

Dear All,

JULY 13, 2020

* THE JCI TRADING RANGE: 5,000PT - 5,125PT (FRIDAY CLOSE: 5,031PT)

* WALL STREET ENDED HIGHER BY OVER 1% ON NEWS OF PROMISING RESULT OF COVID-19 VIRUS FROM GILEAD SCIENCE'S REMSEDIVIR

* THE JCI IS EXPECTED TO GAIN EDGE ALSO ON STABLE USDIDR AND OIL CLOSE AMID INVESTORS' CAUTIOUS OVER 2Q20 EARNINGS RELEASE

Morning,

The Jakarta Composite Index (JCI) today (13/7) is expected to be in the range of 5,000pt – 5,125pt to gain edge with investors remain cautious in stance for 2Q20 earnings release.

In the United States , 2Q20 earnings are expected to fall by 44% YoY, the worst quarterly performance since the Great Recession when S&P 500 profits fell by 67% in the fourth quarter of 2008, according to Refinitiv I/B/E/S data. Meanwhile, Friday last week (10/7) in Wall Street the DJIA ended higher by 369 points or 1.4% at 26,075pt, while the S&P500 and the Nasdaq both closed higher by 1.1% and 0.7%, respectively. Investors' cheered the news on the day that clinical trials for Remsedivir showed better results as compared to the other drugs.

Indonesia Consumer Sector

ACES, big-tickets consumer play, commit to best-catered customers amid the pandemic

Maintain our BUY call with an FY20 revised estimated-earnings at a 12-M Target Price of IDR1,850/share

Factoring in ACE Hardware Indonesia (ACES) 1Q20, we revised down our earnings estimate this year accordingly. Applying conservative approach, we hold to 5% YoY sales growth (2019:12.5% YoY, 1Q20:4.5% YoY), and attached an operating margins of 16.0% (2019:16.0%, 1Q20:16.0%, 2018:16.7%), and net profit margins of 12.7% (2019:12.7%, 1Q20: 12.4%, 2018:13.5%). With

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this we came in with an estimated net sales of IDR8.5tr (+5% YoY, 2019: +12.5% YoY) and net profit for this year of IDR1.08tr (+5% YoY, 2019: 6.2% YoY).

Valuations argument

Last year, ACES commanded some 29% premium over Indonesia overall weighted average market multiple at 20.1 times. Attaching similar assumptions call the share to be valued at a fair price of IDR1,850/share over 12-months horizon or representing some 19% capital gains.

We argue the above premium to be a reference to the counter's target price as fair, given the scale of the company and its track record (see our published report on November 18, 2019 for brief profile and track record of the company). Most important, ACES has access to the Indonesia aspiring middle class consumers bracket. Furthermore, we like ACES strong balance sheet whereby the company maintained its net-cash status in 1Q20 with an addition of IDR3.5bn bank loan (2019: none) while cash stood at IDR1.5tr (2019:IDR1.3tr), and total equity at IDR4.9tr(2019: IDR4.7tr).

Latest devoleopment

In response to the current pandemic situation, to best-served customers, ACES adjust its operational hours but intensified on-line sales experiences to include other digital ways such as whats-up applications. At the other end, the company seemed to stick to the country's longer-term prospect. Until the present time, ACES has already added 6 (six) new stores, out of 10 to 15 originally planned in the start of the year. ACES is a big-tickets consumer items that investors should not miss to allocate, in our view.

At the other end, Friday last week (13/7) the WTI price closed l with a hike at USD40.6/barrel, or by 2.3%, and the USDIDR closed at IDR14.501 vs. IDR14.446 the previous one.

We advise the following recommendation as for now, for both trading and longer-time investment purpose. **AALI, LSIP (sector of Agri, allocation suggestion Underweight), UNTR, ITMG, ADRO, PTBA (sector of Coal Mining, allocation suggestion Market-weight), GGRM, UNVR, ICBP (sector of Consumer, allocation suggestion Overweight), ASII (sector of Automotive, allocation suggestion Market-weight), and ACES, SCMA, MAPI (sector of Trade, allocation suggestion Overweight),and TKIM (sector of Basic Industry, allocation suggestion Market-weight).**

Cheers,

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