INVESTMENT BANKING
Top Indonesia Small Cap Companies

20 Jewels 2020 Edition

TOP INDONESIA
SMALL CAP COMPANIES

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20 JEWELS

2020 EDITION

INDONESIA

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Foreword

Dear Valued Investors,

Apa kabar?

We proudly present the tenth edition of the RHB Indonesia Small Cap Jewels Book. This Small Cap Jewels book is unique and has been a trademark of RHB Research over the years. In this 2020 edition, we feature 20 small-cap companies with a market cap of under USD2bn. These span across various sectors, ranging from producer of sanitary pads and diapers, end-to-end digital media solutions, gold miner, to tile producer. We are optimistic that our jewel picks will outperform the index over the next 12 months, given the unique business moats each has in their respective niche sectors. This is further backed by supportive government policies and unique business model that benefits the companies during these tough times. As a testament to our performance, our 2019 small-cap picks generated 24% outperformance, relative to IDX Small-cap Index and 13% to JCI.

We hope that these small-cap companies with depressed valuations will eventually be tomorrow's mid-cap stocks. Our small-cap picks are expected to grow above the industry's average, fuelled by variative catalysts. The Indonesia edition is a part of the regional small cap compendium that also includes other small cap jewel ideas from ASEAN region.

We are grateful to the respective management teams of all the companies featured in this book, for giving us their time in helping us to understand their business models and prospects, and to our research analysts for their unwavering efforts in screening, analysing and picking the best stock ideas – which will not only provide solid growth prospects, but also re-rating opportunities.

Lastly, as the research team of RHB Investment Bank, we are committed to maintaining, developing and strengthening our small- and mid-cap franchises. With this effort, we believe we can provide meaningful research products to our valuable clients. We hope this tenth edition of our hallmark product will further cement our strength in small- and mid-cap research in Indonesia, and will continue our tradition of picking jewels that shine.

We all have had a rough and eventful year, which translated into a rather sharp drop to our index. In addition to Covid-19 pandemic, there have been scandals involving mismanagement of insurance and mutual funds and threats of an all-out war in the middle east. Unfortunately this was reflected in the performance of our 2019 Top 20 Indonesia small-cap picks which generated a weighted return of -14%, albeit still marking an outperformance of 13% compared with that of the Jakarta Composite Index (JCI), which generated a return of -28%, and generating an outperformance of 24% against IDX Small Mid Cap Liquid (IDXSMCL) Index, which generated a return of -38%. Small cap companies have taken a hit in the past year, especially driven by the said scandal, which caused major selloff in the market. Moreover, some of our picks have also been deeply impacted by the unforeseen pandemic. We hope that our 2020 Top 20 Indonesia small-cap picks may project a better performance, taking into account the greater risks ahead.

The Top 20 Small Cap Indonesia Jewels we identified for 2020 are (in alphabetical order):
ARNA (tile producer benefiting from lower gas prices), **AMFG** (leading industrial glass producer), **AUTO** (leading auto parts player under the conglomerate, Astra International), **BFIN** (one of the largest multi finance company), **DMMX** (end-to-end digital media solution), **DSNG** (palm oil planter with the best yield), **ERAA** (beneficiary of IMEI registration), **HOKI** (distributor of Indonesia's staple food: rice), **IPTV** (Pay-TV operator), **KEEN** (hydro power plant), **MAIN** (animal feed and broiler farm), **POWR** (power plant in the heart of industrial estates) , **PSAB** (gold miner with busy pipeline), **ROTI** (leading bread producer), **SIDO** (producer of herbal pharmaceuticals and FMCG), **SIMP** (downstream palm oil producer), **SMSM** (auto parts player), **UCID** (leading diaper and sanitary pad producer), **WIIM** (small cap tobacco manufacturer), **WTON** (precast concrete supplier) .

Happy investing!

Jakarta, 14 May 2020

Andrey Wijaya
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Acting Deputy Head of Indonesia Research

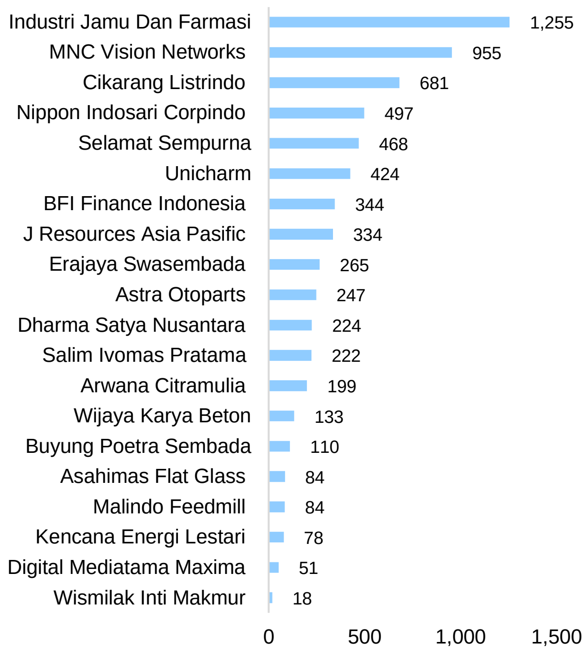
20 Jewels – at a glance

Company name	Rating	Fair Value	Current Price	Potential Upside	Mkt Cap	P/E (x)		P/BV (x)		Div Yield (%)		ROE (%)	
		(IDR)	(IDR)	(%)	(USDm)	FY19	FY20F	FY19	FY20F	FY19	FY20F	FY19	FY20F
Arwana Citramulia	Buy	590	408	45%	199	14.8	15.7	2.8	2.5	5.4	5.4	21.8	16.1
Asahimas Flat Glass	Non Rated	5,500	2,930	88%	84	na	na	0.4	0.4	1.0	1.0	-3.9	na
Astra Otoparts	Buy	1,170	780	50%	247	7.7	6.5	0.3	0.3	7.3	6.0	7.3	5.2
BFI Finance Indonesia	Non Rated	510-490	328	49-55%	344	9.2	12.9	0.8	0.7	15.0	18.5	15.0	6.2
Buyung Poetra Sembada	Buy	1,000	700	43%	110	16.1	14.6	2.6	2.3	1.6	1.8	17.2	16.7
Cikarang Listrindo	Non Rated	1,000	690	45%	681	4.5	5.1	1.0	0.8	10.2	11.8	10.2	16.0
Dharma Satya Nusantara	Non Rated	390	328	19%	224	63.8	57.7	24.8	2.2	3.1	1.3	10.2	10.9
Digital Mediatama Maxima	Non Rated	160-150	100	50-60%	51	64.0	66.7	na	na	-	-	2.2	12.7
Erajaya Swasembada	Buy	1,450	1,260	15%	265	35.6	29.3	0.8	0.8	4.0	1.8	6.1	6.9
Industri Jamu Dan Farmasi Sido Muncul	Non Rated	1,475-1,600	1,260	17-27%	1,255	23.5	21.5	6.1	5.8	3.4	3.8	24.6	26.5
J Resources Asia Pasific	Non Rated	270-290	193	40-50%	334	na	na	1.0	na	-	-	na	na
Kencana Energi Lestari	Buy	780	320	144%	78	8.2	6.8	0.6	0.5	-	4.4	6.9	7.8
Malindo Feedmill	Non Rated	740-1200	570	30-110%	84	8.2	5.7	0.6	0.5	3.9	-	7.4	10.0
MNC Vision Networks	Non Rated	450-470	388	16-21%	955	22	na	1.27	na	na	na	7.4	na
Nippon Indosari Corpindo	Buy	1,600	1,205	33%	497	28.1	27.6	2.4	2.3	0.8	1.0	9.8	9.5
Salim Ivomas Pratama	Non Rated	273	214	28%	222	-5.2	na	0.2	na	-	-	-3.7	na
Selamat Sempurna	Non Rated	1,400	1,240	13%	468	14.9	16.2	3.4	3.3	4.7	4.9	29.2	29.8
Unicharm	Non Rated	2,100-2,800	1,525	38-84%	424	15.2	26.0	1.5	1.3	-	-	9.2	8.2
Wijaya Karya Beton	Non Rated	400	236	69%	133	7.7	3.6	0.6	0.5	6.6	7.8	6.6	15.3
Wismilak Inti Makmur	Non Rated	220	139	58%	18	9.6	na	0.3	na	1.8	na	1.2	na

Note: All prices as at 30 Apr 2020
Note 2: Non-rated stocks FY20F PE are using annualized 1Q20 EPS or Bloomberg Estimate EPS
Note 3: na = not available
Source: Bloomberg, RHB

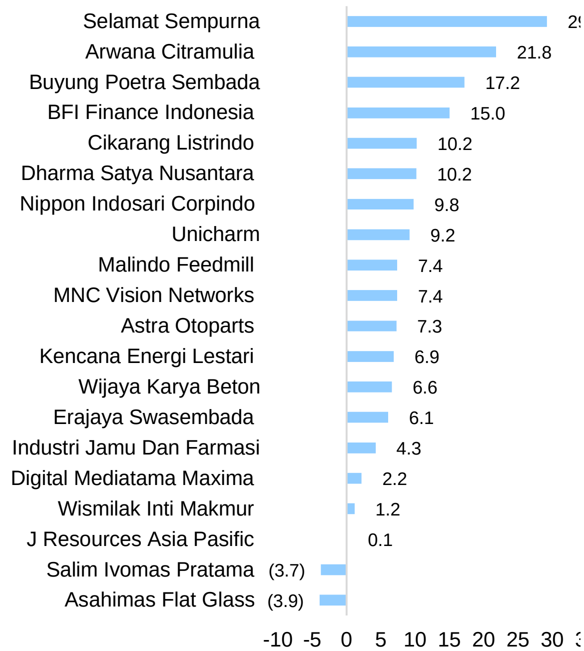
WHAT WE HAVE THIS YEAR

Market capitalisation of the Top 20 (USDm)



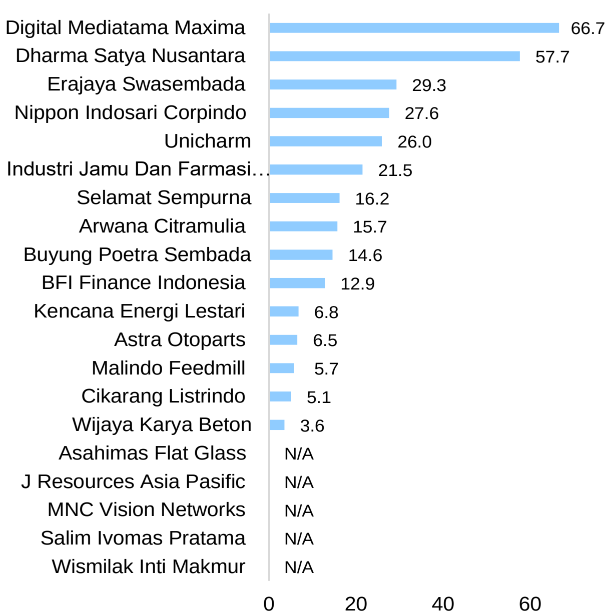
Source: Bloomberg, RHB

FY19 ROE of the Top 20 (%)



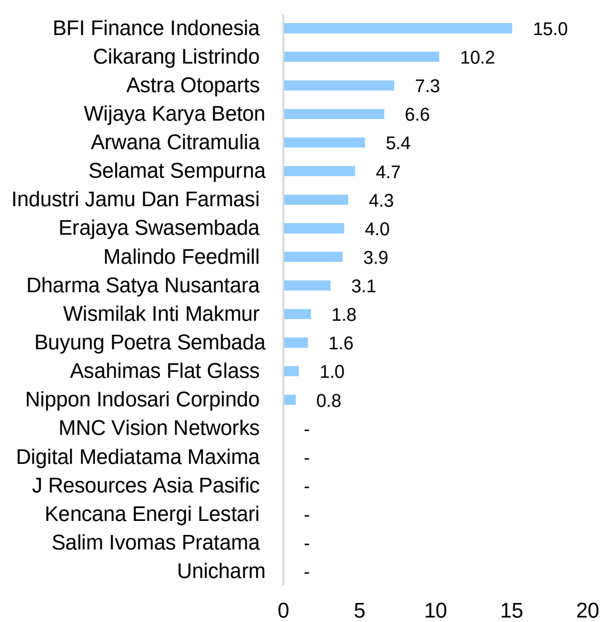
Source: Bloomberg, RHB

FY20F P/E of the Top 20 (x)



Source: Bloomberg, RHB
*Note: *Non rated stocks FY20F PE are Bloomberg estimates or annualized 1Q20 numbers*

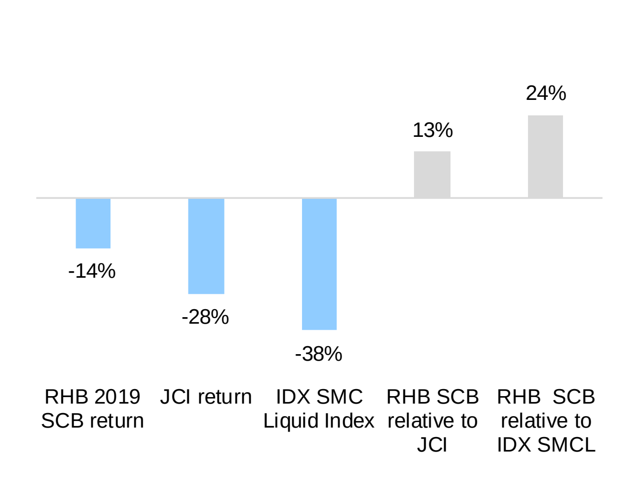
FY19 dividend yields for the Top 20 (%)



Source: Bloomberg, RHB

A RECAP OF WHAT WE HAD LAST YEAR

RHB 2019 Top 20 small-cap stocks' performances vs JCI and IDX SMC Liquid Index (2019 small cap book recap)

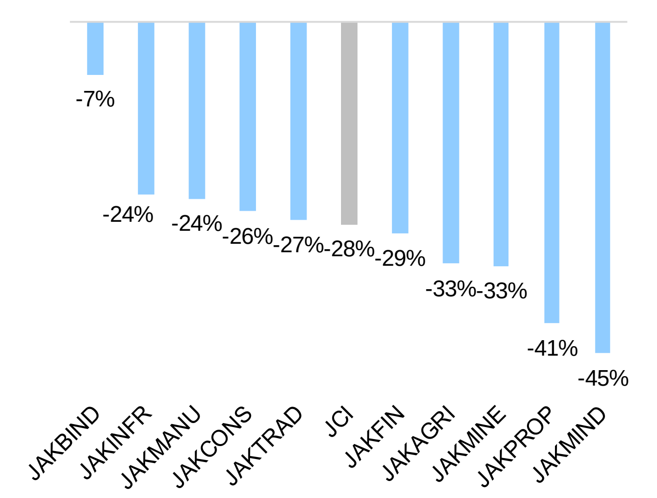


Source: Bloomberg, RHB

Note: RHB 2019 SCB return is market cap weighted

Note: JCI = Jakarta Composite Index, IDX SMCL: Indonesia Stock Exchange Small Mid Cap Liquid Index

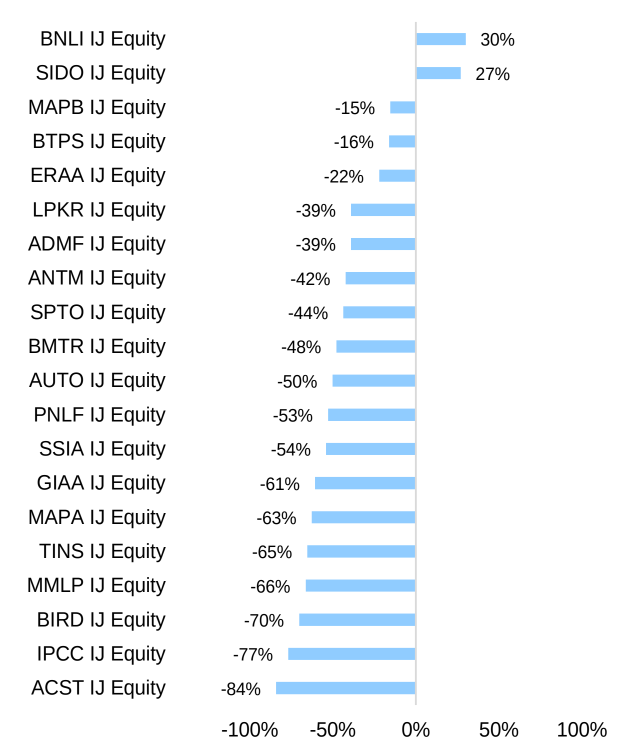
JCI performance breakdown (2019)



Source: Bloomberg, RHB

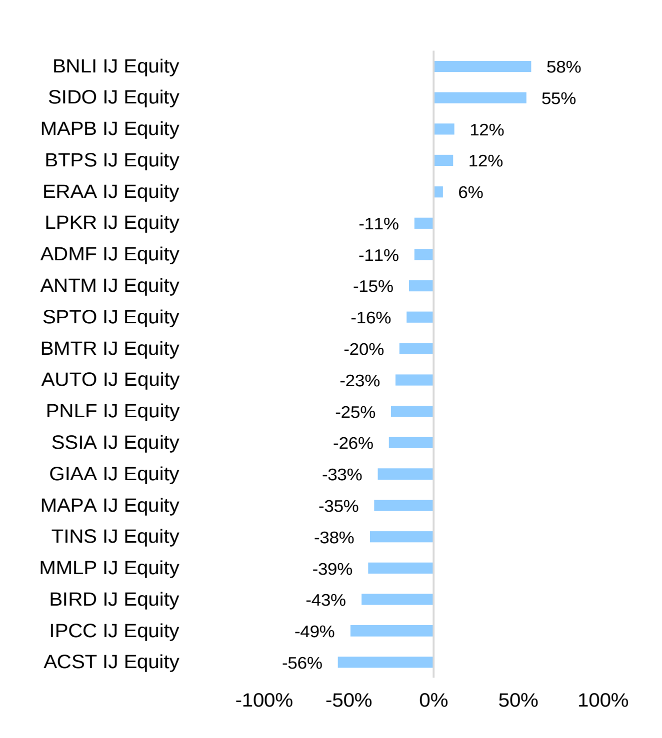
Note: JAKMANU: Manufacturing; JAKFIN: Financials; JAKINFRA: Infrastructure, Utility, and Transportation; JAKCONS: Consumer Goods, JAKTRAD: Trade, Services, and Investment; JAKBIND: Basic Industry and Chemicals, JAKMIND: Miscellaneous; JAKPROP: Property and Construction; JAKMINE: Mining; JAKAGRI: Agriculture.

RHB 2019 Top 20 small-cap stocks' absolute performance breakdown (recap of companies from the 2019 small cap book)



Source: Bloomberg, RHB

RHB 2019 Top 20 small-cap stocks' relative performance breakdown vs JCI (recap of companies from the 2019 small cap book)

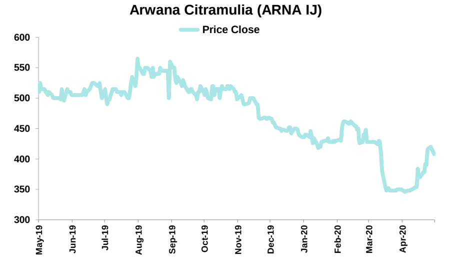


Source: Bloomberg, RHB

Arwana Citramulia

Robust Cash, Strong Market Position

Target: IDR590
Price: IDR408



Source: Bloomberg

Stock Profile

Bloomberg Ticker	ARNA IJ
Avg Turnover (IDR/USD)	626.51m/0.04m
Net Gearing (%)	nc
Market Cap (IDR)	2,995bn
Beta (x)	0.53
BVPS (IDR)	144
52-wk Price low/high (IDR)	326 - 575
Free float (%)	48.7

Major Shareholders (%)

Rustandy Tandean	37.3
Suprakreasi Eradinamika	14.0

Share Performance (%)

	1m	3m	6m	12m
Absolute	16.6	(5.1)	(18.1)	(20.0)
Relative	12.7	(15.5)	6.2	6.9

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Investment Merits

- Robust cash pile, high dividend yields
- Strong market share
- Expanding to a higher market segment, ie homogeneous tiles
- Likely to benefit from lower industrial gas prices

Company Profile

Arwana Citramulia (Arwana) is a ceramic tile producer targeting the low- to middle-income segment. It has an annual production capacity of 62m sq m. The company operates two plants in Western Java, two in Eastern Java, and one in South Sumatra.

Highlights

Robust cash pile, with high dividend yields. Arwana has a solid balance sheet, with IDR349bn in cash as at end-Dec 2019 (vs IDR247bn in end-Sep 2019). Total debts amounted to only IDR47bn. This strong cash position, supported by robust earnings growth, enables the company to consistently fork out dividends with a high payout ratio of around 50%. In addition, Arwana has allocated cash amounting to IDR30bn for its share buyback programme over the next 12 months.

Strong market share in the segment it is involved in. Arwana has a strong market position in the mid- to low-end ceramic tile segment. However, its sales mix has improved significantly, as *Digi-UNO* tile sales should secure more prolific margins in the future. Its *Digi-UNO* sales contribution increased to 59% in FY19, from 51% in FY18. Meanwhile, sales contributions from lower-end tiles – from the *Regular* and *Best Buy* brands – declined to 11% (from 14%) and 30% (from 35%) respectively.

Expanding to a higher market segment. After growing its *Digi-UNO* ceramic tile production capacity (adding 2.5m sqm pa) at the Palembang plant, Arwana is now expanding its Mojokerto manufacturing facilities, and building a new plant to produce homogeneous porcelain tiles. The new plant – with a 2.7m sqm annual capacity – is estimated to commence production in early 2021. Arwana's total production capacity was at 61.9m sqm at end-2019.

Likely to benefit from lower industrial gas prices. Maritime & Investment Affairs Coordinating Minister Luhut Binsar Pandjaitan targets industrial gas prices to decline to USD6.00 per mmbtu. We believe lower industrial gas prices – if it can be realised – will benefit ceramic producers, which consume large amounts of gas during production.

Based on our discussions with management, Arwana currently purchases gas at USD8.00 per mmbtu for its plants in East Java. For its West Java and South Sumatra facilities, the company pays USD9.20 per mmbtu and USD9.00 per mmbtu respectively.

Company Report Card

Latest results. 4Q19 sales amounted to IDR520bn (+2.3% YoY, -11.2% QoQ), down from its record sales in 3Q19 of IDR582.5bn – this brought FY19 sales to IDR2,152bn (+9.1% YoY). 4Q19 earnings were at IDR55.4bn (+36.2% YoY, -4.6% QoQ), which took the FY19 bottomline to IDR215.5bn (+37.6% YoY) – above our and Street expectations, at 107% and 106% of full-year estimates respectively. FY19 GPM widened to 26.4% (FY18: 23.9%) with NIM at 10.0% (FY18: 7.9%) – hitting its first double digit since FY14.

Dividend. Arwana is to pay a IDR22 DPS, implying a yield of 5.2% with a dividend payout ratio of 50%.

Management. The company is well-known for its good corporate governance and prudent management. The company is helmed by founder Tandean Rustandy. Arwana is also the leader in terms of cost efficiencies. In addition, the company has strong relationships with its distributors that have extensive networks nationwide.

Investment Case

We maintain our BUY, with a IDR590 TP, 45% upside plus c.3% yield. Our TP reflects 15x/13x FY20F-FY21F P/E. The improved sales mix from growing *Digi-UNO* tile sales should secure more prolific margins in the future. The likely lower industrial gas prices, in the meantime, should also decrease production costs.

Key risks. The weakened IDR should increase Arwana's production costs, since around 60% of costs are related to the USD. Another downside risk is slower economic growth, triggered by negative sentiment related to the COVID-19 pandemic.

Profit & Loss	Dec-19	Dec-20F	Dec-21F
Total turnover (IDRbn)	2,150	2,391	2,651
Reported net profit (IDRbn)	202	234	280
Recurring net profit (IDRbn)	201	234	280
Recurring net profit growth (%)	29%	17%	20%
Recurring EPS (IDR)	29	16	20
DPS (IDR)	13	16	19
Dividend Yield (%)	3.1	4.0	4.7
Recurring P/E (x)	15	13	11
Return on average equity (%)	18	20	22
P/B (x)	3	2	2
P/CF (x)	12	(74)	13

Source: Company data, RHB

Balance Sheet (IDRbn)	Dec-19	Dec-20F	Dec-21F
Total current assets	976	942	1,125
Total assets	1,799	1,726	1,869
Total current liabilities	562	382	386
Total non-current liabilities	60	121	121
Total liabilities	622	503	507
Shareholder's equity	1,158	1,205	1,344
Minority interest	19	19	19
Other equity	(6)	(98)	(98)
Total liabilities & equity	1,799	1,726	1,869
Total debt	46	112	112
Net debt	Net cash	Net cash	Net cash

Source: Company data, RHB

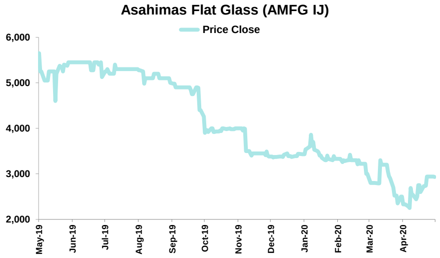
Cash Flow (IDRbn)	Dec-19	Dec-20F	Dec-21F
Cash flow from operations	306	306	306
Cash flow from investing activities	(58)	(58)	(58)
Cash flow from financing activities	(94)	(94)	(94)
Cash at beginning of period	193	193	193
Net change in cash	155	155	155
Ending balance cash	348	348	348

Source: Company data, RHB

Asahimas Flat Glass (AMFG IJ)

Target: N/A
Price: IDR2,930

Leading Glass Manufacturer With Asset Play



Source: Bloomberg

Stock Profile

Bloomberg Ticker	AMFG IJ
Avg Turnover (IDR/USD)	47.1m/0.003m
Net Gearing (%)	130.4
Market Cap (IDR)	1,272bn
Beta (x)	0.22
BVPS (IDR)	7,857
52-wk Price low/high (IDR)	2,250 - 5,650
Free float (%)	13.8

Major Shareholders (%)

AGC Inc, Japan	44.5
PT Rodamas	41.6

Share Performance (%)

	1m	3m	6m	12m
Absolute	17.2	(12.0)	(26.8)	(48.1)
Relative	13.3	8.6	(2.5)	(21.2)

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Investment Merits

- Leading glass manufacturer with 45% share in property and 90% share in automotive glass markets, with sufficient production capacity.
- Likely to benefit from lower industrial gas prices.
- Asset play from sale of Ancol land.

Company Profile

Asahimas Flat Glass was established in 1971, focusing on producing flat glass material products for the property and automotive industries with leading domestic market shares at c.45% and c.90% respectively. In Oct 1995, AMFG became a publicly listed and traded company on the Indonesia Stock Exchange (IDX). AMFG shares are mainly owned by AGC Inc, Japan, a multinational glass and electronics manufacturer, with 44.5% ownership. The other major shareholder is Rodamas, an Indonesian private company group engaged in trading, consumer goods, manufacturing, and heavy equipment, with 41.6% ownership. AMFG's products are known for its high-standard quality, thanks to synergies between its two parent companies – from advanced technology in manufacturing to a strong domestic sales chain.

Highlights

Sufficient production capacity. As of FY19, AMFG has 720k tonnes production capacity for flat glass (+14% YoY) and 5.8m m^2 for automotive glass per year. The flat glass plants are located in Sidoarjo (East Java, 300k tonnes) and Cikampek (West Java, 420k tonnes) – the automotive glass plant is also located in Cikampek (5.8m m^2). In Jan 2019, the company closed its plant in Ancol (North Jakarta; 120-270k tonnes, decommissioned for two years) and made a capacity addition to its Cikampek plant site, increasing 210k tonnes to 420k tonnes of flat glass per year with JPY17.3bn (c.USD160m) of investment. AMFG's current utilisation rate averages at c.80%.

State-of-the-art products backed by parent company support. Development support from ACG has enabled AMFG to produce specialty flat glass that is able to deflect some amount of heat and ultraviolet radiation from sunlight without reducing its brightness. The specialty glasses are trademarked as Stopsol and Stopray, and are the first of their kind in Indonesia. Furthermore, the latest enhancement on the Cikampek plant allows flexible application of various colours to flat glass (offline coating application) to suit customers' specific requests.

Strong supply chain. AMFG has an extensive domestic sales chain, with strong distribution in 22 major cities in Indonesia for more than 40 years. Its export sales are also secured through AGC's overseas channels established in 11 countries. On sales, AMFG's topline is derived from contributions from flat glass (residential, property, etc) of c.68% and automotive glass of c.32%. Based on geographical segment, domestic sales account for c.62%, while the rest are from exports to the Asia-Pacific region at c.37%, and other countries at 1%.

Likely to benefit from lower industrial gas prices. The Government has targeted industrial gas prices to decline to USD6.00 per mmbtu. We believe lower industrial gas prices – if it can be realised – will benefit glass producers, which consume large amounts of gas during production.

Ancol plant up for sale. After the decree from the Jakarta Government to repurpose industrial land in Ancol to non-industrial, AMFG closed its plant and is currently putting the land up for sale. The company owns 39.7ha of land. At the current market price of IDR15-20m/sq m in Ancol, the company may receive IDR6-8trn cash from the sale.

Company Report Card

Latest results. During FY19, AMFG suffered a net loss amounting to IDR132bn (FY19 net profit: IDR7bn), with weaker revenue booked at IDR4.1trn (-6.8% YoY). Higher COGS and expenses (+2.7% YoY) led AMFG's profit at the operating level to turn to loss of IDR114bn (FY19 EBIT: IDR159.8bn).

Balance sheet/cash flow position. As at FY19, AMFG's net gearing ratio widened to 1.30x (FY18: 0.96x), as cash flow from operations marked a negative movement at -IDR46bn (FY18: IDR217bn). A heavy burden came from additions of fixed assets post the completion of the Cikampek plant in early 2019. The financing for the investment resulted in AMFG's net debt position rising to IDR4.5trn in FY19 (+28.2% YoY).

Dividend. AMFG has been paying 20-80% of its net earnings as dividends during past years, with the highest payout ratio in FY19 at c.190%.

Management. AMFG is majority owned by two companies – AGC Inc, Japan (44.5%) and Rodamas (41.6%). Its Board of Directors is led by Shinichi Minagawa, who, like most of AMFG's management, has been with the company since 1985, Most of its management team members are well experienced in the business, with 35 years of experience in the field.

Investment Case

Valuation. The company is trading at a cheap 0.36x P/BV, compared to its peer average of 0.8x. At 0.7-0.8x P/BV, the company's fair value should range between IDR5,500-6,200.

Key risks. The COVID-19 pandemic poses a challenge in terms of possible production halts, which might affect AMFG's output. A negative impact could also arise from a postponement in the Government's decision to cut the industrial gas price to USD6.00/mmbtu (current: USD8.00/mmbtu) – which would increase COGS to a high level during a time of low productivity. A slowdown in overall economic pace is another downside risk.

Profit & Loss	Dec-17	Dec-18	Dec-19
Total turnover (IDRbn)	3,886	4,443	4,143
Reported net profit (IDRbn)	39	7	(132)
Recurring net profit (IDRbn)	39	7	(132)
Recurring net profit growth (%)	(85.2)	(82.9)	n.a
Recurring EPS (IDR)	89	15	(305)
DPS (IDR)	30	30	30
Dividend Yield (%)	1.0	1.0	1.0
Recurring P/E (x)	33.0	192.8	n.a
Return on average equity (%)	1.1	0.2	(3.9)
P/B (x)	0.4	0.4	0.4
P/CF (x)	4.3	5.9	n.a

Source: Company data, RHB

Balance Sheet (IDRbn)	Dec-17	Dec-18	Dec-19
Total current assets	2,003	2,209	2,347
Total assets	6,268	8,433	8,738
Total current liabilities	997	1,739	2,286
Total non-current liabilities	1,722	3,097	3,042
Total liabilities	2,719	4,836	5,328
Shareholder's equity	3,549	3,597	3,410
Minority interest	-	-	-
Other equity	-	-	-
Total liabilities & equity	6,268	8,433	8,738
Total debt	2,021	3,764	4,739
Net debt	1,674	3,468	4,447

Source: Company data, RHB

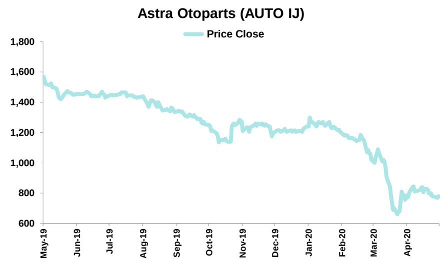
Cash Flow (IDRbn)	Dec-17	Dec-18	Dec-19
Cash flow from operations	299	217	(46)
Cash flow from investing activities	(1,018)	(1,911)	(963)
Cash flow from financing activities	743	1,637	1,010
Cash at beginning of period	321	346	297
Net change in cash	25	(50)	(4)
Ending balance cash	346	297	293

Source: Company data, RHB

Astra Otoparts

Target: IDR1,170
Price: IDR780

Key Beneficiary Of Auto Manufacturing Growth



Source: Bloomberg

Stock Profile

Bloomberg Ticker	AUTO IJ
Avg Turnover (IDR/USD)	816.72m/0.05m
Net Gearing (%)	nc
Market Cap (IDR)	3,759bn
Beta (x)	1.16
BVPS (IDR)	2,195
52-wk Price low/high (IDR)	660 – 1,620
Free float (%)	20

Major Shareholders (%)

Astra International	80.0

Share Performance (%)

	1m	3m	6m	12m
Absolute	(0.6)	(35.0)	(38.8)	(50.3)
Relative	(4.6)	(14.4)	(14.6)	(23.4)

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Investment Merits

- The largest Indonesian auto parts producer by sales
- Key beneficiary of new growth in auto manufacturing
- Strong balance sheet and cash position

Company Profile

Astra Otoparts manufactures and distributes a comprehensive range of auto and motorcycle parts. The company produces a wide range of forged, cast, electrical, rubber and plastic automotive parts, and original equipment manufacturing (OEM) items. Astra Otoparts also produces replacement market automobile and motorcycle parts for local and foreign markets.

Highlights

The largest Indonesian auto parts producer by sales. Astra Otoparts (AUTO) manufactures and distributes a comprehensive range of auto and motorcycle parts. The company produces a wide range of spare parts as OEM (~55% of total FY19 sales) and replacement parts for local and overseas markets. AUTO has strong relationships with automakers such as Daihatsu, Toyota, Isuzu, Honda, Mitsubishi, Nissan, and Hino. Around 70% of its sales are to Astra International.

Key beneficiary of auto manufacturing expansion. As Indonesia's largest auto parts producer, AUTO should benefit from new investment in auto manufacturing. New players like Hyundai and Volkswagen are building local manufacturing plants. Toyota, Honda, Hyundai, Wuling, and DFSK are also building research & development (R&D) facilities to develop new models and electrical vehicles (EVs) in the long term, in line with the Government's R&D tax incentive programme.

Strong balance sheet and cash position. At end-2019, AUTO was in net cash position with IDR788bn cash, while total debts were at IDR508bn to finance working capital. This year, we expect its gearing ratio to slightly increase to 0.03x, which is still healthy. This strong cash position enables it to pay generous dividends.

Company Report Card

Latest results. FY19 earnings were above our forecast, growing 30.4% YoY to IDR783bn from a healthier net margin of 5.5% (FY18: 4.4%). 4Q19 net earnings stood at IDR270bn (+1.4% QoQ, +49.4% YoY) with an improved margin of 7.1% (3Q19: 6.6%, 4Q18: 3.5%) – the highest since end-2017.

The improvement in net margin was partly due to better numbers from other income (FY19: IDR117bn; +62.2% YoY) and JV contributions (FY19: IDR523bn; +9.2% YoY), which lessened the impact from an increase in total expenses (FY19: IDR1.6trn; +8.9% YoY). The two earnings have grown significantly, totalling IDR263bn during the quarter under review (+752.1% YoY). This was helped by favourable FX rates (FY19: IDR108/JPY; +1.9%), which led to lower material costs for JV operations.

Dividend. AUTO's robust cash position allows it to pay high dividends. In the last five years, the company's dividend payout ratios ranged between 35% and 88%. Assuming a dividend 35% payout ratio, its FY20F dividend yield would be around 7%.

Management. AUTO's holding company – which owns a 80% stake – is well-known for good corporate governance. Hamdani Dzulkarnaen Salim has been the CEO of the company since 2013. He started his career in Astra International in 1969. Meanwhile, Gidion Hasan – the President Commissioner – has a good track record of developing Astra International units, especially the heavy equipment division. He also successfully grew United Tractor's earnings, as well as diversified its business in order to engender more stable earnings.

Investment Case

An undervalued company. Our SOP-based TP is IDR1,170, which is at a 65% discount to its fair value (IDR3,400), due to its low share trading liquidity. Our TP implies 11x FY20F P/E. Given its long-term experience in auto part manufacturing, on top of the bigger picture of promising national 4W vehicle manufacturing and production growth, we believe AUTO has strong growth potential.

Key risks to our call is a weaker IDR, which may lift production costs.

Profit & Loss	Dec-19	Dec-20F	Dec-21F
Total turnover (IDRbn)	15,445	10,381	11,179
Reported net profit (IDRbn)	740	429	543
Recurring net profit (IDRbn)	740	429	543
Recurring net profit growth (%)	21.1	(42)	26.5
Recurring EPS ((IDR)	153	89	113
DPS (IDR)	54	31	39
Dividend Yield (%)	6.9	4.0	5.1
Recurring P/E (x)	5.1	8.8	6.9
Return on average equity (%)	646%	363%	445%
P/B (x)	0.3	0.3	0.3
P/CF (x)	36.3	7.7	18.6

Source: Company data, RHB

Balance Sheet (IDRbn)	Dec-19	Dec-20F	Dec-21F
Total current assets	5,545	5,352	5,706
Total assets	16,016	15,573	16,100
Total current liabilities	3,439	2,858	3,019
Total non-current liabilities	926	690	703
Total liabilities	4,365	3,548	3,722
Shareholder's equity	11,651	12,025	12,378
Minority interest	1,070	1,070	1,070
Other equity	247	247	247
Total liabilities & equity	16,016	15,573	16,100
Total debt	758	559	615
Net debt	Net cash	Net cash	Net cash

Source: Company data, RHB

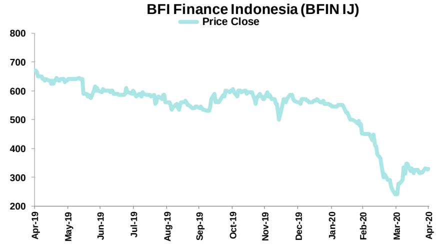
Cash Flow (IDRbn)	Dec-19	Dec-20F	Dec-21F
Cash flow from operations	937	1,016	989
Cash flow from investing activitie:	(1,087)	(131)	(682)
Cash flow from financing activitie	106	(387)	(176)
Cash at beginning of period	890	788	1,286
Net change in cash	(43)	498	131
Ending balance cash	788	1,286	1,417

Source: Company data, RHB

BFI Finance Indonesia

Target: N/A
Price: IDR328

Legal Dispute Over; Focusing On The Future



Source: Bloomberg

Stock Profile

Bloomberg Ticker	BFIN IJ
Avg Turnover (IDR/USD)	501.4m/0.03m
Net Gearing (%)	113
Market Cap (IDRm)	5,333bn
Beta (x)	0.775
BVPS (IDR)	408
52-wk Price low/high (IDR)	232-685
Free float (%)	48

Major Shareholders (%)

Trinugraha Capital	42.81
NT Asian Discovery Master Fund	9.88
BFI Financial Indonesia	6.28

Share Performance (%)

	1m	3m	6m	12m
Absolute	36.7	(39.8)	(44.9)	(51.0)
Relative	32.8	(19.2)	(20.6)	(24.1)

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Investment Merits

- 16-year legal dispute is finally over; lower base for FY20 earnings growth stemming from settlement paid in FY19.
- Digitalisation in credit scoring capabilities to expand exposure in unsecured loans segment.
- Third largest Indonesian multi finance company outside Astra Group.

Company Profile

BFI Finance provides leasing, consumer financing, factoring services for motor vehicles, heavy equipment, home and shop houses, and machinery financing. The company was established in 1982, and has been listed on the Indonesia Stock Exchange since 1990. It is now one of the largest multi-finance companies in Indonesia with over 340 outlets nationwide.

Highlights

Legal dispute over, lower earnings base for FY20. BFIN's dispute with its former shareholders Aryaputra Teguharta and Ongko Multicorpora is finally over. The company has paid a total settlement of IDR770bn in Nov 2019 and Feb 2020 (which has already been written in its FY19 expenses). Now that the dispute is over, the company's operations should run more smoothly. The settlement has also lowered its FY19 earnings by 51% YoY to IDR712bn, despite decent 5% YoY growth in net interest income. The lower income presents a lower base for FY20 earnings, if the company can maintain its upward quarterly new bookings trend.

Partnering up to digitalise credit scoring. The company has entered a partnership with China's Ping An to create a JV (40% BFIN) in a tech-based credit scoring company. The JV aims to expand BFIN's unsecured loan portion, by helping to improve its underwriting capabilities. The company plans to hire new agents as its point of sales as well utilise its partner's 40 data scientist and engineers.

Third largest multi-finance company outside Astra Group. BFIN has no affiliation with any auto manufacturer in Indonesia, and focuses on both 2-wheeler (2W) and 4-wheeler (4W) vehicles. BFIN serves auto brands in the 2W and 4W segment and also has a substantial market share in the used market segment. BFIN managed 17tRn of consumer financing as of FY19.

Company Report Card

Latest results. BFIN reported IDR15.9trn in new bookings during FY19, a 2.9% decline due to a combination of lower bookings during 1H19 (a political year) and shift in focus from dealer financing to non-dealer financing for 4W and 2W. Nevertheless, quarterly new bookings have shown a positive trend recovering to an all-time quarterly high, increasing 10.7% QoQ in 3Q, and 9.4% QoQ in 4Q. Asset quality was also improved, with the NPL ratio lowered to 0.85% from 1.21%.

Despite the lower bookings, the company posted an increase of 3% in interest income, and +5% YoY in net interest income as financing cost growth was kept at 2.7% YoY. However, operating expenses grew 66.7% YoY (including the settlement of IDR770bn), which resulted in lower operating income by 40.7% YoY to IDR1trn. Credit cost, however, was lower at IDR279bn (-39% YoY) due to better asset quality. All in all, this resulted in lower earnings of 51% YoY to IDR712bn.

Dividend. The company has paid an average payout ratio of 50% over the past five years. If the company were to pay out the same ratio this year, current prices imply an 8% yield.

Management. The company is ultimately owned by Trinugraha Capital (42.8%). Its Board of Directors is led by Francis Lay Sioe Ho, whose experience includes serving as Executive Officer at the Ministry of Finance in Singapore in 1972-1973, and Credit Manager and Credit Department Head in Indovest.

Investment Case

Valuation and downside risks. BFIN currently trades at 0.7x FY20F P/BV, at a discount to its nearest peer Adira Dinamika Multi Finance (ADMF IJ, NR), which trades at 0.9x P/BV. Based on a global P/BV average of 1.2x for consumer financing companies, BFIN should trade at IDR490-510/share.

Profit & Loss	Dec-17	Dec-18	Dec-19
Total turnover (IDRbn)	4,042	5,018	5,241
Reported net profit (IDRbn)	1,188	1,468	712
Recurring net profit (IDRbn)	1,188	1,468	712
Recurring net profit growth (%)	49%	24%	-52%
Recurring EPS (IDR)	59	73	36
DPS (IDR)	12	37	12
Dividend Yield (%)	3.6	11.2	3.6
Recurring P/E (x)	6	4	9
Return on average equity (%)	24%	26%	12%
P/B (x)	1.1	0.8	0.8
P/CF (x)	0.8	0.6	0.5

Source: Company data, RHB

Balance Sheet (IDRbn)	Dec-17	Dec-18	Dec-19
Total current assets	225	755	660
Total assets	16,483	19,117	19,090
Total current liabilities	4,760	6,014	5,279
Total non-current liabilities	6,819	6,900	7,730
Total liabilities	11,579	12,914	13,009
Shareholder's equity	5,016	6,244	6,222
Minority interest	0	0	0
Other equity	-111	-40	-142
Total liabilities & equity	16,483	19,117	19,090
Total debt	6,819	6,900	7,730
Net debt	6,594	6,145	7,070

Source: Company data, RHB

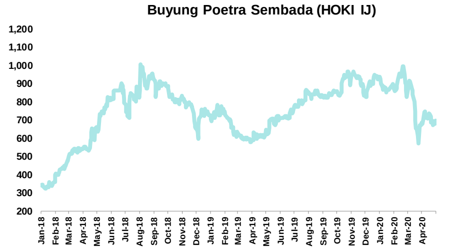
Cash Flow (IDRbn)	Dec-17	Dec-18	Dec-19
Cash flow from operations	-2,335	-367	1,200
Cash flow from investing activities	-183	-158	-89
Cash flow from financing activities	2,578	530	-1,206
Cash at beginning of period	165	225	755
Net change in cash	60	530	-95
Ending balance cash	225	755	660

Source: Company data, RHB

Buyung Poetra Sembada (HOKI IJ)

Staples Are King

Target:	**IDR1,000**
Price:	**IDR700**



Source: Bloomberg

Stock Profile

Bloomberg Ticker	HOKI IJ
Avg Turnover (IDR/USD)	15.8bn/1.05m
Net Gearing (%)	21.5
Market Cap (IDRbn)	1,659
Beta (x)	1.1
BVPS (IDR)	270
52-wk Price low/high (IDR)	560-1,015
Free float (%)	31.0

Major Shareholders (%)

Buyung Invest	65.9

Share Performance (%)

	1m	3m	6m	12m
Absolute	3.7	(20.5)	(24.3)	0.0
Relative	(3.1)	0.1	0.0	24.8

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Investment Merits

- Resilient demand for rice amidst a weak purchasing power outlook
- Strong brand equity over high-quality rice
- Ex-Java expansion to support sales volume growth

Company Profile

Buyung Poetra Sembada was established in 1977 with rice production and trading as its main businesses. Topi Koki is its main brand. HOKI's long experience – more than 40 years in the industry – has helped it secure stable high-quality rice supplies. It does this by maintaining strong and long-term relationships with diversified suppliers. The company currently has 205 such suppliers in major rice belts across Indonesia. Nevertheless, HOKI distributes its product line through modern trade (MT) and general trade (GT) channels.

Highlights

Stable demand for rice amidst a weak purchasing power environment. In a country where rice is the main staple, HOKI is set to benefit from stable demand despite a weak purchasing power outlook due to the COVID-19 pandemic. An increase in distribution in smaller cities in Java support volume growth. We note that the company currently sells 53% and 37% of its total products through GT and MT channels. To meet rising demand for branded rice (post the uniformed rice price ceiling), HOKI has expanded its production capacity by more than 57% YOY to 75 tonnes per hour.

Strong brand equity on high-quality rice. In Sep 2017, the Government imposed a retail price ceiling at IDR9,450 per kg for medium grade and IDR12,800 per kg for premium grade rice. This regulation has brought about demand for branded rice with smaller packaging, as the price per kg is similar with unpacked/large-bagged rice. In its FY19 results, HOKI recorded 33.3% and 54.2% surges in sales volumes in the MT and GT channels. HOKI also manufactures a private label for Indomaret, mostly in small packs – ie 5kg – which contributes c.25% of total sales. Private labels have also seen a healthy growth rate, as MT per pack market share is only 2-3%.

Ex-Java expansion to further support growth. HOKI is in the process of building a new production facility in Sumatera. This will be its first manufacturing plant under the listed company entity that will be situated outside Java. The new plant will cater for Northern Indonesia, while its existing plants in West Java will focus on the Java market only. Furthermore, the company recently partnered with Alfamart to supply private label rice in Sumatera. This initiative goes along with its plan to build the Sumatera production plant. Note that the Java region has been penetrated via the MT channel with Indomaret, which contributes c.25%

of total sales – previously, HOKI had agreed to partner exclusively with Indomaret for the MT channel.

Company Report Card

Latest results. In 4Q19, HOKI posted revenue of IDR427bn (+16.6% QoQ, +15.2% YoY), bringing FY19 topline to IDR1.7trn (+15.5% YoY). The robust 2019 revenue was mainly driven by strong sales volume growth from both the MT and GT channels. 4Q19 GPM also widened to 15.5% (+1.4ppts QoQ, 2.4ppts YoY). Hence, HOKI's 4Q19 PATMI stands at IDR28bn (+40% QoQ, +42% YoY), which translates into FY19 earnings of IDR104bn (+15% YoY).

Balance sheet/cash flow. FY19's cash conversion cycle improved to 82 days from FY18's 96 days due to lower receivable turnovers. As of FY19, HOKI's net gearing stands at 0.23x, a slight increase from FY18's 0.22x due to additional long-term bank loans of IDR29bn.

ROE. HOKI's FY19 ROE stood at 16.2%, a slight increase from FY18's 16% due to surge in earnings last year.

Dividends HOKI distributed dividends amounting to IDR26bn in Jun 2019, which translates into IDR11/share, or 1.6% in yields at current prices.

Management. Sukarto Bujung is HOKI's founder and current President Director since 2003. He previously served in directing positions at Multi Service Mining and Multi Manunggal Persada. Alongside him, Budiman Susilo has served as an Independent Director since 2015. Budiman has 20 years of experience in other retail companies, eg Alfa Retailindo, Matahari Niaga Prima, and Ramayana Lestari Sentora.

Investment Case

Valuation. We derive our 12-month TP of IDR1,000 on a 10-year DCF, with WACC of 10.5% and terminal growth rate of 1%. Currently, the stock is trading at 14.6x 2020F P/E.

Downside risks:

i. **Raw material price inflation, as retail ASP is fixed.** Last year, HOKI's average ASPs stood at IDR11,445 (-1% YoY) and IDR10,895 (+4.3% YoY) in the MT and GT channels. As the price ceiling is capped and raw material prices have started to increase, we believe HOKI will not be able to fully pass on the increment to customers. Hence, GPM might be corrected;

ii. Limitation on logistics distribution. Given the current condition, ie the COVID-19 pandemic, logistics distribution this year might slow down, as several GT channels have stopped operations. This could be an issue as 42% of total sales come from this channel.

Profit & Loss	Dec-19	Dec-20F	Dec-21F
Total turnover (IDRbn)	1,653	1,927	2,252
Reported net profit (IDRbn)	104	114	145
Recurring net profit (IDRbn)	104	114	145
Recurring net profit growth (%)	15.0	10.0	27.2
Recurring EPS (IDR)	43	48	61
DPS (IDR)	11	13	14
Dividend Yield (%)	1.6	1.8	2.0
Recurring P/E (x)	16.1	14.6	11.5
Return on average equity (%)	17.2	16.7	18.6
P/B (x)	2.6	2.3	2.0
P/CF (x)	6.4	13.0	10.2

Source: Company data, RHB

Balance Sheet (IDRbn)	Dec-19	Dec-20F	Dec-21F
Total current assets	483	600	698
Total assets	849	1,009	1,174
Total current liabilities	162	264	315
Total non-current liabilities	45	19	22
Total liabilities	207	283	337
Shareholder's equity	642	726	838
Minority interest	0	0	0
Other equity	-	-	-
Total liabilities & equity	849	1,009	1,174
Total debt	171	250	300
Net debt	138	172	210

Source: Company data, RHB

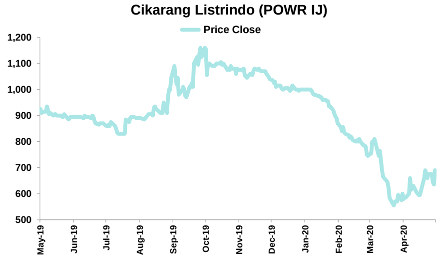
Cash Flow (IDRbn)	Dec-19	Dec-20F	Dec-21F
Cash flow from operations	109	54	68
Cash flow from investing activities	-104	-60	-77
Cash flow from financing activities	-15	51	20
Cash at beginning of period	43	33	78
Net change in cash	-10	45	11
Ending balance cash	33	78	90

Source: Company data, RHB

Cikarang Listrindo (POWR IJ)

Defensive: Strong Cash Flows, Dividends

Target:	**N/A**
Price:	**IDR690**



Source: Bloomberg

Stock Profile

Bloomberg Ticker	POWR IJ
Avg Turnover (IDR/USD)	1,334m/0.09m
Net Gearing (%)	56.6
Market Cap (IDR)	11,100bn
Beta (x)	0.72
BVPS (IDR)	578
52-wk Price low/high (IDR)	530 – 1,195
Free float (%)	14.8

Major Shareholders (%)

Udinda Wahanatama	30.5
Brasali Industri Pratama	26.6
Pentakencana Pakarperdana	26.6

Share Performance (%)

	1m	3m	6m	12m
Absolute	15.0	(20.7)	(35.8)	(25.4)
Relative	11.1	(0.1)	(11.5)	1.5

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Investment Merits

- Long track record in Indonesia's power industry
- Strategic locations with the largest number of industrial estate clients in the country
- High dividends with proven ratings for its financial ability

Company Profile

Cikarang Listrindo is an independent power producer (IPP) that provides energy to industrial and residential customers in Cikarang, Eastern Jakarta. The company operates three power plants and a transmission line network. The first plant – a 755MW facility – went commercial operation date (COD) during 1998-2012. The second – a 109MW gas-fired plant – went COD in 2015. The third – a 2x140MW coal-fired facility – went COD in 2017. POWR was established in 1993 and publicly listed in 2016, raising USD272m in funds. Its capacity has grown 1,737% over the past 24 years – a CAGR of 12.5%. POWR serves Indonesia's five biggest industrial estates, which collectively contribute c.10% of the country's total industrial GDP.

Highlights

Long track record in Indonesia's power industry. About 2,446 customers are served by POWR, of which 68% have been with the company for over 10 years. Its customers are largely in diversified businesses: Automotive (32%), electronics (19%), plastics (14%), food (7%), chemicals (5%), and others (23%). From a client-based view, about 74% of POWR's capacity is channelled for industrial estate usage, while the c.26% balance is bought by state-owned electricity company Perusahaan Listrik Negara (PLN).

Tariffs indexed to the USD and a pass-through mechanism for fuel price fluctuations: USD0.135 per kWh for industrial estates (+22% for the past seven years). By comparison, PLN's is USD0.081 per kWh (+11%). POWR's industrial estate customers and energised capacity have expanded at CAGRs of 3.1% and 3.3% during FY14-9M19 and achieved a breaking high capacity of 3bn kWh for industrial estates during FY18. Historically, POWR's sold electricity has grown positively over the past five years at a CAGR of +2.3%. This was despite a slight contraction in Indonesia's Manufacturing Purchasing Managers Index during FY17 (49.4).

Strategic locations with the country's largest number of industrial estate clients. The Government plans to integrate all industrial estates in the West Java Regencies – ie Bekasi, Karawang, and Purwakarta or BEKAPUR – into a National Strategic Area under Industrial Revolution 4.0. Interestingly enough, BEKAPUR is where POWR's power plants are located. As the dominant electricity contributor in Bekasi, the company should benefit from this, in our view, along with surrounding infrastructure projects that are currently in progress. These include the Jakarta-Bandung High-Speed Rail, Jabodebek Light Rail Transit, the Cikarang Bekasi Laut Canal, and more. Statistically, BEKAPUR represents c.14% of the country's industrial GDP, 23 industrial estates, a workforce of 1.6m, and 6,465ha of land in total.

Lucrative dividend. Based on Street's estimates, POWR's 2020 dividend yield is estimated at c.15%. During FY16-18, the company paid out around 60-90% of its net earnings as dividends. This translates into yields of 9.3-11%, relatively higher than its regional peers' c.3.5%.

Profit & Loss	Dec-17	Dec-18	Sep-19
Total turnover (USDm)	566	574	440
Reported net profit (USDm)	107	79	79
Recurring net profit (USDm)	107	79	79
Recurring net profit grow th (%)	3.4	(26.5)	30.1
Recurring EPS (IDR)	91	71	70
DPS (IDR)	60	70	42
Dividend Yield (%)	8.7	10.2	6.1
Recurring P/E (x)	7.6	9.8	9.9
Return on average equity (%)	16.8	12.3	12.0
P/B (x)	1.3	1.2	1.2
P/CF (x)	6.5	7.8	6.2

Source: Company data, RHB

Company Report Card

Latest results. POWR booked a positive 9M19 net profit of USD79m (+30.1% YoY), while topline increased to USD440m (+3.2% YoY) during this period. Despite heavier COGS and opex of USD279m (+2.9% YoY) and USD44m (+11.6% YoY), the company still managed to improve NPM to 18% (9M18: 14%). A 9M19 GPM improvement to 38% (9M18: 36%) defended its lower profits.

Balance sheet/cash flow position. As at 9M19, POWR's net gearing ratio stood at 0.57x (9M18: 0.51x), with positive cash flows from operations of USD111m. The company has received positive/stable outlooks – Standard & Poor's and Moody's BB+ and Ba2 – on its USD550m senior notes due in Sep 2026. POWR is also included in the Top 10 private sector companies list in Indonesia that received positive ratings from both rating agencies.

Dividend. POWR has been paying 60-90% of its net earnings as dividends during FY16-18, which translates into yields of 7.2-11%. This is relatively higher than its regional peers' c.3.5%.

ROE improved to 14.9% in 3Q19, slightly higher than 3Q18's 13.9%.

Management. President Director Andrew K Labbaika has been with the management team for c.24 years through POWR's parent Udinda Wahanatama. Labbaika has a strong background in finance. The management team also has a proven track record in managing one of the country's longest-operating IPPs.

Balance Sheet (USDm)	Dec-17	Dec-18	Sep-19
Total current assets	308	348	366
Total assets	1,323	1,309	1,319
Total current liabilities	77	63	54
Total non-current liabilities	606	605	609
Total liabilities	683	669	664
Shareholder's equity	640	640	655
Minority interest	-	-	-
Other equity	0	(0)	(0)
Total liabilities & equity	1,323	1,309	1,319
Total debt	538	539	540
Net debt	388	382	371

Source: Company data, RHB

Cash Flow (USDm)	Dec-17	Dec-18	Sep-19
Cash flow from operations	106	89	111
Cash flow from investing activitie	(110)	(3)	(39)
Cash flow from financing activitie	(67)	(81)	(60)
Cash at beginning of period	222	150	156
Net change in cash	(72)	5	12
Ending balance cash	150	156	169

Source: Company data, RHB

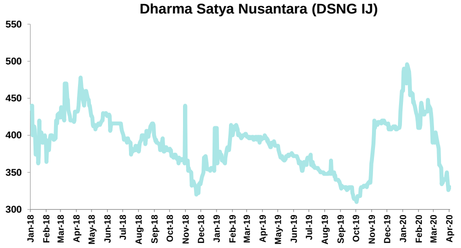
Investment Case

Relatively cheap with quality returns. We believe POWR's fair value ranges between IDR1,000 and IDR1,300. Based on Street's estimates, our fair value implies to 8-10x FY20F P/E, at around -2SD to -1SD from its mean average rolling forward P/E. Consensus estimates that POWR's FY20F-21F earnings are expected to grow 5.9% and 5.6% YoY, with ROE at c.16% in FY20F-21F and dividend yields at c.15%. POWR is now trading at 4.5x, below -2SD from its 4-year average rolling forward.

Key risks. The COVID-19 pandemic is posing a challenge, in terms of the possibility of production halts, which might affect POWR's topline contributions from the industrial estate segment – an impact that has yet to come to fruition. Another risk is a slowdown in overall economic pace.

Dharma Satya Nusantara

Alternative Names for CPO planters



Source: Bloomberg

Stock Profile

Bloomberg Ticker	DSNG IJ
Avg Turnover (IDR/USD)	246.1m/0.02m
Net Gearing (%)	164.66beta
Market Cap (IDRm)	3,476.7bn
Beta (x)	0.469
BVPS (IDR)	2.01
52-wk Price low/high (IDR)	308-515
Free float (%)	29

Major Shareholders (%)

Triputra Investindo	27.56
Krishna Kapital Inve	14.63
Tri Nur Cakrawala	7.44

Share Performance (%)

	1m	3m	6m	12m
Absolute	0.0	(20.0)	(9.4)	(15.0)
Relative	(3.9)	0.6	14.9	11.9

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Investment Merits

- Good volume growth on the back of plantation age and landbank size
- Double digit FFB growth for the next few years;
- High yield per Hectare;

Company Profile

DSN is a company that engages in upstream palm oil industry and wood products, in which the palm oil business contributes 70% of the total revenue. As of the end of 2019 the company has total 112,450 ha of planted area and 10 palm kernel oil mills with 570 tons/hour capacity. Moreover, the company has PKO production capacity of 200tons/day. Most of the plantation located in East Kutai – East Kalimantan, 50,000 ha of contiguous planted area.

Highlights

Plantation Area. The company has 108,400ha planted area; 24,000ha plasma estates, and 96,100ha of mature area. 60,000ha located in East Kalimantan are contiguous area. With the average of its trees age of 9.3 years as of FY18 and with 88% of their planted area are young mature area, it is expected for the company to have and increase in the production.

CPO Yield. DSNG has one of the highest CPO yield ton per ha compare to its Indonesian and regional peers. As of FY19, the company produced around 6.0 ton CPO per ha much higher than average Indonesia around 5 tons of CPO per ha.

DSN also produces panel and wood floor. Beside CPO, the company also produces panel, engineered floors for export market around the world.

Company Report Card

Latest Results. In FY19 the company reported a decrease net profit by -60% YoY, with only 2.9% net profit margin. FFB production increased by 29.6% YoY. CPO sales increased by 53.2%, but ASP decreased by -16.1% YoY.

Balance Sheet performance. The company net debt stayed at 1.6x in FY19. The company cashflow performance increased to ID199bn from only -IDR136bn in FY19. The large decrease is due to lower proceeds from long term loans.

Plantation. DSNG has relatively young age with 9,3 years as the average in FY18. While mature area of 96,100ha, their FFB increased at 29.6% in 9M19 YoY. At such an early age production is expected to increase in the future. Compared to bigger plantation companies such as

Astra Agro Lestari and London Sumatera, where their plantation age is 14 and 15.9 year of age.

Management. The biggest shareholder of DSN are PT Tripurta Investindo Arya (27.56%), PT Khrisna Kapital Investama (14.63%), and PT Tri Nur Cakarawala. The founding families ownership the Oetomo family holding (10.86%) and T.P. Rachmat family (31.02%) while the rest is lower. There is no perceived negative image on both BOD and BOC as both shareholders are well known investors in Indonesia which also used to be board of Astra group. The Company also comply to both RSPO and ISPO certification for its CPO production. The Company's wood product also comply with international environmental standards to ensure that all logs and sawn timber purchased are sourced from sustainable forest resources.

Investment Case

Alternative for plantation company in Indonesia. We believe that DSNG has position as an alternative universe for CPO planters in Indonesia. With relatively younger age profile compare to a well-known company, DSNG has also wood product that can shine during the decline in CPO price. In terms of EV/Ha, DSNG EV/Ha stood around USD2,700 – USD3.000 per ha much cheaper that its replacement cost of around USD6,000 – USD7,000 per ha.

Attractive P/B valuation. We don't have any rating for DSNG, but currently DSNG trades at 0.97x of its book value. When the CPO price rally, it will benefit from higher commodity price and rising volume

Key risks. Labour shortages, weather extremities and factors affecting CPO prices would be the key risks affecting DSNG.

Profit & Loss	Dec-17	Dec-18	Dec-19
Total turnover (IDRbn)	5,160	4,762	5,737
Reported net profit (IDRbn)	576	421	180
Recurring net profit (IDRbn)	576	421	180
Recurring net profit growth (%)	128%	-27%	-57%
Recurring EPS (IDR)	16	12	5
DPS (IDR)	1	3	3
Dividend Yield (%)	0.46	0.91	0.911
Recurring P/E (x)	20	27	64
Return on average equity (%)	19%	12%	5%
P/B (x)	0.45	3.14	3.08
P/CF (x)	0.30	1.10	0.56

Source: Company data, RHB

Balance Sheet (IDRbn)	Dec-17	Dec-18	Dec-19
Total current assets	1,838	2,398	1,933
Total assets	8,452	11,739	11,621
Total current liabilities	1,725	2,321	2,362
Total non-current liabilities	3,413	5,759	5,528
Total liabilities	5,138	8,080	7,889
Shareholder's equity	3,316	3,683	3,612
Minority interest	80	88	85
Other equity	- 2	6	14
Total liabilities & equity	8,452	11,739	11,621
Total debt	4,038	6,444	6,270
Net debt	3,657	5,920	6,025

Source: Company data, RHB

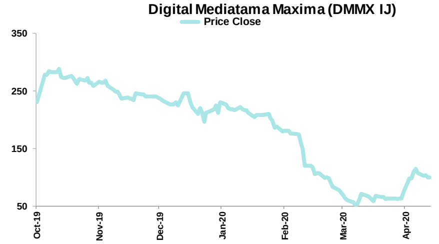
Cash Flow (IDRbn)	Dec-17	Dec-18	Dec-19
Cash flow from operations	1,095	298	587
Cash flow from investing activitie:	- 709	- 1,385	- 740
Cash flow from financing activitie	- 261	1,261	- 201
Cash at beginning of period	157	282	456
Net change in cash	125	174	- 354
Ending balance cash	282	456	102

Source: Company data, RHB

Target: N/A
Price: IDR100

Digital Mediatama Maxima

End-to-End Digital Media Enabler



Source: Bloomberg

Stock Profile

Bloomberg Ticker	DMMX IJ
Avg Turnover (IDR/USD)	2,062.2m/0.14m
Net Gearing (%)	nc
Market Cap (IDRbn)	769m
Beta (x)	2.1
BVPS (IDR)	13
52-wk Price low/high (IDR)	50-340
Free float (%)	36

Major Shareholders (%)

PT Jaya Distribusi Ritel	26.00
PT NCF Indonesia	21.95
PT Kresna Jubiteum	16.39

Share Performance (%)

	1m	3m	6m	12m
Absolute	61.3	(52.8)	(63.2)	N/A
Relative	57.4	(32.2)	(39.0)	N/A

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Investment Merits

- Fast-growing number of screens in managed service (MS) and infrastructure as a service (IAAS).
- Still vast potential in existing and potential client channels.
- Partnership with Sampoerna Retail Community (SRC) for trade marketing business.

Company Profile

Digital Mediatama Maxima is a digital trade marketing and cloud advertising exchange platform providing end-to-end services from content management and programmatic advertising to sales acquisition programmes. The company has four core business lines – two recurring segments (managed service and infrastructure as a service) and two non-recurring segments (advertising exchange hub and trade marketing). The company currently manages 8,800 screens for its clients, which consist of retailers, fast food chains, and banks.

Highlights

End-to-end service. DMMX's services include the sale/rental of screens, along with its own cloud content management and maintenance services attuned to real time changes for specific messages and promotions. The company also provides an advertising marketplace, especially for underutilised spots in its screen infrastructure. The advertisers pay the advertising rates (IDR250k/slot/month) under a revenue sharing agreement of 30% for DMMX and 70% for the MS/IAAS customers, providing additional fee income for its customers.

Fast-growing number of screens. As of January 2020, the company operates 8,800 screens, more than double than the 4,105 screens operated in 2018. DMMX targets to operate 23-25k screens in 2020F, which will be driven by deployment of managed screens in minimarts, fast food chains, and several new clients. The company's massive growth started in 2018, when its advertising points grew six-fold.

Backed by strong clients with vast potential in untapped channels. DMMX's customer base ranges from minimarts and fast food restaurants to fashion retailers, all of which have massive distribution footprints throughout Indonesia. For instance, its managed service segment clients, which include Circle K, Indomaret, Alfamart (AMRT IJ, BUY, TP: IDR1,100), and Lawson, have over 47k stores. DMMX's 8k screens installed have only captured a mere 17% of its potential. The same goes for its infrastructure as a service segment, which has only captured 3% of the total number of stores from its clients.

Partnership with Sampoerna Retail Community in new business segment. DMMX launched its trade marketing segment in partnership with Sampoerna Retail Community (SRC). The segment offers business-to-business advertising programmes through a mobile application, aimed at general trade store owners. The company now covers 52k stores, with a potential 3m *warung* that partner with SRC.

Company Report Card

Latest results. DMMX has not reported its FY19 results after its IPO in Oct 2019. As of 4M19 (latest available data in its prospectus), the company booked IDR33.2bn in revenue, a massive growth of 280% YoY. This resulted in earnings of IDR4bn (+96% YoY).

Dividend. The company has not disbursed dividends yet.

Management. DMMX is owned by Jaya Distribusi Ritel (26%), NFC Indonesia (22%), and Kresna Jubiteum (16%), which are all experienced in digital retail engagement.

Investment Case

Valuation and downside risks. The company now trades at an undemanding 7x 2020F PE – especially low after the market sell-off, considering its huge growth potential. Looking at its nearest peer in the digital out-of-home (DOOH) media sector, which trades at 15-16x PE, DMMX should trade at IDR150-160/share. Downside risks to our call: execution risk in expansion plans, technology risk from the duplication of its business model, and concentration risk from its customers.

Profit & Loss	Dec-17	Dec-18	Apr-19
Total turnover (IDRbn)	16.3	58.6	33.2
Reported net profit (IDRbn)	0.4	7.6	4.6
Recurring net profit (IDRbn)	0.0	0.0	0.0
Recurring net profit growth (%)	-1.0	16.4	-0.4
Recurring EPS (IDR)	0.3	5.8	3.5
DPS (IDR)	0.8	0.8	0.8
Dividend Yield (%)	0.8	0.8	0.8
Recurring P/E (x)	301.9	17.4	28.7
Return on average equity (%)	23.8	59.1	2.2
P/B (x)	0.01	0.01	0.01
P/CF (x)	532.7	-9.3	-

Source: Company data, RHB

Balance Sheet (IDRbn)	Dec-17	Dec-18	Apr-19
Total current assets	33.1	8.1	8.4
Total assets	8.2	33.5	73.6
Total current liabilities	4.4	9.0	9.6
Total non-current liabilities	1.3	0.6	0.0
Total liabilities	5.8	9.6	9.7
Shareholder's equity	1.3	23.1	63.8
Minority interest	0.4	0.3	0.0
Other equity	0.8	0.5	0.0
Total liabilities & equity	0.0	0.0	0.1
Total debt	4.2	4.8	7.0
Net debt	nc	nc	-2.9

Source: Company data, RHB

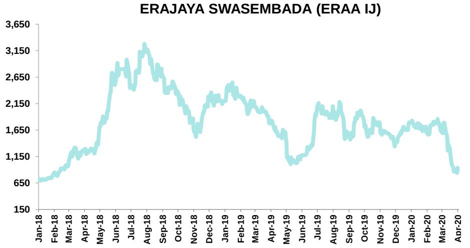
Cash Flow (IDRbn)	Dec-17	Dec-18	Apr-19
Cash flow from operations	0.2	-10.8	-39.0
Cash flow from investing activities	-0.1	-0.4	-1.4
Cash flow from financing activities	-1.8	13.1	37.4
Cash at beginning of period	6.1	0.0	0.0
Net change in cash	-0.0	0.0	-0.4
Ending balance cash	0.0	0.0	-0.0

Source: Company data, RHB

Erajaya Swasembada (ERAA IJ)

Target:	IDR1,450
Price:	IDR1,260

China Smartphones Back Strong Sales Volumes Growth



Source: Bloomberg

Stock Profile

Bloomberg Ticker	ERAA IJ
Avg Turnover (IDR/USD)	29.0bn/1.95m
Net Gearing (%)	42.8
Market Cap (IDRbn)	4,019
Beta (x)	1.8
BVPS (IDR)	1,512
52-wk Price low/high (IDR)	805-2,260
Free float (%)	45

Major Shareholders (%)

Eralink International PT	54.5

Share Performance (%)

	1m	3m	6m	12m
Absolute	34.8	(20.8)	(28.4)	(13.1)
Relative	30.8	(0.2)	(4.1)	13.8

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Investment Merits

- IMEI block regulation by Apr 2020 should drive sales volume growth by more than 20% YoY in 2H20.
- Improved supply chain by Xiaomi should result in less delay of new product launches vs global launches.
- Aggressive retail expansion – supporting sales and margins.

Company Profile

Established in 1996, Erajaya Swasembada is Indonesia's leading smartphone retailer with a 35% market share. Erajaya has more than 1,000 stores (60 megastores and 85 distribution depots), supplying to more than 52,000 dealers and general trade retailers. Cellular phones and tablets contribute 77% to Erajaya's sales, followed by e-vouchers (12.4%), accessories (6.4%), and others (3.7%). As the sole official distributor of Xiaomi products, Erajaya has been enjoying strong sales growth of Xiaomi, which now contributes 40% of ERAA's cellular phones sales.

Highlights

Government to block illegal phone industry. The new cabinet has shown some significant progress in materialising the new IMEI control regulation, which is scheduled to be effective 18 Apr 2020. Several tests run with nationwide operators have been established. ERAA's challenges include illegal smartphones being 10-15% cheaper than official products as well as official product launch in Indonesia delayed 1-2 months after the global launch. As a result, black market (illegal) phones account for c.20% of the nation's smartphone industry. These are mostly Apple and Xiaomi products, as their distribution management and global pricing policies are not as strict as Samsung.

Two years smartphone cycle – 2020 Xiaomi sales boost. As at end-2017, ERAA obtained an import license to distribute Xiaomi 4G phones in Indonesia, which resulted in a sales spike in 2018 (revenue growth: 43.4% YoY). Based on the leading global research survey, average consumers will change/upgrade their phones for every 24 months. Hence, we believe there could be an increase in demand this year as Xioami buyers in 2018 may start to upgrade their phones.

Improving supply chain from Xioami. Aside from black market phones sold cheaper (usually 10-15%), Xiaomi's poor supply chain infrastructure in 2019 resulted in delayed official phone launches and very limited supply of new/popular phones. This further triggered a higher demand of illegal phones in the country. However, since Xiaomi's presence in Indonesia was still at an early stage then, 2019 was the adjustment period for it to improve its assembly lines with local assembler. 2020 supply management should be better and improve Xiamoi's domestic sales.

Company Report Card

Latest Results. 4Q19 NPAT was up to IDR129bn (+129.5% QoQ, -39.4% YoY) bringing 12M19 NPAT to IDR295bn (-65% YoY). 4Q19 revenue grew to IDR9.4trn (+14% QoQ, -0.8% YoY) while 12M19 revenue rose to IDR32.9trn (-5.2% YoY).

Balance sheet/cash flow. ERAA has managed to reduce its debt in 12M19 to IDR2.7trn (-36.9% YoY). Hence, interest expenses in 12M19 has declined to IDR326bn (-6.6% YoY), accounting for 64% of EBIT. The cash conversion cycle has dropped to 39 days in 12M19 (12M18: 61 days). FCF was IDR2.1trn due to lower inventories and payables. As at 12M19, ERAA had IDR3.7trn inventory.

ROE. 12M19 ROE fell to 6.1% due high interest expense which reduced its earnings.

Dividend. Dividend payout ratio stood at 25%. This should translate to expected dividend yield of 2% for 2020F at current price.

Management. Erajaya's president director is Budiarto Halim, who has served since Jun 2011 while vice president director is Hasan Aula, who has served since May 2012. He has over 12 years' experience as its country manager, executive advisor and was the director of Nokia Mobile Phone Indonesia.

Investment Case

Valuation

We derive our 12-month FV of IDR1,450 on a 10-year DCF with assumption of 12.3% WACC and 2% of terminal growth. This implies 13.3x 2020F P/E. The stock is currently trading at 11.4x 2020F P/E.

Downside risks:

i. Weak demand due to economic slowdown. As smartphone is discretionary spending, we expect sales volume to decline due to weak purchasing power. Potentially muted economic growth due to partial lockdowns may lower sales demand, too.

Profit & Loss	Dec-19	Dec-20F	Dec-21F
Total turnover (IDRbn)	32,945	32,381	38,128
Reported net profit (IDRbn)	295	352	740
Recurring net profit (IDRbn)	113	137	491
Recurring net profit growth (%)	-84	22	258
Recurring EPS (IDR)	35	43	154
DPS (IDR)	50	23	28
Dividend Yield (%)	4.0	1.8	2.2
Recurring P/E (x)	35.6	29.3	8.2
Return on average equity (%)	6.1	6.9	12.9
P/B (x)	0.8	0.8	0.7
P/CF (x)	1.8	9.9	43.4

Source: Company data, RHB

Balance Sheet (IDRbn)	Dec-19	Dec-20F	Dec-21F
Total current assets	6,945	7,165	8,066
Total assets	9,748	9,840	11,062
Total current liabilities	4,616	4,425	4,949
Total non-current liabilities	153	151	178
Total liabilities	4,769	4,575	5,126
Shareholder's equity	4,822	5,100	5,754
Minority interest	157	165	182
Other equity	-	-	-
Total liabilities & equity	9,591	9,675	10,880
Total debt	2,703	2,500	2,600
Net debt	2,132	1,801	2,218

Source: Company data, RHB

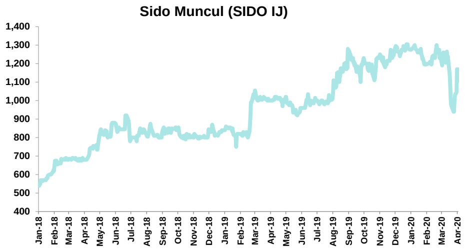
Cash Flow (IDRbn)	Dec-19	Dec-20F	Dec-21F
Cash flow from operations	2,272	405	93
Cash flow from investing activities	-287	-5	-468
Cash flow from financing activities	-1,686	-272	58
Cash at beginning of period	272	571	699
Net change in cash	299	128	-317
Ending balance cash	571	699	382

Source: Company data, RHB

Industri Jamu & Farmasi Sido Muncul (SIDO IJ)

Target: N/A
Price: IDR1,260

Leader In Herbal Medicine



Source: Bloomberg

Stock Profile

Bloomberg Ticker	SIDO IJ
Avg Turnover (IDR/USD)	6669.8m/0.45m
Net Gearing (%)	nc
Market Cap (IDRbn)	18,900
Beta (x)	0.8
BVPS (IDR)	206
52-wk Price low/high (IDR)	900 - 1420
Free float (%)	19.0

Major Shareholders (%)

Pt Hotel Candi Baru	81.0
Schroder Investment	2.8
Norges Bank	1.9

Share Performance (%)

	1m	3m	6m	12m
Absolute	7.7	5.4	2.4	23.5
Relative	3.8	26.0	26.7	50.5

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Investment Merits

- Potential high sales growth to new export markets
- Low penetration in Indonesia's eastern portion
- Defensive in demand with high dividend yields

Company Profile

Established in 1951 by Rahmat Sulistio, Industri Jamu & Farmasi Sido Muncul's herbal medicines are considered legendary both locally and internationally. SIDO is now positioning itself as a modern herbal company, putting forward efforts in research, knowledge, and technology into the production process. Its products are categorised as: Herbal (67% of revenue), food & beverage (F&B – 29% of topline), and pharmacy (4% of revenue). SIDO currently exports its products mainly to the Philippines, Malaysia, and Nigeria. Its leading brand is called Tolak Angin.

Highlights

Potential high sales growth, as it is beginning to expand into the export market. In FY19, SIDO's exports thrived – sales contributions from this segment grew 5% (FY18: +3%). This year, it plans to increase market share in its top export countries: The Philippines, Malaysia, and Nigeria. It is also looking to tap into other South-East Asian countries like Vietnam and Myanmar, as well as Ghana in 2Q20. Tolak Angin in the Philippines just recorded a 23% market share and we expect to see further growth ahead. This is because SIDO just launched a new marketing campaign featuring Manny Pacquiao as brand ambassador. We have seen positive feedback from just the first two weeks of its debut. SIDO will introduce Tolak Angin to Malaysia this year by partnering with current distributor Delfi. All-in-all, this strategy should help the company achieve 6-7% export sales contributions to FY20 topline. This segment should be one of the key growth catalysts for SIDO over the medium term.

Maximising penetration in Indonesia's eastern portion. Market share in the eastern part of the country is relatively small: 20%. Hence, SIDO will look to increase its products availability while growing the productivity of its sales personnel, especially in East Java and Bali. This marketing strategy is also backed by the full utilisation of SIDO's new production facility, which is now at maximum capacity. By comparison, at end 2019, it was only 50-55% utilised. The company aims to reach 35-40% market penetration in the aforementioned areas. Meanwhile, for the western part of Indonesia, SIDO plans on maintaining its 80% market share by increasing new general trade channels by 30% while retaining modern trade at current levels.

Attractive dividend yield with resilient demand. For the past three years, SIDO paid out 77-82% of earnings as dividends. At a similar rate for FY20, this should translate into a dividend yield of nearly 4%.

Company Report Card

Latest results. 1Q20 earnings grew 10.9% YoY (+1% QoQ) to IDR232bn. This was supported by +0.2ppts QoQ (+2.8ppts YoY) increases in GPM due to higher volume growth and cheaper raw material prices. Note that, SIDO tax rate in 1Q20 is lower compared to FY19 at 22.9% (4Q19: 25.2%). Hence, net margin is recorded at 31.7% (+7.3ppt QoQ, +2.4ppt YoY). Going forward, management expects to maintain GPM at current levels. Meanwhile, 1Q20 revenue grew declined to IDR731bn (-22.2% QoQ, +2.4% YoY).

Balance sheet/cash flow. SIDO's maintain its strong cash position at IDR1trn in 1Q20. We are seeing that SIDO's capex is slowing down compared to 2019 and 2018. Previously, the company was in a heavy capex cycle due to its new production facility. Hence, in this year, it plans to allocate capex for facility maintenance only. SIDO is currently in a net cash position.

ROE. SIDO's annualized ROE in 2020 is recorded at 25.2%.

Dividend. It plans to maintain its high dividend payout ratio at 77-82%. Management said it will keep distributing dividends at this level.

Management. SIDO just appointed a new Sales Director, Darmadji Sidik, who has held a myriad of positions in the herbal industry. He previously worked at Orang Tua Group as the Managing Director of its logistics division. President Director David Hidayat, who was appointed to this post during the 2018 AGM, has served SIDO for more than 20 years.

Profit & Loss	Dec-18	Dec-19	Mar-20
Total turnover (IDRbn)	2,763	3,067	731
Reported net profit (IDRbn)	664	808	232
Recurring net profit (IDRbn)	651	803	226
Recurring net profit growth (%)	25	23	10
Recurring EPS (IDR)	43	54	55
DPS (IDR)	44	43	27
Dividend Yield (%)	3.5	3.4	2.1
Recurring P/E (x)	29.0	23.5	23.0
Return on average equity (%)	20.7	24.6	25.2
P/B (x)	6.5	6.1	5.7
P/CF (x)	1.4	1.5	1.5

Source: Company data, RHB

Balance Sheet (IDRbn)	Dec-18	Dec-19	Mar-20
Total current assets	1,544	1,716	1,924
Total assets	3,338	3,530	3,736
Total current liabilities	368	409	382
Total non-current liabilities	67	56	57
Total liabilities	435	465	440
Shareholder's equity	2,903	3,065	3,296
Minority interest	0	0	0
Other equity	-	-	-
Total liabilities & equity	3,338	3,530	3,736
Total debt	-	-	-
Net debt	nc	nc	nc

Source: Company data, RHB

Cash Flow (IDRbn)	Dec-18	Dec-19	Mar-20
Cash flow from operations	874	822	209
Cash flow from investing activities	- 326	- 104	- 27
Cash flow from financing activities	- 644	- 657	-
Cash at beginning of period	903	806	865
Net change in cash	- 97	59	182
Ending balance cash	806	865	1,045

Source: Company data, RHB

Investment Case

Valuation

At IDR1,260, SIDO currently trades at 21.3x 2020F P/E. Hence, its high ROE should justify the current valuation. We believe the company should be valued at 25-27x P/E, or in line with the regional average of consumer and pharmaceutical companies. Hence, this should translate into a share price at IDR1,475-1,600 or 17-27% upside from the current level.

Downside risks:

i. Slower consumer spending on discretionary items;

ii. Low market penetration;

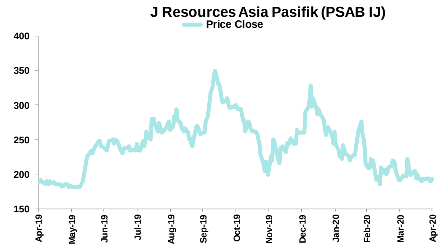
iii. Poor export penetration, as SIDO is faced with a competitor (KINO) with higher market share in the Philippines;

iv. Ban on export markets due to the COVID-19 pandemic.

J Resources Asia Pasifik

Target: N/A
Price: IDR193

Multiple Projects In The Pipeline



Source: Bloomberg

Stock Profile

Bloomberg Ticker	PSAB IJ
Avg Turnover (IDR/USD)	12.9bn/0.9m
Net Gearing (%)	Net Cash
Market Cap (IDRm)	5,874.1bn
Beta (x)	0.735
BVPS (IDR)	5.18
52-wk Price low/high (IDR)	170-360
Free float (%)	4.4

Major Shareholders (%)

Jimmy Budiarto	92.5
William Surnata	1.56
Budikwanto Kuesar	1.52

Share Performance (%)

	1m	3m	6m	12m
Absolute	-	(20.9)	(34.4)	2.1
Relative	(3.9)	(0.3)	(10.1)	29.1

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Investment Merits

- Beneficiary of surging gold prices as investors shift to safe haven;
- Multiple ongoing projects in the pipeline including increasing production from the Bakan block and exploration of the Doup block;
- JV with Merdeka Copper Gold for the Pani project to maximise reserves.

Company Profile

J Resources Asia Pasifik explores and produces gold. The company now owns four operating mines – Bakan block (North Sulawesi), Seruyung (North Kalimantan), Penjom (Pahang, Malaysia), North Lanut (North Sulawesi). The company's current biggest contributor is the Bakan block with production capacity of 4m tonnes/year. The block has total resource of 9.4m oz (0.54g/t Au) and 4.8m oz resources (0.73 g/t Au). The company also has two projects that are in the exploration phase, namely Bokangitang (North Sulawesi) and Bulangidun (Gorontalo, Sulawesi). Its development projects include the Doup block (North Sulawesi), which has a total resource of 3.3m oz of gold and reserve of 1.9m oz of gold and Pani project, in a JV with Merdeka Copper Gold (MDKA IJ, BUY, TP: IDR1,380).

Highlights

Riding on gold surge. Amidst uncertain times such as now, where equity indices are volatile, investors turn to gold as a safe haven asset. YTD gold prices have surged 11.5% to its peak at USD1,730/oz, and averaging at USD1,608/oz or +21% YoY compared to 1Q19. Gold prices should be driven by the continued purchase from global central banks, which we believe will rise in 1H20, given the risks of economic slowdown from COVID-19. Note, of the total USD188m (9M19) revenue generated, 100% came from gold and silver sales.

Expansion in progress. The company is currently planning to increase its gold resource in the Bakan block by 500,000 oz, adding to its 4.8m oz resource through further exploration, expected to start this year. Its Doup block is also expected to start operations by mid-2021 with an estimated gold production of 60,000-70,000oz, or c.35-40% of the company's total gold production in 2019. Management noted the combined resources of the two projects, along with other ongoing operations, will provide the company with gold production for the next 8-12 years.

Pani Project: JV with MDKA. In Nov 2019, PSAB entered into a JV with MDKA for the Pani project. Before the agreement, MDKA and PSAB had intended to develop separate projects for the Pani project. However, if this were to be done separately, reserves for both projects would have been constrained by the need to maintain pit walls between the two mines. By combining the project, the overall reserves are likely to be materially larger. PSAB owns 40% of the project through its wholly owned subsidiary – J Resources Nusantara.

Preliminary findings from the separate projects showed that MDKA's Pani IUP project contained mineral resources of 89.5m tonnes and gold grade of 0.82g/t for 2.37m oz of gold while PSAB had previously reported that the Pani Project contained mineral resources of 72.7m tonnes at a gold grade of 0.98g/t for 2.3m oz of gold. The combined resources have yet to be determined. PSAB expects the Pani project to be operational by 2023.

Company Report Card

Latest results. In 9M19, sales grew 22.6% YoY to USD188m, mainly from higher gold prices, as production only grew 1.2% YoY, keeping in mind that gold prices averaged at USD1,360 or +6% YoY from 9M18 average. This brought EBITDA to USD74m (+21.1% YoY), with margin kept stable at 40%. All in all, earnings were USD8.6m (+22.8% YoY).

Dividend. The company has not been distributing dividends recently.

Management. The company is majority owned by Jimmy Budiarto, which is also sitting as the president director of the company. He has been working in the mining industry since 2003. He was formerly the president director of J Resources Nusantara, and Bukit Makmur Nikeltama, prior to that.

Investment Case

Valuation, PSAB is currently trading at 7.8x EV/EBITDA. Looking at global gold player peer valuation of 9x EV/EBITDA, this counter should be trading at IDR270-290, especially with current gold prices. Note that the multiple valuation only takes into account PSAB's current operations, upside still lies from its development and exploration projects for future value.

Key risks. Downside risks to our call include weaker-than-expected gold prices, and production miss from execution or regulatory problems.

Profit & Loss	Dec-17	Dec-18	Sep-19
Total turnover (IDRbn)	223	219	189
Reported net profit (IDRbn)	145	15	9
Recurring net profit (IDRbn)	145	15	0
Recurring net profit growth (%)	-100%	-89%	-100%
Recurring EPS (IDR)	1	0	0
DPS (IDR)	-	-	-
Dividend Yield (%)	-	0	0
Recurring P/E (x)	na	na	na
Return on average equity (%)	47%	5%	0%
P/B (x)	1.2	1.2	1.0
P/CF (x)	17.0	4.8	3.7

Source: Company data, RHB

Balance Sheet (IDRbn)	Dec-17	Dec-18	Sep-19
Total current assets	149	121	171
Total assets	921	916	983
Total current liabilities	169	171	186
Total non-current liabilities	402	375	415
Total liabilities	571	546	600
Shareholder's equity	305	323	332
Minority interest	46	50	54
Other equity	- 1	- 3	- 3
Total liabilities & equity	1	1	1
Total debt	107	64	75
Net debt	nc	nc	nc

Source: Company data, RHB

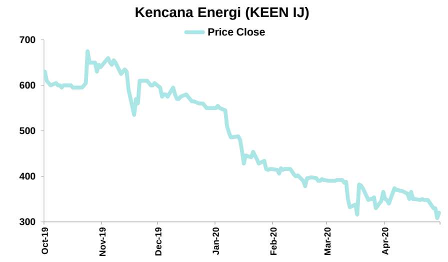
Cash Flow (IDRbn)	Dec-17	Dec-18	Sep-19
Cash flow from operations	48	111	111
Cash flow from investing activities	- 73	- 69	- 85
Cash flow from financing activities	43	- 58	16
Cash at beginning of period	13	32	15
Net change in cash	19	- 17	42
Ending balance cash	0	0	57

Source: Company data, RHB

Kencana Energi Lestari (KEEN IJ)

Hydropower Energy Specialist

Target: IDR780
Price: IDR320



Source: Bloomberg

Stock Profile

Bloomberg Ticker	KEEN IJ
Avg Turnover (IDR/USD)	559.4m/0.04m
Net Gearing (%)	26.4
Market Cap (IDR)	1,173bn
Beta (x)	0.25
BVPS (IDR)	634
52-wk Price low/high (IDR)	294 - 740
Free float (%)	20.4

Major Shareholders (%)

PT Paramata Indah Lestari (PIL)	30.3
Henry Maknawi	14.3

Share Performance (%)

	1m	3m	6m	12m
Absolute	(12.6)	(23.1)	(50.0)	N/A
Relative	(16.5)	(2.5)	(25.7)	N/A

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Investment Merits

- Renewable energy specialist in hydropower utilisation
- Potential projects from the Government's renewable energy push
- Stable cash flows
- Strong candidate for inclusion into the ESG Index

Company Profile

Kencana Energi Lestari was established in 2008 with the focus on building and operating renewable energy facilities in Indonesia. The company began construction its first hydropower plant in 2010 after obtaining a power purchase agreement with Perusahaan Listrik Negara (PLN) in 2009. KEEN currently owns and operates three hydropower plants with a total capacity of 49MW. Its medium-term plan is to have a renewables capacity total of 200MW. The company focuses on the run-of-the-river (RoR) hydroelectric system for all its plants – this system is deemed the safest method for the surrounding environment. KEEN acts as a holding entity for three operating subsidiaries: Energy Sakti Sentosa (ESS – in operation since Apr 2016: 18MW), Bangun Tirta Lestari (BTL – in operation since 3Q19: 21MW), and Nagata Dinamika Hidro Madong (NDHM – slated to begin operations in 1Q22: 16.5MW). Each unit constructs and operates an alternative energy power plant – entitled under a build-own-operate-transfer contract – and sells the electricity produced solely to state-owned electricity company PLN.

Highlights

Robust cash injection from a successful IPO. On 2 Sep 2019, KEEN succeeded in raising USD20.5m via its IPO. The proceeds will ensure that it has enough funding – for the expansion of its renewables portfolio and to finance working capital – to meet the Government's goal of having 23% of total energy produced locally from renewable sources. Around 55% of KEEN's total IPO proceeds will be used by the company to develop new renewable projects. Of the remaining balance, 25% is slated for working capital and 20% has been set aside for capex. KEEN plans use the 55% portion of the proceeds to expand its renewable energy projects portfolio.

Strong integration with parent – a secured potential contract. In Jun 2019, KEEN made an initial investor agreement with parent Paramata Indah Lestari (PIL), which owns a 28.4% stake in the company. The agreement allows KEEN to acquire shares in PIL's renewable projects with a minimum 70% stake. This agreement will secure its construction project revenue for the next 4-5 years. Near future projects are the Kalaena (75MW) and Salu Uro Hydroelectric Power Plants (PLTAs) (90MW), both in South Sulawesi. The other is PLTA Pakkat 2 (35MW) in North Sumatera.

It is worth noting that most of KEEN's projects are located in corners of the Indonesian archipelago that provide abundant potential for RoR type projects – Sumatera and Sulawesi account for 85% (3,840MW) of the national hydroelectricity potential.

Company Report Card

Latest results. KEEN booked a 9M19 net profit of USD3.9m (-36.7% YoY). Revenue during this period rose slightly to USD19m (+5.1% YoY), while 9M19 net margins decreased to 20.7% (9M18: 22.8%). Heavier COGS was contributed by higher concession project costs (9M19: USD8.6m, 74% YoY) from NHDM and BTL's progress during this period – accounting for 89% of total costs. This higher progression of costs is derived from the implementation of Interpretation of Statement of Financial Accounting Standards (ISAK) 16 and ISAK 22, where future revenue – along with expenses from ongoing project plants – are treated upfront. However, we expect contributions from electricity sales to grow going forward, given that BTL's Air Putih project (BTL) began electricity delivery in 3Q19 – only ESS had previously contributed to this segment.

Balance sheet/cash flow position. As at 9M19, KEEN's net gearing ratio stood at 0.27x (9M18: 0.36x). A negative on its free cash flow to firm eased slightly to -USD6.00 in 9M19 from -USD7.00 in 9M18.

Dividend. KEEN has not distributed any dividend yet, but is committed to setting aside c.40% of dividend payout for FY20F onward – this translates into a yield of c.4%.

Management. President Director Henry Maknawi is known as the founder and Executive Chairman of Kencana Agri since 1995. Eldest son Albert Maknawi has served as KEEN's President Commissioner since 2018. Henry's second son, Wilson Maknawi, now serves as KEEN's Vice President Director. Since 2012, Wilson has also been a Director with ESS and BTL.

Investment Case

P/BV 2020F of 1.3x – 12-month FV of IDR780. We believe the number of potential projects from the Government that KEEN can secure – as well as the possibility of an inclusion into the Environmental, Social, & Governance (ESG) Index in future – are reflected in our undemanding valuation of 1.3x P/BV to 2020F BV (market average of 2.3x, ie at a 57% discount). This translates into a 12-month FV of IDR780.

Key risks. KEEN is exposed to the changes in macroeconomic conditions if there is an economic downturn. It is also subject to risks when there are drastic changes in laws with regards to the company's field of business.

Profit & Loss	Dec-19F	Dec-20F	Dec-21F
Total turnover (USDm)	32.8	35.7	33.5
Reported net profit (USDm)	10.1	12.1	11.4
Recurring net profit (USDm)	10.1	12.1	11.4
Recurring net profit growth (%)	67.8	19.3	-5.3
Recurring EPS (IDR)	39.2	46.8	44.3
DPS (IDR)	0.0	14.0	13.3
Dividend Yield (%)	0.0	1.8	1.7
Recurring P/E (x)	8.2	6.8	7.2
Return on average equity (%)	6.9	7.8	7.0
P/B (x)	0.6	0.5	0.5
P/CF (x)	9.8	5.2	6.2

Source: Company data, RHB

Balance Sheet (USDm)	Dec-19F	Dec-20F	Dec-21F
Total current assets	29.5	24.3	20.6
Total assets	280.4	288.5	294.4
Total current liabilities	7.3	12.8	13.0
Total non-current liabilities	113.6	107.8	105.5
Total liabilities	121.0	120.6	118.5
Shareholder's equity	147.2	155.7	163.7
Minority interest	12.2	12.2	12.2
Other equity	0.0	0.0	0.0
Total liabilities & equity	280.4	288.5	294.4
Total debt	63.0	58.8	53.4
Net debt	42.6	43.4	43.2

Source: Company data, RHB

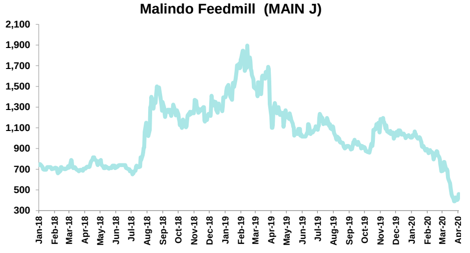
Cash Flow (USDm)	Dec-19F	Dec-20F	Dec-21F
Cash flow from operations	(5.8)	3.0	3.8
Cash flow from investing activitie	(0.2)	(0.2)	(0.2)
Cash flow from financing activitie	26.2	(7.8)	(8.8)
Cash at beginning of period	0.2	20.4	15.4
Net change in cash	20.3	(5.0)	(5.2)
Ending balance cash	20.4	15.4	10.3

Source: Company data, RHB

Malindo Feedmill (MAIN IJ)

Spring Chickens

Target: N/A
Price: IDR570



Source: Bloomberg

Stock Profile

Bloomberg Ticker	MAIN IJ
Avg Turnover (IDR/USD)	4.2bn/0.28m
Net Gearing (x)	78.05
Market Cap (IDRbn)	1,276
Beta (x)	1.7
BVPS (IDR)	906
52-wk Price low/high (IDR)	384-1,330
Free float (%)	43

Major Shareholders (%)

Dragon Amity Ltd	57.3

Share Performance (%)

	1m	3m	6m	12m
Absolute	40.4	(36.3)	(48.6)	(52.7)
Relative	36.5	(15.7)	(24.4)	(25.8)

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Investment Merits

- Highest DOC sales contributions – main beneficiary of the current undersupply situation in the DOC market
- Lowest broiler sales contributions – most immune to chicken price volatility
- Lowest penetration in the industry – suggests largest volume growth potential, given more aggressive expansion plans vis-à-vis the two leading poultry players

Company Profile

Established in 1997, Malindo Feedmill is Indonesia's third-largest fully-integrated poultry company with a c.4-6% market share behind market leader Charoen Pokphand Indonesia (CPIN) (31-41% share) and Japfa Comfeed Indonesia (JPFA) (22-25% share). MAIN's sponsor is Leong Hup Poultry Farm (LHPF), which is backed by the founding Lau family – as at 3Q19, this Malaysia-based firm produces animal feed (66% of sales), and breeds commercial day-old chicks (DOCs) (20%) and broilers (12%). LHPF has a c.4% market share for feed and 8% for DOC in Malaysia. MAIN also runs a processed food business (2% of total sales) under its Sunnygold and Ciki Wiki brands.

Highlights

Stable DOC prices – MAIN has the highest DOC sales contributions. The Government has been proactive in regulating chicken supplies over the past 12 months, which efficiently maintains DOC supply and demand at equilibrium. Thanks to several culling instructions, chicken prices have been stable despite an oversupply condition amidst weak economic growth since 4Q19. MAIN has the highest DOC sales contributions (20%) vs CPIN and JPFA's 12-13%. This is because the latter two have large contributions from the broiler segment, which has thin margins and high earnings volatility. Culling has also translated into high profitability for the DOC segment, benefiting MAIN the most. Note that, due to COVID-19 outbreak, currently DOC prices down to IDR4,200.

Strong volume growth – higher market penetration. Among the three largest poultry companies, MAIN is the latest to enter the domestic market. With just four feed mill plants in operation, the company has the highest growth potential in penetrating new markets. As such, MAIN recorded the highest sales growth in 9M19: +22% YoY vs 15% and 12% YoY for CPIN and JPFA. The company plans to open one new feed mill plant in 2021, which should further support sales volume growth. MAIN has a current feed capacity of 1.5m tonnes with 60-70% utilisation.

Lowest broiler sales contribution – most immune to chicken price volatility. Note that the broiler segment is always the most volatile with the lowest margins vis-à-vis the feed and DOC segments. Poultry companies treat this segment as a necessity in attracting farmers to purchase feed and DOC. MAIN has the smallest contribution from this segment and, hence, should be the most immune to high volatility in broiler prices. Such prices have dropped 33% YTD (Dec 2019 to end-Apr) to IDR12,000/kg due to COVID-19 outbreak.

Company Report Card

Latest results. MAIN booked 3Q19 net profit of IDR49bn (-6.7% QoQ, -27% YoY), bringing 9M19 earnings to IDR195bn (-12.3% YoY). This is also reflected by slower growth in 3Q19 topline sales at IDR212bn (-6.7% QoQ, +1.8% YoY), which translates into 9M19 revenue of IDR5.7trn (+17% YoY).

Balance sheet/cash flow. MAIN recorded a 9M19 net gearing at 0.94x (+7.6ppts QoQ, +8.2ppts YoY). Hence, its interest-bearing liabilities stood at IDR2.1trn as of 9M19.

ROE. The company's ROE in 9M19 was 9.3%.

Dividend. MAIN's historical dividend payout ratio: 15-30% of net income. Hence, in Jul 2019, it distributed IDR22 per share, translating into IDR49.3bn in dividend payments, or a 17% dividend payout ratio.

Management. MAIN's President Director is Tan Sri Lau Tuang Nguang, a Malaysian citizen with more than 35 years of experience in the livestock industry. Tan Sri Lau also serves as a Non-Independent Executive Director and Group CEO. In the latter post, he oversees the entire business operations of the group, covering Malaysia, Singapore, Indonesia, Vietnam, and the Philippines. He is also a member of the Lau family, MAIN's major shareholder. Tan Sri Lau is known in his home country as the quintessential "Chicken King".

Investment Case

Based on Street estimates, MAIN currently trades at 5.4x FY20F P/E. This should translate into -1.4SD below its historical mean. If the company is valued at -1SD or mean, MAIN ought to be valued at IDR740-1,200 per share – 29%-96% upside from current price levels.

There are a couple of downside risks to take note of. Firstly, while Indonesia is an underpenetrated market with ample growth opportunity when it comes poultry meat consumption – given that it has the largest Muslim population in the world – it also has one of the lowest poultry meat consumption per capita on Earth, at 10.1kg. By comparison, Malaysia and Thailand consume 47.5kg and 16kg per capita.

Secondly – stable corn prices, given the slightly higher domestic corn supply outlook. The recent corn price surge from 4Q18 to early 1Q19 has dampened poultry companies' consolidated EBIT margins. Our ground checks suggest that feed ASP has been adjusted up 5-6% in reaction to corn price inflation. Going forward, we see feed EBIT margins stabilising, with a more stable corn supply outlook for the year.

Profit & Loss	Dec-17	Dec-18	Sep-19
Total turnover (IDRbn)	5,441	6,706	5,670
Reported net profit (IDRbn)	43	284	195
Recurring net profit (IDRbn)	na	202	143
Recurring net profit growth (%)	na	na	-12
Recurring EPS (IDR)	na	90	107
DPS (IDR)	38	16	22
Dividend Yield (%)	6.7	2.8	3.9
Recurring P/E (x)	na	6.3	5.3
Return on average equity (%)	1.1	6.8	4.2
P/B (x)	0.8	0.6	0.6
P/CF (x)	4.8	3.5	58.2

Source: Company data, RHB

Balance Sheet (IDRbn)	Dec-17	Dec-18	Sep-19
Total current assets	1,616	1,883	2,177
Total assets	4,009	4,336	4,765
Total current liabilities	1,866	1,150	1,731
Total non-current liabilities	506	1,194	903
Total liabilities	2,371	2,344	2,635
Shareholder's equity	1,639	1,898	2,045
Minority interest	1	2	2
Other equity	-	95	88
Total liabilities & equity	4,009	4,336	4,765
Total debt	1,846	1,701	2,013
Net debt	1,671	1,557	1,928

Source: Company data, RHB

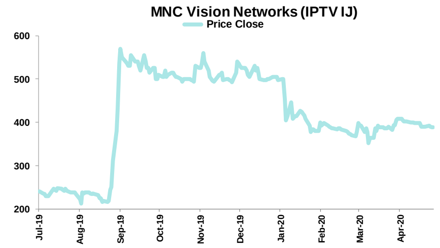
Cash Flow (IDRbn)	Dec-17	Dec-18	Sep-19
Cash flow from operations	266	368	22
Cash flow from investing activities	-335	-317	-337
Cash flow from financing activities	142	-15	196
Cash at beginning of period	-23	81	124
Net change in cash	103	44	-119
Ending balance cash	81	124	6

Source: Company data, RHB

MNC Vision Network

Consolidation In Process

Target: N/A
Price: IDR388



Source: Bloomberg

Stock Profile

Bloomberg Ticker	IPTV IJ
Avg Turnover (IDR/USD)	1,905.9m/0.13m
Net Gearing (%)	144.80
Market Cap (IDRm)	15,003.9bn
Beta (x)	0.9
BVPS (IDR)	152.9
52-wk Price low/high (IDR)	210-640
Free float (%)	15

Major Shareholders (%)

PT Global Mediacom	67.74
MNC Asset Management	7.37
PT MNC Media Investment	7.24

Share Performance (%)

	1m	3m	6m	12m
Absolute	(1.5)	2.1	(26.8)	N/A
Relative	(5.4)	22.7	(2.5)	N/A

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Investment Merits

- To acquire Link Net (LINK IJ, NR) to expand market share, synergise distribution network, and reduce costs
- Ramp-up of prepaid pay-TV business post acquisition of K-Vision
- Monetisation of 5G and LTE spectrum (150Mhz)

Company Profile

MNC Vision Network (MVN) provides broadband, internet protocol television (IPTV), and direct-to-home (DTH) pre-paid and post-paid pay-TV services. The company has also started to distribute android TV OTT boxes and operate its own OTT platform. The company has 1.5m home passes in broadband (third largest), 2.4m subscribers in post-paid pay-TV (90% market share), 2m subscribers in pre-paid pay-TV, and 300,000 IPTV subscribers.

Highlights

Synergising through Link Net acquisition. MVN has signed a term sheet to acquire 63.75% of Link Net from Asia Link Dewa and First Media (KBLV IJ, NR). The exercise is expected to be completed this year. According to the company, the indicative acquisition price is IDR5,400/share, implying 6.7x 2019 EBITDA. Payment will be made in two tranches – 38.25% upon closing, and 25.5% a year after closing. After the acquisition, MVN will possess c.3.7m home passes, putting the company in the no. 2 position in the segment.

K-Vision a hit! Post-acquisition of K-Vision (post-paid pay TV) in Aug 2019, customer acquisitions ramped up. This unit now has up to c.6,000 new subscribers per day. As the post-paid scheme is more suited to the mass market, K-Vision now has over 2m subscribers. The company monetises by selling decoders (previously leased) and top-up vouchers, as well as via advertising. Going forward, the company will focus more on the growth of its DTH business and pre-paid pay-TV segment in tier-2 and tier-3 cities, which should engender a broader reach in market share.

To cash in on its 5G and LTE investment. The company owns spectra for 5G and LTE which has not been monetised yet. While there are not many use cases for the 5G spectrum yet, the company should be able to cash in on its investment once this changes.

Partnership with ICON+. The company has also entered into an agreement with ICON+, a subsidiary of Perusahaan Listrik Negara (PLN). Under the partnership, ICON+ will roll out fibre-to-the-home (FTTH) networks throughout Indonesia, using PLN's transmission and distribution infrastructure. Meanwhile, MNC Play is given exclusive rights to use ICON+'s network to offer internet and IPTV services to up to 120,000 home passes per year.

Company Report Card

Latest results. MVN's FY19 revenue grew 9% YoY to IDR3.5trn. However, if we examine its 4Q19 numbers, revenue actually grew strongly by 21% YoY. This shows the contribution from K-Vision (post acquisition) in becoming the growth engine for the company. EBITDA increased by 14% YoY to IDR1.5trn, with margins slightly expanding to 44% (from 42% last year) as G&A expenses were controlled, ie down by 6%. This resulted in earnings of IDR326bn, vs a loss of IDR69bn last year – the majority of which were contributed in 3Q19-4Q19 (2H19 earnings: IDR302bn).

Dividend. The company has not distributed dividends yet, as its IPO exercise was done only last year.

Management. MVN's majority shareholder is Global Mediacom (BMTR IJ, NR) which is ultimately controlled by Hary Tanoesoedibjo, who controls a media conglomerate and is the former head of United Indonesia Party (political party known locally as Perindo).

Investment Case

Huge growth potential. The company has huge growth potential, especially if it goes through with the Link Net acquisition. Similar to its performance post-acquisition of K-Vision, the number of subscribers should ramp up along with revenue.

Valuation and downside risks. The stock currently trades at 10x EV/EBITDA. The global peer average is at 13x EV/EBITDA, at which the stock's fair value would be IDR450-470. Downside risks for this company include M&A risks and decelerating growth in pay-TV, and broadband penetration.

Profit & Loss	Dec-17	Dec-18	Dec-19
Total turnover (IDRbn)	3,141	3,227	3,526
Reported net profit (IDRbn)	- 128	- 47	312
Recurring net profit (IDRbn)	- 128	- 47	312
Recurring net profit growth (%)	-39%	-63%	565%
Recurring EPS (IDR)	- 7	- 3	17
DPS (IDR)	-	-	-
Dividend Yield (%)	0	0	0
Recurring P/E (x)	na	na	22
Return on average equity (%)	-1%	-1%	14%
P/B (x)	0.38	2.34	1.27
P/CF (x)	0.40	0.36	0.55

Source: Company data, RHB

Balance Sheet (IDRbn)	Dec-17	Dec-18	Sep-19
Total current assets	3,308	3,059	628
Total assets	10,463	9,132	4,535
Total current liabilities	1,761	4,037	1,513
Total non-current liabilities	3,515	2,073	200
Total liabilities	5,276	6,110	1,713
Shareholder's equity	9,574	7,573	2,238
Minority interest	294	40	0
Other equity	212	- 814	584
Total liabilities & equity	10,463	9,132	4,535
Total debt	464	695	42
Net debt	431	627	21

Source: Company data, RHB

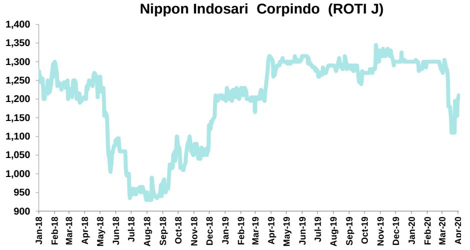
Cash Flow (IDRbn)	Dec-17	Dec-18	Sep-19
Cash flow from operations	969	1,070	707
Cash flow from investing activities	- 1,965	- 1,992	- 337
Cash flow from financing activities	981	930	- 418
Cash at beginning of period	81	66	75
Net change in cash	- 15	9	- 48
Ending balance cash	66	75	27

Source: Company data, RHB

Nippon Indosari (ROTI IJ)

Fresh From The Oven

Target: IDR1,600
Price: IDR1,205



Source: Bloomberg

Stock Profile

Bloomberg Ticker	ROTI IJ
Avg Turnover (IDR/USD)	5.1bn/0.34m
Net Gearing (%)	nc
Market Cap (IDR)	7,455bn
Beta (x)	0.8
BVPS (IDR)	553
52-wk Price low/high (IDR)	1,070-1,395
Free float (%)	33

Major Shareholders (%)

Indoritel Bonlight Pasco	55.1
KKR	18.0

Share Performance (%)

	1m	3m	6m	12m
Absolute	0.4	(7.3)	(9.4)	(7.3)
Relative	(3.5)	13.3	14.9	19.6

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Investment Merits

- One of Indonesia's fastest-growing fast-moving consumer goods operators with a topline growth target of 20%, mainly supported by sales volume growth due to higher market penetration.
- Lower logistics costs, as the company opens factories nearer to new regions.
- Low utilisation rate post aggressive expansion, which should provide strong earnings growth ahead with minimal capex requirements.

Company Profile

Nippon Indosari manufactures, sells, and distributes bread and is known as Indonesia's leading company in the mass-produced bread segment. ROTI's products include white and sweet breads, and cakes, which contribute 64%, 33%, and 3% of topline. It currently has 14 production plants (13 in Indonesia and one in the Philippines) with two upcoming plants in Banjarmasin and Pekanbaru, which began operations in 2H20. Post this expansion, ROTI will operate at a 50% utilisation rate (70% during peak hours). The company is owned by the controlling founding shareholders with a 55.1% stake and KKR with an 18% stake.

Highlights

Improving performance in the Philippines in 2020 to support earnings. ROTI's Philippines business booked a IDR76bn loss for FY19, equivalent to 23% of the group's full-year NPAT of IDR301bn. This was still much higher than 2018's IDR48bn and was because it held aggressive promotions in 4Q19 – in tandem with new product launches in the country. On the bright side, however, its sales return rate for 4Q19 improved to 13.3%, which was much better than its historical quarterly average of c.30%. Management targets to book a 16-17% return rate in 2020, which could support consolidated earnings by at least 15%.

20% sales growth to be fuelled by new plant openings. ROTI's new plants in Banjarmasin and Pekanbaru will commence operations in 2H20 and cater for demand in new distribution networks – this is to support sales growth. In addition, 2020 revenue should be positively impacted by full-year contributions from the two new plants, which have been open for business since mid-2019. Post the 2020 expansion plan, the company should have production capacity of 5.5m pieces per day, with an implied utilisation rate of 70% during peak hours. This should enable ROTI to have limited capex needs ahead, supporting bottomline over the next 1-2 years.

Urbanisation requires convenient consumption drive volume growth. The continuing urbanisation trend in Indonesia's major cities, coupled with a strong distribution network, means that ROTI is set to benefit for higher demand for packed bread – this is as consumers seek more convenient ways to eat amidst their busy schedules. Over the past five years, ROTI has been growing at a volume growth of CAGR of c.10%. The company still manages to control a market share of over 90% in the industrialised bread segment – hence, it should be the beneficiary of this current trend.

Company Report Card

Latest results. 1Q20 NPAT dropped 13% QoQ to IDR78bn (+20% YoY). The QoQ earnings decline in 1Q20 was largely due to elevated losses in the Philippines, as the Phillipine market has implemented lockdown in mid-Feb 2020. Topline during this quarter stood at IDR913bn (+4.4% QoQ, +15.3% YoY) due to 4% ASP hike that was implemented since late 3Q19. Hence, ROTI's blended sales returns improved to 13.1% in 1Q20 from 1Q19's 13.5% (Indonesia: 1Q20: 11%, 1Q19: 12.8%).

Balance sheet/cash flow. The company currently recording a 6.8% of net gearing. Management has stated that it will do a bond repayment of IDR500bn and take on a short-term bank loan.

ROE. ROTI recorded 10.2% of ROE as at FY19, given its strong earnings of +74.3% YoY.

Dividend. ROTI's dividend payout is usually at 25%. Nevertheless, this should translate into a 1% yield for 2020 at current prices.

Management. Wendy Yap is President Director and CEO, a company she co-founded in 1995. She also manages her family's businesses, which include natural resources, real estate, and food.

Investment Case

Valuation. We derive our 12-month FV of IDR1,600 on a 10-year DCF, with WACC of 9.3% and terminal growth rate of 3.5%. The stock is currently trading at 23.8x 2020F P/E.

Downside risks:

i. The Philippines market is currently loss-making, dragging down c.20% of NPAT. Delays in earnings recovery should continue to drag down ROTI's overall performance ahead. The company continues to aggressively undertake marketing promotions with launches and modern trade channel penetration;

ii. Rising depreciation costs – stemming from new plants and higher wheat prices. Newly built factories in Banjarmasin and Pekanbaru will burden ROTI's margins, as depreciation will increase. The new plants it previously built in 2019 have increased its depreciation by 13.3%. Additionally, wheat prices have started to rise since late 3Q19.

Profit & Loss	Dec-19	Dec-20F	Dec-21F
Total turnover (IDRbn)	3,337	3,459	3,884
Reported net profit (IDRbn)	301	315	375
Recurring net profit (IDRbn)	267	271	325
Recurring net profit growth (%)	88.6	1.6	19.9
Recurring EPS (IDR)	43	44	52
DPS (IDR)	10	12	13
Dividend Yield (%)	0.8	1.0	1.1
Recurring P/E (x)	28.1	27.6	23.1
Return on average equity (%)	9.8	9.5	10.4
P/B (x)	2.4	2.3	2.1
P/CF (x)	18.7	16.0	13.0

Source: Company data, RHB

Balance Sheet (IDRbn)	Dec-19	Dec-20F	Dec-21F
Total current assets	1,874	1,676	2,070
Total assets	4,682	4,695	5,172
Total current liabilities	1,107	1,054	1,172
Total non-current liabilities	483	287	322
Total liabilities	1,589	1,341	1,494
Shareholder's equity	3,069	3,309	3,605
Minority interest	23	46	72
Other equity	-	-	-
Total liabilities & equity	4,659	4,650	5,099
Total debt	52	500	550
Net debt	nc	nc	nc

Source: Company data, RHB

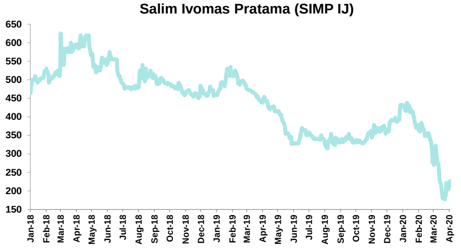
Cash Flow (IDRbn)	Dec-19	Dec-20F	Dec-21F
Cash flow from operations	400	468	577
Cash flow from investing activities	-425	-389	-269
Cash flow from financing activities	-84	-301	33
Cash at beginning of period	1,295	1,186	964
Net change in cash	-109	-222	-48
Ending balance cash	1,186	964	1,305

Source: Company data, RHB

Salim Ivomas Pratama (SIMP IJ)

Target: N/A
Price: IDR214

Integrated Plantations With Superb Distribution



Source: Bloomberg

Stock Profile

Bloomberg Ticker	SIMP IJ
Avg Turnover (IDR/USD)	1346.43m/0.09m
Net Gearing (%)	49.83
Market Cap (IDRm)	3,384.7bn
Beta (x)	1.406
BVPS (IDR)	0.65
52-wk Price low/high (IDR)	169-446
Free float (%)	21

Major Shareholders (%)

First Pacific Company	54.5
Dimensional Fund Adv	1.6
Norges Bank	1.1

Share Performance (%)

	1m	3m	6m	12m
Absolute	1.9	(41.8)	(39.2)	(48.3)
Relative	(2.0)	(21.2)	(14.9)	(21.4)

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Investment Merits

- Large planted area comprising more than 250,000ha of oil palm trees
- One of the market leaders in the cooking oil industry
- Integrated distribution channel with Indofood Group

Company Profile

Salim Ivomas Pratama cultivates oil palm, rubber, sugarcane, and cocoa at various plantations in Indonesia. It also produces edible oil and fats.

Highlights

SIMP is an integrated upstream company with large downstream capacity. It has more than 300,000ha of planted areas across Indonesia. 80% of this comprises oil palm plantations in North Sumatra, Riau, South Sumatra, and Kalimantan. The company also produces edible oils and fats for industrial use, as well as branded consumer products like Bimoli. The latter is one of the leading cooking oil brands in Indonesia. It is distributed through more than 300,000 distribution points, which are integrated with Indofood Group's network.

Harvesting Indonesia's untapped sugar market. Besides palm oil, SIMP also focuses on sugar cane. This is because the potential of the country's sugar business remains lucrative, given that Indonesia is a net importer of sugar. The company owns more than 13,000ha of sugar cane plantations in South Sumatra. With the country's rising population and young demographic, SIMP should continue to expand the size of its sugar cane plantations and capabilities, so as to refine more sugar to meet domestic needs.

Company Report Card

Latest results. In FY19 SIMP reported lower revenue, mainly due to lower ASPs of palm products. This was despite this being offset by higher sales volumes for PK, sugar, and edible oils and fats. The company's operating profit during this period stood at IDR639bn with EBITDA of IDR1.9trn. However, SIMP booked a IDR546bn loss, mainly due to higher opex and finance costs.

Dividends. With regards to normal profits, the company does not have dividend payout policy in place. However, in FY18, it did pay a 35% dividend payout to shareholders.

Management. The majority shareholder is Indofood Agri Resources, a subsidiary of Indofood Sukses Makmur – one of Indonesia's largest vertically integrated food companies. Indofood Agri Resources controls more than 70% of SIMP. All its board members have more than 20 years of experience in the plantation and downstream industries. The ultimate shareholder – Anthoni Salim – does not sit on the company's boards of commissioners or directors.

Investment Case

An undervalued company. We believe SIMP is an undervalued company, especially when you take into consideration its large planted area and downstream assets. If we exclude PP London Sumatra Indonesia's market cap from SIMP's EV, the company is valued at around USD4,500-5,000 per ha. This is much cheaper than the replacement cost of USD6,000-7,000 per ha – depending on where you replant the oil palms. Considering that SIMP also owns a branded consumer product, the downstream business should also provide additional value to its existing valuations.

Cheap P/BV valuation. With higher capital-intensive businesses like oil palm plantations and downstream units, SIMP currently trades at 0.4x P/BV, ie much cheaper than the industry. Similar businesses are trading at higher P/BV multiples of 0.6-0.7x.

Key risks. Labour shortages, weather extremes, and factors affecting CPO prices should be the key risks affecting SIMP. Additionally, consumer confidence risks might affect its branded consumer products division.

Profit & Loss	Dec-17	Dec-18	Dec-19
Total turnover (IDRbn)	15,827	14,190	13,650
Reported net profit (IDRbn)	648	-178	-642
Recurring net profit (IDRbn)	648	-178	-642
Recurring net profit growth (%)	-13%	-127%	261%
Recurring EPS (IDR)	42	-11	-41
DPS (IDR)	17	18	3
Dividend Yield (%)	8.09	8.51	1.58
Recurring P/E (x)	5	na	na
Return on average equity (%)	4%	-1%	-4%
P/B (x)	0.18	0.18	0.19
P/CF (x)	0.11	0.19	0.13

Source: Company data, RHB

Balance Sheet (IDRbn)	Dec-17	Dec-18	Dec-19
Total current assets	6,723	6,989	6,759
Total assets	33,859	34,667	34,911
Total current liabilities	6,188	7,791	8,807
Total non-current liabilities	9,144	8,588	8,807
Total liabilities	15,332	16,380	17,130
Shareholder's equity	14,901	14,801	14,325
Minority interest	3,562	3,423	3,296
Other equity	63	62	160
Total liabilities & equity	33,859	34,667	34,911
Total debt	10,247	11,255	11,647
Net debt	7,987	9,183	9,930

Source: Company data, RHB

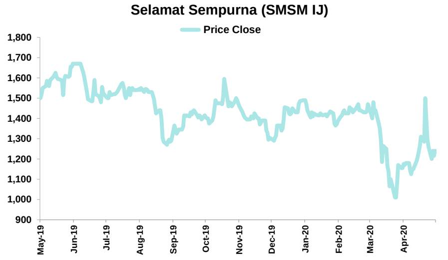
Cash Flow (IDRbn)	Dec-17	Dec-18	Dec-19
Cash flow from operations	1,985	1,155	1,677
Cash flow from investing activities	-1,863	-2,120	-2,514
Cash flow from financing activities	267	746	508
Cash at beginning of period	1,868	2,261	2,071
Net change in cash	393	-189	-355
Ending balance cash	2,261	2,071	1,717

Source: Company data, RHB

Target:	N/A
Price:	IDR1,240

Selamat Sempurna

Strong Cash Flow, Lucrative Dividends



Source: Bloomberg

Stock Profile

Bloomberg Ticker	SMSM IJ
Avg Turnover (IDR/USD)	3,606.2m/0.2m
Net Gearing (%)	nc
Market Cap (IDR)	7,141bn
Beta (x)	0.81
BVPS (IDR)	352
52-wk Price low/high (IDR)	990 – 1,715
Free float (%)	33.9

Major Shareholders (%)

PT Adrindo Intiperkasa	58.1
Grandeur Peak Global Advisors	3.4
First State Investments	2.6

Share Performance (%)

	1m	3m	6m	12m
Absolute	7.4	(10.5)	(15.9)	(17.3)
Relative	3.4	10.1	8.3	9.6

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Investment Merits

- Stellar profitability, defensive amidst weakness in auto sales
- Better sales mix from higher heavy equipment filter sales
- Relatively high DPR, with impressive ROE levels
- Steady cash flow from healthy operations

Company Profile

Selamat Sempurna (SMSM) produces filters, radiators, oil coolers, condensers, brake pipes, fuel pipes, fuel tanks, exhaust systems, and press parts for land vehicles. Its products are branded under the ADR and Sakura trademarks, which are registered in more than 90 countries. The company was established in Indonesia in 1976, and was listed on the Indonesia Stock Exchange in 1996.

It owns five main subsidiaries – Panata Jata Mandiri (PJM, a filtration product manufacturer), Hydraxle Perkasa (HP; machinery centre), Selamat Sempana Perkasa (SSP; rubber compound and adhesive parts manufacturer), Prapat Tunggal Cipta (PTC; distribution), and Bradke Synergies (SMSM's sole distributor to the Australia market).

Highlights

Persistently good profitability. SMSM has booked positive consecutive sales growth in the past 26 years (22% CAGR up to FY18), with 16 straight years of positive net income (18% CAGR up to FY18). Based on geographical segment, its domestic business contributes 34% of group topline while other 66% comes from overseas markets (Asia: 30%, the US: 14%, Europe: 12%, Australia: 8%, Africa: 2%).

SMSM's sales are mostly reliant on the filter segment (74%). Its radiators (9%) account for the second biggest portion, following by others (17%). The company has two main production facilities – the Kapuk plant is responsible for radiators (95m units pa), while the Tangerang plant manufactures filters and other products (1.95m units pa).

Better sales mix. SMSM aims to grow the heavy equipment filter sales contribution, as this segment fetches higher prices and better GPMs. This was the main driver of its sustainable earning growth in the last three years. It also sees huge potential in the global heavy equipment filter market, and aims to increase its presence there as well.

Strong cash pile makes for lucrative dividends. Thanks to its sturdy operational cash flow, SMSM turned around to a net cash position as at end-Sep 2019, from net debts in same period the previous year. This enables it to pay generous dividends – it has paid interim dividends for every quarter.

Company Report Card

Latest results. In 9M19, SMSM posted a net profit of IDR408m (+1.9% YoY), although topline dipped to IDR2.8trn (-2.3% YoY). During the period, GPM improved to 29.8% (9M18: 29.4%), which widened its net margin to 14.6% (9M18: 14.0%).

Balance sheet/cash flow. As at 9M19, SMSM's gearing ratio turned around to net cash, vs net debt of IDR65bn in 9M18. Its cash during the period soared to IDR173bn (+158.2% from FY18, 117.9% YoY), from positive operating cash flow of IDR394bn (+43.6% YoY).

Dividend. SMSM has been paying c.65% of net earnings as dividends on average for the last 15 years – which implies a yield of c.6.5% in average during the period, compared with JCI's c.2.5%.

ROE contracted to 20.1% in 9M19, from 9M18's 22.4%. Historically, SMSM's average ROE was at c.29% during the past 10 years, the highest amongst its domestic peers at c.5%

Management. President Director Eddy Hartono has extensive experience in managing the company since 1983, and was one of the company's founders. He also serves the same position in SMSM's parent company, Adrindo Intiperkasa, and in subsidiaries – Adrindo Intisarana, Panata Jaya Mandiri and Hydraxle Perkasa.

Investment Case

A defensive pick for the auto sector; currently trading at a discount. SMSM's profitability has been defensive, amidst the softening of domestic 4-wheeler (4W) sales. Management has also consistently paid dividends at relatively high ratios, in the past years. It is now trading at -2SD from its 5-year average (c.14x) forward-rolling P/E of c.11x.

Given the current challenging situation, FY20F earnings growth will likely be flat – although this will accelerate by 10% YoY in 2021F. Its fair value should be at IDR1,400-1,600 per share, implying -1SD from its mean 5-year forward-rolling forward P/E.

Key risks. The impact of the COVID-19 pandemic may halt production – which will affect SMSM's output and raw material purchases. Another risk is the slowdown in economic activities

Profit & Loss	Dec-17	Dec-18	Sep-19
Total turnover (IDRbn)	3,340	3,933	2,786
Reported net profit (IDRbn)	499	557	408
Recurring net profit (IDRbn)	499	557	408
Recurring net profit growth (%)	10.3	11.5	1.9
Recurring EPS (IDR)	87	97	71
DPS (IDR)	50	52	43
Dividend Yield (%)	2.8	5.1	2.7
Recurring P/E (x)	14.3	12.8	13.1
Return on average equity (%)	31.4	29.9	20.1
P/B (x)	4.5	3.8	3.5
P/CF (x)	(94.3)	(59.1)	11.7

Source: Company data, RHB

Balance Sheet (IDRbn)	Dec-17	Dec-18	Sep-19
Total current assets	1,570	1,854	1,997
Total assets	2,443	2,801	2,978
Total current liabilities	420	470	416
Total non-current liabilities	195	181	202
Total liabilities	615	651	618
Shareholder's equity	1,592	1,863	2,025
Minority interest	236	287	336
Other equity	6	3	5
Total liabilities & equity	2,443	2,801	2,978
Total debt	96	79	86
Net debt	25	12	(87)

Source: Company data, RHB

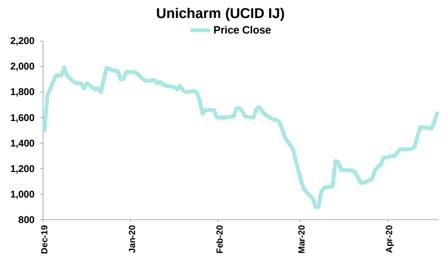
Cash Flow (IDRbn)	Dec-17	Dec-18	Sep-19
Cash flow from operations	431	440	394
Cash flow from investing activities	(185)	(186)	(113)
Cash flow from financing activities	(259)	(275)	(175)
Cash at beginning of period	97	71	67
Net change in cash	(13)	(21)	106
Ending balance cash	71	67	173

Source: Company data, RHB

Uni-Charm Indonesia

Resilient Demand in Underpenetrated Market

Target: N/A
Price: IDR1,525



Source: Bloomberg

Stock Profile

Bloomberg Ticker	UCID IJ
Avg Turnover (IDR/USD)	2292.14m/0.15m
Net Gearing (%)	(6.67)
Market Cap (IDRb)	6,338bn
Beta (x)	1.211
BVPS (IDR)	1,045
52-wk Price low/high (IDR)	900 - 2030
Free float (%)	20

Major Shareholders (%)

Unicharm Corp	59.2
Purinusa Ekapersada	20.8

Share Performance (%)

	1m	3m	6m	12m
Absolute	21.0	(17.6)	-	-
Relative	17.1	3.0	-	-

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Investment Merits

- Strong demand on favourable age demographic in Indonesia.
- Low market penetration = Strong industry volume growth.
- Recent IPO for additional capacity.
- Strong brand equity with defensive market.

Company Profile

Uni-Charm Indonesia (UCID) is a subsidiary of Unicharm Corp (8113 JP, NR) in Japan. It is the market leader for baby diapers, women sanitary pads, and adult diapers in Indonesia with 49.8%, 42.1%, and 46% market share – 96% of the company's topline sales are from diapers. Its products, known for their quality, are often associated with Japan's strength in technology namely, "*MamyPoko*" and "*Charm*", for its baby diapers and feminine care products. This is also because Uni-Charm's high-tech production materials are all developed and patented in Japan.

Highlights

Strong demand on favourable age demographic in Indonesia. Indonesia has over 270m people and is the world's fourth most populous country. This year, Statistics Indonesia (BPS) projected the 0-4 year old demographic to reach 24.2m people or 9% of the total population, thanks to the increasing number of young couples. Along with the population, Indonesia has one of the highest fertility rates in the Asia-Pacific region of c.2.4 births per woman. Euromonitor also targets 24.4m Indonesians will reach 65 years or older by 2030. Favourable population age will continue to drive demand growth for baby and adult diapers.

Low market penetration = strong industry volume growth. Aside from increasing population, studies suggest existing users in Indonesia are using only 1 diaper per day, much lower vs in Japan of 4.8 diapers. Higher disposable income over a long-term horizon should increase the current low product penetration. Note that baby diapers account for 75% of single-use hygiene product industry in Indonesia. This market has been growing at 9.1% CAGR from 2015-2018, and UCID believes the industry still has large growth potential.

20% new shares issuance to increase capacity. Expecting a continued rise in sales volume, UCID recently went public by issuing 20% new shares with total proceeds of IDR1.2trn. 64.9% of which will be used for capex (increase in production capacity and maintenance), 20.6% for debt refinancing, and the remaining 14.8% for working capital. The company plans to increase sanitary pad production capacity by 10% and adult diapers by 58%. Its strong brand equity and market share dominance of nearly 50% in the baby diaper segment makes UCID one of consumer companies that are defensive followed by growing industry volume.

Company Report Card

Latest results. In FY19, earnings were recorded at IDR398bn (120% YoY) driven by FX gain of IDR41bn from IDR-184bn (+122% YoY). On its operational level, EBIT was recorded at IDR588bn (+16.9% YoY) with EBIT margin at 6.9% (+0.9ppt YoY). Robust growth in its operational level was due to lower opex to sales at 18.3% from 19.3% in FY18.

Dividend. UCID did not distribute dividend in FY19.

Balance sheet/cash flow. UCID recorded negative net gearing in FY19 from 0.4x in FY18. This was due to its recent IPO, which raised equity to IDR4.3trn (+55% YoY). Its cash position also improved mainly supported by IDR700bn financing cash flow in FY19.

ROE. It recorded 9.2x ROE in FY19. This shows a 2.7ppts increase YoY from last year's ROE at 6.5x due to 120% YoY surge on earnings.

Management. Yuji Ishii was appointed as the President Director of the company in 2017 and re-appointed last year. He started his career in Uni Charm Japan since 1995 in sales department and during his tenure, he mainly managed the marketing department of Unicharm Global and UCID. Currently, he also managed to be the General Manager of the Marketing Department.

Investment Case

UCID is currently trading at 15.2x P/E vs peers that are currently trading at 27.8x P/E on average. Global company Kao Corp (4452 JP, NR) and its parent company Unicharm Japan are trading at 25.8x 2020F P/E and 34.9x 2020F P/E. If we compared with those companies, UCID should be trading at least 21x-28x P/E which implies a TP of IDR2,100-2,800 or 38-84% upside from current level. Note that, all diaper players and sanitary pad producers have similar ROEs, which is at 10-17%.

Downside Risks:

i. Depreciation on the IDR as it has exposure on the USD and the JPY debt. In 2019, UCID has reported its debt structure was 32% and 65% of the USD and JPY from its total debt. Following the appreciation of USD and JPY against IDR, we believe that this detrimental for UCID as both currencies have appreciated by more than 15% YTD.

ii. 33-36% of COGS are in USD. Other than a price increment in raw material prices, 33% of its COGS are denominated in USD. Hence, the company might be facing volatility and fluctuation especially to its GPM. As a result, UCID has signed a forward spot rate at a certain level to reduce the volatility of its USD exposure.

Profit & Loss	Dec-17	Dec-18	Dec-19
Total turnover (IDRbn)	7,278	8,351	8,520
Reported net profit (IDRbn)	110	181	398
Recurring net profit (IDRbn)	142	299	416
Recurring net profit growth (%)	na	110.3	38.9
Recurring EPS (IDR)	34	72	100
DPS (IDR)	-	-	-
Dividend Yield (%)	-	-	-
Recurring P/E (x)	44.5	21.2	15.2
Return on average equity (%)	4.2	6.5	9.2
P/B (x)	2.4	2.3	1.5
P/CF (x)	9.6	17.2	29.3

Source: Company data, RHB

Balance Sheet (IDRbn)	Dec-17	Dec-18	Dec-19
Total current assets	3,717	4,145	5,562
Total assets	7,044	7,180	8,316
Total current liabilities	2,390	2,394	2,315
Total non-current liabilities	2,056	1,988	1,660
Total liabilities	4,445	4,382	3,974
Shareholder's equity	2,598	2,798	4,342
Minority interest	0	0	0
Other equity	-	1	2
Total liabilities & equity	7,044	7,180	8,316
Total debt	2,618	2,283	1,837
Net debt	1,507	1,143	-149

Source: Company data, RHB

©

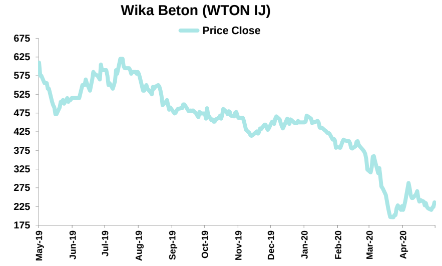
Cash Flow (IDRbn)	Dec-17	Dec-18	Dec-19
Cash flow from operations	663	369	216
Cash flow from investing activities	10	-23	-70
Cash flow from financing activities	-425	-317	700
Cash at beginning of period	863	1,111	1,140
Net change in cash	248	29	847
Ending balance cash	1,111	1,140	1,987

Source: Company data, RHB

Target: N/A
Price: IDR236

Wijaya Karya Beton

Resilient Growth, Supported By Solid Holding Group



Source: Bloomberg

Stock Profile

Bloomberg Ticker	WTON IJ
Avg Turnover (IDR/USD)	3.57bn/0.24m
Net Gearing (%)	34.4
Market Cap (IDRbn)	2,057m
Beta (x)	1.53
BVPS (IDR)	412
52-wk Price low/high (IDR)	184 - 645
Free float (%)	40

Major Shareholders (%)

PT Wijaya Karya (Persero) Tbk.	60.0
Koperasi Karya Mitra Satya (KKMS)	6.0
Public	28.7

Share Performance (%)

	1m	3m	6m	12m
Absolute	4.4	(38.5)	(49.6)	(61.3)
Relative	0.51	(17.9)	(25.3)	(34.4)

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Investment Merits

- Beneficiary of WIKA Group projects
- Robust market position, dominating upstream to downstream
- Resilient growth in a challenging situation

Company Profile

Wijaya Karya Beton is a precast concrete manufacturing company. Its business segments are divided into four divisions: Materials, engineering services, production, and installation services. WTON operates five quarries, 14 factories, nine ready-mix facilities, and 48 precast plants with a total annual capacity of 4.05m tons. The company was originally a division of state-owned enterprise (SOE) Wijaya Karya (WIKA), before it was established as WTON in 1997. WIKA currently owns a 60% stake in the company.

Highlights

Beneficiary of WIKA Group projects. WIKA is one of Indonesia's largest construction SOEs, of which 56% of its projects are in the infrastructure segment. 27.4% of WTON's projects come from WIKA Group, while 34.1% and 37.7% are from various SOEs and private companies. This implies that WTON has the ability to land its own projects, but – at the same time – also benefits from WIKA's performance as a parent company.

Robust market position, dominating upstream to downstream. With an integrated system from an upstream quarry, having four patents in the engineering segment, various precast concrete products, and installation services, WTON is the beneficiary of higher efficiency and continuously improving margins.

Resilient and continuous topline growth despite obstacles during a political year. WTON's revenue growth has been resilient, as evidenced by the company winning IDR8.3trn in new contracts (+8% YoY) – although a number of these projects were delayed due to 2019's presidential election. WIKA Beton booked FY19 revenue of IDR7.1trn (+2% YoY) – translating into 2015-2018 CAGR of 28% and targeting more than 30% growth in 2020.

Company Report Card

Latest results. WTON booked a 4Q19 net profit of IDR209bn (+53% QoQ, +1% YoY), bringing FY19 net earnings to IDR512bn (+5% YoY) – achieving 97% of Street's full-year estimate. Despite heavier finance costs of IDR146bn (+54% YoY), the company managed to improve NPM by 21bps to 7.23% vs 7.02% in FY18 – the result of its ability to lower cost of sales by 69bps.

Balance sheet/cash flow position. WTON's net gearing ratio stood at 0.34x as at end 2019, with positive cash flows from operations of IDR1.12trn.

Dividend. WTON has been regularly paying 30% of its net earnings as dividends. Assuming that the company distributes the same payout ratio for FY19's net profit, it should distribute a DPS of IDR17.60, which translates into a yield of 8.6%.

ROE stood at 14.9% in 2019 – slightly lower than 2018's 15.9%.

Management. WTON Chairman Hadian Pramudita has been in the management team for more than 15 years. He also has a strong background in marketing. Hadian was part of the team that developed WTON from the start. Other directors have been with the company for more than five years. WTON is a subsidiary of WIKA Group, which is known for its good corporate governance.

Investment Case

An undervalued company. Based on Street estimates, FY20F-21F earnings are likely to grow 10% and 18% YoY. In a worst-case scenario, we see that FY20 earnings declining 30% YoY – with FY21F posting a 43% YoY net profit growth at the same level as FY19's earnings. WTON is trading at 4.2-3.2x FY20F-21F P/Es.

The stock offers attractive equity returns of around 15% in FY20F-21F, with 0.5-0.4x FY20F-21F P/BV and dividend yields at c.8%. We believe the company's fair value is around IDR400, implying 9.7-6.8x, at approximately -1SD from its 3-year average rolling forward P/E.

Key risks include slower infrastructure and building construction activities – no thanks to the expected slower economic growth due to the COVID-19 pandemic. There is also the risk of shifting State Budget allocations away from infrastructure towards COVID-19 pandemic management. However, the Government is likely to shift its travel budget instead of funds allocated towards infrastructure for healthcare needs.

Profit & Loss	Dec-17	Dec-18	Dec-19
Total turnover (IDRbn)	5,362	6,931	7,083
Reported net profit (IDRbn)	337	486	512
Recurring net profit (IDRbn)	337	486	512
Recurring net profit grow th (%)	23%	44%	5%
Recurring EPS ((IDR)	39	56	59
DPS (IDR)	9	12	17
Dividend Yield (%)	16%	27%	32%
Recurring P/E (x)	12.9	6.7	7.7
Return on average equity (%)	13%	16%	15%
P/B (x)	1.6	1.1	1.1
P/CF (x)	16	8	15

Source: Company data, RHB

Balance Sheet (IDRbn)	Dec-17	Dec-18	Dec-19
Total current assets	5,741	6,017	7,169
Total assets	7,068	8,882	10,338
Total current liabilities	4,216	5,248	6,195
Total non-current liabilities	104	497	6,829
Total liabilities	4,320	5,745	6,829
Shareholder's equity	2,676	3,064	3,438
Minority interest	72	72	71
Other equity	-	-	-
Total liabilities & equity	7,068	8,882	10,338
Total debt	1,445	1,727	2,786
Net debt	808	940	1,183

Source: Company data, RHB

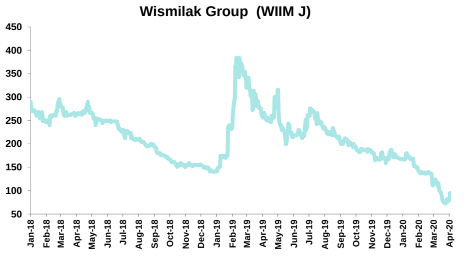
Cash Flow (IDRbn)	Dec-17	Dec-18	Dec-19
Cash flow from operations	277	407	268
Cash flow from investing activities	(672)	(520)	(401)
Cash flow from financing activities	736	338	863
Cash at beginning of period	342	638	865
Net change in cash	341	224	730
Ending balance cash	638	865	1,602

Source: Company data, RHB

Wismilak Inti Makmur (WIIM IJ)

Filling The Gap

Target:	N/A
Price:	IDR139



Source: Bloomberg

Stock Profile

Bloomberg Ticker	WIIM IJ
Avg Turnover (IDR/USD)	401.22m/0.03m
Net Gearing (%)	nc
Market Cap (IDRm)	291,882m
Beta (x)	1.6
BVPS (IDR)	478
52-wk Price low/high (IDR)	67-320
Free float (%)	33

Major Shareholders (%)

Indahtati Widjajadi	16.1
Ronald Walla	14.6
Walla Stephen	14.6

Share Performance (%)

	1m	3m	6m	12m
Absolute	75.9	(2.8)	(24.5)	(56.0)
Relative	72.0	17.8	(0.2)	(29.1)

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Investment Merits

- Large growth potential, as smokers may down-trade to tier-2 options, given that cigarettes are getting less affordable
- A golden opportunity to fill the gap to the lower-end tier-1 cigarette price range, given the sudden price floor jump
- Market cap = cash level as at 9M19.

Company Profile

Wismilak Inti Makmur was established in 1987 under the name Gelora Djaja. Since then, WIIM has been one of Indonesia's prominent cigarette manufacturers. Its manufacturing process is fully integrated – from cigarette flavouring production and processing to distribution. Its products are classified into several categories: Hand-rolled *kretek* cigarettes, machine-rolled *kretek* cigarettes, premium cigars, and filter rods for cigarettes.

Highlights

Potential down-trading to tier-2 cigarettes. On much higher excise taxes and retail price floor regulations, cigarette manufacturers have increased ASPs 10-40% to meet the new government regulations. Based on our analysis, cigarette affordability in Indonesia is low – relative to household expenditure in local currency terms, Indonesians can only afford one-third the number of cigarettes vis-à-vis their Vietnamese counterparts and half that of their Singaporean peers (this is despite prices for a pack of Marlboros in the island republic being 3x more expensive than in Indonesia). The average smoker has been down-trading to full-flavour cigarettes, which provide better value (eg Gudang Garam's (GGRM) products or items in the Bold segment), or lower-end tier-1 Mild cigarettes, ie Magnum Mild. However, the new price floor has taken such lower-end tier-1 cigarette prices to levels akin to the price points of 2019 flagship products. Hence, WIIM's products can come in, by filling the gap to the 2019 prices of these lower-end tier-1 cigarettes. This is under the assumption that more price-sensitive smokers may down-trade to tier-2 variants that have much lower excise taxes, which translate into cheaper ASPs. WIIM has launched new products – Diplomat EVO and Diplomat Mild – that cater to Mild smokers looking to down-trade from lower-end tier-1 cigarettes.

Filling the gap on low-mid cigarettes. Competition in this segment was triggered by LA Bold implementing a "+4" strategy: Selling 20 sticks for the price of 16. This led to intense competition, with the new Bold segment offering cheaper cigarettes on a per stick basis. Since then, other competitors started to launch low-end Mild cigarettes to compete with this promotional strategy, eg Hanjaya Mandala Sampoerna (HMSP) and GGRM launching Magnum Mild (current price: IDR19,000) and Surya Pro Mild (current price: IDR18,500). If 2020's excise taxes and price floors are implemented, these products will be sold at a slight premium – in the case of HMSP, Magnum Mild should be priced at IDR23,500 per pack, or the 2019 price of its flagship Sampoerna A Mild's premium light cigarettes. Post the price floor hike, WIIM's Diplomat Mild should be selling at IDR18-19k per pack – replacing Magnum Mild's price range. We believe a weak consumer purchasing power environment should urge smokers to down-trade, hence increasing demand for WIIM's products.

Attractive valuation at current prices. Based on its 9M19 result, WIIM's cash level has reached more than its market capitalisation. In addition, management guided on limited capex of c.IDR10-15bn for maintenance only. Hence, cash level remains rich and the company has a very small amount of debt. We note too that, in 2017, WIIM expanded its production line for the upstream industry to produce cigarette filter buds. This is because it sees limited growth in the cigarette industry, given that the annual tier-2 production cap was 2bn sticks – starting in 2018, the Government increased this to 3bn sticks pa.

Company Report Card

Latest results. 3Q19 topline stood at IR358bn (+6.4% QoQ, -1.9% YoY), while 9M19 topline was IDR1trn. WIIM's 3Q19 EBIT margin improved to 2.7% (+1.4ppts QoQ, -1.3ppts YoY). Thin margins this year should be due to higher promotional expenses for newly launched Diplomat Mild Menthol. Hence, WIIM's 3Q19 NPAT of IDR7bn (+108% QoQ, -46% YoY) brought 9M19 NPAT to IDR15bn (-51% YoY).

Dividend. WIIM's 2019 dividend payout ratio stood at 10%, implying a 1.8% yield at current prices.

Balance sheet/cash flow. Similar with other tobacco companies, WIIM is in a net cash position. As of 9M19, it booked IDR231bn in cash. The company will not be taking on any loans or issuing bonds, as it is not in an expansionary phase – capex this year is for maintaining machinery.

ROE. WIIM's 9M19 ROE stood at 3.68%, a decrease from FY18's 5.26%, following a slump in earnings during this period.

Management. WIIM is 71.5%-owned by its management team. Ronald Walla has been President Director since 2012. He was previously a Commissioner with the company.

Investment Case

An undervalued company. We believe WIIM is undervalued, given that its cash position is equivalent to its market cap. It is currently trading at an undemanding 3.8x P/E vis-à-vis HMSP and GGRM. Hence, it should be trading at least 6x P/E (30% discount from GGRM current P/E) or IDR220.

Downside risks:

i. Limited volume growth, tier-2 production cap of only 3bn sticks over the long term – although, at this stage, WIIM still has a lot of room to grow;

ii. Lower cigarette consumption, instead of down-trading.

Profit & Loss	Dec-17	Dec-18	Sep-19
Total turnover (IDRbn)	1,476	1,405	1,007
Reported net profit (IDRbn)	41	53	15
Recurring net profit (IDRbn)	30	40	12
Recurring net profit growth (%)	-64.0	34.5	-43.3
Recurring EPS (IDR)	14	19	15
DPS (IDR)	16	-	3
Dividend Yield (%)	11.2	-	1.8
Recurring P/E (x)	9.8	7.3	9.6
Return on average equity (%)	3.1	4.0	1.2
P/B (x)	0.3	0.3	0.3
P/CF (x)	1.3	1.9	1.7

Source: Company data, RHB

Balance Sheet (IDRbn)	Dec-17	Dec-18	Sep-19
Total current assets	861	889	940
Total assets	1,226	1,256	1,298
Total current liabilities	161	150	173
Total non-current liabilities	87	100	121
Total liabilities	248	250	293
Shareholder's equity	977	1,004	1,003
Minority interest	1	1	1
Other equity	-	-	-
Total liabilities & equity	1,226	1,256	1,298
Total debt	78	19	55
Net debt	nc	nc	nc

Source: Company data, RHB

Cash Flow (IDRbn)	Dec-17	Dec-18	Sep-19
Cash flow from operations	218	152	170
Cash flow from investing activities	-49	-53	-34
Cash flow from financing activities	-171	-71	8
Cash at beginning of period	61	58	87
Net change in cash	-2	29	144
Ending balance cash	58	87	231

Source: Company data, RHB

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Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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