

ANALISA SAHAM INDONESIA

JULY 7, 2020

- * THE JCI TRADING RANGE: 4,975PT - 5,125PT (YESTERDAY CLOSE: 4,989PT)
- * WALL STREET ENDED HIGHER BY SOME 2% ON THE UNITED STATES (US) HIGHER-THAN-EXPECTED SERVICE ACTIVITIES IN JUNE DESPITE STILL-INCREASING COVID-19 NEW CASES
- * THE JCI IS EXPECTED TO GAIN EDGES, BUT CAUTIOUS MODE FOR THE RELEASE OF 2Q20 EARNING RESULTS HOLD BACK

Morning,

The Jakarta Composite Index (JCI) today (7/7) is expected to be in the range of 4,975pt – 5,125pt to gain edge but restrained by investors' cautious stance for 2Q20 earnings release hold back. Companies' 2Q20 earnings report will give a more clear profile of how earnings this year would look like, in our view. For most major cities in Indonesia, 2Q20 will see a 3-month full financial impact of limited lock-down . Meanwhile, yesterday (6/7) in Wall Street the DJIA ended higher by 460 points or 1.8% at 26,287pt, while the S&P500 and the Nasdaq both ended higher by 1.6% and 2.2%, respectively.

Indonesia Consumer Sector, UL TJ

1Q20 Results : Shining

- **Revenue growth in 1Q20 of 13.1% YoY**
- **Gross margins in 1Q20 higher to 38.9% vs. 35.1%**
- **Weakening USDIDR in the 1Q20 lead to significantly higher Other Income, mostly from USD-based financial assets**
- **The company published a public alert that 1Q20 results should not be used as reference during the New Normal times**
 - **Nevertheless, we view UL TJ as a fundamentally prudent consumer counter**

Ultrajaya Milk Industry and Trading Company (ULTJ) posted a higher-than-industry average sales growth during 1Q20, mostly from domestic sales of UHT milk drinks. We suspect growth

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came mainly from higher selling price, while cost of products have been tamed and thus leading to some 500bp higher margins. At the other end, in 1Q20 ULTJ is a debt-free company which ease the company of interest burden (1), while USD-based financial assets benefitted from the weakening USDIDR during the 1Q20 (2), both of which led to higher operational income that grew by 53.4% YoY in the 1Q20. All in all, net profit of ULTJ during 1Q20 came in at IDR440.3bn, representing an increase of 44.7% as compared to the same period last year.

Cognizant that 1Q results owed only for some 2 weeks of limited lock-down during the Covid-19 pandemic, management of the company issued an official statement to alert investors not to be misled by current results.

Nevertheless, we view ULTJ as a fundamentally prudent consumer counter both in terms of financial management and of being involved in strategic domestic beverages industry. ULTJ main product, for example of UHT milk of 200ml come in at retail price of around IDR5,000/pack which we consider very much afforded by the population of per capita income of USD4,451 last year. We further suspect that ULTJ mostly benefitted from the young demographic profile of the country whereby the population of 0-15 years accounted of some 27% (Europe of 17%: USA 19%) and thus milk is considered a necessary nutrition. ULTJ has room to grow in the adult segment consumers of 15-64 years in Indonesia, as for this segment, daily milk consumption has not been an established tradition, we observed.

At the other end, yesterday the WTI price increased by 0.9% to close at USD40.7/barrel, mainly on technical reverse, in our view. Meanwhile the USDIDR closed at IDR14.547 vs. IDR14.566 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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