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Watch out for Brexit conclusion! Brexit stands for British exit, meaning the UK leaving the EU. In 23 June, 2016, a vote was held to decide UK staying or leaving the EU, with "leave" winning by 51.9% to 48.1%. Back then England and Wales voted to leave, while Scotland and Northern Ireland voted to remain. After the UK invoked Article 50 of the Lisbon Treaty in 29 March 2017, the 2 year clock ending in Friday, 29 March 2019, started ticking for both sides to agree the terms of the split. On 25 November 2018, Britain and EU agreed on a 585-page withdrawal agreement. The rest now depends on the British and EU parliaments to vote on the deal on 15 January 2019. If the British parliament rejects the deal, Theresa May claims that time is insufficient to draft a new deal by the 29 March 2019 deadline.

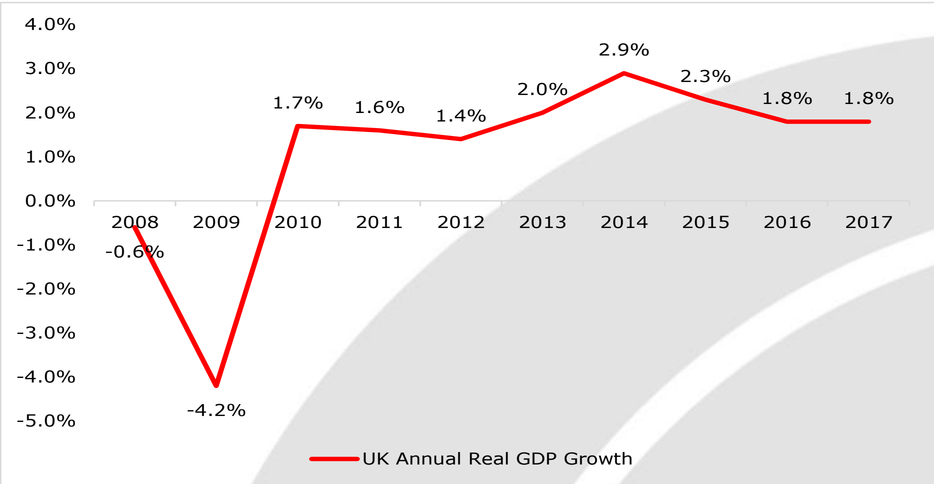
Consequences of a hard Brexit can be dire. A hard Brexit occurs when the UK leaves the EU, the customs union, and the single market without a deal. Bank of England (BOE) stated that a hard Brexit can be worse than the 2008 financial crisis, with GDP to fall by 8%, unemployment rising to 7.5% from its current level of 4.1%. Meanwhile, house prices could crash by 30%. A stark opposite of a soft Brexit outlook, whereby the economy is projected to rise 1.5% over the next five years. This is in part due to the unpreparedness ot UK companies to leave the EU with no transition period and no plan for a new economic partnership. We advise investors to be on the lookout for Brexit progression as a hard Brexit can result in negative spillover to global growth and sentiment.

Rising Malaysia's CPO stockpiles in December 2018. Malaysia Palm Oil Board (MPOB) recorded its stockpiles at 3.22mn tons (+6.9% MoM; +17.7% YoY), one of the highest levels ever recorded. This is due to low CPO demand, indicated by its export which only grew by 0.6% MoM to 1.38mn tons, despite lower production of 2% MoM and 1.4% YoY. Responding to this data, CPO prices fell by 0.8% to MYR 2,087/ton. Notwithstanding the towering stockpiles in December 2018, we foresee diminishing inventory in January and the upcoming months on several reasons. First, higher CPO demand towards Chinese New Year celebration. Second, potential India's CPO demand recovery as it has effectively lowered CPO import tax to 40% starting 1st January 2019. Third, lower production in 1H19 due to seasonality. A signal of better demand can be seen as cargo surveyor Intertek Testing Services noted Malaysia's CPO exports between 1 to 10 January have reached 451,845 tons, increased significantly by 46.6% MoM. **In all, with the likelihood of lower inventory level that would lift up CPO prices in the near term, we believe investors should accumulate CPO stocks such as AALI (TP IDR 14,900) and LSIP (TP IDR 1,600).**

Cement industry recorded domestic sales volume of 6.1 million tons in Dec-18 (up 4.5% YoY). Full year 2018 industry's sales volume was recorded at 69.5 million tons, implying a 4.7% YoY growth. This came slightly below association estimate of 5-6% YoY growth. Java area grew by 4.1% YoY (vs 11% YoY growth in FY18) while ex-Java area's sales volume increased by 5.5% YoY. We see sales volume indicated a slowing trend on the demand-side as compared to last year's. This, we believe, is due to the completion of several major infrastructure projects. Limited pick-up on property demand also remains a challenge for the sector. Nonetheless, we believe cement sector should benefit from energy prices downturn, especially coal. SMGR and SMCB consolidation is also awaited by the market as it is expected to lead into better pricing for cement players. Extraordinary shareholders general meeting for the acquisition process is postponed to Feb-19 due to administrative and permission issues.

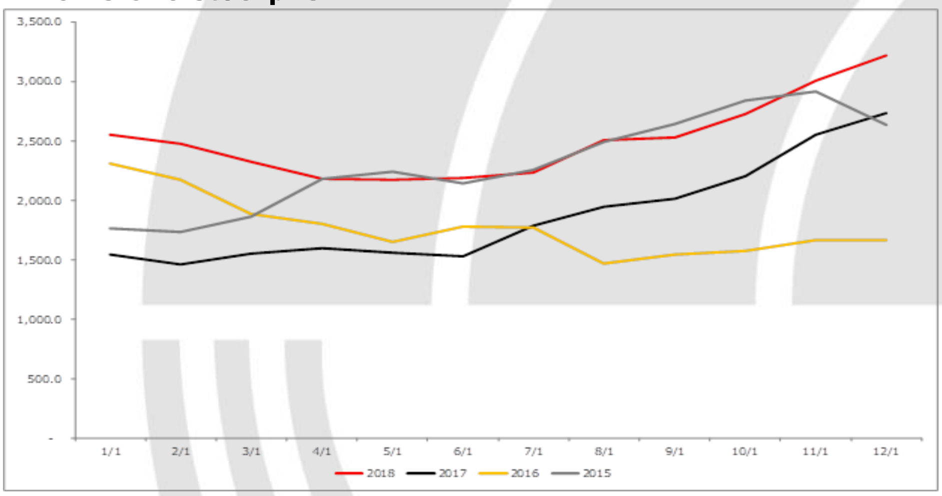
The government decided to open 30,000 tons of corn imports. According to PINSAR, corn price has reached IDR 6,100 . This caused a surge in live bird price to IDR 21,400 at the farm level. Hence, Ministry of Trade (Kemendag) opened up 30,000 tons of corn import quota to maintain the price, totalling to 130,000 tons since the latest import. At present, Kemendag is preparing the import assignment to BULOG with the expectation of arrival by the end of 1Q19. Despite having additional imports, the government is certain that the increment will not influence the corn harvest that begins next month. The additional quota has been calculated with the harvest schedule and involves various related parties. Moreover, BULOG also stated that the imported corn will be distributed solely to independent farmers at IDR 4,500/kg. Recent intervention from government to preserve poultry sector and avoid potential risks are inline with our FY19 outlook. Thus we are certain that the sector is still on the right track. **We have OVERWEIGHT stance on Poultry sector with JPFA (TP IDR 2500) as our top pick.**

UK annual real GDP YoY growth



Source: Bloomberg, Sinarmas Investment Research

MPOB's CPO stockpile



Source: Bloomberg, Sinarmas Investment Research

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