

ANALISA SAHAM INDONESIA

August 18, 2020

*** The JCI trading range: 5,200pt - 5,325pt (Friday close 5,248pt)**

*** Wall Street ended mixed on cautious stance with both the S&P500 and the Nasdaq inched higher**

*** The JCI is expected to fluctuate and supported by higher oil close and release of Indonesia trade data**

Morning,

The Jakarta Composite Index (JCI) today (18/8) is expected to hover between 5,200pt – 5,325pt to fluctuate on support of higher oil close dan July's trade data release. Meanwhile yesterday (17/8) in Wall Street the DJIA ended lower by 86 points or 0.3% at 27,845pt, while the S&P500 and the Nasdaq both closed higher by 0.3% and 1.0%, respectively. Investors in the United States (US) stock market were cautious on such as 1) Covid-19 bill's finalization, 2) US – China trade tension especially on Huawei, and 3) 2Q20 earnings of consumers' heavy-weight Home Depot, Walmart, and Kohl's. Consumers' financial performance gives tool to assess how deep the COVID-19 spread hit each specific consumer's market. Indonesia comparison, in our view, is those of ACES, GGRM, ICBP, UNVR, MAPI, to name a few.

Indonesia consumer sector

Benefits from higher and also from lower Crude Oil Price

A holding of one of Indonesia Crude Palm Oil counters can provide an overall leverage to that of consumer sector, either from the following condition. 1) higher CPO price increase CPO's company earnings and eventually consumer's purchasing power, or 2) lower CPO price find its way to lower Cost of Goods Sold consumer companies, such as that of instant noodle, soaps that will affect bottom line positively. Each of those 2 (two) process lead to higher consumer-companies' earnings and later to higher equity valuations and to the companies' stock prices.

We have chosen Astra Agro Lestari (AALI) as one of our choice of CPO blue chips that investors may comfortably invest to during this relatively distressed pandemic time.

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AALI, maintain the BUY call with 12-M target price of IDR13,000 per share

During the first semester this year (1H20) AALI recorded net revenue of IDR9.1tr, an increase of 6.5%YoY vs. 1H19, with gross margin in 1H20 at 14/4% (1H19:8.6%). The company reported net profit of IDR391.9bn in 1H20, or an increase of 797% vs. that of in 1H19 of IDR43.7b.

The jump in the company's performance mainly due to the mandatory use of biodiesel fuel of B30, effective January this year. The B30 mandatory program is part of the government effort to reduce oil import. As at June this year, AALI recorded 12.5% YoY decrease in sales volume. Nevertheless, CPO average selling price during the 1H20 increase by 25.9% YoY.

Mandatory B30 selling price is regulated through the Energy and Mineral Resources Ministry, being revised monthly. The selling price formula is structured to include monthly average CPO price plus conversion price from CPO to biodiesel multiplied by (conversion unit of 870 kg /m3 plus transportation cost)

AALI benefitted through the mandatory B30 program from higher global CPO price as lower supply from major producer Indonesia led to higher price as witnessed since May. More important, domestic pricing formula is structured relatively in favor for producers, we reckon, as the CPO secure is of an important national interest to substantially reduce imports.

Our 12-M target price is derived using the annualized book value for current market weighted-average PBV of 1.6 times, with a 20% discounts.

At the other end, yesterday the WTI price closed higher by 2.1% at USD42.9/barrel on news that China would increase import from the US. Meanwhile the USDIDR closed at IDR14.917 vs. IDR14.877 the previous one.

We advise the following recommendations, 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 Automative, 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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