

We initiate coverage on PT Integra Indocabinet Tbk (WOOD) with BUY recommendation and FY19 target price at IDR 725, representing 22.7% potential upside from current market price. Our TP is derived from 17x FY2019 PE. We give a buy recommendation for WOOD on the back of positive industry outlook, increasing profitability due to global and external factors, and continuous penetration to domestic and global market.

The largest vertically integrated wooden furniture manufacturing company in Indonesia. WOOD is the largest wooden furniture manufacturing company in Indonesia with total market share of 5.2% and also considered as the only vertically-integrated company in the industry. At the upstream level, WOOD owns 2 forestry concessions, which produce shorea / meranti log in which around 30% of total forestry offtake, are used as raw material for its manufacturing facility. While at the downstream level, WOOD produces knock-down furniture, fully-assembled furniture, and building components for both export and domestic market. Furthermore, the company also established a sales distribution network to distribute its own product under Vittorio brand and modern retail stores namely, Thema Home.

Aggressive expansion. WOOD's new floor base manufacturing facility started operation in April with total production capacity of 42,000 m<sup>3</sup>. In addition, in 2019 the company plans to add new product to its portfolio by establishing new manufacturing facility to produce wooden blinds with total production capacity of 6,500 m<sup>3</sup>. Going forward, we expect additional revenue coming from those new manufacturing facility (wooden blind & floor base) and continuous penetration to domestic market through opening up new retail stores and distribution hub in Java and Sumatera.

Making fortune out of current external pressure. Overall, WOOD benefits from the current trade war and rupiah depreciation. Based on the recent discussion with the management, the Average Selling Price (ASP) of meranti log has gone up a lot due to the escalation of trade war between US and China. The new tariff list broadens the types of goods, it applies to, including building supplies such as plywood. This new tariff was already anticipated by some of US wooden furniture and manufacturing company, forcing them to source their raw material from other countries, which include Vietnam and Indonesia. Hence, the surge of meranti log selling price, which then benefits WOOD both in top-line growth and profitability margin. This year, we expect WOOD to post robust bottom-line growth, supported by rupiah depreciation as 70% of its revenue is contributed from export activities and linked to USD.

Highlights (IDR Bn)	2016	2017	2018E	2019F	2020F
Revenue	1,323.4	1,734.7	1,963.6	2,211.8	2,447.3
% growth	18.3%	31.1%	13.2%	12.6%	10.6%
Gross Profit	458.2	560.8	644.8	728.3	810.7
Net Profit	140.7	173.5	227.2	268.3	317.6
% growth	271.3%	23.3%	30.9%	18.1%	18.4%
Gross Margin (%)	34.6%	32.3%	32.8%	32.9%	33.1%
Net Margin (%)	10.6%	10.0%	11.6%	12.1%	13.0%
Return on Equity (%)	10.0%	9.2%	10.8%	11.5%	12.1%
Return on Assets (%)	4.6%	4.5%	5.4%	6.1%	6.9%
EPS (IDR)	23	28	36	43	51

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#### Stock Information

Sector	Houseware
Bloomberg Ticker	WOOD IJ
Market Cap. (IDR tn)	3.7
Share Out./Float (mn)	6,250/1,250
Current Price	IDR 595
52-week Target Price	IDR 730
Upside (%)	22.7%

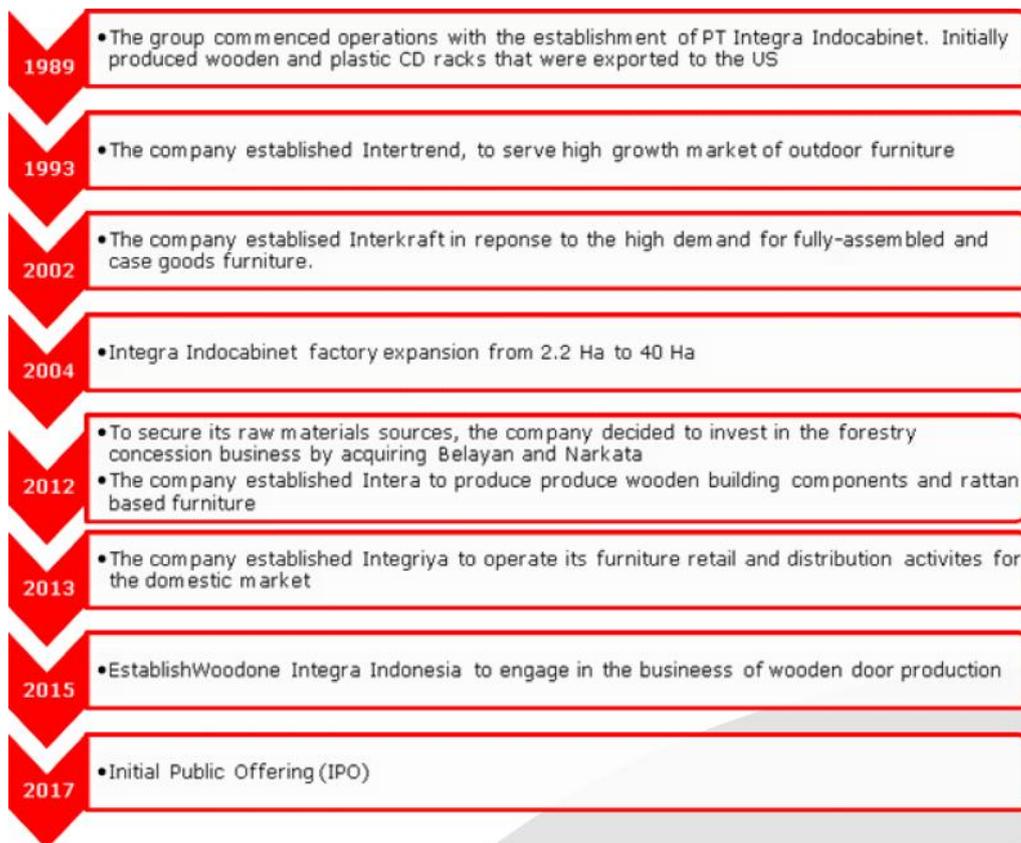
#### Share Price Performance

52W High (08/27/18)	1,015
52W Low (02/08/18)	268
52W Beta	1.49
YTD Change (%)	143.9%

#### Relative Valuations

Trailing P/E	19.3x
Forward P/E	13.9x
P/BV	2.0x
EV/EBITDA	11.3x

## Brief History of Integra Indocabinet



A glance of Integra Indocabinet. Integra Indocabinet was established in 1989 as a manufacturing company for a simple wood-based products. The company initially produced wooden and plastic CD racks that were exported to the US. Throughout time, high demand to Integra's products, led the company to expand its product portfolio. Currently, WOOD main products are knock-down furniture, fully assembled furniture, building components, and timber log. Most of the products that are produced by WOOD are sold to overseas B2B clients, accounted for 70% of total revenue, with global clients ranging from US(42.37%), Europe (14.43%), China (12.09%), and other countries (0.74%) whereas the remaining 30% was contributed from domestic sales. Based on Euromonitor's report which was issued in March 2017, WOOD had the highest market share in the furniture manufacturing industry in Indonesia, accounting for 5.2%.

Integra Indocabinet business segment. The company operates its business through 3 different segments, which consist of five manufacturing companies, one distribution company, and two forestry concession companies.

### 1. Manufacturing.

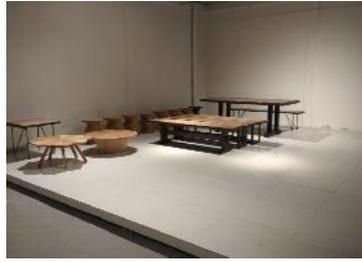
Integra manufactures customized furniture and doors as well as building components for hotels, property developers of apartment and condominium projects and government projects. The company's main customers under this business segment mostly are overseas clients such as Target USA, DMI furniture Inc, American Woodcrater, etc. Up to this point, the total installed capacity for furniture and building component are 38,106 m<sup>3</sup> and 171,238 m<sup>3</sup> respectively. WOOD also able to produce not only fully-assembled furniture, but also good quality knock-down furniture in which they are trusted to supply its product for one of the biggest furniture chain store, IKEA. The first and the biggest manufacturing facility of Integra's is located in Sidoarjo. The site has an area of approximately 250.000 square, capable

of producing fully-assembled wooden furniture, knock-down wooden furniture, blind wood, floor base and building components. The revenue generated from manufacturing segment contributes 80 - 90% of WOOD's total revenue.

### Fully-assembled furnitures



Source: Sinarmas Investment Research



### Knock-down furnitures



Source: Sinarmas Investment Research



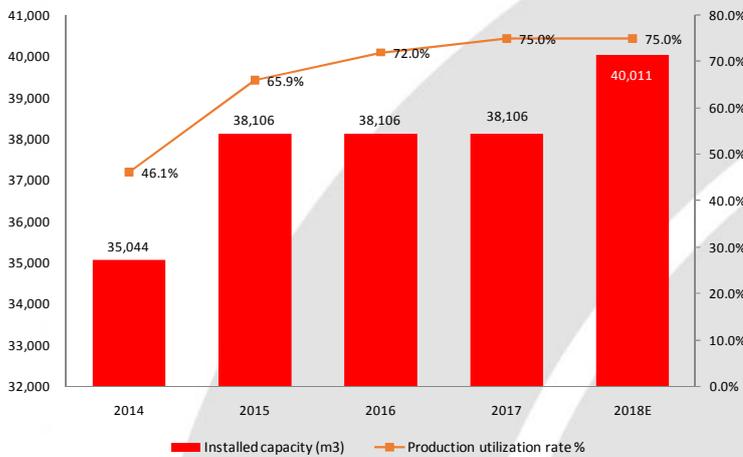
### Building components



Source: Sinarmas Investment Research

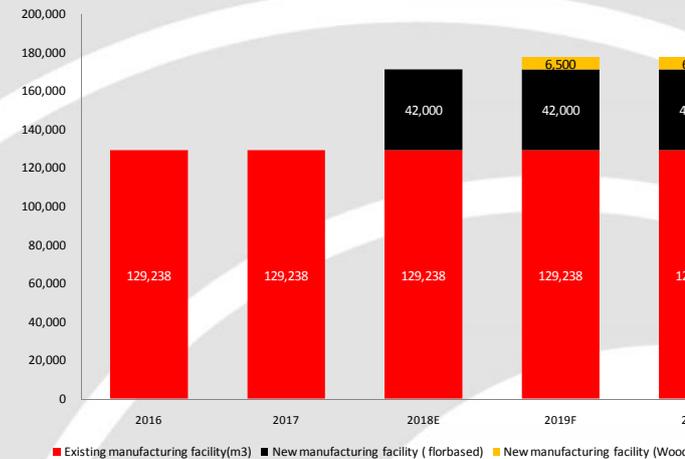


### Furniture installed capacity (m<sup>3</sup>)



Source: Sinarmas Investment Research

### Building component installed capacity (m<sup>3</sup>)



Source: Sinarmas Investment Research

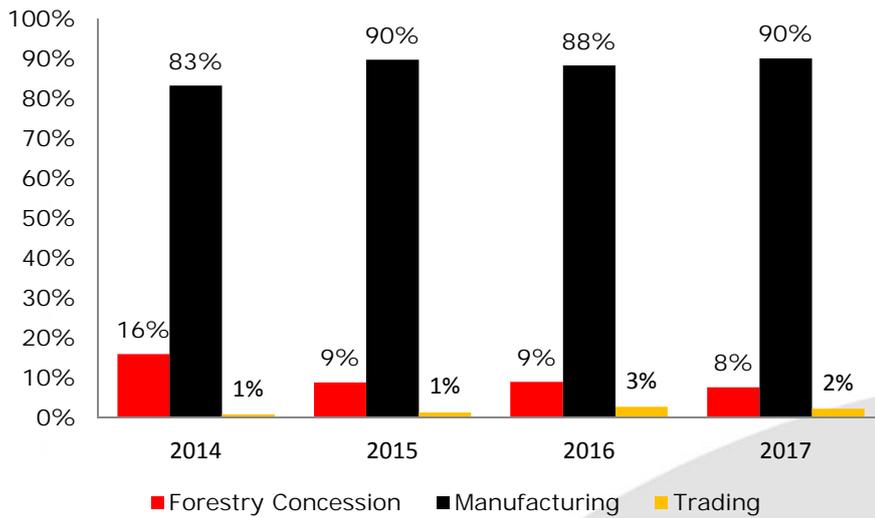
## 2. Forestry concession

At the upstream level, WOOD owns two forestry concessions located in East Kalimantan. Narkata Rimba and Belayan River Timber are integra's forestry companies with total concession of 160,000 ha approximately. Around 50% of the forestry products are used internally to meet internal production requirements while the rest are sold to customers such as PT Kutai Timber Indonesia, PT Tirta Mahakam, PT Sumber Mas Plywood, and others. The type of tree for both concession are Shorea tree (Meranti) with total production capacity of 90,000 m<sup>3</sup>/year. The concession period for Narkata is 45 years from March 28, 2009, while Belayan 56 years from August 5, 1996.

### 3. Retail and distribution

Currently the company has two brands, namely Thema Home for retail and Vittorio for distribution. WOOD distributes its furniture products to traditional and modern retail stores. Some of these furniture are marketed under the brand name Vittorio and has been sold to more than 320 stores throughout 3 distribution hubs, Surabaya, Yogyakarta, and Tangerang. The company products under the Vittorio brand are targeted at the middle-class in Indonesia. Meanwhile Thema Home serves as a modern retail store selling both furniture manufactured by WOOD as well as imported products and targeted at upper-middle class segment in domestic market. WOOD has one Thema Home store located in Surabaya with a total store are of 3,000 m<sup>2</sup>.

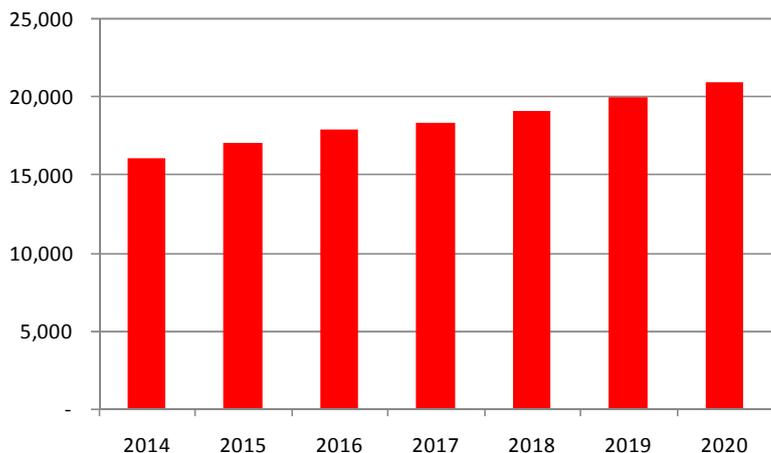
#### 2017 revenue breakdown



Source: Sinarmas Investment Research

## Industry Overview

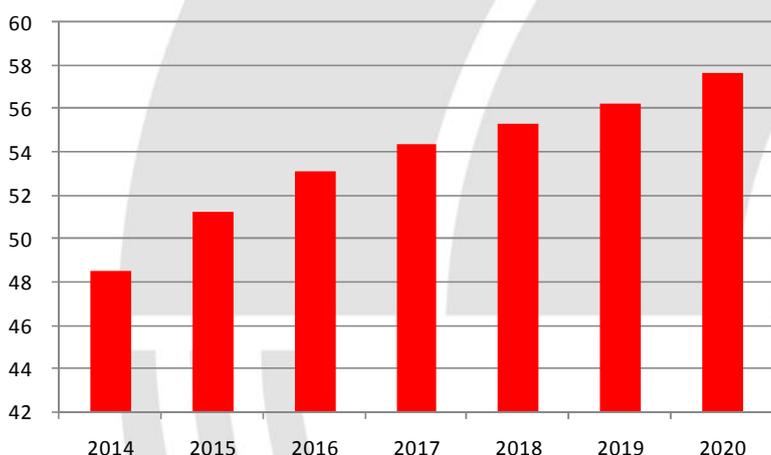
Indonesian consumer spending on furniture, home accessories, carpets, and other floor covering products (IDR tn)



Source: Sinarmas Investment Research, Euromonitor

Growing domestic market for wooden furniture. Indonesia is one of the world's top producers and exporters of wooden furniture. Robust economic growth and rising affluence among Indonesian consumers have resulted in a growing domestic retail scene. The preference for wooden furniture product is mainly due to visual appreciation of wood based material and high-end perception of wooden furniture. Based on Euromonitor's report, Indonesian consumers have increased their annual spending on furniture, furnishings, carpets, and other floor coverings from IDR 16,070 bn in 2014 to IDR 17,891 bn in 2016 and is projected to increase to IDR 21,012 bn by 2020, driven by the higher purchasing power from middle-class, rapid urbanization and low-cost government housing projects. Based on Euromonitor's trade interviews, demand for wooden furniture items are increasing as a result of better design and functionality. We believe the positive domestic outlook and stable growth in Indonesian furnitures would benefit WOOD, as around 30% of WOOD's total revenue comes from domestic sales.

US consumer spending on wooden furniture products (USD bn)



Source: Sinarmas Investment Research, Euromonitor

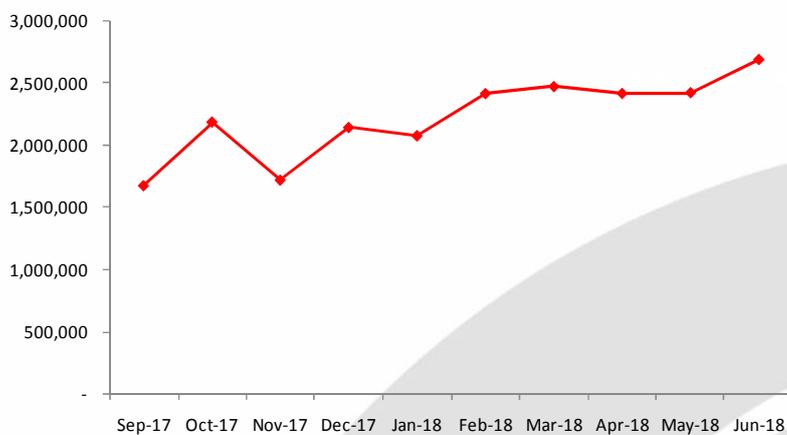
High consumer spending on wooden furniture in US market. Consumer expenditure on wooden furniture in the US grew from USD 48.5 bn in 2014 to USD 53.1 bn in 2016. The expenditure for wooden furniture in 2016 represents more than half of the total expenditure on furniture of USD 87.8 bn recorded in 2016, reflecting higher popularity of wooden furniture in US market. Interior designers and consumers alike are opting for wooden furnishing items as they convey a classier, natural look. The wooden furniture imported into the US for sale, either by domestic retailers or by foreign brands is increasingly being sourced from a wide variety of suppliers. The People's Republic of China, Vietnam, and Indonesia are prominent partners in the trade. Typically, furniture designs come from US companies, while the manufacturing and packaging are handled by the exporting countries. The ability to produce knock-down, flat-packed and easy to assemble furniture pieces is therefore crucial for offshore manufactures. The US is one of the largest markets for the company's products which represent 42.37% of WOOD's total revenue in 2017.

Large and fragmented competition landscape. Based on Badan Pusat Statistik, there were approximately 965 wooden furniture manufacturers in Indonesia in 2014, around 27.3% could be categorized as large scale manufacturers. Government statistics also indicate that 55 of these manufacturing facilities are foreign-owned. This indicates that the wooden furniture manufacturing sector in Indonesia is very large and fragmented, with many small-scale production facilities supporting the need of local communities and rural areas. In March 2017, WOOD had the highest market share in the furniture manufacturing industry in Indonesia accounting for 5.2%.

## Investment Thesis

Significant surge in log prices. Based on the discussion with the management, the Average Selling Price (ASP) of meranti log has gone up 37% in the first semester of 2018 compared with 2017 ASP due to US' anti-dumping policies againsts china's products and the escalation of trade war between US and China. The new tariff list broadens the types of goods, it applies to, including building supplies such as plywood. Furthermore, the raw materials that is used to produce plywood is meranti. This new tariff was already anticipated by some US wooden furniture and manufacturing companies, forcing them to source their raw material from other countries, which include Vietnam and Indonesia. Rising demand of plywood from offshore countries benefit the local plywood manufacturers, resulting in higher demand of plywood raw materials, which in this case meranti. WOOD forestry concession, Belayan and Narkata, only produce meranti types of wood, hence benefitting WOOD as they could gain more revenue and higher margin from selling their meranti log to local plywood manufacturers.

Meranti log average selling price (IDR/m<sup>3</sup>)



Source: Sinarmas Investment Research, Company data

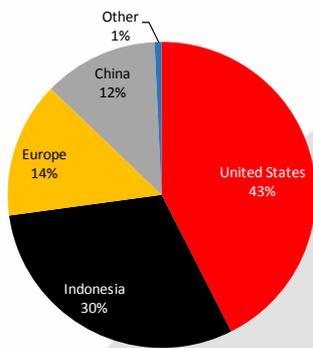
Vertically integrated company. WOOD is the largest wooden manufacturing company in Indonesia and WOOD is the only vertically-integrated company in the Indonesian furniture industry. At the upstream level, through integration with the forestry concession business, the company is able to secure its wood material supply which gives a price advantage over its competitor and increases profitability. At the downstream level, the company has established a sales distribution network across Indonesia to meet increasing local demand and distribute its product under Vittorio brand to both traditional and retail stores, in addition the company also has its own modern retail stores namely Thema Home.

Capable of manufacturing a high quality knock-down furniture. Furniture buyers from offshore such as US and Europe prefer knock-down furniture, since knock-down packaging facilitates delivery and reduces transportation cost, particularly for bulk orders. Based on Euromonitor's report, WOOD is considered as one of the few companies in Indonesia having the ability to produce knock-down furniture. In producing knock-down furniture, quality control is essential given the wide variety of color and connecting parts that must be produced and the credibility of WOOD in producing good quality of knock-down furniture is proven as it can establish partnership with IKEA. We believe this creates a competitive advantage for the company when dealing with foreign clients.

Continuous expansion ahead. By April 2018, the company's new product, which is wooden floors, has become available in the market as the new manufacturing facility for producing floorbase product has been established. The facility is located in Lamongan with an area of approximately 2 ha and is capable of producing 42,000 m<sup>3</sup> floor base. Furthermore, in 2019 WOOD plans to launch another new product, which is wooden blinds. WOOD's management hopes that the construction process of new manufacturing facility for producing wooden blinds product will start at the end of this year and expected to start operating in second semester next year with total production capacity of 6,500 m<sup>3</sup>. To increase its domestic presence, in 2019 the company plans to open 3 new stores in which one of them is located in Galaxy Mall Surabaya with an area of 500 m<sup>2</sup>. Going forward, we expect additional revenue coming from the new manufacturing facility (wooden blind & floor base) and new retail stores.

Export oriented and USD earner company. Since the beginning of 2018, rupiah has depreciated almost 10% YTD againsts USD. The company's export revenue is denominated in USD, whereas the majority of expense is denominated in rupiah. Therefore, rupiah depreciation gives a positive impact on WOOD as an USD-earner. Around 70% of WOOD's revenue comes from export activities in which most of the transactions use USD as a payment tool. The company's main customers are world class retail players such as Target, DMI furniture, Costco, IKEA, etc.

#### 2017 Revenue breakdown by geographic



Source: Sinarmas Investment Research, Company data

Trusted by the government. The company's robust growth is also contributed from government project as the government is also engaged in the construction of low-cost housing which are partially furnished with wooden furniture items. WOOD, as one of the largest wooden furniture manufacture, is selected by the government to supply wooden furniture to schools, dormitories, flats, and athlete guesthouse as part of government projects. Until August, total value of government projects that have been completed amount to IDR 125 bn with outstanding projects of more than IDR 100 bn.

#### 2017 Revenue breakdown by customers

Customers	2014	2015	2016
Target UAS	1.5%	11.3%	12.4%
DMI Furniture Inc	11.8%	12.9%	10.0%
China National Forest Products	0.0%	1.1%	7.5%
Kayu Lapis Asli Murni	6.2%	4.7%	6.8%
P.K.F Global Ltd.	2.3%	3.5%	5.4%
American Woodcrafters	7.3%	5.2%	4.0%
Canadian Tire Corp.	8.4%	5.0%	3.7%
Rooms To Go	5.5%	6.1%	3.5%
Origins by Alpine LLC.	0.1%	0.0%	3.1%
IKEA	0.0%	1.2%	2.7%
Others	57.0%	49.0%	40.9%

Source: Sinarmas Investment Research, Company data

## Investment Risk

Risk relating to the supply of raw materials. Low availability of wooden material could drive raw material price higher and it will impact the margin of certain furniture products produced by the company. Possible disruption that may occur include, bad weather and hurdle in transporting the log.

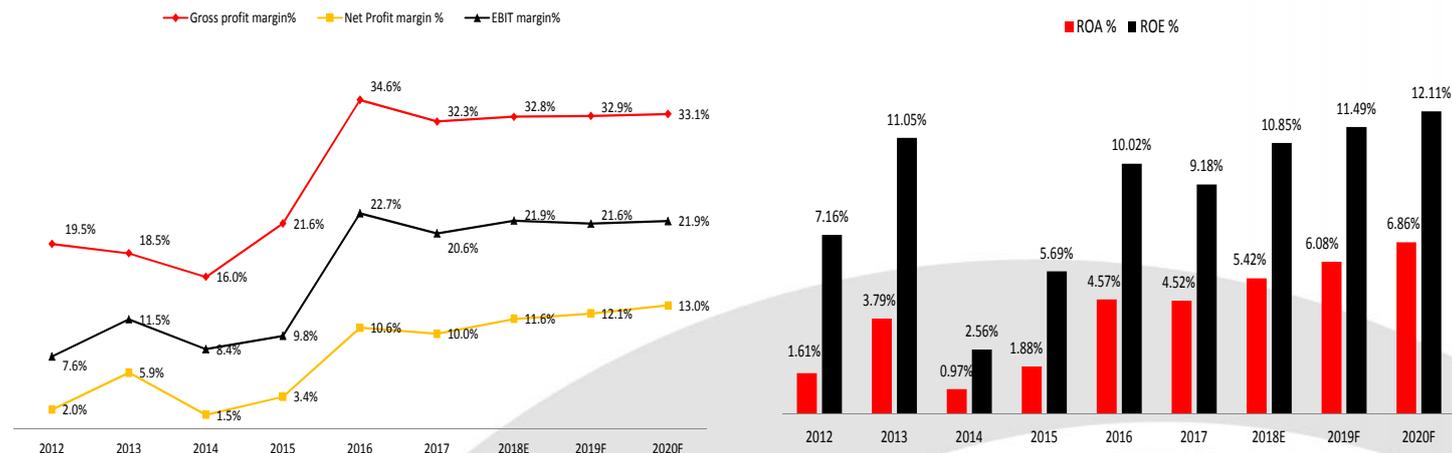
Risk relating to fire at production facilities. Due to the dominant use of wood in furniture production and the presence of dust or sawdust, a fire ignition would bring devastating outcome which greatly affects WOOD's performance.

Risk relating to the increase in the regional minimum wage levels. Any increase of the regional minimum wage could increase production cost and consequently lower the company's profit if such increase in production cost is not offset by an increase in sales price. Global furniture retailers also take global sourcing seriously when deciding on their purchasing practises, factors such as the cost of labour is one of the main aspect when it comes to choosing the manufacturers abroad.

## Financial highlight

1Q18 in a nutshell. In the first half of 2018, the company posted 7% YoY top-line growth supported with robust growth of 15.1% in the second quarter. WOOD's gross margin in 1H18 was 32.7% (vs 32.4% in 1H17) with net profit margin of 12.5% (vs 10.8% in 1H17). The company's strategic business group of retail, forestry, and manufacturing contributed 1.8%, 11.9%, and 86.4% respectively. Furthermore, domestic market contributed 25.5% of total sales driven by the increase of sales in forestry concession business in which the company sold their product to the local plywood manufacturers, while United States contributed 47.8%, Europe market at 16.4% and Asia (ex. Indonesia) at 10.3%. Overall, the company reported a good performance anchored by forestry segment and currency depreciation which benefited the company as an USD-earner.

### Profitability ratios (%)

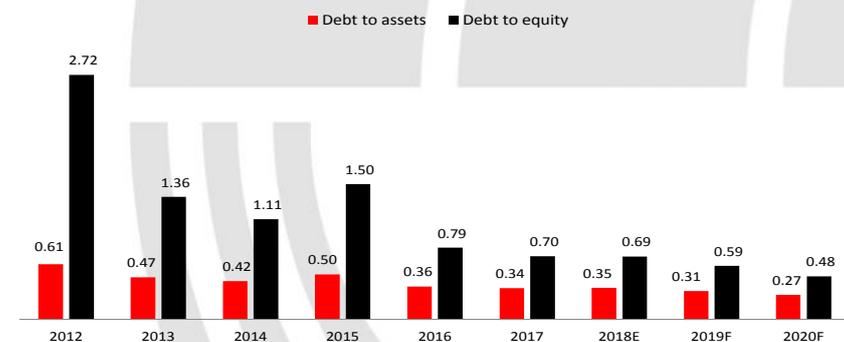


Source: Sinarmas Investment Research

Expecting solid performance ahead. As for this year, we forecast a robust top-line growth of 13.2% with gross margin and net profit margin of 32.8% and 11.7% respectively, steered by 1) high demand of meranti log from local plywood manufacturers, 2) Weakening rupiah exchange rate against USD, 3) Additional revenue from new floor base manufacturing facility, and 4) contract with government projects.

Going forward, we believe WOOD could sustain its solid performance as the company is planning to add offshores clients by tapping into middle-east region and also increase its presence in local market with plans to open more Thema Home stores in major cities on the back of growing domestic retail market and the demand from middle-upper class. The company also plans to operate a distribution warehouse in the Greater Jakarta area to strengthen the company's product distribution network in Java and Sumatera.

### Solvency ratios (%)



Source: Sinarmas Investment Research

Going forward, we are optimistic that WOOD's debt level will improve in line with continuous growth in both top-line and bottom-line. Lower debt level means that there will be a reduction in WOOD's interest expense, resulting in better profitability for the company.

## Valuation

We initiate our coverage on PT Integra Indocabinet Tbk (WOOD) with BUY recommendation and FY19 target price of IDR 725, derived from PE multiples of 17x, calculated from weighted average of PE multiples from WOOD's global peers.

Our FY19 TP represents a 22.7% potential upside from the current price as we value WOOD as a global player with 70% of its total sales go to export market. Additionally, WOOD is also considered as a dominant player in domestic market with 5.2% market share supported by vertically integrated business segment and continuous penetration of WOOD's own brand to modern market through Thema Home and Vittorio brand.

Ticker	Name	Mkt Cap (IDR mn)	Weight	Forward P/E
603326 CH Equity	NANJING OLO HOME FURNISHIN-A	4,478,524	7%	11.4
002718 CH Equity	ZHEJIANG YOUNGON INTEGRATED-A	5,077,081	8%	11.2
603389 CH Equity	A-ZENITH FURNITURE CO LTD-A	7,872,289	13%	48.7
002853 CH Equity	GUANGDONG PIANO CUSTOMIZED-A	5,790,239	10%	17.5
TCM DC Equity	TCM GROUP A/S	2,706,542	5%	11.1
RBO FP Equity	ROCHE BOBOIS SAS	3,544,498	6%	15.9
SUR GR Equity	SURTECO GROUP SE	5,712,615	10%	10.9
WOOD IJ Equity	INTEGRA INDOCABINET TBK PT	3,750,000	6%	14.1
LHI MK Equity	LII HEN INDUSTRIES BHD	1,817,058	3%	10.7
FTE PW Equity	FABRYKI MEBLI FORTE SA	4,129,786	7%	10.3
079430 KS Equity	HYUNDAI LIVART CO LTD	6,848,869	11%	10.8
8916 TT Equity	KWONG LUNG ENTERPRISE CO LTD	2,516,038	4%	9.0
6195 TT Equity	SCAN-D CORPORATION	993,257	2%	7.8
MODERN TB Equity	MODERNFORM GROUP PUB CO LTD	1,492,816	2%	13.8
BSET US Equity	BASSETT FURNITURE INDS	3,359,412	6%	11.9
	Total	60,089,024		
	Weighted Average			17.0

Income Statement (IDR Bn)	2016	2017	2018E	2019F	2020F
Revenue	1,323.4	1,734.7	1,963.6	2,211.8	2,447.3
COGS	865.2	1,173.9	1,318.8	1,483.5	1,636.6
Gross Profit	458.2	560.8	644.8	728.3	810.7
Selling expenses	(64.6)	(75.9)	(88.1)	(98.0)	(108.0)
G&A	(110.0)	(131.7)	(147.4)	(164.6)	(181.4)
Operating Profit	283.5	353.3	409.3	465.7	521.3
Other income/exp	16.6	3.3	21.2	11.7	13.8
EBIT	300.1	356.6	430.4	477.4	535.1
Finance income(exp)	(105)	(123)	(123)	(115)	(109)
EBT	195	234	307	363	426
Tax	(54)	(62)	(77)	(91)	(107)
Net profit	141.1	171.4	230.3	272.0	319.8
Attributable to :					
Owners	140.7	173.5	227.2	268.3	317.6
NCI	0.4	(2.1)	3.2	3.6	2.2
Earnings per share (Rp.)	23	28	36	43	51

Balance Sheet (IDR Bn)	2016	2017	2018E	2019F	2020F
Cash & equivalents	30.4	54.5	64.7	74.9	82.3
Trade receivables	187.9	165.1	221.4	251.8	272.2
Other CA	1,109.3	1,446.8	1,547.8	1,685.8	1,852.1
Total Current Assets	1,327.7	1,666.4	1,833.9	2,012.5	2,206.6
PPE	1,658.7	1,695.8	1,904.1	1,893.8	1,867.6
Other LT assets	95.4	480.8	450.2	504.2	554.3
Total Assets	3,081.9	3,843.0	4,188.2	4,410.6	4,628.6
Payables	121.7	185.6	180.6	201.9	232.6
Short-term loans	943.4	1,229.8	1,222.0	1,176.1	1,069.3
Other current liabilities	36.2	69.2	52.1	58.3	64.6
Total Current Liabilities	1,101.4	1,484.6	1,454.8	1,436.3	1,366.5
Long term loans	169.9	90.7	231.4	204.0	176.5
Other long term liabilities	380.6	355.1	385.0	411.8	441.1
Total Liabilities	1,651.8	1,930.4	2,071.1	2,052.0	1,984.1
Share & APIC	525.1	838.1	838.1	838.1	838.1
Other equity	786.8	766.9	766.9	766.9	766.9
Retained earnings	92.5	285.2	489.7	731.2	1,017.0
NCI	25.6	22.5	22.5	22.5	22.5
Total Equity	1,430.0	1,912.6	2,117.1	2,358.6	2,644.4
Total Equity & Liabilities	3,081.9	3,843.0	4,188.2	4,410.6	4,628.6

Cash Flow (IDR Bn)	2016	2017	2018F	2019F	2020F
Net Income	140.7	173.5	227.2	268.3	317.6
Depreciation & amortization	25.6	87.8	90.1	103.1	108.5
Chg. in NWC	(402.4)	(217.8)	(179.3)	(141.0)	(149.7)
CF from Operating	(236.2)	43.5	137.9	230.5	276.4
Capital Expenditure	(713.6)	(124.9)	(298.4)	(92.8)	(82.2)
Chg. in LT Assets	(63.7)	(385.4)	30.6	(54.1)	(50.1)
Chg in LT Liabilities	231.7	(25.6)	29.9	26.8	29.3
CF from Investing	(545.7)	(535.8)	(237.9)	(120.1)	(103.0)
Chg. in Share & APIC	306.0	313.0	-	-	-
Chg. In other equity	489.8	(23.1)	-	-	-
Chg. in Bank Loans	113.6	207.3	132.9	(73.3)	(134.2)
Dividends Paid	(213.5)	19.2	(22.7)	(26.8)	(31.8)
CF from Financing	696.0	516.3	110.2	(100.1)	(166.0)
Change in Cash	(85.9)	24.0	10.2	10.2	7.4
Beginning Cash	116.3	30.4	54.5	64.7	74.9
Ending Cash	30.4	54.5	64.7	74.9	82.3

Financial Ratio	2016	2017	2018F	2019F	2020F
Profitability					
ROE	10.0%	9.2%	10.8%	11.5%	12.1%
ROA	4.6%	4.5%	5.4%	6.1%	6.9%
Gross margin	34.6%	32.3%	32.8%	32.9%	33.1%
Net profit margin	10.6%	10.0%	11.6%	12.1%	13.0%
Liquidity & Solvency					
Current Ratio	1.2	1.1	1.3	1.4	1.6
Debt to Equity	0.8	0.7	0.7	0.6	0.5
Debt to Assets	0.4	0.3	0.3	0.3	0.3
Valuation					
Price to Earning (PE)	32.2	26.1	19.9	16.9	14.3
Price to Book (PBV)	3.2	2.4	2.2	1.9	1.7

**BUY:** Share price may rise by more than 15% over the next 12 months.

**ADD:** Share price may range between 10% to 15% over the next 12 months.

**NEUTRAL:** Share price may range between -10% to +10% over the next 12 months.

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