

Nickel rally reaching new YTD high on the back of ore export ban.

Nickel cash price spiked as it closed at USD17,900 per ton on 30 August 2019 (+14.3% WoW), a high last reached in 2014 as the Indonesia government is moving forward nickel ore export ban to January 2020 from previously 2022. Indonesia accounts of 10% global nickel ore supply, which is equivalent to 220,000 ton of nickel content metal. Note that current LME nickel inventory is ~150,000 ton. This will result in a supply squeeze until new smelters start refining. The main beneficiary of rising nickel price and the potential ore export ban is INCO, which we believe is still attractive at current valuation.

China holds retaliation in hope to deescalate trade war. After several stages of US-China trade war retaliations, China stated that they would not retaliate for now against the latest US tariff increase and prefer to discuss about removing the new tariffs. Previously, in exchange for China increasing taxes on USD 75bn US goods, Trump administration decided to slap 15% tariffs on roughly USD 110bn in Chinese consumer goods imports ranging from footwear and apparel to home textiles and certain technology products effectively on September 1, while the rest worth about USD 160bn will be hit by 15% tariff on December 15. Market sentiment, reflected on equity, bond as well as currency movement, was positive upon the statement, yet started to reverse back as the tariffs (both China and US) kicked in. Meeting between Chinese and US negotiators are expected to take place in Washington this month. Despite the resumption of trade negotiation between US-China, we maintain our cautious stance as trade uncertainty lingers and potential trade deal may still far from sight.

Government's plan to relocate capital city to Borneo. President Jokowi announced on Monday (25/08) the chosen location for proposed capital city relocation which is partly located in Penajam Paser Utara region and partly in Kutai Kertanegara, East Kalimantan province. The relocation was firstly brought to attention this year on April since President Jokowi conducted a limited executive meeting. The government suggests that capital city relocation is essential on the back of environmental, traffic, and urban planning concerns. The budget for this massive infrastructure project is estimated to reach IDR 499 tn, 19% of which would be funded by APBN (government budget), and the remaining would be funded by private and SOE investments. The government plans to start project execution by 2020 and begin to relocate government activities by 2024. We think that the relocation brings positive sentiment towards 1) Property names such as CTRA and BSDE given their ample projects portfolio in Kalimantan, 2) Construction related names on the back of massive potential order books, and 3) Building materials names such as INTP and SMGR given the potential additional demand, especially INTP which owns production plants in Kalimantan. However, worth to note that this issue has to pass the parliamentary bills to be able to legally executed.

Changes in the management as directed in recent EGMS lifts uncertainties for both BBTN and BBRI. Following the results of Bank Tabungan Negara's (BBTN) Extraordinary General Meeting of Shareholders on 29 August, Suprajarto, previous CEO of Bank Rakyat Indonesia (BBRI) declined to be appointed as the new CEO of BBTN. This event raises uncertainties for both banks. At this point, we think the uncertainty is bigger on BBTN than it is to BBRI as 1) BBRI's asset quality is relatively more resilient than BBTN's and credit cost has been gradually raised since

Research Team

+62 21 392 5550 ext. 611

research@sinarmassekuritas.co.id



Suprajarto took office last year, 2) there is a possibility of an internal Director replacing Suprajarto, thus not much changes in company's direction, and 3) BBTN's loan loss coverage is relatively low as it stood at 37.9% as of 1H19 despite challenging outlook on NPL. As Suprajarto rejected BBTN's EGMS, there is an uncertainty on who will replace Maryono and become BBTN's CEO. Nonetheless, the possibility of a kitchen sinking is there. Hence, we maintain our NEUTRAL stance on BBTN despite the discounted valuation as we see some of the risks may not be priced in yet at current share price.

DISCLAIMER

This report has been prepared by PT Sinarmas Sekuritas, an affiliate of Sinarmas Group.

This material is: (i) created based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such; (ii) for your private information, and we are not soliciting any action based upon it; (iii) not to be construed as an offer to sell or a solicitation of an offer to buy any security.

Opinions expressed are current opinions as of original publication date appearing on this material and the information, including the opinions contained herein, is subjected to change without notice. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this publication may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, integrating and interpreting market information. Research will initiate, update and cease coverage solely at the discretion of Sinarmas Research department. If and as applicable, Sinarmas Sekuritas' investment banking relationships, investment banking and non-investment banking compensation and securities ownership, if any, are specified in disclaimers and related disclosures in this report. In addition, other members of Sinarmas Group may from time to time perform investment banking or other services (including acting as advisor, manager or lender) for, or solicit investment banking or other business from companies under our research coverage. Further, the Sinarmas Group, and/or its officers, directors and employees, including persons, without limitation, involved in the preparation or issuance of this material may, to the extent permitted by law and/or regulation, have long or short positions in, and buy or sell, the securities (including ownership by Sinarmas Group), or derivatives (including options) thereof, of companies under our coverage, or related securities or derivatives. In addition, the Sinarmas Group, including Sinarmas Sekuritas, may act as market maker and principal, willing to buy and sell certain of the securities of companies under our coverage. Further, the Sinarmas Group may buy and sell certain of the securities of companies under our coverage, as agent for its clients.

Investors should consider this report as only a single factor in making their investment decision and, as such, the report should not be viewed as identifying or suggesting all risks, direct or indirect, that may be associated with any investment decision. Recipients should not regard this report as substitute for exercise of their own judgment. Past performance is not necessarily a guide to future performance. The value of any investments may go down as well as up and you may not get back the full amount invested.

Sinarmas Sekuritas specifically prohibits the redistribution of this material in whole or in part without the written permission of Sinarmas Sekuritas and Sinarmas Sekuritas accepts no liability whatsoever for the actions of third parties in this respect. If publication has been distributed by electronic transmission, such as e-mail, then such transmission cannot be guaranteed to be secure or error-free as information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete, or contain viruses. The sender therefore does not accept liability for any errors or omissions in the contents of this publication, which may arise as a result of electronic transmission. If verification is required, please request a hard-copy version.

Additional information is available upon request.

Images may depict objects or elements which are protected by third party copyright, trademarks and other intellectual properties.

©Sinarmas Sekuritas(2019). All rights reserved.