The Journal

7 January 2019

Research Team
+62 21 392 5550 ext. 611
research@sinarmassekuritas.co.id

As 2018 came to a close and we welcome 2019, we would like to say happy new year to everyone and may this new year be more fruitful. 2018 flashback: JCI ended the year at 6,194.5 (+2.3% MoM) on the back of strong CPO price and rising subsidy towards mid-low end population that boosted consumer stocks performance as consumption is expected to strengthen in 2019. Additionally, there were hopes of further US-China trade talks as well as the drop in oil price that contributed positive sentiment. Great start in 2019: JCI ended the first week of 2019 +1.29% YTD as the Rupiah appreciated to 14,270 (-1.3%). We expect strong momentum to persist as US and China conducts further trade talks and Jerome Powell turned neutral in their recent speech.

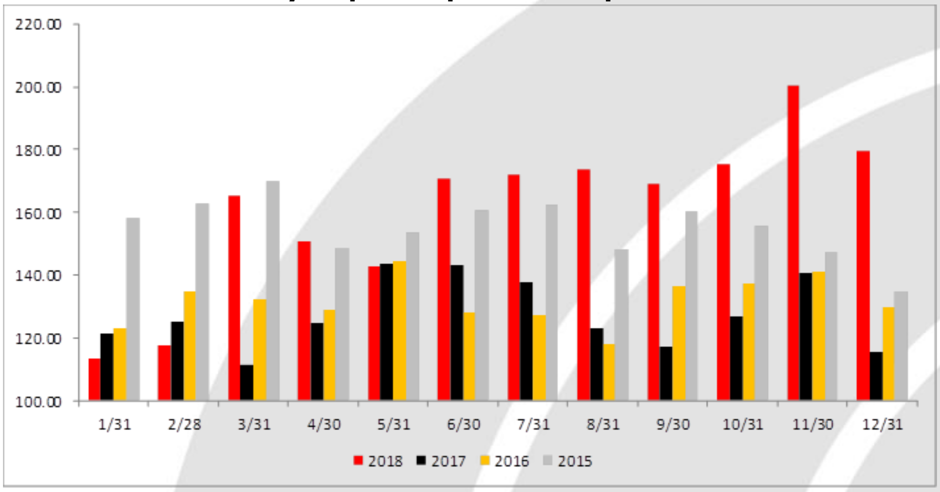
What we expect in 2019? We have just published our market outlook for 2019 with the main theme "The Economy and the Election". Our JCI target for 2019F is set at 6,560 (representing 5.9% potential upside), derived from 9.3% EPS FY19F EPS growth and 16.1x FY19F PE (5-year mean). In 2019, we believe GDP growth may be moderate at 5.0-5.1% (vs 5.1-5.2% in FY18E) as government's focus leans toward stability over growth to preserve CAD and maintain currency stability. Rupiah at this point of time should see more tailwind than headwind as current economic developments remain supportive. Consumption recovery is expected to extend in 2019 encouraged by government's continuous social spending stimulus coupled with better money circulation coming from election campaigns in 1Q18. Our views on commodities are mixed. Coal price is expected to be lower in FY19F given the potentially weak demand and modest supply growth in the medium to long term period. Oil price at current level might be slightly undervalued although uncertainties remain. On the other hand, we sense positive breeze for CPO prices and expect a pick up this year. **In all, our top picks fall on consumption-related segments this year, with several names of INDF, ICBP, SIDO, RALS, ACES, MAPI, GGRM, HMSP and JPFA. In addition, we also recommend AALI and LSIP for better CPO prices outlook ahead.** For full report on our market outlook 2019, please click **here**.

Powell, Yellen, Bernanke roundtable. During the American Economic Association's annual meeting, three US Fed leaders, Jerome Powell, Janet Yellen, and Ben Bernanke, shared a stage. In the roundtable, Powell highlighted recent US economic development and FFR trajectory as well as policy making direction concerning the situation. There are three things that we believe should be highlighted from the event. Firstly, Powell has pledged that the Fed will be watching how the economy performs this year and will adjust policy should growth slows unexpectedly. Second, the Fed will not hesitate to tweak its balance sheet reduction plans if needed. Lastly, Powell underlined that he will not resign from his position even if President Trump asks him to. While the US economy is in good condition, Powell stated that the Fed will be patient and flexible with the rate hikes. We view that Powell's statement should bring positive sentiment to Rupiah and interest-sensitive sectors as it marks the peak of the tightening monetary policy.

China begins to accept coal import at most port. Coal sector went up by 7.5% on Friday, led by INDY +18.6%, ADRO +13.0%, ITMG +8.4%, PTBA +5.3% and UNTR +5.2% as several medias (Bloomberg and Argusmedia) have reported that China has resumed coal import clearance for power plant at most Chinese ports this month, after the country had closed coal import clearance in Dec 2018. The move should not be a surprise to the market as China often reportedly exercise custom clearance regulation to control domestic supply and inventory. After posting an all time high inventory level in Nov 2018, import restriction was temporarily implemented to reduce supply and now the ban is lifted so that power plant can prepare amidst pre-Lunar new year restocking. Overall, though we think this should give near term catalysts to the coal sector especially low CV coal miners that have high exposure to China (INDY, ADRO, PTBA), we still remain cautious on the long term outlook for coal. High inventory level paired with slowing China's economy remains a headwind for the sector. Our preferred picks on the sector are UNTR (BUY, TP: 44,800) and ITMG (ADD, TP: 25,000).

Lower non-subsidized fuel. Given oil price recent plummet, Indonesia's non-subsidized fuel price is adjusted to a level seen to be more appropriate. Effective starting Saturday, 5 January 2019, Pertamina's Pertalite, Pertamax, Pertamax Turbo, Dexlite and Dex had a price cut ranging from IDR 100 - 250 per litre. Worth to note, adjustment in fuel price varies according to the region due to different fuel tax (PBBKB) applied. Prior to Pertamina's non-subsidized fuel price cut, private brand fuels like Shell and Total have adjusted their fuel prices. Overall, we believe the new adjustment on fuel price has taken into account lower oil price and stronger Rupiah. Therefore, we see minimal impact from the changes though it may lead to higher disposable income for those who use non-subsidized fuel.

China coal inventory at power plants and ports



Source: MSCI, Sinarmas Investment Research

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.