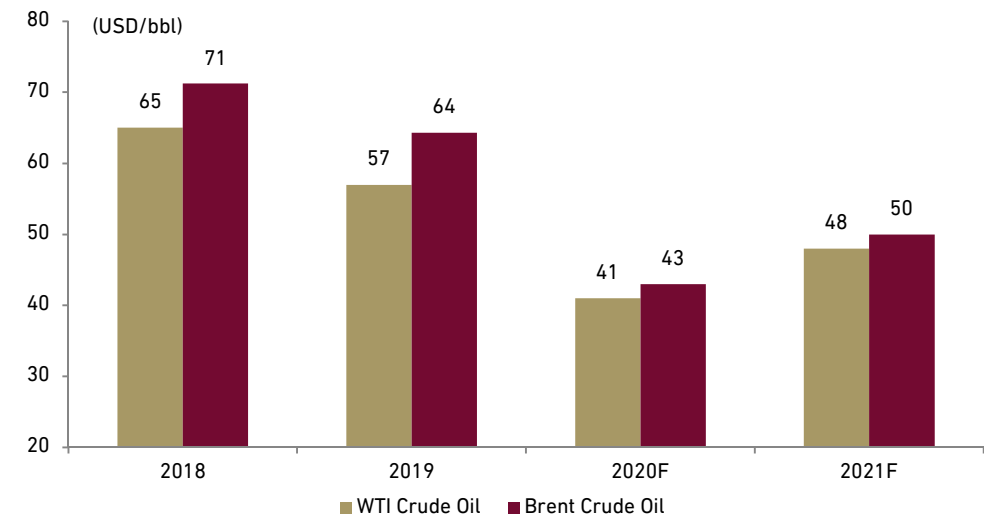
**Exhibit 171: Brent and WTI crude price trend**



Source: Bloomberg

In July-Aug, Brent crude price averaged at USD40/bbl. We expect upward momentum to be maintained for the rest of the year, we now expect Brent crude oil prices to average at USD43/bbl in 2020F and USD50/bbl in 2021F and USD41-48/bbl for WTI, respectively. The price difference between Brent and WTI has been swing between USD2-7/bbl in the last three years. Global economic trends as well as the tensions in the Middle East are better reflected on Brent than in WTI price, which are mainly driven by developments in the US.

**Exhibit 172: Brent and WTI historical data and forecasts**



Source: Bloomberg and Ciptadana



- **Expecting demand recovery in 2021, but still below pre-Covid level**

IMF forecasts global growth to reach 5.4% in 2021F, a strong recovery from 4.9% contraction this year. Therefore, we believe global oil demand will recover strongly from the downturn seen in 2020 registering 99.5 mbpd although remaining below 2019 level of 101.4 mbpd. Despite scenario there is a “V”-shaped economic recovery into the first half of 2021, but oil demand does not return fully to the pre-pandemic trend due to the likelihood of a second wave will emerge as the first wave is still not under control. On the supply side, we see decelerating and possibly declining U.S. shale production over the medium term as new investment should moderate and fall as oil prices collapse. The decision by Saudi Arabia to get rid of any kind of production restrictions and maximize production doesn't seem to be well-calculated. The current level of prices is not acceptable for Saudi Arabia in the medium to long term as it needs higher oil prices in order to fund its national budget. Therefore, we believe U.S. shale and Saudi Arabia factor will start to have an effect on supply-demand balance later this year and next year. Therefore, global oil market may see a relatively demand-supply balance in next year.

### Exhibit 173: Global oil production and consumption

	2018	2019	2020F	2021F
OPEC Production	36.8	34.7	30.8	34.0
Non-OPEC Production	64.1	66.0	63.8	65.4
<b>Total World Production</b>	<b>100.8</b>	<b>100.7</b>	<b>94.6</b>	<b>99.5</b>
OECD Consumption	47.8	47.6	42.6	45.6
Non-OECD Consumption	52.7	53.8	50.5	54.0
<b>Total World Consumption</b>	<b>100.6</b>	<b>101.4</b>	<b>93.1</b>	<b>99.4</b>
<b>Surplus/(Deficit)</b>	<b>0.3</b>	<b>-0.7</b>	<b>1.5</b>	<b>0.1</b>

Source: Bloomberg and Ciptadana

- **Pipeline gas distribution outlook remains steady despite lower margin**

Natural gas is among the most environmentally-friendly and economical source of energy compared with other fossil fuels. As Indonesia's population continues to grow and standard of living continues to improve, so will demand for natural gas. We expect Indonesia pipeline gas demand growth to recover next year as electricity demand picks up and industrial customer intensity rises coupled supported by the lower gas price of USD6/mmbtu policy for selected industry.

Ministry of Energy and Mineral Resources (MEMR) decree issued in 13-Apr-20 mentioned that there are about 187 local companies from seven different industrial sectors with total volume of 320 BBTUD that will enjoy USD6.05/MMBTU gas price. The MEMR also issued another decree on 22-Apr-20 related to gas volume allocated to PLN's gas-fired power plants of around 280 BBTUD with ASP price of approximately USD5.89/MMBTU at PLN's plant gate. Therefore, PGAS calculated total volume of 600 BBTUD (~60% in normal situation) will be impacted by those regulations with blended ASP of USD5.98 and USD1.85 distribution margins. PGAS might still be able to sell gas to other customers between USD4.33 (residential) and USD9.25/MMBTU (industries outside seven select industries). In 2Q20, PGAS still enjoys distribution margin of USD2.2/mmbtu, slightly lower than USD2.4/mmbtu in 1Q20. We believe under normal economic condition, gas demand will increase significantly after PGAS lowers its ASP to around USD6/mmbtu vs. above USD8/mmbtu in the past.



## • Our stock picks and stock ratings

Medco is our top pick in oil & gas space as around 67% oil Medco's oil and gas revenue are linked to oil price movements. Additional volume from Ophir has brought significant volume increase and additional potential volume going forward due to its operational field in several countries. We also continue to like PGAS as we believe it has a strong monopoly on downstream gas business in Indonesia. We see potential additional revenue of around USD100 mn from the construction of the oil pipeline transmission from Rokan to Dumai in Sep 20 with expected commercial operation by 2H2021.

### Exhibit 174: Oil & gas sector rating and valuation

Bberg		Mkt.Cap	Last	Target	Upside	PER		EV/EBITDA		ROE	Yield
Ticker	Rating	(Rp tn)	Price	Price	pot.(%)	2020F	2021F	2020F	2021F	21F (%)	21F (%)
MEDC	Buy	9.8	550	700	27.6	-18.0	27.0	6.7	5.3	2.2	0.0
PGAS	Buy	31.3	1,290	1,450	12.4	-221.4	99.4	4.6	4.7	0.8	1.8
<b>Sector</b>	<b>OW</b>	<b>41.1</b>				<b>-119.7</b>	<b>68.3</b>	<b>5.8</b>	<b>4.9</b>	<b>1.3</b>	<b>0.9</b>

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# Medco BUY

**TP: Rp700 (+27.3%)**

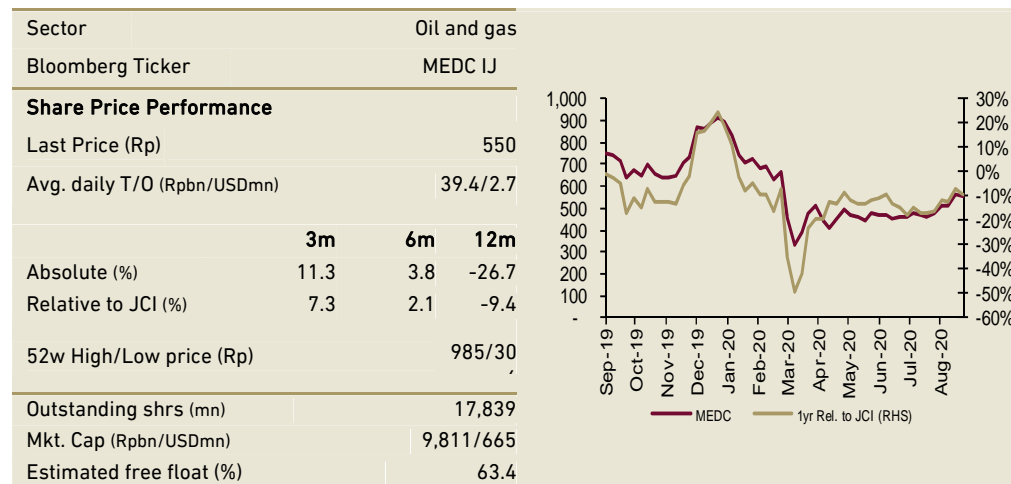
## Company Profile

Medco Energi Internasional primarily engages in oil and gas exploration, development and production. Through its subsidiaries and associates, it is also engaged in power plants operation and building leasing. MEDC officially acquired a 50 % stake owned by PT Amman Mineral Investama (AMI), which controls an 82.2% stake of PT Newmont Nusa Tenggara (NNT) in 2016 which operate second largest copper and gold mine in Indonesia. The company also successfully acquired Ophir Energy Plc in May-19 which makes it the leading oil and gas company in Southeast Asia

## Key Points

- **Rights issue to fund working capital.** The company completed the rights issue III in September with funds raised of Rp1.8 tn. MEDC will use proceeds from rights issue to fund the company's and subsidiary working capital.
- **Among low cost producers.** Medco's operating profile benefits from low lifting costs of below USD10/boe a diversified 16 production base in Indonesia and outside Indonesia with none contributing >20% of total output.
- **Further debt reduction programs.** The company plans an early repayments Rp2.7 tn it bonds that will mature in 2021. In Q1 2020 the company conducted a tender offer of its USD400 mn Senior Notes
- **Still a Buy with TP of Rp700.** We use PBV multiple of 1x to value MEDC given potential sharp earnings volatility due to deteriorating oil prices. Moreover, one-third of its total volume is gas sold at fixed prices, generating about USD250 mn of EBITDA. The company has hedged 7.5% of 2020 production into 2021 at an average price of USD48/bbl and USD42/bbl to cushion from low energy demand during Covid-19 situations.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (USDmn)	1,218	1,438	1,135	1,378	1,571
Operating profit (USDmn)	472	362	228	354	520
Net profit (USDmn)	-51	-27	-41	27	71
EPS (US\$Cents)	-0.3	-0.2	-0.2	0.1	0.4
EPS growth (%)	n/m	n/m	n/m	n/m	165.0
EV/EBITDA (x)	4.9	5.3	6.7	5.3	4.7
PER (x)	-13.9	-27.3	-18.0	27.0	10.2
PBV (x)	0.7	0.6	0.8	0.8	0.8
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	-4.9	-2.3	-3.3	2.2	5.6

## Assumptions

	2018A	2019A	2020F	2021F	2022F
Total oil & gas (mboepd)	84.7	102.8	100	108	110
ASP oil (USD/bbl)	67.8	62.5	43	50	53
ASP gas (USD/mmcsfd)	6.4	6.7	5.6	5.6	5.5

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## Medco

### Income Statement

Year to 31 Dec (USDmn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>1,218</b>	<b>1,438</b>	<b>1,135</b>	<b>1,378</b>	<b>1,571</b>
COGS	-586	-847	-737	-817	-854
<b>Gross profit</b>	<b>632</b>	<b>592</b>	<b>398</b>	<b>561</b>	<b>717</b>
Oper. expenses	-161	-229	-170	-207	-196
<b>Oper. profit</b>	<b>472</b>	<b>362</b>	<b>228</b>	<b>354</b>	<b>520</b>
<b>EBITDA</b>	<b>631</b>	<b>658</b>	<b>536</b>	<b>672</b>	<b>764</b>
Interest income	13	13	-23	-27	30
Interest expense	-189	-251	-259	-258	-327
Other income (exp.)	-96	55	50	90	85
<b>Pre-tax profit</b>	<b>199</b>	<b>179</b>	<b>87</b>	<b>185</b>	<b>308</b>
Income tax	-196	-200	-126	-153	-227
Minority interest	-23	-7	-1	-5	-10
<b>Net profit</b>	<b>-51</b>	<b>-27</b>	<b>-41</b>	<b>27</b>	<b>71</b>

### Balance Sheet

Year to 31 Dec (USDmn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	444	482	556	621	592
Acct, receivables	167	225	218	227	258
Inventory	62	96	91	101	105
Other curr, asset	1,154	901	859	1,048	1,119
<b>Total current asset</b>	<b>1,827</b>	<b>1,704</b>	<b>1,723</b>	<b>1,996</b>	<b>2,074</b>
Fixed assets - net	43	41	84	78	82
Other non-curr.asset	3,199	4,270	4,364	4,284	4,349
<b>Total asset</b>	<b>5,071</b>	<b>6,016</b>	<b>6,225</b>	<b>6,411</b>	<b>6,559</b>
ST debt + curr. maturity	402	136	279	242	402
Acct, payable	122	151	151	179	199
Advances received	88	84	124	151	172
Other curr. liab	489	335	377	418	437
Long term debt	2,394	3,059	2,825	2,920	2,755
Other non-curr, liab,	369	886	1,064	1,120	1,191
<b>Total liabilities</b>	<b>3,865</b>	<b>4,650</b>	<b>4,821</b>	<b>5,029</b>	<b>5,156</b>
Shareholder equity	1,037	1,206	1,246	1,229	1,260
Minority interest	168	160	158	153	143
<b>Total liab + SHE</b>	<b>5,071</b>	<b>6,016</b>	<b>6,225</b>	<b>6,411</b>	<b>6,559</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (USDmn)	2018A	2019A	2020F	2021F	2022F
Net income	-51	-27	-41	27	71
Depreciation	160	296	308	318	344
Chg in working cap.	39	-64	13	9	-16
Other	214	208	38	117	317
<b>CF-Oper activities</b>	<b>362</b>	<b>412</b>	<b>318</b>	<b>471</b>	<b>716</b>
Capital expenditure	-61	-357	-366	-165	-325
Others	-206	87	-300	-367	-400
<b>CF-Investing activities</b>	<b>-267</b>	<b>-269</b>	<b>-665</b>	<b>-531</b>	<b>-725</b>
Net change in debt	257	399	-90	57	-5
Net change in equity	0	0	129	0	0
Dividend payment	0	0	0	0	0
Other financing	-423	-503	382	69	-14
<b>CF-Financing activities</b>	<b>-166</b>	<b>-105</b>	<b>421</b>	<b>126</b>	<b>-19</b>
<b>Net cash flow</b>	<b>-71</b>	<b>38</b>	<b>74</b>	<b>65</b>	<b>-29</b>
Cash - begin of the year	489	418	456	530	596
Cash - end of the year	418	456	530	596	567

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	31.6	18.1	-21.1	21.4	14.0
Operating profit gr. (%)	75.1	-23.1	-37.1	55.4	46.8
Net profit gr. (%)	n/m	n/m	n/m	n/m	165.0
Gross margin (%)	51.9	41.1	35.1	40.7	45.6
Operating margin (%)	38.7	25.2	20.1	25.7	33.1
EBITDA margin (%)	51.8	45.8	47.2	48.8	48.6
Net margin (%)	-4.2	-1.9	-3.6	1.9	4.5
ROA (%)	-1.0	-0.5	-0.7	0.4	1.1
ROE (%)	-4.9	-2.3	-3.3	2.2	5.6
Current ratio (x)	1.7	2.4	1.8	2.0	1.7
Quick ratio (x)	1.6	2.3	1.8	1.9	1.6
Interest cover (x)	3.3	2.6	2.1	2.6	2.3
Debt to equity ratio (x)	2.7	2.6	2.5	2.6	2.5
Net debt to equity (x)	2.3	2.2	2.0	2.1	2.0





# Gas Negara

BUY

TP: Rp1,450 (+12.4%)

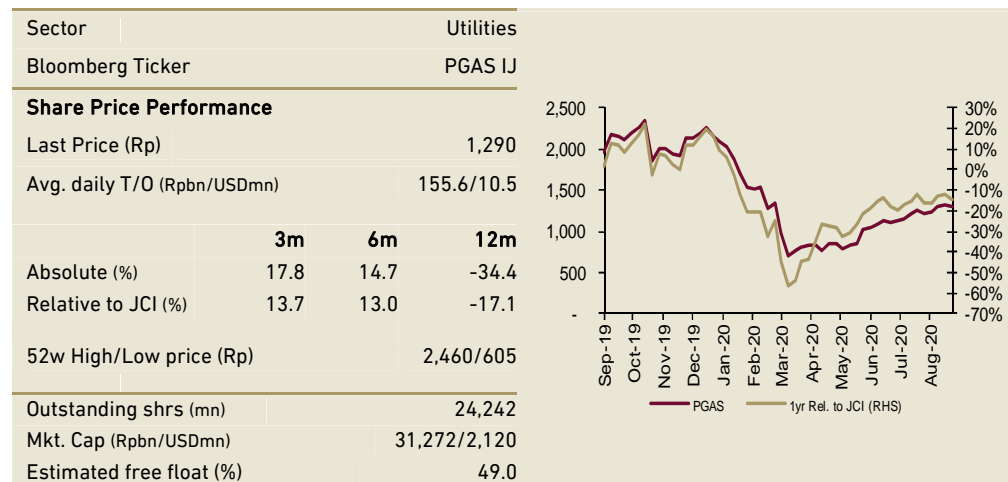
## Company Profile

PGAS is a natural-gas utility company, which run natural gas distribution networks in Indonesia's major cities with 95% market share. PGAS also operates a gas transmission business (89% market share) and earns some toll fees. PGAS owns and operates natural gas pipelines in excess of more than 10,000 km in total length, covering ~ 96% of the national natural gas pipeline network which is also the longest pipeline network in South-East Asia.

## Key Points

- **Distribution volume impacted Covid-19, margin surprisingly solid.** PGAS recorded -9.1% YoY decline in 811 BBTUD gas distribution volume in 1H20. However, distribution margin remain above USD2/mmbtu as lower gas price (USD8.0/mmbtu) is accompanied by lower costs (USD5.7/mmbtu).
- **Oil to gas conversion for refinery.** PGAS expect potential ~90 BBTUD volume conversion of oil to gas in several refinery such as Balongan refinery where Balongan refinery has been supplied with gas since the fourth quarter of 2019 with a volume of 8 BBTUD. PGAS will construct of the oil pipeline transmission from Rokan to Dumai in Sep 20 which is expected to generate an additional USD104m in early 2022.
- **Still a Buy with TP of Rp1,450.** Although we expect earnings volatility due to swing factors from impairments of O&G assets and tax disputes, we still like PGAS solid EBITDA. Therefore, we base our valuation on EV/EBITDA of 5.0x translating to TP of Rp1,450. We also observed continued support from retail investors as PGAS are among their top buys judging from their significant higher stocks holding value of Rp2.2 tn at end of Aug-20 (+148% in 8M20 vs 40 drop in the share prices).

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (USDmn)	3,870	3,849	2,761	2,715	2,826
Operating profit (USDmn)	620	518	265	286	337
Net profit (USDmn)	305	68	-10	22	49
EPS (US\$Cents)	1.3	0.3	0.0	0.1	0.2
EPS growth (%)	54.9	-77.8	n/m	n/m	119.9
EV/EBITDA (x)	3.6	3.7	4.6	4.7	4.1
PER (x)	7.1	33.7	-221.4	99.4	45.2
PBV (x)	0.8	0.9	0.9	0.8	0.8
Dividend yield (%)	5.0	7.4	5.2	0.2	0.3
ROE (%)	11.8	2.6	-0.4	0.8	1.8

## Assumptions

	2018A	2019A	2020F	2021F	2022F
Distribution vol (mmscfd)	962	990	810.	820.	863
ASP (USD/mmbtu)	8.5	8.6	7.0	7.0	7.0
Dist margin (USD/mmbtu)	2.4	2.2	1.9	1.9	1.9

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## Gas Negara

### Income Statement

Year to 31 Dec (USDmn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>3,870</b>	<b>3,849</b>	<b>2,761</b>	<b>2,715</b>	<b>2,826</b>
COGS	-2,561	-2,621	-1,944	-1,936	-1,986
<b>Gross profit</b>	<b>1,310</b>	<b>1,227</b>	<b>817</b>	<b>780</b>	<b>840</b>
Oper. expenses	-689	-709	-553	-493	-503
<b>Oper. profit</b>	<b>620</b>	<b>518</b>	<b>265</b>	<b>286</b>	<b>337</b>
<b>EBITDA</b>	<b>1,201</b>	<b>1,040</b>	<b>731</b>	<b>679</b>	<b>756</b>
Interest income	35	30	19	26	28
Interest expense	-153	-173	-159	-163	-167
Other income (exp.)	103	-68	-29	-38	-39
<b>Pre-tax profit</b>	<b>585</b>	<b>280</b>	<b>77</b>	<b>112</b>	<b>159</b>
Income tax	-220	-167	-46	-61	-68
Minority interest	-60	-45	-41	-39	-53
<b>Net profit</b>	<b>305</b>	<b>68</b>	<b>-10</b>	<b>22</b>	<b>49</b>

### Balance Sheet

Year to 31 Dec (USDmn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	1,401	1,245	1,611	1,703	1,683
Acct, receivables	541	509	408	402	418
Inventory	79	71	53	52	54
Other curr, asset	453	384	316	311	330
<b>Total current asset</b>	<b>2,474</b>	<b>2,209</b>	<b>2,388</b>	<b>2,467</b>	<b>2,486</b>
Fixed assets - net	2,961	2,748	2,672	2,573	2,466
Other non-curr.asset	2,123	2,036	1,733	1,751	1,820
<b>Total asset</b>	<b>7,939</b>	<b>7,374</b>	<b>7,174</b>	<b>7,173</b>	<b>7,154</b>
ST debt + curr. maturity	800	255	254	255	256
Acct, payable	449	260	208	207	212
Advances received	0	0	0	0	0
Other curr. liab	356	608	419	417	433
Long term debt	2,763	2,559	2,499	2,430	2,318
Other non-curr, liab,	370	457	487	522	565
<b>Total liabilities</b>	<b>4,737</b>	<b>4,139</b>	<b>3,866</b>	<b>3,831</b>	<b>3,784</b>
Shareholder equity	2,575	2,561	2,631	2,662	2,704
Minority interest	627	673	678	680	666
<b>Total liab + SHE</b>	<b>7,939</b>	<b>7,374</b>	<b>7,174</b>	<b>7,173</b>	<b>7,154</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (USDmn)	2018A	2019A	2020F	2021F	2022F
Net income	305	68	-10	22	49
Depreciation	581	522	467	393	419
Chg in working cap.	64	-23	85	7	-15
Other	-31	244	-1	5	-15
<b>CF-Oper activities</b>	<b>919</b>	<b>811</b>	<b>541</b>	<b>427</b>	<b>437</b>
Capital expenditure	-233	-231	-167	-315	-373
Others	-491	-709	90	4	-9
<b>CF-Investing activities</b>	<b>-724</b>	<b>-940</b>	<b>-78</b>	<b>-311</b>	<b>-382</b>
Net change in debt	46	-749	-61	-67	-111
Net change in equity	0	0	0	0	0
Dividend payment	-55	-97	-68	-3	-7
Other financing	-11	700	45	42	38
<b>CF-Financing activities</b>	<b>-20</b>	<b>-146</b>	<b>-39</b>	<b>-22</b>	<b>-80</b>
<b>Net cash flow</b>	<b>175</b>	<b>-275</b>	<b>424</b>	<b>94</b>	<b>-25</b>
Cash - begin of the year	1,140	1,315	1,040	1,464	1,558
Cash - end of the year	1,315	1,040	1,464	1,558	1,533

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	8.4	-0.6	-28.3	-1.6	4.1
Operating profit gr. (%)	29.2	-16.4	-49.0	8.3	17.7
Net profit gr. (%)	54.9	-77.8	n/m	n/m	119.9
Gross margin (%)	33.8	31.9	29.6	28.7	29.7
Operating margin (%)	16.0	13.5	9.6	10.5	11.9
EBITDA margin (%)	31.0	27.0	26.5	25.0	26.7
Net margin (%)	7.9	1.8	-0.4	0.8	1.7
ROA (%)	3.8	0.9	-0.1	0.3	0.7
ROE (%)	11.8	2.6	-0.4	0.8	1.8
Current ratio (x)	1.5	2.0	2.7	2.8	2.8
Quick ratio (x)	1.5	1.9	2.7	2.7	2.7
Interest cover (x)	7.8	6.0	4.6	4.2	4.5
Debt to equity ratio (x)	1.4	1.1	1.0	1.0	1.0
Net debt to equity (x)	0.8	0.6	0.4	0.4	0.3



## POULTRY SECTOR



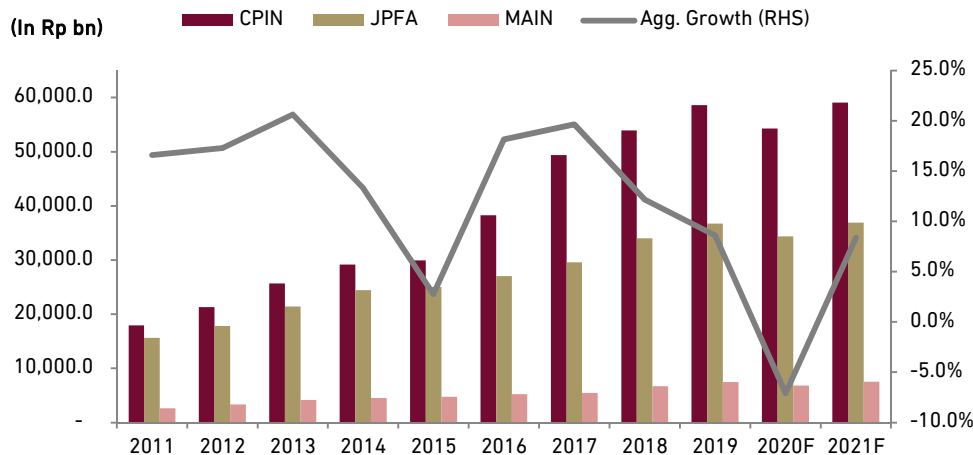
# Poultry Neutral

## Sector Outlook

- Negative top line growth this year, resume positive growth in FY21F**

Using 3 big poultry players (CPIN, JPFA and MAIN) as proxy, aggregate revenue from 2011-2019 grew at +13.9% CAGR. During the period, the 3 companies never registered negative top line growth. However, for the first time this year, we expect those companies to see negative revenue growth due to the demand shock amid Covid-19 pandemic. Noting that, Indonesian people usually buy chicken in the wet market, therefore, when the consumers became pre-cautious with Covid-19, and lead to plunge in the traffic of traditional market; meaning that the demand for chicken will be weak. Apart of it, the implementation of stricter social-distancing rules (PSBB) by the government has made the chicken consumption from HoReCa (Hotel Restaurant and Café) decline.

**Exhibit 175: Aggregate revenue and growth**



Source: Company and Ciptadana

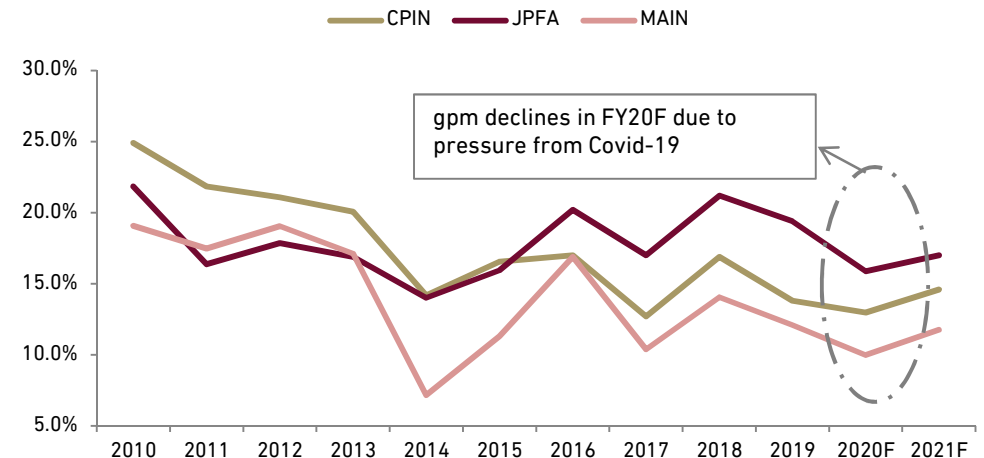
## EQUITY MARKET OUTLOOK 2021

In FY21F, we estimate the revenue growth of poultry integrators to revert back to positive. Actually, the potential growth of Indonesia poultry market is still ample as our per capita meat consumption remains relatively low compare our neighbour countries. If our economy back to normal in FY21-22F, poultry demand will recover as well given its correlation GDP per capita. Moreover, with the focus of our government currently is to disburse social incentives, we foresee this can stand as a positive factor for the poultry sector.

- Margins decline in FY20F; expect mild recovery in FY21F**

In FY20F, we estimate gross and operating margins of poultry integrators to go down compare to FY19. This is mainly underpinned by bleak broiler and DOC prices. Noting that, broiler and DOC division are 2 big contributors to gross and operating level of poultry companies. However, as we assume the condition in FY21F can be better, we expect profitability of CPIN, JPFA and MAIN to somewhat improve. However, we do not have conviction that the margins in the cherish 2018 year to be happening in the near term.

**Exhibit 176: Gross margin of poultry integrators**



Source: Company and Ciptadana



## • Government intervention remain exist

Government keep overseeing the poultry sector by giving another mandate of culling program. We believe supply and demand gap remains becoming the main culprit at the moment. That is why the government intervened with the aim to stabilize the broiler and DOC prices. While we are writing this outlook, there are 6<sup>th</sup> adjustments mandated by the government. The intention of the latest instruction was to reduce DOC FS supply nationally, whereas the 5<sup>th</sup> adjustment more focused to cut PS and HE in Java island. We are positive with the government's effort to maintain the supply discipline because without the intervention, the oversupply will become more severe in our view.

**Exhibit 177: Culling programs in 2020**

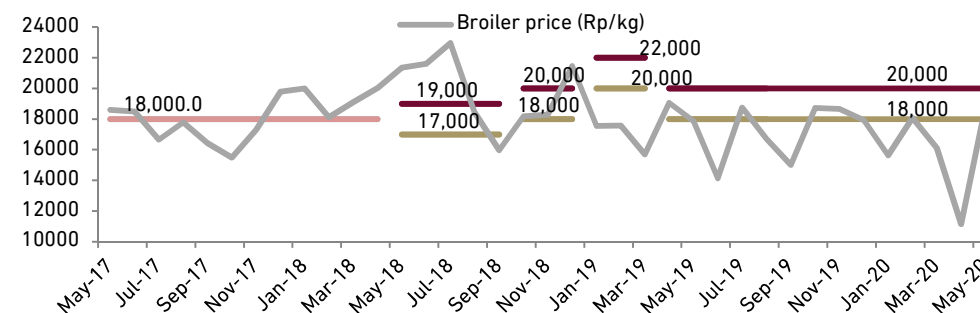
Culling	Period	Mandate
1 <sup>st</sup> adjustment	1 - 21 January 2020	Reduce aged 19 days HE amounting 13 mn/week
	22 - 31 January 2020	Reduce aged 19 days HE amounting 13 mn/week (extension)
	January - December 2020	CSR FS HE 15 mn/week
2 <sup>nd</sup> adjustment	4-29 February 2020	Reduce aged 19 days HE amounting 15 mn/week
3 <sup>rd</sup> adjustment	17-29 February 2020	Cull PS broiler aged 60 weeks and above
		PS male will be removed first (this is about the implementation)
	17 February - 31 December 2020	Maintenance of PS, whereas at most until aged 60 weeks
4 <sup>th</sup> adjustment	6 March - 5 April 2020	Reduce aged 19 days HE totaling 17.5 mn (10 mn in 1st-2nd week of March, 5mn in 3rd-4th week of March and 2.5 mn in 1st week of April)
	9 March - 5 April 2020	CSR FS HE totaling 10 mn
5 <sup>th</sup> adjustment	26 August - 5 September 2020	Reduce aged 18 days HE amounting 7 mn/week in Java
		Delay setting HE 35 mn eggs per week in Java island
	26 August - 13 September 2020	Cull PS aged 50 weeks and below with the total of 4 mn especially in Java island
6 <sup>th</sup> adjustment	September 2020	Reduce DOC FS supply with the amount of 25,902,667 or equivalent with HE of 33,200,035

Source: Directorate General of Livestock and Health, Ministry of Agriculture and Ciptadana

## • Livebird and DOC prices trending down

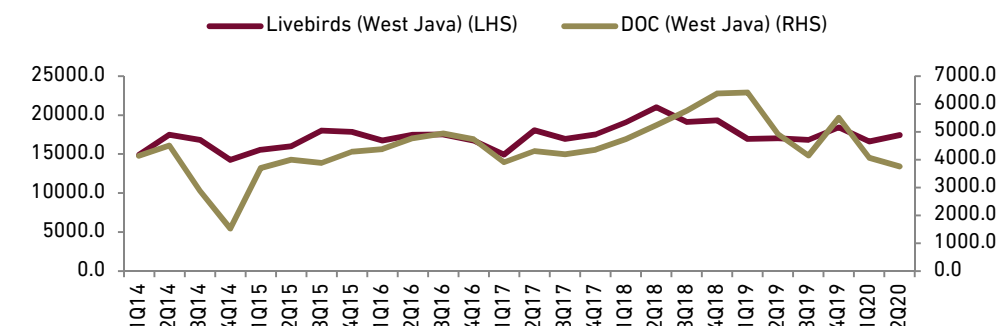
Using West Java prices, in 2Q20 the average livebird prices improved 4.9% QoQ to Rp17,418/kg on the back of Ramadan and the government eased the PSBB. Nevertheless, DOC price keeps lowering to Rp3,761.7/chick (-7.5% QoQ). Apparently, despite series of culling programs and also reference prices pegged by the government, the market prices of the chicken really hard to be stable within the range. We expect broiler and DOC price to be slightly better next year following narrowing supply-demand gap.

**Exhibit 178: Reference prices for broiler**



Source: West Java and Ciptadana

**Exhibit 179: Livebird and DOC price in West Java**



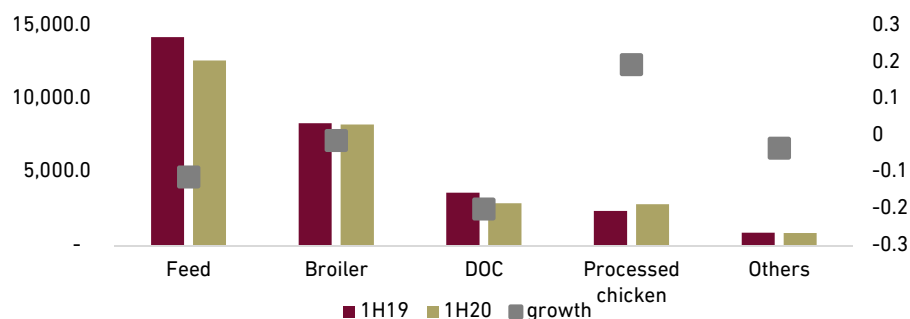
Source: West Java and Ciptadana



## • Potential growth comes from downstream portfolio

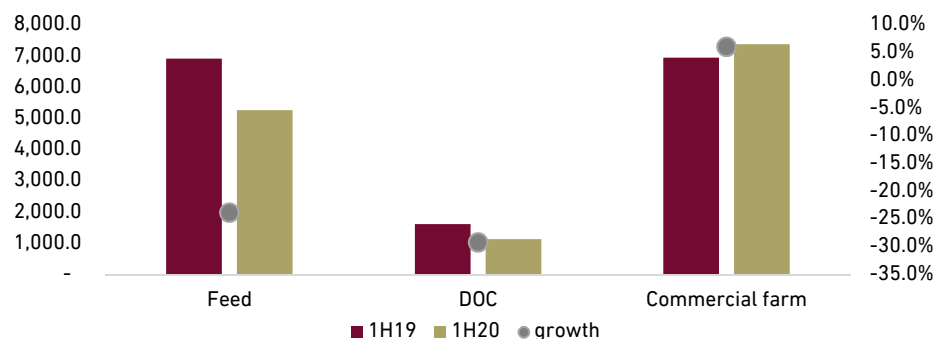
Apparently, amid setback period, there is changing behavior from the consumers. They start to buy frozen food since they often stay at home. Japfa consumer foods division started making profit in 1H20 with 9% operating margin, while in the last 3-year (2017-2019) always become loss making business, JPFA booked higher commercial farm revenue as it included the frozen chicken. CPIN posted positive revenue growth only at its processed chicken business in 1H20. We know that the contribution of processed chicken to overall revenue of poultry integrators is not significant, but going forward we expect the trend to continue rising.

**Exhibit 180: CPIN revenue and growth in 1H20**



Source: Company and Ciptadana

**Exhibit 177: JPFA revenue and growth in 1H20**



Source: Company and Ciptadana

## • Recommend Neutral on poultry sector

We maintain our Neutral rating on Indonesia poultry integrators. We view the uncertainty on DOC and broiler prices will remain persist next year, even though we expect the condition to be slightly better. Limited impact from the government's culling mandate is the proof that oversupply remain becoming the issue. However, from the demand side, as the mobilization starts to resume after PSBB, we expect higher chicken consumption for next year.

At the current juncture, we have Hold call for CPIN (TP: Rp5,900), JPFA (TP: Rp1,250) and MAIN (TP: Rp550). Key risks for our call include: 1) higher electricity tariff 2) weakening rupiah 3) lower purchasing power of the consumers and 4) Higher domestic corn prices.

**Exhibit 181: Poultry stock rating and valuation**

Bberg		Mkt.Cap	Last	Target	Upside	PER		EV/EBITDA		ROE	Yield
Ticker	Rating	(Rp tn)	Price	Price	pot.(%)	2020F	2021F	2020F	2021F	21F (%)	21F (%)
CPIN	HOLD	94.7	5,775	5,900	2.2	30.7	24.1	18.4	14.8	15.9	1.7
JPFA	HOLD	11.7	1,100	1,250	13.6	21.1	9.4	8.7	6.2	11.6	1.4
MAIN	HOLD	1.2	515	550	6.8	16.8	6.9	5.8	4.4	7.2	2.5
<b>Wgt Avg. Neutral</b>						<b>29.5</b>	<b>22.3</b>	<b>17.2</b>	<b>13.8</b>	<b>15.3</b>	<b>1.7</b>

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# Charoen Pokphand

**HOLD**

**TP: Rp5,900 (+2.2%)**

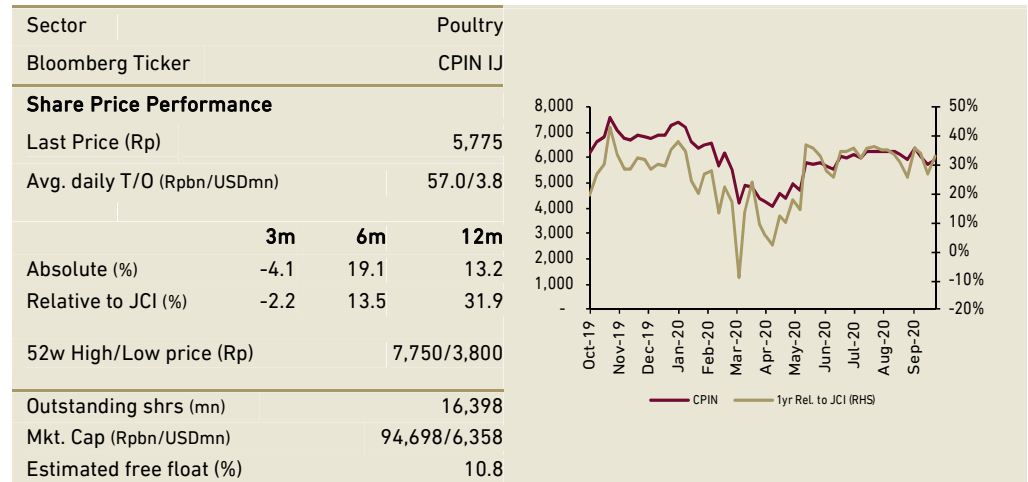
## Company Profile

Established in 1972, Charoen Pokphand (CPIN) is the largest fully-integrated domestic poultry producer in Indonesia. Its operations comprise feed mill, day-old chicken (DOC) farming, and processed food manufacturing. The company has approximately 31% and 41% market share based on feed and DOC production capacity, respectively. In 2018, feed constitutes 47.8% over total revenue, and followed by broiler with 29.3%. Broiler division was expanded starting in 2016 after CPIN acquired a commercial poultry operation.

## Key Points

- **Growth to revert back positive in FY21F**  
In our view, when the economic condition starts to recover and no more PSBB, chicken demand will be growing as well. We estimate after 2 years of negative bottom line growth in FY19-20F, the company will register double digit net profit growth in FY21F.
- **Surprising margins improvement on the back of feed division**  
We see CPIN has the ability and flexibility in maintaining their overall operating margins. Interestingly, in 1H20 their operating margin widened to 8.4% (vs. 7.7% in 1H19). Feed business definitely becoming the backbone and even its DOC business can stay in operating profit. Hence, unlike the other players, CPIN will offer more stable margins in FY21F.
- **Recommend Hold call on CPIN**  
Based on our blended valuation, our TP arrived at Rp5,900, or implying 2.2% upside potential. Therefore, we reiterate a Hold call on the counter. The premium valuation is justified given its sizable market capitalization and more stability of its profitability.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	53,958	58,635	54,322	59,103	64,775
Operating profit (Rpbn)	6,394	5,248	4,491	5,671	6,778
Net profit (Rpbn)	4,554	3,635	3,177	4,051	4,892
EPS (Rp)	277.7	221.7	193.8	247.0	298.3
EPS growth (%)	82.1	-20.2	-12.6	27.5	20.8
EV/EBITDA (x)	13.8	16.6	18.4	14.8	12.4
PER (x)	21.4	26.8	30.7	24.1	19.9
PBV (x)	5.0	4.6	4.3	3.8	3.4
Dividend yield (%)	1.4	1.5	1.3	1.7	2.0
ROE (%)	23.5	17.3	13.9	15.9	17.1

## Assumptions

Volume growth (%)	2018A	2019A	2020F	2021F	2022F
Poultry feed	2.0	5.0	0.0	5.0	5.0
DOC	1.0	3.0	-12.5	8.0	8.0
Broiler chicken	3.0	3.0	-12.5	5.0	5.0

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## Charoen Pokphand

### Income Statement

Year to 31 Jan (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>53,958</b>	<b>58,635</b>	<b>54,322</b>	<b>59,103</b>	<b>64,775</b>
COGS	-44,823	-50,538	-47,278	-50,477	-54,628
<b>Gross profit</b>	<b>9,135</b>	<b>8,096</b>	<b>7,044</b>	<b>8,627</b>	<b>10,146</b>
Oper. expenses	-2,741	-2,848	-2,553	-2,955	-3,368
<b>Oper. profit</b>	<b>6,394</b>	<b>5,248</b>	<b>4,491</b>	<b>5,671</b>	<b>6,778</b>
<b>EBITDA</b>	<b>7,211</b>	<b>6,055</b>	<b>5,388</b>	<b>6,642</b>	<b>7,835</b>
Interest income	77	50	39	56	82
Interest expense	-513	-448	-355	-423	-461
Other income (exp.)	94	-315	-155	-180	-210
<b>Pre-tax profit</b>	<b>5,907</b>	<b>4,595</b>	<b>4,019</b>	<b>5,124</b>	<b>6,188</b>
Income tax	-1,356	-963	-844	-1,076	-1,299
Minority interest	3	2	2	3	3
<b>Net profit</b>	<b>4,554</b>	<b>3,635</b>	<b>3,177</b>	<b>4,051</b>	<b>4,892</b>

### Balance Sheet

Year to 31 Jan (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	2,803	1,961	2,800	4,087	5,620
Acct, receivables	2,778	3,043	2,977	3,239	3,549
Inventory	5,835	5,718	5,829	6,223	6,735
Other curr. asset	2,682	2,575	2,572	2,751	2,980
<b>Total current asset</b>	<b>14,098</b>	<b>13,298</b>	<b>14,177</b>	<b>16,299</b>	<b>18,884</b>
Fixed assets - net	11,685	13,522	14,159	15,147	16,237
Other non-curr.asset	1,862	2,533	2,349	2,555	2,801
<b>Total asset</b>	<b>27,645</b>	<b>29,353</b>	<b>30,685</b>	<b>34,002</b>	<b>37,922</b>
ST debt + curr. maturity	1,700	2,770	2,444	2,660	2,915
Acct, payable	2,195	1,779	1,922	2,052	2,221
Advances received	0	0	0	0	0
Other curr. liab	838	639	595	641	697
Long term debt	2,750	2,278	2,119	2,305	2,526
Other non-curr. liab,	771	815	786	844	916
<b>Total liabilities</b>	<b>8,254</b>	<b>8,281</b>	<b>7,867</b>	<b>8,501</b>	<b>9,276</b>
Shareholder equity	19,376	21,059	22,807	25,492	28,646
Minority interest	15	13	11	8	0
<b>Total liab + SHE</b>	<b>27,645</b>	<b>29,353</b>	<b>30,685</b>	<b>34,002</b>	<b>37,922</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Jan (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	4,554	3,635	3,177	4,051	4,892
Depreciation	816	808	897	970	1,057
Chg in working cap.	-542	-1,346	256	-851	-1,053
Other	0	0	0	0	0
<b>CF-Oper activities</b>	<b>4,829</b>	<b>3,097</b>	<b>4,330</b>	<b>4,170</b>	<b>4,895</b>
Capital expenditure	-1,492	-2,644	-1,534	-1,958	-2,147
Others	0	0	0	0	0
<b>CF-Investing activities</b>	<b>-1,492</b>	<b>-2,644</b>	<b>-1,534</b>	<b>-1,958</b>	<b>-2,147</b>
Net change in debt	-1,436	598	-485	402	476
Net change in equity	0	0	0	0	0
Dividend payment	-871	-1,952	-1,429	-1,366	-1,738
Other financing	-22	59	-44	40	46
<b>CF-Financing activities</b>	<b>-2,329</b>	<b>-1,294</b>	<b>-1,958</b>	<b>-925</b>	<b>-1,215</b>
<b>Net cash flow</b>	<b>1,008</b>	<b>-842</b>	<b>838</b>	<b>1,287</b>	<b>1,533</b>
Cash - begin of the year	1,795	2,803	1,961	2,800	4,087
Cash - end of the year	2,803	1,961	2,800	4,087	5,620

### Key Ratios

Year to 31 Jan	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	9.3	8.7	-7.4	8.8	9.6
Operating profit gr. (%)	75.1	-17.9	-14.4	26.3	19.5
Net profit gr. (%)	82.1	-20.2	-12.6	27.5	20.8
Gross margin (%)	16.9	13.8	13.0	14.6	15.7
Operating margin (%)	11.9	8.9	8.3	9.6	10.5
EBITDA margin (%)	13.4	10.3	9.9	11.2	12.1
Net margin (%)	8.4	6.2	5.8	6.9	7.6
ROA (%)	16.5	12.4	10.4	11.9	12.9
ROE (%)	23.5	17.3	13.9	15.9	17.1
Current ratio (x)	3.0	2.6	2.9	3.0	3.2
Quick ratio (x)	1.7	1.5	1.7	1.9	2.1
Interest cover (x)	14.0	13.5	15.2	15.7	17.0
Debt to equity ratio (x)	0.2	0.2	0.2	0.2	0.2
Net debt to equity (x)	0.1	0.1	0.1	0.0	Net Cash



# Japfa Comfeed HOLD

TP: Rp1,250 (+13.6%)

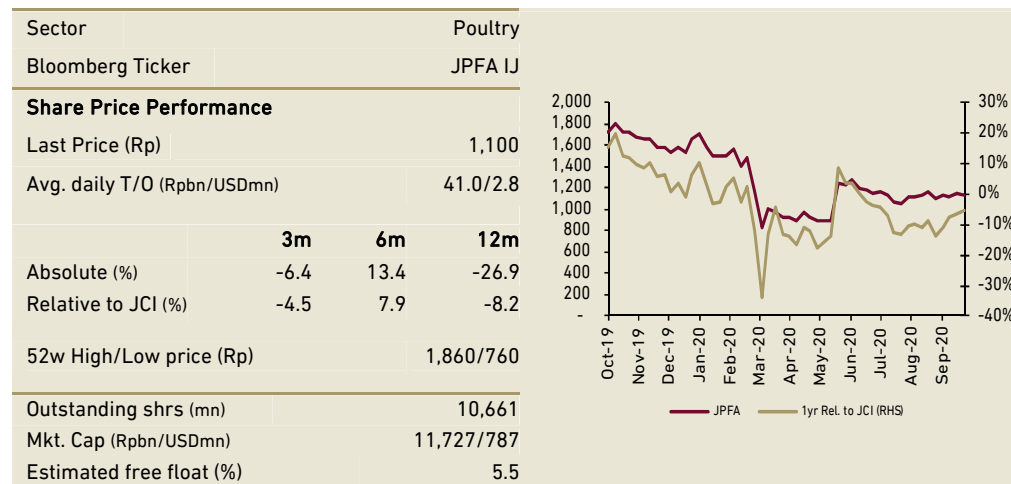
## Company Profile

Japfa Comfeed (JPFA) is the second largest vertically integrated poultry player in Indonesia, involving in beef and aquaculture offering diversification of revenues. The company has 16 feed mills, 66 breeding farms and 24 hatcheries spanning across Indonesia. Currently JPFA's market share based on capacity and DOC production stand at 22% and 25%, respectively. In 2016, a leading global investment firm, Kohlberg Kravis Roberts (KKR) acquired 12% stakes in JPFA, in which believed to bring value-added. However KKR has sold its position right now.

## Key Points

- **The acquisition of SGF will strengthen JPFA downstream portfolio**  
JPFA and its subsidiary namely PT Cimas Adisatwa took over 100% ownership of So Good Food (SGF). With the established marketing network, infrastructure and brand equity of SGF, it will be easier for JPFA to cater the demand going forward. The acquisition is also in-line with the vision of JPFA to improve their downstream portfolio.
- **More sensitive with recovery in chicken demand**  
We expect FY20F net profit to plunge by 65% YoY, but due to low base this year we expect bottom line of JPFA to grow remarkably in 2021F. We think the JPFA will be more sensitive when the recovery happens as their DOC and broiler division are highly depend on economic growth and supply-demand condition.
- **More sensitive with recovery in chicken demand**  
We have not incorporated the impact of SGF acquisition. We maintain our Hold rating on JPFA with TP Rp1,250 (+13.6% upside potential). The counter trades at 9.4x 2021 P/E and 6.2x 2021 EV/EBITDA.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	34,013	36,743	34,364	36,888	40,326
Operating profit (Rpbn)	3,724	3,182	1,472	2,293	2,670
Net profit (Rpbn)	2,168	1,765	621	1,398	1,711
EPS (Rp)	184.9	150.5	52.9	119.2	145.9
EPS growth (%)	126.1	-18.6	-64.8	125.2	22.4
EV/EBITDA (x)	4.3	5.2	8.7	6.2	5.4
PER (x)	6.0	7.4	21.1	9.4	7.6
PBV (x)	1.4	1.2	1.2	1.1	1.0
Dividend yield (%)	4.5	4.9	4.1	1.4	3.2
ROE (%)	22.6	16.4	5.7	11.6	12.8

## Assumptions

Volume growth (%)	2018A	2019A	2020F	2021F	2022F
Poultry feed	8.9	0.5	-18.0	7.0	7.0
DOC	8.8	5.2	-15.0	5.0	5.0
Broiler chicken	-3.1	18.9	0.0	5.0	8.0

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## Japfa Comfeed

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>34,013</b>	<b>36,743</b>	<b>34,364</b>	<b>36,888</b>	<b>40,326</b>
COGS	-26,805	-29,617	-28,906	-30,611	-33,301
<b>Gross profit</b>	<b>7,208</b>	<b>7,126</b>	<b>5,458</b>	<b>6,277</b>	<b>7,025</b>
Oper. expenses	-3,484	-3,944	-3,986	-3,984	-4,355
<b>Oper. profit</b>	<b>3,724</b>	<b>3,182</b>	<b>1,472</b>	<b>2,293</b>	<b>2,670</b>
<b>EBITDA</b>	<b>4,418</b>	<b>4,002</b>	<b>2,376</b>	<b>3,282</b>	<b>3,751</b>
Interest income	39	169	214	340	473
Interest expense	-793	-746	-787	-607	-664
Other income (exp.)	120	-32	0	0	0
<b>Pre-tax profit</b>	<b>3,090</b>	<b>2,573</b>	<b>899</b>	<b>2,026</b>	<b>2,479</b>
Income tax	-837	-689	-225	-506	-620
Minority interest	-85	-119	-54	-122	-149
<b>Net profit</b>	<b>2,168</b>	<b>1,765</b>	<b>621</b>	<b>1,398</b>	<b>1,711</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	1,087	938	1,192	1,890	2,632
Acct, receivables	1,822	2,040	1,762	1,891	2,067
Inventory	7,779	7,649	7,365	7,800	8,485
Other curr. asset	1,727	1,565	1,995	2,125	2,317
<b>Total current asset</b>	<b>12,416</b>	<b>12,192</b>	<b>12,314</b>	<b>13,706</b>	<b>15,501</b>
Fixed assets - net	7,935	10,063	10,705	11,377	12,110
Other non-curr.asset	2,637	2,885	2,843	2,875	2,920
<b>Total asset</b>	<b>23,038</b>	<b>25,185</b>	<b>25,907</b>	<b>28,003</b>	<b>30,576</b>
ST debt + curr. maturity	2,072	3,128	2,337	2,339	6,933
Acct, payable	3,776	3,125	3,698	3,917	4,261
Advances received	0	0	0	0	0
Other curr. liab	1,056	781	904	937	989
Long term debt	4,867	5,497	6,352	6,853	2,967
Other non-curr. liab,	1,052	1,206	1,130	1,213	1,326
<b>Total liabilities</b>	<b>12,823</b>	<b>13,737</b>	<b>14,422</b>	<b>15,258</b>	<b>16,475</b>
Shareholder equity	9,607	10,772	10,832	12,044	13,335
Minority interest	607	676	653	701	766
<b>Total liab + SHE</b>	<b>23,038</b>	<b>25,185</b>	<b>25,907</b>	<b>28,003</b>	<b>30,576</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	2,168	1,765	621	1,398	1,711
Depreciation	694	820	904	988	1,081
Chg in working cap.	-1,366	-960	1,243	-439	-665
Other	503	173	-408	-12	-5
<b>CF-Oper activities</b>	<b>1,999</b>	<b>1,799</b>	<b>2,360</b>	<b>1,936</b>	<b>2,122</b>
Capital expenditure	-2,118	-2,947	-1,546	-1,660	-1,815
Others	-487	-310	37	-23	-31
<b>CF-Investing activities</b>	<b>-2,605</b>	<b>-3,257</b>	<b>-1,510</b>	<b>-1,683</b>	<b>-1,845</b>
Net change in debt	868	1,687	64	502	708
Net change in equity	303	3	0	0	0
Dividend payment	-586	-638	-530	-186	-419
Other financing	-534	258	-131	130	177
<b>CF-Financing activities</b>	<b>51</b>	<b>1,309</b>	<b>-597</b>	<b>446</b>	<b>465</b>
<b>Net cash flow</b>	<b>-555</b>	<b>-149</b>	<b>254</b>	<b>699</b>	<b>741</b>
Cash - begin of the year	1,642	1,087	938	1,192	1,890
Cash - end of the year	1,087	938	1,192	1,890	2,632

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	14.9	8.0	-6.5	7.3	9.3
Operating profit gr. (%)	72.8	-14.6	-53.7	55.8	16.4
Net profit gr. (%)	132.3	-18.6	-64.8	125.2	22.4
Gross margin (%)	21.2	19.4	15.9	17.0	17.4
Operating margin (%)	10.9	8.7	4.3	6.2	6.6
EBITDA margin (%)	13.0	10.9	6.9	8.9	9.3
Net margin (%)	6.4	4.8	1.8	3.8	4.2
ROA (%)	9.4	7.0	2.4	5.0	5.6
ROE (%)	22.6	16.4	5.7	11.6	12.8
Current ratio (x)	1.8	1.7	1.8	1.9	1.3
Quick ratio (x)	0.7	0.6	0.7	0.8	0.6
Interest cover (x)	5.6	5.4	3.0	5.4	5.7
Debt to equity ratio (x)	0.7	0.8	0.8	0.8	0.7
Net debt to equity (x)	0.6	0.7	0.7	0.6	0.5



# Malindo Feedmill

**HOLD**

**TP: Rp550 (+6.8%)**

## Company Profile

Malindo Feedmill (MAIN) is among the top 3 fully integrated poultry producers in Indonesia which has been established since 1997, with 7-8% market share in DOC and feed mill segments. In 2016, the company aimed to grab the demand of processed food products and decided to launch 2 brands such as "SunnyGold" and "Ciki Wiki". Company source of revenue still dominantly come from feed division with around 70% contribution.

## Key Points

- **Export market is one of MAIN's focus**

MAIN is targeting to improve their exports volumes. The target country consists of Japan, Timor Leste and Papua Nugini. We think if the company able to elevate the exports volume of frozen food, this will be positive to boost the revenue growth of the company.

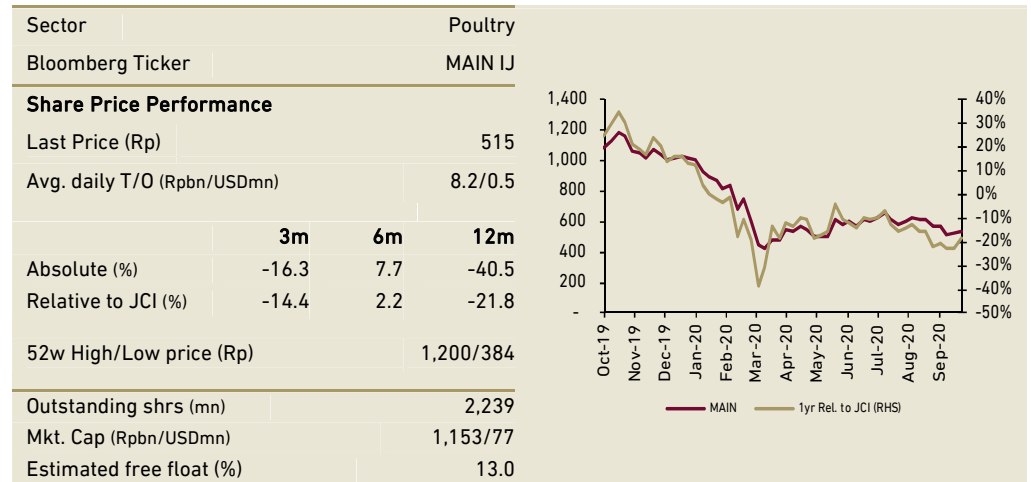
- **MAIN keeps expanding the capacity of corn silos.**

With the intention to be more efficient, every year MAIN disburses capex to expand their corn silos. The company locates the silos near to the harvest area. Furthermore, MAIN is also building its slaughter house at the moment, in which will be finished in the near term. Hence, we think MAIN has an excellent plan to anticipate growth.

- **Recommend Hold with TP of Rp550**

Despite the good plan of MAIN, we think the company is really impacted by the declining chicken consumption following a net loss in 2Q20. As such, we maintain our Hold call on MAIN with TP of Rp550.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	6,706	7,455	6,844	7,539	8,242
Operating profit (Rpbn)	410	378	205	344	404
Net profit (Rpbn)	285	152	69	167	203
EPS (Rp)	127.2	68.1	30.7	74.5	90.8
EPS growth (%)	562.5	-46.5	-54.9	142.6	22.0
EV/EBITDA (x)	4.2	4.9	5.8	4.4	3.8
PER (x)	4.0	7.6	16.8	6.9	5.7
PBV (x)	0.6	0.6	0.5	0.5	0.5
Dividend yield (%)	3.1	4.3	1.0	2.5	3.1
ROE (%)	15.0	7.5	3.3	7.2	8.0

## Assumptions

Volume growth (%)	2018A	2019A	2020F	2021F	2022 F
Poultry feed	12.1	12.6	-8.0	7.0	6.0
DOC	-0.6	6.4	-5.0	4.0	3.0
Broiler chicken	43.9	13.1	-8.0	7.0	6.0

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## Malindo Feedmill

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>6,706</b>	<b>7,455</b>	<b>6,844</b>	<b>7,539</b>	<b>8,242</b>
COGS	-5,764	-6,553	-6,160	-6,653	-7,245
<b>Gross profit</b>	<b>942</b>	<b>902</b>	<b>684</b>	<b>886</b>	<b>997</b>
Oper. expenses	-532	-524	-479	-543	-593
<b>Oper. profit</b>	<b>410</b>	<b>378</b>	<b>205</b>	<b>344</b>	<b>404</b>
<b>EBITDA</b>	<b>637</b>	<b>611</b>	<b>470</b>	<b>628</b>	<b>710</b>
Interest income	0	0	1	1	1
Interest expense	-127	-186	-174	-187	-200
Other income (exp.)	115	56	56	56	56
<b>Pre-tax profit</b>	<b>398</b>	<b>249</b>	<b>88</b>	<b>214</b>	<b>261</b>
Income tax	-114	-96	-19	-47	-57
Minority interest	1	0	0	0	0
<b>Net profit</b>	<b>285</b>	<b>152</b>	<b>69</b>	<b>167</b>	<b>203</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	144	120	237	380	552
Acct, receivables	309	399	375	413	452
Inventory	801	874	844	911	992
Other curr, asset	697	620	554	610	667
<b>Total current asset</b>	<b>1,952</b>	<b>2,013</b>	<b>2,010</b>	<b>2,315</b>	<b>2,664</b>
Fixed assets - net	2,093	2,284	2,313	2,337	2,369
Other non-curr.asset	292	352	322	354	387
<b>Total asset</b>	<b>4,336</b>	<b>4,649</b>	<b>4,645</b>	<b>5,006</b>	<b>5,420</b>
ST debt + curr. maturity	621	1,243	1,074	1,164	1,254
Acct, payable	260	246	287	310	337
Advances received	0	0	0	0	0
Other curr. liab	269	215	221	237	257
Long term debt	1,077	706	756	806	856
Other non-curr, liab,	212	209	196	184	172
<b>Total liabilities</b>	<b>2,439</b>	<b>2,620</b>	<b>2,535</b>	<b>2,701</b>	<b>2,876</b>
Shareholder equity	1,898	2,030	2,111	2,307	2,545
Minority interest	-2	-2	-2	-2	-2
<b>Total liab + SHE</b>	<b>4,336</b>	<b>4,649</b>	<b>4,645</b>	<b>5,006</b>	<b>5,420</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	285	152	69	167	203
Depreciation	228	233	266	285	306
Chg in working cap.	-186	-226	177	-155	-162
Other	94	139	129	139	149
<b>CF-Oper activities</b>	<b>420</b>	<b>298</b>	<b>641</b>	<b>436</b>	<b>497</b>
Capital expenditure	-281	-424	-294	-309	-338
Others	0	0	0	0	0
<b>CF-Investing activities</b>	<b>-281</b>	<b>-424</b>	<b>-294</b>	<b>-309</b>	<b>-338</b>
Net change in debt	-50	239	-119	120	121
Net change in equity	0	0	0	0	0
Dividend payment	-36	-49	-12	-29	-35
Other financing	-85	-87	-100	-75	-72
<b>CF-Financing activities</b>	<b>-171</b>	<b>103</b>	<b>-230</b>	<b>16</b>	<b>14</b>
<b>Net cash flow</b>	<b>-32</b>	<b>-24</b>	<b>117</b>	<b>143</b>	<b>172</b>
Cash - begin of the year	176	144	120	237	380
Cash - end of the year	144	120	237	380	552

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	23.2	11.2	-8.2	10.2	9.3
Operating profit gr. (%)	188.0	-7.8	-45.8	67.8	17.6
Net profit gr. (%)	562.5	-46.5	-54.9	142.6	22.0
Gross margin (%)	14.1	12.1	10.0	11.8	12.1
Operating margin (%)	6.1	5.1	3.0	4.6	4.9
EBITDA margin (%)	9.5	8.2	6.9	8.3	8.6
Net margin (%)	4.2	2.0	1.0	2.2	2.5
ROA (%)	6.6	3.3	1.5	3.3	3.8
ROE (%)	15.0	7.5	3.3	7.2	8.0
Current ratio (x)	1.7	1.2	1.3	1.4	1.4
Quick ratio (x)	1.0	0.7	0.7	0.8	0.9
Interest cover (x)	5.0	3.3	2.7	3.4	3.5
Debt to equity ratio (x)	0.9	1.0	0.9	0.9	0.8
Net debt to equity (x)	0.8	0.9	0.8	0.7	0.6



## AVIATION SECTOR



# Aviation Underweight

## Sector Outlook

- Passengers volumes still far below normal, but start recover slowly**

FY20F is one of the worst years in aviation business history. Indonesian airline industry inevitably becomes the victim of Covid-19 as the government temporarily closed the domestic flights, suspension of Umrah and Hajj, no travel allows by the companies for their employees and precaution of people to go on holiday.

Looking at the passenger volumes which departed from 5 main airports in Indonesia (Soekarno Hatta, Polonia, Juanda, Ngurah Rai and Hasanudin), March-20 was the beginning of the downtrend in passenger volumes and the bottom was during May-20. Starting June-20 when the government eased the implementation of Stricter Social Distancing Rules (PSBB) and transportation activities resumed, we have seen a slight recovery in passenger volumes yet still far below last year.

### Exhibit 182: Domestic passenger volumes in 2020 (Departure)

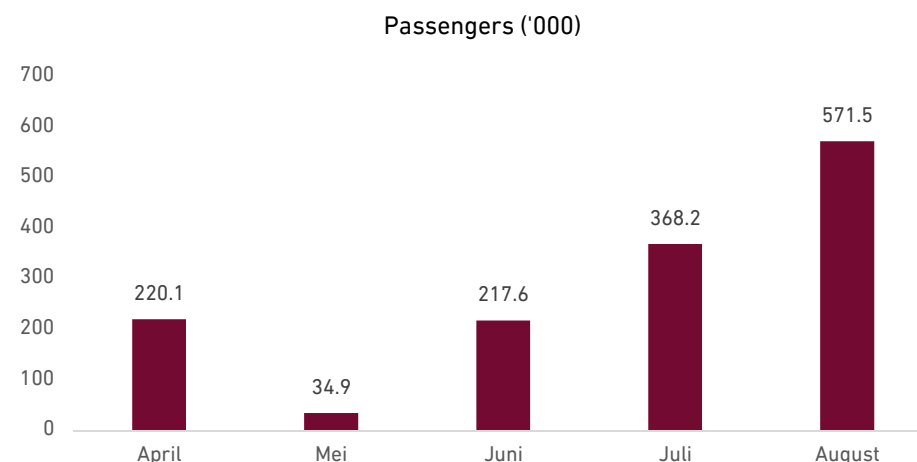
Domestic Departure	January	February	March	April	May	June	July
Polonia	288,819	227,602	172,348	29,386	3,593	28,567	62,904
Soekarno Hatta	1,600,594	1,551,967	1,211,697	191,002	27,500	174,352	427,731
Juanda	553,747	481,881	408,725	97,748	5,397	64,137	121,240
Ngurah Rai	453,130	346,962	253,517	44,122	2,423	11,396	41,375
Hasanudin	308,503	273,885	230,917	49,046	6,663	40,508	79,957

YoY changes	January	February	March	April	May	June	July
Polonia	2.8%	14.4%	-14.8%	-85.0%	-97.7%	-88.4%	-73.3%
Soekarno Hatta	2.0%	8.8%	-21.2%	-86.4%	-97.8%	-88.9%	-75.6%
Juanda	-1.2%	1.9%	-15.1%	-78.0%	-98.6%	-89.4%	-80.5%
Ngurah Rai	5.7%	-2.8%	-31.5%	-87.9%	-99.2%	-97.5%	-91.0%
Hasanudin	2.9%	12.9%	-11.8%	-80.1%	-97.0%	-86.8%	-74.0%

Source: BPS and Ciptadana

Nonetheless, we remain cautious with the pace of recovery in passenger since people are cautious with the current Covid-19 infection. Limitations applied like requirement to provide documents for people who want to travel also become the barriers, Furthermore, going forward we think there will be changed in the behaviour. Companies will think about to reduce cost of travel since using video or conference call during the pandemic is still effective. As such, we foresee the demand will not normalize so soon.

### Exhibit 183: GIAA total passengers (April-August 2020)



Source: Company and Ciptadana

- Government will support GIAA, but still no realization**

Not only Indonesia, in the other countries the government has supported their aviation players amid challenging period. We have heard about the incentives from government for GIAA, however up until this time, it has not materialized. Moreover, the government plans to support GIAA with Rp8.5 tn bailout funds or equivalent with USD500 mn. The disbursement will be



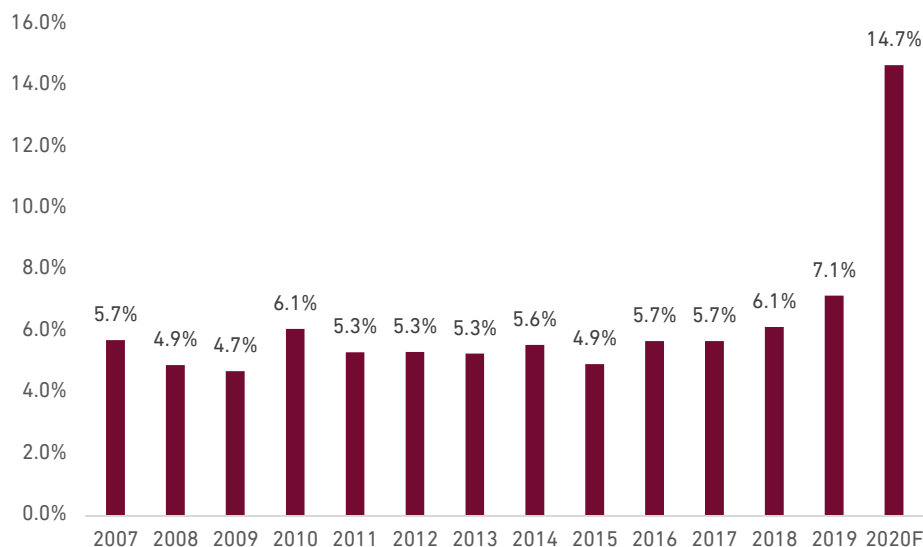


through Mandatory Convertible Bond (MCB) issuance with 3-year tenor. Without government's hand, we believe it is highly difficult to cope with the current pressure. Based on our recent discussion with GIAA, the realization of the plan will be materialized at least in December-20

- **Cargo business has a bright future**

We view cargo business in Indonesia has bright outlook given potential demand from online shoppers continue to grow. Going forward, since some of consumers will no longer go to brick and mortar, while shopping malls applied maximum capacity of people, this give an opportunity of e-commerce to rise. Moreover, for the shipment instead of using train or car, definitely air-cargo can be a good alternative as well. By and large, on the back of changing behavior of consumers, this creates more room for air cargo demand to go up. Nonetheless, we know that the cargo business has not contributed significantly to the total revenue of aviation players,

**Exhibit 184: GIAA cargo portion over total revenue**



Source: Company and Ciptadana

- **Reiterate Underweight rating for Indonesian aviation sector**

Indonesian aviation sector has hit severely by Covid-19 pandemic. No certainty when the passenger volumes back to normal. They hope that vaccine will be found soon. Noting that, passenger volume is one of the key drivers, if aviation companies cannot utilize the optimum capacity, it will be very difficult for them. Rising risk of financing is also becoming one of the issues right now. However, fortunately the input cost which is oil price is relatively benign, hence this will give more pressure the cost side. Currently we have a sell call on GIAA with TP of Rp170.

**Exhibit 185: Aviaton stock rating and valuation**

Bberg		Mkt.Cap	Last	Target	Upside	PER		EV/EBITDA		ROE	Yield
Ticker	Rating	(Rp tn)	Price	Price	pot.(%)	2020F	2021F	2020F	2021F	21F (%)	21F (%)
GIAA	SELL	6.73	218	170	-2.0	N/A	N/A	8.3	5.4	N/A	N/A

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# Garuda Indonesia

**SELL**

**TP: Rp170 (-22.0%)**

## Company Profile

Garuda Indonesia (GIAA) is a state-owned flag carrier. At the end of 2018, the company has 69 domestic destinations and 22 international destinations. Garuda as a full-service premium segment has been focusing to its domestic low-cost carrier as well through "Citilink". One subsidiary namely Garuda Maintenance Facility Aero Asia has also listed in 2017 with "GMFI" ticker.

## Key Points

### • Focus on domestic market in FY21F

GIAA will focus on its domestic market amid uncertainty of international flights. They aim to improve the ASK at least until 50% from the normal days. In August-20, we notice the company has reached around 35.3% of the normal ASK.

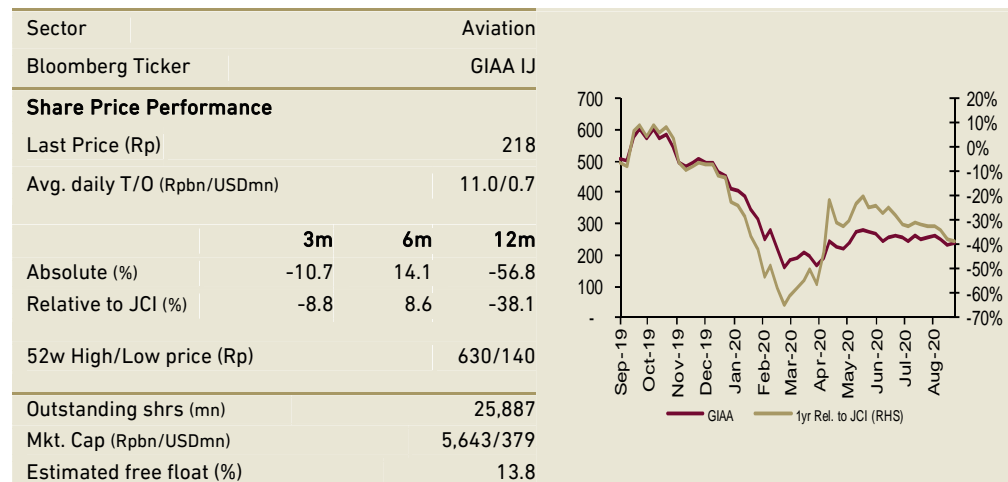
### • Seat load factor stays lower

Despite the operation has resumed, seat load factor is still at around 33% in 3Q20. This can be an indication that passenger volumes are still far from normalize (70% SLF). For GIAA commercial flight, currently the cabin capacity is allowed increase to 70% from 50% previously. Nevertheless, this is not enough to boost the travel demand in our view. The required documents to be submitted definitely becoming a barrier for the people who want to travel by plane.

### • Maintain Sell recommendation on GIAA

We view several key drivers such as passenger volume, passenger yield and seat load factor will remain unfavourable in FY20-21F. At the moment, GIAA needs to survive from the pressure. Equity value potentially decreases, yet fortunately there is holiday covenant. We retain our Sell call on GIAA with TP of Rp170.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (USDmn)	4,330	4,573	2,895	3,753	4,052
Operating profit (USDmn)	-263	163	-48	71	93
Net profit (USDmn)	-231	7	-103	-23	-5
EPS (US\$Cents)	-1.0	0.0	-0.5	-0.1	0.0
EPS growth (%)	n/m	n/m	n/m	n/m	n/m
EV/EBITDA (x)	-25.4	6.4	8.3	5.4	5.2
PER (x)	-1.5	51.0	-3.4	-15.1	-69.8
PBV (x)	0.6	0.6	0.6	0.6	0.6
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	-38.6	1.0	-15.6	-3.5	-0.8

## Assumptions

	2018A	2019A	2020F	2021F	2022F
Passenger yield	6.5%	8.2%	7.8%	8.0%	8.0%
ASK growth	3.9%	-11.5%	-43.8%	10.6%	2.9%
RPK growth	4.8%	-12.6%	-53.9%	31.4%	5.8%

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## Garuda Indonesia

### Income Statement

Year to 31 Dec (USDmn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>4,330</b>	<b>4,573</b>	<b>2,895</b>	<b>3,753</b>	<b>4,052</b>
COGS	0	0	0	0	0
<b>Gross profit</b>	<b>4,330</b>	<b>4,573</b>	<b>2,895</b>	<b>3,753</b>	<b>4,052</b>
Oper. expenses	-4,594	-4,409	-2,943	-3,682	-3,959
<b>Oper. profit</b>	<b>-263</b>	<b>163</b>	<b>-48</b>	<b>71</b>	<b>93</b>
<b>EBITDA</b>	<b>-85</b>	<b>345</b>	<b>143</b>	<b>270</b>	<b>302</b>
Interest income	40	45	48	48	59
Interest expense	-128	-140	-141	-161	-170
Other income (exp.)	36	16	11	11	11
<b>Pre-tax profit</b>	<b>-286</b>	<b>52</b>	<b>-130</b>	<b>-31</b>	<b>-7</b>
Income tax	58	-46	26	8	2
Minority interest	-2	1	1	1	1
<b>Net profit</b>	<b>-231</b>	<b>7</b>	<b>-103</b>	<b>-23</b>	<b>-5</b>

### Balance Sheet

Year to 31 Dec (USDmn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	254	305	366	373	450
Acct, receivables	286	250	159	206	222
Inventory	149	168	113	141	152
Other curr, asset	391	411	263	341	369
<b>Total current asset</b>	<b>1,080</b>	<b>1,134</b>	<b>901</b>	<b>1,061</b>	<b>1,193</b>
Fixed assets - net	937	1,144	1,124	1,121	1,121
Other non-curr.asset	2,138	2,154	1,347	1,746	1,885
<b>Total asset</b>	<b>4,155</b>	<b>4,456</b>	<b>3,398</b>	<b>3,955</b>	<b>4,227</b>
ST debt + curr. maturity	1,717	1,775	718	918	992
Acct, payable	475	686	443	555	596
Advances received	76	107	71	88	95
Other curr. liab	793	689	441	561	604
Long term debt	302	321	432	531	624
Other non-curr, liab,	152	157	604	630	639
<b>Total liabilities</b>	<b>3,516</b>	<b>3,735</b>	<b>2,709</b>	<b>3,282</b>	<b>3,552</b>
Shareholder equity	599	695	660	642	642
Minority interest	41	26	28	31	34
<b>Total liab + SHE</b>	<b>4,155</b>	<b>4,456</b>	<b>3,398</b>	<b>3,955</b>	<b>4,227</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (USDmn)	2018A	2019A	2020F	2021F	2022F
Net income	-231	7	-103	-23	-5
Depreciation	179	182	190	199	209
Chg in working cap.	213	134	-42	21	10
Other	-213	59	521	-248	-84
<b>CF-Oper activities</b>	<b>-53</b>	<b>382</b>	<b>566</b>	<b>-50</b>	<b>130</b>
Capital expenditure	-113	-283	-72	-94	-101
Others	-13	-37	95	-52	-19
<b>CF-Investing activities</b>	<b>-126</b>	<b>-321</b>	<b>23</b>	<b>-146</b>	<b>-120</b>
Net change in debt	153	-22	-226	309	185
Net change in equity	-65	101	0	0	0
Dividend payment	0	0	0	0	0
Other financing	38	-89	-301	-107	-116
<b>CF-Financing activities</b>	<b>126</b>	<b>-10</b>	<b>-527</b>	<b>202</b>	<b>68</b>
<b>Net cash flow</b>	<b>-53</b>	<b>51</b>	<b>61</b>	<b>7</b>	<b>77</b>
Cash - begin of the year	307	254	305	366	373
Cash - end of the year	254	305	366	373	450

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	3.7	5.6	-36.7	29.6	8.0
Operating profit gr. (%)	n/m	n/m	n/m	n/m	32.2
Net profit gr. (%)	n/m	n/m	n/m	n/m	n/m
Gross margin (%)	100.0	100.0	100.0	100.0	100.0
Operating margin (%)	-6.1	3.6	-1.6	1.9	2.3
EBITDA margin (%)	-2.0	7.6	4.9	7.2	7.5
Net margin (%)	-5.3	0.2	-3.6	-0.6	-0.1
ROA (%)	-5.6	0.2	-3.0	-0.6	-0.1
ROE (%)	-38.6	1.0	-15.6	-3.5	-0.8
Current ratio (x)	0.4	0.3	0.5	0.5	0.5
Quick ratio (x)	0.3	0.3	0.5	0.4	0.5
Interest cover (x)	-0.7	2.5	1.0	1.7	1.8
Debt to equity ratio (x)	3.4	3.0	1.7	2.3	2.5
Net debt to equity (x)	2.9	2.6	1.2	1.7	1.8



OTHERS



# Surya Pertiwi

BUY

TP: Rp560 (+30.2%)

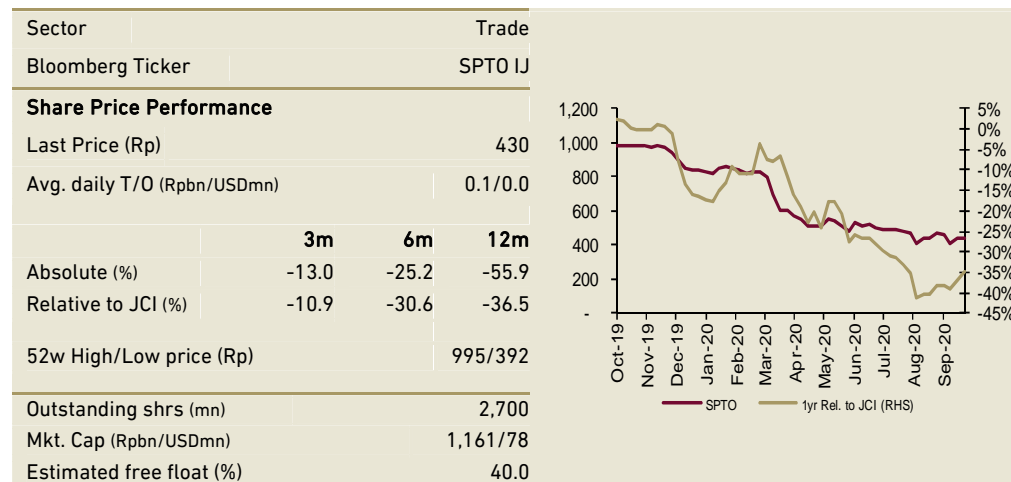
## Company Profile

Surya Pertiwi (SPTO) is the largest distributor of sanitary wares and bathroom fittings in Indonesia and the sole distributor of TOTO. The company has 2 subsidiaries namely Surya Pertiwi Nusantara (SPN) and Surya Graha Pertiwi (SGP) which focus on manufacturing and building management, respectively. For the manufacturing segment, currently the company has 2 lines of production with the capacity of 1 mn pcs.

## Key Points

- SPTO temporary closed its 2<sup>nd</sup> kiln**  
 Due to weak economic condition, SPTO has temporary closed its 2<sup>nd</sup> kiln (500,000 pcs of capacity). This tell us a story that the demand for sanitary wares in FY20F is not favourable. The company plans to re-open the production of 2<sup>nd</sup> kiln next year. We have fine-tuned our forecasts by lowering the production target from the SPN.
- Debt to equity swap will lighten the P&L and balance sheet**  
 Recently, SPN (subsidiary of SPTO) has done debt-to-equity conversion with the value of Rp289.9 bn. The transaction was conducted underpin by inability of SPN to pay its debt. However, for SPTO, this transaction will bring benefit as the company will no longer pay the interest expenses and it reduce the burden on the balance sheet.
- Maintain Buy recommendation with lower TP**  
 We notice that sanitary and fitting business will highly depend on the economic condition and property development. With the low base effect this year, we think the bottom line in FY21F may post positive growth. We reiterate our Buy call on SPTO with TP of Rp560

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	2,268	2,266	1,855	2,047	2,199
Operating profit (Rpbn)	293	273	150	192	223
Net profit (Rpbn)	206	209	91	108	119
EPS (Rp)	76.3	77.3	33.6	39.8	43.9
EPS growth (%)	-32.3	1.3	-56.6	18.7	10.2
EV/EBITDA (x)	3.5	3.9	6.8	5.8	5.2
PER (x)	5.6	5.6	12.8	10.8	9.8
PBV (x)	1.1	1.0	1.0	0.9	0.9
Dividend yield (%)	15.3	8.8	9.0	3.9	4.6
ROE (%)	18.8	17.4	7.6	8.6	9.0

## Assumptions

	2018A	2019A	2020F	2021F	2022F
Sanitary wares volume ('000)	1,852.1	1,870.2	1,571.0	1,681.0	1,739.8
Fittings volume ('000)	3,585.2	3,548.0	2,838.4	3,037.1	3,143.4

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## Surya Pertiwi

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>2,268</b>	<b>2,266</b>	<b>1,855</b>	<b>2,047</b>	<b>2,199</b>
COGS	-1,708	-1,708	-1,408	-1,543	-1,646
<b>Gross profit</b>	<b>560</b>	<b>559</b>	<b>446</b>	<b>503</b>	<b>553</b>
Oper. expenses	-267	-286	-297	-311	-330
<b>Oper. profit</b>	<b>293</b>	<b>273</b>	<b>150</b>	<b>192</b>	<b>223</b>
<b>EBITDA</b>	<b>324</b>	<b>322</b>	<b>199</b>	<b>252</b>	<b>293</b>
Interest income	9	7	10	10	11
Interest expense	-19	-25	-29	-37	-46
Other income (exp.)	2	12	-1	-1	-1
<b>Pre-tax profit</b>	<b>267</b>	<b>268</b>	<b>130</b>	<b>164</b>	<b>187</b>
Income tax	-63	-47	-25	-33	-37
Minority interest	2	-12	-14	-24	-31
<b>Net profit</b>	<b>206</b>	<b>209</b>	<b>91</b>	<b>108</b>	<b>119</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	93	149	132	140	161
Acct, receivables	506	525	432	477	512
Inventory	411	432	367	389	406
Other curr, asset	118	85	69	77	82
<b>Total current asset</b>	<b>1,128</b>	<b>1,191</b>	<b>1,000</b>	<b>1,082</b>	<b>1,161</b>
Fixed assets - net	789	1,035	1,054	1,173	1,294
Other non-curr.asset	91	179	147	162	174
<b>Total asset</b>	<b>2,480</b>	<b>2,936</b>	<b>2,759</b>	<b>3,002</b>	<b>3,244</b>
ST debt + curr. maturity	62	108	120	152	157
Acct, payable	360	452	373	381	406
Advances received	137	147	121	133	143
Other curr. liab	82	106	87	96	103
Long term debt	9	142	204	287	374
Other non-curr, liab,	253	289	146	161	173
<b>Total liabilities</b>	<b>903</b>	<b>1,244</b>	<b>1,051</b>	<b>1,210</b>	<b>1,356</b>
Shareholder equity	1,097	1,200	1,186	1,247	1,311
Minority interest	480	492	522	546	577
<b>Total liab + SHE</b>	<b>2,480</b>	<b>2,936</b>	<b>2,759</b>	<b>3,002</b>	<b>3,244</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	206	209	91	108	119
Depreciation	31	49	49	59	70
Chg in working cap.	-292	121	46	-44	-15
Other	7	0	-2	-6	-7
<b>CF-Oper activities</b>	<b>-49</b>	<b>379</b>	<b>184</b>	<b>117</b>	<b>166</b>
Capital expenditure	-51	-295	-69	-178	-191
Others	-320	-148	0	-40	-39
<b>CF-Investing activities</b>	<b>-371</b>	<b>-443</b>	<b>-69</b>	<b>-218</b>	<b>-230</b>
Net change in debt	-290	46	13	32	5
Net change in equity	704	0	0	0	0
Dividend payment	-178	-103	-104	-45	-54
Other financing	120	188	-29	141	158
<b>CF-Financing activities</b>	<b>352</b>	<b>120</b>	<b>-133</b>	<b>110</b>	<b>85</b>
<b>Net cash flow</b>	<b>-68</b>	<b>56</b>	<b>-17</b>	<b>8</b>	<b>21</b>
Cash - begin of the year	160	93	149	132	140
Cash - end of the year	93	149	132	140	161

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	5.9	-0.1	-18.1	10.3	7.4
Operating profit gr. (%)	2.0	-6.8	-45.1	28.5	16.0
Net profit gr. (%)	-8.6	1.3	-56.6	18.7	10.2
Gross margin (%)	24.7	24.6	24.1	24.6	25.1
Operating margin (%)	12.9	12.0	8.1	9.4	10.1
EBITDA margin (%)	14.3	14.2	10.7	12.3	13.3
Net margin (%)	9.1	9.2	4.9	5.3	5.4
ROA (%)	8.3	7.1	3.3	3.6	3.7
ROE (%)	18.8	17.4	7.6	8.6	9.0
Current ratio (x)	1.8	1.5	1.4	1.4	1.4
Quick ratio (x)	1.1	0.9	0.9	0.9	0.9
Interest cover (x)	17.0	12.8	6.8	6.9	6.3
Debt to equity ratio (x)	0.1	0.2	0.3	0.4	0.4
Net debt to equity (x)	Net Cash	0.1	0.2	0.2	0.3



# Surya Toto HOLD

**TP: Rp240 (+15.4%)**

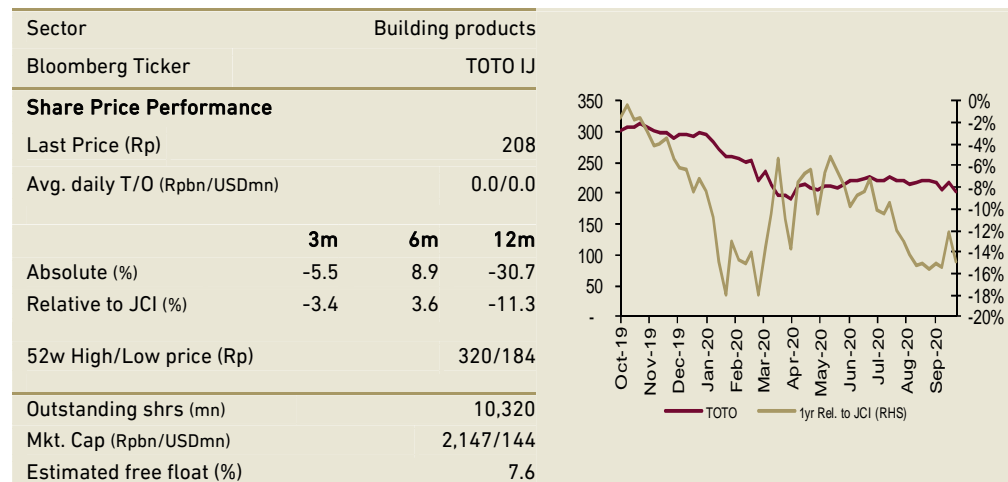
## Company Profile

PT Surya Toto Indonesia (TOTO) was formerly known as CV Surya. Initially, the company became the official sales agent of TOTO Ltd, Japan, a strong brand name of sanitary products in 1968. Established a joint venture with TOTO Ltd, Japan in 1977, was a significant milestone for the Company. In 1985, the Company ramped up sanitary (fitting) devices factory to support operation, while at the moment the installed facilities have been improving. Strong presence of TOTO in Indonesia proven with approximately 65-70% domestic shares of market.

## Key Points

- **TOTO to remain focus on export market**  
TOTO will continue focusing on export. Until FY23F, export to China from the company will be around 58,000 pcs per month (from 30,000 pcs per month previously). TOTO also holds stakes on SPN (Surya Pertiwi Nusantara), hence they will generate income from associate from the manufacturing segment in Surabaya which focus on entry level sanitary products.
- **Difficult to achieve gross margins like the old days**  
In FY18, TOTO gross margin stood at 26.4%. However, in FY19, gross margin of the company dropped to 18.7%. in FY20F, we expect the margins will be lowered. Note that, we foresee, it will take time for TOTO to have gross margins above 20% given uncertainty of economic condition ahead.
- **Recommend Hold on TOTO**  
We reiterate a Hold call on TOTO with TP of Rp240, or offering limited upside potential of 15.4%. The company has maximum capacity utilization and no longer has plan to expand the capacity. Hence, the growth prospect will not be strong.

## EQUITY MARKET OUTLOOK 2021



## Financial Highlights

	2018A	2019A	2020F	2021F	2022F
Revenue (Rpbn)	2,228	2,056	1,660	1,770	1,842
Operating profit (Rpbn)	449	159	4	60	117
Net profit (Rpbn)	347	141	26	76	127
EPS (Rp)	33.6	13.6	2.6	7.4	12.3
EPS growth (%)	24.3	-59.4	-81.3	188.3	67.6
EV/EBITDA (x)	4.1	8.5	31.1	16.6	10.9
PER (x)	6.2	15.3	81.5	28.3	16.9
PBV (x)	1.1	1.1	1.1	1.1	1.1
Dividend yield (%)	8.7	5.3	0.6	1.8	3.0
ROE (%)	18.0	7.3	1.4	3.9	6.3

## Assumptions

Revenue (in Rp bn)	2018A	2019A	2020F	2021F	2022F
Sanitary	946.6	912.1	811.8	860.5	894.9
Fitting	1,157.7	1,011.7	779	833.5	866.9
Kitchen System	116.0	123.5	61.8	67.9	71.3

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## Surya Toto

### Income Statement

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
<b>Revenue</b>	<b>2,228</b>	<b>2,056</b>	<b>1,660</b>	<b>1,770</b>	<b>1,842</b>
COGS	-1,641	-1,671	-1,433	-1,476	-1,481
<b>Gross profit</b>	<b>588</b>	<b>385</b>	<b>227</b>	<b>294</b>	<b>361</b>
Oper. expenses	-139	-226	-224	-234	-244
<b>Oper. profit</b>	<b>449</b>	<b>159</b>	<b>4</b>	<b>60</b>	<b>117</b>
<b>EBITDA</b>	<b>516</b>	<b>236</b>	<b>60</b>	<b>115</b>	<b>170</b>
Interest income	17	25	29	34	40
Interest expense	-11	-10	-7	-7	-8
Other income (exp.)	-3	11	9	13	18
<b>Pre-tax profit</b>	<b>452</b>	<b>185</b>	<b>35</b>	<b>100</b>	<b>167</b>
Income tax	-105	-45	-8	-24	-40
Minority interest	0	0	0	0	0
<b>Net profit</b>	<b>347</b>	<b>141</b>	<b>26</b>	<b>76</b>	<b>127</b>

### Balance Sheet

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Cash & cash equivalent	160	230	343	329	378
Acct, receivables	430	504	705	752	782
Inventory	705	582	639	682	709
Other curr, asset	43	24	19	20	21
<b>Total current asset</b>	<b>1,339</b>	<b>1,340</b>	<b>1,707</b>	<b>1,783</b>	<b>1,890</b>
Fixed assets - net	732	685	658	635	614
Other non-curr.asset	826	894	565	602	626
<b>Total asset</b>	<b>2,897</b>	<b>2,918</b>	<b>2,930</b>	<b>3,020</b>	<b>3,130</b>
ST debt + curr. maturity	121	91	76	81	84
Acct, payable	161	120	125	133	139
Advances received	0	0	0	0	0
Other curr. liab	172	155	134	143	149
Long term debt	1	1	1	1	1
Other non-curr, liab,	513	627	659	692	726
<b>Total liabilities</b>	<b>968</b>	<b>994</b>	<b>995</b>	<b>1,049</b>	<b>1,099</b>
Shareholder equity	1,929	1,924	1,935	1,970	2,031
Minority interest	0	0	0	0	0
<b>Total liab + SHE</b>	<b>2,897</b>	<b>2,918</b>	<b>2,930</b>	<b>3,020</b>	<b>3,130</b>

## EQUITY MARKET OUTLOOK 2021

### Cash Flow

Year to 31 Dec (Rpbn)	2018A	2019A	2020F	2021F	2022F
Net income	347	141	26	76	127
Depreciation	68	77	57	55	53
Chg in working cap.	-127	-18	-285	-69	-44
Other	0	0	0	0	0
<b>CF-Oper activities</b>	<b>287</b>	<b>200</b>	<b>-201</b>	<b>62</b>	<b>136</b>
Capital expenditure	6	-30	-30	-31	-32
Others	-122	-68	329	-37	-24
<b>CF-Investing activities</b>	<b>-116</b>	<b>-98</b>	<b>299</b>	<b>-68</b>	<b>-56</b>
Net change in debt	-45	114	31	33	35
Net change in equity	0	0	0	0	0
Dividend payment	-186	-114	-13	-38	-64
Other financing	75	-32	-2	-3	-3
<b>CF-Financing activities</b>	<b>-156</b>	<b>-32</b>	<b>16</b>	<b>-7</b>	<b>-32</b>
<b>Net cash flow</b>	<b>15</b>	<b>70</b>	<b>113</b>	<b>-14</b>	<b>49</b>
Cash - begin of the year	145	160	230	343	329
Cash - end of the year	160	230	343	329	378

### Key Ratios

Year to 31 Dec	2018A	2019A	2020F	2021F	2022F
Revenue gr. (%)	2.4	-7.7	-19.2	6.6	4.0
Operating profit gr. (%)	20.0	-64.5	-97.7	1,564.8	94.7
Net profit gr. (%)	24.3	-59.4	-81.3	188.3	67.6
Gross margin (%)	26.4	18.7	13.7	16.6	19.6
Operating margin (%)	20.1	7.7	0.2	3.4	6.3
EBITDA margin (%)	23.2	11.5	3.6	6.5	9.2
Net margin (%)	15.6	6.8	1.6	4.3	6.9
ROA (%)	12.0	4.8	0.9	2.5	4.1
ROE (%)	18.0	7.3	1.4	3.9	6.3
Current ratio (x)	3.0	3.7	5.1	5.0	5.1
Quick ratio (x)	1.4	2.1	3.2	3.1	3.2
Interest cover (x)	46.8	24.4	8.9	15.9	22.5
Debt to equity ratio (x)	0.1	0.0	0.0	0.0	0.0
Net debt to equity (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



## MATRIX VALUATION



## EQUITY MARKET OUTLOOK 2021

No.	Name	Ticker	Recommendation	Price (Rp)	Target Price (Rp)	Upside / Downside	Market Cap (Rp tn)	2021			Dividend Yield (%)
								P/E	P/B	EV/EBITDA	
	Banking	Overweight									
1	Bank Central Asia	BBCA	Buy	27,525	33,700	22.4%	765..0	22.3	3.3	3.3	1.2
2	Bank CIMB Niaga	BNGA	Buy	715	1,075	50.3%	20.0	5.1	5.6	0.4	4.4
3	Bank Mandiri	BMRI	Buy	5,075	7,000	37.9%	269.0	9.6	8.1	1.2	3.3
4	Bank Negara Indonesia	BBNI	Buy	4,510	5,850	29.7%	88.0	7.0	6.2	0.7	2.7
5	Bank Rakyat Indonesia	BBRI	Buy	3,040	4,125	35.7%	390,0	11.2	10.3	1.7	2.7
6	Bank Tabungan Negara	BBTN	Buy	1,195	1,450	21.3%	14.0	6.4	6.5	0.6	1.8
7	Bank BTPN Syariah	BTPS	Hold	3,110	3,425	10.1%	13.3	13.3	13.1	3.2	1.0
	Consumer	Overweight									
8	Indofood CBP	ICBP	Buy	10.075	12,050	19.6%	117.5	17.6	3.4	10.7	2.2
9	Indofood Sukses Makmur	INDF	Buy	7.000	8,320	18.9%	61.4	9.9	1.3	4.3	4.8
10	Mayora Indonesia	MYOR	Buy	2,400	2,715	13.1%	53.7	26.1	4.4	15.1	1.5
11	Unilever Indonesia	UNVR	Buy	7,900	10.880	37.7%	301.4	35.8	57.1	24.9	2.8
	Telecommunication	Overweight									
12	Indosat	ISAT	Buy	2,000	3,150	57.5%	10.9	n/a	1.9	3.0	0.0
13	XL Axiata	EXCL	Buy	2,030	3,500	72.4%	21.7	22.9	1.0	3.9	2.7
14	Telekomunikasi Indonesia	TLKM	Buy	2,780	4,000	43.9%	275.4	13.0	2.6	4.4	6.3
	Tower	Overweight									
15	Sarana Menara	TOWR	Buy	1,315	1,800	36.9%	28.4	21.5	4.9	10.9	3.3
16	Tower Bersama	TBIG	Buy	1,020	1,350	32.4%	51.2	17.9	4.5	10.1	2.8
	Healthcare	Overweight									
17	Kalbe Farma	KLBF	Buy	1,550	1,770	14.2%	72.6	26.2	3.9	17.3	2.0
18	Siloam Hospitals	SIL0	Buy	6,150	4,780	28.7%	7.8	167.7	1.3	8.6	7.1



## EQUITY MARKET OUTLOOK 2021

No.	Name	Ticker	Recommendation	Price (Rp)	Target Price (Rp)	Upside / Downside	Market Cap (Rp tn)	2021			Dividend Yield (%)
								P/E	P/B	EV/EBITDA	
	<b>Metal Mining</b>		<b>Overweight</b>								
19	Aneka Tambang	ANTM	Buy	720	1,000	38.9%	23.1	25.4	1.1	10.1	0.9
20	Merdeka Cooper Gold	MDKA	Buy	1,615	2,800	73.4%	33.5	23.5	3.5	10.7	0.0
21	Timah	TINS	Buy	680	1,100	61.8%	3.4	n.a	1.3	14.6	0.0
22	Vale Indonesia	INCO	Buy	3,510	4,250	21.1%	34.8	26.2	1.2	8.3	6.5
	<b>Toll Road</b>		<b>Overweight</b>								
23	Jasa Marga	JSMR	Buy	3,250	4,700	44.6%	23.6	18.0	1.4	10.7	0.8
	<b>Shipping</b>		<b>Overweight</b>								
24	Buana Lintas Lautan	BULL	Buy	322	540	67.7%	3.7	2.9	0.6	3.4	0.0
	<b>Plantations</b>		<b>Overweight</b>								
25	Astra Agro Lestari	AALI	Buy	10,175	18,500	81.8%	19.6	22.4	1.0	7.2	0.8
26	Dharma Satya Nusantara	DSNG	Buy	458	770	68.1%	4.9	10.3	1.0	5.9	2.8
27	PP London Sumatra	LSIP	Buy	905	1,570	73.5%	6.2	11.8	0.7	5.3	1.4
28	Salim Ivomas	SIMP	Buy	296	470	58.8%	4.6	148.0	0.3	5.6	0.0
29	Tunas Baru Lampung	TBLA	Buy	735	1,270	72.8%	3.9	4.5	0.9	5.2	2.7
	<b>Property</b>		<b>Overweight</b>								
30	Alam Sutera Lestari	ASRI	Buy	111	230	107.2%	2.2	5.6	0.2	7.1	-
31	Bekasi Fajar Industrial	BEST	Buy	169	250	47.9%	1.6	9.1	0.3	11.8	2.4
32	Bumi Serpong Damai	BSDE	Buy	740	910	23.0%	14.2	27.7	0.5	7.0	-
33	Intiland Development	DILD	Buy	147	360	144.9%	1.5	9.7	0.3	9.4	0.6
34	Lippo Karawaci	LPKR	Buy	119	230	93.3%	8.4	38.4	0.3	22.6	-
35	Pakuwon Jati	PWON	Buy	354	650	83.6%	17.0	11.1	1.1	7.2	0.8
36	Summarecon Agung	SMRA	Buy	555	900	62.2%	8.0	7.0	1.2	10.6	0.1
37	Surya Semesta Internusa	SSIA	Buy	430	630	46.5%	2.0	37.7	0.5	10.2	-



## EQUITY MARKET OUTLOOK 2021

No.	Name	Ticker	Recommendation	Price (Rp)	Target Price (Rp)	Upside / Downside	Market Cap (Rp tn)	2021			Dividend Yield (%)
								P/E	P/B	EV/EBITDA	
	<b>Media</b>		<b>Overweight</b>								
38	Media Nusantara Citra	MNCN	Buy	715	1,225	71.3%	8.9	4.1	0.6	3.3	6.1
39	Surya Citra Media	SCMA	Buy	1,160	1,400	20.7%	16.5	12.3	2.7	8.1	4.5
	<b>Cigarette</b>		<b>Neutral</b>								
40	Gudang Garam	GGRM	Buy	41,675	55,300	32.7%	80.2	9.1	1.2	5.4	3.8
41	HM Sampoerna	HMSP	Hold	1,425	1,300	-8.8%	165.8	17.1	2.2	8.6	5.4
	<b>Cement</b>		<b>Neutral</b>								
42	Indocement TP	INTP	Buy	10,600	15,000	41.5%	39.0	32.5	2.0	14.4	2.1
43	Semen Indonesia	SMGR	Buy	8,800	12,150	38.1%	52.2	23.5	1.7	9.9	1.7
	<b>Automotive</b>		<b>Neutral</b>								
44	Astra International	ASII	Hold	5,300	5,800	9.4%	214.6	12.5	1.4	7.9	3.8
	<b>Heavy Equipment</b>		<b>Neutral</b>								
45	United Tractors	UNTR	Hold	23,500	23,475	0.1%	87.6	9.7	1.2	4.5	3.6
	<b>Construction</b>		<b>Neutral</b>								
46	Adhi Karya	ADHI	Hold	660	610	8.2%	2.1	5.5	0.3	5.1	2.7
47	PTPP	PTPP	Hold	1,015	900	-11.3%	6.2	10.1	0.4	4.6	0.8
48	Waskita Karya	WSKT	Sell	645	476	-26.4%	8.6	-28.7	0.6	17.1	0.0
49	Wika Beton	WTON	Buy	270	360	33.3%	2.6	7.6	0.7	3.4	2.0
50	Wijaya Karya	WIKA	Hold	1,185	1,200	1.3%	10.6	12.7	0.8	4.6	1.9
	<b>Retail</b>		<b>Neutral</b>								
51	Ace Hardware	ACES	Hold	1,595	1,675	5.0%	27.4	21.9	4.7	16.8	2.1
52	Erajaya Swasembada	ERAA	Hold	1,545	1,620	4.9%	4.5	12.4	0.9	6.6	1.1
53	Matahari Dept Store	LPPF	Buy	980	1,250	27.6%	2.7	3.9	1.2	2.0	0.0
54	Ramayana Lestari	RALS	Hold	530	550	3.8%	3.8	9.5	0.8	0.6	4.6



## EQUITY MARKET OUTLOOK 2021

No.	Name	Ticker	Recommendation	Price (Rp)	Target Price (Rp)	Upside / Downside	Market Cap (Rp tn)	2021			Dividend Yield (%)
								P/E	P/B	EV/EBITDA	
	Coal	Neutral									
55	Adaro Energy	ADRO	Buy	1,130	1,350	32.7%	36.1	10.1	0.7	4.2	6.7
56	Harum Energy	HRUM	Hold	1,625	1,500	-7.7%	4.4	24.5	0.9	4.6	0.0
57	Indo Tambangraya	ITMG	Buy	8,050	9,100	13.0%	9.1	8.4	0.8	2.8	6.9
58	Bukit Asam	PTBA	Buy	1,985	2,650	33.5%	22.8	9.1	1.3	4.4	7.6
	Oil and Gas	Overweight									
59	Medco Energy	MEDC	Buy	550	700	27.6%	9.8	27.0	0.8	5.3	0.0
60	Gas Negara	PGAS	Buy	1,290	1,450	12.4%	31.3	99.4	0.8	4.7	1.8
	Poultry	Neutral									
61	Charoen Pokphand	CPIN	Hold	5,775	5,900	2.2%	94.7	24.1	3.8	14.8	1.7
62	Japfa Comfeed	JPFA	Hold	1,100	1,250	13.6%	11.7	9.4	1.1	6.2	1.4
63	Malindo Feedmill	MAIN	Hold	515	550	6.8%	1.2	6.9	0.5	4.4	2.5
	Aviation	Underweight									
64	Garuda Indonesia	GIAA	Sell	218	170	-22.0%	6.7	n.a	0.6	5.4	n.a
	Others	Overweight									
65	Surya Pertiwi	SPTO	Buy	430	560	30.2%	1.2	10.8	0.9	5.8	3.9
66	Surya Toto	TOTO	Buy	208	240	15.4%	2.2	28.3	1.1	16.6	1.8



# TECHNICAL ANALYSIS





## Technical Analysis

### **IHSG : Review in big picture**

Throughout 2020 the JCI was confirmed to have reversed direction into a bearish trend. Since forming the all-time high price in 2018 at the level of 6,693, the JCI movement has arguably entered a consolidation phase until the end of 2019. The range of price fluctuation is within the high area of 6,693 and the low area of 5,557. It was recorded twice trying to reach a high price of 6,693 in 2019, but it stopped at the level of 6,636 and 6,348. This means that the JCI formed a lower high which made it a resistance line and gave an early indication that the long-term bullish trend was starting to weaken. Broadly speaking, the JCI formed a symmetrical triangle pattern called 2 lower highs and 2 higher lows as seen in the weekly picture below.

This triangle pattern is a horizontal trading pattern. Before it is fully formed, initially the triangle is at its widest position. Then, the trading range narrows affected by the market moving sideways, and that's where the points that form a triangle (triangle) are formed. When viewed on the chart, the bottom line of the triangle represents support, while the upper line of the triangle represents the overbought side of the market, where investors will taking profits.

This pattern can be a continuation of the previous trend or it can even be a reversal pattern of the previous trend. It depends on which side to breakout. In the event that the JCI chart below shows a breakout occurred at the beginning of 2020 around the level of 5,940 which confirms the new trend direction to bearish after passing through a long consolidation phase. Beyond the theoretical target expectations of the downward symmetrical triangle pattern at the level of 4,863 (green line, which is parallel to the height of the triangle line), JCI dropped sharply to form a new support price at the level of 3,911 which is the lowest price since the last 6 years.



JCI # Weekly Chart



## Technical Analysis (continued)



JCI # Daily Chart



## Technical Analysis (continued)

### **IHSG : Outlook for 2021**

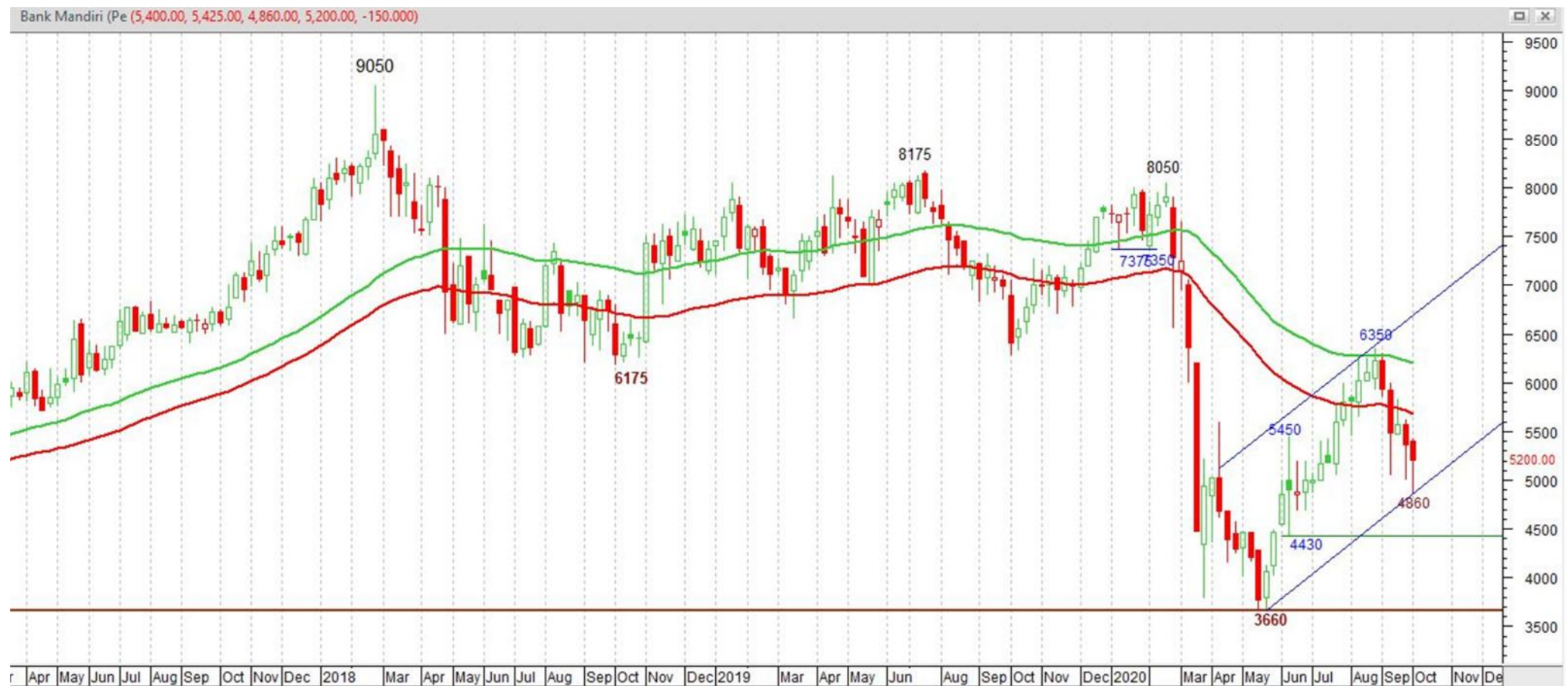
From the daily chart above, it can be seen that in the middle of the main bearish trend, JCI managed to form a medium-term uptrend from the low of 3,911 to almost reach the 61.8% Fibonacci Retracement level at 5,381. In trend analysis rules apply that any price fluctuation that occurs in the middle of the main trend condition is only temporary until the main trend reversal pattern occurs. In this case, the JCI is in the main bearish trend, so the uptrend from 3,911 to 5,381 is only temporary. Supported by a rising wedge pattern where the price narrowed until it finally broke the support line 5,120 and the JCI fell back to the level of 4,755. The worst case scenario and the projected target of decreasing the rising wedge pattern theoretically will reach the 4,100 level. It is just that to reach that level JCI will face several strong supports at the level of 4,755 and 4,441. We cannot predict what pattern will be formed later to cancel this rising wedge pattern. It is expected that there will be strong confirmation as a basis for a reversal of the main trend around the support at 4,441 which is also the 61.8% Fibonacci retracement level from the low price of 3,911 to the high price of 5,381. And the reversal of the bullish trend will be confirmed if the JCI breaks the 5,381 level. As long as the JCI is trading below 5,381, the price movement is in a consolidation phase.





## Technical Analysis (continued)

**BMRI** : From the weekly chart below, although the major trend is still bearish but BMRI's movement is in ascending channel indicates a bullish trend for medium term with the support line at 4,860 which is a higher low from 3,660. A channel can be used as an entry pattern for the continuation of an established up trend. Accumulated buying around support in case of limited risk correction below support 4,860. Theoretically the direction of the BBRI price movement will be towards the upper channel at 6,350 or higher.



BMRI # Weekly Chart



## Technical Analysis (continued)

**TLKM** : From the weekly chart below, the rate of decline in TLKM formed a higher low at 2,540. By forming a hammer candlestick pattern, TLKM has the opportunity for a reversal. By using the Fibonacci retracement level from 3,500 to 2,540 we get a target opportunity to rise, namely the 38.2% level at 2,960 and the 50% level at 3,050.



## Technical Analysis (continued)

**LPKR :** From the weekly chart below, it is in the descending channel. LPKR has detected an indication of a trend reversal pattern with the formation of a buy divergence between lower low and higher low prices on the RSI indicator. The potential rises to the upper channel at the range 157-160 with the risk being limited below 113.







## Technical Analysis (continued)

**PTBA** : From the weekly chart below, PTBA is in a consolidation phase with a rectangle pattern in the price range of 2,170 and 1,810. And currently the price is in the middle which means neutral. There are two strategies, first, buy on weakness if PTBA falls close to support at 1,810 with a risk limit below 1,770. And the second is waiting for the breakout momentum of 2,170 which will open the opportunity for a bullish trend towards the level of 2,510.





## Technical Analysis (continued)

**TKIM** : From the weekly chart below, TKIM is in a consolidation phase with a triangle pattern in the price range of 7,375 and 5,650. Upward trend momentum will start if TKIM manages to break the resistance line at around 6,500 with a theoretical target potential at around 7,800.





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